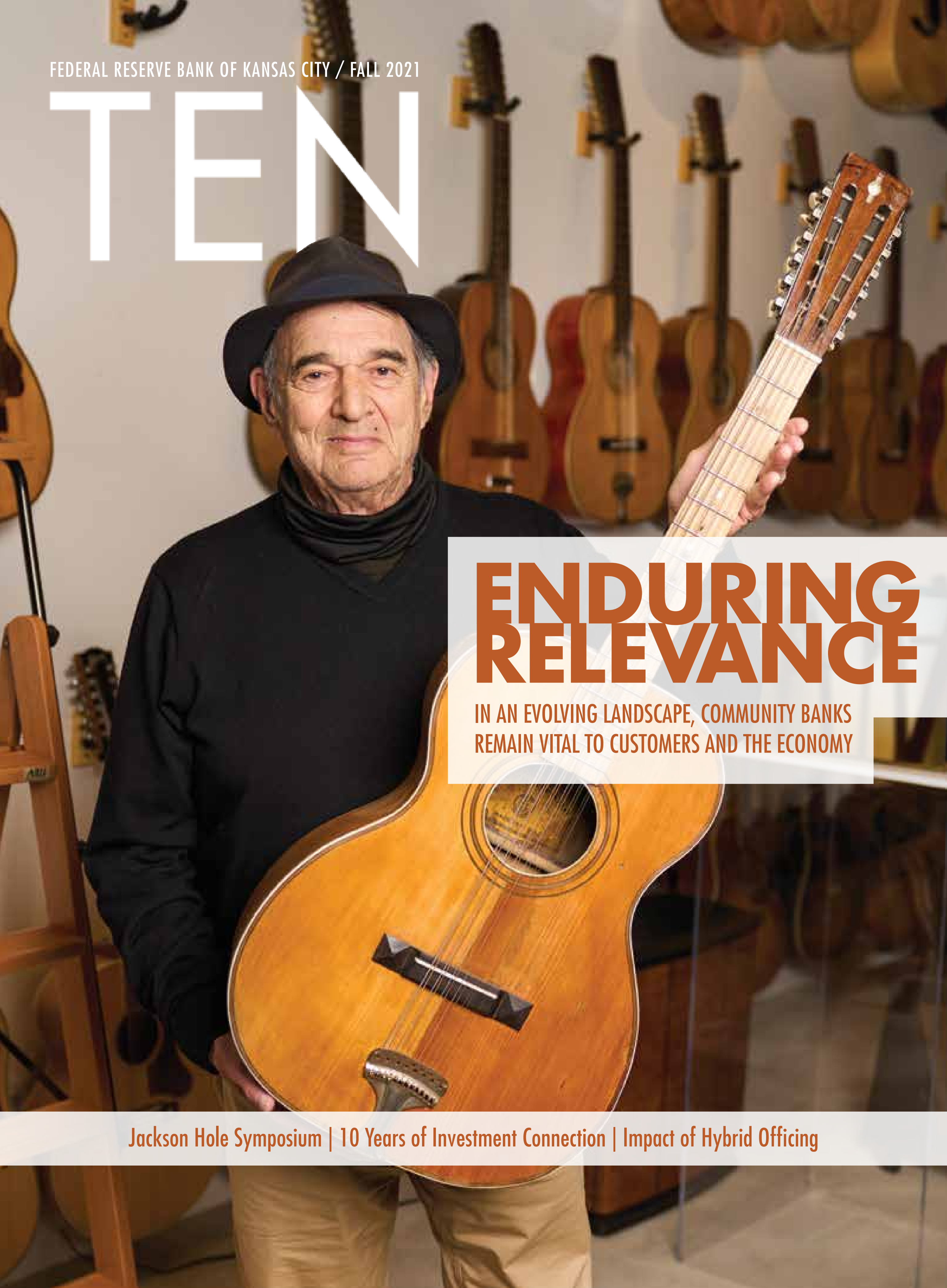
FEDERAL RESERVE BANK OF KANSAS CITY / FALL 2021

TEN



ENDURING RELEVANCE

IN AN EVOLVING LANDSCAPE, COMMUNITY BANKS REMAIN VITAL TO CUSTOMERS AND THE ECONOMY

Jackson Hole Symposium | 10 Years of Investment Connection | Impact of Hybrid Officing

FEDERAL RESERVE BANK OF KANSAS CITY / FALL 2021

TEN

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TEN magazine is a quarterly publication of the Federal Reserve Bank of Kansas City focused on the connection between the Bank's research and the Tenth Federal Reserve District. TEN features articles on the Federal Reserve's history, structure and operations. The views and opinions expressed in TEN are not necessarily those of the Federal Reserve Bank of Kansas City, the Federal Reserve System, its governors, officers or representatives.

Learn more about the Federal Reserve Bank of Kansas City and the history, leadership and governance of the Federal Reserve System at *KansasCityFed.org/aboutus.*

FEATURES

ON THE COVER » Artist Larry Bell at his studio in Taos, New Mexico.
Photo by Jason Collin, Design by Casey McKinley

Is the economy tight or slack? Exploring the policy implications

Measurement and data are central to monetary policy making. Data is the vocabulary that policymakers use to build the narratives that are essential for making sense of the economy and for explaining policy decisions. Data alone cannot tell the story, but the story certainly depends on data. Consequently, the same data can often underpin widely divergent economic narratives.

As a policymaker, those narratives are shaped not only by an assessment of the data, but also by experiences. Wisdom and the humility to adjust a narrative is essential, especially when the data makes the story increasingly difficult to tell. Today I would like to look at the data and narratives as they relate to a particular question with important implications for monetary policy: Is the economy tight or slack?

The strength of demand and the ability of supply to meet that demand have been significantly impacted by the pandemic and the related policy response. As I talk to contacts in the Kansas City Fed's region, I often hear anecdotes that suggest an economy that has run into constraints, including reports of the difficulty in finding workers and of having to pay much higher prices for materials and transportation. These stories are confirmed by the data, with a record number of unfilled job openings and sharply higher prices for many commodities. At the same time, almost six million fewer individuals are working now relative to before the pandemic. This suggests that there remains considerable slack in the labor market.

So, is the economy tight or slack? Prices are telling in making this assessment. An economy operating near or at its productive capacity is likely to display higher prices. On the other hand, slack implies underutilized resources, such that higher demand can be met without increased prices.

I'll explore some of the factors that are currently contributing to a tight economy, which is lifting inflation. While there is good reason to think that many of the factors boosting demand and restraining supply will fade over time, the extraordinary events of the global pandemic make this unfolding narrative a complex one.

A tight economy

You don't have to look hard to spot signs of an economy that has run into constraints. Business surveys are reporting a record number of job openings. In addition, workers are quitting jobs at a record pace, typically a sign of a hot labor market when alternative opportunities are plentiful.

Strong demand and limited supply also are apparent in depleted inventories. The inventory-to-sales ratio for retailers is at a record low and far below historical norms.

Tight supply and high demand are behind the recent increase in price inflation. Prices, as measured by the consumer price index (CPI), increased 5.4% over the 12 months ending in July, matching June's increase and remaining at the fastest pace of increase in over a decade. To be sure, some of the increase in prices simply reflects a reversal of price declines recorded earlier in the pandemic, particularly for service categories like airfares and hotels. But the normalization of some prices is not the whole story. Other prices have moved far above pre-pandemic levels. The sharp increase in car prices has been widely reported, not just as it relates to new cars but also used cars and even rental cars. Outside of consumer prices, there's also been a sharp rise in commodity prices and transportation costs.

Based on this evidence, the economy shows clear signs of tightness. An important question: Will this tightness persist with implications for the path of monetary policy?

Factors contributing to a tight economy

Whether the economy is temporarily tight or more persistently tight will depend on the evolution of the dynamics affecting both supply and demand. Currently demand is exceptionally strong, boosted by expansive fiscal policy and low interest rates. It is also unbalanced, favoring the consumption of a subset of goods. Supply is constrained by frictions in the labor market and production bottlenecks resulting from kinks in global supply chains.

There is reason to believe that some of the drivers boosting demand and constraining supply will fade over time. In particular, I anticipate four factors that could introduce slack into what is now a tight economy.

First, notwithstanding the upswing in the virus, I expect to see the continued rotation of consumption from goods to services. More than a year ago, many consumers were forced to avoid contact-intensive services, such as hotel accommodations, concerts, and amusement parks, as well as visits to doctors, dentists and hair stylists. Stuck at home, consumers rotated their consumption towards goods, often ordered online. This led to a very uneven pattern of demand. At the end of the first quarter of this year, services consumption was 5% below pre-pandemic levels, while the consumption of durable goods was a remarkable 34% higher. This unexpected shift in demand toward a subset of consumption goods has been behind some of the observed tightness in the economy.

With the advent of widespread vaccination and a lessening of pandemic disruptions through the spring, services consumption has picked up,

Photo by Getty Images

and goods consumption has stepped down. Still, services consumption remains depressed relative to previous levels, suggesting further room to grow. As consumption rotates from goods to services, some of the pressure should ease for overstretched goods demand, perhaps allowing inventories to rebuild, even as services growth continues to support the overall recovery in the economy.

A second factor is the likelihood that the growth of overall demand will moderate as government supports fade. The tremendous amount of fiscal stimulus provided to the economy since the start of the pandemic, on the order of $6 trillion, has been essential in supporting economic activity. However, much of this stimulus already has been distributed. Thus, the peak boost to growth from fiscal policy likely has passed. Some estimates show that fiscal policy, after adding almost 4 percentage points to growth last year, will subtract about 2 percentage points from growth over the next few years.[1] Additional spending bills under consideration could blunt this drag, but seem unlikely to fully offset it.

