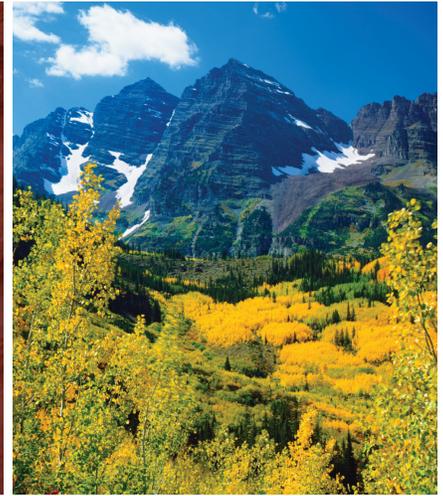


THE *Rocky Mountain* ECONOMIST:

Economic information for Colorado, New Mexico and Wyoming



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FEDERAL RESERVE BANK of KANSAS CITY - DENVER BRANCH



Job Recovery in the Mountain States

by Mark Snead, Denver Branch Executive and Vice President

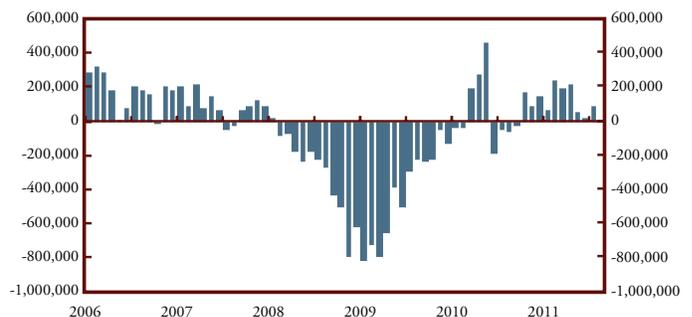
While the weak national recovery has undoubtedly shaped employment conditions in the Mountain States, significant regional hiring patterns have once again taken hold. This issue of the *Rocky Mountain Economist* highlights some of the key trends in the national job recovery since early 2010 and examines the degree to which they may, or may not, be driving labor market conditions in Colorado, New Mexico and Wyoming. While national conditions have a firm grip on hiring behavior in many industries in the Mountain States, the differences in hiring patterns across these states may be surprising.

STEEP U.S. RECESSION, WEAK RECOVERY

A useful starting point is to examine the steep job decline during the national recession and the disappointingly weak recovery in hiring to date. Over the roughly two-year period from early 2008 to early 2010, U.S. employers eliminated 8.75 million jobs (a 6.3 percent decline) in the steepest recessionary job loss in the post-Depression era. The U.S. economy lost a staggering average of 350,000 jobs per month over 25 consecutive months (*Chart 1*). Job losses exceeded 350,000 for 10 straight months at the height of the layoffs, with peak losses exceeding 800,000 per month. In comparison, the largest single monthly loss in the prior two recessions was only 325,000 jobs.

Although the national recession officially ended in June 2009, the economy didn't begin adding jobs until February 2010. The pace of job creation has since averaged only

CHART 1
Monthly Change in U.S. Wage and Salary Employment (Seasonally adjusted)



Sources: Bureau of Labor Statistics



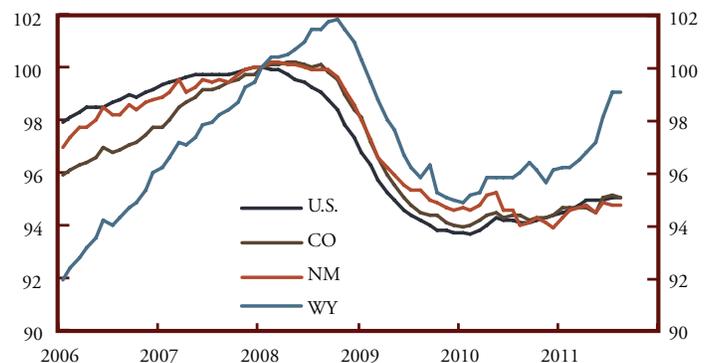
100,000 net new jobs per month, which roughly equals the number of new entrants into the labor market each month. The cumulative total of 1.9 million (1.4 percent gain) represents only about 20 percent of the total jobs lost in the downturn. Policymakers remain discouraged with the pace of job creation because it does little to alleviate unemployment in the short run, and it could reasonably take three to five years to return to the prior employment peak based on historical job growth rates.

