



The Federal Reserve and the U.S. Economy

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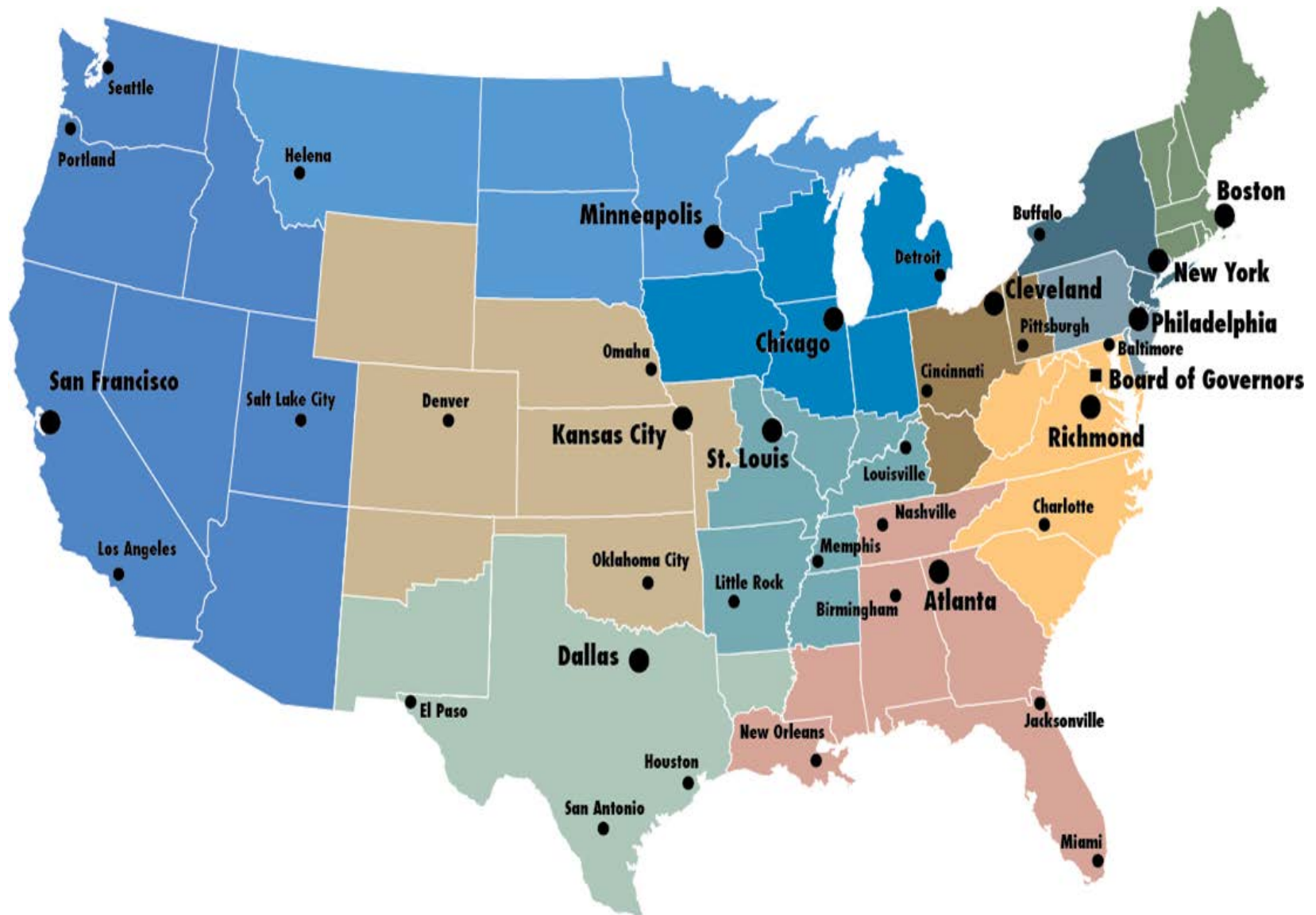
*The views expressed are those of the presenter and do not necessarily reflect
the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.*

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, Lael Brainard, Randal Quarles, and Richard Clarida.
 - There are three open positions. Michelle Bowman and Marvin Goodfriend have been nominated to fill two of the open positions.
 - 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.

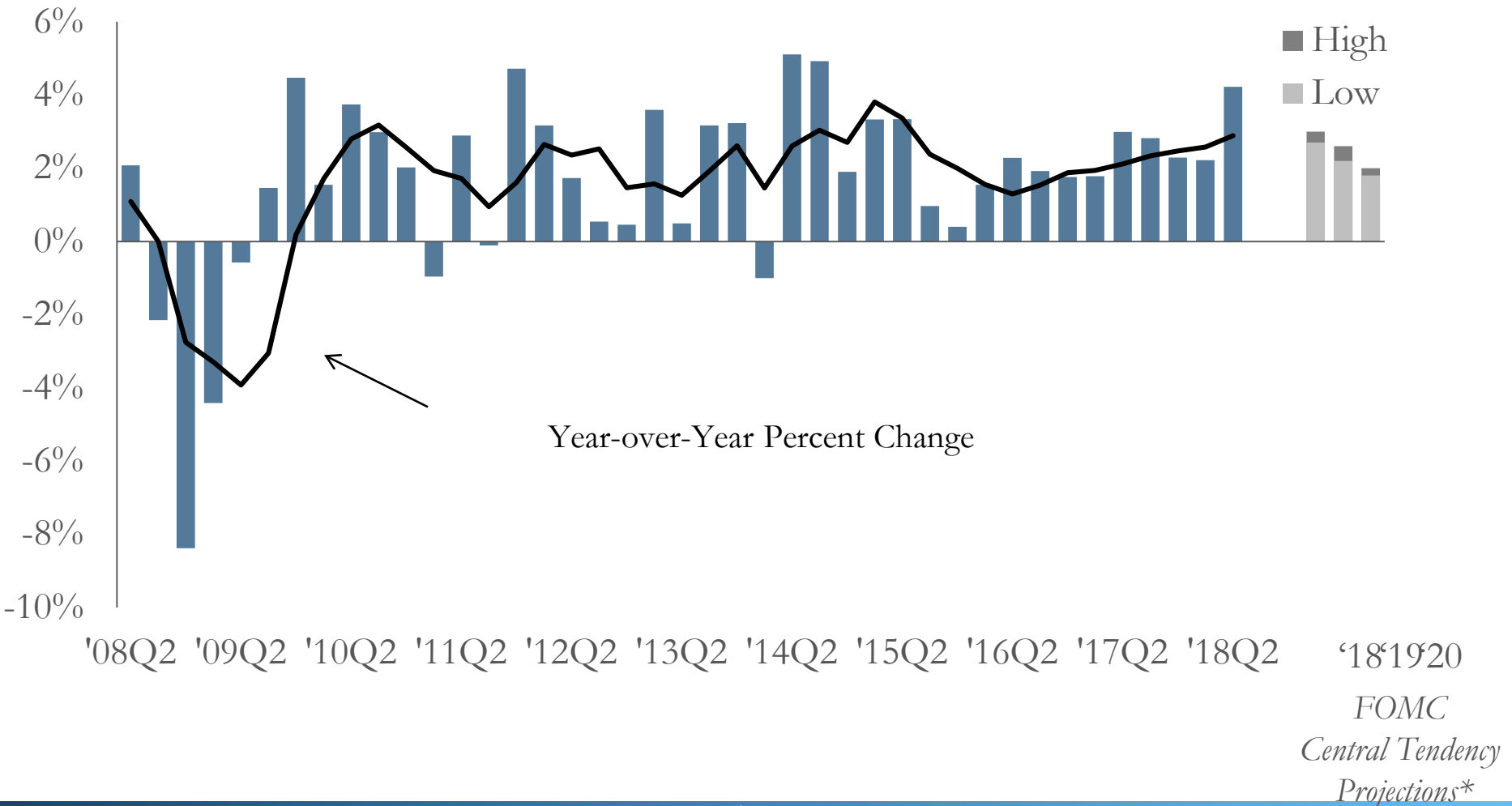


The Federal Reserve and the U.S. Economy

After experiencing a severe recession starting in late 2007, the U.S. economy is now in its 111th consecutive month of economic expansion.

