

Emerging Trends in the U.S. Economy



Alison Felix

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

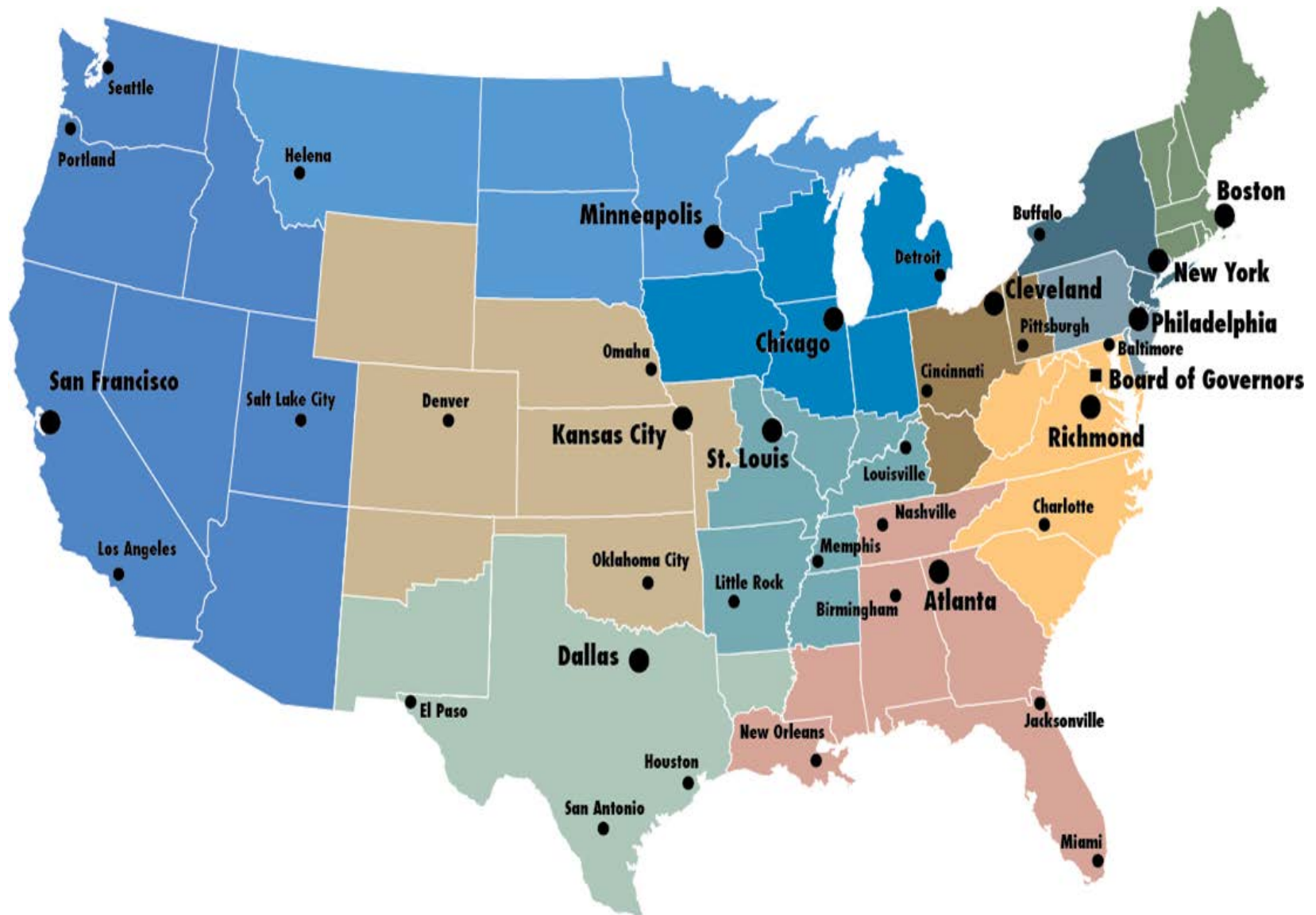
*The views expressed are those of the presenter and do not necessarily reflect
the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.*

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 three members of the Board of Governors: Jerome Powell, Lael Brainard 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.

Regional Federal Reserve Banks and Branch Locations



The Primary Functions of the Federal Reserve System

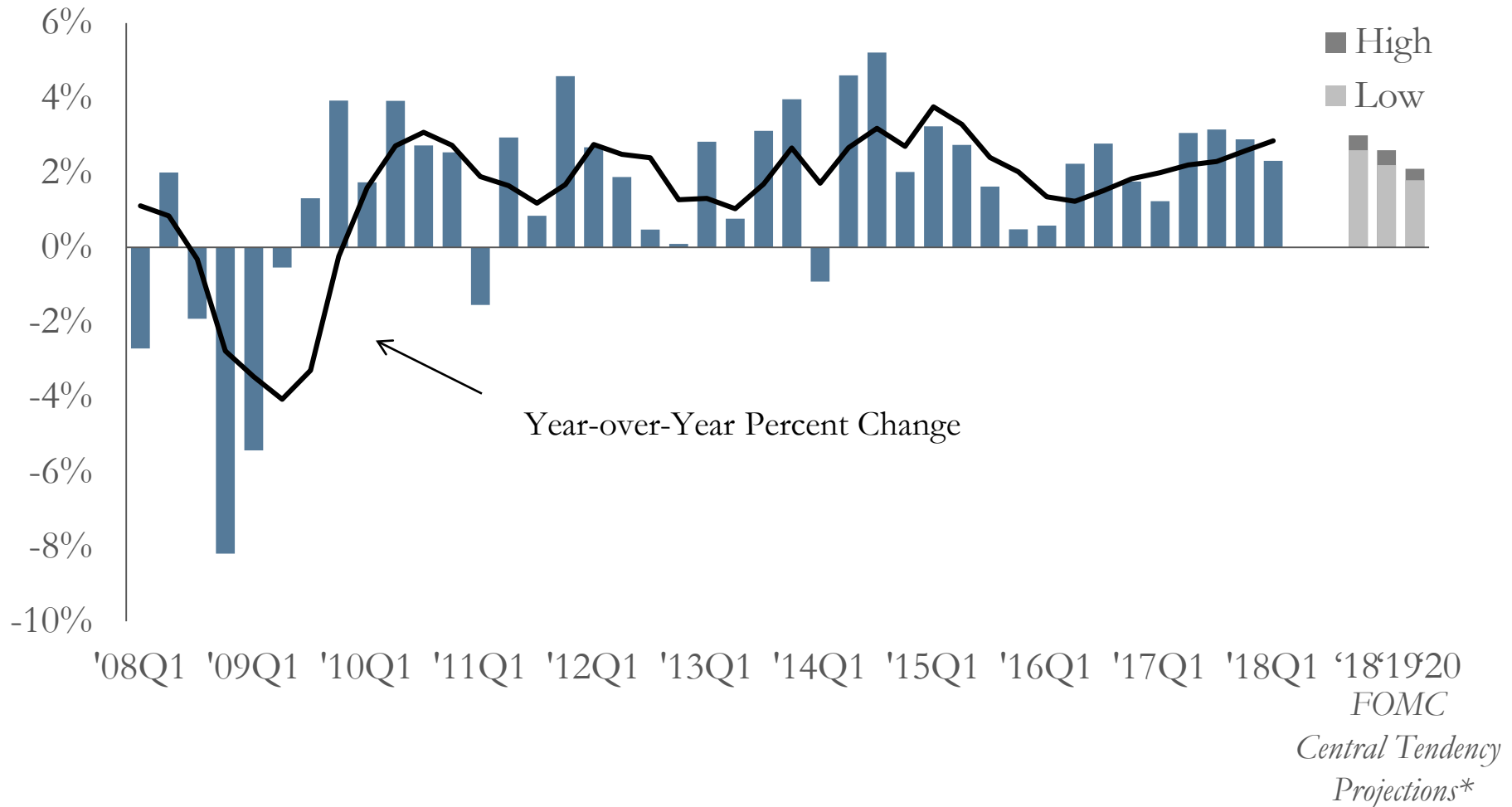


- Conduct the Nation's Monetary Policy
 - The Federal Open Market Committee is the group charged with conducting monetary policy within the U.S.
 - The Committee has a statutory mandate from Congress to promote maximum employment, stable prices and moderate long-term interest rates.
- Provide and Maintain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

U.S. economic growth accelerated in 2017, and solid growth is expected to continue this year.

REAL U.S. GROSS DOMESTIC PRODUCT

Percent Change from Previous Quarter at Seasonally Adjusted Annualized Rates



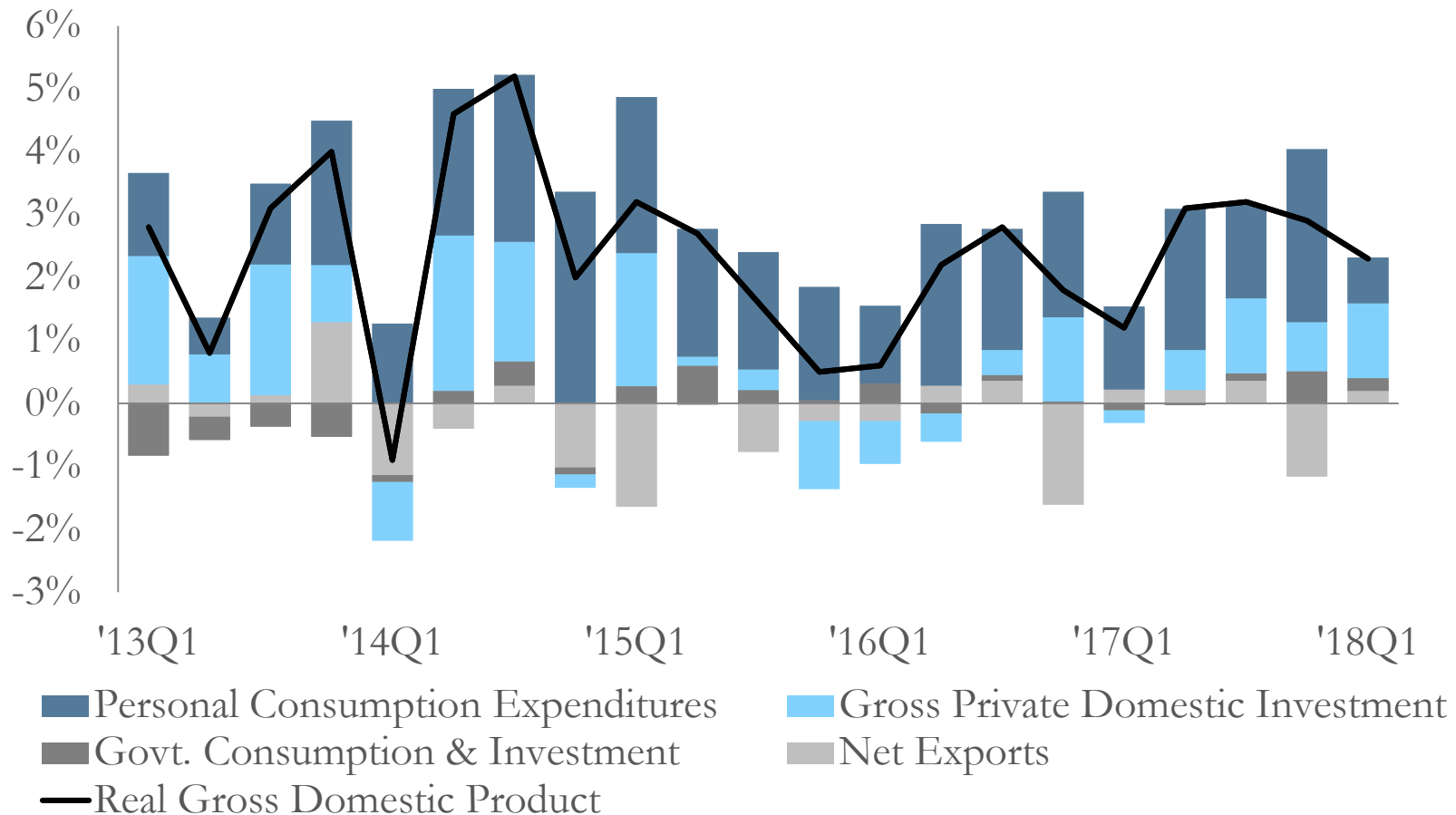
Source: Bureau of Economic Analysis and Federal Open Market Committee (FOMC)/Haver Analytics

