



# The Fed and the Fifth District Credit Union Forum

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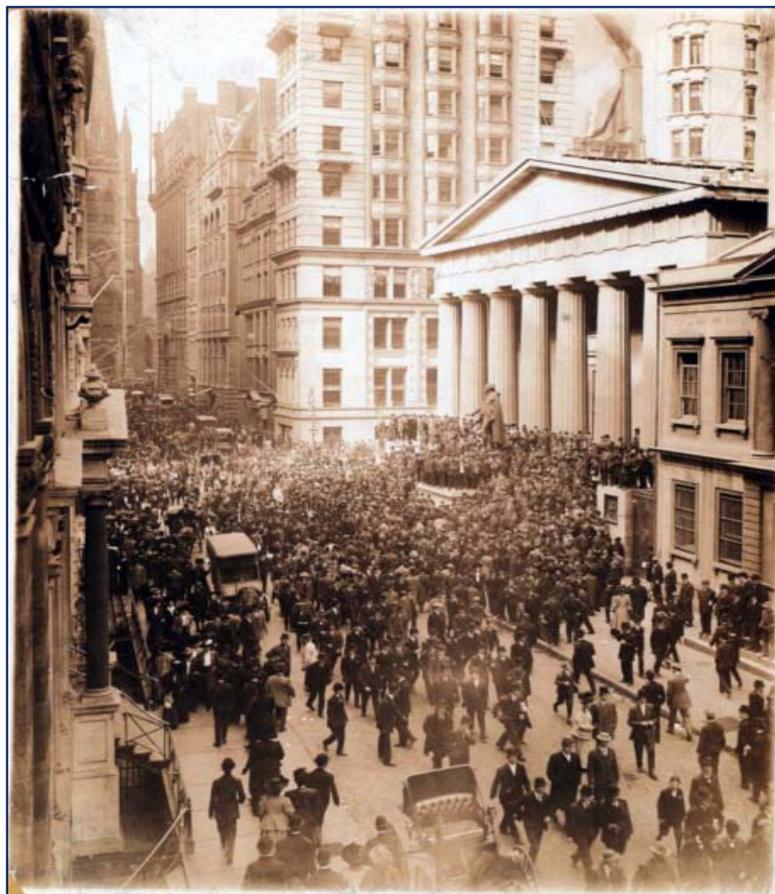
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# Overview

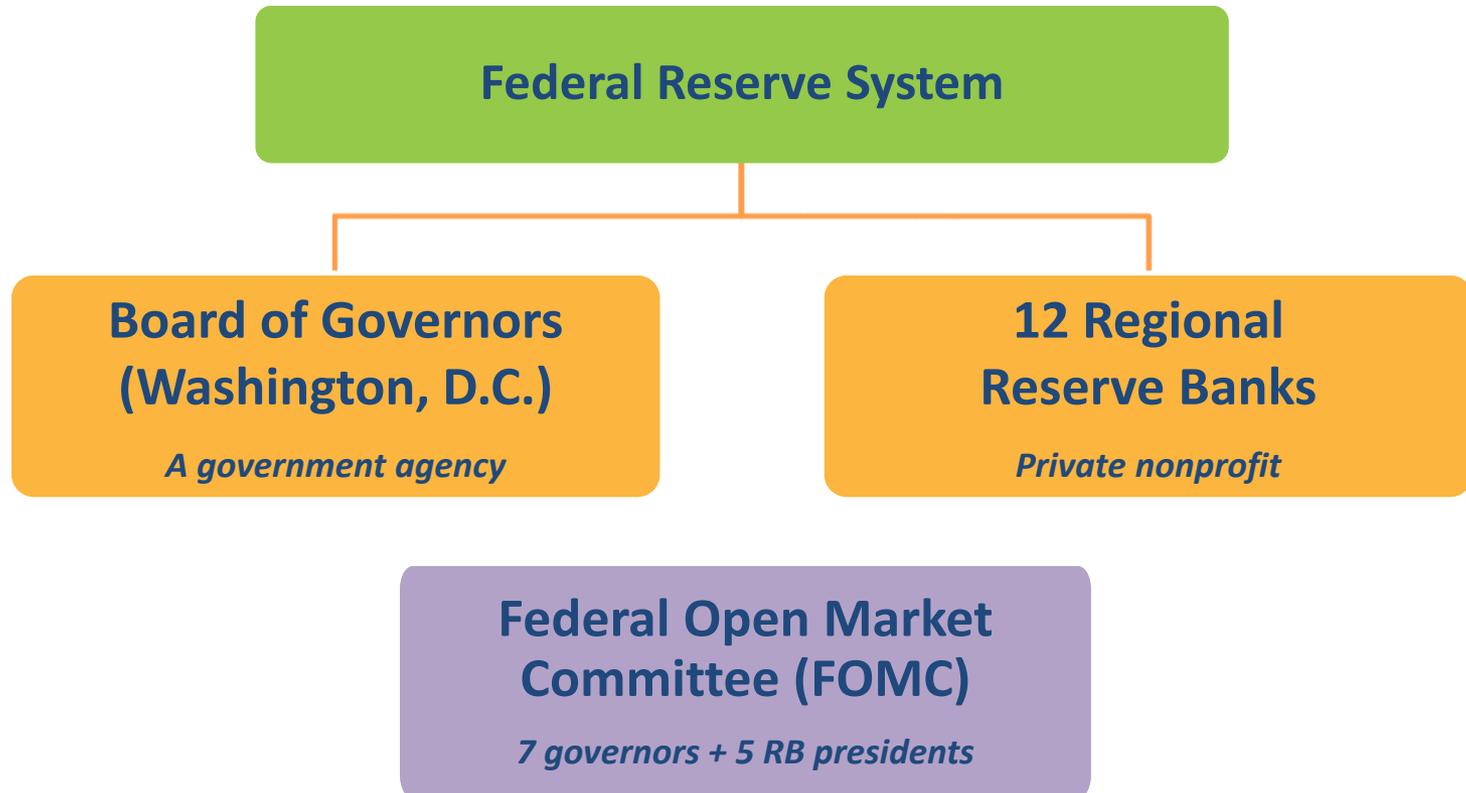
- The Federal Reserve System
  - Why Have A Central Bank? And Why Richmond?
  - Structure and Reserve Bank Locations
  - Mission and Functions
- Regional Economic Trends
  - Regional Variation in Employment
  - The Economy of Select Industries
    - Professional and Business Services and the Service Sector
    - Manufacturing
    - Construction
  - Housing Markets

