U.S. and Regional 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/employment
  - Low and stable inflation
  - National financial stability

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

• **The Federal Reserve System consists of:**
  - **Board of Governors:** 7 members who are appointed by the U.S. President and confirmed by the Senate to serve 14-year terms.
  - **Federal Reserve Banks:** 12 Banks, each serving a unique district.
  - **Federal Open Market Committee (FOMC):** Comprised of the 7 Governors and the 12 Reserve Bank presidents (only 5 presidents are voting members, 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, COO, Latino Community Development Agency, Oklahoma City
  • Doug Tippens, President and CEO, Canadian State Bank, Yukon
  • K. Vasudevan, Chairman, Service and Technology Corp., Bartlesville
The U.S. Economy

- The U.S. economy has weakened markedly but may be nearing a trough.
- Credit and financial markets are improving, but strains remain.
- Inflation has improved and is expected to remain tame.
In the fourth quarter of last year, only government added to U.S. growth.
Weak U.S. business activity continued into 2009, but the declines may have stabilized.
Short-term credit conditions have improved but remain somewhat strained.

LIBOR-OIS Spread

Source: Bloomberg
Commercial paper rates have fallen sharply since last fall.
And mortgage rates have declined recently

Source: Bloomberg
But bank lending standards on business loans continue to tighten

Net Percentage of Banks Tightening Loan Standards
Business Loans

Source: FRB Senior Loan Officer Survey
And consumer lending standards also continue to tighten

Source: FRB Senior Loan Officer Survey
Policy-makers are pessimistic about the near-term economic outlook

Gross Domestic Product

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
And U.S. unemployment is expected to rise further

Unemployment Rate
Seasonally Adjusted

Source: U.S. Bureau of Labor Statistics, FOMC
Meanwhile, inflation is expected to moderate after rising in 2008.
The Regional Economy

- The Oklahoma economy remains stronger than the nation, as do the economies of most nearby states.
- But recent high-frequency data have been worse in the region.
- Efforts to boost the U.S. economy are coming at a good time for the region.
Unemployment remains relatively low in Oklahoma and surrounding states

Unemployment Rate, January 2009

Rate
- 8.7 to 11.6
- 7.2 to 8.6
- 6.0 to 7.1
- 3.7 to 5.9

Source: Bureau of Labor Statistics
But job growth has largely come to a halt in the region, following a boom in some areas.
Indeed, recent trends in unemployment claims suggest rapidly declining conditions.
The energy sector is seeing a considerable decline in activity in 2009.

Source: Baker-Hughes
Manufacturing in the region has also been declining rapidly, though may be stabilizing.
Home prices in the region were holding up much better through the end of 2008.

Quality-Adjusted Home Price Growth

Percent change year-over-year

Source: OFHEO
And so far, foreclosures have largely remained in check in the region.
Delinquent loans have risen in Oklahoma, but less than in the nation.
Recessions in this region are usually brief if they are in conjunction with a U.S. recession.

**Average Recession Path of Federal Reserve Districts, 1957-2003**

Four quarters before and eight quarters after U.S. jobs peak.

Source: U.S. Bureau of Labor Statistics
Summary

- U.S. economic conditions have deteriorated, though credit markets show some signs of improvement.

- Oklahoma and regional conditions remain better, but some recent high-frequency data have been worse.

- Efforts to boost U.S. growth should benefit Oklahoma and the region.