

U.S. and Colorado: Economic Conditions and Outlook



FEDERAL RESERVE BANK *of* KANSAS CITY
DENVER BRANCH

ACED Economic Forecast

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U.S. and Colorado recovery in 2011

- Where are we in the recovery cycle?
- What adjustments in the economy need to take place?
- ~~When~~ When did the recession end in Colorado?
- 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...

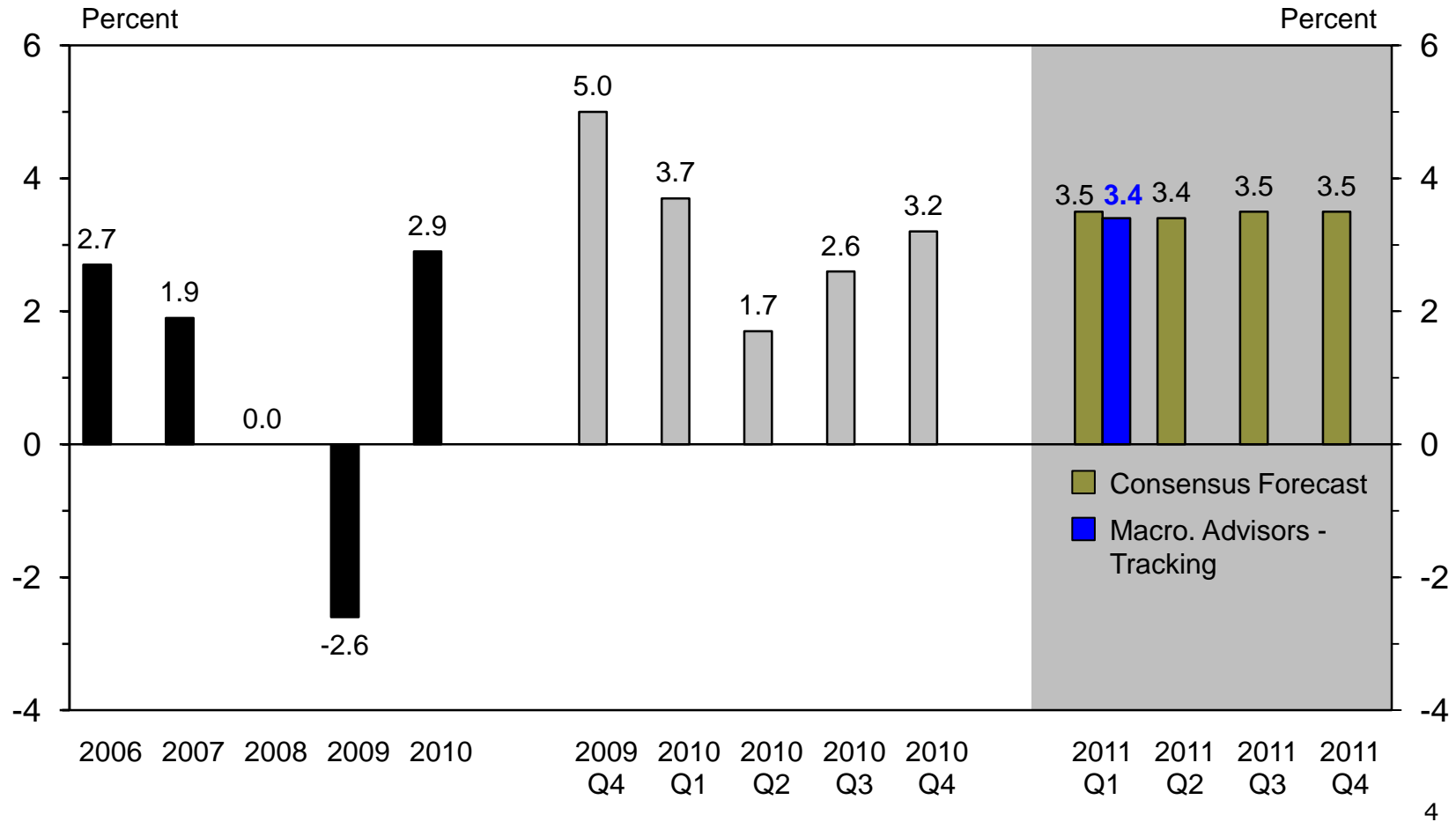
- Moderate growth in GDP
- Steady private sector job gains
- Resumption of income growth
- Normal spending by consumers
- Reduction in household debt
- Increase in the savings rate
- An end to the real estate debacle

... right?

GDP growth is accelerating once again

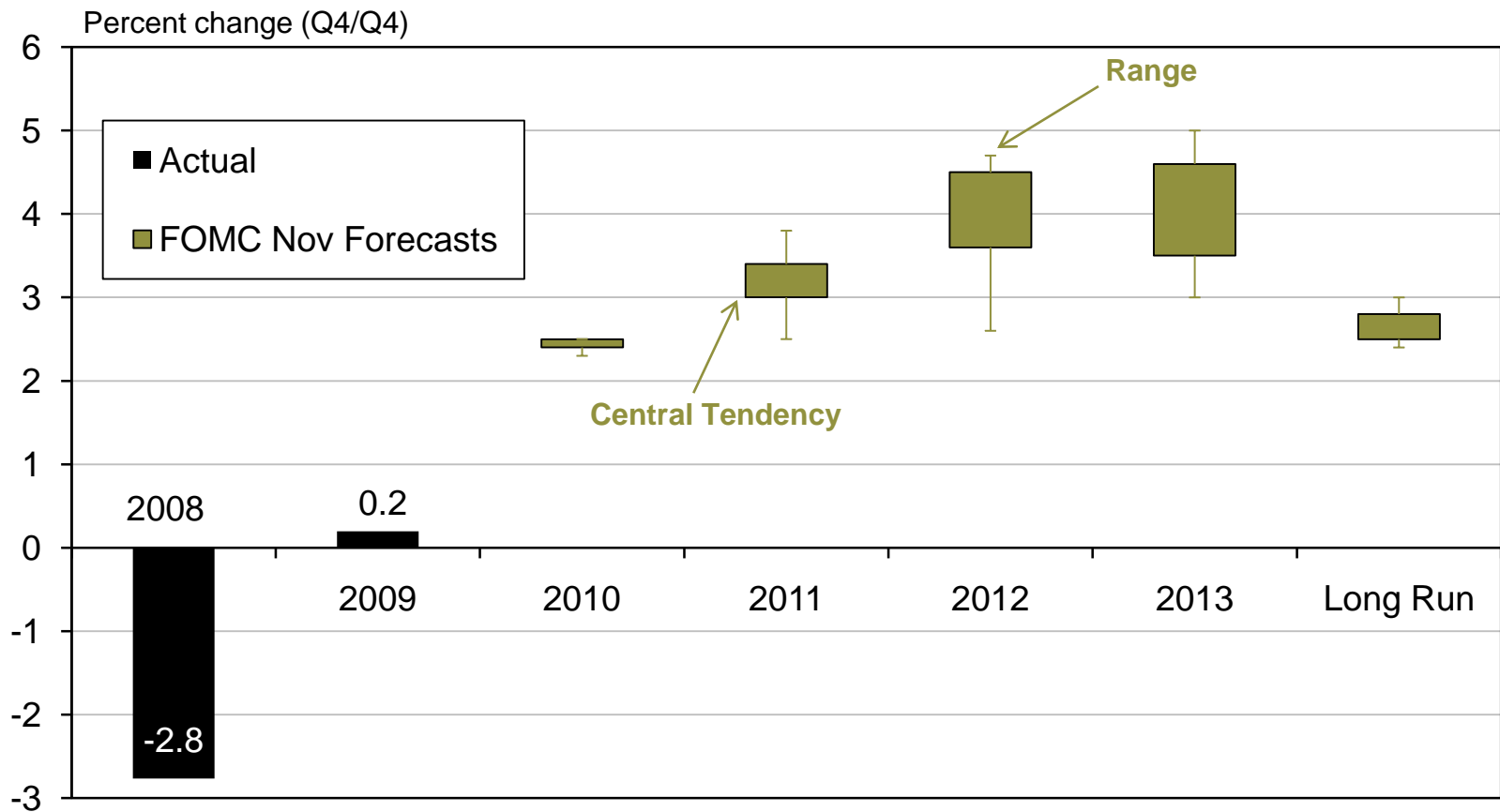
tracking estimates suggest 3.0-3.5% growth currently

Real Gross Domestic Product
Seasonally Adjusted



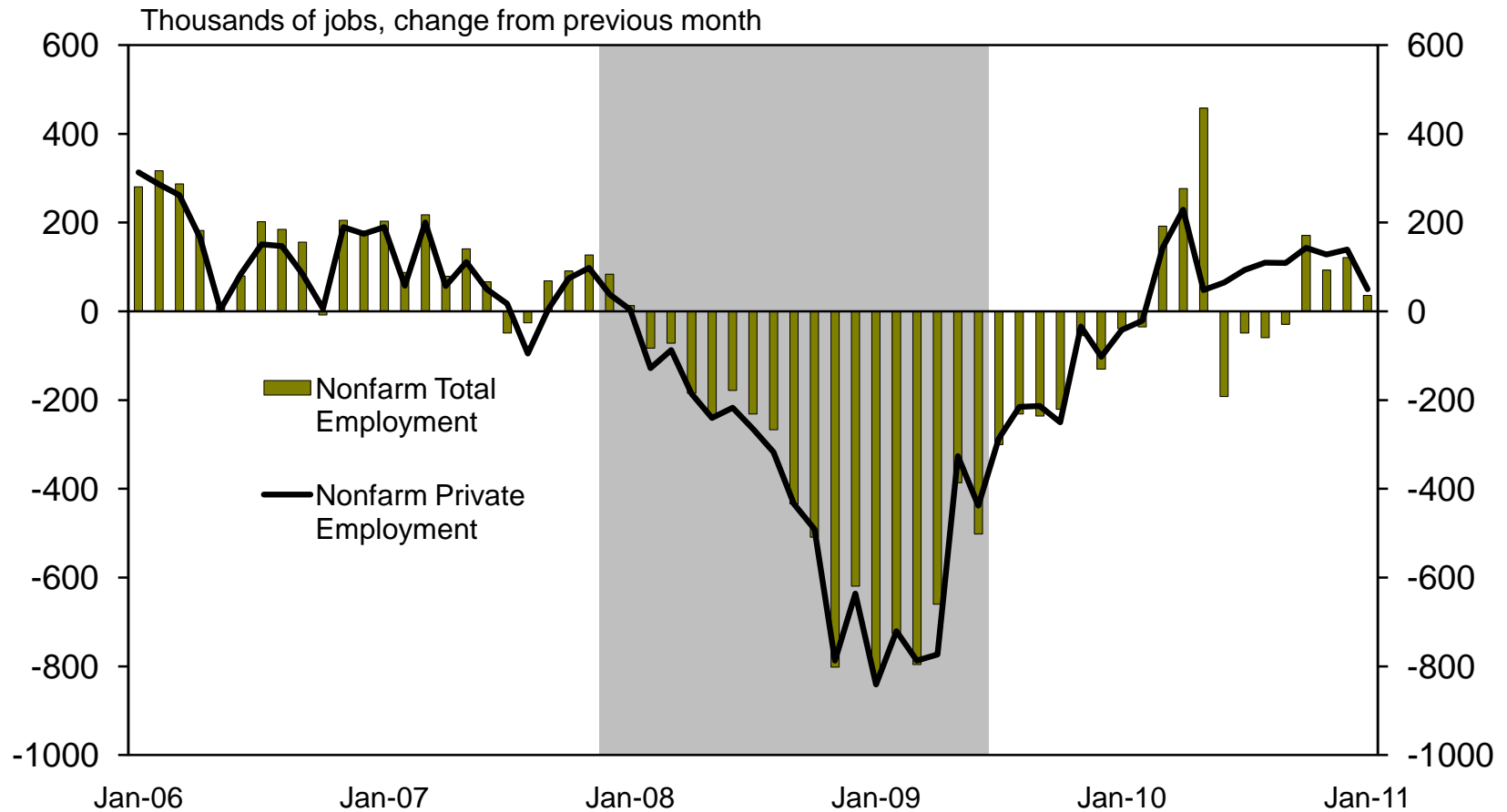
Growth forecasts underlying Federal Reserve policy remain relatively upbeat

