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:**
  - 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 is still declining but may be nearing a bottom.
- The strength of recovery will depend in part on better functioning credit markets.
- Inflation has eased and is expected to remain tame in the near term.
In the fourth quarter of last year, only government added to U.S. growth.
Weak activity has continued into 2009, but the declines may be stabilizing.

Interbank lending conditions have improved, but remain strained

Source: Bloomberg
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.
Meanwhile, inflation is expected to moderate after rising in 2008.

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

- The state’s economy and housing sector remain stronger than in the nation
- But the recent downturn in energy activity has dragged the state into recession
- Efforts to boost the U.S. economy are coming at a good time for Oklahoma, where national defense remains a stabilizing force
Unemployment remains relatively low in Oklahoma and most nearby states.

Unemployment Rate, March 2009

Source: Bureau of Labor Statistics
But jobs are now vanishing rapidly in Oklahoma, following a long boom.
The decline in state job growth has been sharpest in non-metro areas.

Source: U.S. Bureau of Labor Statistics
Jobs are now down from a year ago in most industries in the state.

Employment Growth by Industry
March 2009

Percent change year over year

Source: U.S. Bureau of Labor Statistics
The state’s energy sector has seen an especially sharp decline in activity in 2009.

Count of Active Drilling Rigs

Source: Baker-Hughes
Home prices are still holding up better than in the nation, but are now lower than last year.
Delinquent loans have risen at Oklahoma banks, but less so than in the nation

**Noncurrent Loans and Leases as a Share of Total**
*Commercial Banks*

[Graph showing noncurrent loans and leases as a share of total commercial banks for the U.S. and Oklahoma from Dec-98 to Dec-08.]

Source: FDIC
Oklahoma usually enters recessions late but leaves about the same time as the nation.
National defense has grown in importance to the U.S. economy in recent years.
The Tenth Federal Reserve District has some of the nation’s largest military bases

Defense Personnel Concentrations in the Tenth District

**Colorado Springs houses the following institutions:**
- Fort Carson (19,500)
- Peterson AFB (5,700)
- Schriever AFB (2,300)
- U.S. Air Force Academy (7,800)

Sources: U.S. Departments of Defense and Energy
Indeed, the District has a large defense presence overall, including in Oklahoma.

Defense Spending as a Share of GDP, 2006

- Other defense expenditures**
- Dept. of Energy defense activities
- Dept. of Defense contracts/grants
- Dept. of Defense payroll

* Excluding Missouri
** Actual for U.S., estimated for District and states

Sources: U.S. Departments of Defense and Energy, Bureau of Economic Analysis
Oklahoma was one of the big winners in the ongoing BRAC round

Projected Employment Growth from 2005 BRAC Recommendations, 2006-2010

*Source: U.S. Department of Defense*
The types of defense concentrated in the region are expected to grow long-term


Source: Congressional Budget Office
Summary

- Although still declining, the U.S. economy may be nearing a bottom--but credit is still strained.

- With the steep recent decline in energy activity, Oklahoma has finally entered the recession.

- Efforts to boost U.S. growth in 2009 and 2010 should benefit Oklahoma as well, and defense spending should provide an additional boost.