TEN

Summer 2017

FEDERAL RESERVE BANK OF KANSAS CITY

Inside:

Omaha Fed office turns 100

Oil and gas production on the move

Who's contributing to the increase in wage growth?

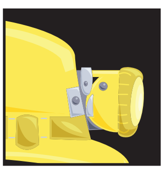
STILL RECOVERING

Identifying when states are in recession

TEN

Summer 2017

FEATURES



IN EVERY ISSUE

President's message

Why Community Banks Matter

Community banks have an important connection with the Federal Reserve. Across the 12 Federal Reserve Banks, some 68 bankers serve as directors on either Reserve Bank or Branch boards and nearly all of them are community bankers. These individuals bring important perspectives to our work. I appreciate their contributions as well as the core function that community banks serve in thousands of communities across the United States.

I hope you'll indulge me as I briefly preface my remarks this morning with some personal history. This year marks a milestone for me: 35 years of service with the Federal Reserve. When I came to work for the Kansas City Fed as a bank examiner in 1982, I was also a first-time homeowner. I was delighted to have a job that would help me pay my bills, especially my mortgage. At that time, I thought I'd made a steal to have assumed an existing mortgage at the low rate of 12 percent.

Working at the Fed, I soon came to appreciate that it was a particularly challenging year for the banking industry. Our region was hard hit by the trifecta of downturns in commercial real estate, energy and agriculture. That year, the failure of a small bank in Oklahoma triggered the failure and eventual government bailout of one of the largest banks in the United States. Meanwhile, hundreds of banks failed in the Tenth District. This was the environment in which I was trained to be a bank supervisor.

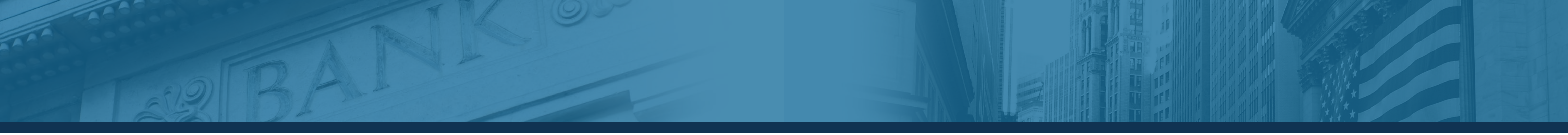
This also was the year that a former New York Fed president, Gerald Corrigan, wrote an essay titled "Are Banks Special?"[1] It proved to be a foundational piece that has been occasionally revisited by others in the 35 years since. Today, I would like to return to the theme of Mr. Corrigan's essay by looking at the role of banks while asking a slightly different question, "Do traditional banks still matter to the U.S. economy?" A spoiler alert: My answer is a definitive "yes." I'll use the remainder of my time today outlining why this is so, and why I believe this key component of the U.S. economy may be at risk.

[1] E. Gerald Corrigan also served as president of the Federal Reserve Bank of Minneapolis from 1980 to 1984.

The Kansas City Fed offers a number of programs and resources for community banks, including the following:

BANK DIRECTOR RESOURCES

The Federal Reserve Bank of Kansas City offers information and training for new bank directors through various online resources and publications. This is especially helpful for small community banks with limited training resources. *Basics for Bank Directors* is published by the Kansas City Fed as a reference guide for today's bank directors. The Bank Director's Desktop provides directors free online training curriculum designed to allow bank directors to quickly develop an understanding of their role as a director. For more information, visit *www.bankdirectorsdesktop.org/index.html*.



Before going further, I should note that my comments are my views only and not those of the Federal Reserve System or its Board of Governors.

The banking landscape in 1982

In an interview some years later, Mr. Corrigan recalled the reason he wrote the 1982 essay. Simply put, the competitive position of traditional banks was rapidly eroding, and policymakers were contemplating the implications.

In the early 1980s, the combination of high interest rates and deposit rate ceilings made it difficult for banks to compete with alternatives that were not subject to the same restrictions, including savings and loan NOW accounts and money market mutual funds. By the time interest rate ceilings were eliminated on most deposits, money market funds were well established.

In credit markets, the seeds of greater capital market competition for bank loans were also planted in the early 1980s. The development of government and agency mortgage-backed securities were followed by private label mortgage and other asset-backed securities. Another major innovation was funding new credits with high-yield bonds, which previously had been used only to refinance companies whose debt had been downgraded below investment grade.

Given the dramatic nature of these changes, questions arose about whether the role of banks had been diminished. Would these new nonbank entrants supplant their role? Did it matter?

With reflection on these questions, Mr. Corrigan concluded that banks were different and unique in three ways:

• Only banks offered transaction deposit payable on demand at par and readily transferable;
• Banks served as the primary and ultimate source of liquidity for all other classes and sizes of institutions, both financial and nonfinancial;
• Banks served as the transmission mechanism for monetary policy, which, combined with operating the payments mechanism, facilitate efficient markets and orderly end-of-day settlement – a particularly important role in periods of financial stress.

At that time, these special characteristics of banks had three important implications for the structure of our financial system and its regulation:

• No other type of financial company had its funding protected by the public safety net of federal deposit insurance and the Federal Reserve discount window.
• Banks were regulated and supervised because of this safety net and their key role in the economy. At that time, the separation of commercial banking from investment banking and commerce was an important part of the prudential regulatory structure.
• Only banks had direct access to the Federal Reserve's payments rails.

From 1982 to 1999, the financial system continued to evolve, aided by regulatory interpretation and court decisions. And the banking industry began to experience rapid consolidation. Much of the consolidation reflected mergers of smaller banks as intrastate and interstate restrictions were relaxed. However, the most significant effect for the banking system was an increase in the market share of the largest banks, driven by their efforts to create nationwide operations and enhance global competitiveness. During this period, the market share of the 10 largest banking companies increased from 28 percent to 51 percent of total banking assets.

The scale of these firms made it profitable to operate securities dealing and underwriting subsidiaries under the Glass-Steagall Act's Section 20 authority. This was the first major crack in the wall between commercial and investment banking. In 1999, Glass-Steagall gave way to the Gramm-Leach-Bliley Act, which invited bank holding companies to adopt investment banking activities with important safety net advantages.

With the addition of these nonbanking activities, the 10 largest banking organizations saw their market share rise further to 55 percent in 2007. Meanwhile, the composition of their assets changed dramatically. The average portfolio share of nonbanking assets rose from only 13 percent in 1997 to 25 percent in 2007.

This summer marks the tenth anniversary of the financial crisis. That event brought to light what had previously only been conceptually understood: The largest banking organizations were highly interconnected and indeed too big to fail (TBTF). The safety net designed to cover only commercial banking activities was stretched well beyond the insured depository subsidiaries to their parent companies and nonbanking subsidiaries. However, only commercial banks truly retained the unique characteristics that Mr. Corrigan argued made them special.

As a practical matter, the largest banks were the only firms that could acquire other large and troubled investment banks, commercial banks, and savings associations. The remaining large independent investment banks became bank holding companies. As a result, the 10 largest banking organizations now account for

REGULATORY AND SUPERVISION SEMINARS AND UPDATES

Kansas City Fed Supervision and Risk Management Division representatives meet several times a year with regional bankers to communicate current regulatory topics and perspectives and hear from bankers regarding the challenges they face. The seminars are conducted in locations throughout the Tenth Federal Reserve District. The Division also provides updates to state member banks on regulatory issues and trends through other communication methods. To find a seminar near you, visit *www.KansasCityFed.org/events*.

MINORITY BANKING CONFERENCE

Minorities in the banking industry face several challenges when forging a successful career, including the lack of role models, mentors and access to career development resources. In 2016, the Federal Reserve Bank of Kansas City organized a forum that focuses on empowering minority bankers through a collection of career and leadership strategies and economic insights. In 2017, the annual forum will take place Sept. 27-28. To learn more about the forum, visit *www.KansasCityFed.org/community/events/minority-bankers-forum*.

67 percent of industry assets, while the average nonbanking-asset share of their portfolios has climbed to 29 percent.

As I look through the lens of the past 35 years, the financial system landscape has certainly changed. There are three features that I find particularly striking over this period:

- Banking system assets as a share of financial system assets have fallen from 37 to 19 percent.
- The number of banks has significantly declined from more than 18,000 to around 5,000, largely reflected in fewer community banks with less than $100 million of assets.
- Community banks' market share fell from 45 percent in 1982 to just 13 percent today.

What has emerged within the banking system are two very different kinds of commercial banking firms: a small number of very large banking organizations with significant nonbanking activities and sufficient scale to pose systemic risk to the economy, and thousands of traditional banks generally referred to as community banks.

Do traditional banks matter?

Despite such monumental shifts in the financial system landscape, one could reach the same conclusion today as Mr. Corrigan did in 1982. Namely, that the banking system retains a unique role in our economy. Banks are still the only type of financial firm that can provide liquidity whenever needed, ensure payments are readily transferable, and aid the implementation of monetary policy.

Yet, the differences between the largest banks and community banks are significant and those differences pose important challenges for setting effective regulatory policy. This leads me to ask a slightly different question than Mr. Corrigan asked: Are traditional banks, or community banks, still important to the U.S. economy in 2017?

I answered this question affirmatively at the beginning of my remarks. Indeed, traditional banks are essential to thousands of communities across the country. In contrast to the largest banks, community banks still rely primarily on relationship lending, with a focus on funding local loans with core deposits. Their heterogeneous customer base and credit decisions include not only quantitative but qualitative aspects including judgments about the repayment ability of their Main Street customers. These bankers serve on the boards of local schools, hospitals and other civic organizations, providing a key source of leadership in the community. They serve their communities and are part of their communities.

But do they matter to the U.S. economy as a whole? Can online banking and scale satisfy the credit needs on Main Streets and in rural areas? I am reminded that although we often refer to "the U.S. economy" in aggregate, as though it were a single monolithic entity, there are in fact thousands of micro-economies that taken together make up the $19 trillion U.S. economy. In these micro-economies, community banks are a critical source of financing for small businesses, including startups. While community banks account for just 13 percent of industry assets, they are responsible for some 40 percent of bank lending to small businesses. In turn, small businesses with less than 500 employees account for about 50 percent of U.S. private employment.[2] Moreover, recent research shows that small startups with 20 to 499 employees play a large role in net job creation that continues for up to five years after their formation.[3]

This evidence indicates community banks are still extremely important to our economy, although, their competitive position is under stress. Market forces of technology and innovation are everywhere and community banks will need to be responsive to customer demand for new services and methods of banking. But these are not the forces that particularly concern me. The risk I see stems from a misaligned regulatory environment that

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[2] "United States Small Business Profile, 2016," U.S. Small Business Administration, Office of Advocacy.

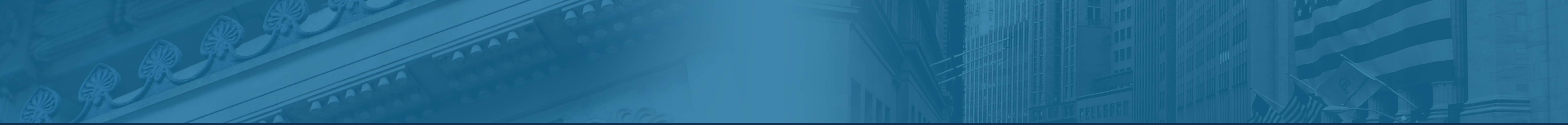
[3] See Robert Jay Dilger, "Small Business Administration and Job Creation," Congressional Research Service, February 8, 2017.

ECONOMIC EDUCATION

The Kansas City Fed offers free economic and personal finance resources to the public because the Bank believes individuals of all ages who understand how the economy functions and know what tools are available make better financial decisions. Besides working with economic educators and consumers, the Kansas City Fed partners with community banks and banking associations to help educate constituents. This also includes helping better inform banks and their employees about monetary policy, the economy and other financial and banking issues through executive speeches, research, and symposiums. For more information, visit *www.KansasCityFed.org/education.*

ECONOMIC FORUMS

Economic Forums are an opportunity for the Kansas City Fed to share insights on the economy and also learn about local economic issues in our region from bankers, business and community leaders. The forums, which are conducted by Kansas City Fed branch executives, regional economists and bank leaders, provide key information on regional economic issues and national trends, as well as an update on monetary policy objectives and concerns. It also gives the Bank an opportunity to learn about regional and local banking and business trends. To learn more or to find an event near you, visit *www.KansasCityFed.org/events.*



poses a threat in my view to the diversity of the U.S. banking system and healthy competition that has long served the country well.

