

DIALOGUE WITH THE FED

Beyond Today's Financial Headlines

Taking the Measure of St. Louis

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CENTRAL TO AMERICA'S ECONOMY™

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Federal Reserve Bank of St. Louis

October 5, 2016

Program

- ***Introduction and Welcome***

Cletus C. Coughlin, senior vice president and chief of staff to President and CEO James Bullard

- ***Presentation: Taking the Measure of St. Louis***

Four Things to Know About the St. Louis Economy

Kevin L. Kliesen, business economist and research officer in the Research division of the Federal Reserve Bank of St. Louis

A Perspective on Metro Growth and Prosperity: How to Measure It and Where Does St. Louis Stack Up?

Charles S. Gascon, regional economist and senior research coordinator in the Research division of the Federal Reserve Bank of St. Louis

- ***Panel Discussion and Audience Q&A***

Four Things To Know About The St. Louis Economy

Kevin L. Kliesen

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The Big Picture (Nationally)

- ❑ The U.S. economy is into the eighth year of expansion.
- ❑ Where are we now? Modest real GDP growth, low inflation, and a low unemployment rate.
- ❑ The U.S. economy's prospects for the next 2-3 years look much like the past several years.

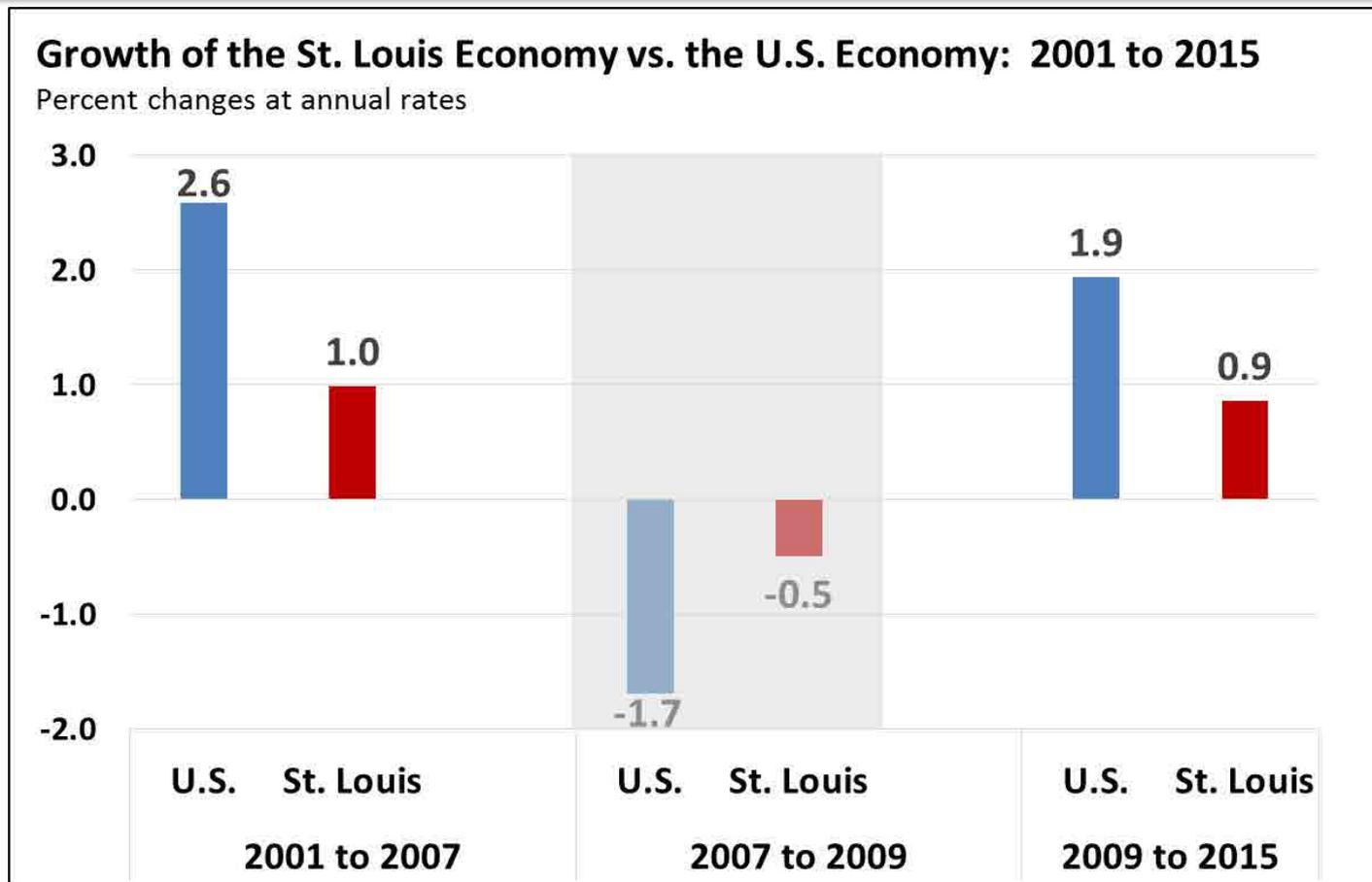
Appetizers

- ❑ In this talk, “St. Louis” refers to the metropolitan statistical area (MSA), a 14-county area of Illinois and Missouri surrounding the city of St. Louis.
- ❑ The St. Louis MSA’s labor force is currently about 1.5 million; population is about 2.8 million.
- ❑ In 2015, household median income in the St. Louis MSA was about \$56,500; it was \$55,800 for the United States.