*Projections as of March FOMC meeting

Consumer spending has been the primary driver of economic growth, but business investment also contributed substantially over the past year.

CONTRIBUTIONS TO REAL GDP

Percent Change at Seasonally Adjusted Annualized Rates

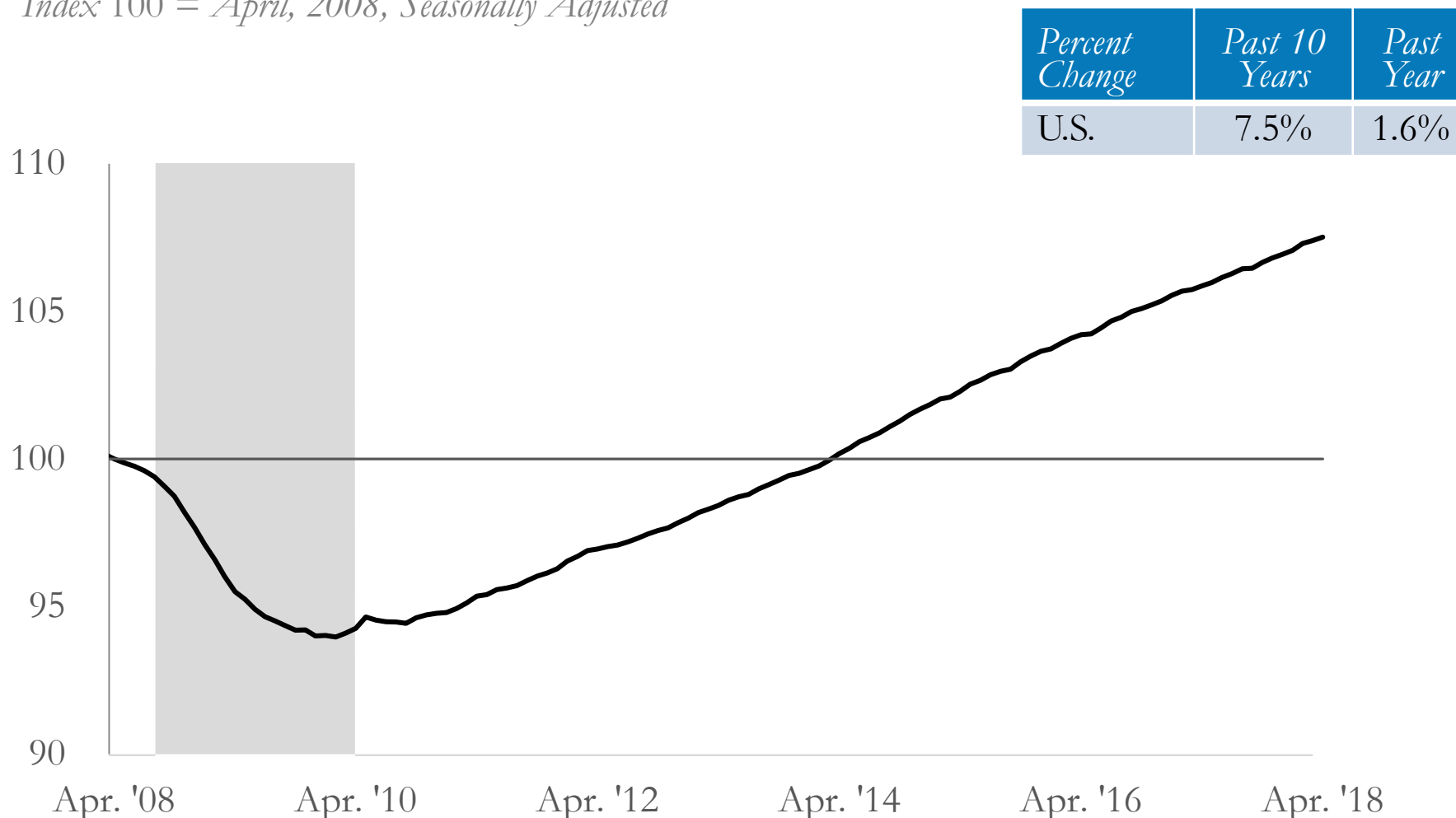


Employment has increased steadily over the past eight years.



UNITED STATES PAYROLL EMPLOYMENT GROWTH

Index 100 = April, 2008, Seasonally Adjusted



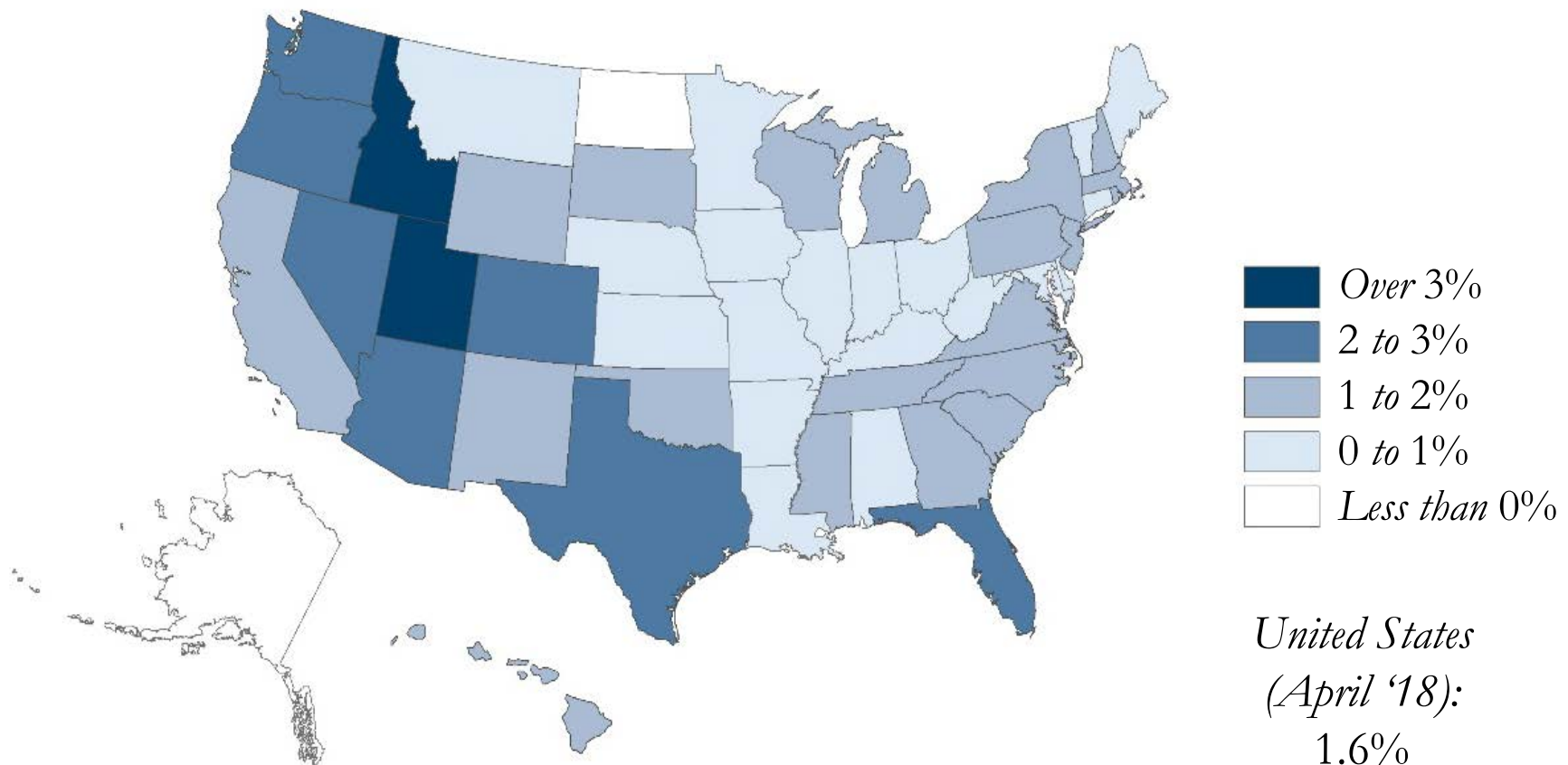
Note: Gray bar indicates recession.

Source: Bureau of Labor Statistics

Most states have experienced positive job growth over the past year.

MARCH 2018 NONFARM EMPLOYMENT

Year-over-Year Percent Change Seasonally Adjusted



Job gains have been broad-based across industries over the past year.



