

# U.S. & Oklahoma Economic Outlooks: Worsening, but Buoyed by Defense

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# Purposes and Structure of the Federal Reserve System

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- **Overall purposes of the Fed are to promote:**
  - Maximum sustainable economic growth
  - Low and stable inflation
  - National financial stability
- **Mission areas:**
  - Monetary policy – most visible role to the public, usually
  - Bank regulation – including lender of last resort
  - Payments systems – cash, checks, electronic payments
- **Monetary policy is set by the 12-member FOMC:**
  - The Federal Open Market Committee meets every 6 weeks
  - Voting members consist of:
    - the 7 Governors in Washington;
    - the New York Fed President;
    - 4 of the 11 other Fed presidents on a rotating basis

# Federal Reserve Districts and Office Locations

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# The Kansas City and Oklahoma City Offices

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- **Headquarters in Kansas City**

- Nearly **1,000 staff** involved in all mission areas
- **New building** officially opened in June 2008

- **Oklahoma City branch office**

- **Staff and functions** – 35 staff involved in economic research, bank examinations, and public and community affairs
- **Branch board of directors** – 7 members from around the state; provide anecdotal information in advance of each FOMC meeting

- **Oklahoma City branch board of directors**

- *Chairman* **Steve Agee**, President, Agee Energy, and Professor, OCU, Oklahoma City
- **Terry Almon**, President, Oklahoma Community Capital Corp., Broken Arrow
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
- **Fred Ramos**, President, RGF, Inc., Oklahoma City
- **Doug Tippens**, President and CEO, Canadian State Bank, El Reno
- **K. Vasudevan**, Chairman, Service and Technology Corp., Bartlesville

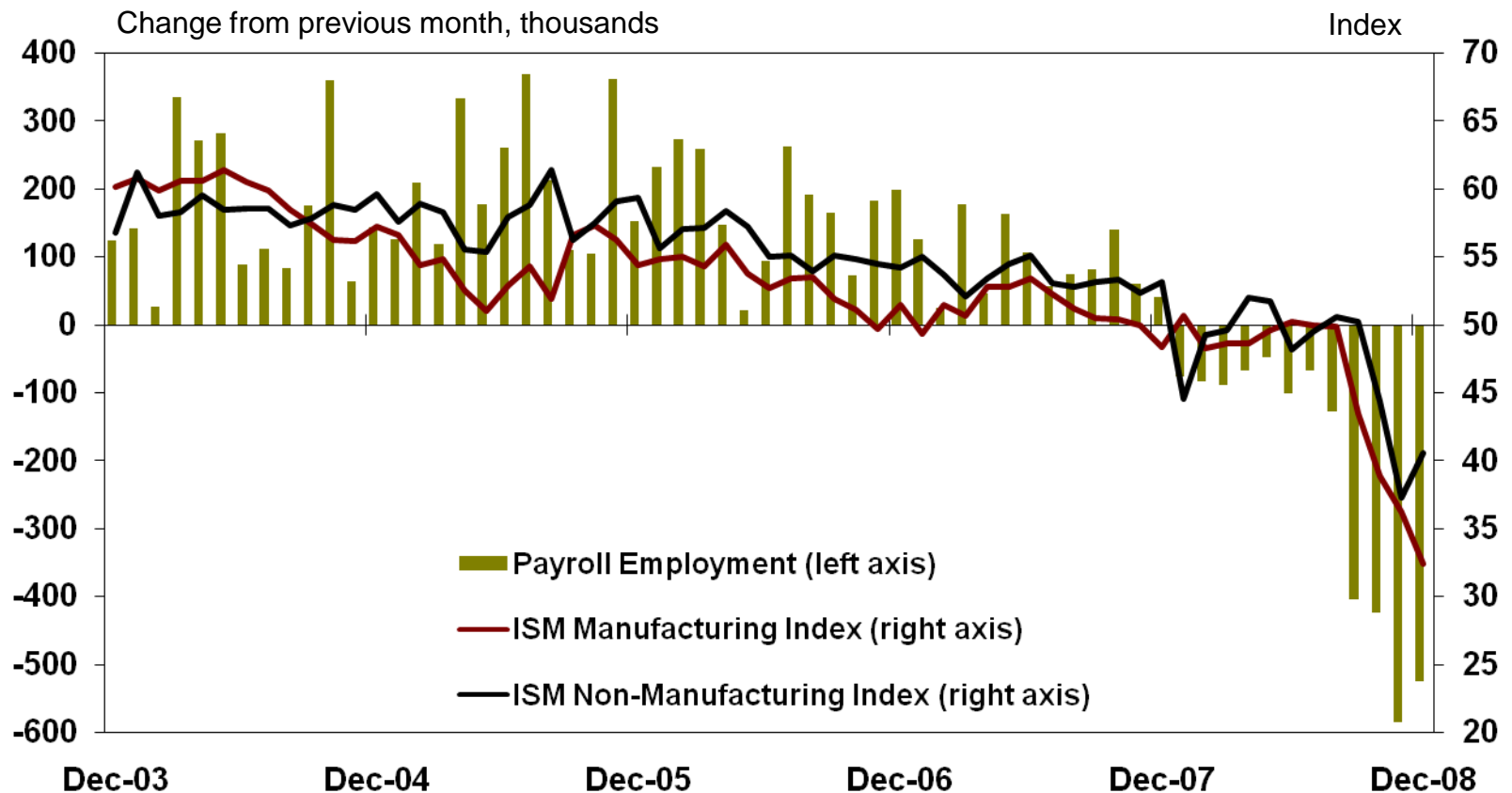
# The U.S. Economic Outlook

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- U.S. economic activity has worsened markedly in recent months, pulling down all regions
- Credit markets show signs of improving, but forecasters are calling for weak economic activity through much of 2009
- Inflation pressures have eased, driven by falling energy prices and reduced wage pressures

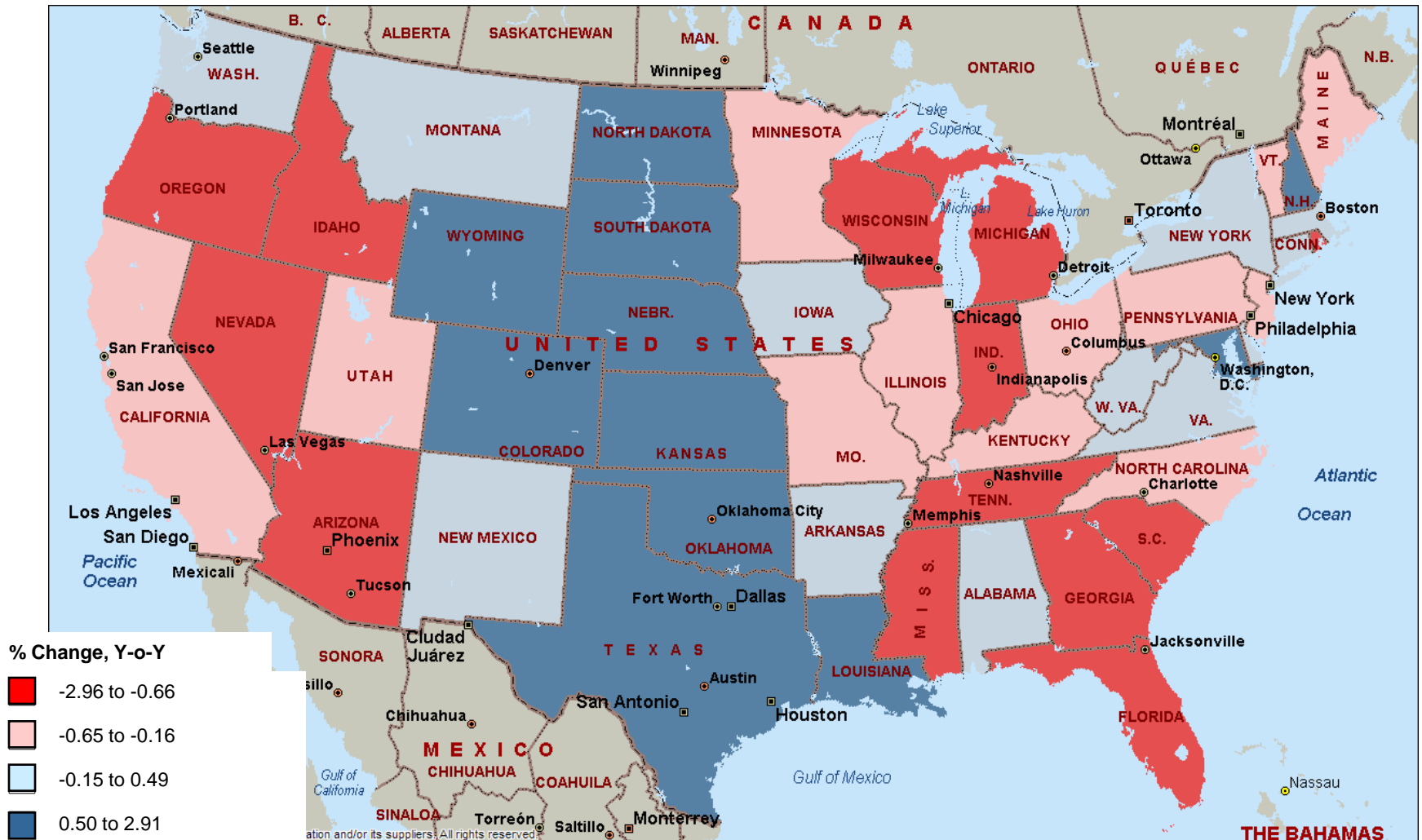
# Fourth quarter data showed a clear weakening of U.S. economic conditions

