

# U.S. and New Mexico: Economic Conditions and Outlook

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# U.S. and New Mexico recovery in 2011

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- Where are we in the recovery cycle?
- What adjustments in the economy need to take place?
- ~~When~~ When did the recession end in New Mexico?
- Key areas of strength/weakness: which matter most?
- Outlook for 2011
- What will sustain the U.S. recovery? Risks?

## We only need a few things for recovery...

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- Moderate growth in GDP
- Steady private sector job gains
- Resumption of income growth
- Normal spending by consumers
- Reduction in household debt
- Increase in the savings rate
- An end to the real estate debacle

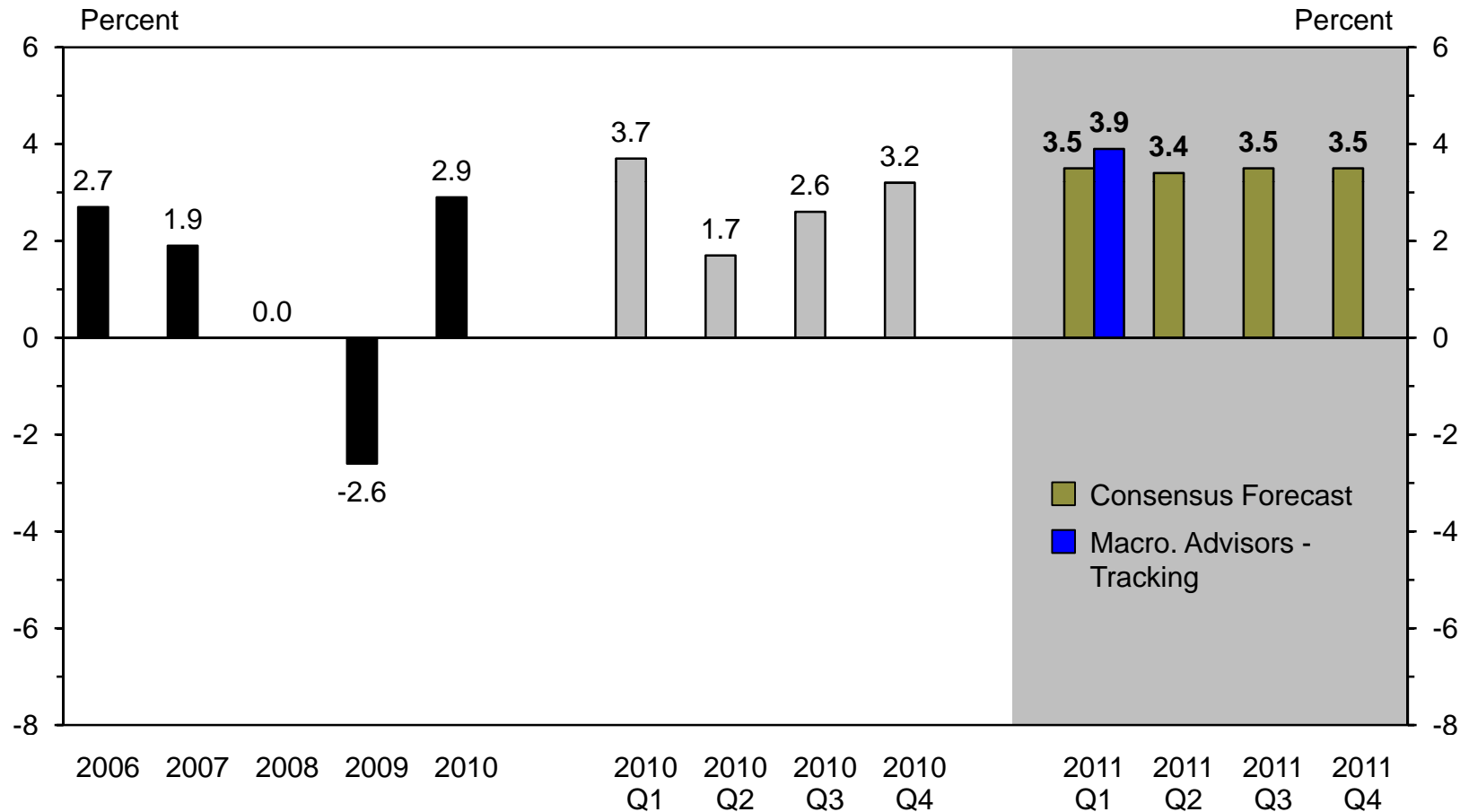
... right?

