

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



Megan Williams

Associate Economist, Oklahoma City Branch

Federal Reserve Bank of Kansas City

www.kansascityfed.org



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

- **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



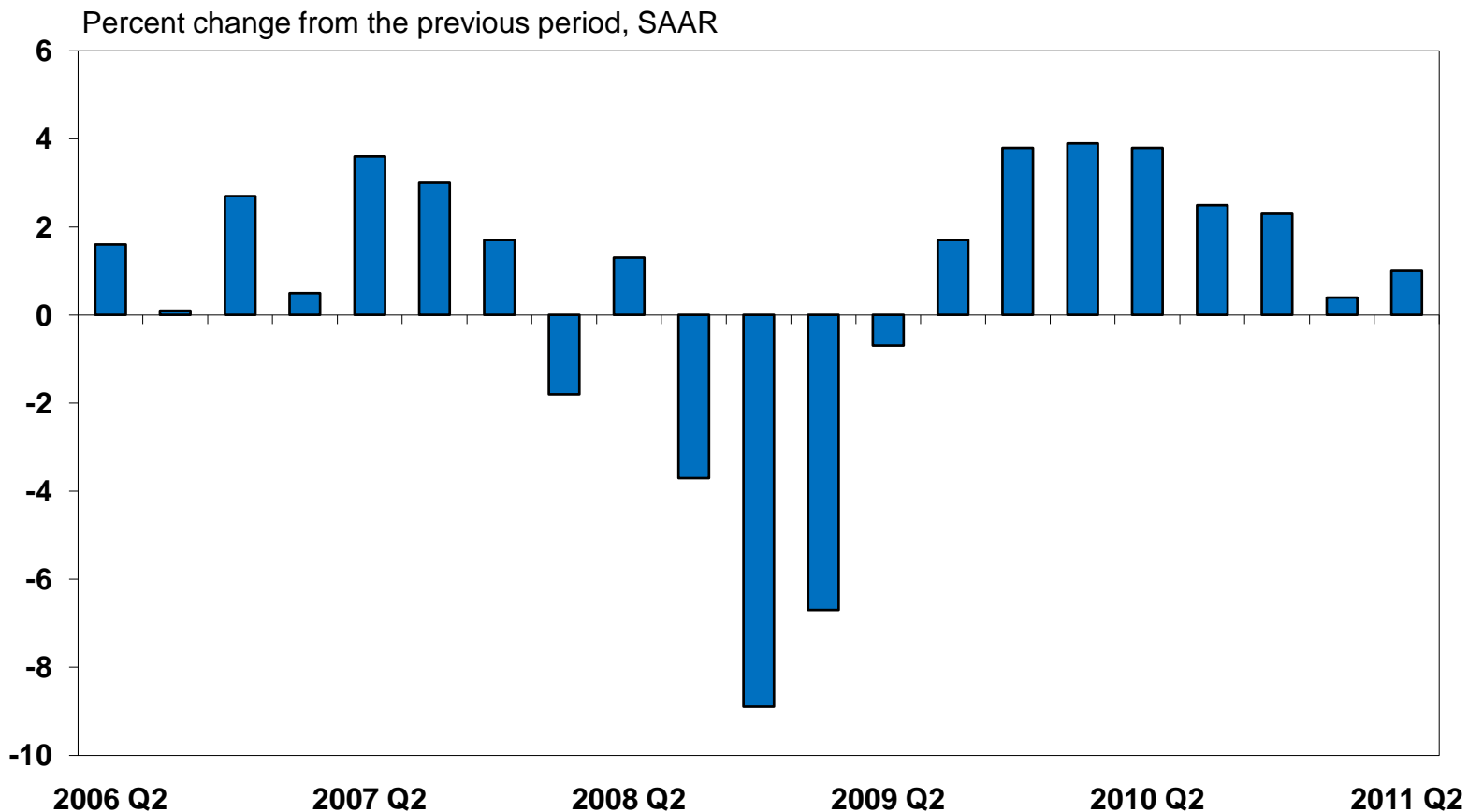
The U.S. Economy

- Review of 2011 economic data
- FOMC forecasts and statement



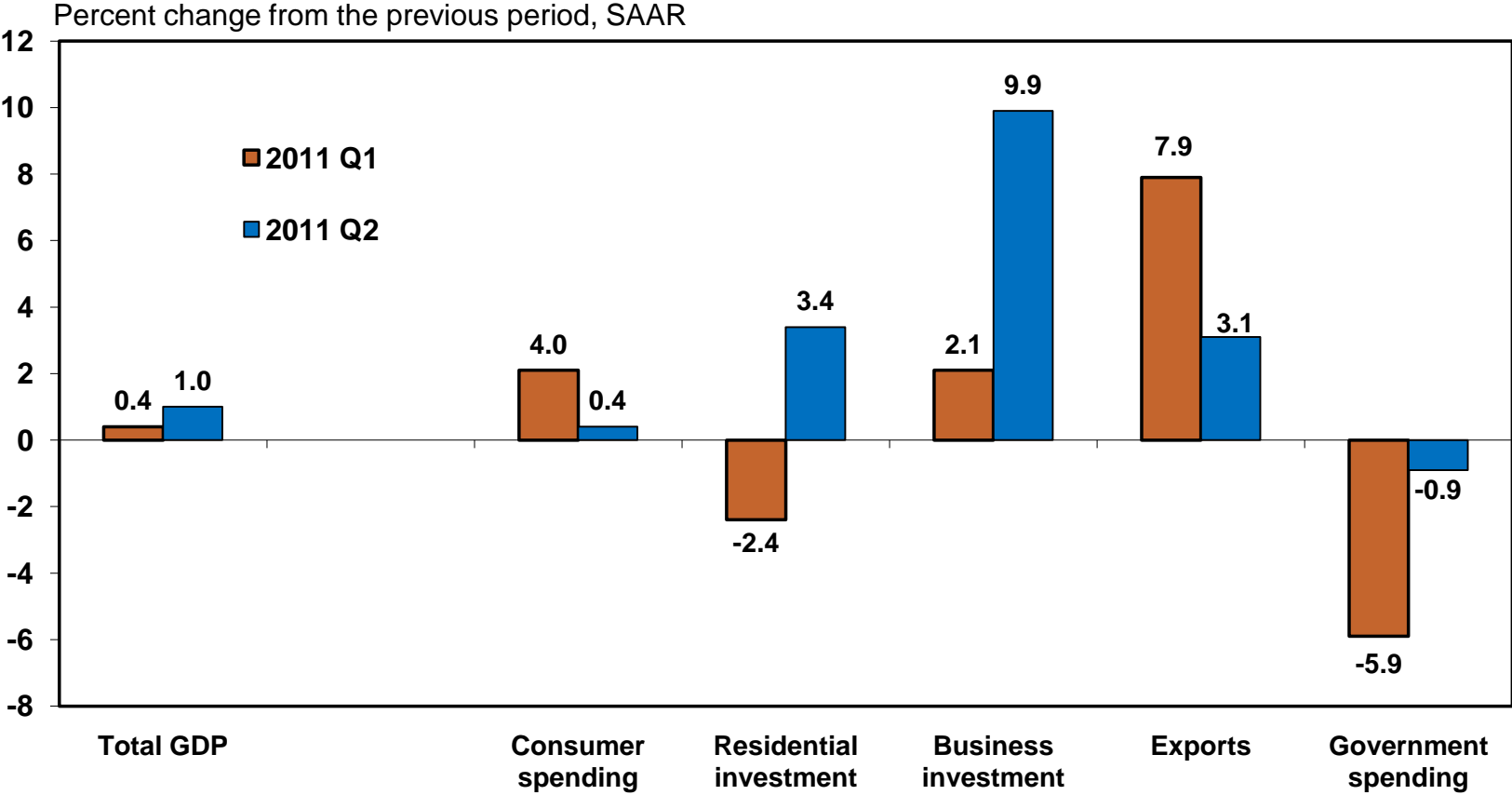
Real GDP growth has slowed in 2011, following solid growth in 2010