REAL U.S. GROSS DOMESTIC PRODUCT

Percent Change from Previous Quarter at Seasonally Adjusted Annualized Rates



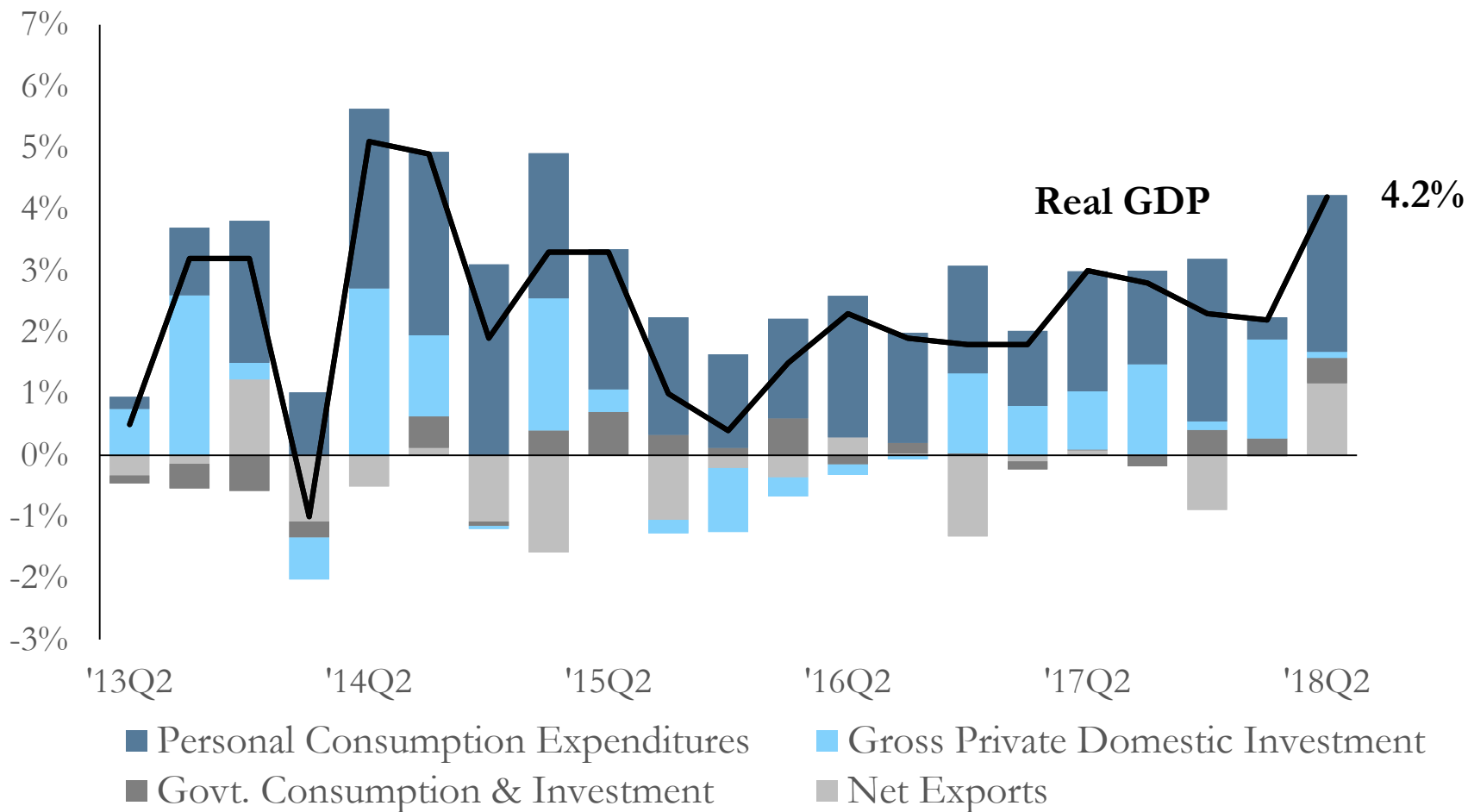
Source: Bureau of Economic Analysis and Federal Open Market Committee (FOMC)/Haver Analytics

*Projections as of June 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

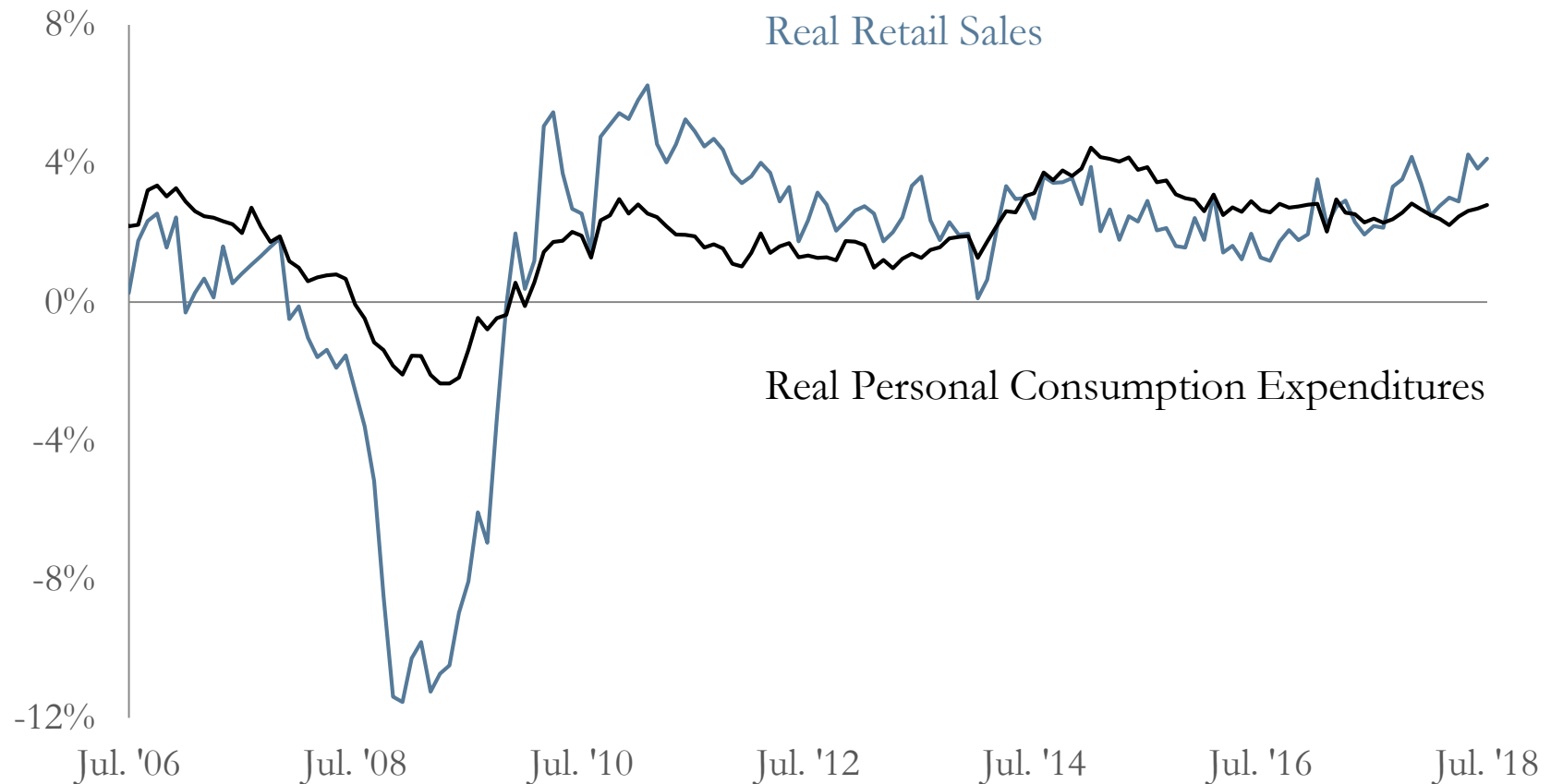


Consumer spending is expected to remain solid this year.



REAL CONSUMPTION SPENDING

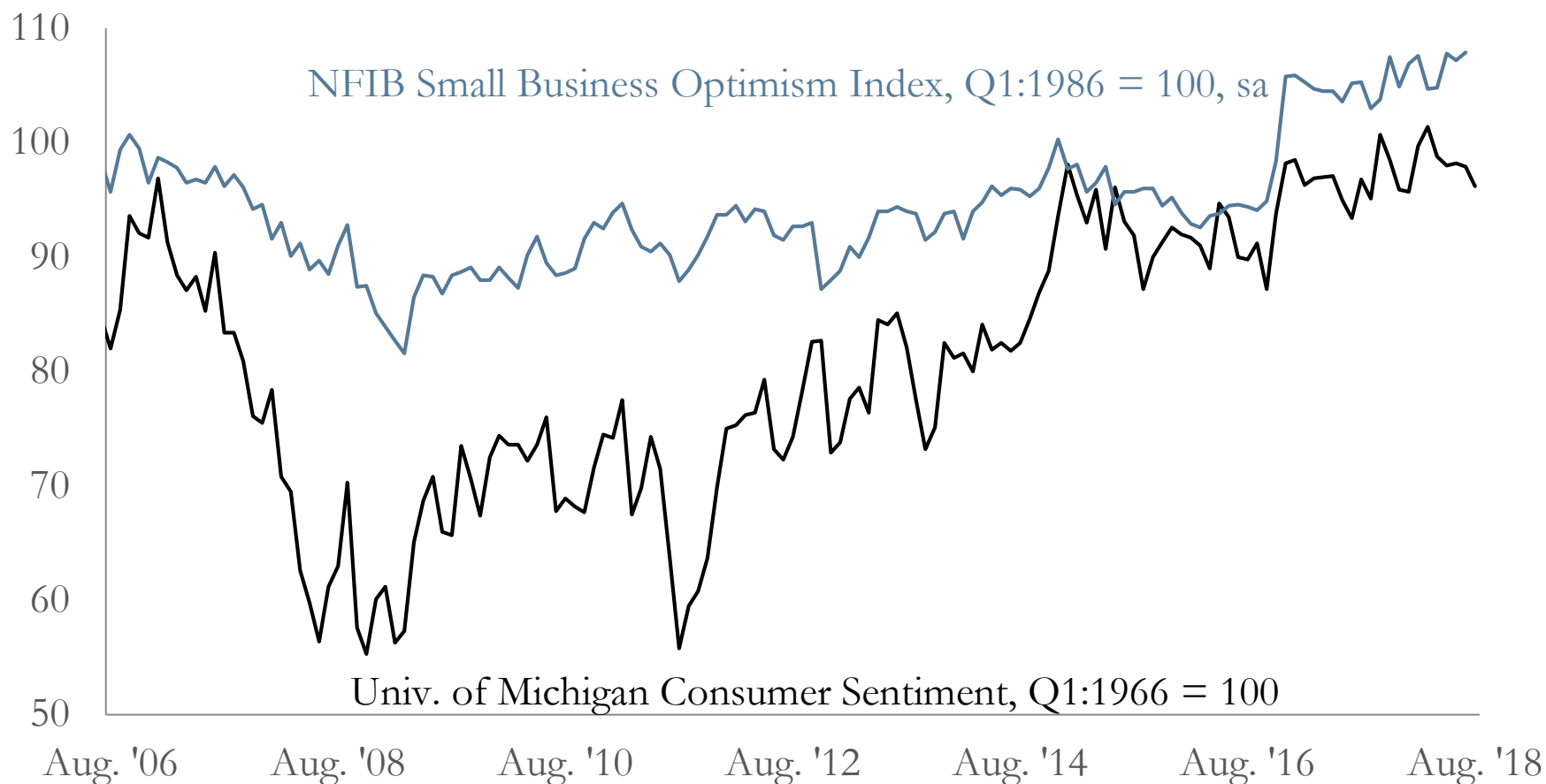
Seasonally Adjusted , Year-over-Year Percent Change



Businesses and consumers remain optimistic about the economy.



