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).
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. 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.
Weak activity has continued into 2009, but the declines may be stabilizing.

Bank lending standards on business loans are tight, but may be easing slightly

Net Percentage of Banks Tightening Loan Standards
Business Loans

Source: FRB Senior Loan Officer Survey
And consumer lending standards also show some signs of easing

Source: FRB Senior Loan Officer Survey
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, February 2009

Rate
- 9.2 to 12.0
- 7.8 to 9.1
- 6.5 to 7.7
- 3.9 to 6.4

Source: Bureau of Labor Statistics
But jobs are now below year-ago levels in the state, following a long boom.

Source: U.S. Bureau of Labor Statistics
Unemployment claims are now actually rising faster in Oklahoma than the nation

Weekly Unemployment Insurance Claims

Index: Mar-99=100; 3-month moving average

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

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.

Oklahoma Agriculture Conditions

Percent change year-over-year

Cropland values (left axis)  Farm Income (right axis)

Q1 Expectations

Source: KCFRB
Home prices are holding up better than in the nation, but are now falling

Quality-Adjusted Home Price Growth
Purchase-Only

Percent change year-over-year

U.S.
OK

Source: OFHEO
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