A third factor focuses on supply-side considerations contributing to near-term tightness in the economy. As it relates to labor supply, temporary factors related to the pandemic are likely contributing to the current tightness in the labor market, importantly reflected in a still-depressed level of labor force participation. Disruptions to schooling and daycare led many workers with small children, primarily non-college educated women, to drop out of the labor force. Enhanced unemployment benefits could also be playing a role, as potential workers sit on the sidelines and assess their options.

As schools reopen, and enhanced unemployment benefits end, these constraints on labor supply should ease. Already we are seeing promising signs that the labor market is healing.

Finally, supply constraints go well beyond labor markets. A number of materials and inputs to production have also experienced bottlenecks. In part, these shortages reflect the difficulties of restarting or reorienting production after a year of sharp shifts in demand. The bottlenecks also have arisen from domino effects related to the tight logistical networks that were in place before the pandemic. With a flexible, dynamic economy, firms can be expected to overcome most of these bottlenecks through the rest of the year.

This narrative for why the current supply-and-demand constraints might be expected to ease over time strikes me as a reasonable baseline. My own expectation is that growth will step down but remain robust; that the labor market will continue to recover at a rapid pace; and that inflation will moderate. But this narrative would be incomplete without acknowledging the risks.

"NEEDLESS TO SAY, THE ROAD AHEAD TO POLICY NORMALIZATION IS LIKELY TO BE A LONG AND BUMPY ONE AS WE NAVIGATE INFLATION AND LABOR MARKET DYNAMICS IN THE POST-PANDEMIC ECONOMY."

— Esther George

One key risk is the lingering presence of the pandemic. The upsurge in COVID cases related to the delta variant threatens renewed restrictions on activity or increased caution on the part of consumers and could delay the recovery across many dimensions. Importantly the effects could be as pronounced on the supply side as the demand side, prolonging the tightness of the economy and maintaining upward pressure on prices. Renewed concern over the virus could impede the recovery in services consumption such that demand remains directed towards sectors of the economy that are near capacity and away from those sectors that have available slack. The surge in the virus also could delay the normalization of the labor market, particularly if schooling and childcare is once again disrupted. The spread of the variant has been particularly disruptive in Asia, where vaccination rates remain quite low. Given Asia's large imprint in global value chains, disruptions in the manufacturing sector there can spill over quickly to other parts of the world, further exacerbating production bottlenecks and shortages, and inflation pressure.

[1] *See, for example, the Hutchins Center Fiscal Impact Measure (brookings.edu)*

Aside from the economic threats associated with the delta variant, the assumption that demand will moderate may prove otherwise given the high level of household savings. In particular, a considerable portion of the stimulus transfers to households have been saved, with estimates suggesting that the stockpile of household saving has increased by close to $2.5 trillion. Of course, healthy household balance sheets are positive for the economy, and to the degree that the saving is spent out over time, this could support strong and steady growth for some time. However, if households instead choose to spend rapidly, a burst of demand could keep the economy at capacity, reinforcing bottlenecks and putting continued upward pressure on prices.

The outlook for monetary policy

What does this mean for monetary policy and the Federal Open Market Committee's (FOMC) long-run objectives for the economy? How should policymakers account for today's "tight" demand and supply dynamics in their decisions about the path of asset purchases and interest rates?

Since last December, the Committee has stated that it expects to keep the policy rate near zero until the labor market has reached levels consistent with maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time. The FOMC also expects to maintain its purchases of Treasuries and mortgage-backed securities until substantial further progress has been made toward these employment and inflation goals.

Without question, the combination of fiscal and monetary policy supports at the onset of the pandemic bridged the economy's transition from a deep contraction to a robust rebound. Now, with the recovery underway, a transition from extraordinary monetary policy accommodation to more neutral settings must follow. Today's tight economy, as I described earlier, certainly does not call for a tight monetary policy, but it does signal that the time has come to dial back the settings. With year-over-year inflation running well over the Committee's target and steady progress in monthly employment gains, the FOMC's long-run objectives for price stability and employment are in focus.

While recognizing that special factors account for much of the current spike in inflation, the expectation of continued strong demand, a recovering labor market, and firm inflation expectations are consistent, in my view, with the Committee's guidance regarding substantial further progress toward its objectives. I support bringing asset purchases to an end under these conditions. As this adjustment gets underway, public attention naturally will turn to timing for adjusting the policy rate, though it is important to note the timing of the tapering of asset purchases is not mechanically connected to the timing of any policy rate adjustment. With both upside and downside risks in play, and multiple policy tools in use, judging the achievement of criteria for raising rates is more complicated. One might argue that today's inflation dynamics are likely to keep inflation moderately above 2% for some time and align with the Committee's threshold criteria. On the other hand, the criteria for judging maximum employment are murkier.

While it is clear that we remain far from the historic low levels of unemployment achieved pre-pandemic, it is less clear to me that such a benchmark will be the best guidepost in the current expansion. The pandemic introduced a number of frictions into the labor market, many of which are likely to evolve over time. Barring further intensification of the virus, I would expect these frictions to fade, promoting strong job gains and a relatively fast approach to maximum employment. However, the experiences of the past year may well have resulted in a number of structural changes to the labor market, including how, when, and where people work. These changes could affect the assessment of maximum employment in ways that are not yet clear.

Needless to say, the road ahead to policy normalization is likely to be a long and bumpy one as we navigate inflation and labor market dynamics in the post-pandemic economy. Considering the financial stability landscape also will be key to the achievement of our goals. Along the way, a careful assessment of the data will be essential in shaping the narratives that guide policy decisions, balancing nimbleness and patience and steering clear of policy errors.

This message is adapted from remarks delivered virtually Aug. 11, 2021, during the 18th Annual Economic Measurement Seminar hosted by the National Association for Business Economics.

Making a CONNECTION

In founding the Federal Reserve more than a century ago, Congress recognized the importance of connecting the nation's central bank to the Main Streets of America. The Federal Reserve Bank of Kansas City carries out this role through its president and its programs and activities across Colorado, Kansas, western Missouri, Oklahoma, Nebraska, northern New Mexico and Wyoming. Here is a glimpse at the recent activities of President Esther L. George and the staff of the Kansas City Fed. **Note: Some events highlighted in this section took place when Covid-19 risk levels allowed for in-person gatherings.**

KANSAS, MISSOURI and BEYOND »

Visiting the Bank's former home

In June, President Esther George and senior leaders from the Kansas City Fed took a tour of the Bank's former headquarters ahead of the property's slated conversion to a hotel. The 925 Grand building downtown was the Bank's head office from 1921 to 2008, when the current office opened at 1 Memorial Drive. The tour's purpose was to review any building components that might hold interest as part of the history of Tenth District facilities. The group developing the property has said that final design of the hotel will preserve some historic architectural elements of the building.

(From left) Senior Vice Presidents Craig Zahnd, Donna Ward and Diane Raley joined President Esther George (center) and Assistant Vice President Matt Ruemker (far right) on the visit to 925 Grand.

Missouri Bankers Association members meeting in Branson watched Esther George's virtual speech.

Missouri Bankers Association

Esther George spoke virtually to members of the Missouri Bankers Association in July during the group's 131st annual convention, held in Branson, Missouri. George shared insight on the banking industry and the nation's payments system. Other speakers at the convention ranged from senior leaders of the Federal Deposit Insurance Corp. to specialists from the fields of demographic marketing and cybersecurity.

Nebraska community bankers meet at Kansas City Fed headquarters

In July, the Nebraska Independent Community Bankers held its summer board meeting at the Bank's head office in Kansas City. President George greeted the attendees. The organization, led by President and Chief Executive Officer Eric Hallman, strives to "elevate the community bank business model so that independent Nebraska banks and their communities can continue to flourish and thrive."

Members of the Nebraska Independent Community Bankers, including President and CEO Eric Hallman (pictured with Esther George in the photo above) were guests of the Kansas City Fed in July.

Kansas City Fed town hall for employees

In July, President George spoke to Reserve Bank employees during a town hall moderated by Timothy Todd. The event was conducted in-person and live-streamed to remote workers. During the town hall, George provided updates on a wide range of Kansas City Fed topics and answered questions from employees.

Moderator Timothy Todd joined President Esther George at a bankwide town hall in July.

Former Tenth District director Terry Moore

In July, President George stopped in the Omaha area to visit former Kansas City Fed director Terry Moore. Moore, retired president of the Omaha AFL-CIO, has the longest director service record in the Tenth District. He served a total of 15 years – two terms on the Kansas City Fed Board, two years on the Omaha Branch Board and two terms on the District's Economic Advisory Council. At the time of his retirement from the AFL-CIO, Moore was the longest-serving elected labor leader in the country.

During the visit with Director Maria Griego-Raby, in July, George toured the offices of Contract Associates, which provides office products and services.

Kansas City Director María Griego-Raby

In Albuquerque, President George visited Kansas City Fed Director María Griego-Raby, founder, principal and president of Contract Associates Inc. Griego-Raby joined the Bank's Kansas City Board of Directors in 2021. Earlier she served on the Tenth District's Economic Advisory Council.

(Above) Representatives from the Tribe and Ho-Chunk, Inc., including Omaha Branch Director Annette Hamilton (pictured at left), presented a blanket to President George in appreciation of the Kansas City Fed leaders' visit.

(Below) George posed with members of the "Many Moccasins Dance Troupe."

