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

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

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

Percent change (Q4/Q4)

2.0
1.7
1.5
1.0
0.5
0.0

2008 2009 2010 2011 2012 2013

Source: Federal Open Market Committee
Price bubble developing in farmland?
Nebraska farmland rising at 10%+ annual pace

Nonirrigated Farmland Values

Percent change from previous year*

*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.

Source: Kansas City Federal Reserve Agricultural Credit Survey
Gains are present across most use types
gains accelerated in 4th quarter

Farmland Values
Quarterly Gains

Percent change from previous quarter*

*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.

Source: Kansas City Federal Reserve Agricultural Credit Survey
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

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%

October 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.: 3.5%
2. Texas: 2.1
3. North Dakota: 1.9
4. Minnesota: 1.8
5. New Hampshire: 1.7
6. South Dakota: 1.5
7. Louisiana: 1.5
8. Maryland: 1.4
9. Arizona: 1.4
10. Oklahoma: 1.4

- Black: from 1.4 to 3.5%
- Dark Brown: from 1.2 to 1.4%
- Orange: from 0.8 to 1.2%
- Light Orange: from 0.3 to 0.8%
- White: from -1.9 to 0.3%

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

1,124,000 net jobs gained since Dec. 2009

Key stories of 2011

Late downturn in government hiring offsetting private sector jobs gains

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

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

Colorado Nonfarm Total Employment and Sales Taxes
Seasonally Adjusted

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

Sales of Existing Homes
Seasonally Adjusted

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

U.S. Pending Home Sales Index
Seasonally Adjusted

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: Nov-05=100

Source: F.W. Dodge, U.S. Census Bureau
Gap remains between construction and sales has narrowed since late 2005

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

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

Count of Active Drilling Rigs
Seasonally Adjusted

Number of Rigs

1,800
1,500
1,200
900
600
300
0
Dec-07 Dec-08 Dec-09 Dec-10

U.S. Natural Gas (left axis)

CO Natural Gas (right axis)

900
800
700
600
500
400
300
200
100
50
0
Dec-07 Dec-08 Dec-09 Dec-10

U.S. Crude Oil (left axis)

CO Crude Oil (right axis)

Source: Baker-Hughes
Manufacturing is currently a driver industry

U.S. Manufacturing Employment and Total Industrial Production
Seasonally Adjusted

Source: Global Insight, IHS
Risks to the recovery?

- Policy error(s) – Federal Reserve or Congress
- 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