

U.S. and Regional Economic Conditions



FEDERAL RESERVE BANK *of* KANSAS CITY
DENVER BRANCH

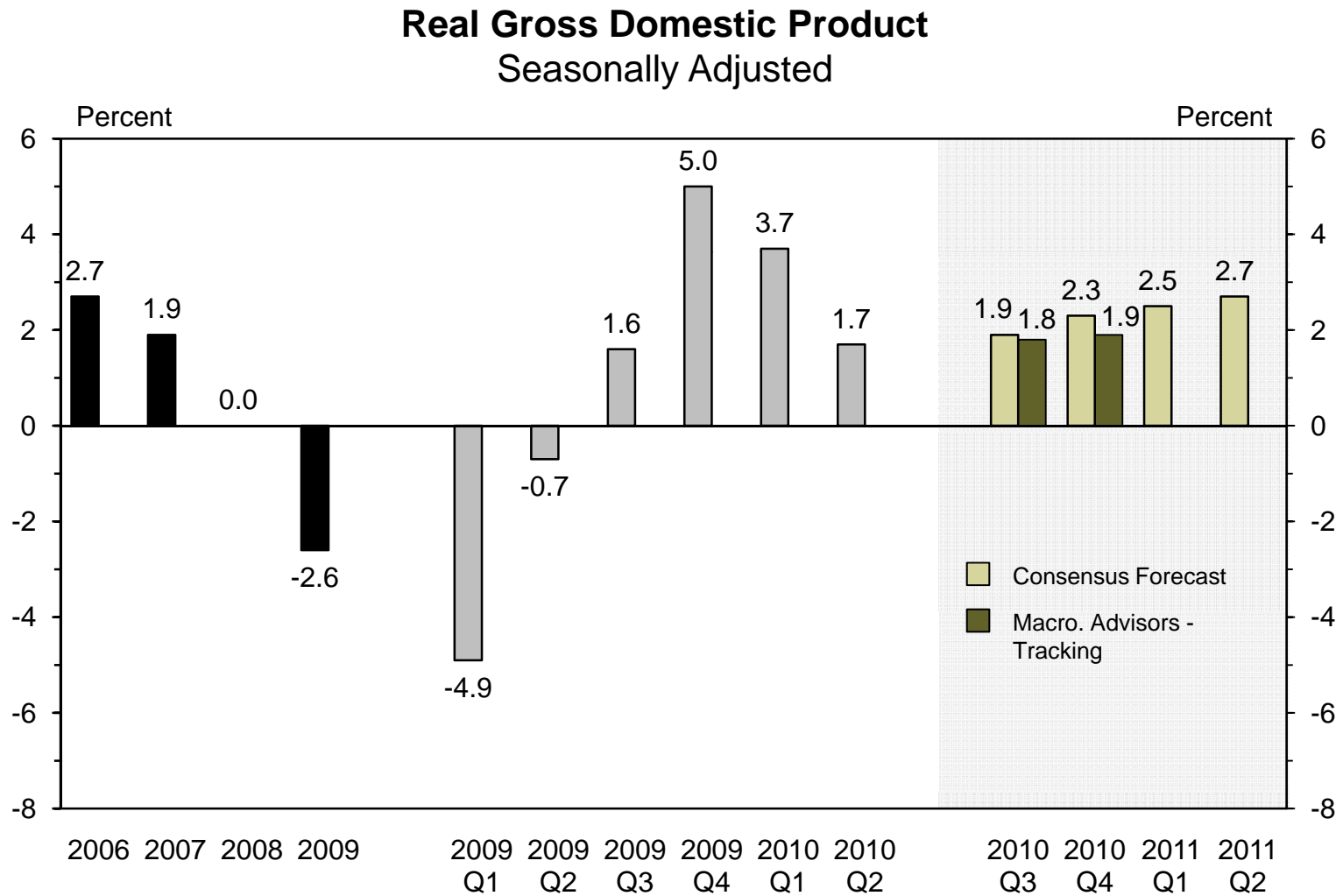
Mark C. Snead

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

Fundamentals for U.S. recovery remain in place

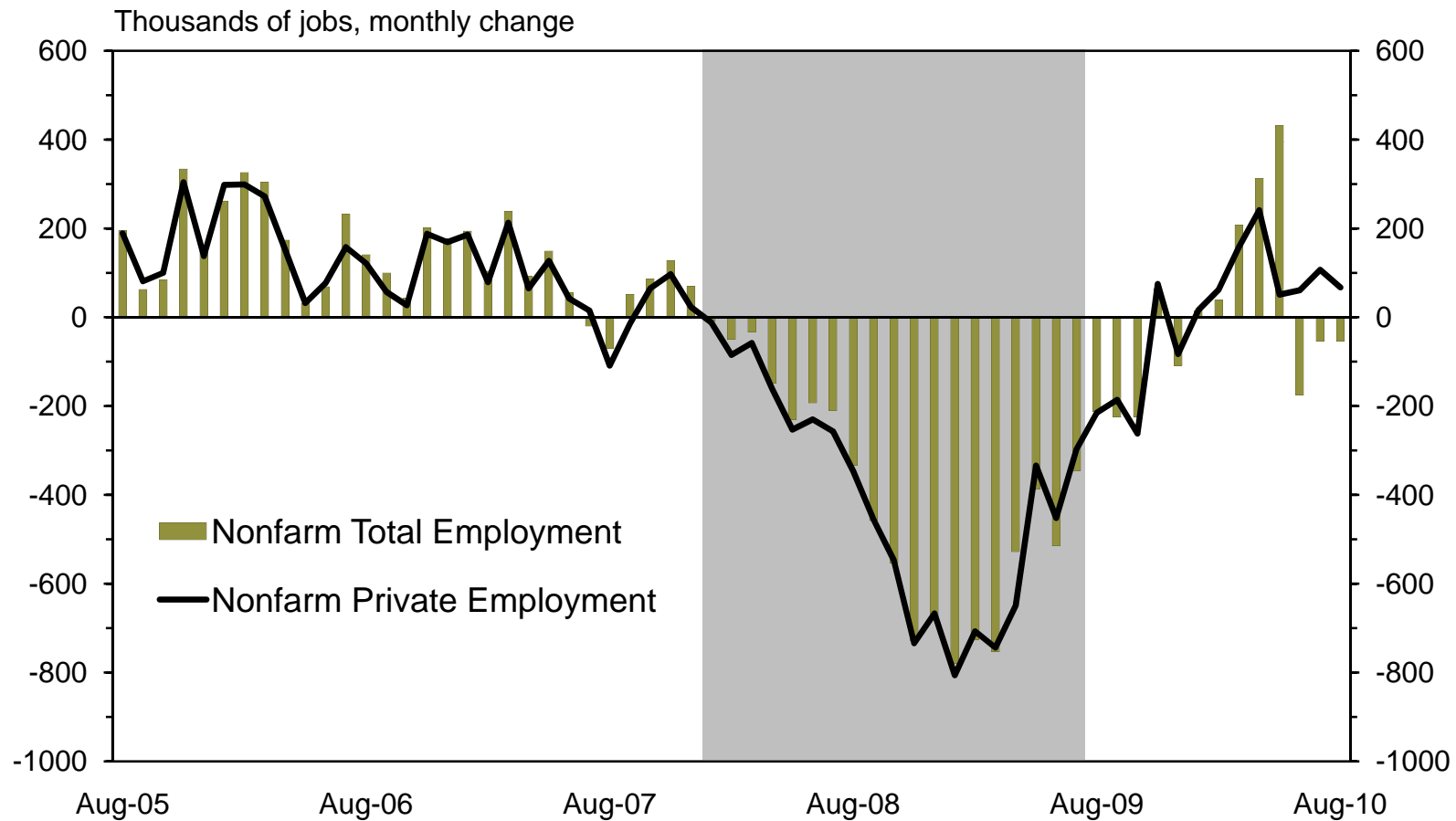
- Distinct slowing since 2nd quarter
- Questions:
 1. Adequate progress in the labor market?
 2. Is the economy successfully walking a tightrope?
 3. How will residential market emerge post-tax credits?
 4. Important changes in construction markets?
 5. Mortgage debacle at a turning point?
- What factors will support the recovery? Risks?

Concerns over weakness in recent U.S. GDP data



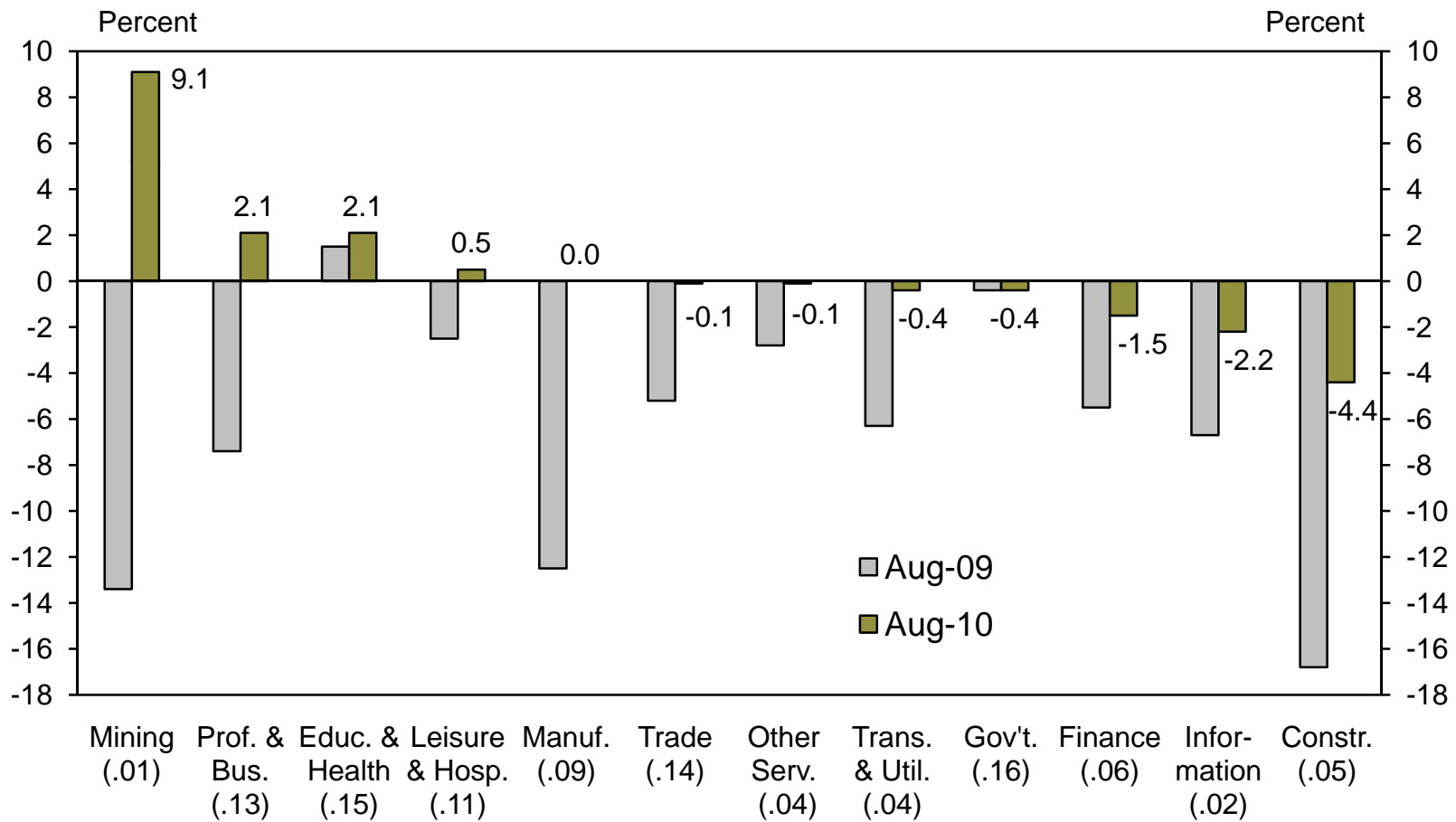
.... and recent job data;
but consistent private job gains since Jan 2010

