Emerging Trends in the U.S. and Colorado Economies

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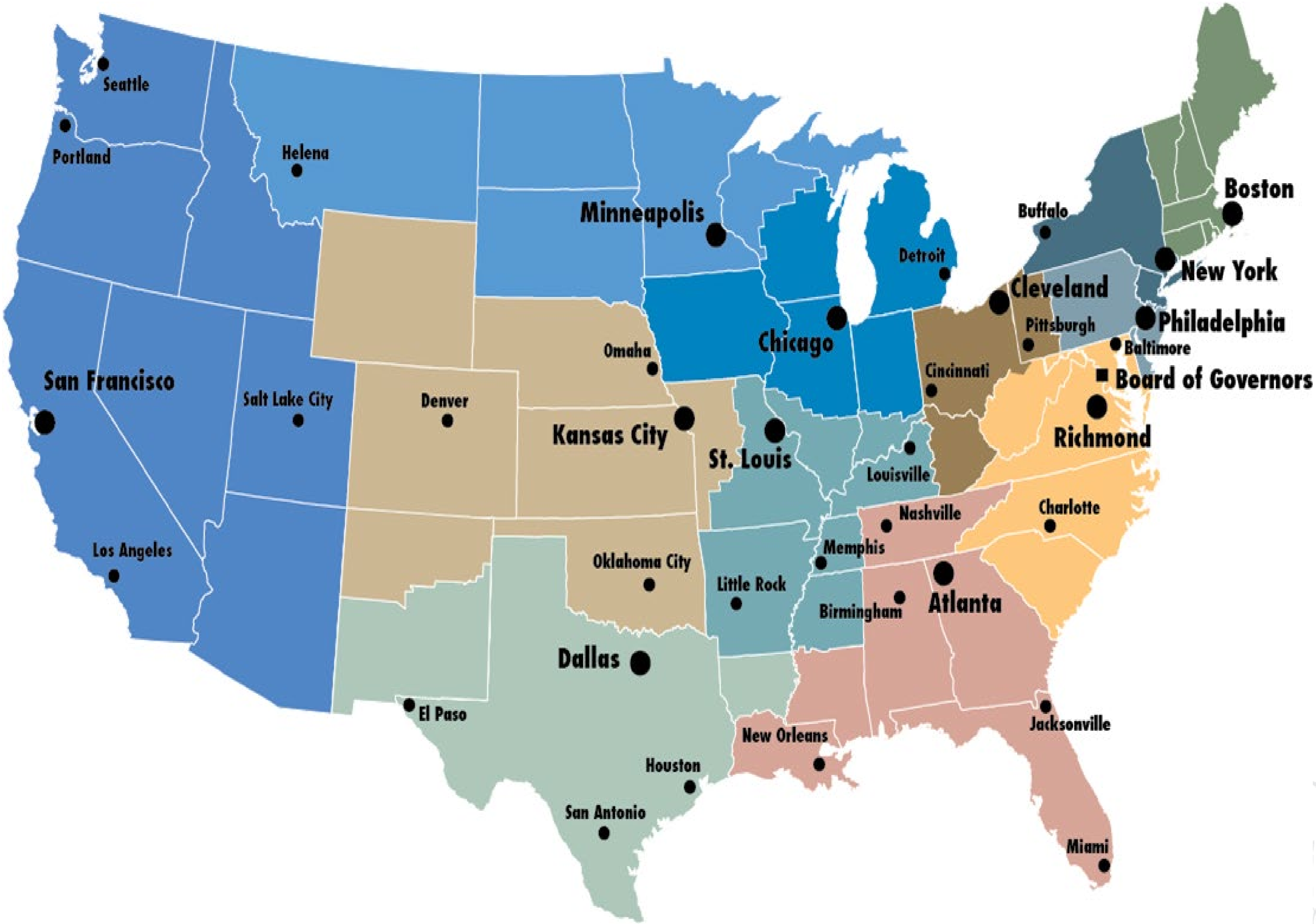
The views expressed are those of the presenter and do not necessarily reflect the positions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

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 five members of the Board of Governors: Jerome Powell, Michelle Bowman, Lael Brainard, Richard Clarida 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.

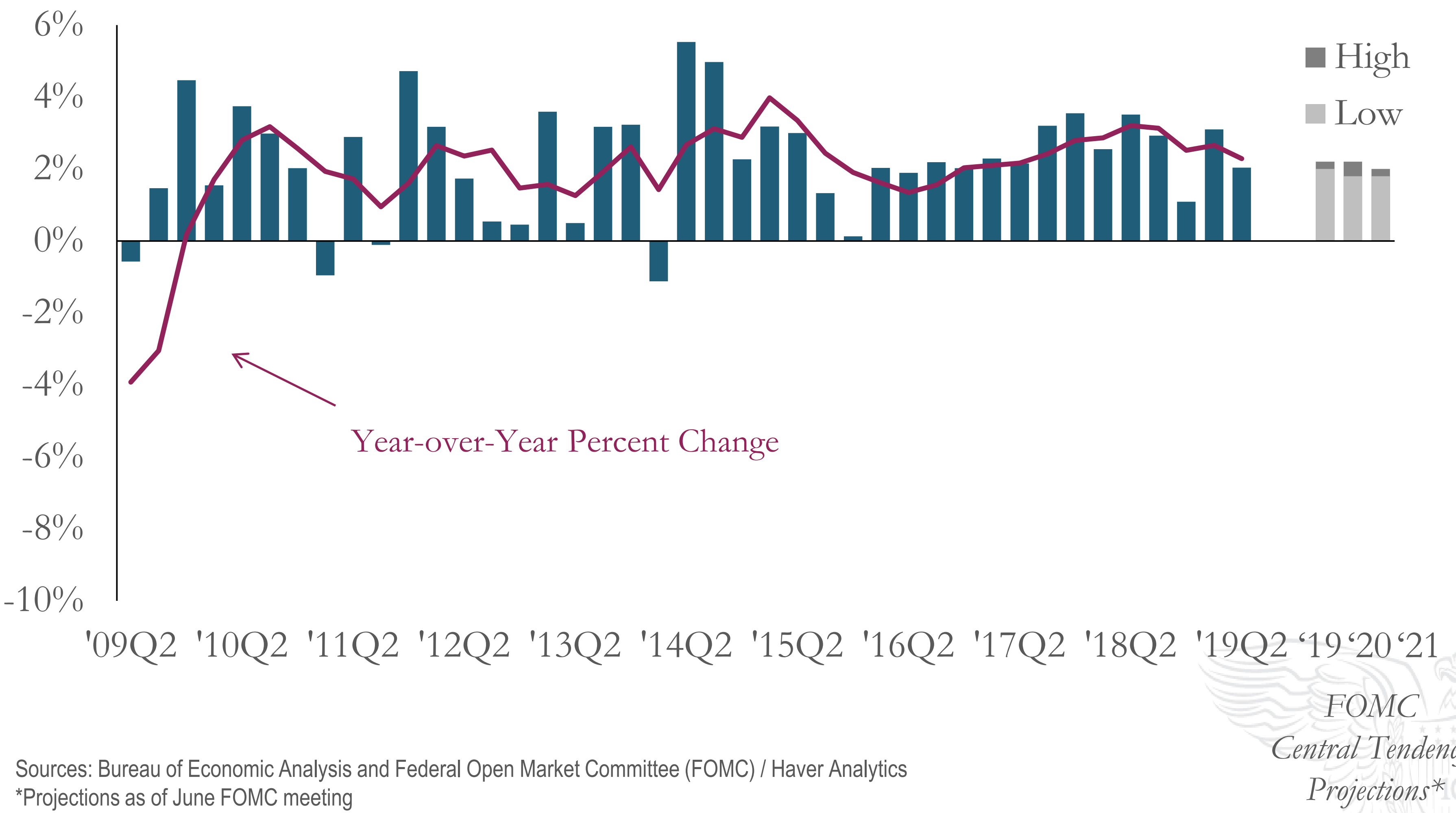
- Provide and Maintain an Effective and Efficient Payments System
  - The Federal Reserve supplies payments services to the public through depository institutions including banks, credit unions and savings and loans.
  - We also serve as a banking and fiscal agent for the United States government.
 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

The U.S. economy is expected to expand at a moderate pace this year.

Real U.S. Gross Domestic Product

Percent Change from Previous Quarter at Seasonally Adjusted Annualized Rates

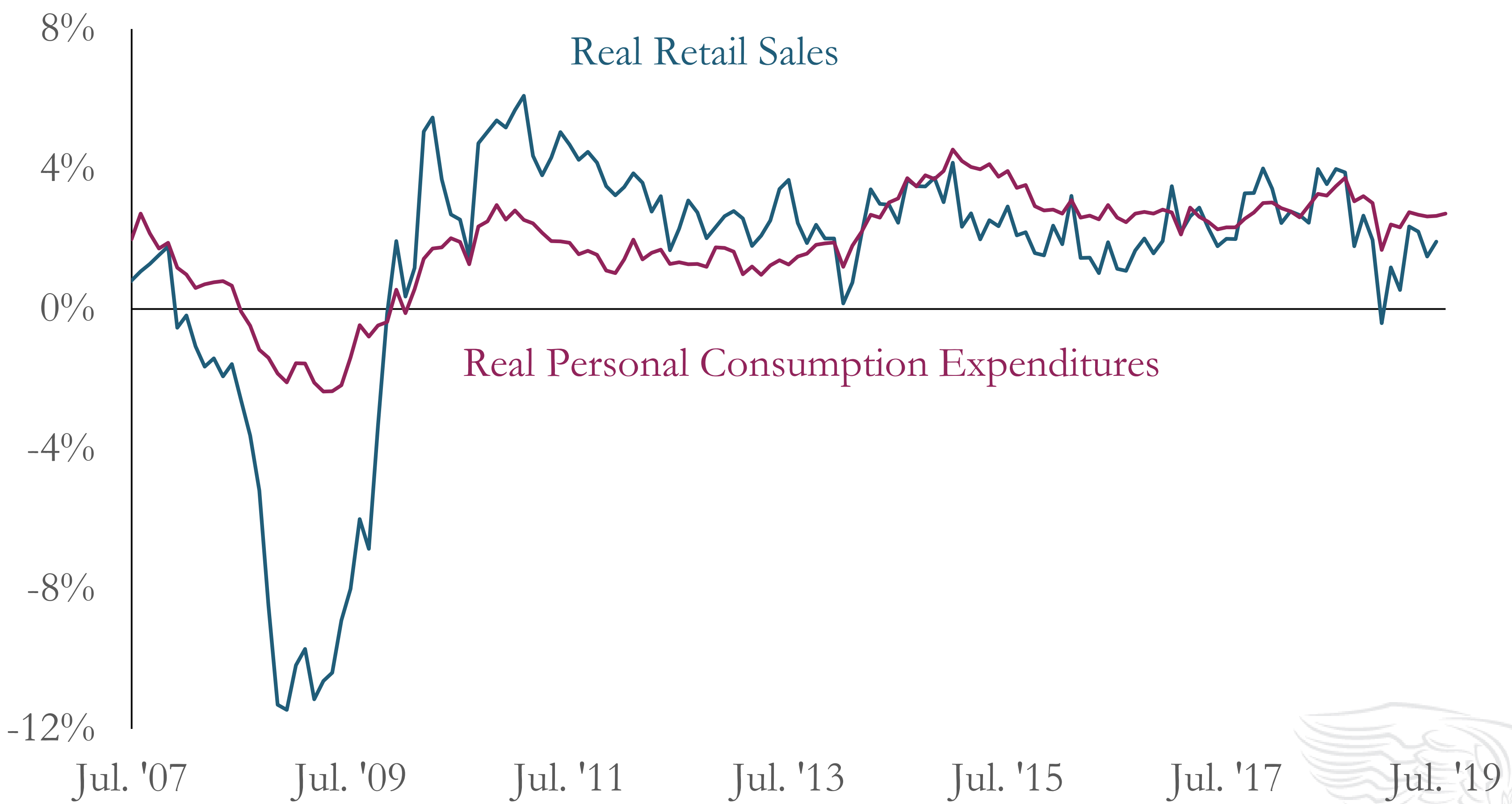


Sources: Bureau of Economic Analysis and Federal Open Market Committee (FOMC) / Haver Analytics
*Projections as of June FOMC meeting

Consumer spending continues to increase at a solid pace.

