

The Federal Reserve and Monetary Policy



Harding Charter Prep

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The Creation of the Fed

- The first two national banks, 1791-1836
- The need for a standard currency
- The Federal Reserve System is created in 1913 by President Woodrow Wilson
- The Fed opened for business in 1914 across 12 different cities



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 – approximately 40 staff**
 - Research on U.S. and Oklahoma economies
 - Economic, community, and financial education outreach
 - Examinations of Oklahoma financial institutions
- **2015 Branch Board of Directors**
 - **Pete Delaney (chair)**, Chairman, OGE Energy Corp., Oklahoma City
 - **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



Monetary Policy Goals

Inflation

- Significant wage increases
- Significant price increases

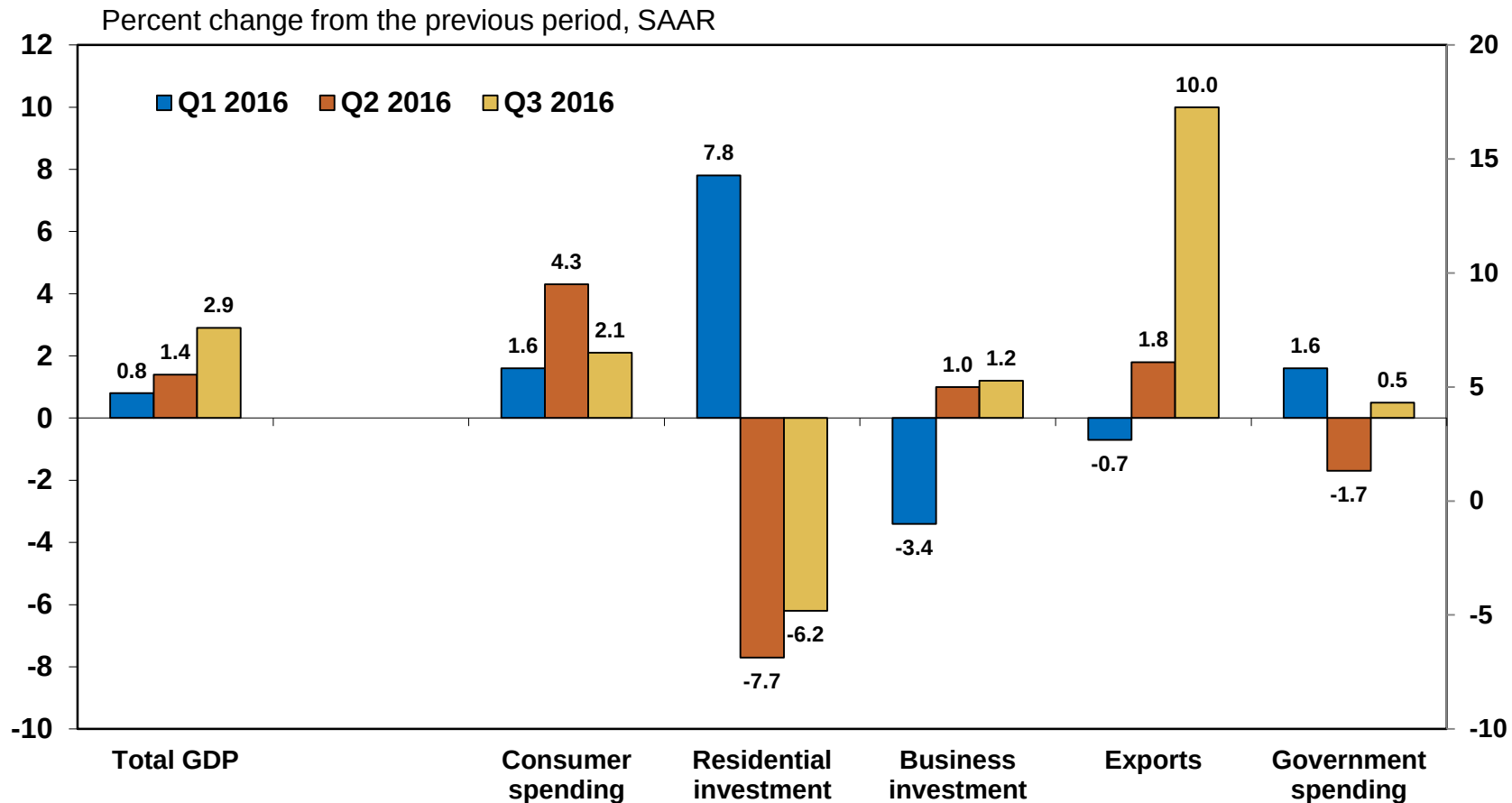
Recession

- Significantly high unemployment
- Significantly shrinking business profits



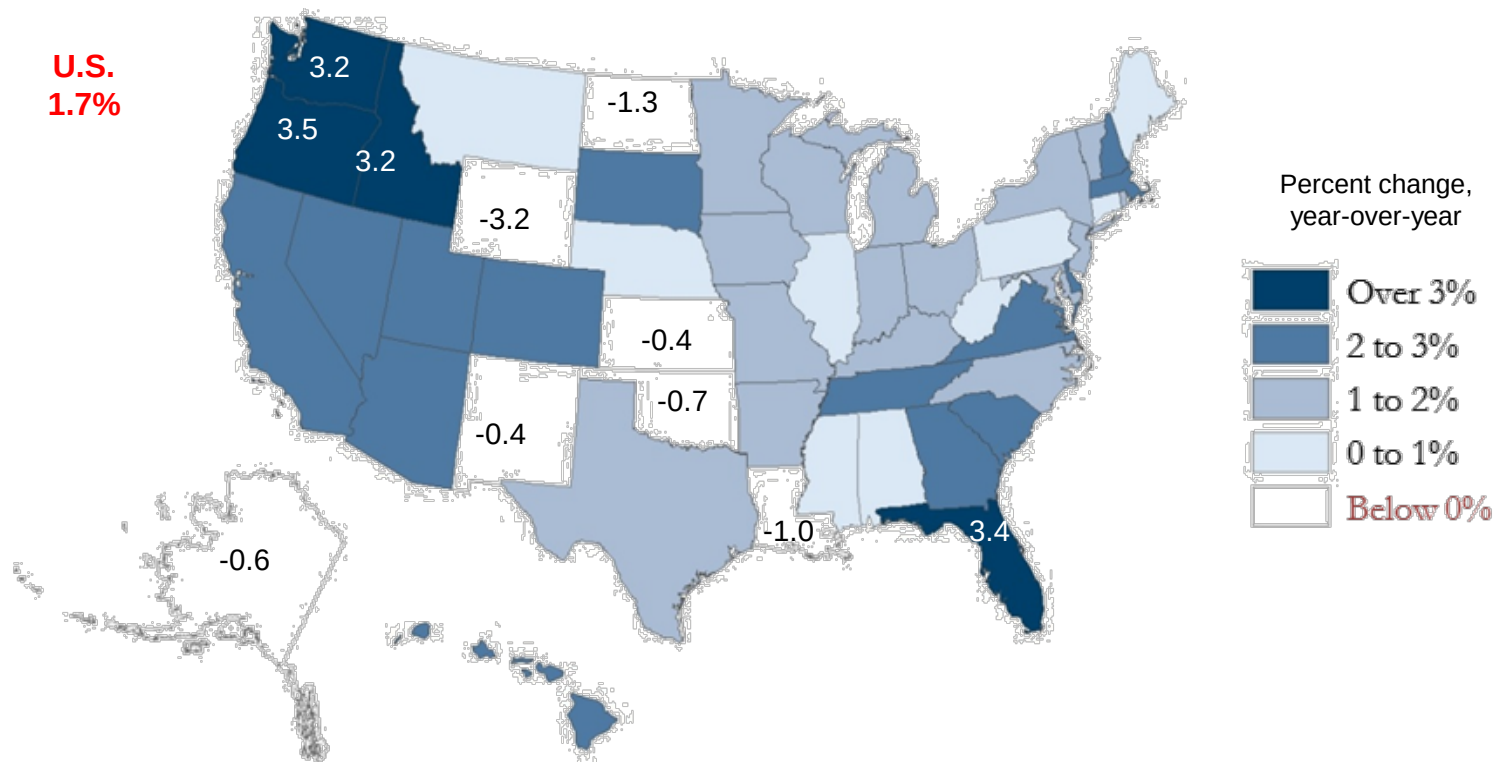
GDP growth picked up in the 3rd quarter, mainly from spending and exports

