



GREATER KANSAS CITY CHAMBER OF COMMERCE

2020 ECONOMIC FORECAST

October 24, 2019

Prepared by:

Frank Lenk

Director of Research Services

Mid-America Regional Council

REGIONAL ECONOMIC FORECAST AGENDA

7:57 a.m.

WELCOMING REMARKS

Carolyn Watley

Vice President of Community Engagement,
CBIZ Benefits & Insurance Services
Chair-elect, KC Chamber Board of Directors

8:00 a.m.

KEYNOTE INTRODUCTION

Sal Guatieri

Director and Senior Economist, BMO Capital Markets

8:05 a.m.

LOCAL ECONOMIC FORECAST

Frank Lenk

Director of Research Services, Mid-America Regional Council

8:20 a.m.

PANEL INTRODUCTION

Brent Bloss

Chief Operating Officer, Waddell & Reed Financial, Inc.

8:25 a.m.

PANEL DISCUSSION

Joe Reardon

President & CEO, KC Chamber (Moderator)

Bridgette Williams

CEO, Heavy Constructors Association of Greater Kansas City

Emmet Pierson, Jr.

CEO, Community Builders Of Kansas City

John Ricciardelli

FM&T President, Honeywell

Mike DeBacker

Director of Transportation Global Practice, Burns & McDonnell

9:10 a.m.

AUDIENCE Q+A

Panelists

9:28 a.m.

CLOSING REMARKS

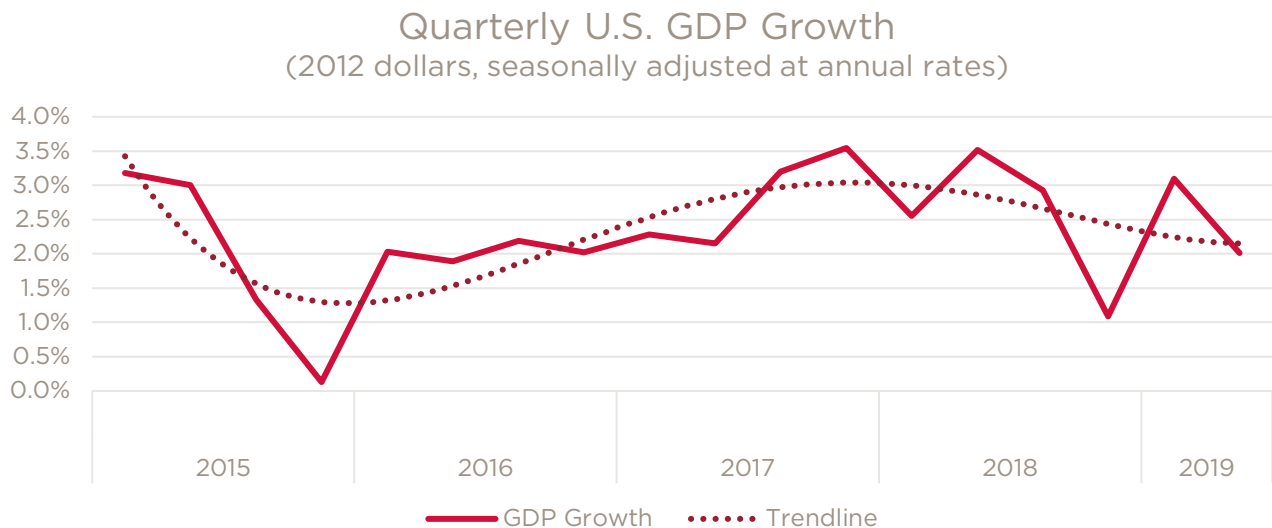
Joe Reardon, President & CEO, KC Chamber

View the full Greater KC Report at <http://bit.ly/thegreaterkcreport>

U.S. SITUATION

Reaching 124 months in September 2019, the longest recovery in the nation's history continues, though at a reduced pace. In the second quarter of 2019, U.S. GDP grew 2.0 percent and averaged 2.3 percent over the preceding four quarters. This average is nearly a full percentage point below that for the prior year, when U.S. GDP grew 3.2 percent between the second quarters of 2017 and 2018 after having been stuck near 2 percent growth for several quarters. This acceleration is likely the result of the 2017 Tax Cut and Jobs Act plus an additional \$300B in federal spending over two years as part of the 2017 budget deal. As the initial injection of stimulus fades, U.S. GDP appears to be returning to pre-stimulus growth rates.

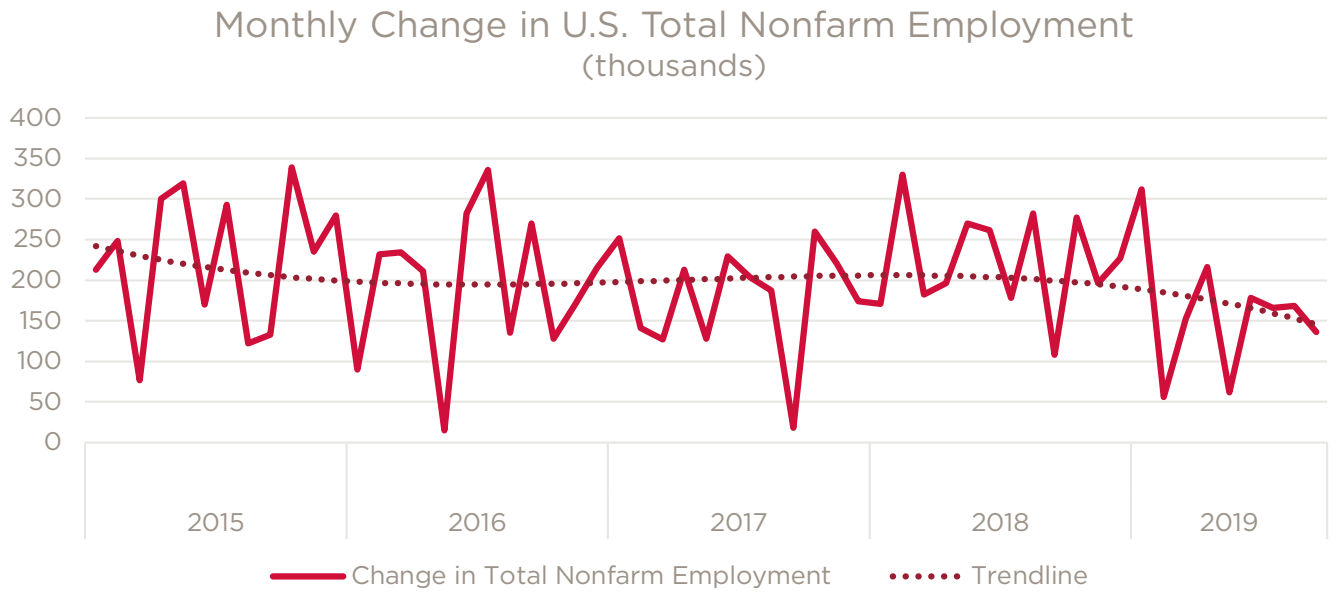
Figure 1



Source: Bureau of Economic Analysis

This deceleration is mirrored in employment data. The U.S. economy added 134,000 jobs in September 2019, below its average of 161,000 so far in 2019 and nearly 90,000 less than its 2018 average of 223,000 per month.

Figure 2

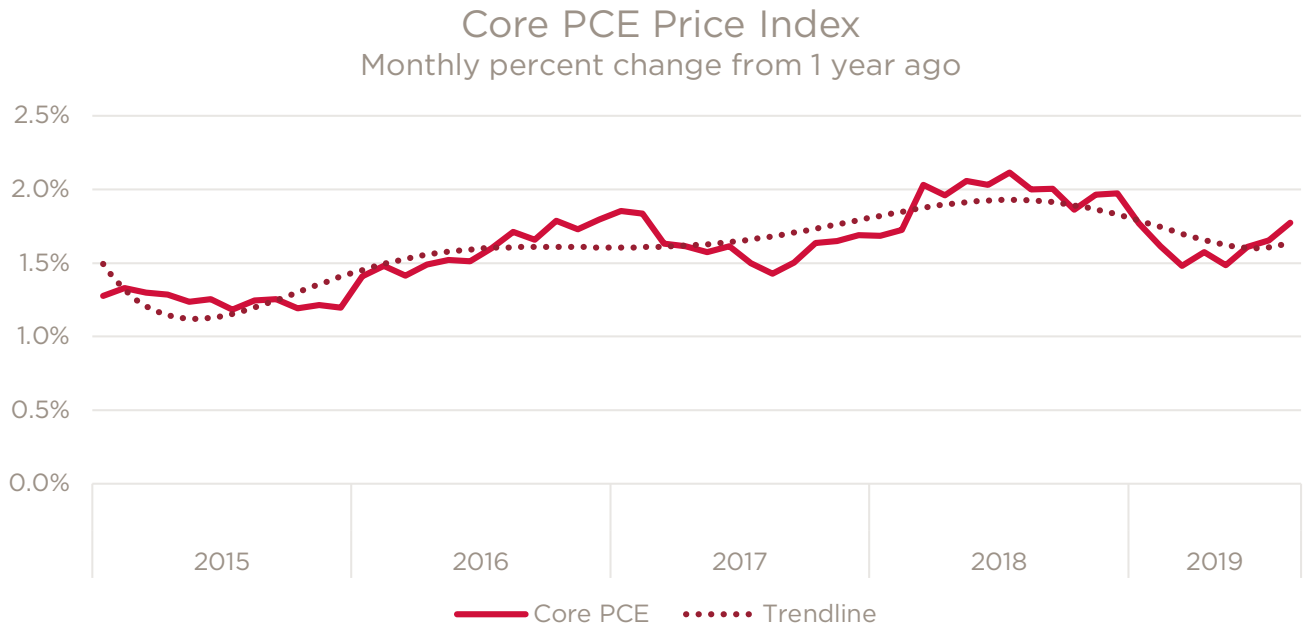


Source: Bureau of Labor Statistics (CES)

Some deceleration is inevitable as population between the ages of 18 and 64 is only growing 88,000 a month. Indeed, the current employment growth rate is only being sustained by bringing more people into the labor force. Prime age (25-64 years) employment-to-population ratio reached 80.1 percent in September 2019, up more than five percentage points from its December 2009 low of 74.8 percent and just below its pre-recession peak of 80.3 percent in January 2007.

With the demand for workers outstripping supply, the nation's unemployment hit a 50-year low in September 2019, at 3.5 percent. Despite this, inflation remains below the Federal Open Market Committee (FOMC) symmetrical target of 2.0 percent, as measured by core PCE price index (personal consumption expenditures less food and energy).

Figure 3



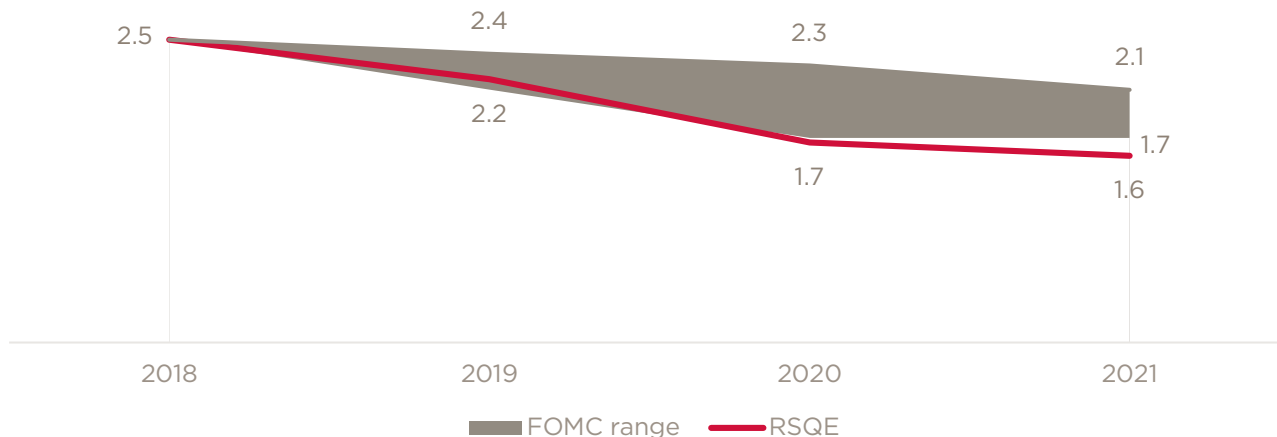
Financial markets seem more concerned with the potential for a trade war with China, though the “phase one” deal announced on October 11 should provide some respite. With inflation still running below its 2 percent target and the potential for trade concerns to affect business investment and hiring, the FOMC voted to lower the Federal Funds rate by 25 basis points at both its July and September meetings. As of this writing in mid-October, Federal Funds futures markets were estimating an 85 percent chance of another 25 basis point reduction by the end of 2019.