REAL CONSUMPTION SPENDING

Seasonally Adjusted, Year-over-Year Percent Change

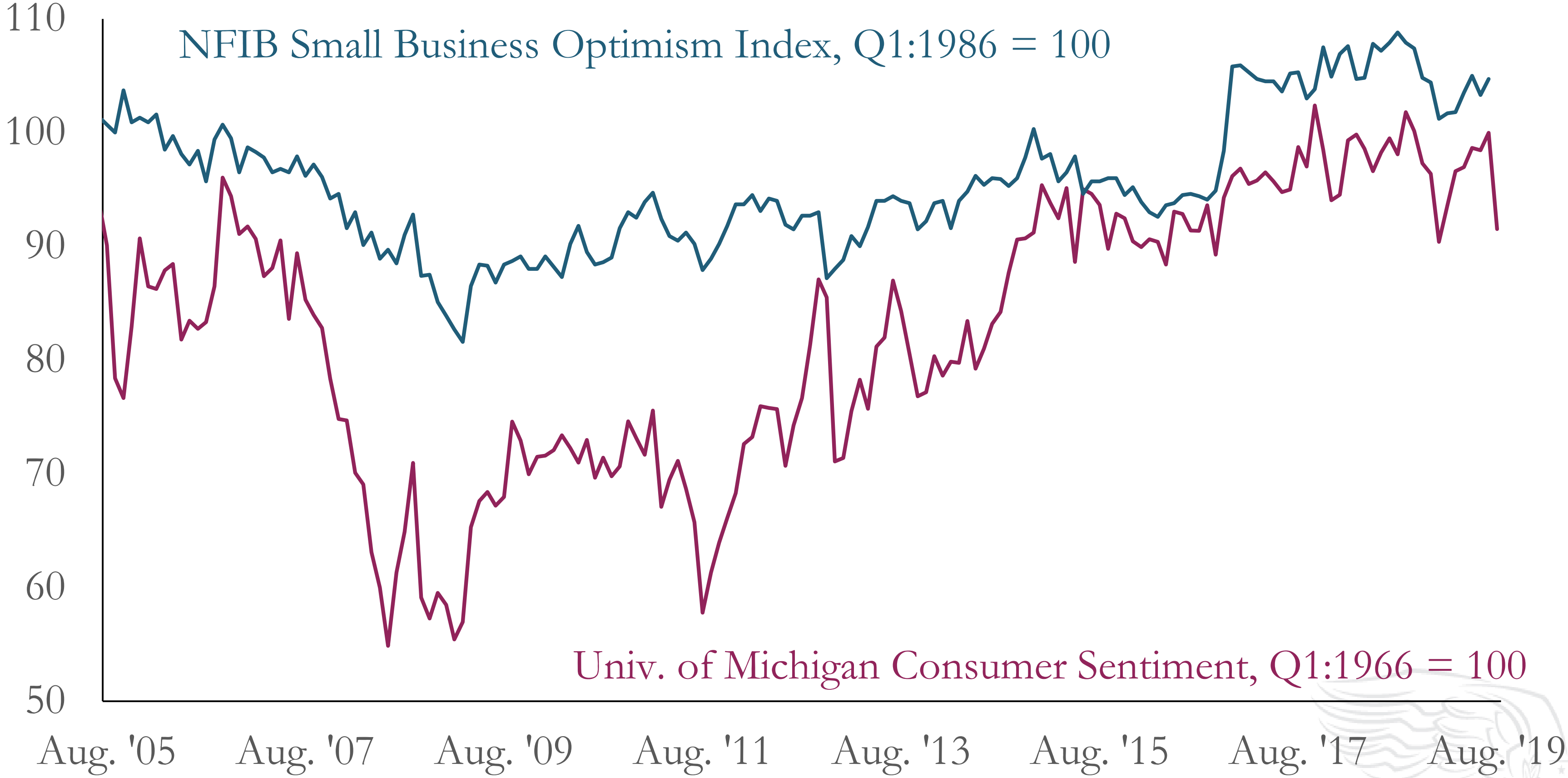


 Sources: Bureau of Economic Analysis / Haver Analytics

Businesses and consumers remain optimistic about the economy, but confidence is below year-ago levels.

Business and Consumer Sentiment

Seasonally Adjusted

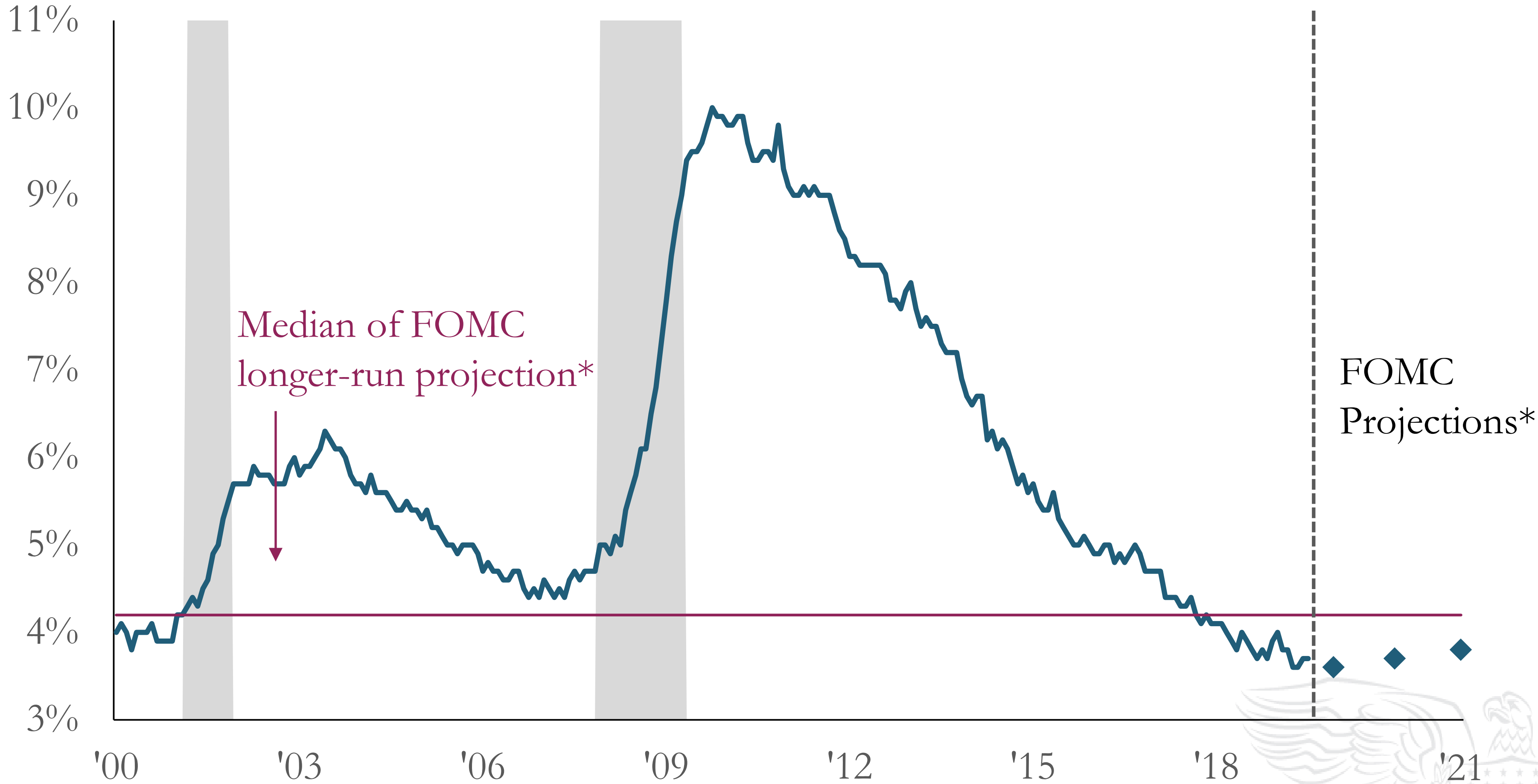


Sources: University of Michigan and National Federation of Independent Business / Haver Analytics

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

U. S. Unemployment Rate

Seasonally Adjusted

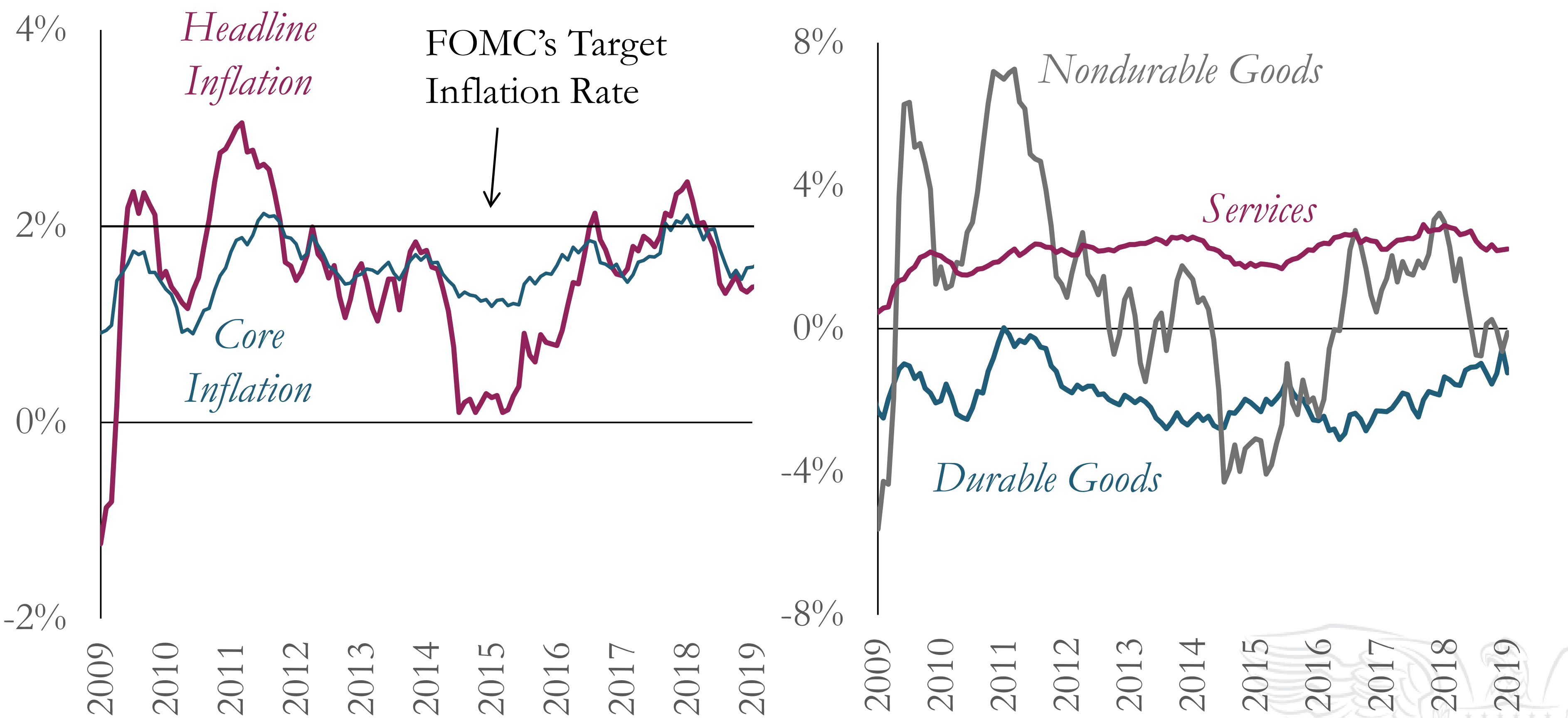


Sources: Bureau of Labor Statistics, National Bureau of Economic Research and Federal Open Market Committee (FOMC) / Haver Analytics
*Projections as of June FOMC meeting; median unemployment rate

Inflation is expected to move toward the FOMC's two percent target over the next few years.

