

# 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)**, Dean, Oklahoma City Univ. 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



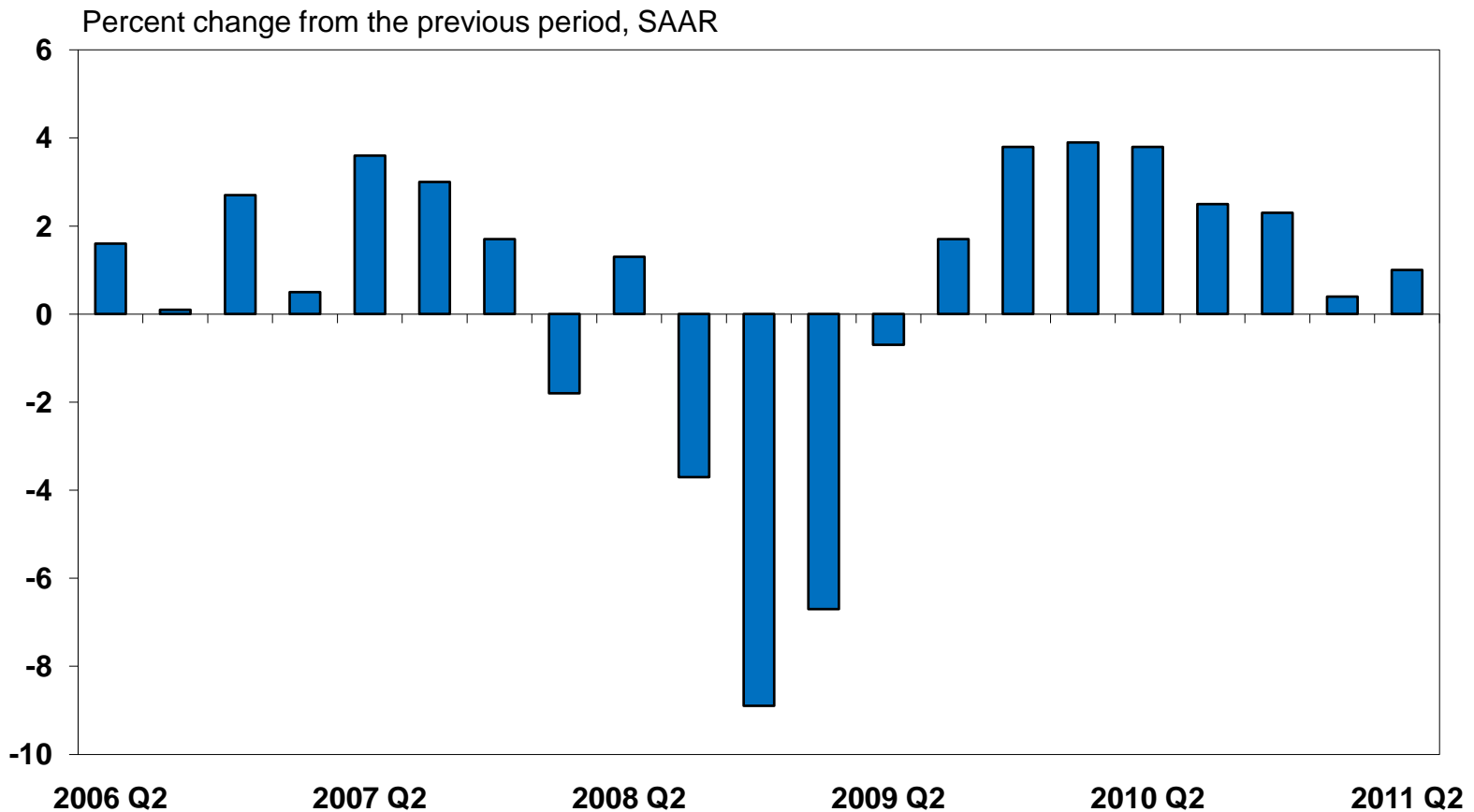
# The U.S. Economy

- Review of 2011 economic data
- Discussion of recent events
- FOMC forecasts and statement



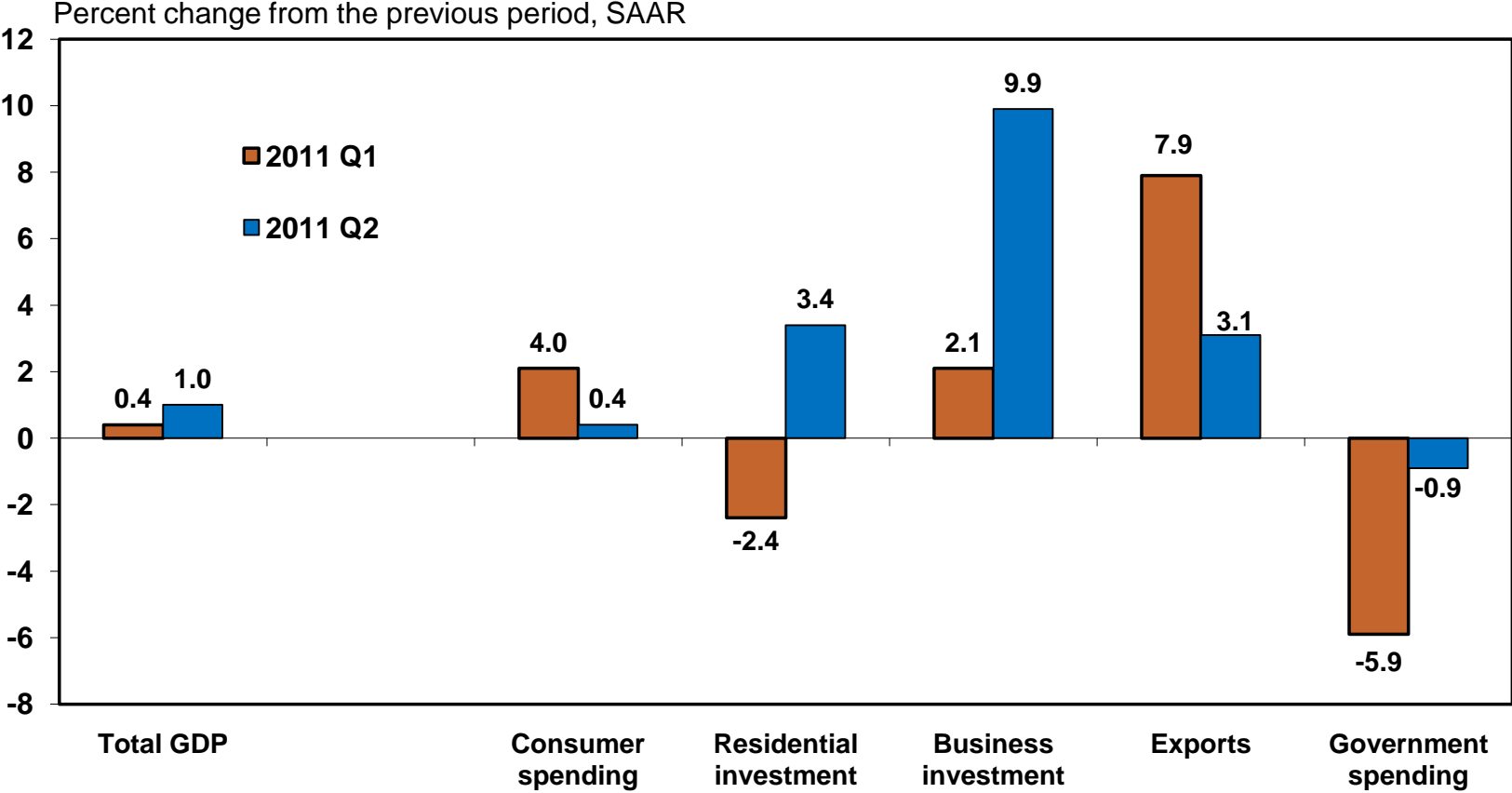
# Real GDP growth has slowed in 2011, following solid growth in 2010

