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.
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
  - **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

U.S. Real Gross Domestic Product

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.
There is considerable variation in economic strength across the nation.
And financial stress is increasing in Europe

**EURIBOR & LIBOR-OIS Spreads**

- **LIBOR**
- **EURIBOR**

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

Source: U.S. Bureau of Economic Analysis, FOMC
“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 [also] 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 against the action were: Richard W. Fisher [Dallas Fed pres.], Narayana Kocherlakota [Minneapolis Fed pres.], and Charles I. Plosser [Philadelphia Fed pres.], who did not support additional policy accommodations at this time.”
The Federal Reserve’s balance sheet

Federal Reserve Balance Sheet

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

Liabilities
- Currency
- Reserves
- Other

$Trillions

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.
The unemployment rate in Oklahoma, 5.6 percent, is among the lowest in the nation.
Indeed, most of the state is back to levels often considered to be “full employment”

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

The chart shows the unemployment rates by state for June 2011 and June 2011 adjusted for the Labor Force Participation Rate (LFPR). The rates are presented as a bar chart with bars indicating the unemployment rates for each state. The source of the data is the Bureau of Labor Statistics.

*LFPR= Labor Force Participation Rate
Manufacturing growth has slowed but is expected to rise slightly through 2012

Manufacturing Composite Indexes

Note – Oklahoma and Tenth District calculated on an ISM basis; Above 50 indicates expansion

Source: KCFRB Manufacturing Survey
Most Oklahoma banks still remain in much better shape than the nation.
As always, energy prices are Oklahoma’s biggest risk relative to nation.
Over the past few years, energy has been nearly as important as it was 30 years ago.
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.