Components of Personal Consumption Expenditure Price Index (PCEPI)

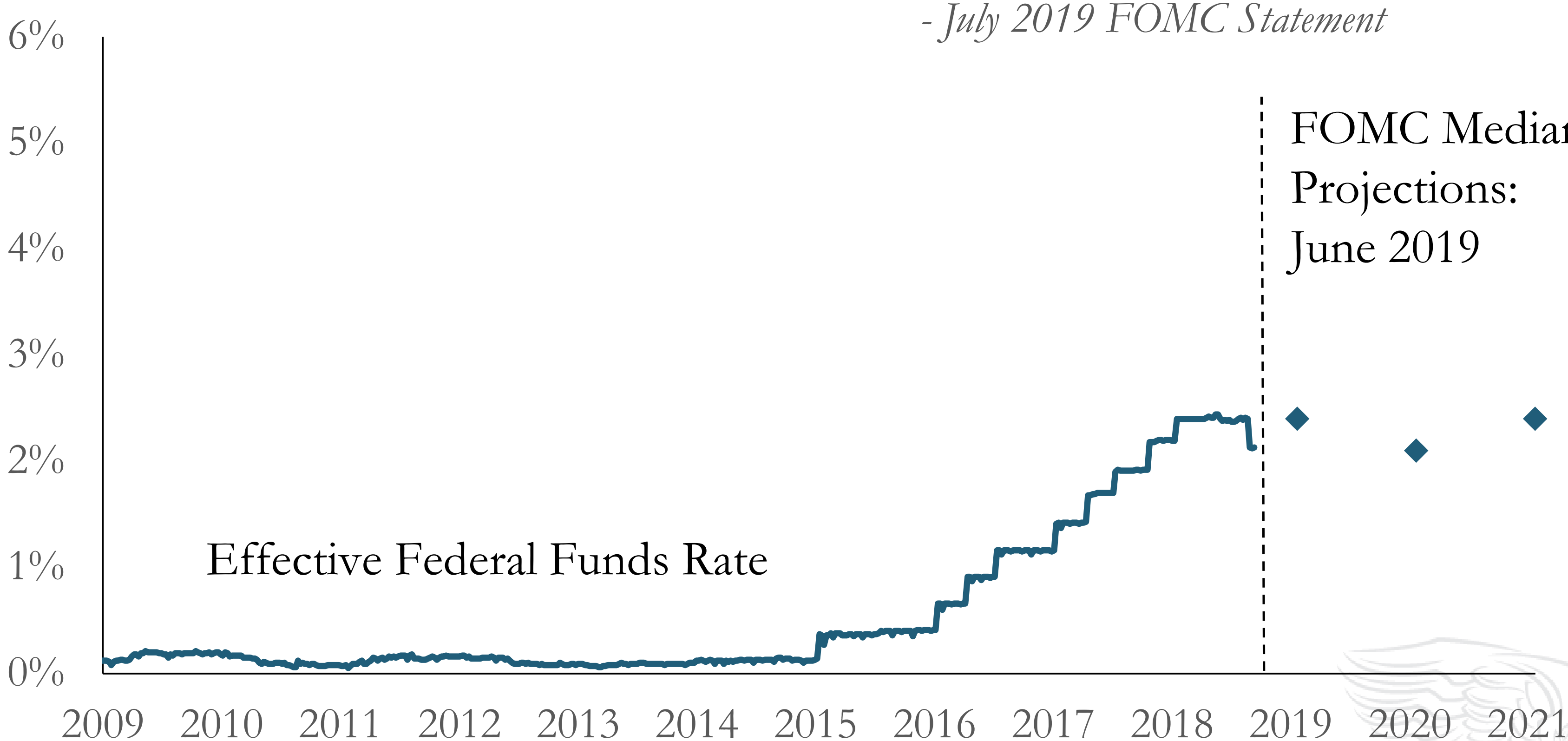
Percent Change Year-over-Year



 Sources: Bureau of Economic Analysis / Haver Analytics

"Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 2 to 2-1/4 percent."

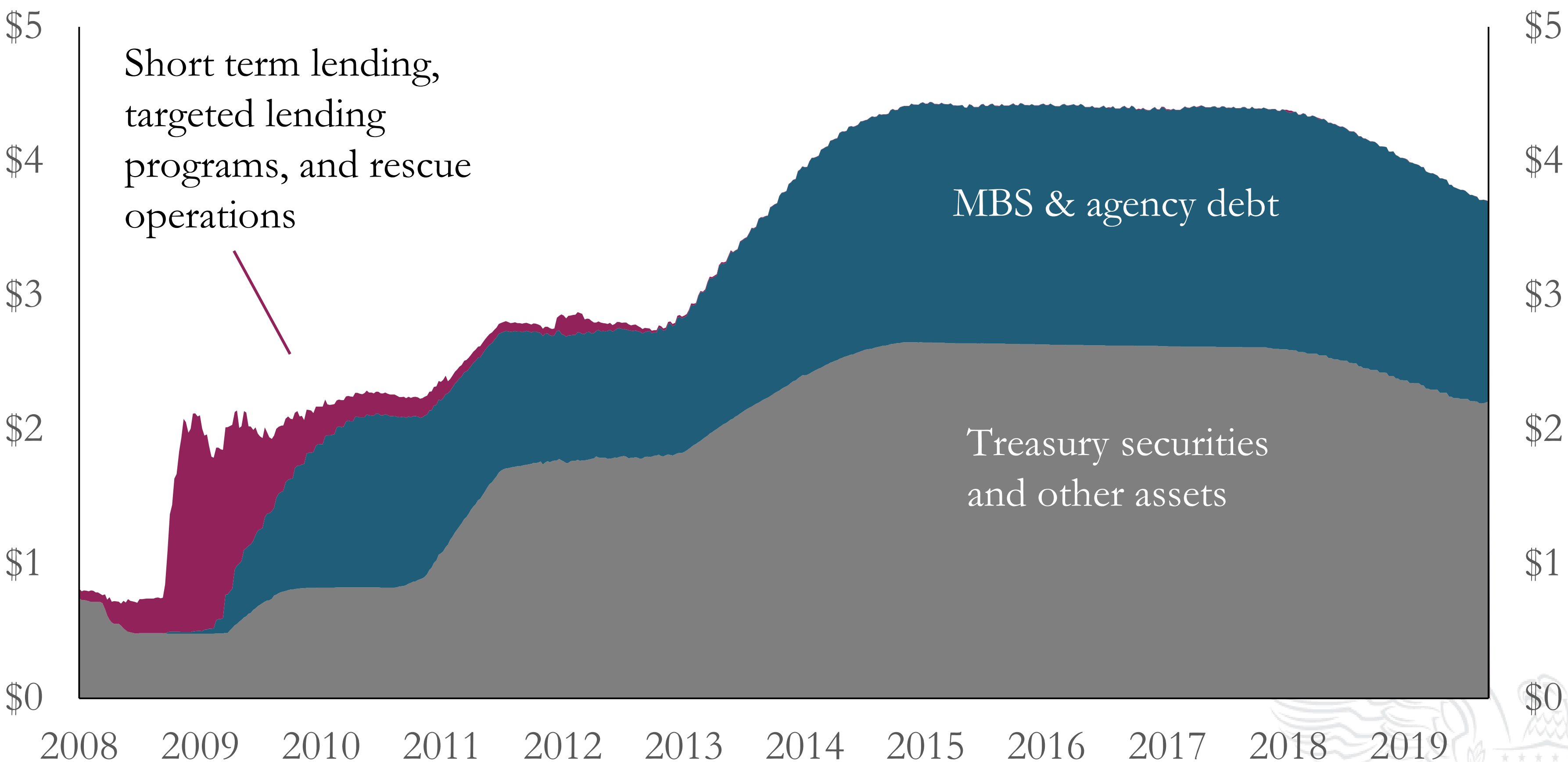
- July 2019 FOMC Statement



Source: Federal Reserve Board / Haver Analytics

Federal Reserve Balance Sheet

Trillions



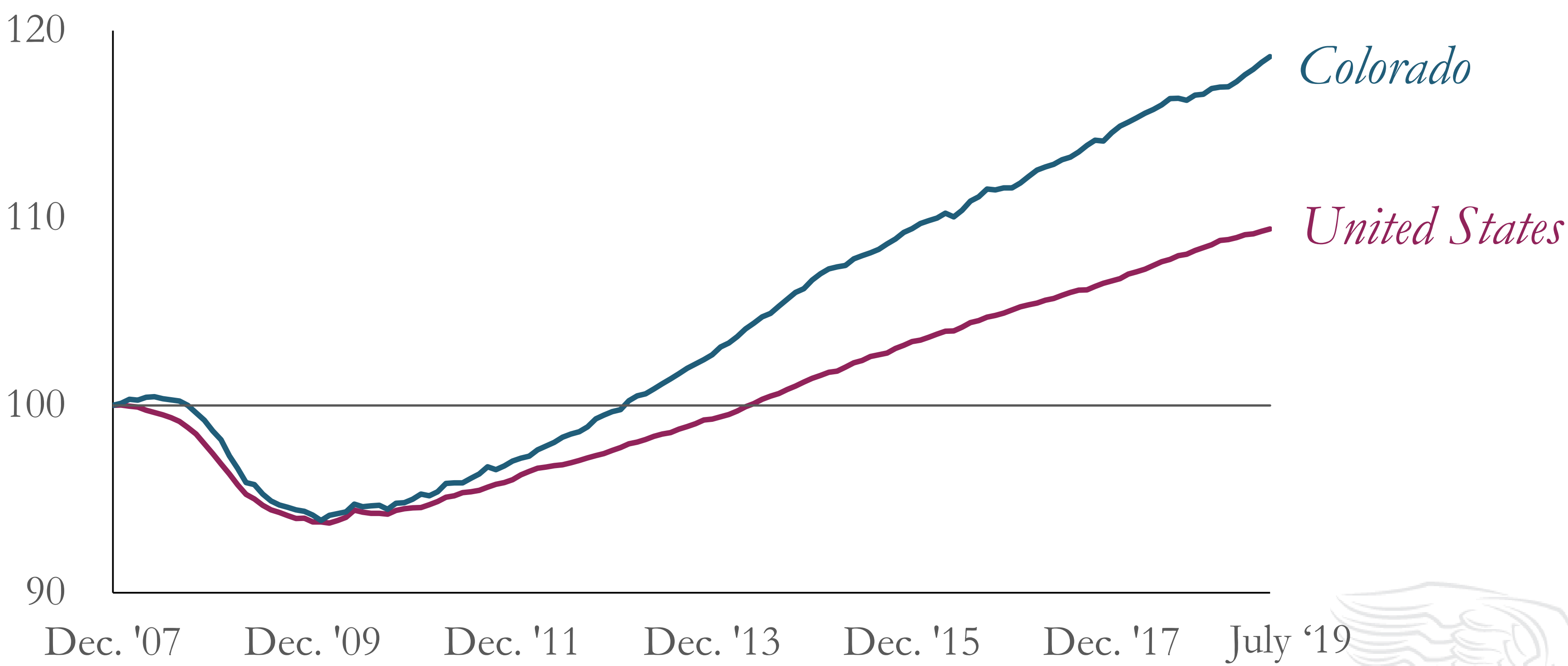
Sources: Federal Reserve Board / Haver Analytics and author's calculations.

