The Economic Outlook for the U.S. and Oklahoma

Megan Williams
Associate Economist, Oklahoma City Branch
Federal Reserve Bank of Kansas City
www.kansascityfed.org
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
Federal Reserve Districts and Office Locations
The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

- **Branch staff and functions**
  - 35-40 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

- U.S. economic growth 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.
National economic activity slowed during the summer, after stronger earlier growth.

**National Business Indexes and Payroll Employment**

![Graph showing National Business Indexes and Payroll Employment](image)

Change from previous month, thousands

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

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

Unemployment Rate
Seasonally Adjusted

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.
As usual, Oklahoma entered this recession late, but is coming out with the nation.
Indeed, recent Oklahoma employment growth has exceeded the nation and region.

Nonfarm Employment Growth (excl. Fed Govt.)
Seasonally adjusted, annualized

Year-over-year percent change

Source: U.S. Bureau of Labor Statistics
With the shorter recession, unemployment remains lower than the U.S. across the state.

**Unemployment Rate**
Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Year</th>
<th>OKC metro</th>
<th>Tulsa metro</th>
<th>Lawton metro</th>
<th>Non-metro OK</th>
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<tr>
<td>Dec-07</td>
<td>3.9</td>
<td>3.7</td>
<td>3.9</td>
<td>3.8</td>
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<tr>
<td>Jul-10</td>
<td>6.3</td>
<td>7.5</td>
<td>6.0</td>
<td>6.6</td>
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</table>

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.
Recent solid state job growth has been driven by the energy and services industries.
Oklahoma’s gas rig count has eased with lower prices, but oil drilling is booming.

Oklahoma Rig Count

Source: Baker Hughes
And most of the recent rig count increase has been for expensive horizontal rigs

Oklahoma Rig Count

Source: Baker Hughes
Agricultural conditions in the state have improved after bottoming in 2009
As in the nation, Oklahoma factory activity has slowed in recent months.

Manufacturing PMI Indexes
Seasonally adjusted, 3-month moving avg.

Source: ISM, FRBKC Manufacturing Survey
Construction activity has also decreased, though it remains stronger than the nation.
Unsold home inventories surged with the expiration of homebuyer incentives

Months Supply of Unsold Homes
Seasonally Adjusted

* Combination of existing and new home inventories

Source: NAR, Local realtors associations
Home prices have continued to hold up better across the state than in the nation.
And while foreclosures in the state have risen, future risks remain smaller.

Foreclosures and Negative Equity Mortgages
As a share of all mortgages, Q2 2010

*Over 90 days past due

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