

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

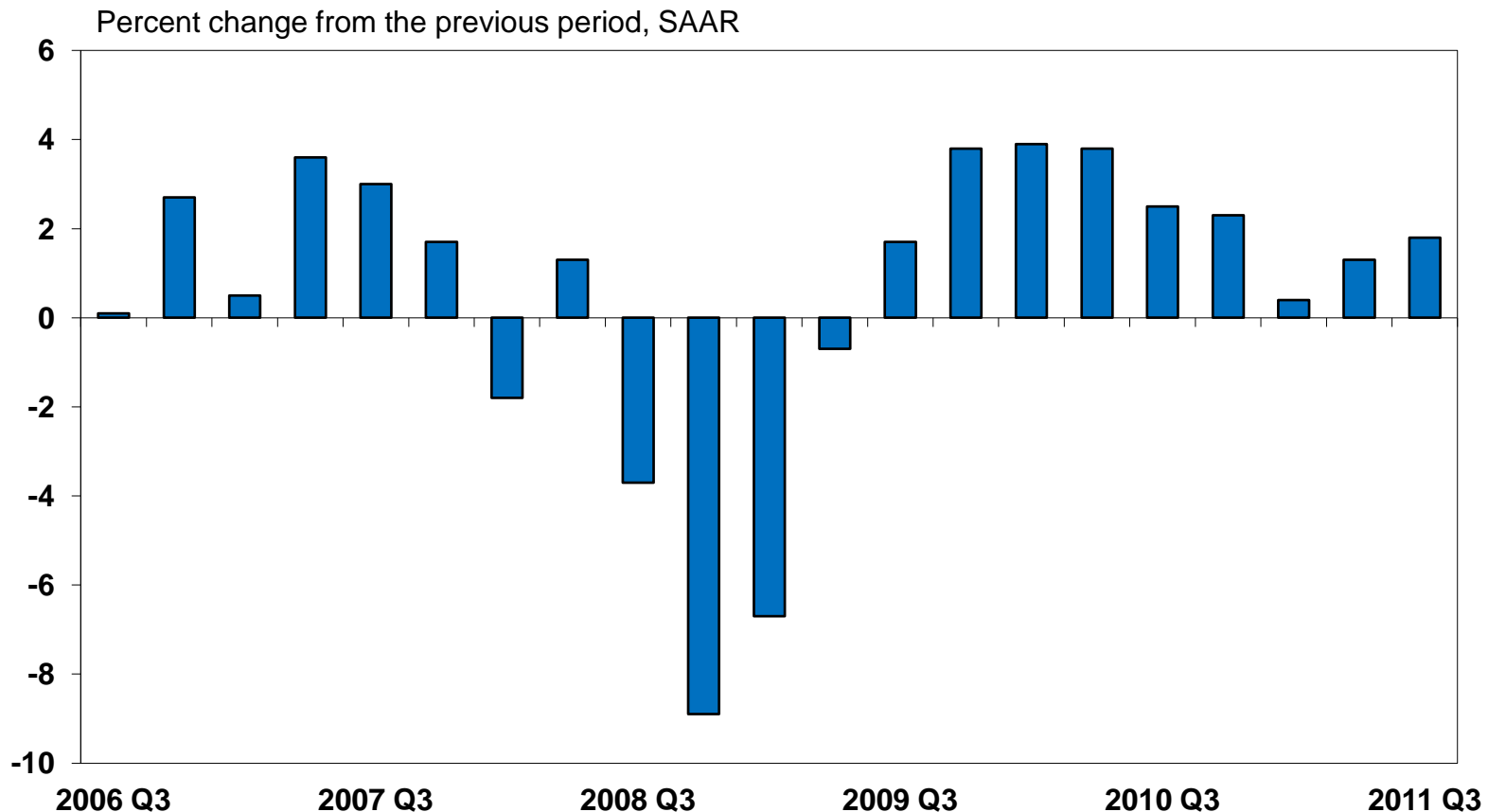


The U.S. Economy



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

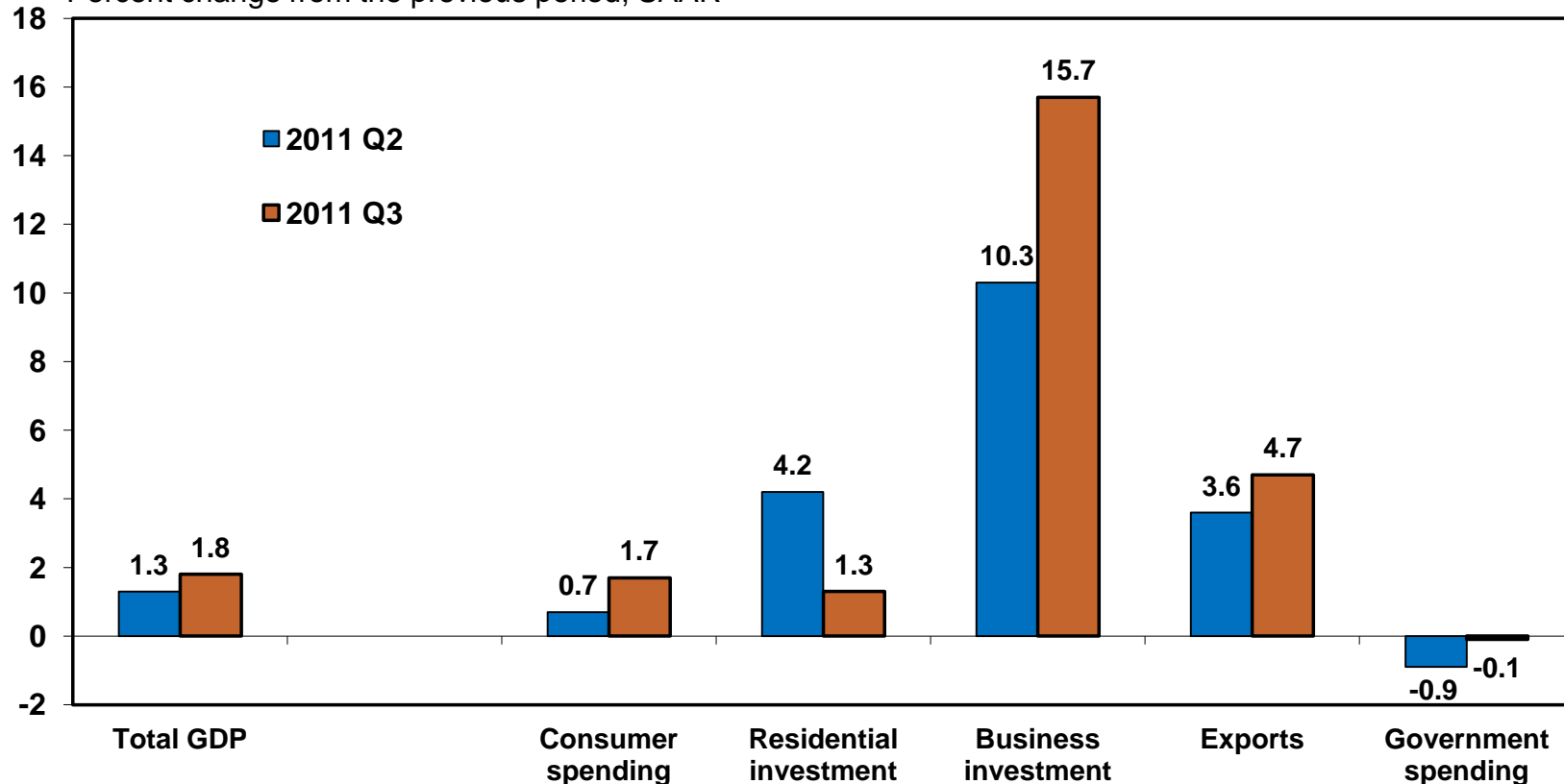
U.S. Real Gross Domestic Product



