

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

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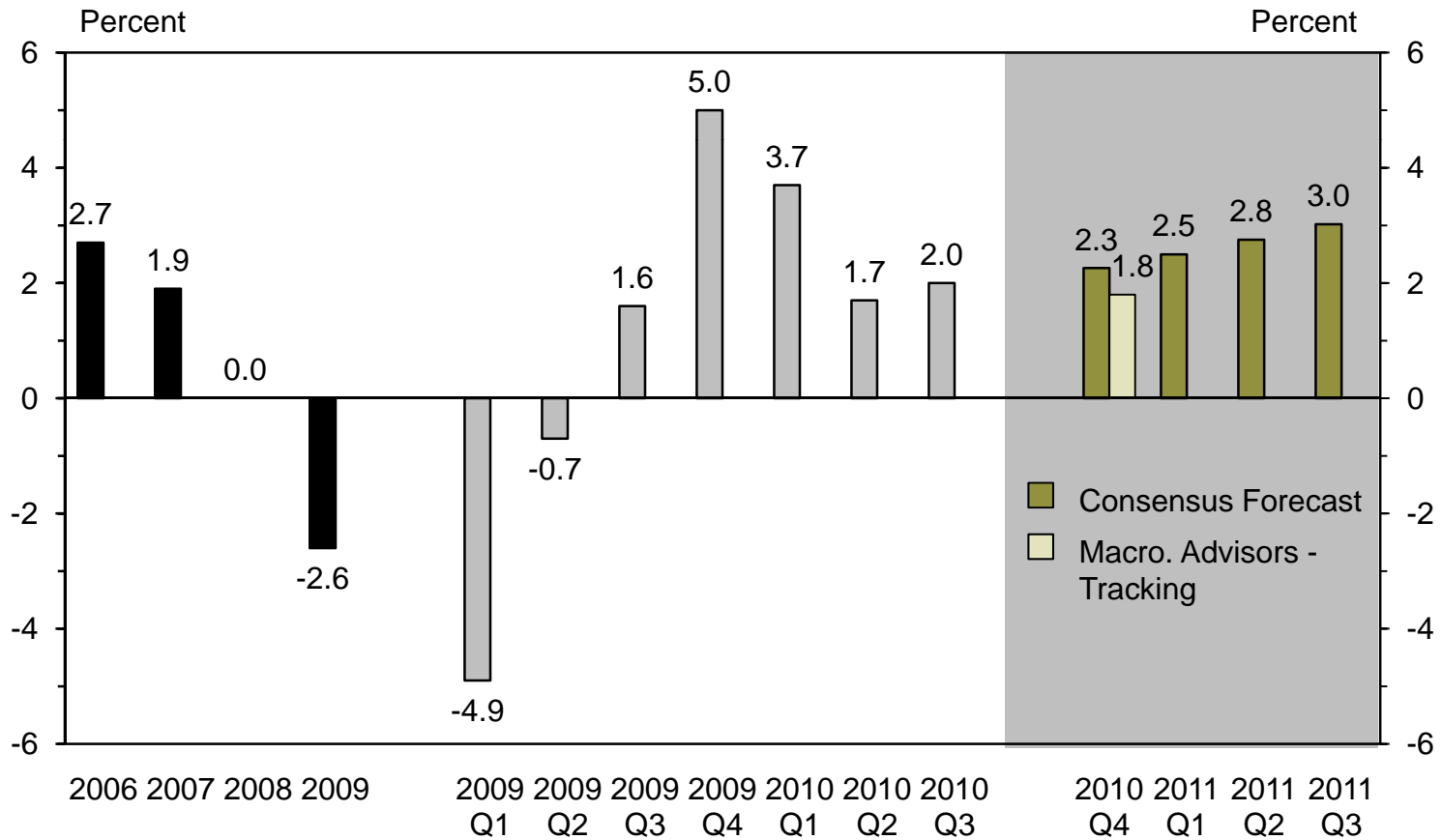
# Current Conditions and Prospects for Recovery

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- In the early stages of U.S. recovery (uneven)
- Weakness in U.S. data since 2<sup>nd</sup> 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...

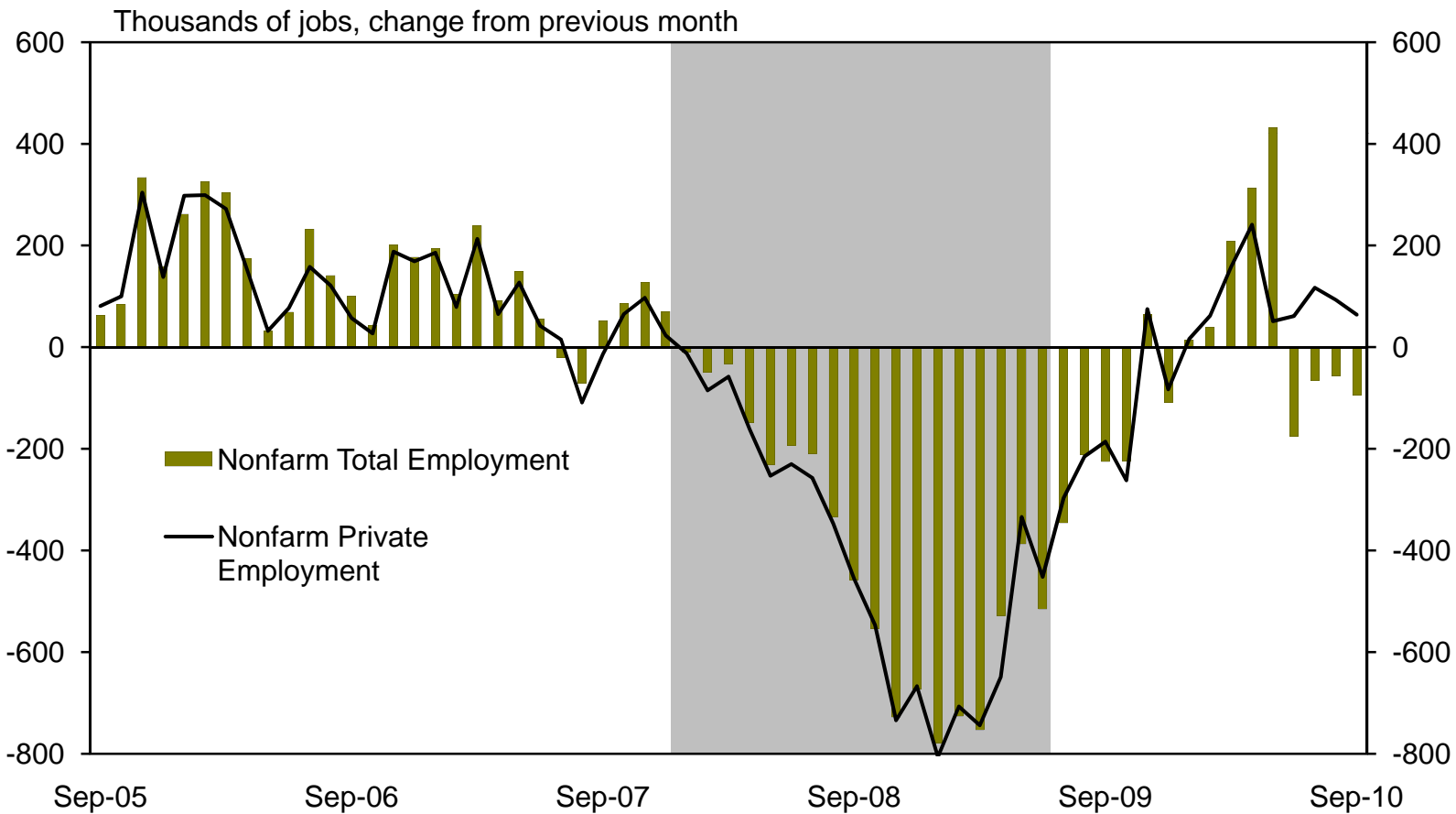
**Real Gross Domestic Product**  
Seasonally Adjusted



Source: Bureau of Economic Analysis, Macro Advisors, Blue Chip Forecasts

.... and recent job data;  
but consistent private job gains since Jan 2010

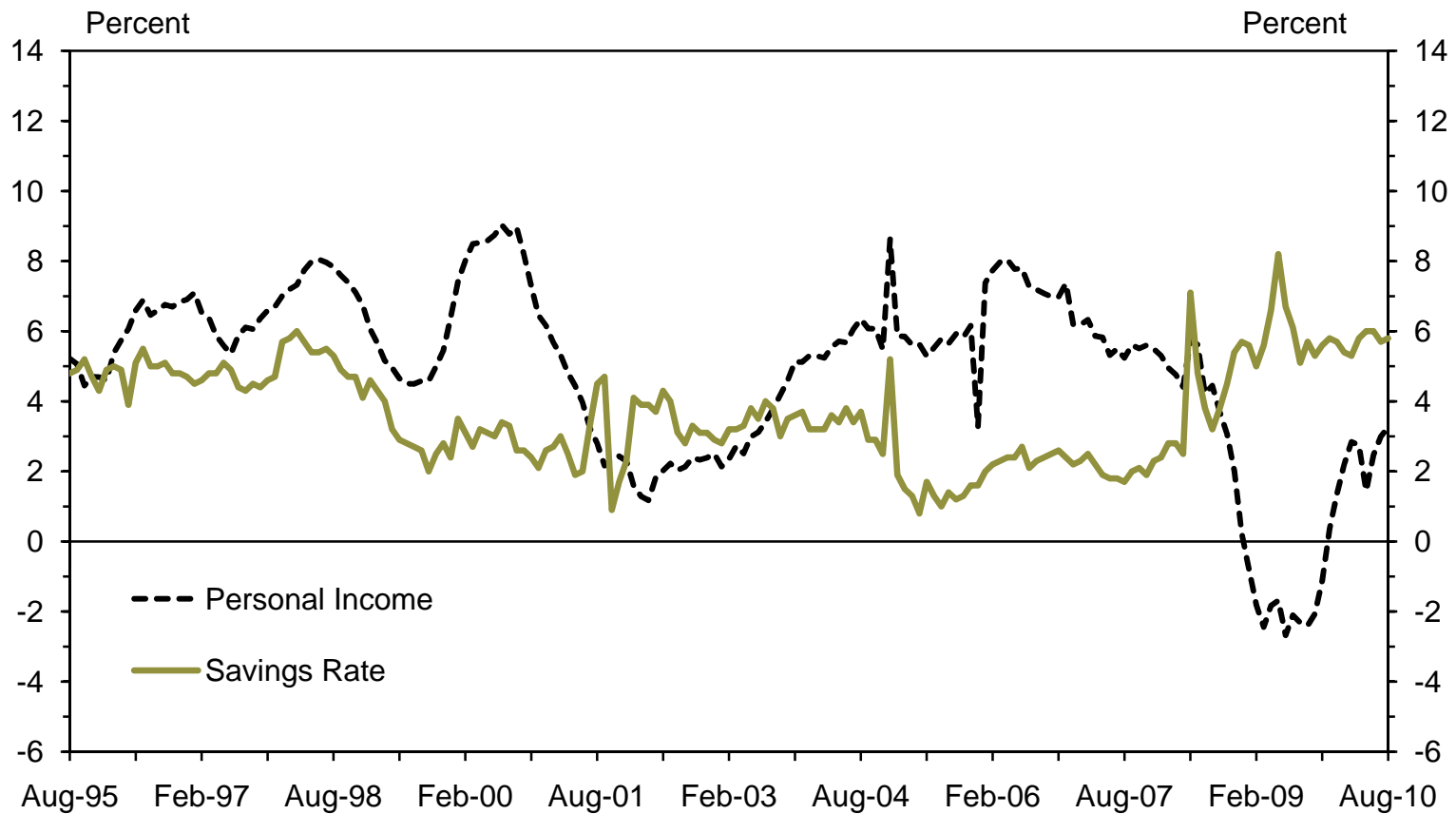
**Total/Private Nonfarm Employment**  
Seasonally Adjusted



