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.
Despite a slight decline in the fourth quarter, the U.S. economy continues to expand at a moderate pace.

**REAL GROSS DOMESTIC PRODUCT (GDP)**

*Annualized Percent Change from Previous Period*

Despite a slight decline in the fourth quarter, the U.S. economy continues to expand at a moderate pace.
Consumer spending was the primary driver of economic growth in 2012.

**Contributions to Real GDP**

*Percent Change at Seasonally Adjusted Annualized Rates*

Source: Bureau of Economic Analysis/Haver Analytics
Unemployment rates remain elevated and are expected to gradually decline in coming years.

**Unemployment Rates**

*Seasonally Adjusted*

- **United States**
  - 2005: 4.6%
  - 2009: 9.6%
  - 2012: 7.9%
  - Dec. '12: 7.6%

- **Colorado**
  - 2005: 3.8%
  - 2009: 8.9%
  - 2012: 8.9%
  - Jan. '13: 7.9%

**FOMC Central Tendency Projections**

*Source: Bureau of Labor Statistics & Federal Open Market Committee (FOMC) December 2012 projections/Haver Analytics*
Inflation remains below the FOMC’s 2 percent target.
“… the Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6.5 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee’s 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored.”

-FOMC January Statement

**Effective Federal Funds Rate**
“...the Committee will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month.

- FOMC January Statement

FEDERAL RESERVE BALANCE SHEET

Source: Board of Governors of the Federal Reserve System
Job gains continue, with Colorado outpacing the nation in growth.

**Nonfarm Employment**

*Index 100 = December 2002, Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Percent Change</th>
<th>Past 10 Years</th>
<th>Past Year</th>
<th>Peak to Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>3.5%</td>
<td>1.5%</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Colorado</td>
<td>6.5</td>
<td>2.3</td>
<td>-1.9</td>
</tr>
</tbody>
</table>

*Source: Bureau of Labor Statistics/Haver Analytics*
Most states have experienced positive job growth over the past year.

**December 2012 Payroll Employment**

*Seasonally Adjusted*

![Map of the United States showing percent change in payroll employment for December 2012. The United States has a year-over-year percent change of 1.5%. Some states are shaded to indicate different percent changes, with West Virginia having a change of 2.3%. The map also includes a legend showing the percent change categories: Over 3%, 2 to 3, 1 to 2, 0 to 1, -1 to 0, -2 to -1, and Below -2.]

Source: Bureau of Labor Statistics/Haver Analytics
Colorado continues to enjoy broad-based growth across industries.

### DECEMBER 2012 PAYROLL EMPLOYMENT

**Seasonally Adjusted**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent Change Year-over-Year</th>
<th>Share of Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>United States</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>6.0%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Private Educational Services</td>
<td>5.9%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>3.6%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.3%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Other Services</td>
<td>3.3%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Health Care &amp; Social Assistance</td>
<td>2.8%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>2.7%</td>
<td>15.3%</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>2.6%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>2.6%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>2.3%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>2.3%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Local Government</td>
<td>1.2%</td>
<td>10.6%</td>
</tr>
<tr>
<td>State Government</td>
<td>0.9%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Federal Government</td>
<td>-0.2%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Transportation &amp; Utilities</td>
<td>-2.4%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Information</td>
<td>-3.4%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

**Colorado**

- Construction: 6.0%
- Private Educational Services: 5.9%
- Natural Resources & Mining: 3.6%
- Manufacturing: 3.3%
- Other Services: 3.3%
- Health Care & Social Assistance: 2.8%
- Professional & Business Services: 2.7%
- Leisure & Hospitality: 2.6%
- Financial Activities: 2.6%
- Retail Trade: 2.3%
- Wholesale Trade: 2.3%
- Local Government: 1.2%
- State Government: 0.9%
- Federal Government: -0.2%
- Transportation & Utilities: -2.4%
- Information: -3.4%

Source: Bureau of Labor Statistics/Haver Analytics
Despite increases over the past year, construction employment is still 28 percent below pre-recession levels.

