Emerging Trends in the U.S. and Colorado Economies

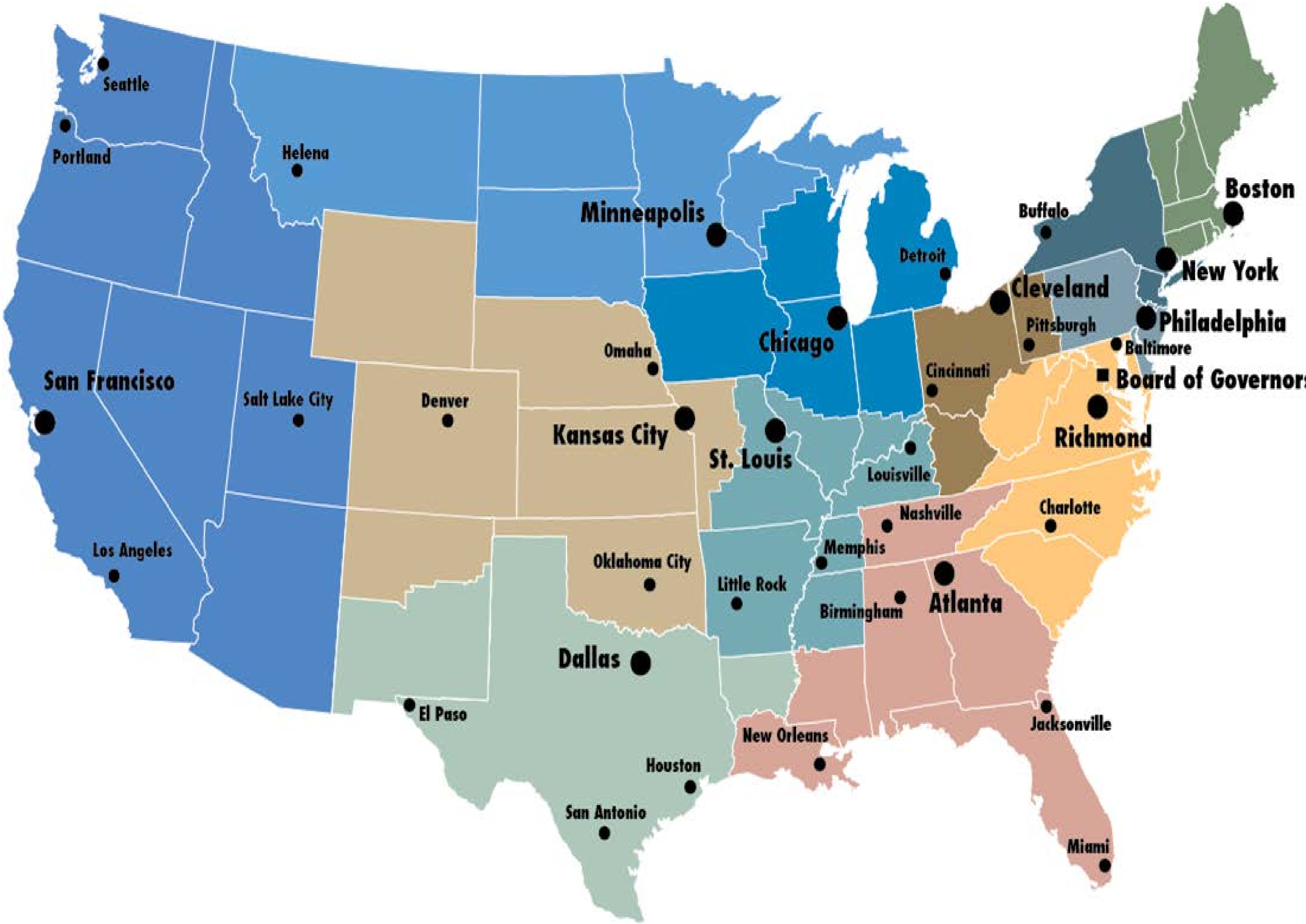
Alison Felix
Economist and Branch Executive
Federal Reserve Bank of Kansas City
Denver Branch

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.

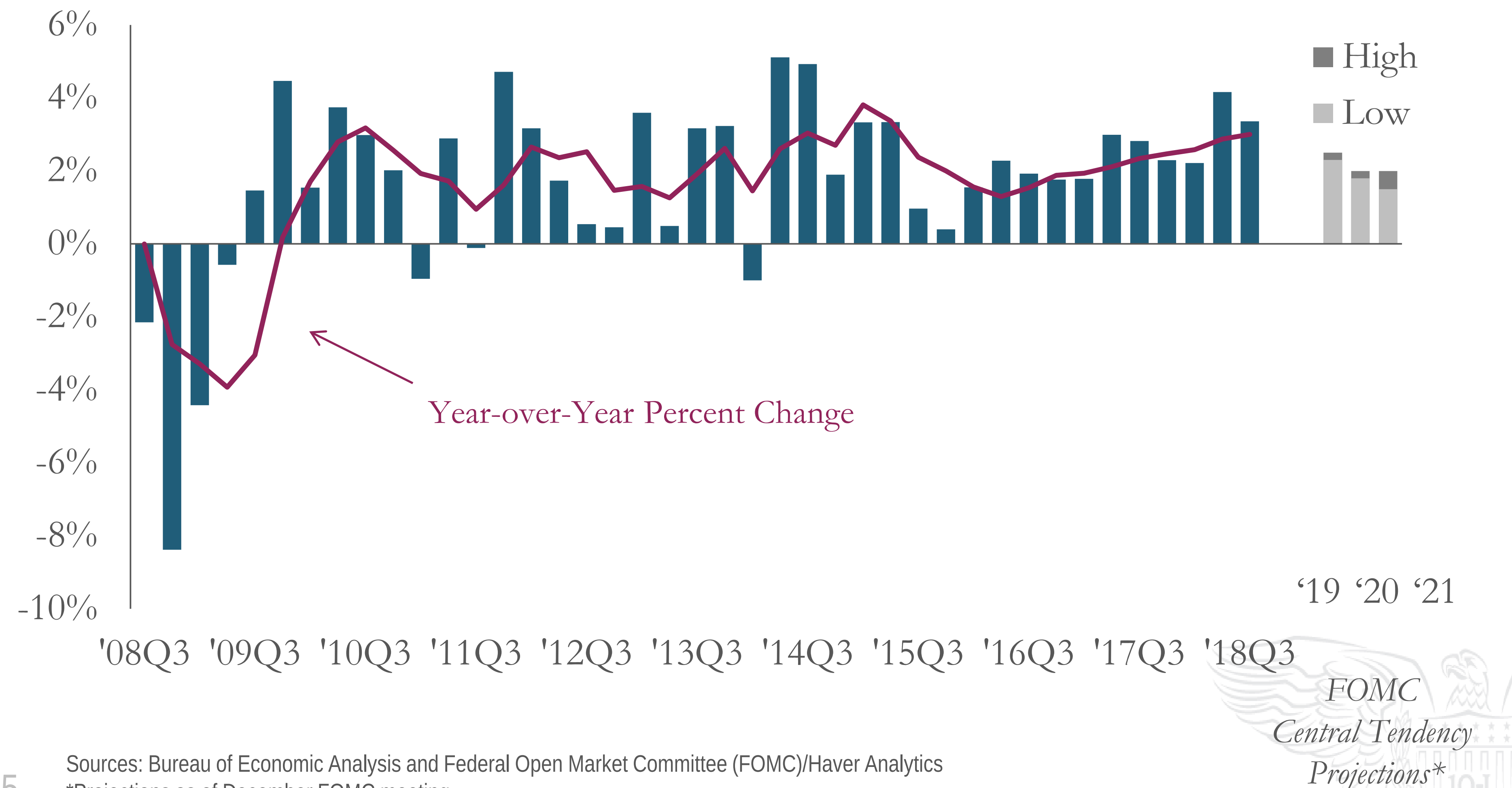
- Provide and Maintain an Effective and Efficient Payments System
  - The Federal Reserve supplies payments services to the public through depository institutions including banks, credit unions and savings and loans.
  - We also serve as a banking and fiscal agent for the United States government.
 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

After accelerating last year, U.S. economic growth is expected to slow modestly in the years ahead.

REAL U.S. GROSS DOMESTIC PRODUCT

Percent Change from Previous Quarter at Seasonally Adjusted Annualized Rates

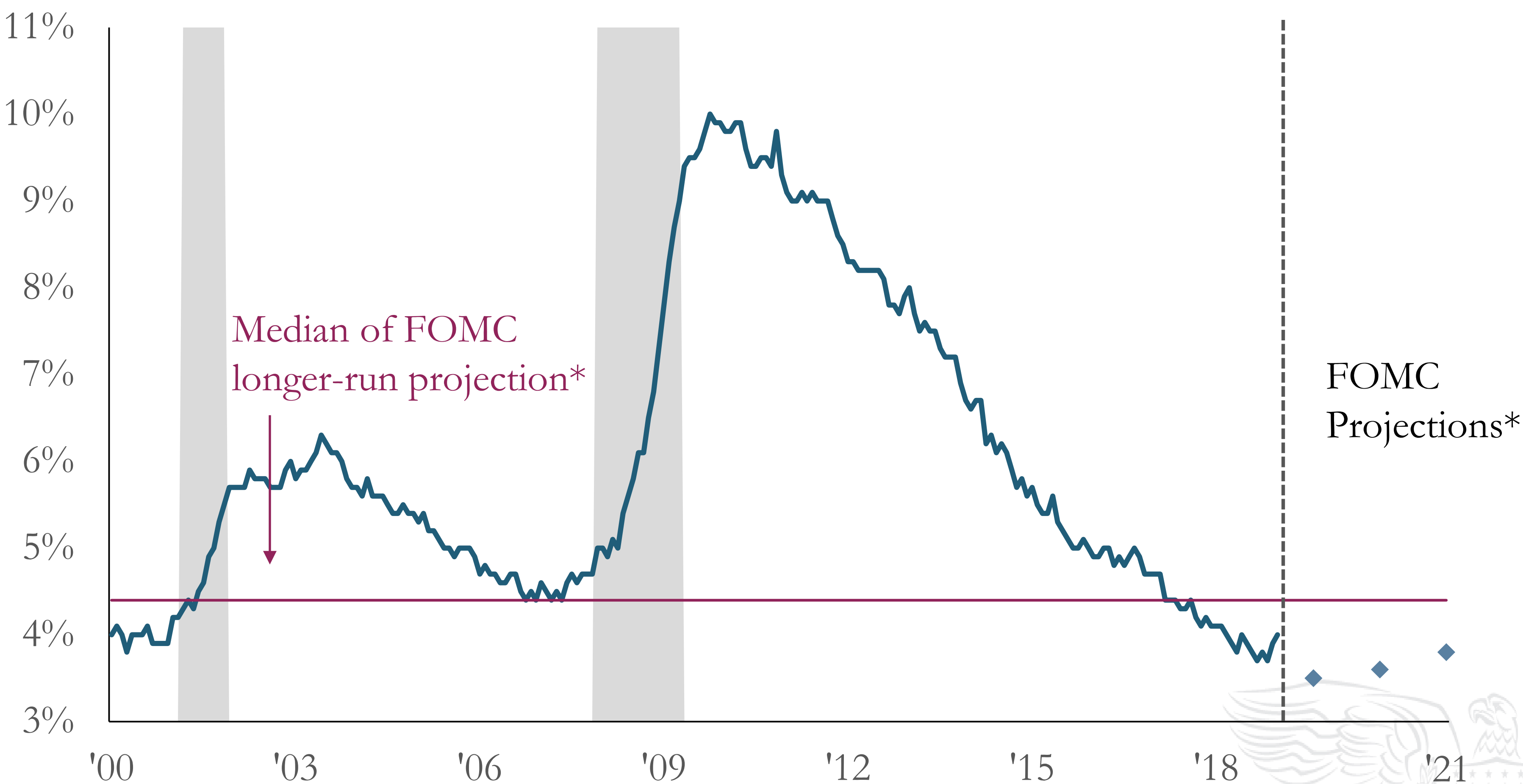


Sources: Bureau of Economic Analysis and Federal Open Market Committee (FOMC)/Haver Analytics
*Projections as of December FOMC meeting

