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

Evening at the Fed
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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.
The labor market continues to improve, but only moderately

U.S. Private Payroll Employment and Unemployment Rate

Change from previous month, thousands

Percent

Financial stress in Europe remains higher than a few years ago, creating uncertainty.
Likewise, the “fiscal cliff” and political uncertainty are weighing on the economy.

Estimated Impact on 2013 GDP
Worst Case

-4
-3.5
-3
-2.5
-2
-1.5
-1
-0.5
0

Percentage points

End payroll tax holiday
End extended unemployment benefits
AMT fix expires
2001 and 2003 tax cuts lapse
Sequestration (automatic discretionary cuts)

Source: Goldman Sachs
Near-term economic projections vary based on the degree to which the fiscal cliff occurs.
Similarly, longer-term national debt projections vary based on fiscal actions.
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

Sept. FOMC Forecast Ranges in Yellow

Long Term

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

Source: Bureau of Labor Statistics
Unemployment is especially low in northwest and south central Oklahoma

County Unemployment Rates
August 2012
Growth in energy jobs slowed in Q3, but other industries posted positive growth

Source: Bureau of Labor Statistics
Housing activity in Oklahoma has edged higher, though is still at low levels

Single-Family Home Permits
Seasonally Adjusted

Source: Census Bureau
Banks have also done better and have shown solid recent improvement.

![Graph showing noncurrent loans as a share of total loans for Commercial Banks from Q2 2002 to Q2 2012. The graph indicates a substantial increase in noncurrent loans in Q2 2008, reaching a peak by Q2 2009, followed by a decrease by Q2 2012. The graph includes data for U.S. and OK, with the U.S. showing a higher increase and subsequent decrease compared to OK. The source of the data is FDIC.]
Manufacturing exports have slowed, but less than in the nation or region.

Total Manufacturing Exports
Through Aug-12

Percent change, year-over-year

Source: WISERTrade
And exports to Europe are a smaller part of the Oklahoma economy.

Exports as Share of GDP, 2010

Sources: U.S. Bureau of Economic Analysis, USDA, WISERTRADE
Severe to exceptional drought is still gripping the state and region.
Energy activity has declined slightly from high levels, with gas prices low.
Natural gas and NGL prices have rebounded slightly but remain low.
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.
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