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 three general areas:
  • Monetary policy – promote maximum employment and low inflation
  • Bank regulation – ensure soundness and fair lending of banks
  • Financial services – serve as bank for banks, bank for federal govt.
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 rebounded in Q2 2017 due largely to a recovery in consumer spending growth.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis
Most monthly data show U.S. economic growth has remained solid throughout 2017.
“Job gains have been solid... since the beginning of the year, and the unemployment rate has declined.”

Unemployment Rate
Seasonally Adjusted

Current (Jul. 2017): 4.3%

Sources: U.S. Bureau of Labor Statistics, FOMC
“Inflation...is expected to...stabilize around the Committee’s 2% objective over the medium term”
“The Committee expects...conditions will evolve in a manner that will warrant gradual [rate] increases”

Federal Funds Rate
Year-end target

Current (Aug. 2017): 1.25%

June FOMC Forecast
Ranges in Yellow

Sources: Federal Reserve Board, FOMC
“The Committee expects to begin implementing its balance sheet normalization program relatively soon”
The Economy in Oklahoma and the OKC Metro
After declining in 2015-16, employment in Oklahoma and the OKC metro is rising again.

Note: Large Metro is OKC & Tulsa metros

Source: U.S. Bureau of Labor Statistics
State and city tax revenues have finally risen back above year-ago levels, after falling for 2 years.

**Tax Receipts**
Through Q3-17*

Note: Q3-17 for OK and includes July only

Source: OK Tax Commission
Ag, energy, and federal government are key across the state, and all have had challenges

OK Personal Income Share by Industry, 2015

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Income</th>
<th>Location Quotient</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U.S.</td>
<td>OK</td>
</tr>
<tr>
<td>Agriculture</td>
<td>0.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Mining (primarily oil &amp; gas)</td>
<td>1.6</td>
<td>11.8</td>
</tr>
<tr>
<td>Construction</td>
<td>6.1</td>
<td>6.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10.1</td>
<td>8.9</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>16.2</td>
<td>23.8</td>
</tr>
<tr>
<td>Information</td>
<td>3.5</td>
<td>1.6</td>
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<tr>
<td>Financial Activities</td>
<td>7.1</td>
<td>3.8</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>20.3</td>
<td>7.5</td>
</tr>
<tr>
<td>Education &amp; Health</td>
<td>13.3</td>
<td>11.2</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>4.7</td>
<td>3.9</td>
</tr>
<tr>
<td>Federal Government</td>
<td>3.0</td>
<td>5.8</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
<td>13.2</td>
<td>13.4</td>
</tr>
</tbody>
</table>

Note – Industries in red are more than twice as large in the region as the the nation

Source: U.S. Bureau of Labor Statistics
Jobs in most metro area industries are at or above year-ago levels, especially in services sectors.
Metro unemployment has come back down after rising last year, and is below the national rate.
In housing, average home price growth across the state has slowed, but remains moderately positive.
OKC office vacancies remain lower than in the U.S., while retail vacancies have improved slightly.

Source: CBRE
Oil and gas is still highly concentrated in the state, making the sector important for the state outlook.
Energy prices are near but slightly below average profitable levels and are expected to stay there.

Kansas City Fed Energy Survey Special Questions

- **Current price (8-16-17):**
  - **Oil (WTI):** $49.17
  - **Natural Gas (Henry Hub):** $2.93

Survey ranges in blue.
Still, considerable oil drilling is occurring in much of western OK, and gas drilling is picking up.
Summary

- The U.S. economy continues to grow, and the Fed has been tightening monetary policy

- Oklahoma and OKC were hurt in 2015-16 by low oil prices and spillover to other sectors

- However, growth is picking up again, and OKC labor and real estate markets have held up well
Questions?

For regular analysis of the Oklahoma economy, subscribe to our quarterly **Oklahoma Economist** publication at:

www.kansascityfed.org/publications/research/oke/

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https://www.kansascityfed.org/research/indicatorsdata/agcreditsurvey

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