

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



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www.kansascityfed.org/oklahomacity



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

- **Functions – 35 staff**

- **Economic research and outreach** for U.S. monetary policy purposes
- **Examinations and inspections** of Oklahoma financial institutions
- **Economic and financial education outreach** to teachers and citizens
- **Community development outreach** to low and moderate income areas

- **2012 board of directors**

- **Jim Dunn (chair)**, Chairman, Mill Creek Lumber and Supply, Tulsa
- **Linda Capps**, Vice Chairman, Citizen Potawatomi Nation, Shawnee
- **Pete Delaney**, Chairman, CEO, & President, OGE Energy Corp., OKC
- **Jacque Fiegel**, Senior EVP and COO, Coppermark Bank, OKC
- **Doug Tippens**, President and CEO, Bank of Commerce, Yukon
- **K. Vasudevan**, Chairman, Service and Technology Corp., Bartlesville
- **Rose Washington**, Exec. Director, Tulsa Economic Development Corp.



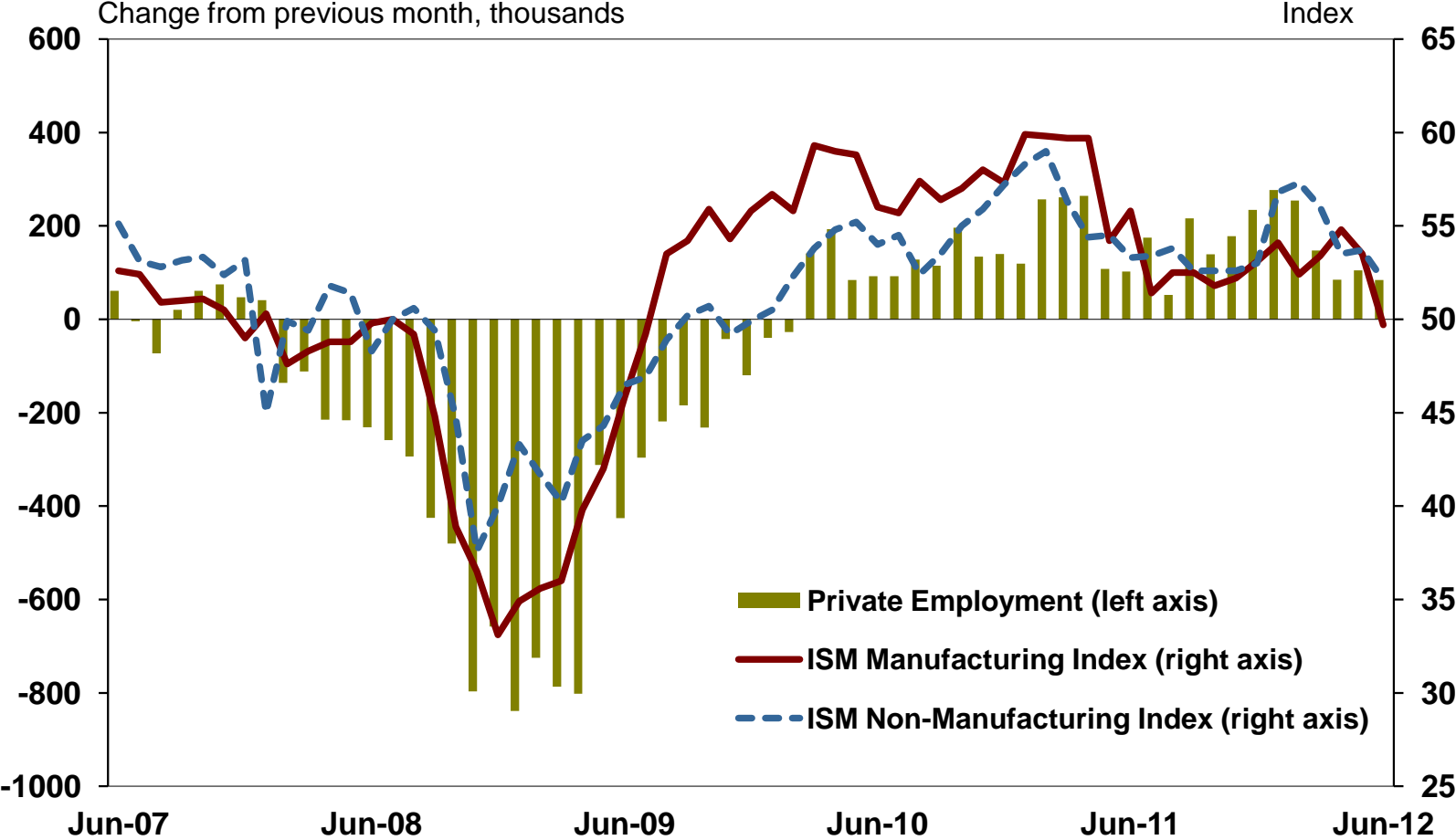
U.S. Economy and Monetary Policy

- U.S. economic growth has slowed in recent months, as uncertainties have risen again
- The FOMC expects continued improvement in unemployment, and for inflation to stay low
- The range of views among FOMC members about monetary policy are relatively wide



U.S. economic growth has slowed, with jobs and survey numbers the lowest since 2009

U.S. Private Payroll Employment and Business Indexes

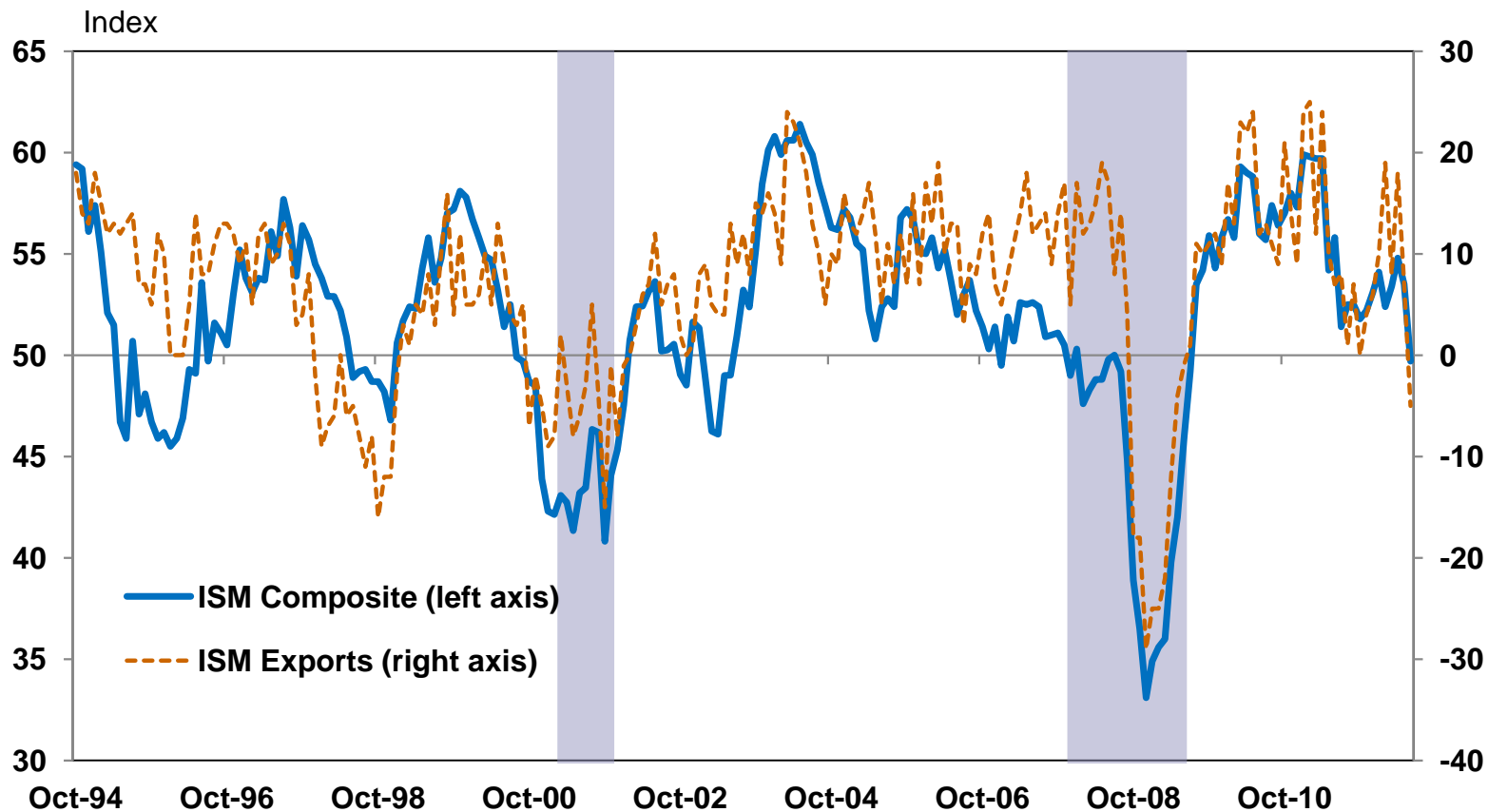


Source: Institute for Supply Management, Bureau of Labor Statistics



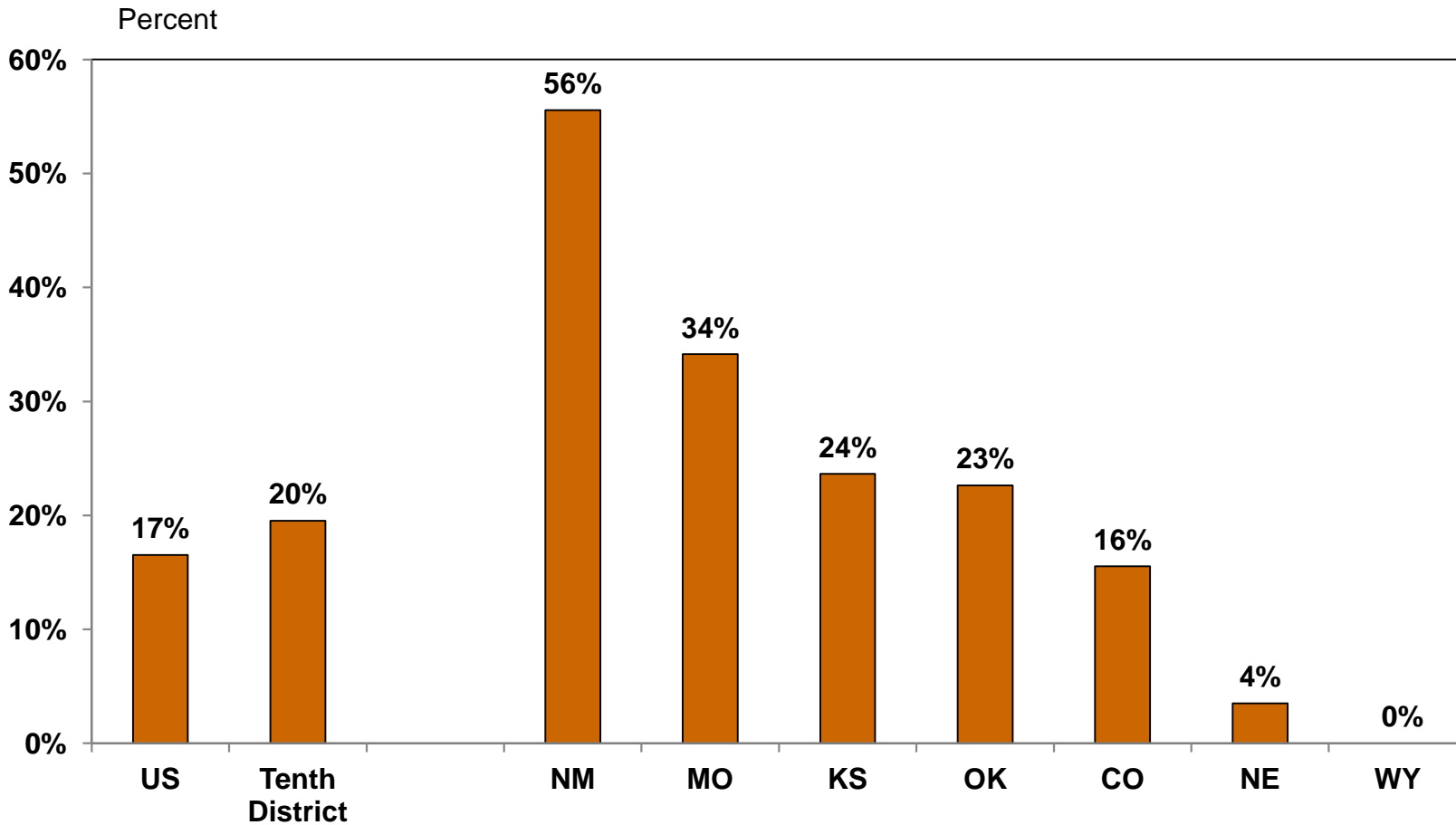
Readings on the ISM factory index below 50 have not always meant recession

ISM Manufacturing Survey Indexes



Factories have less than 10% of U.S. and District jobs, but they've spurred growth lately

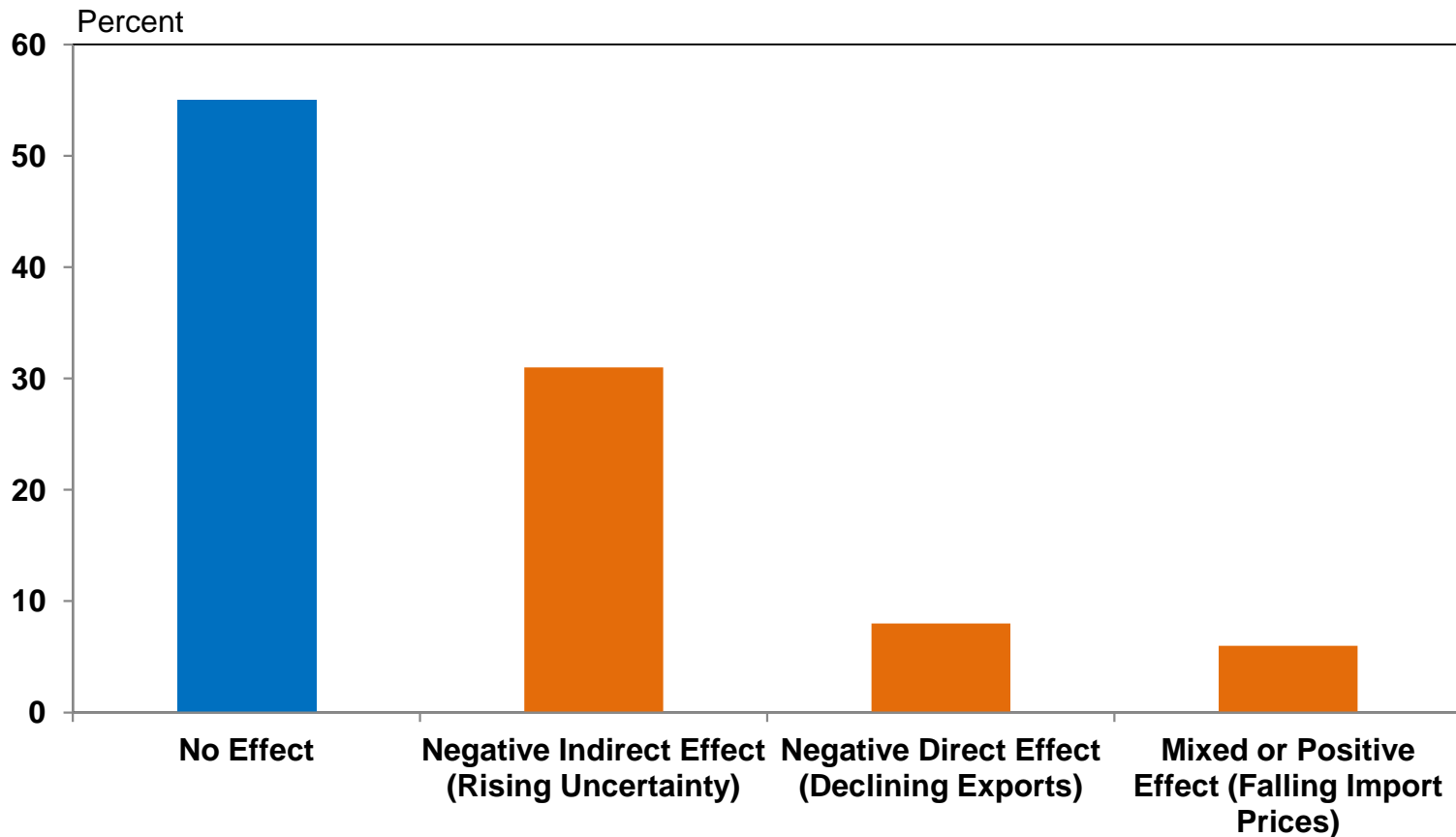
Manufacturing's Share of Total Job Growth, Last 6 Months
(Nov-2011 to May-2012)



District manufacturers say the European impact has been moderate and more indirect

How is the Current Situation in Europe Affecting Your Business?

Tenth District Manufacturing Survey, June 2012



Source: FRBKC Manufacturing Survey



The European Trilemma

- **Sovereign debt crisis** – Poor fiscal management and rising bond yields in some countries threaten fiscal sustainability.
- **Banking crisis** – A property bust in some markets and a decline in sovereign debt values have impaired the balance sheets of some Euro zone banks.
- **Slow growth and recession** – Tighter fiscal policy and financial conditions, plus the uncertain climate, is weighing on European growth



