GREATER KANSAS CITY CHAMBER OF COMMERCE

Kansas City's Recovery from the Great Recession

2014 Economic Forecast

Issued September 30, 2013

The KC Chamber's 2014 Economic Forecast

Monday, September 30, 2013

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Forecast prepared for the Greater Kansas City Chamber of Commerce by the Mid-America Regional Council

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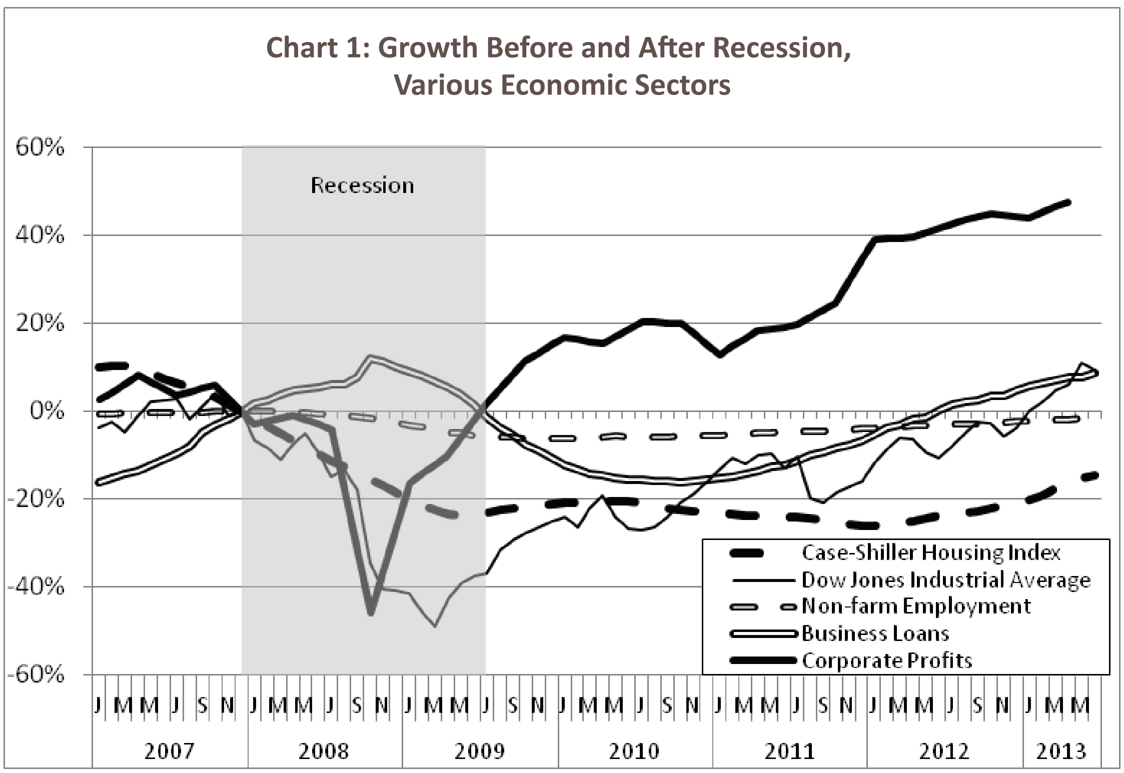
U.S. Economic Situation

Metropolitan Kansas City's economy is strongly influenced by the nation's economic performance. To prepare a local forecast, then, it is essential to first understand the national economic situation. Put simply, the U.S. economy continues to recover, but the recovery is weak by historical standards. As such, it remains vulnerable to economic shocks, which may originate internally or externally to the U.S. economy. These points are addressed in turn below:

1. The U.S. economic recovery continues.

The recovery of the U.S. economy from the Great Recession continues and is broadening across the sectors of the economy. Corporate bottom lines were the first to rebound and have soared to record levels since, with second quarter 2013 profits that are 48 percent higher than when the recession began in December 2007. **(Chart 1)** The stock market, represented here by the Dow Jones Industrial Average, charted a similar upward path soon after, also achieving record levels. In September 2013, the Dow stood approximately 14 percent above its value when the recession began.



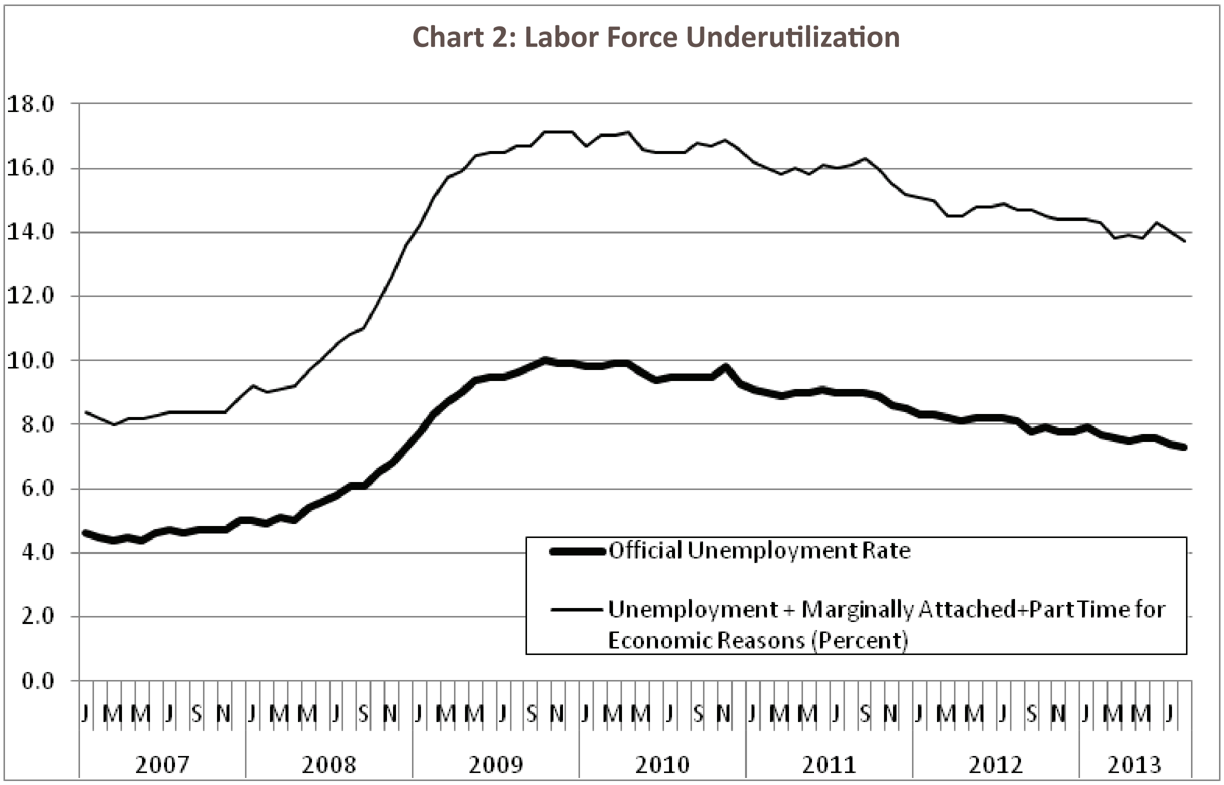
Source: Bureau of Economic Analysis (BEA), S&P Dow Jones Indices, Bureau of Labor Statistics (BLS), Federal Reserve Board

The value of loans to business did not start declining until the recession was well underway. However, the financial crisis resulted in more stringent underwriting criteria and for a while, it was difficult for all but the most creditworthy businesses to obtain financing. The combination of a nascent recovery plus record corporate profits has enabled more businesses to meet these criteria, and business loan activity again began to increase in late 2010. Since that time, business loans have grown about 30 percent. As a result, by mid-2013, they were about 9 percent above their value when the recession began, indicating a return to more normal functioning of credit markets in support of business investment.

The housing market, whose crash precipitated the fall of the economy into recession, has been one of the last market segments to join the recovery. Yet, it, too, is now strengthening. The Case-Shiller 20-City home price index increased 12 percent over the year ending July 2013, reflecting stronger sales. Such sales are encouraging new home construction in both multi-family and single-family segments. The Census Bureau reports that building permits in August are up 11 percent over one year earlier, while new housing starts were up 19 percent.

In short, whereas the economic crisis of 2008 was preceded by rolling market bubbles: first the stock market, then in the housing market, the recovery has proceeded in what might be termed a series of rolling recoveries. Yet because all sectors are not recovering at the same time or at the same pace, it has produced an economy where growth is uneven rather than hitting on all cylinders simultaneously.

As a result, the broader economy continues to grow, but at a modest pace. GDP increased 2.5 percent in second quarter of 2013, in line with 2.2 percent average since recession ended. In turn, this has produced a modest increase in the number of jobs, with 169,000 non-farm workers added to payrolls in August 2010. That same month, the unemployment rate fell to 7.3 percent. **(Chart 2)** While still elevated, this is its lowest level since the recession began.



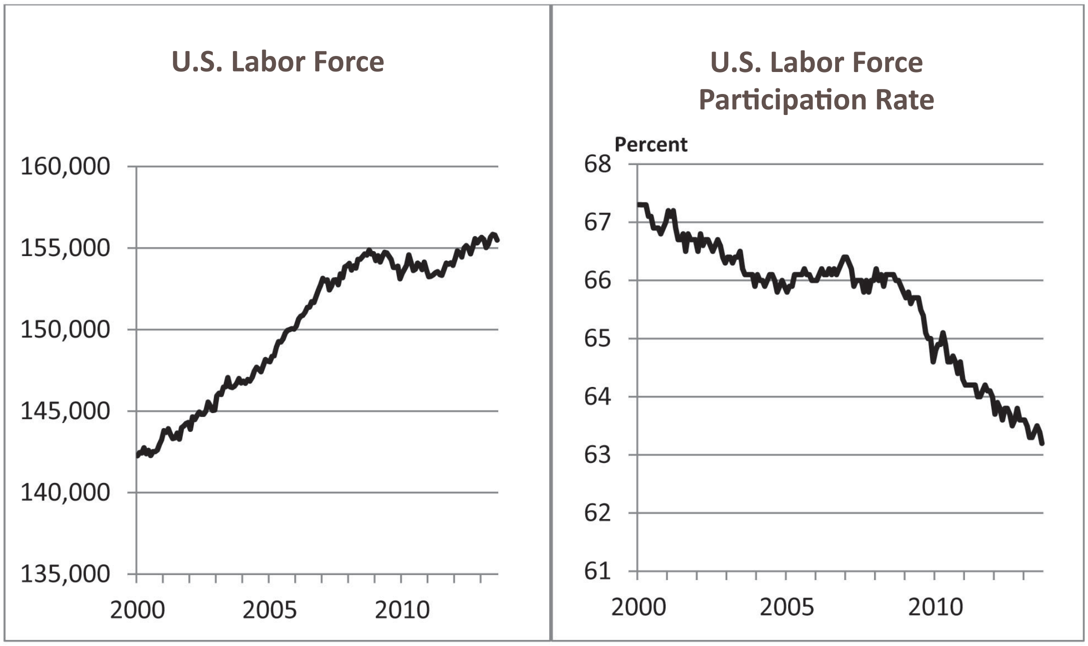
Source: BLS

Additionally, the broader measure of labor force under-utilization, which includes individuals only marginally attached to the workforce and those working part-time despite a desire for full-time employment, also dropped to its lowest point since the recession, 13.7 percent.

2. However, the recovery is still weak.

Ordinarily such modest job growth wouldn't be enough to lower the national unemployment rate because, with typical population increases, the number of people working or looking for work (i.e., in the labor force) would grow by an equivalent amount. However, the overall U.S. labor force participation rate has been declining since the early 2000s. **(Chart 3)** Typically, labor force participation rates increase during recoveries, but the relatively weak mid-decade recovery meant they didn't rebound much before Great Recession hit. Then, its depth and length have forced many people to reassess their work prospects. Nearly 40 percent of the unemployed have been out of work for more than half a year, and once unemployed that long, finding a job becomes particularly challenging. This is especially true for older workers and those without the skills to meet current employers' demands. Many decided to drop out of the labor force all together. As a result, the decline in labor force participation accelerated and the number of people in the labor force has seen little growth despite the recovering economy.

