

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



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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

- **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
- **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

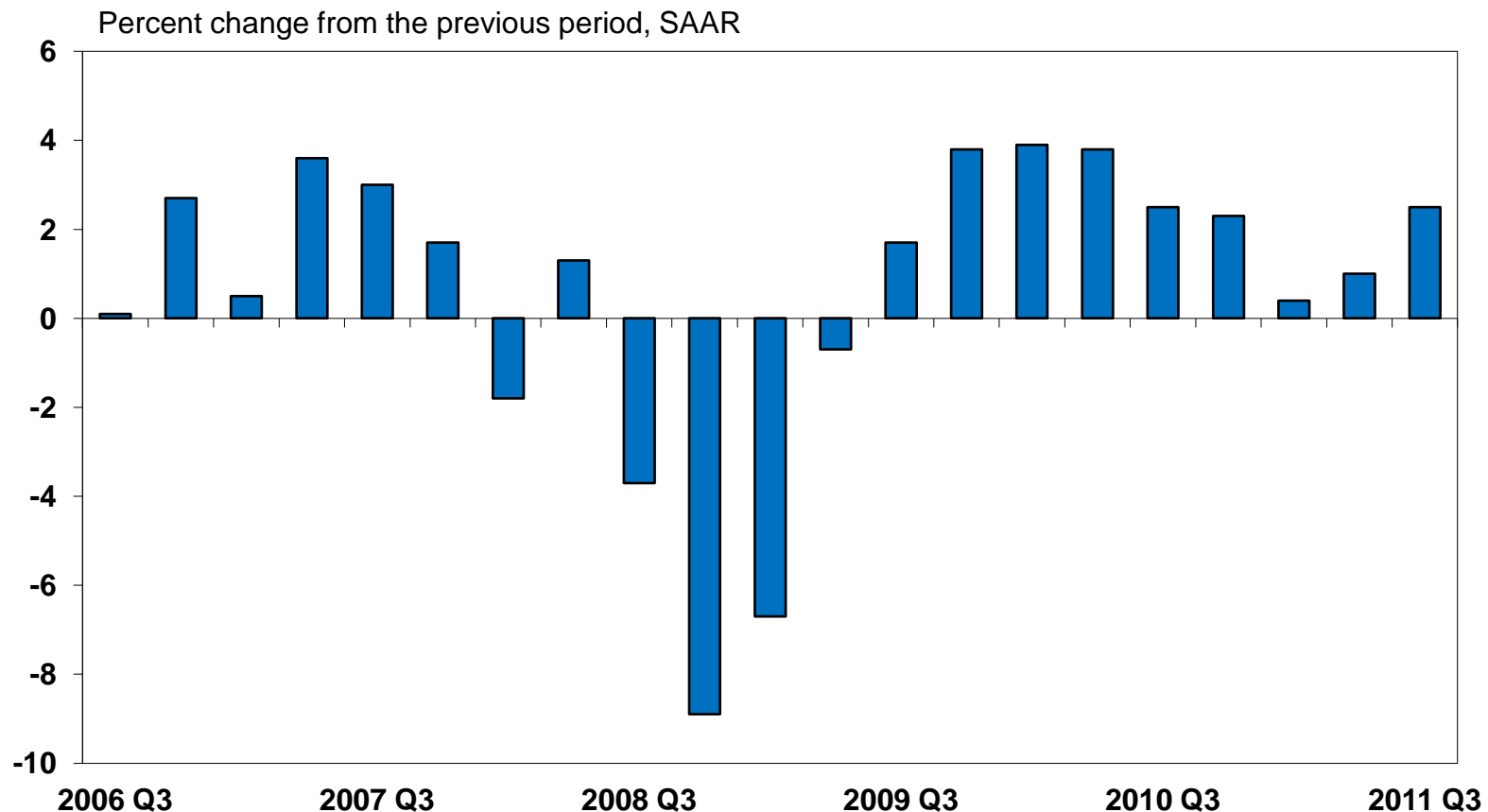


The U.S. Economy



Real GDP growth picked up somewhat in Q3, but still remains moderate

