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
While U.S. GDP contracted in Q4, there were positive signs from investment.
U.S. employment and business activity has grown fairly solidly in early 2013.
Federal budget cuts are evenly split between defense and nondefense

### Total Sequestration Budget Cuts

<table>
<thead>
<tr>
<th>Programs</th>
<th>Reduction in budgetary resources (billions of $)</th>
<th>Percentage reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Defense</strong></td>
<td></td>
<td></td>
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<tr>
<td>Discretionary</td>
<td>42.7</td>
<td>7.9</td>
</tr>
<tr>
<td>Mandatory</td>
<td>*</td>
<td>7.8</td>
</tr>
<tr>
<td>Total</td>
<td>42.7</td>
<td>7.9</td>
</tr>
<tr>
<td><strong>Nondefense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discretionary</td>
<td>28.7</td>
<td>5.3</td>
</tr>
<tr>
<td>Medicare spending subject to 2 percent limit</td>
<td>9.9</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>5.8</td>
</tr>
<tr>
<td>Total</td>
<td>42.7</td>
<td>4.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>85</td>
<td></td>
</tr>
</tbody>
</table>

Sources: CBO
GDP projections changed little after fiscal cliff deal; sequester has more effect

Real GDP Projections

Percent change, quarter-over-quarter (SAAR)

Sources: Blue Chip Economic Indicators, Macroeconomic Advisors
In its latest projections, the FOMC expected unemployment to gradually 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.

Note – Number of participants who project the initial increase will occur in the specified year in parenthesis.
Trends and Risks in the Local Economy
Unlike the U.S., employment in Oklahoma is above pre-recession levels
Job trends have differed geographically, with the OKC metro holding up best.
But state job growth has slowed over the past year, especially in energy.

Source: Bureau of Labor Statistics
Oklahoma also has a bigger exposure to sequestration than the nation.

Federal Spending as a Percent of State GDP
2010

Source: Wells Fargo Securities, Pew Center
And Oklahoma’s federal spending is more defense-related

Federal Spending as a Percent of State GDP
2010

Source: Wells Fargo Securities, Pew Center
The state’s exposure to federal cuts is concentrated in just a few areas
But residential construction has increased, driven by higher sales and lower inventories.
Home prices have held up considerably better than in the nation as a whole.
Problem loans are still elevated in OK, but much less so than in banks nationally.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
Summary

- U.S. economic growth remains moderate with disagreement continuing on fiscal and monetary policy.

- Oklahoma economic activity remains stronger but has slowed due largely to energy, and sequestration is a risk.
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)