

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.



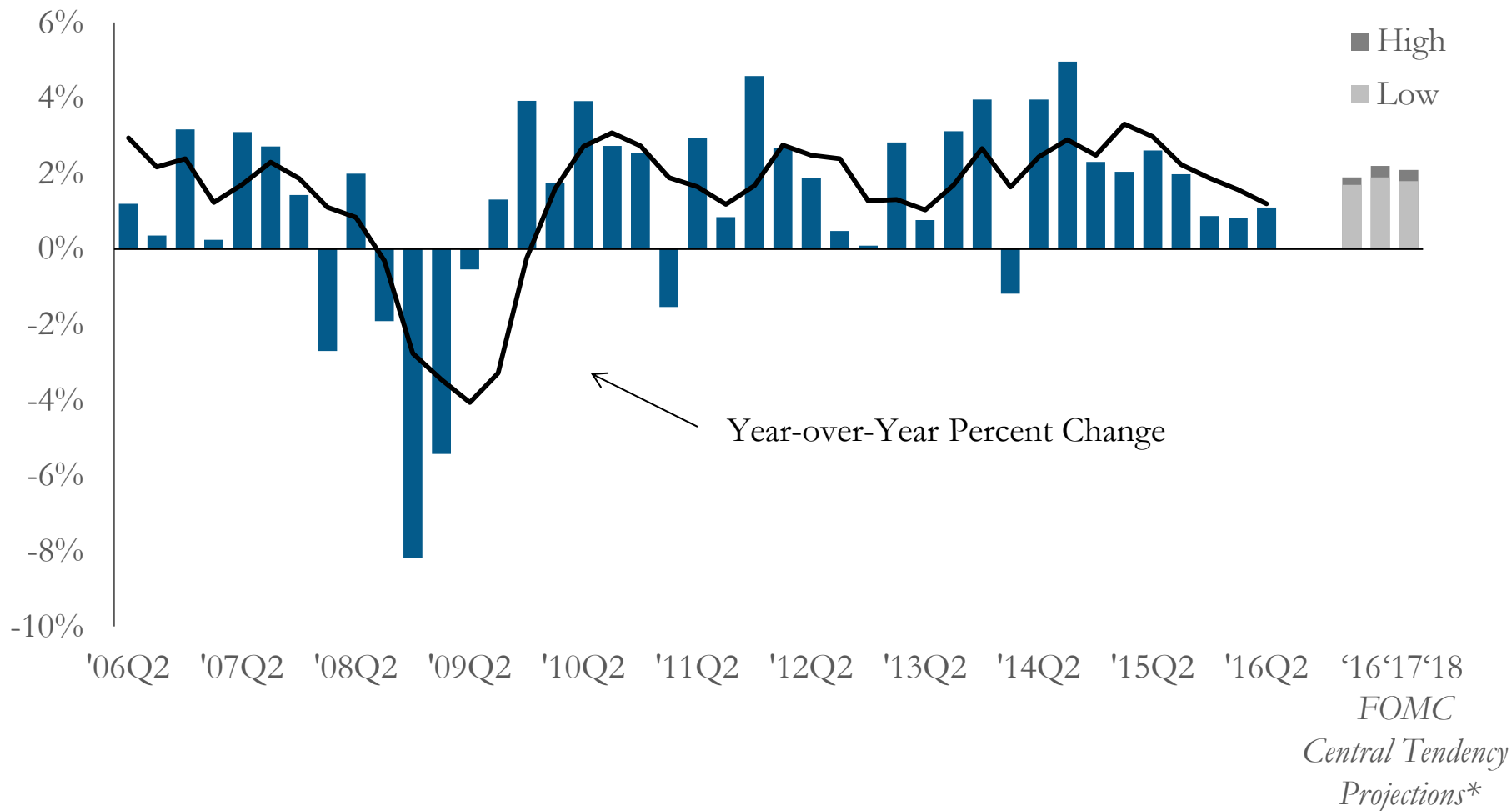


- Functions
 - Regional research and policy support covering the economies of Colorado, New Mexico and Wyoming
 - Economic, financial education, and community development outreach
 - Examinations of Colorado, Wyoming and northern New Mexico financial institutions
 - Cash processing and distribution
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

Despite a weak first half, the U.S. economy is expected to expand at a moderate pace in the second half of 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

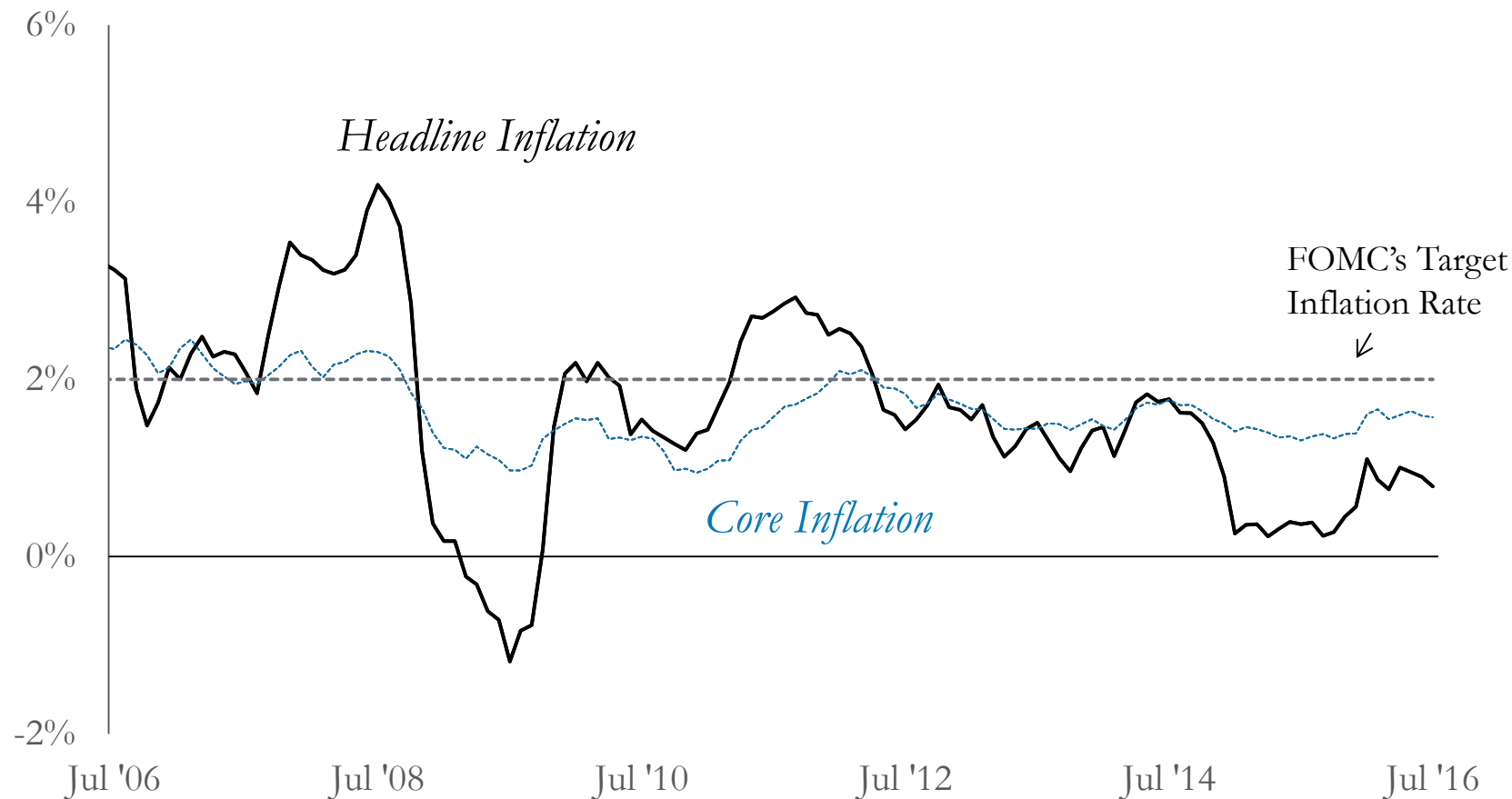
*Projections as of September FOMC meeting

Inflation has picked up in 2016 and is expected to move toward the FOMC's two percent target over the next couple of years.



PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX (PCEPI)

Percent Change Year-over-Year

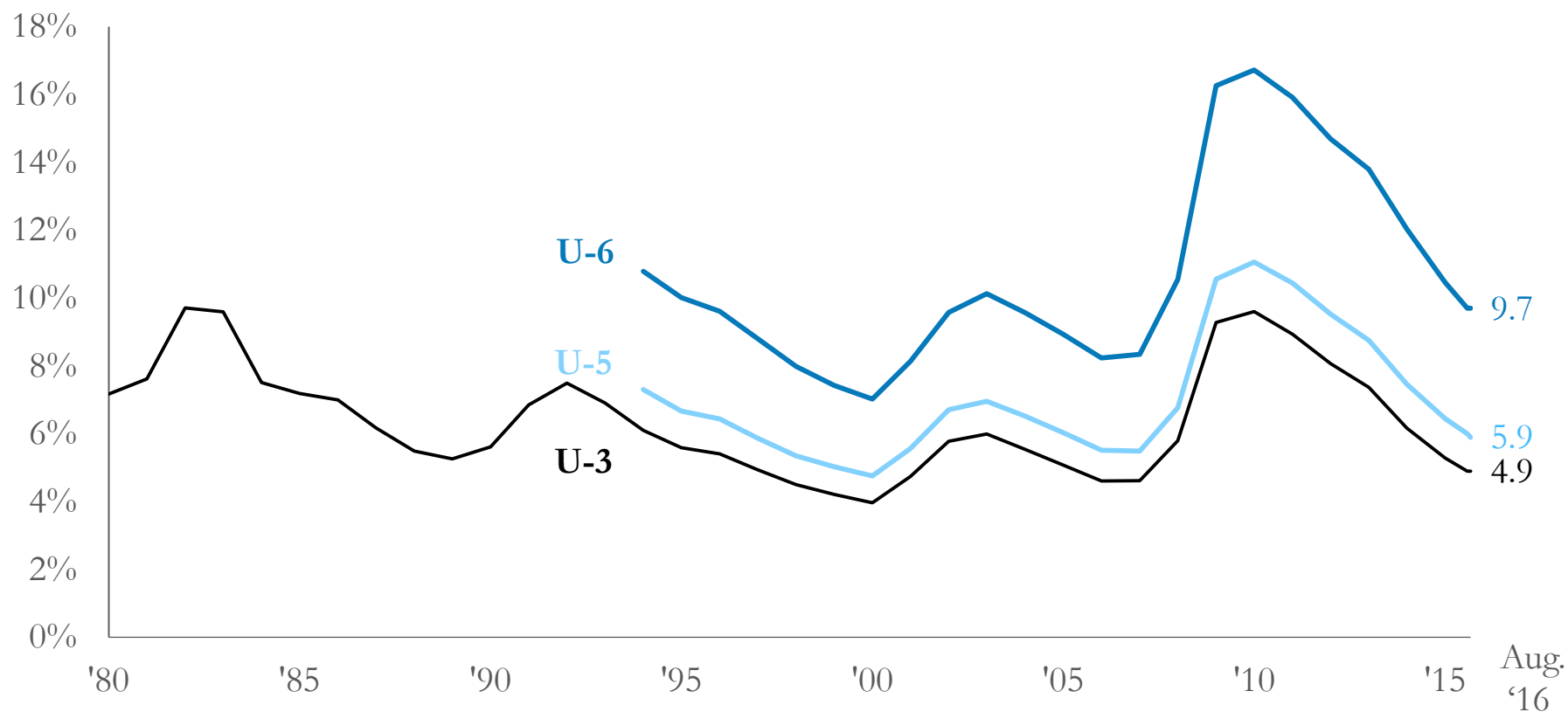


Measures of unemployment and under-employment have declined steadily over the past five years.



U. S. UNEMPLOYMENT AND UNDER-EMPLOYMENT RATES

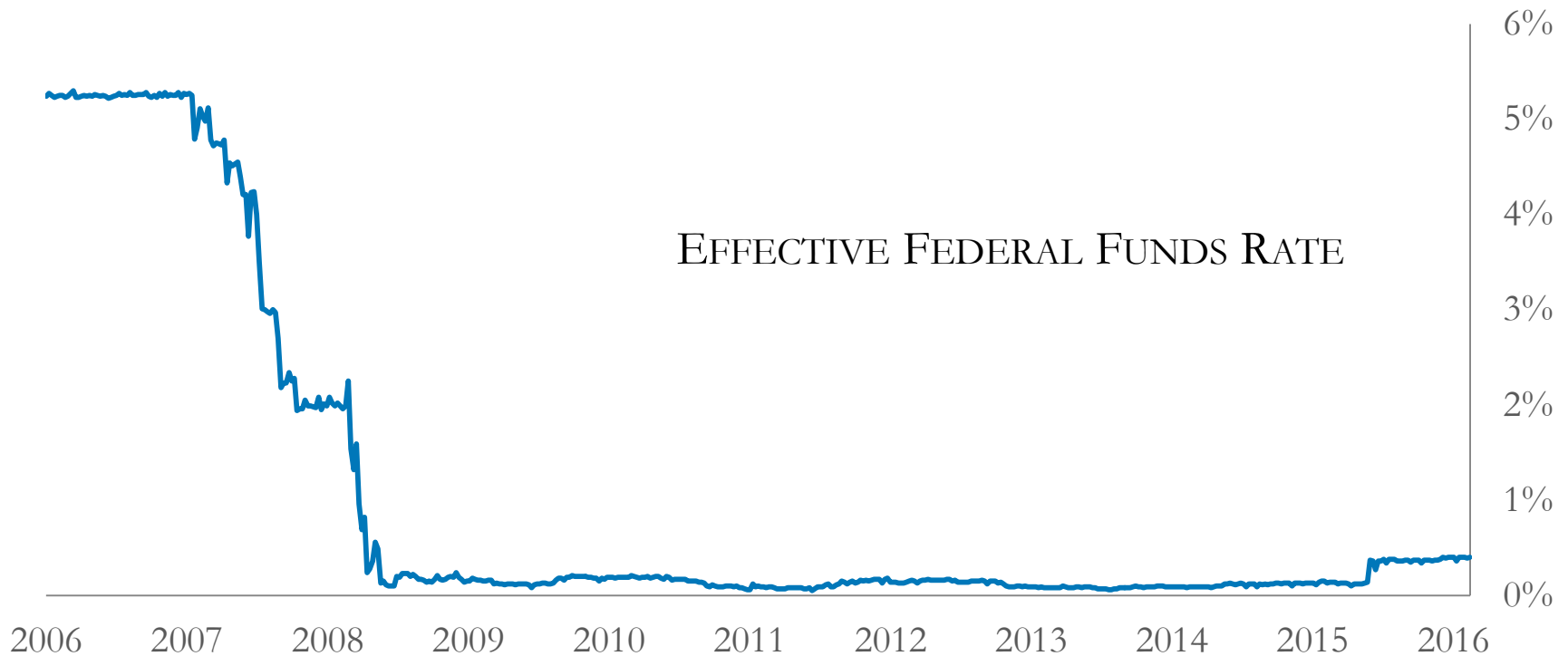
Seasonally Adjusted





“...the Committee decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent. The Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.”

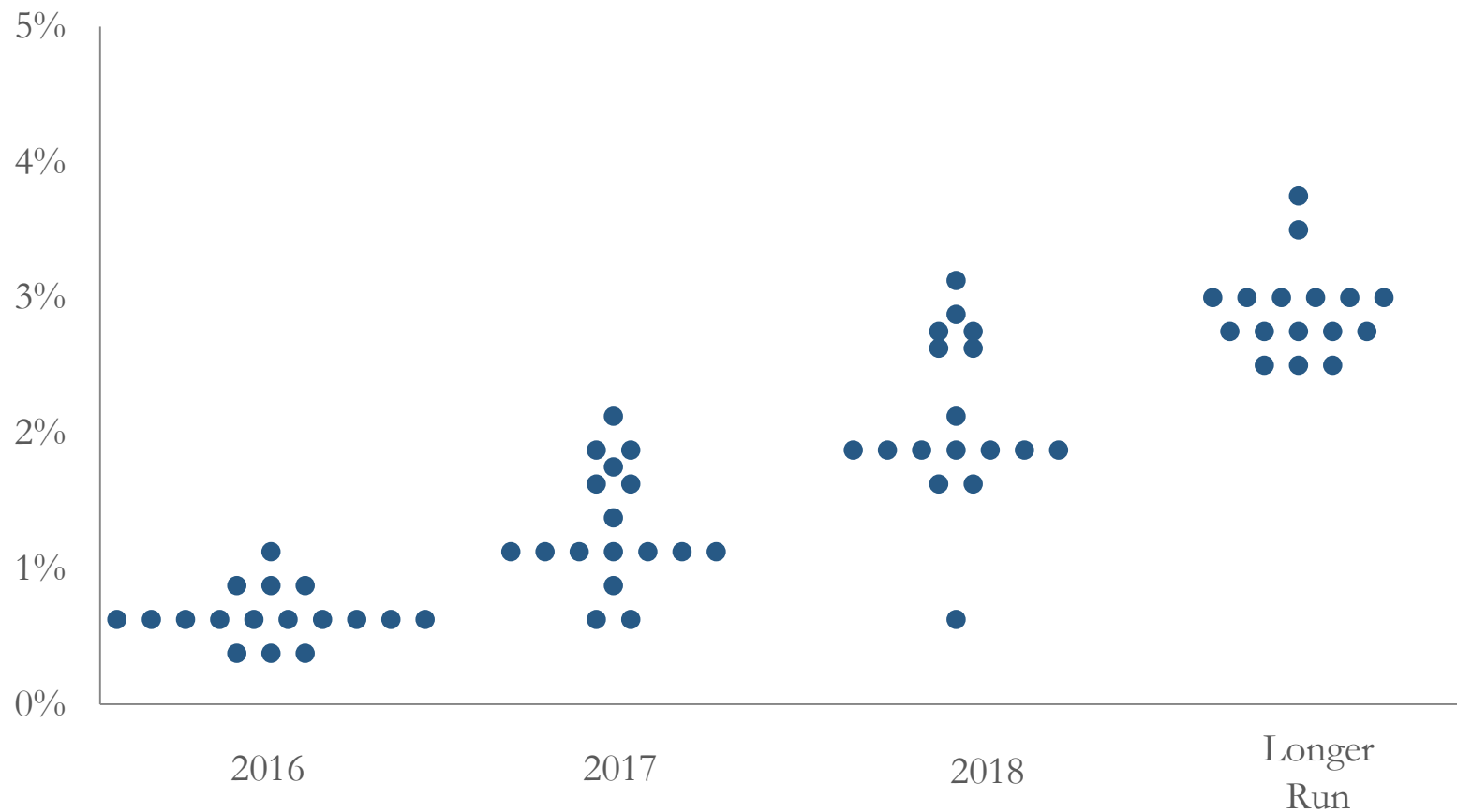
- September 2016 FOMC Statement



Most FOMC members expect 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 – September FOMC Meeting