Growth in Components of Real GDP

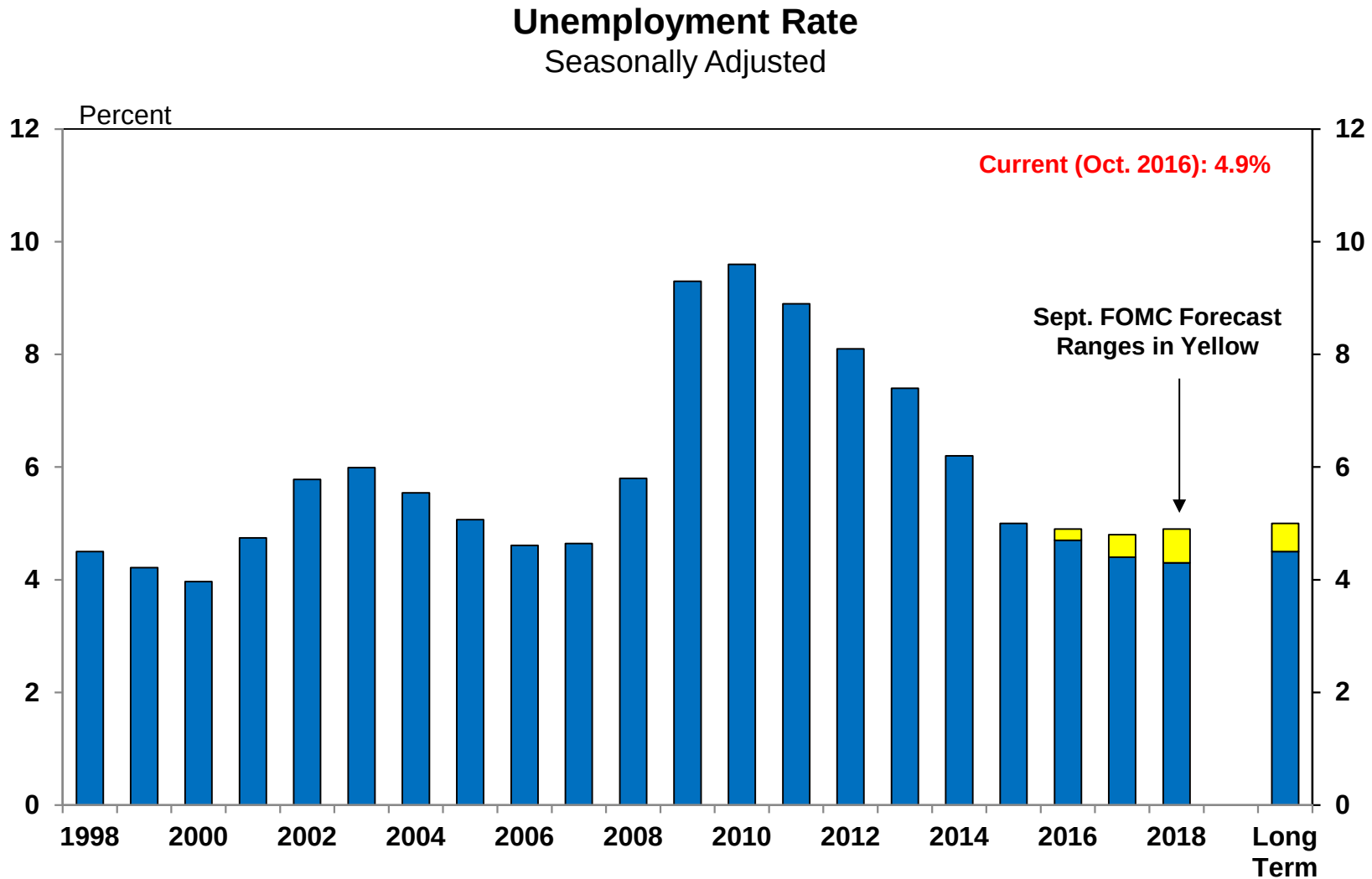


Growth has diverged across the nation, with 7 states in or near recession, incl. Oklahoma

