The Economic and Banking Outlook for the U.S. and Oklahoma

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Federal Reserve Districts and Office Locations
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
The Oklahoma City Branch Office of the Federal Reserve Bank of Kansas City

- **Branch staff and functions**
  - 35 staff involved in economic research, bank examinations, and 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 Company, 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
Credit market conditions have improved, and the U.S. economy is growing again, but the recovery is expected to be moderate.

Inflation is expected to remain tame in the near term, but will require diligent actions to stay in check over the longer run.
Interbank lending markets have largely returned to normal in recent months.
Second half 2009 GDP growth was fairly strong, but boosted in part by government stimulus.

Growth in Components of GDP

Percent change from the previous period

Source: U.S. Bureau of Economic Analysis
January 2010 data show further signs of improvement, especially in manufacturing.
Heading forward, Fed policymakers generally expect a moderate recovery.
But unemployment is expected to remain high for some time.

Source: U.S. Bureau of Labor Statistics, FOMC
After tightening recently, banks’ lending standards are largely unchanged in Q1

Net Percentage of Banks Tightening Loan Standards

Source: FRB Senior Loan Officer Survey
Loan demand is no longer falling as steeply, but it remains somewhat weak

Net Percentage of Banks Reporting Increased Loan Demand

Source: FRB Senior Loan Officer Survey
Near-term inflation is expected to remain tame, but will require diligent oversight.
The Fed’s balance sheet has grown considerably over the past year.
Oklahoma Economic and Banking Outlook

- As usual in recessions, Oklahoma entered this recession much later than the nation, and we appear to be recovering with only a slight lag.

- With the shorter overall recession and less of a real estate bubble in recent years, banks in the state remain in better shape than the nation.
Oklahoma usually enters recessions late but leaves around the same time as the nation.
The main exception in the postwar period was during the 1980s, of course.
Oklahoma entered this recession 3 quarters late and appears to be leaving one quarter late.

Initial Claims for Unemployment Insurance

Index (Q1 2005=100)

*January only

Source: Bureau of Labor Statistics
With a shorter recession, unemployment in Oklahoma remains relatively low.

Unemployment Rate, December 2009

U.S. = 10.0%
OK = 6.6%

Rate (percent)
- 10.0 to 14.6
- 7.6 to 9.9
- 4.4 to 7.5

Source: Bureau of Labor Statistics
Recent data on state factory activity also show signs of recovery, even if again slightly lagged

Manufacturing PMI Indexes
Seasonally Adjusted, 3-month moving avg.

Note: OK index is computed on ISM basis (50 = zero change)
Source: ISM, FRBKC Manufacturing Survey
Importantly, the rig count is rising again after falling dramatically in 2009

Rig Count

Source: Baker-Hughes, Bloomberg
Agricultural conditions in the state remain rather weak, but also may have bottomed.
Farmland values in the state rebounded slightly in the fourth quarter.

**Oklahoma Agricultural Land Values**
Non-Irrigated Cropland

Percent change year-over-year

Source: KCFRB
Unlike the nation, home prices have held up quite well in Oklahoma, and are stabilizing.
Home foreclosures have risen in Oklahoma, but much less than in the nation.

Foreclosures as a Share of All Home Mortgages

Source: Mortgage Bankers Association
Most U.S. foreclosure activity is still concentrated in just a few states

Foreclosures as a Share of All Households, January 2010

U.S. = 0.24%
OK = 0.11%

Rate (percent)
- over 0.5
- 0.2 to 0.5
- Below 0.2

Source: Realty Trac
Overall past due loans at Oklahoma banks are much lower than in the nation.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
And the share of Oklahoma banks that remain profitable is still fairly high.
Real estate loans are a growing problem, but again less than in the nation.
The U.S. economy is growing again, but the pace of recovery is expected to be fairly moderate compared to past deep recessions.

With a slight lag, Oklahoma’s economy is also growing again, and overall conditions remain much better than in the nation.