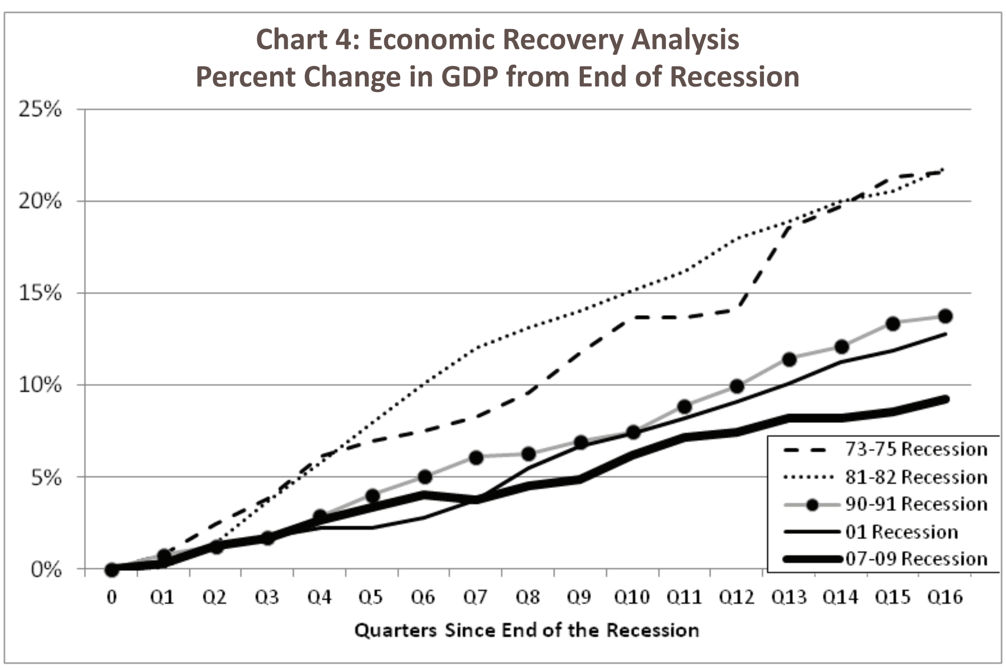
Chart 3: U.S. Labor Force and U.S. Labor Force Participation Rate



Source: BLS

The Hamilton Project's job gap analysis takes into account the impact of changing demographics and the current sluggish economic growth to examine how long it will take for labor market conditions to return to their pre-recession state. It estimates that in August 2013, the U.S. had a jobs gap of 3.8 million workers, about half of which were due to jobs lost during the Great Recession and half due to labor force growth. A declining participation rate means the U.S. needs to generate fewer jobs in the future to achieve pre-recession unemployment rates than it has in the past. Nonetheless, extrapolating August's moderate pace of job growth into the future means the jobs gap won't fully close until 2020, given expected population increases. By contrast, if the average monthly increase in jobs were to match the average for the 2000s, or 208,000, the jobs gap would close by 2018. Even more optimistically, if job growth were to match the 1990s average of 321,000 per month (nearly double the current pace), the jobs gap would close by 2016.

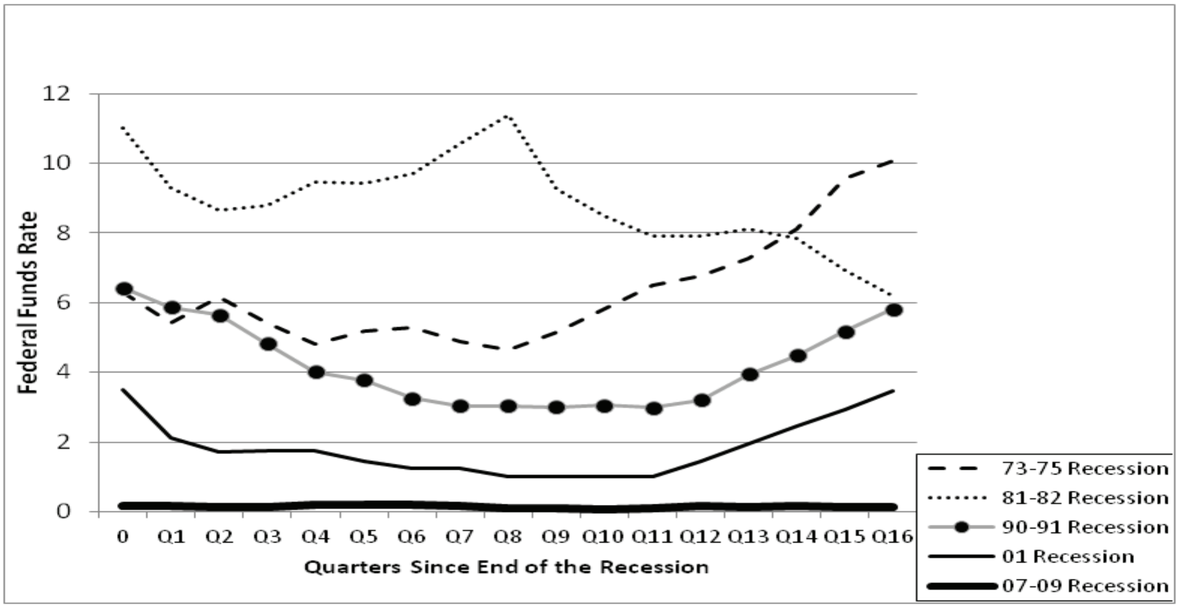
Compared to recessions from the last four decades, not only was the Great Recession of 2007-09 the deepest, the pace of recovery has also been the slowest. **(Chart 4)** A full four years after the recession ended, the recovery from the Great Recession has produced GDP growth of only 9 percent, compared to 13 percent after the 2001 recession and 14 percent after the 1990-91 recession. Four years into the recoveries from other recessions in the last 40 years produced GDP growth rates over 20 percent.



Source: BEA

Particularly sobering has been that this slowest of recoveries is occurring while the monetary policy is pushing its full "pedal to the metal," utilizing both a record low Federal Funds rate and so-called "quantitative easing" (QE). QE involves the FOMC buying mortgage-backed securities and U.S. Treasuries to more directly influence long-term interest rates, with the aim of lowering them to assist the housing market and those making long-term investments. This level of monetary policy, in combination with other tools deployed during the Great Recession, is truly unprecedented. Yet, despite this, the net impact on the rate of recovery has been relatively small. In fact, each of the past three recessions seems to have grown more resistant to the influence of monetary policy. Recoveries have become steadily weaker even as monetary policy has become steadily more aggressive. **(Chart 5)**

Chart 5: Federal Funds Rate During Recession Recoveries



Source: Federal Reserve Board

At its September 2013 meeting, the Federal Open Market Committee (FOMC) said it expects to maintain its current accommodative policy stance for as long as conditions warrant. The conditions specifically mentioned include an unemployment rate above 6.5 percent, an inflation rate below 2.5 percent and "well-anchored" long-term inflationary expectations. While the FOMC was widely expected to announce it would begin tapering the pace of the purchases of mortgage-backed securities and U.S. Treasuries, it ultimately decided to continue them unchanged. Two major concerns were cited – that "fiscal policy is currently restraining growth" and that long-term interest rates have already risen significantly in anticipation of a reduction in quantitative easing.

The FOMC's concerns regarding the strength of the recovery is reflected in the downward revisions to its GDP forecast. As released in September, the central tendency of the FOMC's GDP growth estimate for 2013 is estimated to be between 2.0 to 2.3 percent, down from the 2.3 to 2.6 percent estimated in June. Similarly, the central tendency of their GDP forecast for 2014 for growth between 2.9 to 3.1 percent, down from a June central tendency of 3.0 to 3.5 percent. Overall, the 2014 forecasts of GDP considered by the FOMC ranged from a low of 2.2 percent to a high of 3.3 percent, the latter being a reduction from June's 3.6 percent. The FOMC's assessment of the long-run growth of the U.S. economy was also generally lowered in September, from a range of 2 to 3 percent to a range of 2.1 to 2.5 percent.

3. *With little momentum, the economy is more susceptible to shocks.*

With growth expected in the 2.0 to 2.3 percent range for the whole of 2013, the economy has little forward momentum. This is at least partly the result of current fiscal policy. The FOMC sees an "improvement in economic activity and labor market conditions," but only if it looks carefully after "taking into account the extent of federal fiscal retrenchment." The fact is, while monetary policy continues to be extremely accommodative, fiscal policy has turned more restrictive. Congressional and Presidential concerns over the amount of federal spending, the federal deficit and debt have led to policy choices, such as letting the payroll tax holiday expire and the sequester, that take money out of the economy at a time when the economy is still in a weakened condition. These conflicting policy stances are very much like driving with one foot on the gas and the other on the brake, with the result that the economy isn't moving forward very fast.

Into this mix comes the possibility of a federal government shutdown on October 1, 2013, or, more seriously, a refusal to raise the debt ceiling when the that limit is reached sometime in mid- to late-October. The uncertainty created by the politics of these issues is enough to lower spending by businesses and consumers, shaving off a few tenths from prospective GDP growth rates, at least in the short-run. Should one or both of these threats actually materialize, the potential economic consequences increase significantly, though in the case of the debt limit, they are also largely unknown at this point.
As if the potential for such an internally generated shock isn't enough, we were again recently reminded of the dangerous world we live in, between threats of war with Syria, the terrorist attack in Kenya that included American participants, and on-going tensions in the Middle East and elsewhere.

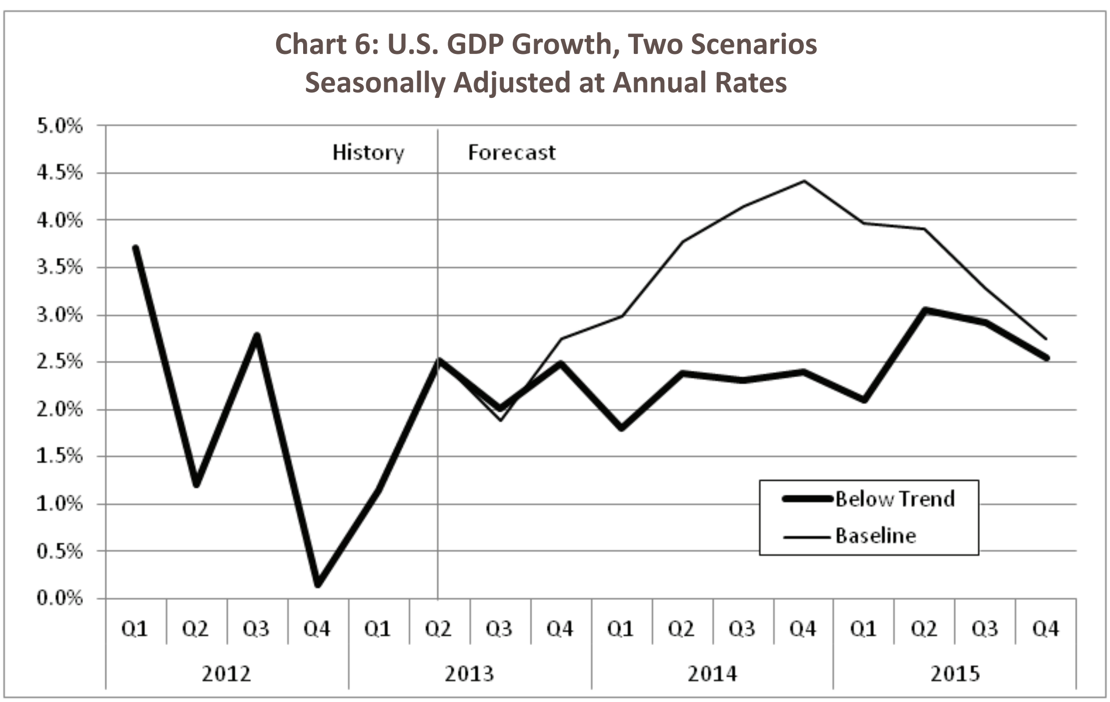
That the path of the economy will be significantly altered by any one of these potential internal or external shocks has a low probability. But there are lots of potential low probability events "out there," raising the likelihood that something with an unexpectedly large impact might occur at a time when the economy, though growing stronger, is still weak. Thus, while low probability, such events may also be high risk. As a result, it is only prudent to acknowledge such risks when planning for the future.