Total Nonfarm Employment Growth September 2016



The Committee expects that...labor market conditions will strengthen somewhat further

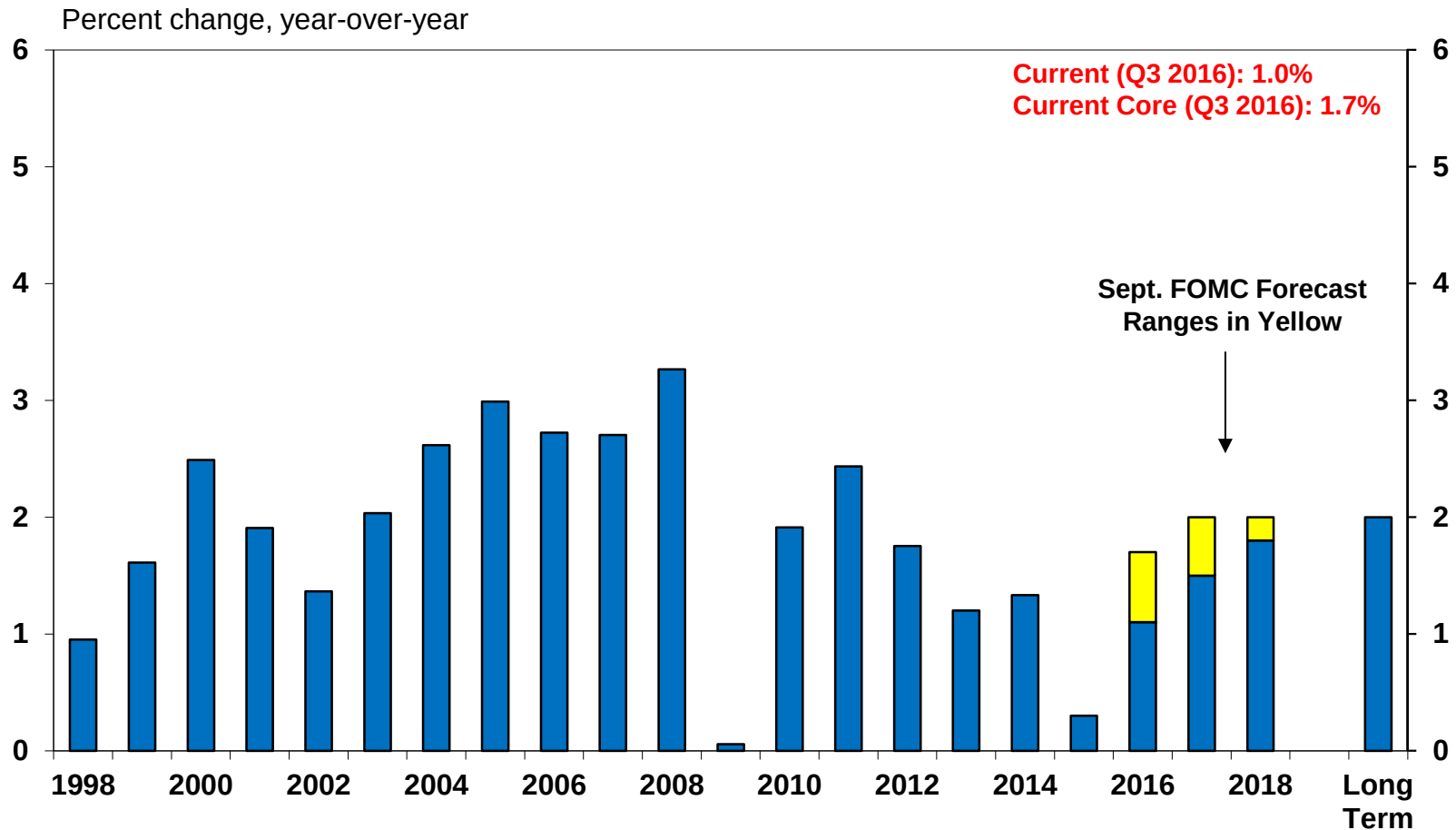


Sources: U.S. Bureau of Labor Statistics, FOMC



Inflation has increased...but is still below the Committee's 2 percent longer-run objective