Source: Bureau of Labor Statistics

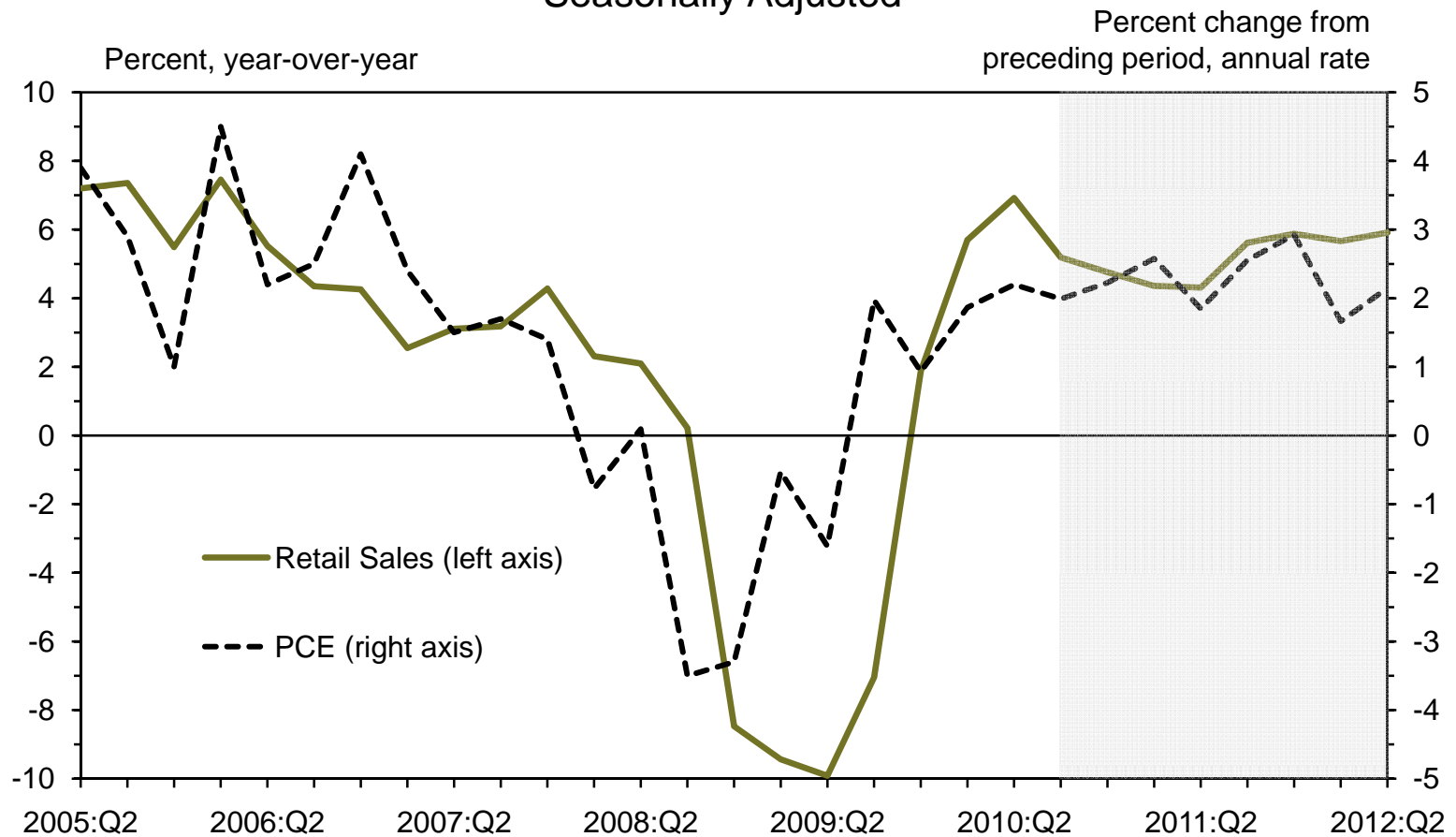
# Walking a tightrope? Modest income growth and spending, debt reduction, and savings up

## Growth in Personal Income vs. Personal Savings Rate



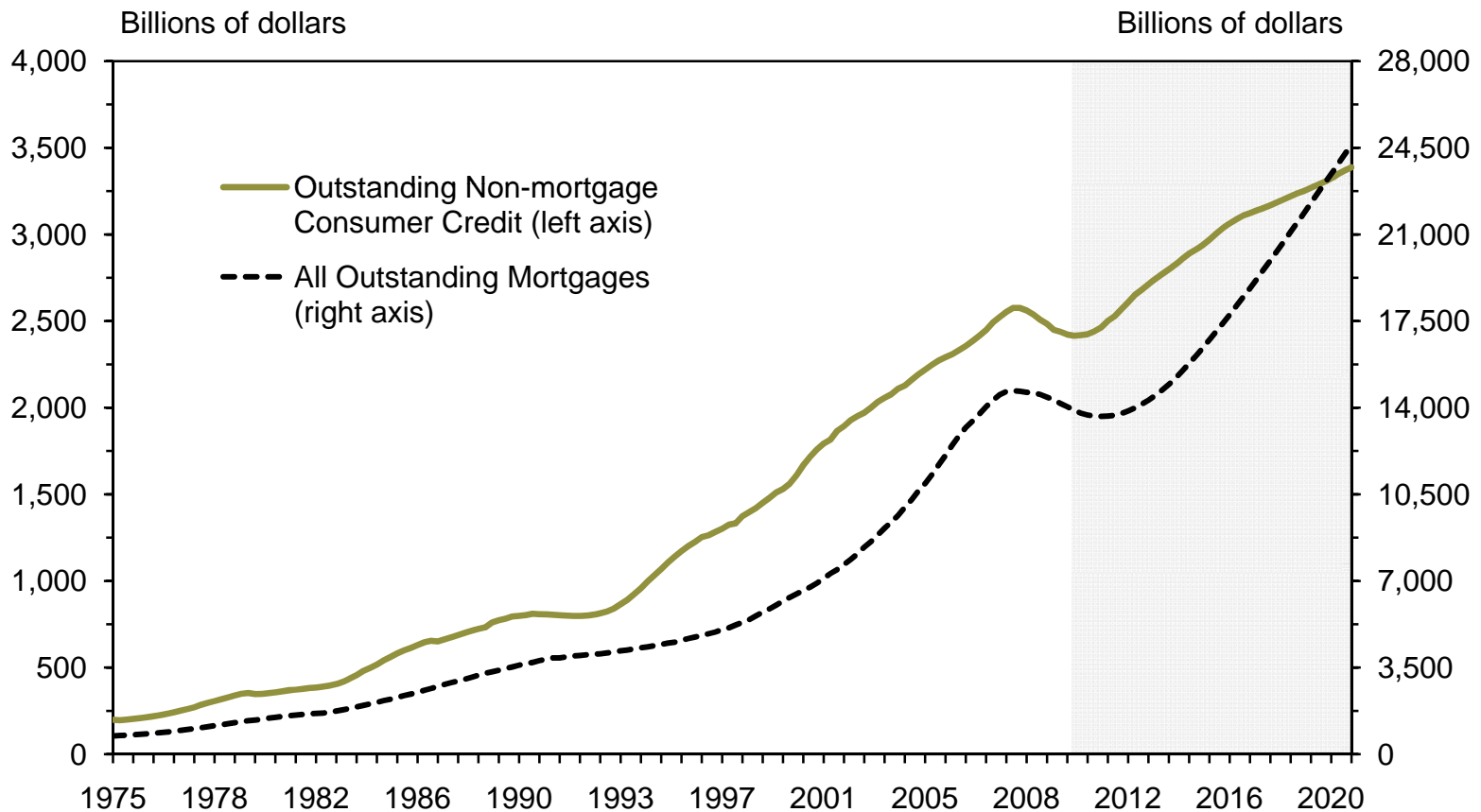
# Forecasts suggest 'normal' consumer spending recovery

**Retail Sales vs. Personal Consumption Expenditures**  
Seasonally Adjusted



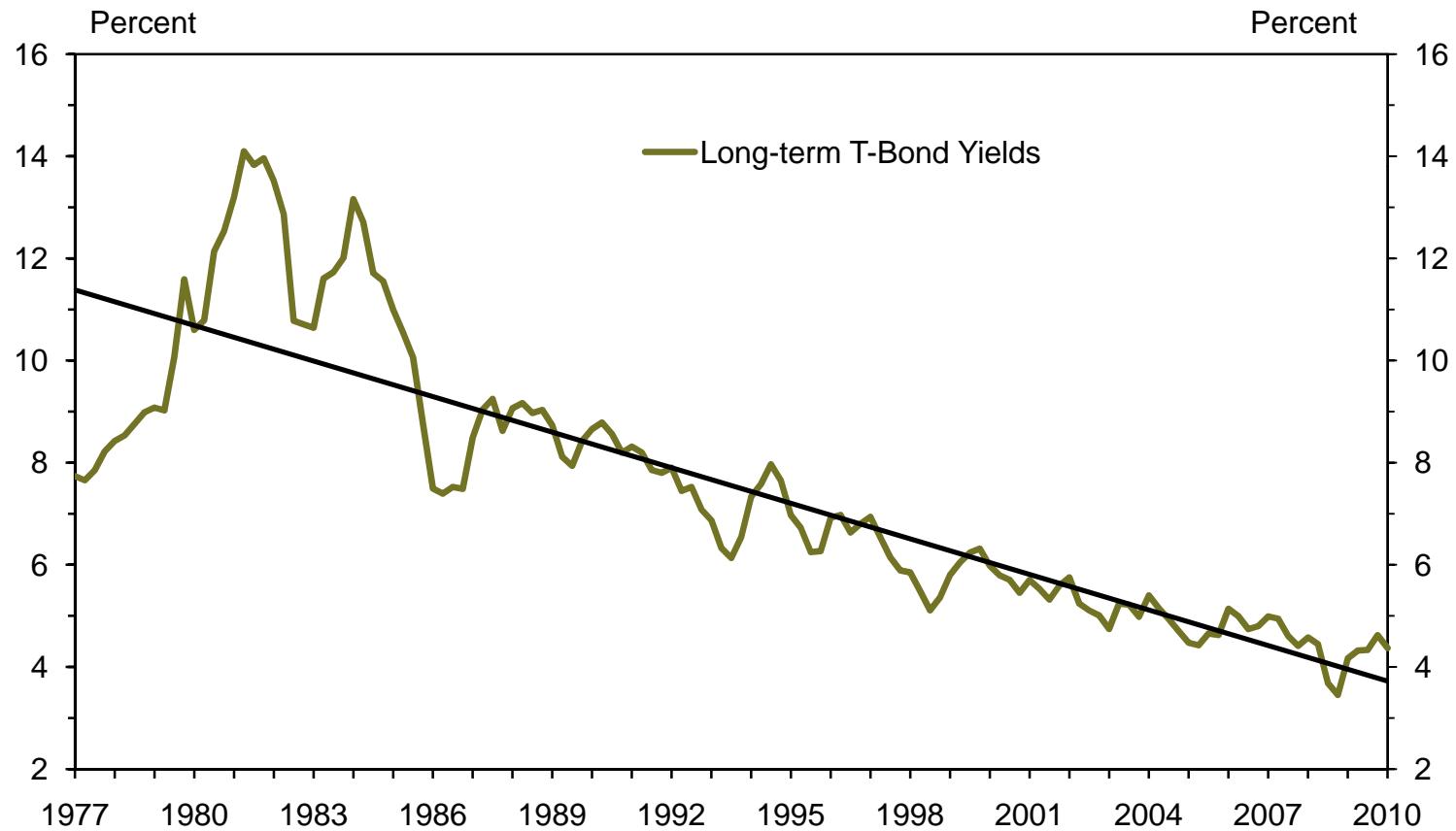
# No major deleveraging of the household sector is expected: cyclical adjustment

