Emerging Trends in the U.S. and Colorado Economies

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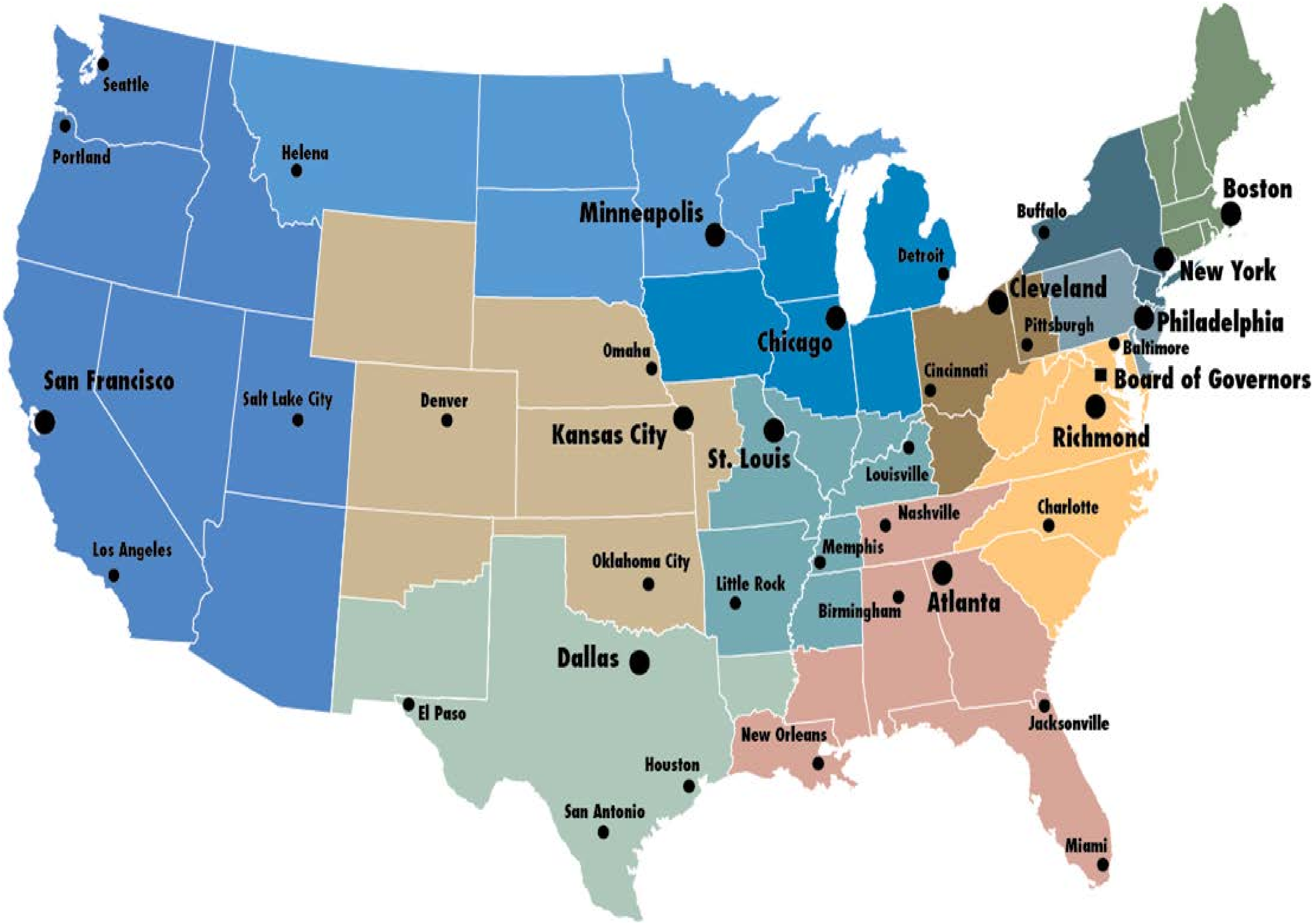
The Structure of the Federal Reserve System

- 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 four members of the Board of Governors: Jerome Powell, Richard Clarida, 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.

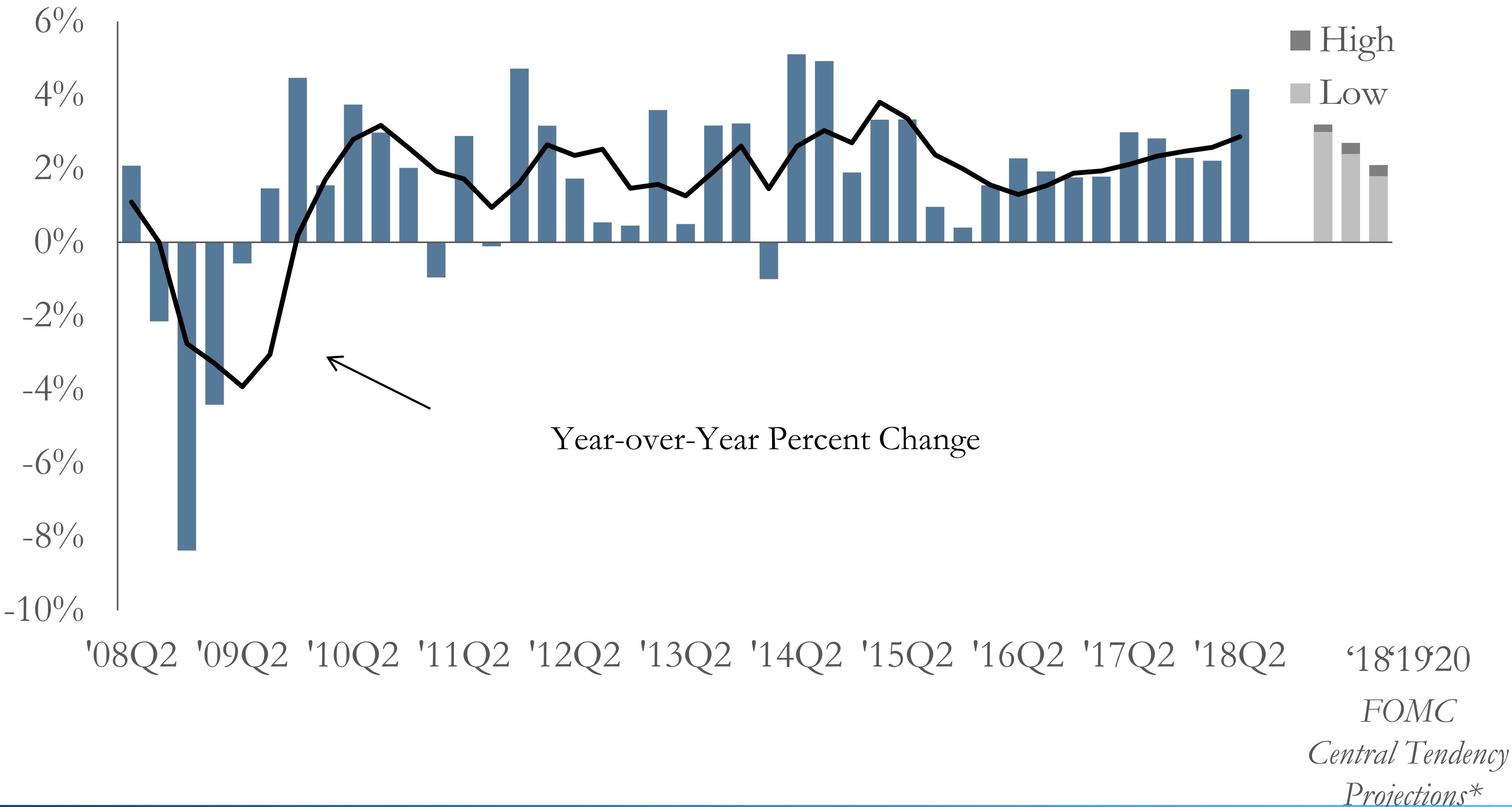
- Provide and Maintain an Effective and Efficient Payments System
  - The Federal Reserve supplies payments services to the public through depository institutions including banks, credit unions and savings and loans.
  - We also serve as a banking and fiscal agent for the United States government.
 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

After experiencing a severe recession starting in late 2007, the U.S. economy is now in its 112th consecutive month of economic expansion.

Real U.S. Gross Domestic Product

Percent Change from Previous Quarter at Seasonally Adjusted Annualized Rates



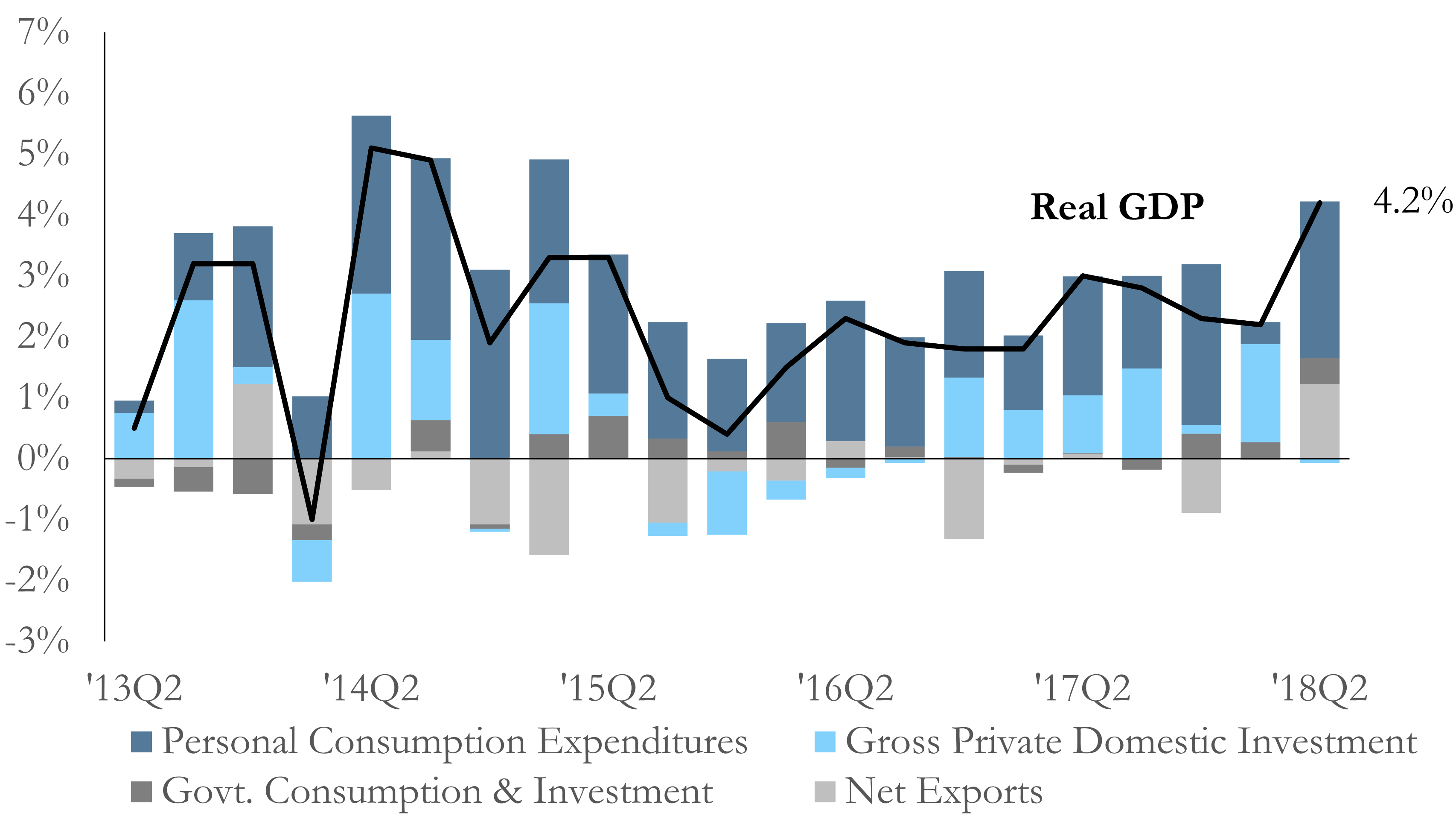
Source: Bureau of Economic Analysis and Federal Open Market Committee (FOMC)/Haver Analytics

