

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

- **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.



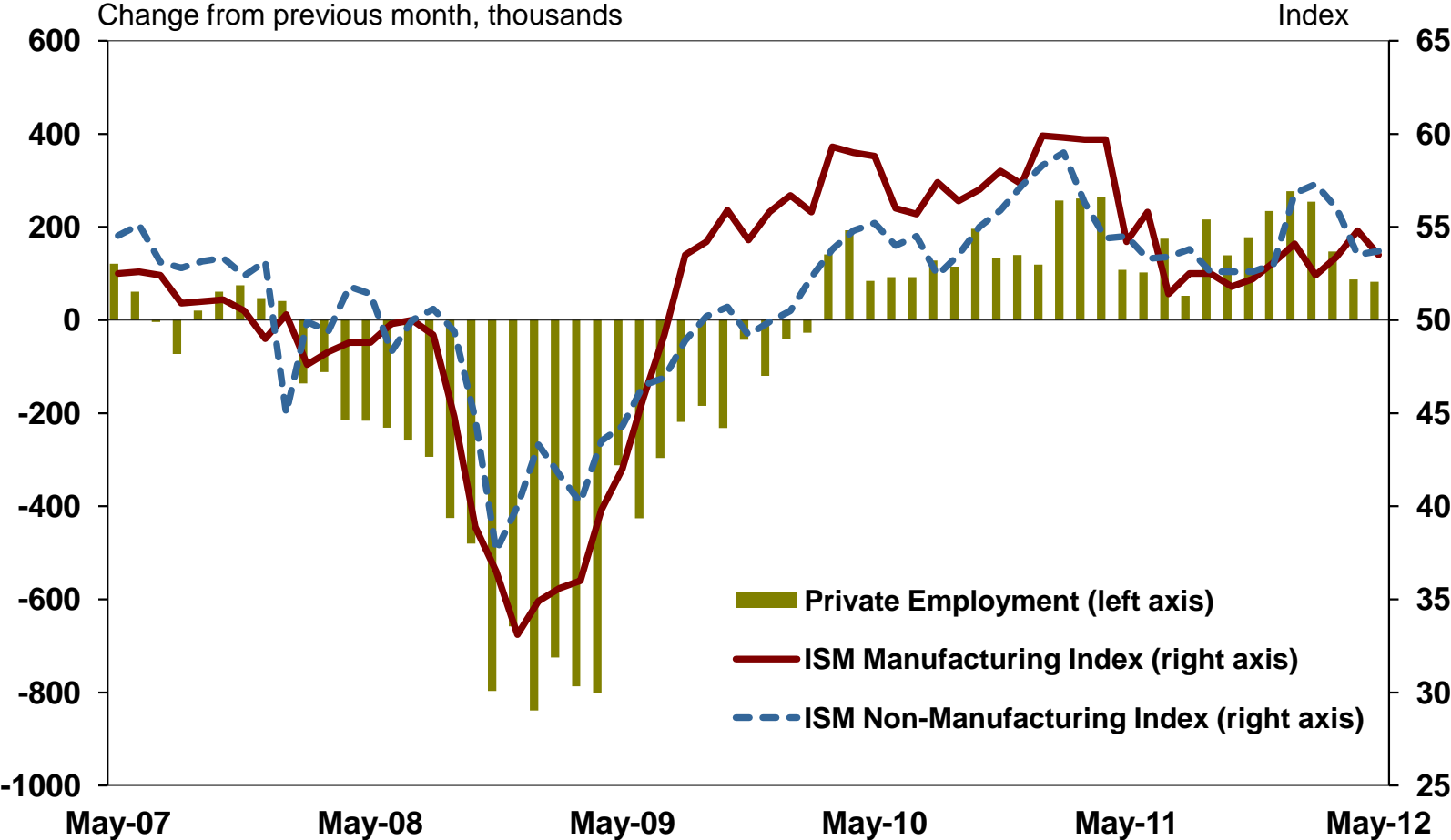
U.S. Economy and Monetary Policy

- Moderate U.S. economic growth continues, while conditions in Europe remain precarious
- 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



The U.S. economy has been growing since late 2009, but the pace has slowed recently