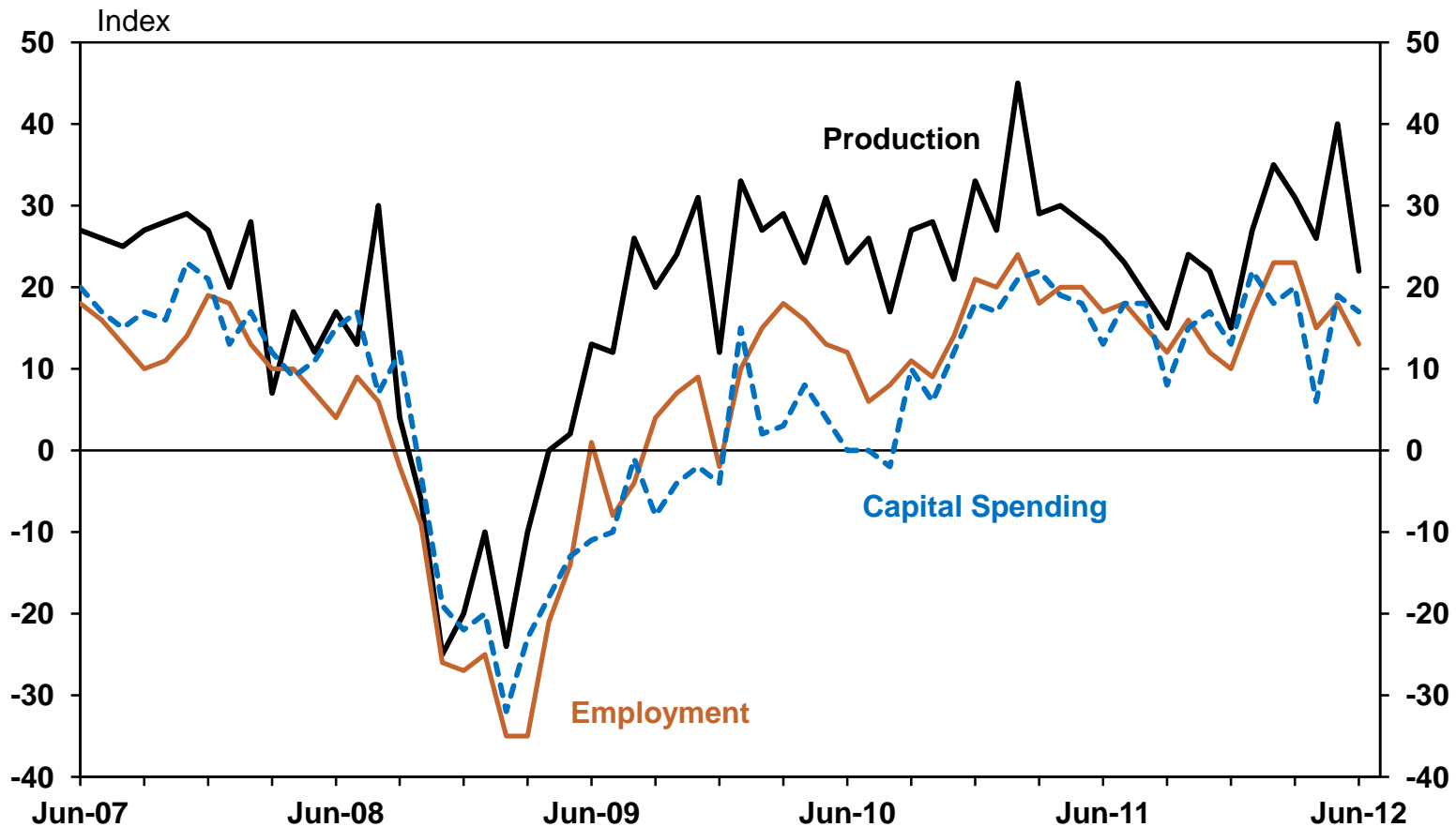
The impact on the U.S. of an intensification of the European crisis

- Long-term rates would fall and support U.S. economic activity
- Credit standards would likely tighten, so fewer households and businesses would have access to the lower rates
- Appreciation of the U.S. dollar would weigh on exporters
- Commodity prices would likely decline
- Sharp fall in confidence and heightened uncertainty



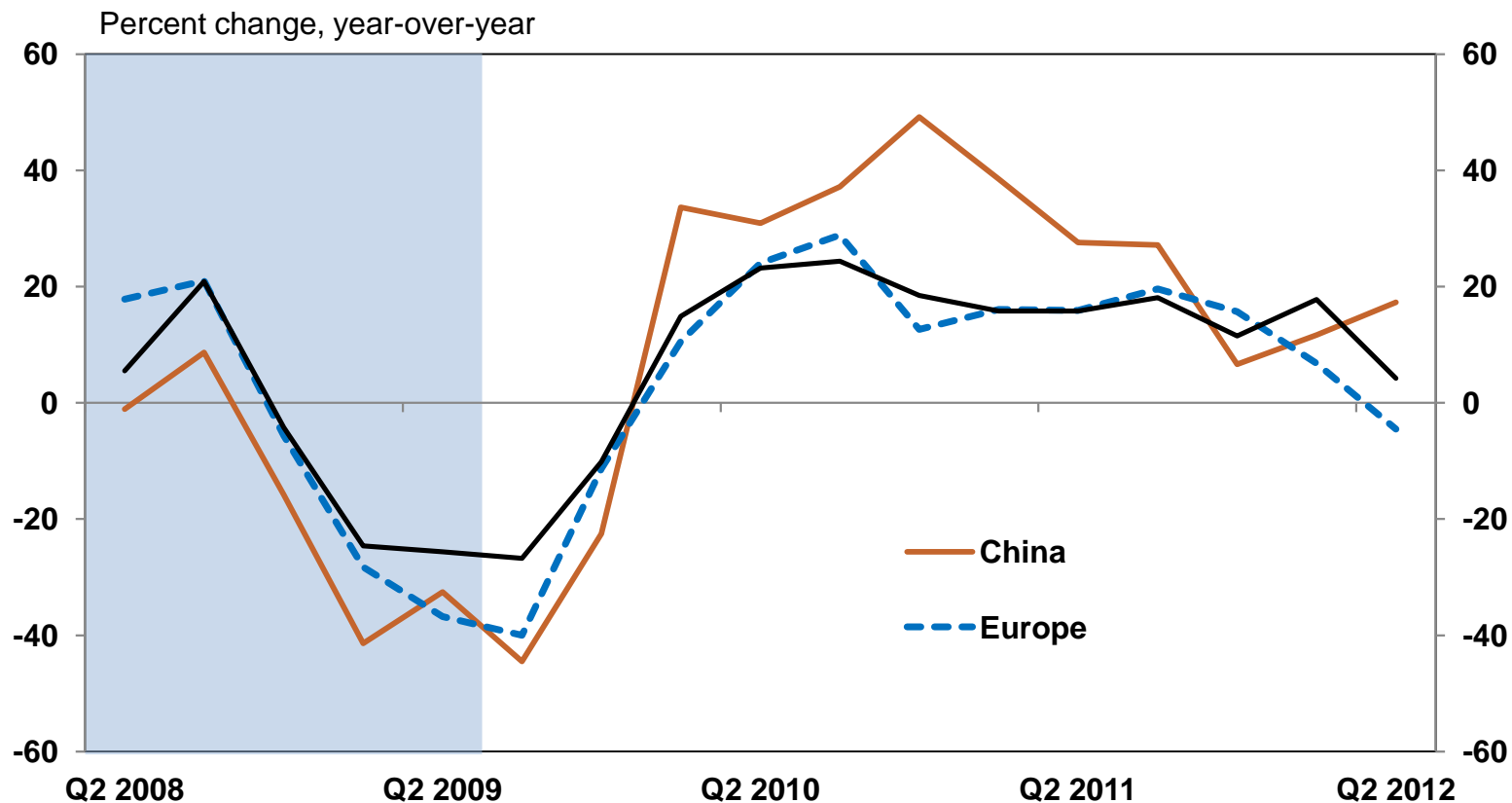
Looking ahead, purchasing managers in the region were mostly optimistic in June

Tenth District Manufacturing Expectations
Six-Months Ahead, Seasonally Adjusted



But Tenth District factory exports to Europe are declining, and China's boost has lessened

Tenth District Manufacturing Exports
Q1 2008 – Q2 2012



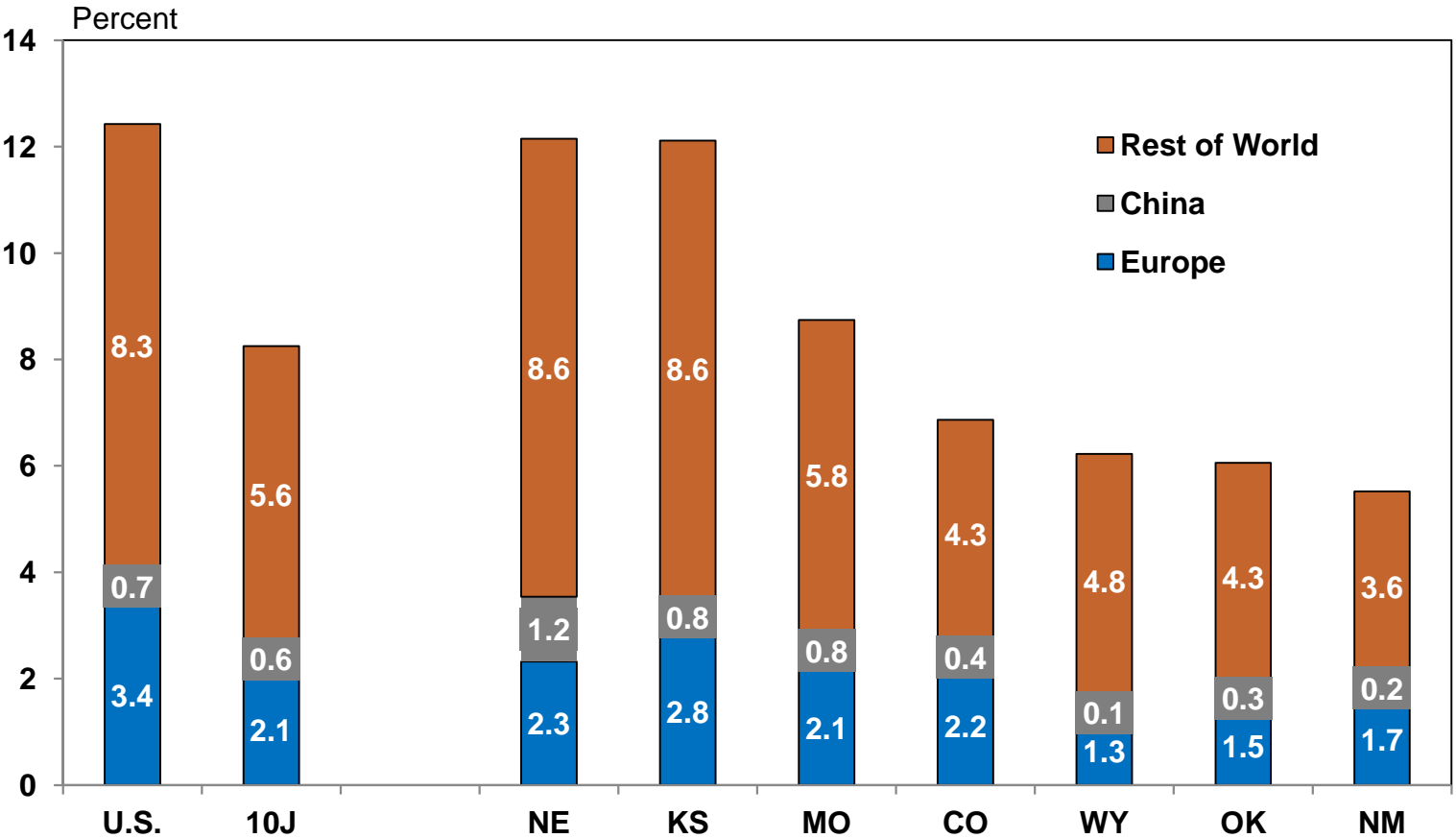
Note – Q2 2012 includes April and May data only