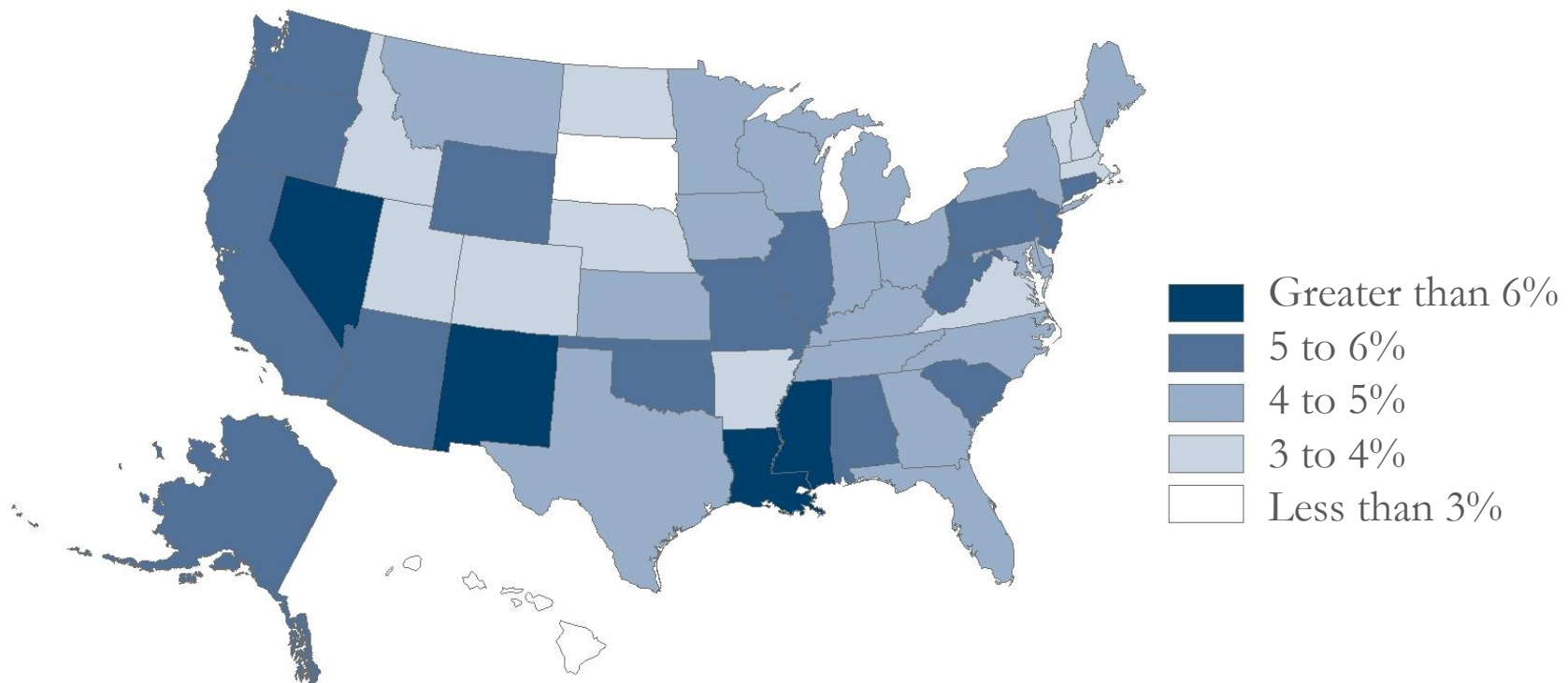
Unemployment rates have trended down across most of the nation.

UNEMPLOYMENT RATES

August 2016, Seasonally Adjusted

<i>Unemployment Rate</i>	<i>U-3</i>	<i>U-5*</i>	<i>U-6*</i>
United States	4.9%	5.9%	9.7%
Colorado	3.8%	4.0%	7.3%

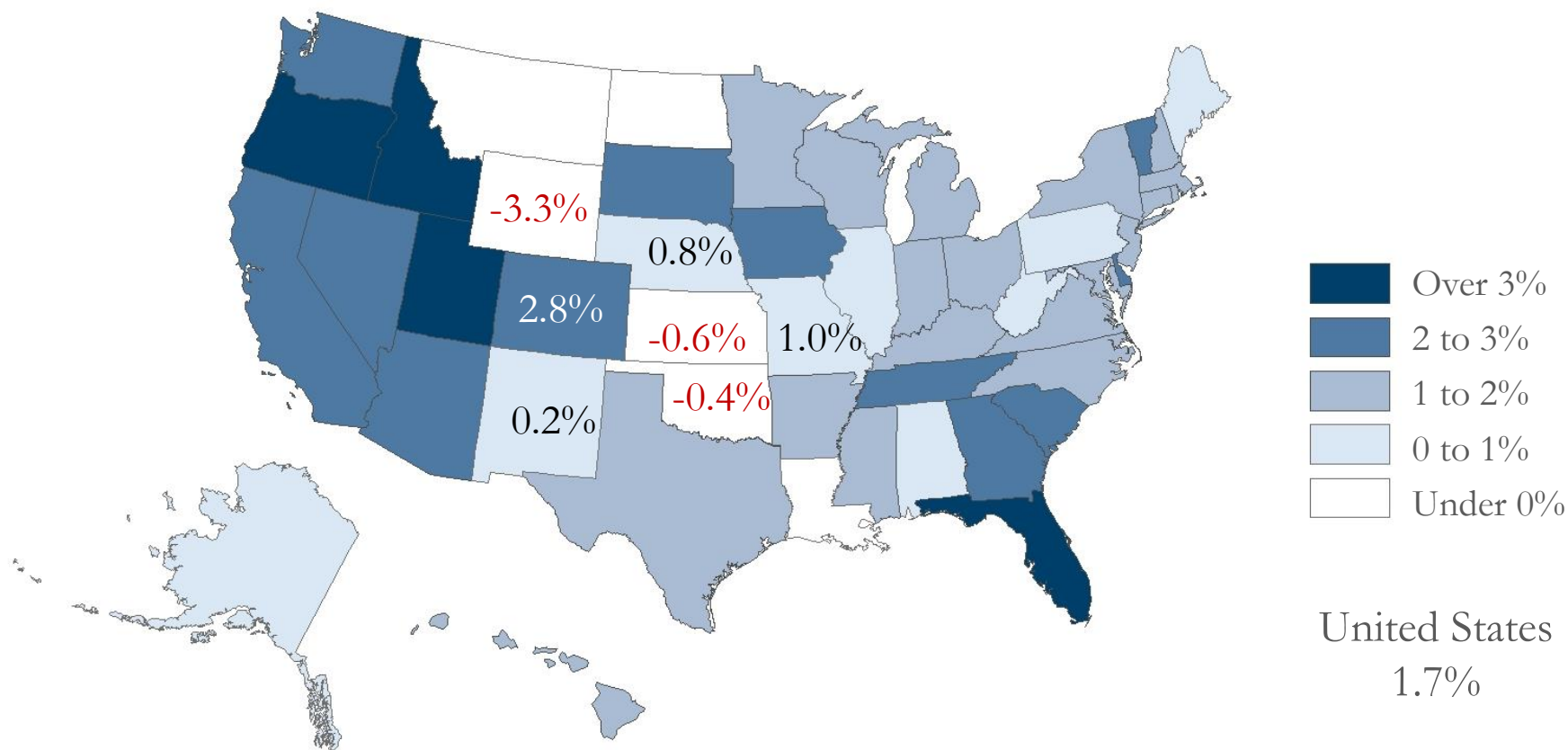
**U-5 and U-6 values are 12-month moving averages as of Q2 2016 for Colorado and are for August, 2016 for the United States.*



Employment gains have been fairly broad-based across the nation, but declines in the energy sector are weighing heavily on some regions.