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



# Though conditions still vary across the country, growth is slowing everywhere

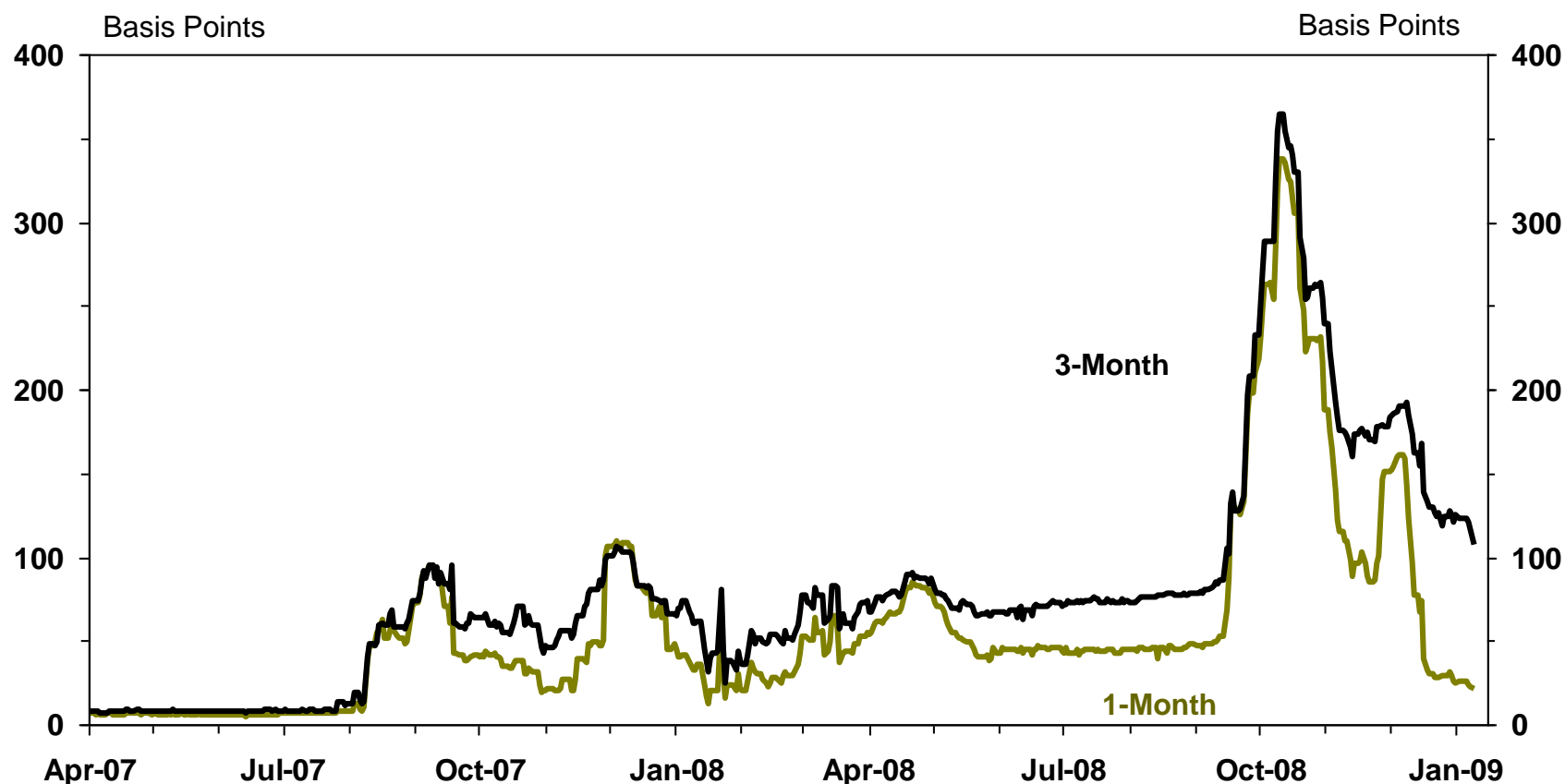
## Payroll Employment Growth, November 2008



Source: Bureau of Labor Statistics

# Short-term credit conditions are finally improving after worsening dramatically in September

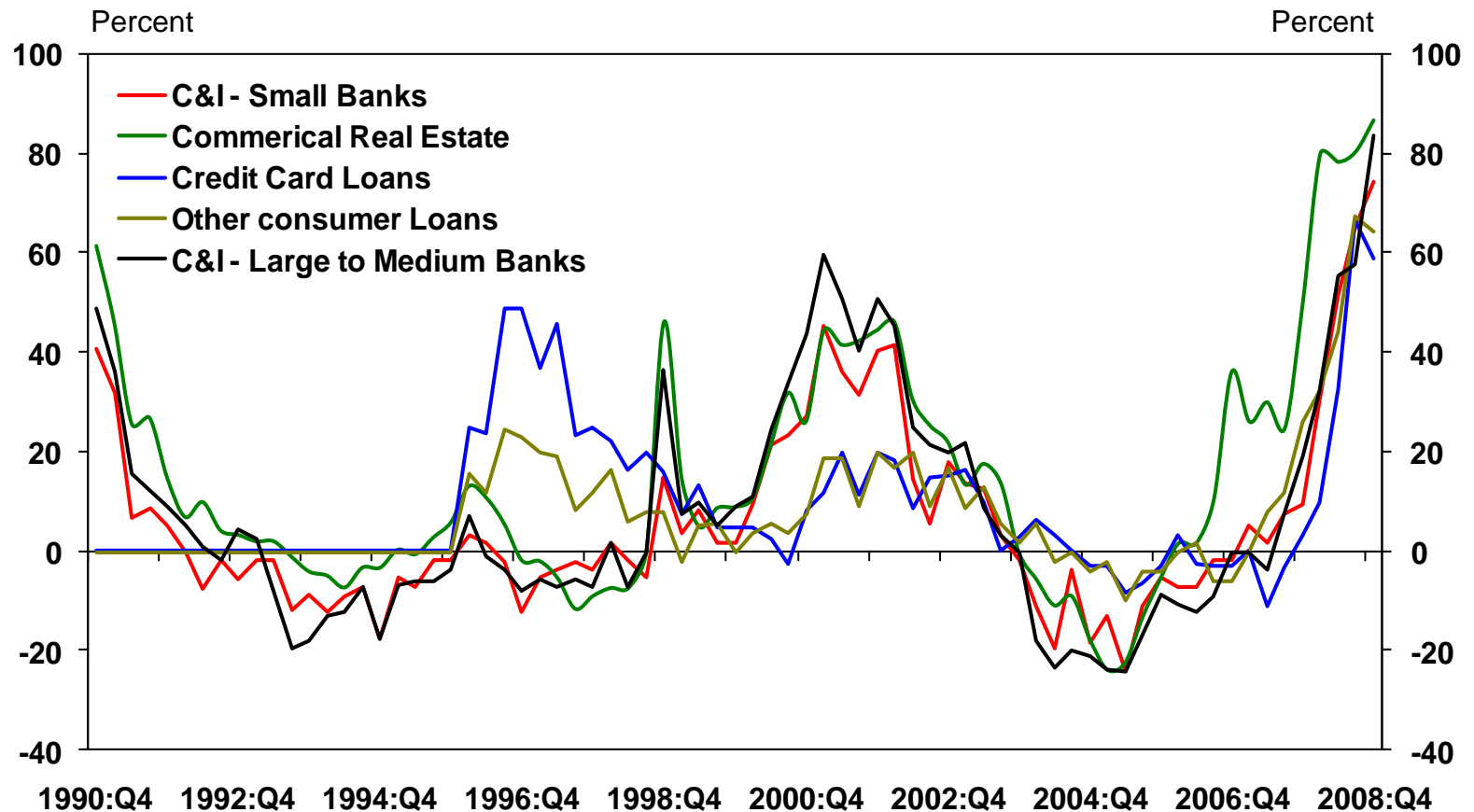
## LIBOR-OIS Spread





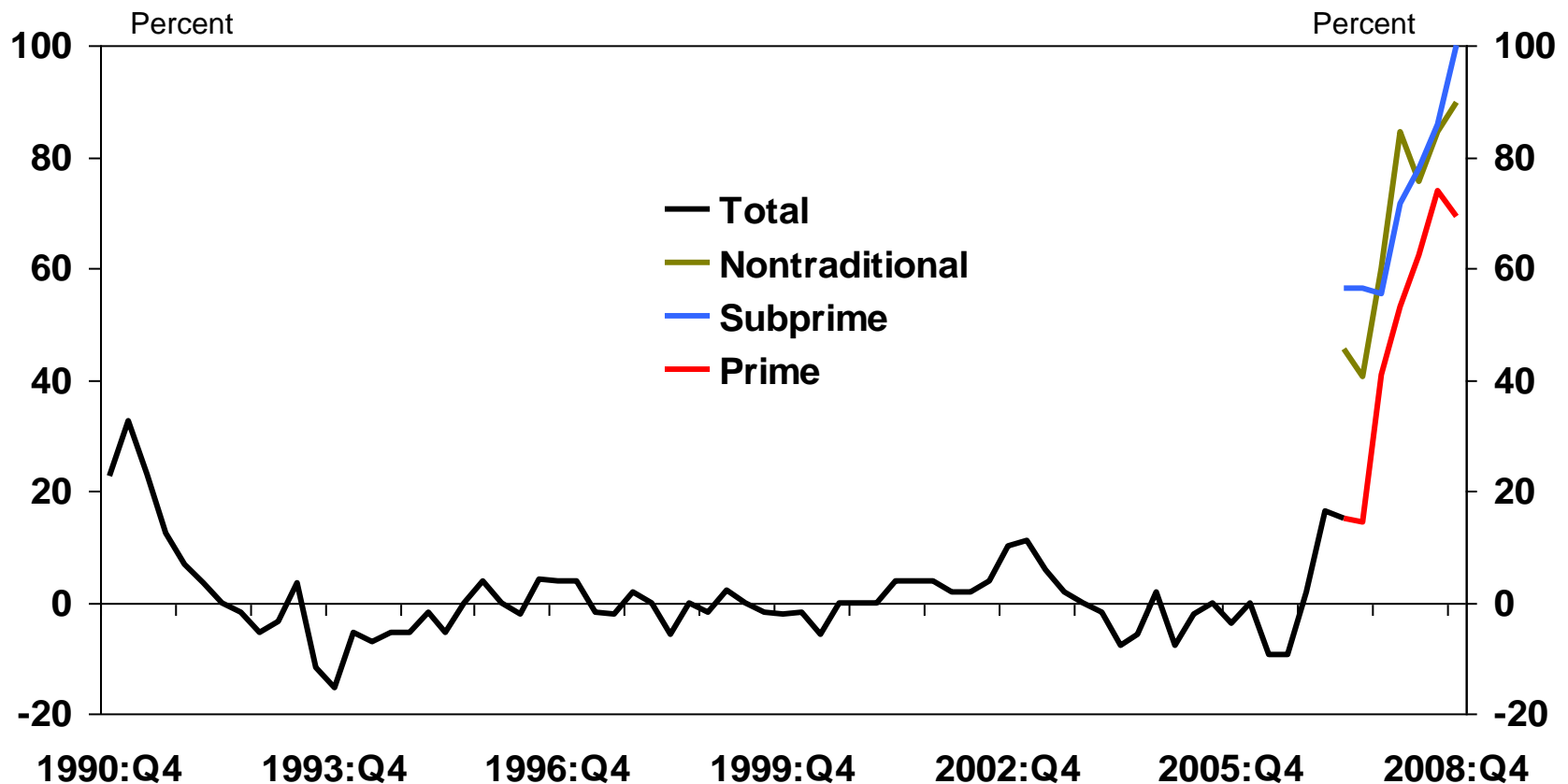
# Still, lending standards on business and consumer loans have tightened