## U.S. Consumer Credit



# Was household leveraging fully irrational?

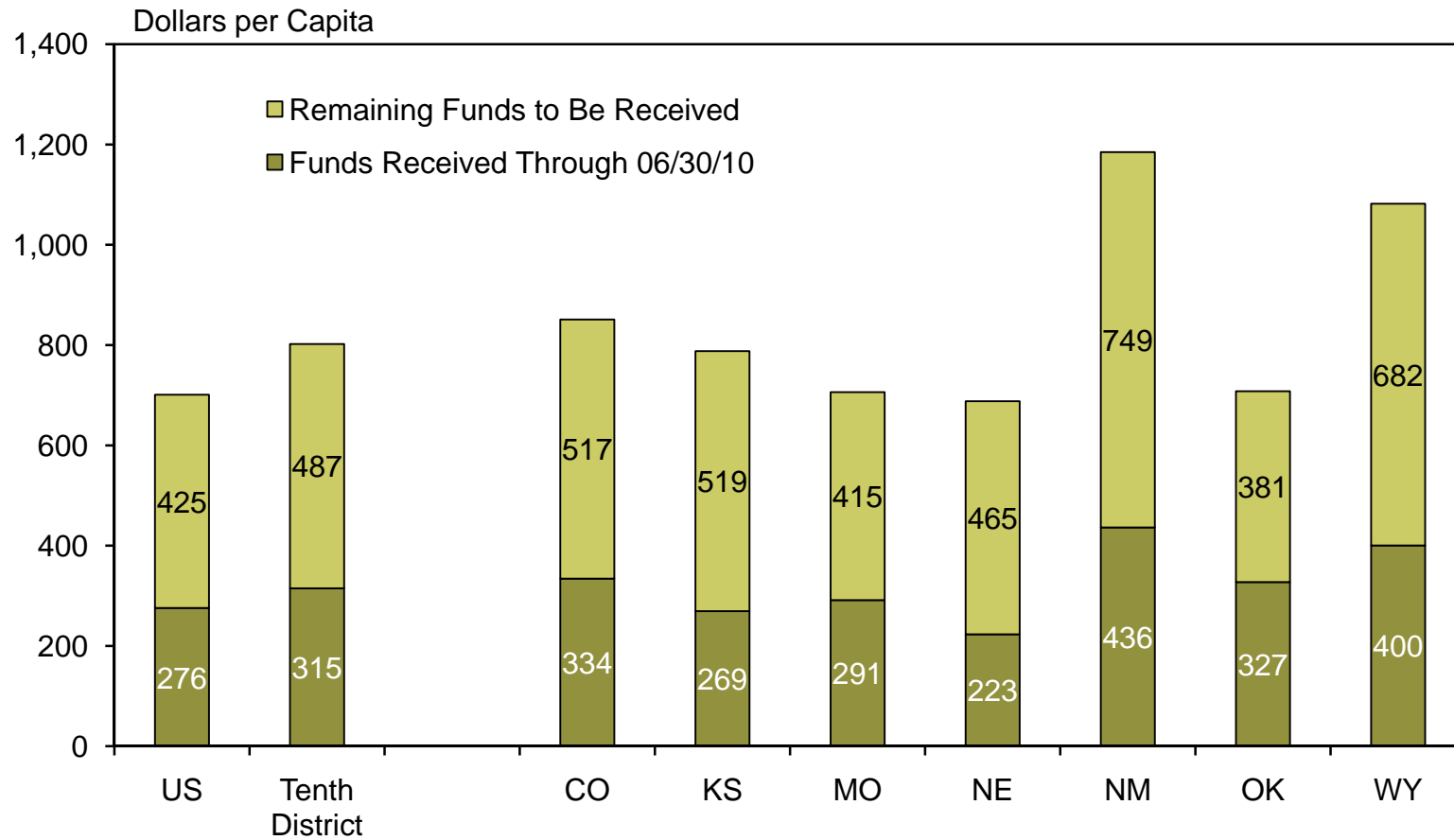
## Long-Term Treasury Bond Yields





# Much of the fiscal stimulus remains for 2011

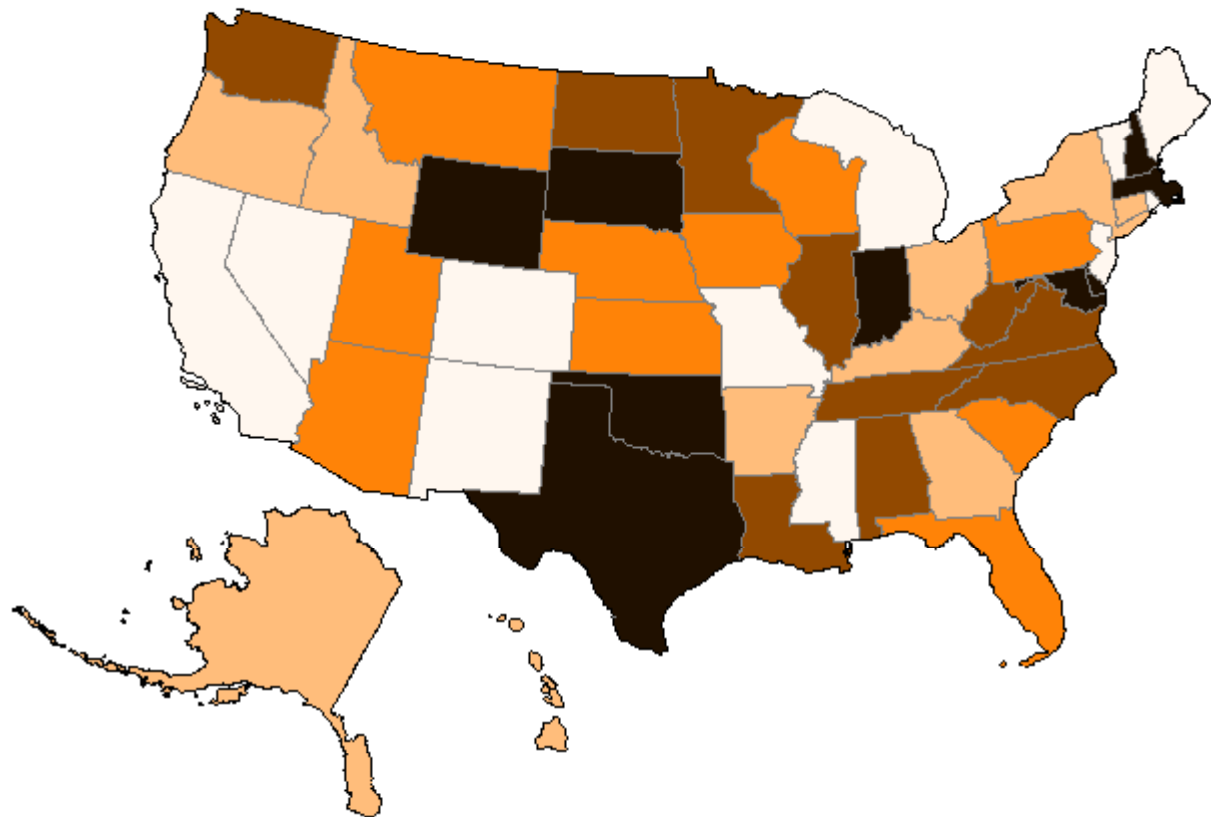
**Per Capita Stimulus Package Spending**  
U.S. and Tenth District States



