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FEDERAL RESERVE BANK OF KANSAS CITY

Fall 2010

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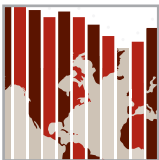
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WHO WILL LEAD? IMPLEMENTING FINANCIAL REGULATORY REFORM

In July, the president signed into law one of the most significant pieces of financial regulatory reform legislation in U.S. history. At 2,300 pages, the bill is considered to be the most sweeping reform of U.S. financial regulations since the Great Depression.

This legislation, of course, was in response to a severe recession that is among the worst in our history. During this recession, we suffered the loss of more than 8 million jobs in manufacturing, retail business and professional services; endured the collapse of hundreds of businesses of all sizes including the failure or near failure of numerous banks; and saw the evaporation of trillions of dollars in wealth from the stock market.

President Hoenig's column is based on remarks delivered at the Domenici Public Policy Conference at New Mexico State University this fall.

Making this all the more frustrating for many Americans, including me, were the causes of this crisis and economic collapse. The financial industry had lost its appreciation for the risks that come with investing. Speculative ventures in housing were widespread, as was trading in arcane and poorly understood financial instruments, including many tied to the real estate market. As long as housing prices continued to climb, it all worked. When the tide turned, the losses began to quickly mount, especially among some of the largest financial firms.

The fifth-largest investment bank, Bear Stearns, suddenly couldn't make its payments to

other firms and confidence was shaken. The Federal Reserve stepped in and helped finance a takeover by the commercial bank JPMorgan Chase, and a crisis was temporarily averted. Then, Fannie Mae and Freddie Mac, the two largest housing finance companies in the world, came under pressure. This time the federal government

stepped in directly and rescued the firms. Soon after that, Lehman Brothers, the fourth-largest investment bank, failed and there was no bailout. The crisis became a panic, pushing an already weak economy into a severe recession.

These events left congressional lawmakers with the challenge of taking steps to not only prevent a repeat of this crisis, but also improve the means for responding to future financial crises regardless of their cause. That is an exceptionally tall order and, needless to say, the Dodd-Frank Wall Street Reform and Consumer Protection Act has numerous provisions focused on these goals.

As you might expect given the issues, the Dodd-Frank Act is extremely complex, highly technical, and requires the interpretation and implementation of hundreds of new rules that are yet to be written. Each of these can lead to important and necessary changes that will protect our financial system. However, it is important to recognize that the president's signature on this legislation is only the beginning of a long process that will eventually determine the success or failure of this legislation and,



even more importantly, the ability of regulators to respond to and prevent crisis.

The title of my column, “Who Will Lead? Implementing Regulatory Reform,” does not refer to the question of which agency. In fact, the question of which agency is irrelevant unless we have leaders within those agencies who will firmly enforce regulatory standards. I am an advocate of a sound commercial banking system to underpin and facilitate the U.S. economy. It’s time the largest financial

As with any piece of legislation, not all agree that this Act will accomplish its objectives. Some within the public believe it falls short of its goal, and others from within the industry feel it goes too far. But for the moment, we must implement it as prescribed. Opponents are working hard to weaken its implementation and struggling to find loopholes to exploit. Others are insisting that it be implemented quickly and without exceptions to the broad rules outlined in the legislation. This is to be expected and is part of our political and capitalistic system. For example, the resolution process that I mentioned includes provisions that could leave it susceptible to political considerations and possible taxpayer bailouts of failing financial firms, especially when those failures happen quickly, as was the case during this crisis.

And so, as we look at this legislation and more broadly at our financial regulatory system, it is absolutely critical that it be implemented with strong, fair and firm leadership.

Let me give you an example of such a person. During the period of the 1980s, an individual named Bill Taylor stepped up to the task of dealing with what was then the worst banking crisis since the Great Depression. He headed supervision for the Federal Reserve System and then led the FDIC. He was forthright in his views, firm in his conclusions and fair almost to an extreme. He was a man of integrity and, when necessary, he was willing to take unpopular positions. He recognized that the failure of a bank, regardless of its size, had an important impact on the community it served, its business customers and consumers. He understood that the job of a bank supervisor was not to close banks, but to enforce rules and



KANSAS CITY FED PRESIDENT TOM HOENIG speaks around the seven-state region of the Tenth Federal Reserve District, which includes northern New Mexico, on the financial crisis and the Dodd-Frank Act. Many organizations, including the Federal Reserve, have a significant role in the implementation of financial regulatory reform.

institutions experienced a little “tough love” from all of the financial regulatory authorities. That is to say, we should not be tough because they deserve a thrashing, but because we need a sound, robust banking system.

exercise regulatory judgment that minimized bank failures in order to strengthen the safety and soundness of the financial system. He encouraged strong capital standards, insisted on tough examinations and always outlined careful actions with a focus toward proactively reducing the number of failures, thereby preventing or mitigating much of the damage before problems became an unmanageable crisis.

Finally, Bill was not intimidated by those he had to supervise. He consistently administered capital rules, examination findings and enforcement actions from the largest to the smallest institutions. I was in meetings with Bill where he would look the CEOs of some of the largest firms in the eyes and tell them that they needed to increase their capital and address problem loans or the bank would fail. Delivering bad news and enforcing rules for safe lending is never an easy matter, but Bill knew it was necessary and he had the courage of his convictions. Leadership will be the most important element in the success of the new law in the months and years to come.

This year, our Reserve Bank published a brief biography of Bill that focused on his experiences during the financial crisis of the 1980s. Those who read this book, which is available on our website, not only can see the important role of Bill's leadership, but also might be surprised at the similarities between this most recent crisis and the events of two decades ago.

CONCLUSION

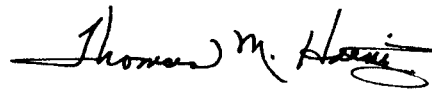
Strengthening financial regulation is a necessary response to the recent crisis. The Federal Reserve, the Treasury, and other

banking and securities regulators will now shape the law further as they write new rules and begin the process of implementation.

This law is complex and the real challenges are ahead. Those who will implement this reform legislation must make it understandable without weakening its intent and without undermining its goals. They must serve the objective of protecting the financial system and especially the businesses and consumers who use financial services. This must also occur without destroying the competitive environment and the personal responsibility of everyone for their financial decisions that is necessary for capitalism to work. We must explain it in simple, understandable terms to the financial industry, the business operator and the consumers who will be affected by it years into the future.

Most importantly, we must show leadership in making sure it works.

If we fail, then I can assure you we are indeed doomed to repeat the mistakes of the past, again.

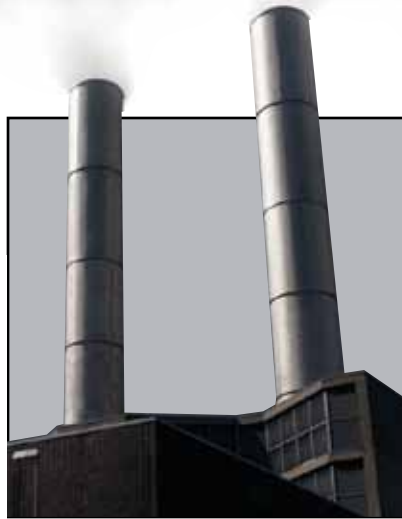


THOMAS M. HOENIG, PRESIDENT
FEDERAL RESERVE BANK OF KANSAS CITY

Watch President Hoenig's presentation on financial regulatory reform and the question-and-answer session at cspan.org.



Not your father's recovery:



The changing dynamics of labor productivity

The National Bureau of Economic Research, which is the body that determines the dates of U.S. business cycles, considers a wide range of information and data before making its official determinations about U.S. business cycles, such as the start of a recession or the beginning of an economic recovery.

For many Americans, however, the reality of either a recession or a recovery hinges more closely on a single issue: jobs. Certainly, viewed through a political lens from elected officials facing a recession, though a wide range of data may show signs of an economic recovery, it might not be viewed as a “real” recovery until the jobs numbers show a significant rebound.

This idea of a recovery that does not “feel like” a recovery has become more common in recent U.S. experience. In the aftermath of both the 1990-91 and 2001 recessions, the nation had what are referred to as “jobless recoveries.” During both, the economy resumed growing while joblessness continued to rise for more than a year afterward. In both cases, many analysts noted faster growth in labor productivity as contributing to the growth in output. For policymakers, understanding the way productivity has changed in recent years is important for gauging the outlook

for the current recovery as well as what role productivity may play in future economic cycles.

More productive

Although productivity is a key component of the nation’s economy, for a non-economist, the concept may be difficult to grasp, especially when presented in quantifiable terms. For example, most workers would say that, regardless of economic conditions, their individual productivity changes little, if at all. Meanwhile, the Bureau of Labor Statistics announces quarterly productivity reports that show sometimes substantial increases or decreases in productivity.

The overall productivity for the U.S. economy is measured as the output of U.S. factories and firms per hour worked. For example, at its most basic level, if the nation’s output shrinks while hours worked remain steady, then productivity drops. Conversely, if output rises while hours hold steady, productivity rises.

“Until the mid-1980s, productivity rose during expansions and fell during contractions along with output,” says Willem Van Zandweghe, a Federal Reserve Bank of Kansas City economist. “But in recent years,

the behavior of productivity has become more weakly related to the state of the business cycle. For instance, it no longer tends to fall during recessions.”

Van Zandweghe recently completed a research project on the shifting dynamics of labor productivity. Although his research looked at changes across the business cycle and did not focus specifically on recessions or periods of economic growth, a historical look at recessions can help to illustrate how dramatically the dynamics of productivity have shifted.

For example, during the 1981-82 recession, Van Zandweghe notes that productivity weakened slightly with hours worked declining more slowly than the drop in output. However, during the most recent recession, productivity moved the other way. From the fourth quarter of 2007 through the second quarter of 2009, output in the nonfarm business sector fell while labor productivity actually increased.

In his research, Van Zandweghe considered two hypotheses that could explain such changes in the business cycle behavior of productivity. The first is that supply shocks are playing a diminished role in the business cycle. An example of a supply shock would be a dramatic increase in energy prices that forces firms to scale back production. The second hypothesis is that there have been structural changes in the labor market that have changed traditional methods of managing personnel, such as a more aggressive use of hirings and layoffs. He found it was the second of these—structural changes in labor markets—that likely had the more significant impact on the shift in productivity dynamics.

Among the changes he notes is a transition away from a practice known as “labor hoarding.” Under this practice, firms focused on smoothing employment and paid more workers than needed through the low points in the business cycle. Labor hoarding could be driven by several factors including firms looking to avoid the high costs of hiring and firing, a desire to hold onto staff with



ALTHOUGH PRODUCTIVITY is relatively simple to measure at a factory, the concept of overall U.S. economic productivity may be a difficult concept to comprehend. Still, changes in productivity, and in the behavior of productivity, could have important ramifications for the economic recovery.

specialized skills or concerns about the impact labor adjustments can have on morale.

A decline in some of these various forms of labor adjustment costs was likely among the factors contributing to the demise of labor hoarding.

The decline in labor adjustment costs may be related in part to technological innovation. For example, computers have reduced the value of some job-specific skills, especially for those workers with moderate education who perform routine tasks.

“It has exposed the middle tier of white-collar workers to replacement by computers or outsourcing,” Van Zandweghe says. “There is evidence suggesting firms have increasingly turned to flexible labor, including temporary employees, part-time hiring and overtime.”

Collectively, this more aggressive management of the workforce became increasingly prominent during the 1990-91 recession.



PHOTO BY CORBIS

Another potentially important structural change in labor markets relates to the outlook held by individual firms for product demand. For example, in the 2001 recession, many industries that lost jobs during the recession continued to lose jobs in the recovery. Meanwhile, many industries that gained jobs during the 2001 recession continued to expand payrolls during the recovery. In these cases, the firms shedding jobs seemed convinced either of a continuing downturn in their industry or, at the very least, a very uncertain future.

“If a firm perceives the recession as heralding a permanent decline in the demand for its products, the firm has a strong incentive to cut hours and eliminate jobs,” Van Zandweghe says, “despite the associated costs.”

The future

Determining the roles of these various trends is difficult, Van Zandweghe says. For example, there are no measures of labor hoarding and how it may change during a particular economic climate. However, his research does show a change in the behavior of productivity that could have implications for the recovery and future economic cycles.

Early in the current expansion, employ-

ment continued to decline while productivity surged. In the last three quarters of 2009, productivity expanded at an average annual rate of 7.2 percent, more than twice as fast as the annual growth rate of 2.7 percent since 1995.

Productivity was clearly boosted by a decline in worker hours during 2009, he says, but changes in technology likely also had an impact.

“The analysis suggests that new technologies will continue to contribute to fluctuations in productivity to the same extent as what we saw before the mid-1980s,” he says.

Changes in the relative contribution of supply shocks therefore do not appear to explain the altered dynamics of productivity.

A decline in the practice of labor hoarding by firms is a more plausible explanation for the shift in the behavior of productivity in recent decades. Van Zandweghe says that means that during the recovery and economic expansion, productivity growth should slow. At that point, the expansion will be driven primarily by job gains and a rise in hours per worker.

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BY TIM TODD, TEN CONTRIBUTING WRITER

FURTHER RESOURCES

“WHY HAVE THE DYNAMICS OF LABOR PRODUCTIVITY CHANGED?”

By Willem Van Zandweghe
KansasCityFed.org/TEN

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



Manufacturing a survey

THE FEDERAL RESERVE BANK OF KANSAS CITY GOES TO THE SOURCE FOR DATA ON THE DISTRICT

The best way to gauge how manufacturers are doing during the nation's recovery from the recession: just ask them.

Since 1994, the Kansas City Fed has surveyed manufacturers in the Tenth Federal Reserve District, which is western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico, about changes in production, orders and inventories.

The manufacturing survey is the Kansas City Fed's primary source of timely regional information on several economic indicators, such as prices, production and capital spending.

"The survey provides real-time information that is extremely valuable and frequently offers anecdotal perspective from behind the numbers," says Megan Williams, an associate economist at the Kansas City Fed's Oklahoma City Branch, who administers the survey.

The results are a source of information not only about the District's manufacturing sector, but also for specific variables, such as prices and capital spending, for which no independent data regionally exist.

Along with other regional surveys, the District's results also can play a key role in assessing the state of the national manufacturing sector.

Staff from the Kansas City Fed's Oklahoma City Branch oversee the process, which is outlined here.

Read survey results and sign up for e-mail alerts at KansasCityFed.org.

TEXT BY BRYE STEEVES, EDITOR
ILLUSTRATIONS BY CASEY MCKINLEY,
SENIOR GRAPHIC DESIGNER



1

Every other year, the Kansas City Fed purchases a list of all manufacturers in the Tenth District. Based on size, industry and location, a sample of participants is then selected for a database of manufacturers to be surveyed.