Source: WISERTRADE



Exports are a relatively small part of the Tenth District economy, and even the nation's

Exports as Share of GDP, 2010

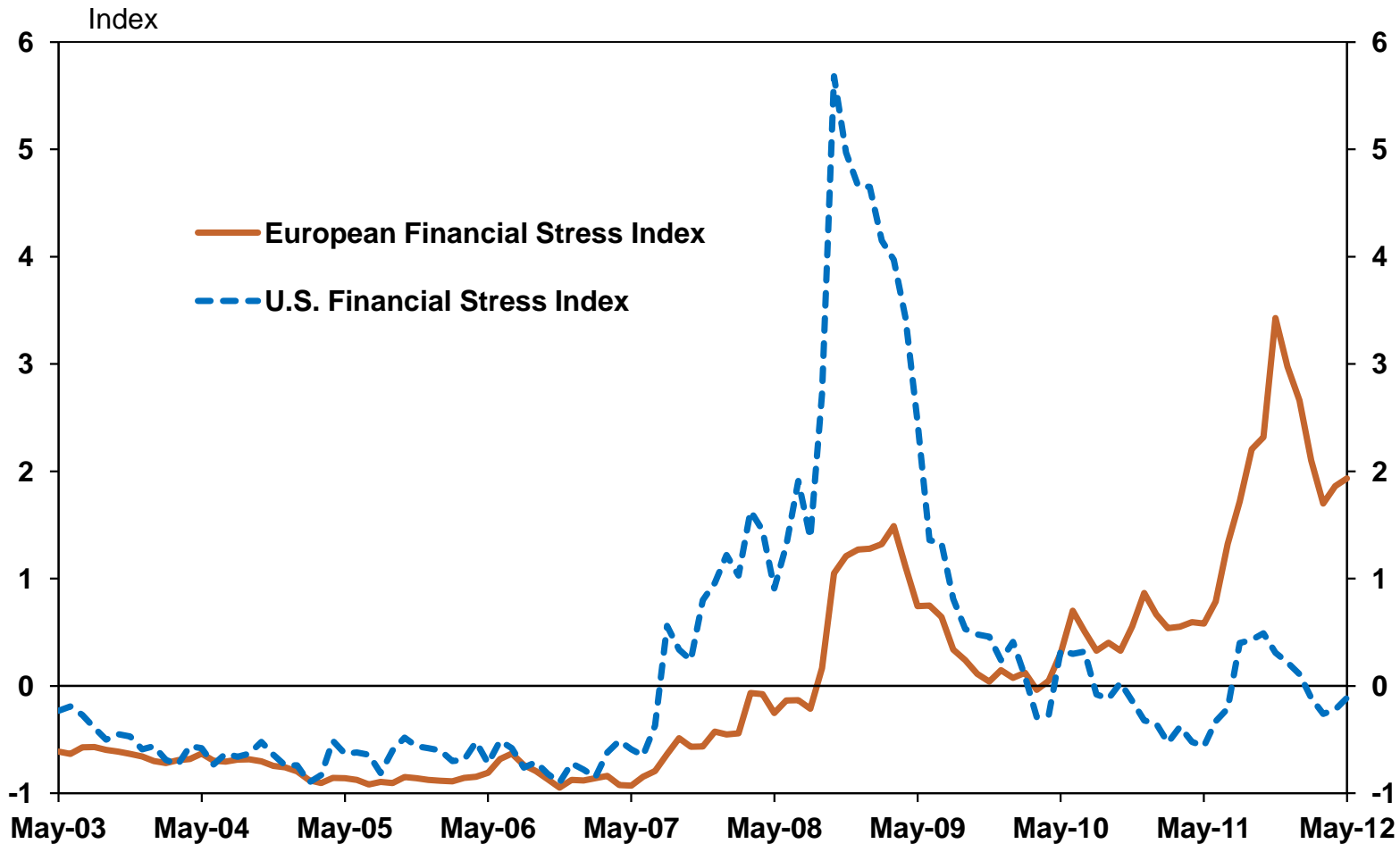


Sources: U.S. Bureau of Economic Analysis, USDA, WISERTRADE



Financial stress in Europe remains higher than a few years ago, but is stable in U.S.

Eurozone and U.S. Financial Stress

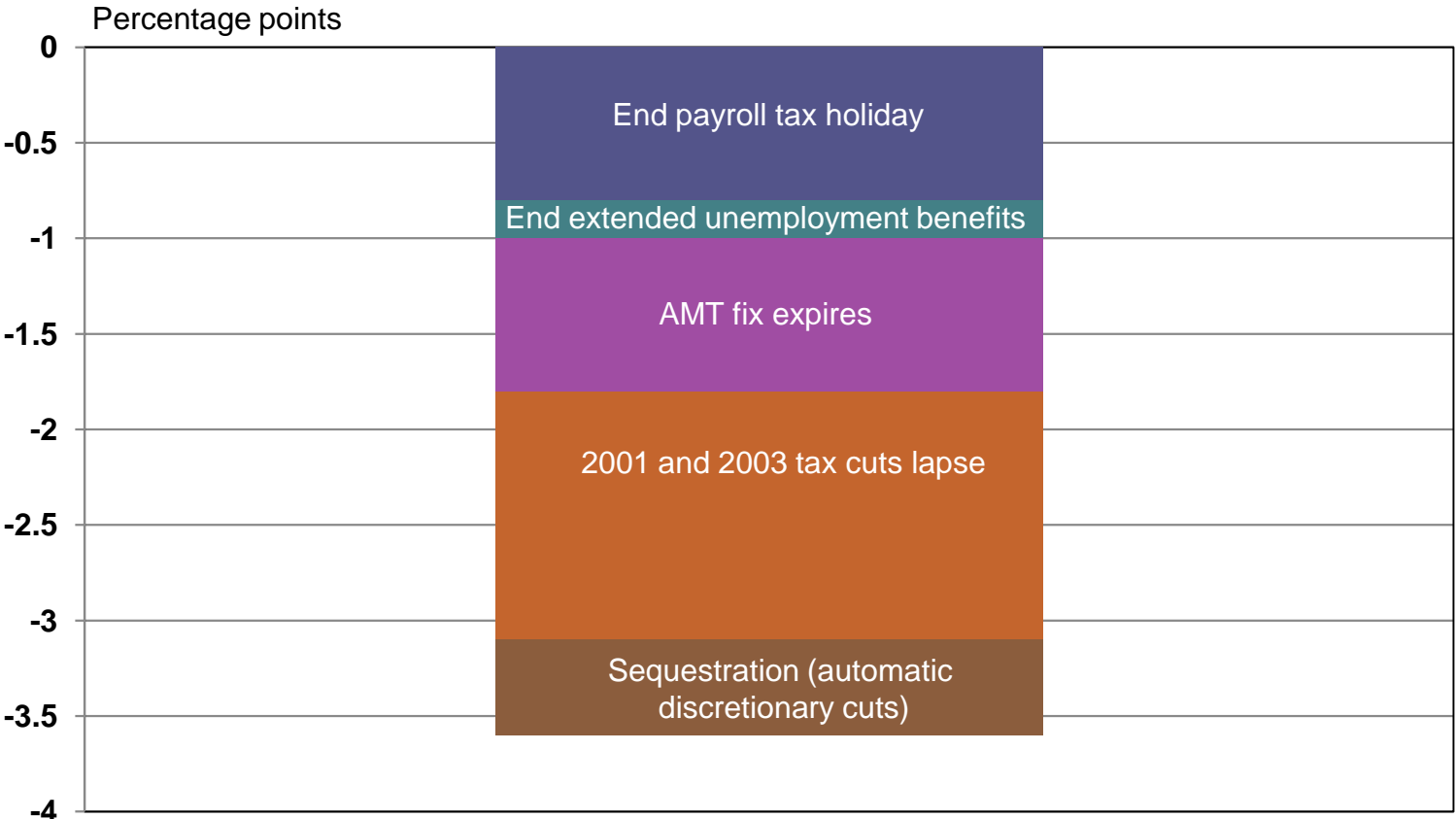


Source: FRBKC



The “fiscal cliff” and political uncertainty are also weighing on the U.S. economy