U.S. Private Payroll Employment and Business Indexes

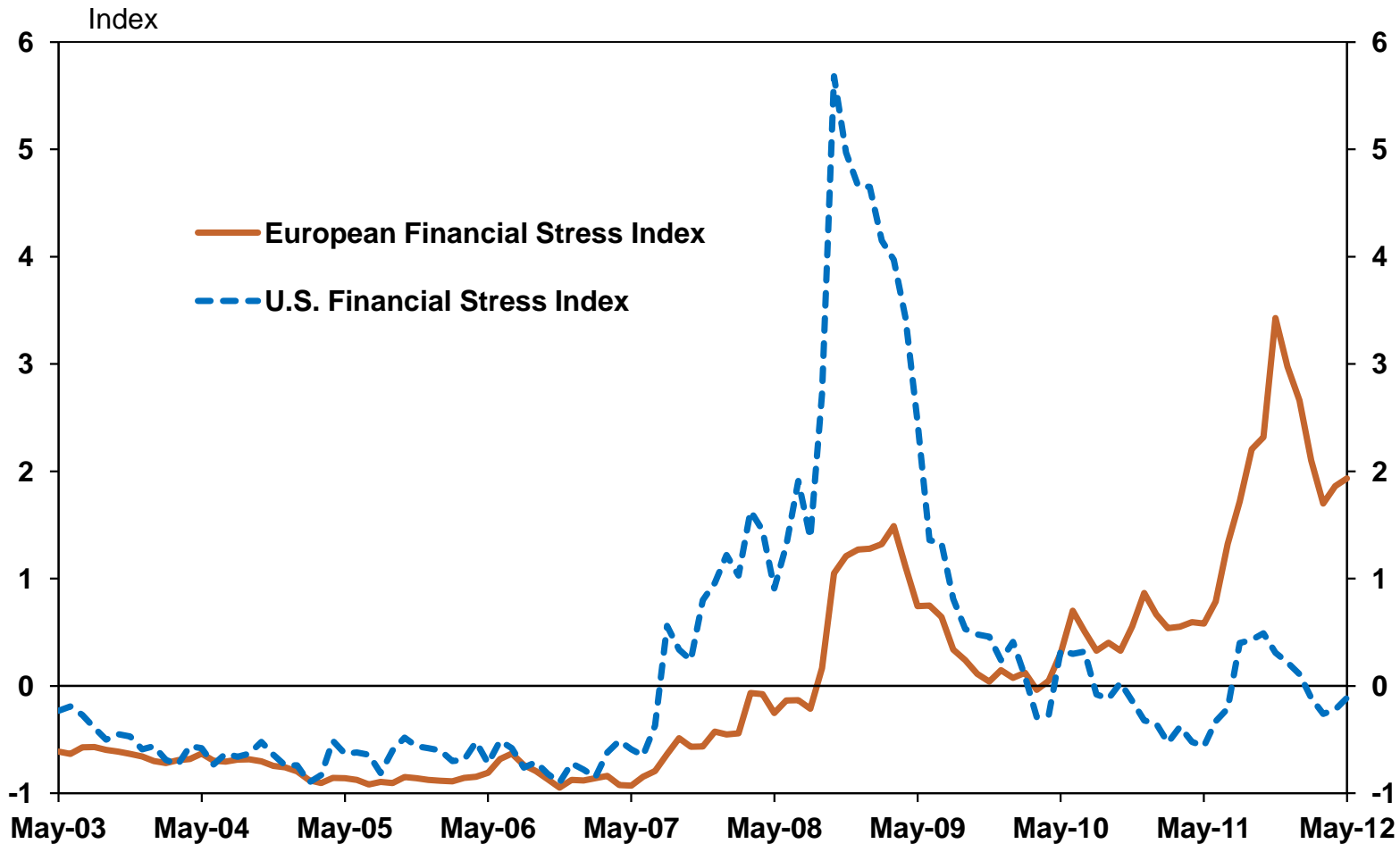


Source: Institute for Supply Management, Bureau of Labor Statistics



But Eurozone financial stress remains higher than during the crisis of 2008-09

Eurozone and U.S. Financial Stress

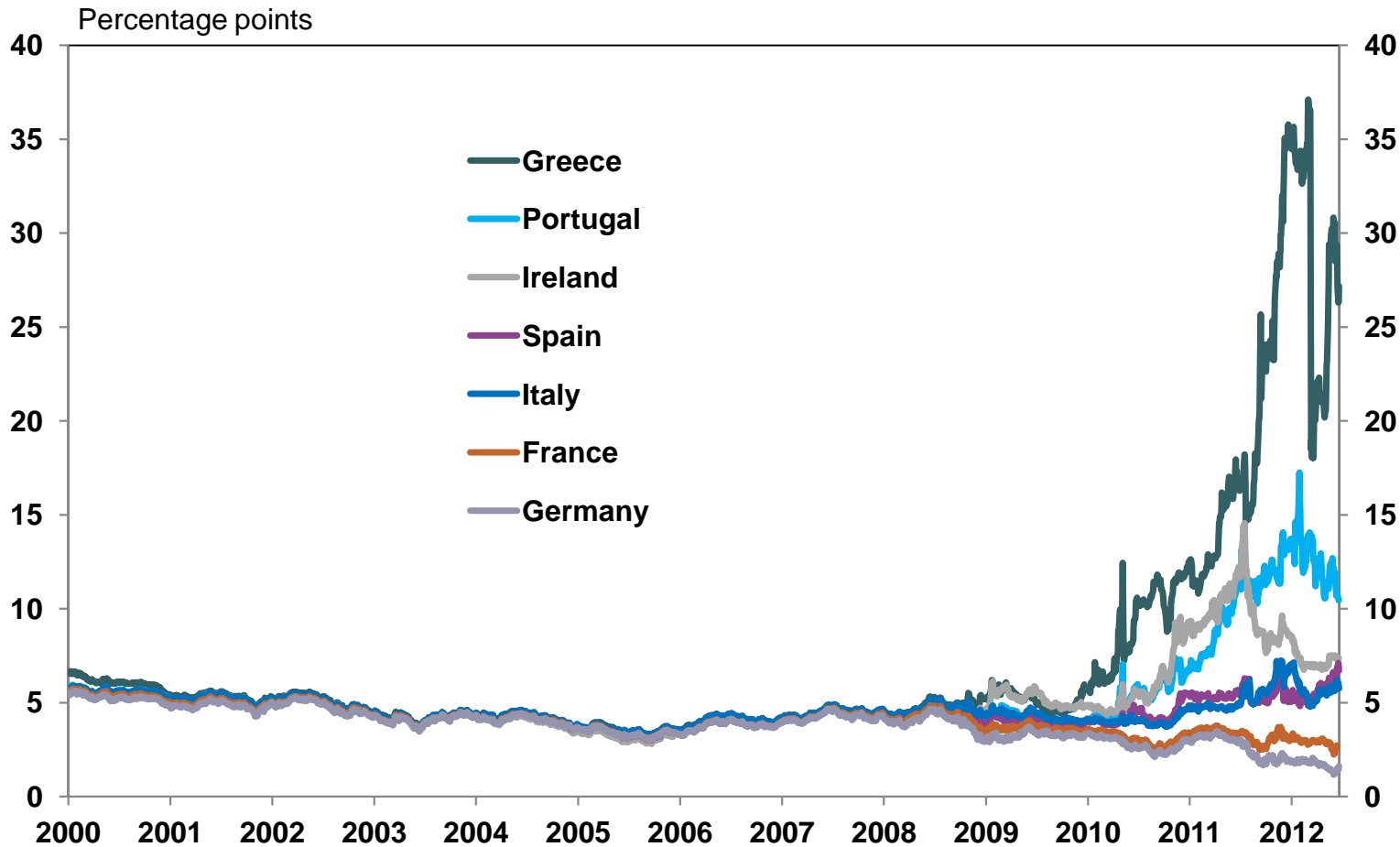


Source: FRBKC



European sovereign yields have diverged greatly since late 2009

10-Year Sovereign Yields



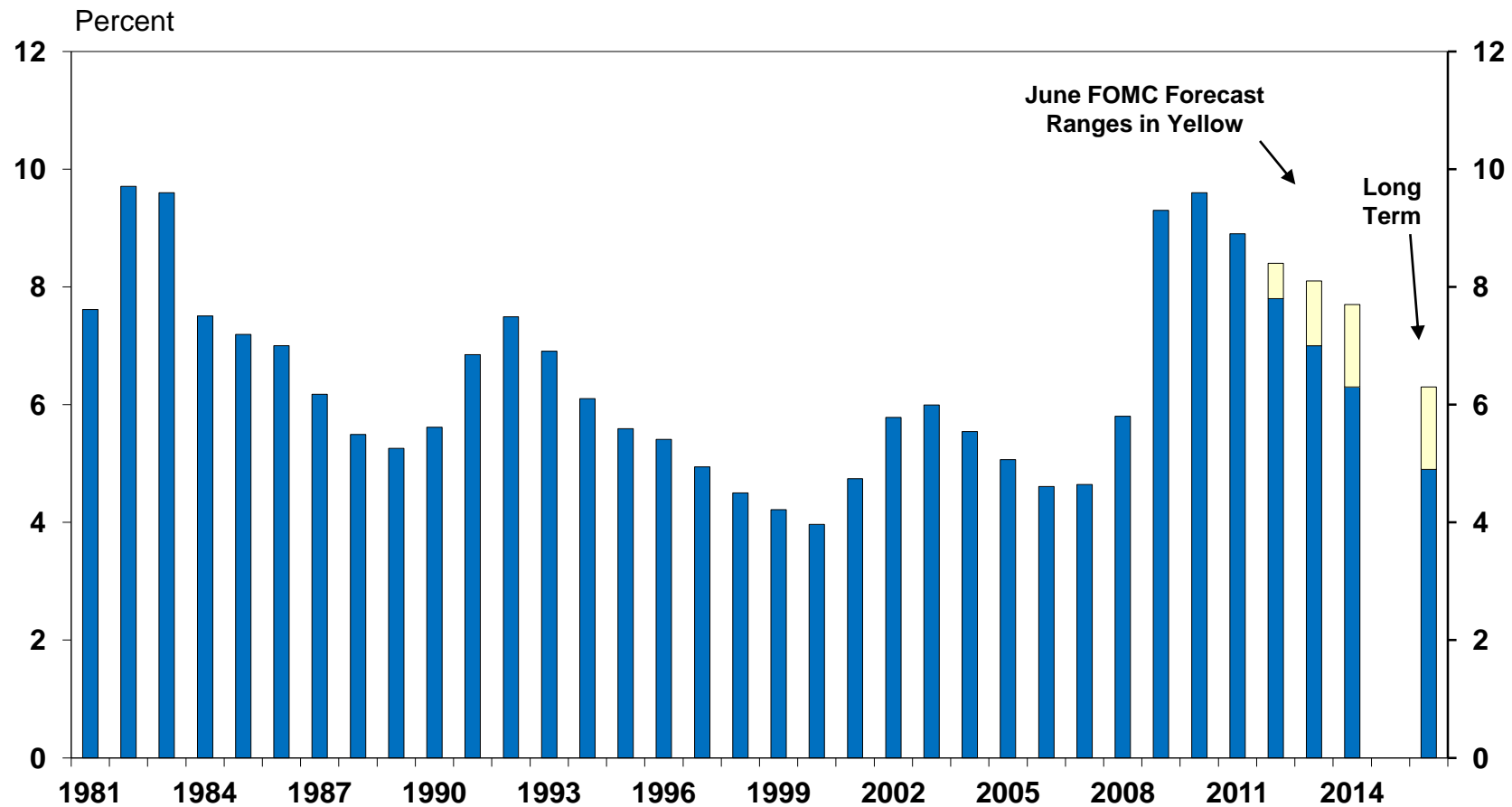
Source: Bloomberg



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