## U.S. Real Gross Domestic Product



# Business investment was big contributor, while consumers and governments dragged

## Growth in Components of Real GDP

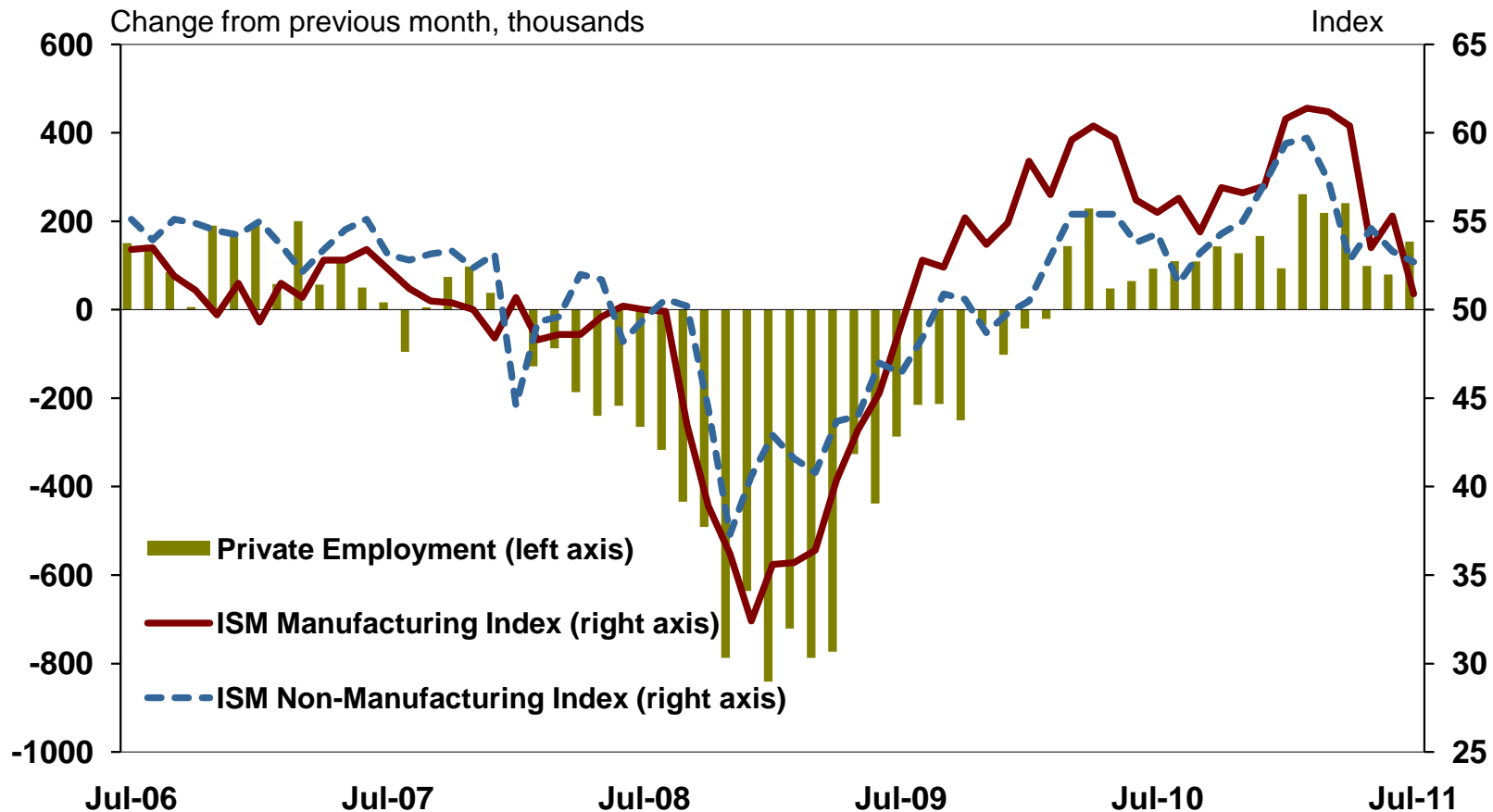


Source: U.S. Bureau of Economic Analysis



# July data have been mixed but indicative of modest overall U.S. economic growth

## U.S. Private Payroll Employment and Business Indexes

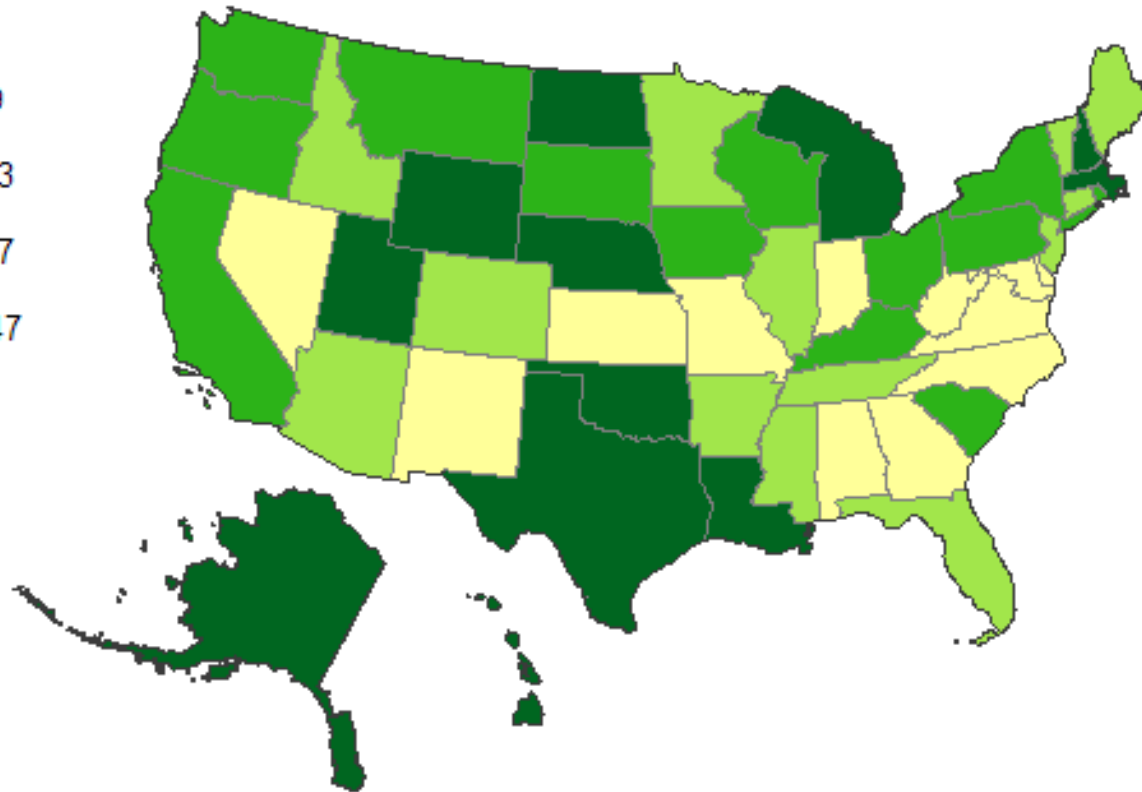
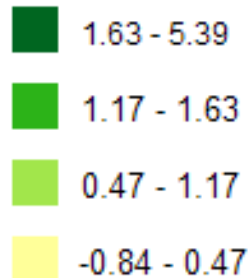