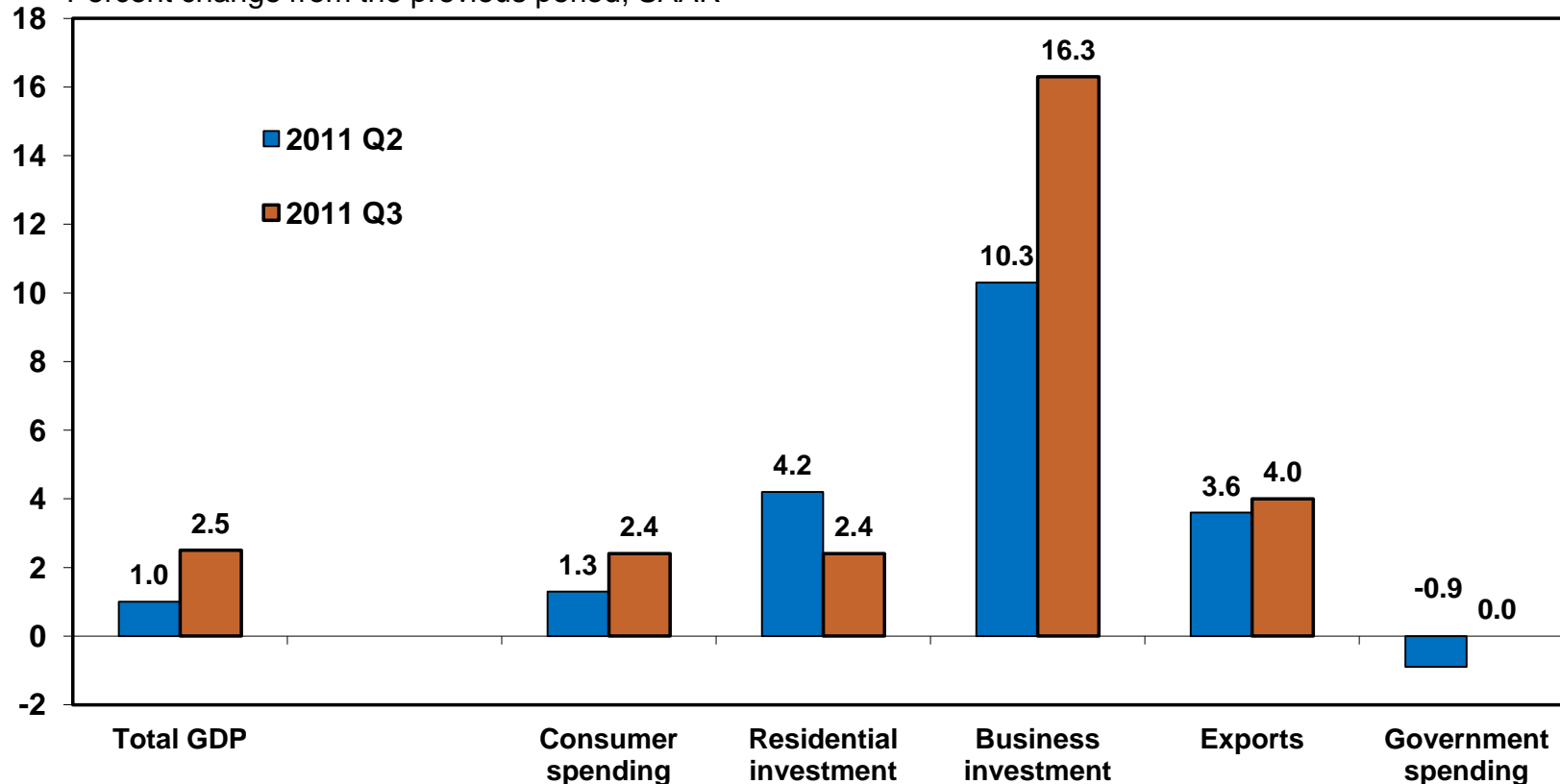
U.S. Real Gross Domestic Product



Business investment was strong, exports grew further, and consumers spent more

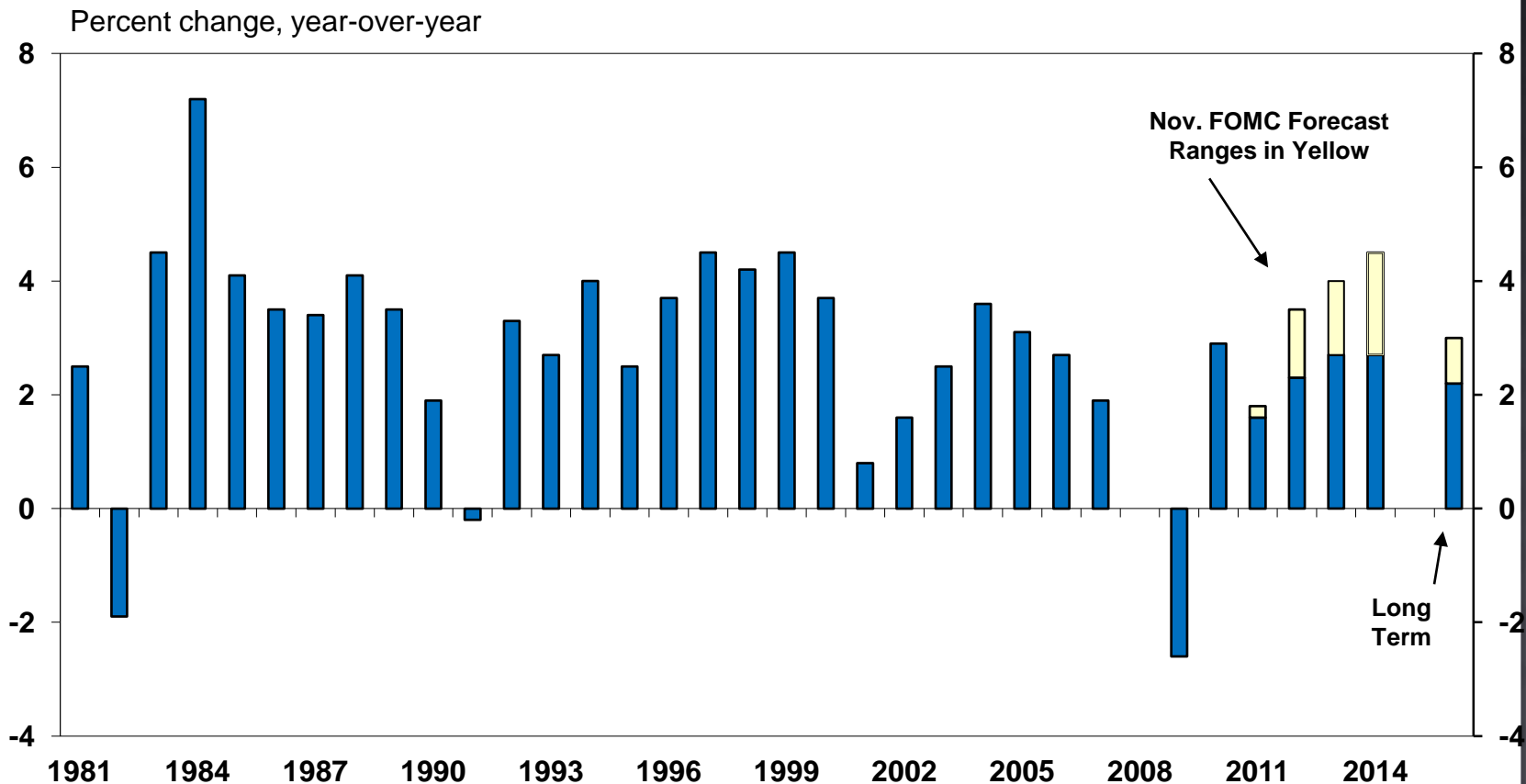
Growth in Components of Real GDP

Percent change from the previous period, SAAR



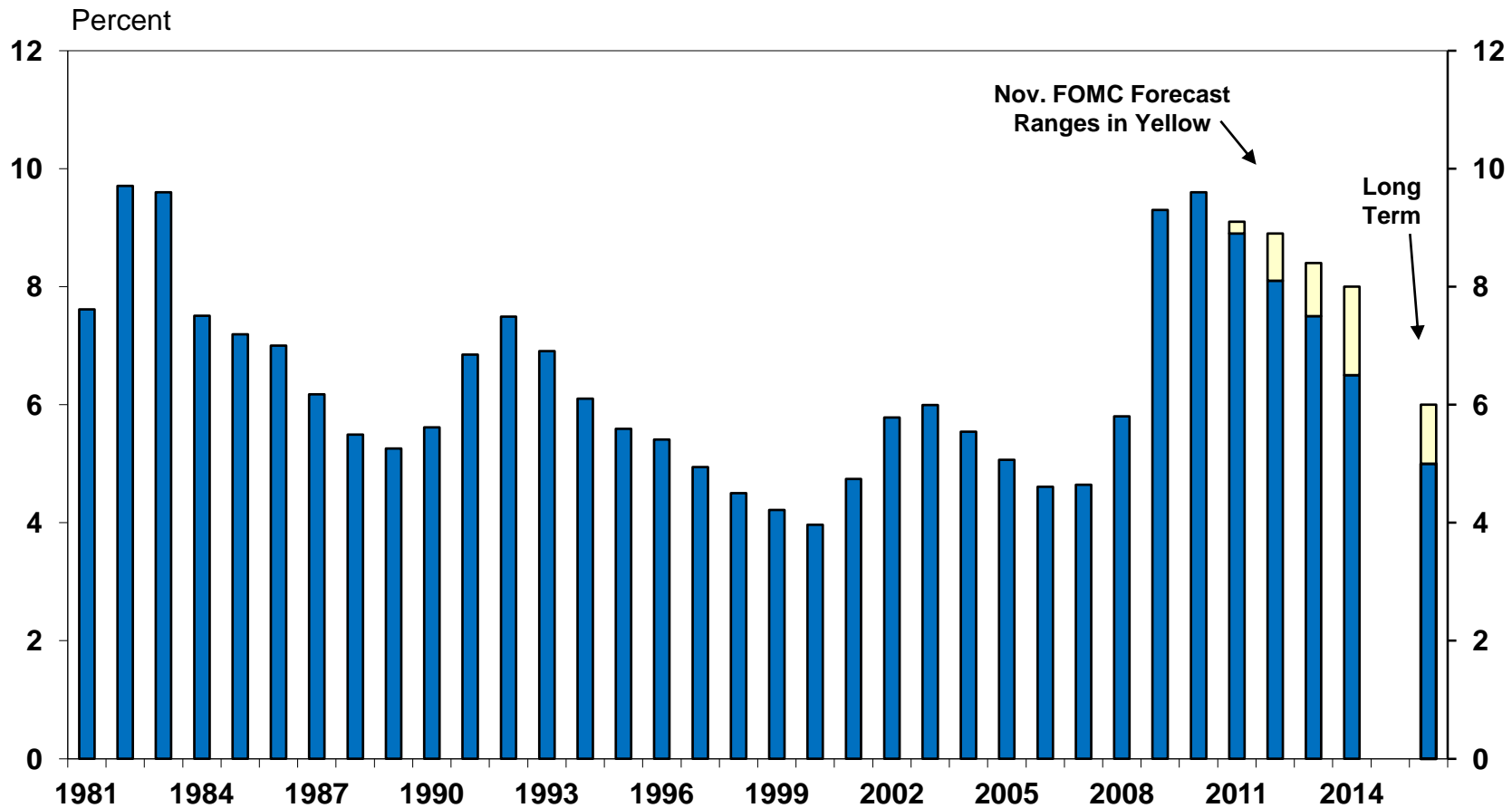
Fed policymakers expect continued moderate U.S. GDP recovery

