

Opening Remarks
“Energy and the Economy: Reshuffling the Energy Deck”
A Conference Hosted by the Federal Reserve Banks of Kansas City and Dallas

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The views expressed by the author are his own and do not necessarily reflect those of the Federal Reserve System, its governors, officers, or representatives.

It is my pleasure to join you here today. As the new president of the Federal Reserve Bank of Kansas City, I am delighted to be part of this event that started with the first Dallas and Kansas City Fed energy conference in 2016. I want to thank Lorie Logan and the Dallas Fed for continuing this partnership and, on behalf of both Reserve Banks, welcome everyone here and those joining online.

We view this annual convening, rotating across several key energy cities in our Districts, as extremely important to helping us understand how the energy sector is evolving. Developments in the sector have an important impact not only on the economy of both of our Fed Districts, but also on the financial sector and national economy.

THE 1970s AND '80s EXPERIENCE

This year, our focus is on improving supply chains and the outlook for energy markets and capital allocation in the energy transition. As I think about the topic of energy transition, however, I may take a longer perspective than others.

I go back to when I was growing up in Nebraska in the 1970s and the oil crisis had a major negative economic impact. In a state so reliant on agriculture, dramatic moves in energy costs presented a significant challenge for producers.

As often occurs during a crisis, there was significant focus on innovation. While there was a lot of public discussion about the importance of energy conservation, you also had an increasing interest in renewable energy resources, particularly solar power and ethanol. In Nebraska during this time there was a lot of talk about gasohol.

But the transition that supporters of renewables said was underway didn't unfold quite as expected. When oil prices sank in the 1980s, some of the earlier urgency was lost. Instead, a general collapse in commodity prices that decade was the catalyst of a banking crisis that I was soon in the midst of as a young bank examiner with the FDIC in Kansas City. In the seven states of the Tenth Federal Reserve District, 350 banks either failed or received assistance in the 1980s, and I saw firsthand a lot of the difficulty and pain that the region experienced.

It was then when I first gained an appreciation about how energy trends and markets can deeply affect overall regional and U.S. economic activity, financial stability, and inflation.

ENERGY AND THE TENTH DISTRICT ECONOMY

This early lesson was reinforced across my career. I can look back to various points as a banker in Nebraska, and in areas of the western United States where we had banks and recall how the movement of energy prices had a sometimes-significant impact on consumers, businesses, and manufacturers of all types.

And so, it is not only logical but essential that the Fed be aware of the current and emerging issues, challenges, and opportunities facing energy producers.

The Tenth Federal Reserve District served by the Kansas City Fed, stretches from here in Oklahoma all the way up to Wyoming and includes all or part of five states in between. It ranks second among Fed Districts in total energy activity, after Dallas, with about 20 percent of total U.S. energy production. The Tenth District accounts for more than 40 percent of U.S. coal production, about 25 percent of U.S. wind energy installation and more than 15 percent of U.S. natural gas production.

A few of our states are among the nation's leaders in both fossil fuels and renewables.

Of particular note is Wyoming, which trails only Texas and Pennsylvania in total energy production. Wyoming is the nation's top producer of coal and among the leaders in oil and natural gas. Oklahoma is also among our nation's leaders in oil, natural gas, and wind energy. And while New Mexico is divided between the Kansas City and Dallas Fed Districts, it is also one of the leading energy producers in oil, natural gas, and wind.

In addition to energy production, several of the Tenth District's largest companies are directly engaged in the energy sector. Meanwhile, agriculture, transportation, and other industries that are extremely important to our regional economy are major energy users.

Thus, as we think about it from an economic perspective, it is important that the Fed, particularly those of us in regions such as mine, understand the full spectrum of energy trends, from oil and gas to renewables, as well as the potential impact from related developments in geopolitics, technology, and finance.

Because of this, the Kansas City Fed is especially active in monitoring this economic sector.

- We conduct and publish a quarterly Tenth District energy survey, tracking key indicators at oil and gas firms.

- We co-host an annual Federal Reserve System Energy Research Workshop in conjunction with this conference, and our economists conduct research on timely energy-related topics such as productivity gains in the sector and the implications of gasoline price trends on inflation.
- We also host regular energy roundtables across the region to gain insights and contacts from the energy sector. These types of events, and the relationships we are able to form, are exceptionally important to me as a regional Reserve Bank president.
- Finally, we stay close to the energy sector by ensuring it is represented by individuals serving on our boards of directors and advisory councils.

However, this annual conference is the capstone of our energy-related activities. It provides us with an opportunity to come together for an in-depth discussion with academics, analysts, financiers, and executives to discuss the pressing issues of the day.

The transition from fossil fuels to renewables is both reliant upon and an influencer of supply chains and capital allocation, our key areas of focus at the conference this year. Our goal as the central bank is to better understand this transition, particularly how timely it will be, to bolster our own understanding of regional and national economic conditions.

On behalf of President Logan of the Dallas Fed, we once again thank you for your participation in this program. We are particularly interested in the views you will be sharing today and know that they will prove beneficial to our understanding of the road ahead.