

Emerging Trends in the U.S. & Colorado Economies



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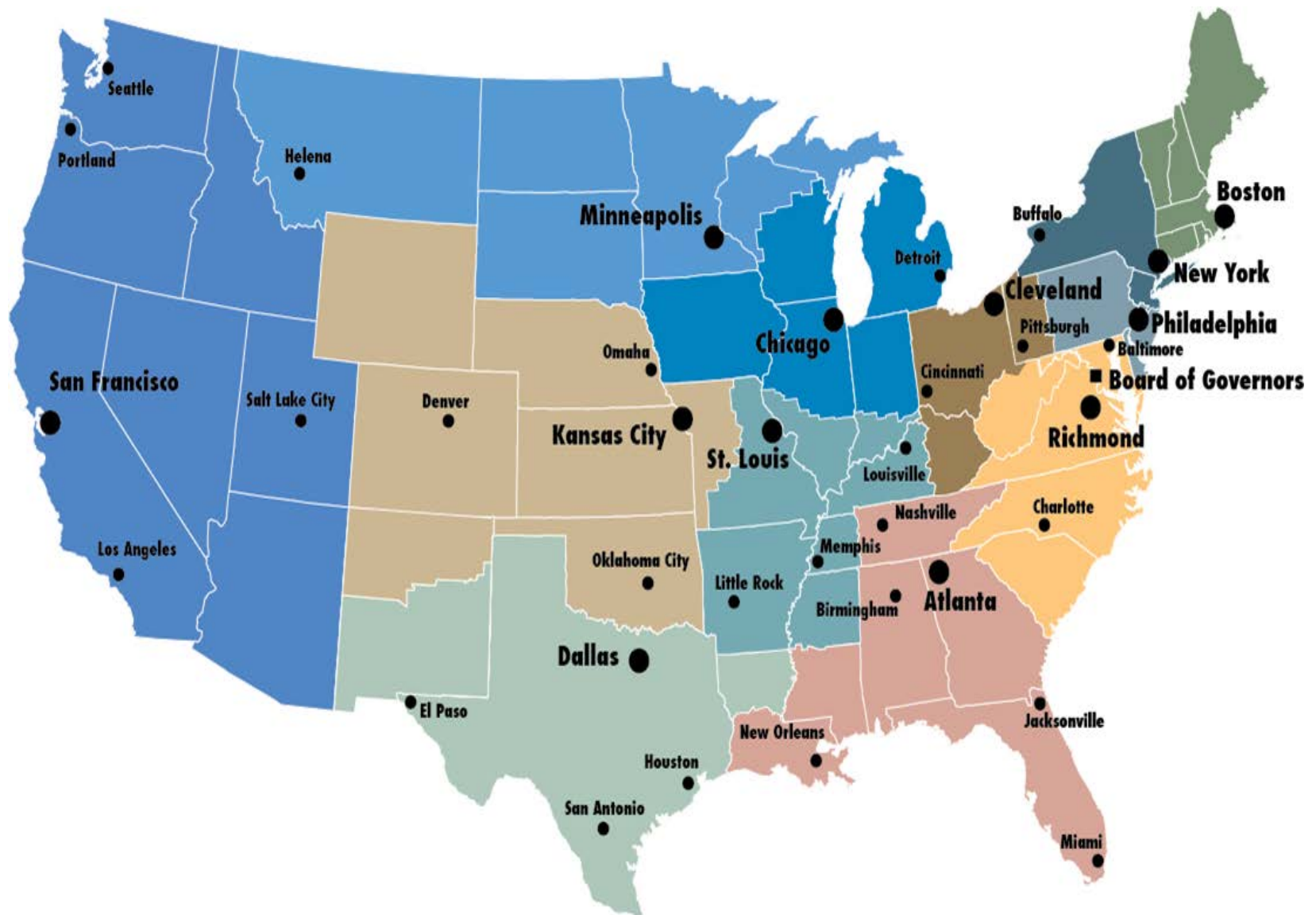
*The views expressed are those of the presenter and do not necessarily reflect
the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.*

Overview of the Federal Reserve System



- Primary Functions
 - Monetary Policy: promote maximum employment and price stability
 - Financial Services: bank for banks; bank for the federal government
 - Banking Supervision and Regulation: ensure safety and soundness of banks and ensure that banks provide fair and equitable services to consumers.
- Structure
 - Board of Governors
 - Consists of seven members who are appointed by the President and confirmed by the Senate to serve 14-year terms.
 - Federal Reserve Banks
 - There are 12 Regional Reserve Banks, each serving a unique district. These are semi-independent by design.
 - 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 to promote economic growth and price stability.

Regional Federal Reserve Banks and Branch Locations



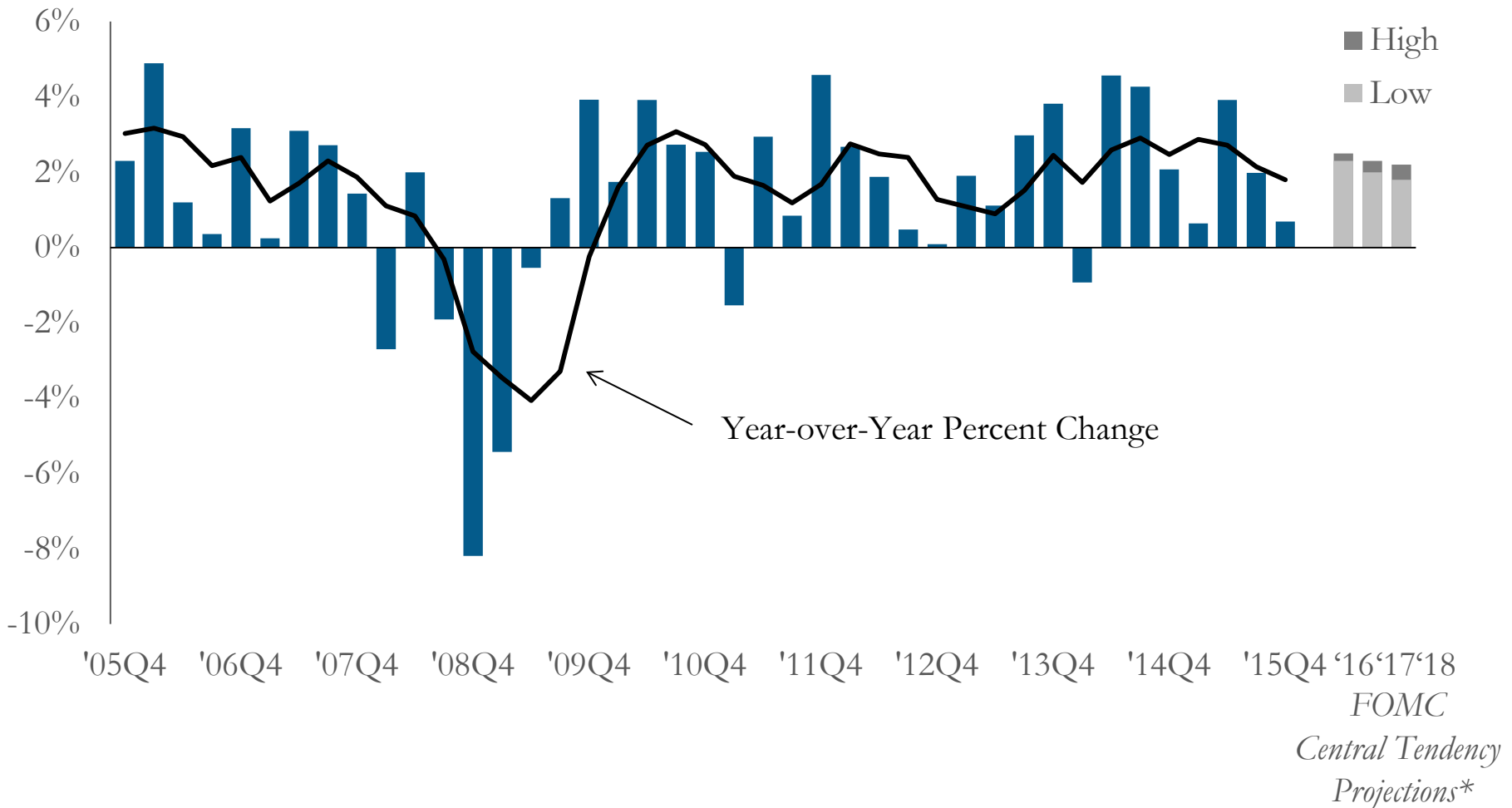


- Functions
 - Regional research and policy support covering the economies of Colorado, New Mexico and Wyoming
 - Economic, financial education, and community development outreach
 - Examinations of Colorado, Wyoming and northern New Mexico financial institutions
 - Cash processing and distribution
 - Money Museum
 - Around 160 employees

The U.S. economy is expected to expand at a moderate pace in 2016.

REAL U.S. GROSS DOMESTIC PRODUCT

Percent Change from Previous Quarter at Seasonally Adjusted Annualized Rates



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

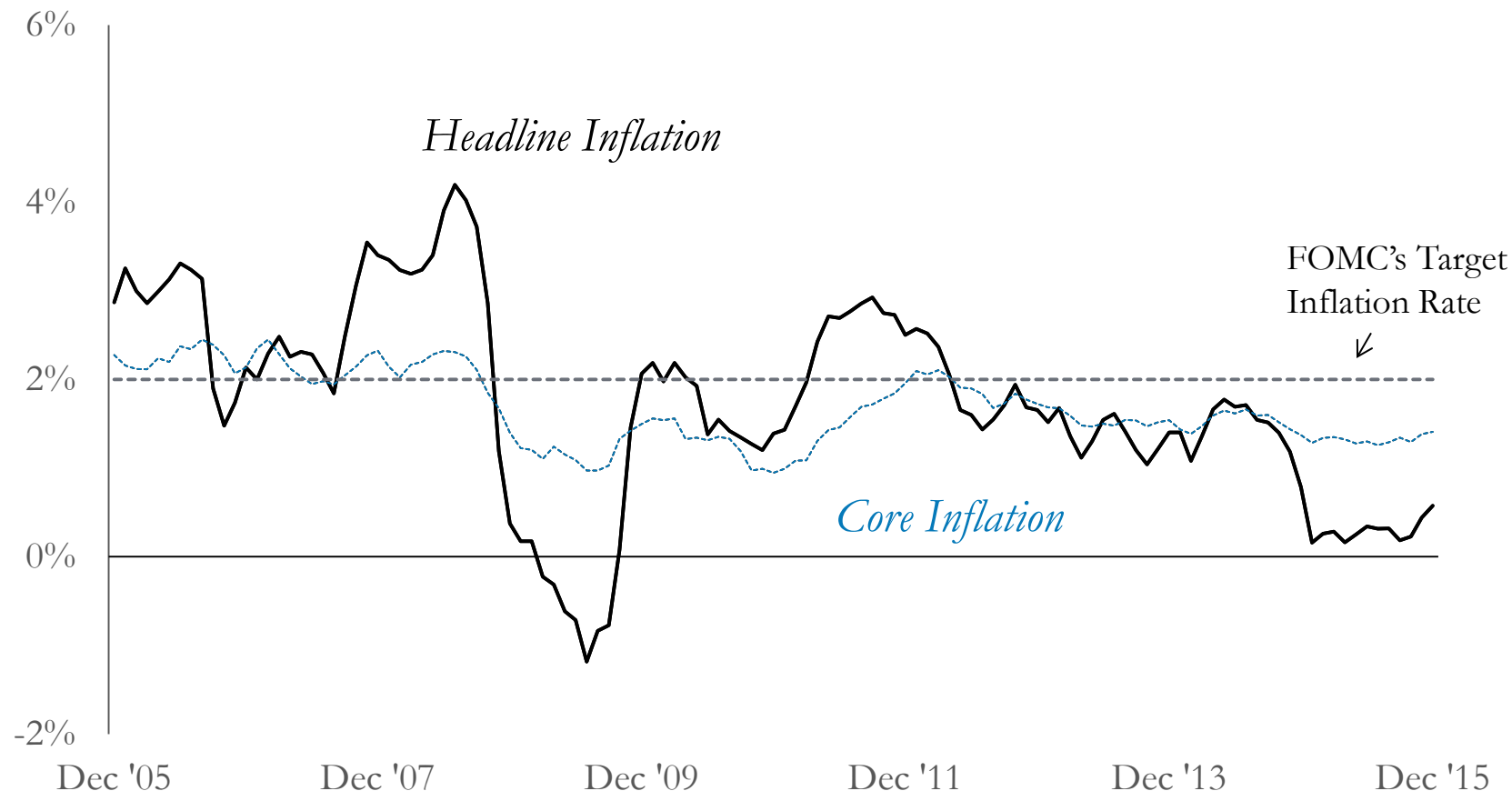
*Note: Projections as of December FOMC meeting

Inflation remains below the FOMC's two percent target, weighed down by declining energy prices and cheaper imports.



PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX (PCEPI)

Percent Change Year-over-Year

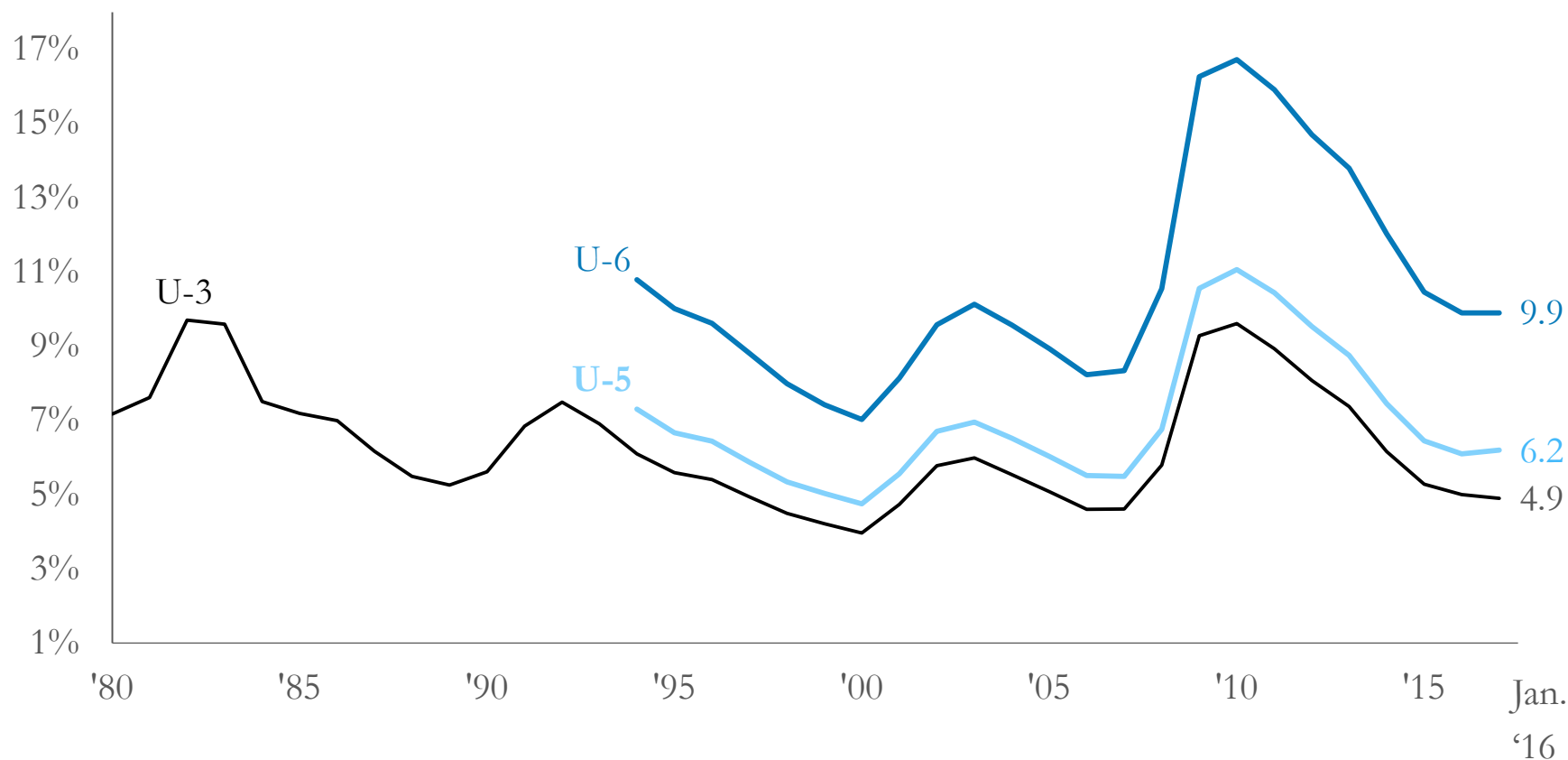


Measures of unemployment and under-employment have declined steadily over the past five years.