Real Gross Domestic Product



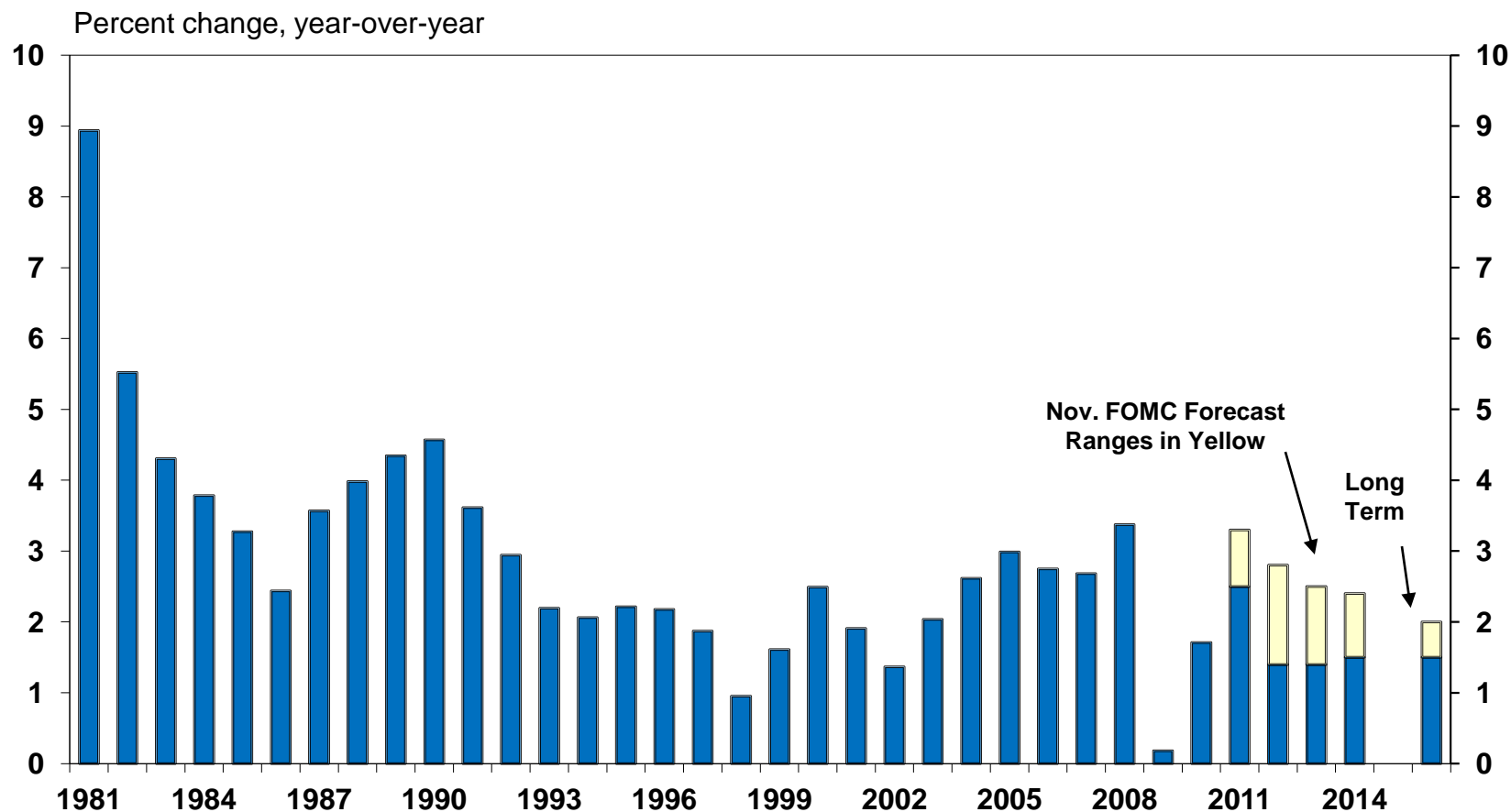
But for unemployment to only come down slowly the next few years

Unemployment Rate
Seasonally Adjusted



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

PCE Inflation Index



Financial stress continues in Europe, posing downside risks for world growth

EURIBOR & LIBOR-OIS Spreads



Source: Bloomberg



November 2, 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 continue its program to extend the average maturity of its holdings of securities** as announced in September...

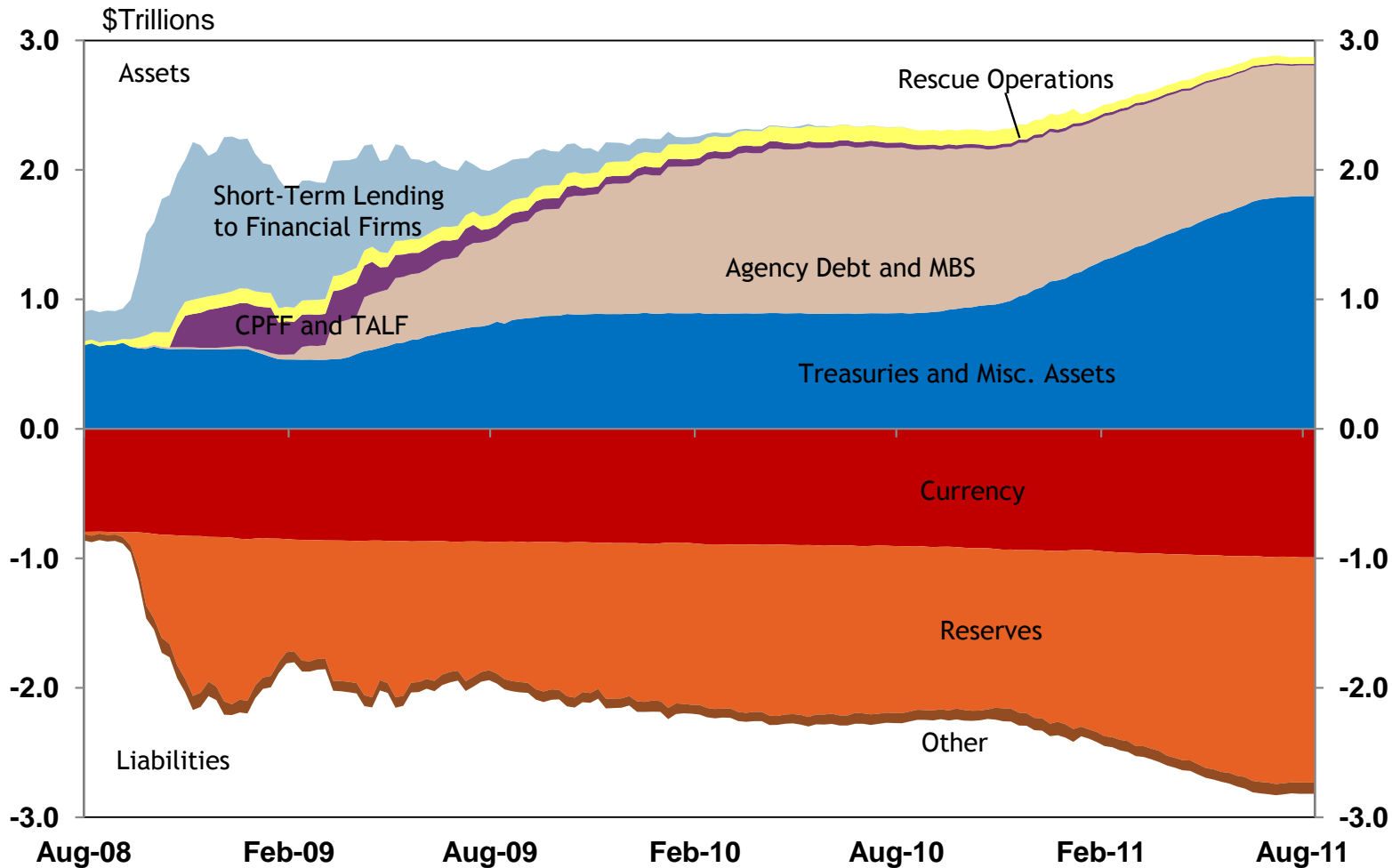
“The Committee is maintaining its existing policies of **reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction...** The Committee also decided to keep **the 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** was Charles L. Evans, who supported additional policy accommodation at this time.”