# States concentrated in energy, autos, and software have generally performed best

Employment Growth, Year-over-Year (percent)  
July 2011

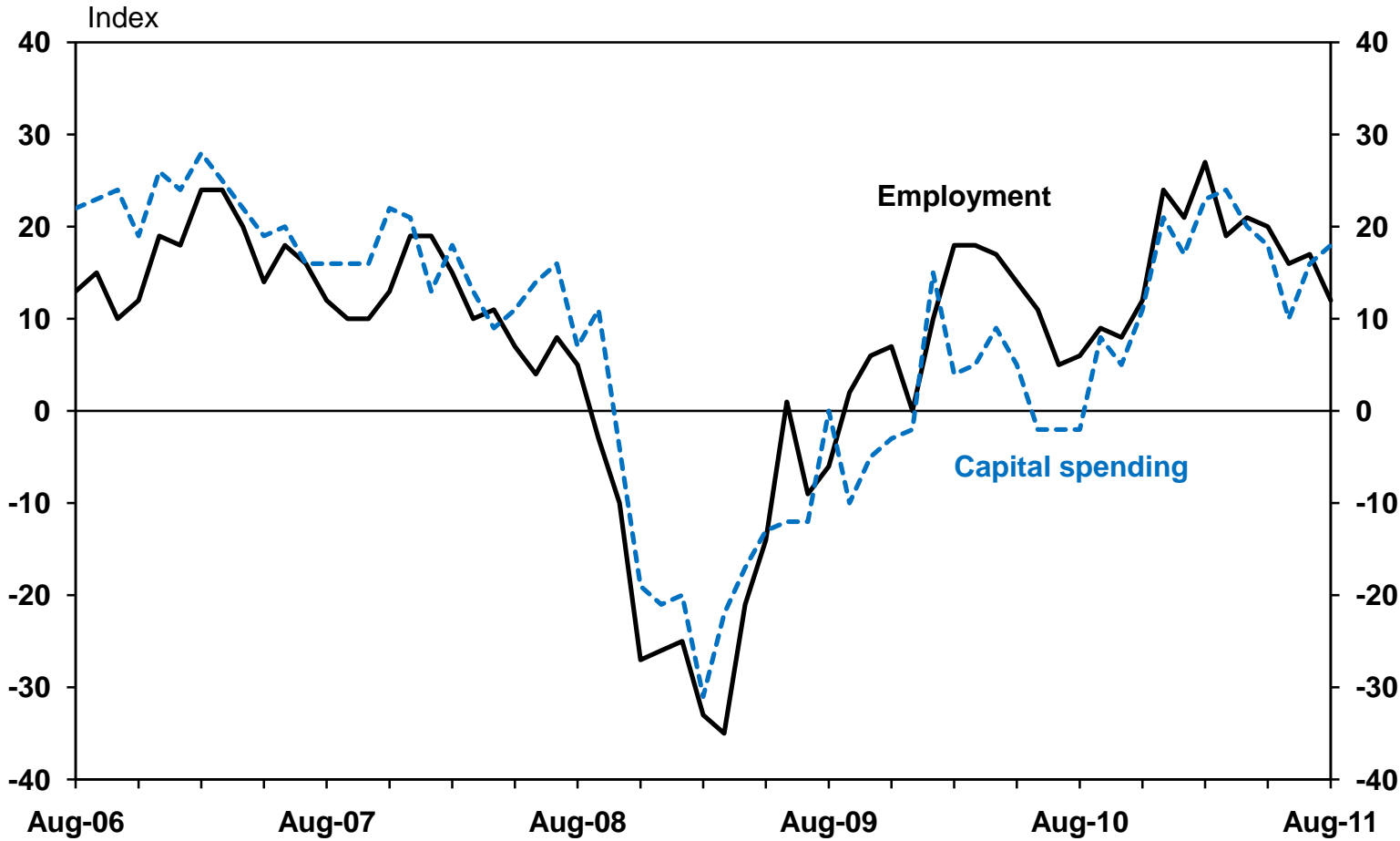
Scale



# Firms' hiring and investment plans remained relatively solid through the summer

## Tenth District Manufacturing Survey Expectations

Net Share of Firms Planning to Expand in Next 6 Months

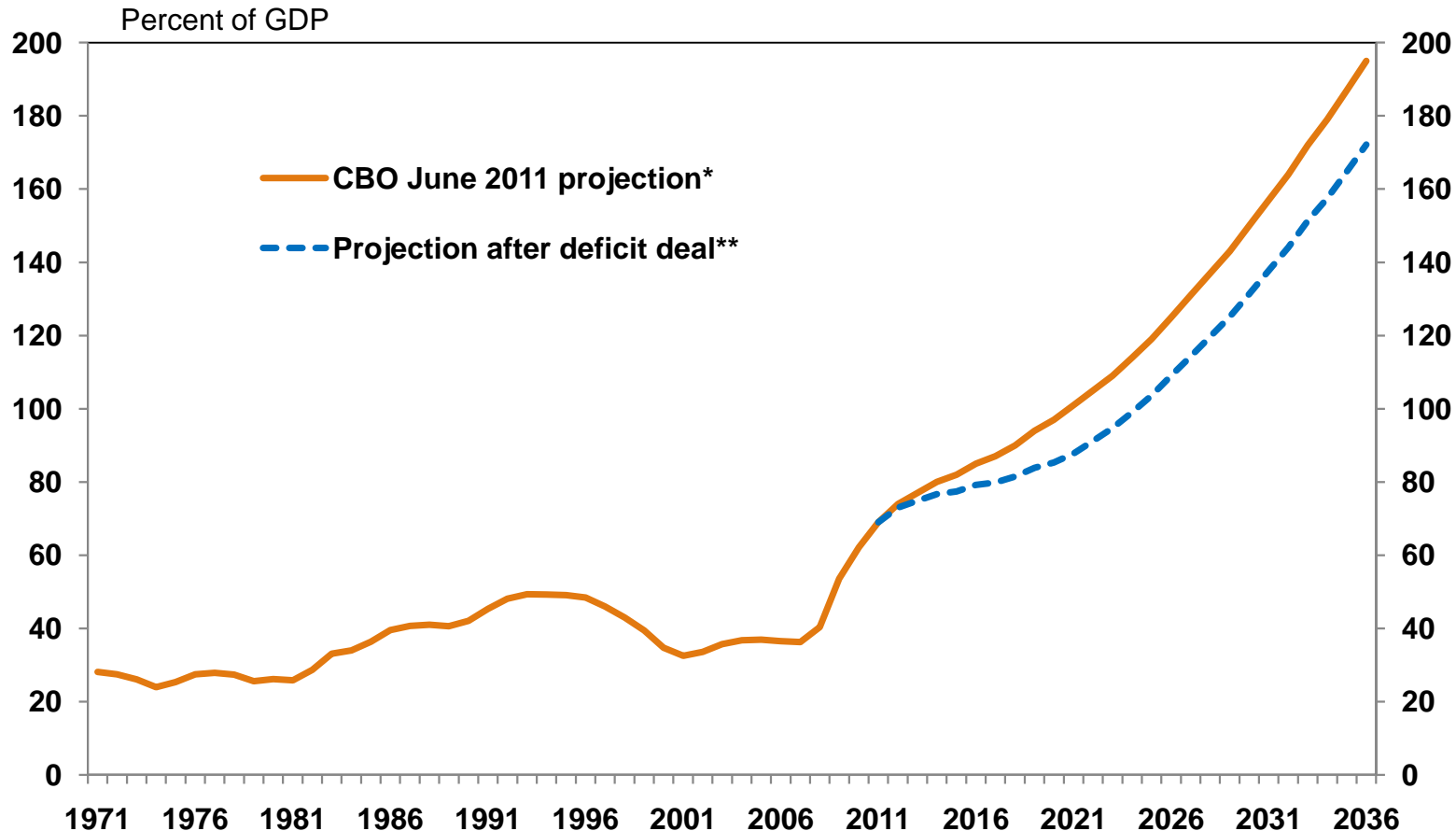


Source: KCFRB Manufacturing Survey



# But U.S. government debt projections are still unsustainable, prompting a downgrade

## CBO Federal Government Debt and Projections



\* Alternative scenario

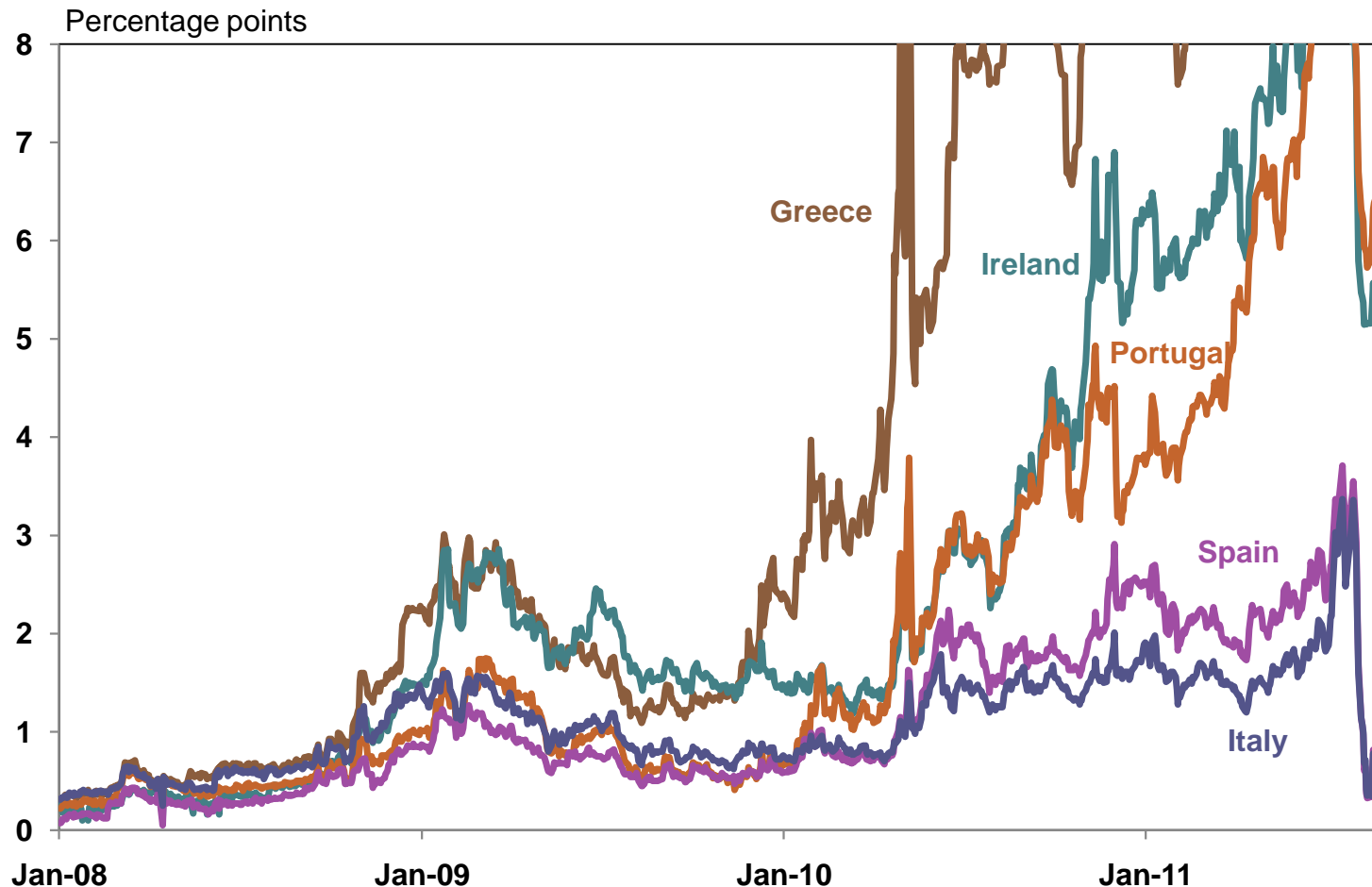
\*\* FRBKC calculations based on limited information