U.S. Real Gross Domestic Product



Business investment was big contributor, while consumers and governments dragged

Growth in Components of Real GDP

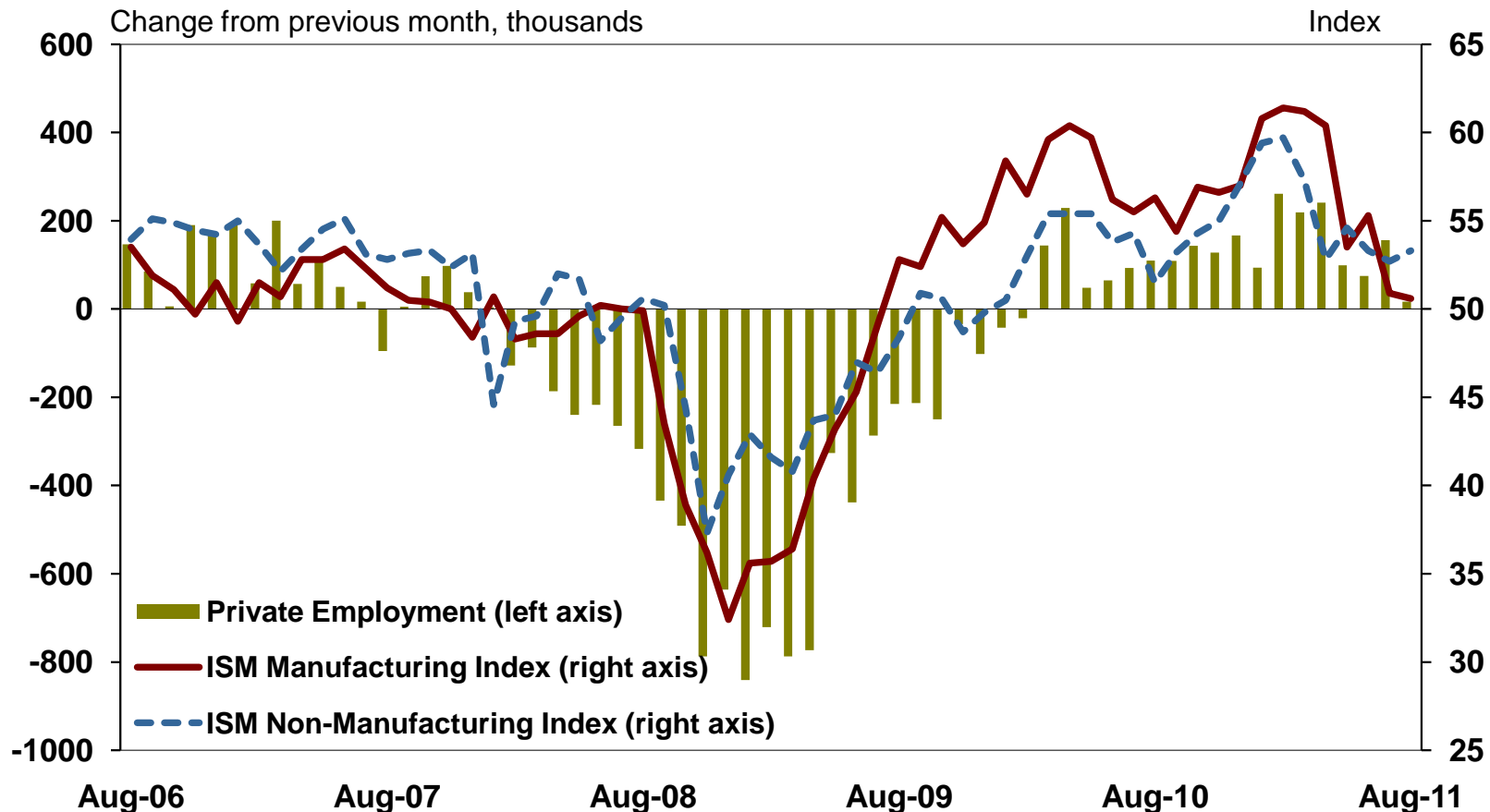


Source: U.S. Bureau of Economic Analysis



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

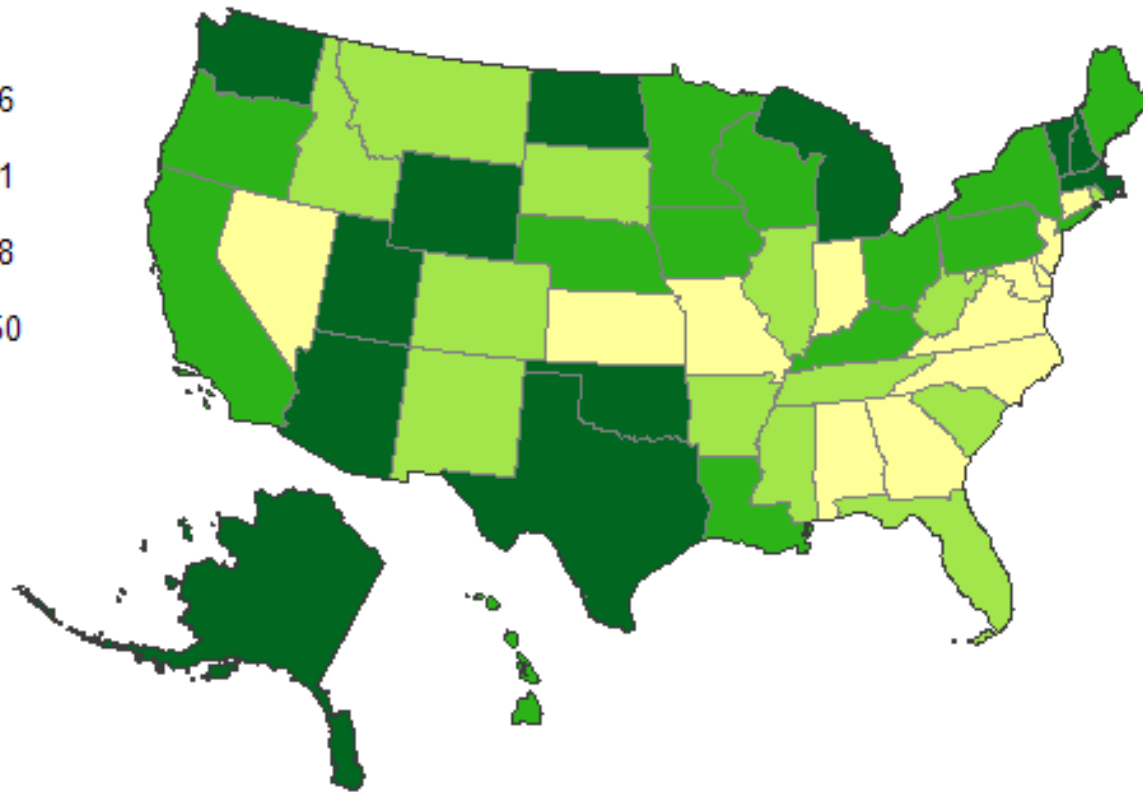
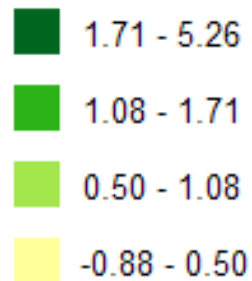
U.S. Private Payroll Employment and Business Indexes



