

The Fed and the Economy in the U.S., Oklahoma, and Arkansas



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Overview of the Federal Reserve System

- **The “Fed” consists of three 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: 19 members--12 voting; new KC Fed President Esther George will be voting member in 2013

- **As with most central banks, the Fed’s primary responsibilities fall within four general areas:**
 - Lender of last resort – provide liquidity in times of crisis
 - Monetary policy – promote full employment and low inflation
 - Bank regulation – ensure safety and soundness of banks
 - Financial services – bank for banks, bank for federal govt.



Federal Reserve Districts and Office Locations



The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

- **History, staff, and functions**

- Branch office opened in 1920; currently have about 35 staff
- Functions include economic research, bank examinations, public outreach

- **2011 branch board of directors**

- **Steve Agee (chairman)**, Dean, Oklahoma City Univ. Business School, OKC
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber and Supply Co., 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



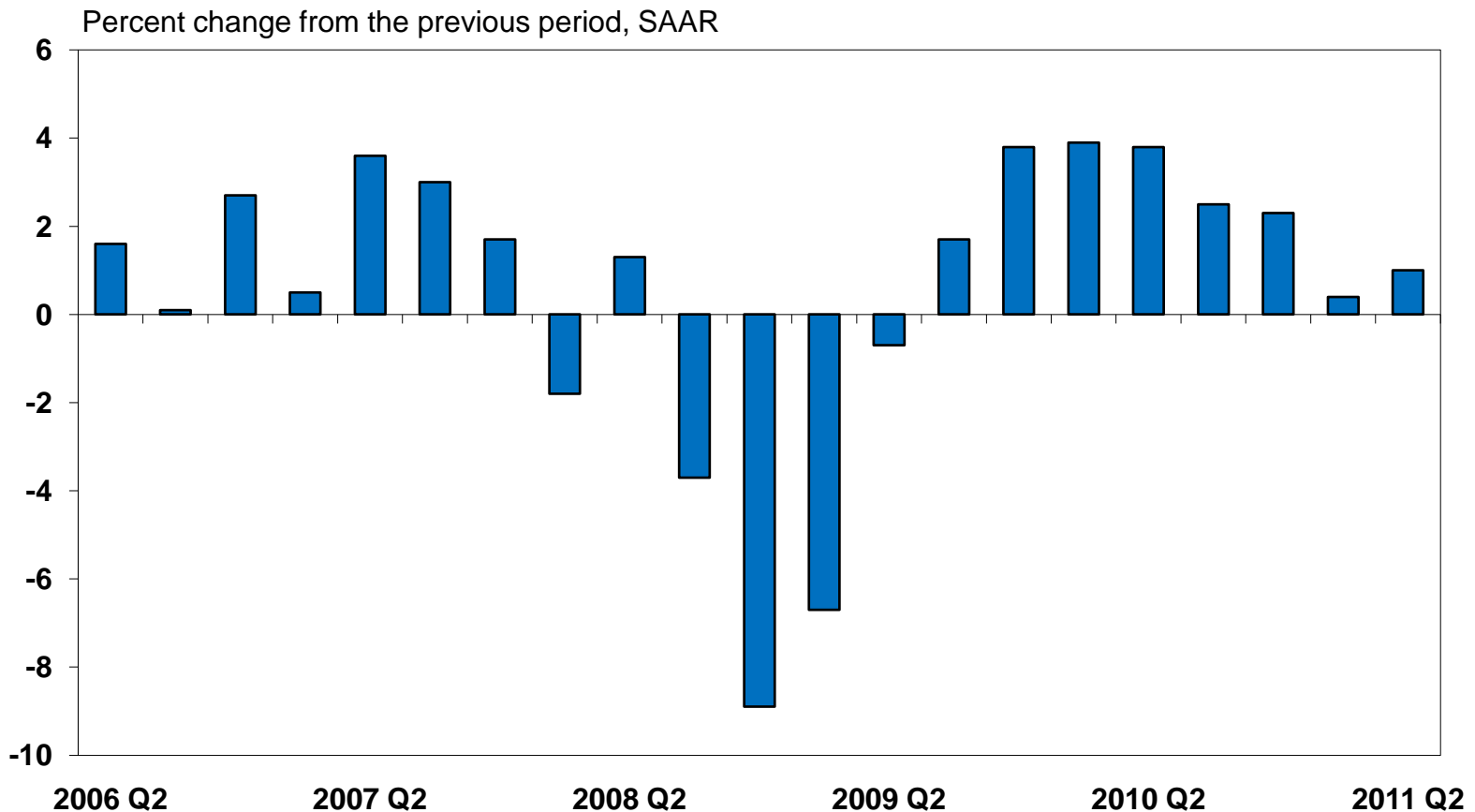
The U.S. Economy

- National economic data reveal some slowing in growth in 2011, but with sizable variation across the country
- Forecasts call for high unemployment and moderate inflation, and recent policy decisions have met with some dissent



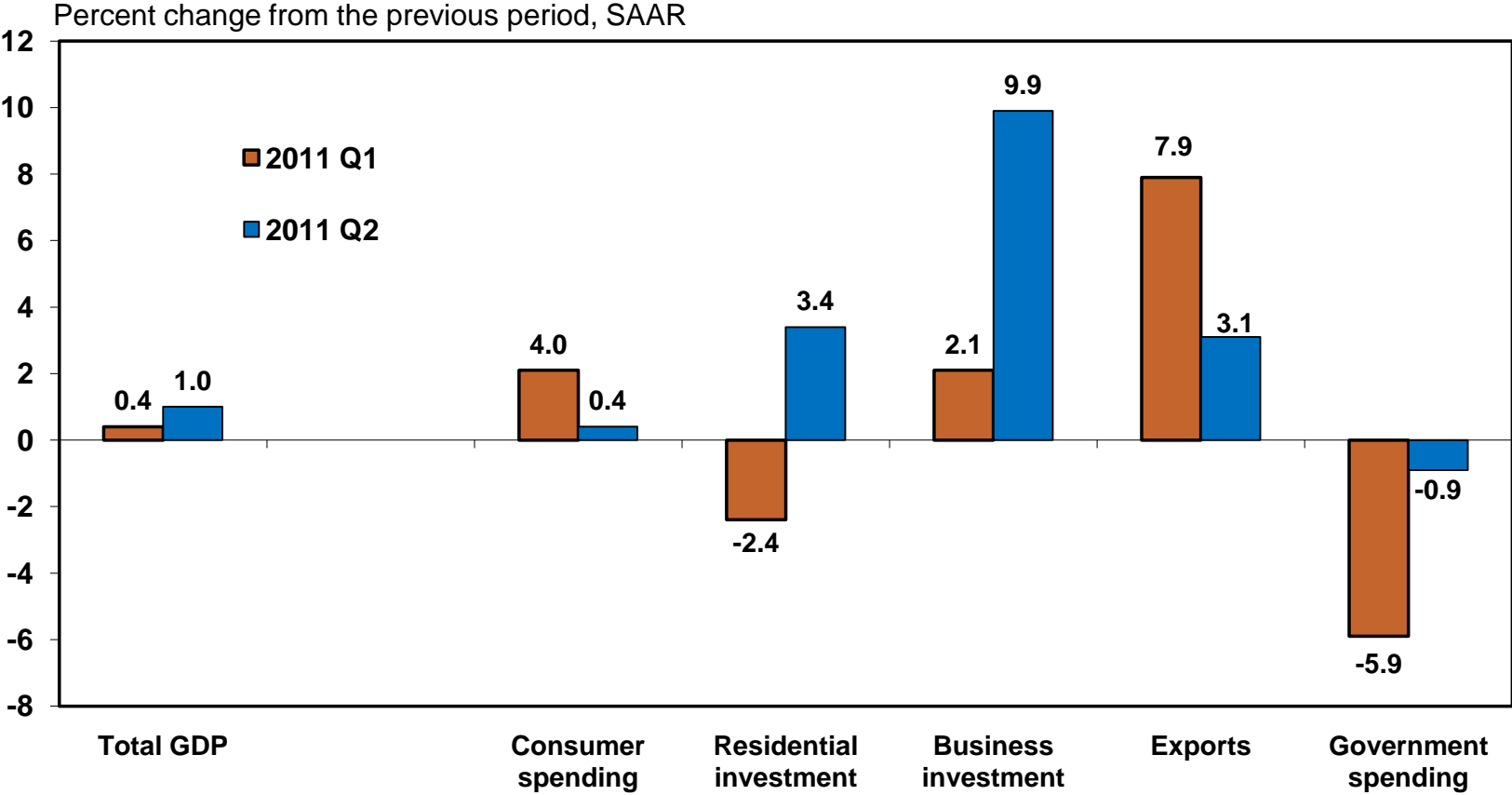
Real GDP growth has slowed in 2011, following solid growth in 2010

