

U.S. & Oklahoma Economic Update



Chad Wilkerson

Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City

Purposes and Structure of the Federal Reserve System

Overall goals: promote sustainable economic growth; low and stable inflation; financial stability

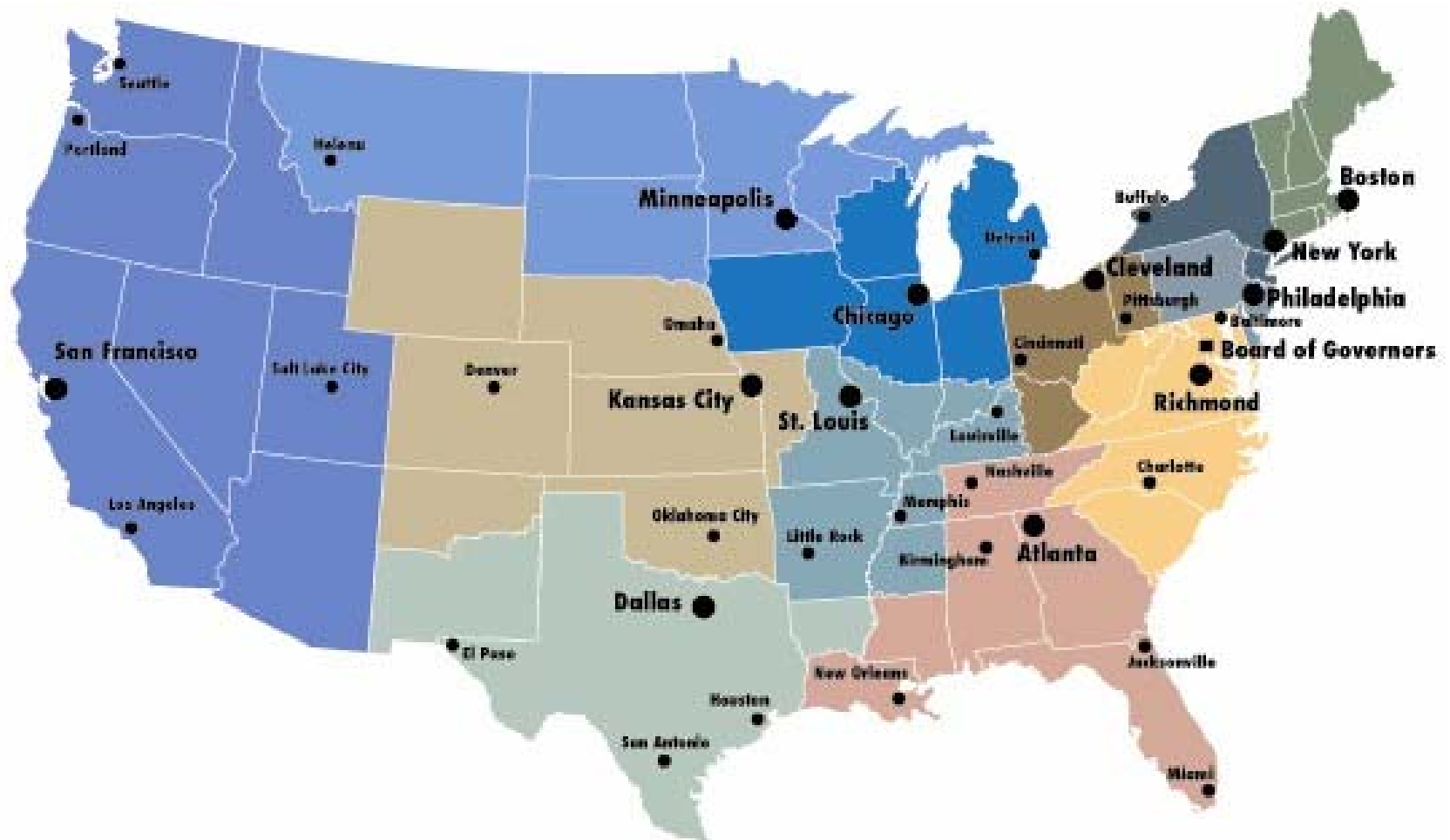
- **Mission areas:**

- Monetary policy
- Bank regulation
- Payments systems

- **Monetary policy is set by the 12-member Federal Open Market Committee (FOMC):**

- Consists of 7 Governors in Washington, including Chairman Bernanke; the President of the New York Fed; and 4 of the other 11 Fed presidents on a rotating basis
- The FOMC meets every 6 weeks to set policy

Federal Reserve Districts and Office Locations



The Federal Reserve in Oklahoma

- **Branch office in downtown Oklahoma City has about 35 employees involved in economic research, bank regulation, and public and community affairs**
- **Our branch board of directors meets ahead of each FOMC meeting to share the latest information about business activity in the state:**