**Projections as of September FOMC meeting*

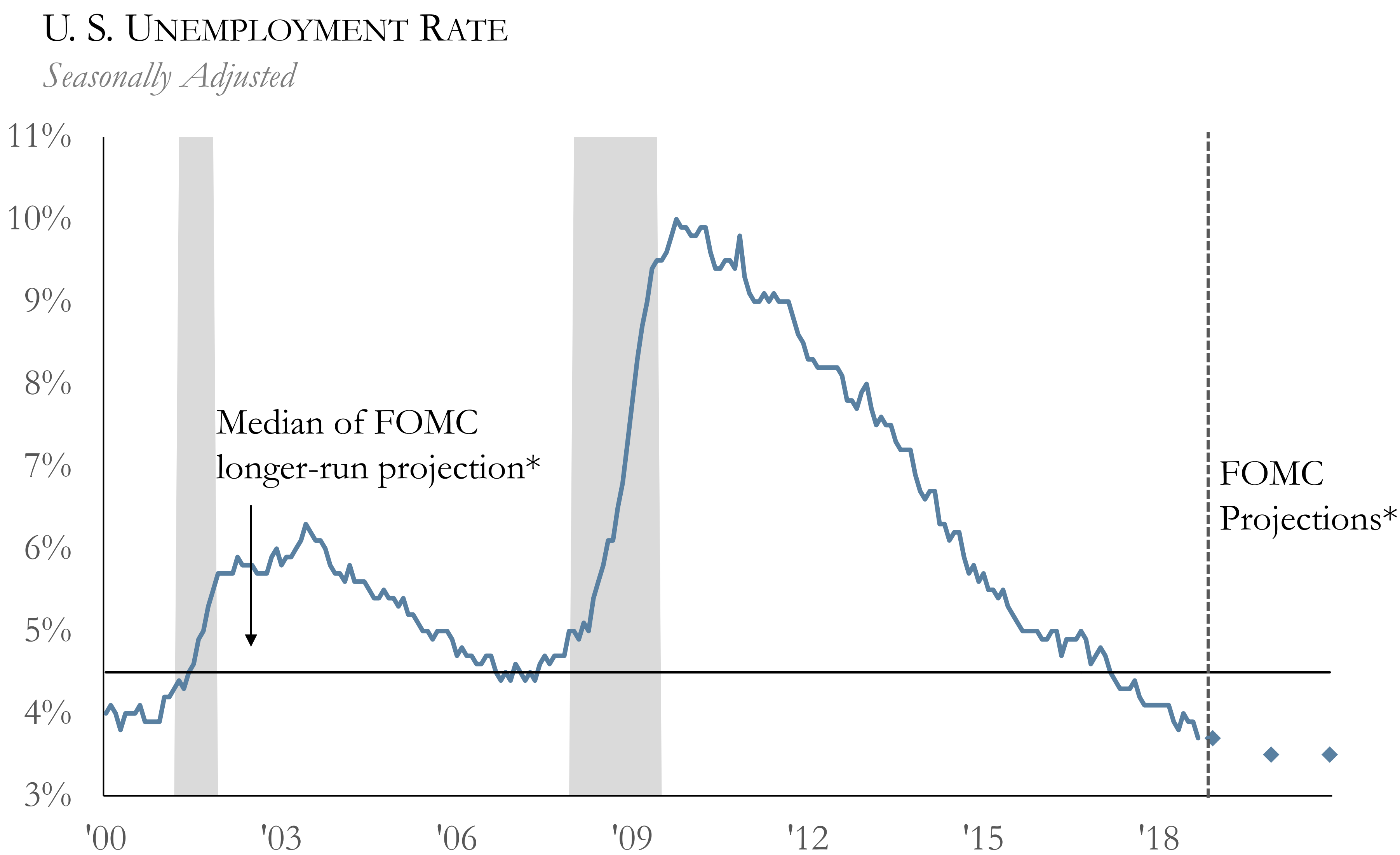
Consumer spending has been the primary driver of growth over the last few years.

CONTRIBUTIONS TO REAL GDP

Percent Change from Previous Quarter at Seasonally Adjusted Annualized Rates



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

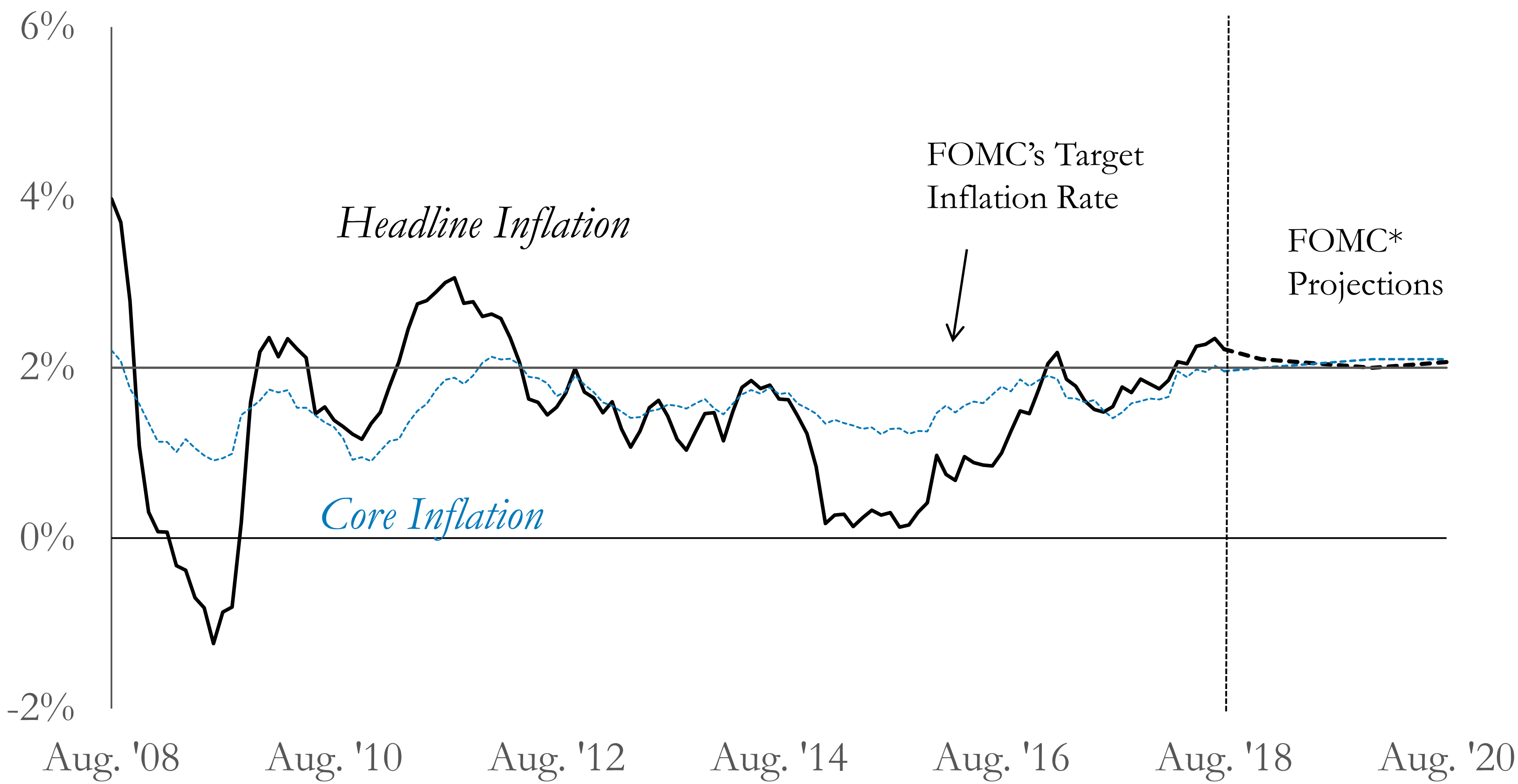


Source: Bureau of Labor Statistics and Federal Open Market Committee (FOMC)/Haver Analytics
**Projections as of September FOMC meeting; median unemployment rate*

Inflation is near the FOMC's two percent target.

PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX (PCEPI)

Percent Change Year-over-Year



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

**Projections as of September FOMC meeting; median projections*

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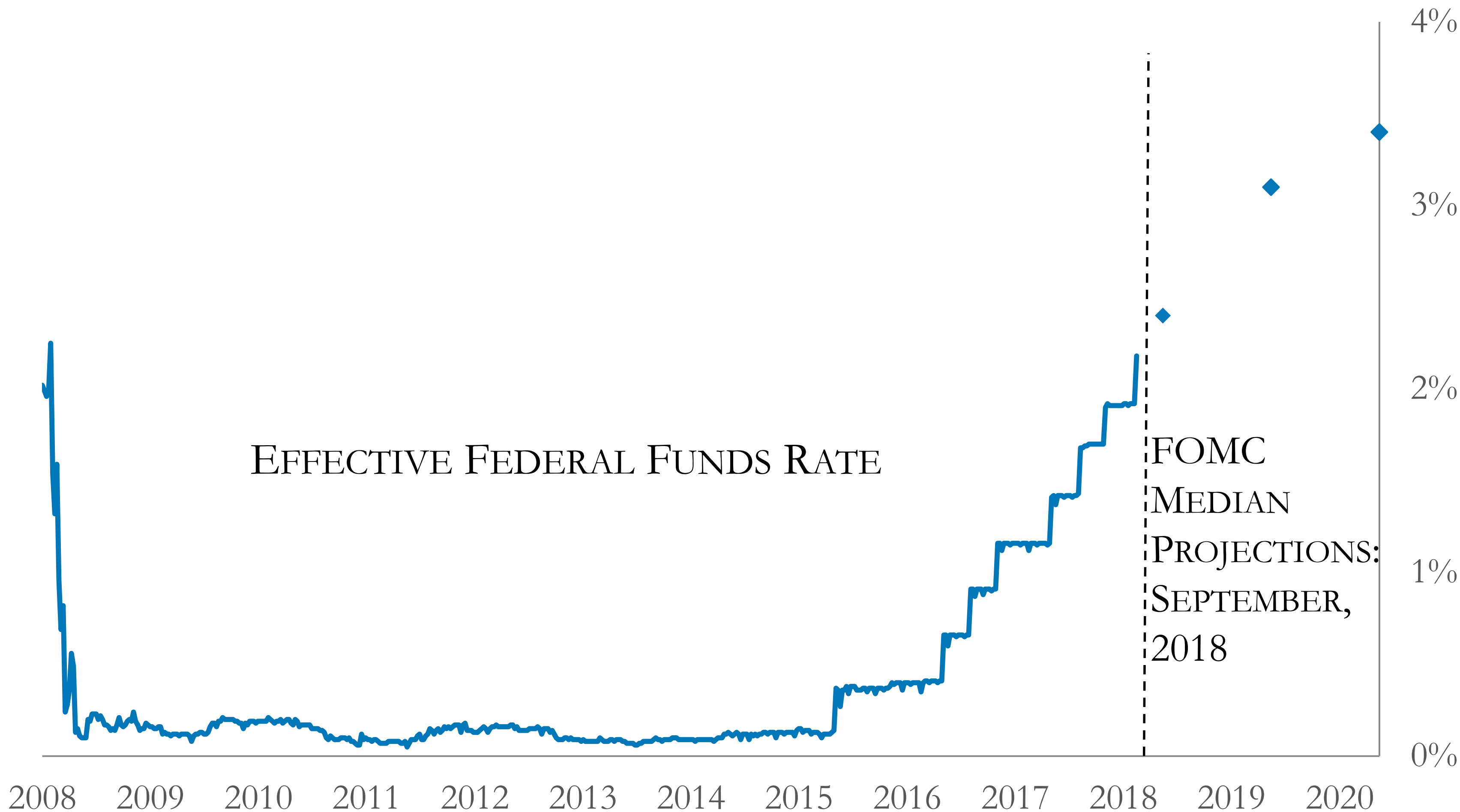
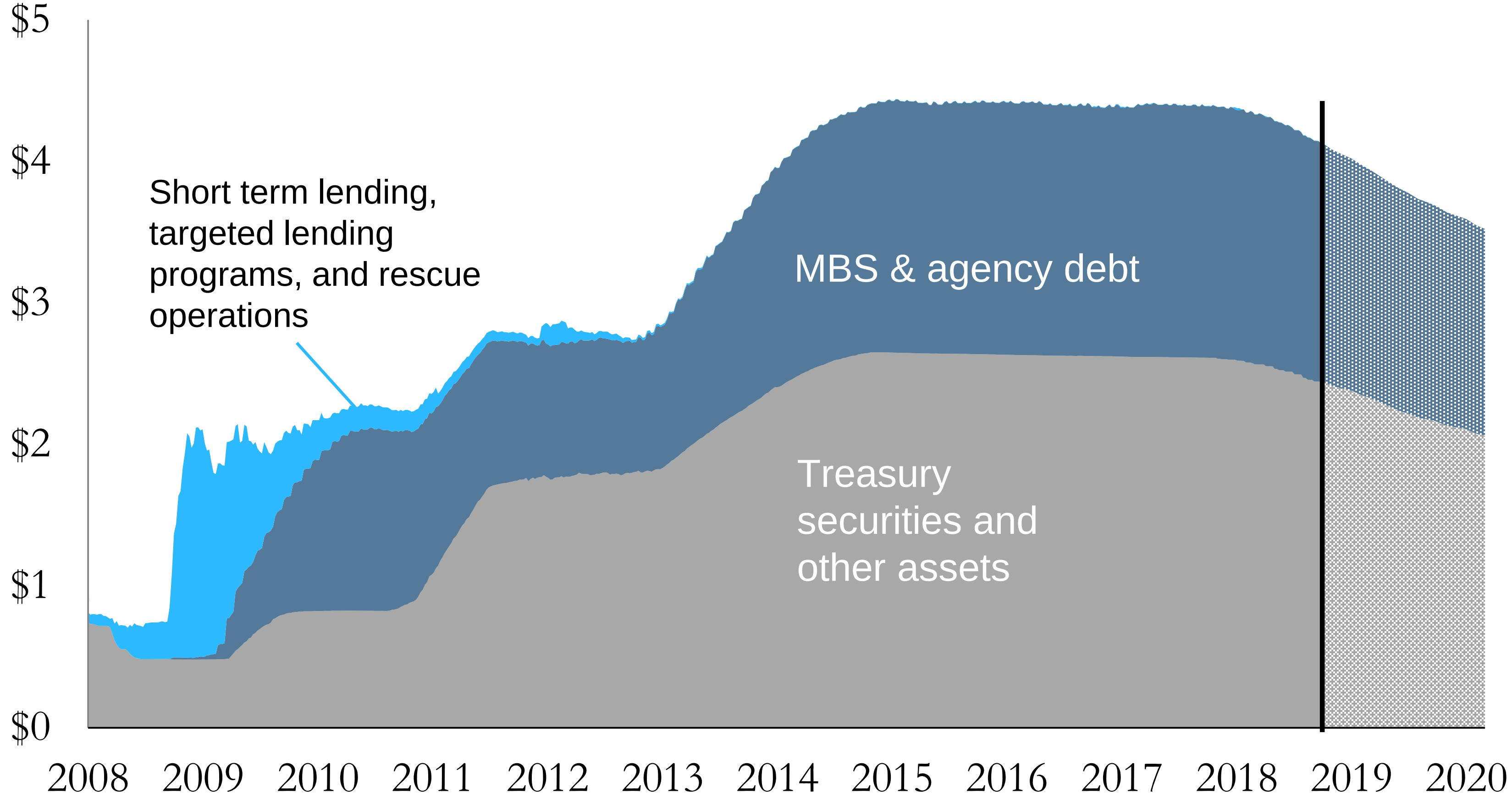
“In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 2 to 2-1/4 percent.”

- September 2018 FOMC Statement



Federal Reserve Balance Sheet

Trillions



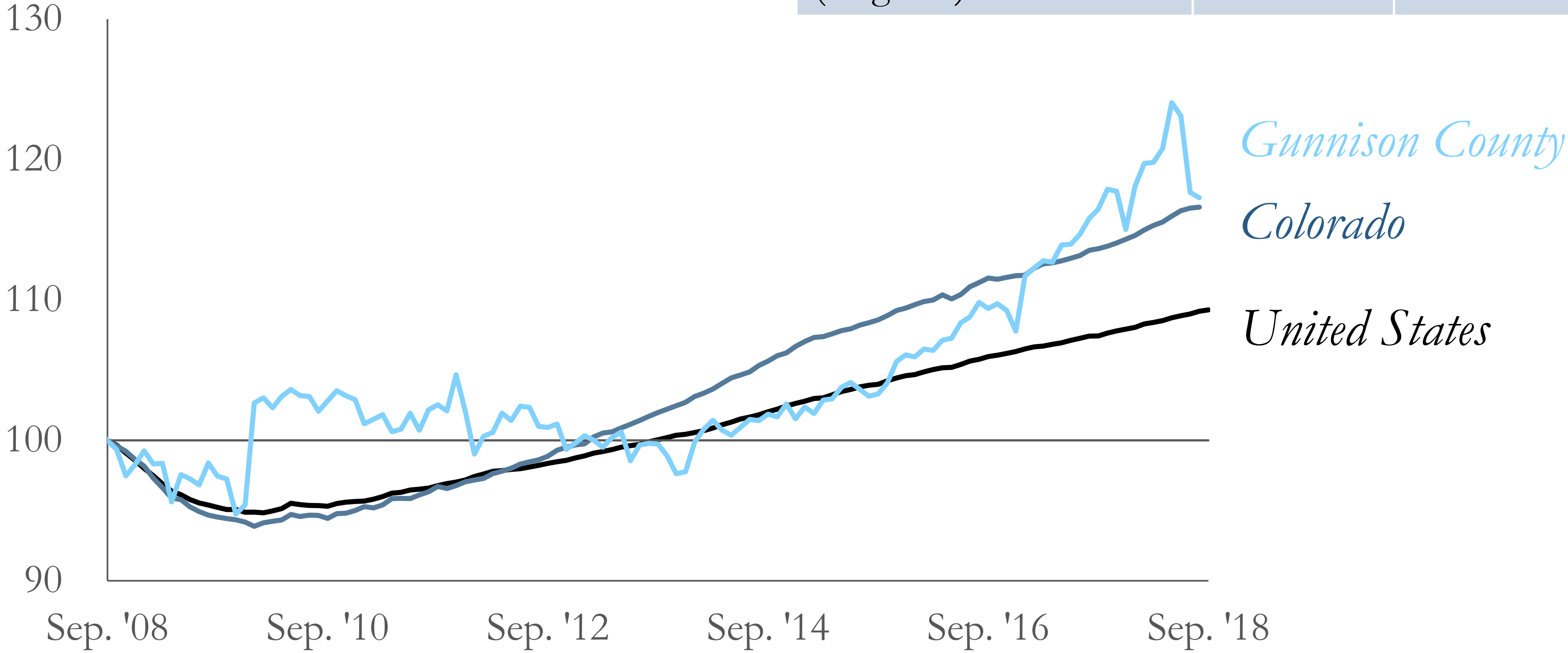
Source: Federal Reserve Board, New York Federal Reserve Bank, Haver Analytics, and author's calculations.