Policy implications

Today, the nation stands at a crossroads of policy choices. As policymakers consider regulatory reform, the special role of banks in our economy and particularly the role of community banks, must factor into their decisions.

We witnessed the tremendous cost of a financial crisis. The regulatory response that followed was well intended and even justified in its aims to end TBTF and protect consumers. However, while the aim was specific to the largest banks, the regulatory net has ensnared thousands of community banks. Regulators have applied supervisory approaches and protections that often fail to take into account the incentives and risk profile associated with relationship lending models of community banks.

For example, international capital standards, which formed the basis to reduce leverage in the biggest banks, layer on unnecessary reporting requirements and complexity for banks that already held high levels of capital. Appraisal standards aimed to ensure independent valuations support new loans create challenges for thousands of smaller banks that are portfolio lenders. These small institutions, often located in more rural markets, struggle to find knowledgeable appraisers with sufficient comparable property sales to comply with the rules, and in some cases, conclude that qualified borrowers' credit needs can't be met.

Finally, rules aimed at protecting consumers and other customers from unfair and deceptive practices are important. However, long-term relationship lending also aligns the incentives that protect community bank customers. Unfortunately, the compliance burden for community banks introduces costly processes along with fear and confusion as they struggle to apply narrow legal interpretations and opaque statistical models to the fair credit needs of their borrowers.

Ultimately, communities suffer when access to credit is unnecessarily limited, and so does the larger economy. Rules that aim to address the business models and incentives of the largest banks may unintentionally put the diversity of the banking system at risk, and the lack of new bank charters over the past decade suggests the barriers to entry may be high.

Aligning regulation

The regulatory remedy for today's banking system will not be easily prescribed. But it will need to recognize that the institutions we collectively refer to as "commercial banks" have drifted apart over the past 35 years. At one end of the spectrum are banks that engage in global financing with systemic implications for failure and impact to the broader economy. At the other end are banks that engage in traditional lending and deposit-taking, whose impact on small business and small communities translates to real economic outcomes.

Today, the federal safety net supports both models and it is sagging, stretched by ever-larger and more complex firms with significant nonbanking activities. Banking regulation must do its best to offset the very real exposures for taxpayers and the risk to economic and financial stability. Nurturing incentives that reward success and punish failure are key. Aligning regulation that effectively addresses risk at both ends of this spectrum will require that regulators either close the gap between their differences or embrace the two models and attempt to apply very different supervisory frameworks and approaches.

Market forces will continue to reshape the industry as they have for the past 35 years and longer. And community bankers are no strangers to those market forces or a challenging operating environment. But the banking industry has evolved in very different ways and rules that inhibit market forces without offsetting gain warrant scrutiny.

As a highly concentrated banking system takes hold in the United States, the issue of today's banking landscape poses a slightly different but important question about the ability of regulation to differentiate its aim. It will matter to thousands of communities served by you in the years ahead, and by extension to the U.S. economy.

Esther L George

ESTHER L. GEORGE, PRESIDENT
FEDERAL RESERVE BANK OF KANSAS CITY

The above text is from remarks George made via video conference April 6, 2017, to the Federal Reserve Bank of New York Community Banking Conference in New York, N.Y.

INVESTMENT CONNECTION

The Federal Reserve Bank of Kansas City community development program Investment Connection connects Community Reinvestment Act (CRA) qualified nonprofit organizations with potential funders. The program is targeted at helping community banks meet their CRA objectives and requirements. "There are many valuable nonprofit organizations in our communities. We like to find partners that align with the bank's strategic (CRA) initiatives so that both the nonprofit and the bank find value," said Nancy Taylor, senior vice president of Compliance at Guaranty Bank & Trust in Denver. Since 2011, Investment Connection has connected nonprofits with approximately $29 million in funding. Learn more at *www.KansasCityFed.org/community/investmentconnection.*

WOMEN IN BANKING CONFERENCE

In 2016, the Kansas City Fed began organizing "Banking and the Economy: A Forum for Women in Banking" across the Tenth Federal Reserve District to offer women bankers resources on the economy, banking and the Kansas City Fed, and to provide an opportunity for women bankers to network with banking leaders across the Tenth Federal Reserve District. To receive notices of the next forum, events, programs, speeches, publications and research offered by the Kansas City Fed, sign up for the Bank's email notifications at *www.KansasCityFed.org/ealert.*

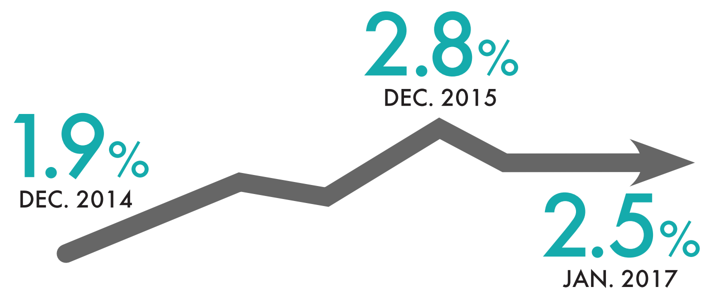
EARNING A LIVING

WHO'S CONTRIBUTING TO THE RECENT INCREASE IN WAGE GROWTH?

Wage growth for workers in the United States has accelerated gradually in the past two years, and a few industries are responsible for the increase.

AVERAGE HOURLY EARNINGS

In his recent research, Kansas City Fed Economist Willem Van Zandweghe says growth in average hourly earnings (AHE) accelerated 0.6 percent age point from December 2014 to 2017, in the U.S. private nonfarm sector, despite a marked slowdown in January.



WAGE LEADERS THAT MADE THE LARGEST CONTRIBUTIONS TO THE INCREASE

Van Zandweghe found that 0.1 percentage point of the 0.6 percentage point acceleration in wage growth can be contributed to "between-industry" growth. This is when the number of hours worked shifts from a low-wage industry to a high-wage industry, causing an overall increase in wage growth. Van Zandweghe took the remaining 0.5 percent increase in wage growth and divided it into the contribution of three nonfarm industry groups: wage leaders, wage laggards and other industries.

WAGE LEADERS
Contribution: 0.42 pp

OTHER INDUSTRIES
Contribution: 0.16 pp

WAGE LAGGARDS
Contribution: -0.06 pp

WAGE LEADERS IN THE U.S.

Manufacturing, construction and wholesale trade are the biggest contributors to the recent increase in wage growth. This is significant because these industries' share of hours worked is moderate compared to industries such as healthcare and education.

MANUFACTURING
Share of hours worked: 11.9%
Contribution: 0.22 pp

CONSTRUCTION
Share of hours worked: 6.2%
Contribution: 0.10 pp

WHOLESALE TRADE
Share of hours worked: 5.4%
Contribution: 0.10 pp

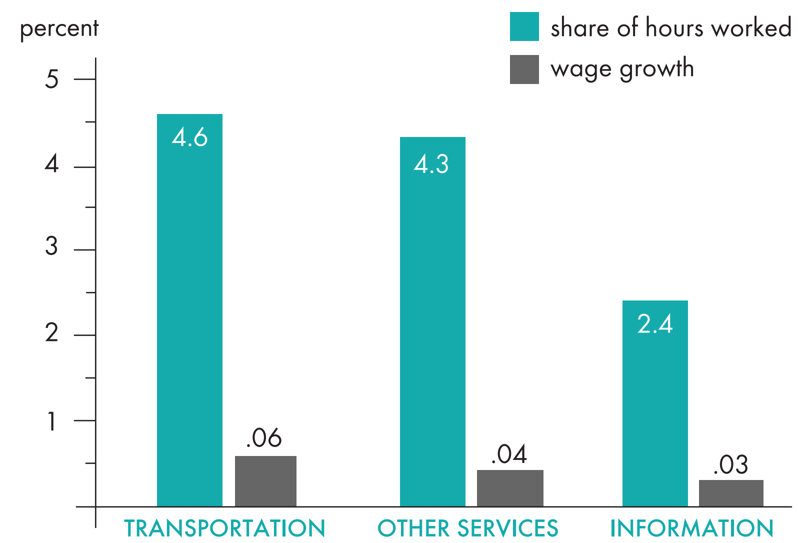
WAGE LAGGARDS IN THE U.S.

Education and healthcare combined contribute the largest share of hours worked among U.S. industries, but they lagged behind in wage growth. Professional and business services, and retail trade also account for a large share of hours worked; however, their contribution to the change in overall wage growth was negative.

EDUCATION & HEALTHCARE
Share of hours worked: 17.8%
Contribution: 0.11 pp

PROFESSIONAL & BUSINESS SERVICES
Share of hours worked: 17.5%
Contribution: -0.03 pp

RETAIL
Share of hours worked: 11.6%
Contribution: -0.05 pp



OTHER INDUSTRIES

Industries such as transportation, information, mining and logging, and utilities all experienced an increase in hours worked and wage growth. The increases were a small share when compared to the aforementioned industries; however, Van Zandweghe says large industries such as education and healthcare will always contribute more easily to wage growth than smaller ones.

A BRIGHT FORECAST

The recent increase in wage growth could be sustainable, Van Zandweghe says, because both wage leaders and wage laggards experienced similar growth in hours worked from 2011 to 2014, and in the past two years, wage laggards have seen faster growth in hours worked. The strong growth in hours worked suggests labor demand in the wage laggard industries will continue to rise at a brisk pace. As labor demand rises nearer to labor-supply constraints, wages in these industries may soon begin accelerating.

FURTHER RESOURCES

"Wage Leaders and Laggards: Decomposing the Growth in Average Hourly Earnings" by Willem Van Zandweghe *www.KansasCityFed.org/publications/research/mb*

Always been a banking town

OMAHA'S BID TO BECOME A FEDERAL RESERVE BANK LOCATION

Since its opening in 1917, the Omaha Branch of the Federal Reserve Bank of Kansas City has given Nebraskans a local connection to the nation's central bank through its participation in each of the Fed's mission areas, including financial services, the regulation and supervision of financial institutions, and monetary policy.

In addition to providing Fed policymakers with important insight and analysis on Nebraska's economy, the Branch continues to meet the demands of businesses and consumers who rely on the Federal Reserve every day.

The Omaha Branch is entering the next 100 years with plans for growth. With a strong focus on technology, the multiyear plan will include physical improvements to the current building and grounds, which are already under way, and will add approximately 100 new positions at the Branch.

As supporters said 100 years ago, Omaha has always been an important banking town, so the city's connection to the nation's central bank seemed destined, although establishing that connection took some time.

The road to the Federal Reserve

The United States tried to establish a central bank on two occasions, once in 1791 and again in 1816; however, both banks lasted only a few years due to great political opposition and concerns that the central bank did not represent the needs and interests of all Americans. After several bank panics and cyclical economic turmoil from the mid 1800s to the turn of the 20th century, lawmakers realized a U.S. central bank was an essential part of establishing and maintaining the country's economic stability.

While other countries had successful central banks that operated under tightly consolidated authority, those models would not work in the United States. Americans were more distrustful of federal authority than many of their European counterparts. Additionally, the broad and diverse U.S. economy presented a potentially wider range of economic and financial challenges than might occur in a smaller nation.

Recognizing the uniquely American demand for a system with checks and balances, congressional leaders, including Oklahoma Sen. Robert L. Owen, designed a new compromise structure. It would be a network of regional banks, each operating under the leadership of local boards of directors, with oversight by a central government agency. It was a unique combination—a "decentralized" central bank that blends both public and private control in a reflection of the nation's checks and balances system.

President Woodrow Wilson signed the Federal Reserve Act on Dec. 23, 1913, creating the Federal Reserve System. The legislation designated a central bank comprising a unique network of banks serving local regions, or Federal Reserve Districts, with national coordination by a Board of Governors in Washington, D.C.

The task ahead

The system presented the nation's communities a unique opportunity to play an important role, and many were eager to participate. Among those praising the Federal Reserve's design was the Lincoln (Neb.) Trade Review, which described the nation's pre-Fed banking structure as giving all the country, equal representation.

While the concept may have found supporters, when it came to the details of establishing the Federal Reserve System's regional map, the legislation offered relatively little direction.

A Reserve Bank Organizing Committee was formed consisting of a two-member panel—Agriculture Secretary David F. Houston and Treasury Secretary William G. McAdoo—that would create the Districts and designate "Federal Reserve cities" where the regional banks would be located.

The Committee's first formal session was held at the Treasury. The pressure to complete

◀ The Omaha Branch's first location in 1924.

Omaha Branch employees gather for a reception in the 1920s.

the task quickly only compounded the already difficult question of how to divide the country.