U. S. UNEMPLOYMENT AND UNDER-EMPLOYMENT RATES

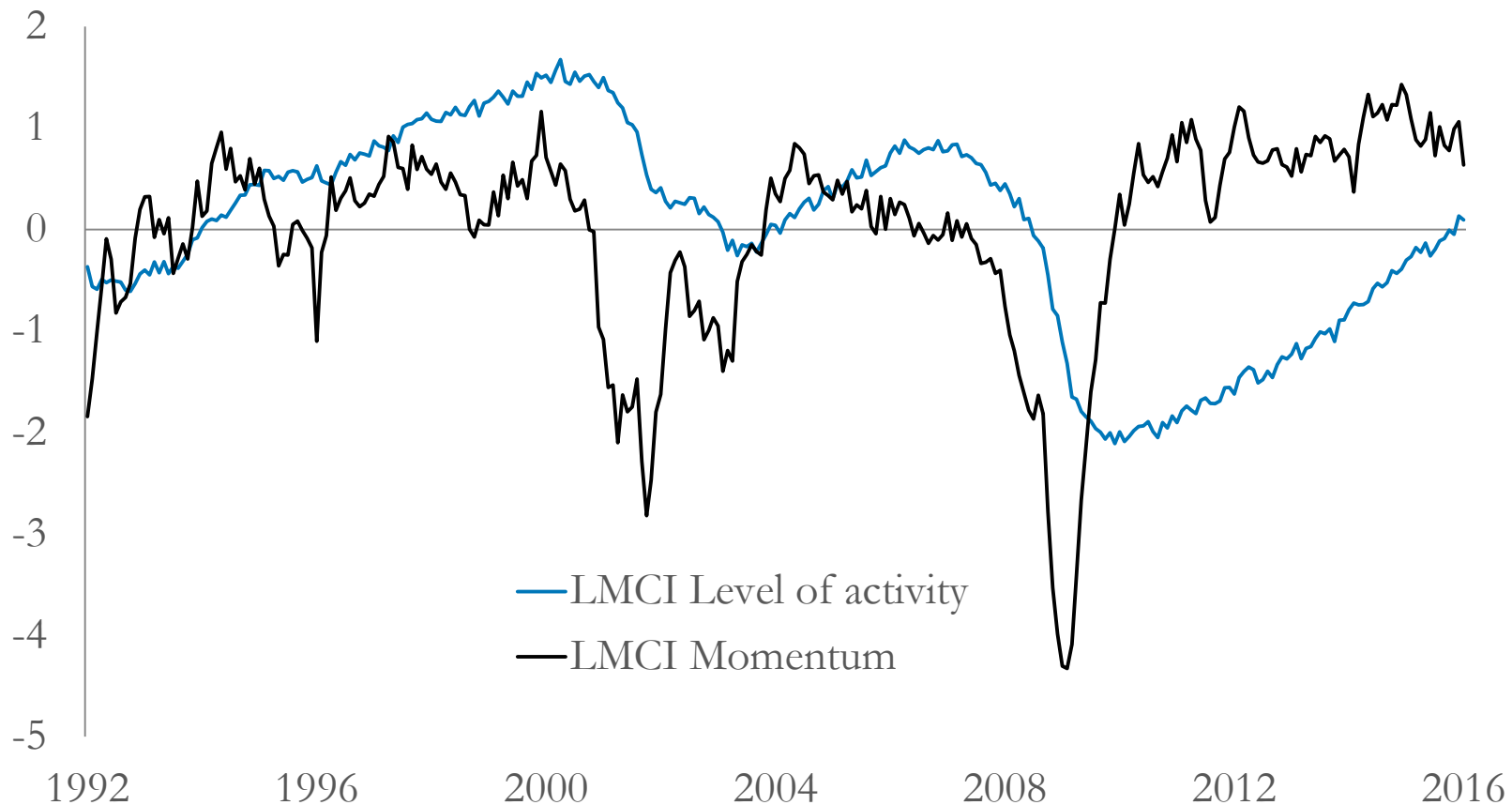
Seasonally Adjusted

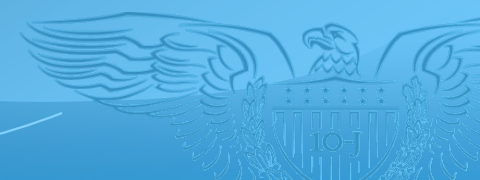


The Labor Market Conditions Indicator suggests that the level of labor market activity has improved substantially since 2010.

KANSAS CITY LABOR MARKET CONDITIONS INDICATORS

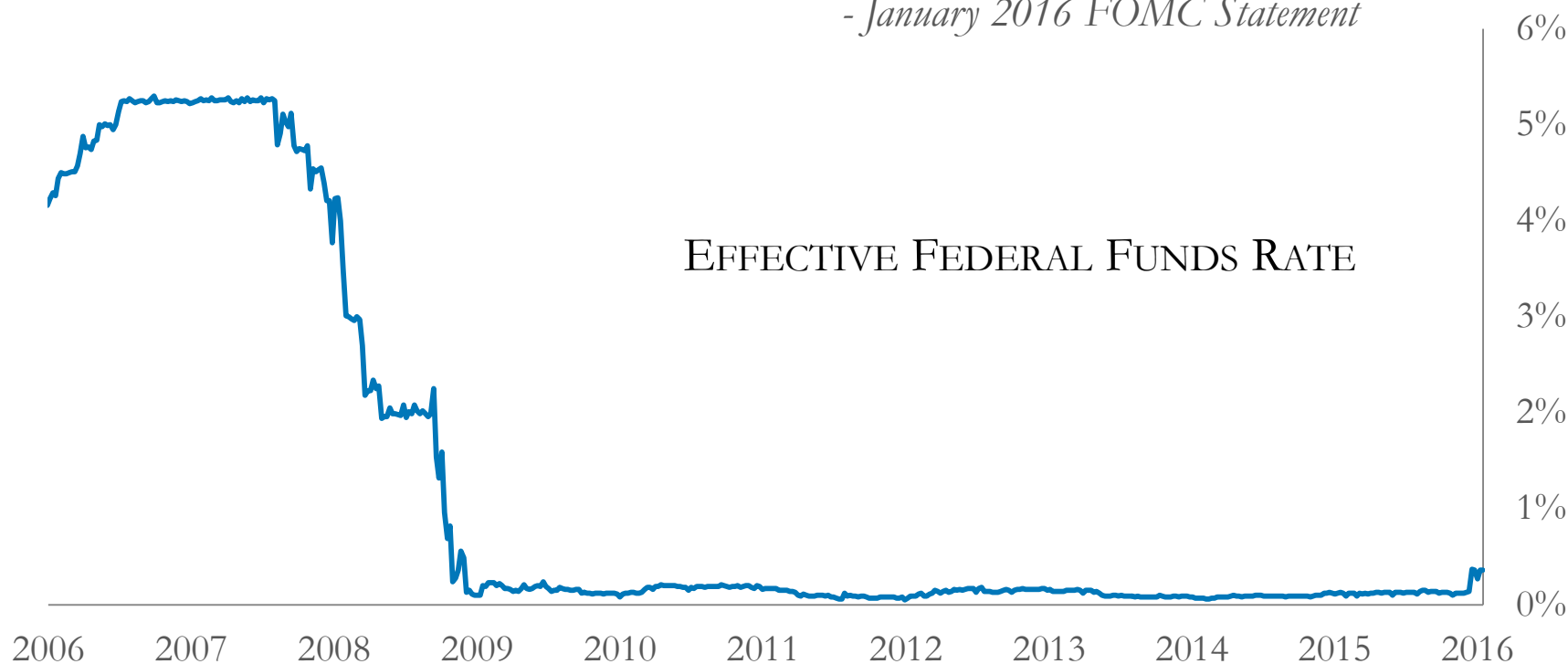
Level of Activity, Index > 0 indicates conditions above average





“...The Committee currently expects that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will continue to strengthen...Given the economic outlook, the Committee decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation... In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation.”

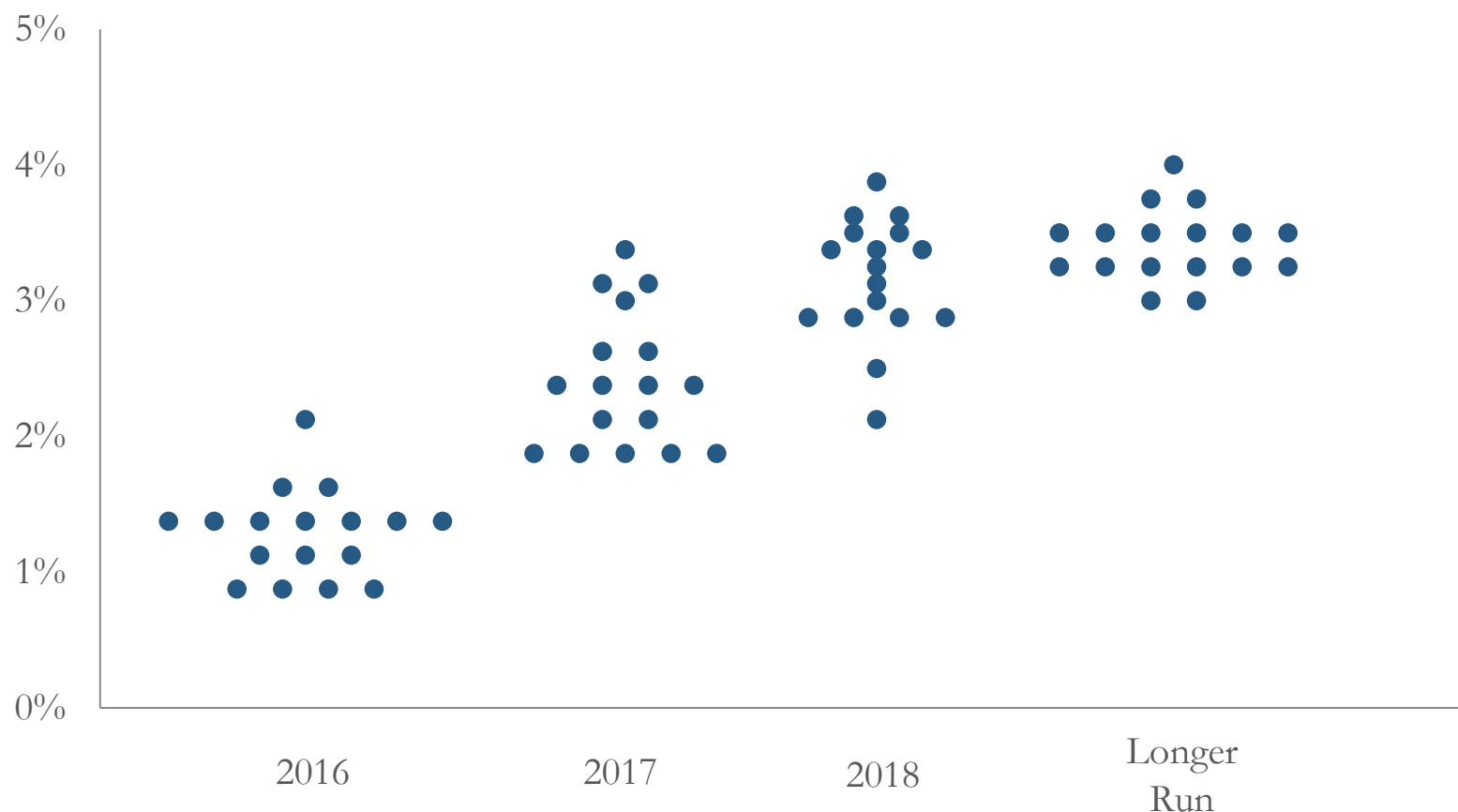
- January 2016 FOMC Statement



In December 2015, most FOMC members expected gradual increases in the federal funds rate over the next two years.

