Emerging Trends in the U.S. and Colorado Economies

Alison Felix
Economist and Branch Executive
Federal Reserve Bank of Kansas City
Denver Branch

The views expressed are those of the presenter and do not necessarily reflect the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
The Structure of the Federal Reserve System

- The Federal Reserve System was created by Congress in 1913.

- It is a public-private, decentralized institution consisting of the Board of Governors in Washington, D.C. and 12 regional Reserve Banks.
  - Board of Governors
    - Consists of seven members who are appointed by the President and confirmed by the Senate to serve 14-year terms.
    - There are currently five members of the Board of Governors: Jerome Powell, Michelle Bowman, Lael Brainard, Richard Clarida and Randal Quarles.

  - Regional Federal Reserve Banks
    - There are 12 Regional Reserve Banks, each serving a unique district. These are semi-independent by design.
    - The Reserve Banks are governed by their Board of Directors, and the Directors (excluding Banking Directors) select the President of the Bank.

  - Federal Open Market Committee (FOMC)
    - Comprised of the 7 members of the Board of Governors and the 12 Reserve Bank Presidents (only 5 presidents are voting members on a rotating basis).
    - Charged with conducting monetary policy.
The Primary Functions of the Federal Reserve System

- Conduct the Nation’s Monetary Policy
  - The Federal Open Market Committee is the group charged with conducting monetary policy within the U.S.
  - The Committee has a statutory mandate from Congress to promote maximum employment, stable prices and moderate long-term interest rates.

- Provide and Maintain an Effective and Efficient Payments System
  - The Federal Reserve supplies payments services to the public through depository institutions including banks, credit unions and savings and loans.
  - We also serve as a banking and fiscal agent for the United States government.
  - Payment services includes cash processing, processing and clearing checks, transferring funds and issuing, transferring and redeeming U.S. government securities.

- Supervise and Regulate Banking Operations
  - The Federal Reserve ensures the safety and soundness of banks and ensures that banks provide fair and equitable services to consumers.
  - The Federal Reserve also monitors and promotes the stability of the financial system as a whole.
After accelerating last year, U.S. economic growth is expected to slow modestly in the years ahead.

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

*Percent Change from Previous Quarter at Seasonally Adjusted Annualized Rates*

Sources: Bureau of Economic Analysis and Federal Open Market Committee (FOMC) / Haver Analytics

*Projections as of June FOMC meeting*
The unemployment rate has declined steadily over the past nine years and has fallen below most estimates of its longer-run level.

Sources: Bureau of Labor Statistics, National Bureau of Economic Research and Federal Open Market Committee (FOMC) / Haver Analytics

*Projections as of March June meeting; median unemployment rate

U.S. UNEMPLOYMENT RATE
Seasonally Adjusted

Sources: Bureau of Labor Statistics, National Bureau of Economic Research and Federal Open Market Committee (FOMC) / Haver Analytics

*Projections as of March June meeting; median unemployment rate
Inflation is expected to move toward the FOMC’s two percent target over the next few years.

**PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX (PCEPI)**

*Percent Change Year-over-Year*

Sources: Bureau of Economic Analysis and Federal Open Market Committee / Haver Analytics

*Projections as of June FOMC meeting; median projections*
“Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2 percent.”

- June 2019 FOMC Statement
Federal Reserve Balance Sheet

Trillions

- Short term lending, targeted lending programs, and rescue operations
- MBS & agency debt
- Treasury securities and other assets

Sources: Federal Reserve Board / Haver Analytics and author's calculations.
Employment has been increasing in Colorado and the nation for more than nine years.

**PAYROLL EMPLOYMENT GROWTH**

*Index 100 = December 2007, Seasonally Adjusted*

<table>
<thead>
<tr>
<th></th>
<th>Dec. '07 to Present</th>
<th>Past Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. (June ‘19)</td>
<td>9.3%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Colorado (May ’19)</td>
<td>17.7%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Denver (May ‘19)</td>
<td>21.1%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

Sources: Bureau of Labor Statistics / Haver Analytics and author’s calculations.
The majority of industries in Colorado have added jobs over the past year.

