The Economic Outlook for the U.S. and Oklahoma

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History and Structure of the Federal Reserve System

- The Federal Reserve System was created in 1913 (sponsored by OK Sen. R.L. Owen) and consists of:
  - Board of Governors: 7 members appointed by U.S. President
  - Federal Reserve Banks: 12 total; semi-independent by design
  - Federal Open Market Committee (FOMC): 19 members; 12 voting

- As with most central banks around the world, the Fed’s responsibilities fall within four general areas:
  - Monetary policy – control money supply to affect growth and inflation
  - Lender of last resort – provide liquidity in times of financial crisis
  - Bank regulation – ensure safety and soundness of banks
  - Financial services – bank for banks, bank for federal government
Federal Reserve Districts and Office Locations
The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

- **History, staff, and functions**
  - Branch office opened in 1920; currently have about 35 staff
  - Functions include economic research, bank examinations, public outreach

- **2010 branch board of directors**
  - **Steve Agee (chairman)**, President, Agee Energy, and Professor, OCU, OKC
  - **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
  - **Jim Dunn**, Chairman, Mill Creek Lumber and Supply Co., Tulsa
  - **Jacque Fiegel**, Senior EVP and COO, Coppermark Bank, OKC
  - **Rose Washington Rentie**, Executive Director, TEDC Creative Capital, Tulsa
  - **Doug Tippens**, President and CEO, Bank of Commerce, Yukon
  - **K. Vasudevan**, Chairman, Service and Technology Corp., Bartlesville
The pace of U.S. recovery remains moderate and is expected to stay on track, with inflation remaining low.

Oklahoma’s recession and recovery path has been fairly typical for the state, but risks to growth remain.
U.S. output continues to grow solidly, but job growth is modest

U.S. Private Payroll Employment and Business Indexes

Change from previous month, thousands

Index

Nov-05 Nov-06 Nov-07 Nov-08 Nov-09 Nov-10

Private Employment (left axis)
ISM Manufacturing Index (right axis)
ISM Non-Manufacturing Index (right axis)

Consumer debt could constrain growth and federal debt is a longer-term concern

U.S. Debt as a Share of GDP

Sources: Federal Reserve, BEA, CBO

Consumer debt could constrain growth and federal debt is a longer-term concern. The graph illustrates the U.S. Debt as a Share of GDP from 1945 to 2020, showing the trend of Federal government debt and Household debt. The graph indicates that consumer debt could constrain growth and federal debt is a longer-term concern, with plus extension of current tax rates and no spending cuts or tax increases. The sources for this data are the Federal Reserve, BEA, and CBO.
Europe’s sovereign debt problem has also flared up again

Spreads to German Bunds (10-yr)

Percentage points

Portugal  Ireland  Spain  Greece  Italy

Source: Federal Reserve Board
But European nations most threatened are only a small part of Euro Zone GDP

Shares of Euro Zone GDP

- Greece (US$305b) 2.6%
- Ireland (US$209b) 1.8%
- Portugal (US$220b) 1.9%
- Spain (US$1381b) 11.8%
- Italy (US$1992b) 17.0%
- Germany 26.8%
- France 21.3%
- Others 16.9%

Rescue packages:
- Greece: €110 billion=US$144 billion
- Ireland: €67.5 billion=US$88 billion

Source: U.S. Bureau of Economic Analysis
Fed policymakers expect continued moderate U.S. GDP recovery

Real Gross Domestic Product

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
But with U.S. unemployment remaining high for some time

Unemployment Rate
Seasonally Adjusted

Source: U.S. Bureau of Labor Statistics, FOMC

Nov. FOMC Forecast Ranges in Yellow

Long Term
Inflation is expected to remain tame in the near term, but will require careful oversight.
The FOMC’s plans will swell the Fed’s balance sheet further

Federal Reserve Balance Sheet

Source: Federal Reserve Board
Oklahoma typically enters recessions late but exits around the same time as the nation.
The current episode, while worse, has largely followed the historical pattern

**Current Recession and Recovery Path**
Employment level 4 quarters before and 10 quarters after U.S. jobs peak

Source: U.S. Bureau of Labor Statistics
Recent solid state job growth has been driven by energy, construction, and services.
Agricultural conditions in the state have also improved after bottoming in 2009.
With Oklahoma’s shorter recession, unemployment remains relatively low.
And Oklahoma banks remain in much better shape than in the nation as a whole.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
Housing continues to be a risk, but much less so than in the nation.

Source: MBA
Natural gas prices remain the state’s biggest risk, but high oil prices have helped...
Summary

- The U.S. economy is recovering and expected to continue to grow moderately, with low inflation.

- Oklahoma’s economy is also recovering and remains in much better shape than the nation.