

Recession and Recovery in the U.S. and Oklahoma



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Purposes and Structure of the Federal Reserve System

- **Overall purposes of the Fed are to promote:**
 - Maximum employment – mandated by Congress
 - Low and stable inflation – mandated by Congress
 - National financial stability – in conjunction with others
- **The primary functional areas of the Fed are:**
 - Monetary policy – most visible role to the public, usually
 - Bank regulation – including lender of last resort
 - Payments systems – cash, checks, electronic payments
- **The Federal Reserve System consists of:**
 - Board of Governors: 7 members who are appointed by the U.S. President and confirmed by the Senate to serve 14-year terms.
 - Federal Reserve Banks: 12 Banks, each serving a unique district.
 - Federal Open Market Committee (FOMC): Comprised of the 7 Governors and the 12 Reserve Bank presidents (only 5 presidents are voting members, on a rotating basis).

Federal Reserve Districts and Office Locations



The Kansas City and Oklahoma City Offices

- **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**

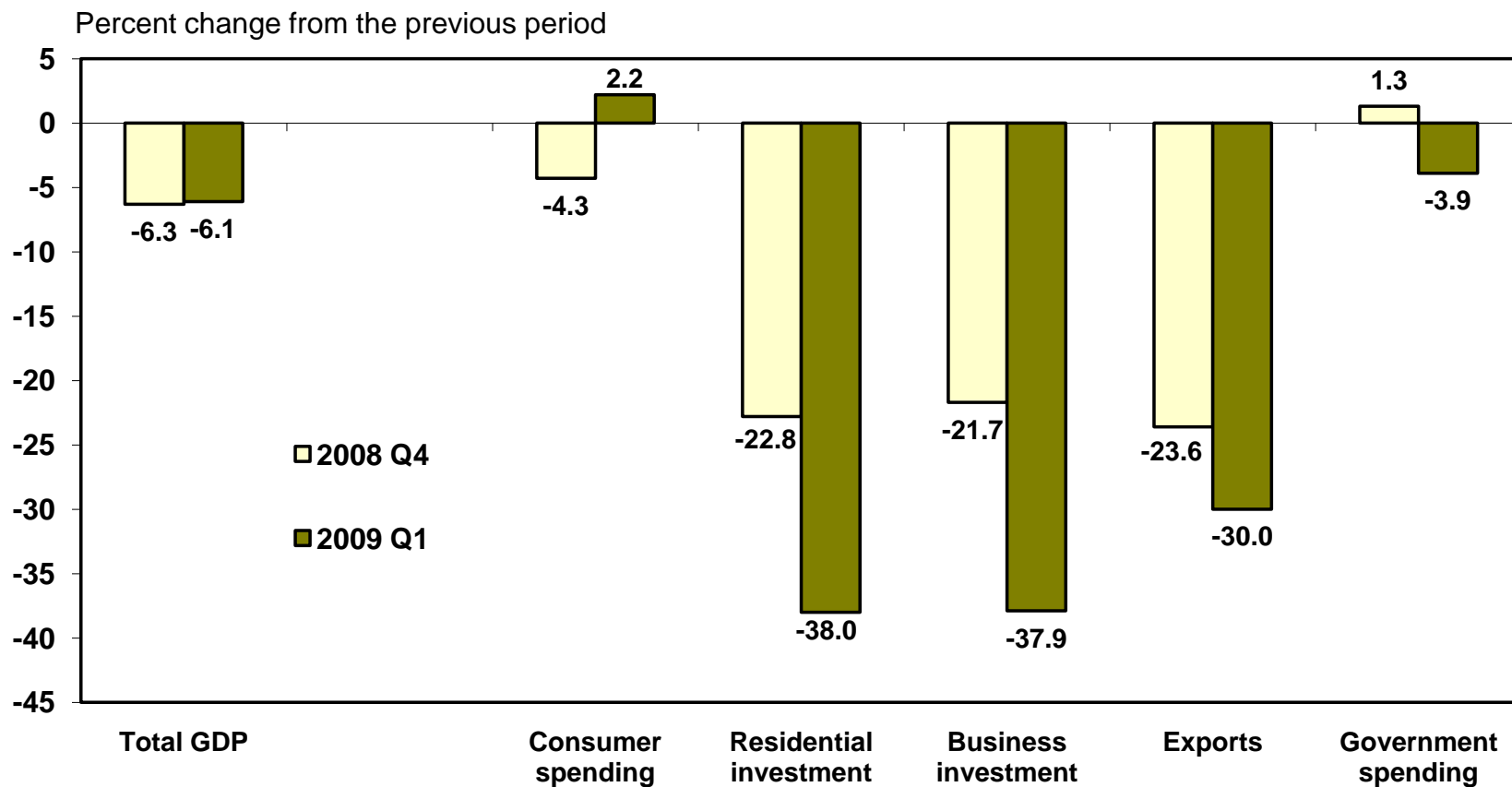
- *Chairman* **Steve Agee**, President, Agee Energy, and Professor, OCU, Oklahoma City
- **Terry Almon**, President, Oklahoma Community Capital Corp., Broken Arrow
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
- **Fred Ramos**, COO,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

The U.S. Economy

- The U.S. economy is still declining but may be nearing a bottom
- The strength of recovery will depend in part on better functioning credit markets
- Inflation has eased and is expected to remain tame in the near term

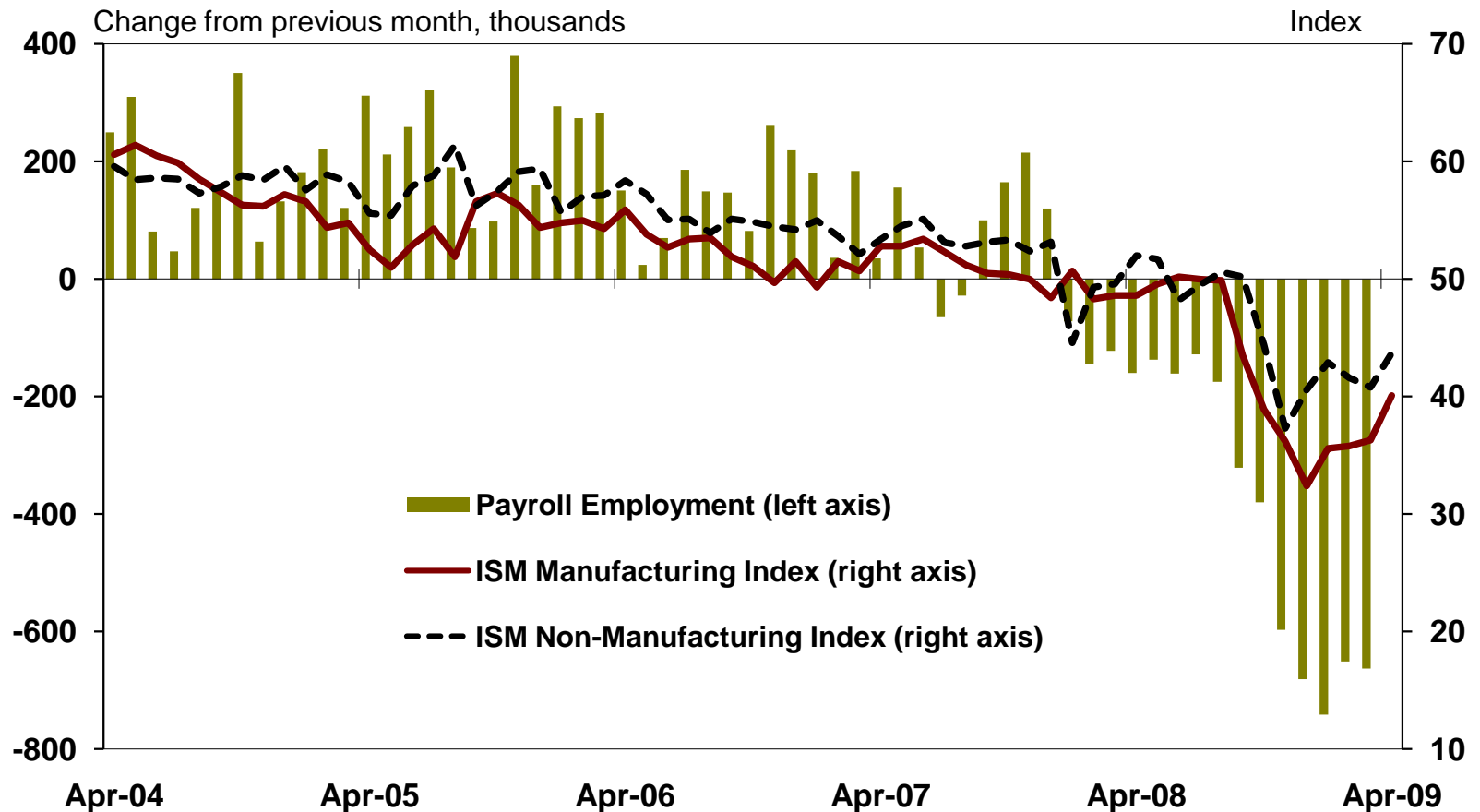
Consumer spending was positive in the first quarter, but other measures weakened further