U.S. FORECAST

The combination of a strong labor market and FOMC monetary accommodation mean a recession is not likely within time frame of this forecast, which extends through 2021. Both the FOMC and the University of Michigan’s Research Seminar in Quantitative Economics (RSQE) forecast U.S. GDP growth to slow over the next two years. Compared to the 2.9 percent growth registered in 2018, the FOMC expects GDP growth to range from 2.1 percent to 2.4 percent in 2019, 1.7 percent to 2.3 percent in 2020, and 1.7 percent to 2.1 percent in 2021. (Figures are measured on a fourth-quarter to fourth-quarter basis.) RSQE’s forecast is for GDP to grow at the low end of this range, at 2.2 percent in 2019 and 1.7 percent in 2020 before falling slightly below the FOMC’s range at 1.6 percent in 2021.

Figure 4

Comparison of GDP Forecasts
FOMC Range vs. RSQE, 4Q/4Q

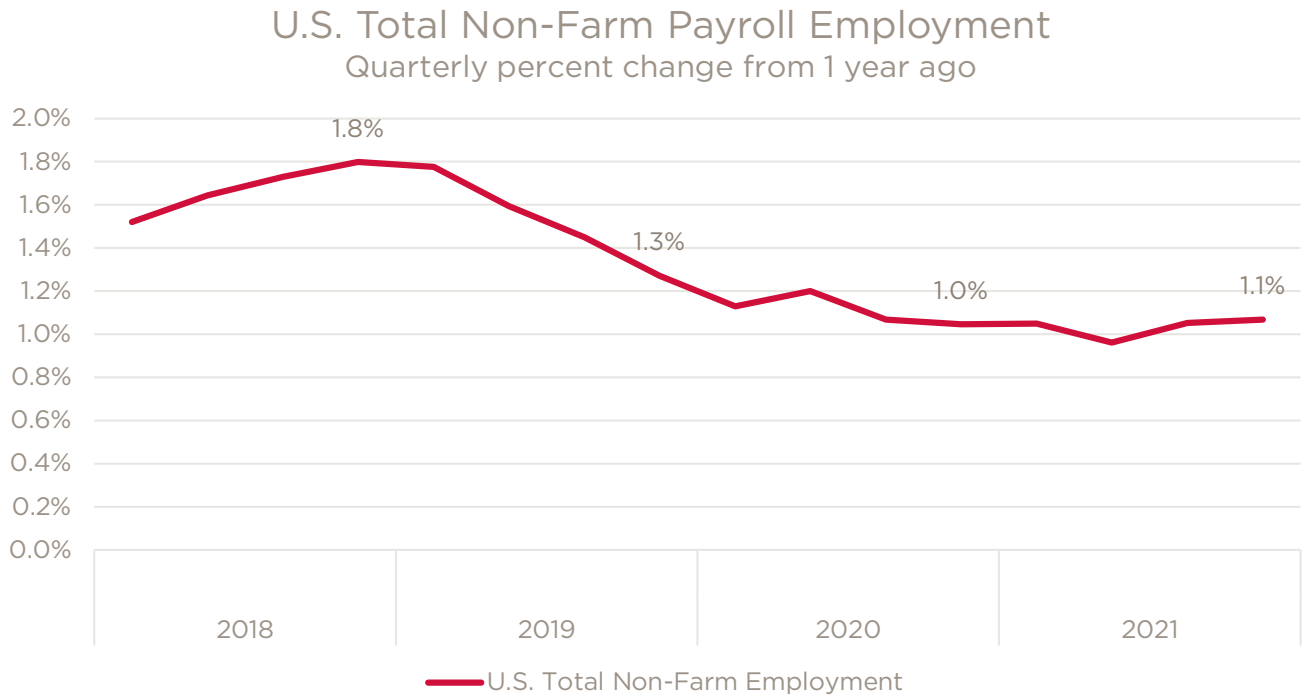


Source: Federal Reserve Economic Data (FRED), Federal Open Market Committee

Because RSQE also provides a more detailed breakdown of GDP by its consumption, investment, government spending, import and export components, this forecast provides the information needed to drive Regional Economic Models, Inc.’s Policy Insight model, which is what MARC uses to translate national input into local forecasts for the Kansas City metropolitan area.

RSQE also provides a forecast of total non-farm employment, which is used to calibrate the forecast of future labor productivity. RSQE forecasts employment growth over the prior four quarters to drop from 1.8 percent at the end to 2018 to 1.3 percent at the end of 2019 to 1.0 percent by the end of 2020. At this point, annual employment growth is projected to stabilize, remaining around 1 percent through the rest of the forecast period.

Figure 5



Source: Bureau of Labor Statistics (CES), RSQE

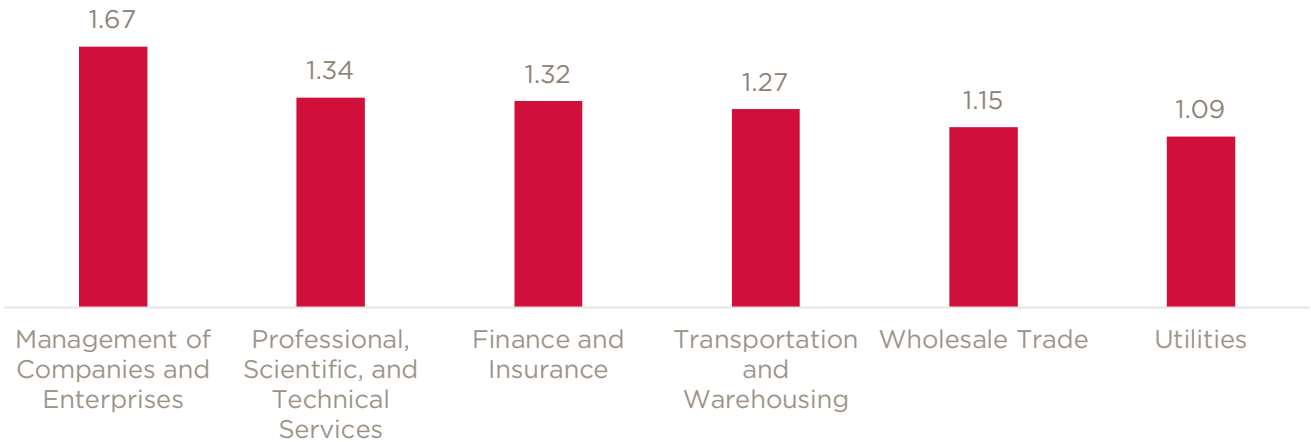
The Kansas City Economic Story

Metropolitan regions grow fastest when they serve the larger U.S. and international markets. The ability to find buyers in those markets depends, in part, upon being able to provide specialized products and services not easily found elsewhere for the same quality and/or price. Such specialties typically develop in the goods and services in which the region might have a competitive advantage relative to other parts of the country.

One way of identifying a metropolitan area's specialties is to examine how much of its economy is devoted to producing a particular product compared to the national average. A region is said to specialize in an industry when its share of local employment is greater than its share of national employment. The ratio of an industry's local share to its national share is called its "location quotient." When a location quotient reaches 1.1 or larger, then it is considered likely that the industry is serving markets outside the region.

Figure 6

Kansas City Metro Area Industry Specializations (as measured by their location quotients)



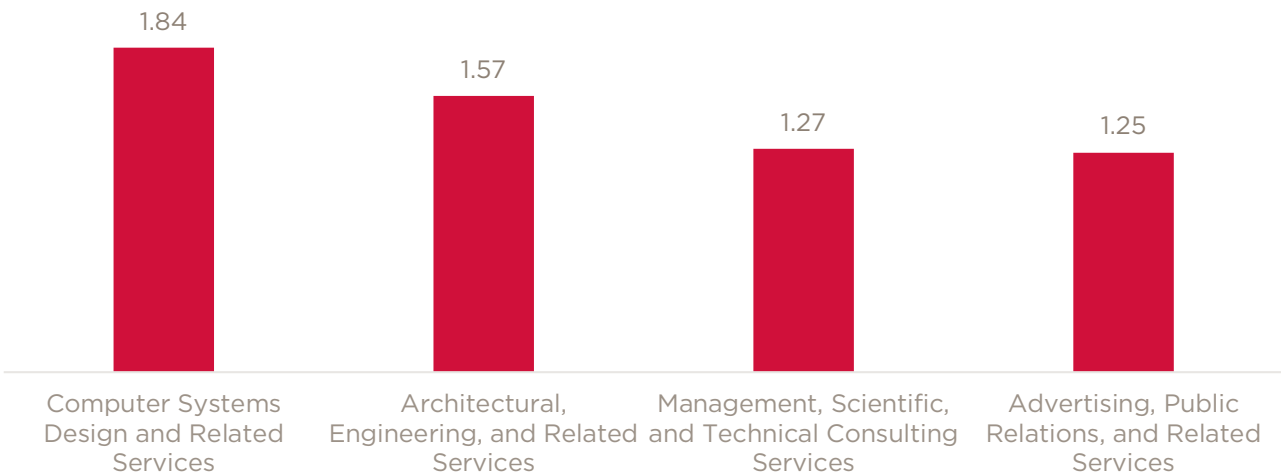
Source: JobsEQ

Based on location quotients, the region's largest specialization appears to be in management of companies, probably related to Greater Kansas City's efficiency as a place for back-office management operations. A location quotient of 1.67 means this industry's share of local jobs is 67 percent larger than its share of the nation's total jobs. Professional/technical services, finance and insurance, and transportation and warehousing also emerge as significant areas of concentration in Kansas City relative to the rest of the nation, with location quotients around 1.3.

Within the professional/technical services industry, however, there are sub-sectors with even higher location quotients. In particular, the share of local employment devoted to computer systems design industry is 84 percent larger than the nation, thanks largely to Cerner. Similarly the local share of employment in the architecture and engineering industry is 57 percent greater than the U.S. average as a result of being the headquarters for firms such as Black & Veatch, Burns & McDonnell and Populous.

Figure 7

Professional and Technical Services Components Location Quotients



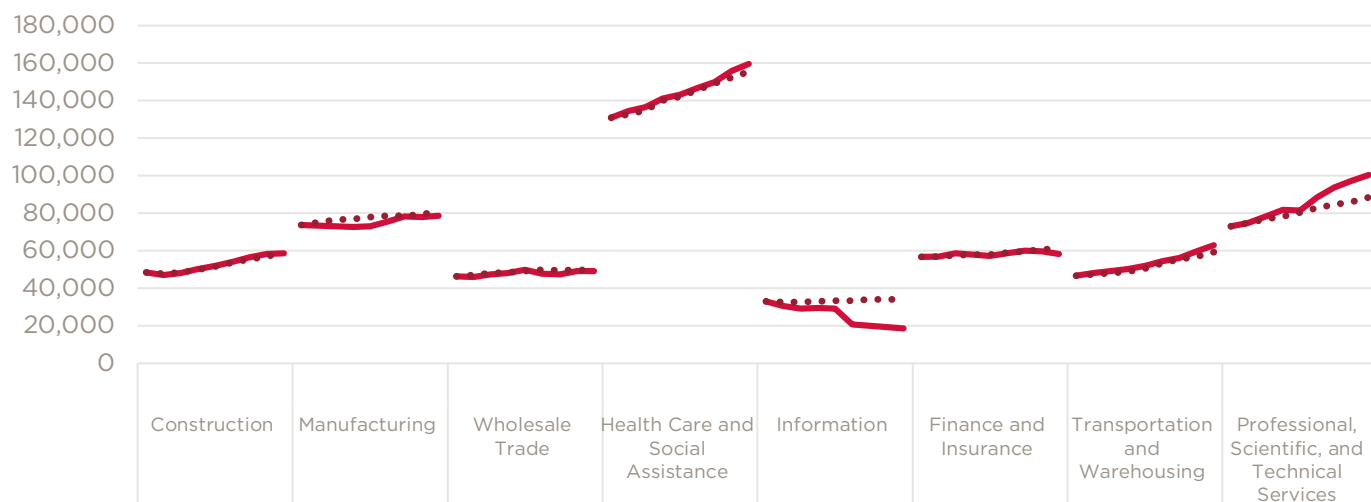
Source: JobsFQ

These specialized industries overlap significantly with the sectors that export the most to customers around the country and world. For much of the past decade, many of these industries that drive the regional economy have grown at roughly the national average. The two exceptions are information and professional, technical and scientific services. These deviations are strongly related to the performance of the firms that comprise them. Information includes both telecommunications and traditional media companies. While employment declines in media are common across the country, Sprint's declining market share has hit the Kansas City region particularly hard. While Sprint shows signs of stabilizing, it has been the major factor in losing 14,400 information industry jobs during the last eight years, an average of 1,800 jobs per year.

