

U.S. & Oklahoma Economic Update



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Purposes and Structure of the Federal Reserve System

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

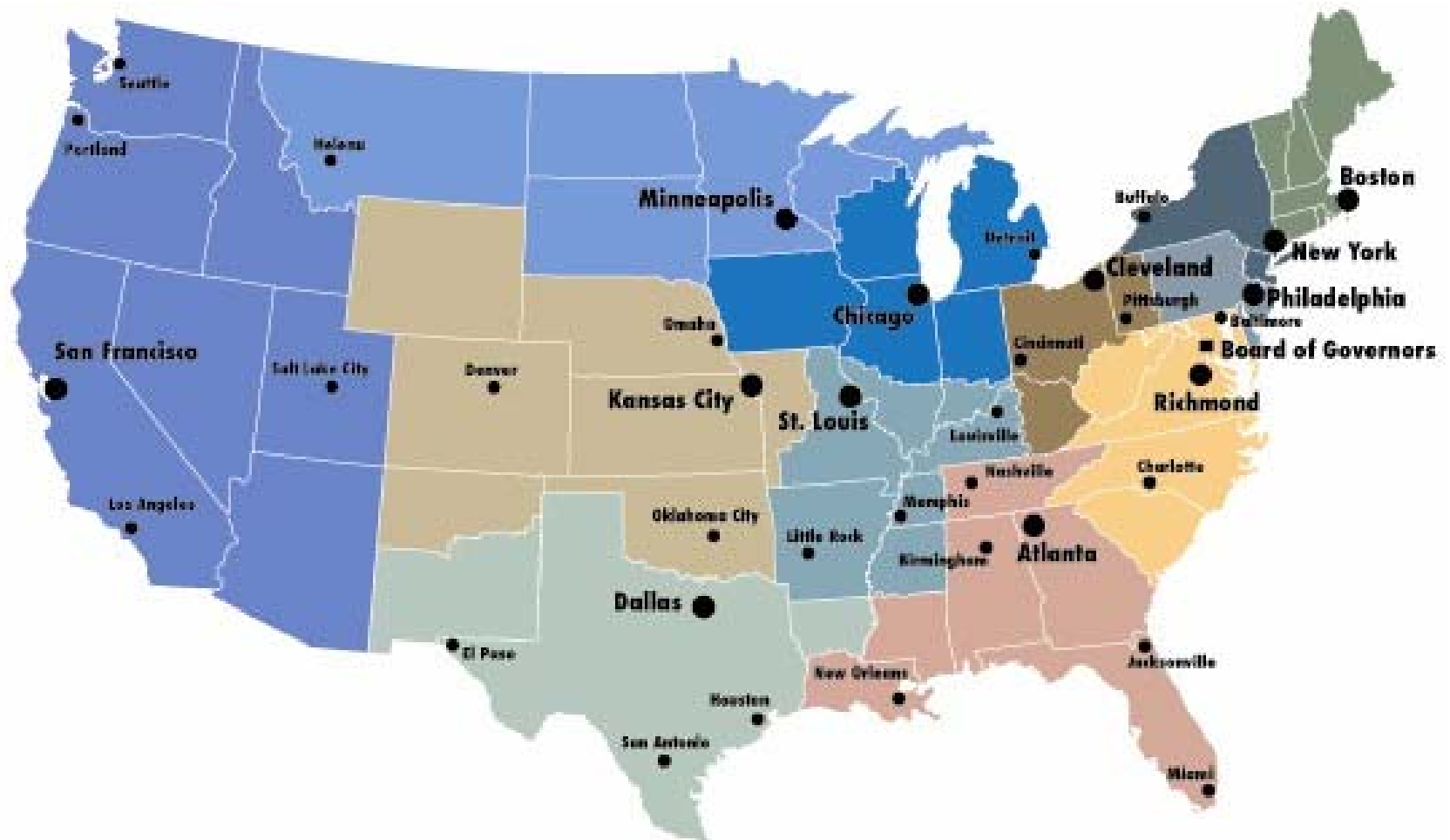
- **Mission areas:**

- 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

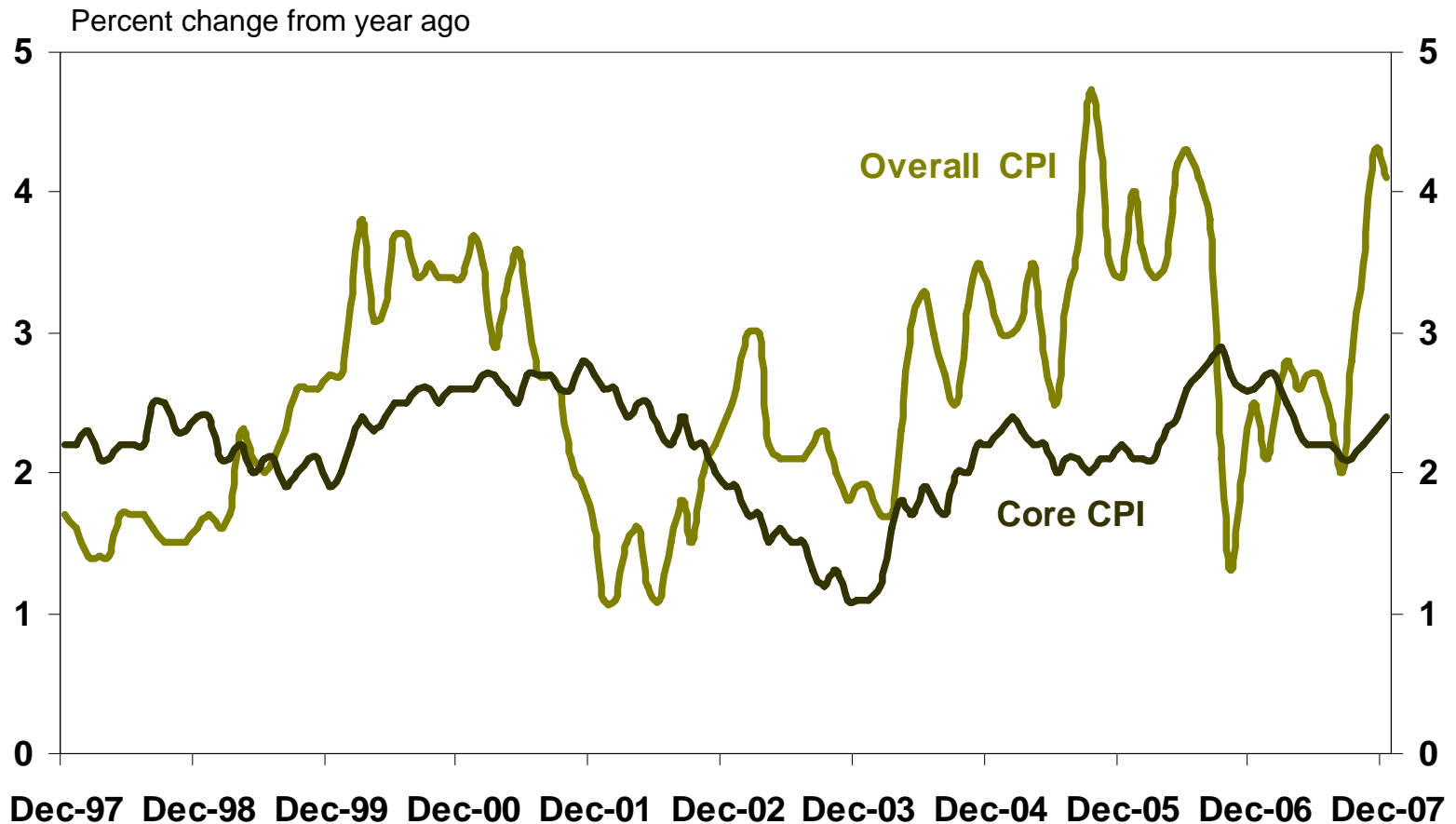
The Committee took this action in view of a weakening of the economic outlook and increasing downside risks to growth. While strains in short-term funding markets have eased somewhat, broader financial market conditions have continued to deteriorate and credit has tightened further for some businesses and households. Moreover, incoming 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. Appreciable downside risks to growth remain.

--January 22 FOMC Statement

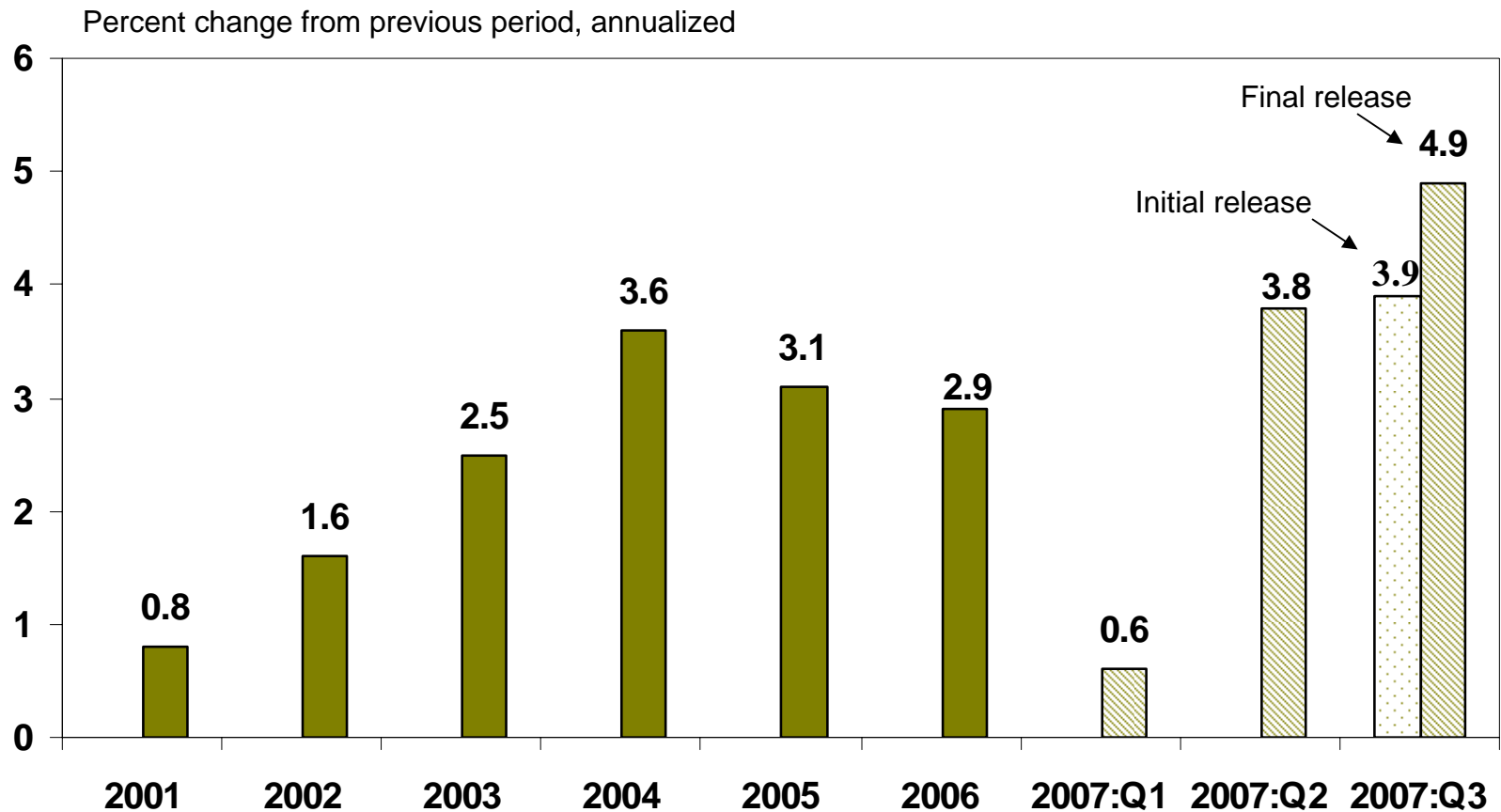
Overall inflation remains elevated, and core inflation has crept higher

Consumer Price Index



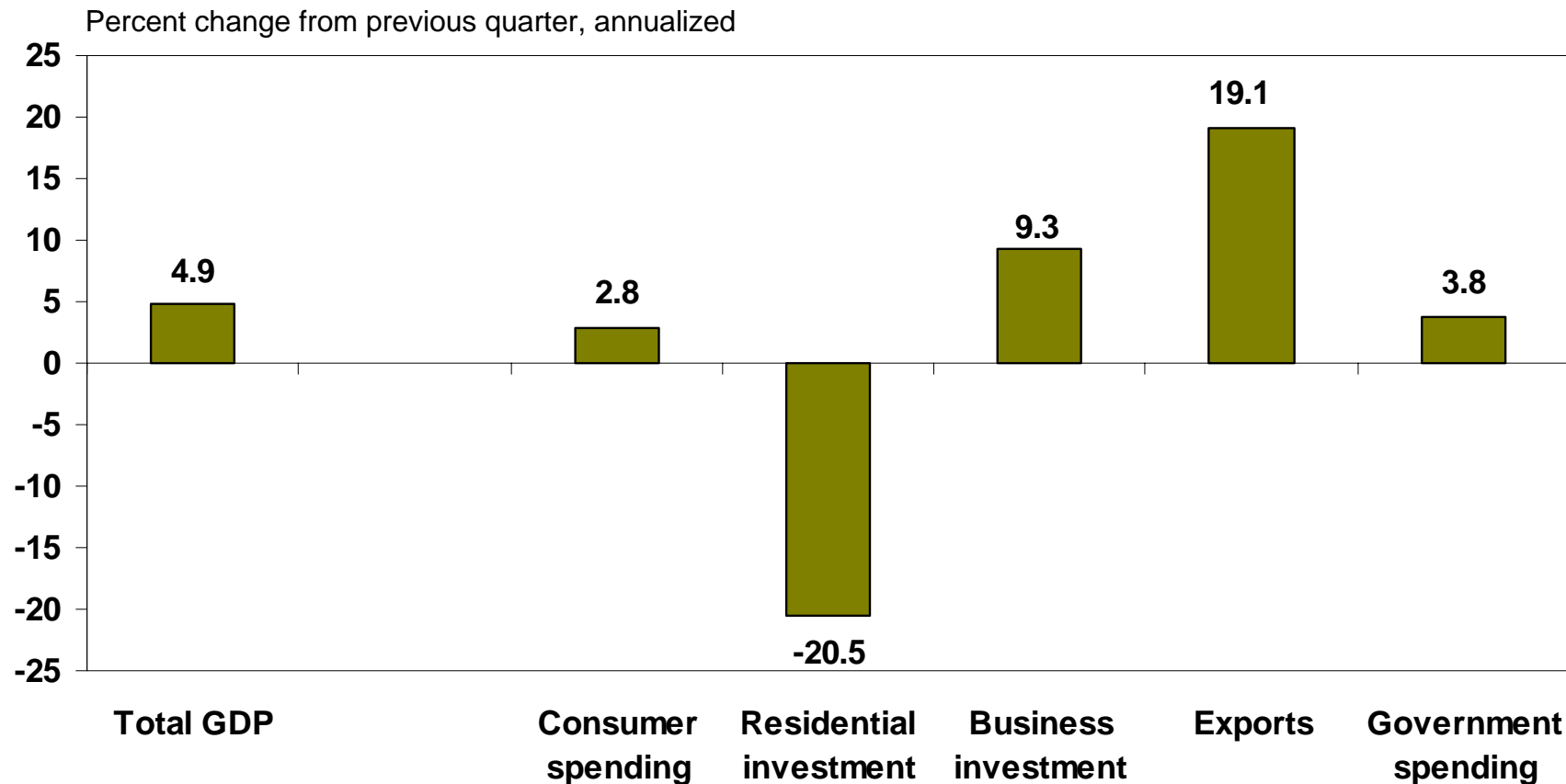
GDP growth has been stronger than expected but is forecasted to ease

Gross Domestic Product



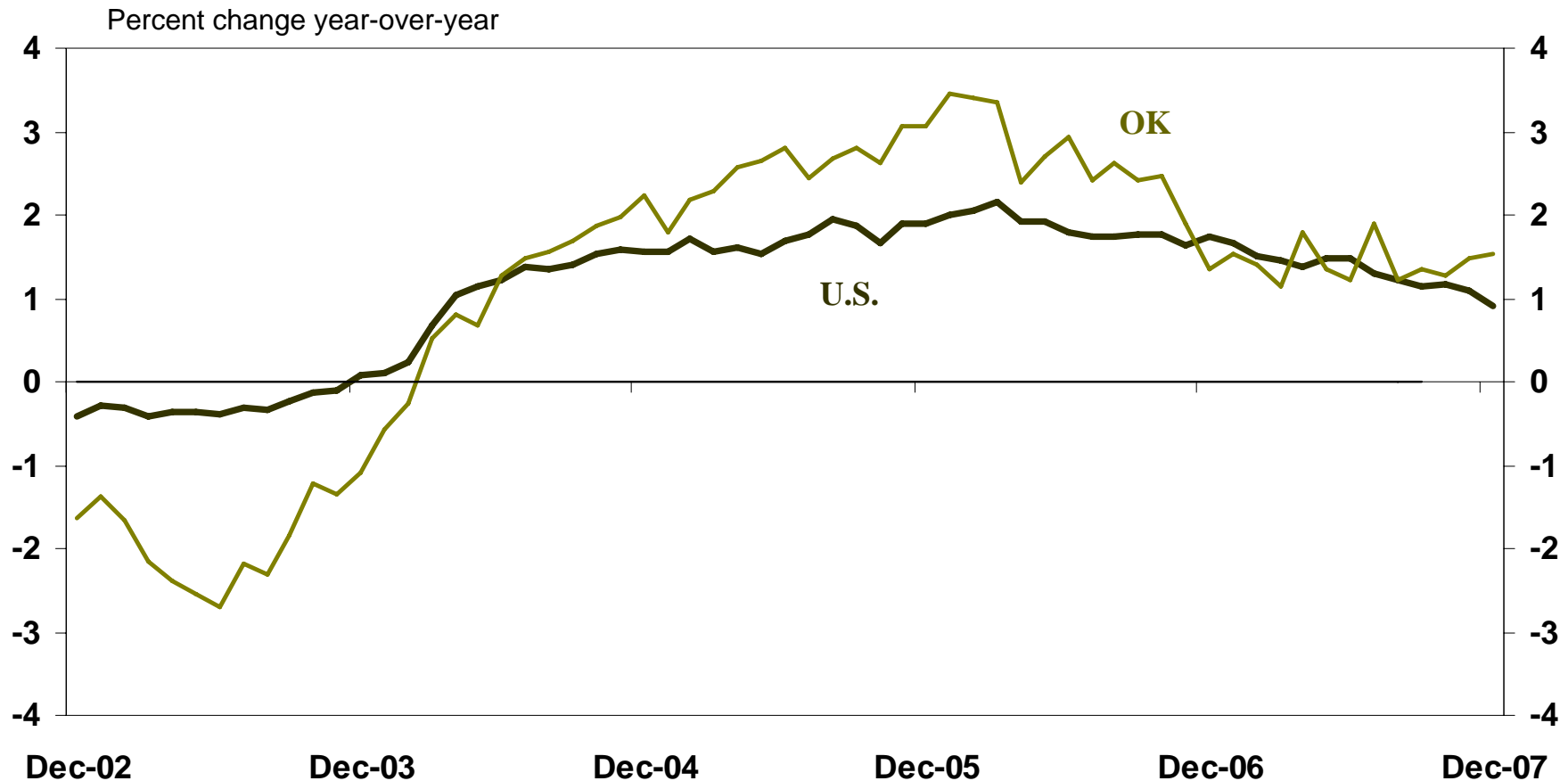
Strong business investment and exports have offset the continued slump in housing

