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 picked up in January, but job growth remains moderate

U.S. Private Payroll Employment and Business Indexes

Change from previous month, thousands

However, unemployment numbers have fallen considerably the past 2 months.

U.S. Unemployment Claims and Rate
Seasonally Adjusted

Index: Jan-06=100

UI Claims (left axis)
Unemployment Rate (right axis)

First week of February

Source: U.S. Bureau of Labor Statistics
Fed policymakers expect continued moderate U.S. GDP recovery

Real Gross Domestic Product

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
But for U.S. unemployment to remain relatively high for some time

Unemployment Rate
Seasonally Adjusted

Nov. FOMC Forecast
Ranges in Yellow

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

[Graph showing the Federal Reserve Balance Sheet with categories such as Assets, Liabilities, SFA, Reserves, Currency, MBS & Agency Debt, and Targeted Lending.]
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.
- Banking and real estate conditions remain much better than in the nation.
Oklahoma typically enters recessions late but exits around the same time as the nation.

*Average Recession and Recovery Path, 1956-2006*

Employment level 4 quarters before and 8 quarters after U.S. jobs peak (R)

Source: U.S. Bureau of Labor Statistics
The state had a similar pattern this time, and is now outpacing the nation.

Payroll Employment

Year-over-year percent change

Source: U.S. Bureau of Labor Statistics
Recent state job growth has been led by energy, but other sectors are growing.
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

*Over 90 days past due

Source: MBA, Corelogic
Drilling activity has risen recently in the state, primarily for oil.

Oklahoma Rig Count

Number of rigs

Source: Baker Hughes
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.