Recovery in the U.S. and Regional Economies

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Federal Reserve Bank of Kansas City
Purposes and Structure of the Federal Reserve System

- **Overall purposes of the Fed are to promote:**
  - Low and stable inflation
  - Maximum sustainable employment
  - National financial stability (in conjunction with others)

- **The primary functional areas of the Fed are:**
  - Monetary policy – control nation’s money supply; lender of last resort
  - Bank regulation – all bank holding companies; state Fed member banks
  - Payments systems – cash; electronic; bank for federal government

- **The Federal Reserve System consists of:**
  - Board of Governors: 7 members appointed by President to 14-year terms.
  - Federal Reserve Banks: 12 Banks, each serving a unique district.
  - Federal Open Market Committee (FOMC): 12 voting members
Federal Reserve Districts and Office Locations
The Oklahoma City Branch Office of the Federal Reserve Bank of Kansas City

• **Staff and functions**
  - Approximately 35 full-time staff involved in economic research; bank examinations; and public and community affairs

• **2010 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 & Supply Co., Tulsa
  - **Jacque Fiegel**, Senior EVP & 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 U.S. Economy

- The U.S. economy is growing again, with help from monetary and fiscal stimulus.

- But the strength of recovery is likely to be modest, due to a number of factors.

- With modest growth, inflation is expected to remain tame in the near term.
Third quarter GDP growth was finally positive, but was boosted by government stimulus.
Data on the fourth quarter show moderate growth, with job losses diminishing.
Credit market conditions have continued to stabilize in recent months.
But banks’ lending standards continue to tighten, although less than in recent quarters.
Heading forward, policy makers generally expect a moderate recovery.

Gross Domestic Product

Source: U.S. Bureau of Economic Analysis, FOMC
With unemployment expected to remain high for some time
With moderate growth and excess capacity, near-term inflation is expected to remain tame.

PCE Inflation Index

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
The Fed’s balance sheet has grown

Federal Reserve Balance Sheet: Assets

- Short-term Lending to Financial Firms
- Rescue Operations
- Operations Focused on Broader Credit Conditions
- Other Assets
- Treasury Portfolio

Source: Federal Reserve Board of Governors
“The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period. To provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve is in the process of purchasing $1.25 trillion of agency mortgage-backed securities and about $175 billion of agency debt. In order to promote a smooth transition in markets, the Committee is gradually slowing the pace of these purchases, and it anticipates that these transactions will be executed by the end of the first quarter of 2010. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets.”
The Regional Economy and Oklahoma

- As usual, our region and state entered this recession later than the nation

- Conditions in labor and housing markets remain much better than the nation

- Recent data suggest a regional and state bottom have been reached
The timing of entry to this recession varied widely across the nation.

<table>
<thead>
<tr>
<th>Quarter of Entry to the Recession</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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</thead>
<tbody>
<tr>
<td>United States</td>
<td></td>
<td></td>
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<tr>
<td>1st District - Boston</td>
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<tr>
<td>2nd District - New York</td>
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<td></td>
<td></td>
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<tr>
<td>3rd District - Philadelphia</td>
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<td></td>
<td></td>
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<tr>
<td>4th District - Cleveland</td>
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<tr>
<td>5th District - Richmond</td>
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<tr>
<td>6th District - Atlanta</td>
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<tr>
<td>7th District - Chicago</td>
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<tr>
<td>8th District - St. Louis</td>
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<tr>
<td>9th District - Minneapolis</td>
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<tr>
<td>10th District - Kansas City</td>
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<tr>
<td>11th District - Dallas</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>12th District - San Francisco</td>
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</tbody>
</table>

- Orange: Entered early
- Black: Entered with U.S.
- Blue: Entered late

Source: U.S. Bureau of Labor Statistics
Our region is almost always late to recessions—and Oklahoma is always late.

**Historical Timing of Entry from Recessions by Fed District**
For the eight U.S. recessions from 1957-2003

Source: U.S. Bureau of Labor Statistics
But exit from recessions tends to be more simultaneous across regions of the country.

Historical Timing of Exit from Recessions by Fed District
For the eight U.S. recessions from 1957-2003

Source: U.S. Bureau of Labor Statistics
The average postwar recession path of the state and region are quite favorable

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
Only two postwar recessions have hit our region and state worse than the nation.
This recession largely followed the historical pattern, though with a slight lag at the end.
Manufacturing indexes for the state and region show some improvement recently.

Manufacturing Production Indexes
Seasonally adjusted

Source: ISM, FRBKC Manufacturing Survey
And our region and state are receiving slightly more fiscal stimulus than the nation.

### Per Capita Stimulus Package Spending

**U.S. and Tenth District States**

<table>
<thead>
<tr>
<th>State</th>
<th>Remaining Funds</th>
<th>Funds Received</th>
<th>Total (Dollars per capita)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>387</td>
<td>118</td>
<td>505</td>
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<tr>
<td>Tenth District</td>
<td>425</td>
<td>119</td>
<td>544</td>
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<tr>
<td>CO</td>
<td>393</td>
<td>139</td>
<td>532</td>
</tr>
<tr>
<td>KS</td>
<td>307</td>
<td>162</td>
<td>469</td>
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<tr>
<td>MO</td>
<td>407</td>
<td>71</td>
<td>478</td>
</tr>
<tr>
<td>NE</td>
<td>380</td>
<td>101</td>
<td>481</td>
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<tr>
<td>NM</td>
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<td>135</td>
<td>814</td>
</tr>
<tr>
<td>OK</td>
<td>421</td>
<td>135</td>
<td>556</td>
</tr>
<tr>
<td>WY</td>
<td>781</td>
<td>113</td>
<td>894</td>
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</tbody>
</table>

*Source: Recovery.gov*
So unemployment in our region remains much lower than in the nation.
Home prices have held up better in our region, especially in Oklahoma, and are stabilizing.
Banking problems are smaller in our region, especially in areas with stable home values.
Energy prices remain the primary risk, but natural gas has recently turned back up.

Source: Bloomberg
The U.S. economy is growing again, aided by monetary and fiscal stimulus.

Regional and Oklahoma data also suggest early signs of a recovery.

But national and regional recovery is likely to be somewhat moderate.