Manufacturing industries in the database are diverse, including food, machinery and computer producers. They range in size, from less than one hundred employees to more than 1,500, with annual sales from less than \$10 million to more than \$500 million. There is geographic representation of all seven states in the District.

2

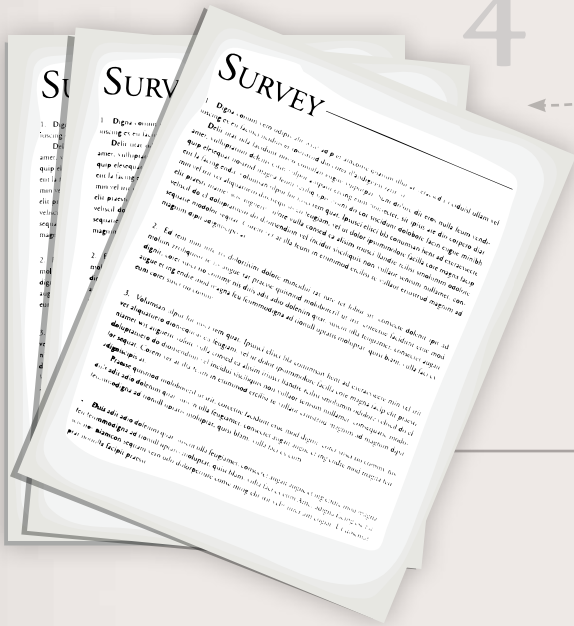


Links to a secure online survey are e-mailed to the manufacturers toward the end of each month. The survey includes 13 standard questions, as well as special questions relevant to current regional or national economic trends.

3



4



Kansas City Fed staff generally receive upward of 130 responses each month. Survey replies, which must be submitted online within four business days, are tallied by a website application.

5

Kansas City Fed staff then create a report, which summarizes the findings for each major question. Changes in indicators, such as production, shipments, and prices of raw materials and finished products, are recorded.

6

ON THE LAST THURSDAY OF THE MONTH, THE REPORT IS DISTRIBUTED.

It's released to the media. Results are published and analyzed by regional and national media outlets, as well as various economic websites.

It's used in preparation for Federal Open Market Committee meetings.

It's used by economists for research. Accumulated results also help identify the effectiveness of the survey.



PHOTO BY KEITH BALL



Sparking demand:

Industry, destination determine region's export opportunities



Wilco Machine & Fab may be based in tiny Marlow, Okla. (population 4,500), but the company has quickly established a global presence.

Founded 30 years ago, Wilco has developed a solid reputation as a manufacturer of bulk transport and storage equipment for the energy industry. But, in 2007, the company's leaders knew they needed to find new ways to keep the business growing and began work on developing the firm's first export plan.

Since then, the firm has embarked on an aggressive strategy of expanding its export market, targeting countries in Latin America and the Middle East where demand for its products is expected to grow significantly.

"The decision to pursue an export growth strategy was almost a no-brainer," says Anthony Chandler (pictured above), Wilco's vice president of administration. "Seventy percent of the world market is outside the U.S., and any growth will come from other countries."

Wilco hired more engineers to ensure its equipment would meet the needs of global customers. Following trade missions to Brazil and the Middle East, the company struck business agreements with firms in both regions. Currently, Wilco is looking into ways to expand into Russia and southeast Asia.

"You've got to be a solution provider," Chandler says. "Everything has to be customizable to fit a client's needs. You just can't sell a widget anymore."

Wilco is one of many companies looking for—and finding—opportunities overseas. United States exports were dealt a heavy blow during the financial crisis, but as the economy recovers from the recent recession, many economic forecasts call for continued growth in export markets.

In the Tenth Federal Reserve District—an area that includes Oklahoma, along with Kansas, Colorado, Nebraska, Wyoming, western Missouri and northern New Mexico—the prospects for export growth are also strong, say Chad Wilkerson and Megan Williams of the Federal Reserve Bank of Kansas City. However, the effect of export growth on the economies of individual states will vary based on factors such as industry mix and export destinations, they explain.

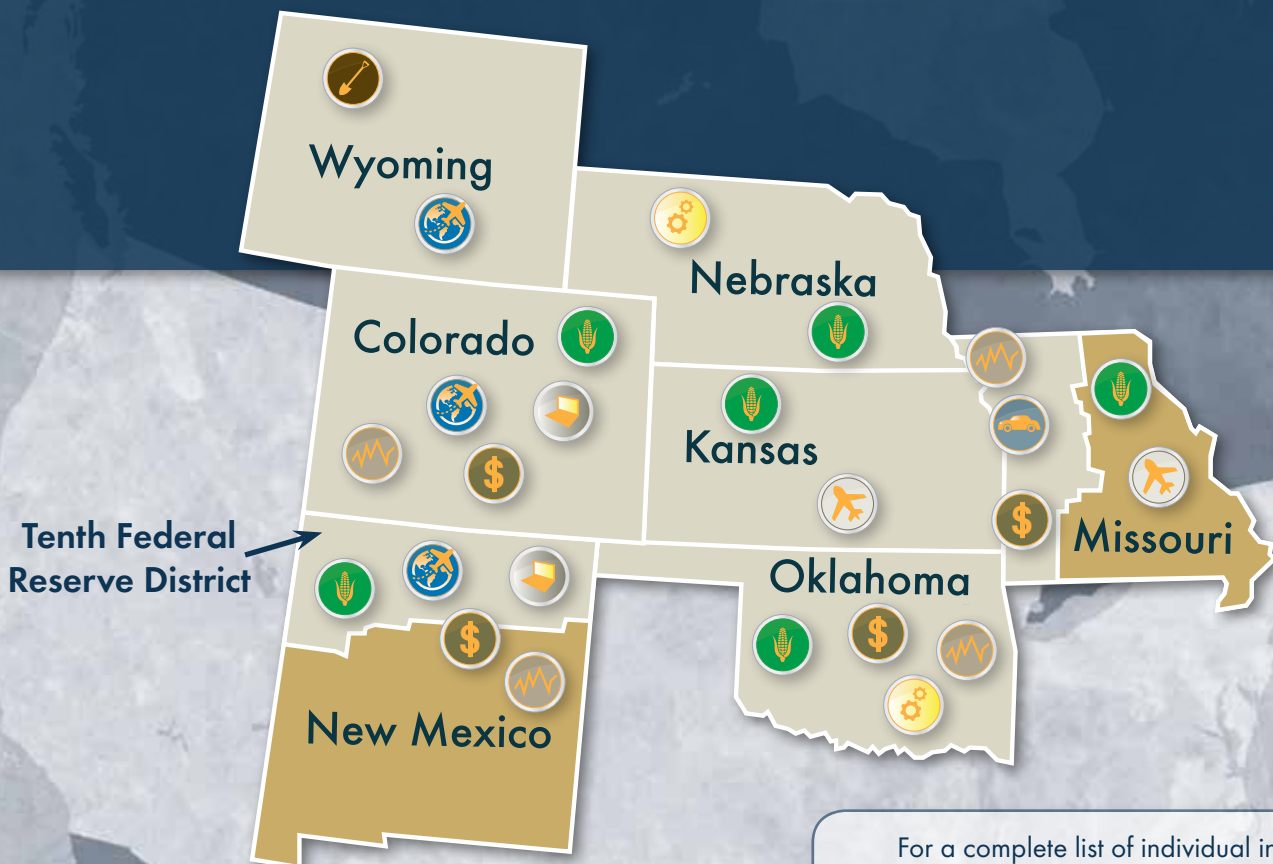
"Most states in the District are likely to see fewer benefits from exports than the rest of the nation, largely due to smaller export sectors and less-favorable industry mixes," says Wilkerson, who is the Kansas City Fed's Branch executive at its Oklahoma City office. "Of course, there are exceptions."

