U.S. & Colorado Economic Update

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Denver Branch

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 weak first quarter, U.S. economic growth rebounded in the second quarter and is expected to expand at a moderate pace over the next few years.

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

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

<table>
<thead>
<tr>
<th>Period</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>'12Q2</td>
<td>1.6%</td>
<td></td>
</tr>
<tr>
<td>'12Q3</td>
<td>2.5%</td>
<td></td>
</tr>
<tr>
<td>'12Q4</td>
<td>0.1%</td>
<td></td>
</tr>
<tr>
<td>'13Q1</td>
<td>2.7%</td>
<td></td>
</tr>
<tr>
<td>'13Q2</td>
<td>1.8%</td>
<td></td>
</tr>
<tr>
<td>'13Q3</td>
<td>4.5%</td>
<td></td>
</tr>
<tr>
<td>'13Q4</td>
<td>3.5%</td>
<td></td>
</tr>
<tr>
<td>'14Q1</td>
<td>-2.1%</td>
<td></td>
</tr>
<tr>
<td>'14Q2</td>
<td>4.0%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>2.3%</td>
<td>2.1%</td>
</tr>
<tr>
<td>2015</td>
<td>3.2%</td>
<td>3.0%</td>
</tr>
<tr>
<td>2016</td>
<td>3.0%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

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

*Note: Projections as of June FOMC meeting*
Consumer spending and private investment have been the primary drivers of economic growth over the past year.

**Contributions to Real GDP**

*Percent Change at Seasonally Adjusted Annualized Rates*

![Chart showing contributions to real GDP from various components such as Personal Consumption Expenditures, Gross Private Domestic Investment, Govt. Consumption & Investment, and Net Exports. The chart includes data points from Q2 2009 to Q2 2014, with '14Q2 showing a 4.0% contribution.*

Source: Bureau of Economic Analysis / Haver Analytics
Unemployment rates have declined in the U.S. and Colorado and are expected to decline further as the economic recovery strengthens.

### Unemployment Rates

**Seasonally Adjusted**

- **United States**: 9.6%
- **Colorado**: 9.0%
- **Fort Collins**: 4.6%

**Sources:** Bureau of Labor Statistics & Federal Reserve Board (June 2014 Projections).
In recent months, inflation has been moving toward the FOMC’s two percent target.

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

**Percent Change Year-over-Year**

- **Headline Inflation**
- **Core Inflation**

Source: Bureau of Economic Analytics
“In determining how long to maintain the current 0 to 1/4 percent target range for the federal funds rate, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation…. The Committee continues to anticipate, based on its assessment of these factors, that it likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.”

- July 2014 FOMC Statement
“Beginning in August, the Committee will add to its holdings of agency mortgage-backed securities at a pace of $10 billion per month rather than $15 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of $15 billion per month rather than $20 billion per month.”

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

**June 2014 Nonfarm Employment**

*Year-over-Year Percent Change Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Percent Change</th>
<th>June 2014</th>
<th>July 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>1.8%</td>
<td>1.9%</td>
</tr>
<tr>
<td>CO</td>
<td>2.8%</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Bureau of Labor Statistics/Haver Analytics*
Job gains continue, with Colorado outpacing the nation in growth.

### Payroll Employment Growth

*Index 100 = July 2004, Seasonally Adjusted*

<table>
<thead>
<tr>
<th></th>
<th>Past 10 Years</th>
<th>Past Year</th>
<th>Dec. '07 to Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>5.5%</td>
<td>1.9%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Colorado</td>
<td>12.3%</td>
<td>2.8%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Fort Collins</td>
<td>15.0%</td>
<td>2.4%</td>
<td>8.3%</td>
</tr>
</tbody>
</table>

*Source: Bureau of Labor Statistics*
Job gains have been broad-based across industries in the U.S. and Colorado over the past year.