Number 1:

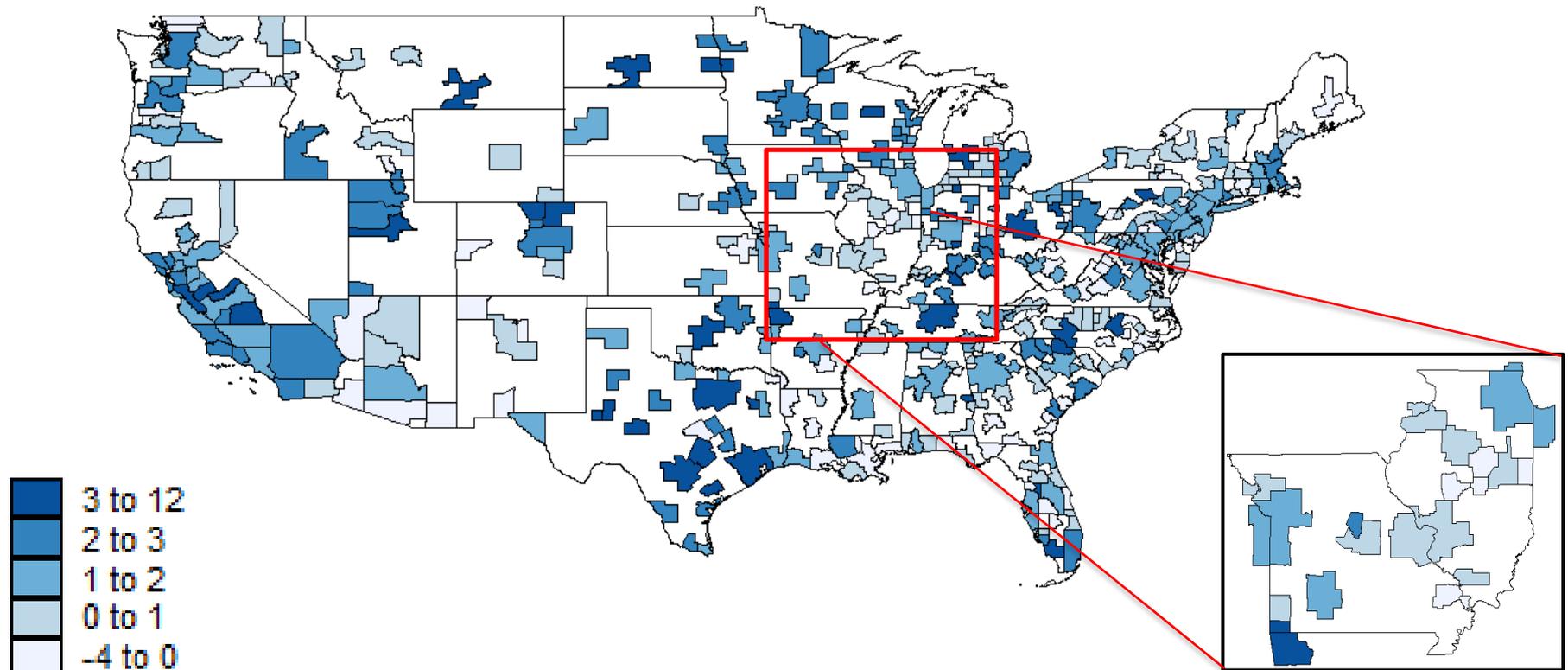
The St. Louis MSA's GDP Growth
Rate Has Trailed Nation's for
Several Years

The St. Louis area economy has grown at a slower pace than the U.S. economy since 2001.

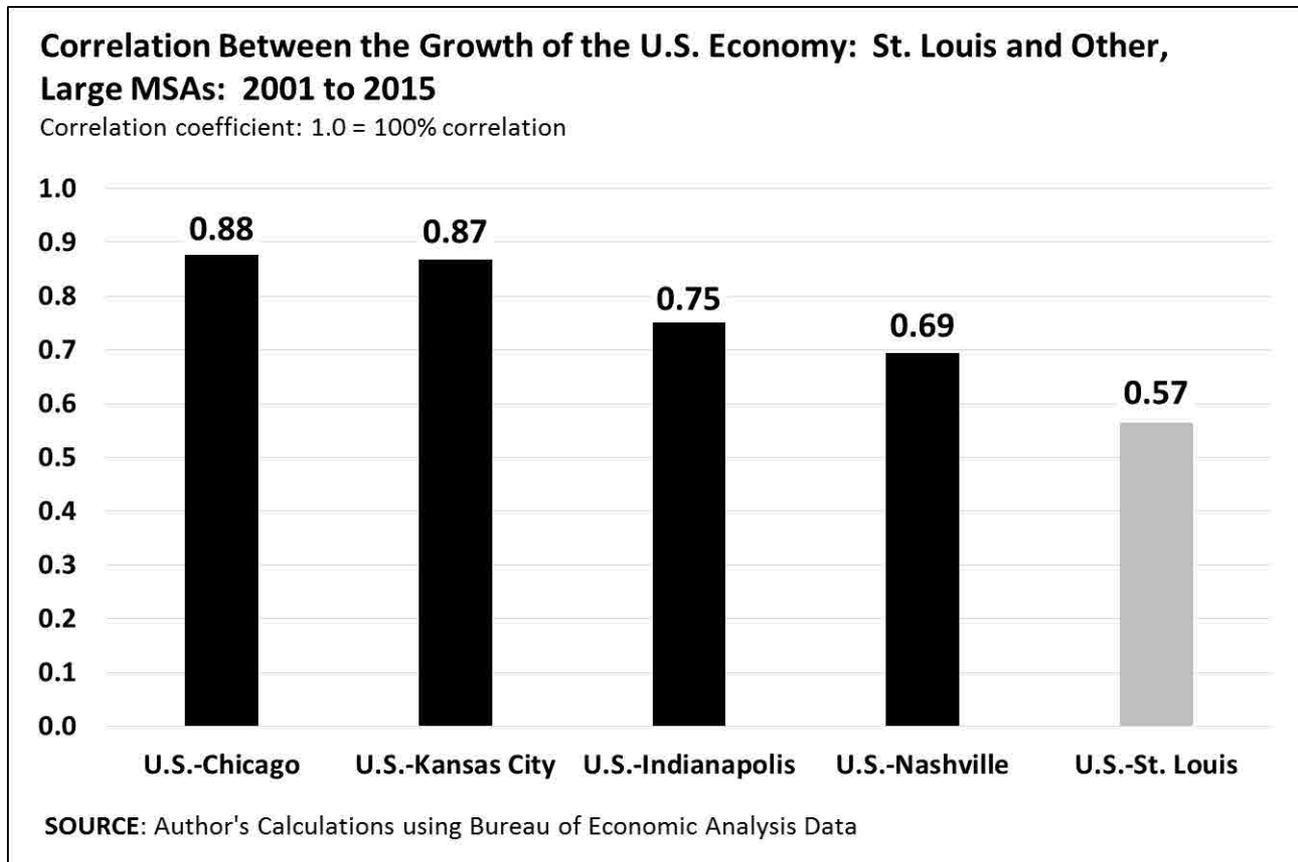


Since 2009, the strongest pockets of growth have been in oil and tech areas—with some exceptions.

