

# The Fed and the Economy in the U.S. and Oklahoma

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# Purposes and Structure of the Federal Reserve System

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- **Overall purposes of the Fed are to promote:**
  - Low and stable inflation
  - Maximum sustainable employment
  - National financial stability (in conjunction with others)
- **The primary functional areas of the Fed are:**
  - Monetary policy – controls nation's money supply; lender of last resort
  - Bank regulation – all bank holding companies; state Fed member banks
  - Payments systems – cash; electronic; bank for federal government
- **The Federal Reserve System consists of:**
  - Board of Governors: 7 members appointed by Senate to 14-year terms.
  - Federal Reserve Banks: 12 Banks, each serving a unique district.
  - Federal Open Market Committee FOMC): 12 voting members

# Federal Reserve Districts and Office Locations



# The Oklahoma City Branch Office of the Federal Reserve Bank of Kansas City

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- **Staff and functions**

- Approximately 35 full-time staff involved in economic research; bank examinations; and public and community affairs

- **2010 board of directors**

- **Steve Agee (chairman)**, President, Agee Energy, and Professor, OCU, OKC
  - **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
  - **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
  - **Jacque Fiegel**, Senior EVP & 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

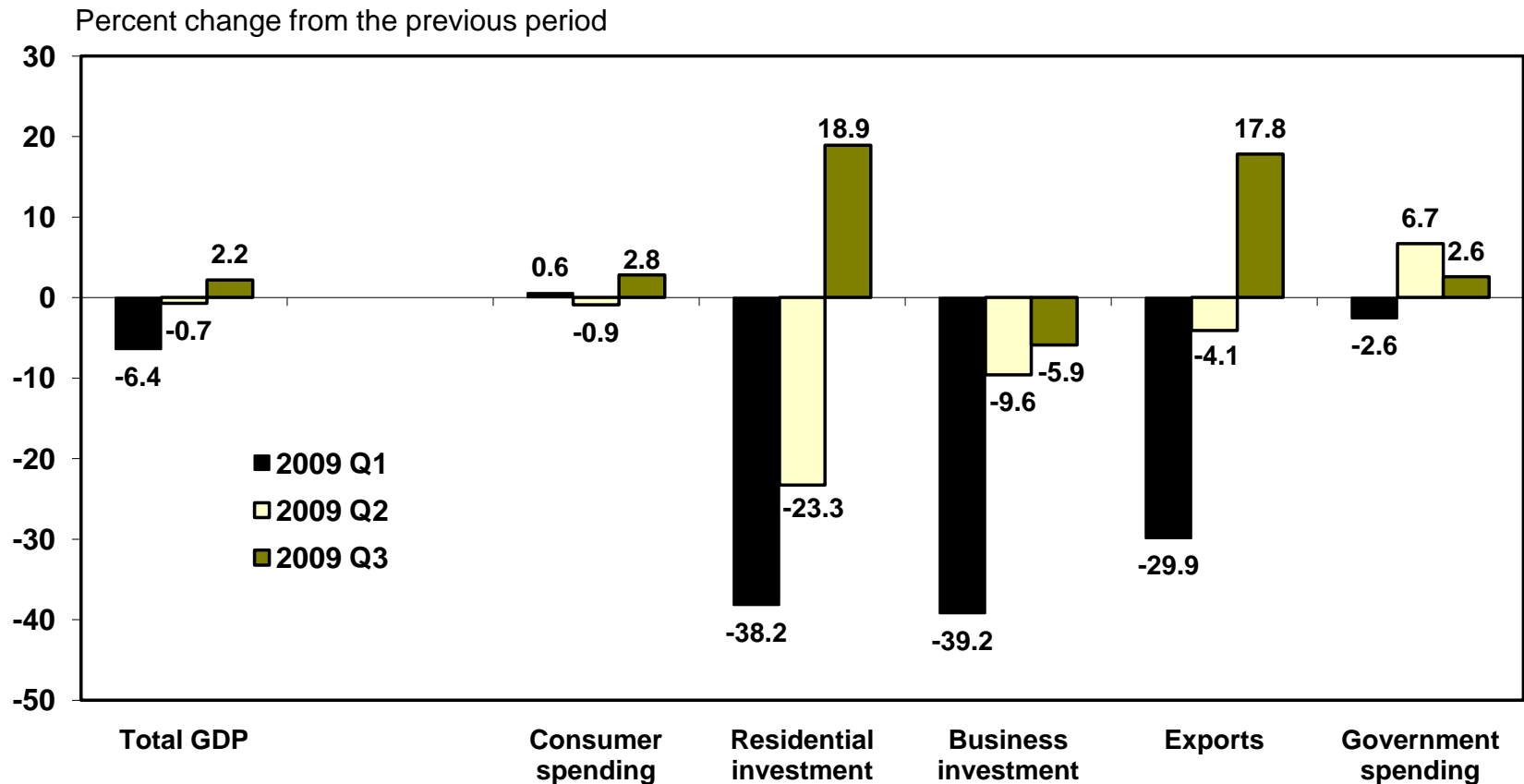
# The U.S. Economy

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- The U.S. economy is growing again, with help from monetary and fiscal stimulus
- But the strength of recovery is likely to be modest, due to a number of factors
- With modest growth, inflation is expected to remain tame in the near term

