



Understanding the Federal Reserve and Its Role in the U.S. Economy

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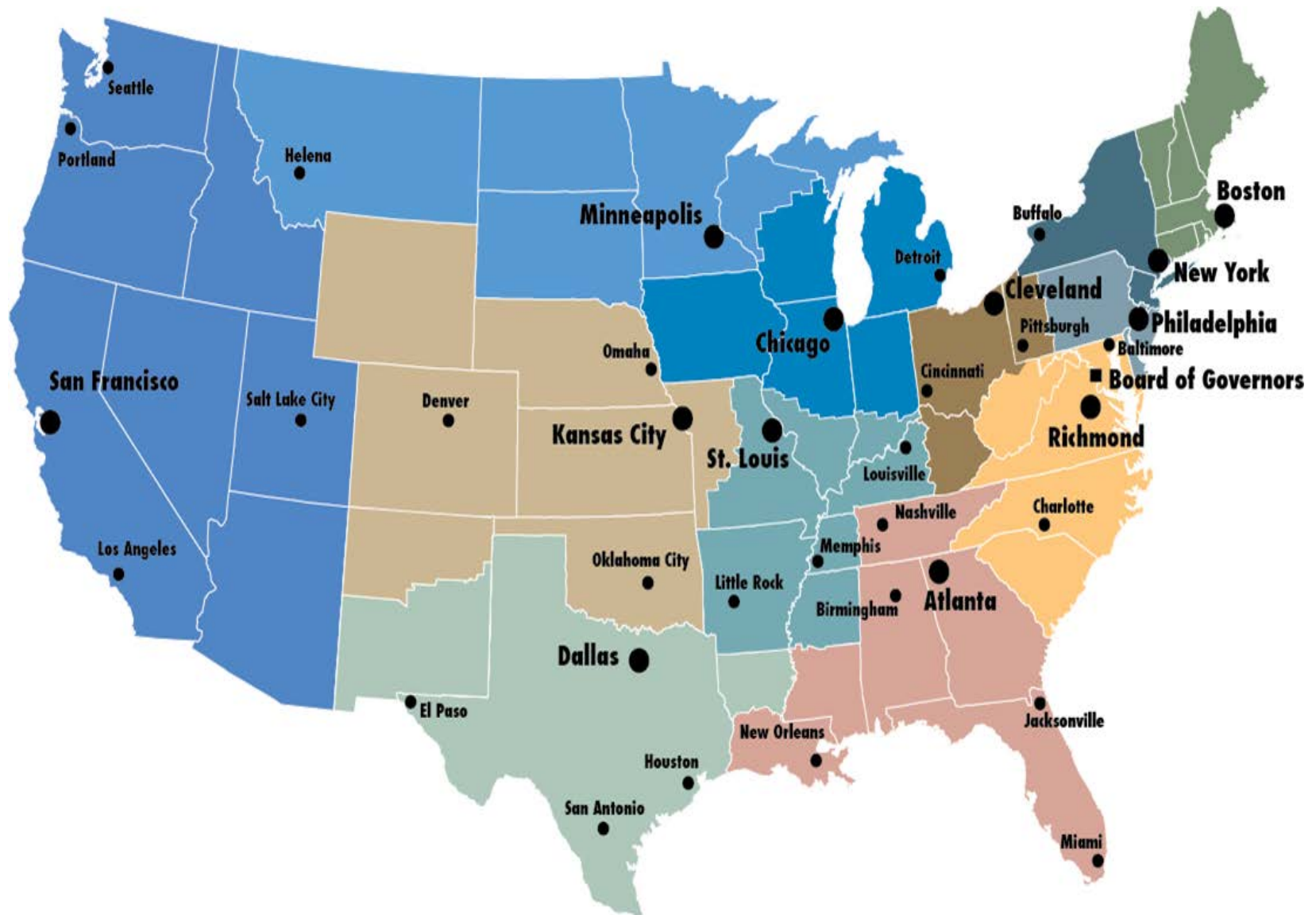
*The views expressed are those of the presenter and do not necessarily reflect
the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.*

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 three members of the Board of Governors: Jerome Powell, Lael Brainard and Randal Quarles.
 - There are four open positions. Marvin Goodfriend has been nominated to fill one 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.

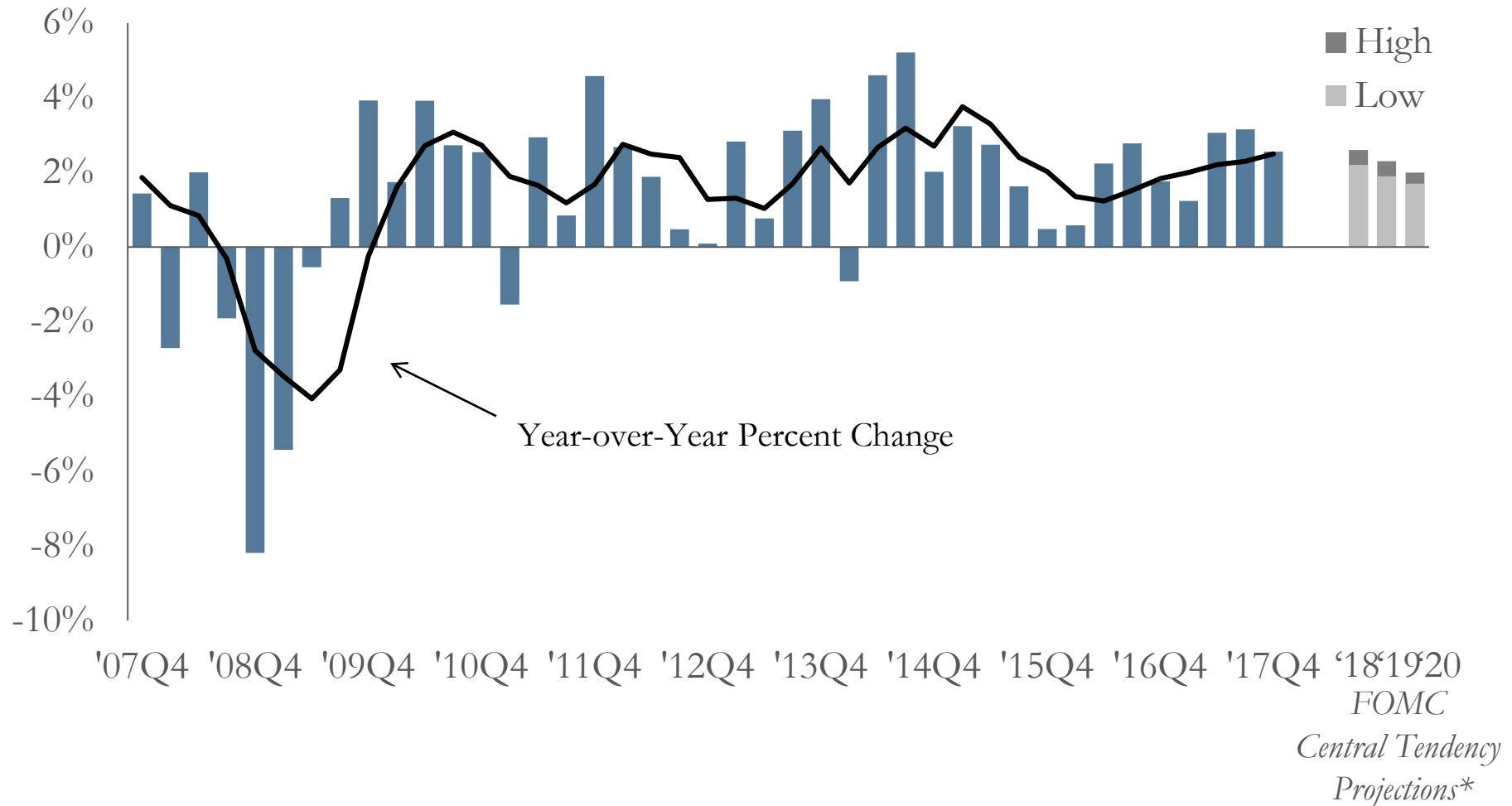


The Federal Reserve and the U.S. Economy

After experiencing a severe recession starting in late 2007, the U.S. economy is now in its 105th 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