Real U.S. Gross Domestic Product
Seasonally Adjusted



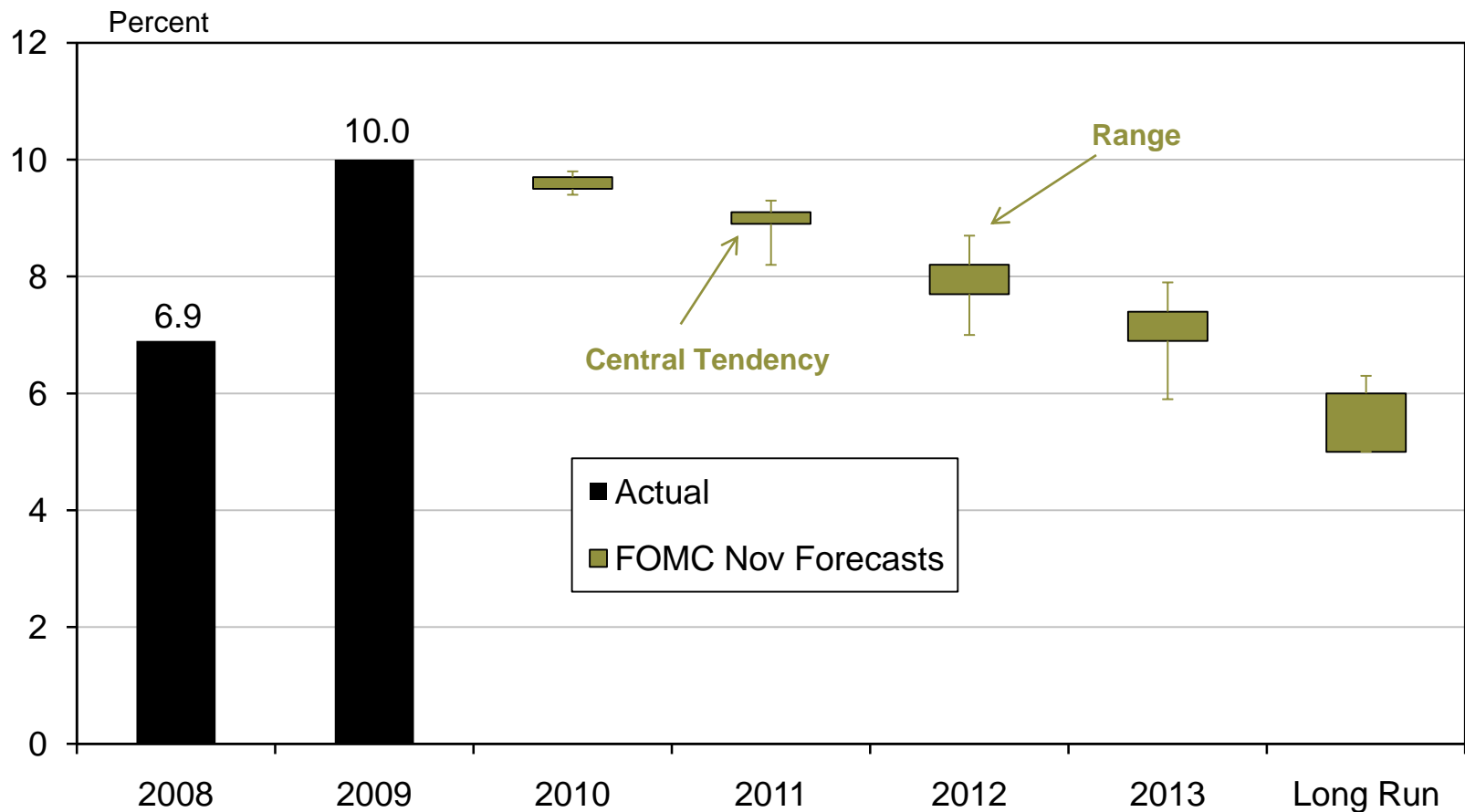
Consistent private sector job gains since Jan 2010

Total/Private Nonfarm Employment
Seasonally Adjusted



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

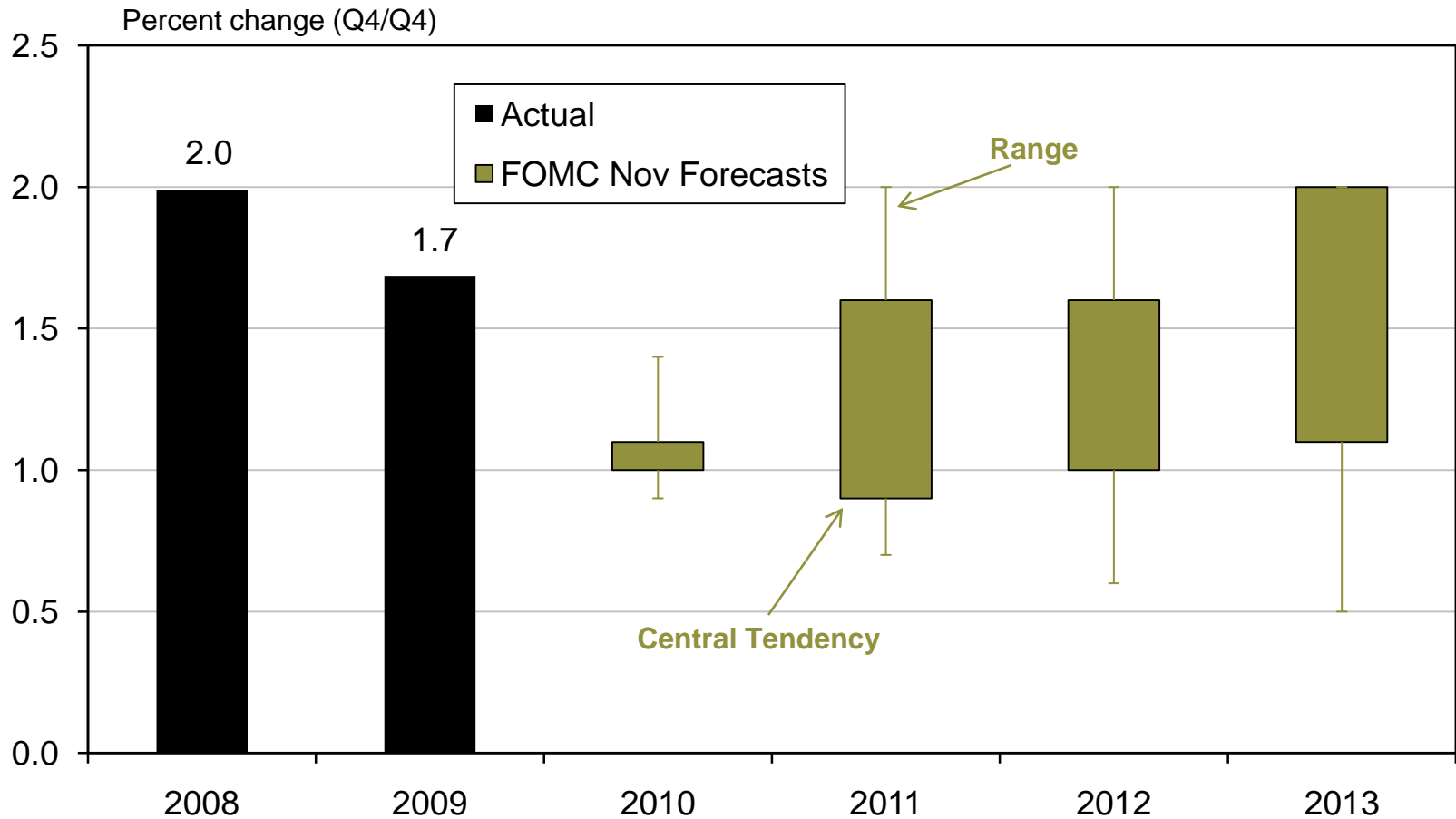
U.S. Unemployment Rate Seasonally Adjusted



