National & Colorado Economic Update

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The U.S. economy continues to grow at a modest pace.

**Real Gross Domestic Product (GDP)**

*Annualized Percent Change from Previous Period*

![Graph showing Real Gross Domestic Product (GDP) from 2007 to 2014 with projected growth rates for 2012 to 2014.]

*Source: Bureau of Economic Analysis & Federal Open Market Committee (FOMC)*
Unemployment rates have fallen over the past year but remain stubbornly high.

**Unemployment Rate**

*Seasonally Adjusted*

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**United States**

- 2005: 5.1%
- 2006: 4.6%
- 2007: 3.8%
- 2008: 4.8%
- 2009: 8.1%
- 2010: 8.9%
- 2011: 9.6%
- 2012: 8.2%
- 2013: 8.0%
- 2014: 7.8%

**Colorado**

- 2005: 5.1%
- 2006: 4.6%
- 2007: 4.6%
- 2008: 4.8%
- 2009: 8.1%
- 2010: 8.3%
- 2011: 8.1%
- 2012: 7.8%

**September 2012 FOMC Central Tendency Projections**

- 2012: 2%
- 2013: 3%
- 2014: 2%

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**Source:** Bureau of Labor Statistics & Federal Open Market Committee (FOMC)
Inflation remains moderate despite increases in gasoline and food prices.

U.S. Personal Consumption Expenditure (PCE) Inflation

Annualized Percent Change from Previous Period

Source: Bureau of Economic Analysis & Federal Open Market Committee (FOMC)
“... the Committee also decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.”

- FOMC October Statement

**Effective Federal Funds Rate**

Source: Board of Governors of the Federal Reserve System
“...the Committee will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month.

- FOMC October Statement

Source: Board of Governors of the Federal Reserve System
"The Committee also will continue through the end of the year its program to extend the average maturity of its holdings of Treasury securities, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities."

- FOMC October Statement

**FEDERAL RESERVE BANK ASSETS**

<table>
<thead>
<tr>
<th>Trillions</th>
<th>All Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2.5</td>
<td>Federal Agency &amp; Mortgage Backed Securities</td>
</tr>
<tr>
<td>$3.0</td>
<td>Treasuries by Duration</td>
</tr>
<tr>
<td>$1.5</td>
<td>&gt;10 years</td>
</tr>
<tr>
<td>$2.0</td>
<td>6 to 10 years</td>
</tr>
<tr>
<td>$0.5</td>
<td>3 to 6 years</td>
</tr>
<tr>
<td>$1.0</td>
<td>≤3 years</td>
</tr>
<tr>
<td>$0.0</td>
<td>Oct'10</td>
</tr>
<tr>
<td>$0.0</td>
<td>Sep'11</td>
</tr>
<tr>
<td>$0.0</td>
<td>Sep'12</td>
</tr>
<tr>
<td>$0.0</td>
<td>Jan'13</td>
</tr>
</tbody>
</table>

**Source:** Board of Governors of the Federal Reserve System
FEDERAL RESERVE BANK DISTRICTS

Source: Federal Reserve Bank of Kansas City
Most states have experienced positive job growth over the past year.

**SEPTEMBER 2012 NONFARM EMPLOYMENT**

*Year-over-Year Percent Change, Seasonally Adjusted*

United States

1.4%

Source: Bureau of Labor Statistics
Employment gains over the past year have been spread across most industries.