"In general, states in the District have

Regional Exports

One way to explain variations in export growth across the Tenth Federal Reserve District is to look at each state's industry mix. Throughout the District, several industries are responsible for a larger share of exports than the nation as a whole. This map shows the industries in each state that export more than their national averages.

-  Materials and supplies
-  Agriculture and food
-  Computers and software
-  Travel
-  Aircraft and parts
-  Royalties and other services
-  Automotive parts
-  Machinery and equipment
-  Business and financial services



For a complete list of individual industries and export destinations, see Chad Wilkerson and Megan Williams' *Economic Review* article "The Export Potential of Tenth District States" at KansasCityFed.org/publications.

an adequate mix of trading partners,” adds Williams, an associate economist at the Oklahoma City Branch. “But other factors play a role in determining the District’s export potential.”

Recent export trends

During the height of the financial crisis, world trade essentially collapsed as credit became harder to get and firms pulled back on expansion plans, Wilkerson says. From the second quarter of 2008 to the same period in 2009, U.S. exports fell more than 20 percent, the largest decline in a half-century.

However, exports soon bounced back. By the second half of 2009, the sector began to recover, and by the first quarter of 2010, exports were up 16 percent from year-ago levels.

Among the industries benefitting from the recent rise are those producing manufactured goods such as automobiles, auto parts, materials and supplies.

“These industries suffered the biggest hit during the financial crisis, so logically, they had the most room to rebound,” Williams says.

U.S. exports have also rebounded in terms of destination, the economists say. By early 2010, exports to Asia were up about 30 percent from a year earlier, and exports to Canada and Mexico also experienced solid gains.

In the District, the decline in exports affected the regional economy less than the nation as a whole. This is largely because the District has a smaller export sector, accounting for just 9.5 percent of District gross domestic product (GDP), compared to 13 percent for the nation, the economists say.

Wilkerson and Williams add that as a result of the smaller export sector, the impact of the export decline on the District’s overall GDP was likely about two-thirds of that experienced by the nation. And, as global trade has rebounded, the export boost to the District has also been smaller proportionally when compared to the nation.

Explaining differences

When Wilkerson and Williams looked at the export activity throughout the District, they noticed wide differences among individual states. For example, New Mexico saw a 50 percent decline in manufacturing exports during the recent downturn, while Nebraska and Oklahoma saw declines of less than 15 percent. Likewise, during the national export boom of 2003-08, total exports from Kansas grew 40 percent faster than the national rate, while exports from Colorado and New Mexico grew about 30 percent less.

What accounts for the large variations?

“Several District states have unique export sectors,” Wilkerson says. “What and where a state exports can account for much of the difference in export trends.”

For District states, Wilkerson and Williams identified three important factors that help explain the differences:

- **Industry mix:** “Foreign demand for certain goods and services changes over time,” Wilkerson says. “Because different areas of the country produce different types of products, export activity can vary from state to state.” As a share of total exports, the District has a higher concentration than the United States in agriculture and food, aircraft and parts, travel, business and financial services, and royalties and other services.

- **Destination:** The District’s destination mix is similar to the nation’s in that the two biggest export destinations are western Europe and Canada. However, some District states, including Kansas and Nebraska, have a higher share of exports headed to Japan and eastern Europe. States that export to fast-growing countries or countries with favorable exchange rates can also have an advantage.

- **Local factors:** These factors include such things as attraction or loss of exporting firms, higher or lower exporting levels from current firms, the proximity of new trading partners, changes in the long-term costs of transportation

and communication, local policy differences, and changes in human and physical capital.

Wilkerson and Williams analyzed the relative contributions of these factors in determining the export growth trends for the District and each state.

The economists found that from 2003 to 2008, the District's export sector grew slightly faster than the rest of the nation due to a favorable industry mix, which, along with local factors, helped offset a slightly less favorable mix of export destinations. The District's large presence in agriculture and aircraft exports helped fuel this export boost, Wilkerson and Williams say.

Kansas' export sector, in particular, benefited from its heavy concentration of aircraft suppliers. Wichita, which has aircraft

facilities operated by Boeing, Cessna, Hawker Beechcraft and others, was recently named the top metro area in terms of export growth in a report from the Brookings Institution. The report said Wichita was one of four metros that doubled its exports during the last five years.

"The experience of Kansas shows how local factors, such as the concentration of large exporting firms, can provide a sizable boost to a state's total export sector," Wilkerson says.

For other states, such as Oklahoma, the mix of trading partners played a more important role. Oklahoma sends more exports than the national average to fast-growing Africa and the Middle East. The higher concentration of exports to those regions helped Oklahoma post faster-than-average export growth from 2003 to 2008.

WICHITA-BASED AIRCRAFT MANUFACTURER HAWKER BEECHCRAFT is a major exporter and a key part of the region's aircraft cluster. The presence of major exporters such as Hawker Beechcraft helped make Kansas the top exporting state in the Tenth District in 2008. However, the state's mix of industries and export destinations are not expected to be as favorable as the rest of the nation in the coming years, say economists Chad Wilkerson and Megan Williams of the Kansas City Fed.

COURTESY PHOTO



The outlook

Most economic forecasts predict strong U.S. export growth in the near future, with estimates of 10.5 percent annual growth through 2014. World economic growth, especially in emerging countries, is also expected to rise strongly. An estimate from the International Monetary Fund found global GDP could grow 4.8 percent in 2010 and 4.2 percent in 2011, with even stronger growth in developing Asian countries.

In addition, exporters are gaining support from policymakers, with the White House announcing a goal earlier this year of doubling exports within the next five years. Another positive factor for U.S. exporters is the dollar's comparatively weaker position against several currencies, making U.S. exports cheaper for overseas consumers.

Of course, how much the District will benefit from this expected export sector growth remains to be seen. Similar to the export boom from earlier this decade, much will depend on individual industries and destinations, Williams and Wilkerson say.

For example, automobiles and parts, along with machinery and equipment, could experience the fastest export growth among U.S. industries during the next few years. However, agriculture—a major District export—could grow much more slowly, but still at a 6 percent annual pace, according to some estimates.

In terms of destinations, China, Asia (excluding Japan), and Mexico appear to hold the most promising potential for U.S. exporters. Meanwhile, exports to Canada, Latin America and western Europe will grow much more slowly—but still likely more than 7 percent annually.

When this forecast is applied to the District, it appears the District's exports will grow more slowly than the nation, Wilkerson and Williams say. The District's higher concentration in agricultural exports and low concentration in automobile production

translate into lower export growth potential.

"But, the District is still likely to see strong export growth," Williams says. "If the District's export industries grow as forecast, District exports would rise by about 9 percent annually through 2014. That's a strong increase, but about 12 percent slower than the nation."

However, if the District's exports grew as their destination mix suggested, the District's export growth would more closely resemble the nation's, Williams and Wilkerson say.

"The trading partners of most District states are expected to experience solid growth in the near-term," Wilkerson says. "Also, other factors, such as policies developed by local leaders and efforts to improve worker skills, will play important roles for individual states. The most successful regions could be those that develop their local resources to take advantage of the emerging global market."

That solid growth could mean more opportunities for companies such as Wilco Machine & Fab, where executives clearly see potential for expanding markets.

"There's an enormous amount of growth opportunity," Wilco's Chandler says. "We're having a lot of success, and companies not looking for export opportunities are really selling themselves short."



