

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



FEDERAL RESERVE BANK *of* KANSAS CITY
DENVER BRANCH

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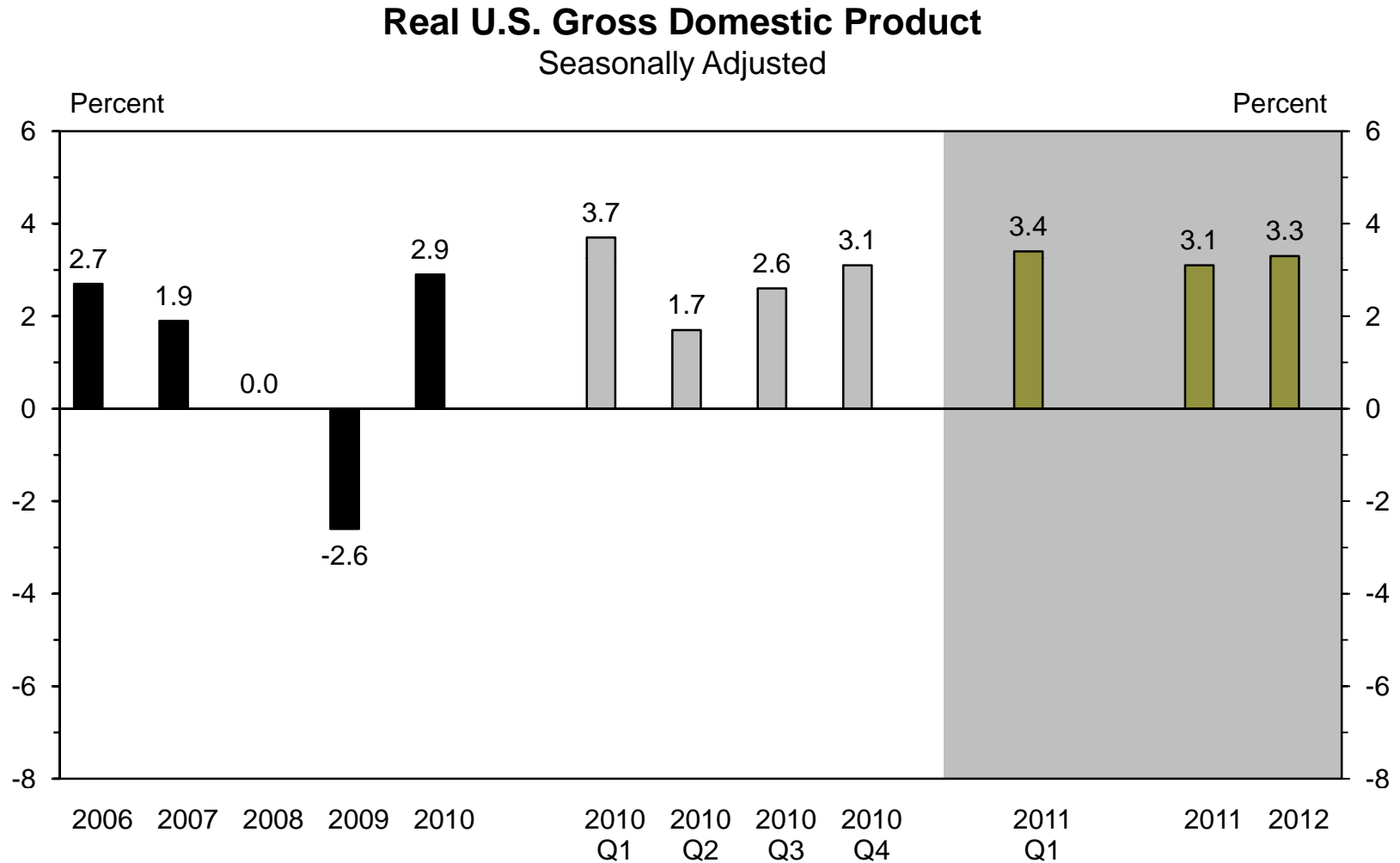
**Vice President and Branch Executive
Federal Reserve Bank of Kansas City
Denver Branch**

We only need a few things for recovery...

- 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

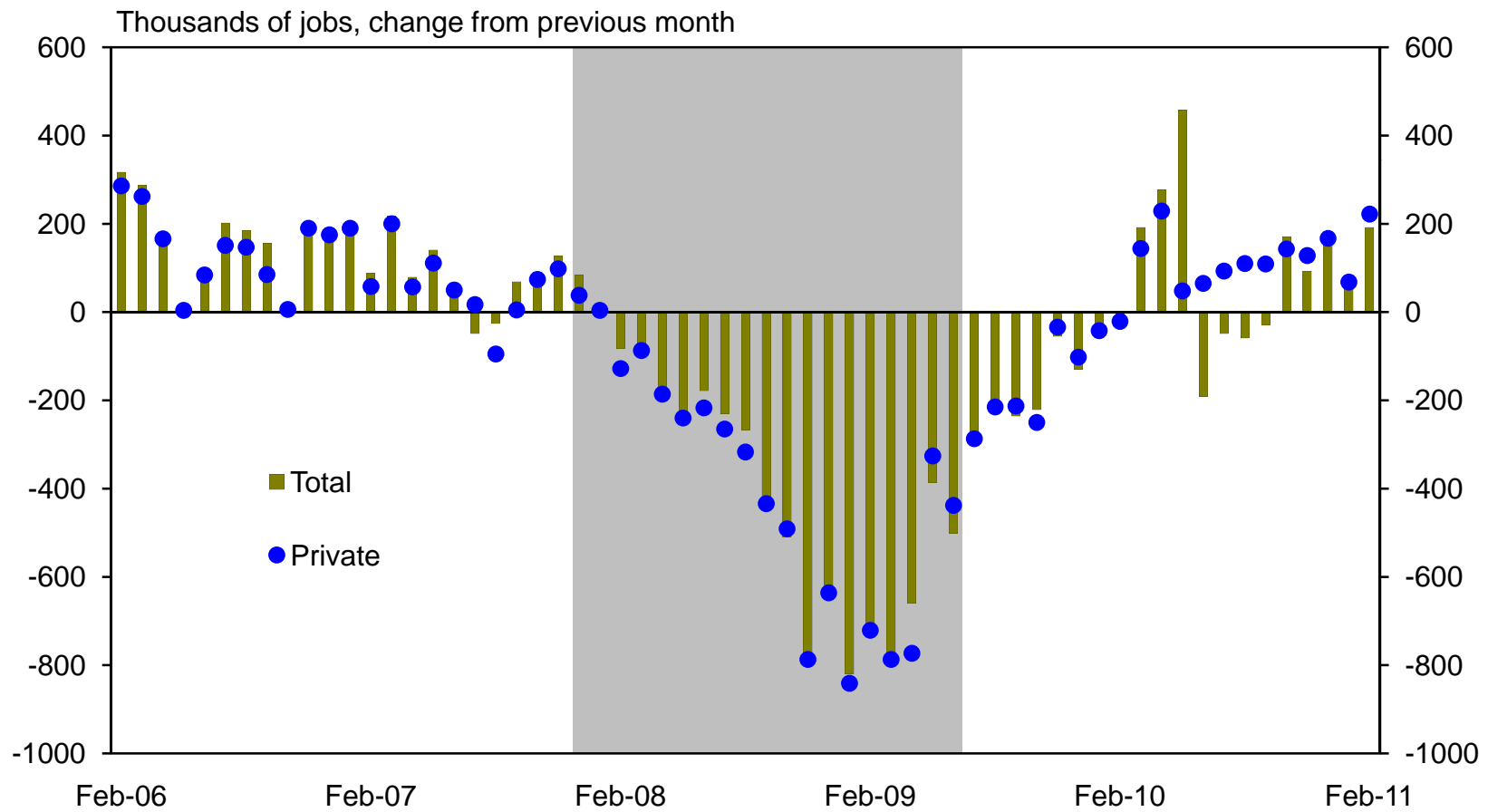
... right?