Total/Private Nonfarm Employment Seasonally Adjusted



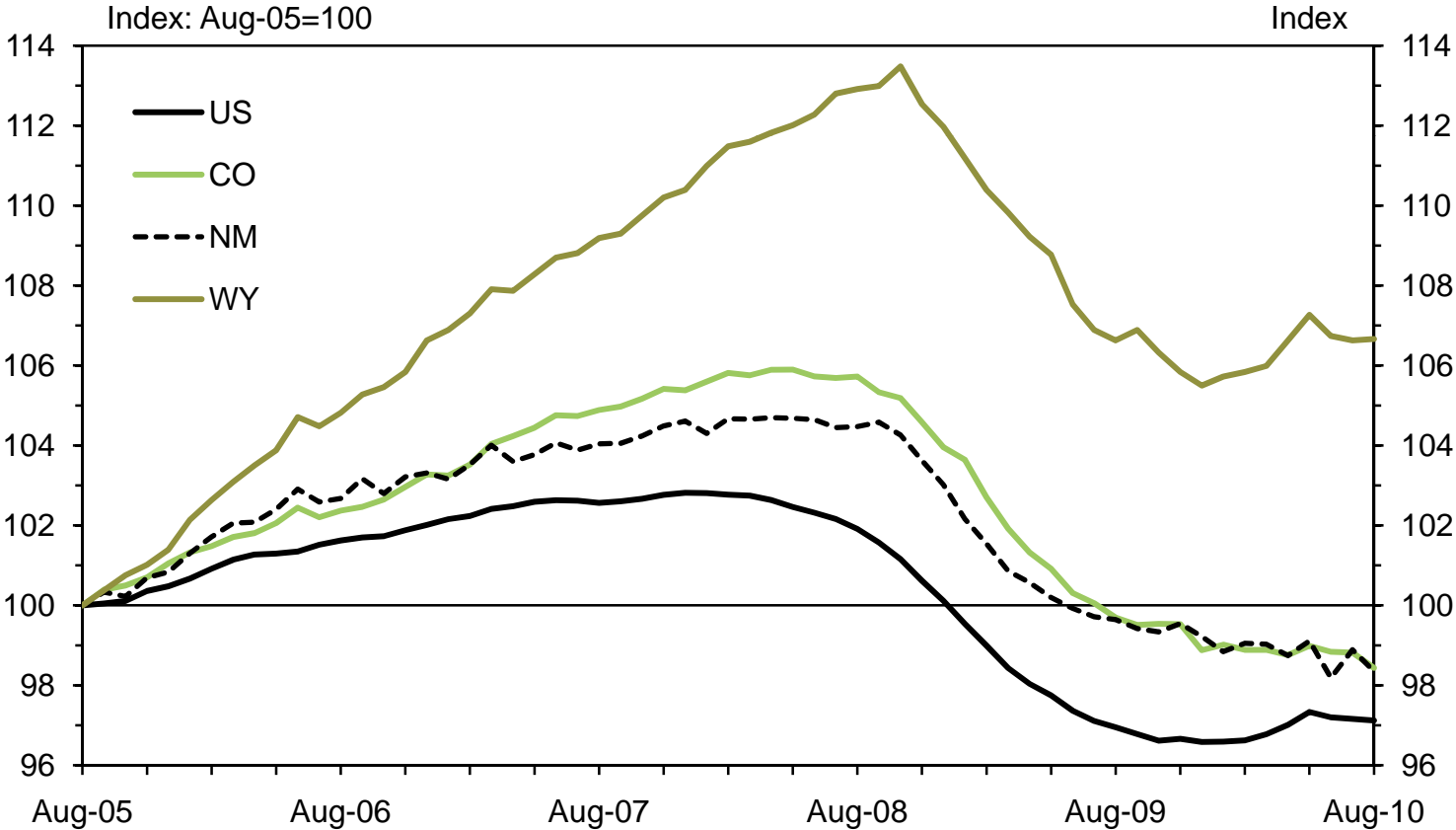
Weak, but across the board improvement in labor market

Nonfarm Job Growth by Industry
United States



State Cycles: CO/NM show no bounce yet, WY in energy cycle

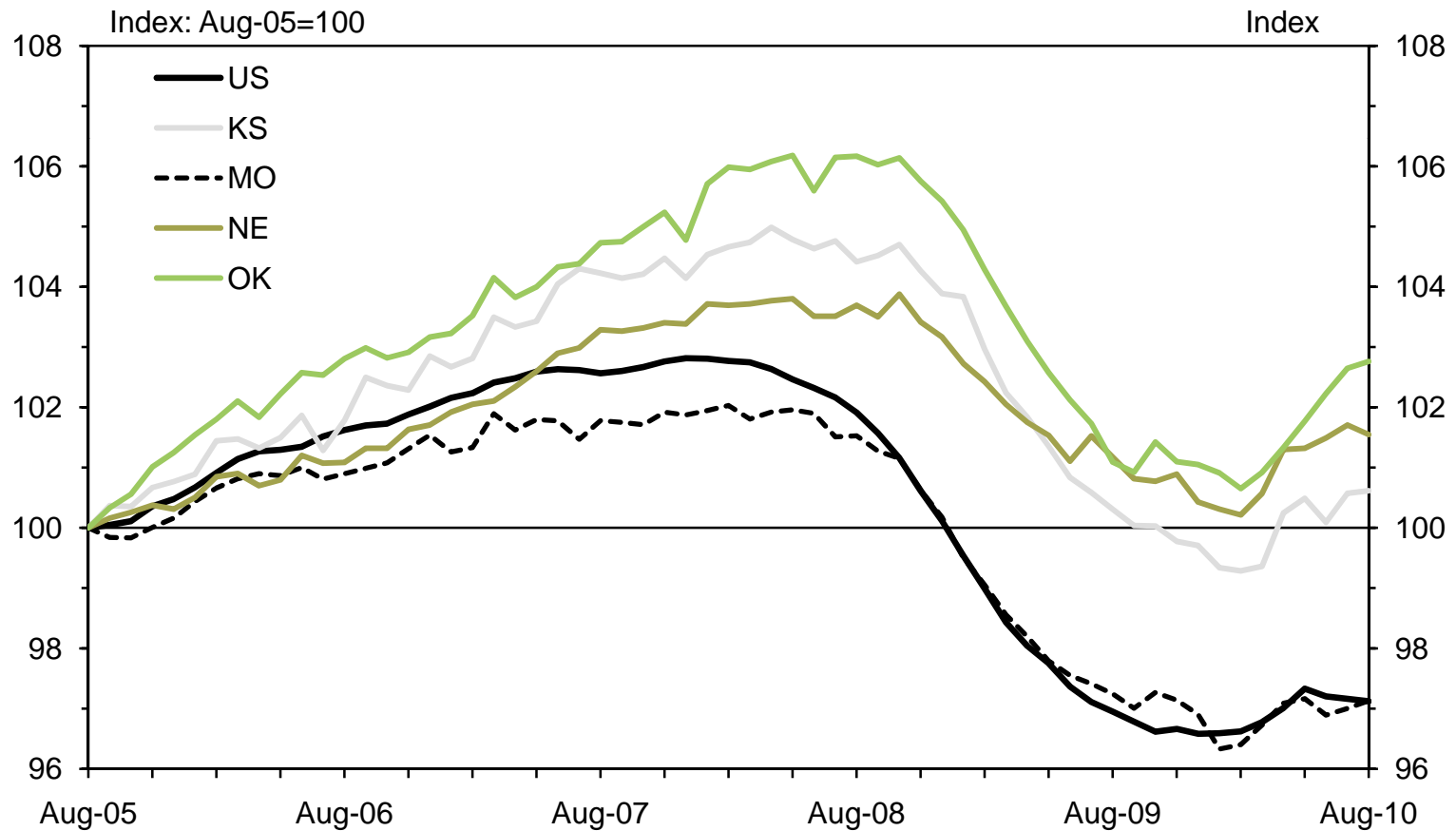
Total Nonfarm Employment
Seasonally Adjusted



