

# U.S. and Colorado: Economic Conditions and Outlook

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# U.S. and Colorado 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 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...

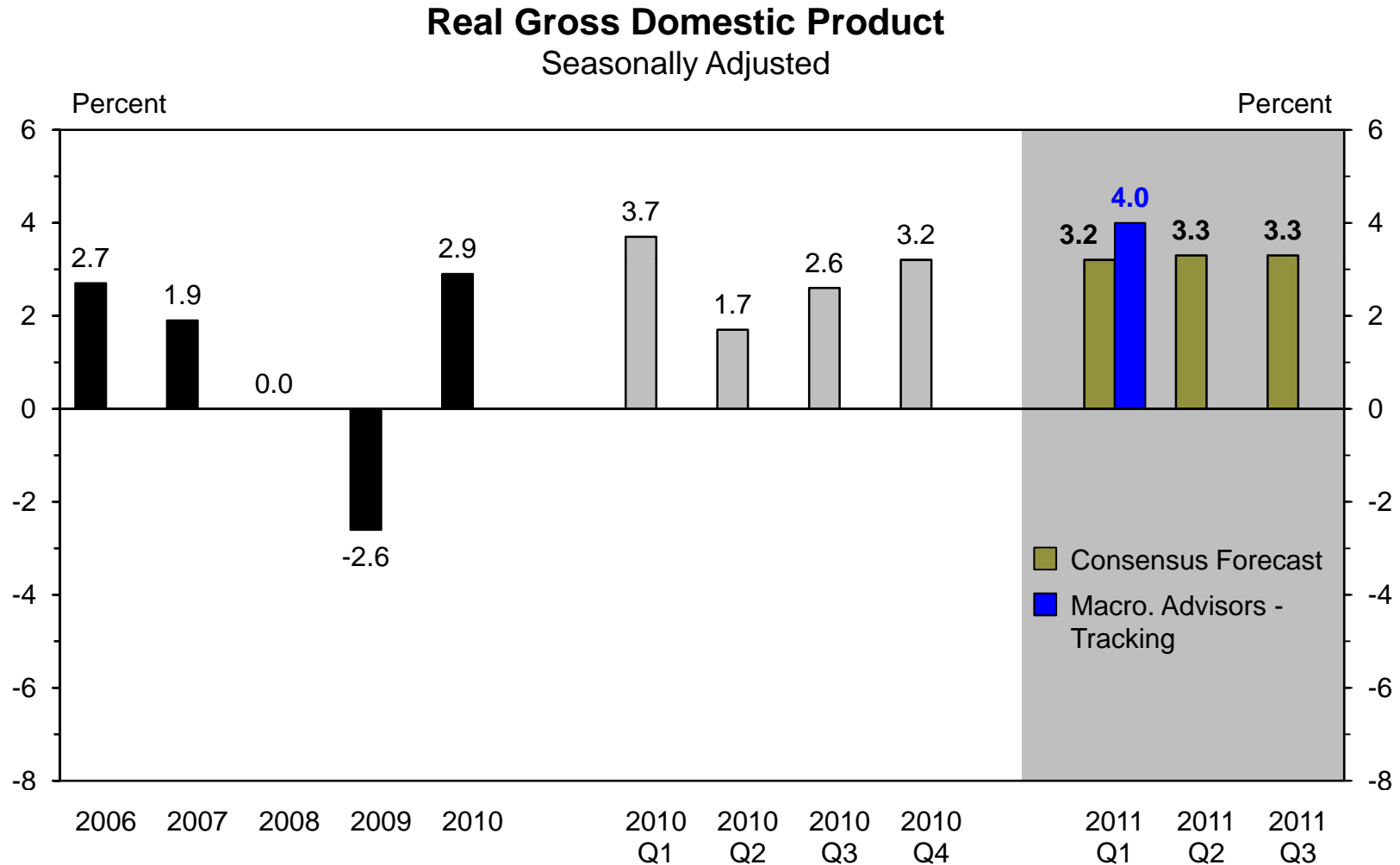
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- Moderate growth in GDP
- Steady private sector job gains
- Resumption of income growth
- Normal spending by consumers
- Reduction in household debt
- Increase in the savings rate
- An end to the real estate debacle

... right?

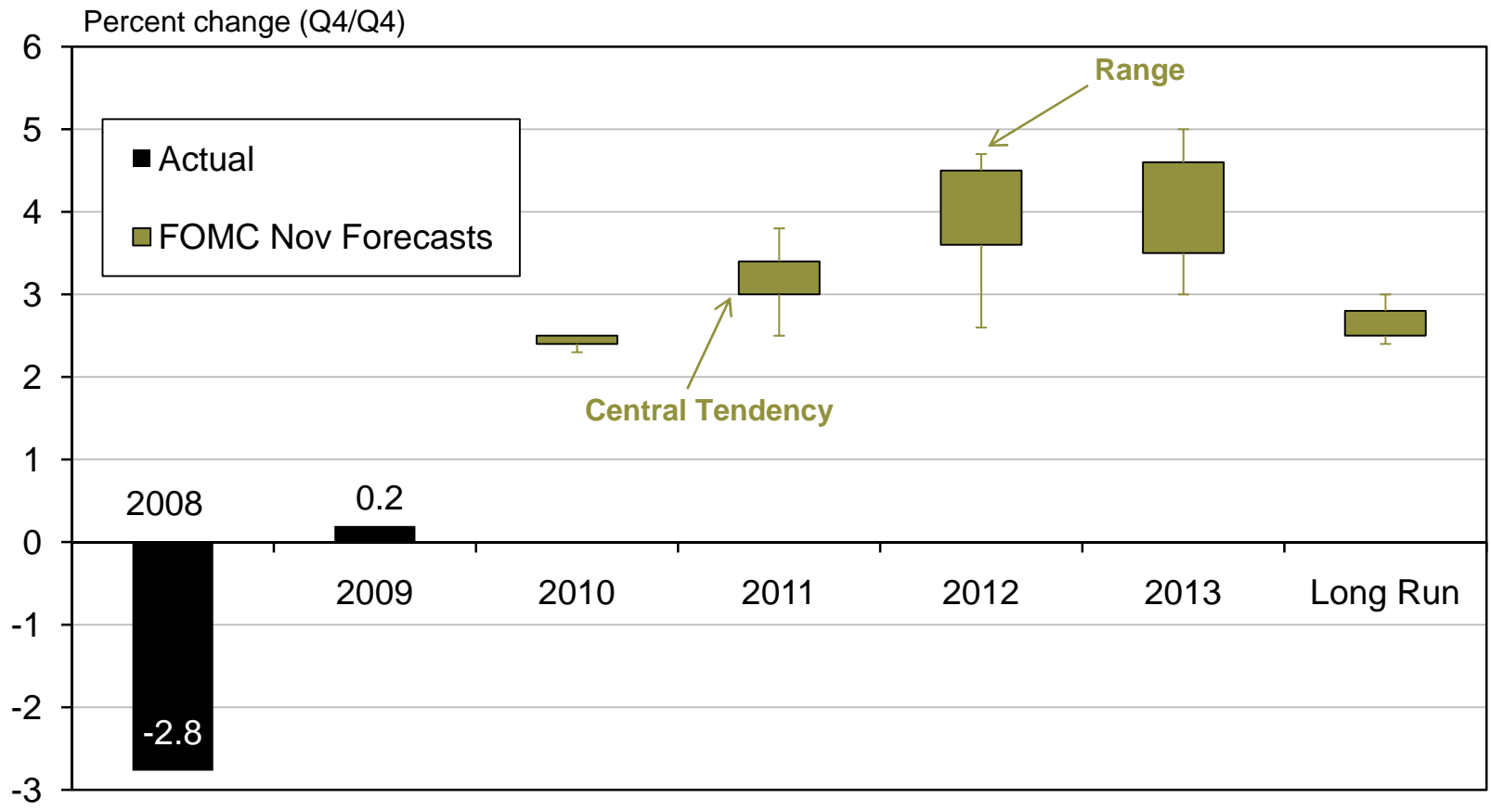
# GDP growth is accelerating once again

tracking estimates suggest 3.0-3.5% growth currently



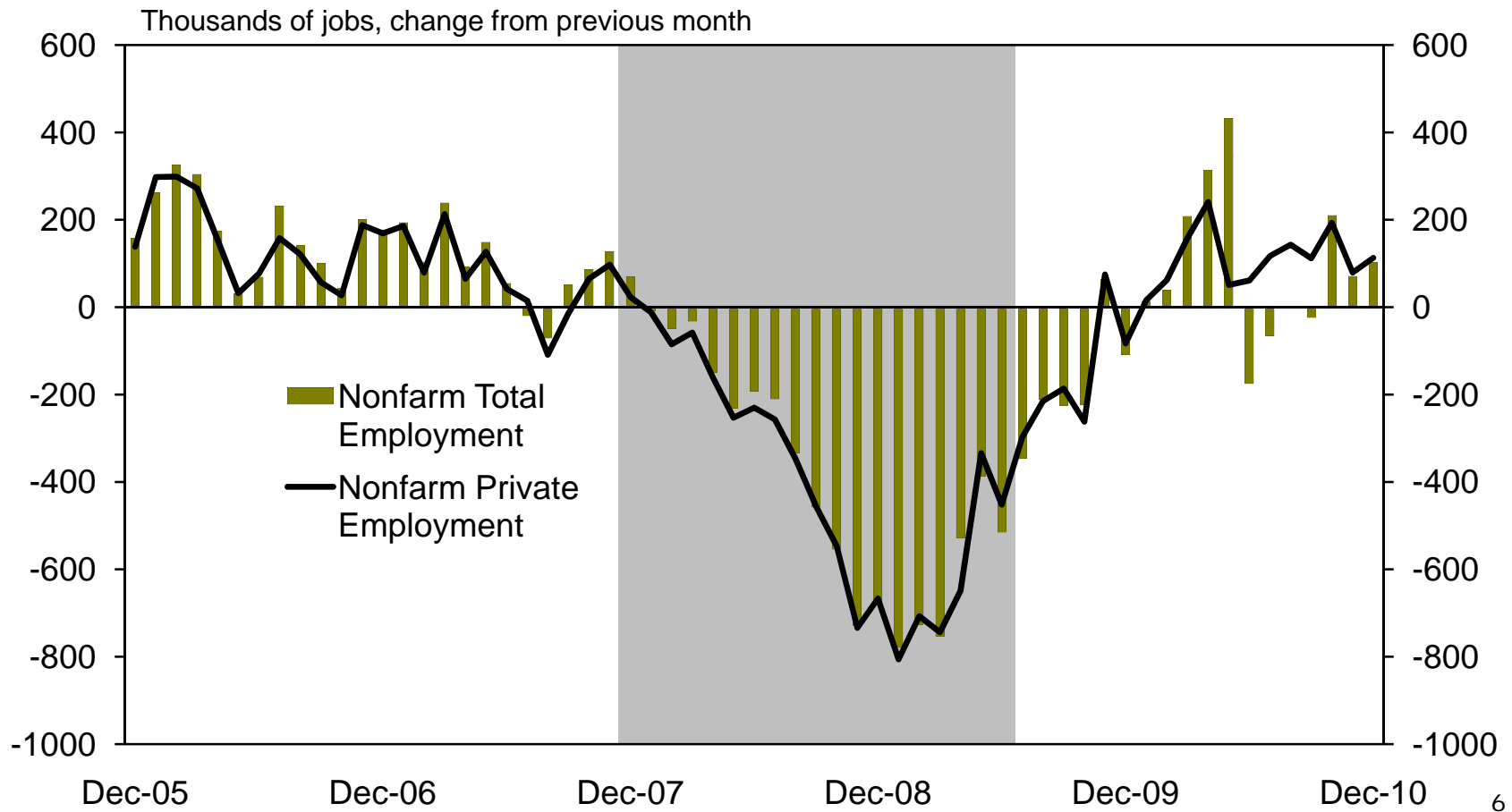
# Growth forecasts underlying Federal Reserve policy remain relatively upbeat