Employment has been increasing in Colorado and the nation for more than nine years.

Payroll Employment Growth

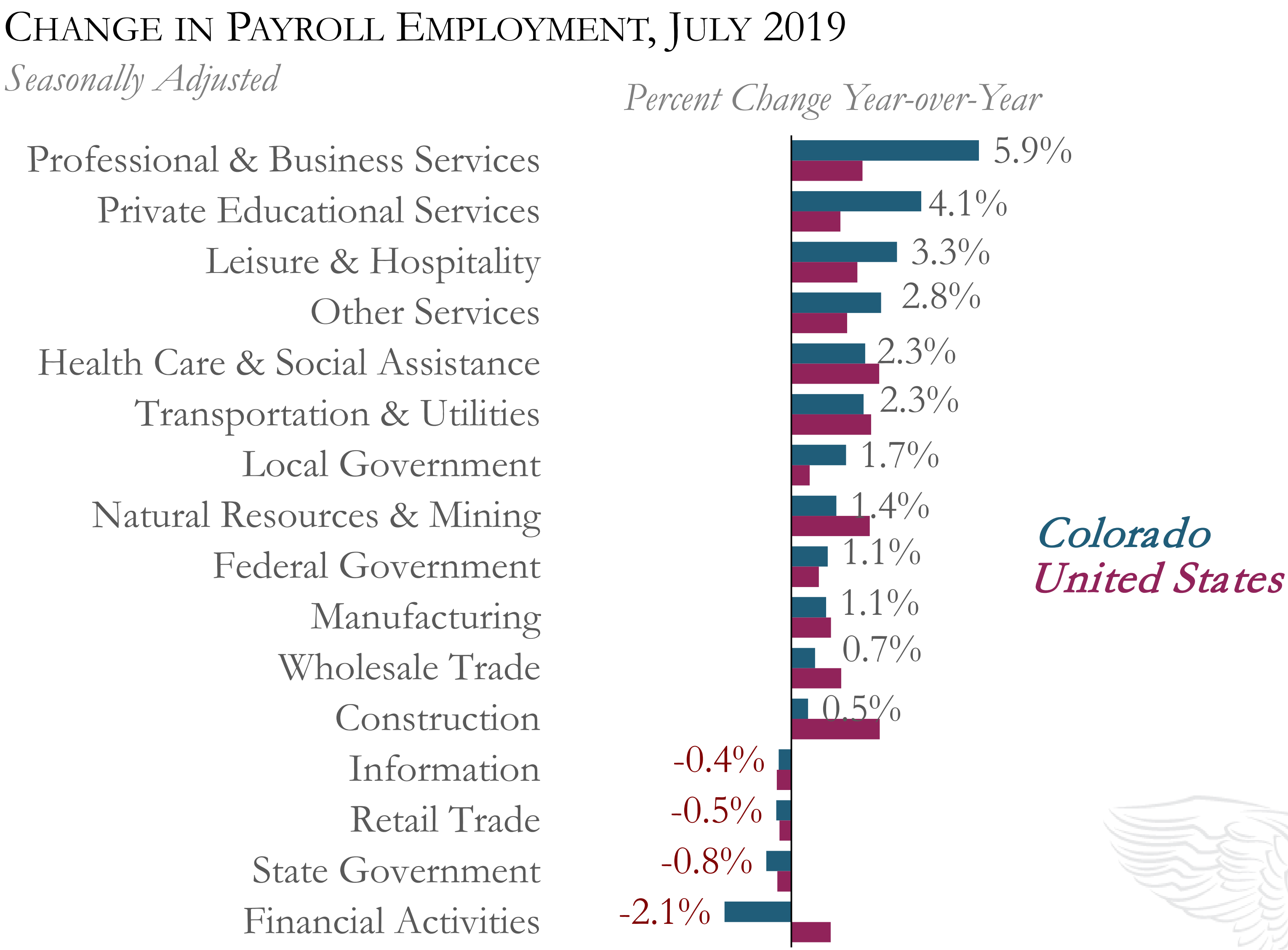
Index 100 = December 2007, Seasonally Adjusted

Percent Change (July '19)	*Dec. '07 to Present*	*Past Year*
U.S.	9.4%	1.5%
Colorado	18.6%	1.9%



 Sources: Bureau of Labor Statistics / Haver Analytics and author's calculations.

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



Source: Bureau of Labor Statistics / Haver Analytics

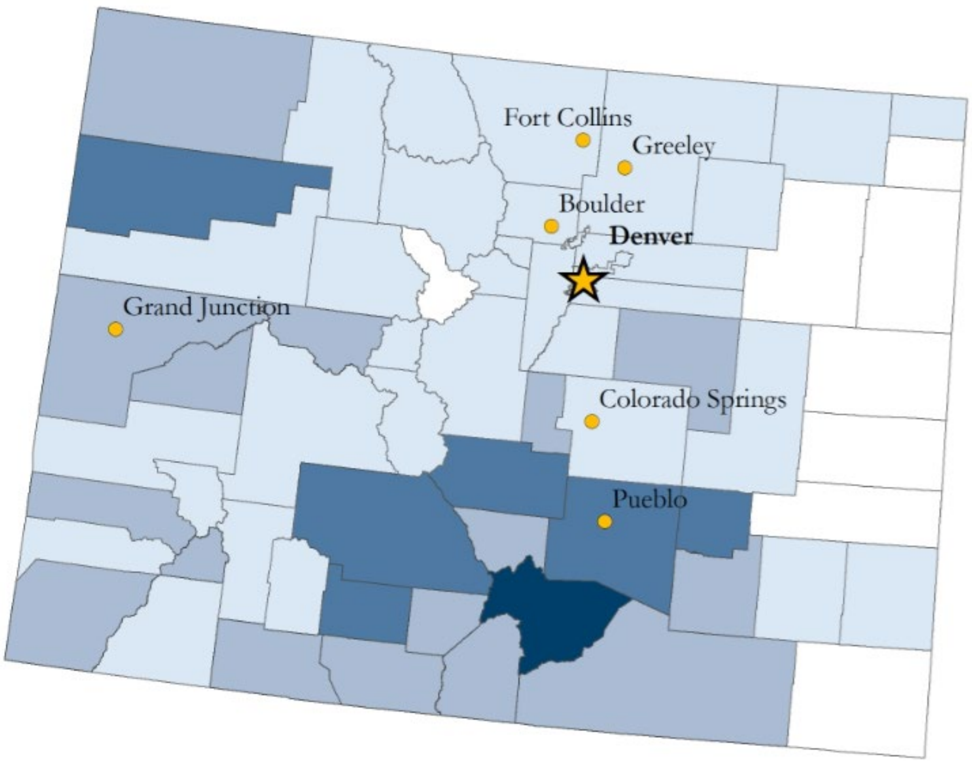
Unemployment rates are low across most of Colorado.

Unemployment Rates

June 2019, Seasonally Adjusted

Unemployment Rate	*U-3*	*U-5**	*U-6**
United States (July '19)	3.7%	4.6%	7.0%
Colorado (July '19)	2.9%	3.8%	6.6%

**U-5 and U-6 values are 12-month moving averages as of Q2 2019 for Colorado and are for July, 2019 for the United States.*



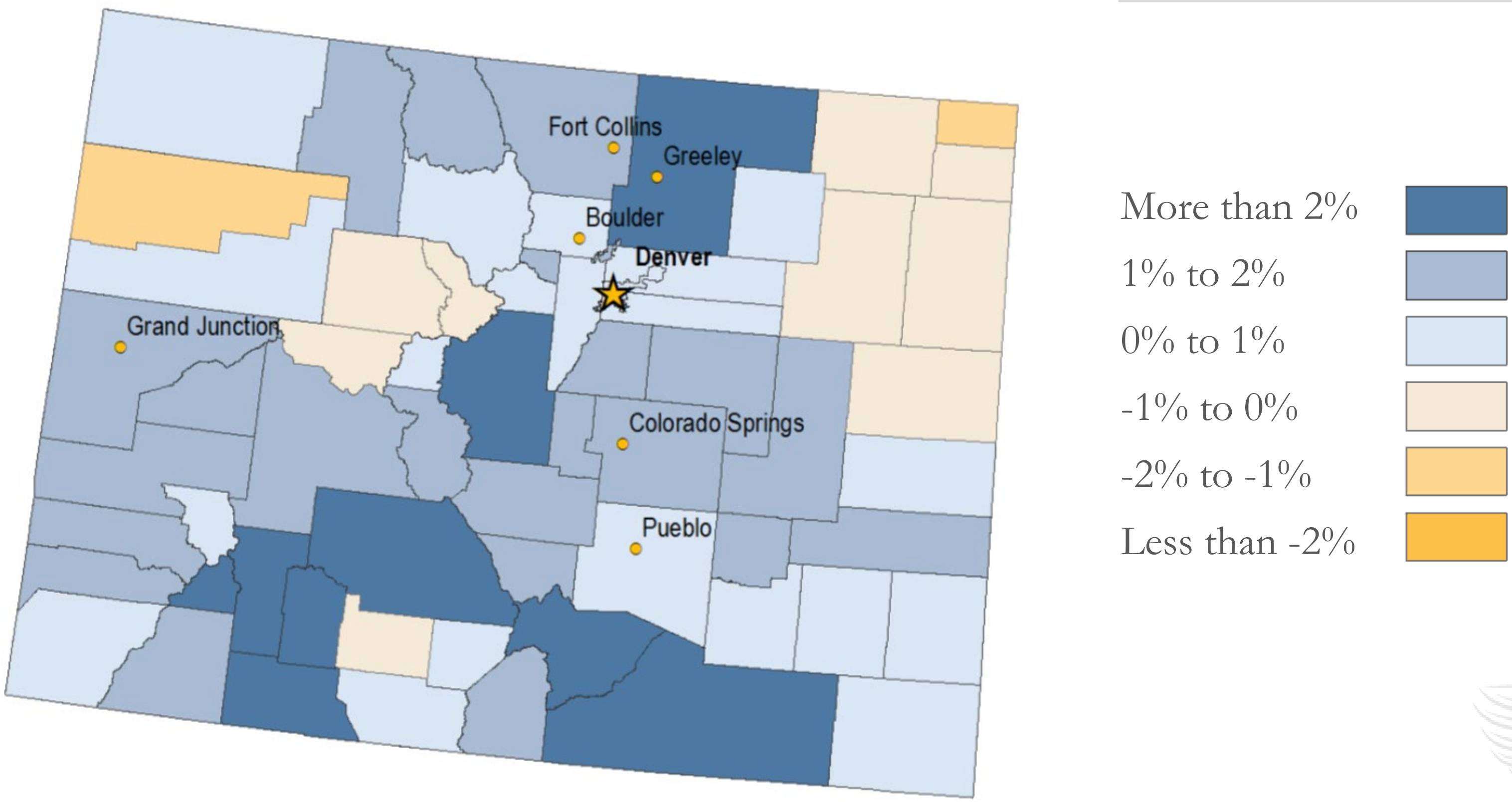
- Less than 2%
- 2 to 3%
- 3 to 4%
- 4 to 5%
- Greater than 5%

 Source: Bureau of Labor Statistics / Haver Analytics

Colorado continues to experience net in-migration.