HIRING CYCLE IN THE MOUNTAIN STATES

How do the job recoveries in Colorado, New Mexico and Wyoming compare to the nation? In terms of strength coming out of the recession, Wyoming has clearly set the pace among the Mountain States (*Chart 2*). Wyoming's commodity-fueled economy bottomed along with the nation in January 2010 and has seemingly ignored the tepid national labor market recovery. The state has added about 12,900 jobs (4.6 percent gain), grown at nearly three times the pace of the nation, and recovered more than half of the jobs lost in the state in the downturn.

Colorado and New Mexico, on the other hand, have looked much more like the nation in exiting the recession. Colorado also bottomed along with the nation in early 2010 and has only managed to match the pace of the relatively weak U.S. labor market recovery to date. The state has added about 29,000 jobs since early 2010 (1.4 percent gain), or about 20 percent of the 150,000 jobs lost in the recession. New Mexico's recovery has been even more problematic as state hiring suffered a false start in early 2010 that quickly reversed course and resulted in layoffs stretching into late 2010. The 2008-09 recession dealt the state its only meaningful job recession since World War II. New Mexico eventually returned to steady job growth in early 2011, nearly one year after the national job recovery began. The state has since added nearly 9,000 jobs (1.0 percent gain) and closely tracked the national job recovery. However, like Colorado and the nation, New Mexico has recovered only about 20 percent of the 50,000 total jobs lost in the recession.

CHART 2
*Index of Wage and Salary Employment:
U.S. and Mountain States*
(Seasonally adjusted, Feb. 2008=100.0)



Source: Bureau of Labor Statistics

INDUSTRY PATTERNS OVER THE ECONOMIC CYCLE

A closer look at the underlying national industry trends in this cycle reveals three distinct phases in which layoffs rotated from the goods-producing sectors, to the private services-producing sectors, and finally to government (*Chart 3*). The collapse in the goods sectors, which include mining, construction and manufacturing, began in early 2008 as major layoffs first hit construction and then spilled over into the cyclical manufacturing sector. (*Appendix A* details historical employment trends for each of the major U.S. industry sectors.) Hiring in the relatively small mining sector also contracted



sharply in late 2008 and in 2009 as energy prices collapsed. The goods sectors eventually posted a 20 percent decline in employment before bottoming in early 2010. In total, more than four million goods-producing jobs were lost in the first phase, accounting for roughly half of all job losses nationally in the recession.

The weakness in goods then spread to the private services-producing sectors in the second phase as the nation transitioned to a broad based cyclical downturn in hiring. Nearly every major services sector, other than health care, suffered extensive layoffs (*Appendix A*). In contrast, government hiring remained strong throughout much of the first two phases and provided support to the overall job market. Government hiring eventually turned down late in the cycle, in a third phase, just as the private goods- and services-producing sectors began to stabilize. Although the goods- and services-producing sectors resumed job growth in 2010, government hiring has remained in a distinct downtrend.

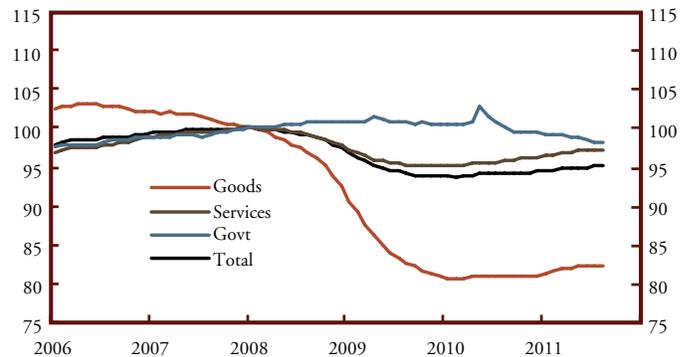
What isn't well understood about the recovery to date is that most individual industry sectors have bottomed and added jobs since early 2010. To be sure, gains in many of the growing sectors have been well below historical averages for past recoveries, but they have remained consistently positive. Much of the downward pressure limiting the national job recovery is centered in just three areas of the economy: construction, financial services, and state and local government. State and local government remains the weakest area as layoffs have continued at a rapid pace in most states. This is hardly surprising given the fiscal challenges faced at all levels of government. The construction and financial services sectors remain hampered by the seemingly intractable real estate collapse but have at least managed to stabilize in 2011. Outside of these three sectors and the relatively small information sector, most others have steadily added new jobs in the recovery (*Appendix A*).