Estimated Impact on 2013 GDP
Worst Case



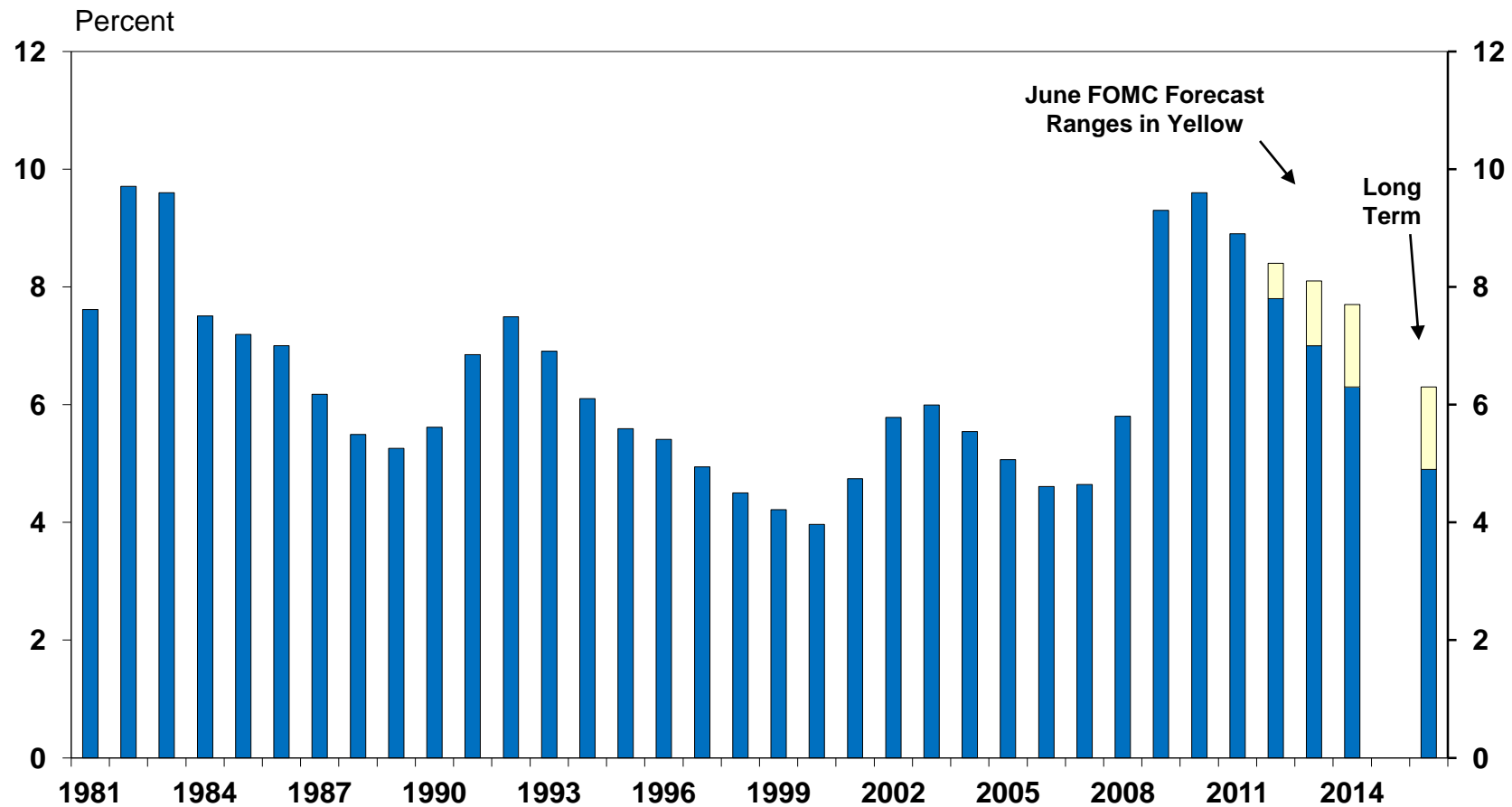
Sources: Goldman Sachs



At its June meeting, the FOMC expected unemployment to gradually fall further

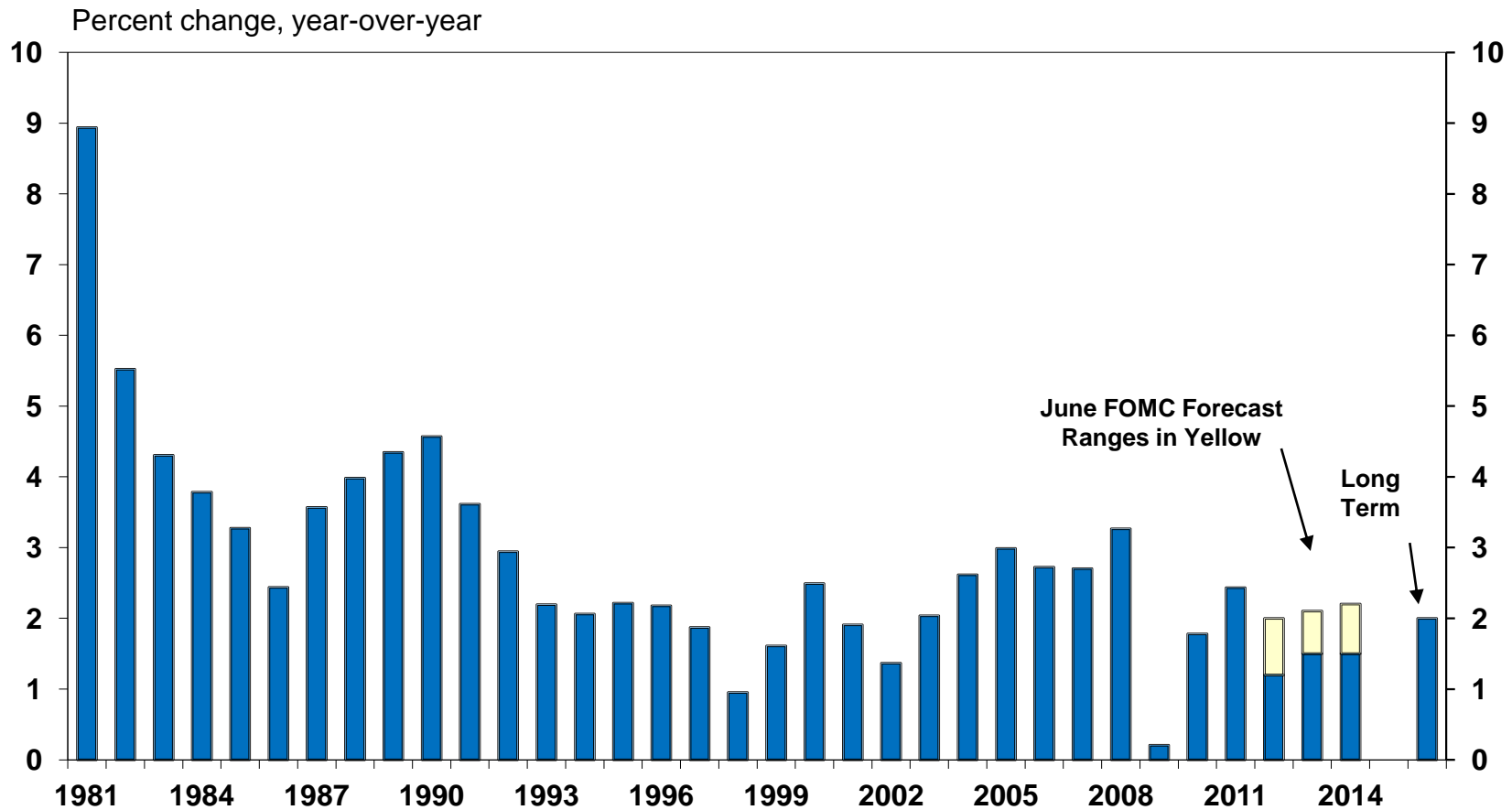
Unemployment Rate

Seasonally Adjusted



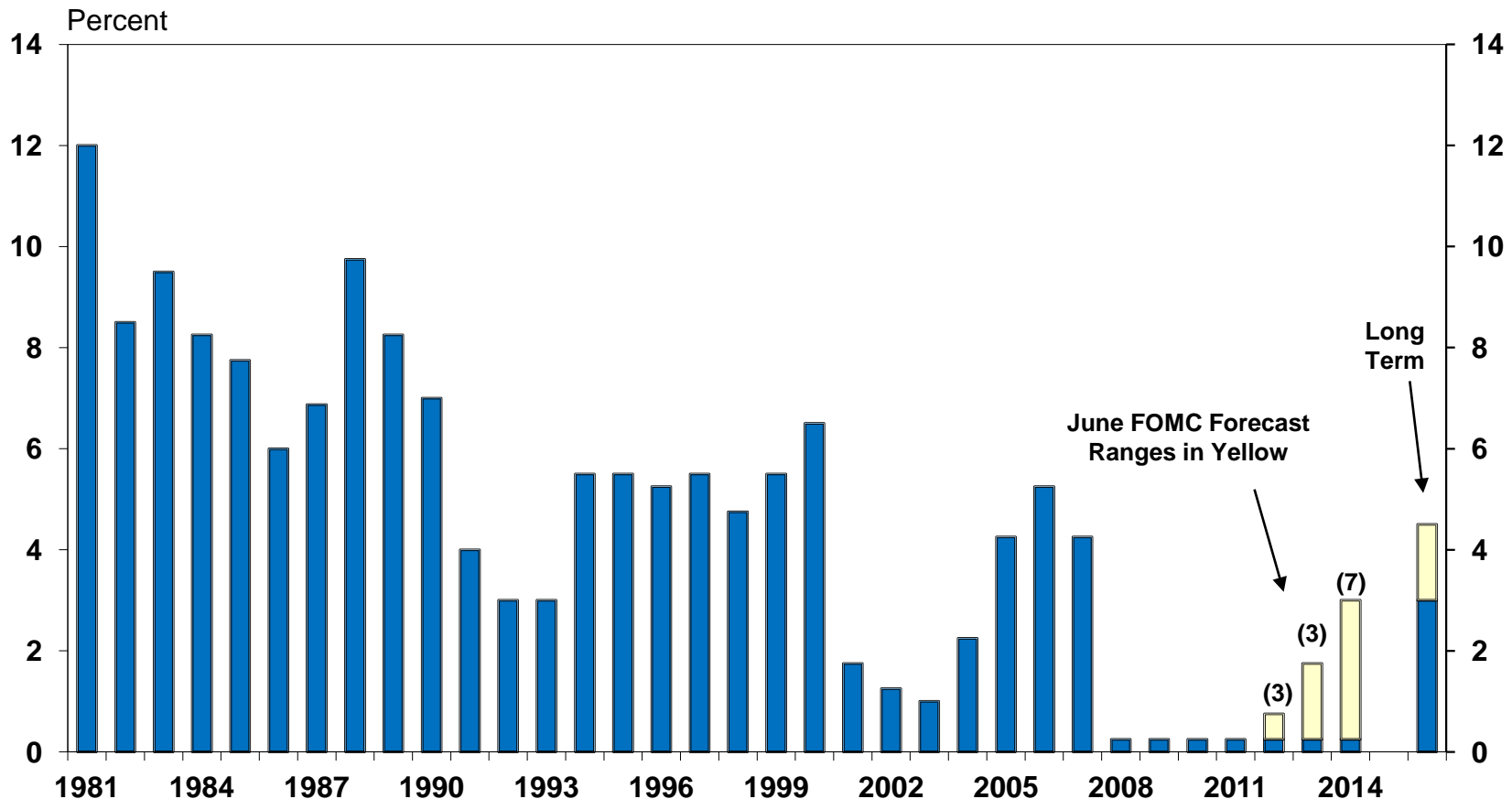
And for inflation to remain at or below its long-term target