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



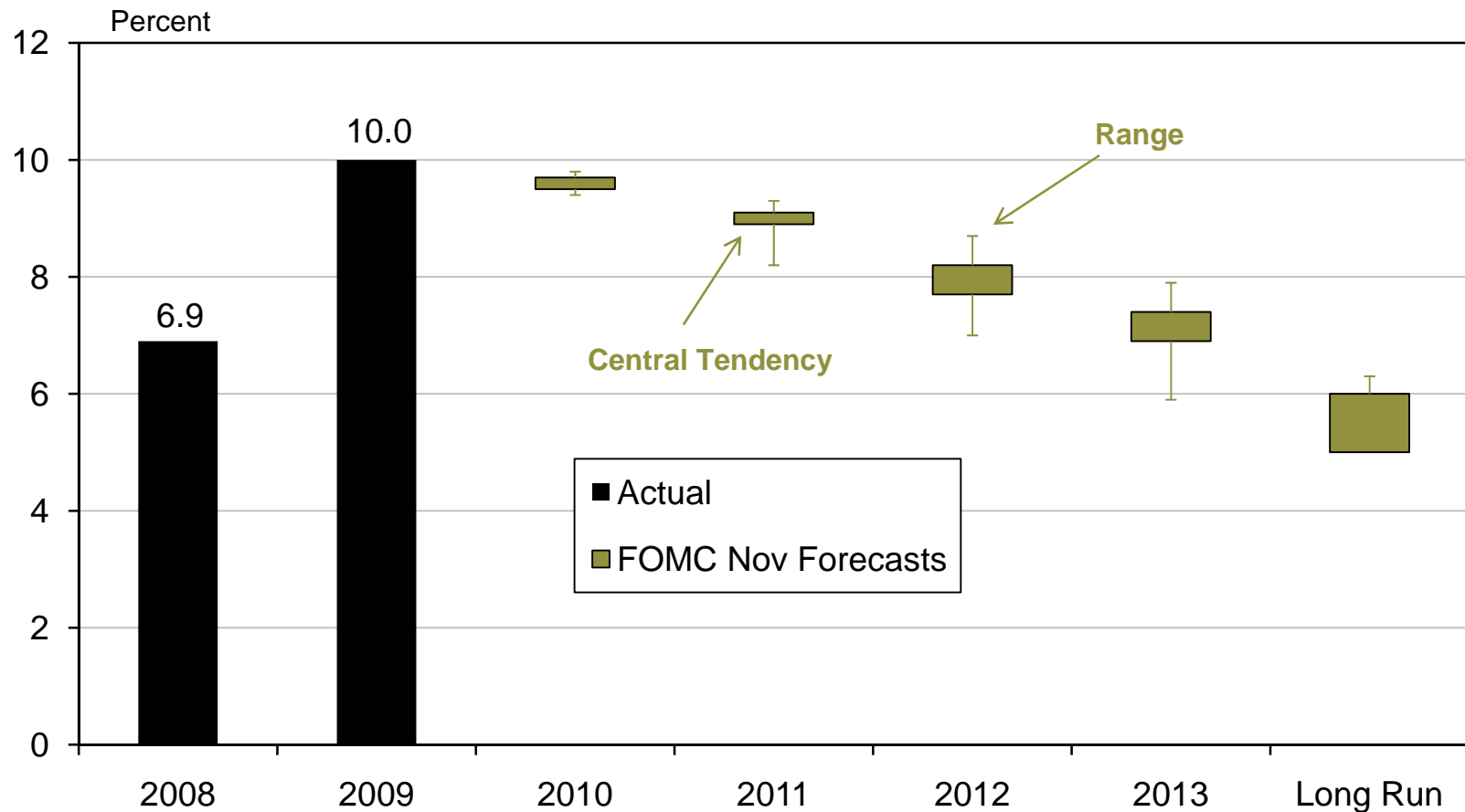
# Consistent private sector job gains since Jan 2010

**Total/Private Nonfarm Employment**  
Seasonally Adjusted



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

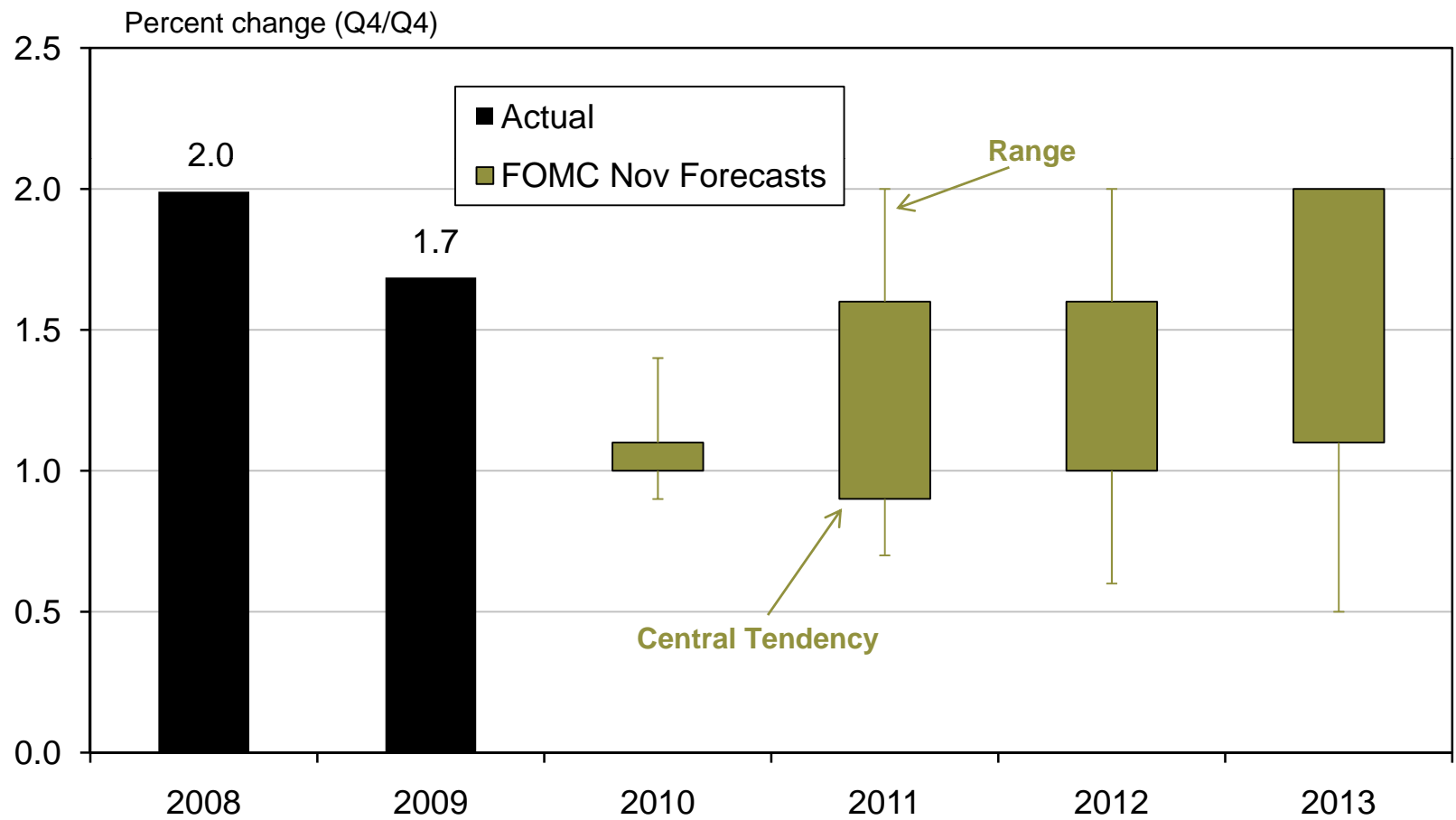
**U.S. Unemployment Rate**  
Seasonally Adjusted



# Broad inflation indices expected to remain tame

commodity prices climbing

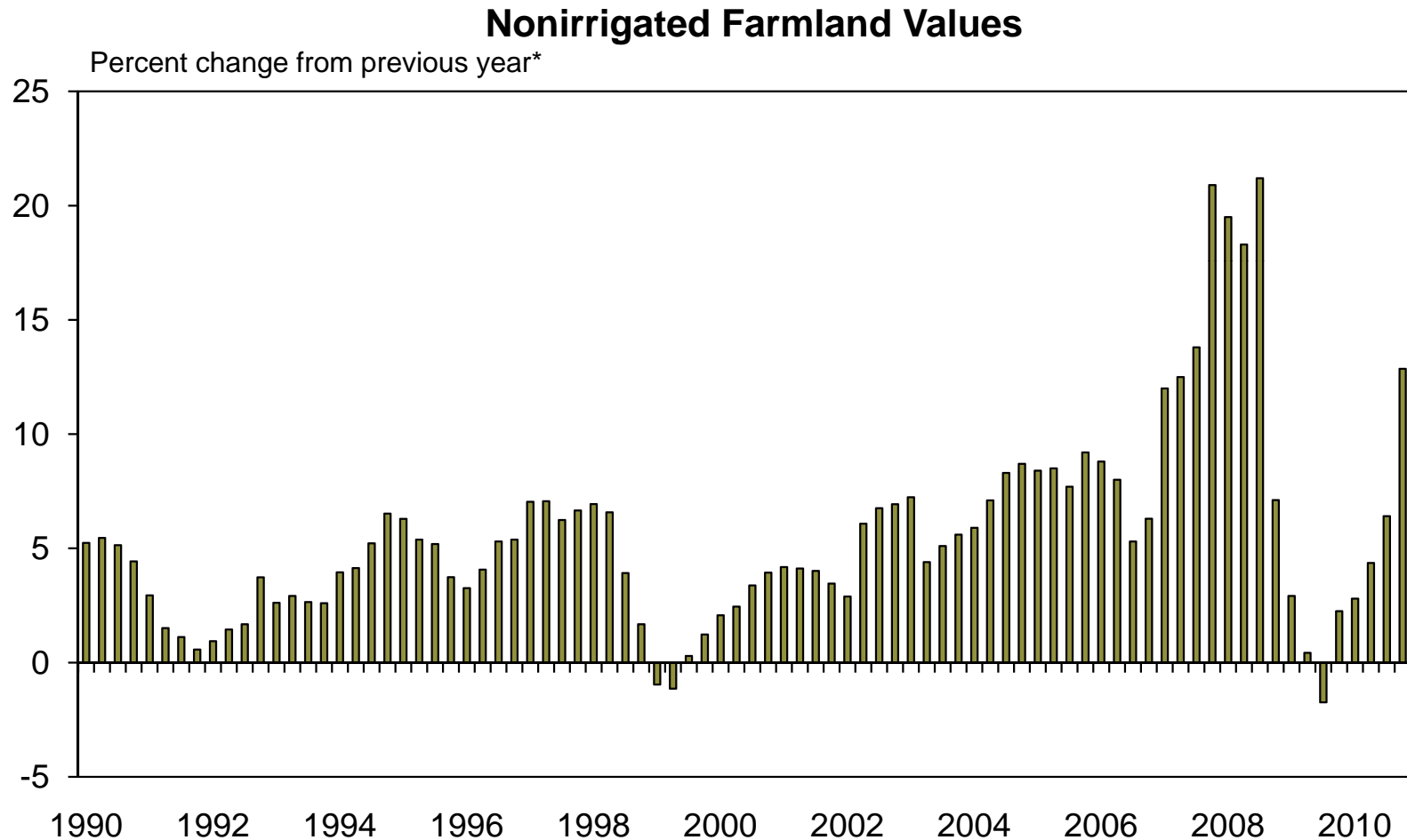
## Price Index for Personal Consumption Expenditures (Core) Seasonally Adjusted