Figure 8

Kansas City Employment Trends in Exporting Industries, 2010-2018

Dotted lines represent growth trend if Kansas City grew at the national rate

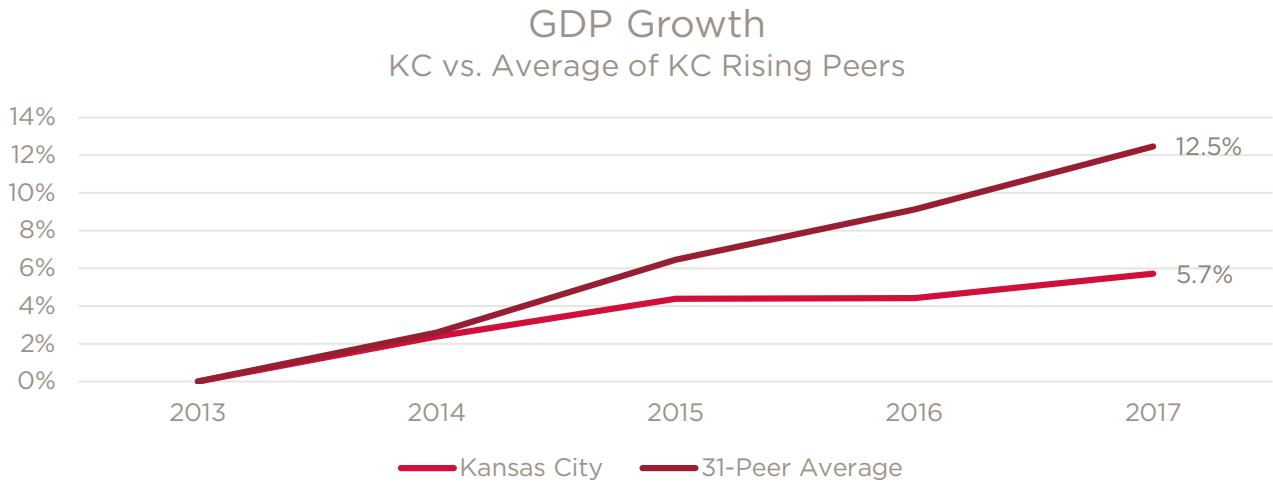


Source: JobsEQ

Fortunately, this loss has been more than offset by growth in the professional, scientific and technical services industry. This sector, which totals 100,000 jobs and includes Cerner and the region's architecture and engineering firms, such as Burns & McDonnell, Black & Veatch, Populous and BNIM added 27,000 jobs between 2010 and 2018. The growth in health care has also buoyed the Greater Kansas City economy, though its growth has only recently begun to tick slightly above the U.S. average. Health care, totaling 160,000 jobs, has grown by nearly 29,000 jobs since 2010, making it both the region's largest industry and biggest job producer.

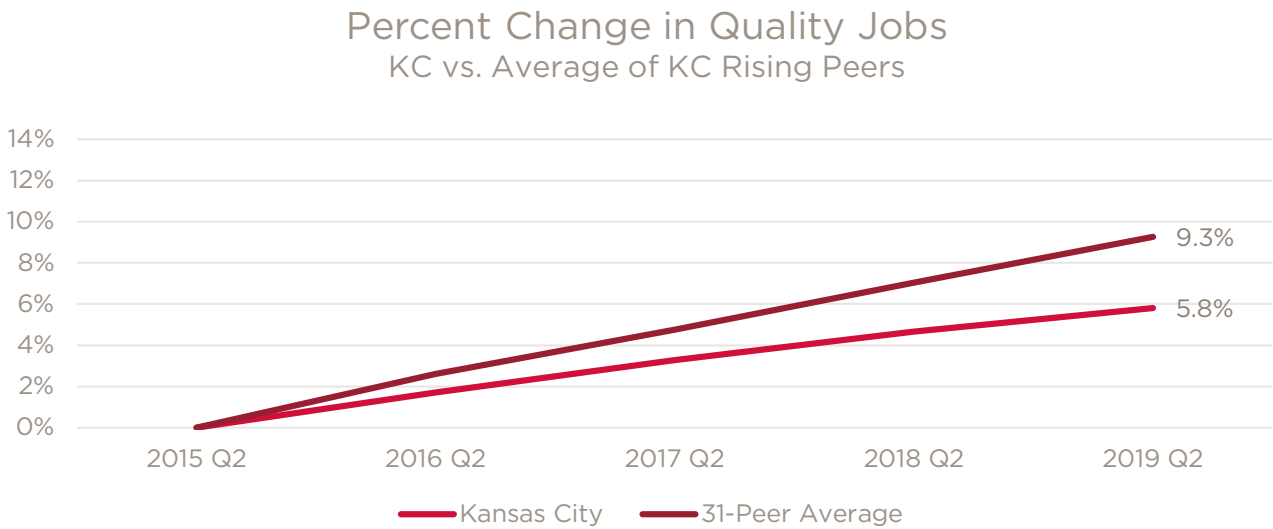
But when we look at peer metros, the story isn't as rosy. The region is growing, but not as fast as its peers. KC Rising is the region's business-led initiative aimed at increasing Greater Kansas City's economic competitiveness. This collaborative effort, sponsored by the Civic Council of Greater Kansas City, the Greater Kansas City Chamber of Commerce, the Kansas City Area Development Council and the Mid-America Regional Council, compares the Kansas City region's performance against 30 other peer metros, the 15 immediately larger by population and the 15 immediately smaller. KC Rising measures the region's overall economic competitiveness by its growth in three key metrics: GDP, quality jobs (defined as occupations that either pay above the median wage or have a career path leading to such a job) and median household income. Unfortunately, in recent years, growth is slower here than the peer average on each metric.

Figure 9



Source: Bureau of Economic Analysis

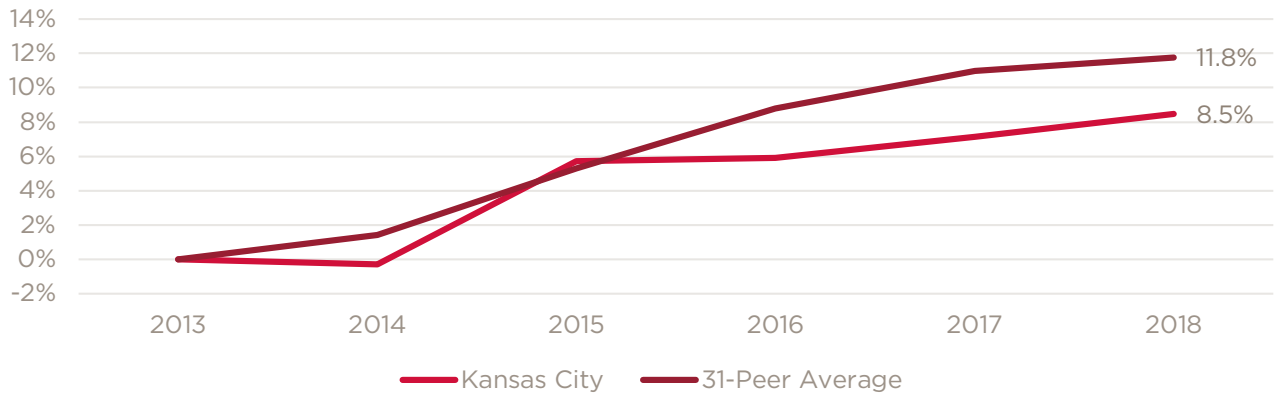
Figure 10



Source: Jobs EQ

Figure 11

Real Median Household Income Growth KC vs. Average of KC Rising Peers

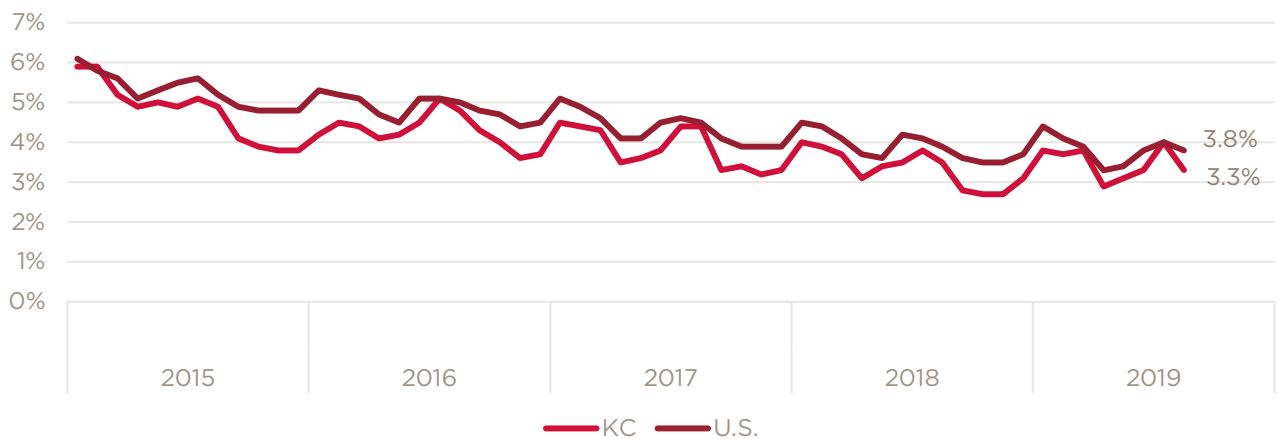


Source: Census Bureau, American Community Survey

Despite growing slower than its peers, the Kansas City area unemployment rate continues to run about one-half a percentage point below the U.S. unemployment rate. As of August 2019, the latest period where data for both areas is available, only 3.3 percent of metropolitan Kansas City's labor force was out of a job and actively looking for work, compared to 3.8 percent nationally.

Figure 12

Unemployment Rate, KC vs. U.S. (not seasonally adjusted)



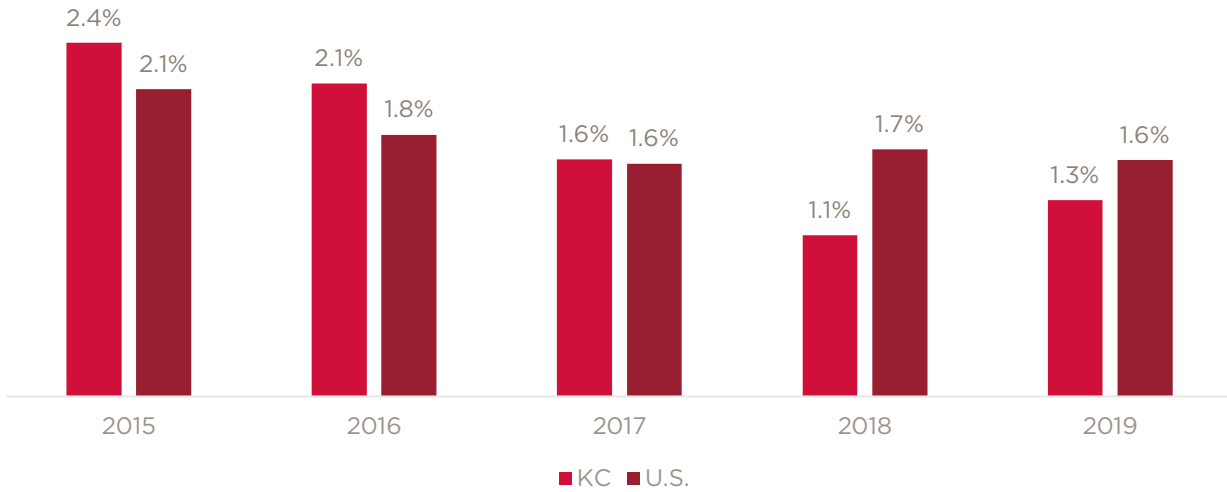
Source: Bureau of Labor Statistics

That local unemployment remains lower than average is remarkable because the Kansas City area's total employment growth has also been lower than average over the last two years, by between one-quarter and one-half a percentage point since 2017. This may mean worker shortages are even more severe here than elsewhere in the nation, and this is constraining the metro area's growth.