NONFARM EMPLOYMENT BY STATE

August 2016, Percent Change Year-over-Year, Seasonally Adjusted

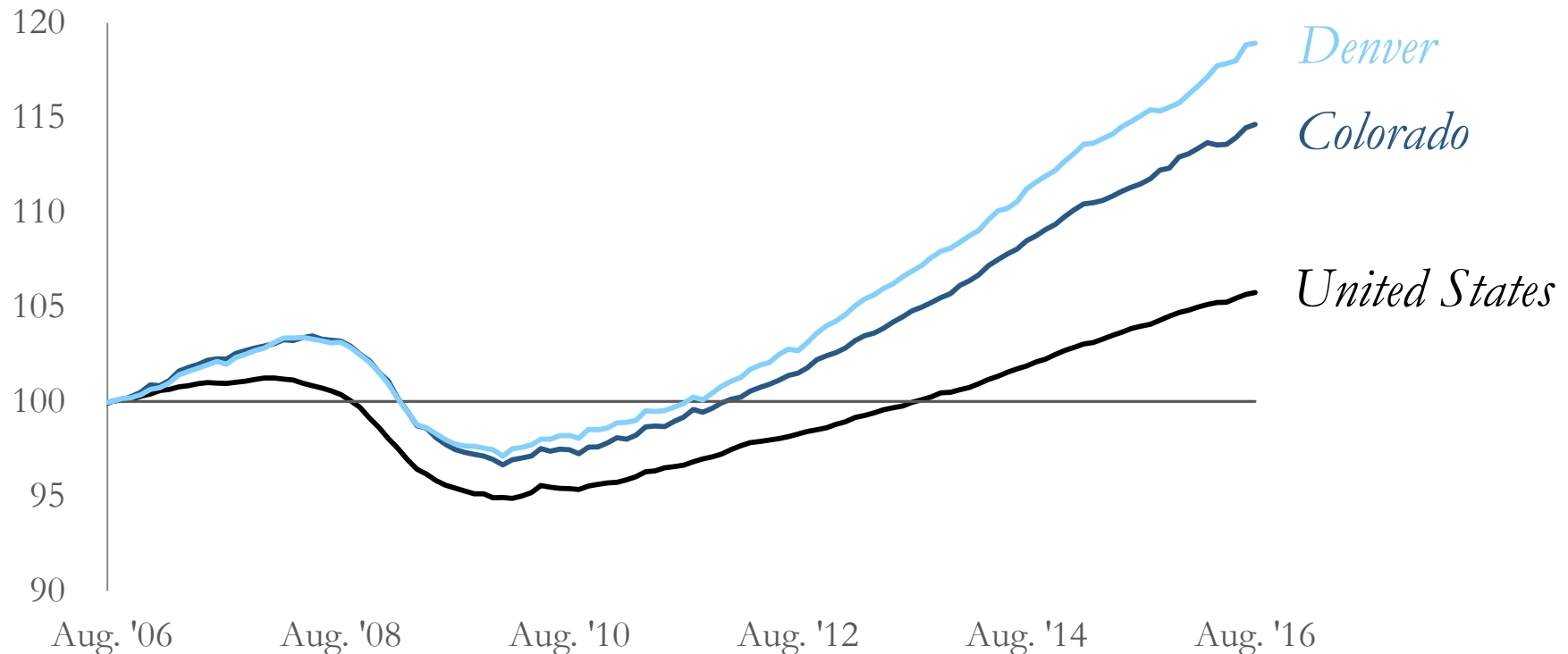


Employment has been increasing in Colorado and the nation for more than six years, with Colorado gains outpacing the nation.

PAYROLL EMPLOYMENT GROWTH

Index 100 = August 2006, Seasonally Adjusted

<i>Percent Change</i>	<i>Past 10 Years</i>	<i>Past Year</i>
U.S.	5.8%	1.7%
CO	14.6%	2.8%
Denver	18.9%	3.3%

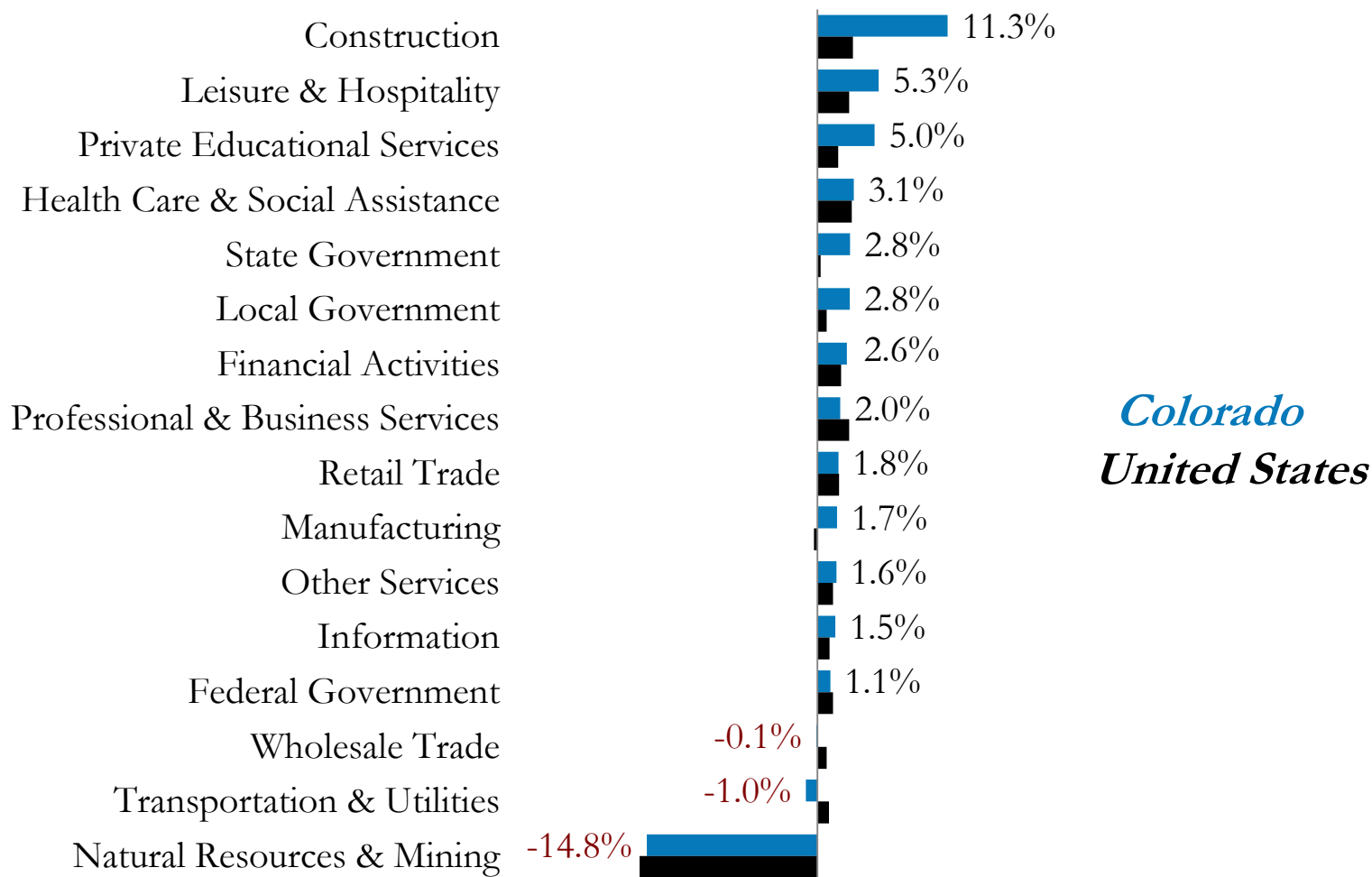


The majority of industries in Colorado have added jobs over the past year, but the slowdown in the energy sector is having an effect on related industries.

CHANGE IN PAYROLL EMPLOYMENT, AUGUST 2016

Seasonally Adjusted

Percent Change Year-over-Year

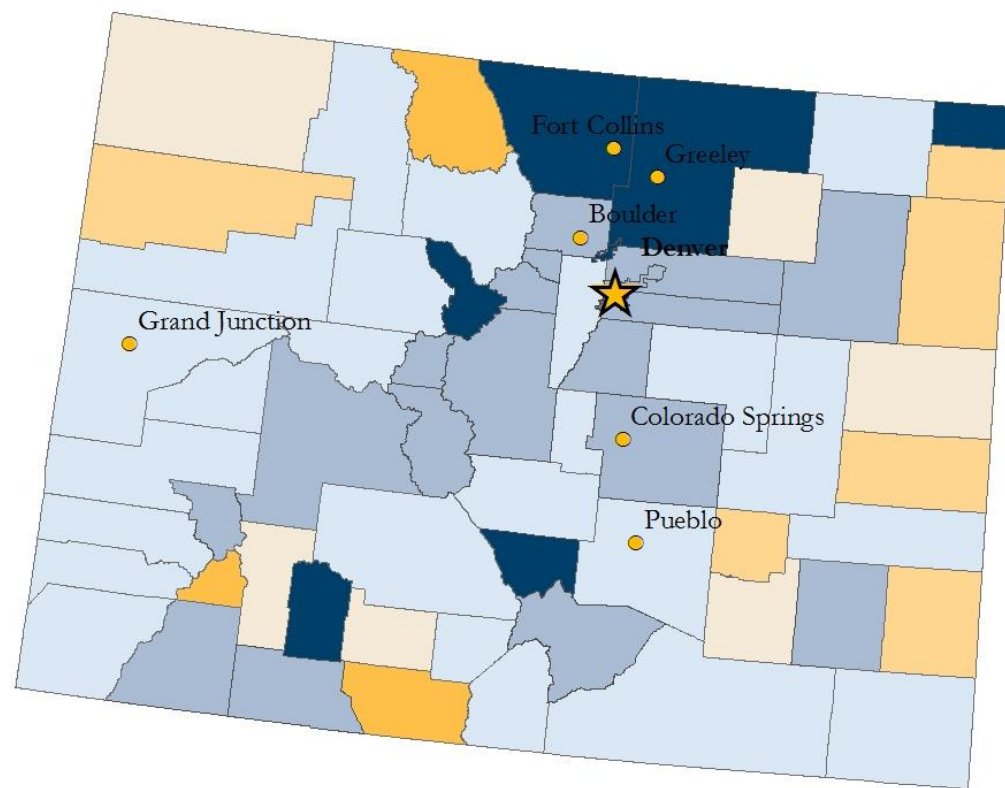


Parts of Colorado continue to experience strong population growth and net in-migration.