**Change in Payroll Employment, June 2014**

*Seasonally Adjusted*

### Top Performing Industries

- Natural Resources & Mining: 11.2%
- Construction: 5.4%
- Health Care & Social Assistance: 4.9%
- Leisure & Hospitality: 4.3%
- Professional & Business Services: 3.7%
- Local Government: 2.9%
- Manufacturing: 2.9%
- Retail Trade: 2.7%
- State Government: 2.2%
- Wholesale Trade: 1.2%
- Other Services: 0.7%
- Private Educational Services: 0.6%

### Worst Performing Industries

- Transportation & Utilities: -1.1%
- Information: -1.3%
- Financial Activities: -2.4%
- Federal Government: -2.4%

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

**Change in Payroll Employment, June 2014**

*Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent Change from Dec. 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>29.5%</td>
</tr>
<tr>
<td>State Government</td>
<td>28.8%</td>
</tr>
<tr>
<td>Health Care &amp; Social Assistance</td>
<td>21.6%</td>
</tr>
<tr>
<td>Private Educational Services</td>
<td>20.1%</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>10.5%</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>9.4%</td>
</tr>
<tr>
<td>Other Services</td>
<td>4.8%</td>
</tr>
<tr>
<td>Local Government</td>
<td>3.2%</td>
</tr>
<tr>
<td>Federal Government</td>
<td>1.0%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>0.4%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Transportation &amp; Utilities</td>
<td>-4.3%</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>-5.4%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-6.5%</td>
</tr>
<tr>
<td>Information</td>
<td>-10.5%</td>
</tr>
<tr>
<td>Construction</td>
<td>-19.8%</td>
</tr>
</tbody>
</table>

**Top Performing Industries**

**Colorado United States**

**Worst Performing Industries**

*Source: Bureau of Labor Statistics*
Parts of Colorado continue to experience strong population growth and net in-migration.

Population Growth
Total Resident Population, Annual Growth, 2013

<table>
<thead>
<tr>
<th>Annual Percent Change</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>0.7%</td>
</tr>
<tr>
<td>Colorado</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Source: Census Bureau
Residential construction activity has picked up over the last few years, but remains well below pre-recession levels.

### Value of Residential Construction

*Index 100 = June 2004, 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>4.8%</td>
</tr>
<tr>
<td>Colorado</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Source: McGraw Hill/F.W. Dodge
Outside of Denver county, permitting activity remains well below pre-recession levels.

2014 Residential Permits by County

Number Issued Year-to-Date through June 2014

<table>
<thead>
<tr>
<th>County</th>
<th>Percent Change Year-to-Date</th>
<th>Past Year</th>
<th>Peak to Current*</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>5.9%</td>
<td>-52.8%</td>
<td></td>
</tr>
<tr>
<td>Colorado</td>
<td>5.3%</td>
<td>-39.9%</td>
<td></td>
</tr>
<tr>
<td>Larimer</td>
<td>-11.2%</td>
<td>-39.4%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Census Bureau

*Peak year-to-date over the past 10 years.
Home prices are rising in most states...

**FHFA Purchase-Only Home Price Index (2014Q1)**

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

United States: 6.6%

Source: Federal Housing Finance Agency
...yet prices remain below pre-recession values in many states.

**FHFA Purchase-Only Home Price Index (2007Q1 – 2014Q1)**

Percent Change Peak to Current, Seasonally Adjusted

Source: Federal Housing Finance Agency
The manufacturing sector has gained strength in 2014.

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

Source: Institute for Supply Management & Federal Reserve Bank of Kansas City
The tourism industry remains a key sector for the state, and tourism activity has increased in 2014.

**Hotel Occupancy Rates**

*Denver*

- **10-Year Range**: 58.2% - 74.3%
- **2014**: 74.3%
- **2013**: 60.4%
- **10-Year Average**: 58.2%

**Airport Traffic**

*Seasonally Adjusted, Index 100 = May 2004*

- **Denver International Airport**:
  - May '04: 108
  - May '06: 108
  - May '08: 107
  - May '10: 109
  - May '12: 110
  - May '14: 111

- **United States**:
  - May '04: 100
  - May '06: 100
  - May '08: 100
  - May '10: 100
  - May '12: 100
  - May '14: 100

*Source: Colorado Hotel and Lodging Association, Denver International Airport*
Energy activity has increased in Colorado, especially oil production.

**Colorado Oil & Gas Rig Counts**
*Number of Active Drilling Rigs*

**Colorado Oil Production**
*Thousand Barrels per Month, SA*

*Source: Baker Hughes & Department of Energy, Energy Information Administration/Haver Analytics*
Northern Colorado has benefitted from strong energy activity.

**Natural Gas Production**
*Million cubic feet, May 2014*

**Oil Production**
*Barrels, May 2014*

Source: Colorado Oil and Gas Conservation Commission
For additional information on the regional economy: