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
  - **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 appears to have stabilized, with help from massive 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.
Second quarter growth was much less negative, boosted by government spending.

Growth in Components of GDP

Percent change from the previous period

Source: U.S. Bureau of Economic Analysis
Recent survey indicators suggest declines in the U.S. economy may be over.

Credit market conditions have continued to stabilize in recent months as well.
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 remain elevated for some time.
A list of reasons why U.S. recovery speed could be modest

- Consumers are focused on repairing balance sheets and rebuilding wealth, not spending
- Foreclosures continue to weigh on housing
- Problems in commercial real estate and general caution could restrain business investment
- A weakened global economy could limit exports
- Some credit markets remain strained
With modest growth, inflation is expected to remain fairly moderate in coming years.

Source: U.S. Bureau of Economic Analysis, FOMC
As in the nation, the state’s economy appears to have stabilized, and at a better level.

The state’s performance in this recession is typical of most post-war recessions, so far.

However, several risks remain in the state, though they appear smaller than in the nation.
Oklahoma entered this recession later, but is also showing signs of stabilization.
Manufacturing indexes for the state also show later entry but recent stabilization.
Unemployment is still relatively low in Oklahoma and most nearby states.

Unemployment Rate, July 2009

U.S. = 9.4
OK = 6.5

Rate (percent)
- Green: 9.5 to 15.0
- Light green: 7.6 to 9.4
- Lightest green: 4.2 to 7.5

Source: Bureau of Labor Statistics
Unlike the nation, Oklahoma home prices have also held up relatively well.
Indeed, OKC and Tulsa home prices have caught up with some other regional cities.
And Oklahoma is receiving about as much fiscal stimulus as the nation

**Per Capita Stimulus Package Spending**

**U.S. and Tenth District**

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<th>State</th>
<th>Median U.S. States</th>
<th>10J (25th)</th>
<th>CO (25th)</th>
<th>KS (32nd)</th>
<th>MO (24th)</th>
<th>NE (27th)</th>
<th>NM (7th)</th>
<th>OK (20th)</th>
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| Source: Wall Street Journal, July 1, 2009
Overall, Oklahoma’s performance in this recession appears to be fairly typical

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 their shorter duration, Oklahoma’s job losses in U.S. recessions are usually smaller.

Source: Bureau of Labor Statistics
But in the past five years, Oklahoma’s economy has become much less diversified.
The rig count has slowed its freefall but continues to edge down in the state.

Source: Baker-Hughes, Bloomberg
After peaking last year, important commodity prices are now going in different directions.

**Commodity Prices**

- **Natural gas** (left scale, per MMBTU)
- **Crude oil** (right scale)
- **Wheat** (left scale, per bushel)

Source: Bloomberg
Agricultural conditions in the state remain rather weak, but the bottom appears past

Source: KCFRB
Farmland values in the state have flattened recently after rising rapidly in recent years.
Jobs are still down markedly from a year ago in several of the state’s industries.

Oklahoma Employment Growth by Industry

Percent change year over year

Source: U.S. Bureau of Labor Statistics
And the decline in jobs has been especially sharp in non-metro areas of the state.

![Employment Growth Chart]

Source: U.S. Bureau of Labor Statistics
Foreclosures remain relatively low away from the western sunbelt, Florida, and Great Lakes.

**Foreclosure Rates, 2009 Q2**

- **U.S. = 4.3%**
- **OK = 2.4%**

**Share of Mortgages**
- **9.0 to 12.0%**
- **4.3 to 9.0%**
- **2.5 to 4.3%**
- **0.0 to 2.5%**

Source: Mortgage Bankers Association
But while our mortgage problems are smaller than the nation’s, they are increasing.

Foreclosure and Past Due Mortgage Rates
U.S. vs. Oklahoma

Source: Mortgage Bankers Association
Overall past due loans are also rising at Oklahoma banks, but less than in the nation.
The U.S. economy appears to have stabilized, but recovery is expected to be modest.

Oklahoma, after entering the recession much later, also appears to have stabilized.

Still, a number of risks to growth remain in the state, including especially energy prices.