# Energy and agriculture states leading; weakness in several Mtn. states; AZ/FL expanding

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

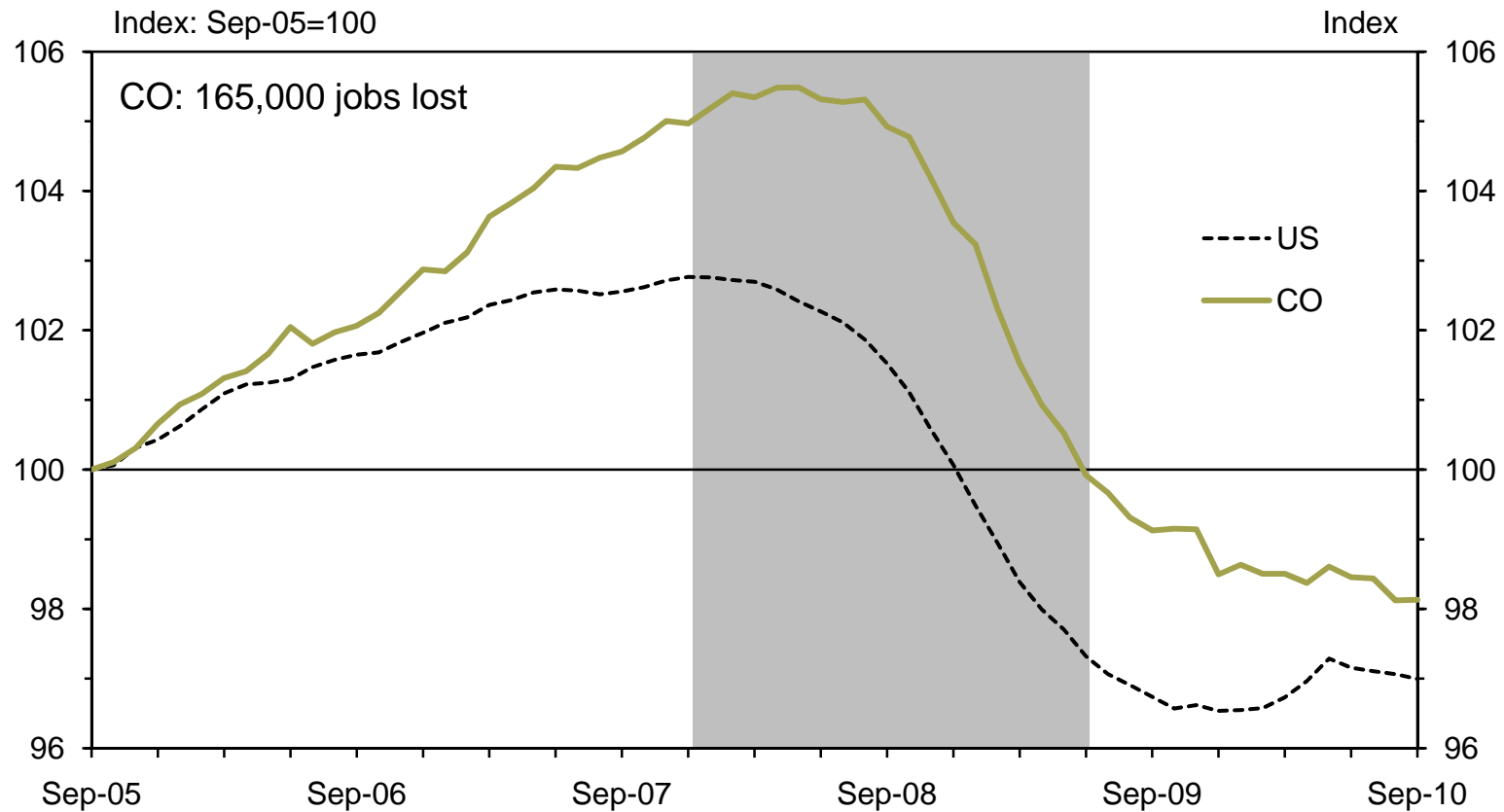
1. District of Columbia: 3.0%
2. New Hampshire: 1.7
3. Wyoming: 1.6
4. Oklahoma: 1.6
5. Indiana: 1.4
6. Texas: 1.4
7. Delaware: 1.4
8. South Dakota: 1.4
9. Maryland: 1.3
10. Massachusetts: 1.2



# No clear sign of a bottom in CO labor market

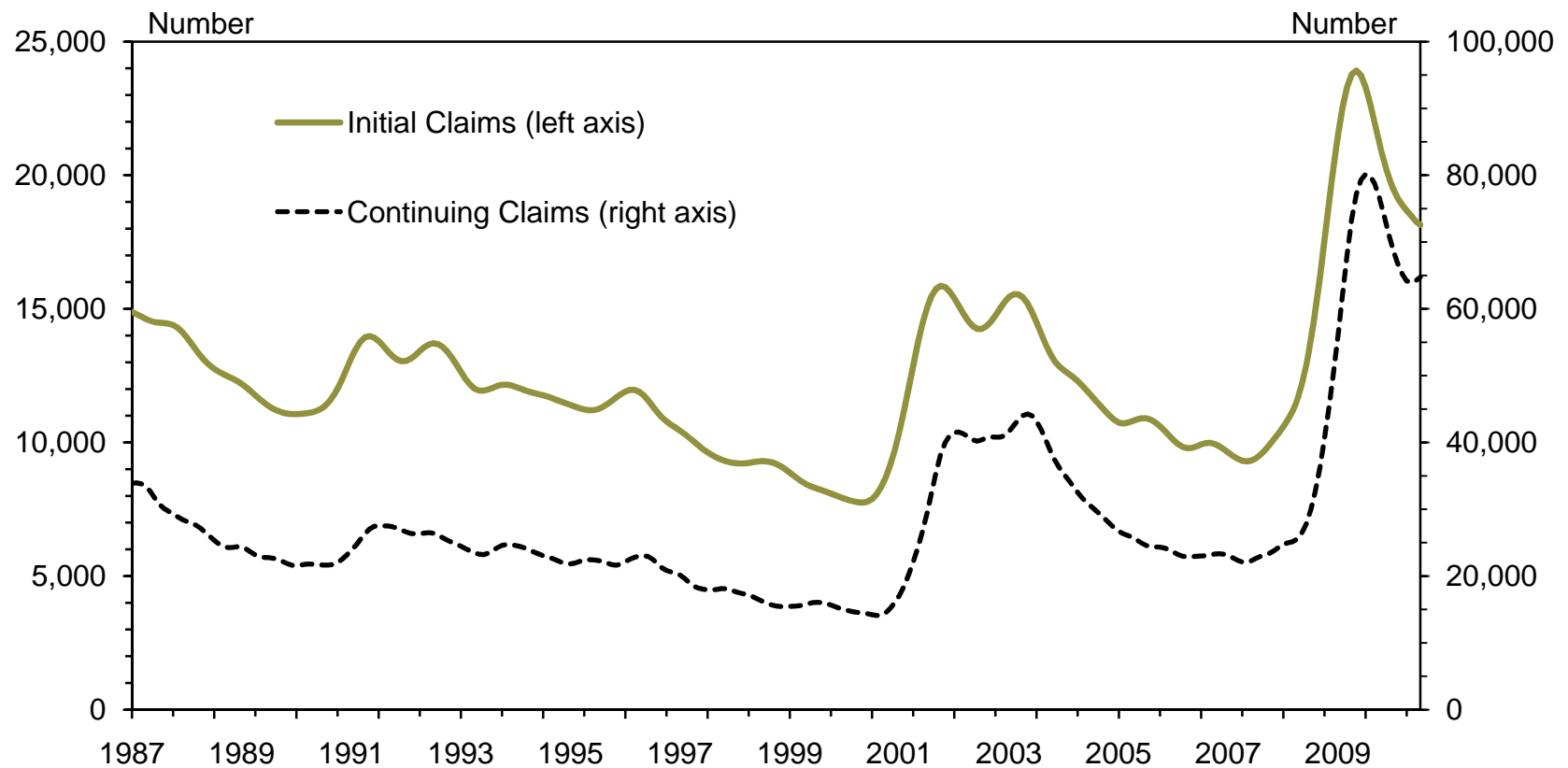
CO job loss exceeds U.S. (7.0% vs 5.6%)

**Level of Total Nonfarm Employment**  
Seasonally Adjusted



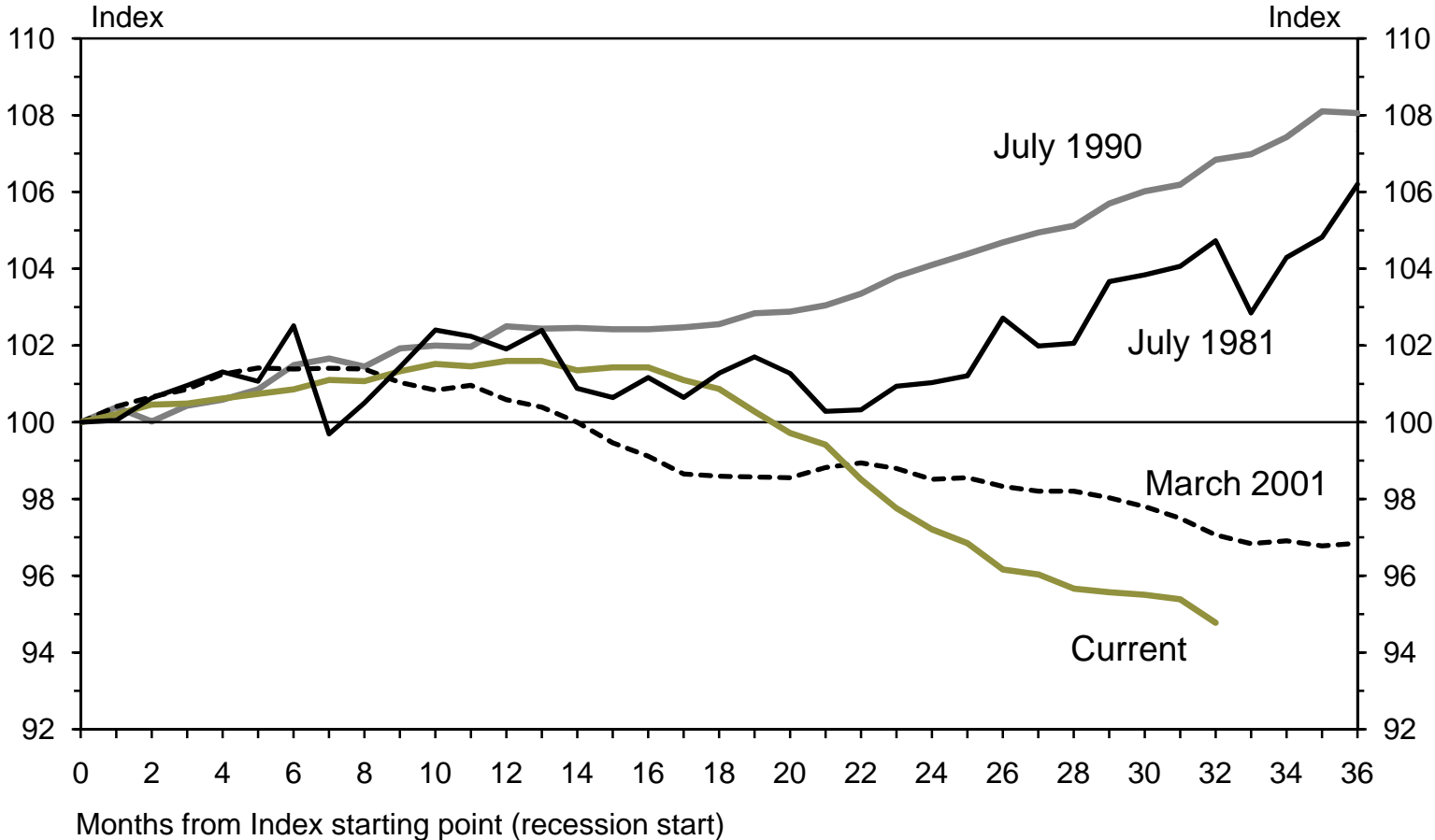
# Jobless claims confirm recent U.S. weakness; progress on continuing claims lags

**Colorado Unemployment Claims**  
Seasonally Adjusted



# Current cycle is most like 2001 recession

**Level of Total Nonfarm Employment – Colorado**  
Seasonally Adjusted



Source: Bureau of Labor Statistics

## Job recovery is uneven across the District; CO and NM are especially weak

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- Four groupings:

- Tier 1: Nebraska, Oklahoma, and Wyoming (agri./energy)

- Tier 2: Kansas (mfg./energy/agri.)