# Price bubble developing in farmland?

Nebraska farmland rising at 10%+ annual pace

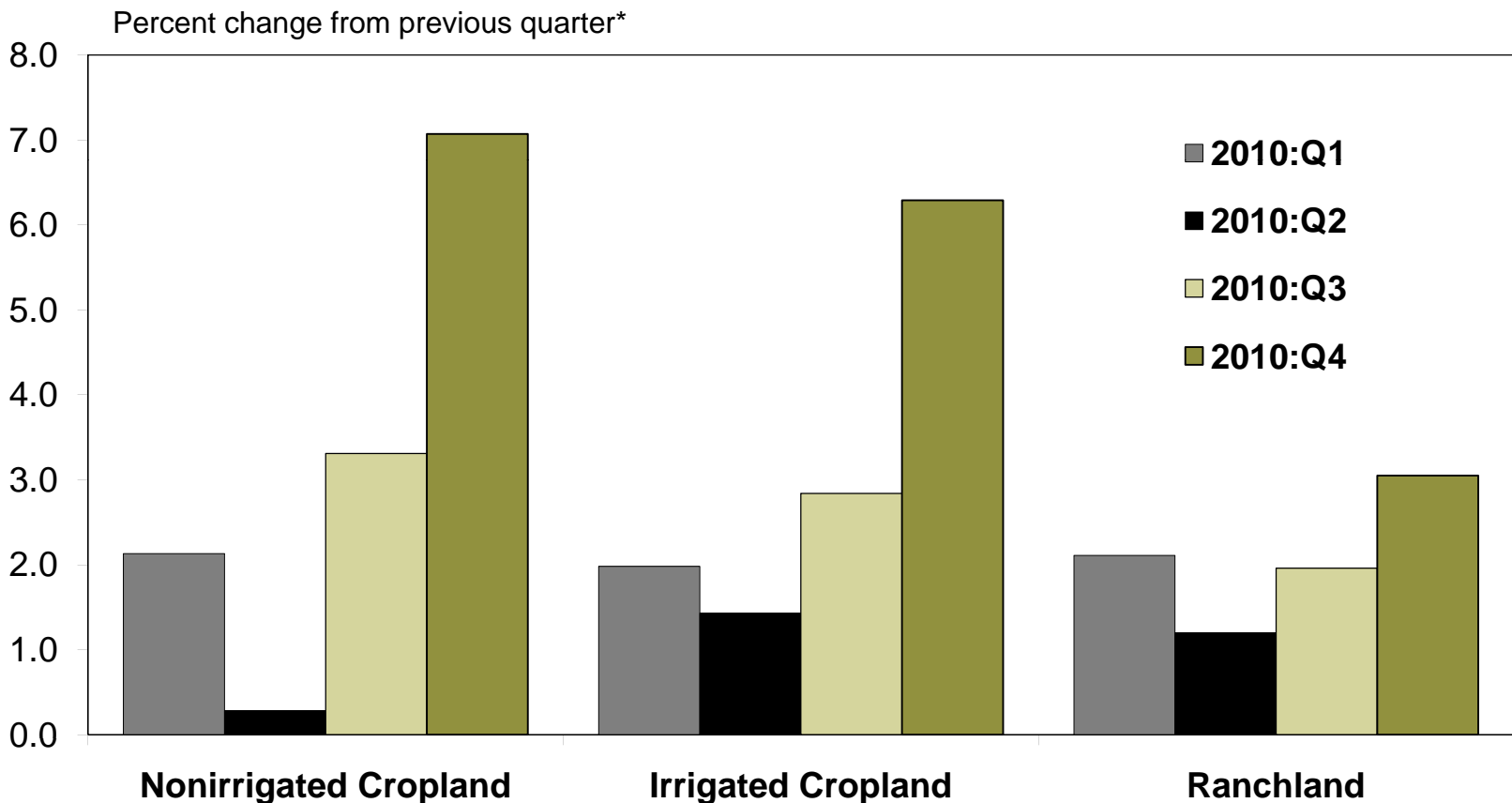


\*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.

# Gains are present across most use types

gains accelerated in 4<sup>th</sup> quarter

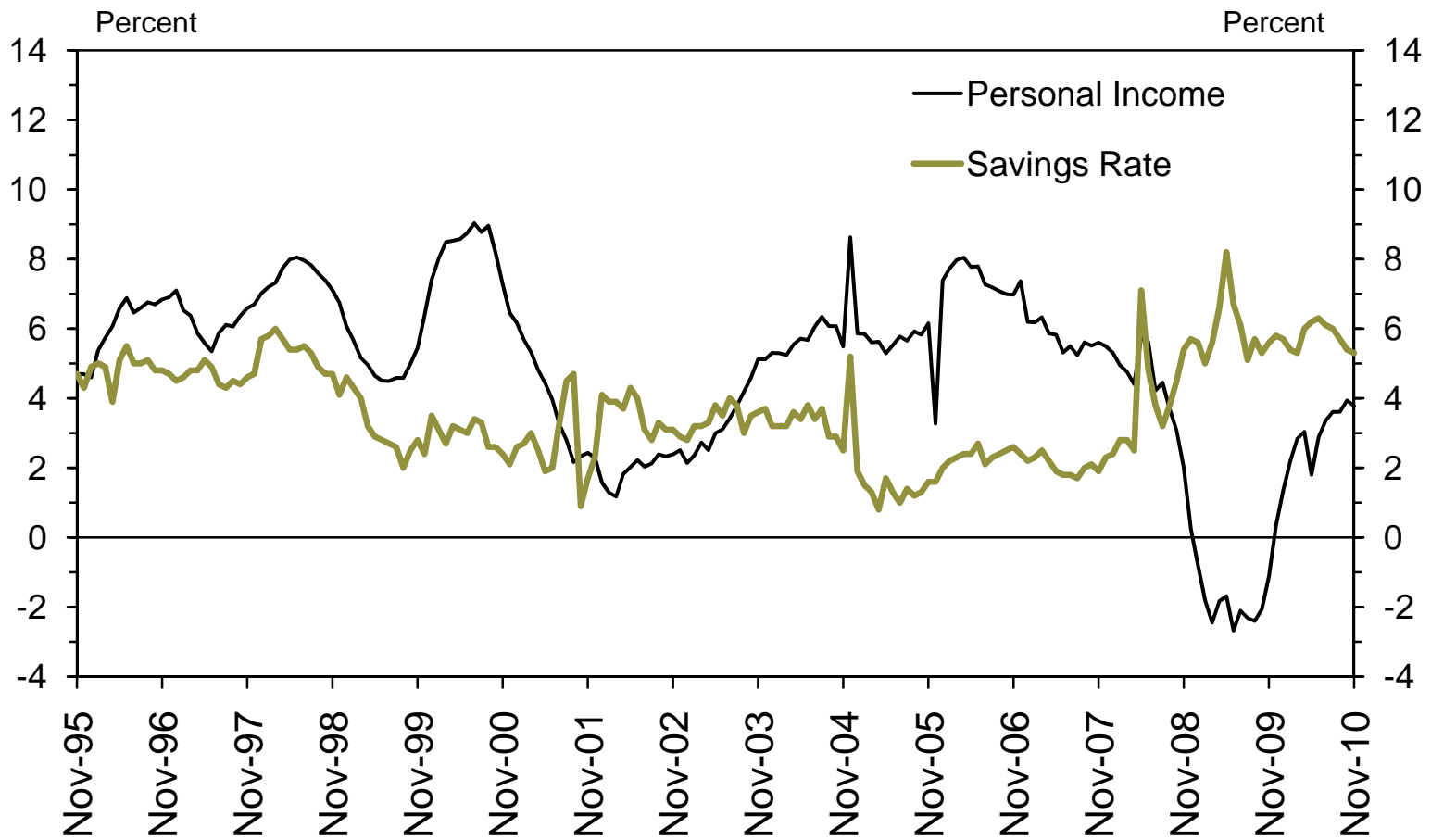
## Farmland Values Quarterly Gains



\*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.

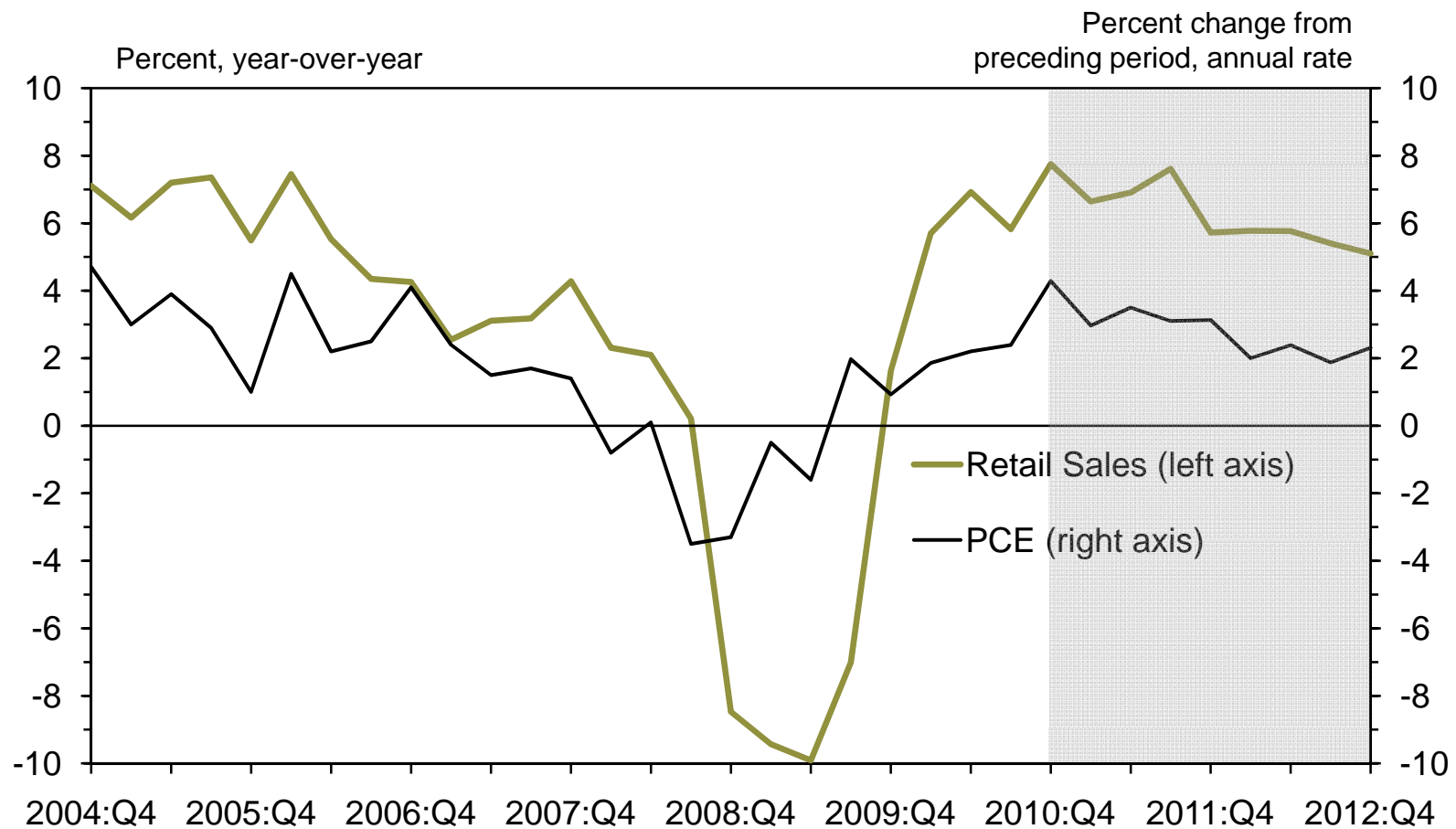
# Moderate income growth and rebound in savings