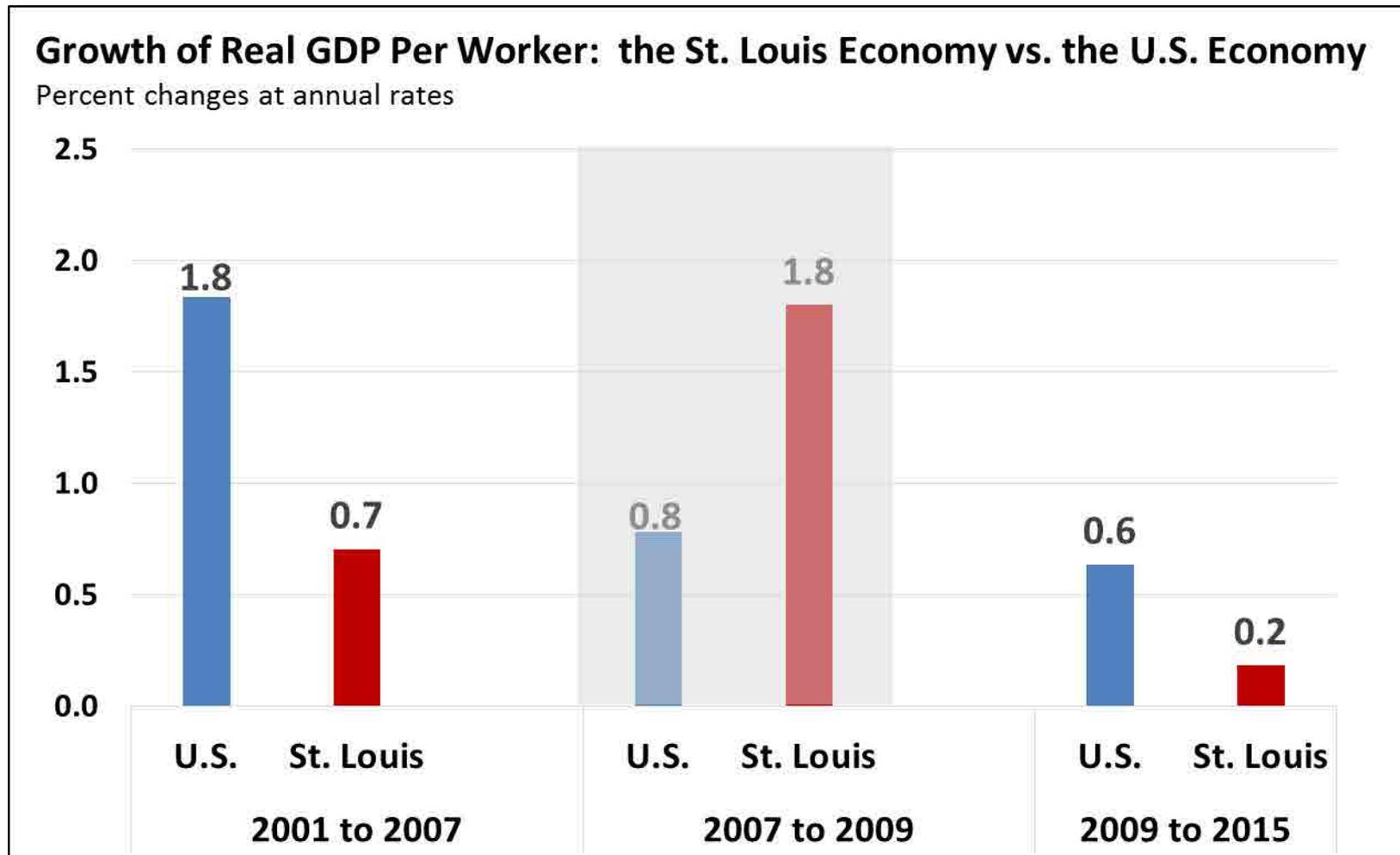
MSA Growth Rates from 2009 to 2015
Annualized Real GDP Growth, Percent



The St. Louis MSA's GDP growth is less correlated with the U.S. than other large cities in the Midwest.