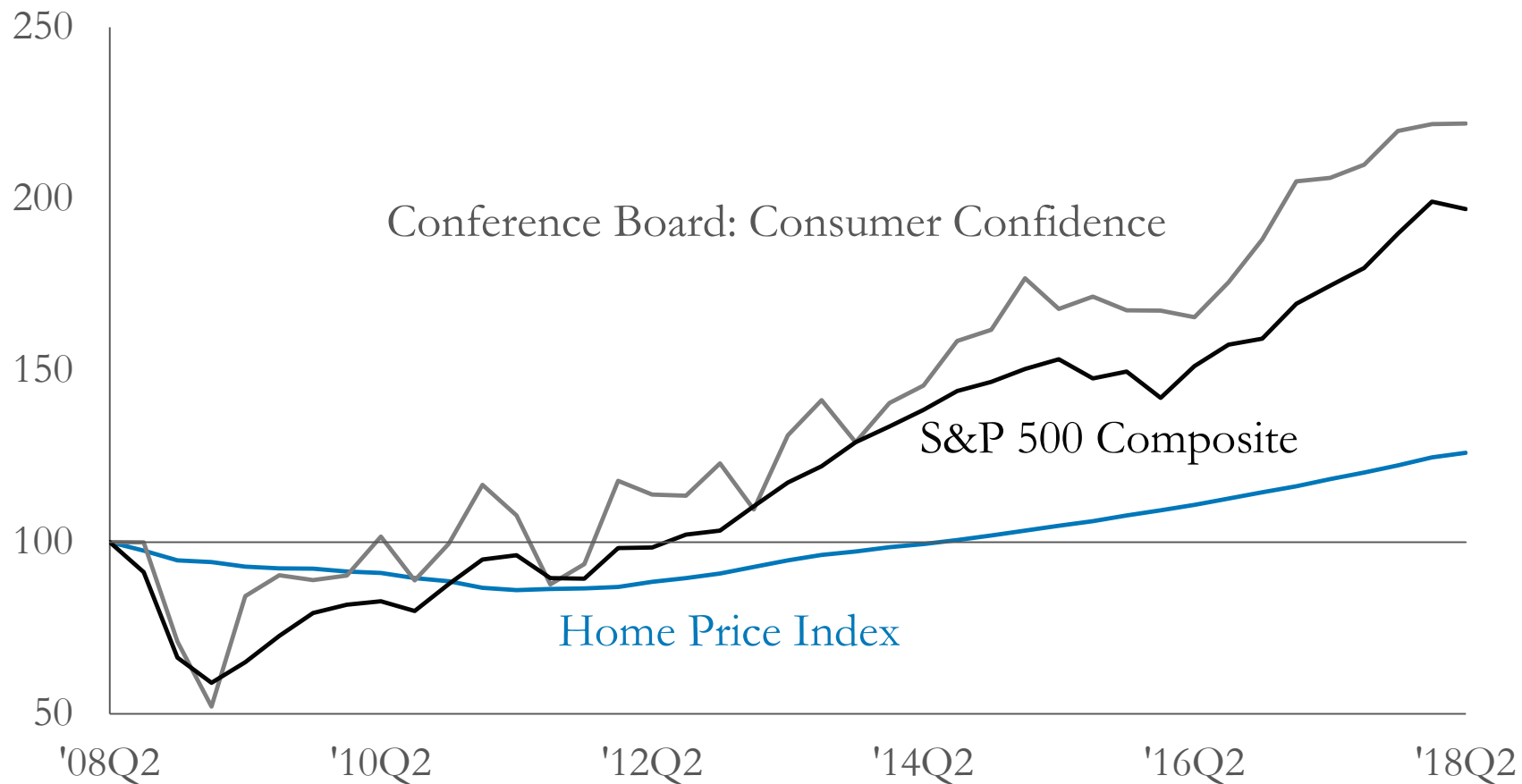
BUSINESS AND CONSUMER SENTIMENT



Higher stock prices and home prices frequently lead to higher consumer confidence and increased consumer spending.

CONSUMER CONFIDENCE AND FACTORS CONTRIBUTING TO HOUSEHOLD WEALTH

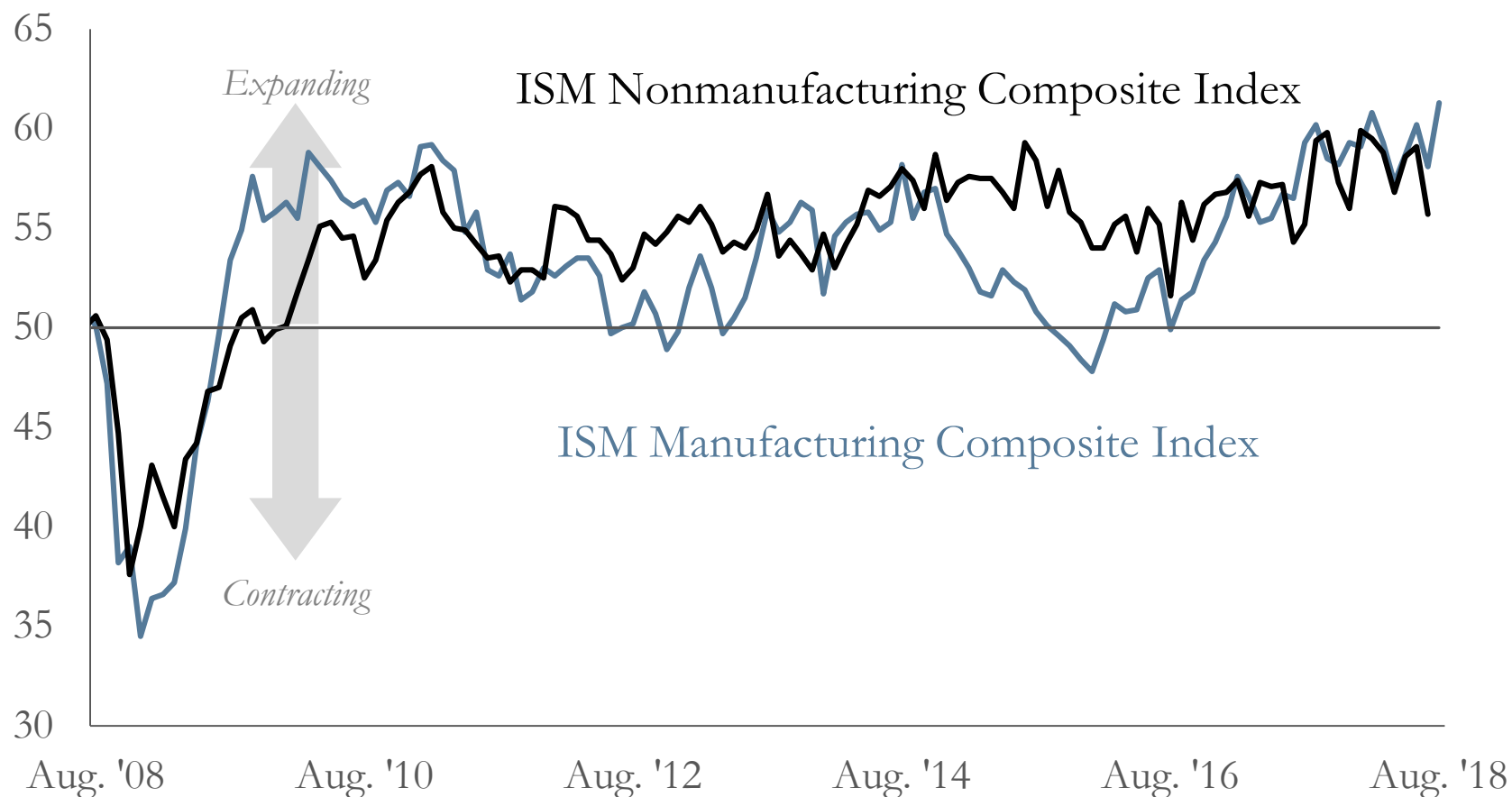
Index 100 = 2nd Quarter, 2008



Manufacturing and non-manufacturing industries are expanding at a solid rate.

