The U.S. and Regional Economic Outlooks

Chad Wilkerson
Vice President & Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City
Overall purposes of the Fed are to promote:
  - Low and stable inflation
  - Maximum sustainable employment
  - National financial stability (in conjunction with others)

The primary functional areas of the Fed are:
  - Monetary policy – typically the most well-known role to the public
  - Bank regulation – of bank holding companies, state Fed member banks
  - Payments systems – cash; electronic; bank for federal government

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): Consists of 12 voting members and 19 total members; sets national monetary policy
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
  - **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
  - **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
  - **Jacque Fiegel**, Senior EVP & COO, Coppermark Bank, OKC
  - **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 growing again, with help from monetary and fiscal stimulus.
- But the strength of recovery is likely to be modest, due to a number of factors.
- With modest growth, inflation is expected to remain tame in the near term.
Third quarter GDP growth was quite positive, but was boosted by government stimulus.

Growth in Components of GDP

Percent change from the previous period

Source: U.S. Bureau of Economic Analysis
Early reads on the fourth quarter show moderate growth but continued job losses

Credit market conditions have improved but remain somewhat stressed.

Kansas City Financial Stress Index
Banks’ lending standards continue to tighten, but less than in recent quarters

Source: FRB Senior Loan Officer Survey
Heading forward, policy makers generally expect a gradual recovery

Gross Domestic Product

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
But unemployment is expected to remain high for some time.
A list of reasons why U.S. recovery speed could be modest

- Some credit markets remain strained
- Consumers focus on repairing balance sheets and rebuilding wealth rather than spending
- Foreclosures continue to weigh on housing
- Problems in commercial real estate and general caution restrains business investment
With modest growth, inflation is expected to remain fairly moderate in coming years.

PCE Inflation Index

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
The Fed’s balance sheet has grown.
In these circumstances, the Federal Reserve will continue to employ a wide range of tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period….

In order to promote a smooth transition in markets, the Committee will gradually slow the pace of its purchases of both agency debt and agency mortgage-backed securities and anticipates that these transactions will be executed by the end of the first quarter of 2010. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.
The Regional Economy and Oklahoma

- As usual, our region and state entered this recession later than the nation.

- Conditions in labor and housing markets remain much better than the nation.

- Recent data suggest a regional and state bottom have been reached, but there are some risks to the rate of future growth.
The timing of entry to this recession varied widely across the nation

<table>
<thead>
<tr>
<th>Quarter of Entry to the Recession</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st District - Boston</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2nd District - New York</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3rd District - Philadelphia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4th District - Cleveland</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5th District - Richmond</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6th District - Atlanta</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7th District - Chicago</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8th District - St. Louis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9th District - Minneapolis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10th District - Kansas City</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11th District - Dallas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12th District - San Francisco</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Labor Statistics
And labor market conditions continue to vary widely across the nation

Unemployment Rate, September 2009

U.S. = 9.8
OK = 6.7

Rate (percent)
- 9.6 to 15.3
- 7.4 to 9.5
- 4.2 to 7.3

Source: Bureau of Labor Statistics
Housing conditions also vary widely, with weakness concentrated in CA, NV, AZ, & FL.

Foreclosure Rate, October 2009

U.S. = 0.25
OK = 0.09

Rate (percent)
- 0.5 to 1.25
- 0.2 to 0.4
- 0.1 to 0.19
- 0.09 & below

Source: Realty Trac
Our region is almost always late to recessions—and Oklahoma is always late

Historical Timing of Entry from Recessions by Fed District
For the eight U.S. recessions from 1957-2003

Source: U.S. Bureau of Labor Statistics
But exit from recessions tends to be more simultaneous across regions of the country.
The most up-to-date labor market indicators show signs of a bottom in the region and state.
As do the latest results from national and regional manufacturing surveys

Manufacturing Composite Indexes
Seasonally adjusted

Note - 4th Quarter is only October
Source: ISM, FRBKC Manufacturing Survey
Home prices also have less risk of further declines in the region and state.
And our region and state are receiving slightly more fiscal stimulus than the nation.

Source: Recovery.gov
Only two postwar recessions have hit our region and state worse than the nation.

Source: Bureau of Labor Statistics
Energy prices remain the primary risk relative to the nation

Source: Bloomberg
The U.S. economy is growing again, aided by monetary and fiscal stimulus.

Regional and Oklahoma data also suggest early signs of a recovery.

But recovery is likely to be modest, both nationally and regionally, with energy prices a risk in the region.