The Fed and the Economy in the U.S. and Oklahoma

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Overview of the Federal Reserve System

• The “Fed” consists of three main entities:
  • Board of Governors: 7 members appointed by U.S. President
  • Federal Reserve Banks: 12 total; semi-independent by design
  • Federal Open Market Committee: 19 members; 12 voting

• As with most central banks, the Fed’s primary responsibilities fall within four general areas:
  • Lender of last resort – provide liquidity in times of crisis
  • Monetary policy – promote full employment and low inflation
  • Bank regulation – ensure safety and soundness of banks
  • Financial services – bank for banks, bank for federal govt.
The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

• **History, staff, and functions**
  - Branch office opened in 1920; currently have about 35 staff
  - Functions include economic research, bank examinations, public outreach

• **2011 branch board of directors**
  - **Steve Agee (chairman)**, Interim Dean of OCU Business School, OKC
  - **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
  - **Jim Dunn**, Chairman, Mill Creek Lumber and Supply Co., Tulsa
  - **Jacque Fiegel**, Senior EVP and COO, Coppermark Bank, OKC
  - **Rose Washington Rentie**, Executive Director, TEDC Creative Capital, Tulsa
  - **Doug Tippens**, President and CEO, Bank of Commerce, Yukon
  - **K. Vasudevan**, Chairman, Service and Technology Corp., Bartlesville
The U.S. Economic Outlook

- Pace of recovery and growth outlook
- Price indexes and inflation outlook
- Government debt projections
Real GDP growth slowed in Q1 2011, driven in part by bad weather

Growth in Components of Real GDP

Percent change from the previous period

Source: U.S. Bureau of Economic Analysis
April U.S. data showed solid job growth and factory activity, but slowing services.
Employment in several industries has rebounded considerably from a year ago.

U. S. Employment Growth

Source: Bureau of Labor Statistics
Fed policymakers expect continued moderate U.S. GDP recovery

Real Gross Domestic Product

Source: U.S. Bureau of Economic Analysis, FOMC
But for U.S. unemployment to remain relatively high for some time

Unemployment Rate
Seasonally Adjusted

Source: U.S. Bureau of Labor Statistics, FOMC
Both overall and core inflation have risen with higher oil prices.
Some FOMC members expect inflation to be above long-term levels in the near term.

PCE Inflation Index

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
The Fed’s balance sheet is expanding further, following recent FOMC decisions.

Federal Reserve Balance Sheet

- **Assets**
  - Short Term Lending to Financial Firms
  - Targeted Lending Programs
  - MBS & Agency Debt
  - Treasury Securities
  - Currency

- **Liabilities**
  - SFA
  - Reserves
  - Other
  - Others

Source: Federal Reserve Board
Federal government debt is on an unsustainable path

CBO Public Debt Projections: 1790-2084

Percent of GDP

Times of War

Source: CBO Long Term Budget Outlook June 2010
Most of the projected growth in debt is related to health care costs.
The Oklahoma Economic Outlook

- Recession and recovery pattern
- Variation in growth by area
- Variation in growth by industry
Oklahoma’s recession and recovery path is the historical pattern—late in, similar out.

Payroll Employment

Year-over-year percent change

Source: U.S. Bureau of Labor Statistics
There have been differences across the state: Tulsa was hit harder but has now caught up.
Unemployment in much of the state is near what is often considered “full employment”.

Unemployment Rate
Seasonally Adjusted*

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<th>Region</th>
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<th>Mar-11</th>
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<td>U.S.</td>
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<td>OKC metro</td>
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<td>Non-metro OK</td>
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Source: U.S. Bureau of Labor Statistics

* Estimated by FRBKC
Most Oklahoma sectors are now growing solidly, but two continue to shed jobs

Employment Growth
April 2011

Source: Bureau of Labor Statistics
And Oklahoma banks remain in much better shape than in the nation as a whole.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
Housing also held up better in Oklahoma, but has yet to show much recovery

Source: Census Bureau
Farmland values have also risen substantially from a year ago

Oklahoma Agricultural Land Values
Non-Irrigated Cropland

Percent change year-over-year

Source: KCFRB
Summary

- The U.S. economy is recovering and expected to continue to grow solidly, but with prices and debt rising.

- Oklahoma’s economy is also again growing solidly and remains in much better shape than the nation.