PCE Inflation Index



The majority of FOMC members expect interest rates to stay low through 2014

Federal Funds Rate
Year-end target



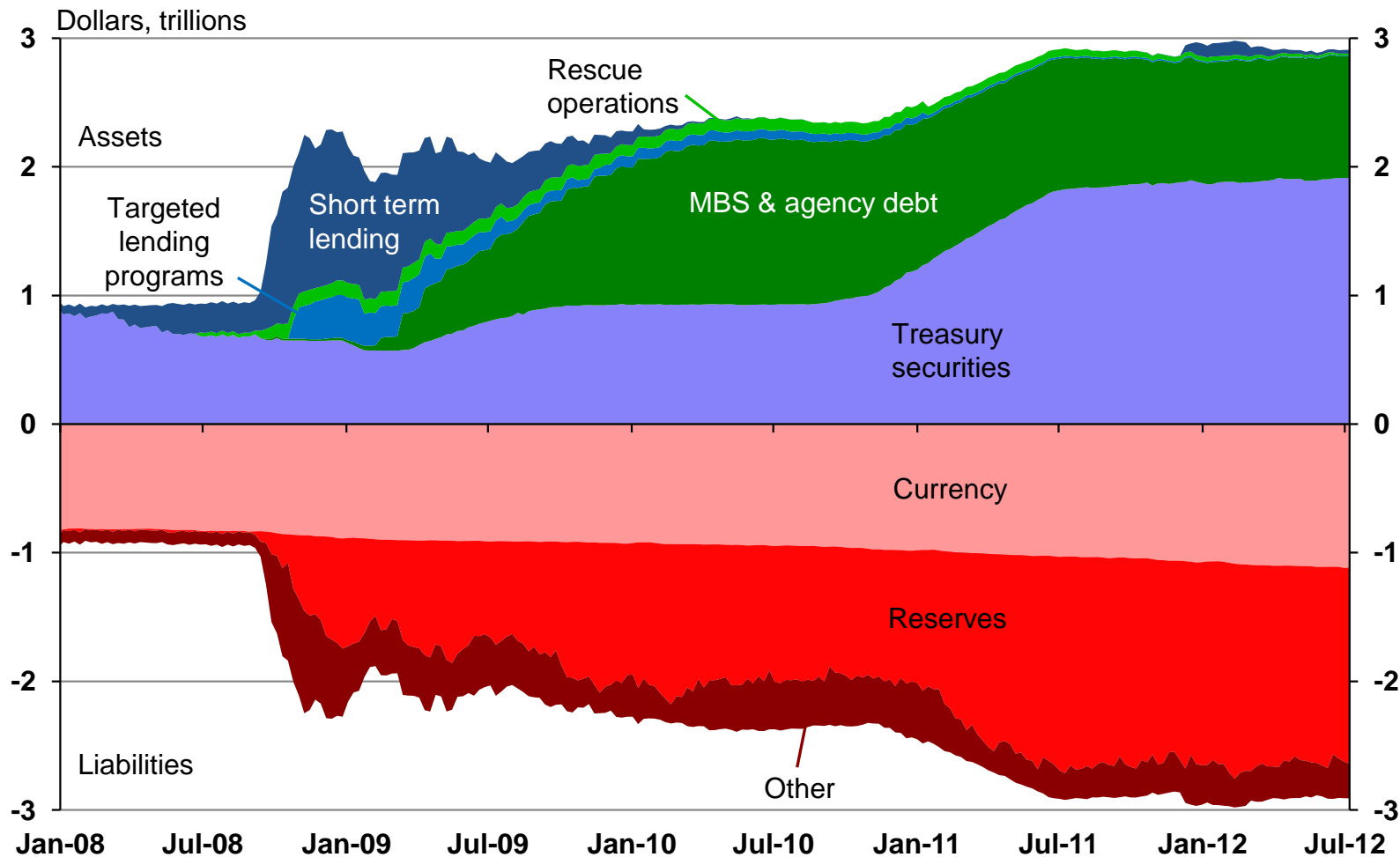
Note – Number of participants who project the initial increase will occur in the specified year in parenthesis

Source: U.S. Bureau of Economic Analysis, FOMC



The Fed's balance sheet is at historically high levels

Federal Reserve Balance Sheet



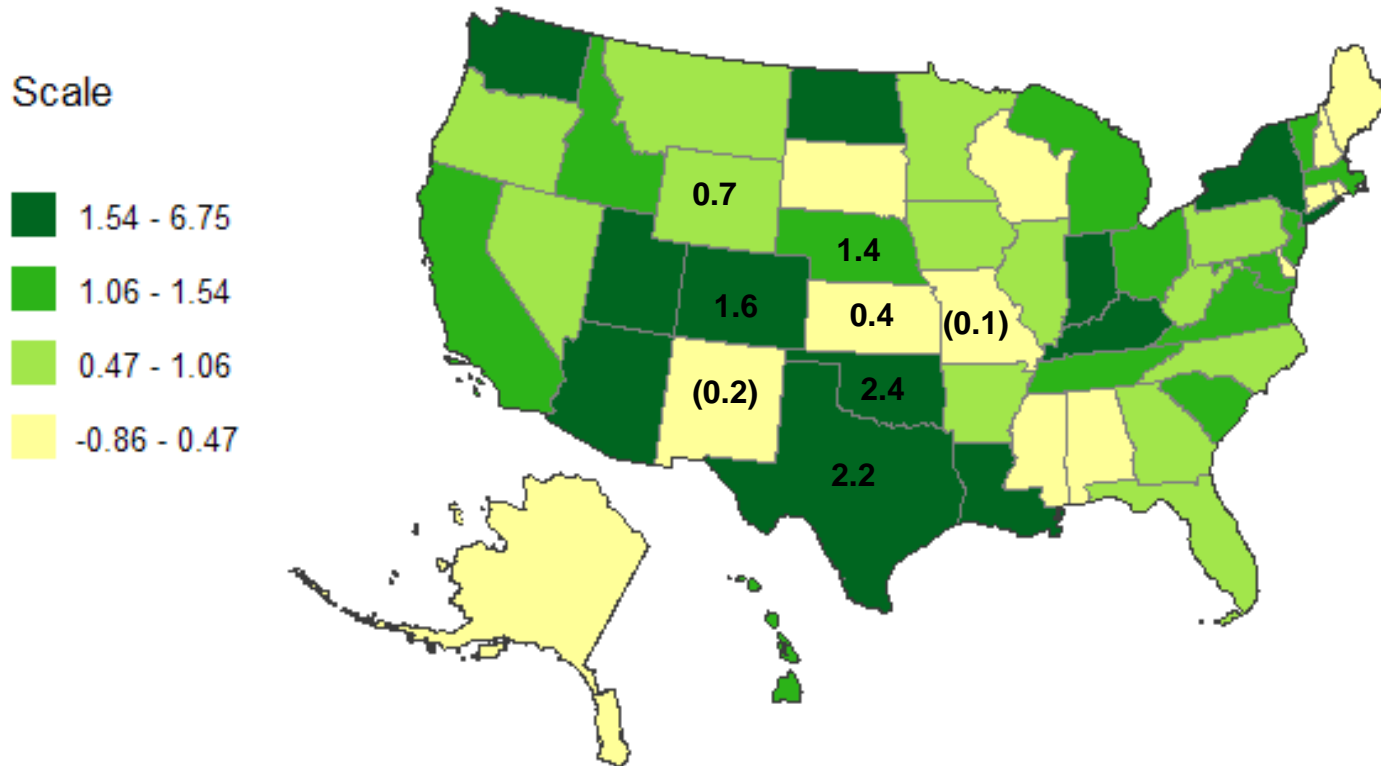
The Oklahoma Economy

- Oklahoma economic growth remains stronger than the nation, but has slowed
- The relative strength reflects solid energy, manufacturing, and real estate sectors
- Europe is less of a direct risk to the state, but lower energy prices are a concern



