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

Chad Wilkerson
Vice President, Economist, and Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City
www.kansascityfed.org
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.
Federal Reserve Districts and Office Locations
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), Dean, Oklahoma City Univ. 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. Economy

- Review of 2011 economic data

- FOMC forecasts and statement
Real GDP growth has slowed in 2011, following solid growth in 2010.
Business investment was big contributor, while consumers and governments dragged
Q3 data have been mixed but indicative of modest overall U.S. economic growth.
There is considerable variation in economic strength across the nation

Employment Growth, Year-over-Year (percent)
August 2011

Scale

- 1.71 - 5.26
- 1.08 - 1.71
- 0.50 - 1.08
- -0.88 - 0.50

Source: U.S. Bureau of Labor Statistics
Firms’ hiring and investment plans remained relatively solid through the summer.

Tenth District Manufacturing Survey Expectations
Net Share of Firms Planning to Expand in Next 6 Months

Source: KCFRB Manufacturing Survey
But financial stress is increasing in Europe

EURIBOR & LIBOR-OIS Spreads

Source: Bloomberg
At its June meeting the FOMC forecast U.S. unemployment to come down only slowly.
And for inflation pressures to ease after rising with oil and food prices in 2011

PCE Inflation Index

Source: U.S. Bureau of Economic Analysis, FOMC
“Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee continues to expect some pickup in the pace of recovery over coming quarters but anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Moreover, there are significant downside risks to the economic outlook, including strains in global financial markets. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate.

“To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee decided today to extend the average maturity of its holdings of securities. The Committee intends to purchase, by the end of June 2012, $400 billion of Treasury securities with remaining maturities of 6 years to 30 years and to sell an equal amount of Treasury securities with remaining maturities of 3 years or less. This program should put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.”
“To help support conditions in mortgage markets, the Committee will now reinvest principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. In addition, the Committee will maintain its existing policy of rolling over maturing Treasury securities at auction. The Committee also decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.

“Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Charles L. Evans; Sarah Bloom Raskin; Daniel K. Tarullo; and Janet L. Yellen.

“Voting against the action were: Richard W. Fisher, Narayana Kocherlakota, and Charles I. Plosser, who did not support additional policy accommodation at this time.”
The Federal Reserve’s balance sheet

Federal Reserve Balance Sheet

- Assets
  - Treasuries and Misc. Assets
  - Agency Debt and MBS
  - Rescue Operations
  - CPFF and TALF
  - Short-Term Lending to Financial Firms
- Liabilities
  - Currency
  - Reserves
  - Other

*Only contains one week of data

Source: Federal Reserve Board
The Oklahoma Economy

- Review of recent economic data
- Risks and opportunities
Oklahoma had a much milder recession, and has been outpacing the nation recently.
Most Oklahoma sectors have grown solidly in 2011, led by energy and manufacturing.

Employment Growth
August 2011

Source: Bureau of Labor Statistics
Unemployment in much of the state is back to what is often considered “full employment”

Unemployment Rate
Seasonally Adjusted*

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<th>Area</th>
<th>Dec-07</th>
<th>Jul-11</th>
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<tr>
<td>Non-metro OK*</td>
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</table>

Source: U.S. Bureau of Labor Statistics

* Estimated by FRBKC
However, labor markets may not be overly tight due to labor force dropouts

Unemployment Rate by State
Seasonally Adjusted

Source: Bureau of Labor Statistics

*LFPR= Labor Force Participation Rate
Most Oklahoma banks still remain in much better shape than the nation.

Share of Unprofitable Institutions
Commercial Banks

Percent


Source: FDIC
As always, energy prices are Oklahoma’s biggest risk relative to nation.
Summary

- The U.S. economy is facing some headwinds following only modest expansion in the first half of 2011.

- Oklahoma’s growth has been more solid, and fundamentals remain better in the state than the nation.