Recession and Recovery in the U.S. and Oklahoma

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Purposes and Structure of the Federal Reserve System

• **Overall purposes of the Fed are to promote:**
  - Price stability
  - Maximum employment
  - National financial stability

• **The primary functional areas of the Fed are:**
  - Monetary policy – adjusting overnight interest rate to affect economy
  - Bank regulation – bank holding companies, state member banks
  - 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 vote).
Federal Reserve Districts and Office Locations
The Kansas City and Oklahoma City Offices

- Headquarters office 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, OKC
  - 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, OKC
  - 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 is still declining but appears to be near a bottom.
- The strength of recovery will depend in part on better credit conditions.
- Inflation has eased and is expected to remain tame in the near term.
Following 2 very bad quarters, declines in the U.S. economy have been smaller in Q2 2009

National Business Indexes and Payroll Employment

Change from previous month, thousands

Credit market conditions have also improved but remain somewhat strained.

LIBOR-OIS Spread

Source: Bloomberg
The U.S. policy response to the recession and financial crisis has been broad

- Federal Reserve
  - Lowered the Fed Funds rate
  - Implemented numerous liquidity facilities
  - Purchased long-term securities

- U.S. Treasury and Congress
  - Passed the TARP
  - Passed a large fiscal stimulus bill
  - Some foreclosure prevention policies
Heading forward, policy makers generally expect a gradual recovery.
But U.S. unemployment is expected to remain elevated for some time.
Meanwhile, inflation is expected to remain fairly moderate in coming years.

Source: U.S. Bureau of Economic Analysis, FOMC
The Oklahoma Economy

- The state’s economy remains stronger than in the nation
- But job losses in recent months have been steep
- Recent data suggest a bottom may also be near in Oklahoma
Unemployment remains relatively low in Oklahoma and most nearby states

Unemployment Rate, May 2009

- 10.5 to 14.1
- 8.2 to 10.4
- 7.1 to 8.1
- 4.4 to 7.0
But jobs are now well below year-ago levels in Oklahoma, following a long boom.
Employment is down in most industries in the state, especially energy and manufacturing.

Source: U.S. Bureau of Labor Statistics
The decline in jobs has been sharpest in the state’s non-metro areas.
Unlike the nation, Oklahoma home prices remain similar to a year ago.

Source: OFHEO
Indeed, OKC and Tulsa home prices have caught up with some other regional cities

* Tulsa data are from NAR through Q3 2008, then estimated for more recent quarters by using growth rates in FHFA’s Tulsa home price index

Source: NAR, FHFA
And home foreclosures have remained relatively low in the state.

Foreclosure Rates, May 2009

Share of Households
- 0.5 to 1.5%
- 0.2 to 0.4%
- 0.1 to 0.2%
- 0.0 to 0.1%

Source: Realty Trac
Past due loans have risen at Oklahoma banks, but much less than in the nation

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
The number of unprofitable banks has risen only marginally in OK
Oklahoma usually enters recessions later than the nation but exits about the same time.

**Average Recession Path, 1956-2006**

Employment level 4 quarters before and 8 quarters after U.S. jobs peak

Indexed to U.S. jobs peak

Source: U.S. Bureau of Labor Statistics
With the shorter duration, Oklahoma’s job losses in U.S. recessions are usually smaller

Source: Bureau of Labor Statistics
So far, the state is largely following its usual pattern during U.S. recessions.
The June KC Fed manufacturing survey showed a second month of growth in OK

Note: OK index is computed on ISM basis (50 = zero change)
Source: ISM, FRBKC Manufacturing Survey
The wild card remains the energy sector, where the rig count has edged higher in June.
But energy prices remain uncertain, with oil moving up and gas still depressed.

Source: Baker-Hughes, Bloomberg
Summary

- The U.S. economy may be near a bottom, but recovery is likely to be modest for some time.

- As usual, Oklahoma entered the recession later than the nation, but recent data are encouraging.

- Efforts to boost U.S. growth in 2009 and 2010 should help, but slow energy activity is a risk.