U.S. Forecast

As in past forecasts, MARC uses a national forecast from Moody's Analytics to drive its model of the Kansas City metropolitan area economy from Regional Economic Models, Inc. (REMI). Two scenarios are highlighted to show the range of potential outcomes under consideration. **(Chart 6)**

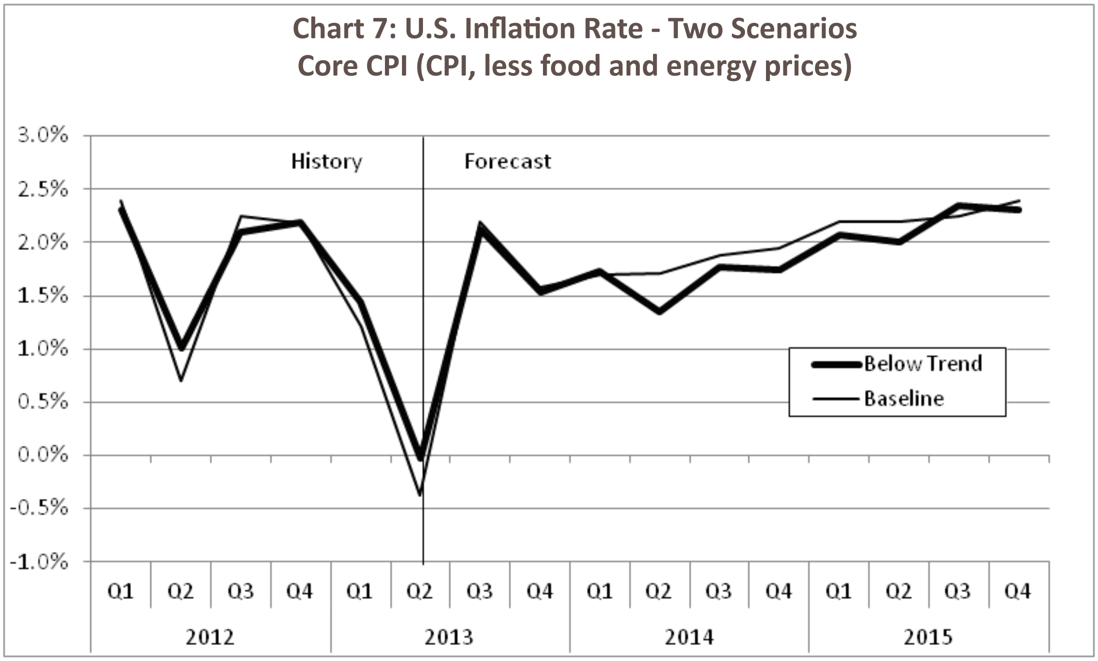
Moody's Baseline forecast calls for moderate GDP growth throughout the rest of 2013 averaging 2.1 percent since fourth-quarter 2012. GDP is then expected to accelerate to an average of 3.8 percent during the 2014, significantly above the range considered by the FOMC. Growth then moderates some in baseline forecast, averaging 3.5 percent in 2015, measured on a fourth-quarter to fourth-quarter basis.

Moody's "Below Long-Term Trend" scenario calls for both lower growth and more stable economic growth than its baseline forecast. The rate of GDP growth ranges roughly between 2 and 3 percent over the entire forecast period. Considered on a fourth-quarter to fourth-quarter basis, there is a slow but steady acceleration of GDP growth expected in this scenario, from 2.0 percent in 2013 to 2.2 percent in 2014 to 2.7 percent in 2015, allowing for a gradually strengthening of the recovery over time. Both the 2013 and 2014 forecasts are near the lower bound of the range of forecasts considered by the FOMC. The 2015 forecast is closer to the middle of the FOMC's range.



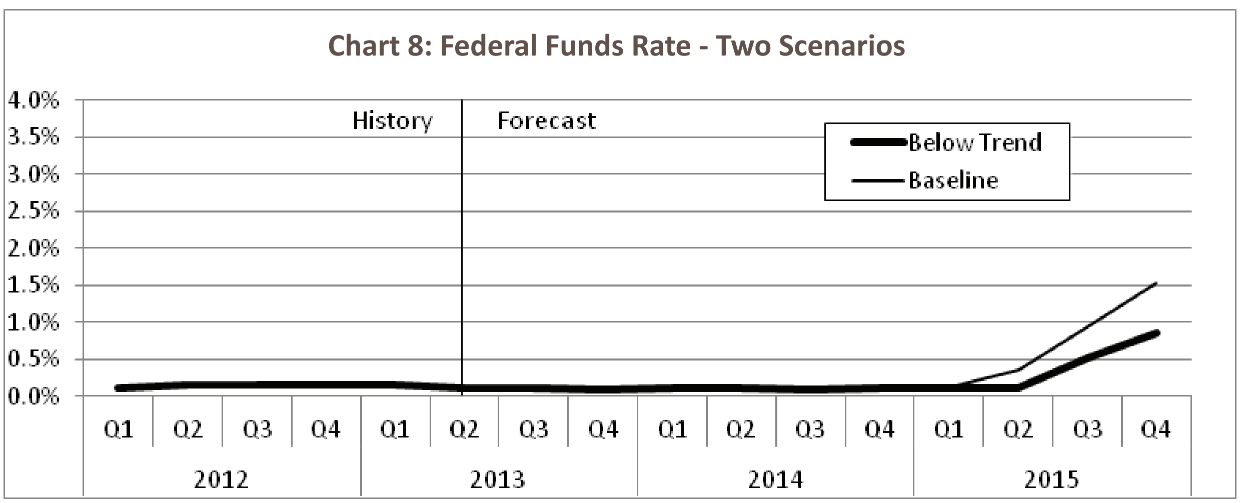
Source: Moody's Analytics

With strong growth returning in the baseline forecast, Moody's expects inflation, as measured by the core Consumer Price Index (CPI, less food and energy), to begin accelerate in 2014, approaching the FOMC's 2 percent target by the end of the year and exceeding it in 2015. **(Chart 7)**. The slower growth in the "Below Long-Term Trend" scenario allows for core inflation to be better contained, but even in this scenario, Moody's expects the FOMC inflation target to be exceeded in 2015.



Source: Moody's Analytics

As a result, both scenarios show the Federal Funds rate beginning to increase in 2015, beginning first quarter in the baseline forecast and in the second quarter in "Below Long-Term Trend" scenario. **(Chart 8)**



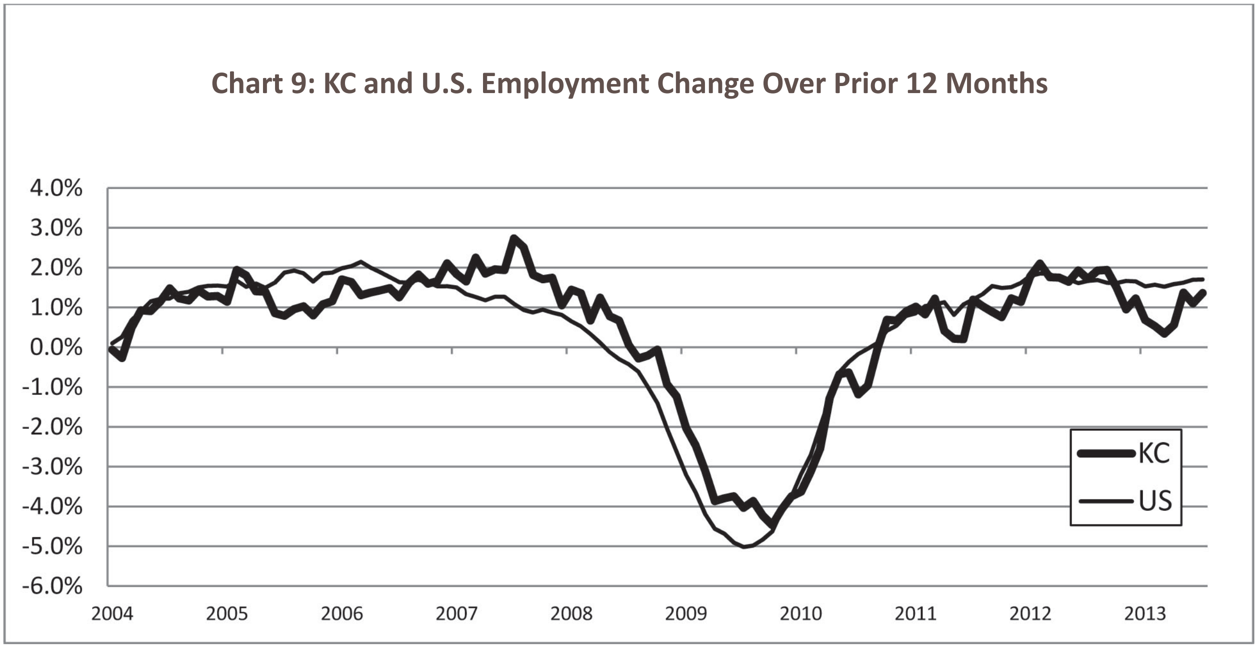
Source: Moody's Analytics

Which U.S Forecast to use?

In the past, MARC has always used Moody's baseline forecast to set the overall economic context for the local economic model, as it is the one that Moody's assigns the highest probability of occurring. However, like this year, past baseline forecasts have consistently shown a period of above average growth occurring within the next year. Just as consistently, those forecasts have been frustrated by the unusually slow pace of the current recovery. Utilization of prior baseline forecasts to drive the local model, in turn, this has resulted in overly optimistic forecasts for the speed at which employment growth in the Kansas City area would return to normal. While there is a possibility that the U.S. economy will suddenly shift into a higher gear, this does not seem to be the most likely outcome at the present time. Therefore, MARC believes the "Below Long-Term Trend" scenario to be the more realistic, though conservative, forecast and has chosen it as the U.S. input into the REMI model.

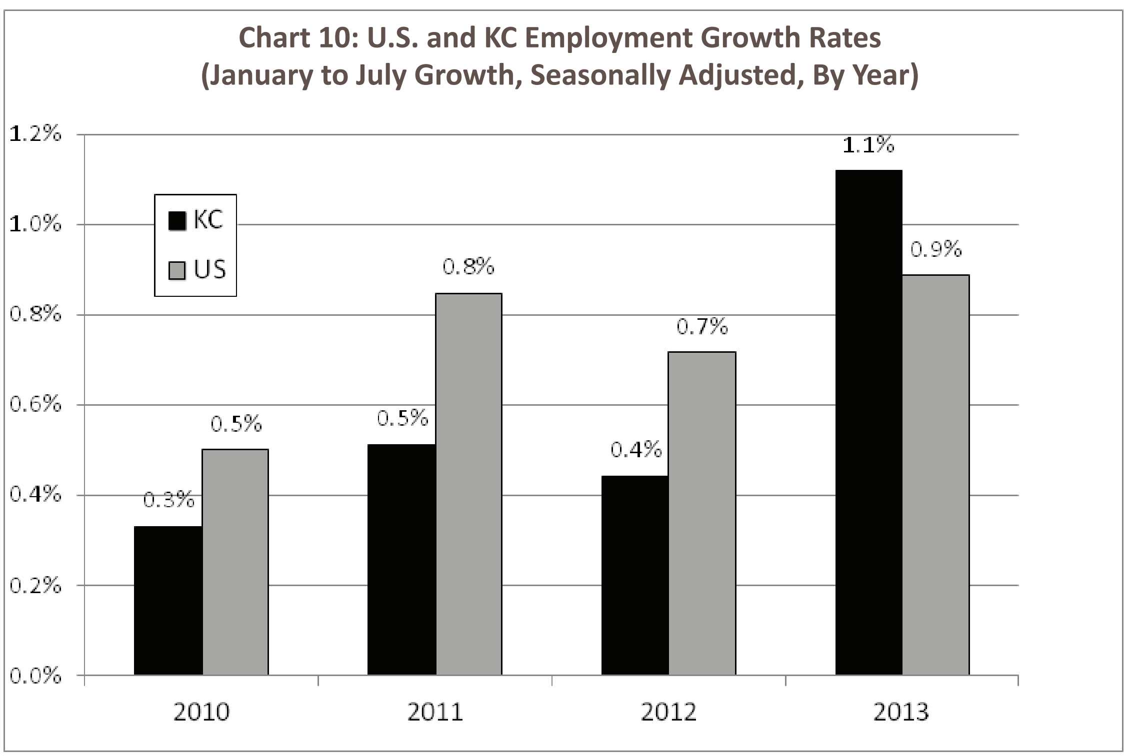
KC Economic Forecast

Like the U.S. economy in general, the greater Kansas City area economy has struggled to recover from the Great Recession. While the KC economy entered the recession later and its bottom wasn't as deep, it has generally lagged the nation in terms since the recession ended in mid-2009. **(Chart 9)** For example, while U.S. total non-farm employment grew 4.2 percent between mid-2009 and mid-2013, KC employment grew only 2.9 percent over the same period.