# Why Do We Have a Central Bank?

**Before the Fed was created a century ago...**



# How is the Fed Structured?

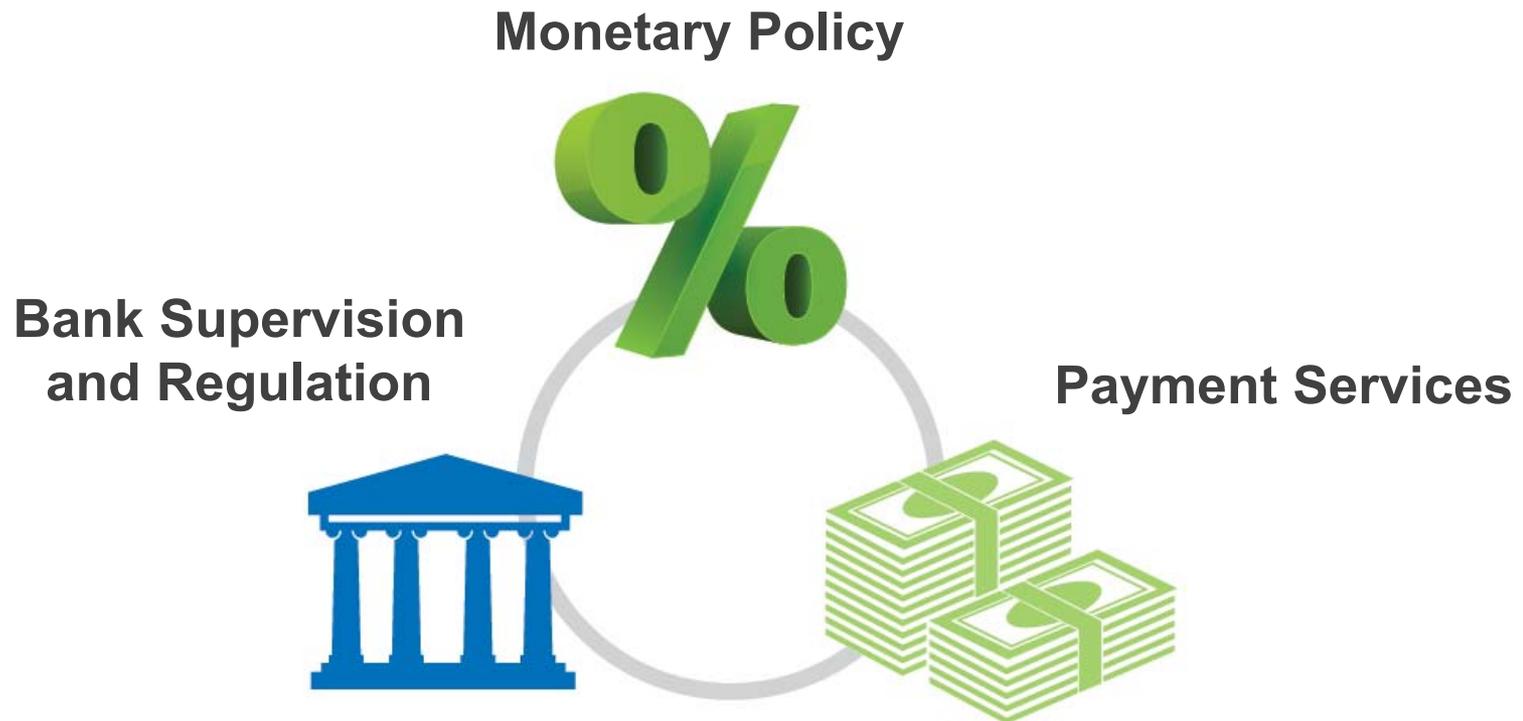


# Reserve Bank Locations



# Fed's Mission & Core Functions

**Mission: To foster a stable banking system and a healthy, growing economy.**



# Monetary Policy

## Definition

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Actions taken by the central bank to influence interest rates in the economy

## Objectives (mandate from Congress)

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1. Maximum employment
2. Stable prices
3. Moderate long-term interest rates



# Goals of Monetary Policy

## Explicit price stability goal

- Inflation is determined primarily by monetary policy
- Inflation goal (specified by FOMC): 2 percent on average

## No explicit employment goal

- In long run, employment is determined by factors outside monetary policy
- So, not appropriate to set fixed employment goal



# Process of Monetary Policy

## The Federal Open Market Committee (FOMC)

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- 7 governors + 5 Reserve Bank presidents (4 rotating)
- Meets 8 times per year
- Analyzes economic conditions
- Determines policy



# Reserve Banks' Role in Monetary Policy

- Economists conduct research, analyze economy
- Regional group collects data and information
- Advisory councils and Board of Directors provide anecdotal insight
- President attends FOMC armed with this information
- Structure provides for diversity of views on FOMC



# Bank Supervision and Regulation

**The Fed supervises financial institutions to help ensure safe and sound banking practices.**

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- Board of Governors: Writes regulations
- Reserve Banks: Enforce regulations through supervision



# Bank Supervision and Regulation

## **Fed is one of several U.S. regulators**

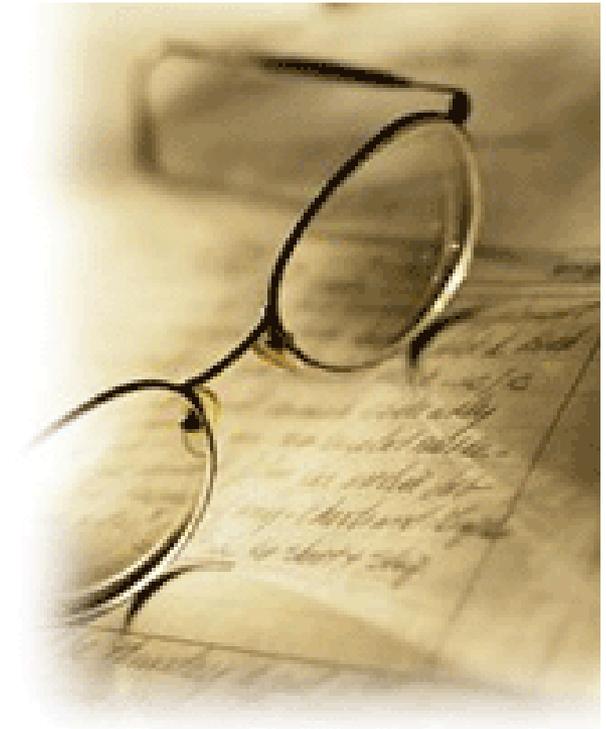
- When jurisdictions overlap, the Fed works with other regulators

## **Richmond Fed supervises approximately:**

- 80 state member banks
- 240 holding companies

## **Examiners look at:**

- Sufficiency of capital, earnings, and liquidity
- Quality of management and assets
- Sensitivity to interest rate changes
- Compliance with consumer protection laws and regulations



# Payment Services

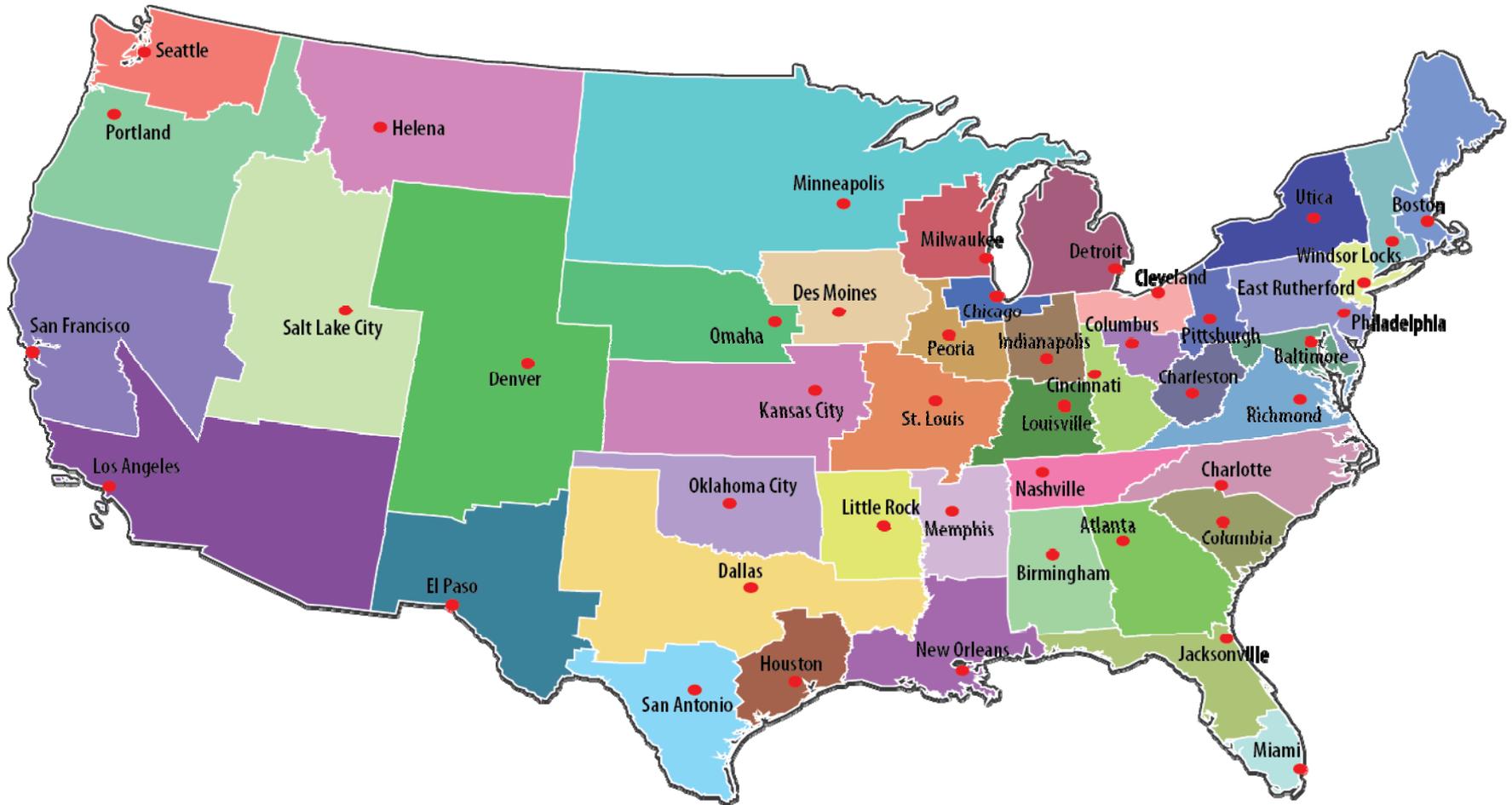
The Fed helps move payments from point A to point B.

