

Main Street connections

The role of Federal Reserve Banks—and the Federal Reserve Bank of Kansas City in particular—intersect with communities everyday across broad regions of the country. In founding the Federal Reserve more than a century ago, Congress recognized the importance of directly connecting the nation's central bank to the Main Streets of its many communities. And like many aspects of our economy, we too have had to come face to face with delivering on our 100-year-old mission in a rapidly changing world.

As I travel across the country, I'm often asked: "What exactly does a Reserve Bank do?"

Reserve Banks essentially serve as the operating arms of the Federal Reserve System: providing cash and other services to financial institutions in their regions, supervising and regulating banks, and providing input on monetary policy deliberations—all roles that aim to achieve economic and financial stability in the United States. In the case of the Kansas City Fed, for example, we employ some 1,600 staff to carry out those roles within a seven-state region with branch offices in Denver, Omaha and Oklahoma City, all of which help broaden and reinforce our connections to the region.

In their earliest days, the operations of a Reserve Bank looked very much like that of a traditional bank. When banks in the region needed money to meet cash withdrawals or to extend credit, they could turn to the regional reserve banks to get secured loans. Reserve Banks carry out that same function today. Also in those early days, the Federal Reserve Banks set up a national network for clearing paper checks. The Kansas City Fed, for example, employed hundreds of operating clerks to sort

and process paper checks and to handle the sale of government securities to the public.

Over the past two decades, as electronic payment methods have emerged and gained popularity, consumers and businesses have moved away from writing checks and those operating clerk jobs have gone away. Yes, you'll still find a vault full of cash at a Federal Reserve Bank. But even cash processing has become highly automated with high-speed sorting machines equipped with sophisticated sensors and unmanned, automated vehicles that effortlessly transport pallets of cash and coin in and out of our multi-level vault.

With the rapid rise of electronic payments, Reserve Banks have had to consider how to ensure these payments remain safe and available broadly. Today, nearly one-third of our 1,600 employees are IT professionals. Their skills are critical to developing and analyzing the flow of payments in our economy today and how consumers and businesses will pay for goods and services in the years ahead. Earlier this year, the Federal Reserve announced that it would work with the private sector to improve the speed, security and accessibility of payments in the United States. That effort involves more than five hundred organizations—banks, payment processors, networks, merchants and consumers—working together to identify and implement ways to improve the way we pay for things.





While Reserve Banks may handle less paper in its operations, the volume of data used by Reserve Banks to conduct research and analysis has exploded. The Kansas City Fed, for example, currently houses more than five terabytes of data on mortgage information alone—information used by bank examiners and research economists. Processing data on this scale requires a high-performance computing environment, and local universities and researchers partner with us to take advantage of these tools. In coming years, the focus on data curation and computing power will strengthen those relationships between the Fed and local researchers to understand economic data and analysis.

As a policymaker, I rely heavily on the research and analysis of the Bank's independent research department, staffed by economists who work to explain changes in the global, domestic and regional economy. Their research addresses important theories about how an economy works as well as measurement and analysis of important trends affecting economic growth.

The right setting for interest rate policy varies over time and in response to changes in state and local economies. The U.S. economy is a collection of diverse regional economies, and the recipe for growth in one city may not produce results in another. Home prices, employment and industry makeup vary significantly from region to region. And inherent in the Federal Reserve's decentralized structure, regional Federal Reserve Banks are positioned to gather this "street-level" intelligence and produce research and resources tailored to its region's profile.

At the Kansas City Fed, for example, agriculture, energy and manufacturing are some of our top research priorities, reflecting the character of the states and cities in our region. The large proportion of community

banks in our district drives our research in banking trends, and our economists produce research on regional unemployment and housing trends as well.

You will find a similar dynamic at work in other Reserve Banks. The Federal Reserve Bank of Chicago serves both the Chicago and Detroit metro areas. As a result, economists in that District focus heavily on the auto industry, hosting an annual Automotive Outlook Symposium to examine the forces shaping the industry and the role new technologies will play in the auto market. Economists at the Federal Reserve Bank of Dallas, on the other hand, explore the economic effects of immigration and cross-border trade.

Each Reserve Bank reflects the character of its particular region. Our expertise in local and regional economies helps connect these communities to the national policy decisions of the central bank. And Reserve Banks help ensure that policy deliberations reflect the broad perspectives of the public at large, not the interests of Wall Street or Washington alone. In fact, you will find me meeting with individuals across my region between each of the FOMC meetings to better understand and inform the judgments and decisions we make about interest rates for the nation.

The Federal Reserve has strong incentives and a responsibility to understand the challenges faced on a local level. Before each Federal Reserve policy meeting, the Reserve Bank presidents and economists at all 12 district Banks work to compile summaries of economic conditions in their districts and release them to the public in a report colloquially called the Beige Book.

These summaries paint a more nuanced picture of our shared economic health and help policymakers distinguish regional from national trends. For example, at a meeting of



the Federal Open Market Committee, you would find me talking about the economic performance of my region, drawing on the perspectives of local businesses, banks and other community leaders.

Research conducted by staff at the regional reserve banks informs monetary policy decisions and views, but it is also widely available to the public, including community and business leaders who must consider economic drivers and trends affecting them and their constituents. I'll offer one such example of how research coming out of the Kansas City Fed caught the attention of one of our cities.

Demographics play a large role in regional and local economies. Today, as city planners look to their downtowns, the focus is often on how to attract the millennial generation. Millennials have largely driven the recent rebound in apartment construction, and some anecdotal evidence suggests they prefer to live and work in vibrant urban cores. But research by one of our economists concluded that other generational dynamics would likely influence the demand for housing. That research found that baby boomers would be a greater source of apartment demand in the long term as they age into their senior years and begin to downsize from single-family homes. The implications are clear: developers who focus only on millennial tastes may risk overbuilding, or overlooking amenities that could draw baby boomers downtown and further revitalize these areas.

This research was used by some city officials within our region as they considered plans for revitalizing their downtown. Since then, developers there have announced two multifamily construction projects in that particular downtown targeted toward baby boomers.

The Reserve Bank's research also supports our focus on economic and community

development, especially for low- and moderate-income communities. Each Reserve Bank has a Community Development function with staff dedicated to assessing community needs and implementing programs to address those issues.

Reserve Banks and their branch offices are well positioned to understand the challenges facing our regions and to identify the resources available to those working to address them. In this regard, Reserve Banks play a crucial role in facilitating connections between local leaders and the resources that can help get their ideas off the ground.

These regional, Main Street connections are carried out every day across the country by Federal Reserve Banks and their branch offices. Whether your Main Street is part of a bustling major city or a quiet rural town, the job of this 100-year-old institution is importantly connected to the region. Ensuring that the plumbing of our financial system is safe, that consumers and businesses can have confidence in the payments they make, and that policymakers are well informed when they make decisions about interest rates. Understanding those issues at the regional level positions us to better understand the dynamics of our nation's economy.



**ESTHER L. GEORGE, PRESIDENT
FEDERAL RESERVE BANK OF KANSAS CITY**