Overview of the Federal Reserve System

• The “Fed” consists of three main entities:
  • Board of Governors: 7 members appointed by U.S. President
  • Federal Reserve Banks: 12 total; semi-independent by design
  • Federal Open Market Committee: 19 members; 12 voting

• As with most central banks, the Fed’s primary responsibilities fall within four general areas:
  • Lender of last resort – provide liquidity in times of crisis
  • Monetary policy – promote full employment and low inflation
  • Bank regulation – ensure safety and soundness of banks
  • Financial services – bank for banks, bank for federal govt.
The U.S. Economy and Monetary Policy
GDP growth rebounded considerably in the second quarter, across all sectors.

Growth in Components of Real GDP

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
And monthly U.S. data on business activity in July showed further growth

U.S. Private Payroll Employment and Business Indexes

Change from previous month, thousands

GDP forecasts for 2014-16 remain solid, as the economy recovers further.
Unemployment continues to fall and could reach long-term levels by 2015

Unemployment Rate
Seasonally Adjusted

Sources: U.S. Bureau of Labor Statistics, FOMC
Inflation remains low and is expected to stay relatively subdued through 2016

Sources: U.S. Bureau of Labor Statistics, FOMC
Most FOMC participants project the first federal funds rate increase in 2015

Federal Funds Rate
Year-end target

Sources: Federal Reserve Board, FOMC

Note – Number of participants who project the initial increase will occur in the specified year in parenthesis.
The Fed’s balance sheet is growing slightly slower in 2014 than in 2013.
The Wichita Economy and Manufacturing
Wichita employment has not rebounded much from the recession low.

Level of Payroll Employment
Through June 2014

Index: Jan-08=100

Source: U.S. Bureau of Labor Statistics
The biggest drags on local job growth have been government and manufacturing.
Still unemployment is just 6.1% in Sedgwick County, and lower in surrounding counties.
Wichita has a similar presence as the nation in most industries—except manufacturing

### Wichita and U.S. Employment Share by Industry, 2013

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pontotoc County</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>18.9</td>
</tr>
<tr>
<td>Mining, Logging, &amp; Construction</td>
<td>5.4</td>
</tr>
<tr>
<td>Education &amp; Health</td>
<td>15.7</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>10.5</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>18.2</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
<td>12.8</td>
</tr>
<tr>
<td>Federal Government</td>
<td>1.8</td>
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<tr>
<td>Professional and Business Services</td>
<td>11.3</td>
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<tr>
<td>Information</td>
<td>1.5</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Note - Location quotient is the division of local employment share by national employment share

Source: U.S. Bureau of Labor Statistics
After outpacing the nation pre-recession, factory jobs in Wichita have slowed recently.
As usual, trends in aircraft mfg. explain the difference, as other plants are doing better.
Aircraft has over half of local factory jobs, but some other sectors are also sizable.

**Wichita Manufacturing Employment Share by Industry**

2011

- Aircraft
- Food
- Beverage
- Textile & Wood
- Printing
- Petroleum & Coal
- Plastics & Rubber
- Metal
- Machinery
- Computer & Electrical
- Aircraft

Source: U.S. Bureau of Labor Statistics
Nationally, aircraft orders dipped in June and have been sluggish throughout 2014.

U.S. Total Aircraft & Parts Orders
3- month moving average

Source: U.S. Census Bureau
Across the Tenth Federal Reserve District, factory activity has picked up recently.
And expectations among plant managers in the region have also increased lately.
Summary

- U.S. economic growth rebounded in Q2, and the outlook appears favorable for both growth and inflation.

- Wichita’s economy continues to lag, especially in manufacturing, but unemployment is similar to the nation.
Questions and Links

For more information about the Federal Reserve Bank of Kansas City, visit our website at:

http://www.kansascityfed.org/

For more information about the Kansas economy, subscribe to the quarterly Midwest Economist at:

www.kansascityfed.org/publications/research/mwe