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 = September, 2008, Seasonally Adjusted

Percent Change	*Past 10 Years*	*Past Year*
U.S. (Sep. '18)	9.3%	1.7%
Colorado (Aug. '18)	16.3%	2.7%
Gunnison County (Aug. '18)	16.4%	1.3%

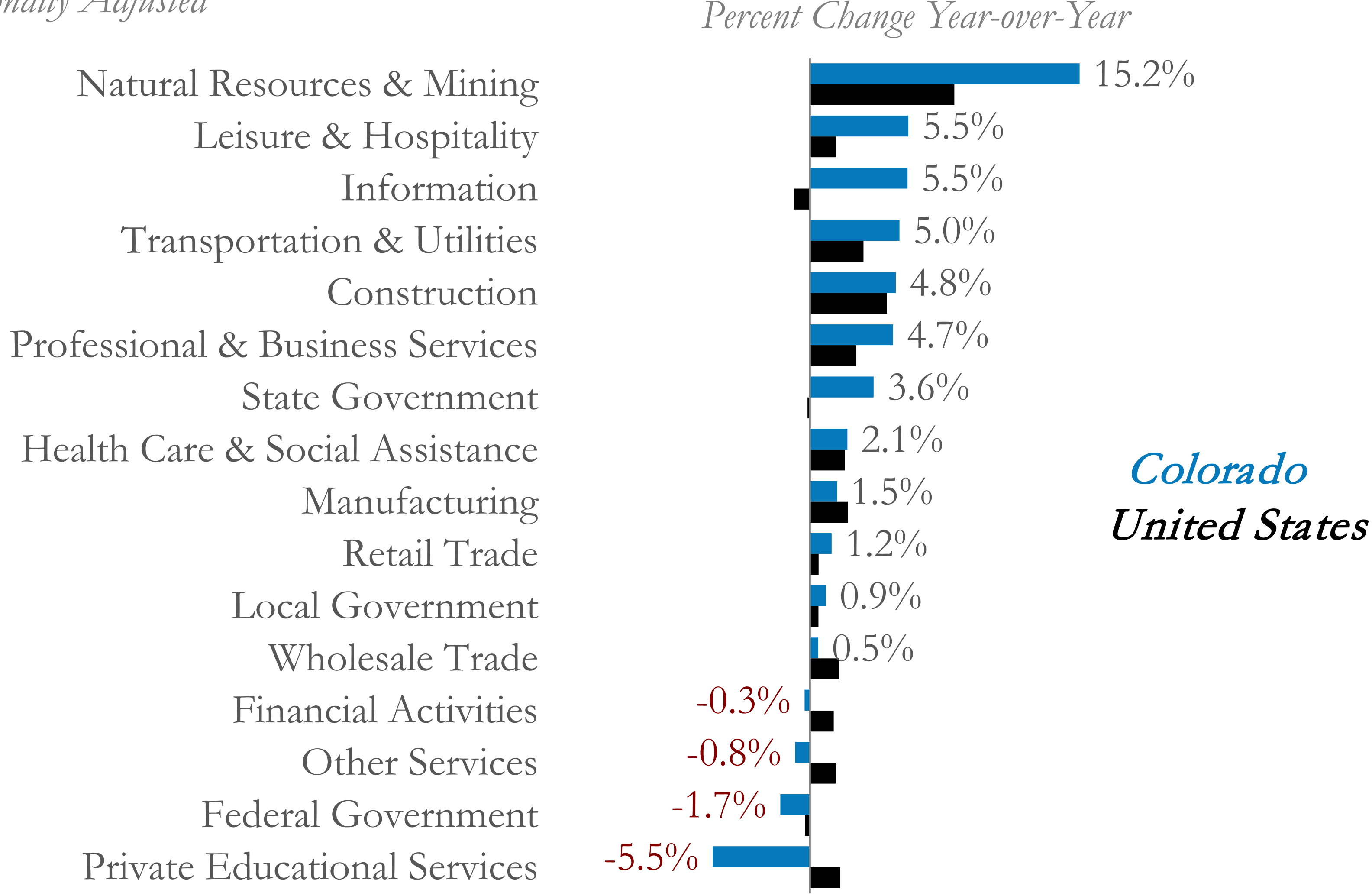


Source: Bureau of Labor Statistics

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

CHANGE IN PAYROLL EMPLOYMENT, AUGUST 2018

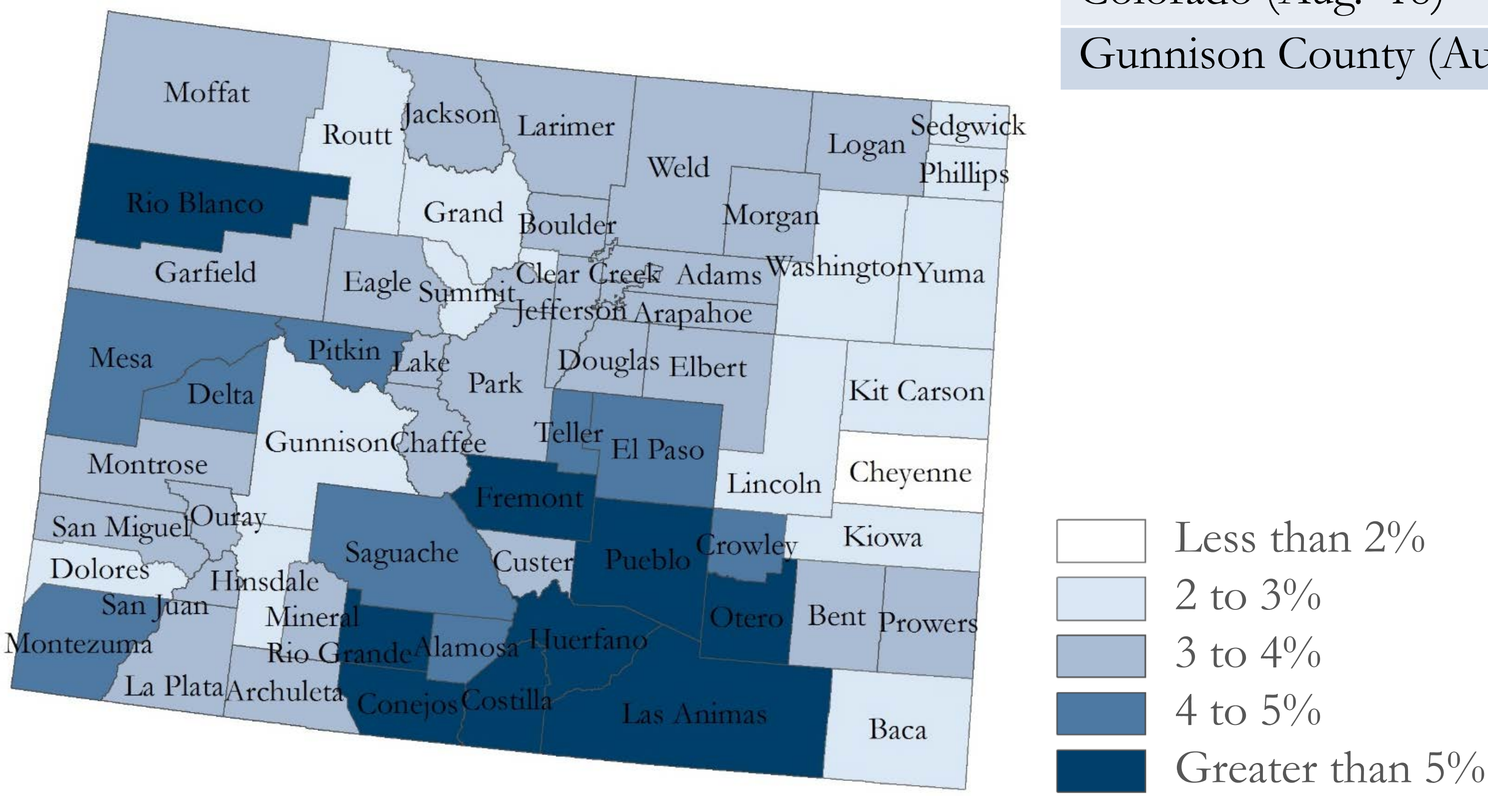
Seasonally Adjusted



Unemployment rates are below national rates across most of Colorado.