MOUNTAIN STATES IN THE RECOVERY

Colorado's job recovery has been the most national-like among the Mountain States, with a few key differences (*Appendix B*). Most importantly, Colorado's construction sector has not stabilized along with the nation and has continued to shed jobs (*Chart 4*). Colorado's economy was heavily dependent upon real estate development going into the recession and has continued to restructure in the recovery. The ongoing losses in construction now total 65,000, or nearly half of all

CHART 3

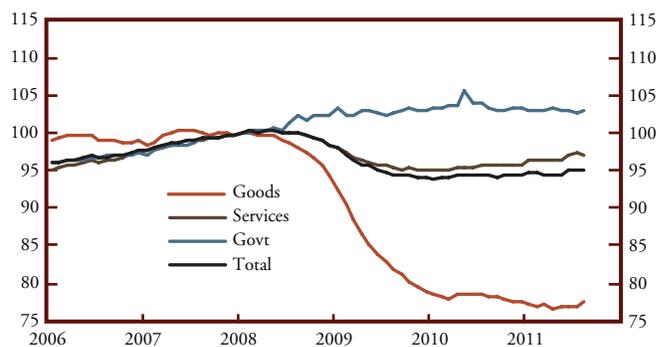
Index of U.S. Employment by Major Industry Group (Seasonally adjusted, Feb. 2008=100.0)



Source: Bureau of Labor Statistics

CHART 4

Index of Colorado Employment by Major Industry Group (Seasonally adjusted, Feb. 2008=100.0)



Source: Bureau of Labor Statistics

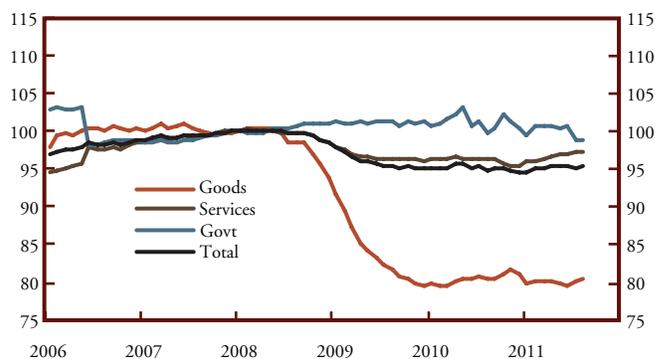


jobs lost statewide in the downturn, and continue to outweigh job gains in mining and manufacturing. Government layoffs also reached Colorado much later than most states. While the nation has suffered broad state and local government layoffs since 2008, Colorado's losses have been confined to local government and did not begin to impact overall state hiring until early 2010. In contrast, state government hiring has increased consistently since 2007 and served as a key source of hiring strength. Most of the services sectors in Colorado look very much like the nation, including the persistently weak financial services sector. Retail hiring remains weaker than the nation, but leisure and hospitality, a key sector in tourism-rich Colorado, has far outperformed the nation in the recovery. Health services hiring proved just as recession-proof in Colorado as it has nationally.

New Mexico's industry behavior (*Appendix C*) has closely followed Colorado's in many respects. The state's goods-producing sectors remain much weaker than the nation, led by continued layoffs in construction (*Chart 5*). Construction layoffs have accounted for 40 percent of the state's job losses in the downturn and, like Colorado, continue to outweigh hiring gains in both mining and manufacturing. A second surge in construction layoffs in late 2010 underlies the false start in New Mexico that ultimately pushed the state's recovery well behind the nation. Home prices have continued to fall in New Mexico, and coupled with a weak commercial real estate sector, triggered further weakness in overall hiring. Conversely, most of the services sectors in New Mexico are now adding jobs, with the exception of professional and business services. This key high-wage sector rebounded sharply at the national level in 2009 but is only now stabilizing in New Mexico. Many of the professional and business services layoffs reflect weakness in the recovery of the technology sector in general and the reliance of the region on federally-funded research. And, as in Colorado, leisure and hospitality hiring rebounded sharply along with the state's tourism sector. Hiring in government, a key component of the New Mexico economy, has contracted since early 2010 but with a much different composition than the nation. Surprisingly, federal government hiring has been strong, expanding more than 10 percent since the onset of the recession, while state government hiring is currently only slightly below pre-recession levels. The greatest concern with public sector hiring is the ongoing weakness reported in local government hiring since early 2009 and the acceleration of these layoffs in the second half of 2011. Local government layoffs are offsetting gains at the federal level and contributing to overall hiring weakness in New Mexico.