MANUFACTURING AND NON-MANUFACTURING ACTIVITY

Seasonally Adjusted



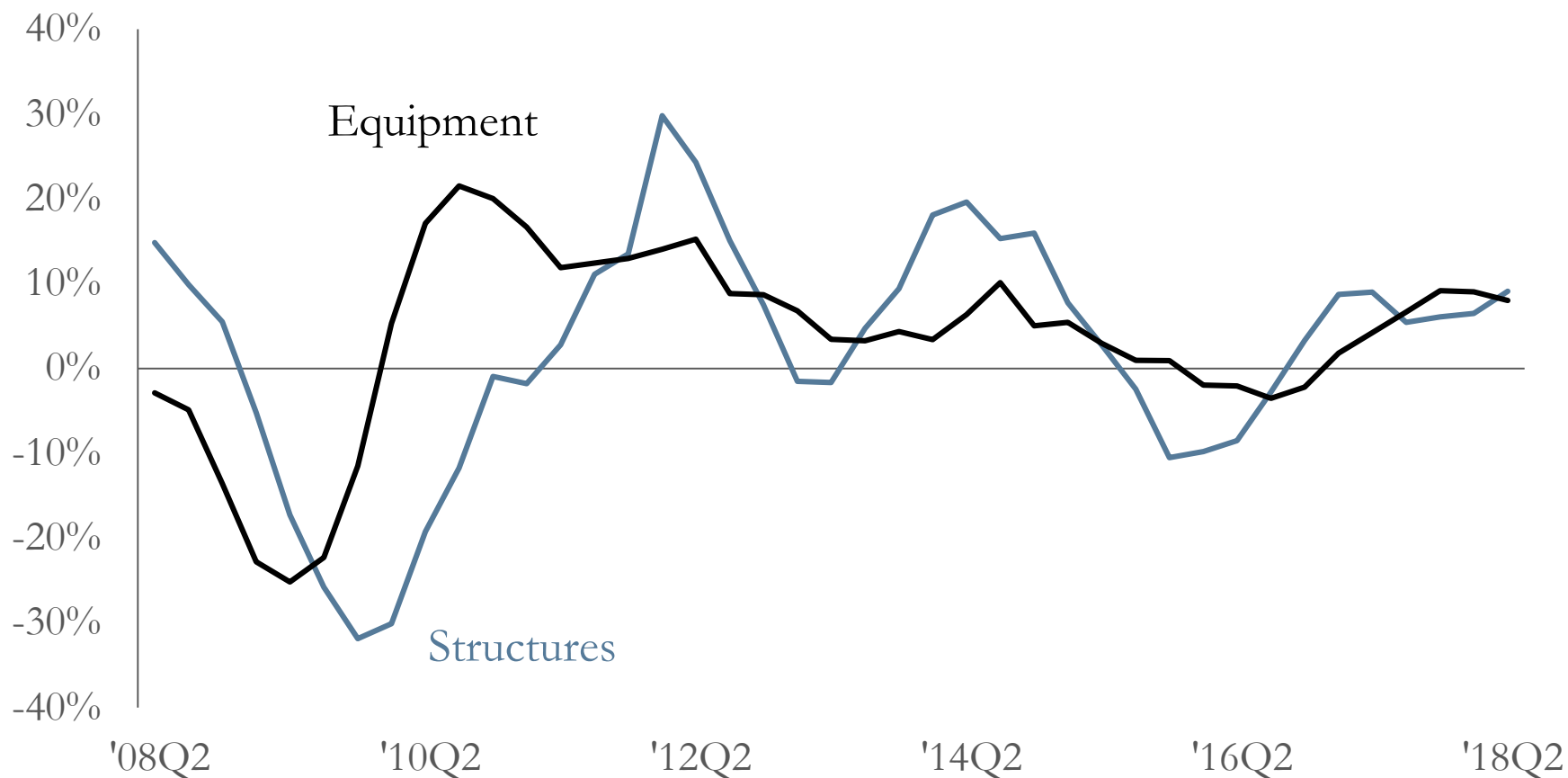
Note: Values above 50 indicates expansion, and values below indicate contraction.

Equipment and structure investment strengthened in 2017 and the momentum has continued this year.



BUSINESS FIXED INVESTMENT

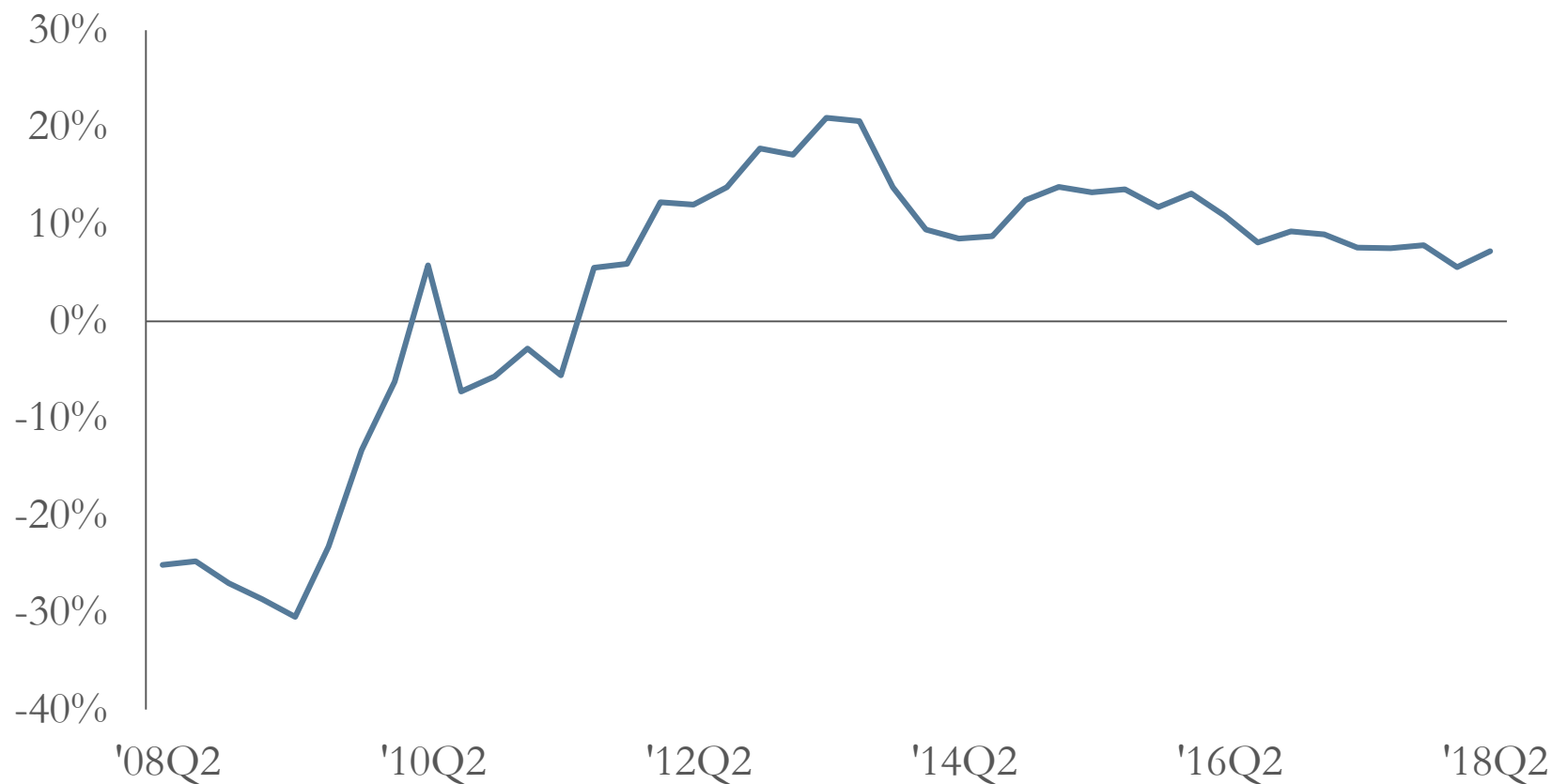
Seasonally Adjusted Annualized Rate, Year-over-Year Percent Change



Residential investment continues to expand but at a fairly modest pace.

RESIDENTIAL FIXED INVESTMENT

Seasonally Adjusted Annualized Rate, Year-over-Year Percent Change

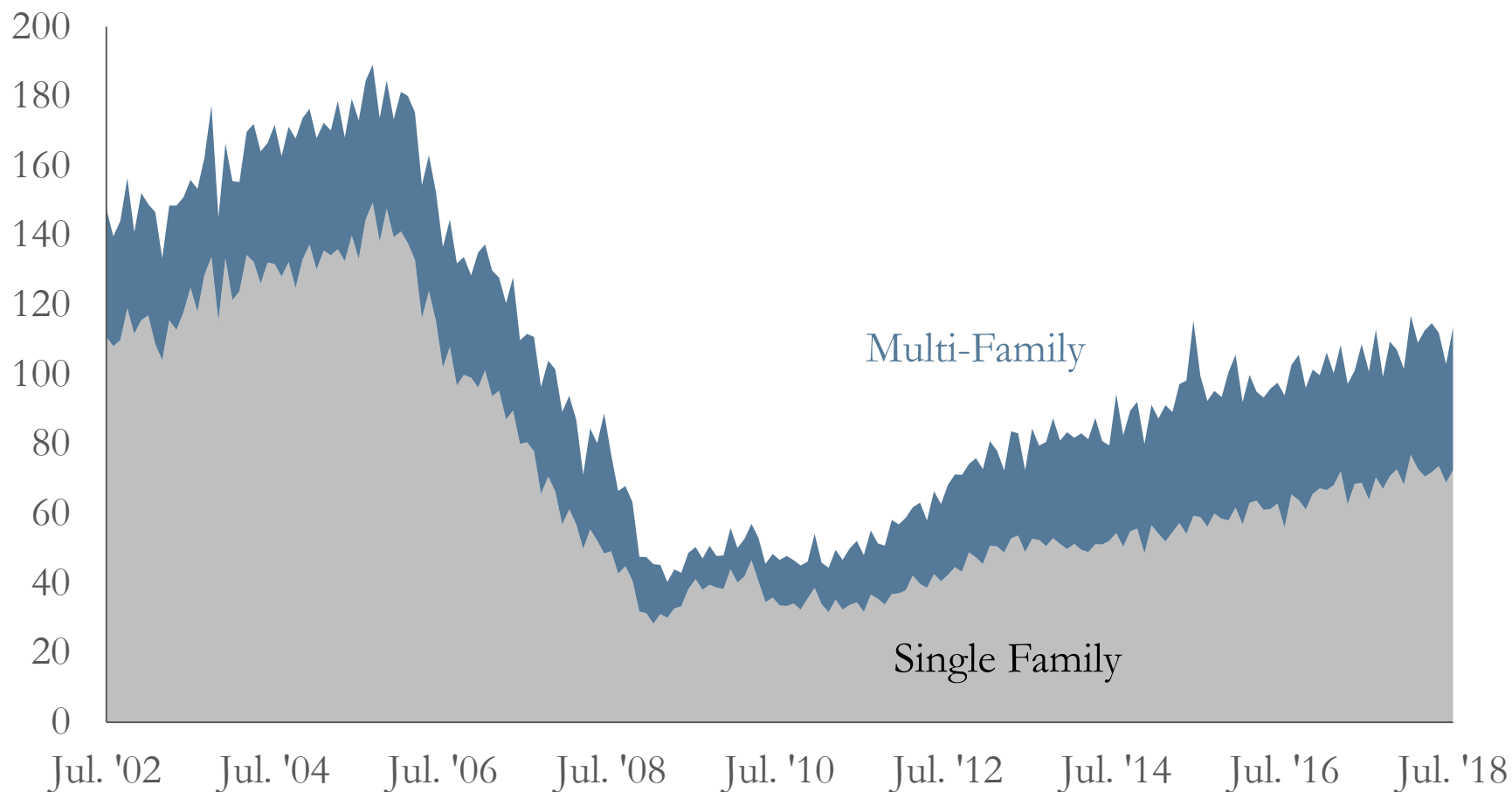


Residential permitting has been increasing for 8 years, but remains well below the level of building activity prior to the recession.