PCE Inflation Index

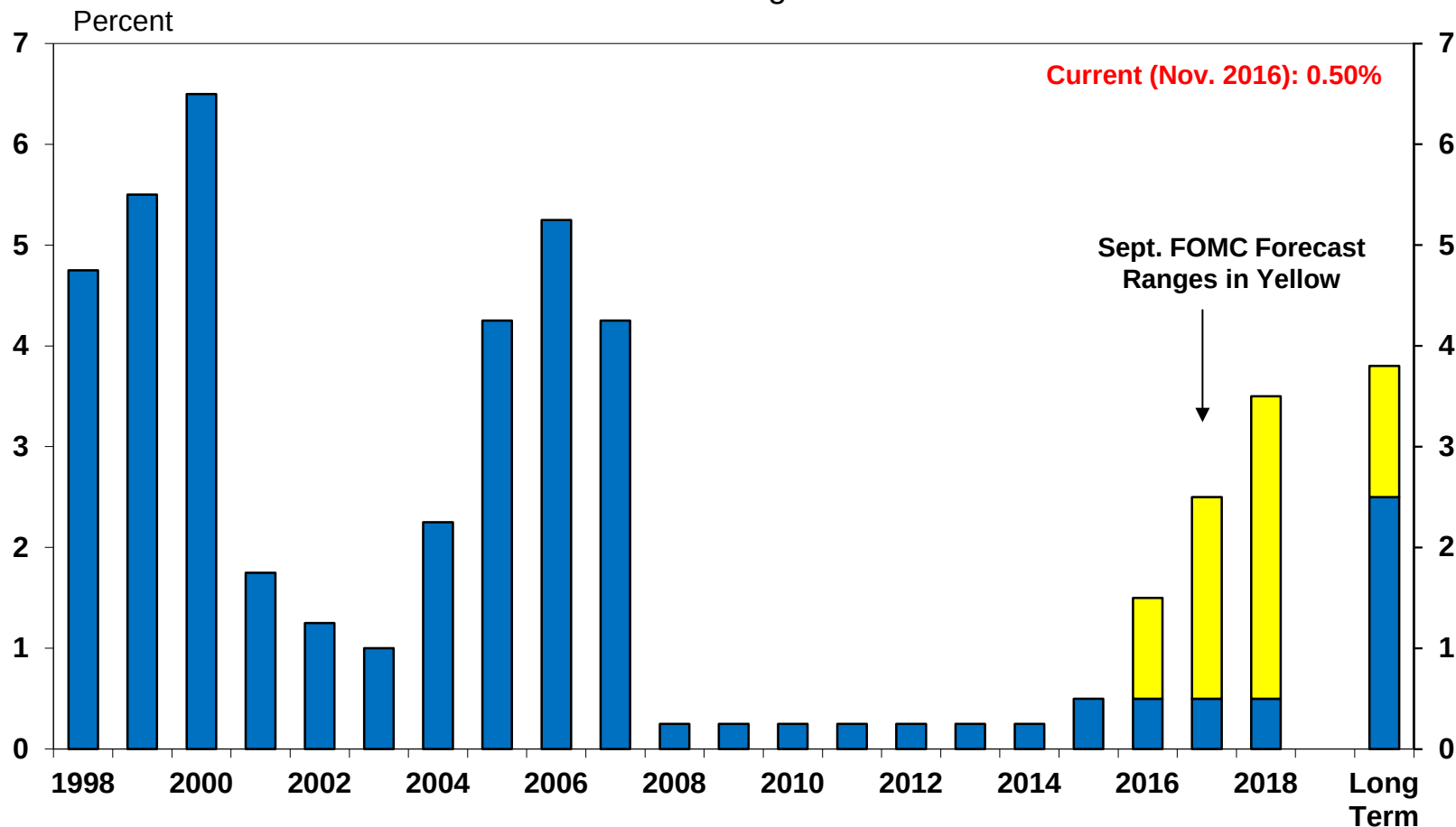


Sources: U.S. Bureau of Labor Statistics, FOMC



The Committee expects...only gradual increases in the federal funds rate

Federal Funds Rate Year-end target



Sources: Federal Reserve Board, FOMC



From FOMC Statement – Nov. 2, 2016

- *The Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.*
- *The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.*



Questions?

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