



The Federal Reserve has a dual mandate to promote stable prices and maximum employment, and we take a balanced approach in fulfilling these objectives. Early in 2010, and again early last year, economic growth seemed poised to accelerate, only to disappoint. At times, inflation appeared likely to move either too far above or too far below our long-term objective of 2 percent. Needless to say, conducting monetary policy in this environment remains quite challenging.

In last year's annual report essay, I focused on the price stability aspect of the Federal Reserve's dual mandate. I explained why price stability is essential to achieving maximum economic growth. In this annual report essay, I consider economic growth from another perspective—that of the labor market.

In my essay and in related articles by the Federal Reserve Bank of Cleveland's Research staff, we identify some of the salient features of today's employment situation. These insights underpin my view that the current stance of monetary policy puts us on the right path for meeting our dual mandate of maximum employment and stable prices over the long term.



At the Federal Reserve Bank of Cleveland, 2011 was a year of change and progress. The Office of Minority and Women Inclusion made many strides in its first full year of operation. As directed by Congress, the Office formalizes efforts that have been underway at this Bank for several years: It is responsible for all matters relating to diversity in management, employment, and business activities.

In the fourth quarter, our Bank welcomed a new first vice president and chief operating officer, Gregory Stefani. Beginning on page 22, Greg introduces the operations section of this report: the 2011 Innovation Update. He explains that although the Pittsburgh Branch of the Cleveland Fed will no longer issue and redeem savings bonds in partnership with the U.S. Treasury, the Bank continues to work with the Treasury to provide wide-ranging, efficient electronic payments and debt management services to benefit customers across the nation.

## President's Foreword

*After four years of crisis, recession, and uncertainty, U.S. businesspeople are expressing a sense of greater confidence and cautious optimism. Yet our economy still faces some serious headwinds. Housing markets remain in distress, state and local governments are still adjusting to budget pressures, and European financial markets continue to pose downside risks.*

The officers and staff of the Federal Reserve Bank of Cleveland are committed to serving our region and nation through the Bank's three major functions: monetary policy, supervision and regulation, and financial services. In these efforts, we are enriched by the guidance and insights provided by our boards of directors in Cleveland, Pittsburgh, and Cincinnati, as well as by our advisory councils across the District.

I especially want to thank the directors who completed their terms of service on our boards in 2011. I am grateful to **Charlotte Martin**, president and CEO of Great Lakes Bankers Bank in Worthington, Ohio, who spent five years on our Cincinnati board of directors before joining the Cleveland board in 2009. Her contributions and counsel have been noteworthy throughout her tenure on our boards.

**James Anderson**, retired president and advisor to the Cincinnati Children's Hospital Medical Center, stepped down after six years of service as chairman of our Cincinnati board, which is a significant commitment of time and talent. Jim's business expertise and deep history in medical services have helped us better understand both the healthcare industry and the economy of the southern part of our District, and we are indebted to him for those contributions.

Also retiring from our Cincinnati board is **Janet Reid**, managing partner and director of Global Novations, LLC in Cincinnati, following two terms as a director. Janet brought us key guidance on the service sector, both regionally and nationally. Her vision and understanding of workplace trends has greatly enhanced our view of the labor market.

Thanks also go to **Sunil Wadhvani**, chairman and co-founder of iGATE Corporation in Pittsburgh, who served two terms as a Pittsburgh director and chaired the Pittsburgh board for the past three years. Sunil brought significant insights on emerging technologies nationally and globally, and his energy and commitment have been invaluable.

**Howard W. Hanna III**, chairman and CEO of Howard Hanna Real Estate Services, also retired from our Pittsburgh board after five years of service. His expertise in housing markets helped guide us through a turbulent time for that sector, and his boundless energy and optimism in spite of those challenges were much appreciated.

Finally, I am grateful to **James Rohr**, chairman and CEO of the PNC Financial Services Group, Pittsburgh, who ably served as the Bank's representative on the Federal Advisory Council in 2011.



The employees of the Federal Reserve Bank of Cleveland continue to advance our Bank's vision of promoting financial stability and prosperity in our neighborhoods, region, and country. Whether by conducting research that contributes to sound monetary policy, by supervising and regulating banks to ensure they operate in a safe and sound manner, or by providing financial services to banking institutions and the U.S. government to help the payments system function smoothly and efficiently, our employees embody the best characteristics of a private entity serving the public interest.

As I enter my 10th year as president and CEO of the Federal Reserve Bank of Cleveland, I am proud to lead an organization devoted to excellence, thought leadership, and innovation. I sincerely thank the Bank's officers and staff for their efforts in positioning our Bank for continued success.



Sandra Pianalto  
President and Chief Executive Officer