Economic Trends & Issues Impacting the U.S., Colorado & Real Estate

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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 grow at a moderate pace over the next two years.

**Real U.S. Gross Domestic Product**

*Percent Change from Previous Quarter at Seasonally Adjusted Annualized Rates*

<table>
<thead>
<tr>
<th>Year</th>
<th>'11Q2</th>
<th>'11Q3</th>
<th>'11Q4</th>
<th>'12Q1</th>
<th>'12Q2</th>
<th>'12Q3</th>
<th>'12Q4</th>
<th>'13Q1</th>
<th>'13Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>3.2%</td>
<td>1.4%</td>
<td>4.9%</td>
<td>3.7%</td>
<td>2.8%</td>
<td>0.1%</td>
<td>1.1%</td>
<td>2.5%</td>
<td>2.0%</td>
</tr>
<tr>
<td>2014</td>
<td>3.1%</td>
<td>2.9%</td>
<td>3.5%</td>
<td>2.3%</td>
<td>2.9%</td>
<td>3.0%</td>
<td>2.3%</td>
<td>3.1%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis and Federal Open Market Committee (FOMC)/Haver Analytics

*Note: Projections as of September FOMC meeting*
Consumer spending and private investment have driven growth over the past year.

**Contributions to Real GDP**

Percent Change at Seasonally Adjusted Annualized Rates

*Source: Bureau of Economic Analysis/Haver Analytics*
Unemployment rates have declined but remain elevated.

**UNEMPLOYMENT RATES**

*Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Year</th>
<th>United States</th>
<th>Colorado</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>4.6%</td>
<td>3.8%</td>
</tr>
<tr>
<td>2007</td>
<td>9.6%</td>
<td>9.0%</td>
</tr>
<tr>
<td>2008</td>
<td>9.0%</td>
<td>7.3%</td>
</tr>
<tr>
<td>2009</td>
<td>7.3%</td>
<td>7.3%</td>
</tr>
<tr>
<td>2010</td>
<td>7.3%</td>
<td>7.1%</td>
</tr>
<tr>
<td>2011</td>
<td>6.8%</td>
<td>6.4%</td>
</tr>
<tr>
<td>2012</td>
<td>6.2%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2013</td>
<td>6.2%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>6.0%</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>5.9%</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Bureau of Labor Statistics & Federal Reserve Board

*June 2013 Projections.*
Inflation remains below the FOMC’s two percent target.

**PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX (PCEPI)**

*Percent Change Year-over-Year*

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**Headline Inflation**

**Core Inflation**

Source: Bureau of Economic Analytics
“...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 6-1/2 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.

- September 2013 FOMC Statement
“...the Committee decided to 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.”

- September 2013 FOMC Statement

**Federal Reserve Balance Sheet**

Assets
- Foreign Currency Swaps
- Short-Term Lending
- Federal Agency & Mortgage-Backed Securities

Liabilities
- Traditional Portfolio
- Currency in Circulation
- Reserves
- Other

Source: Federal Reserve Board
Most states experienced positive job growth over the past year.

AUGUST 2013 NONFARM EMPLOYMENT
Year-over-Year Percent Change, Seasonally Adjusted

Source: Bureau of Labor Statistics
The economic recovery continues, with Colorado outpacing the nation in employment growth.

### Payroll Employment Growth

*Index 100 = August 2003, Seasonally Adjusted*

<table>
<thead>
<tr>
<th></th>
<th>Percent Change</th>
<th>Past 10 Years</th>
<th>Past Year</th>
<th>Peak to Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>4.8%</td>
<td>1.6%</td>
<td></td>
<td>-1.4%</td>
</tr>
<tr>
<td>CO</td>
<td>10.2%</td>
<td>2.5%</td>
<td></td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

**United States**

**Colorado**

Source: Bureau of Labor Statistics
Employment growth over the past year has been broad-based across industries in the U.S. and Colorado.

**Change in Payroll Employment, August 2013**

*Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Industry</th>
<th>United States</th>
<th>Colorado</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>8.8%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>4.2%</td>
<td></td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>2.7%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Health Care &amp; Social Assistance</td>
<td>2.4%</td>
<td></td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>2.1%</td>
<td></td>
</tr>
<tr>
<td>Retail Trade</td>
<td>1.8%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Local Government</td>
<td>1.1%</td>
<td></td>
</tr>
<tr>
<td>Other Services</td>
<td>0.6%</td>
<td></td>
</tr>
<tr>
<td>State Government</td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td>Private Educational Services</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-0.7%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Information</td>
<td>-0.7%</td>
<td></td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>-2.0%</td>
<td></td>
</tr>
<tr>
<td>Transportation &amp; Utilities</td>
<td>-2.4%</td>
<td></td>
</tr>
<tr>
<td>Financial Activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Government</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Bureau of Labor Statistics*
Despite recent increases, employment remains below pre-recession levels in many industries.