Unemployment Rates

August 2018, Seasonally Adjusted



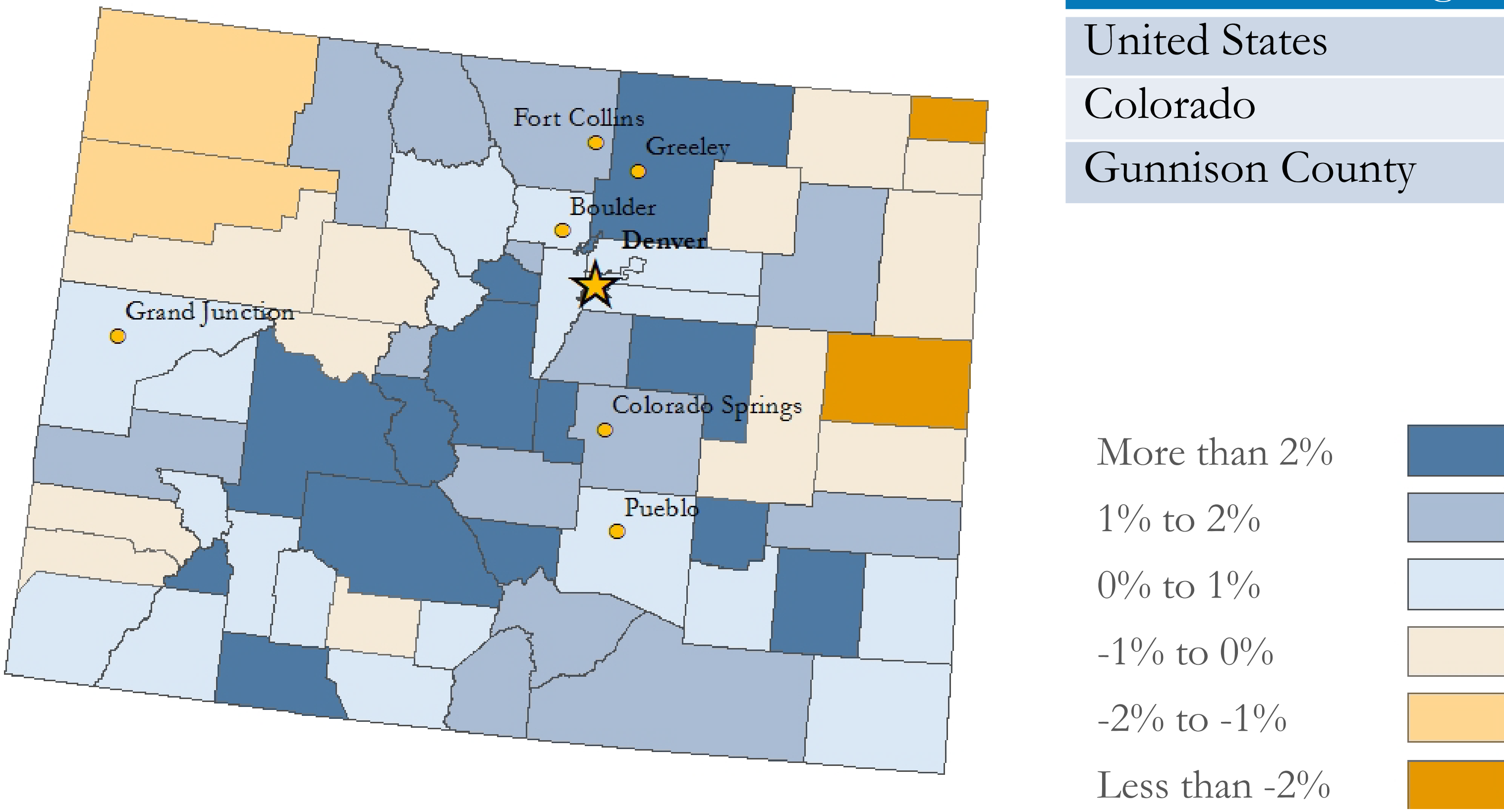
Unemployment Rate	
United States (Sep. '18)	3.7%
Colorado (Aug. '18)	2.9%
Gunnison County (Aug. '18)	2.8%

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



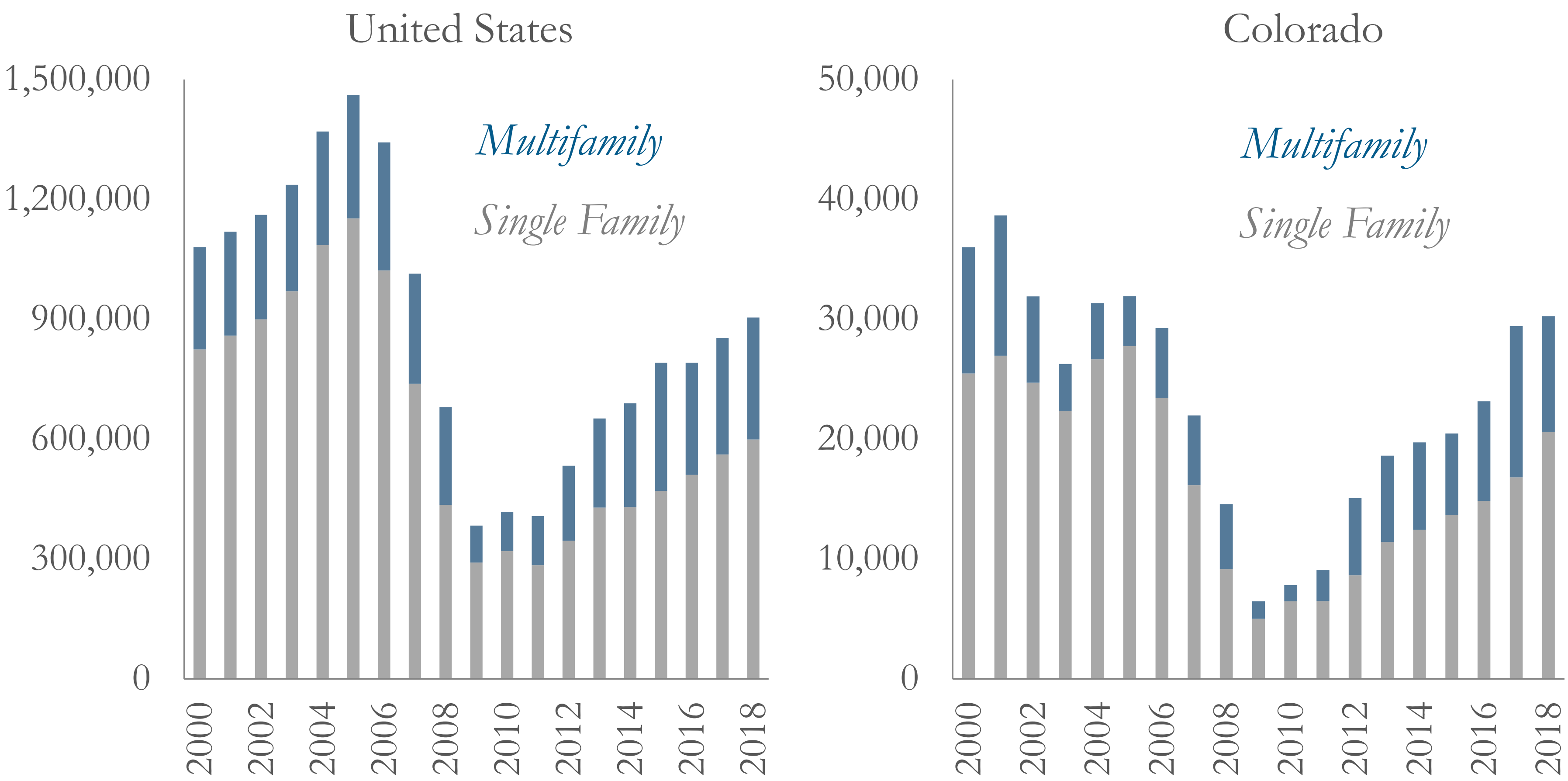
Annual Percent Change	*2017*
United States	0.3%
Colorado	0.8%
Gunnison County	2.1%