Figure 13

KC vs. U.S. Total Payroll Employment Growth

Percent change in annual average (2019 is YTD through August)



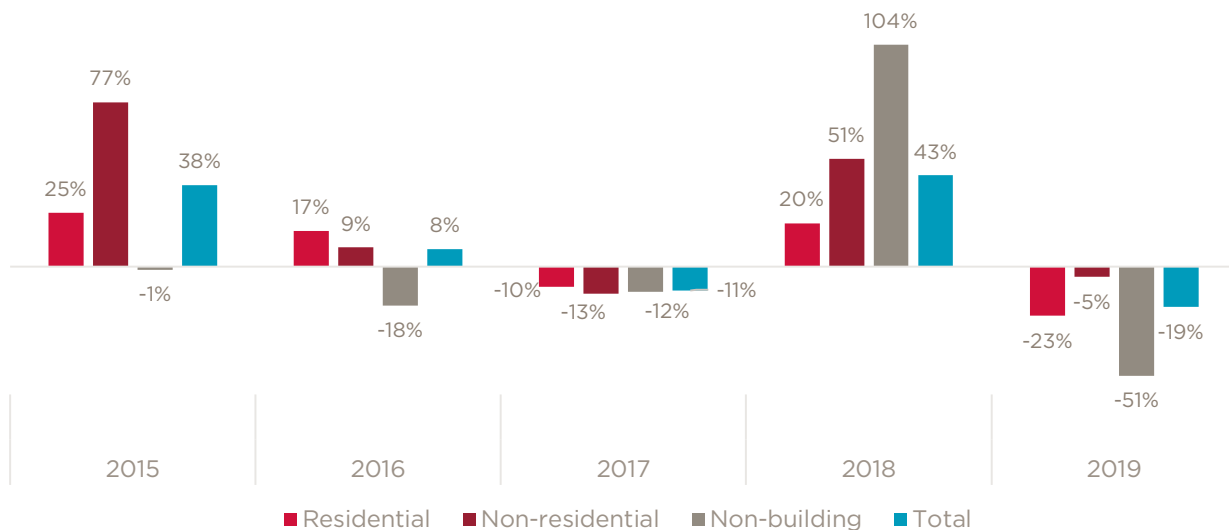
Source: Bureau of Labor Statistics (CES)

One sector where growth appears to be slowing is construction. After a year in which the value of construction contracts in the Kansas City area ballooned by 43 percent in 2018, in the first seven months of 2019 the total value of construction has dropped by 19 percent. Overall, the value of construction contracts through July 2019 is down \$0.9 billion from a year earlier, to \$4.0 billion, with the declines mainly split between residential construction and non-building construction, the latter being primarily infrastructure.

Figure 14

Value of Construction Contracts

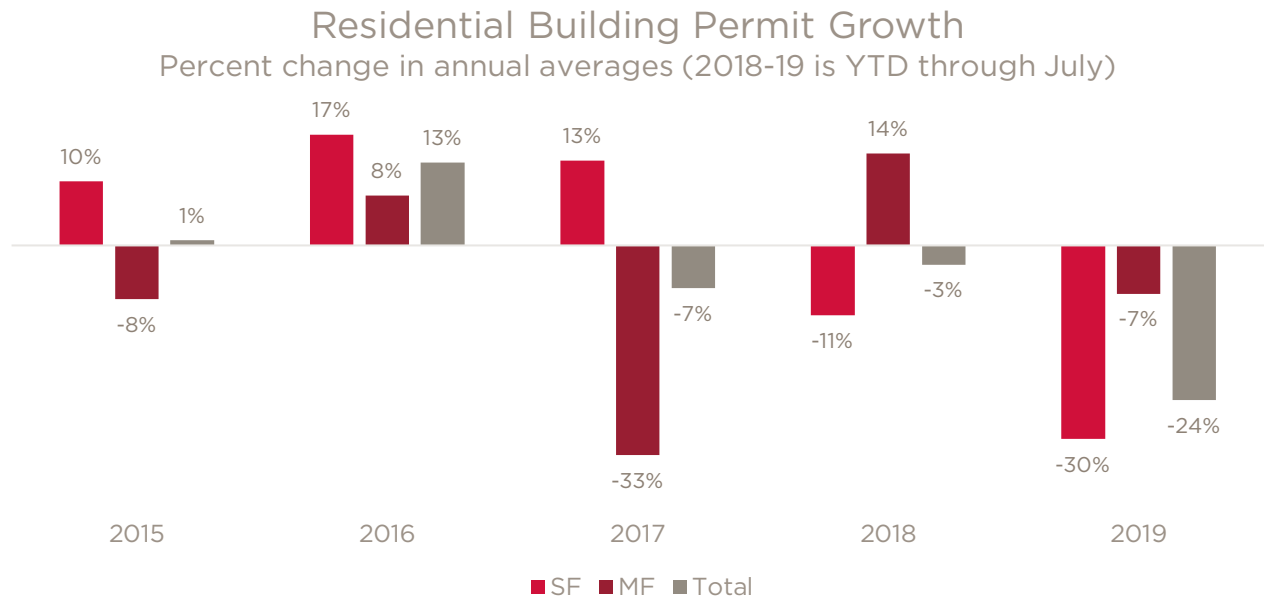
Percent change in annual average (2018-19 is YTD through July)



Source: Dodge Construction Potentials

The decline in residential construction seems mainly to be occurring in single-family unit construction, as single-family building permits are down by over 1000 in 2019 compared to 2018, based on data through July, while the number units in multi-family permits is off by only 100. Overall, the number of residential permits through the first seven months of the 2019 is 24 percent below the prior year.

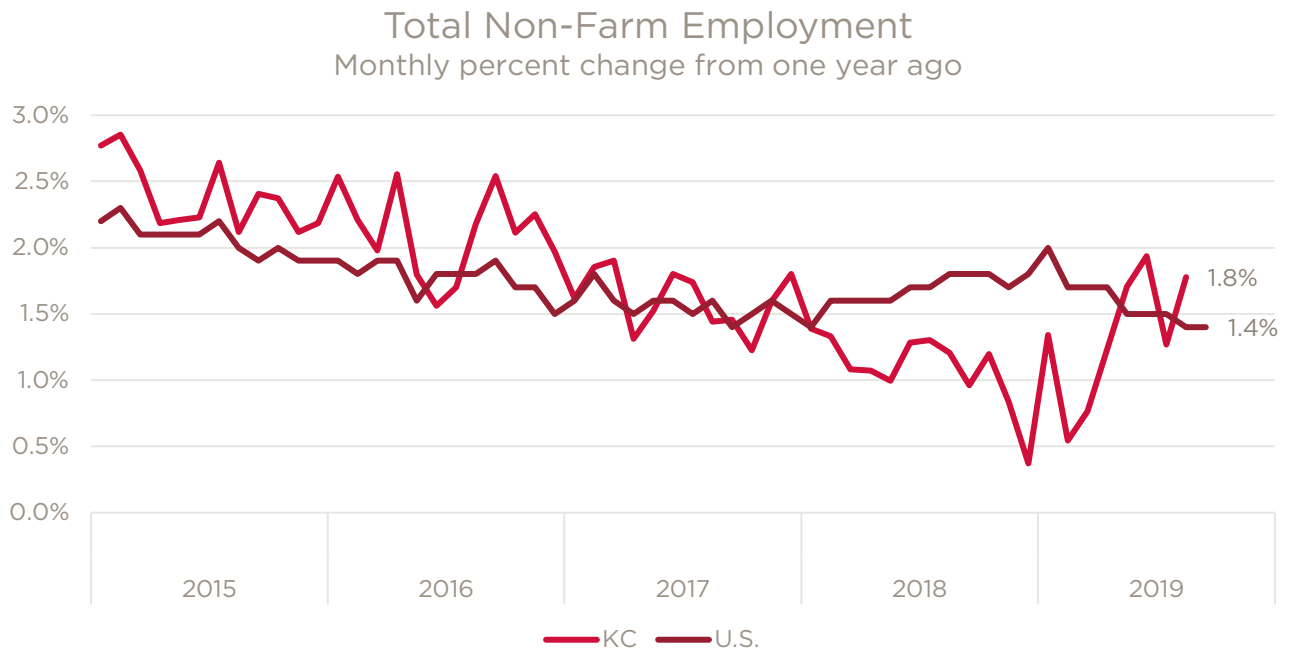
Figure 15



Source: Dodge Construction Potentials

Yet, despite this apparent sluggishness of the Kansas City area economy relative to the nation, the most recent employment data suggests the region's economic growth may be accelerating. If we examine year-ago change on a monthly basis, rather than looking at annual and year-to-date averages, we see that total employment appears to be growing at a brisk 1.8 percent clip in August 2019, more than a percentage point faster than earlier in the year and also faster than the 1.4 percent growth rate of U.S. employment over the same period. This pattern of local economic acceleration in the face of a slowing U.S. economy is not unprecedented. In fact, it mirrors the region's economic performance in 18 months before the onset of the Great Recession.

Figure 16



Source: Bureau of Labor Statistics (CES)

KC FORECAST

Methodology and assumptions

MARC input the U.S. forecast into the REMI model, from which it derives the local forecast based on historical relationships between the local and national economies. In essence, the national economy creates demands for goods and services that metropolitan economies are modelled as supplying. Their success depends on the industries they specialize in, their relative costs of doing business and their overall size. Metros that specialize in producing goods and services in high demand, that produce them at lower cost, and that are large enough to have well-integrated economies and ready access to specialized labor tend to be more successful in meeting national demands. MARC uses the REMI model for both long-range (30-year) and short-range (2-year) forecasts as well as to conduct economic impact analyses of proposed major public investments and has generally found it to produce reasonable results.

The REMI model works in annual increments. Therefore, the national forecast from RSQE is input on a fourth-quarter to fourth-quarter basis. The Kansas City area forecast is further calibrated so that it matches the local industry employment trends given by the Bureau of Labor Statistics Current Employment Statistics (CES) estimates of payroll employment through August 2019. However, while the trends come from BLS, the level of employment comes from the Bureau of Economic Analysis (BEA), as BEA uses a more comprehensive definition of employment that counts the self-employed as well as wage and salary workers.

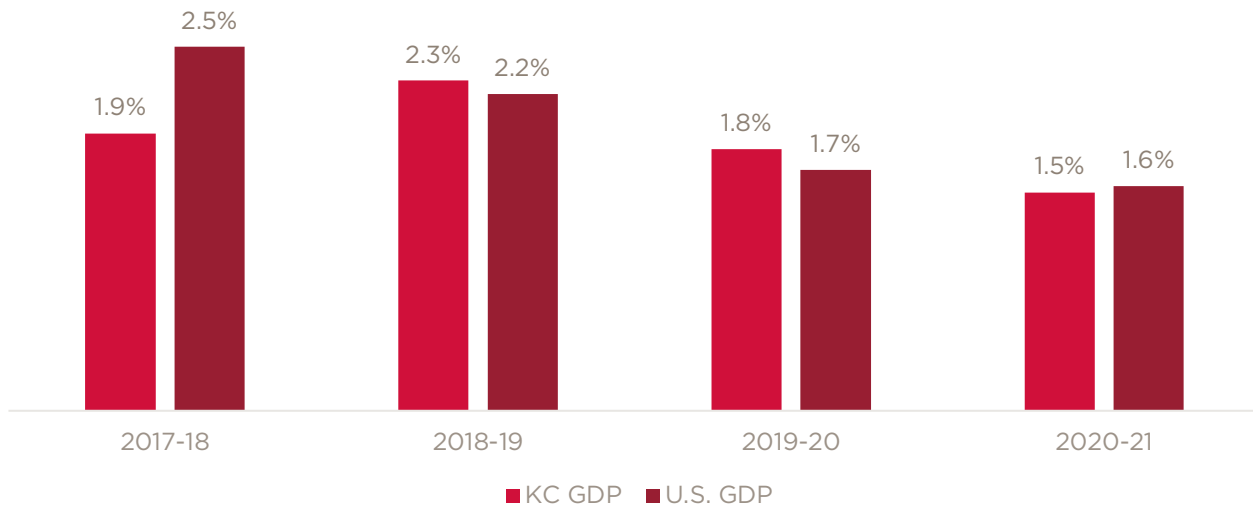
Finally, the \$1.5 billion investment in a new terminal at KCI is substantial. Because the bonds are being retired by the airlines, the construction expenditures represent net new money injected into the region that will produce a substantial, though temporary, economic impact. This investment is not reflected in the historical trend information that drives regional economic forecasting models. Given construction has started and will extend throughout the 2-year forecasting period, the value of this construction was input into the REMI model as a policy variable. The model then calculated how those dollars would circulate through the regional economy to create jobs and income beyond the construction sector.