Twelve Districts

Although the number of Reserve Districts was hotly debated prior to the Act's approval, the issue was among the first, and perhaps the easiest, for the committee to resolve.

It "became obvious that if we created fewer banks than the maximum fixed by law, the Reserve Board would have no peace till that number was reached," Houston wrote.

Ballots were sent to 7,741 national banks that had formally assented to the provisions of the Federal Reserve Act asking each their preferences for Reserve Bank cities. The vote, however, was only one component in determining the Reserve Bank locations and the Federal Reserve Districts. The committee appointed a Preliminary Committee on Organization, headed by Henry Parker Willis, who served as a financial expert on the House's Ways and Means and Banking and Currency committees, to address several issues related to the organization of the Federal Reserve, including the drawing of some preliminary District maps. Willis later served as the first secretary of the Federal Reserve Board.

Meanwhile, the committee embarked on a tour of the United States under a travel schedule that was aggressive even by modern standards. During a five-week span, Houston and McAdoo logged 10,000 miles, convened hearings in 18 communities and heard presentations from 37 cities.

Welcome to Nebraska

Agriculture has always been the fuel for the Nebraska economic engine. And in the early 1900s, that engine was firing on all cylinders. Nebraska was fourth in terms of agricultural wealth, behind only Texas, Iowa and Illinois, according to the 1910 census, with nearly 130,000 farms covering nearly 80 percent of the state's total land. In 1912, total farm production, including crops and livestock, topped $428 million, up 7 percent from the previous year.[1]

Transportation was another important component in the Nebraska economy, with the Omaha area's involvement dating back to the founding of the Union Pacific Railroad in the 1860s. By 1914, the Union Pacific Line took 880,000 tons of freight into its terminals in Omaha, South Omaha and neighboring Council Bluffs, Iowa. Overall, railroads, including Union Pacific, Chicago, Burlington & Quincy, and others, did more than $14.6 million in business in Nebraska the year the Federal Reserve Act was enacted.[2]

In terms of banking, at the time of the Federal Reserve Act's approval, Nebraska was home to nearly 1,000 banks, most of them small, community institutions. The state's 721 state-chartered banks had a total capital and surplus of $17.8 million. Comparatively, 245 Nebraska banks with national charters had total capital and surplus of $24.6 million.[3]

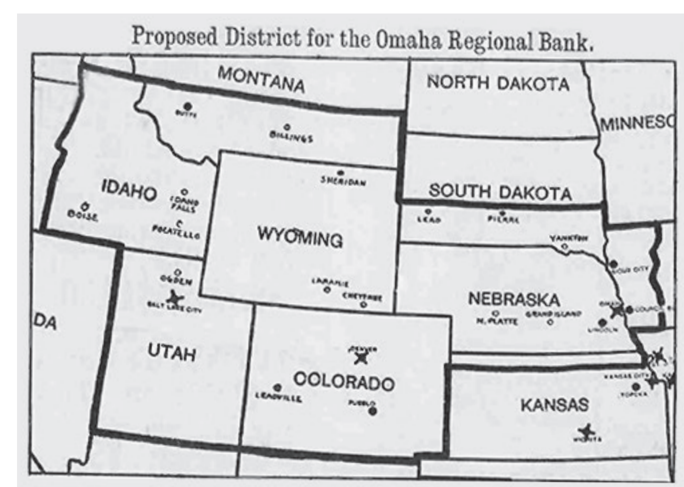
Regional rivalries for regional Reserve Banks were evident in many areas of the country and, as might be expected, emerged in Nebraska, where those living in both Omaha and Lincoln believed that they should host one of the locations. Each city presented its argument for a Reserve Bank to the Organizing Committee during a daylong hearing in the Federal Court Room of what was known then as the Post Office Building in Lincoln on Jan. 24, 1914. The structure at 129 N. 10th St. was later known as the Old Federal Building and redeveloped into the Grand Manse.

P.L. Hall, president of Lincoln's Central National Bank, presented the Lincoln Clearing House's proposal for a massive Federal Reserve District that would be served by Lincoln. The District spanned from the western half of Iowa to parts of Oregon and Washington in Pacific Northwest, with sections of Kansas and Missouri to the south and a third of Montana to the north.

Besides Lincoln's business and banking connections, supporters were also relying on the political clout of its most famous resident: Secretary of State William Jennings Bryan, who had called Lincoln home since 1887. Bryan rose as a political force on the national stage due largely to his own views on the issue of national currency. The Democratic Party nominated Bryan to the presidency three times—none of which he won. In the 1912 presidential election, he played a critical role in securing Woodrow Wilson as the Democratic nominee. After winning the presidency, Wilson named Bryan his Secretary of State.

The Omaha proposal appeared to be based in part on the idea that Kansas City was likely to receive a Reserve Bank with Omaha serving a distinct territory of its own. Omaha's supporters made a case to the committee that their city was far more closely aligned with Chicago than Kansas City, despite the closer proximity of its southern neighbor.

For example, Ward Burgess, a dry goods wholesaler from Omaha was asked about



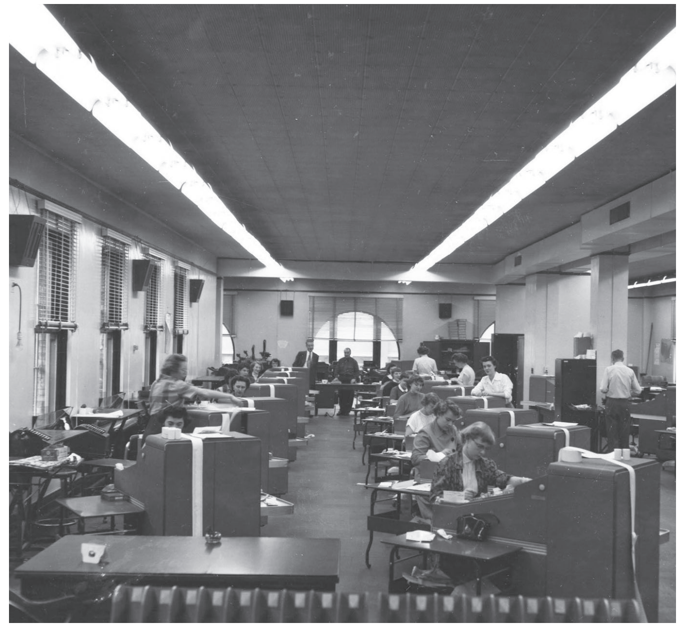
A map of the proposed district of Omaha was chosen for a Federal Reserve Regional bank location.

1 All of this data was submitted by various Nebraska interests and is included in U.S. Reserve Bank Organization Committee Exhibits and letters submitted.

2 All of this data was submitted by various Nebraska interests and is based on annual reports and other documents produced by the various rail lines and filed with the Nebraska State Railway Commission. It is included in U.S. Reserve Bank Organization Committee Exhibits and letters submitted.

3 Location of Reserve Districts in the United States, letter from the Reserve Bank Organization Committee, April 29, 1914.

An armored vehicle in the "round house," where a 18-foot circular platform rotated armored vehicles for cash and coin deliveries at the Omaha Branch.



Omaha Branch employees at work in the check processing department in the 1950s.

business relationships, he noted that people in Kansas City "are very friendly in a social way, but when it comes to trade relations we do not want in any District which Kansas City would serve."[4]

Later, Henry W. Yates, president of the Nebraska National Bank of Omaha made certain to cast his city in a favorable light against its potential rival to the south.

"…Omaha has always been a banking town," Yates said. "... (The) banking business came as naturally to Omaha as water comes down hill. We were the banking center of the whole Western country when Kansas City had comparatively little banking capital."[5]

Omaha's supporters suggested a Reserve District encompassing western Iowa; southern South Dakota; a northern tier of Kansas, stopping short of Kansas City; parts of Montana and Idaho, as well as all of Nebraska, Wyoming, Colorado and Utah.

The selection

Despite supporters' best efforts, the Reserve Bank Organizing Committee decided to include Nebraska within the Tenth Federal Reserve District with the headquarters in Kansas City, which did not sit well with Nebraskans. Omaha supporters were outraged by the decision, which they believed to be heavily influenced by politics.

Nebraska Sen. Gilbert Hitchcock quit the Democratic Caucus the previous July amid a dispute related to his proposal to institute a progressive excise tax on tobacco firms.[6]

"The rejection of Omaha's superior claims as a banking center was apparently foreordained when our United States senator got in bad with the administration by bolting his party caucus and exposing himself to discipline," The Omaha Daily Bee wrote in an editorial titled "Just Politics—That's All."[7]

Omaha banker Yates, meanwhile, pointed a finger directly at Bryan.

"It is disgraceful—it is outrageous," Yates told a reporter. "In my judgment, the outcome will have decided political effect. I can't see any other result but that Mr. Bryan has killed himself in Nebraska. There is no question that but Lincoln was raised up as a candidate for a place to be knocked down, carrying Omaha with it."

Within a matter of days, the city's Clearing House Association passed a resolution asking for Nebraska and Wyoming to be transferred to the Chicago Fed District. A petition seeking to redraw the District lines in that manner was filed with the Fed's Board of Governors. The request was rejected.

Lincoln's supporters, meanwhile, moved on a different track, sending a congratulatory telegram to the Kansas City Clearing House and reminding the organization that Lincoln would like to be considered for a branch office when those decisions were made.

Meanwhile, new rivals for branches were emerging, with bankers in Oklahoma City, Tulsa and Muskogee, Okla., as well as those in Wichita, Kan., all reaching out to Kansas City to express their interest. Kansas City bankers, meanwhile, predicted that the Federal Reserve Bank of Kansas City, once operational, would move quickly to open branch offices in Omaha and Denver.

The Fed comes to Nebraska

The issue of branches raised a somewhat difficult question for the nation's new central bank. Some of the public expected to see branch locations opening almost immediately after the Federal Reserve System became operational. The new regional banks, however, were uninterested in opening additional offices, and taking on increased costs, without a clear demonstration that the Branches were necessary to serve their Districts.

The Federal Reserve Act offered little guidance. Although the Act does spell out some provisions for branch governance, it offers no criteria or requirements for opening Branch offices.

According to an unpublished history of the Federal Reserve Bank of Kansas City authored by early Bank employee Jess Worley, the Omaha Clearing House banks sent a letter to the Federal Reserve Bank of Kansas City officially seeking a branch in June 1917.

Jo Zach Miller, bank president, and Charles Sawyer, chairman of the bank's board of directors, traveled to Omaha on July 10 to explore the issue.[8] The pair arrived in Omaha in time for dinner and met with bankers for two hours before returning to Kansas City by train that evening. Despite the hopes of

The entrance to the lobby of the Omaha Branch's second building that opened in 1925.

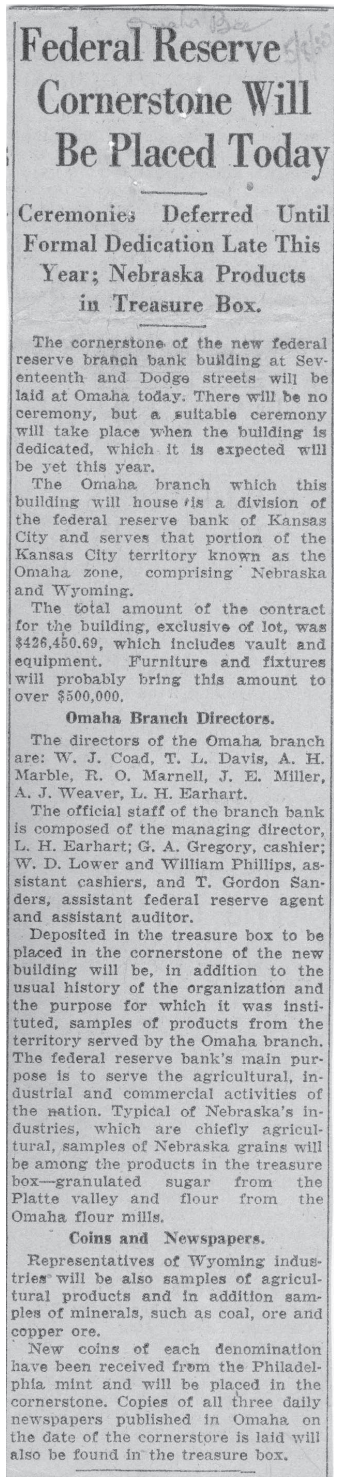
4 Reserve Bank Organizing Committee hearing at Lincoln, Neb. Jan. 24, 1914, Stenographer's Minutes.