Growth in Components of GDP



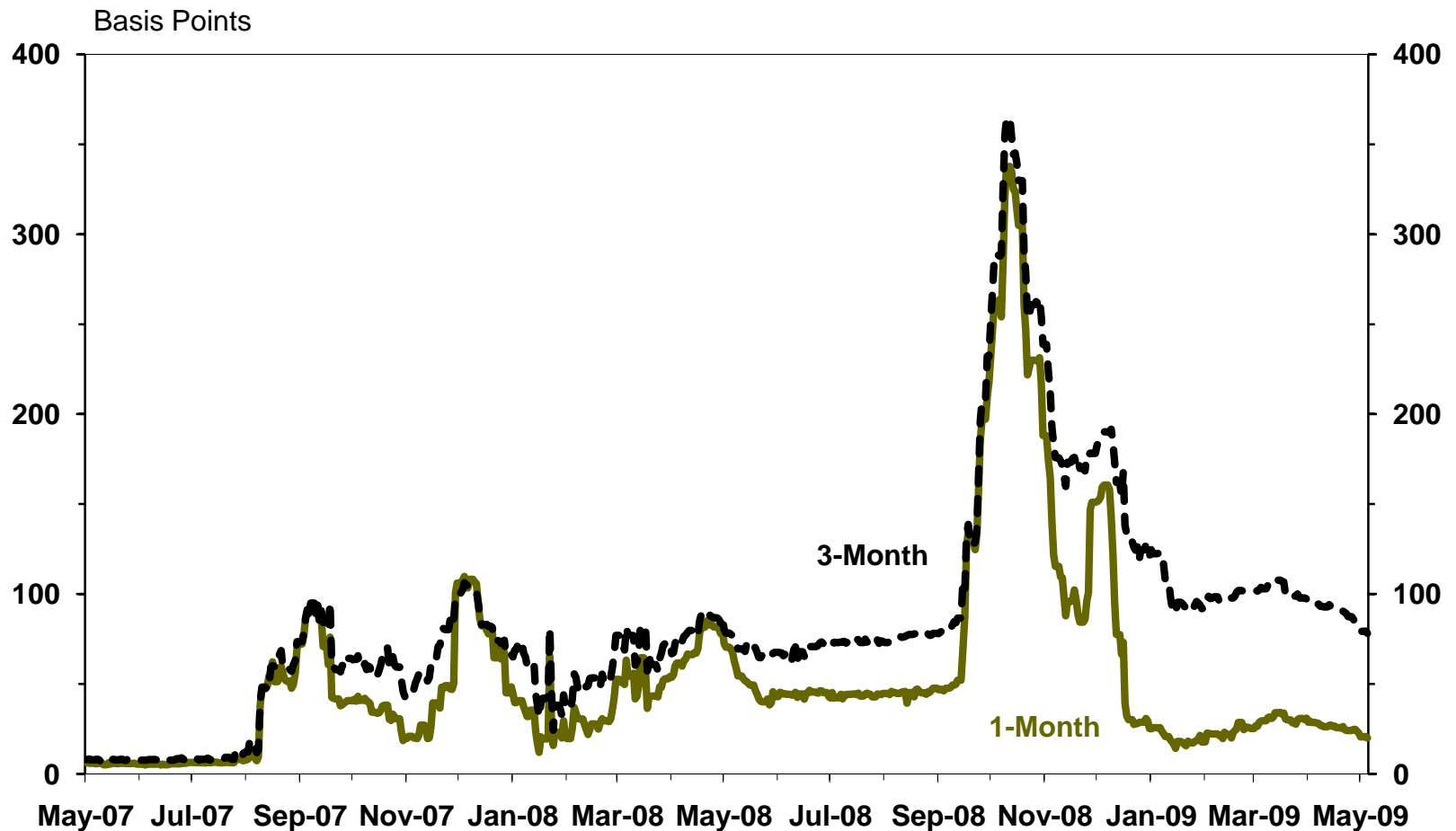
Weak business activity has continued into April, but the declines are getting smaller

National Business Indexes and Payroll Employment



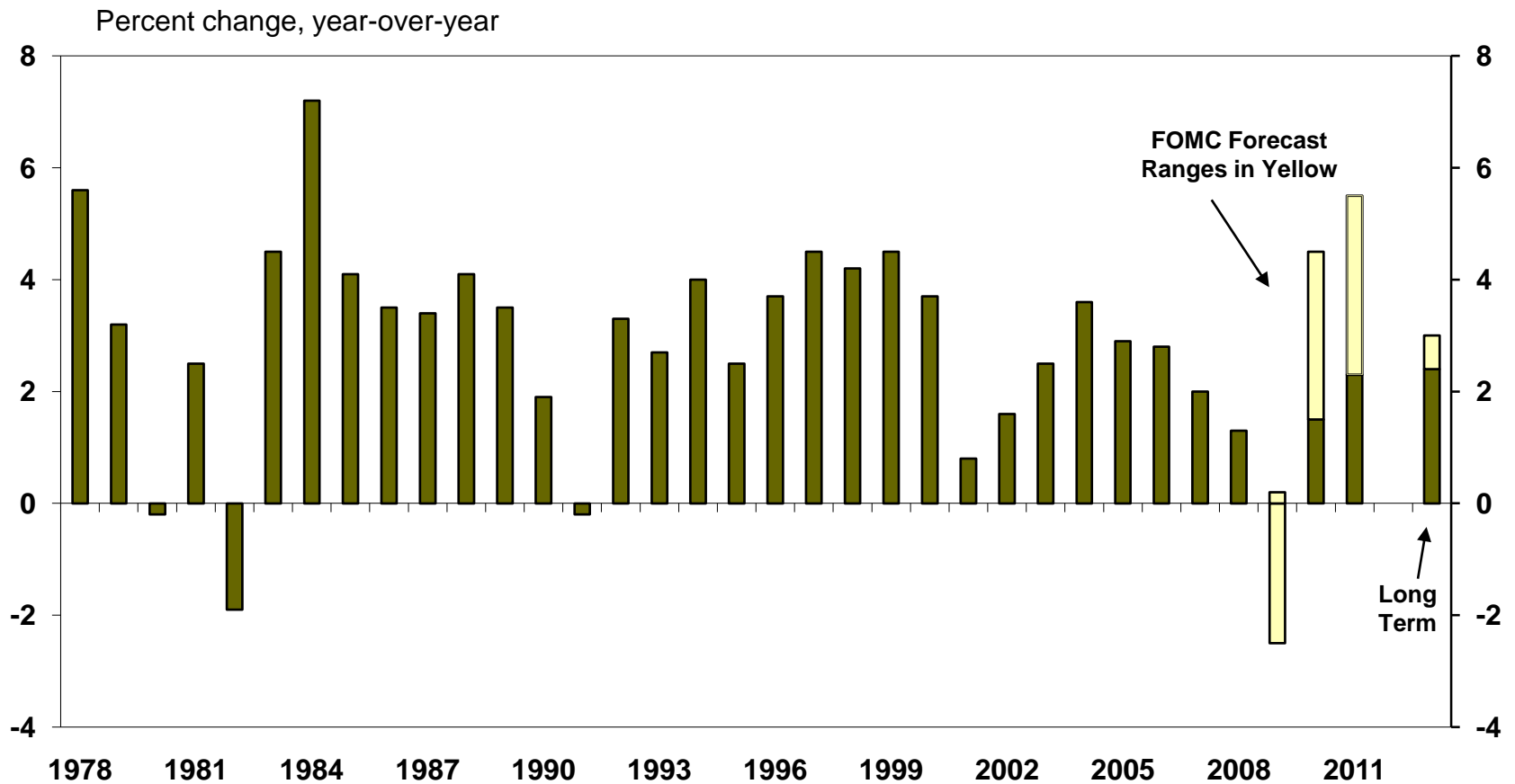
Interbank lending conditions have improved, but remain somewhat strained