GDP growth is accelerating once again



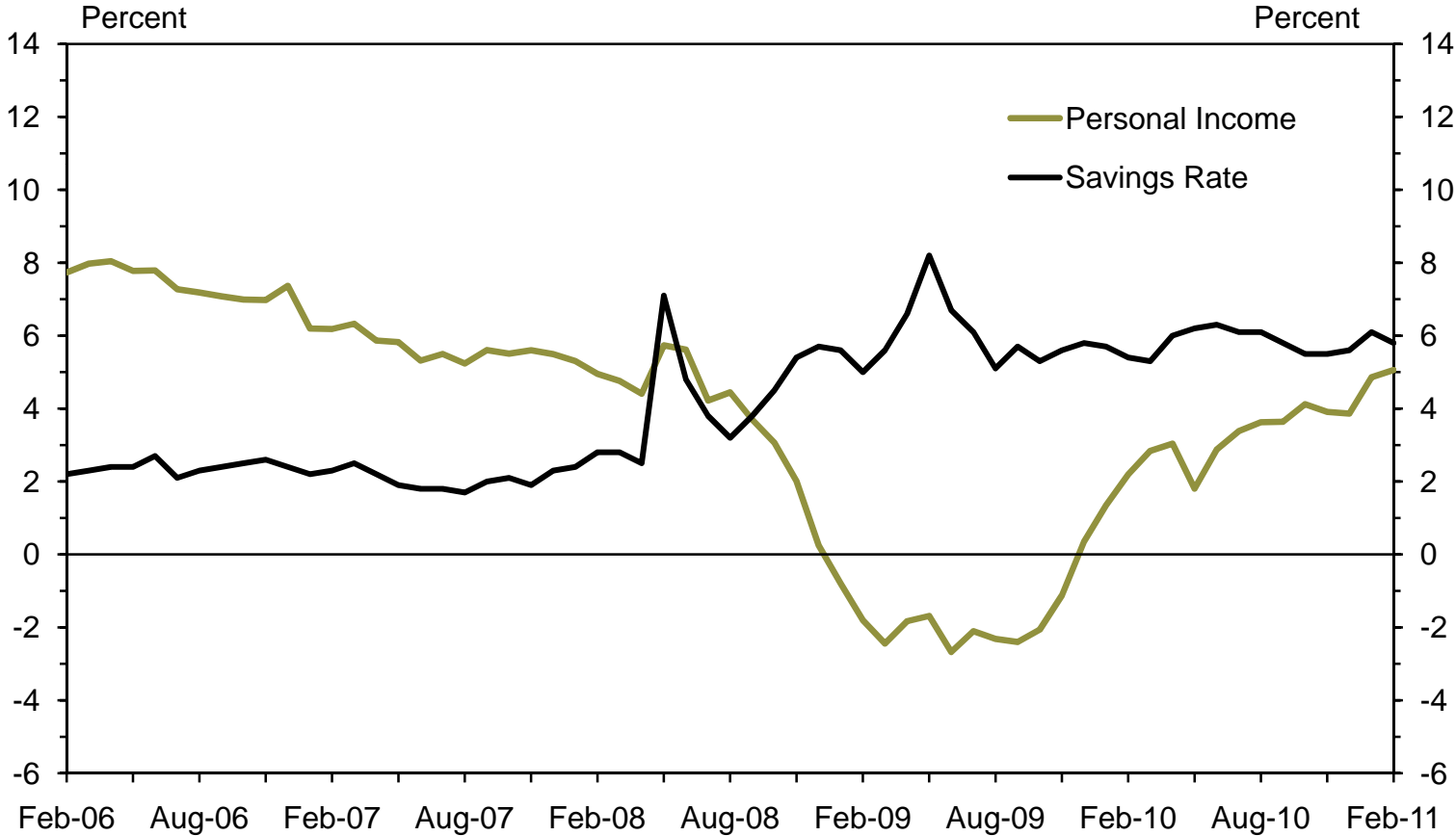
Consistent pvt. sector job gains since early 2010

U.S. Total/Private Nonfarm Employment
Seasonally Adjusted



Moderate income growth and rebound in savings

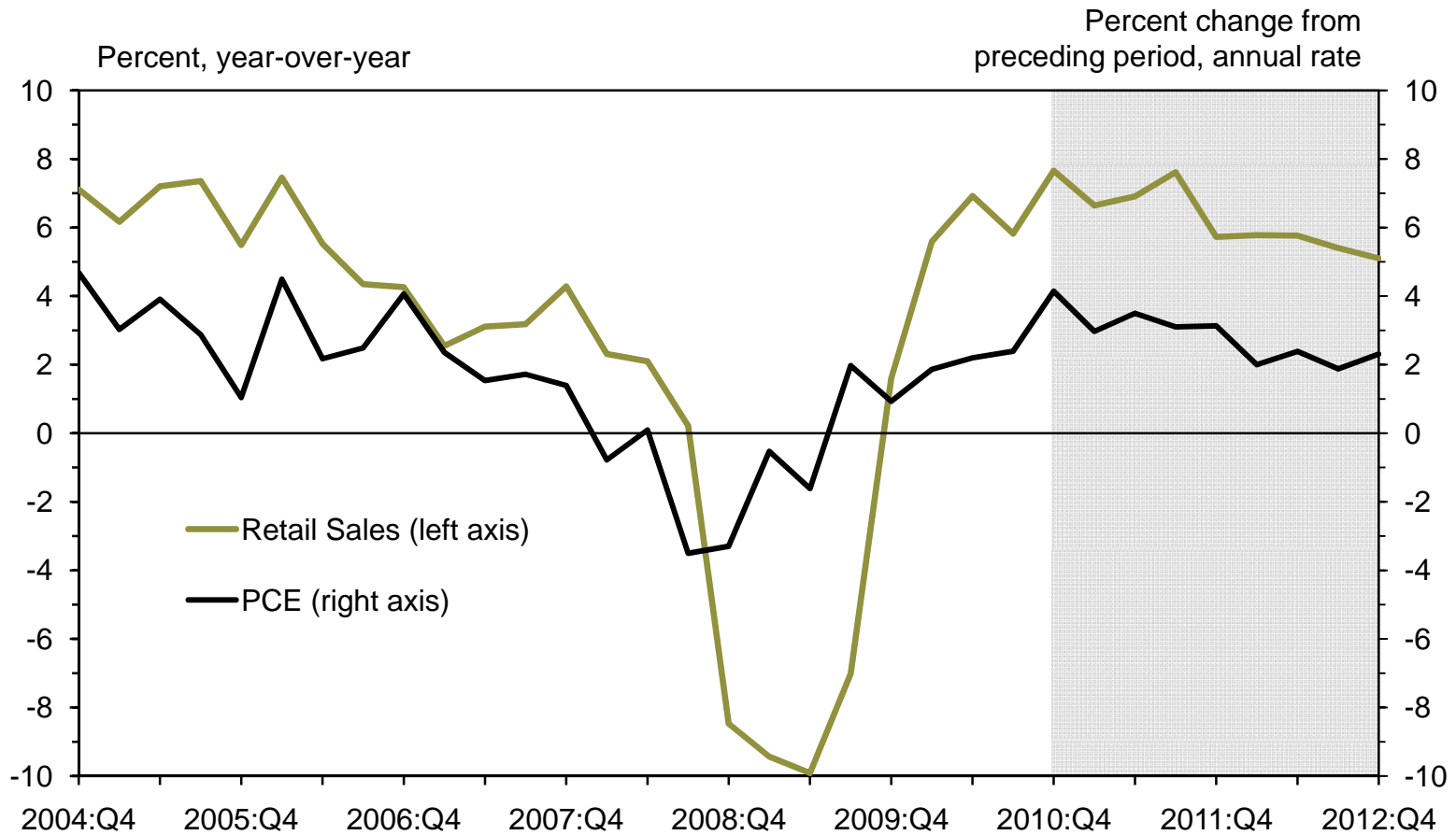
Growth in U.S. Personal Income vs. Personal Savings Rate