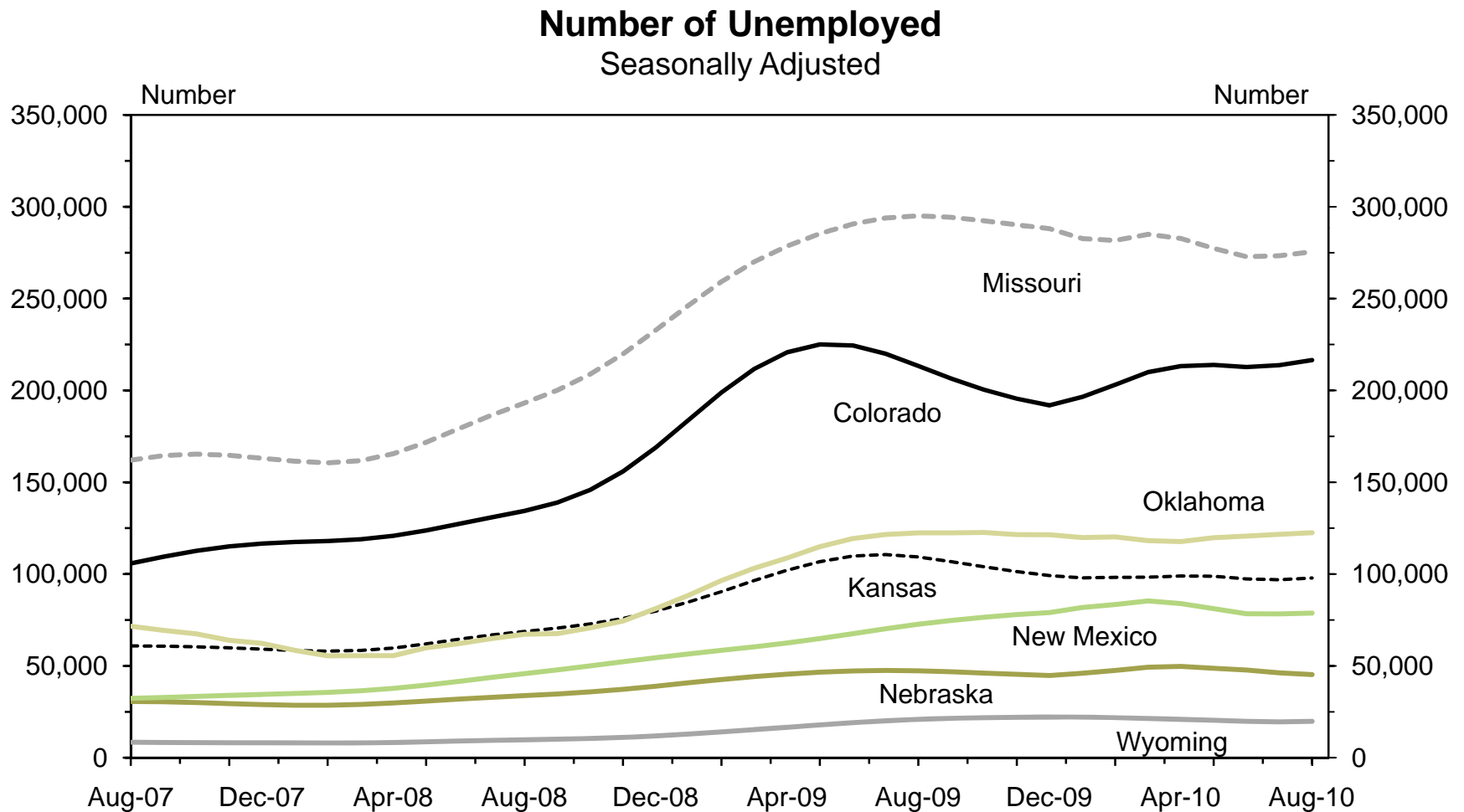
Source: Bureau of Labor Statistics

State Cycles: NE smallest job loss, OK energy cycle, KS energy/mfg, MO long-run issues, all show bounce

Total Nonfarm Employment
Seasonally Adjusted

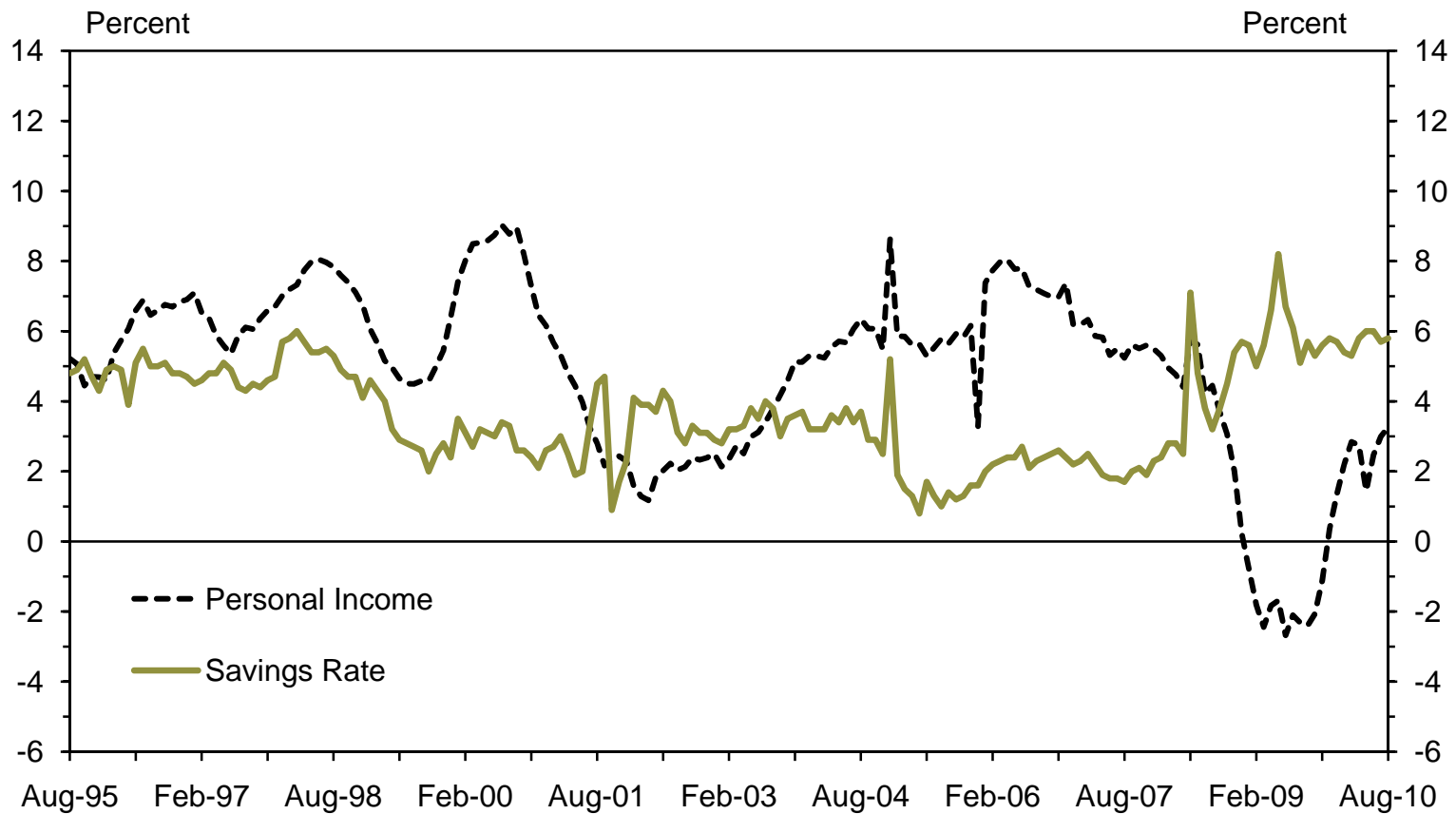


Number unemployed is much better measure than unemployment rate



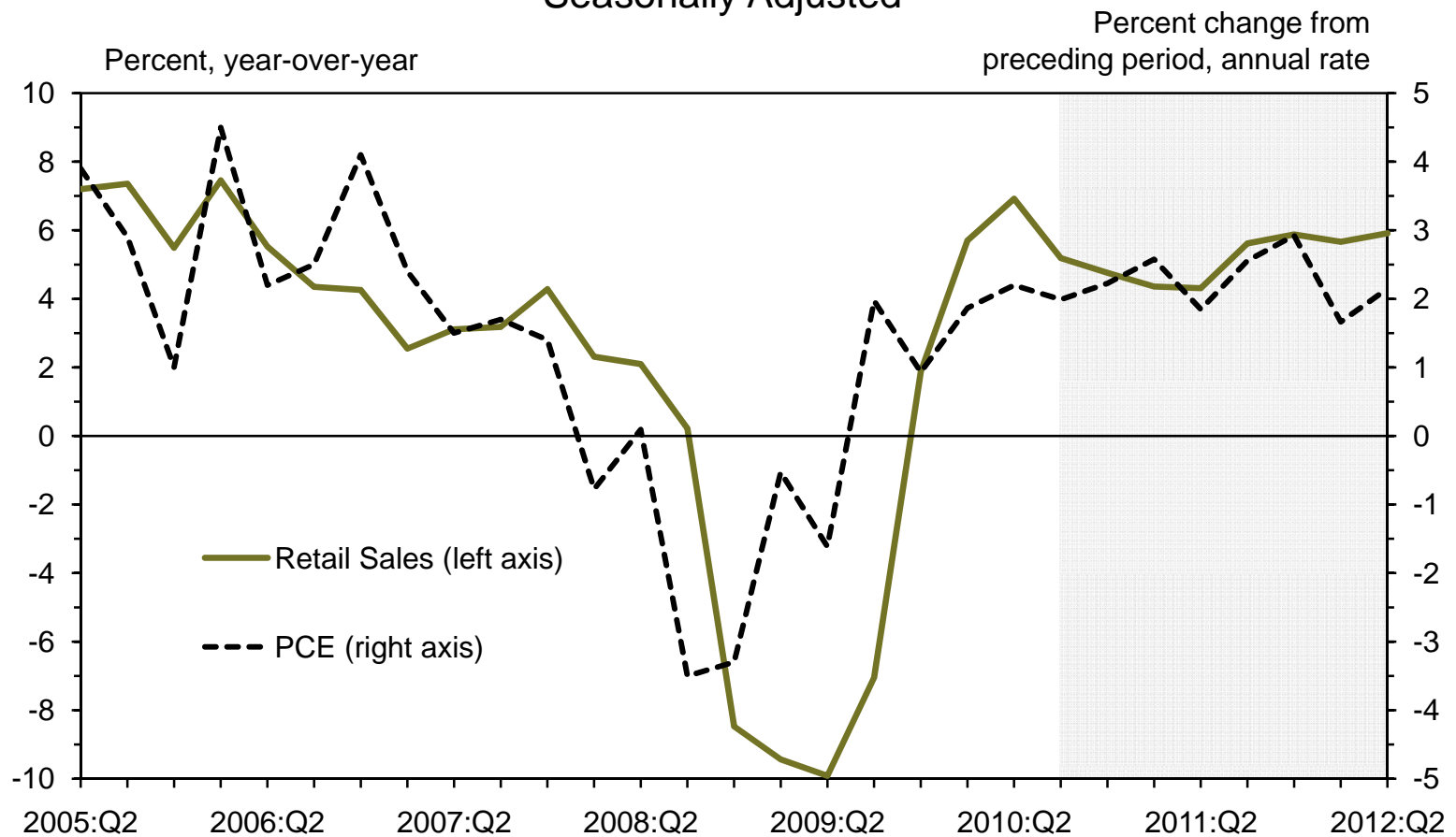
Walking a tightrope? Modest income growth and spending, debt reduction, and savings up