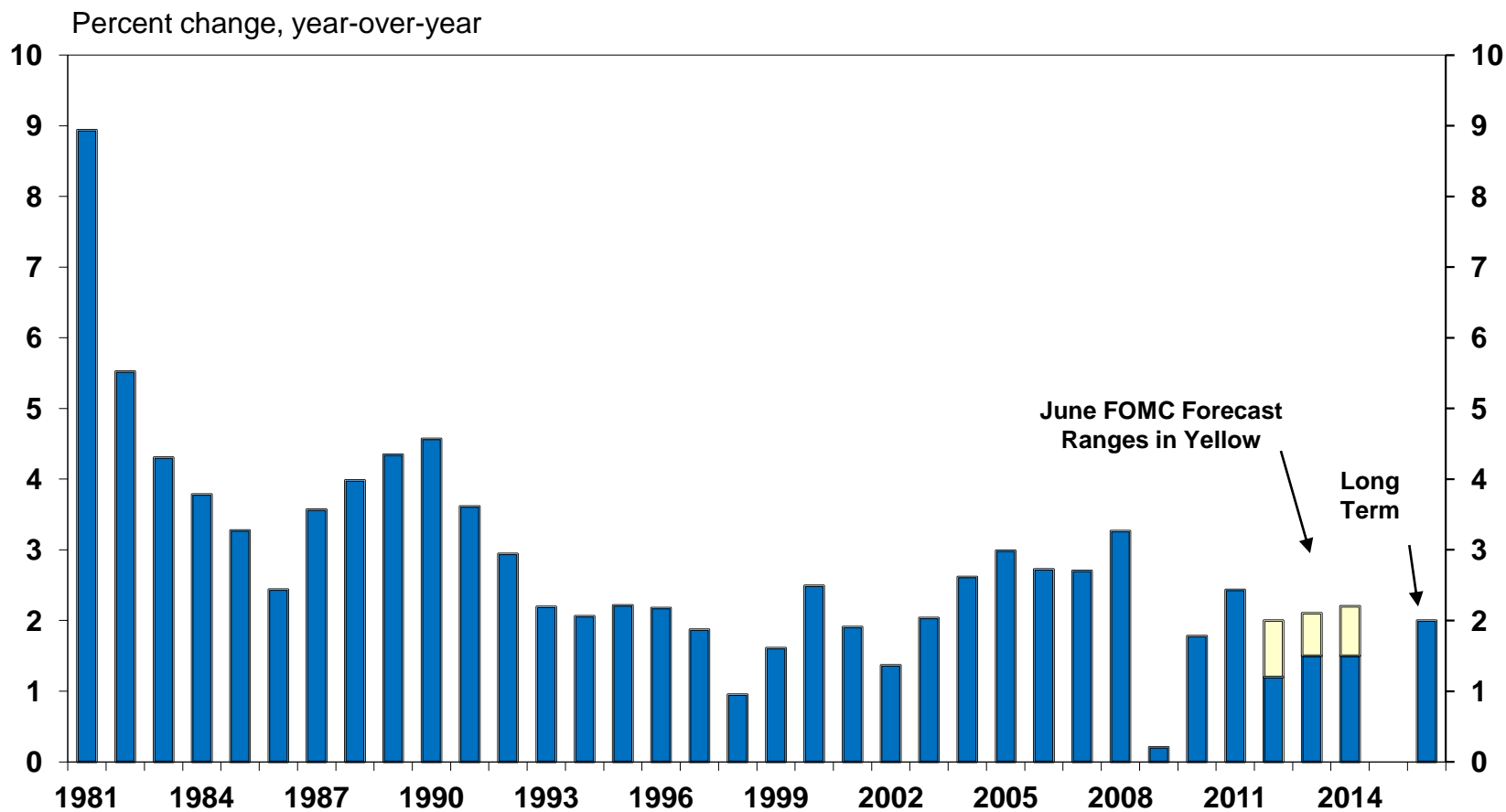
Unemployment Rate

Seasonally Adjusted



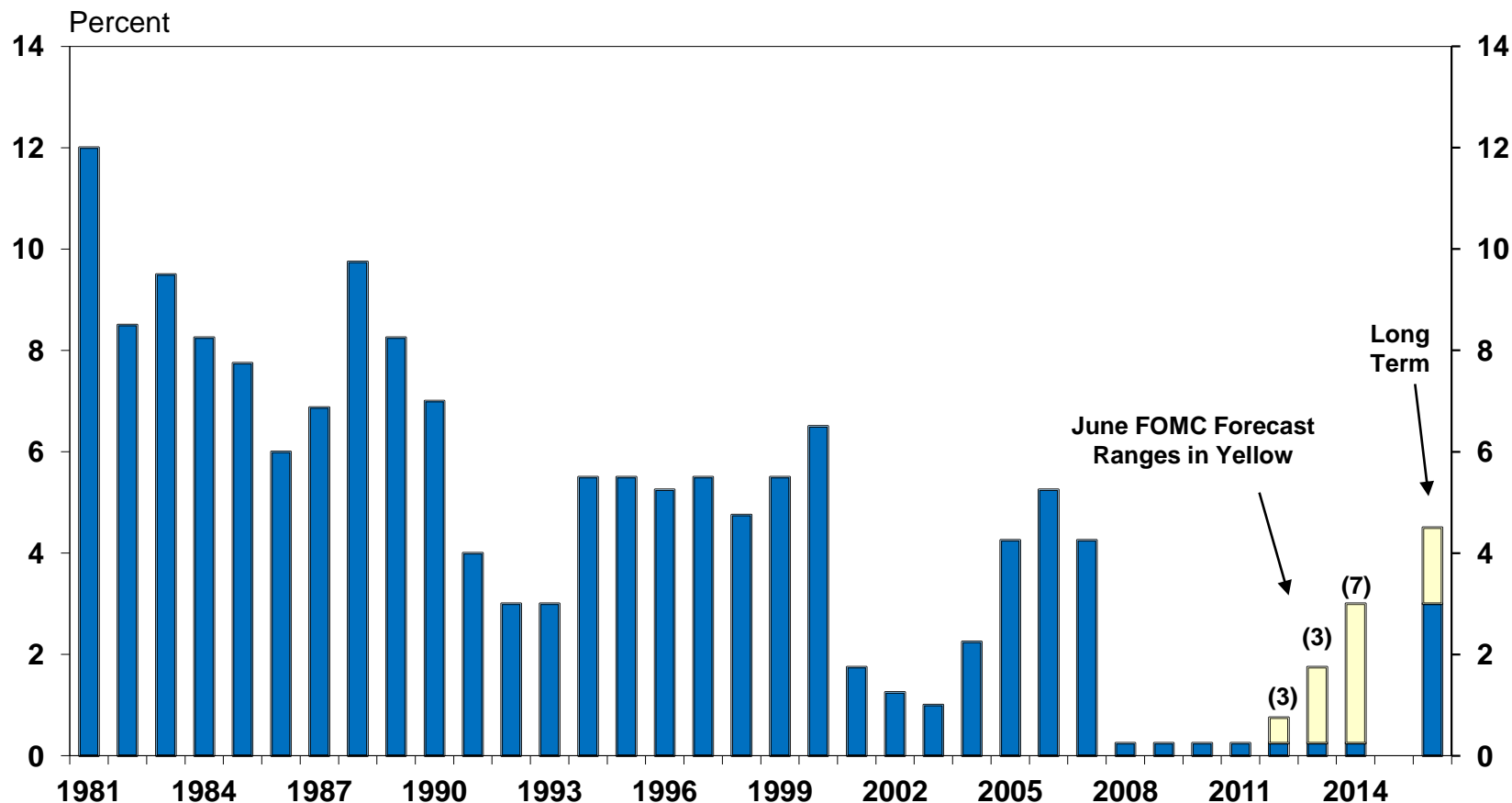
And for inflation to remain at or below its long-term target

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



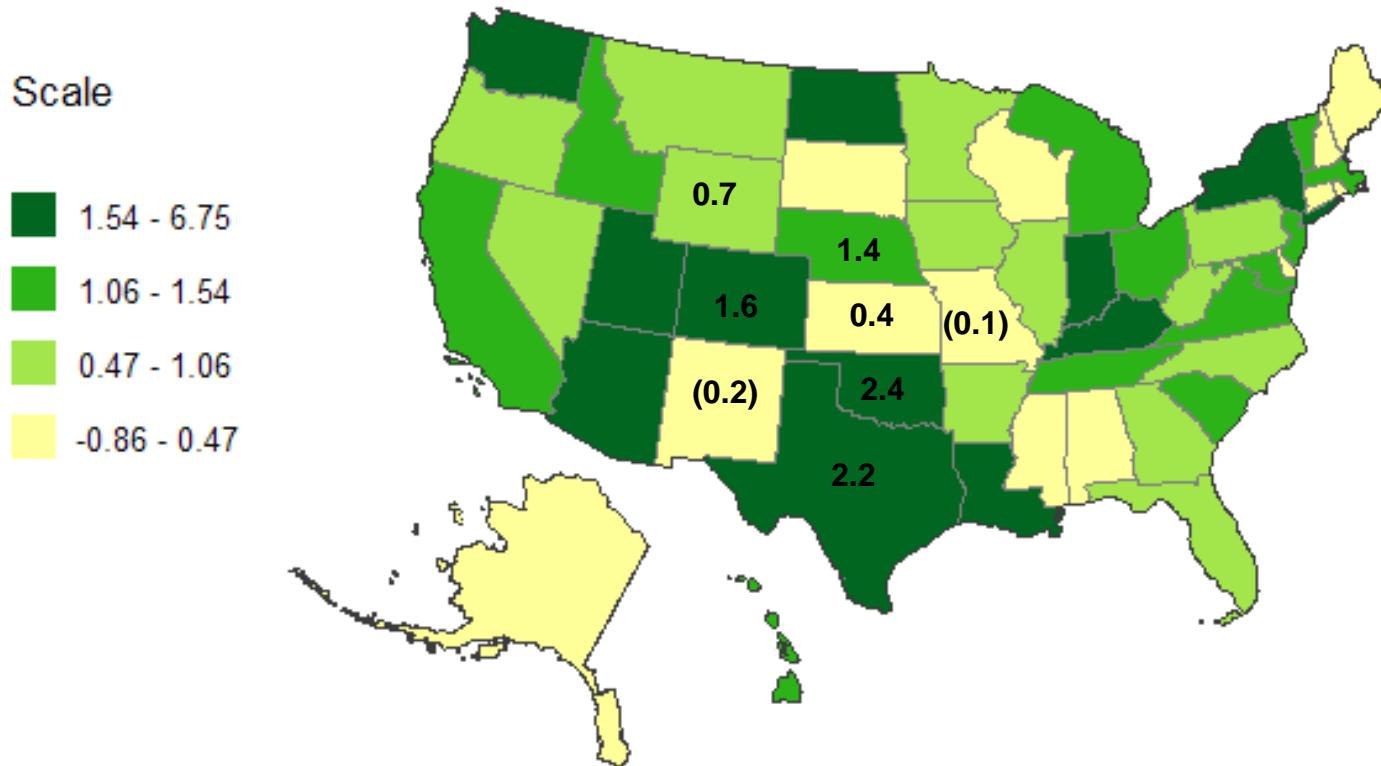
The Oklahoma and Regional Economies

- Oklahoma economic growth remains as strong as about anywhere in the country
- The relative strength reflects solid energy, manufacturing, and real estate sectors
- Europe is less of a direct risk to the state, but declining energy prices are a concern