Winnebago, Nebraska tribe hosts group of Kansas City Fed officers, directors

President Esther George, Omaha Branch Executive Nate Kauffman and Omaha Branch directors in July learned firsthand about the northeastern Nebraska economy when they were guests of the Winnebago Tribe of Nebraska. Omaha Branch Director Annette Hamilton is chief operating officer of Ho-Chunk Inc., the economic development arm of the tribe. Ho-Chunk Inc. strives to create economic opportunities that help the tribe achieve self-sufficiency and improve the community. As part of the visit, officials of the tribe explained Ho-Chunk's history and mission. The Bank leaders toured the village of Winnebago and visited some of Ho-Chunk's businesses and projects in the area.

Speaking with K-12 educators

Omaha Branch Executive Nathan Kauffman explained the functions of the Federal Reserve and spoke with K-12 educators about current economic conditions during a Personal Finance Institute event hosted by the Nebraska Council of Economic Education at the University of Nebraska Omaha.

Cortney Cowley

Highlighting credit needs of women and minority farmers

The Kansas City Fed joined the Federal Deposit Insurance Corp. and the Office of the Comptroller of the Currency for the agencies' rural lending webinar, "Financing Women and Minority Farmers." As part of the discussion, Kansas City Fed Economist Cortney Cowley provided an update on the agricultural economy and credit conditions.

Nathan Kauffman

2021 National Grain Car Council meeting

Nathan Kauffman discussed the economic recovery during the 2021 National Grain Car Council Meeting. The National Grain Car Council is a stakeholder committee of the Surface Transportation Board and includes representatives from railroads, grain shippers and receivers, and private rail car owners and manufacturers.

Steven Shepelwich

Conversation about the benefits cliff

Community Development Advisor Steven Shepelwich joined presenters from Nebraska Appleseed and the Gretchen Swanson Center for Nutrition for a virtual discussion of the "benefits cliff." The term describes a circumstance in which career advancement, such as getting a raise, puts family income above eligibility requirements for public benefits programs. This can leave a person or household worse off financially. During the session, hosted by Nebraska Congressman Don Bacon, Shepelwich shared information about steps the Federal Reserve is taking to find solutions for families facing the benefits cliff, including the Atlanta Fed's Advancing Careers for Low-Income Families initiative. Go to *KansasCityFed.org/community* for articles about the benefits cliff and updates on the Federal Reserve's efforts to address it.

Pandemic recovery training for business owners

The Oklahoma City Branch partnered with Progress OKC to host a Recovery Community Training session for organizations serving the city's minority small business owners. Omaha Branch Community Development Advisor Dell Gines developed and led the training based on findings from the Kansas City Fed's Small Businesses of Color Recovery Guide, which focuses on developing inclusive entrepreneurship ecosystems to meet the needs small businesses most affected by the COVID-19 pandemic. Additional training will be conducted throughout the District. Learn more at *KansasCityFed.org/community/economic-and-small-business-development/small-businesses-color-recovery-guide/*.

Raising awareness of food insecurity

In July, Kansas City Fed staff met virtually with individuals from food assistance organizations throughout the seven states of the Tenth District. The staff heard firsthand about how the pandemic has affected food assistance programs and gained better understanding of the state of food insecurity in the Tenth District region.

ACROSS THE TENTH DISTRICT »

Wilkerson presents to Rotary Club

Oklahoma City Branch Executive Chad Wilkerson gave a speech at the Oklahoma City West Rotary Club meeting in July. He spoke to members about the national and Oklahoma economies, with attention to important economic indicators for the state, such as energy, agriculture and manufacturing.

Chad Wilkerson

Sly joins 'Chamber Chat' podcast

Denver Branch Executive Nicholas Sly recently recorded a podcast for the Albuquerque Hispano Chamber of Commerce (AHCNM), along with Shannon Jacques, the chamber's chief development officer. The 15-minute conversation focused on an overview of the Federal Reserve, the economic indicators Sly is monitoring and the recovery of small businesses in New Mexico and the Rocky Mountain region.

Nicholas Sly was a recent podcast guest of the Albuquerque Hispano Chamber of Commerce.

Sly provides regional economic update for factory-built housing trade group

Denver Branch Executive Nicholas Sly discussed the economic recovery during a Rocky Mountain Home Association (RMHA) meeting in Blackhawk, Colorado. The RMHA is a non-profit trade organization focusing on promoting manufactured housing and educating homebuyers across the Centennial State. The factory-built housing industry produces about 90,000 homes a year and contributes around $2.6 billion to the U.S. economy.

Sly discusses economic topics during visit with Albuquerque business leaders

In August, Nicholas Sly was hosted by the Economic Forum of Albuquerque and spoke about the national and New Mexico economies, with an update on the state of small businesses. For more information on small business recovery in the Rocky Mountain region, read the latest Rocky Mountain Economist at *KansasCityfed.org/denver/rocky-mountain-economist/.*

Meeting teachers at Oklahoma City 'Back to School Bash'

The Oklahoma Museums Association hosted its annual "Back to School Bash" in August, and Oklahoma City Branch Public Affairs staff attended to share Federal Reserve economic education and personal finance resources with teachers. The event is an opportunity for organizations that have educational outreach programs to engage educators and share resources that support learning in the classroom.

Personal finance lesson for Tulsa's NextGen Talent program

The Oklahoma City Branch Public Affairs team traveled to Tulsa to share information about the Federal Reserve Bank and personal finance concepts with Tulsa's NextGen Talent (TNT) students. Rue Ramsey, founder of TNT and vice president of Workforce Talent and Strategies at the Tulsa Regional Chamber, said that TNT is a three-week externship through which young adult students learn about networking, business initiatives and career opportunities before they leave for college. She said TNT focuses on 20 to 30 high school students from Tulsa Public Schools. The externship helps students experience networking by creating business cards, taking headshots, learning business etiquette and being introduced to keys for success in the workforce. "Tulsa NextGen Talent is about building a talent pipeline and raising diverse talent in Tulsa," Ramsey said. "The goal is to connect young people to the city, to each other, and to employers." Learn more at *tulsasfuture.com*.

In June, the Tulsa NextGen Talent program brought together students and area business leaders.

Notes from around the Tenth District

Photo by Getty Images

Bank hosts Diversity and Inclusion Summit

The Kansas City Fed recently hosted its annual Diversity and Inclusion (D&I) Summit, with more than 200 people in attendance. The theme for the virtual conference was "Allyship! From 'Anti' to 'Ally': A Story of Personal Transformation."

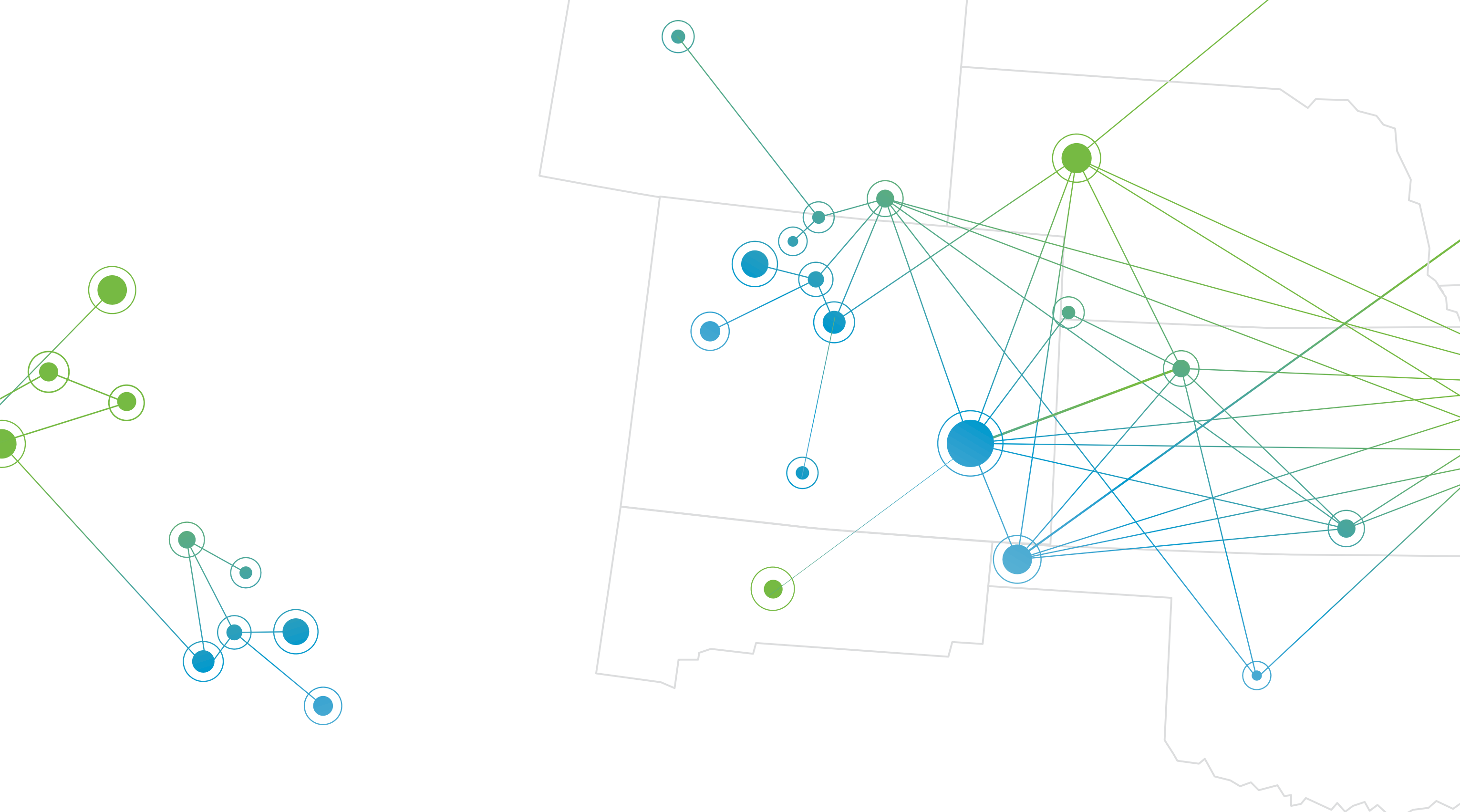
The event brought together external community stakeholders, D&I practitioners and champions for professional development dedicated to an exchange of concepts, insights and best practices in diversity, equity and inclusion. The summit was co-hosted with the Diversity & Inclusion Consortium, a Kansas City-based group of more than 385 D&I practitioners and advocates across 32 cities, 21 states and four countries.