APRIL 2018 U.S. PAYROLL EMPLOYMENT

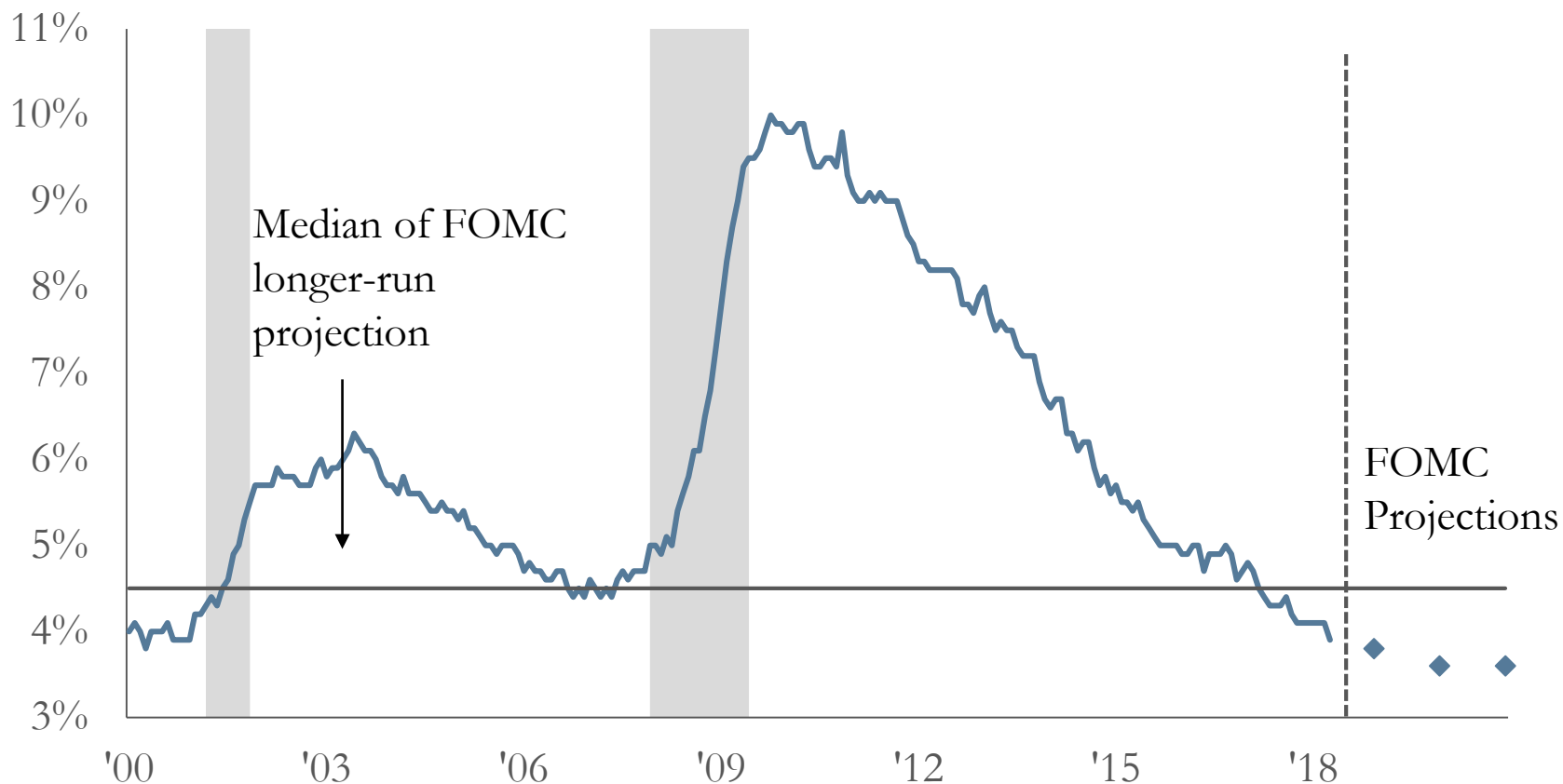
Seasonally Adjusted

	<i>Percent Change Year-over-Year</i>	<i>Share of U.S. Jobs</i>
Natural Resources & Mining	8.8%	0.5%
Construction	3.7%	4.8%
Transportation & Utilities	2.7%	3.9%
Professional & Business Services	2.5%	14.1%
Manufacturing	2.0%	8.5%
Health Care & Social Assistance	2.0%	13.4%
Leisure & Hospitality	1.7%	11.0%
Other Services	1.7%	3.9%
Financial Activities	1.5%	5.8%
Private Educational Services	1.3%	2.5%
Wholesale Trade	1.1%	4.0%
Retail Trade	0.5%	10.7%
Local Government	0.4%	9.7%
Federal Government	-0.2%	1.9%
Information	-0.9%	1.9%
State Government	-1.0%	3.4%

The unemployment rate has declined steadily over the past eight years and has fallen below most estimates of its longer-run level.

U. S. UNEMPLOYMENT RATE

Seasonally Adjusted

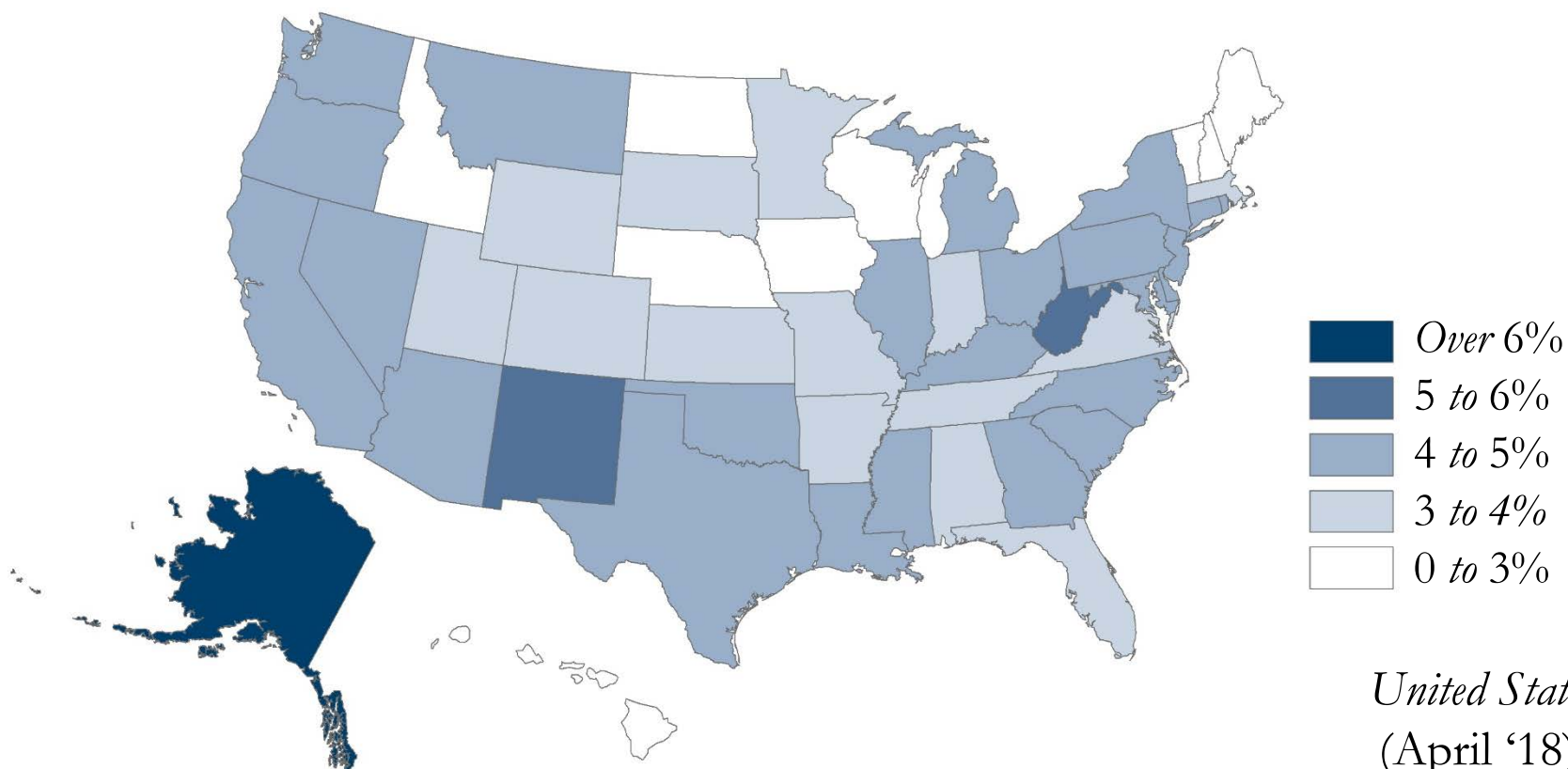


Unemployment rates are low across the country.



