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

East Central University
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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
State of the U.S. Economy
U.S. GDP rebounded in the first quarter, although government continued to drag.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
U.S. employment has grown fairly solidly in early 2013

In its latest projections, the FOMC expected unemployment to gradually improve.

Unemployment Rate
Seasonally Adjusted

Source: U.S. Bureau of Labor Statistics, FOMC
And for inflation to remain at or near its long-term target through 2015
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.

Source: U.S. Bureau of Economic Analysis, FOMC
Trends and Risks in the Local Economy
Unlike the U.S., employment in Oklahoma is above pre-recession levels.

Level of Payroll Employment
Through March 2013

Source: U.S. Bureau of Labor Statistics
But state job growth has slowed over the past year, especially in energy.

Oklahoma Employment Growth by Industry

Percent change, year-over-year

Source: Bureau of Labor Statistics
Pontotoc Co. has generally done better than other parts of the state, until recently.

Level of Household Employment
Through February 2013

Index: Jan-08=100

- U.S.
- OK
- Pontotoc County

Source: U.S. Bureau of Labor Statistics
Unemployment is below national levels in Pontotoc County, as in much of the state.

County Unemployment Rates
January 2013

Source: OK Employment Security Commission
County unemployment in Oklahoma appears to be correlated with drilling activity.

Oil and Gas Rig Counts
April 2013

Source: Baker Hughes
The area’s most distinctive industry is local government enterprises, followed by energy.

### Pontotoc County and U.S. Employment Share by Industry 2011

<table>
<thead>
<tr>
<th>Industry</th>
<th>Pontotoc County</th>
<th>U.S.</th>
<th>Location Quotient</th>
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</thead>
<tbody>
<tr>
<td>State &amp; Local Government</td>
<td>34.6</td>
<td>14.7</td>
<td>2.35</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>2.1</td>
<td>1.5</td>
<td>1.36</td>
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<tr>
<td>Education &amp; Health</td>
<td>14.8</td>
<td>15.2</td>
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<tr>
<td>Manufacturing</td>
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<td>Financial Activities</td>
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<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>15.1</td>
<td>19.9</td>
<td>0.76</td>
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<tr>
<td>Construction</td>
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<tr>
<td>Leisure &amp; Hospitality</td>
<td>7.3</td>
<td>10.7</td>
<td>0.69</td>
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<tr>
<td>Professional and Business Services</td>
<td>8.8</td>
<td>13.9</td>
<td>0.64</td>
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<tr>
<td>Federal Government</td>
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<td>2.3</td>
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<tr>
<td>Information</td>
<td>0.6</td>
<td>2.1</td>
<td>0.26</td>
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</tbody>
</table>

Note - Location quotient is the division of local employment share by national employment share.

Source: U.S. Bureau of Labor Statistics
Oklahoma also has a bigger exposure to sequestration than the nation.
And Oklahoma’s federal spending is more defense-related

Federal Spending as a Percent of State GDP
2010
The state’s exposure is concentrated in a few areas, mostly away from Pontotoc Co.
In agriculture, crop prices have moderated somewhat, but still remain favorable.
Drought conditions have improved, especially in southeast Oklahoma.
Regional farmland prices continue to grow, although OK growth has slowed lately.

**Tenth District Non-Irrigated Cropland Values**

Percent Change, Year-over-year

Source: FRBKC Agricultural Credit Survey
Problem loans are still elevated in OK, but much less so than in banks nationally.
Summary

- U.S. economic growth remains moderate after the fiscal cliff and ahead of sequestration
- Oklahoma economic activity remains stronger, but has slowed due to energy, and sequestration is a risk
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)