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

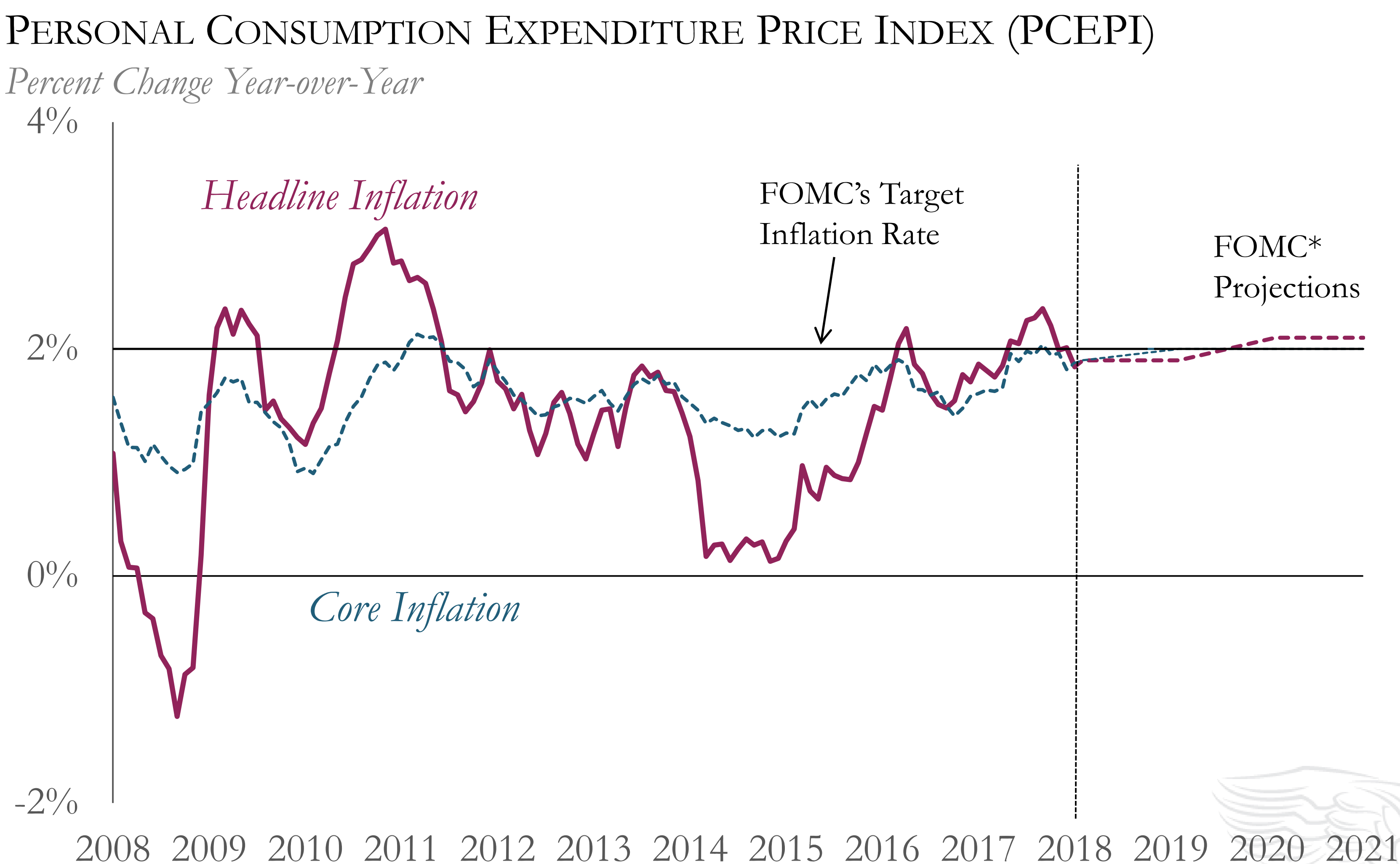
Seasonally Adjusted



Sources: Bureau of Labor Statistics, National Bureau of Economic Research and Federal Open Market Committee (FOMC)/Haver Analytics

*Projections as of December FOMC meeting; median unemployment rate

Inflation is near the FOMC's two percent target.

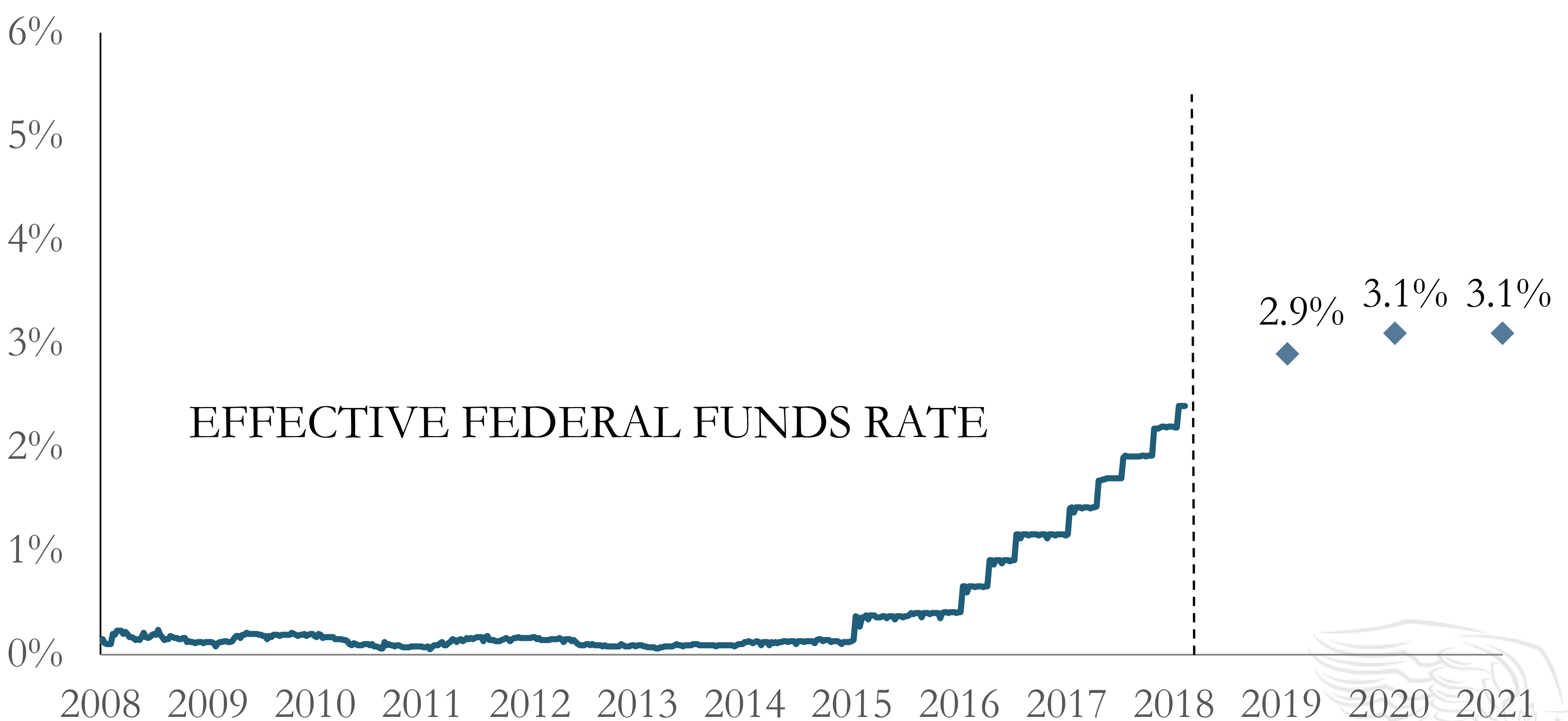


Sources: Bureau of Economic Analysis and Federal Open Market Committee/Haver Analytics

*Projections as of December FOMC meeting; median projections

"Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2 percent."