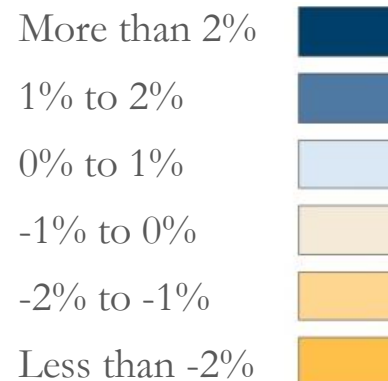


NET MIGRATION

Total 2015 Net Migration as a Percentage of 2015 Population



<i>Annual Percent Change</i>	<i>2015</i>
United States	0.4%
Colorado	1.2%
Denver	1.9%

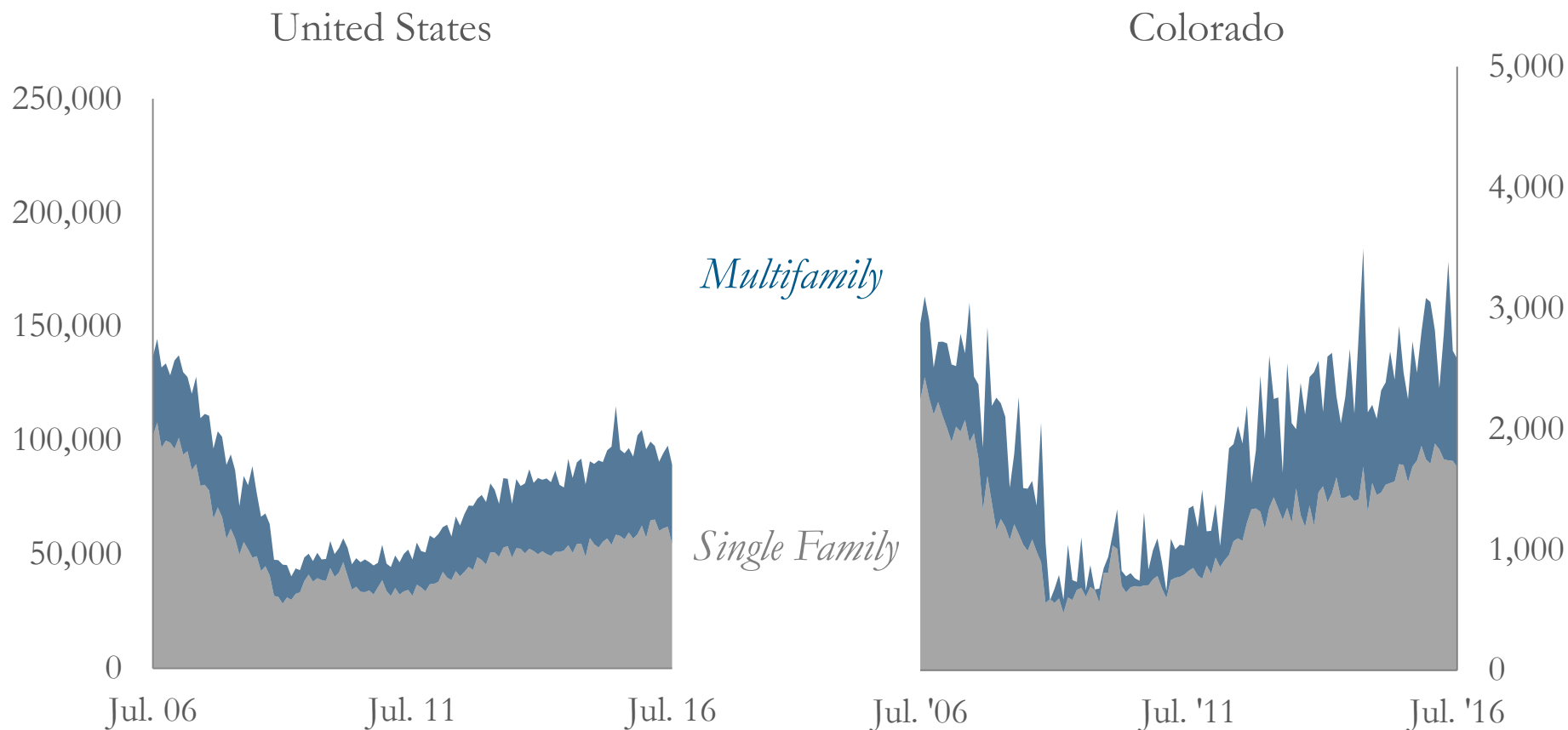


Residential construction activity has been increasing for more than six years, led by strong gains in multifamily building.



RESIDENTIAL PERMITS

Seasonally Adjusted

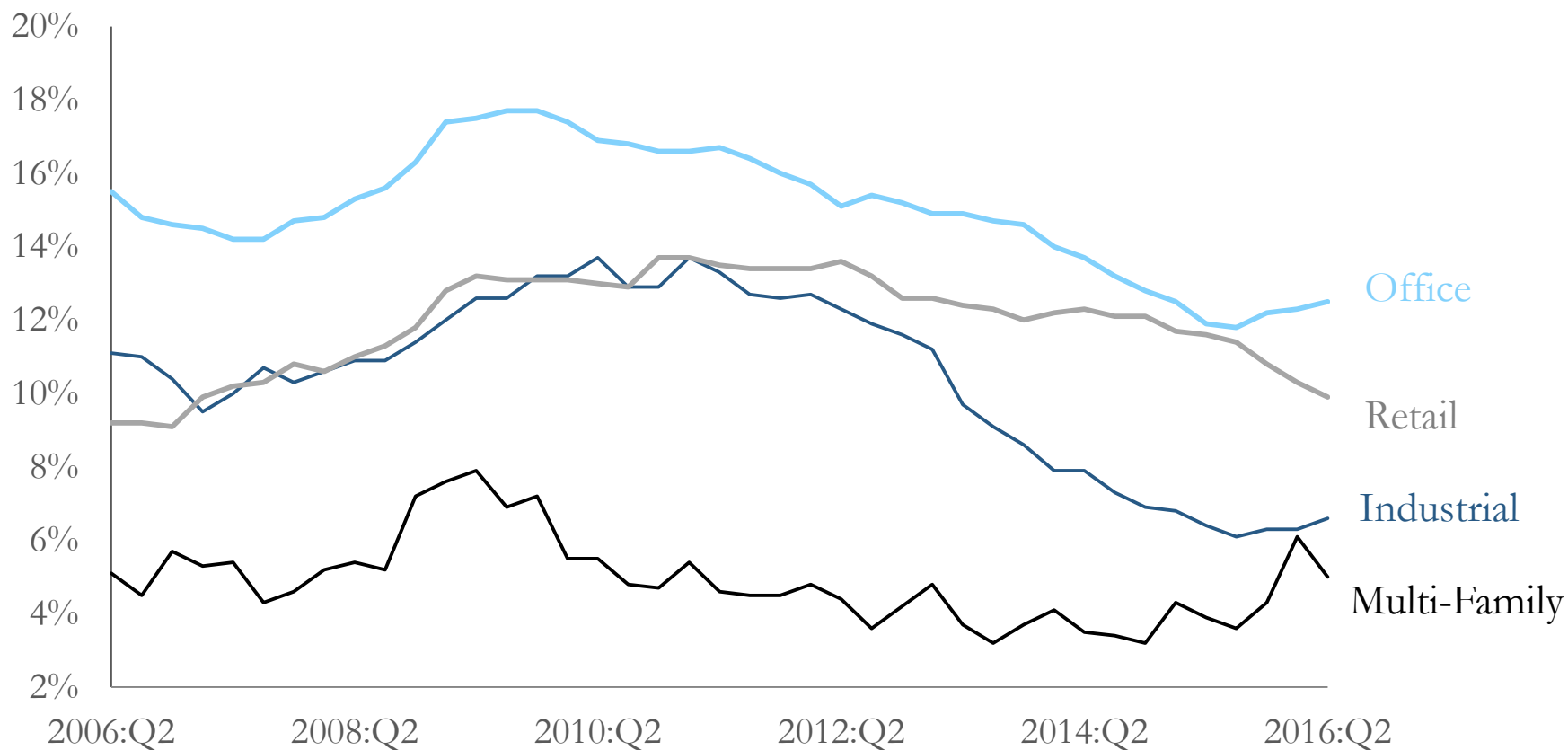


Second Quarter 2016, Year-over-Year Percent Change, Seasonally Adjusted



Vacancy rates are low across the Denver metro, but office and multifamily vacancies have moved higher over the past year.

DENVER COMMERCIAL VACANCY RATES

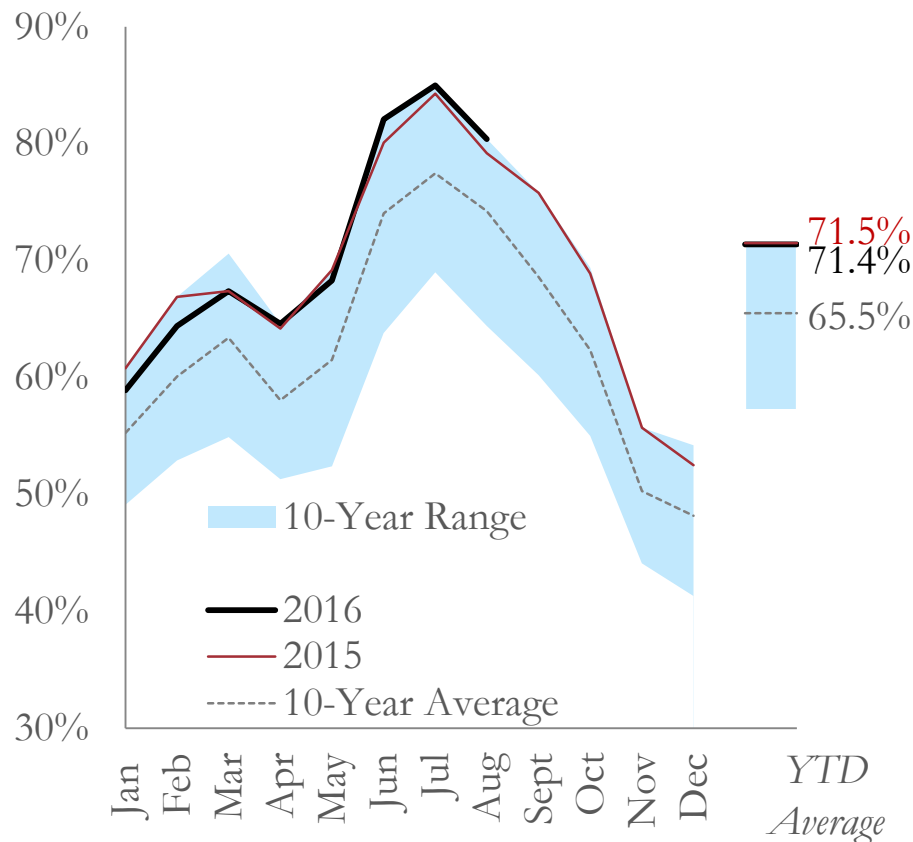


Tourism activity has been strong in Colorado over the past few years.



