The Economic Outlook for the U.S. and Oklahoma

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Overview 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

- **History, staff, and functions**
  - Branch office opened in 1920; currently have about 35 staff
  - Functions include economic research, bank examinations, public outreach

- **2011 branch board of directors**
  - Steve Agee (chairman), Interim Dean of OCU Business School, OKC
  - Bill Anoatubby, Governor, Chickasaw Nation, Ada
  - Jim Dunn, Chairman, Mill Creek Lumber and Supply Co., Tulsa
  - Jacque Fiegel, Senior EVP and COO, Coppermark Bank, OKC
  - Rose Washington Rentie, Executive Director, TEDC Creative Capital, Tulsa
  - Doug Tippens, President and CEO, Bank of Commerce, Yukon
  - K. Vasudevan, Chairman, Service and Technology Corp., Bartlesville
The pace of U.S. recovery has picked up but job growth remains moderate.

Inflation remains low and is forecast to stay contained heading forward.

As always, there are several risks to the near- and long-term outlooks.
U.S. economic activity has picked up in 2011, but job growth remains moderate.
Fed policymakers expect continued moderate U.S. GDP recovery
But for U.S. unemployment to remain relatively high for some time

Source: U.S. Bureau of Labor Statistics, FOMC
Inflation is expected to remain tame in the near term, but will require careful oversight.
U.S. consumer and federal debt levels present obstacles for future growth

U.S. Debt as a Share of GDP

Sources: Federal Reserve, BEA, CBO
Our regional survey shows a surge in the share of factories expecting higher prices

Six-month-ahead Expectations for Tenth District Manufacturing Prices

Index

Raw materials

Finished goods

Source: FRBKC
And the Fed’s balance sheet is expanding further, following recent FOMC decisions.

Federal Reserve Balance Sheet

Source: Federal Reserve Board
The Oklahoma Economic Outlook

- Oklahoma’s recession and early recovery are similar to the usual historical pattern

- The state is now outpacing the nation, led by oil and gas but also some other sectors

- Stephens County’s overall outlook appears similar to the state—relatively good
Oklahoma had a shorter recession than the nation and is now adding jobs faster.
Recent state job growth has been led by energy, but other sectors are growing.
Recent strong growth in energy activity has been primarily for oil.
Agricultural conditions in the state have also improved after bottoming in 2009.
And Oklahoma banks remain in much better shape than in the nation as a whole
The state is at risk of further foreclosures, though much less so than the nation

Foreclosures and Negative Equity Mortgages
U.S. and Tenth Federal Reserve District, Q3 2010

Percent of all mortgages

- **In or near foreclosure**
- **Negative equity**

*Over 90 days past due

Source: MBA, Corelogic
OK non-metro home prices have edged down recently, now slightly lower than the nation.
Unemployment remains relatively low in Oklahoma, including in Stephens County.

Source: Oklahoma Employment Commission
Stephens County entered the recession late, fell sharply in 2009, and turned up in 2010.
The main employment industries in Duncan seemed to be growing fairly well in mid-2010.

### Stephens County Industry Breakdown
**June 2010**

<table>
<thead>
<tr>
<th>Industry</th>
<th>% Total Employment</th>
<th>% Growth, Y-O-Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
<td>3.8</td>
</tr>
<tr>
<td>Trade, Transportation, &amp; Utilities</td>
<td>18.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Education &amp; Health Services</td>
<td>15.2</td>
<td>21.2</td>
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<tr>
<td>Government – State &amp; Local</td>
<td>14.7</td>
<td>4.7</td>
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<tr>
<td>Manufacturing</td>
<td>13.1</td>
<td>(2.0)</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>13.0</td>
<td>10.2</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>7.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>5.5</td>
<td>4.8</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>4.8</td>
<td>(4.3)</td>
</tr>
<tr>
<td>Construction</td>
<td>3.7</td>
<td>(14.1)</td>
</tr>
<tr>
<td>Government – Federal</td>
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<td>3.1</td>
</tr>
<tr>
<td>Information</td>
<td>0.7</td>
<td>8.6</td>
</tr>
</tbody>
</table>

Source: Oklahoma Employment Commission
Summary

- The U.S. economy is recovering and expected to continue to grow moderately, with low inflation.

- Oklahoma’s economy is also recovering and remains in much better shape than the nation.