

OVERVIEW OF THE TENTH FEDERAL RESERVE DISTRICT

The Tenth Federal Reserve District stretches across seven states (Chart 1). The eastern portion of the district lies in the Great Plains and includes Oklahoma, Kansas, Nebraska, and the western third of Missouri. The western portion of the district lies along the Rocky Mountains and consists of Colorado, Wyoming, and the northern half of New Mexico.

Demographics

One of the biggest differences between the Tenth Federal Reserve District and the nation is that the district population is less concentrated in large cities. Compared to the nation, a significantly higher percentage of the population lived in non-metropolitan areas in 2000 (33 percent in the district versus 19 percent in the US) and a higher percentage lived in metro areas of less than one million people (32 percent versus 23 percent). Of the district's 21 metro areas, only three had population greater than one million in the 2000 Census—the Denver-Boulder-Greeley CMSA (2.6 million), the Kansas City MSA (1.8 million), and the Oklahoma City MSA (11.1 million). Because the Tenth District accounts for 14 percent of the nation's land area but less than 6 percent of the nation's population, density is also much lower in the district—31 persons per square mile versus 80 persons per square mile in the nation.

The racial and ethnic composition of the district also differs from that of the nation, due in part to the lower degree of urbanization. In the 2000 Census, a smaller percentage of people in the district classified themselves as black or African-American (6.6 percent vs. 12.9 percent in the nation) and a smaller proportion said they had immigrated from abroad (5.1 percent vs. 11.1 percent in the nation).¹ In contrast, the Hispanic population share was only modestly lower in the district than the nation (10.5 percent vs. 12.5 percent). One reason for the substantial Hispanic presence in the district is that New Mexico was once part of Mexico. The other reason

¹ The figures in this paragraph are based on statewide data and thus include portions of Missouri and New Mexico outside the Tenth District.

is that many people immigrated to the region from Mexico early in the twentieth century to work in farms, railroads, stockyards, and slaughter houses.

Banking

Another way the Tenth District differs from the nation is in relying more heavily on community banks for banking services. Community banks can be defined as those owned by organizations with less than \$1 billion in assets. Based on this definition, community banks accounted for 55 percent of all banking offices in the district in mid-2005 and 40 percent of all deposits. These shares were down considerably from twenty years ago due to substantial consolidation in the district banking industry. However, community banks remain much more important in the district than the nation, where they accounted for only 32 percent of banking offices and 18 percent of deposits in mid-2005. The greater importance of community banks in the district is due partly to the higher share of population in non-metropolitan areas, where community banks have traditionally focused. It also reflects the fact that intrastate branching was severely restricted in the region until relatively recently, artificially limiting the size of banks.

Although some district states were slow to embrace interstate banking, the district as a whole has largely caught up with the nation. Among the giant, nationwide banking organizations that now have a significant presence in the region are Bank of America, Wells Fargo, and US Bank. Most district states still contain one or more large banking organizations that do most of their business in their home state (e.g., FirstBank in Colorado, Intrust in Kansas, Commerce and UMB in Missouri, First National in Nebraska, and BOK in Oklahoma). However, such organizations account for a much smaller share of district banking activity than they did twenty years ago.

Industrial structure

The Tenth District as a whole has an industrial structure similar but not identical to that of the nation. When measured by their contribution to total output, three broad sectors stand out as *more* important in the district than the nation (Table 1). These sectors are mining, which was 2.4 times as important in the district as the nation in 2004; agriculture, which was 1.7 times as important; transportation and warehousing, which was 1.3 times as important; and information and data processing, which was 1.2 times as important in the district than the nation. Major sectors that are less important in the district than the nation include finance and insurance, real estate services, professional and technical services, and manufacturing.

While the natural resource based industries are still more important in the district than in the nation, their role has declined over the past two decades as the district economy has come to resemble the national economy more closely. In 1980, for example, agriculture and mining accounted for nearly 14 percent of district output, versus less than 5 percent in 2004.² This convergence between the industrial structure of the district and the nation has had both benefits and costs. On the positive side, the district has become less vulnerable to boom and bust in commodity markets. But on the negative side, the district economy has also become more sensitive to the national business cycle.