# GDP growth is accelerating once again

tracking estimates suggest near 4.0% growth currently

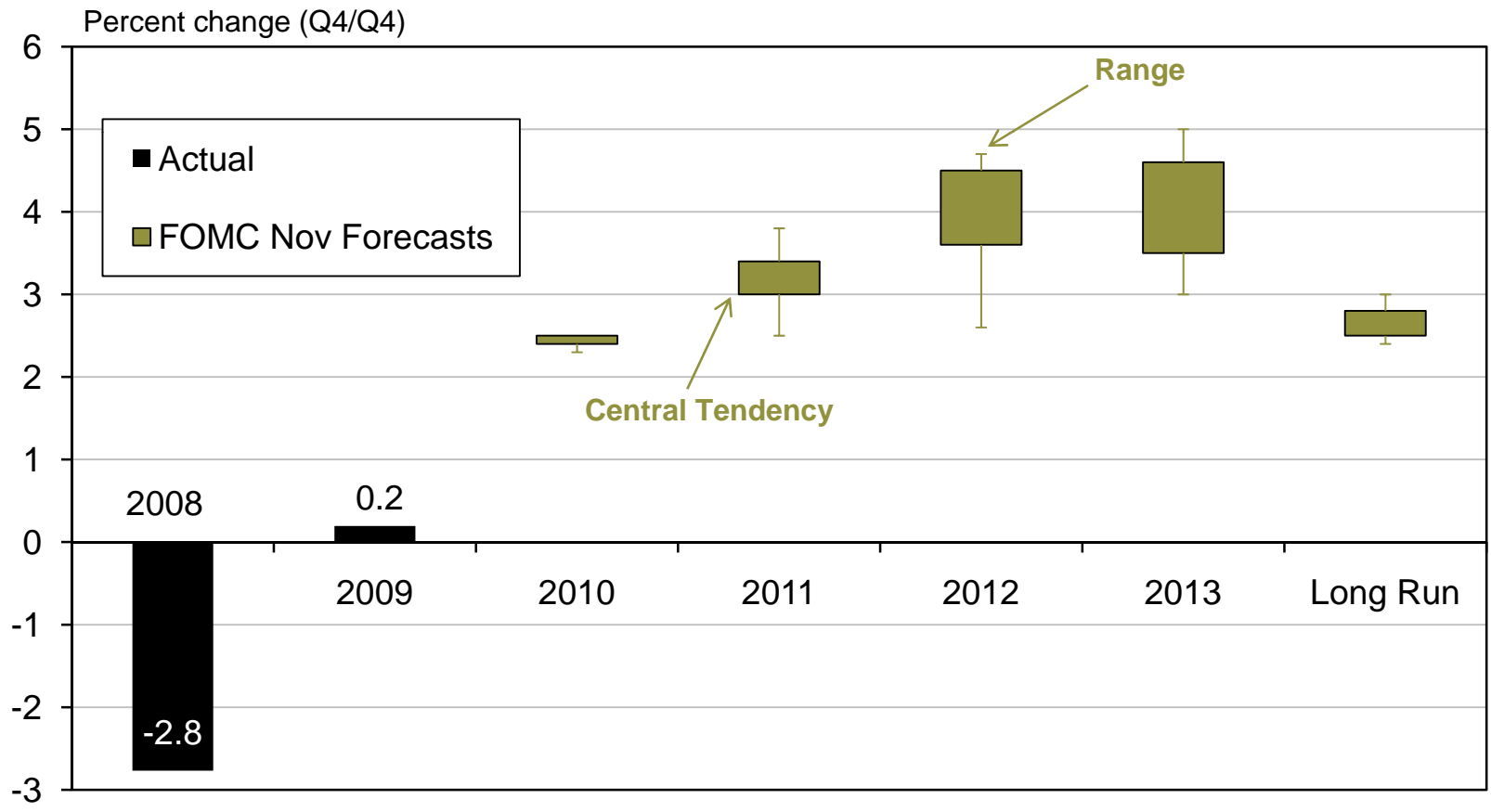
## Real U.S. Gross Domestic Product

Seasonally Adjusted



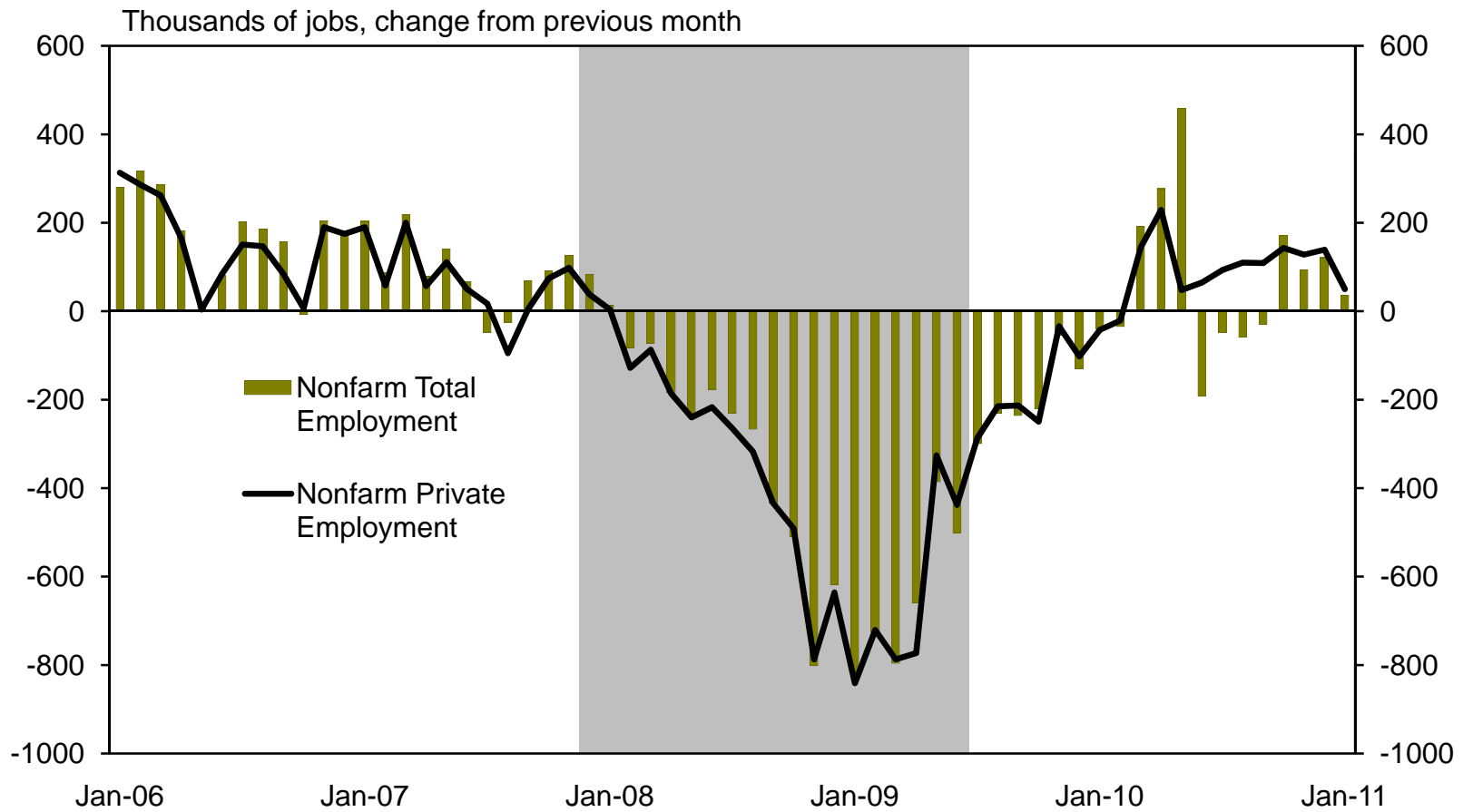
# Growth forecasts underlying Federal Reserve policy remain relatively upbeat

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



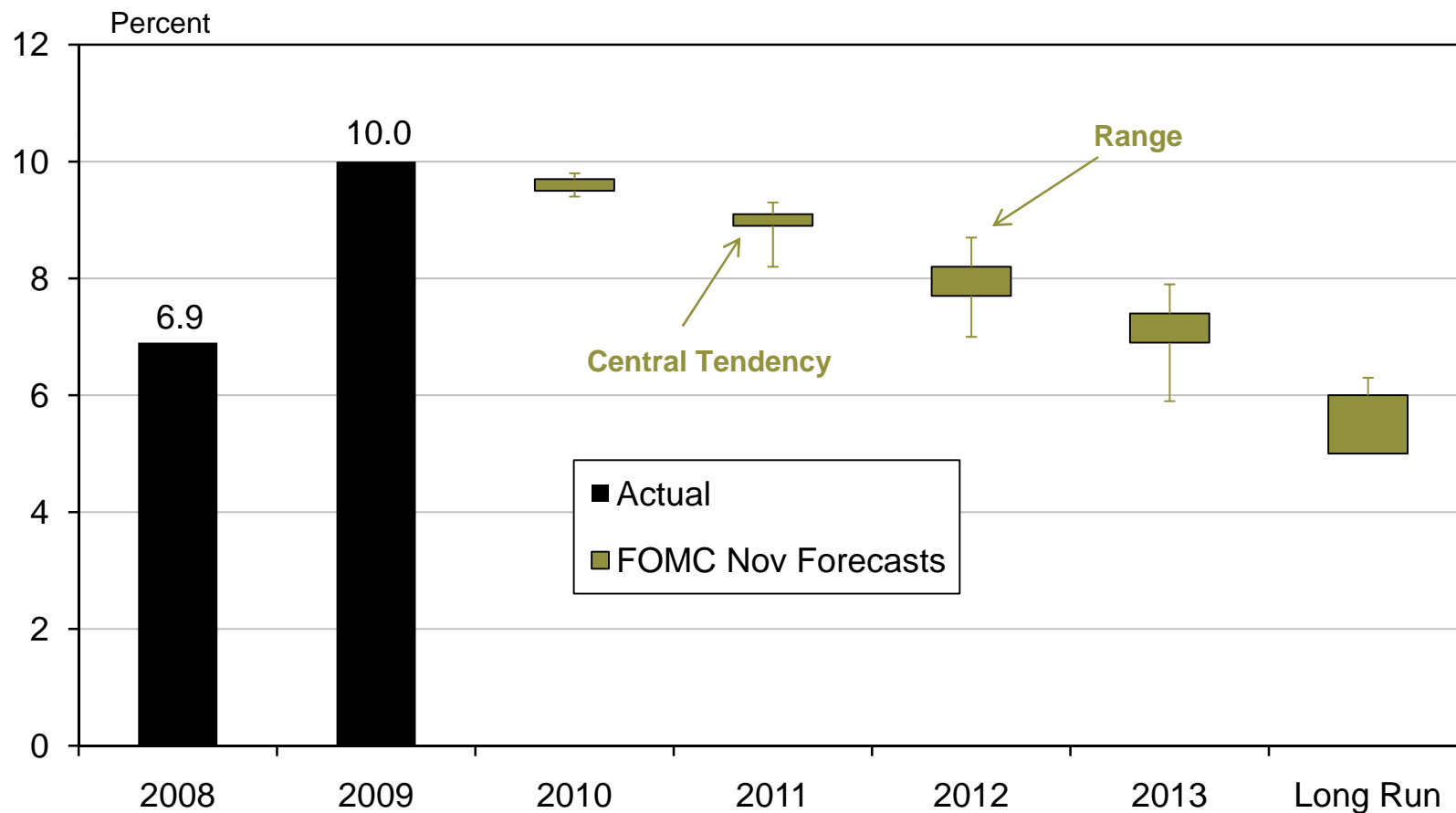
# Consistent private sector job gains since Jan 2010