U.S. Real Gross Domestic Product



Business investment was big contributor, while consumers and governments dragged

Growth in Components of Real GDP

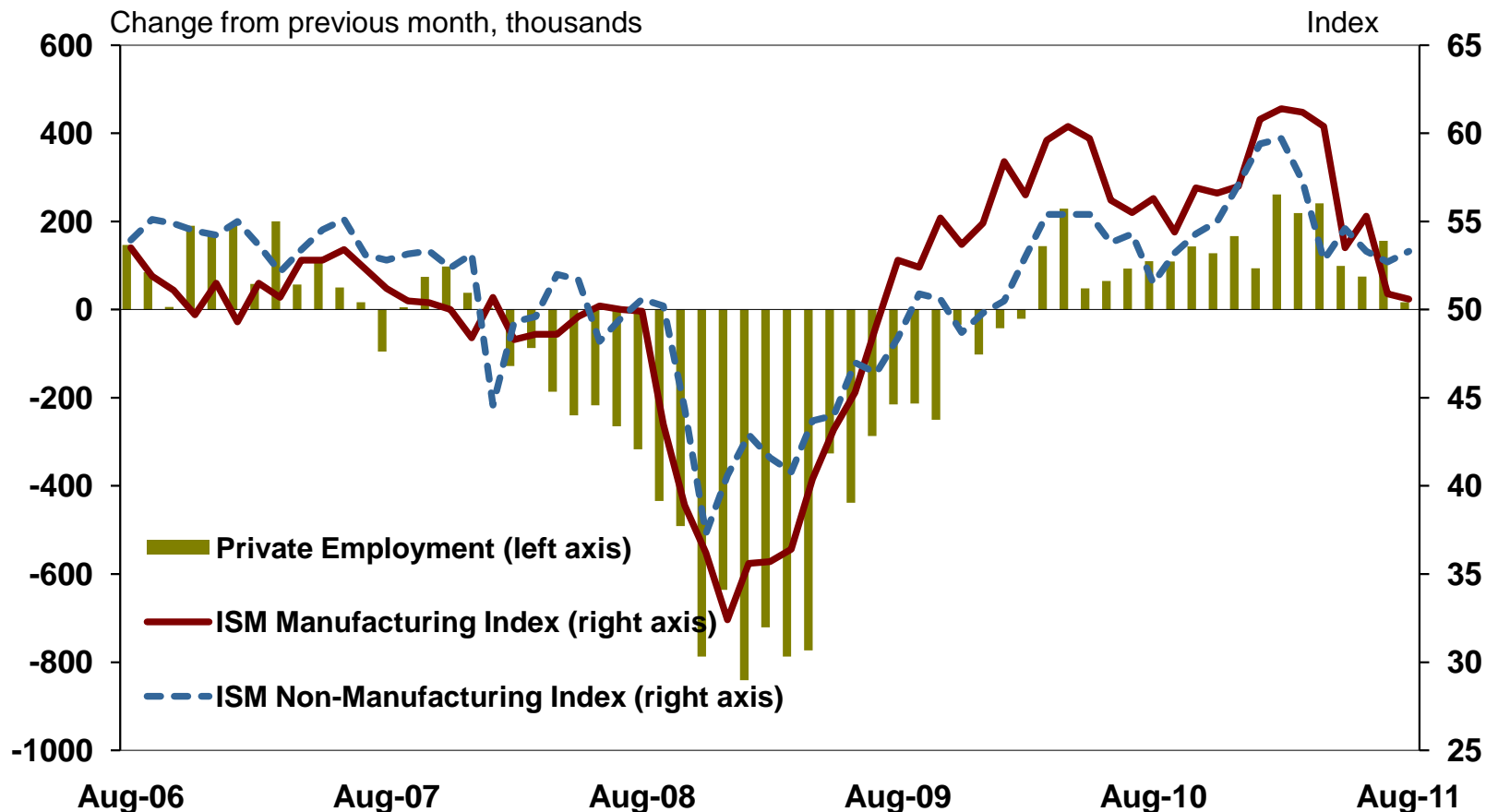


Source: U.S. Bureau of Economic Analysis



Q3 data have been mixed but indicative of modest overall U.S. economic growth

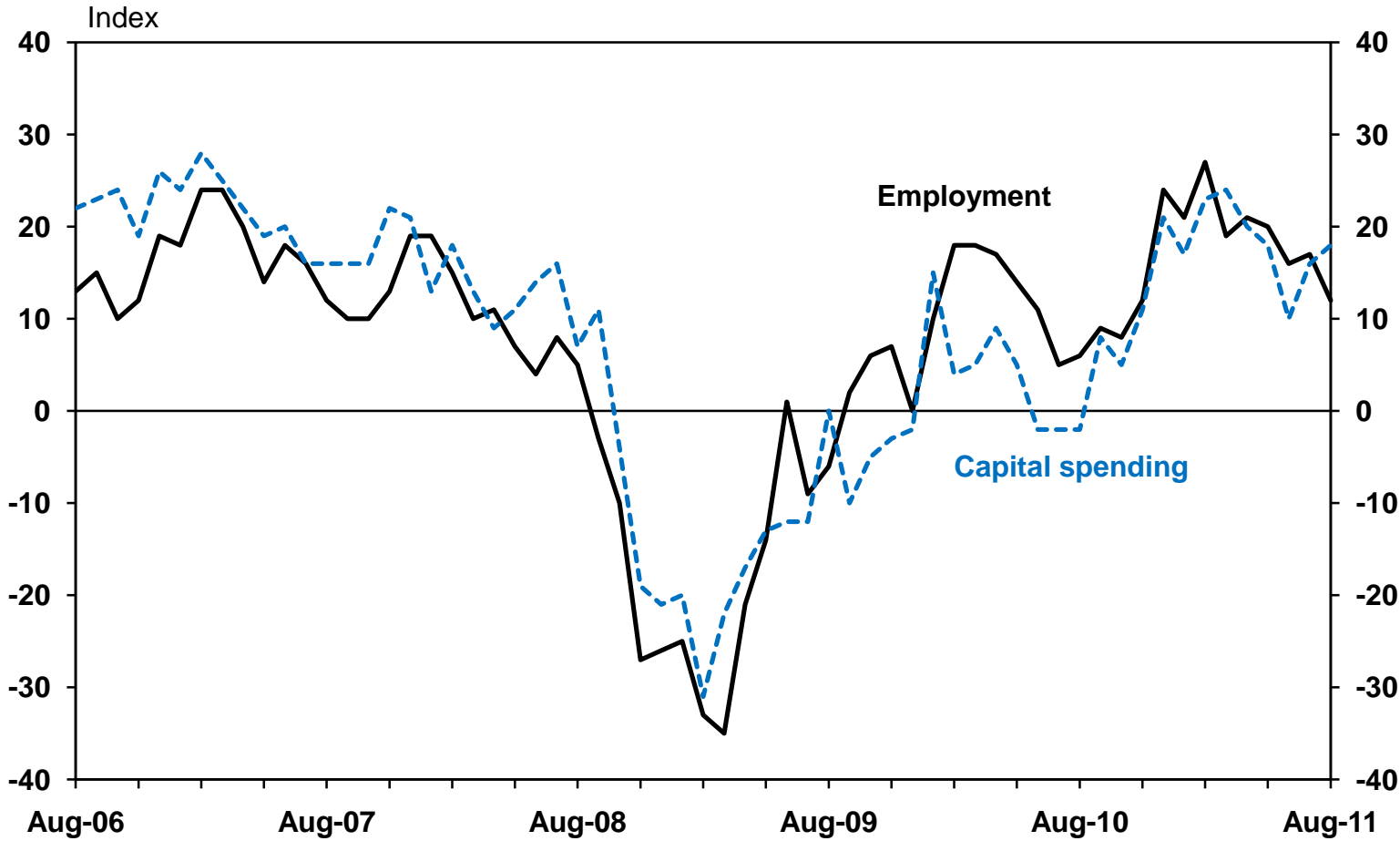
U.S. Private Payroll Employment and Business Indexes