MARCH 2018 UNEMPLOYMENT RATE

Seasonally Adjusted



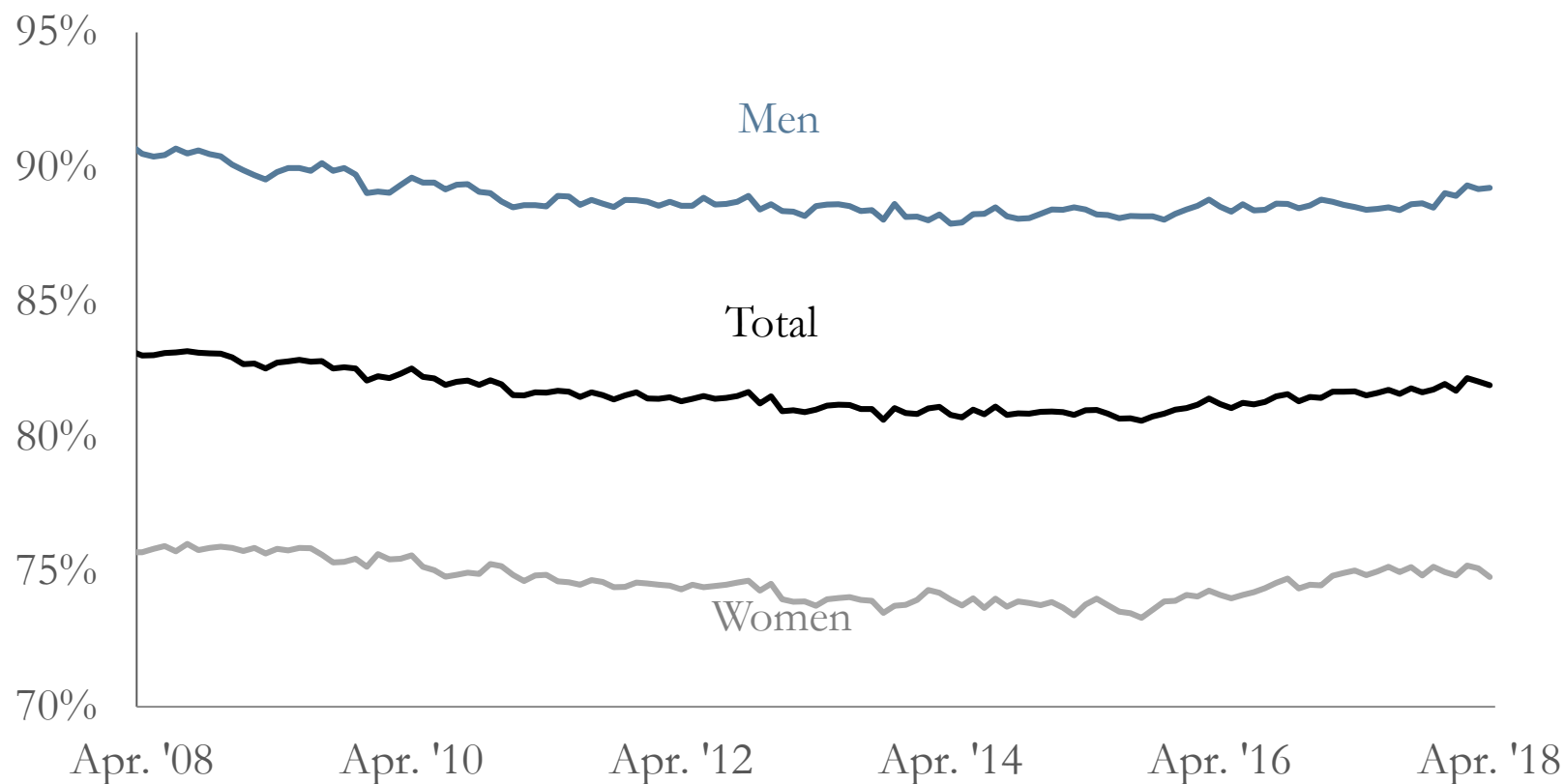
United States
(April '18):
3.9%

The labor force participation rate among prime-age individuals has risen slightly over the past couple of years.



LABOR FORCE PARTICIPATION RATES, INDIVIDUALS AGED 25 - 54

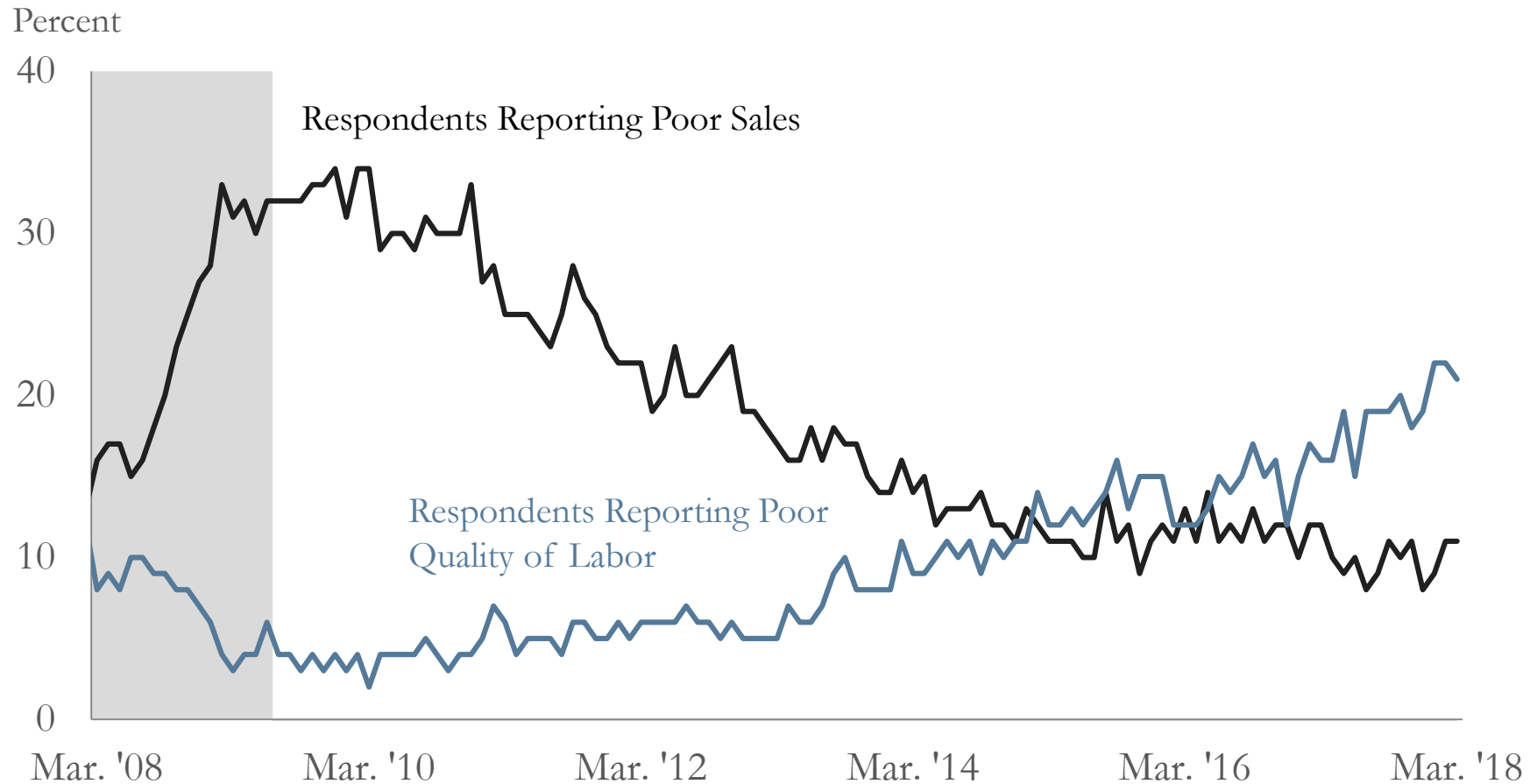
Seasonally Adjusted



Small businesses are increasingly concerned with a lack of qualified labor.

LARGEST ISSUES FACING SMALL BUSINESSES

Seasonally Adjusted



Note: Gray bar indicates recession.

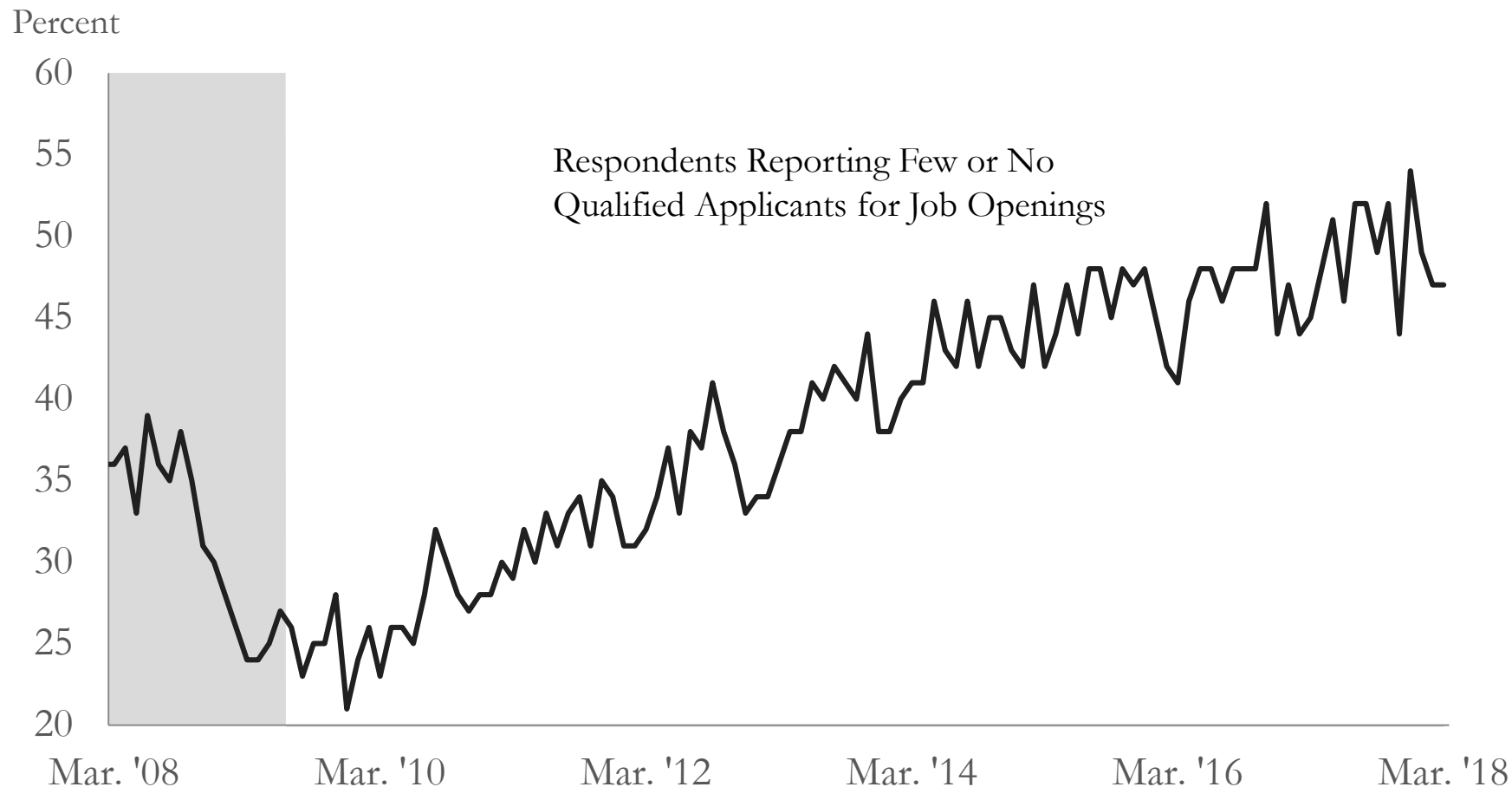
Source: National Federation of Independent Business

Difficulty finding qualified workers may spur wage gains for key positions in the months ahead.