Growth in Components of GDP Q3 2007



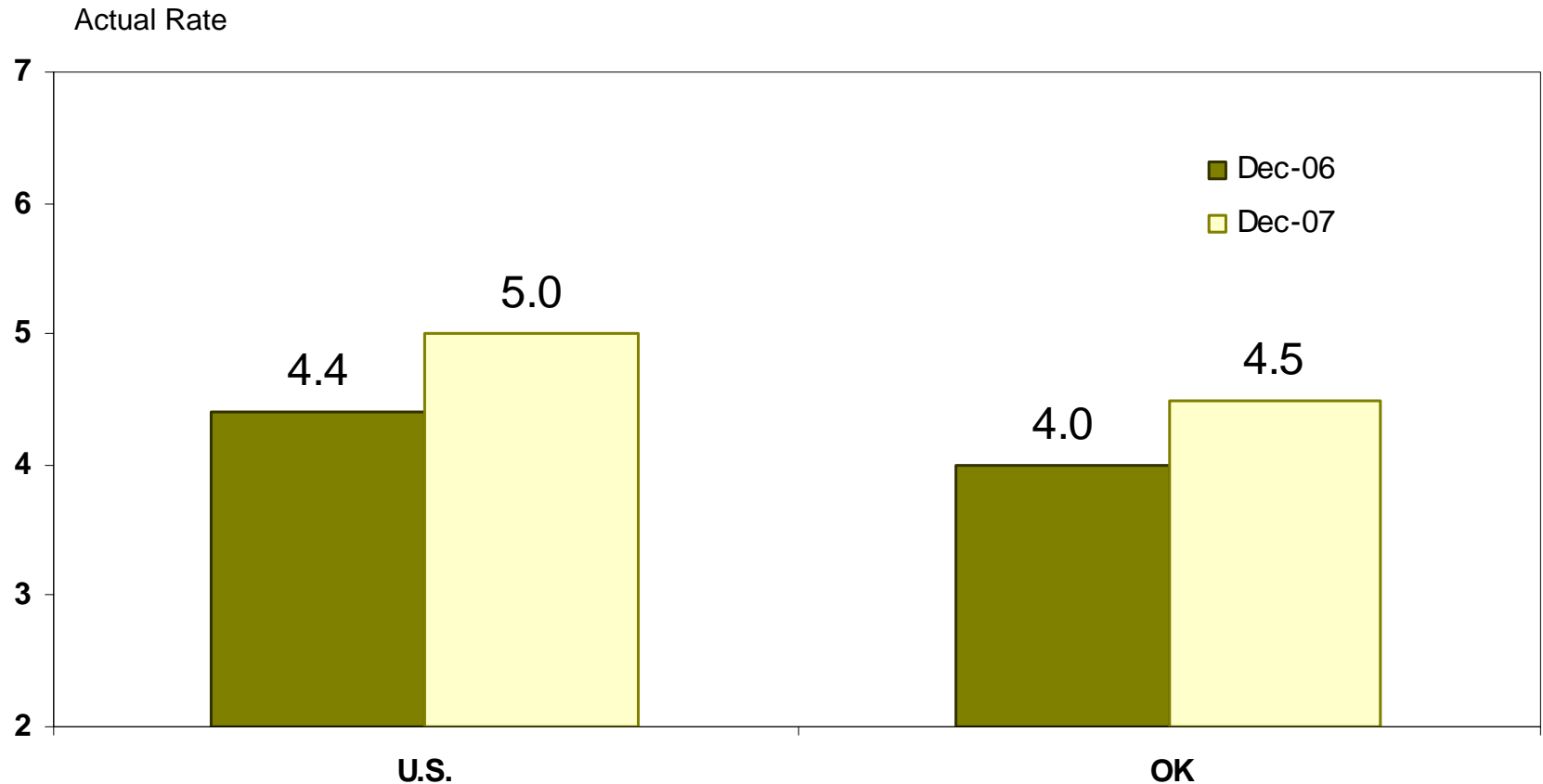
U.S. job growth has slowed recently, while Oklahoma continues to post moderate gains

Nonfarm Payroll Employment Growth



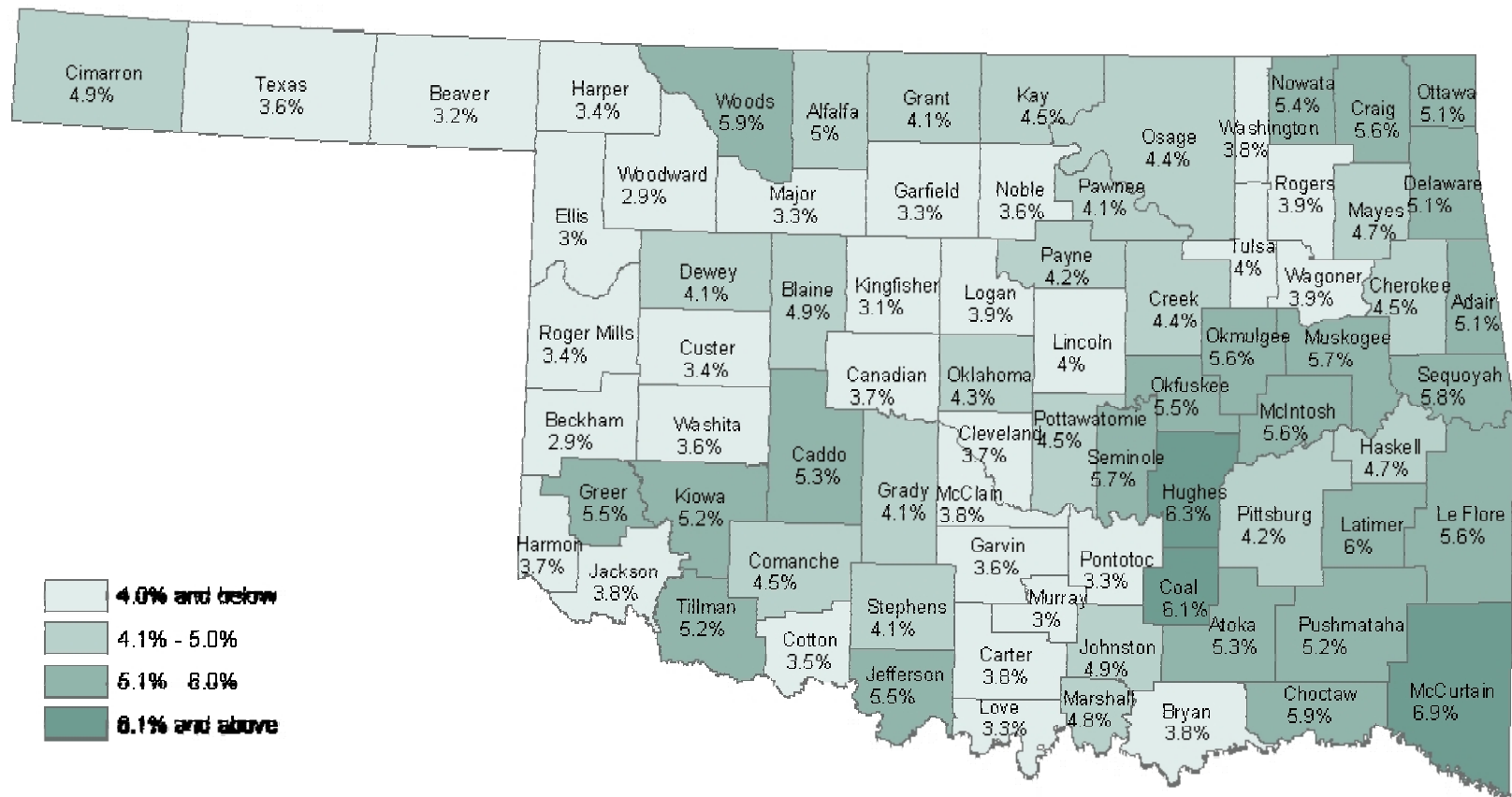
Unemployment has risen in both the U.S. and Oklahoma but is still low by historical standards

