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.
The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

• Functions – approximately 40 staff
  • Research on U.S. and Oklahoma economies
  • Economic, community, and financial education outreach
  • Examinations of Oklahoma financial institutions

• 2016 Branch Board of Directors
  • Pete Delaney (chair), CEO (retired), OGE Energy Corp., OKC
  • Clint Abernathy, Owner, Abernathy Farms, Inc., Altus
  • Michael Coffman, CEO, Panhandle Oil & Gas, Inc., Oklahoma City
  • Chuck Hall, Chairman & CEO, Exchange Bank & Trust, Perry
  • Jane Haskin, President & CEO, First Bethany Bank & Trust, Bethany
  • Tina Patel, Co-Owner & CFO, Promise Hotels, Tulsa
  • Doug Stussi, EVP & CFO, Love’s Travel Stops & Country Stores, OKC
The U.S. Economy and Monetary Policy
GDP slowed somewhat further in Q1, as business investment dropped

Growth in Components of Real GDP

Percent change from the previous period, SAAR

• Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
But U.S. business activity picked up slightly in March and April, with job growth solid.

The chart illustrates the U.S. Private Payroll Employment and Business Indexes from April 2008 to April 2016. It shows the change from previous month in thousands, with a left axis for Private Employment and right axes for ISM Manufacturing and Non-Manufacturing Indexes.

U.S. unemployment is at long-term levels after falling considerably in recent years.

Unemployment Rate
Seasonally Adjusted

Current (Apr. 2016): 5.0%

Sources: U.S. Bureau of Labor Statistics, FOMC
U.S. inflation is low but expected to return to close to target in 2016

PCE Inflation Index

Percent change, year-over-year

Current (Q1 2016): 1.0%
Current Core (Q1 2016): 1.7%

Mar. FOMC Forecast Ranges in Yellow

Sources: U.S. Bureau of Labor Statistics, FOMC
FOMC participants expect moderate increases in rates heading forward

Federal Funds Rate
Year-end target

Current (May 2016): 0.50%

Mar. FOMC Forecast Ranges in Yellow

Percent

Sources: Federal Reserve Board, FOMC
Trends in the Oklahoma Economy
Job trends have varied somewhat across Oklahoma the past couple of years

Level of Payroll Employment
Through April 2016

Index: Jan-14=100

Source: U.S. Bureau of Labor Statistics
Okla. employment has held up relatively well, but this includes a shift to lower-paying jobs.

Job Growth by Industry
Apr-16

Percent change, year-over-year

Source: Bureau of Labor Statistics
Still, with many workers finding jobs in other industries, unemployment remains low.

Source: U.S. Bureau of Labor Statistics
In related news, banking conditions in the state have remained good.
But declining tax receipts are creating difficulties for government budgets.

State Tax Receipts
Through Q2-16*

*Note: Q2-16 through April 2016

Source: OK Tax Commission
Unlike the U.S. new home construction has eased as the economy has slowed.

**Single-Family Housing Permits**
3-month moving average, through Mar-16

Source: U.S. Census Bureau
Home price growth in the state slowed in the first quarter but remained fairly solid.
Loan balances have risen in U.S. energy counties versus the rest of the nation.

Source: New York Fed Consumer Credit Panel
Delinquencies have also risen in energy counties, especially on auto loans.
Office vacancies in Oklahoma’s 2 big metros are beginning to rise but remain modest.
The outlook for the energy and agriculture sectors remain key across the state

Oklahoma Personal Income Share by Industry
State - 2014, Metro/Non-Metro - 2012

<table>
<thead>
<tr>
<th>Industry</th>
<th>OK Location Quotient</th>
<th>OK % of Total Income</th>
<th>OKC Location Quotient</th>
<th>OKC % of Total Income</th>
<th>Tulsa Location Quotient</th>
<th>Tulsa % of Total Income</th>
<th>Non-Metro Location Quotient</th>
<th>Non-Metro % of Total Income</th>
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<tbody>
<tr>
<td>Mining</td>
<td>8.1</td>
<td>14.8</td>
<td>8.3</td>
<td>14.4</td>
<td>7.8</td>
<td>13.6</td>
<td>7.2</td>
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<td>Farming</td>
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<td>2.0</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>4.9</td>
<td>4.9</td>
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<td>5.8</td>
<td>1.8</td>
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<td>Construction</td>
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<td>Trade, Transp. &amp; Utilities</td>
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<td>9.4</td>
<td>0.7</td>
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<td>1.3</td>
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<td>0.9</td>
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</table>

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

Source: U.S. Bureau of Economic Analysis
The Outlook for Oklahoma’s Energy and Agriculture Sectors
Oil inventories have improved quicker than expected, helping boost oil prices recently.

Change in Global Oil Inventories vs Oil Prices

Source: EIA
Current oil prices are only slightly below profitable levels, but well below expansionary.

**KC Fed Energy Survey Special Questions**
**Q3 2014 to Q1 2016**

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Oil Price Needed for Profitability in Active Areas</th>
<th>Price Needed to Increase Drilling Significantly</th>
<th>2016 Year-End Expected WTI Price</th>
<th>2017 Year-End Expected WTI Price</th>
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<tbody>
<tr>
<td>Q3-14</td>
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<td>Q1-14</td>
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<td>Q3-15</td>
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<tr>
<td>Q2-15</td>
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<td>Q4-15</td>
<td>$60</td>
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<td>$50</td>
<td>$45</td>
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</table>

Natural Gas Price Needed for Profitability, Q1 2016: $3.28 average

Source: FRBKC Energy Survey
The KC Fed’s Q1 energy survey showed further declines, with more expected.
Our ag credit survey also shows drops in Oklahoma farm income and spending.
Still, farmland values have held up better in Oklahoma than in the rest of our region.
Summary

- The U.S. economy continues to grow, and the Fed has begun to raise interest rates

- Oklahoma employment and tax revenues continue to suffer from the oil downturn

- But unemployment remains low, and real estate conditions have only softened slightly

- The latest KC Fed energy and agriculture surveys suggest more sluggishness ahead
Questions and Links

For more information about the Oklahoma City Branch of the Federal Reserve Bank of Kansas City, visit our website at:
http://www.kansascityfed.org/oklahomacity/

For more information about the Oklahoma economy, subscribe to the quarterly Oklahoma Economist at:
www.kansascityfed.org/publications/research/oke