Purposes and Structure of the Federal Reserve System

- **Overall purposes of the Fed are to promote:**
  - Low and stable inflation
  - Maximum sustainable employment
  - National financial stability (in conjunction with others)

- **The primary functional areas of the Fed are:**
  - Monetary policy – typically the most well-known role to the public
  - Bank regulation – of bank holding companies, state Fed member banks
  - Payments systems – cash; electronic; bank for federal government

- **The Federal Reserve System consists of:**
  - Board of Governors: 7 members who are appointed by the U.S. President and confirmed by the Senate to serve 14-year terms.
  - Federal Reserve Banks: 12 Banks, each serving a unique district.
  - Federal Open Market Committee (FOMC): Consists of 12 voting members and 19 total members; sets national monetary policy
Federal Reserve Districts and Office Locations
The U.S. Economy

- The U.S. economy is growing again, with help from monetary and fiscal stimulus.

- But the strength of recovery is likely to be modest, due to a number of factors.

- With modest growth, inflation is expected to remain tame in the near term.
Third quarter GDP growth was quite positive, but was boosted by government stimulus.

Source: U.S. Bureau of Economic Analysis
Early reads on the fourth quarter show moderate growth but continued job losses.

Credit market conditions have improved but remain somewhat stressed
Heading forward, policy makers generally expect a gradual recovery.
But unemployment is expected to remain high for some time.
But unemployment is expected to remain high for some time
A list of reasons why U.S. recovery speed could be modest

- Some credit markets remain strained
- Consumers focus on repairing balance sheets and rebuilding wealth rather than spending
- Foreclosures and excess inventories continue to weigh on housing
- Problems in commercial real estate and general uncertainty restrain capital spending and hiring
With modest growth, inflation is expected to remain fairly moderate in coming years.
The Oklahoma Economy

- As usual in recessions, Oklahoma entered this recession later than the nation.
- Some mixed signs of stabilization have appeared, and fiscal stimulus is kicking in.
- But several risks remain in the state, especially the future path of energy prices.
Oklahoma has shed jobs rapidly in 2009 but perhaps a bottom has been reached.
The decline in jobs has been sharpest in non-metro areas of the state.
Jobs are down markedly from a year ago in many of the state’s industries.
New jobless claims are still high in Oklahoma, but have come down slightly in recent months.
Labor market conditions remain much better than in the nation

Unemployment Rate, October 2009

U.S. = 10.2
OK = 7.1

Rate (percent)
- 10.0 to 15.1
- 7.8 to 9.9
- 4.2 to 7.7

Source: Bureau of Labor Statistics
Oklahoma home prices have held up relatively well and appear to have stabilized.

Source: OFHEO
Manufacturing indexes for the state also show some improvement recently

Manufacturing Production Indexes
Seasonally adjusted

Note - 4th Quarter is October & November
Source: ISM, FRBKC Manufacturing Survey
And Oklahoma is receiving about as much fiscal stimulus as the nation

Per Capita Stimulus Package Spending
U.S. and Tenth District

Other social
Education
Other infrastructure
Transportation

Source: Wall Street Journal, July 1, 2009
Past due loans are rising at Oklahoma banks, but less than in the nation.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
So far, Oklahoma’s performance in this recession is consistent with history.

Average Recession Path, 1956-2006
Employment level 4 quarters before and 8 quarters after U.S. jobs peak

Indexed to U.S. jobs peak

Source: U.S. Bureau of Labor Statistics
With their shorter duration, Oklahoma’s job losses in U.S. recessions are usually smaller.

### Job Losses in Recessions, 1956-present

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Percent</th>
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<tbody>
<tr>
<td>1957-58</td>
<td>-3.8</td>
</tr>
<tr>
<td>1960-61</td>
<td>-3.8</td>
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<tr>
<td>1970</td>
<td>-2.1</td>
</tr>
<tr>
<td>1974-75</td>
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<td>1980</td>
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<td>1990-91</td>
<td>-1.6</td>
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<tr>
<td>2001-03</td>
<td>-1.7</td>
</tr>
<tr>
<td>Current</td>
<td>-1.7</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
The rig count appears to have bottomed following a steep fall.

Source: Baker-Hughes, Bloomberg
Agricultural conditions in the state remain rather weak, but also may have bottomed.
Farmland values in the state have flattened recently after rising rapidly in recent years.

Oklahoma Agricultural Land Values
Non-Irrigated Cropland

Percent change year-over-year

Source: KCFRB
But in the past five years, Oklahoma’s economy has become much less diversified.
Energy prices remain the primary risk relative to the nation

Source: Bloomberg
Summary

- The U.S. economy appears to have stabilized, but recovery is expected to be modest.

- Oklahoma also shows some stabilizing signs, and fiscal stimulus is kicking in.

- Still, a number of risks to growth remain, especially the future path of energy prices.