## Net Percentage of Banks Tightening Loan Standards



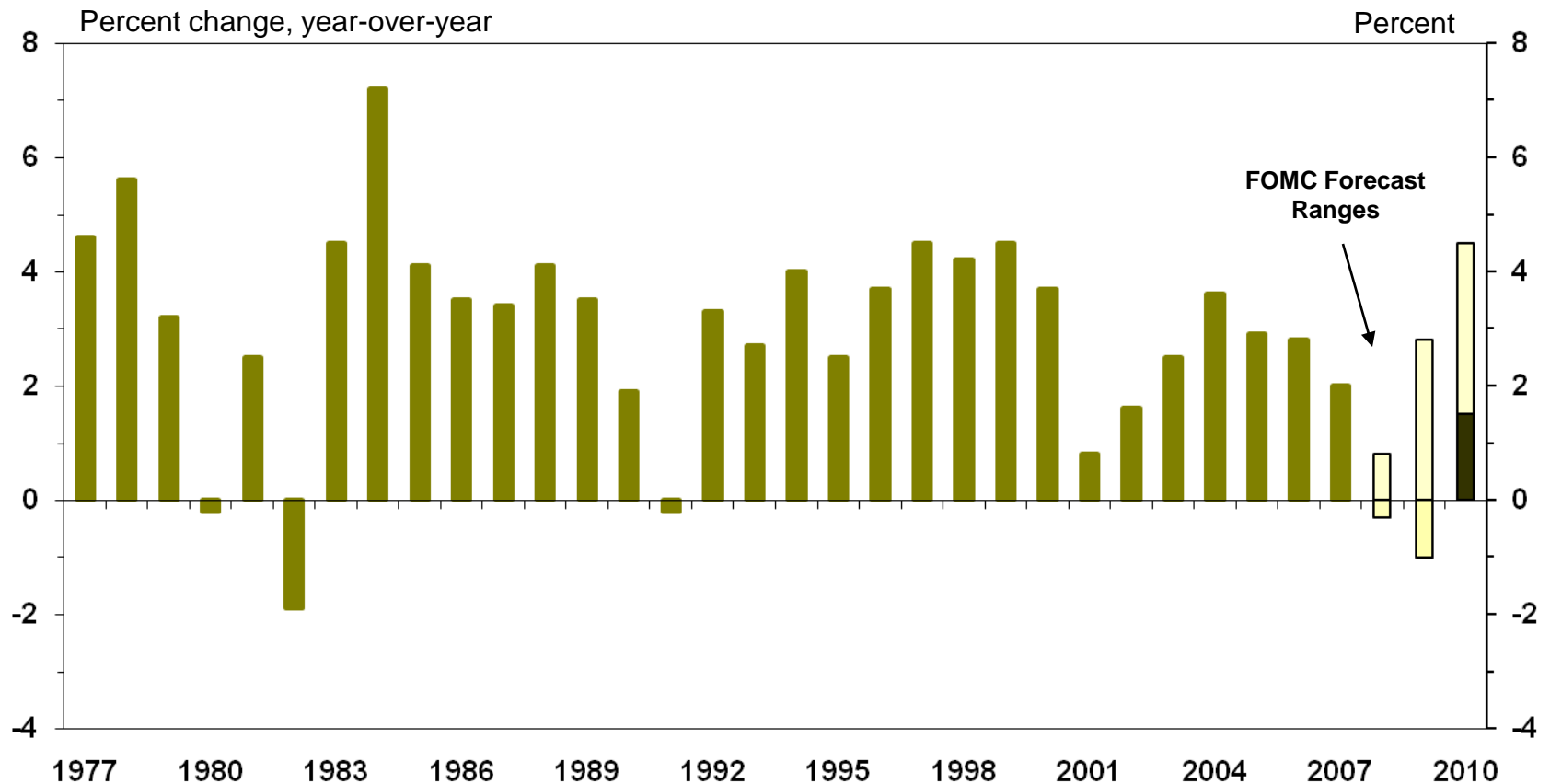
# And nearly all banks have tightened standards on mortgage loans

**Net Percentage of Banks Tightening Mortgage Loan Standards**



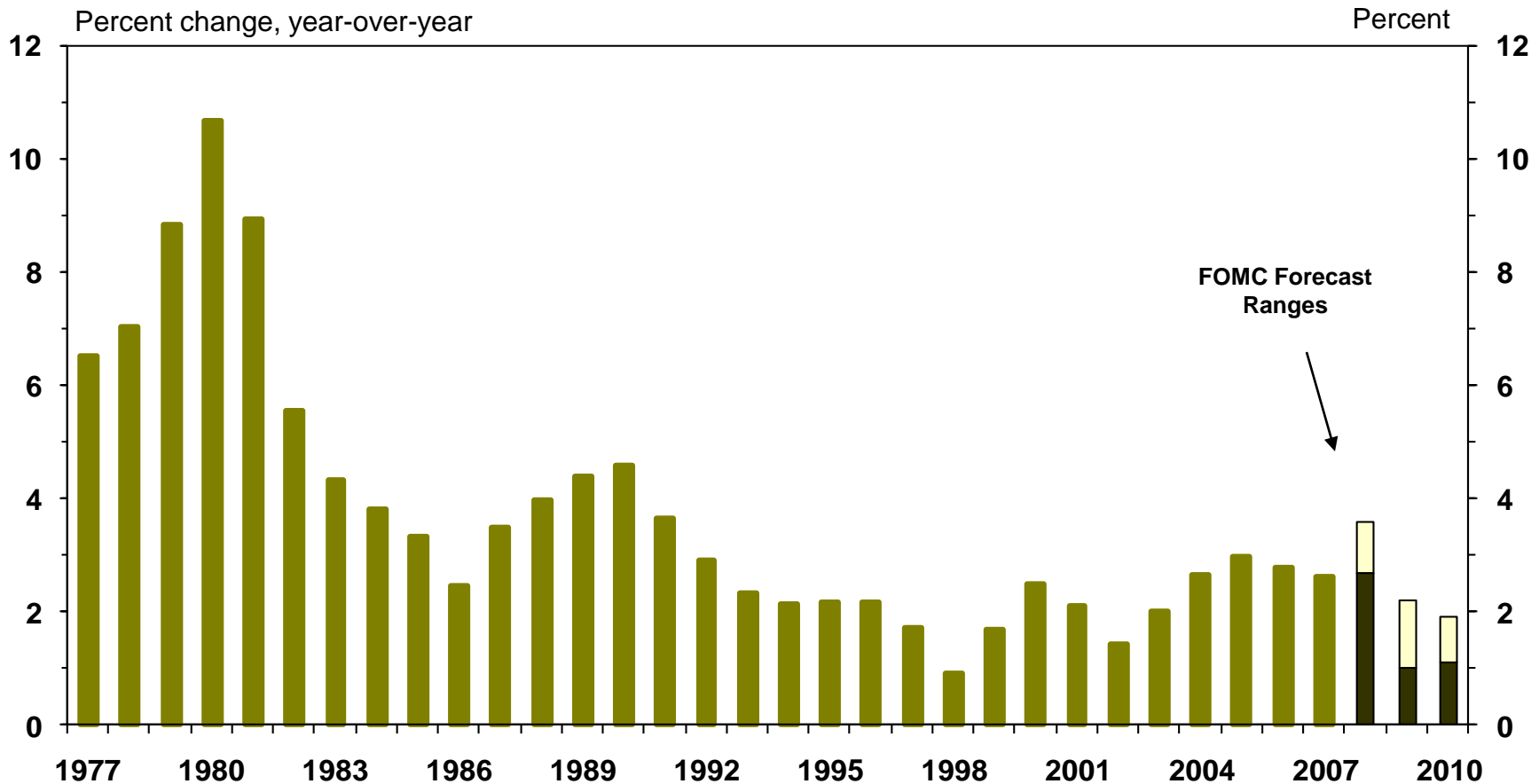
# Considerable uncertainty surrounds the near and intermediate-term economic outlook