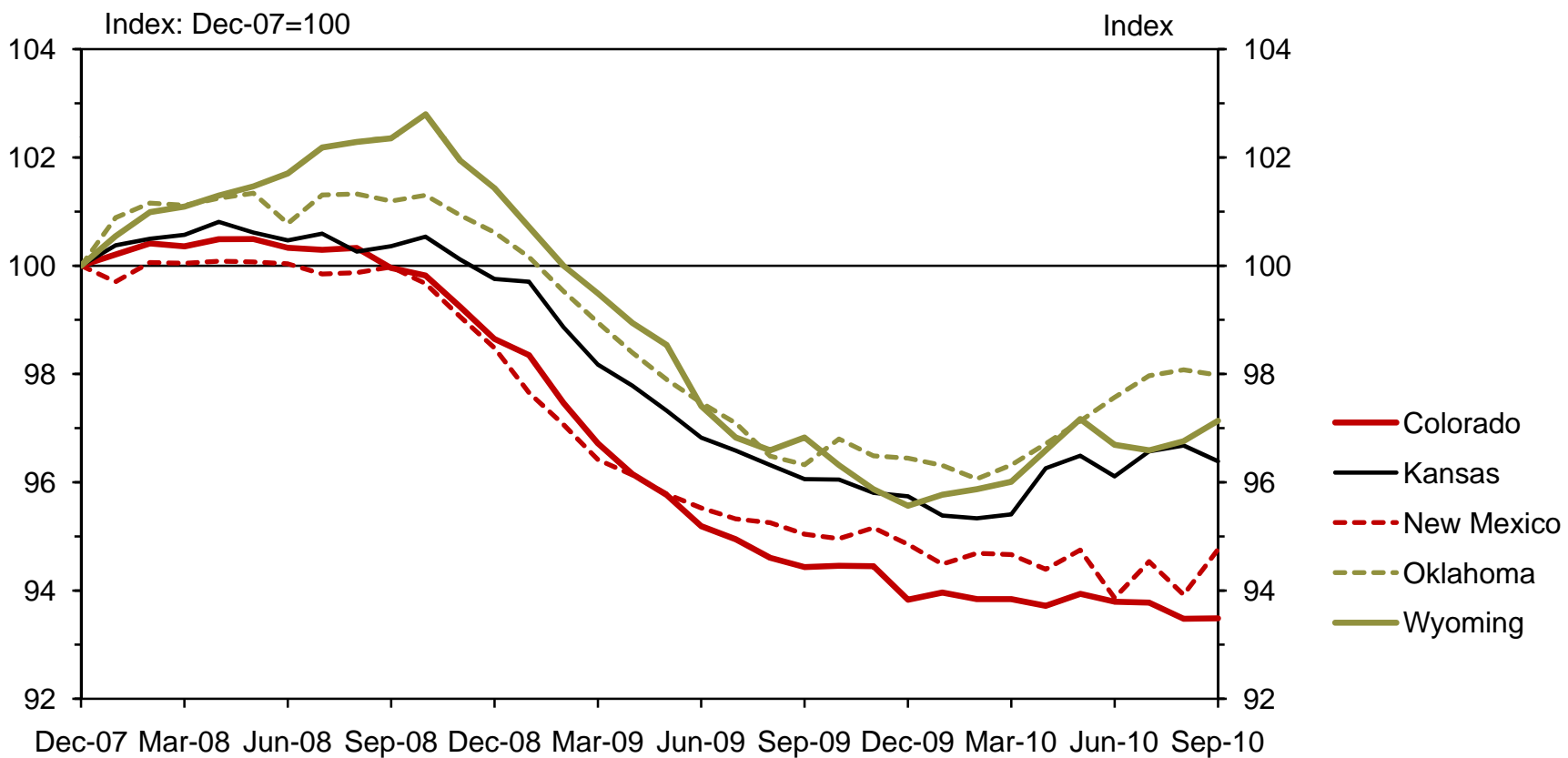
- Tier 3: Missouri (U.S.-like)

- Tier 4: **Colorado** and New Mexico

- What factors explain the underperformance?

# Most surrounding states (energy, Mtn.) are adding jobs

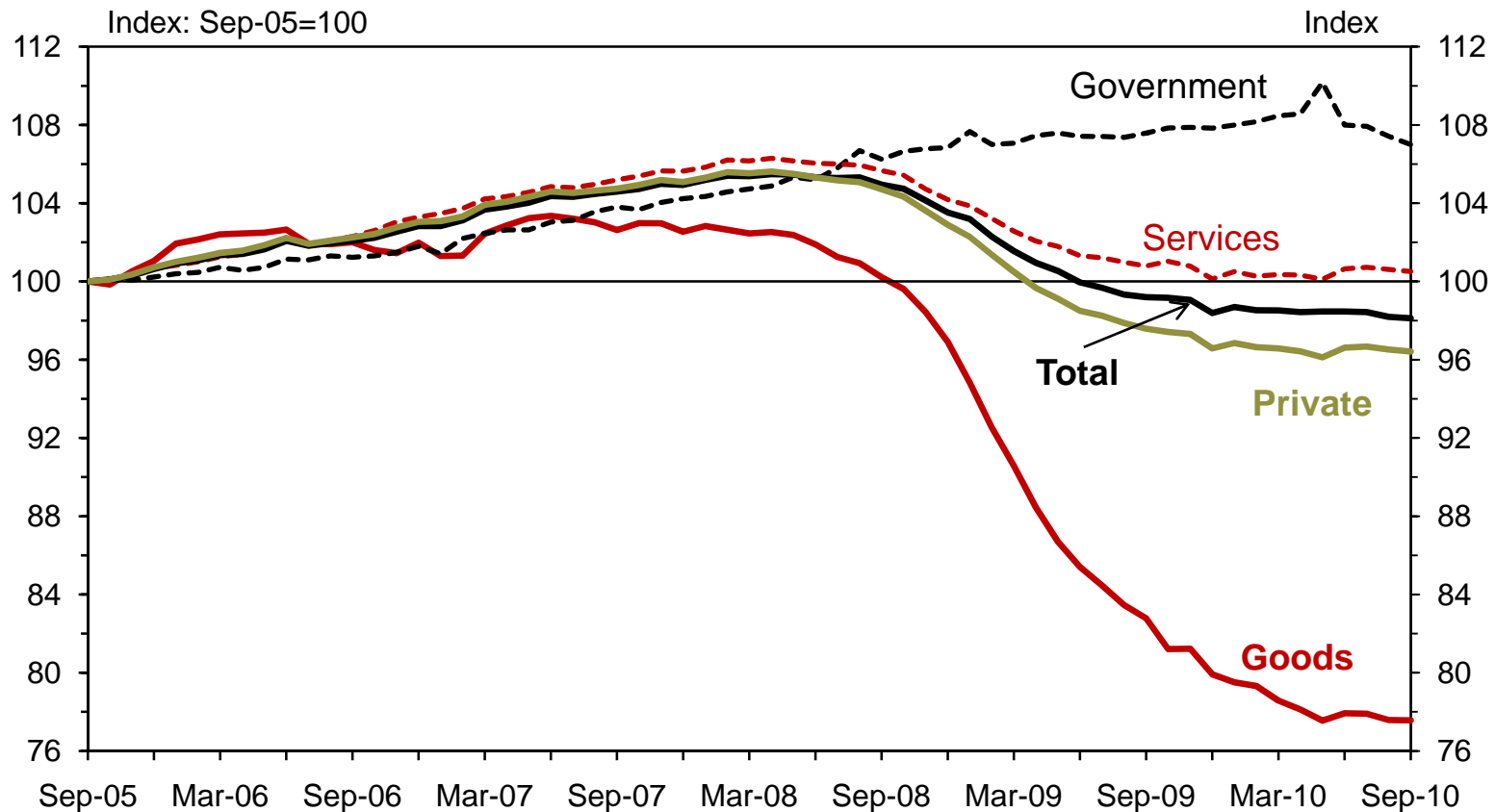
## Total Nonfarm Employment Seasonally Adjusted



Source: Bureau of Labor Statistics

# Services have bottomed; no clear recovery in goods or government

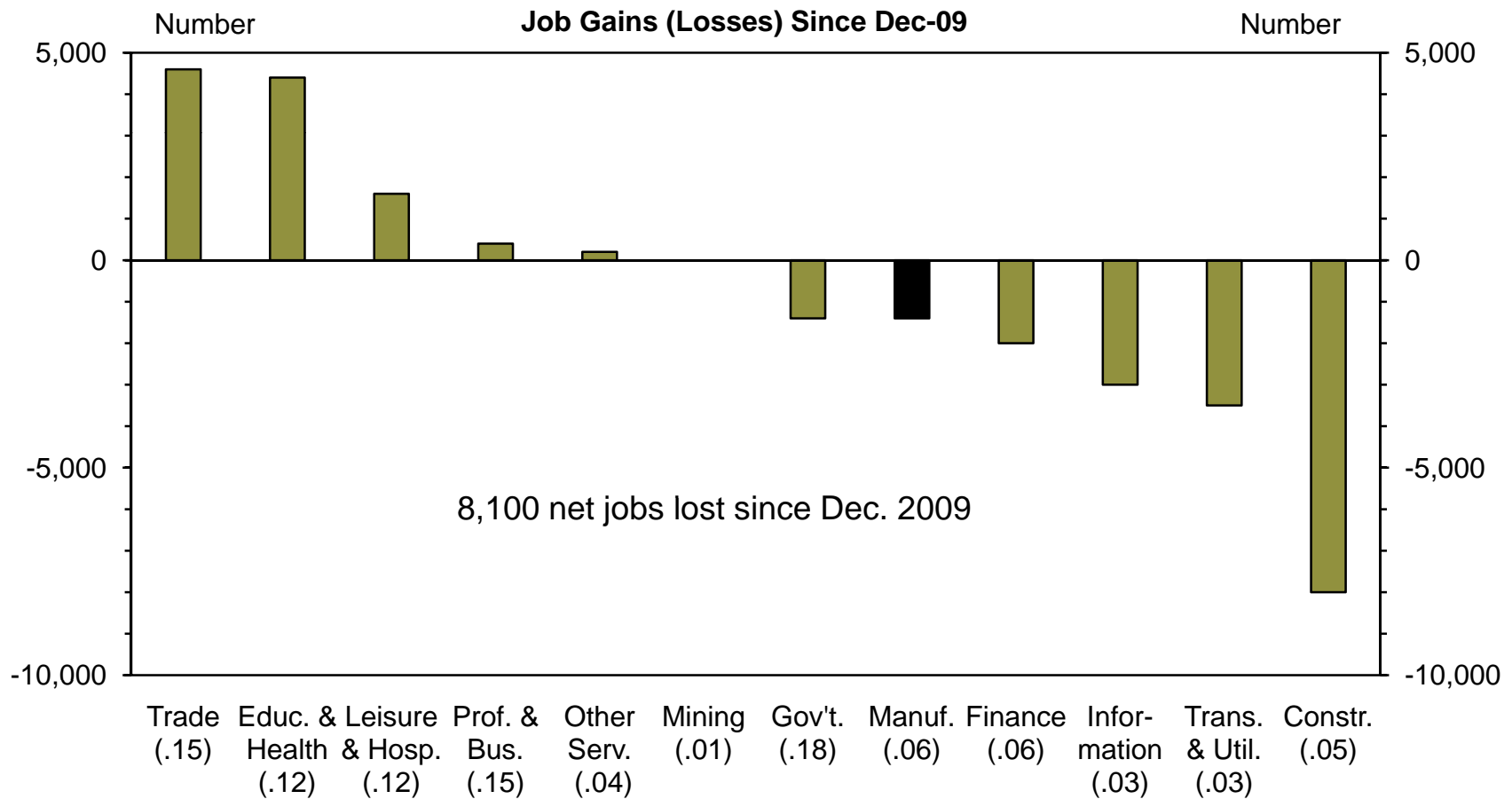
**Nonfarm Employment – Colorado**  
Seasonally Adjusted