There is considerable variation in economic strength across the nation

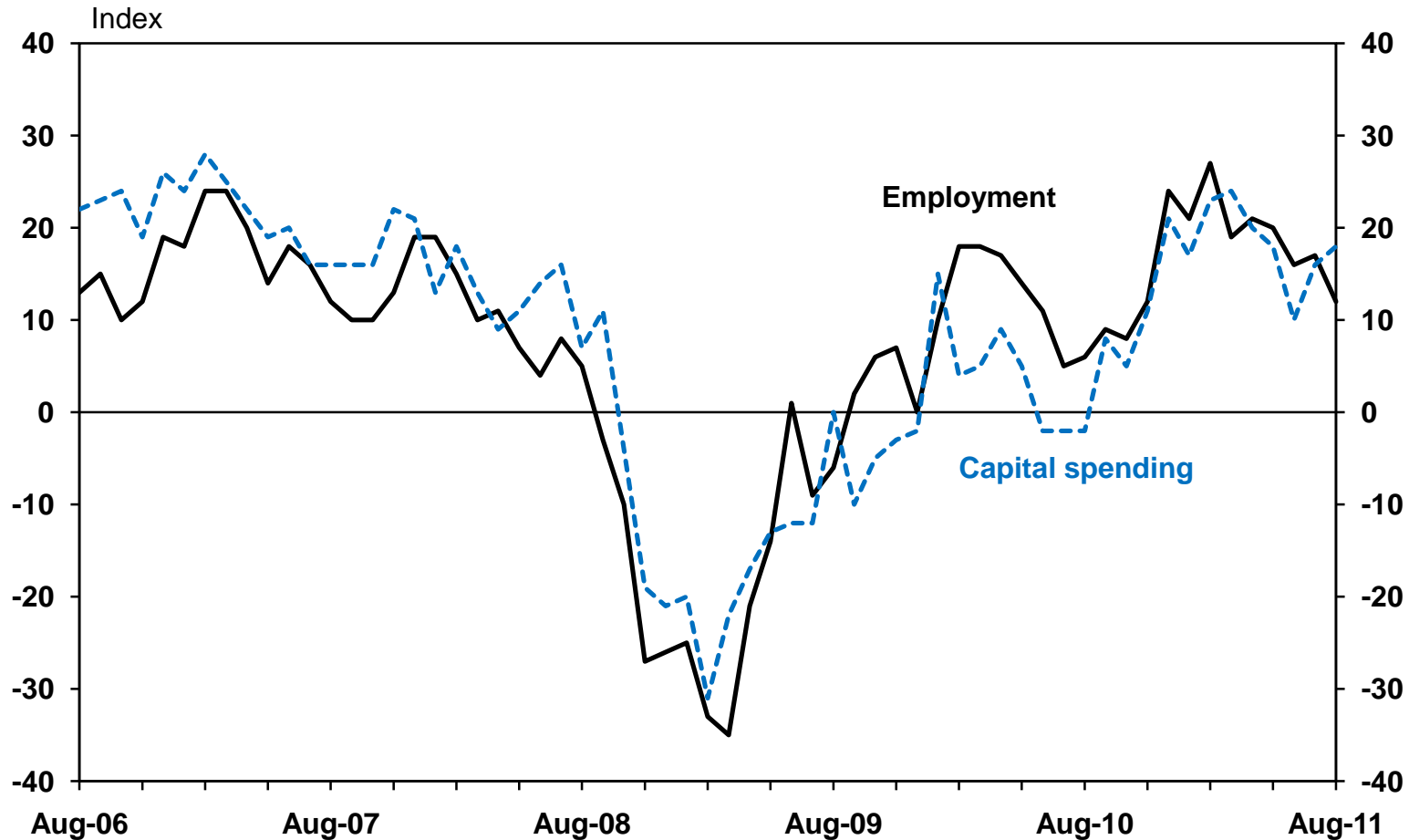
Employment Growth, Year-over-Year (percent)
August 2011

Scale



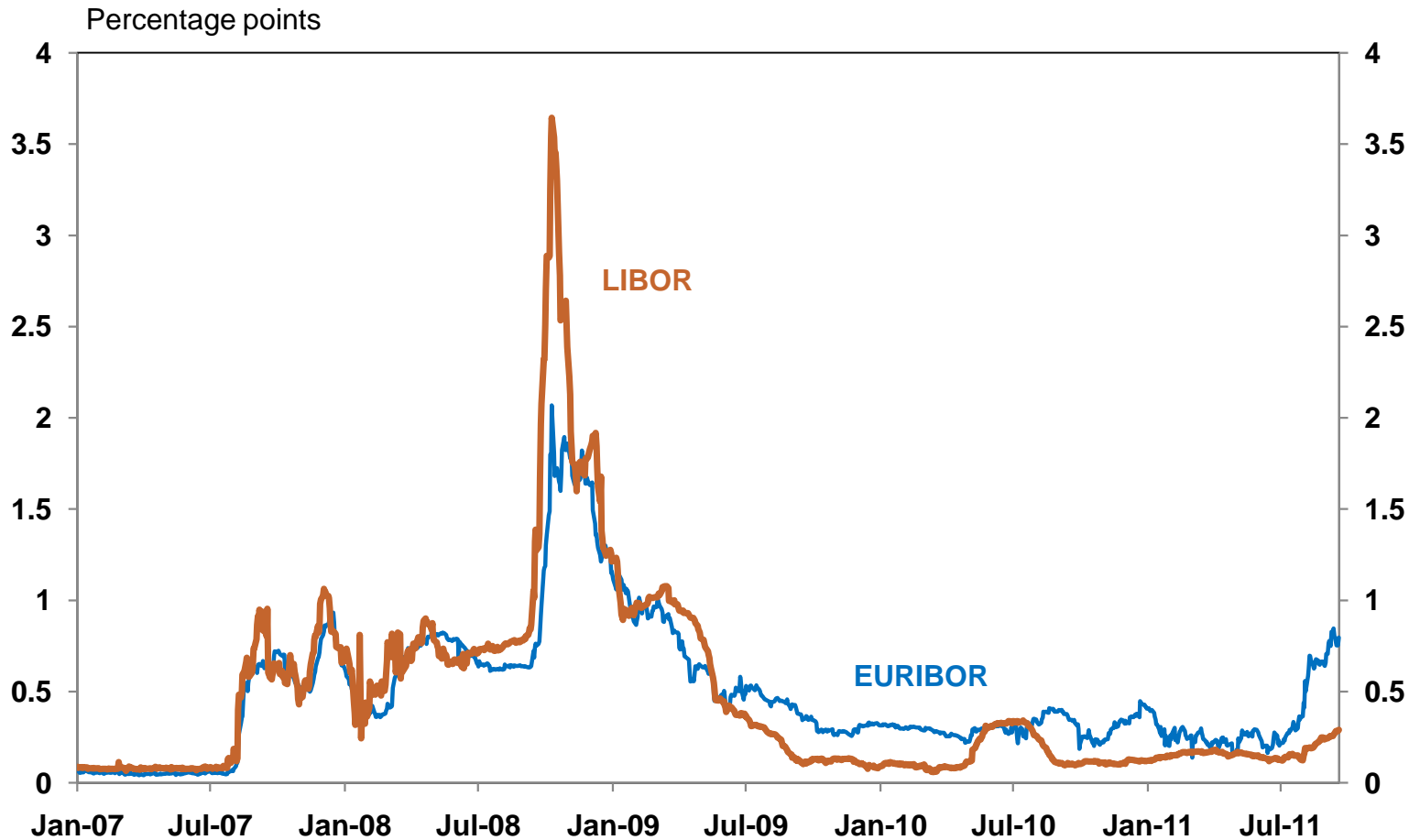
Firms' hiring and investment plans remained relatively solid through the summer