Forecast

The combination of national and local assumptions yields a forecast that the Kansas City metro economy will grow slightly faster than the U.S. economy in 2019, reflecting the local acceleration seen in the latest data. Measured on a fourth-quarter to fourth-quarter basis, GDP is expected to growth 2.3 percent in Greater Kansas City compared to the 2.2 percent growth rate projected for the nation. The region's recent economic acceleration, in combination with the additional stimulus provided by the airport construction, carries forward into 2020 resulting in it maintaining a slight edge over the nation, though both areas see a substantial reduction in their overall GDP growth, to 1.8 percent locally vs. 1.7 percent nationally. In the absence of any additional stimulus, however, the prior historical relationship reasserts itself in 2021, with the U.S. growing slightly faster than metropolitan Kansas City as U.S. GDP grows 1.6 percent between the fourth quarter of 2020 and 2021 compared to 1.5 percent in the Kansas City area.

Figure 17

KC vs. U.S. GDP Forecast Fourth-quarter to fourth-quarter percent change

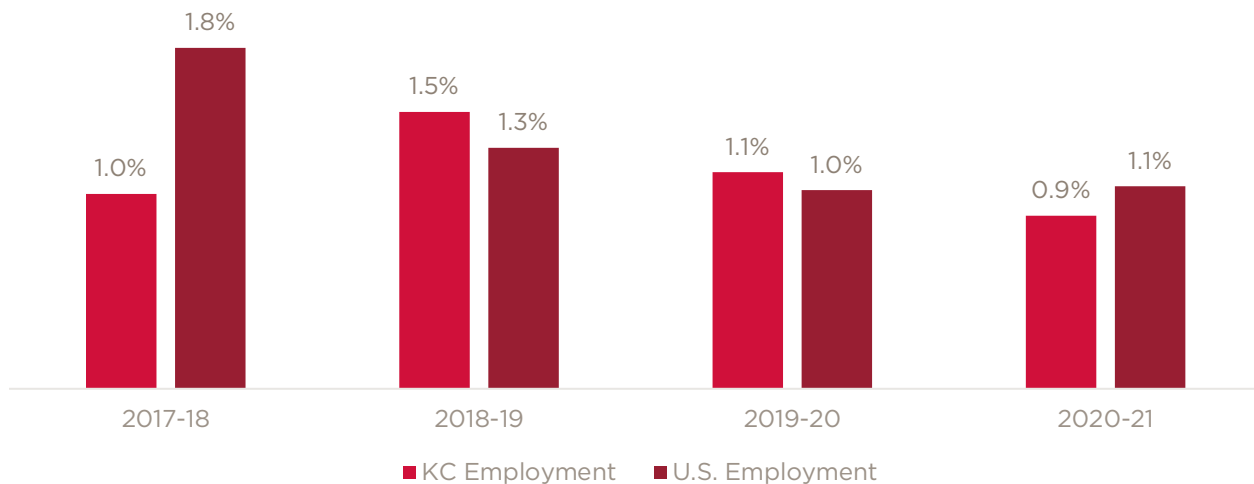


Source: RSQE, MARC

The same patterns hold for overall employment growth as for GDP. Employment growth in the region is projected to accelerate to 1.5 percent in late 2019 compared to one year ago while U.S. employment growth is expected to decelerate to 1.3 percent. Greater Kansas City maintains a slight edge in job growth relative to the nation during 2020, 1.1 percent to 1.0 percent for the nation. This advantage slips away, though, in 2021 when local employment growth by the fourth quarter is forecast to slip to 0.9 percent while the U.S. employment growth stabilizes at 1.1 percent.

Figure 18

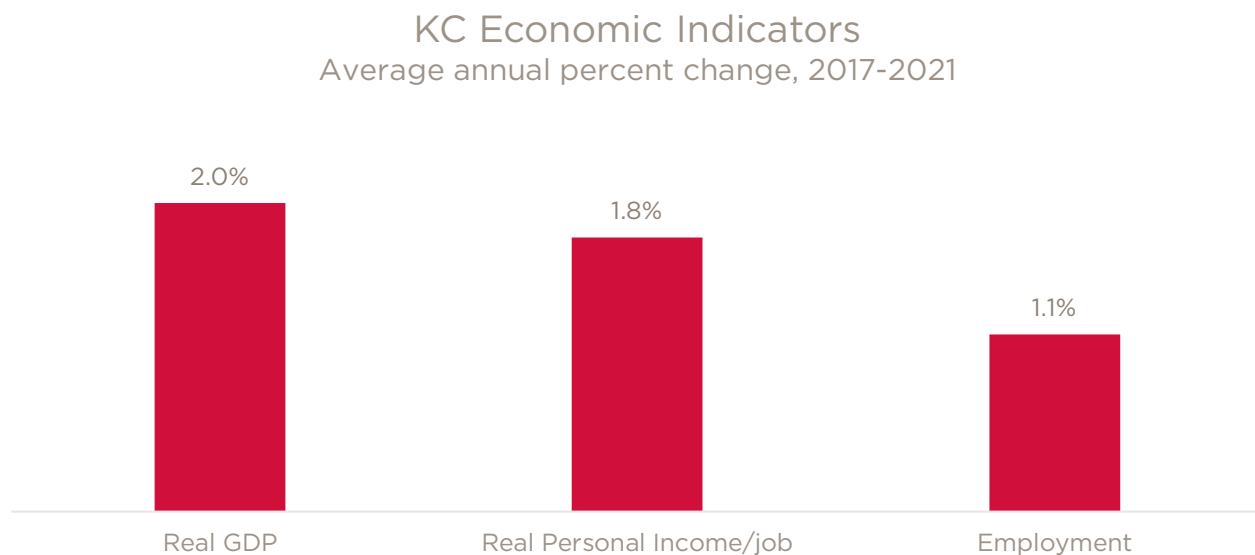
KC vs. U.S. Employment Forecast Fourth-quarter to fourth-quarter percent change



Source: RSQE, MARC

Over the entire period over which the REMI model was run, 2017 to 2021, the Kansas City area's overall economic growth as measured by inflation-adjusted (real) GDP is expected to grow an average 2.0 percent per year. Wage growth, as indicated by the growth rate in real personal income per job, is expected to follow closely behind, at 1.8 percent over and above the rate of inflation. This is a substantial improvement from earlier in the recovery when wages were tracking just barely above the inflation. Together, increased production and incomes produce an increase in the demand for workers, which is projected to grow an average of 1.1 percent over the modelled period.

Figure 19



Source: MARC

Employment by Industry

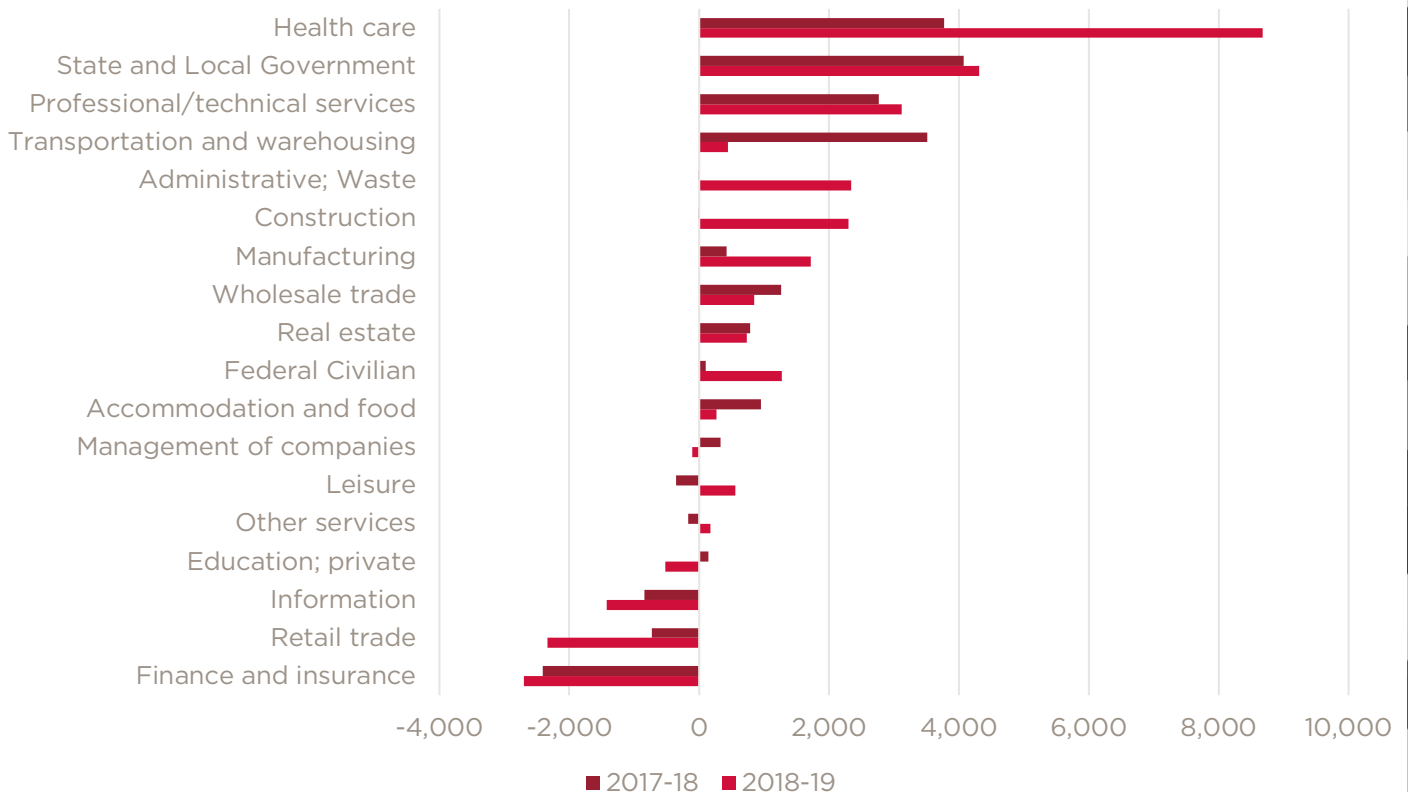
Due to differences in scale and sectoral variability, **Figure 20** breaks the model period into two in order to more clearly describe the industrial employment changes taking place. The first, **Figure 20A**, displays the changes expected between 2017 and 2019, a period that is mostly, though not entirely, historical. The second, **Figure 20B**, describes the changes between 2019 and 2021 that are purely a forecast. All changes are measured on a fourth-quarter to fourth-quarter basis.

Overall, the Kansas City area economy is projected to add 33,200 jobs over the two-year period between 2017 and 2019, with total job growth of 13,200 in 2017-18 and 20,400 jobs in 2018-19, reflecting the regional economy’s recent acceleration. Health care is projected to add more than 12,000 jobs, with two-thirds of that growth the result of a 2019 acceleration. Somewhat surprisingly, state and local government employment is expected to increase the second fastest during this two year period, by more than 8,000 jobs. Not all of this is in general purpose government, as this industry also includes public schools. Professional/technical services employment is projected to add the third most jobs during the period, at about 6,000, while transportation and warehousing is anticipated to add 4,000 jobs during the two-year period, though most of that occurred in 2018.

Construction, manufacturing, wholesale trade and federal civilian government all are expected to see significant spikes in job growth during 2019 as compared to 2018, the latter partly due to the relocation of USDA research agencies to the Kansas City area. On the downside, finance and insurance are expected to lose 5,000 jobs during 2017-18 and 2018-19, while retail will lose an estimated 3,000 jobs and information another 2,000 jobs. While the declines in information employment have become routine locally and brick and mortar retail’s troubles are national in scope, finance and insurance had been mostly stable in the Kansas City area until recently, and the reasons for its decline in jobs is not well understood.