This year's keynote speaker was Joe Gerstandt, an author and adviser in the organizational D&I field. Gerstandt spoke about identifying organizational behaviors and defining a common language so that leaders and employees can be held accountable. He also stressed the importance of being open to learning in new ways and changing perspectives.

"Attendees left this year's Diversity and Inclusion Summit with ways to confront their own blind spots and better understand the connection between personal and organizational transformation," said Amy Sanchez, a senior specialist in the Kansas City Fed's Community Engagement and Inclusion Division. "They were given examples of what allyship looks like in practice, and tools to socialize and implement more inclusive practices."

After the keynote presentation, attendees joined virtual breakout sessions and engaged in topics related to the keynote discussion. Conversations touched on hiring, accountability, development, psychological safety and disagreement. Continuing Professional Education credits were available to attendees.

FURTHER RESOURCES
Learn more about the Bank's D&I work at *KansasCityFed.org/about-us/diversity-and-inclusion.*



See Money Museum exhibits virtually

In addition to visiting the Kansas City Money Museum in person, the public can enjoy a virtual experience with interactive exhibits.

During the pandemic, the Money Museum launched virtual exhibits that are accessible on computers or mobile devices. For example, "Adventure Capital" takes visitors across the globe through international currency. Along the way they learn about historic sites, pop culture and other elements printed on the world's banknotes. The "Let Us Put Our Money Together" exhibit showcases the history of Black banking in the United States, inspired by the research of Bank Historian Timothy Todd.

In-person visitors can see how the Bank processes millions of dollars in currency each day, lift a real gold bar, view the historic Harry S. Truman coin collection and experience interactive exhibits about currency and the economy.

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FURTHER RESOURCES
Go to *KansasCityFed.org/moneymuseum* to see digital exhibits and get updated information about on-site visits, tickets and guidelines.

Photo by Gary Barber

Photo by Getty Images

Fed and industry partners urge Americans to get coins moving

While COVID-19 continues to cause disruptions in coin circulation, the U.S. Coin Task Force urges Americans to take simple steps to help alleviate the issue.

The Federal Reserve, the U.S. Mint and financial industry partners formed the task force in 2020 to address the circulation situation. This year the task force is emphasizing that the economy actually isn't experiencing a coin shortage. In fact, $48.5 billion in coins are in circulation. Much of that, however, is dormant inside American households. A statement from the task force said that returning just a fraction of those coins would make a meaningful difference for millions of Americans and businesses that rely on coins to support cash transactions.

The task force encourages the public to help by taking these steps:

- Start spending coins.
- Deposit coins at financial institutions.
- Redeem coins at coin kiosks.
- Use the hashtag *#getcoinmoving* in personal social media channels to promote awareness and understanding of the issue.

FURTHER RESOURCES
Visit *GetCoinMoving.org* for U.S. Coin Task Force recommendations, videos and other information.

Bank Anniversaries

The following banks in the Federal Reserve's Tenth District are celebrating one, five, 10, 20 or more years as Federal Reserve members in October, November and December.

Bank of Versailles	Versailles	Mo.	102
First State Bank of Newcastle	Newcastle	Wyo.	91
Grant City Bank	Medford	Okla.	81
Stock Exchange Bank	Caldwell	Kan.	81
Fidelity State Bank & Trust Company	Dodge City	Kan.	78
Farmers State Bank	Pine Bluffs	Wyo.	55
Bankers' Bank of the West	Denver	Colo.	41
Citizens State Bank & Trust Company	Ellsworth	Kan.	41
Citizens Bank & Trust Company of Ardmore	Ardmore	Okla.	30
Ameristate Bank	Atoka	Okla.	25
Farmers State Bank	Phillipsburg	Kan.	23
Bank of Western Oklahoma	Elk City	Okla.	23
First American State Bank	Greenwood Village	Colo.	22
Bank of Cherokee County	Hulbert	Okla.	22
Bank of Elgin	Elgin	Neb.	22
Farmers Bank	Ault	Colo..	20
First Missouri Bank	Brookfield	Mo.	10
ANB Bank	Denver	Colo.	10
Anchor D Bank	Texhoma	Okla.	10
Bank of Burlington	Burlington	Colo.	5
FNB Washington	Washington	Kan.	5
FMS Bank	Fort Morgan	Colo.	5
First Northeast Bank of Nebraska	Lyons	Neb.	5
First Fidelity Bank	Oklahoma City	Okla.	5
1st Bank in Hominy	Hominy	Okla.	5

The United States in 2021 has seen signs of economic recovery as well as a more recent surge in coronavirus cases. As the pandemic evolves, Kansas City Fed economists continue to explore the far-reaching effects. Read their full analysis and conclusions at **KansasCityFed.org/research**.

Road to recovery steeper for women without college degree, especially minority mothers

The pandemic-induced recession weighed most on the labor force participation of prime-age women without a bachelor's degree, particularly minority mothers. Analysis of changes in the labor force participation rates of prime-age individuals (ages 25 to 54) across gender, education level, race and ethnicity during the downturn and subsequent recovery yields three key findings. First, prime-age women without a bachelor's degree experienced greater deteriorations in their labor force participation and employment during the recession than all other prime-age individuals, and their labor force participation and employment rates remain well below pre-pandemic levels. Second, Hispanic prime-age women without a bachelor's degree have seen a larger decline and a slower recovery in employment and labor force participation rates than non-Hispanic white and non-Hispanic Black women. Third, the presence of young children seems to have weighed on the labor market outcomes of less-educated women in general and minority women in particular.
—Didem Tüzemen, Third Quarter Economic Review

Photo by ???

What's driving the recent increase in retirements?

During the pandemic, the share of retirees in the U.S. population rose much faster than its normal pace. Retirement often is thought of as a permanent shift in an individual's employment status, and an increase in the retirement share typically indicates an increase in the number of employed people transitioning to retirement. However, analysis found that the current increase mainly has been driven by a decline in the number of retirees rejoining the labor force. One natural explanation for the recent decline in the retirement-to-employment transition rate is pandemic-related health concerns. Given the risk of being infected at work, some retirees who otherwise might have rejoined the workforce might have postponed these plans. As vaccinations continue to increase and health risks fade, more retirees likely will transition to employment. However, the retirement share is unlikely to return to a pre-pandemic level for some time.

—Jun Nie and Shu-Kuei X. Yang,
August 2021 Economic Bulletin

Fiscal relief during the pandemic

In response to the sharp economic downturn during the COVID-19 pandemic, Congress passed unprecedented policy relief measures to support households, businesses and the broader economy. Recent research examined three relief programs—stimulus checks, augmented unemployment insurance (UI) benefits and the Paycheck Protection Program (PPP). Stimulus checks provided direct income support to liquidity-constrained and lower-income households, but because households who did not suffer income losses put the money into personal savings, the full boost to consumption has yet to be seen. Augmented UI benefits fully replaced earnings for the majority of recipients who lost jobs, and the PPP aided the continuity of the small business sector and boosted employment at a modest pace. Overall, the fiscal policy response to the pandemic largely benefitted segments of the economy most in need, but the long-term effects from these programs remain to be seen.

—Huixin Bi and Chaitri Gulati,
Second Quarter Economic Review

Photo by Getty Images

Profit likely not main spark for banks' PPP lending

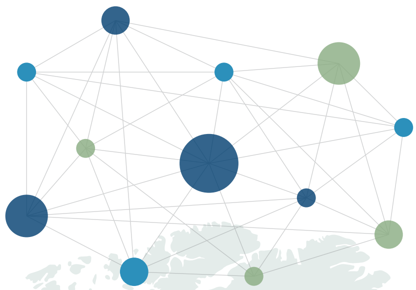
A study of bank responses to the Paycheck Protection Program (PPP) and its effects on lender balance sheets and profitability showed that lenders overall were driven by risk-aversion and funding capacity rather than profitability in their decisions to participate and in the intensity of their participation. Indeed, with greater participation intensity, banks experienced sizable growth in their loan portfolios but a decline in interest margins. In counterfactual exercises, analysis showed that the PPP offset a large potential contraction in business lending, and that bank margins would have fallen more sharply if lenders had not participated in the program. Although the PPP was intended as a credit support program for small firms, the program indirectly supported the margins of banks that channeled these loans.
—W. Blake Marsh and Padma Sharma, June 2021 Research Working Paper

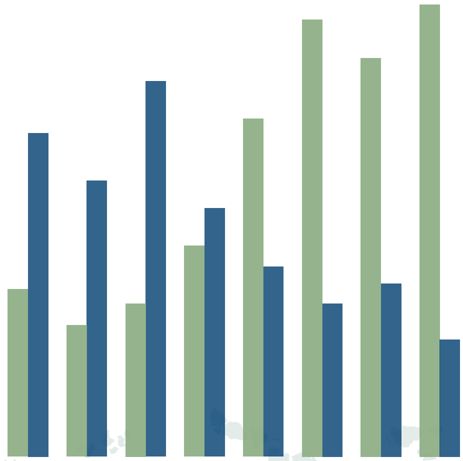
Evictions shed light on pandemic economy