Richard K. Ratcliffe: Chairman, Ratcliffe's Textbooks, Weatherford

Steven C. Agee: President, Agee Energy, and Chairman, OERB, OKC

Terry M. Almon: President, Oklahoma Community Capital Corporation

James D. Dunn: Chairman, Mill Creek Lumber and Supply Co., Tulsa

Steve Burrage: Chairman, FirstBank, Antlers

Barry H. Golsen: Vice Chairman & President, LSB Industries, OKC

Fred M. Ramos: Executive Director, State Hispanic Chamber of Commerce

Statement on the U.S. Economy from latest FOMC meeting

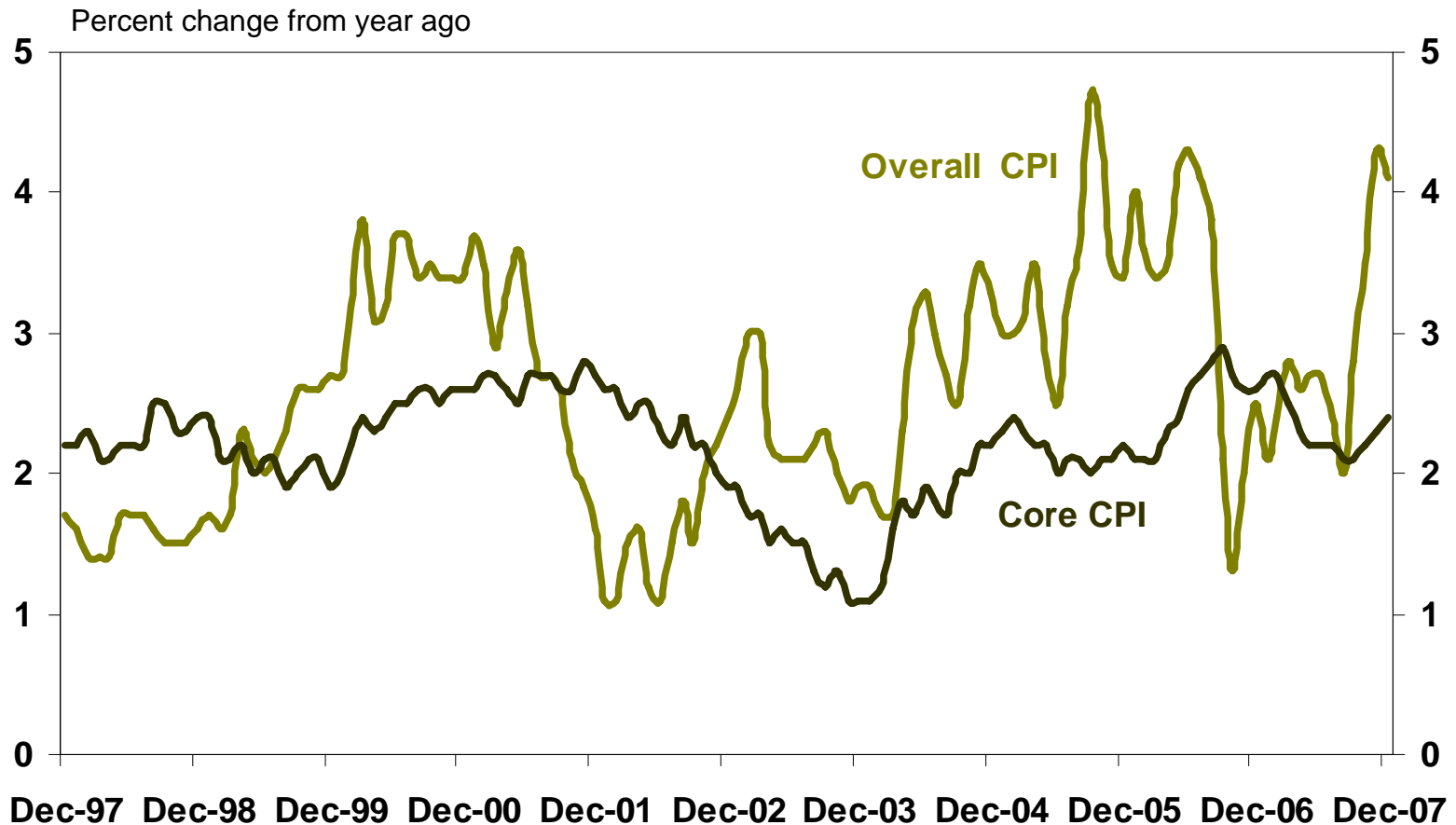
“Financial markets remain under considerable stress, and credit has tightened further for some businesses and households. Moreover, recent information indicates a deepening of the housing contraction as well as some softening in labor markets. The Committee expects inflation to moderate in coming quarters, but it will be necessary to continue to monitor inflation developments carefully.

Today’s policy action, combined with those taken earlier, should help to promote moderate growth over time and to mitigate the risks to economic activity. However, downside risks to growth remain.”

--January 30 FOMC Statement

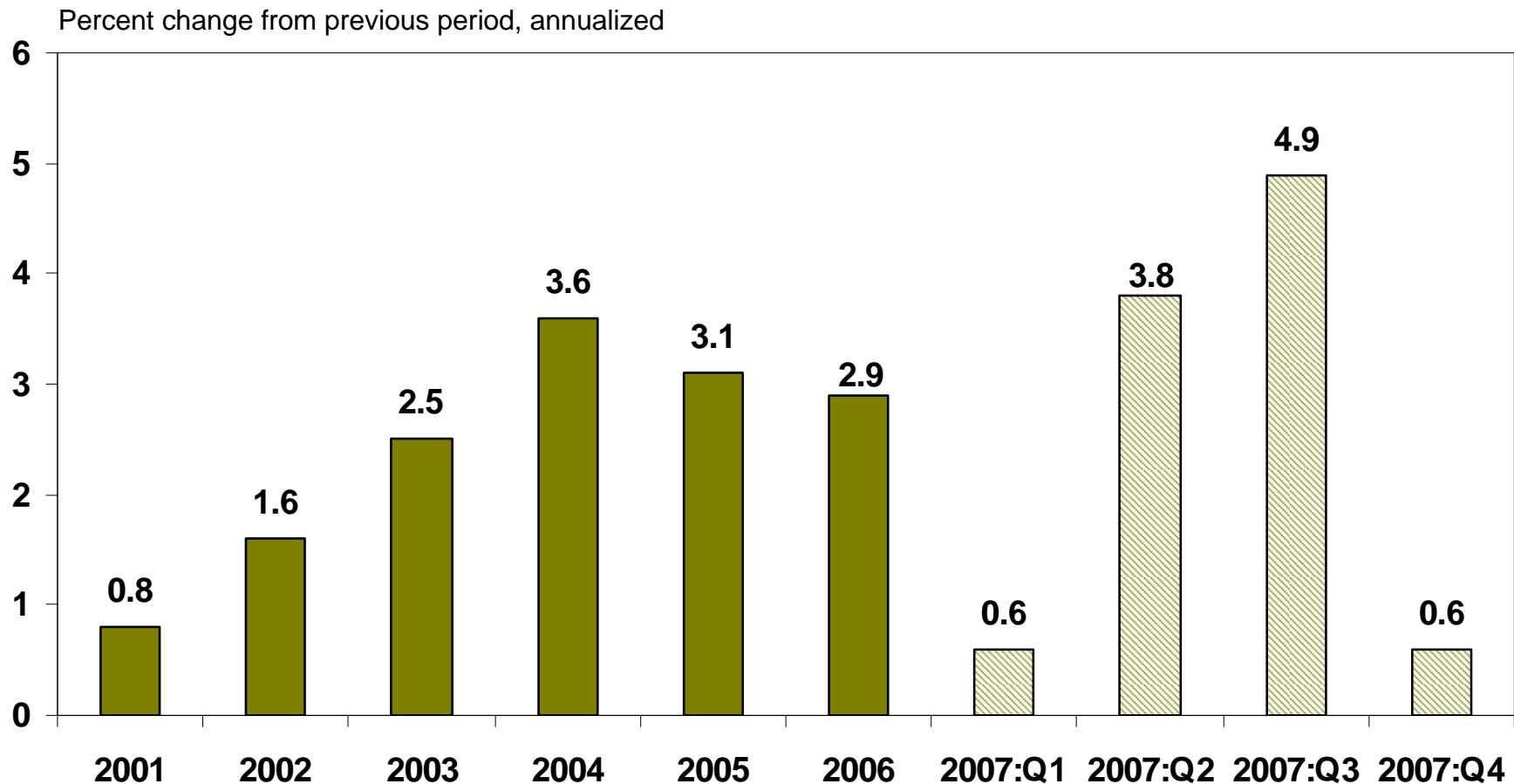
Overall inflation remains elevated, and core inflation has crept higher