State-by-state summary

Among district states, **Colorado** has the most educated work force and highest per capita income. Manufacturing is less important in Colorado than other states, accounting for only 7 percent of GSP in 2003 versus 13 percent in the nation (Table 2). On the other hand, the telecommunications and broadcasting sector and the professional and technical services sector are both significantly more important in Colorado than the nation. The Front Range of the Rocky Mountains is home to several big telecom firms (Qwest, Level 3, Echostar) and to computer

² The share of natural resources and mining in district output has probably increased somewhat since 2004 due to the impact of higher oil and gas prices on drilling and production. From June 2004 to June 2006, employment in the natural resources and mining sector grew 23.4 percent, while total employment in Tenth District states increased only 3.3 percent.

software companies of all sizes, causing the state to rank near the top of most lists of high-tech activity across the country. Tourism and air transportation are also important industries, reflecting the large number of tourist attractions in the mountains, the popularity of Denver as a convention center, and the role of Denver International Airport as a major airline hub. As a result of this concentration in telecommunications, tourism, and air transportation, Colorado was especially hard hit by the recession of 2001 and the terrorist attacks of September 11.

Colorado is much less vulnerable than it used to be to big swings in energy markets, because there are not nearly as many big energy firms headquartered in Denver as in the early 1980s. However, the state still has considerable reserves of natural gas on the Western Slope and in the Greeley area, making energy an important sector. There is also substantial agricultural activity in the Eastern plains, including wheat and cattle.

Due partly to its scenic amenities and partly to its strong job market, Colorado experienced substantial in-migration from other states during the 1990s. This in-migration provided a big boost to the services and construction sectors but also pushed up housing prices and raised the cost of living, eliminating much of the advantage that Colorado used to enjoy over other states. The in-migration also led to concerns about the adverse effects of rapid growth on the state's environment and quality of life, prompting some local governments to place curbs on further development. As the Colorado economy slowed in the first half of the 2000s, the net inflow of people from other states declined sharply. However, most experts expect net in-migration to recover during the rest of the decade.

Many parts of rural **Kansas** are still heavily dependent on farming, but agriculture accounted for only 2.4 percent of GSP in 2003, half as much as in 1990. Despite the widespread perception of Kansas as a farming state, manufacturing is more important than in the nation as a whole, accounting for a little less than 15 percent of GSP in 2003. A particularly important industry is aircraft manufacturing. This industry is concentrated in the Wichita area, where

Boeing, Cessna, Raytheon, and Bombardier all have major operations. Food processing is also important in Kansas, especially in the southwestern part of the state where several large meatpacking plants have attracted thousands of immigrants, mostly from Mexico.

Telecommunications also accounts for a large share of output in Kansas, over 6 percent in 2003, reflecting the large number of Sprint employees working on the Kansas side of the Kansas City MSA.

Missouri is the district state most dependent on manufacturing, which accounted for over 15 percent of GSP in 2003. However, much of this activity is in St. Louis, which lies outside the Tenth District. The Missouri side of the Kansas City MSA is relatively diversified, with a wide range of service and manufacturing industries. These include a major auto assembly plant (Ford), a major data processing firm (DST), a large greeting card company (Hallmark), and a large healthcare software company (Cerner). Of the two other MSAs in the Tenth District portion of Missouri, St. Joseph grew only modestly during the 1990s, while Joplin shared in the boom experienced by nearby Springfield and Branson. Tourism is important in the state as a whole, but most of this activity is outside of the Tenth District (e.g. Lake of the Ozarks and Branson).

