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

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www.kansascityfed.org/oklahomacity
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
Real GDP growth picked up somewhat in Q3, but still remains moderate

U.S. Real Gross Domestic Product

Source: U.S. Bureau of Economic Analysis, FOMC
Business investment was strong, exports grew further, and consumers spent more.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis
Fed policymakers expect continued moderate U.S. GDP recovery

Real Gross Domestic Product

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
But for unemployment to only come down slowly the next few years

Unemployment Rate
Seasonally Adjusted

Percent

0 2 4 6 8 10 12


Nov. FOMC Forecast Ranges in Yellow

Long Term

Source: U.S. Bureau of Labor Statistics, FOMC
And for inflation pressures to ease slightly 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
Financial stress continues in Europe, posing downside risks for world growth

EURIBOR & LIBOR-OIS Spreads

Source: Bloomberg
November 2, 2011 FOMC Statement

“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 continue its program to extend the average maturity of its holdings of securities as announced in September...

“The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and 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 was Charles L. Evans, who supported additional policy accommodation at this time.”
The Fed continues to use its balance sheet and other tools to maintain accommodation.
The Oklahoma Economy
There is considerable variation in economic strength across the nation.
Oklahoma had a much milder recession, and has recently been adding jobs rapidly.
Most Oklahoma sectors have grown solidly in 2011, led by energy and manufacturing.

Employment Growth
September 2011

Percent change year-over-year

Source: Bureau of Labor Statistics
Recent job growth has been especially strong in Tulsa and in non-metro areas.

**Employment Growth**

Year-over-year

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<th>Location</th>
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<td>Non-metro OK</td>
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Source: U.S. Bureau of Labor Statistics
To varying degrees, employment remains below pre-recession levels across the state.

Change in Employment Since January 2008
Seasonally Adjusted

<table>
<thead>
<tr>
<th>Region</th>
<th>Change in Employment</th>
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<tr>
<td>OK</td>
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</table>

Source: U.S. Bureau of Labor Statistics
As such, labor markets may not be overly tight due to labor force dropouts

Unemployment Rate by State
Seasonally Adjusted

*LFPR= Labor Force Participation Rate
Source: Bureau of Labor Statistics
Regional manufacturing growth has picked up slightly but remains moderate.

Manufacturing Composite Indexes

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

Source: KCFRB Manufacturing Survey
Surging farmland prices pose a risk in some parts of the region.

Source: FRBKC Agricultural Credit Survey
As always, energy prices are likely Oklahoma’s biggest risk relative to nation

Energy Prices

$/MMBTU

$ per Barrel

Brent Oil

WTI Oil

Natural Gas

Source: Bloomberg
Summary

- The U.S. economy is growing moderately but facing headwinds after only modest expansion in the first half of 2011.

- Oklahoma’s growth has been more solid in 2011, and fundamentals remain better in the state than the nation.