Consumer Price Index



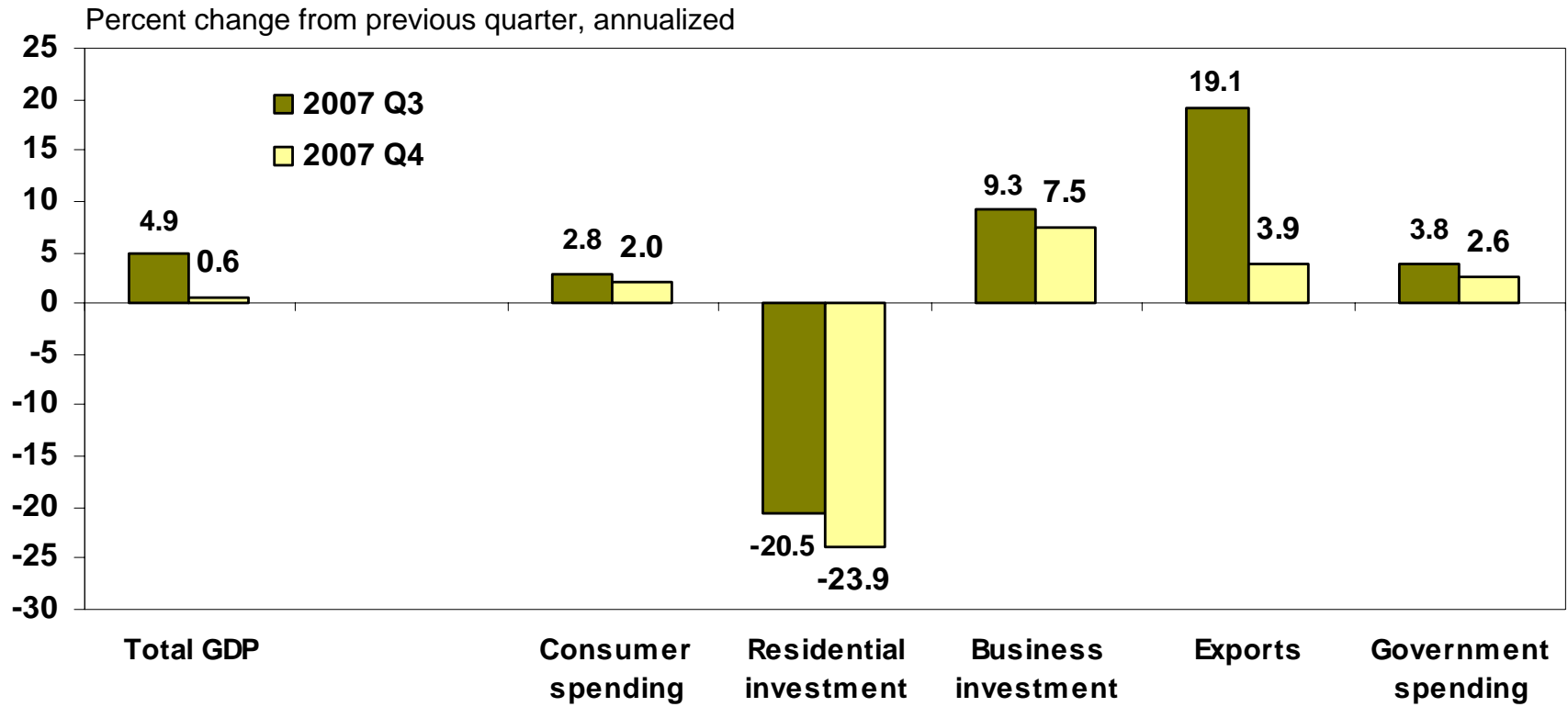
Mid-year GDP growth was stronger than expected but eased in the fourth quarter

Gross Domestic Product



All aspects of GDP slowed in the fourth quarter, but spending and business investment were still solid

Growth in Components of GDP



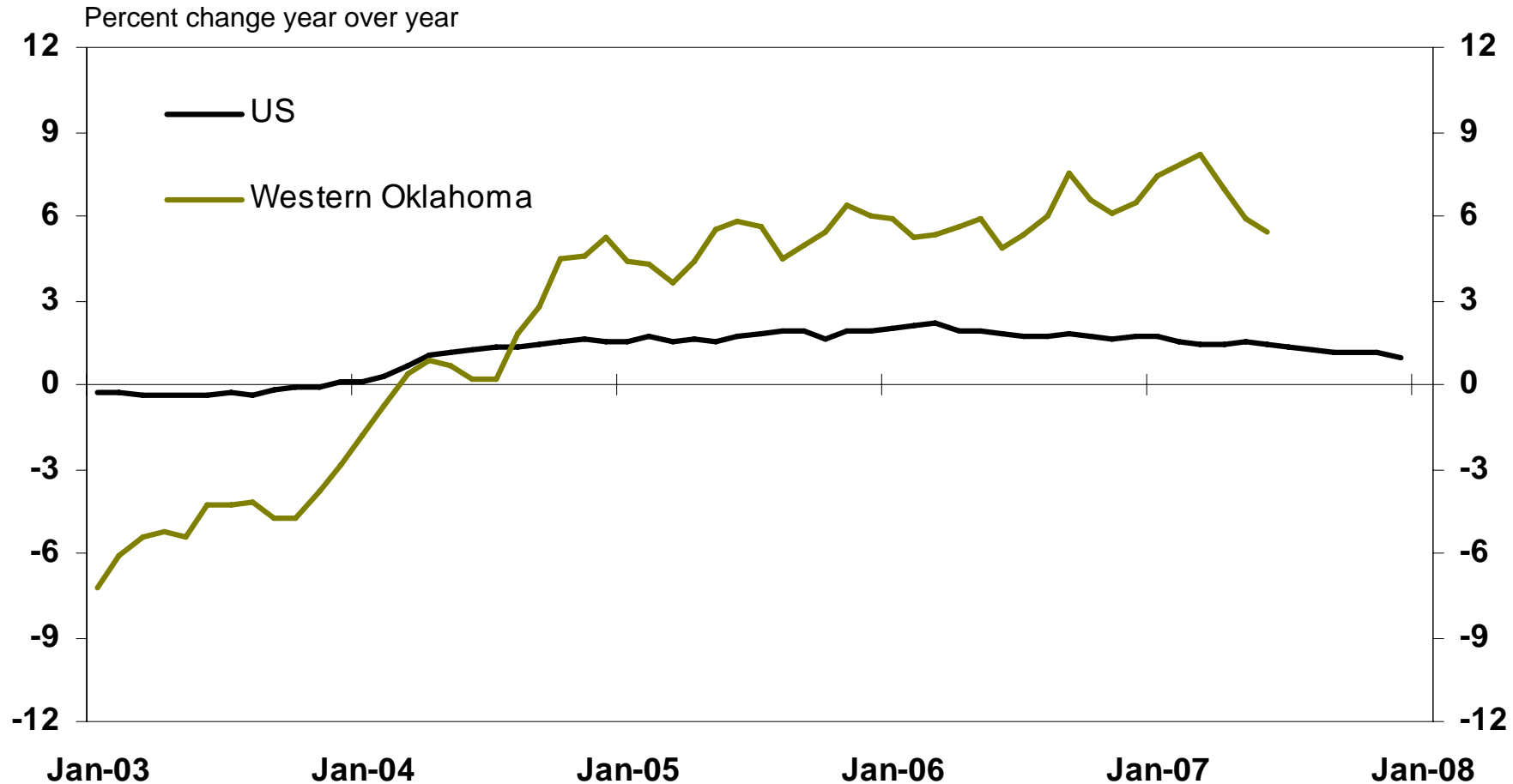
U.S. job growth has slowed, while Oklahoma continues to post moderate gains