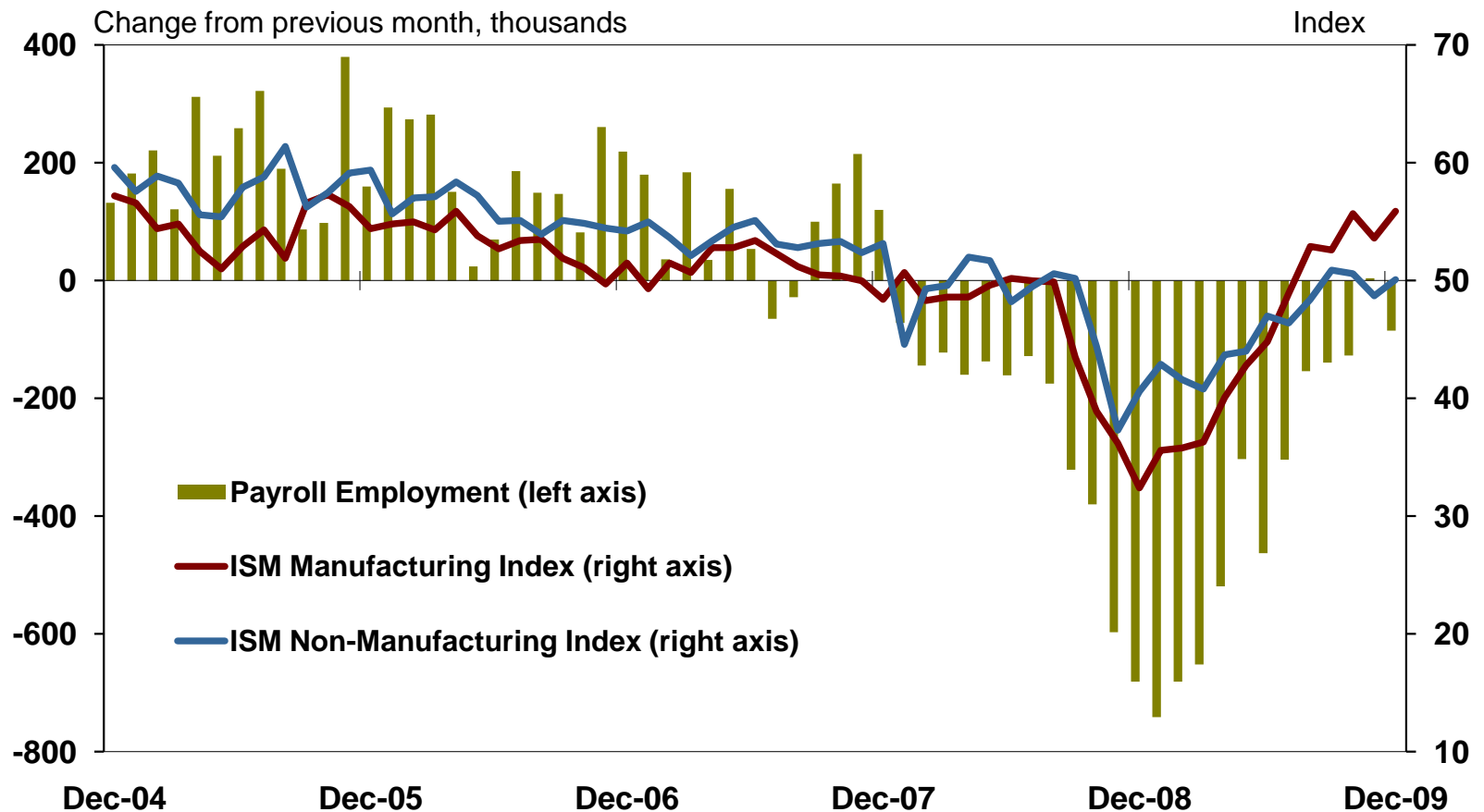
# Third quarter GDP growth was finally positive, but was boosted by government stimulus

## Growth in Components of GDP



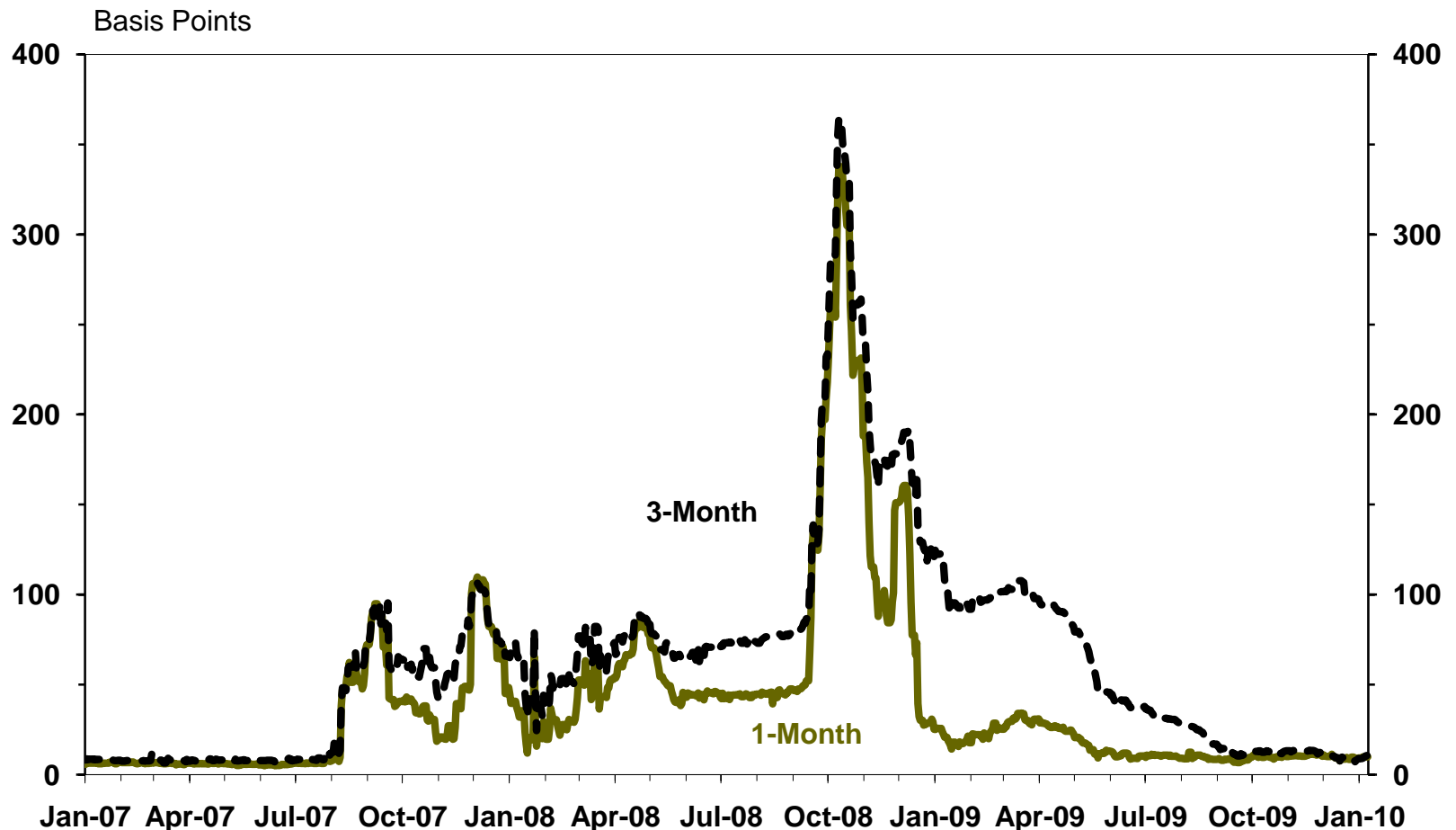
# Data on the fourth quarter show moderate growth, with job losses diminishing