## Gross Domestic Product



# Meanwhile, inflation is expected to continue to ease after rising in early 2008

## PCE Inflation Index



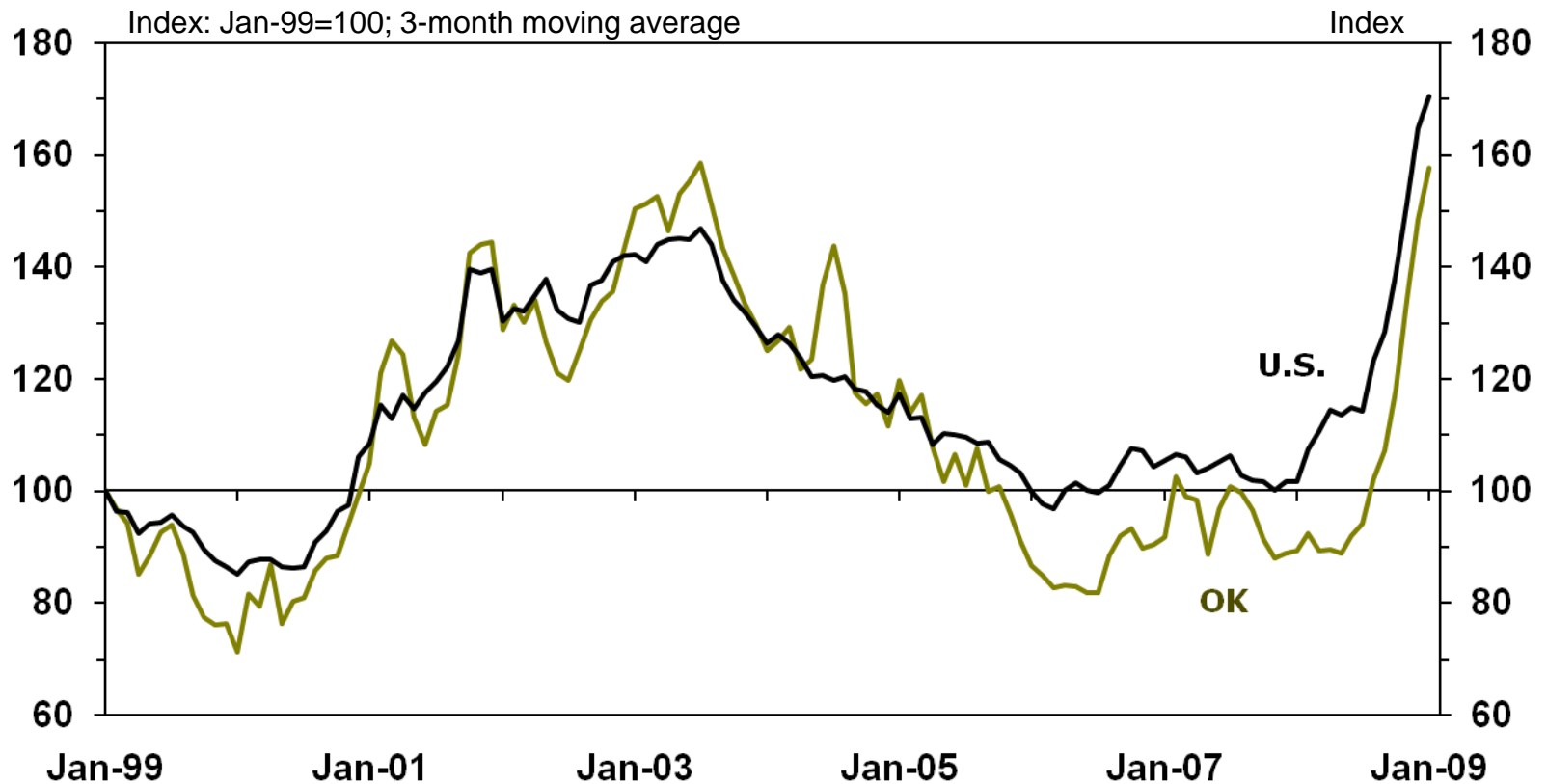
# The Oklahoma Economic Outlook

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- ❑ Oklahoma unemployment is now rising, though we're still outperforming the nation
- ❑ Conditions in energy, agriculture, and manufacturing have weakened markedly
- ❑ The national situation bears watching, as do the direction of oil and gas prices

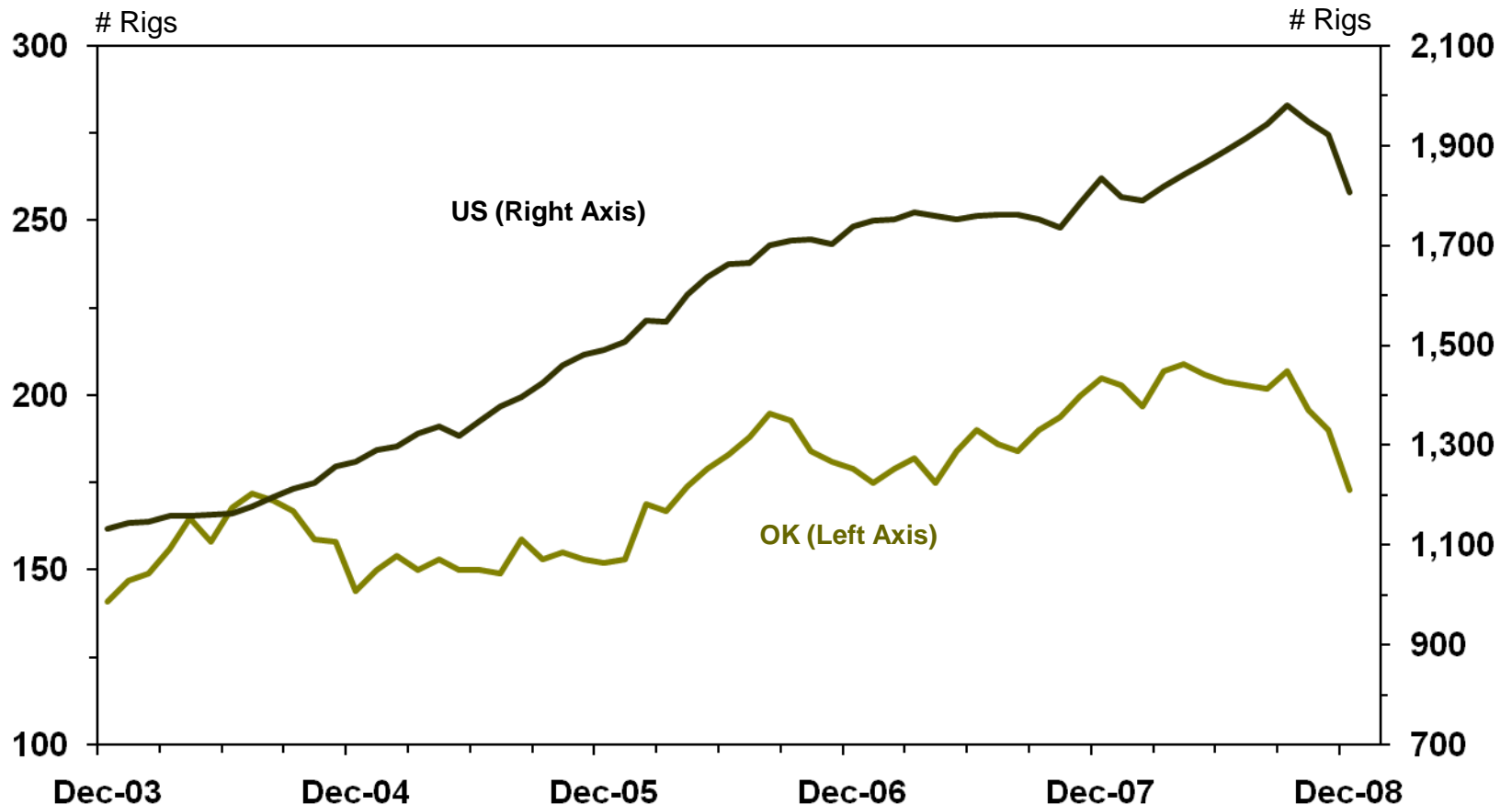
# Unemployment claims are rising rapidly, changing the picture for the state

## Weekly Unemployment Insurance Claims



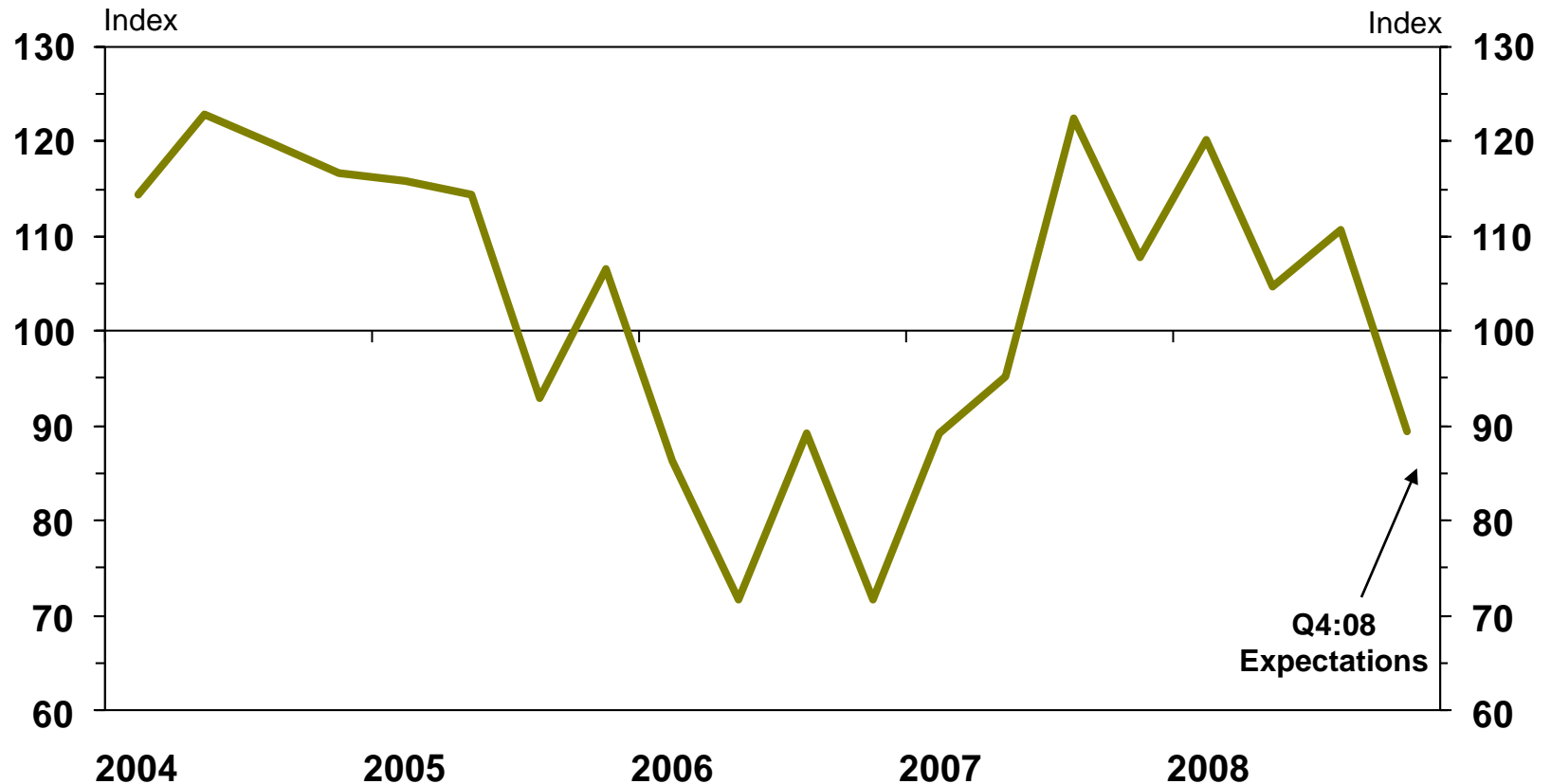
# The rig count has fallen sharply in recent months and is expected to fall further