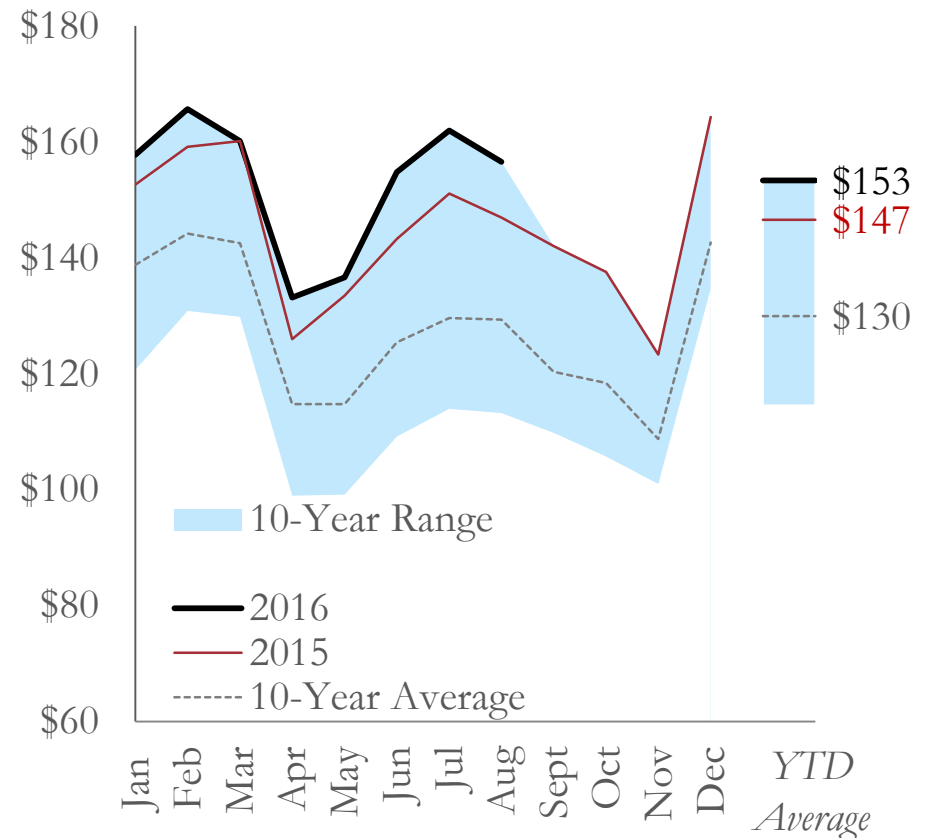
HOTEL OCCUPANCY RATES

Colorado



REAL HOTEL ROOM RATES

Colorado, 1999 Dollars

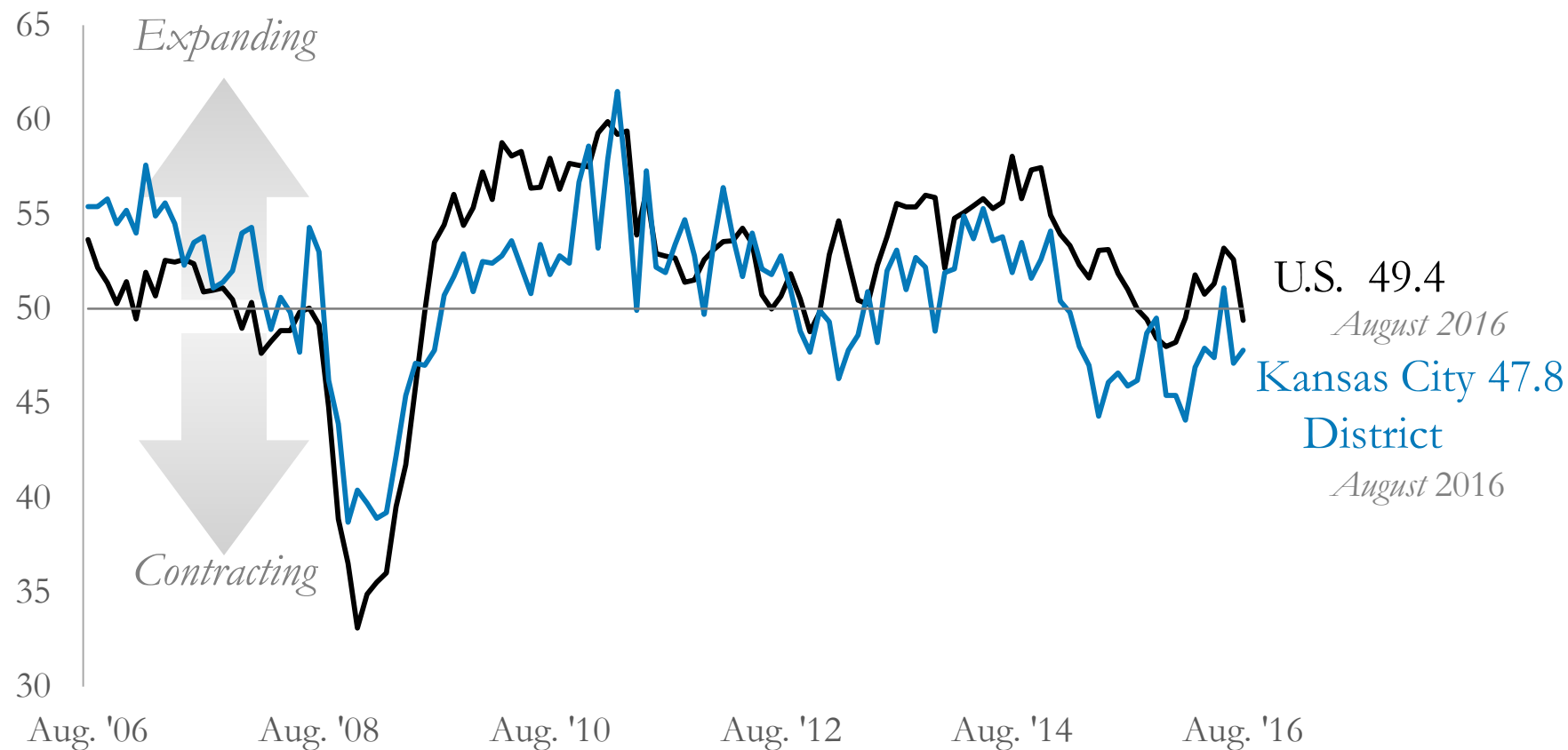


Manufacturing activity has slowed in the region due in part to a weak energy sector and a strong dollar.



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.