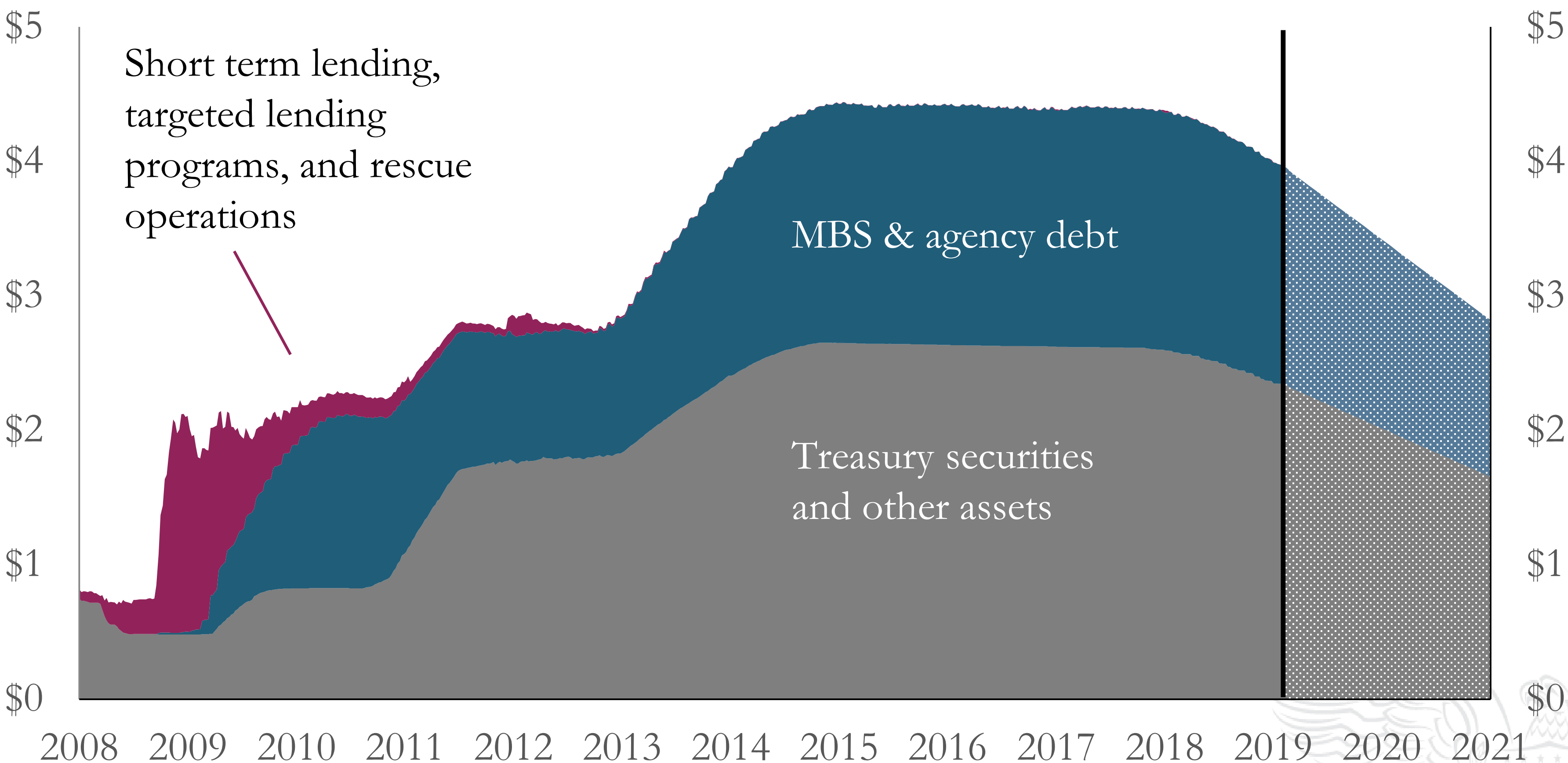
- January 2019 FOMC Statement



Source: Federal Reserve Board/Haver Analytics

Federal Reserve Balance Sheet

Trillions



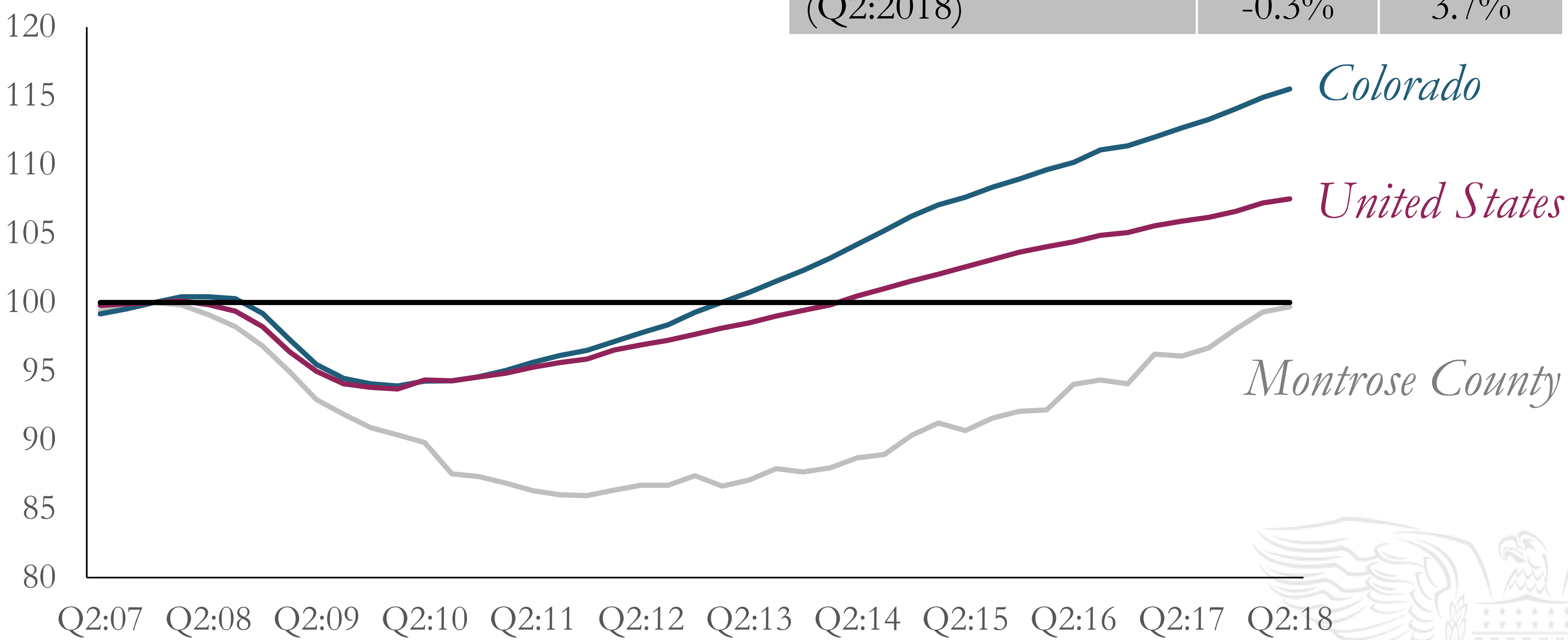
Source: Federal Reserve Board, Haver Analytics, and author's calculations.

Employment has been increasing in Colorado and the nation for more than eight years, but the recovery in Montrose lagged.

Payroll Employment Growth

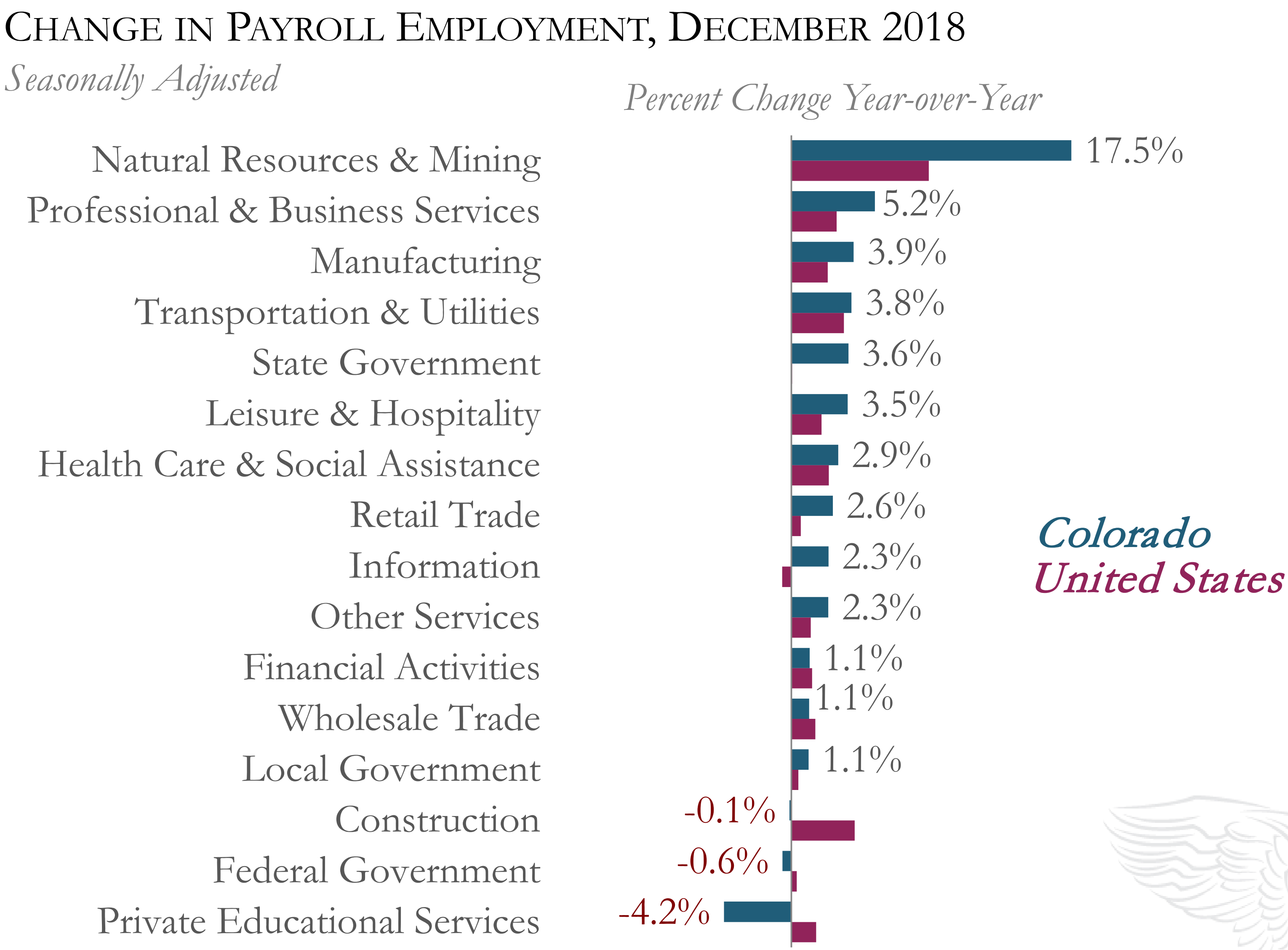
Index 100 = Q4:2007, Seasonally Adjusted

Percent Change	*Dec. '07 to Present*	*Past Year*
U.S. (Q2:2018)	7.5%	1.5%
Colorado (Q2:2018)	15.5%	2.5%
Montrose County (Q2:2018)	-0.3%	3.7%



Source: Quarterly Census of Employment and Wages (QCEW) and author's calculations.

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



Source: Bureau of Labor Statistics/Haver Analytics

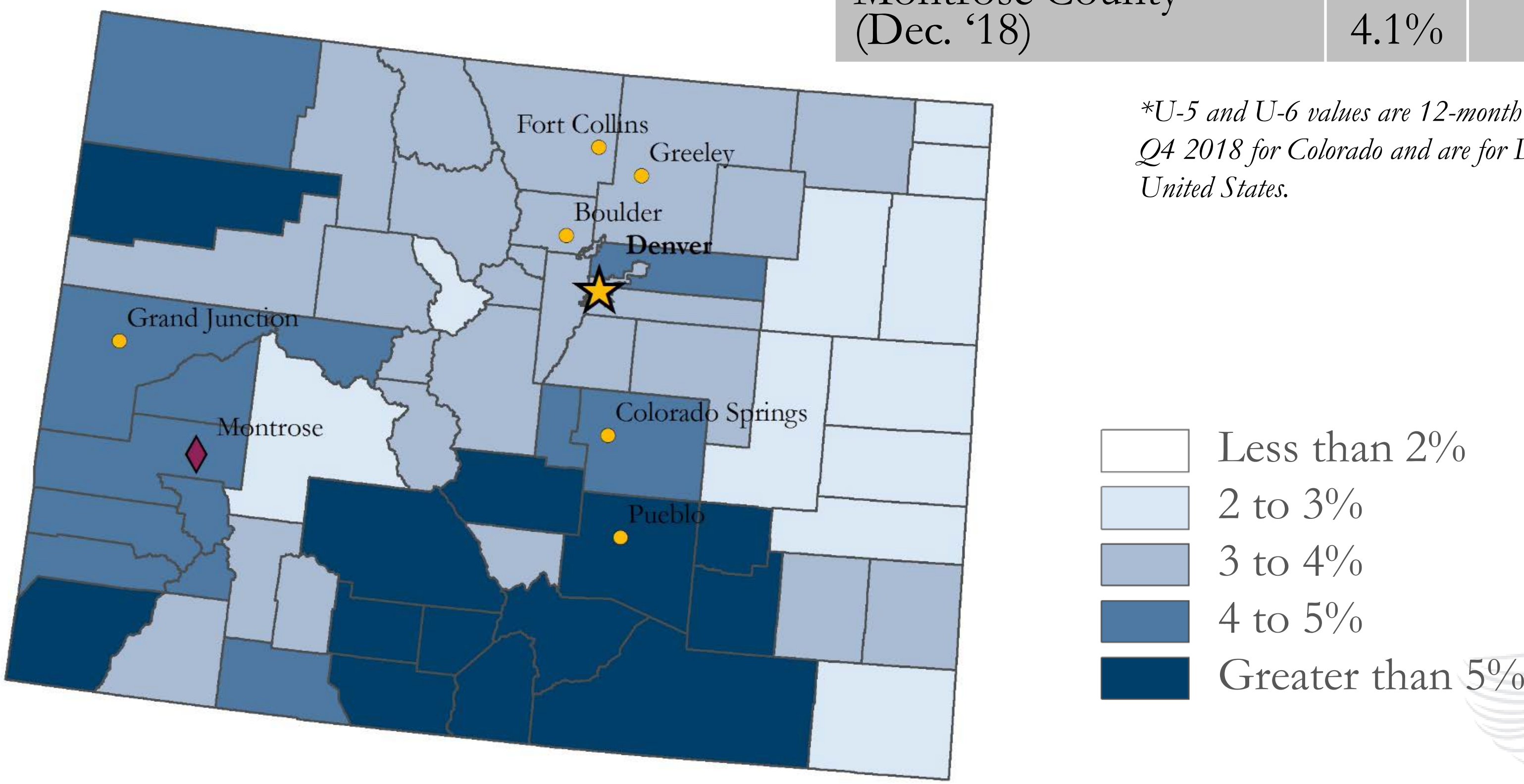
Unemployment rates are low across most of Colorado.