LIBOR-OIS Spread



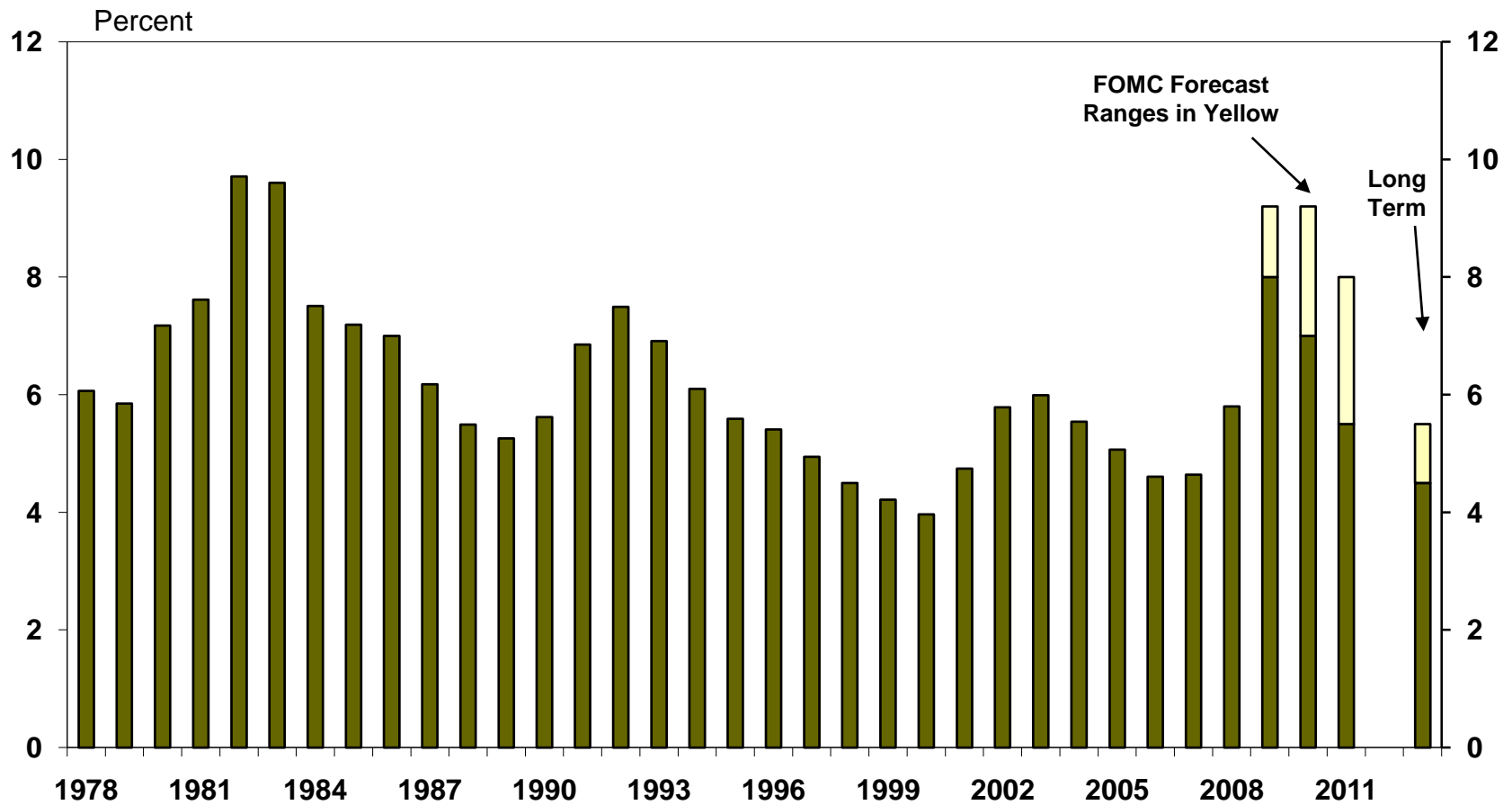
Heading forward, policy makers generally expect a gradual recovery

Gross Domestic Product



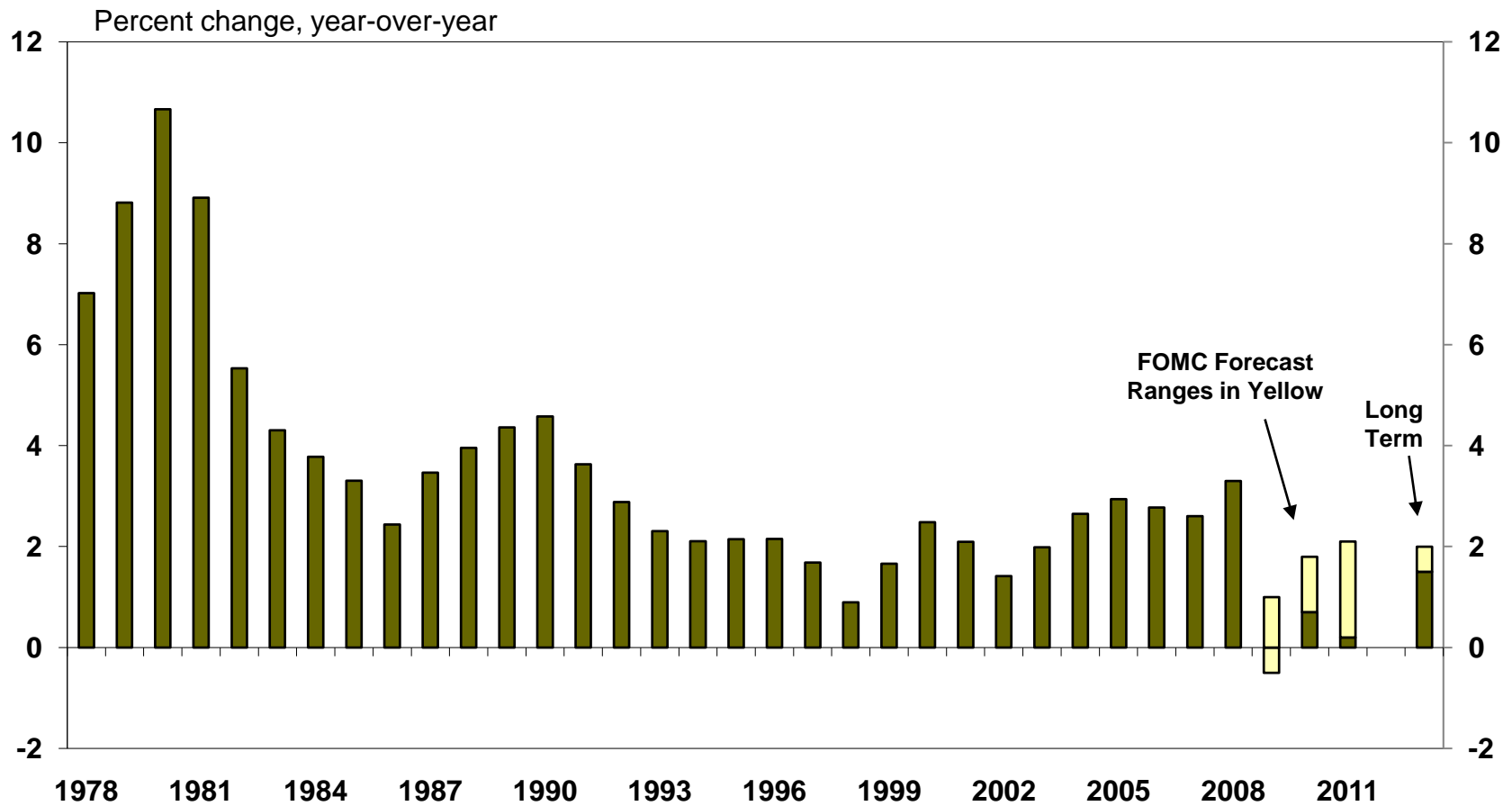
But U.S. unemployment is expected to rise further

