Recovery in the U.S. and Tenth District Economies

Chad Wilkerson
Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City
www.kansascityfed.org
History and Structure of the Federal Reserve System

- Founded by Congress in 1913 as the nation’s third central bank, the Fed consists of 3 main entities:
  - **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, consumer rights
  - **Financial services** – bank for banks, bank for federal government
Federal Reserve Districts and Office Locations
Boards of Directors of the Federal Reserve Bank of Kansas City

- **Kansas City**
  - Lu Cordova, Boulder, CO
  - Paul DeBruce, Kansas City, MO
  - David Brownback, Ellsworth, KS
  - Robert Fricke, Ashland, NE
  - Mark Gordon, Buffalo, WY
  - John Ikard, Lakewood, CO
  - Terry Moore, Omaha, NE
  - Richard Ratcliffe, Weatherford, OK
  - John Stout, Shawnee Mission, KS

- **Oklahoma City**
  - Steve Agee, Oklahoma City
  - Bill Anoatubby, Ada
  - Jim Dunn, Tulsa
  - Jacque Fiegel, Oklahoma City
  - Rose Washington, Tulsa
  - Doug Tippens, Yukon
  - K. Vasudevan, Bartlesville

- **Denver**
  - Barbara Mowry, Westminster, CO
  - Bruce Alexander, Denver
  - Charles Brown, III, Wheatland, WY
  - Anne Haines Yatskowitz, Albuquerque
  - Larissa Herda, Littleton, CO
  - Margaret Kelly, Denver
  - Mark Zaback, Casper

- **Omaha**
  - Lyn Wallin Ziegenbein, Omaha
  - Todd Adams, Ogallala
  - James Farrell, Omaha
  - JoAnn Martin, Lincoln
  - G. Richard Russell, Omaha
  - Mark Sutko, Kearney
  - James Thom, Hastings
Credit market conditions have improved, and the U.S. economy is growing again.

But recovery is expected to be moderate, as debt and uncertainty remain high.

Inflation is expected to remain tame in the near term, but longer-run risks exist.
Broad measures of financial stress have returned to more normal levels

**Kansas City Financial Stress Index**

Variables include:
- 3-mo LIBOR/TED spread
- 2-year swap spread
- Off/on 10-yr Trs spread
- Aaa/10-yr Trs spread
- Baa/Aaa spread
- Junk/Baa spread
- Cons ABS/5-yr Trs spread
- Corr of stock/bond returns
- Volatility of stocks (VIX)
- Volatility of bank stocks
- Dispersion of bank stocks

Source: KCFRB
GDP expanded moderately in Q1 2010, helped by consumers and businesses

Growth in Components of GDP

Source: U.S. Bureau of Economic Analysis
And early Q2 2010 data show continued improvement in the U.S. economy

National Business Indexes and Payroll Employment

Heading forward, Fed policymakers generally expect a moderate recovery

Gross Domestic Product

Percent change, year-over-year

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

Unemployment Rate
Seasonally Adjusted

Percent

FOMC Forecast Ranges in Yellow

Long Term

Source: U.S. Bureau of Labor Statistics, FOMC
Consumer debt could constrain short-run growth and federal debt projections are a concern.

U.S. Debt as a Share of GDP

Sources: Federal Reserve, BEA, CBO
Inflation is expected to remain tame in the near term, but will require careful oversight.
The Fed’s balance sheet is still large, with extra assets now largely MBS.
As usual in recessions, our District and most of its states entered quite late.

Our recession exit appears to be similar to or just slightly delayed from the nation.

Overall conditions remain better in our region, but there are several risks.
The Tenth District usually enters deep recessions late but exits with the nation.

**Average Deep Recession Path, 1956-2006**

Employment level 4 quarters before and 8 quarters after U.S. jobs peak

Indexed to U.S. jobs peak

* Includes 1957-58, 1974-75, 1981-82, and 2001-03 recessions

Source: U.S. Bureau of Labor Statistics
This recession appears to be playing out largely as expected, though deeper.

**Current Recession Path**
Employment level 4 quarters before and 8 quarters after U.S. jobs peak

Source: U.S. Bureau of Labor Statistics
Revised employment data show a similar story of very late entry, slightly late exit.
Regional output data suggest employment should continue to trend upward

Manufacturing PMI Indexes
Seasonally adjusted

Source: ISM, FRBKC Manufacturing Survey
Employment is growing or stabilizing in most Tenth District states

*Annualized growth rate of December 2009 to March 2010

Source: U.S. Bureau of Labor Statistics
With shorter recessions and better starting points, joblessness is lower in the region.
Home prices clearly held up better here, providing cushion to consumers and banks.

Median Home Prices in U.S. and Five Largest Tenth District Cities

Source: NAR
Our mortgages generally remain in better shape, but some states have risks

Share of Mortgages Underwater or Nearly So
Q4 2009

Percent

Near Negative (within 5%)
Negative Equity

Source: First American CoreLogic
Banks also remain in much better shape in most District states.
Commercial real estate is also a risk in some of the region’s cities.

Office Vacancy Rates

Source: Torto Wheaton
And weak natural gas prices are also a risk in some areas of the region.
Summary

- The U.S. economy is growing again, but recovery speed is expected to be modest.
- The recession in the Tenth District has been milder, but recovery is slightly delayed.
- Regional conditions generally remain better, but there are several risks to growth in 2010.