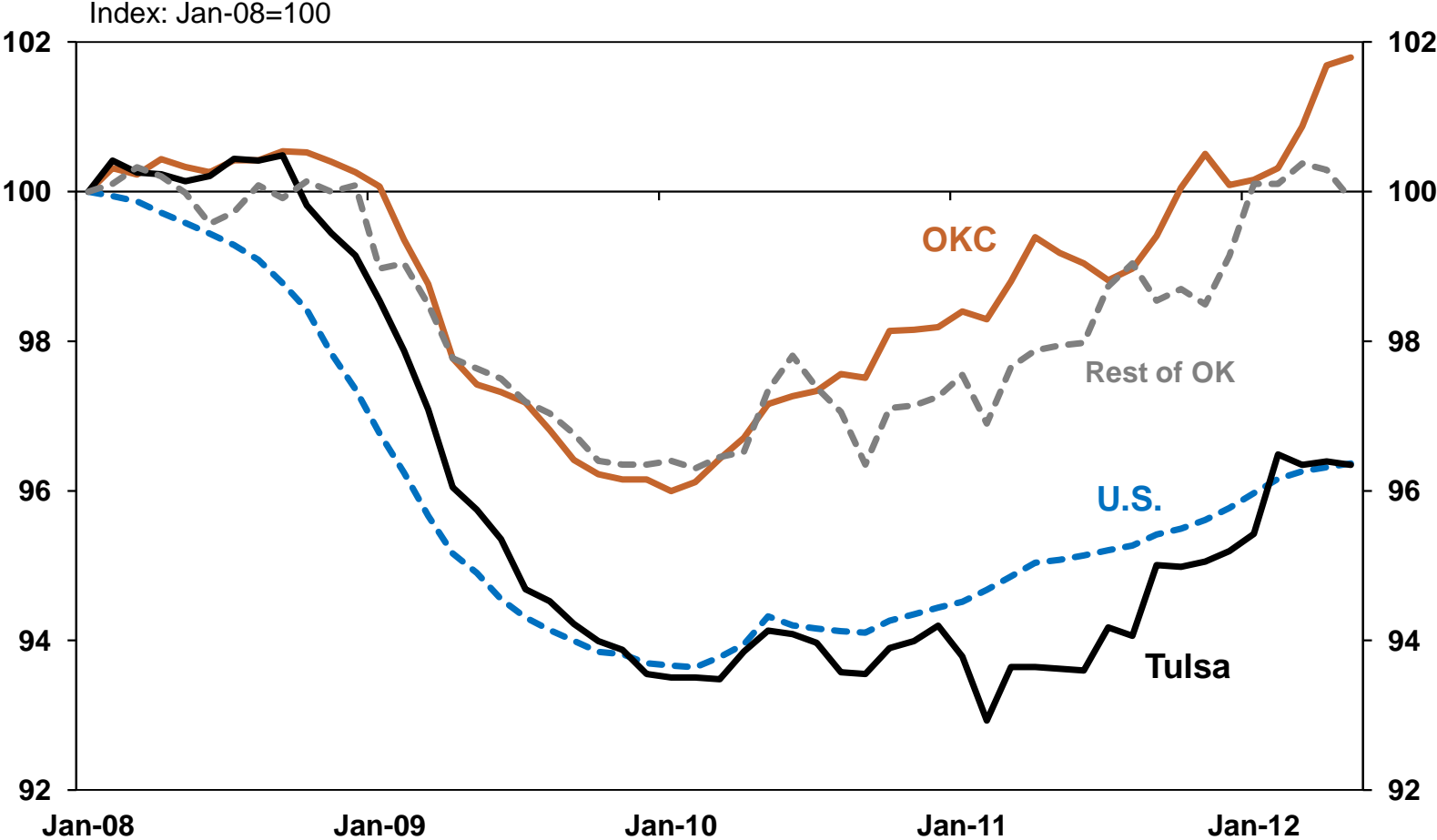
There remains considerable variation in economic strength in the nation and region

Employment Growth, Year-over-Year (percent)
May 2012



Except for Tulsa, employment in Oklahoma is back to or above pre-recession levels

Level of Payroll Employment
Through May 2012

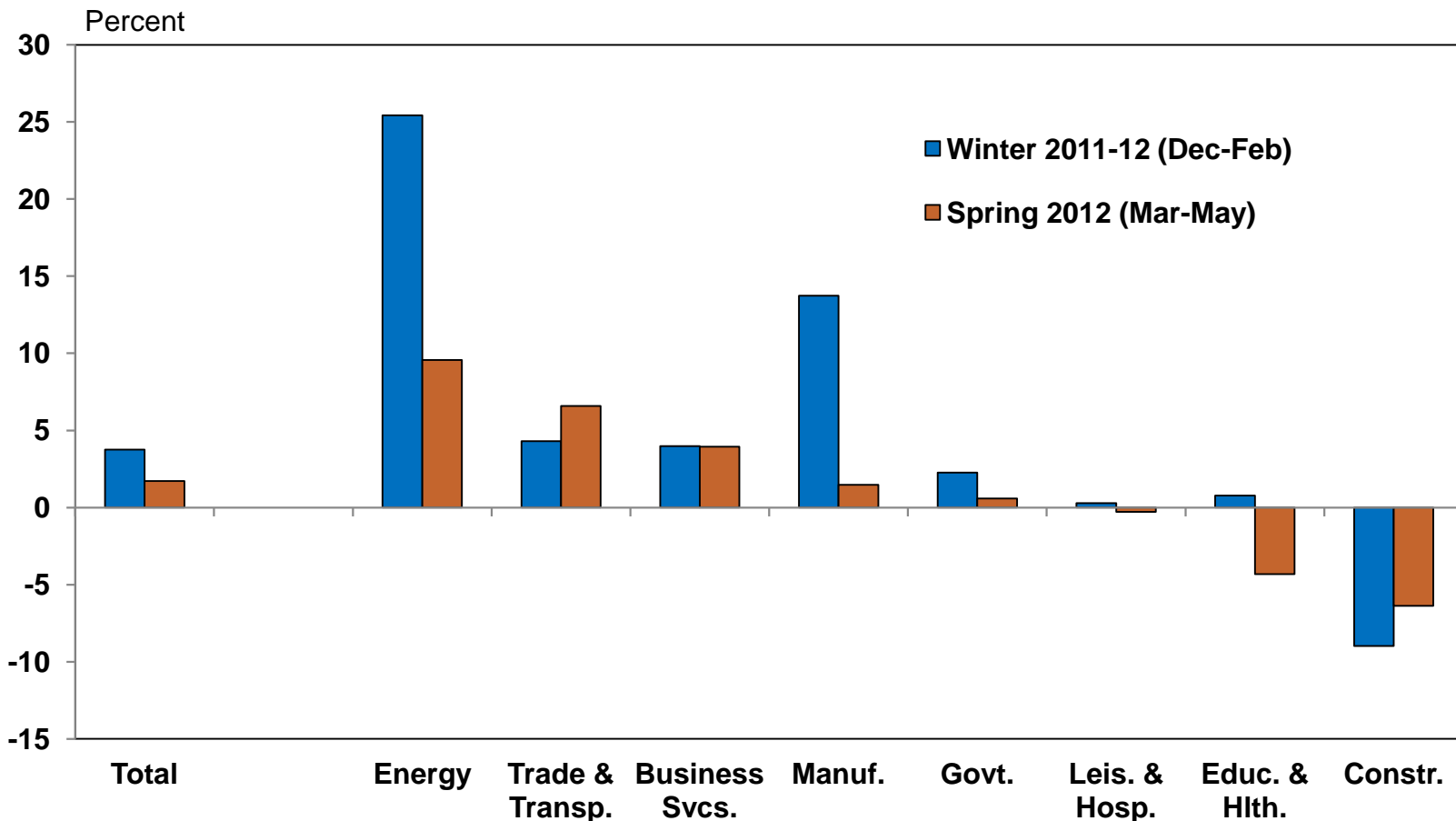


Source: U.S. Bureau of Labor Statistics



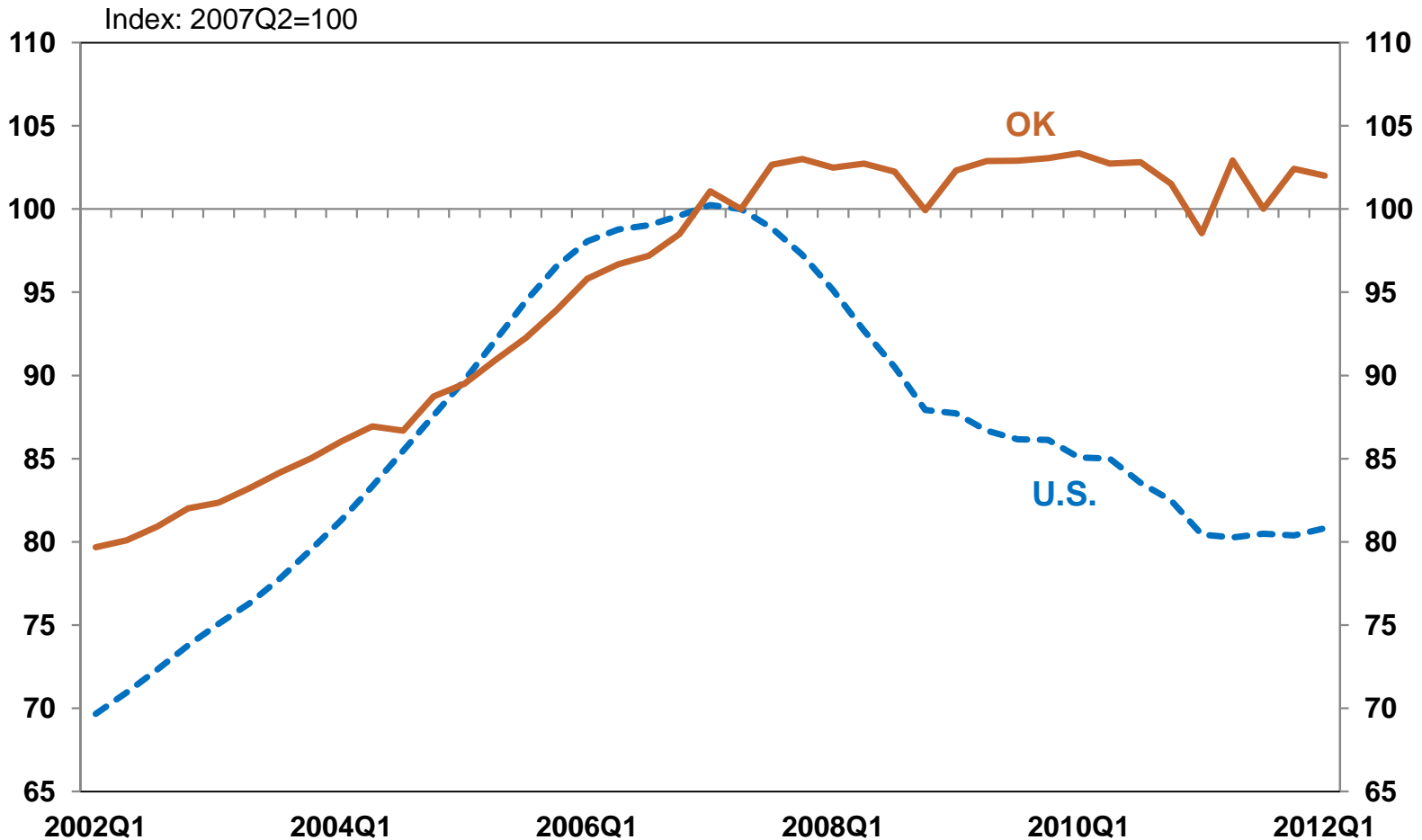
But Oklahoma job growth has slowed since winter, across a number of industries