Broad inflation indices expected to remain tame

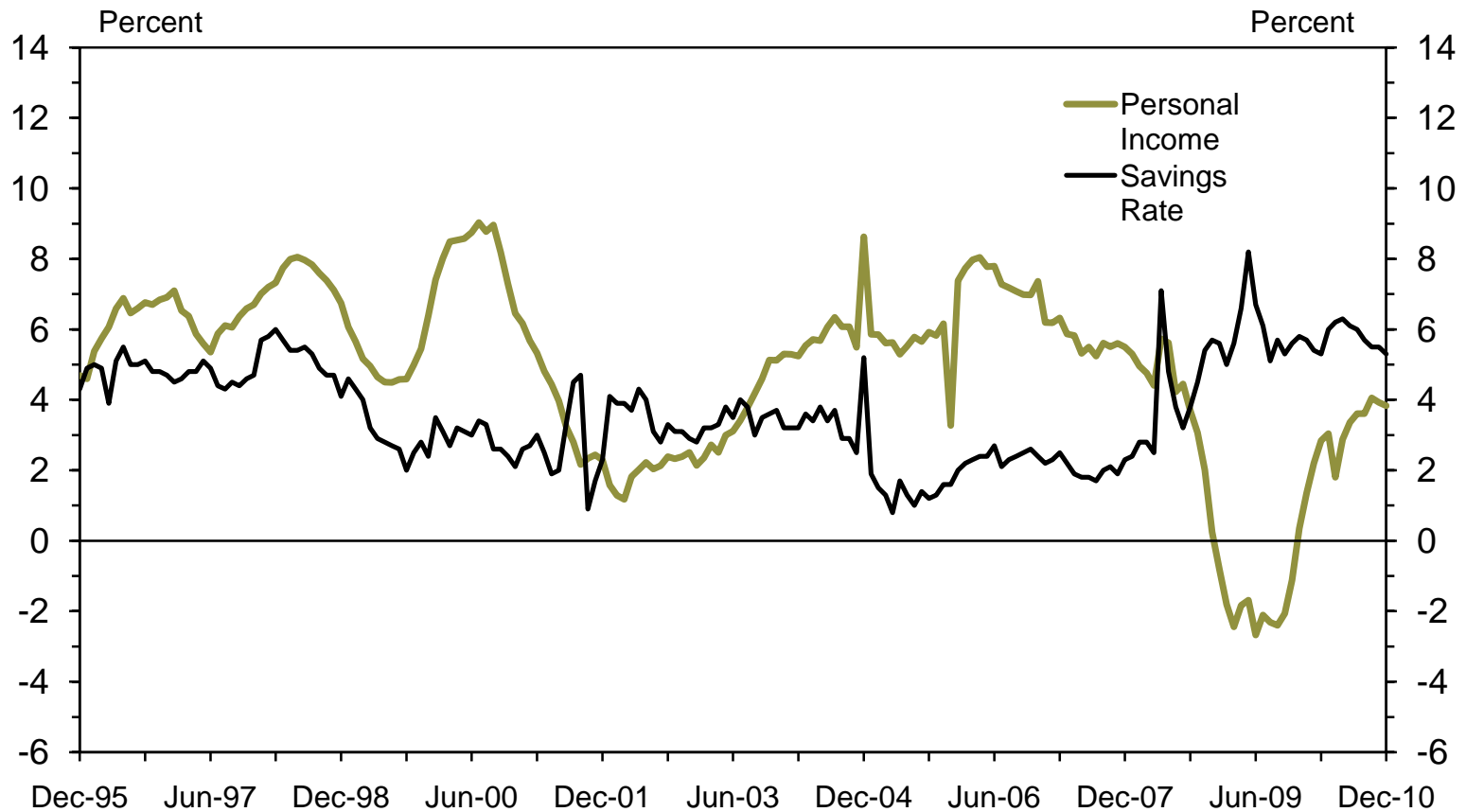
commodity prices climbing

Price Index for Personal Consumption Expenditures (Core) Seasonally Adjusted



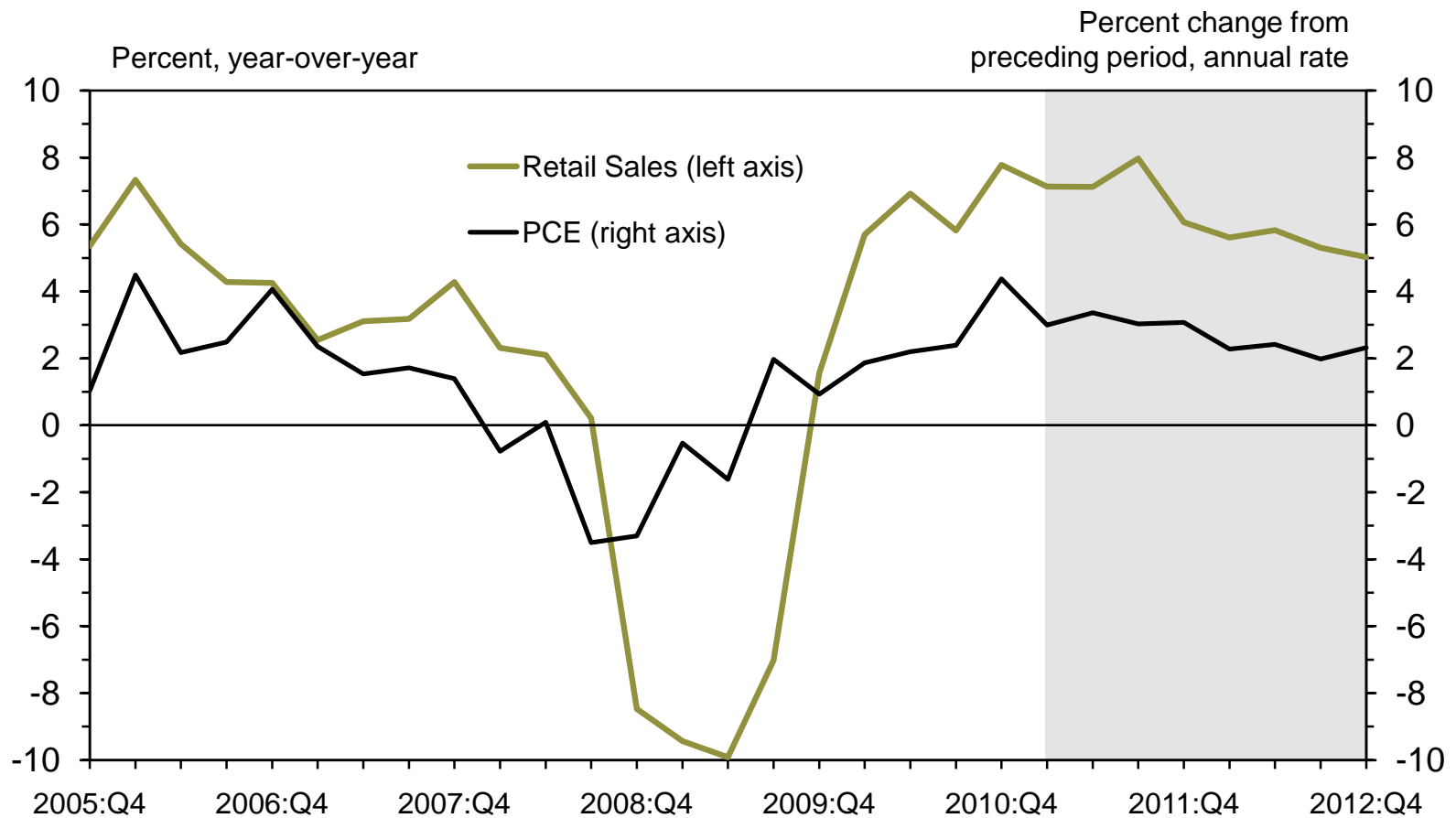
Moderate income growth and rebound in savings

Growth in Personal Income vs. Personal Savings Rate



Consumer spending stronger than expected

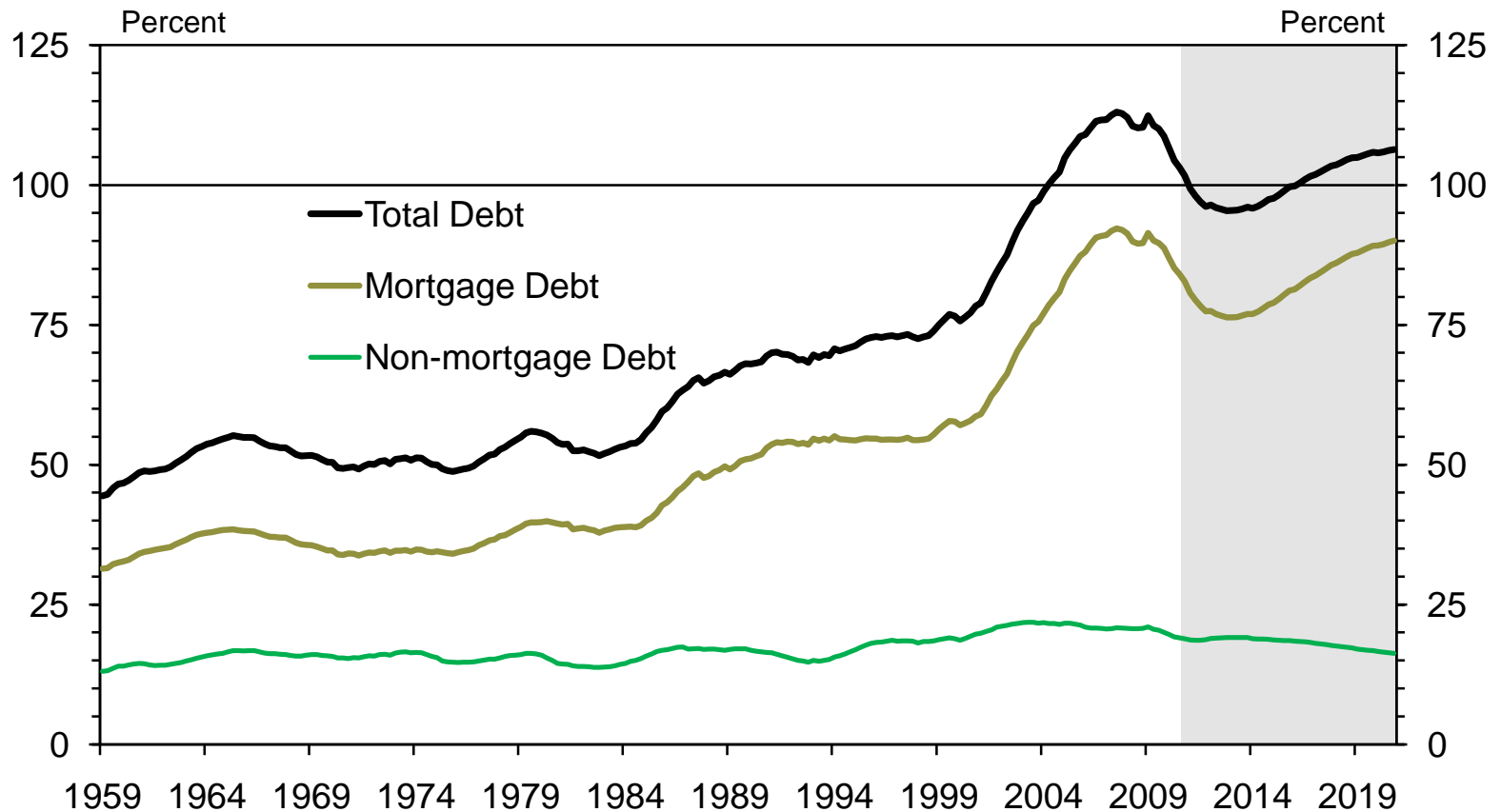
Retail Sales vs. Personal Consumption Expenditures Seasonally Adjusted



