Recession and Recovery in Oklahoma: Lessons from History

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The Oklahoma Economy through Summer 2009

- Oklahoma entered this recession late, but quickly joined the party over the past year.

- As in the nation, the state’s economy showed some signs of stabilization this summer.

- Conditions remain at a better level than in the nation, but energy activity has not stabilized.
Oklahoma entered this recession late, but has shed jobs rapidly in 2009

Nonfarm Payroll Employment Growth

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

Source: U.S. Bureau of Labor Statistics
The biggest job losses have been in energy, manufacturing, and related services.

Oklahoma Employment Growth by Industry

Percent change year over year

Source: U.S. Bureau of Labor Statistics
Still, unemployment remains relatively low in Oklahoma and most nearby states.

Unemployment Rate, August 2009

<table>
<thead>
<tr>
<th>State</th>
<th>Rate (percent)</th>
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<tbody>
<tr>
<td>U.S.</td>
<td>9.7</td>
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<tr>
<td>OK</td>
<td>6.8</td>
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- 9.6 to 15.2
- 7.8 to 9.5
- 4.3 to 7.7

Source: Bureau of Labor Statistics
As in the nation, manufacturing indexes for the state stabilized in Q3 2009
State housing activity also appears to have stabilized following a long decline

Source: U.S. Census Bureau
Unlike the nation, Oklahoma home prices have held up relatively well in recent years.
And home prices here appear to be better in line with fundamentals.

Home Prices and Per Capita Income Levels*

Index: 2000=100

*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2008. For 2009-11, Macroeconomic Advisers' forecast for U.S. per capita income growth is used as an estimate.

Source: FHFA, BEA
Agricultural conditions in the state remain rather weak, but the bottom may be past.

Oklahoma Agricultural Conditions

Source: KCFRB
But while energy activity has slowed its free fall, it continues to edge down in the state.
Oil drilling has edged up recently, but the more sizable natural gas sector is still easing.
With energy activity still at low levels, new jobless claims are rising again in Oklahoma.
Lessons from History

- Through summer, Oklahoma’s performance in this recession was fairly “normal”

- But renewed dependence on the energy sector presents some new/old risks

- Energy price prospects and state banking conditions look more sound than in the past
Oklahoma has been late to every U.S. recession in the postwar period.
We have exited recessions in different quarters than the nation 3 times—but only once late.
So on average, Oklahoma’s recessions have been two quarters shorter than the nation’s.

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
Fiscal stimulus is kicking in at a good time for the state, in similar amounts as the nation.
But not all recessions are average, and there has been one especially notable exception.
In the past five years, Oklahoma’s economy has become much less diversified.
Energy prices never came back in the 1980s, following multiple supply shocks.

Source: Bloomberg
After surging and then crashing last year, oil and gas prices have diverged in 2009.

Source: Bloomberg
While problem loans are rising in Oklahoma, our banks are in better relative shape today

**Charge-offs and Noncurrent Loans as a Share of Total Loans**

Commercial Banks

Percent

While problem loans are rising in Oklahoma, our banks are in better relative shape today.

Source: FDIC

*Through 6/30/09*
Summary

- As usual, Oklahoma entered this recession later than most of the rest of the nation.
- Some recent signs of stabilization have emerged, and stimulus is kicking in.
- Future energy prices present a risk, but probably less so than in the past.