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:**
  - 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).
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

Percent change from the previous period

- Total GDP: -6.3, -6.1
- Consumer spending: -4.3, 2.2
- Residential investment: -22.8
- Business investment: -21.7
- Exports: -23.6
- Government spending: 1.3, -3.9

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 since the fall, 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
The state’s energy sector is seeing a particularly sharp decline in activity

Count of Active Drilling Rigs

Source: Baker-Hughes
State home prices have held up better than in the nation, but are now easing

Quality-Adjusted Home Price Growth
Purchase-Only

Percent change year-over-year

Source: OFHEO
So far, home 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
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

Source: U.S. Bureau of Labor Statistics
With the shorter duration, Oklahoma’s job losses in U.S. recessions are usually smaller.
The U.S. economy may be near a bottom, but recovery will depend on improved credit markets.

With the steep recent declines in energy activity, Oklahoma has finally entered the recession.

Efforts to boost U.S. growth in 2009 and 2010 should benefit Oklahoma as well.