In sharp contrast to both Colorado and New Mexico, Wyoming has enjoyed a strong recovery across the goods-producing sectors since early 2010 (*Chart 6*). Growth in the key mining sector accelerated in late 2009 as oil prices rebounded and has added more than 3,000 jobs (*Appendix D*). Even the hard-hit construction sector bottomed early and has added jobs since mid-year 2010. Commercial and residential real estate conditions in Wyoming remain much stronger than the nation and

CHART 5
Index of New Mexico Employment by Major Industry Group
(Seasonally adjusted, Feb. 2008=100.0)



Source: Bureau of Labor Statistics



supported a faster recovery in construction. Unlike most of the nation, the government sector remained a source of hiring strength in Wyoming throughout the recession. State and local governments have added more than 8,000 jobs since early 2008. This reflects the state's strong fiscal position relative to most other states throughout the economic cycle. Reflecting the strength of the overall recovery, job growth has also resumed in key services sectors, such as professional and business services, financial services, and leisure and hospitality. However, weakness remains in the retail and health services sectors. Wyoming retail hiring has remained in a consistent downtrend since the start of the recession in early 2008 and has not rebounded along with the nation. Health services hiring proved highly recession-proof in most states but slowed relative to the nation and leveled off in Wyoming in 2011.

NATIONAL VS. REGIONAL TRENDS

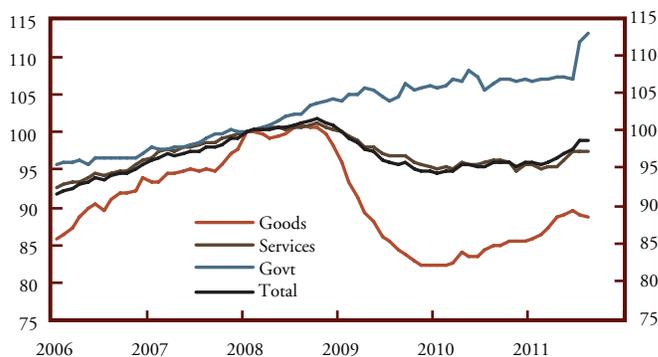
The differences in the recovery patterns of the Mountain States reflect the old adage in regional economic analysis that recessions are national, but expansions are regional. The idea is that conditions tend to be uniformly bad during recessions, but differences in the growth potential of regional economies become more visible during economic expansions. This rule of thumb has held true once again as the dominant industry patterns at the national level only loosely fit the recovery in the Mountain States.

Wyoming is the clear leader among the three Mountain States in the recovery and has the most distinct regional growth pattern. The state has enjoyed a strong overall rebound, steady hiring gains in the goods-producing sectors (including construction), and strong government hiring during both the recession and recovery. Only the retail and health services sectors remain weak in Wyoming.

On the other hand, both Colorado and New Mexico have followed the overall national cycle much more closely than Wyoming and remain hampered by national trends in construction, financial services and government sectors. Despite following the national cycle closely, many of the industry level trends in Colorado and New Mexico differ significantly from the nation. Government layoffs in both states have remained confined to local government only, as state government hiring in Colorado and federal government hiring in New Mexico have remained strong. Both states have also experienced a sharp rebound in leisure and hospitality hiring relative to the nation. Conversely, Colorado remains hampered by weakness in retail hiring relative to the U.S., while New Mexico has faced extended layoffs in the professional and business services sector.