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

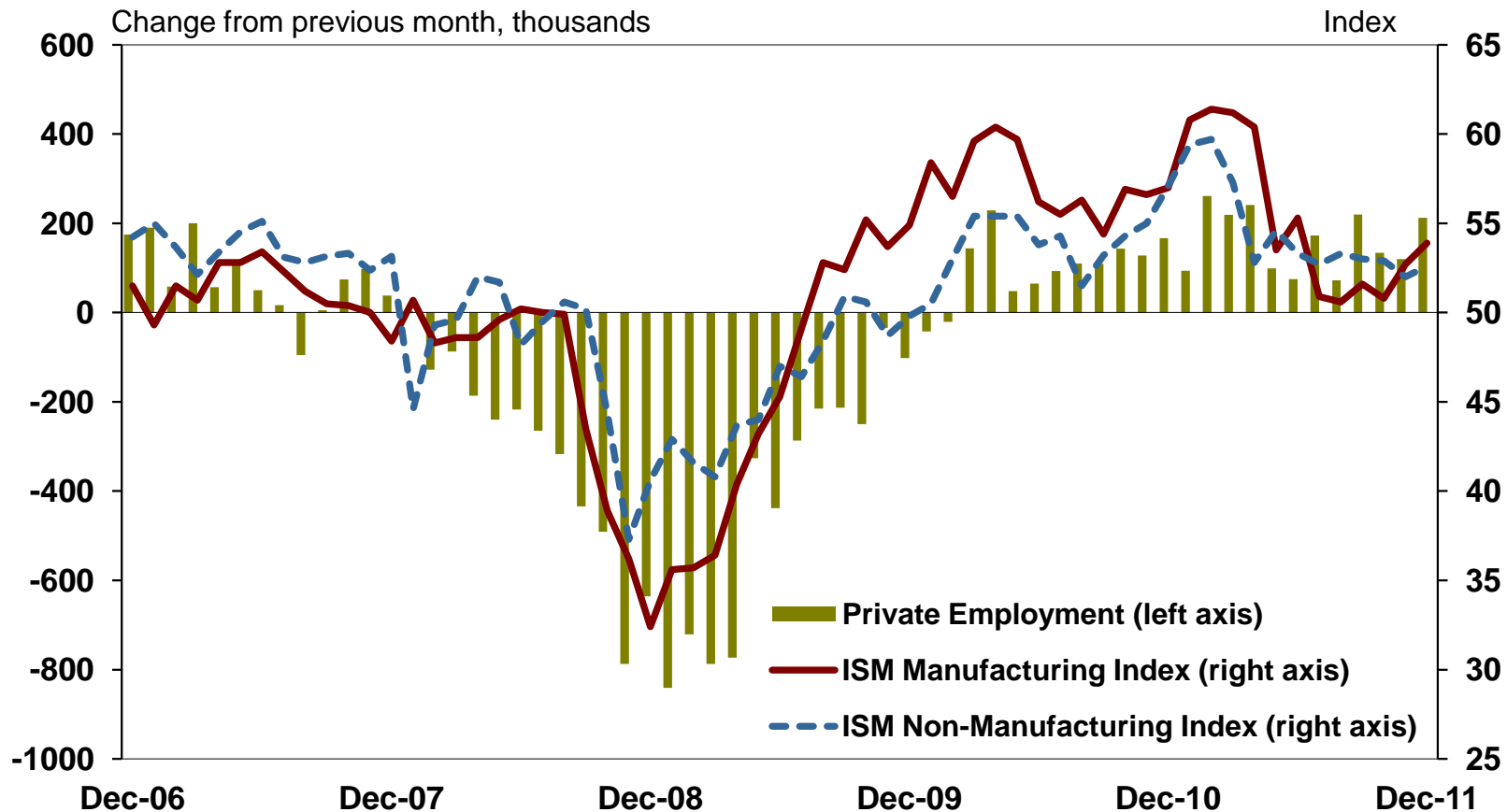
Growth in Components of Real GDP

Percent change from the previous period, SAAR



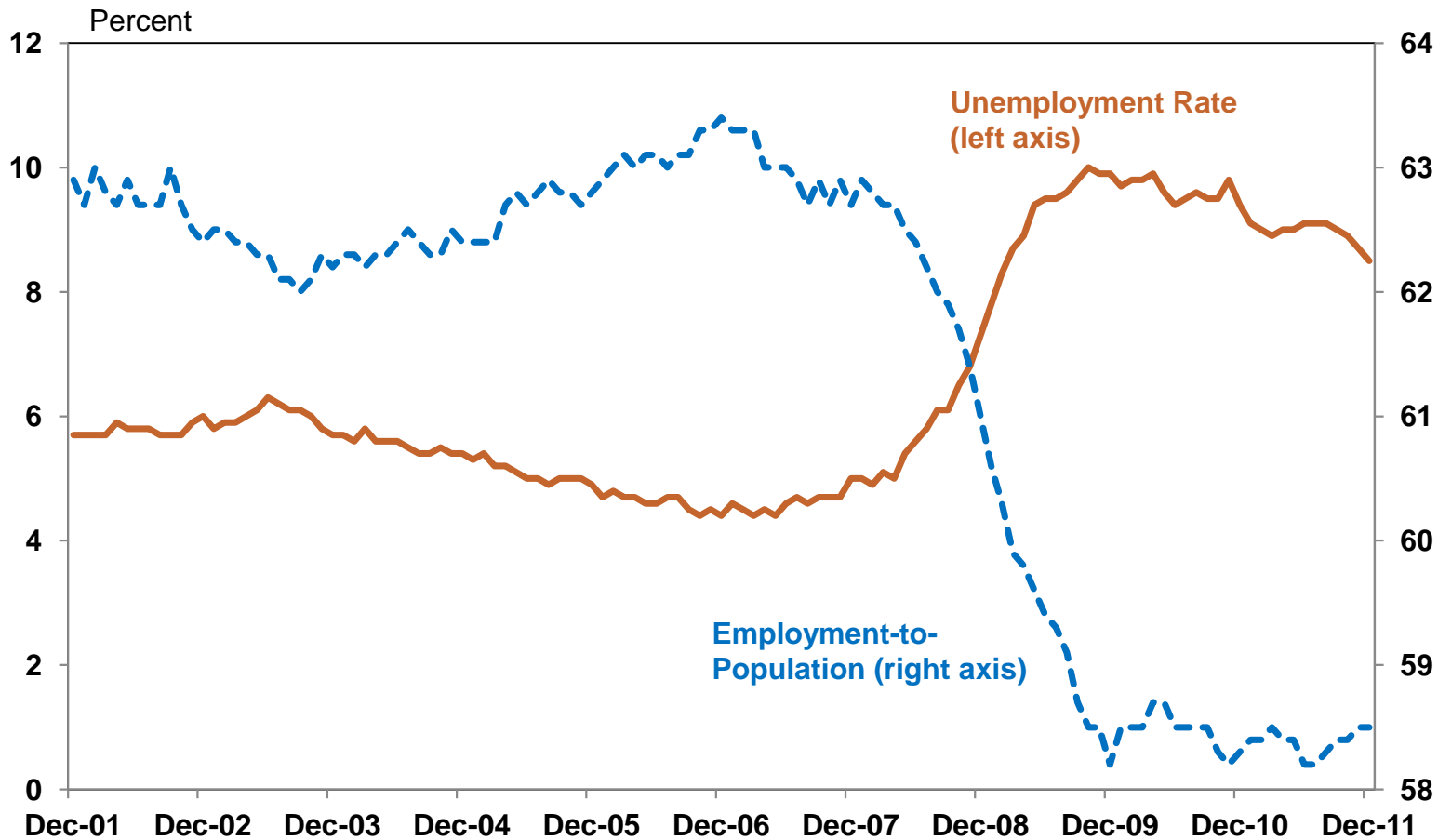
Recent U.S. data have improved slightly overall, but growth still remains moderate