Unemployment Rate
Seasonally Adjusted



Meanwhile, inflation is expected to moderate after rising in 2008

PCE Inflation Index



The Oklahoma Economy

- The state's economy and housing sector remain stronger than in the nation
- But the recent downturn in energy activity has dragged the state into recession
- Efforts to boost the U.S. economy are coming at a good time for Oklahoma

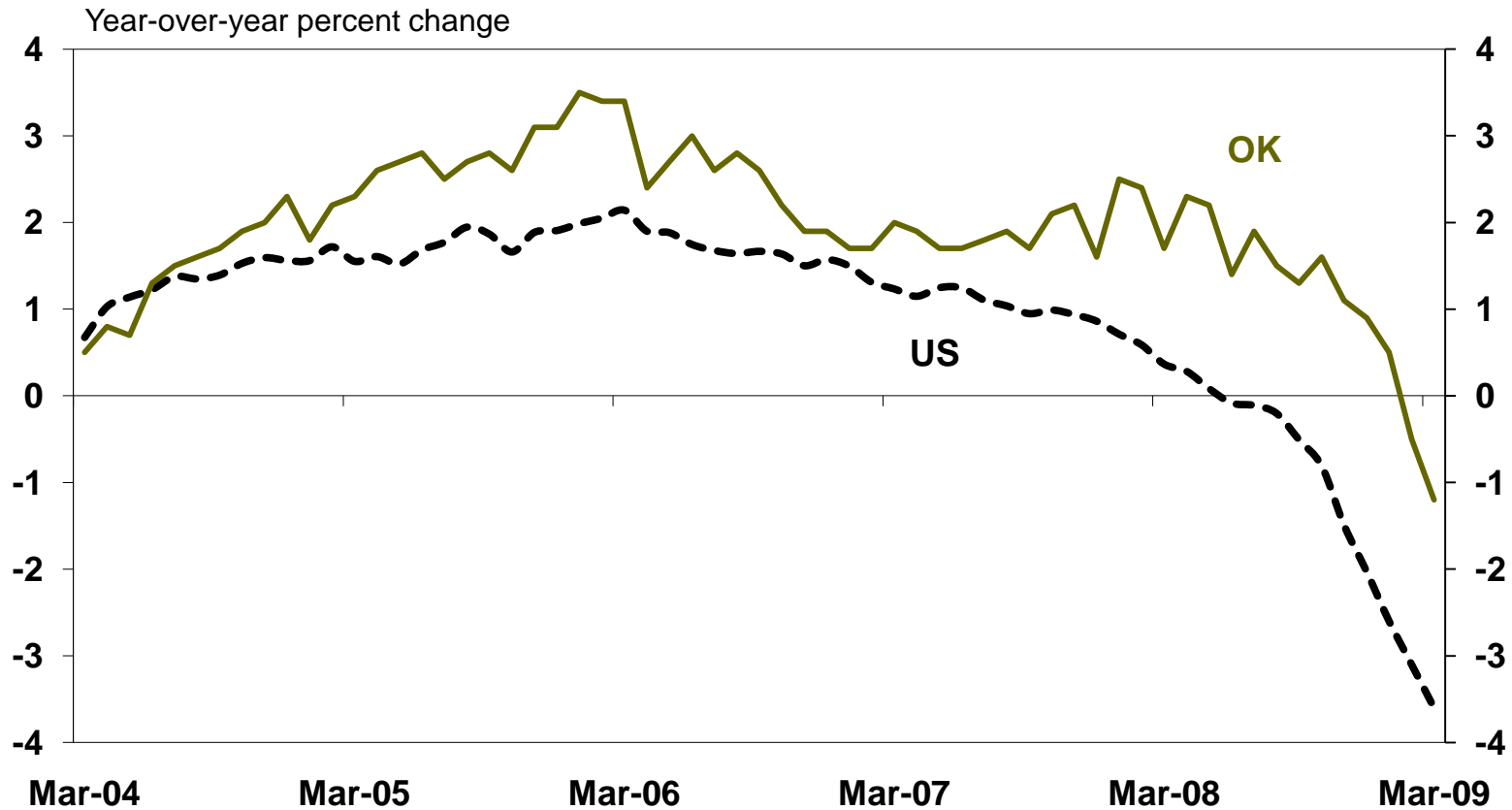
Unemployment remains relatively low in Oklahoma and most nearby states