Source: CBO



# And Europe's sovereign debt crisis has spread, prompting the ECB to respond

## Spreads to German Bunds (10-yr)

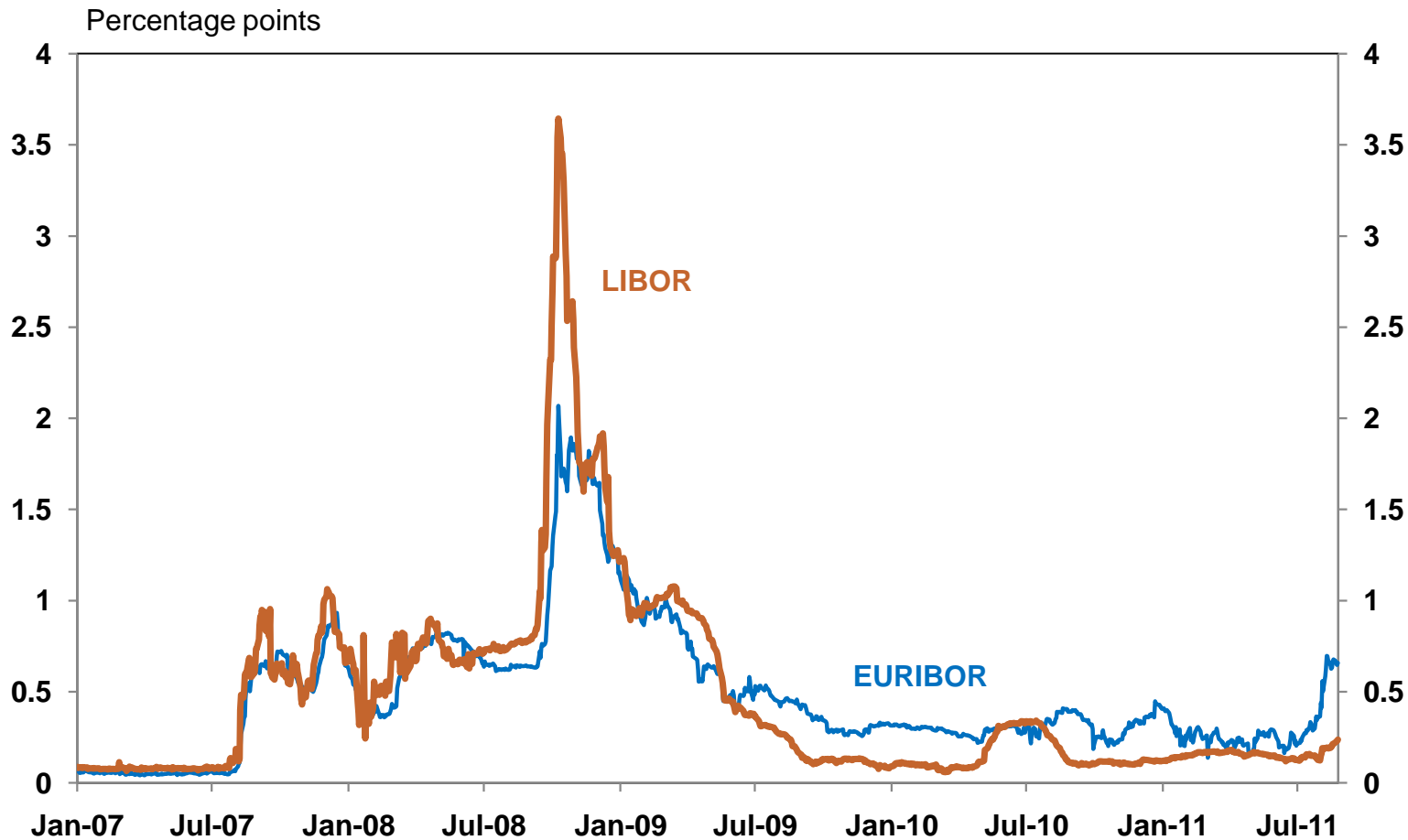


Source: Reuters, Financial Times



# Interbank lending has become somewhat strained in Europe

## EURIBOR & LIBOR-OIS Spreads



Source: Bloomberg



# August 9, 2011 FOMC Statement

“Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee now expects a somewhat slower pace of recovery...than it did at the time of the previous meeting and anticipates that the unemployment rate will decline only gradually.... The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate further....

“To promote the ongoing economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, the Committee decided today to keep the target range for the federal funds rate at 0 to 1/4 percent. The Committee currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013. The Committee also will maintain its existing policy of reinvesting principal payments from its securities holdings....



# August 9, 2011 FOMC Statement (cont.)

“The Committee discussed the range of policy tools available to promote a stronger economic recovery in a context of price stability. It will continue to assess the economic outlook in light of incoming information and is prepared to employ these tools as appropriate.

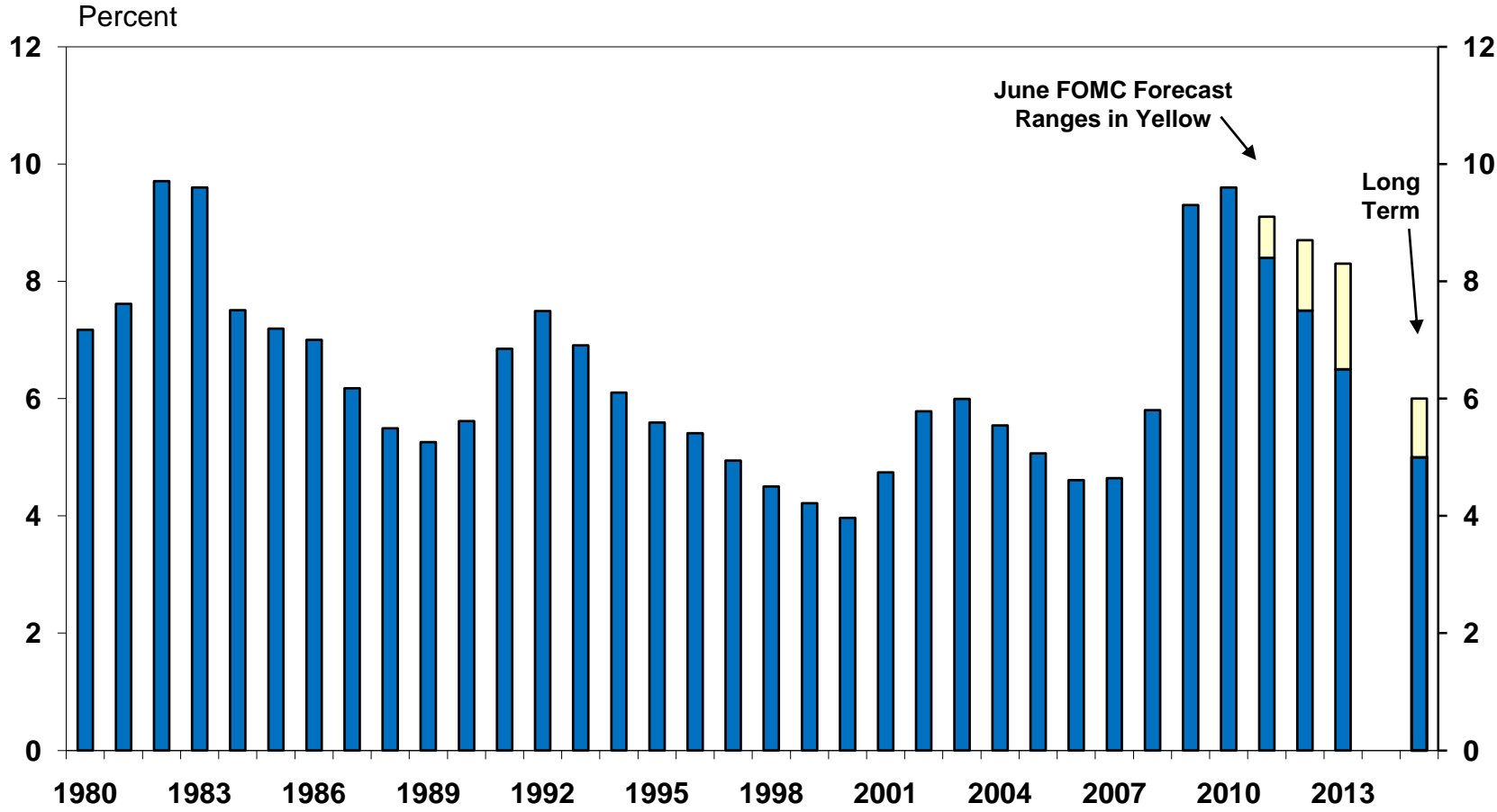
“Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; William C. Dudley, Vice Chairman; Elizabeth A. Duke; Charles L. Evans; Sarah Bloom Raskin; Daniel K. Tarullo; and Janet L. Yellen.

“Voting against the action were: Richard W. Fisher, Narayana Kocherlakota, and Charles I. Plosser, who would have preferred to continue to describe economic conditions as likely to warrant exceptionally low levels for the federal funds rate for an extended period.”