Source: Bureau of Economic Analysis

Consumer spending much stronger than expected

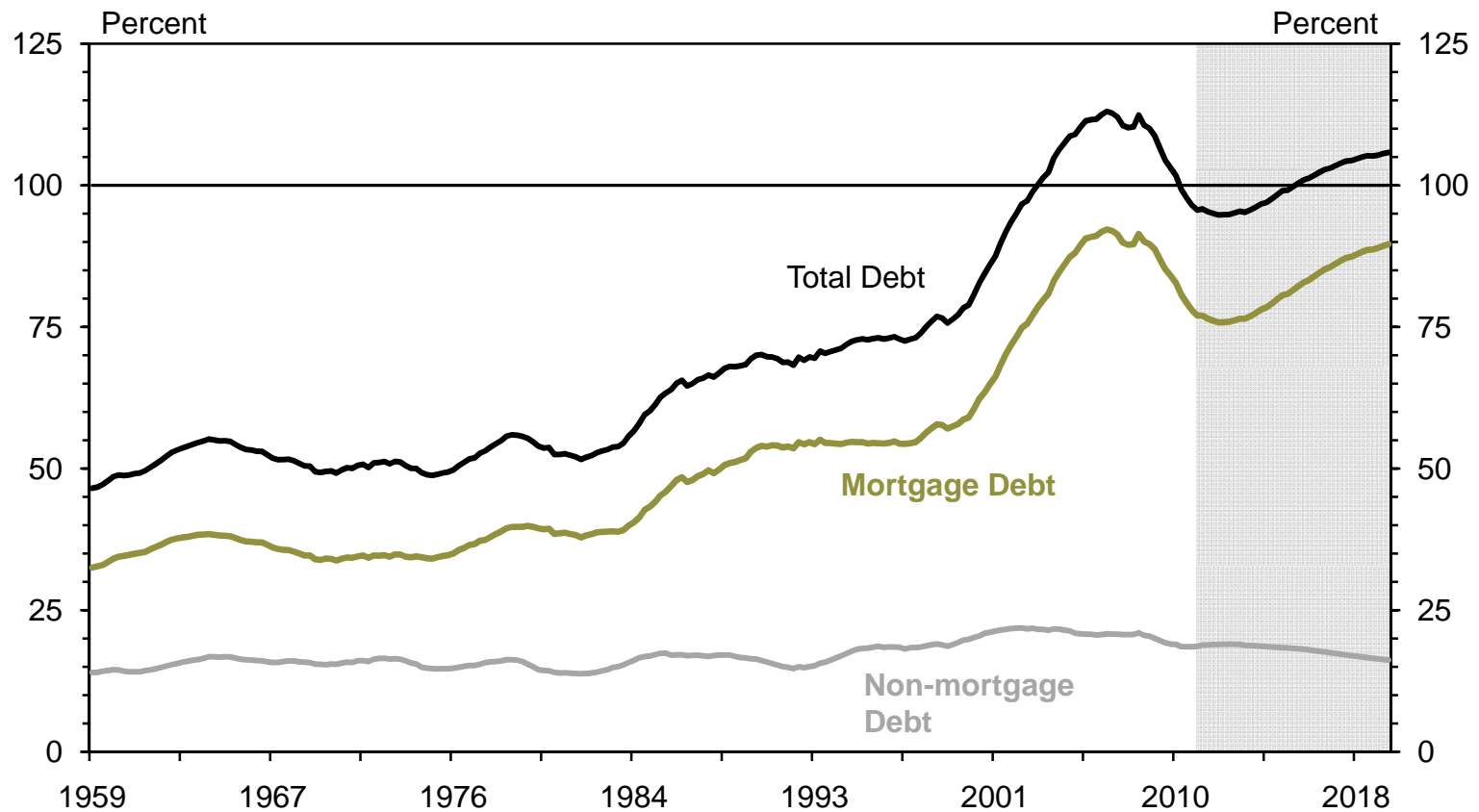
U.S. Retail Sales vs. Personal Consumption Expenditures Seasonally Adjusted



Household de-leveraging is slowly underway

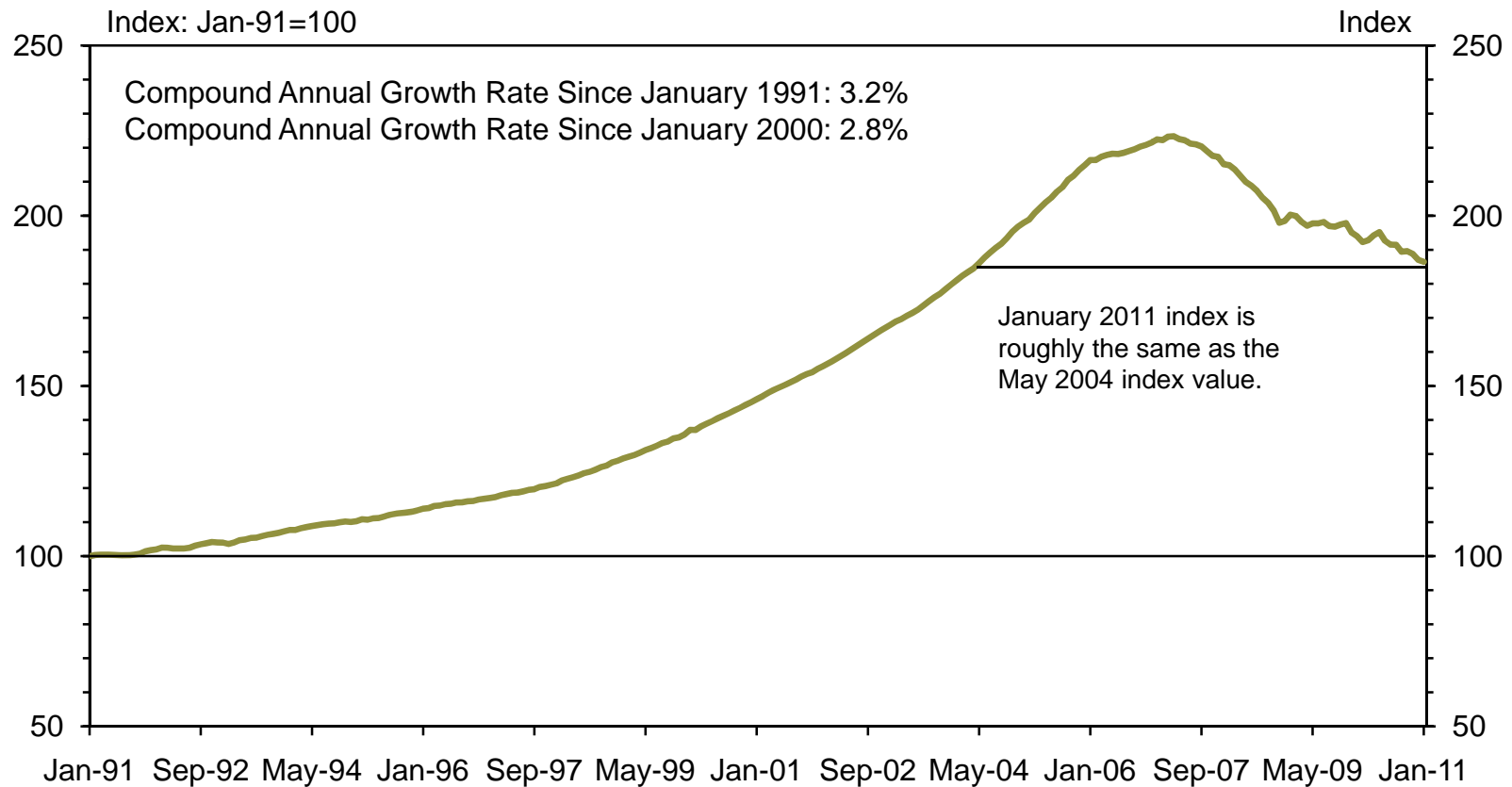
debt is highly concentrated in mortgages

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

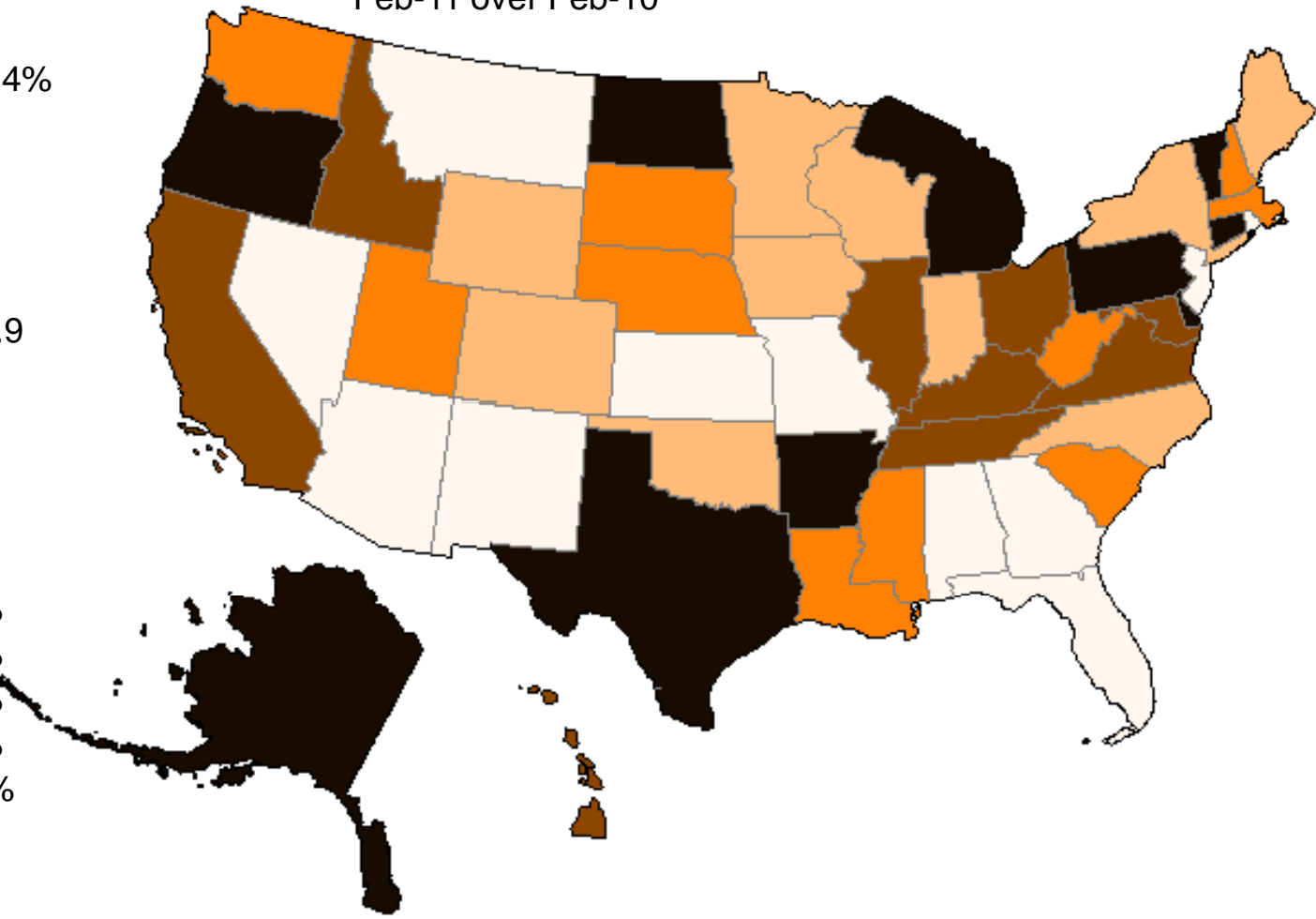
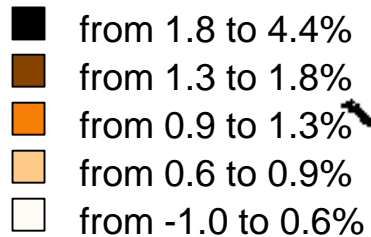