## Count of Active Drilling Rigs



# Expectations for farm capital spending have also dropped in Oklahoma

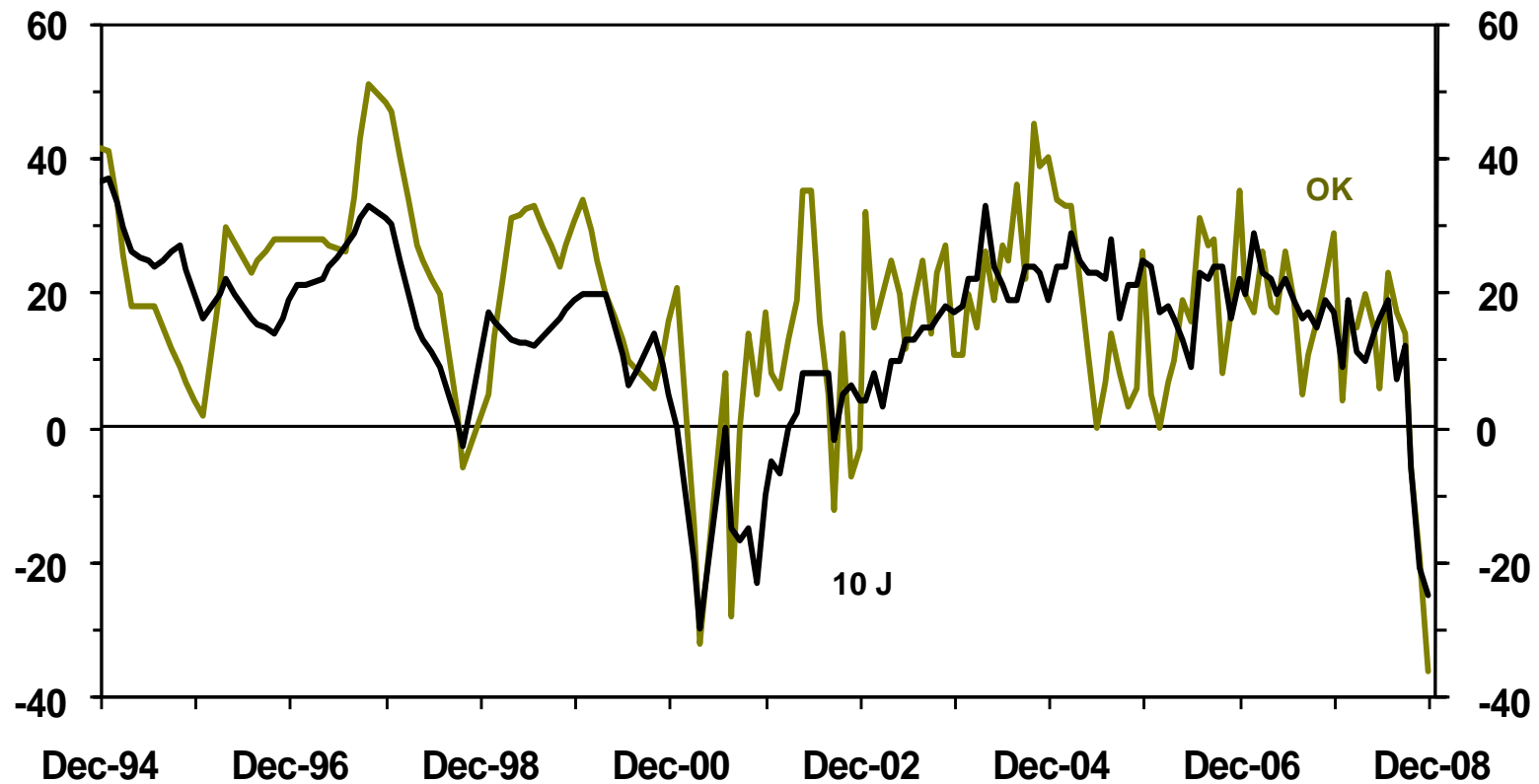
## Oklahoma Farm Capital Spending Index





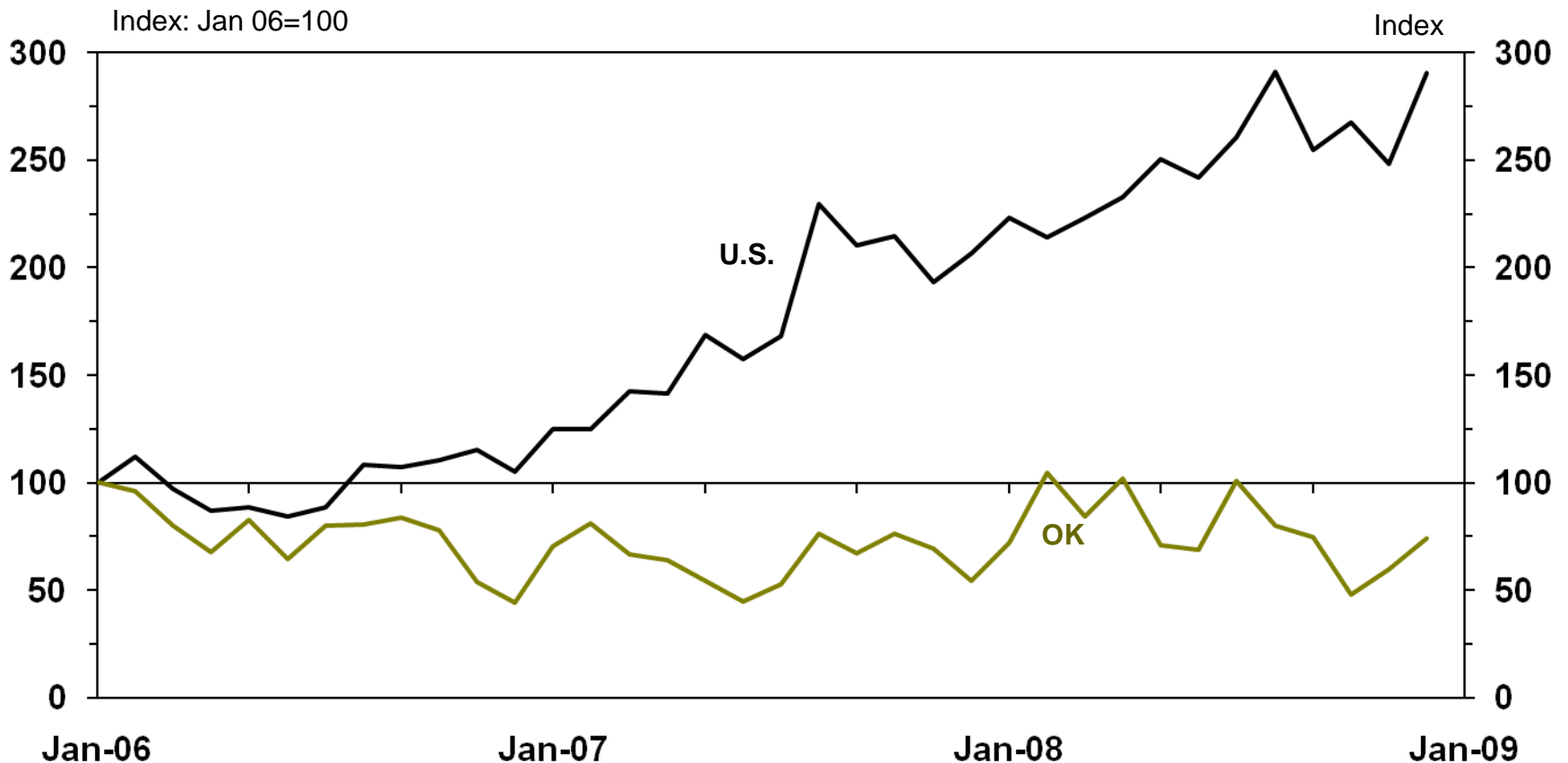
# Most factories now plan to cut 2009 capital spending, in contrast to a few months ago