# Trade surprise; goods sectors still weighing on totals

**Nonfarm Employment by Industry – Colorado**  
Seasonally Adjusted



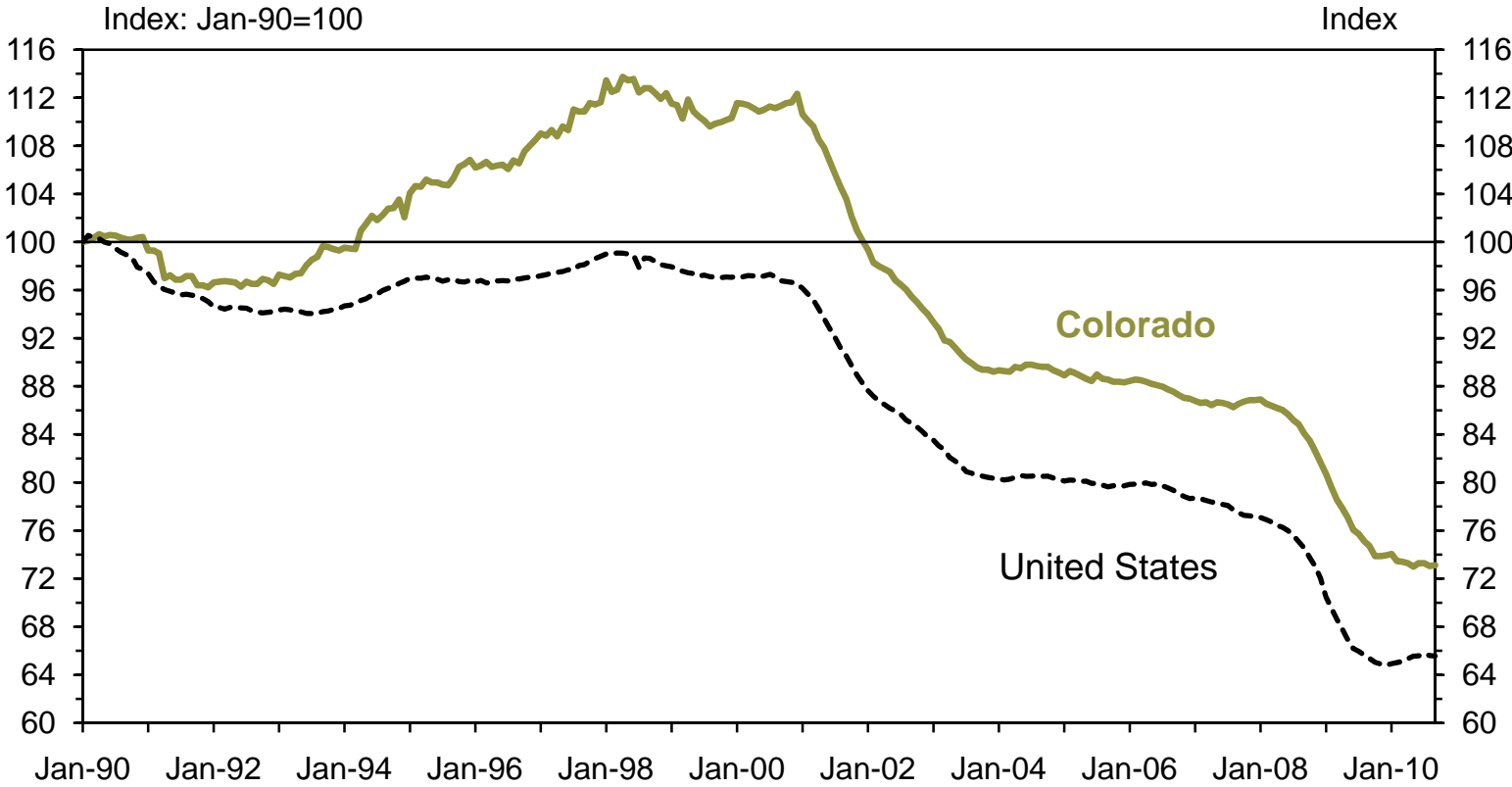
# The Manufacturing Sector

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- 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

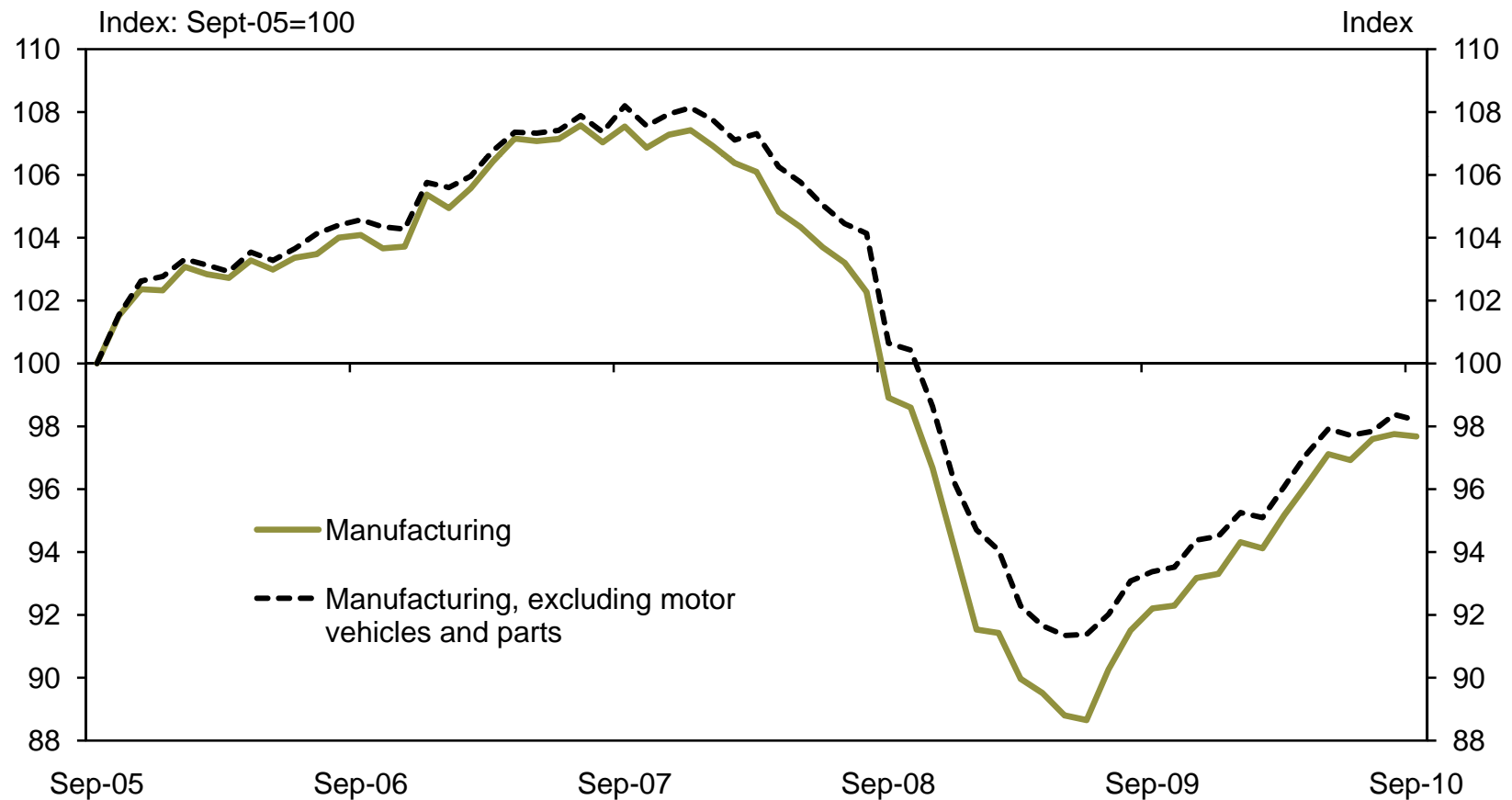
**Manufacturing Employment**  
Seasonally Adjusted



Source: Bureau of Labor Statistics

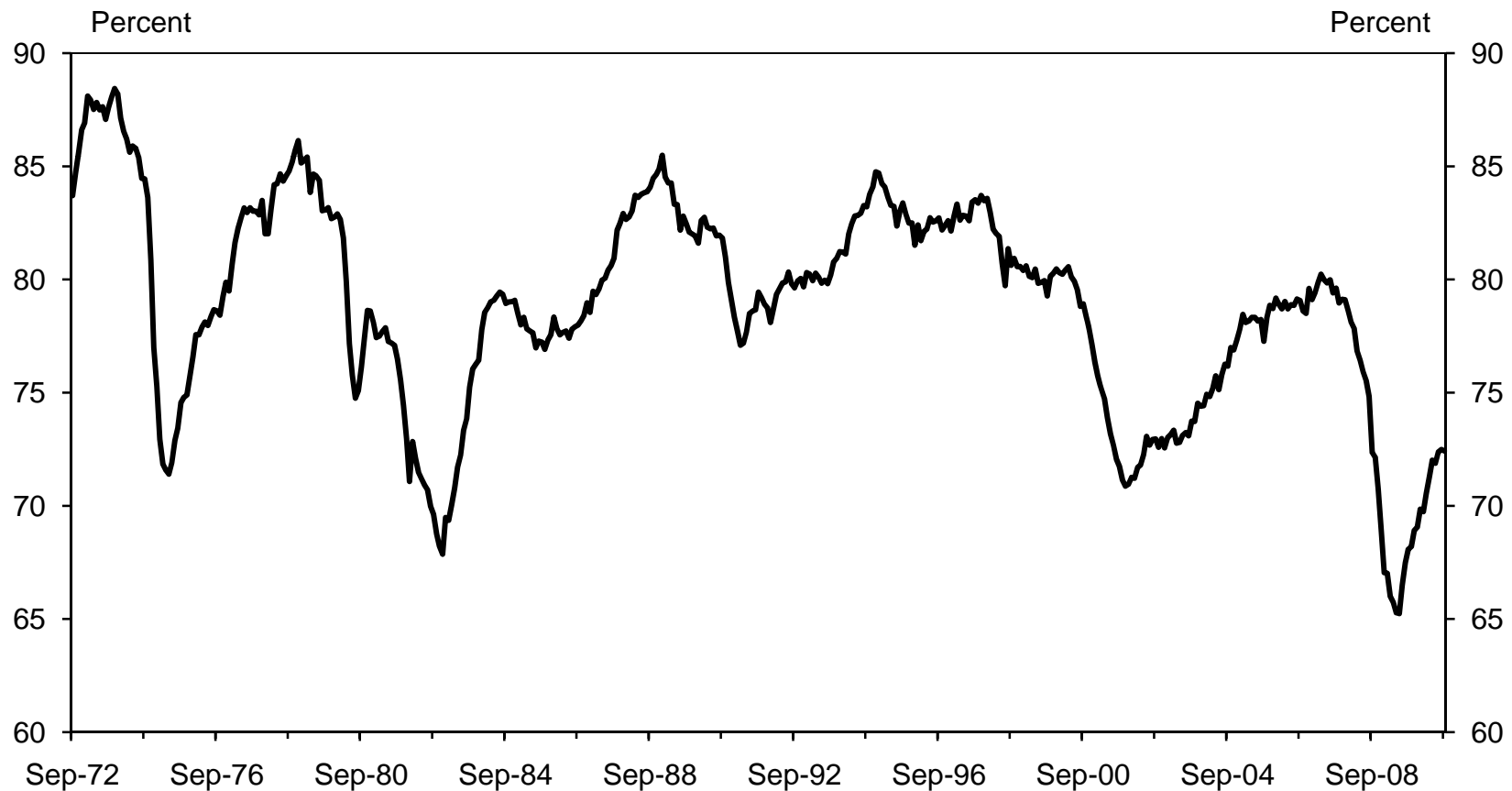
# Surge in U.S. industrial production since June '09; weakness this summer