SMALL BUSINESSES UNABLE TO FIND QUALIFIED WORKERS

Seasonally Adjusted

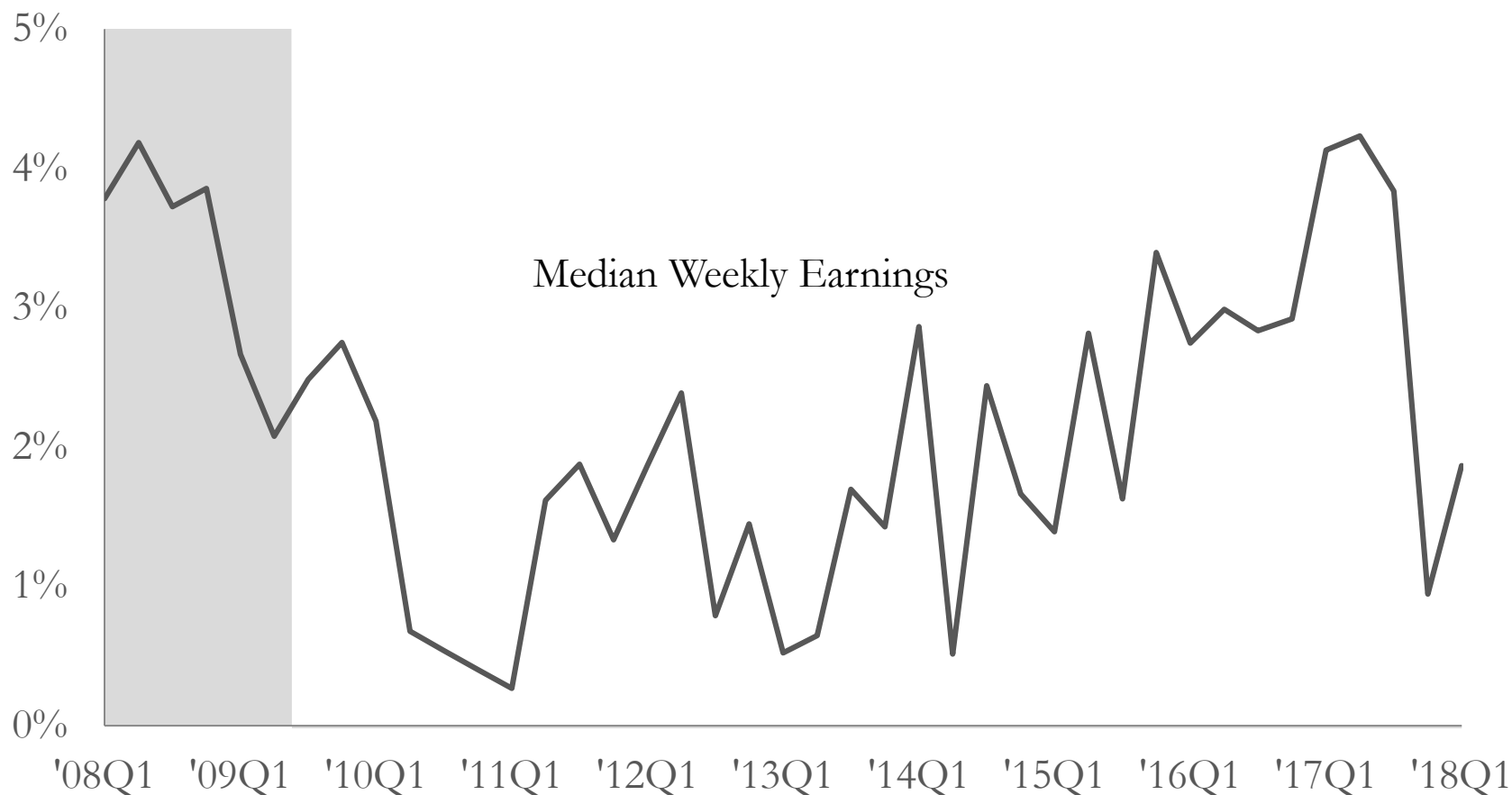


Despite higher reported labor shortages, wage growth remains moderate.



WAGE GROWTH

Seasonally Adjusted, Year-over-Year Percent Change



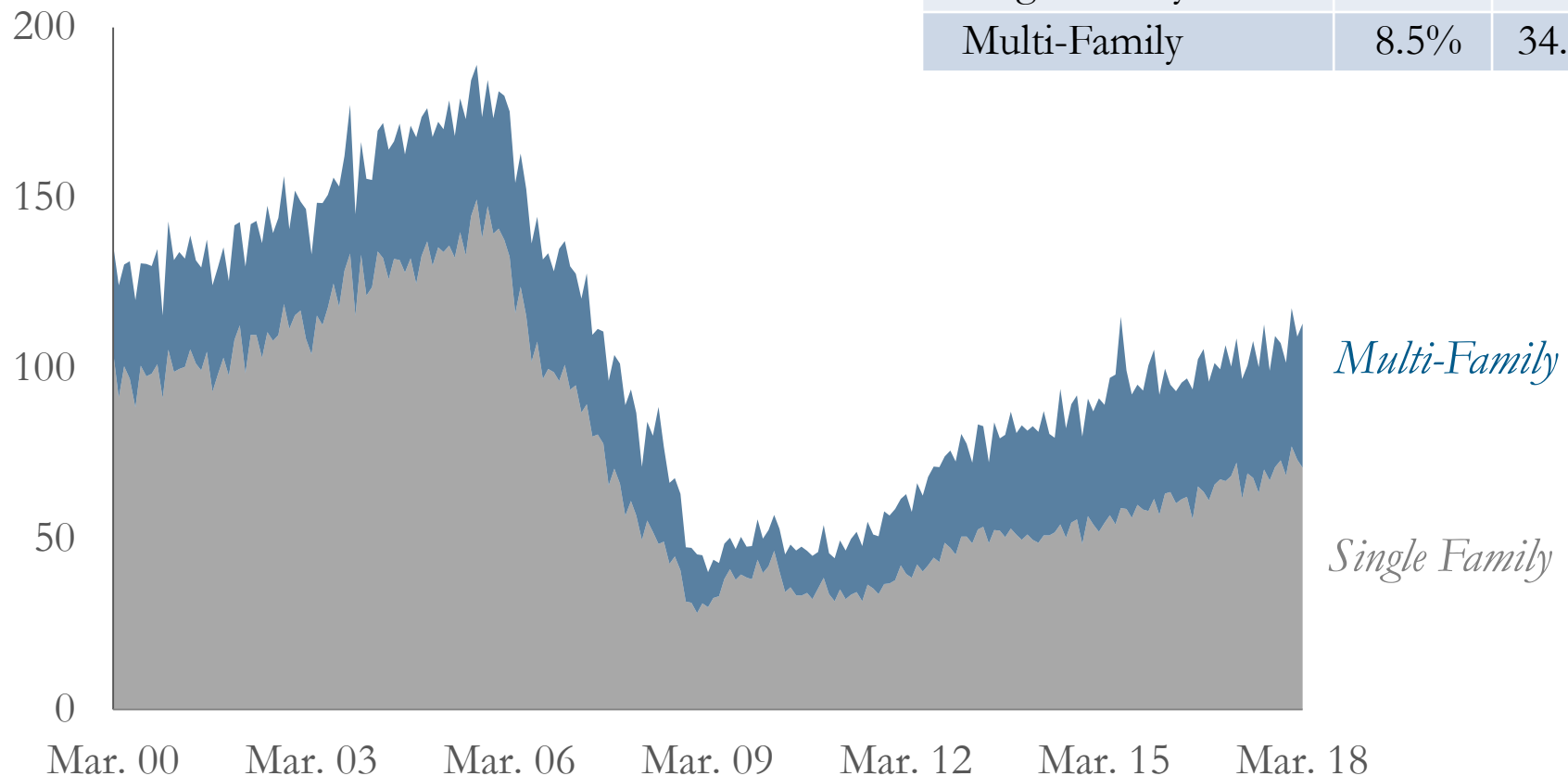
Residential construction activity has been increasing over the past eight years.



U.S. RESIDENTIAL PERMITS

Seasonally Adjusted

<i>Percent Change Year-to-Date March</i>	<i>Past Year</i>	<i>Current Share</i>
Total Permits	6.8%	
Single Family	6.0%	65.4%
Multi-Family	8.5%	34.6%

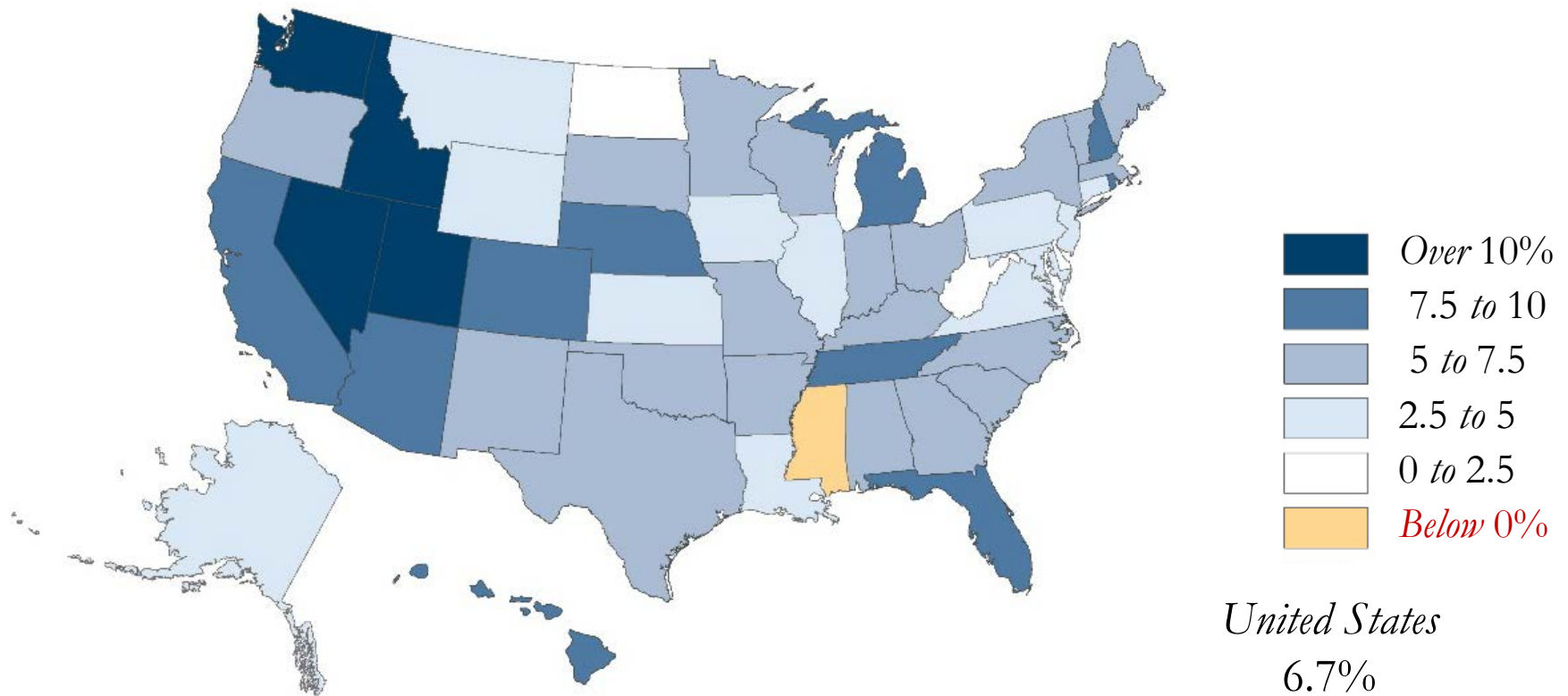


Home prices are rising in most states.