Unemployment Rates Seasonally Adjusted



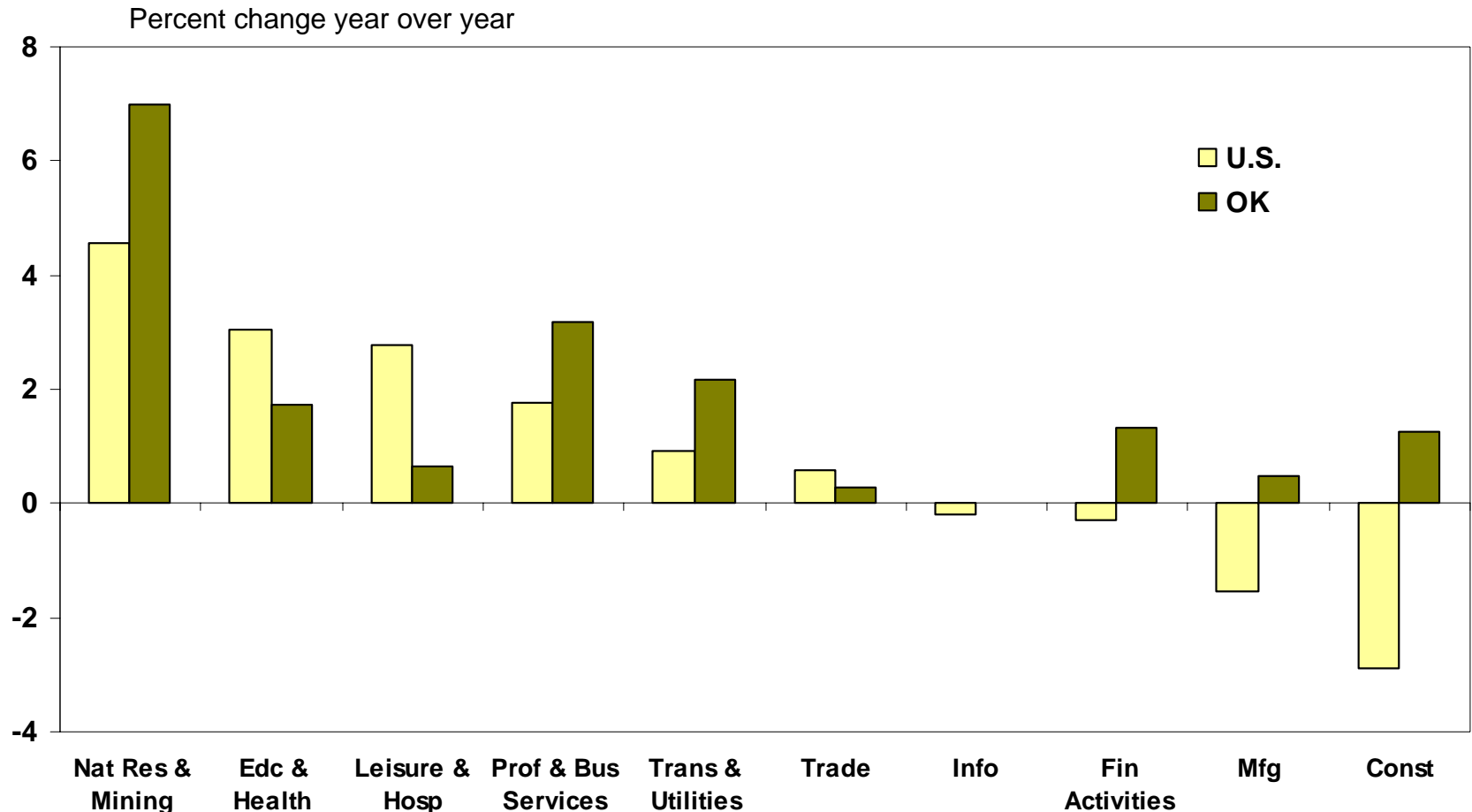
Unemployment in Pottawatomie County is slightly above the state average, but still relatively low

Oklahoma Unemployment Rates by Counties November 2007



U.S. job weakness has been most evident in housing-related sectors

Employment Growth by Industry
December 2007



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

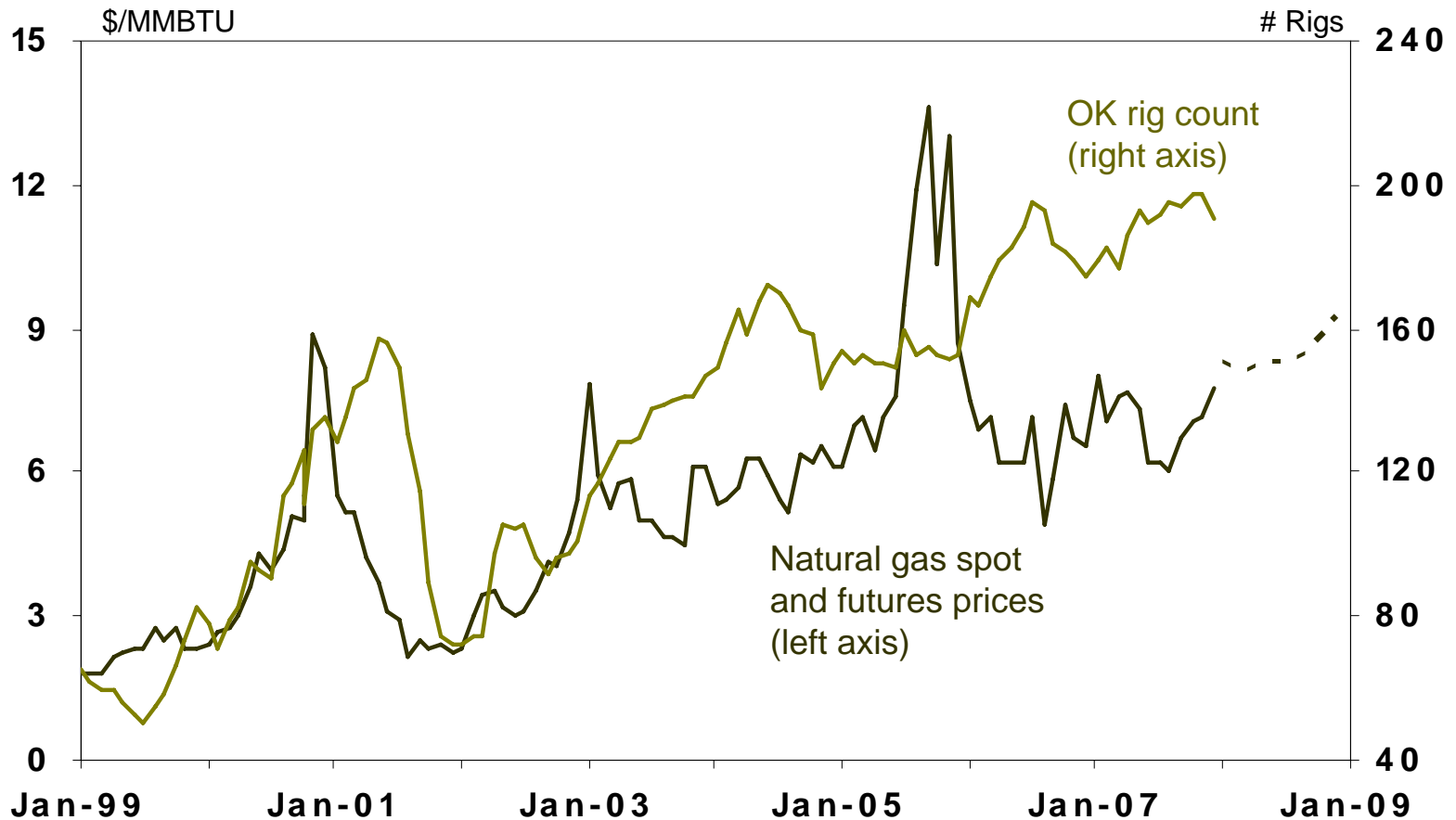
- Most defining industries are performing well
- Housing is in better shape
- Hiring plans remain generally solid