Unemployment Rates

December 2018, Seasonally Adjusted

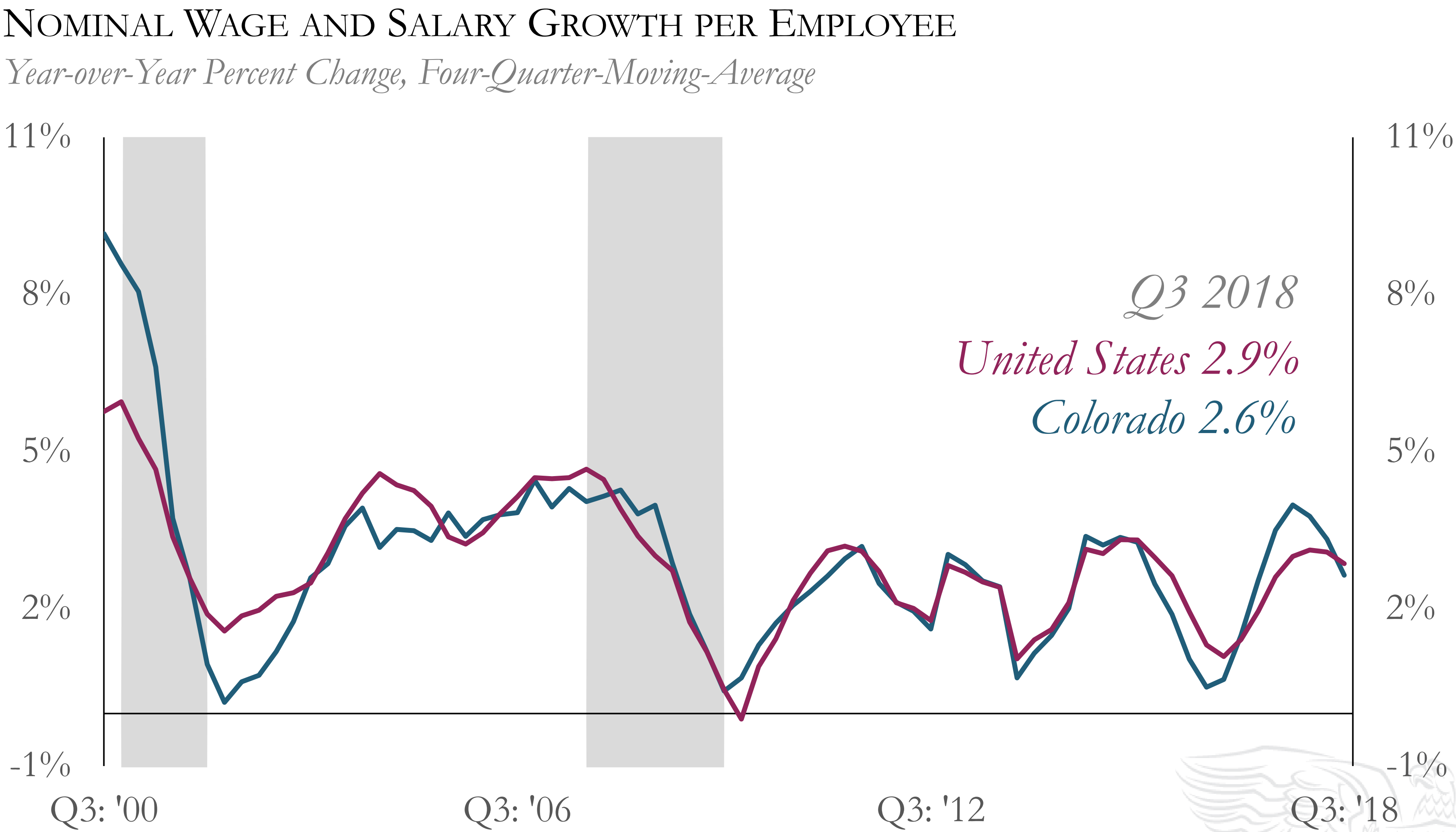
Unemployment Rate	*U-3*	*U-5**	*U-6**
United States (Jan. '19)	4.0%	4.9%	8.1%
Colorado (Dec. '18)	3.5%	3.8%	6.3%
Montrose County (Dec. '18)	4.1%		

**U-5 and U-6 values are 12-month moving averages as of Q4 2018 for Colorado and are for December, 2018 for the United States.*



Source: Bureau of Labor Statistics/Haver Analytics

Wage gains have picked up over the past year but remain moderate.

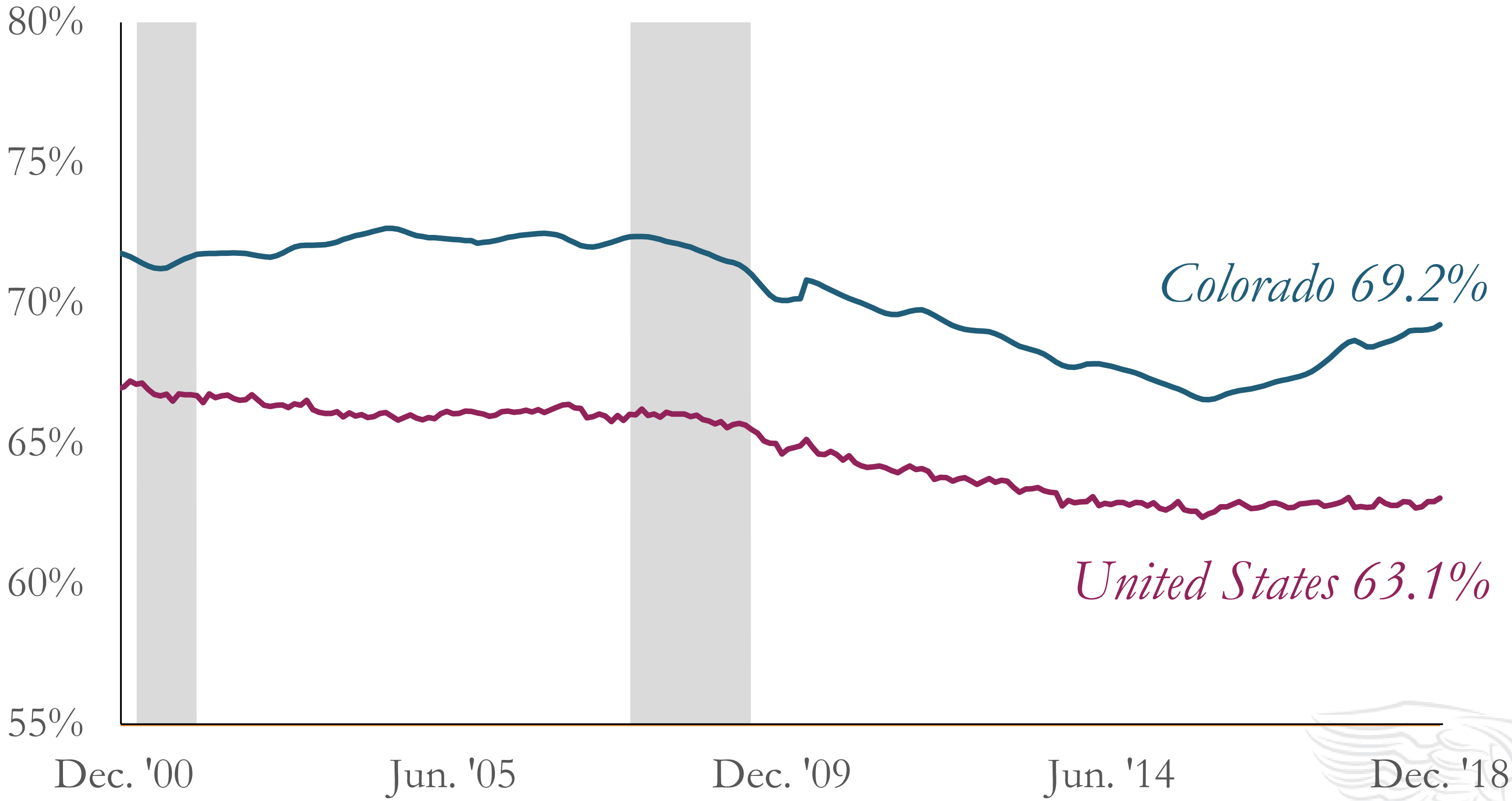


Note: Gray bars indicate recession.
Source: Bureau of Economic Analysis, Bureau of Labor Statistics and National Bureau of Economic Research /Haver Analytics

Labor force participation rates have increased substantially in Colorado over the past three years.

Labor Force Participation Rates

Seasonally Adjusted



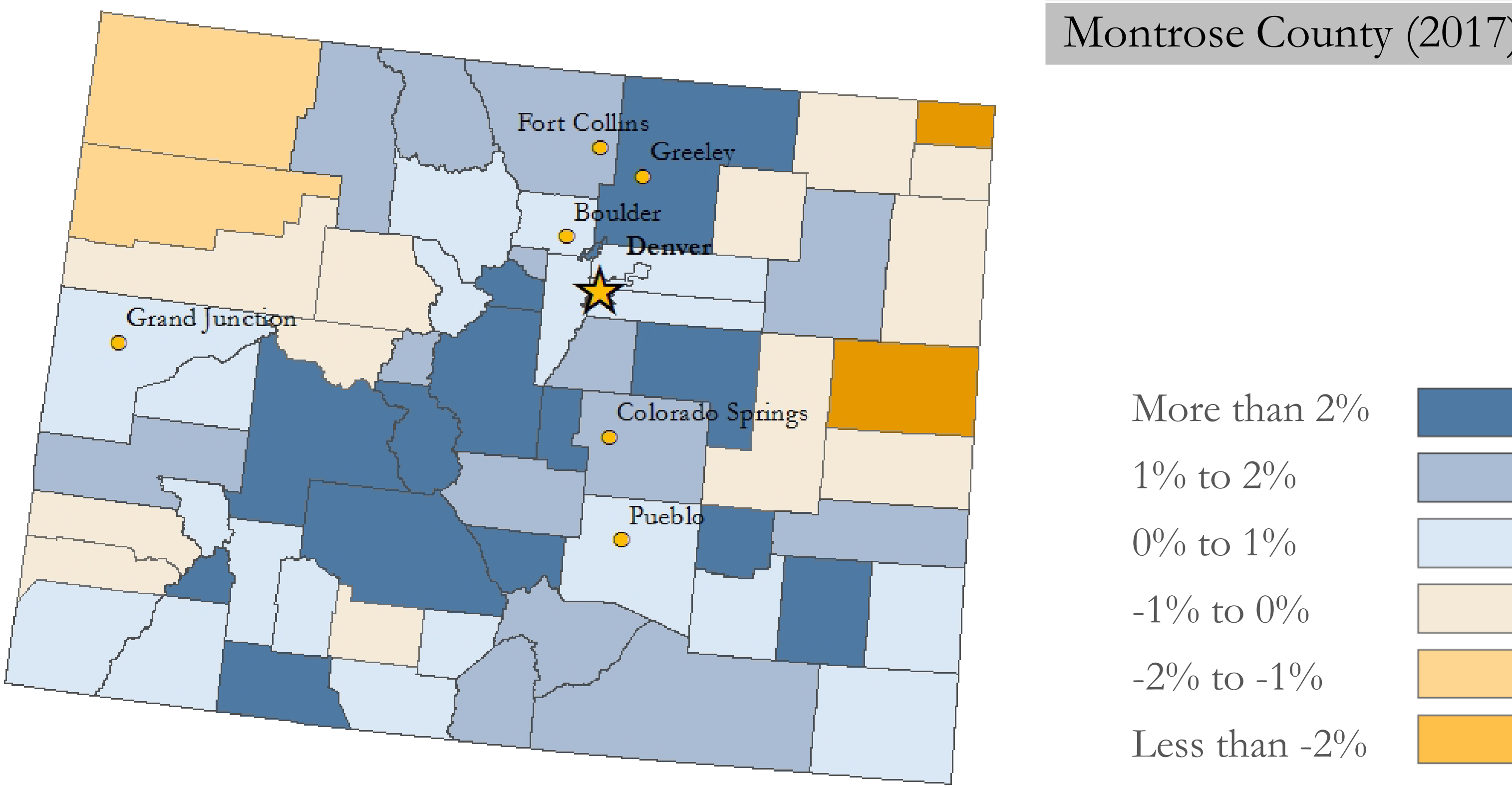
Note: Gray bars indicate recession.
Source: Bureau of Labor Statistics and National Bureau of Economic Research/Haver Analytics

