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

Chad Wilkerson
Vice President, Economist, and Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City
www.kansascityfed.org/oklahomacity/
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; new KC Fed President Esther George will be voting member in 2013

**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
National economic data reveal some slowing in growth in 2011, but with sizable variation across the country.

Forecasts call for high unemployment and moderate inflation, and recent policy decisions have met with some dissent.
Real GDP growth has slowed in 2011, following solid growth in 2010.

Source: U.S. Bureau of Economic Analysis, FOMC
Business investment was big contributor, while consumers and governments dragged.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis
Q3 data have been mixed but indicative of modest overall U.S. economic growth

U.S. Private Payroll Employment and Business Indexes

Change from previous month, thousands

Firms’ hiring and investment plans remained relatively solid through the summer.
There is considerable variation in economic strength across the nation.
U.S. government debt projections are still unsustainable, prompting a downgrade

CBO Federal Government Debt and Projections

* Alternative scenario
** FRBKC calculations based on limited information

Source: CBO
Meanwhile, financial strains are growing, especially 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

Percent change, year-over-year

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.”
“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 accommodations at this time.”
The Fed’s balance sheet will undergo a “twist,” in more ways than one.
The Oklahoma and Arkansas Economies

- Oklahoma is doing about as well as any place in the country, driven largely by energy-related sectors

- Arkansas has seen a slowing in growth recently, but conditions remain better than in the nation
Oklahoma’s jobs recovery has accelerated, while Arkansas’ job growth has slowed.
Differences in energy, manufacturing, and construction explain much of the gap

Employment Growth
August 2011

Source: Bureau of Labor Statistics
Unemployment remains elevated in Arkansas but is near “full employment” in Oklahoma.
However, regional labor markets may not be overly tight due to labor force dropouts.

Unemployment Rate by State
Seasonally Adjusted

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<th>State</th>
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*LFPR= Labor Force Participation Rate

Source: Bureau of Labor Statistics
Most Oklahoma and Arkansas banks remain in better shape than the nation.
Summary

- The U.S. economy is facing headwinds following only modest expansion this year.
- Oklahoma’s growth has been more solid, and fundamentals in both Oklahoma and Arkansas remain better than in the nation.

For updates, please see our new quarterly publication, The Oklahoma Economist, at:
http://www.kansascityfed.org/publications/research/oke/index.cfm