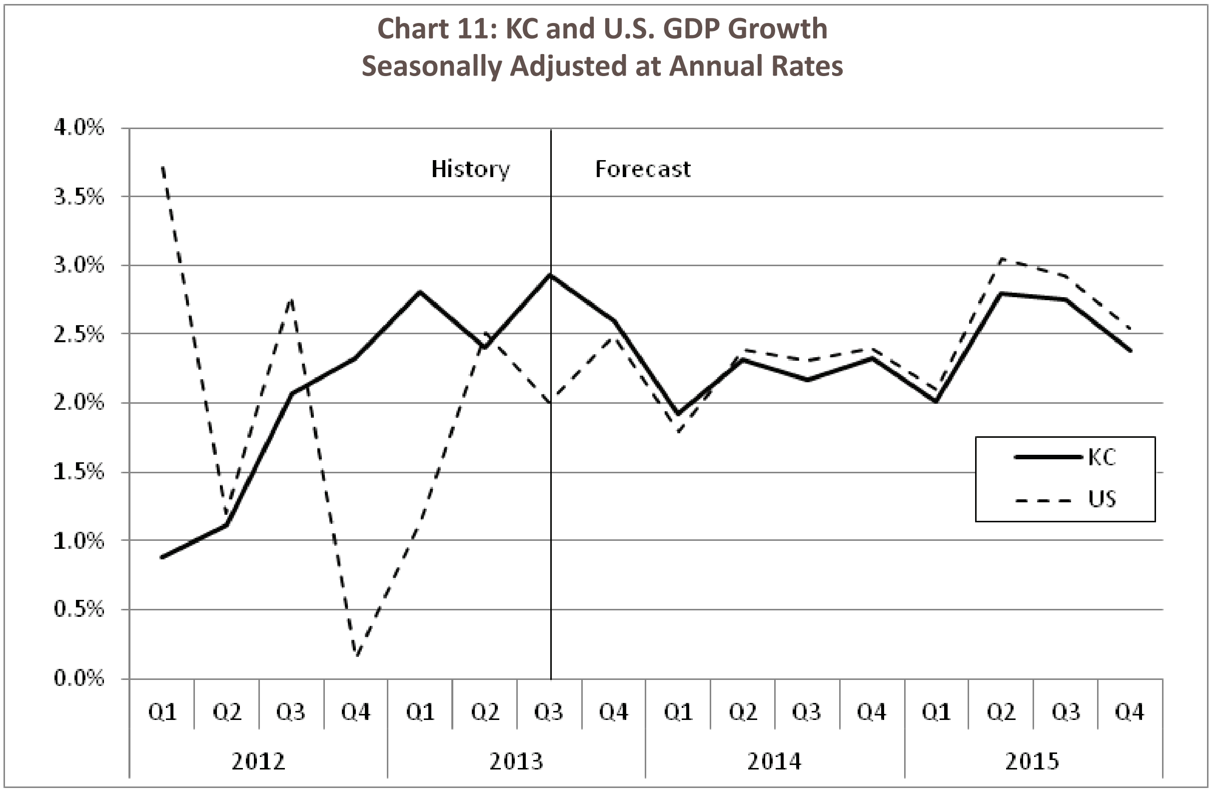
Source: BLS

Yet, there are signs that the KC economy is gaining ground. The seven months of 2013 saw faster employment gains than the U.S. Compared to the same seven-month period in prior years, this marks the first time the Kansas City region added jobs more quickly than the nation. **(Chart 10)**



Source: BLS

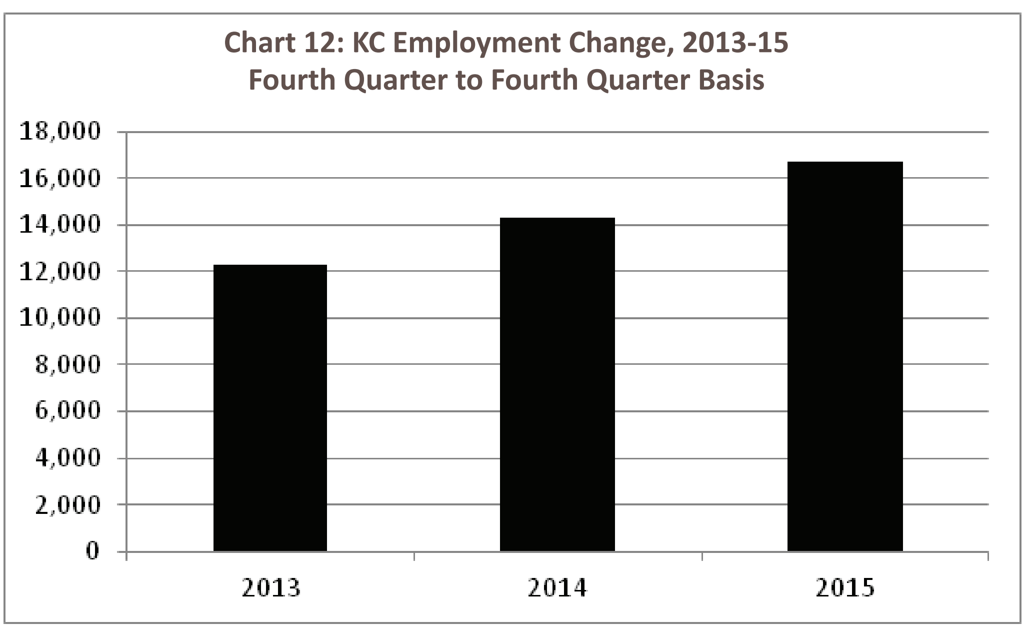
When these jobs figures are input into the REMI model, it estimates that the region's overall economic output did, in fact, grow faster than the U.S. beginning in late 2012 and into 2013. **(Chart 11)** As a result, real GDP generated by the Kansas City area economy is expected to increase 2.7 percent between the fourth quarters of 2012 and 2013, compared to the 2.0 percent increase forecast for the U.S. over the same period.



Source: Moody's Analytics, MARC

After this point, the KC economy's growth will fall in line with the U.S. Between the fourth quarters of 2013 and 2014 the GDP growth will increase by 2.2 percent, exactly the same as the U.S. The local economy is expected to grow another 2.5 percent the following four quarters, just under the 2.7 percent growth rate forecast for the nation.

The region's steady GDP growth will produce similarly moderate employment growth. **(Chart 12)** The number of jobs in the Kansas City area is expected to increase about 12,300 for the year ending fourth-quarter 2013. Metropolitan Kansas City's job growth is then forecast to increase somewhat in the coming years, to 14,300 in 2014 and 16,700 in 2015, measured



Source: MARC

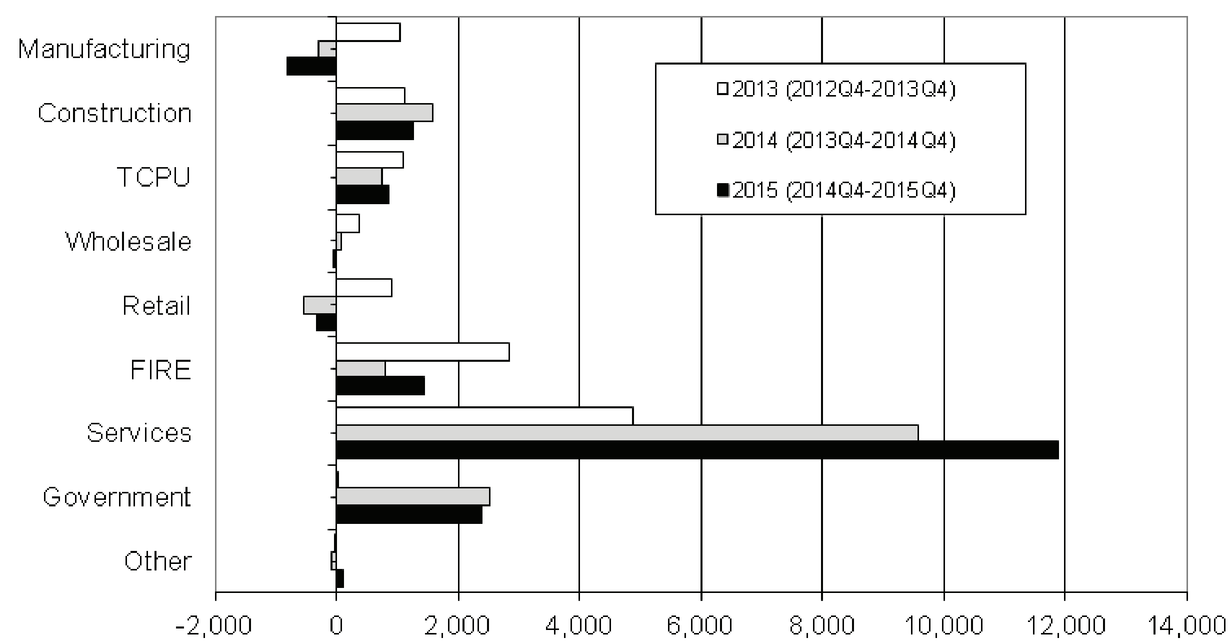
on a fourth-quarter to fourth-quarter basis. Given that historically, the region's average annual increase in jobs is about 1.5 percent and that currently, the KC metro has about 1 million jobs, then in average times we would expect to add about 15,000 jobs per year. This forecast then projects region will return to its long-run average rate of growth by 2015. That this is expected to occur despite the forecast's conservative underpinnings with respect to U.S. GDP growth, is welcome news indeed.

One may wonder how larger GDP growth during 2013 was generated by a smaller amount job growth than in succeeding years. The principal reason is the industrial composition of that growth and the fact that some industries have higher productivity than others. Whereas typically, manufacturing employment generally declines a little bit each year due to rapid productivity increases, in 2013 manufacturing employment actually grew by 1,100 jobs, largely due to expansions in the auto industry. **(Chart 13)** Because value added per worker in the manufacturing sector is higher than average, a small employment growth in this sector contributes more than proportionately to the region's overall output. Similarly, the finance, insurance and real estate (FIRE) sector rebounded significantly in 2013 with the revival of the housing market, adding 2,800 jobs. The large transaction prices in this sector give it the highest value-added per employee of any industry, so employment increases in this sector also have a larger-than-average impact on the region's level of economic output.

In both sectors, employment growth in 2014 and 2015 is forecast to resume rates of growth closer to their historical averages. Manufacturing employment will likely resume its gradual decline, losing roughly 300 jobs between the fourth quarters of 2013 and 2014, and another 800 jobs the subsequent four quarters. Meanwhile, FIRE employment will grow by 800 during 2014 and 1,400 jobs in 2015, annual rates of job additions that are less than half of what occurred in 2013.

The construction industry was also a beneficiary of the surge in the housing market, adding 1,100 jobs between the fourth quarters of 2012 and 2013. Pent-up demand in the housing market from years of little activity ensure this growth will continue into the future and even accelerate a bit in 2014 so that construction is forecast to add 1,600 jobs before dropping back to a 1,200 increase in 2015, measured on a fourth-quarter to fourth-quarter basis.

Chart 13: Change in Jobs by Industry, 2013-2015
Fourth Quarter to Fourth Quarter Basis

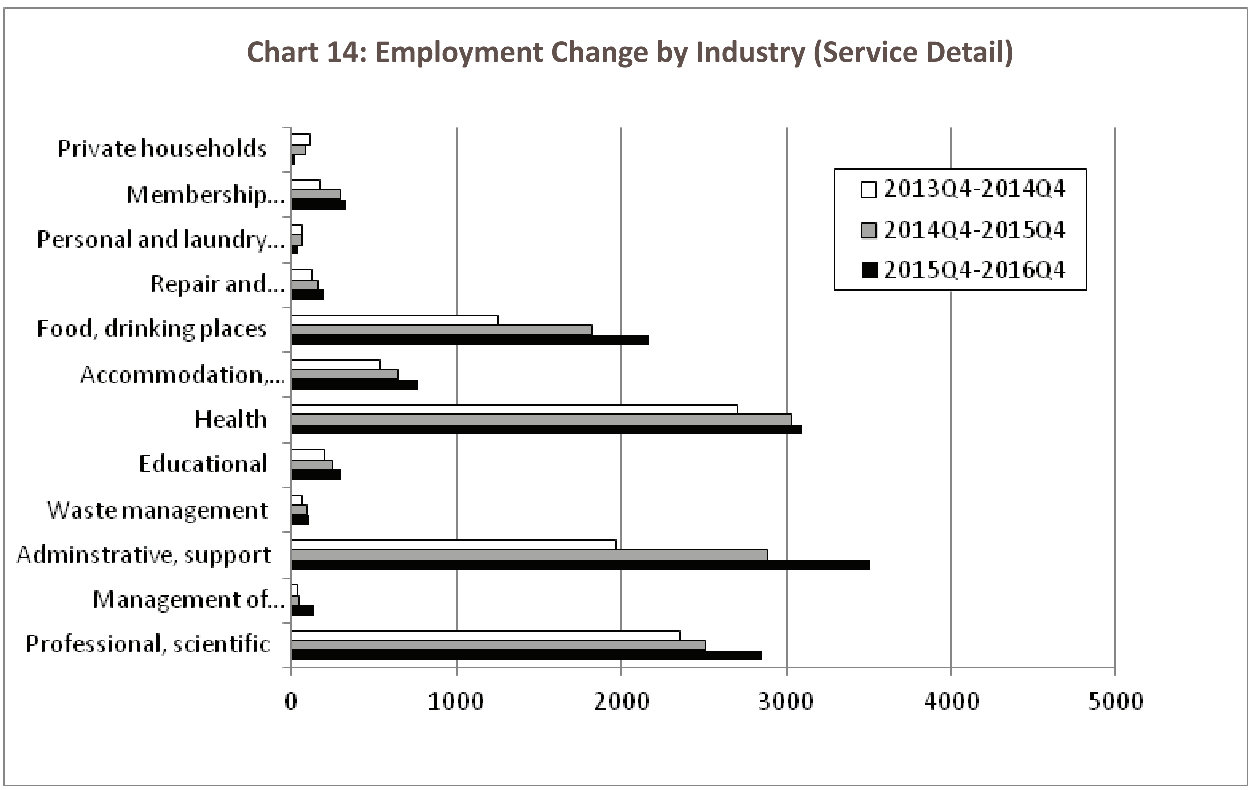


Source: MARC

Also related to the improved housing market, at least in part, is the somewhat surprising forecast for an increase in government employment. We note that all the growth is in local government. After having laid off significant portions of their staffs during the downturn, local governments are projected to begin hiring again as new development increases the workload on their existing planners, assessors, codes administrators and the like. In addition, the new home activity also brings with it increased demand for schools and teachers, and public schools are also classified as part of local government. As a result, though flat between 2012 and 2013, government employment is expected to increase by 2,500 between 2013 and 2014, with another 2,400 jobs being added in 2015.