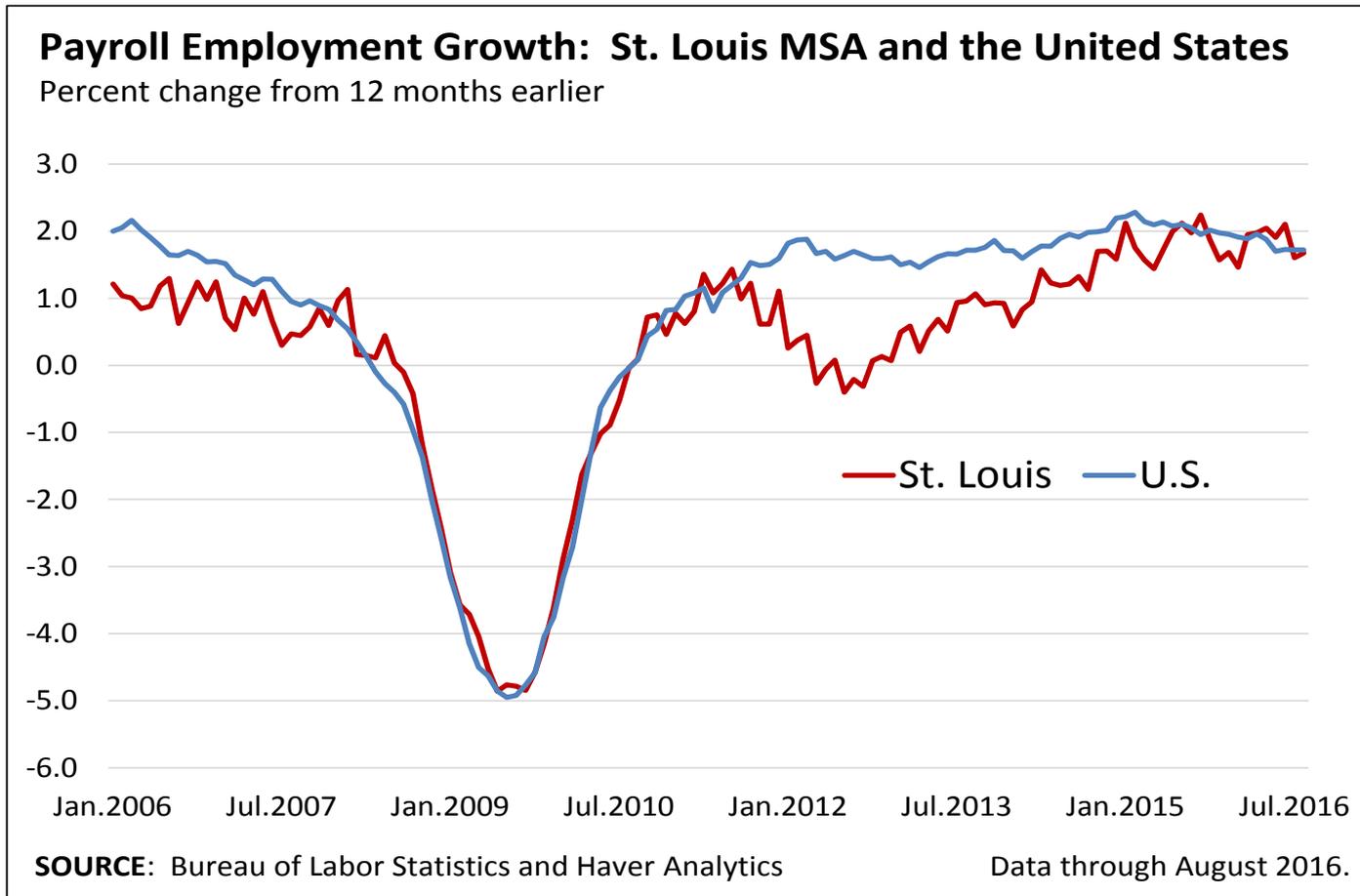
Living standards have stagnated since 2009. This is alarming.



Number 2:

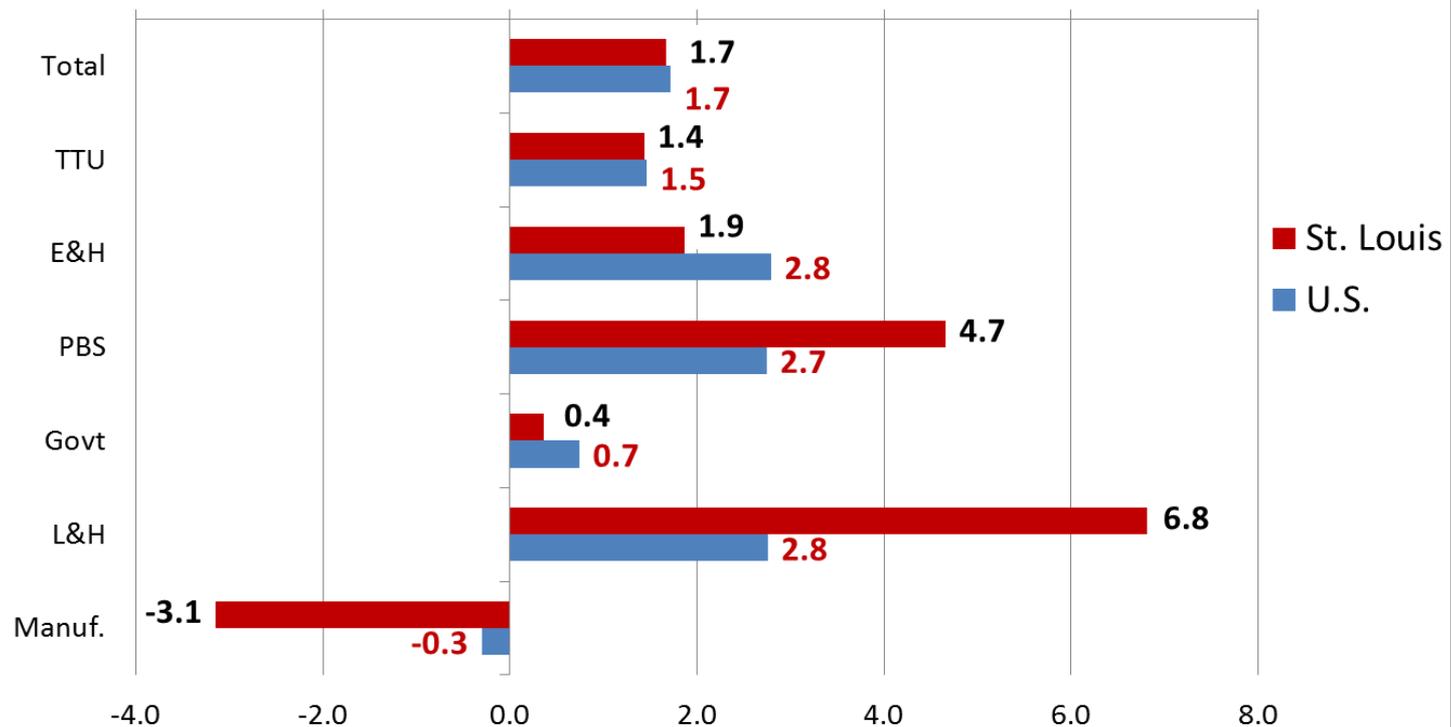
St. Louis Labor Market Conditions Are Improving

The gap between St. Louis and U.S. job growth has closed—finally!