MIDPOINT OF TARGET RANGE OR TARGET LEVEL FOR FEDERAL FUNDS RATE

Individual FOMC Member Responses – December FOMC Meeting

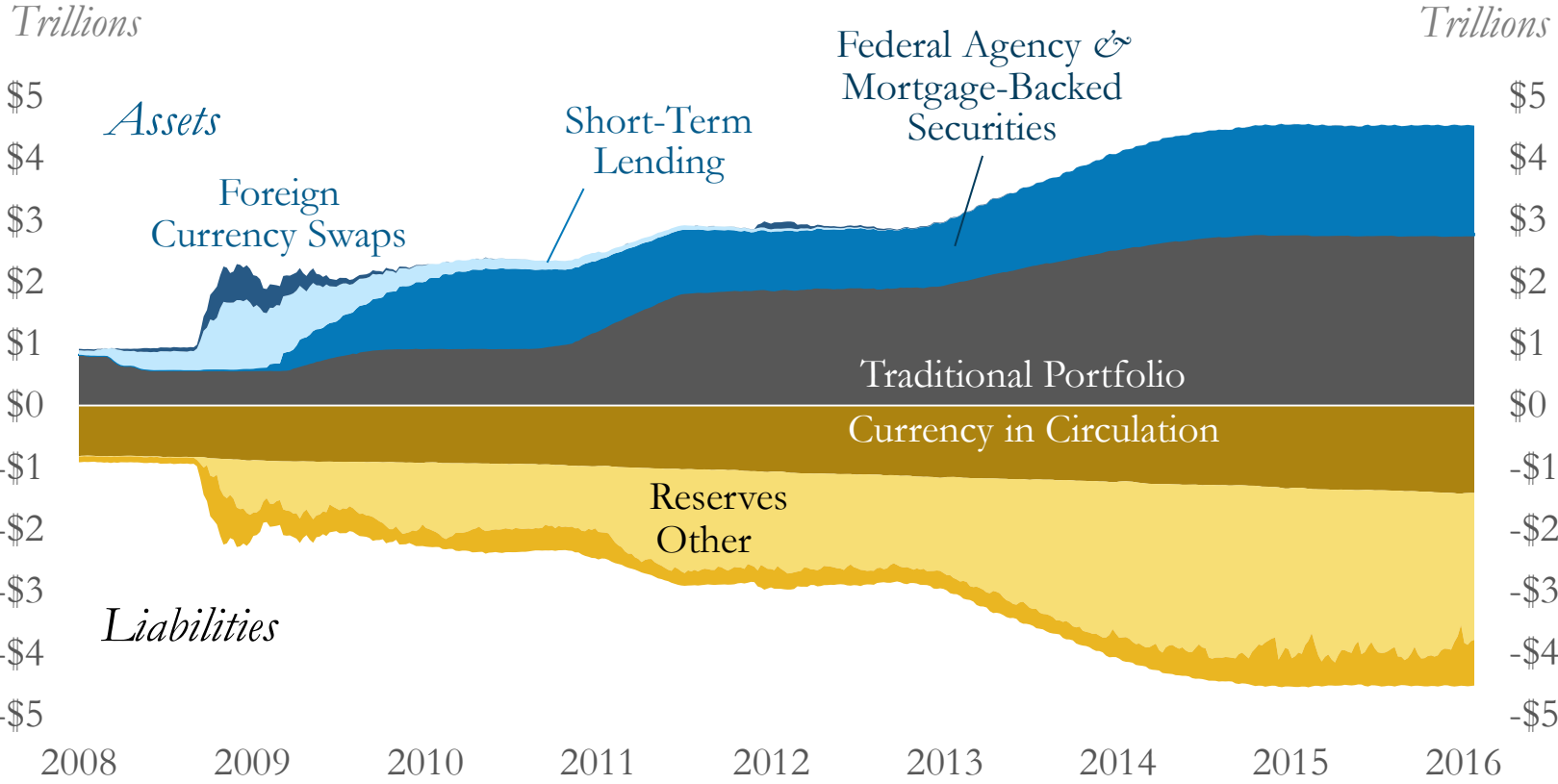




“The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction, and it anticipates doing so until normalization of the level of the federal funds rate is well under way.

- January 2016 FOMC Statement

FEDERAL RESERVE BALANCE SHEET



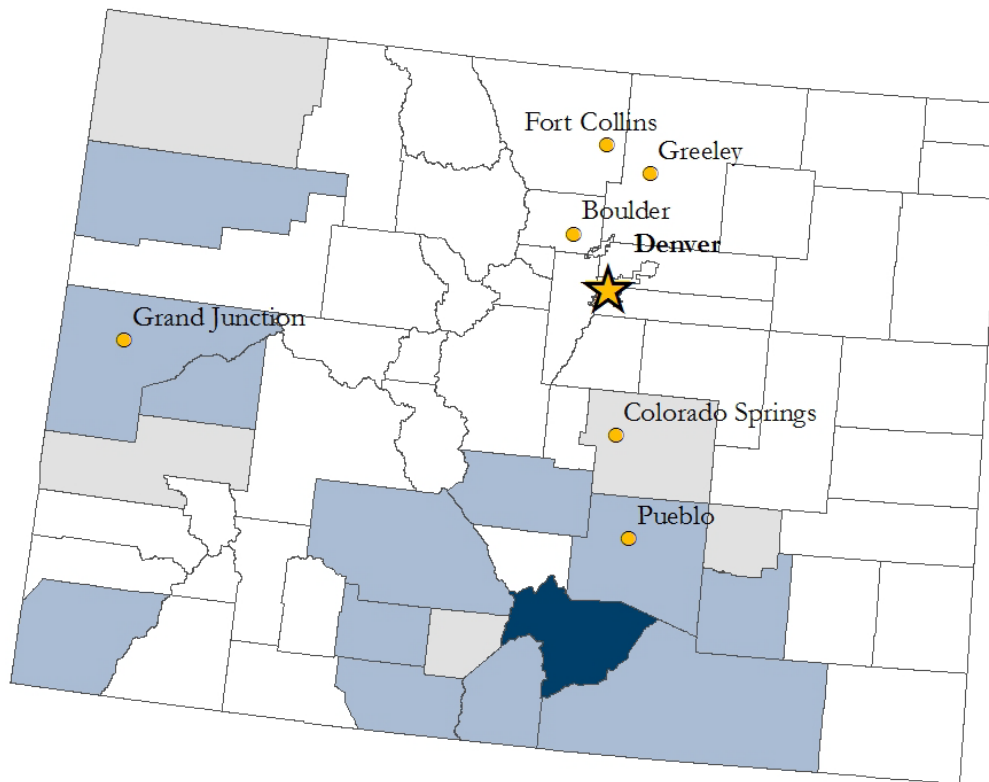
Unemployment rates have trended down across Colorado.



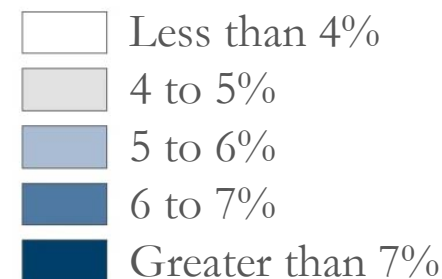
UNEMPLOYMENT RATES

December 2015, Seasonally Adjusted

<i>Unemployment Rate</i>	<i>U-3</i>	<i>U-5*</i>	<i>U-6*</i>
United States	4.9% (<i>Jan. '16</i>)	6.2%	9.9%
Colorado	3.5% (<i>Dec. '15</i>)	4.3%	7.9%



**U-5 and U-6 values are 12-month moving averages as of Q4 2015 for Colorado and are for January, 2016 for the United States.*

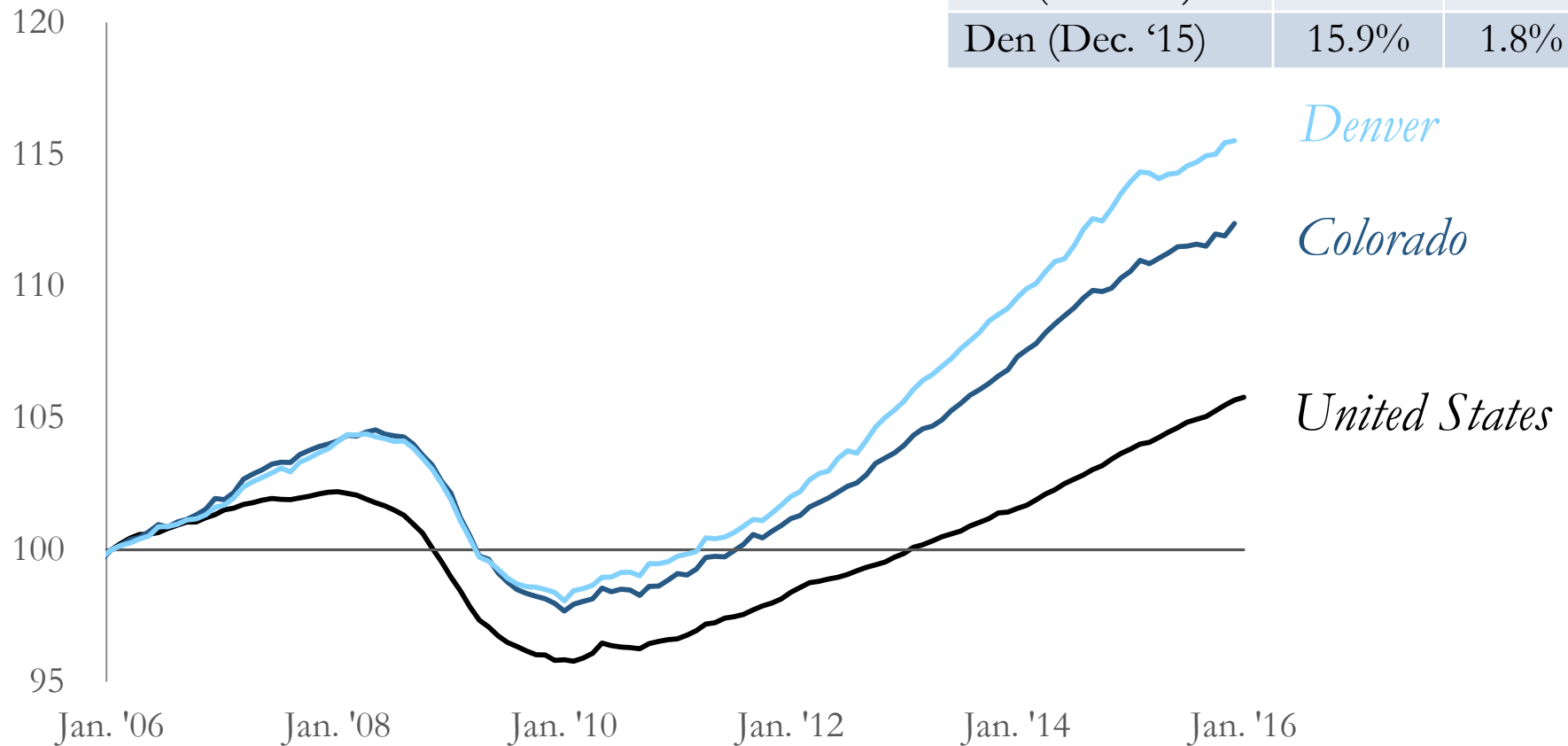


Employment has been increasing in Colorado and the nation for more than six years, with Colorado gains outpacing the nation.

PAYROLL EMPLOYMENT GROWTH

Index 100 = January 2006, Seasonally Adjusted

<i>Percent Change</i>	<i>Past 10 Years</i>	<i>Past Year</i>
U.S. (Jan. '16)	5.8%	1.9%
CO (Dec. '15)	12.8%	1.9%
Den (Dec. '15)	15.9%	1.8%

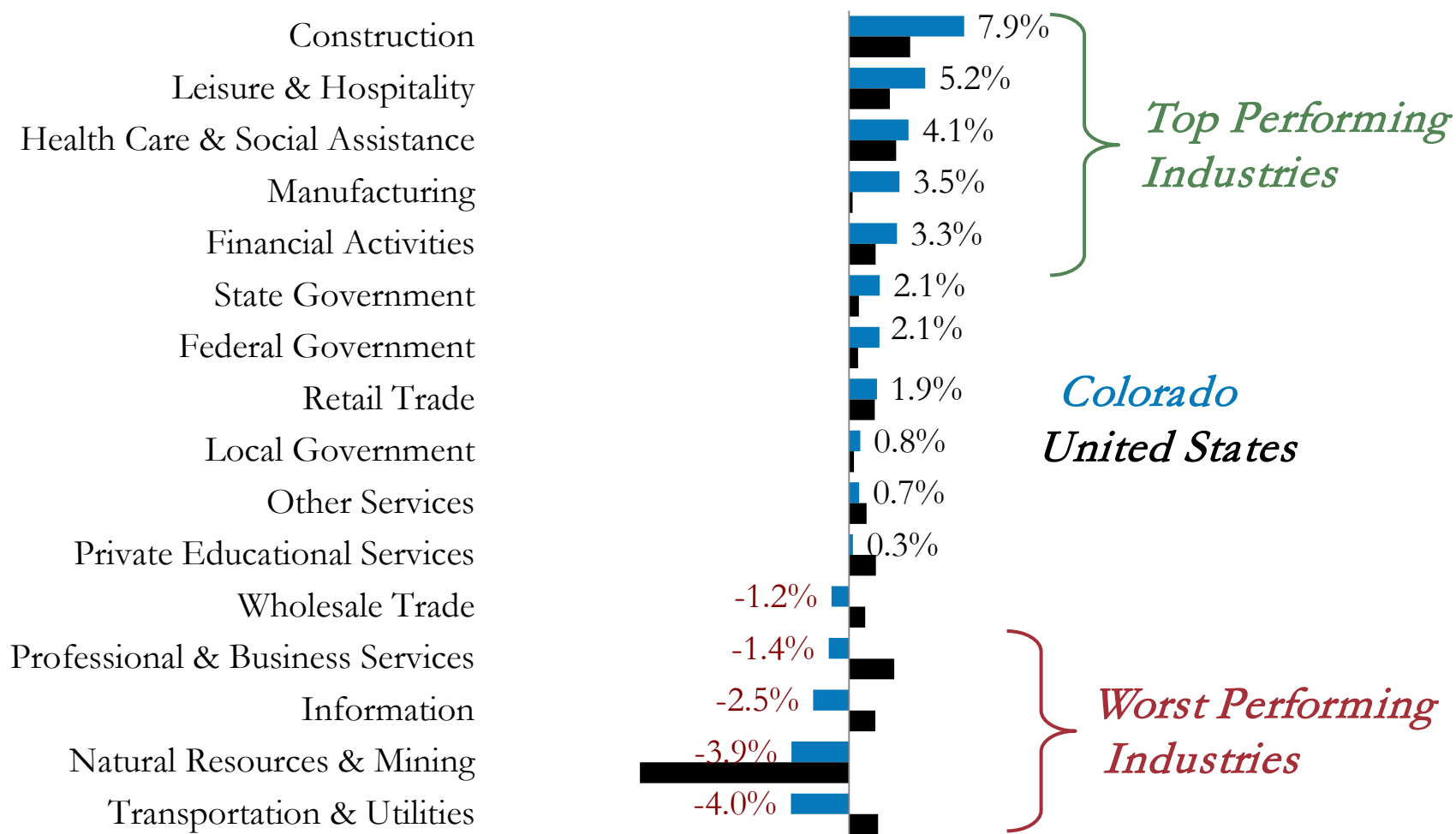


The majority of industries in Colorado have added jobs over the past year, but the slowdown in the energy sector is having an effect on related industries.