U.S. MONTHLY HOUSING PERMITS

Thousands of Permits, Seasonally Adjusted

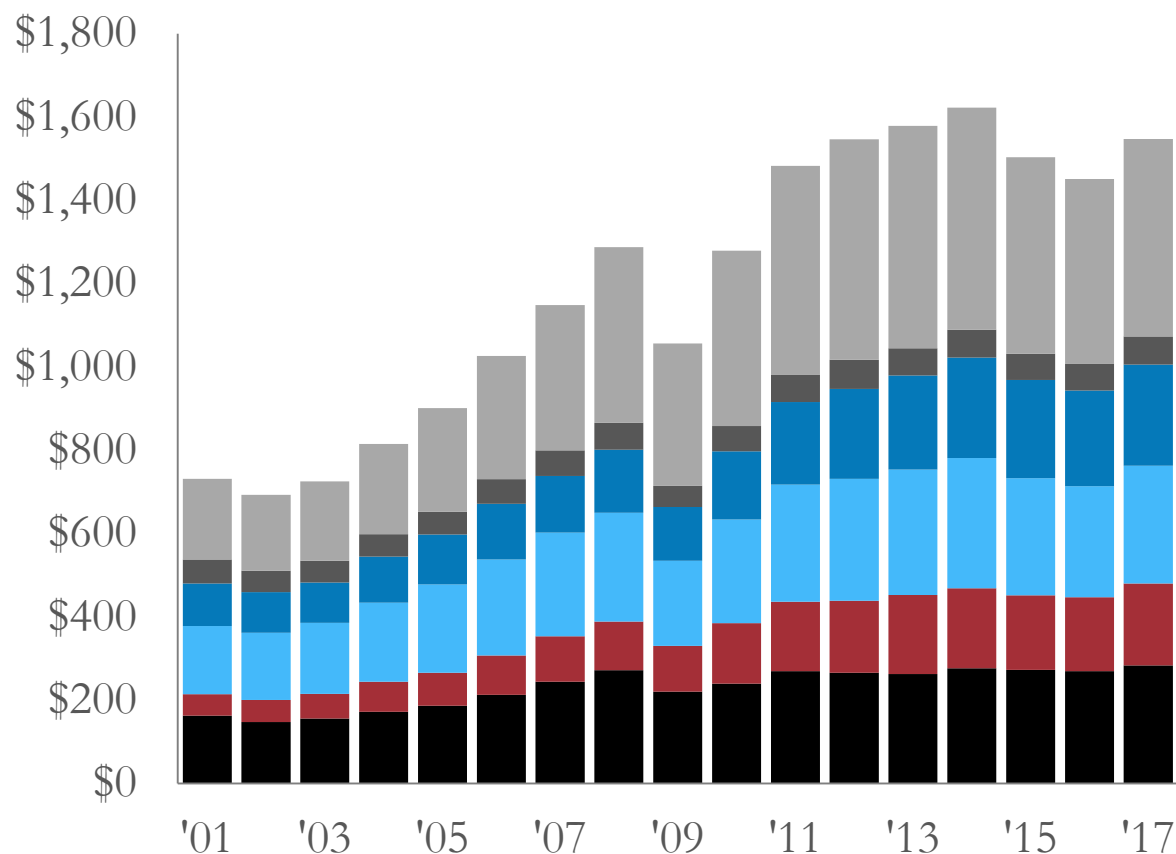


Exporting activity rebounded modestly in 2017 as global growth accelerated and the value of the dollar declined.



UNITED STATES EXPORTS BY TRADING PARTNER

Billions

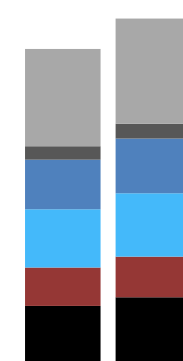


YEAR-TO-DATE JUNE, 2018

Year-over-Year Percent Change

Total Trade	9.6%	SHARE*
All Other	8.3	30.6%
Japan	8.9	4.4
Mexico	10.3	15.7
Canada	8.8	18.3
China	5.6	12.7
Eurozone	15.0	18.3

**Share is for 2017*



'17 '18
Year-to-Date,
June

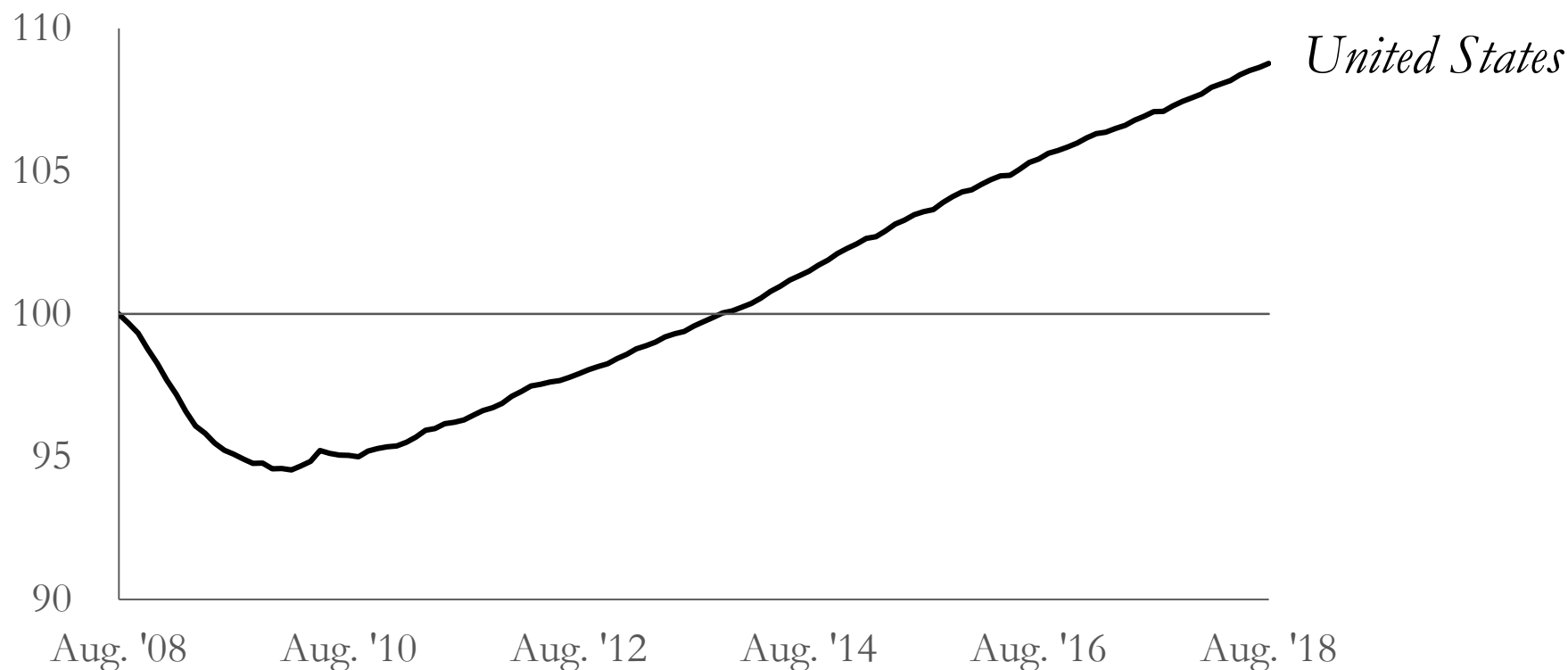
Employment has been increasing for more than eight years.



PAYROLL EMPLOYMENT GROWTH

Index 100 = August, 2008, Seasonally Adjusted

<i>Percent Change</i>	<i>Past 10 Years</i>	<i>Past Year</i>
U.S. (Aug. '18)	8.8%	1.6%