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

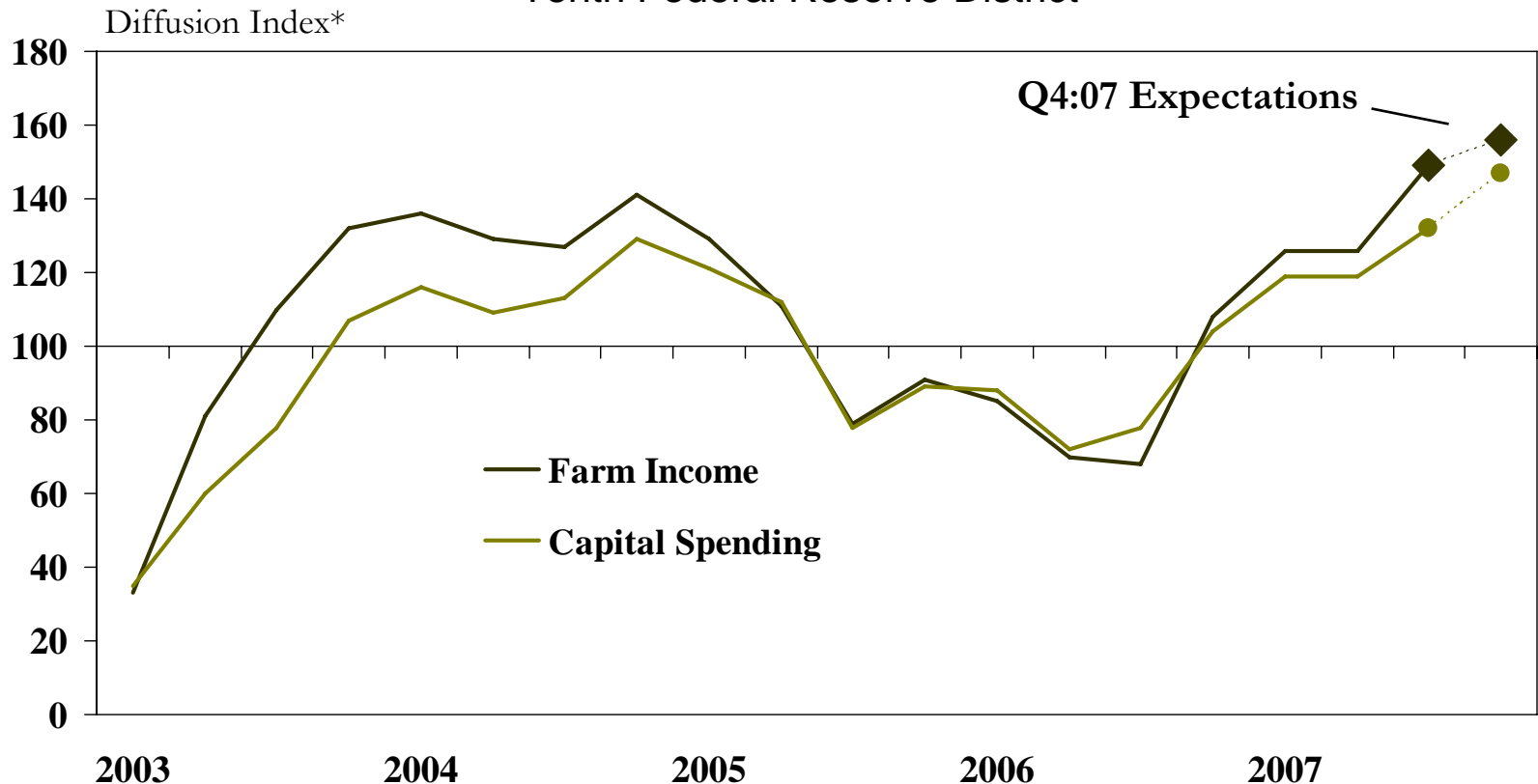
State oil and gas activity remains strong, and futures prices are high

Count of Active Drilling Rigs and Natural Gas Prices



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

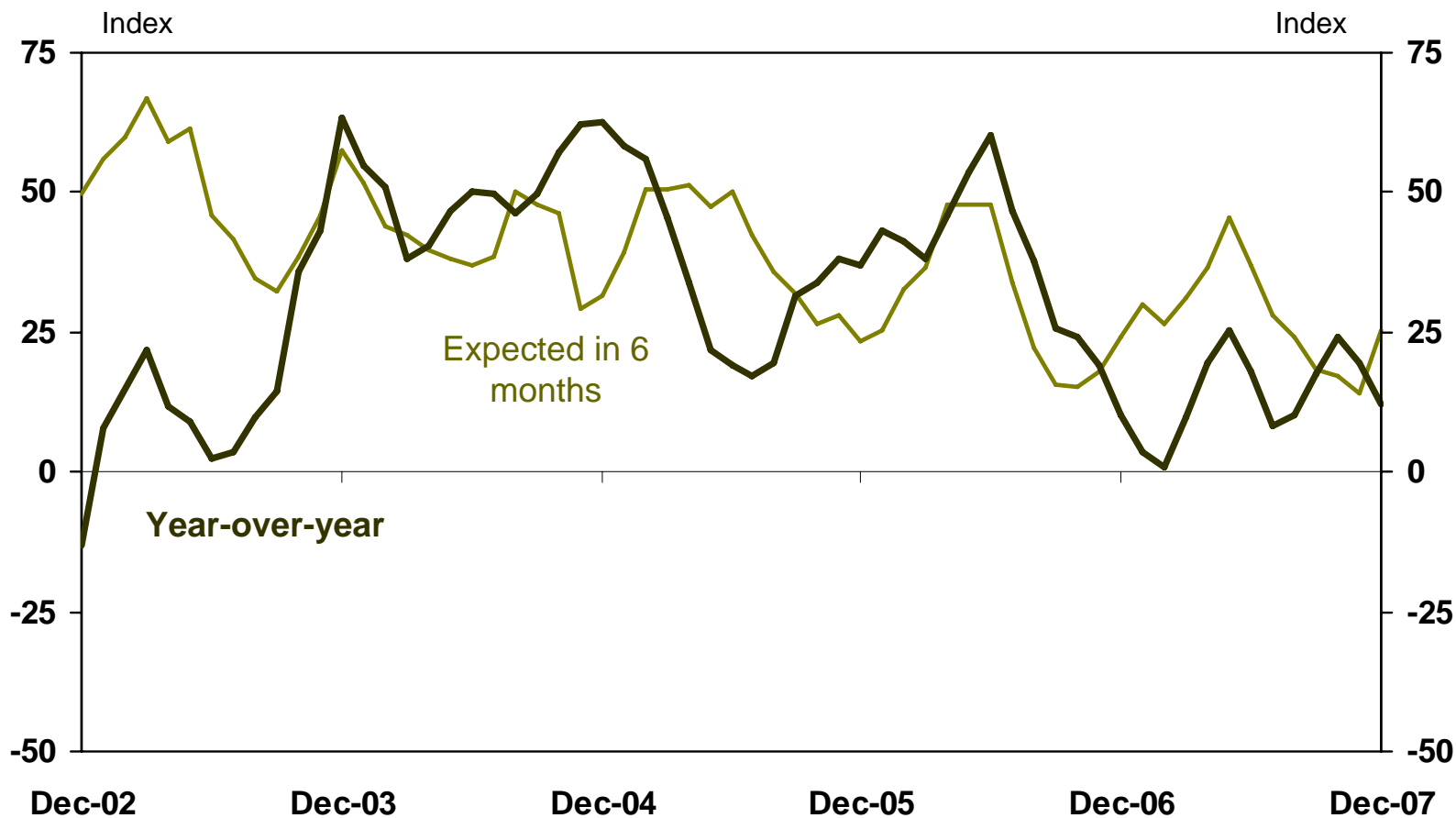
**Farm Income and Capital Spending,
Tenth Federal Reserve District**