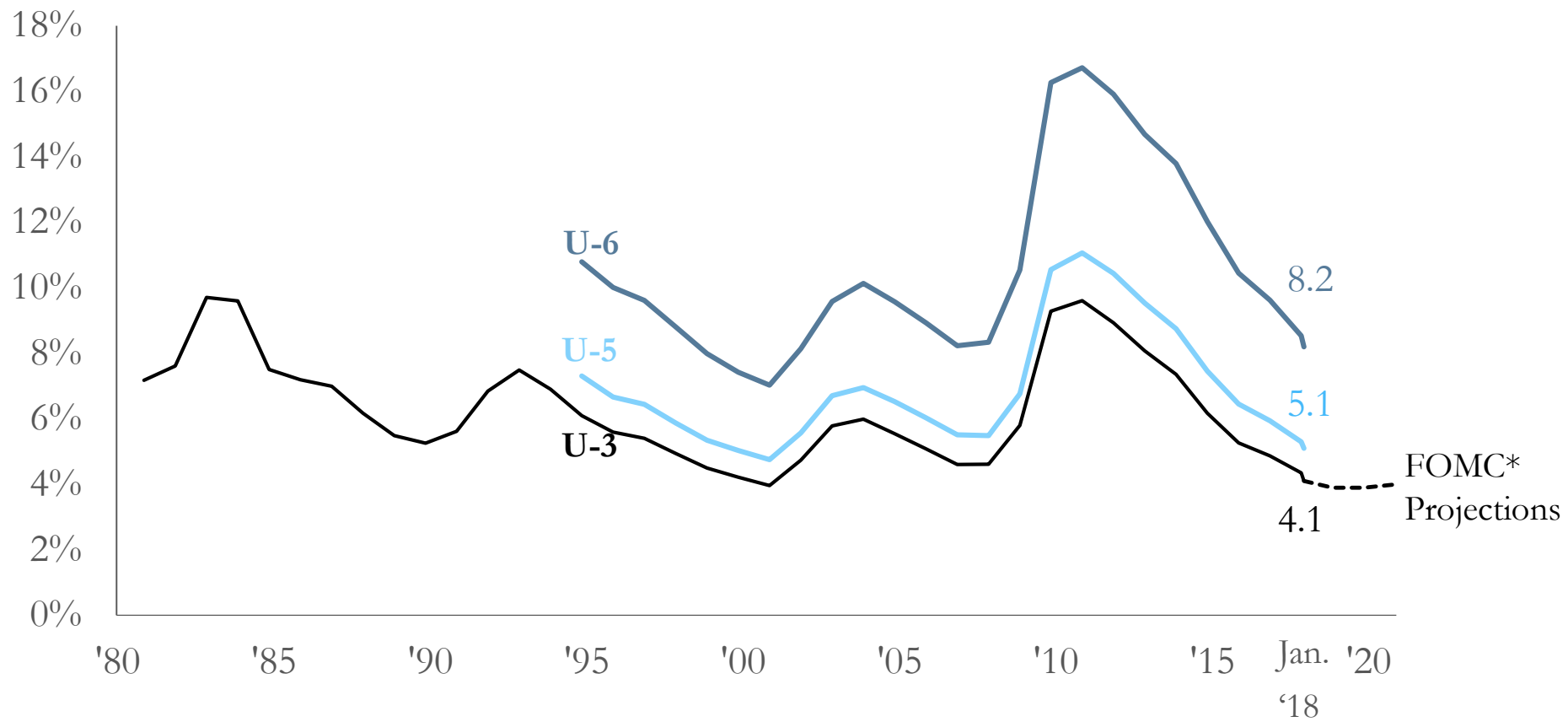
*Projections as of December FOMC meeting

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



U. S. UNEMPLOYMENT AND UNDER-EMPLOYMENT RATES

Seasonally Adjusted



Source: Bureau of Labor Statistics and Federal Open Market Committee (FOMC)/Haver Analytics

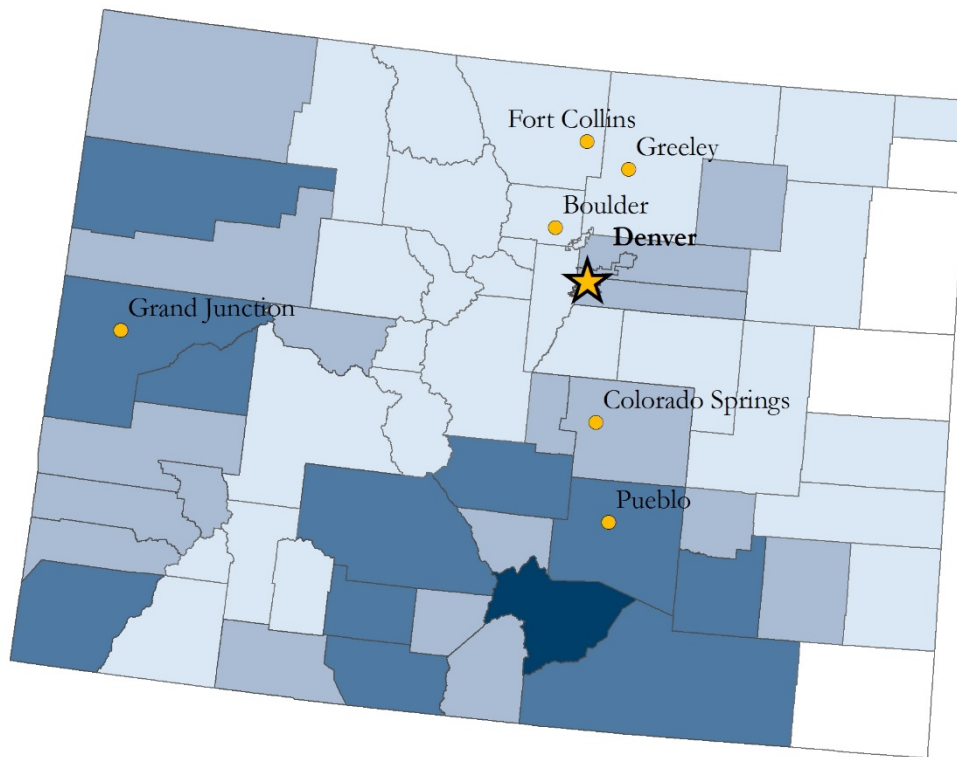
*Projections as of December FOMC meeting; median unemployment rate

Unemployment rates are below national rates across most of Colorado.

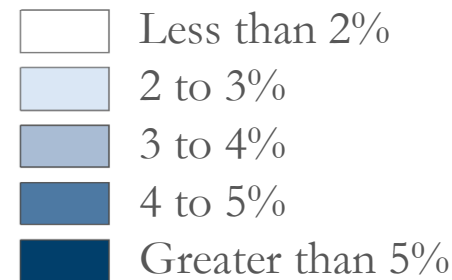
UNEMPLOYMENT RATES

December 2017, Seasonally Adjusted

<i>Unemployment Rate</i>	<i>U-3</i>	<i>U-5*</i>	<i>U-6*</i>
United States (Jan. '18)	4.1%	5.1%	8.2%
Colorado (Dec. '17)	3.0%	3.5%	6.3%



**U-5 and U-6 values are 12-month moving averages as of Q3 2017 for Colorado and are for January, 2018 for the United States.*



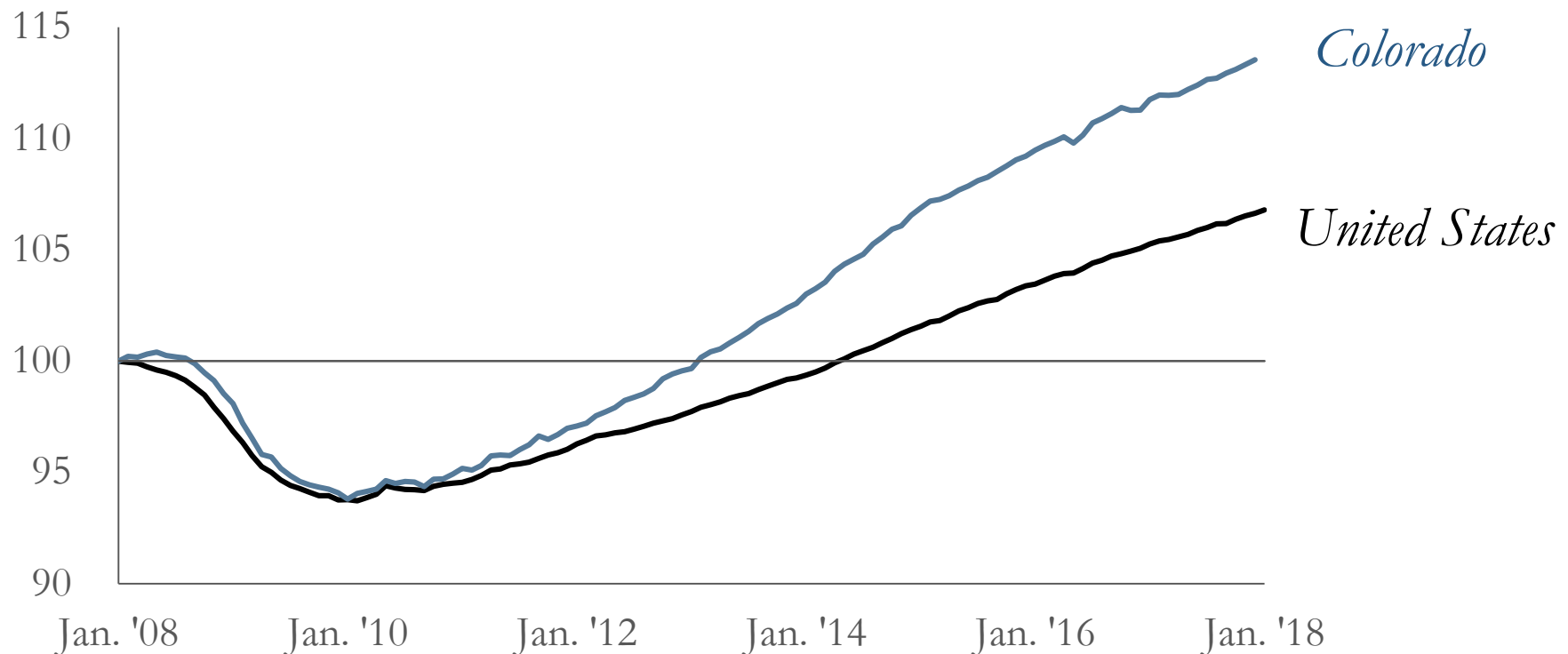
Employment has been increasing in Colorado and the nation over the past eight years, with Colorado gains outpacing the nation.



