U.S. and Regional Economic Update

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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

- **2013 board of directors**
  - Jim Dunn (chair), Chairman, Mill Creek Lumber & Supply, Tulsa
  - Paula Bryant-Ellis, COO, BOK Financial Mortgage Group, Tulsa
  - Linda Capps, Vice Chairman, Citizen Potawatomi Nation, Shawnee
  - Michael Coffman, CEO, Panhandle Oil & Gas, Inc., Oklahoma City
  - Pete Delaney, Chairman & CEO, OGE Energy Corp., Oklahoma City
  - Doug Tippens, President & CEO, Bank of Commerce, Yukon
  - K. Vasudevan, Chairman, Service & Technology Corp., Bartlesville
The U.S. Economy and Monetary Policy
At mid-year, GDP was growing at about its long-term trend, but differed by sector.
Recent data suggest solid U.S. growth continued, with steady employment gains.

Still, the share of the population employed has not risen, as participation has dropped.

Source: Bureau of Labor Statistics
Both incomes and spending were growing solidly heading into the holiday season.
For the most part, U.S. industries growing the last 2 years are also growing this year.
National rig counts have slipped somewhat but still remain relatively high

U.S. Active Drilling Rig Count
Seasonally Adjusted

Oil
Natural Gas

Source: Baker Hughes
In its latest projections, the FOMC expected unemployment to continue to improve.
Inflation was expected to remain at or near its long-term target through 2016.
On interest rates, most FOMC participants expect little change until 2015.

Federal Funds Rate
Year-end target

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

Sources: Federal Reserve Board, FOMC
The Fed’s balance sheet has continued to grow

Federal Reserve Balance Sheet

- **Assets**
  - Treasury securities
  - MBS & agency debt
  - Short term lending, targeted lending programs, and rescue operations
  - Other

- **Liabilities**
  - Reserves
  - Other

Dollars, trillions

Source: Federal Reserve Board
The Regional Economy
Job growth varies across the nation, but generally lags in the Tenth Fed District.

Employment Growth, Year-over-Year (percent)
October 2013

Source: U.S. Bureau of Labor Statistics
The government shutdown had measurable negative impacts in several District states.

Federal Shutdown Economic Growth Reduction
Q4 2013

Source: Wells Fargo Securities, Pew Center
Most District industries grew similarly to the nation but some, including energy, lagged.
Still, unemployment throughout the Tenth Fed District is lower than in the nation.

Unemployment Rates (percent)
October 2013

Source: U.S. Bureau of Labor Statistics
As in the nation, regional manufacturing activity improved in recent months.

**Manufacturing Composite Indexes**
Month-over-month, Seasonally Adjusted

Source: FRB Kansas City
And expectations for future regional factory activity remain relatively solid.
Drought conditions have improved markedly since last year, generally helping our region.
But with lower crop prices, expectations for farm income and spending have eased.
Meanwhile, year-over-year growth in regional farmland values remained in double digits.

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

Source: FRBKC Agricultural Credit Survey
Recent U.S. economic growth has been solid with low inflation, but policy uncertainty remains a concern.

Regional economic activity has been slightly weaker than the nation, due in part to federal government and energy.