**Manufacturing Capital Spending Plans**  
Six-months ahead



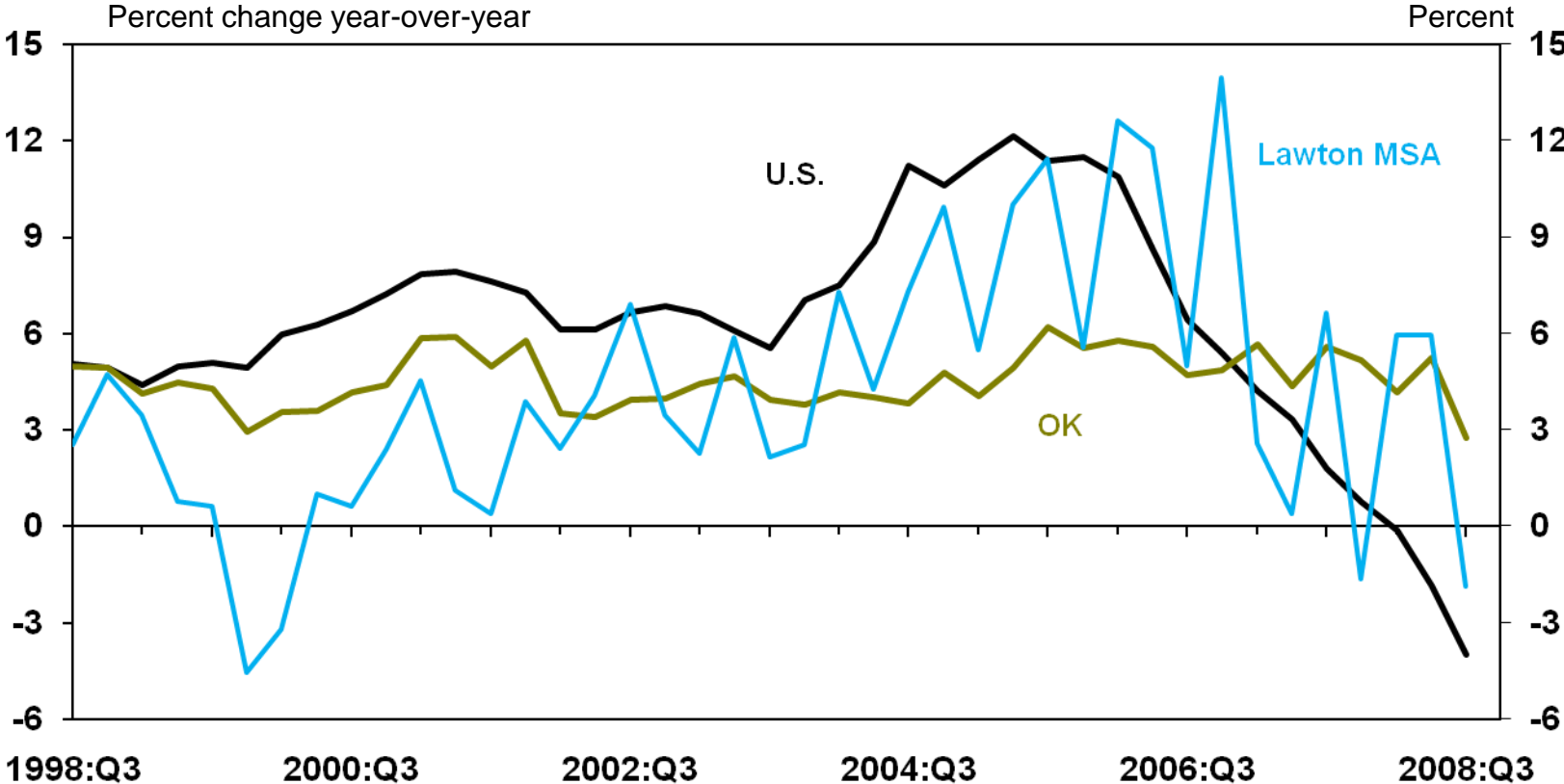
# So far, foreclosures have been relatively low in Oklahoma compared to the nation

Total Foreclosures, U.S. vs. Oklahoma



# Oklahoma home prices continued to grow through Q3 2008, even as U.S. prices fell

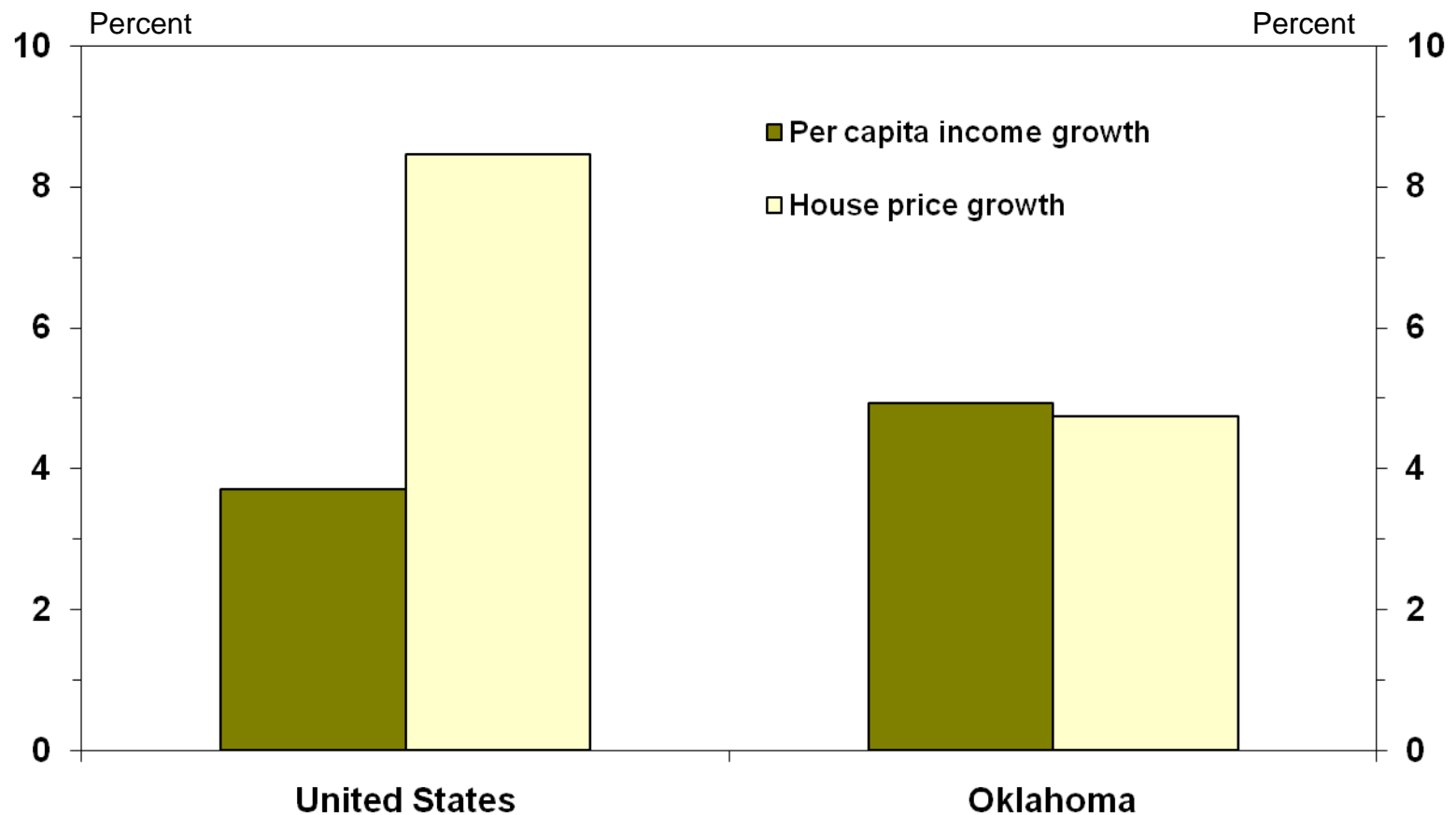
### Quality-Adjusted Home Price Growth



Source: OFHEO

# House price fundamentals were more in line in Oklahoma from 2000 to 2005

**Annual Growth in Per Capita Incomes and Home Prices**  
2000 - 2005



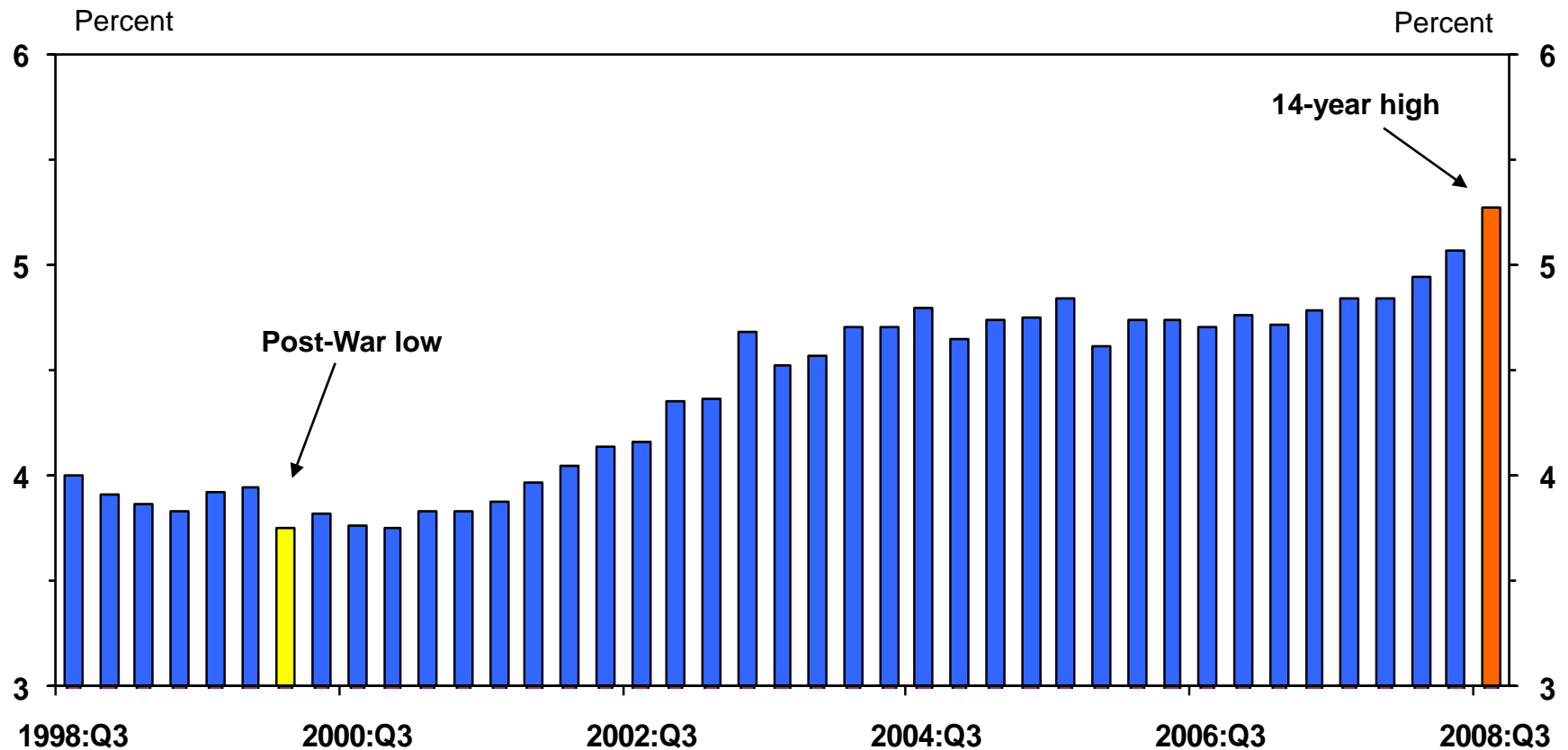
# National Defense in the Economy

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- The defense sector has been increasingly important to both Oklahoma and the U.S. in recent years
- In both the near and longer-term, it appears defense could provide a boost in southwest Oklahoma