PAYROLL EMPLOYMENT GROWTH

Index 100 = January, 2008, Seasonally Adjusted

<i>Percent Change</i>	<i>Past 10 Years</i>	<i>Past Year</i>
U.S. (Jan. '18)	6.8%	1.5%
Colorado (Dec. '17)	13.7%	2.0%

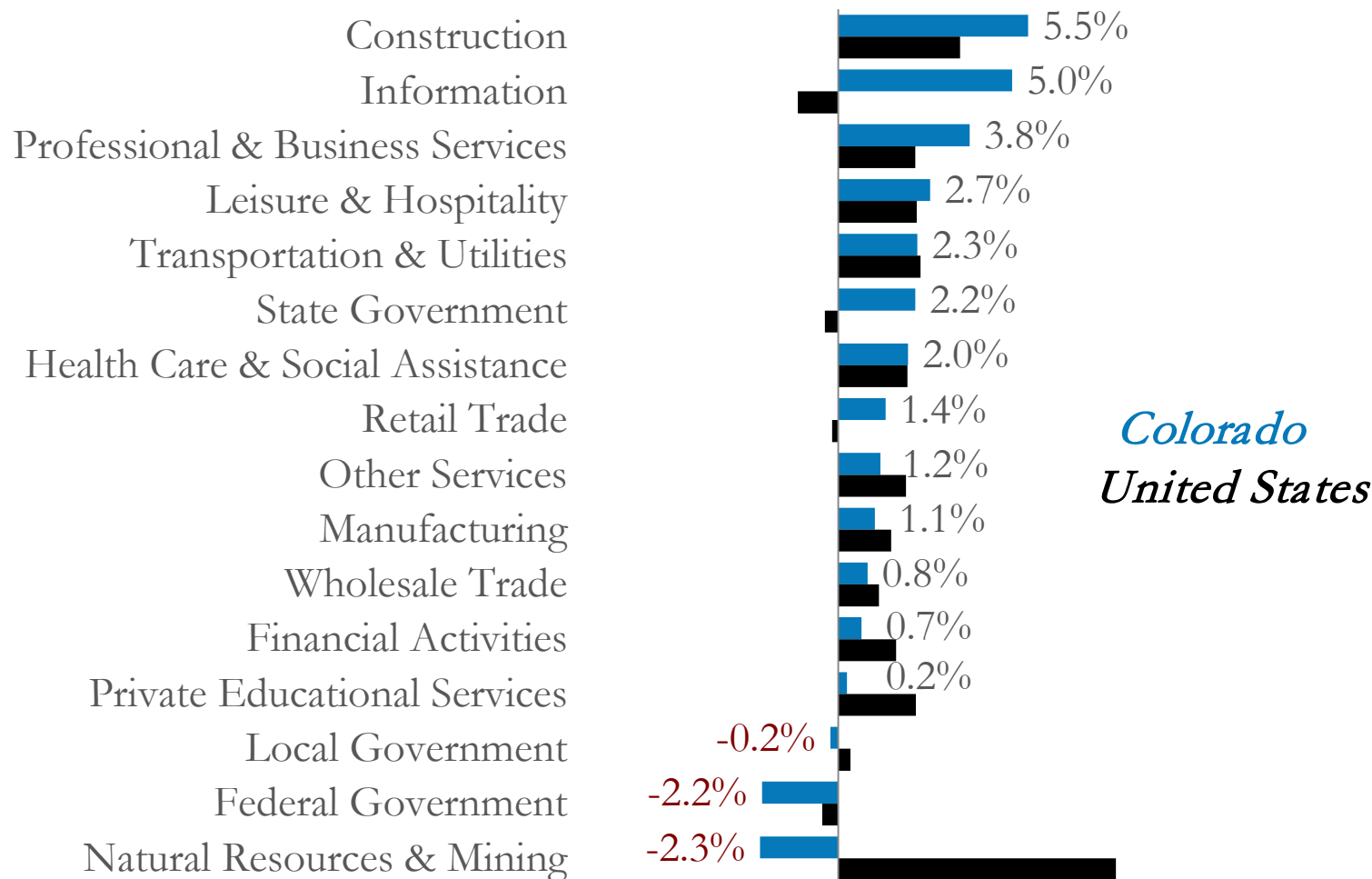


The majority of industries in Colorado have added jobs over the past year.

CHANGE IN PAYROLL EMPLOYMENT, DECEMBER 2017

Seasonally Adjusted

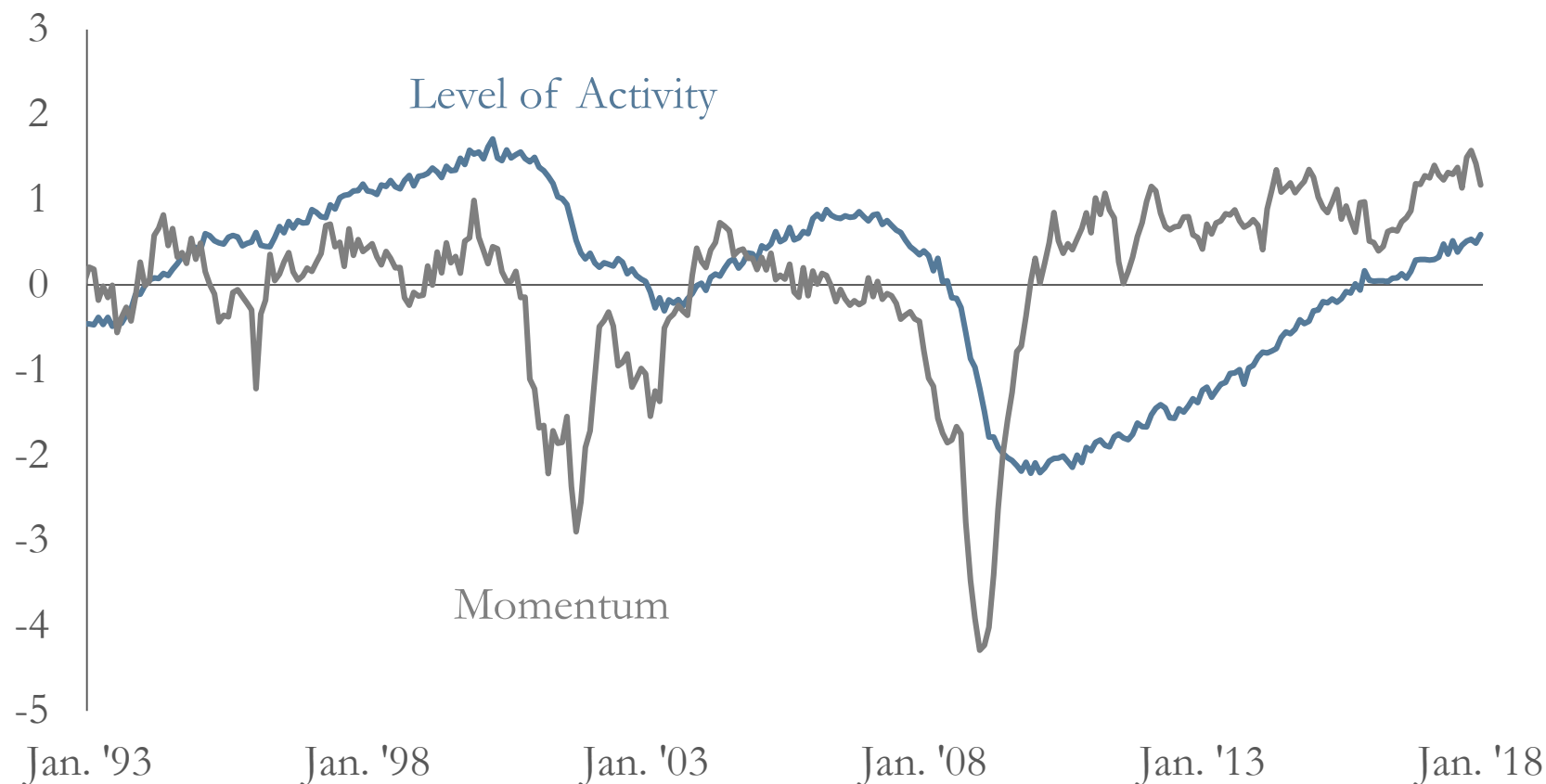
Percent Change Year-over-Year



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

Index



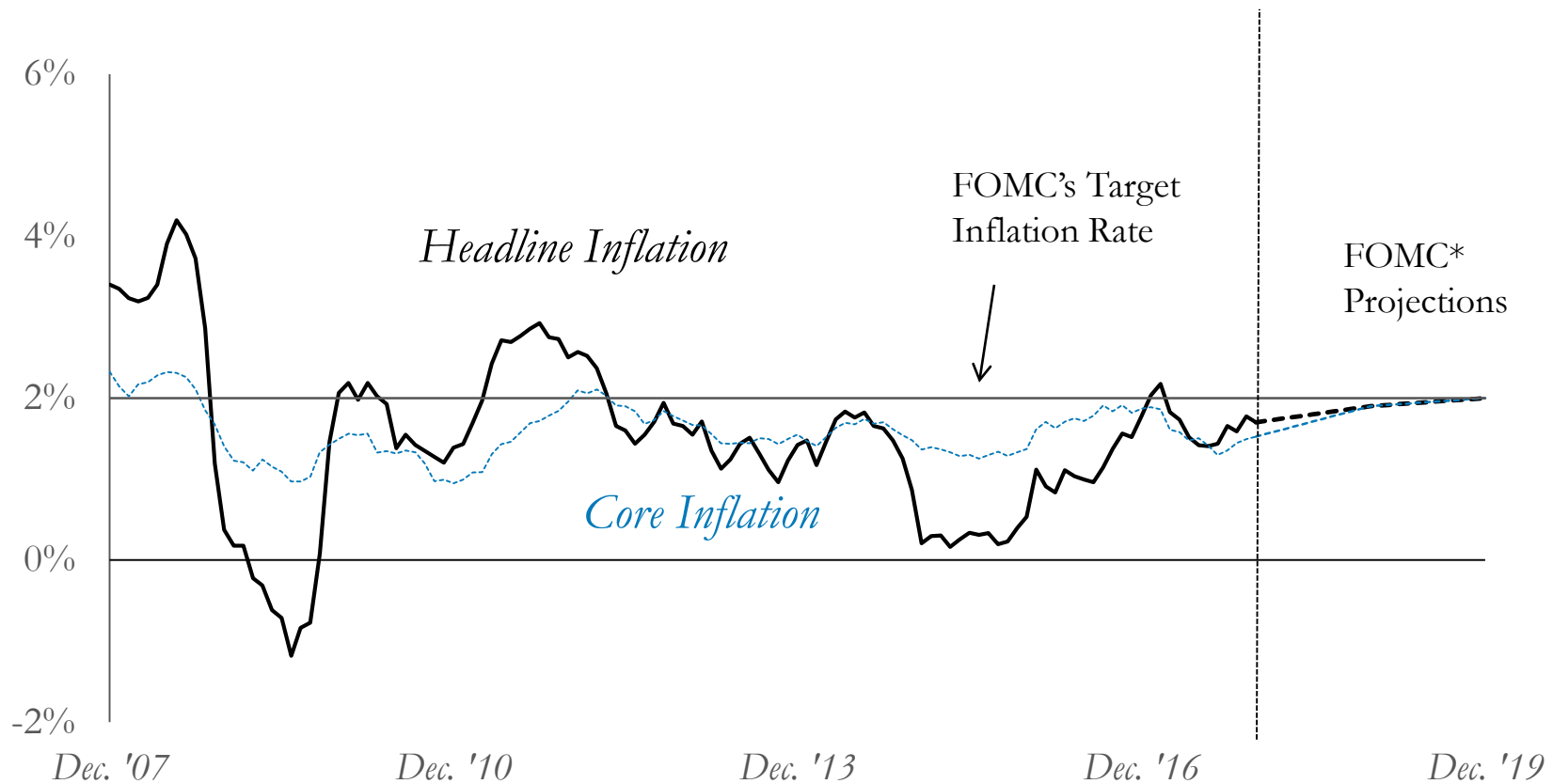
Note: A positive value indicates that labor market conditions are above their long-run average, while a negative value signifies that labor market conditions are below their long-run average.