Tenth District Manufacturing Survey Expectations
Net Share of Firms Planning to Expand in Next 6 Months



But financial stress is increasing in Europe

EURIBOR & LIBOR-OIS Spreads

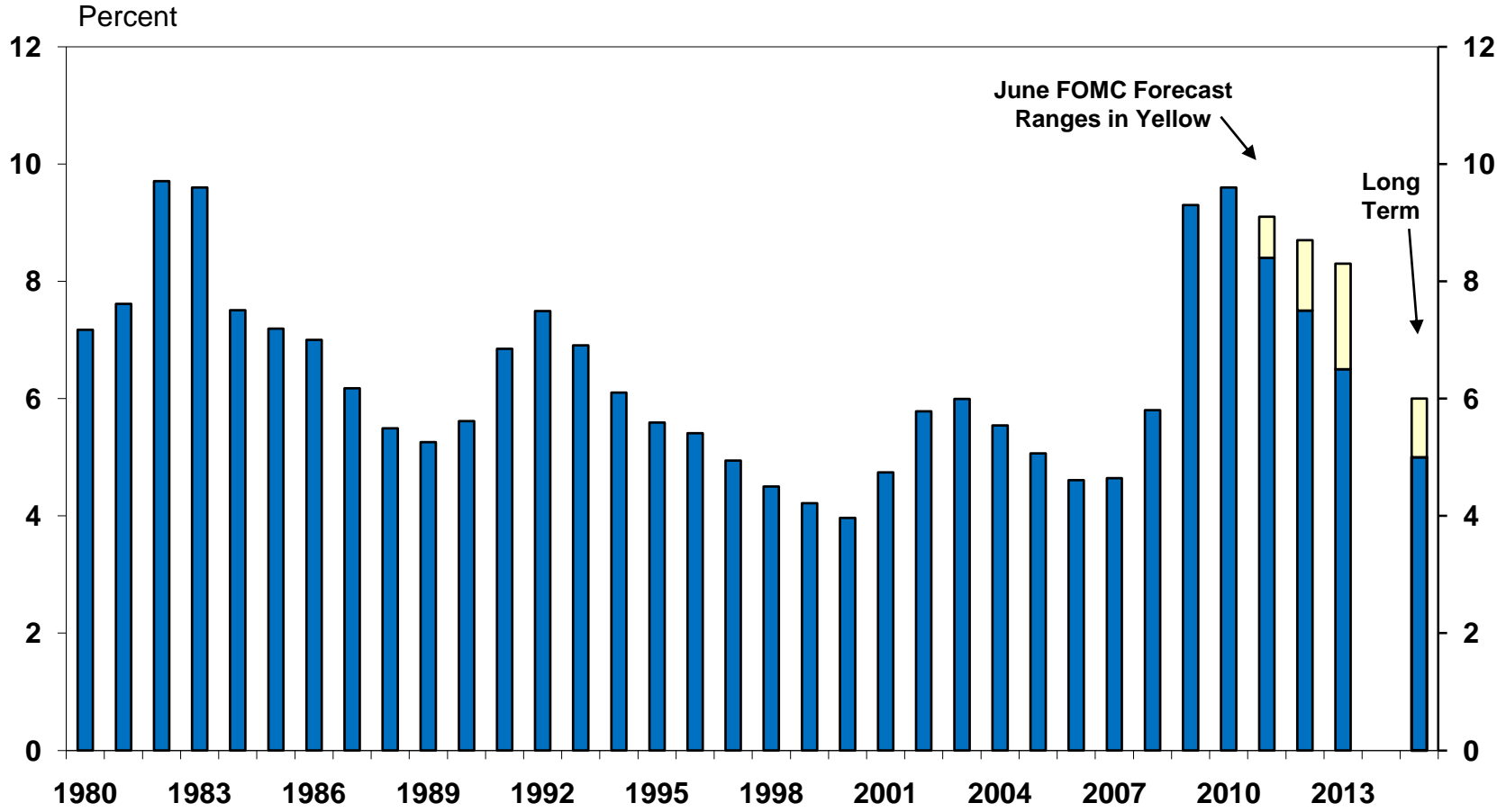


Source: Bloomberg



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

Unemployment Rate
Seasonally Adjusted

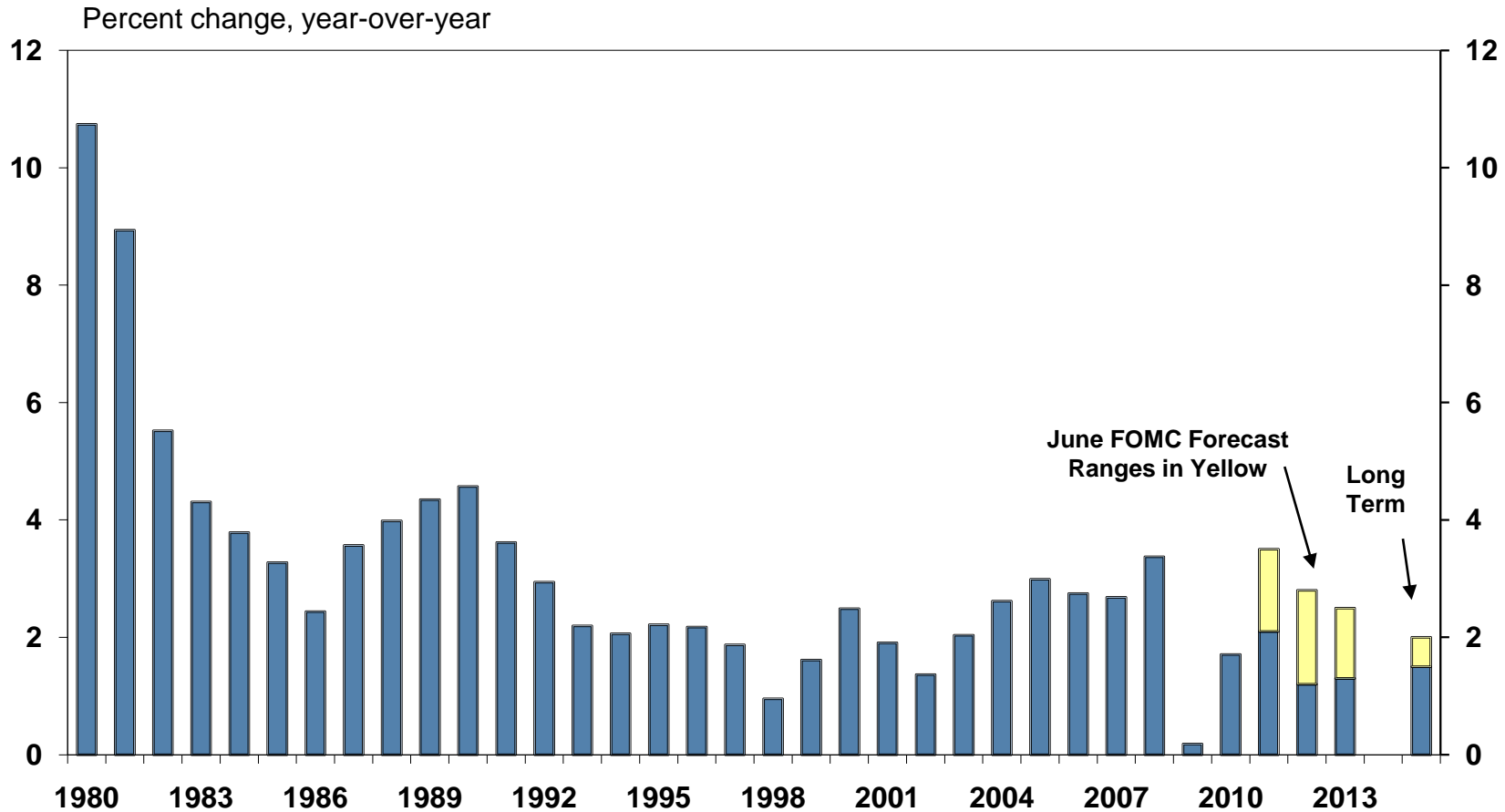


Source: U.S. Bureau of Labor Statistics, FOMC



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

PCE Inflation Index



September 21, 2011 FOMC Statement

“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....