Growth in Personal Income vs. Personal Savings Rate



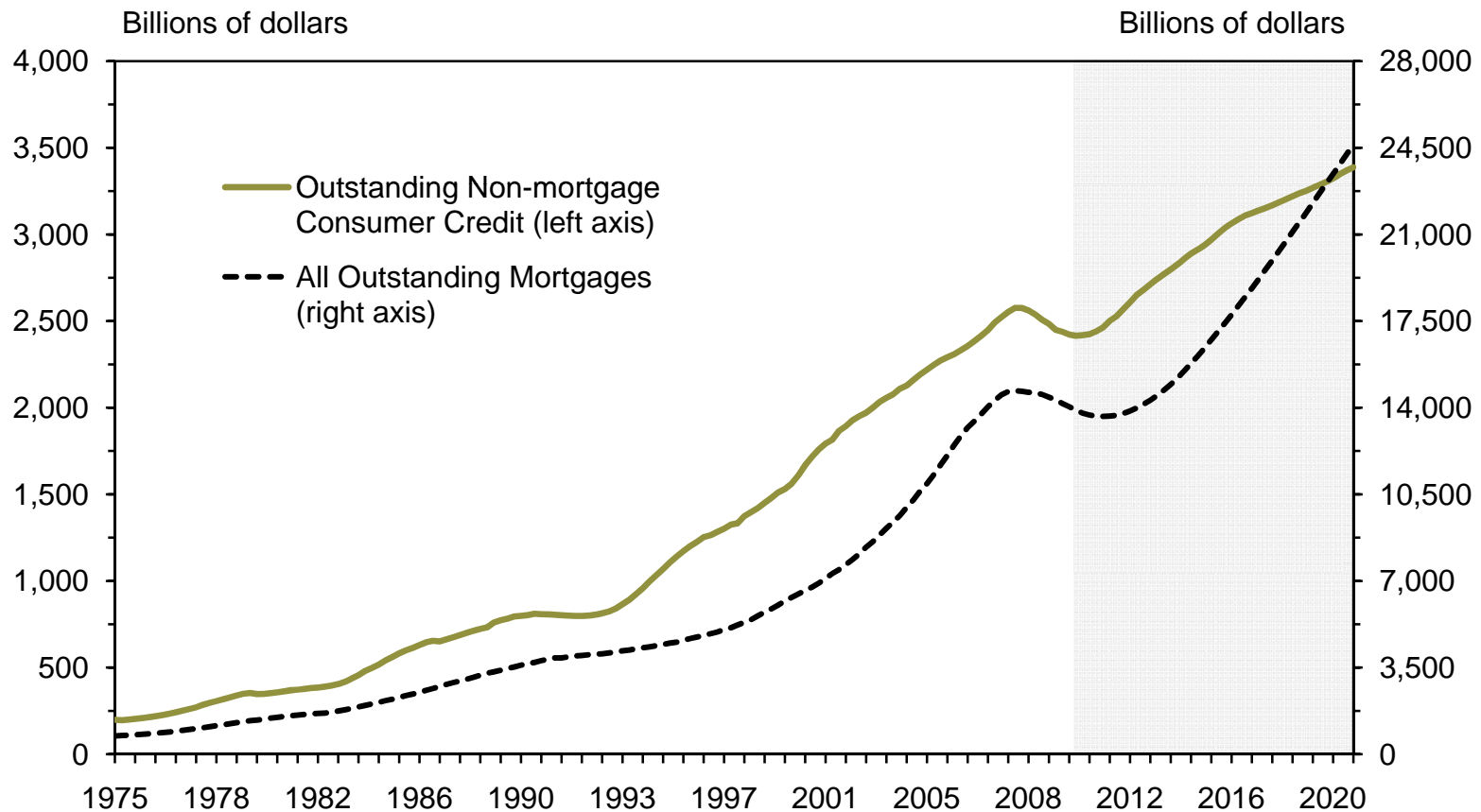
Forecasts suggest 'normal' consumer spending recovery

Retail Sales vs. Personal Consumption Expenditures Seasonally Adjusted



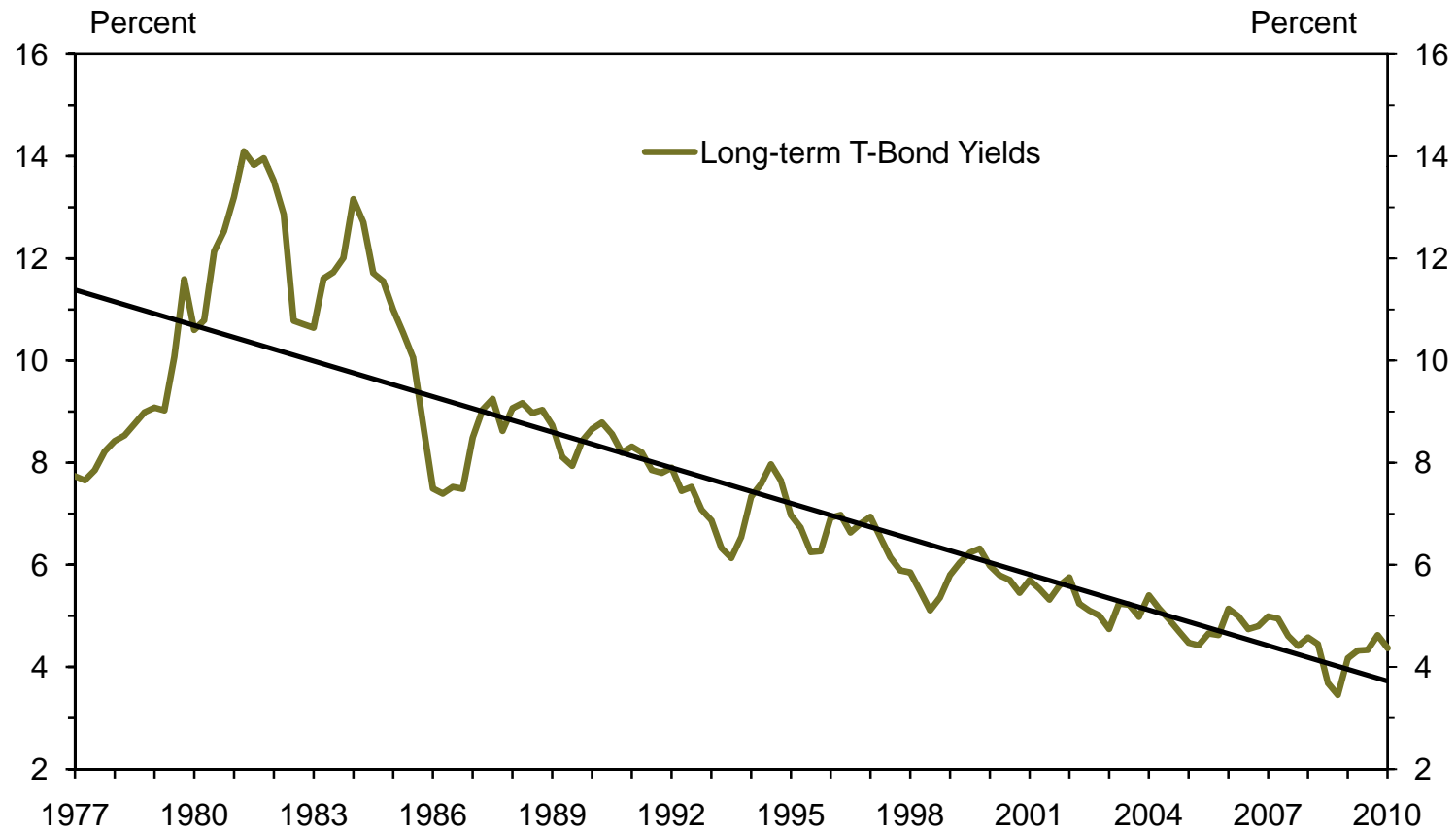
No major deleveraging of the household sector is expected: cyclical adjustment

U.S. Consumer Credit



Was household leveraging fully irrational?

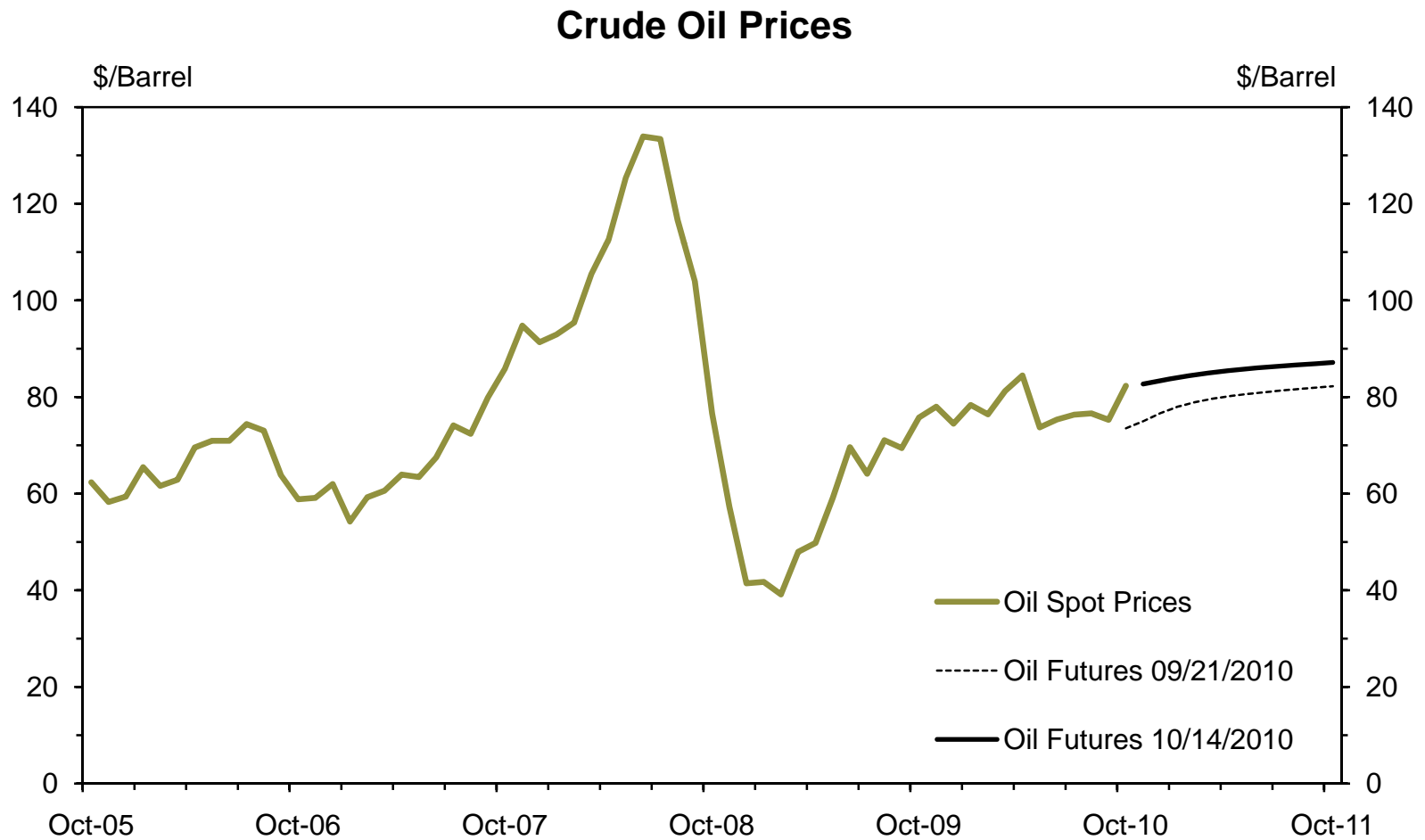
Long-Term Treasury Bond Yields



Are Banks Lending? Which Ones? For What?