Inflation is near the FOMC's two percent target.



PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX (PCEPI)

Percent Change Year-over-Year

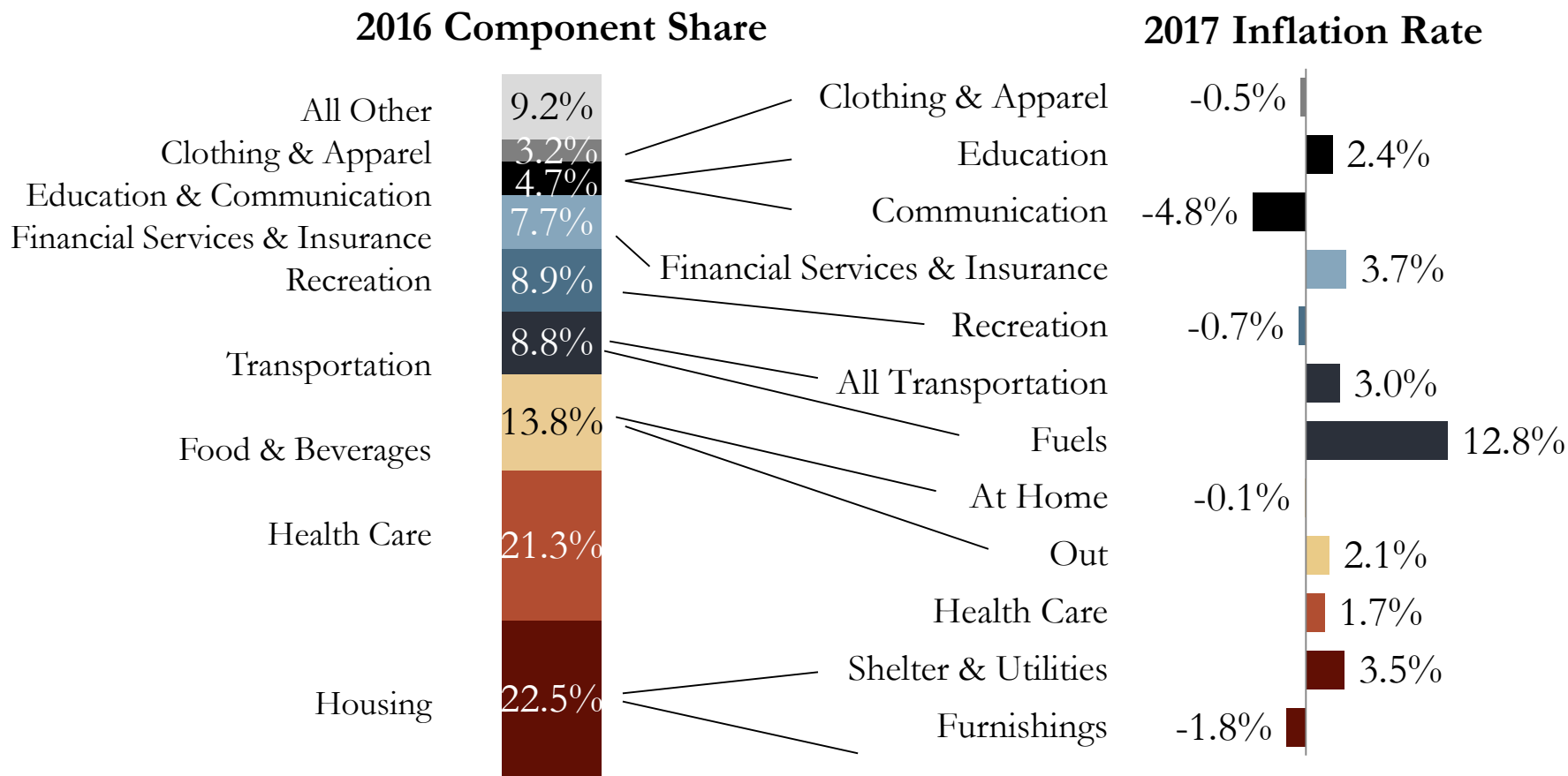


Source: Bureau of Economic Analysis, Federal Open Market Committee, & Haver Analytics

*Projections as of December FOMC meeting; median projections

Inflation rates vary substantially across different types of goods and services

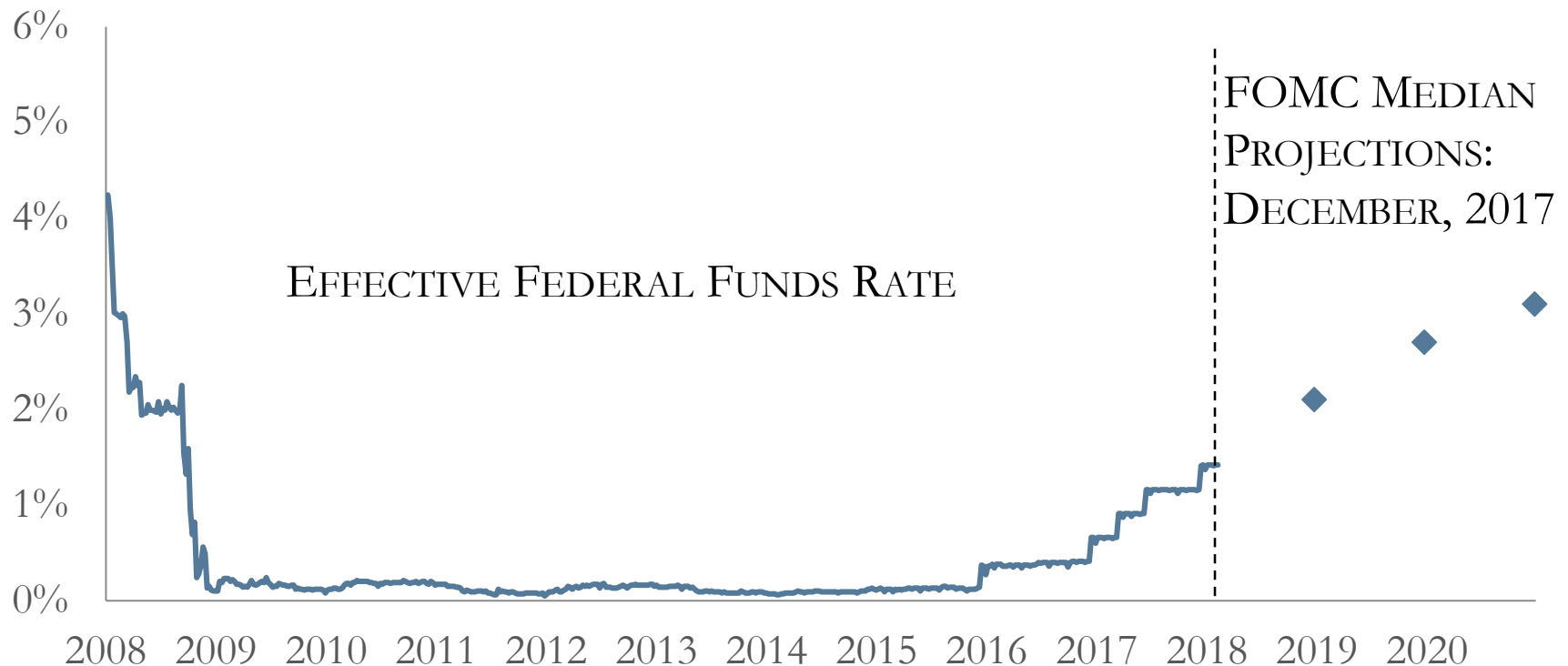
PERSONAL CONSUMPTION EXPENDITURE (PCE) COMPONENTS