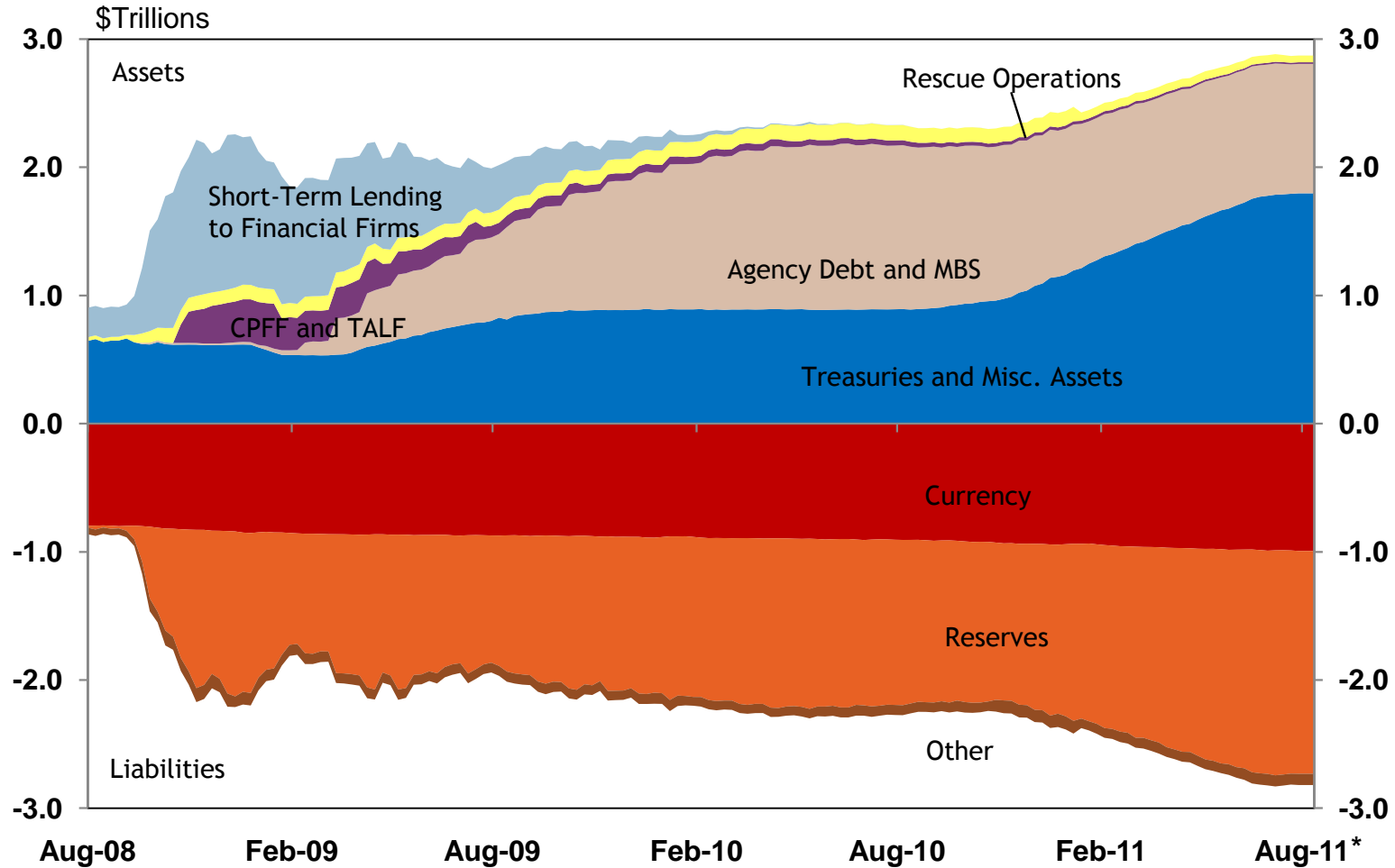
“To help support conditions in mortgage markets, **the Committee will [also] now reinvest principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities.** In addition, the Committee will maintain its existing policy of rolling over maturing 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 against the action were:** Richard W. Fisher [Dallas Fed pres.], Narayana Kocherlakota [Minneapolis Fed pres.], and Charles I. Plosser [Philadelphia Fed pres.], who did not support additional policy accommodations at this time.”