Household de-leveraging is slowly underway

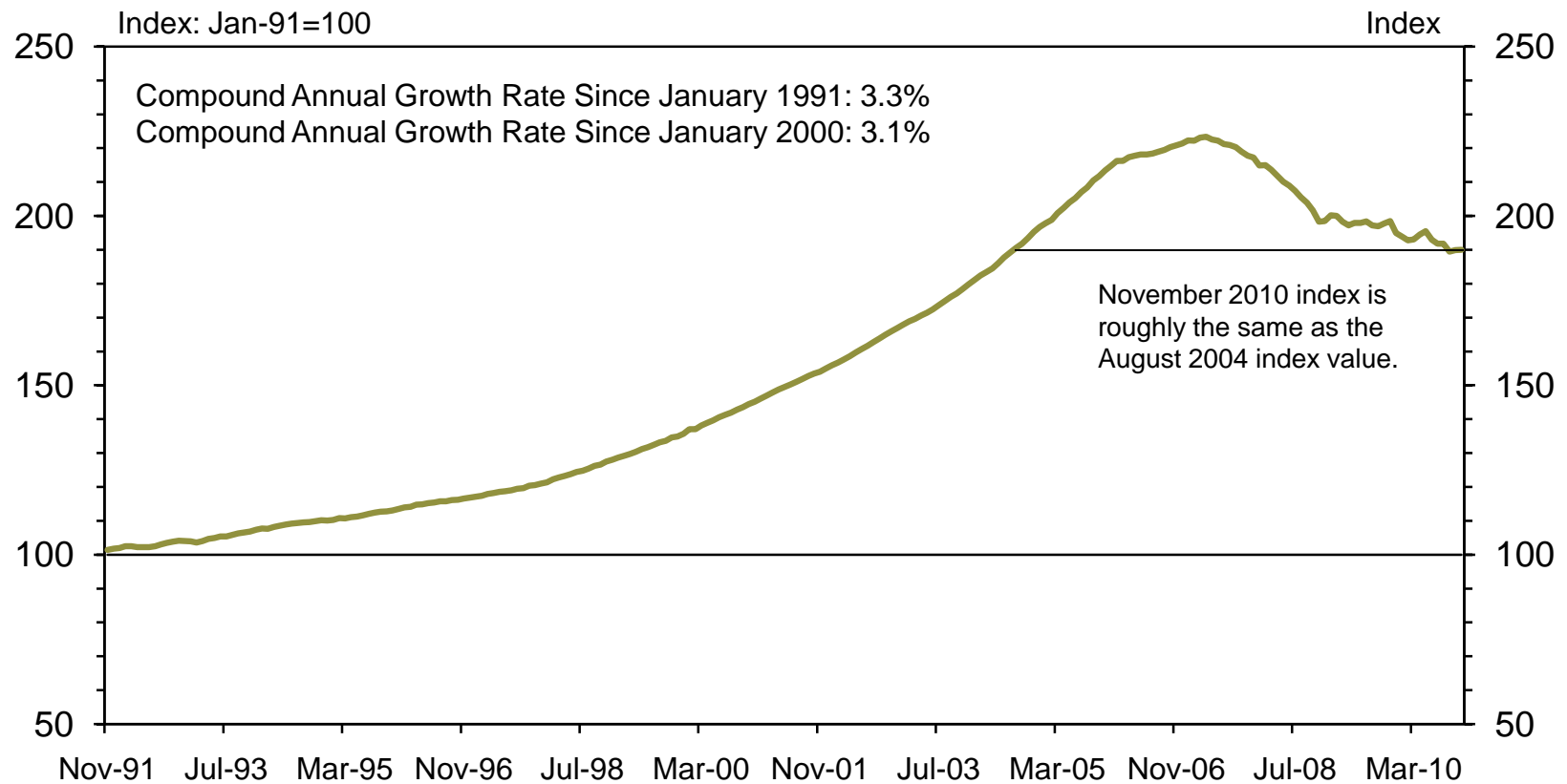
debt is highly concentrated in mortgages

Debt to Personal Income Ratios



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

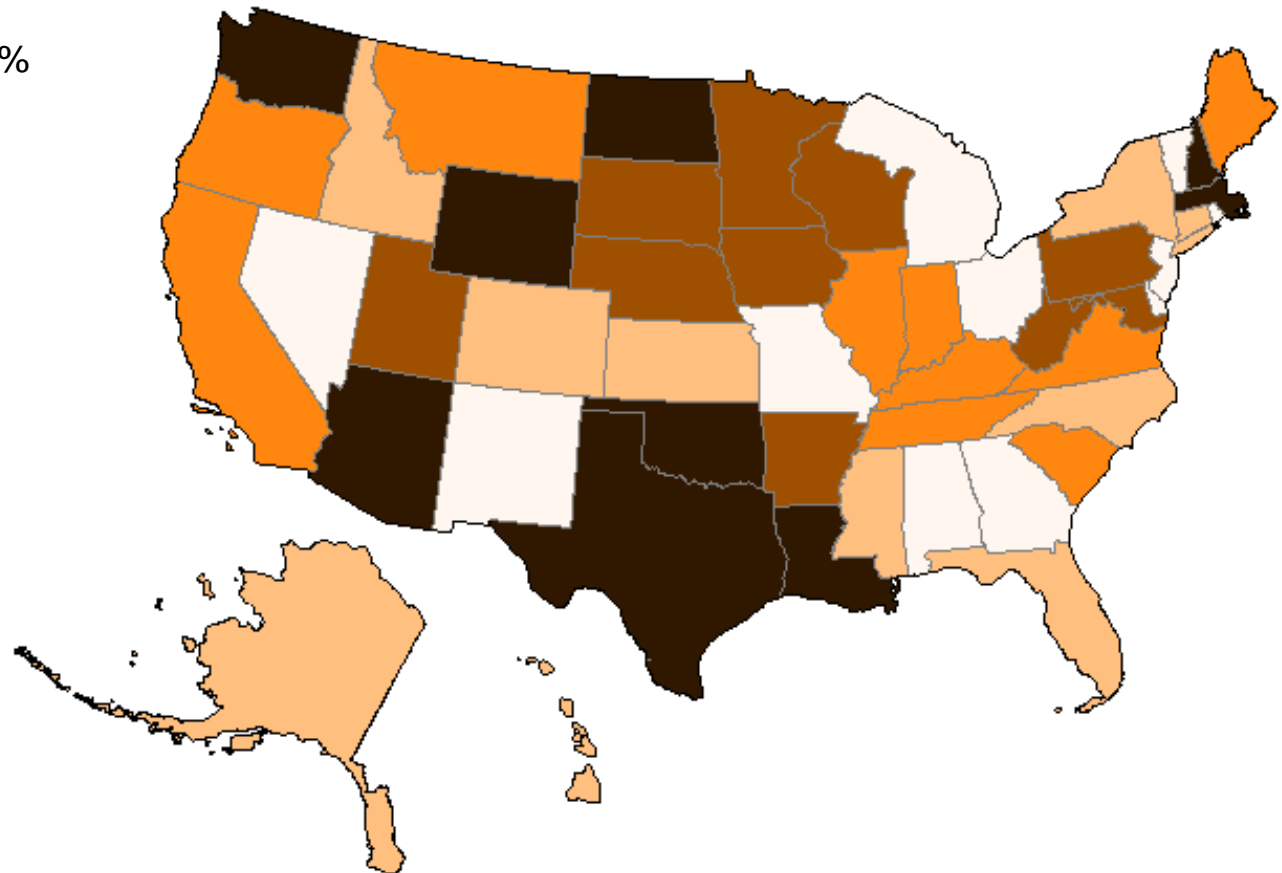
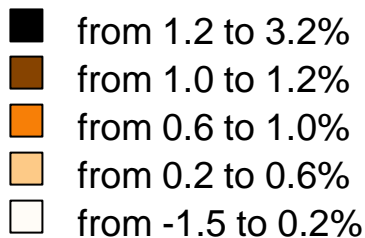
Monthly Home Price Index – U.S. Purchase-Only, Seasonally Adjusted



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

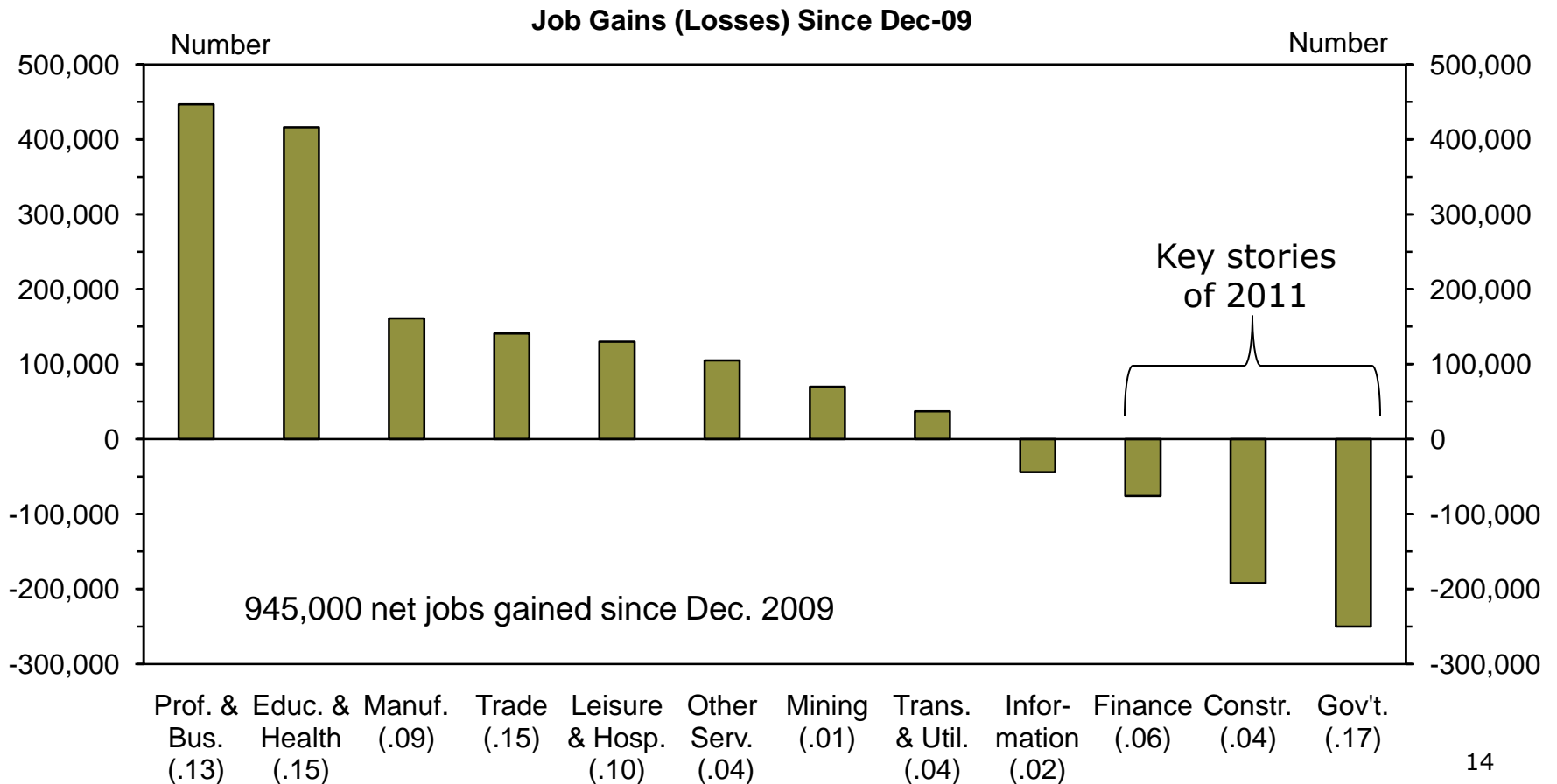
1. Washington D.C.: 3.2%
2. Texas: 2.3
3. New Hampshire: 2.1
4. North Dakota: 1.7
5. Massachusetts: 1.5
6. Oklahoma: 1.4
7. Arizona: 1.4
8. Louisiana: 1.4
9. Wyoming: 1.4
10. Washington: 1.2



