The Economic Outlook for the U.S. and Oklahoma

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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 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

• Branch staff and functions
  • 35 staff involved in economic research, examining banks, 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, but forecasts call for moderate growth and low inflation heading forward.

Oklahoma’s economy has grown solidly in 2010 following a shorter recession, but several risks to growth remain.
The recession ended in June 2009, and real GDP has now grown for 4 quarters.
But national economic growth slowed somewhat during summer 2010

National Business Indexes and Payroll Employment

Change from previous month, thousands

Payroll Employment (left axis)
ISM Manufacturing Index (right axis)
ISM Non-Manufacturing Index (right axis)

Business and consumer loan demand is no longer falling

Net Percentage of Banks Reporting Increased Loan Demand

Source: FRB Senior Loan Officer Survey
And lending standards are beginning to loosen slightly

Net Percentage of Banks Tightening Loan Standards

Source: FRB Senior Loan Officer Survey
Heading forward, Fed policymakers expect a moderate GDP recovery.
But with unemployment remaining high for some time

Unemployment Rate
Seasonally Adjusted

June FOMC Forecast
Ranges in Yellow

Long Term

Source: U.S. Bureau of Labor Statistics, FOMC
Inflation is expected to remain tame in the near term, but will require careful oversight.

PCE Inflation Index

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
As usual, Oklahoma entered this recession late, but is now outpacing the nation.

Payroll Employment

Year-over-year percent change

Source: U.S. Bureau of Labor Statistics
Recent solid state job growth has been driven by energy, construction, and services.

Employment Growth
August 2010

Percent change year-over-year

Source: Bureau of Labor Statistics
With our shorter recession, unemployment remains relatively low in most of the state

Unemployment Rate
Seasonally Adjusted*

<table>
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<th>Region</th>
<th>Dec-07</th>
<th>Aug-10</th>
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<td>U.S.</td>
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<td>OKC metro</td>
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<td>Lawton metro</td>
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<tr>
<td>Non-metro OK</td>
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</table>

* Estimated by FRBKC

Source: U.S. Bureau of Labor Statistics
The exceptions would include parts of eastern and southeastern Oklahoma.
Jobs are easier to find in OK and the central U.S. (and around DC and NYC)

Job Search Difficulty Index, August 2010
(unemployed workers per job opening)

Source: JuJu.com
Oklahoma banks remain in much better shape than in the nation as a whole.
Energy activity in the state continues to grow, increasingly for oil rather than gas.

Source: Baker Hughes
Agricultural conditions in the state have also improved after bottoming in 2009.
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.
The U.S. economy is recovering and expected to grow modestly, although growth slowed during the summer.

Oklahoma’s economy is also recovering and remains in better shape than the nation, following a shorter recession.