The Federal Reserve's balance sheet

Federal Reserve Balance Sheet



*Only contains one week of data

Source: Federal Reserve Board



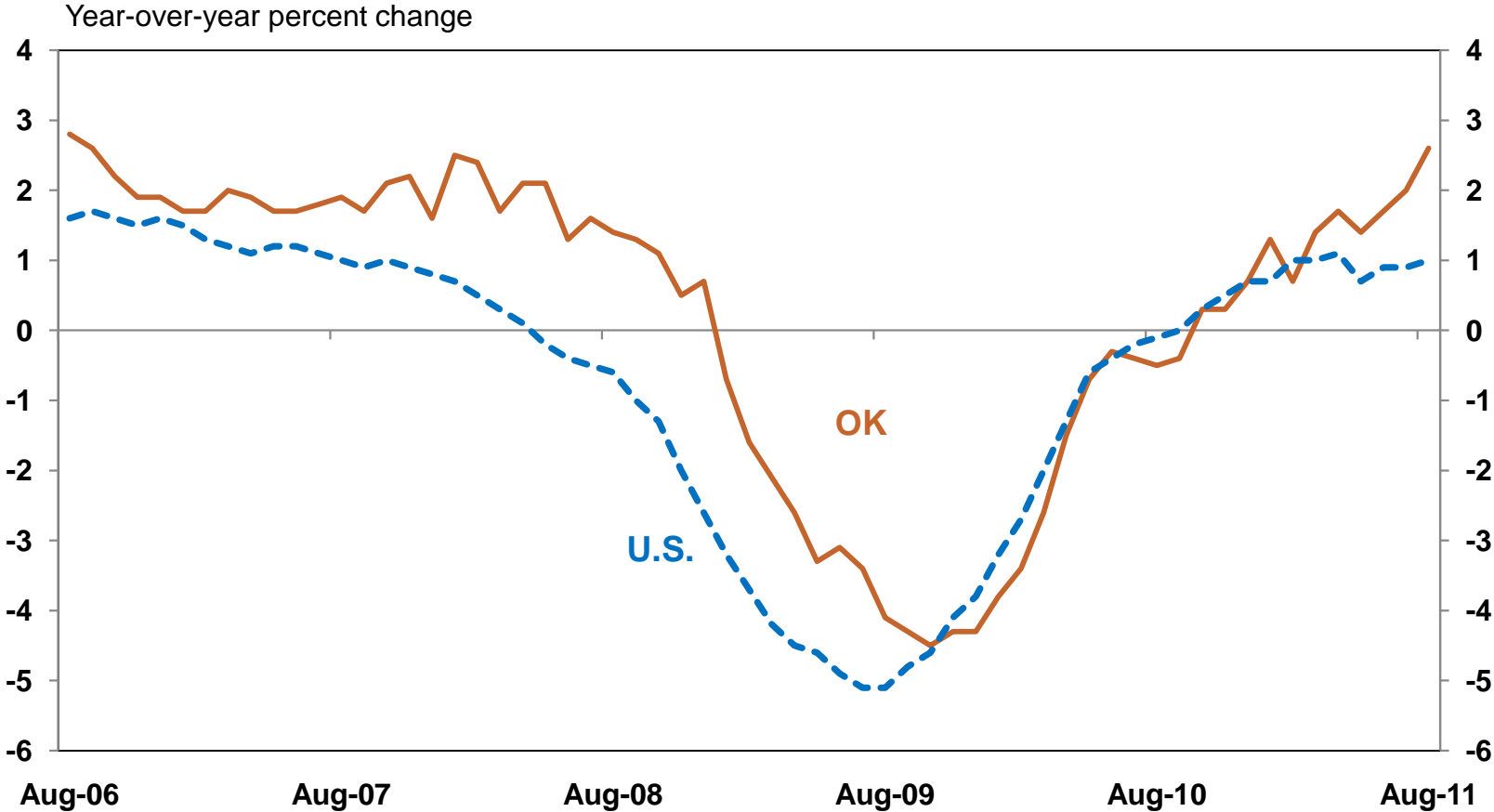
The Oklahoma Economy

- Review of recent economic data
- Risks and opportunities



Oklahoma had a much milder recession, and has been outpacing the nation recently

Payroll Employment

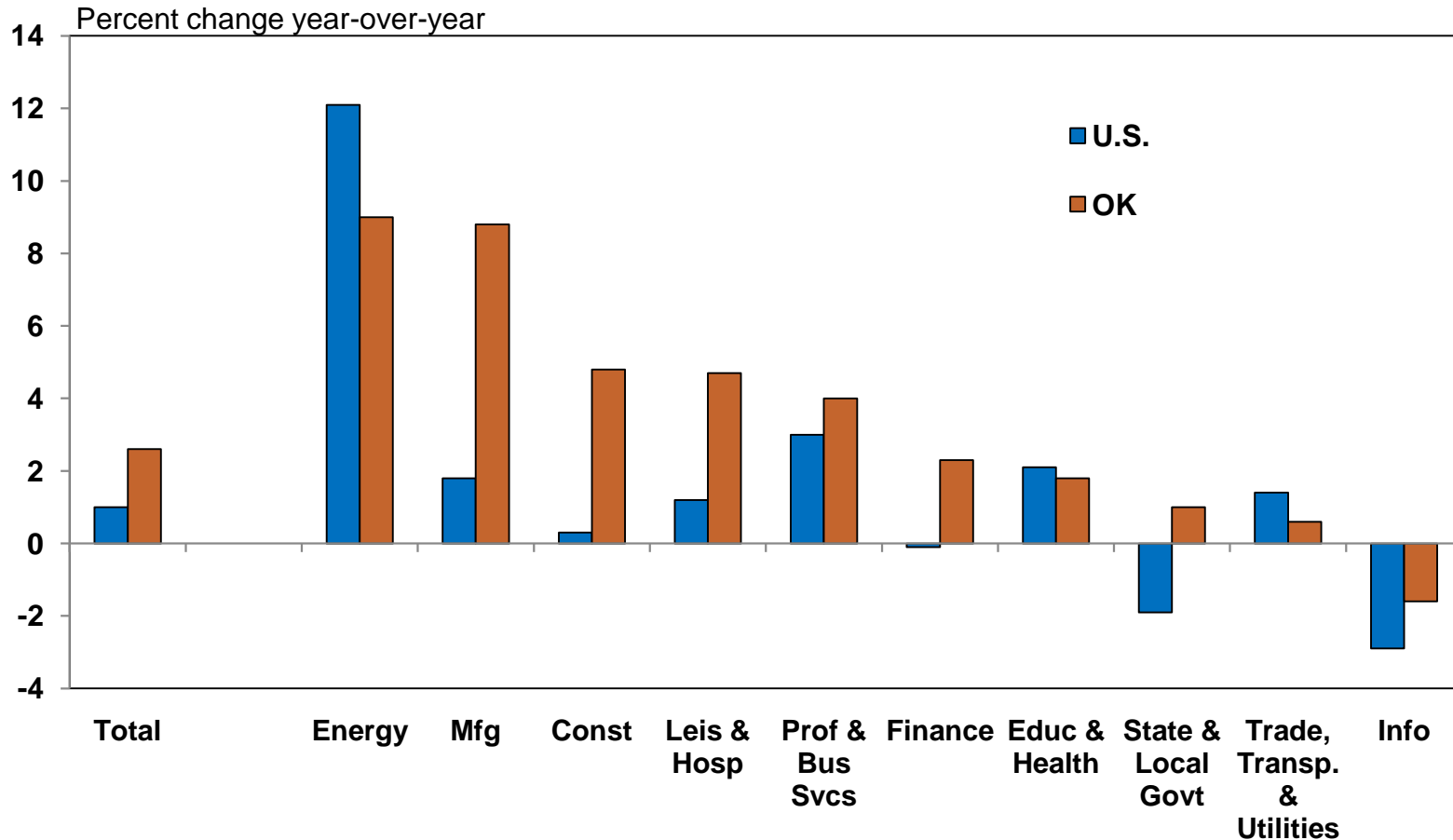


Source: U.S. Bureau of Labor Statistics



Most Oklahoma sectors have grown solidly in 2011, led by energy and manufacturing