Nonfarm Payroll Employment Growth



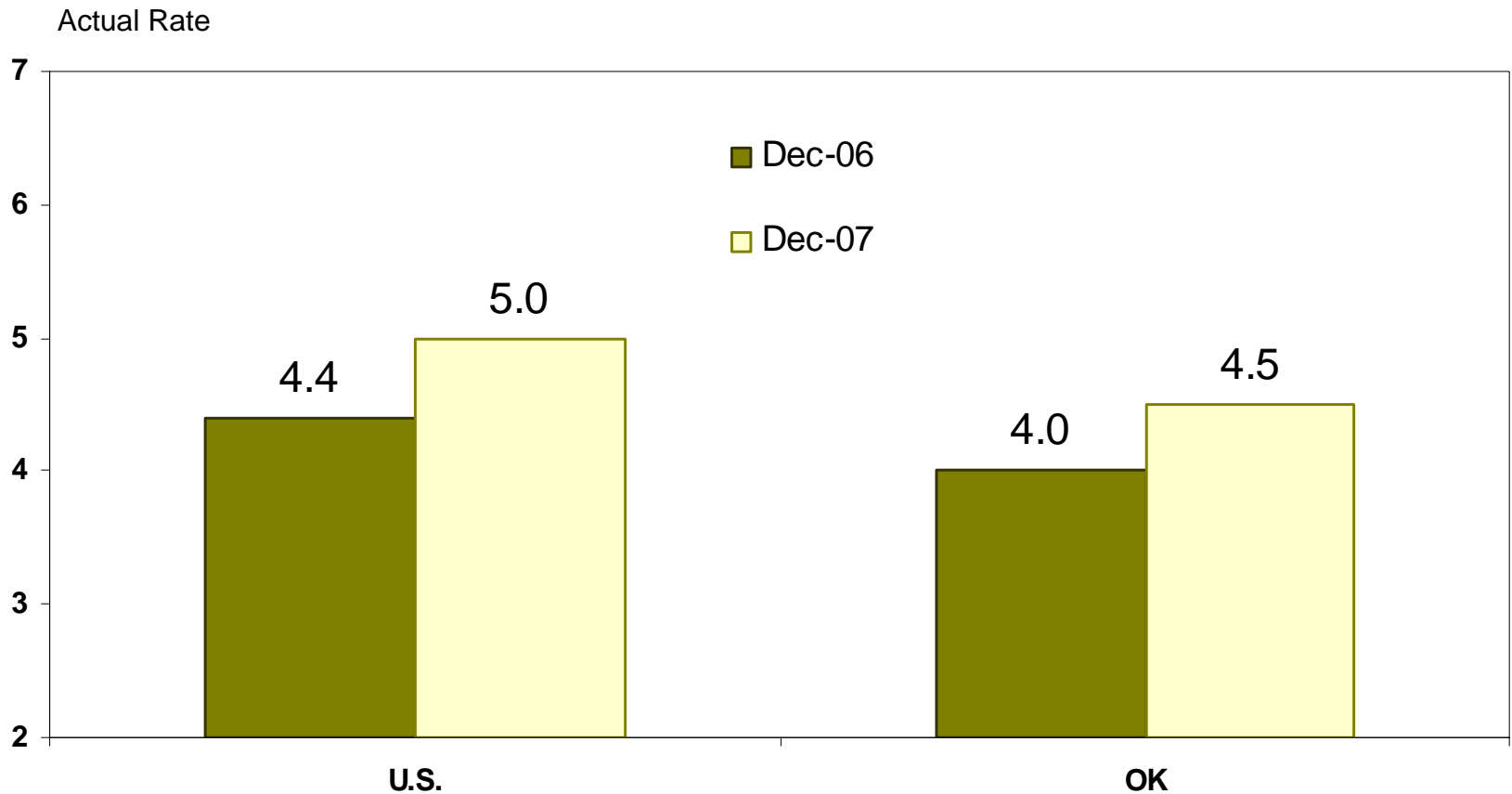
Western Oklahoma job growth was very strong through mid-2007