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

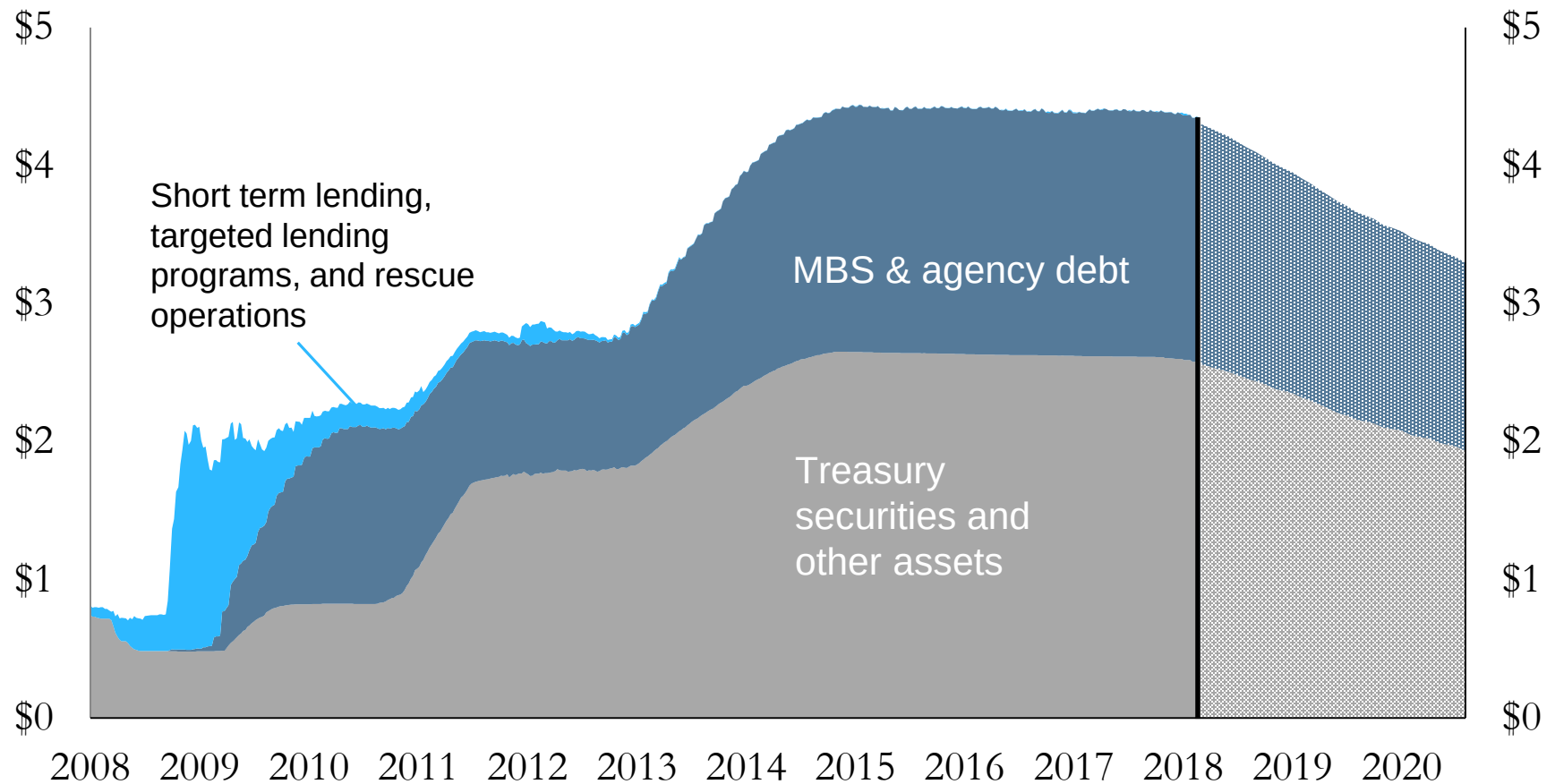
- January 2018 FOMC Statement





FEDERAL RESERVE BALANCE SHEET

Trillions





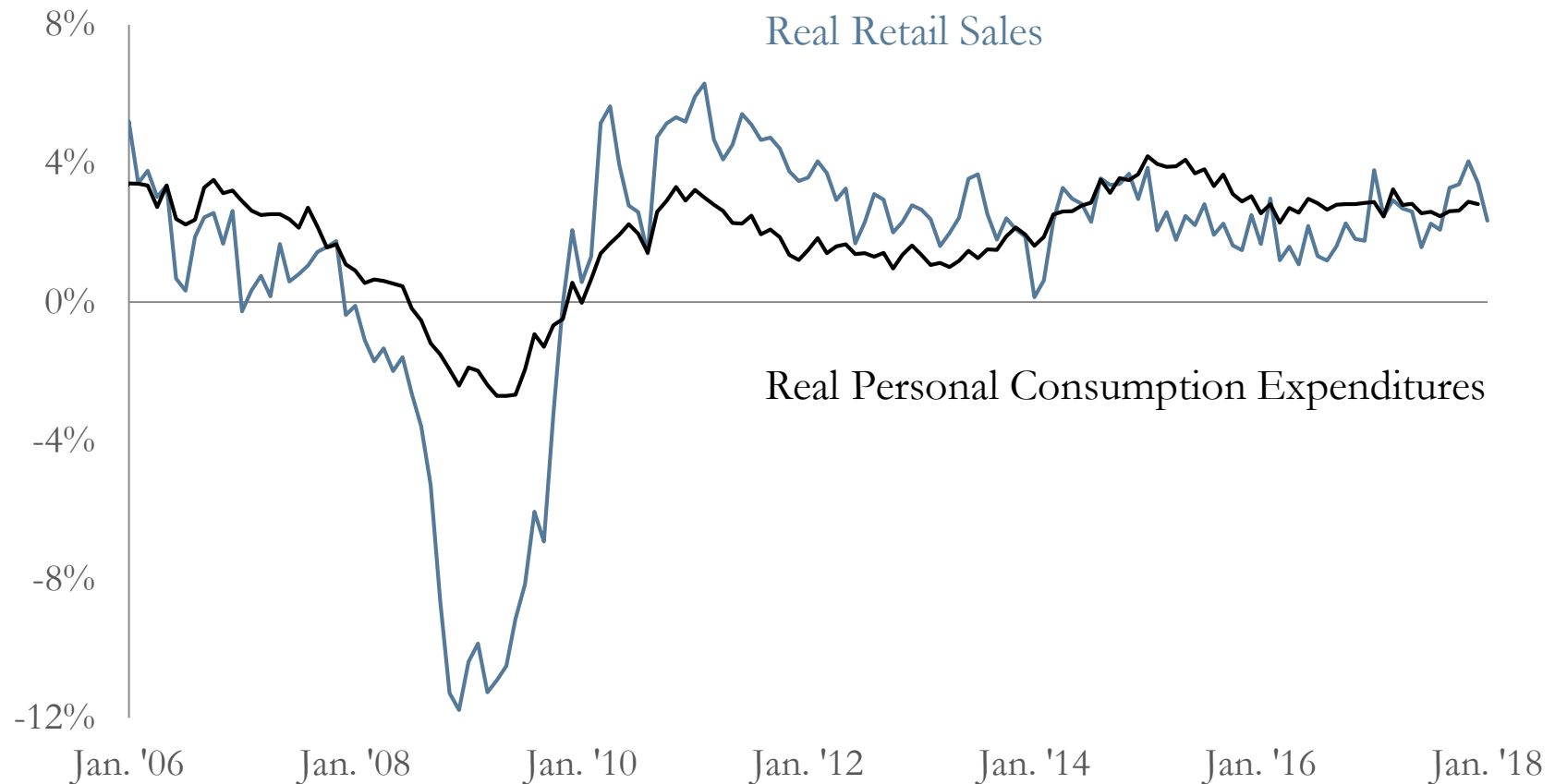
Additional Economic Trends

Consumer spending is a key driver of growth in the U.S. economy.



REAL CONSUMPTION SPENDING

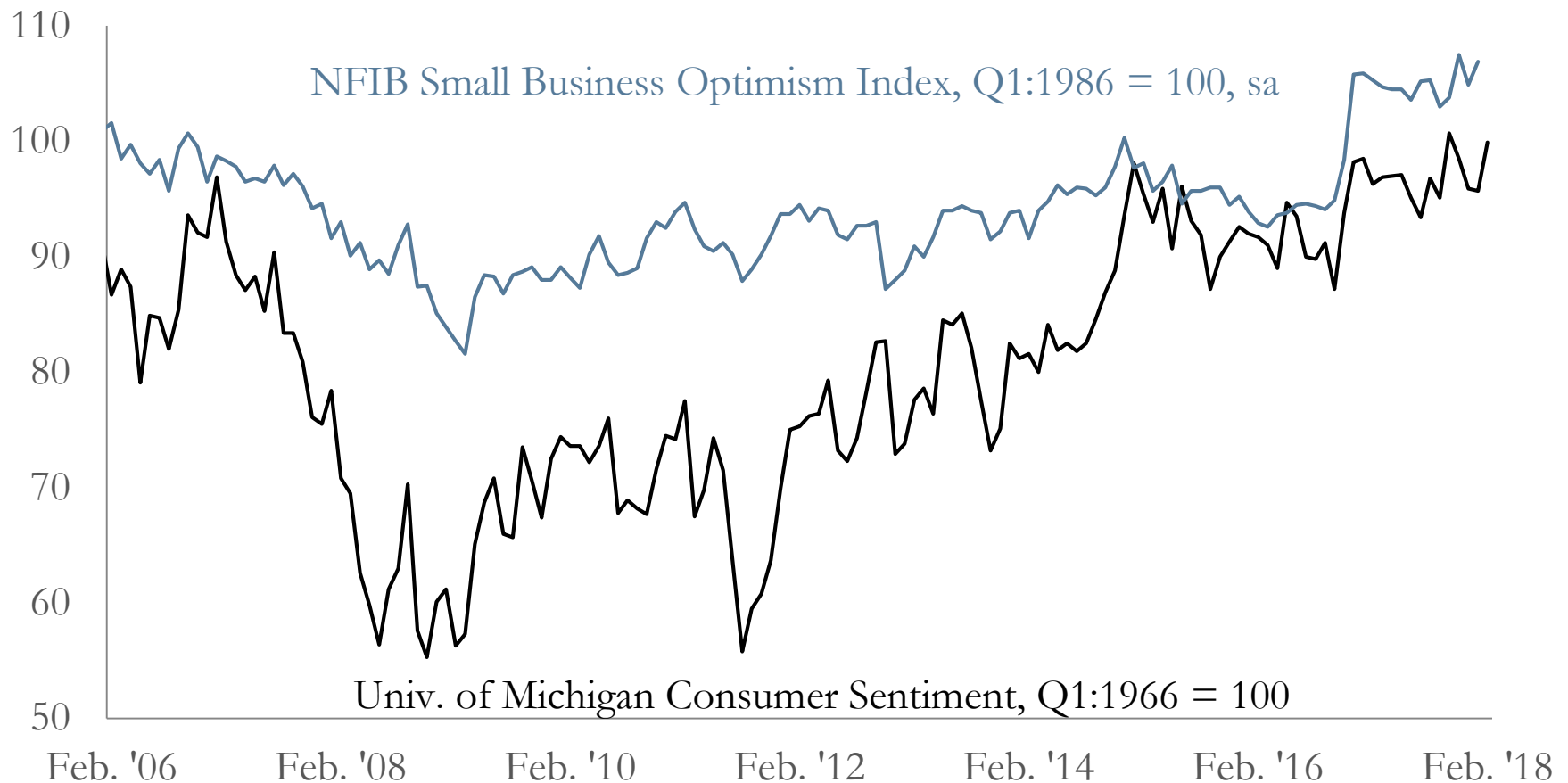
Seasonally Adjusted , Year-over-Year Percent Change



