Structure and Functions 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 and purposes – 45 staff
  
  • Connect the nation’s central bank to Oklahoma communities, businesses, and banks
  • Research on U.S. and Oklahoma economies, economic education and outreach
  • Examinations of Oklahoma financial institutions (49 banks, 178 holding companies)

• 2017 OKC Fed Branch Board of Directors
  
  • Pete Delaney (chair), Chairman & CEO (retired), OGE Energy Corp., Oklahoma City
  • Clint Abernathy, Owner, Abernathy Farms, Inc., Altus
  • Susan Chapman Plumb, COO, Bank of Cherokee County, Tahlequah
  • Michael Coffman, CEO (retired), Panhandle Oil & Gas, Inc., Oklahoma City
  • Chuck Hall, Chairman & CEO, Exchange Bank & Trust, Perry
  • Tina Patel, Co-Owner & CFO, Promise Hotels, Tulsa
  • Katrina Washington, Owner/Broker, Stratos Realty, Oklahoma City

• Oklahomans on Kansas City Fed head office Board
  
  • Rose Washington (chair), Exec. Director, Tulsa Economic Development Corp., Tulsa
  • Doug Stussi, EVP & CFO, Love’s Travel Stops & Country Stores, Oklahoma City
The U.S. Economy and Monetary Policy
GDP growth slowed in the first quarter of 2017 due in part to a slowdown in consumer spending.
Most monthly data show U.S. economic growth remained solid in the first 4 months of the year.
U.S. unemployment has fallen to long-term average levels

Unemployment Rate
Seasonally Adjusted

Current (Apr. 2017): 4.4%

Sources: U.S. Bureau of Labor Statistics, FOMC
Broader measures of labor market conditions also show a return to normalcy
Inflation has been low the past couple of years but has recently returned to the long-term target.
“The [Federal Open Market] Committee expects… gradual increases in the federal funds rate”

Federal Funds Rate
Year-end target

Current (Apr. 2017): 1.0%

Sources: Federal Reserve Board, FOMC
“[P]articipants agreed that reductions in the [Fed]'s securities holdings should be gradual and predictable”
Trends in the Oklahoma Economy
2016 was the largest divergence between U.S. and Oklahoma job growth since the 1980s

Payroll Employment Growth

Percent change, year-over-year

Source: U.S. Bureau of Labor Statistics
But employment in the state has edged higher in recent months, especially rural and OKC.
State job growth is positive in several industries, including energy for the first time in 2 years.
State tax revenues have finally risen back to year-ago levels, after falling for 2 years.
Regional factory activity has improved markedly in recent months, with considerable optimism.
And nearly all banks in Oklahoma remain profitable

Share of Banks Not Making a Profit
Commercial Banks

Source: FDIC
In Weatherford, retail sales have rebounded especially strongly in recent months

Source: University of Oklahoma
Local unemployment rose in 2015-16 but has stayed below the national rate, and is down lately.
Relative to the nation, energy and agriculture are the two key industries for the Weatherford area.

Custer County Personal Income Share by Industry
2015

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Income</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Custer County</td>
<td>U.S.</td>
</tr>
<tr>
<td>Mining</td>
<td>13.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Agriculture</td>
<td>3.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>25.2</td>
<td>16.2</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
<td>16.7</td>
<td>13.2</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>5.2</td>
<td>4.7</td>
</tr>
<tr>
<td>Construction</td>
<td>6.4</td>
<td>6.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7.6</td>
<td>10.1</td>
</tr>
<tr>
<td>Federal Government</td>
<td>2.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>3.6</td>
<td>7.1</td>
</tr>
<tr>
<td>Education &amp; Health*</td>
<td>6.0</td>
<td>13.3</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>8.5</td>
<td>20.3</td>
</tr>
<tr>
<td>Information</td>
<td>1.2</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Note - Location quotient is the division of local share by national share

*Education is not disclosed

Source: U.S. Bureau of Economic Analysis
The agriculture sector in the state generally remains weak, though, with low prices.
OK farmland values have fallen moderately in recent quarters, but less than in some states.
Oil prices’ recent rise to $50/barrel has been followed by a near-doubling in the rig count.

Source: EIA, Reuters
The most active drilling areas now are in west Texas and central Oklahoma

Current Drilling Rig Locations,
As-of April 14, 2017

Source: Baker Hughes
Energy prices are around average profitable levels but are only expected to increase modestly.

Survey ranges in blue

Survey average

Current price (5-9-17): $46.00

Current price (5-9-17): $3.18

Source: FRBKC Energy Survey, Reuters
Summary

• The U.S. economy continues to grow, and the Fed has raised interest rates at 2 recent meetings.

• The Oklahoma economy has been hurt by low commodity prices and spillover to other sectors.

• However, labor market and banking conditions have held on fairly well, and some growth and optimism has returned—outside of agriculture.
Questions?

For regular updates and analysis of the Oklahoma economy, subscribe to our quarterly **Oklahoma Economist** publication at:
www.kansascityfed.org/publications/research/oke/

For more analysis on regional energy conditions, subscribe to our quarterly **Energy Survey** at:
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For more analysis on regional manufacturing conditions, subscribe to our monthly **Manufacturing Survey** at:
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For more analysis on regional agricultural conditions, subscribe to our quarterly **Agricultural Credit Survey** at:
https://www.kansascityfed.org/research/indicatorsdata/agcreditsurvey