BY BILL MEDLEY, TEN CONTRIBUTING WRITER

FURTHER RESOURCES

"THE EXPORT POTENTIAL OF TENTH DISTRICT STATES"

By Chad Wilkerson and Megan D. Williams
KansasCityFed.org/TEN

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

A click for everyone



Kansas City Fed's redesigned website offers easily searchable information, new look

Whether you're a banker, educator or consumer, you're just a few clicks away from more free resources, easier-to-navigate information and a fresh look.

The Federal Reserve Bank of Kansas City recently launched its redesigned website. The result: a simpler way to get information related to the economy and the Fed.

"KansasCityFed.org first launched in 1996 and has undergone several smaller redesigns through the years. This recent large-scale effort, which began about a year ago, was driven by the goal to better understand users' needs and tailor our online resources accordingly," says Kristina Young, vice president of Public Affairs. "Now more than ever, as our nation recovers from a recession, people should know they can come to the Kansas City Fed for assistance and information."

Staff applied test results from real Web users to more effectively organize content, provide relevant information and educate everyone visiting the site.

The website includes "The Fed and You" educational video; full publications, including research articles, books and conference proceedings; downloadable lesson plans, activities and games; full speeches from President Tom Hoenig and other staff; Money Museum tour registration; online events registration; current and historical data; and more.

Here's a glimpse of the homepage.



BY BRYE STEEVES,
EDITOR

Featured information: At a glance, you can learn more about what the Kansas City Fed is doing as it's happening and how it affects you.

"Our President": View Tom Hoenig's most recent speeches on the nation's recovery and monetary policy moves.

Branch offices: The Kansas City Fed has a presence throughout a seven-state area. Learn how the Denver, Omaha and Oklahoma City staff form regional connections through speaking engagements, events, research and more.



Events: See upcoming events in your area and click to get details and registration information.

"The Economy": Need regional and national data? Get updated numbers as they are available on economic conditions, agriculture, financial stress, low- and moderate-income communities, manufacturing, and banking.

Quick tabs: Easily browse the most recent speeches, publications, papers and news from the Kansas City Fed.

The Federal Reserve Bank of Kansas City has an updated website. Check out the free resources and information for consumers, bankers, educators, researchers and others at **KansasCityFed.org**.

MACROECONOMIC CHALLENGES: THE DECADE AHEAD

ANNUAL ECONOMIC POLICY SYMPOSIUM

AS MUCH OF THE GLOBAL ECONOMY SLOWLY RECOVERS FROM ITS DEEPEST DOWNTURN SINCE THE GREAT DEPRESSION, MANY OF THE WORLD'S GREATEST MINDS AND FOREMOST EXPERTS GATHERED FOR AN EXCHANGE OF IDEAS. MORE THAN 100 CENTRAL BANKERS, POLICYMAKERS, ACADEMICS AND ECONOMISTS CONVENED AUG. 26-28 AT THE FEDERAL RESERVE BANK OF KANSAS CITY'S ANNUAL ECONOMIC POLICY SYMPOSIUM IN JACKSON HOLE, WYO.

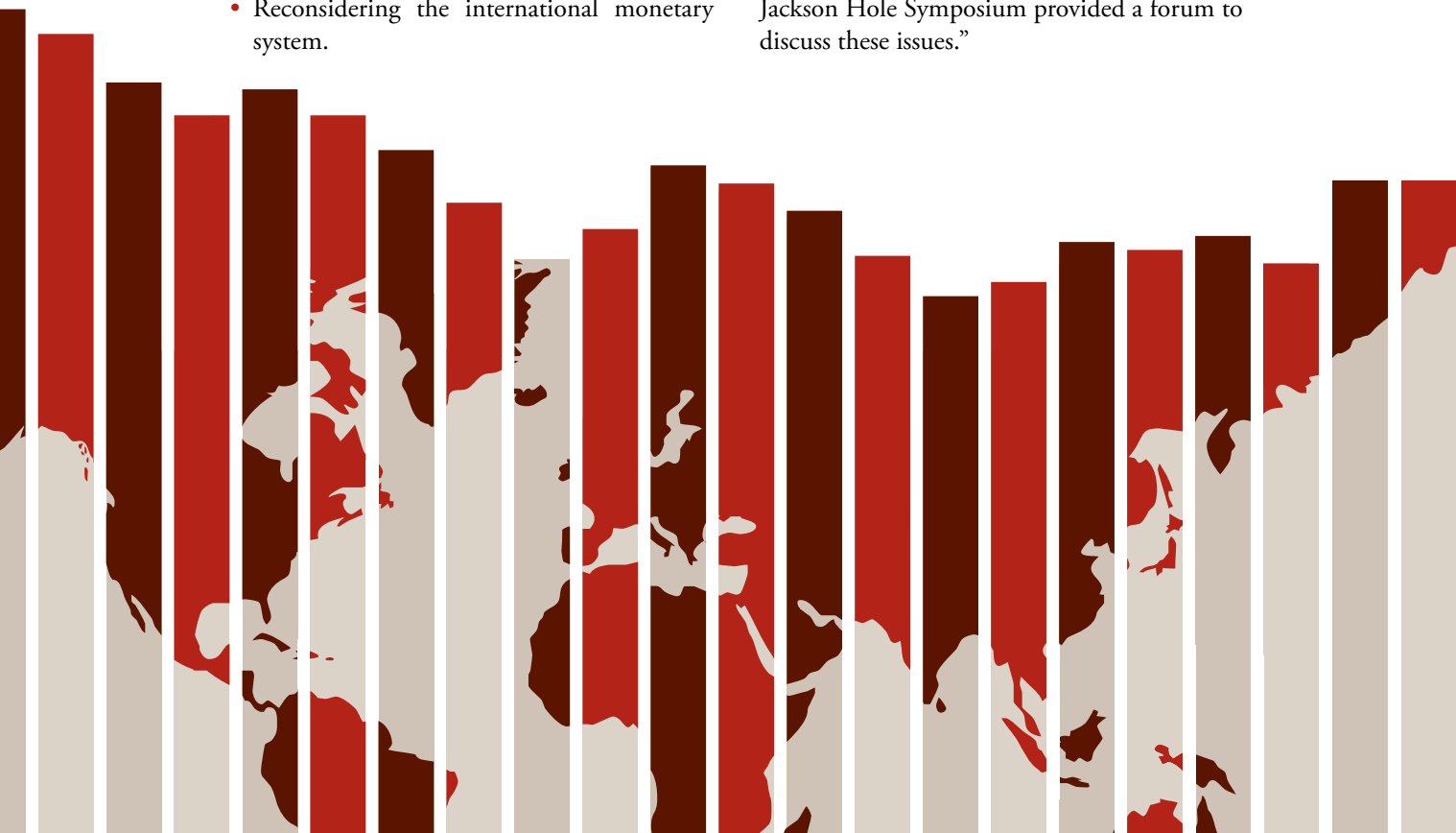


Speakers included Federal Reserve Chairman Ben Bernanke and President of the European Central Bank Jean-Claude Trichet. Participants discussed economic issues, implications and policy options related to this year's topic, "Macroeconomic Challenges: The Decade Ahead," including:

- Evaluating the global economic recovery,
- Incorporating financial factors into macroeconomic analysis,
- Inflation dynamics in the decade ahead,
- Rethinking monetary policy in light of the crisis,
- Risks and challenges of large fiscal deficits, and
- Reconsidering the international monetary system.

Much of the world is slowly recovering from the recession that began in December 2007. This downturn was marked by a housing bust and resulting credit crisis, followed by high unemployment and a dramatic drop in consumer spending.