Source: Census Bureau

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

Residential Permits

Year-to-Date Through August, Seasonally Adjusted

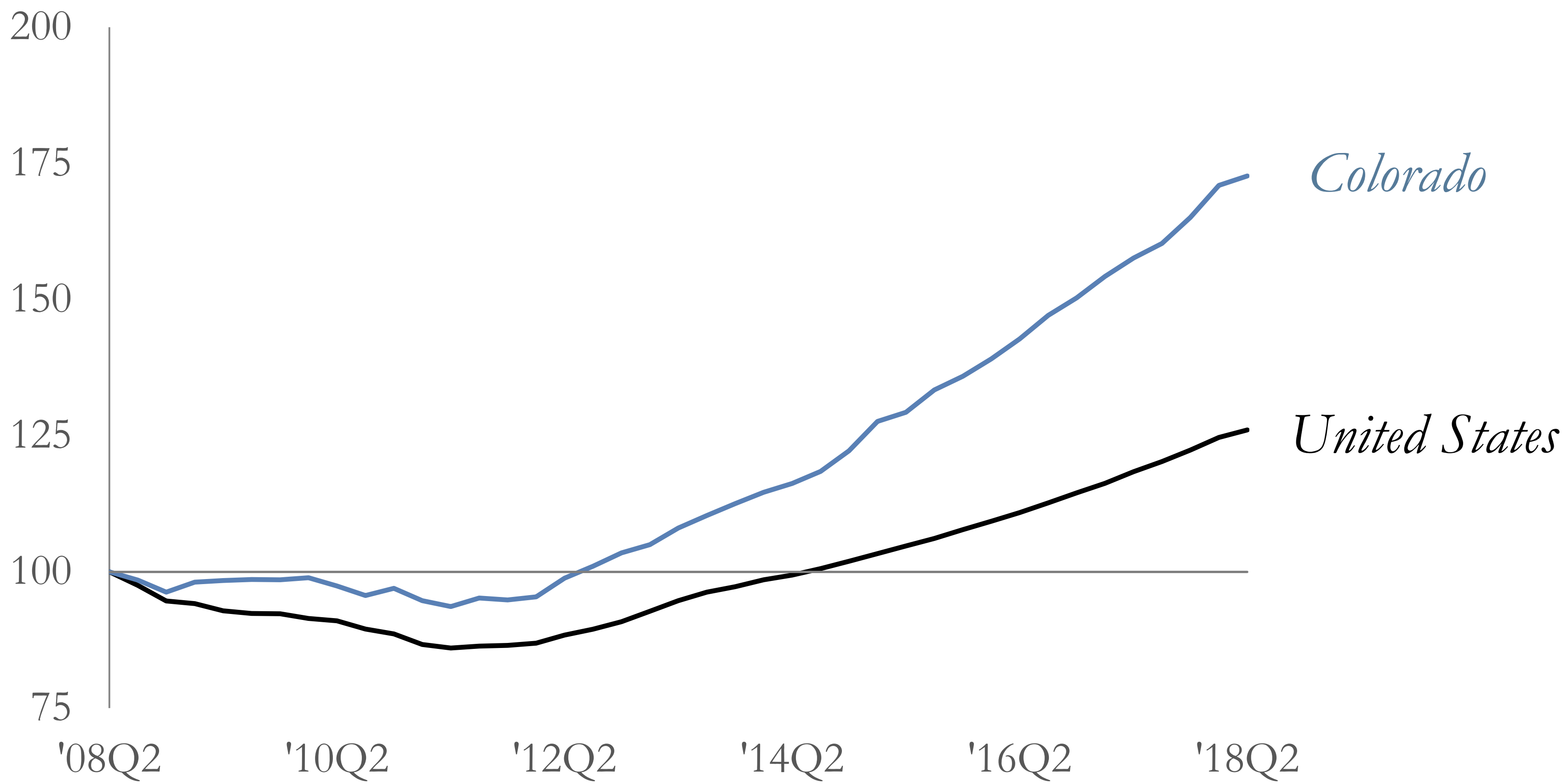


Source: Census Bureau/Haver Analytics

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

HOME PRICES

Seasonally Adjusted, Index 100 = Q2:2008

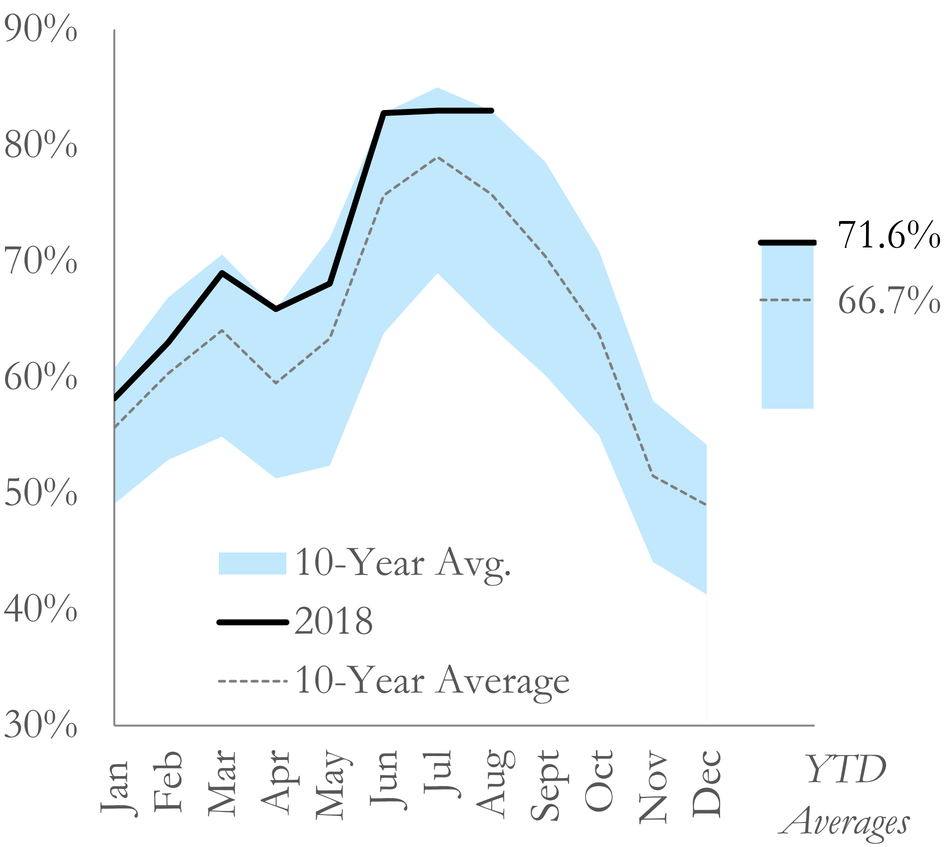


Note: United States and Colorado price indices are for purchase-only transactions, whereas Fort Collins includes re-financing and purchase transactions.

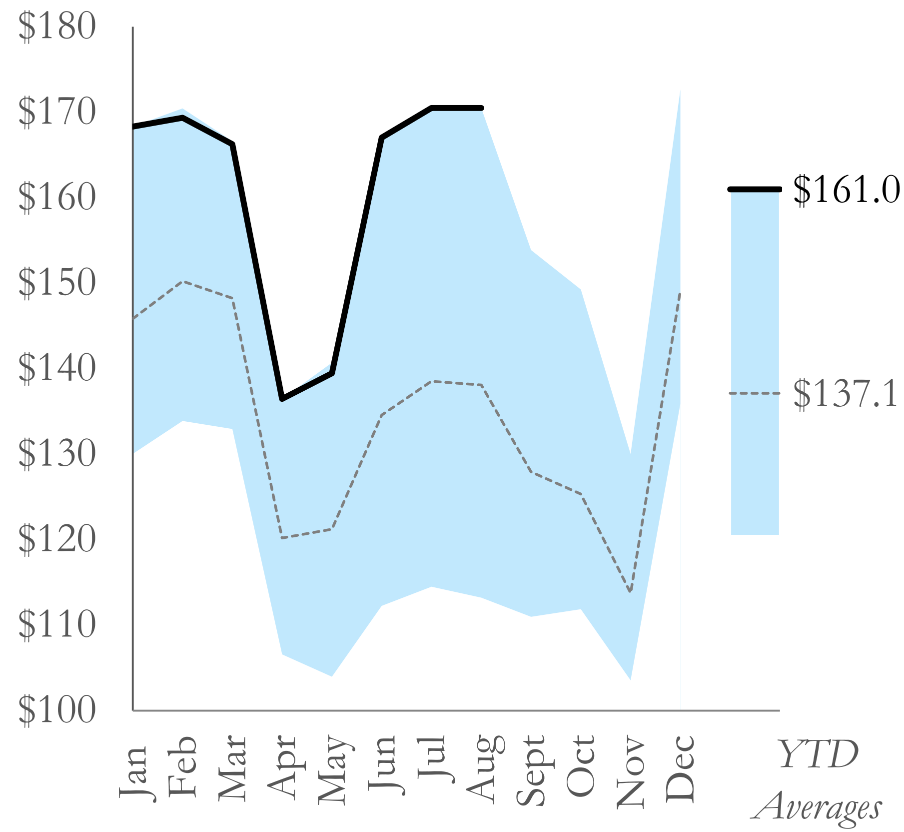
Source: Federal Housing Finance Agency

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

HOTEL OCCUPANCY RATES
Colorado



HOTEL ROOM RATES
Colorado, 1999 Dollars

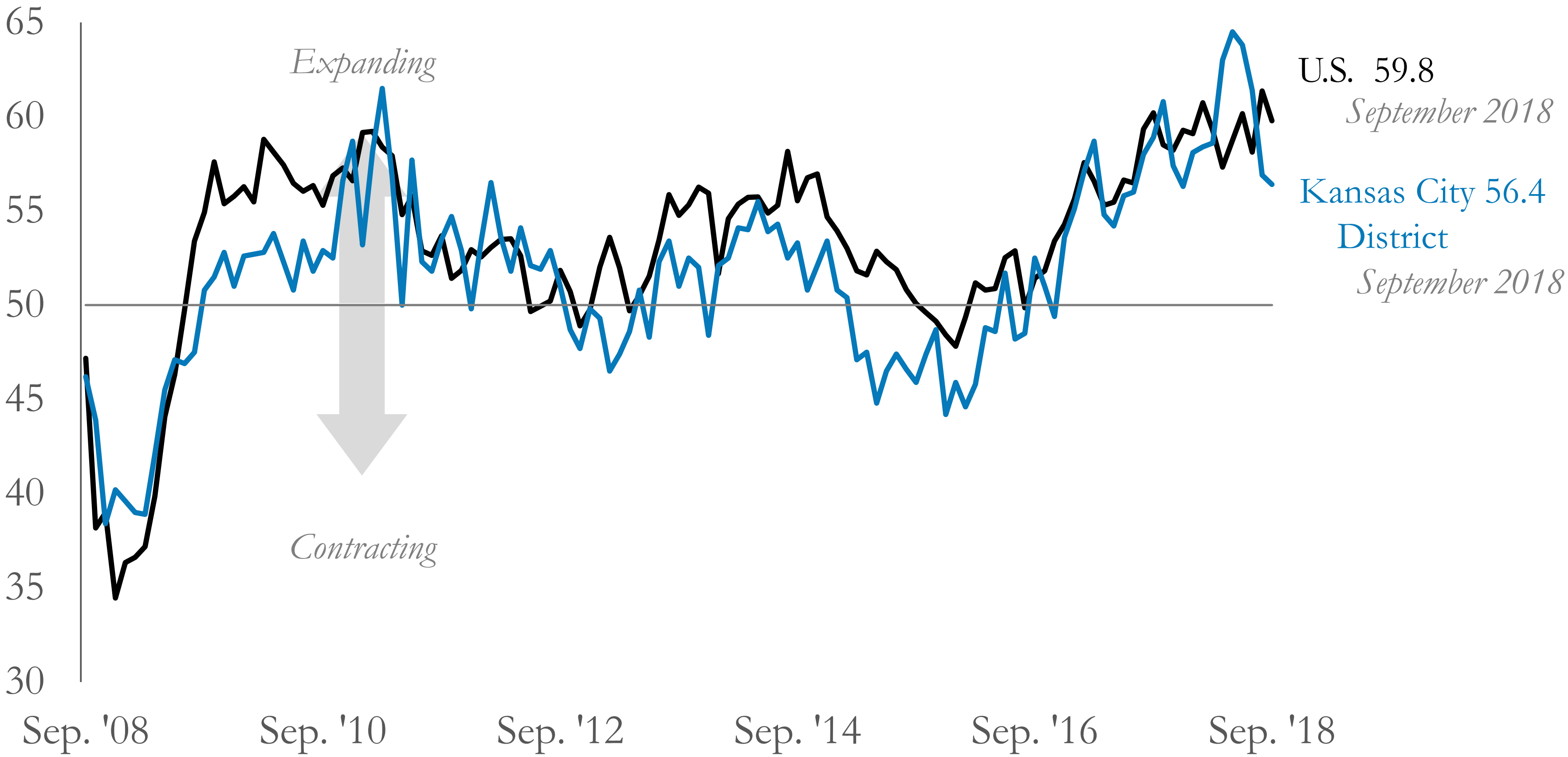


Source: Colorado Hotel and Lodging Association

Manufacturing activity improved throughout 2017 and remains at solid levels.