Nebraska is the most highly agricultural of the district states. Agriculture accounted for over 6 percent of the state's GSP in 2003, six times as much as in the US. Food processing is also an important industry, comprising almost 4 percent to GSP. The state's central location along east-west transportation routes has also provided a boost to the trucking and railroad industries. Although the finance sector is less important than in the nation as a whole, Nebraska has a sizeable insurance industry, most of it located in Omaha. That area is also home to a large number of data processing and computer outsourcing companies. The growth of these companies was aided by the laying of many miles of fiber optic cable by the Strategic Air Command, which moved to nearby Offutt air force base after World War II.

New Mexico is home to the Sandia and Los Alamos national laboratories and a number of military bases, making the state nearly twice as dependent on the federal government as the rest of the nation. In addition, mining remains a vital sector of the economy, accounting for over 7 percent of GSP in 2003. Much of this activity is oil and gas extraction, which is concentrated in the northwestern corner of the state. Despite the continued importance of government and mining, New Mexico has become much more diversified in recent years. Growth in semiconductor production, most of it at a large Intel plant in Albuquerque, has sharply boosted the share of manufacturing in total GSP. The state's call center industry has also expanded considerably, attracted by a large bilingual workforce. Finally, tourism has increased in importance over the last decade, with much of the activity centered around Santa Fe. Despite these positive developments, New Mexico continues to have one of the lowest per capita incomes in the nation, a reflection of the high rate of poverty and structural unemployment in non-metropolitan areas of the state.

The energy industry is still important in **Oklahoma**, but the state's economy has become more diversified over the last 20 years due to strong growth in service-producing sectors. Oil and gas extraction accounted for 4.4 percent of GSP in 2003. That share was over five times as great as in the nation as a whole, but only one-fourth as high as during the energy boom of the 1980s. Despite the long-term decline in the importance of energy in Oklahoma, a number of large energy companies are still headquartered in the state, such as Williams, Chesapeake, Devon, and Helmerich and Payne. Agriculture has also diminished in importance, although Oklahoma remains a major producer of cattle and winter wheat. Government plays a larger role in Oklahoma than most other states, due in part to the presence of several large military bases. Reflecting the increased diversity of the state's economy, Tulsa has a large number of aerospace firms and a major American Airlines maintenance facility. On the negative side, Oklahoma has

recently lost two large auto-related manufacturing operations—a General Motors assembly plant and a Bridgestone tire factory, both in Oklahoma City.

Wyoming is the district state most dependent on mining, although agriculture and tourism also play key roles in the economy. Oil and gas extraction accounted for 12 percent of GSP in 2003 and other mining activity for more than 9 percent. Wyoming has large deposits of coal-bed methane, a relatively cheap source of natural gas. The state also has plentiful supplies of low sulfur coal, giving it a big advantage over other coal-producing states. A major obstacle to expansion of the energy industry has been the lack of adequate pipelines to transport natural gas out of state. This obstacle has been reduced with the 2003 expansion of the Kern River Pipeline system connecting Wyoming to the West Coast. Yellowstone and Jackson Hole are important sources of tourist revenues, while cattle-raising is the major agricultural activity.