**U.S. Total/Private Nonfarm Employment**  
Seasonally Adjusted



# Jobless rate should fall about 1% per year normal 5-6% rate reached in 2014/15

## U.S. Unemployment Rate Seasonally Adjusted

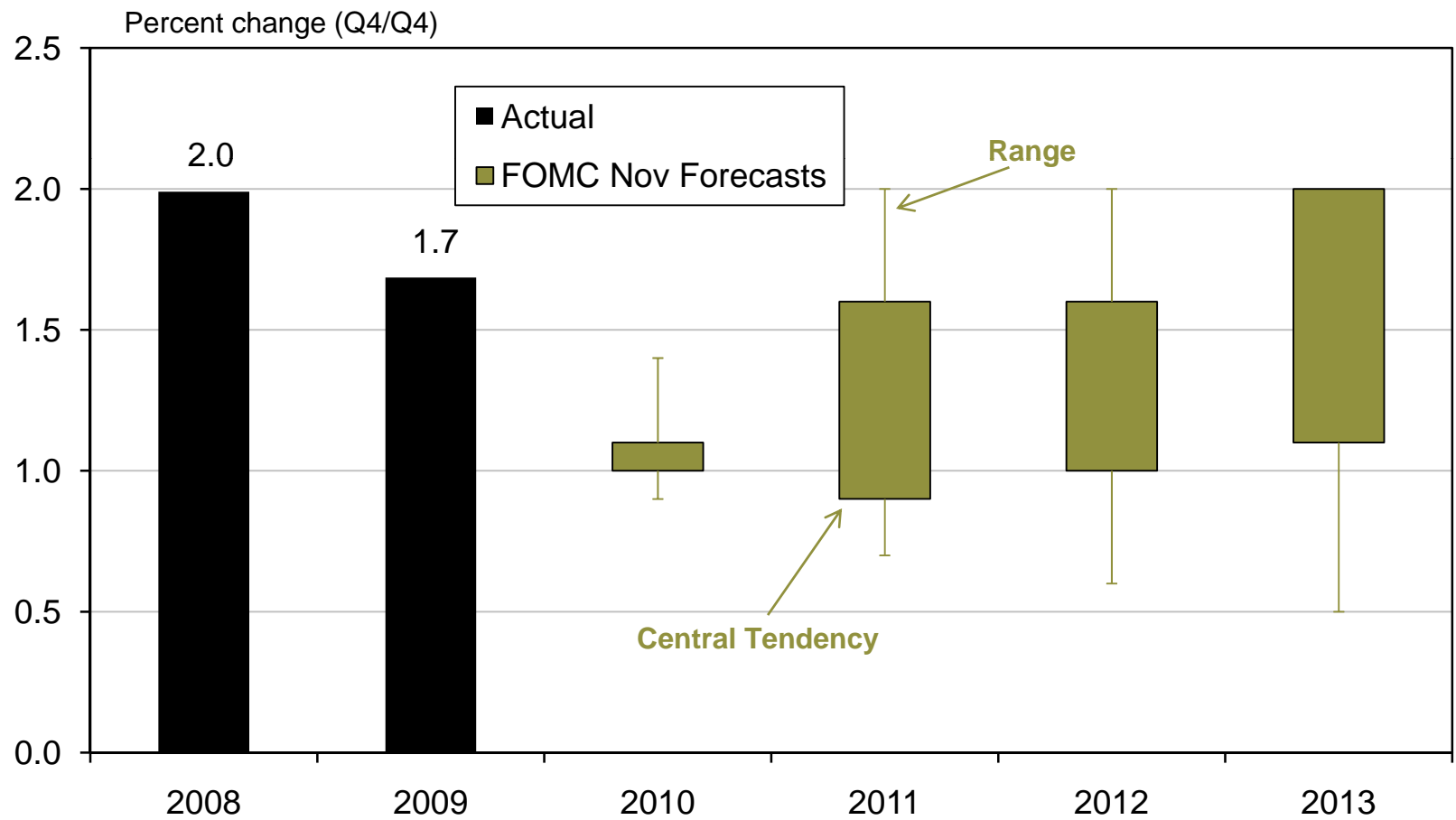


Source: Federal Open Market Committee

# Broad inflation indices expected to remain tame

commodity prices climbing

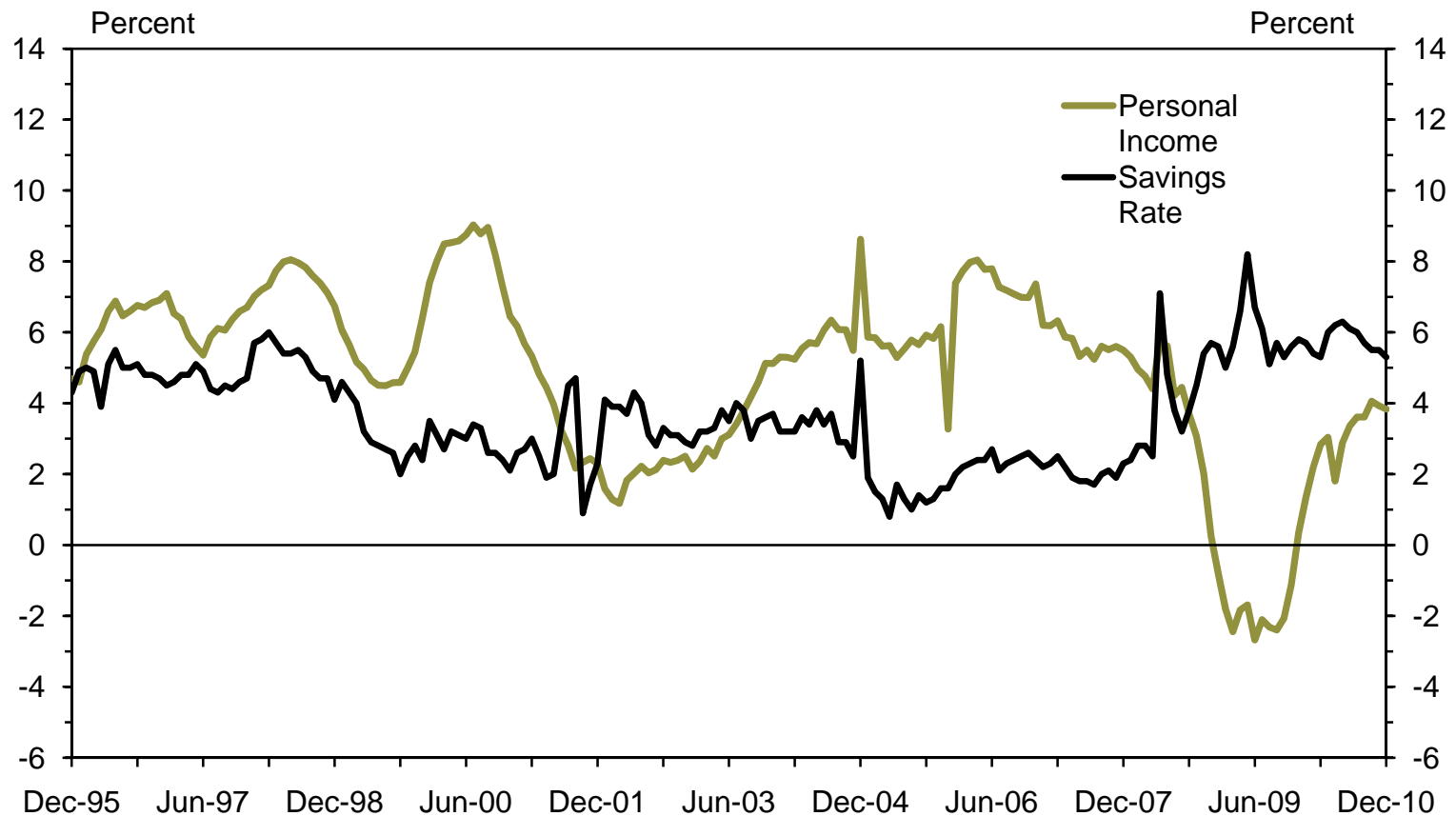
## Price Index for Personal Consumption Expenditures (Core) Seasonally Adjusted





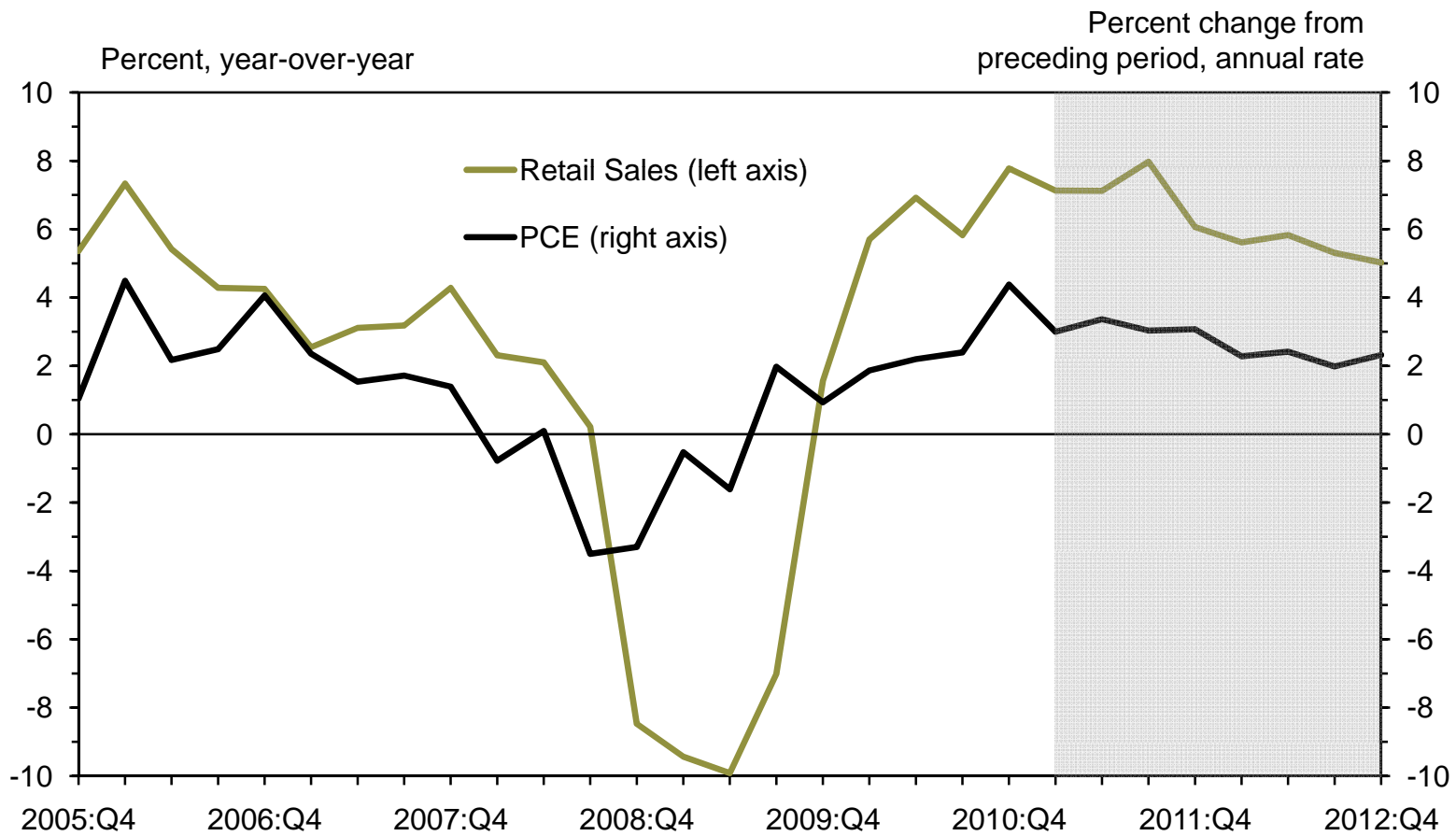
# Moderate income growth and rebound in savings

**Growth in U.S. Personal Income vs. Personal Savings Rate**



# Consumer spending stronger than expected

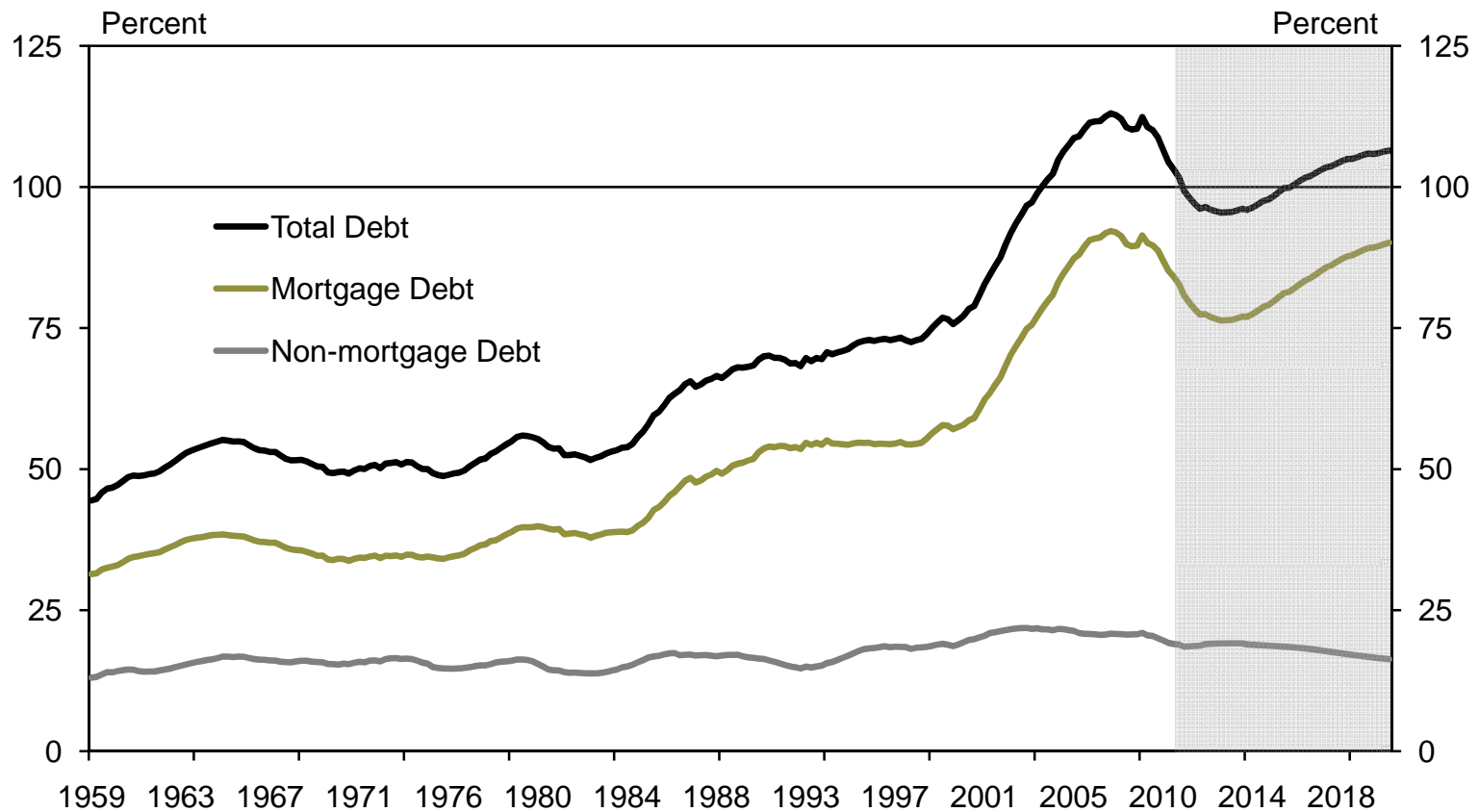
## U.S. Retail Sales vs. Personal Consumption Expenditures Seasonally Adjusted