# At its June meeting the FOMC forecast U.S. unemployment to come down only slowly

**Unemployment Rate**  
Seasonally Adjusted



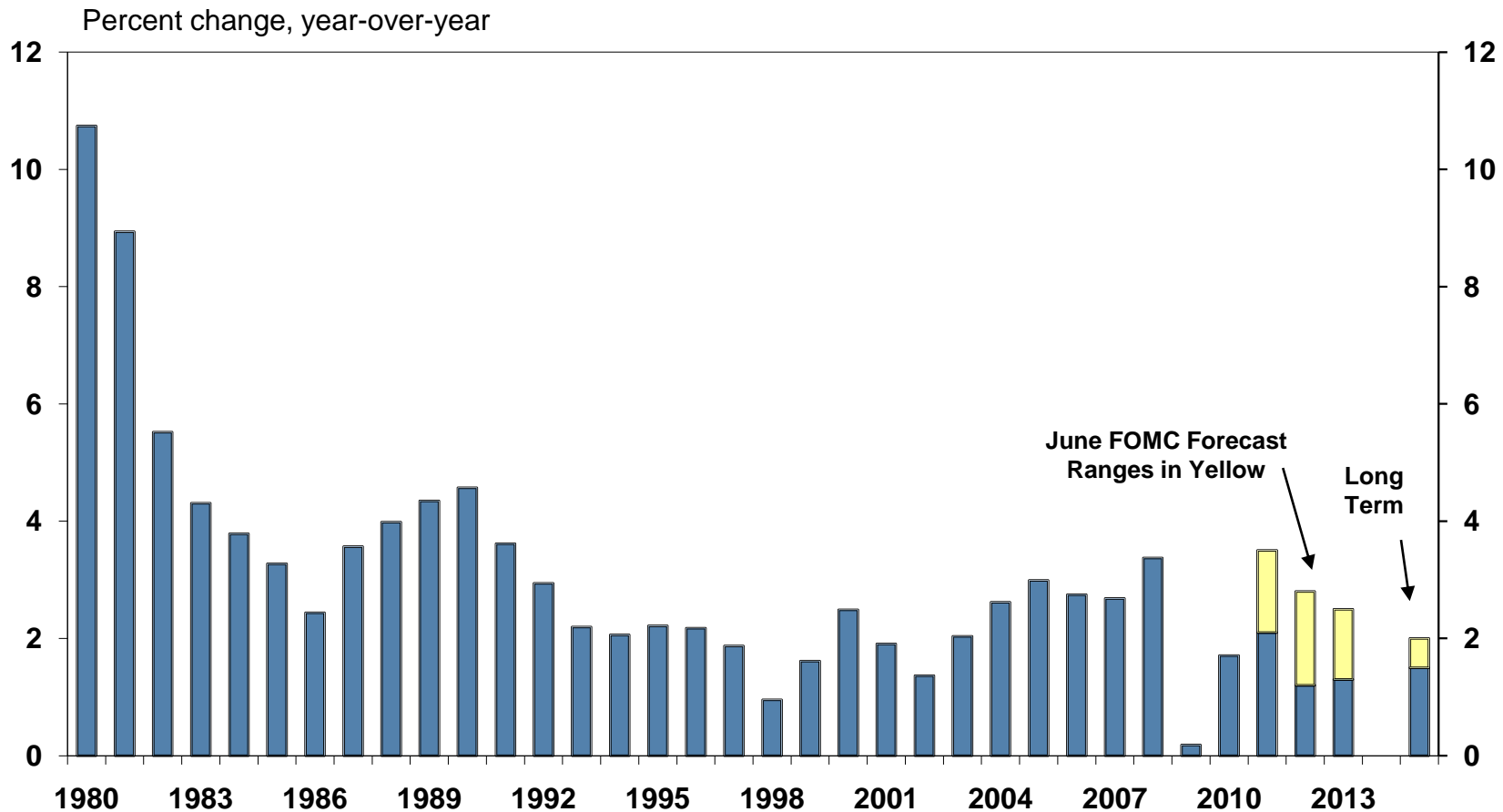
Source: U.S. Bureau of Labor Statistics, FOMC





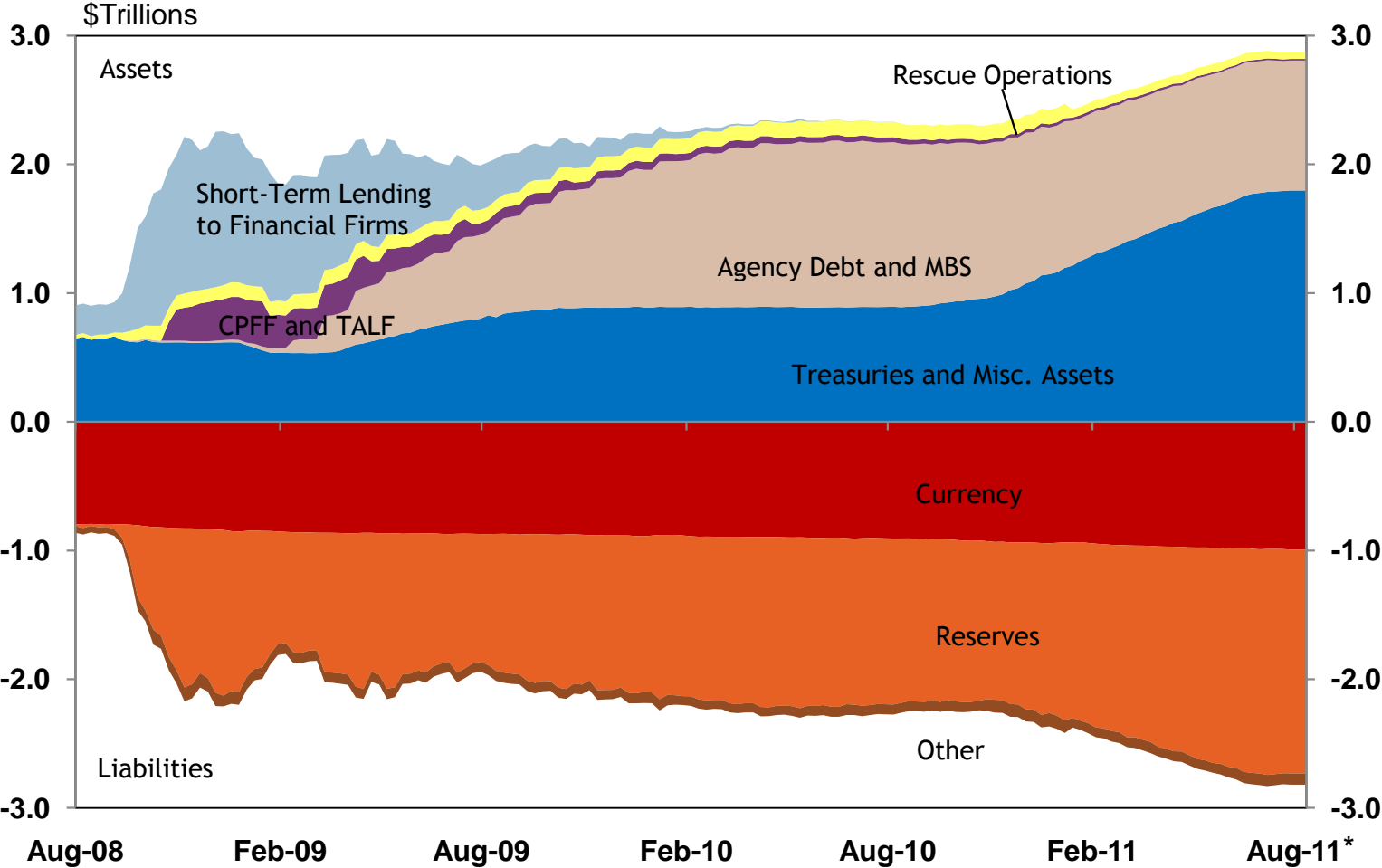
# And for inflation pressures to ease after rising with oil and food prices in 2011

## PCE Inflation Index



# The Fed's balance sheet has tripled in size, and the federal funds rate is near zero

### Federal Reserve Balance Sheet



\*Only contains one week of data

Source: Federal Reserve Board



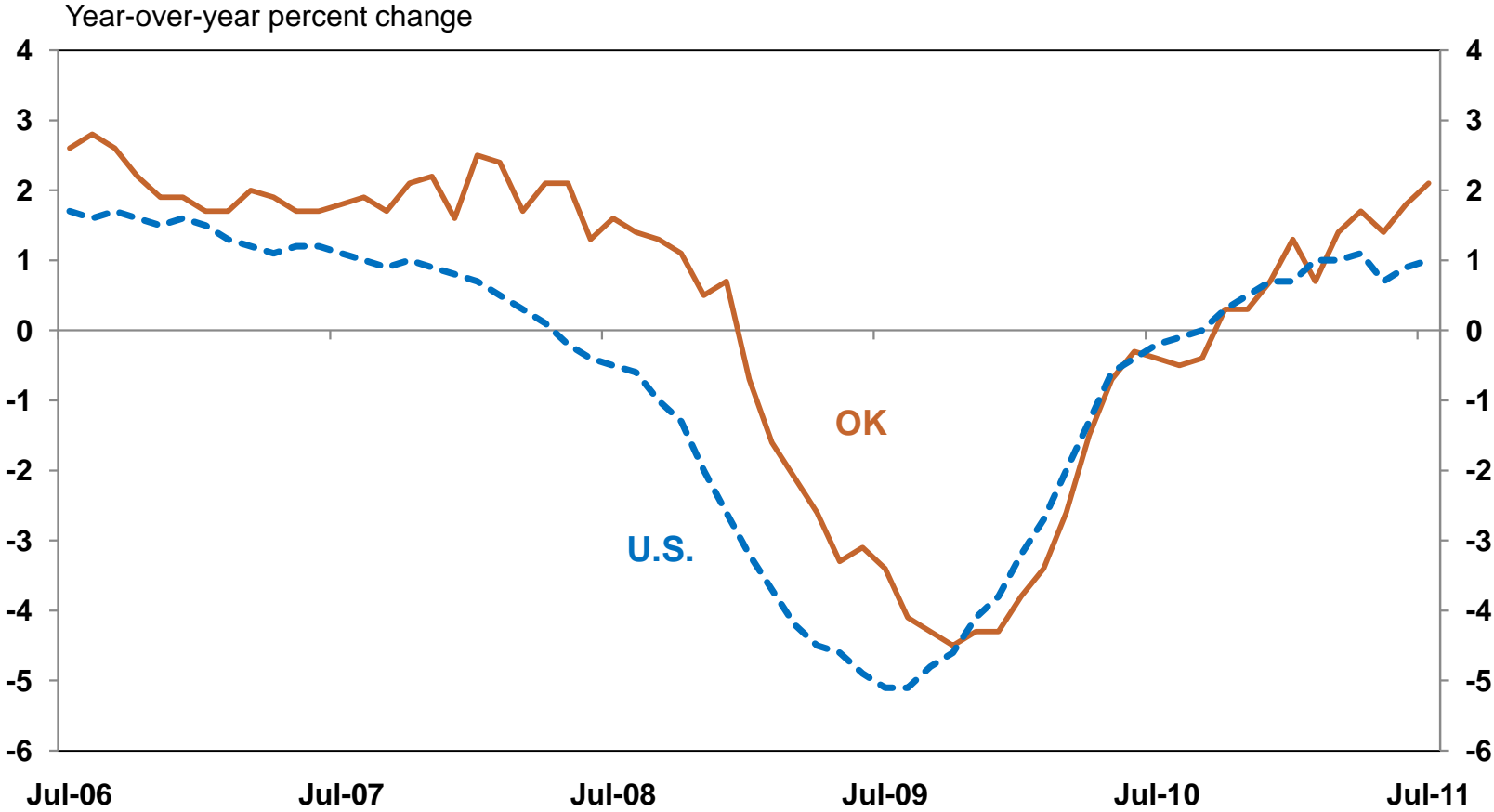
# The Oklahoma Economy

- Review of recent economic data
- A closer look at labor markets
- Trends in energy prices