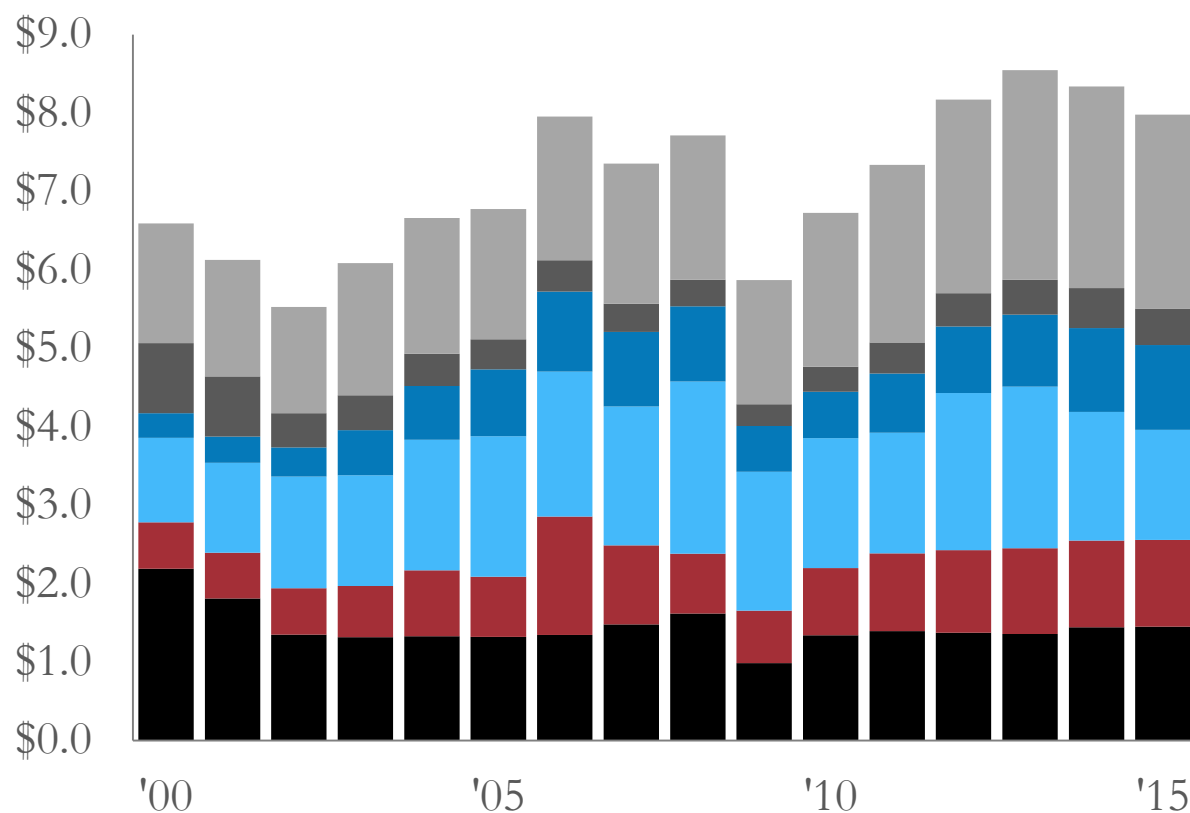


COLORADO EXPORTS BY TRADING PARTNER

Billions

YEAR-TO-DATE JULY '16

Percent Change



Total Trade	-10.3%	SHARE*
All Other	-7.1	30.7%
Japan	-9.3	5.9
Mexico	-12.0	13.5
Canada	-9.0	17.7
China	-16.8	13.9
Eurozone	-11.0	18.3

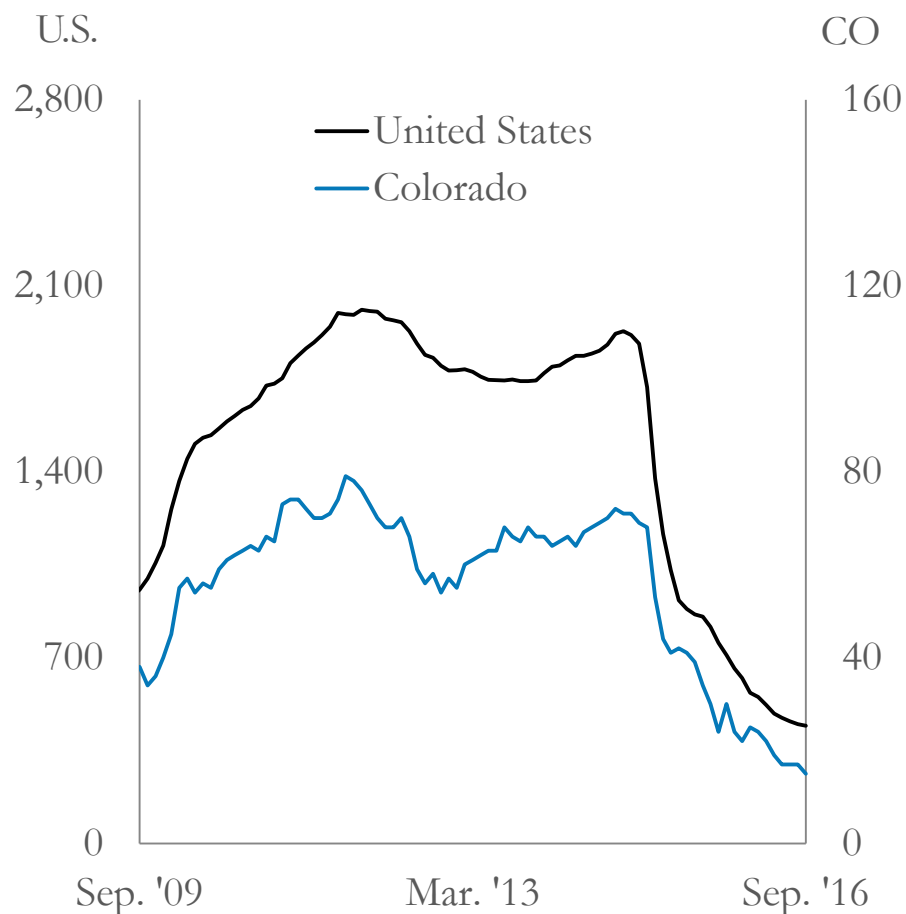
**Share is for 2015*

Year-to-Date: July

Energy activity has declined substantially in Colorado and the nation.

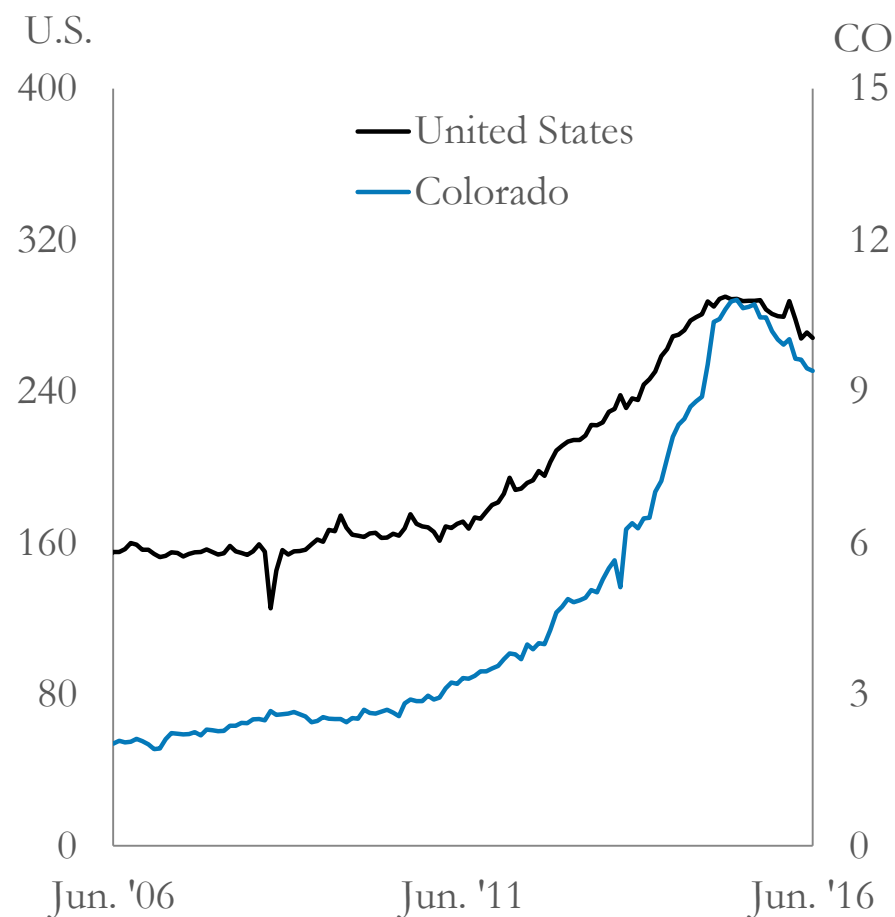


TOTAL RIG COUNT



CRUDE OIL PRODUCTION

*Millions of Barrels, Monthly,
Seasonally Adjusted*

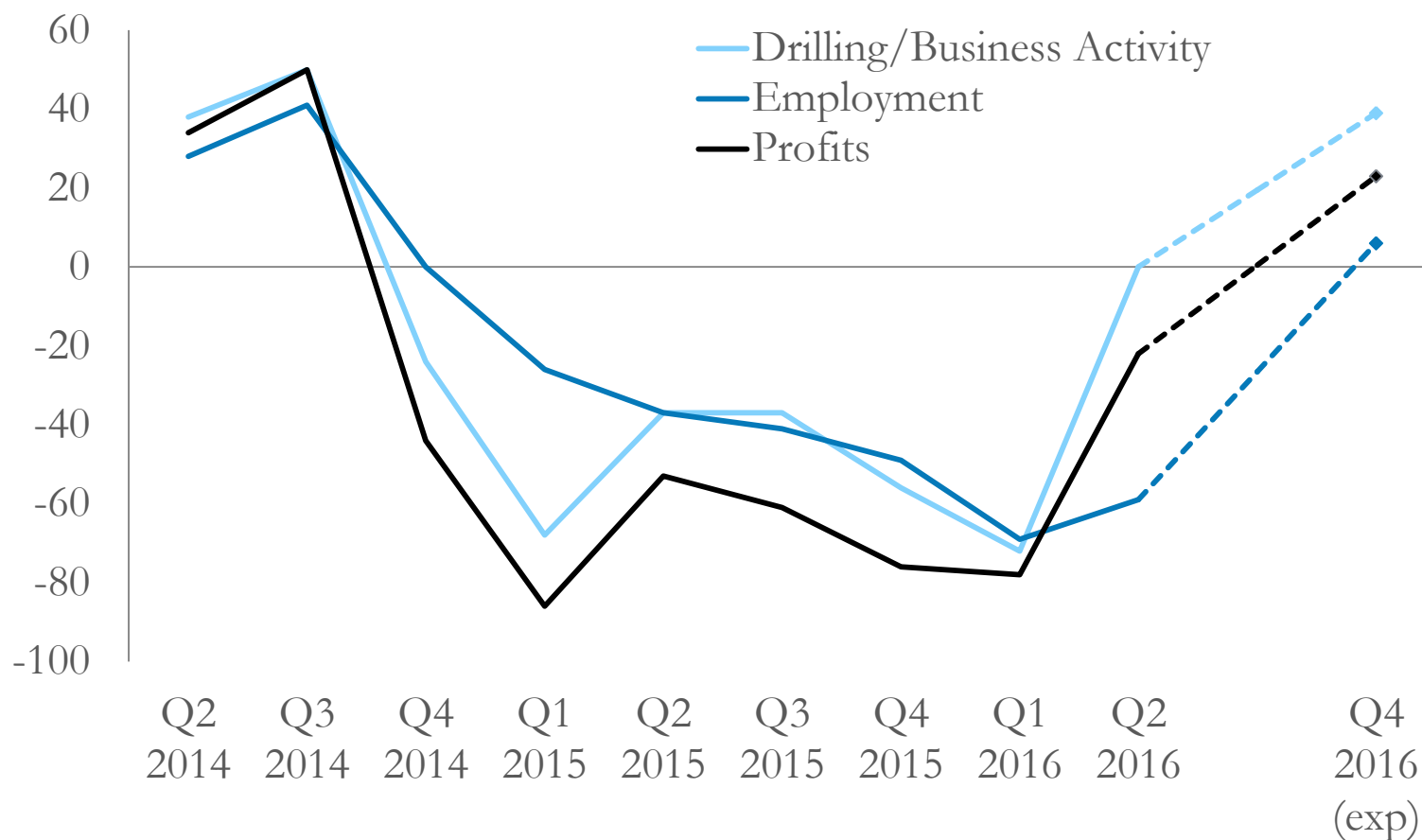


Energy contacts are expecting the sector to stabilize over the next six months.



