U.S. & Oklahoma Economic Update

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

Overall goals: promote sustainable economic growth; low and stable inflation; financial stability

• Mission areas:
  • Monetary policy
  • Bank regulation
  • Payments systems

• Monetary policy is set by the 12-member Federal Open Market Committee (FOMC):
  • Consists of 7 Governors in Washington, including Chairman Bernanke; the President of the New York Fed; and 4 of the other 11 Fed presidents on a rotating basis
  • The FOMC meets every 6 weeks to set policy
Federal Reserve Districts and Office Locations
The Federal Reserve in Oklahoma

- Branch office in downtown Oklahoma City has about 35 employees involved in economic research, bank regulation, and public and community affairs

- Our branch board of directors meets ahead of each FOMC meeting to share the latest information about business activity in the state:

  Richard K. Ratcliffe: Chairman, Ratcliffe’s Textbooks, Weatherford
  Steven C. Agee: President, Agee Energy, OKC, and Chairman, OERB
  Terry M. Almon: President, Okla. Community Capital Corp., Broken Arrow
  James D. Dunn: Chairman, Mill Creek Lumber and Supply Co., Tulsa
  Steve Burrage: Chairman, FirstBank, Antlers
  Barry H. Golsen: Vice Chairman & President, LSB Industries, OKC
  Fred M. Ramos: Executive Director, State Hispanic Chamber of Commerce
“Financial markets remain under considerable stress, and credit has tightened further for some businesses and households. Moreover, recent information indicates a deepening of the housing contraction as well as some softening in labor markets. The Committee expects inflation to moderate in coming quarters, but it will be necessary to continue to monitor inflation developments carefully.

Today’s policy action, combined with those taken earlier, should help to promote moderate growth over time and to mitigate the risks to economic activity. However, downside risks to growth remain.”

--January 30 FOMC Statement
Overall inflation remains elevated, and core inflation has crept higher.

Source: U.S. Bureau of Labor Statistics
Mid-year GDP growth was stronger than expected but eased in the fourth quarter.

Gross Domestic Product

Percent change from previous period, annualized

Source: U.S. Bureau of Economic Analysis
All areas slowed in the fourth quarter, though spending and business investment remained solid.

Growth in Components of GDP

Percent change from previous quarter, annualized

Source: U.S. Bureau of Economic Analysis
More recent U.S. data show weakness emerging late in the fourth quarter and on into early 2008.
U.S. employment numbers have weakened, while Oklahoma job growth continues.
Unemployment has risen in both the U.S. and Oklahoma but is still low by historical standards.
Unemployment in Garfield County is well below the state and national rates

Oklahoma Unemployment Rates by Counties
November 2007

Source: OK Employment Security Commission

Oklahoma Unemployment Rate = 4.2%
U.S. Unemployment Rate = 4.8%
U.S. job weakness has been most evident in housing-related sectors.

Employment Growth by Industry

- Percent change year over year

Source: U.S. Bureau of Labor Statistics
How is Oklahoma Different, and What Can that Tell Us about the State Outlook?

- Most defining industries are performing well
- Housing is in better shape
- Hiring plans remain generally solid
The Ten Industries that Most Define Oklahoma

<table>
<thead>
<tr>
<th>Rank</th>
<th>Industry</th>
<th>Location Quotient 2005</th>
<th>Location Quotient 1990</th>
<th>Average Pay 2005</th>
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<tbody>
<tr>
<td>1</td>
<td>Oil &amp; gas</td>
<td>8.2</td>
<td>8.5</td>
<td>$66,972</td>
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<td>2</td>
<td>Trade schools</td>
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<td>4.0</td>
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<td>3</td>
<td>Gambling</td>
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<td>4</td>
<td>Farming</td>
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<td>Auto rental</td>
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<td>Machinery mfg</td>
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<td>Meat packing</td>
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<td>10</td>
<td>Military</td>
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</table>

Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, Railroad Retirement Board
State oil and gas activity remains strong, and futures prices are high.

Source: Baker-Hughes
Regional farm incomes are rising and are expected to sustain further solid growth

Farm Income and Capital Spending,
Tenth Federal Reserve District

*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.

Source: FRBKC Agricultural Credit Survey
State factory activity continues to expand, and firms remain generally optimistic

Source: KCFRB Mfg Survey
Oklahoma housing prices are still holding up compared to the nation.
Housing prices have been most affected in coastal and Great Lakes metro areas

OFHEO Home Price Index, 2007 Q3

Source: Economy.com
Inventories of unsold homes have risen less in Oklahoma City than the nation.

**Months Supply of Unsold Homes, Seasonally adjusted**

Source: NAR, Oklahoma Realtor Associations
The decline in new home construction has leveled off somewhat in Oklahoma.
Hiring announcements in Oklahoma continue to outpace layoffs, a good sign heading forward.

Oklahoma Hiring and Layoff Announcements

Source: Federal Reserve Bank of Kansas City
While inflation has risen, national economic growth is slowing and credit and financial markets remain somewhat strained.

Oklahoma’s job growth has held up better, boosted by strength in important industries and a more stable housing sector.

National growth forecasts for 2008 have been reduced, but Oklahoma seems poised for further moderate growth.