# Oklahoma had a much milder recession, and has been outpacing the nation recently

## Payroll Employment

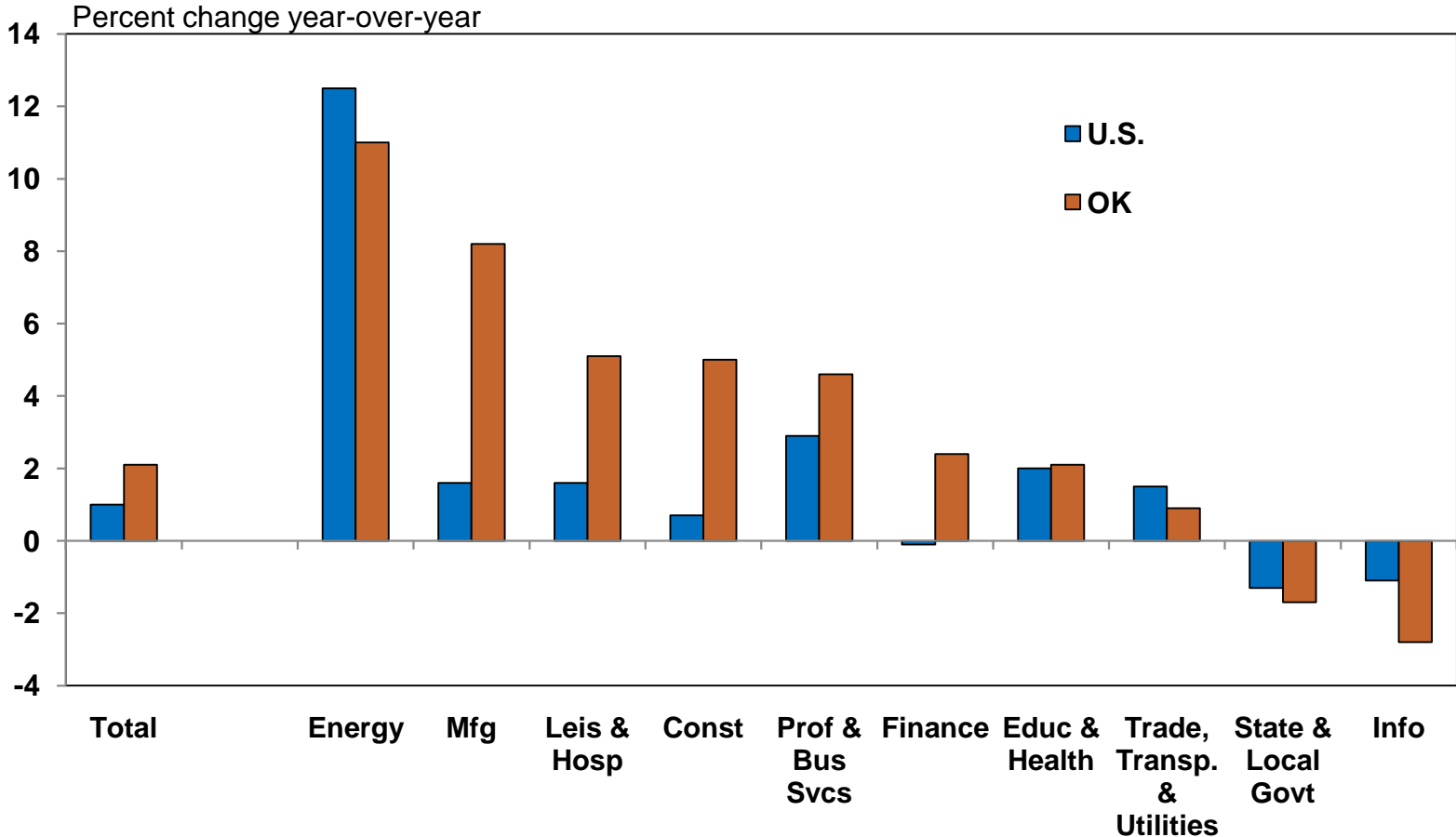


Source: U.S. Bureau of Labor Statistics



# Most Oklahoma sectors have grown solidly in 2011, led by energy and manufacturing

Employment Growth  
July 2011

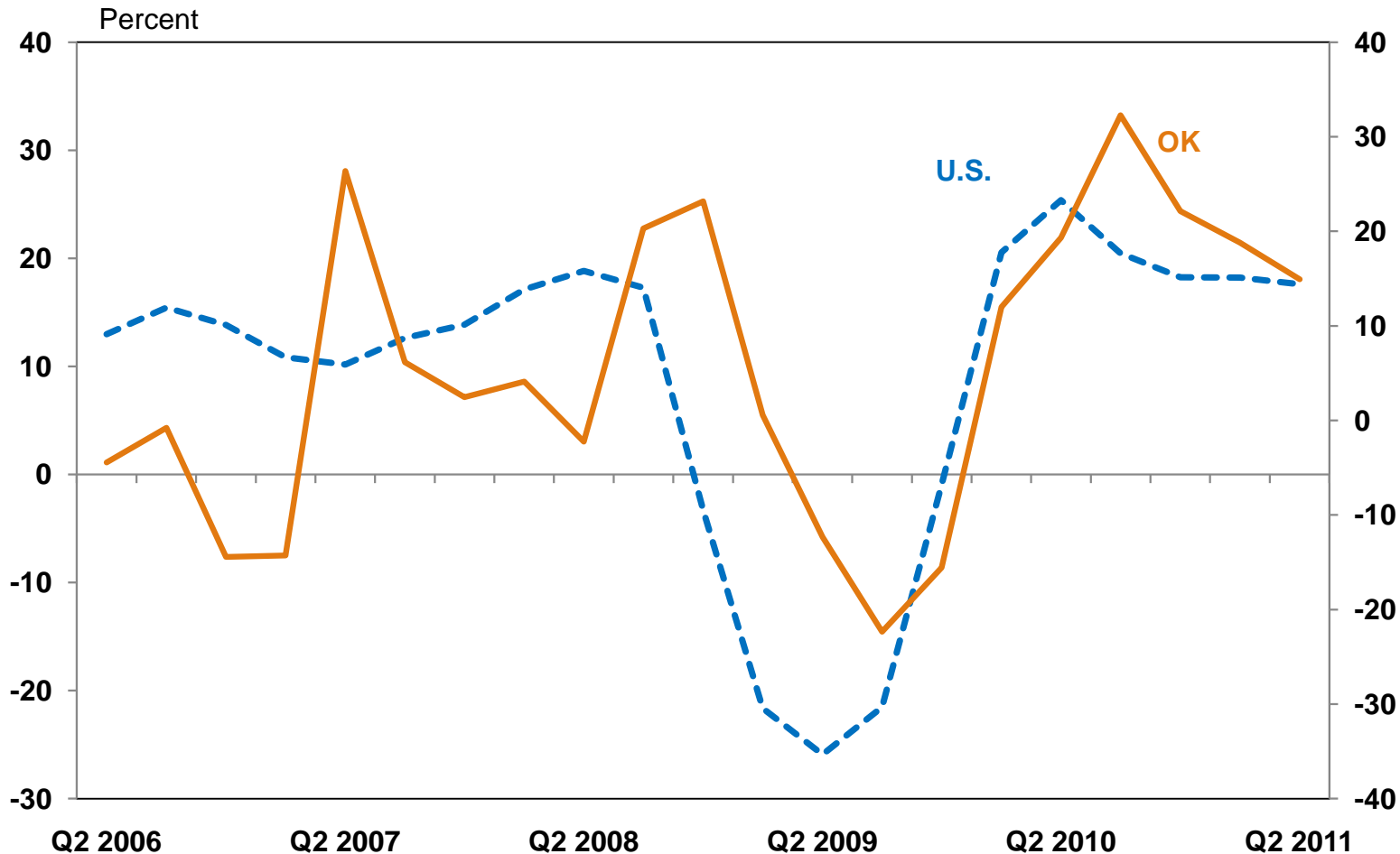


Source: Bureau of Labor Statistics



# Exports have been a big source of growth since 2009, both nationally and locally

**Total Manufacturing Exports**  
Year-over-year growth

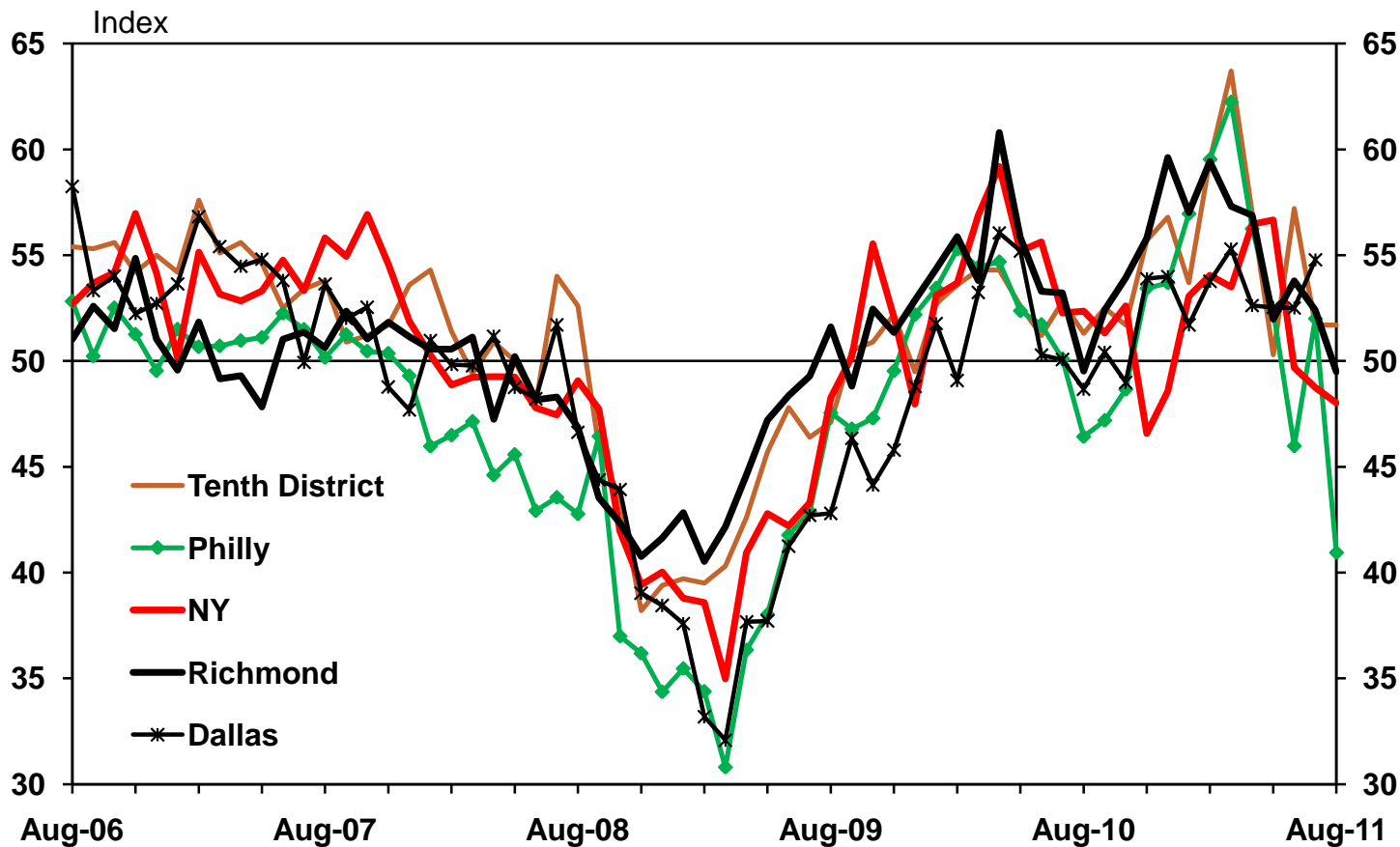


Source: Federal Reserve Board



# Manufacturing activity declined in several eastern regions in August, but not in ours

**Manufacturing PMI Indexes**  
Seasonally Adjusted



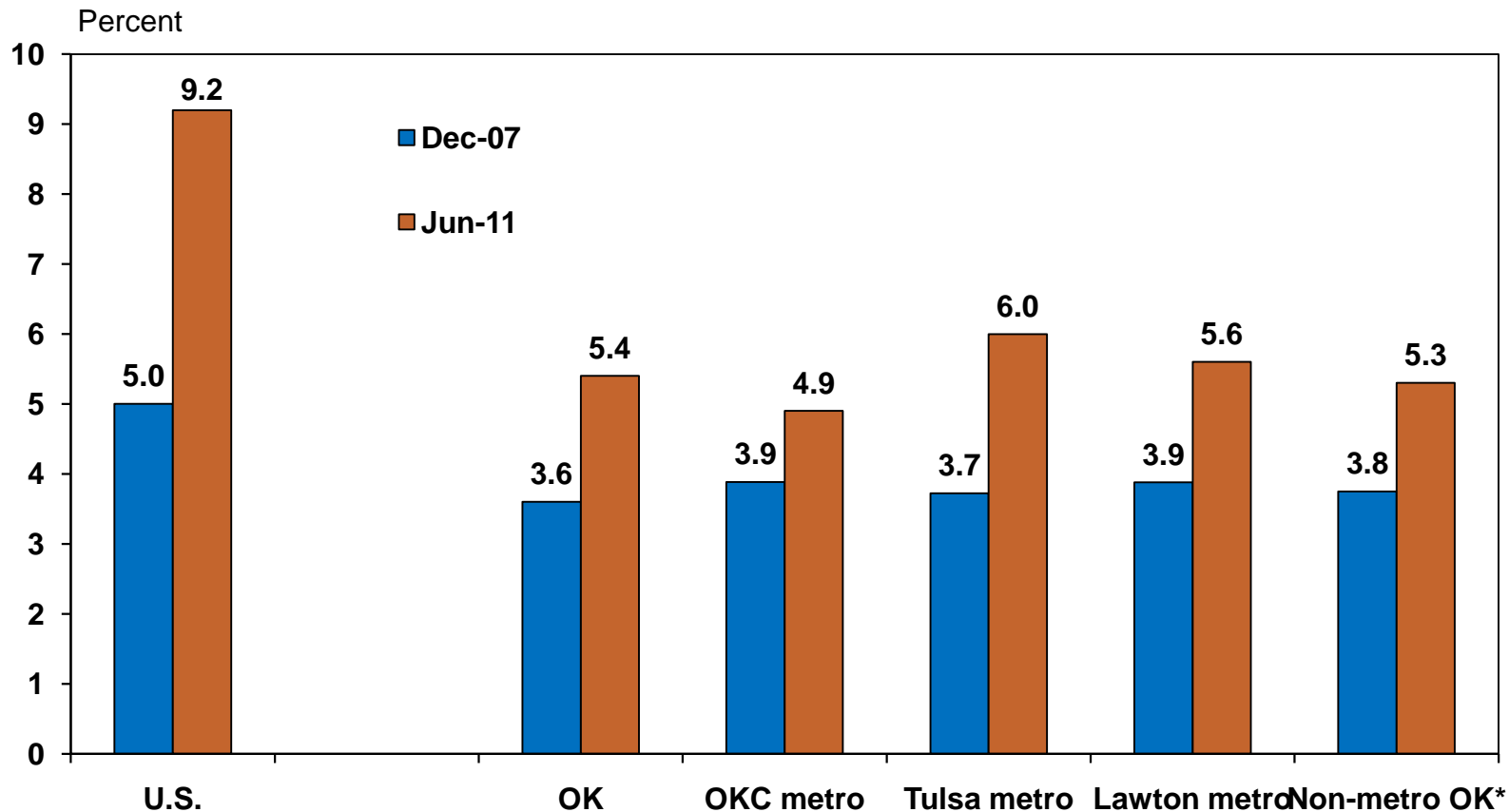
Note: Fed indexes are computed on ISM basis (50 = zero change)

Source: ISM, Fed Manufacturing Surveys



# Unemployment in much of the state is back to what is often considered “full employment”

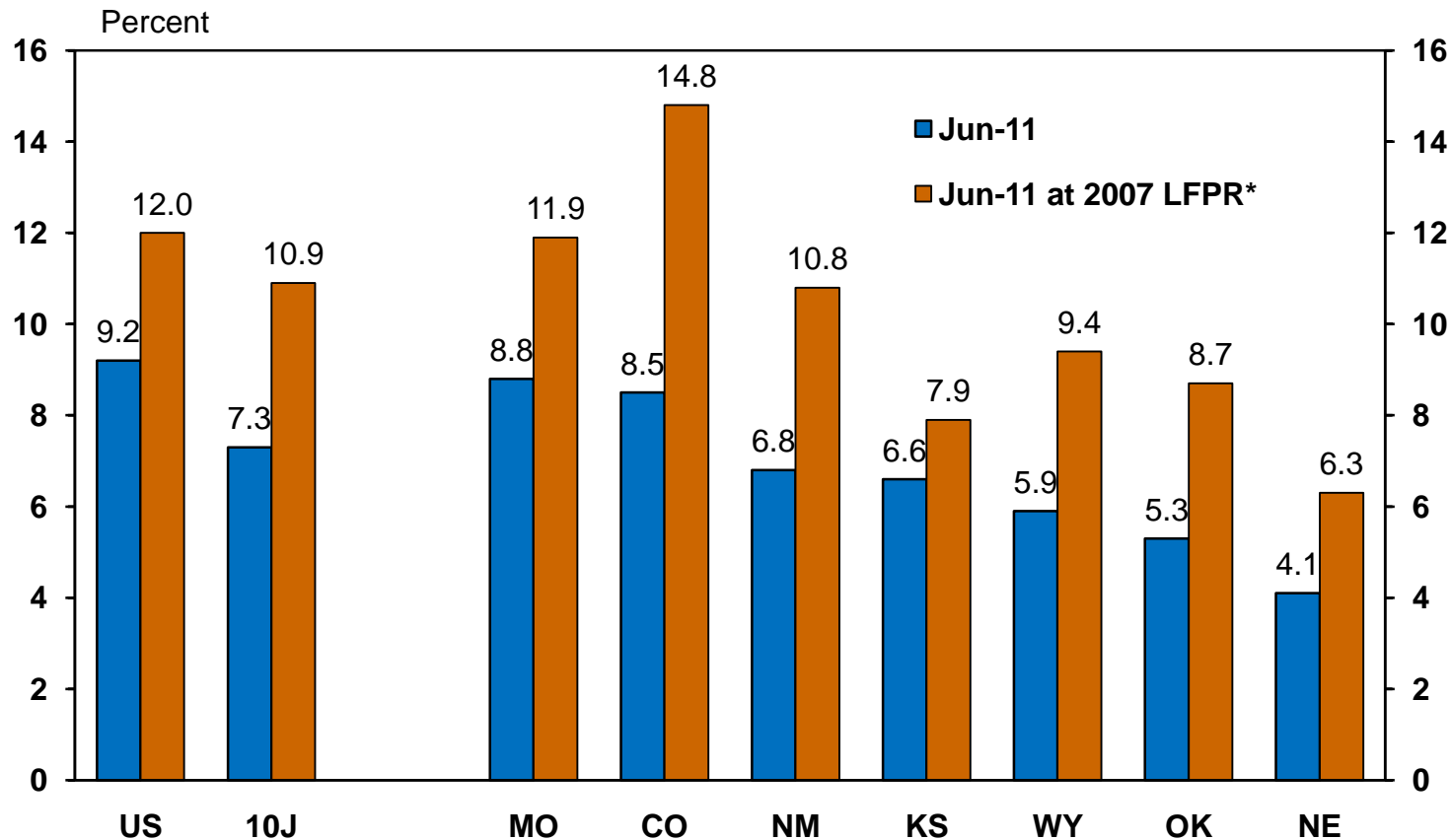
## Unemployment Rate Seasonally Adjusted\*