Firms' hiring and investment plans remained relatively solid through the summer

Tenth District Manufacturing Survey Expectations

Net Share of Firms Planning to Expand in Next 6 Months



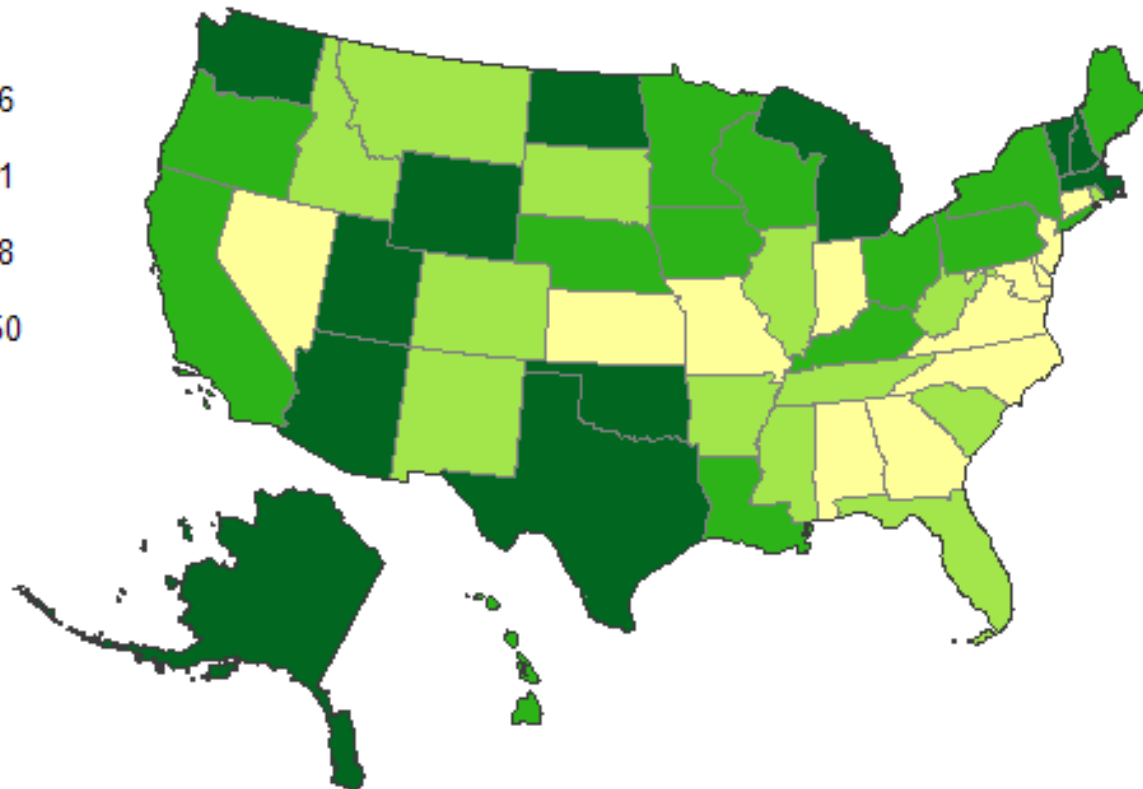
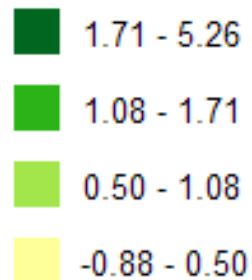
Source: KCFRB Manufacturing Survey



There is considerable variation in economic strength across the nation

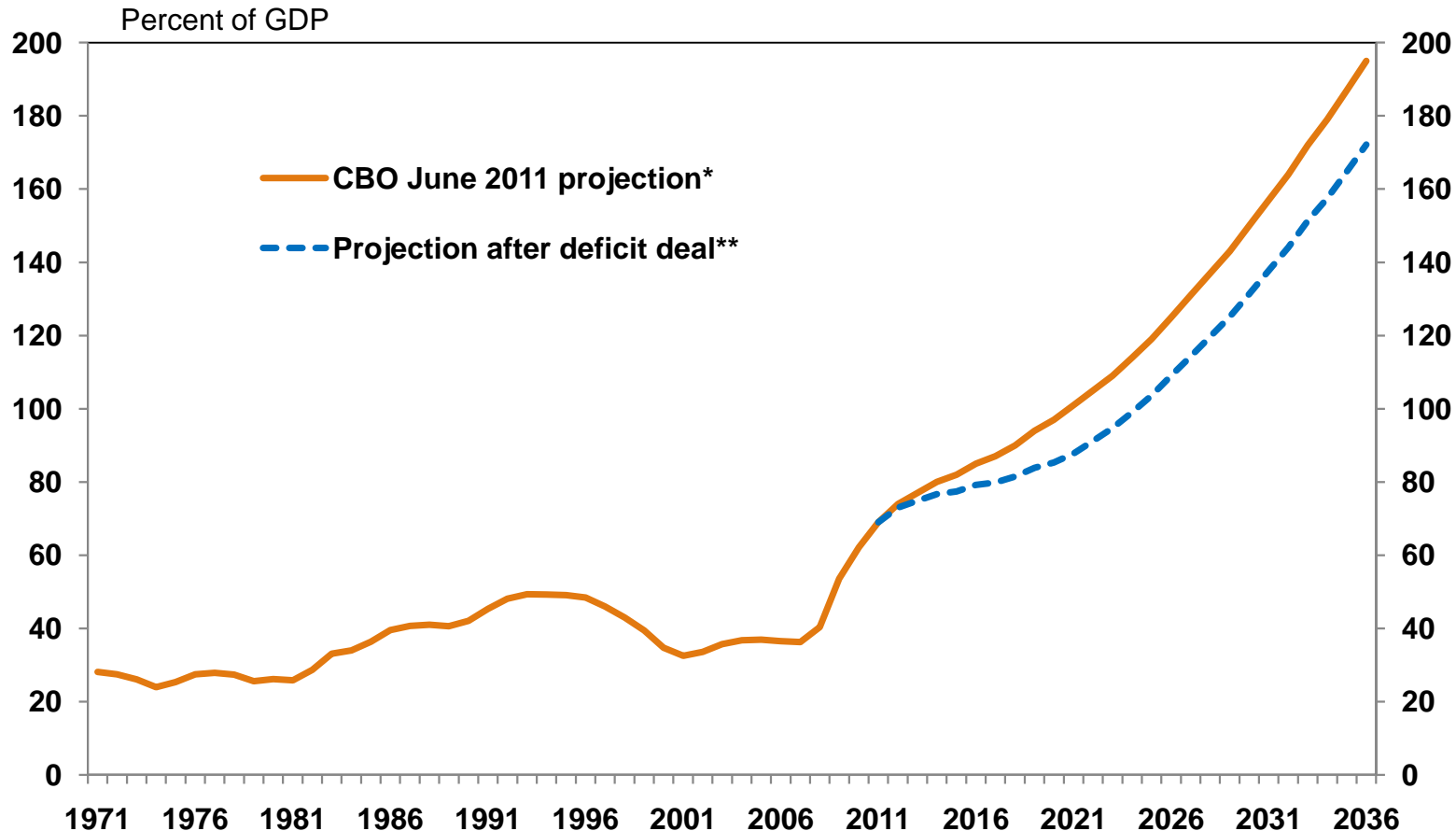
Employment Growth, Year-over-Year (percent) August 2011