Most states now adding jobs, pockets of weakness

AZ/CA/FL/MI adding jobs

Total Nonfarm Employment Growth
Feb-11 over Feb-10

1. North Dakota: 4.4%
2. Vermont: 2.8
3. Texas: 2.5
4. Alaska: 2.5
5. Oregon: 2.0
6. Arkansas: 2.0
7. Pennsylvania: 1.9
8. Michigan: 1.8
9. Delaware: 1.8
10. Connecticut: 1.8

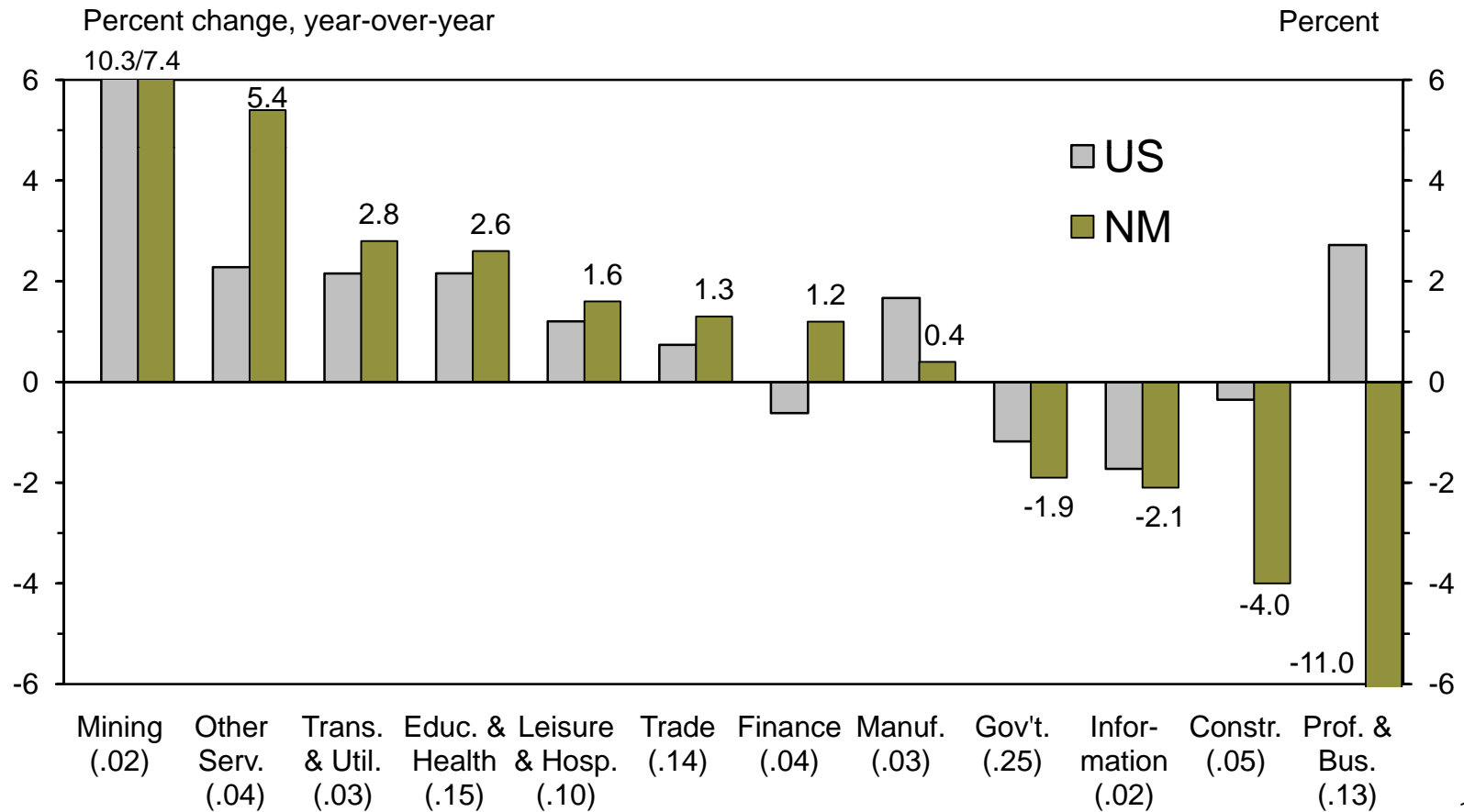


Divergences between U.S. and NM job pattern

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