CHANGE IN PAYROLL EMPLOYMENT, AUGUST 2013

Seasonally Adjusted

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

Top Performing Industries

United States
Colorado

Worst Performing Industries

Source: Bureau of Labor Statistics
Unemployment rates are trending down across the state, but remain elevated in most counties.

**July 2013 Unemployment Rates**

*Seasonally Adjusted*

Source: Bureau of Labor Statistics/Haver Analytics
Residential construction activity has picked up considerably over the past two years in Colorado.

**Value of Residential Construction**

*Index 100 = August 2003, Seasonally Adjusted Three-Month Moving Average*

<table>
<thead>
<tr>
<th>Percent Change Year-to-Date</th>
<th>Past Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>29.1%</td>
</tr>
<tr>
<td>Colorado</td>
<td>48.5%</td>
</tr>
</tbody>
</table>

Source: McGraw Hill/F.W. Dodge
Residential permitting activity has increased sharply, but activity is still well-below peak levels.

2013 Residential Permits by County

Number Issued Year-to-Date through August

Percent Change Year-to-Date | Past Year | Peak to Current* |
--- | --- | --- |
United States | 22.1% | -55.4% |
Colorado | 23.4% | -41.7% |

Source: Census Bureau

*Peak year-to-date over the past 10 years.
Home prices are rising in the U.S. and have surpassed pre-recession levels in Colorado.

FHFA PURCHASE-ONLY HOME PRICE INDEX (2013:Q2)

Index 100 = 2003:Q2, Seasonally Adjusted

<table>
<thead>
<tr>
<th>Percent Change</th>
<th>Year-Over-Year</th>
<th>2007:Q1 to Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>7.2%</td>
<td>-11.7%</td>
</tr>
<tr>
<td>Colorado</td>
<td>9.3</td>
<td>6.2</td>
</tr>
</tbody>
</table>

Source: Federal Housing Finance Agency
Commercial construction activity has been slow to recover.

**Value of Commercial Construction**

*Index 100 = August 2003, Seasonally Adjusted Three-Month Moving Average*

- United States
- Colorado

*Source: McGraw Hill/F.W. Dodge*
Expectations for higher crop yields have led to a sharp decline in crop prices.

U.S. Crop Prices

*Dollars per Bushel*

Source: CRB and CBOT
Oil drilling has increased sharply over the past few years, but natural gas drilling has declined.

**Active Drilling Rig Counts**

**United States**

- Crude Oil
- Natural Gas

**Colorado**

Source: Baker Hughes
Expanding Contracting

Tenth District manufacturing activity expanded over the past three months after several months of weak activity.

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

Source: Institute for Supply Management & Federal Reserve Bank of Kansas City

ISM 56.2  September 2013
Kansas City District 51.0  September 2013
Manufacturers’ expectations remain positive and improved sharply in the most recent survey.

**Tenth District Manufacturing Expectations**

*Seasonally Adjusted, six months ahead*

Index

- Production
- Volume of New Orders
- Number of Employees
- Capital Expenditures
- New Orders for Exports

*Source: Federal Reserve Bank of Kansas City*
Exports have increased in 2013 despite continued concerns about slow global economic growth.

**Colorado Exports by Trading Partner**

*Source: Census Bureau  Note: Eurozone includes the 27 EU member countries.  *Includes Hong Kong, Taiwan & Macau.  **2012.*

**Year-to-Date July 2013**

<table>
<thead>
<tr>
<th>Total Trade</th>
<th>% Change</th>
<th>Share**</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Other</td>
<td>14.0</td>
<td>30.2%</td>
</tr>
<tr>
<td>Japan</td>
<td>2.5</td>
<td>5.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>4.5</td>
<td>10.4</td>
</tr>
<tr>
<td>Canada</td>
<td>6.5</td>
<td>24.5</td>
</tr>
<tr>
<td>China*</td>
<td>10.8</td>
<td>12.9</td>
</tr>
<tr>
<td>Eurozone</td>
<td>5.9</td>
<td>16.8</td>
</tr>
</tbody>
</table>

*Year-to-Date*
U.S. & Colorado Economic Update

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