## National Business Indexes and Payroll Employment



# Credit market conditions have continued to stabilize in recent months

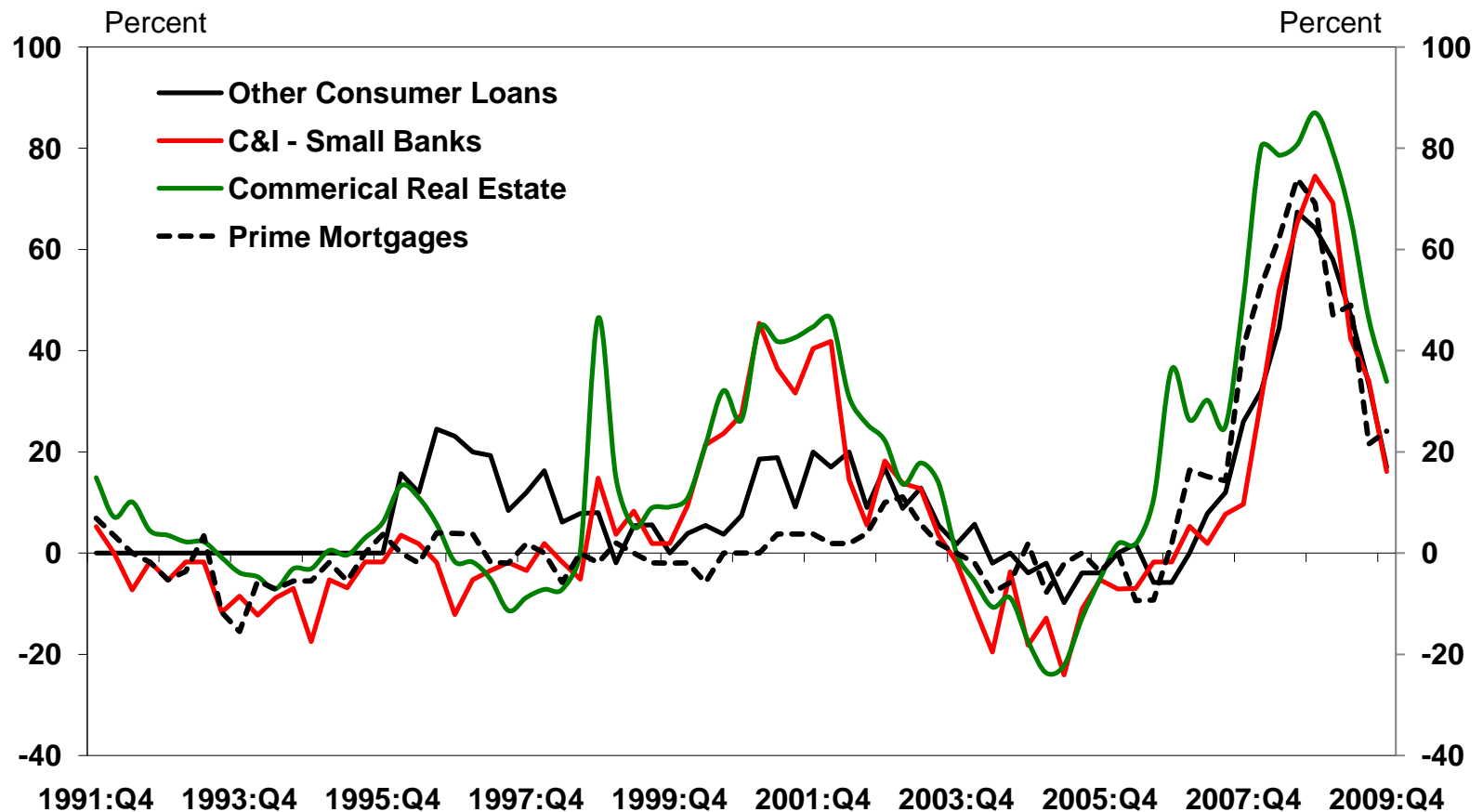
## LIBOR-OIS Spread





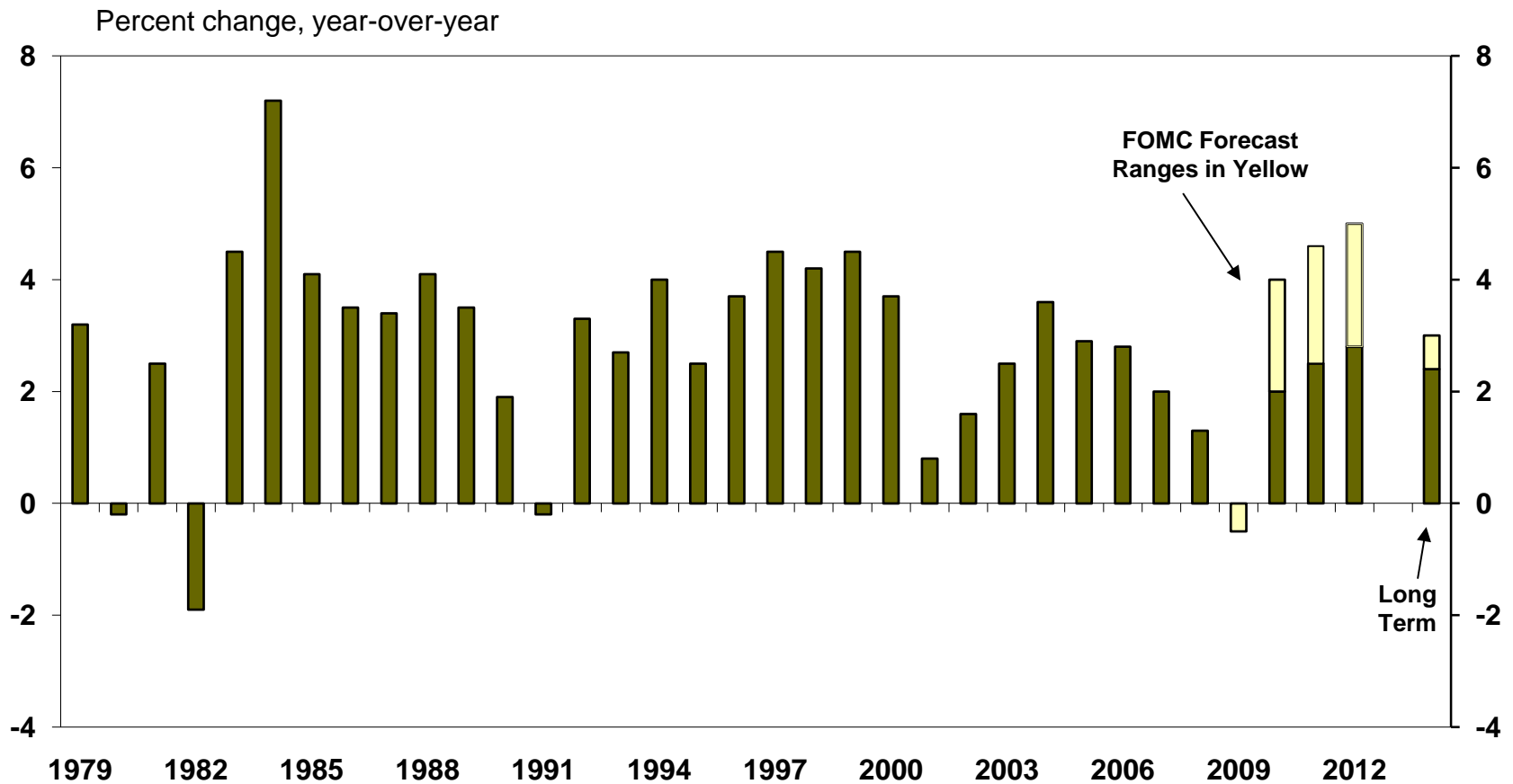
# Banks' lending standards continue to tighten, but less than in recent quarters