**Change in Nonfarm Employment, September 2012**

*Seasonally Adjusted*

- Natural Resources & Mining
- Construction
- Private Educational Services
- Professional & Business Services
- Wholesale Trade
- Retail Trade
- Leisure & Hospitality
- Manufacturing
- Health Care & Social Assistance
- Other Services
- Financial Activities
- Local Government
- State Government
- Federal Government
- Information
- Transportation & Utilities

**Top Performing Industries**

- Manufacturing
- Leisure & Hospitality
- Retail Trade

**Worst Performing Industries**

- Transportation & Utilities

**Source:** Bureau of Labor Statistics
Despite recent gains, employment is still below peak levels in many industries.

CHANGE IN NONFARM EMPLOYMENT, SEPTEMBER 2012
Seasonally Adjusted

Since December 2007

- Natural Resources & Mining
- Health Care & Social Assistance
- State Government
- Private Educational Services
- Federal Government
- Local Government
- Leisure & Hospitality
- Other Services
- Professional & Business Services
- Retail Trade
- Wholesale Trade
- Financial Activities
- Manufacturing
- Information
- Transportation & Utilities
- Construction

Source: Bureau of Labor Statistics
After a decline last year, real hourly wages are increasing in Colorado.

**Real Hourly Wage Rate**

*Percent Change from the Prior Year, Seasonally Adjusted*

- **September 2012**
  - Colorado: 2.2%
  - United States: -0.2%

*Source: Bureau of Labor Statistics*
Residential construction activity is picking up but remains below pre-recession levels.

**Value of Residential Construction**

*Percent Change, Cumulative Year-to-Date  January through September 2012*

Source: McGraw Hill/F.W. Dodge
Home prices have stabilized over the past year across most of the nation.

**CHANGE IN HOME PRICES Year-over-Year, 2012Q2**

*FHFA Purchase-Only Index, Seasonally Adjusted*

Source: Federal Housing Finance Agency
Despite recent gains, home prices remain below peak levels in most states.

**CHANGE IN HOME PRICES Peak to Current (2007Q1 to 2012Q2)**

*FHFA Purchase-Only Index, Seasonally Adjusted*

![Map showing change in home prices across states](image)

- United States: -17.6%
- North Dakota: -3.4%

**Source:** Federal Housing Finance Agency
Improvements in infrastructure and non-residential construction activity have varied across the country.

**Value of Non-Residential & Non-Building Construction**

*Percent Change, Cumulative Year-to-Date  January through September 2012*

![Map of the United States showing percent changes in construction value. The map indicates that some states have experienced a 28.8% increase, while others have experienced declines. The key shows color codes for different percentage ranges.]

Source: McGraw Hill/F.W. Dodge
Oil drilling has increased sharply over the past two years, but natural gas drilling has declined.

**Active Drilling Rig Counts**

**United States**
- **Natural Gas**
- **Crude Oil**

**Colorado**

*Source: Baker Hughes*
Mining activity made up slightly more than 4% of Colorado state domestic product in 2011 and is a growing sector in the regional economy.

**Source:** Colorado Oil & Gas Conservation Commission (COGCC) & U.S. Department of Energy, Energy Information Administration
Despite the worst drought in three decades, U.S. net farm incomes are projected to reach record highs in 2012.

**U.S. Real Net Farm Income**

*Constant 2005 Dollars (Billions)*

Source: U.S. Department of Agriculture      Note: ‘F’ denotes August 2012 forecast.
After expanding for three years in the Tenth District, the manufacturing sector slowed somewhat in October.

**MANUFACTURING ACTIVITY**

*Diffusion Index, Seasonally Adjusted, Month-over-Month*

<table>
<thead>
<tr>
<th></th>
<th>Kansas City District</th>
<th>United States (ISM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2012</td>
<td>48.2</td>
<td>51.5</td>
</tr>
</tbody>
</table>

Source: Institute for Supply Management & Federal Reserve Bank of Kansas City
Manufacturers in the Tenth District still expect higher levels of activity over the next six months but have become less optimistic.

### Tenth District Manufacturing Expectations

*Diffusion Index, Seasonally Adjusted, Six Months Ahead*

- **Production**
- **Volume of new orders**
- **Number of employees**
- **Capital expenditures**
- **New orders for exports**

*Source: Federal Reserve Bank of Kansas City*
Growth has slowed sharply in Europe this year and is expected to remain slow in 2013.

