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 Steve Agee**, President, Agee Energy, and Professor, OCU, Oklahoma City
  - **Terry Almon**, President, Oklahoma Community Capital Corp., Broken Arrow
  - **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
  - **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
  - **Fred Ramos**, President, RGF, Inc., Oklahoma City
  - **Doug Tippens**, President and CEO, Canadian State Bank, El Reno
  - **K. Vasudevan**, Chairman, Service and Technology Corp., Bartlesville
The U.S. Economic Outlook

- U.S. economic activity has worsened markedly in recent months, pulling down all regions.
- Credit markets show signs of improving, but forecasters are calling for weak economic activity through much of 2009.
- Inflation pressures have eased, driven by falling energy prices and reduced wage pressures.
By the third quarter of last year, only exports and government were adding to U.S. growth.
And fourth quarter data showed a clear weakening of economic conditions.
Growth is now slowing across the country, though conditions still vary widely.
Short-term credit conditions are finally improving after worsening dramatically in September.
Still, bank lending standards on business and consumer loans have tightened.
Considerable uncertainty surrounds the near and intermediate-term economic outlook.
Unemployment is expected to rise further.
Meanwhile, inflation is expected to continue to ease after rising in early 2008.

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

- Oklahoma employment is now falling, though it is still outperforming the nation

- Housing activity remains fairly stable, but conditions in energy, agriculture, and manufacturing have weakened markedly

- The national situation bears watching, as do the direction of oil and gas prices
Oklahoma job growth has continued to outpace the nation

Source: U.S. Bureau of Labor Statistics
But growth through November was minimal outside of energy and construction

Employment Growth by Industry
November 2008

Percent change year over year

Source: U.S. Bureau of Labor Statistics
And unemployment claims are rising rapidly, changing the picture for the state

**Weekly Unemployment Insurance Claims**

Index: Dec-98=100; 3-month moving average

Source: U.S. Bureau of Labor Statistics
The rig count has fallen sharply in recent months and is expected to fall further.

Source: Baker-Hughes
Expectations for farm capital spending have also dropped in Oklahoma.

Source: FRBKC Agricultural Credit Survey
Manufacturing activity in the region has fallen off a cliff in recent months.

Note: 10J index is computed on ISM basis (50 = zero change)

Source: ISM, FRBKC Manufacturing Survey
Exports have dried up, and Oklahoma producers’ optimism has quickly vanished.
Most factories now plan to cut 2009 capital spending, in contrast to a few months ago.

Source: ISM, FRBKC Manufacturing Survey
Oklahoma home prices continued to grow through Q3 2008, even as U.S. prices fell.
So far, foreclosures have been relatively low in Oklahoma compared to the nation.

**Total Foreclosures, U.S. vs. Oklahoma**

Index: Jan 06=100

Source: Realty-Trac
House price fundamentals were 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. economic conditions have deteriorated with tightening credit, and the outlook is uncertain.
- Oklahoma conditions remain better, especially in housing, but some recent high-frequency data have been worse for the state.
- Efforts to boost U.S. growth should benefit Oklahoma, but commodity prices bear watching.