Employment Growth August 2011

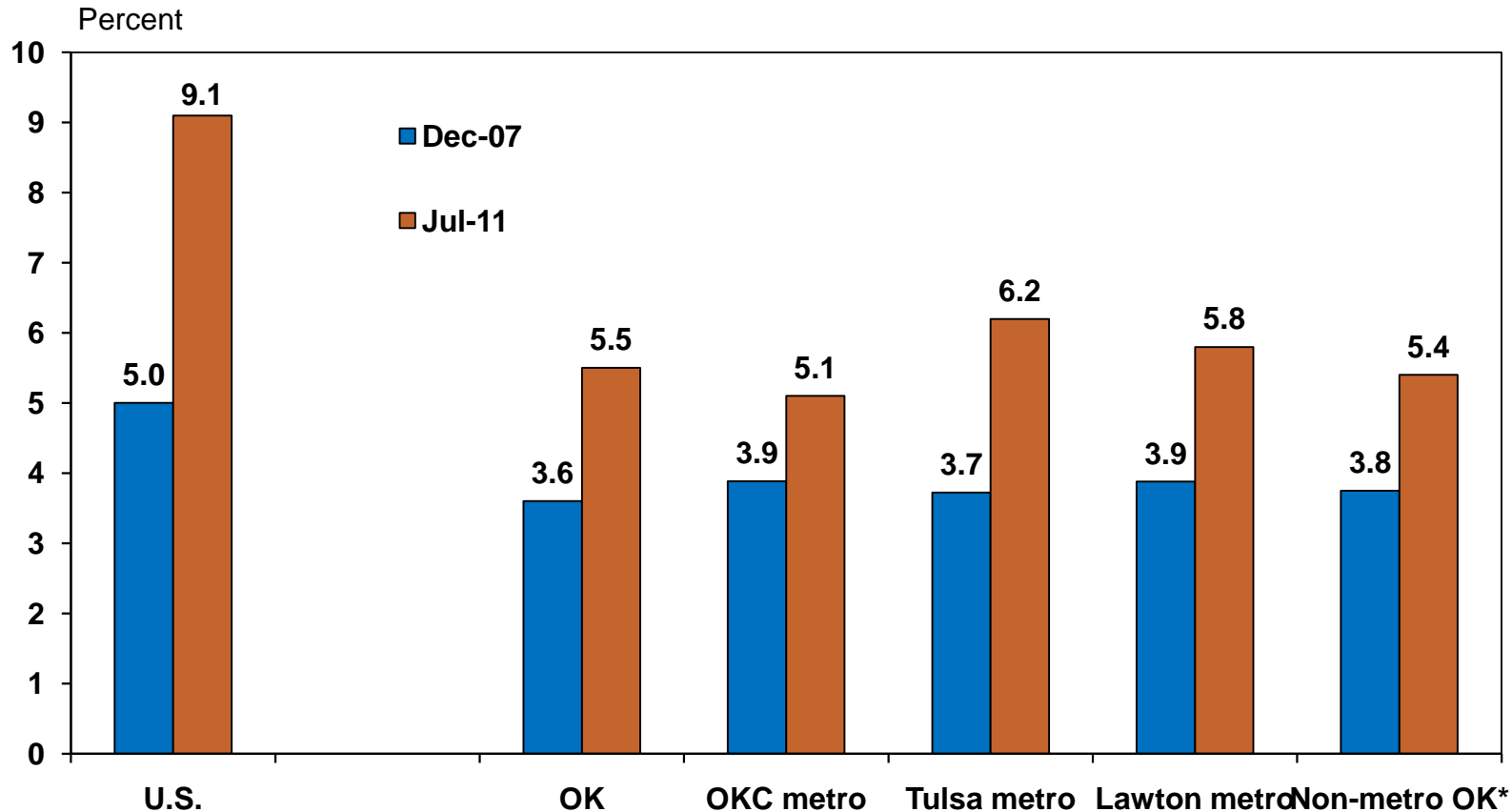


Source: Bureau of Labor Statistics



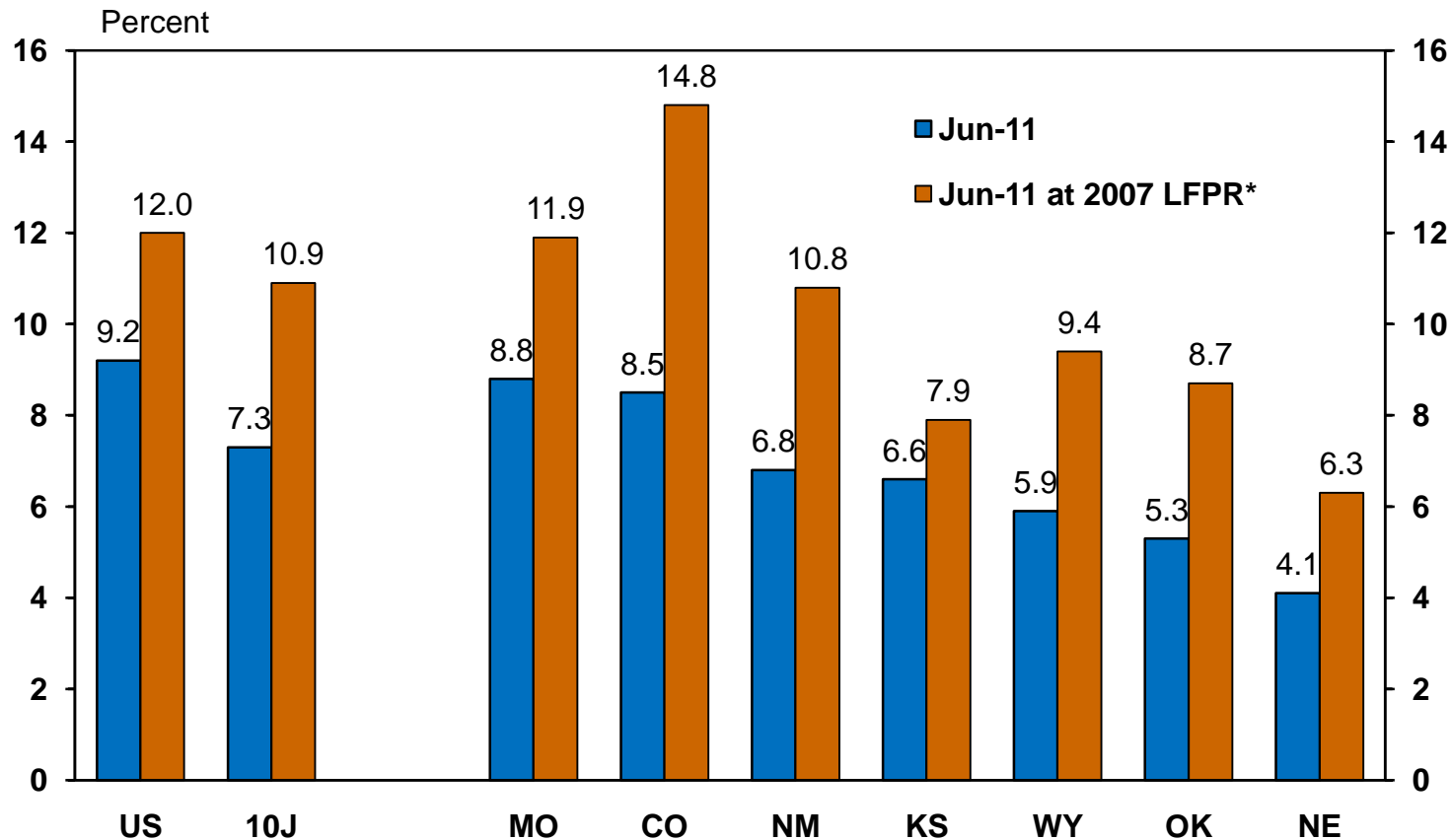
Unemployment in much of the state is back to what is often considered “full employment”