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- Cash
- Checks
- Electronic payments
- Services to U.S. Treasury



# Check Processing Sites: 45 in 2003



# Check Processing Sites: 1 Today



# Cash Processing in the Fifth District

## Every day, on average, the Richmond Fed:

- Receives 11K bundles (average \$197 million in value)
- Pays 12K bundles (average \$220 million in value)
- Processes 12-14 million notes
- Detects 40-50 counterfeits across all three offices

## Unique to the Fifth District

- Currency Technology Office



# Why Richmond?

- Location
- Transportation and Communication Facilities
- Banking Connections
- Commercial and financial center



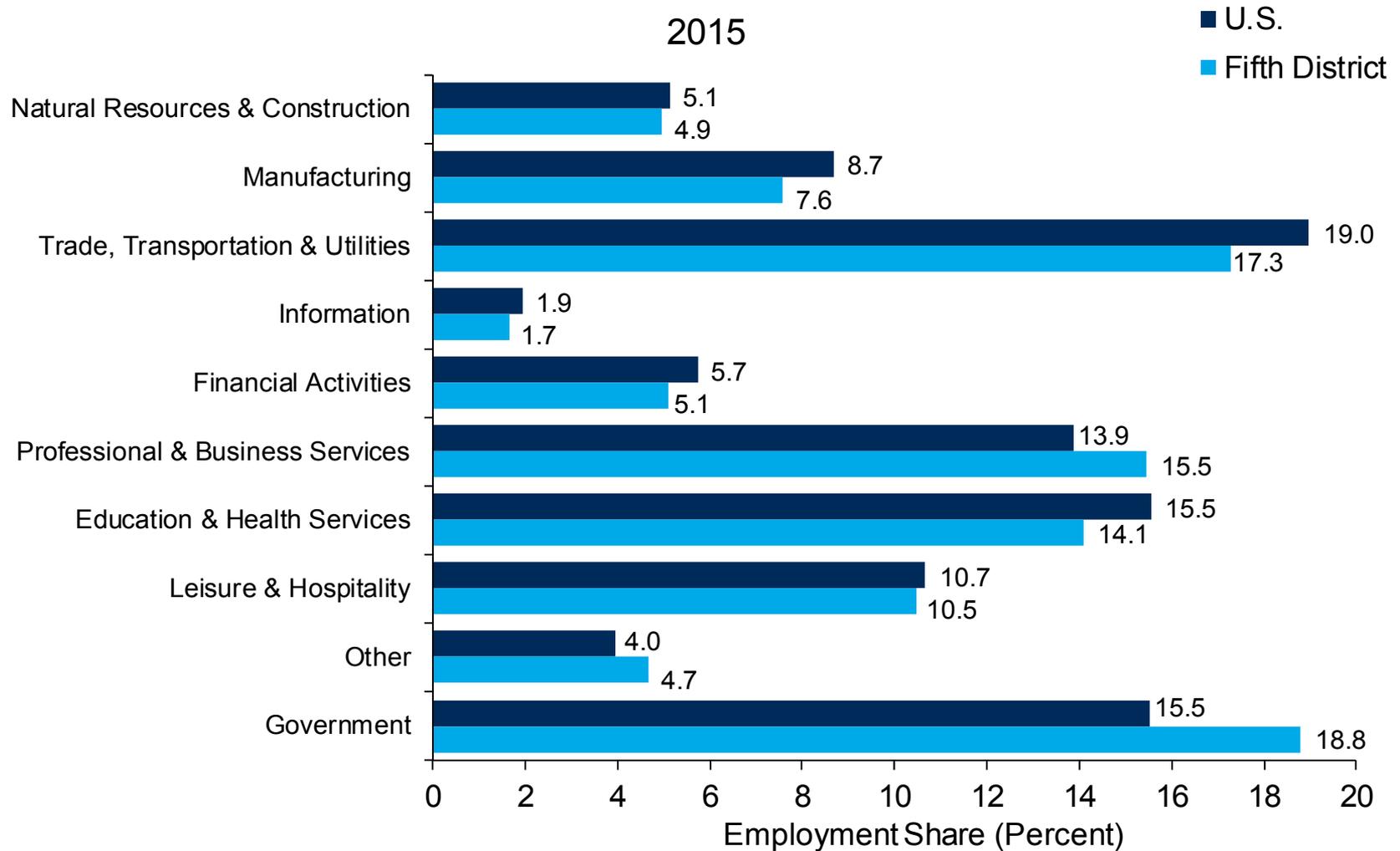


*Taken as a whole, the district is admirably well balanced agriculturally, industrially, and financially...its lands yield bountifully wheat, corn, oats, tobacco, cotton, fruits, etc. Large sections are given over to the growing of truck, while in other neighborhoods the raising of cattle is the principal industry. **Bituminous coal**, mined in great quantities, underlies a generous part of its area, as does petroleum, while its forests yield lumber in quantity and naval stores. Industrially, the district holds first rank in several important lines, notably in the manufacture of fertilizer, tobacco, clothing, canned goods, and cotton products. Its seaports are the outlets for a great volume of raw and manufactured material, including grains, cotton, tobacco, coal, lumber, and cattle, both live and dressed. Financially, its northern half is complementary to its southern section throughout most of the year. Banking capital, supplemented by trade credits, is sufficient to care for its proper and normal needs. **Credit is shortest in supply in the months of August and September**, and, as a rule, is easiest immediately following the maturing of cotton in the early fall, when debts for seasonal supplies are rapidly liquidated...While in the district as a whole **cotton** most intimately touches the interest of the greatest number of its people, there are other large lines of endeavor of commanding importance. **Tobacco** both in its growing and manufacture is one such great interest....*