*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



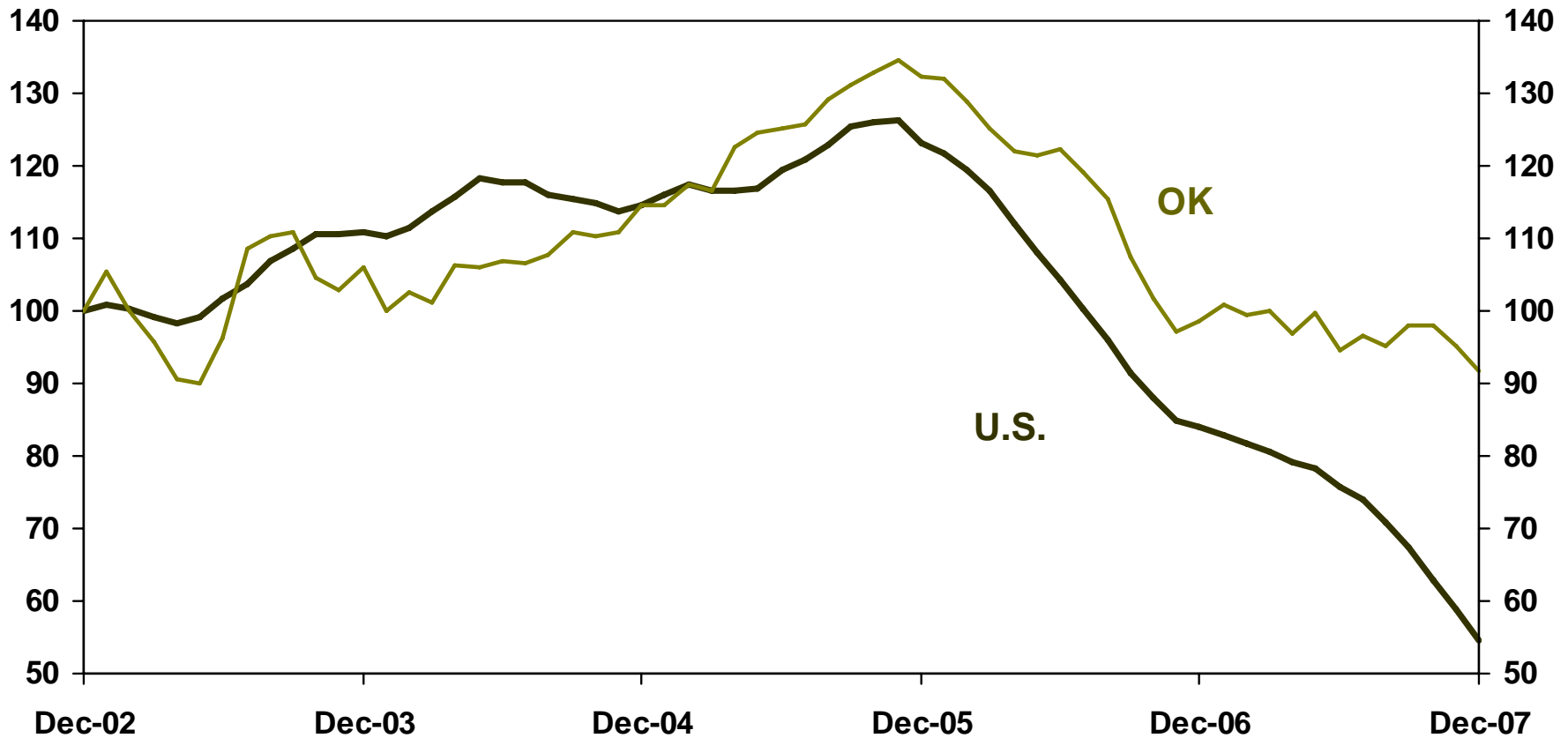
The near-term outlook for most of the state's other defining industries is also good