Evictions are tied deeply to affordable housing issues, a longstanding problem the pandemic served to highlight. Low-income workers and people of color lost jobs at much higher rates than other population groups. This made them much more vulnerable to falling behind on rent. Even though the Centers for Disease Control enacted a nationwide eviction moratorium, evictions continued. Congress provided funds to make up for the debt that low-income renters have accrued due to losing their jobs, but that money has been slow to reach them. While the eviction moratorium was extended for most places, court challenges may emerge. This may put many renters in a tenuous position when rental assistance still has not reached them. Cities, counties and states can take some immediate actions to prevent that from happening, but larger efforts will be needed to prevent evictions from being a persistent problem.
—Steven Howland, August 2021 Community Development report

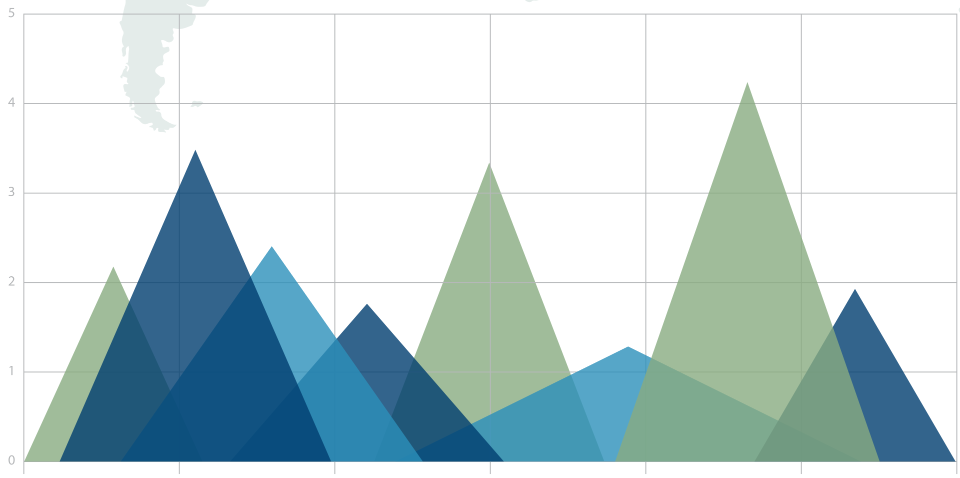
Small business recovery in the Rocky Mountain states

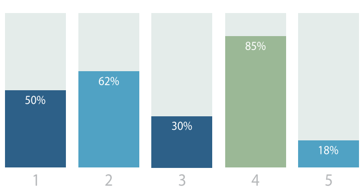
Small business owners and the shops, services and factories they run are significant creators of jobs. This effect is amplified in the Rocky Mountain region. In Colorado, New Mexico and Wyoming, owners of small businesses employ about 33% of all workers, compared with 28% nationally. Small business activity in the region began to normalize in March, with 500,000 more individuals reporting that they were self-employed and running their own small business by midyear. Importantly, this nascent recovery among small business owners arises in the leisure and hospitality and construction sectors, parts of the small business community that tend to employ a large number of workers. If each of these businesses rehires the average number of four or five workers, this may be an indication that the small business engine of job growth is beginning to rev up.
—Nicholas Sly and Bethany Greene, August 2021 Rocky Mountain Economist





MACROECONOMIC POLICY IN AN UNEVEN ECONOMY





Jackson Hole Economic Policy Symposium
Federal Reserve Bank of Kansas City
Friday, August 27, 2021

THE JACKSON HOLE ECONOMIC POLICY SYMPOSIUM

Kansas City Fed President Esther George observed symposium proceedings from the board room at the Bank.

The uneven disruption of the global economy brought about by the coronavirus pandemic and the equally uneven recovery took center stage during the 2021 Jackson Hole Economic Policy Symposium.

The Federal Reserve Bank of Kansas City's 45th symposium, titled "Macroeconomic Policy in an Uneven Recovery," was conducted virtually on Aug. 27. (All symposium materials are available at *KansasCityFed.org/jacksonhole.*)

Papers, commentaries and discussions focused on a range of issues, including effects from the pandemic downturn across sectors of the economy and the unprecedented fiscal and policy support that quickly addressed the needs of individuals and businesses. Discussions also examined changes in labor force participation and rising income inequality and how those factors affect U.S. savings behavior.

The symposium also explored how the inherent unevenness of the pandemic shock raised questions of how policy—and particularly monetary policy, with its aggregate rather than sector-specific tools—should respond to wide divergences in economic outcomes across sectors and populations.

The symposium kicked off with opening remarks by Federal Reserve Chairman Jerome H. Powell. His comments, titled "Monetary Policy in the Time of Covid," reviewed the Federal Reserve's actions in response to the pandemic, the path ahead for employment and inflation, and the implications for monetary policy. Powell's presentation is available at YouTube.com/KansasCityFed.

Kansas City Fed President Esther George, the host of the annual symposium, discussed several topics in advance of the event in interviews with national media outlets such as CNBC, Fox Business and Yahoo Finance. In an interview with CNBC, George said the time for tapering, or reducing the pace of the Fed's monthly asset purchases, might be coming soon.

"That I think is appropriate given the progress we've seen," George said in the interview, which aired Aug. 26. "It doesn't mean that we will move all the way to neutral or tighter policy, but I think it's a first step. Signs in the economy right now are showing that we're reaching that point."

Each year, the Kansas City Fed's Economic Research staff develops the topic and agenda in consultation with George. The 2021 symposium included 15 presenters and discussants who shared in-depth research and commentary.

Along with Powell, this year's program included a diverse group of economists and policymakers, such as Gita Gopinath, economic counsellor and director of the Research Department at the International Monetary Fund; Donald Kohn, senior fellow at the Brookings Institution; Jing Cynthia Wu of the University of Notre Dame; and Princeton Professor Alan Blinder, who was the first presenter at the first symposium held in Jackson Hole in 1982.

FURTHER RESOURCES

View symposium materials and the full 2021 agenda at KansasCityFed.org/jacksonhole. Archived video, including Esther George's welcome message, is available in the Kansas City Fed's YouTube channel. To learn more about the symposium, read "In Late August," a short historical account, at *KansasCityFed.org.*

BLACK WALL STREET'S ECONOMY

Past, present and future

By 1921, the Greenwood area of north Tulsa, Oklahoma had become a thriving center of commerce and entrepreneurship. The area, known as "Black Wall Street," was renowned for its aggregation of Black-owned hotels, stores, theaters, doctor's offices and other businesses.

Then, on May 31 and June 1 of that year, white mobs destroyed the area in a wave of violence that killed an estimated 150 to 300 people and came to be called the Tulsa Race Massacre. Although some businesses, over time, managed to rebuild from the devastation, the economies of Greenwood and other primarily Black communities of north Tulsa have continued to experience economic challenges.

Chad Wilkerson, branch executive, vice president and economist at the Kansas City Fed's Oklahoma City Branch, and Dell Gines, senior community development advisor, examined the history of Black Wall Street, the area's economy in recent years and current efforts that hold promise for the future. Their insight was published in the May 2021 *Oklahoma Economist*, available at *KansasCityFed.org/research*.

Origin and opportunities

Tulsa's oil boom in the early 1900s led to a significant increase in population and wealth at a time when Black people increasingly saw opportunities in the state. Land runs in Oklahoma in the late 1800s enabled Black Americans to acquire land and build homes. By the early 1900s, of the estimated 50 all-Black townships in the United States, 20 were in Oklahoma. This boom attracted Black entrepreneur O.W. Gurley, a former teacher and postal worker born in Alabama and raised in Arkansas. Gurley first moved to Perry, Oklahoma, and operated a general store. He sold the store and in 1906 purchased 40 acres in north Tulsa. After establishing the area's first store, Gurley parceled and sold much of his land to other Black entrepreneurs and developers. With Gurley's investments serving as the catalyst for rapid growth, the area in time became known as the Greenwood District and eventually Black Wall Street.

"THE LESSONS FROM GREENWOOD ARE THAT HIGH-QUALITY ECONOMIC DEVELOPMENT CAN TRANSFORM HISTORICALLY DISTRESSED COMMUNITIES VERY FAST WHEN THERE IS AN APPROPRIATE COMBINATION OF POLICY, OPPORTUNITY, AND ENTREPRENEURIAL SPIRIT."

— Dell Gines

<< Smoke billows from buildings set ablaze during the 1921 race massacre in the Greenwood District of north Tulsa, Oklahoma.

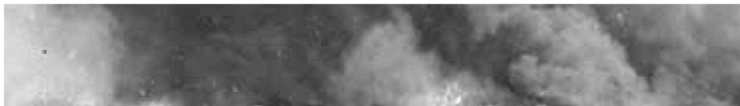
Trends and disparities

In recent decades, economic difficulties have persisted in much of north Tulsa, including the Greenwood area. During the five years before the COVID-19 pandemic, unemployment in Greenwood and broader north Tulsa—both of which are more than 75% Black—was more than twice as high as in greater Tulsa, the state of Oklahoma and the United States. Moreover, labor force participation (the share of the potential workforce employed or actively looking for work) remained below national, state and metro levels, masking an even higher share of people out of work than shown by the unemployment rate alone. Measures of personal income for the Greenwood area also have lagged.