*--Federal Reserve Bank of Richmond Annual Report, 1915*

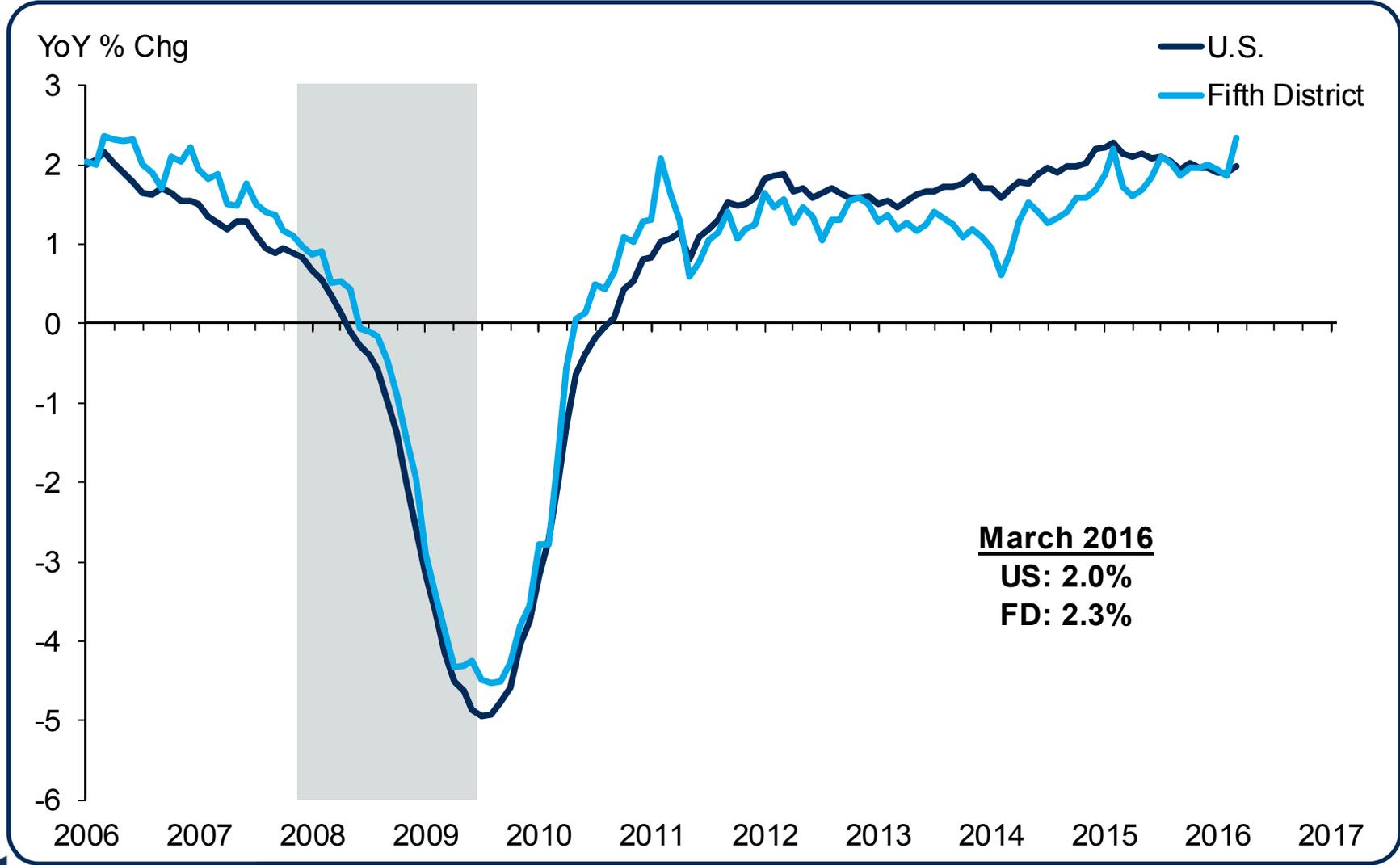
# Regional Economy

# Fifth District Industry Structure

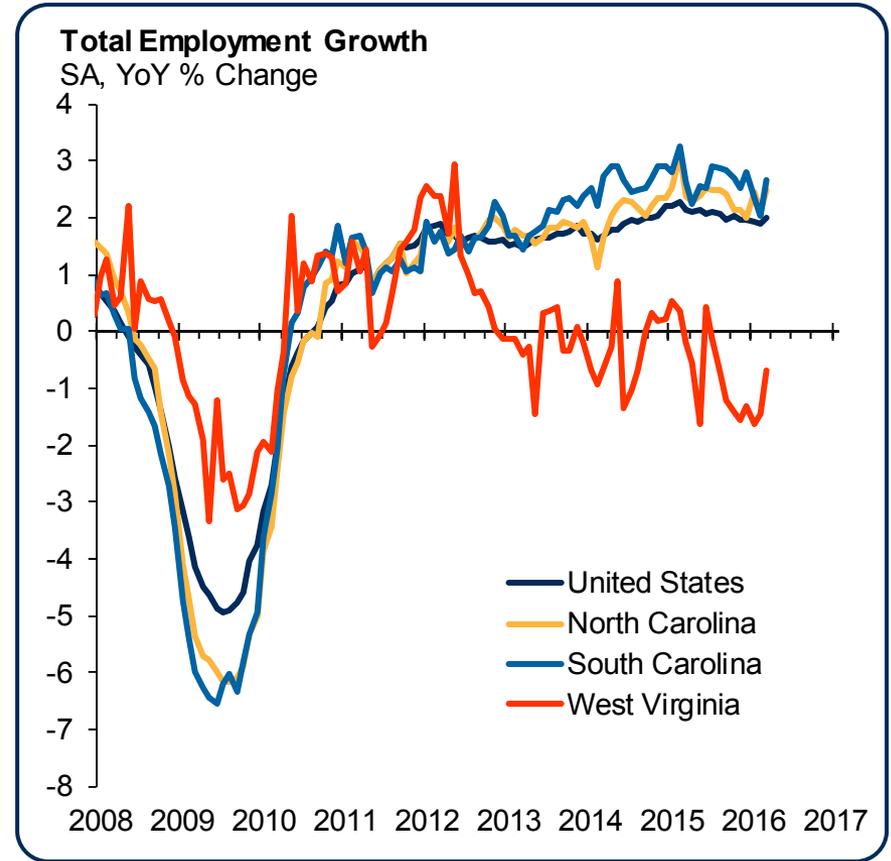
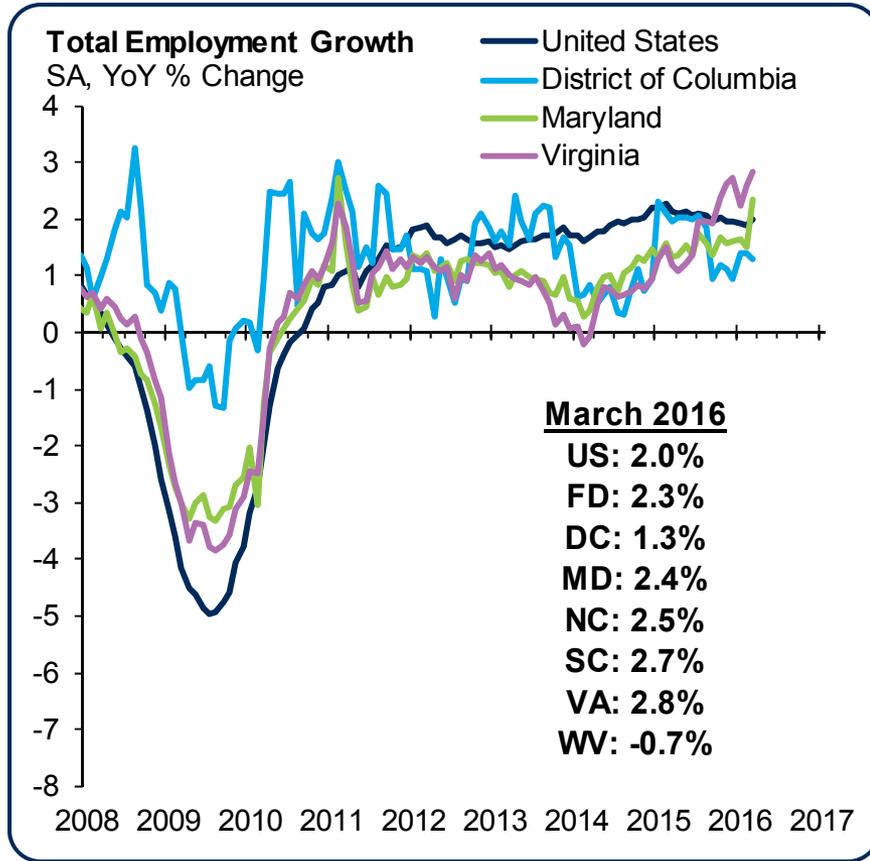