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

NET MIGRATION

Total 2017 Net Migration as a Percentage of 2017 Population

Annual Percent Change	*2018*
United States	0.3%
Colorado	0.9%
Montrose County (2017)	1.5%

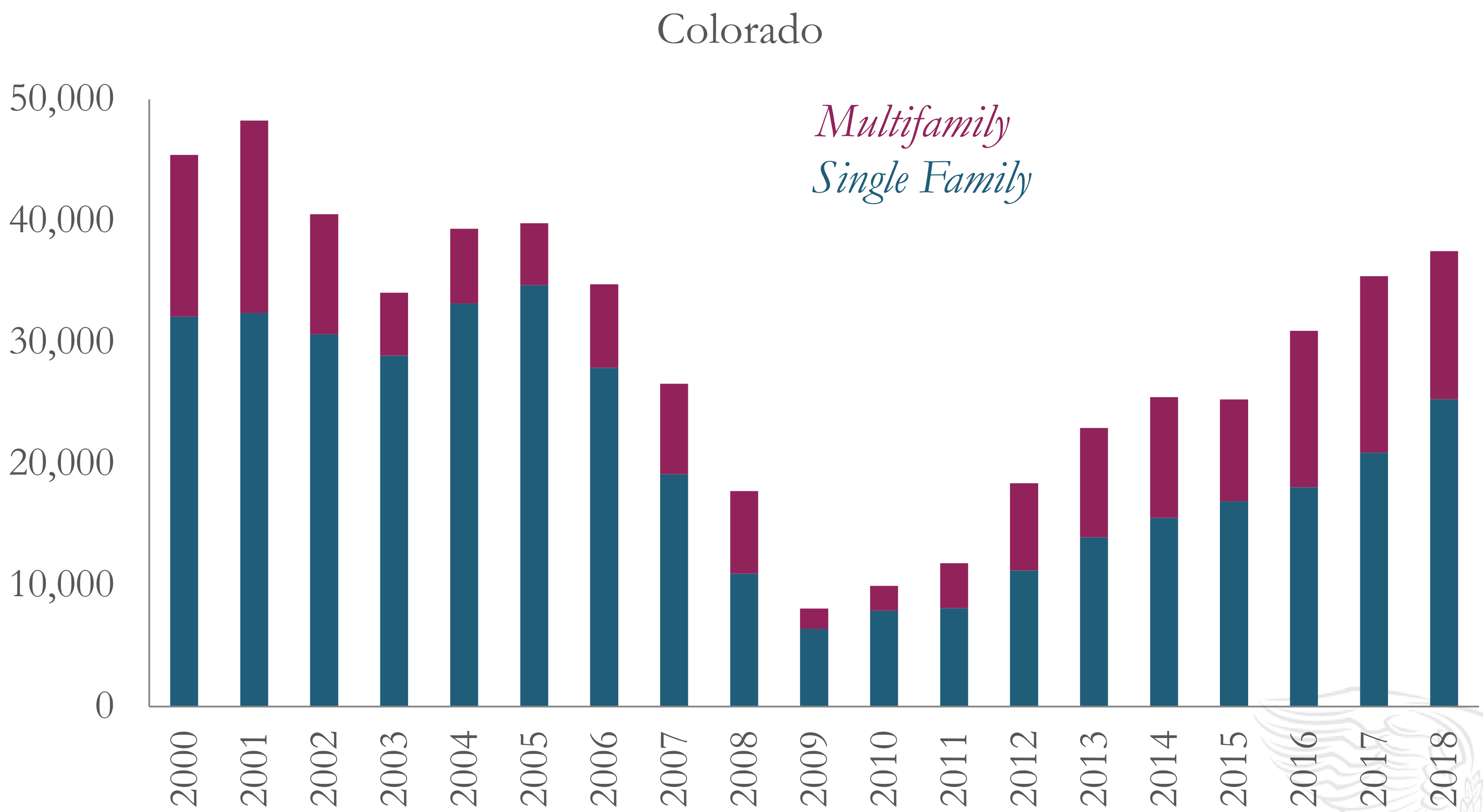


Source: Census Bureau

Residential construction activity has increased significantly since 2009, but multifamily permitting has started to slow.

