Emerging Trends in the U.S. and Colorado Economies

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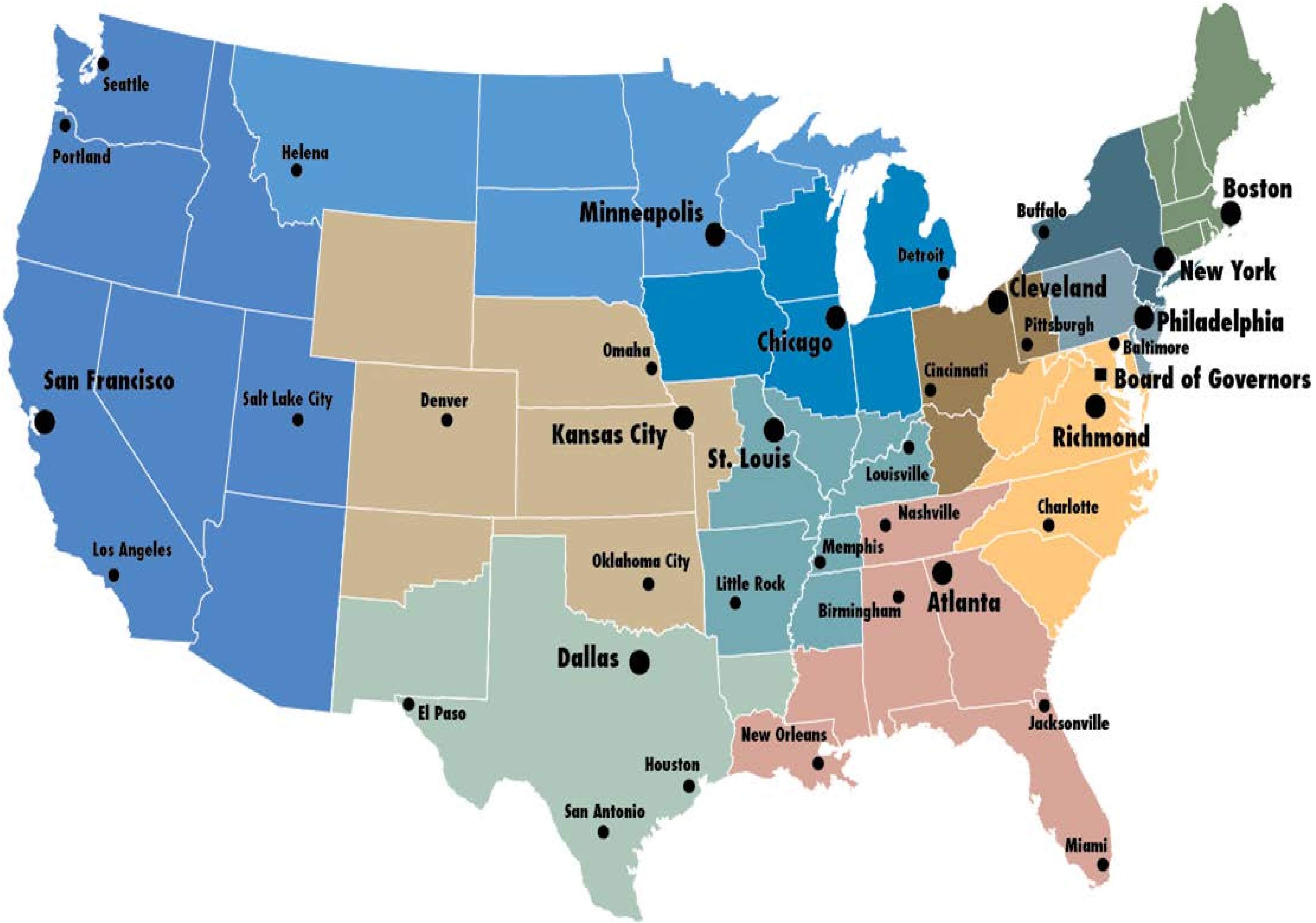
The Structure of the Federal Reserve System

- 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.

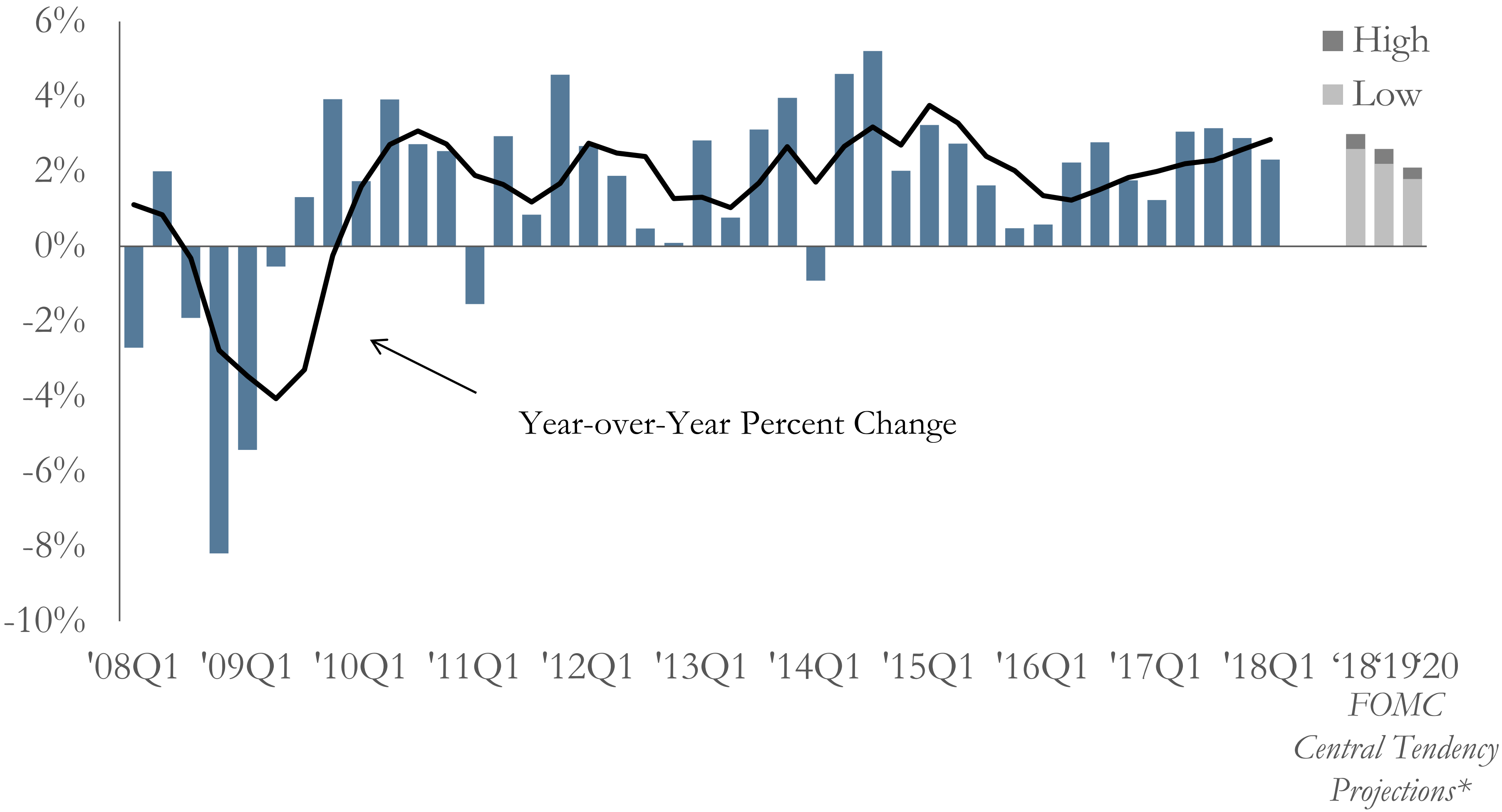
- Provide and Maintain an Effective and Efficient Payments System
  - The Federal Reserve supplies payments services to the public through depository institutions including banks, credit unions and savings and loans.
  - We also serve as a banking and fiscal agent for the United States government.
  - 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 in 2018.