U.S. Private Payroll Employment and Business Indexes



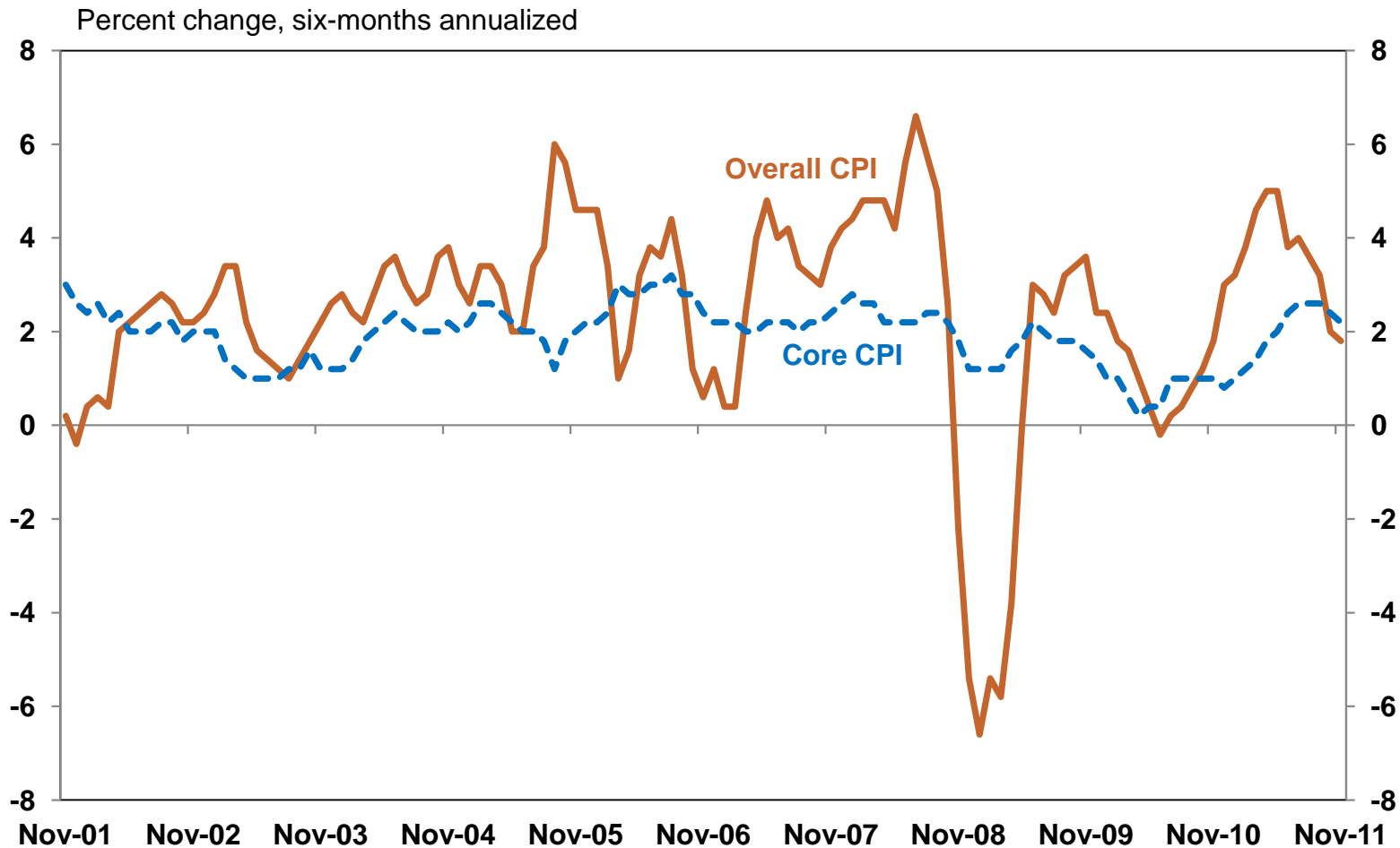
The unemployment rate eased further in December, but joblessness remains high

U.S. Unemployment Rate and Employment-to-Population



Overall inflation eased considerably in late 2011, and core prices also edged lower

U.S. CPI Index

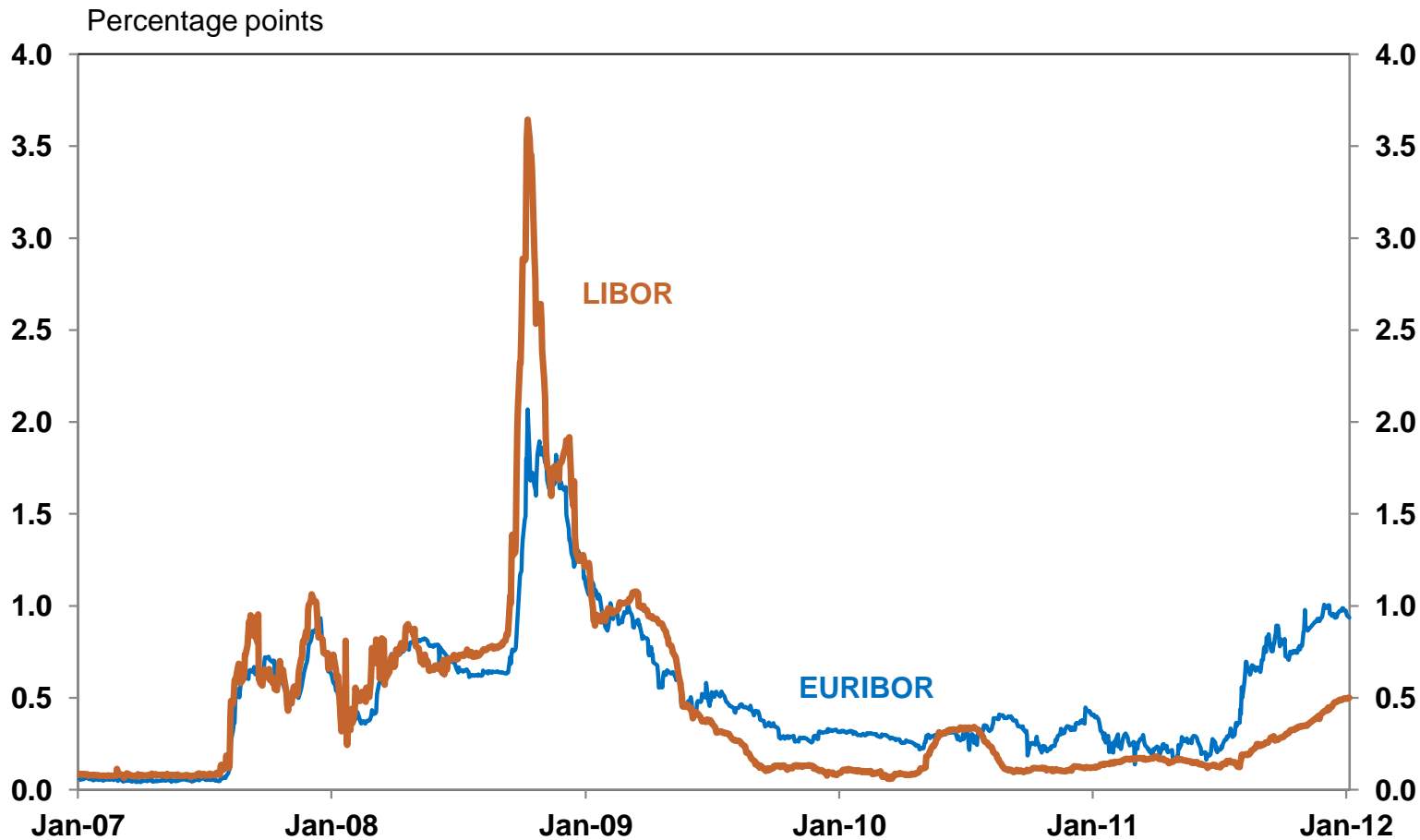


Source: U.S. Bureau of Labor Statistics



Financial stress continues to rise in Europe, and also beyond

3-month EURIBOR & LIBOR Spreads (to OIS)



Source: Bloomberg



December 11, 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.”



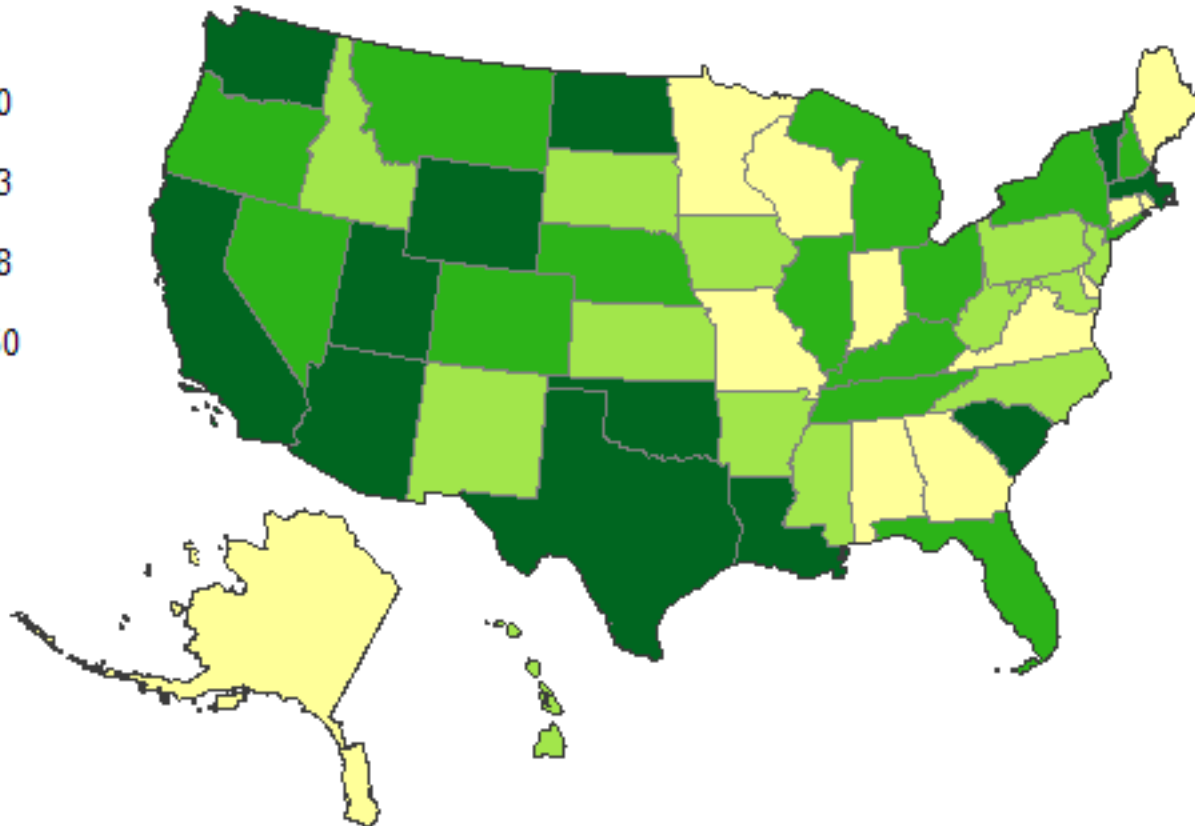
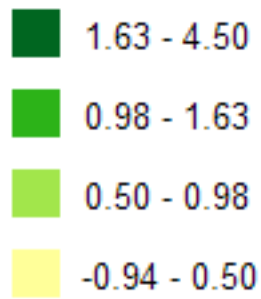
The Oklahoma Economy