Unemployment Rate, March 2009



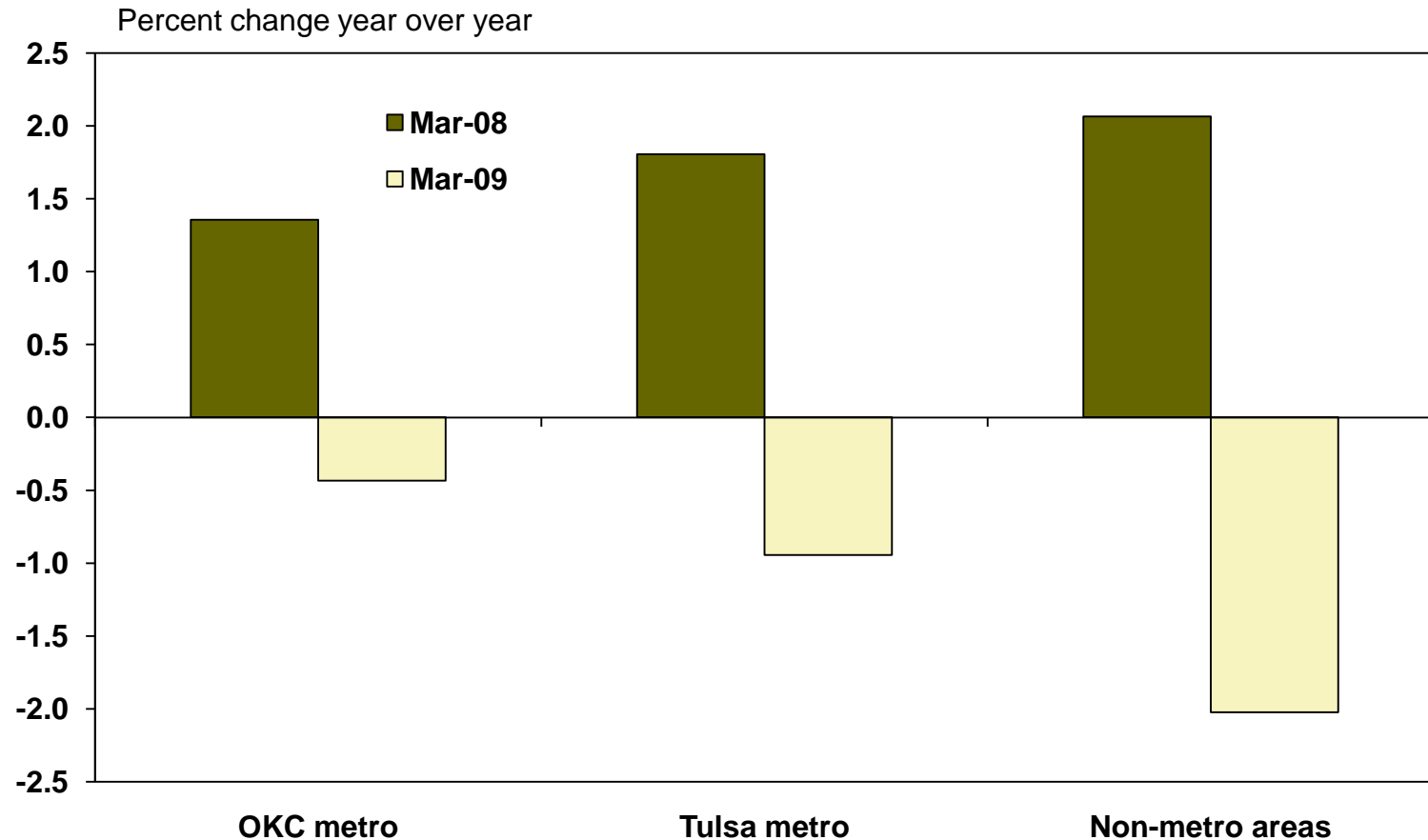
But jobs are now vanishing rapidly in Oklahoma, following a long boom

Nonfarm Payroll Employment Growth



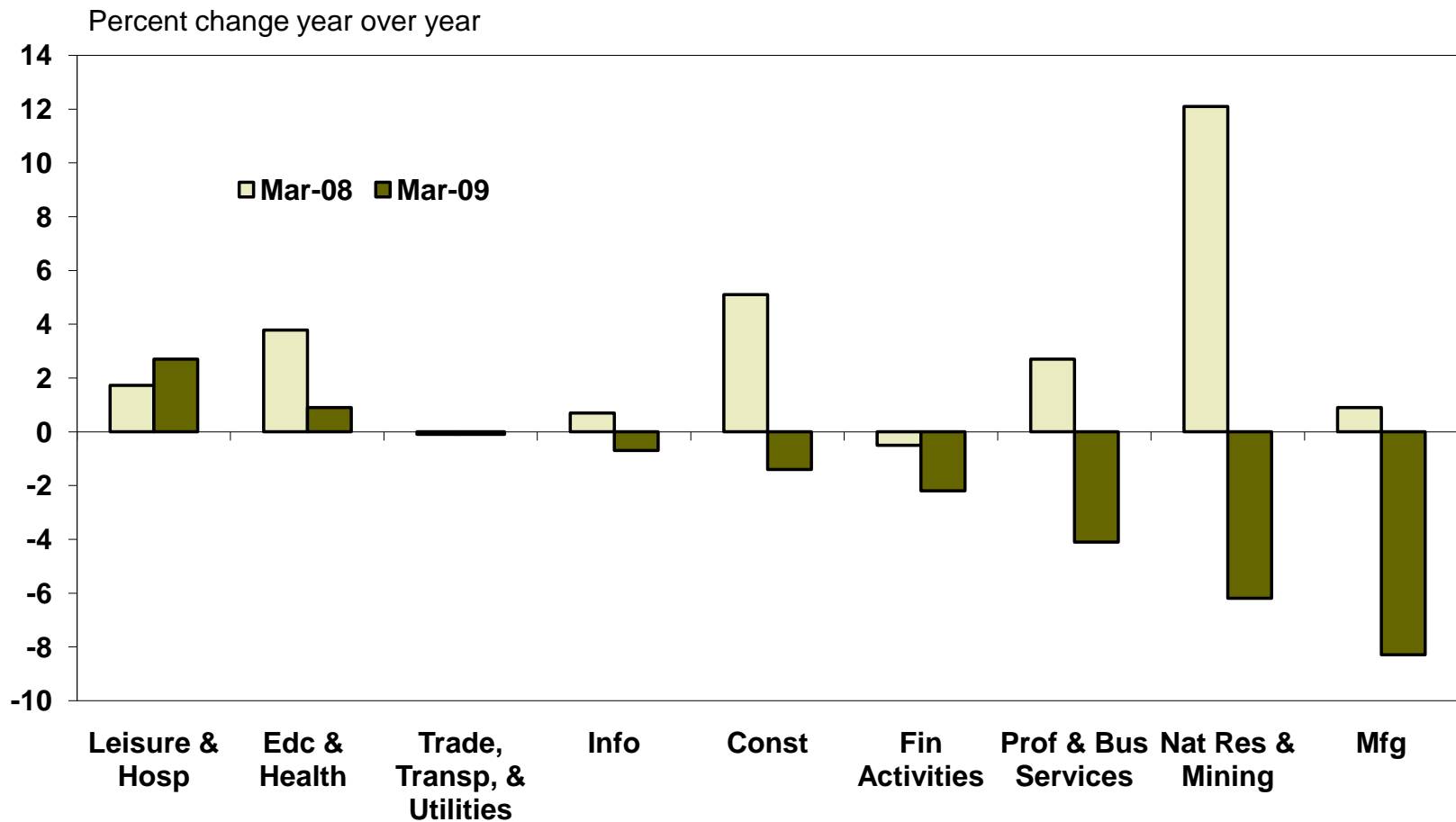
The decline in state job growth has been sharpest in non-metro areas