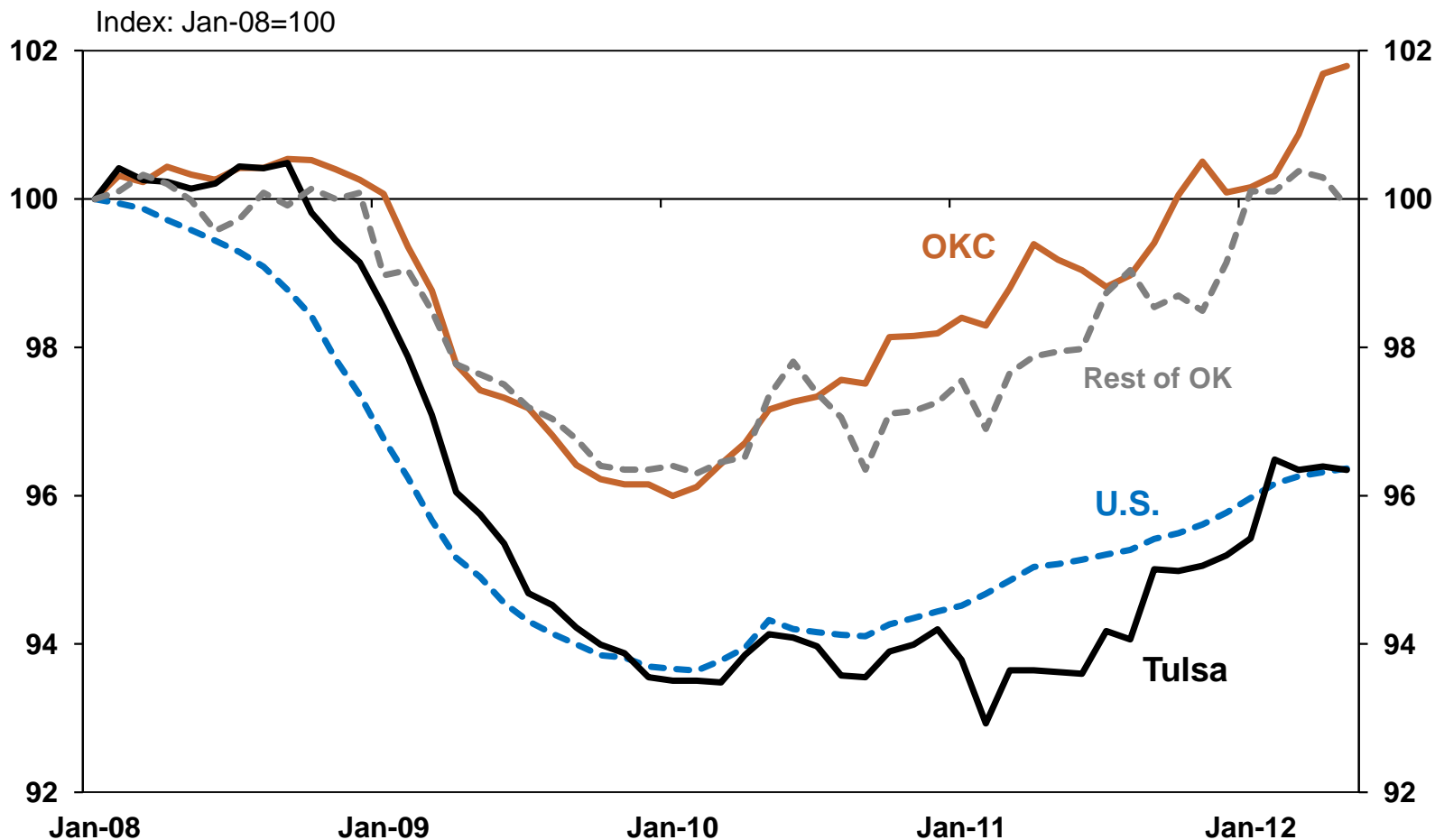
There remains considerable variation in economic strength in the nation and region

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



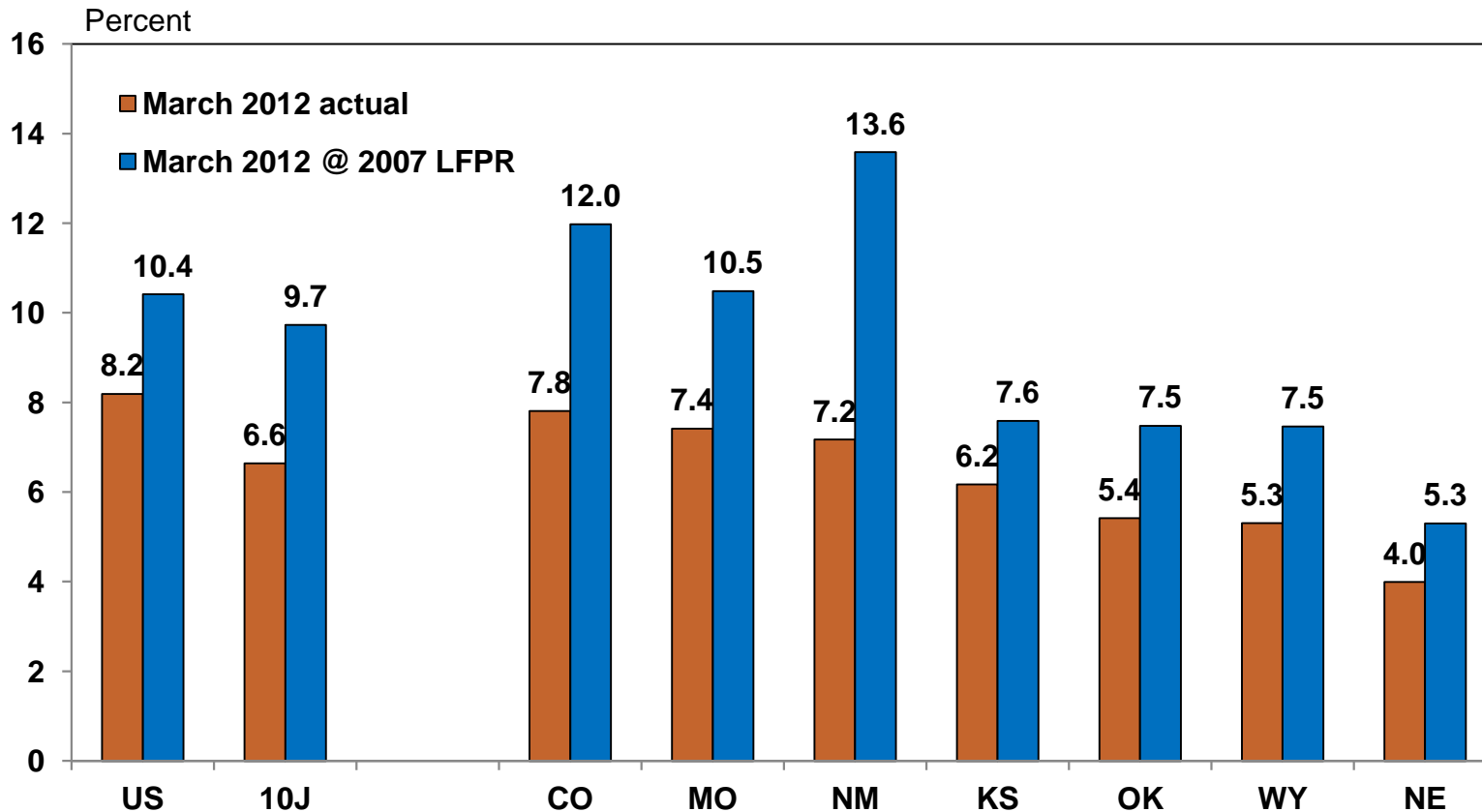
Employment in Oklahoma is back above pre-recession levels...if Tulsa is excluded

Level of Payroll Employment
Through May 2012



OK unemployment is now quite low, but labor force dropouts are part of the reason