There is considerable variation in economic strength across the nation

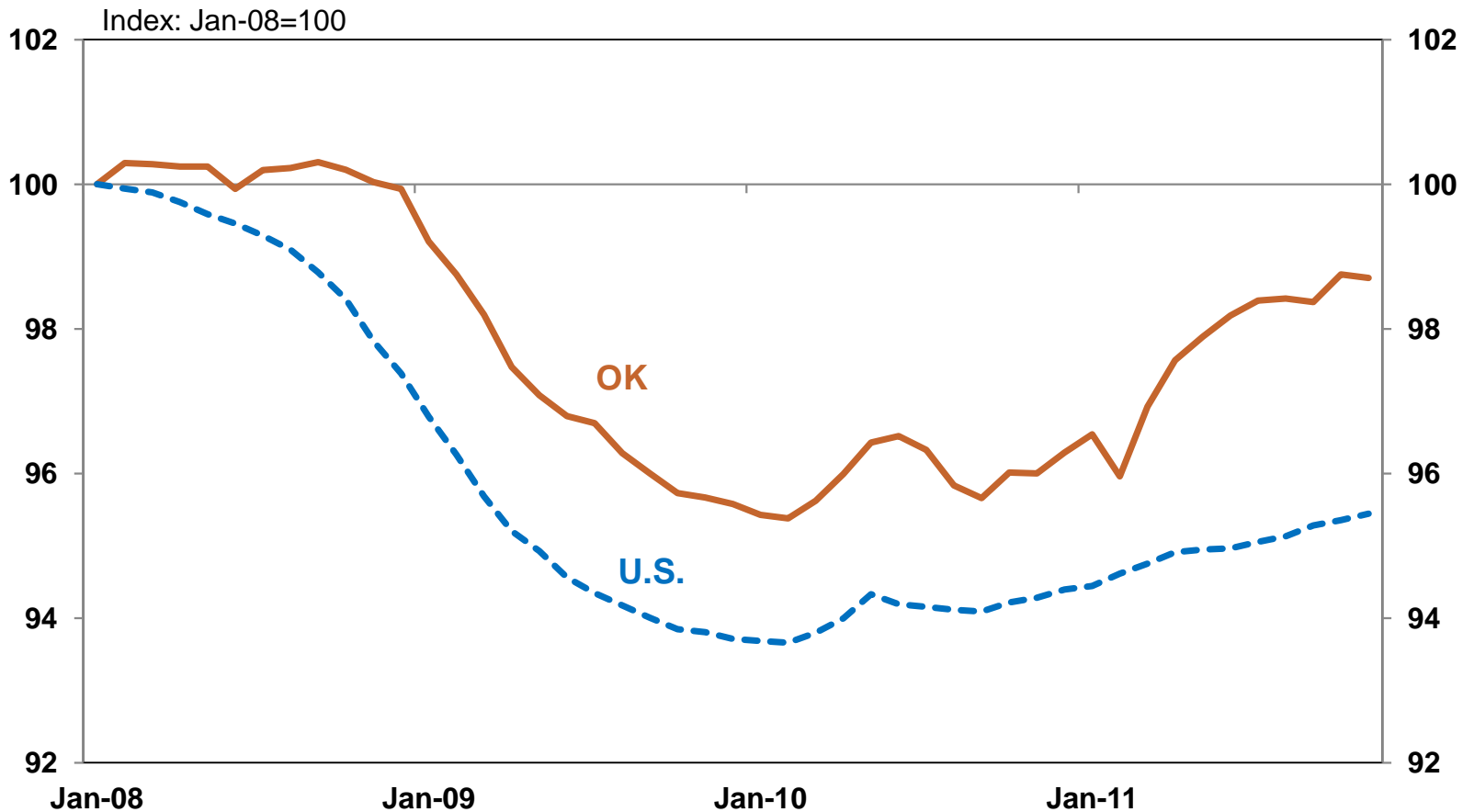
Employment Growth, Year-over-Year (percent)
November 2011

Scale



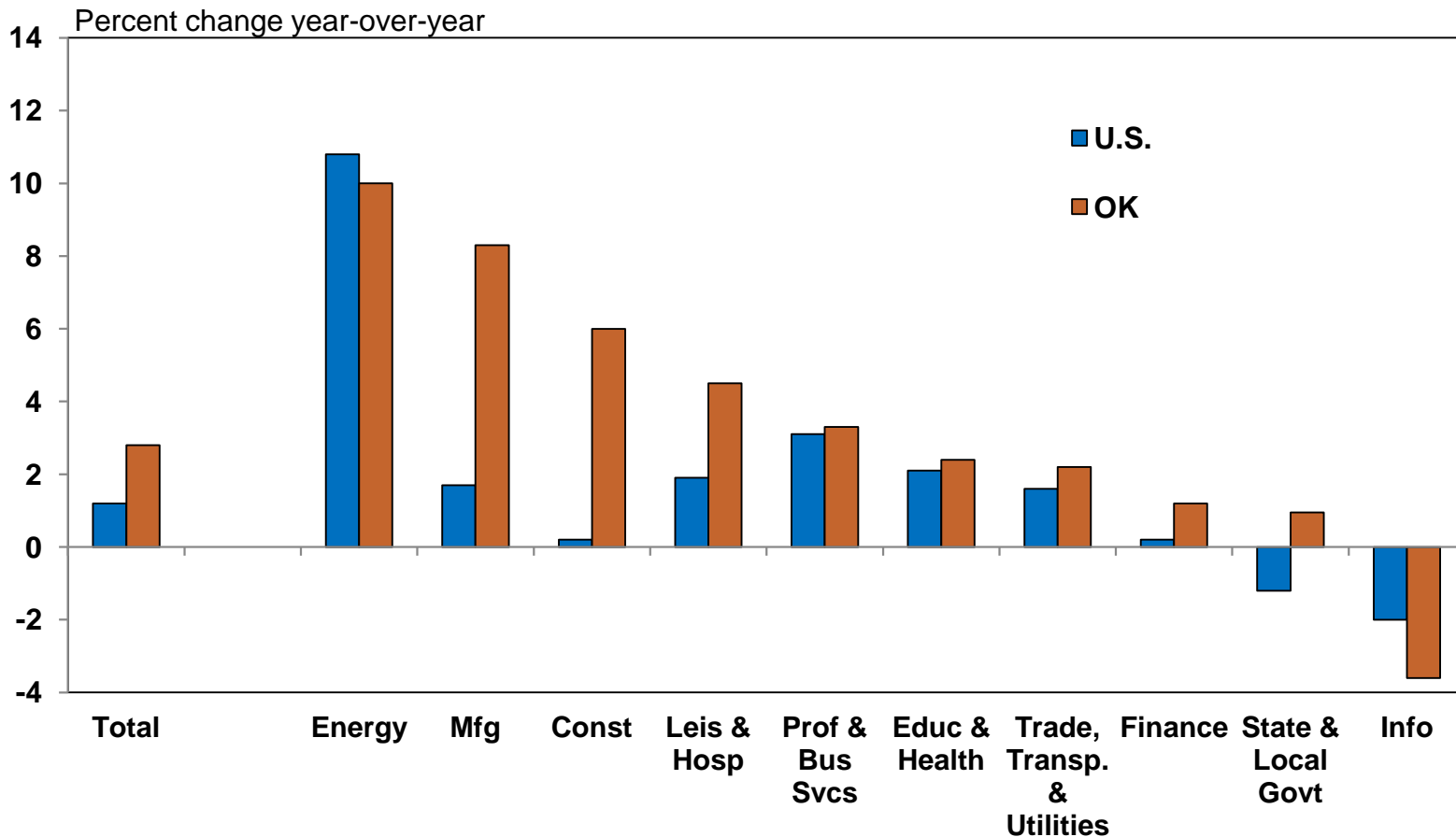
OK employment remains below pre-recession levels, but much less so than in the U.S.