Employment Growth



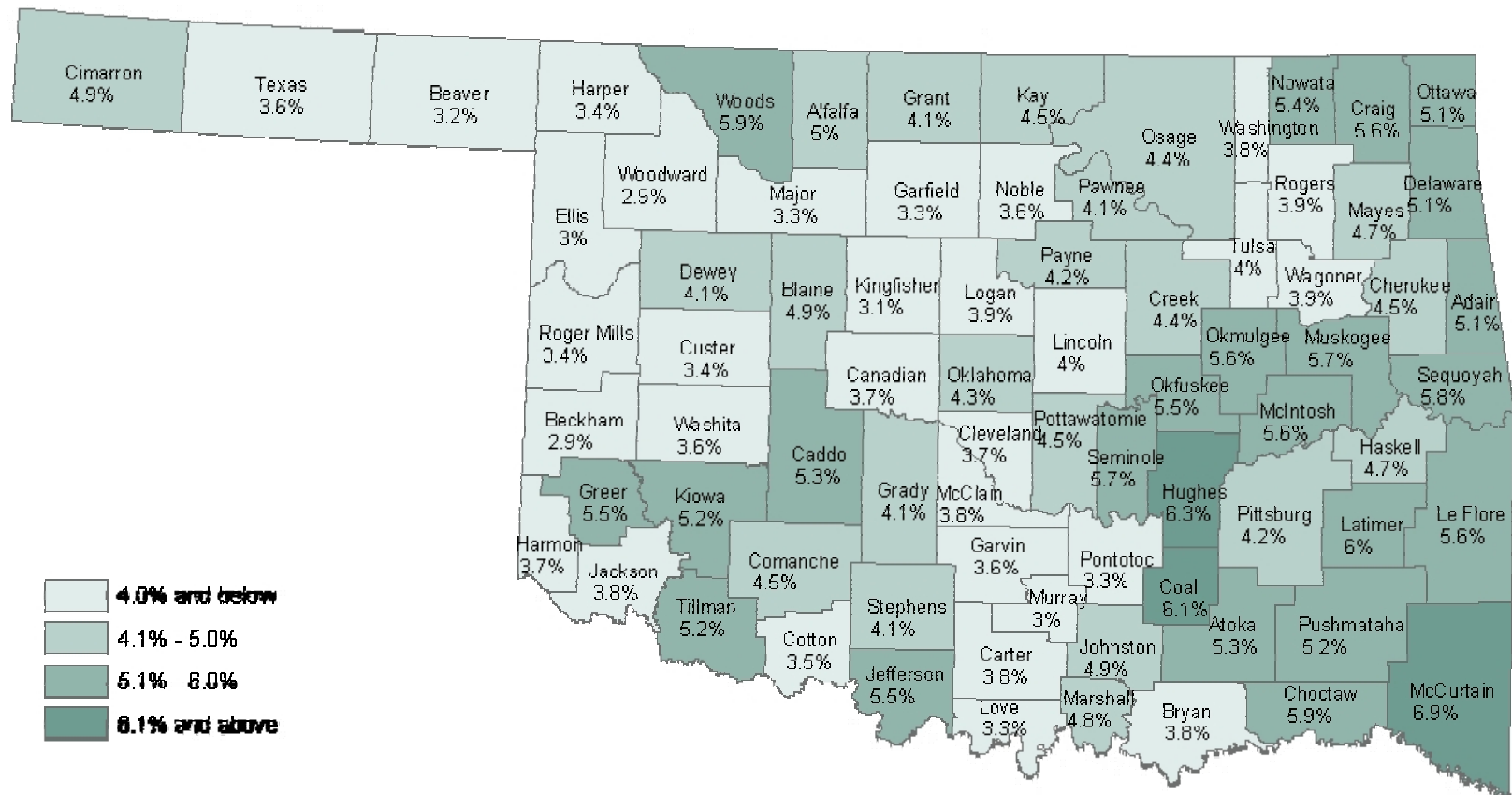
Unemployment has risen in both the U.S. and Oklahoma but is still low by historical standards

Unemployment Rates
Seasonally Adjusted



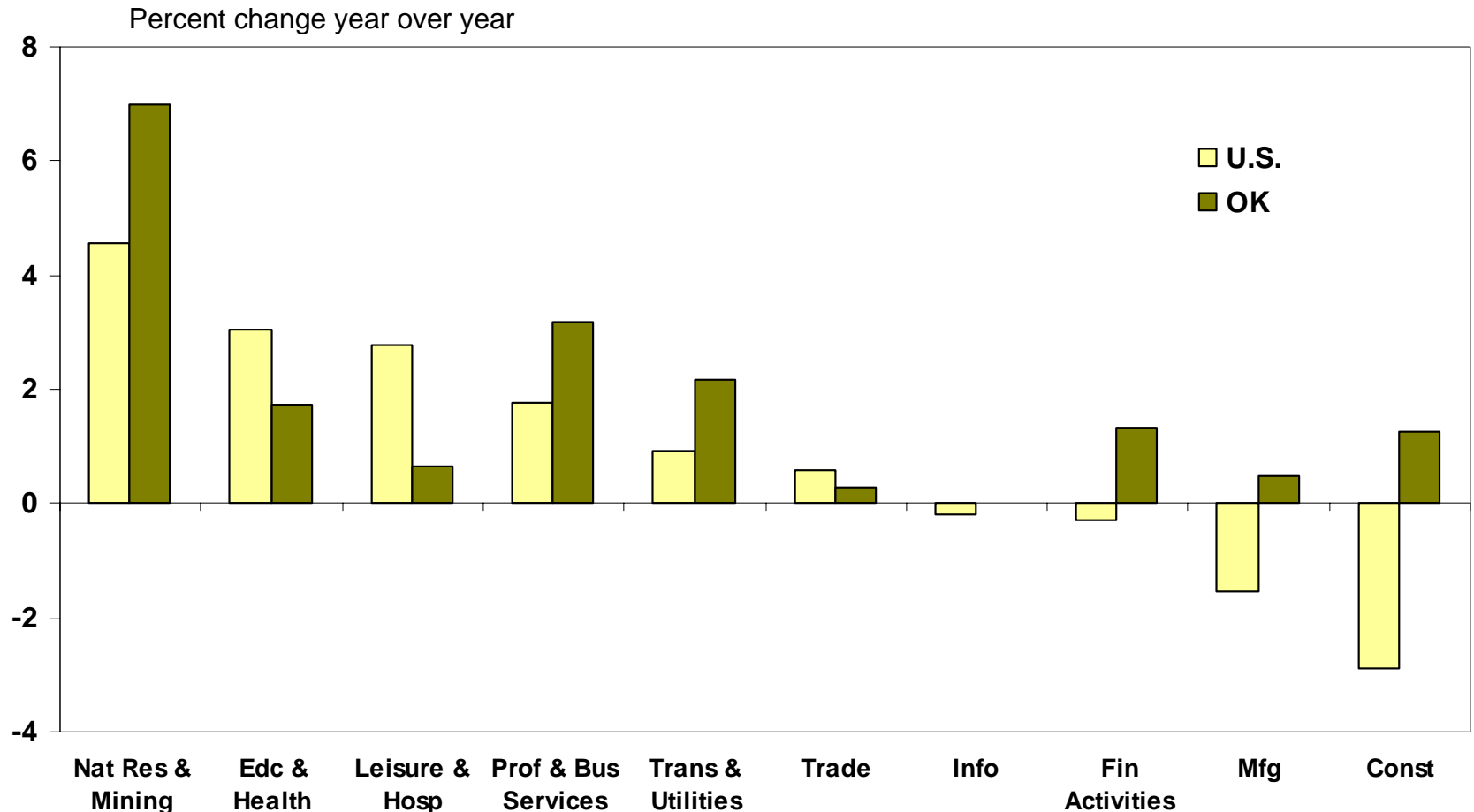
Unemployment in western Oklahoma is generally well below state and national rates

**Oklahoma Unemployment Rates by Counties
November 2007**



U.S. job weakness has emerged in housing-related sectors, while Oklahoma is stronger

Employment Growth by Industry
December 2007



How is Oklahoma Different, and What Can that Tell Us about the State Outlook?