U.S. and NM Nonfarm Job Growth by Industry

Feb-11 over Feb-10

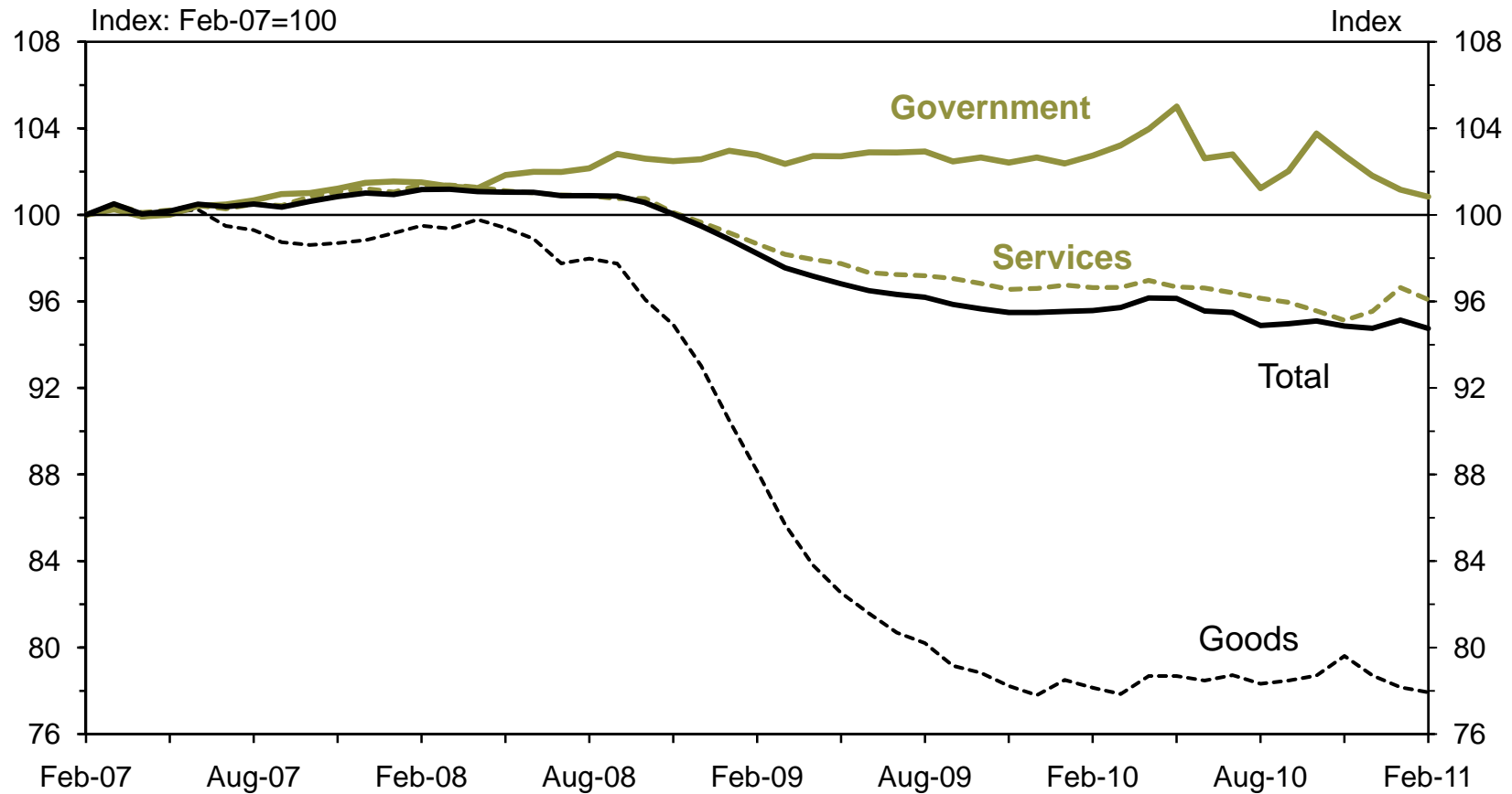


Source: Bureau of Labor Statistics

Note: Number in parentheses is the industry's share of total private jobs in NM states in Feb-11

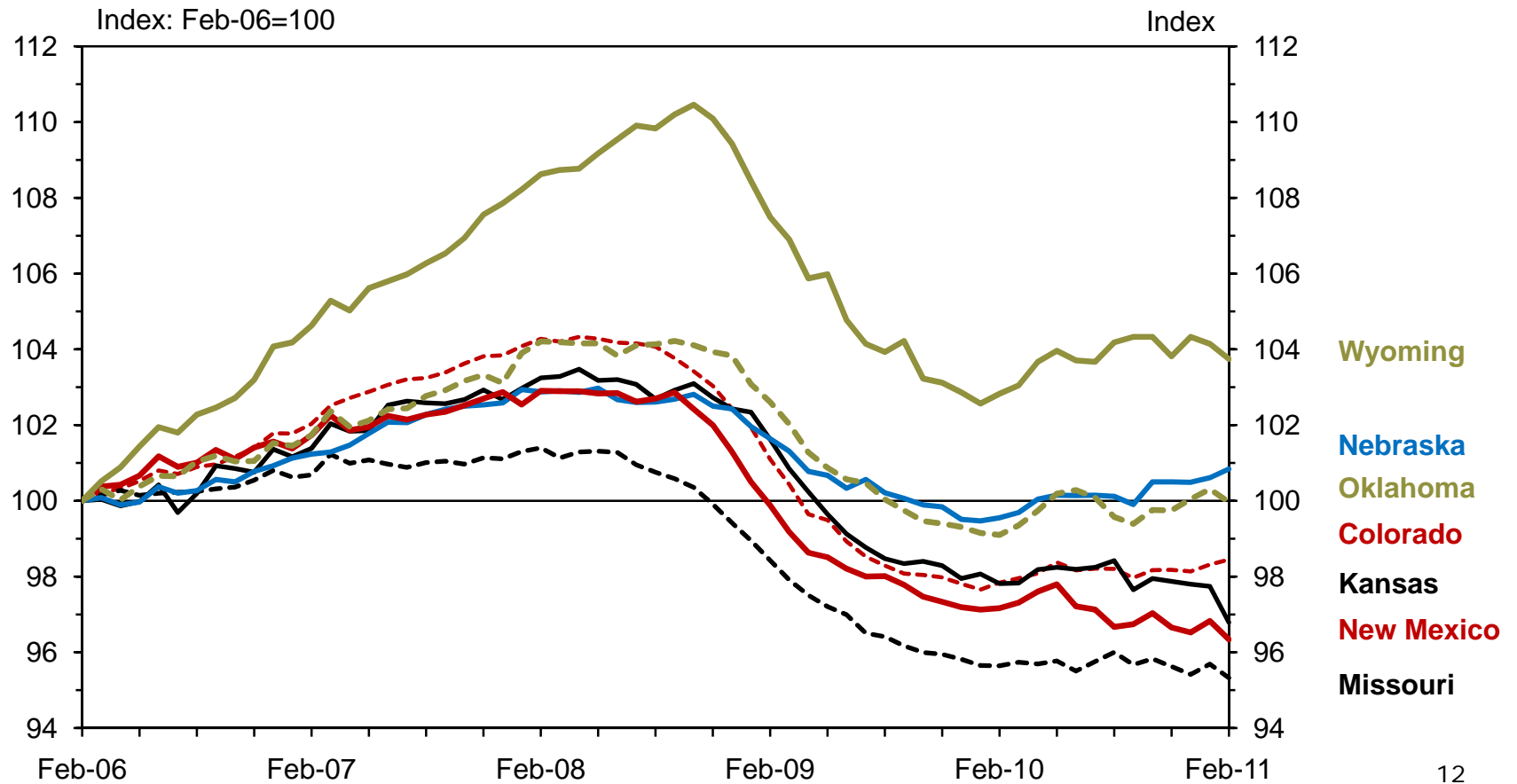
Late downturn in government hiring offsetting private sector jobs gains

NM Employment
Seasonally Adjusted



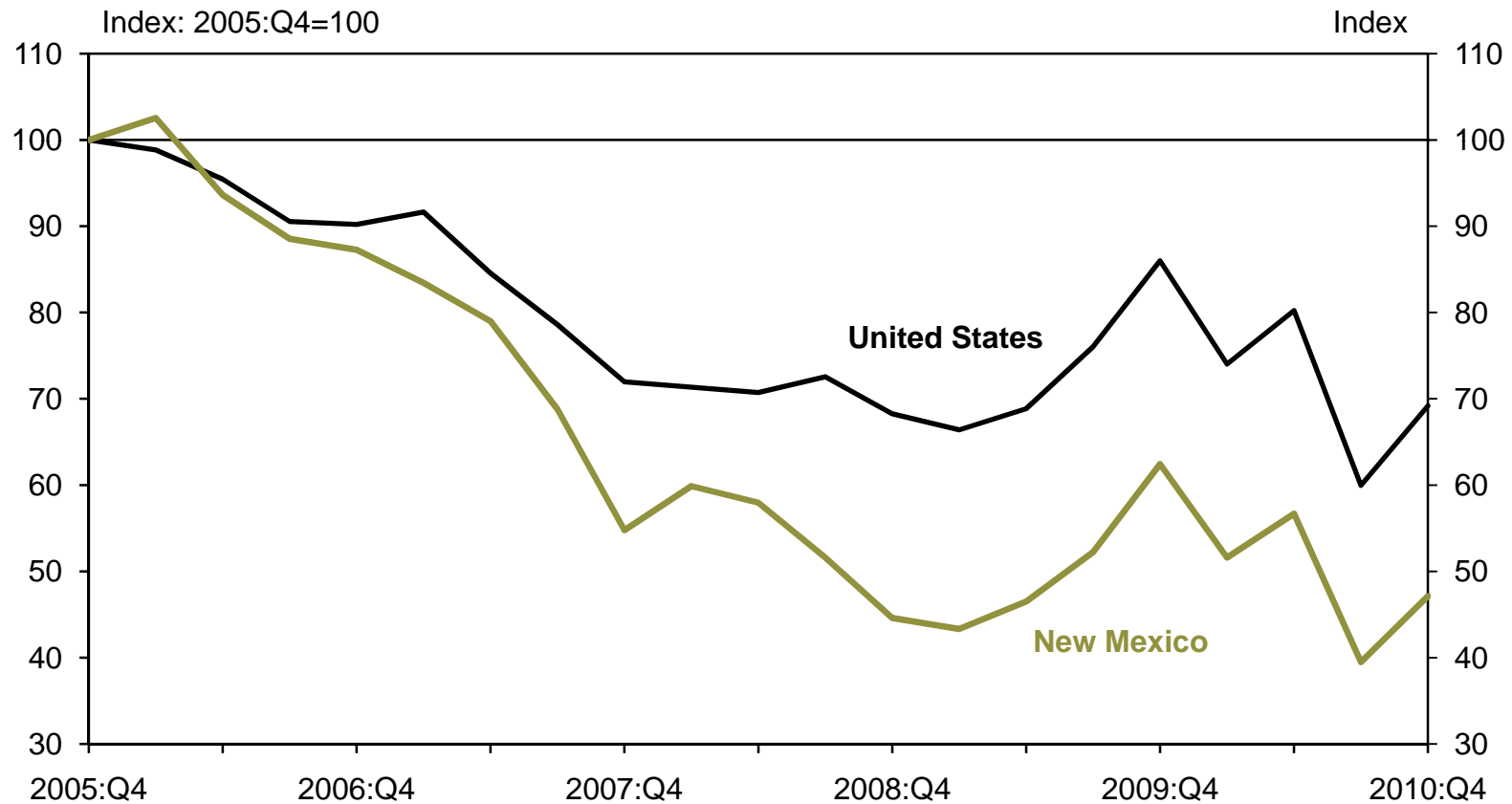
NM among the weakest labor markets in District