Figure 20A

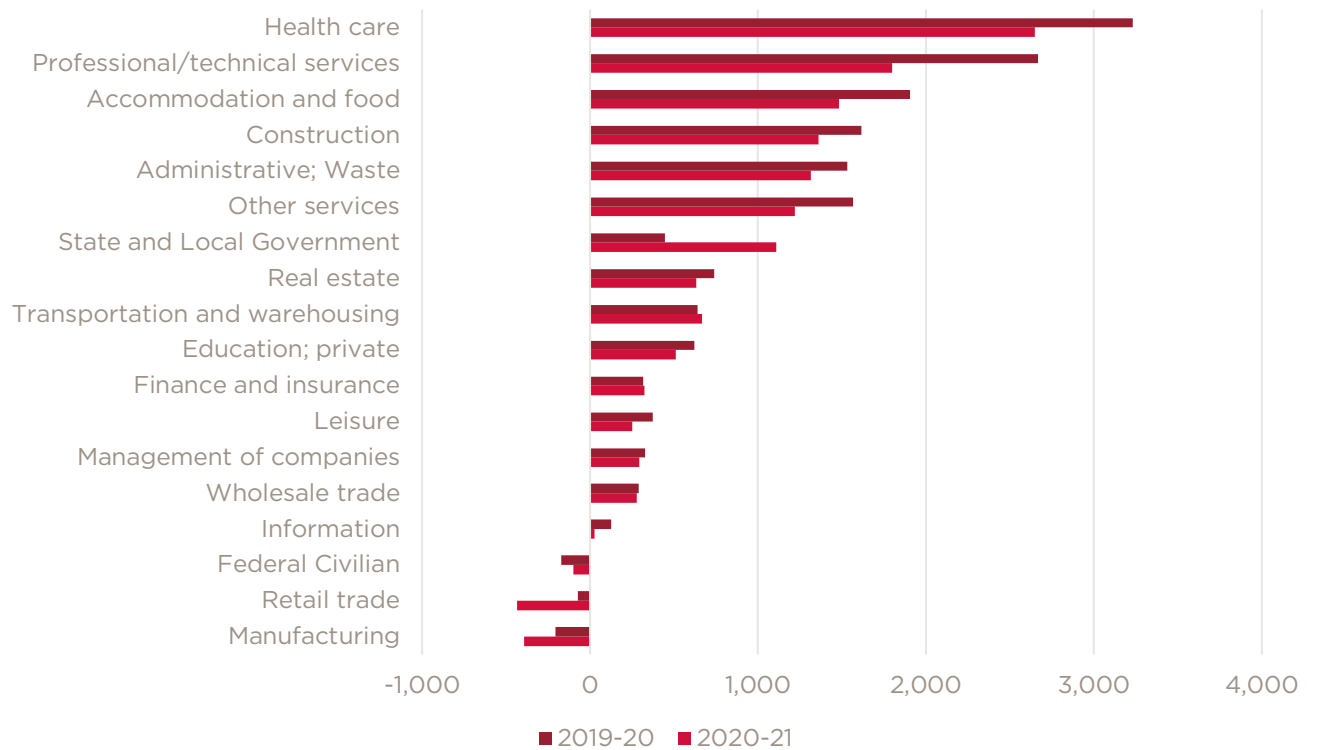
Employment Change (4Q/4Q) by Industry, 2017-2019 Industries with more than 20,000 employees



Source: MARC

Figure 20B

Employment Forecast (4Q/4Q) by Industry, 2019-2021 Industries with more than 20,000 employees



Source: MARC

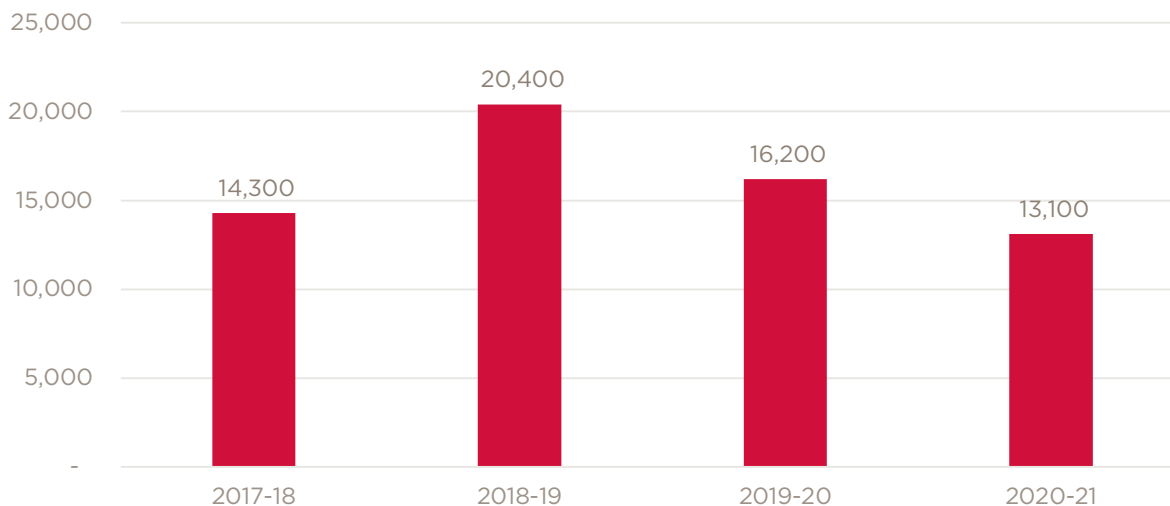
Moving forward, the forecast calls for job growth at reduced rates across virtually all sectors of the Kansas City metropolitan economy. Over the two-year forecast period between the end of 2019 and the end of 2021, overall job growth is expected to ratchet down to 29,300, with 16,200 occurring in 2019-20 and 13,100 occurring in 2020-21. Health care is forecast to again lead the way, with jobs growing by close to 6,000 over the two-year period. It is followed by professional/technical services, which is forecast to add 4,500 jobs. Accommodation and food will grow by 3,500 jobs while construction, in part due to the new KCI terminal, will add 3,000 jobs between fourth-quarter 2019 and fourth-quarter 2021.

While overall growth is projected to slow, some sectors that have been losing jobs rapidly are projected to be less of a drag on the regional economy in the near-term future. In particular, information is expected to stabilize while finance and insurance is projected to add back roughly 700 jobs, perhaps as a result of additional lending activity spurred by lower interest rates. Retail trade still loses jobs, but only about 500. Manufacturing is unable to continue to grow in the face of slowing national and international economies, but its losses are also modest at about 600 jobs over the two-year period.

Figure 21

Total KC Employment Growth

Change in jobs, fourth-quarter to fourth-quarter



Source: MARC

Conclusion

With the daily news filled with international conflicts, impeachment inquiries and trade uncertainties occurring simultaneously with a slowing U.S. economy, the prospects for continued economic growth seem shakier now than at any time since the Great Recession. Yet these worrisome signs are in conflict with a strong labor market achieving 50-year low unemployment rates, rising labor force participation with inflation still running below established targets. Combined with the FOMC willingness to undertake accommodative monetary policy to keep the economic expansion continuing as long as possible, this makes a recession unlikely in the time frame of this forecast.

Locally, the Kansas City economy has been growing slower than the nation and its peers over the last couple of years. However, it has begun to accelerate just as the U.S. economy slows. This, combined with extra stimulus coming from the construction of a new terminal at KCI, means it is forecast to grow slightly faster than the U.S. in 2019 and 2020 before once again dropping below the national pace. Nonetheless, it is projected to add close to 30,000 jobs over the next two years.

The region's lackluster pace of growth might reverse should Sprint's recently approved merger with T-Mobile pan out as promised, with the Overland Park campus becoming a second headquarters. Historically, the region's economic performance has been tied to Sprint's. In the 1990s, when it was growing rapidly, the Kansas City area economy grew faster than the national average. Since Sprint's troubles began around the turn of the century, its job losses and reduced flow of dollars to the region kept the Kansas City area economy from firing on all cylinders and it started to slip behind its peers. There are many obstacles to achieving the vision of a thriving second headquarters, however. Until events become clearer, this forecast steers a middle road where losses stop but substantial new growth does not occur within the forecast horizon.

Today, the key constraint on growth is access to talent. This is especially true in an area like Kansas City where the unemployment rate is even lower than nation's. The long expansion is finally bringing brighter economic prospects in terms of employment and wages to those who so far had been left behind, but there is much to be done to make sure every person is contributing at his or her highest level. Developing the policies and strategies that allow metropolitan Kansas City to continually improve its ability to attract, retain and develop talent is a high priority of KC Rising and the Greater Kansas City Chamber of Commerce. As those efforts bear fruit, they should help the Kansas City area regain its position as a rising U.S. metro.

ARE U.S. RECESSION ODDS REALLY SO HIGH?

Prepared by:

Sal Guatieri

Director and Senior Economist

BMO Capital Markets

The trade war and inverted yield curve have fanned recession fears. Economists now peg the chance of a downturn by the end of 2020 at around 38%, with the trade tiff cited as the chief concern [1]. Based on the recent negative 40-bp spread between 10-year and 3-month Treasuries, the New York Fed's equation suggests similar odds. An inverted curve is ominous, having correctly signaled all seven U.S. recessions in the past half century, with an average lead time of just over a year (**Chart 1**) [2]. In practical terms, an inverted curve often spells trouble because banks are less willing to lend when long-term yields are below short-term rates.

The current inversion, however, may overstate recession prospects. Past inversions were often driven by intense Fed tightening. This time, the inversion is due more to long-term rates plunging from already-low levels. This is partly because sovereign bond yields in other nations have fallen and in many cases turned negative. But it is largely due to concern that the trade war might escalate and cause further economic damage. As a result, investors are anticipating almost 75 basis points of Fed rate cuts by the end of 2020, even though the stimulus does not seem warranted by economic conditions alone.

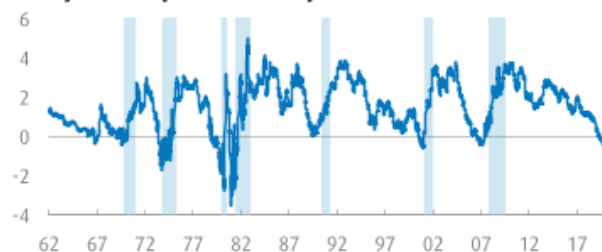
Crucially, financial conditions are far from punitive even after nine Fed rate hikes since 2015. In fact, they point more to growth close to long-run potential of around 2% than to contraction (**Chart 2**). Real policy rates are nowhere close to levels prevailing before recessions and are poised to turn negative if the Fed cuts rates two more times this year, as expected. The real fed funds rate exceeded 2% prior to the last eight downturns, but peaked at less than 0.5% this cycle (**Chart 3**).

It's not just low rates that are supporting financial conditions. Corporate credit spreads, though widening, remain near long-run norms; equity markets are testing record highs (**Chart 4**); and, house prices, though slowing, continue to rise. The resulting increase in household wealth is fanning consumer spending and the large service sector, providing resilience to the expansion. The only conditions applying a brake to the expansion are the rising U.S. dollar, up 3% y/y to 13-year highs on a trade-weighted basis, and elevated policy uncertainty, largely due to the trade war.

If the Fed lowers rates two more times this year and the yield curve turns positive in response, our research suggests recession odds would drop to less than 20% next year (**Chart 5**) [3]. This assumes stock prices, credit spreads, the dollar and house prices remain little-changed in the context of no new tariffs. Based on financial conditions alone, recession risks are a mere 6%. While it's dangerous to ignore the yield curve's signal, the upshot is that recession odds would fall sharply if the Fed cuts

Chart 1 Inversion Diversion

United States (ppts : as of September 13, 2019)
Treasury Yield Spread — 10-year less 3-month



Shading marks periods of U.S. recession
Sources: BMO Economics, Haver Analytics

Chart 2 Still Has Potential

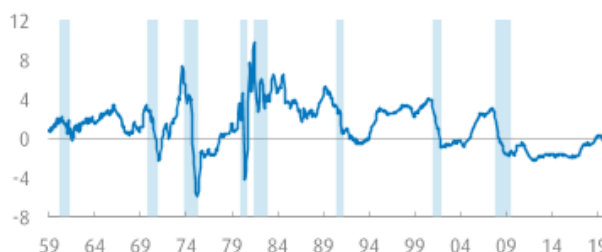
United States



¹ (lhs : y/y % chng); ² (rhs : ppt contribution to yearly real GDP growth)
Sources: BMO Economics, Haver Analytics

Chart 3 Really Low Rates

United States (percent)
Real Fed Funds Rate¹



Shading marks periods of U.S. recession; ¹ fed funds rate less core CPI inflation
Sources: BMO Economics, Haver Analytics

Chart 4 Wealth in Good Health

S&P 500 (1941-43 = 100 : as of September 13, 2019)



Sources: BMO Economics, Haver Analytics

rates and the White House reins in trade tensions. Both measures would help normalize the yield curve (as we are seeing in recent days with the 10s/3s spread shrinking to -9 bps on more encouraging words and actions from U.S. and Chinese officials) and improve business confidence. To boot, households have plenty of scope to borrow given record-low debt service costs.