# Household de-leveraging is slowly underway

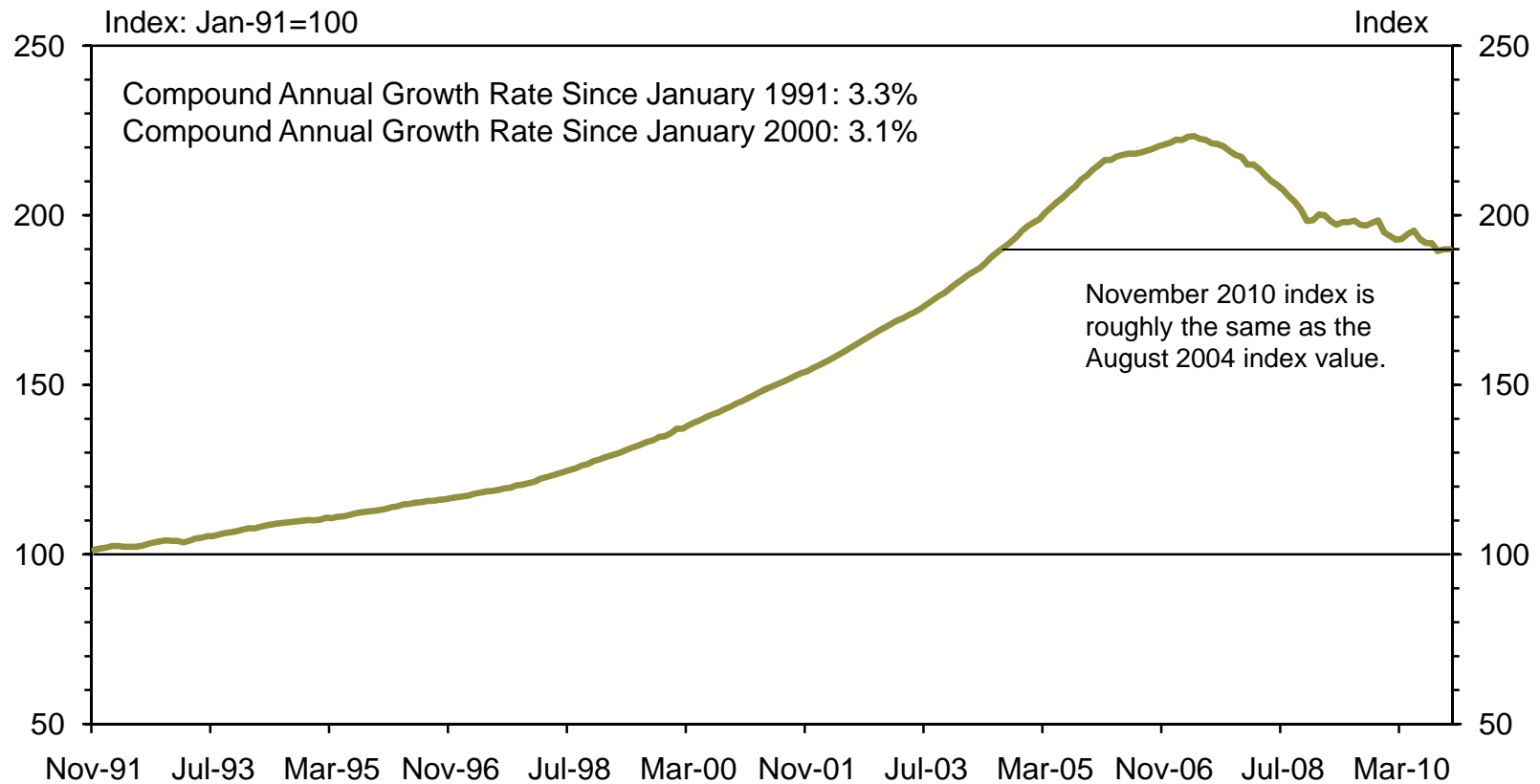
debt is highly concentrated in mortgages

## U.S. Debt to Personal Income Ratios



# No clear bottom in U.S. housing prices but long-run gains remain near inflation

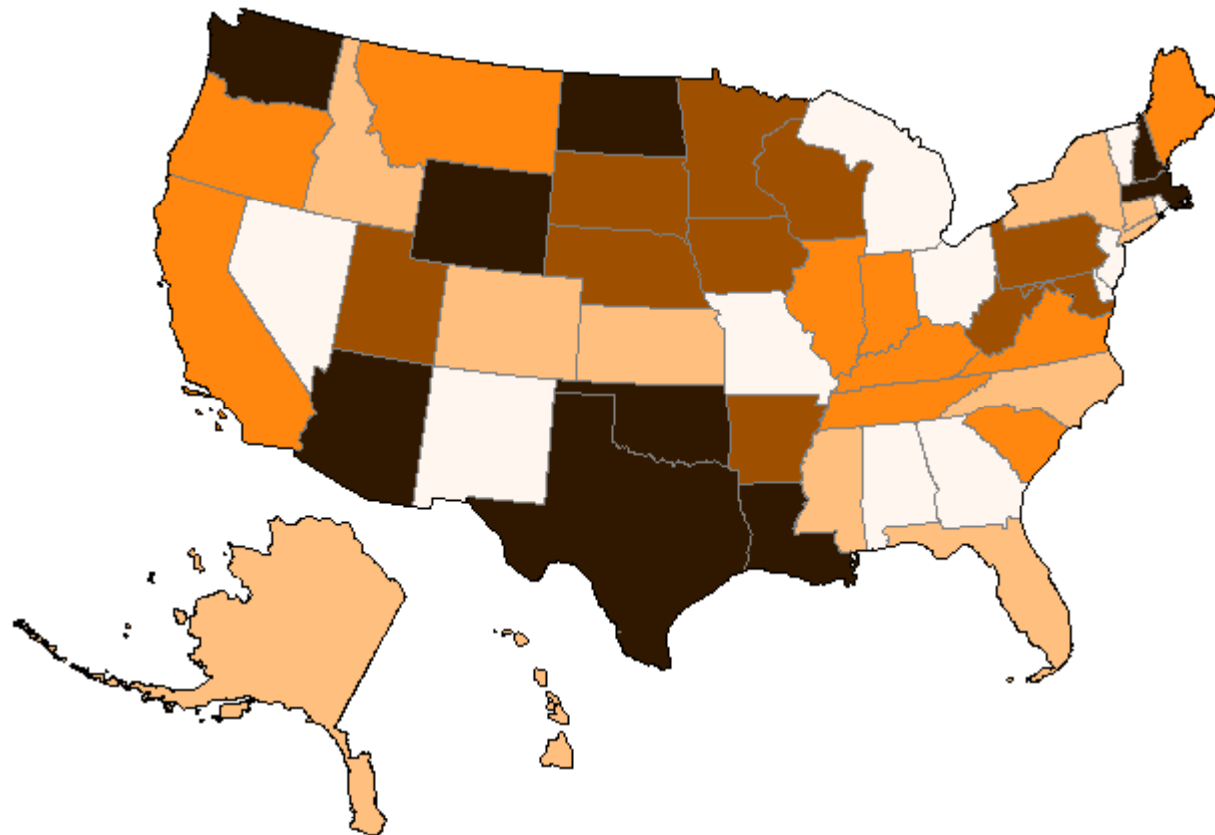
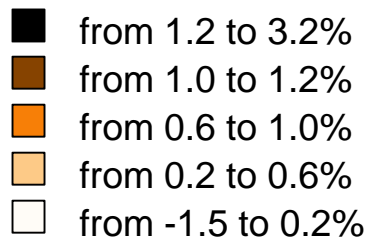
## U.S. Monthly Home Price Index Purchase-Only, Seasonally Adjusted