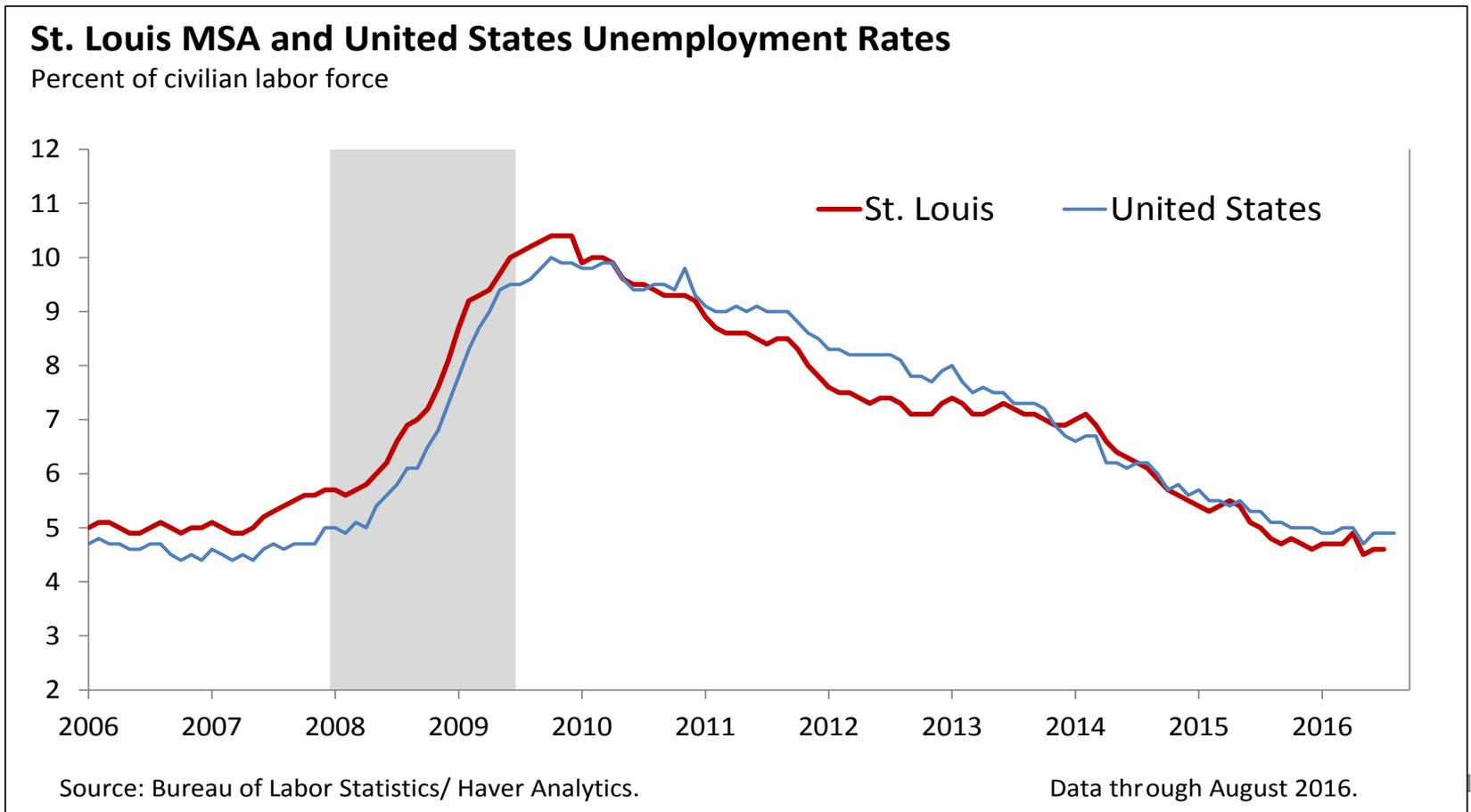
Business services and leisure and hospitality have been St. Louis' job growth engines recently.

U.S. and St. Louis MSA Payroll Employment by Industry Over the Past Year
Percent change, through August 2016



SOURCE: U.S. Department of Labor and Haver Analytics

St. Louis' unemployment has been modestly below the nation's rate since 2011.





Burgundy Book

A report on economic conditions in the St. Louis zone

Third Quarter 2016

“Many good jobs are available in various industries, especially construction and the trades, but there are few qualified job seekers to fill those jobs.”