Annualized Job Growth by Industry
Past Six Months of Data



Home prices continue to hold up much better in Oklahoma than in the nation

Home Price Index

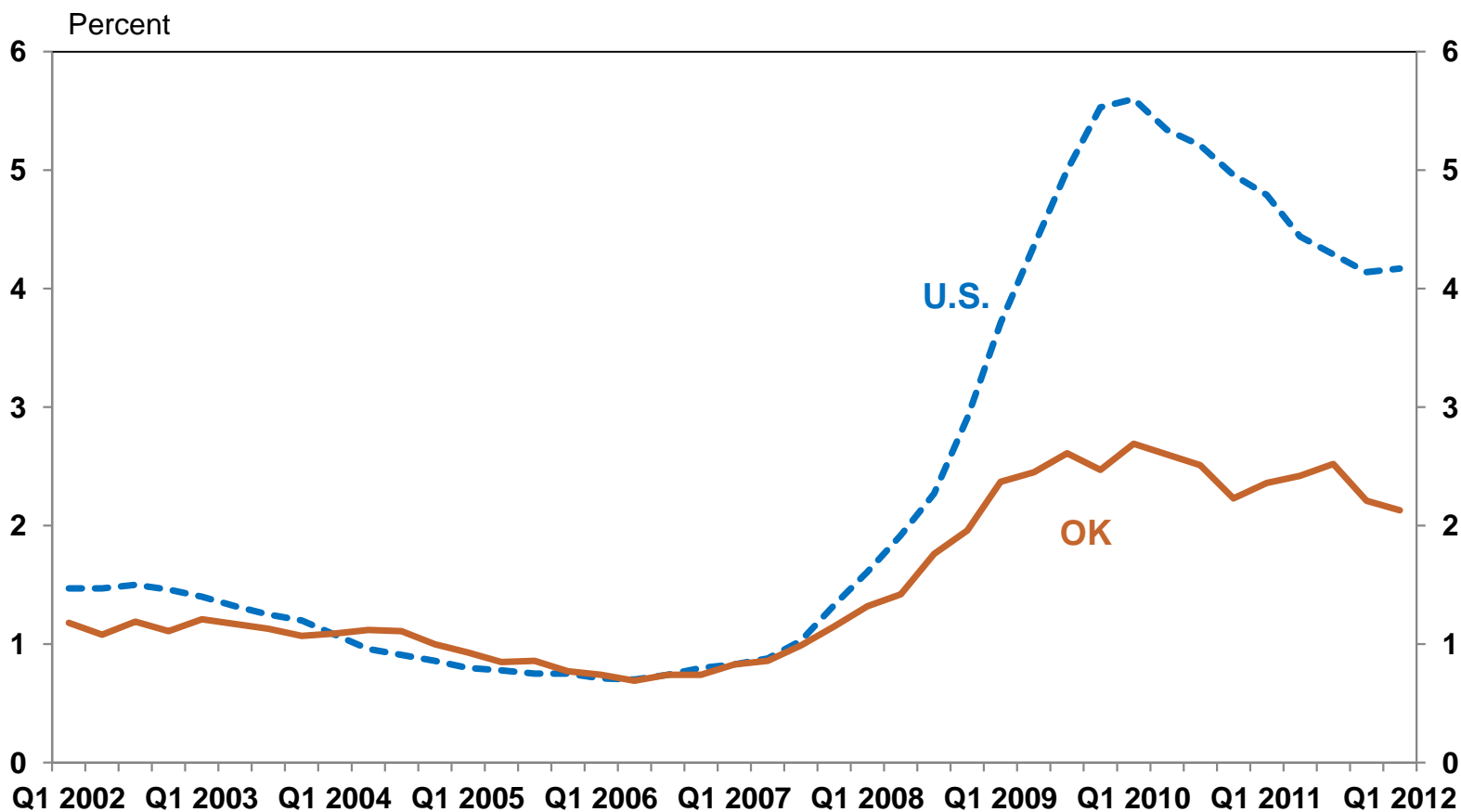


Source: FHFA



And banks remain in much better shape than in the nation as a whole

Noncurrent Loans as a Share of Total Loans Commercial Banks

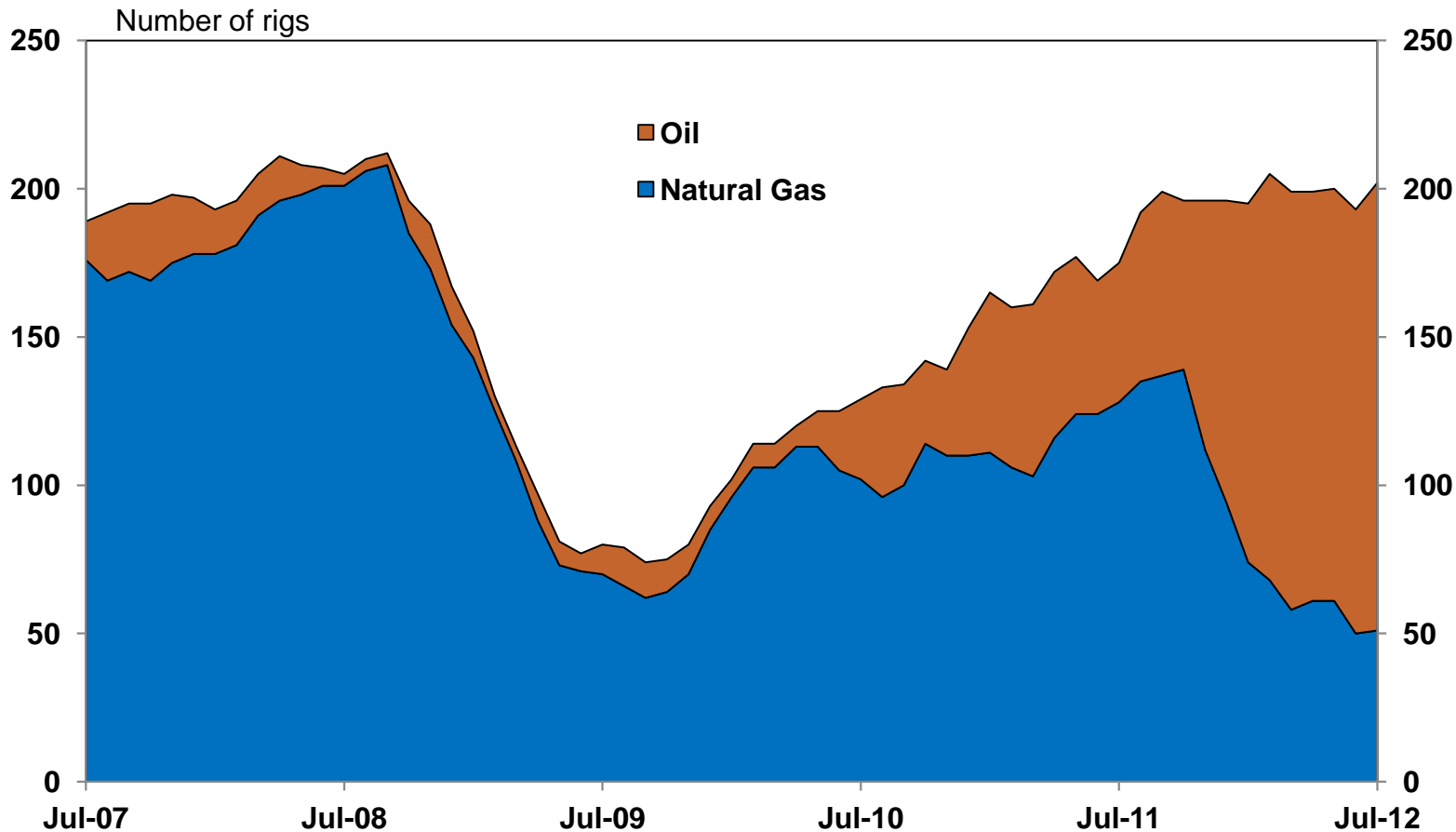


Source: FDIC



But Oklahoma energy activity has been flat for the past year (albeit at a high level)

Oklahoma Rig Count



Source: Baker Hughes



Conclusions

- Growth in the U.S. economy has slowed moderately, as concerns about Europe and politics have risen
- Inflation has remained low, and monetary policymakers disagree about future paths
- Oklahoma economic growth remains better than in the nation and region, but job growth has slowed recently



Questions?



For more information about the Oklahoma economy, subscribe to the quarterly **Oklahoma Economist** at:

www.kansascityfed.org/publications/research/oke