**Net Percentage of Banks Tightening Loan Standards**  
Business Loans



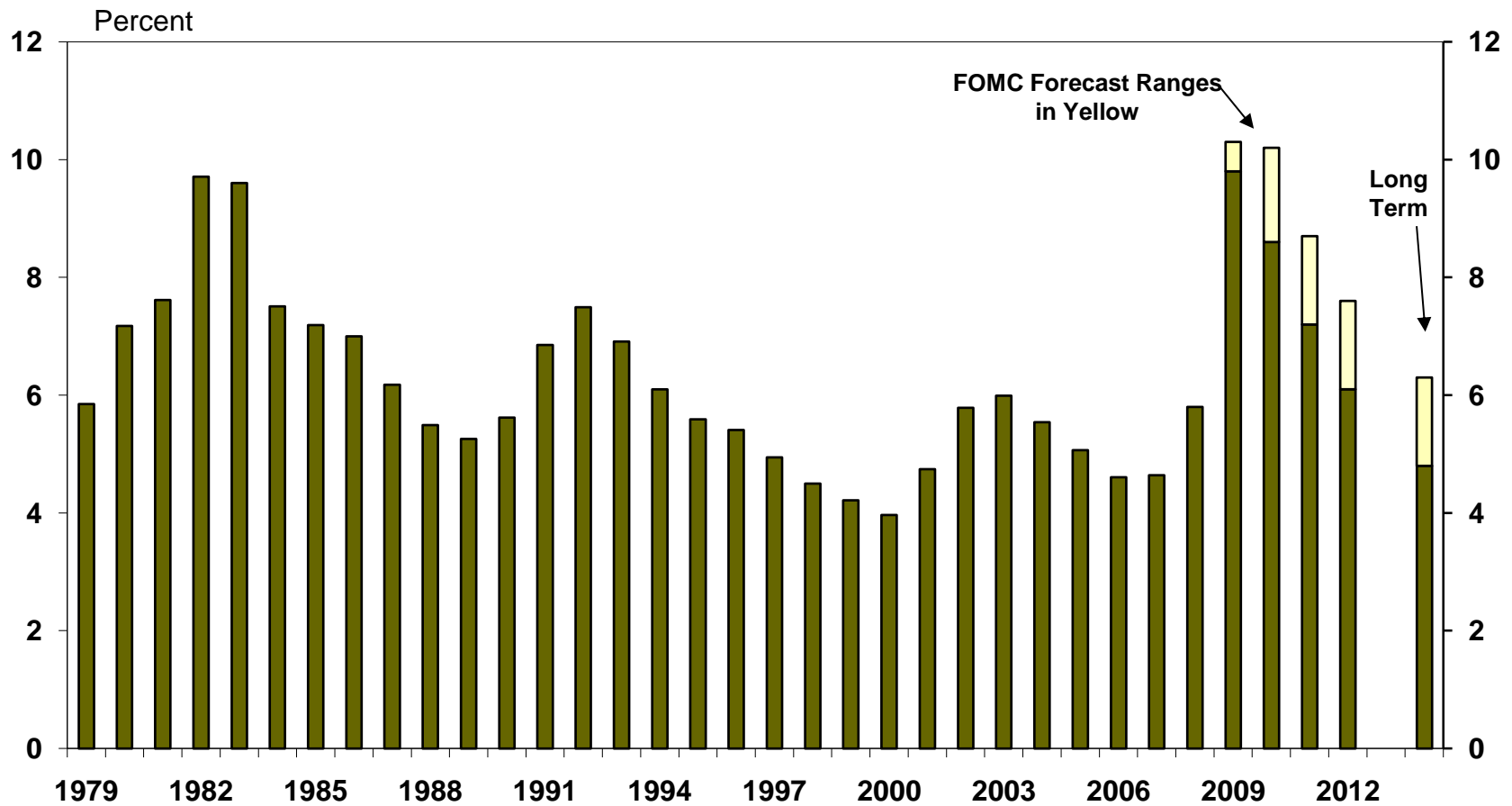
# Heading forward, policy makers generally expect a moderate recovery

## Gross Domestic Product



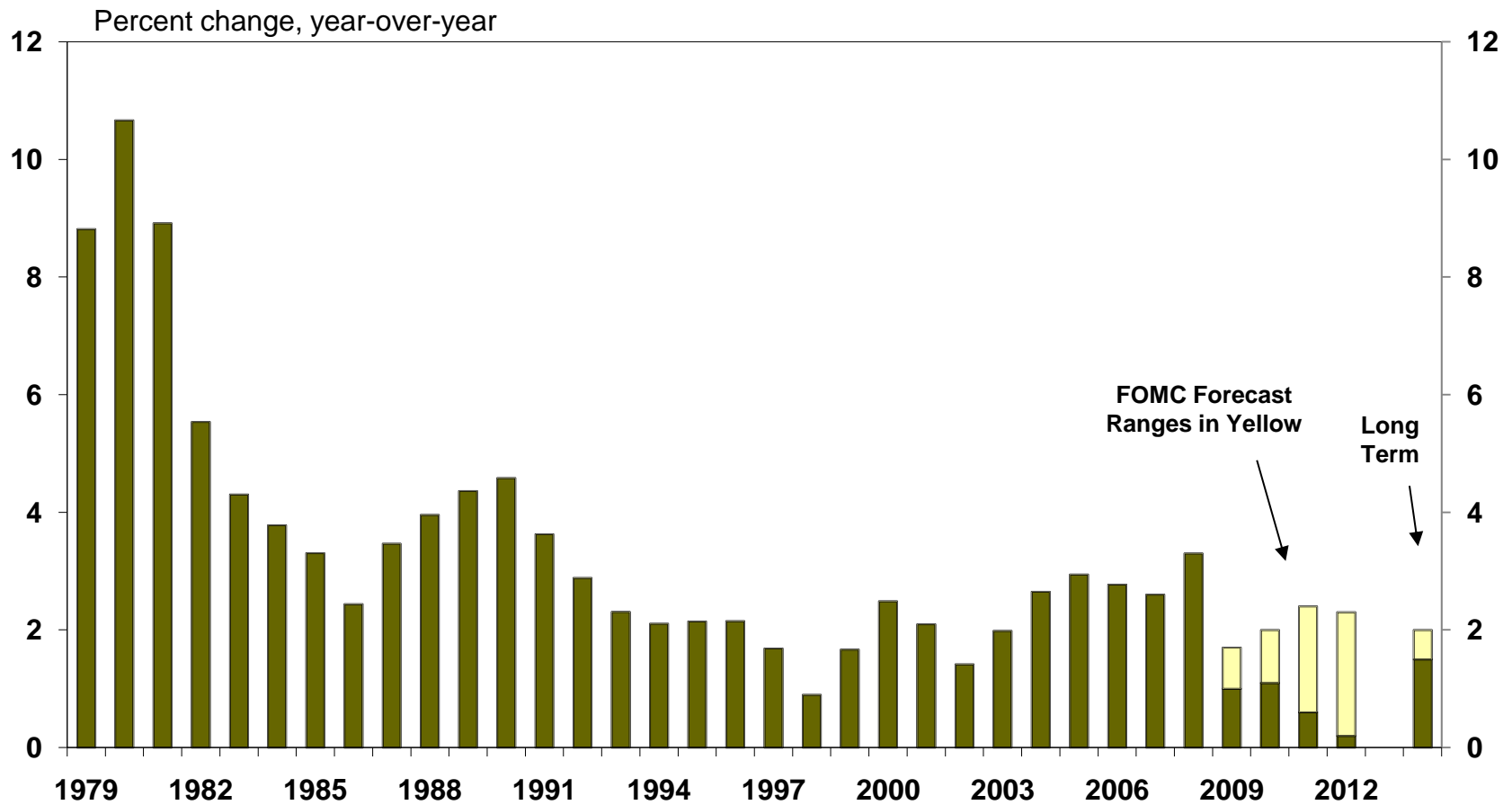
# With unemployment expected to remain high for some time