Employment Growth



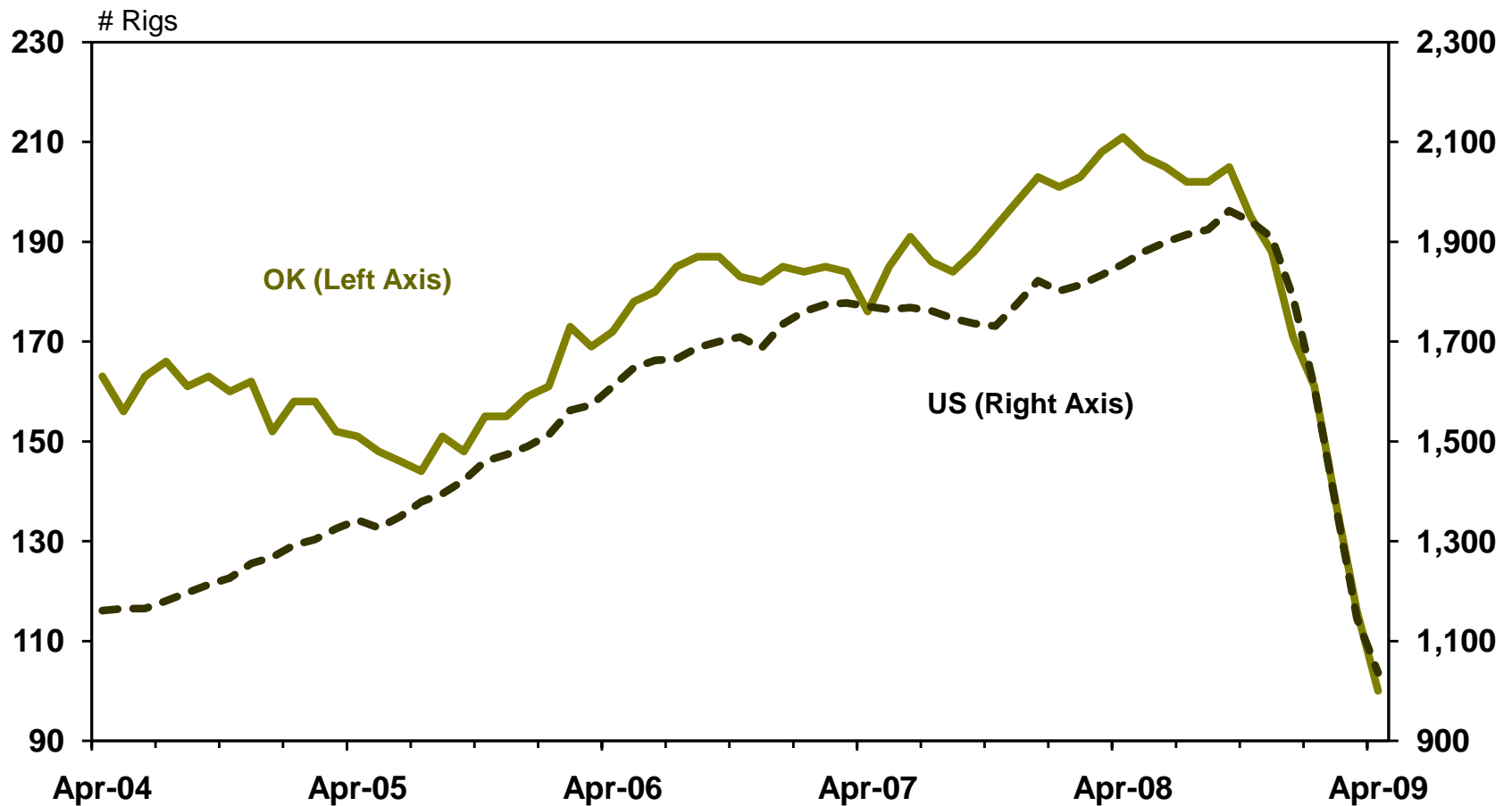
Jobs are now down from a year ago in most Oklahoma industries

Oklahoma Employment Growth by Industry



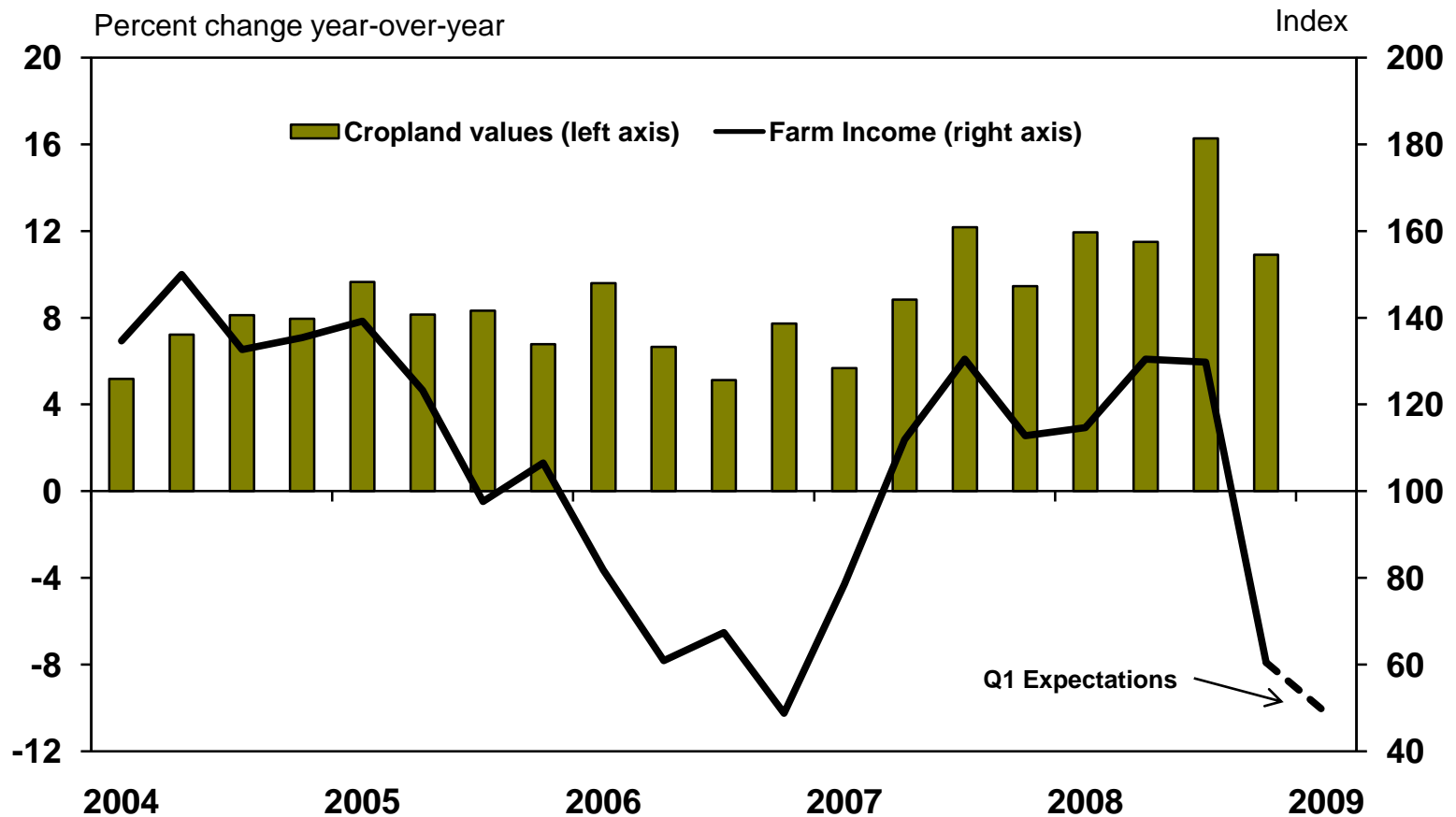
The state's energy sector is seeing a particularly sharp decline in activity