CHANGE IN PAYROLL EMPLOYMENT, DECEMBER 2015

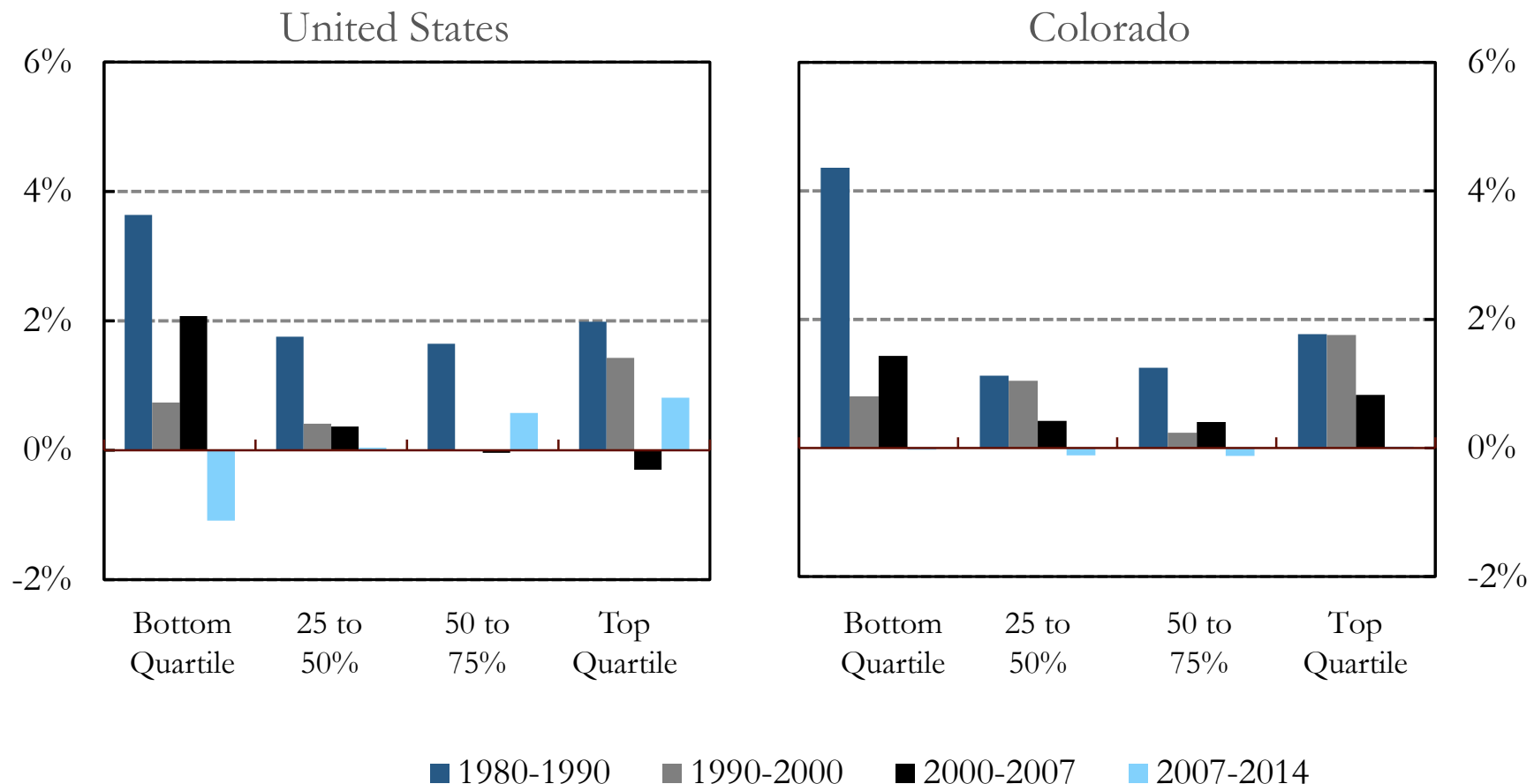
Seasonally Adjusted

Percent Change Year-over-Year



Despite strong employment growth in Colorado, income growth has been sluggish during the recent recession and recovery.

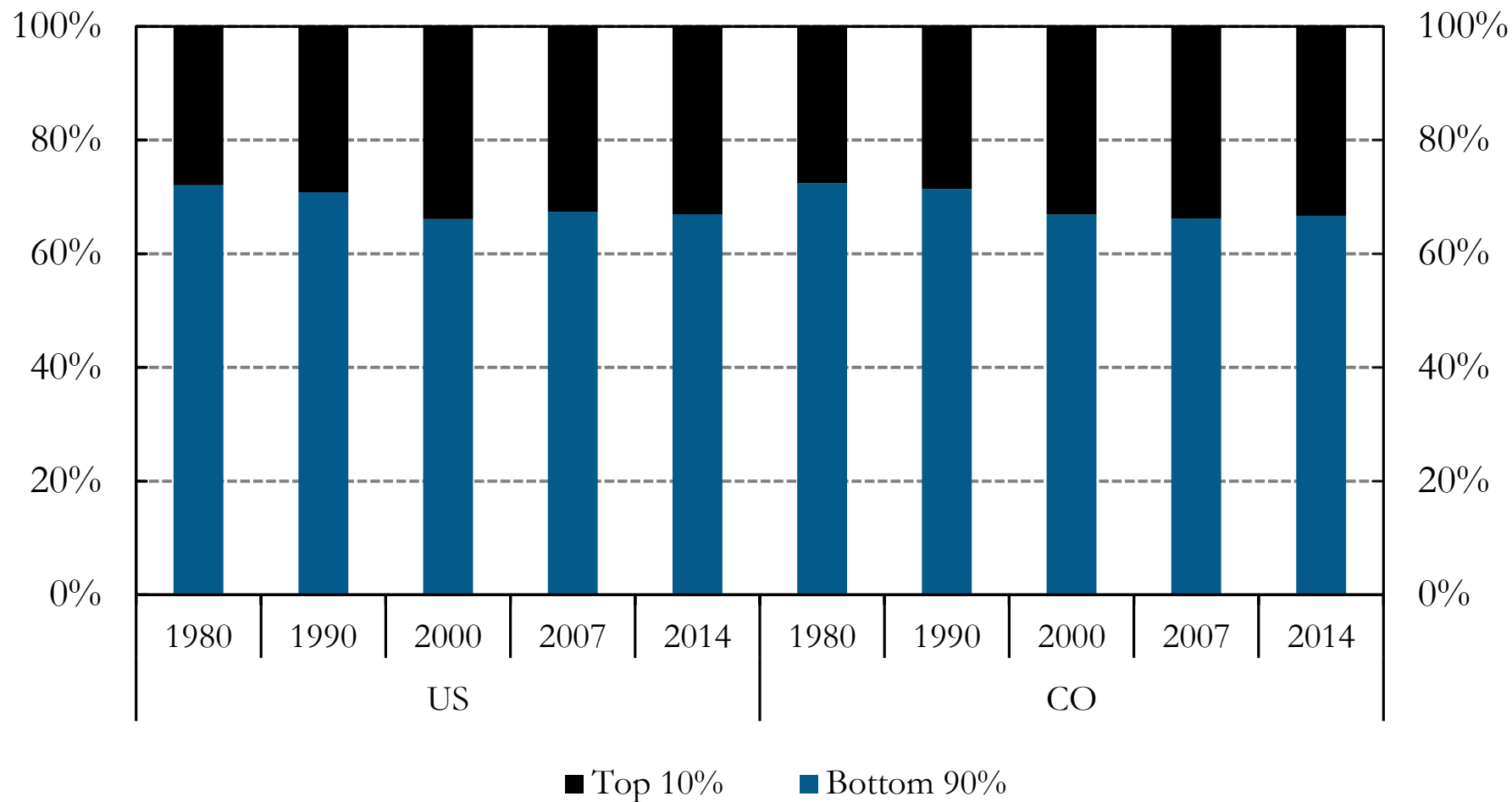
REAL AVERAGE ANNUAL INCOME GROWTH BY TIME PERIOD AND INCOME QUARTILE



In Colorado, the share of income earned by the top 10 percent has remained fairly steady since 2000.



SHARE OF TOTAL INCOME CONCENTRATED AMONG THE TOP 10 PERCENT

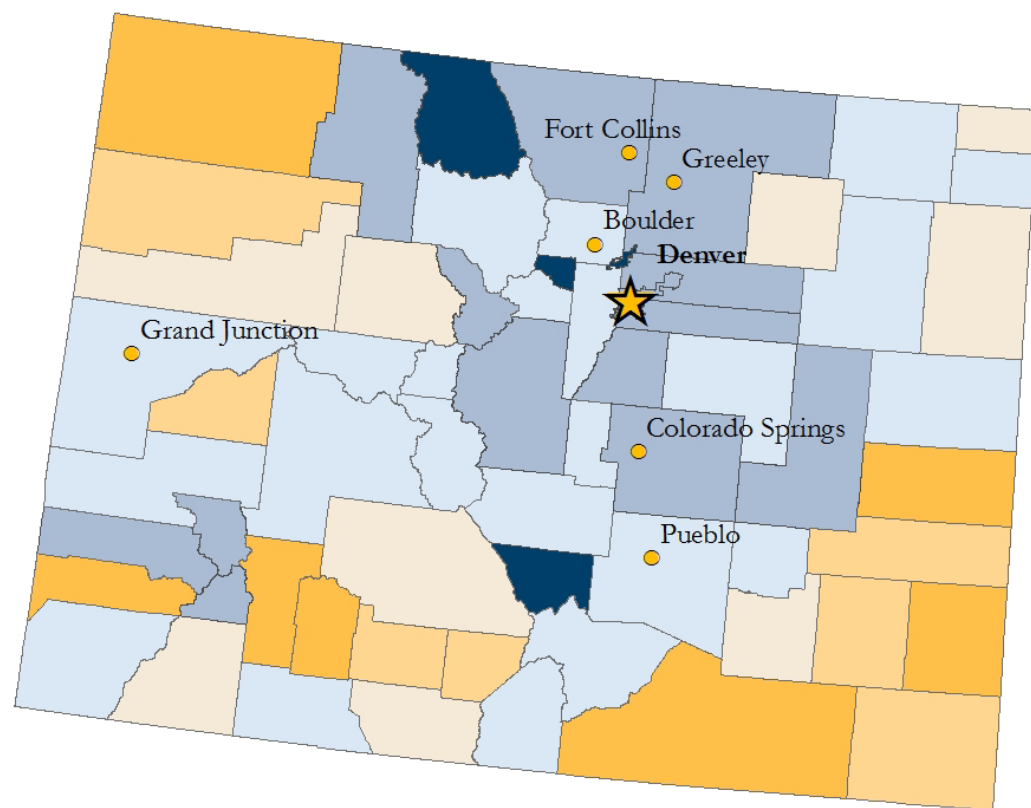


Parts of Colorado continue to experience strong population growth and net in-migration.

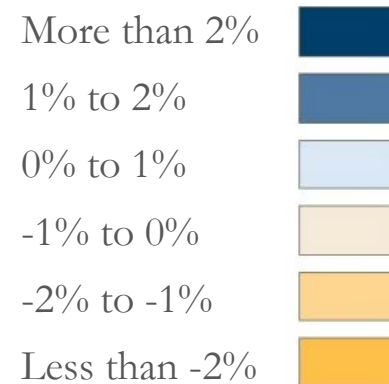


NET MIGRATION

Total 2014 Net Migration as a Percentage of 2014 Population



<i>Annual Percent Change</i>	<i>2015</i>
United States	0.4%
Colorado	1.2%

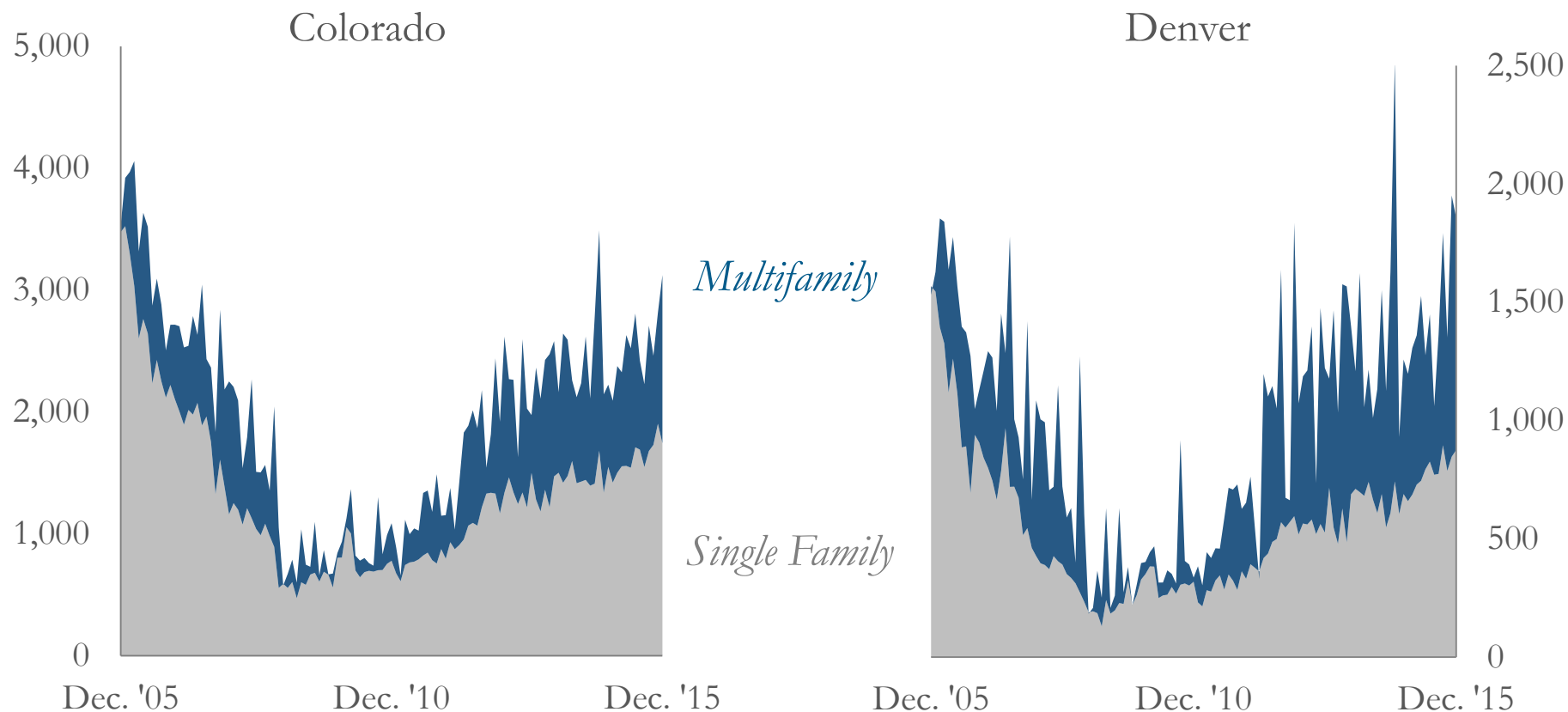


Residential construction activity has been increasing for more than six years, led by strong gains in multifamily building.