Unemployment Rate Seasonally Adjusted*



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

Unemployment Rate by State
Seasonally Adjusted

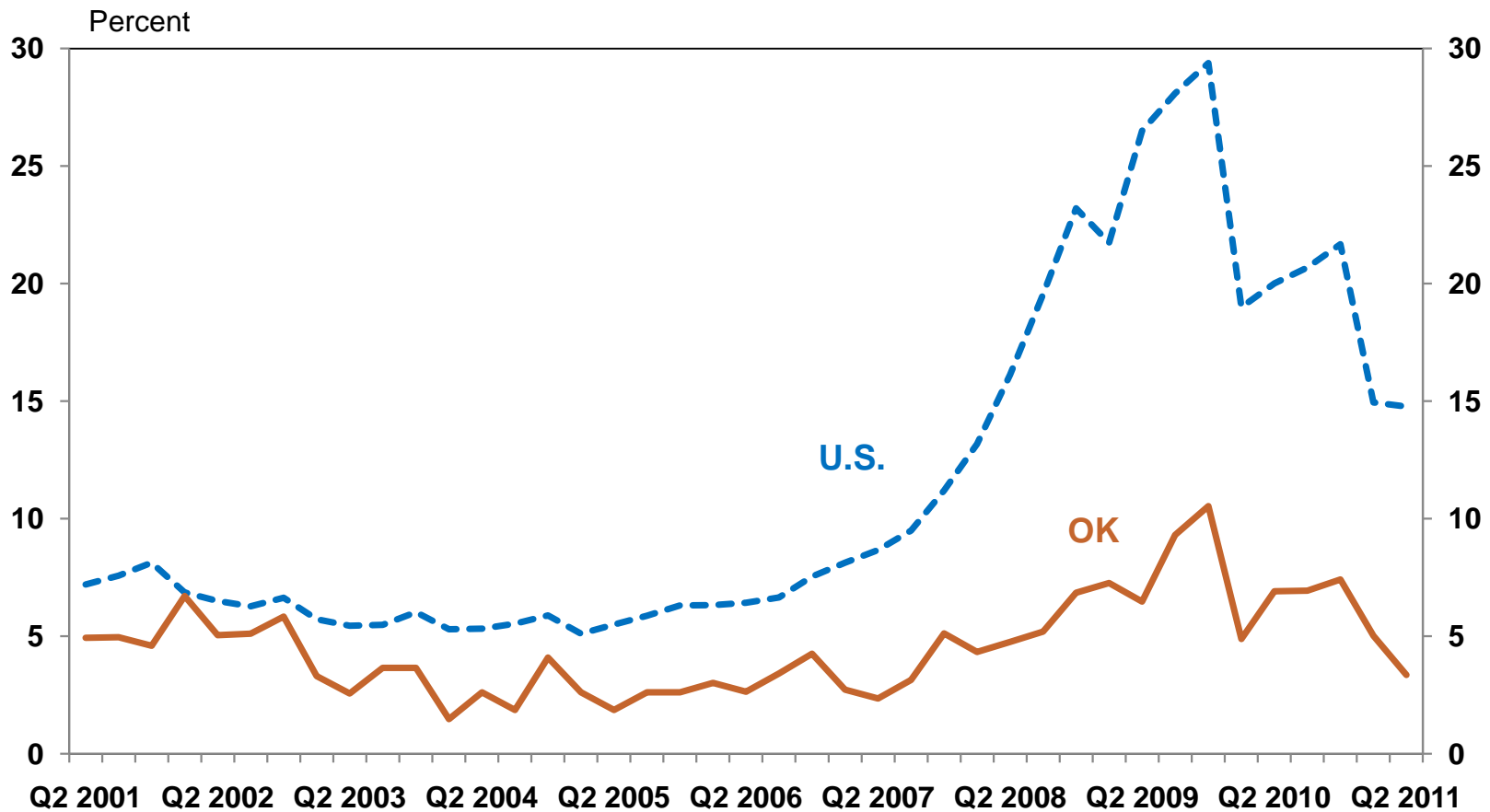


*LFPR= Labor Force Participation Rate



Most Oklahoma banks still remain in much better shape than the nation

Share of Unprofitable Institutions
Commercial Banks

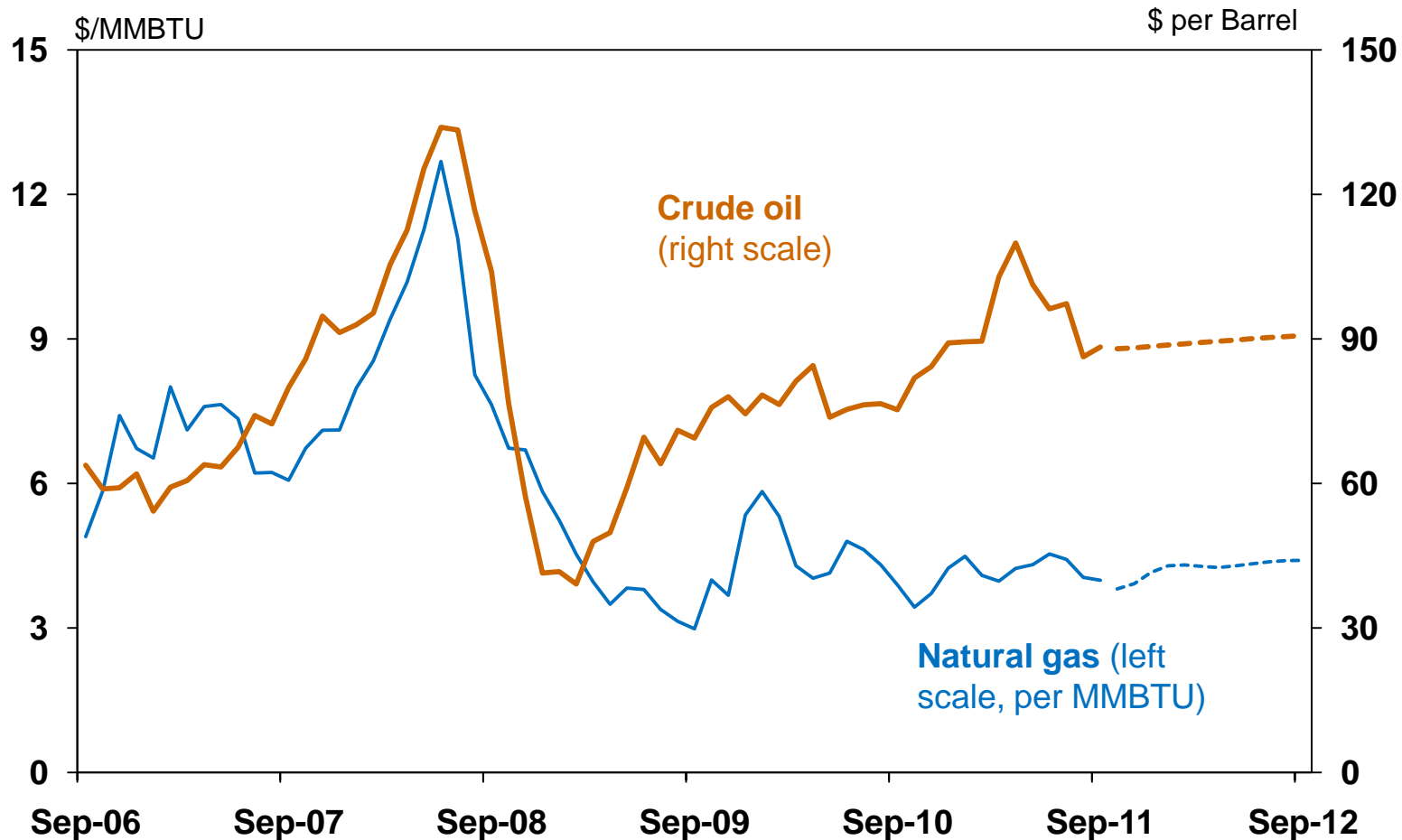


Source: FDIC



As always, energy prices are Oklahoma's biggest risk relative to nation

Energy Prices



Source: Bloomberg



Summary

- The U.S. economy is facing some headwinds following only modest expansion in the first half of 2011
- Oklahoma's growth has been more solid, and fundamentals remain better in the state than the nation