CHART 6

Index of Wyoming Employment by Major Industry Group (Seasonally adjusted, Feb. 2008=100.0)



Source: Bureau of Labor Statistics

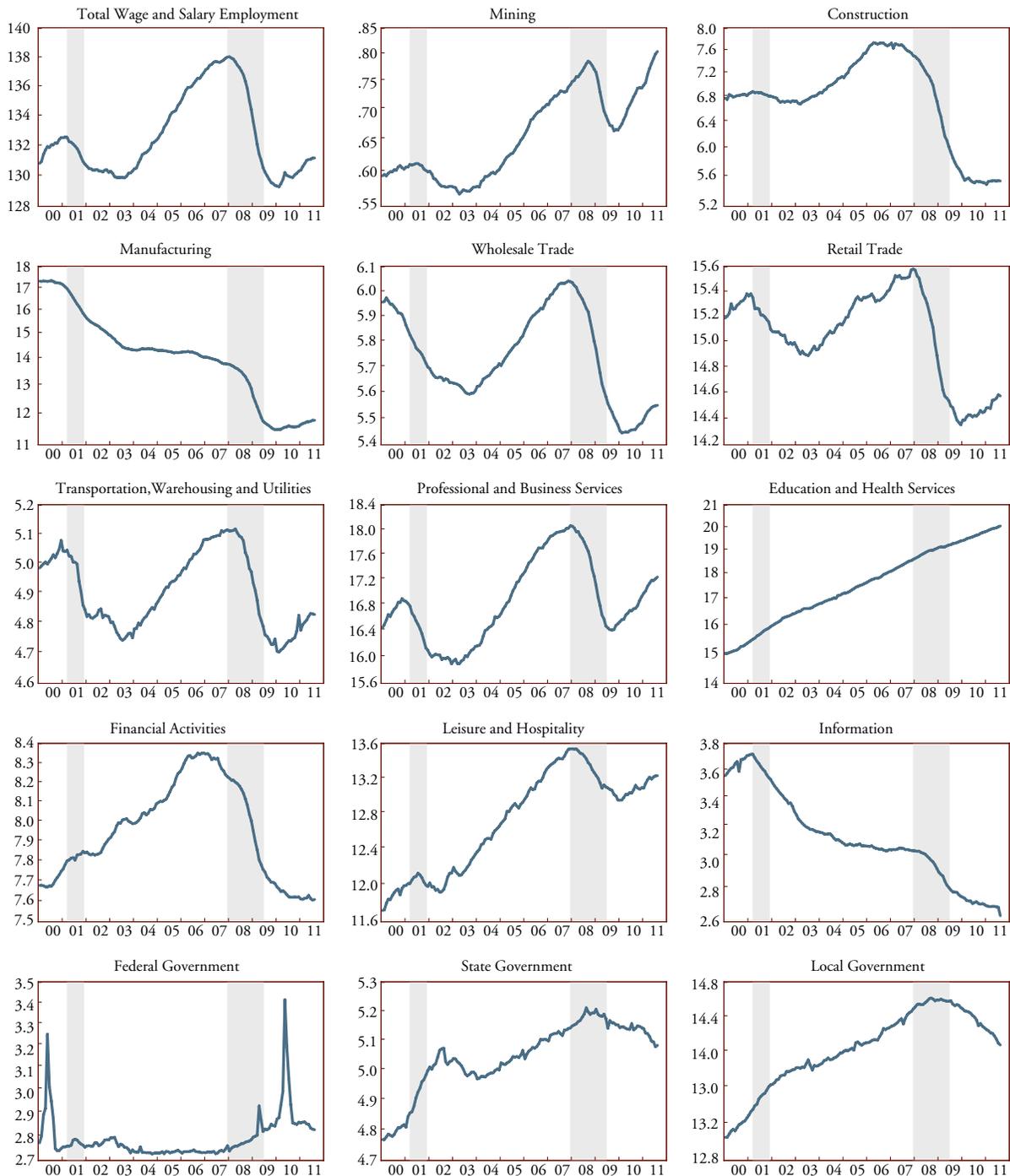
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APPENDIX A

U.S. Wage and Salary Employment by Industry (Millions, seasonally adjusted)