5 Reserve Bank Organizing Committee hearing at Lincoln, Neb. Jan. 24, 1914, Stenographer's Minutes.

6 Unlike modern day tobacco taxes, Hitchcock's measure had no connection to health-related concerns and was instead proposed as a measure against the dominance of "big tobacco" producers over their smaller competitors. The tax was designed to curtail the production of only a handful of the nation's 2,700 tobacco companies and 20,000 cigar manufacturers by making production unprofitable above certain specified levels. For details, see New York Times, June 6, 1913. Pg. 1. Tobacco Tax Aimed at a Few Big Firms.

7 Omaha Daily Bee, April 4, 1914.

8 Miller's title at the time was actually "governor." The title of the position was later changed to president. President is used to provide clarity.



Federal Reserve Cornerstone Will Be Placed Today

Ceremonies Deferred Until Formal Dedication Late This Year; Nebraska Products in Treasure Box.

The cornerstone of the new federal reserve branch bank building at Seventeenth and Dodge streets will be laid at Omaha today. There will be no ceremony, but a suitable ceremony will take place when the building is dedicated, which it is expected will be yet this year.

The Omaha branch which this building will house is a division of the federal reserve bank of Kansas City and serves that portion of the Kansas City territory known as the Omaha zone, comprising Nebraska and Wyoming.

The total amount of the contract for the building, exclusive of lot, was $426,450.69, which includes vault and equipment. Furniture and fixtures will probably bring this amount to over $500,000.

Omaha Branch Directors.

The directors of the Omaha branch are: W. J. Coad, T. L. Davis, A. H. Marble, R. O. Marnell, J. E. Miller, A. J. Weaver, L. H. Earhart.

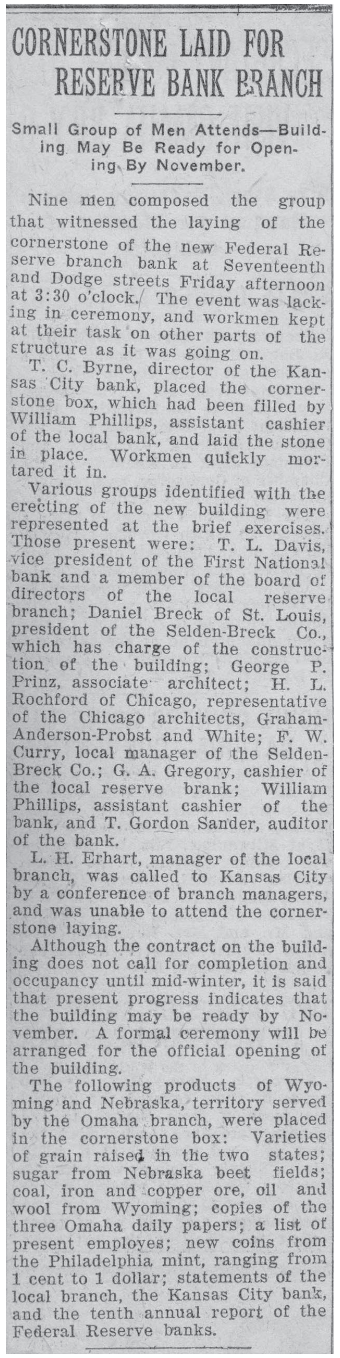
The official staff of the branch bank is composed of the managing director, L. H. Earhart; G. A. Gregory, cashier; W. D. Lower and William Phillips, assistant cashiers, and T. Gordon Sanders, assistant federal reserve agent and assistant auditor.

Deposited in the treasure box to be placed in the cornerstone of the new building will be, in addition to the usual history of the organization and the purpose for which it was instituted, samples of products from the territory served by the Omaha branch. The federal reserve bank's main purpose is to serve the agricultural, industrial and commercial activities of the nation. Typical of Nebraska's industries, which are chiefly agricultural, samples of Nebraska grains will be among the products in the treasure box—granulated sugar from the Platte valley and flour from the Omaha flour mills.

Coins and Newspapers.

Representatives of Wyoming industries will be also samples of agricultural products and in addition samples of minerals, such as coal, ore and copper ore.

New coins of each denomination have been received from the Philadelphia mint and will be placed in the cornerstone. Copies of all three daily newspapers published in Omaha on the date of the cornerstore is laid will also be found in the treasure box.



CORNERSTONE LAID FOR RESERVE BANK BRANCH

Small Group of Men Attends—Building May Be Ready for Opening By November.

Nine men composed the group that witnessed the laying of the cornerstone of the new Federal Reserve branch bank at Seventeenth and Dodge streets Friday afternoon at 3:30 o'clock. The event was lacking in ceremony, and workmen kept at their task on other parts of the structure as it was going on.

T. C. Byrne, director of the Kansas City bank, placed the cornerstone box, which had been filled by William Phillips, assistant cashier of the local bank, and laid the stone in place. Workmen quickly mortared it in.

Various groups identified with the erecting of the new building were represented at the brief exercises. Those present were: T. L. Davis, vice president of the First National bank and a member of the board of directors of the local reserve branch; Daniel Breck of St. Louis, president of the Selden-Breck Co., which has charge of the construction of the building; George P. Prinz, associate architect; H. L. Rochford of Chicago, representative of the Chicago architects, Graham-Anderson-Probst and White; F. W. Curry, local manager of the Selden-Breck Co.; G. A. Gregory, cashier of the local reserve brank; William Phillips, assistant cashier of the bank, and T. Gordon Sander, auditor of the bank.

L. H. Erhart, manager of the local branch, was called to Kansas City by a conference of branch managers, and was unable to attend the cornerstone laying.

Although the contract on the building does not call for completion and occupancy until mid-winter, it is said that present progress indicates that the building may be ready by November. A formal ceremony will be arranged for the official opening of the building.

The following products of Wyoming and Nebraska, territory served by the Omaha branch, were placed in the cornerstone box: Varieties of grain raised in the two states; sugar from Nebraska beet fields; coal, iron and copper ore, oil and wool from Wyoming; copies of the three Omaha daily papers; a list of present employes; new coins from the Philadelphia mint, ranging from 1 cent to 1 dollar; statements of the local branch, the Kansas City bank, and the tenth annual report of the Federal Reserve banks.

Newspaper articles chronicling the laying of the corner stone of the new Omaha Branch building in 1925.

some, Miller did not use the July 10 meeting to announce the formation of an Omaha Branch. The city's bankers, however, left the meeting encouraged.

"I feel that our meeting was a success, and although nothing was definitely determined, I think several questions which have been bothering us are satisfactorily settled," Luther Drake, president of the Merchants National Bank, told The Omaha World-Herald for its July 11, 1917, edition.

The Federal Reserve Bank of Kansas City's board approved the Omaha Branch during a meeting two days later. The Federal Reserve Board in Washington, D.C., signed off on the Kansas City decision on July 18.

The branch's first board of directors included Drake, Hall, who had spoken to the Reserve Bank Organizing Committee on Lincoln's behalf during the hearing; J.C. McNish from McNish Cattle Loan Co. in Omaha; W.B. Hughes from the Omaha Clearing House; and R.O. Marnell, a banker from Nebraska City.[9]

The branch opened on Sept. 4, 1917, in what was then known as the old First National Bank Building at 1219 Farnam St. The Federal Reserve later purchased the building, which became known as the Farnam Building, for $165,000 in 1920. The branch, however, soon needed new space and began construction on a new building at 1701 Dodge Street, which opened in November 1925. The building, which stood on the site that has since become home to the U.S. District Court, included what was called a "round house" with an 18-foot round moving platform that armored trucks would pull onto and then be rotated for currency and coin delivery.[10]

That delivery area may have been its most active in August 1931 amid a run on Nebraska banks caused by the closing of four institutions

9 Press Statement from the Federal Reserve Board, issued July 18, 1917.

10 Kitt Chappell, Sally A. Architecture and Planning of Graham, Anerson, Probst and White, 1912-1936. University of Chicago Press. Chicago,. Ill. 1992.

over the span of a week. The Federal Reserve sent an additional $3 million in currency from Kansas City to the Omaha Branch to meet possible withdrawal demands. The city's leading banks, meanwhile, announced they would extend hours to accommodate those seeking to withdraw funds.

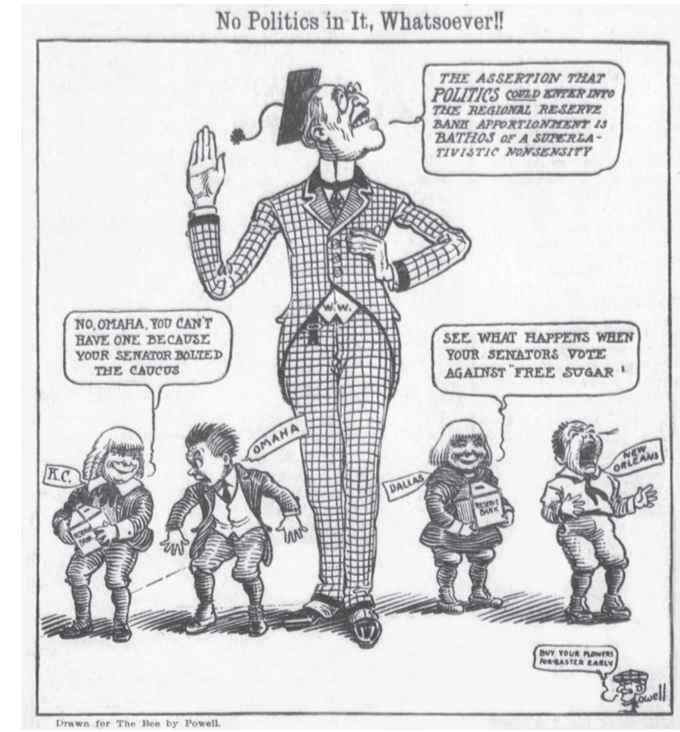
"With the announcement that the larger banks were prepared to meet the emergency with plenty of cash on hand, the crowds milling about the entrances thinned a little and the tension seemed broken," read an Associated Press report.[11]

The Omaha Branch expanded its headquarters, including its vault space, with a two-story addition in the mid-1950s. The Bank considered future branch expansion with nearby property purchased in the 1960s and 1970s that would have provided room for further additions. Rather than expand, however, the Federal Reserve purchased property at 22nd and Farnam Streets in 1981 and, in 1984, began construction on the current Omaha Branch office. The facility opened in 1986.

Less apparent from the outside have been the evolution in branch operations reflecting developments in the financial system and the economy. Initially, the branch served banks in both Nebraska and Wyoming. Wyoming banks were transferred to the Federal Reserve Bank of Kansas City's Denver Branch in 1971. Operationally, as consumers moved away from the use of written paper checks to electronic payments, the Federal Reserve reduced its check processing capabilities across the Federal Reserve System. The Omaha Branch processed its last check on April 23, 2004. The Omaha Branch's Cash operation consolidated to Kansas City with the opening of the new headquarters in 2008.

While the consolidations resulted in a decrease in staff, the Branch's engagement in the region continued to expand, and plans for future growth, especially concentrating in technology, are currently under way.

11 Lincoln Star, Aug. 15, 1931.



An editorial cartoon that was published in the Omaha Daily Bee after Kansas City was chosen over Omaha and Lincoln for a Federal Reserve Bank location.

TIM TODD, CONTRIBUTING WRITER

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FURTHER RESOURCES

"Confidence Restored: The History of the Tenth District's Federal Reserve Bank" by Tim Todd, www.KansasCityFed.org/aboutus/history

COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.

OMAHA FED OFFICE TURNS 100:

SERVING MAIN STREET AND THE BROADER COMMUNITY

A bank can be the lifeblood of a community.

Beyond just taking deposits, bankers have their fingers on the economic pulse of their communities. They extend credit to businesses by listening to the challenges and successes of their customers. They invest back in those same people and places because they care about making their communities stronger.

When the Omaha Branch of the Federal Reserve Bank of Kansas City opened for business on September 4, 1917, it became the local face of the new central bank for the people of Nebraska. As it worked closely with those community-minded banks, the Omaha Branch tapped into the state's economic pulse so it could give Nebraskans a voice in the Federal Reserve's role in helping maintain a strong economy.

From operations to outreach

For the Omaha Branch, more than three-quarters of its history has focused on operations that supported commercial banks—distributing cash and processing paper checks. The late 1990s and early 2000s, however, brought a shift in focus from operations to outreach.

