The Role of the Fed’s Regional Banks

Rick Kaglic

February 18, 2010
Outline

- Brief History of the Federal Reserve
- Role of the regional banks
- Gathering regional economic information
- National outlook
The Federal Reserve System 1913-1935

• Established through an act of Congress in 1913
• Congress made it explicit that the Federal Reserve System was not a “central bank”
  • Originally set up as an organization of quasi-autonomous regional bankers’ banks
    • Locally set discount rates
  • Federal Reserve Board in Washington D.C.
• 12 regional banks located throughout the country
The Federal Reserve System 1935-Present

• The Banking Act of 1935
  • Re-balanced power, demoted regional banks
    • Made explicit the Board’s role in overseeing regional bank operations
    • Specified that Board would represent system in dealing with foreign central banks
    • Chief execs of regional banks demoted

• Established FOMC as we know it today
  • Seven members of Board of Governors
  • 12 regional bank presidents
    • Only five actually vote on a rotating basis
The Federal Reserve System

- Fed is a central bank with a decentralized structure – it is both public and private
  - Board of Governors in Washington D.C.
    - Made up of 7 Governors appointed by President and confirmed by Senate
    - Chairperson and Vice Chairperson serve 4 yr. term – Ben Bernanke serves as chairperson
    - Oversee all Fed activities
  - The regional banks have both private and public elements
    - 12 Federal Reserve Head Offices, 25 branches
    - Board of Directors like a large corporation
Roles and Responsibilities of the Regional Banks

• Supervision & Regulation

• Payment Services

• Conduct Monetary Policy
  • Influence the supply of money and credit
How the Regional Structure Benefits Policymaking

• Provides system with a measure of independence
• Fostering independent economic research
• Gathering and analyzing regional economic information
Regional Banks Participation in Monetary Policy

• FOMC

• Gathering and interpreting regional information
  • The numbers
Unemployment over Time

Unemployment Rate (percent)

- 0 - 5
- 5 - 10
- 10 - 15
- 15 - 20
- 20 - 25

Dates:
- September 2007
- June 2008
- December 2007
- March 2008
- June 2009
- September 2009
- December 2008
- September 2009
- December 2009
- September 2008

The map shows the distribution of unemployment rates across different regions from September 2007 to December 2009.
Problems with regional data

- Not much of it
- Not very timely
- Small sample samples
- Subject to large revisions
Regional Banks Participation in Monetary Policy

- FOMC
- Gathering and interpreting regional information
  - The numbers
  - Surveys
  - Directors’ reports
  - Roundtables
  - Special Board Surveys
  - The Beige Book
Carolinas Business Activity Index

Index, Dec. 2007=100

Assessment of Current Business Activity

Source: BLS/Haver Analytics
Pulling it all together

• Synthesizing it all
  • Analyzing the data, sharing it with contacts
  • Contacts confirm or refute, add color
  • Staff provides bank president with briefing prior to FOMC
  • Bank president provides regional report to the FOMC
• The Beige Book
  • Summary of Commentary on Current Economic Conditions by Federal Reserve District
Real Gross Domestic Product

Percent change from previous quarter at annual rate

Q4 5.7%

Source: Bureau of Economic Analysis/Haver Analytics
### ISM: Business Survey Indexes

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchasing Managers Index</td>
<td>54.9</td>
<td>58.4</td>
</tr>
<tr>
<td>Production</td>
<td>59.7</td>
<td>66.2</td>
</tr>
<tr>
<td>New Orders</td>
<td>64.8</td>
<td>65.9</td>
</tr>
<tr>
<td>Employment</td>
<td>50.2</td>
<td>53.3</td>
</tr>
<tr>
<td>Supplier Deliveries</td>
<td>56.8</td>
<td>60.1</td>
</tr>
<tr>
<td>Inventories</td>
<td>43.0</td>
<td>46.5</td>
</tr>
<tr>
<td>Prices</td>
<td>61.5</td>
<td>70.0</td>
</tr>
<tr>
<td>Backlog of Orders</td>
<td>50.0</td>
<td>56.0</td>
</tr>
<tr>
<td>New Export Orders</td>
<td>54.5</td>
<td>58.5</td>
</tr>
<tr>
<td>Imports</td>
<td>55.0</td>
<td>56.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NonManufacturing Index</td>
<td>49.8</td>
<td>50.5</td>
</tr>
<tr>
<td>Business Activity</td>
<td>53.2</td>
<td>52.2</td>
</tr>
<tr>
<td>New Orders</td>
<td>52.0</td>
<td>54.7</td>
</tr>
<tr>
<td>Employment</td>
<td>43.6</td>
<td>44.6</td>
</tr>
<tr>
<td>Supplier Deliveries</td>
<td>50.5</td>
<td>50.5</td>
</tr>
<tr>
<td>Inventories</td>
<td>51.5</td>
<td>46.5</td>
</tr>
<tr>
<td>Prices</td>
<td>59.6</td>
<td>61.2</td>
</tr>
<tr>
<td>Backlog of Orders</td>
<td>48.0</td>
<td>45.5</td>
</tr>
<tr>
<td>New Export Orders</td>
<td>46.0</td>
<td>46.0</td>
</tr>
<tr>
<td>Imports</td>
<td>52.5</td>
<td>47.0</td>
</tr>
</tbody>
</table>

**DIFFUSION INDEXES:** Numbers above 50 percent indicate a preponderance of expanding firm activity.
Nonfarm Payroll Employment

Source: Bureau of Labor Statistics/Haver Analytics
Civilian Unemployment Rate

Source: Bureau of Labor Statistics/Haver Analytics