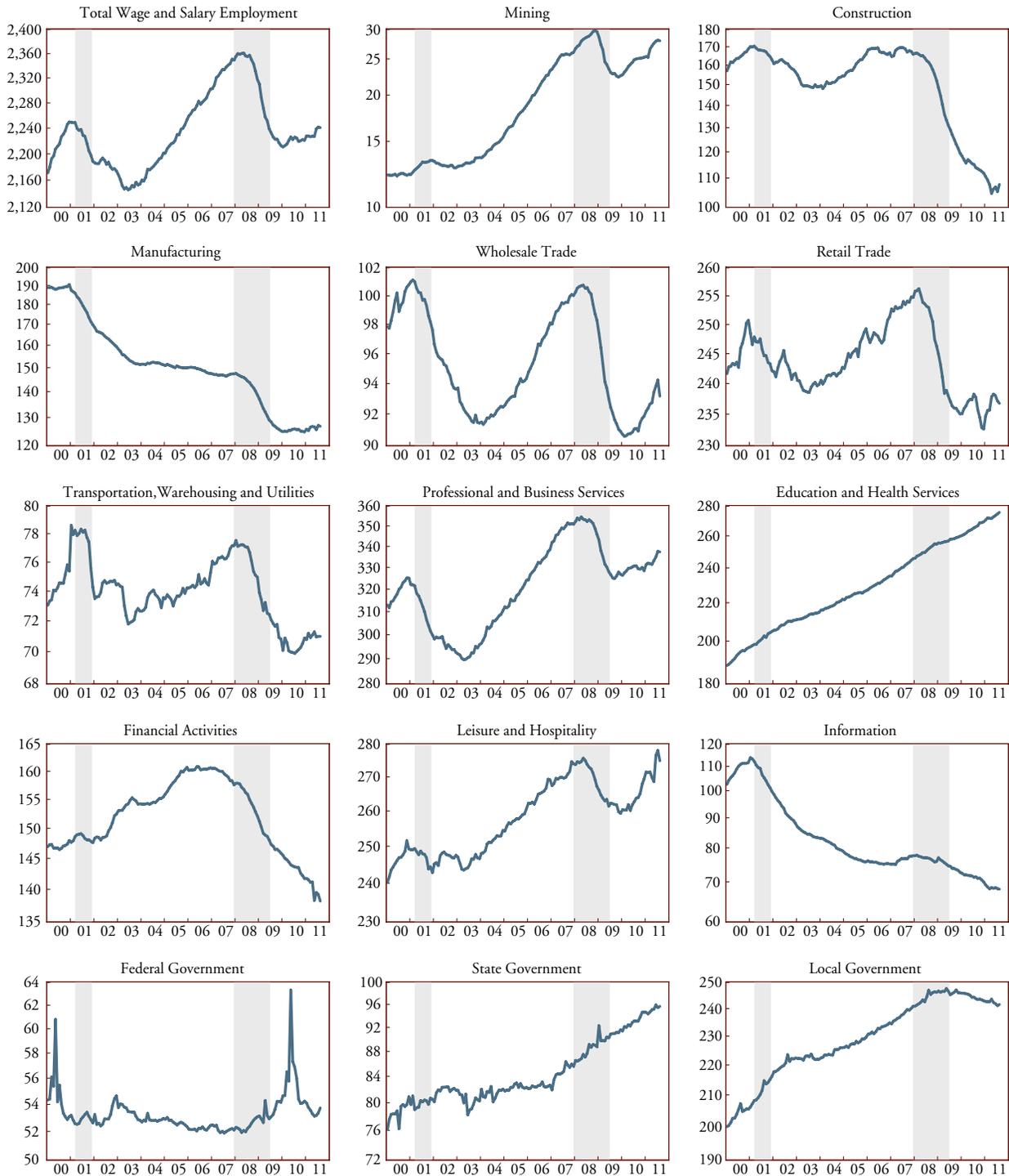


Source: Bureau of Labor Statistics
 Note: Shaded areas reflect U.S. recessions



APPENDIX B

Colorado Wage and Salary Employment by Industry (Thousands, seasonally adjusted)