Real U.S. Gross Domestic Product

Percent Change from Previous Quarter at Seasonally Adjusted Annualized Rates



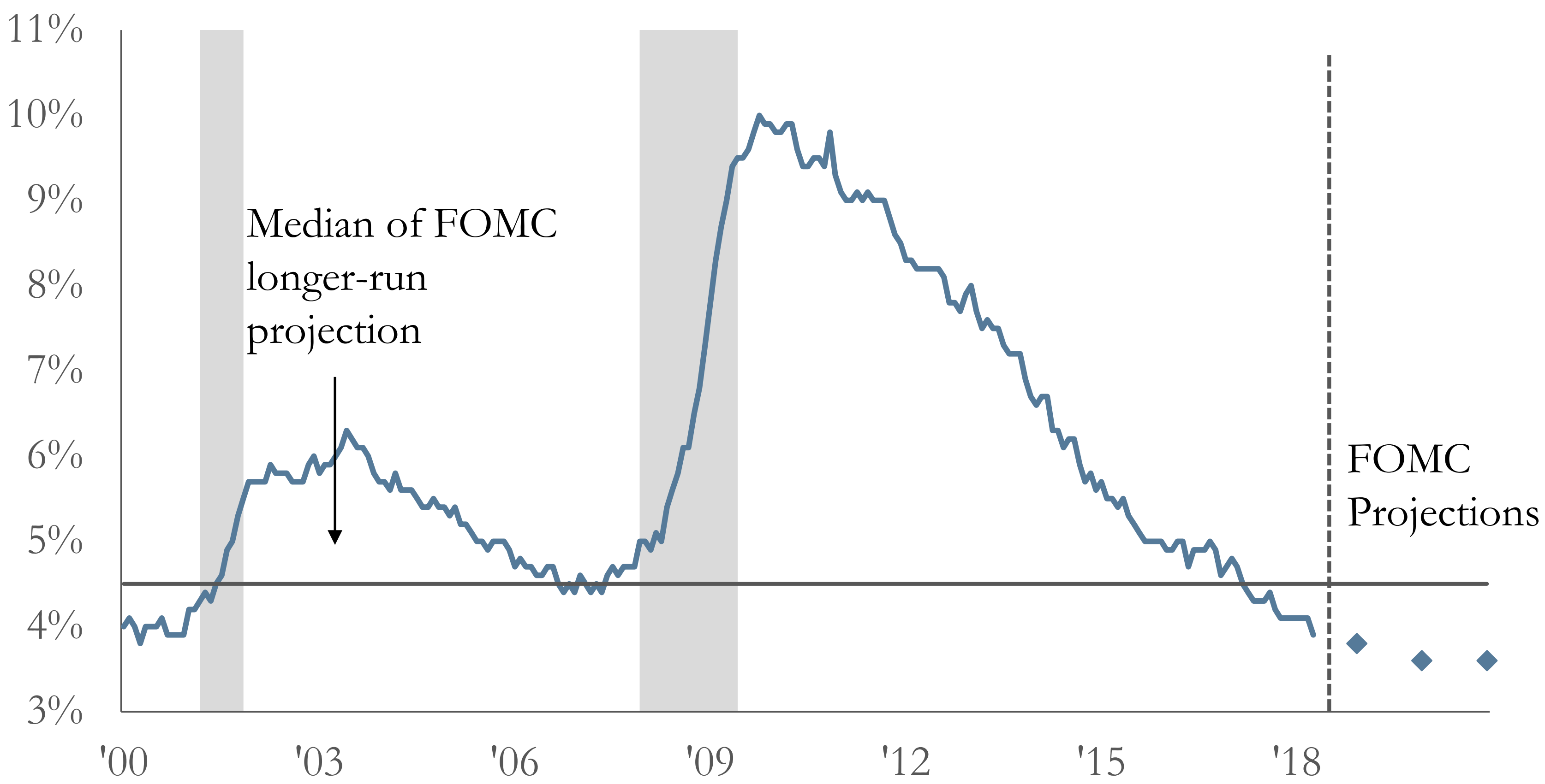
Source: Bureau of Economic Analysis and Federal Open Market Committee (FOMC)/Haver Analytics

**Projections as of March FOMC meeting*

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

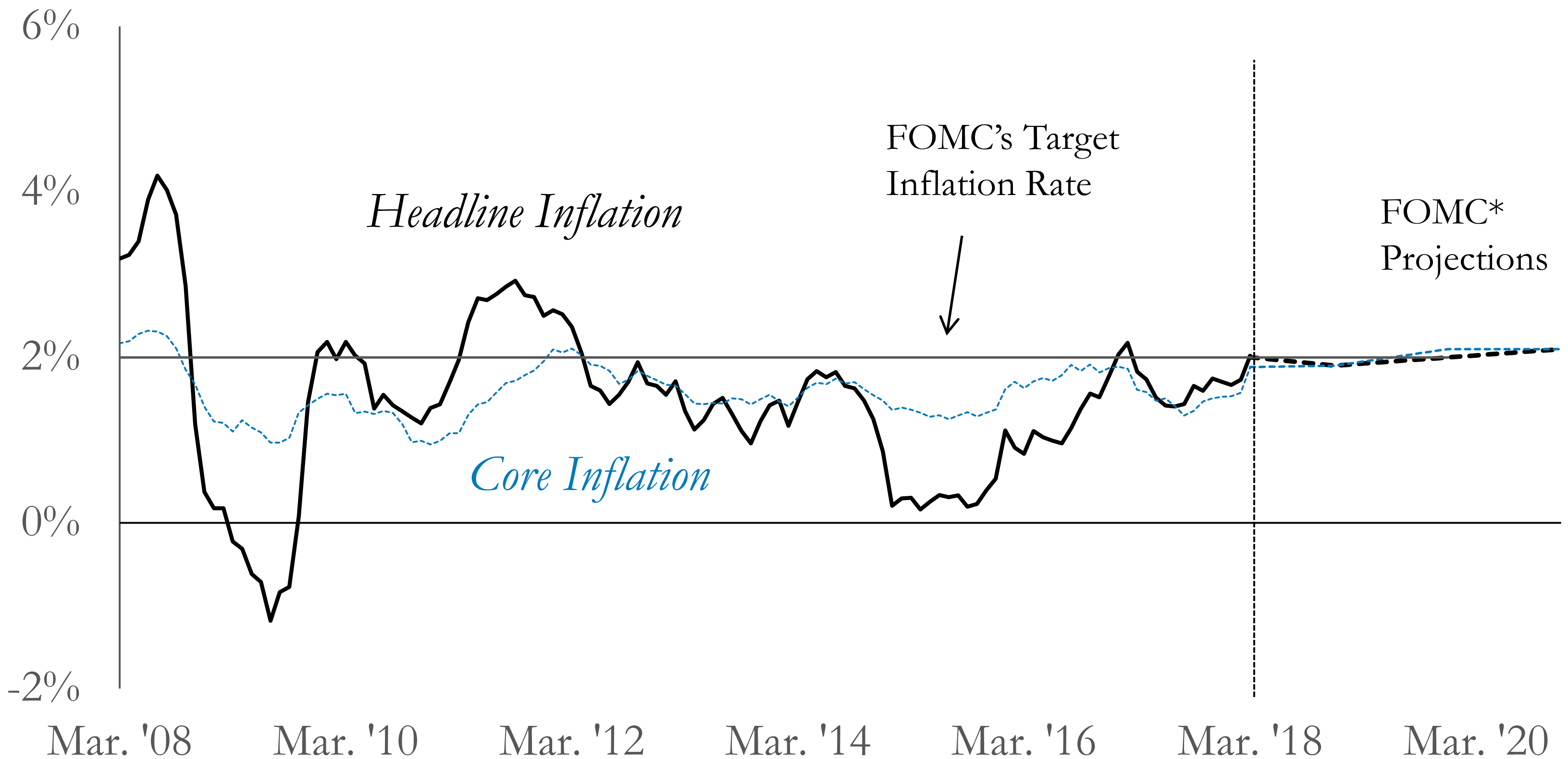


Source: Bureau of Labor Statistics and Federal Open Market Committee (FOMC)/Haver Analytics
**Projections as of March FOMC meeting; median unemployment rate*

Inflation is near the FOMC's two percent target.

Personal Consumption Expenditure Price Index

Percent Change Year-over-Year

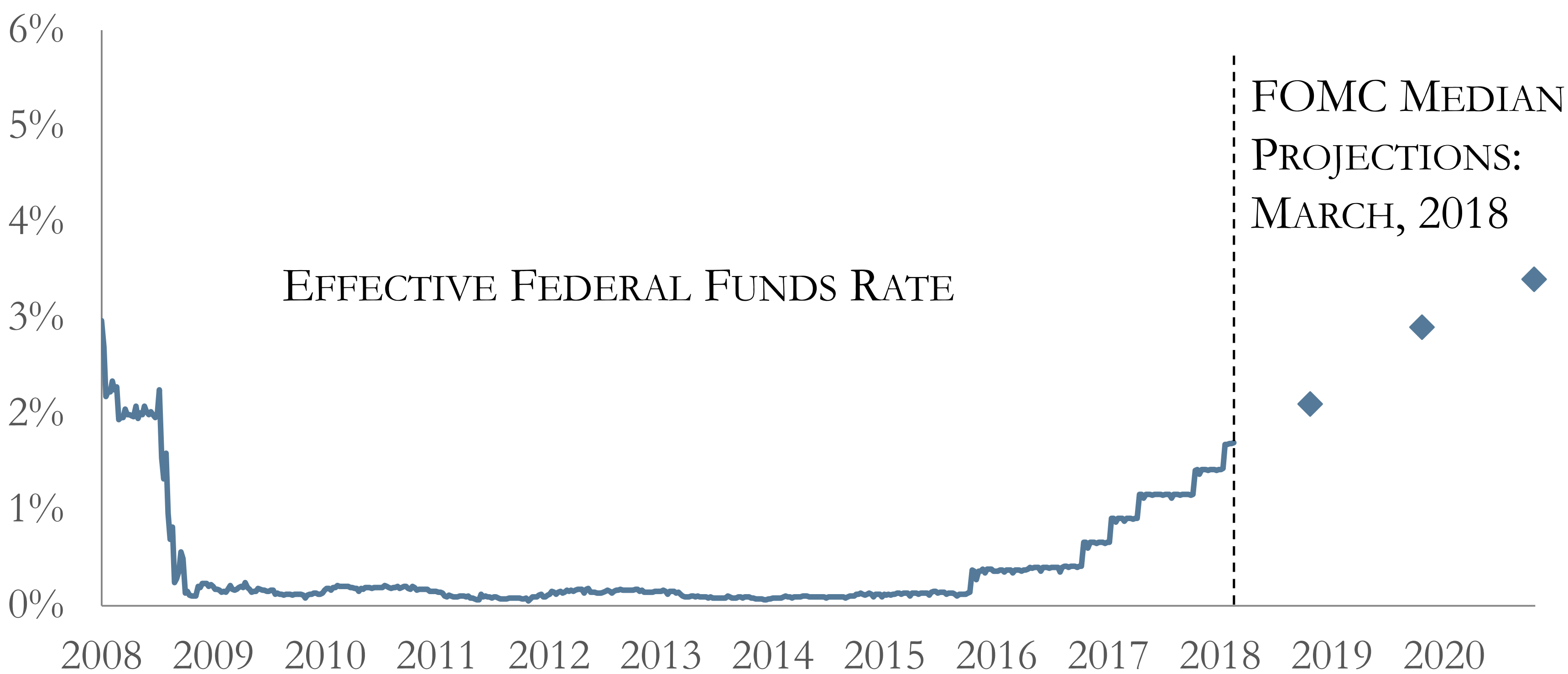


Source: Bureau of Economic Analysis, Federal Open Market Committee, & Haver Analytics