Most U.S. industry sectors now adding jobs

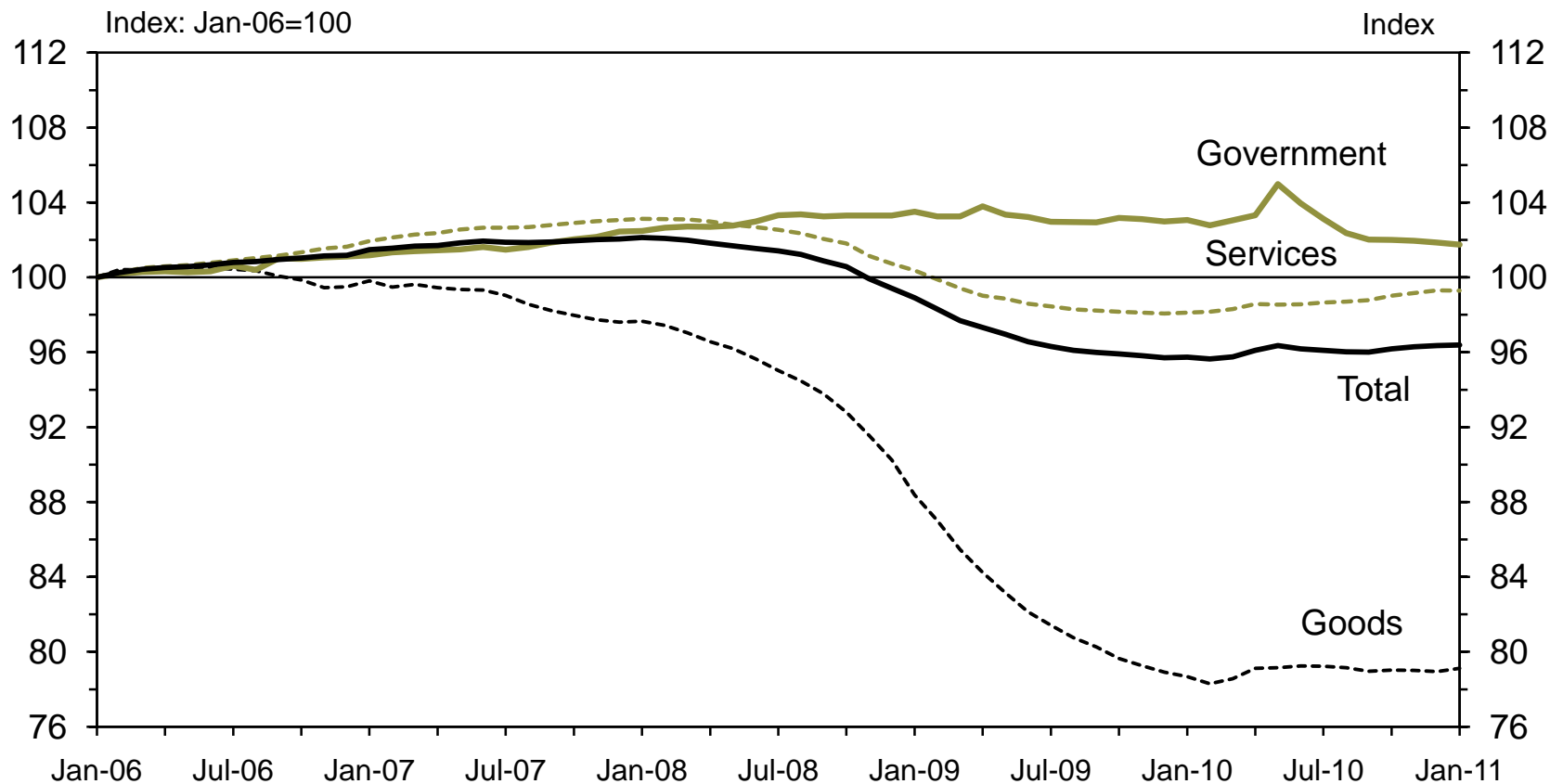
Govt./Finance/Construction acting as a drag

U.S. Nonfarm Employment by Industry
Seasonally Adjusted



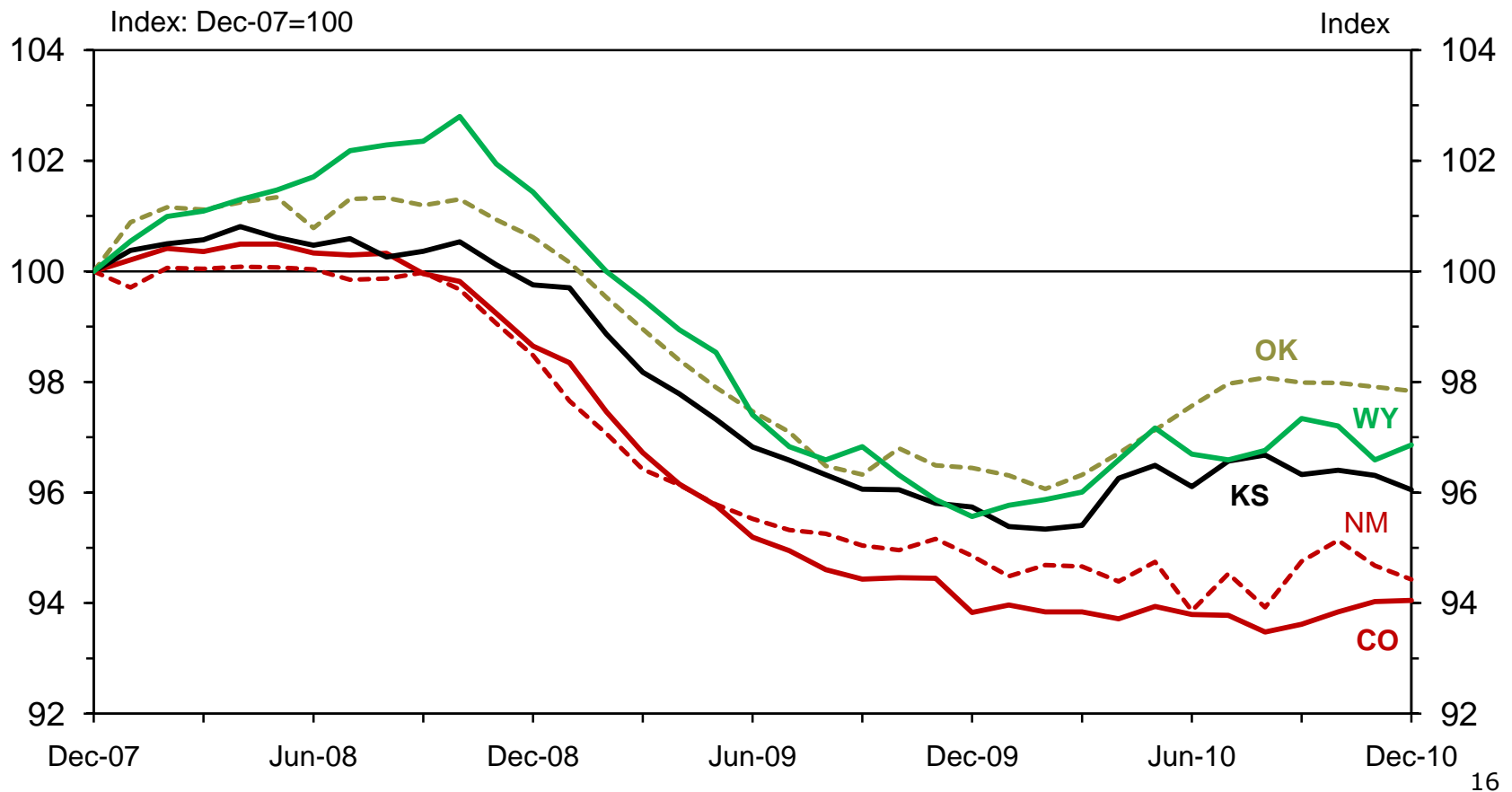
Late downturn in government hiring offsetting private sector jobs gains

U.S. Employment Seasonally Adjusted



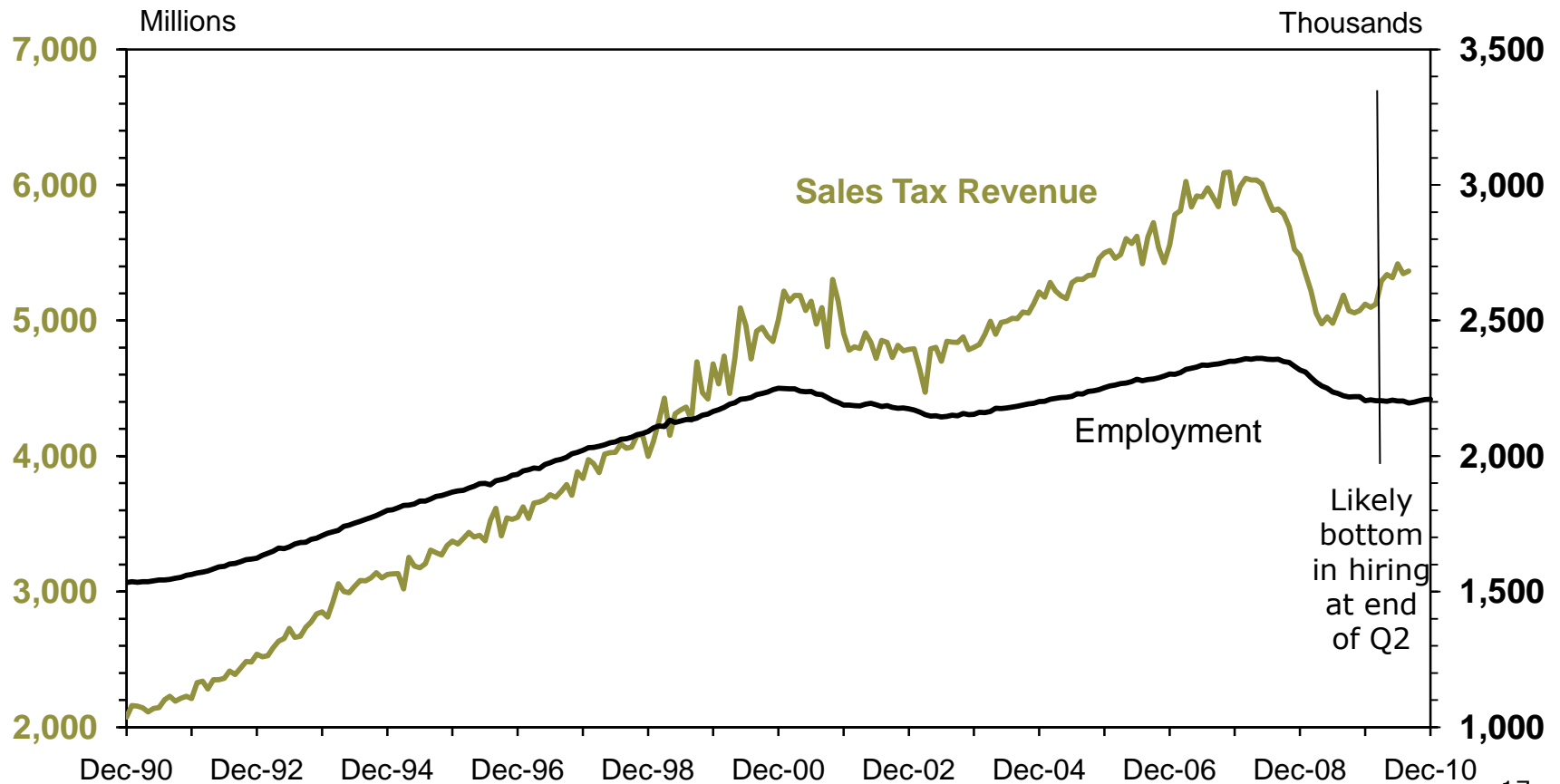
CO and NM remain the weakest labor markets in the 10th District