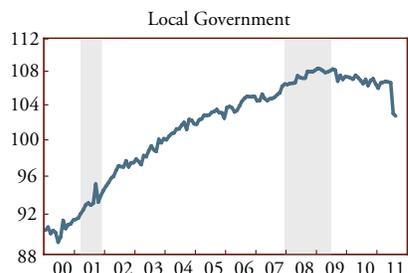
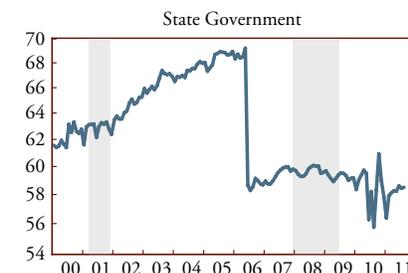
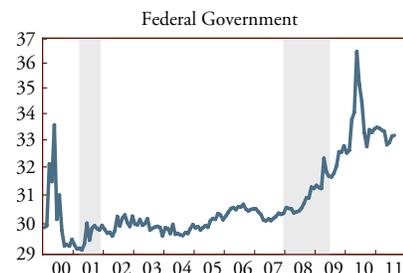
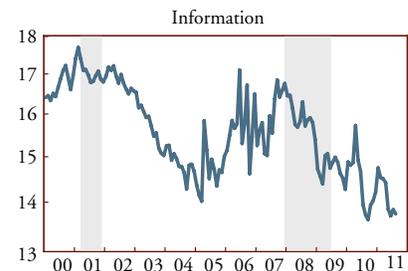
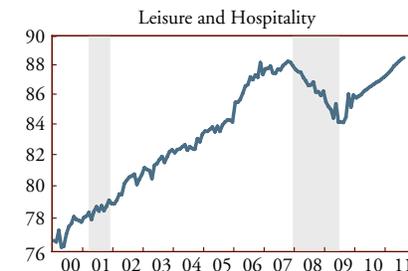
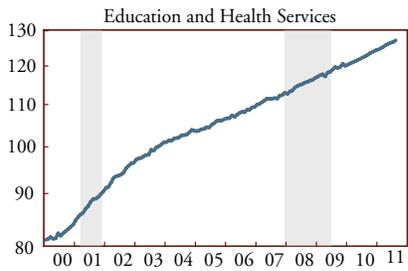
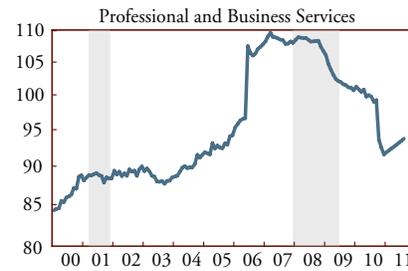
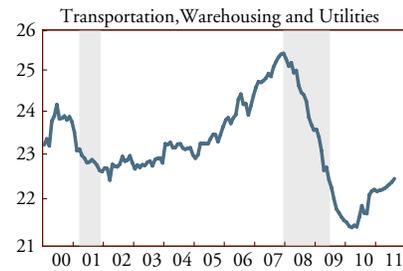
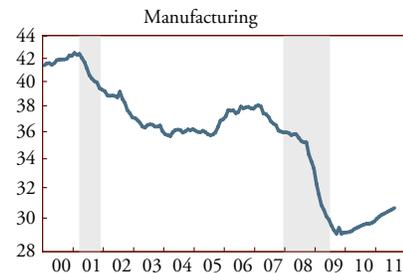
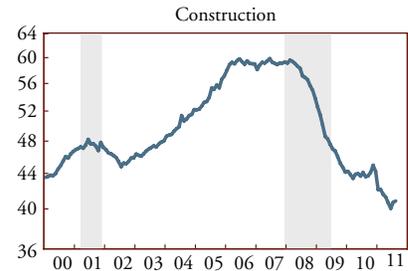
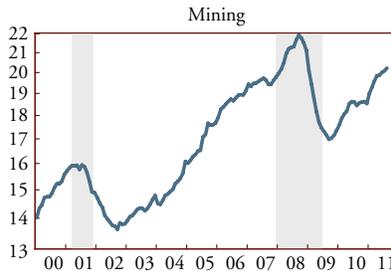


Source: Bureau of Labor Statistics
 Note: Shaded areas reflect U.S. recessions



APPENDIX C

New Mexico Wage and Salary Employment by Industry (Thousands, seasonally adjusted)