—St. Louis area workforce development contact

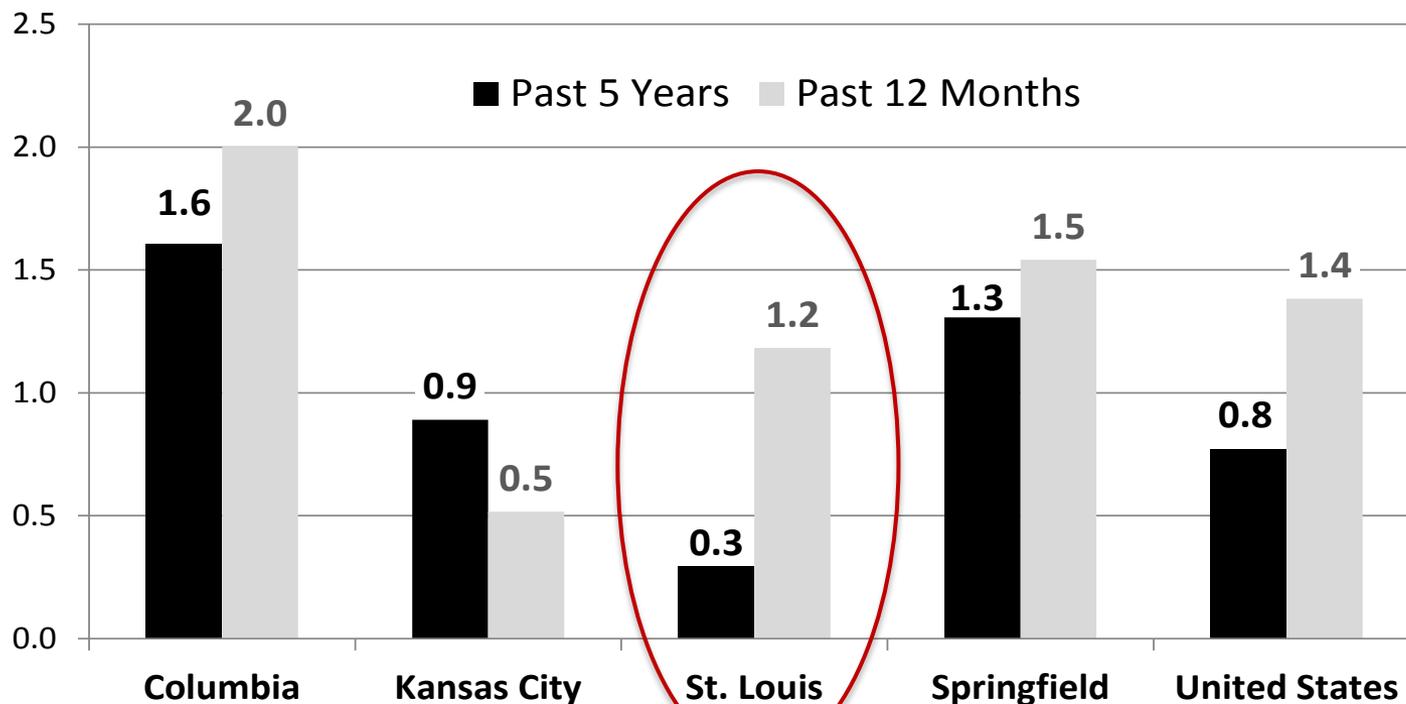
“We are having a very difficult time finding people who will do manual labor. There are help wanted signs all over town, so other businesses are having the same problem.”

– Central Missouri manufacturer

St. Louis' labor force growth still trails the nation's, but it is beginning to accelerate. This is good.

Growth of Labor Force in Selected Missouri MSAs

Percent change over the past 5 years and 12 months ending in August 2016



SOURCE: Bureau of Labor Statistics

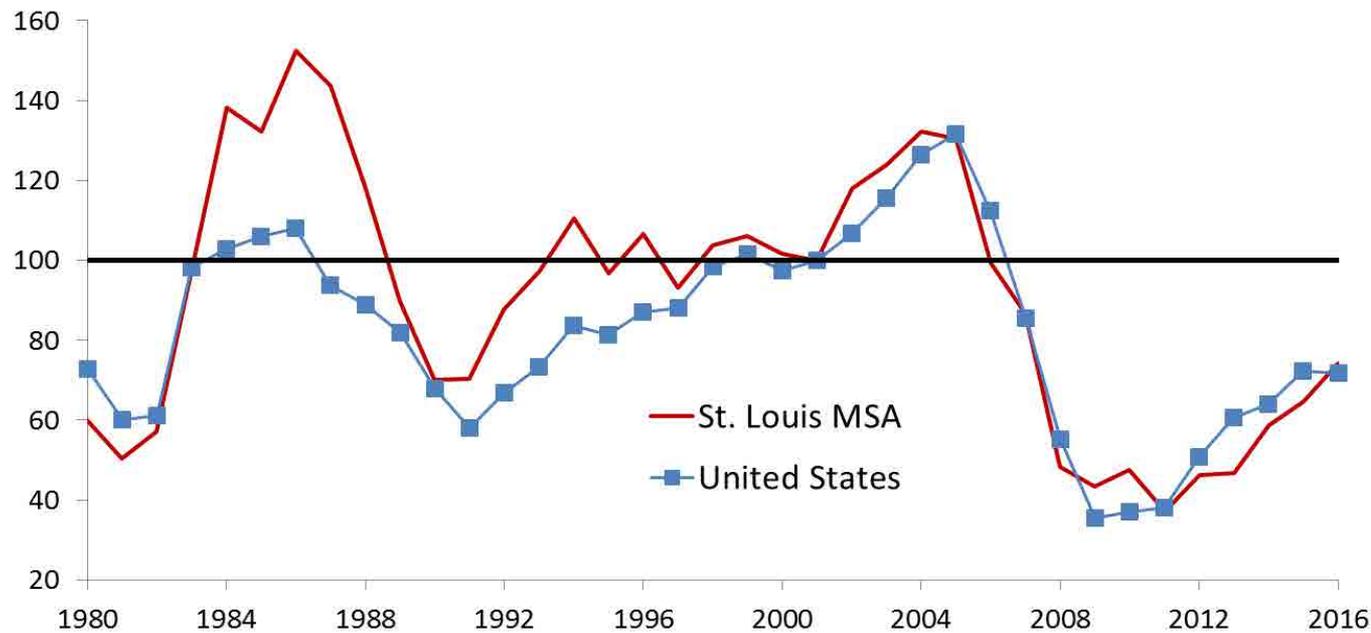
Number 3:

St. Louis Construction Activity Is Strengthening

Housing activity in St. Louis and the nation is increasing, but it remains below the boom years.