**December 2012 Payroll Employment**

*Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Industry</th>
<th>Change from Peak (Dec. 2007)</th>
<th>Share of Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care &amp; Social Assistance</td>
<td>15.1%</td>
<td>10.7%</td>
</tr>
<tr>
<td>State Government</td>
<td>14.7%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Private Educational Services</td>
<td>14.0%</td>
<td>1.5%</td>
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<td>Natural Resources &amp; Mining</td>
<td>10.0%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Federal Government</td>
<td>5.4%</td>
<td>2.4%</td>
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<tr>
<td>Leisure &amp; Hospitality</td>
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<td>Wholesale Trade</td>
<td>-5.4%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>-6.7%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-9.5%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Transportation &amp; Utilities</td>
<td>-11.5%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Information</td>
<td>-11.9%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Construction</td>
<td>-28.3%</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

*Source: Bureau of Labor Statistics/Haver Analytics*
Residential construction activity has picked up considerably.

2012 Value of Residential Construction

Residential construction activity has picked up considerably.

2012 Value of Residential Construction

Source: McGraw Hill F.W. Dodge
However, construction activity remains at low levels relative to historical highs.

**Residential Permits**

*Index 100 = December 2002, Seasonally Adjusted*

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>Peak to Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>33.5%</td>
<td>-62.0%</td>
</tr>
<tr>
<td>Colorado</td>
<td>69.0</td>
<td>-51.2</td>
</tr>
</tbody>
</table>

**Source**: Census Bureau/Haver Analytics  
**Note**: Monthly permit data is unrevised and may not sum to year-end totals.
Construction activity is strongest in Denver County.

2012 Residential Permits by County

Source: Census Bureau/Haver Analytics
Residential permitting activity is about half of what it was at peak levels.

2012 Residential Permits by County

Source: Census Bureau/Haver Analytics
Home prices are rising in most states...

FHFA PURCHASE-ONLY HOME PRICE INDEX (2012Q3)

Seasonally Adjusted

Percent Change
Year-over-Year

- Over 10%
- 7.5 to 10
- 5 to 7.5
- 2.5 to 5
- 0 to 2.5
- -2.6 to 0

United States
4.0%

Source: Federal Housing & Finance Agency (FHFA)/Haver Analytics
...yet prices remain below peak values at the national level.

**FHFA Purchase-Only Home Prices (2007Q1 – 2012Q3)**

*Seasonally Adjusted*

[Map showing percentage changes in home prices across the United States, with the national average at -16.6%.]

- Peak to Current
  - Over 20%
  - 10 to 20
  - 0 to 10
  - -10 to 0
  - -20 to -10
  - -53.7 to -20

**United States**

-16.6%

*Source: Federal Housing & Finance Agency (FHFA)/Haver Analytics*
Improvements in infrastructure and non-residential construction activity have varied across the country.

**2012 VALUE OF NON-RESIDENTIAL & NON-BUILDING CONSTRUCTION**

![Map showing percent change in 2012 value of non-residential & non-building construction across the United States.]

Countrywide, the value of non-residential and non-building construction decreased by 4.1% year-to-date.

**Percent Change Year-to-Date**
- 25+%
- 10 to 25
- 0 to 10
- -10 to 0
- -25 to -10
- -75 to -25

Source: McGraw Hill/F.W. Dodge
Manufacturing activity has slowed over the past 4 months in the Tenth District.

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

Source: Institute for Supply Management (ISM) & Federal Reserve Bank of Kansas City/Haver Analytics
Manufacturers in the Tenth District still expect higher levels of activity over the next six months.

**Tenth District Manufacturing Expectations**

*Diffusion Index, Seasonally Adjusted, Six Months Ahead*

Source: Federal Reserve Bank of Kansas City/Haver Analytics
Oil drilling has increased sharply over the past two years, while natural gas drilling has declined.

**Active Drilling Rig Counts**

**United States**

- **Natural Gas**
- **Crude Oil**

**Colorado**

Source: Baker Hughes
Even with the recently passed legislation in response to the ‘fiscal cliff’, risks from fiscal policy remain.

- Sequestration (March 1)
- Potential Federal government shutdown (March 27)
- Debt ceiling (May 19)
The U.S. has debt levels (as a percent of GDP) that are similar to many European countries.

Source: Organization for Economic Cooperation (December 2012 Outlook)
Much of the recent debate surrounding fiscal policy has related to the benefits and disadvantages of trying to reduce the U.S. debt.

**U.S. Debt to GDP Ratio**

Source: Congressional Budget Office (February 2013 projections)
Medicare and net interest are projected to be the fastest growing expenses for the Federal government.

**Federal Spending & Revenue**

*As a Percent of GDP*

Source: Congressional Budget Office (February 2013 projections)
National & Colorado
Economic Update

Alison Felix
Alison.Felix@kc.frb.org

This presentation will be available at: http://www.KansasCityFed.org/Denver/