**Unemployment Rate**  
Seasonally Adjusted



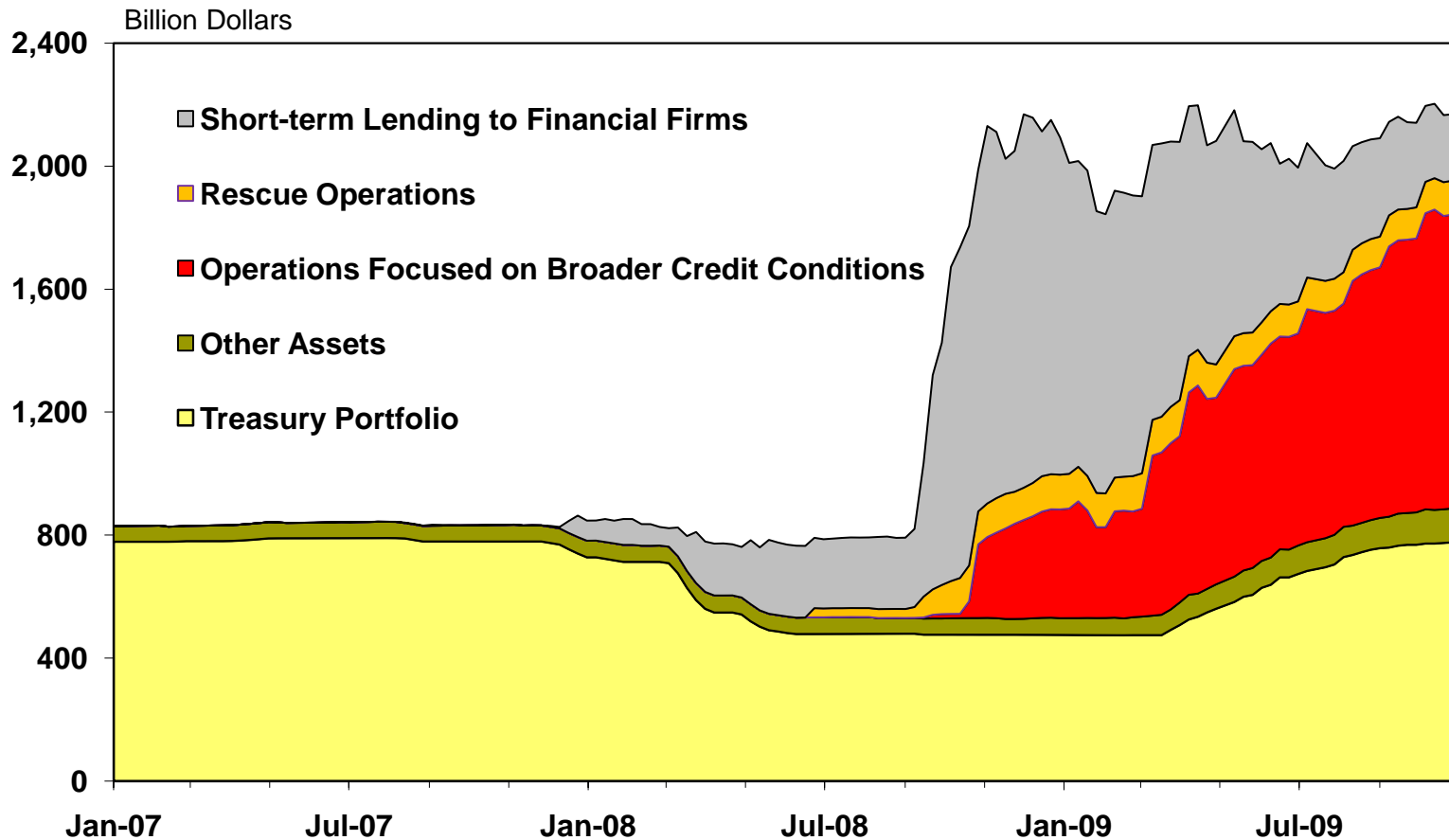
# With moderate growth and excess capacity, near-term inflation is expected to remain tame

## PCE Inflation Index



# The Fed's balance sheet is much larger than before the crisis

## Federal Reserve Balance Sheet: Assets



# The Oklahoma Economy

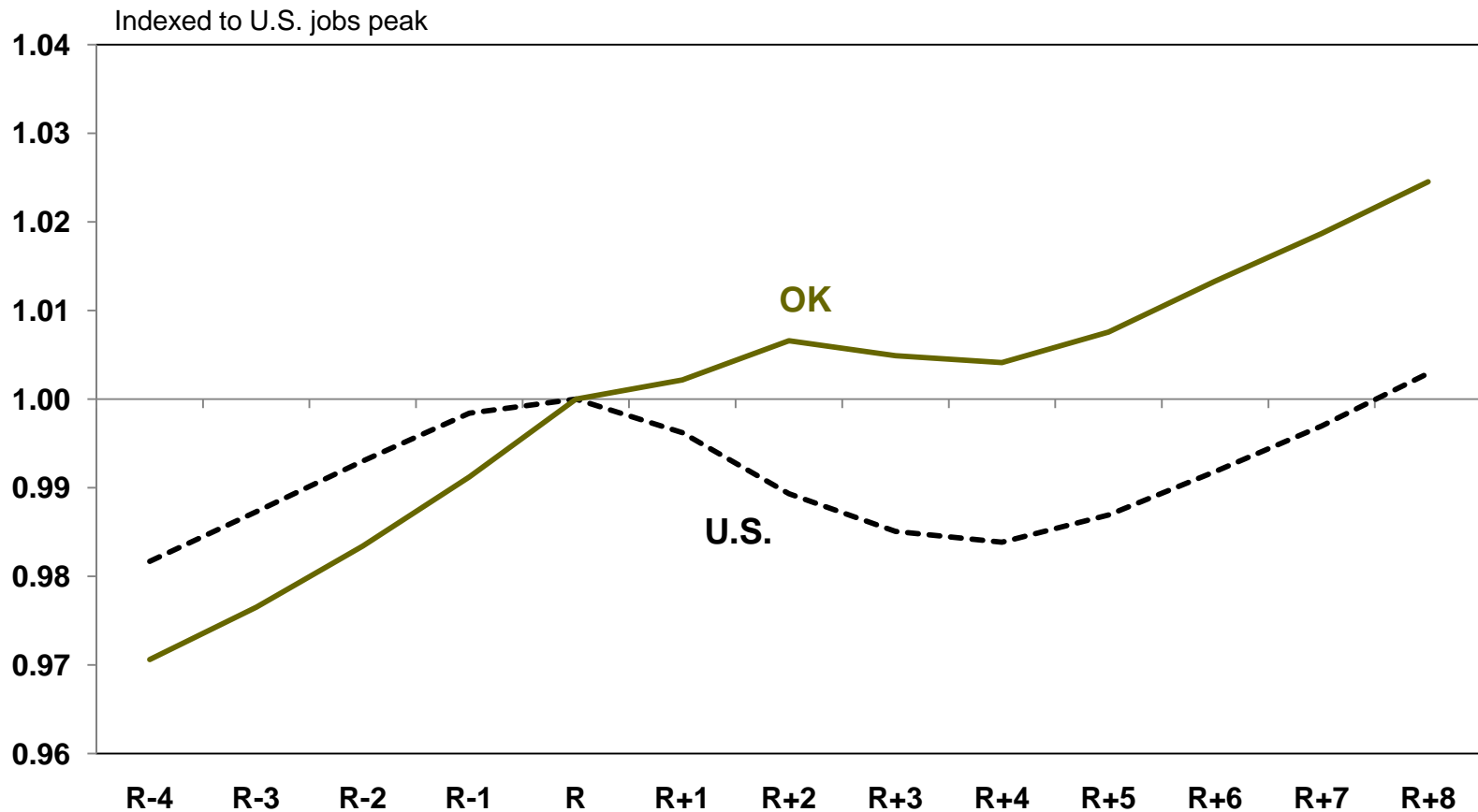
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- As usual in recessions, Oklahoma entered this recession later than the nation
- After steep declines for much of 2009, the state is showing early signs of recovery
- But some risks remain, including the future path of energy prices

