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 – 35 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
  - Jacque Fiegel, Senior EVP and COO, Coppermark Bank, 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

• Moderate U.S. economic growth continues, while conditions in Europe remain precarious

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

• The range of views among FOMC members about monetary policy are relatively wide
The U.S. economy has been growing since late 2009, but the pace has slowed recently.
But Eurozone financial stress remains higher than during the crisis of 2008-09

Eurozone and U.S. Financial Stress

Source: FRBKC
European sovereign yields have diverged greatly since late 2009.
At its June meeting, the FOMC expected unemployment to gradually fall further.
And for inflation to remain at or below its long-term target

PCE Inflation Index

Source: U.S. Bureau of Economic Analysis, FOMC
The majority of FOMC members expect interest rates to stay low through 2014.

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 Oklahoma and Regional Economies

- Oklahoma economic growth remains as strong as about anywhere in the country.

- The relative strength reflects solid energy, manufacturing, and real estate sectors.

- Europe is less of a direct risk to the state, but declining energy prices are a concern.
There remains considerable variation in economic strength in the nation and region.

Employment Growth, Year-over-Year (percent)
May 2012

Source: U.S. Bureau of Labor Statistics
Employment in Oklahoma is back above pre-recession levels…if Tulsa is excluded.

Source: U.S. Bureau of Labor Statistics
OK unemployment is now quite low, but labor force dropouts are part of the reason

Unemployment Rates by State
Seasonally Adjusted

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LFPR = Labor Force Participation Rate

Source: Bureau of Labor Statistics
Unemployment is low in much of western, central, and southern Oklahoma

County Unemployment Rates
April 2012

Source: OK Employment Security Commission
Job growth in most Oklahoma sectors has been better than the nation

Oklahoma Employment Growth
May 2012

Percent change, year-over-year

Source: Bureau of Labor Statistics
Home prices have held up much better in Oklahoma than in the nation.
As a result, OKC and Tulsa home prices now match other regional cities.
Income fundamentals suggest Oklahoma is at less risk of future home price declines.

Home Prices and Per Capita Income Levels
Index: 2000=100

[Graph showing Home Price Index (HPI) and Per Capita Income (PCI) for U.S. and Oklahoma from 1995 to 2011.]

Source: FHFA, BEA
Overall, problem loans are much less elevated at Oklahoma banks than nationally.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
Looking ahead, purchasing managers in the region showed favorable optimism in May.

Tenth District Manufacturing Expectations
Six-Months Ahead, Seasonally Adjusted

Source: KC, Dallas FRB Manufacturing Surveys
Exports to Europe and especially Greece make up a much smaller share in OK.

2011 Exports as a Share of GDP

Source: WiserTrade, BEA
But Oklahoma energy activity is showing signs of slowing following recent strength.
Conclusions

- The U.S. economy continues to grow moderately, amid limited inflation, but with some concerns about Europe.

- Oklahoma economic growth and housing conditions remains better than the nation and region, but growth may be slowing.
Questions?

For more information about the Oklahoma economy, subscribe to the quarterly **Oklahoma Economist** at:

[www.kansascityfed.org/publications/research/oke](http://www.kansascityfed.org/publications/research/oke)