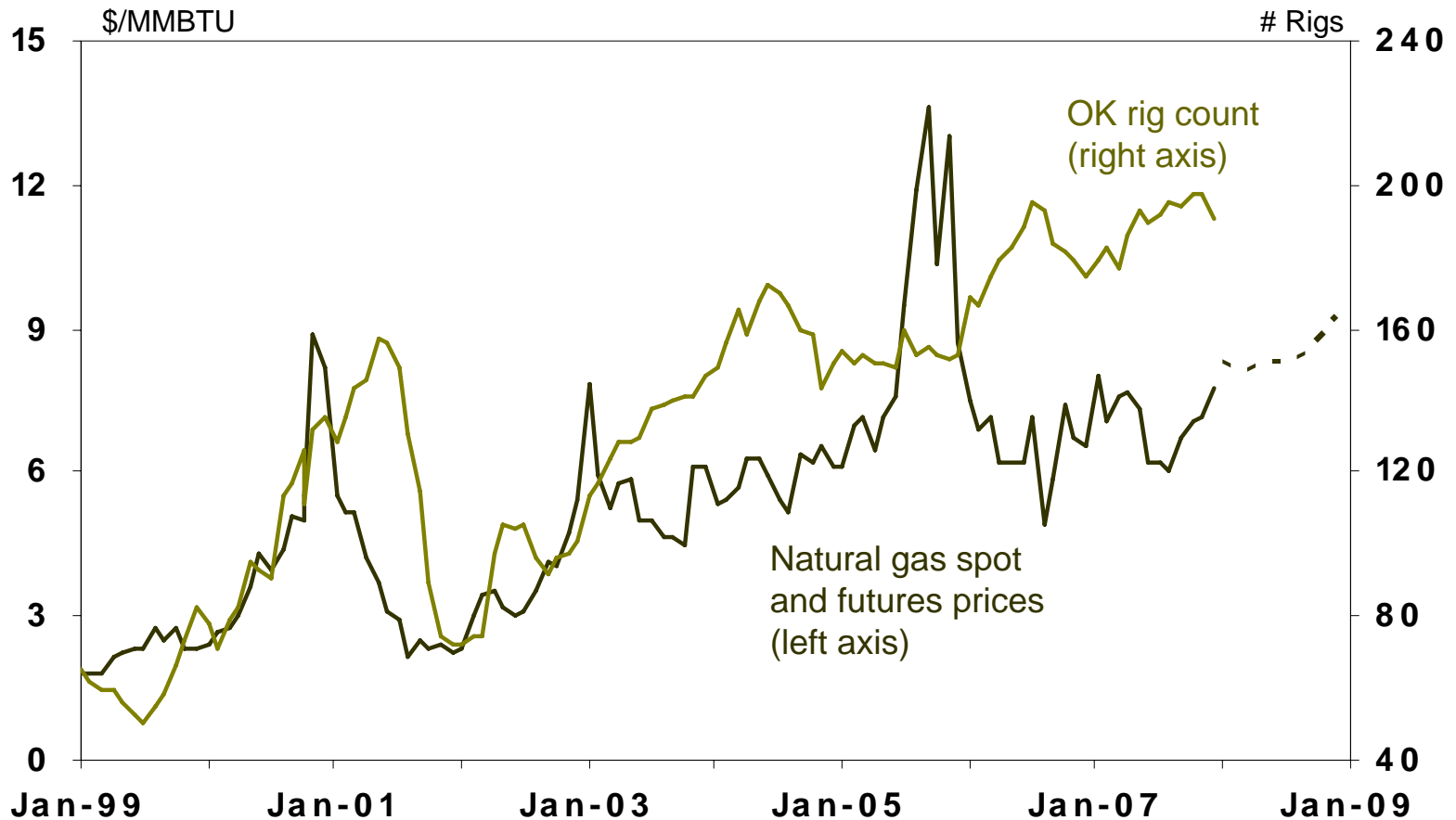
- ❑ Several industries define Oklahoma, including Western Oklahoma, as being different from the rest of the nation
- ❑ These industries are generally doing well, with positive outlooks
- ❑ The housing market is also in better shape in Oklahoma

The Ten Industries that Most Define Oklahoma

Rank	Industry	Location Quotient 2005	Location Quotient 1990	Average Pay 2005
1	Oil & gas	8.2	8.5	\$66,972
2	Trade schools	4.5	4.0	\$33,924
3	Gambling	3.4	1.0	\$21,335
4	Farming	3.3	2.7	\$5,559
5	Auto rental	2.9	2.3	\$43,266
6	Machinery mfg	2.7	2.1	\$45,275
7	Rubber mfg	2.5	2.9	\$52,368
8	Call centers	2.0	0.8	\$25,838
9	Meat packing	1.9	0.9	\$27,596
10	Military	1.9	2.6	\$54,701

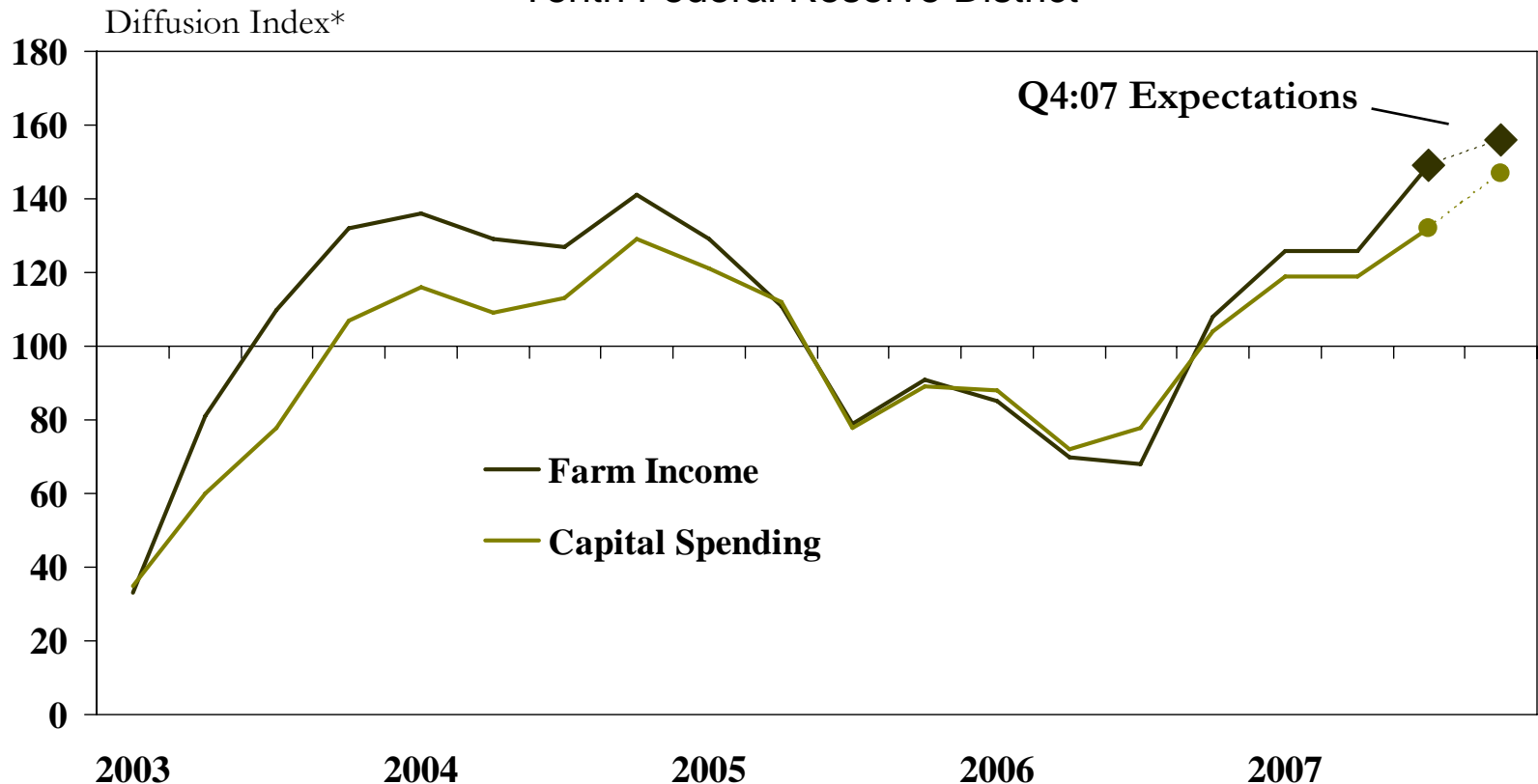
State oil and gas activity remains strong, and futures prices are high