As the nation moved toward electronic forms of payment, the Federal Reserve responded to the changes in the payments system by consolidating its check processing operations to one national location. Along with the consolidation, Omaha's large check processing center ceased operation in 2004.

A study of the impact on other functions in the Federal Reserve System followed. In 2008, the Omaha Branch's cash distribution operation was consolidated into the Kansas City Fed's new headquarters building and vault in Kansas City, Mo.

In the midst of these changes, however, leadership of the Kansas City Fed reimagined the importance of its structure of three branches throughout its seven states. For the staff at the branches came a new and broader focus on outreach to the areas the Kansas City Fed serves.

A key part of that effort was the Kansas City Fed restructuring its form of Branch leadership. Each Branch would be led by person who served both as a regional economist and branch executive. The executive would focus on understanding the region's economy and work with the Branch's board of directors. An increased emphasis on outreach to the community through research, information, community development and education became a major effort, as was a focus on the safety and soundness of community banks within each zone.

Connecting to Nebraska's economy

Today, Nathan Kauffman serves as the Omaha Branch executive.

"A significant part of my job is working to understand the fundamental drivers of Nebraska's economy through research, outreach and interactions," Kauffman said. "As an economist, I'm trained to analyze data and apply techniques to solve specific problems. A benefit of our branch structure is that it allows me to regularly interact with business leaders and decision-makers who deal with these problems every day and see how they develop in the real world."

While much of the Kansas City Fed's seven-state region is rural, Nebraska is even more so, Kauffman said. With that comes a strong concentration in agriculture.

"Because Nebraska is so connected to agriculture, I have an opportunity to provide broader perspective about how those drivers in our state's economy are generally drivers of the ag economy nationally," he said.

In 2016, Omaha Branch Executive Nathan Kauffman speaks with a Monsanto facility manager in York, Neb., in conjunction with an off-site board meeting, business tour and economic forum in the community.

With this economic backdrop, the Omaha Branch has developed a niche as the Federal Reserve's source of expertise on the nation's agricultural economy, publishing an Agricultural Finance Databook and Agricultural Credit Survey each quarter as well as regular ag outlook articles.

Kauffman sees the connection not only of ag production in the state but also businesses that provide services to the ag industry—manufacturers, transportation, and other professional and business services.

"Even in our role as a bank regulator, we have a large number of banks that are providing financing to the ag industry," he said. "That provides us with a unique opportunity to learn about the different perspectives of the ag economy," he said.

That strong connection with Nebraska's community banks has been the focus of the Fed's supervisory role, according to Nick Hatz, who serves as the officer over that function in Omaha.

"Community banks are the lifeline providing credit in communities in our state," Hatz said. "In Nebraska, 80 percent of our banks are community and rural. Without them, communities wouldn't be served; they know their communities and focus on the needs of businesses on Main Street."

To better understand how those banks make decisions and to ensure safety and soundness, bank examiners work with a model where every bank they supervise has a central point of contact, Hatz says. This gives the Federal Reserve better insight into the operations of banks.

"We work to answer their questions, help educate their directors on their roles and provide resources. Our examination model helps us have conversations with bankers before there are any issues."

Having examiners in Omaha also gives the Kansas City Fed an understanding of banks' local economies and communities, guides examiner understanding of risk, helps build stronger relationships and coordination with state banking authority, all of which strengthens the Fed's regulatory responsibilities.

"When you're having a conversation with a banker, having local insight and understanding lends credibility and breaks down walls," Hatz said. "We value that additional expertise, which helps us fulfill our responsibilities in a fair and unbiased manner."

Supervision and Risk Management employee Pat Schleiger teaches savings concepts to students at Conestoga Elementary School in Omaha as part of the Branch's Teach Children to Save Day in April.

Community Development Advisor Dell Gines discusses entrepreneurship with Omaha-area educators at Metro Community College.

Reaching out

An expertise in small business and economic development is what Dell Gines, a community development advisor in Omaha, brings to his work across Nebraska. He focuses on these economic development issues in both rural and urban communities.

"When I am out speaking across the state, my goal is to help make the good life great for everyone," Gines said. "There are challenges in low- to moderate-income populations that need extra tools to help them experience the greatness of Nebraska."

Gines concentrates on connecting local communities and organizations with information, tools or relationships to help make their job easier. That might manifest itself in discussions about growing entrepreneurs locally or addressing housing shortages in rural Nebraska. Often, he's facilitating conversations and sharing resources.

"We are focused on the practical side of program delivery: convening, fostering collaboration and making new connections," Gines said.

Erin Redemske, who manages the Public Affairs function in Omaha, focuses her efforts more broadly, with outreach to business, banking and community leaders at public economic forums in the state, business roundtables and networking with key leaders.

"Providing the public with access to information and resources about the Fed and our economy helps us be transparent and provides a connection to the Fed in our state," she said.

Building a foundation of economic and financial literacy also is part of that work, which means helping classroom educators better understand those concepts and how to teach them to students.

"Our goal is to help provide information and research so individuals make more informed decisions, whether they are a consumer or a business," she said. "When they are armed with more information, they make stronger choices that strengthen our economy as a whole."

Redemske says doing this work locally is key.

"We live here. We work here. This is our state, and we have the opportunity to represent and provide a voice for Nebraska."

Listening to Main Street

The real ear to the ground across Nebraska comes from the Branch's board of directors. Brian Esch, president and CEO of McCook National Bank and one of the Branch's seven directors, thinks the grassroots information directors provide is an important part of the Branch's role.

"When you have board members that represent different areas of the state and segments of the economy, you get feedback from mom-and-pop businesses and huge corporations," Esch said. "With the Fed being in Omaha they can network with those different segments of the economy and really gather everything off the ground in Nebraska."

As part of the Fed's outreach in the state,

Omaha Branch board members, staff and Bank President Esther George tour Heartland Cattle Company in McCook, Neb., as part of an off-site board meeting in 2014.

Esch hosted a meeting of the Branch's board of directors and Kansas City Fed President Esther George in McCook in 2014. The event included tours of local businesses and a forum with local leaders.

"For the Fed to come to McCook is the ultimate statement that they care about the rural economy," Esch said. "That is what has impressed me most – how engaged the Fed is in every aspect of what is going on in our District. From nonprofits to healthcare to transportation to agriculture, they want to know how those segments are working."

Esch thinks the Omaha Branch isn't the only one that benefits from interaction with board members.

"What can happen when you sit in McCook is that you can end up with a silo perspective. The more exposure, education and interaction I get with other business leaders gives a more holistic perspective of what is going on," he said. "It improves the way I manage the bank and assess risk in the economy."

The Fed's unique regional Reserve Bank structure is a benefit to the country, according to Esch, providing a local and real connection that captures a diversity of perspectives.

As they worked closely with those community-minded banks, the Omaha Branch over time better tapped into the state's economic pulse so it could give Nebraskans a voice in the Federal Reserve's role in helping maintain a strong economy.

"I have to believe that without the Omaha Branch and its work in the economy and economic development, it would be much more difficult for the Fed to get engaged in our state."

Coming full circle

The Omaha Branch's evolution came full circle in April with the announcement that it would grow its workforce by close to 100 employees to support its financial services work on behalf of the U.S. Treasury Department. Kauffman notes that this returns the Branch to focusing on all three of the Bank's core mission areas—monetary policy, bank supervision and financial services.

"This positions the Omaha Branch in a way to provide expertise into each of those areas," he said. "It's feedback for monetary policy, our relationship with banks, and also the connection of how the Fed is integral in the country's financial services structure."

One of the newest faces to the Omaha Branch for this new work is Todd Rich, who joined the Bank this year as an assistant vice president in charge of support for the new financial services work for the Treasury. He brings a unique perspective to the Omaha Branch with his 29 years of experience in the U.S. Navy, serving as both a flight officer and information professional officer. He most recently was chief of the IT operations division and deputy director of the Joint Cyber Center at U.S. Strategic Command.

"What appealed to me about the Bank was its culture and values, which was very clear even in my interview," he said. "I have been amazed at how innovative the Bank is in my time here."

Adding this new function to Omaha is exciting to Rich, and he sees the chance to spotlight a Tenth District city.

"This national focus for supporting Treasury work will bring people to Omaha who might not otherwise have a reason to be here," Rich said. "Omaha is one of the best-kept secrets in the country, and this is good for the region."

Kauffman agrees.

"As the Omaha Branch reaches our milestone of 100 years of service to the region, it's exciting to see this expansion for Omaha," he said. "These changes, both from a building and resources perspective, will enhance our strong commitment to serving the people of Nebraska and the Tenth District."

Nicole Connelly, Public Affairs specialist, discusses budgeting concepts with Omaha Public Schools students during a financial literacy event at the Omaha Branch.

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JENNIFER CLARK, CONTRIBUTING WRITER

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FURTHER RESOURCES

Visit www.KansasCityFed.org/Omaha for additional information about the Omaha Branch and its programs.

COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.

ON THE MOVE AGAIN

Oil and gas production show signs of recovery

The energy sector plays an important role in the Tenth Federal Reserve District and national economies. After dropping sharply in 2015 and for much of 2016, drilling rig counts and jobs in the energy sector have started to recover, which is likely to spur more oil and gas production and boost revenues in 2017.

1,930
U.S. active oil and gas rigs May 2014

579
Tenth District active oil and gas rigs May 2014*

908
U.S. active oil and gas rigs May 2017

275
Tenth District active oil and gas rigs May 2017*

A decline in production

Oil and gas activity in the United States plunged in the second half of 2014. The timing and extent of the drop, however, varied across the region. Chad Wilkerson, a Kansas City Fed Oklahoma City Branch executive and economist, said oil and gas drilling activity in Oklahoma peaked in September 2014 at 214 active rigs and bottomed in May 2016 at 57 rigs, a decline of nearly 75 percent, slightly less than the 80 percent drop in the rest of the United States.

* Number includes entire rig count for the state of New Mexico; however, only the northern portion of the state is in the Tenth District

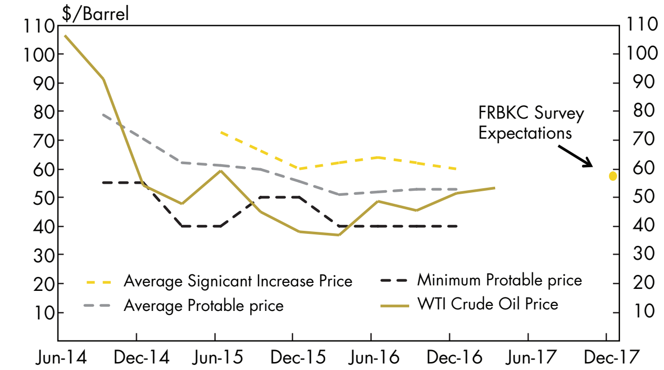
SOURCES: BAKER HUGHES/ EIA

Employment declines

Mining sector employment, which includes mostly oil and gas activity, soon followed the drop in drilling production. According to U.S. Energy Information Administration, U.S. oil and gas producers alone cut 142,000 jobs as of May 2016 since the industry's peak employment levels in October 2014 of 538,000—a 26 percent decline. That decline continued throughout the remainder of the year.

538,000
OCTOBER 2014

381,000
OCTOBER 2016



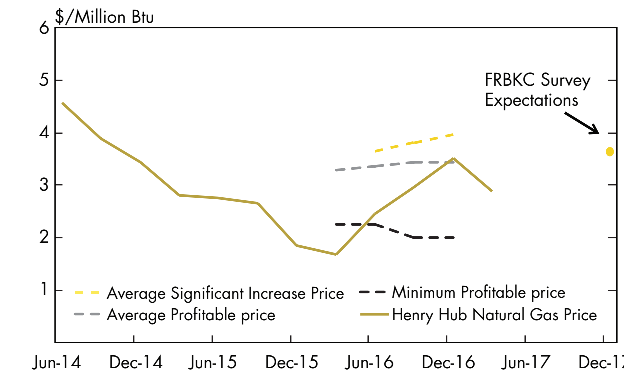
SOURCE: KCFED ENERGY SURVEY / ENERGY INFORMATION ADMINISTRATION

The start of a recovery in oil

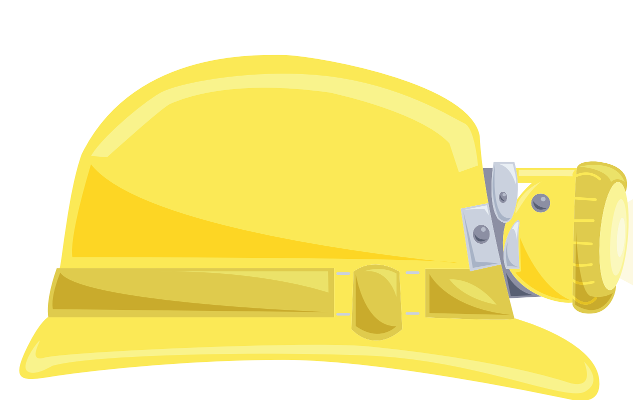
Oil prices reached a low in the first quarter of 2016, even briefly dropping below $30 a barrel. Wilkerson said that after fluctuating in mid-2016, oil prices began to increase consistently again have stayed in a band of $50-$55 a barrel, although prices in mid-March through May dipped slightly below that range. The Kansas City Fed's quarterly Energy Survey has shown that, on average, prices in that band make drilling profitable for firms headquartered in the Tenth Federal Reserve District.