**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.”

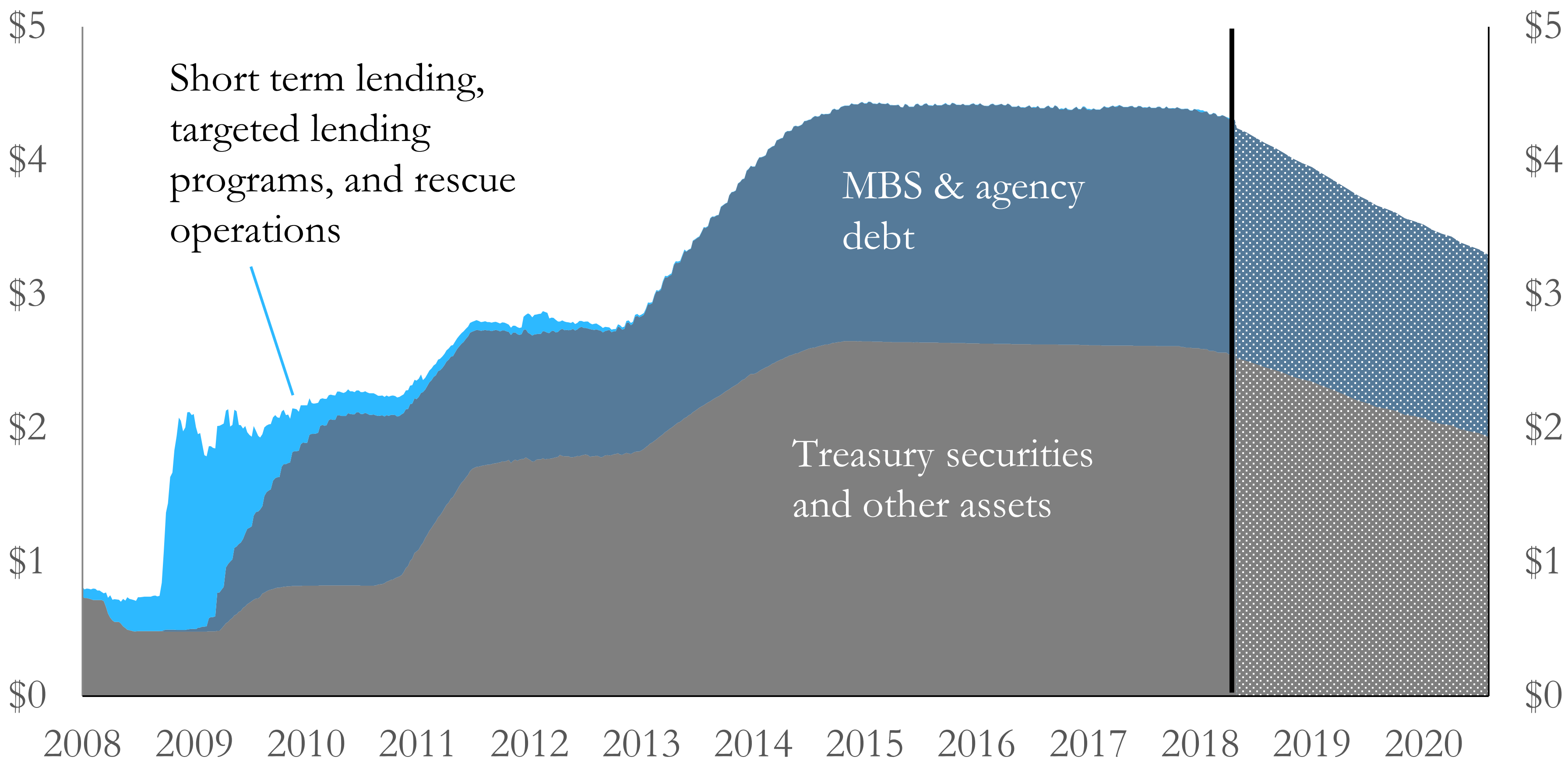
- May 2018 FOMC Statement



Source: Federal Reserve Board

Federal Reserve Balance Sheet

Trillions

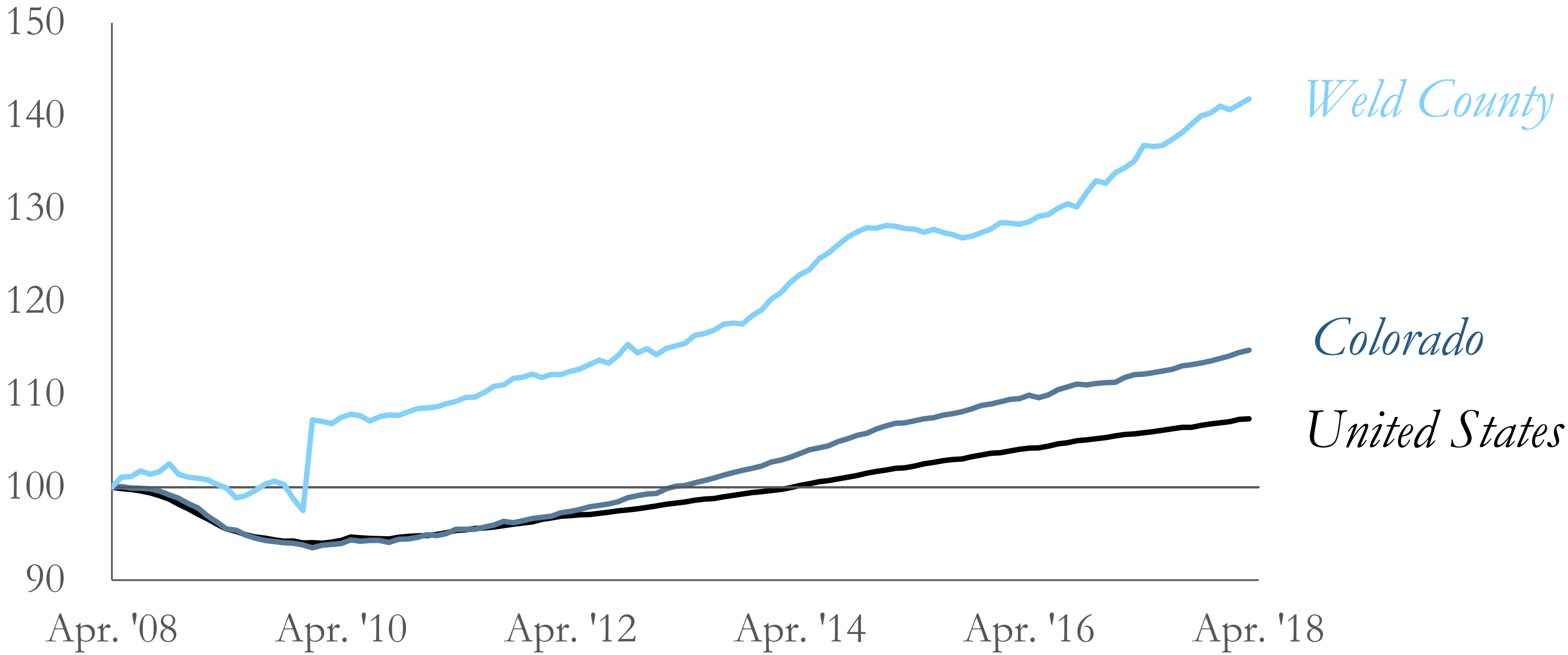


Employment has been increasing in Colorado and the nation over the past eight years, with Colorado gains outpacing the nation.

Payroll Employment Growth

Index 100 = April, 2008, Seasonally Adjusted

Percent Change	*Past 10 Years*	*Past Year*
U.S. (Apr. '18)	7.5%	1.6%
Colorado (Mar. '18)	14.9%	2.4%
Weld County (Mar. '18)	41.3%	4.9%