Chart 1

The Tenth Federal Reserve District

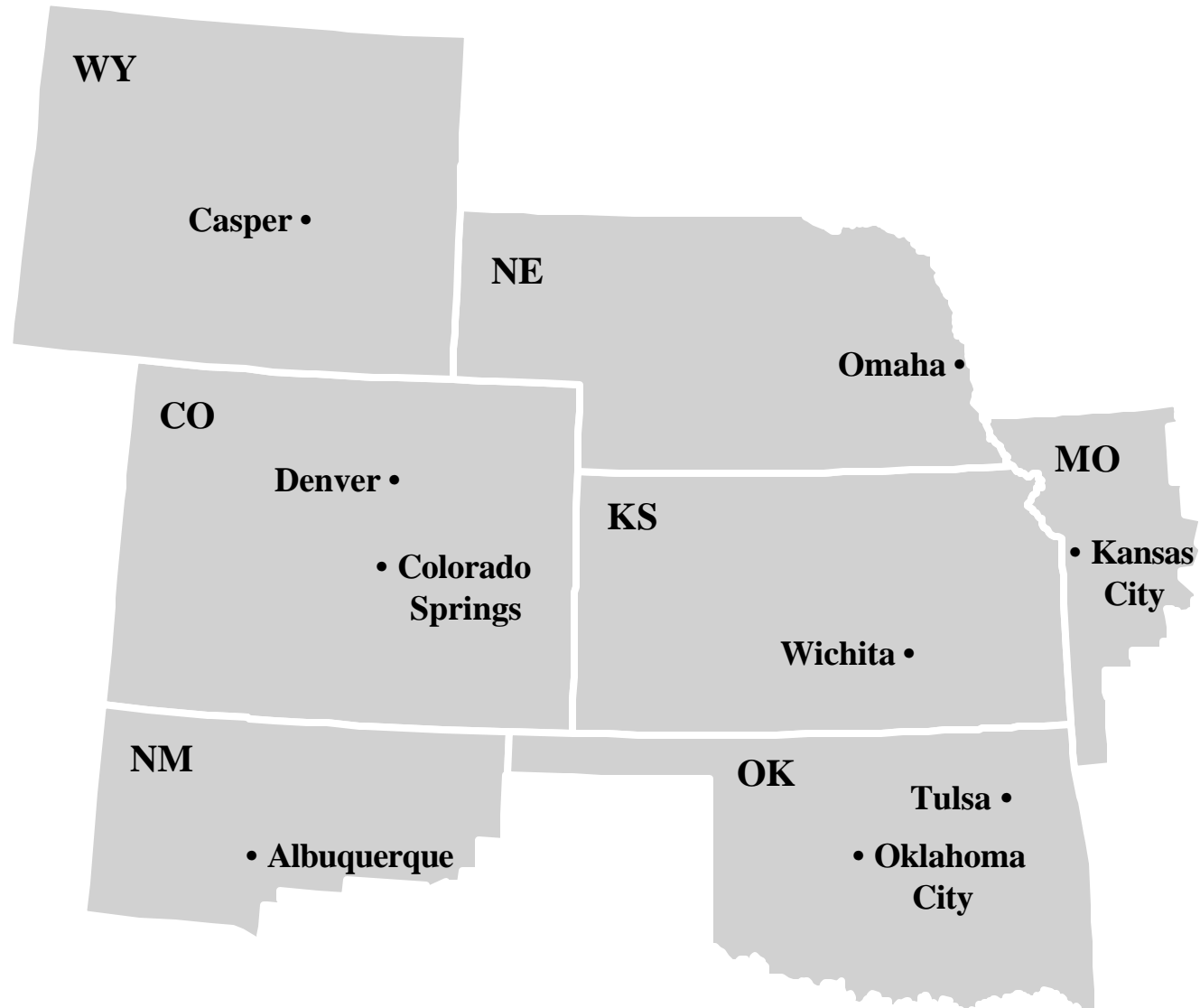


Table 1
Industry Output as a Share of GSP
2004

<u>Industry</u>	(A) <u>Tenth District States</u>	(B) <u>United States</u>	Ratio of <u>(A) to (B)</u>
Agriculture	1.7	1.0	1.7
Mining	3.1	1.3	2.4
Construction	4.9	4.6	1.1
Manufacturing	11.5	12.8	0.9
Wholesale trade	5.6	5.9	1.0
Retail trade	7.1	6.8	1.0
Transportation and warehouse	3.7	2.9	1.3
Information and data processing	5.8	4.7	1.2
Finance and insurance	6.2	8.3	0.7
Real estate, rental, and leasing	10.7	12.4	0.9
Professional and technical	6.0	6.8	0.9
Management	1.8	1.8	1.0
Administrative, support and waste	2.7	2.9	0.9
Educational services	0.7	0.9	0.8
Health care and social assistance	6.7	6.9	1.0
Arts, entertainment, and recreation	0.9	1.0	1.0
Accommodation and food services	2.6	2.6	1.0
Government	<u>13.8</u>	<u>11.9</u>	1.2
	100.0	100.0	