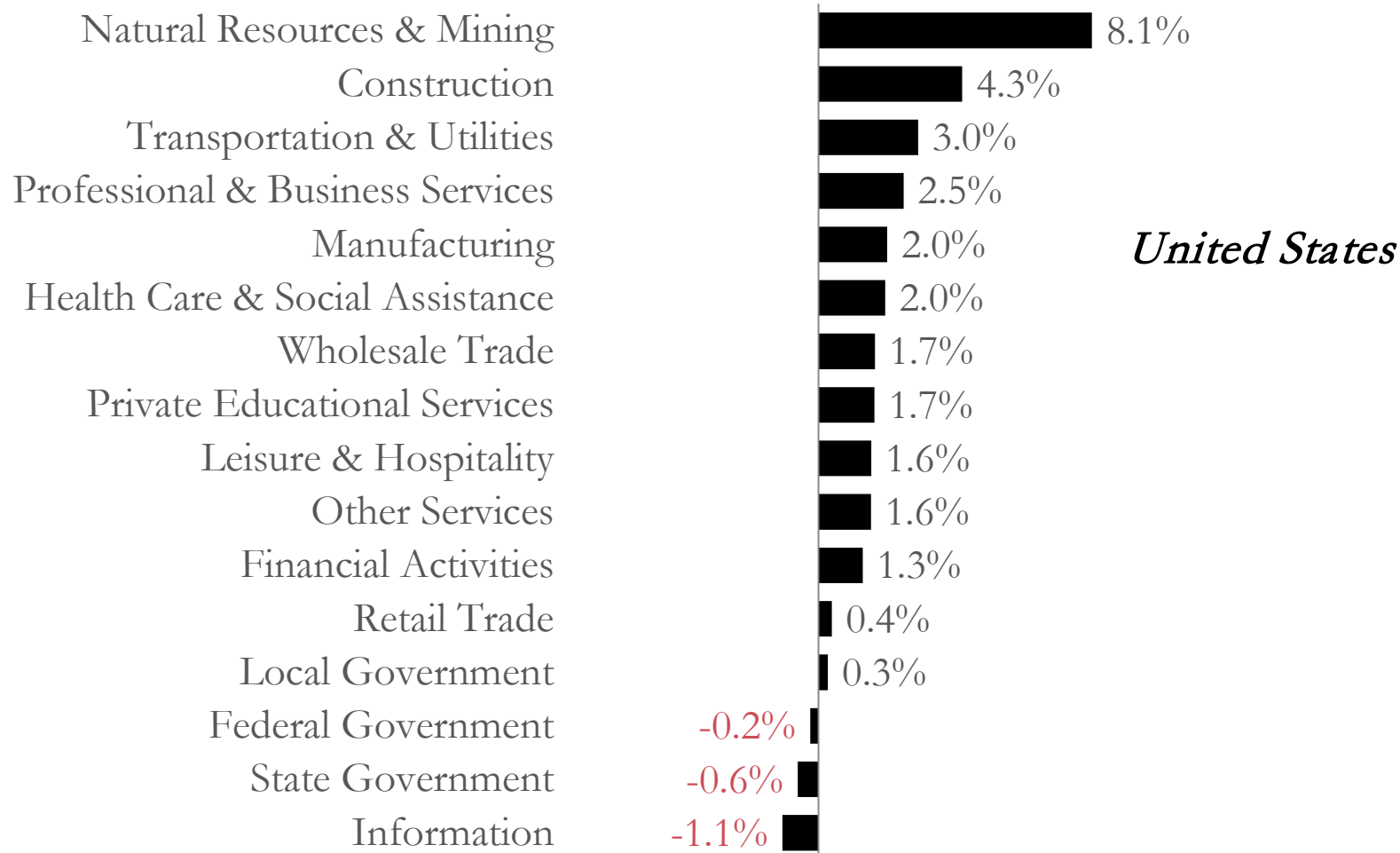
Job growth has been broad based across industries.



CHANGE IN PAYROLL EMPLOYMENT, AUGUST 2018

Seasonally Adjusted

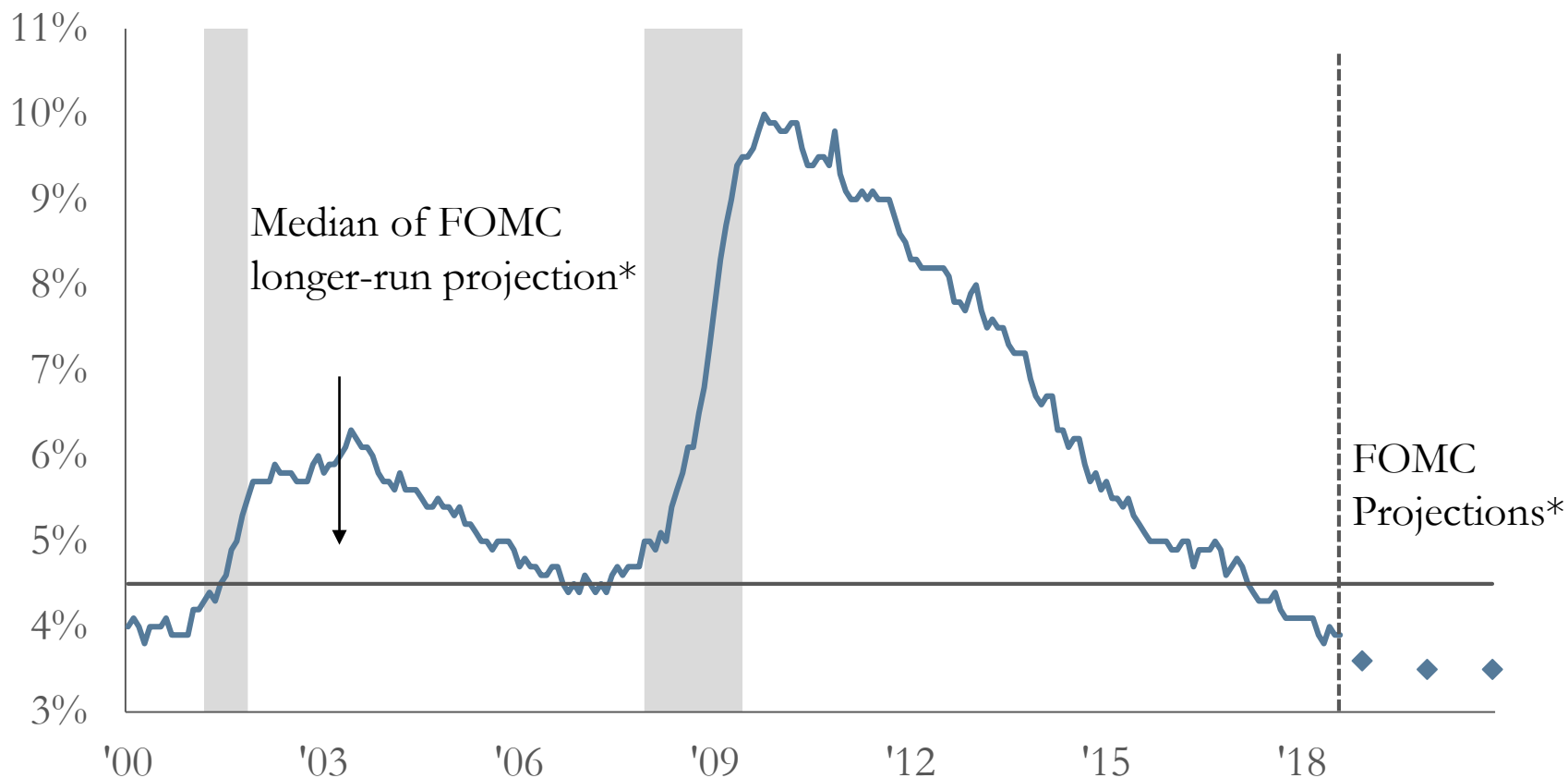
Percent Change Year-over-Year



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 June FOMC meeting; median unemployment rate

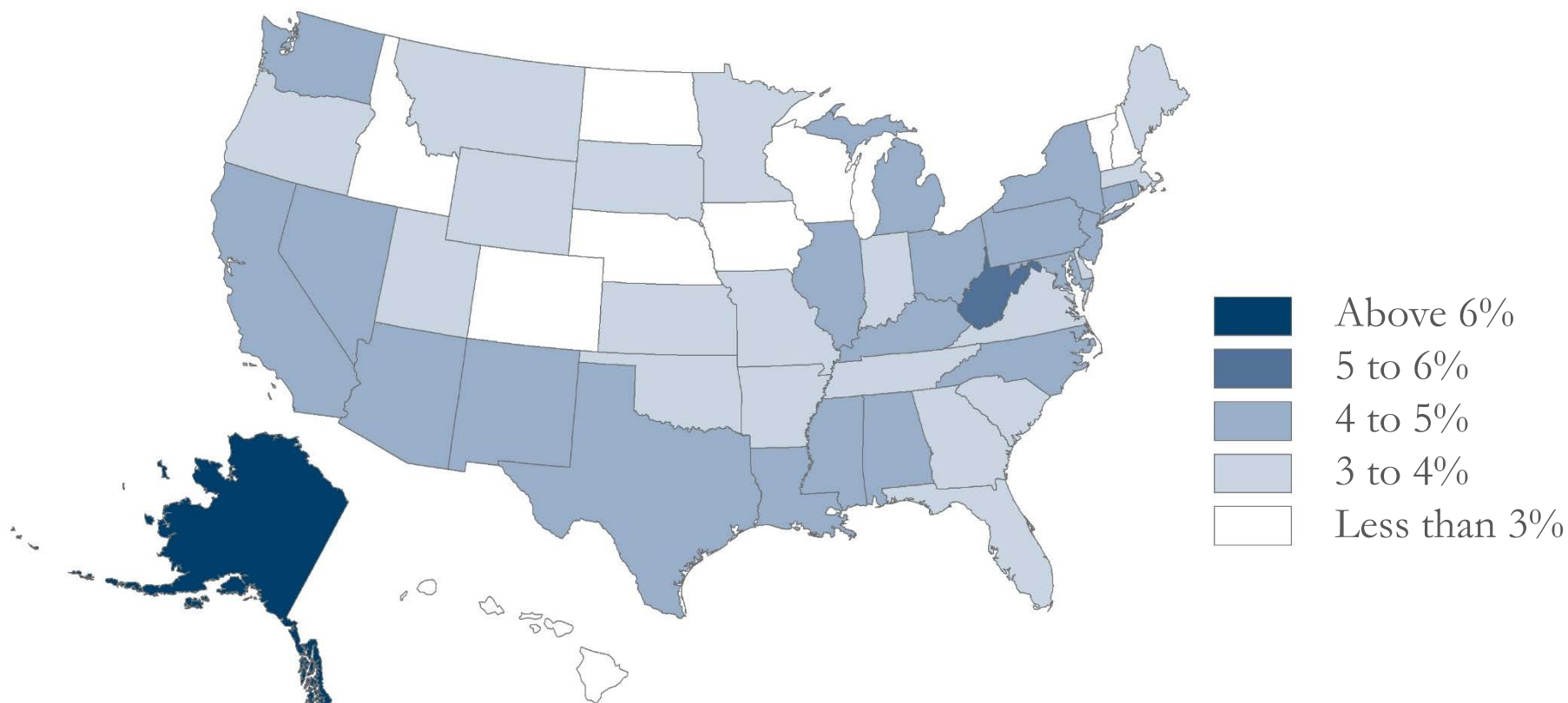
Unemployment rates are low across the country.