Total Nonfarm Employment Seasonally Adjusted



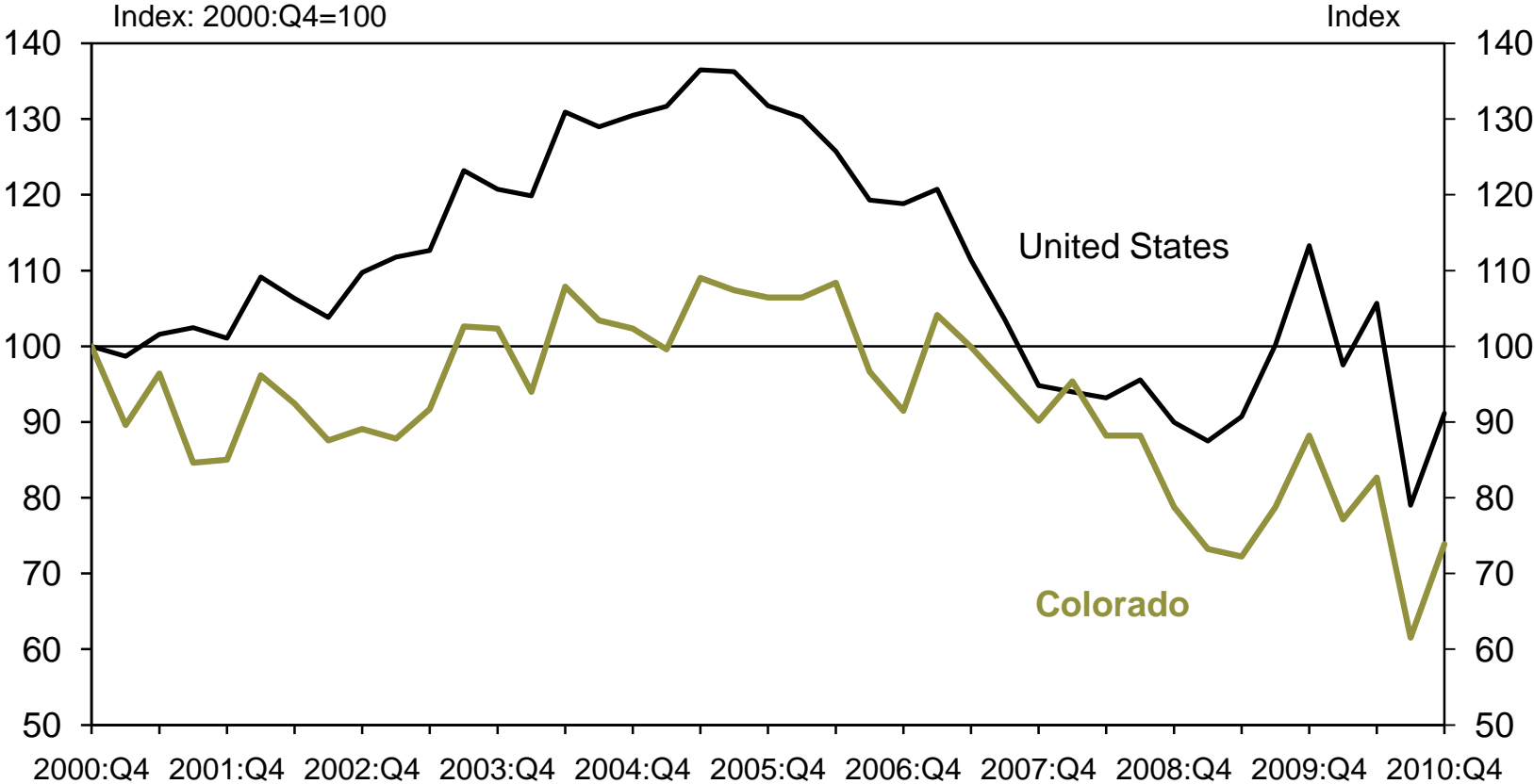
Sales tax revenue and upcoming revisions to job data confirm end of recession in CO

Colorado Nonfarm Total Employment and Sales Taxes
Seasonally Adjusted



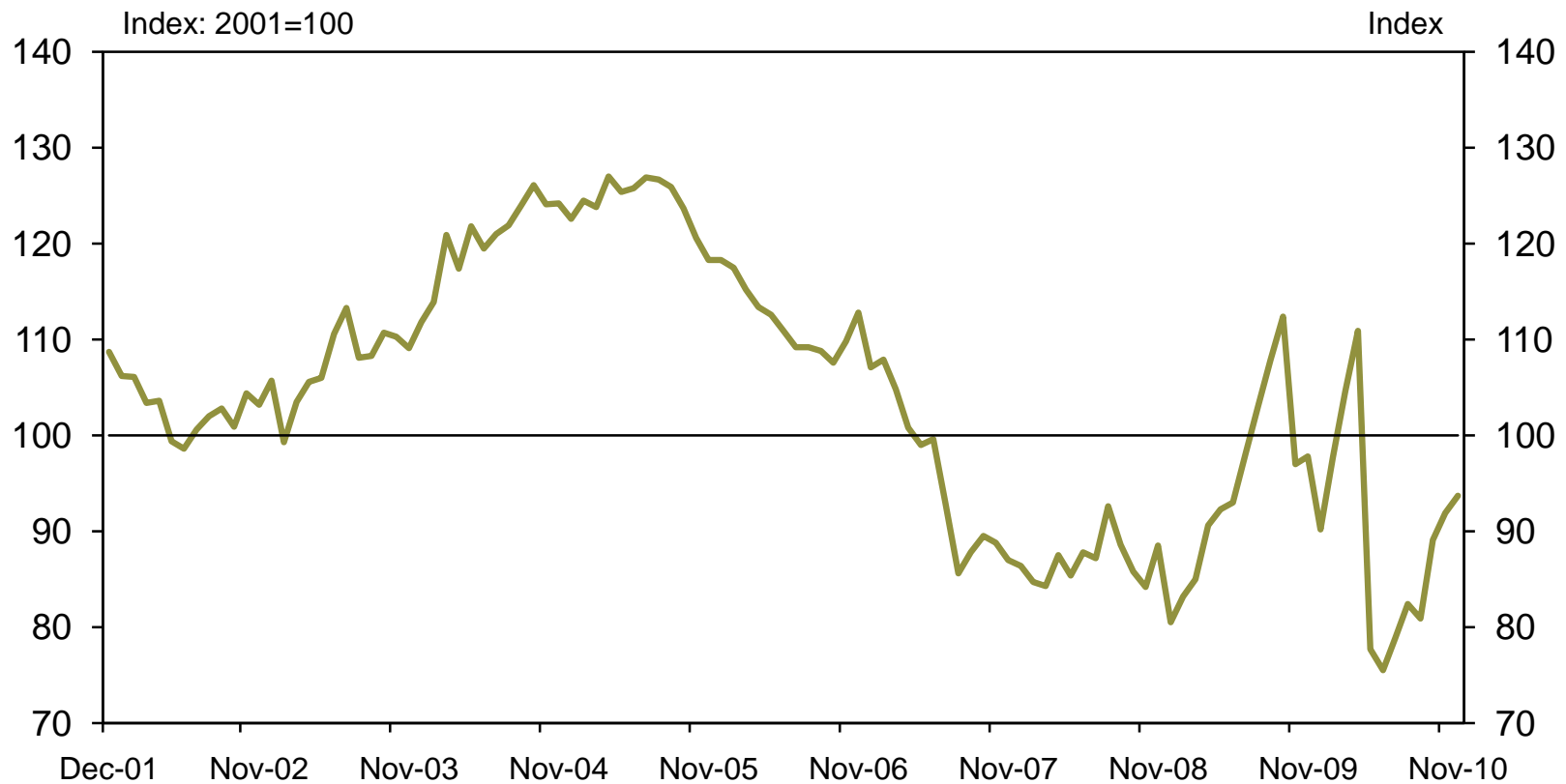
Latest existing home sales volume reflects tax credit expiration...