Level of Payroll Employment



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

Employment Growth November 2011

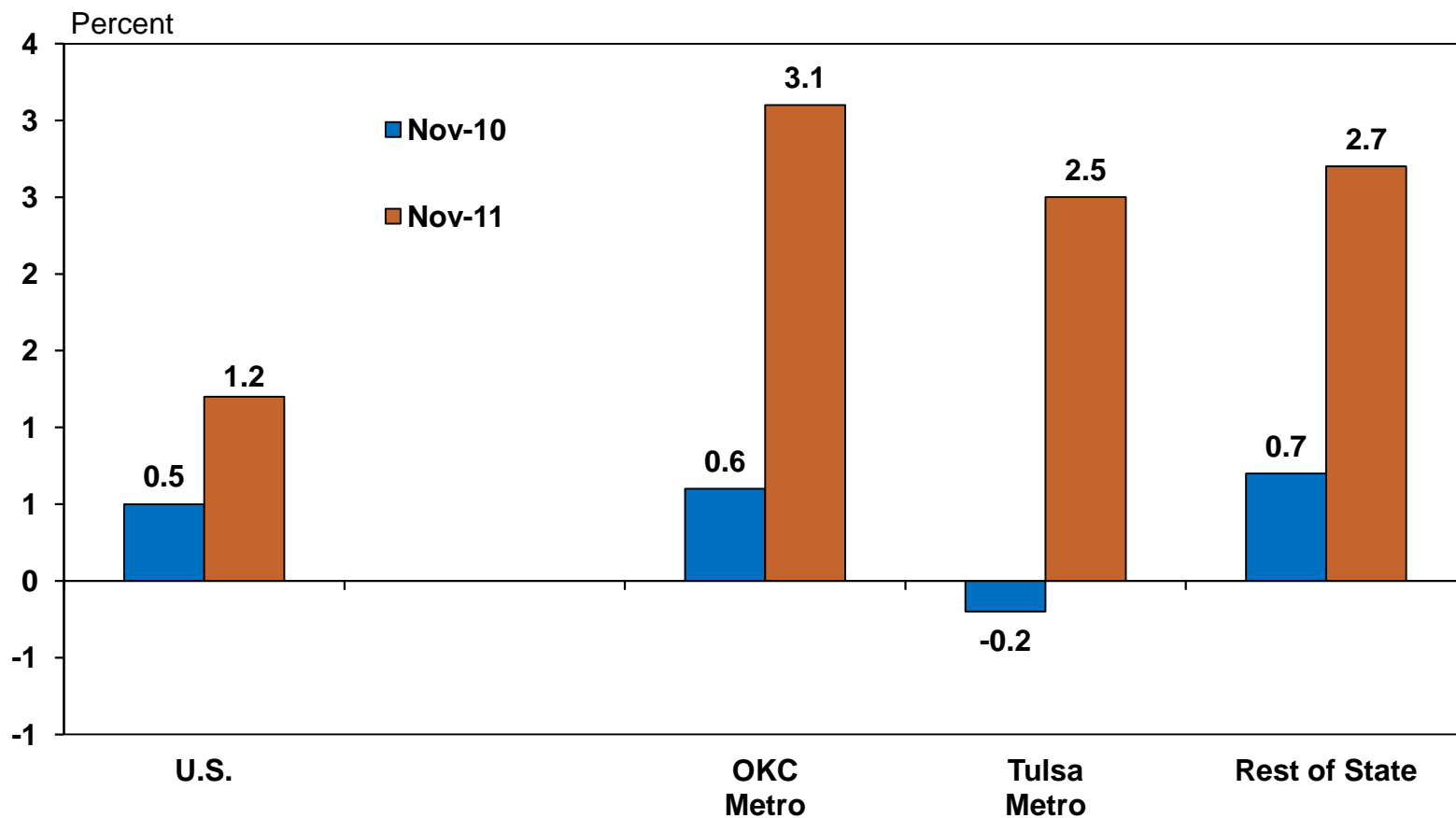


Source: Bureau of Labor Statistics



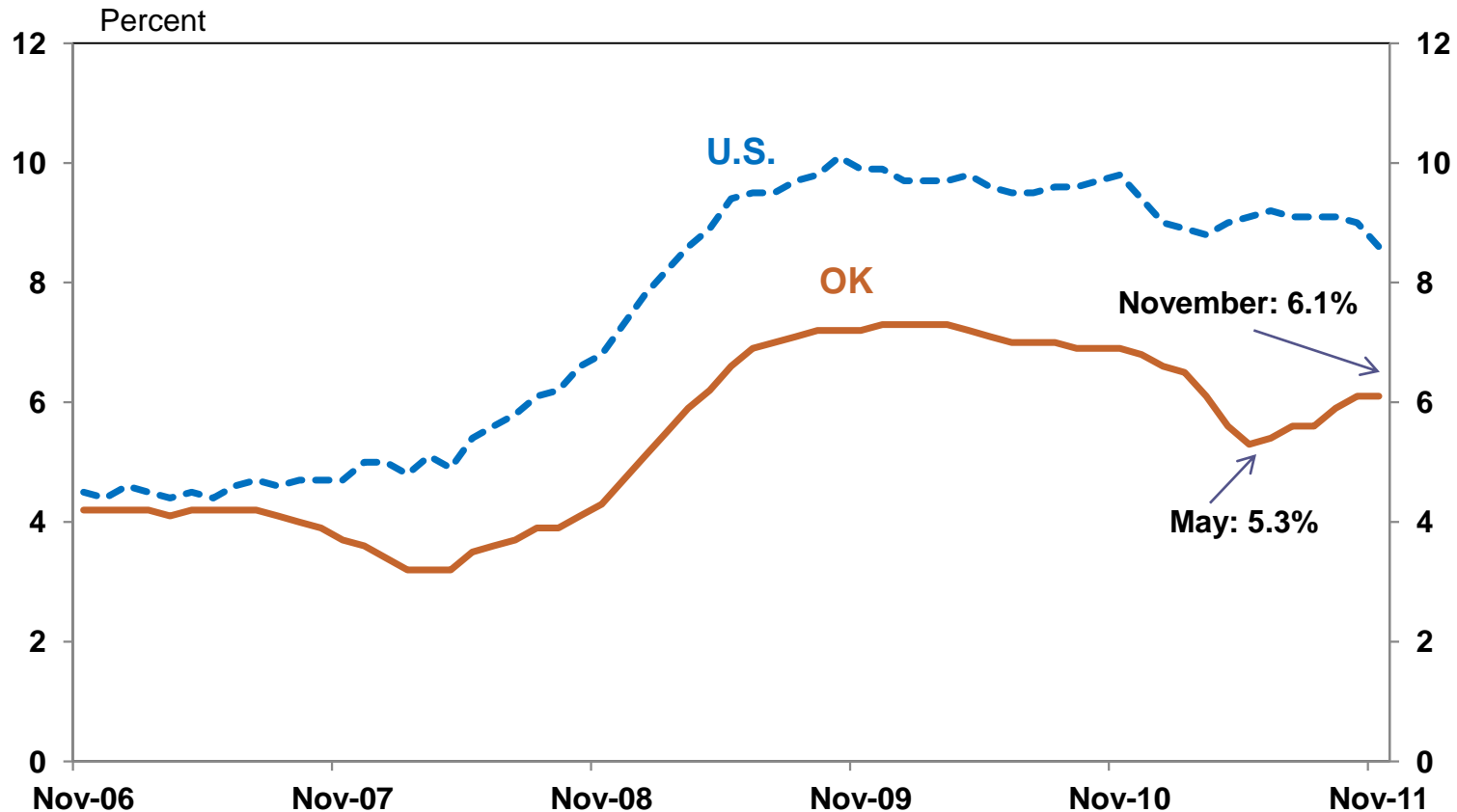
Recent job growth has been especially strong in OKC and solid in other areas