UNEMPLOYMENT RATES

July 2018, Seasonally Adjusted

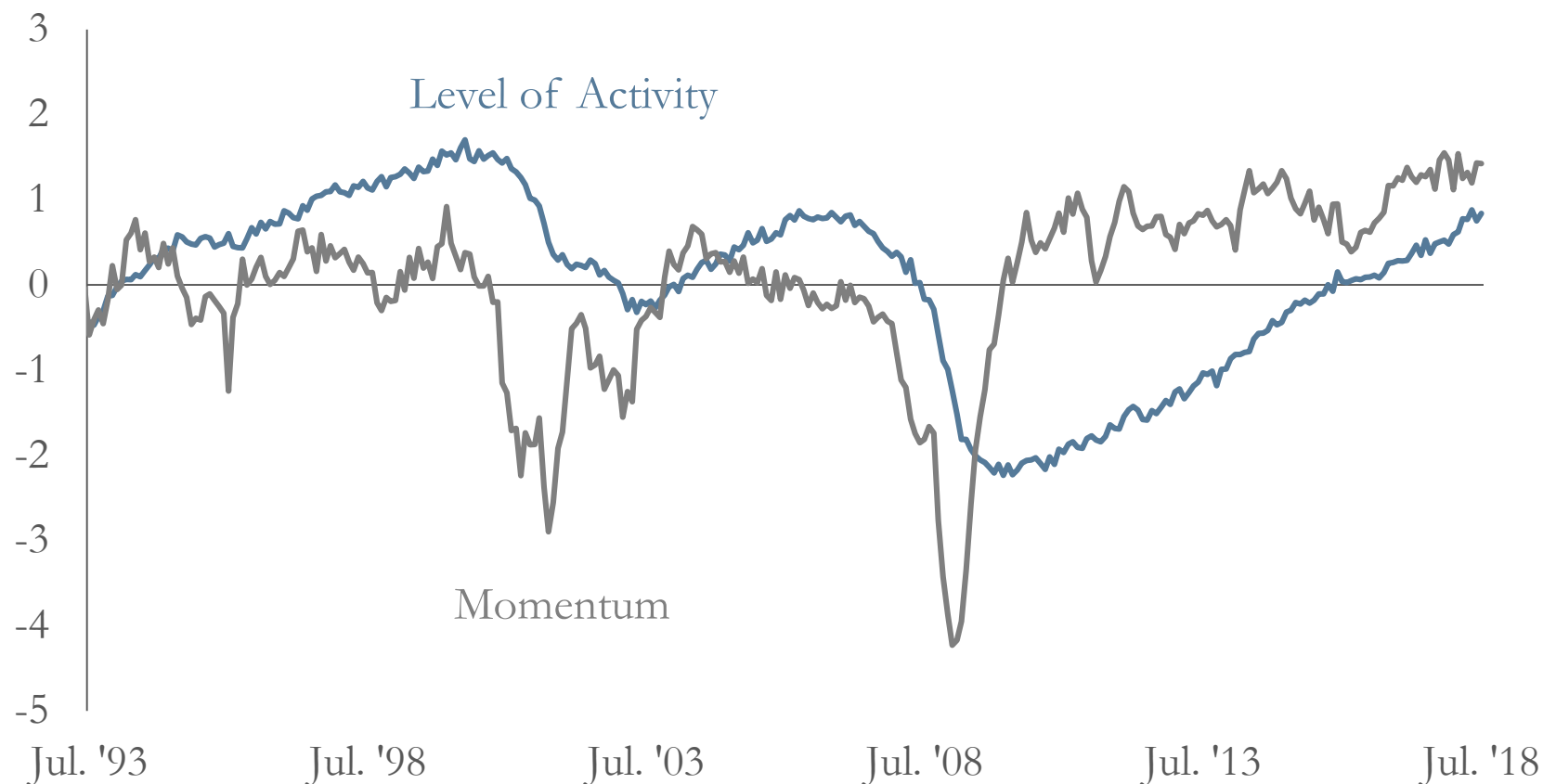
<i>Unemployment Rate</i>	<i>U-3</i>	<i>U-5</i>	<i>U-6</i>
United States (Aug. '18)	3.9%	4.7%	7.4%



A broad range of labor market indicators suggests that the labor market continues to strengthen and momentum for future gains is strong.

KANSAS CITY FEDERAL RESERVE LABOR MARKET CONDITIONS INDICATORS

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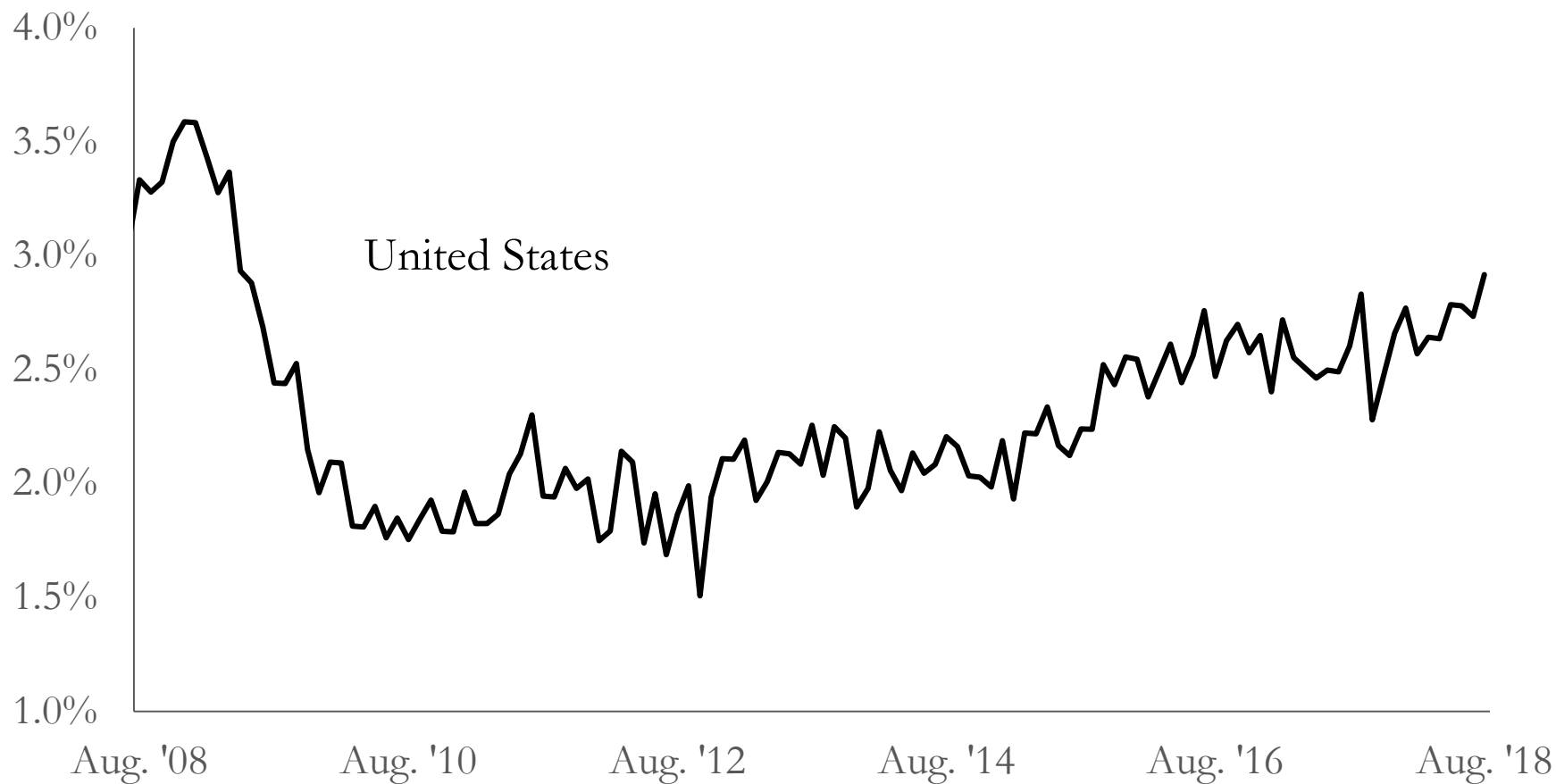


Note: A positive value indicates that labor market conditions are above their long-run average, while a negative value signifies that labor market conditions are below their long-run average.

Wage growth has been slow to pick up, but as labor markets tighten, wage gains are projected to increase.