Source: U.S. Department of Commerce

Table 2
Industry Output as a Share of GSP
2003

Industry	US	10J	CO	KS	MO	NE	NM	OK	WY
Agriculture	1.0	2.0	1.0	2.4	1.2	6.4	1.9	2.3	2.2
Mining	1.2	2.8	1.7	1.1	0.2	0.1	7.3	5.8	24.1
Oil and gas	0.8	1.7	0.9	0.8	0.0	0.0	5.1	4.4	12.1
Other	0.3	0.6	0.5	0.1	0.2	0.1	1.1	0.2	9.1
Construction	4.6	4.9	6.1	4.3	4.8	4.4	4.4	4.2	5.6
Manufacturing	12.8	11.4	7.2	14.7	15.2	12.1	9.2	11.0	6.0
Computer and electronic	1.4	1.2	1.6	0.4	0.4	0.7	5.8	0.8	0.1
Motor vehicles	1.1	0.8	0.1	0.6	1.8	0.7	0.1	0.6	0.1
Other transportation	0.6	1.1	0.4	4.1	1.3	0.2	0.3	0.2	0.0
Food processing	1.6	1.8	1.1	2.1	2.6	3.7	0.5	1.2	0.3
Wholesale trade	5.9	5.6	5.4	6.3	6.2	6.4	3.7	5.2	3.6
Retail trade	7.1	7.3	6.8	7.6	7.4	6.8	7.4	8.1	6.2
Transportation and warehouse	2.9	3.8	2.8	3.9	3.9	7.1	2.7	3.2	5.9
Air	0.5	0.6	0.9	0.1	0.7	0.1	0.3	0.7	0.1
Rail	0.2	0.9	0.3	1.2	0.6	3.6	0.7	0.4	3.8
Truck	0.9	1.2	0.6	1.3	1.5	2.6	0.8	1.1	1.1
Information and data processing	4.5	5.7	8.8	7.6	4.6	3.4	2.9	4.0	1.6
Telecom and broadcasting	2.6	3.9	6.2	6.3	2.6	1.6	2.1	3.2	1.2
Data processing	0.4	0.5	0.4	0.2	0.6	1.2	0.2	0.3	0.1
Finance and insurance	8.1	6.2	6.8	6.3	6.3	8.2	3.8	5.2	2.8
Insurance carriers	2.3	2.2	2.1	2.3	2.3	4.4	1.2	1.8	0.7
Real estate, rental, and leasing	12.5	10.9	14.0	9.0	10.0	8.5	11.6	9.9	8.5
Professional and technical	6.8	5.9	8.4	4.4	5.7	4.1	6.7	4.6	2.9
Computer systems design	1.2	1.1	2.0	0.8	0.9	0.9	0.4	0.5	0.3
Other prof., scientific, and tech. services	4.2	3.8	5.2	2.8	3.5	2.3	5.4	2.9	2.0
Management	1.8	1.7	1.2	0.9	3.3	1.5	0.5	1.3	0.3
Administrative, support and Waste	2.8	2.7	3.2	2.5	2.4	2.4	2.8	2.9	1.3
Educational services	0.9	0.7	0.5	0.5	1.1	0.7	0.5	0.5	0.2
Health care and social assistance	6.9	6.7	5.8	7.0	7.5	7.1	6.7	7.0	4.4
Arts, entertainment, and Recreation	1.0	1.0	1.3	0.5	1.3	0.6	0.8	0.5	0.8
Accommodation and food services	2.7	2.6	3.0	2.4	2.6	2.0	3.1	2.4	3.1
Government	12.1	13.8	12.2	13.9	11.6	14.6	19.9	17.0	14.2
Military	1.1	1.5	1.5	1.9	0.9	1.3	2.0	2.3	1.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: US Department of Commerce