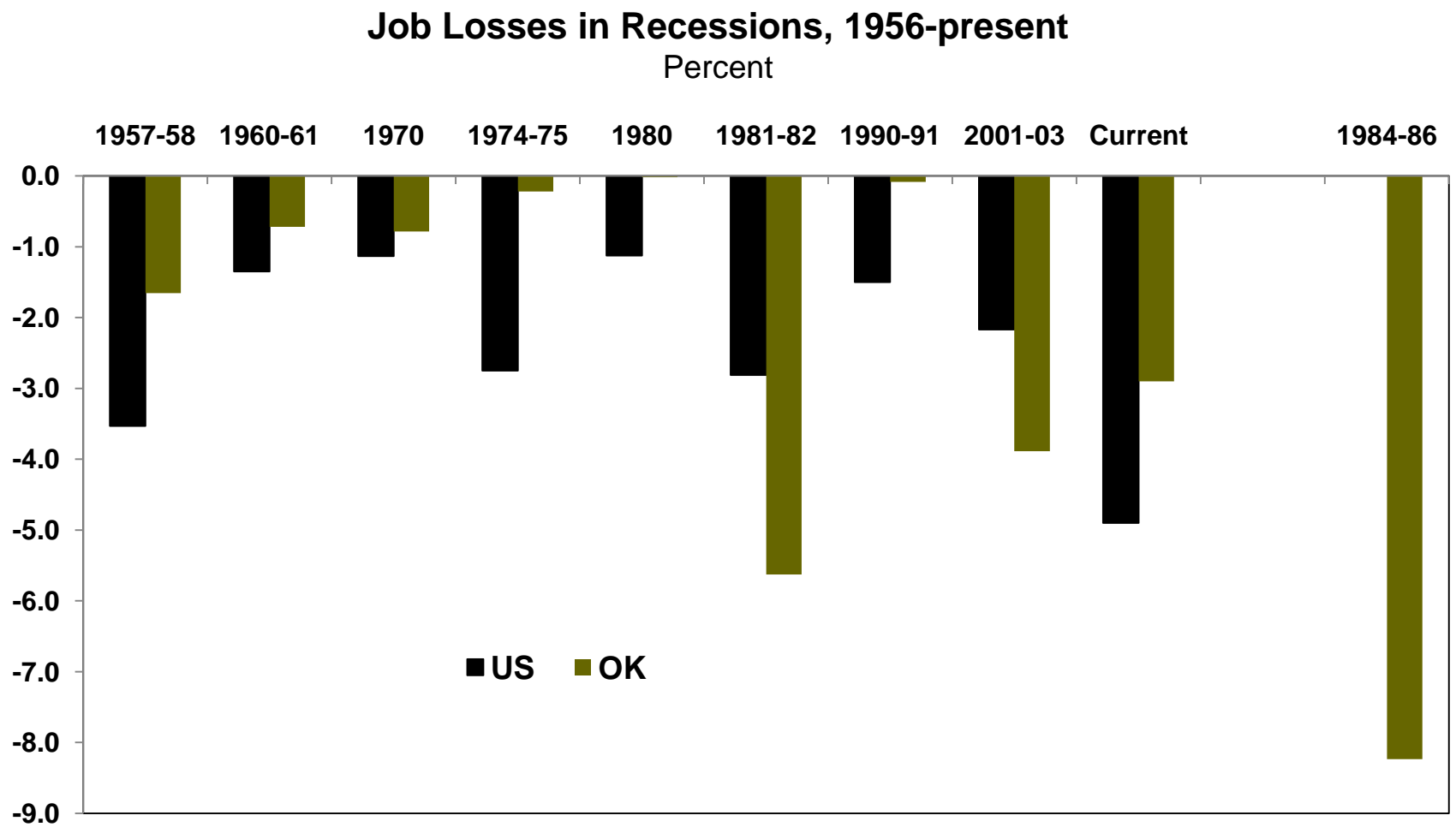
# Oklahoma usually enters recessions late but leaves around the same time as the nation