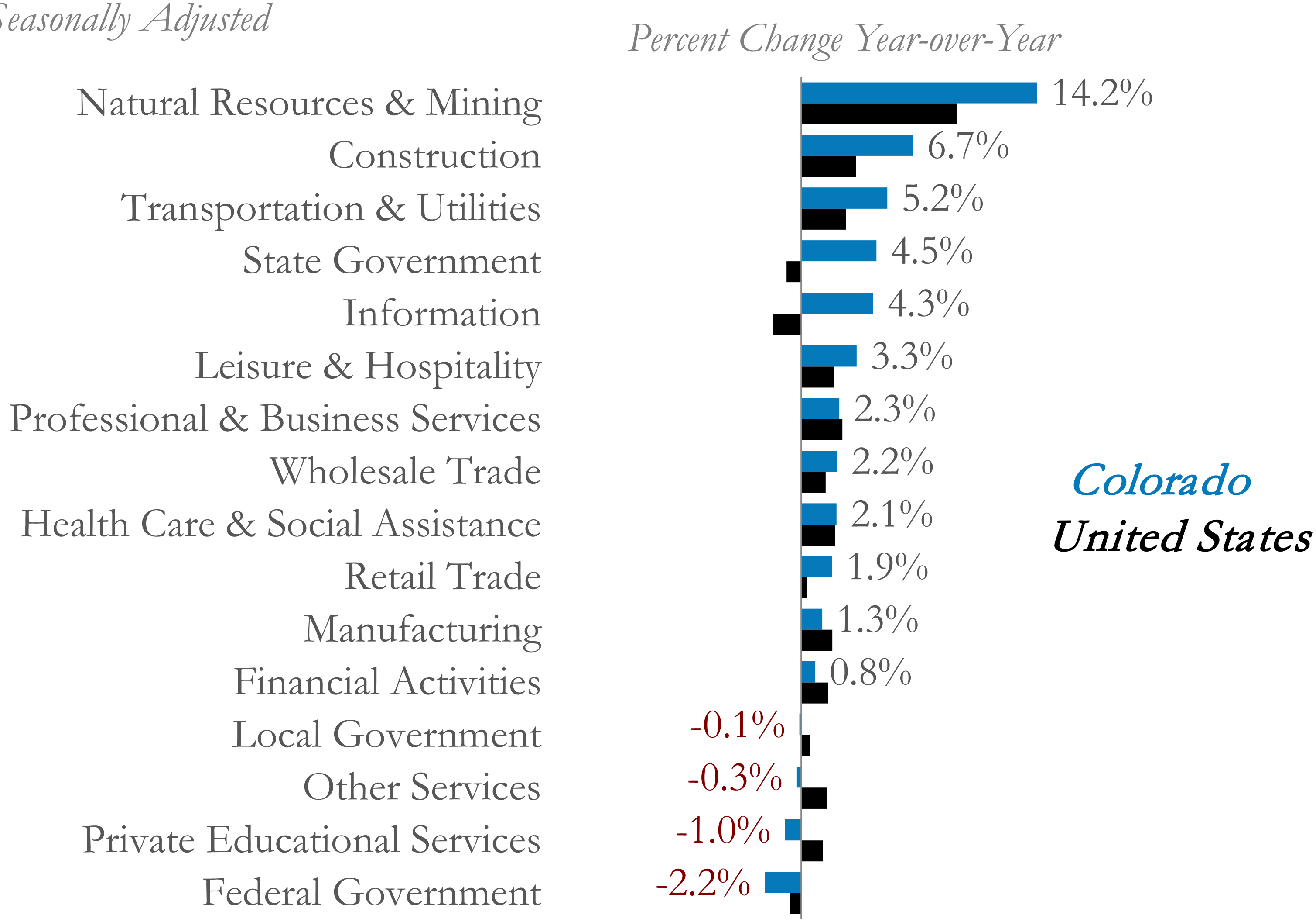


Source: Bureau of Labor Statistics

The majority of industries have added jobs over the past year.

Change in Payroll Employment, March 2018

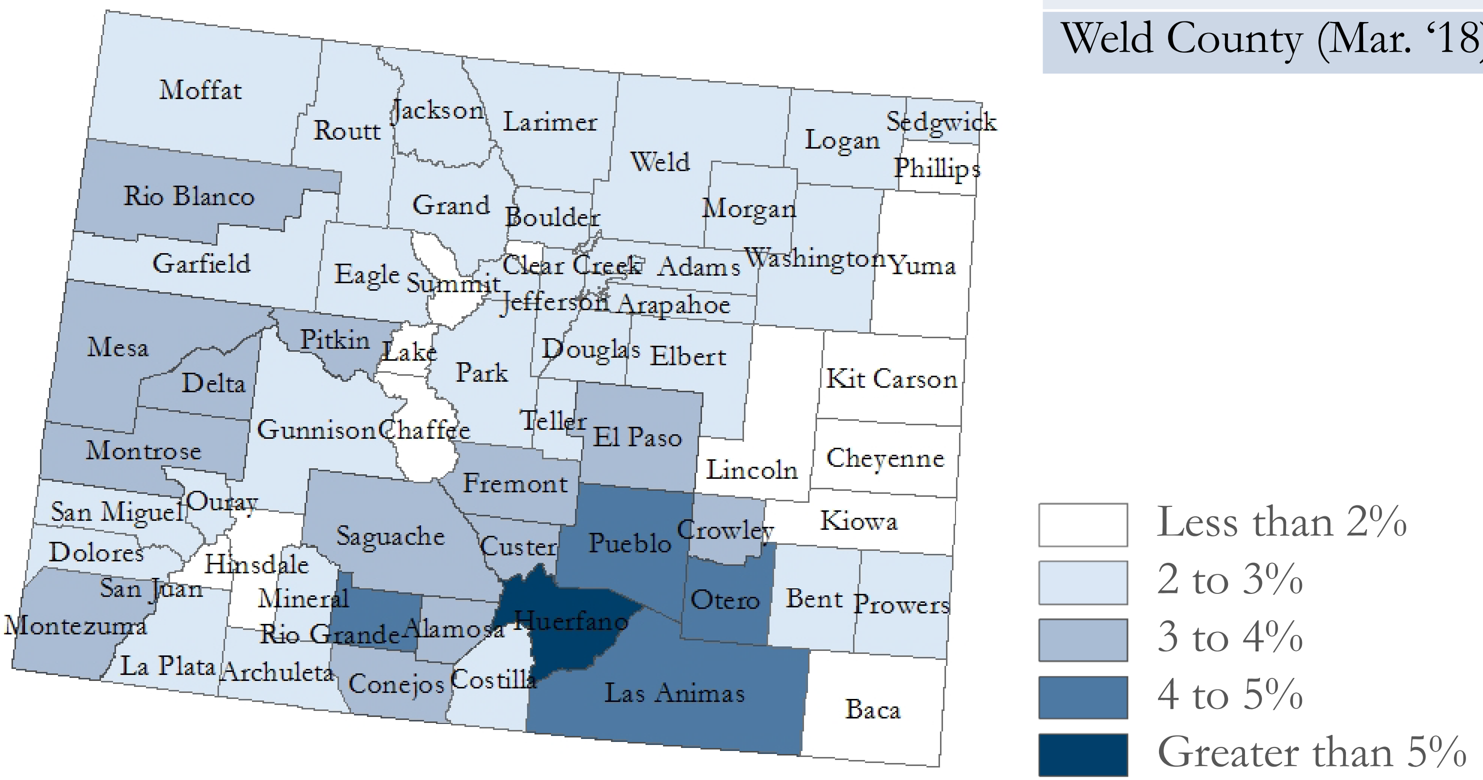
Seasonally Adjusted



Unemployment rates are below national rates across most of Colorado.

Unemployment Rates

March 2018, Seasonally Adjusted



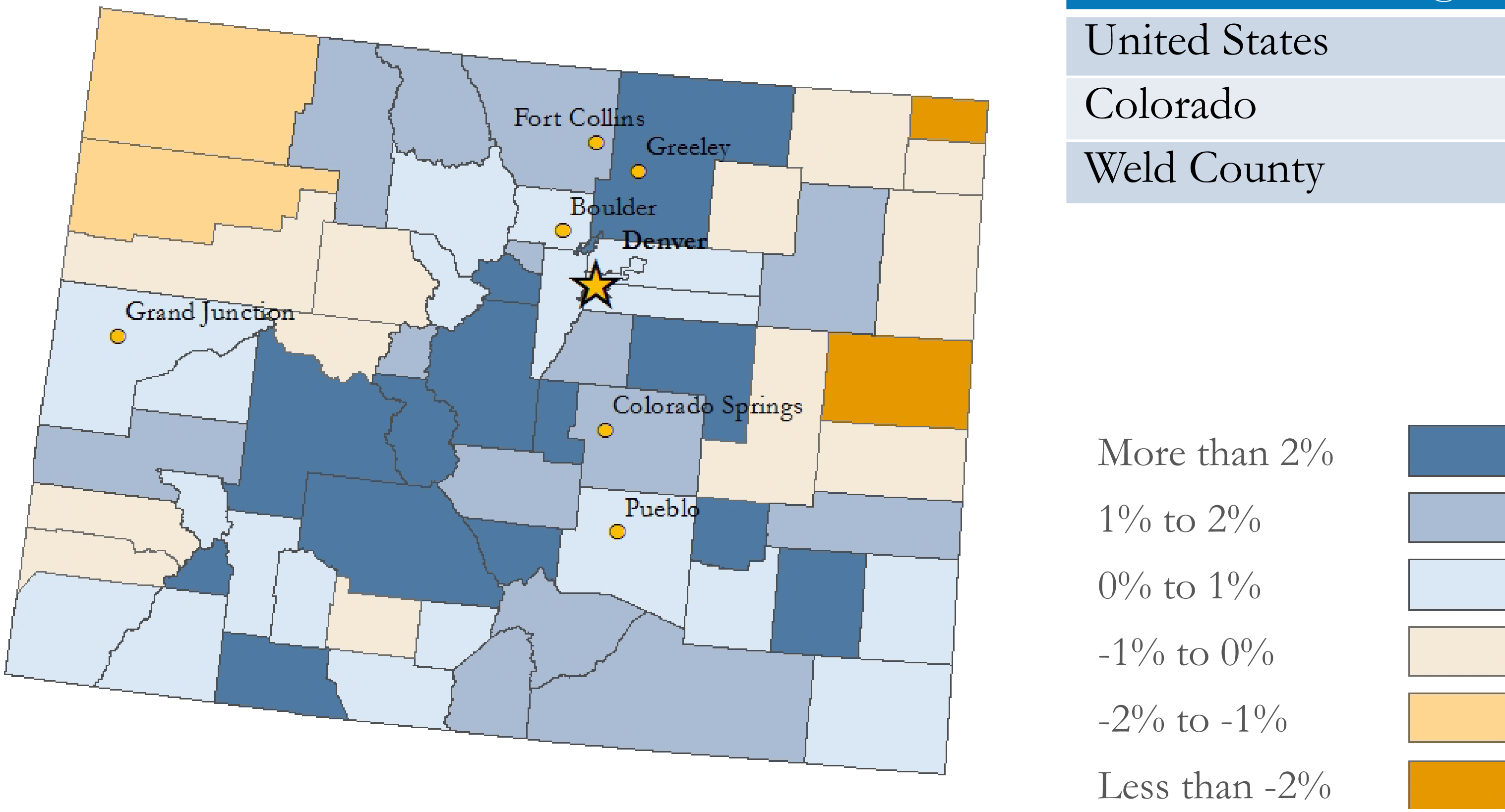
Unemployment Rate	
United States (Apr. '18)	3.9%
Colorado (Mar. '18)	3.0%
Weld County (Mar. '18)	2.4%

Source: Bureau of Labor Statistics and Haver Analytics

Colorado continues to experience net in-migration, but the pace of growth has slowed over the past year.