# However, labor markets may not be overly tight due to labor force dropouts

**Unemployment Rate by State**  
Seasonally Adjusted

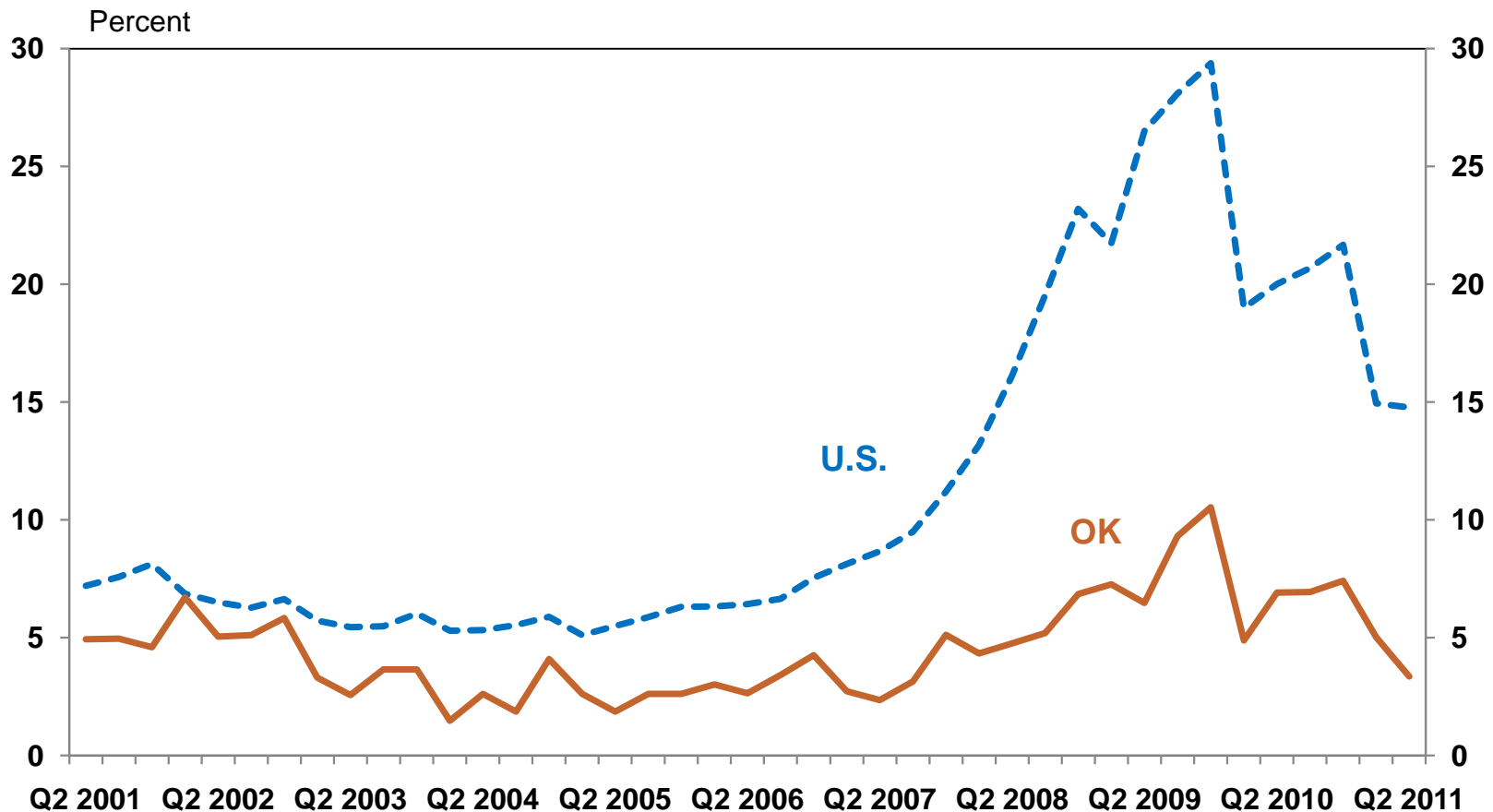


\*LFPR= Labor Force Participation Rate



# Most Oklahoma banks still remain in much better shape than the nation

## Share of Unprofitable Institutions Commercial Banks

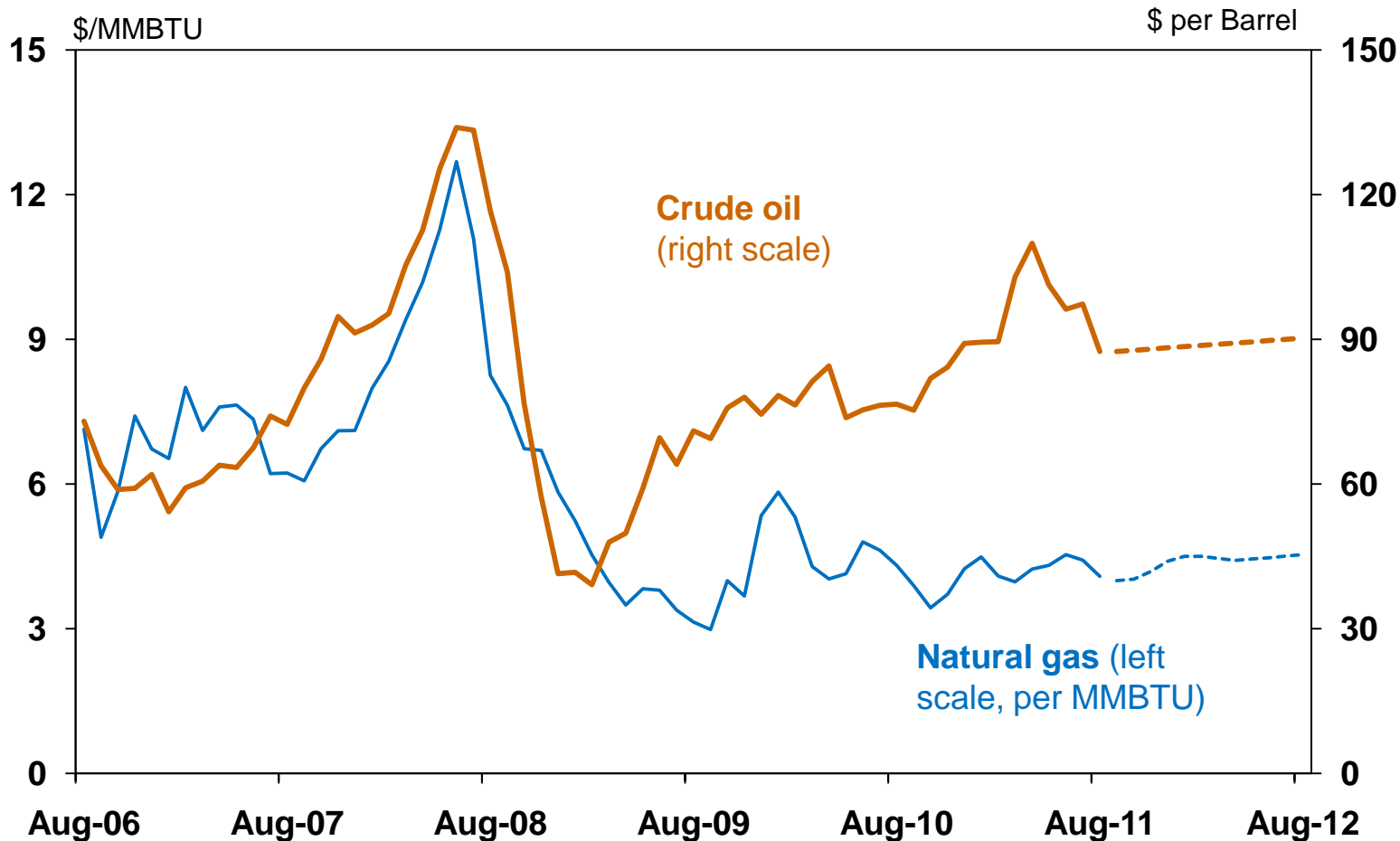


Source: FDIC



# As always, energy prices are Oklahoma's biggest risk relative to nation

## Energy Prices



Source: Bloomberg



# Summary

- The U.S. economy is facing some headwinds following only modest expansion in the first half of 2011
- Oklahoma's growth has been more solid, and fundamentals remain better in the state than the nation

