The Fed and Oklahoma’s Economy: Past and Present

Evening at the Fed
November 13, 2013

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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
  • Research on U.S. and Oklahoma economies
  • Economic and financial education outreach
  • Examinations of Oklahoma financial institutions

• 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
Senator Robert Owen of Oklahoma and the Fed’s Formative Years
Key events in Owen’s early life and career

• 1856: Born in Lynchburg, VA; father a railroad executive, mother a Cherokee citizen

• 1873: Panic of 1873 destroys family’s wealth; Owen’s father dies later that year

• 1879-80: Moves to Indian Territory with mother, admitted to bar as attorney at law

• 1885-89: Serves as the federal agent for the Five Civilized Tribes of Indian Territory

• 1890: Receives the first national bank charter in Indian Territory; opens First National Bank of Muskogee, is its president for 10 years

• 1893-97: Bank narrowly survives the Panic of 1893 and subsequent economic depression
The Panic of 1893—and the depression that followed—hit the middle of the country hard.
Owen in the decades after the Panic

- **1898**: Travels personally to the central banks of England, France, Germany, and Canada to learn how central banking might work in the United States
- **1900-1906**: Runs private law practice and becomes increasingly involved in politics
- **1907**: Elected as one of Oklahoma’s first two U.S. Senators; the Panic of 1907 enhances the push for a new central bank in the United States
- **1907-1912**: Focuses attention on banking issues in first of three U.S. Senate terms
- **1913**: Named the first chairman of the new Senate Banking Committee; is Senate sponsor of the Federal Reserve Act, which is signed into law on Dec. 23
Owen’s proposal for a new U.S. central bank most closely resembled the actual Fed

<table>
<thead>
<tr>
<th>Author</th>
<th>Proposal</th>
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<tbody>
<tr>
<td>--20 or more regional reserve banks</td>
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</tbody>
</table>
| Sen. Robert Owen (OK) Chairman, U.S. Senate Banking Committee | --National currency board, appointed by federal government  
|--8 regional reserve banks |
| Hon. William McAdoo U.S. Secretary of the Treasury | --Government central bank within the Treasury Department  
|--No regional reserve system |

Source: Federal Reserve Bank of KC
A new exhibit at the Oklahoma History Center honors Robert Owen

- **New exhibit open to the general public:**
  - Starting October 17 at the Oklahoma History Center
    - Robert Owen exhibit on third floor
    - OKC Fed branch exhibit in first floor library

- **For more on Owen and the early Fed:**
  - See this new article in the Kansas City Fed’s *Economic Review*:
The U.S. Economy, 100 Years Later
At mid-year, GDP was growing at about its long-term trend, but differed by sector.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
October data suggest faster U.S. growth, and employment gains remain 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 2016

PCE Inflation Index

Percent change, year-over-year

Sept. FOMC Forecast Ranges in Yellow
Long Term

Source: U.S. Bureau of Economic Analysis, FOMC
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.
The Oklahoma Economy, 100 Years Later
Employment in Oklahoma remains just above pre-recession levels, but has eased lately.

Source: U.S. Bureau of Labor Statistics
Energy jobs are down in OKC and rural OK, while most other sectors are up or mixed.

Metro Employment Growth by Industry
August 2013

Percent change year-over-year

Source: Bureau of Labor Statistics
Unemployment in most counties remains well below the U.S. rate.

County Unemployment Rates
August 2013

Source: OK Employment Security Commission
Rig counts have slipped somewhat but still remain relatively high

Oklahoma Active Drilling Rig Count

Source: Baker Hughes
And oil and gas production in the state has continued to increase.
Federal spending cuts could hurt some parts of Oklahoma much more than others

Ratio of Federal Government Share of Employment in County vs. Nation

2011

Source: U.S. Bureau of Labor Statistics
Drought conditions have improved since last year, helping some areas of the state

U.S. Drought Monitor, October 2012

U.S. Drought Monitor, October 2013

Intensity:
- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

Source: USDA
Residential construction has continued to increase, despite higher mortgage rates

Single-Family Housing Permits
Seasonally adjusted

Number of permits, 3-month moving avg.

Source: U.S. Census Bureau
And banking conditions in the state remain better than in the nation as a whole.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
High energy, government, and low high-tech activity make Oklahoma different from U.S.

### Oklahoma and U.S. Employment Share by Industry, 2012

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Employment</th>
<th>Location Quotient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>OK 3.7</td>
<td>U.S. 1.6</td>
</tr>
<tr>
<td>Federal Government</td>
<td>OK 3.1</td>
<td>U.S. 2.2</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
<td>OK 19.3</td>
<td>U.S. 14.4</td>
</tr>
<tr>
<td>Construction</td>
<td>OK 4.5</td>
<td>U.S. 4.4</td>
</tr>
<tr>
<td>Education &amp; Health</td>
<td>OK 14.5</td>
<td>U.S. 15.3</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>OK 18.7</td>
<td>U.S. 19.9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>OK 8.7</td>
<td>U.S. 9.4</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>OK 9.5</td>
<td>U.S. 10.8</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>OK 5.2</td>
<td>U.S. 5.9</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>OK 11.4</td>
<td>U.S. 14.1</td>
</tr>
<tr>
<td>Information</td>
<td>OK 1.5</td>
<td>U.S. 2.1</td>
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</tbody>
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Note - Location quotient is the division of local employment share by national employment share.

Source: U.S. Bureau of Labor Statistics
Summary

• 100 years ago, an Oklahoman was a key contributor to forming a regional Federal Reserve System

• The U.S. economy continues to grow moderately, with monetary policy accommodative

• The Oklahoma economy has slowed in 2013, especially in non-metro areas, but remains solid overall
Questions and Links

For more information about the Oklahoma City Branch of the Federal Reserve Bank of Kansas City, visit our website at:

http://www.kansascityfed.org/oklahomacity/

For more information about the Oklahoma economy, subscribe to the quarterly Oklahoma Economist at:

www.kansascityfed.org/publications/research/oke