U.S. and Regional Economic Conditions

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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
- 10th District is about 1 quarter behind U.S.
3.0-3.5% GDP growth expected in ‘10 and ’11

Source: Bureau of Economic Analysis, Macroeconomic Advisors, Blue Chip Consensus Forecasts
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

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

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

- Mining (.01)
- Educ. & Health (.15)
- Prof. & Bus. (.13)
- Gov’t. (.17)
- Leisure & Hosp. (.10)
- Other Serv. (.04)
- Trade (.15)
- Manuf. (.09)
- Trans. & Util. (.04)
- Finance (.06)
- Information (.02)
- Constr. (.04)

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

Outstanding Non-mortgage Consumer Credit (left axis)

All Outstanding Mortgages (right axis)

Source: Global Insight IHS
Was household leveraging fully irrational?

Source: Global Insight IHS
Are Banks Lending? Which Ones? For What?

• Roughly half of all banks added loans in past 12mo
• Strength determines who is up
• 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
Oil prices remain attractive to producers, neutral to consumers

Source: Bloomberg Energy Services
... but natural gas prices remain below pre-boom lows

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

Count of Active Drilling Rigs

Source: Baker-Hughes
District commercial and residential construction tracking U.S. trends

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

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

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

[Bar chart showing year-over-year growth in home prices across various regions, with Districts including US, 10J, OK, NE, KS, WY, MO, CO, NM, and percent changes ranging from -6.8 to -4.9 for 2009:Q1 and 2010:Q1.]

Source: FHFA
Home prices are expected to languish through 2011

Average Sales Price of a New 1996-style Single-family Home
Seasonally Adjusted

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
U.S. fiscal stance suffers in recession, believed problematic at these levels

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

Source: Global Insight IHS
Questions?

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