The approximately 4,900 jobs added by the services industry makes it the largest contributor of new jobs to the Kansas City area economy in 2013, as it has been in the past and is projected to be in the future. This contribution nearly doubles to 9,600 in 2014 and rises further to 11,900 in 2015.

Services is a very diverse sector, comprised of both high and low value-added workers. Its job growth is concentrated in four sub-industries – food and drinking places, health, administrative and support services, and professional, scientific, and technical services. **(Chart 14)** Two of these are generally low-paid industries – food and drinking places and administrative and support services. Health is a bifurcated industry with some highly paid positions but a majority of workers are paid wages below the regional average. Only professional, scientific and technical services is a highly paid industry. In each of these sub-industries, employment growth is expected to accelerate, topping out with job gains around 3,000 in 2015 for all but food and drinking places, which tops out with gains around 2,000 workers.

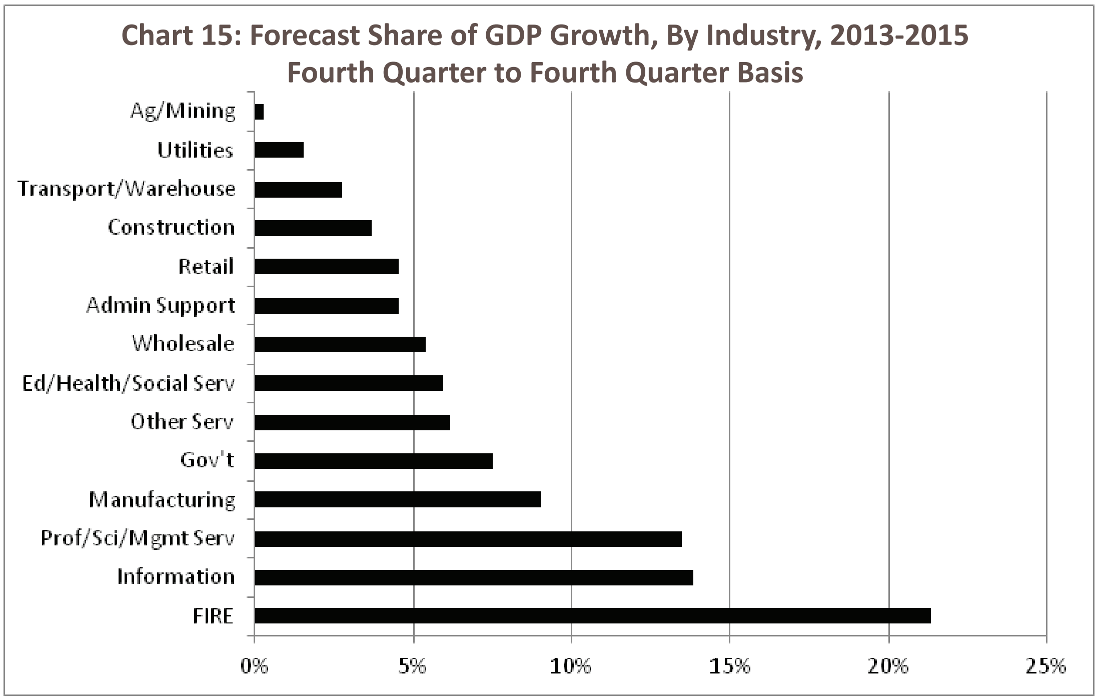


Source: MARC

Conclusion

KC recovery seems like it is on firmer footing than at any time since the beginning of the Great Recession. Employment is growing faster, and is forecast to return to its historical average pace of job growth by the end of the projection period.

As job growth returns, the region's policy-makers can begin to turn their attention from the quantity of jobs to their quality. As alluded to above, not all jobs are created equal. Some jobs add much more value to the regional economy than others and, not surprisingly, jobs in these industries tend to pay better, even for people in the same occupation. Looking at which industries are contributing most to the region's economic output growth reveals a different picture than focusing on employment alone. **(Chart 15)**



Source: MARC

The top four contributors are, in order: 1) the finance, insurance and real estate industry, 2) the information industry, 3) the professional, scientific and management services industry, and 4) the manufacturing industry. This is a substantially different set requiring a substantially different set of workforce skills than the four fastest job-creating service industries identified above – with the obvious exception of professional and scientific services, which is in both sets.

These industries where local workers add the most value are, in general, also the industries in which Greater Kansas City exports goods and services to the rest of the world (real estate is the exception as it is hard to export land!). This is not to say the other industries in which we specialize – transportation, logistics, wholesale trade, health – are not important. However, as the Kansas City metropolitan area looks to improve its economic competitiveness while recovering from the Great Recession, it would be wise to simultaneously consider how the regional economy can add more value to the goods and services it produces, and so gradually become a more important contributor to an increasingly global economy.

Industry Outlooks

2014
Economic
Forecast

Legal Industry Outlook

By Maurice Watson, Husch Blackwell LLP

The legal industry's challenges, which began several years ago, persist. Demand for legal services is down or flat as compared to last year (2012). Year to date reports indicate reduced demand in many segments of the industry. Because of slow organic growth, many firms are looking to mergers and lateral hiring as a means to grow revenues.

With pressures on demand, alternative pricing strategies have become increasingly important, and many firms are hiring and using pricing specialists to develop and implement alternative pricing models in response to these pressures. Clients are increasingly sophisticated and appreciate their market power to demand greater value and efficiency, while receiving pricing predictability through alternative fee arrangements (AFA). Along with these alternative pricing arrangements comes an increased need for quality project management to maintain acceptable profitability margins.

Following on the next two pages, with permission from Thomson Reuters' Peer Monitor service, is the most recent quarterly Index of national law firm economics.

For 2013, we continue to see consistent yet slow growth in the economy, and some recovery in the real estate sector (housing and office space). If the U.S. economy continues to improve gradually in 2014, so may law firm economics.

PEER MONITOR INDEX

Q2 2013 EXECUTIVE REPORT - ISSUED 07.31.13

PMI Moves Up in Second Quarter

Demand Flat, Cost Controls Continue

The THOMSON REUTERS PEER MONITOR ECONOMIC INDEX (PMI) [1] rose 3 points to 53 in the second quarter, following a poor start to the year. The law market showed improvement in some key areas relative to a weak Q1 showing, but continues to struggle to gain any ground. Demand for the quarter was flat. Worked rates were up 3.2%. Expense growth leveled out.

Demand [2] for legal services was flat in Q2, following a 3.4% decline in Q1. While it marked an improvement over the weakness seen in Q1, demand is still negative year-to-date. Demand patterns have been volatile recently, and Q2 performance is in line with the overall trend of flat-to-slightly-higher growth that has largely in place for the past three years. We are hopeful that this indicates the weakness at the beginning of the year may have been somewhat of an aberration, and that the market will resume a more neutral-to-positive tone.

Expense growth continues to moderate somewhat, particularly for overhead expenses. Direct costs were up 1.9% and overhead expenses rose 2.4%. But continued attention to costs may be needed to bring expenses more in line with revenues.

Demand by Practice Areas

Litigation fell for the fourth consecutive quarter, dropping 1.5%. IP litigation was also down for the fourth consecutive quarter, falling 2.2%. Both declines were smaller than Q1. Nevertheless, continued weakness in litigation is making it difficult for the overall legal market to gain traction, as litigation practices make up nearly forty percent of total billings.

IP patent work and labor and employment continue to help offset weakness in litigation. Patent work was up 2.8%. L&E rose 1.7%.

Real estate contributed with a 2.3% gain, reflecting renewed strength in the residential and commercial housing markets. Corporate work turned positive this quarter, rising 0.9%. Tax work was down 0.7% and bankruptcy fell 4.3%.

Performance by Market Segment

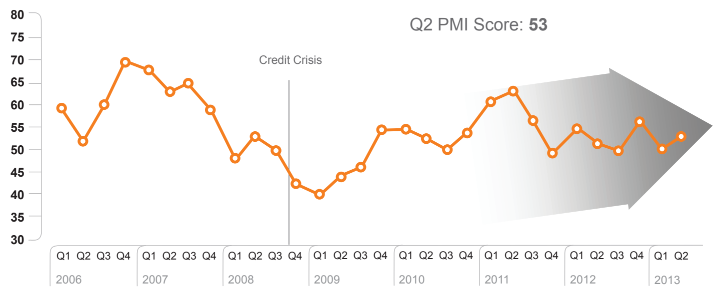
Am Law Second Hundred was the only market segment to show positive growth, with demand up 0.2%. Demand for Am Law 100 firms was flat. Midsize firms saw demand drop 1.9% in the second quarter. After seeing good performance relative to larger firms in 2012, Midsize firms are now significantly lagging behind so far in 2013.

Washington, D.C. had the strongest major market performance in the second quarter, with demand up 1 percent. San Francisco was flat. New York saw demand fall 1.2%, while Los Angeles was down 1.6% and Chicago fell 1.9%.

1 *The PMI is a composite index score, representing the quarter-over-quarter change in drivers of law firm profitability, including rates, demand, productivity and expenses. Positive factors driving firm profitability will produce a higher score. A score exceeding 65 generally indicates a healthy operating environment.*

2 *Demand is defined as the growth in billable hours.*

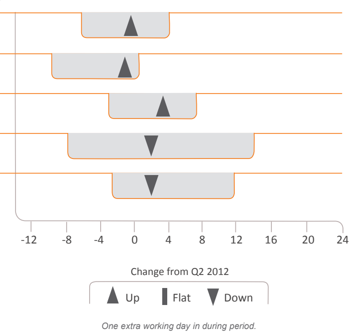
PEER MONITOR ECONOMIC INDEX (PMI)



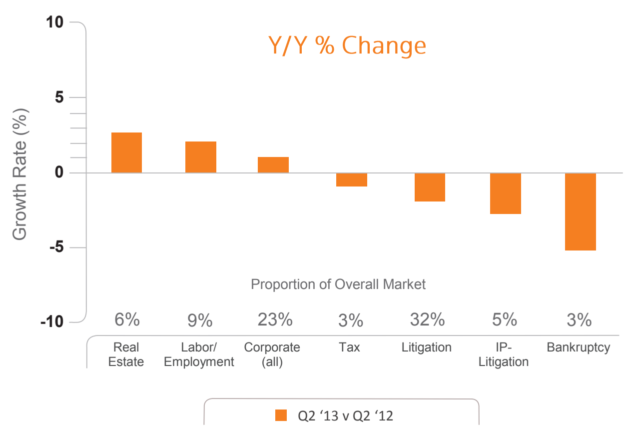
The PMI represents the relative rate of change among the major factors influencing law firm performance. These factors are tracked individually in the graph below.

PMI KEY FACTORS

	Q2 '13	Q2 '12	Q2 '11
Demand	0.0%	-0.2%	2.0%
Productivity	-0.7%	-2.5%	0.8%
Rates	3.2%	3.1%	3.2%
Direct Expenses	1.9%	4.6%	2.4%
Overhead Expenses	2.4%	3.9%	2.3%



DEMAND GROWTH BY PRACTICE: ALL SEGMENTS



Rates

Worked rates were up 3.2% in the second quarter, edging up slightly from Q1 but still below the rate increases seen in 2012.

