The Economic Outlook and Its Impact on Nonprofits

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Federal Reserve Districts and Office Locations
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
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 U.S. Economy

- 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

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.
Near-term inflation is expected to remain tame, but will require diligent oversight.

PCE Inflation Index

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
The Oklahoma Economy

- As usual in recessions, Oklahoma entered this recession later than the nation—not joining until energy prices fell in late 2008.

- After steep declines for much of 2009, the state is showing recent signs of recovery—and conditions remain better than the nation.
Oklahoma usually enters recessions late but leaves around the same time as the nation.

**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
The main exception in the postwar period was during the 1980s, of course.

Source: Bureau of Labor Statistics

Job Losses in Recessions, 1956-present
Percent
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
Recent data on state factory activity also show signs of recovery, even if again slightly lagged.

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

Source: Baker-Hughes, Bloomberg
Unemployment in Oklahoma remains lower than in all but 3 states (NE, ND, and SD)

Unemployment Rate, December 2009

Rate (percent)

- U.S. = 10.0
- OK = 6.6
- OKC = 6.0

- 10.0 to 14.6
- 7.6 to 9.9
- 4.4 to 7.5

Source: Bureau of Labor Statistics
Unlike the nation, home prices have held up quite well in Oklahoma, and are stabilizing

Quality-Adjusted Home Price Growth
Purchase Only

Percent change year-over-year

U.S.

OK


Source: OFHEO
And banks in the state remain in much better shape than in the nation.

![Noncurrent Loans as a Share of Total Loans](chart)

Source: FDIC
Trends for Nonprofits Serving Lower Income Families

- Low and moderate income (LMI) families have been hit hard by this recession, and financial stress is expected to continue for them in 2010.

- Nonprofits serving LMI families have also been stressed, but their capacity to serve and funding sources appear to have held up relatively well.
Unemployment rates are much higher for low-to-moderate income families.

Unemployment Rate by Household Income Levels
Q4 2009

Source: Center for Labor Market Studies
The Kansas City Fed LMI Survey

- In order to better understand the needs of LMI families and their role in the regional economy, the KC Fed recently started a survey of the nonprofits who serve them.

- About 100 of these nonprofit agencies respond to the quarterly survey, with results released on the Kansas City Fed’s web site.
LMI financial conditions continue to deteriorate, and service needs remain high

Source: Federal Reserve LMI Survey
Job availability and credit access for LMI families remains challenging

Source: Federal Reserve LMI Survey
Nonprofits are reporting only slight declines in their capacity to serve and funding sources.

Source: Federal Reserve LMI Survey
Local United Way giving has held up quite well given trends in personal income

United Way Giving and Personal Income Growth
Oklahoma City metropolitan Area

Percent change year-over-year

Source: United Way of Central Oklahoma, Global Insight
Summary

- The U.S. and Oklahoma economies appear to be growing again and should be adding jobs soon, though likely not at a rapid rate.

- Low and moderate income families in the region are still suffering, but so far funding and capacity to serve them is holding up.