Sales of Existing Homes Seasonally Adjusted



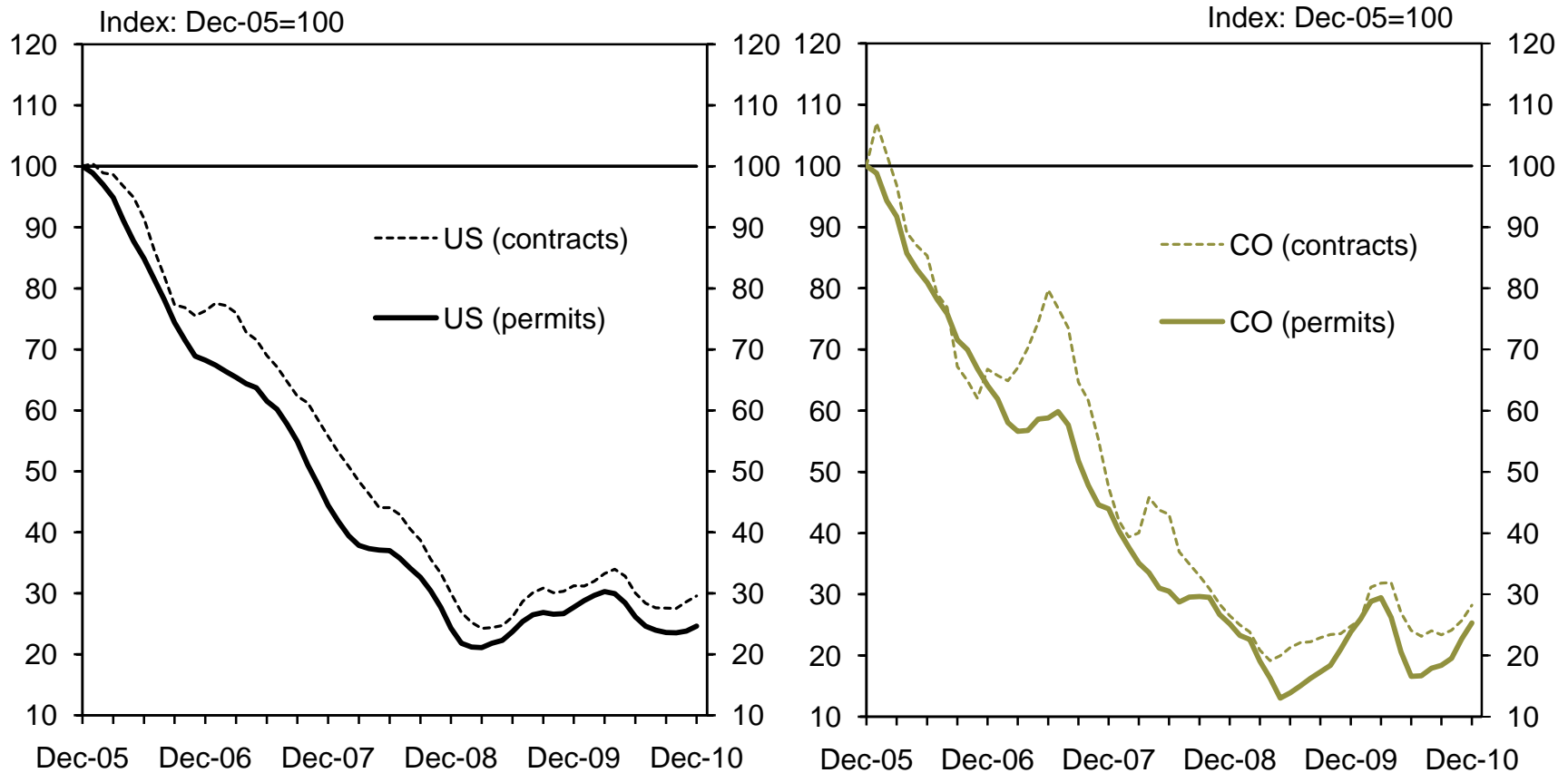
...but pending sales suggest the tax credit distortion is now through the system

U.S. Pending Home Sales Index
Seasonally Adjusted



CO new home construction tracking the U.S.

