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

Enid Kiwanis Club
August 15, 2012

Megan Williams
Associate Economist, Oklahoma City Branch
Federal Reserve Bank of Kansas City
www.kansascityfed.org/oklahomacity
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
U.S. Economy and Monetary Policy

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

• Europe presents some risks going forward

• The range of views among FOMC members about monetary policy are relatively wide
U.S. GDP growth eased slightly in Q2, mostly due to slower consumer spending.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis
U.S. economic growth has slowed, with jobs and survey numbers the lowest since 2009.
The European Trilemma

- **Sovereign debt crisis** – Poor fiscal management and rising bond yields in some countries threaten fiscal sustainability.

- **Banking crisis** – A property bust in some markets and a decline in sovereign debt values have impaired the balance sheets of some Euro zone banks.

- **Slow growth and recession** – Tighter fiscal policy and financial conditions, plus the uncertain climate, is weighing on European growth
The impact on the U.S. of an intensification of the European crisis

- Long-term rates would fall and support U.S. economic activity
- Credit standards would likely tighten, so fewer households and businesses would have access to the lower rates
- Appreciation of the U.S. dollar would weigh on exporters
- Sharp fall in confidence and heightened uncertainty
Tenth District factory exports to Europe are declining, and China’s boost has lessened.

Tenth District Manufacturing Exports
Q1 2008 – Q2 2012

Percent change, year-over-year

Note – Q2 2012 includes April and May data only

Source: WISERTRADE
The “fiscal cliff” and political uncertainty are also weighing on the U.S. economy.

Estimated Impact on 2013 GDP
Worst Case

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

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

Sources: Goldman Sachs
Looking ahead, purchasing managers in the region were mostly optimistic in July.
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 Economy

- Oklahoma economic growth remains stronger than the nation, but has slowed

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

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

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

Scale
- 1.83 - 6.53
- 1.21 - 1.83
- 0.65 - 1.21
- -0.85 - 0.65

Source: U.S. Bureau of Labor Statistics
Except for Tulsa, employment in Oklahoma is back to or above pre-recession levels.
Unemployment is very low in northwest and southern Oklahoma

County Unemployment Rates
June 2012

Source: OK Employment Security Commission
But Oklahoma job growth has slowed since winter, across a number of industries.
Home prices continue to hold up much better in Oklahoma than in the nation.
Income fundamentals suggest Oklahoma is at less risk of future home price declines

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

Source: FHFA, BEA
Past due mortgages have eased a bit, but still remain well above pre-recession levels.

Share of Mortgages Seriously Delinquent
In foreclosure or over 90 days past due

Source: MBA
Oklahoma mortgages are made up of fewer prime loans than in the nation.
Oklahoma energy activity has been flat but fairly solid in the past year.
Conclusions

- Growth in the U.S. economy has slowed moderately, as concerns about Europe and politics have risen.
- Inflation has remained low, and monetary policymakers disagree about future paths.
- Oklahoma economic growth remains better than in the nation and region, but job growth has slowed recently.
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)