"The financial crisis has fundamentally altered the landscape," says Tom Hoenig, president of the Kansas City Fed. "High unemployment, large budget deficits and an unprecedented expansion of central bank balance sheets have made the inflation and growth outlook uncertain. The strained financial picture here and abroad has led to questions regarding the future structure of the international monetary system. The 2010 Jackson Hole Symposium provided a forum to discuss these issues."



The world listens

Bernanke's highly anticipated remarks recapped the economic outlook and the Federal Reserve's response, as well as future policy options, if needed.

"The annual meeting at Jackson Hole always provides a valuable opportunity to reflect on the economic and financial developments of the preceding year, and recently we have had a great deal on which to reflect," Bernanke says. "Together with other economic policymakers and the private sector, the Federal Reserve remains committed to playing its part to help the U.S. economy return to sustained, noninflationary growth."

Last year, symposium participants focused on "Financial Stability and Macroeconomic Policy." The symposiums date back to 1978 when the Kansas City Fed hosted "World Agricultural Trade: The Potential for Growth" in Kansas City. The event moved to Jackson Hole in 1982. The location is in the northwest corner of the Kansas City Fed's Tenth District, which includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico.

Given the participants, topics and notoriety, there is substantial interest in the symposium. However, to help foster the open discussion that has been so critical to the symposium's success, attendance at the event is limited. All symposium participants, including the media, pay a fee to attend. The fees are used to recover event expenses.

"Through the years, this event has provided the forum for an invaluable exchange of ideas," Hoenig says. "Its legacy and prestige is the result of its attendees."



BY BRYE STEEVES, EDITOR

TO READ THE PROCEEDINGS, including papers and commentary for this year's economic policy symposium, and previous symposiums, visit KansasCityFed.org/research.

- 2010, Macroeconomic Challenges: The Decade Ahead
- 2009, Financial Stability and Macroeconomic Policy
- 2008, Maintaining Stability in a Changing Financial System
- 2007, Housing, Housing Finance and Monetary Policy
- 2006, The New Economic Geography: Effects and Policy Implications
- 2005, The Greenspan Era: Lessons for the Future
- 2004, Global Demographic Change
- 2003, Monetary Policy and Uncertainty
- 2002, Rethinking Stabilization Policy
- 2001, Economic Policy for the Information Economy
- 2000, Global Economic Integration: Opportunities and Challenges
- 1999, New Challenges for Monetary Policy
- 1998, Income Inequality Issues and Policy Options
- 1997, Maintaining Financial Stability in a Global Economy
- 1996, Achieving Price Stability
- 1995, Budget Deficits and Debt: Issues and Options
- 1994, Reducing Unemployment: Current Issues and Policy Options
- 1993, Changing Capital Markets: Implications for Monetary Policy
- 1992, Policies for Long-Run Economic Growth
- 1991, Policy Implications of Trade and Currency Zones
- 1990, Central Banking Issues in Emerging Market-Oriented Economies
- 1989, Monetary Policy Issues in the 1990s
- 1988, Financial Market Volatility
- 1987, Restructuring the Financial System
- 1986, Debt, Financial Stability and Public Policy
- 1985, Competing in the World Marketplace (Kansas City)
- 1985, The U.S. Dollar
- 1984, Price Stability and Public Policy
- 1983, Industrial Change and Public Policy
- 1982, Monetary Policy Issues in the 1980s
- 1981, Modeling Agriculture for Policy Analysis in the 1980s (Vail, Colo.)
- 1980, Future Sources of Loanable Funds
 - for Agricultural Banks (Kansas City)
- 1979, Western Water Resources (Denver)
- 1978, World Agricultural Trade (Kansas City)



Hitting the books by surfing the Web: Two updated sites offer free econ resources

Michele Wulff is a former public school educator of 30 years and a 2007 recipient of the peer award "Excellence in Teaching Economics." As an economic education coordinator with the Kansas City Fed, she works to heighten financial literacy throughout the seven states of the Tenth District.

As kids settle into another school year, there are several ways parents can supplement lessons from the classroom at home.

The Federal Reserve offers free, online resources to reinforce economic and financial education concepts for children of all ages. You don't have to be an educator to help your own student learn, and you may even pick up a thing or two yourself. It's easier than ever—all you have to do is log on.

Back in my early teaching days, student



PHOTO BY GETTY IMAGES

research meant multiple library visits to read through stacks of books and periodicals. The preferred reference material of most students was the trusty set of encyclopedias.

Today, thanks to the Internet, research is a snap for students. The amazing variety of

websites and the ability to narrow searches to specific topics is truly an exciting improvement.

The Kansas City Fed offers two websites loaded with economic and personal finance information: FederalReserveEducation.org, a website dedicated exclusively to economic education, and KansasCityFed.org, our organization's website that offers data, research articles, educational resources, events and more for all ages. We've just updated both websites.

FederalReserveEducation.org has streamlined navigation and searches for quicker accessibility. Links include Classroom Resources, Public Resources, About the Fed, and News and Multimedia.

Classroom resources can be found by grade level or by topic, and contain lesson plans, activities, and publications. Educators can search for specific resources that correlate to their content standards. Resources range from articles to interactive games and accommodate many learning styles. Examples include children's literature lesson plans, online videos, and money and banking activities. I recommend these games to develop a child's economic and personal finance savvy: *Escape from Barter Island* (ages 7-10), *Fedville* (ages 8-12), and *Peanuts and Crackerjacks* (ages 14 and older).

Public resources include banking and consumer protection information, such as establishing credit and protecting against identity theft. Free Fed publications are also available on this link. In student resources, *Building Wealth* is a great personal finance tool for high school and college students as they learn to save, budget and invest on their own. Your teen will enjoy checking out *Show Business: The Economics of Entertainment*,

and, if you are a trivia buff, you'll appreciate the Fun Facts about Money Web page.

Brush up on the Fed's development by visiting About the Fed. This section includes information on the structure and functions of the Federal Reserve as the nation's central bank.

Current economic events are covered in the News and Multimedia section, which also houses an assortment of videos and games.

KansasCityFed.org is oriented to the region, covering resources tailored for our Federal Reserve District that includes Colorado, Wyoming, New Mexico, Nebraska, Kansas, Missouri and Oklahoma. The education link is organized for each of its audiences: educators, consumers and bankers. You can also sign up for a free tour of the Money Museum in Kansas City, or contact us with your questions or comments.

The education link has material for teachers, such as lesson plans, role plays and discussion questions. An archive of *TEN's* "Common Cents" columns is stored there by topic. These materials could easily be used by parents or bankers who interact with children through tours or classroom visits. I suggest

you download our Fifty Nifty Econ Cards to help kids with economic and personal finance vocabulary through fun activities and games. Here, your child also can download word puzzles and quizzes to test his or her knowledge. Try completing one of the crossword puzzles or playing Bingo with your child on Pages 22 and 23.

The Banker Resources section has educational suggestions specifically for bankers visiting the classroom. This Web page also includes links to banking publications and information about our traveling currency exhibit.

The Consumers Help category has helpful links on credit, tours and a variety of publications. Also included is an area for consumers to file a complaint if they are having a problem with their financial institution or to view frequently asked questions.

These websites should prove helpful as a means of developing economic and personal finance expertise for all ages. Enjoy your exploration!



Financial Education Resources

The Kansas City Fed is committed to promoting economic and financial literacy and greater knowledge of the Federal Reserve's role by providing resources for teachers, students and the public.