Collected realization was 84.8%, up nearly a full percentage point from Q1, and the highest reading since the third quarter of last year. While one positive quarter hardly constitutes a trend, even temporary relief is welcome following more than three years of steady decline in realization. Similar upticks were seen in Q2 2011 and Q1 2012, only to be followed by continued deterioration. We will continue to monitor closely to see if the long-term downward trend resumes.

Meanwhile, cash growth in Q2 was a weak 0.4%, compared with 2.9% in Q2 2012.

Expenses[3]

Expenses grew at roughly the same rate as Q1, although the broader trend of slowing expense growth remains largely intact as firm continue their efforts to try and rein in expenses.

Direct expenses rose 1.9%, a slight uptick from 1.8% in Q1. But this follows four consecutive quarterly declines in direct expense growth, and the current rate is well below the peak levels seen in Q1 2012. Attorney headcount growth of 0.7% in the second quarter was the lowest in the last two years. The attorney replenishment ratio [4] was 1.3; despite the slowing in headcount growth, firms continue to add new attorneys at a faster rate than attrition.

Overhead expense growth, meanwhile, slowed for the fourth consecutive quarter. Overhead grew only 2.4%, the lowest growth rate in two years. Overhead costs are now much closer to the rate of inflation and are helping support firm profitability.

Productivity[5]

Productivity fell 0.7% in the second quarter. While this marks the eighth consecutive quarterly decline in productivity, it was an improvement over Q1. Lawyer headcount growth of 0.7% was the lowest since Q2 2011. All in all, capacity is slowing coming into better balance with demand.

Getting Back to Neutral

Firms can be forgiven for breathing a small sigh of relief. A weak start to the year generated some nervousness about what the year had in store. Significant challenges are still very much in place. While the market remains mired in neutral, some trends are pointing in a slightly better direction, at least for the moment. The key will be whether this momentum moves the market into positive direction in the second half of the year.

Improvements in the overall economy may be providing some support. The general consensus among economists is that the economy is showing signs of consistent, albeit somewhat slow growth. It has improved at least to the point where the Federal Reserve Bank has outlined plans – with no timetable yet – to gradually remove portions of its quantitative easing stimulus, on the presumption that economic growth may soon be able to sustain itself with less government support.

At the same time, several challenges specific to the law firm market are still present. Pricing pressures from clients continue to hold down rates. In addition, flat demand means increasing competition between firms for business. Mergers and lateral hires – even sometimes of entire practice groups – are increasingly being employed as means to achieve growth. Growth is increasingly a zero-sum game that means taking business away from someone else.

We are closely monitoring to see if continued gradual improvement in the economy translates into improved demand, particularly for transactional practices. We have already seen some strength return to real estate practices as the housing and office space markets show more signs of activity. More strength in transactional practices will be especially important if litigation practices continue to lag.

There is hope that the second half of the year will play out better. But after a roller coaster first half of the year, it remains to be seen whether the law firm market is poised for a return to growth.

For more information on the PMI, and how Peer Monitor can help your firm successfully manage through today's economy, please contact **Mark Medice at 412-203-2155** (mark.medice@thomsonreuters.com) or visit peermonitor.thomsonreuters.com.

Special Focus: Law Firms Using LPO to Drive Profit

In the search for reduced costs and improved efficiency, firms are increasingly looking to legal process outsourcing (LPO) services to boost firm scalability, market share and profits. In sharp contrast, the LPO industry has been growing at double-digit rates. According to a 2013 Hildebrandt study, 29% of firms have already gone down this road.

Firms are turning to LPO providers to: (1) improve efficiency by leveraging expertise on high-volume, repeatable legal tasks, freeing firm attorneys to focus their time and effort on high-value, substantive legal issues; (2) deepen relationships with existing clients by taking on more of a trusted advisor role and proactively approaching them with innovative, cost-saving solutions; and (3) increase market share and profitability by lowering the total cost of representation, allowing the firm to more aggressively price new engagements and enhance margins on fixed fee engagements.

LPO/law firm arrangements can also help talent recruitment and retention. Associates can know they will be assigned more high-value work, rather than high-volume document review, developing their skills in the traditional practice of law, such as oral advocacy, witness preparation and legal writing.

LPOs give firms greater flexibility to extend law firm capacity without adding overhead. This can be especially important as we see firms trying to control expenses. Not all LPOs are the same however. Firms should understand an LPO provider's expertise – whether litigation, M&A due diligence, intellectual property, or risk management and compliance, and develop strategic alliances that provide continuity of work with LPO provider attorneys who retain knowledge across projects.

For further discussion on how LPOs are helping law firms navigate through a challenging legal landscape, contact your Peer Monitor consultant.

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3 *Includes both direct expenses (salaries, fringe benefits and professional fees associated with billable timekeepers) and overhead expenses (all other nondirect expenses, including staff compensation, marketing, technology, occupancy, office expenses and research).*

4 *Attorney replenishment is the ratio of new attorneys to the firm divided by those departing. A result greater than 1 indicates growing capacity, while a result less than 1 signals a contraction.*

5 *Productivity is defined as hours per attorney and represents the ratio of capacity to market demand.*

Commercial Real Estate Industry Outlook

By Martin Maguire, Colliers International

The Kansas City commercial real estate market continues to strengthen due to growing investor and consumer confidence based on the current economic outlook and sustained momentum from previous quarters. In 2013, the Kansas City real estate market improved upon the progress of 2012 and the upcoming year should see additional traction and volume. While the nation and our local economy continue their slow climb from the depths of the most recent recession, employment and job creation growth projections within our market will translate into increased demand for commercial space and activity in the upcoming year. Uncertainty pertaining to the continuing budget resolution, debt ceiling, sequestration and our foreign affairs will continue to hamper both government and private sector activity to some extent, but overall the industry will continue to see realized growth and volume.

The Kansas City industrial market continues to shine as a result of increased activity fueled by distributors, manufacturers, retailers and shippers that need to re-engineer their supply chains to gain necessary efficiencies required in the evolving global and national demands related to e–commerce and distribution. The new BNSF Intermodal facility in Edgerton will nearly double its previous container capacity from the Argentine Yard, which will help to create future growth and opportunities for our market. Several developers are in the process of building speculative buildings to handle the projected demand of new modern distribution space within our market. The industrial sector currently has nearly 3 million square feet under construction of either speculative or build to suit industrial product with several additional announcements and development phases in the pipeline. The amount of new construction points towards investor and user confidence in future growth within our market. Large investments by both General Motors and Ford Plant continue to add to the strength of our manufacturing market. As a result, several local suppliers recently expanded and additional companies entered our market to support the demand of the automotive plant operations.

From an office standpoint, as the economy and job growth slowly recover, several companies announced growth opportunities during 2013. Many local firms are growing organically which translates to realized job growth and companies looking to expand existing space or relocate to adequate options. Look for increased traction in financial, insurance and real estate sectors as the economy moves forward in 2014. By the end of 2013, the CBD already saddled with high vacancy rates will have two additional large voids to fill as AMC and Polsinelli relocate to new office buildings outside of the CBD. The GSA's move downtown in late 2014 will help bolster the downtown occupancy rate to some extent. As the downtown skyline transitions with several planned residential conversions or developments within the CBD, it will be an interesting horizon for the downtown office market. New residential living options, the continued revitalization of downtown, border war incentives, along with a growing trend of younger workers that have an increased preference for urban living could potentially make the downtown office market a more realistic option for employers than in previous years.

The retail sector has seen measured improvement within the last year. While the national GDP growth remains relatively anemic, other retail indicators point towards continued optimism that the sector is rebounding. As of August, the Consumer Confidence Index reading of 81.5 was near its highest level in five years. The Kansas City metro has seen positive growth in areas such as home prices, employment, and residential building permits. Positive gains within the housing industry translate into increasing consumer expenditures within the retail sector. One concrete sign of the improving market is the amount of retail construction activity in 2013 that will continue to pour into 2014. New construction at previously stalled projects such as Mission Gateway, Prairefire, and Corbin Park signify that there is regained confidence in the retail sector. In addition to the new centers, large tenants such as Academy Sport, Burlington Coat Factory and IKEA also broke ground realizing there are growth opportunities within the Kansas City market. As employment, consumer spending, and housing statistics are expected to grow at modest rates next year, look for additional retailers to expand within our market.

The apartment sector continues to be the juggernaut of Kansas City's development scene. Within the metro market, just over 4,000 units are currently under construction in a wide range of project developments. The current amount of construction has reached its highest level in over a decade. By the end of the year, several new apartment projects will have completed their initial phases, with additional phases being delivered in 2014. Occupancy levels are historically high and there is significant demand for high-end apartments with demographics that prefer renting over single family residences. Based on projections, developers continue to see the demand for more apartments, but the metro area may face some headwinds over the next couple of years due to the extraordinary amount of new supply that is making its way to the market. However, with solid market fundamentals, the apartment sector continues to post solid results which are expected to hold as the economy slowly rebounds over time.

Banking Industry Outlook

By Tim Laughlin, First National Bank Wealth Management

First National Bank
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September marks the five-year anniversary of the darkest moments of the "Great Recession." You may remember during September 2008, the banking and financial sector came under extreme stress. Fannie Mae and Freddie Mac were placed into government conservatorship, Lehman Brothers declared bankruptcy, Merrill Lynch was purchased by Bank of American and AIG received an $85 Billion governmental rescue package. Additionally, the biggest banking failure in history occurred on September 25, 2008 when Washington Mutual was purchased by JP Morgan. As the economy teetered on total collapse, the banking industry suffered. The crisis provided clear evidence of the unyielding link between the banking sector and the economy.

Now, five years later, as the economy recovers, the banking industry is also healing. Yet, just as the current economy still reflects some of the effects of 2008, the banking industry continues to deal with the ramifications of the Great Recession. The most direct impacts on the banking industry include: the sluggish economic recovery, extraordinary monetary policy (extremely low interest rates) and increased regulation.

Sluggish Economic Growth = Slow Loan Growth

Much of the sluggish economic growth we've been experiencing for the last few years can be traced to the Great Recession. Currently the economy is growing in the 2% - 2.5% range. The direct impact on banking is that loan growth is slow – make that persistently slow. Loans are the key source of revenue growth for banks and slow loan growth directly equates to less net interest margin and, thus, slow profit growth. The upside of this situation is that banks have had to become more efficient, thereby making great progress in becoming more competitive.

Federal Reserve Policy = Low Interest Rates

The Federal Reserve Bank has provided extraordinary monetary policy since the 2008 crisis. The Fed's goal is to boost economic output by lowering interest rates which stimulates borrowing, investment, and spending. Low interest rates have eventually been helpful to the housing sector and this has been good for banks and the broader economy. However, low rates have hurt bank depositors (i.e., savers) and the extreme rate environment has compressed the banking industry's interest (i.e., profit) margin.

Increased Regulation = Increased Costs = Greater Safety

Thomas Edison once said, "I have not failed. I've just found 10,000 ways that won't work." Likewise, I think the banking industry and bank regulators are learning from mistakes and deficiencies that were exposed when the economy crashed. Increased regulation is not the solution to the banking industry's past failures, but it may help limit future downside risk. Then again, it might not. However, regulatory changes calling for increased capital will provide more protection should another severe crisis strike. Operational and compliance costs have increased and this will continue to create a more challenging operating environment for banks.

Many years ago it was said that bankers abided by the 3-6-3 rule. Pay depositors 3%, charge borrowers 6% and be on the golf course by 3:00 p.m. Those days are far behind us, like the rotary dial phone and the transistor radio. Today, the economic and competitive environments are much more challenging but the primary function of banking has not changed. Bankers connect borrowers with savers and help allocate this capital to the most promising opportunities. This leads to the creation and growth of companies, new products, better jobs and, thus, a better standard of living. Despite – and perhaps because of – the recent economic conditions and difficulties, I feel First National Bank (and hopefully the banking sector in general) is in many ways healthier and better than ever.

Tim Laughlin is a Portfolio Manager serving affluent individuals at the First National Wealth Management office in Overland Park, Kansas. Tim helps craft, implement and monitor investment portfolio strategies and works closely with clients to ensure their investment strategy is integrated into their overall wealth plan. Additionally, Tim is a co-portfolio manager on one of First National Wealth Management's proprietary equity strategies and is responsible for personal trust and agency account administration. He has over 20 years' experience in banking and 18 years' experience as a trust and investment professional. He can be reached at 913.266.9357 or tlaughlin@fnbk.com.

Community College Outlook

By Marvin Hunt, Ph.D., Dean, Business/Continuing Education
Kansas City Kansas Community College

There has been focus in recent years on community colleges by President Obama, who wants community colleges to "produce an additional 5 million graduates…by 2020" (www.whitehouse.gov/issues/education); the Department of Labor (DOL), through its $2 billion Trade Adjustment Program (TAACCCT); businesses; educators; and families. Following are thoughts about issues facing community colleges.