Count of Active Drilling Rigs



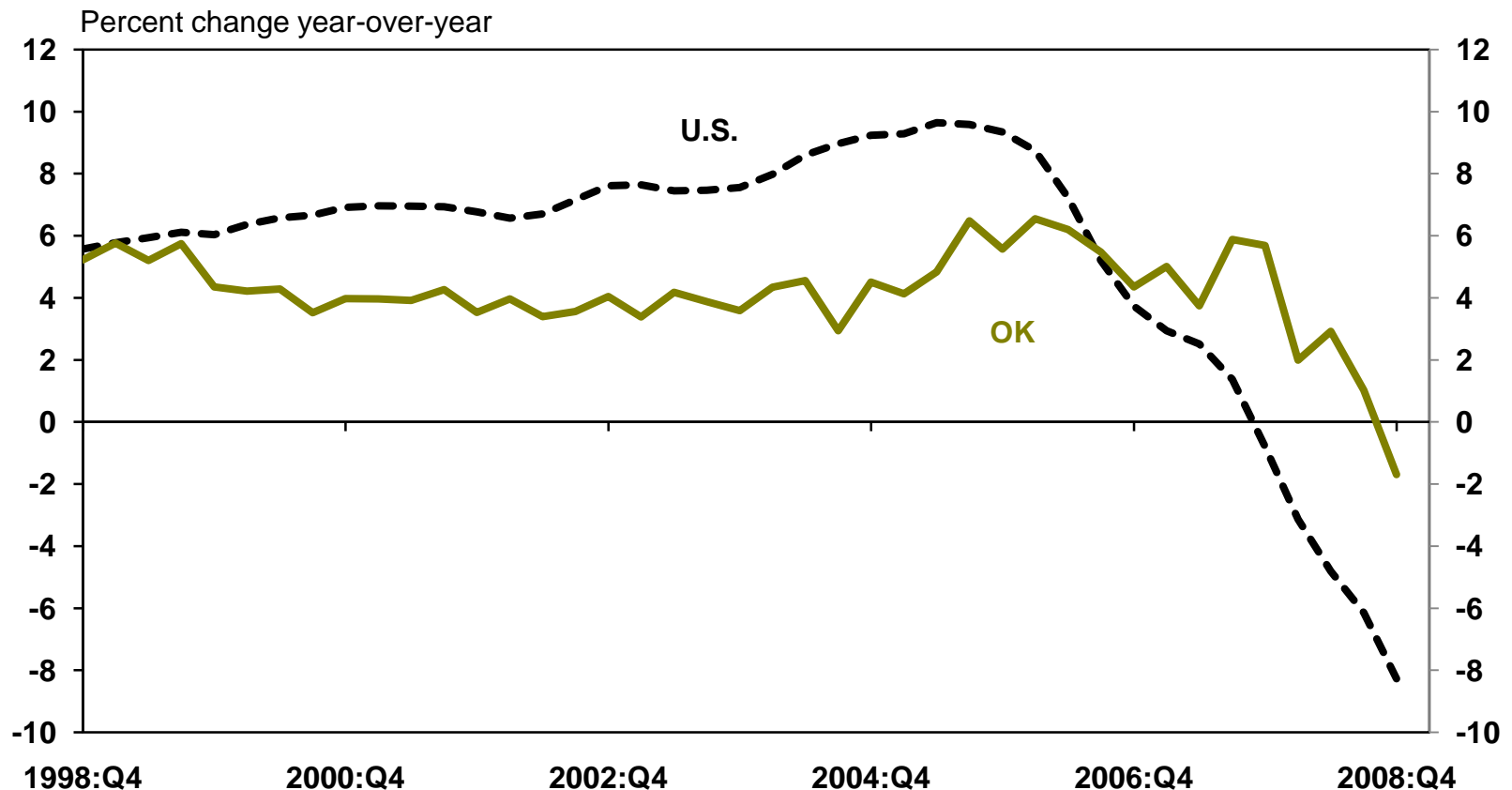
In agriculture, land values have remained high, but incomes are expected to fall

Oklahoma Agriculture Conditions



State home prices have held up better than in the nation, but are now falling

Quality-Adjusted Home Price Growth
Purchase-Only



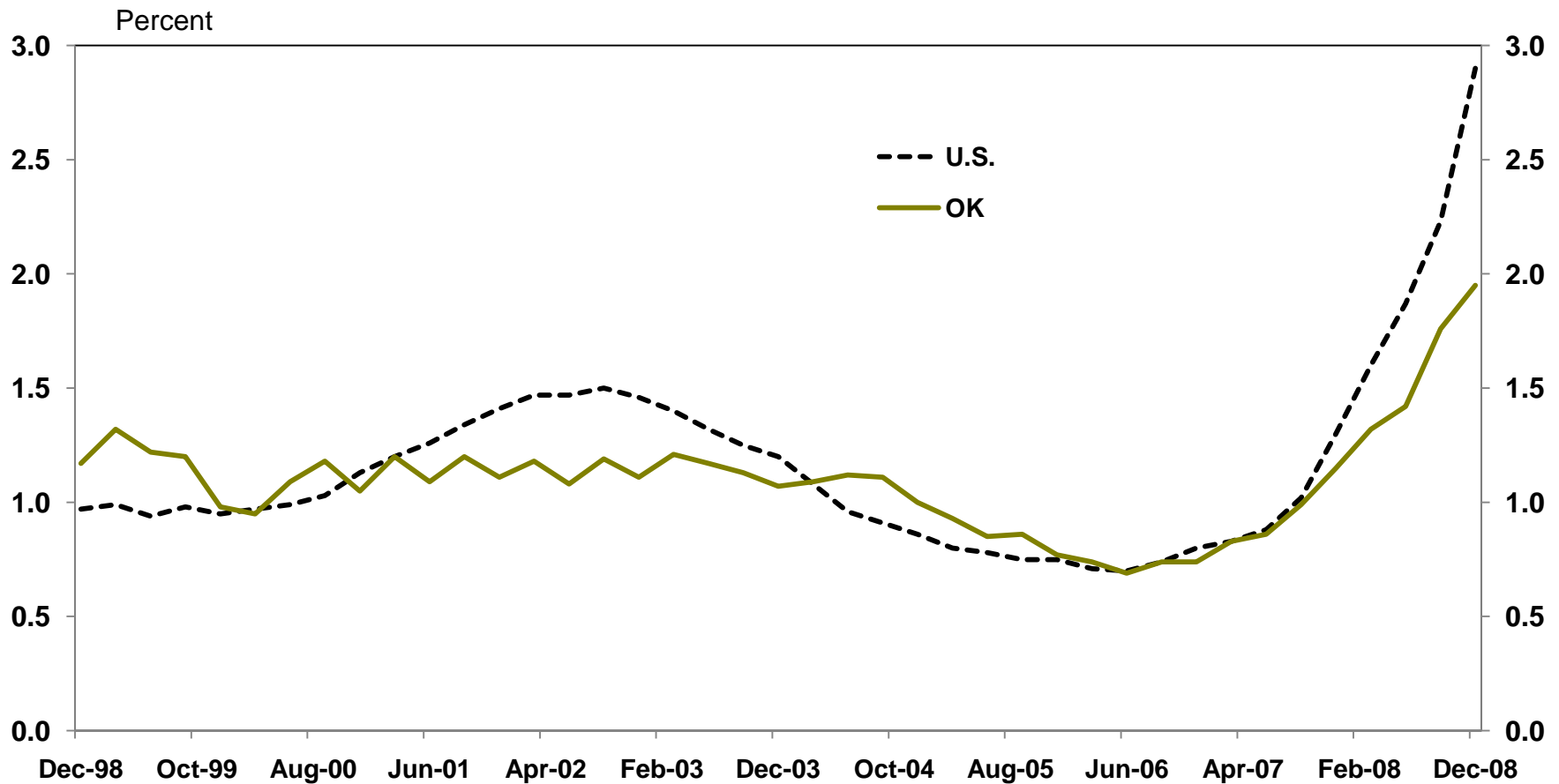
So far, foreclosures have remained relatively low in the state