## Average Recession Path, 1956-2006

Employment level 4 quarters before and 8 quarters after U.S. jobs peak



# The main exception in the postwar period was during the 1980s, of course

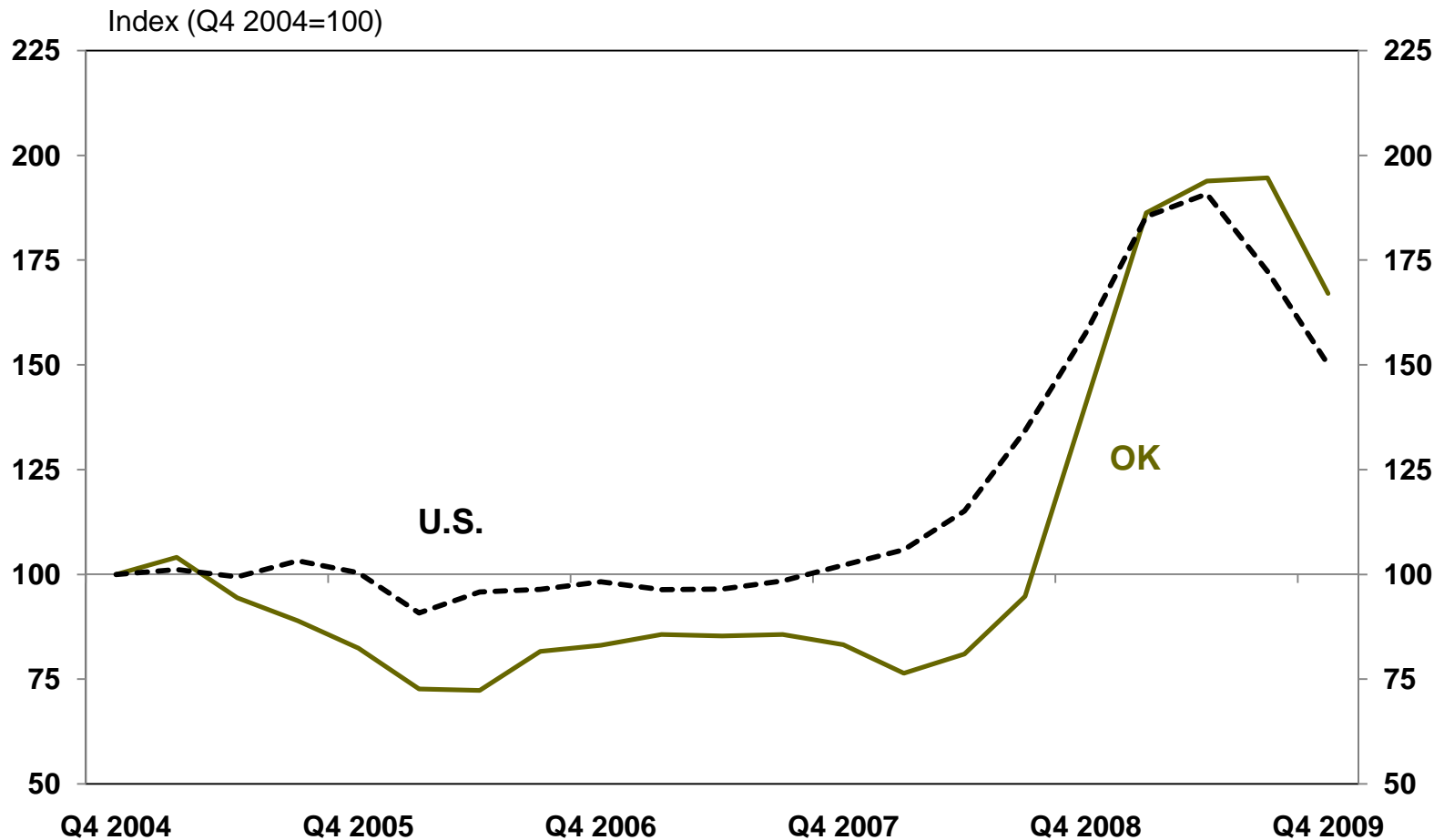


Source: Bureau of Labor Statistics



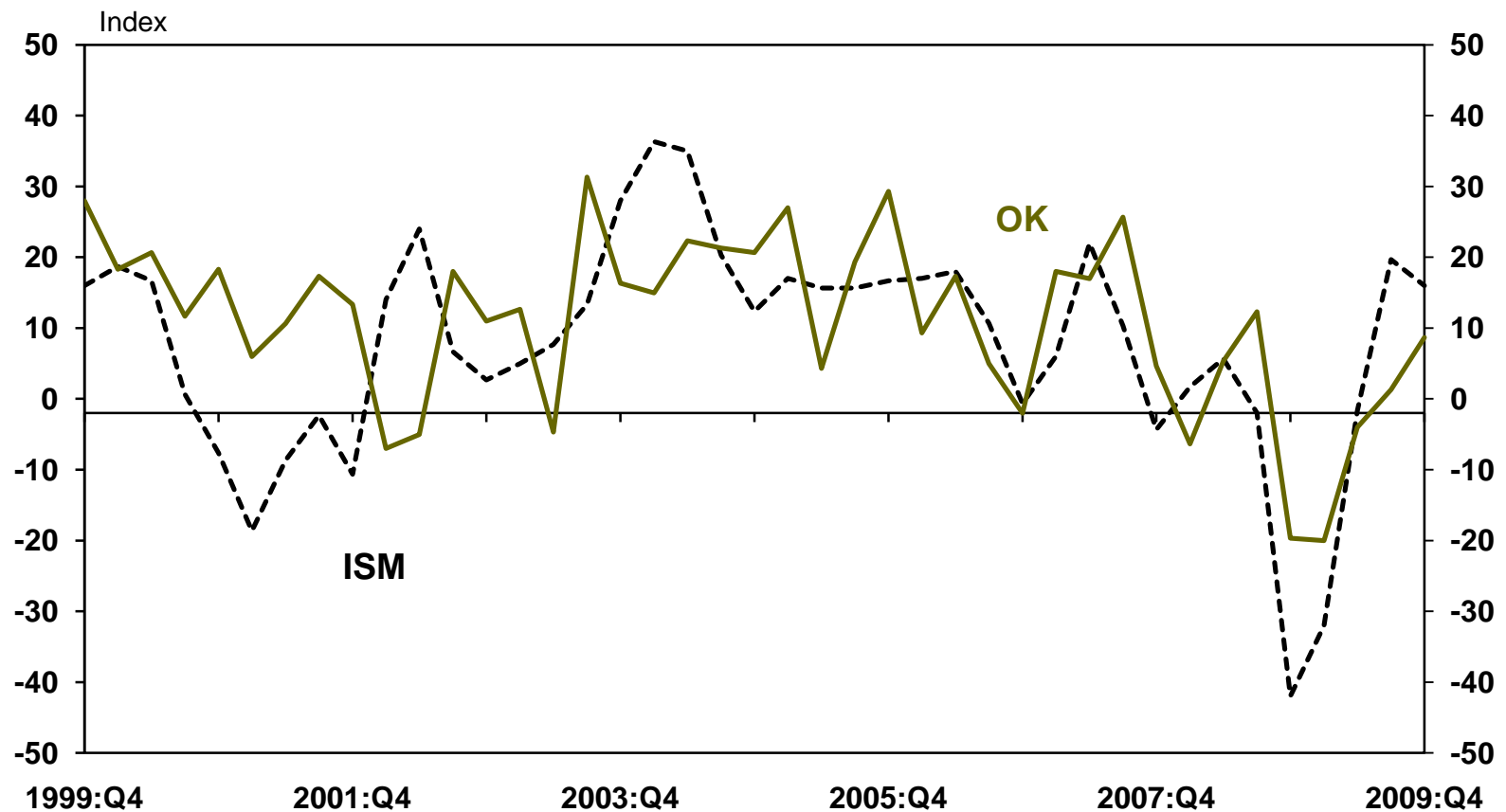
# Oklahoma entered this recession 3 quarters late and appears to be leaving 1 quarter late