## Growth in Personal Income vs. Personal Savings Rate



# Consumer spending stronger than expected

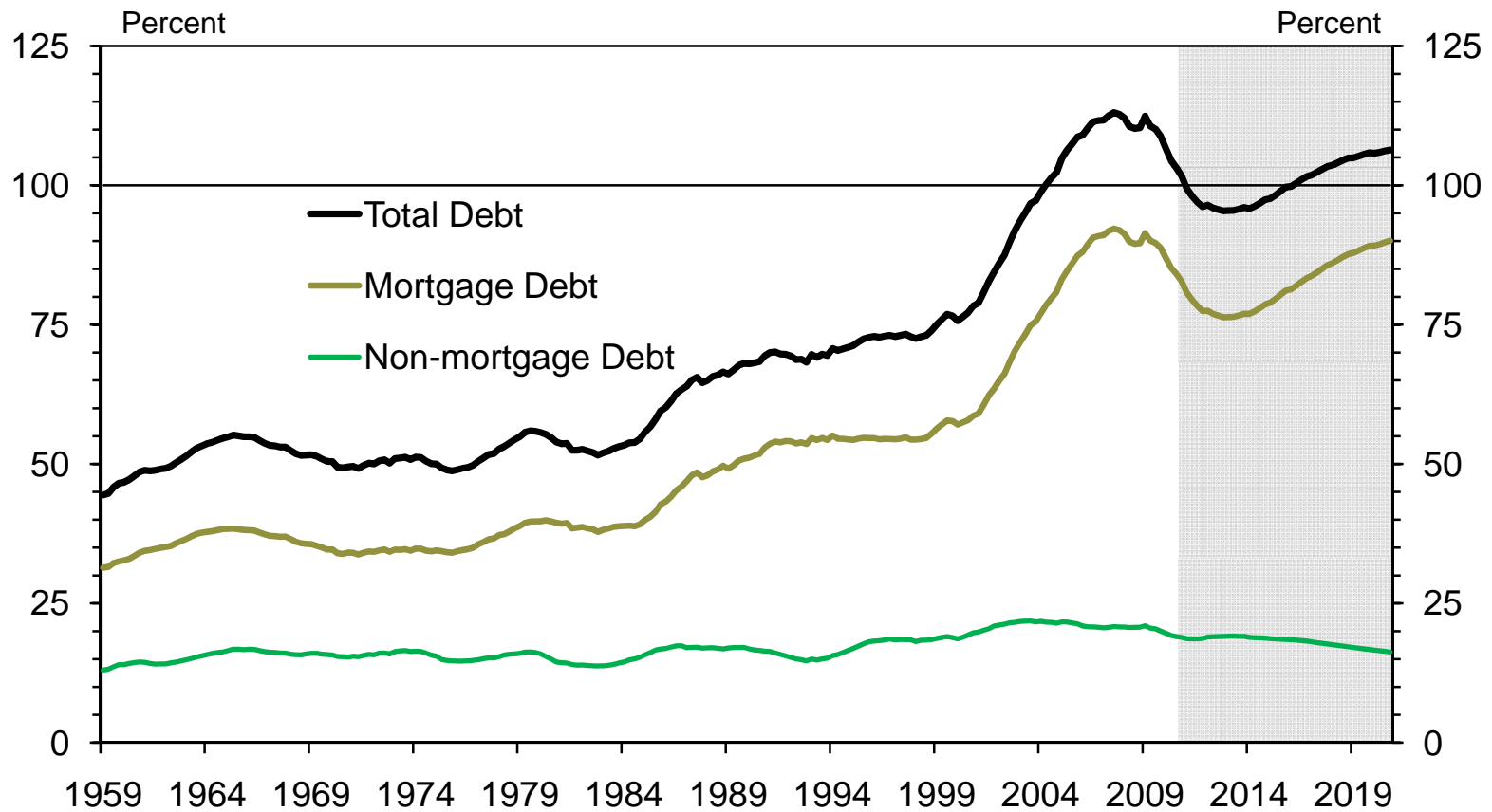
## Retail Sales vs. Personal Consumption Expenditures Seasonally Adjusted



# Household de-leveraging is slowly underway

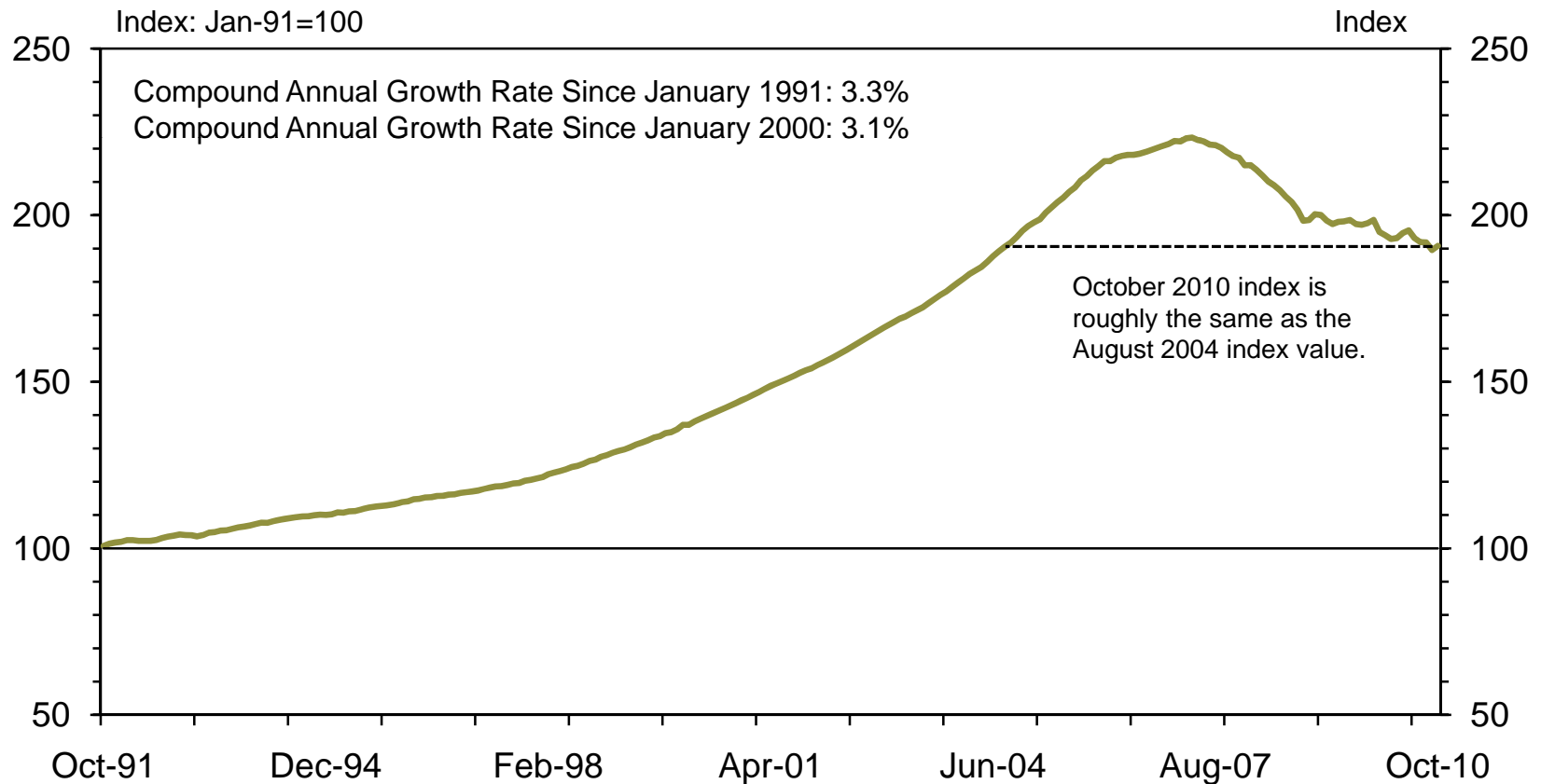
debt is highly concentrated in mortgages

## Debt to Personal Income Ratios



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

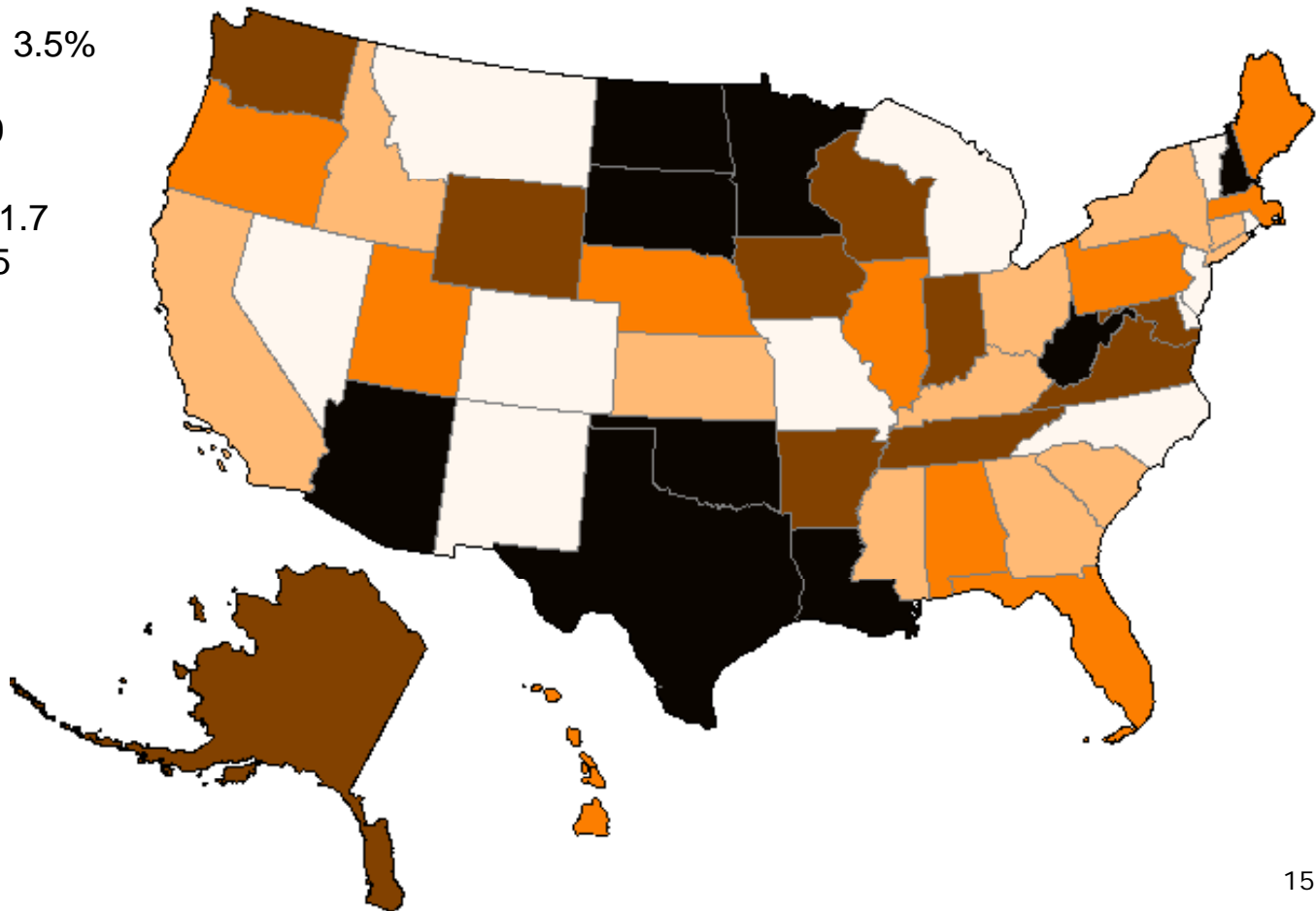
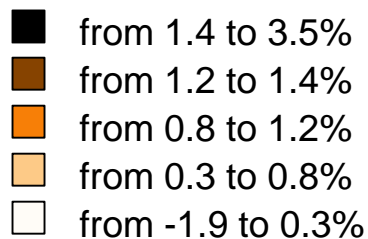
## Monthly Home Price Index – U.S. Purchase-Only, Seasonally Adjusted