Net Migration

Total 2018 Net Migration as a Percentage of 2018 Population



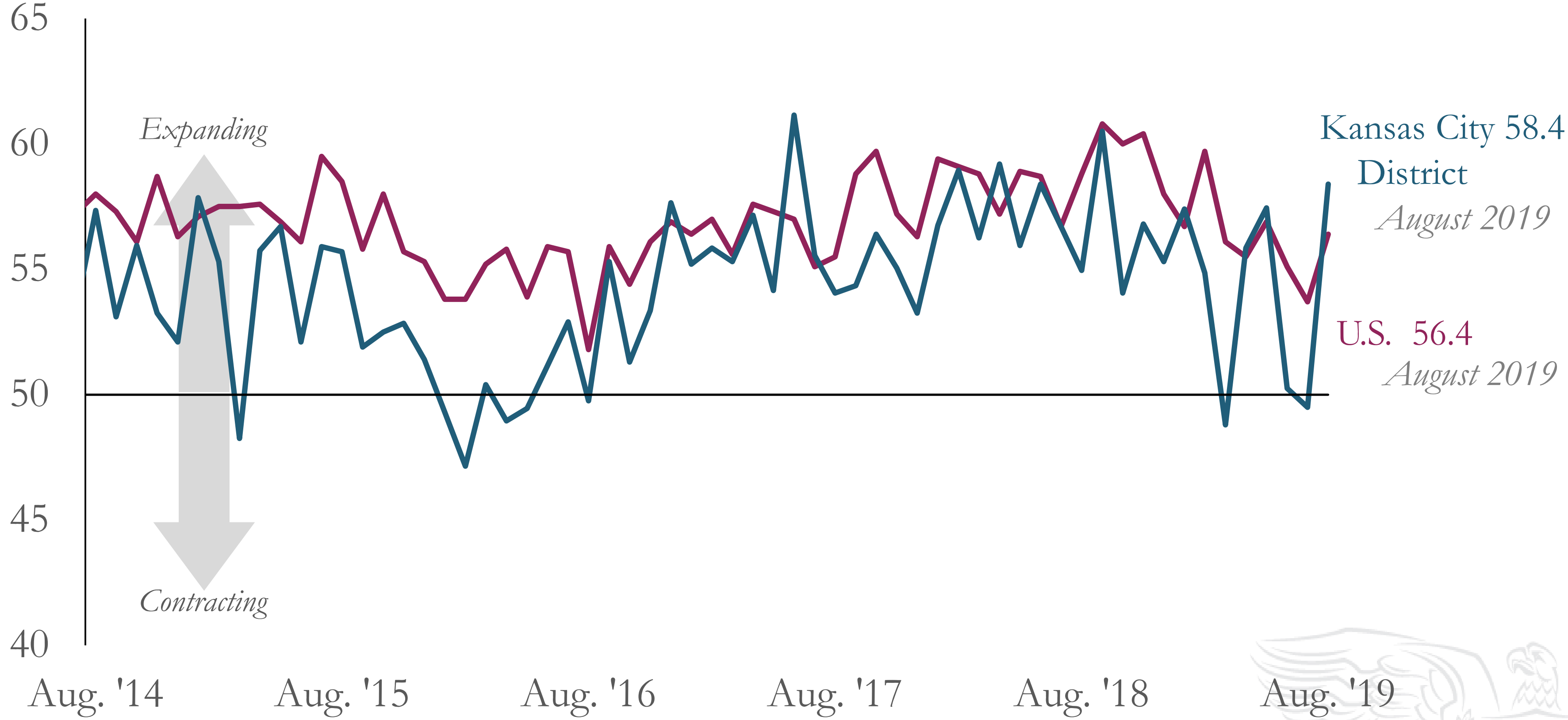
Annual Percent Change	*2018*
United States	0.3%
Colorado	0.9%

 Source: Census Bureau

The services sector is expanding at a moderate pace.

Non-Manufacturing and Services Activity

Diffusion Index, Seasonally Adjusted, Month-over-Month

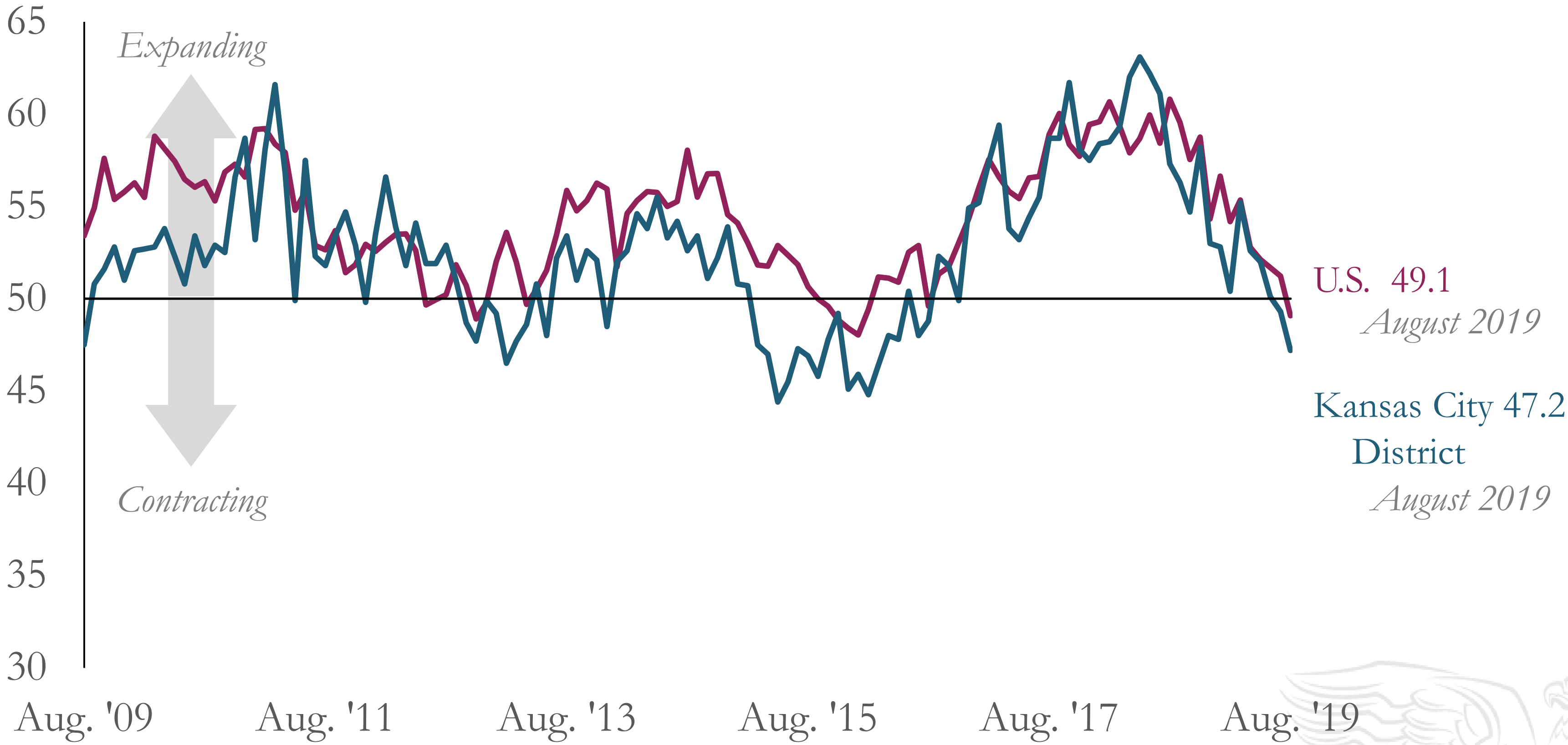


 Sources: Kansas City Federal Reserve Bank and ISM / Haver Analytics

Manufacturing activity has been strong the past two years, but recent surveys suggest the pace of expansion is slowing.

