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

- Functions – 40 staff
  - Economic research and outreach for U.S. monetary policy purposes
  - Examinations and inspections of Oklahoma financial institutions
  - Economic and financial education outreach to teachers and citizens
  - Community development outreach to low and moderate income areas

- 2012 board of directors
  - Jim Dunn (chair), Chairman, Mill Creek Lumber and Supply, Tulsa
  - Linda Capps, Vice Chairman, Citizen Potawatomi Nation, Shawnee
  - Pete Delaney, Chairman, CEO, & President, OGE Energy Corp., OKC
  - Doug Tippens, President and CEO, Bank of Commerce, Yukon
  - K. Vasudevan, Chairman, Service and Technology Corp., Bartlesville
  - Rose Washington, Exec. Director, Tulsa Economic Development Corp.
U.S. Economy and Monetary Policy

- U.S. economic growth has slowed in recent months, as uncertainties have risen again

- The FOMC expects continued improvement in unemployment, and for inflation to stay low

- The range of views among FOMC members about monetary policy remains relatively wide
U.S. GDP growth rebounded somewhat in Q3, but business investment & exports weakened
Early third quarter data suggest moderate U.S. growth continued

U.S. Private Payroll Employment and Unemployment Rate

Financial stress in Europe remains higher than a few years ago, creating uncertainty.

**Eurozone and U.S. Financial Stress**

![Graph showing financial stress index for Europe and the US over time.](Image)

- **European Financial Stress Index**
- **U.S. Financial Stress Index**

*Source: FRBKC*
Likewise, the “fiscal cliff” and political uncertainty are weighing on the economy.

Source: Goldman Sachs

The estimated impact on 2013 GDP is as follows:

- Sequestration (automatic discretionary cuts): -3.5 percentage points
- AMT fix expires: -1.5 percentage points
- 2001 and 2003 tax cuts lapse: -2.0 percentage points
- End extended unemployment benefits: -1.0 percentage points
- End payroll tax holiday: -0.5 percentage points

Source: Goldman Sachs
But private forecasters project continued growth (presumably assuming the fiscal cliff is avoided)
The national debt is projected to continue to rise unless fiscal changes are made.

Sources: Congressional Budget Office
At its September meeting, the FOMC expected unemployment to fall further.
And for inflation to remain at or near its long-term target

PCE Inflation Index

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
The majority of FOMC members expect interest rates to stay low through 2015.

Federal Funds Rate
Year-end target

Note – Number of participants who project the initial increase will occur in the specified year in parenthesis.

Source: U.S. Bureau of Economic Analysis, FOMC
The Fed’s balance sheet is at historically high levels and now set to rise further.
The Oklahoma Economy

- Oklahoma economic growth has slowed a bit but conditions remain solid, with most industries stronger than the nation.

- The relative strength compared to the nation has reflected solid energy and factory activity.

- Europe is less of a direct risk to the region, but drought and low natural gas prices hurt.
Employment has finally risen above pre-recession levels in OK, unlike the nation.
There remains considerable variation in employment strength across the nation.
Unemployment is low, but would be higher with more labor force participation.
Unemployment is especially low in northwest and south central Oklahoma.

County Unemployment Rates
August 2012

Unemployment Rate
- 2.1% - 4.3%
- 4.4% - 7.0%
- 7.1% - 10.7%

Source: OK Employment Security Commission
Growth in energy jobs slowed in Q3, but other industries posted positive growth

Oklahoma Employment Growth by Industry

Percent change, quarter-to-quarter, annualized

Source: Bureau of Labor Statistics
New home permits in Oklahoma have edged higher, though are still at low levels
Banks have also done better and have shown solid recent improvement
Regional manufacturing activity declined in October, however, driven by uncertainties.
Manufacturing exports have flattened in the region and nation.

Total Manufacturing Exports
Through Aug-12

Percent change, year-over-year

U.S.
District
OK

Source: WISERTrade
Exports to Europe are a smaller part of the regional economy, especially in Oklahoma.

Exports as Share of GDP, 2010

Percent

<table>
<thead>
<tr>
<th>Region</th>
<th>Rest of World</th>
<th>Europe</th>
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Sources: U.S. Bureau of Economic Analysis, USDA, WISERTRADE
Energy activity has also declined slightly from high levels, with gas prices low.

Oklahoma Rig Counts
Seasonally Adjusted

Source: Baker Hughes

Number of rigs
Natural gas and NGL prices have rebounded slightly but remain low.

Source: Bloomberg Energy Services, Oil and Gas Weekly
Severe to exceptional drought is still gripping the state and region.
Crop prices have moderated somewhat, but still remain very favorable to producers.

U.S. Crop Prices

Source: Commodity Research Bureau
But livestock owners continue to be squeezed by high feed costs

U.S. Livestock Prices and Breakeven Costs

Source: Commodity Research Bureau
Ag loans are more current than any other type of loan at Oklahoma banks.
And ag loans are much more important to Oklahoma banks than they are in the nation.

Agriculture Loans as a Share of Total Loans
Q2 2012

Source: FDIC
Regional farmland prices continue to surge, and have accelerated in Oklahoma.

Tenth District Non-Irrigated Cropland Values
Percent Change, Year-over-year

Source: FRBKC Agricultural Credit Survey
Conclusions

- Growth in the U.S. economy has slowed moderately, as concerns about Europe and politics remain elevated.

- Inflation has remained low, and monetary policymakers disagree about future paths.

- Oklahoma economic activity remains relatively solid, but drought, uncertainty, and low natural gas prices have hurt.
Questions?

For more information about the Oklahoma and Kansas economies, subscribe to the quarterly Oklahoma Economist for Oklahoma and the Midwest Economist for Kansas at:

www.kansascityfed.org/publications/research/oke