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:**
  • Maximum sustainable economic growth
  • Low and stable inflation
  • National financial stability

• **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 opened in June 2008

• 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 Steve Agee, President, Agee Energy, and Professor, OCU, Oklahoma City
  • Terry Almon, President, Oklahoma Community Capital Corp., Broken Arrow
  • Bill Anoatubby, Governor, Chickasaw Nation, Ada
  • Jim Dunn, Chairman, Mill Creek Lumber & Supply Co., Tulsa
  • Fred Ramos, President, RGF, Inc., Oklahoma City
  • Doug Tippens, President and CEO, Canadian State Bank, El Reno
  • K. Vasudevan, Chairman and Founder, Service and Technology Corp., Bartlesville
The U.S. Economic Outlook

- U.S. economic activity has slowed considerably in recent months
- Credit and financial markets have improved but remain strained despite considerable government intervention
- Inflation pressures have eased
Only exports and government spending showed positive growth in Q3

Growth in Components of GDP

Percent change from the previous period

<table>
<thead>
<tr>
<th>Component</th>
<th>2008 Q2</th>
<th>2008 Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GDP</td>
<td>-0.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Consumer spending</td>
<td>-3.7</td>
<td>-13.3</td>
</tr>
<tr>
<td>Residential investment</td>
<td>-17.6</td>
<td></td>
</tr>
<tr>
<td>Business investment</td>
<td>2.5</td>
<td>12.3</td>
</tr>
<tr>
<td>Exports</td>
<td></td>
<td>3.9</td>
</tr>
<tr>
<td>Government spending</td>
<td></td>
<td>5.4</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Economic Analysis
Early fourth quarter data show continued weakness

National Business Indexes and Payroll Employment

Change from previous month, thousands

Index

Payroll Employment (left axis)
ISM Manufacturing Index (right axis)
ISM Non-Manufacturing Index (right axis)

Economic conditions still vary widely, but growth is slowing across the country.

Payroll Employment Growth, October 2008

% Change, Y-O-Y
-2.94 to -0.68
-0.67 to -0.26
-0.25 to 0.53
0.54 to 3.25

Source: Bureau of Labor Statistics
Short-term credit conditions worsened in September but are beginning to ease.
Banks have sharply tightened standards on business and consumer loans

Net Percentage of Banks Tightening Loan Standards

Source: FRB Senior Loan Officer Survey
And nearly all banks have tightened standards on mortgage loans.

Source: FRB Senior Loan Officer Survey
Meanwhile, inflation pressures have begun to ease after rising sharply earlier in the year.
Considerable uncertainty surrounds the near and intermediate-term outlook.

Gross Domestic Product

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis
Unemployment is expected to rise further

Unemployment Rate
Seasonally Adjusted

Source: U.S. Bureau of Labor Statistics
Meanwhile, inflation is expected to ease further.
The Oklahoma Economic Outlook

- Oklahoma job growth has weakened, but is still outperforming the nation.

- Housing and banking activity remains stable, but layoff announcements are rising, particularly in manufacturing.

- The national situation bears watching, as do recent declines in oil and gas prices.
Oklahoma job growth has slowed but remains well above the national average.

Source: U.S. Bureau of Labor Statistics
But job growth is minimal outside the energy and nonresidential construction sectors.

Employment Growth by Industry
October 2008

Source: U.S. Bureau of Labor Statistics
Unemployment claims have risen in recent months after lagging the nation.
Recent layoff announcements suggest further increases in unemployment heading forward.
Oil and gas prices have also come down considerably in recent months.

**Oil/Natural Gas Prices**

- **Natural gas spot and futures prices (left axis)**
- **Oil spot and futures prices (right axis)**

**Source:** Baker-Hughes, Bloomberg
And expectations for farm capital spending have dropped in Oklahoma.
So far, foreclosures have been relatively low in Oklahoma compared to the nation.

**Total Foreclosures, U.S. vs. Oklahoma**

- **U.S.**
- **OK**

*Source: Realty-Trac*
Oklahoma home prices continued to grow through Q3 2008, even as U.S. prices fell.
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

Source: U.S. Bureau of Economic Analysis, OFHEO
Summary

- U.S. economic conditions have deteriorated with tightening credit, and the outlook is uncertain.

- Oklahoma conditions remain better, especially in housing and employment, but some recent high-frequency data have been worse.

- Efforts to boost U.S. growth should benefit Oklahoma, but commodity prices bear watching.