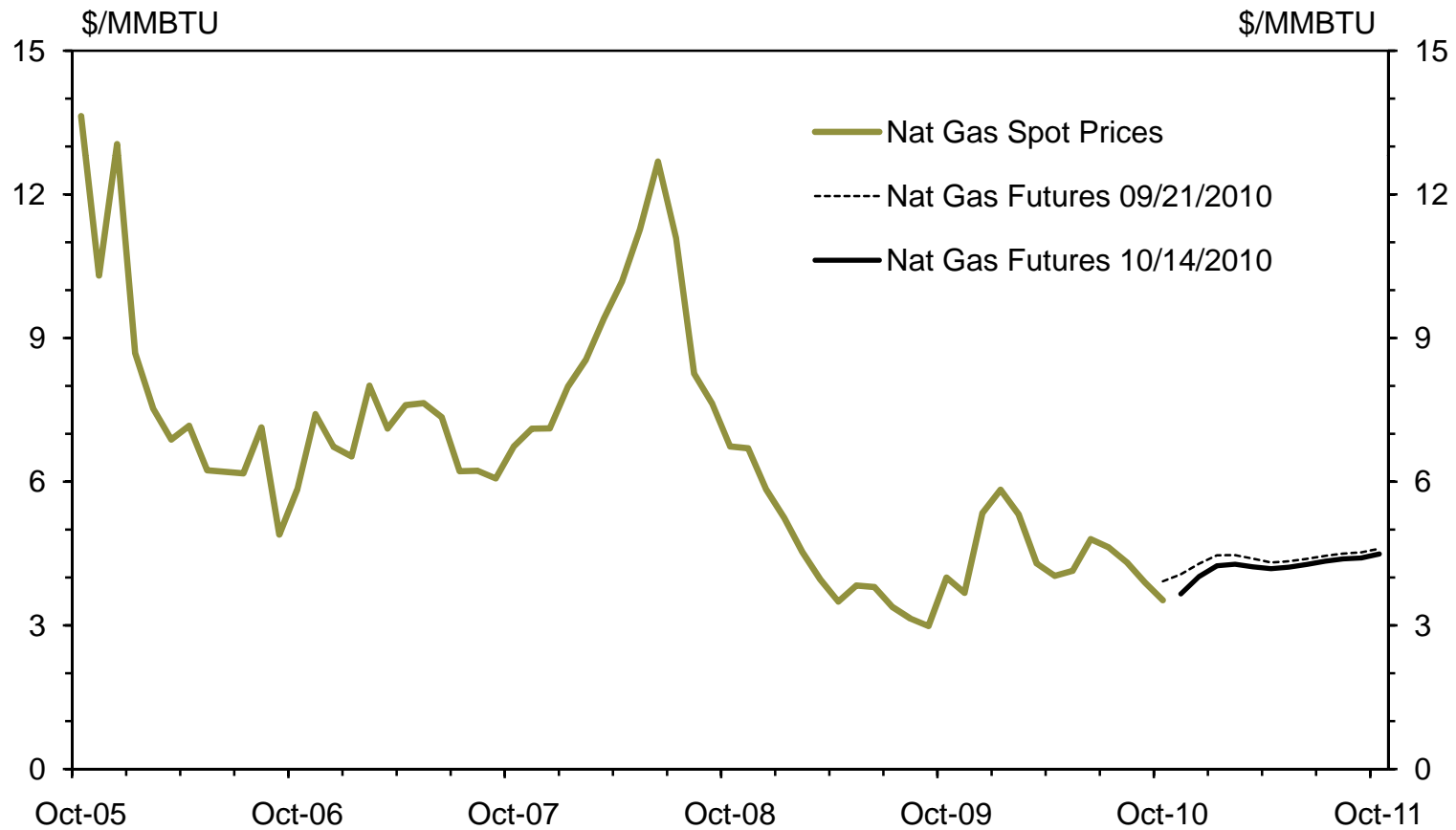
- Roughly half of all banks added loans in past 12mo
- Strength determines who is up
- CLD loans have collapsed (-25%) at all size banks
- But, other CRE loans up (10%) at all size banks
- 1-4 family resid. loans up (5%) at all size banks
- Comm & Indust loans up (1%) at small banks, collapsed (-20%) at large banks