Source: Bureau of Labor Statistics/Haver Analytics

# Fifth District Payroll Employment



# Fifth District Payroll Employment

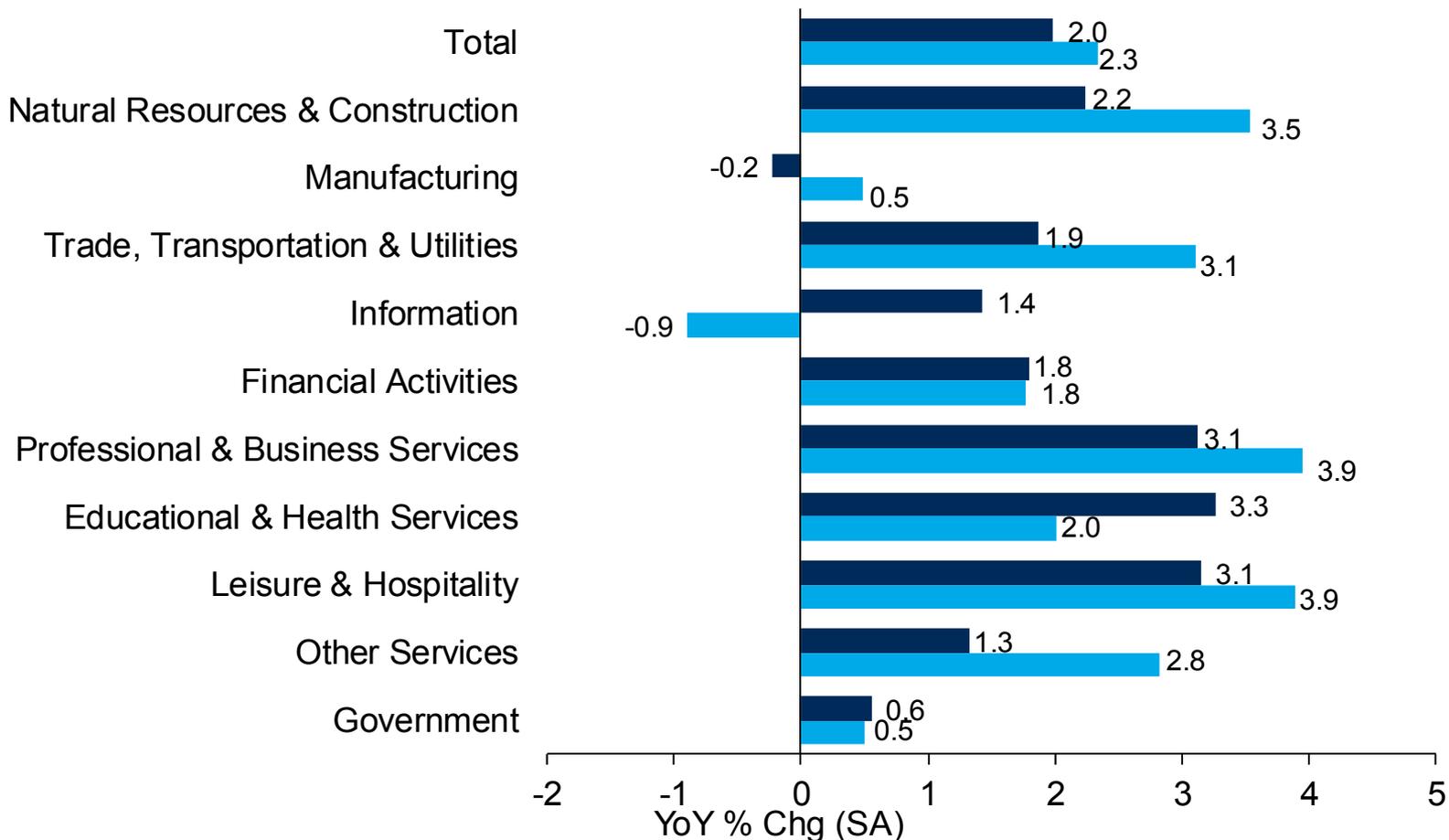


# Fifth District Industry Growth

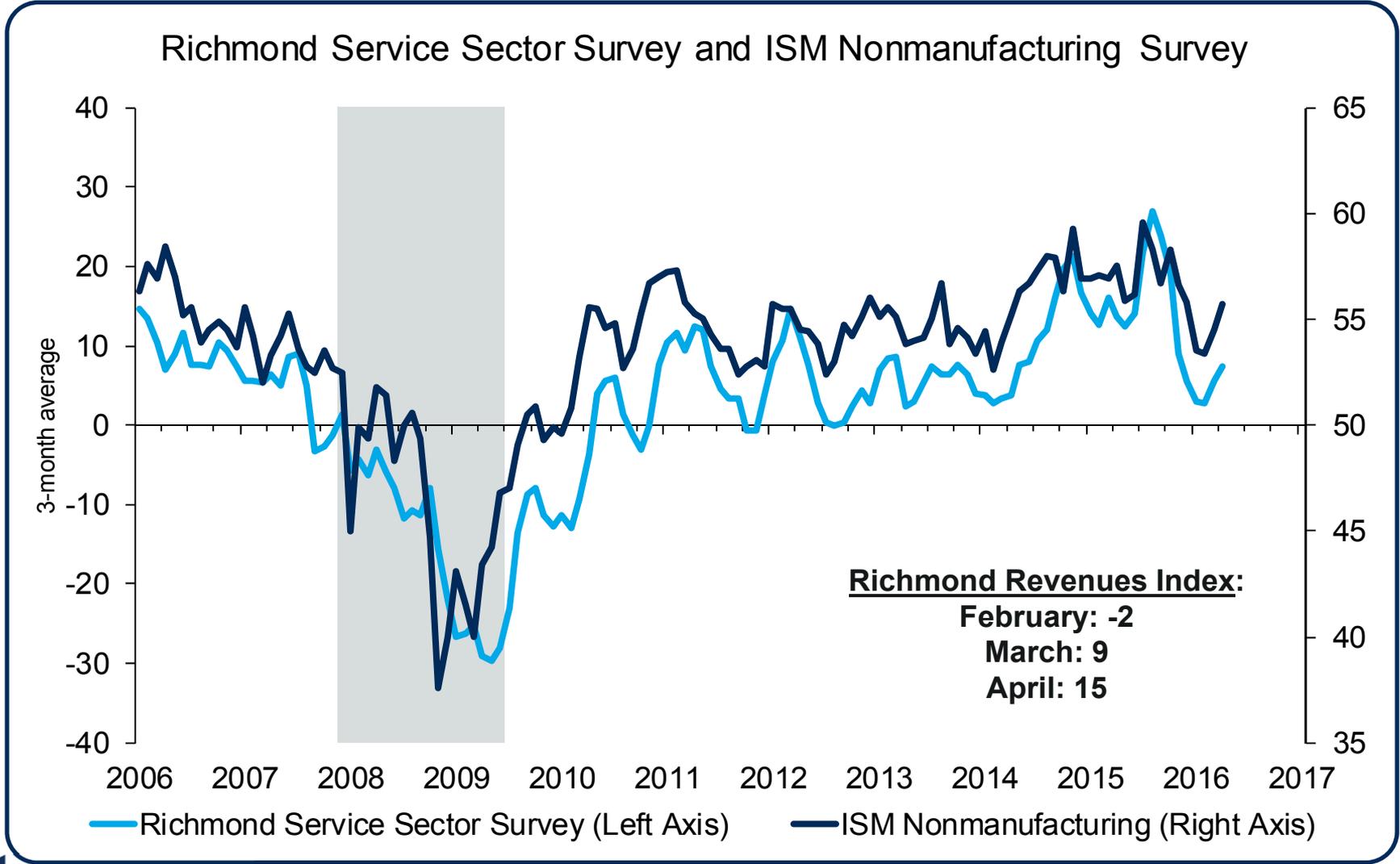
Percent Change in Employment from a Year Ago, SA

March 2016

■ U.S.  
■ Fifth District

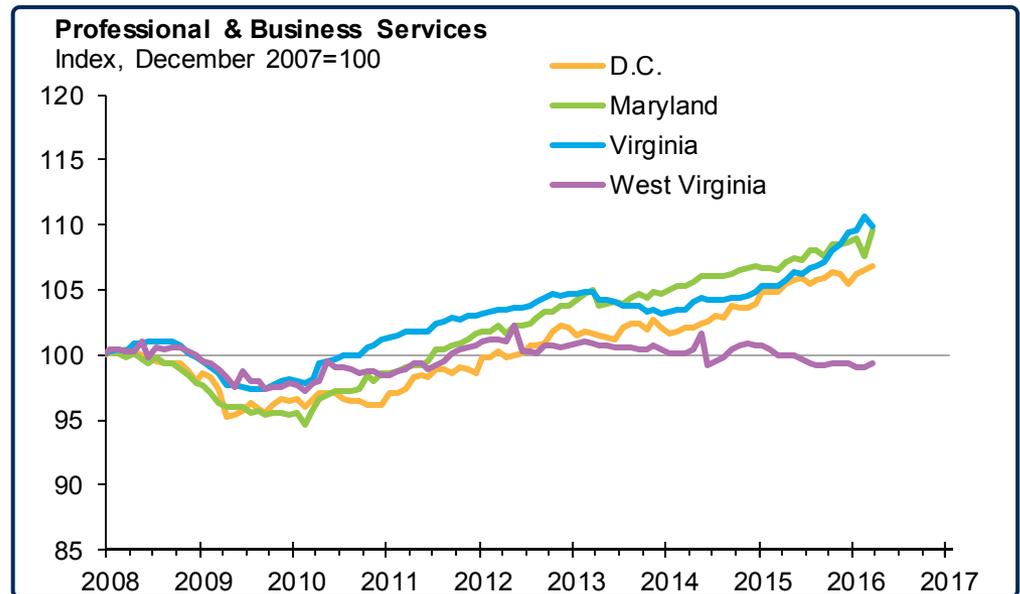
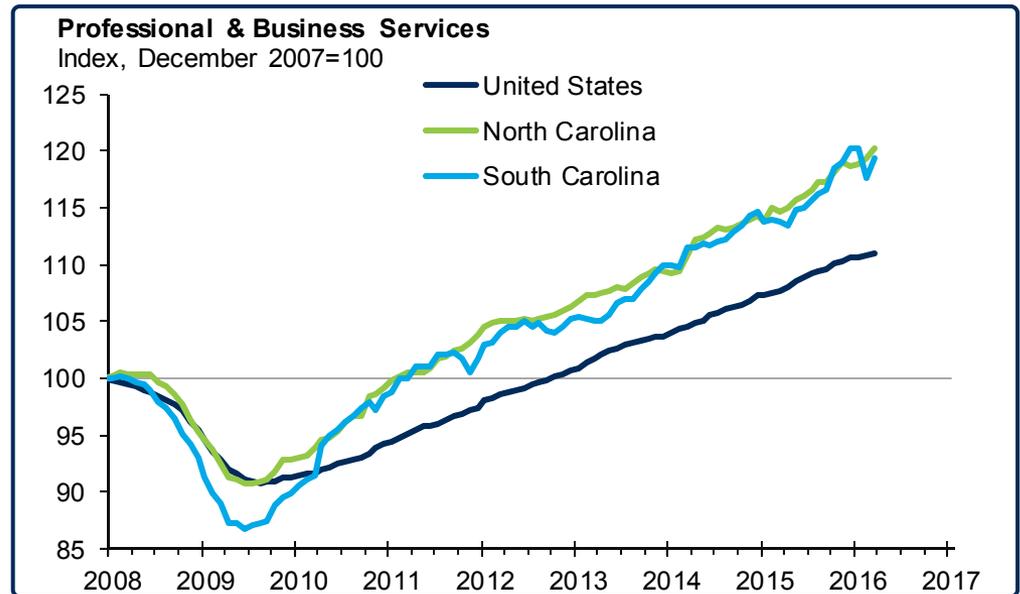