RESIDENTIAL PERMITS

Seasonally Adjusted



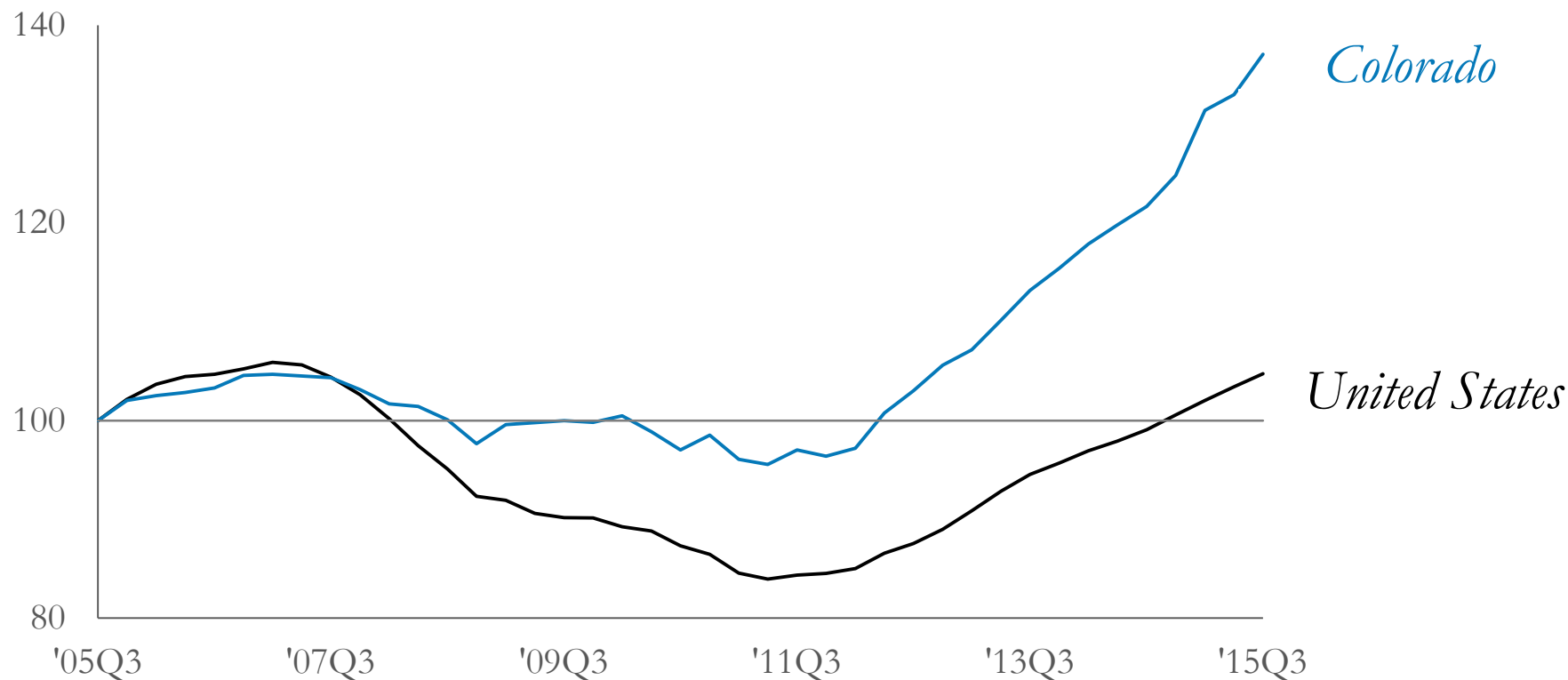
Colorado has experienced some of the fastest home price appreciation in the nation.



FHFA PURCHASE-ONLY HOME PRICE INDEX

Index 100 = 2005:Q3, Seasonally Adjusted

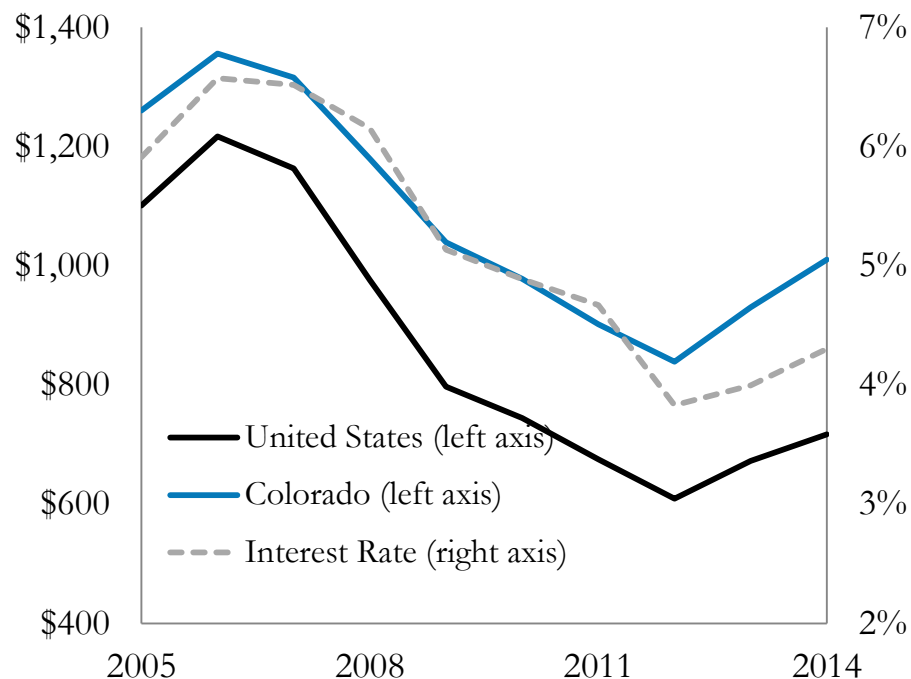
<i>Percent Change</i>	<i>Year-Over-Year</i>	<i>2007:Q1 to Current</i>
United States	5.7%	-1.1%
Colorado	12.7%	30.9%



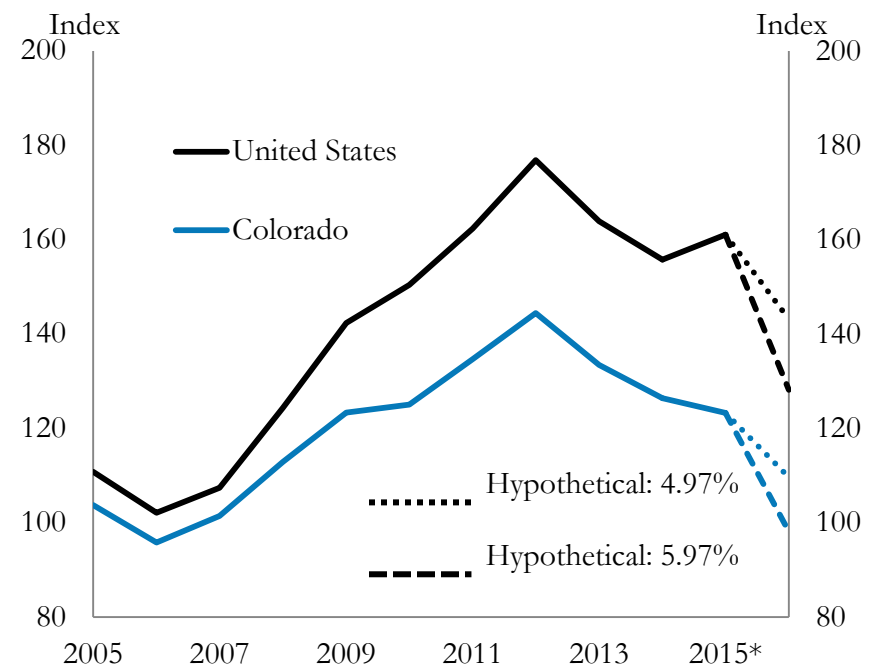
After increasing during the recent recession, housing affordability has declined over the past few years in Colorado.

REAL MONTHLY HOUSING PAYMENTS AND INTEREST RATES

2014 Dollars



HOUSING AFFORDABILITY INDEX

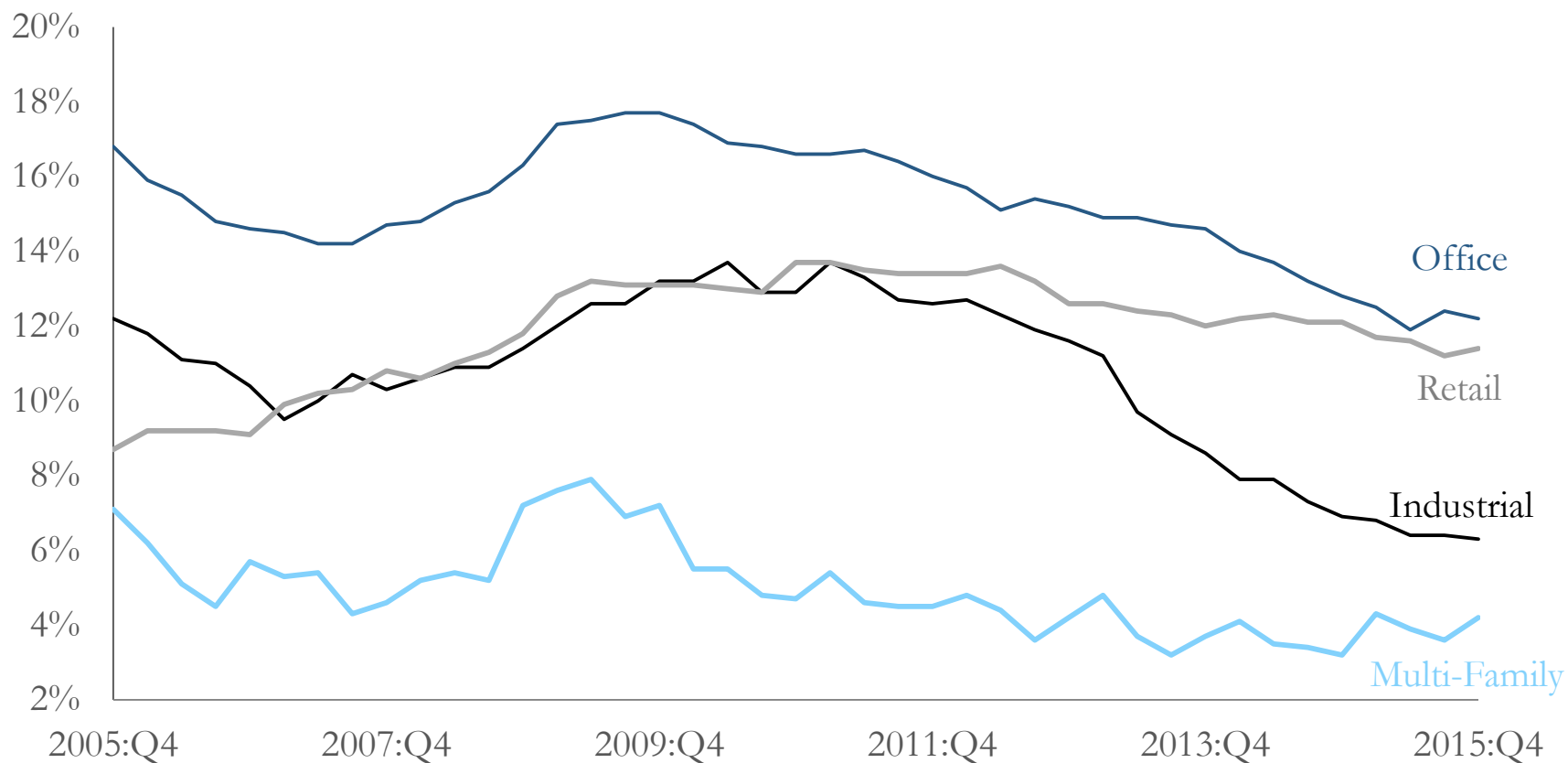


*Note: 2015 values estimated using FHFA Purchase Only Home Price Index and BEA Personal Income Growth for 2015.

Vacancy rates are low across the Denver metro, with office and industrial vacancies below pre-recession levels.



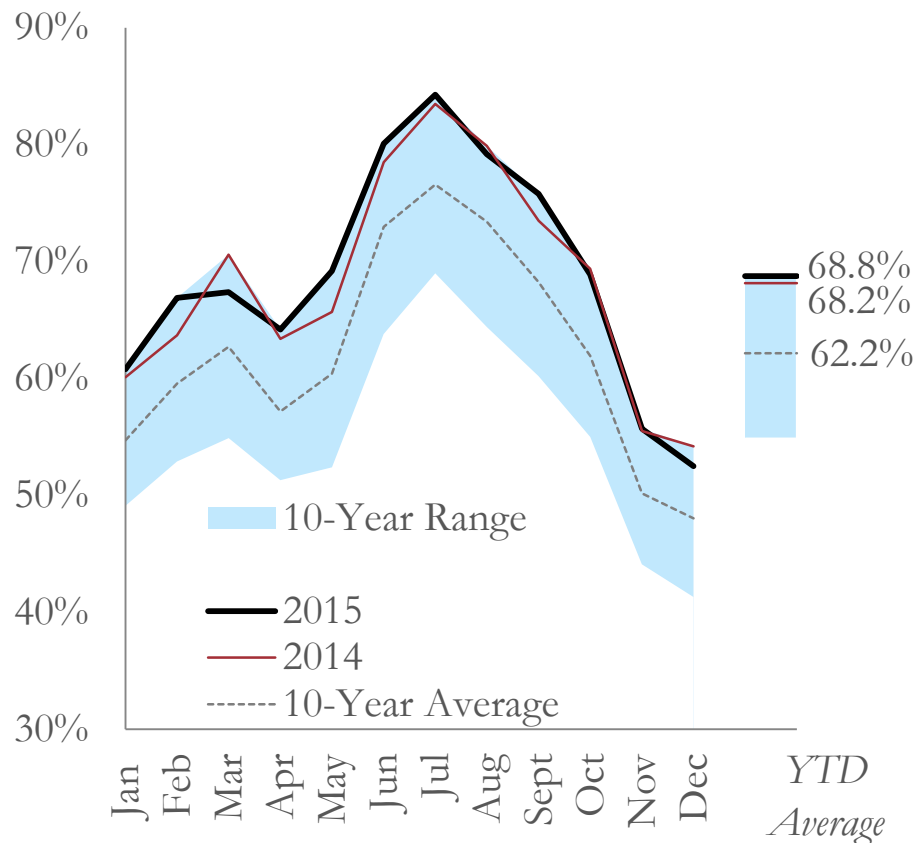
DENVER COMMERCIAL VACANCY RATES



Tourism activity has picked up in Colorado over the past two years.

