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
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 business and community leaders from around the state, who meet to 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 Corp., Oklahoma City
  - **Doug Tippens**, President and CEO, Canadian State Bank, Yukon
  - **K. Vasudevan**, Chairman, Service and Technology Corp., Bartlesville
The U.S. Economic Outlook

- U.S. economic activity has worsened markedly in recent months, pulling down all regions

- Credit markets show signs of improving, but forecasters are calling for weak economic activity through much of 2009

- Inflation pressures have eased, driven by falling energy prices and reduced wage pressures
Fourth quarter data showed a clear weakening of U.S. economic conditions.
Though conditions still vary across the country, growth is slowing everywhere.
Short-term credit conditions are finally improving after worsening dramatically in September.

Source: U.S. Bureau of Labor Statistics
Still, lending standards on business and consumer loans have tightened.
And nearly all banks have tightened standards on mortgage loans

Source: FRB Senior Loan Officer Survey
Considerable uncertainty surrounds the near and intermediate-term economic outlook.

**Gross Domestic Product**

Source: U.S. Bureau of Economic Analysis
Meanwhile, inflation is expected to continue to ease after rising in early 2008.
The Oklahoma Economic Outlook

- Oklahoma unemployment is now rising, though we’re still outperforming the nation.

- Conditions in energy, agriculture, and manufacturing have weakened markedly.

- The national situation bears watching, as do the direction of oil and gas prices.
Unemployment claims are rising rapidly, changing the picture for the state.
The rig count has fallen sharply in recent months and is expected to fall further.
Expectations for farm capital spending have also dropped in Oklahoma

Source: FRBKC Agricultural Credit Survey
Most factories now plan to cut 2009 capital spending, in contrast to a few months ago.
More positively, Oklahoma home prices continued to grow through Q3 2008

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
Foreclosures have been relatively low in Oklahoma compared to the nation.

Total Foreclosures, U.S. vs. Oklahoma

Index: Jan 06=100

Source: Realty-Trac
The strongest U.S. economic sector in 2008 was national defense.

Source: U.S. Bureau of Economic Analysis
Defense is heavily concentrated in our region, especially in New Mexico and Oklahoma.

Sources: U.S. Departments of Defense and Energy, Bureau of Economic Analysis.
Several District states were also big winners in the current BRAC round

Projected Employment Growth from 2005 BRAC Recommendations, 2006-2010

- U.S. - DI - KS - OK - CO - NM* - WY - NE - MO*

Percent

* Tenth District Only

Source: U.S. Department of Defense
Summary

- U.S. economic conditions have deteriorated with tightening credit, and the outlook is uncertain.
- Oklahoma conditions remain better, buoyed by housing and defense, but some recent high frequency data have been worse for the state.
- Efforts to boost U.S. growth should benefit Oklahoma, but commodity prices bear watching.