

# Message from the First Vice President

In a world where new information is constantly bombarding us, it's easy to get distracted. But at the Atlanta Fed our approach is to look beyond the noisy discourse of the day-to-day and concentrate on doing the right thing for tomorrow. Sometimes our focus on the longer term leads us to make tough decisions—to go against the grain of conventional wisdom. That way of thinking is the theme of this year's annual report.

Fortunately, Congress had the foresight to establish the Federal Reserve System as an independent central bank, which is accountable to but separate from the U.S. government. At the Atlanta Fed we take this latitude seriously as we strive to be a leader within the Federal Reserve System.

The Fed calibrates monetary policy according to the best interests of the nation as a whole, but the Atlanta Fed also brings to the discussion our unique perspective from the southeastern United States. From the Gulf Coast communities that are still rebuilding after devastating hurricanes, to the booming cruise ports of Florida, to universities leading research in advanced technologies, our region is large, diverse, and economically dynamic. And as our world becomes smaller, the Southeast becomes more global, and our organization dedicates more and more attention to understanding developments in other countries, especially in Latin America.

During a year of changing economic conditions and uncertainty, Atlanta Fed economists developed new forecasting techniques in support of policies that keep inflation low and stable and economic growth at or near potential. I'm confident the Fed's policy actions in 2006 set the stage for positive economic outcomes in 2007 and beyond.

We move ahead with our eyes open to potential risks, including rapid growth in financial market innovations such

as credit derivatives, a soft housing market, and elevated energy costs. Throughout our more than ninety-year history—especially during the late 1970s and early 1980s—the Fed has overcome severe threats. Today, as economic and financial events are unfolding more rapidly than ever, central bankers face a constantly changing matrix of challenges and opportunities.

Reflecting on our experience in central banking, I believe much of the economic prosperity we now enjoy is built on a foundation of going against the grain. As we continue to stay on the right course for the long term, I believe our nation's economic and financial future is very bright.

For much of 2006, the Atlanta Fed was led by President and Chief Executive Officer Jack Guynn, who retired in October after a forty-two-year career with the Fed. I hope you'll take a minute to read our tribute to him. Since Jack's retirement, following Fed procedures, I've had the pleasure of fulfilling the duties of president. We look ahead to new leadership in 2007 under Dennis Lockhart, who was named the new Atlanta Fed president and chief executive on February 8.

Throughout this transition for the bank, our directors played an important role, going above and beyond their normal duties to inform monetary policy. In closing, I would like to thank all of our directors—and especially Larkin Martin, who headed the presidential search committee—for their guidance in helping to secure top leadership in our organization for many years to come.



Patrick K. Barron



Atlanta Fed First Vice President and Chief Operating Officer Patrick K. Barron