Enrollment Trends

Out of a projected 21.8 million higher education students in 2013, approximately 8 million attend two-year institutions. Roughly 57% of community college students are women and 43% are men. Community colleges should develop ways to increase gender equity or continue to lose valuable human resources as a result. During the 2013–14 academic year, colleges and universities are expected to award 943,000 associate's degrees. (National Center for Educational Statistics).

The Kansas Board of Regents (KBOR) reported (http://media.trb.com/media/acrobat/2012-09/130912640-27095421.pdf) that 19 Kansas community colleges had enrollments of 80,924 in fall 2012. This 0.19% decrease over 2011 probably continues into 2013 because of the supposed inverse relationship of community colleges to the general economy. In hard times, enrollments can increase and, as economy recovers, enrollments decrease. Kansas' six technical colleges contributed 5,965 enrollments, which is approximately 7% of all post-secondary, non-four-year enrollments. This 7% figure may surprise some people who assume it to be higher, simply because of the emphasis on technical education in recent years. Metro area community colleges include Metropolitan Community College (MCC), Johnson County Community College (JCCC), and Kansas City Kansas Community College (KCKCC). During the 2012/13 academic year, these institutions served approximately 47,600 students (MCC-20,151; JCCC-20,443; KCKCC-7,017). These 47,600 students represent considerable financial and intellectual resources to our region and workforce support in technical and professional areas. [Sources: www.mcckc.edu/services/research/files/factbooks/MCC_Fall_12.pdf; www.jccc.edu/about/facts-jccc.html; and www.kckcc.edu/about/quickFacts.aspx]

Employment

Education pays, but careful selection of educational options is more important than ever due to increasing technical skills demanded in most employment fields. The new efficiencies gained by business because of automation of physical tasks and general financial pressures means job competition. In January 2013, the KBOR data on post-graduation employment for 2007-2009 graduates noted that 74% of Kansas residents who graduated from our 32 public higher education institutions were employed in Kansas one year after graduation. Quick attainment of work is critical when student debt after college averages $26,000. Community colleges, with credit hour costs at one-third to one-fourth of state four-year institutions, are a great deal.

American Institutes for Research provide evidence of the value of a shorter-term credential. Their study discovered that "students who earn associate's degrees and occupational certificates often earn more in their first year out of college than those with four-year college degrees." For example, in Colorado, technical associate's degree holders, in the first-year of earning, out earn bachelor's degree graduates by $46,000 to $39,000 (Sept 3, www.air.org).
The fact that a credential is shorter in term is not the critical factor. The credential means that the graduate has knowledge and skills that employers need. Employers demanding competent employees is nothing new. The prevailing competency model identifies the knowledge, skills, and abilities necessary to successfully perform work functions in an industry. Then, education leaders create pathways within higher education for building competencies. These are often coupled with credentials, at national or state levels, that reflect the competency. Pathways that "stack and lattice" the steps to a credential and career are becoming the norm in community college programs.

Both MCC and KCKCC were awarded funds through DOL's TAACCCT program. Through TAACCCT, DOL requires defined pathways, entrepreneurial components, and intense connectivity to industries that will hire graduates. The MCC system is part of the $20 million MoHealthWINs, which trains approximately 3,200 Missourians for careers in healthcare, while developing innovative solutions to future workforce needs in the health services. KCKCC was awarded $2.9 million, through TAACCCT, to help approximately 1,000 participants gain high-wage, high-skill employment by expanding KCKCC's ability to deliver training programs for eligible workers, veterans and other adults. The KCKCC program fills employment gaps in construction and electrical technology, heating/refrigeration, machine technology, and other areas. Training will be offered in the new state-of-the-art Technical Education Center.

Diversity

Like most community colleges in America, the metro areas' community colleges provide opportunity for our immigrant, minority, and first-generation college students. Finding ways to recruit, support, retain, graduate, and find jobs for new and diverse certificate or associate degree holders will be key to this region's success, given our increasing diversity. Community colleges will do the heavy-lifting if our constituencies and our governors and legislators understand the importance of this work and respond by providing the resources needed.

Next?

We could turn our attention to succession planning, funding in higher education, or impact of emerging technologies such as MOOCs, gamification (using game concepts and mechanics in non-game contexts to engage users and solve problems), learning analytics (measurement, collection, analysis, and reporting of data about learners and contexts to optimize learning and learning environments), 3-D printing, or wearable technologies.

Higher Education Outlook and Recent Trends

By Dr. Michael Stellern, Rockhurst University

Helzberg School of Management

ROCKHURST UNIVERSITY

For a country to achieve strong economic growth, a key component is the education and development of its labor force. A sophisticated educated labor force will contribute to the development of a stronger economy with higher rates of growth. The Economic Report of the President for 2013 emphasizes the need for the United States to invest in the skill of its workforce to engage effectively in global competition and attract highly skilled workers who lead innovation, entrepreneurship, and growth.

The Report indicated that in 2011 "the median weekly earnings of individuals with a bachelor's degree were $1,053, compared with $638 for individuals with only a high school diploma—a 65 percent premium for the college graduate," with higher premiums for more advanced degrees.

While it is recognized that the United States has been a leader historically among developed counties in the share of its population with postsecondary education, this lead has fallen over the last generation. The Organization for Economic Co-operation and Development refers to college education as "tertiary" education, and it now ranks the United States as 14th among a set of 34 industrialized nations in the share of 25-34 year olds with such education. Other measures, such as educational quality, test scores, and the ability to match skills to jobs that can use them are very important, but "the decline in the U.S post secondary education ranking is a reminder that we have more to do to provide America's workers with the skill to compete in today's economy." Graduation rates from high school are estimated to be around 85 – 88 percents as compared to a country like Japan that has achieved a 99 percent graduation rate. President Obama addressed congress on February 24, 2009 and set 2020 as the year by which the Nation would once again have the highest proportion in the world of young people graduating from college.

To compete globally American universities need resources to educate millions of additional students. State and local government funding, however, has been falling for the last decade. From 2000 to 2010, State appropriations for public four-year institutions fell from $8,029 to $6,388 per full-time student. Appropriations for public community colleges fell from $7,095 to $5,712 (in 2010 dollars). Institutions are now receiving more revenue from tuition than from state appropriations.

Tuition continues to increase. Sticker tuition is the price of tuition advertised by the individual colleges, while net tuition is the price students actually pay after deducting Federal, State and private aid. Sticker tuition increased from $4,860 to $8,370 (in 2012 dollars) from 2000 to 2012 for public institutions. The sticker tuition for private institutions increased from $21,310 to $28,280 over the same period. The increase in net tuition has been less because of federal policies that have been deliberately pursued to reduce the price of education. Expended Pell Grants made college more affordable for almost 10 million low-income students in 2011.

President Obama has made it a goal to make the United States the leader in post-secondary education. In his address to Congress on February 24, 2009 he determined that there would need to be 8.0 million more college graduates in 2020 than in 2009. The share of college graduates will have to increase by 50 percent to achieve this goal. Student debt continues to increase. The share of students who took out student loans rose from 54 percent to 57 percent, and more importantly, the average loan among rose by 16.1 percent from $20,500 to $23, 800 (in 2011 dollars.) The financial stability of recent graduates may be threatened by these figures and it may also serve as a disincentive for new students.

Students at for-profit schools are about twice as likely as other students to be idle, not working or enrolled in school, six years following matriculation, according to the Report. In 2009, approximately 23.6 percent of enrollees at for-profit schools were idle six years later, as compared with just 10.6 percent of matriculation students at four-year public and nonprofit private schools.

While greater percentages of women are graduating from business and law schools, it does not mean that they will continue to work after graduation. Women continue to face a more serious challenge in the attempt to balance career and family. A study of a cohort of University of Chicago graduates who had earned a master's in business administration was completed by Bertrand, Goldin, and Katz 2010. The study indicated that 17 percent of the women were not working at all 10 years later, compared with only one percent of the men. In addition, only 62 percent of female graduates were working year round full time, 10 years after graduation, as compared with more than 92 percent of the men.

The following table gives the numbers of 2012 graduates in the Kansas City area.

Table 1: GRADUATES FROM LOCAL UNIVERSITIES

University	Total Grads	Bachelors	Masters
KU	6,062	4,331	1,731
University of Missouri-Kansas City	2,748	1,749	999
Central Missouri State University	2,466	1,796	670
Rockhurst University	723	437	286
Mid-America Nazarene University	583	402	181
Avila University	417	230	187
William Jewell	292	292	
Park University	2,556	2,262	294
University of St. Mary	238	166	72
Baker	1,171	549	622
MO Western	694	678	16
KC Art Institute	112	112	
Benedictine College	322	290	32
Totals	**18,384**	**13,294**	**5,090**

Health Industry Outlook

By Ken Bacon, President & Chief Executive Officer
Shawnee Mission Medical Center

Much more than medicine.

Over the next several years, implementation of the Affordable Care Act (ACA) will be the primary force affecting the health care industry both locally and nationally. Related changes will impact individuals and health care providers, as well as businesses as they make decisions on how their employees will obtain mandated health insurance.

As part of this shift, the way consumers think about health care will also change, possibly leading to a greater sense of personal responsibility. This could help lower health care costs for themselves and for their employers.

The Mandate's Impact

Although it was delayed one year, the ACA employer mandate scheduled to take effect January 2015 will change the way businesses offer health care coverage. The mandate requires companies with more than 50 full-time employees (defined as those working an average of 30 or more hours per week over the course of a month) to provide health insurance to their workers. With more lives covered, this mandate will inevitably increase payroll expense for many companies in Kansas City and throughout the country.

Businesses, especially small businesses, may consider other options to help reduce that increase. For example, some companies have already chosen to operate with fewer people or supplement their team with part-time employees or contractors. Between now and when the individual mandate takes effect in January 2015, this may result in people losing coverage as they go from full- to part-time employment and are not required to obtain insurance on their own. Leaving some without insurance is an unfortunate consequence.

Companies may also attempt to manage health costs by increasing premiums when offering benefits to family members of employees, or denying coverage to family members altogether. United Parcel Service (UPS) recently took this step by no longer offering health coverage to approximately 15,000 employee spouses who had access to coverage through their own employers.

The Changing Health Care Consumer

Regardless of the action employers take, reform stimulated by both the ACA and health care industry is creating more transparency in pricing. For decades, consumers utilizing employer-based health care coverage have been shielded from the real cost of obtaining care. In a system of preferred provider organization (PPO) plans, a $25 co-pay for a doctor's visit was all that many people ever experienced. But, that doctor's visit likely cost the insurance company five to 10 times that amount. And while people stress over insurance premiums during enrollment time, even that deduction can be forgotten as the year moves on in an age of electronic pay stubs. Given that health care has been relatively inexpensive for most insured consumers, the true cost of care is rarely considered. This may change the way decisions are made.

According to Kaiser Family Foundation and a recent survey conducted by the National Business Group on Health, 22 percent of large employers plan to offer only consumer-driven health plans (CDHPs) in 2014, compared to just 7 percent in 2009. With the introduction and rapid growth of these plans, consumers are taking note of their costs. The CDHP premiums are significantly lower than with PPOs, but annual deductibles can be $3,000 or more. These plans place a larger financial burden on employees, which encourages them to seek lower cost care and focus on staying well to keep health expenditures low. This is causing many to see for the first time the financial burden an unhealthy lifestyle can cause.

Keeping Wellness at the Forefront

Regardless of any type of legislated health care reform, when individuals take personal responsibility for their health, there is greater potential to lower health care costs. To assist employees with healthy living, more employers are offering resources to promote wellness and even reducing health insurance premiums for meeting certain requirements. Some companies offer wellness program participants a cash incentive for a health savings account, or to put toward a gym membership. On the other hand, “disincentives” such as having smokers pay more for insurance than non-smokers are also being implemented.

Lowering costs is just one of the many benefits of keeping employees healthy. At Shawnee Mission Medical Center, wellness is at the core of everything we do. A healthy workforce not only lowers health care utilization, but it can also reduce downtime due to illness, improve morale, all while increasing productivity and employee retention.

Health Insurance Exchanges

By 2016, more than 26 million people are expected to use exchanges to buy health insurance. An exchange, which is essentially an online marketplace, is where people and companies can research options, compare pricing and purchase health insurance.

The Health Insurance Marketplace is a government sponsored public exchange available for use starting October 2013, with coverage options beginning January 2014. While some states are prepared to offer their own public exchanges, Kansas and Missouri will defer residents to the federal exchange for now. The Health Insurance Marketplace will feature the Small Business Health Options Program (SHOP), offering a new option where qualified small businesses secure health insurance for their employees and potentially receive a tax credit for doing so. In addition, many insurance companies have already established private exchanges and more are likely to join in the future.

