The Fed and the Piedmont Region

Piedmont Chapter of Virginia Credit Union League
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Overview

• The Federal Reserve System
  – Structure and Governance of the Fed
  – Mission and Functions
  – Monetary Policy: Independence with Transparency
  – Regional Engagement

• The Piedmont Region
  – Regional Variation in Employment
  – Concentration and Growth in Select Industries
    • Professional and Business Services
    • Goods-Producing Industries (Natural Resources/Mining, Manufacturing, Construction)
  – Housing Markets
How is the Fed Structured?

[Map showing the structure of the Federal Reserve System with cities and regions marked, including San Francisco, Dallas, Kansas City, St. Louis, Atlanta, Richmond, Cleveland, Chicago, New York, Philadelphia, Boston, Minneapolis, and note that Alaska and Hawaii are part of the San Francisco District.]
Each Reserve Bank has a Board of Directors that:

- Oversees Reserve Bank operations
- Provides “grassroots” information on economic conditions

Board members that represent the public appoint Reserve Bank presidents.
Fed’s Mission, Functions and You

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

**Core Functions**
- Monetary Policy
- Bank Supervision and Regulation
- Payment Services

**The Fed and You**
- The money you save and borrow
- The prices you pay
- The payments you make
- The community you live in
- The bank you use
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
Fed’s operations are audited by Congress, but monetary policy isn’t.

Why?

- It is politically tempting to boost employment through monetary policy.
- But in the long run, employment is determined by factors outside monetary policy.
- Continual monetary stimulus would raise inflation, with no positive effect on employment.
- Independence allows the Fed to stay focused on longer-term goals, while being able to achieve short-run objectives.

*Independence insulates monetary policy from short-term political influences.*
Independence with Transparency

Fed’s independence is balanced by transparency and accountability.

How?

- Balance sheet made public, updated weekly
- Minutes of FOMC released within a month of meetings
- Verbatim transcripts of FOMC released with five-year lag
- Chair testifies to Congress twice a year
- FOMC statements, Chair press conferences, speeches
Community Engagement

The Fed engages with business and community leaders to better understand local economic conditions.

- Regional group collects data and information
- Advisory councils and Board of Directors provide anecdotal insight
- Bank President attends FOMC with this information
The Piedmont Region
Virginia Payroll Employment

Source: Bureau of Labor Statistics/Haver Analytics

July 2016
US: 1.7%
VA: 1.5%
Employment Growth in Virginia’s Counties & Cities

Source: Bureau of Labor Statistics, QCEW
Virginia Industry structure

- Natural Resources & Mining
  - U.S.: 0.6%
  - Virginia: 0.2%
- Construction
  - U.S.: 4.5%
  - Virginia: 4.8%
- Manufacturing
  - U.S.: 8.7%
  - Virginia: 6.1%
- Trade, Transportation & Utilities
  - U.S.: 17%
  - Virginia: 19%
- Information
  - U.S.: 1.9%
  - Virginia: 1.8%
- Financial Activities
  - U.S.: 5.7%
  - Virginia: 5.1%
- Professional & Business Services
  - U.S.: 13.9%
  - Virginia: 13.3%
- Education & Health Services
  - U.S.: 15.5%
  - Virginia: 13%
- Leisure & Hospitality
  - U.S.: 10.7%
  - Virginia: 10%
- Other Services
  - U.S.: 4%
  - Virginia: 5.1%
- Government
  - U.S.: 15.5%
  - Virginia: 18.5%

Employment Share (Percent)
Virginia Industry Growth

Total YoY % Chg (SA)
-16.0 1.7 1.9
Natural Resources & Mining -5.7 3.3
Construction 1.0 3.3
Manufacturing -2.2 1.5 3.2
Trade, Transportation & Utilities -0.2 1.2 2.0
Information 1.5 2.1
Financial Activities -2.2 2.0 2.7
Professional & Business Services -1.9 3.5 3.6
Education & Health Services 3.0 3.6
Leisure & Hospitality 2.7
Other Services 2.0
Government 2.1

Source: Bureau of Labor Statistics/Haver Analytics
Virginia Industry Growth

Index, 100 = December 2007

- Professional & Business Services
- Education & Health Services
- Total

Source: Bureau of Labor Statistics/Haver Analytics
Virginia Industry Growth

Index
December 2007 = 100

Source: Bureau of Labor Statistics/Haver Analytics
Employment Concentration by County
Professional and Business Services

County Professional and Business Svcs. Concentration
Percent of Total Employment, Dec. 2015

- 2.2 - 5.2
- 5.3 - 7
- 7.1 - 9.9
- 10 - 13.7
- 13.8 - 35.1

Source: Bureau of Labor Statistics, QCEW
Employment Concentration by County
Goods Producing

County Goods Producing Concentration
Percent of Total Employment, Dec. 2015

- 0.7 - 8.8
- 8.9 - 14.3
- 14.4 - 18.9
- 19.0 - 27.9
- 28.0 - 41.3

Source: Bureau of Labor Statistics, QCEW
Virginia Unemployment Rate

[Graph showing the unemployment rate for the U.S. and Virginia from 2006 to 2017.]

July 2016
US: 4.9%
VA: 3.7%

Source: Bureau of Labor Statistics/Haver Analytics
Unemployment Rates in Virginia’s Counties & Cities

Source: Bureau of Labor Statistics/Haver Analytics
Home Price Change

Source: CoreLogic Information Solutions, Inc.
Building Permits

Total Building Permits (units)

Data for Franklin county, Roanoke county and Roanoke city are unavailable after 2014

Source: Census/Haver analytics.
Percentage of Total Loans with 90+ Day Delinquency

Source: FRB Richmond./McDash Analytics, March 2016
Summary

- The Federal Reserve has three primary functions: monetary policy, payment services, and supervision and regulation.
- Understanding economic developments in the Fifth Federal Reserve District is important to accomplishing all of the functions, particularly in the area of monetary policy.
- In general, hiring activity has picked up in Virginia in the last year and in Piedmont region, despite the region’s concentration in slower-growing industries.
- Housing market growth continues at a slow but steady pace in the U.S., in Virginia, and in the Piedmont region.
Questions?

... and thank you!

The views and opinions expressed herein are those of the author. They do not represent an official position of the Federal Reserve Bank of Richmond or the Federal Reserve System.