Scale



U.S. government debt projections are still unsustainable, prompting a downgrade

CBO Federal Government Debt and Projections



* Alternative scenario

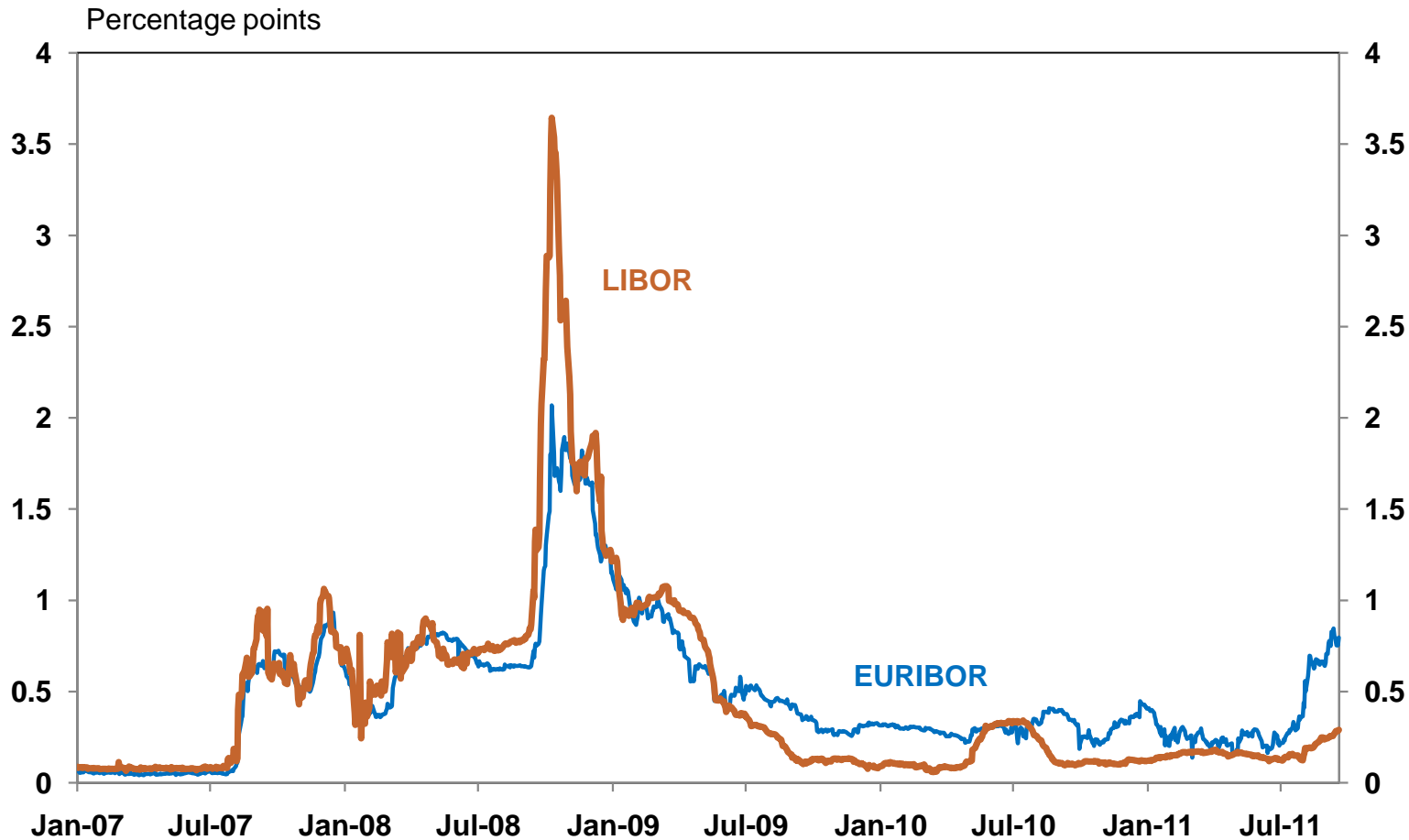
** FRBKC calculations based on limited information

