U.S. and New Mexico: Economic Conditions and Outlook

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We only need a few things for recovery…

• Moderate growth in GDP
• Steady private sector job gains
• Resumption of income growth
• Normal spending by consumers
• Reduction in household debt
• Increase in the savings rate
• An end to the real estate debacle

… right?
GDP growth is accelerating once again

Real U.S. Gross Domestic Product
Seasonally Adjusted

Source: Bureau of Economic Analysis, Blue Chip Forecasts
Consistent pvt. sector job gains since early 2010

U.S. Total/Private Nonfarm Employment
Seasonally Adjusted

Thousands of jobs, change from previous month

Source: Bureau of Labor Statistics
Moderate income growth and rebound in savings

Growth in U.S. Personal Income vs. Personal Savings Rate

Source: Bureau of Economic Analysis
Consumer spending much stronger than expected

U.S. Retail Sales vs. Personal Consumption Expenditures
Seasonally Adjusted

Source: Bureau of Economic Analysis, Census Bureau, Global Insight IHS
Household de-leveraging is slowly underway
debt is highly concentrated in mortgages

U.S. Debt to Personal Income Ratios

Source: Global Insight IHS
No clear bottom in U.S. housing prices
but long-run gains remain near inflation

U.S. Monthly Home Price Index
Purchase-Only, Seasonally Adjusted

Index: Jan-91=100

Compound Annual Growth Rate Since January 1991: 3.2%
Compound Annual Growth Rate Since January 2000: 2.8%

January 2011 index is roughly the same as the May 2004 index value.

Source: FHFA
Most states now adding jobs, pockets of weakness
AZ/CA/FL/MI adding jobs

Total Nonfarm Employment Growth
Feb-11 over Feb-10

1. North Dakota: 4.4%
2. Vermont: 2.8
3. Texas: 2.5
4. Alaska: 2.5
5. Oregon: 2.0
6. Arkansas: 2.0
7. Pennsylvania: 1.9
8. Michigan: 1.8
9. Delaware: 1.8
10. Connecticut: 1.8

Source: Bureau of Labor Statistics
Divergences between U.S. and NM job pattern
Govt./Finance/Construction/Info acting as a drag

U.S. and NM Nonfarm Job Growth by Industry
Feb-11 over Feb-10

Percent change, year-over-year

US
NM

Source: Bureau of Labor Statistics
Note: Number in parentheses is the industry's share of total private jobs in NM states in Feb-11
Late downturn in government hiring offsetting private sector jobs gains

**NM Employment**
Seasonally Adjusted

Index: Feb-07=100

Source: Bureau of Labor Statistics
NM among the weakest labor markets in District

Total Nonfarm Employment
Seasonally Adjusted

Index: Feb-06=100

Source: Bureau of Labor Statistics
Latest existing home sales bounced in Q4…

Source: National Association of Realtors
...but pending sales have softened
NM new home construction tracking the U.S.

bouncing along bottom

Value of Residential Construction Contracts;
Single-Family Housing Permits
Seasonally Adjusted

Source: F.W. Dodge, U.S. Census Bureau
Gap remains between new construction and sales has narrowed since early 2009

U.S. New Residential Construction and Sales
Seasonally Adjusted

Source: U.S. Census Bureau
Critical peak in past due and foreclosure rates
shadow inventory remains a concern

Mortgage Foreclosure/Delinquency Rates
U.S. and New Mexico

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<th>Year</th>
<th>US 90-days Past Due</th>
<th>US 90-days Past Due and In Foreclosure</th>
<th>NM 90-days Past Due</th>
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Source: Mortgage Bankers Association
Is the bottom at hand in commercial construction?

Value of Commercial Construction Contracts
Seasonally Adjusted, 3-mo. moving average

Index: Feb-06=100

Source: F.W. Dodge
Shift in exploration toward crude accelerates in U.S. and NM

Count of Active Drilling Rigs
Seasonally Adjusted

Source: Baker-Hughes
Risks to the recovery?

- Rising interest rates (mortgage rates)
- Rising energy/commodity prices
- International instability
- Federal/state/local budget overhang
- Another down-leg in real estate
- Household de-leveraging takes longer than expected
- **Short** expansion
What makes the recovery sustainable?

- Federal Reserve stimulus – current (and future?)
- Fiscal stimulus – tax package, ARRA wanes after 2011
- Strong financial position of corporate sector
- Resumption in household debt growth
- Growing replacement needs – households/firms
- **Virtuous cycle** – capitalism, invisible hand
U.S. and New Mexico Economic Conditions

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Presentation will be available at:
http://www.kansascityfed.org/Denver