The Federal Reserve System

- **Primary Functions**
  - Monetary Policy
  - Payments Services
  - Banking Supervision and Regulation

- **Structure**
  - Board of Governors
    - Consists of seven members who are appointed by the President and confirmed by the Senate to serve 14-year terms.
  - Federal Reserve Banks
    - There are 12 Banks, each serving a unique district.
  - Federal Open Market Committee (FOMC)
    - Comprised of the 7 members of the Board of Governors and the 12 Reserve Bank presidents (only 5 presidents are voting member on a rotating basis).
    - Charged with conducting monetary policy to promote economic growth and price stability.
The Federal Reserve’s Tenth District
# U.S. Economic Outlook

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Real GDP Growth</td>
<td>0.9</td>
<td>2.8</td>
<td>-0.5</td>
<td>-6.2 to -3.8</td>
<td>-4.6 to -1.9</td>
<td>-2.3 to -0.8</td>
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<tr>
<td>Unemployment Rate</td>
<td>4.9</td>
<td>5.4</td>
<td>6.1</td>
<td>6.9</td>
<td>7.1 to 7.7</td>
<td>7.6 to 8.4</td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>4.2</td>
<td>5</td>
<td>6.9</td>
<td>-10.0 to -4.0</td>
<td>-5.1 to 1.6</td>
<td>-1.6 to 1.1</td>
</tr>
<tr>
<td>Producer Price Index</td>
<td>9.2</td>
<td>10.6</td>
<td>8.6</td>
<td>-24.7 to -9.1</td>
<td>0.0 to -13.6</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: Blue Chip Economic Indicators

* Forecasted January 10, 2009
Labor Market
Growth in Private Nonfarm Employment
Year-over-year

Source: Bureau of Labor Statistics
Latest release: 12/09/08
Unemployment Rate, November 2008
Seasonally adjusted

Source: Bureau of Labor Statistics
Initial Unemployment Claims

Seasonally adjusted; weekly average

Source: Department of Labor
Latest Release: 01/09/2009
Private Job Growth by Industry
November 2008 over November 2007

Source: Bureau of Labor Statistics
Latest release: 12/09/08
Economic Activity
Manufacturing Activity
Month-over-month PMI indexes (seasonally adjusted)

Source: FRBKC Manufacturing Survey and ISM
Note: 10J index is computed on ISM basis (50 = zero change)
Manufacturing Activity in the 10th District
Six-month-ahead expectation indexes (seasonally adjusted)

Source: FRBKC Manufacturing Survey
Latest Release: 12/30/2008
Value of Commercial Construction Contracts
Seasonally adjusted

Source: F.W. Dodge, Inc.
Latest release: 12/15/2008
Value of Residential Construction Contracts
Seasonally adjusted

Index: 2003:Q4=100

Source: F.W. Dodge, Inc.
Latest release: 12/15/2008
Sales of Existing Homes
Seasonally adjusted

Source: National Association of Realtors
Latest release: 11/18/2008
Home Price Appreciation
Year-over-year

Source: OFHEO
Latest release: 11/25/2008
Foreclosure Inventory
Third Quarter 2008

Legend
- 0% to 1%
- 1% to 2%
- 2% to 3%
- 3% to 4%
- 5% and higher

Source: Mortgage Bankers Association
Prices
Oil Prices and U.S. Demand for Oil

Source: EIA and Bloomberg
Natural Gas Prices and 10th District Active Drilling Rigs

Source: Baker-Hughes and Bloomberg
Latest release: 01/09/2009
U.S. Crop Prices

Source: Commodity Research Bureau
Manufacturing Price Pressures
Month-over-month price diffusion index for the Tenth District

Prices paid for raw materials

Prices received for finished products

Source: FRBKC Manufacturing Survey
Latest release: 12/30/2008
Manufacturing Price Pressures
Six-month-ahead price diffusion index for the Tenth District

Source: FRBKC Manufacturing Survey
Latest release: 12/30/2008
Consumer Confidence and Consumer Spending
Consumer Confidence
Seasonally adjusted

Source: University of Michigan
Latest release: 12/23/2008
National Retail Sales
Year-over-year, seasonally adjusted

Source: US Census Bureau
Latest release: 01/14/2009
Conclusions

- The 10th District economy continues to outperform the nation but economic activity is slowing sharply.

- District private employment growth was negative in 2008 and leading employment indicators suggest that labor conditions will worsen in the months ahead.

- Activity in the manufacturing and construction industries has weakened.

- Price pressured eased substantially in the fourth quarter of 2008.

- Consumer confidence is one key component to an economic rebound.
Questions?