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
Q1 GDP numbers have been revised down twice, though housing remains strong.

Growth in Components of Real GDP, Q1 2013

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
Q2 data suggest slower growth, though employment gains have been solid.
In its latest projections, the FOMC expected unemployment to continue to improve.
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
When to begin tapering the rate of increase of the Fed’s balance sheet is a hot topic.
Mortgage and Treasury rates have jumped since May but remain below early ’11 levels.

Interest Rates

Source: Wall Street Journal, Federal Reserve Board
The Oklahoma Economy
State GDP growth was similar to the nation in ‘12, after outpacing in ‘11 and pre-crisis growth.
Employment in Oklahoma remains above pre-recession levels, driven by OKC

Level of Payroll Employment
Through June 2013

Index: Jan-08=100

Source: U.S. Bureau of Labor Statistics
Energy has been the biggest drag to non-metro Oklahoma job growth this year.
Rig counts have slipped somewhat but still remain relatively healthy.

Oklahoma Active Drilling Rig Count
Seasonally Adjusted

Number of rigs

Source: Baker Hughes
Although down from 2008 peaks, energy remains a huge part of the state economy.
OK has a higher share of its GDP from energy and government than the nation.

### Industry Share of GDP

**2012**

**U.S.**
- Ag: 6%
- Energy: 8%
- Transp. & Utilities: 12%
- Constr.: 9%
- Mfg: 14%
- Trade: 16%
- Info.: 8%
- Fin. Activities: 7%
- Prof. & Bus. Services: 12%
- Edc. & Health: 10%
- Leis. & Hospitality: 7%

**Oklahoma**
- Ag: 9%
- Energy: 17%
- Transp. & Utilities: 6%
- Constr.: 5%
- Mfg: 9%
- Trade: 16%
- Info.: 6%
- Fin. Activities: 8%
- Prof. & Bus. Services: 11%
- Edc. & Health: 6%
- Leis. & Hospitality: 7%

Source: Bureau of Economic Analysis
Sequestration is also taking a bite out of growth in several parts of the state.
Still, the official unemployment rate is now around 5 percent across most of Oklahoma.
And most counties remain well below the U.S. jobless rate, including Wash. Co.
But unemployment can be measured several ways, giving several views of labor markets.

Alternative Measures of Labor Underutilization
Average, from 2012Q2 – 2013Q1

<table>
<thead>
<tr>
<th>Category</th>
<th>U.S.</th>
<th>OK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officially unemployed &gt; 15 weeks</td>
<td>4.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Official unemployment rate</td>
<td>7.9</td>
<td>5.2</td>
</tr>
<tr>
<td>Plus discouraged and marginally-attached</td>
<td>9.4</td>
<td>6.5</td>
</tr>
<tr>
<td>Plus part-time involuntarily</td>
<td>14.5</td>
<td>9.8</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Labor Statistics
Job growth in Bartlesville has resembled the nation lately after outperforming pre-2011.
The local area’s most distinctive industry is energy, which has generally been good.

Washington County and U.S. Employment Share by Industry 2011

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Employment</th>
<th>Location Quotient</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Washington County</td>
<td>U.S.</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>20.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>20.4</td>
<td>19.9</td>
</tr>
<tr>
<td>Education &amp; Health</td>
<td>15.3</td>
<td>15.2</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>10.3</td>
<td>10.7</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
<td>12.2</td>
<td>14.7</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>4.5</td>
<td>5.9</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>9.4</td>
<td>13.9</td>
</tr>
<tr>
<td>Construction</td>
<td>2.5</td>
<td>4.4</td>
</tr>
<tr>
<td>Information</td>
<td>0.8</td>
<td>2.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.3</td>
<td>9.4</td>
</tr>
<tr>
<td>Federal Government</td>
<td>0.5</td>
<td>2.3</td>
</tr>
</tbody>
</table>

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

Source: U.S. Bureau of Labor Statistics
Conclusions

• U.S. economic growth has been moderate in 2013, driven largely by fiscal policy and uncertainty

• Oklahoma economic activity has leveled off lately but remains solid, including in Bartlesville