Building a brighter future

Black Wall Street remains a symbol of economic hope and success for Black communities in the United States. Although the economic challenges are clear, many Tulsans are working to rekindle the Greenwood area's entrepreneurial spirit and economic vibrancy. Among them:

- "Black Wall Street represents Black people being able to build something that has never before been seen, against the worst odds," said Tyrance Billingsley, founder of Black Tech Street and a descendant of 1921 Greenwood survivors. The organization focuses on creating a technology entrepreneurship ecosystem in Tulsa.
- The Tulsa Economic Development Corp., led by Rose Washington, former chair of the Reserve Bank's Kansas City Board of Directors, is developing training, franchising and networking programs to spur entrepreneurship. "Black Wall Street means that the spirit of Black business ownership is still alive and that no matter where we are, we can produce generational wealth in the same spirit that Black Wall Street did," Washington said.
- The Black Wall Street Chamber of Commerce, led by Sherry Gamble-Smith, provides resources to help Black businesses recover from the pandemic, and it is building stronger relationships with local banks to spur more access to capital and credit. "Black Wall Street represents building our own, supporting our own, owning our own," Gamble-Smith said. "It isn't just having a business but supporting our businesses, because that's what they did."



"IT WAS ENCOURAGING TO ENGAGE WITH LEADERS IN NORTH TULSA LIKE TYRANCE, ROSE AND SHERRY WHO ARE WORKING TO IMPROVE CONDITIONS, AND I ALSO HOPE OUR ARTICLE HAS BEEN ABLE TO DRAW MORE ATTENTION TO THE CHALLENGES THE AREA FACES."

— Chad Wilkerson

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FURTHER RESOURCES
Scan the QR code with any device to read the full Oklahoma Economist article at *KansasCityFed.org*.

10 Years of INVESTMENT CONNECTION

Program linking community organizations with funding has grown from 10-J roots to eight Federal Reserve districts

by STAN AUSTIN

In 2011, with the U.S. economy still finding its footing two years after the Great Recession, an idea was taking shape in the Federal Reserve Bank of Kansas City's Tenth District.

The concept: A program to help nonprofits and local organizations – often strapped for adequate funding – present their financing proposals to financial institutions, corporate enterprises and foundations considering community investment.

"At that time, regulators were noticing a lack of diversification in community reinvestment portfolios," said Senior Advisor Ariel Cisneros. He was part of a small Kansas City Fed team that met in the Denver Branch to brainstorm. "And we had been hearing from community organizations that had solid projects in need of funding but didn't always know who to contact."

The Investment Connection program soon was born. Ten years later, the program has connected more than $60 million in loans and grants, touching all seven states of the Tenth District, and is being implemented in seven other Reserve Bank districts.

"Funding organizations benefit from learning about economic development opportunities and needs that exist in their communities or at the broader city, county, state or multistate levels," said Cisneros, who has led the program since its launch and was the first recipient of the Federal Reserve System's Janet L. Yellen Award for Excellence in Community Development in 2019. "At the same time, community organizations can share information about their missions, the issues they're addressing, and the resources and funding they need."

A key component of the program's success is how it helps depository institutions meet objectives of the Community Reinvestment Act (CRA). Under CRA, enacted in 1977, banks are encouraged to address the credit needs of the communities in which they do business, including low- and moderate-income (LMI) neighborhoods. The Federal Reserve and other regulators evaluate banks' CRA performance and related factors when analyzing applications for mergers, acquisitions and branch openings. Beyond the regulatory considerations, Investment Connection is a resource to help institutions diversify their portfolios with regard to project types, populations served and geography.

In recent years, Investment Connection has expanded beyond the Tenth District. Reserve Banks of Atlanta, Cleveland, Dallas, Minneapolis, New York, Richmond and St. Louis have launched programs using the Investment Connection model or are developing similar methods to link community organizations with funding opportunities.

At Investment Connection events, organization representatives like Agnes Noonan, president of WESST in Albuquerque, present proposals to potential funders. WESST provides services to support entrepreneurs. *Photo by Gary Barber*

"For 10 years, Investment Connection has been a powerful and innovative means of connecting community development organizations with the funding community, including banks looking for Community Reinvestment Act opportunities," said Federal Reserve Board Governor Lael Brainard. "The needs are great in the communities we serve, especially in light of the devastation caused by the pandemic. The Investment Connection program remains an important tool the Federal Reserve is actively using to help address those needs."

Geographic expansion broadens the potential impact of the program, by giving more exposure to organizations that operate across Federal Reserve districts and providing a tool that multistate funders can use to find CRA-eligible funding opportunities.

"With Investment Connection, we were able to reach out to a new area without physically being there," said Nancy Morikawa, Los Angeles-based vice president and community outreach officer at Pacific Western Bank. The bank entered the Colorado market in 2020 and has funded more than 10 projects in the Denver area through the program. "Investment Connection has truly helped us connect with organizations easily and safely. The proposals are well-vetted, and since I am out of state, I appreciate having the main 'foot work' done by the Federal Reserve."

Structure and impact

With Investment Connection, the Federal Reserve's role is to facilitate the presentation of funding proposals and requests by CRA-eligible community and economic development organizations. Each proposal is reviewed by bank examiners who are CRA specialists. A searchable database of proposals and related documentation is available to the public at *KansasCityFed.org/community*.

In the Tenth District, Investment Connection events mainly are hosted by zones, most often in Albuquerque, Denver, Kansas City, Oklahoma City and Omaha. Sessions also have been held in Casper, Wyoming; Lincoln, Nebraska; Tulsa, Oklahoma and Wichita, Kansas. During these sessions, each organization usually has 10 minutes for a representative to "pitch" a proposal and five minutes to answer questions from funders. In some cases, proposals are reviewed in a virtual format apart from the sessions.

"Presenters have commented on how long it would take them to try to schedule individual meetings with up to 70 potential funders, if they could get appointments … Investment Connection does that," Cisneros said.

Funding requests typically range from $25,000 to $2.5 million, and geographic target areas range from single community development initiatives to statewide efforts.

Oklahoma City is one of several Investment Connection event sites in the Tenth District. A 2018 session brought together funders and community organizations. *Photo by Gary Barber*

> "FOR THE PAST 10 YEARS THE PROGRAM HAS SERVED AS A MODEL FOR THE FEDERAL RESERVE SYSTEM IN BRINGING FUNDERS AND COMMUNITY ORGANIZATIONS TOGETHER TO PROVIDE VITAL SERVICES. THE IMPACT OF INVESTMENT CONNECTION WILL BE REALIZED FOR YEARS TO COME."
>
> — Tammy Edwards

Topics commonly addressed in proposals include:

- Affordable housing
- Broadband access
- Community facilities
- Financial education
- Small business
- Workforce development

Although funding is not guaranteed, and some organizations go through multiple rounds of proposals, longstanding relationships frequently are formed.

"Overall, the connections are more than the funding," Cisneros said, noting that funders often explore volunteer opportunities and other community development engagement as a result of the program. "They are collaborations and relationships that are developed, some for many years."

The scope of funded initiatives has ranged from the Rocky Mountain Microfinance Institute in Denver, one of the first to make a pitch in 2011, to more recent recipients such as the Nebraska Enterprise Fund (NEF). The NEF provides access to training, technical assistance and capital for small businesses in underserved communities.

Kansas City Fed Senior Advisor Ariel Cisneros helped design Investment Connection in 2011. At a Denver session, he spoke with Lisa Bloomquist Palmer, executive director of HomesFund. *Photo by Gary Barber*

"We have strengthened our relationships with existing bank partners and created new partnerships because of Investment Connection," said Jim Reiff, NEF's president and chief executive officer. "In fact, our expansion into southwest Iowa – a new market for NEF – was a direct result of participating in Investment Connection. In addition to supporting our ability to raise capital for lending and programming, the connections we have developed due to this forum are invaluable and have supported our growth."

Adapting amid adversity

Investment Connection's growth hasn't come without challenges. The rapid spread of COVID-19 and the resulting economic downturn created additional stress on small businesses and community organizations.

The Kansas City Fed responded quickly in 2020, pivoting from in-person Investment Connection events to a special virtual series focusing on connecting funders with nonprofits disrupted by the pandemic. More than 500 organizations participated in that series, and the program has continued to conduct virtual sessions with robust participation.

"The pandemic strengthened our resolve to leverage the Investment Connection program to assist underserved and underrepresented communities," said Tammy Edwards, Kansas City Fed senior vice president and part of the team that designed Investment Connection in 2011. "For the past 10 years the program has served as a model for the Federal Reserve System in bringing funders and community organizations together to provide vital services. The impact of Investment Connection will be realized for years to come."

FURTHER RESOURCES

Go to *KansasCityFed.org/community* for updated information on upcoming Investment Connection events, program FAQs, archived webinar videos and Community Reinvestment Act resources for organizations and funders. This fall, *FedCommunities.org* will share expanded stories of how Investment Connection has built bridges between banks and community organizations and what's next for the program.

ENDURING RELEVANCE

IN AN EVOLVING LANDSCAPE, COMMUNITY BANKS REMAIN VITAL TO CUSTOMERS AND THE ECONOMY

by DEBRA SKODACK

Angel Reyes (left) of Centinel Bank in Taos, New Mexico, counts local artist and avid guitar collector Larry Bell as one of the bank's longtime customers. *Photo by Jason Collin*

Larry Bell's dream of raising a family while working in Taos, New Mexico, was taking shape.

A team of professionals was transforming a crumbling, vacant building that once housed a commercial laundry into a studio for the contemporary artist and sculptor.