There is no one solution to rising health care costs. The good news is that the growth of health care costs is slowing, according to the Centers for Medicare and Medicaid Services. Health spending grew 8.4 percent in 2003, but growth declined to 3.9 percent in 2011. However, health care spending continues to rise faster than the rate of inflation.

Kansas Citians are fortunate to be part of a region that has strong health care resources. Residents have access to outstanding hospitals, along with a significant physician community and many ancillary care providers such as home health organizations and senior care centers. Despite good access to health care, cost and access for those who are uninsured remain an issue. The fact that the United States is experiencing decreased growth in spending is a positive step forward. However, it will be imperative both locally and nationally for government, the health industry and the business sector to work together with individuals to address the issues, find workable solutions that benefit everyone, and to ultimately provide the necessary resources to keep people healthy.

Transportation Outlook

By Katie Lalley, Intern, KC SmartPort

The transportation industry has long been a staple of the American economy. As we look to forecast what 2014 will hold for the transportation industry, it's is equally important to consider what the year will hold for our city and country economically. It is important to remember that the transportation industry is driven directly by the success of retail and manufacturing. This being considered, taking a look at the global, national, and local economy becomes an imperative step in forecasting our transportation will fare in the coming year.

Globally, 2014 looks to be another bleak economic year. The World Bank recently issued its biannual Global Economic Prospects. In this report, the bank drastically downgraded its forecast for economic growth from the previous biannual report. The Washington-based global agency projected growth of the world economy in 2014 to clock in at only 2.4 percent, down from its forecast six months ago of 3.0 percent. Consequently, there doesn't look to be a lot of growth in the transportation industry globally in the coming year.

The outlook for the U.S. economy is much more uplifting. Experts expect a bull market, and unemployment rates are slowly dropping to under 8 percent. Our national deficit will slightly decrease. Although the government will continue to under-invest in the transportation industry (only .6 percent of their annual budget, which is minimal when one considers that 10 percent of the U.S. GDP is related to transportation), it should still be a profitable year for transportation professionals.

Locally, the Kansas City area is projected to fare quite well. Overall, the forecast is positive, with growth in gross regional product, income and employment continuing at a slightly increased rate.

Air

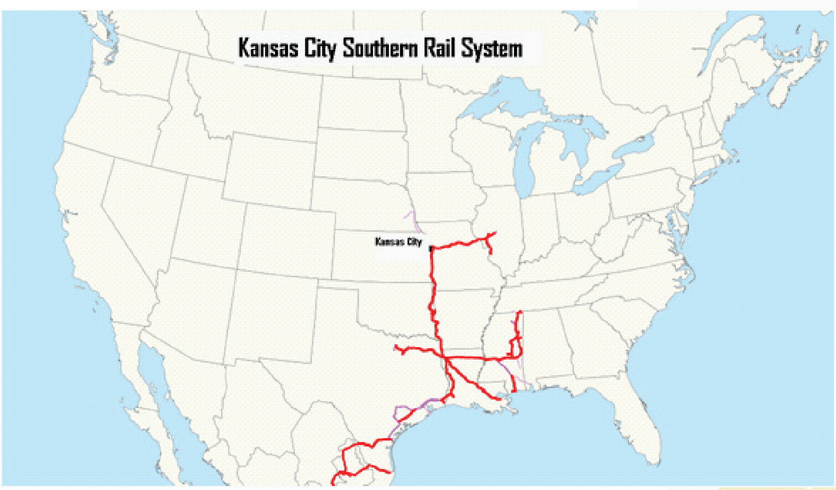
While air transport carries around 5 percent of the volume of world trade shipments, it is over 35 percent by value—meaning that goods shipped by air are very high value commodities, often times perishable or time sensitive. Because of this, technology was driving the air cargo industry growth throughout the 1990's. Due to the decreasing size of technology (i.e. Macintosh desktop circa 1996 versus the iPad mini) the air cargo market has hit a plateau. This trend looks to be stagnant and the increases in fuel charges aren't helping. The outlook for the air cargo industry isn't exactly positive, but it seems to be steady.

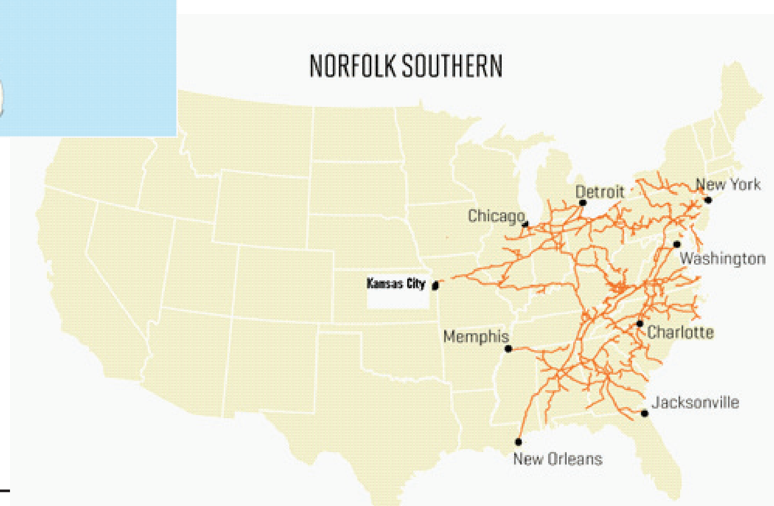
Water

Missouri and Kansas waterways have been struggling recently due to extended droughts, lower water levels, and therefore less barge traffic. Waterways are used considerably less than other modes of transportation, and this doesn't look to change significantly anytime soon.

Rail

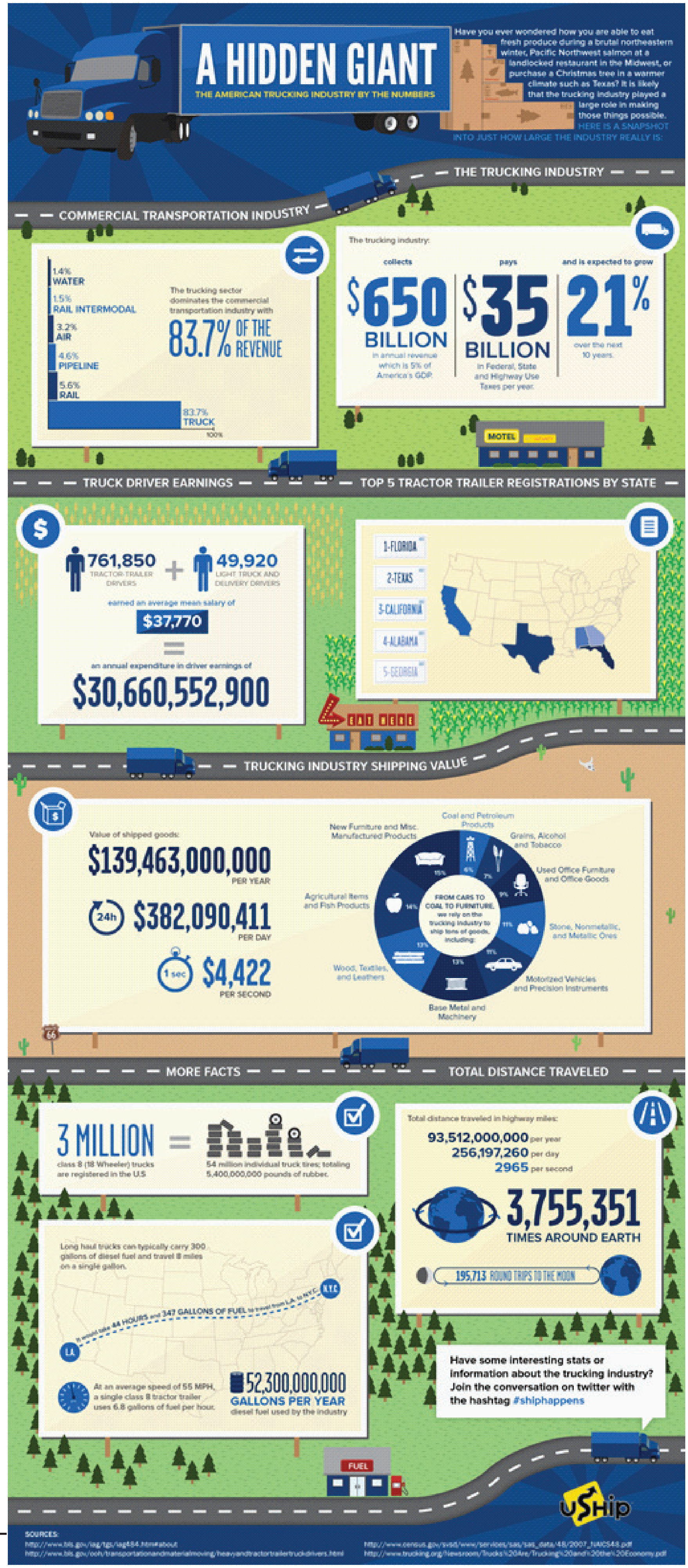
The rail industry is looking positive. After building economic momentum during 2012-2013 due to rail improvements in the Mexico market, maturation of the new energy markets, massive new service offerings in intermodal, super cyclical recovery in housing and auto markets, experts are projecting that the rail industry will really take flight in the coming years. America's freight rail is the envy of the world. It carries 40 percent of our intercity cargo. American rail-shipping rates are the world's lowest, which increases this modes attractiveness to shippers everywhere. Kansas City sits in the center of this incredible network and has access to 3 of the most lucrative rail systems in America. Kansas City leads the nation in rail tonnage.





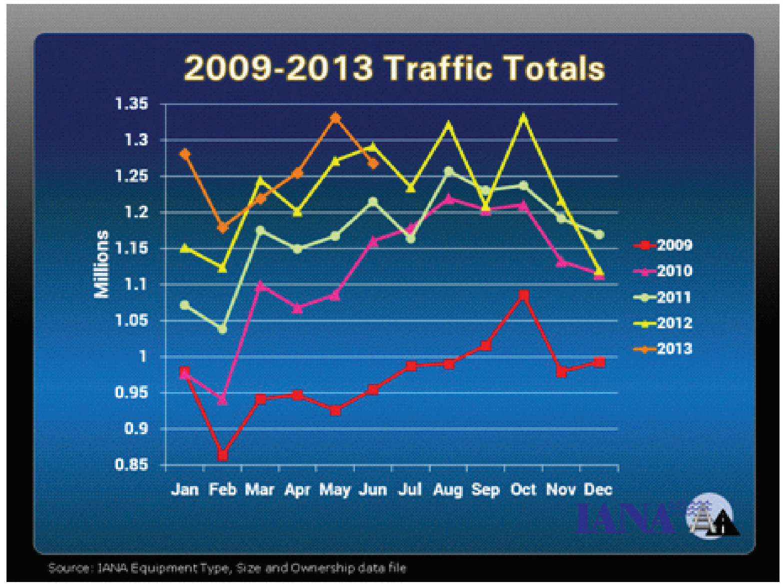
Trucking

Trucking continues to be the dominant mode of freight transportation in the United States. In 2012 trucks moved 9.4 billion tons of freight which is equivalent to 68.5 percent of all domestic shipments. The trucking industry has an optimistic future ahead; a combination of low inflation, a growing housing market, a recovering stock market, and moderate gasoline prices has helped the industry expand 10.3 percent from 2009, and it only continues to look increasingly positive. In April 2013 alone, the industry growth reached 1.2 percent. The trucking industry has such a positive outlook that companies are desperately struggling to fill positions for drivers. Positions are in such high demand that drivers in training school are getting offered jobs before they are even certified. Statistics regarding the trucking industry's immense success recently are summarized in the info graphic at right.



Intermodal

This mode of transportation is growing faster than ever before. This year, nearly 25 million intermodal containers will be moved using trucks, railroads, and ocean carriers, all while containing a variety of products. Intermodal transportation is growing faster than any other form of transportation due to the efficiency and speed of delivery that can be accomplished with the combination of modes of transit. 2014 holds incredible promise for intermodal transportation. It will most likely continue the upward trend that has been seen over the past 4-5 years.



Transportation Outlook

The upcoming year looks to be a decent one for the local transportation industry. As the economy continues to recover from the Great Recession, the transportation industry will continue to feed off of the slow but steady recovering manufacturing and retail markets. Specifically, the trucking and rail companies can expect more moderate growth than the air cargo and water cargo companies. The Kansas City area will continue to refine its role as one of the premier transportation and logistics markets in the nation. In conclusion, transportation professionals can look to 2014 with cautious optimism. With hard work and ingenuity, it looks possible to have a very profitable and productive year.

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