With the Fed poised to cut rates next week, the biggest threat to the economy is a serious escalation in tariffs. This would cause the yield curve to stay inverted, equity prices to fall, and credit spreads to widen. The resulting tighter financial conditions and likely pullback in hiring and consumer spending would send recession odds soaring. While the Fed would also ease further, the full impact on the economy would likely occur too late (up to six quarters in our equation) to prevent a downturn.

BOTTOM LINE: The chance of some type of U.S. recession in 2020 is likely around 25%-to-30% due to the unpredictable trade war. While that's unsettling, supportive financial conditions—in particular low interest rates—should keep the expansion alive barring an escalation in tariffs. If a downturn does occur, it should be less severe than usual because of already low rates and less debt-constrained households.

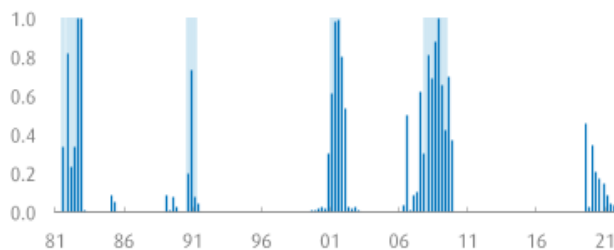
Endnotes:

- [1] Blue Chip Economic Indicators, September 10, 2019. ^
- [2] For a full discussion of the yield curve's historical track record at predicting recessions and an explanation of why its signal may have weakened, see: Gregory, Michael and Robert Kavcic, January 11, 2019 Focus, "Recession Obsession"; <https://economics.bmo.com/en/publications/historical/b8ac35af-fad0-41c5-9c07-a91a264b1c1e/>. ^
- [3] Our in-house equation regresses a binary dependent variable (that takes the value of 1 in recessions and 0 in expansions) against seven explanatory variables (yield curve slope, real fed funds rate, stock prices, house prices, oil prices, corporate credit spreads and the trade-weighted dollar) over the period 1980Q3 to 2019Q2. All the variables are significant at the 5% level or better. A relatively large standard error (19%) indicates a wide confidence band around the estimated probability of recession. ^

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Chart 5
Not There Yet

United States (1.0 = certainty)
Predicted Odds of U.S. Recession



Shading marks periods of U.S. recession
 Sources: BMO Economics, Haver Analytics

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TRADE, VOLATILITY HAMPER GROWTH IN LATE 2019

Prepared by:

Derek Hamilton

Global Economist

Ivy Investment Management Company

Volatility has been the story of 2019. The markets have dealt with uncertainty around global trade restrictions and recession fears. Ivy Investments believes these headwinds will cause global economic growth to remain relatively weak for the remainder of the year. We forecast global gross domestic product (GDP) growth at 3.1% for the year, which is down from our initial 2019 projection of 3.4%.

Despite a tepid 2.3% GDP growth rate through the first half of the year, the U.S. economy continues to be the engine that drives the global economy. However, the current status of global trade is an area of concern for us.

For much of the year, the trade war between the U.S. and China has been the focal point for markets. We are concerned the Trump administration's latest round of tariffs – a 15% tax on certain Chinese-made consumer goods – could hamper consumer spending, which consistently is the key driver of the U.S. economy. We are hopeful the weaker trajectory in economic growth might encourage President Trump to consider a “cease fire” in the trade war and halt any additional tariffs until after the 2020 elections.

After two consecutive quarterly interest rate cuts by the Federal Reserve, we believe signs of economic slowing could prompt the Fed to cut rates once more by year's end.

A look at other economies:

- The pace of economic growth in Europe has weakened to below 1% on an annualized basis, mainly due to the drag of global trade and Brexit uncertainty. While the conclusion of the U.K.'s exit from the European Union remains unclear, we anticipate eurozone growth will remain weak through the rest of 2019.
- China's economy continues to slow. While official GDP data slowed to 6.2% in the second quarter – down slightly from 6.4% from the previous period – monthly data through August pointed to further weakness in the third quarter.
- In India, a reduction in the corporate tax rate includes a provision that allows lower tax rates for manufacturing companies that establish bases of production in the country. This is clearly an effort to attract companies looking to diversify supply chains away from China.

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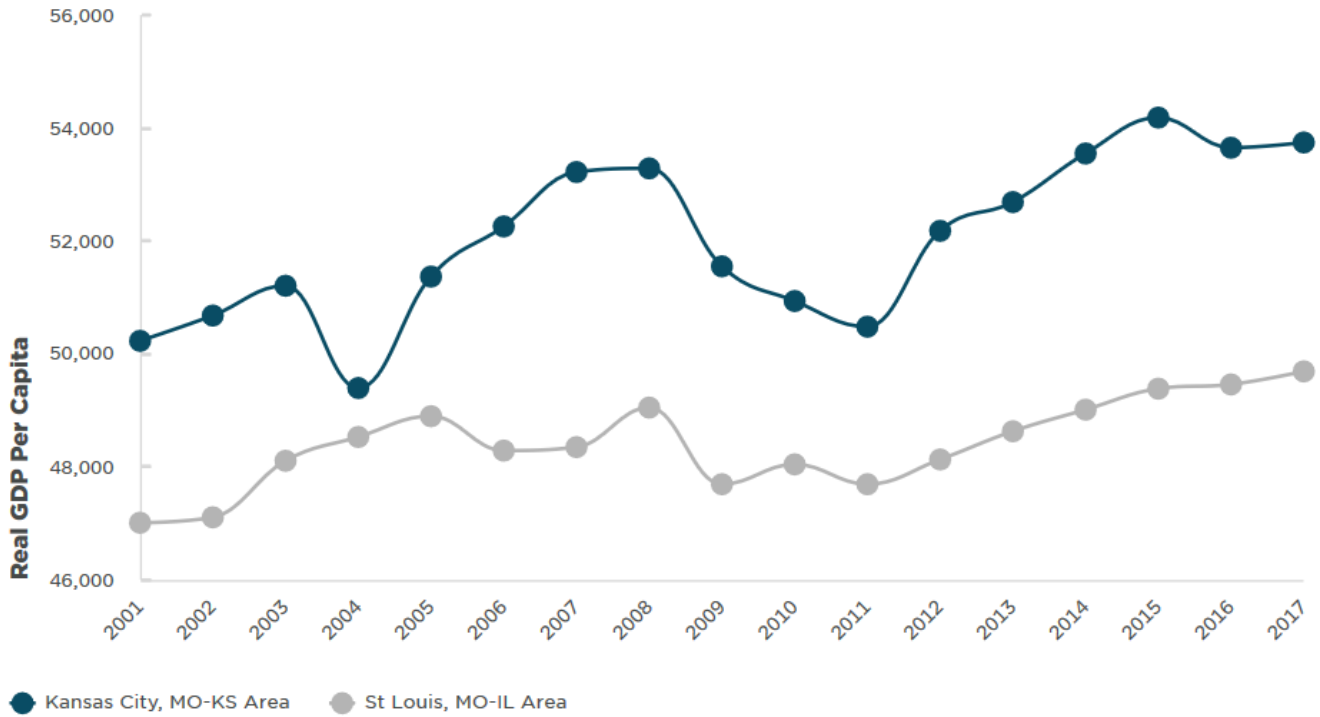


