Emerging Trends in the U.S. & Colorado Economies

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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.
Overview of the Federal Reserve System

• Primary Functions
  – Monetary Policy: promote maximum employment and price stability
  – Financial Services: bank for banks; bank for the federal government
  – Banking Supervision and Regulation: ensure safety and soundness of banks and ensure that banks provide fair and equitable services to consumers.

• Structure
  – Board of Governors
    • Consists of seven members who are appointed by the President and confirmed by the Senate to serve 14-year terms.
  – Federal Reserve Banks
    • There are 12 Regional Reserve Banks, each serving a unique district. These are semi-independent by design.
  – 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 to promote economic growth and price stability.
Regional Federal Reserve Banks and Branch Locations
The Denver Branch of the Federal Reserve Bank of Kansas City

- Functions – around 160 staff
  - Regional research covering the economies of Colorado, New Mexico and Wyoming
  - Economic, financial education, and community development outreach
  - Examinations of Colorado, Wyoming and northern New Mexico financial institutions
  - Cash processing and distribution
  - Money Museum

- 2017 Denver Board of Directors
  - Richard Lewis (Chair): President and CEO of RTL Networks, Inc.
  - Ashley Burt: President of The Gunnison Bank and Trust Company
  - Gary DeFrange: President and COO of Winter Park Resort
  - Taryn Edwards: Senior Vice President of Saunders Construction
  - Edmond Johnson: President and Owner of Premier Manufacturing, Inc.
  - Jeff Wallace: CEO of Wyoming Bank and Trust
  - Katharine Winograd: President of Central New Mexico Community College
The U.S. economy continues to expand at a moderate pace.

**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 continues to expand at a solid pace.

**REAL CONSUMPTION SPENDING**
*Seasonally Adjusted, Year-over-Year Percent Change*

![Chart showing real consumption spending trends from 2005 to 2017](chart.png)

Sources: Bureau of Economic Analysis & Haver Analytics
Business and consumer confidence have increased in recent months.

**BUSINESS AND CONSUMER SENTIMENT**

*Seasonally Adjusted*

- **Univ. of Michigan Consumer Sentiment, Q1:1966 = 100**
- **NFIB Small Business Optimism Index, Q1:1986 = 100**

*Source: University of Michigan, National Federation of Independent Business, & Haver Analytics*
Inflation is near the FOMC’s two percent target.

PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX (PCEPI)
Percent Change Year-over-Year

Headline Inflation

Core Inflation

FOMC’s Target Inflation Rate

Source: Bureau of Economic Analysis
Measures of unemployment and under-employment have declined steadily over the past six years.

**U. S. UNEMPLOYMENT AND UNDER-EMPLOYMENT RATES**

*Seasonally Adjusted*

Source: Bureau of Labor Statistics
“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 to 1-1/4 percent. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a sustained return to 2 percent inflation.”

- September 2017 FOMC Statement
The FOMC has announced in September that it will begin to cease reinvestment of a portion of its assets beginning in October.

**Federal Reserve Balance Sheet**

*Trillions*

*Assets*
- Foreign Currency Swaps
- Short-Term Lending
- Traditional Portfolio
- Federal Agency & Mortgage-Backed Securities

*Liabilities*
- Currency in Circulation
- Reserves
- Other

*Source: Federal Reserve Board*
Unemployment rates are below national rates in most of Colorado.

### Unemployment Rates
*August 2017, Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Unemployment Rate</th>
<th>U-3</th>
<th>U-5*</th>
<th>U-6*</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States (Sept. ‘17)</td>
<td>4.2%</td>
<td>5.1%</td>
<td>8.3%</td>
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<tr>
<td>Colorado (Aug. ‘17)</td>
<td>2.4%</td>
<td>3.3%</td>
<td>6.4%</td>
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<tr>
<td>Routt County</td>
<td>2.1%</td>
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</tbody>
</table>

*R-5 and U-6 values are 12-month moving averages as of Q2 2017 for Colorado and are for September, 2017 for the United States.*

![Map showing unemployment rates](image)

Source: Bureau of Labor Statistics and Haver Analytics
Employment has been increasing in Colorado and the nation for more than six years, with Colorado gains outpacing the nation.