# 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

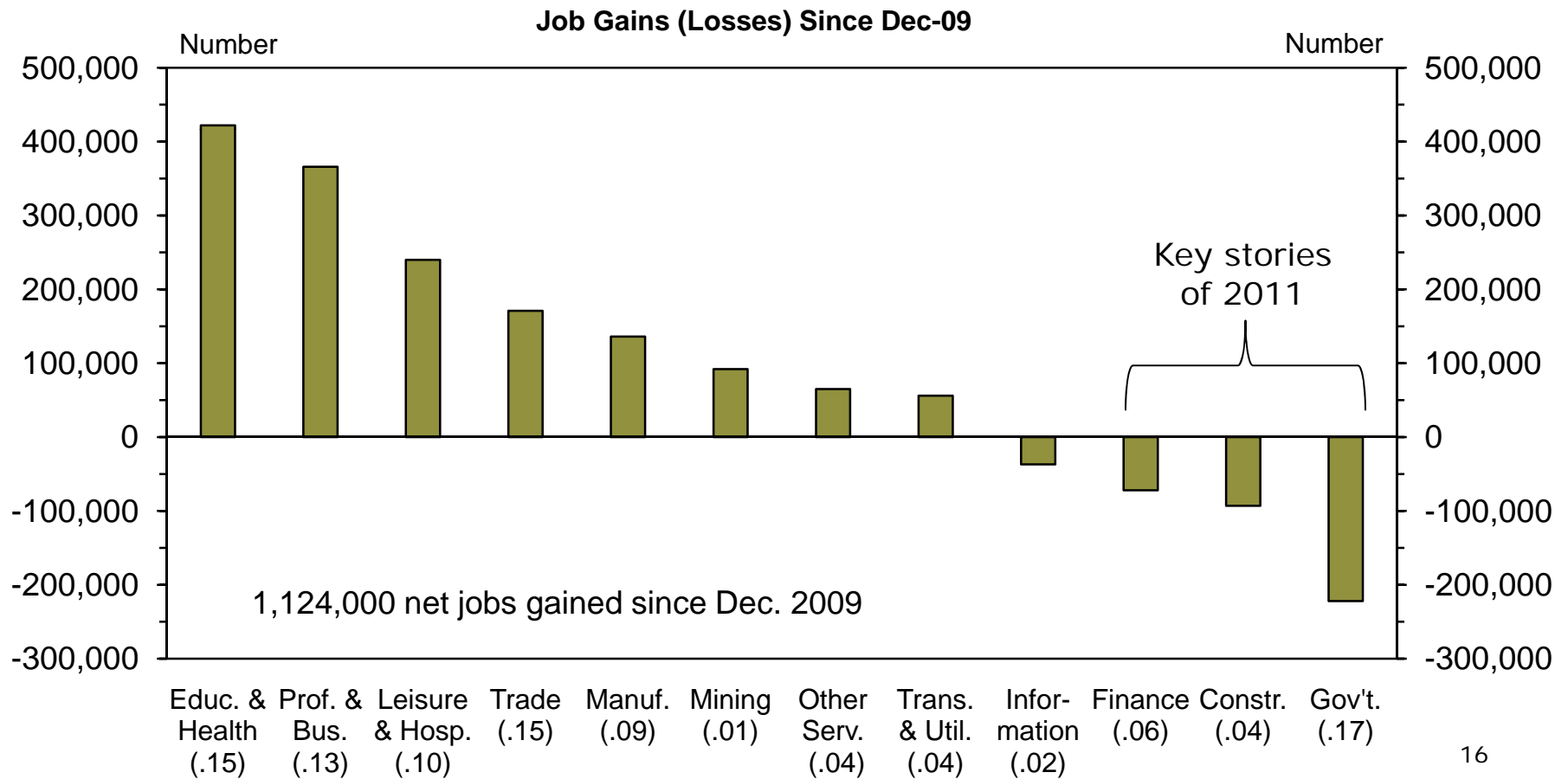
1. Washington D.C.: 3.5%
2. Texas: 2.1
3. North Dakota: 1.9
4. Minnesota: 1.8
5. New Hampshire: 1.7
6. South Dakota: 1.5
7. Louisiana: 1.5
8. Maryland: 1.4
9. Arizona: 1.4
10. Oklahoma: 1.4



# Most U.S. industry sectors now adding jobs

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

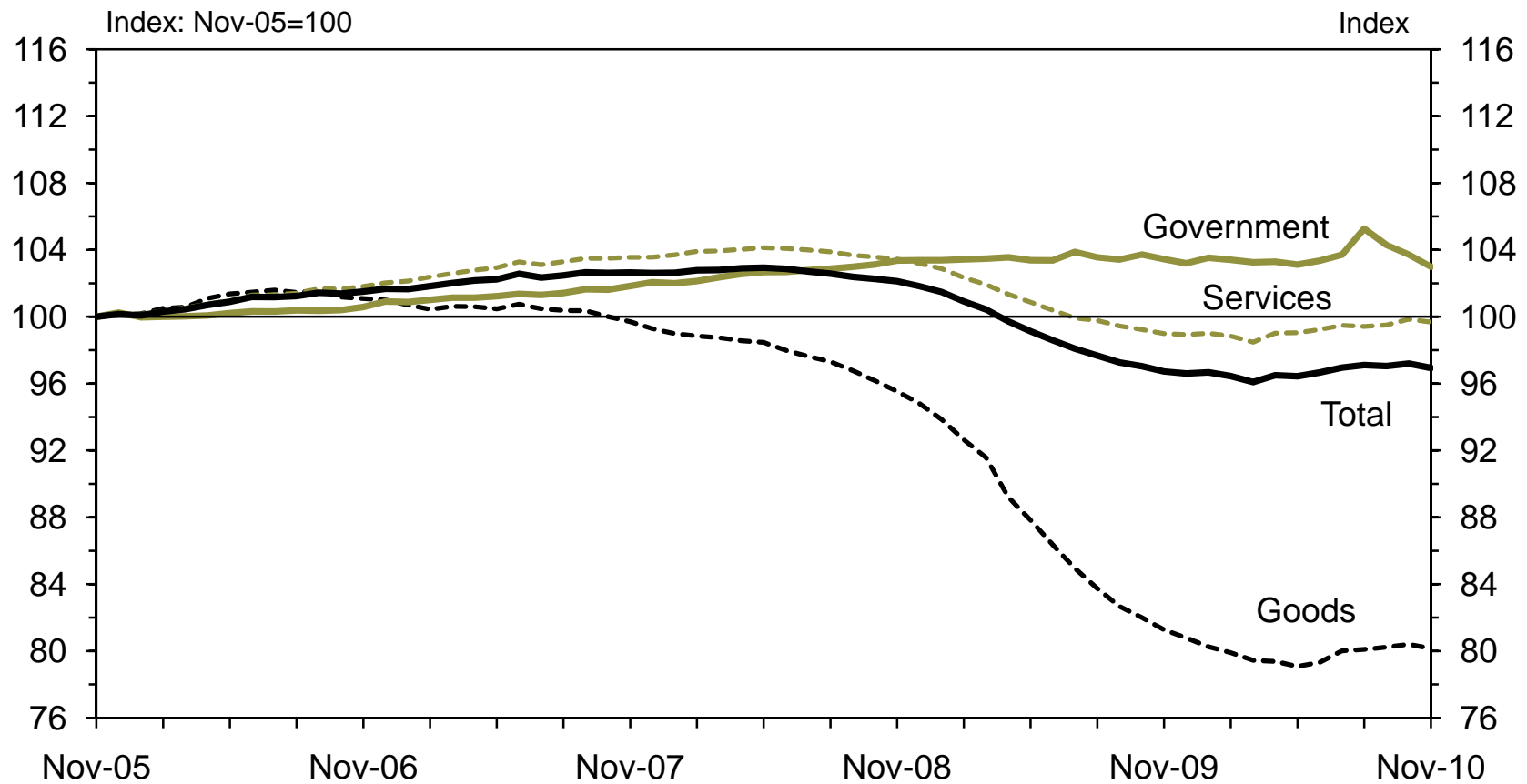
**U.S. Nonfarm Employment by Industry**  
Seasonally Adjusted





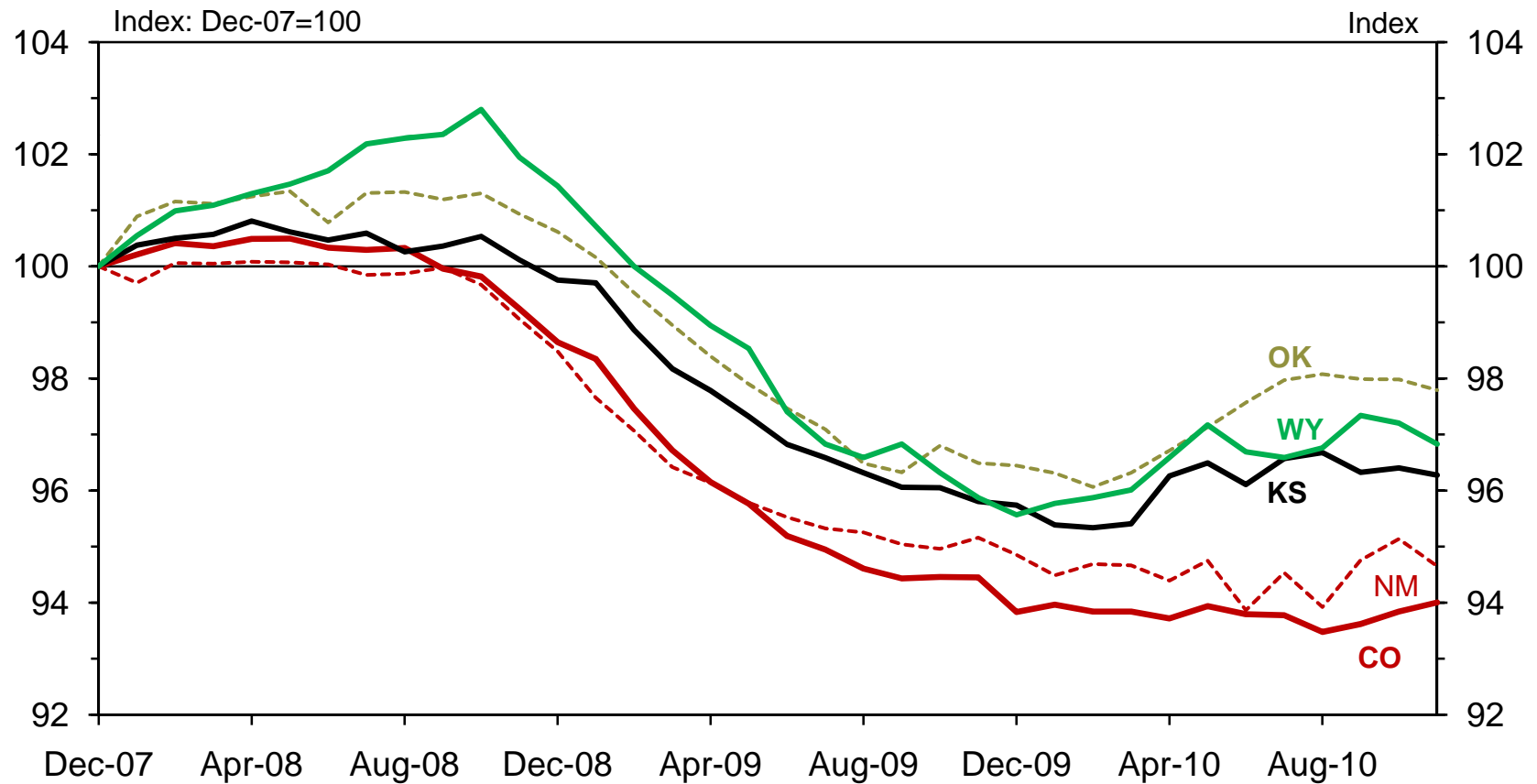
# Late downturn in government hiring offsetting private sector jobs gains