A PREVIEW OF THE GREATER KC REPORT

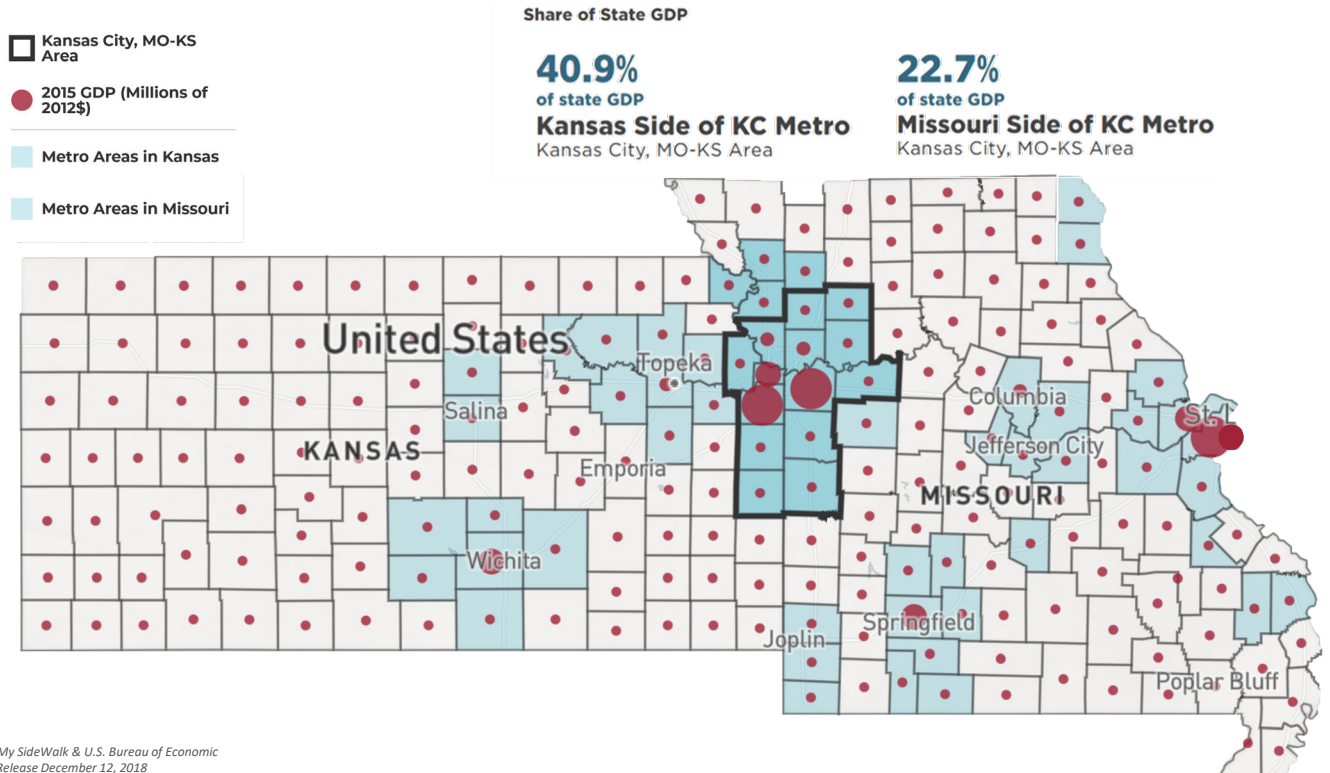
<http://bit.ly/thegreaterkcreport>



GDP per Capita in St. Louis vs. Kansas City Metros

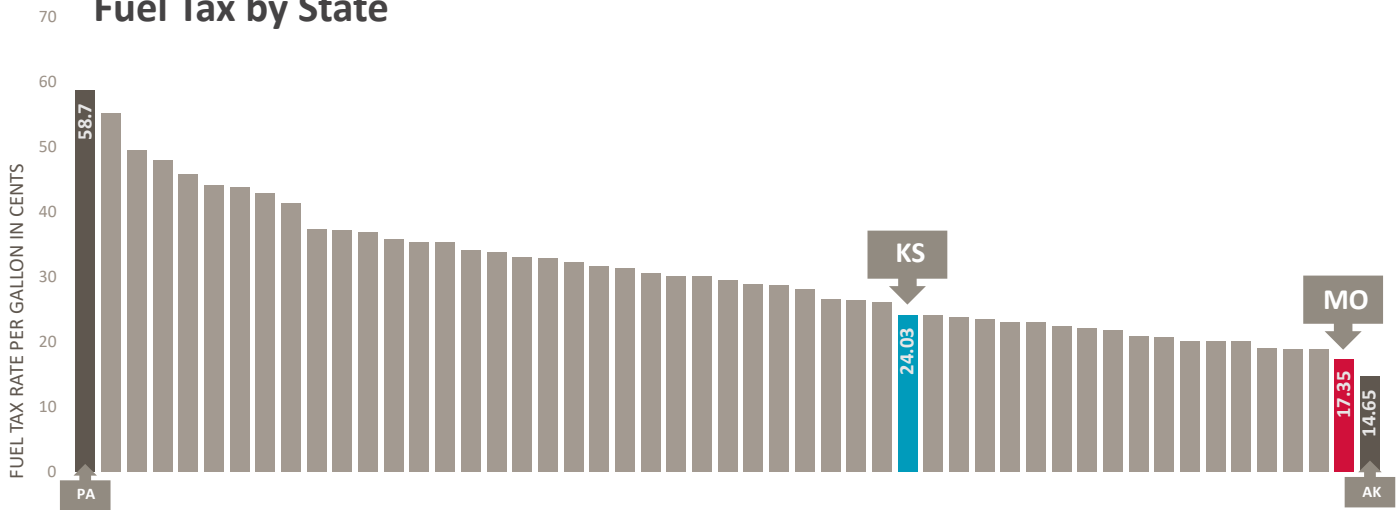


Gross Domestic Product by County

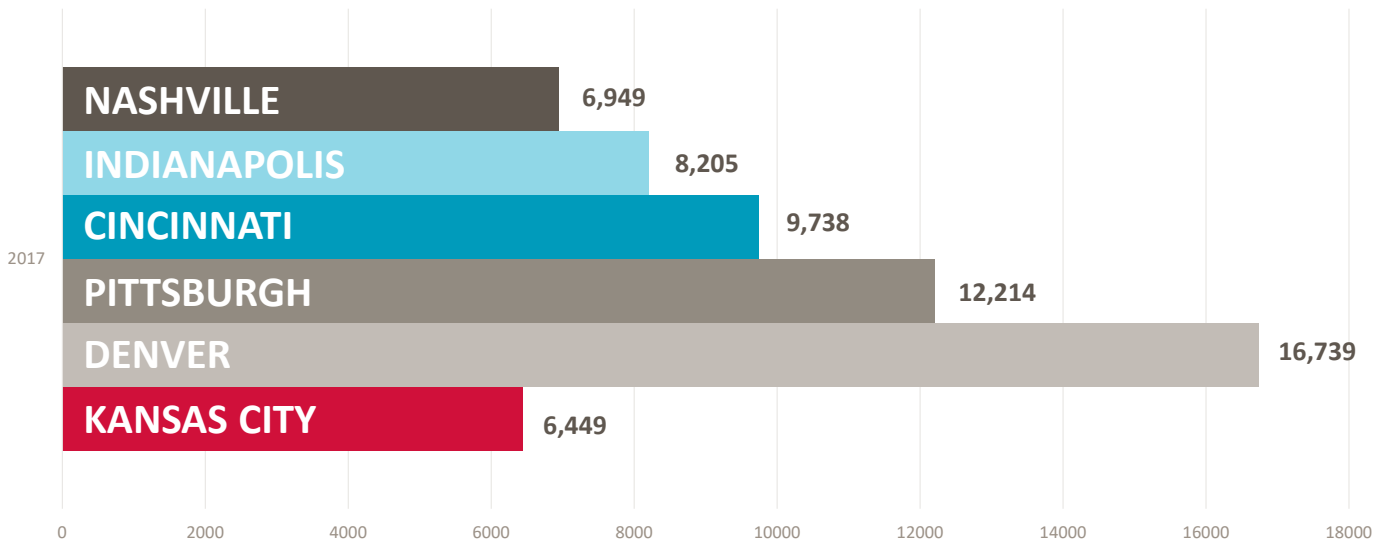


Sources: My SideWalk & U.S. Bureau of Economic Analysis Release December 12, 2018

Fuel Tax by State



Average Number of Jobs within a 30 Minute Public Transit

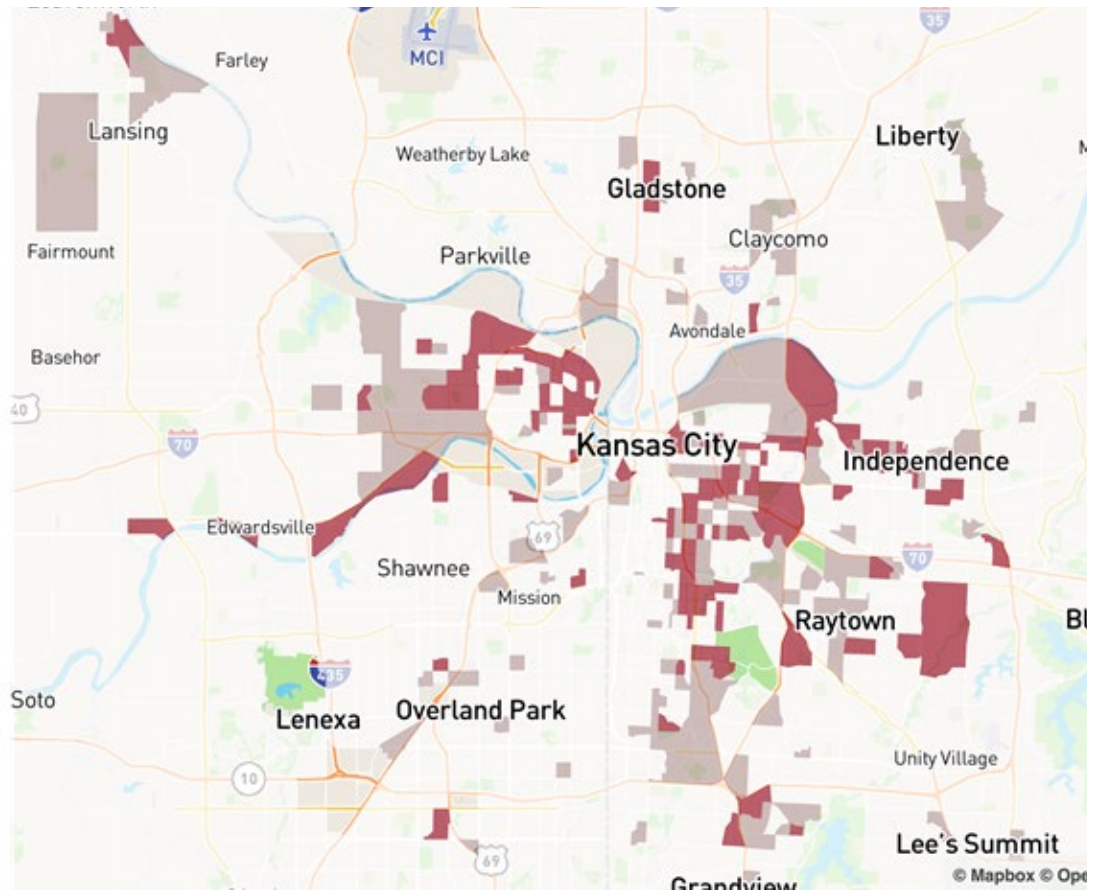


October 2019 (August 2019 data)

LATEST DATA	EMPLOYMENT	JOB POSTINGS	UNEMPLOYMENT	EMP GROWTH
AUGUST 2019	1,116,700	75,191	3.3%	1.7%
JULY 2019	1,113,000	73,988	4%	1.5%
Month-to-Month Change	+3,700	+1.6%	-0.7	+0.2

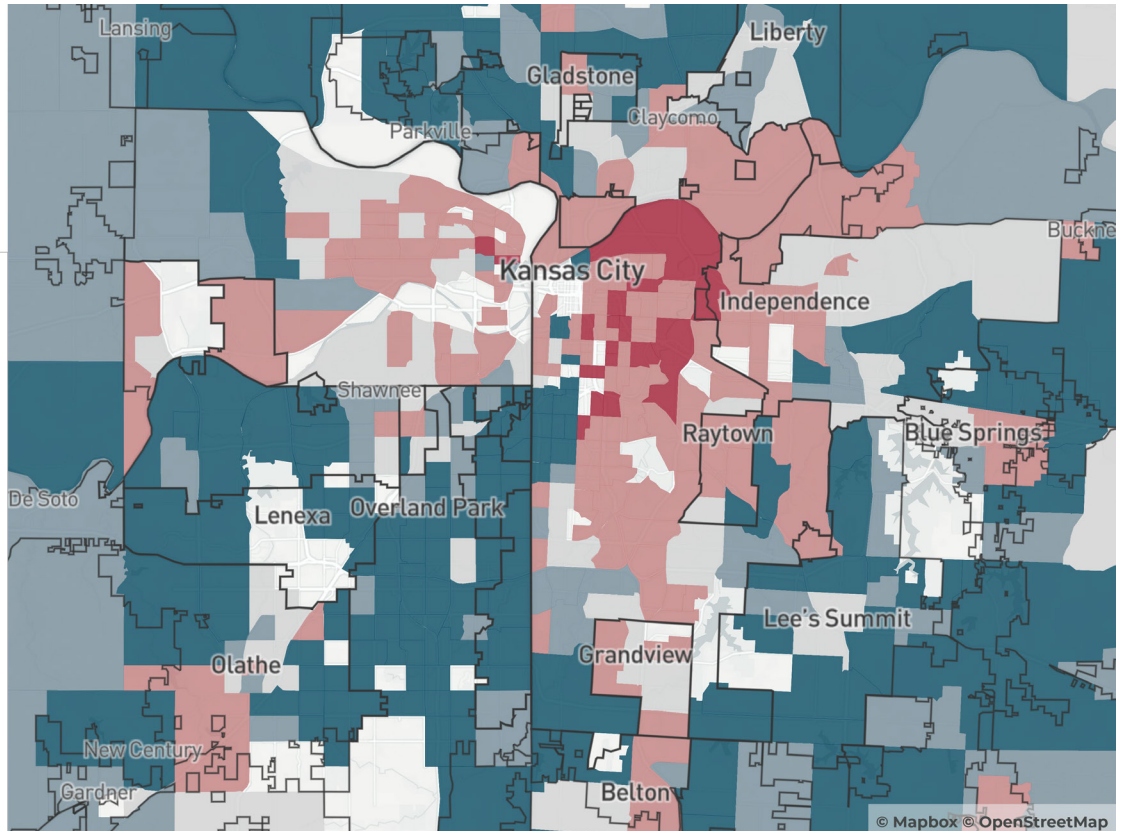
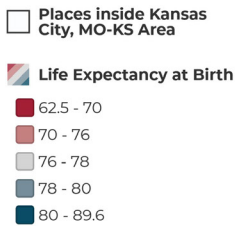
Sources: Mid-America Regional Council

Geographic Disparities in Unemployment



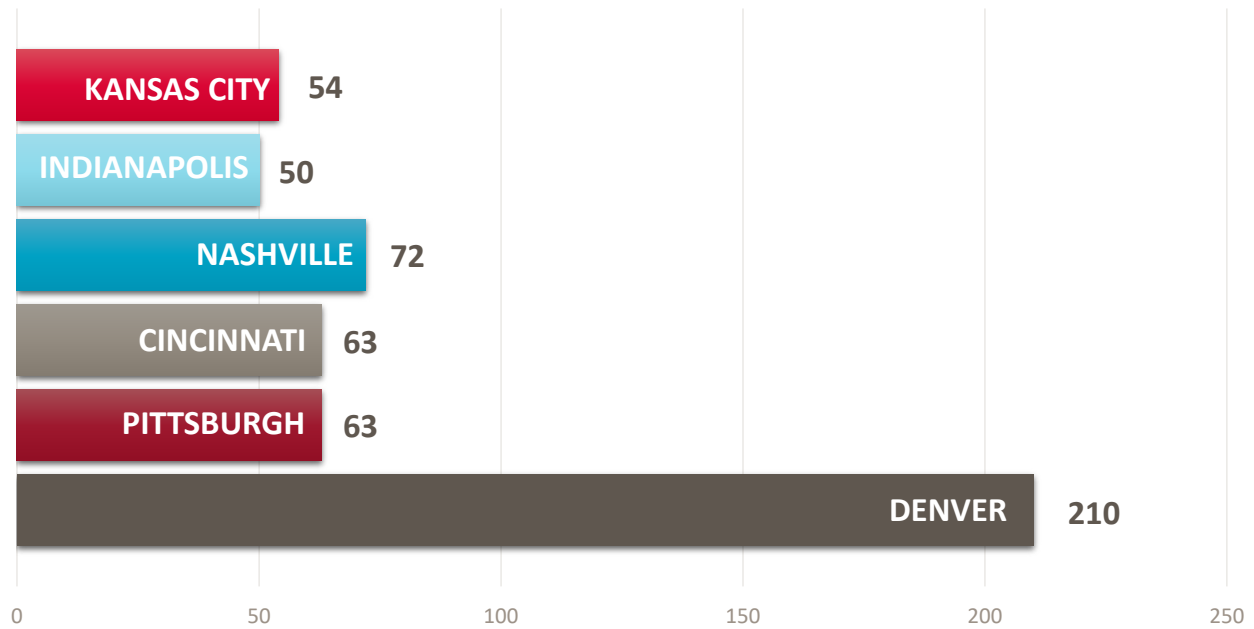
Sources: My SideWalk 2013-17 ACS

Life Expectancy at Birth



Sources: My SideWalk

Number of Direct Flights Compared to Peer Cities (2019)



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