Colorado in the Recession and Recovery

Colorado Real Estate and Economic Summit

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We only need a few things for recovery…

1. Solid economic growth
2. Private sector job gains
3. Normal income growth
4. Normal consumer spending
5. Reduction in household debt
6. Increase in the savings rate
7. An end to the real estate debacle

… right?
GDP growth is accelerating once again tracking estimates suggest 3.0-3.5% growth currently.

Real Gross Domestic Product
Seasonally Adjusted

Source: Bureau of Economic Analysis, Macro Advisers, Blue Chip Forecasts
Consistent private sector job gains since Jan 2010

U.S. Total/Private Nonfarm Employment
Seasonally Adjusted

Thousands of jobs, change from previous month

Source: Bureau of Labor Statistics
U.S. jobless rate should fall about 1% per year
normal 5-6% rate reached in 2014/15

U.S. and Colorado Unemployment Rate
Seasonally Adjusted

Source: Bureau of Labor Statistics
Income and spending gains stronger than expected

Growth in U.S. Retail Sales and Personal Income
Seasonally Adjusted

Percent change, year-over-year

Source: Bureau of Economic Analysis, Census Bureau
Households are reducing debt and saving more

U.S. Personal Savings Rate and Debt-to-Personal Income Ratio

Source: Bureau of Economic Analysis
No clear bottom in U.S. housing prices but long-run (20-year) gains remain near inflation

U.S. Single-Family House Price Level
Seasonally Adjusted

Source: FHFA, Standard & Poor's
Size of price run-up related to size of correction

Case-Shiller Home Price Indices for 20 Metro Areas
Seasonally Adjusted

Source: FHFA
Gap remains between construction and sales has narrowed since late 2005.
CO new home construction tracking the U.S.

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

Index: Dec-05=100

Source: F.W. Dodge, U.S. Census Bureau
Critical peak in past due rates
shadow inventory remains a concern

Mortgage Delinquency Rates
U.S. and Colorado

Source: Mortgage Bankers Association
Is the bottom at hand in commercial construction?
Or just noise?

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

Index: Dec-05=100

Source: F.W. Dodge
Most states now adding jobs; weakness remains in several Mtn. states; AZ/CA/FL adding jobs

Total Nonfarm Employment – YTD Percent Change from Dec. 2009

1. Washington D.C.: 3.2%
2. Texas: 2.3
3. New Hampshire: 2.1
4. North Dakota: 1.7
5. Massachusetts: 1.5
6. Oklahoma: 1.4
7. Arizona: 1.4
8. Louisiana: 1.4
9. Wyoming: 1.4
10. Washington: 1.2

Source: Bureau of Labor Statistics
Sales tax revenue and upcoming revisions to job data confirm end of recession in CO

Colorado Nonfarm Employment and Sales Tax Revenue
Seasonally Adjusted

Millions

Thousands

Sales Tax Revenue

Employment

Likely bottom in hiring at end of Q2

Source: Bureau of Labor Statistics, Colorado Department of Revenue
Some rebound in Govt. hiring; revisions will boost goods-producing jobs
Colorado hiring now looks very national-like
Govt./Finance/Construction/Information acting as a drag

Nonfarm Employment Growth by Industry
Dec-10 over Dec-09

Some evidence of a bottom in Tech hiring

Colorado High-Tech Employment
Seasonally Adjusted

Source: Bureau of Labor Statistics
Shift in exploration toward crude accelerates in U.S. and CO

Count of Active Drilling Rigs
Seasonally Adjusted

Source: Baker-Hughes
Tourism and resort activity strengthening

Hotel Occupancy Rates
Seasonally Adjusted

Source: Rocky Mountain Lodging Report
Commodity price pressure $\neq$ inflation

Consumer Price Index: All Items and All Items less food and energy
Seasonally Adjusted

Percent change, year-over year

Source: Bureau of Labor Statistics
Risks to the recovery?

- Rising interest rates (mortgage rates)
- Rising energy/commodity prices
- 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
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Presentation will be available at:
http://www.kansascityfed.org/Denver