# Service Sector Activity in the Fifth District



# Professional & Business Services Job Growth

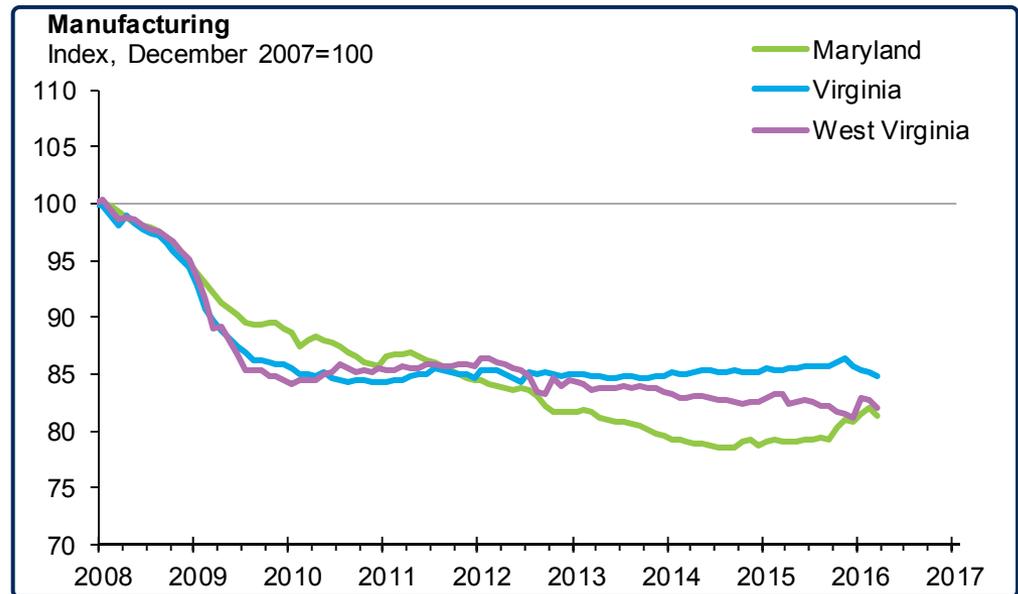
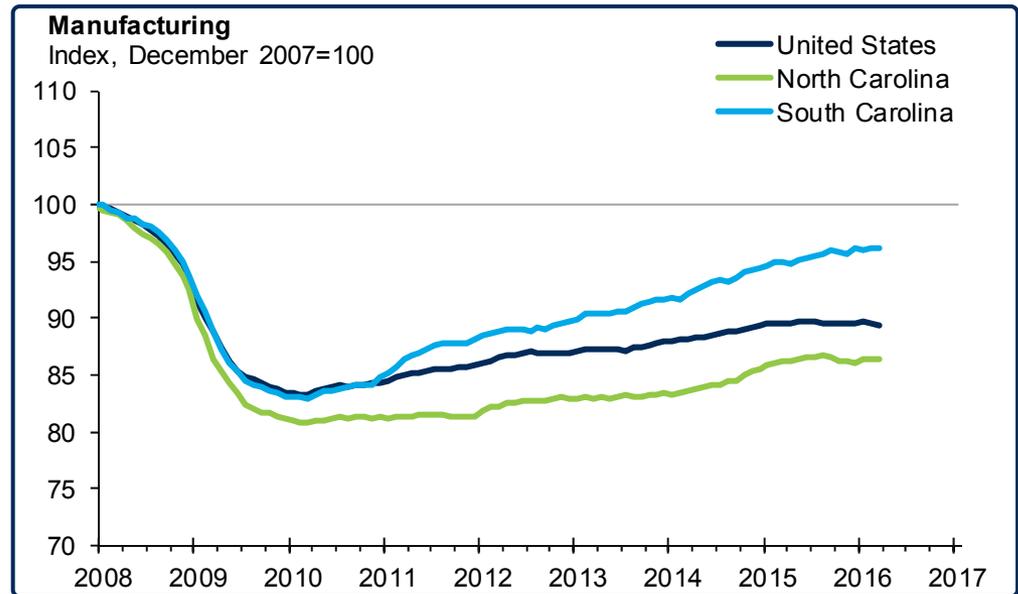
- Employment in Professional and Business Services growing strongly in NC and SC
- In Virginia, where the PBS sector had contracted in 2013, employment growth accelerated during 2015 and into early 2016.
- WV is the only state in our District where the PBS sector has fewer jobs now than it did when the recession started.



Source: Bureau of Labor Statistics/Haver Analytics

# Manufacturing Job Growth

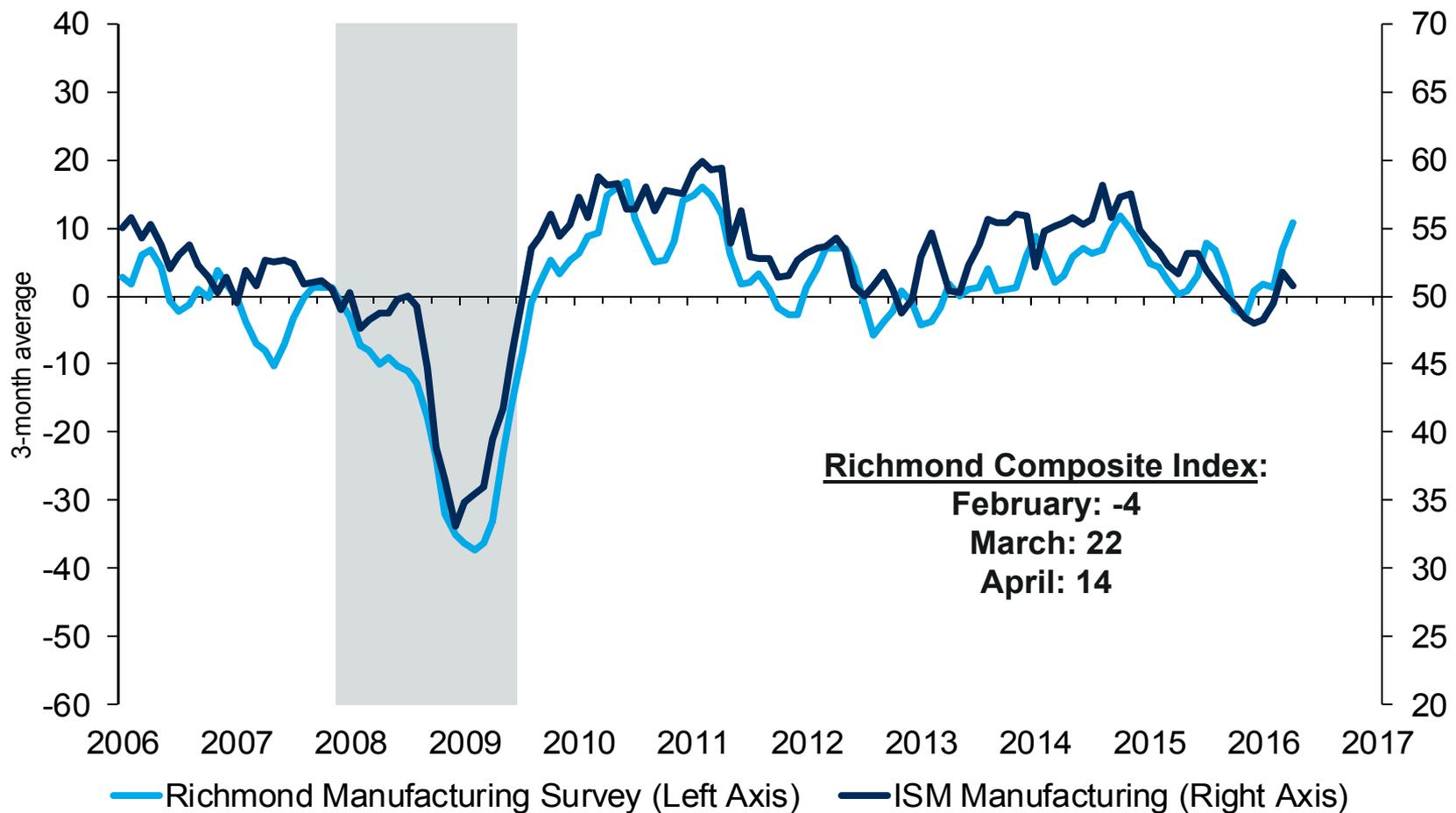
- Job levels in manufacturing are still well below where they were before the recession in all states in the Fifth District
- Manufacturing employment has seen strong growth in SC and some growth in NC; even in MD (lower chart) modest growth in second half of 2015.
- In VA manufacturing employment has been flat; while WV has seen declines.



