U.S. and Colorado: Economic Conditions and Outlook

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U.S. and Colorado recovery in 2011

• Where are we in the recovery cycle?
• What adjustments in the economy need to take place?
• When did the recession end in Colorado?
• Key areas of strength/weakness: which matter most?
• Outlook for 2011
• What will sustain the U.S. recovery? Risks?
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 tracking estimates suggest 3.0-3.5% growth currently

Real Gross Domestic Product
Seasonally Adjusted

Source: Bureau of Economic Analysis, Macro Advisors, Blue Chip Forecasts
Growth forecasts underlying Federal Reserve policy remain relatively upbeat

Real U.S. Gross Domestic Product
Seasonally Adjusted

Percent change (Q4/Q4)

- Actual
- FOMC Nov Forecasts

2008: -2.8
2009: 0.2
2009-2013: Growth forecasts remain relatively upbeat

Source: Federal Open Market Committee
Consistent private sector job gains since Jan 2010

Total/Private Nonfarm Employment
Seasonally Adjusted

Thousands of jobs, change from previous month

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

U.S. Unemployment Rate
Seasonally Adjusted

Source: Federal Open Market Committee
Broad inflation indices expected to remain tame
commodity prices climbing

Price Index for Personal Consumption Expenditures (Core)
Seasonally Adjusted

Source: Federal Open Market Committee
Moderate income growth and rebound in savings

Growth in Personal Income vs. Personal Savings Rate

Source: Bureau of Economic Analysis
Consumer spending stronger than expected

Retail Sales vs. Personal Consumption Expenditures
Seasonally Adjusted

Percent change from preceding period, annual rate

Percent, year-over-year

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

Debt to Personal Income Ratios

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

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

- Compound Annual Growth Rate Since January 1991: 3.3%
- Compound Annual Growth Rate Since January 2000: 3.1%

November 2010 index is roughly the same as the August 2004 index value.

Source: FHFA
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%

- from 1.2 to 3.2%
- from 1.0 to 1.2%
- from 0.6 to 1.0%
- from 0.2 to 0.6%
- from -1.5 to 0.2%

Source: Bureau of Labor Statistics
Most U.S. industry sectors now adding jobs
Govt./Finance/Construction acting as a drag

U.S. Nonfarm Employment by Industry
Seasonally Adjusted

Job Gains (Losses) Since Dec-09

945,000 net jobs gained since Dec. 2009

Key stories of 2011

Late downturn in government hiring offsetting private sector jobs gains

U.S. Employment
Seasonally Adjusted

Index: Jan-06=100

Source: Bureau of Labor Statistics
CO and NM remain the weakest labor markets in the 10th District

Total Nonfarm Employment
Seasonally Adjusted

Index: Dec-07=100

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

Sales Tax Revenue

Employment

Likely bottom in hiring at end of Q2

Source: Bureau of Labor Statistics, Colorado Department of Revenue
Latest existing home sales volume reflects tax credit expiration…

Sales of Existing Homes
Seasonally Adjusted

Index: 2000:Q4=100

United States

Colorado

Source: National Association of Realtors
…but pending sales suggest the tax credit distortion is now through the system

Source: National Association of Realtors
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
Gap remains between construction and sales has narrowed since late 2005

U.S. New Residential Construction for Sale
Seasonally Adjusted

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

Mortgage Foreclosure/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

CO
US

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

Count of Active Drilling Rigs
Seasonally Adjusted

U.S. Natural Gas (left axis)

CO Natural Gas (right axis)

U.S. Crude Oil (left axis)

CO Crude Oil (right axis)

Source: Baker-Hughes
Manufacturing is currently a driver industry

Source: Global Insight, IHS
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
U.S. and Colorado Economic Conditions

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