# Most states now adding jobs; weakness remains in several Mtn. states; AZ/CA/FL adding jobs

## Total Nonfarm Employment – YTD Percent Change from Dec. 2009

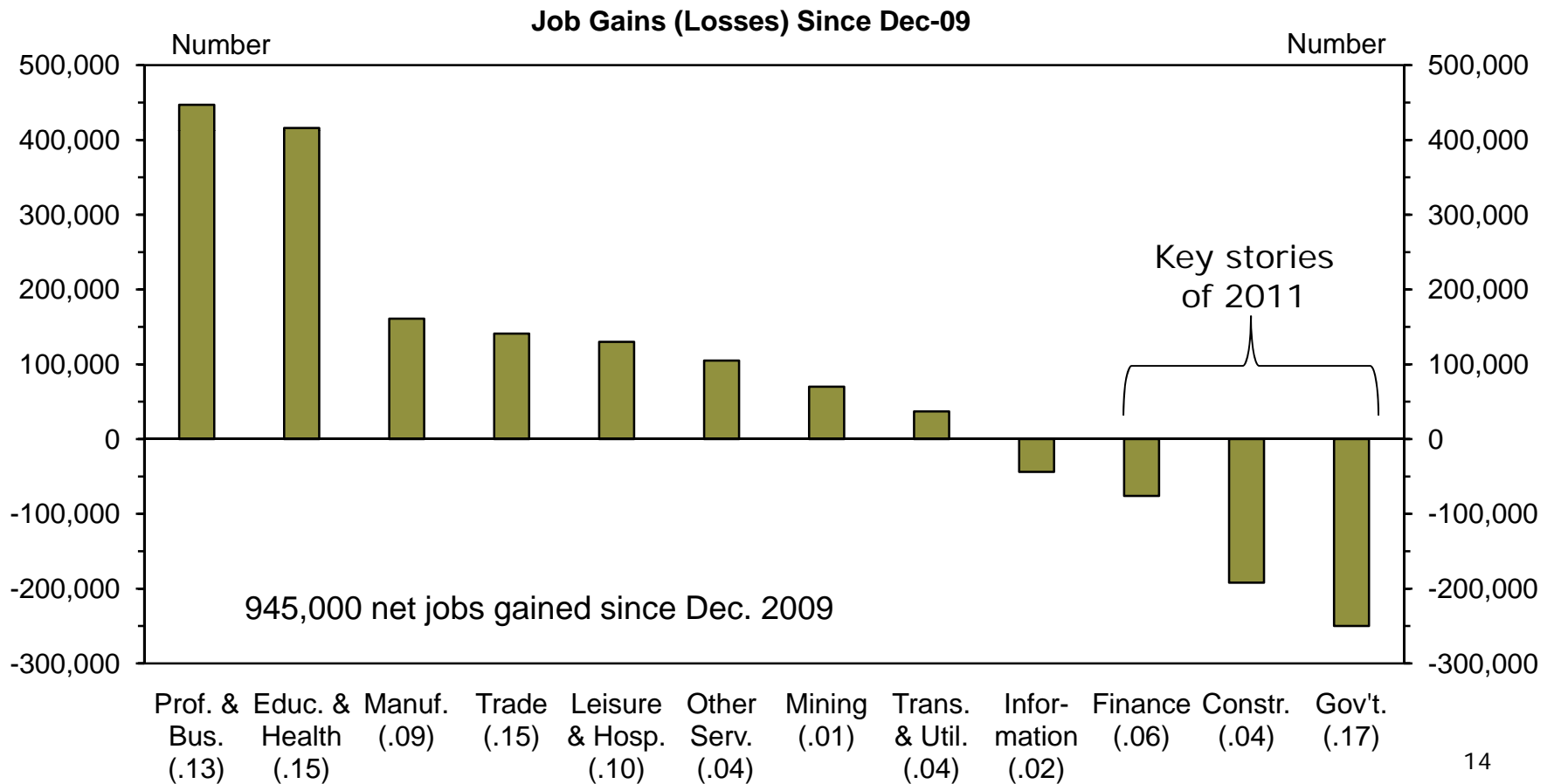
1. Washington D.C.: 3.2%
2. Texas: 2.3
3. New Hampshire: 2.1
4. North Dakota: 1.7
5. Massachusetts: 1.5
6. Oklahoma: 1.4
7. Arizona: 1.4
8. Louisiana: 1.4
9. Wyoming: 1.4
10. Washington: 1.2



# Most U.S. industry sectors now adding jobs

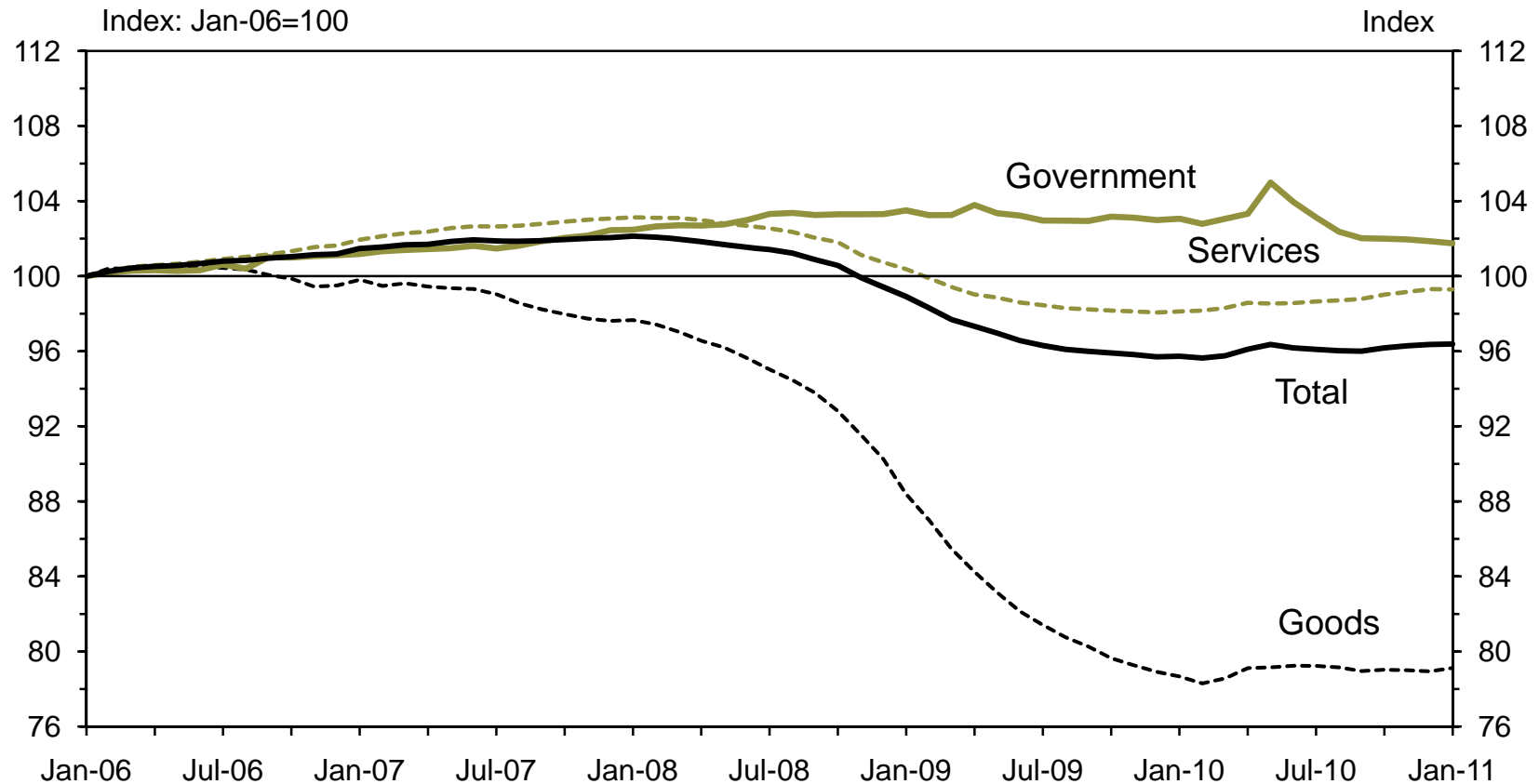
## Govt./Finance/Construction acting as a drag

### U.S. Nonfarm Employment by Industry Seasonally Adjusted



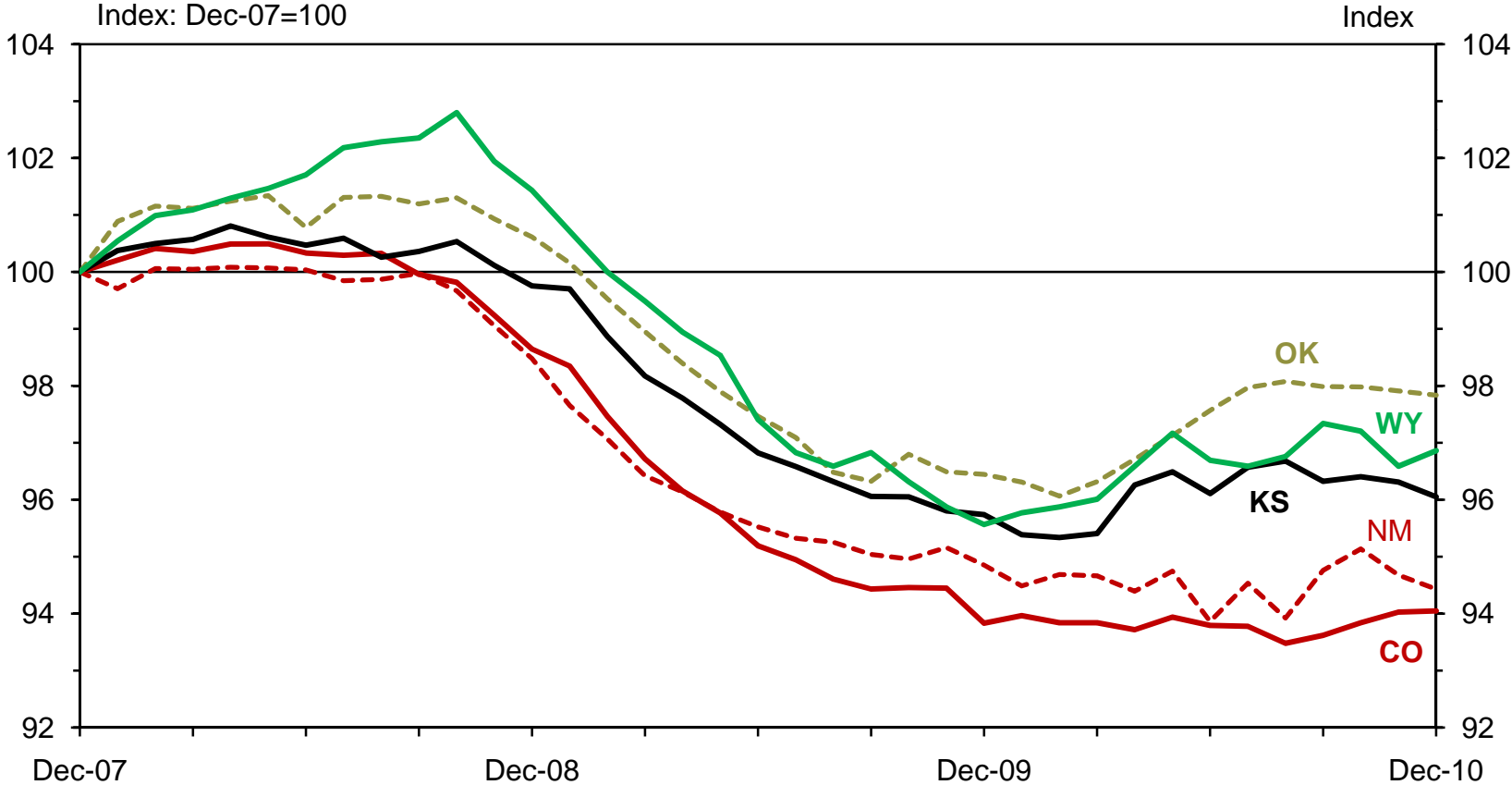
# Late downturn in government hiring offsetting private sector jobs gains; same in NM