"At a certain point I realized I had been writing checks to local fabricators, builders and providers here and I hadn't deducted those checks from the money I had in the bank,"Bell said.

Bell, fearful of bouncing checks throughout a community where he was a newcomer, rushed to his bank for help. He got it.

T.W. Shannon, president and CEO of Chickasaw Community Bank in Oklahoma City, says the better a community bank knows its customers the less likely it is to deny their requests. *Photo by David McNeese*

"Because of what I thought was either extremely good banking or just kindness to a stranger, they helped us," Bell said. "That really endeared me. I felt like I was wanted. I was a part of something bigger than just my own little scene."

That was in 1973. Since then, Bell has become a renowned artist whose work is sold mostly in Europe, New York and Los Angeles. His bank is still Centinel Bank, a community bank based in Taos.

"I see them as part of my closest friends in town – not just bankers."

Fewer pillars, but still standing tall

Community banks have experienced significant changes in the last 20 years, according to "Community Banks' Ongoing Role in the U.S. Economy," written by Matt Hanauer, Brent Lytle, Chris Summers and Stephanie Ziadeh. The authors are members of Surveillance and Risk Analysis at the Federal Reserve Bank of Kansas City.

Several factors have driven a decline in the number of community banks, the authors found. Among them are consolidation resulting from geographic deregulation, mergers and acquisitions to achieve economies of scale, bank failures, and a decline in new banks.

The number of community banks, defined as those with assets of less than $10 billion, have declined from just over 8,300 in 2000 to 4,277 as of June 2020.

The paper said community banks today account for only 40% of all bank branches, 14% of bank deposits, 18% of bank loans, and just over 13% of bank assets.

The remaining deposits, loans, assets and business are with noncommunity banks (those with assets of $10 billion or more), which, in June 2020, totaled 127.

While noncommunity banks have increased their dominance with wide geographic coverage and economies of scale, the paper said community banks remain crucial providers of credit and financial services to smaller, rural communities.

Community banks are prevalent in the seven states of the Federal Reserve's Tenth District.

For example, in Kansas community banks are 85.7% of all bank branches and 73.5% of deposits of all bank branches. In Oklahoma, community banks are 79.4% of all bank branches and 61.7% of deposits at all bank branches. In New Mexico, 50.2% of all bank branches and 37.7% of deposits are community banks.

Colorado was the only state in the Tenth District where community banks were not more than 50% of all bank branches and more than 35% of deposits of all bank branches.

"In a lot of cases the bank is one of the few businesses in these small communities," said Brent Lytle, a supervisory and risk specialist and one of the paper's authors. And although these small, rural business districts might appear paltry, the area's bank customers could be very active.

"There may be a lot of farmers being supported by that small community bank," Lytle said. "That's why they are there, why they are still in business."

Angel Reyes, president and chief executive officer of Centinel Bank in Taos, agreed.

"I think how the fabric of a community bank is completely woven into every aspect of your community is the real strength of a community bank," Reyes said.

"We are another mom and pop business that is helping other mom and pop businesses work through our economy."

In Taos, like many other small communities, the economy isn't very diversified, which can present challenges for a community bank.

"I've been at Centinel Bank for 26 years and the one thing I have recognized is that Taos is a tough place to make a living," Reyes said. "There is not a diversified economic base and as I look at where community banks operate, it's typically in rural areas where there is similar characteristics."

"You have to be understanding of your marketplace and how businesses thrive, not only survive but thrive."

Solid relationships and business practices

It's clear that community bankers understand their marketplaces and customers well, said Lytle, who started at the Kansas City Fed as a bank examiner and visited many rural farming communities.

"You would have a conversation with the bankers and they would know everything about their customer … about their kids, about their life, about their operations, about their ground and how it drained."

What community bankers often do well, Lytle said, is collect what he called soft information.

"It's information you can't glean from a standardized document," he said. "It's something you can only understand by having a personal relationship with whoever you are dealing with. I always found that to be something that was very impressive – that these community bankers would just know their customer base so well."

Knowing customers is also good business for a community bank, said T.W. Shannon, president and CEO of Chickasaw Community Bank in Oklahoma City.

> "I THINK HOW THE FABRIC OF A COMMUNITY BANK IS COMPLETELY WOVEN INTO EVERY ASPECT OF YOUR COMMUNITY IS THE REAL STRENGTH OF A COMMUNITY BANK."
>
> — Angel Reyes

Knowledge of the community means community bankers can make sound decisions when working with small businesses – mainstay customers for community bankers.

"We don't necessarily have a formula or a neat little box that customers have to fit in," he said.

Knowledge also helps in processing finance applications and making a decision that is respected by the customer.

"Very seldom do we say a flat no – usually it's a 'not right now and these are the steps you need to take to get there'," Shannon said.

"Our customers trust our banks because many of them have been with us since day one," he added. "That level of trust means everything, particularly when you think the sky is falling, like everyone thought it might in 2020."

Reyes agreed. Local knowledge gives community banks a strategic and competitive advantage, he said.

"Some of my best relationships are relationships where you can have that candid conversation and say 'I don't think we can get behind this one'," Reyes said.

He added that prudence also is important.

"I think that is the beauty in what we do. We try to find ways to help people. Sometimes it's not the largest loan that makes a difference. In some cases, it's just giving access to money so they can get their rent paid. It's not always the big transaction."

"Customers, we know them well because we take the time to know them," Reyes said. "We are not a papermill, we are not somebody who runs three ratios. Often it is visiting with the customer and understanding what they are trying to get done."

A unique role in the pandemic

The effectiveness of how nimble community banks can be was evident with the rollout and implementation of the Paycheck Protection Program (PPP), a U.S. Small Business Administration-backed loan program that helped businesses during the pandemic.

Lytle said many big banks had to start from scratch, setting up systems to handle the loans, which caused crucial delays for customers.

"The community banks could just roll up their sleeves and get to work," Lytle said.

PREVALENCE OF COMMUNITY BANKS IN THE TENTH DISTRICT (JUNE 2020)

State	Share of population in rural areas (percent)	Number of community bank branches	Percent of all bank branches	Deposits at community bank branches (in billions)	Percent of deposits at all bank branches
WYOMING	35.2	119	56.7	$9.7	53.5
OKLAHOMA	33.8	1,016	79.4	$63.4	61.7
MISSOURI	29.6	1,524	69.2	$91.9	45.7
NEBRASKA	26.9	813	77.1	$43.3	60.6
KANSAS	25.8	1,148	85.7	$60.0	73.5
NEW MEXICO	22.6	212	50.2	$14.1	37.7
COLORADO	13.8	492	35.7	$32.5	19.5

Notes: For purposes of the 2010 census, the U.S. Census Bureau defined an "urban area" as comprising a densely settled core of census tracts or census blocks that meet minimum population density requirements, along with adjacent territory containing nonresidential urban land uses and territory with low population density included to link outlying densely settled territory with the densely settled core. "Rural" encompasses all population, housing, and territory not included within an urban area. Sources: U.S. Census Bureau and Federal Deposit Insurance Corp.

Networking outside Oklahoma helped connect T.W. Shannon's Chickasaw Community Bank with Bernard Collin (left), managing partner of La Goulue, a New York City restaurant. La Goulue received PPP funding through the bank. *Photo courtesy of Chickasaw Community Bank*

Shannon said that was the case at Chickasaw Community Bank.

"One of reasons we were able to respond so quickly is because we know our customers. We are intrinsically involved in their businesses," he said.

Once Chickasaw Community Bank took care of their customers, they networked so businesses in other communities – even as distant as New York City – knew the Oklahoma City-based bank could help with PPP funding.

The owners of three restaurants in Manhattan responded, connecting through another Chickasaw Community Bank client in New York City, an architectural and engineering firm that had been introduced to the bank through a CPA.

Regis Marinier said he and his partners first sought PPP funding – unsuccessfully – for their restaurants from the large banks they do business with in New York City.

"The gates did not open for everyone at the same time," Marinier said.

But Chickasaw Community Bank said yes – in both rounds of funding.

"I didn't even bother asking my regular banks the second time around," Marinier said.

Chickasaw Community arranged $4.5 million in PPP for the restaurants, which employ about 300 people. "I have nothing but praise to say about this bank," Marinier said. "They have been our lifesavers.

"It was a gift from above – from Oklahoma."

Future of community banking

There are many challenges ahead for community banks, the KC Fed paper said.

In addition to competitive pressures from larger banking organizations, the paper said community banks will face challenges as a result of broader economic consolidation, changes in demographics – especially the aging of small, rural communities – and rapid advancements in financial technologies.

"I think the underlying issue is they need to stay on the forefront, or at least close to the forefront, of technology," Lytle said.

Shannon said it is likely future technology will follow the same path of ATMs: over time, the technology becomes more affordable allowing the community banks to offer the same products as the larger banks and compete.

"I'd much rather be the most relationship-oriented bank that is responsive, who is nimble, who puts in the extra time with the customers, than the most technological advanced bank," Shannon said.

"I've never been afraid of competition," he added. "I know people have predicted that it will be tough for community banks, but I think the relationship piece of what we do is a distinguishing factor."

Reyes added that it's important for community banks to work on succession planning.

"Over time, there will be consolidation. There will be a lesser number of community banks," Reyes said.

"I think the community banks that remain will have great impact in the marketplace and in the communities in the future. There is a lot of opportunity in this business and in America … to grow small businesses.

"That is where community banks thrive."

FURTHER RESOURCES
Go to *KansasCityFed.org/research* to read the *Economic Review* article on community banks' ongoing role in the U.S. economy.