The Fed continues to use its balance sheet and other tools to maintain accommodation

Federal Reserve Balance Sheet



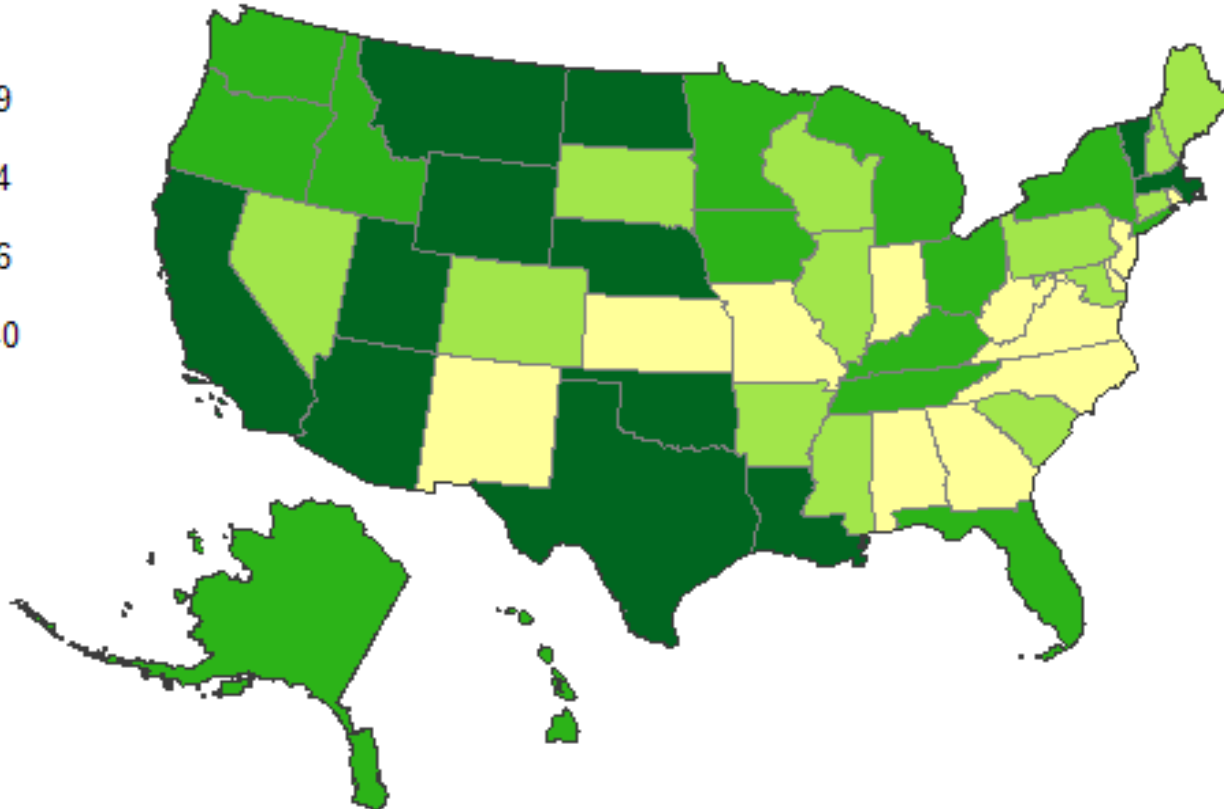
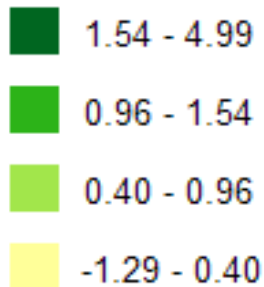
The Oklahoma Economy



There is considerable variation in economic strength across the nation

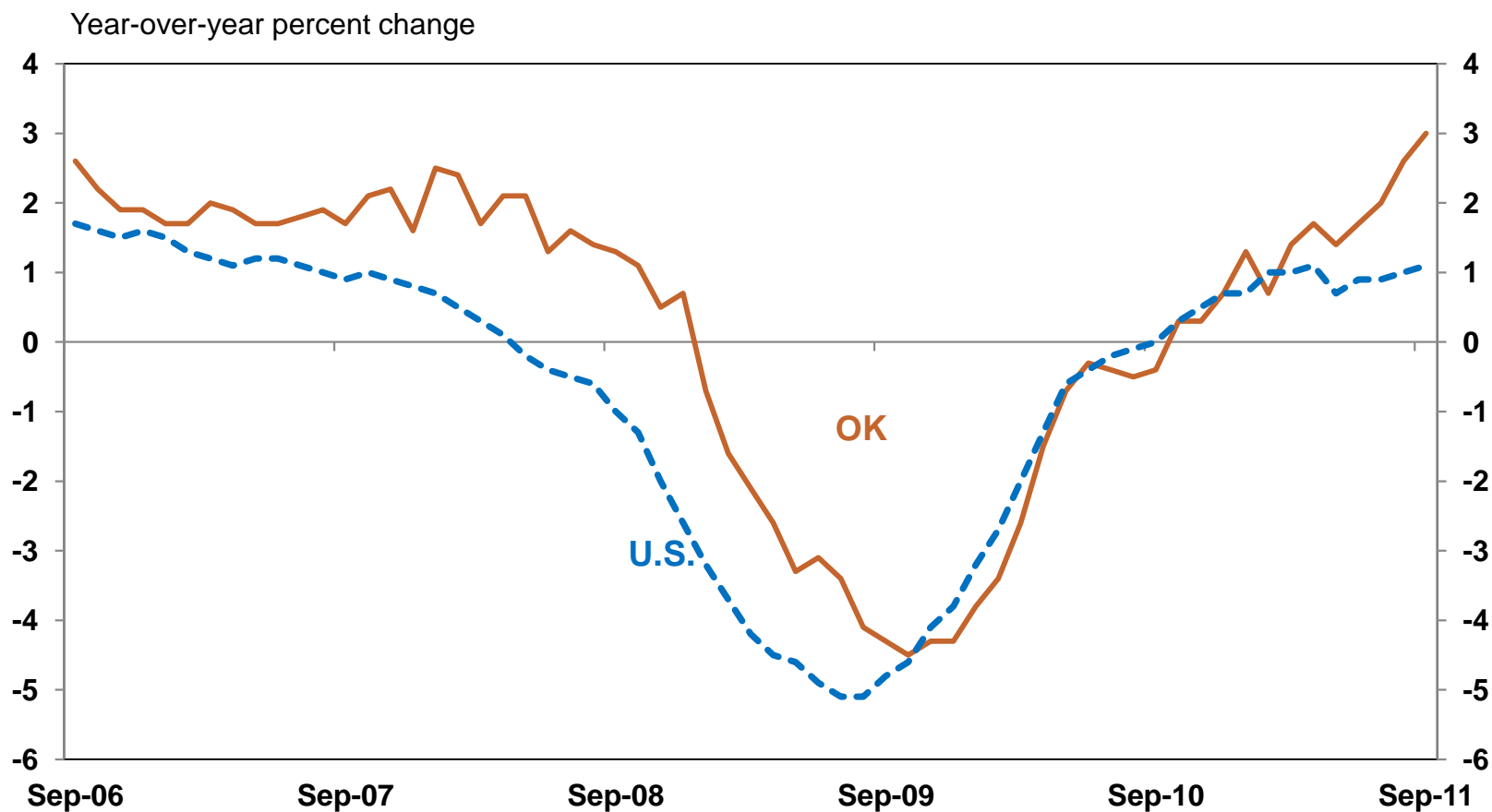
Employment Growth, Year-over-Year (percent)
September 2011