## U.S. Employment Seasonally Adjusted



# CO and NM remain the weakest labor markets in the 10<sup>th</sup> District

### Total Nonfarm Employment Seasonally Adjusted



Source: Bureau of Labor Statistics



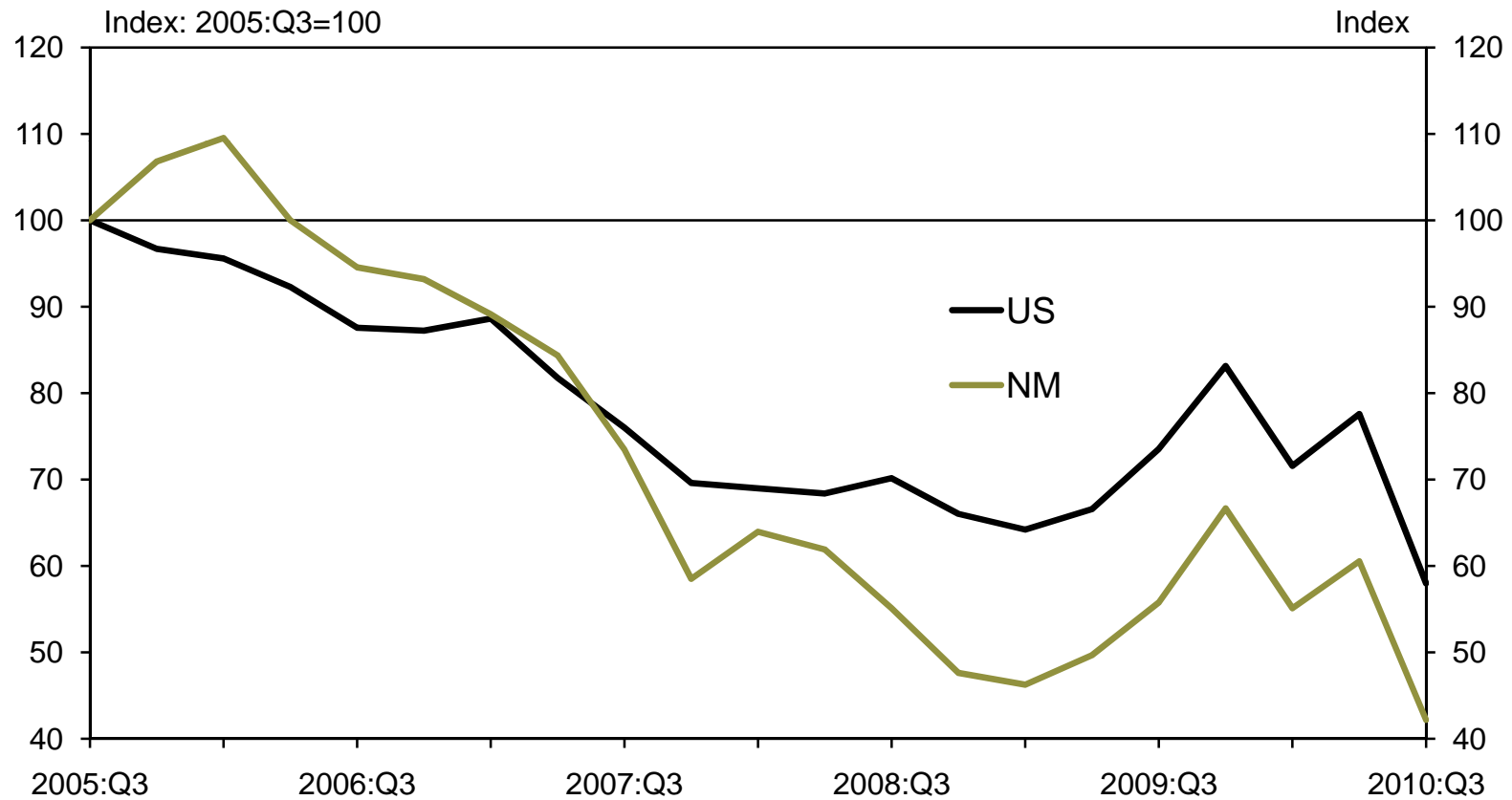
# Sales tax revenue and upcoming revisions to job data confirm end of recession in CO

**New Mexico Nonfarm Total Employment and Sales Taxes**  
Seasonally Adjusted



# Latest existing home sales volume reflects tax credit expiration...

**Sales of Existing Homes**  
Seasonally Adjusted



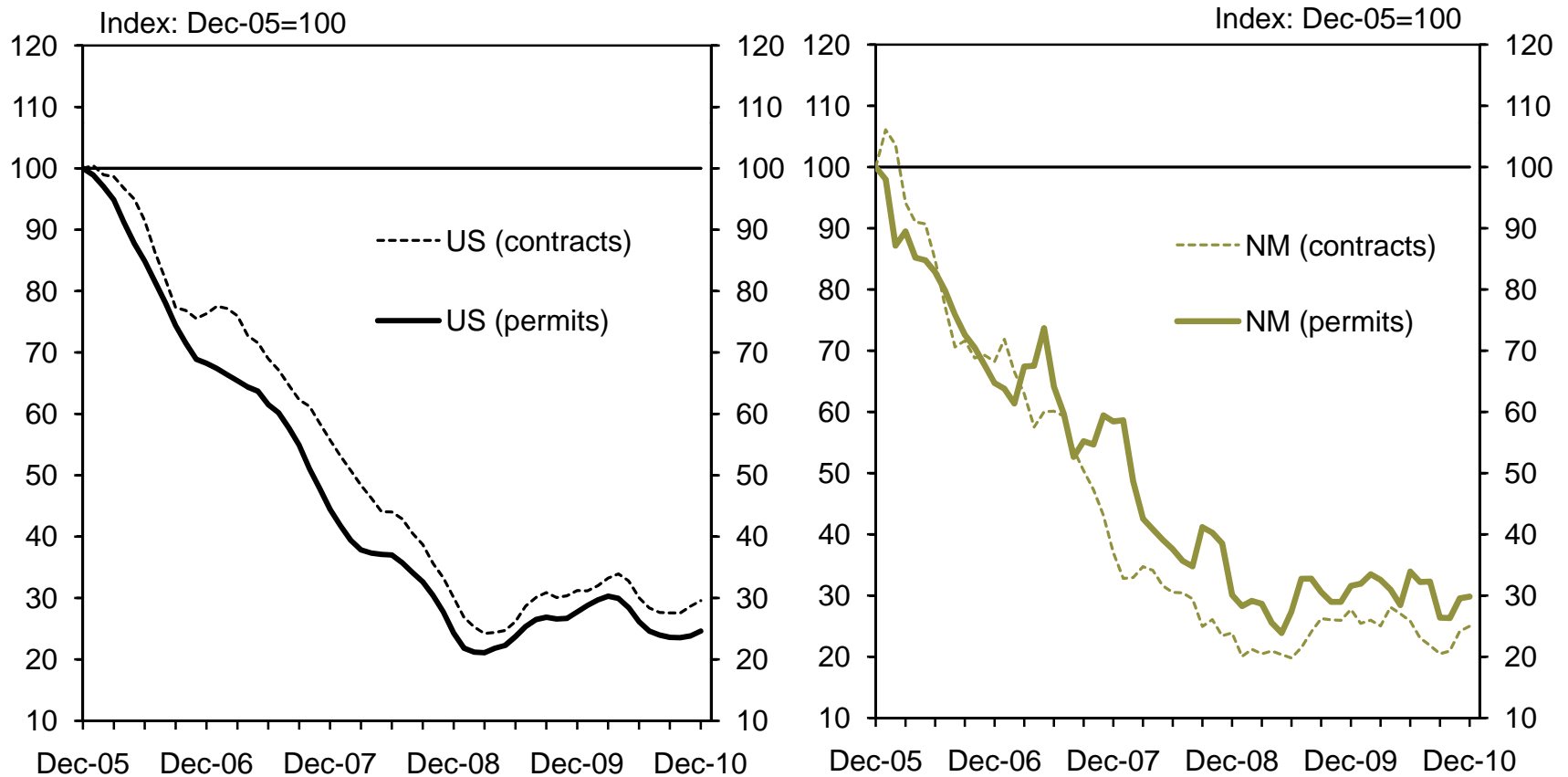
...but pending sales suggest the tax credit distortion is now through the system