Manufacturing Activity

Diffusion Index, Seasonally Adjusted, Month-over-Month

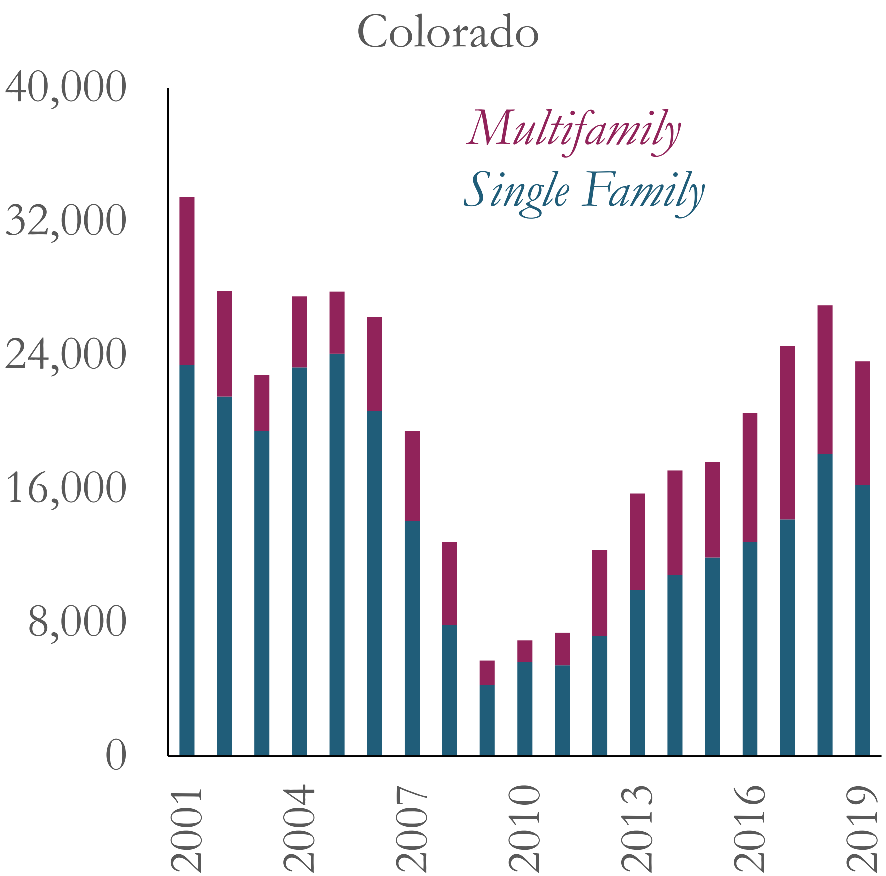


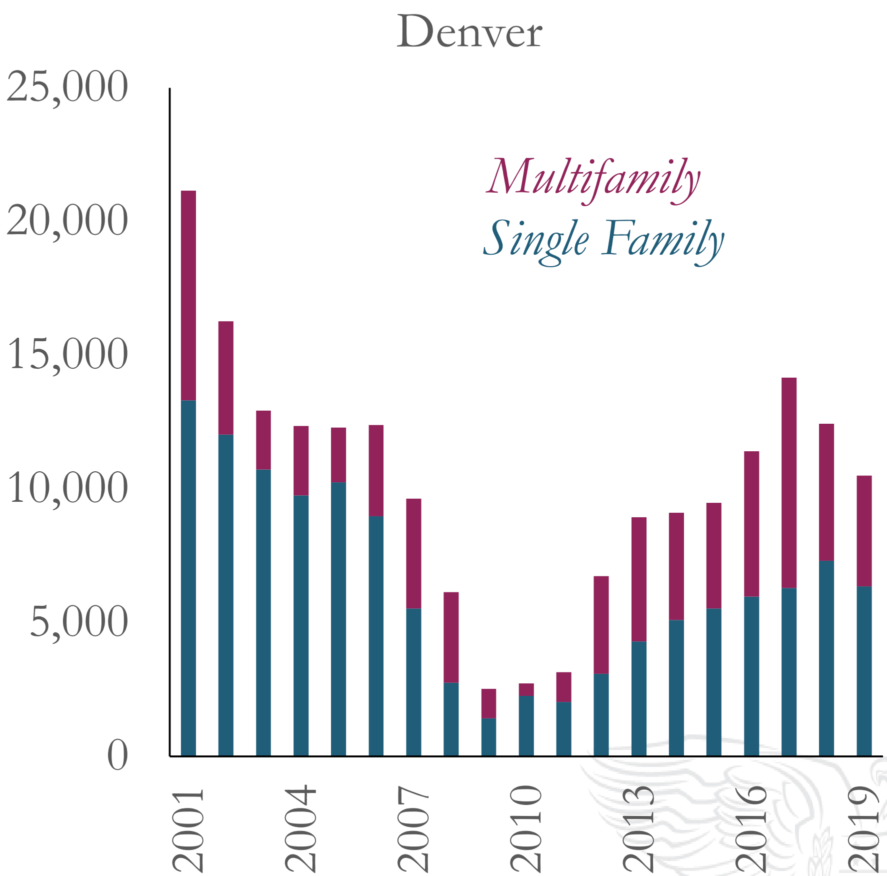
 Sources: Kansas City Federal Reserve Bank and ISM / Haver Analytics

Residential construction activity has increased significantly since 2009, but permitting has declined so far this year.

Residential Permits

Seasonally Adjusted, Year-to-Date through July



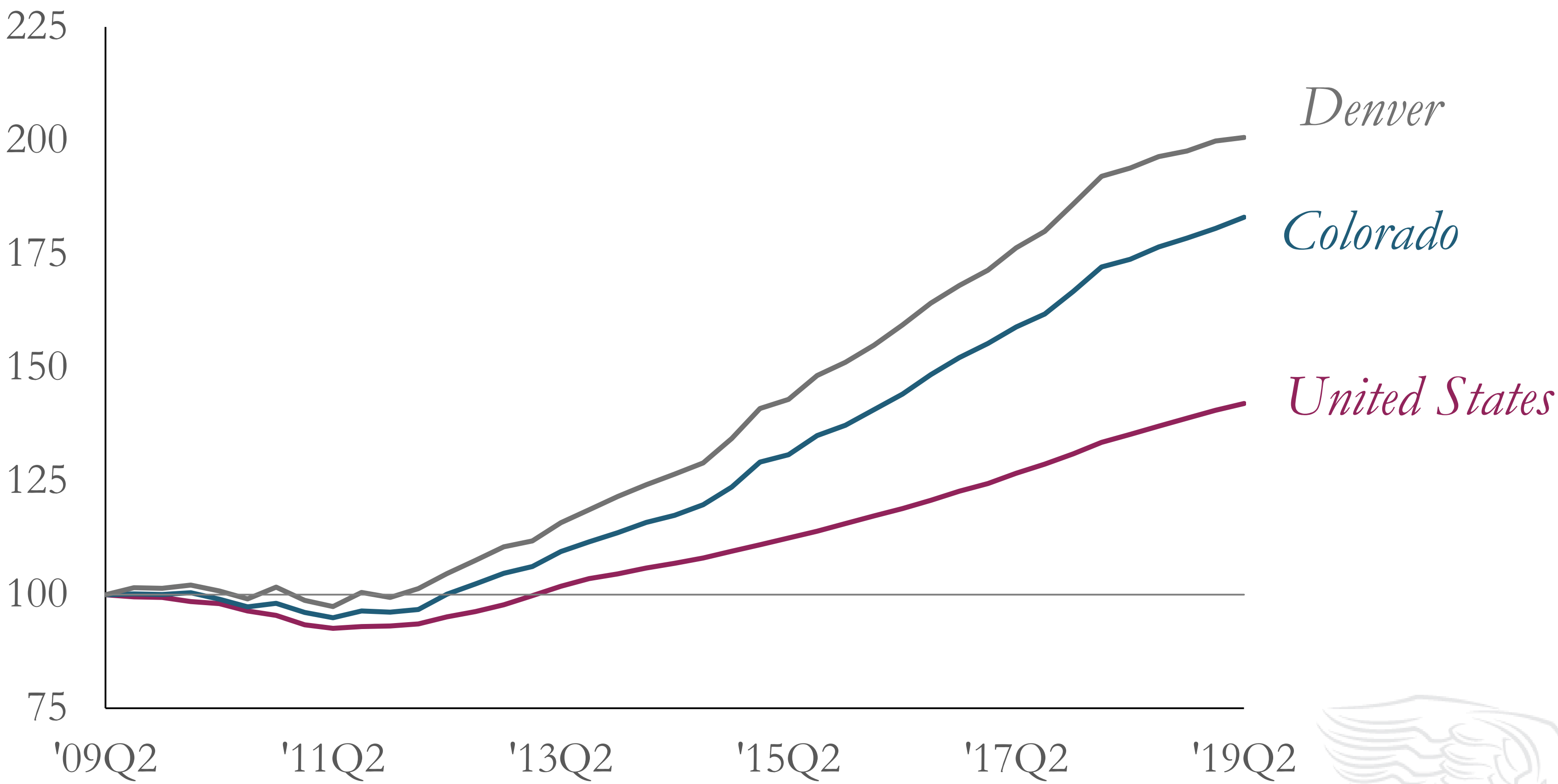


Source: Census Bureau / Haver Analytics

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

HOME PRICES

Seasonally Adjusted, Index 100 = Q2:2009

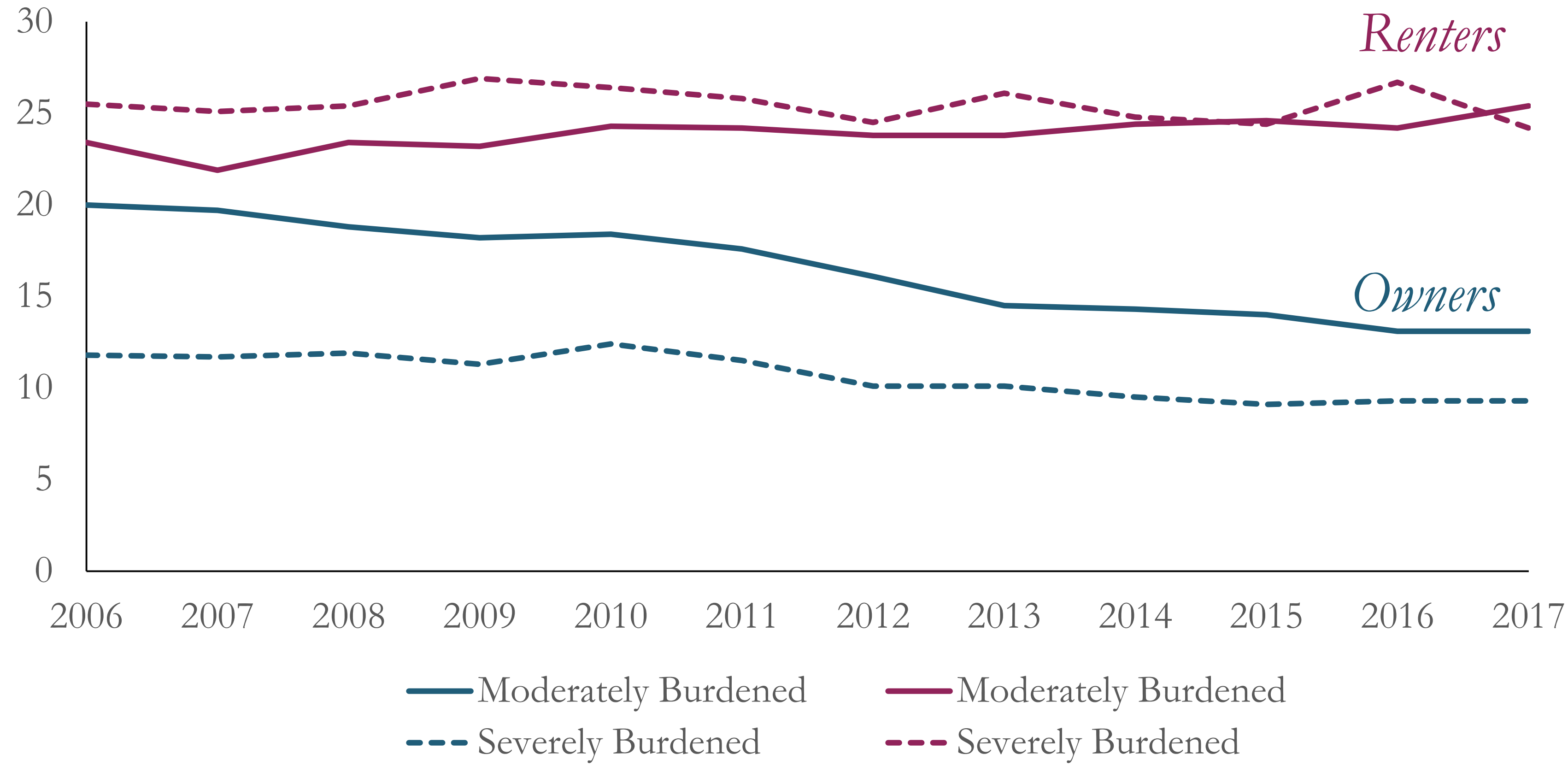


 Source: Federal Housing Finance Agency / Haver Analytics

24 percent of renters and 9 percent of homeowners are severely burdened by housing costs in Colorado.