Total Nonfarm Employment
Seasonally Adjusted



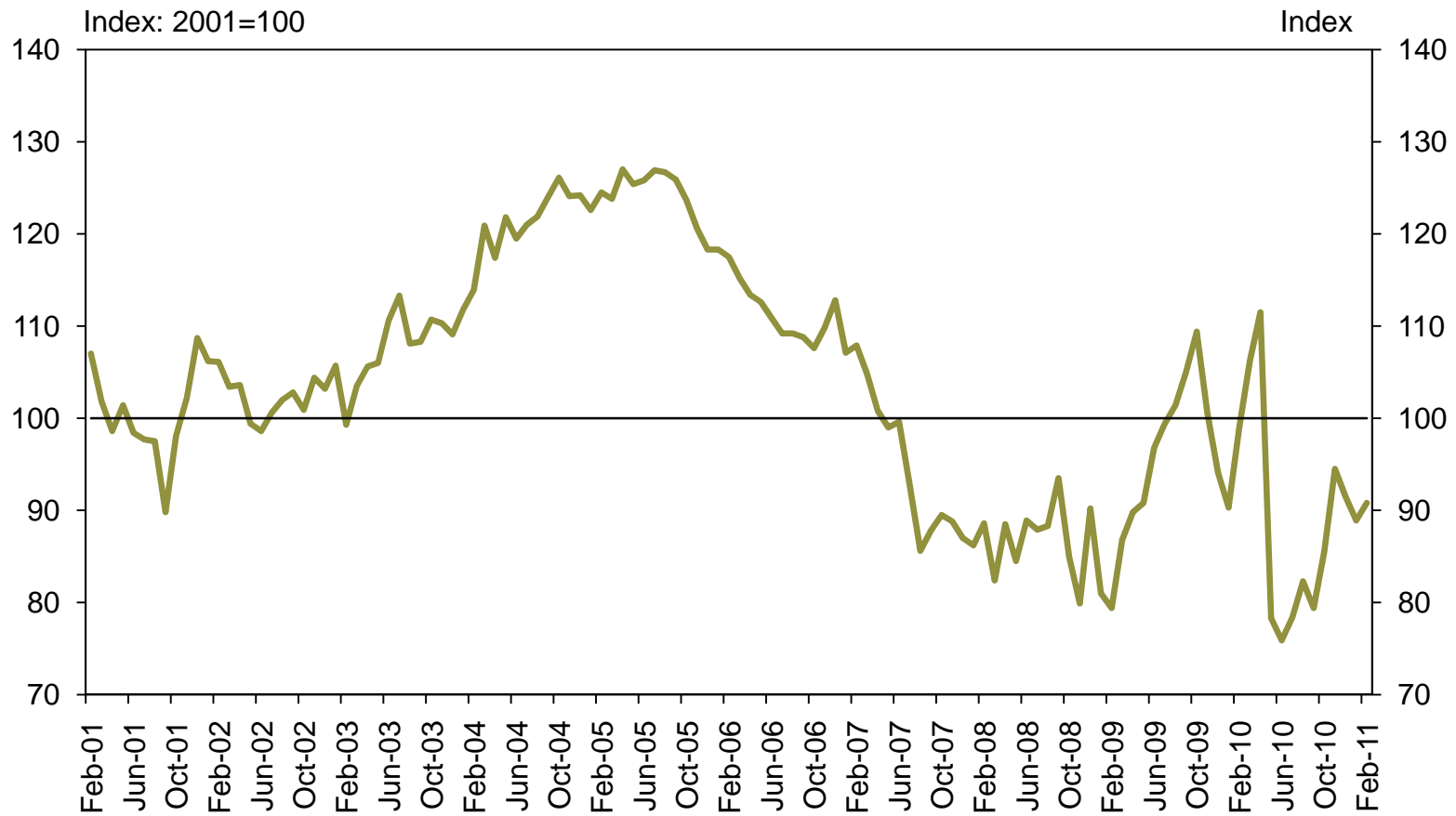
Latest existing home sales bounced in Q4...

Sales of Existing Homes
Seasonally Adjusted



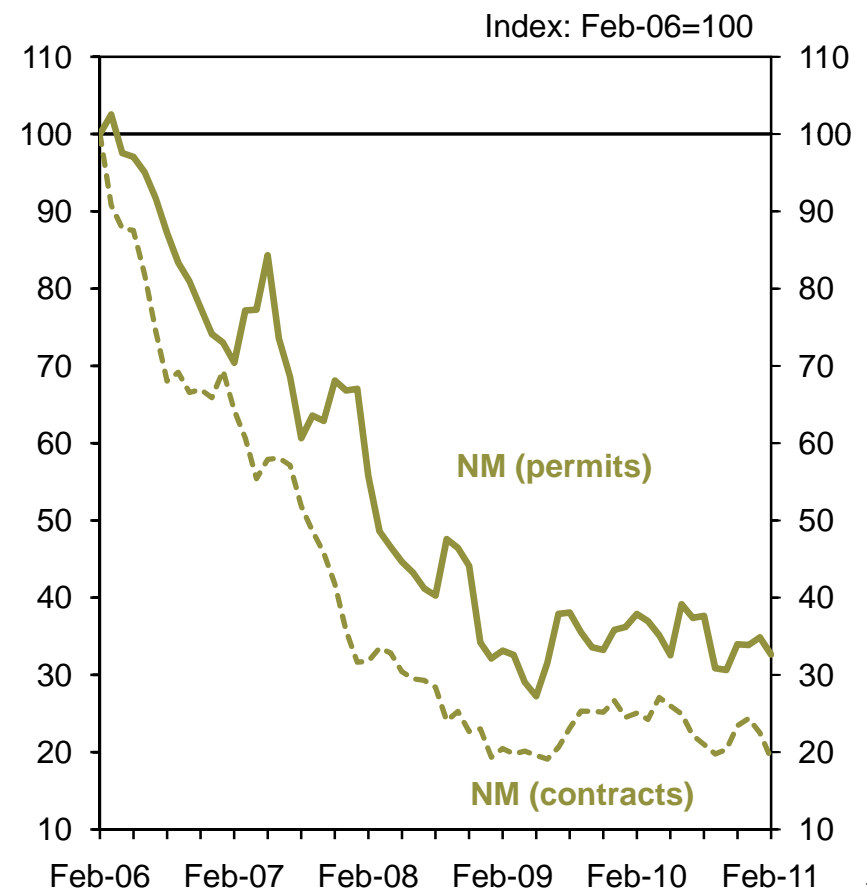
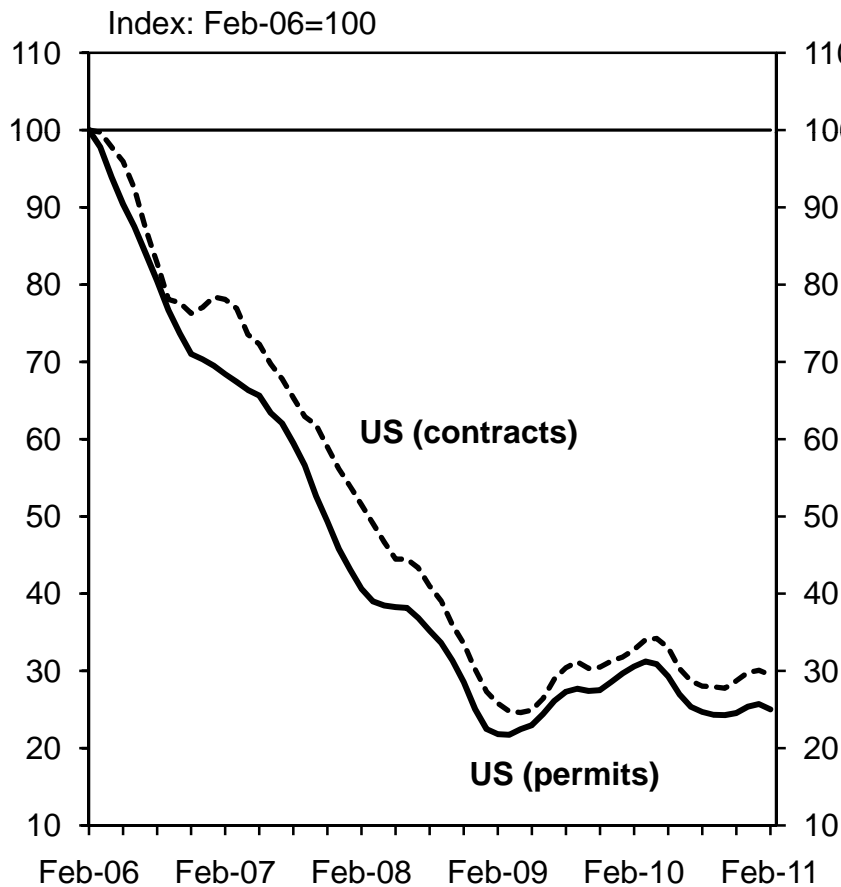
...but pending sales have softened