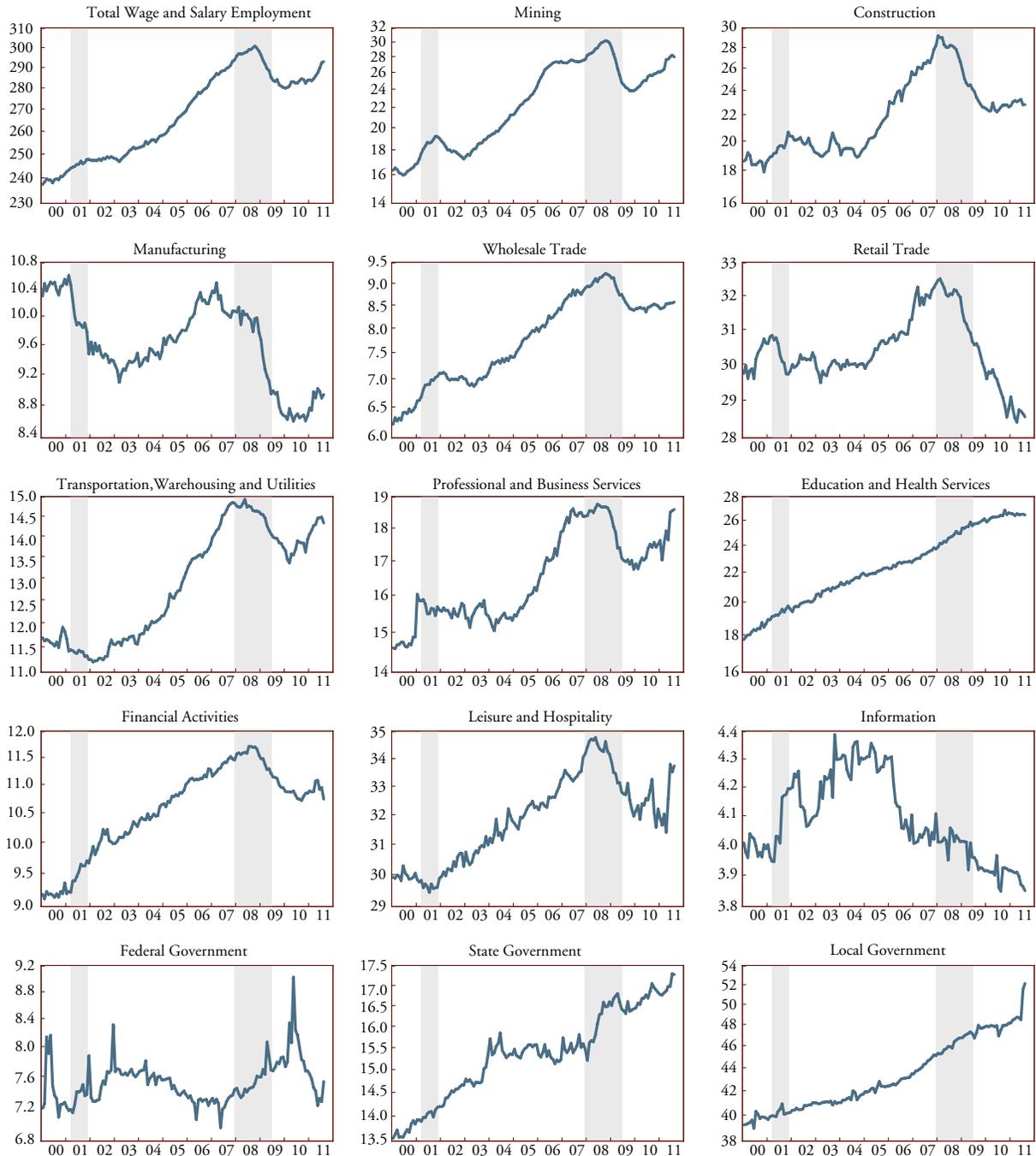


Source: Bureau of Labor Statistics
 Note: Shaded areas reflect U.S. recessions



APPENDIX D

Wyoming Wage and Salary Employment by Industry (Thousands, seasonally adjusted)



Source: Bureau of Labor Statistics
 Note: Shaded areas reflect U.S. recessions