Total Private Housing Permits: St. Louis MSA and the United States

Indexed Level, 2001=100



Source: Census/ Haver Analytics

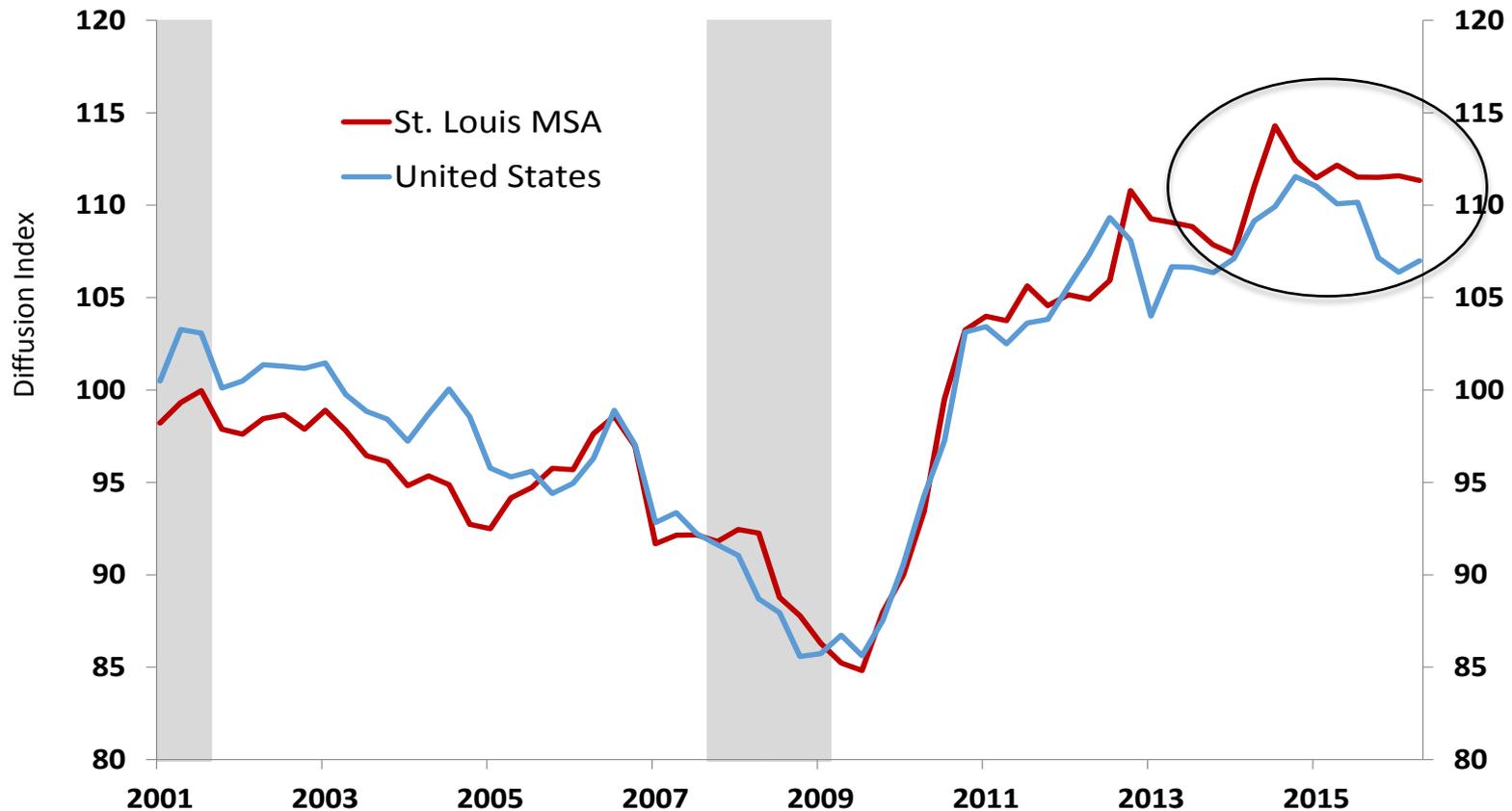
Data through August 2016

Projected change in 2016 using monthly data through August:

St. Louis: 14.6%

U.S.: - 0.8%

A leading indicator of the housing market suggests St. Louis looks better than the nation.





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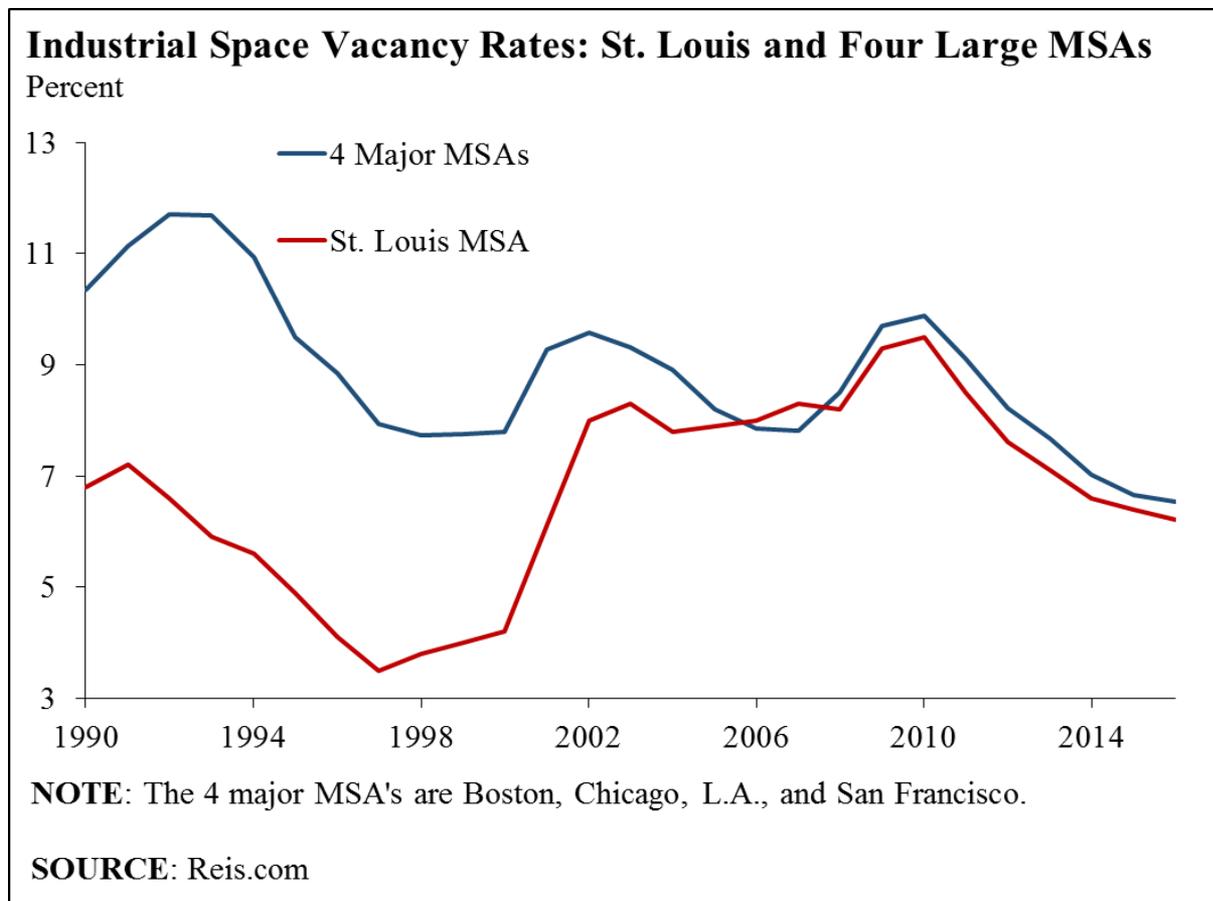
“Commercial real estate development is focused on industrial properties.”

