Recession and Recovery in the U.S. and Oklahoma

Chad Wilkerson
Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City
Purposes and Structure of the Federal Reserve System

• **Overall purposes of the Fed are to promote:**
  - Maximum employment – mandated by Congress
  - Low and stable inflation – mandated by Congress
  - National financial stability – in conjunction with others

• **The 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
Consumer spending was positive in the first quarter, but other measures weakened further.

Growth in Components of GDP

Percent change from the previous period

- Total GDP
- Consumer spending
- Residential investment
- Business investment
- Exports
- Government spending

Source: U.S. Bureau of Economic Analysis
Weak business activity has continued into April, but the declines are getting smaller.
Interbank lending conditions have improved, but remain somewhat strained.
Heading forward, policy makers generally expect a gradual recovery.

Gross Domestic Product

Source: U.S. Bureau of Economic Analysis, FOMC
But U.S. unemployment is expected to rise further
Meanwhile, inflation is expected to moderate after rising in 2008.
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.
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.

Source: U.S. Bureau of Labor Statistics
The decline in state job growth has been sharpest in non-metro areas.

**Employment Growth**

<table>
<thead>
<tr>
<th>Percent change year over year</th>
<th>OKC metro</th>
<th>Tulsa metro</th>
<th>Non-metro areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-08</td>
<td>-0.5</td>
<td>1.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Mar-09</td>
<td>0.0</td>
<td>1.0</td>
<td>0.5</td>
</tr>
</tbody>
</table>

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

Oklahoma Employment Growth by Industry

Percent change year over year

Source: U.S. Bureau of Labor Statistics
The state’s energy sector is seeing a particularly sharp decline in activity.

Count of Active Drilling Rigs

Source: Baker-Hughes
In agriculture, land values have remained high, but incomes are expected to fall.

Oklahoma Agriculture Conditions

Percent change year-over-year

Farm Income (right axis)

Cropland values (left axis)

Q1 Expectations

Source: KCFRB
State home prices have held up better than in the nation, but are now falling.

Quality-Adjusted Home Price Growth
Purchase-Only

Percent change year-over-year

Source: OFHEO
So far, foreclosures have remained relatively low in the state.

Foreclosure Rates, March 2009

Rate – 1/X Household
- 27 to 222
- 223 to 339
- 340 to 849
- 850 to 14,830

Source: Realty Trac
Delinquent loans have risen in Oklahoma, but less than in the nation.

Noncurrent Loans and Leases as a Share of Total Commercial Banks

Source: FDIC
Recessions are usually milder in our region—if it is also a U.S. recession

Average Recession Path in Deep U.S. Recessions, 1957-2003
By Federal Reserve District

Index (U.S. jobs peak = 1)

Source: U.S. Bureau of Labor Statistics
Oklahoma usually enters recessions late but leaves at the same time as the nation

Average Length of Recessions Relative to the Nation, 1957-2003
By Federal Reserve District

Due to leaving late/early
Due to entering early/late

Source: Bureau of Labor Statistics
Summary

- The U.S. economy may be near a bottom, but recovery will depend on improved credit markets.

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

- Efforts to boost U.S. growth in 2009 and 2010 should benefit Oklahoma as well.