



# fed LETTER

Colorado ★ Kansas ★ Missouri ★ Nebraska ★ New Mexico ★ Oklahoma ★ Wyoming

July 2008

FEDERAL RESERVE BANK of KANSAS CITY

## MANUFACTURING SURVEY SHOWS JUNE DECLINE

The **monthly manufacturing survey** for the Tenth Federal Reserve District was released June 26. The survey asks plant managers about a variety of manufacturing indicators. The information is compiled into a snapshot of manufacturing activity in the Tenth District.

According to the latest survey, Tenth District manufacturing activity declined in June, although export activity continued at solid levels, and firms' expectations for future factory activity remained generally positive. Price pressures intensified, with nearly all survey price indexes posting record high levels.

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## BEIGE BOOK SHOWS MODEST REGIONAL GROWTH

The latest edition of the **Beige Book** was released June 11. The Beige Book is a summary of current economic conditions in each Federal Reserve District.

Reports from the Federal Reserve Districts suggest that economic activity remained generally weak in late April and May.

Economic growth in the Tenth District remained modest in early April and May. Overall, consumer spending was flat and below expectations. Manufacturing activity improved slightly due to rising exports. Residential real estate activity rose seasonally and commercial real estate activity held steady. High commodity prices fueled robust gains in energy and agricultural sectors

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## MAIN STREET ECONOMIST EXAMINES GRAIN ELEVATOR OUTLOOK

The latest issue of the *Main Street Economist*, "**Can Grain Elevators Survive Record Crop Prices?**" by Omaha Branch Executive Jason Henderson and Policy Economist Nancy Fitzgerald, is now available.

Record grain prices have brought a new round of prosperity to many corners of rural America. Rising crop prices generally bring profit opportunities to grain elevators. However, the sharp surge in grain prices in 2008, coupled with rising farm input costs, has strained the financial capacity of many grain elevators.

SECOND QUARTER  
ECONOMIC REVIEW  
AVAILABLE

The second quarter 2008 edition of *Economic Review*, a quarterly publication of the Federal Reserve Bank of Kansas City, is now available. This issue contains the following articles:

*“What is the Optimal Inflation Rate?”* by Roberto Billi and George Kahn provides the first estimate of the optimal inflation rate based on an economic model in which policymakers are assumed explicitly to maximize the economic well-being of the public.

*“Understanding the Effects of the Merger Boom on Community Banks,”* by Julapa Jagtiani investigates the merger boom in detail and suggests that the boom has the potential to strengthen the community banking sector.

*“How Is the Rise in National Defense Spending Affecting the Tenth District Economy?”* by Chad R. Wilkerson and Megan D. Williams finds that, relative to the nation, increased defense spending is likely to help the region more in the long run than the short run.

*“Will Farmland Values Keep Booming?”* by Jason Henderson discusses current farmland value trends and analyzes the factors underlying the recent surge and concludes that the recent surge in farmland values tracks expected gains in crop returns.

REGULATORY  
DEVELOPMENTS  
*Federal Reserve program to  
assist minority-owned and  
de novo institutions*

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On June 18, the Federal Reserve System launched *Partnership for Progress*, an innovative outreach and technical assistance program for minority-owned and de novo institutions.

The program seeks to help these institutions confront their unique challenges, cultivate safe and sound practices, and compete more effectively in today’s marketplace through a combination of one-on-one guidance, workshops, and an extensive interactive web-based resource and information center.

Questions and comments regarding the program should be directed to Forest Myers, Banking Studies and Structure, (816) 881-2879, or Stephen Henslee, Consumer Affairs, (816) 881-2326.

*Federal Reserve Board  
regulations amended*

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Regulations A, B, C, E, M, R, V, Z, and CC have been amended in 2008. Links to these amendments are available under each regulation on the Federal Reserve Board’s *regulations website* and provide information about the specific changes implemented. A link to full text of each regulation (including interpretations or staff commentary) is also available online.

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*Technical amendment to  
Regulation B issued*

On June 13, the Federal Reserve Board issued a technical **amendment** to Regulation B to clarify the required content of adverse action notices.

The notice must contain the name and address of the federal agency that administers compliance with respect to the creditor; however, the federal agency's phone number is not required.

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*Kansas City Fed hosting  
accounting/auditing roundtable*

The Supervision and Risk Management (SRM) Division of the Federal Reserve Bank of Kansas City is hosting the 16th annual Accounting/Auditing Roundtable from Sept. 29 to Oct. 1. Registrations will be accepted until Aug. 29.

The primary goal of the roundtable is to share knowledge about issues arising from accounting pronouncements, banking legislation and examination experiences, while enhancing communication with the Federal Reserve. Arthur Lindo, deputy associate director of accounting policy and disclosure at the Federal Reserve's Board of Governors, will participate in the discussions.

Approximately 120 bankers and accounting and auditing professionals with responsibility relative to financial reporting for banking organizations are expected to attend one of the four sessions in Denver and Kansas City.

For the roundtable dates, agenda and information about how to register, visit the **Accounting/Auditing Roundtable website**, or contact Lisa Aquino at 800-333-1010, extension 12491, or Jane Padget at extension 12147.

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*First quarter 2008 District  
banking conditions now available*

A **presentation on the 2008 first quarter statistics** of District banking conditions is now available. The presentation includes an overview of District banking conditions as well as some national banking statistics.

Across the country, the weakening of banking conditions that began in the fourth quarter of 2007 continued into 2008. Earnings continued to decline in the first quarter of 2008, driven by increasing loan loss provisions and tighter margins, as well as decreased non-interest income. Coverage ratios, particularly those of small banks, are also extremely low, reflective of worsening conditions. Deterioration in banking conditions is especially evident in rising levels of noncurrent construction and land development (CLD) loans. Among District banks, CLD noncurrents have tripled since year-end 2006.

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