Purposes and Structure of the Federal Reserve System

**Overall goals:** promote sustainable economic growth; low and stable inflation; financial stability

- **Mission areas:**
  - Monetary policy
  - Bank regulation
  - Payments systems

- **Monetary policy is set by the 12-member Federal Open Market Committee (FOMC):**
  - Consists of 7 Governors in Washington, including Chairman Bernanke; the President of the New York Fed; and 4 of the other 11 Fed presidents on a rotating basis
  - The FOMC meets every 6 weeks to set policy
Federal Reserve Districts and Office Locations
The Federal Reserve in Oklahoma

- Branch office in downtown Oklahoma City has about 35 employees involved in economic research, bank regulation, and public and community affairs

- Our branch board of directors meets ahead of each FOMC meeting to share the latest information about business activity in the state:

  Richard K. Ratcliffe: Chairman, Ratcliffe’s Textbooks, Weatherford
  Steven C. Agee: President, Agee Energy, and Chairman, OERB, OKC
  Terry M. Almon: President, Oklahoma Community Capital Corporation
  James D. Dunn: Chairman, Mill Creek Lumber and Supply Co., Tulsa
  Steve Burrage: Chairman, FirstBank, Antlers
  Barry H. Golsen: Vice Chairman & President, LSB Industries, OKC
  Fred M. Ramos: Executive Director, State Hispanic Chamber of Commerce
The Committee took this action in view of a weakening of the economic outlook and increasing downside risks to growth. While strains in short-term funding markets have eased somewhat, broader financial market conditions have continued to deteriorate and credit has tightened further for some businesses and households. Moreover, incoming information indicates a deepening of the housing contraction as well as some softening in labor markets.

The Committee expects inflation to moderate in coming quarters, but it will be necessary to continue to monitor inflation developments carefully. Appreciable downside risks to growth remain.

--January 22 FOMC Statement
Overall inflation remains elevated, and core inflation has crept higher.

Source: U.S. Bureau of Labor Statistics
GDP growth has been stronger than expected but is forecasted to ease.

Source: U.S. Bureau of Economic Analysis
Strong business investment and exports have offset the continued slump in housing

Growth in Components of GDP Q3 2007

Percent change from previous quarter, annualized

Total GDP: 4.9
Consumer spending: 2.8
Residential investment: -20.5
Business investment: 9.3
Exports: 19.1
Government spending: 3.8

Source: U.S. Bureau of Economic Analysis
U.S. job growth has slowed recently, while Oklahoma continues to post moderate gains.

Source: U.S. Bureau of Labor Statistics
Unemployment has risen in both the U.S. and Oklahoma but is still low by historical standards.

**Unemployment Rates**
Seasonally Adjusted

- **U.S.**
  - Dec-06: 4.4
  - Dec-07: 5.0

- **OK**
  - Dec-06: 4.0
  - Dec-07: 4.5

Source: U.S. Bureau of Labor Statistics
Unemployment in Pottawatomie County is slightly above the state average, but still relatively low.
U.S. job weakness has been most evident in housing-related sectors

Employment Growth by Industry
December 2007

Percent change year over year

Source: U.S. Bureau of Labor Statistics
How is Oklahoma Different, and What Can that Tell Us about the State Outlook?

- Most defining industries are performing well
- Housing is in better shape
- Hiring plans remain generally solid
## The Ten Industries that Most Define Oklahoma

<table>
<thead>
<tr>
<th>Rank</th>
<th>Industry</th>
<th>Location Quotient 2005</th>
<th>Location Quotient 1990</th>
<th>Average Pay 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Oil &amp; gas</td>
<td>8.2</td>
<td>8.5</td>
<td>$66,972</td>
</tr>
<tr>
<td>2</td>
<td>Trade schools</td>
<td>4.5</td>
<td>4.0</td>
<td>$33,924</td>
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<tr>
<td>3</td>
<td>Gambling</td>
<td>3.4</td>
<td>1.0</td>
<td>$21,335</td>
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<tr>
<td>4</td>
<td>Farming</td>
<td>3.3</td>
<td>2.7</td>
<td>$5,559</td>
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<td>5</td>
<td>Auto rental</td>
<td>2.9</td>
<td>2.3</td>
<td>$43,266</td>
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<tr>
<td>6</td>
<td>Machinery mfg</td>
<td>2.7</td>
<td>2.1</td>
<td>$45,275</td>
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<tr>
<td>7</td>
<td>Rubber mfg</td>
<td>2.5</td>
<td>2.9</td>
<td>$52,368</td>
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<tr>
<td>8</td>
<td>Call centers</td>
<td>2.0</td>
<td>0.8</td>
<td>$25,838</td>
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<tr>
<td>9</td>
<td>Meat packing</td>
<td>1.9</td>
<td>0.9</td>
<td>$27,596</td>
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<tr>
<td>10</td>
<td>Military</td>
<td>1.9</td>
<td>2.6</td>
<td>$54,701</td>
</tr>
</tbody>
</table>

Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, Railroad Retirement Board
State oil and gas activity remains strong, and futures prices are high.
Regional farm incomes are rising and are expected to sustain further solid growth.

Farm Income and Capital Spending,  
Tenth Federal Reserve District

Diffusion Index*

Q4:07 Expectations

*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.

Source: FRBKC Agricultural Credit Survey
State factory activity continues to expand, and firms expect solid growth heading forward.
The near-term outlook for most of the state’s other defining industries is also good

- **Casinos and call centers** continue to open
- Travelers and businesses continue to **rent cars**
- **Military operations** continue worldwide
The decline in housing activity has leveled off somewhat in Oklahoma, unlike the nation.
Housing prices have been most affected in coastal and Great Lakes metro areas.
Hiring announcements in Oklahoma continue to outpace layoffs, a good sign heading forward.

**Oklahoma Hiring and Layoff Announcements**

![Bar chart showing hiring and layoff announcements from January 2007 to January 2008. The chart indicates that hiring announcements consistently exceed layoff announcements, suggesting a positive employment trend. The data is sourced from the Federal Reserve Bank of Kansas City.](chart-image-url)
While inflation has risen, national economic growth is slowing and credit and financial markets remain somewhat strained.

Oklahoma’s growth has held up better, boosted by strength in important industries and a more stable housing sector.

National growth forecasts for 2008 have been reduced, but Oklahoma seems poised for further moderate growth.