The Economy and Manufacturing 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
  • Low and stable inflation
  • National financial stability

• 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

<table>
<thead>
<tr>
<th>Component</th>
<th>2008 Q4</th>
<th>2009 Q1</th>
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<tbody>
<tr>
<td>Total GDP</td>
<td>-6.3</td>
<td>-6.1</td>
</tr>
<tr>
<td>Consumer spending</td>
<td>-4.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Residential investment</td>
<td>-22.8</td>
<td>-38.0</td>
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<tr>
<td>Business investment</td>
<td>-21.7</td>
<td>-37.9</td>
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<tr>
<td>Exports</td>
<td>-23.6</td>
<td>-30.0</td>
</tr>
<tr>
<td>Government spending</td>
<td>-3.9</td>
<td>1.3</td>
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Source: U.S. Bureau of Economic Analysis
Weak business activity has continued into Q2, but the declines are getting smaller.
The U.S. policy response has been broad

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

- U.S. Treasury and Congress
  - TARP
  - Fiscal stimulus
  - Foreclosure prevention policies
Interbank lending conditions have improved, but remain somewhat strained.
Heading forward, policy makers generally expect a gradual recovery.
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.
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.
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
State home prices have held up better than in the nation, but are now easing.
So far, home foreclosures have remained relatively low in the state.
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 (R)

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
Manufacturing in Oklahoma

- The sector is currently struggling, but a bottom may be forming
- It remains a sizable part of the Oklahoma economy
- Future opportunities exist
Manufacturing activity in the state has fallen sharply in recent months.

Note: OK index is computed on ISM basis (50 = zero change)
Source: ISM, FRBKC Manufacturing Survey
Factory expectations in the state are becoming less negative

Source: FRBKC Manufacturing Survey
Manufacturing’s share of Oklahoma’s economy has remained sizable

Source: Bureau of Economic Analysis
The U.S. trade imbalance must ultimately be reversed, providing a future opportunity.
Summary

- U.S. economic conditions are still declining, but signs of a bottom are emerging.

- Oklahoma conditions remain better, but recent data show a clear deterioration.

- Efforts to boost U.S. growth should benefit OK.

- Manufacturing should remain a vital part of the state’s economy heading forward.