Source: CBO



Meanwhile, financial strains are growing, especially in Europe

EURIBOR & LIBOR-OIS Spreads

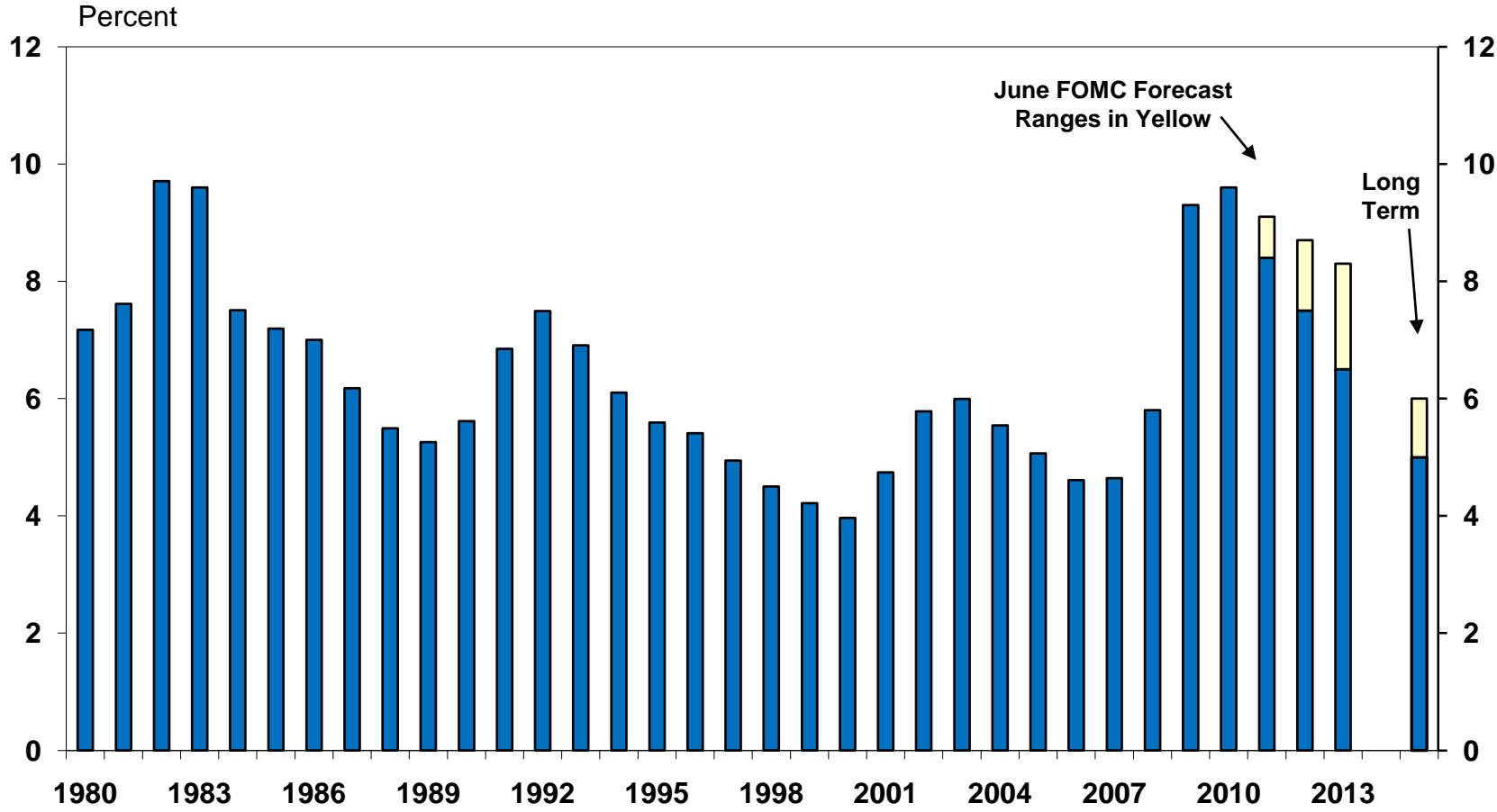


Source: Bloomberg



At its June meeting the FOMC forecast U.S. unemployment to come down only slowly

Unemployment Rate
Seasonally Adjusted

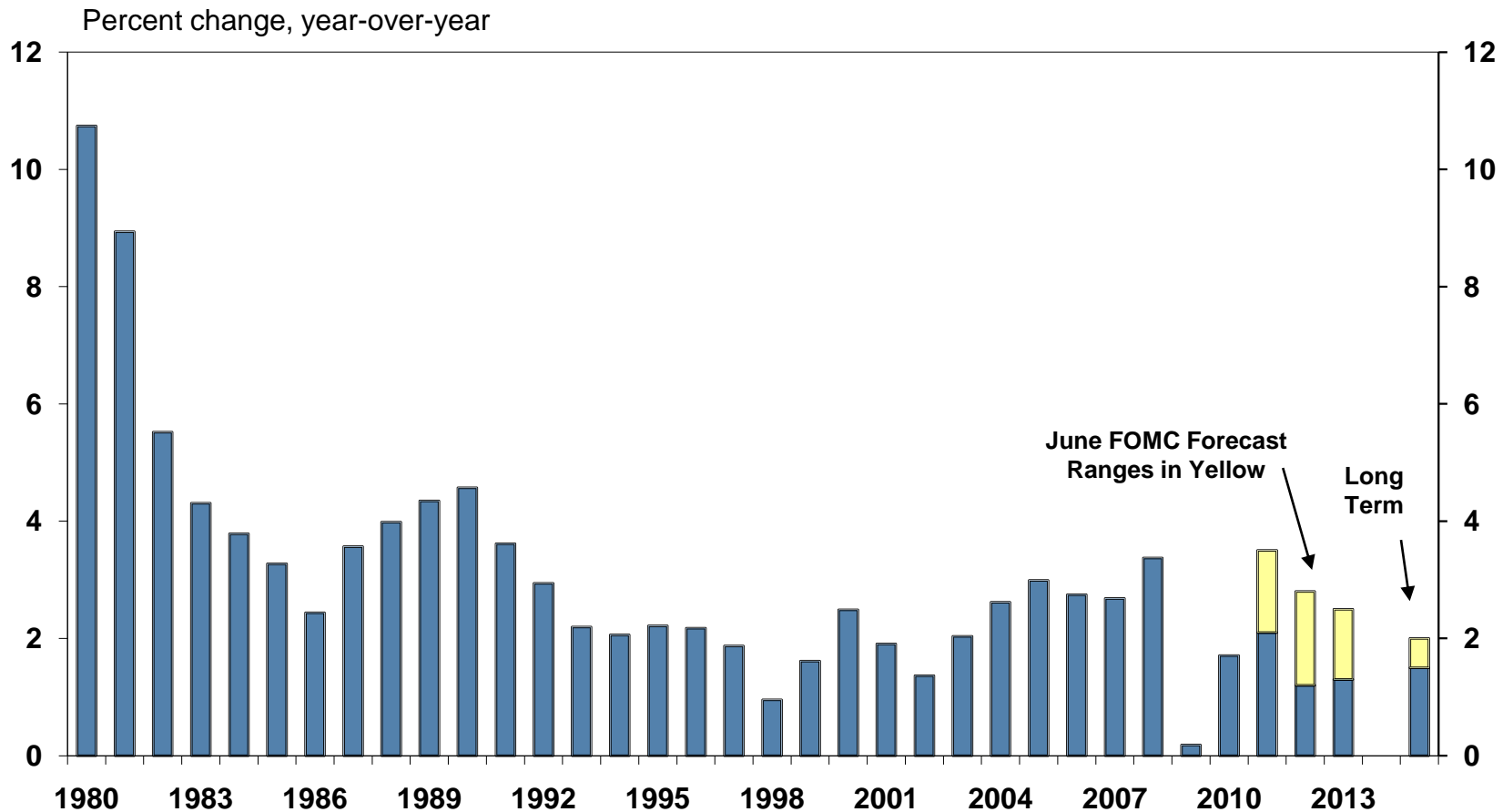


Source: U.S. Bureau of Labor Statistics, FOMC



And for inflation pressures to ease after rising with oil and food prices in 2011

PCE Inflation Index



September 21, 2011 FOMC Statement

“Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee continues to expect some pickup in the pace of recovery over coming quarters but anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Moreover, there are significant downside risks to the economic outlook, including strains in global financial markets. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate....”

“To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee decided today to extend the average maturity of its holdings of securities. The Committee intends to purchase, by the end of June 2012, \$400 billion of Treasury securities with remaining maturities of 6 years to 30 years and to sell an equal amount of Treasury securities with remaining maturities of 3 years or less. This program should put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative....”



Sept. 21, 2011 FOMC Statement (cont.)

