Recession and Recovery in Colorado and the U.S.

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The views expressed are those of the presenter and do not necessarily reflect the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
The U.S. economy is expected to continue to grow at a modest pace.

Source: Bureau of Economic Analysis; FOMC
An increase in consumer spending has led to stronger GDP growth in the U.S.

**Contributions to Percent Change in Real GDP**

<table>
<thead>
<tr>
<th></th>
<th>Percentage points</th>
<th>Percentage points</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2011:Q2</td>
<td>2011:Q3</td>
</tr>
<tr>
<td>Total GDP</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Consumer Spending</td>
<td>1.5</td>
<td>-1.0</td>
</tr>
<tr>
<td>Res. Invest</td>
<td>2.0</td>
<td>-0.5</td>
</tr>
<tr>
<td>Bus. Invest</td>
<td>2.5</td>
<td>-1.0</td>
</tr>
<tr>
<td>Net Exports</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Gov. Spending</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Inventories</td>
<td>1.5</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis
Unemployment rates have fallen over the past year but remain stubbornly high.

Source: Bureau of Labor Statistics; FOMC
Inflation increased earlier this year due to higher gas prices, but the increase is expected to be temporary.

Source: Bureau of Economic Analysis; FOMC
Note: Quarterly inflation shows the compounded annual rate of change.
FOMC June Statement: “the Committee... currently anticipates that economic conditions – including low rates of resource utilization and a subdued outlook for inflation over the medium run – are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.”
FOMC June Statement: “The Committee 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.”

Federal Reserve Balance Sheet

<table>
<thead>
<tr>
<th>Millions of Dollars</th>
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</thead>
<tbody>
<tr>
<td>Liquidity to Key Credit Markets</td>
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</tr>
<tr>
<td>Lending to Financial Institutions</td>
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</tr>
<tr>
<td>Long Term Treasury Purchases</td>
<td>Long Term Treasury Purchases</td>
</tr>
<tr>
<td>Traditional Security Holdings</td>
<td>Traditional Security Holdings</td>
</tr>
</tbody>
</table>

Source: FOMC
FOMC June Statement: “The Committee also decided to continue through the end of the year its program to extend the average maturity of its holdings of securities. Specifically, the Committee intends to purchase Treasury securities with remaining maturities of 6 to 30 years at the current pace and to sell or redeem an equal amount of Treasury securities with remaining maturities of 3 years or less.”
The Tenth Federal Reserve District
Colorado employment has increased 3.7% since early 2010 but is still down more than 2.9% from peak levels.
Most industries experienced employment gains over the past year in Colorado and the U.S.

Employment Growth by Industry
May-12 over May-11

Source: Bureau of Labor Statistics
Colorado employment is still down more than 10% in the information, manufacturing, transportation, and construction industries.

Employment Growth by Industry
May-12 over Dec-07

Source: Bureau of Labor Statistics
The Colorado unemployment rate is below its peak rate but has increased over the last two months.

Unemployment Rate
Seasonally adjusted

Source: Bureau of Labor Statistics
After real wage declines in 2010 and 2011, real earnings are now above year-ago levels.

Real Average Hourly Earnings, Private Employment
Seasonally Adjusted (Current $)

Percent change from previous year

Source: Bureau of Labor Statistics
The manufacturing sector has been expanding for over two years.

Manufacturing Activity
Seasonally adjusted; month-over-month

Sources: ISM, FRBKC Manufacturing Survey
Note: 10J index is computed on ISM basis (50 = zero change)
Manufacturers in the Tenth District expect higher levels of activity over the next six months.

Tenth District Manufacturing Expectations
Seasonally adjusted; six months ahead

Source: FRBKC Manufacturing Survey
Drilling activity is responding to prices with oil drilling up and natural gas drilling down.

U.S. and Colorado Drilling Rig Counts

Source: U.S. Department of Energy, Energy Information Administration and Baker Hughes
Home sales continue to increase but remain below pre-recession levels.

Source: NAR and Kansas City Regional Association of Realtors
Residential construction activity is increasing from weak levels.

Value of Residential Construction Contracts
Seasonally adjusted, 3 mo. moving avg.

Source: FW Dodge
Home prices in Colorado have held up much better than in the nation over the past few years.

Source: FHFA - purchase only index
Foreclosure rates in Colorado are much lower than national rates.

Source: Mortgage Bankers Association
Commercial construction activity has been slow to recovery in Colorado and the U.S.

**Value of Commercial Construction Contracts**
Seasonally adjusted, 3-month moving average

Source: FW Dodge
Commercial vacancy rates have fallen over the past year in Denver.

Source: Torto-Wheaton Research
Exports to Europe make up almost 19% of all Colorado exports.

Source: U.S. Census Bureau.
Conclusions

- The U.S. and Colorado economies are expected to continue to recover at a moderate pace with broad-based employment gains and rebounding housing market activity.

- However, there continue to be risks to the recovery including uncertainty about the European debt crisis and fiscal contraction at the Federal level.