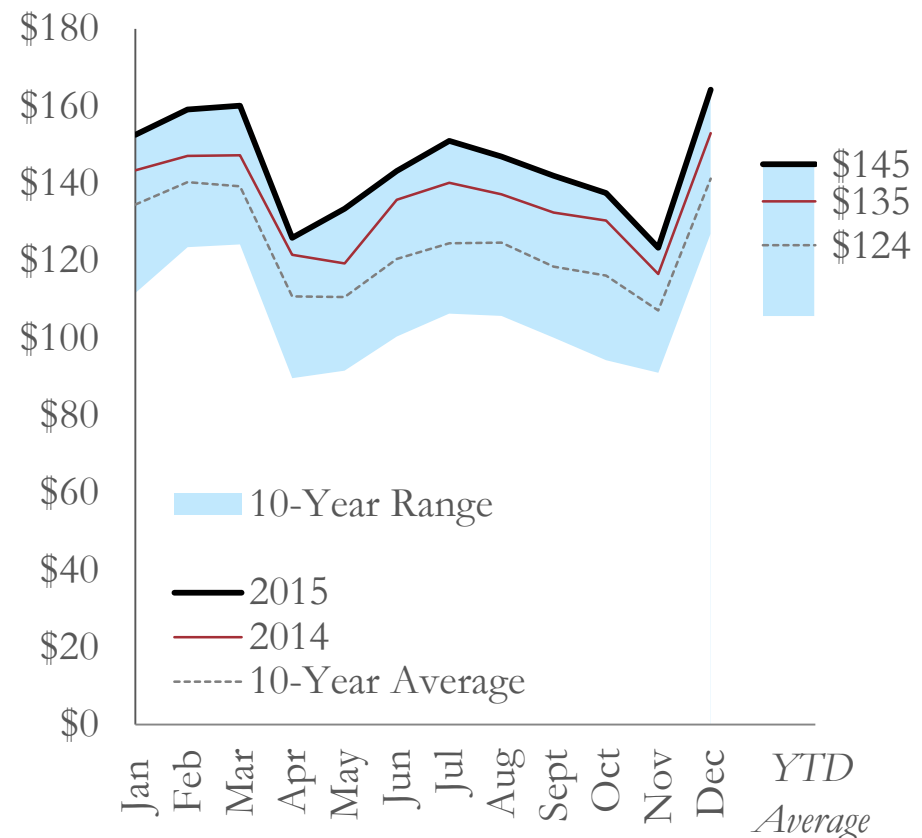
HOTEL OCCUPANCY RATES

Colorado



REAL HOTEL ROOM RATES

Colorado, January, 1999 Dollars

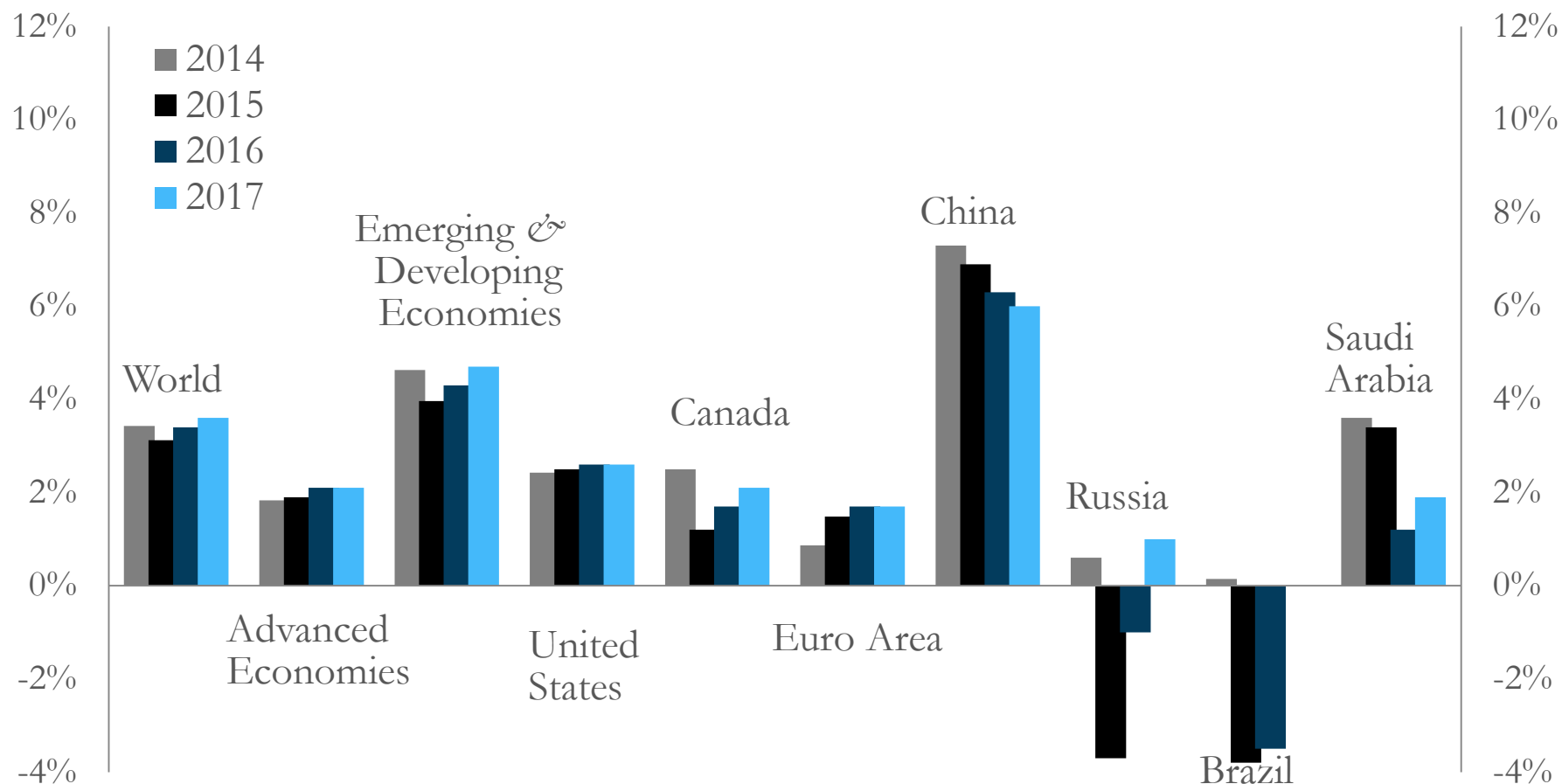


Global growth slowed in 2015, with weakness in China and energy-dependent countries.



WORLD ECONOMIC OUTLOOK PROJECTIONS

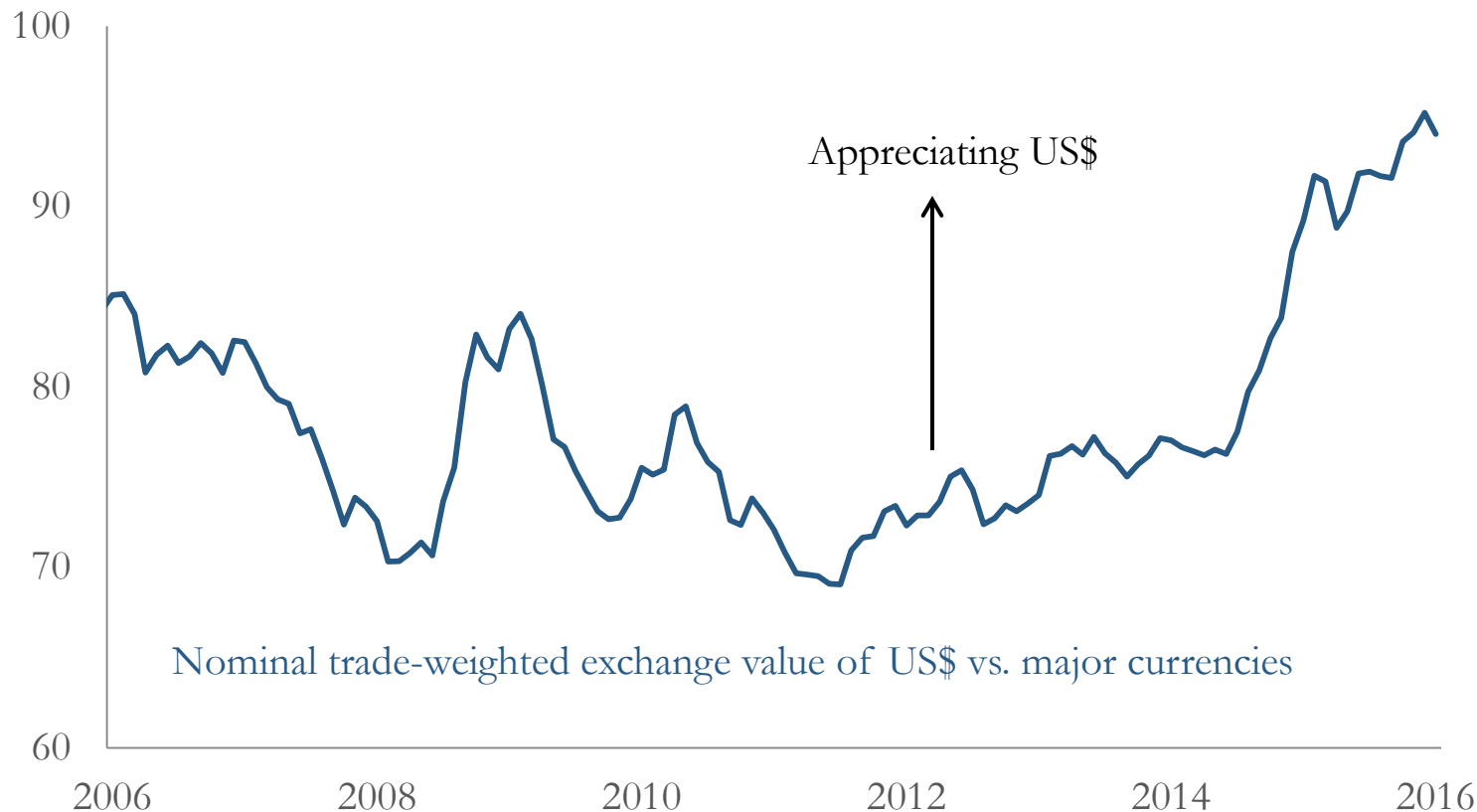
Percent Change over Prior Year



The dollar has strengthened considerably compared to the exchange value of other major currencies.

FOREIGN EXCHANGE VALUE OF THE DOLLAR

Index

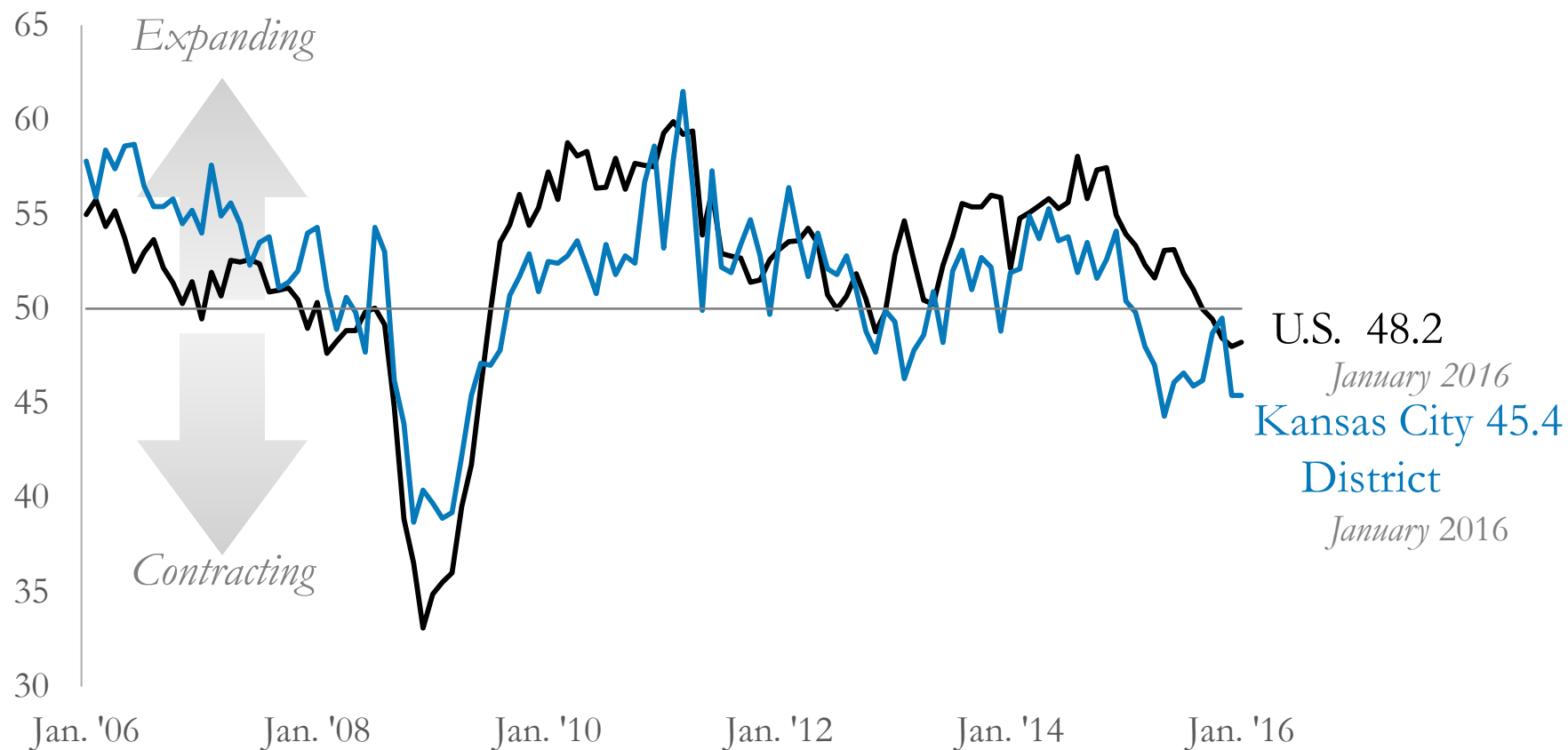


Manufacturing activity has slowed in the region due in part to a weak energy sector and a strong dollar.