Count of Active Drilling Rigs and Natural Gas Prices



Regional farm incomes are rising and are expected to sustain further solid growth

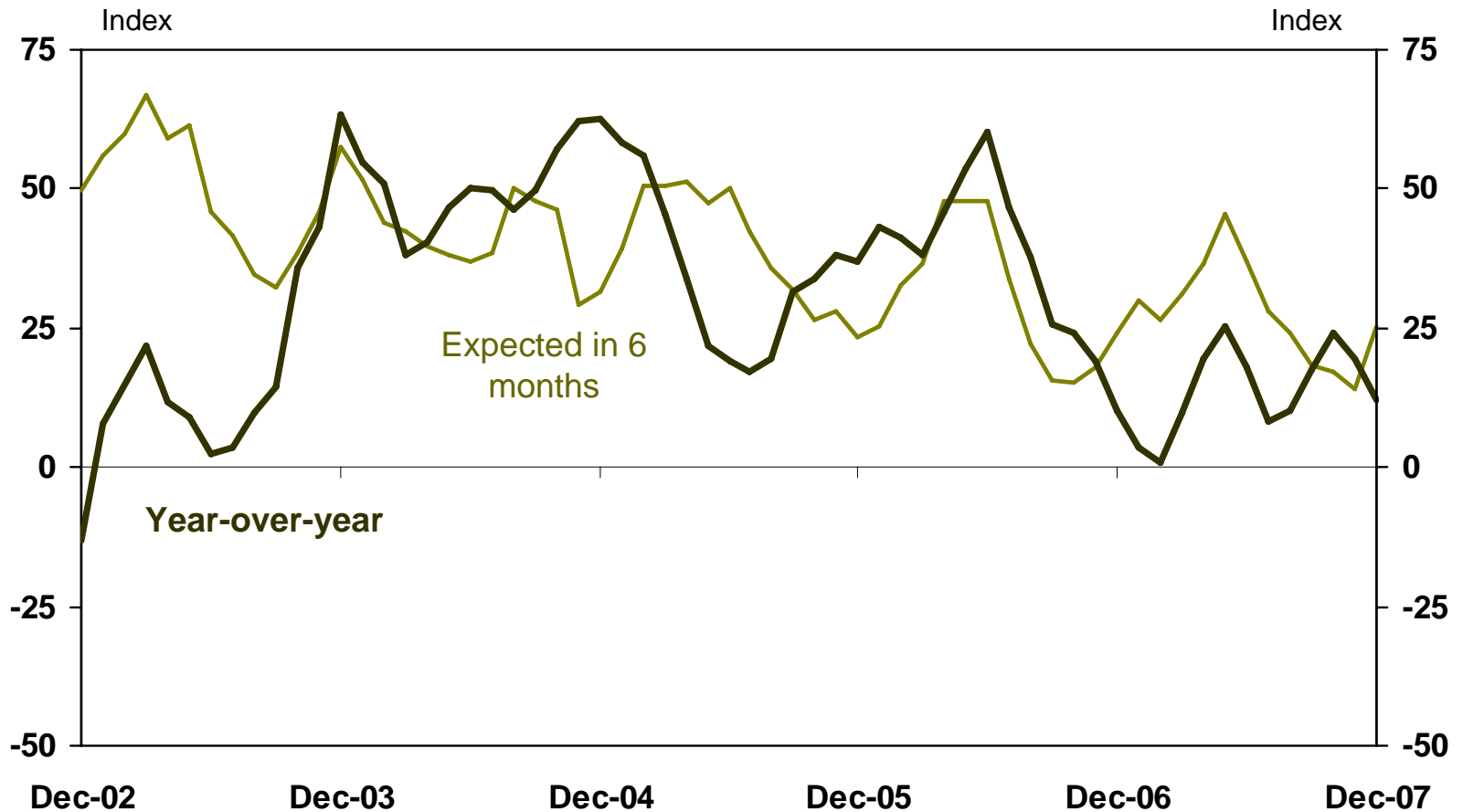
**Farm Income and Capital Spending,
Tenth Federal Reserve District**



*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.

State factory activity continues to expand, and firms expect solid growth heading forward