Net Migration

Total 2017 Net Migration as a Percentage of 2017 Population



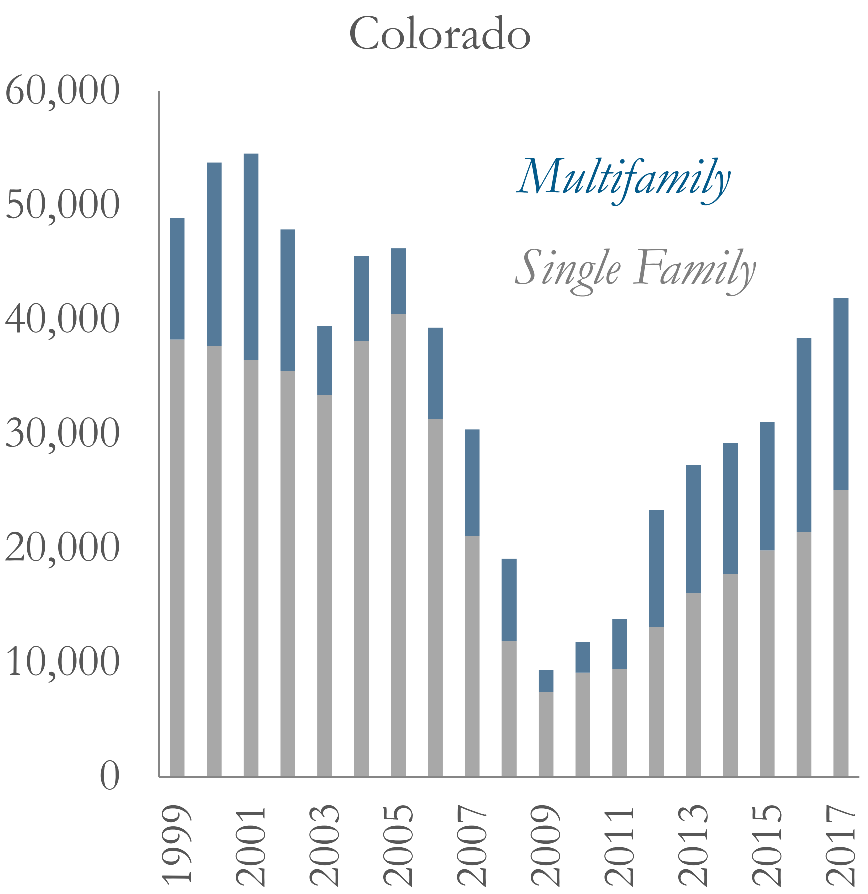
Annual Percent Change	*2017*
United States	0.3%
Colorado	0.8%
Weld County	2.5%

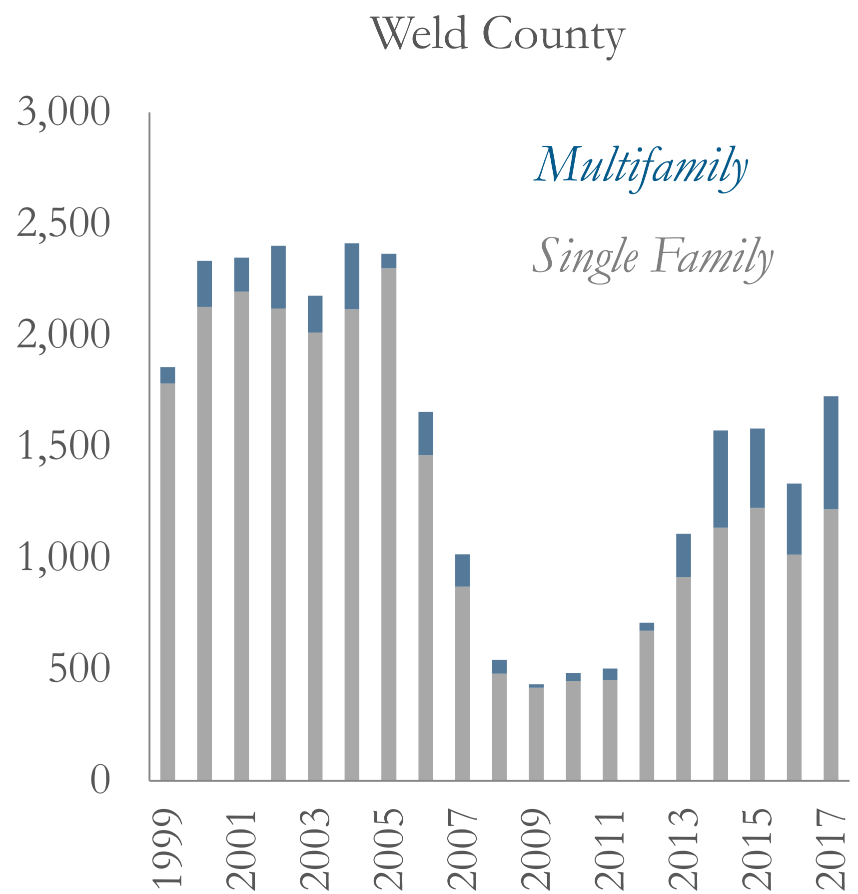
Source: Census Bureau

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

Residential Permits

Annual, Seasonally Adjusted



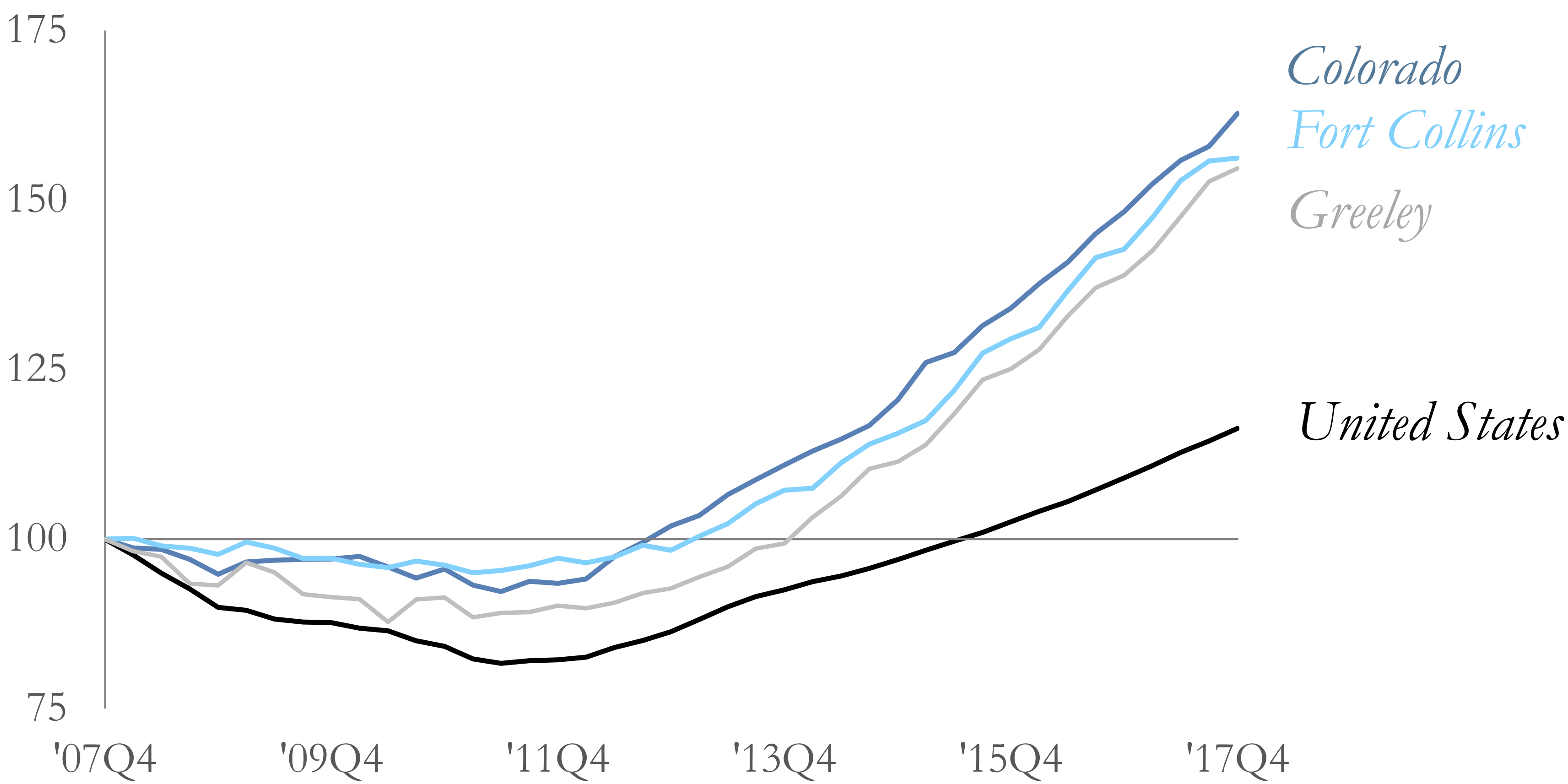


Source: Census Bureau/Haver Analytics

Low inventories have led to strong home price appreciation in recent years in Colorado.

