U.S. and Regional Economic Conditions

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The views expressed are those of the author and do not necessarily reflect the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
Is the Recovery Sustainable?

- Recent weakness in data has shifted the debate
- How does recovery compare to prior cycles?
- Any fuel underlying consumer spending?
- Housing and commercial real estate remain greatest domestic risks
- Access to capital remains constrained
- Fiscal issues emerging as major LR challenge
- District is about 1 qtr behind U.S. / NM 2 qtr?
3.0-3.5% GDP growth expected in ‘10 and ’11
Census hiring was expected to produce cycle
Slightly weaker than initial projections for 2010

Nonfarm Payroll Employment and Unemployment
Seasonally Adjusted

Thousands of jobs, monthly change

Unemployment rate
(right axis)

Nonfarm Payroll
(left axis)

Peak to Trough: -8.4 mil. jobs

Source: Bureau of Economic Analysis, Bureau of Labor Statistics
State Cycles: CO/NM show no bounce yet, WY hit by energy cycle

Total Nonfarm Employment
Seasonally Adjusted

Source: Bureau of Labor Statistics
State Cycles: NE smallest job loss, OK energy cycle, KS energy/mfg, MO long-run issues, all show bounce

Total Nonfarm Employment
Seasonally Adjusted

Source: Bureau of Labor Statistics
Number unemployed is much better measure than unemployment rate.

Source: Bureau of Labor Statistics
Across the board improvement in hiring
energy/temp empl./health bounce; govt weakens

Nonfarm Job Growth by Industry
United States

Source: Bureau of Labor Statistics
Income bounce weaker than expected; savings rate stronger

Growth in Personal Income vs. Personal Savings Rate

Source: Bureau of Economic Analysis
Forecasts suggest ‘normal’ consumer spending recovery

Retail Sales vs. Personal Consumption Expenditures
Seasonally Adjusted

Percent, year-over-year
Percent change from preceding period, annual rate


Retail Sales (left axis)
PCE (right axis)

Source: Bureau of Economic Analysis, Census Bureau, Global Insight IHS
No major deleveraging of the household sector is expected: cyclical adjustment

U.S. Consumer Credit

Billions of dollars

Source: Global Insight IHS
Was household leveraging fully irrational?

Source: Global Insight IHS
District commercial and residential construction tracking U.S. trends

Value of Commercial & Residential Construction Contracts
Seasonally Adjusted, 3-mo. mov. avg.

Index: Jul-05=100

Source: F.W. Dodge, Inc.
Home sales volume up in most district states
tax credits still driving activity in latest data

Sales of Existing Homes
Seasonally Adjusted

New Home Sales

Source: National Association of Realtors
But no clear bottom in District home prices

FHFA Repeat Sales Home Price Index
Year-over-year growth

Source: FHFA
Home prices are expected to languish through 2011

Consensus Forecast for Case-Shiller Housing Price Index:
- 2010: -1.4%
- 2011: 1.3%
- 2012: 2.7%
- 2013: 3.5%
- 2014: 3.8%

Source: Global Insight IHS
No peak reached in late mortgages or foreclosures

Tenth District Mortgage Foreclosure and Delinquency Rates

Source: Mortgage Bankers Association
Are Banks Lending? Which Ones? For What?

• Roughly half of all banks added loans in past 12mo
• Strength determines who increased lending
• CLD loans have collapsed (-25%) at all size banks
• Other CRE loans up (10%) at all size banks
• 1-4 family resid loans up (5%) at all size banks
• Comm & Indust loans up (1%) at small banks, collapsed (-20%) at large banks

Source: Federal Reserve Bank of Kansas City
Oil price attractive to producers, neutral to consumers; Natural gas prices remain well off pre-boom lows

Source: Bloomberg Energy Services
Drilling activity responded to prices
(oil leads nationally, 10J at disadvantage)

Source: Baker-Hughes
U.S. fiscal stance suffers in recession, believed problematic at these levels

U.S. Federal Debt Outstanding

Billions of dollars

Source: Global Insight IHS
Federal debt expected to exceed 100% of GDP

U.S. Federal Debt Outstanding as a Percentage of GDP

Source: Global Insight IHS
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Questions?

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