MANUFACTURING ACTIVITY

Diffusion Index, Seasonally Adjusted, Month-over-Month



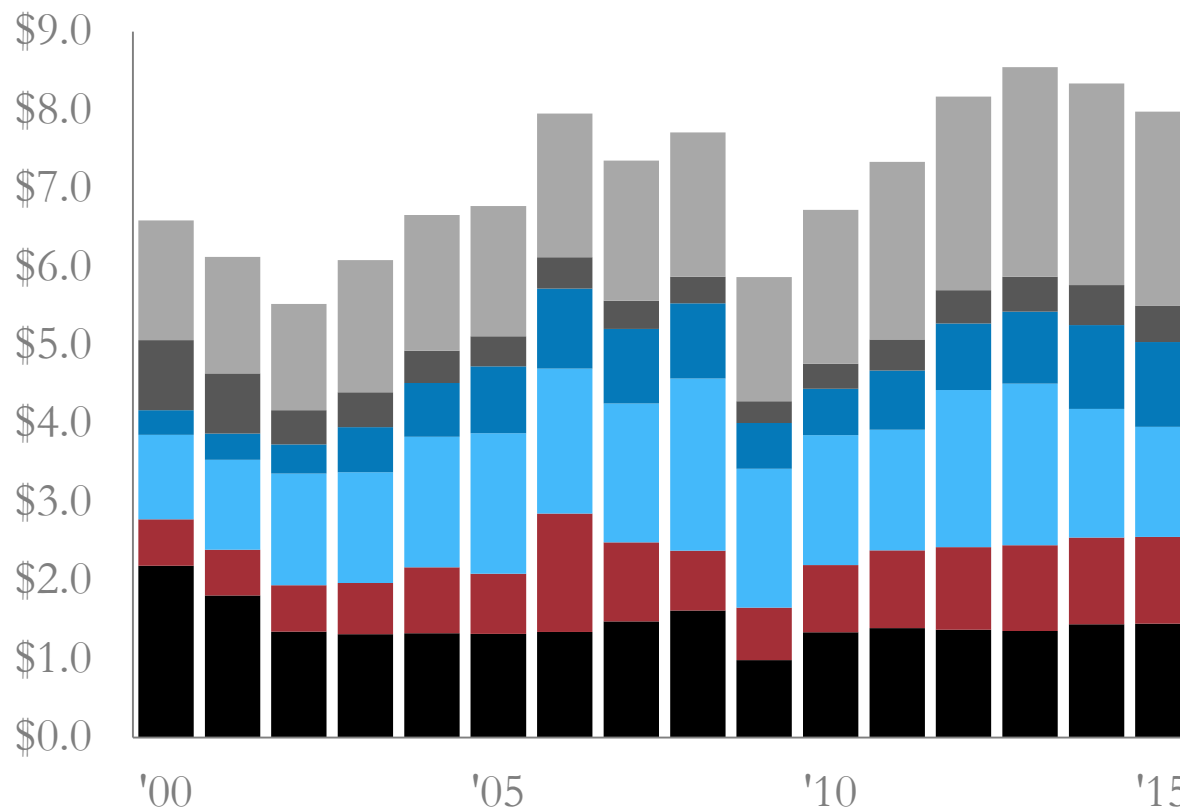
Colorado export activity has slowed slightly over the past two years, weighed down by weak global economies and a stronger U.S. dollar.

COLORADO EXPORTS BY TRADING PARTNER

Billions

2015

Percent Change

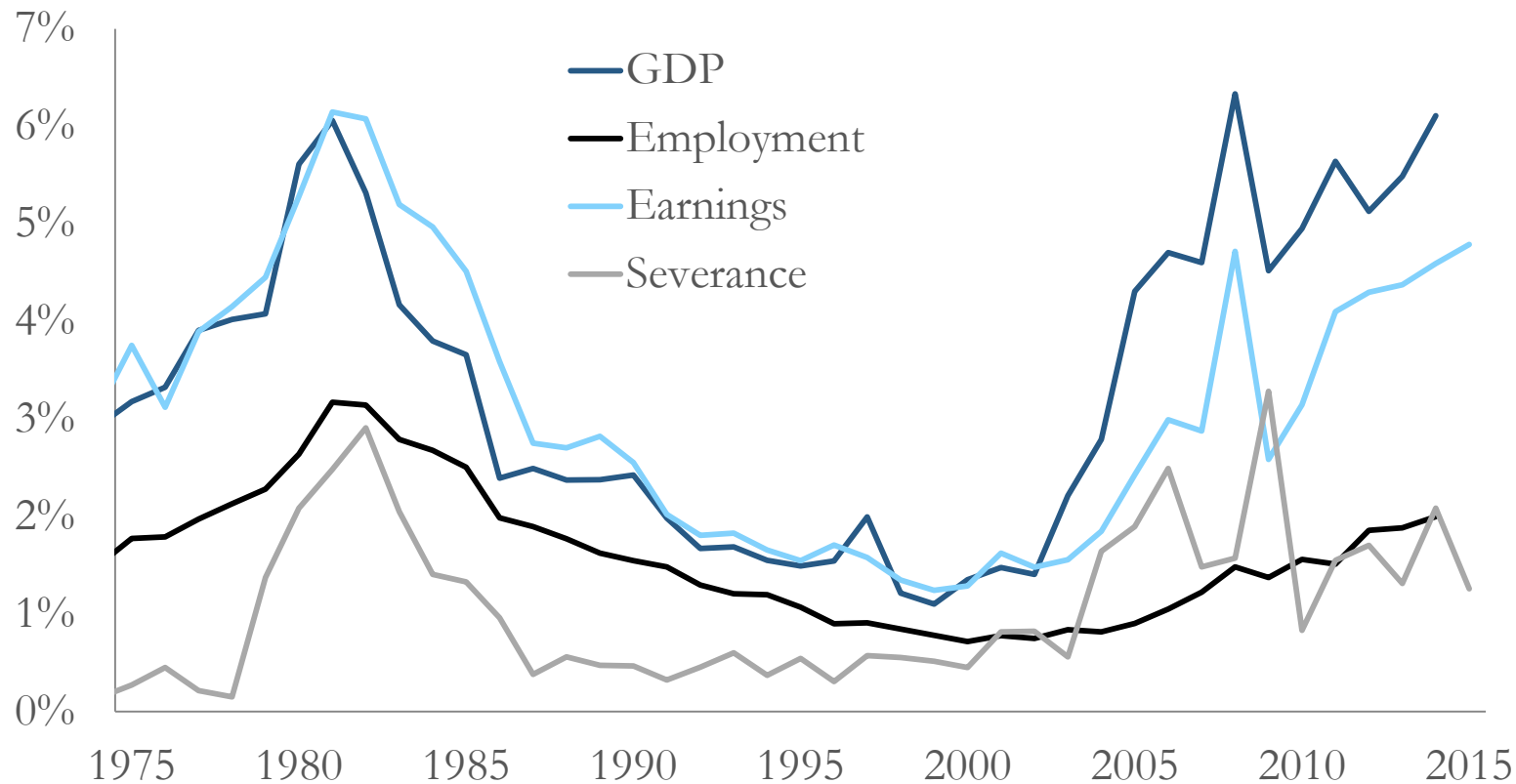


Total Trade	-4.3%	SHARE
All Other	-3.9	31.0%
Japan	-8.4	5.8
Mexico	1.0	13.5
Canada	-14.5	17.6
China	0.0	13.9
Eurozone	0.7	18.2

The energy sector remains a key industry for the Colorado economy.

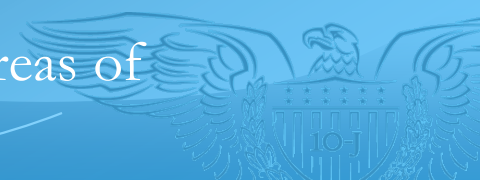
COLORADO MINING'S SHARE OF THE ECONOMY

2nd Quarter 2015 Average



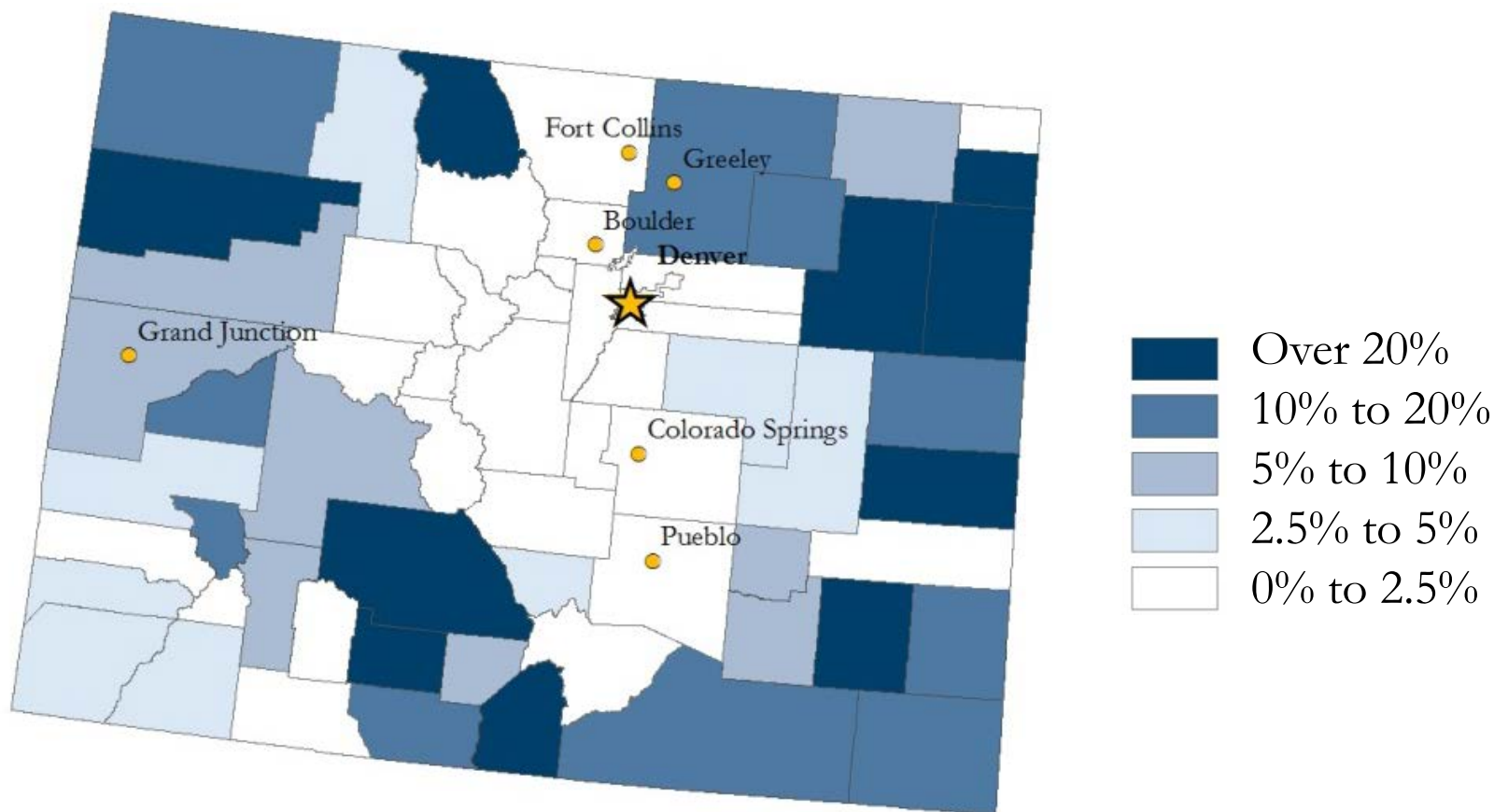
Note: Severance tax and earnings for 2015 are the average of Q1-Q3 for 2015

The downturn in the energy sector is likely to affect some areas of Colorado more than others.



NATURAL RESOURCES AND MINING'S SHARE OF TOTAL EMPLOYMENT

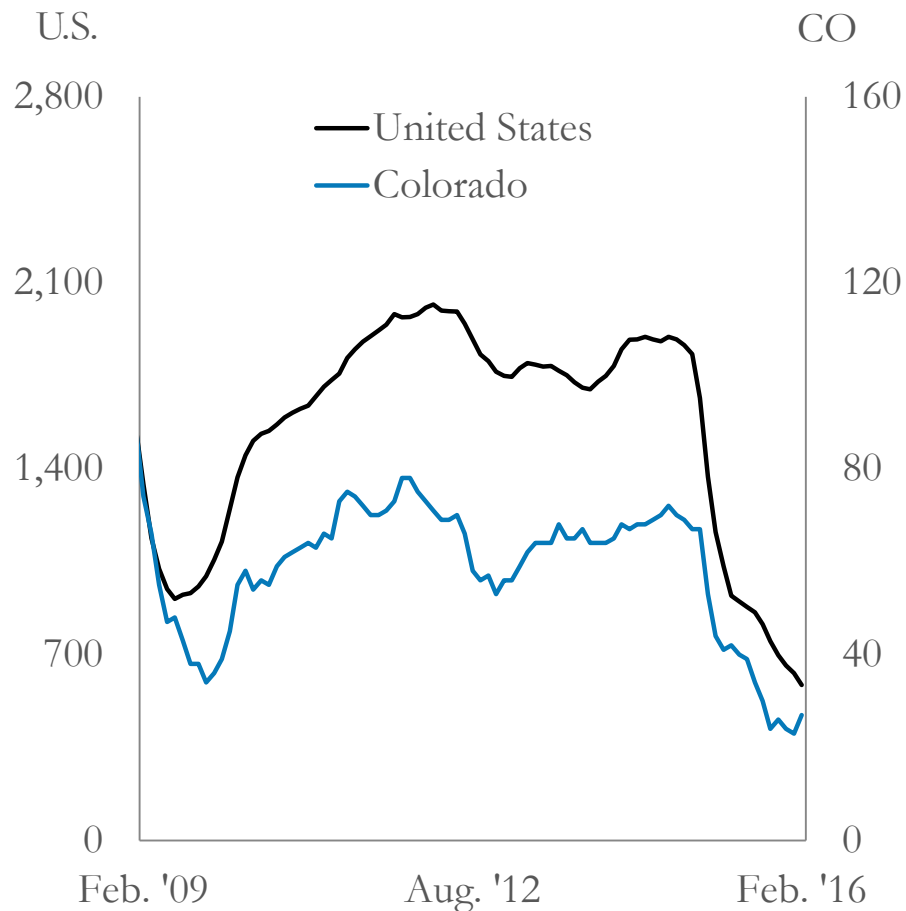
Average Share in 2nd Quarter 2015



Energy activity has declined substantially in Colorado and the nation.