A slight recovery in natural gas

The story for future natural gas drilling is somewhat similar, Wilkerson said. At the end of the fourth quarter of 2016, firms on average were expecting natural gas prices to be $3.64 per million Btu by year-end 2017. This was slightly more than the average profitable price they reported needing at the time. Although prices haven't met expectation, gas has remained profitable for some firms in the Tenth District, but energy survey results suggest only modest expansion of natural gas drilling and production in 2017.



SOURCE: KCFED ENERGY SURVEY / WALL STREET JOURNAL



Employment shows signs of recovery

Data from the U.S. Bureau of Labor Statistics released in April showed continued monthly increases in the number of mining jobs, which includes oil and gas extraction. The jobs recovery began in November 2016 with the addition of 3,300 jobs. Mining added another 11,000 jobs in March, with 8,800 of them being in support activities for mining. Jobs in oil and gas extraction increased by 1,800. Employment in mining has now risen by 35,000 since hitting a recent low in October 2016. The increases varied across the United States and in the Tenth District.

The future

Although rig counts and employment in the industry are up from recent lows, which could lead to higher production and increased revenues, Wilkerson says current and expected prices for oil and natural gas remain at or just below the prices most firms say they need to be profitable, making the rebound in energy activity in the Tenth District somewhat slow-moving.

Further Resources

"The Oklahoma Economist: How strong is the Recovery in Oklahoma's Gas and Oil Sector" by Chad Wilkerson
www.KansasCityFed.org/publications

"Tenth District Energy Survey"
www.KansasCityFed.org/research/indicatorsdata

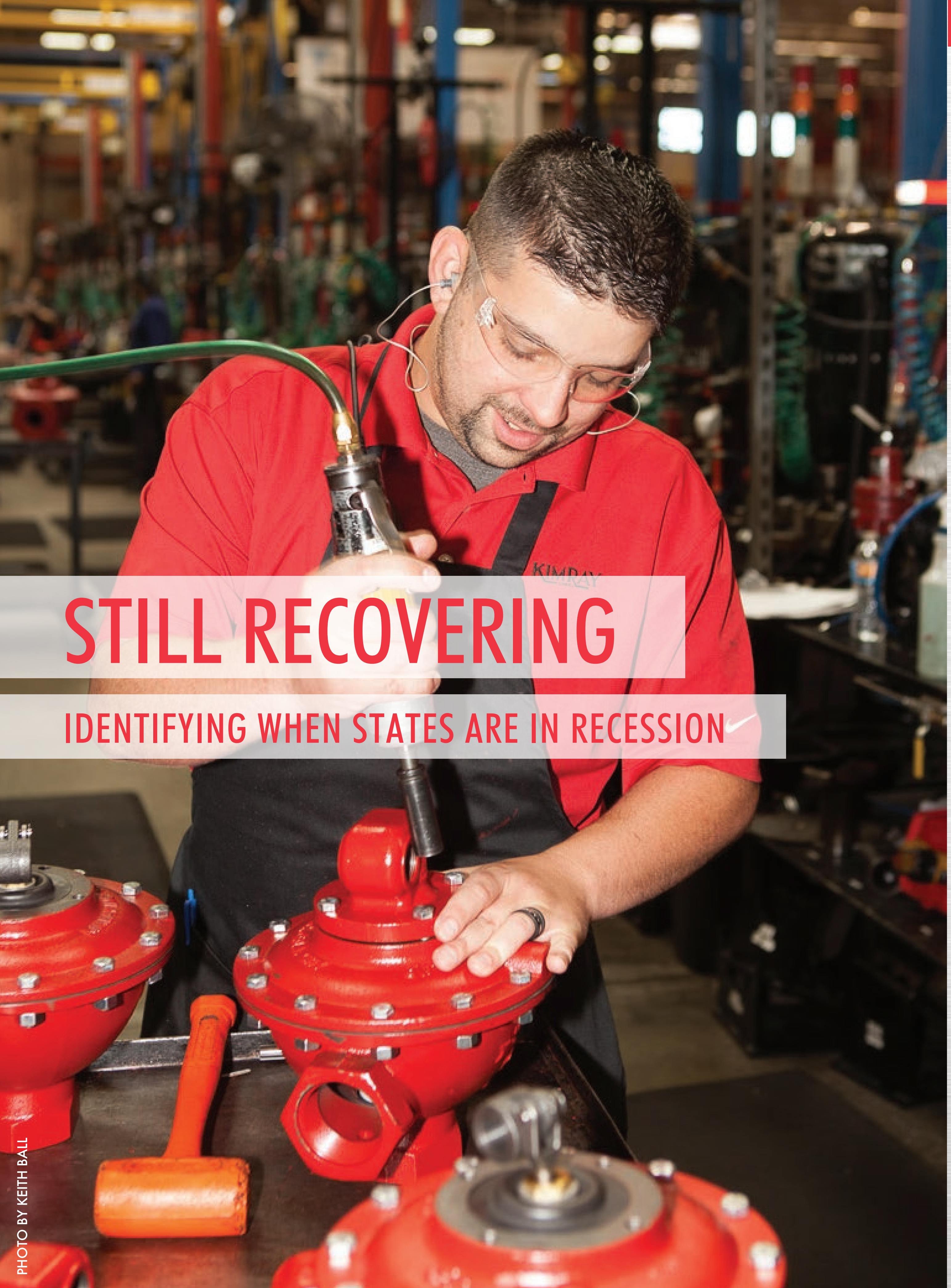


PHOTO BY KEITH BALL

STILL RECOVERING

IDENTIFYING WHEN STATES ARE IN RECESSION

If it seems like you're living through an economic downturn even eight years after the Great Recession of 2007-09, it may be because some of you are, especially if you live in one of the energy-dependent states of the Federal Reserve's Tenth District.

The housing and financial crisis that contributed to the Great Recession was followed by the slowest economic recovery since World War II. Add a steep downturn in the price of crude oil to that slow pace and you have a formula for state-level recessions, especially in states such as Kansas, New Mexico, Oklahoma and Wyoming.

Research by Kansas City Fed Senior Economist Jason Brown shows some states were in recession in 2015 and 2016 even as the national economy was growing. The timing of when states enter recession may differ from the entire nation, and these states may enter recession earlier than others and stay there longer. This is especially true of states with higher concentrations in specific industries.

Brown said that for states with a large share of employment and output in oil and natural gas, a period of sustained low crude prices can result in reduced exploration and cuts in drilling, the effects of which typically spill over to other sectors and dampen overall economic activity. For example, after crude oil plunged 70 percent in less than two years, energy-dependent states including Kansas, Oklahoma, New Mexico and Wyoming soon entered recessions. At the same time, the rest of the Tenth District was experiencing steady, moderate growth.

The bottom drops out

In early 2014, the oil industry was riding high on three-and-a-half years of oil prices trading between $90 and $120 a barrel. In Oklahoma City, Kimray Inc. was embarking on what would be a record year for revenue and profit. The oil field equipment manufacturing company was expanding, adding employees, finding new parts and materials suppliers, and increasing output.

"We were growing and expanding as quickly as we could," said Bob Cole, president and chief operating officer. "We were close to 1,000 people by the end of the year."

The bottom, however, was just months away from dropping out of the barrel.

From January 2014 to early August 2014, the price of West Texas Intermediate crude (WTI), the benchmark for oil prices in the United States, traded between $91.36 a barrel and $107.95. By year-end 2014, WTI had fallen to $53.45. Oil's journey to the bottom continued throughout 2015 and ended Feb. 11, 2016, at $26.19 a barrel, the lowest price in more than a decade.

"When the price declined below $60 a barrel, I think we thought it was going to be a problem," Cole said. "At that time, people thought the price needed to be $70 to break even."

The main difference between the oil declines in 2009 and 2014-15, Cole said, was the duration and pace of recovery.

Cole, who joined Kimray in 2008, saw a similar scenario play out shortly after he joined the company. Prices plunged for months before hitting bottom just above $30 in December 2009, about half a year after the official end of the Great Recession.

The main difference between the oil declines in 2009 and 2014-15, Cole said, was the duration and pace of recovery. In 2009, oil prices experienced a quick decline and a

Ed Cross serves as President of the Kansas Independent Oil and Gas Association.

quick recovery. When prices started to decline in 2014, Cole said Kimray started preparing for a similar decline and recovery.

"That wasn't the case in 2014 and 2015," he said. "Prices dropped and stayed down and we struggled financially."

And while the company quickly employed what Cole described as "conservative" measures, the downturn in the oil and gas industry quickly turned activity from a gush to a dribble. Soon it became apparent that more creative and eventually more stringent methods would need to be initiated.

Although competitors turned to voluntary or forced layoffs, Kimray first tried to address the downturn through attrition and took the opportunity to fill down time with added training for employees. Kimray even paid employees to work at nonprofit organizations such as Habitat for Humanity and a nearby pregnancy crisis center.

"We didn't want to lose the talent and experience we had, and we tried to hold on to it for as long as possible," Cole said.

More severe measures included a wage freeze and a cut in 401(k) contributions. Kimray offered employees a voluntary buyout in fall 2015 and instituted layoffs in 2016. Kimray was down from 1,000 employees at the end of 2014 to about 350 by June 2016. Plans for a new headquarters building were put on hold.

One constant throughout the difficulties, Cole said, was the insistence of the family-run company—the grandfather of current CEO Thomas Hill III founded the company in 1948 and his father is board chairman—on using an open-book policy with employees, even its financials.

"Everybody understood where we were," he said. "They could see we were losing money over an extended period of time. Because we were so open with them, when we made that decision to lay off people, it was received surprisingly well. Of course, that's never an easy thing to hear."

By spring 2016, when oil prices had started to recover, Kimray had about 350 employees. The company started hiring again by fall and reached out to those who had left. Some already had found work elsewhere, such as assembly line trainer Randon Testa, who was among the 80 or so former employees who chose to return. Other recent new hires have pushed the workforce to about 640.

Those who returned found wages had been unfrozen and that some adjustments in pay had been made. The 401(k) had been brought back and Kimray was working to diversify from its oil and gas industry roots. The company also is re-examining its plans for a new headquarters, albeit on a smaller scale than envisioned originally.

For Testa, the feeling of being part of a bigger family was at least part of his reason for rejoining Kimray.

Testa, who oversees training of employees who assemble high-pressure valves, first joined Kimray in 2009 after working in the Oklahoma oil fields. When he left in spring 2016, he had plans of being a stay-at-home dad.

"My wife decided she really wanted to return to work so I stayed at home," he said. That plan worked for about a month before they switched roles. He had worked about three months for an Oklahoma City heavy equipment rental company before Kimray called.

The company still had the same strong family values—"no cursing, no smoking"—and some of the same conservative touches that had been employed early in the downturn.

"They got down to bare necessities and cut back on a lot of luxuries, such as the cappuccino machine," he said, adding that his co-workers volunteered to bring their own coffee cups to work in an effort to cut even a small expense.

A story like that is no surprise to Cole.

"It may sound like a cliché," he said, "but we treat everyone here like family."

The company's "culture" is why Jordan Moore, an electrical technician, joined Kimray.

"They could see we were losing money over an extended period of time. Because we were so open with them, when we made that decision to lay off people, it was received surprisingly well. Of course, that's never an easy thing to hear."

Contemporaneous Recession Dating in the Tenth District

State	B-B* Enter	Markov** Enter	B-B Exit	Markov Exit
	2015-2016			
Colorado				
Kansas		Aug.-16		?
Missouri				
Nebraska				
New Mexico		July-16		?
Oklahoma	Jan-15	May-15	?	?
Wyoming	Jan-15	June-15	?	July-16

Note: Question mark indicates that the state was still in recession as of September 2016.
* The Bry-Boschan method is suited to identifying state recessions with a lag time
** The Markov regime-switching method is suited to identifying state recessions in real time
Sources: Federal Reserve Bank of Philadelphia and Jason Brown's calculations.