Residential Permits

Seasonally Adjusted, Year-to-Date Through October

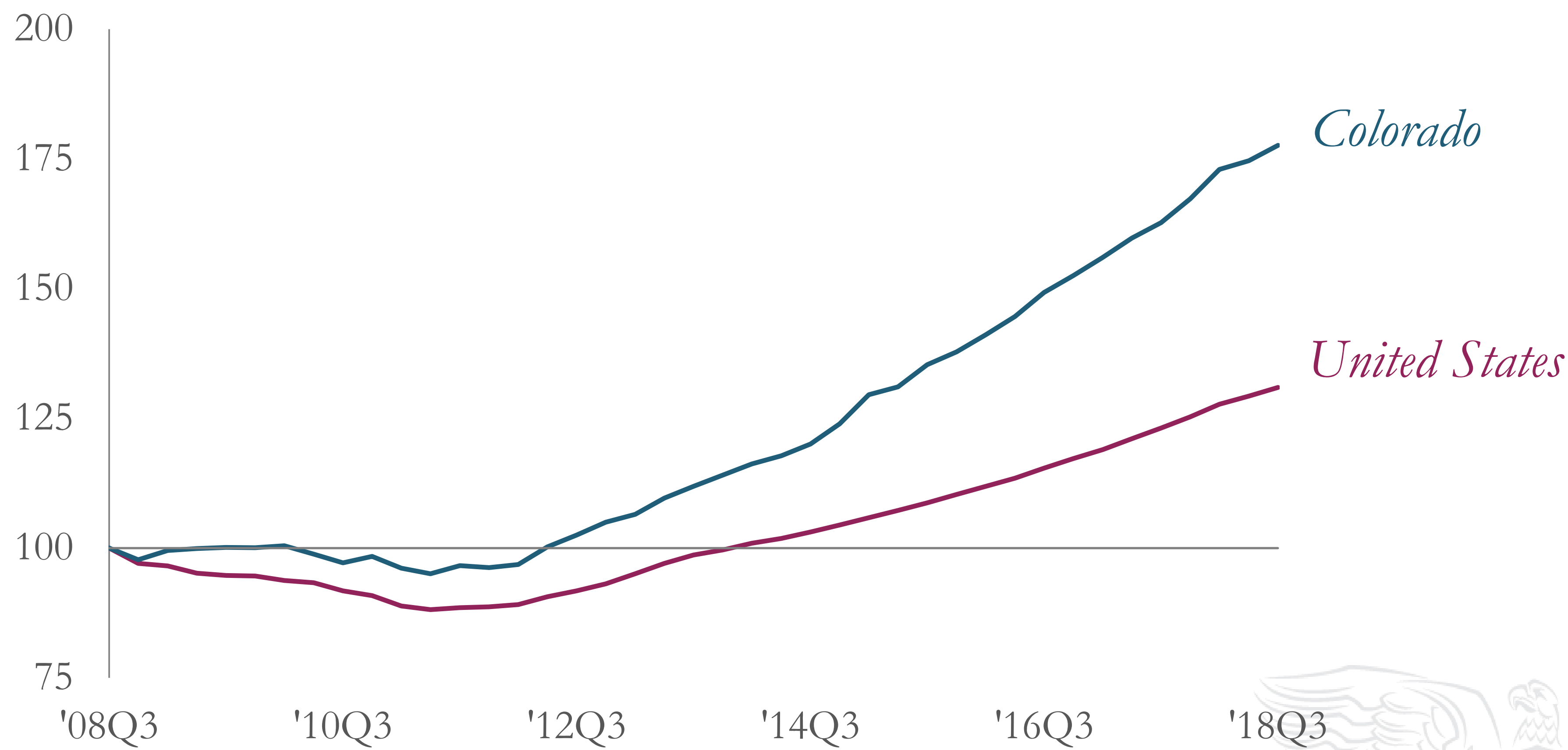


Source: Census Bureau/Haver Analytics

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

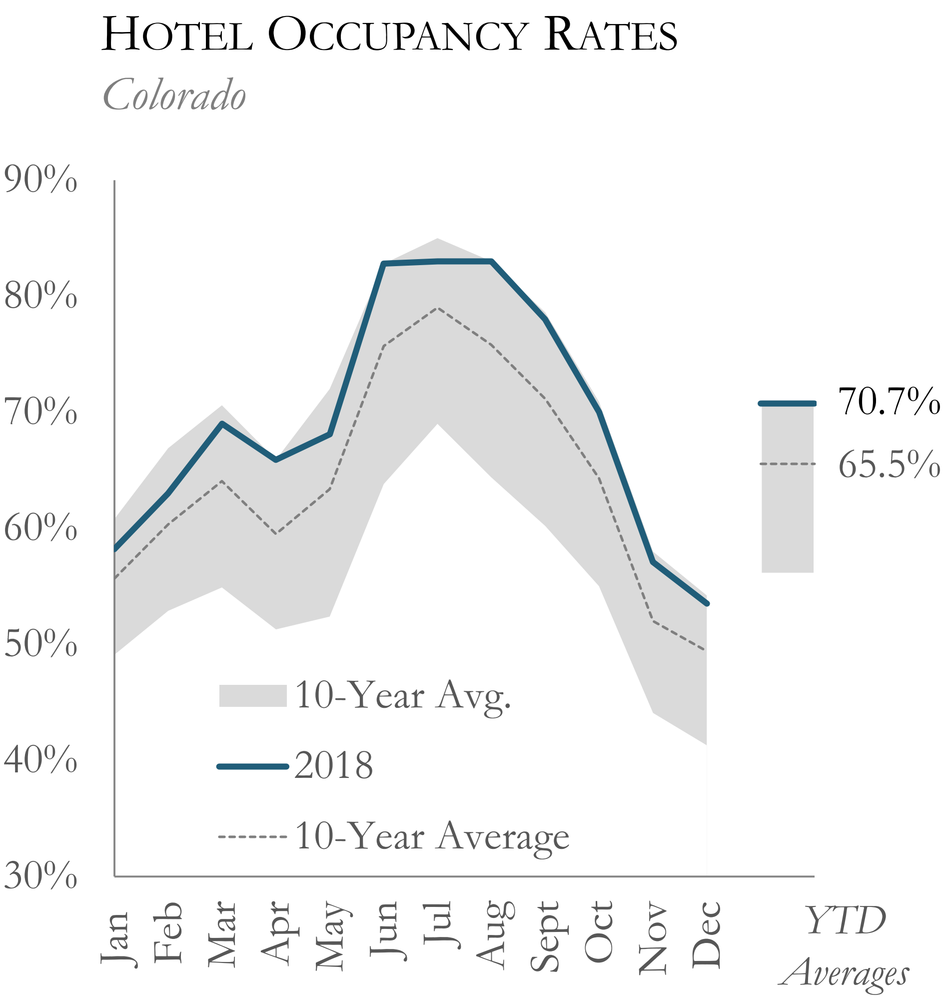
HOME PRICES

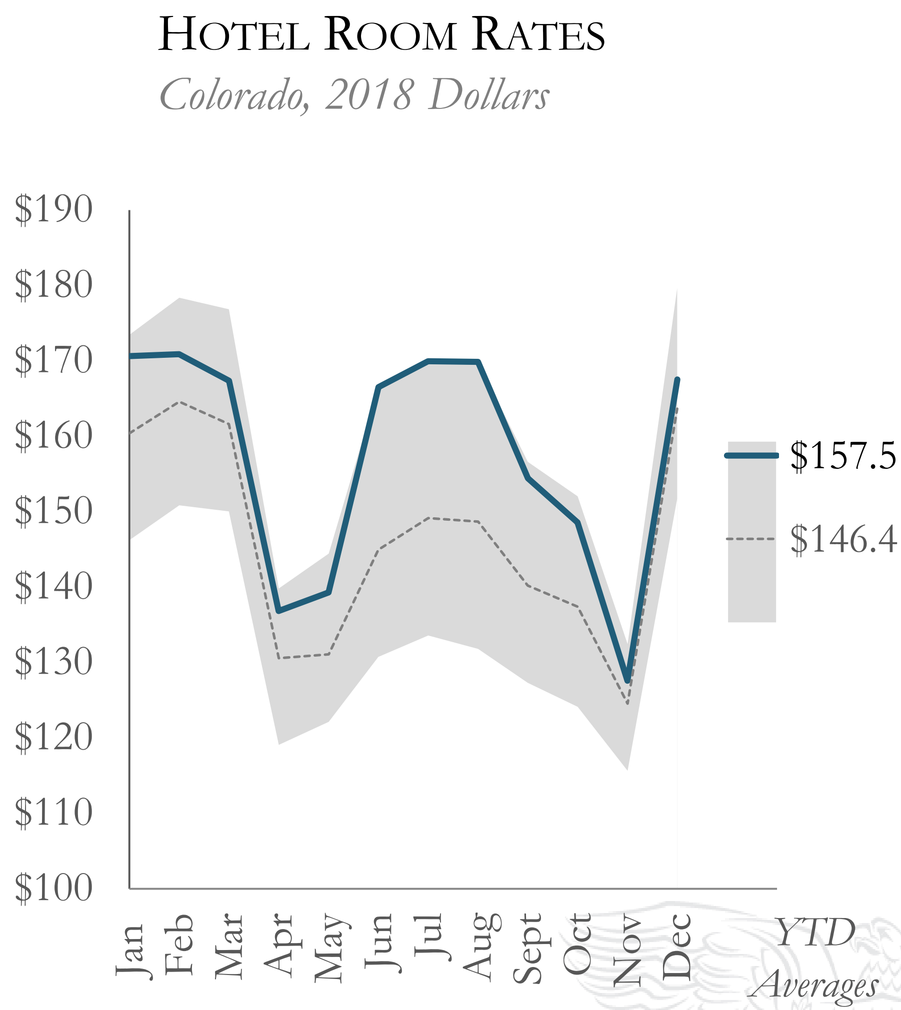
Seasonally Adjusted, Index 100 = Q3:2008



Source: Federal Housing Finance Agency/Haver Analytics

Tourism remains an important sector for the Colorado economy.



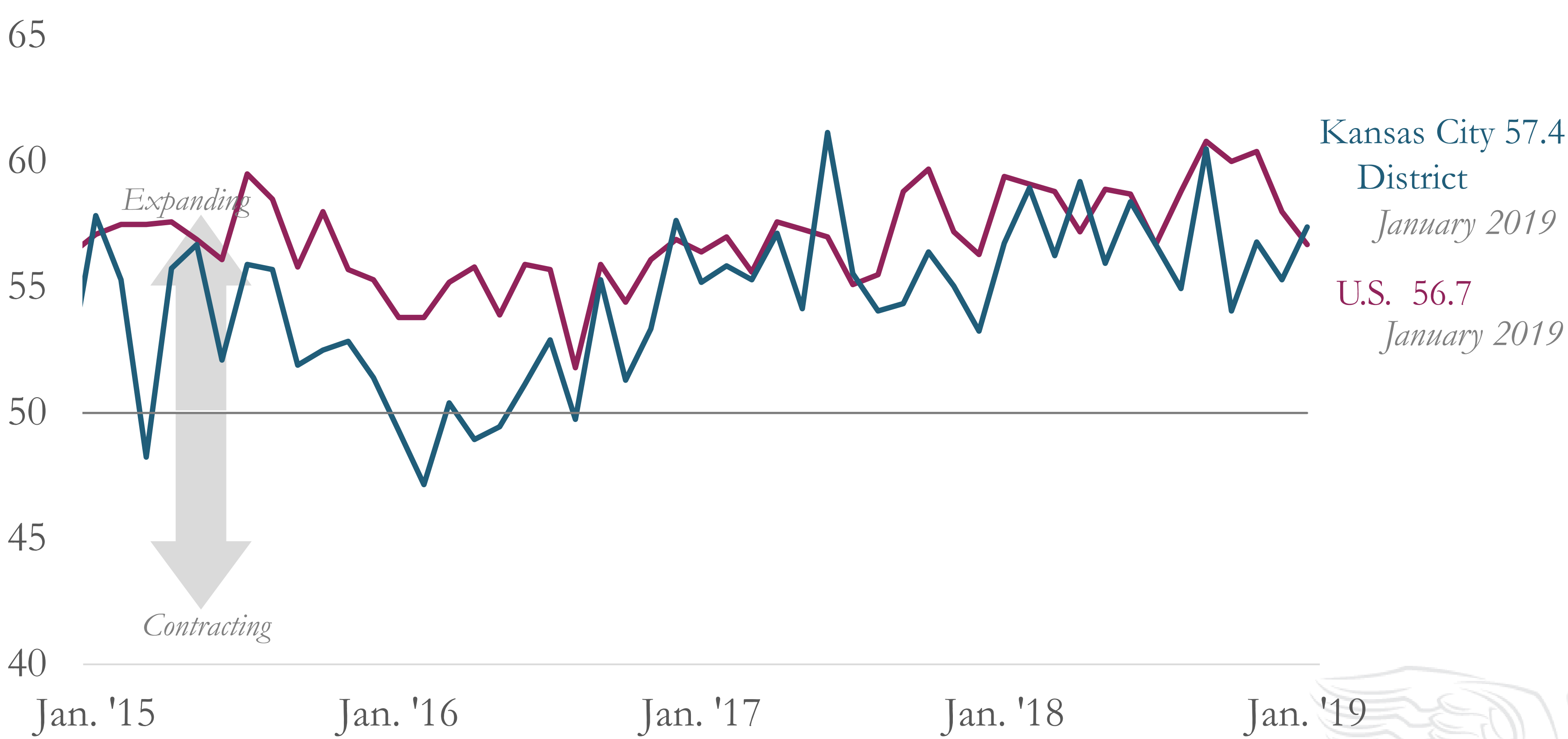


Source: Colorado Hotel and Lodging Association

Overall, the services sector continues to expand at a solid pace, and contacts expect additional gains in the months ahead.