**U.S. Pending Home Sales Index**  
Seasonally Adjusted



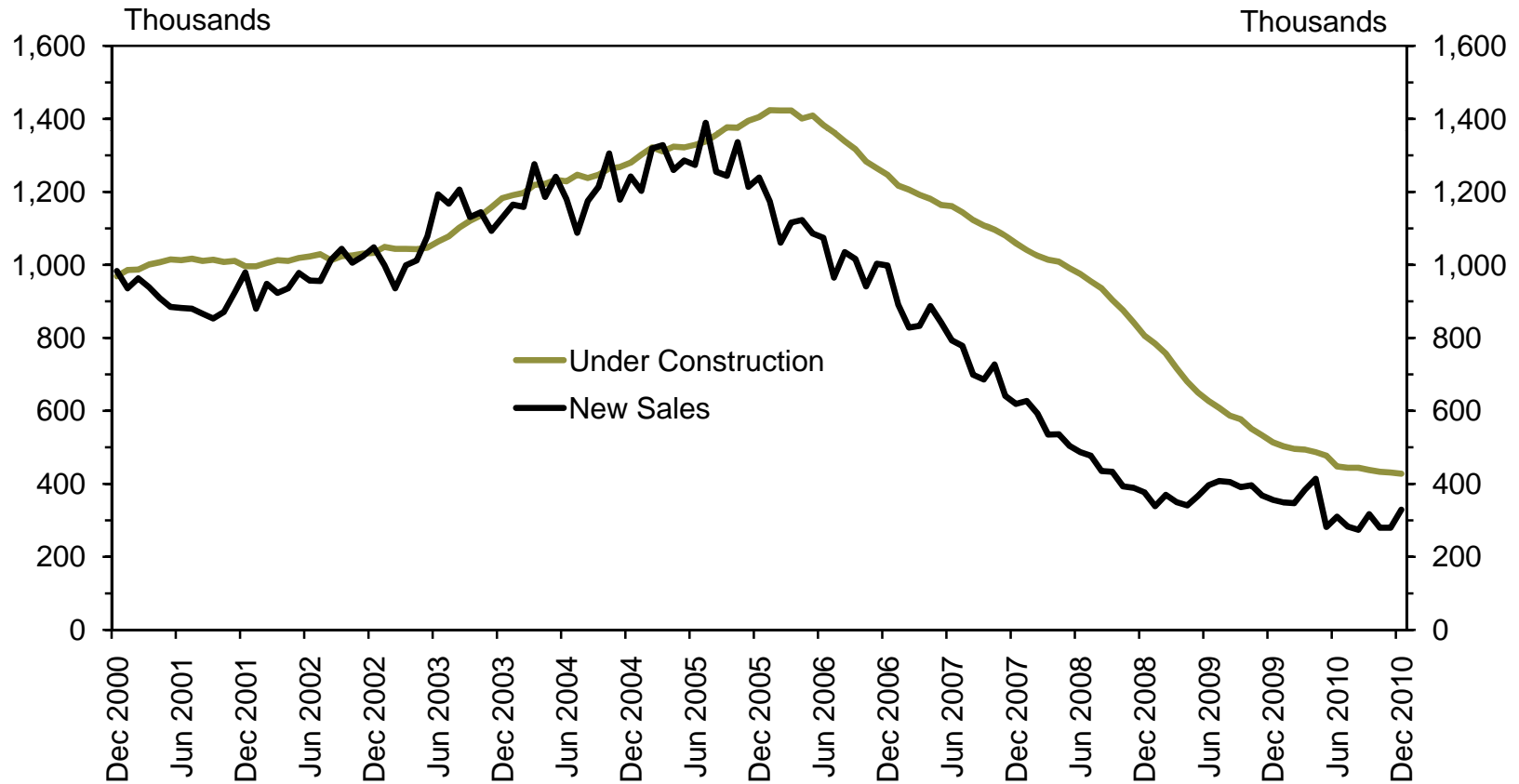
# NM new home construction tracking the U.S.; bouncing along bottom

**Value of Residential Construction Contracts;  
Single-Family Housing Permits**  
Seasonally Adjusted



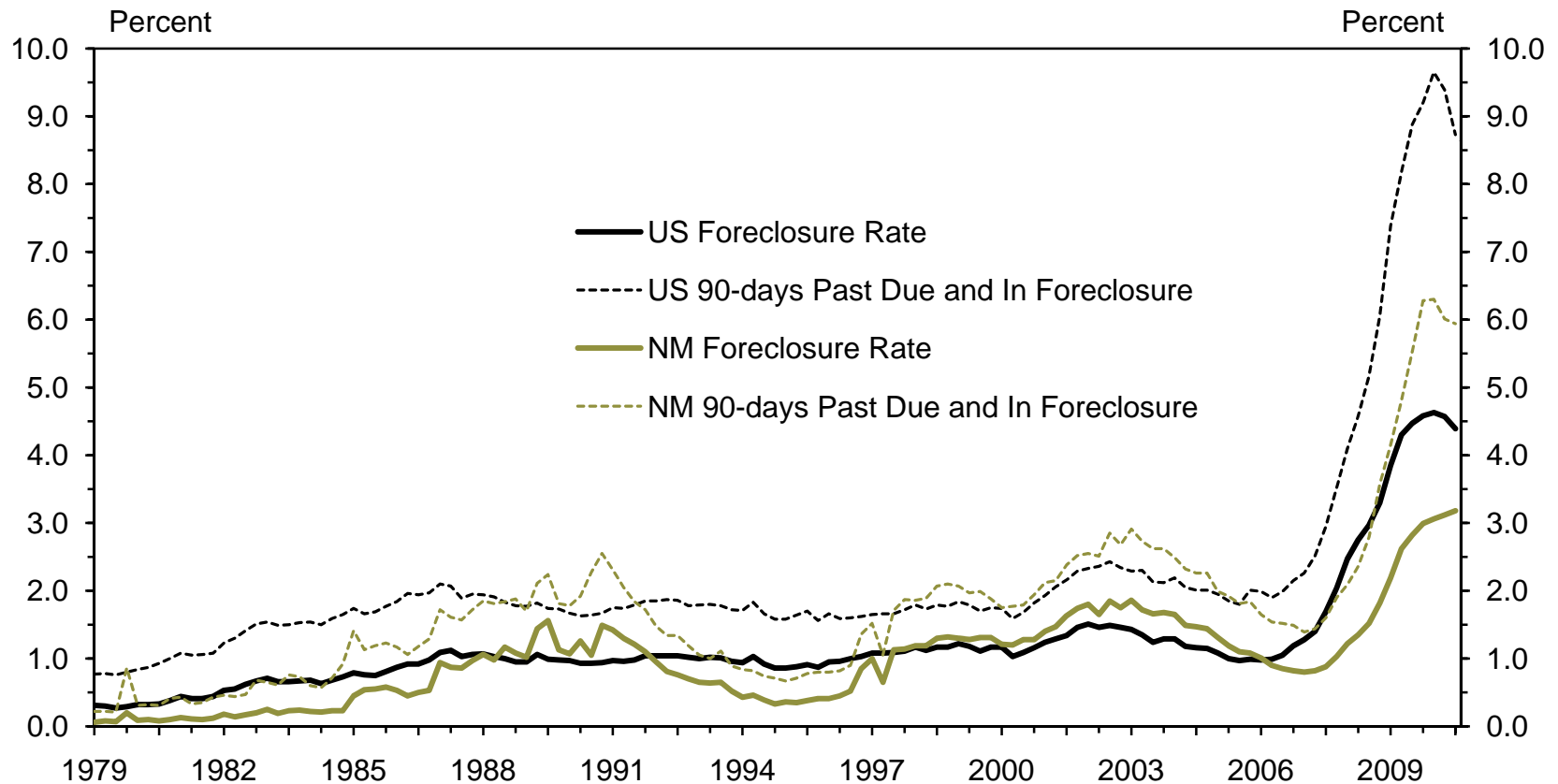
# Gap remains between new construction and sales has narrowed since early 2009

**U.S. New Residential Construction for Sale**  
Seasonally Adjusted



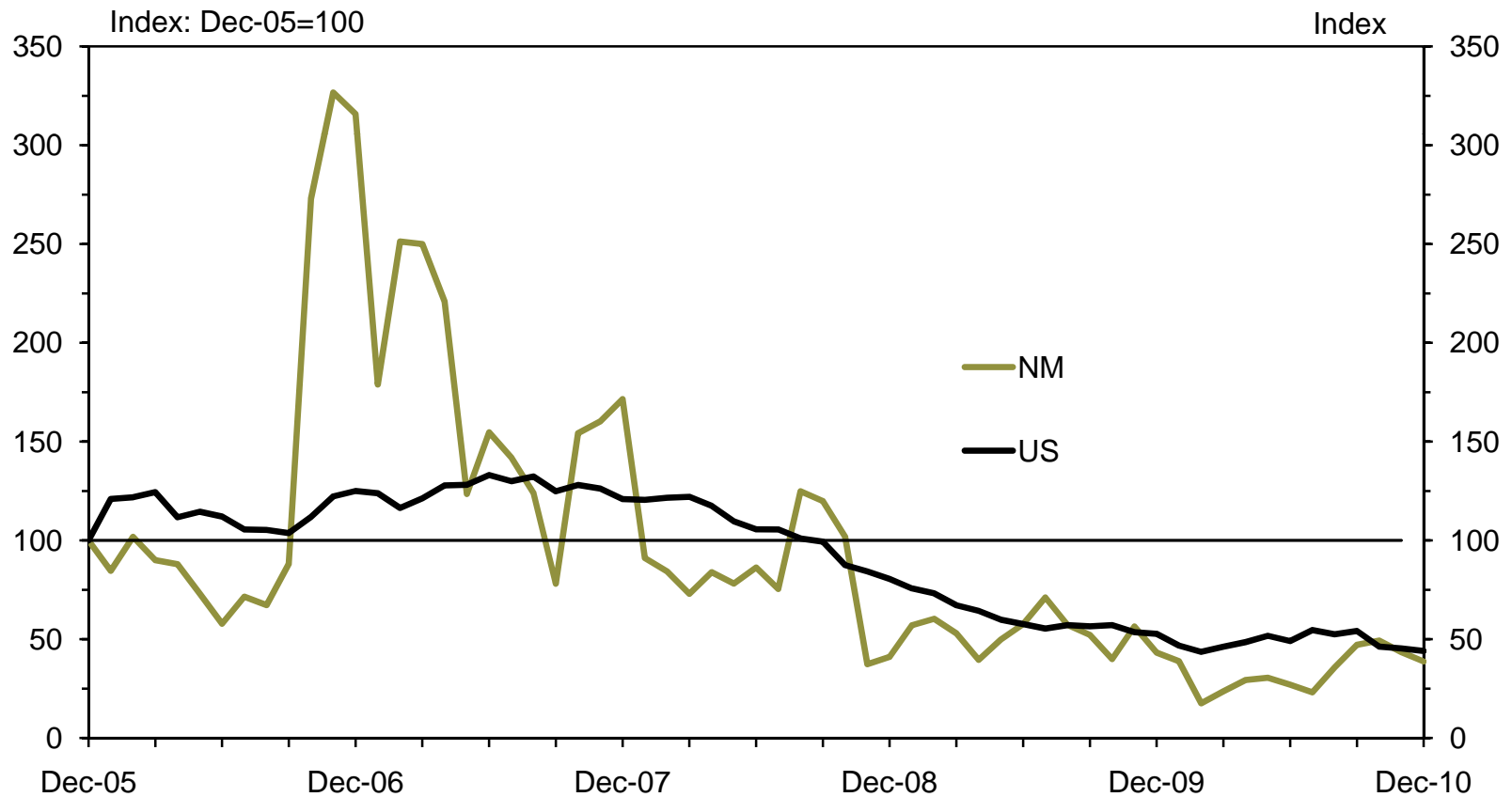
# Critical peak in past due and foreclosure rates shadow inventory remains a concern