## U.S. Employment Seasonally Adjusted



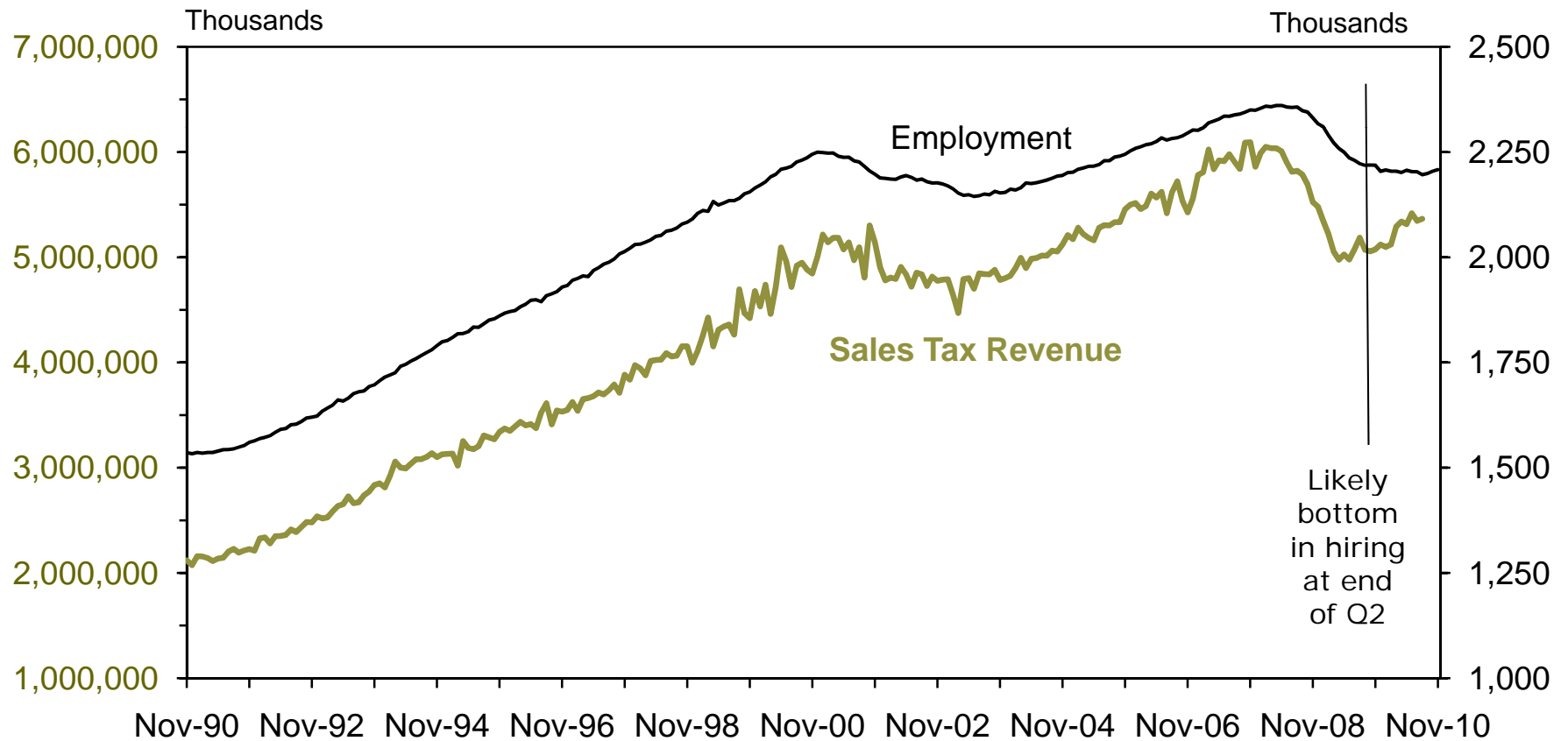
# CO and NM remain the weakest labor markets in the 10<sup>th</sup> District

**Total Nonfarm Employment**  
Seasonally Adjusted



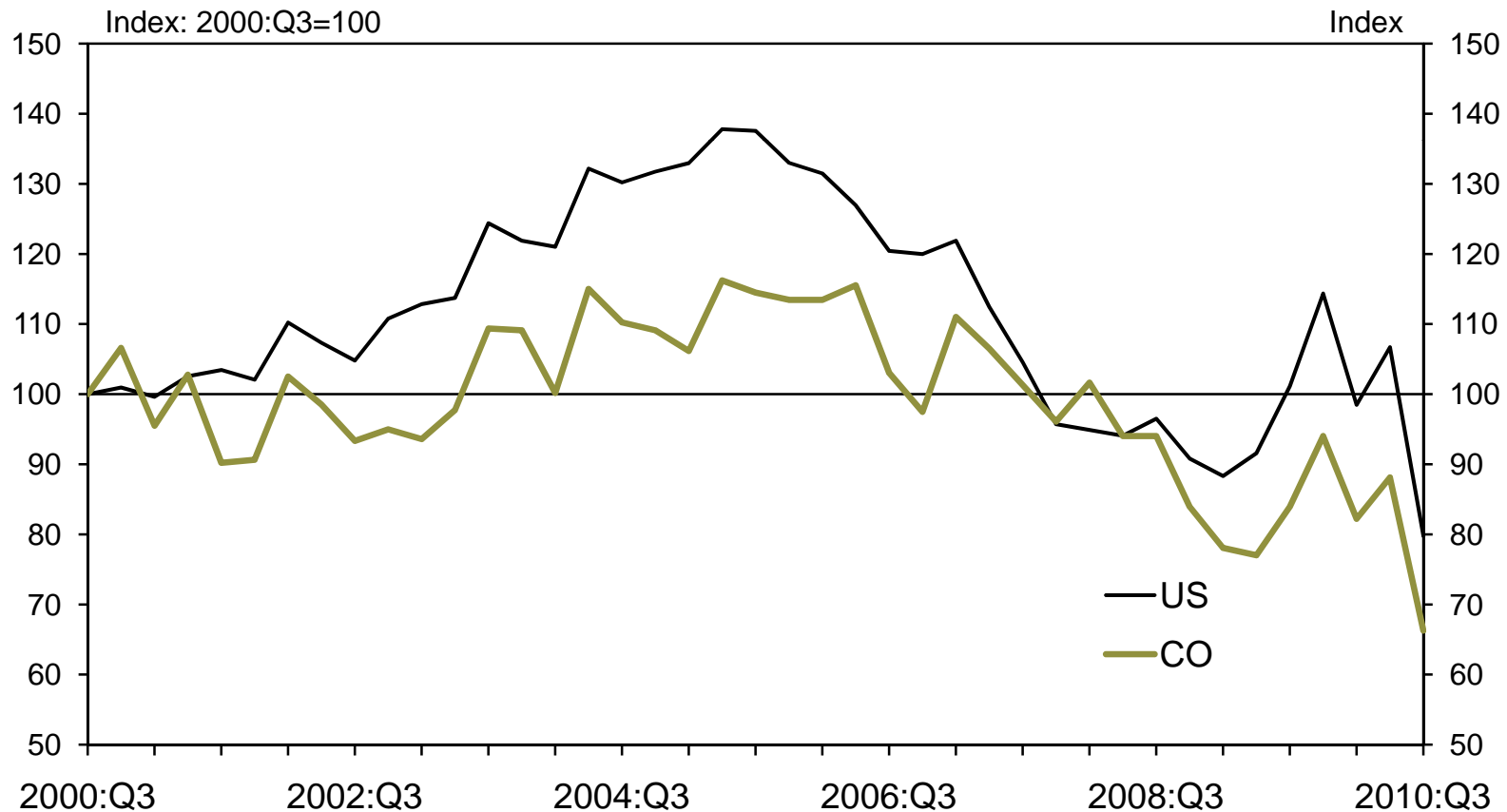
# Sales tax revenue and upcoming revisions to job data confirm end of recession in CO

**Colorado Nonfarm Total Employment and Sales Taxes**  
Seasonally Adjusted



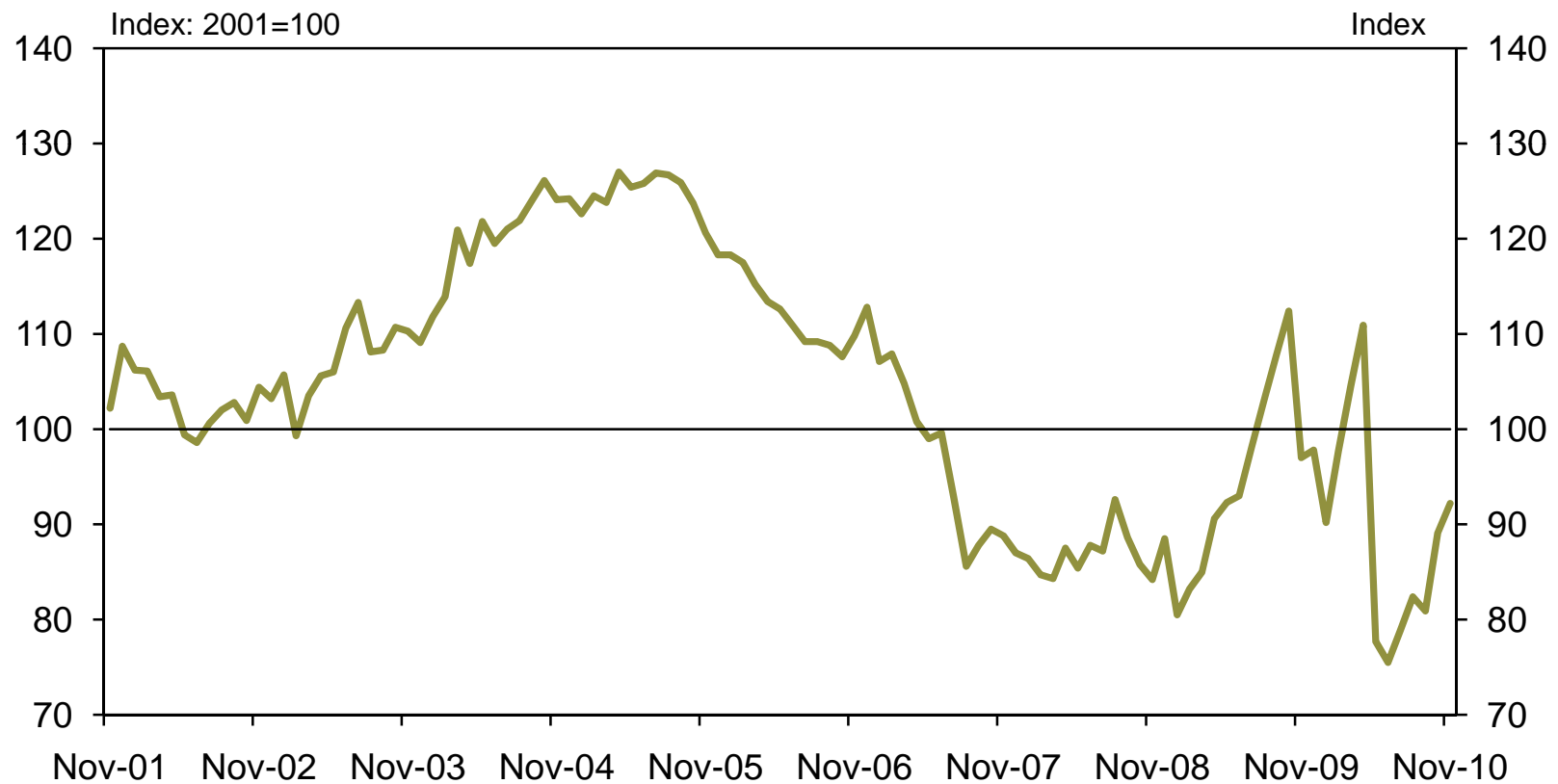
# Latest existing home sales volume reflects tax credit expiration...