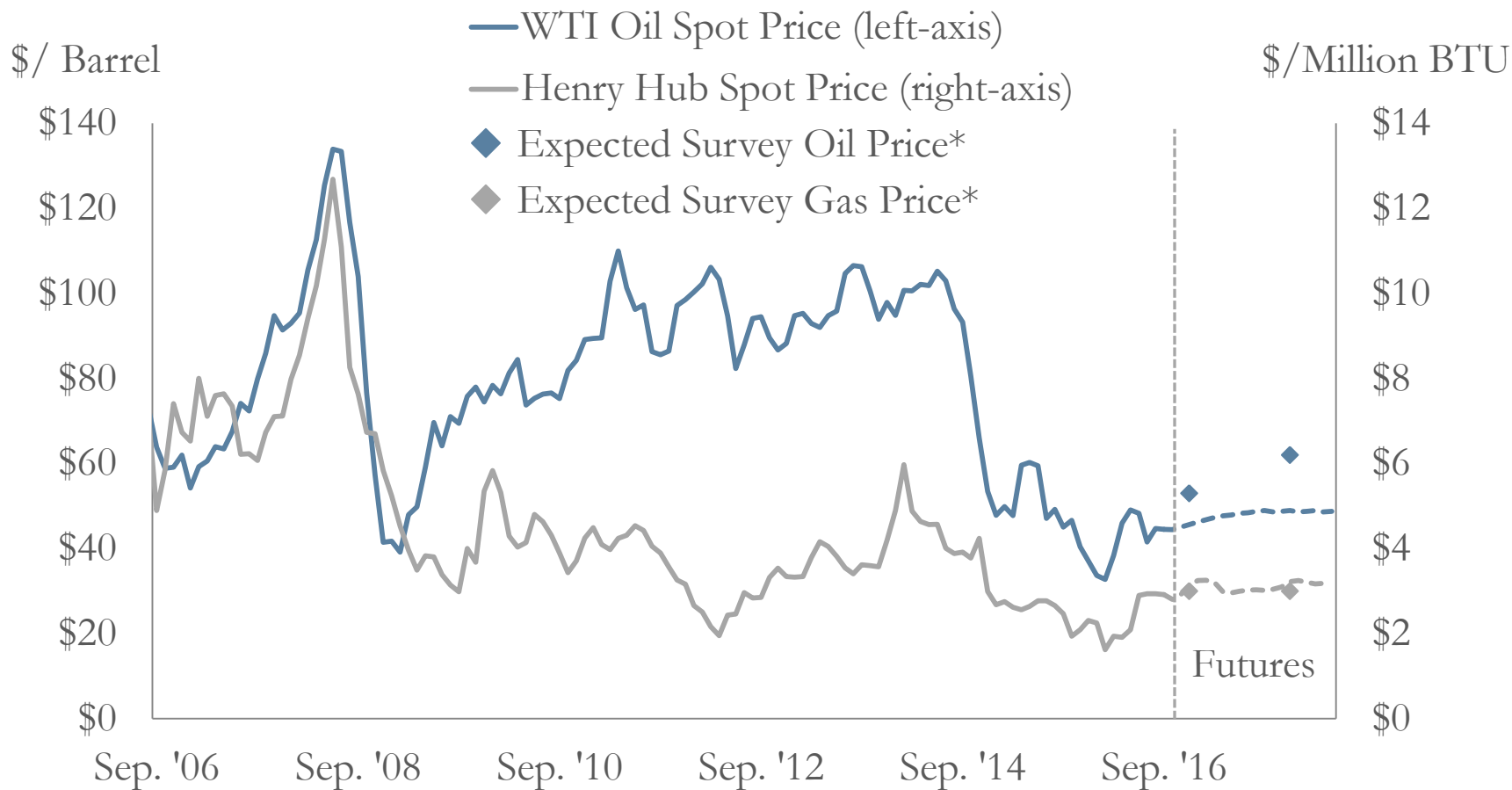
FRBKC ENERGY SURVEY

Diffusion Indexes



Oil and natural gas prices have increased in 2016, but additional gains are expected to be gradual.

ENERGY PRICES



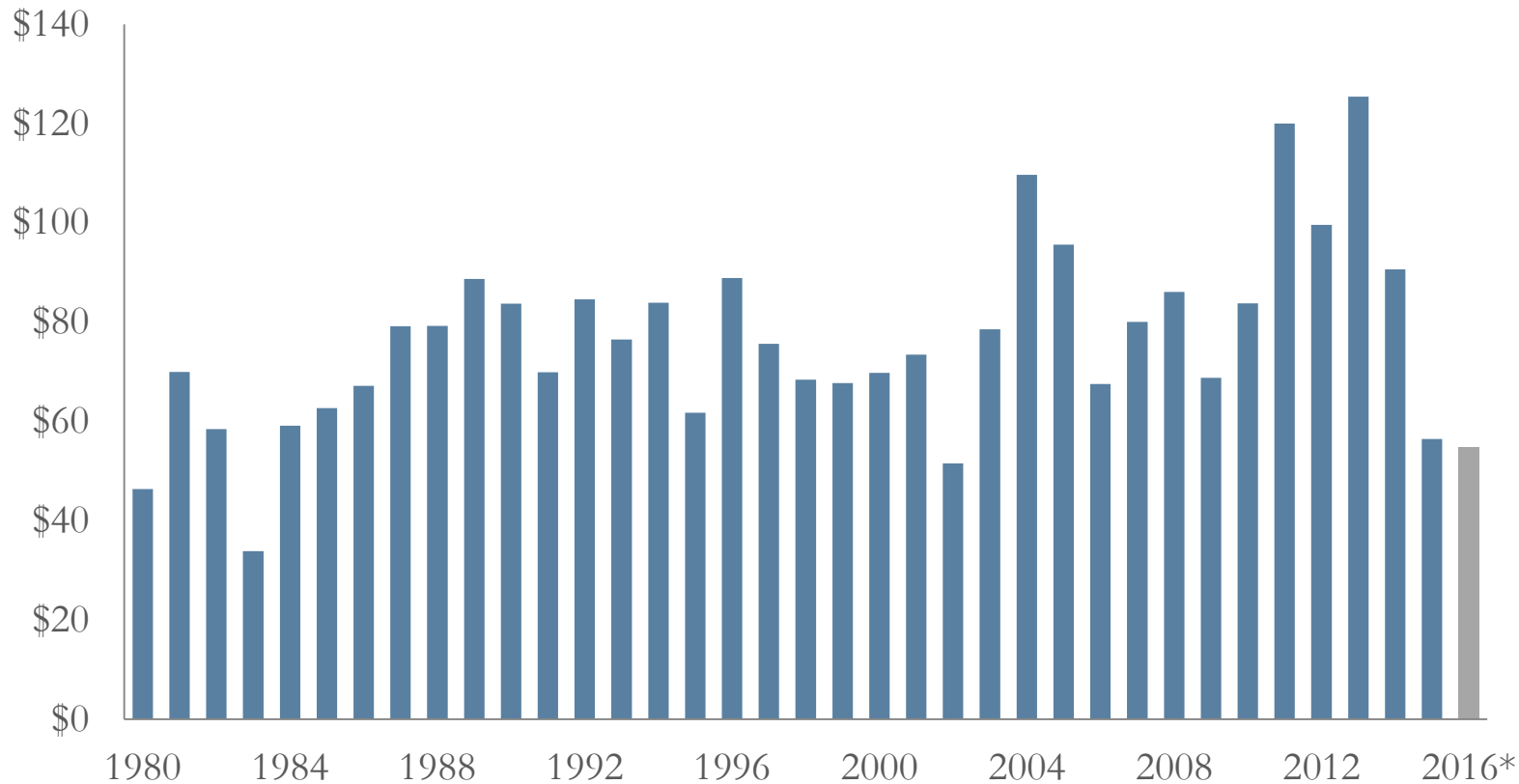
*Expected year-end prices are the average expected price based on responses to the FRBKC Q2:2016 Energy Survey

Farm income has dropped sharply and is expected to remain low.



U.S. REAL NET FARM INCOME

Billion dollars (constant 2005 dollars)



*Forecast for 2016

For additional information on the regional economy:
<http://www.KansasCityFed.org/Denver>