Home Prices

Seasonally Adjusted, Index 100 = Q4:2007

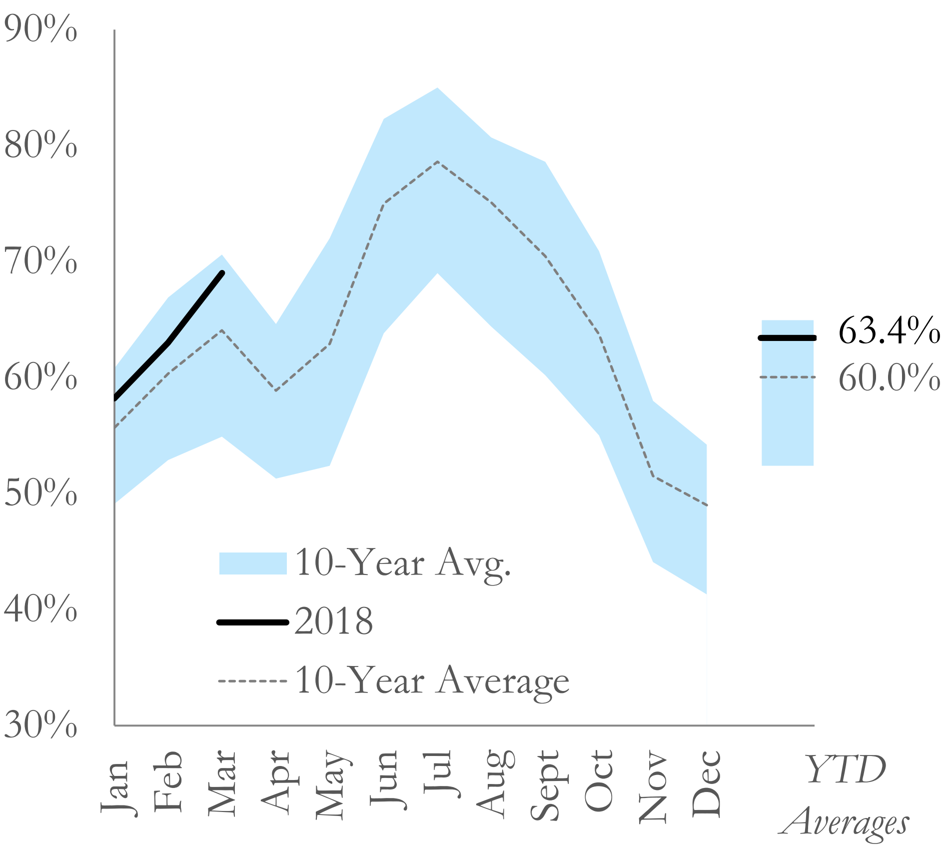


Note: United States and Colorado price indices are for purchase-only transactions, whereas Fort Collins and Greeley include re-financing and purchase transactions.

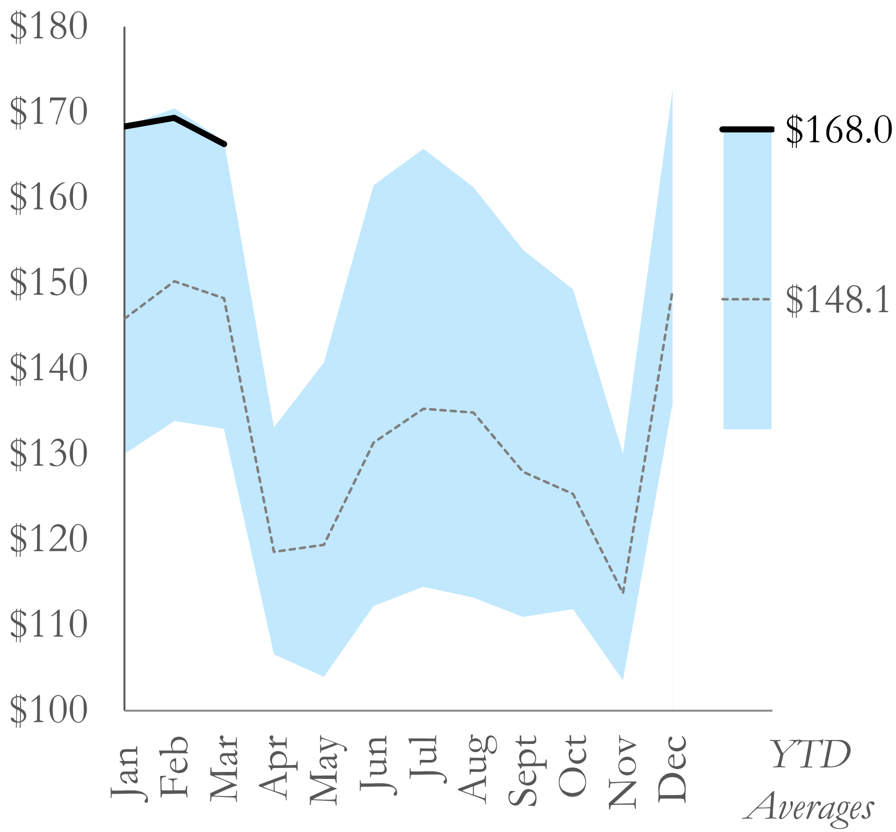
Source: Federal Housing Finance Agency

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

Hotel Occupancy Rates
Colorado



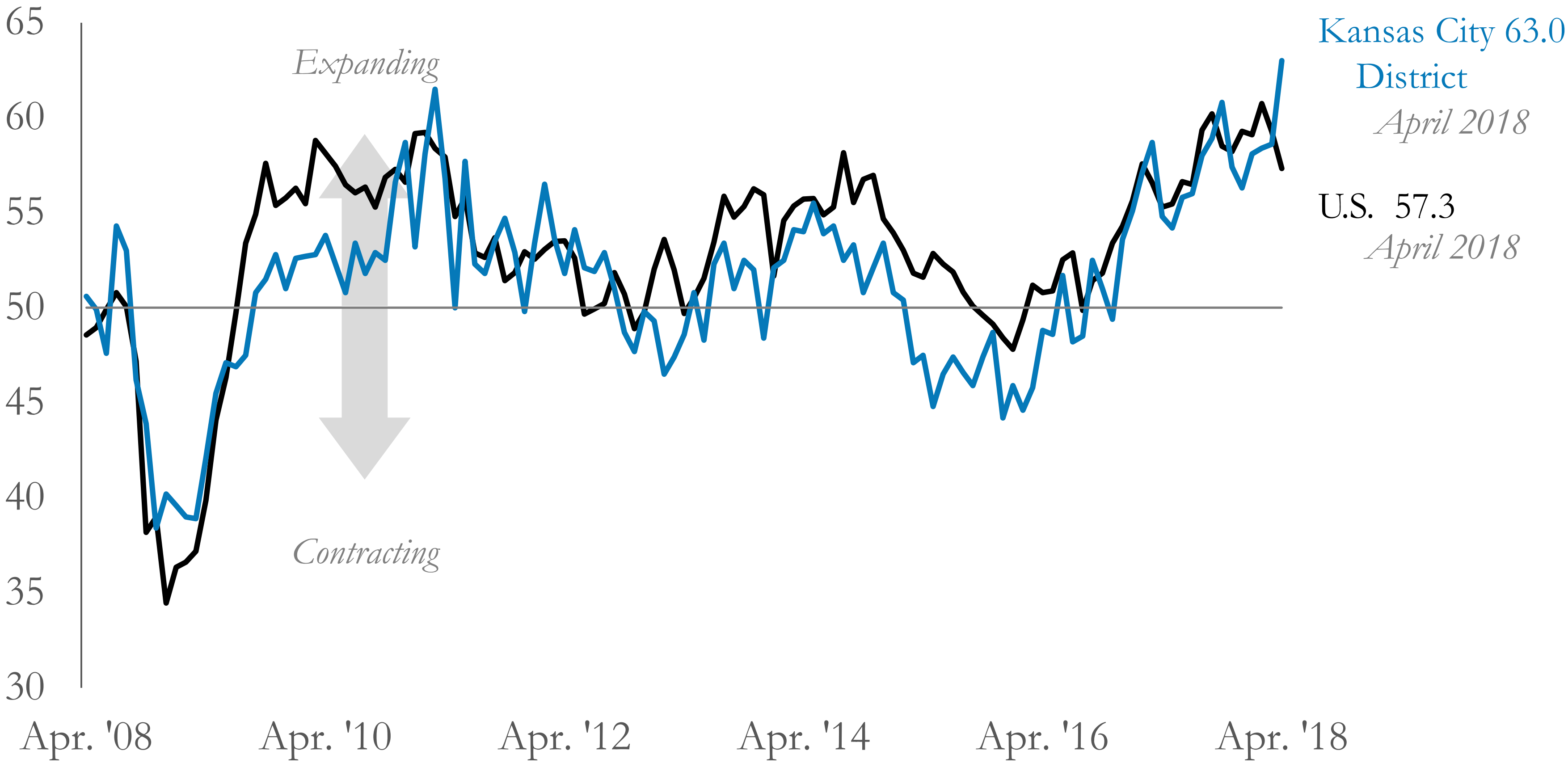
Hotel Room Rates
Colorado, 1999 Dollars



Manufacturing activity improved throughout 2017 and remains at solid levels.