Source: Bureau of Labor Statistics/Haver Analytics

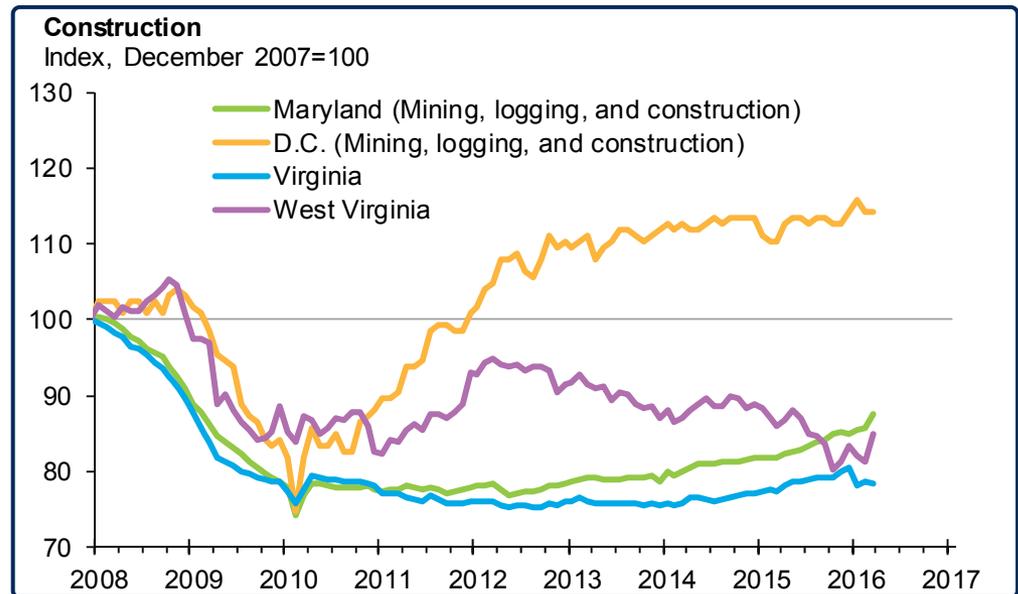
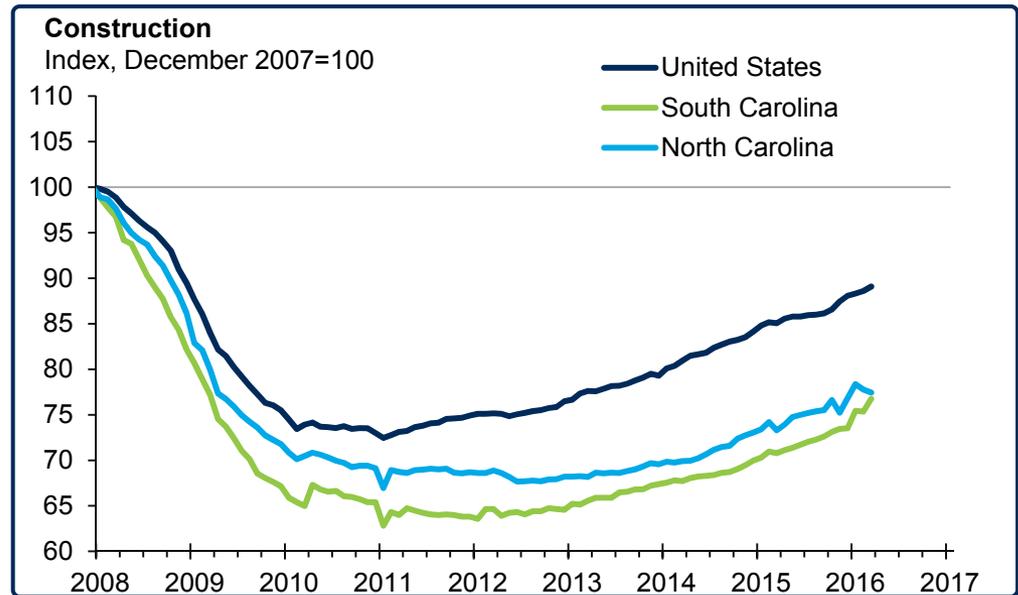
# Manufacturing Activity in the Fifth District

## Richmond Manufacturing Survey and ISM Manufacturing Survey



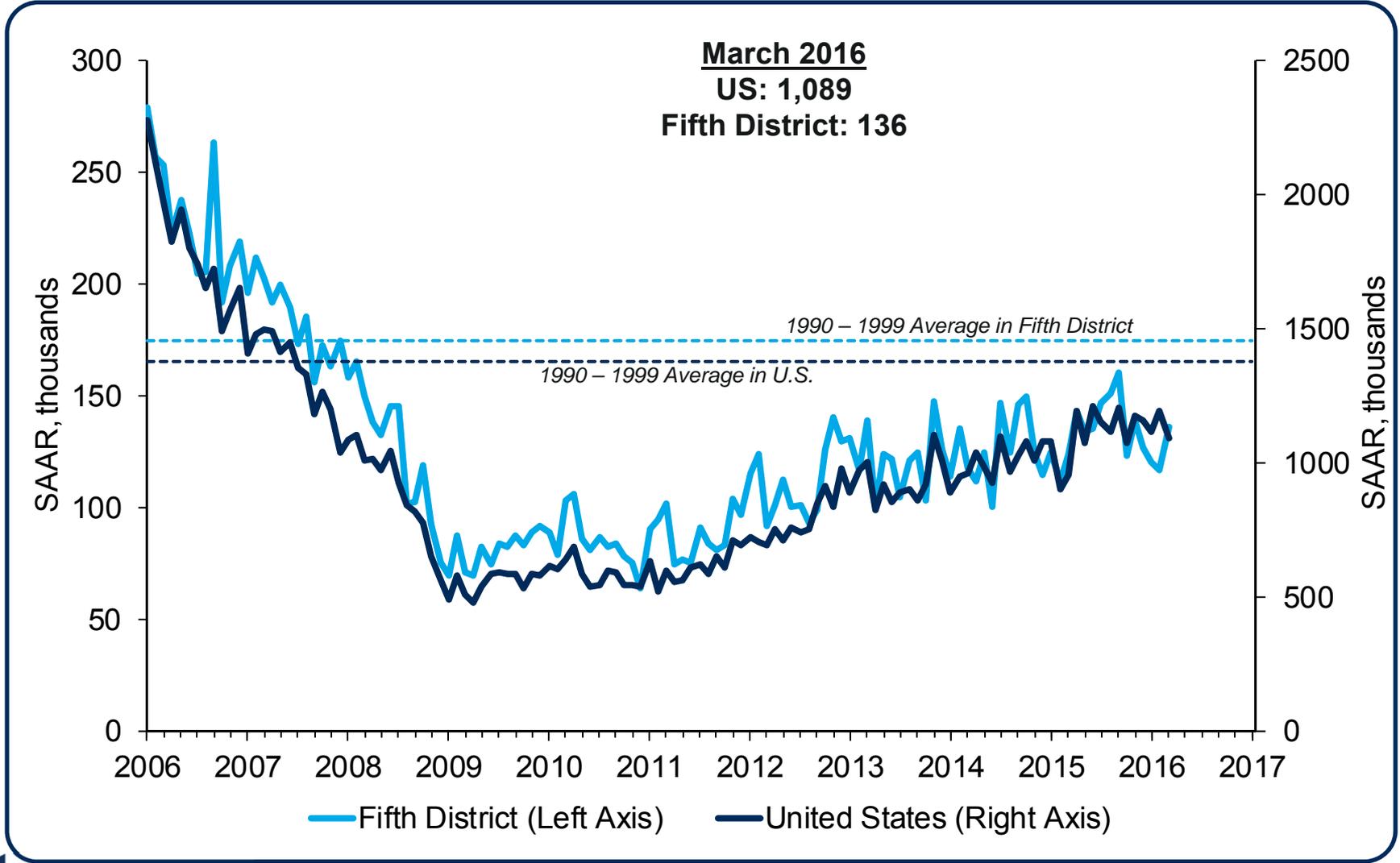
# Construction Job Growth

- Job levels in construction still well below where they were in the beginning of the recession.
- Job growth in construction stronger in the U.S. than in Fifth District states, although there has been some pickup recently, particularly in North Carolina and South Carolina



