The Economic Outlook for the U.S. and Oklahoma

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History and Structure of the Federal Reserve System

- The Federal Reserve Act of 1913 created the Fed; Senate sponsor was Oklahoman Robert L. Owen

- The Federal Reserve System consists of:
  - 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 of banks
  - Financial services – bank for banks, bank for federal government
Federal Reserve Districts and Office Locations
The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

- **History, staff, and functions**
  - Branch office opened in 1920; currently have about 35 staff
  - Functions include economic research, bank examinations, 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 Co., 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
The pace of U.S. recovery has slowed somewhat from earlier in the year.

Economic forecasts call for continued moderate growth with low inflation.
The recession ended in June 2009, and real GDP has now grown for 5 quarters.

Real GDP Growth
Seasonally adjusted, annual rate

Percent change from previous year

Source: Bureau of Economic Analysis
Recent growth has been driven by stronger business spending and exports.
Heading forward, Fed policymakers expect continued moderate recovery

Gross Domestic Product

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
But with national unemployment remaining high for some time.
Consumer debt could constrain growth and federal debt is a longer-term 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 has grown to historical levels

Federal Reserve Balance Sheet

- Assets
  - Treasury Securities
  - MBS & Agency Debt
  - Short Term Lending to Financial Firms
  - Targeted Rescue Operations

- Liabilities
  - Currency
  - Reserves
  - SFA
  - Other Liabilities
  - Capital
  - Other Liabilities
The Oklahoma Economic Outlook

- As usual, Oklahoma’s recession was shorter and milder than the nation’s.

- The state also appears to have fewer risks, aside from low natural gas prices.
Oklahoma entered this recession late, but is now outpacing the nation
Oklahoma usually has this recession and recovery pattern, but with some exceptions.
Recent solid state job growth has been driven by energy, construction, and services.
Agricultural conditions in the state have also improved after bottoming in 2009

Oklahoma Agricultural Conditions

Source: KCFRB Ag Credit Survey
With our shorter recession, unemployment remains relatively low in most of the state.

Unemployment Rate  
Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Region</th>
<th>Dec-07</th>
<th>Aug-10</th>
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<tbody>
<tr>
<td>U.S.</td>
<td>5.0</td>
<td>9.6</td>
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<tr>
<td>OKC metro</td>
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<td>6.4</td>
</tr>
<tr>
<td>Tulsa metro</td>
<td>3.7</td>
<td>7.6</td>
</tr>
<tr>
<td>Lawton metro</td>
<td>3.9</td>
<td>6.3</td>
</tr>
<tr>
<td>Non-metro OK</td>
<td>3.8</td>
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</table>

Source: U.S. Bureau of Labor Statistics  
* Estimated by FRBKC
The exceptions would include parts of eastern and southeastern Oklahoma.
Oklahoma banks also remain in much better shape than in the nation as a whole.
State tax revenues are up from last year, but still well down from two years ago.

Oklahoma State Tax Revenue Growth
Q3 2010

Source: Oklahoma Tax Commission
The state is at risk of further foreclosures, though less so than the nation

Foreclosures and Negative Equity Mortgages
U.S. and Tenth Federal Reserve District, Q2 2010

Percent of all mortgages

- In or near foreclosure*
- Negative equity

*Over 90 days past due

Source: MBA, Corelogic
Natural gas prices remain the biggest risk relative to the nation.
Summary

- The U.S. economy is recovering and is expected to continue to grow moderately.

- Oklahoma’s economy is also recovering and remains in better shape overall.