U.S. Economic Conditions

Mark C. Snead
Vice President and Branch Executive
Federal Reserve Bank of Kansas City
Denver Branch
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

Percent, year-over-year

Percent change from preceding period, annual rate

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

- from 1.8 to 4.4%
- from 1.3 to 1.8%
- from 0.9 to 1.3%
- from 0.6 to 0.9%
- from 0 to 0.6%
- from -1.0 to 0.6%

Negative growth: NJ, MO, NV, NM, KS

Source: Bureau of Labor Statistics
Late downturn in government hiring offsetting private sector jobs gains

### U.S. Employment Seasonally Adjusted

<table>
<thead>
<tr>
<th>Index: Feb-06=100</th>
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<td>Feb-06</td>
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<tr>
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</tr>
<tr>
<td>Goods</td>
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<td>Services</td>
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<td>Government</td>
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<td>Total</td>
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Source: Bureau of Labor Statistics
Most U.S. industry sectors now adding jobs
Govt./Finance/Construction acting as a drag

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

Percent, year-over-year

Source: Bureau of Labor Statistics
Recent existing home sales data suggest further softness.
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
Construction still bouncing on bottom
both residential and commercial

Value of U.S. Commercial and Residential Construction Contracts
Seasonally Adjusted, 3-mo. moving average

Index: Feb-06=100

Source: F.W. Dodge
Critical peak in past due and foreclosure rates
shadow inventory remains a concern

Mortgage Foreclosure/Delinquency Rates
United States

Source: Mortgage Bankers Association
Crude futures suggest $100+/bbl through 2012

West Texas Intermediate Oil Spot Price & NYMEX Futures

Source: Bloomberg Energy Services
Natural gas futures suggest ceiling around $5/mcf

Henry Hub Natural Gas Spot Price & NYMEX Futures

Source: Bloomberg Energy Services
Shift in exploration toward crude accelerates

Count of Active Drilling Rigs
Seasonally Adjusted

Source: Baker-Hughes
Crude and natural gas output continue to climb
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