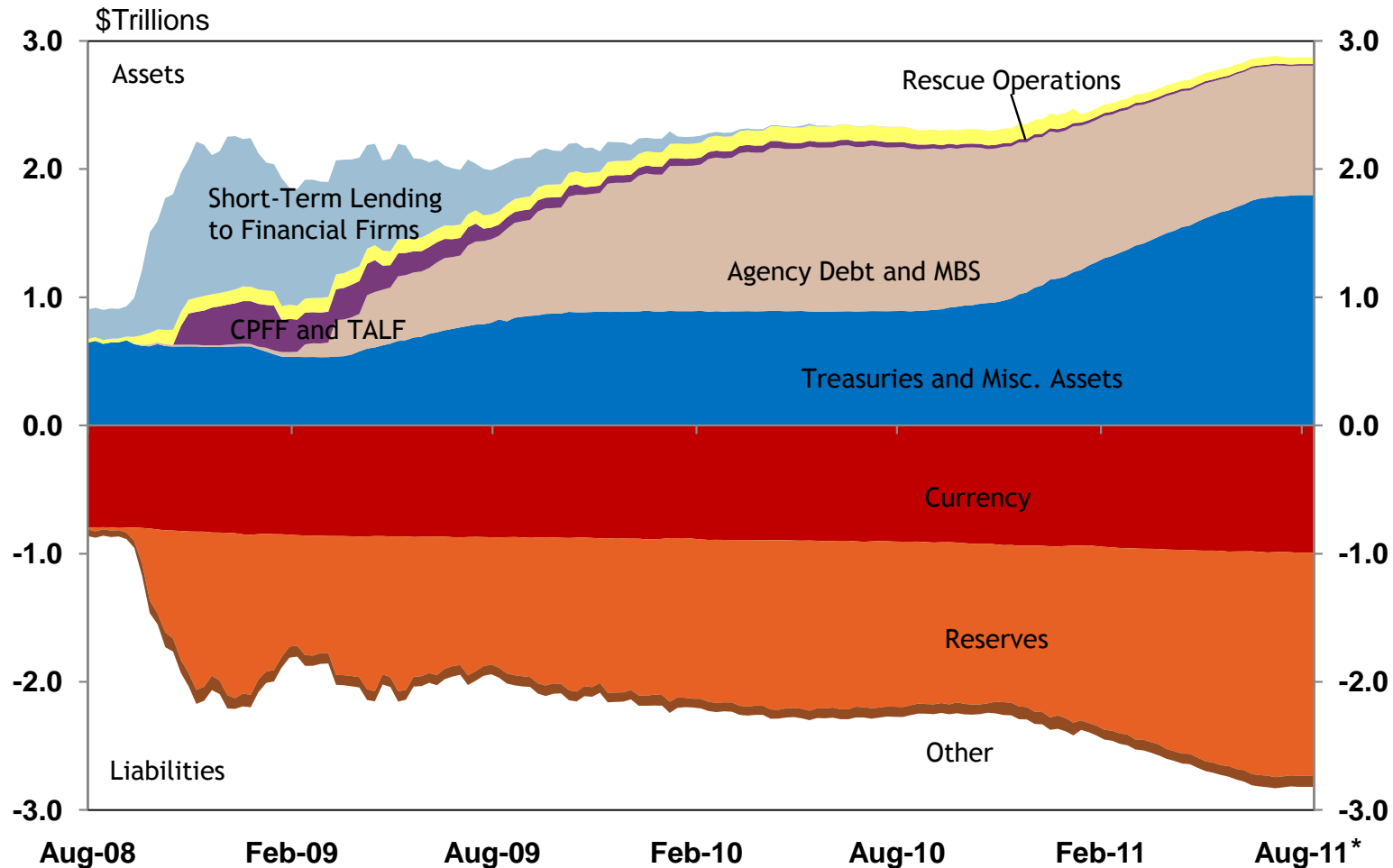
“To help support conditions in mortgage markets, the Committee will now reinvest principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. In addition, the Committee will maintain its existing policy of rolling over maturing Treasury securities at auction. The Committee also decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that economic conditions-- including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.

“Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Charles L. Evans; Sarah Bloom Raskin; Daniel K. Tarullo; and Janet L. Yellen. Voting against the action were: Richard W. Fisher, Narayana Kocherlakota, and Charles I. Plosser, who did not support additional policy accommodations at this time.”



The Fed's balance sheet will undergo a "twist," in more ways than one

Federal Reserve Balance Sheet



*Only contains one week of data

Source: Federal Reserve Board



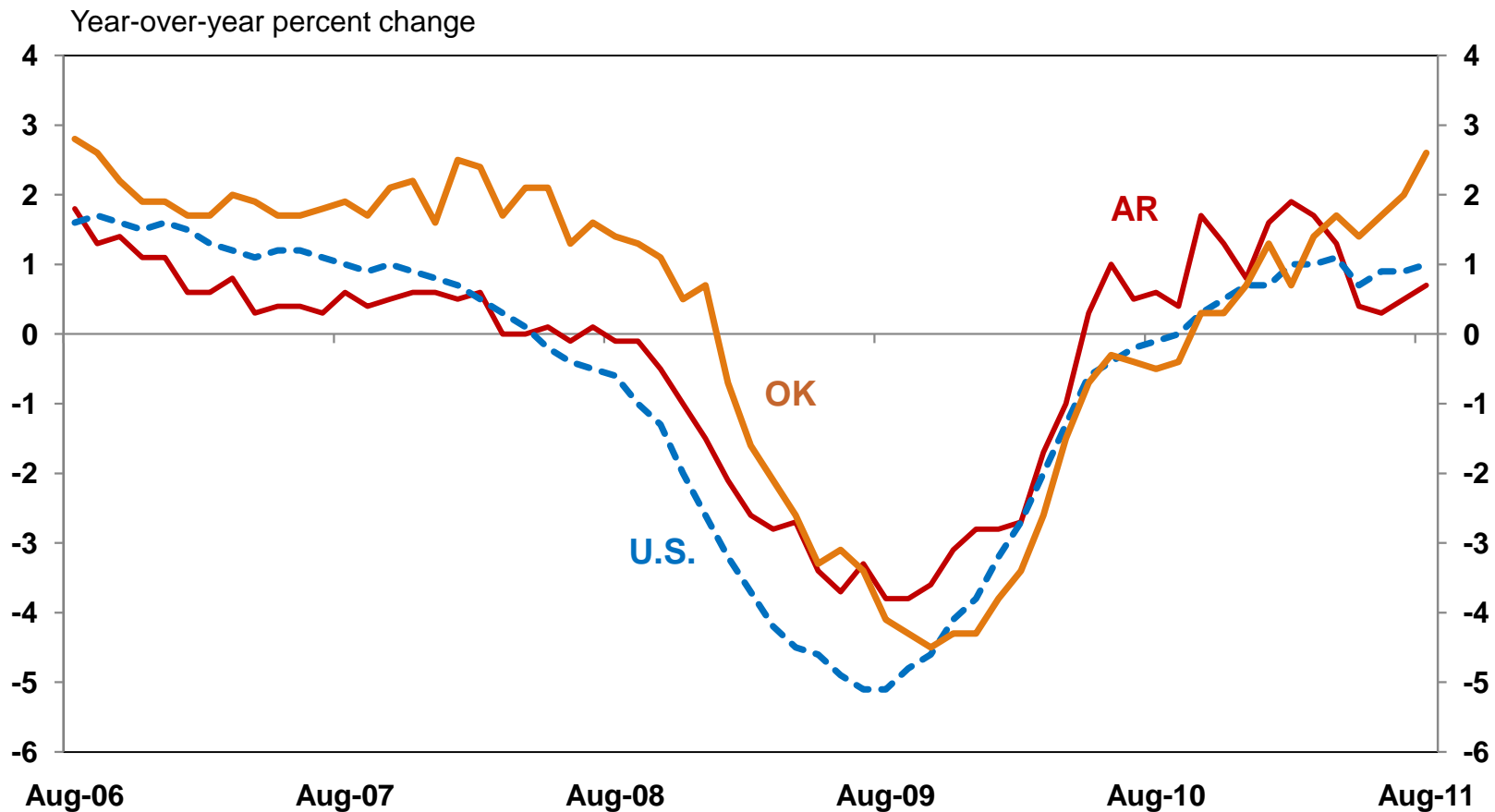
The Oklahoma and Arkansas Economies

- Oklahoma is doing about as well as any place in the country, driven largely by energy-related sectors
- Arkansas has seen a slowing in growth recently, but conditions remain better than in the nation