**PAYROLL EMPLOYMENT GROWTH**

*Index 100 = September, 2007, Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Month</th>
<th>U.S. (Sept. ’17)</th>
<th>Colorado</th>
<th>Routt County</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. (Aug. '17)</td>
<td>6.2%</td>
<td>13.7%</td>
<td>-3.1%</td>
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<tr>
<td>Colorado</td>
<td>13.7%</td>
<td>1.8%</td>
<td>2.1%</td>
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<tr>
<td>Routt County</td>
<td>-3.1%</td>
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Source: Bureau of Labor Statistics
The majority of industries in Colorado have added jobs over the past year, but employment in the energy sector has declined sharply.

**Change in Payroll Employment, August 2017**

*Seasonally Adjusted*

- **Other Services**: 5.1%
- **Health Care & Social Assistance**: 3.0%
- **Retail Trade**: 2.8%
- **Professional & Business Services**: 2.6%
- **Financial Activities**: 2.6%
- **Transportation & Utilities**: 2.2%
- **Leisure & Hospitality**: 1.7%
- **State Government**: 1.6%
- **Wholesale Trade**: 1.6%
- **Information**: 0.3%
- **Federal Government**: 0.2%
- **Local Government**: 0.1%
- **Construction**: 0.1%
- **Manufacturing**: -0.3%
- **Private Educational Services**: -1.8%
- **Natural Resources & Mining**: -3.5%

*Colorado*  
*United States*

*Source: Bureau of Labor Statistics*
Parts of Colorado continue to experience strong population growth and net in-migration.

NET MIGRATION

Total 2016 Net Migration as a Percentage of 2016 Population

Source: Census Bureau

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<tr>
<th>Annual Percent Change</th>
<th>2016</th>
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<tr>
<td>United States</td>
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<td>1.1%</td>
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<td>Routt County</td>
<td>0.9%</td>
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Source: Census Bureau
Residential construction activity has been increasing for more than six years, led by strong gains in multifamily building.

**Residential Permits**

Seasonally Adjusted

Source: Census Bureau/Haver Analytics
Home prices have increased sharply over the past several years in Colorado.
Tourism activity has been strong in Colorado over the past few years.

Source: Colorado Hotel and Lodging Association
Manufacturing activity has expanded in recent months after weak activity in 2015 and 2016.

**Manufacturing Activity**

*Diffusion Index, Seasonally Adjusted, Month-over-Month*

- **U.S. 60.8**
  - September 2017
- **Kansas City 58.3**
  - District
  - September 2017

Source: Institute for Supply Management & Federal Reserve Bank of Kansas City
Colorado export activity has increased in recent months after declining over the past few years.

**COLORADO EXPORTS BY TRADING PARTNER**

*Billions*

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**AUGUST 2017**

*Percent Change*

<table>
<thead>
<tr>
<th>Category</th>
<th>Total Trade</th>
<th>SHARE*</th>
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<td>All Other</td>
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<td>Japan</td>
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<td>Eurozone</td>
<td>3.7</td>
<td>17.8</td>
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*Share is for 2016*

Source: WISERTrade  
Note: Eurozone includes the 27 EU member countries.
Oil and natural gas prices have increased over the past year, but additional gains are expected to be gradual.

**Energy Prices**

Source: Bloomberg Energy Services
Energy activity has picked up in recent months after declining significantly since mid-2014.
Energy contacts in the Tenth District expect the sector to expand slightly in the first quarter of next year.

Source: FRBKC Energy Survey

FRBKC ENERGY SURVEY
Quarterly Diffusion Indexes

Drilling/Business Activity
Employment
Profits

Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q1
2018 (exp)
Farm income is expected to remain weak in 2017.

U.S. Real Net Farm Income
Billions, 2016 Dollars

Source: USDA

*Forecast for 2017
For additional information on the regional economy: