U.S. and Oklahoma Economic Outlook

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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).
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 has weakened but may be nearing a trough
- Some credit markets show signs of improvement, but strains remain
- Inflation has eased and is expected to remain tame
In the fourth quarter of last year, only government added to U.S. growth

Growth in Components of GDP

Percent change from the previous period

- Total GDP
  - 2008 Q3: -6.3%
  - 2008 Q4: 5.8%

- Consumer spending
  - 2008 Q3: -3.7%
  - 2008 Q4: -4.3%

- Residential investment
  - 2008 Q3: -16.0%
  - 2008 Q4: -22.8%

- Business investment
  - 2008 Q3: -1.7%
  - 2008 Q4: -21.7%

- Exports
  - 2008 Q3: 3.0%
  - 2008 Q4: -23.6%

- Government spending
  - 2008 Q3: 1.3%

Source: U.S. Bureau of Economic Analysis
Weak activity has continued into 2009, but the declines may be stabilizing.

In credit markets, commercial paper rates have fallen sharply since last fall.
And mortgage rates have declined recently.

Source: Bloomberg
Interbank lending conditions have also improved, but remain strained.
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.
The Oklahoma Economy

- The state’s economy and housing sector remain stronger than the nation.
- But the most recent data have shown a clear downturn for the state.
- 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, January 2009

- Oklahoma: 3.7 to 5.9
- Most nearby states:
  - Texas: 6.0 to 7.1
  - Arkansas: 7.2 to 8.6
  - Louisiana: 8.7 to 11.6

Source: Bureau of Labor Statistics
But jobs are now below year-ago levels in the state, following a long boom.
Unemployment claims are now actually rising faster in Oklahoma than the nation.

* Preliminary Data

Source: U.S. Bureau of Labor Statistics
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
February 2009

Percent change year over year

Leisure & Hosp  Const  Edc & Health  Trade, Transp, & Utilities  Info  Fin Activities  Nat Res & Mining  Prof & Bus Services  Mfg

Source: U.S. Bureau of Labor Statistics
The state’s energy sector is seeing a considerable decline in activity in 2009.

Count of Active Drilling Rigs

Source: Baker-Hughes
And manufacturing activity in the state is approaching national conditions.
In agriculture, land values have remained high, but incomes are expected to fall.
Home prices are holding up better than in the nation, but are now falling.
So far, foreclosures have remained relatively low in the state.
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 of Federal Reserve Districts, 1957-2003**

Four quarters before and eight quarters after U.S. jobs peak

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

- U.S. economic conditions have deteriorated, but may be showing signs of bottoming.
- Oklahoma conditions remain in better shape, but are also worsening.
- Efforts to boost U.S. growth in 2009 should benefit Oklahoma as well.