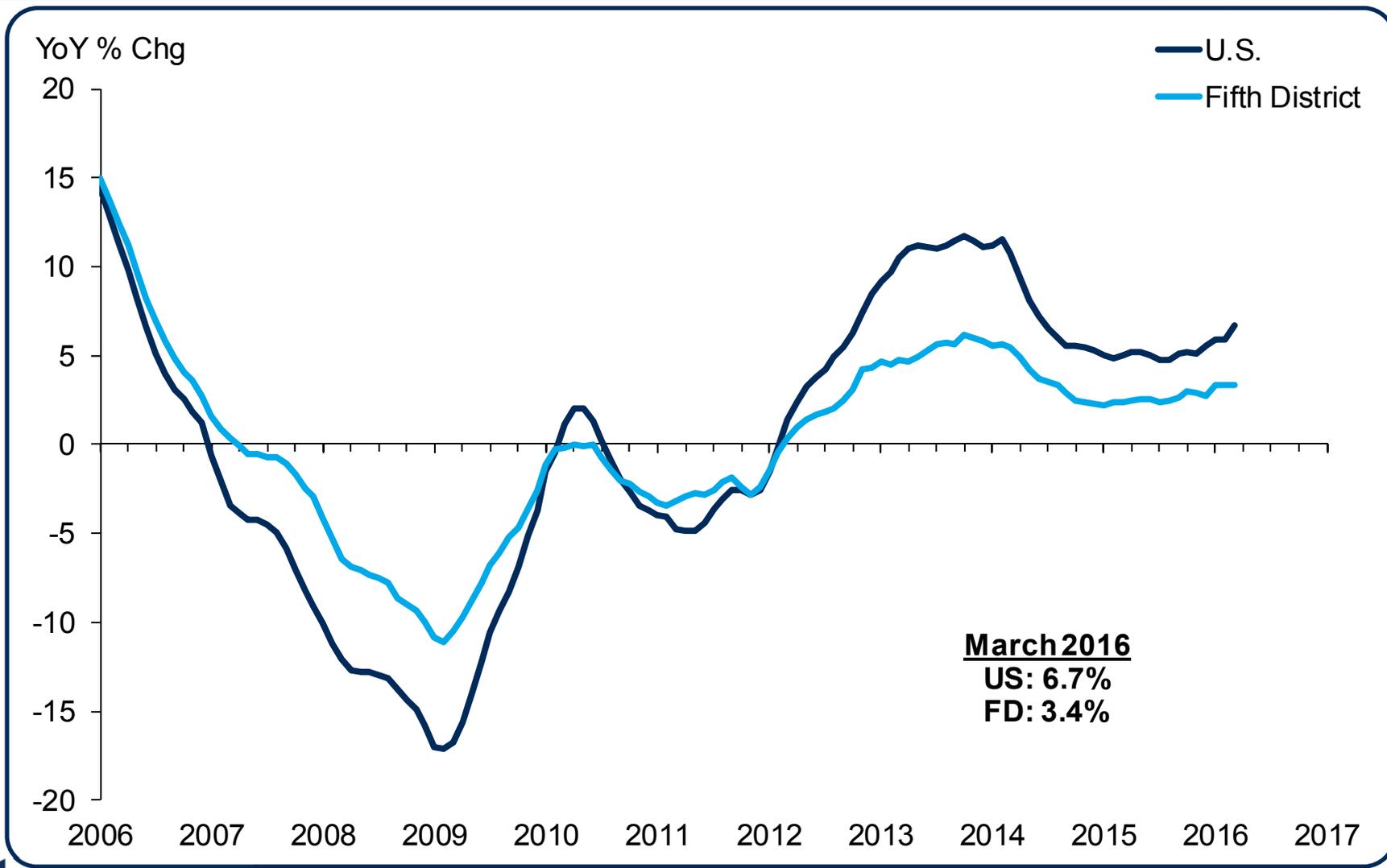
Source: Bureau of Labor Statistics/Haver Analytics

# Fifth District Housing Starts



Source: Bank of Tokyo-Mitsubishi UFJ/Haver Analytics

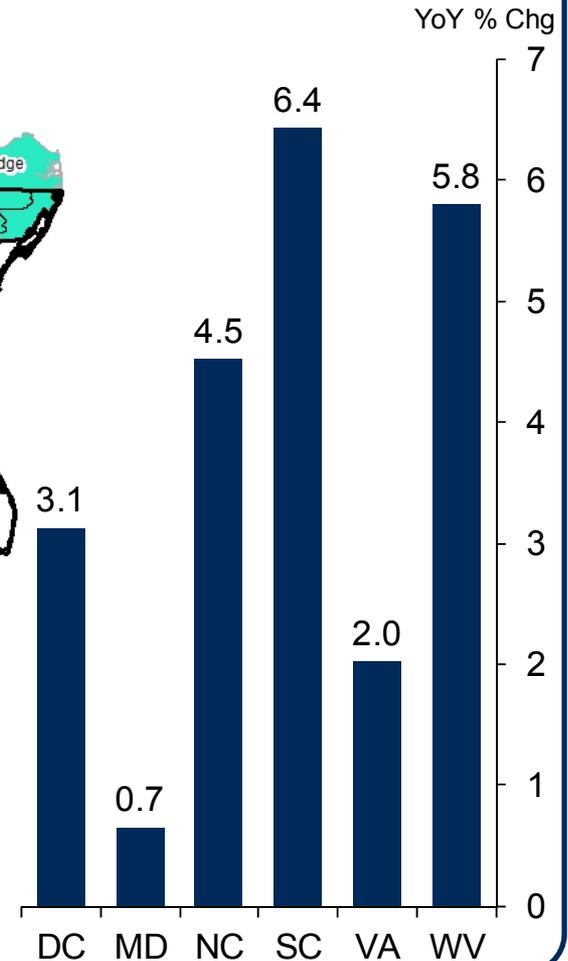
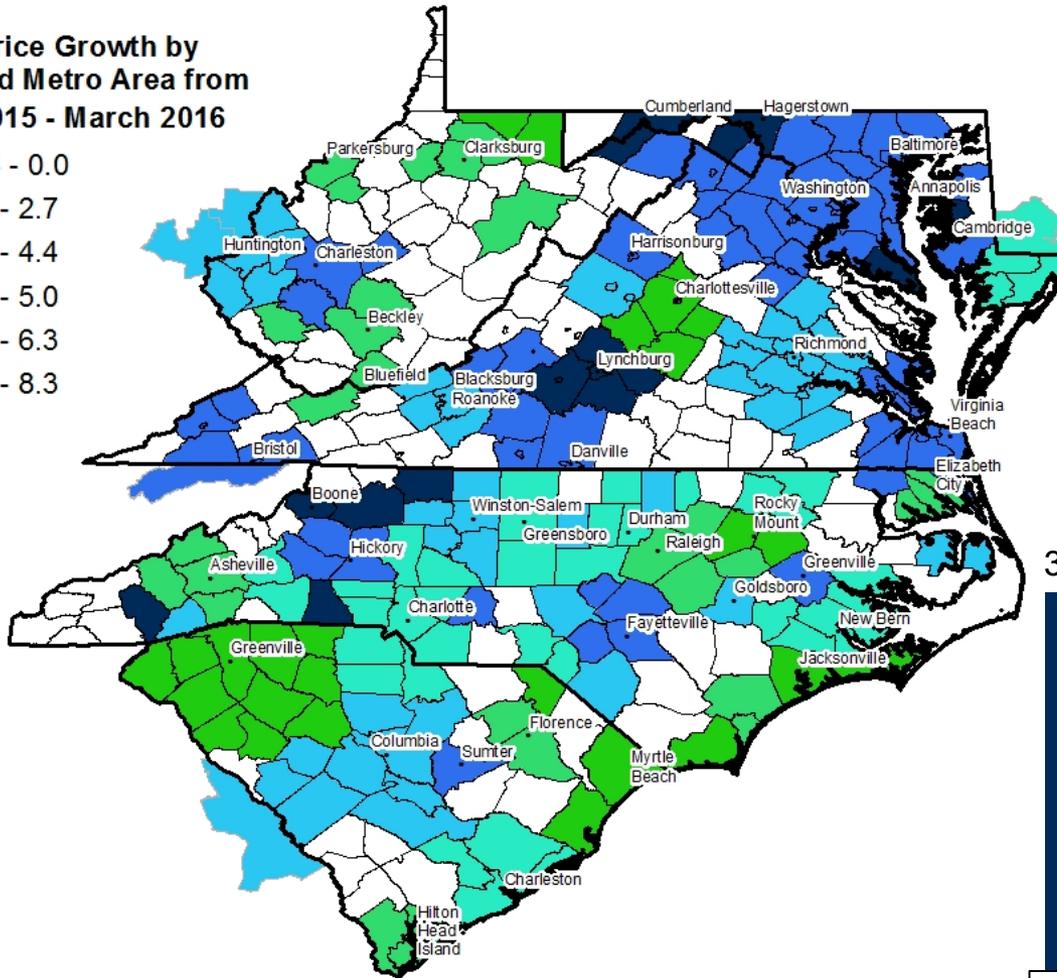
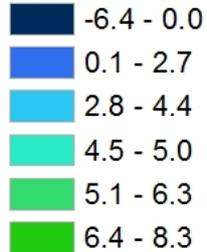
# Fifth District House Prices—CoreLogic HPI



# Fifth District House Prices—CoreLogic HPI

March 2016

House Price Growth by  
Micro and Metro Area from  
March 2015 - March 2016



Source: CoreLogic Information Solutions, Inc.

# Summary

- The Federal Reserve System was developed to help ensure a healthy banking system and stable economy.
- The regional structure was a political necessity that has, throughout its history, helped the Federal Reserve across its major functions of monetary policy, supervision and regulation, and payments.
- The Fifth Federal Reserve District has seen job growth pick up across many industries in recent months, with particular strengthening in the northern part of the District.
- Housing markets continue to strengthen slowly, although residential construction in the U.S. and in the District remains below the levels of the 1990s.

# Questions?

*... and thank you!*

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