Emerging Trends in the U.S. & Colorado Economies

Alison Felix
Economist & 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.
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
Despite weak growth in the first quarter, the U.S. economy is expected to expand at a moderate pace over the next few years.

**REAL U.S. GROSS DOMESTIC PRODUCT**

*Projections as of March FOMC meeting*

Percent Change from Previous Quarter at Seasonally Adjusted Annualized Rates

Year-over-Year Percent Change

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

*Projections as of March FOMC meeting*
Consumer spending continues to expand at a solid pace.

**Real Consumption Spending**

*Seasonally Adjusted, Year-over-Year Percent Change*

<table>
<thead>
<tr>
<th>Month</th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
<th>2011</th>
<th>2013</th>
<th>2015</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar.</td>
<td>-12%</td>
<td>-8%</td>
<td>-4%</td>
<td>0%</td>
<td>4%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Sales</td>
<td>0%</td>
<td>4%</td>
<td>4%</td>
<td>0%</td>
<td>4%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Expenditures</td>
<td>-12%</td>
<td>-8%</td>
<td>-4%</td>
<td>0%</td>
<td>4%</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>

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

**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 has picked up in recent months, moving closer toward 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 3/4 to 1 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.”

- May 2017 FOMC Statement

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

**UNEMPLOYMENT RATES**
March 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 (Apr. ‘17)</td>
<td>4.4%</td>
<td>5.3%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Colorado</td>
<td>2.6%</td>
<td>3.7%</td>
<td>6.9%</td>
</tr>
</tbody>
</table>

*U-5 and U-6 values are 12-month moving averages as of Q1 2017 for Colorado and are for April, 2017 for the United States.

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 = April, 2007, Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Percent Change</th>
<th>Past 10 Years</th>
<th>Past Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. (Apr. ‘17)</td>
<td>5.9%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Colorado</td>
<td>13.5%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Denver</td>
<td>17.9%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

**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, March 2017**

*Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent Change Year-over-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation &amp; Utilities</td>
<td>3.9%</td>
</tr>
<tr>
<td>Other Services</td>
<td>3.7%</td>
</tr>
<tr>
<td>Health Care &amp; Social Assistance</td>
<td>3.2%</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>2.7%</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>2.7%</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>2.4%</td>
</tr>
<tr>
<td>Construction</td>
<td>2.1%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>1.7%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>1.5%</td>
</tr>
<tr>
<td>Federal Government</td>
<td>1.3%</td>
</tr>
<tr>
<td>Private Educational Services</td>
<td>1.3%</td>
</tr>
<tr>
<td>Local Government</td>
<td>1.1%</td>
</tr>
<tr>
<td>State Government</td>
<td>0.3%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Information</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>-8.4%</td>
</tr>
</tbody>
</table>

*Colorado* vs *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*

<table>
<thead>
<tr>
<th>Annual Percent Change</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>0.3%</td>
</tr>
<tr>
<td>Colorado</td>
<td>1.1%</td>
</tr>
<tr>
<td>Denver</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

*More than 2%*
*1% to 2%*
*0% to 1%*
*-1% to 0%*
*-2% to -1%*
*Less than -2%*

*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*

**Residential Permits**

- **Colorado**
  - Multifamily
  - Single Family

- **Denver**
  - Multifamily
  - Single Family

Source: Census Bureau/Haver Analytics
Home prices have increased sharply over the past several years in Colorado.

**HOME PRICES**

*Seasonally Adjusted, Index 100 = Q4:2006*

Source: Federal Housing Finance Agency
Vacancy rates are low across the Denver metro, but office and multifamily vacancies have moved higher over the past year.

**Denver Commercial Vacancy Rates**

<table>
<thead>
<tr>
<th>Year</th>
<th>Office</th>
<th>Retail</th>
<th>Industrial</th>
<th>Multifamily</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006:Q4</td>
<td>14%</td>
<td>8%</td>
<td>7%</td>
<td>2%</td>
</tr>
<tr>
<td>2008:Q4</td>
<td>16%</td>
<td>10%</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>2010:Q4</td>
<td>18%</td>
<td>12%</td>
<td>11%</td>
<td>4%</td>
</tr>
<tr>
<td>2012:Q4</td>
<td>20%</td>
<td>14%</td>
<td>13%</td>
<td>5%</td>
</tr>
<tr>
<td>2014:Q4</td>
<td>18%</td>
<td>12%</td>
<td>11%</td>
<td>4%</td>
</tr>
<tr>
<td>2016:Q4</td>
<td>16%</td>
<td>10%</td>
<td>9%</td>
<td>3%</td>
</tr>
</tbody>
</table>

*Source: Torto-Wheaton Research*
Tourism activity has been strong in Colorado over the past few years.

**Hotel Occupancy Rates**

*Colorado*

**Real Hotel Room Rates**

*Colorado, 1999 Dollars*

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

**MANUFACTURING ACTIVITY**

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

U.S. 54.8  
*April 2017*  
Kansas City 53.8  
*District April 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*

<table>
<thead>
<tr>
<th>Country</th>
<th>Total</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Other</td>
<td>3.3</td>
<td>31.1%</td>
</tr>
<tr>
<td>Japan</td>
<td>7.9</td>
<td>5.9</td>
</tr>
<tr>
<td>Mexico</td>
<td>38.5</td>
<td>14.2</td>
</tr>
<tr>
<td>Canada</td>
<td>14.2</td>
<td>17.6</td>
</tr>
<tr>
<td>China</td>
<td>2.1</td>
<td>13.3</td>
</tr>
<tr>
<td>Eurozone</td>
<td>3.6</td>
<td>17.9</td>
</tr>
</tbody>
</table>

*Percent Change as of March 2017*

*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**

![Graph showing WTI Oil Spot Price and Henry Hub Spot Price over time](image)

*Source: Bloomberg Energy Services*
Energy activity has picked up in recent months after declining significantly since mid-2014.

**TOTAL RIG COUNT**

- United States
- Colorado

**CRUDE OIL PRODUCTION**

*Millions of Barrels, Monthly, Seasonally Adjusted*

Source: Baker Hughes, Energy Information Administration and Haver Analytics
The energy sector is expected to expand in 2017.

**FRBKC Energy Survey**

*Diffusion Indexes, Quarter-over-Quarter*

Drilling/Business Activity
- Employment
- Profits

Source: Kansas City Federal Reserve Bank Energy Survey
For additional information on the regional economy: