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 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.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

<table>
<thead>
<tr>
<th>Component</th>
<th>Q2 2016</th>
<th>Q3 2016</th>
<th>Q4 2016</th>
<th>Q1 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GDP</td>
<td>-7.7</td>
<td>0.0</td>
<td>5.8</td>
<td>-1.7</td>
</tr>
<tr>
<td>Consumer spending</td>
<td>-4.1</td>
<td>1.0</td>
<td>1.4</td>
<td>0.8</td>
</tr>
<tr>
<td>Residential investment</td>
<td>4.3</td>
<td>3.0</td>
<td>3.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Business investment</td>
<td>0.3</td>
<td>0.9</td>
<td>1.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Exports</td>
<td>13.7</td>
<td>9.4</td>
<td>10.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Government spending</td>
<td>0.7</td>
<td>0.7</td>
<td>0.3</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Economic Analysis
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.

U.S. Labor Market Conditions Index

Source: FRBKC
FOMC: “Inflation...has been running close to the Committee’s 2 percent longer-run objective”
“The [FOMC] expects that economic conditions...will warrant ...gradual increases in the federal funds rate”

Federal Funds Rate
Year-end target

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

Source: U.S. Bureau of Labor Statistics
But employment in the state has edged higher in recent months, especially rural and OKC.

Level of Payroll Employment
Through March 2017

Source: U.S. Bureau of Labor Statistics
State job growth is now positive in several industries, while Tulsa area energy and factory jobs lag.
State tax revenues have finally risen back to year-ago levels, after falling for 2 years.

Note: Q2-17 includes only April

Source: OK Tax Commission
Local unemployment ticked up last year but has since moved back below the national rate.
Home price growth in the metro area has slowed, but remains moderately positive

FHFA Home Price Index
Seasonally Adjusted

Source: FHFA
Office vacancy rates have risen slightly in the metro, but much less than in Houston
And nearly all banks in Oklahoma remain profitable
Regional factory activity has improved markedly in recent months, with considerable optimism.
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.

**Kansas City Fed Energy Survey Special Questions**

<table>
<thead>
<tr>
<th></th>
<th>Oil (WTI)</th>
<th>Natural Gas (Henry Hub)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$/Barrel</td>
<td>$/Million Btu</td>
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<tr>
<td>Profitable price</td>
<td>$51</td>
<td>$3.38</td>
</tr>
<tr>
<td>Price expected in 6 months</td>
<td>$51</td>
<td>$2.85</td>
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<tr>
<td>Price expected in 1 year</td>
<td>$54</td>
<td>$3.01</td>
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<td>Price expected in 2 years</td>
<td>$60</td>
<td>$3.22</td>
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<tr>
<td>Price expected in 5 years</td>
<td>$69</td>
<td>$3.64</td>
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</tbody>
</table>

Current price (5-04-17): $45.45

Current price (5-04-17): $3.19

Survey ranges in blue

Source: FRBKC Energy Survey, Reuters
Energy is still a large share of Oklahoma GDP, even after dropping since 2014, and is set to grow.

Source: U.S. Bureau of Economic Analysis
Summary

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

• The Oklahoma and Tulsa area economies have been hurt by low commodity prices and spillover to commodity-related industries

• But conditions in local labor markets, real estate, and banking have held on fairly well, and some growth and optimism has returned
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:

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

For more analysis on regional manufacturing conditions, subscribe to our monthly **Manufacturing Survey** at:

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