Unemployment Rates by State
Seasonally Adjusted



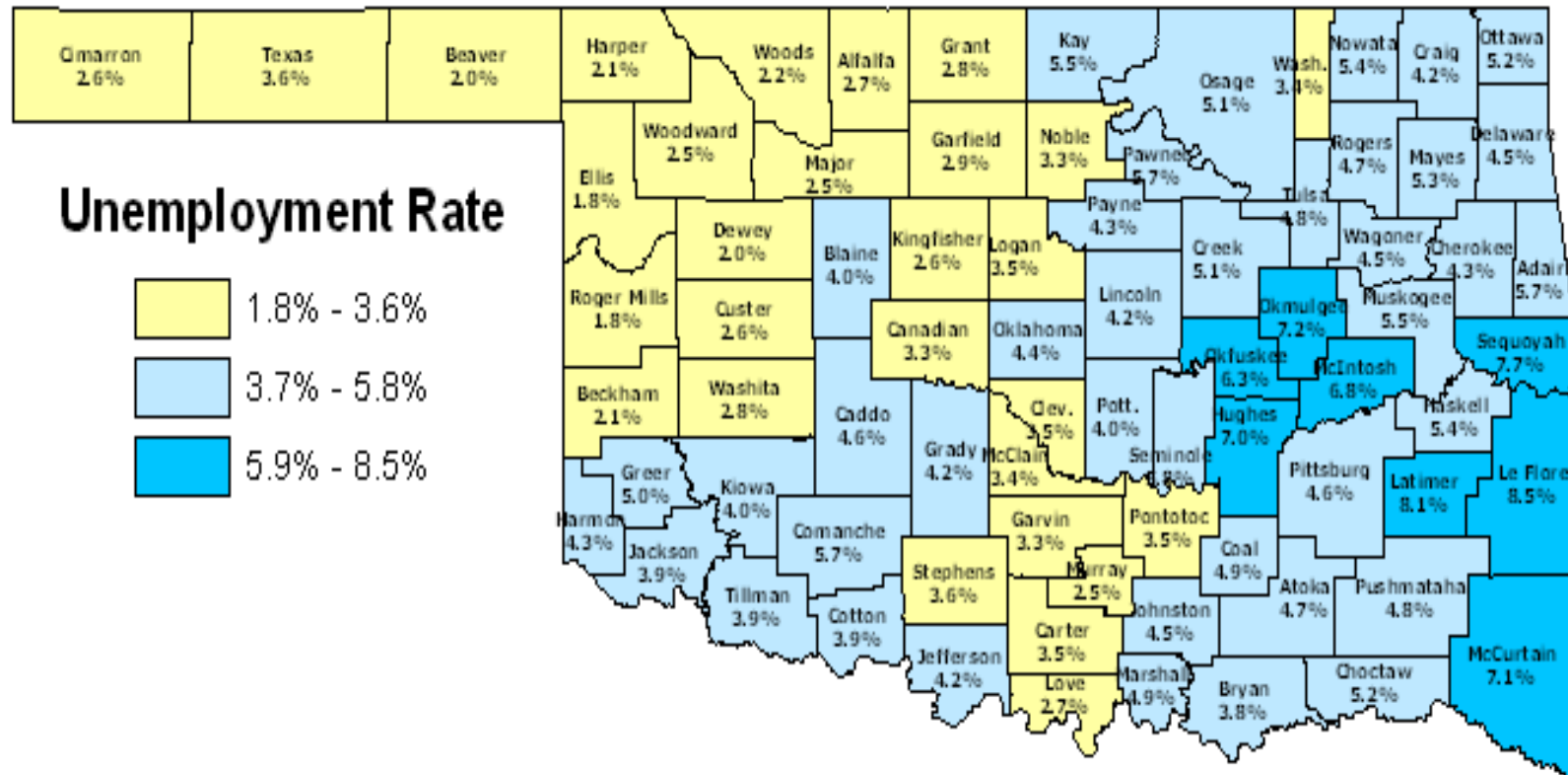
LFPR=Labor Force Participation Rate



Unemployment is low in much of western, central, and southern Oklahoma

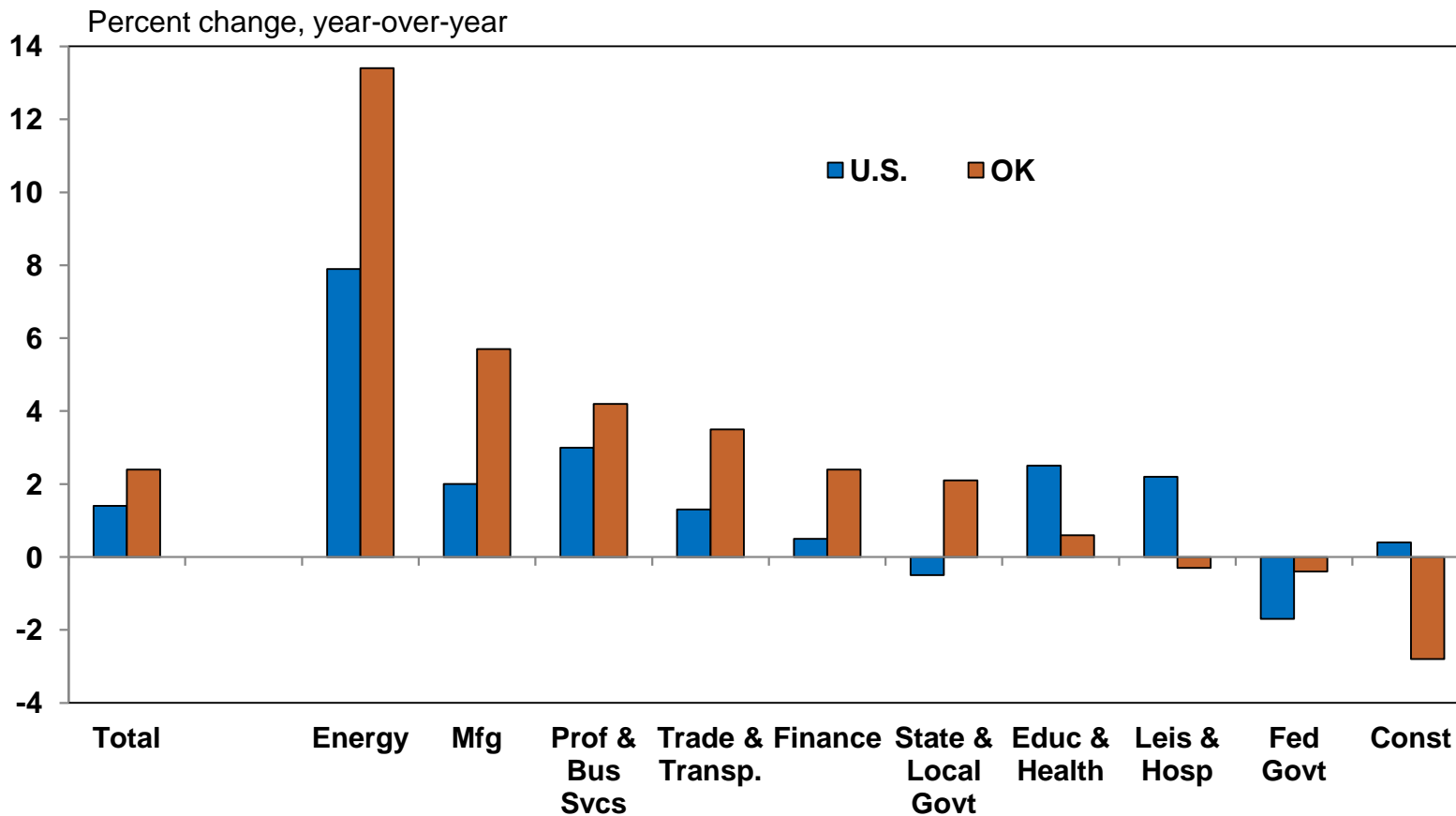
County Unemployment Rates

April 2012



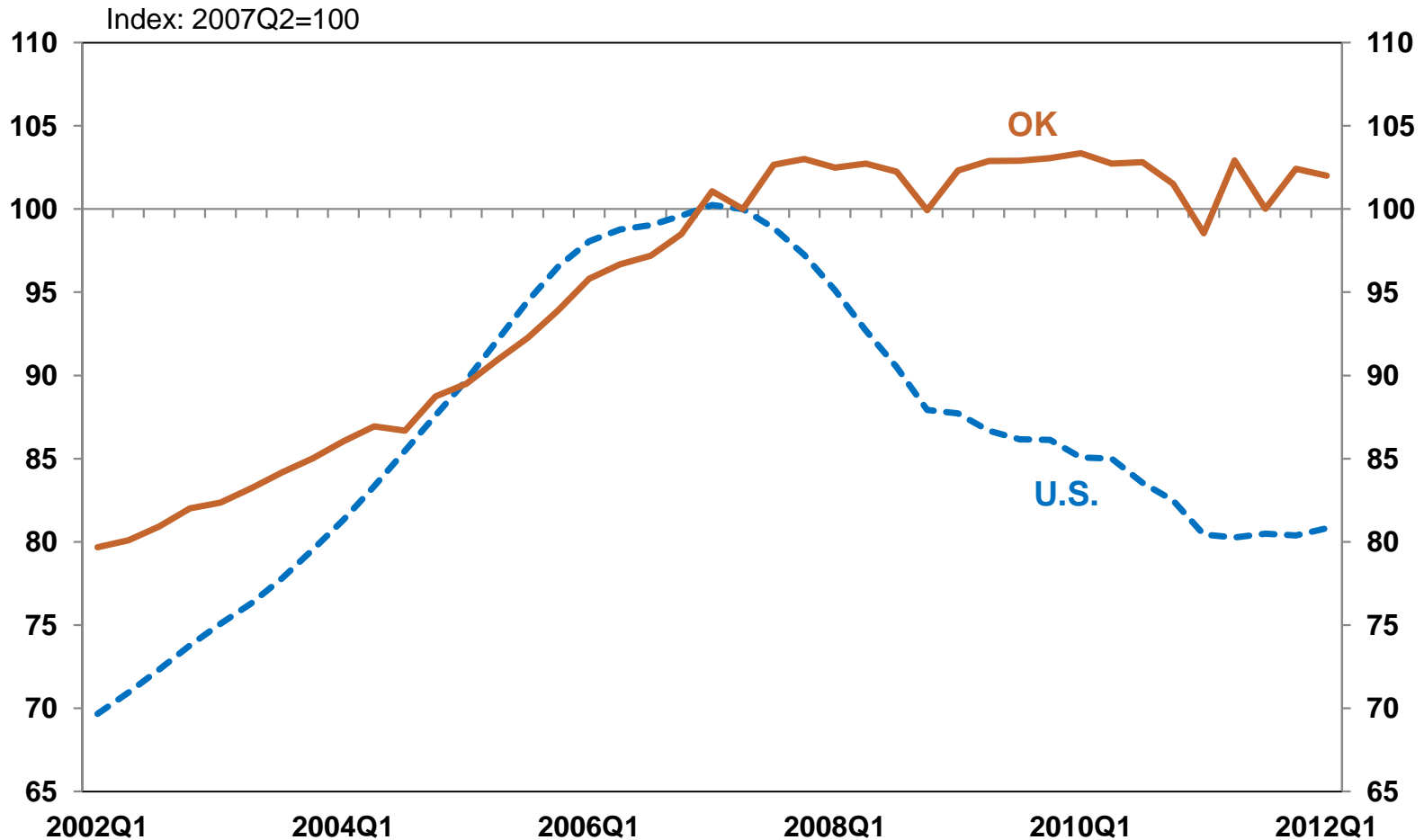
Job growth in most Oklahoma sectors has been better than the nation

Oklahoma Employment Growth May 2012



Home prices have held up much better in Oklahoma than in the nation

Home Price Index

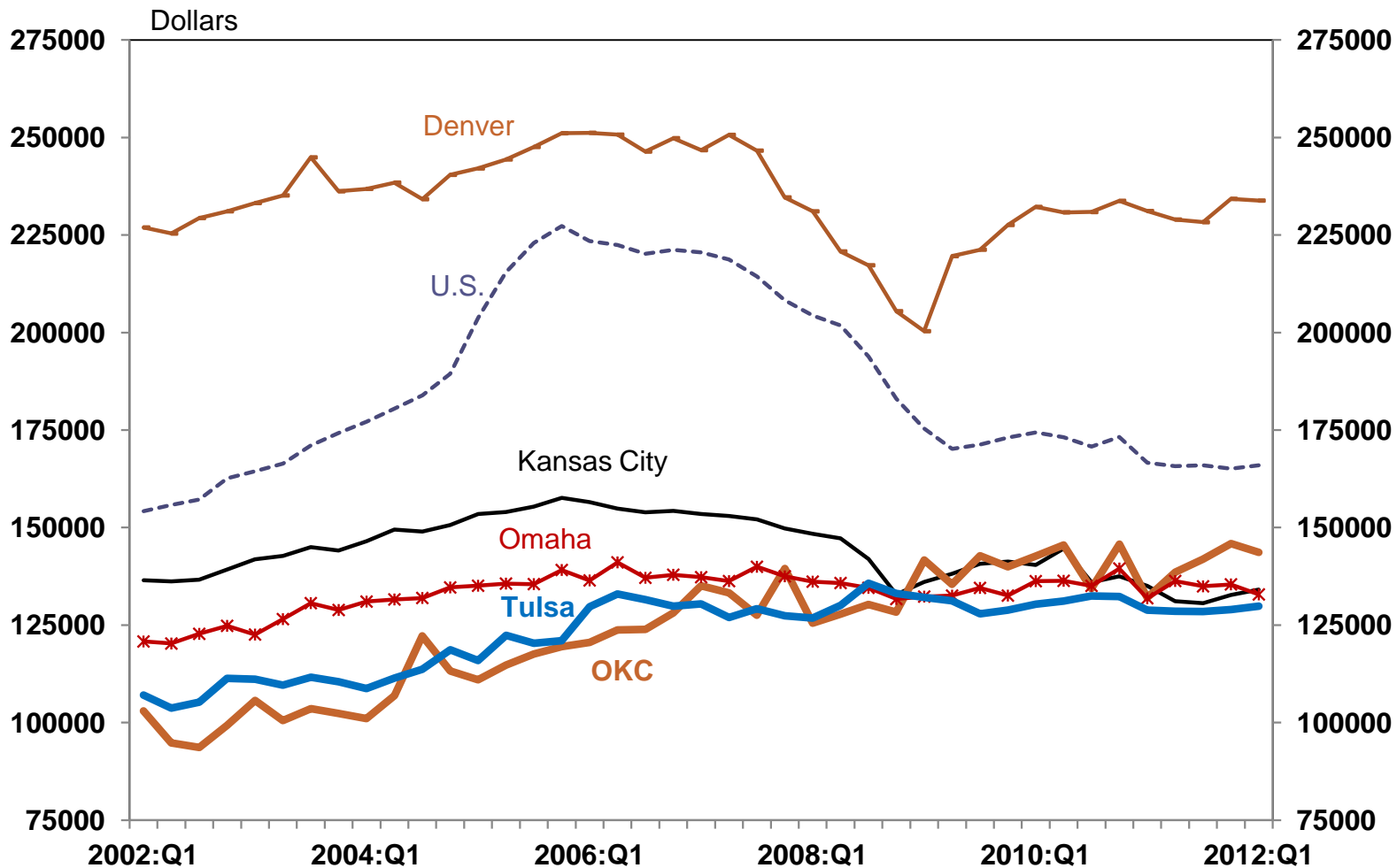


Source: FHFA



As a result, OKC and Tulsa home prices now match other regional cities

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



Source: NAR

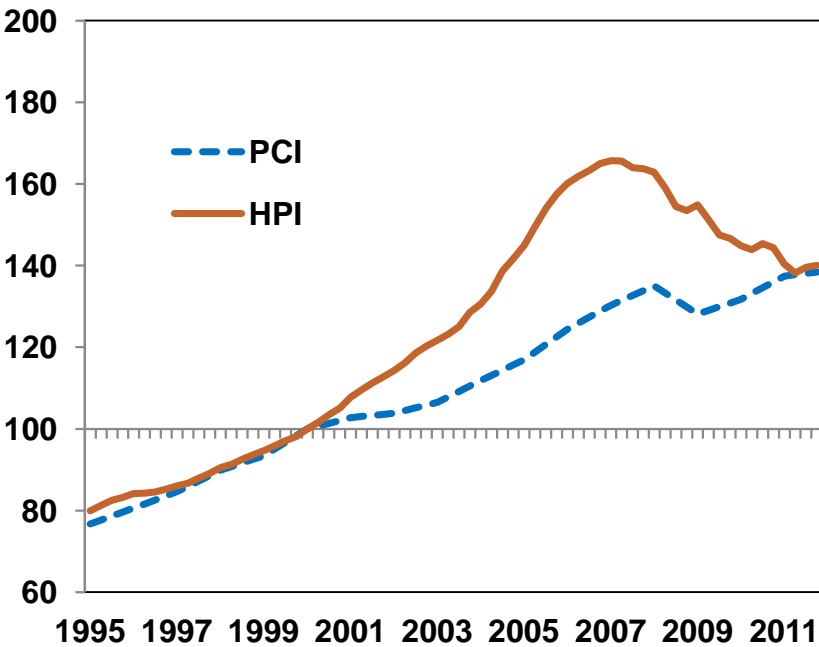


Income fundamentals suggest Oklahoma is at less risk of future home price declines