Businesses and consumers remain optimistic about the economy.



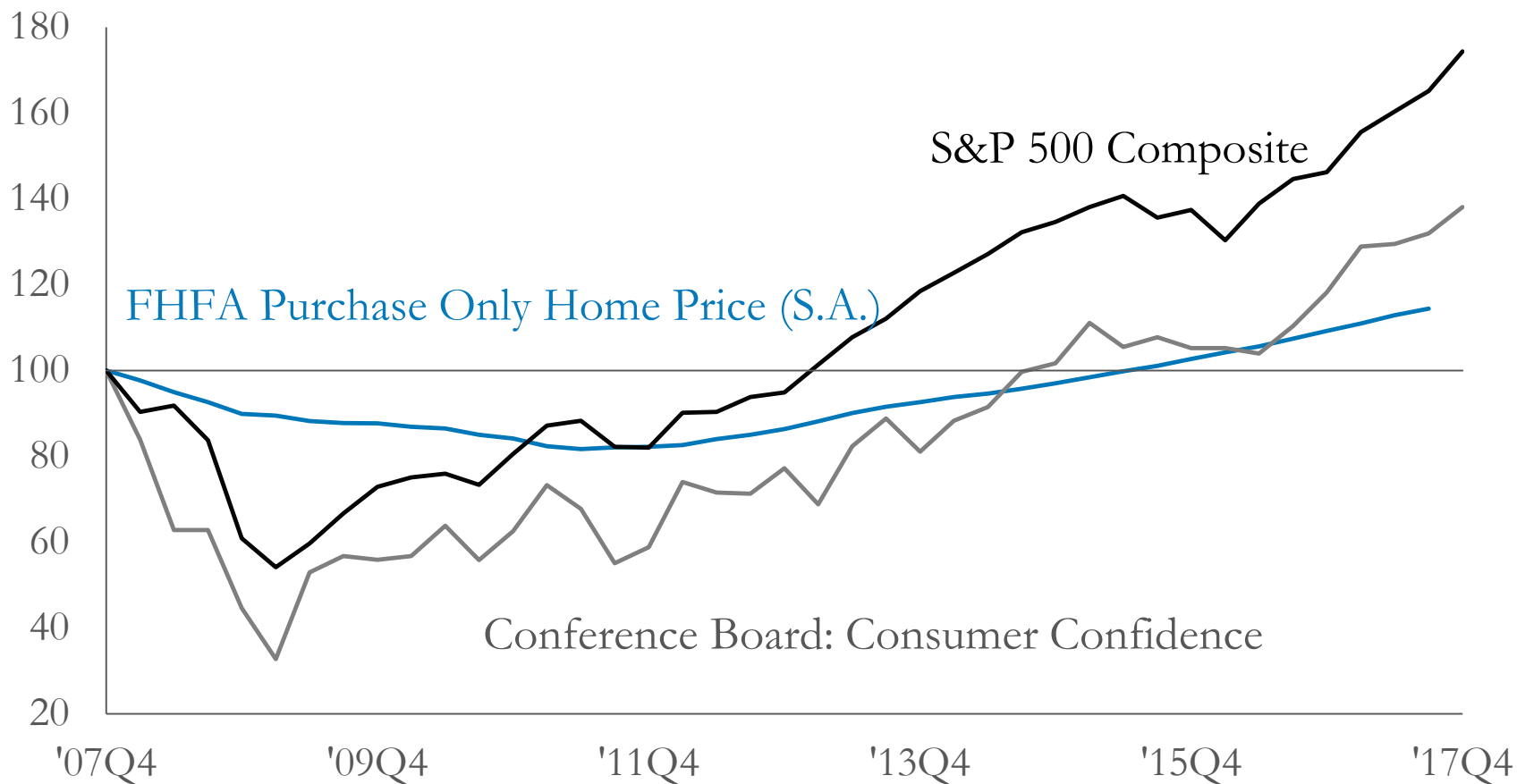
BUSINESS AND CONSUMER SENTIMENT



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 = 4th Quarter, 2007

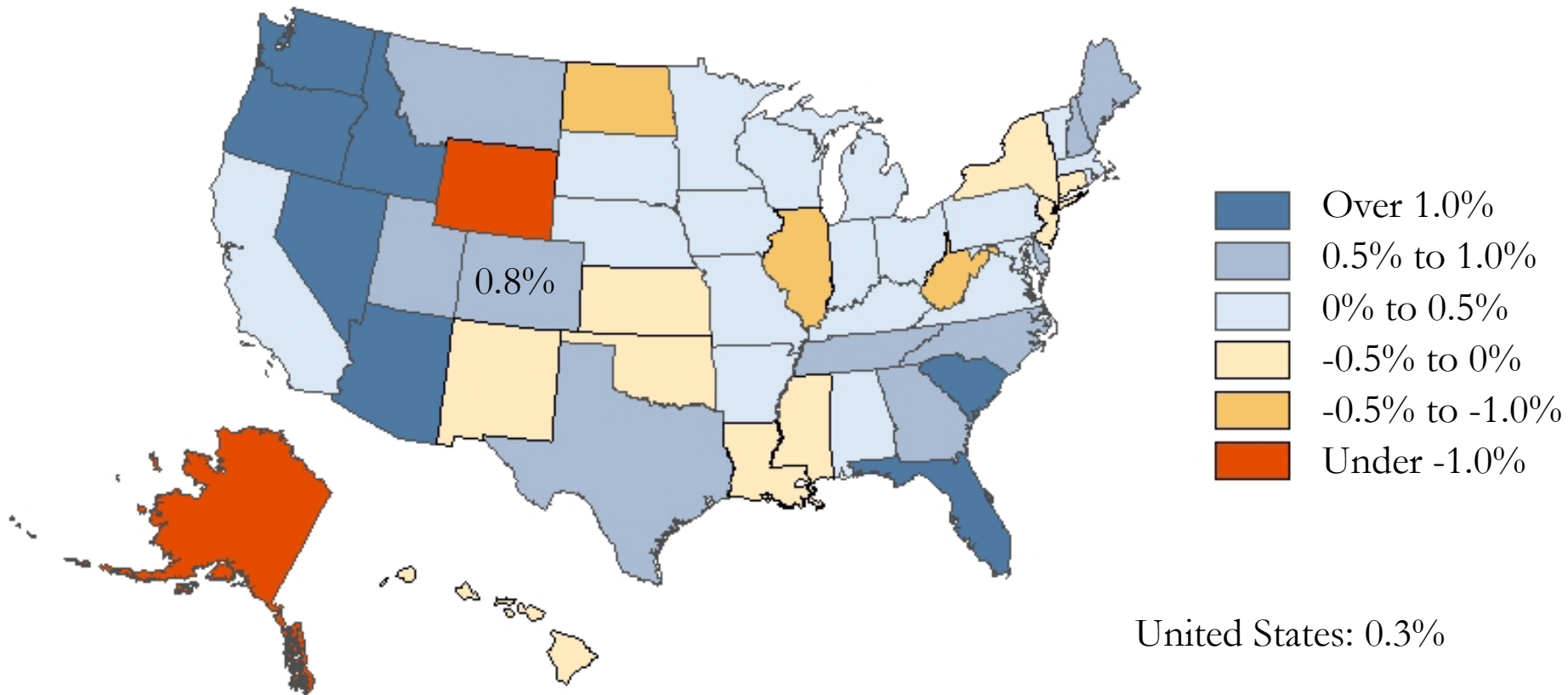


Colorado continues to experience net in-migration, but the pace of growth has slowed over the past year.