**Sales of Existing Homes**  
Seasonally Adjusted



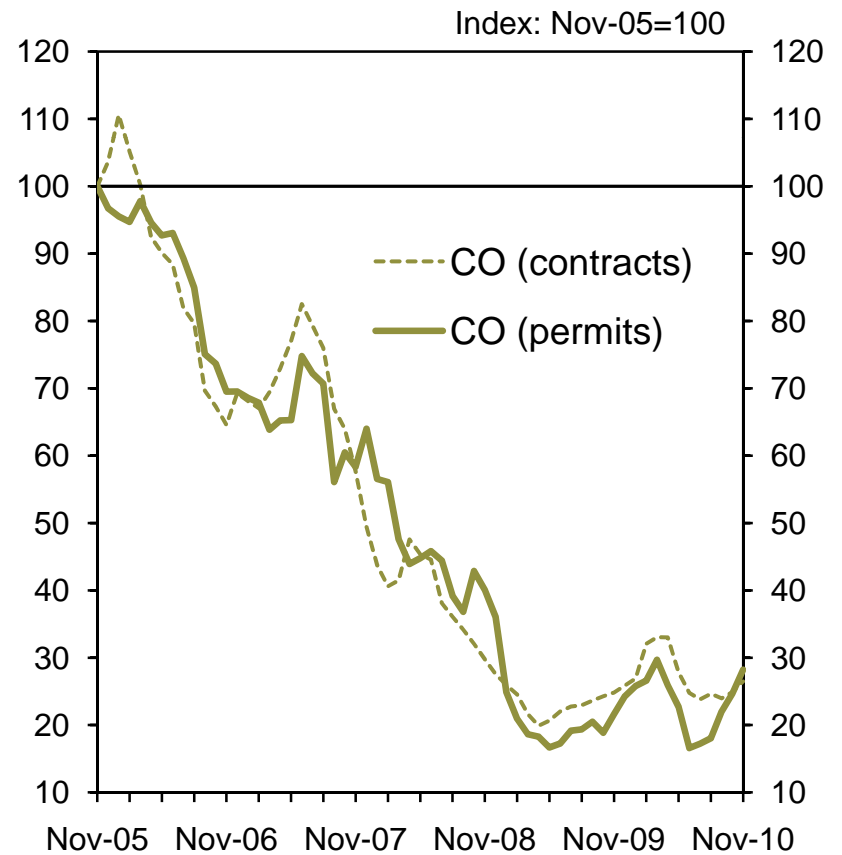
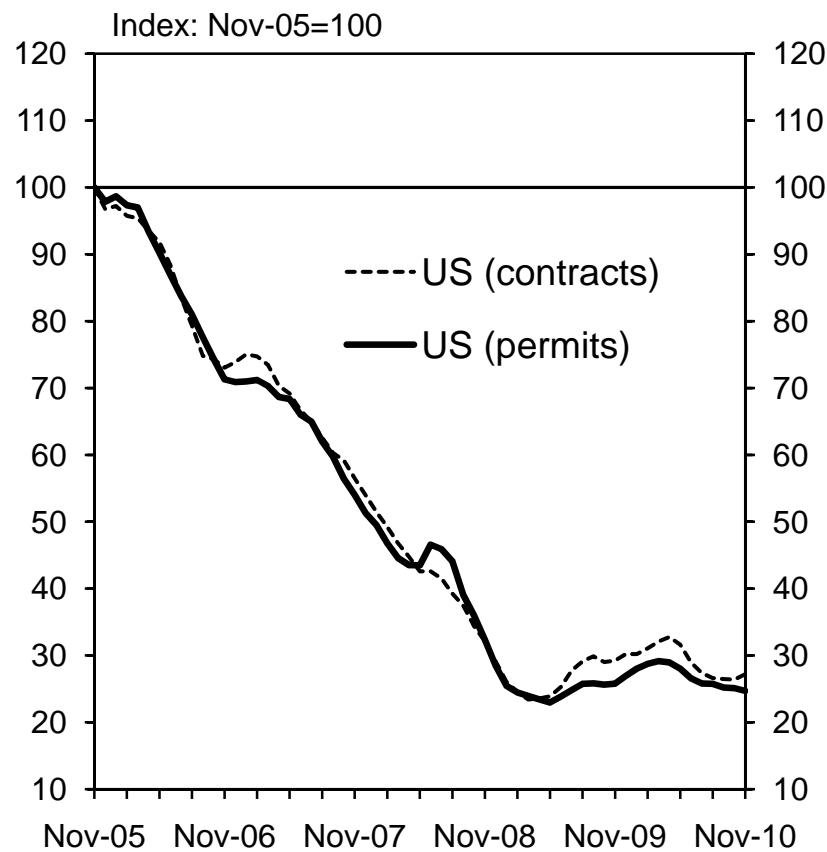
...but pending sales suggest the tax credit distortion is now through the system

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



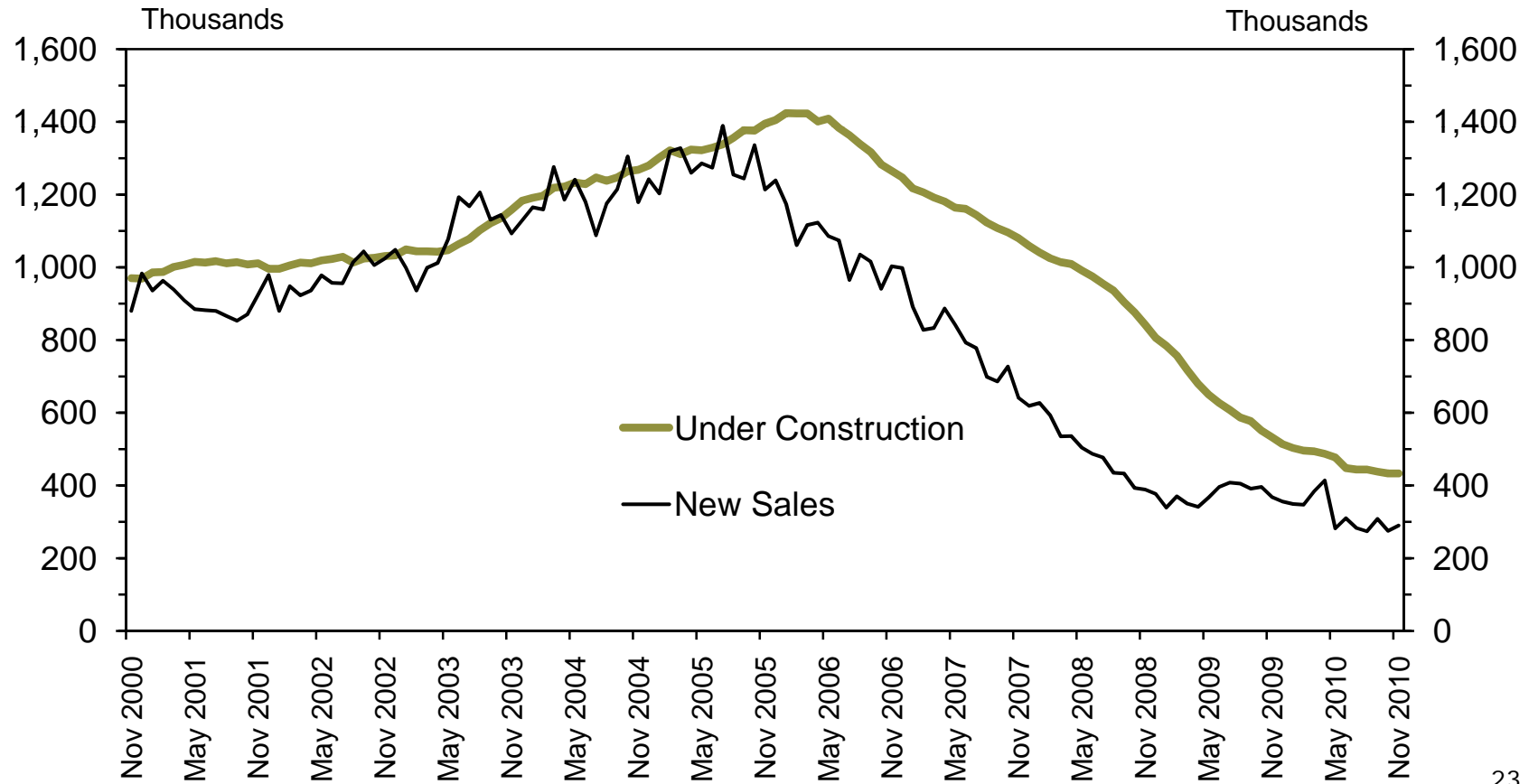
# CO new home construction tracking the U.S.

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



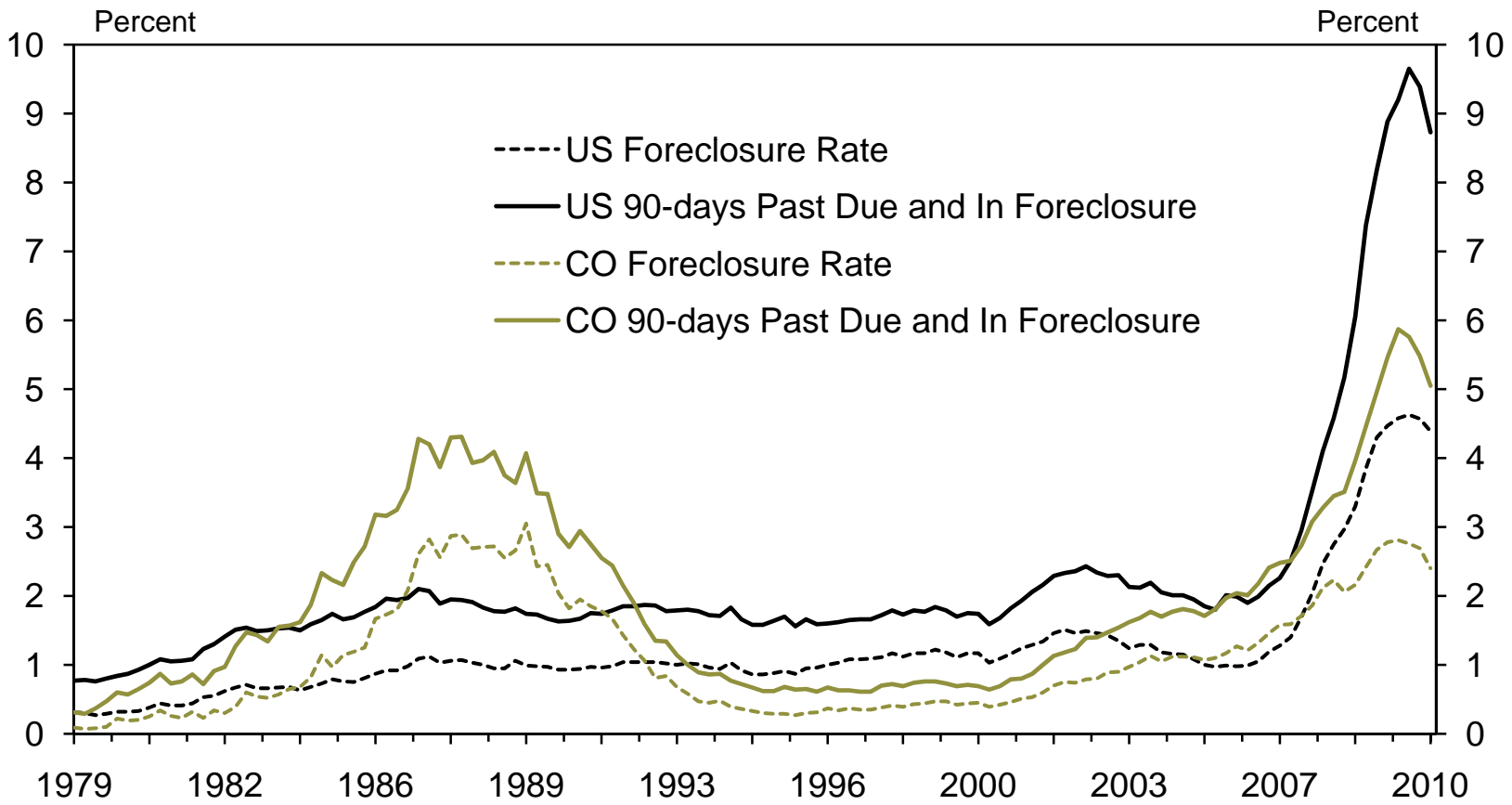
# Gap remains between construction and sales has narrowed since late 2005