Oklahoma's jobs recovery has accelerated, while Arkansas' job growth has slowed

Payroll Employment



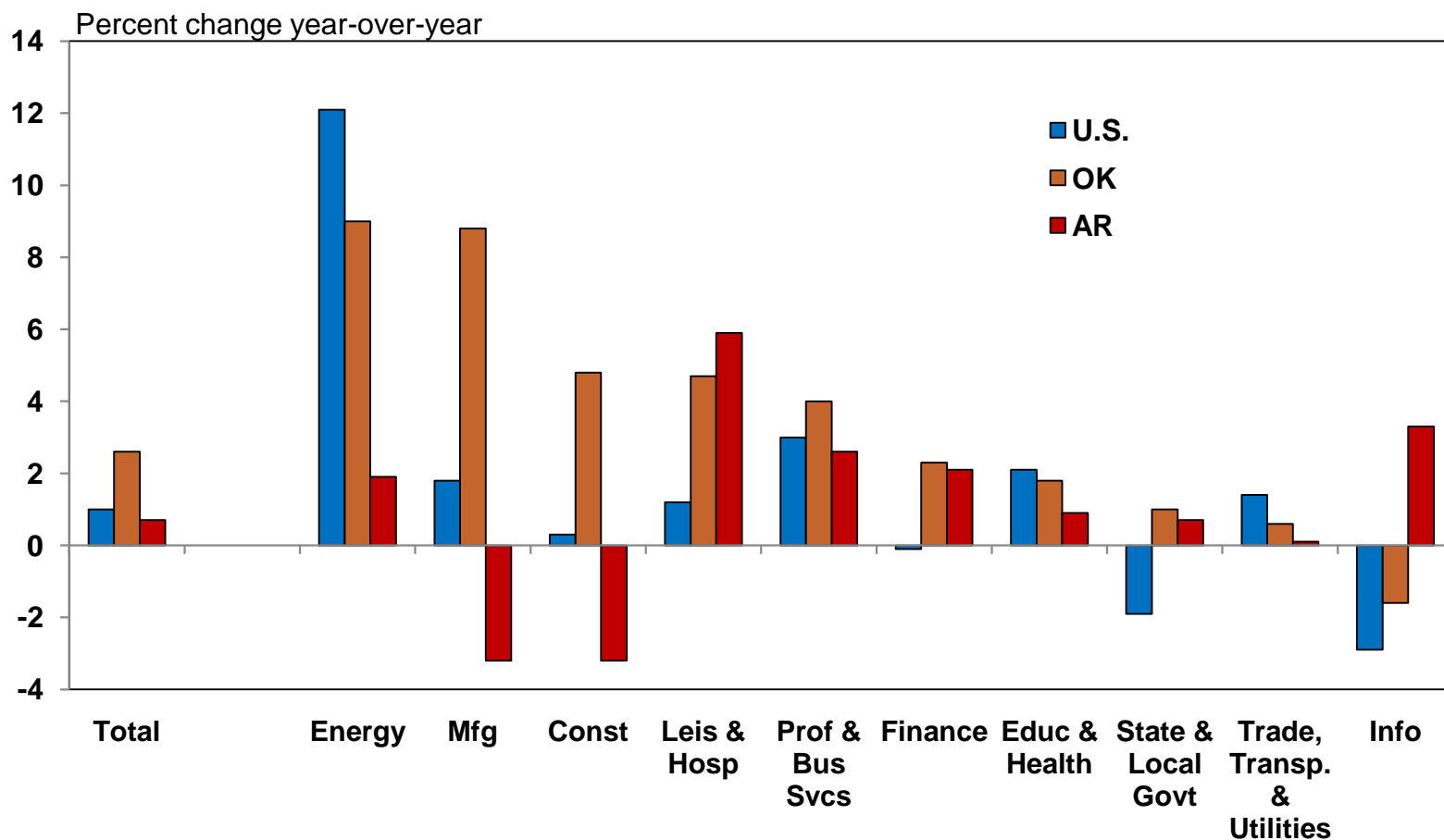
Source: U.S. Bureau of Labor Statistics



Differences in energy, manufacturing, and construction explain much of the gap

Employment Growth

August 2011

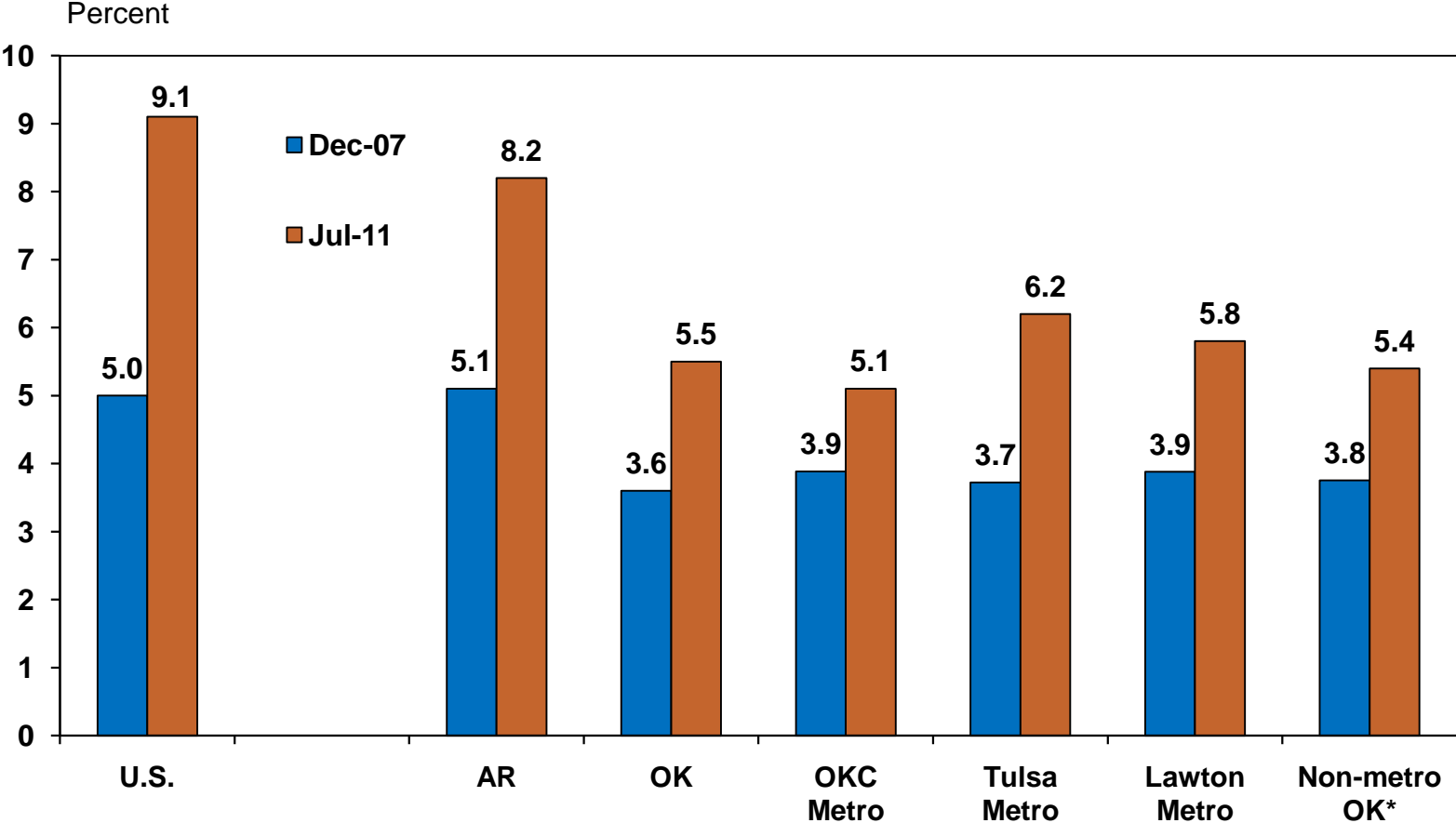


Source: Bureau of Labor Statistics



Unemployment remains elevated in Arkansas but is near “full employment” in Oklahoma

