U.S. and Oklahoma Economic Outlook

Megan Williams
Associate Economist, Oklahoma City Branch
Federal Reserve Bank of Kansas City
www.kansascityfed.org/oklahomacity
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), Dean, Oklahoma City Univ. Business School, OKC
  • 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 U.S. Economy
Real GDP growth picked up somewhat in Q3, but still remains moderate

U.S. Real Gross Domestic Product

Source: U.S. Bureau of Economic Analysis, FOMC
Business investment was strong, exports grew further, and consumers spent more

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis
Employment growth has been modest but business indexes remain expansionary.
But financial stress continues to rise in Europe, and is beginning to spread beyond

3-month EURIBOR-OIS & LIBOR-OIS Spreads

Source: Bloomberg
“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 continue its program to extend the average maturity of its holdings of securities as announced in September…

“The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and 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 was Charles L. Evans, who supported additional policy accommodation at this time.”
The Oklahoma Economy
There is considerable variation in economic strength across the nation and region.
After a milder recession than the nation, Oklahoma has been adding jobs rapidly.

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

**Employment Growth**
October 2011

Percent change year-over-year

Source: Bureau of Labor Statistics
Yet state unemployment has risen, as discouraged workers resume job hunting.
Oklahoma employment is now essentially back to pre-recession levels, except in Tulsa.

Change in Employment Since January 2008
Seasonally Adjusted

-4.7
-1.1
-0.1
-3.8
0.1

U.S.  OK  OKC Metro  Tulsa Metro  Rest of State

Source: U.S. Bureau of Labor Statistics
Problem loans are still elevated, but OK banks remain in better shape than the U.S.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Percent

Source: FDIC
Surging farmland prices pose a potential risk, particularly in the upper Mid-West.
Energy prices are always OK’s biggest risk, and prices have moved quite a bit recently.
Summary

- The U.S. economy is growing moderately but is facing headwinds from Europe.

- Oklahoma’s growth has been very strong in 2011, and fundamentals remain fairly solid.