—St. Louis real estate contact

“We continue to see increases in industrial build-to-suit and spec projects.”

—St. Louis real estate contact

Industrial vacancy rates in St. Louis have fallen sharply, but they are not at record lows.



Number 4:

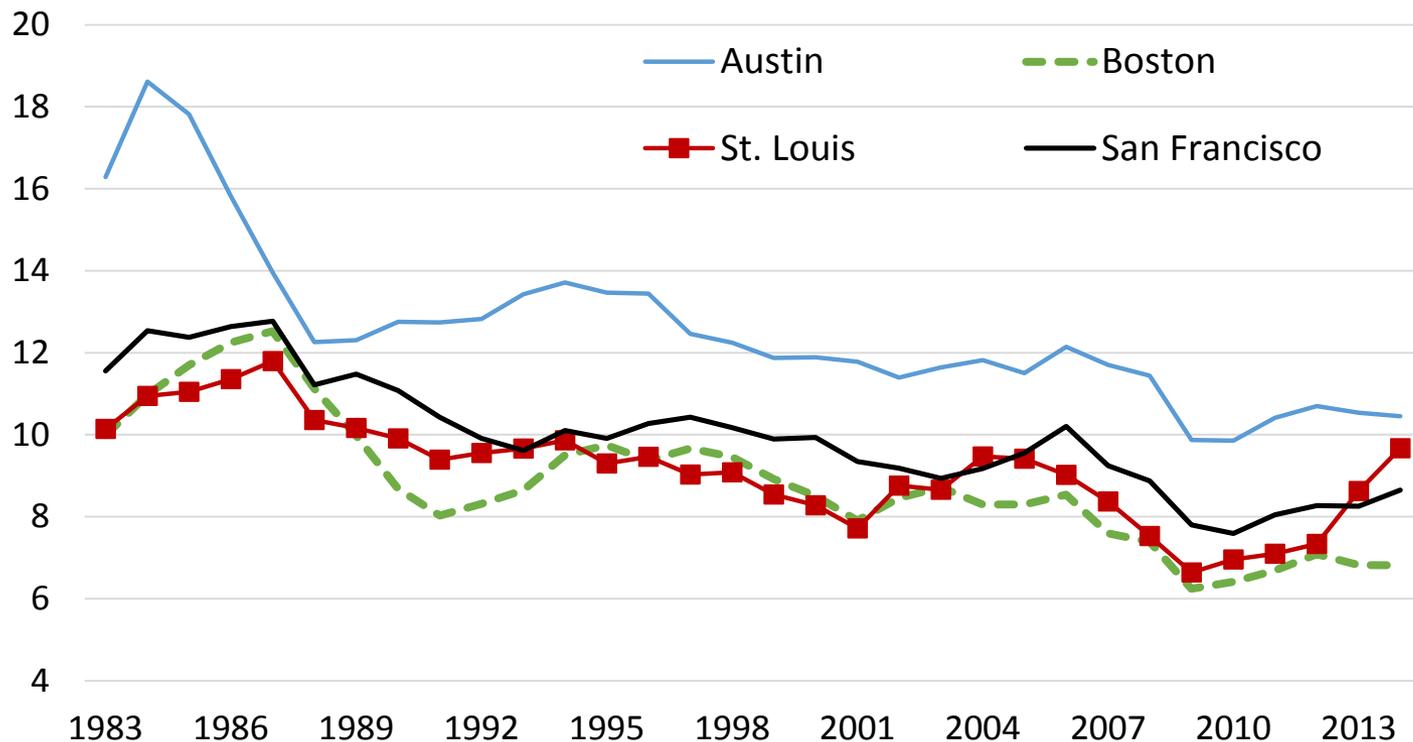
The Emergence of a “Booming” Entrepreneurial Sector

The Importance of Business Dynamism

- ❑ Business dynamism is important to the growth process. Economists often use business startups as a proxy measure for business dynamism.
- ❑ The benefits are increased productivity, higher wages, and faster job creation.
- ❑ Nationally, business dynamism has been on the decline for more than a decade.
- ❑ But it has risen in St. Louis since 2009.

A Jump in St. Louis Startups since 2009

The Percentage of Firms One-Year Old or Less as a Percent of Total Firms, 1977-2014



SOURCE: U.S. Census Bureau

Is St. Louis poised to turn the corner?

Some Challenges and Opportunities:

- ❑ The Good: World-class medical research facilities; vibrant health care and financial sectors; thriving entrepreneurialism; an improving business tax climate.
- ❑ The aging of the population presents both challenges and opportunities policymakers and for those in the health care and financial industries.
- ❑ The Not-so-Good: Weak labor productivity growth is alarming. Need to look to fiscal and regulatory policy for the solutions.