**U.S. Industrial Production Index**  
Seasonally Adjusted



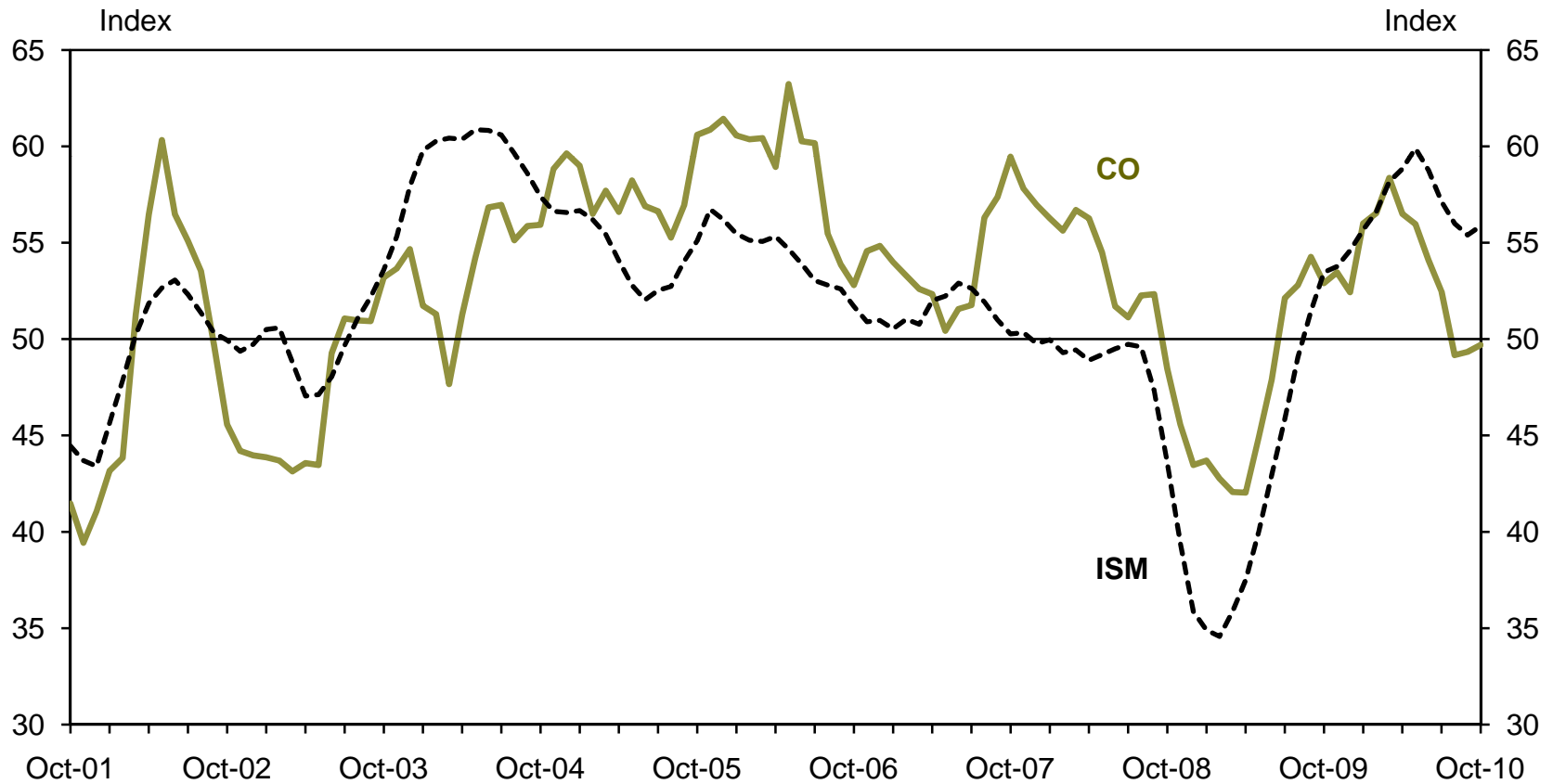
# Capacity utilization has risen sharply in recent months, but remains near past recession lows

**U.S. Manufacturing Capacity Utilization Rate**  
Seasonally Adjusted



# Colorado mfg. bounced late and has shown more softness relative to U.S.

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

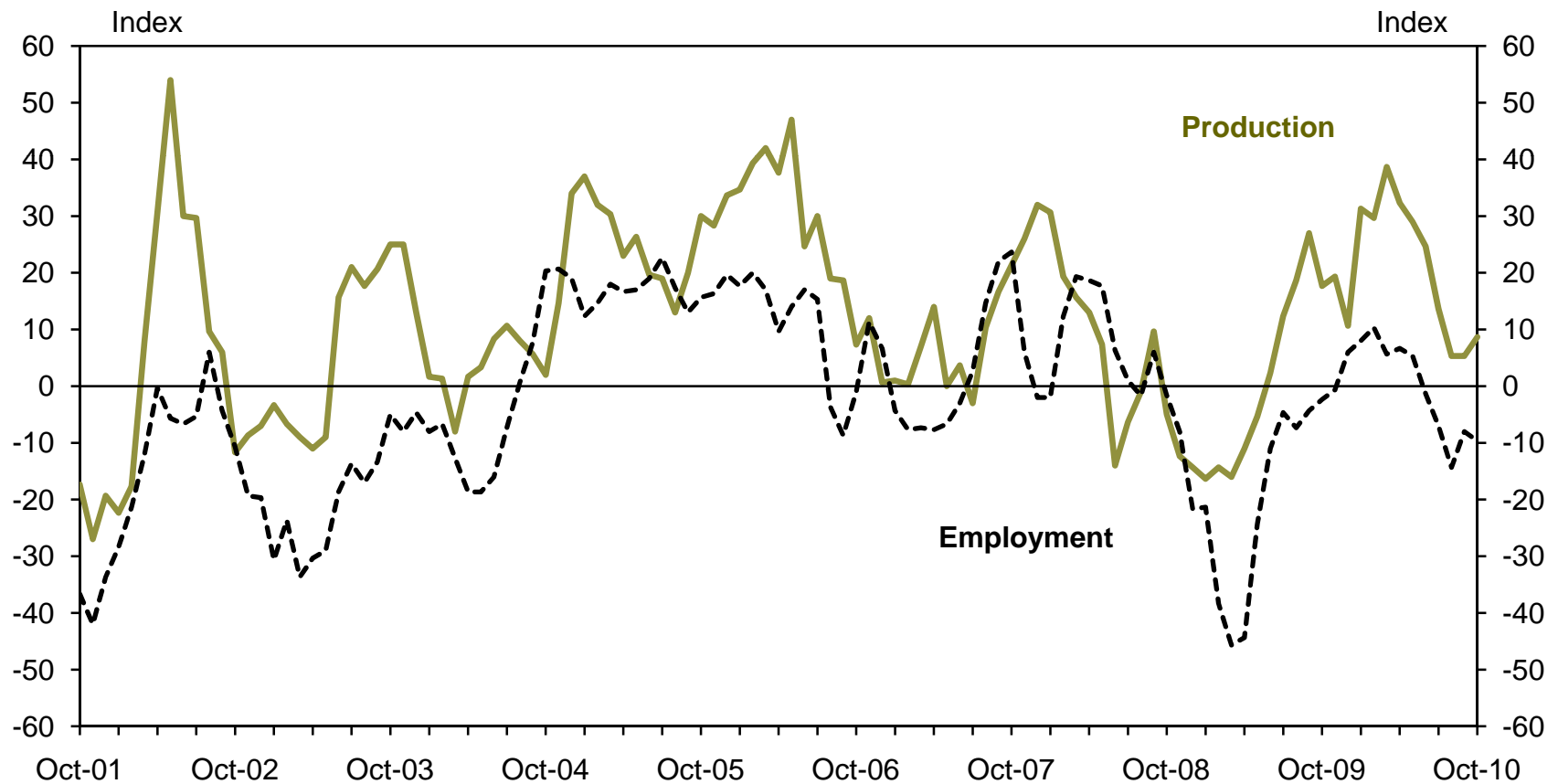


Note: CO index is computed on ISM basis (50 = zero change)