FHFA PURCHASE-ONLY HOME PRICE INDEX (2017Q4)

Percent Change Year-over-Year, Seasonally Adjusted

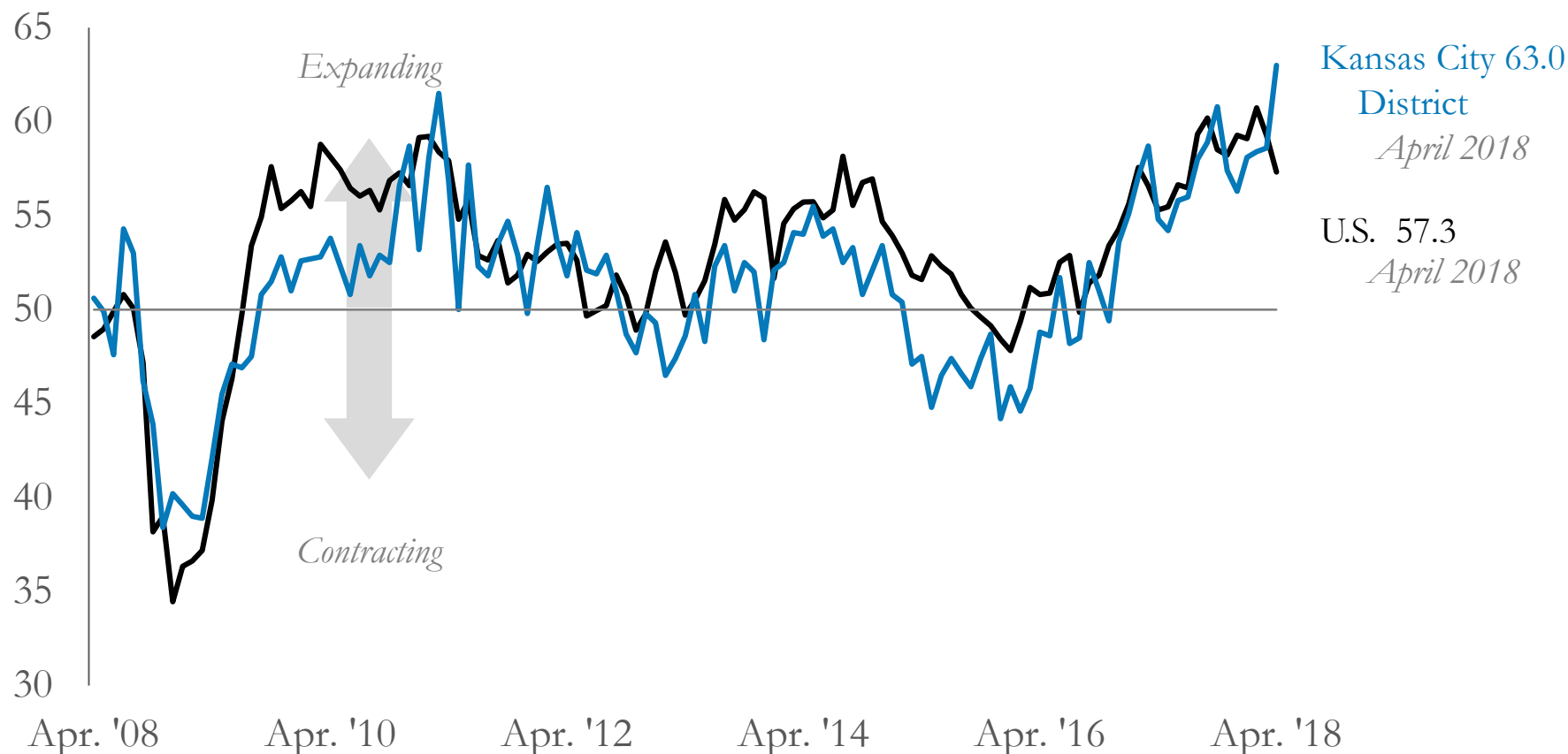


Manufacturing activity improved throughout 2017 and remains at solid levels.



MANUFACTURING ACTIVITY

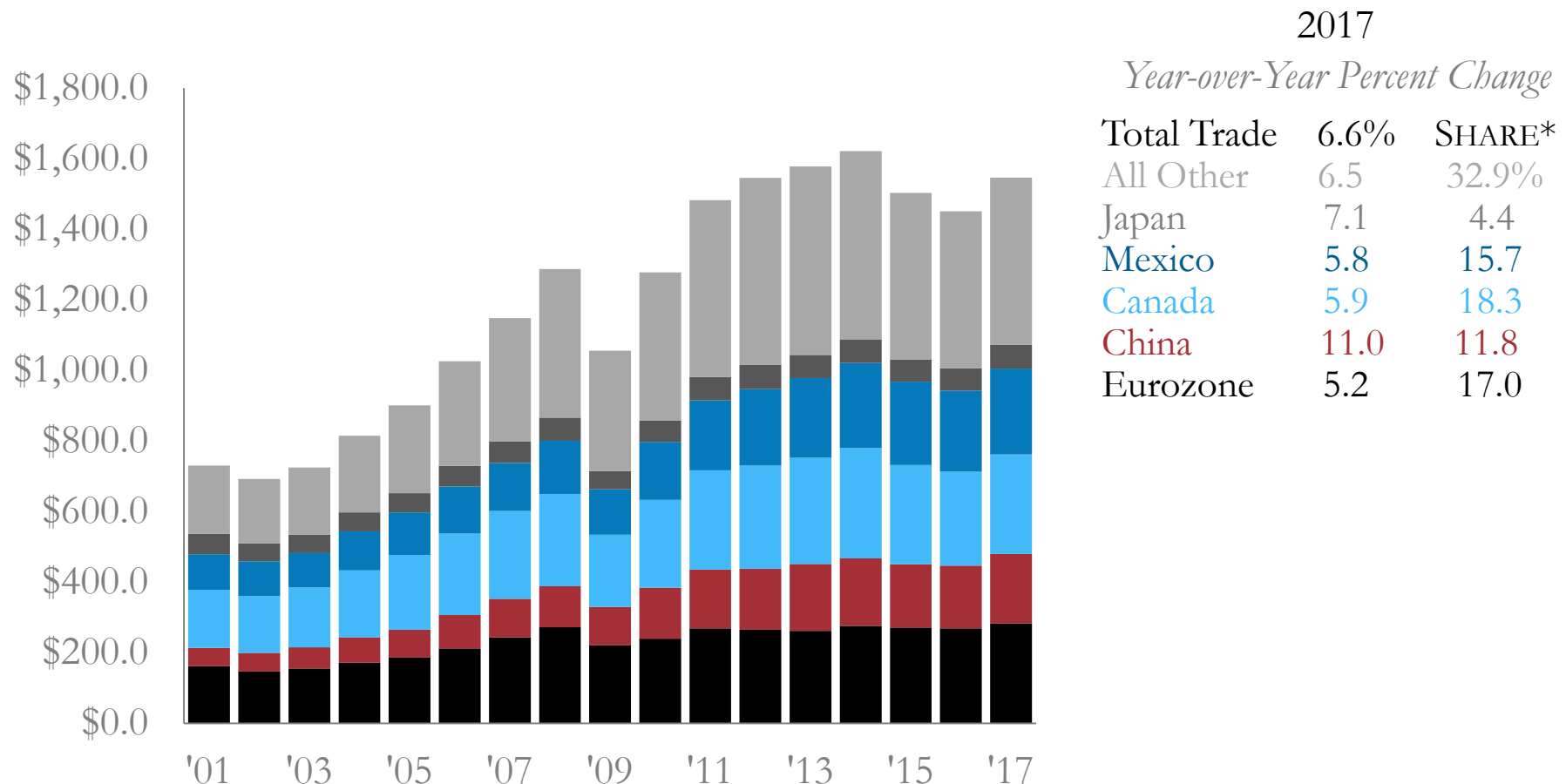
Diffusion Index, Seasonally Adjusted, Month-over-Month



U.S. export activity increased in 2017 after declining over the past couple of years.

U.S. EXPORTS BY TRADING PARTNER

Billions



Oil prices have increased over the past year and are above average breakeven prices in the region.



OIL PRICES (WEST TEXAS INTERMEDIATE)