Scale



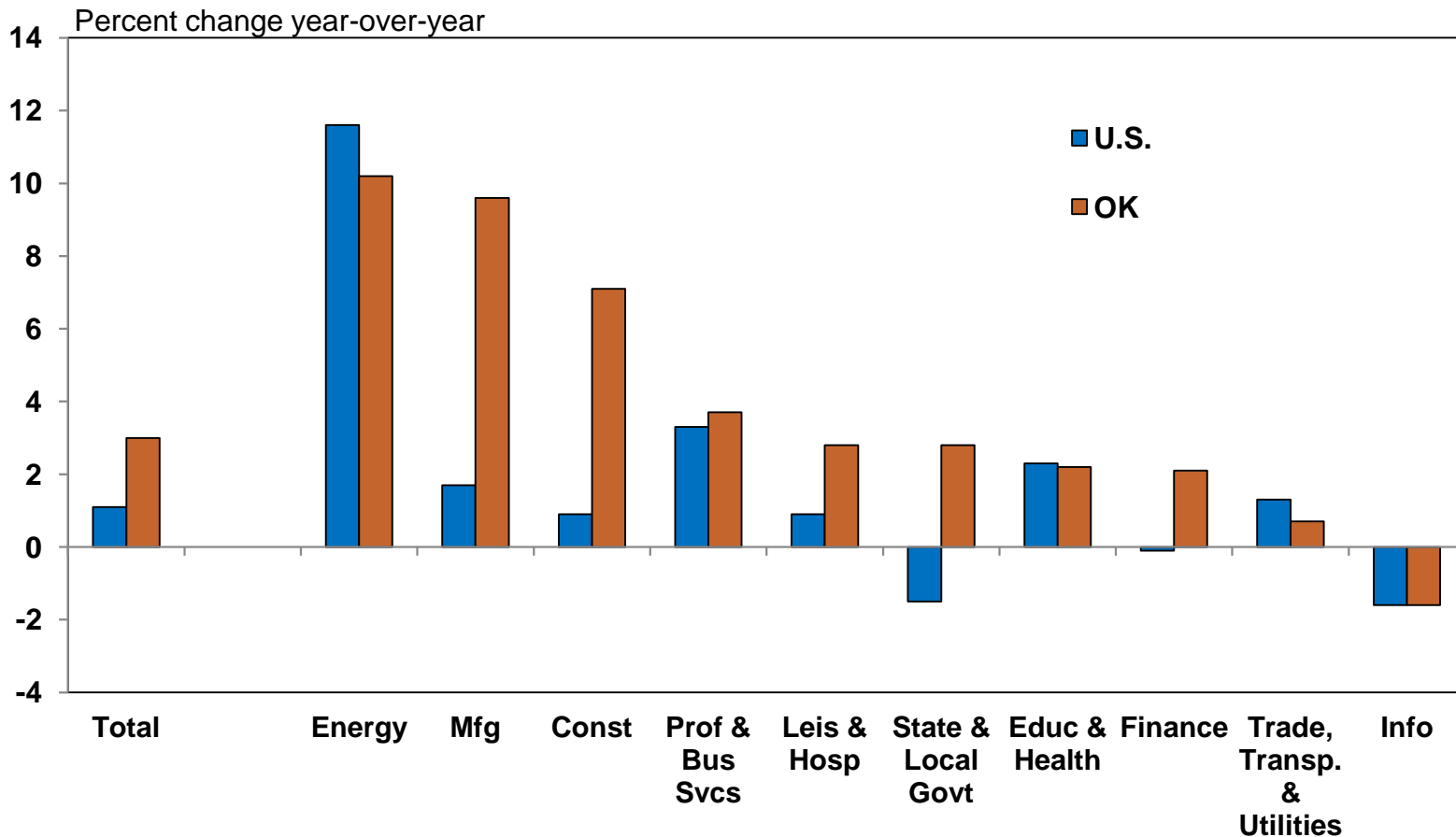
Oklahoma had a much milder recession, and has recently been adding jobs rapidly