Economic and Personal Finance Resources:

Fifty Nifty Econ Cards at KansasCityFed.org introduce economic and personal finance vocabulary to kids through use of teacher- or parent-guided activities and games. For ages 6 -12.

NewMoney.gov shares information on new currency designs and security features added to thwart counterfeiting. For ages 14 and older.

Building Wealth on FederalReserveEducation.org helps consumers develop financial goals through saving, budgeting and investing information. For ages 16 and older.

For more free activities, videos, curriculum and other resources, go to **FederalReserveEducation.org** and **KansasCityFed.org**.

Bingo!

Get a game of economics Bingo going! Use coins as markers and see who will get the first Bingo while learning economic concepts at the same time. Read each word meaning and have kids mark the matching concept. Here is one card to get you started. You can customize and print more Bingo cards at FederalReserveEducation.org/resources.

| | | | |
|----------------|----------|------------------|----------------|
| SUPPLY | LOSS | PRICE | GOODS |
| SPECIALIZATION | EARN | CHOICE | ECONOMICS |
| BARTER | SURPLUS | FREE SPACE | SERVICES |
| EXPORTS | CONSUMER | OPPORTUNITY COST | INTERDEPENDENT |



Bingo words (with example explanations)

LOSS - the money a business loses after it pays its production costs

SUPPLY - the amount producers are able and willing to produce and sell at all possible prices at a given time

OPPORTUNITY COST - the next-best choice that you gave up

SERVICES - activities that can satisfy people's wants

EARN - to receive money for doing work

ECONOMICS - the study of production, consumption and distribution of goods

SURPLUS - having more goods, services or resources available than you want

BARTER - to trade goods and services without using money

PRICE - the amount that people pay when they buy a good or service

EXPORTS - the goods and services that producers in one nation sell to buyers in other nations

GOODS - things that can satisfy people's wants

CHOICE - to make a decision

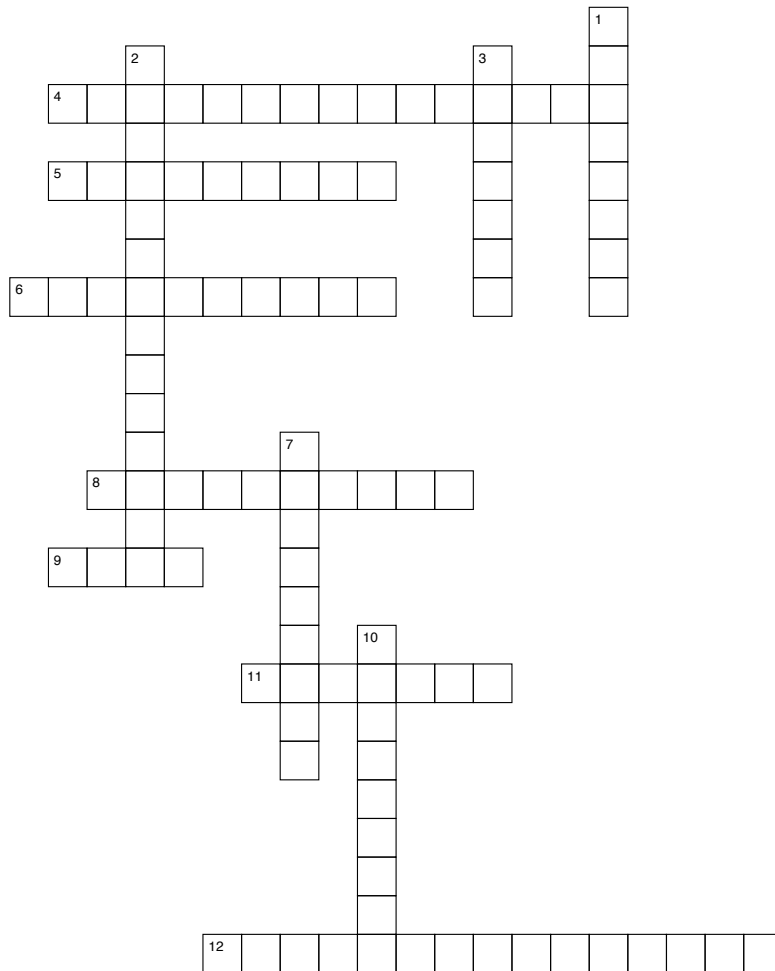
SPECIALIZATION - when people produce only some of the goods and services they consume, then trade with others to get more of the things they want

CONSUMER - people who buy and/or use goods and services to satisfy wants

INTERDEPENDENT - when people and nations depend on one another for the goods and services they want

Crossword Puzzle

Test your economics knowledge! You can customize and print more crossword puzzles and word scrambles at FederalReserveEducation.org/resources/fiftytify. Click "Puzzles." Check your answers for this puzzle, too. The puzzles are applicable for kindergarten through sixth grade.



Word Bank

incentive
 opportunity cost
 employment
 specialization
 withdrawal
 division of labor
 deposit
 bank
 producers
 account
 interest
 consumers

Across:

4. the next-best choice that you gave up
5. something that influences the behavior of people
6. an occupation by which a person earns a living
8. money taken out of a bank account
9. a business that provides money services, such as cashing checks, making loans and paying interest on accounts
11. money put into a bank account
12. when workers perform part of a production task

Down:

1. payments made for the use of money
2. when people produce only some of the goods and services they consume, then trade with others to get more of the things they want
3. a record of money deposited or withdrawn from a bank
7. people who use resources to make goods and services
10. people who buy and/or use goods and services to satisfy wants

Central banks of Malawi, Iraq visit Kansas City Fed

This summer, the Kansas City Fed hosted officials from the Central Bank of Malawi, a small republic in southeast Africa. The central bank's governor, Perks Ligoya, and Director of Special Duties Grant Kabango, visited the United States through the Financial Services Volunteer Corps, a nonprofit that helps developing countries build sound banking and financial systems.

The Central Bank of Malawi, established in 1964, regulates 11 financial institutions in the nation of 15 million people. The two officials met with representatives from various departments at the Kansas City Fed, including Cash, Supervision and Risk Management, Public Affairs, Community Affairs, Economic



KANSAS CITY FED PRESIDENT TOM HOENIG and First Vice President Esther George met with Malawi central bankers Perks Ligoya (center) and Grant Kabango during the men's recent visit to the Reserve Bank.



OFFICIALS FROM THE CENTRAL BANK OF IRAQ visited the Kansas City Fed in 2009 and made a second trip here in October as they design their new headquarters in Iraq.

Research, and Research and Information Technology to gather ideas.

"Gov. Ligoya said he was leaving with a long to-do list," says Vice President Janel Frisch, one of the Kansas City Fed officials who met with the central bankers during their visit. "We are happy to share our best practices with them, and others."

The Kansas City Fed also has developed a relationship with the Central Bank of Iraq (CBI) through the Financial Services Volunteer Corps.

Following a 2009 trip to Kansas City, CBI officials made their second visit here in October. A delegation of CBI officials and Iraqi architects toured the Kansas City Fed's facility and took part in a design workshop for CBI's new headquarters.

New index by Kansas City Fed measures stress in U.S. financial system

The Federal Reserve Bank of Kansas City recently developed an index to measure financial stress in the nation's economy.

The Bank of Canada and the International Monetary Fund have their own financial stress indicators, but there was nothing similar focusing on the United States. As a result, Assistant Vice President and Economist Bill Keeton and Senior Vice President and Special Advisor on Economic Policy Craig Hakkio developed the Kansas City Financial Stress Index (KCFSI).