Foreclosure Rates, March 2009



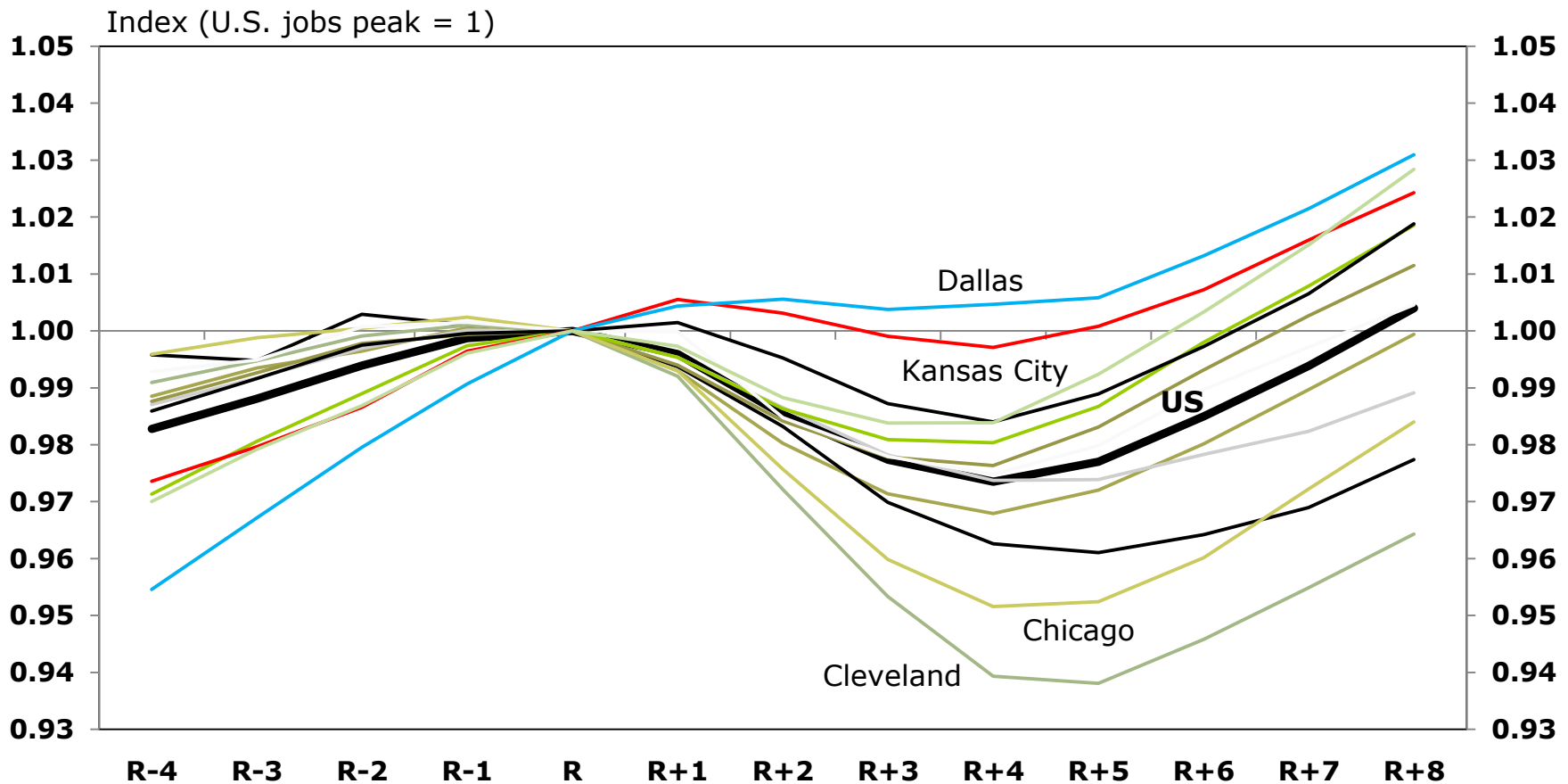
Delinquent loans have risen in Oklahoma, but less than in the nation

Noncurrent Loans and Leases as a Share of Total Commercial Banks



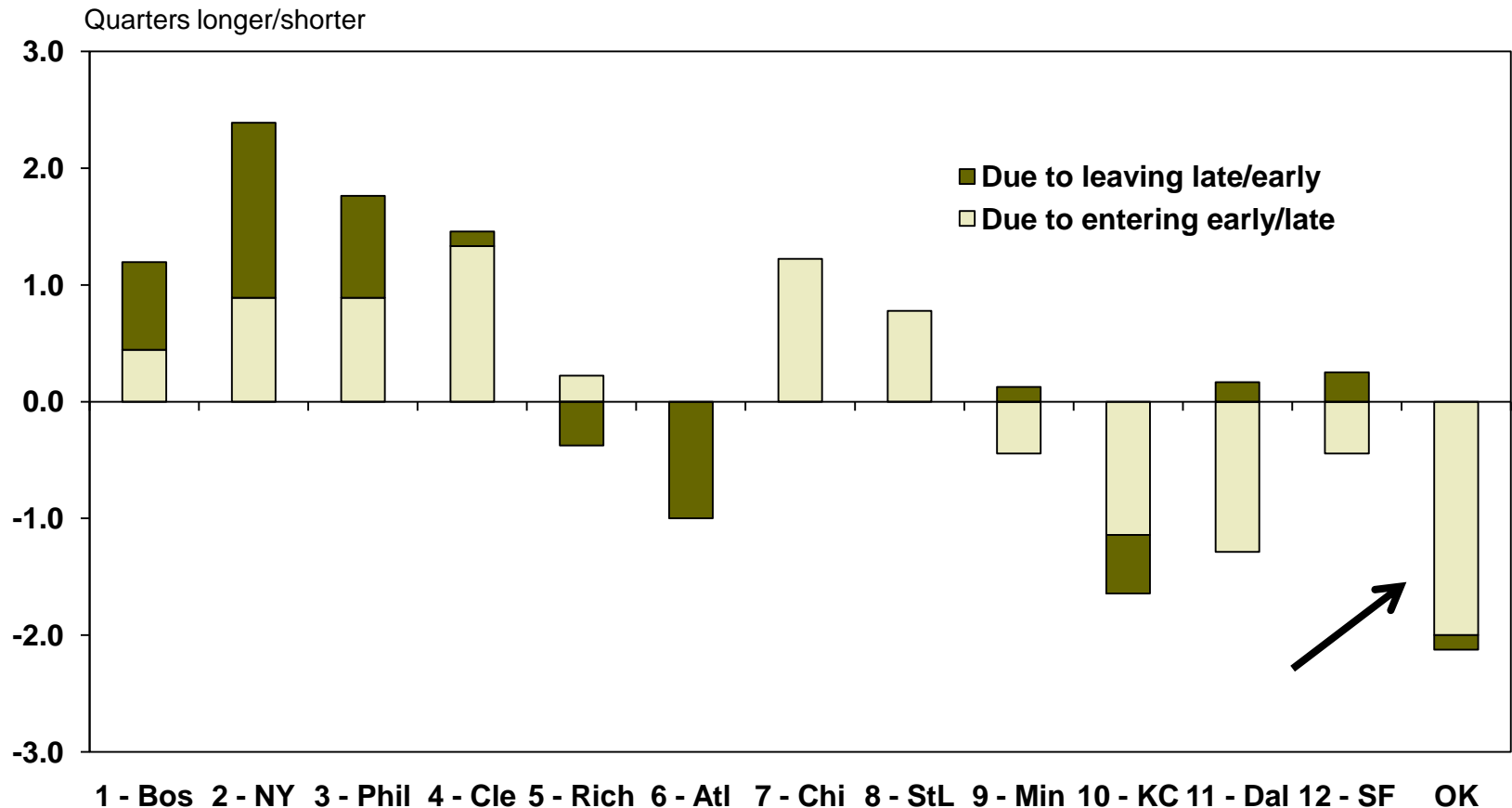
Recessions are usually milder in our region—if it is also a U.S. recession

Average Recession Path in Deep U.S. Recessions, 1957-2003
By Federal Reserve District



Oklahoma usually enters recessions late but leaves at the same time as the nation

Average Length of Recessions Relative to the Nation, 1957-2003
By Federal Reserve District



Summary

- ❑ The U.S. economy may be near a bottom, but recovery will depend on improved credit markets
- ❑ With the steep recent declines in energy activity, Oklahoma has finally entered the recession
- ❑ Efforts to boost U.S. growth in 2009 and 2010 should benefit Oklahoma as well