Oil prices remain attractive to producers, neutral to consumers

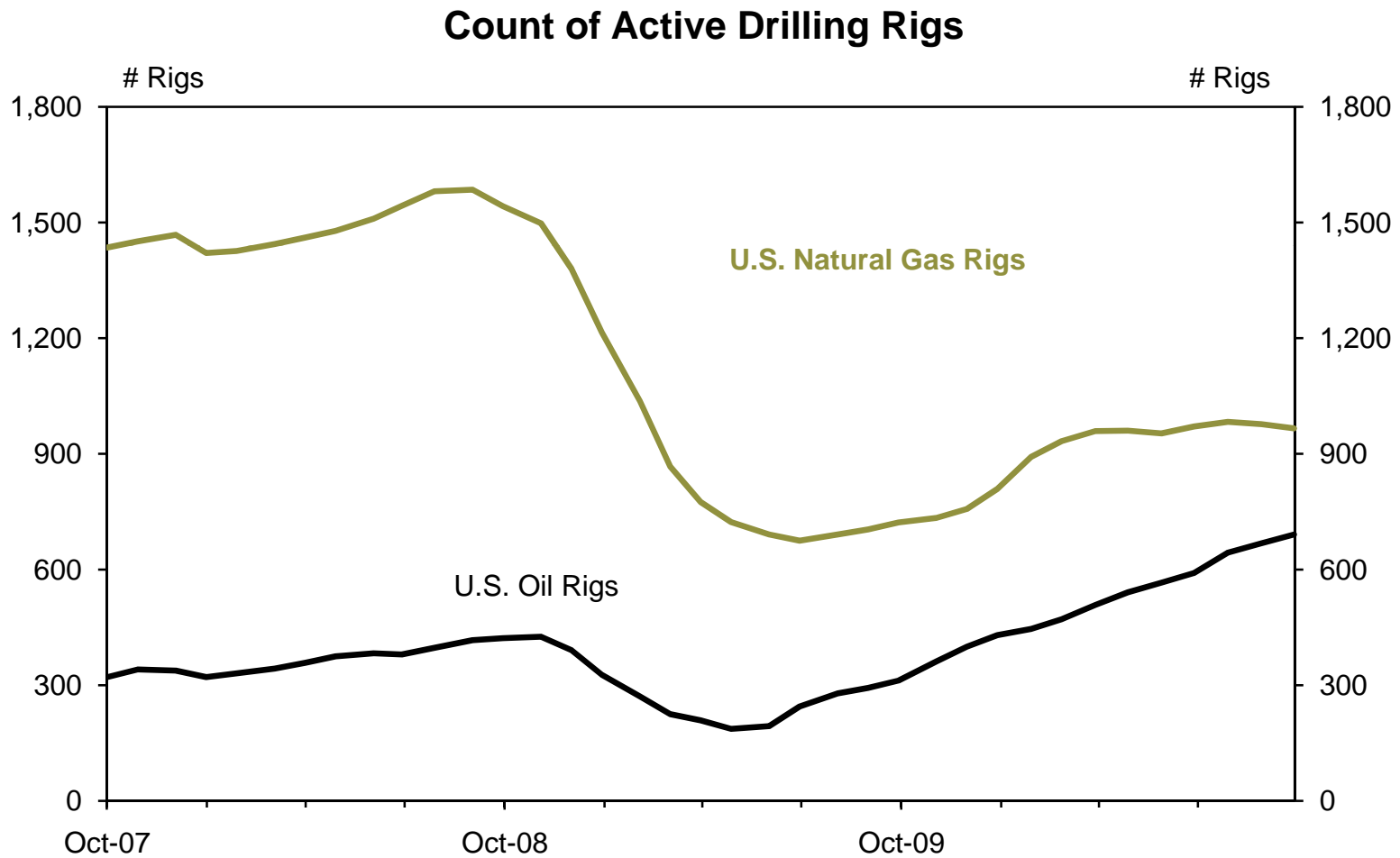


... but natural gas prices remain below pre-boom lows

Natural Gas Prices



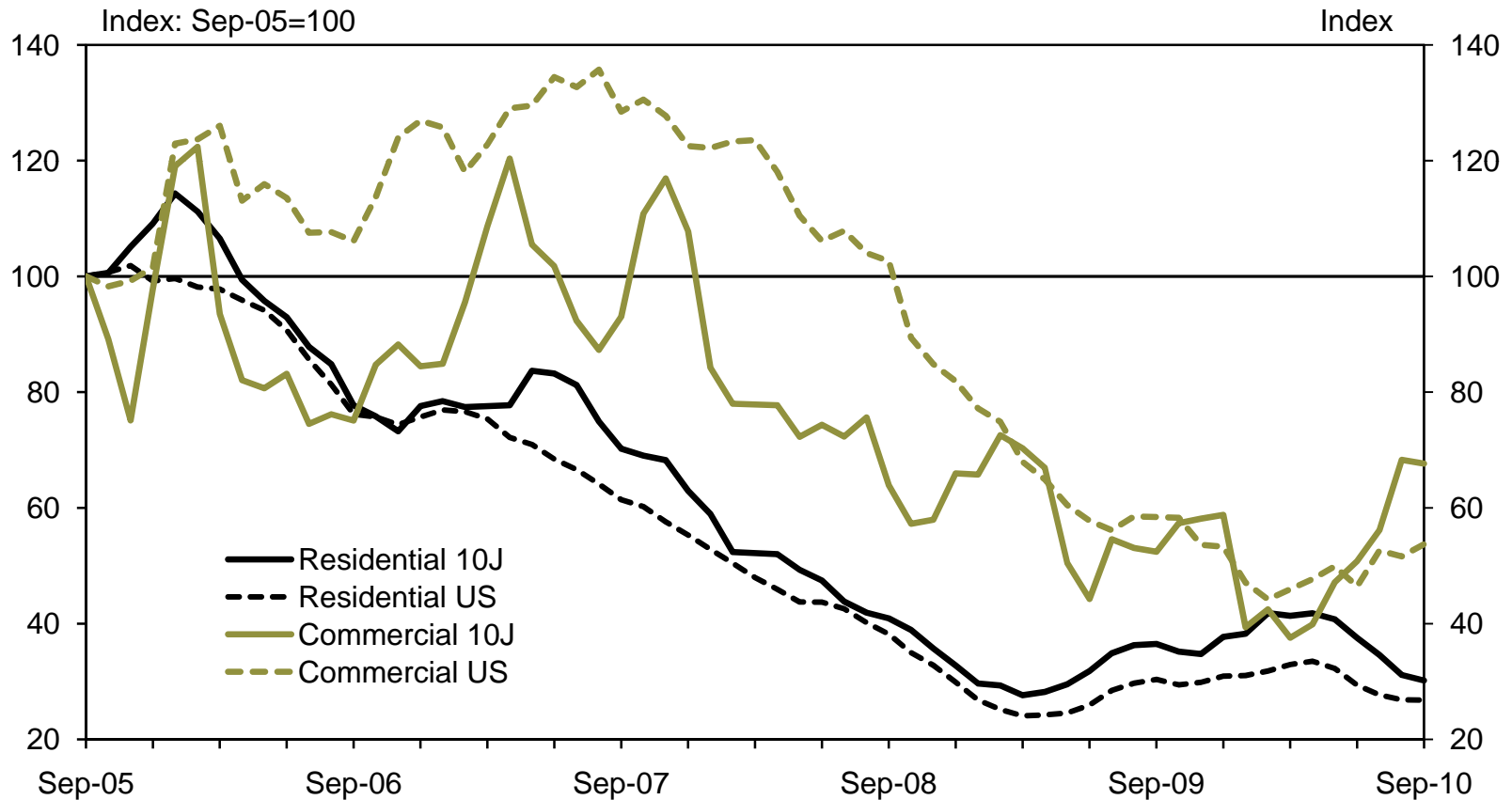
Drilling activity responded to oil prices (10J at disadvantage)



Commercial (+) and residential (-) construction trends diverging

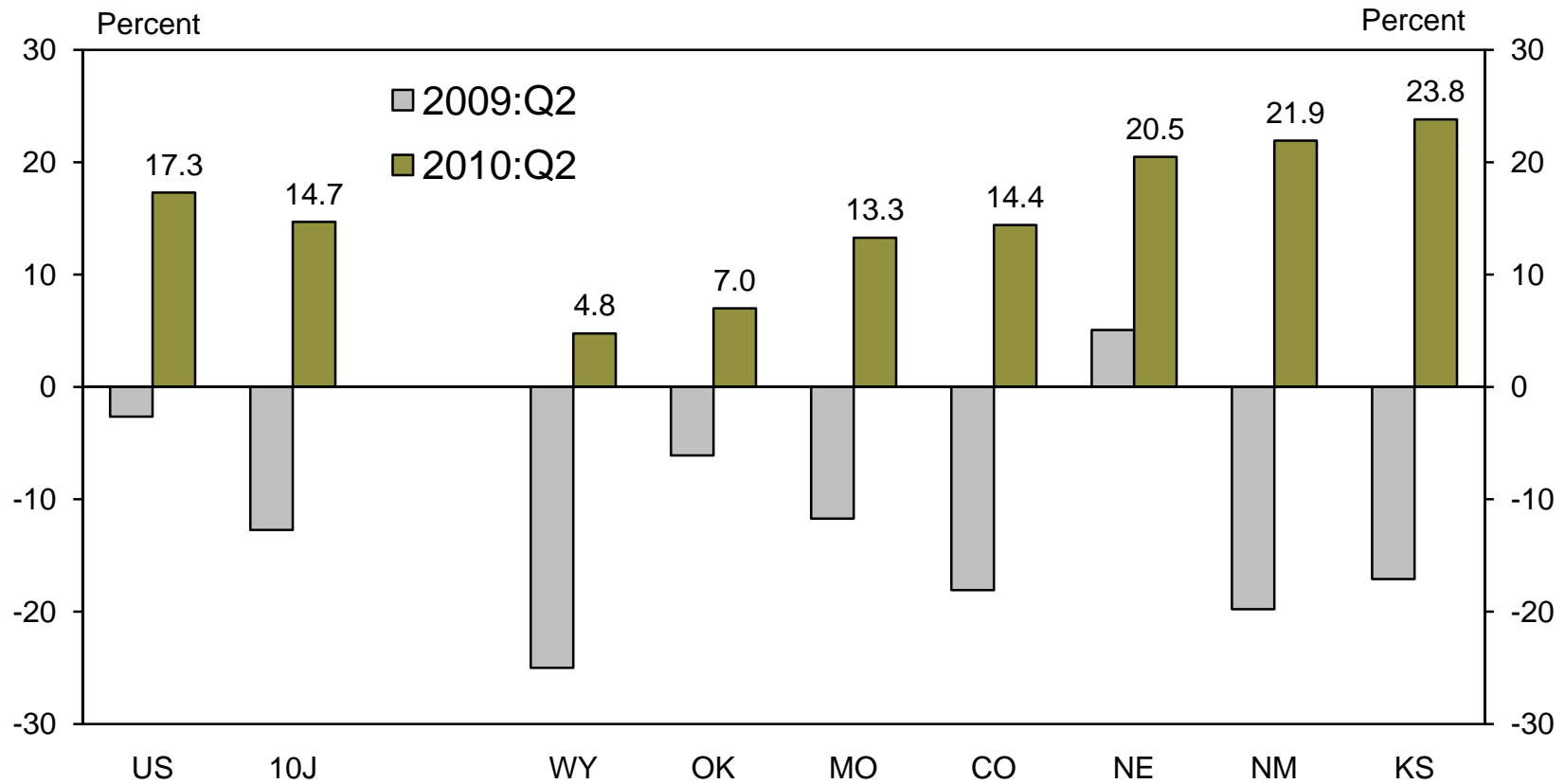
Value of Commercial & Residential Construction Contracts

Seasonally Adjusted, 3-mo. mov. avg.



Home sales volume up in most district states in most states >> Q2 data has tax credits

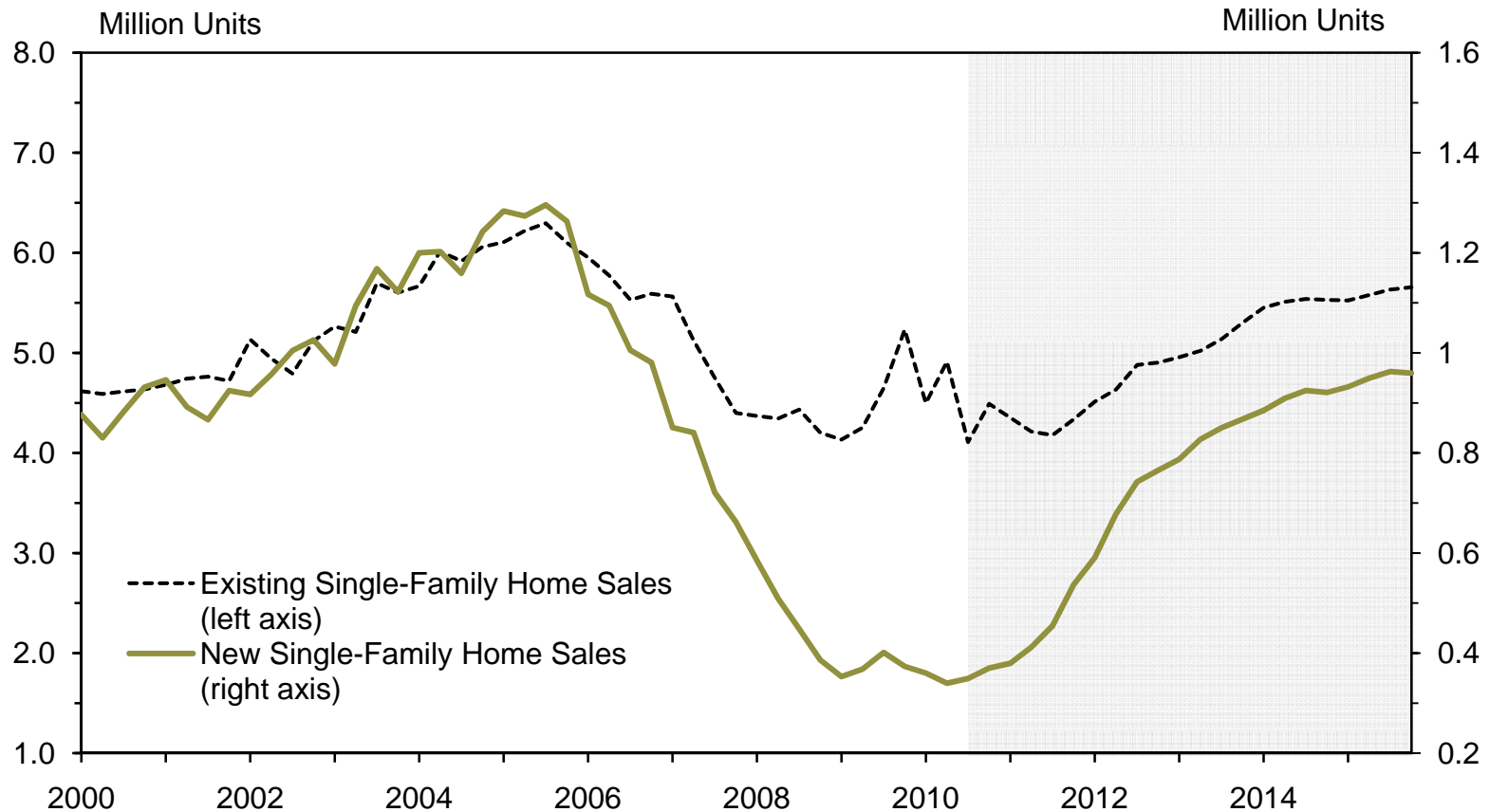
Sales of Existing Homes in District States
Seasonally Adjusted



At the bottom in volume?