Manufacturing Activity

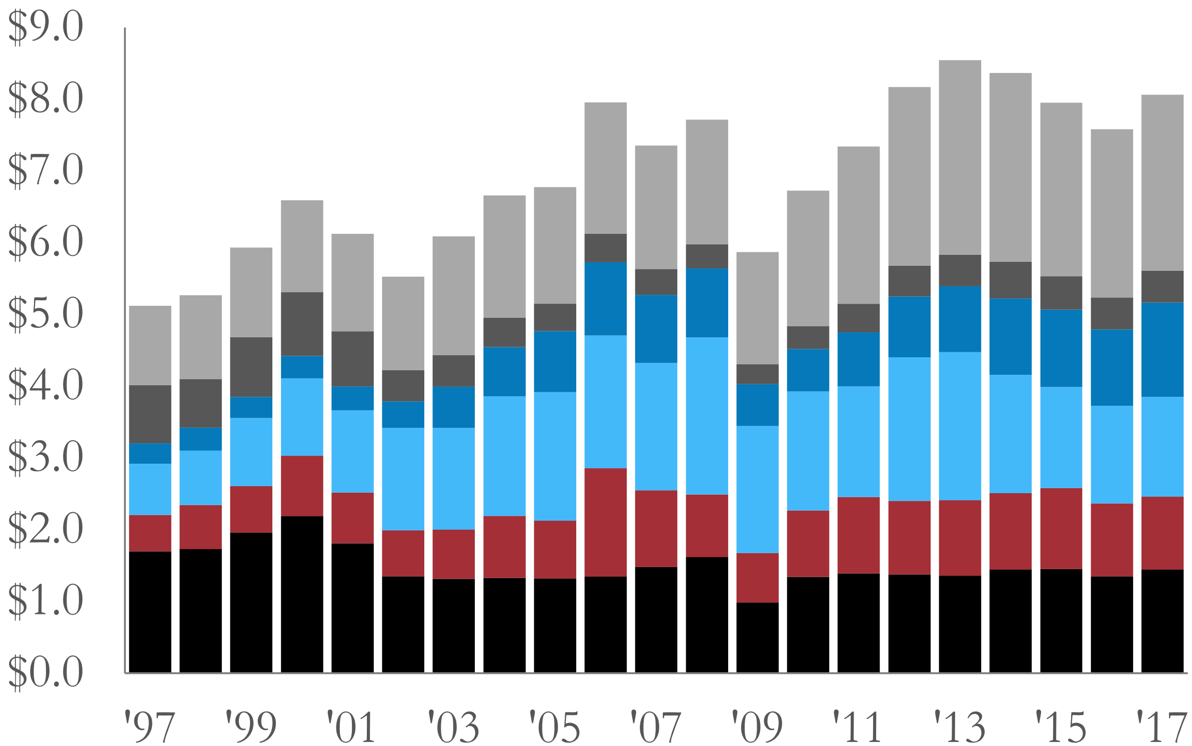
Diffusion Index, Seasonally Adjusted, Month-over-Month



Colorado exporting activity also rebounded modestly in 2017.

Colorado Exports by Trading Partner

Billions



2017

Year-over-Year Percent Change

Total Trade	6.4%	Share
All Other	4.6	30.4%
Japan	0.2	5.5
Mexico	23.2	16.3
Canada	2.5	17.3
China	0.0	12.6
Eurozone	6.8	17.9

Source: WISERTrade and Census Bureau

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

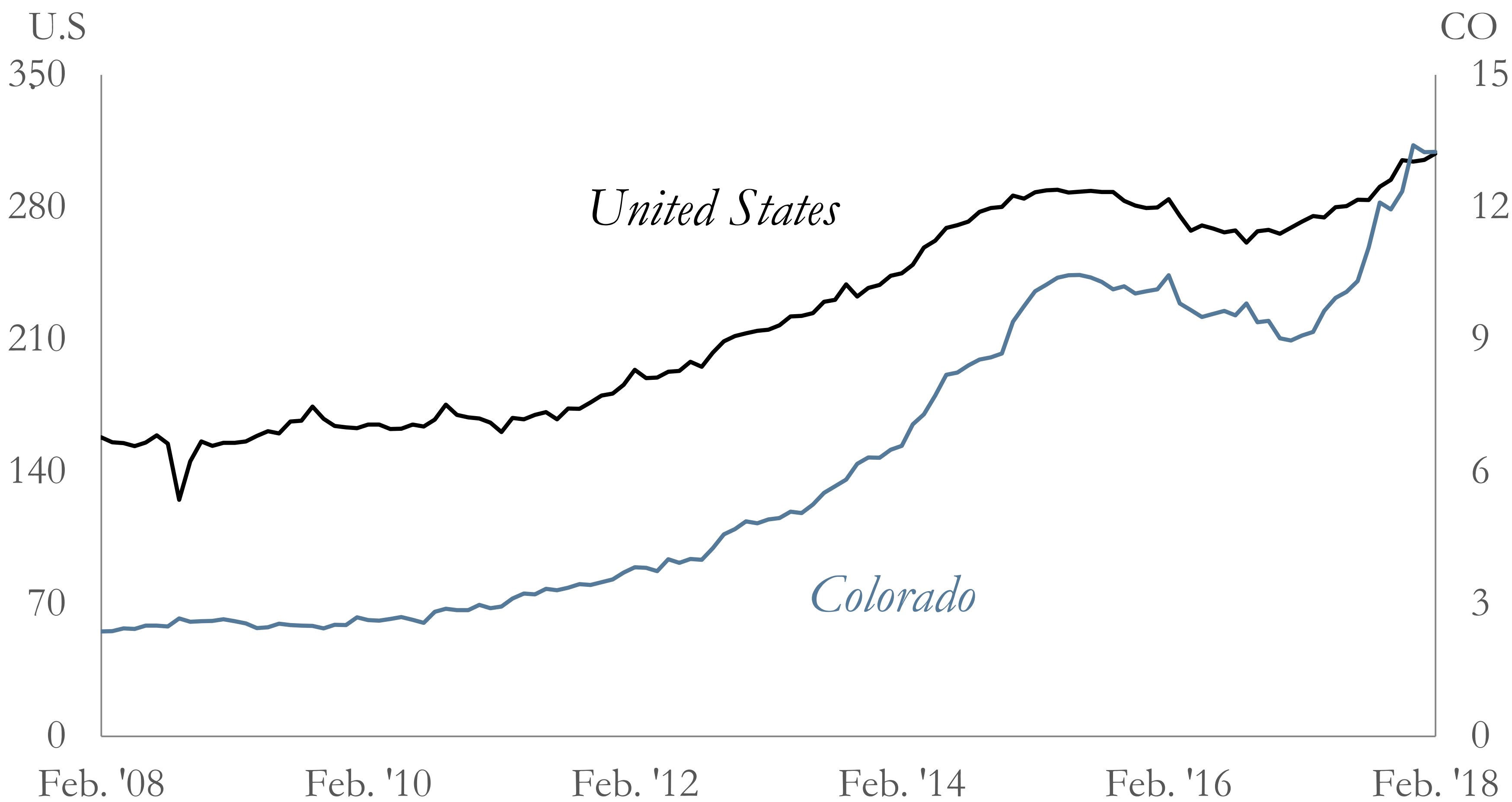
Oil Prices (West Texas Intermediate)