Ask an ECONOMIST
Jordan Rappaport

Hybrid officing will shift where people and businesses decide to locate

Remote work has surged during the COVID-19 pandemic. Survey estimates from 2020 suggest that as many as half of all employees worked remotely on a regular basis, up from about 15% previously. As the pandemic continues, many businesses are making decisions about whether or how to shift employees back to traditional office occupancy. Among the decisions for some of these employers is whether to embrace "hybrid officing," a mixture of at-home and onsite work schedules.

An *Economic Bulletin* published earlier this year by Senior Economist Jordan Rappaport suggests that many businesses are likely to shift to hybrid officing after the pandemic, with employees working remotely several days a week. The full article is available at *KansasCityFed.org/research*.

Rappaport discussed the research during a recent Studio 10 interview, expanding on the Q&A here. See the video at ***YouTube.com/KansasCityFed.***

Senior Economist Jordan Rappaport says that shifts in locations are likely to play out over several decades. Photo by Brett Smith

Which factors are supporting shifts toward hybrid officing?

Employers indicate that the pandemic surge in remote work does not appear to have made workers less productive. In a June 2020 survey by the PwC professional services network, almost half of U.S. business executives said employee productivity actually improved while sheltering at home, and a quarter of them reported that productivity was about the same.

As a result, many employers have expressed willingness to let employees work remotely part of the time after the pandemic has ended. In a January 2021 PwC survey, a majority of business executives said that office employees could work remotely one to four days a week without sacrificing company culture, a preference that matches that of their employees.

How could hybrid officing affect residential location decisions?

A shift toward remote work likely will reduce commuting time for most workers—with the associated decrease in commuting volume significantly reducing traffic congestion and travel time for all who drive to work. Large metropolitan areas may benefit most from the decreased commuting volumes, as those areas tend to have the worst traffic congestion and longest commutes. The reduction in commutes—and faster driving speeds because of less congestion on roadways—have the potential to reshape where people live and where employers locate within metropolitan areas. In particular, workers likely will be willing to live farther from their employers, boosting residential construction in the outer suburbs of metropolitan areas. The more plentiful land available for development there removes a key bottleneck that has constrained single-family construction in recent years, and it could lay

Photo by Getty Images

a foundation for a ramp-up in home building that is sustainable for many years.

The increased willingness to live far from an employer does not necessarily imply that people will abandon living near core business districts. To be sure, rents and home prices in central locations may fall relative to rents and home prices farther away, making living near the center of a metropolitan area more affordable for younger households.

What about commercial development? How would business locations be affected?

In addition to reshaping residential development, hybrid officing might reshape commercial development—albeit in an opposite way. In particular, hybrid officing might encourage employers to shift offices from suburbs to core cities. Formerly, suburban offices had two key advantages: ample parking and short commutes for suburban residents. However, downtown parking constraints and commuting delays are likely to ease with hybrid officing, reducing those suburban advantages. Although suburban office space is typically less expensive than urban office space, that also might become less important.

With fewer employees working in person, hybrid officing might allow businesses to reduce leased space, lowering office rent as a share of their expenses. In addition, the aggregate effect of businesses reducing leased space will be downward pressure on office rents in both central and suburban locations, further easing expenses.

When could we see these changes taking effect?

The shift in location of residences and workplaces is likely to play out over several decades, similar to the shifts from cities to suburbs and from colder locations to the Sun Belt. Especially during the first part of this extended transition, workers and employers are likely to experiment with how to balance the flexibility and time savings of remote work with the collaboration, team building, and closer supervision of working in person. Similarly, developers are likely to experiment with building homes that better meet the needs of a remote workforce and office spaces that better match the fluidity of daily attendance.

?

FURTHER RESOURCES
Scan the QR code with any device to read the full *Economic Bulletin* article at *KansasCityFed.org*.

SNAPSHOTS

Summaries of reports and analysis from Kansas City Fed economists and staff

Improving the accuracy of GDP growth forecasts

by THOMAS R. COOK and TAEYOUNG DOH

More timely data on current macroeconomic conditions can reduce uncertainty about forecasts, helping policymakers mitigate the risk of extreme economic outcomes.

Economic Bulletin, June 2021

Déjà vu all over again

by SUSAN ZUBRADT and JESSE LEIGH MANIFF

Private digital currencies, or "crypto-assets," while not new, still have the potential to affect financial stability and implementation of monetary policy.

Payments System Research Briefing, June 2021

Effects of the FOMC's new employment objective

by BRENT BUNDICK and NICOLAS PETROSKY-NADEAU

Analysis suggests the FOMC's reinterpretation of its employment mandate could alter the business-cycle and longer-run properties of the economy and result in a steeper reduced-form Phillips curve.

Research Working Paper, July 2021

Household wealth and business formation

by JUSTIN BARNETTE and ANDREW GLOVER

Wealthier households appear more likely to start businesses, but the rate of new business formation has declined sharply even as household wealth has increased.

Economic Review, May 2021

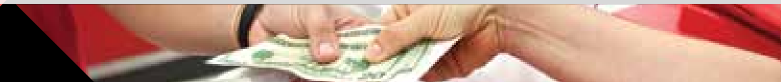
Cash or debit cards?

by FUMIKO HAYASHI

Debit cards have been more costly for U.S. merchants to accept than cash in recent years, though the reverse is true for merchants in other countries.

Economic Review, August 2021

See full reports, papers, data and more at KansasCityFed.org/research.



kcFED SOCIAL SEEN

Social media highlights
across the region

1 **@KANSASCITYFED** We're sharing some art by American artists that hang on our walls. "September Corn," which hangs in our #Omaha Branch, is the work of #Nebraska artist Stephen Roberts. #ArtTwitter #AmericanArtistAppreciationMonth

2 **@KANSASCITYFED** #ThrowbackThursday - If you were at our #Omaha Branch in the 1940s, you might have seen an armored car like this making cash & coin deliveries. #TBT #HistoryTwitter

3 **@KANSASCITYFED** Approximately 250,000 low-income renters could be at risk of eviction, a recent Kansas City Fed Community Development report found. Learn more about the pandemic's effect on jobs and housing in the Tenth District here: *bit.ly/3COirzq*

4 **@KANSASCITYFED** Have you talked to your children about the importance of setting savings goals? A financial vision board can be a fun activity to teach this concept. *bit.ly/3ygcrM9* #FinLit #Education

5 **KANSASCITYFED** It's #NationalDogDay - a great day to introduce you to our 4-legged Law Enforcement officers! #DogsOfTheFed

6 **KANSASCITYFED** Planning to visit our #KansasCity #MoneyMuseum? Don't leave without grabbing your free souvenir bag of shredded money! Don't forget, pre-reserved tickets are required to enter the Money Museum. #KCFed

GET SOCIAL»

Find us on Instagram, LinkedIn, Pinterest, Twitter and YouTube to follow Kansas City Fed activities, share your photos and post feedback.

Tenth District *by the numbers*

ECONOMIC INDICATORS, FACTS AND TRENDS FROM THE SEVEN STATES

7,963

New Mexicans hired as background actors through June 2021, part of a strong pandemic bounce-back for the state's film industry.

Source: New Mexico Economic Development Department

12,880,313

Total mail/cargo volume, in pounds, at Omaha's Eppley Airfield for June 2021, up 6.1% from a year earlier.

Source: Omaha Airport Authority

25.7%

Colorado's increase in new-entity business filings for April through June 2021, continuing a record year for business creation.

Sources: University of Colorado Boulder Leeds School of Business and Colorado Secretary of State's Office

$86,770

Estimated average annual salary for technology industry workers in the Kansas City market, the 29th largest U.S. tech talent pool for 2020.

Source: CBRE Group Inc.

MORE ECONOMIC DATA

The Bank regularly publishes data about regional and national economic conditions at *KansasCityFed.org/research/indicatorsdata*.

13.1

Percentage increase from 2020 in net property value for Teton County, Wyoming, reflecting surging sales prices in the Jackson Hole area.

Source: Teton County Assessor's Office

351

The number of drilling permits issued in Kansas through May 2021, up 84% from the same period in 2020.

Source: Independent Oil & Gas Service Inc.

$208 million

Total funding the University of Oklahoma could receive over five years under a federal weather-research grant awarded in June 2021.

Source: National Oceanic and Atmospheric Administration

FROM THE VAULT

Kansas City Fed History

The 1921 Federal Reserves. Bank archives

At the old ballgame

This year was a rough one for Major League Baseball teams in the Tenth District. However, some might not know that 100 years ago a squad sponsored by the Kansas City Fed's head office experienced similar futility.

The "Federal Reserves" finished last in the Missouri-Kansas League for the 1921 season despite the efforts of team leader Matty Glandon, a lefty described as a former semi-pro pitcher making a comeback.

"Life in some cellars isn't what it's cracked up to be, and the Mo-Kan basement holds no charms for any team of ambitious ball players; hence the desire for Matty and his crew of banking experts to take the nearest elevator," *The Kansas City Times* said in a July 1921 article previewing a game against the Sweeney trade school.

Bank-sponsored baseball teams were common in the 1920s, though details of their success – or lack of it – aren't always available. A Federal Reserve team sometimes called the "Federals" represented the Oklahoma City Branch but might not have done much winning. However, a Denver Branch team appears to have won two league championships. Meanwhile, records are unclear regarding a possible Omaha Branch team.

Such Bank-sponsored baseball teams eventually were phased out. In modern times, basketball, bowling, golf, softball and employee competitions such as the Corporate Challenge became popular.

FEDERAL RESERVE BANK OF KANSAS CITY
1 Memorial Drive
Kansas City, Missouri 64198-0001

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