The Federal Reserve and the Economy

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www.kansascityfed.org/oklahomacity
The first two national banks, 1791-1836

The need for a standard currency

The Federal Reserve System is created in 1913 by President Woodrow Wilson

The Fed opened for business in 1914 across 12 different cities
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
Trends and Risks in the U.S. Economy
U.S. employment and business activity has grown fairly solidly in early 2013.
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

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

Percent

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
Closer to Home
Employment in Oklahoma is above pre-recession levels, driven by Oklahoma City.

Level of Payroll Employment
Through May 2013

Index: Jan-08=100

Source: U.S. Bureau of Labor Statistics
The official unemployment rate is now below 5 percent across most of Oklahoma.

Unemployment Rates
Not Seasonally Adjusted

<table>
<thead>
<tr>
<th>Location</th>
<th>Apr-12</th>
<th>Apr-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>8.1</td>
<td>7.5</td>
</tr>
<tr>
<td>OK</td>
<td>4.6</td>
<td>4.4</td>
</tr>
<tr>
<td>OKC</td>
<td>4.2</td>
<td>4.1</td>
</tr>
<tr>
<td>Tulsa</td>
<td>5.1</td>
<td>4.7</td>
</tr>
<tr>
<td>Rest of State</td>
<td>4.6</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Labor Statistics
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>Measure</th>
<th>U.S.</th>
<th>OK</th>
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</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
Labor force participation dropped less in OK than the nation, and rose slightly in 2012

Source: U.S. Bureau of Labor Statistics
Given better job growth and participation, a higher share of Oklahomans are now working.
OK is much more concentrated in energy and federal government than the nation

<table>
<thead>
<tr>
<th>Industry</th>
<th>U.S.</th>
<th>OK</th>
<th>LQ*</th>
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</thead>
<tbody>
<tr>
<td>Energy</td>
<td>1.1</td>
<td>8.2</td>
<td>7.38</td>
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<tr>
<td>Proprietors</td>
<td>10.7</td>
<td>14.4</td>
<td>1.36</td>
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<tr>
<td>Federal Government</td>
<td>3.2</td>
<td>4.2</td>
<td>1.34</td>
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<tr>
<td>State Government</td>
<td>3.1</td>
<td>3.7</td>
<td>1.21</td>
</tr>
<tr>
<td>Trade, Transportation, &amp; Utilities</td>
<td>14.0</td>
<td>15.0</td>
<td>1.07</td>
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<tr>
<td>Local Government</td>
<td>8.1</td>
<td>8.6</td>
<td>1.06</td>
</tr>
<tr>
<td>Construction</td>
<td>4.8</td>
<td>4.7</td>
<td>0.97</td>
</tr>
<tr>
<td>Other Services</td>
<td>3.3</td>
<td>3.1</td>
<td>0.92</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9.1</td>
<td>8.3</td>
<td>0.91</td>
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<tr>
<td>Education &amp; Health Services</td>
<td>11.6</td>
<td>9.7</td>
<td>0.84</td>
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<tr>
<td>Leisure &amp; Hospitality</td>
<td>3.8</td>
<td>3.0</td>
<td>0.78</td>
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<tr>
<td>Farming</td>
<td>1.0</td>
<td>0.8</td>
<td>0.77</td>
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<tr>
<td>Professional &amp; Business Services</td>
<td>14.8</td>
<td>9.6</td>
<td>0.65</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>8.5</td>
<td>5.1</td>
<td>0.60</td>
</tr>
<tr>
<td>Information</td>
<td>3.0</td>
<td>1.6</td>
<td>0.54</td>
</tr>
</tbody>
</table>

*Location Quotient

Source: Bureau of Labor Statistics, Bureau of Economic Analysis
That has generally been a good thing the past 5 years, but we’ve leveled off recently
The pace of state job growth has slowed lately, especially in energy-related sectors.

Oklahoma Employment Growth by Industry

Percent change, year-over-year

Source: Bureau of Labor Statistics
Non-metro parts of the state have borne the brunt of energy-related cutbacks to date

Metro Employment Growth by Industry
May 2013

Percent change, year-over-year

Source: Bureau of Labor Statistics
Most current drilling activity is in far north or far west Oklahoma

Oil and Gas Rig Counts
April 2013
Sequestration is also taking a bite out of growth in several parts of the state.

Ratio of Federal Government Share of Employment in County vs. Nation
2011
Like ‘99, the recent tornado could provide a boost to construction in coming months.
U.S. economic growth remains moderate after the fiscal cliff deal and ahead of most federal cuts.

Oklahoma’s rate of growth has slowed due to largely to energy, and sequestration is a bigger risk.
Questions?

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

www.kansascityfed.org/publications/research/oke