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

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Federal Reserve Bank of Kansas City
Purposes and Structure of the Federal Reserve System

• **Overall purposes of the Fed are to promote:**
  - National financial stability
  - Maximum sustainable economic growth
  - Low and stable inflation

• **Mission areas:**
  - *Monetary policy* – most visible role to the public, usually
  - *Bank regulation* – including lender of last resort
  - *Payments systems* – cash, checks, electronic payments

• **Monetary policy is set by the 12-member FOMC:**
  - The Federal Open Market Committee meets every 6 weeks
  - Voting members consist of:
    - the 7 Governors in Washington;
    - the New York Fed President;
    - 4 of the 11 other Fed presidents on a rotating basis
Federal Reserve Districts and Office Locations
The Kansas City and Oklahoma City Offices

• Headquarters in Kansas City
  • Nearly 1,000 staff involved in all mission areas
  • New building officially opens in two weeks

• Oklahoma City branch office
  • Staff and functions – 35 staff involved in economic research, bank examinations, and public and community affairs
  • Branch board of directors – 7 members from around the state; provide anecdotal information in advance of each FOMC meeting

• Oklahoma City branch board of directors
  • Chairman Richard Ratcliffe, Chairman, Ratcliffe’s Textbooks, Weatherford
  • Steve Agee, Chairman, Oklahoma Energy Resources Board, Oklahoma City
  • Terry Almon, President, Oklahoma Community Capital Corp., Broken Arrow
  • Steve Burrage, Chairman, FirstBank, Antlers
  • Jim Dunn, Chairman, Mill Creek Lumber & Supply Co., Tulsa
  • Barry Golsen, President, LSB Industries, Oklahoma City
  • Fred Ramos, President, RGF, Inc., Oklahoma City
The U.S. Economic Outlook

- U.S. economic growth is below average
- Inflation pressures have risen
- Forecasts call for some improvement by the second half of 2008
GDP growth has been well below average in recent quarters

Growth in Components of GDP

Percent change from the previous period

Source: U.S. Bureau of Economic Analysis
April data suggest the sluggishness continues, but no further deterioration.

Changes from previous month, thousands

Source: Institute for Supply Management
GDP forecasts call for improvement by the second half of 2008 and on into 2009

Source: U.S. Bureau of Economic Analysis
Inflation remains elevated

Consumer Price Index

Percent change from year ago

Overall CPI
Core CPI

Source: U.S. Bureau of Labor Statistics
But forecasts call for a moderation in inflation by next year

PCE Inflation

Percent change from previous period, annualized

Source: U.S. Bureau of Economic Analysis
The Oklahoma Economic Outlook

- Oklahoma economic growth has also slowed—but still remains fairly solid
- Housing is in better shape than the nation, although some weakness may be emerging
- Moderate economic growth seems likely to continue in the state heading forward
Oklahoma job growth continues to be considerably stronger than in the nation

Source: U.S. Bureau of Labor Statistics
Strength in Oklahoma job growth is driven by energy, but also some other sectors.

Employment Growth by Industry
April 2008

Percent change year over year

Source: U.S. Bureau of Labor Statistics
Unemployment rates are down across the state since last year, unlike in the nation.

Unemployment Rates

<table>
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<th>Area</th>
<th>Mar-07</th>
<th>Mar-08</th>
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<tbody>
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<td>U.S.</td>
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<td>5.2</td>
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<tr>
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<td>4.1</td>
<td>3.3</td>
</tr>
<tr>
<td>All Other</td>
<td>4.4</td>
<td>3.2</td>
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</table>

Source: U.S. Bureau of Labor Statistics
Foreclosures are less prevalent in Oklahoma than the nation

Households per Foreclosure, Tenth Federal Reserve District
2008 Q1

Percent change year-over-year

Source: RealtyTrac
And foreclosures have risen much less over the past year as well.

Change in Foreclosures from Previous Year, Tenth District
2008 Q1

Percent change year-over-year

Source: RealtyTrac
U.S. home prices are falling, while Oklahoma prices are holding on.

Quality-Adjusted Home Price Growth
Purchase-Only

Percent change year-over-year

Source: OFHEO
Unsold home inventories have edged up recently but remain well below the nation.

Months Supply of Unsold Homes
Seasonally Adjusted

Source: FRBKC, NAR
House price fundamentals were also more in line in Oklahoma from 2000 to 2005

Annual Growth in Per Capita Incomes and Home Prices
2000 - 2005

United States

Per capita income growth
House price growth

Oklahoma

Percent

Source: U.S. Bureau of Economic Analysis, OFHEO
State oil and gas activity remains strong, and futures prices are high

Count of Active Drilling Rigs and Natural Gas Prices

Natural gas spot and futures prices (left axis)

OK rig count (right axis)

Source: Baker-Hughes
Oklahoma farmland values and farm capital spending are rising

Oklahoma Agricultural Indicators

Percent change, year-over-year

Index

Cropland values (left axis)
Farm Capital Spending (right axis)

Source: FRBKC Agricultural Credit Survey
Hiring announcements in Oklahoma have outpaced layoffs in 2008

Oklahoma Hiring and Layoff Announcements

Total number

Source: Federal Reserve Bank of Kansas City
And Oklahoma ranks in the top quartile of states for 2008 forecasted job growth.

Projected 2008 Job Growth (as of May-08)
- 1.0 to 2.3%
- 0.5 to 0.9%
- -0.1 to 0.4%
- -1.9 to -0.2%

Source: Economy.com
Questions?