Source: ISM, FRBKC Manufacturing Survey

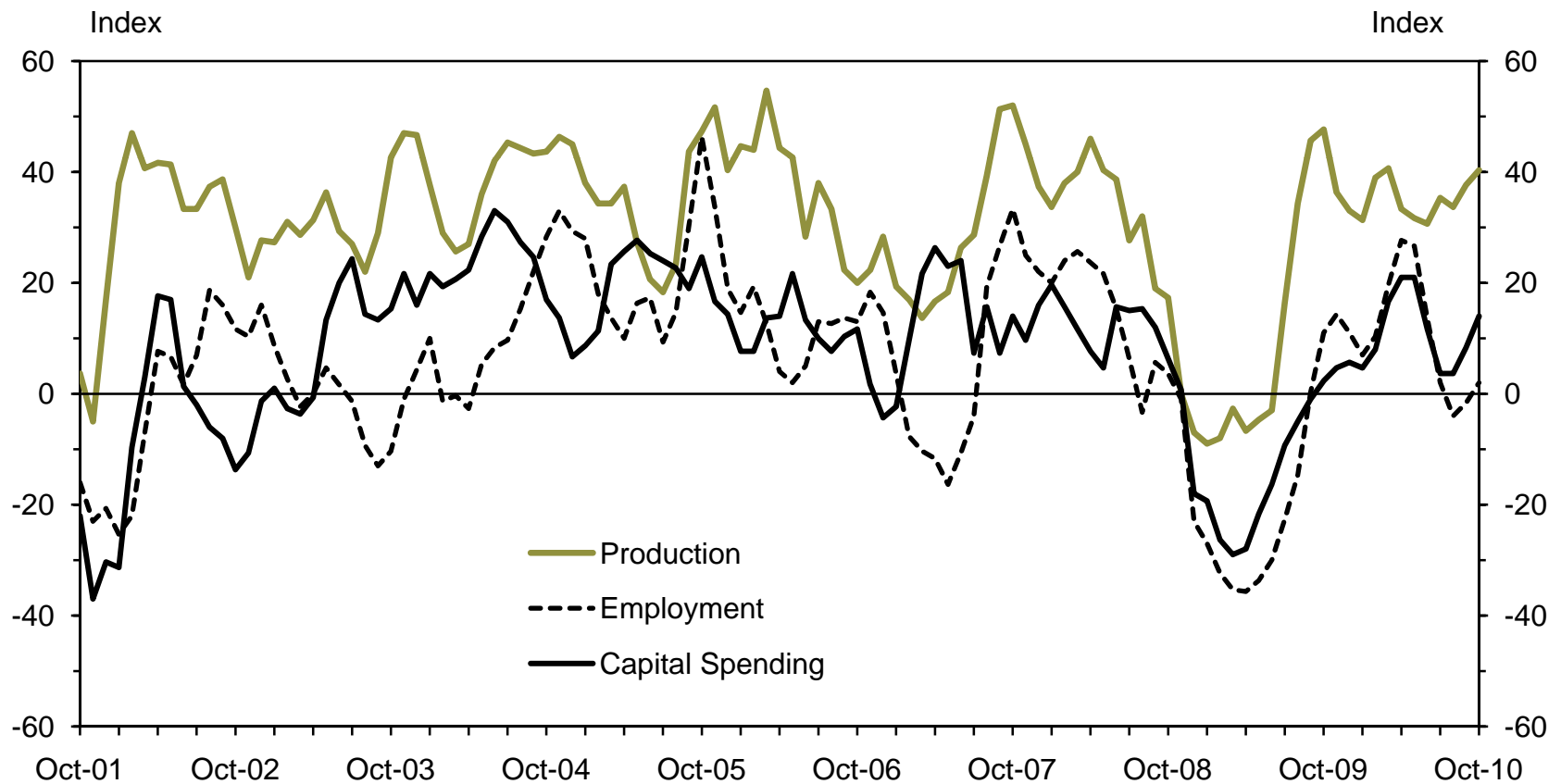
# Short-run productivity growth remains strong

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



# Expectations suggest some CapEx increase, but flat hiring 6 months ahead in CO

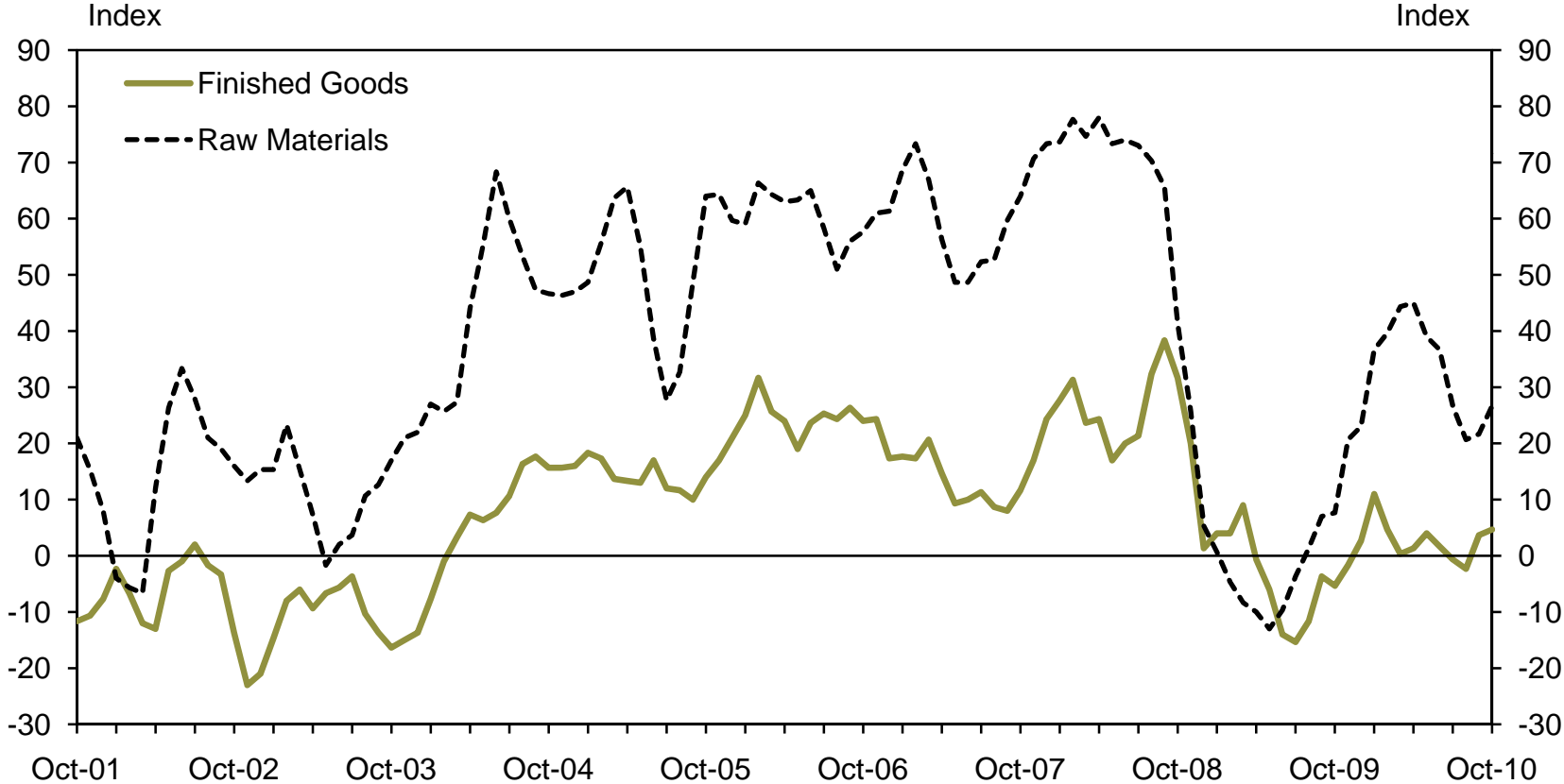
**CO Manufacturing Indexes**  
Six-month ahead, 3-month moving avg.





# Input price increases remain above flat output prices

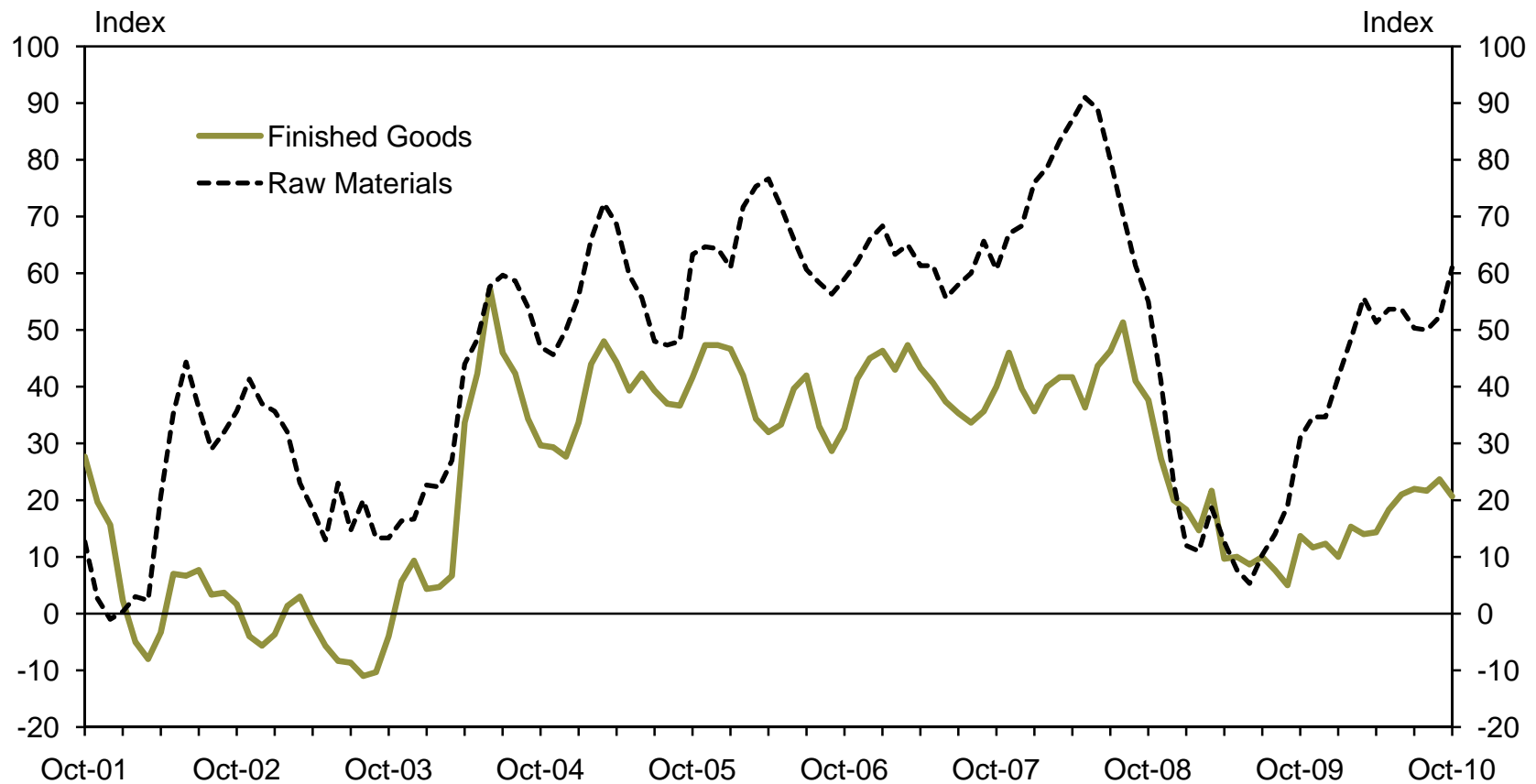
**CO Manufacturing Price Indexes**  
Month-over-month, 3-month moving avg.



Source: FRBKC Manufacturing Survey

# Pressure on margins expected to remain six months ahead

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



# Resumption of weakness in dollar

**Major Currencies Dollar Index**  
Nominal



# Summary of U.S. and CO conditions

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- 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