U.S. & Oklahoma Economic Outlook

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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

- **Tenth District Headquarters in Kansas City**
  - Nearly 1,000 staff involved in all mission areas
  - New building officially opened in June

- **Oklahoma City Branch Office**
  - **Staff and functions** – about 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**, President, Agee Energy, and Professor, OCU, Oklahoma City
  - **Terry Almon**, President, Oklahoma Community Capital Corp., Broken Arrow
  - **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
  - **Barry Golsen**, President, LSB Industries, Oklahoma City
  - **Fred Ramos**, President, RGF, Inc., Oklahoma City
  - **Doug Tippens**, President, Canadian State Bank, Yukon
The U.S. Economy

Strains in financial markets have increased significantly and labor markets have weakened further. Economic growth appears to have slowed recently, partly reflecting a softening of household spending. Tight credit conditions, the ongoing housing contraction, and some slowing in export growth are likely to weigh on economic growth over the next few quarters. Over time, the substantial easing of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.

Inflation has been high, spurred by the earlier increases in the prices of energy and some other commodities. The Committee expects inflation to moderate later this year and next year, but the inflation outlook remains highly uncertain.

The downside risks to growth and the upside risks to inflation are both of significant concern to the Committee. The Committee will monitor economic and financial developments carefully and will act as needed to promote sustainable economic growth and price stability.

--September 16 FOMC Statement
GDP growth was solid in the second quarter but is expected to slow.

Source: U.S. Bureau of Economic Analysis
Stimulus checks, exports, and defense spending provided a boost in Q2.
But unemployment has risen further in the third quarter

Unemployment Rate

Source: U.S. Bureau of Labor Statistics
Meanwhile, inflation pressures remain high.
The Oklahoma Economy

- Oklahoma’s economy remains solid, with housing and banking in better shape than U.S.
- Solid energy activity should continue to help promote moderate overall growth in the state
- But the national situation bears watching…
Oklahoma job growth has slowed but remains well above the national average.
Unlike in the nation, unemployment rates are down across the state since last year.
Strength in Oklahoma job growth continues to be driven by energy and construction.

Employment Growth by Industry
July 2008

Percent change year over year

Source: U.S. Bureau of Labor Statistics
State oil and gas activity remains strong, and futures prices are solid.

Count of Active Drilling Rigs and Oil/Natural Gas Prices

- Natural gas spot and futures prices (left axis)
- Oil spot and futures prices (right axis)
- OK rig count (right axis)

Source: Baker-Hughes
Oklahoma home prices continue to grow, even as prices fall nationally

Quality-Adjusted Home Price Growth

Source: OFHEO
House price fundamentals were more in line in Oklahoma from 2000 to 2005

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

Source: U.S. Bureau of Economic Analysis, OFHEO
Foreclosure rates have remained relatively stable in Oklahoma, unlike the nation.
Foreclosures rates in the OKC metro area have been relatively low

Oklahoma City Area Foreclosure Rates by Census Tract, 2008

Legend

- No Foreclosures
- Less than .5% of Mortgages
- .5% to 1% of Mortgages
- 1% to 2% of Mortgages
- 2% to 5% of Mortgages
- More than 5% of Mortgages

Sources: RealtyTrac, Census Bureau
Loan delinquencies are rising at Oklahoma banks, but less than in the nation.
Bank capital levels also still remain solid, unlike in past periods of economic uncertainty.

Source: Reports of Condition and Income
The 2009 job growth forecast for Oklahoma is generally positive.

Projected 2009 Job Growth (as of Aug-08):
- 1.0 to 1.9%
- 0.5 to 0.9%
- 0.0 to 0.4%
- -0.9 to -0.1%

Source: Economy.com
Questions?