Source: Bloomberg Energy Services

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

Crude Oil Production

Millions of Barrels, Monthly, Seasonally Adjusted

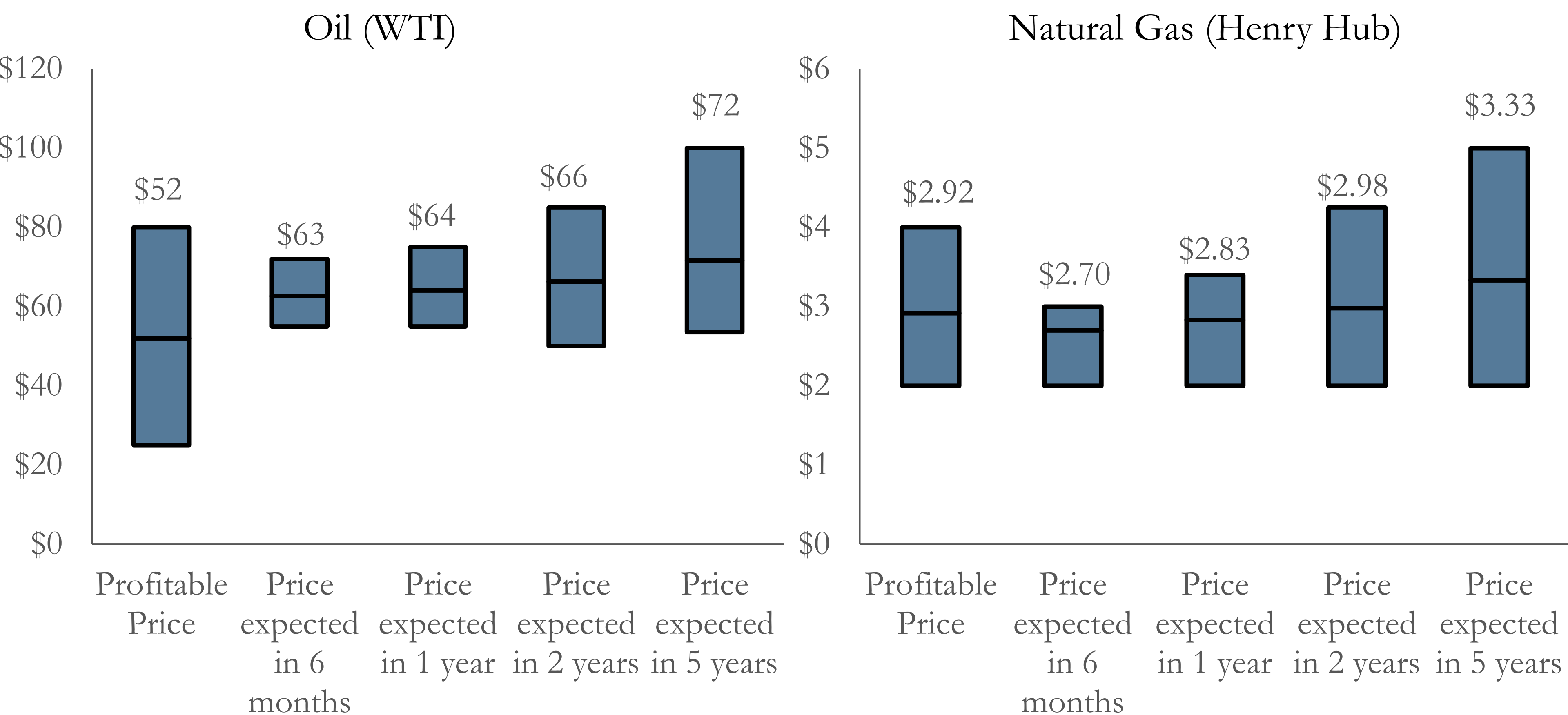


Source: Energy Information Administration and Haver Analytics

Oil prices are expected to remain above $60 over the next two years which is above profitable prices for most District firms.

ENERGY SURVEY SPECIAL QUESTION

Q1:2018



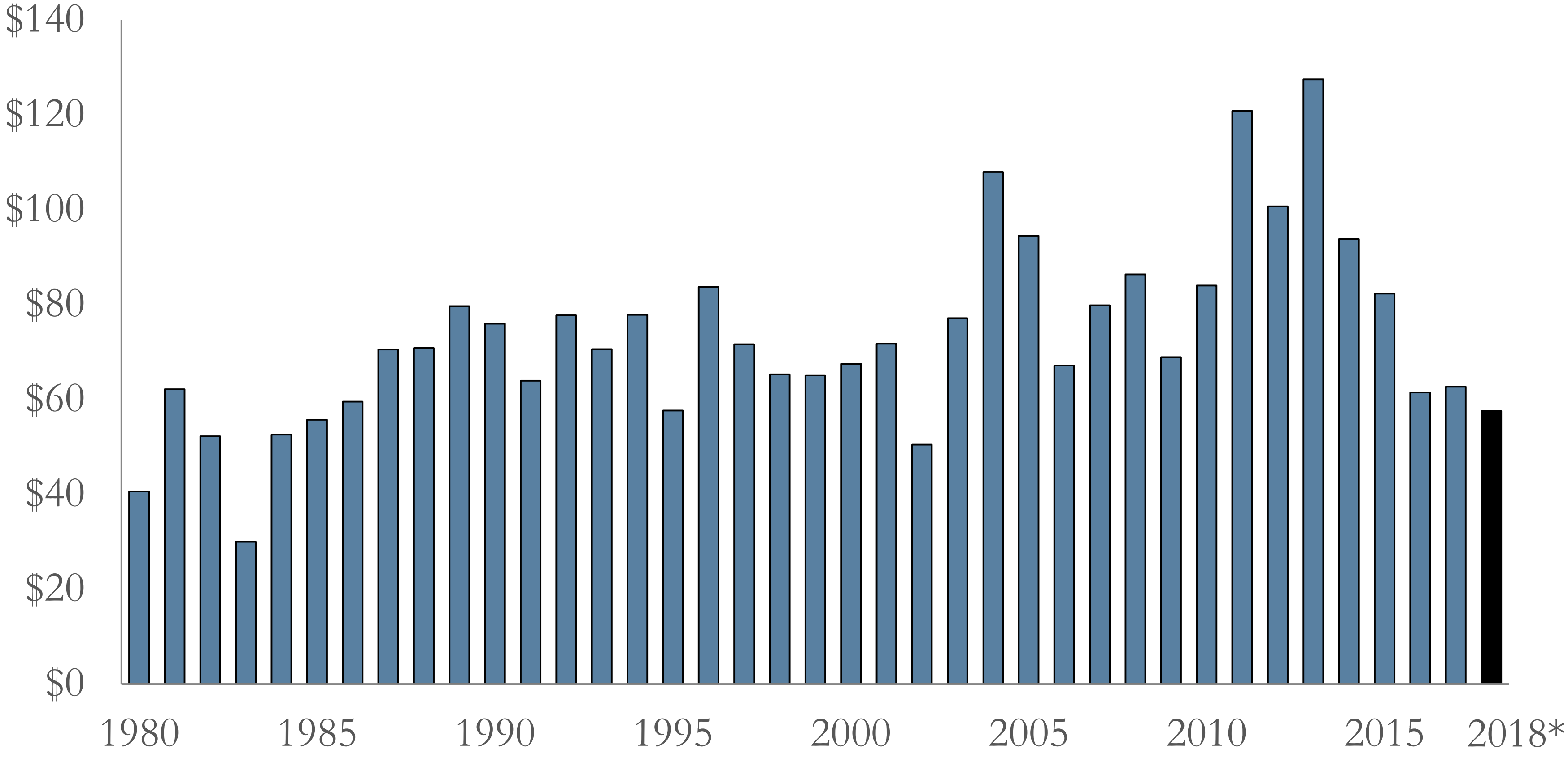
Note: Blue bars represent range for survey respondents. Numbers above bars indicate average of the range (the black line in the middle of the blue bars).

Source: Kansas City Federal Reserve Bank Energy Survey

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)



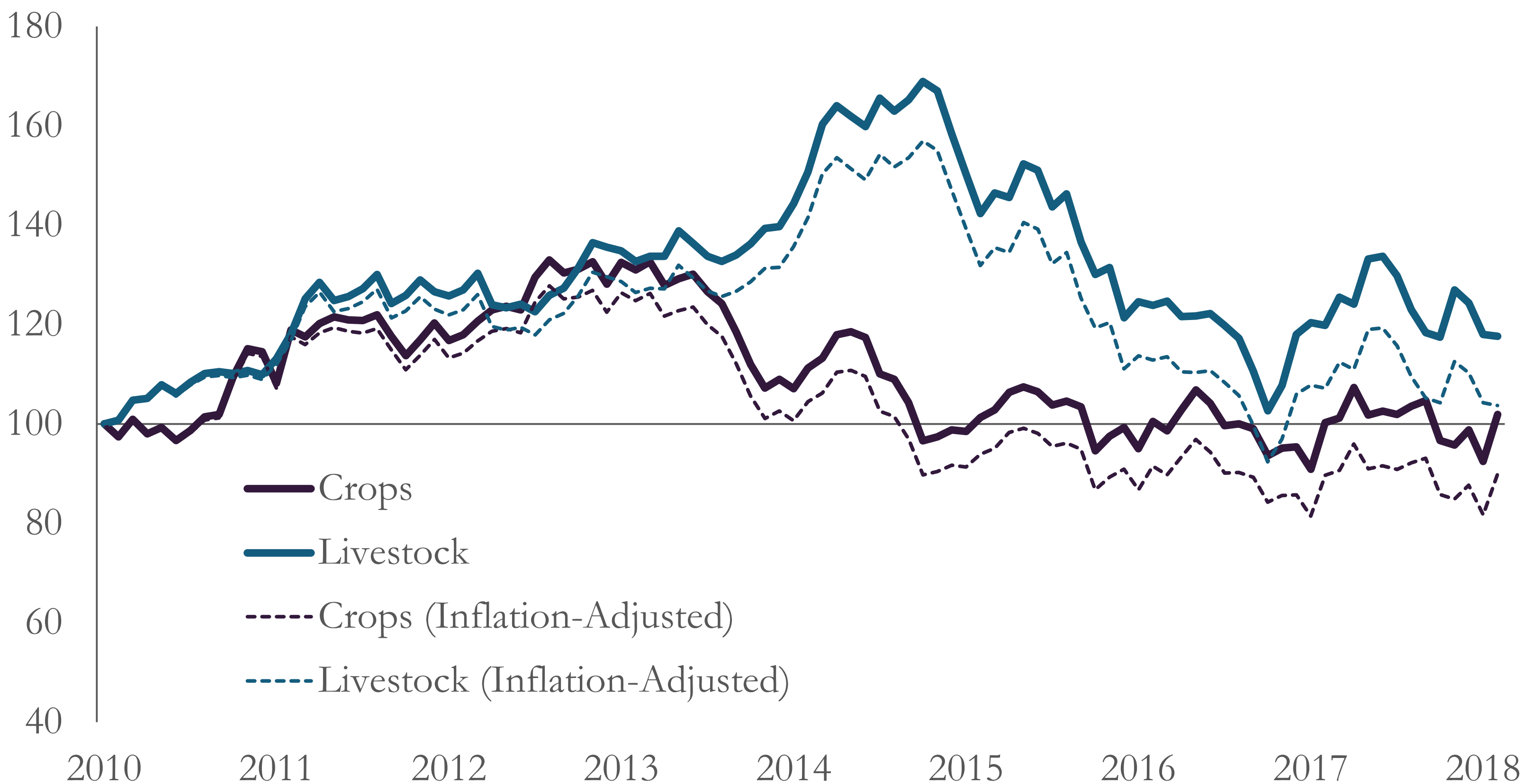
*Projection for 2018

Source: USDA

Agricultural commodity prices generally remain low and are a primary concern in the ag economy.

Agricultural Commodity Prices

Index, 2010 = 100



*Projection for 2018

For additional information on the regional economy:

http://www.KansasCityFed.org/Denver