Colorado Housing Cost-Burden Rates by Household Income

Percent of Ownership Category



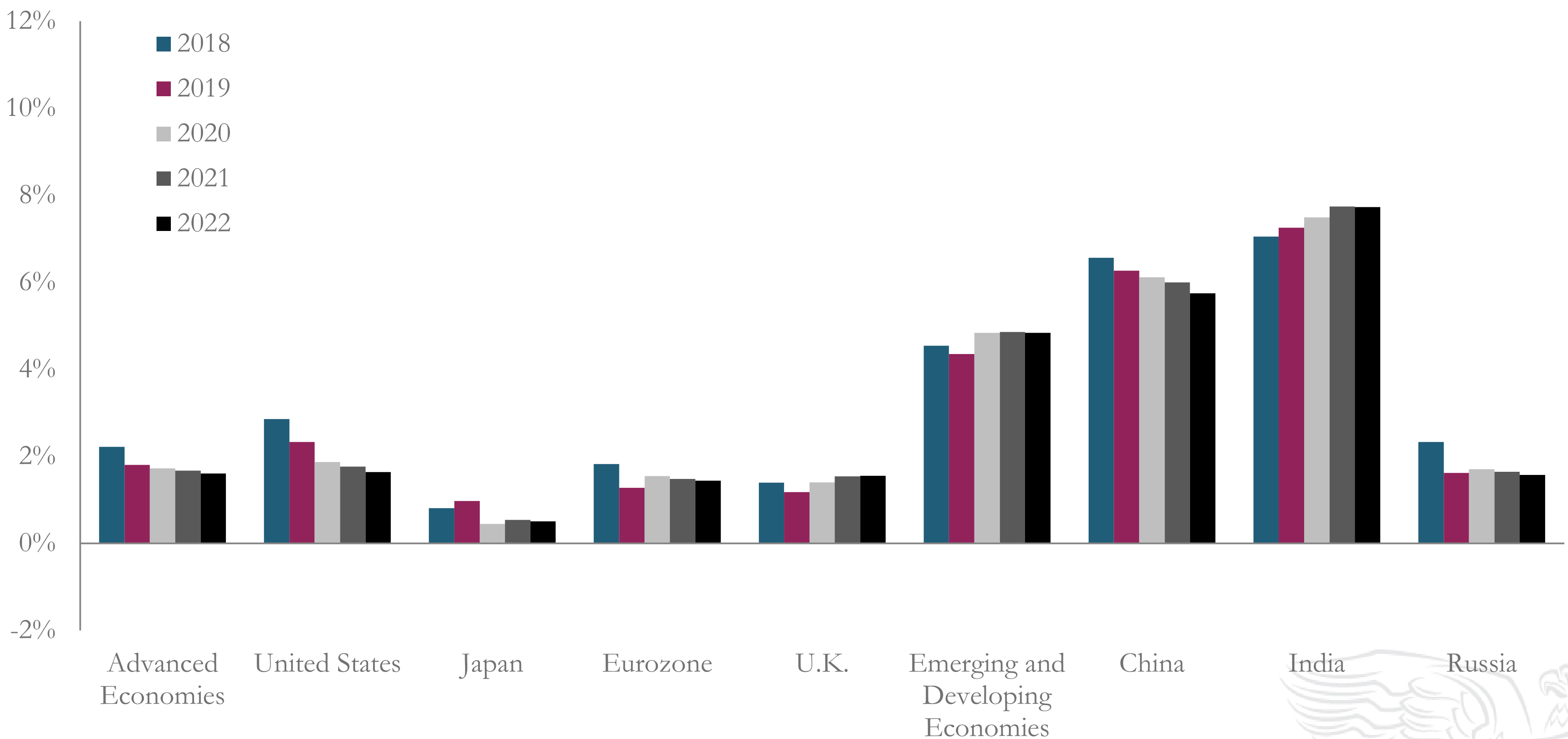
Note: Moderate burdens are defined as households with housing costs of between 30 – 50% of household income. Costs above 50% of household income are considered severely burdening.

Source: IPUMS-USA and author's calculations

Global economic growth is expected to slow this year.

GLOBAL ECONOMIC OUTLOOK

Real Gross Domestic Product, Annual Percent Change

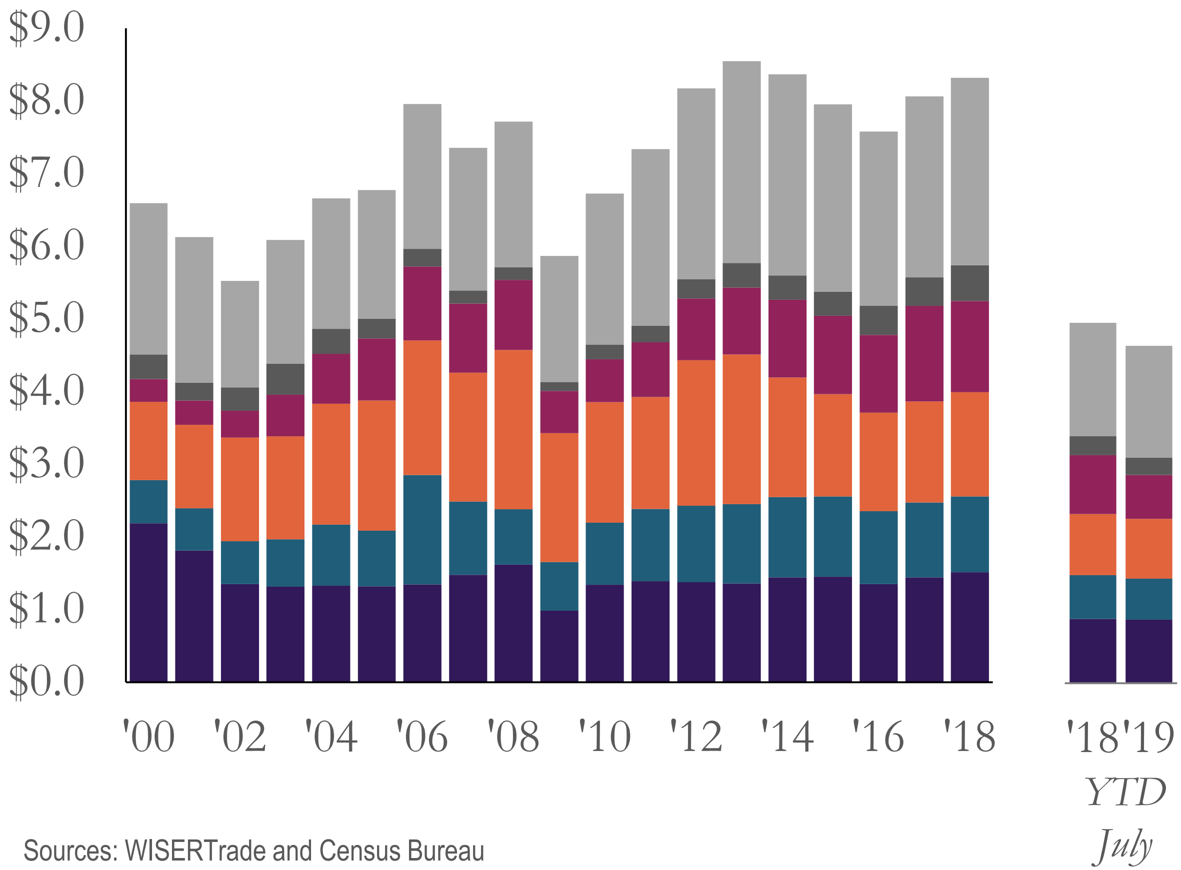


Sources: International Monetary Fund / Haver Analytics

Colorado exports have decreased so far this year.

Colorado Exports by Trading Partner

Billions



July 2019 Year-to-Date

Year-over-Year Percent Change

Total Trade	-6.4%	Share*
All Other	-1.1	31.5%
Japan	-9.6	5.5
Mexico	-25.8	15.1
Canada	-2.0	17.3
China	-6.9	12.5
Eurozone	-0.7	18.1

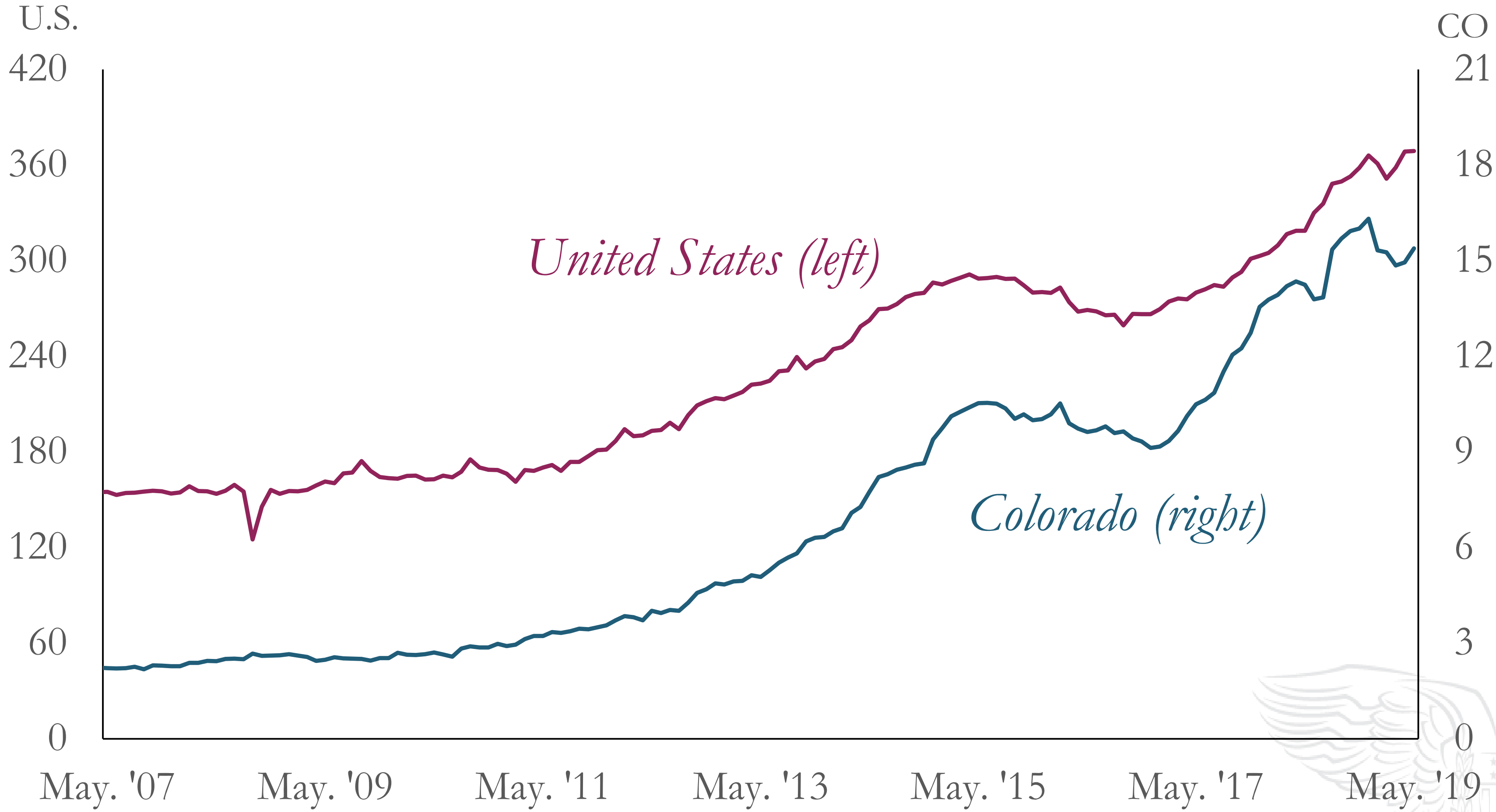
**Shares are for 2018*

Sources: WISERTrade and Census Bureau

Energy activity rose substantially over the past two years in response to higher oil prices.

