History and Structure of the Federal Reserve System

• Founded by Congress in 1913 as the nation’s third central bank, the Fed consists of 3 main entities:
  • Board of Governors: 7 members appointed by U.S. President
  • Federal Reserve Banks: 12 total; semi-independent by design
  • Federal Open Market Committee (FOMC): 19 members; 12 voting

• As with most central banks around the world, the Fed’s responsibilities fall within four general areas:
  • Monetary policy – control money supply to affect growth and inflation
  • Lender of last resort – provide liquidity in times of financial crisis
  • Bank regulation – ensure safety and soundness, consumer rights
  • Financial services – bank for banks, bank for federal government
Federal Reserve Districts and Office Locations
The Oklahoma City Branch Office of the Federal Reserve Bank of Kansas City

- **Branch staff and functions**
  - 35 staff involved in economic research, examining banks, and public outreach

- **2010 branch board of directors**
  - **Steve Agee (chairman),** President, Agee Energy, and Professor, OCU, OKC
  - **Bill Anoatubby,** Governor, Chickasaw Nation, Ada
  - **Jim Dunn,** Chairman, Mill Creek Lumber and Supply Company, Tulsa
  - **Jacque Fiegel,** Senior EVP and COO, Coppermark Bank, OKC
  - **Rose Washington Rentie,** Executive Director, TEDC Creative Capital, Tulsa
  - **Doug Tippens,** President and CEO, Bank of Commerce, Yukon
  - **K. Vasudevan,** Chairman, Service and Technology Corp., Bartlesville
Credit market conditions have improved, and the U.S. economy is growing again, but the recovery is expected to be moderate.

Inflation is expected to remain tame in the near term, but will require diligent actions to stay in check over the longer run.
Interbank lending markets have largely returned to normal in recent months.
And early 2010 data show continued improvement in the U.S. economy.

However, both business and consumer loan demand remain sluggish

Net Percentage of Banks Reporting Increased Loan Demand

Source: FRB Senior Loan Officer Survey
Credit standards have tightened recently, but were unchanged in Q1 2010

Net Percentage of Banks Tightening Loan Standards

Source: FRB Senior Loan Officer Survey
Heading forward, Fed policymakers generally expect a moderate recovery.

Gross Domestic Product

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
But for unemployment to remain high for some time
Inflation is expected to remain tame in the near term, but will require careful oversight.

PCE Inflation Index

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
The Oklahoma Economy

- As usual in recessions, Oklahoma entered this recession later than the nation—not joining until energy prices fell in late 2008.

- After steep declines for much of 2009, the state is showing recent signs of recovery—and conditions remain better than the nation.
Oklahoma usually enters recessions late but leaves around the same time as the nation.

**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
Oklahoma entered this recession 3 quarters late and appears to be leaving one quarter late.

*Initial Claims for Unemployment Insurance*

Index (Q1 2005=100)

*January & first half of February

Source: Bureau of Labor Statistics
So unemployment in Oklahoma is now lower than in all but 3 states (NE, ND, SD)

Unemployment Rate, December 2009

U.S. = 10.0
OK = 6.6

Rate (percent)

- 10.0 to 14.6
- 7.6 to 9.9
- 4.4 to 7.5

Source: Bureau of Labor Statistics
Home prices continue to ease nationally, but appear to have stabilized in Oklahoma.
And banks in the state remain in much better shape than in the nation.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Percent


Source: FDIC
The Manufacturing Sector

- National and state factory activity is rising again and is expected to rise further, but excess capacity and uncertainty remain.

- Hiring and spending plans remain cautious, and pricing power remains limited, but exports may provide future opportunities.
U.S. industrial production is rising, but much excess capacity remains.
As in the nation, factory activity in Oklahoma remains well below year-ago levels.

Source: FRBKC Manufacturing Survey
But recent national and state factory indexes show expansion is again underway

**Manufacturing PMI Indexes**
Seasonally Adjusted, 3-month moving avg.

Note: OK index is computed on ISM basis (50 = zero change)
Source: ISM, FRBKC Manufacturing Survey
Oklahoma production and hiring plans have increased, but capex plans remain sluggish.

Source: FRBKC Manufacturing Survey
The main reasons for holding back spending are low sales and low capacity utilization.

Top Reasons for Not Increasing Capital Spending
Share of firms choosing each reason, Jan. 2010

- Expected Low Sales Growth
- Low Capacity Util.
- Increased Econ./Fin. Uncertainty
- No Need To Replace Other Capital
- Decreased Cash Flow
- No Need To Replace IT Equip.
- Decreased Financing Conditions
- Outsourcing

Source: FRBKC Manufacturing Survey
A lack of pricing power may be another challenge for the state’s factories.
Longer-term, the U.S. trade imbalance provides an opportunity for manufacturing.
Exports are beginning to pick up again in Oklahoma and are expected to rise further.

Source: KCFRB Manufacturing Survey
The U.S. economy is growing again, but recovery speed is expected to be modest.

Oklahoma’s economy remains in better shape and is also showing signs of recovery.

Manufacturing both nationally and locally is rebounding moderately, and exports may present future opportunities.