AVERAGE HOURLY EARNINGS

Seasonally Adjusted, Year-over-Year Percent Change

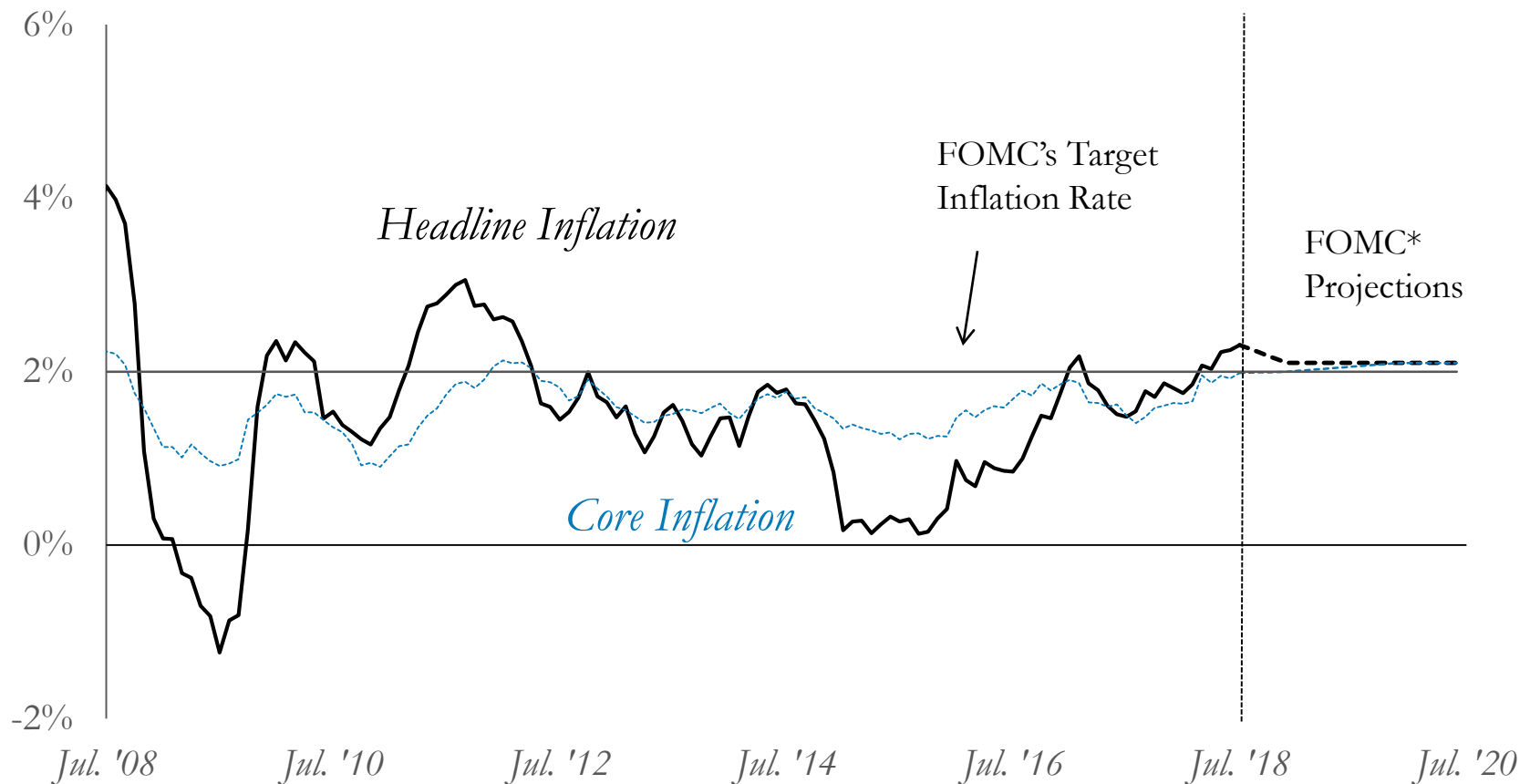


Inflation is near the FOMC's two percent target.



PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX (PCEPI)

Percent Change Year-over-Year



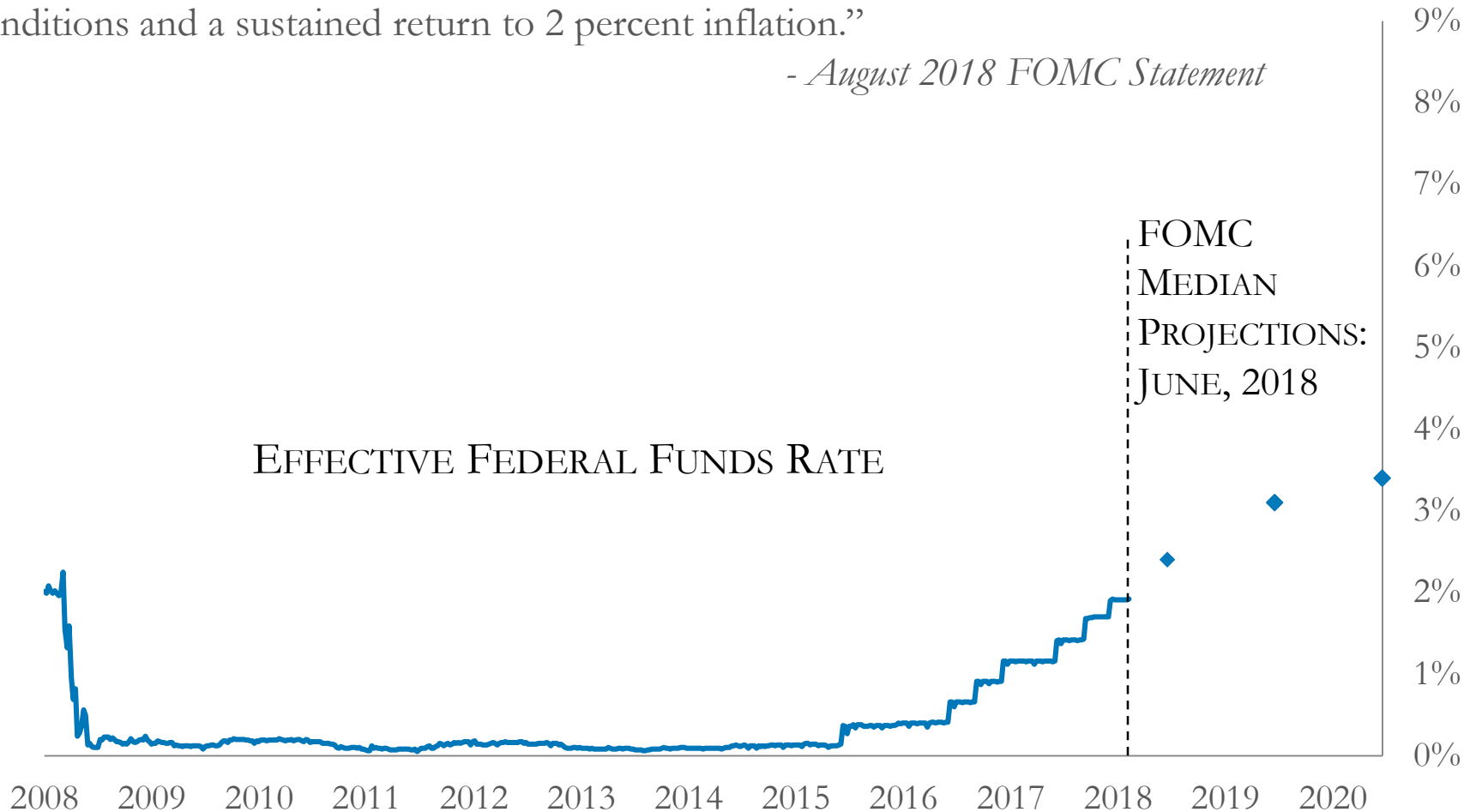
Source: Bureau of Economic Analysis, Federal Open Market Committee, & Haver Analytics

*Projections as of December 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 1-3/4 to 2 percent. The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2 percent inflation.”

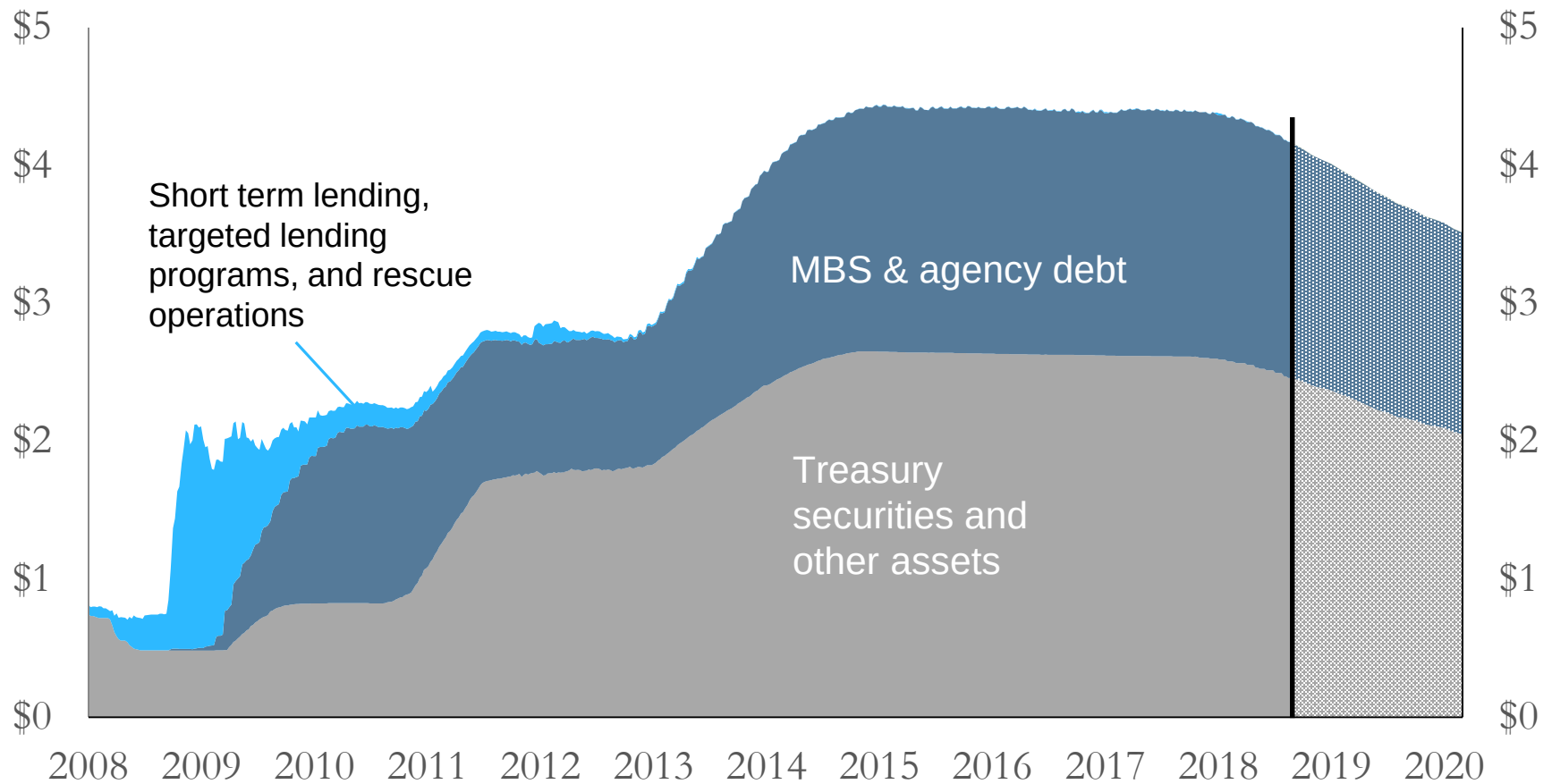
- *August 2018 FOMC Statement*





FEDERAL RESERVE BALANCE SHEET

Trillions



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