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

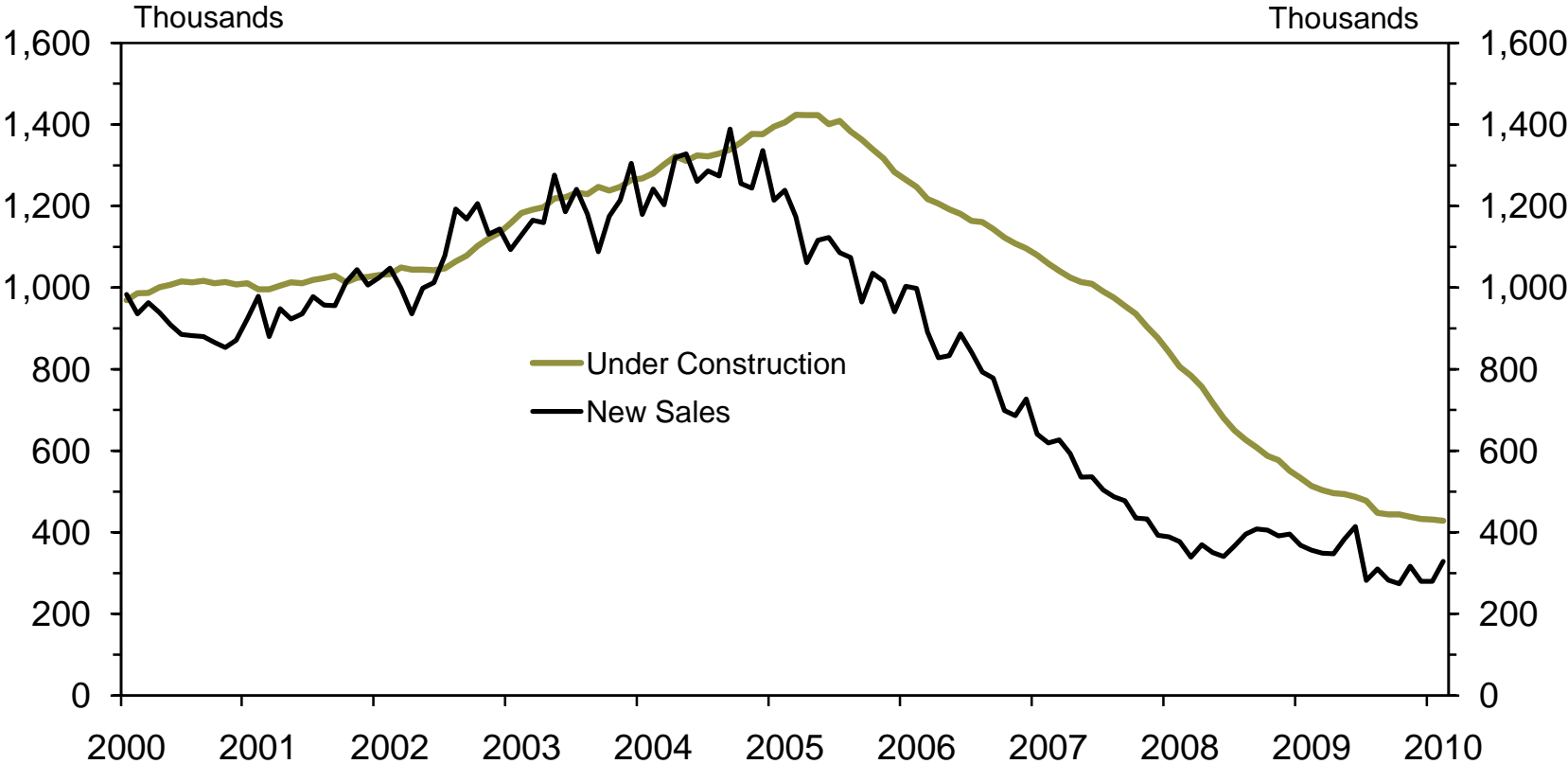


Gap remains between construction and sales

has narrowed since late 2005

U.S. New Residential Construction for Sale

Seasonally Adjusted

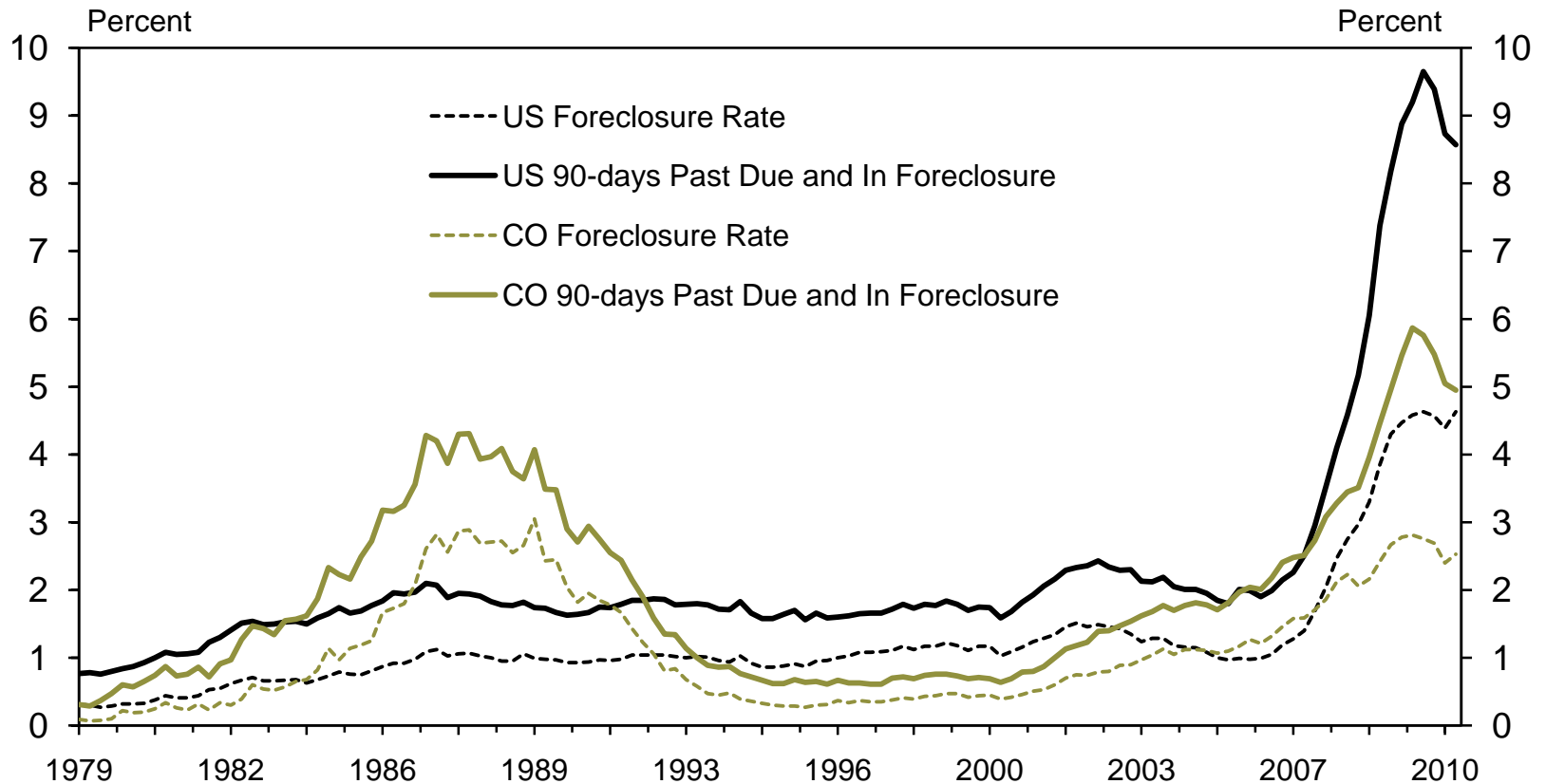


Critical peak in past due and foreclosure rates

shadow inventory remains a concern

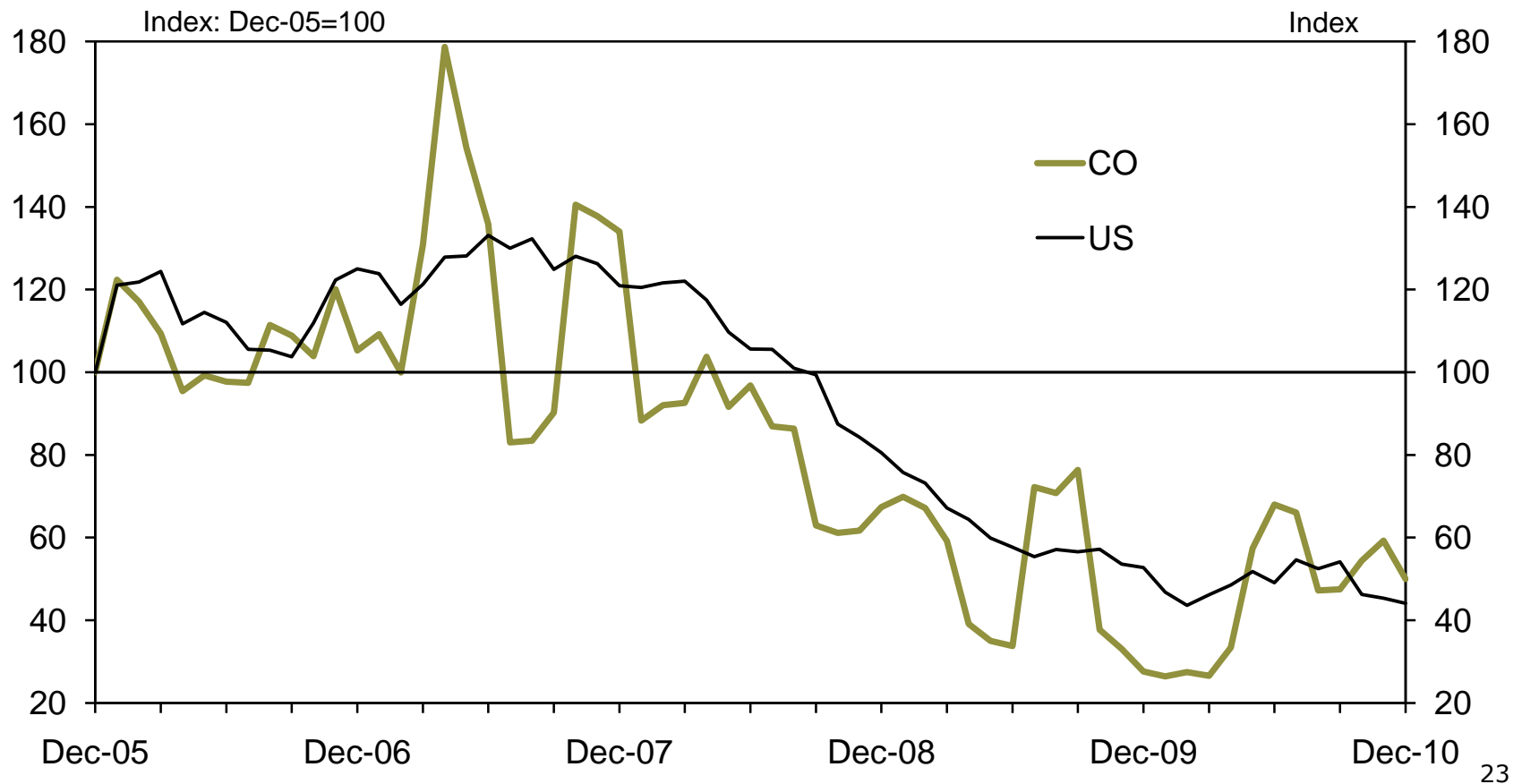
Mortgage Foreclosure/Delinquency Rates

U.S. and Colorado



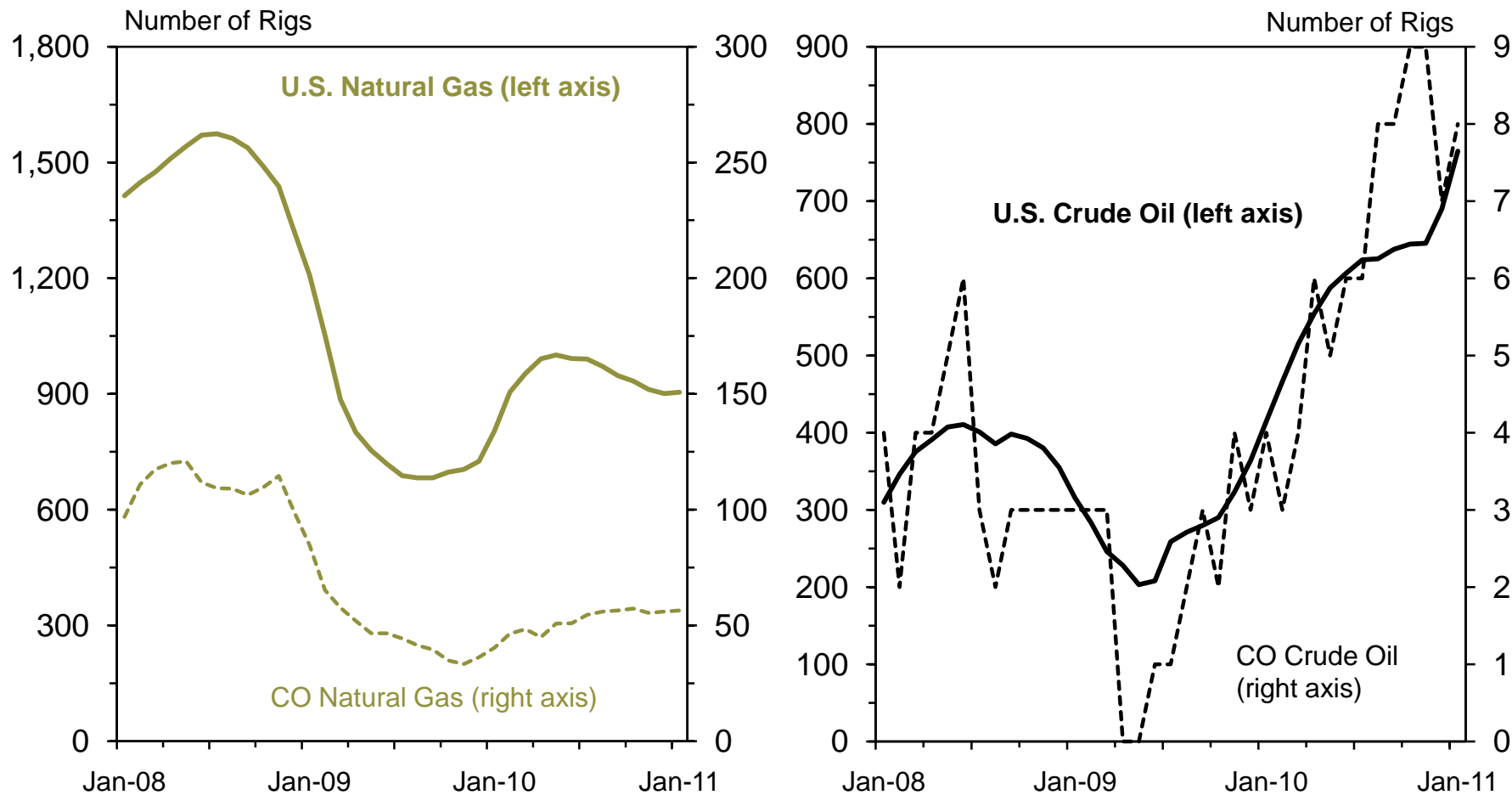
Is the bottom at hand in commercial construction? Or just noise?

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



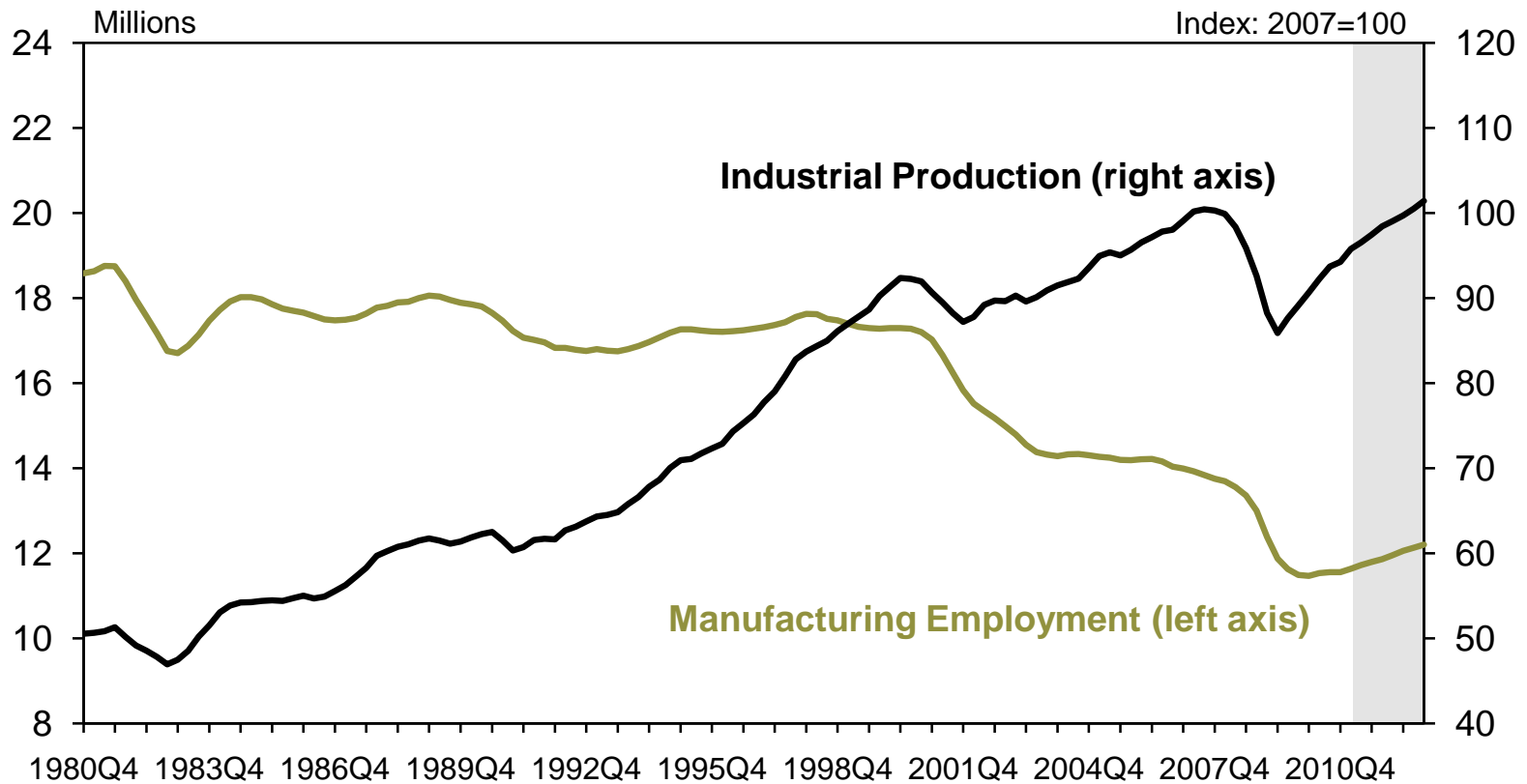
Shift in exploration toward crude accelerates in U.S. and CO

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?

- 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?

- 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 Colorado Economic Conditions

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Presentation will be available at:

<http://www.kansascityfed.org/Denver>