The Federal Reserve, Monetary Policy, and Economic Indicators

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The Creation of the Fed

- 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
Map of Fed Districts
The Mission of the Fed

The Fed was created to:

- Influence the supply of money and credit through monetary policy
- Regulate and supervise financial institutions
- Provide financial services to local institutions
- Serve as a banking and fiscal agent for the U.S. government
Federal Reserve System Structure

**Board of Governors**
(7 members appointed by President, confirmed by Senate)

**Federal Open Market Committee**
(Board of Governors and five Reserve Bank Presidents)

**Advisory Councils**
- Consumer Advisory Council
- Federal Advisory Council
- Thrift Institutions Advisory Council

**Federal Reserve Banks**
(Twelve district Banks operate as arms of the central Bank)
The Basics of Monetary Policy
Monetary policy decisions are forward-looking

“Based on historical experience, the FOMC knows that policy changes made today will affect economic growth and inflation with a lag of 6 or more months. So, the FOMC is largely concerned with what the economy might look like 6 months to 2 years ahead.”
Federal Open Market Committee

- FOMC meets eight times each year
- Reviews economic and financial conditions
- Determines appropriate stance of monetary policy
- Assesses the risk to its long-term goals of price stability and economic growth
- 12 voting members (seven Board of Governors, president of New York Fed, and four presidents from remaining 11 Federal Reserve Banks on a one-year rotating basis)
Monetary Policy Goals

**Inflation**
- Significant wage increases
- Significant price increases

**Recession**
- Significantly high unemployment
- Significantly shrinking business profits
Monetary Policy Tools

- Reserve requirements
- Discount rate
- Open market operations
Key Economic Indicators
GDP was strong in the second half of 2013, although partly due to growing inventories.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
Monthly data show similar strength in Q4, but a bit of a bumpy start to 2014.
Unemployment continues to fall and could reach long-term levels by 2015

Sources: U.S. Bureau of Labor Statistics, FOMC
Inflation was low in 2013 and is expected to rise to around its long-term target by 2015.
Most FOMC participants project the first federal funds rate increase in 2015.
The Fed’s balance sheet is now set to grow slightly slower in 2014 than in 2013.
Unlike the nation, employment has risen above pre-recession levels in Oklahoma.
In 2013, federal jobs fell across the state, but professional and service jobs rose.

Oklahoma Job Growth by Industry
Dec-13

Percent change year-over-year

Source: Bureau of Labor Statistics
But unemployment rates remain low through much of the state.
Rig counts have edged higher the last few months, driven by oil.

**Oklahoma Active Drilling Rig Count**
Seasonally Adjusted

Number of rigs

Source: Baker Hughes
And oil and gas production in the state has continued to increase.

Oklahoma Oil and Gas Production

- Thousand barrels/day
- Bcf/month

Source: EIA
Drought conditions have improved somewhat, helping some areas of the state.
Housing construction continued to improve in 2013 despite slightly higher rates.

Single-Family Housing Permits
Seasonally adjusted

Number of permits, 3-month moving avg.

Source: U.S. Census Bureau
Banking conditions in the state remain better than in the but stalled a bit in 2013
Want to Know More?

- Board of Governors of the Federal Reserve System
  - [www.federalreserve.gov](http://www.federalreserve.gov)

- Federal Reserve Bank of Kansas City
  - [http://www.kansascityfed.org](http://www.kansascityfed.org)

- Federal Reserve Education
  - [http://www.federalreserveeducation.org](http://www.federalreserveeducation.org)