Non-Manufacturing and Services Activity

Diffusion Index, Seasonally Adjusted, Month-over-Month

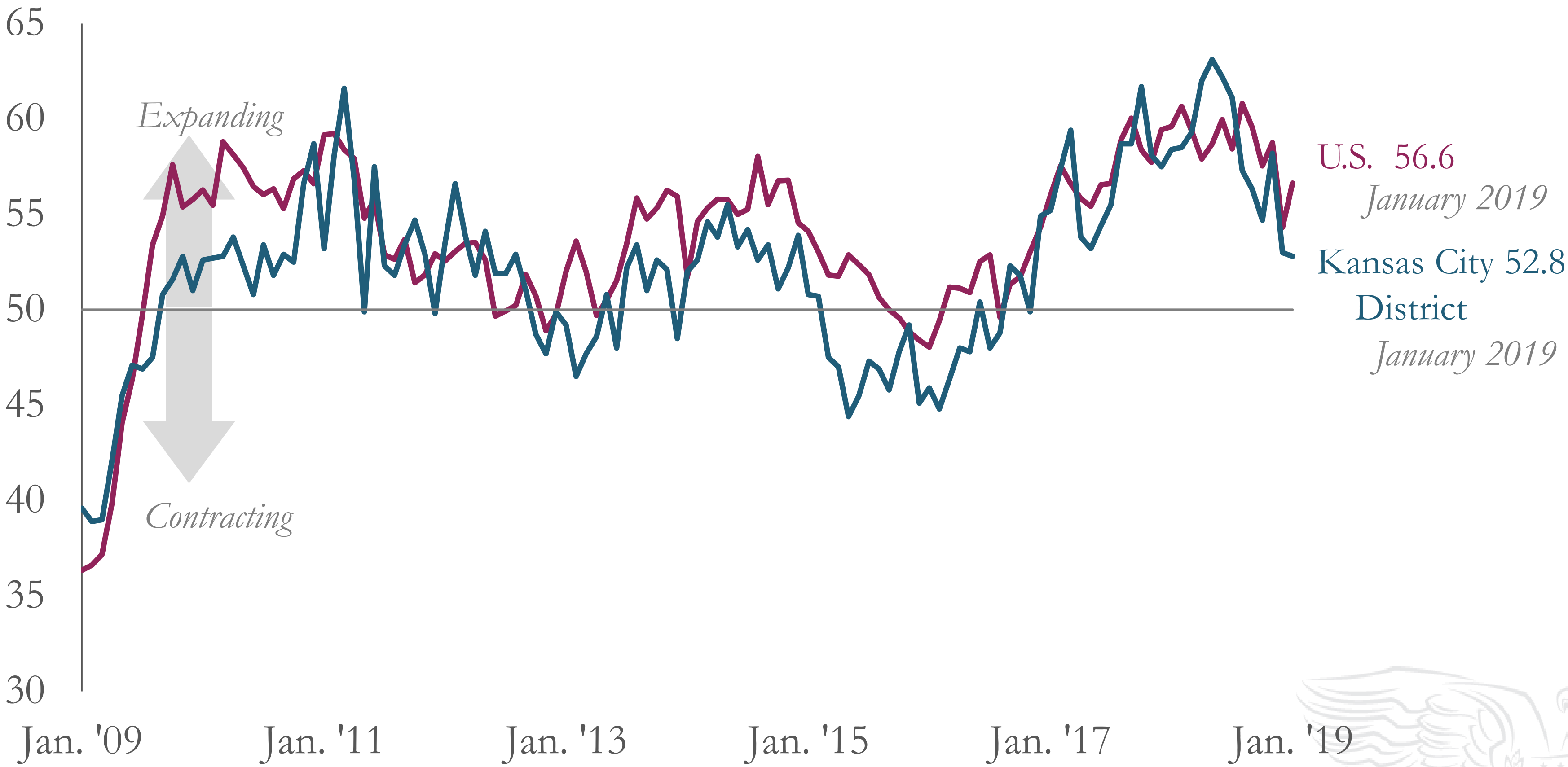


Source: Kansas City Federal Reserve Bank, ISM/Haver Analytics

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

Manufacturing Activity

Diffusion Index, Seasonally Adjusted, Month-over-Month

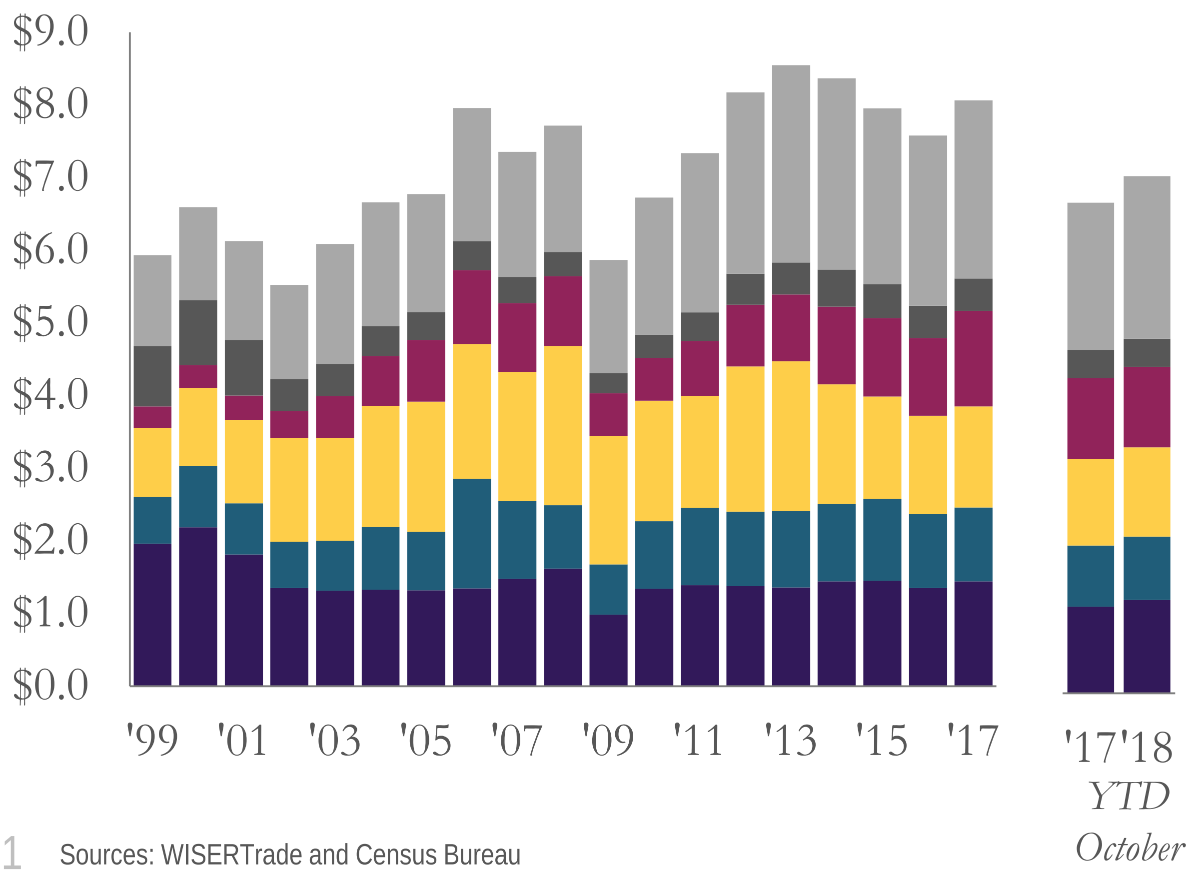


Source: Kansas City Federal Reserve Bank, ISM/Haver Analytics

Despite ongoing trade and tariff concerns, exports from Colorado increased last year.

Colorado Exports by Trading Partner

Billions



October 2018 Year-to-Date

Year-over-Year Percent Change

Total Trade	5.4%	Share*
All Other	10.4	30.2%
Japan	-1.1	5.5
Mexico	-0.5	16.3
Canada	3.4	17.3
China	3.9	12.8
Eurozone	7.6	17.9

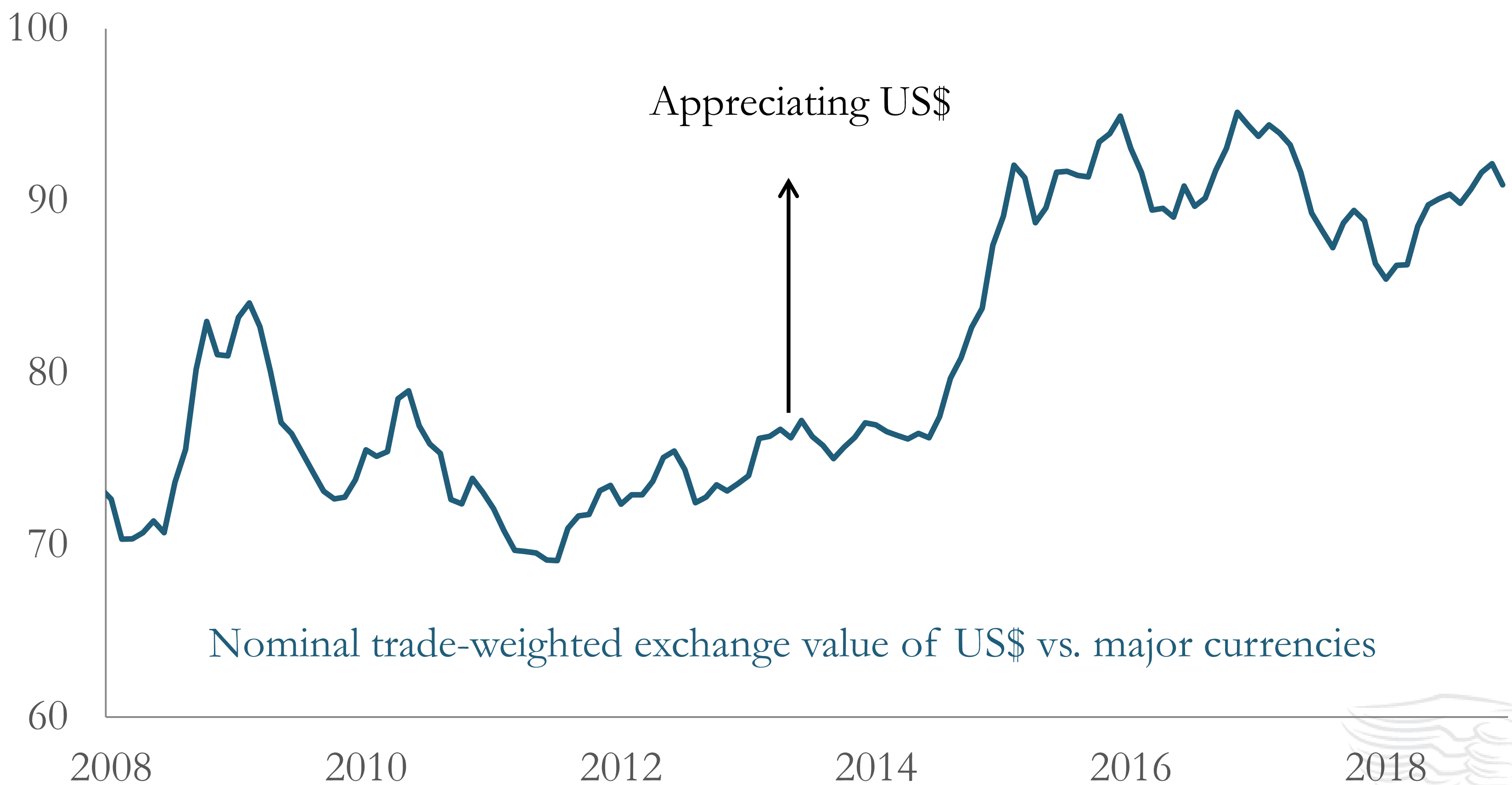
**Shares are for 2017*

Sources: WISERTrade and Census Bureau

After depreciating in 2017, the dollar has appreciated over the past year.

