The Economy and Manufacturing in 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, examining banks, 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.
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 were largely unchanged in Q1

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

Source: FRB Senior Loan Officer Survey
Inflation is expected to remain tame in the near term, but will require careful oversight.
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

Job Losses in Recessions, 1956-present

Percent


Source: Bureau of Labor Statistics
Oklahoma entered this recession 3 quarters late and appears to be leaving one quarter late.

*January only

Source: Bureau of Labor Statistics
But unemployment in Oklahoma is still lower than in all but 3 states (NE, ND, SD).

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

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
The Manufacturing Sector

- National and state factory activity is rising again and is expected to rise further, but excess capacity and uncertainty remain.

- Hiring and spending plans remain cautious, and pricing power remains limited, but exports may provide future opportunities.
U.S. industrial production is rising, but much excess capacity remains.
As in the nation, factory activity in Oklahoma remains well below year-ago levels.

Source: FRBKC Manufacturing Survey
But recent national and state factory indexes show expansion is again underway.

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
Oklahoma production is expected to rise further, but hiring and spending plans remain modest.
The main reasons for holding back spending are low sales and low capacity utilization.

Source: FRBKC Manufacturing Survey
A lack of pricing power may be another challenge for the state’s factories.
Longer-term, the U.S. trade imbalance provides an opportunity for manufacturing.

Source: Bureau of Economic Analysis
The largest trade imbalance is with China, which could present future opportunities.
Exports are beginning to pick up again in Oklahoma and are expected to rise further.

Source: KCFRB Manufacturing Survey
Summary

- The U.S. economy is growing again, but recovery speed is expected to be modest.

- Oklahoma’s economy remains in better shape and is also showing signs of recovery.

- Manufacturing activity both nationally and locally is rebounding only moderately, but exports may present future opportunities.