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 sustainable 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
The U.S. economy contracted sharply in the two most recent quarters.

Source: U.S. Bureau of Economic Analysis
But the pace of decline appears much smaller in Q2

Interbank lending conditions have improved since the fall, but remain somewhat strained.
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
  - Passed the TARP
  - Passed a large fiscal stimulus bill
  - Some foreclosure prevention policies
Heading forward, policy makers generally expect a gradual recovery.

Source: U.S. Bureau of Economic Analysis, FOMC
But U.S. unemployment is expected to remain elevated for some time.
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 downturn in energy activity has dragged the state into recession.

- Very recent data suggest a bottom is near, and 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, April 2009

<table>
<thead>
<tr>
<th>Rate</th>
<th>States</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.8 to 12.9</td>
<td>Nevada, California, Oregon, Washington</td>
</tr>
<tr>
<td>8.0 to 9.7</td>
<td>Oregon, Nevada, California</td>
</tr>
<tr>
<td>6.6 to 7.9</td>
<td>Nevada, California, Oregon</td>
</tr>
<tr>
<td>4.0 to 6.5</td>
<td>Nevada, California</td>
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</tbody>
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Source: Bureau of Labor Statistics
But jobs are now well below year-ago levels in Oklahoma, following a long boom.
Employment is down in most industries in the state, especially energy and manufacturing.
The decline in state job growth has been sharpest in non-metro areas.
Unlike the nation, Oklahoma home prices remain similar to a year ago

Quality-Adjusted Home Price Growth
Purchase-Only

Percent change year-over-year

Source: OFHEO
Indeed, OKC and Tulsa home prices have caught up with some other regional cities.
The supply of unsold homes has leveled and remains much lower than the nation.

Months Supply of Unsold Homes
Seasonally Adjusted

![Graph showing the months supply of unsold homes for various locations, including OKC, Tulsa, and the U.S., with data points from Apr-02 to Apr-09.](source: NAR, Local realtors)
And home foreclosures have remained relatively low in the state

Foreclosure Rates, April 2009

Source: Realty Trac
Past due loans have risen at Oklahoma banks, but much less than in the nation.
Delinquent loans as a share of capital now exceeds 15 percent in the state

Noncurrent Loans as a Share of Equity Capital
Commercial Banks

Source: FDIC
But the number of unprofitable banks has increased only marginally in OK.
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

Source: U.S. Bureau of Labor Statistics
With the shorter duration, Oklahoma’s job losses in U.S. recessions are usually smaller.

Source: Bureau of Labor Statistics
So far, the state is largely following its usual pattern during U.S. recessions.

Initial Claims for Unemployment Insurance

Source: Bureau of Labor Statistics
Manufacturing activity in the state declined only slightly in May

Manufacturing PMI Indexes
Seasonally Adjusted

Note: OK index is computed on ISM basis (50 = zero change)
Source: ISM, FRBKC Manufacturing Survey
And the state’s drilling rig count may not have much further to fall?
The U.S. economy may be near a bottom, but recovery will depend on improved credit markets.

As usual, Oklahoma entered the recession later than the nation, but recent data are encouraging.

Efforts to boost U.S. growth in 2009 and 2010 should help, but slow energy activity is a risk.