Manufacturing Activity

Diffusion Index, Seasonally Adjusted, Month-over-Month

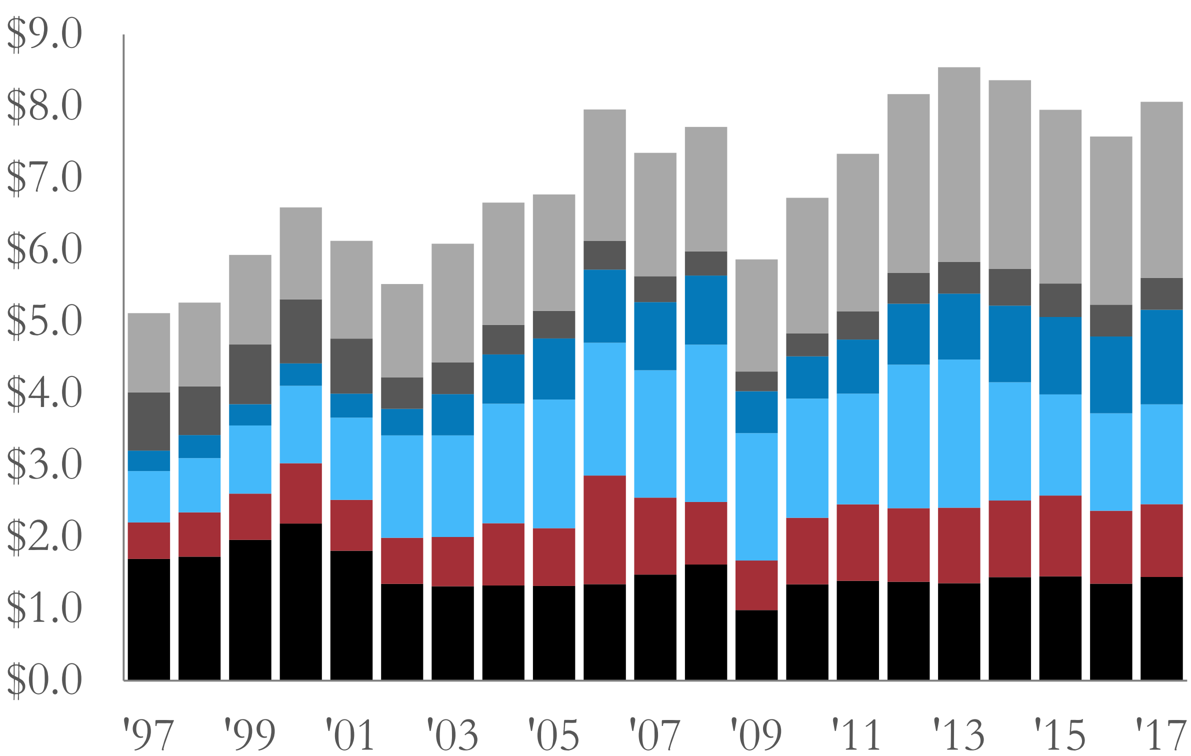


Source: Kansas City Federal Reserve Bank, ISM, & Haver Analytics

Colorado exporting activity also rebounded modestly in 2017 and remains above year-ago levels in 2018.

Colorado Exports by Trading Partner

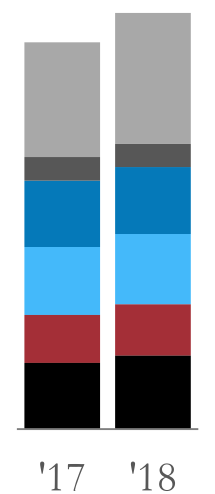
Billions



Year-to-Date August 2018

Year-over-Year Percent Change

Total Trade	7.6%	Share
All Other	14.1	30.2%
Japan	-2.0	5.5
Mexico	1.0	16.3
Canada	3.7	17.3
China	6.8	12.8
Eurozone	10.9	17.9

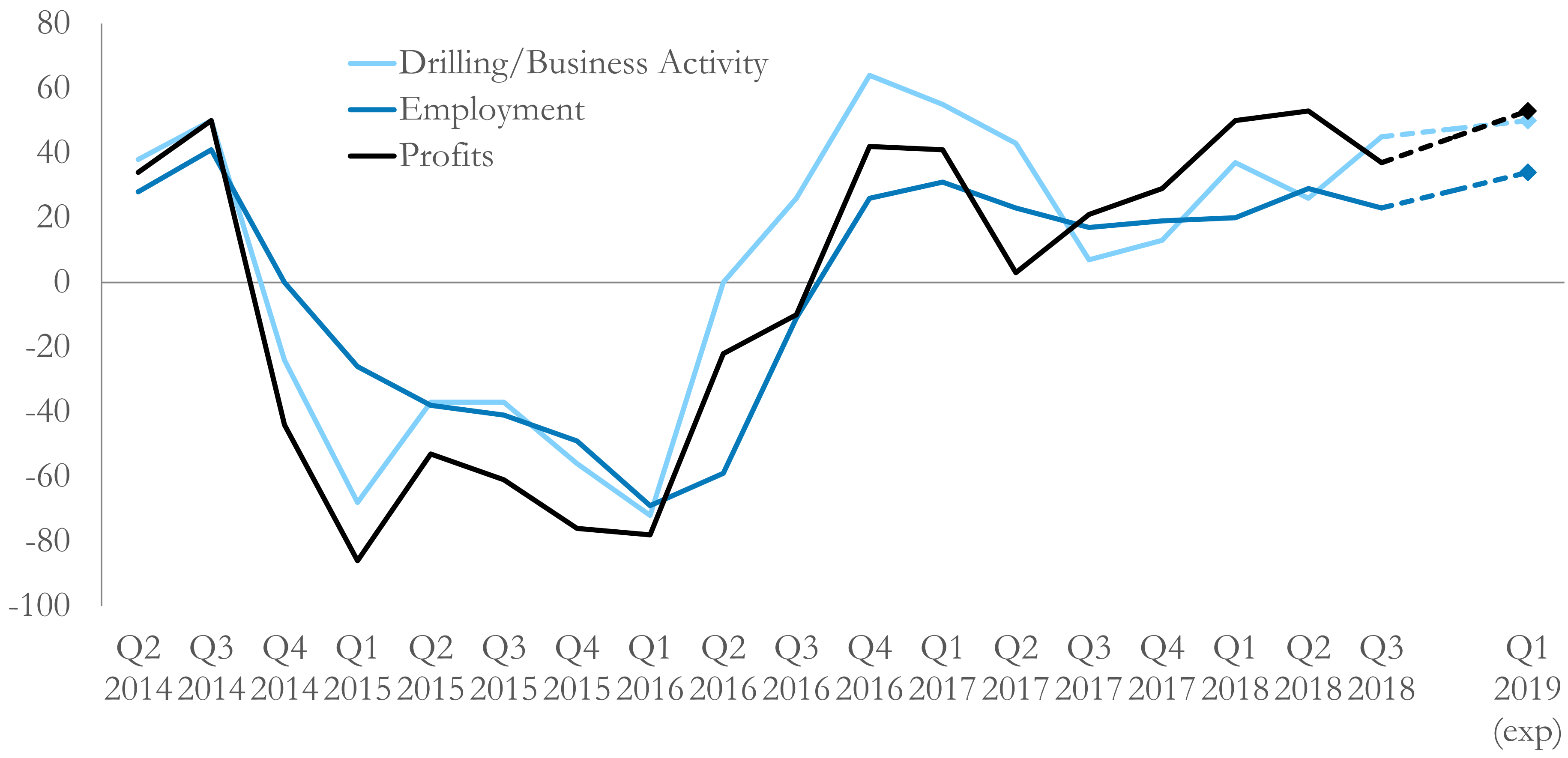


Source: WISERTrade and Census Bureau

Energy activity has accelerated, and contacts expect additional gains in the months ahead.

Tenth District Energy Survey

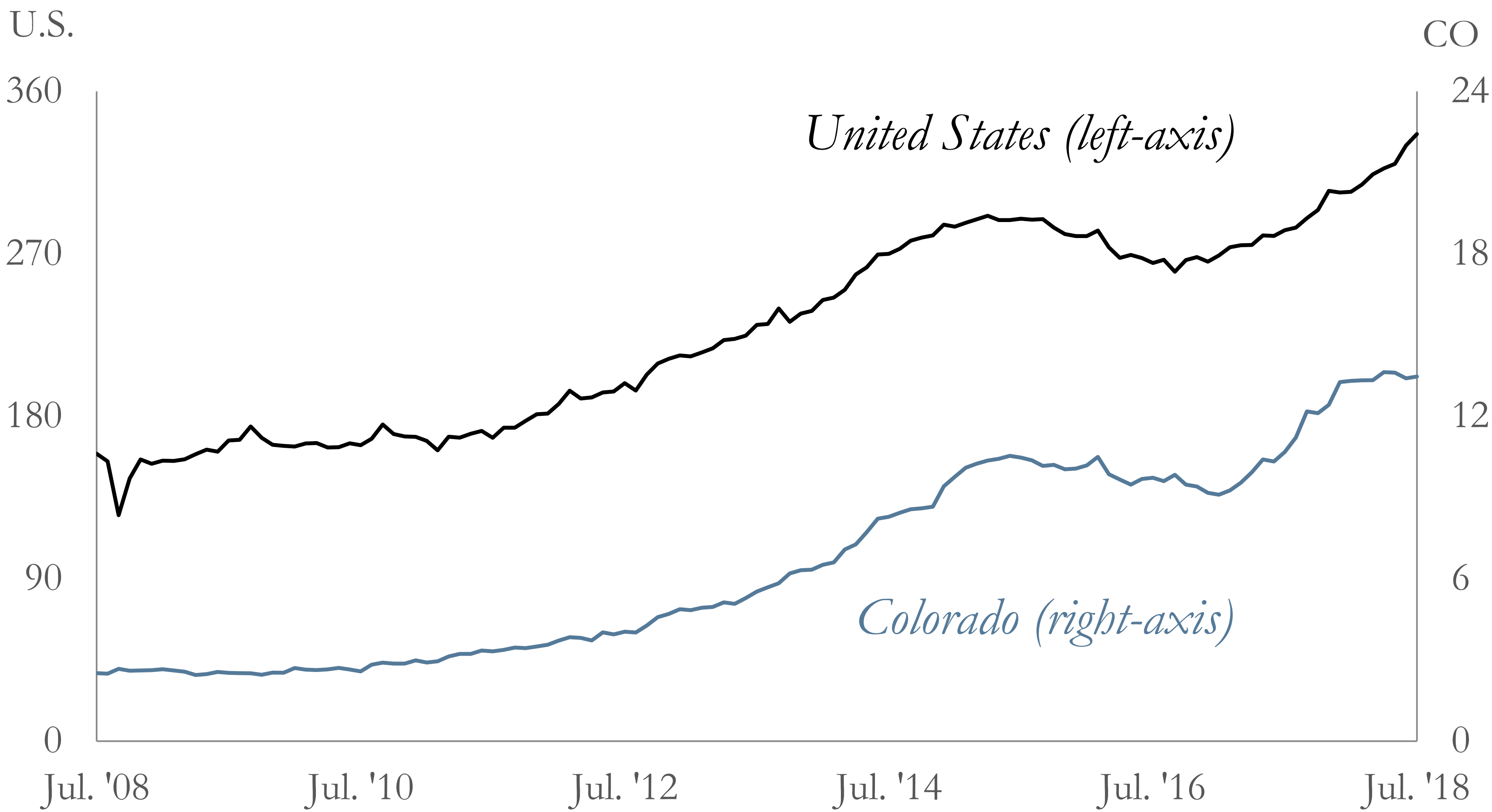
Quarterly diffusion indexes



Oil production has reached historically high levels.