Employment Growth
Year-over-year



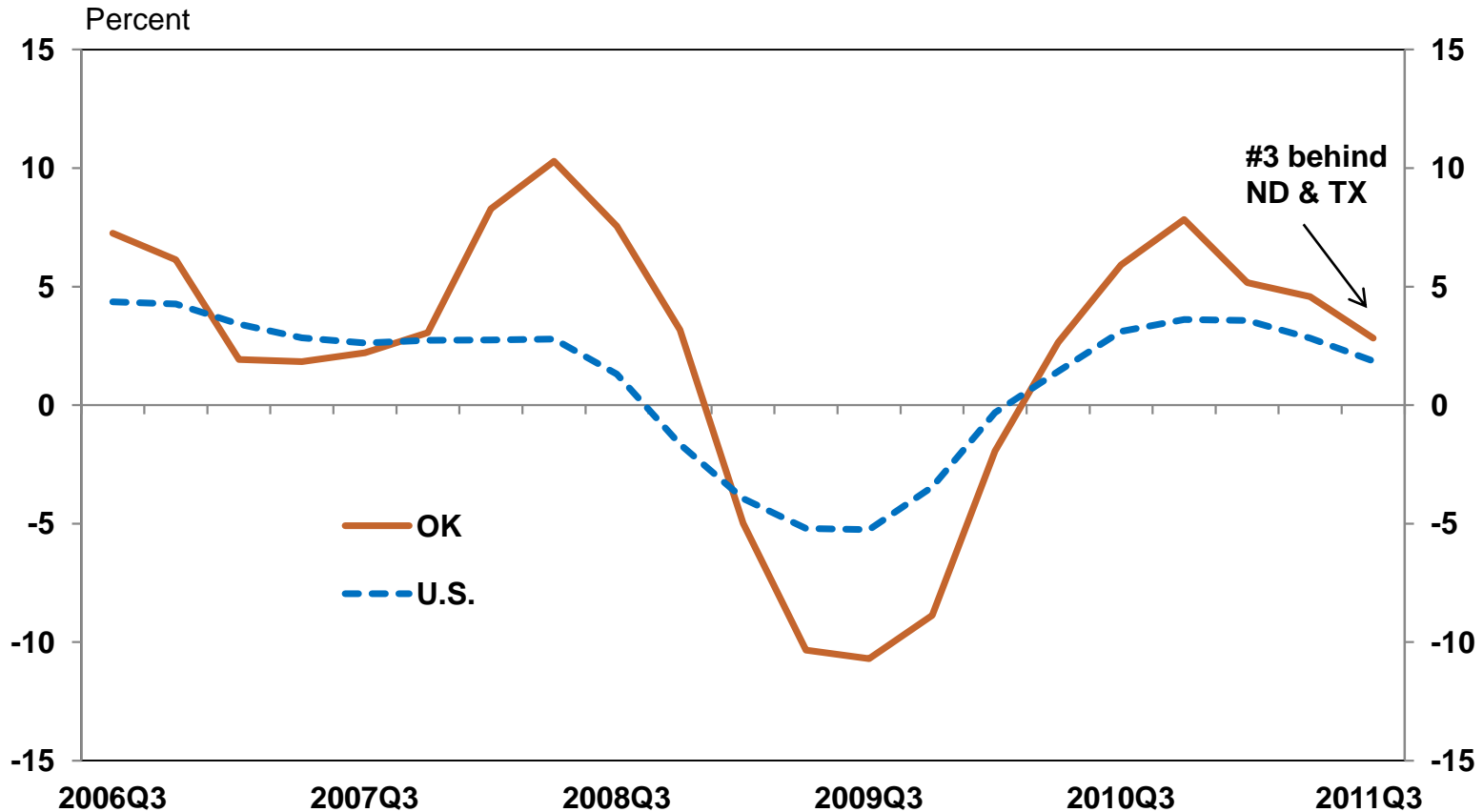
Yet unemployment in the state has risen, as discouraged workers resume job hunting

Unemployment Rate
Seasonally Adjusted



Oklahoma personal income growth has outpaced the nation since the recovery began

Real Personal Income Growth
Percent change year-over-year

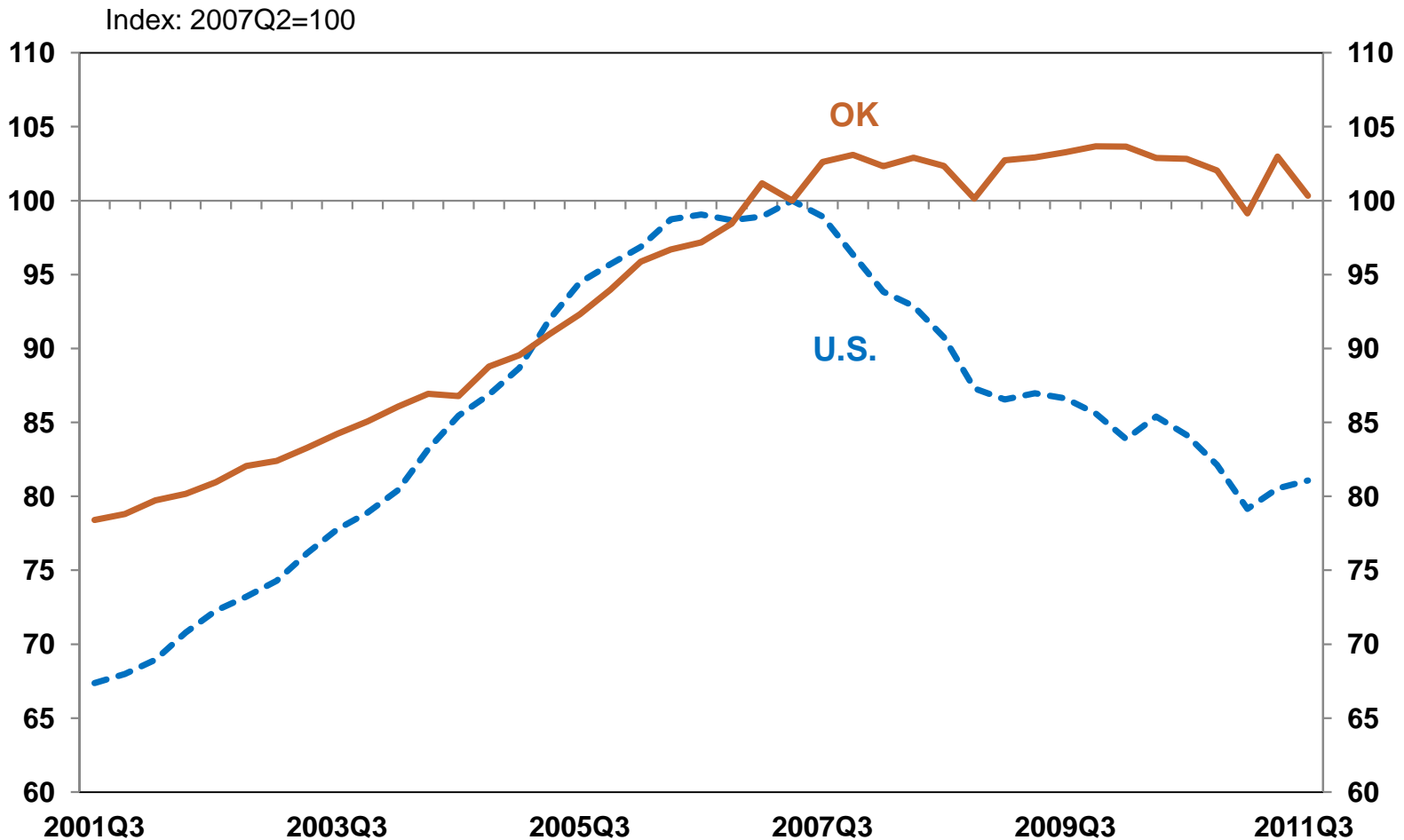


Source: BEA



Home prices are down 20 percent from their peak in the U.S., but largely flat in Oklahoma