Payroll Employment



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

Employment Growth September 2011

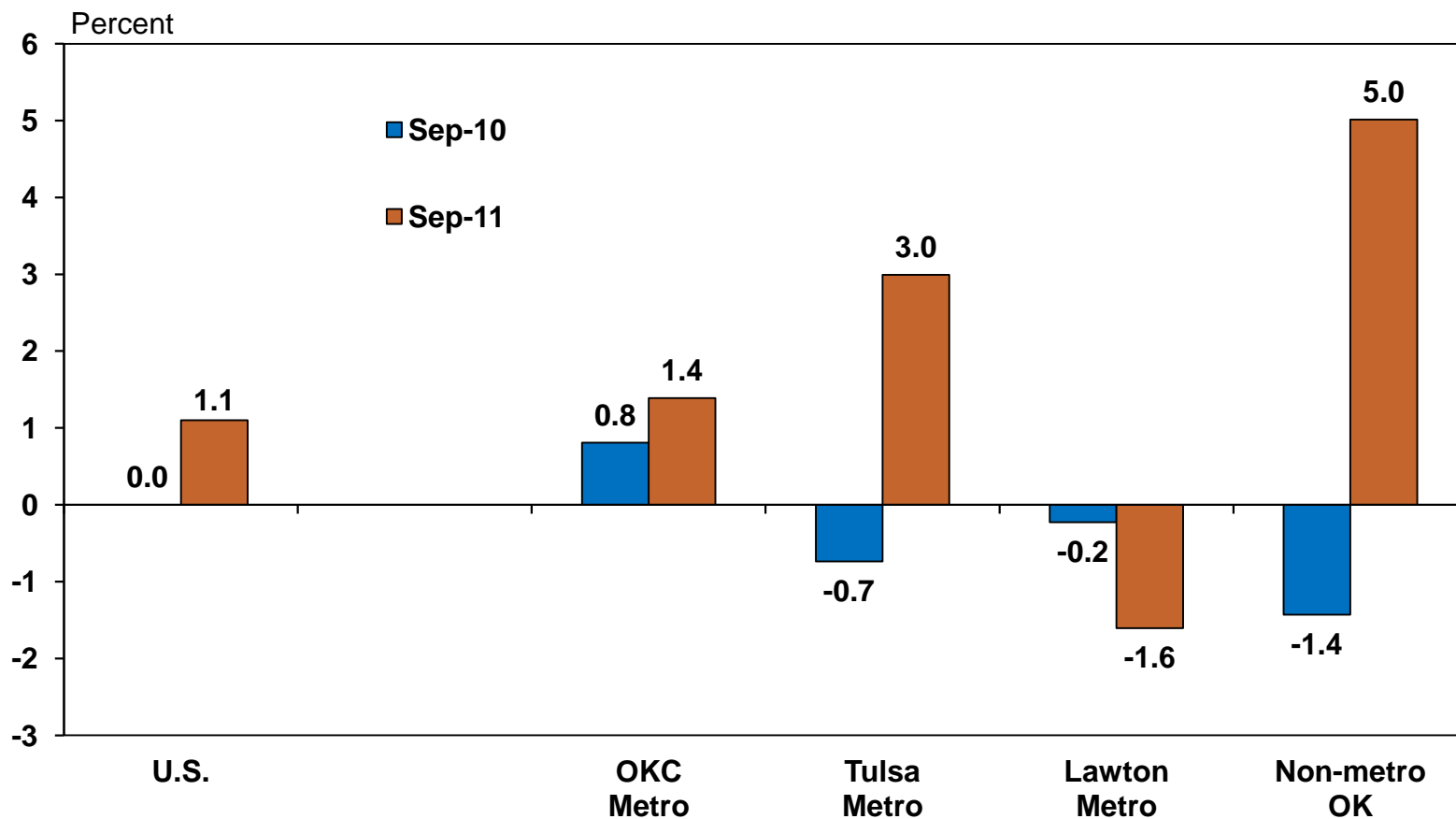


Source: Bureau of Labor Statistics



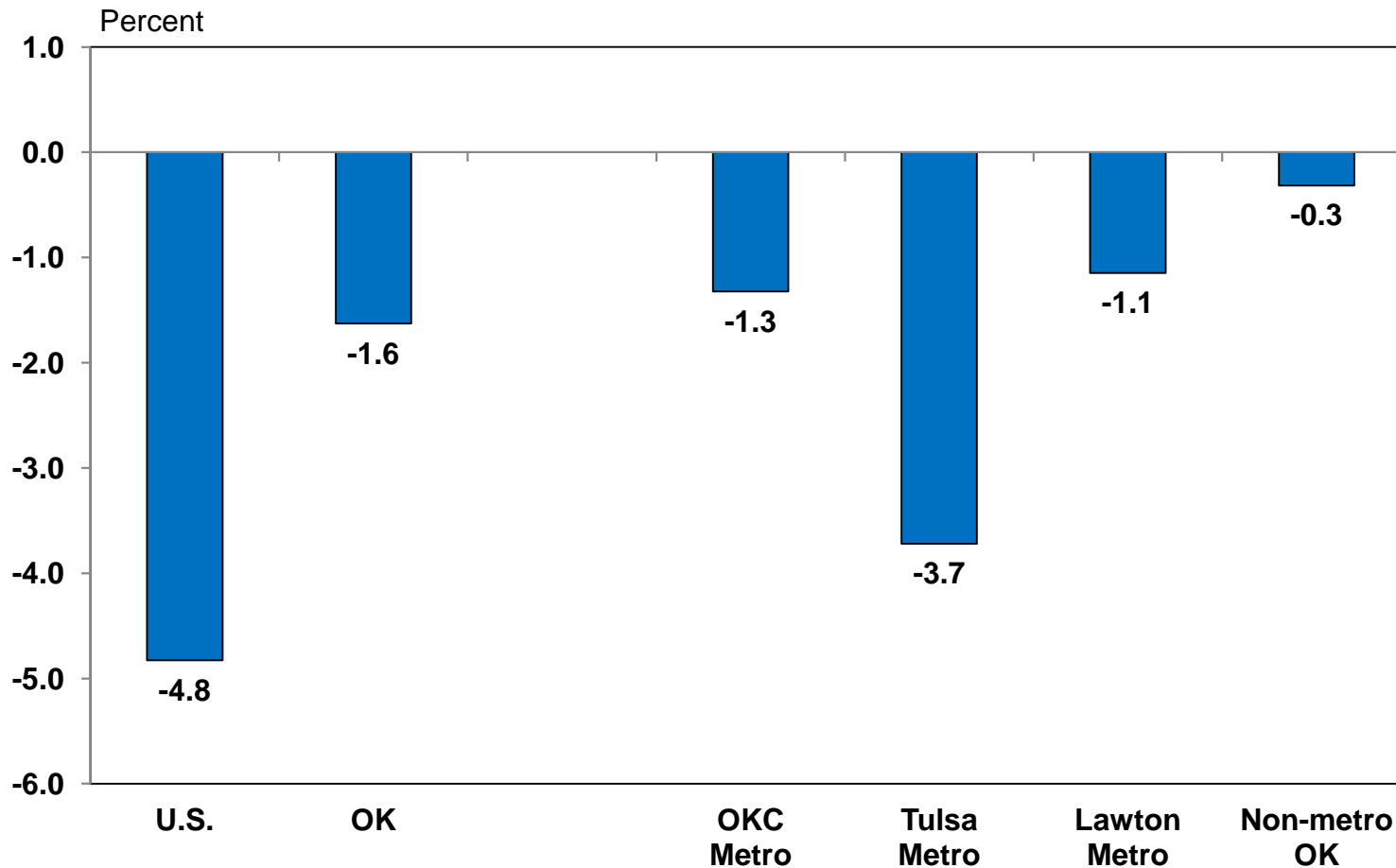
Recent job growth has been especially strong in Tulsa and in non-metro areas

Employment Growth
Year-over-year



To varying degrees, employment remains below pre-recession levels across the state

