Purposes and Structure of the Federal Reserve System

• **Overall purposes of the Fed are to promote:**
  • Maximum sustainable economic growth
  • Low and stable inflation
  • National financial stability

• **Mission areas:**
  • Monetary policy – most visible role to the public, usually
  • Bank regulation – including lender of last resort
  • Payments systems – cash, checks, electronic payments

• **Monetary policy is set by the 12-member FOMC:**
  • The Federal Open Market Committee meets every 6 weeks
  • Voting members consist of:
    • the 7 Governors in Washington;
    • the New York Fed President;
    • 4 of the 11 other Fed presidents on a rotating basis
Federal Reserve Districts and Office Locations
The Kansas City and Oklahoma City Offices

- **Headquarters in Kansas City**
  - Nearly 1,000 **staff** involved in all mission areas
  - **New building** officially opened in June 2008

- **Oklahoma City branch office**
  - **Staff and functions** – 35 staff involved in economic research, bank examinations, and public and community affairs
  - **Branch board of directors** – 7 members from around the state; provide anecdotal information in advance of each FOMC meeting

- **Oklahoma City branch board of directors**
  - **Chairman Richard Ratcliffe**, Chairman, Ratcliffe’s Textbooks, Weatherford
  - **Steve Agee**, President, Agee Energy, and Professor, OCU, Oklahoma City
  - **Terry Almon**, President, Oklahoma Community Capital Corp., Broken Arrow
  - **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
  - **Doug Tippens**, President and CEO, Canadian State Bank
  - **Fred Ramos**, President, RGF, Inc., Oklahoma City
The U.S. Economic Outlook

- U.S. economic activity has slowed considerably in recent months
- Credit and financial markets have improved but remain strained despite considerable government intervention
- Inflation pressures have eased
Only exports and government spending showed positive growth in Q3.

Growth in Components of GDP

Percent change from the previous period

- Total GDP
- Consumer spending
- Residential investment
- Business investment
- Exports
- Government spending

Source: U.S. Bureau of Economic Analysis
Early fourth quarter data show continued weakness

National Business Indexes and Payroll Employment

Change from previous month, thousands

Index

Payroll Employment (left axis)
ISM Manufacturing Index (right axis)
ISM Non-Manufacturing Index (right axis)

Economic conditions still vary widely, but growth is slowing across the country
Short-term credit conditions worsened in September but are beginning to ease.

Source: U.S. Bureau of Labor Statistics
Banks have sharply tightened standards on business and consumer loans.

Net Percentage of Banks Tightening Loan Standards

- C&I - Large to Medium Banks
- C&I - Small Banks
- Commercial Real Estate
- Credit Card Loans
- Other consumer Loans

Source: FRB Senior Loan Officer Survey
And nearly all banks have tightened standards on mortgage loans.
Meanwhile, inflation pressures have begun to ease after rising sharply earlier in the year.
Considerable uncertainty surrounds the near and intermediate-term outlook.

Gross Domestic Product

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis
Unemployment is expected to rise further

Source: U.S. Bureau of Labor Statistics
Meanwhile, inflation is expected to ease further.

Source: U.S. Bureau of Economic Analysis
The Oklahoma Economic Outlook

- Oklahoma job growth has weakened, but is still outperforming the nation.
- Housing and banking activity remains stable, but layoff announcements are rising, particularly in manufacturing.
- The national situation bears watching, as do recent declines in oil and gas prices.
Oklahoma job growth has slowed but remains well above the national average.

Nonfarm Payroll Employment Growth

Year-over-year percent change

Source: U.S. Bureau of Labor Statistics
But job growth is minimal outside the energy and nonresidential construction sectors.

Employment Growth by Industry
October 2008

Source: U.S. Bureau of Labor Statistics
Unemployment claims have risen in recent months after lagging the nation.

Weekly Unemployment Insurance Claims

Percent change from a year ago

-40  -20   0   20   40   60   80
Aug-07 Sep-07 Oct-07 Nov-07 Dec-08 Jan-08 Feb-08 Mar-08 Apr-08 May-08 Jun-08 Jul-08 Aug-08 Sep-08 Oct-08 Nov-08*

Initial sub-prime loan crisis  Bear Stearns rescue  Current credit crisis (& falling energy prices)

*Average of first two weeks

Source: U.S. Bureau of Labor Statistics
Recent layoff announcements suggest further increases in unemployment heading forward.

Oklahoma Hiring and Layoff Announcements

Source: Federal Reserve Bank of Kansas City
Oil and gas prices have also come down considerably in recent months

Source: Baker-Hughes
And expectations for farm capital spending have dropped in Oklahoma.
So far, foreclosures have been relatively low in Oklahoma compared to the nation.
Oklahoma home prices continued to grow through Q2 2008, even as U.S. prices fell.
House price fundamentals were also more in line in Oklahoma from 2000 to 2005.

Annual Growth in Per Capita Incomes and Home Prices
2000 - 2005

Source: U.S. Bureau of Economic Analysis, OFHEO
Summary

- U.S. and world economic conditions have deteriorated with tightening credit markets, and the outlook remains uncertain.

- Oklahoma conditions remain better, especially in housing and employment, but some recent high-frequency data have been worse.

- Efforts to boost U.S. economic growth should benefit Oklahoma, but commodity prices bear watching.