**World Economic Outlook Projections**

*Percent Change over Prior Year*

Source: International Monetary Fund (IMF) (October 2012 World Economic Outlook)
Increases in exports to non-European countries are outpacing declines to Europe.

COLORADO EXPORT GROWTH

Percent Change over Prior Year

August 2012

Eurozone  -5.3%
All Other Countries  27.3%

Source: WISERTrade  Note: Eurozone includes the 27 EU member countries.
Exports to Europe make up 19 percent of total exports from Colorado.

**COLORADO EXPORTS BY TRADING PARTNER**

*Billions*

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Trade</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>'00</td>
<td>$5</td>
<td></td>
</tr>
<tr>
<td>'01</td>
<td>$6</td>
<td></td>
</tr>
<tr>
<td>'02</td>
<td>$7</td>
<td></td>
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<tr>
<td>'03</td>
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<td>$8</td>
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<tr>
<td>'10</td>
<td>$9</td>
<td></td>
</tr>
<tr>
<td>'11</td>
<td>$10</td>
<td></td>
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</table>

**AUGUST 2012 YEAR-TO-DATE**

*Percent Change*

<table>
<thead>
<tr>
<th>Partner</th>
<th>Total (Billions)</th>
<th>Percent Change</th>
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<tbody>
<tr>
<td>All Other</td>
<td>7.1</td>
<td>35.7%</td>
</tr>
<tr>
<td>Japan</td>
<td>14.7</td>
<td>5.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>15.6</td>
<td>10.3</td>
</tr>
<tr>
<td>Canada</td>
<td>33.9</td>
<td>21.0</td>
</tr>
<tr>
<td>China</td>
<td>4.9</td>
<td>8.7</td>
</tr>
<tr>
<td>Eurozone</td>
<td>-5.8</td>
<td>19.0</td>
</tr>
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</table>

Source: WISERTrade  
Note: Eurozone includes the 27 EU member countries.  
*2011 Share
Under current law, several tax increases and spending cuts could lead to a slowdown in economic growth next year.

**GDP & the “Fiscal Cliff”**

Percent Change (Annualized Quarterly Rates)

Source: Bureau of Economic Analysis & Congressional Budget Office (August 2012 Projections)
Many private forecasters expect that the fiscal cliff will be avoided and that the U.S. economy will continue to grow at a moderate pace.

### GDP & THE “FISCAL CLIFF”

*Percent Change (Annualized Quarterly Rates)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1 2012</th>
<th>Q2 2012</th>
<th>Q3 2012</th>
<th>Q4 2012</th>
<th>Q1 2013</th>
<th>Q2 2013</th>
<th>Q3 2013</th>
<th>Q4 2013</th>
</tr>
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<tbody>
<tr>
<td>2007</td>
<td>-1%</td>
<td>0%</td>
<td>1%</td>
<td>2%</td>
<td>-1%</td>
<td>0%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>2008</td>
<td>-2%</td>
<td>-3%</td>
<td>-4%</td>
<td>-5%</td>
<td>-2%</td>
<td>-3%</td>
<td>-4%</td>
<td>-5%</td>
</tr>
<tr>
<td>2009</td>
<td>0%</td>
<td>-1%</td>
<td>-2%</td>
<td>-3%</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>2010</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>2011</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
<td>5%</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
<td>5%</td>
</tr>
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</table>

*Source: Bureau of Economic Analysis, Congressional Budget Office (August 2012 Projections), & Blue Chip Economic Indicators (September 2012 Forecast)*
Under current law, U.S. deficits are expected to fall sharply over the next several years.

U.S. DEFICIT TO GDP RATIO

Source: Congressional Budget Office (August 2012 Projections)
U.S. Federal government debt levels as a percent of GDP are projected to fall sharply if the fiscal cliff occurs.

U.S. Debt to GDP Ratio

Source: Bureau of Economic Analysis & Congressional Budget Office (August 2012 Projections)
National & Colorado Economic Update

This presentation will be available at http://www.kc.frb.org/denver/

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