U.S. and Regional Economic Conditions

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Fundamentals for U.S. recovery remain in place

• Distinct slowing since 2nd quarter
• Questions:
  1. Adequate progress in the labor market?
  2. Is the economy successfully walking a tightrope?
  3. How will residential market emerge post-tax credits?
  4. Important changes in construction markets?
  5. Mortgage debacle at a turning point?
• What factors will support the recovery? Risks?
Concerns over weakness in recent U.S. GDP data

Source: Bureau of Economic Analysis, Macroeconomic Advisors, Blue Chip Consensus Forecasts
.... and recent job data; but consistent private job gains since Jan 2010

**Total/Private Nonfarm Employment**
Seasonally Adjusted

Thousands of jobs, monthly change

- Nonfarm Total Employment
- Nonfarm Private Employment

Source: Bureau of Economic Analysis, Bureau of Labor Statistics
Weak, but across the board improvement in labor market

Nonfarm Job Growth by Industry
United States

Source: Bureau of Labor Statistics
State Cycles: CO/NM show no bounce yet, WY in energy cycle

Total Nonfarm Employment
Seasonally Adjusted

Index: Aug-05=100

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

Index: Aug-05=100

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

Source: Bureau of Labor Statistics
Walking a tightrope? Modest income growth and spending, debt reduction, and savings up

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.
Was household leveraging fully irrational?

Long-Term Treasury Bond Yields

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
- But, 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
... but natural gas prices remain below pre-boom lows

![Natural Gas Prices Graph](image-url)

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

Count of Active Drilling Rigs

Source: Baker-Hughes
Commercial (+) and residential (-) construction trends diverging

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 in most states >> Q2 data has tax credits

Sales of Existing Homes in District States
Seasonally Adjusted

Source: National Association of Realtors, Global Insight
At the bottom in volume?
LR Forecast: 950K new homes, 5.5 million existing units

Sales of New and Existing Homes – U.S.
Seasonally Adjusted

Source: Global Insight
District home prices now largely reflect economic conditions

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent Difference</th>
</tr>
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<tbody>
<tr>
<td>2009:Q2</td>
<td>-4.9</td>
</tr>
<tr>
<td>2010:Q2</td>
<td>-2.6</td>
</tr>
<tr>
<td>US</td>
<td>-0.3</td>
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<tr>
<td>OK</td>
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<tr>
<td>KS</td>
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<tr>
<td>WY</td>
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<tr>
<td>MO</td>
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<tr>
<td>NM</td>
<td>-3.5</td>
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<tr>
<td>CO</td>
<td>-4.4</td>
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</tbody>
</table>

Source: FHFA
Home prices are expected to languish through mid 2011

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

Consensus Forecast for Case-Shiller Housing Price Index:
- 2010 -0.82%
- 2011 0.77%
- 2012 2.54%
- 2013 3.19%
- 2014 3.61%

Source: Global Insight IHS
Peak reached in late mortgages? and foreclosures?

Tenth District Mortgage Foreclosure and Delinquency Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>90 Days Past Due</th>
<th>Foreclosure Rate</th>
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<tbody>
<tr>
<td>1979</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>1982</td>
<td>0.00</td>
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<tr>
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<td>2003</td>
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<tr>
<td>2006</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>2009</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: Mortgage Bankers Association
U.S. fiscal stance suffers in recession, believed problematic at these levels

U.S. Federal Debt Outstanding

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
What will support the recovery?

• Federal Reserve stimulus – current (and future?)
• Congressional stimulus – waning
• Strong financial position of corporate sector
• Resumption in household debt growth
• Growing replacement needs – households/firms
• International explosion/trade
• Population growth - immigration
• Virtuous cycle – capitalism, invisible hand
What are the risks?

- Federal Reserve policy error
- Federal/state/local fiscal issues
- Another down leg in real estate
- Household deleveraging takes longer than expected
- Persistent trade imbalance
- Short expansion
U.S. and Regional Economic Update

Questions?

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