



A MESSAGE FROM THE PRESIDENT AND FIRST VICE PRESIDENT

To our stakeholders, customers, and Fifth District communities:

The new millennium brought excitement and new energy to the Bank and its staff as we sought new opportunities to serve our stakeholders and the broader public. We worked to strengthen further our contribution to Federal Reserve monetary, banking, and payments system policies. We focused our bank supervision and regulation resources on carefully monitoring the challenges that might arise in a slowing economy and an increasingly volatile financial environment. And we looked inward to find ways to further develop and reinforce the ability of our talented staff to serve our customers at the highest level of excellence. While there is always room for continued improvement, we believe the Bank made notable progress in each of these areas, as detailed in “Mileposts on the Road to Excellence.”

Both the national and Fifth District economies shifted to markedly slower growth over the course of 2000. The robust activity that characterized the U.S. economy in recent years continued in the first half of the year. District businesses took extraordinary measures to attract and retain workers in exceptionally tight labor markets. Optimism prevailed, both in financial markets and the general business community.

Later in the year, though, consumer and business spending and job growth decelerated sharply, both nationally and regionally, amidst rising energy prices and diminished optimism in equity markets. The weakening in activity was especially abrupt in the manufacturing sector, which challenged those local

areas in the District that depend heavily on manufacturing for jobs, income, and growth. Layoffs and plant closings in the textile and furniture industries in the Carolinas and parts of Virginia were also particularly noteworthy.

Regrettably, the economic slowdown had a negative impact on many District households and businesses. The prospect of more sustainable growth in the demand for goods and services, however, will provide a firm foundation for productive investment, stronger real economic growth, and rising living standards over the longer term. We at this Bank are dedicated to helping produce this result.

For many years we have followed a tradition of publishing in our *Report* an essay regarding a significant issue related to Federal Reserve policy. This year Alfred Broaddus and Marvin Goodfriend, senior vice president and policy advisor, address a question many would not have anticipated even five years ago — challenges the Fed will face in conducting monetary policy in an era of potential government budget surpluses. What assets should the Fed acquire to support essential longer-run growth in the nation's money supply if continuing surpluses sharply reduce the supply of U.S. Treasury securities? The issue may appear arcane at first glance, but it goes to the heart of the Federal Reserve's ability to conduct monetary policy effectively in the years ahead.

We are grateful for your support and look forward to continuing to serve you in the future.

J. Alfred Broaddus, Jr.
PRESIDENT

Walter A. Varvel
FIRST VICE PRESIDENT