**Change in Payroll Employment, May 2019**

*Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Industry</th>
<th>United States</th>
<th>Colorado</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional &amp; Business Services</td>
<td>5.2%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Other Services</td>
<td>3.6%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Private Educational Services</td>
<td>3.1%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Transportation &amp; Utilities</td>
<td>2.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>1.7%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>-0.4%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Health Care &amp; Social Assistance</td>
<td>-2.0%</td>
<td></td>
</tr>
<tr>
<td>Local Government</td>
<td>-2.0%</td>
<td></td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>-2.0%</td>
<td></td>
</tr>
<tr>
<td>Federal Government</td>
<td>-2.0%</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-2.0%</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>-2.0%</td>
<td></td>
</tr>
<tr>
<td>Retail Trade</td>
<td>-2.0%</td>
<td></td>
</tr>
<tr>
<td>Information</td>
<td>-2.0%</td>
<td></td>
</tr>
<tr>
<td>State Government</td>
<td>-2.0%</td>
<td></td>
</tr>
<tr>
<td>Financial Activities</td>
<td>-2.0%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics / Haver Analytics
Unemployment rates are low across most of Colorado.

**Unemployment Rates**
*May 2019, Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Unemployment Rate</th>
<th>U-3</th>
<th>U-5*</th>
<th>U-6*</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States (June ‘19)</td>
<td>3.7%</td>
<td>4.6%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Colorado (May ‘19)</td>
<td>3.2%</td>
<td>3.8%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Denver (Mar. ‘19)</td>
<td>3.0%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

*U-5 and U-6 values are 12-month moving averages as of Q1 2019 for Colorado and are for June, 2019 for the United States.*
Colorado continues to experience net in-migration.

**Net Migration**

*Total 2018 Net Migration as a Percentage of 2018 Population*

<table>
<thead>
<tr>
<th>Annual Percent Change</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>0.3%</td>
</tr>
<tr>
<td>Colorado</td>
<td>0.9%</td>
</tr>
<tr>
<td>Denver County</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>More than 2%</th>
<th>1% to 2%</th>
<th>0% to 1%</th>
<th>-1% to 0%</th>
<th>-2% to -1%</th>
<th>Less than -2%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dark Blue</td>
<td>Light Blue</td>
<td>Light Blue</td>
<td>Light Blue</td>
<td>Light Blue</td>
<td>Light Blue</td>
</tr>
</tbody>
</table>

Source: Census Bureau
Residential construction activity has increased significantly since 2009, but permitting has declined so far this year.

### Residential Permits

*Seasonally Adjusted, Year-to-Date through May*

**Colorado**

- **Multifamily**
- **Single Family**

**Denver**

- **Multifamily**
- **Single Family**

Source: Census Bureau / Haver Analytics
Low inventories have led to strong home price appreciation in recent years in Colorado.

Source: Federal Housing Finance Agency / Haver Analytics
The services sector was flat in June in our region.

**Non-Manufacturing and Services Activity**

*Diffusion Index, Seasonally Adjusted, Month-over-Month*

Sources: Kansas City Federal Reserve Bank and ISM / Haver Analytics
Manufacturing activity has been strong the past two years, but recent surveys suggest the pace of expansion may be slowing.
Colorado exports have decreased so far this year.

**COLORADO EXPORTS BY TRADING PARTNER**

*Billions*

<table>
<thead>
<tr>
<th>Year-over-Year Percent Change</th>
<th>May 2019 Year-to-Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Trade</td>
<td>-9.6%</td>
</tr>
<tr>
<td>All Other</td>
<td>-5.5</td>
</tr>
<tr>
<td>Japan</td>
<td>-8.1</td>
</tr>
<tr>
<td>Mexico</td>
<td>-28.5</td>
</tr>
<tr>
<td>Canada</td>
<td>-5.7</td>
</tr>
<tr>
<td>China</td>
<td>-7.7</td>
</tr>
<tr>
<td>Eurozone</td>
<td>-4.4</td>
</tr>
</tbody>
</table>

*Shares are for 2018*

Sources: WISERTrade and Census Bureau
Energy activity rose substantially over the past two years in response to higher oil prices.

**Crude Oil Production**

*Millions of Barrels, Monthly, Seasonally Adjusted*

Sources: Baker Hughes and Energy Information Administration / Haver Analytics
Oil prices have been volatile in recent months.
Expectations for energy activity have weakened as oil prices remain below year-ago levels.

**Energy Survey Activity Indicators**

*Quarterly Diffusion Index*

![Graph showing energy survey activity indicators from Q1:2014 to Q2:2019 (exp)].

- **Drilling/Business Activity**
- **Total Profits**
- **Number of Employees**

Source: Kansas City Federal Reserve Bank Energy Survey
The agriculture sector continues to struggle as commodity prices remain low.

**U.S. REaL NET FaRM INCOME**

*Billions, 2018 Dollars*

*Forecasts for 2018 and 2019*

Source: USDA
For additional information on the regional economy: