The Economic Outlook for the U.S. and Oklahoma

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Overview of the Federal Reserve System

• The “Fed” consists of three 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: 19 members; 12 voting

• As with most central banks, the Fed’s primary responsibilities fall within four general areas:
  • Lender of last resort – provide liquidity in times of crisis  
  • Monetary policy – promote full employment and low inflation  
  • Bank regulation – ensure safety and soundness of banks  
  • Financial services – bank for banks, bank for federal govt.
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

- **2011 branch board of directors**
  - **Steve Agee (chairman)**, Interim Dean of OCU Business School, 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 U.S. Economic Outlook

- The pace of U.S. recovery has picked up recently but remains moderate.

- Inflation remains low and is forecast to stay contained heading forward.

- As always, there are several risks to the near- and long-term outlooks.
U.S. economic activity picked up in December, but job growth remains modest

U.S. Private Payroll Employment and Business Indexes

Change from previous month, thousands

Our regional factory survey shows a recent increase in business expectations.

Six-month-ahead Expectations for Tenth District Manufacturing Activity

Source: FRBKC
Fed policymakers expect continued moderate U.S. GDP recovery

Real Gross Domestic Product

Percent change, year-over-year

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

Source: U.S. Bureau of Labor Statistics, FOMC

Unemployment Rate
Seasonally Adjusted
Inflation is expected to remain tame in the near term, but will require careful oversight.
Europe’s sovereign debt problem has flared up again, presenting risks.

Spreads to German Bunds (10-yr)

Source: Federal Reserve Board
U.S. 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
Our regional survey shows a surge in the share of factories expecting higher prices.
And the Fed’s balance sheet is expanding further, following recent FOMC decisions.
The Oklahoma Economic Outlook

- Oklahoma’s recession and early recovery are similar to the usual historical pattern.
- The state is now outpacing the nation, led by oil and gas but also some other sectors.
- Banking and real estate conditions remain much better than in the nation.
Oklahoma typically enters recessions late but exits around the same time as the nation.

Average Recession and Recovery Path, 1956-2006
Employment level 4 quarters before and 8 quarters after U.S. jobs peak (R)

Source: U.S. Bureau of Labor Statistics
The current episode, while worse, has largely followed the historical pattern
Recent state job growth has been led by energy, but other sectors are growing.
Agricultural conditions in the state have also improved after bottoming in 2009.

Oklahoma Agricultural Conditions

Farm Income
Capital Spending
Q4 Expectations

Source: KCFRB Ag Credit Survey
With Oklahoma’s shorter recession, unemployment remains relatively low

Unemployment Rate by County
November 2010

Source: Oklahoma Employment Commission
And Oklahoma banks remain in much better shape than in the nation as a whole.
The state is at risk of further foreclosures, though much less so than the nation.

Foreclosures and Negative Equity Mortgages
U.S. and Tenth Federal Reserve District, Q3 2010

*Over 90 days past due

Source: MBA, Corelogic
Energy prices are always a risk but have shown positive signs lately.
The U.S. economy is recovering and expected to continue to grow moderately, with low inflation.

Oklahoma’s economy is also recovering and remains in much better shape than the nation.