Change in Employment Since January 2008
Seasonally Adjusted

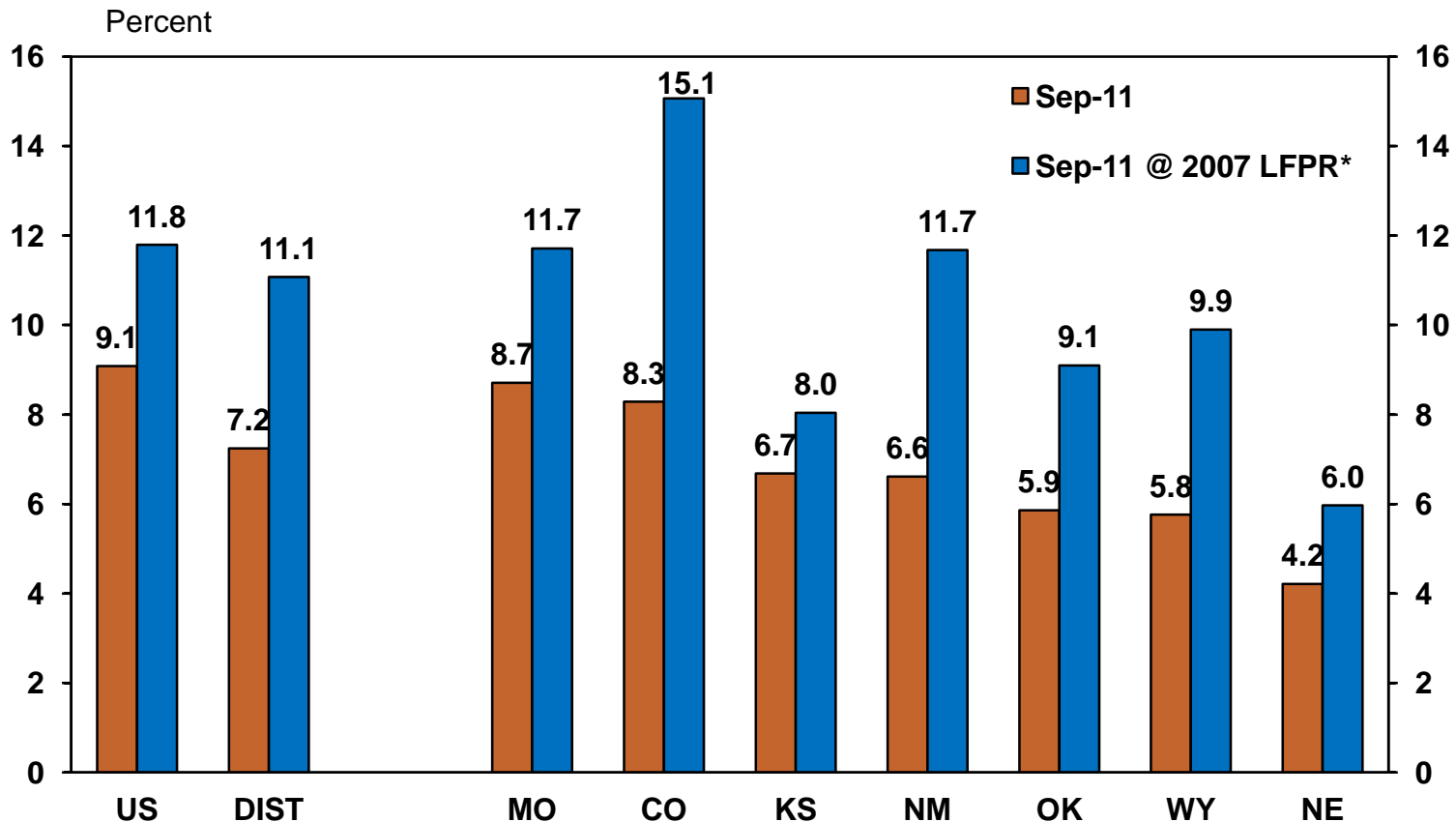


Source: U.S. Bureau of Labor Statistics



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

Unemployment Rate by State
Seasonally Adjusted



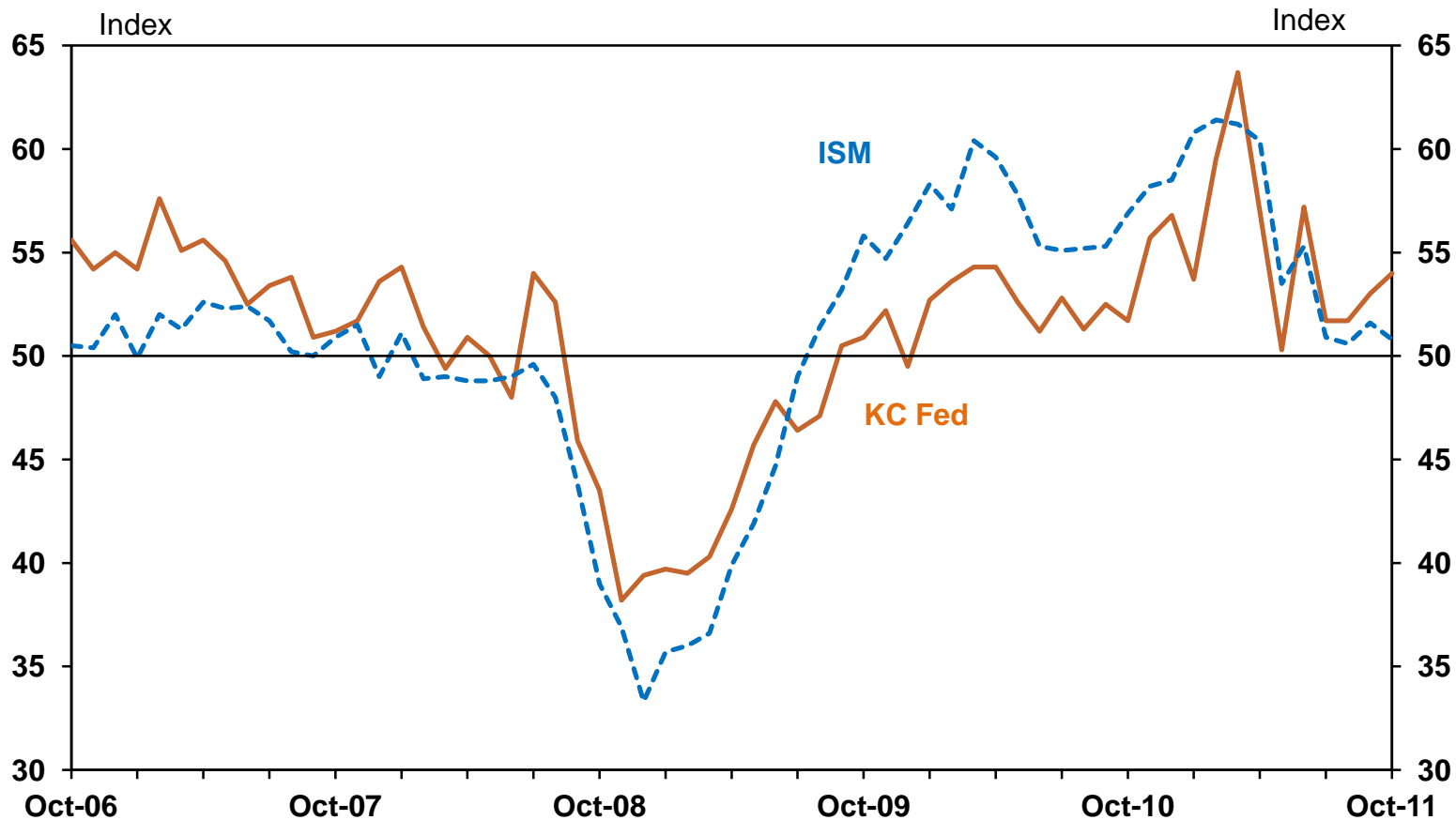
*LFPR= Labor Force Participation Rate

Source: Bureau of Labor Statistics



Regional manufacturing growth has picked up slightly but remains moderate

Manufacturing Composite Indexes