Home Price Index
Purchase-Only

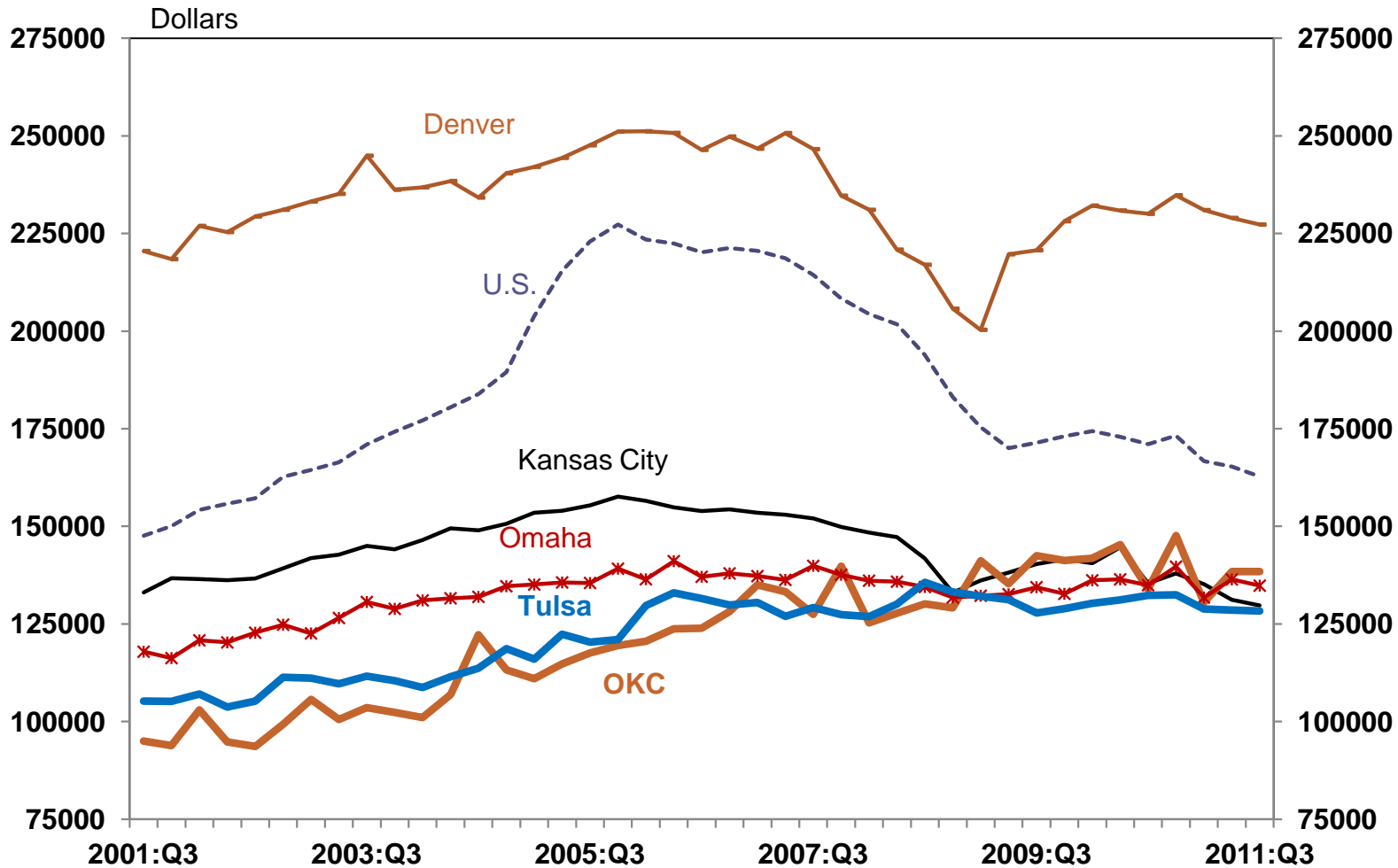


Source: FHFA



Home prices in large metros now compare more favorably to the U.S. and region

Median Home Prices in U.S. and Large Tenth District Cities

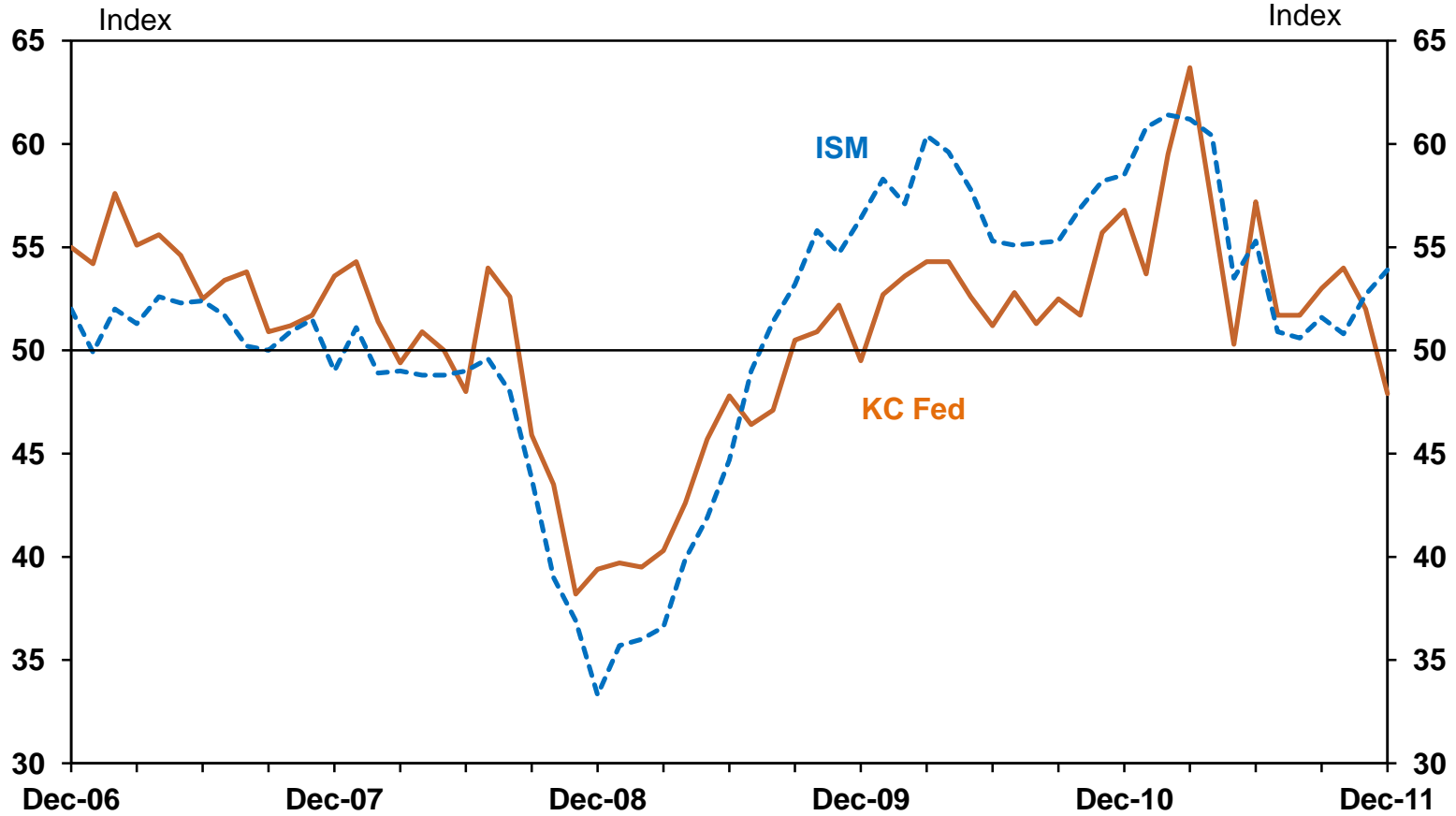


Source: NAR



Regional manufacturing growth fell slightly in December while national conditions rose

Manufacturing Composite Indexes



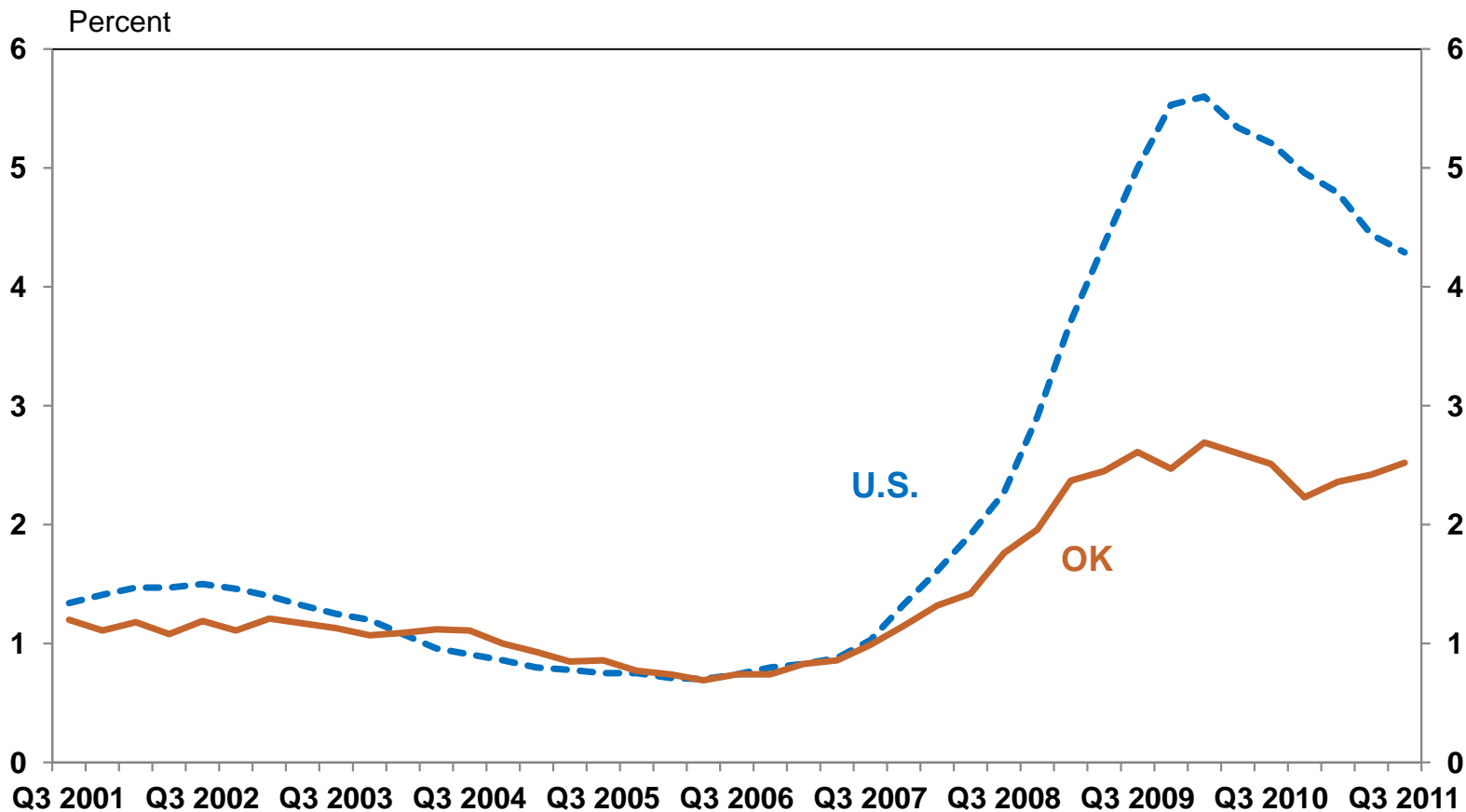
Note –Tenth District calculated on an ISM basis; Above 50 indicates expansion

