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
The U.S. economy picked up in early 2017 after an up-and-down 2016, but was weaker in March.

U.S. Payroll Employment and Business Indexes

U.S. unemployment has fallen to long-term average levels

Unemployment Rate
Seasonally Adjusted

Current (Mar. 2017): 4.5%

March FOMC Forecast Ranges in Yellow

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
Inflation has been low the past couple of years but has recently returned to the long-term target.

Current (Feb. 2017): 2.1%
Current Core (Feb. 2017): 1.8%

March FOMC Forecast
Ranges in Yellow

PCE Inflation Index

Percent change, year-over-year

Sources: U.S. Bureau of Labor Statistics, FOMC
“The [Federal Open Market] Committee expects… gradual increases in the federal funds rate”

Federal Funds Rate
Year-end target

Current (Apr. 2017): 1.0%

March FOMC Forecast
Ranges in Yellow

Sources: Federal Reserve Board, FOMC

"The [Federal Open Market] Committee expects... gradual increases in the federal funds rate"
“[P]articipants agreed that reductions in the [Fed]'s securities holdings should be gradual and predictable”
Trends in the Oklahoma & OKC Metro Economies
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
OKC metro jobs have been largely flat, but better than the rest of the state, and rose in February.
Local unemployment ticked up last year but has stayed below the national rate, and is down lately.
Local job growth has varied widely by industry, with energy job losses spreading to other industries.
State and local tax revenues continue to drift down in early 2017, though less so than in 2016

Tax Receipts
Through Q1-17*

Source: OK Tax Commission

*Q1-17 through February for OKC
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 area, but much less than in Houston.

Metro Office Vacancy Rates

Source: CBRE
And nearly all banks in Oklahoma remain profitable

Share of Banks Not Making a Profit
Commercial Banks

Source: FDIC
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.
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

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 OKC metro economy has been hurt by low commodity prices, as well as spillover to related industries, but less so than the state

• 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:


For more analysis on regional energy conditions, subscribe to our quarterly **Energy Survey** at:

[https://www.kansascityfed.org/research/indicatorsdata/energy](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](https://www.kansascityfed.org/research/indicatorsdata/mfg)