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
  • Low and stable inflation
  • National financial stability

• **Mission areas:**
  • Monetary policy – most visible role to the public, usually
  • Bank regulation – including lender of last resort
  • Payments systems – cash, checks, electronic payments

• **Monetary policy is set by the 12-member FOMC:**
  • The Federal Open Market Committee meets every 6 weeks
  • Voting members consist of:
    • the 7 Governors in Washington;
    • the New York Fed President;
    • 4 of the 11 other Fed presidents on a rotating basis
Federal Reserve Districts and Office Locations
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. and Oklahoma Economies

- The U.S. economy is weakening, but credit markets and inflation are improving
- Oklahoma is stronger but also weakening
- Forecasts call for weakness throughout 2009, but many efforts are in place to boost growth
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

Source: U.S. Bureau of Economic Analysis
And weak U.S. business activity has continued on into 2009

Short-term credit conditions have improved after worsening in September.

Source: Bloomberg
Mortgage rates have declined, but lending standards on mortgages continue to tighten.
Bank lending standards on consumer loans also continue to tighten

Net Percentage of Banks Tightening Loan Standards

Source: FRB Senior Loan Officer Survey
Policy-makers are increasingly pessimistic about the near-term economic outlook

Gross Domestic Product

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis
And U.S. unemployment is expected to rise further.
Meanwhile, inflation is expected to moderate after rising in 2008.
Unemployment remains relatively low in Oklahoma
And so far, foreclosures have remained in check in Oklahoma

Source: Realty-Trac
Oklahoma home prices continued to grow through Q4 2008, even as U.S. prices fell.
House price fundamentals were more in line in Oklahoma from 2000 to 2005.

Annual Growth in Per Capita Incomes and Home Prices
2000 - 2005

- Per capita income growth
- House price growth

Source: U.S. Bureau of Economic Analysis, OFHEO
But unemployment claims are now rising rapidly, changing the picture for the state.

*Preliminary data
Source: U.S. Bureau of Labor Statistics
And the rig count has fallen sharply in recent months and is expected to fall further.
Manufacturing activity in the state has also fallen sharply in recent months.

Manufacturing PMI Indexes
Seasonally Adjusted

Note: OK index is computed on ISM basis (50 = zero change)
Source: ISM, FRBKC Manufacturing Survey
Delinquent loans have risen considerably in both Oklahoma and the nation.

Noncurrent Loans and Leases as a Share of Total Leases
Commercial Banks

Source: FDIC
U.S. economic conditions have deteriorated

Oklahoma conditions remain better, but some recent high-frequency data have been worse

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