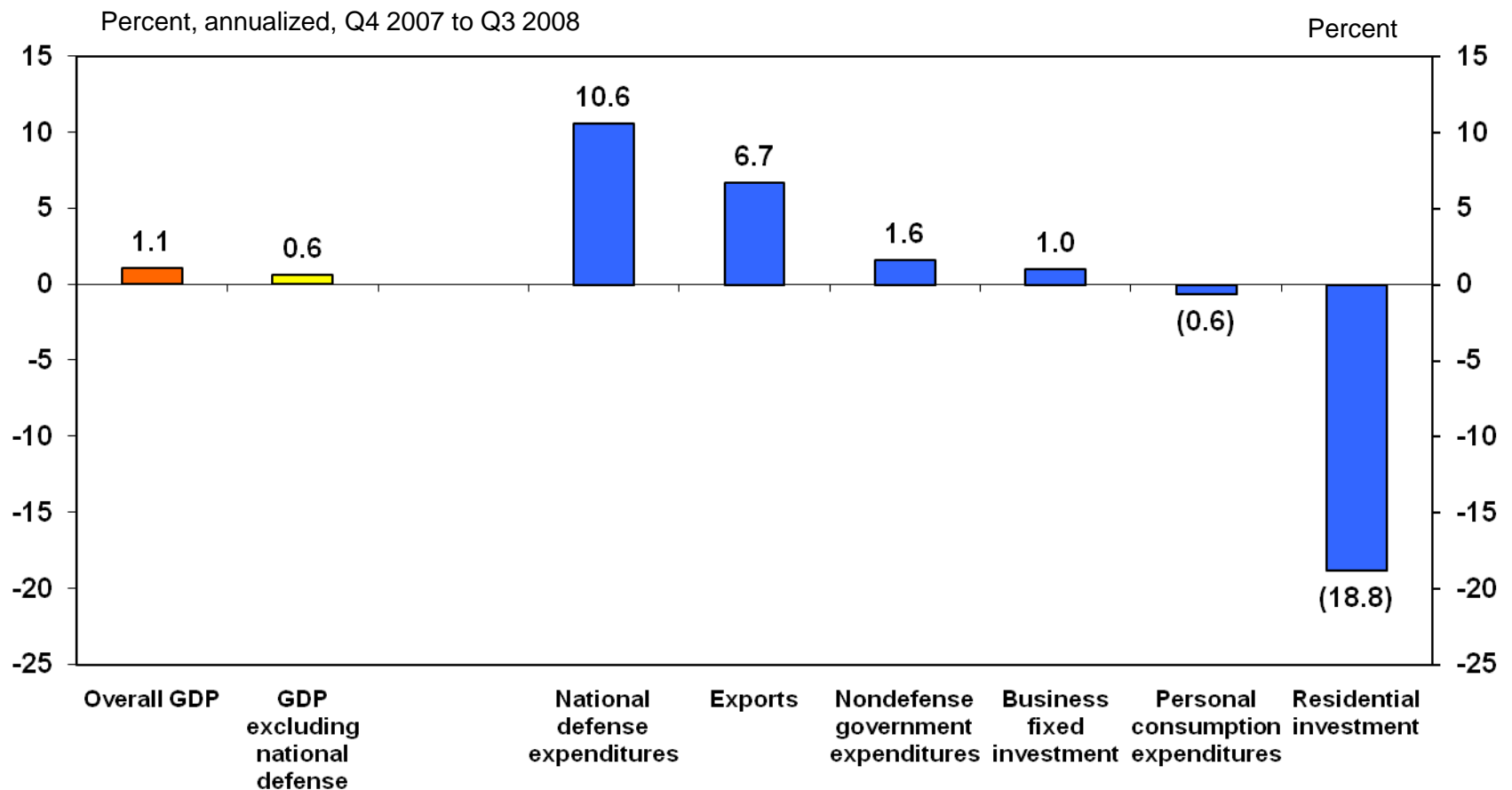
# National defense has grown in importance to the U.S. economy in recent years

National Defense Spending as a Share of U.S. GDP



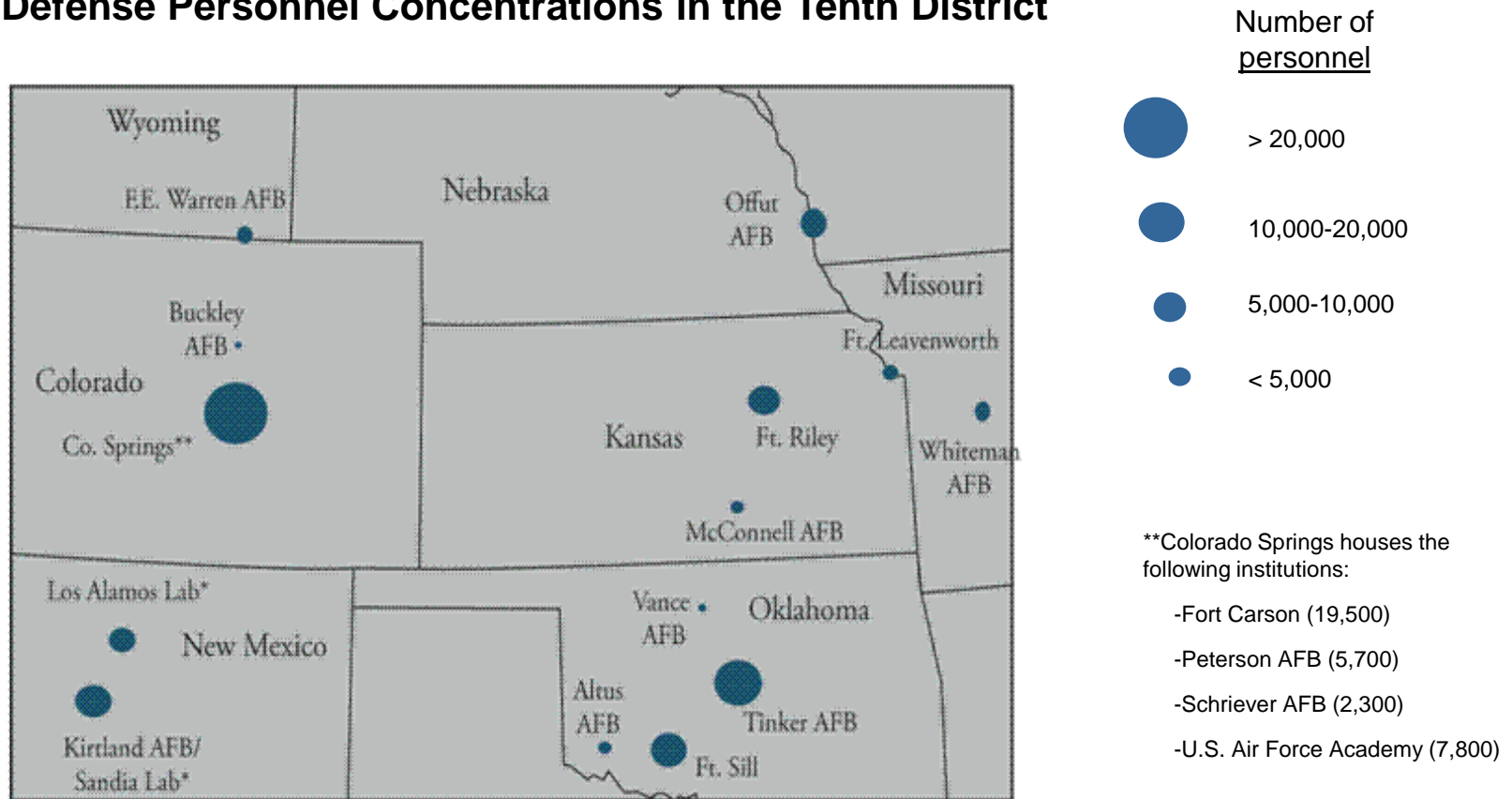
# Indeed, defense spending grew more than the rest of the U.S. economy in 2008

## Real GDP growth in 2008, including components



# The Tenth District has some of the nation's largest military installations

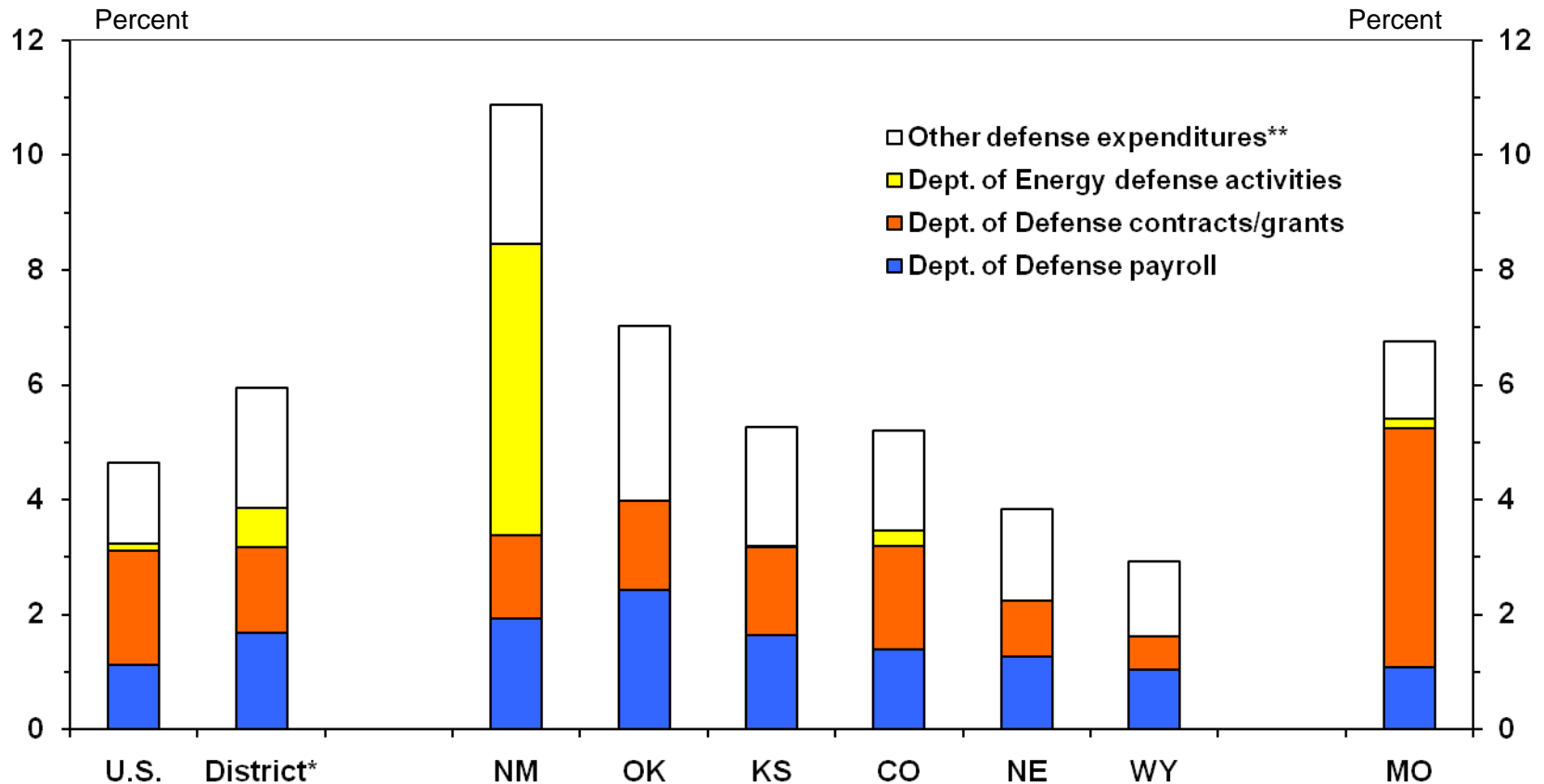
## Defense Personnel Concentrations in the Tenth District