CRUDE OIL PRODUCTION

Millions of barrels, monthly, seasonally adjusted

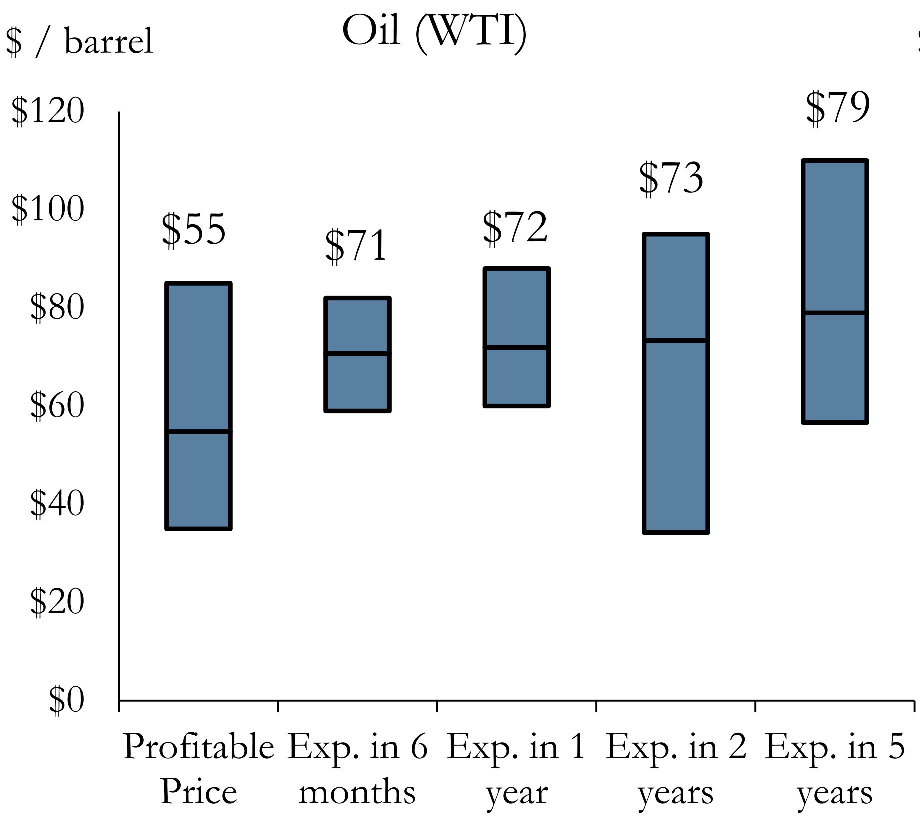


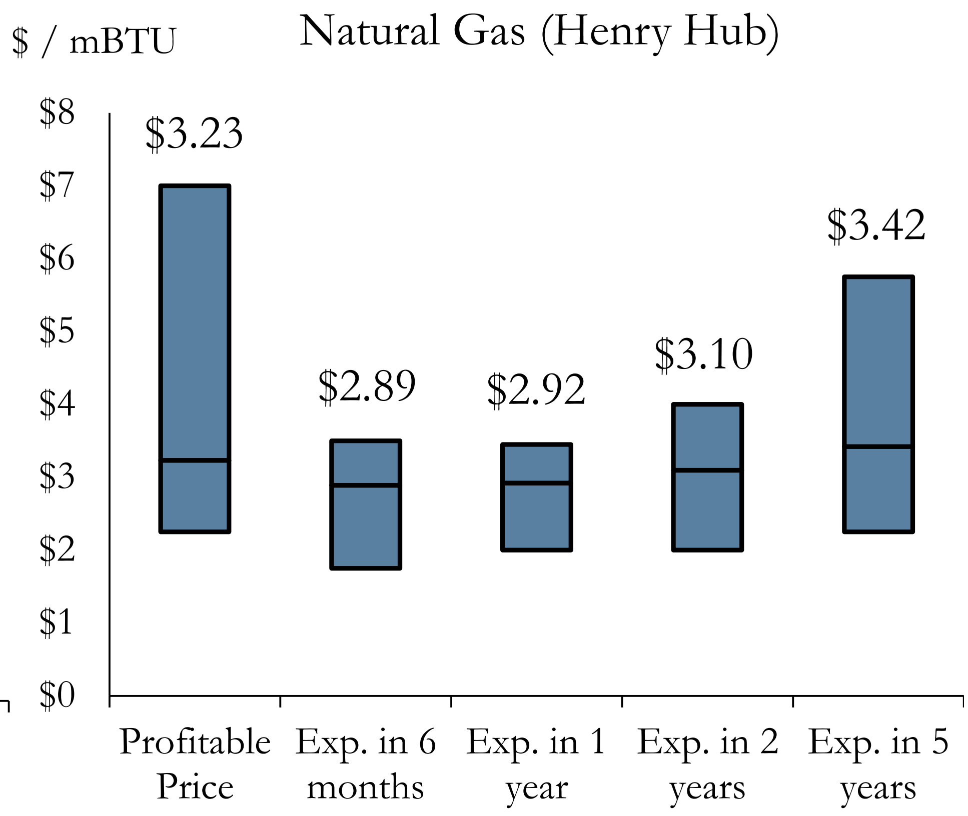
Sources: Energy Information Administration and Haver Analytics

Oil prices are expected to remain slightly higher than $70 over the next two years which is above profitable prices for most District firms.

ENERGY SURVEY SPECIAL QUESTION

Q3:2018





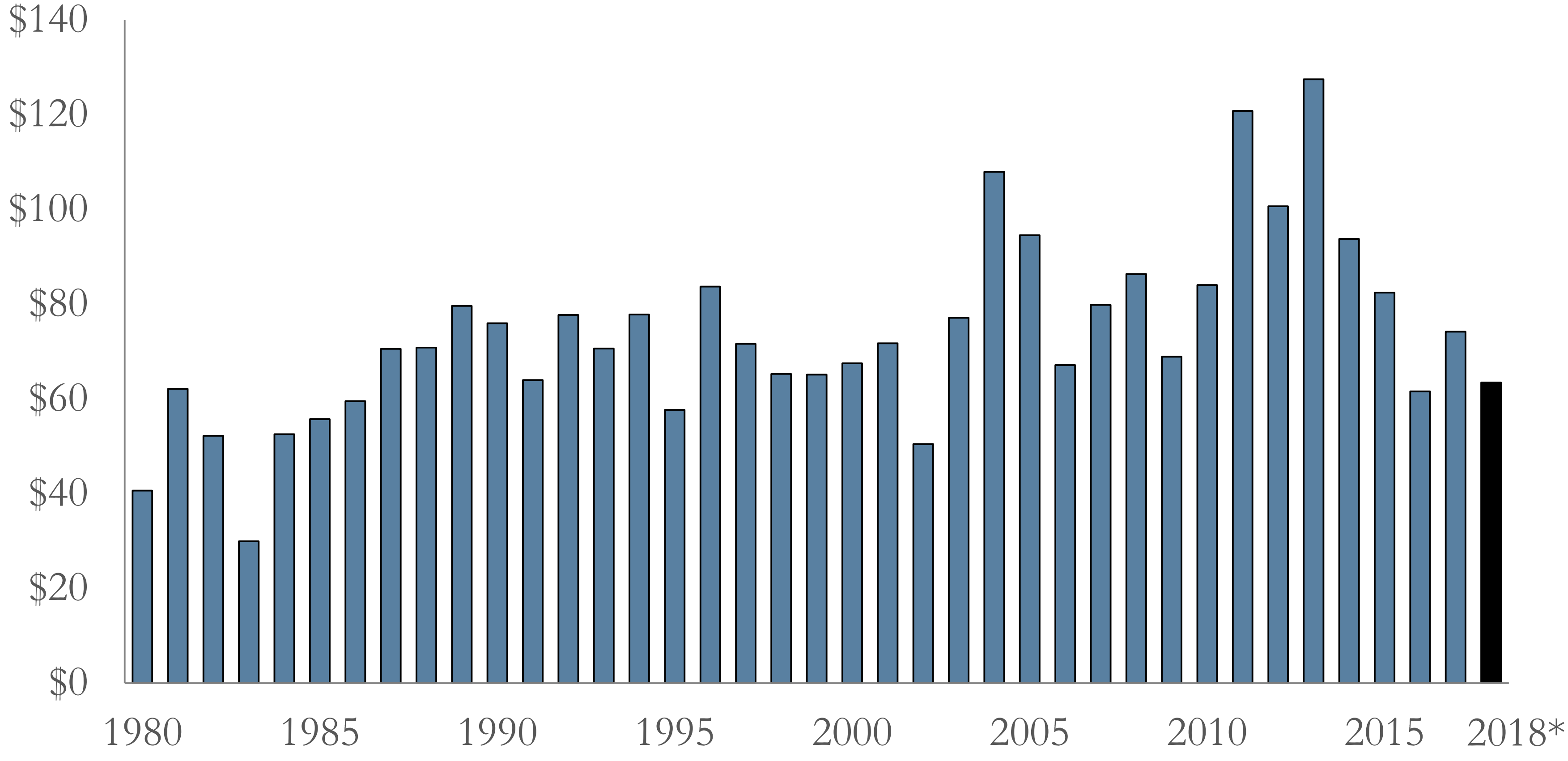
Notes: Blue bars represent range for survey respondents. Numbers above bars indicate average of the range (the black line in the middle of the blue bars).

Sources: Kansas City Federal Reserve Bank Energy Survey

The agriculture sector remains the weakest sector in the District economy.

U.S. Real Net Farm Income

Billion dollars (constant 2016 dollars)



*Projection for 2018

Source: USDA

For additional information on the regional economy:

http://www.KansasCityFed.org/Denver