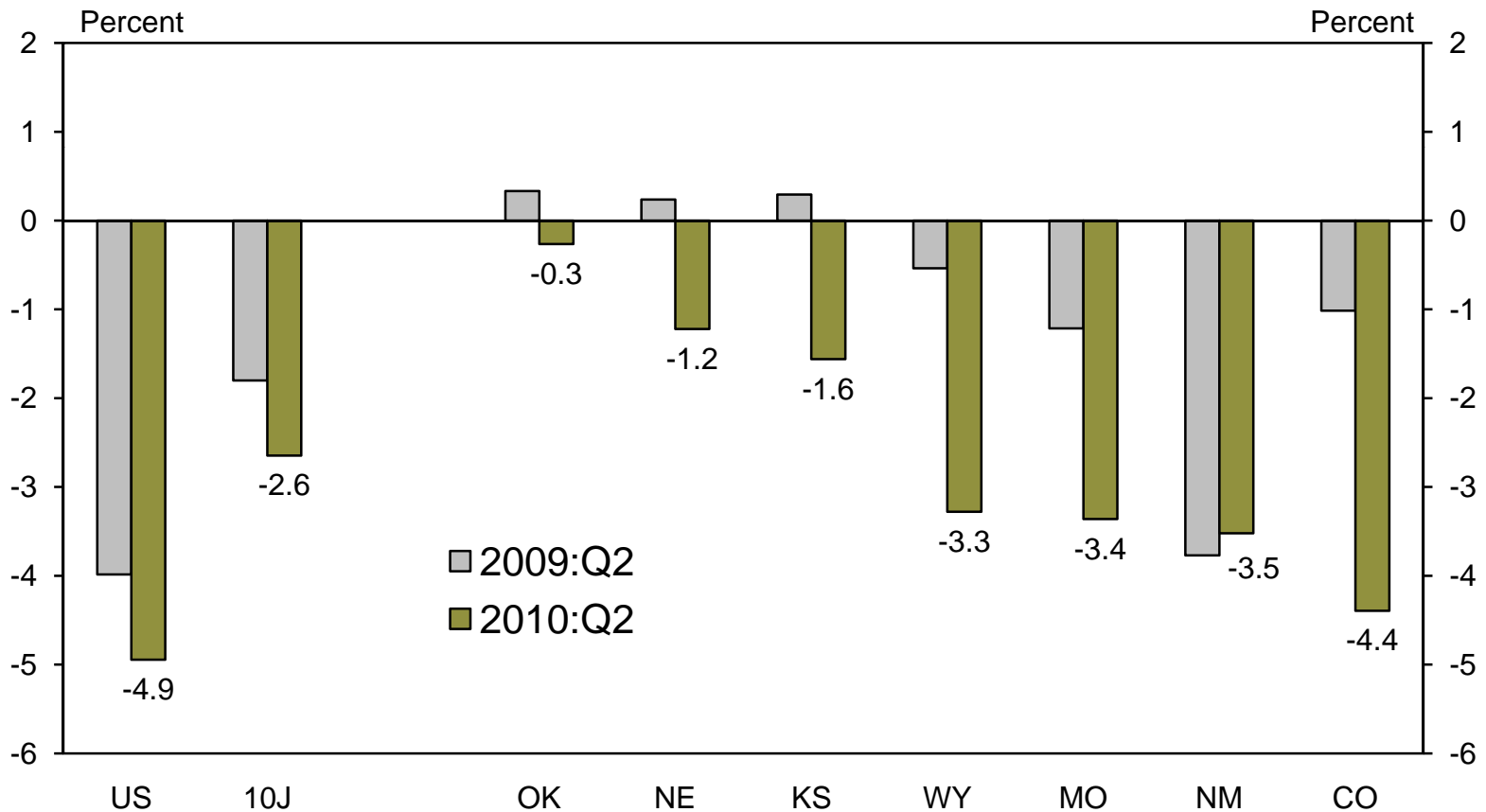
LR Forecast: 950K new homes, 5.5 million existing units

Sales of New and Existing Homes – U.S.
Seasonally Adjusted



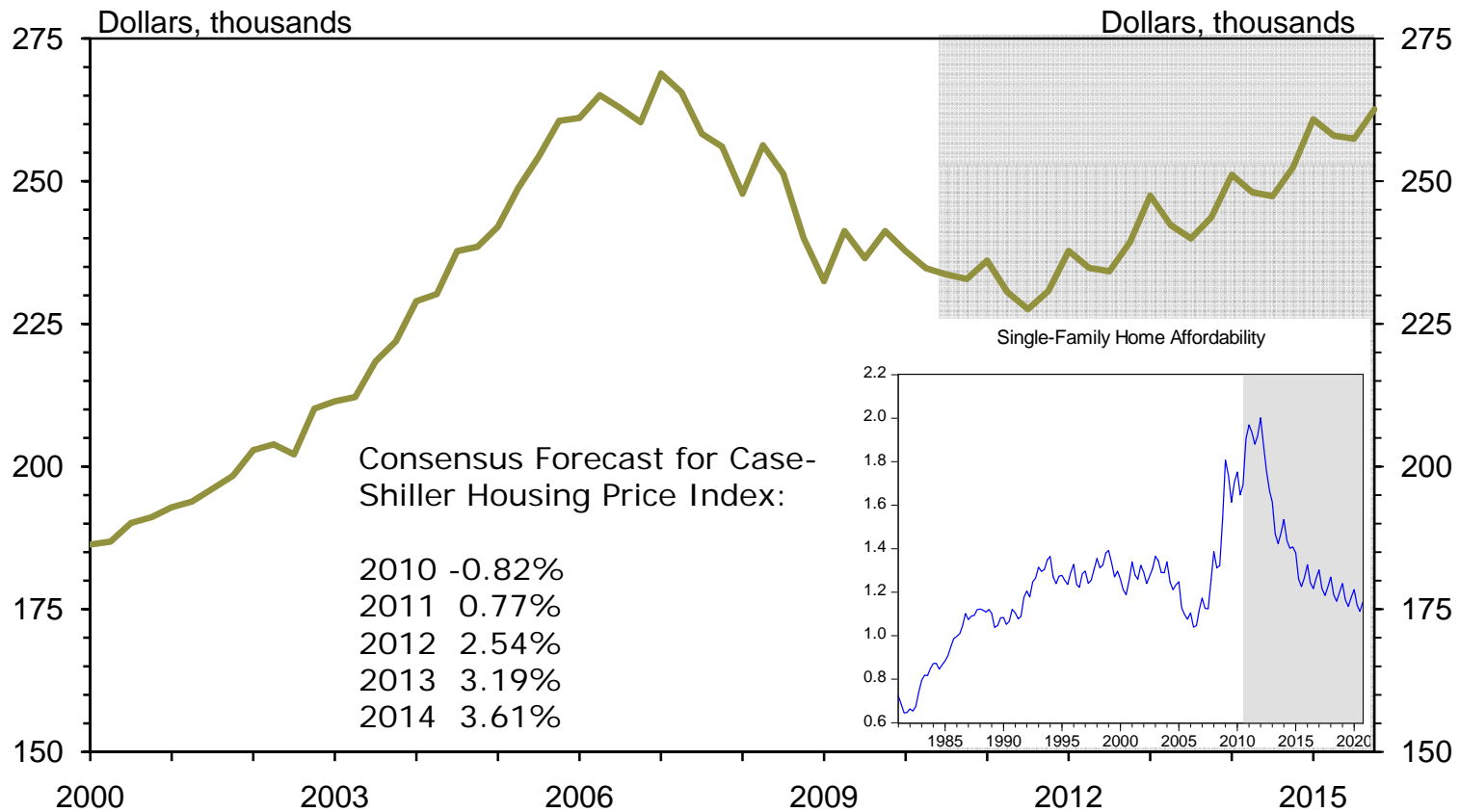
District home prices now largely reflect economic conditions

FHFA Repeat Sales Home Price Index
Year-over-year growth



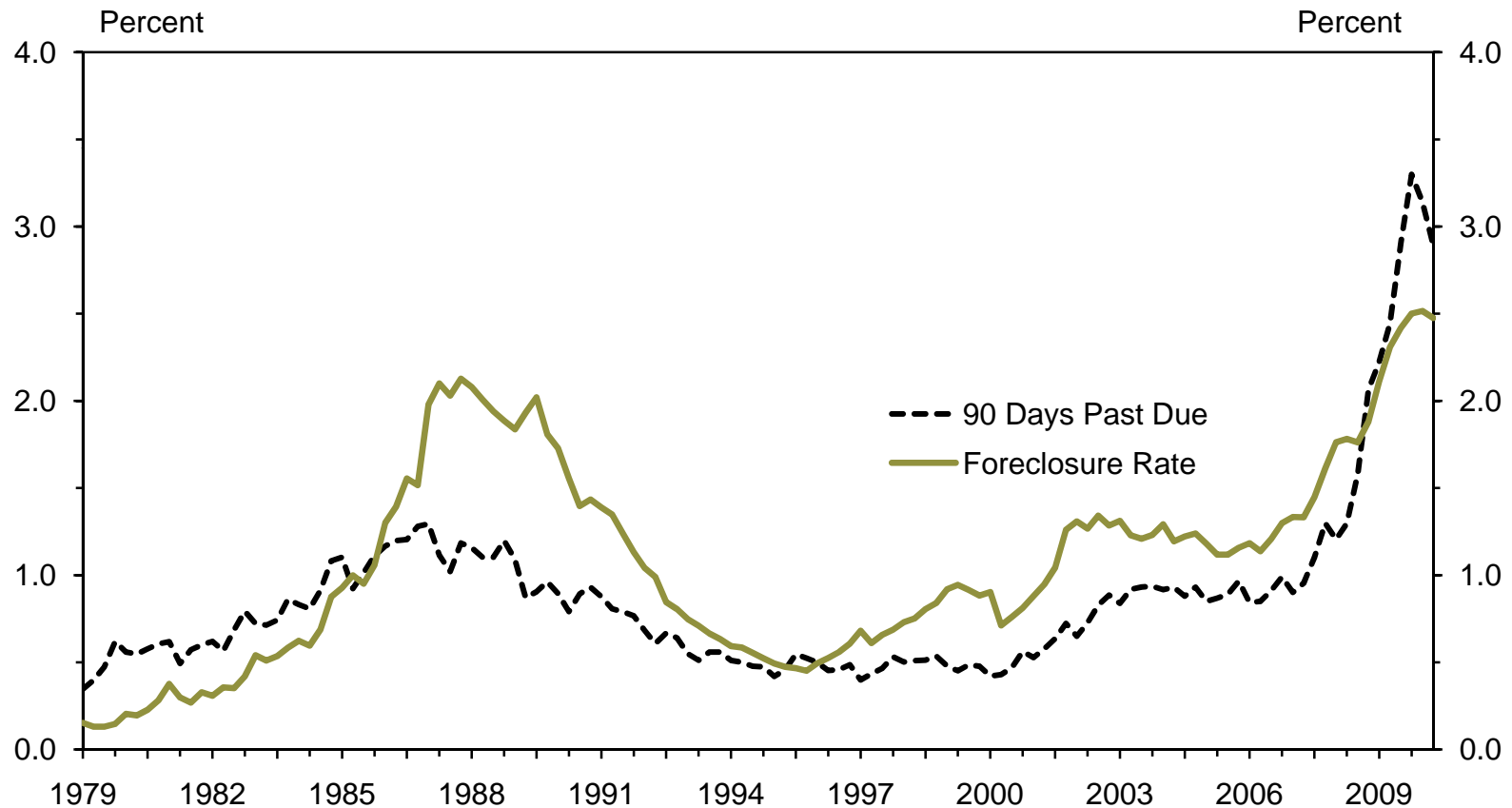
Home prices are expected to languish through mid 2011

