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President's Foreword

To most Americans, inflation tends to be an abstract concept. Then suddenly, as gas and food prices strain their weekly budgets, it becomes a topic of everyday conversation. At the Federal Reserve, we constantly monitor the impact of price movements on underlying inflation trends, and we adjust monetary policy accordingly.

My policy decisions as president and CEO of the Federal Reserve Bank of Cleveland are motivated by the dual mandate of price stability and maximum employment. These are the objectives that Congress has given the Federal Reserve.

For a long time, many observers doubted the central bank's ability to pursue the dual mandate successfully. Some believed there was a tradeoff between low inflation and high unemployment. Those doubts have faded over the past 30 years as the public has come to see that both employment growth and price stability can be sustained over long periods of time.

In this year's annual report essay, I discuss why now may be an opportune time for the Federal Reserve to be more explicit about its inflation objective. An explicit objective is not only consistent with the Federal Reserve's dual mandate, but could improve our capacity for fulfilling it. Moreover, an explicit objective is a natural step in the evolution of Federal Reserve communications. The existence of an explicit numerical inflation objective has the potential to make policy decisions more transparent and policy-makers more accountable. In times of volatile commodity price changes, the existence of an explicit inflation objective could go a long way toward reassuring the public about our commitment to controlling inflation.

In separate essays in this annual report, our Bank's economists address specific questions about inflation in the context of the dual mandate. Taken as a whole, these essays are the latest in the Federal Reserve Bank of Cleveland's efforts to better connect the work we do to the economic well-being of Americans.



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, banking supervision and regulation, and payment services. As we do our work, we are enriched by the guidance and insights provided by our boards of directors in Cleveland, Pittsburgh, and Cincinnati, as well as by our business, consumer, and community banking advisory councils across the District.

I would especially like to thank the following directors who completed their terms of service on our boards in 2010:

- Roy Haley, chairman of Wesco International, Inc. in Pittsburgh, who spent four years as chairman of our Pittsburgh board before joining the Cleveland board in 2007.

- James Rohr, chairman and CEO of the PNC Financial Services Group, Pittsburgh, who served three years as a Cleveland director.
- Les Vinney, chairman of Cleveland HeartLab, who served as a Cleveland director for six years.
- Margaret Irvine Weir, president of NexTier Bank in Butler, Pennsylvania, who served more than three years on our Pittsburgh board.

I am grateful to Paul Poston, director of the Great Lakes District of NeighborWorks® America, Cincinnati, who served the Cincinnati board with distinction. Sadly, we lost Mr. Poston to cancer in late 2010. His expertise in housing policy, his commitment to community, and most of all his kindness will be sorely missed.

I am also grateful for the leadership of Henry L. Meyer III, chairman and CEO of KeyCorp in Cleveland, who completed three years as the Bank's representative on the Federal Advisory Council in 2010.



I wish to express my thanks to Dale Roskom, who joined the Federal Reserve Bank of Cleveland as first vice president and chief operating officer in early 2010. Dale's leadership and energy are already making a difference. Finally, I would like to express my sincere appreciation to all Bank officers and staff for their dedicated service during the past year. Working collaboratively as well as with our external stakeholders, the Bank's employees in Cleveland, Pittsburgh, and Cincinnati have fostered innovation in the nation's payments system, have ably served the U.S. Treasury, and have championed policies that promote economic growth, price stability, and strength in the nation's banking and financial systems. This commitment to excellence, efficiency, innovation, and sound public policy has empowered the Bank in pursuing its vision: to promote financial stability and prosperity in our neighborhoods, region, and country.



Sandra Pianalto
President and Chief Executive Officer