## Mortgage Foreclosure/Delinquency Rates U.S. and New Mexico



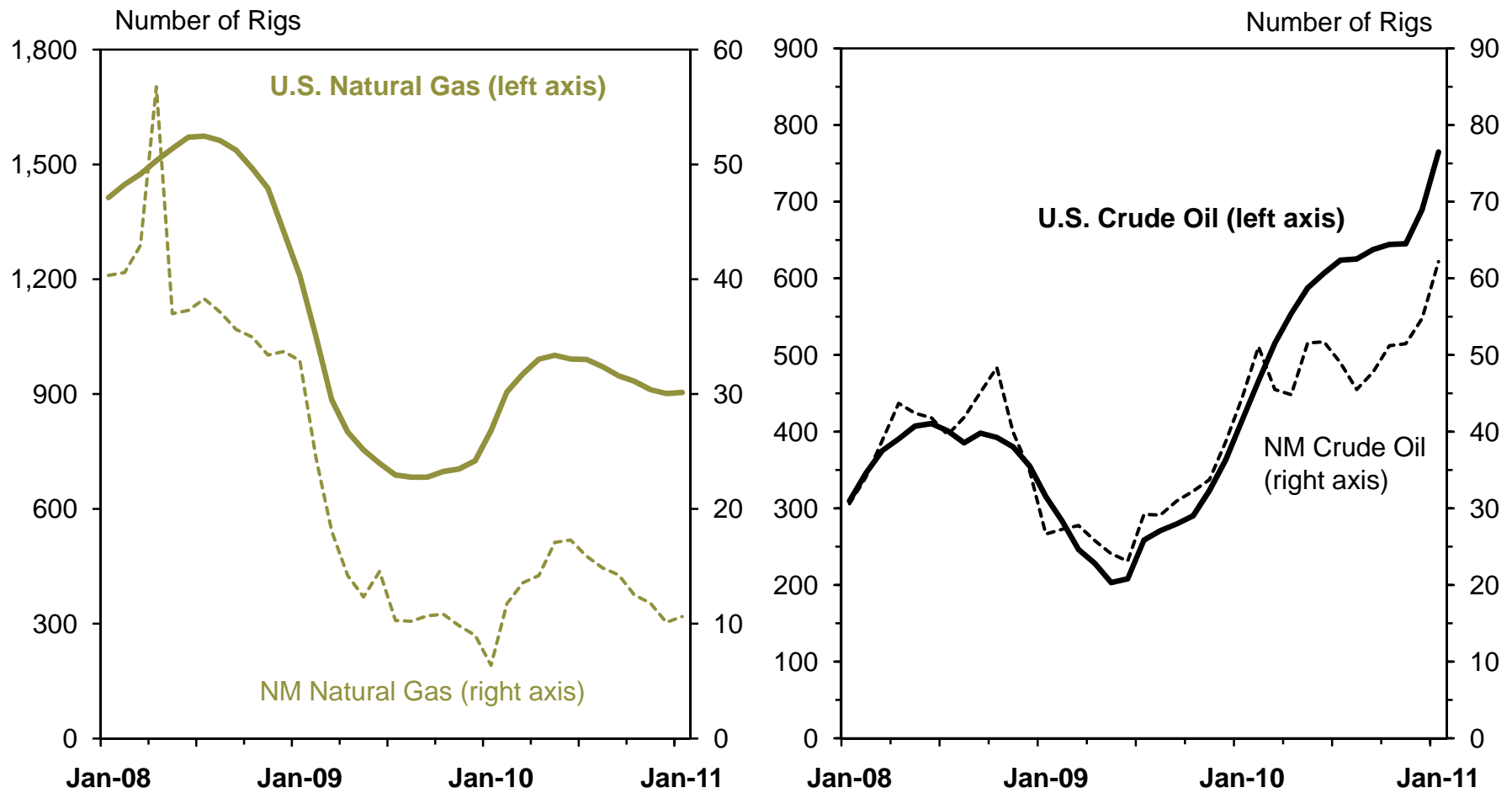
# Is the bottom at hand in commercial construction?

**Value of Commercial Construction Contracts**  
Seasonally Adjusted, 3-mo. moving average



# Shift in exploration toward crude accelerates in U.S. and NM

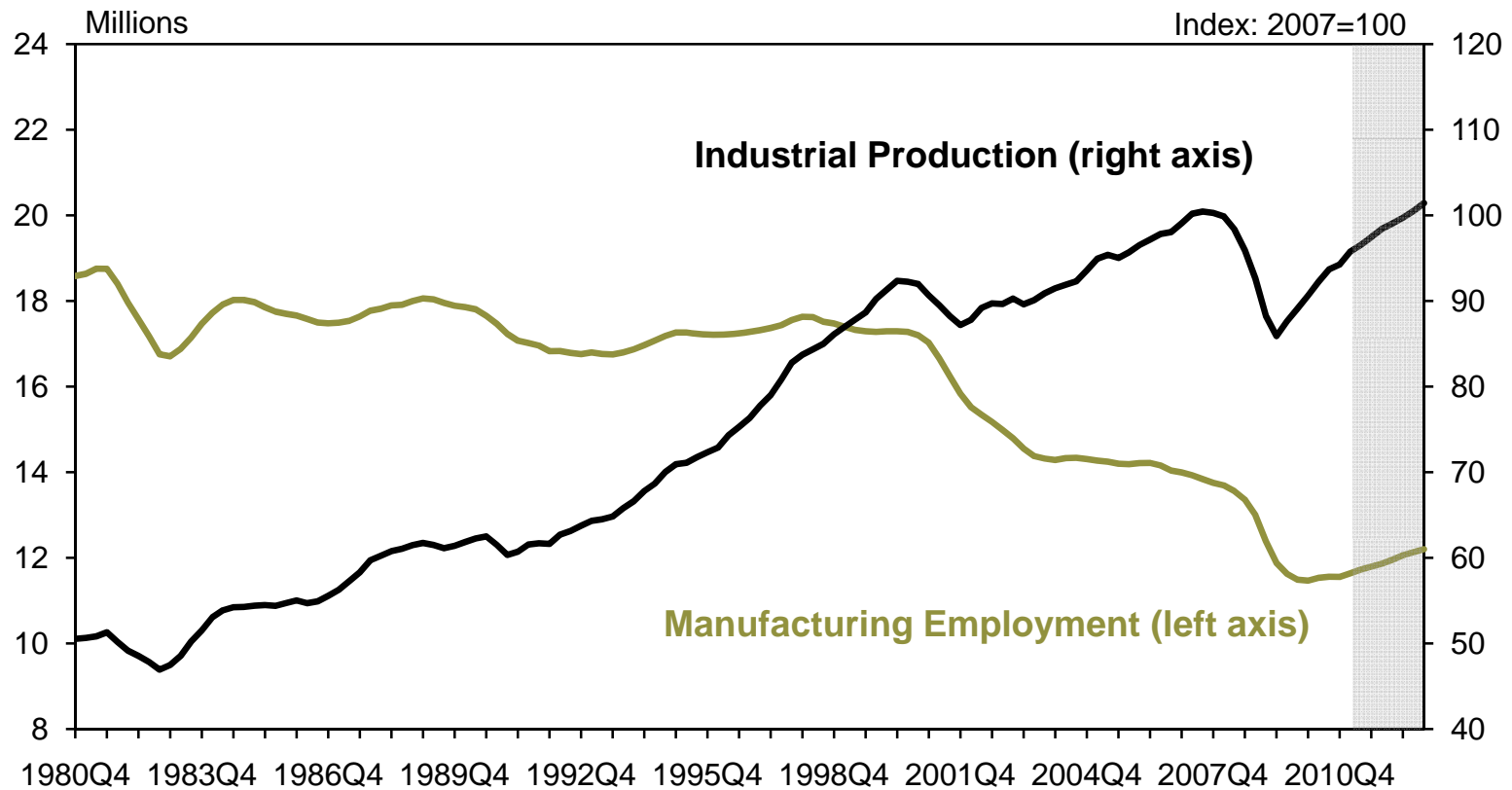
**Count of Active Drilling Rigs**  
Seasonally Adjusted





# Manufacturing is currently a driver industry

**U.S. Manufacturing Employment and Total Industrial Production**  
Seasonally Adjusted



## Risks to the recovery?

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- Rising interest rates (mortgage rates)
- Rising energy/commodity prices
- Federal/state/local budget overhang
- Another down-leg in real estate
- Household de-leveraging takes longer than expected
- Short expansion

# What makes the recovery sustainable?

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- Federal Reserve stimulus – current (and future?)
- Fiscal stimulus – tax package, ARRA wanes after 2011
- Strong financial position of corporate sector
- Resumption in household debt growth
- Growing replacement needs – households/firms
- Virtuous cycle – capitalism, invisible hand

# U.S. and New Mexico Economic Conditions

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Presentation will be available at:  
<http://www.kansascityfed.org/Denver>