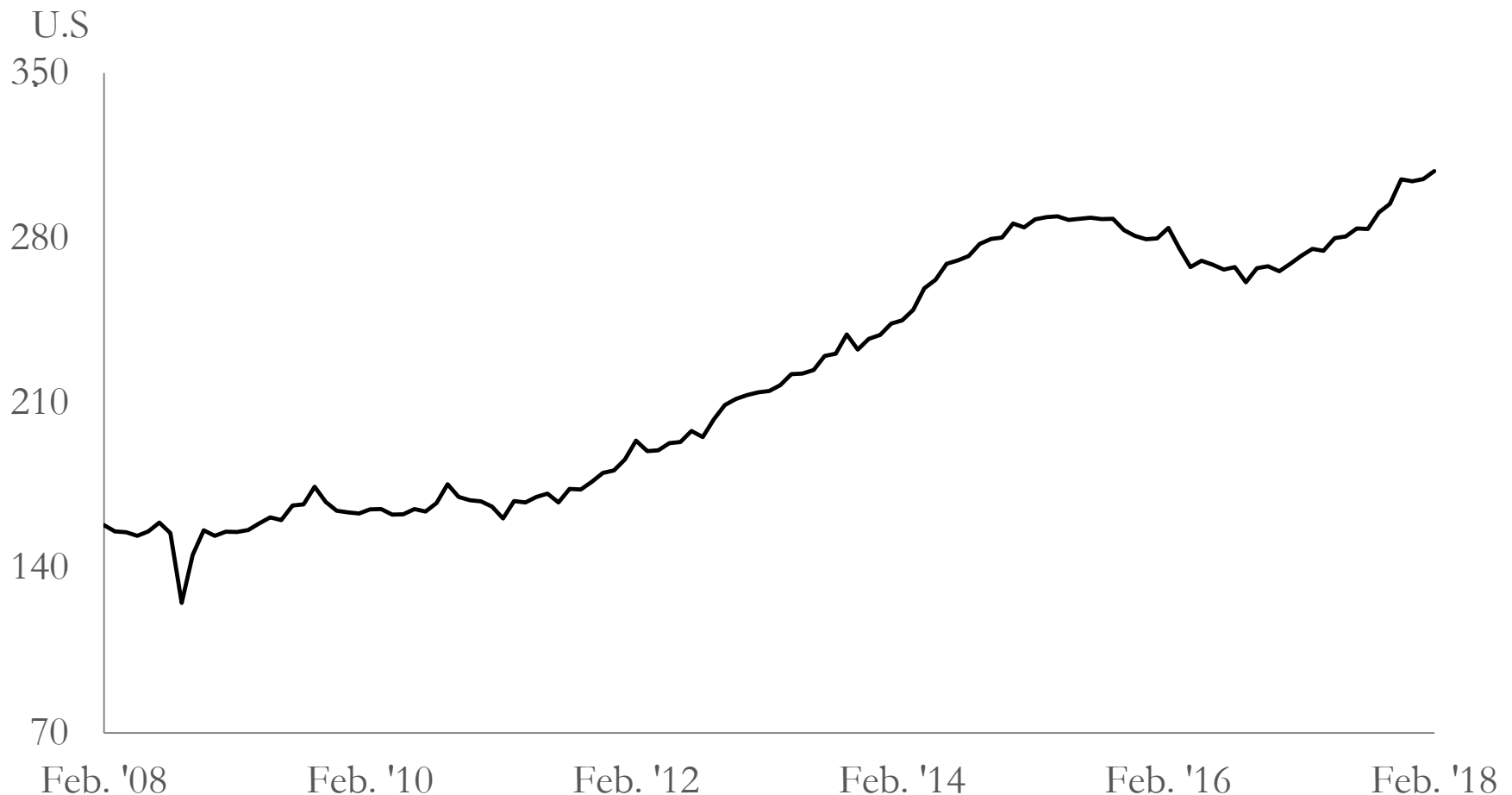


Energy activity has picked up in response to higher oil prices, and oil production has reached record levels.



CRUDE OIL PRODUCTION – UNITED STATES

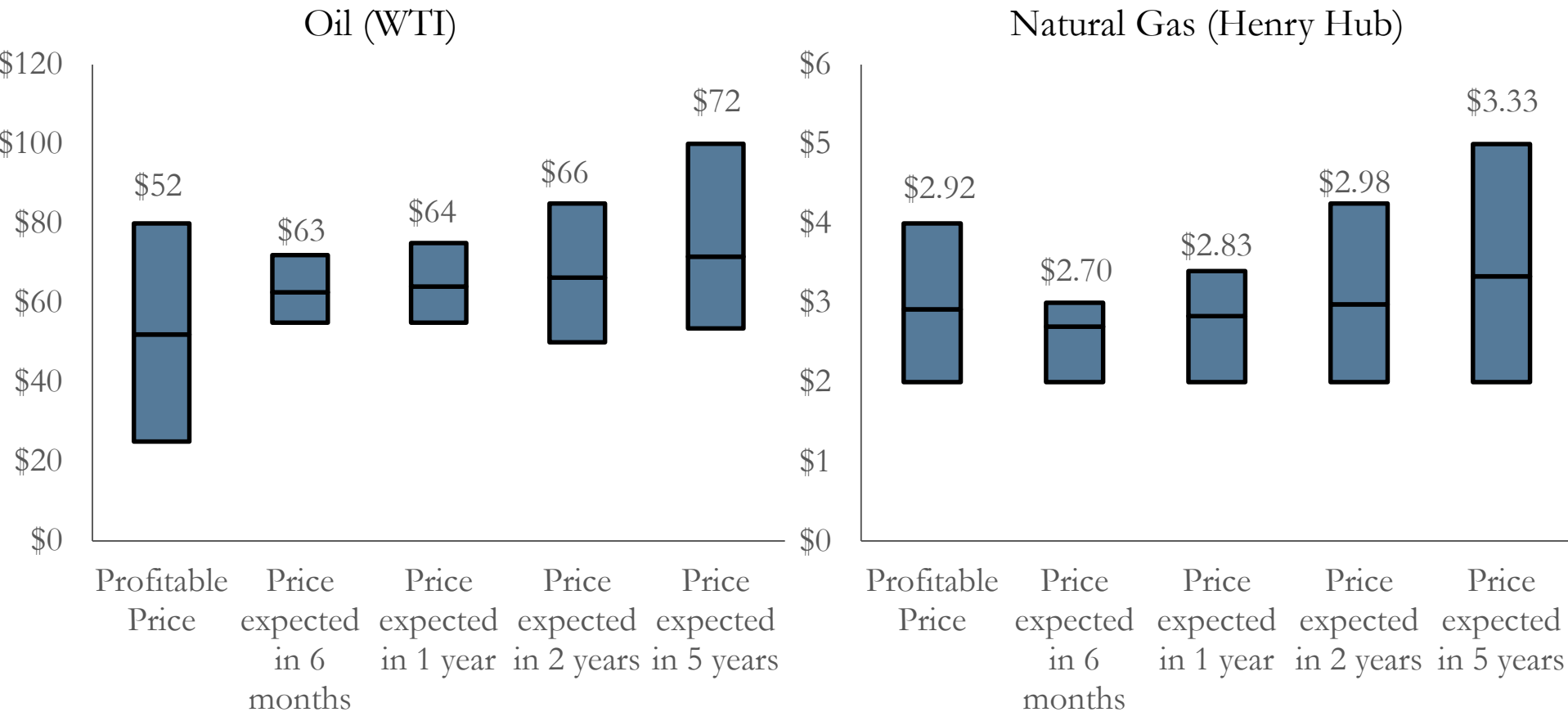
Millions of Barrels, Monthly, Seasonally Adjusted



Oil prices are expected to remain above \$60 over the next two years which is above profitable prices for many U.S. firms.

ENERGY SURVEY SPECIAL QUESTION

Q1:2018

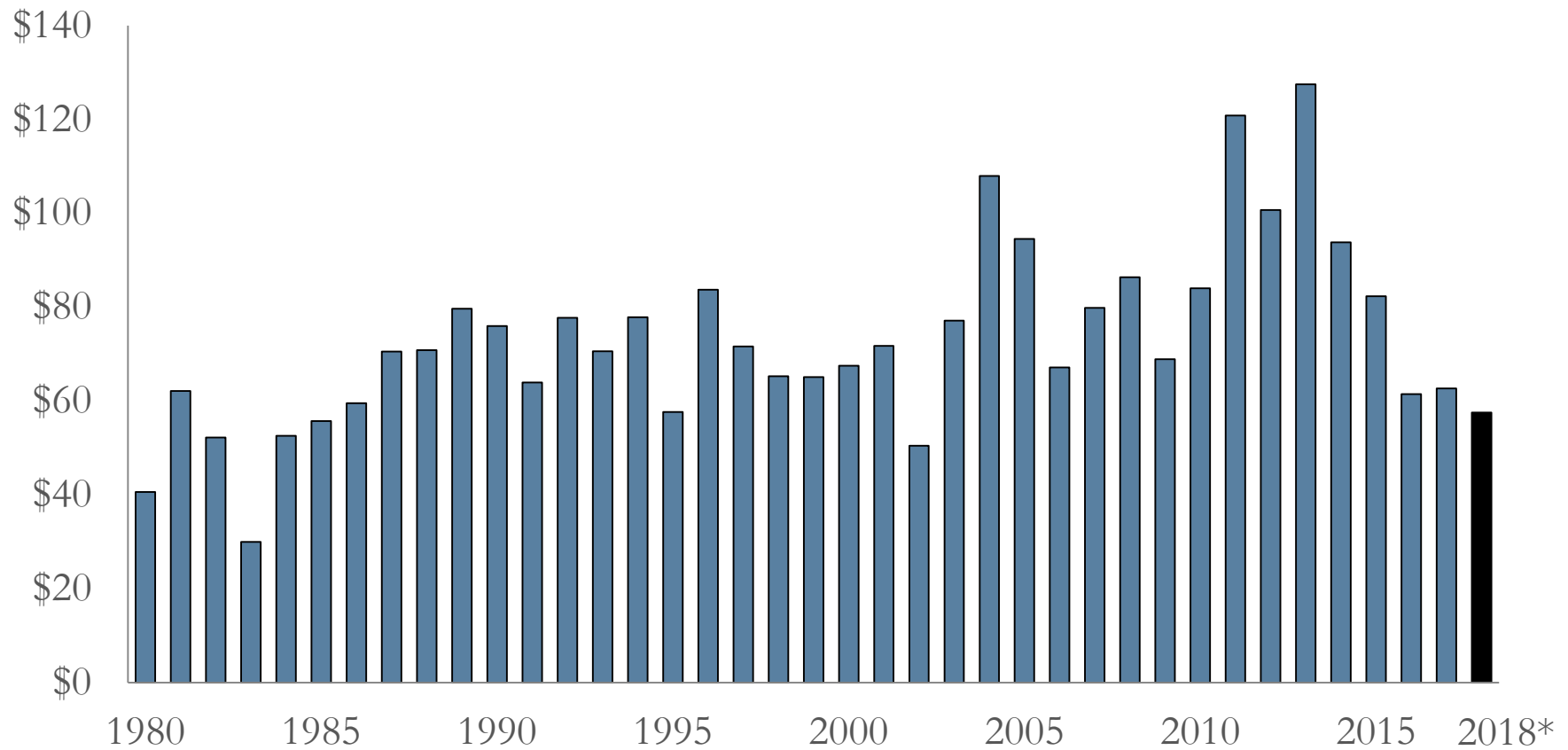


Note: Blue bars represent range for survey respondents. Numbers above bars indicate average of the range (the black line in the middle of the blue bars).

Farm income is projected to decline in 2018, as slight increases in revenues for some commodities are offset by decreases for other commodities.