NET MIGRATION

Total 2017 Net Migration as a Percentage of 2017 Population

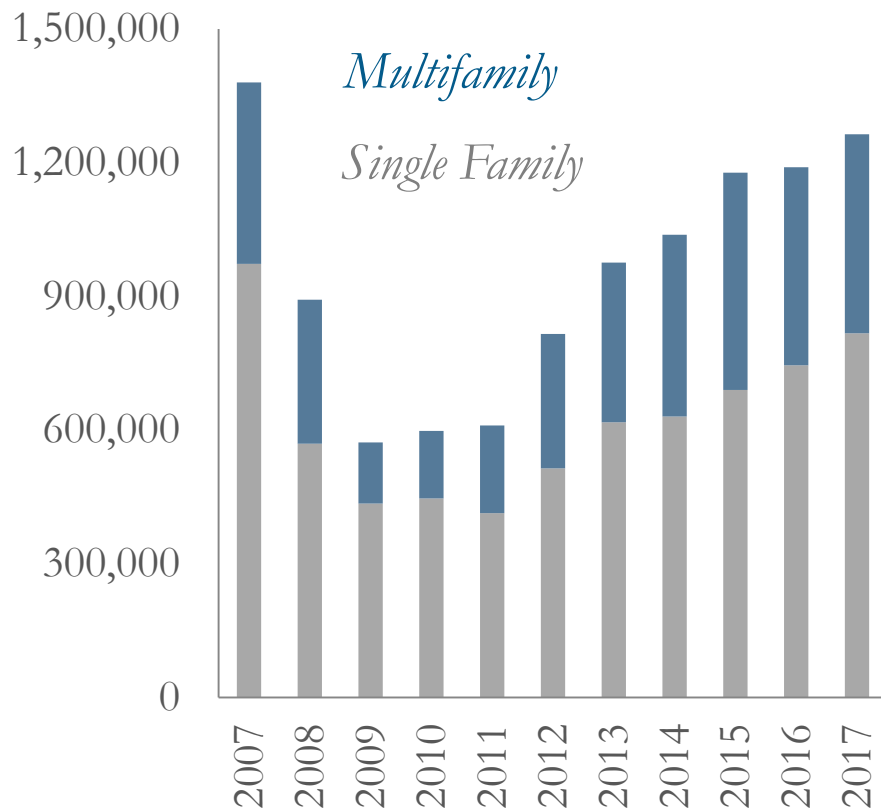


Residential construction activity has been increasing for eight years, led by strong gains in multifamily building.