Unemployment Rate
Seasonally Adjusted*



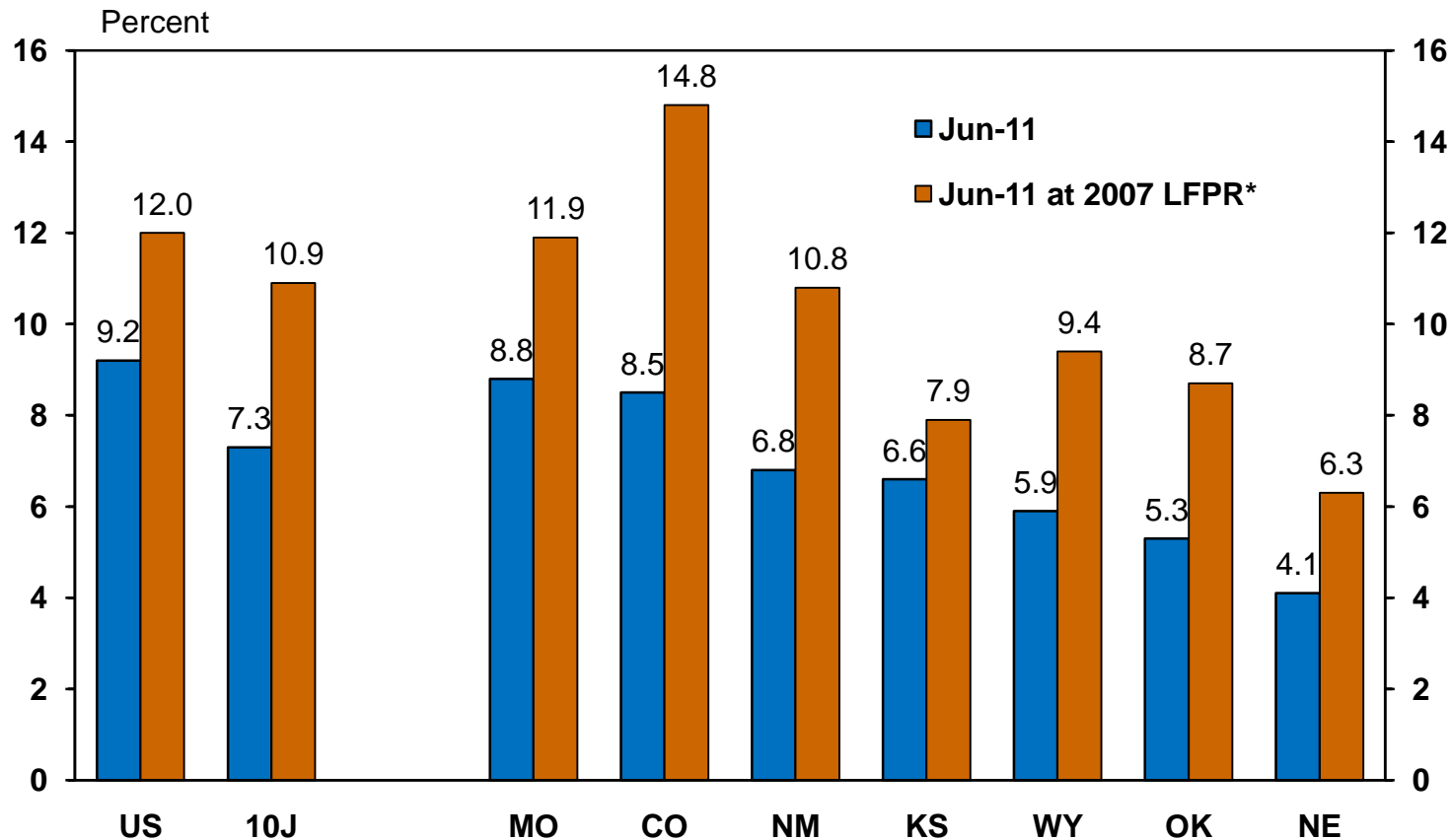
Source: U.S. Bureau of Labor Statistics

* Estimated by FRBKC



However, regional labor markets may not be overly tight due to labor force dropouts

Unemployment Rate by State Seasonally Adjusted

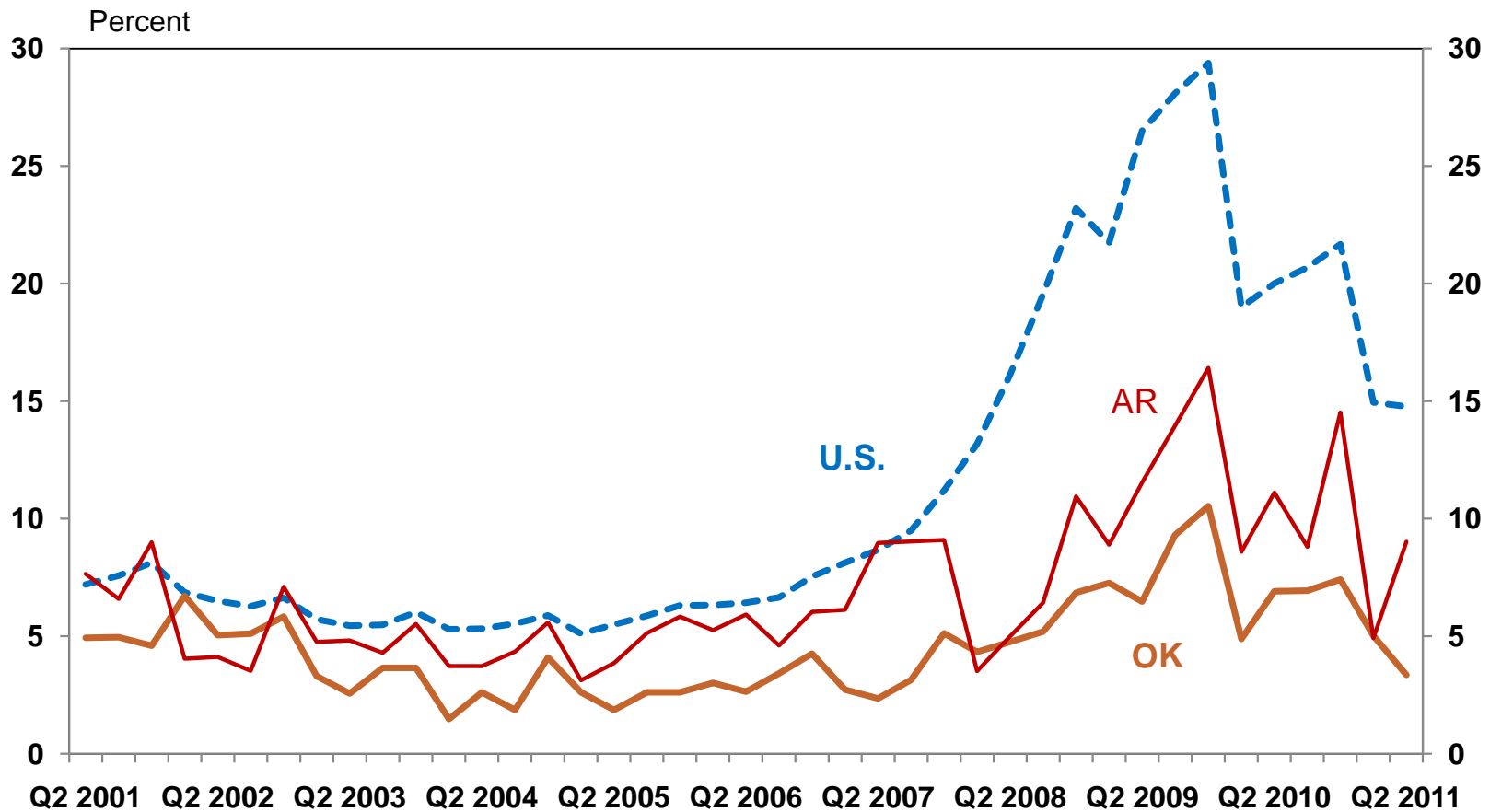


*LFPR= Labor Force Participation Rate



Most Oklahoma and Arkansas banks remain in better shape than the nation

Share of Unprofitable Institutions Commercial Banks



Source: FDIC



Summary

- The U.S. economy is facing headwinds following only modest expansion this year
- Oklahoma's growth has been more solid, and fundamentals in both Oklahoma and Arkansas remain better than in the nation

For updates, please see our new quarterly publication, The Oklahoma Economist, at:

<http://www.kansascityfed.org/publications/research/oke/index.cfm>