# And the District has a large defense presence overall

## Defense Spending as a Share of GDP, 2006



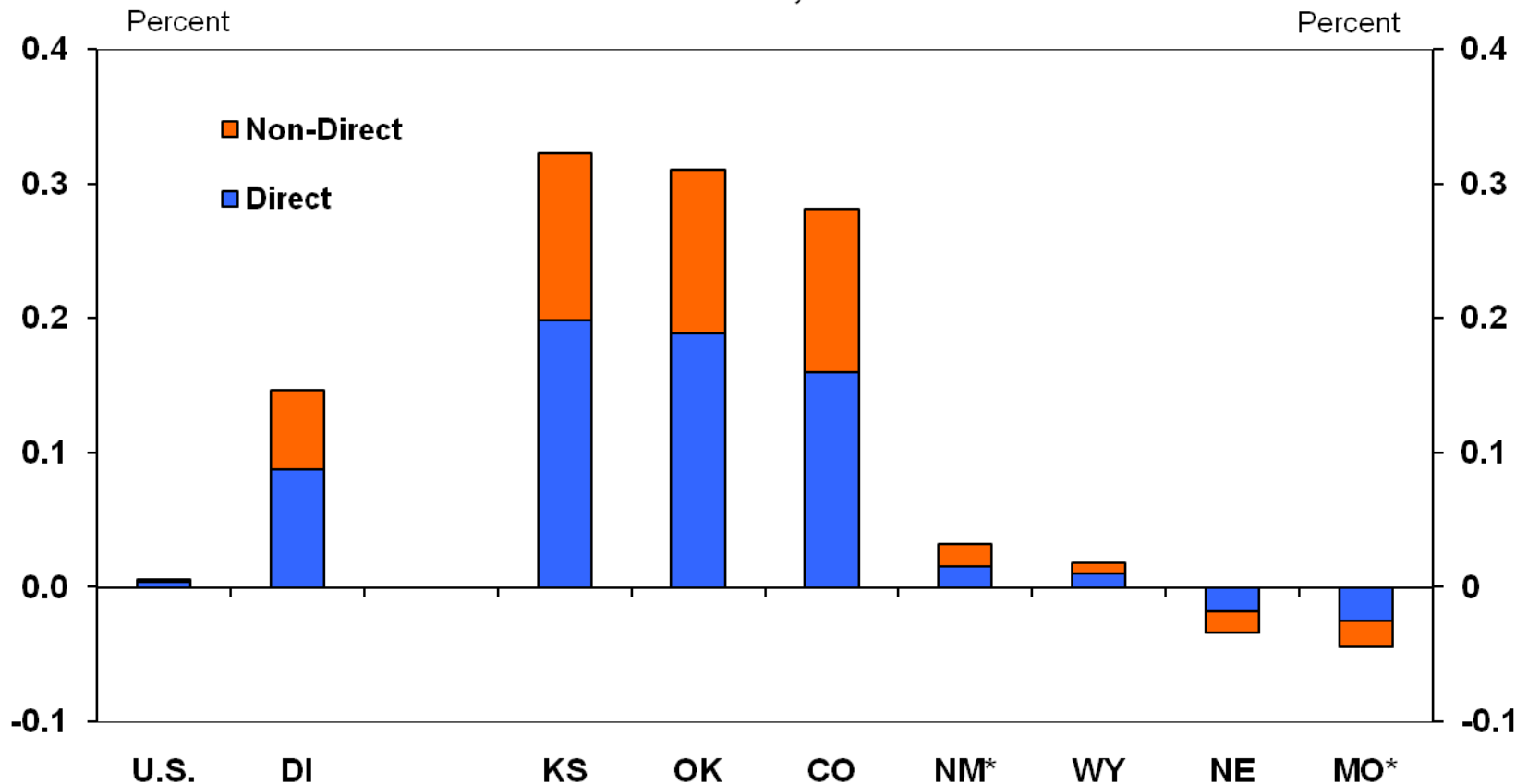
\* Excluding Missouri

\*\* Actual for U.S., estimated for District and states

Sources: U.S. Departments of Defense and Energy, Bureau of Economic Analysis

# Several District states were big winners in the current BRAC round

**Projected Employment Growth from 2005 BRAC Recommendations, 2006-2010**

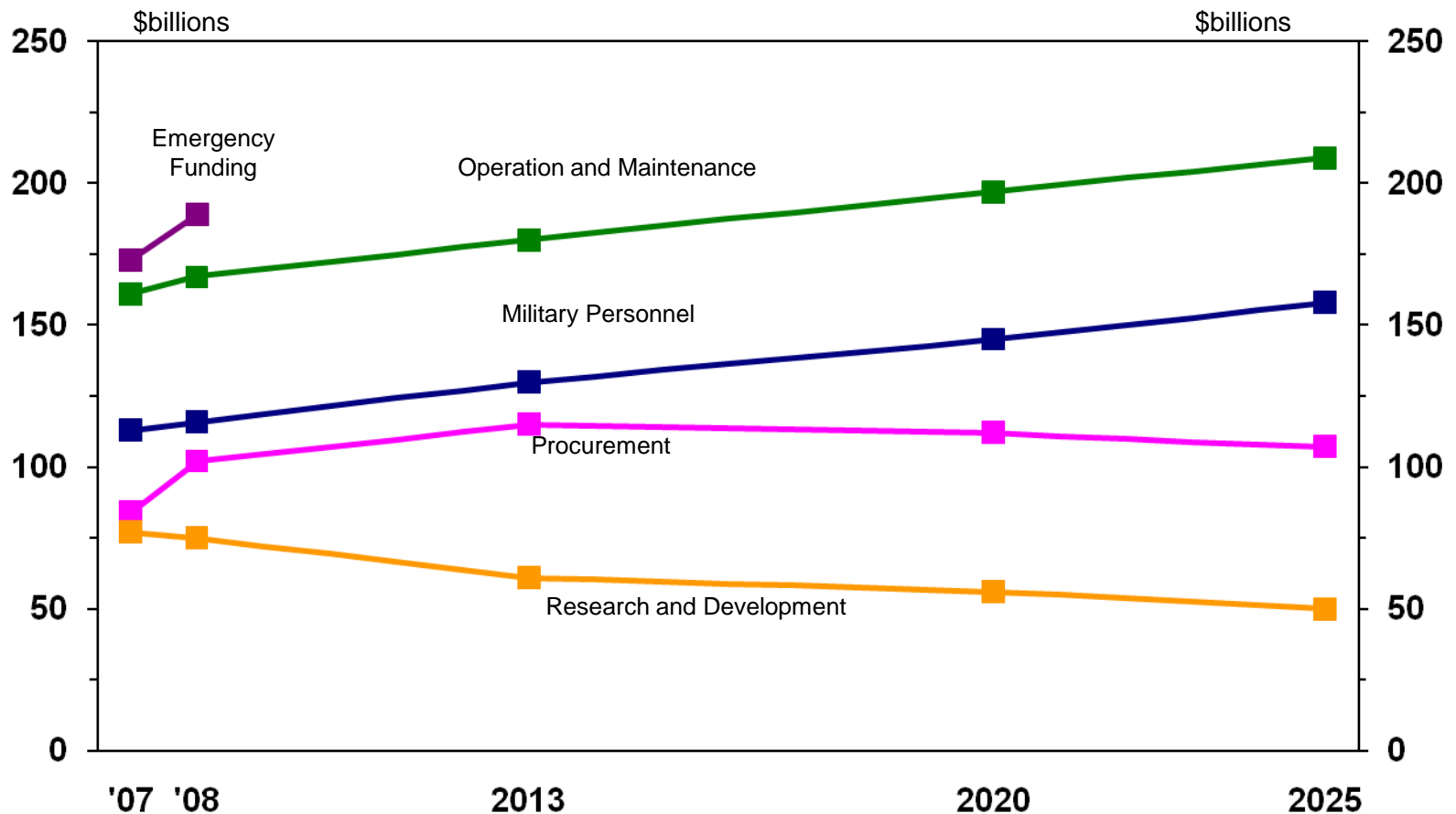


\*Tenth District Only

Source: U.S. Department of Defense

# The types of defense concentrated in the region are expected to grow long-term

## Projected U.S. Resources for Defense, 2007-2025



Source: Congressional Budget Office

# Summary

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- ❑ U.S. economic conditions have deteriorated with tightening credit, and the outlook is uncertain
- ❑ Oklahoma conditions remain better, buoyed by housing and defense, but some recent high-frequency data have been worse for the state
- ❑ Efforts to boost U.S. growth should benefit Oklahoma, but commodity prices bear watching