Moore, who had worked almost two years at the company before he was laid off in March 2016, said losing his job was not a surprise.

"I'm in Oklahoma and it's no secret when oil is going down," he said. "I was an apprentice and I felt like I was the 'fat' in the department at the time, so it wasn't a shock."

After months of odd jobs and looking for full-time work, Moore quickly said yes when his former supervisor called and asked if he wanted his old job back.

Moore said he was glad to see that the company's "culture and environment had not changed" and that it still had a unique feeling of family first—so much so that his wife, brother and mother-in-law have taken jobs there since he returned.

Bob Cole is the president and chief operating officer of Kimray Inc. in Oklahoma City.

"A lot of companies won't hire family members, but there are plenty of families here," he said. "I think that's cool."

Identifying the signs of a recession

Typically, there are visible signs of state-level downturns, especially in states where one sector dominates the economy. Brown says, however, identifying when states enter recession and for how long is no easy task.

"Unlike for national recessions, there is no organization like the National Bureau of Economic Research's Business Cycle Dating Committee that identifies recessions on a state level," Brown said.

Broad measures of state-level activity are not available with the same frequency as national data. Gross state product, for example, is published quarterly and six months after the fact. An alternative source of state-level data, he said, is the Federal Reserve Bank of Philadelphia's state coincident index, a monthly measure of economic activity in each state.

The Philly Fed index showed declining economic activity—though it does not identify recessions—from September 2015 to September 2016 in Kansas, Oklahoma, New Mexico and Wyoming. To identify recessions, Brown used two approaches.

"The Markov analysis indicated Oklahoma and Wyoming entered recessions in early to mid-2015, while Kansas and New Mexico entered recessions in late summer 2016," Brown said.

As of September 2016, Oklahoma, New Mexico and Kansas were still in recession, he said, adding there is not enough information to tell whether they currently are in recession. Wyoming, on the other hand, appeared to exit its recession in late summer 2016.

Ed Cross, president of the Kansas Independent Oil and Gas Association in Topeka, says his members would agree with Brown's assessment of the state being in recession as of September 2016 and likely even in early 2017.

In recent reports to civic groups across Kansas and legislators in Topeka and Washington, D.C., Cross has painted a picture of the oil and gas industry in the state that is still mostly gloomy but with a hint of recovery. For example:

- Kansas oil and gas companies cut capital expenditures by up to 80 percent in 2016, spending $300 million compared to a more typical expenditure of $1.3 billion in 2014.
- Deferred completion of wells and temporary shutdowns of high-cost wells resulted in a drop in royalty payments of $400 million in 2016.
- Layoffs reached up to 30 percent in the production sector and up to 60 percent in the service sector, totaling 3,100 direct oil and gas industry jobs and another 3,000 in industries that support oil and gas production.
- Layoffs resulted in a loss of $341 million in family income in Kansas.
- Drilling permits dropped 50 percent in 2016 and actual rig counts were down 40 percent.

Despite recent events, Cross says many of his association's 4,100 members plan to drill wells for the first time in two to three years and 2017 permits through April were on pace to top 2016's total.

Any expression of optimism in Kansas, which Brown says is a microcosm of the region, may be a good sign for the rest of Tenth District.

"Kansas is reflective of the economy of the entire Tenth District," he said. "It has some oil and gas, some agriculture, some manufacturing. It had kind of a perfect storm of weak ag, declining oil and struggling manufacturing and then you throw in the contraction of state and local government budgets."

Although there may be more optimism among participants in Kansas' oil and gas sector, Cross doesn't think oil is going back to $100 a barrel anytime soon.

"They continue to remain cautious," he said.

Jordan Moore, an electrical technician at Kimray Inc. installs network cables.

T

RICK BABSON, CONTRIBUTING WRITER

FURTHER RESOURCES

"Identifying State-level Recessions" by Jason Brown
www.kansascityfed.org/publications/research/er

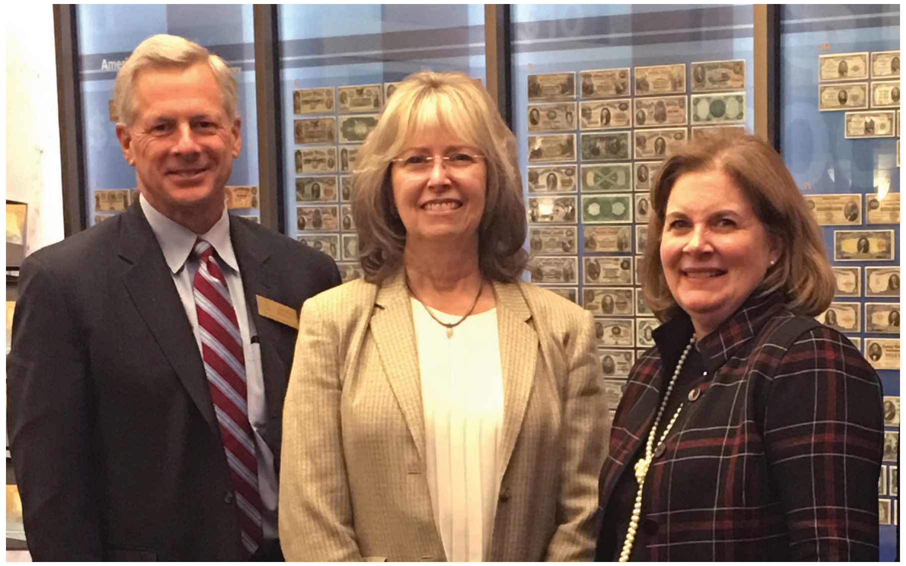
COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.

MAKING A CONNECTION

IN FOUNDING THE FEDERAL RESERVE MORE THAN A CENTURY AGO, Congress recognized the importance of connecting the nation's central bank to the Main Streets of America. The Federal Reserve Bank of Kansas City carries out this role through its president and its programs and activities throughout the Tenth District, nation and welcoming countries. Here is a glimpse at the recent activities of President Esther L. George and the staff of the Kansas City Fed.

Kansas City Fed President Esther George, left, speaks with John W. Bluford, who is the founder and president of the Bluford Healthcare Leadership Institute in Kansas City, Mo., during a luncheon meeting in June at the Bank's headquarters.

George met with Barbara Walker, center, executive director of Independent Bankers of Colorado, on April 13 at the Kansas City Fed's Denver Branch. Also pictured with Walker and George is Kevin Moore, senior vice president of Supervision and Risk Management at the Kansas City Fed.



George, right, and Annette Hamilton left, a director on the Omaha Branch Board of Directors, listen to an Arrow Electronics employee explain aspects of the company's work during a tour in April of Arrow's headquarters in Centennial, Colo. The tour was part of the Kansas City Fed's joint boards of directors meeting.

In May, George was the commencement speaker at the University of Missouri-Kansas City Henry W. Bloch School of Management graduation ceremony. George, a UMKC alum, was honored this year by the school's alumni association as alumna of the year. (See story page 43)

George met with members of the Central Exchange Young Professionals Roundtable during a roundtable session April 24 at the Kansas City Fed's headquarters building. Seated next to Esther is Courtney Thomas, president and CEO of the Central Exchange in Kansas City, Mo.

George met with a delegation from the Kansas Legislature, that on May 10 toured the Kansas City Fed's headquarters building and spoke to her and Kansas City Fed staff members about the economic conditions in their state.

Micki Bowman, left, bank commissioner for Kansas, and Debra Hardman, right, former acting commissioner of finance for Missouri, are pictured with George during a banking regulation update seminar in April at the Kansas City Fed's headquarters.

George gave remarks April 6 via live video feed on "Why Community Banks Matter" (see related story page 1) for the Community Banking Conference in New York City.

Building relationships …

Kicking-off Money Smart Colorado 2017

Each year the Denver Branch helps lead Money Smart Colorado, which is a campaign to promote personal financial literacy. This year the Denver Branch hosted the Money Smart Colorado 2017 kick-off breakfast. Erin Davis, public affairs specialist at the Denver Branch, left, and Queen Wilkes, a Kansas City Fed Student Board alumni director, present information about Federal Reserve resources and programs at the event.

Banking and Economy Forum for emerging bank leaders

High-potential emerging bank leaders attended a Banking and Economy Forum hosted in partnership with the Kansas City Fed Denver Branch, Colorado Bankers Association and Independent Bankers of Colorado in May. The forum addressed topics critical to bankers today. A panel of banking executives, moderated by Ashley Burt, far left, Denver Branch board director and President of Gunnison Bank and Trust, shared advice about their career paths.

Rock the Fed in Denver

The Denver Branch was rocking when the rock band Gooding came to share its music and financial advice to 150 students from area high schools. Students learned about the pros and cons of credit, how to save, paying off debt and how to avoid financial difficulties.

Wilkerson gives economic outlook at Rotary Club event

In April, Oklahoma City Branch Executive Chad Wilkerson spoke to Rotarians at the Rotary Club of Oklahoma City, the largest club in Rotary International. His speech focused on the current economic outlook in Oklahoma and the nation, as well as the impact of the energy industry on Oklahoma's economy.

Community Affairs roundtable in Hugo

The Oklahoma City office conducted a Community Leaders Roundtable in Hugo, Okla., to learn about the issues and opportunities in that region. The Community Affairs Department partnered with Becky Reynolds, who is executive director of Little Dixie Community Action Agency Inc. and a member of the Kansas City Fed's Community Development Advisory Council, to host the event in March.

Oklahoma City Branch Board member inspires Student Board of Directors

Fourteen students completed the Kansas City Fed Oklahoma City Branch's 2016-2017 Student Board of Directors program. The event included a keynote address by Branch board member Chuck Hall. He congratulated the students on the success of completing the program and offered words of inspiration and motivation. His talk focused on the importance of learning, growing and making connections.

Kauffman testifies before Congress

Omaha Branch Executive and Economist Nathan Kauffman testified in June before the Senate Committee on Agriculture, Nutrition and Forestry about the state of the farm economy and its effects on rural America.

Student Board learns about careers in healthcare

The Omaha Branch Student Board of Directors visited CHI Health's Immanuel Hospital to learn about careers in healthcare. In addition to a tour, hospital staff from various departments and specialties participated in a panel discussion about their career paths and healthcare career opportunities. The student directors graduated the program in May and participated in a pinning ceremony at the Omaha office.

Fed program makes connections in Lincoln

Senior Community Development Advisor Dell Gines organized Investment Connection: Lincoln at the Lincoln Community Foundation in partnership with Prosper Lincoln. Investment Connection provides a way to connect nonprofits, seeking funding for Community Redevelopment Act eligible projects and programs, with investors. Since 2011, the Kansas City Fed's Investment Connection program has connected nonprofits with approximately $29 million in funding. Learn more at *www.kansascityfed.org/community/investmentconnection.*

Notes from around the Tenth District

Kansas City Fed's Math X Econ program gives high schoolers insight into economics

PHOTO BY BRETT SMITH

Kansas City Fed associate economist Michael Redmond leads students in a probability game during the Math X Economics event.

During the recent Math X Economics program, which the Federal Reserve Bank of Kansas City hosts annually to highlight the field of economics for high school students, topics ranged from data technology to the influence of probability in games.

More than 40 students from public schools throughout the Kansas City metro, including Washington High School in Kansas City, Kan.; Ruskin High School in Kansas City, Kan.; and Center High School in Kansas City, Mo.; attended the program. The students, a mix of sophomore, juniors and seniors, were greeted by Kansas City Fed President Esther George and Bob Hampton, assistant vice president in Economic Research.

"You are going to hear today from talented people who have dedicated their careers to studying the economy," George said. "I hope that as you go on in your studies, you will think about the Federal Reserve. Someday I'd like for you to come back and talk to me about why you'd like to work here."

Throughout the morning, students heard about the field of economics; learned how the Bank uses technology as a tool for economic research; spoke with a panel of employees about how an understanding of economics can support careers in varying fields; toured the Money Museum to learn more about the functions of the central bank; and studied how incentives influence outcomes—an important component of economics.

Terri Redden, who has been teaching business at Ruskin High School for more than 20 years, enjoyed the perspective offered to her students.

"They may not have seen the link between math and economics before this," she said. "I think you need exposure to different fields to open minds. This could change career decisions—you never know."