Average Sales Price of a New 1996-style Single-family Home
Seasonally Adjusted



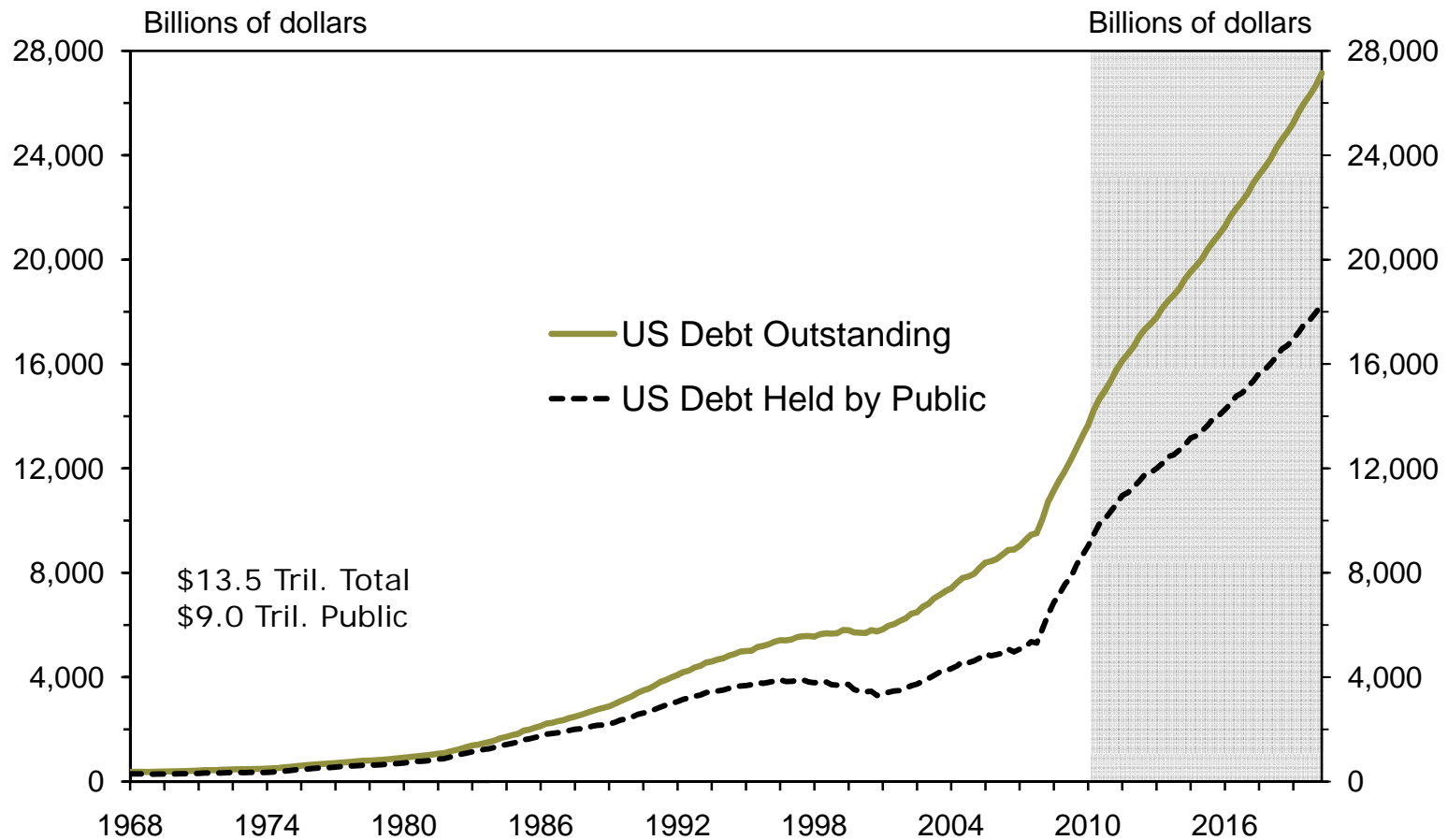
Peak reached in late mortgages? and foreclosures?

Tenth District Mortgage Foreclosure and Delinquency Rates



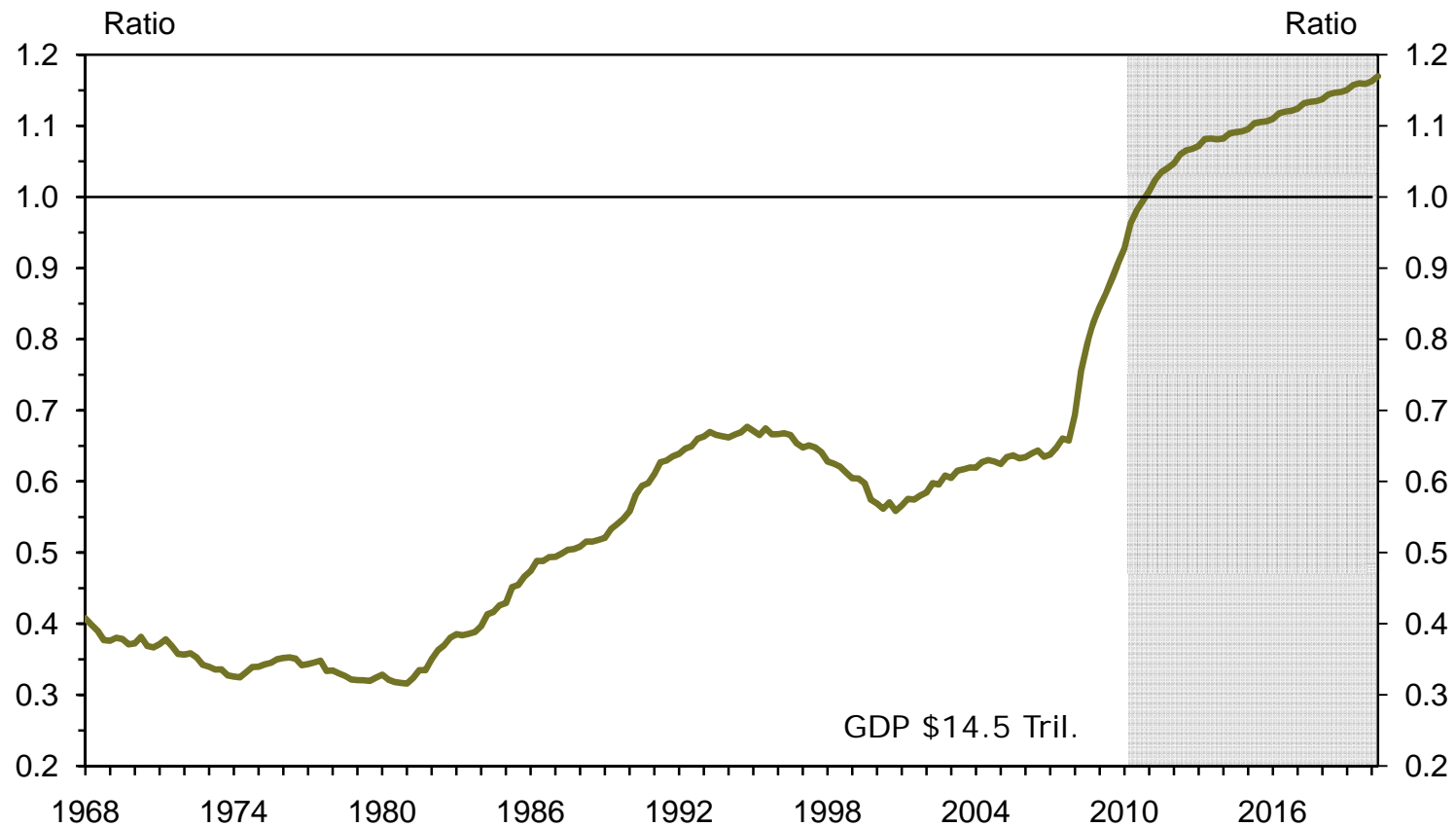
U.S. fiscal stance suffers in recession, believed problematic at these levels

U.S. Federal Debt Outstanding



Federal debt expected to exceed 100% of GDP

U.S. Federal Debt Outstanding as a Percentage of GDP



What will support the recovery?

- Federal Reserve stimulus – current (and future?)
- Congressional stimulus – waning
- Strong financial position of corporate sector
- Resumption in household debt growth
- Growing replacement needs – households/firms
- International explosion/trade
- Population growth - immigration
- Virtuous cycle – capitalism, invisible hand

What are the risks?

- Federal Reserve policy error
- Federal/state/local fiscal issues
- Another down leg in real estate
- Household deleveraging takes longer than expected
- Persistent trade imbalance
- Short expansion

U.S. and Regional Economic Update

Questions?

mark.snead@kc.frb.org