The KCFSI is a monthly gauge of 11 variables reflecting stress in the U.S. financial system. The variables range from various credit spreads, which measure the difference in yields on different types of corporate and Treasury bonds, to measurements of the volatility of the overall stock market and bank stocks in particular.

Variables are plugged into a program that calculates an index value. A positive value indicates financial stress is above the long-run average, while a negative value indicates lower-than-average stress. The economists have used historical data to test the accuracy of the index, confirming that it matched up with widely known past periods of financial stress.

To see current and past levels of the KCFSI, and to sign up for e-mail alerts for future KCFSI releases, visit KansasCityFed.org/research.

Community Affairs launches quarterly newsletter

To keep the public better informed about events, initiatives and research involving community and economic development issues in the Tenth Federal Reserve District's low-to-moderate income (LMI), nonprofit and small business communities, the Kansas City Fed's Community Affairs Department recently launched a quarterly online publication called Community Connections.

The Kansas City Fed's geographic region includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico. The Community Affairs department promotes community development and fair and impartial access to financial products through research, relationship building and resource development. The Federal Reserve believes a strong economy fosters growth and opportunity for everyone.

In its first issues, the newsletter has focused on the Kansas City Fed's LMI Survey, Community Affairs events across the region, social entrepreneurship, foreclosure scams and why some consumers spurn banking relationships.

To read past issues of Community Connections, and to sign up to receive future issues, visit KansasCityFed.org/community.



Branch executives go global to share expertise

Kansas City Fed economists Jason Henderson recently traveled to South Korea and Canada and Chad Wilkerson traveled to Norway to help share their expertise on regional economic issues.

The Kansas City Fed's District includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico. It has Branch offices in Denver; Oklahoma City, which Wilkerson oversees; and Omaha, which Henderson oversees.

Over the course of 10 days, Henderson traveled around South Korea, where he spoke on revitalizing rural America to a wide variety of audiences, including local government officials, economists, farmer associations and students. After returning to Omaha briefly, he headed to Ontario, Canada, to participate in a gathering of state and provincial lawmakers

meeting to talk about economic issues affecting North America.

"The Kansas City Fed traditionally has been viewed as a leader in rural economic development," Henderson says. "We provide a holistic approach on rural economies, focusing not only on farms, but also on Main Street."

Wilkerson visited Norway's central bank, Norges Bank, for a workshop on business surveys. At the Oklahoma City Branch, Wilkerson plays a coordinating role for the Fed's Beige Book and leads the Tenth District's Manufacturing Survey.

"A growing number of central banks now do these types of surveys as a way to better inform their national monetary policy decisions," Wilkerson says. "Norway is looking at improving its fairly new approach. Its desire for best practices is what spurred the workshop."

To learn more about the Kansas City Fed's three Branch offices in Denver, Oklahoma City and Omaha, visit KansasCityFed.org.



COURTESY PHOTO

JASON HENDERSON, right, speaks with officials in South Korea about rural economics. Henderson is the Branch executive at the Omaha office.

Economic forums bring Fed experts to communities across the District

Throughout the fall, Kansas City Fed economists and officials hosted the annual Economic Forums around the region.

The Forums, which started about 60 years ago, are an opportunity for the Kansas City Fed to provide a regional and national economic update to business leaders and hear directly from those leaders about their communities.

Presenters at this year's events included Kansas City Fed President Tom Hoenig, Director of Research Alan Barkema, Omaha Branch Executive Jason Henderson, Denver Branch Executive Mark Snead and Regional Affairs Senior Economist Alison Felix.

The Kansas City Fed hosts Forums in District states on a rotating basis. This year, the Forums were in 10 locations in four of the District's seven states:

- Scottsbluff/Gering, Neb.
- Casper, Wyo.
- Cheyenne, Wyo.
- Norfolk, Neb.
- Lincoln, Neb.
- Kearney, Neb.
- Albuquerque, N.M.,
- Omaha, Neb.
- Maryville, Mo.
- Joplin, Mo.

The Tenth District includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico. For updates on the regional and national economy, go to The Economy section at KansasCityFed.org

The Nebraska Economist available now

The Kansas City Fed's Omaha Branch recently launched "The Nebraska Economist," a quarterly online publication that provides economic information and insights on the state's economy.

The first issue, titled "Economic conditions stabilize in Nebraska," is written by Omaha Branch Executive Jason Henderson. It includes information on the labor market and manufacturing, retail and real estate, and agriculture, as well as Henderson's executive summary.

To read "The Nebraska Economist" or to receive future issues in your inbox, visit KansasCityFed.org/publications. For more information on the Omaha office, visit KansasCityFed.org/Omaha.



Nonprofit Directory provides links to resources, organizations

The Kansas City Fed's Community Affairs Department has launched an online directory, providing a resource for regional nonprofits to share more about their programs.

The Nonprofit Directory, available at FindANonprofit.kcfed.org, lists information about services, classes and other initiatives organized by nonprofits. Users can search the directory by services, name, location, subject and more.

Listing in the directory is free for nonprofit organizations that meet specified criteria. Through the directory, organizations will be able to share information about their programs and resources and link back to their own organization's website. All content submissions are reviewed by the Kansas City Fed prior to posting.

The Community Affairs Department also recently conducted an assessment of the region's nonprofits in order to identify ways to help organizations sustain their efforts to assist low- to moderate-income populations.

The assessment revealed common concerns, including the ongoing ability of nonprofits to serve clients, nurture strong and sustainable executive leadership, build committed boards and expand staff knowledge. As a result, the Kansas City Fed is developing free onsite and Web-based resources and training programs.

For more information, go to KansasCityFed.org/community, or contact Erika Ramirez, Community Affairs advisor at the Kansas City Fed, at (816) 881-2480.



The following banks in the Tenth Federal Reserve District are celebrating one, five, 10, 20 or more years as Federal Reserve members in October, November or December.

| | | | |
|------------------------------------|--------------|-------|----|
| Bank of Versailles | Versailles | Mo. | 91 |
| First State Bank of Newcastle | Newcastle | Wyo. | 80 |
| Grant County Bank | Medford | Okla. | 70 |
| Stock Exchange Bank | Caldwell | Kan. | 70 |
| Fidelity State Bank & Trust Co. | Dodge City | Kan. | 67 |
| First State Bank | Fairfax | Okla. | 65 |
| Farmers State Bank | Pine Bluffs | Wyo. | 44 |
| Bankers' Bank of the West | Denver | Colo. | 30 |
| Citizens State Bank & Trust Co. | Ellsworth | Kan. | 30 |
| Premier Bank | Denver | Colo. | 10 |
| Swedish American State Bank | Courtland | Kan. | 10 |
| The Tilden Bank | Tilden | Neb. | 10 |
| Bank of Newman Grove | Newman Grove | Neb. | 5 |
| Farmers & Merchant Bank of Ashland | Ashland | Neb. | 1 |
| CNB Community Bank | Greeley | Neb. | 1 |
| Stanton State Bank | Stanton | Neb. | 1 |
| Citizens State Bank | Wisner | Neb. | 1 |



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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 on Dec. 23, 1913, and the 12 regional Federal Reserve Banks opened on 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 western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico. 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 check processing and other services to depository institutions.



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The views and opinions expressed in **TEN** are not necessarily those of the Federal Reserve Bank of Kansas City, the Federal Reserve System, its governors, officers or representatives.

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Navigate a path to regional data

The Kansas City Fed's Regional Profiles provide a quick way to view timely information, including:

- Unemployment rates
- Median income
- Vacancy and foreclosure risk score
- Uninsured population

View indicators by state, county, zip code or city.
Go to www.KansasCityFed.org/community.