Learn more about educational programming at the Kansas City Fed at *www.KansasCityFed.org/education.*

Kansas City Fed to add jobs at Omaha Branch

The Federal Reserve Bank of Kansas City will grow its workforce at its Omaha Branch to support its financial services work on behalf of the U.S. Department of the Treasury. The multi-year plan will include physical improvements to the current building and grounds. When complete, about 100 new jobs will be located at the Omaha Branch, including management, customer service, accounting and information technology positions.

"It is exciting to see this expansion for the Omaha Branch as we reach our milestone of 100 years of service to the region," said Nate Kauffman, the Omaha Branch executive and economist. "Our growth reflects the Kansas City Fed's strong commitment to Nebraska and the District."

As the central bank of the United States, the Federal Reserve carries out fiscal agent responsibilities for the government by partnering with the U.S. Treasury to support programs in the payments, debt management and information management business areas.

Bank Anniversaries

The following banks in the Tenth Federal Reserve District are celebrating one, five, 10, 20 or more years as Federal Reserve members in July, August and September.

Uinta Bank	Mountain View	Wyo.	97
Wahoo State Bank	Wahoo	Neb.	85
Gunnison Bank and Trust Co.	Gunnison	Colo.	77
Union State Bank	Clay Center	Kan.	75
Bank of Holyrood	Holyrood	Kan.	74
Farmers Bank of Lincoln	Lincoln	Mo.	73
Security State Bank	Basin	Wyo.	69
Bank of Cushing	Cushing	Okla	37
My Bank	Belen	N.M.	35
Five Points Bank	Grand Island	Neb.	20
Rose Hill Bank	Rose Hill	Kan.	5
Jonah Bank	Casper	Wyo	5
Wyoming Bank and Trust Co.	Cheyenne	Wyo.	5
RSNB	Rock Springs	Wyo.	5

Women in Banking forum attended by more than 200 bankers

More than 200 women bankers attended a spring forum the Kansas City Fed hosted in partnership with the Community Bankers Association of Oklahoma and the Oklahoma Banker's Association in Midwest City, Okla.

"Banking and the Economy: A Forum for Women in Banking" addressed topics critical to bankers and provided industry knowledge and leadership development to enhance careers and networks. The event included an economic update from Kansas City Fed President Esther George.

President Esther George meets with business and finance students from the University of Oklahoma at the Women in Banking forum on March 28, 2017.

"I work for an organization that holds you to a high standard," George said about her career at the Bank. "I learned early on that whatever you do, do it in a way that will help the public better understand the institution you serve."

Other topics included community banking regulations, cybersecurity, diversity, social media and fraud protection strategies.

The forum concluded with a panel discussion with top women leaders in Oklahoma, moderated by Kansas City Fed Board Chair Rose Washington.

The panel consisted of former Kansas City Fed Oklahoma City Branch Board members Jacque Fiegel and Jane Haskin, and President of United Way of Central Oklahoma Debby Hampton. The discussion covered career advice, lessons learned and words of encouragement.

"When I first started in banking, I rated my success on how others rated me," Haskin said. "Now, at the end of my banking career, I define success by asking myself each day if I felt that I went to work and used my abilities to the best I could and was I fulfilled in doing so—no one can rate your success but yourself."

Fiegel noted the difference in representation of women in the male dominated field of banking and how it has changed since she began her career.

"When I started my career, I don't know who would have been in the room during a conference like this," Fiegel said.

The panelists reflected on advice they wish they could share with themselves at age 25.

"While you may be given an opportunity because you are a woman, it is what you do with the opportunity that makes you a leader," Haskin said. "I would tell myself to not be afraid to take on a new role and to be prepared. Knowledge makes you powerful."

Stay updated with events at the Kansas City Fed at *www.KansasCityFed.org/events.*

Kansas City Fed plants saplings from Oklahoma City's Survivor Tree

Kansas City Fed employee Matt Ruemker and his daughter watch Ryan Abbas with Hermes Landscaping plant the Survivor Tree sapling. Ruemker coordinated the plantng at the Kansas City Fed's main office.

The Federal Reserve Bank of Kansas City recently accepted two young American elm saplings from the Oklahoma City Survivor Tree, which withstood a domestic terrorist bombing at the Alfred Murrah Federal Building on April 19, 1995. The young saplings were grown from seeds harvested from the tree, which is part of the Oklahoma City National Memorial.

The Kansas City Fed's Oklahoma City Branch building, which was located on Dean A. McGee Avenue in 1995, just two blocks away from the Murrah building, sustained heavy damage from the explosion. All 225 Oklahoma City Branch employees that day were shaken but uninjured; however, 168 people died as a result of the blast, including 19 children at a daycare in the Murrah building.

The Survivor Tree, badly damaged by the blast and feared lost, has continued to thrive and produce saplings that have been distributed around the country. The first to receive saplings from the tree were the survivors and family members of those killed or injured in the bombing. As the years have passed, the saplings have been shared with others as a testament to and reminder of human resilience. An inscription at the Survivor Tree in Oklahoma City reads, "The spirit of this city and this nation will not be defeated; our deeply rooted faith sustains us."

Kansas City Fed President Esther George arranged for the Bank to receive two saplings to be planted at its Omaha and Kansas City offices. The Kansas City Fed's Oklahoma City Branch has moved from McGee Avenue to Oklahoma City's Leadership Square, where the Bank does not have an outdoor area where a sapling can be planted.

To learn more about the Survivor Tree, visit *www.oklahomacitynationalmemorial.org.*

Educational resource introduces kids to entrepreneurship

The Kansas City Fed recently introduced a new online application to help older elementary school students become comfortable and familiar with the concept of running their own business. Building off the Bank's popular *Financial Fables* series, *Jay Starts a Business* takes students into the world of entrepreneurship.

"This interactive experience allows them to choose their own adventure as they walk through the process of starting their own business," said Tina Ellsworth, a Kansas City Fed education specialist who helped develop the materials. "We invite students to partner with our economic education mascot, Jay Eagle, to learn how to make business and economic decisions."

This app was created for classroom or at-home use by a unique collaboration of educators, designers, illustrators, developers, and voice talent. A teacher manual provides seven lessons to help extend the adventure into a larger classroom experience that emphasizes the economic concepts featured in Jay Starts a Business.

Visit *www.KansasCityFed.org/education/JayStartsaBiz* to learn more.

Jay Starts a Business is the latest edition in the Kansas City Fed's financial education programing for youth.

George recognized as UMKC Alumna of the Year

Kansas City Fed President Esther George is honored as Alumna of the Year by the University of Missouri-Kansas City Alumni Association. (Photo courtesy of UMKC)

The University of Missouri-Kansas City Alumni Association Governing Board recently honored Kansas City Fed President Esther George as UMKC Alumna of the Year. George attended an awards presentation with other recipients of Alumni Awards in May, where she was recognized for her role as president and CEO of the Kansas City Fed.

"Beyond her national leadership in shaping monetary policy, George also is known globally for her expertise," the committee wrote. "She hosts the annual Jackson Hole Economic Symposium and has participated in the Bank for International Settlements' Financial Stability Institute programs in Lima, Peru; Abu Dhabi, United Arab Emirates; Beijing and Malaysia. While much of George's work is national and international in scope, she generously lends her time to UMKC by giving presentations to UMKC Bloch students and inviting them to the Federal Reserve Bank of Kansas City so they can engage with economists and other professionals."

During her acceptance remarks, George shared how honored she felt to receive the award.

"As I look across this stage today, we are products of UMKC and its commitment to excellence across a range of disciplines," she said, stressing the importance of the university to the city, faculty, graduates and students.

George also stressed the importance of service to others and how that value has enriched her personal and professional development.

The ceremony recognized other outstanding UMKC alumni, including Kansas City Fed retiree Kathy Webster, who was given an achievement award for her role as national chair of the board of directors for WomenHeart: The National Coalition for Women with Heart Disease. Webster retired as an officer in the Bank's Facilities Management Department in April 2013.

Kansas City Fed's Money Smart efforts reach thousands

Kansas City's Money Smart Month has grown since it was founded with seven participating partners in 2008. Today, at least 280 organizations, including financial institutions and nonprofits, participate in and support Money Smart Month.

"Money Smart is unique in that it's all about collaborative partnerships," said Krissy Young, a vice president at the Kansas City Fed. "We want to encourage everyone to be smart about money."

The Federal Reserve Bank of Kansas City dedicates its efforts to promoting and expanding the financial knowledge of adults and children throughout the Tenth Federal Reserve District during Money Smart Month. Many of the events take place in April but also occur throughout the year.

Teach Children to Save is one of the most prominent elements of Money Smart Month. The program, a national initiative created by the American Bankers Association, connects volunteers with classrooms to provide lessons on healthy financial habits for students at a young age (K-3rd Grade). Volunteers from all four offices in the Tenth District participate in the program in some way. Overall, this year in the Kansas City Metro area, 167 volunteers from 13 organizations visited 320 classrooms in 119 schools, reaching approximately 6,830 elementary students.

To kick off Money Smart Month events in Kansas City, the Kansas City Fed hosted the ninth annual Money Smart Day at the Kansas City Public Library. The event attracted nearly 400 people, an increase of nearly 20 percent from 2016, to take advantage of financial education resources and expert advice. Money Smart Day 2017 served as the kick-off event for the month-long Money Smart Month campaign in April.


PHOTO BY GARY BARBER

Kansas City Fed Vice President Tammy Edwards volunteered to lead a Teach Children to Save lesson in 2017.

"Money Smart Day gave me an opportunity to branch outside of my department and interact with people from various divisions of the Bank," said Paula Odu, a Kansas City Fed employee who volunteered for Money Smart Day. "My experience volunteering at the event gave me insight into the hands-on work the Bank does to promote the value of service."

Learn how to get involved with Teach Children to Save at *www.kansascityfed.org/en/education/teachchildrensave.*

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The Federal Reserve System

Congress created the Federal Reserve in 1913 to bring financial stability after a number of banking panics. It is the nation's third central bank. The first, established in 1791, and the second, created in 1816, were each operational for 20 years. In both cases, its charter failed to be renewed and the banks closed.

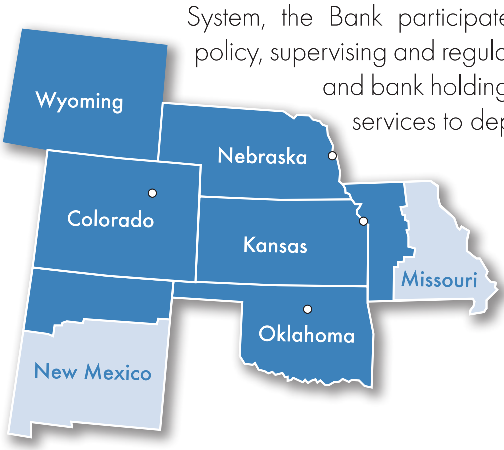
With the Federal Reserve Act, Congress sought to create a central bank the public would be more likely to support by making it "decentralized" with more local control. This new structure was designed to overcome one of the primary weaknesses of the previous central banks: public distrust of an institution that many felt could potentially be under the control of either government or special interests. The new central bank is a network of 12 regional Federal Reserve Banks, located throughout the country and under the leadership of local boards of directors, with oversight from the Board of Governors in Washington, D.C., a government agency.

The Federal Reserve is considered to be independent within government and broadly insulated from political pressures. While members of the Board of Governors are nominated by the president of the United States and confirmed by the Senate, the Federal Reserve's regional structure, including local boards of directors and advisory councils, ensures that views from a broad spectrum of the public nationwide contribute to the central bank's deliberations.

President Woodrow Wilson signed the Federal Reserve Act Dec. 23, 1913, and the 12 regional Federal Reserve Banks opened Nov. 16, 1914.

The Federal Reserve Bank of Kansas City

The Federal Reserve Bank of Kansas City and its Branches in Denver, Oklahoma City and Omaha serve the Tenth Federal Reserve District, which encompasses Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming. As a part of the Federal Reserve System, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing other services to depository institutions.



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Building off the Kansas City Fed's popular *Financial Fables* series, *Jay Starts a Business* takes students into the world of entrepreneurship. Focused on grades 3-6, Jay's interactive adventure allows students to choose their own path as they walk through the process of starting their own business. Through videos, interactive elements and classroom activities, *Jay Starts a Business* helps introduce students to entrepreneurship and related economic and financial concepts. To learn more about the Financial Fable series and the Kansas City Fed's other free educational tools for educators, bankers and consumers, visit WWW.KANSASCITYFED.ORG/EDUCATION.