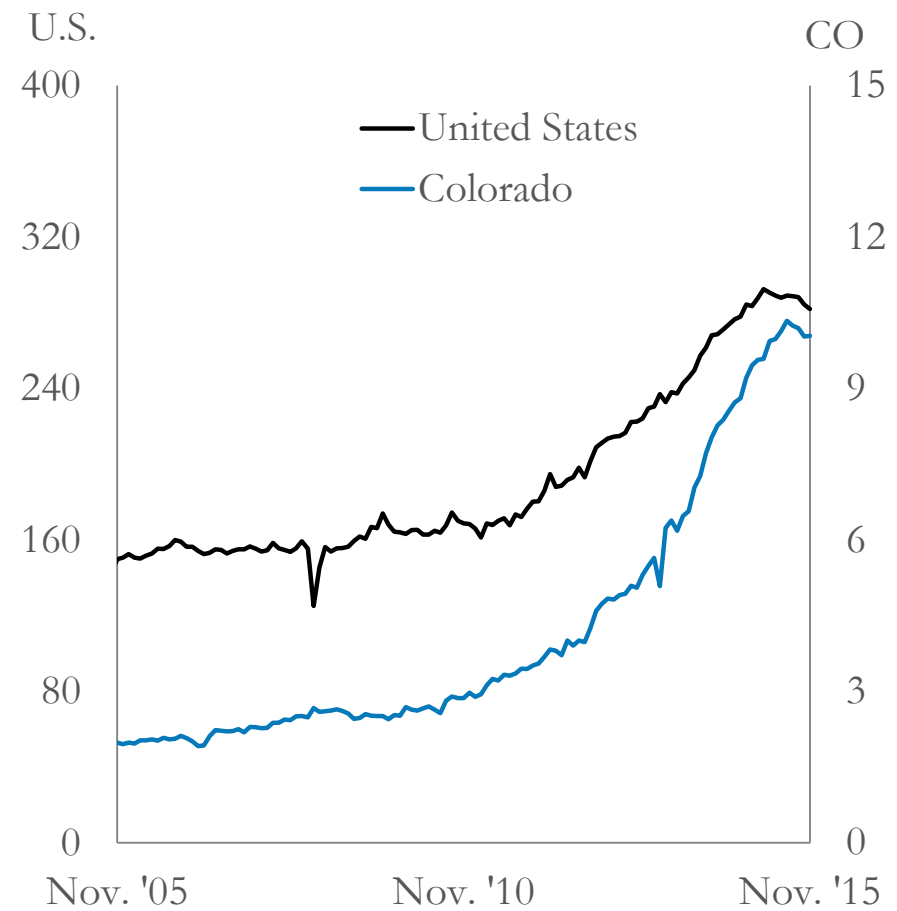


TOTAL RIG COUNT



CRUDE OIL PRODUCTION

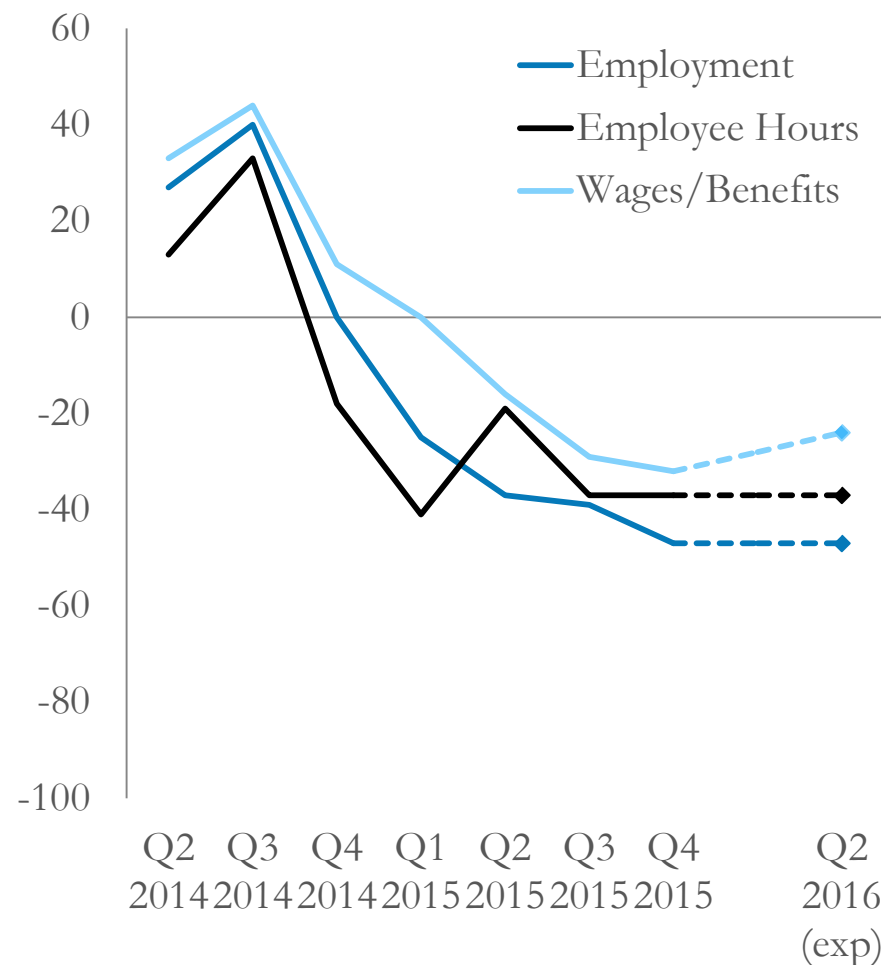
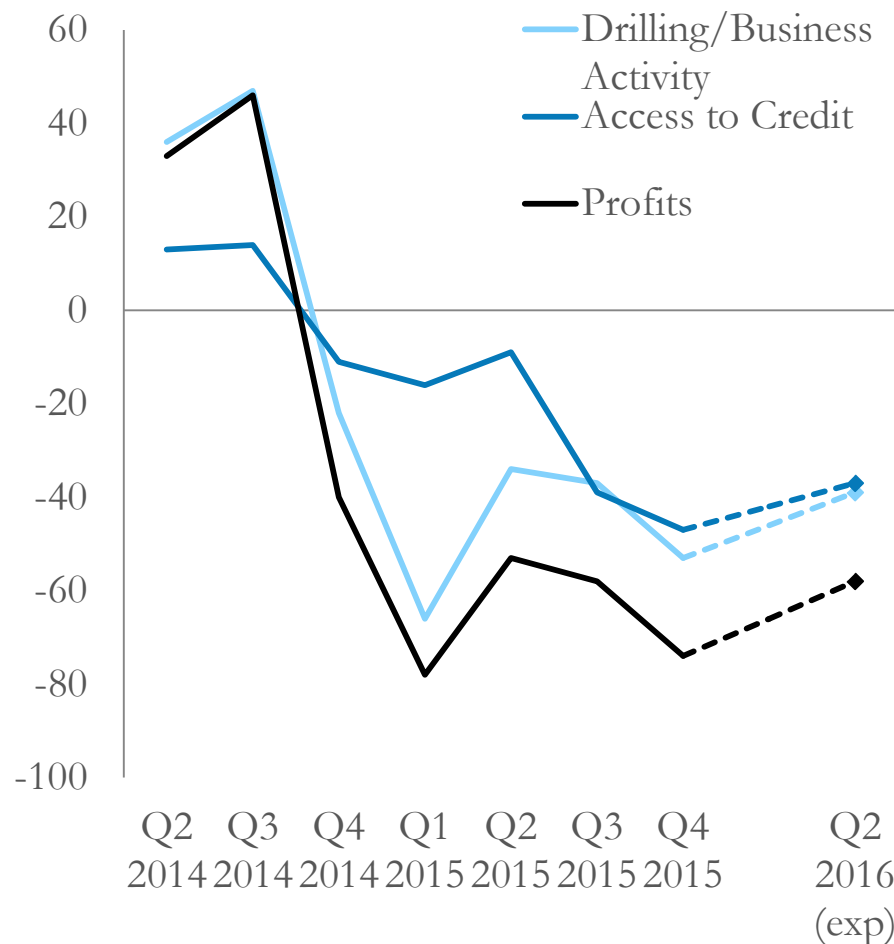
*Millions of Barrels, Monthly,
Seasonally Adjusted*



After sharp declines in activity in 2015, energy contacts expect additional decreases in activity over the next six months.

FRBKC ENERGY SURVEY

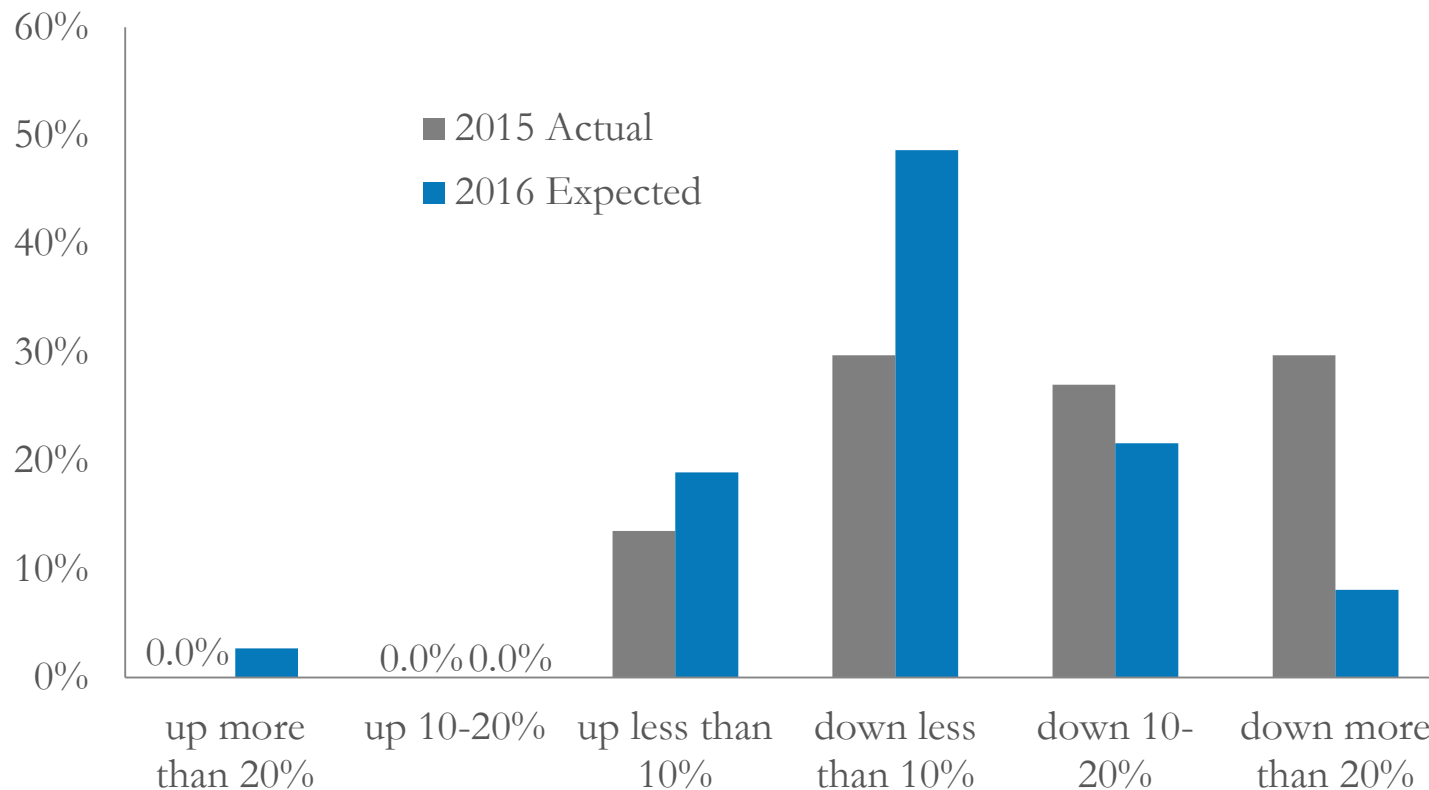
Quarterly Diffusion Indexes



Most energy contacts expect additional layoffs in 2016, but the magnitude of layoffs this year is expected to be lower than in 2015.

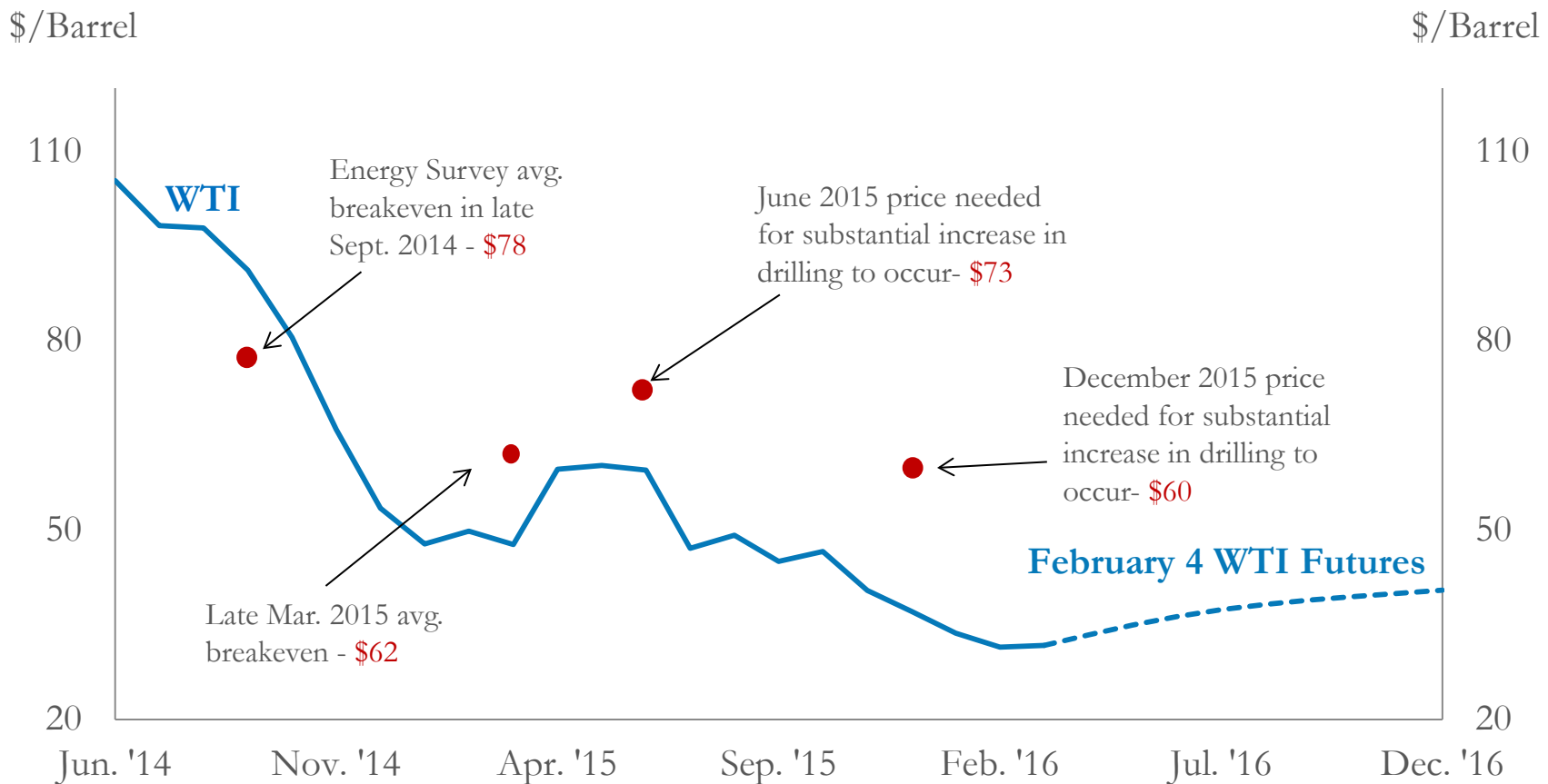
CHANGE IN ENERGY EMPLOYMENT - FRBKC ENERGY SURVEY

Percent of Total Responses



Breakeven oil prices have fallen as productivity rises and costs decline, but oil prices remain well below the levels needed for a substantial increase in drilling.

REPORTED BREAKEVEN OIL PRICES AND WTI EXPECTATIONS



For additional information on the regional economy:

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

Speeches:

<https://www.kansascityfed.org/speeches>

Rocky Mountain Economist:

<https://www.kansascityfed.org/en/publications/research/rme/>

Regional Databooks:

<https://www.kansascityfed.org/research/indicatorsdata/regionaldatabook>

Kansas City Energy Survey:

<https://www.kansascityfed.org/research/indicatorsdata/energy>

Kansas City Ag Credit Survey Survey:

<https://www.kansascityfed.org/research/indicatorsdata/agcreditsurvey>