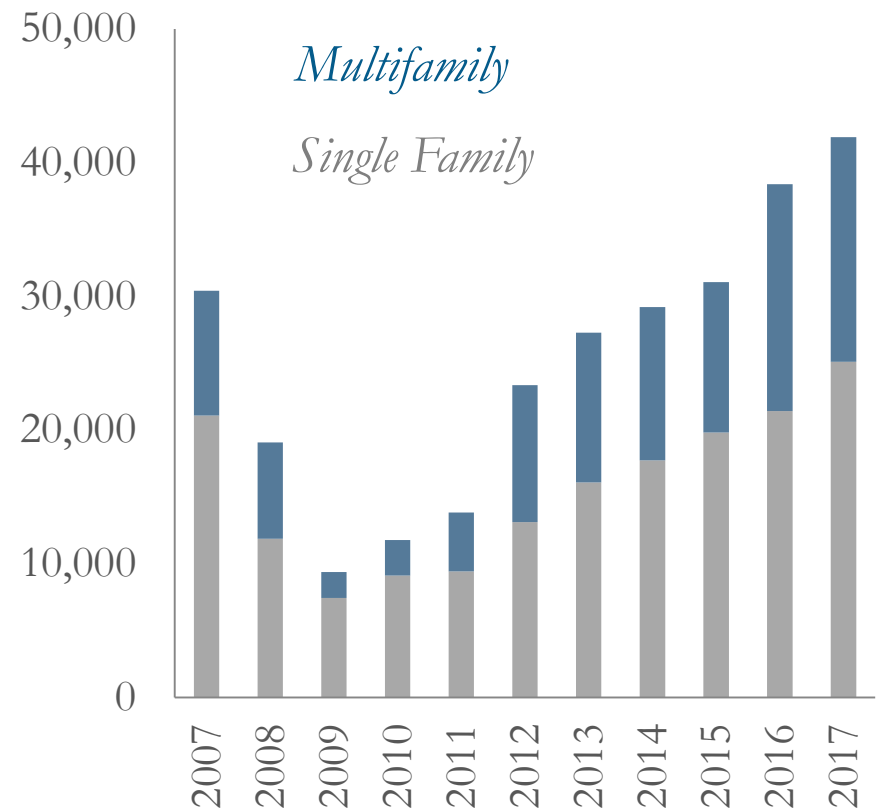
RESIDENTIAL PERMITS

Annual

United States



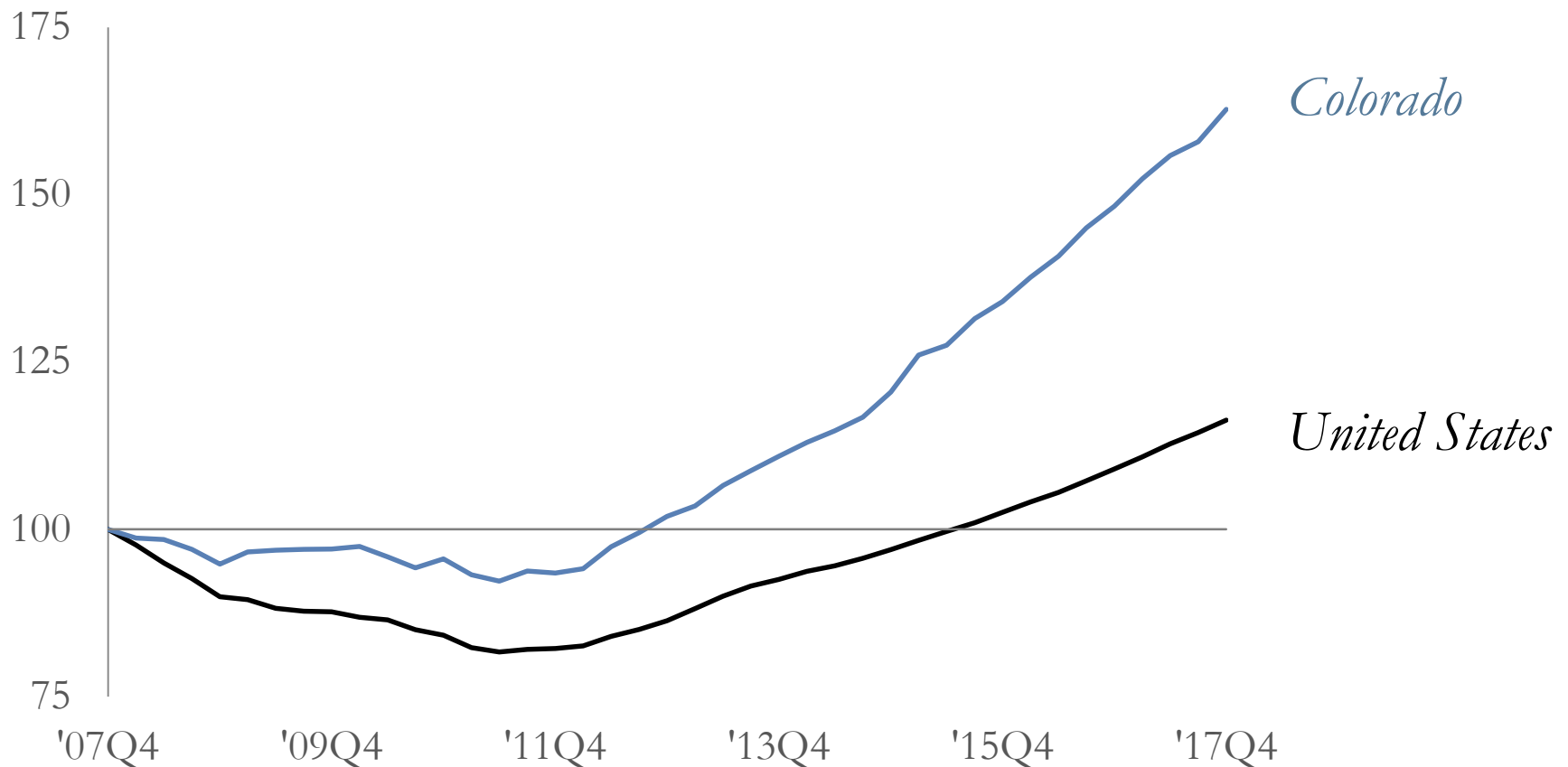
Colorado



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

HOME PRICES

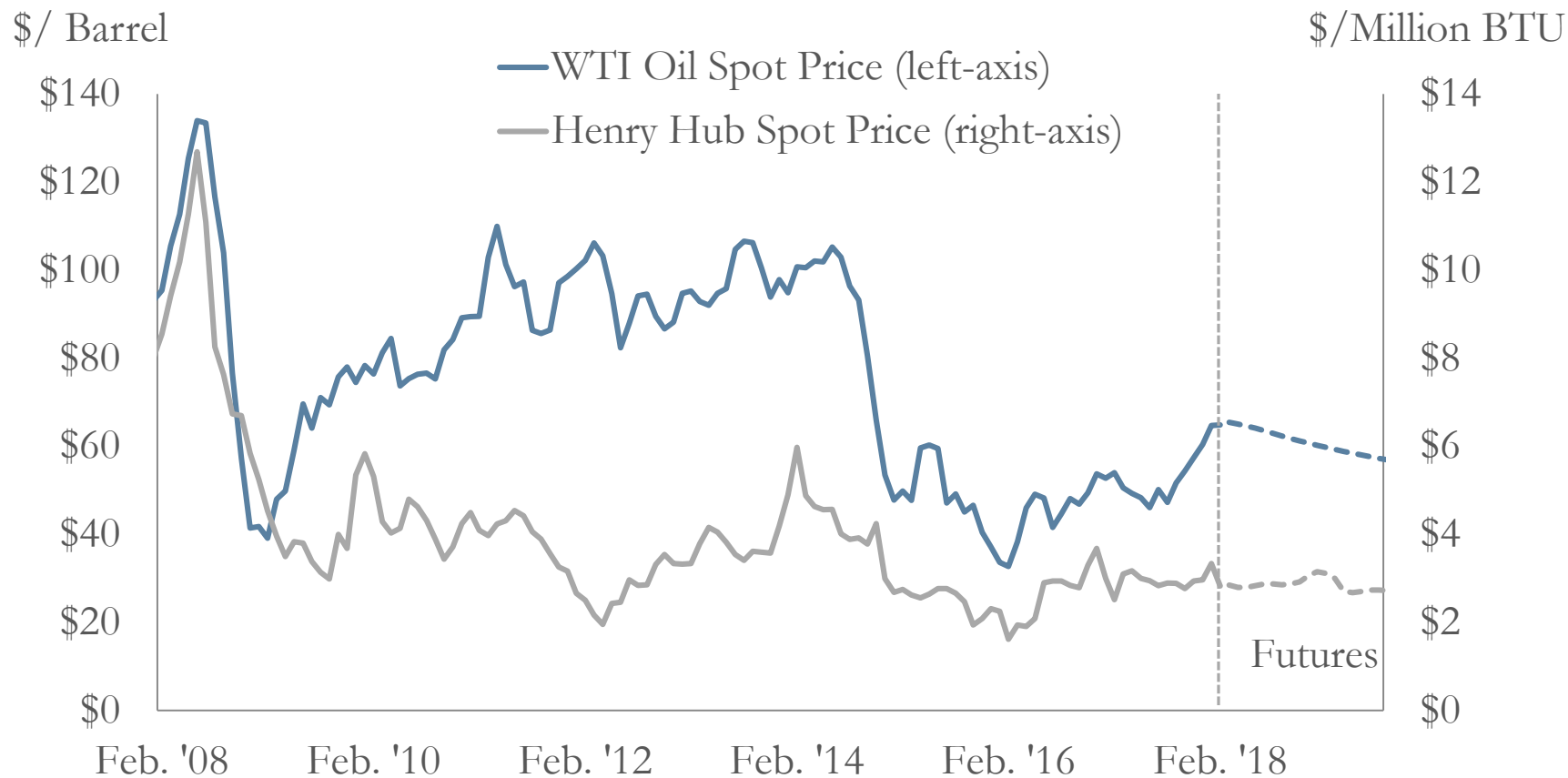
Seasonally Adjusted, Index 100 = Q4:2007



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



ENERGY PRICES

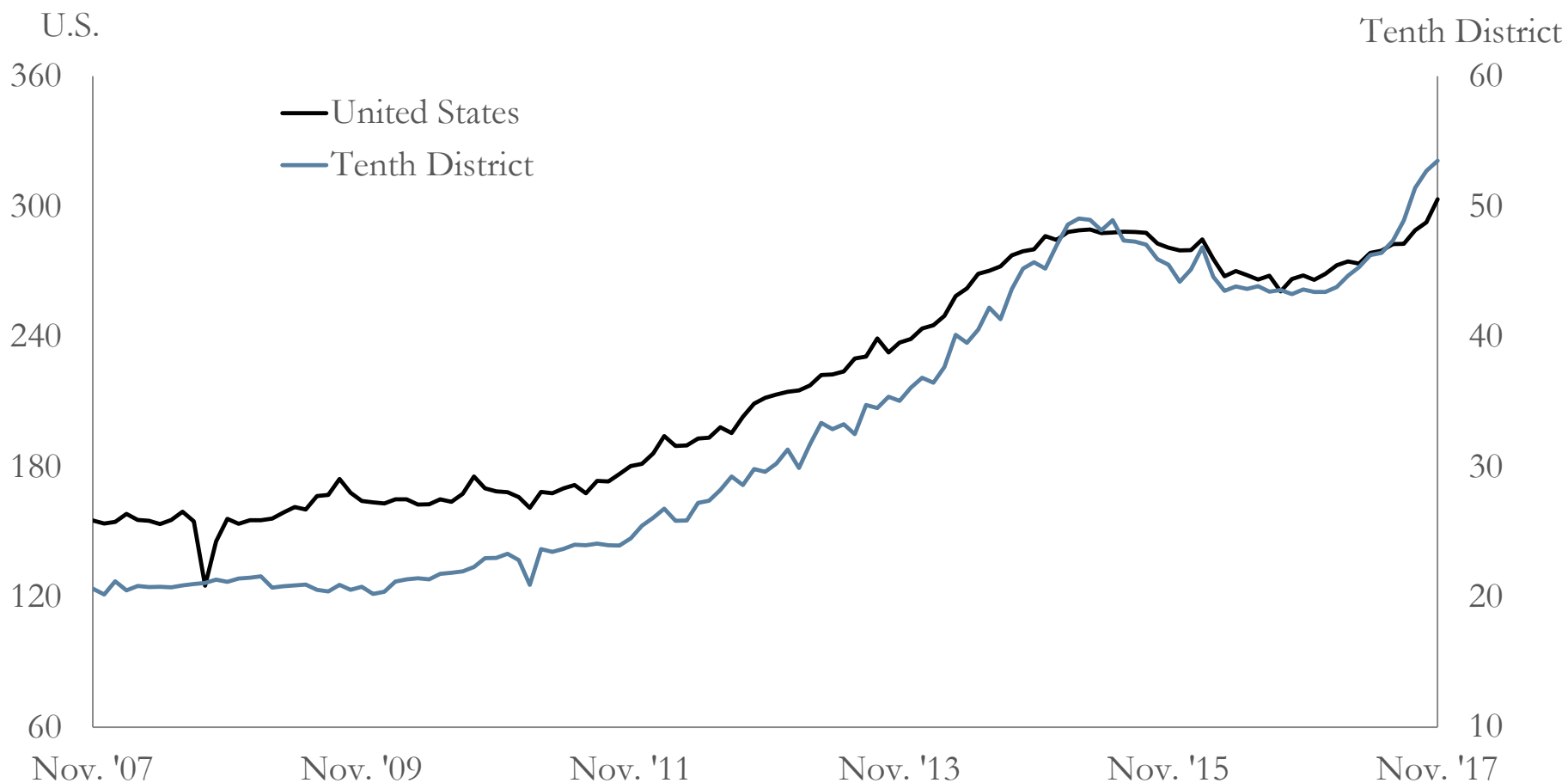


Oil production increased sharply over the past year, reaching historically high levels.



CRUDE OIL PRODUCTION

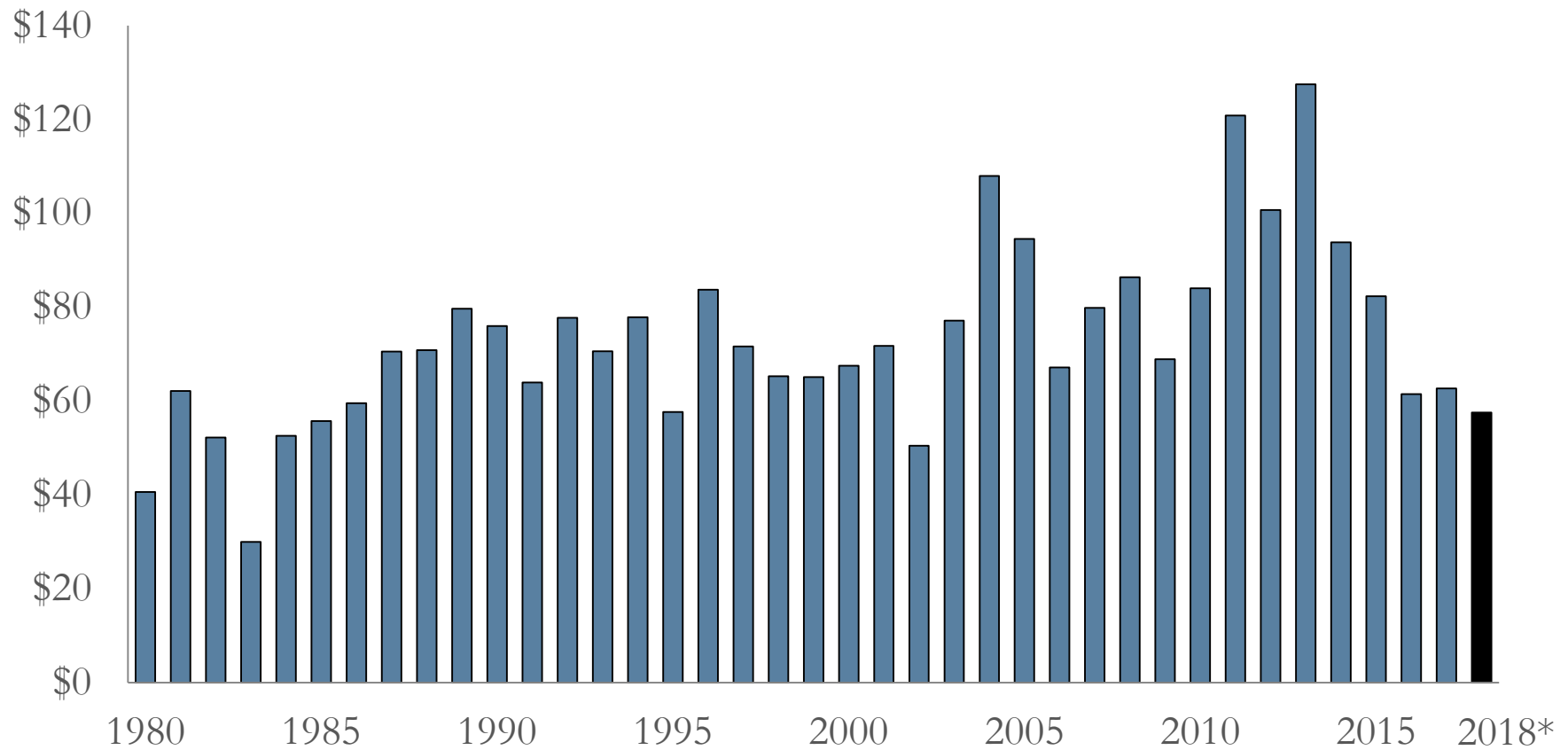
Millions of barrels, seasonally adjusted



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

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

