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 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
The Economic Outlook

- The pace of U.S. recovery has slowed, and 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

Heading forward, Fed policymakers expect a moderate GDP recovery

Gross Domestic Product

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
But with unemployment remaining high for some time

Source: U.S. Bureau of Labor Statistics, FOMC
Inflation is expected to remain tame in the near term, but will require careful oversight.
As usual, Oklahoma entered the recession late, but is now outpacing the nation.
Recent solid state job growth has been driven by energy, construction, and services.
With our shorter recession, unemployment remains lower across the state

Unemployment Rate
Seasonally Adjusted*

<table>
<thead>
<tr>
<th></th>
<th>Dec-07</th>
<th>Jul-10</th>
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<tbody>
<tr>
<td>U.S.</td>
<td>5.0</td>
<td>9.5</td>
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<tr>
<td>OKC metro</td>
<td>3.9</td>
<td>6.3</td>
</tr>
<tr>
<td>Tulsa metro</td>
<td>3.7</td>
<td>7.5</td>
</tr>
<tr>
<td>Lawton metro</td>
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<td>6.0</td>
</tr>
<tr>
<td>Non-metro OK</td>
<td>3.8</td>
<td>6.6</td>
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Source: U.S. Bureau of Labor Statistics

* Estimated by FRBKC
And overall, banks in the state remain in much better shape than in the nation.
Oklahoma’s gas rig count has eased with lower prices, but oil drilling has boomed.

Source: Baker Hughes
Agricultural conditions in the state have also improved after bottoming in 2009.

Oklahoma Agricultural Conditions

Source: KCFRB Ag Credit Survey
State tax revenues are finally back above year ago levels, but still well below FY2009.
As in the nation, Oklahoma factory activity has slowed in recent months.
And homebuilding has also decreased since the spring.

Oklahoma Residential Construction Activity
Seasonally adjusted, 3-month moving avg.

Source: F.W. Dodge
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

*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 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.