U.S. REAL NET FARM INCOME

Billion Dollars (Constant 2016 Dollars)



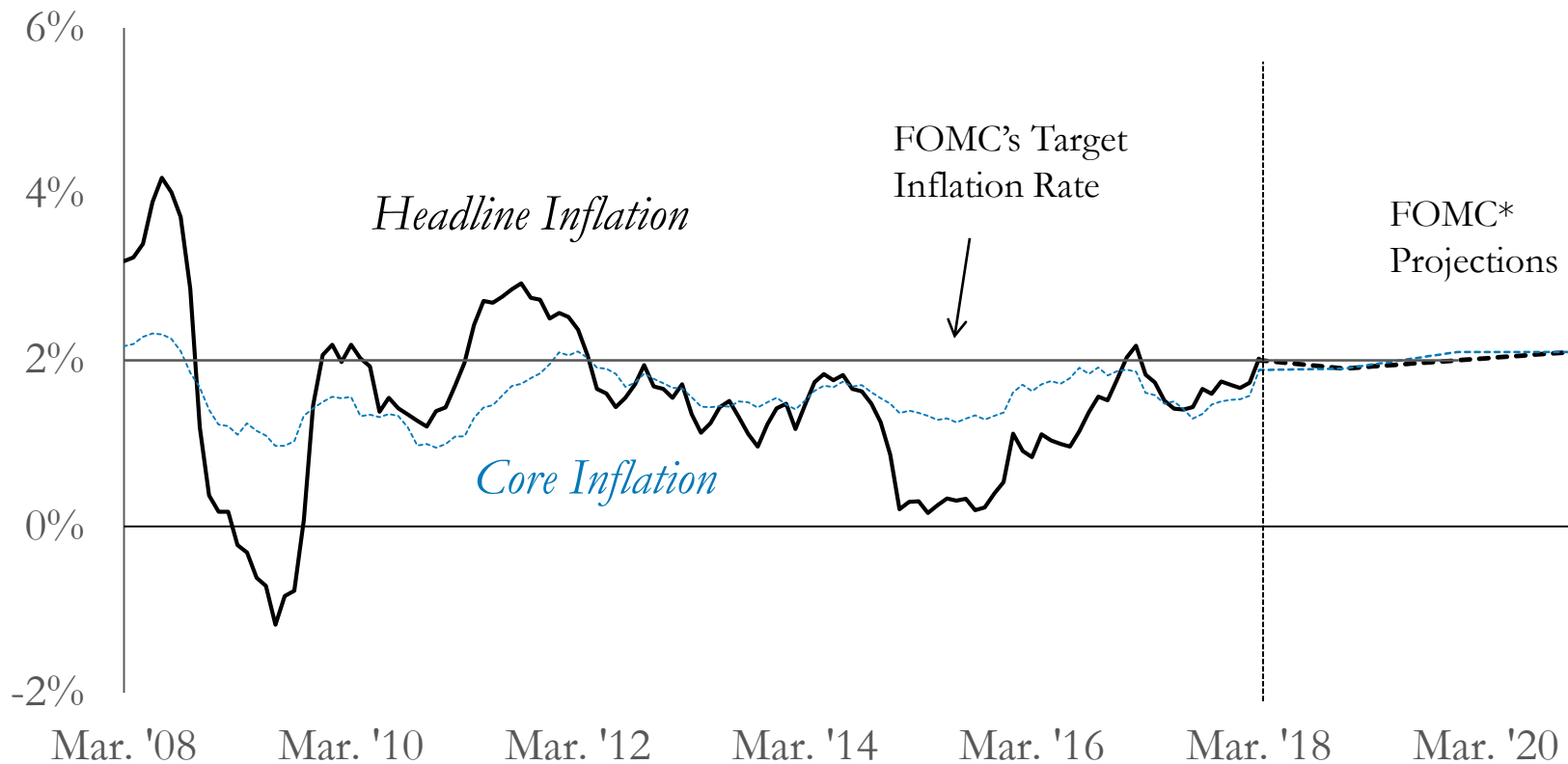
*Projection for 2018

Inflation is near the FOMC's two percent target.



PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX

Percent Change Year-over-Year



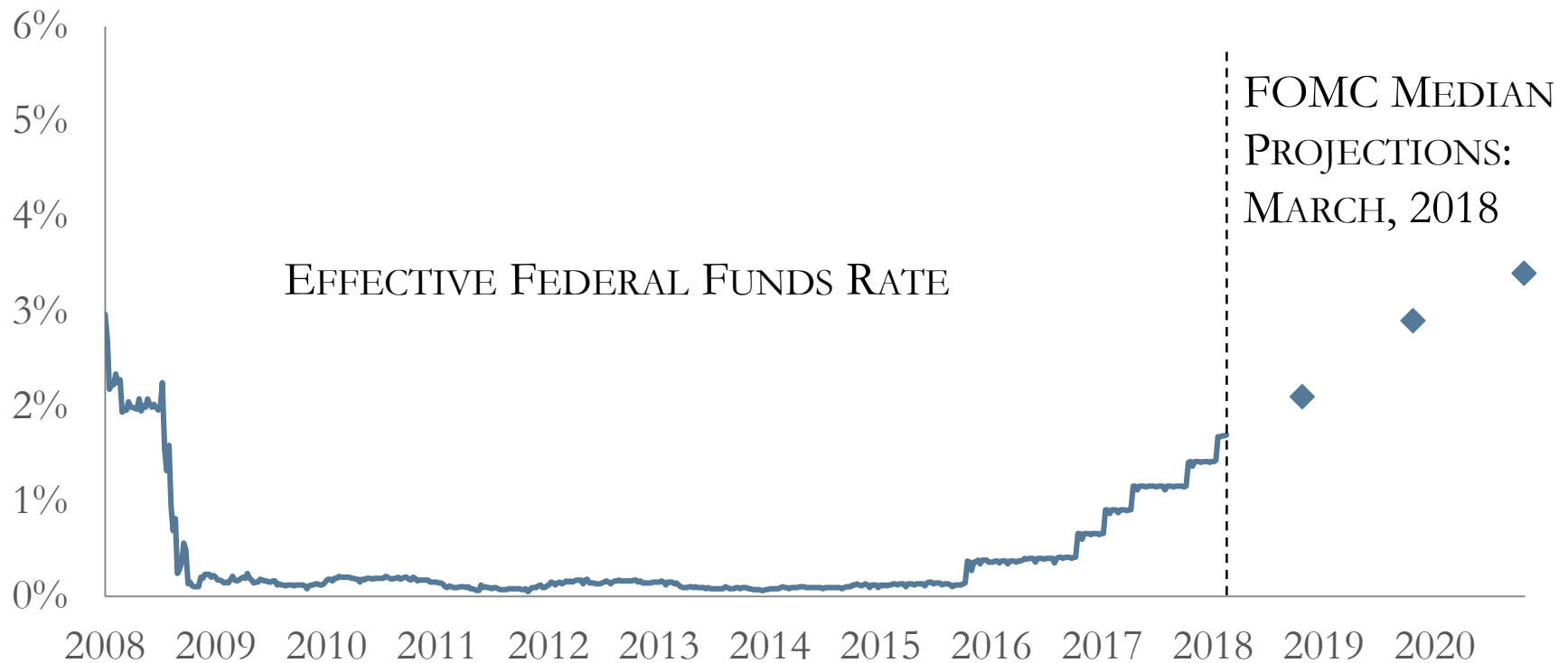
Source: Bureau of Economic Analysis, Federal Open Market Committee, & Haver Analytics

*Projections as of March FOMC meeting; median projections



“In view of realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 1-1/2 to 1-3/4 percent. The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2 percent inflation.”

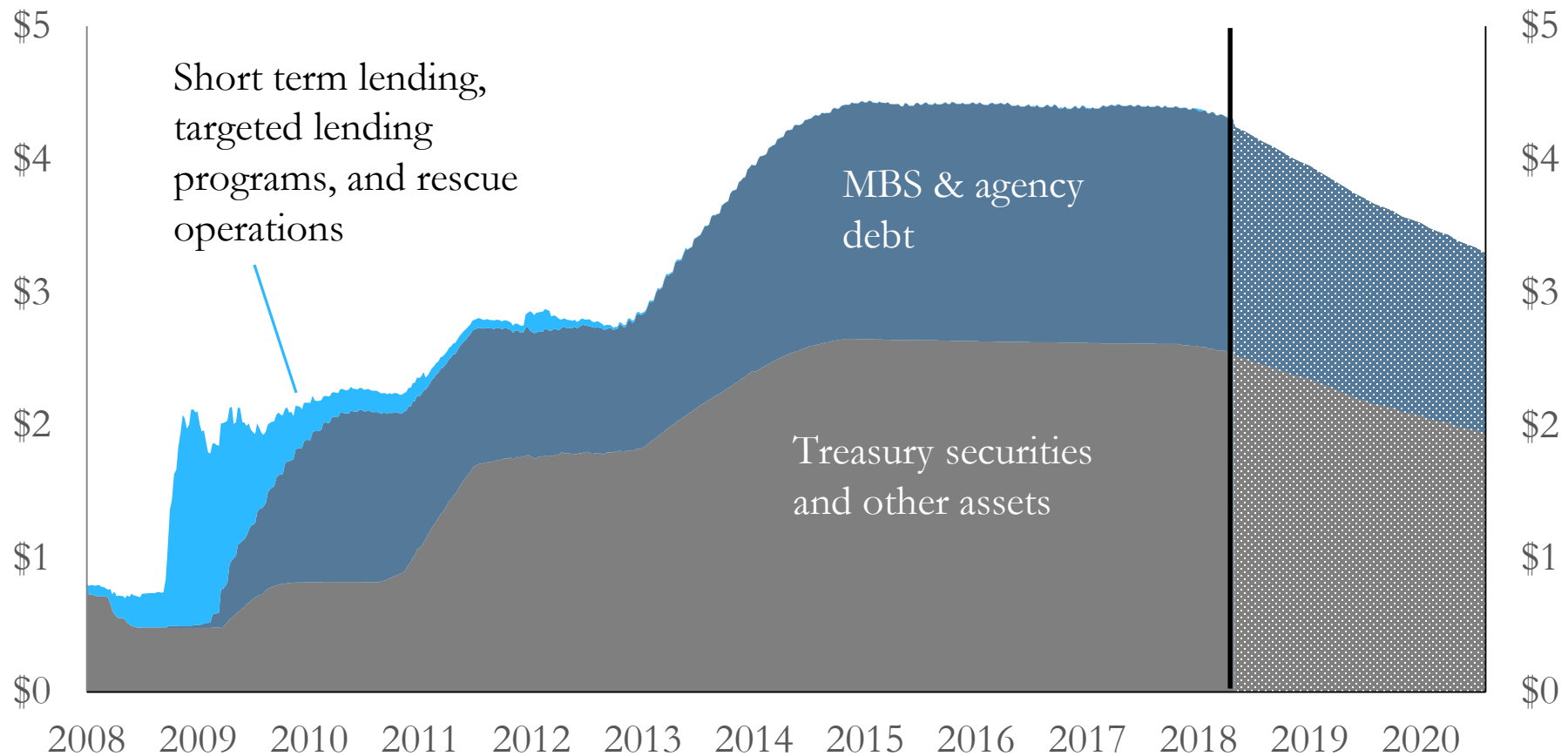
- May 2018 FOMC Statement





FEDERAL RESERVE BALANCE SHEET

Trillions



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