Oklahoma Production Index



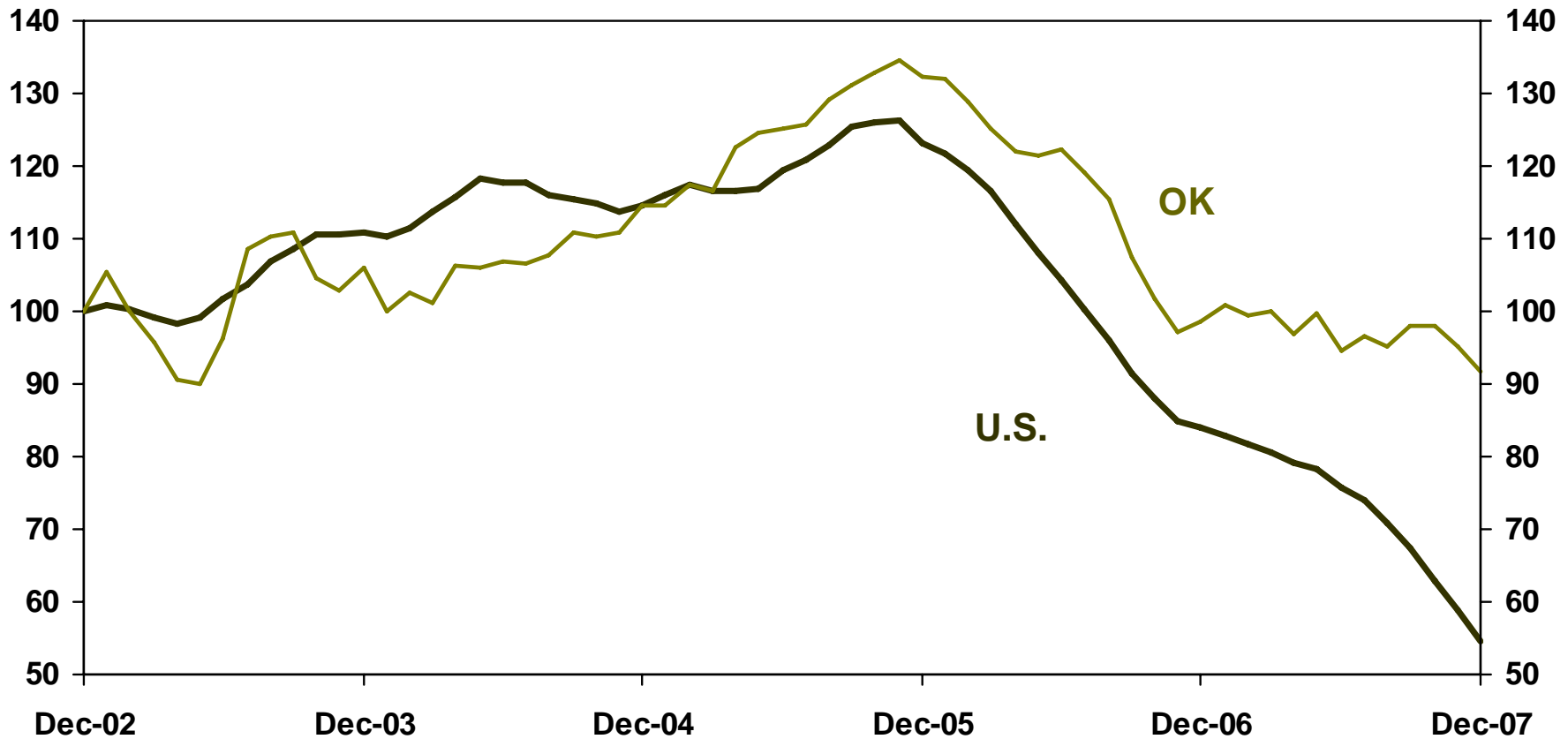
The near-term outlook for most of the state's other defining industries is also good

- Casinos and call centers continue to open
- Travelers and businesses continue to rent cars
- Military operations continue worldwide

The decline in housing activity has leveled off somewhat in Oklahoma, unlike the nation

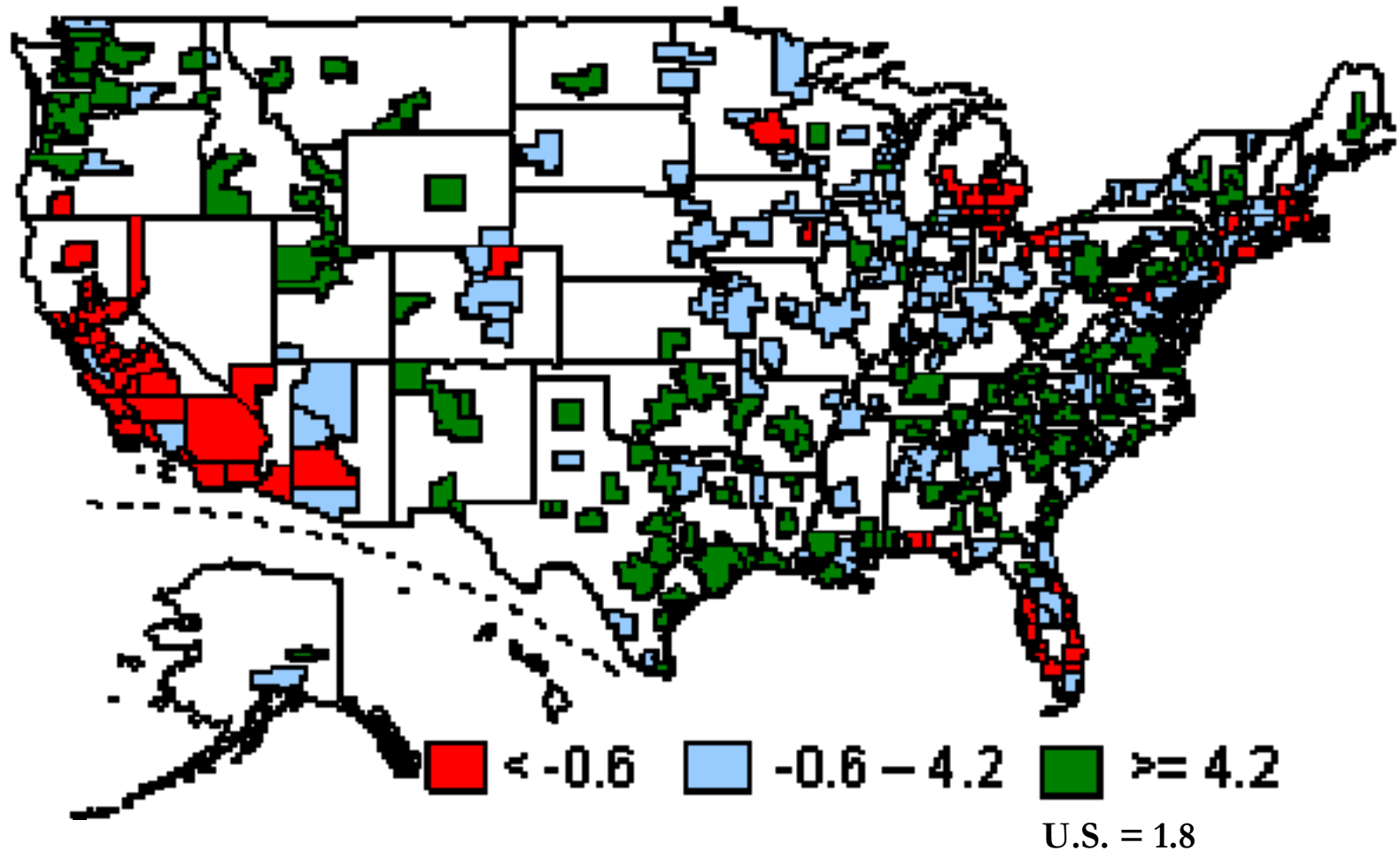
Single-Family Housing Permits

Index: Dec 02 = 100



Housing prices have been most affected in coastal and Great Lakes metro areas

OFHEO Home Price Index, 2007 Q3



Summary

- ❑ While inflation has risen, national economic growth is slowing and credit and financial markets remain somewhat strained
- ❑ Western Oklahoma's growth has held up better, boosted by strength in important industries and a more stable housing sector
- ❑ National growth forecasts have been reduced, but western Oklahoma seems poised for further solid growth, if workers can be found