FOREIGN EXCHANGE VALUE OF THE DOLLAR

Index March '73 = 100

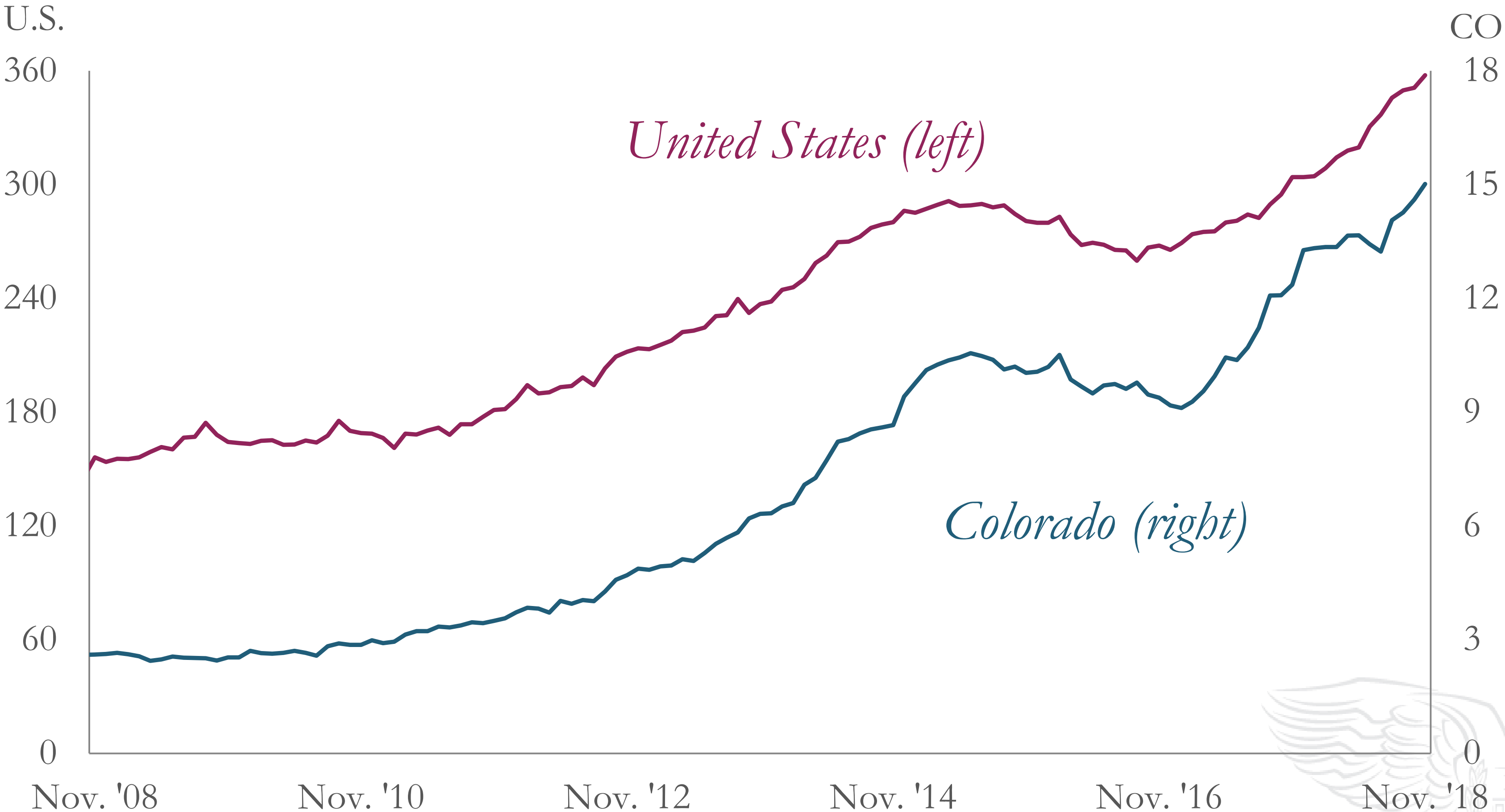


Source: Federal Reserve Board, NBER./Haver Analytics

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

Crude Oil Production

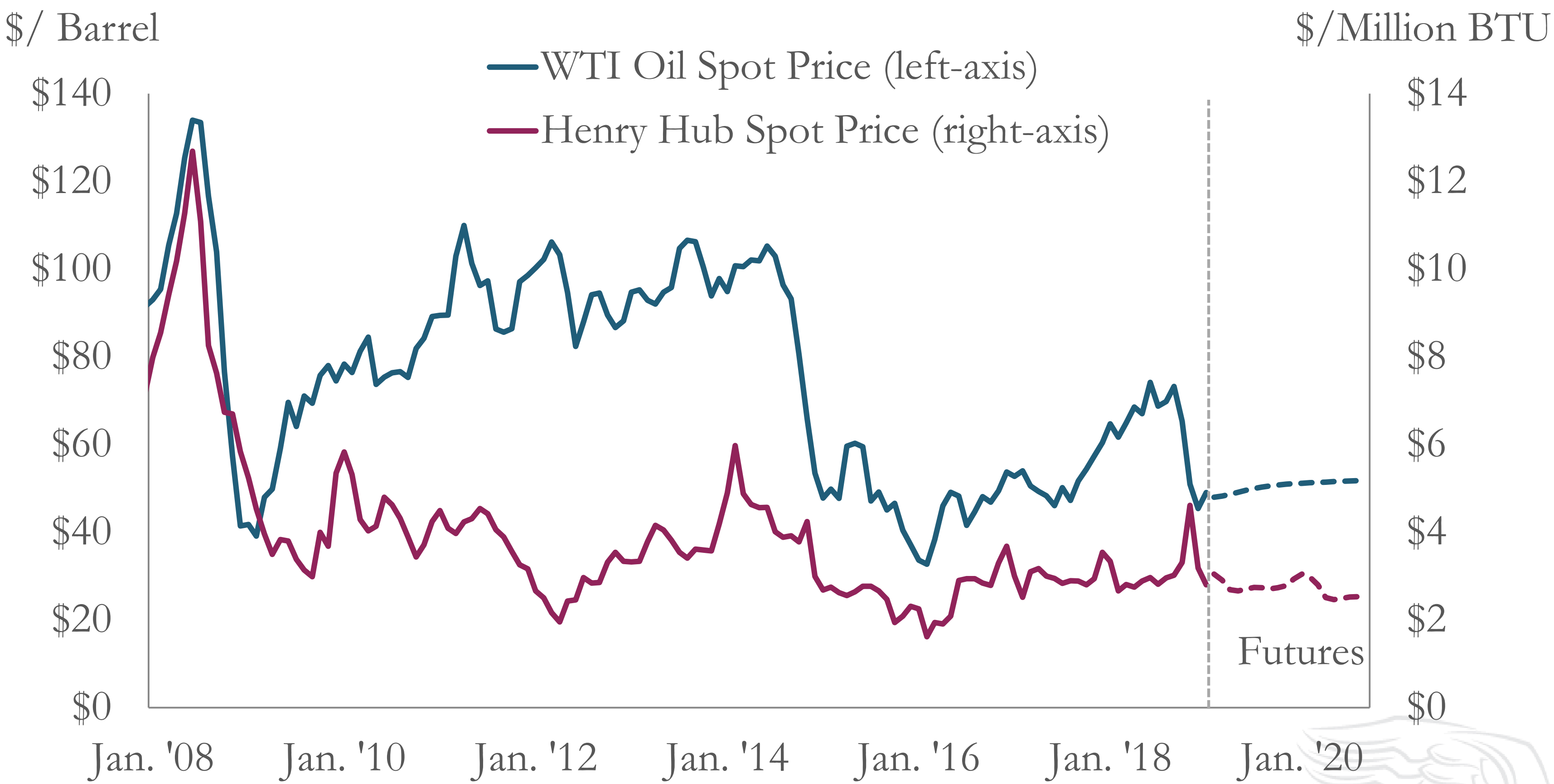
Millions of Barrels, Monthly, Seasonally Adjusted



Source: Baker Hughes, Energy Information Administration/Haver Analytics

However, oil prices have fallen in recent months and are expected to remain near current levels.

ENERGY PRICES

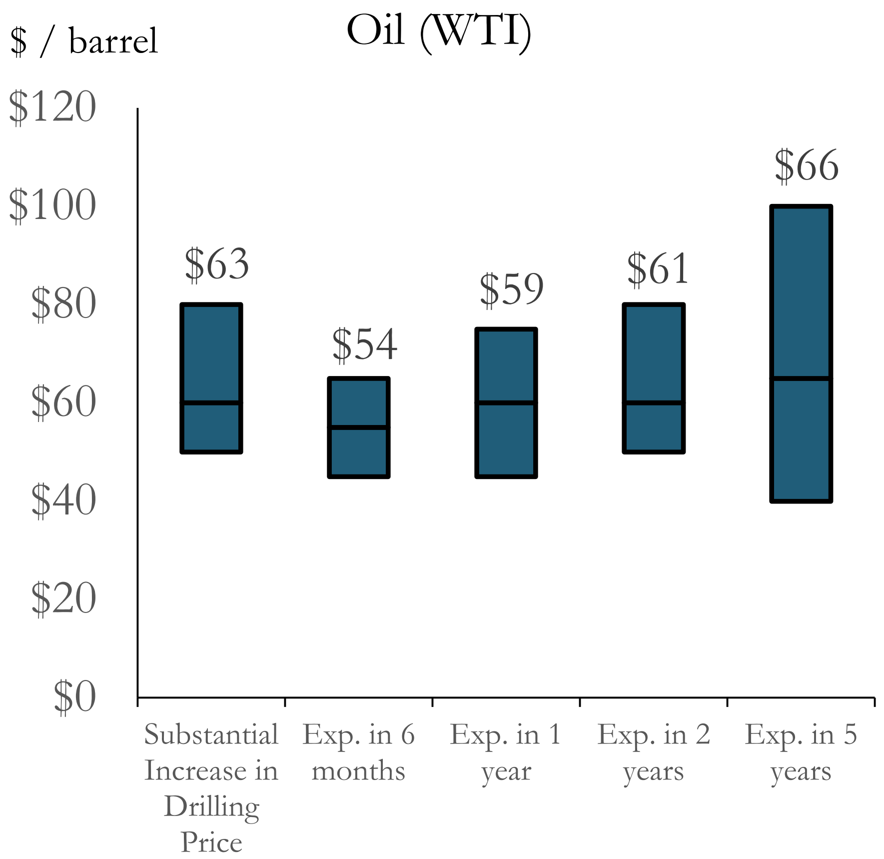


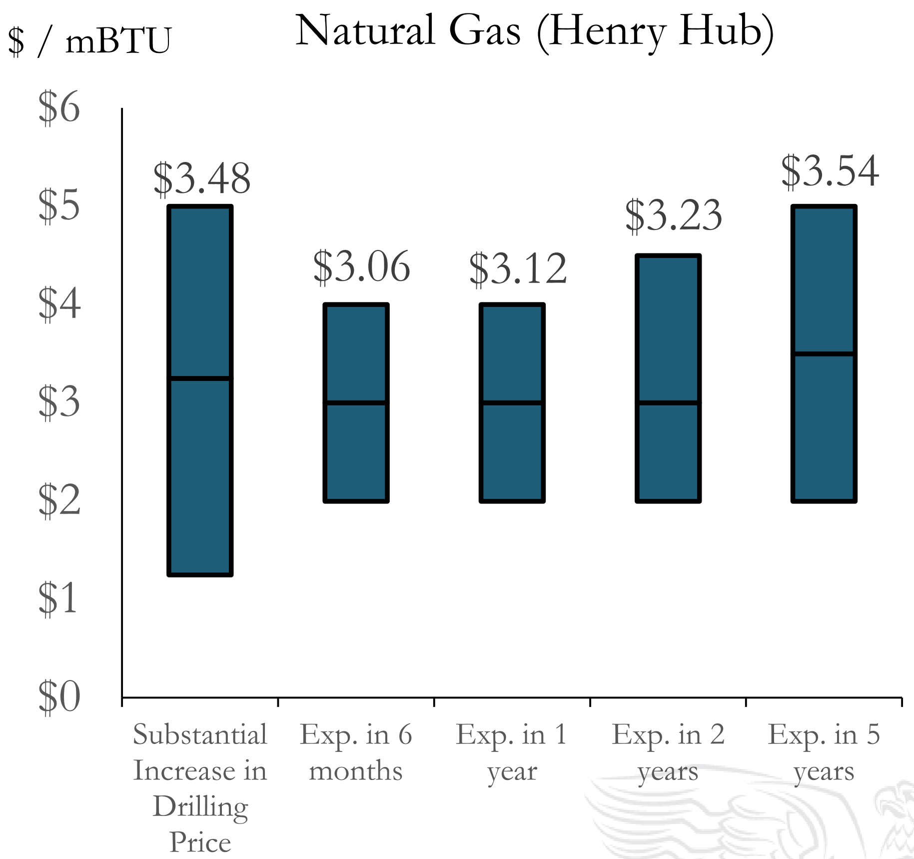
Source: Bloomberg Energy Services

Oil and natural gas prices are expected to remain below the level needed for a substantial increase in drilling over the next two years.

ENERGY SURVEY SPECIAL QUESTION

Q4:2018





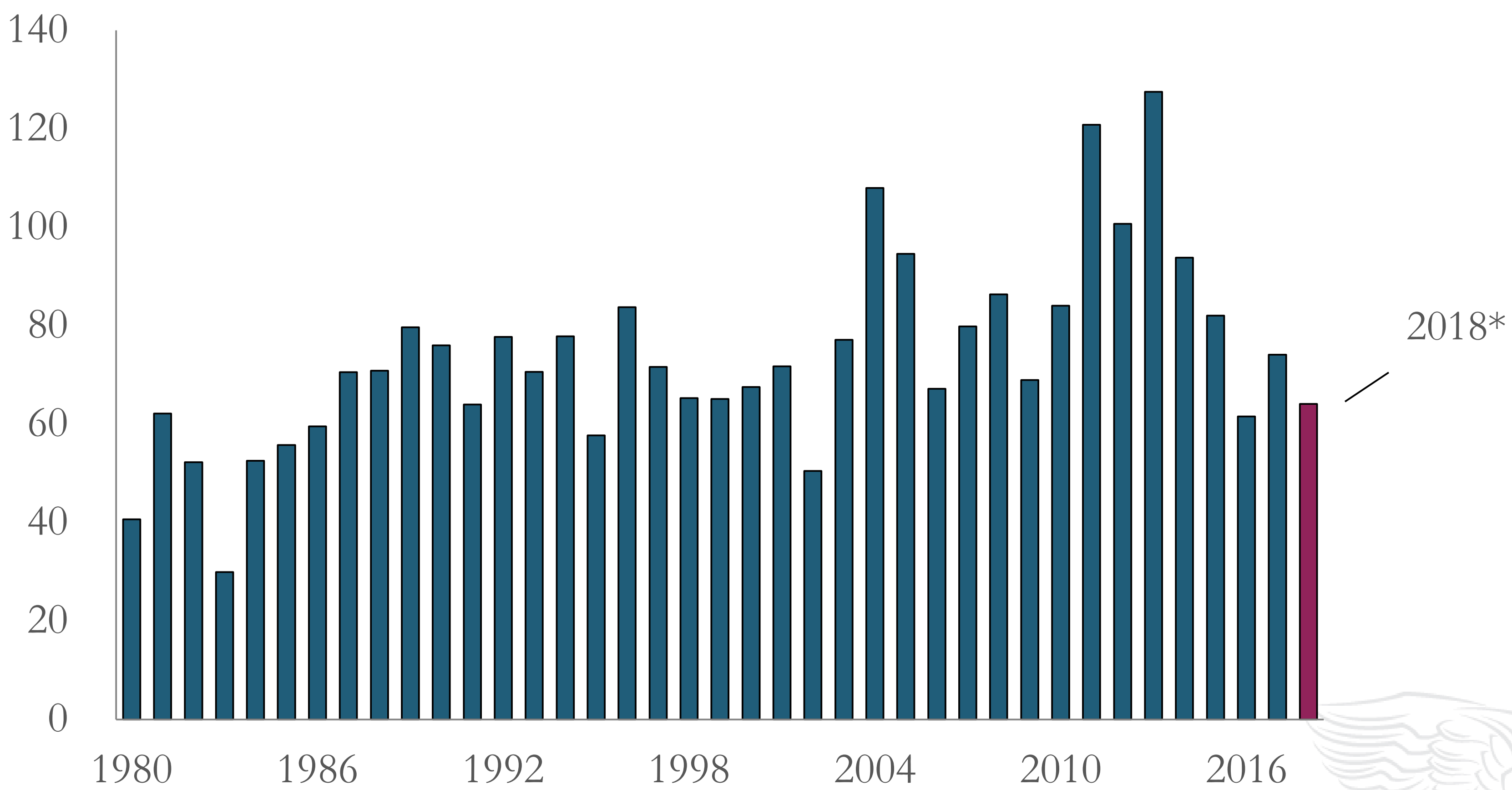
Notes: Blue bars represent range for survey respondents. Numbers above bars indicate average of the range (the black line in the middle of the blue bars).

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, 2017 Dollars



*Forecast for 2018

Source: USDA

For additional information on the regional economy:

http://www.KansasCityFed.org/Denver