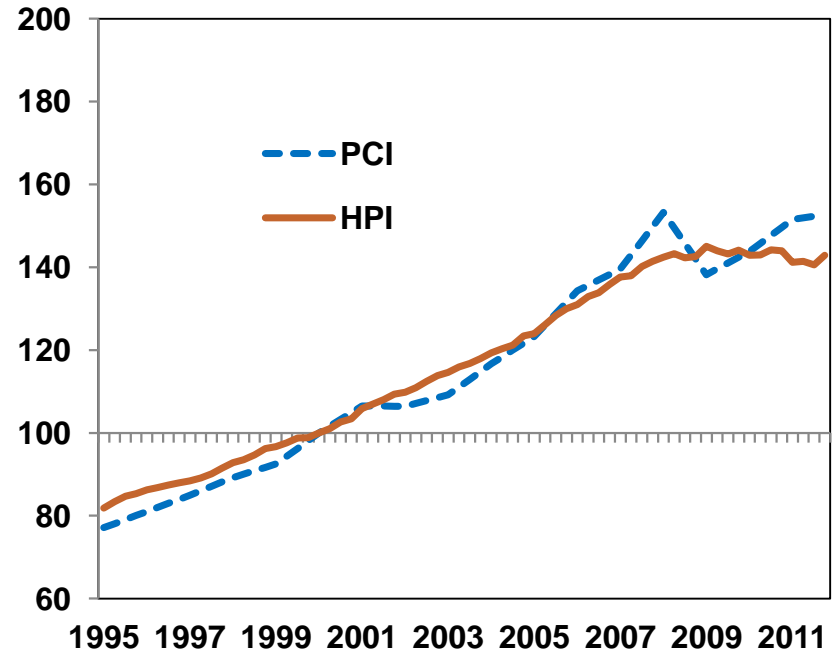
Home Prices and Per Capita Income Levels

Index: 2000=100

U.S.