- 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

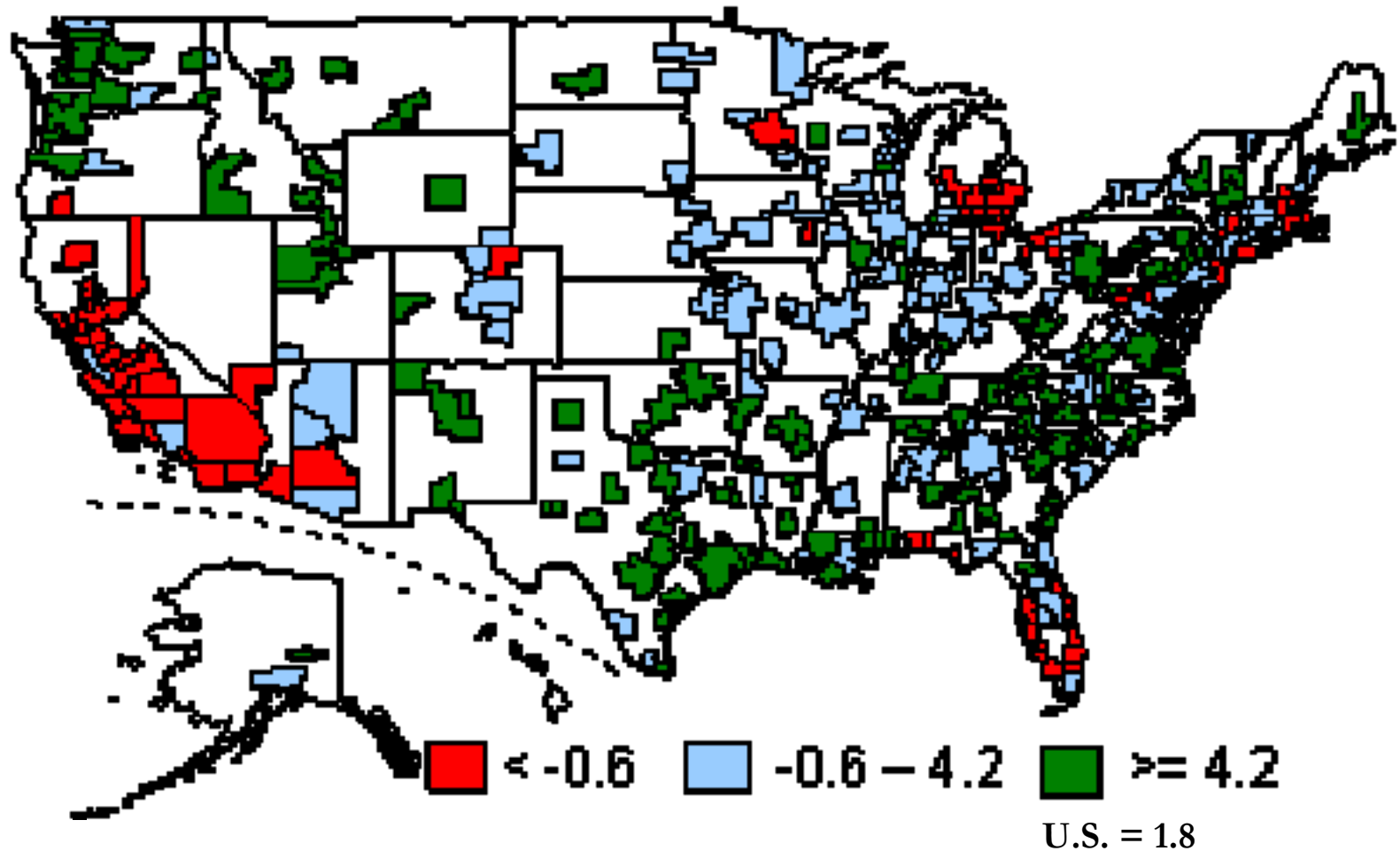
Single-Family Housing Permits

Index: Dec 02 = 100



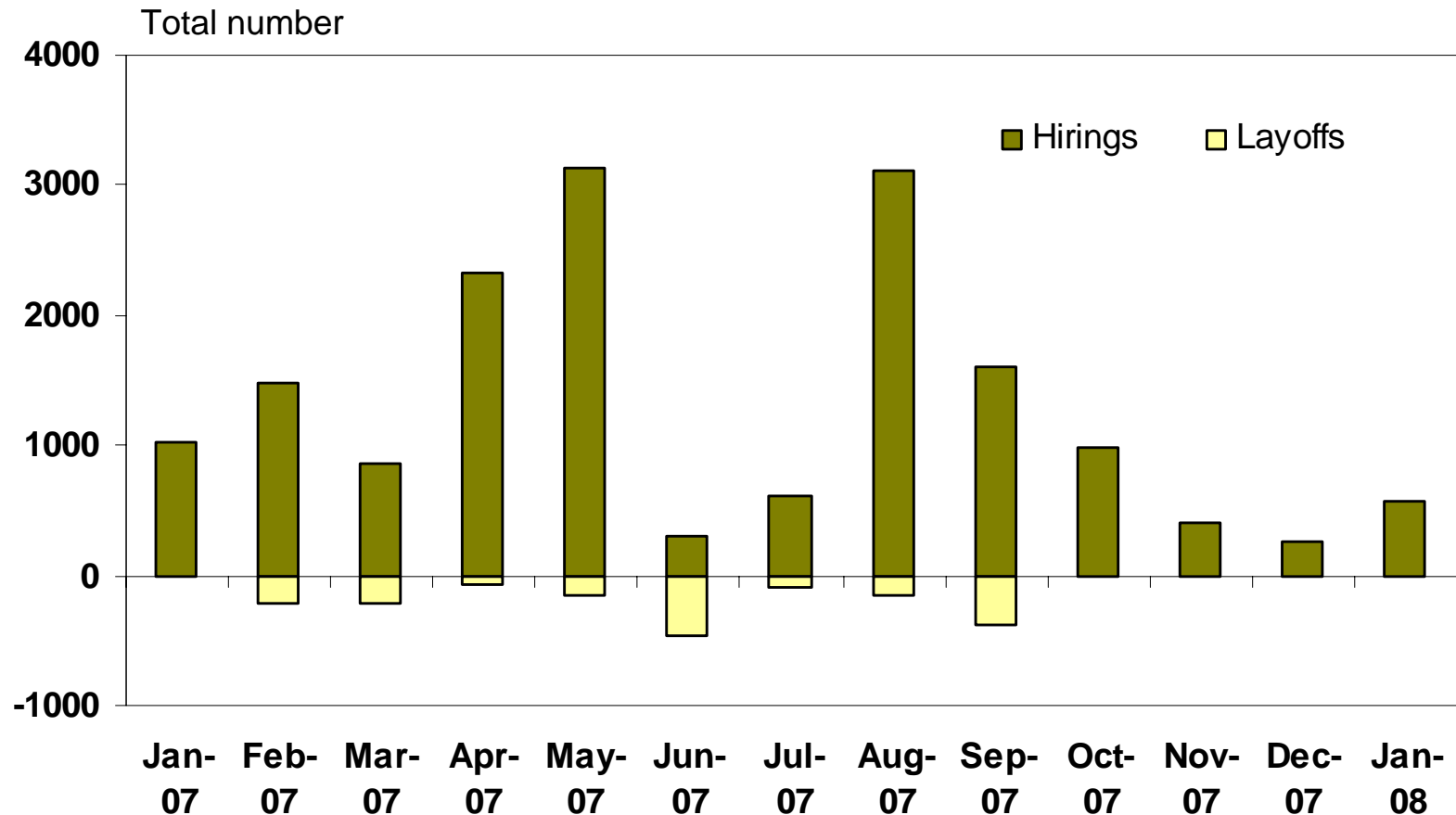
Housing prices have been most affected in coastal and Great Lakes metro areas

OFHEO Home Price Index, 2007 Q3



Hiring announcements in Oklahoma continue to outpace layoffs, a good sign heading forward

Oklahoma Hiring and Layoff Announcements



Summary

- ❑ While inflation has risen, national economic growth is slowing and credit and financial markets remain somewhat strained
- ❑ Oklahoma's growth has held up better, boosted by strength in important industries and a more stable housing sector
- ❑ National growth forecasts for 2008 have been reduced, but Oklahoma seems poised for further moderate growth