Crude Oil Production

Millions of Barrels, Monthly, Seasonally Adjusted

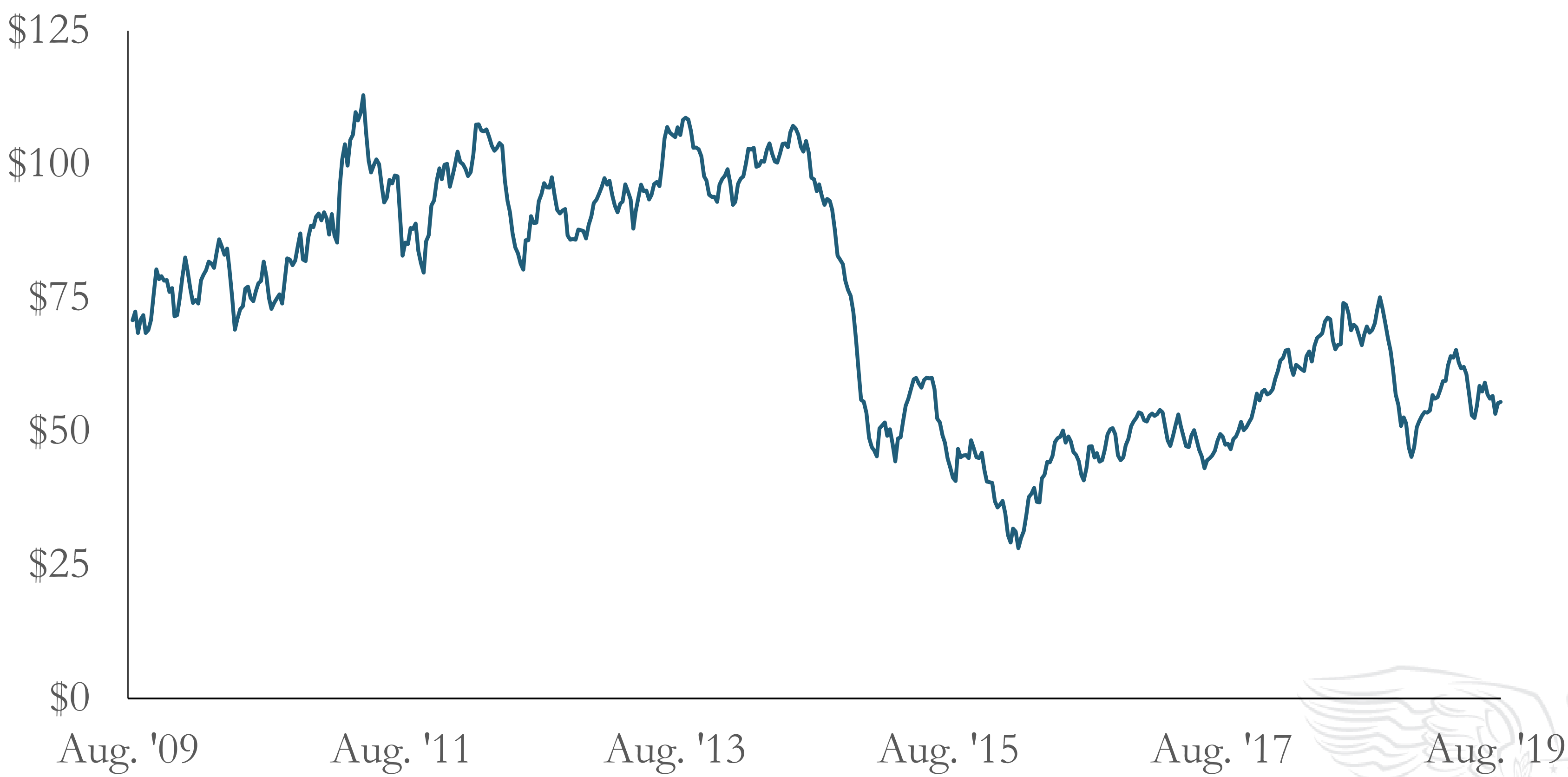


Sources: Baker Hughes and Energy Information Administration / Haver Analytics

Oil prices have been volatile in recent months.

Oil Prices - WTI

Dollars per Barrel

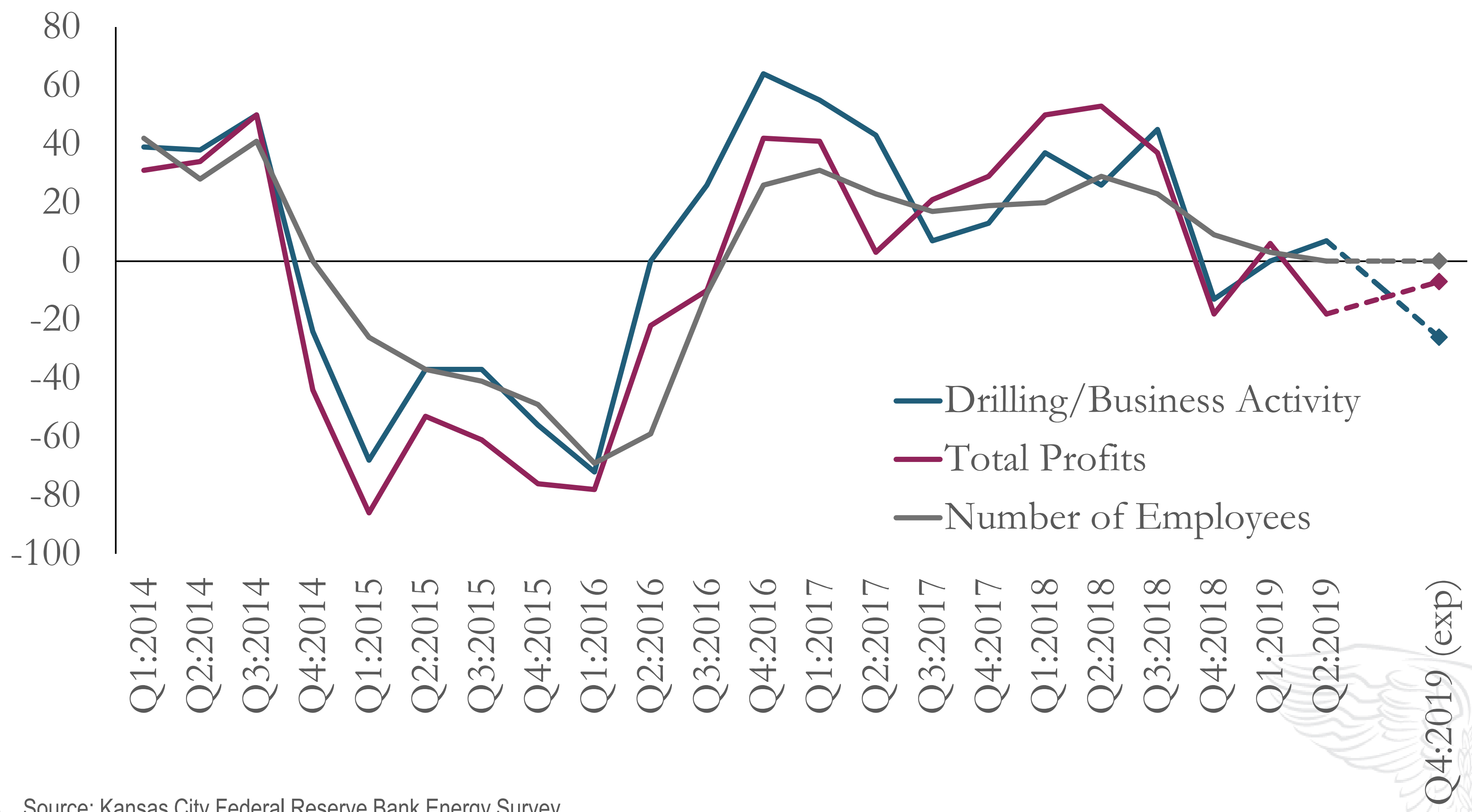


Source: Energy Information Administration / Haver Analytics

Expectations for energy activity have weakened as oil prices remain below year-ago levels.

ENERGY SURVEY ACTIVITY INDICATORS

Quarterly Diffusion Index

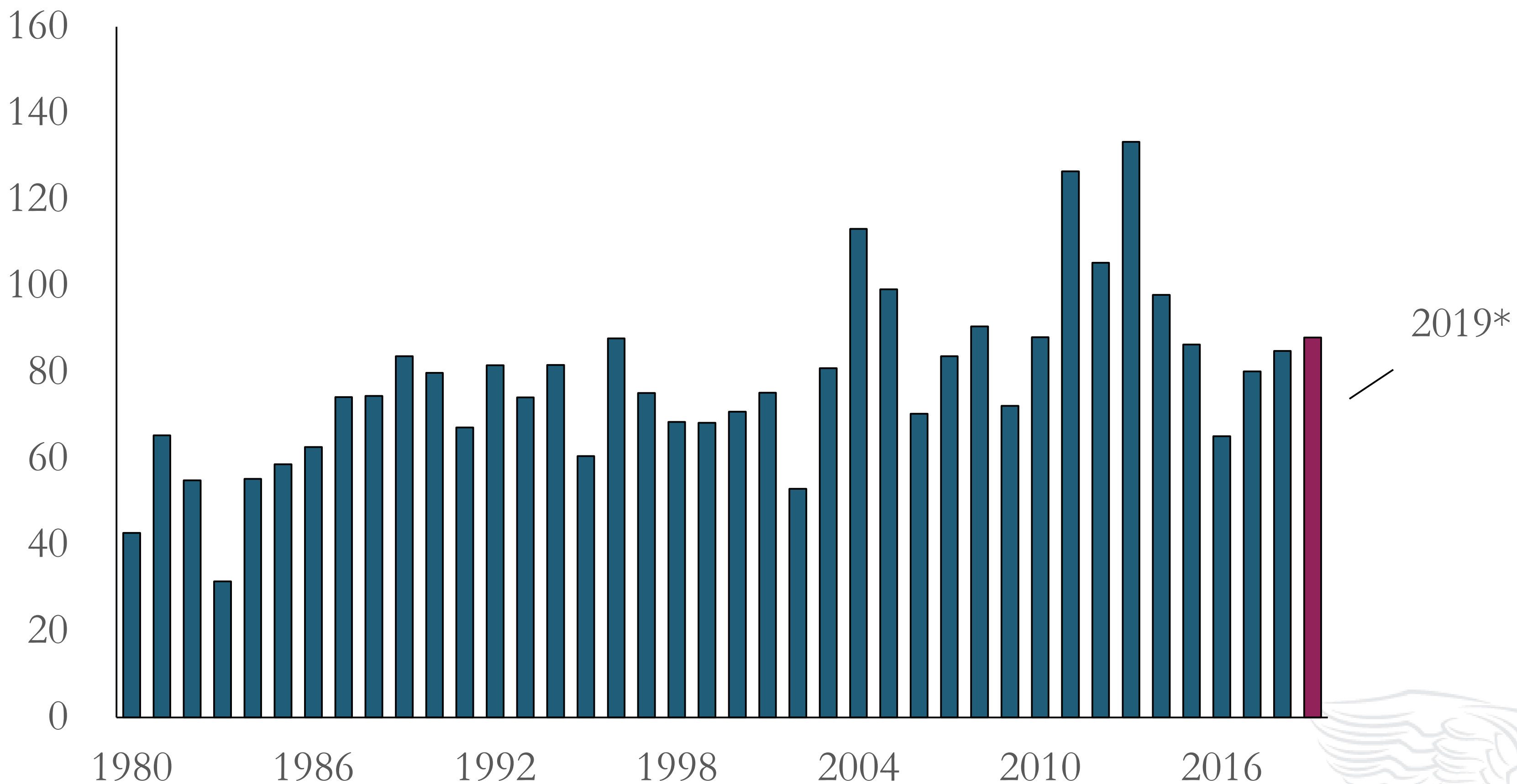


Source: Kansas City Federal Reserve Bank Energy Survey

The agriculture sector continues to struggle as commodity prices remain low.

U.S. Real Net Farm Income

Billions, 2019 Dollars



*Forecast for 2019

Source: USDA

For additional information on the regional economy:

http://www.KansasCityFed.org/Denver