**New Residential Construction for Sale**  
Seasonally Adjusted



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

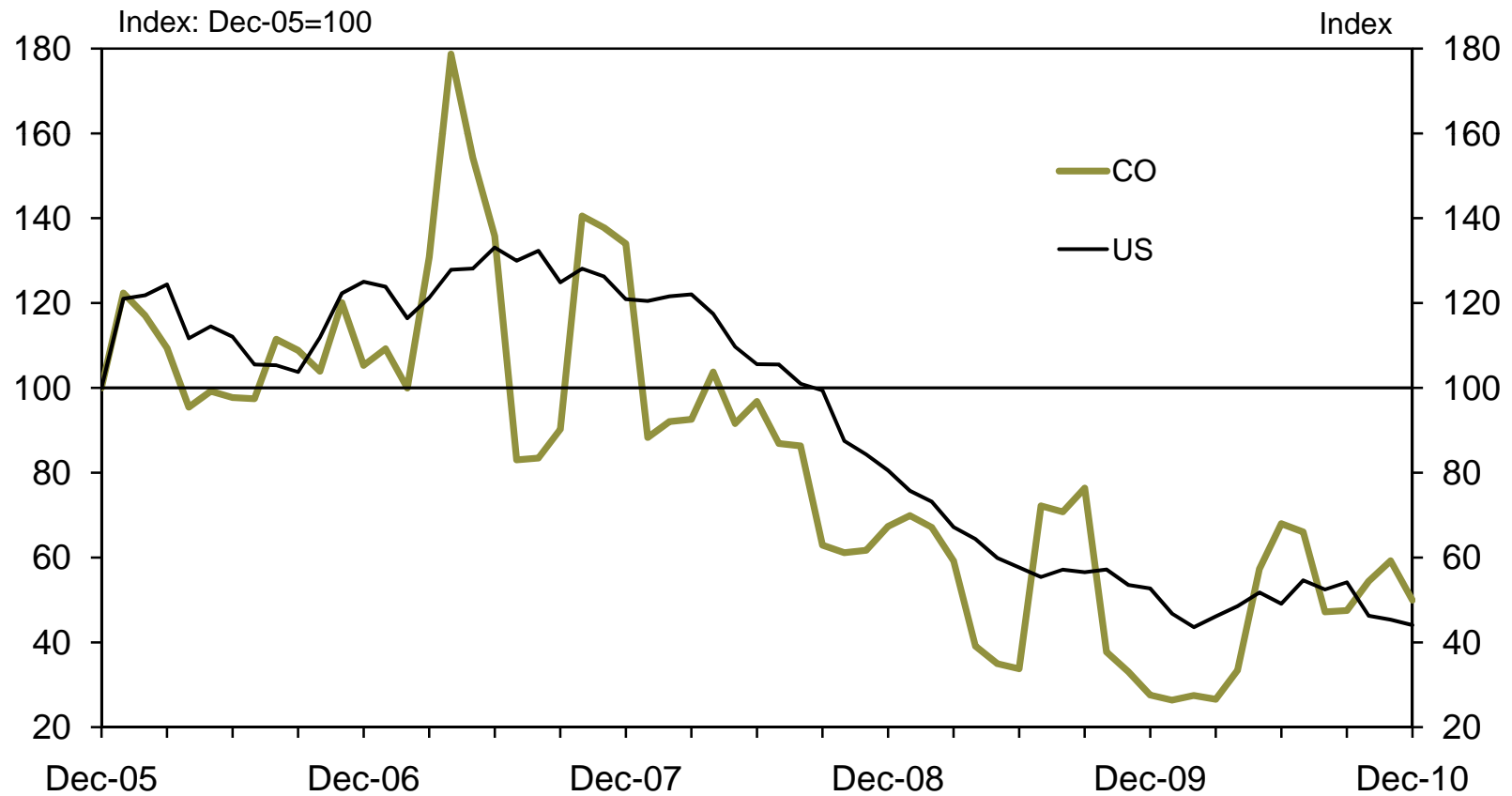
**Mortgage Foreclosure/Delinquency Rates**  
U.S. and Colorado





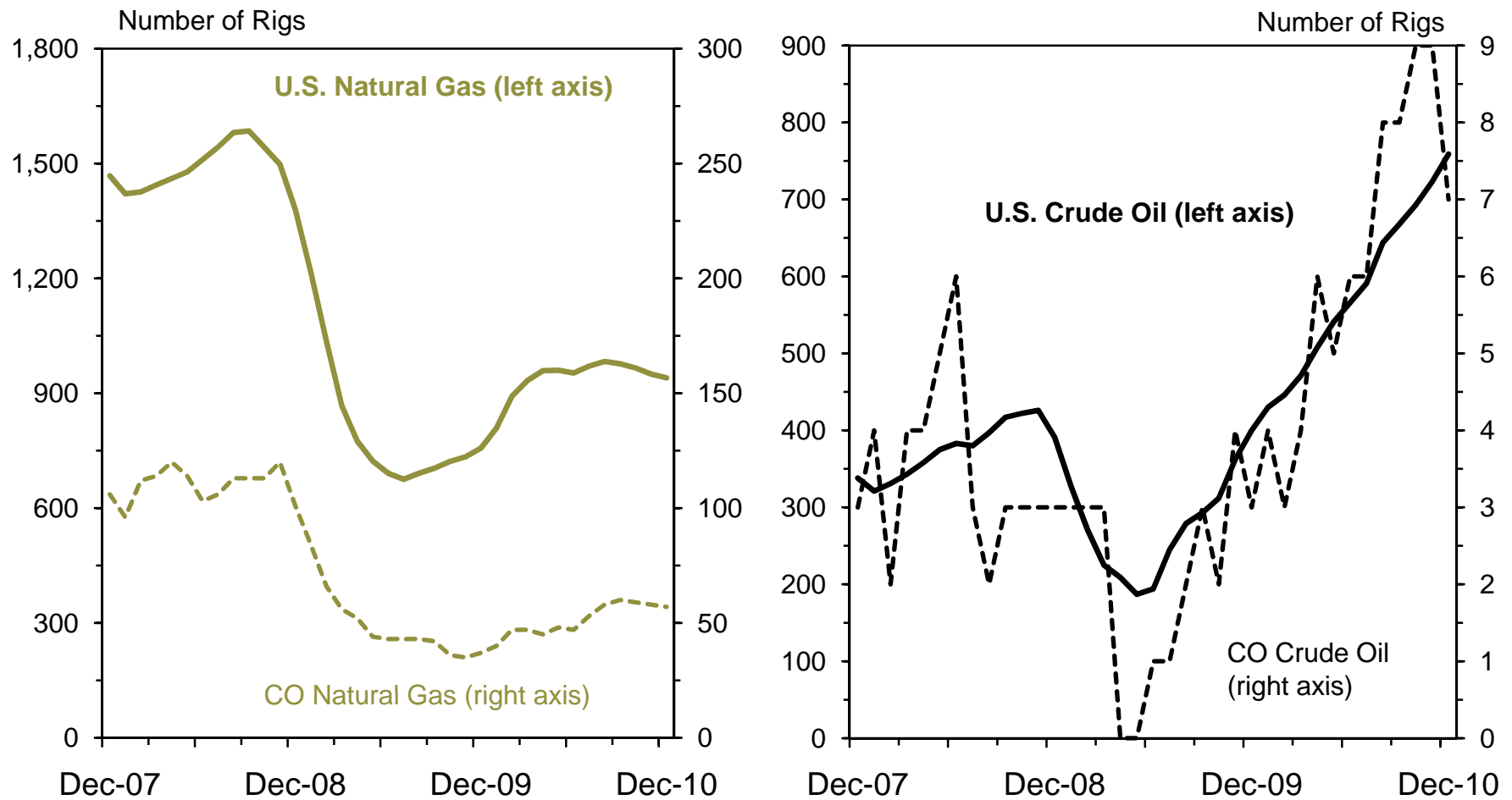
# Is the bottom at hand in commercial construction? Or just noise?

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



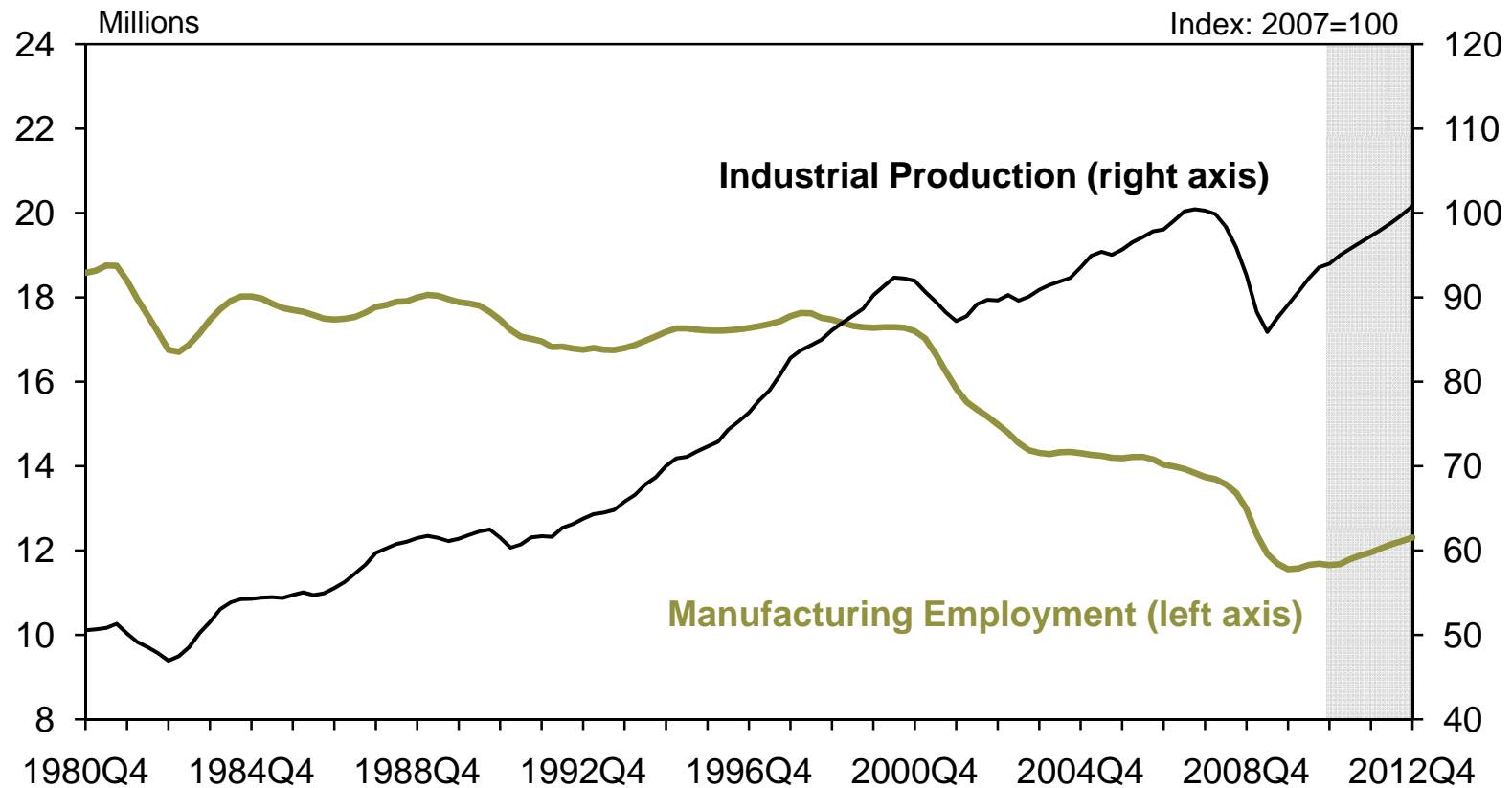
# Shift in exploration toward crude accelerates in U.S. and CO

**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?

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- Policy error(s) – Federal Reserve or Congress
- 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 Colorado Economic Conditions

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