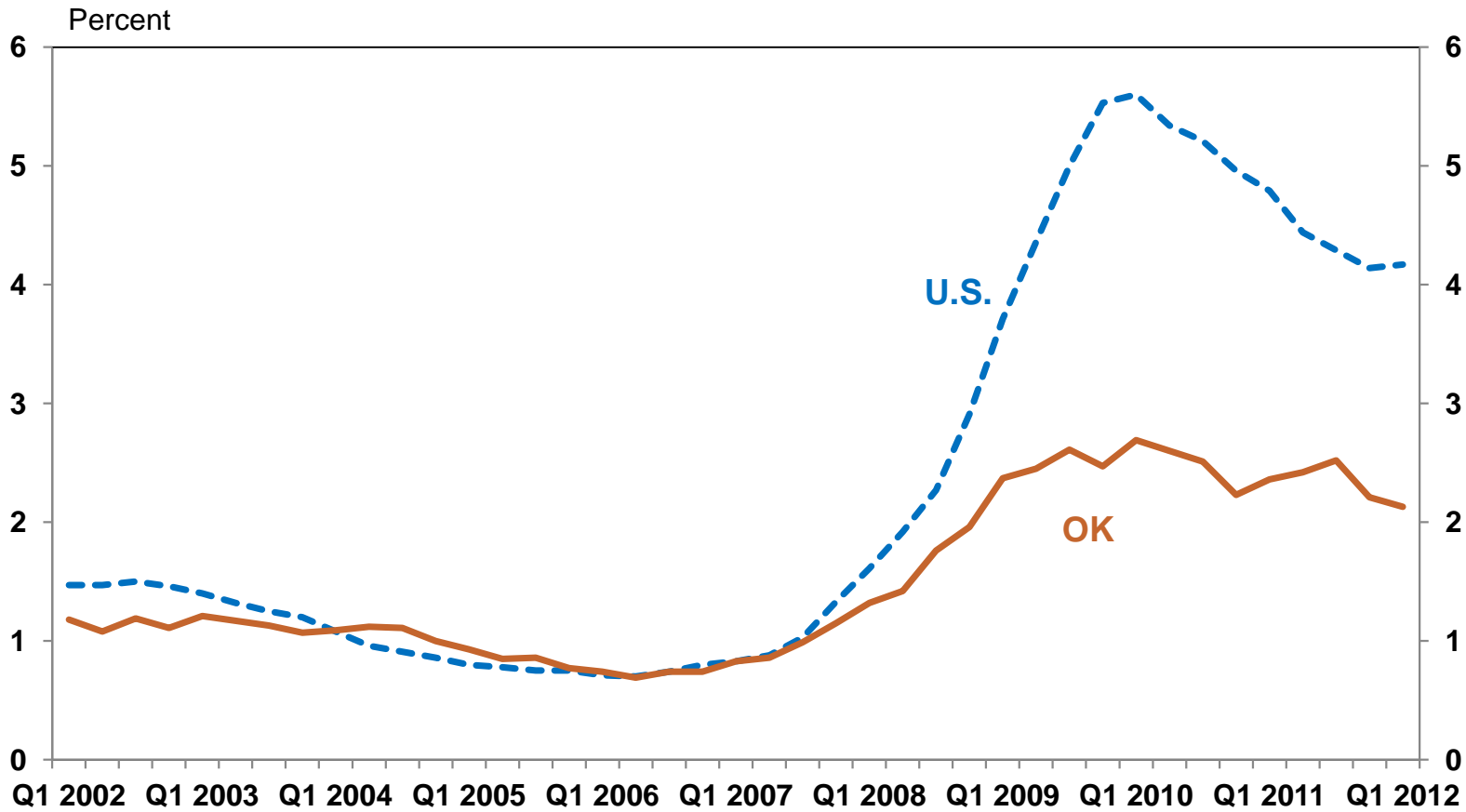


Oklahoma



Overall, problem loans are much less elevated at Oklahoma banks than nationally

Noncurrent Loans as a Share of Total Loans Commercial Banks

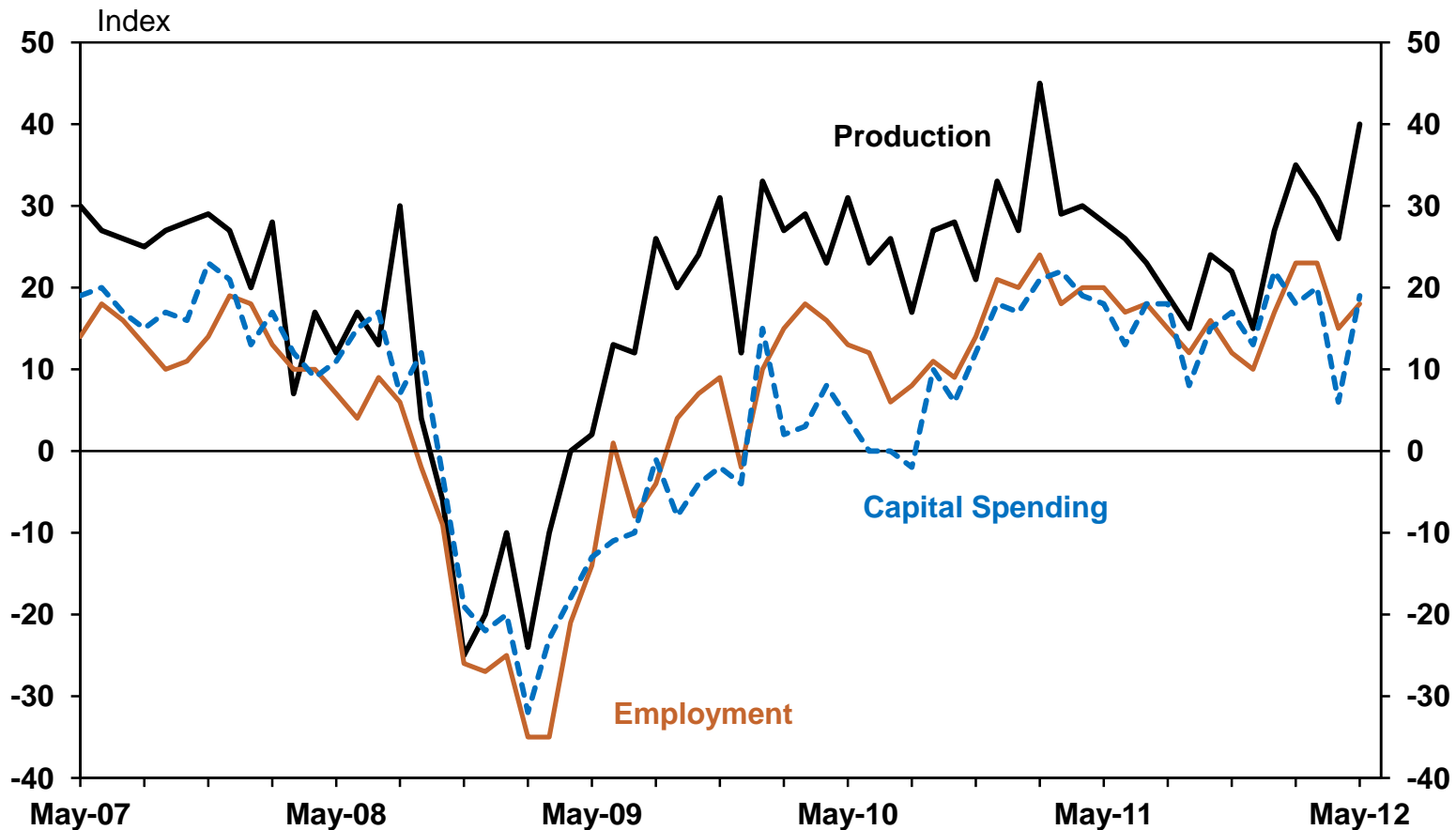


Source: FDIC



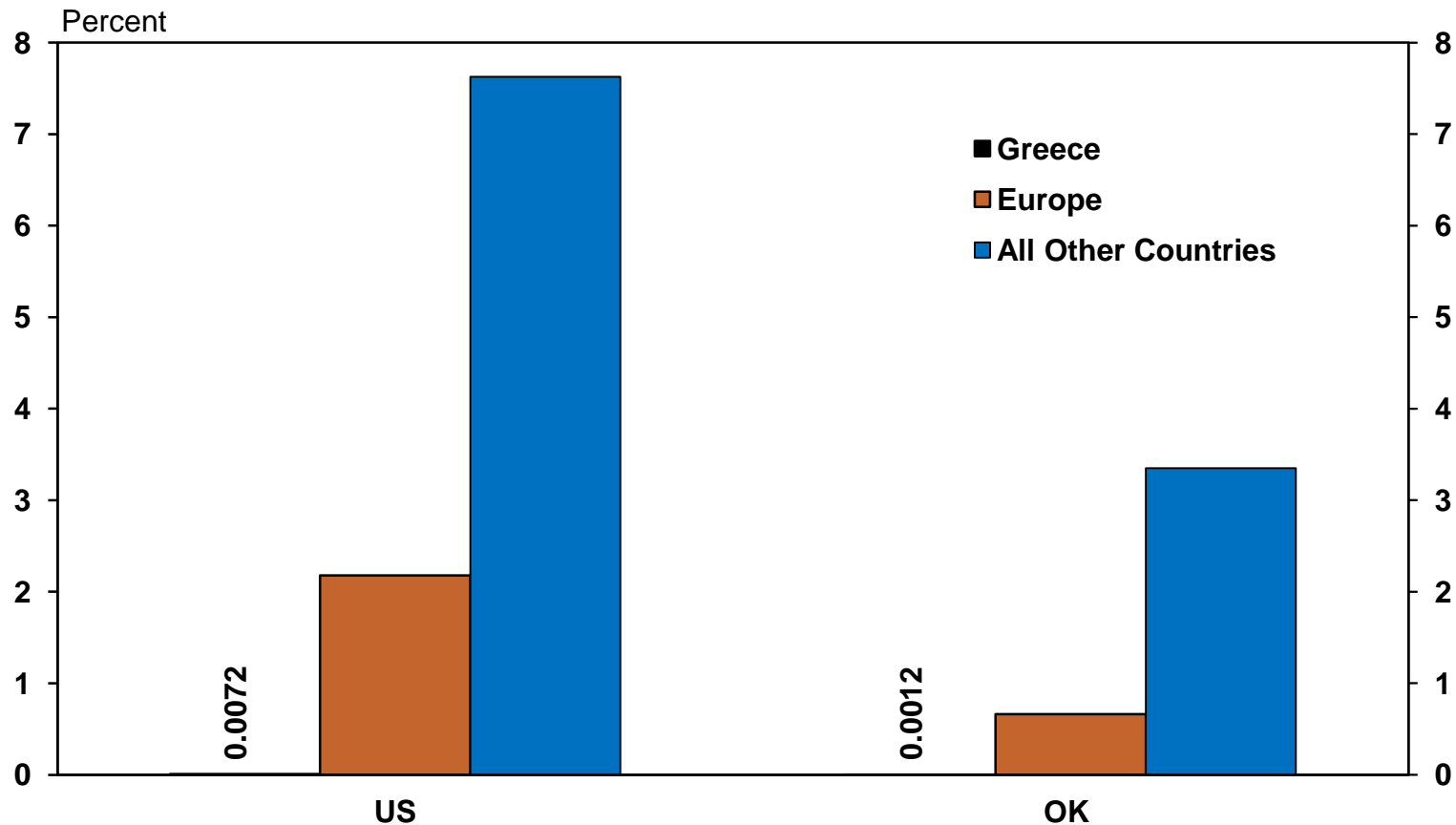
Looking ahead, purchasing managers in the region showed favorable optimism in May

Tenth District Manufacturing Expectations
Six-Months Ahead, Seasonally Adjusted



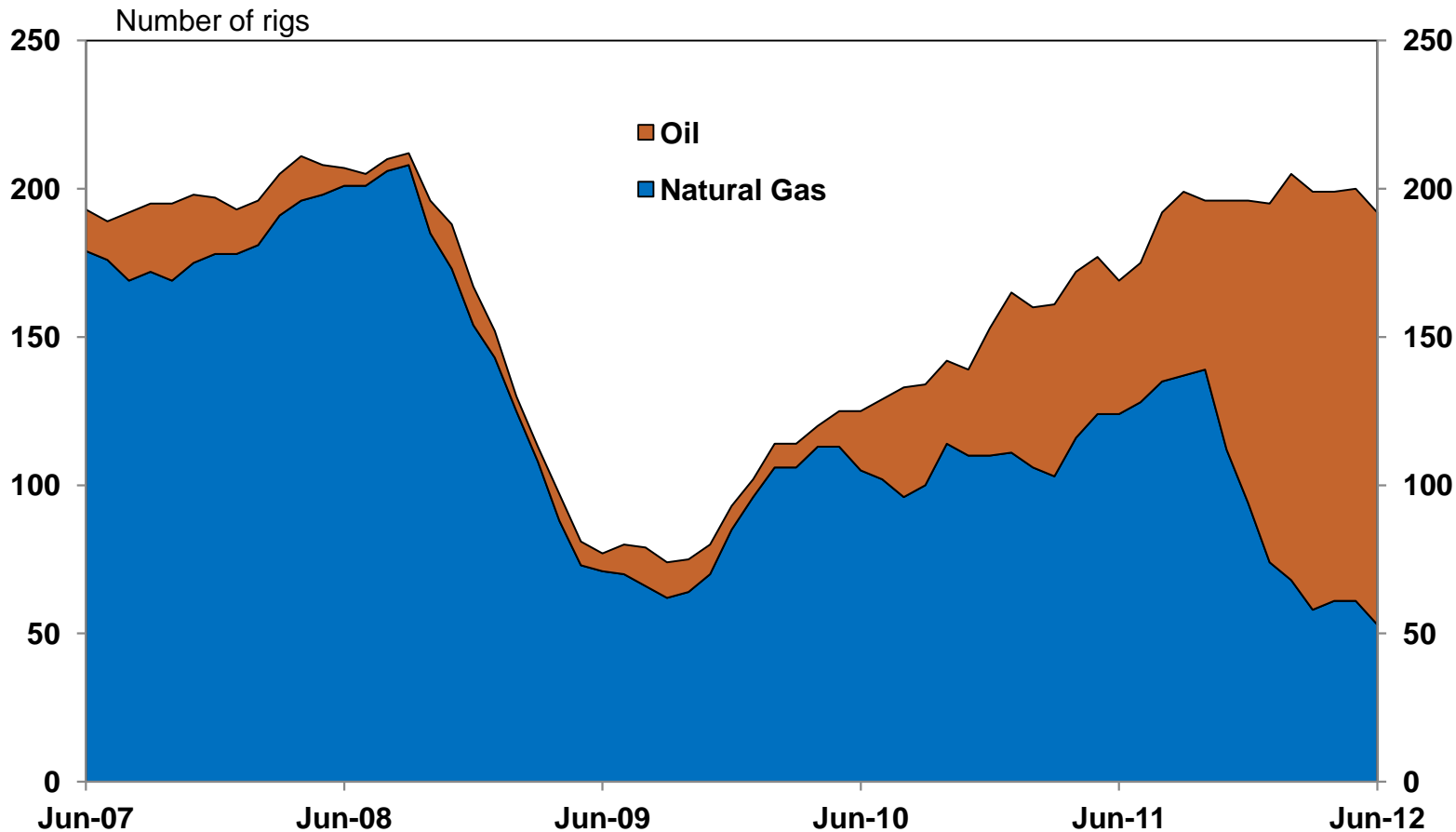
Exports to Europe and especially Greece make up a much smaller share in OK

2011 Exports as a Share of GDP



But Oklahoma energy activity is showing signs of slowing following recent strength

Oklahoma Rig Count



Source: Baker Hughes



Conclusions

- ❑ The U.S. economy continues to grow moderately, amid limited inflation, but with some concerns about Europe
- ❑ Oklahoma economic growth and housing conditions remains better than the nation and region, but growth may be slowing



Questions?



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

www.kansascityfed.org/publications/research/oke