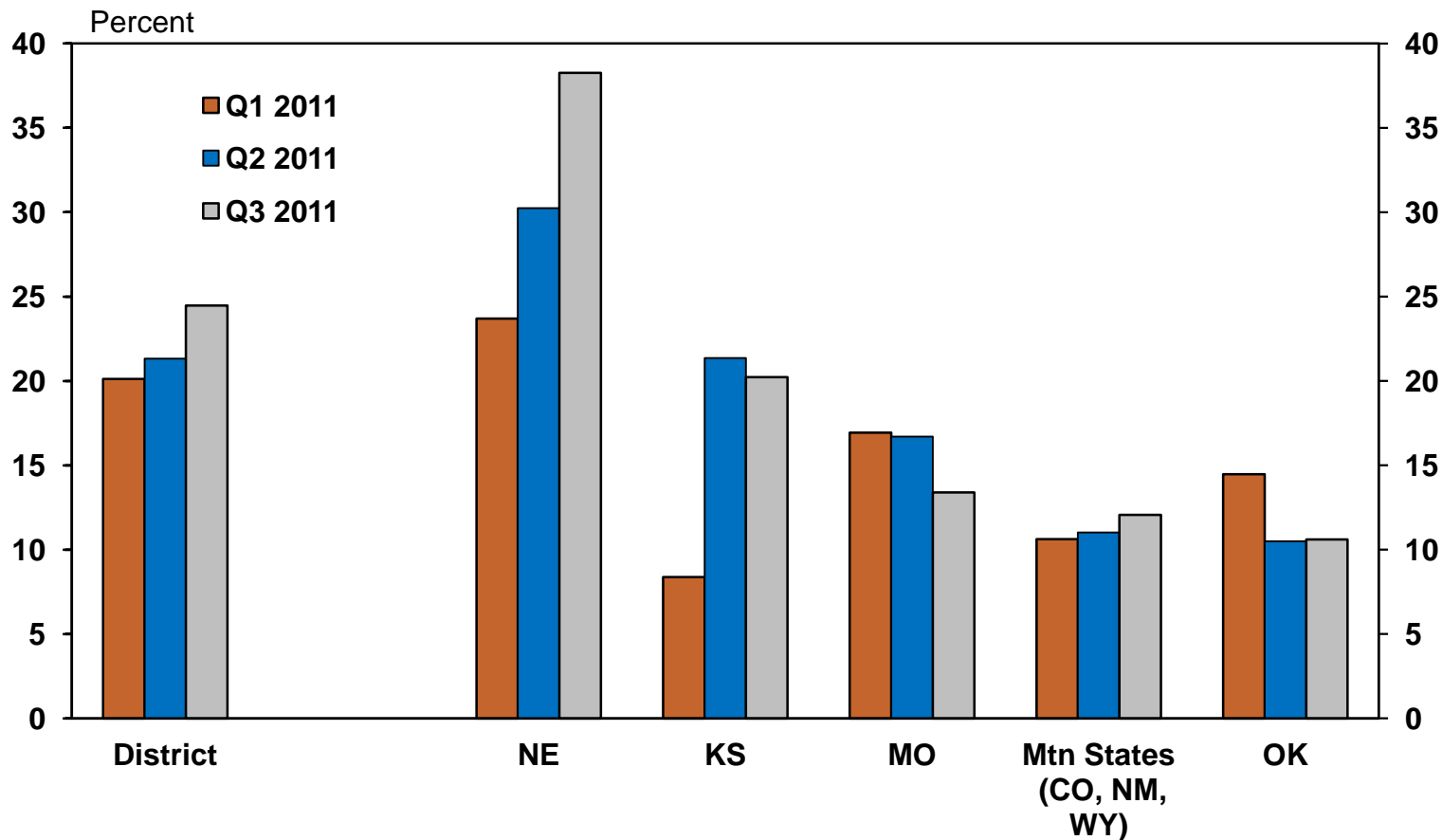
Note – Tenth District calculated on an ISM basis; Above 50 indicates expansion

Source: KCFRB Manufacturing Survey



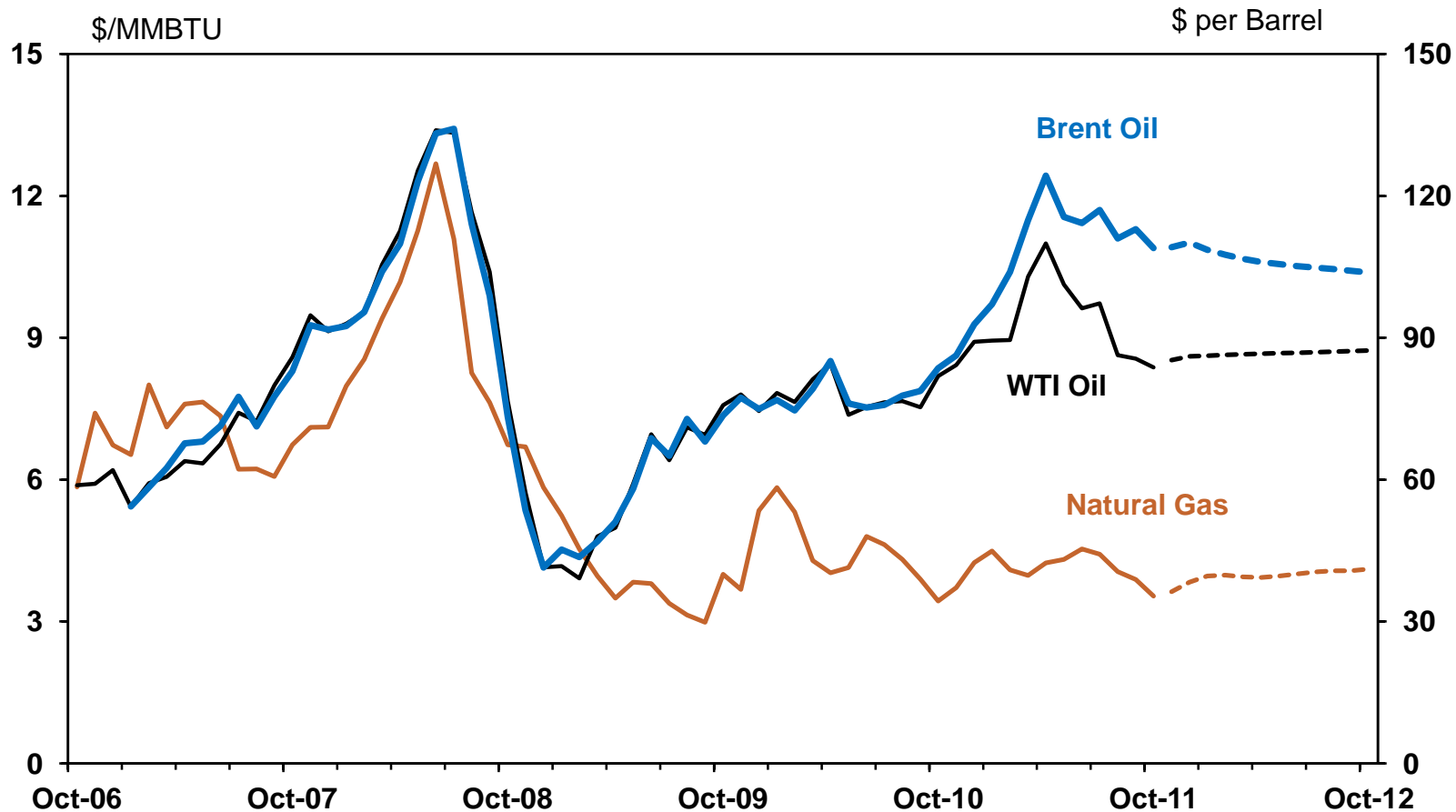
Surging farmland prices pose a risk in some parts of the region

Tenth District Non-Irrigated Cropland Values
Percent Change, Year-over-year



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

Energy Prices



Source: Bloomberg



Summary

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

