The Fed and the Economy in the U.S. and Oklahoma

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Federal Reserve Districts and Office Locations
The U.S. Economy

- Review of 2011 economic data
- FOMC forecasts and policy
Real GDP growth has slowed in 2011, following solid growth in 2010

U.S. Real Gross Domestic Product

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, FOMC
Business investment was a big contributor, while consumers and governments dragged.
Q3 data have been mixed but indicative of modest overall U.S. economic growth
There is considerable variation in economic strength across the nation

Employment Growth, Year-over-Year (percent)
August 2011

Source: U.S. Bureau of Labor Statistics
Firms’ hiring and investment plans remained relatively solid through the summer
But financial stress is increasing in Europe, as measured by interbank lending rates.
At its June meeting the FOMC forecast U.S. unemployment to come down only slowly.
And for inflation pressures to ease after rising with oil and food prices in 2011

PCE Inflation Index

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
The Fed’s balance sheet has tripled in size, and the fed funds rate remains near zero.

*Only contains one week of data
Source: Federal Reserve Board
September 21, 2011 FOMC Statement

“To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee decided today to extend the average maturity of its holdings of securities. The Committee intends to purchase, by the end of June 2012, $400 billion of Treasury securities with remaining maturities of 6 years to 30 years and to sell an equal amount of Treasury securities with remaining maturities of 3 years or less. This program should put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative….

“To help support conditions in mortgage markets, the Committee will [also] now reinvest principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. In addition, the Committee will maintain its existing policy of rolling over maturing Treasury securities at auction. The Committee also decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013…

“Voting against the action were: Richard W. Fisher [Dallas Fed pres.], Narayana Kocherlakota [Minneapolis Fed pres.], and Charles I. Plosser [Philadelphia Fed pres.], who did not support additional policy accommodations at this time.”
The Oklahoma Economy

- Review of recent economic data
- Closer look at labor and energy
Oklahoma had a much milder recession, and has recently been adding jobs rapidly.

Payroll Employment

Year-over-year percent change

-6 -5 -4 -3 -2 -1 0 1 2 3 4

Aug-06 Aug-07 Aug-08 Aug-09 Aug-10 Aug-11

OK

U.S.

Source: U.S. Bureau of Labor Statistics
Most Oklahoma sectors have grown solidly in 2011, led by energy and manufacturing.

Employment Growth
August 2011

Percent change year-over-year

Source: Bureau of Labor Statistics
Unemployment in much of the state is back to what is often considered “full employment”

Unemployment Rate
Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Region</th>
<th>Dec-07</th>
<th>Jul-11</th>
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<td>U.S.</td>
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<tr>
<td>OK</td>
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<td>5.5</td>
</tr>
<tr>
<td>OKC metro</td>
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<td>5.1</td>
</tr>
<tr>
<td>Tulsa metro</td>
<td>3.7</td>
<td>6.2</td>
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<tr>
<td>Lawton metro</td>
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<td>5.8</td>
</tr>
<tr>
<td>Non-metro OK*</td>
<td>3.8</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Labor Statistics

* Estimated by FRBKC
However, labor markets may not be overly tight due to labor force dropouts.

Unemployment Rate by State
Seasonally Adjusted

<table>
<thead>
<tr>
<th>State</th>
<th>Jun-11</th>
<th>Jun-11 at 2007 LFPR*</th>
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<tr>
<td>US</td>
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<tr>
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<tr>
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<td>5.3</td>
</tr>
<tr>
<td>NE</td>
<td>6.3</td>
<td>4.1</td>
</tr>
</tbody>
</table>

*LFPR= Labor Force Participation Rate

Source: Bureau of Labor Statistics
As always, energy prices are Oklahoma’s biggest risk relative to nation.
Summary

- The U.S. economy is facing some headwinds following only modest expansion in the first half of 2011.

- Oklahoma’s growth has been more solid, and fundamentals remain better in the state than the nation.