U.S. Pending Home Sales Index
Seasonally Adjusted



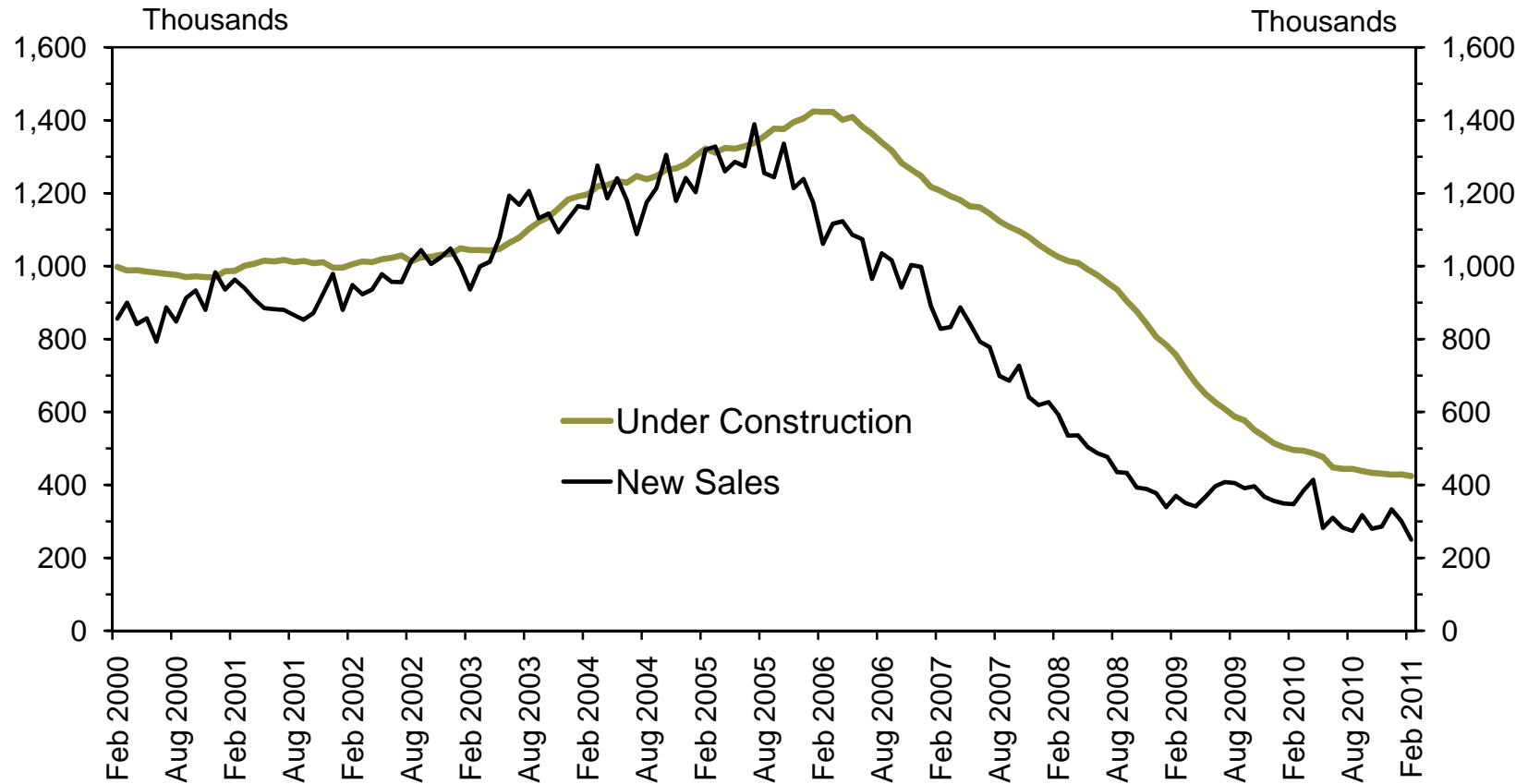
NM new home construction tracking the U.S. bouncing along bottom