Source: KCFRB Manufacturing Survey



Problem loans are still elevated, but OK banks are in much better shape than U.S.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

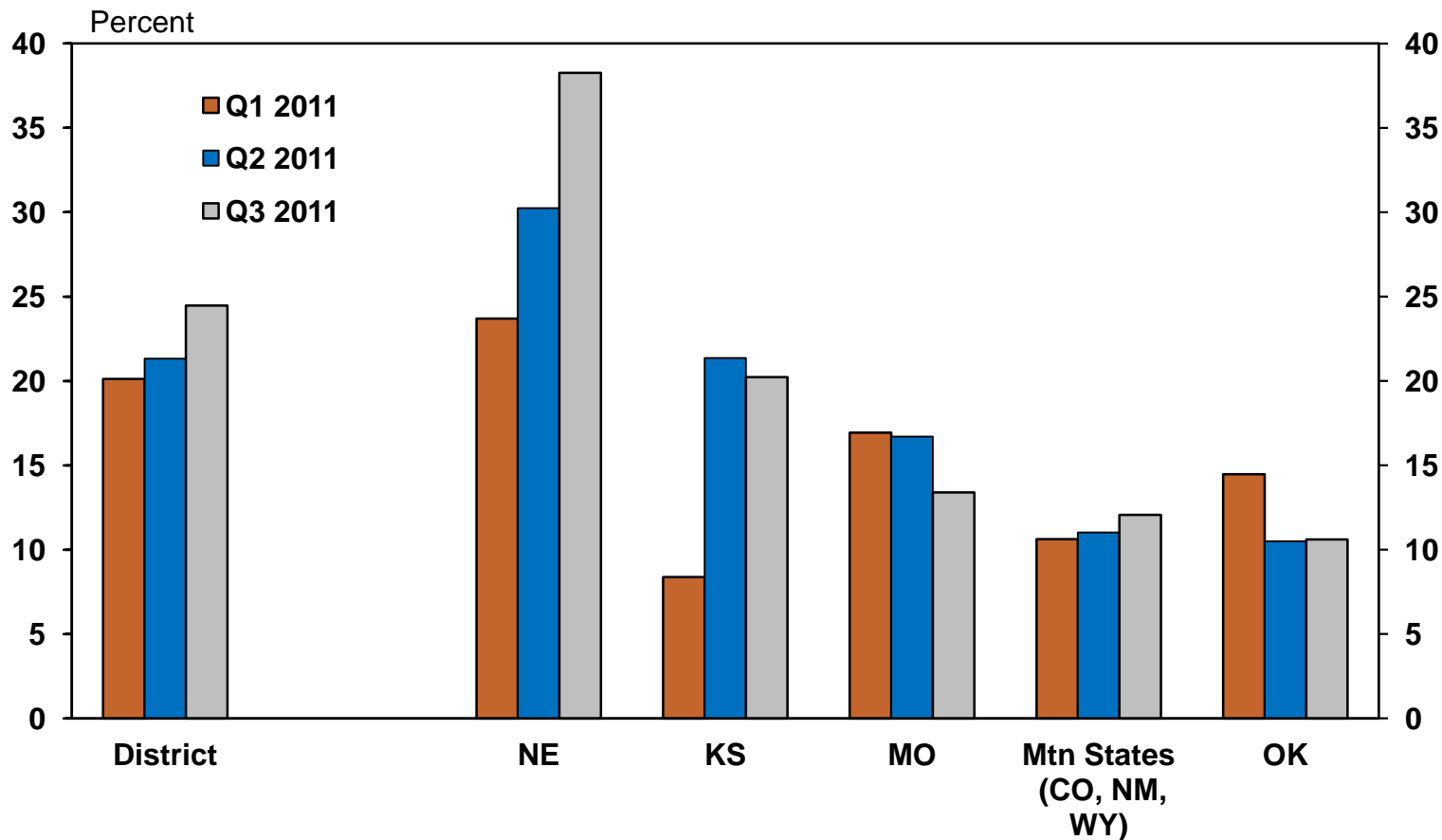


Source: FDIC



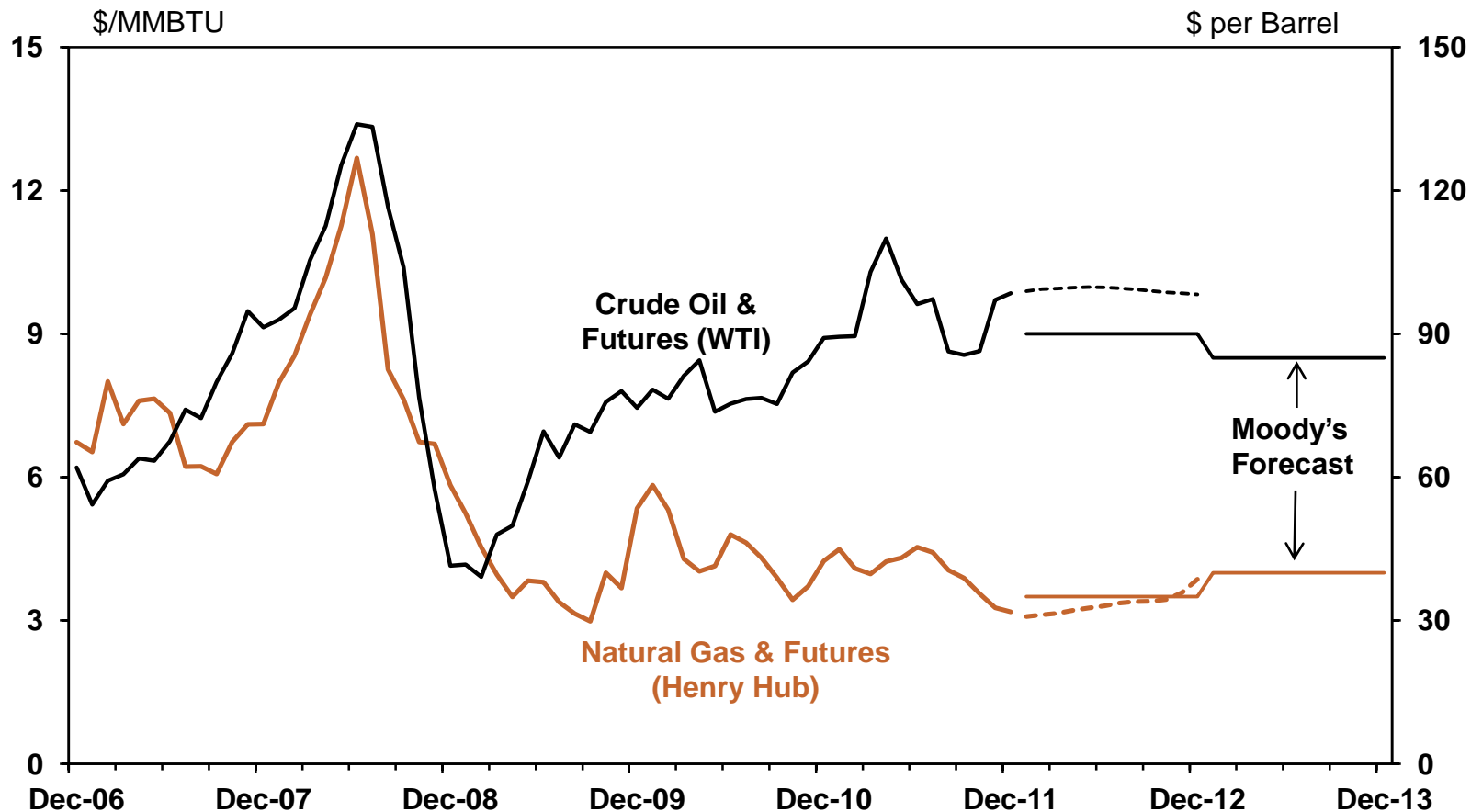
Surging farmland prices pose a risk in some parts of the region

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



Energy prices are always a big risk, but oil prices are expected to remain high

Energy Prices



Source: Bloomberg



Summary

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

