The Economy and Manufacturing in the U.S. and Colorado

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Current Conditions and Prospects for Recovery

• In the early stages of U.S. recovery (uneven)
• Weakness in U.S. data since 2nd quarter
• CO in the recession: late entry, sharp contraction since early 2009 (goods), no bounce yet

• Two primary questions:
  • What are the reasons for underperformance?
  • Prospects for recovery?

• Manufacturing sector
  • FRBKC Manufacturing Survey data
Concerns over weakness in recent U.S. GDP data...

Real Gross Domestic Product
Seasonally Adjusted

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

U.S. Consumer Credit

Source: Global Insight IHS
Was household leveraging fully irrational?

Source: Global Insight IHS
Much of the fiscal stimulus remains for 2011

Per Capita Stimulus Package Spending
U.S. and Tenth District States

Source: Recovery.gov
Energy and agriculture states leading; weakness in several Mtn. states; AZ/FL expanding

Total Nonfarm Employment – YTD Percent Change from Dec. 2009

1. District of Columbia: 3.0%
2. New Hampshire: 1.7
3. Wyoming: 1.6
4. Oklahoma: 1.6
5. Indiana: 1.4
6. Texas: 1.4
7. Delaware: 1.4
8. South Dakota: 1.4
9. Maryland: 1.3
10. Massachusetts: 1.2

Source: Bureau of Labor Statistics
No clear sign of a bottom in CO labor market
CO job loss exceeds U.S. (7.0% vs 5.6%)

Level of Total Nonfarm Employment
Seasonally Adjusted

CO: 165,000 jobs lost

Source: Bureau of Labor Statistics
Jobless claims confirm recent U.S. weakness; progress on continuing claims lags

Colorado Unemployment Claims
Seasonally Adjusted

Source: U.S. Department of Labor
Current cycle is most like 2001 recession

Source: Bureau of Labor Statistics
Job recovery is uneven across the District; CO and NM are especially weak

• Four groupings:
  Tier 1: Nebraska, Oklahoma, and Wyoming (agri./energy)
  Tier 2: Kansas (mfg./energy/agri.)
  Tier 3: Missouri (U.S.-like)
  Tier 4: **Colorado** and New Mexico

• What factors explain the underperformance?
Most surrounding states (energy, Mtn.) are adding jobs

Total Nonfarm Employment
Seasonally Adjusted

Source: Bureau of Labor Statistics
Services have bottomed; no clear recovery in goods or government

Nonfarm Employment – Colorado
Seasonally Adjusted

Source: Bureau of Labor Statistics
Trade surprise; goods sectors still weighing on totals

Nonfarm Employment by Industry – Colorado
Seasonally Adjusted

Job Gains (Losses) Since Dec-09

8,100 net jobs lost since Dec. 2009

Source: Bureau of Labor Statistics
The Manufacturing Sector

- Manufacturing was critical in early stages of U.S. recovery
- Strong output gains since early 2009, softness in recent data
- Colorado manufacturing output expands but remains weaker than U.S.
- Weak hiring & spending plans; input prices remain a concern
- Producers remain optimistic 6 months ahead
- Dollar weakness resumes
CO mfg. jobs tracking U.S. since tech bust

Source: Bureau of Labor Statistics
Surge in U.S. industrial production since June ’09; weakness this summer

Source: Federal Reserve Board
Capacity utilization has risen sharply in recent months, but remains near past recession lows

U.S. Manufacturing Capacity Utilization Rate
Seasonally Adjusted

Source: Federal Reserve Board
Colorado mfg. bounced late and has shown more softness relative to U.S.

**Manufacturing PMI Indexes**
Seasonally Adjusted, 3-month moving avg.

Note: CO index is computed on ISM basis (50 = zero change)
Source: ISM, FRBKC Manufacturing Survey
Short-run productivity growth remains strong

CO Manufacturing Indexes
Month-over-month, 3-month moving avg.

Source: FRBKC Manufacturing Survey
Expectations suggest some CapEx increase, but flat hiring 6 months ahead in CO

Source: FRBKC Manufacturing Survey
Input price increases remain above flat output prices

CO Manufacturing Price Indexes
Month-over-month, 3-month moving avg.

Source: FRBKC Manufacturing Survey
Pressure on margins expected to remain six months ahead

CO Manufacturing Price Indexes
Six-month ahead, 3-month moving avg.

Source: FRBKC Manufacturing Survey
Resumption of weakness in dollar

Source: Federal Reserve Board
Summary of U.S. and CO conditions

- The U.S. economy is growing below trend but the fundamentals remain in place for recovery
- Colorado lagging the nation in most sectors, including manufacturing
- Survey data suggest that mfg. output in CO continues to expand; CapEx and hiring remain subdued
- Input price concerns remain
- Expectations remain positive for 6 months ahead