**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 and Sales
Seasonally Adjusted

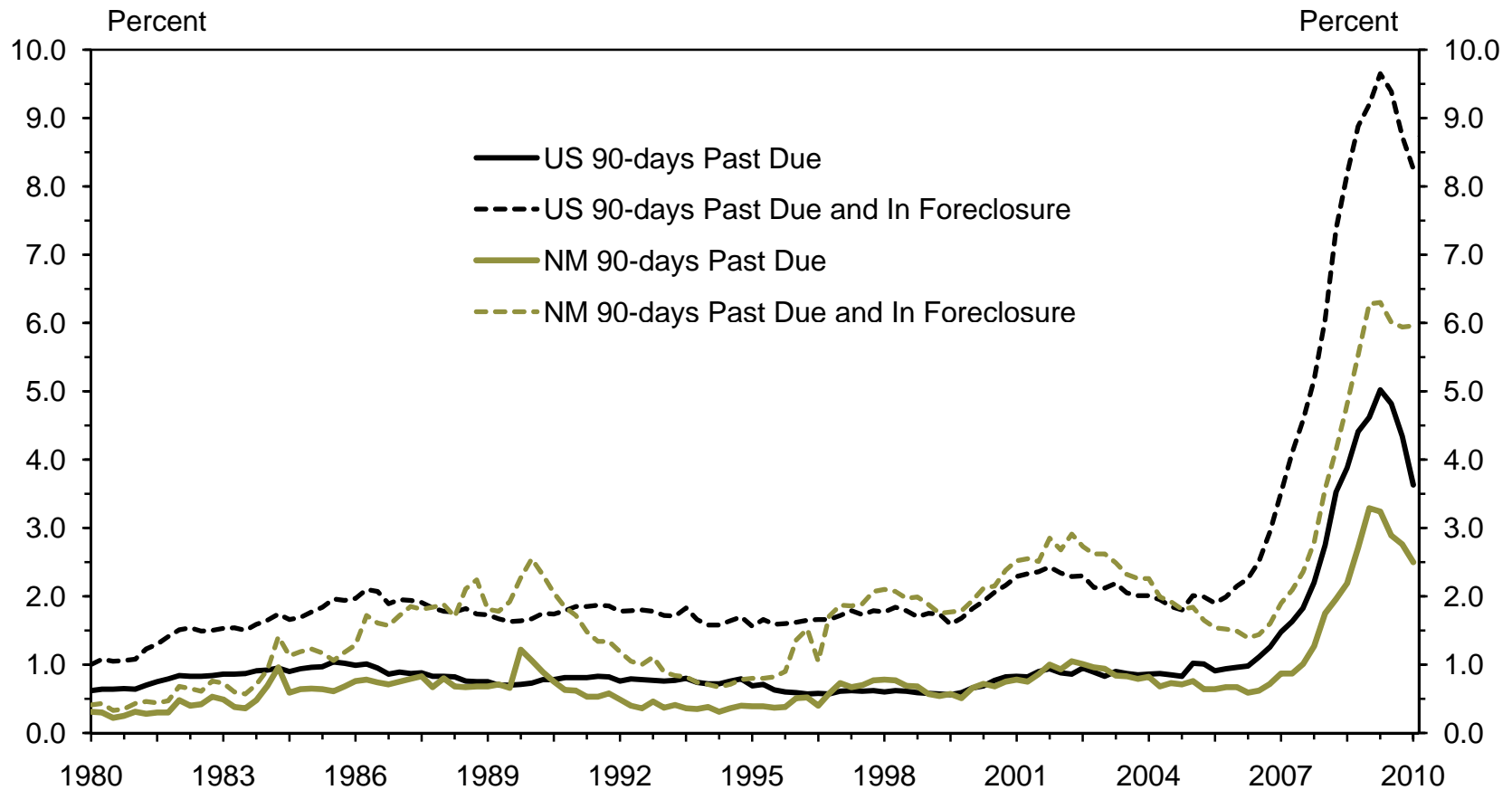


Critical peak in past due and foreclosure rates

shadow inventory remains a concern

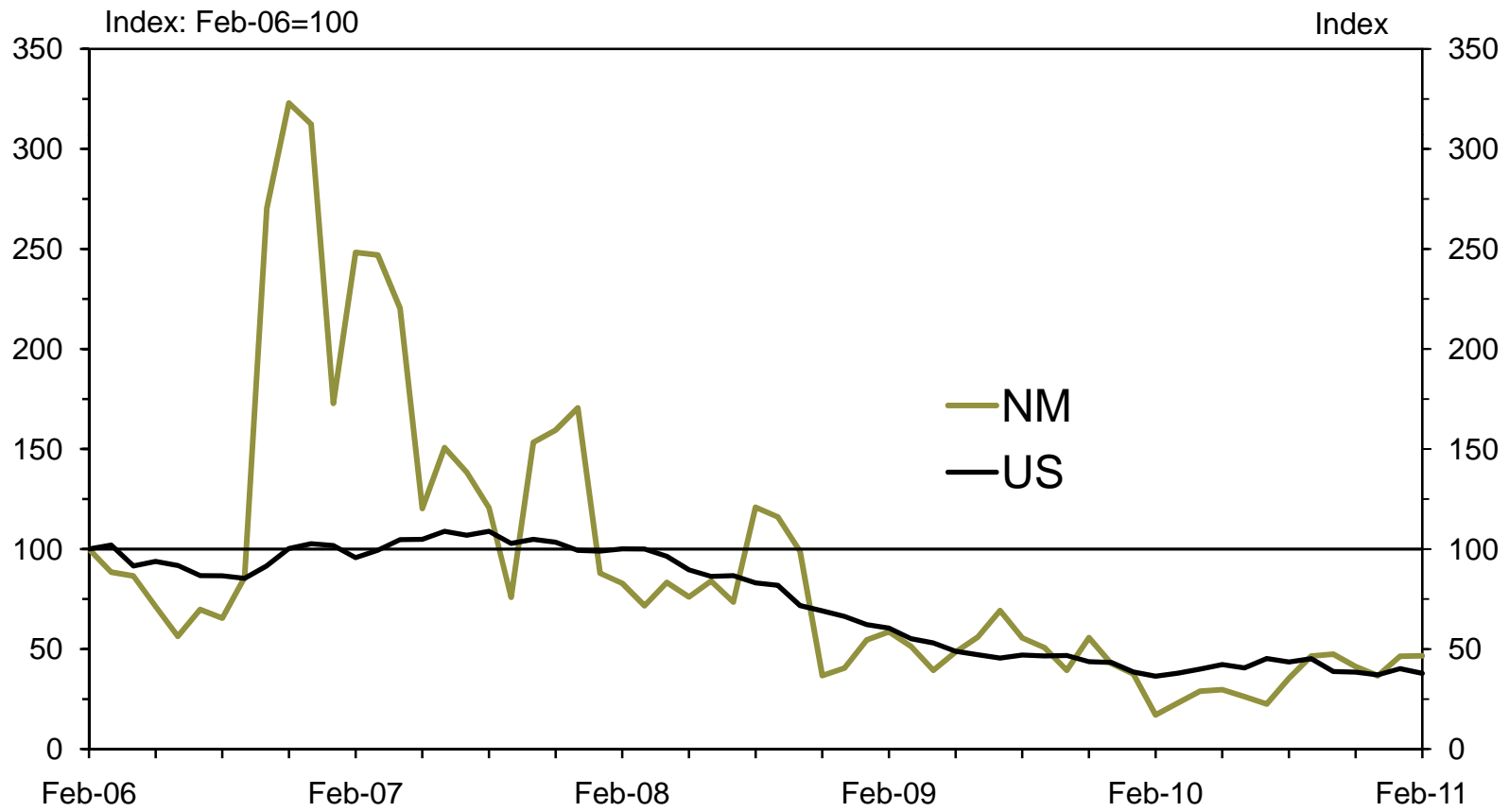
Mortgage Foreclosure/Delinquency Rates

U.S. and New Mexico



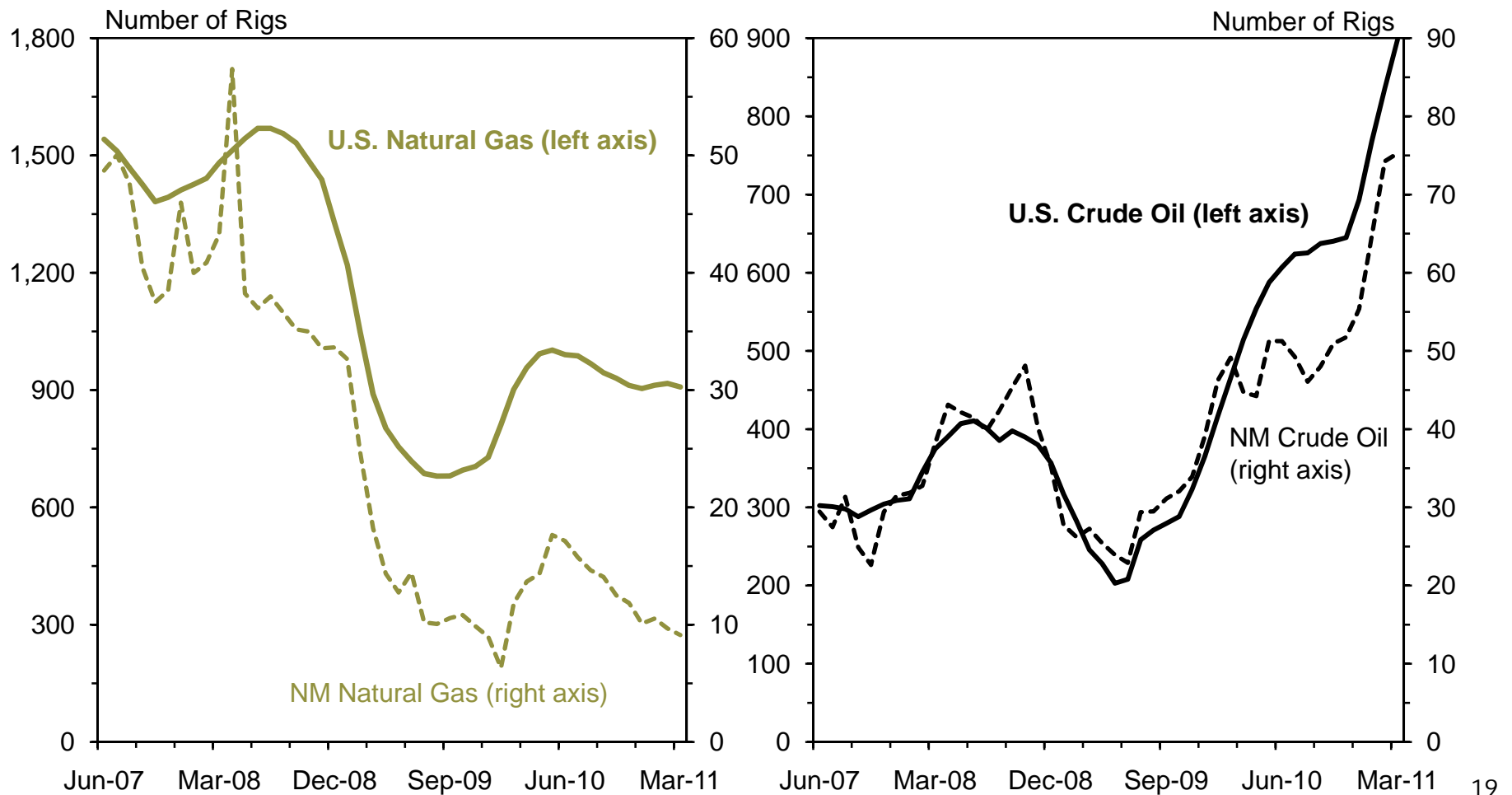
Is the bottom at hand in commercial construction?

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



Source: Baker-Hughes

Risks to the recovery?

- Rising interest rates (mortgage rates)
- Rising energy/commodity prices
- International instability
- 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?

- 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>