## Initial Claims for Unemployment Insurance

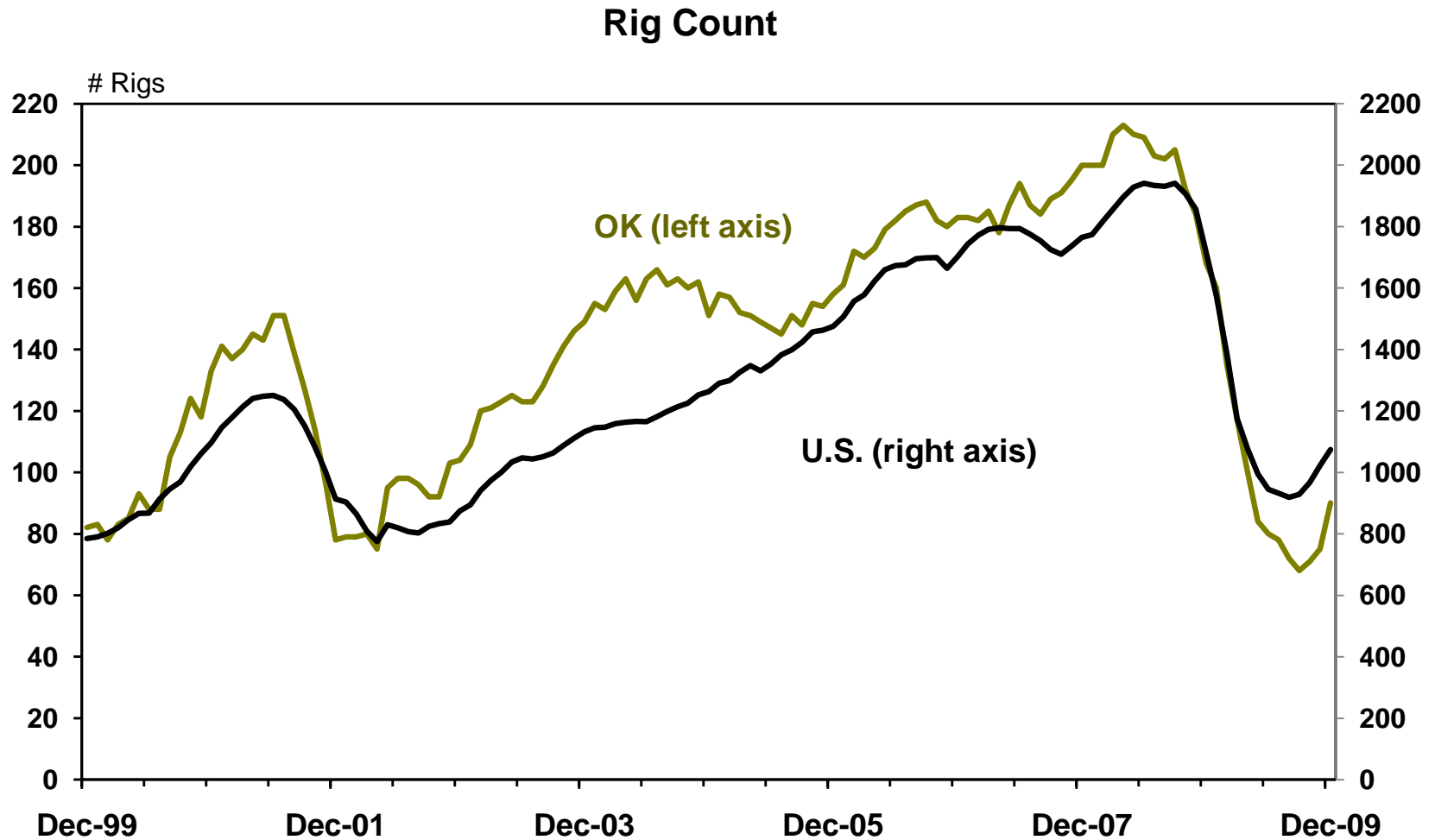


# Manufacturing indexes for the state show similar signs of recent recovery

**Manufacturing Production Indexes**  
Seasonally adjusted

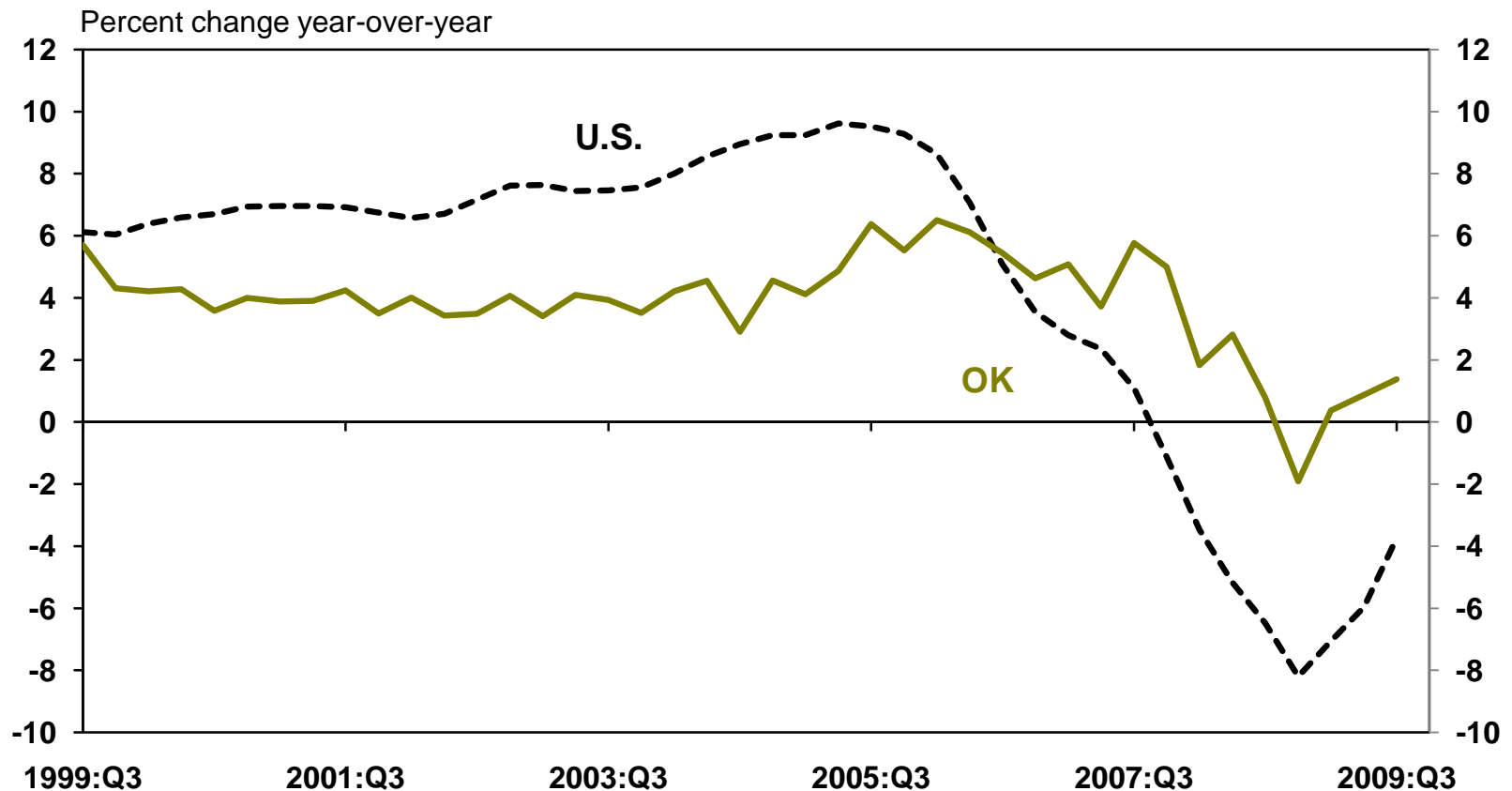


# And importantly, the rig count is rising again after falling dramatically in 2009



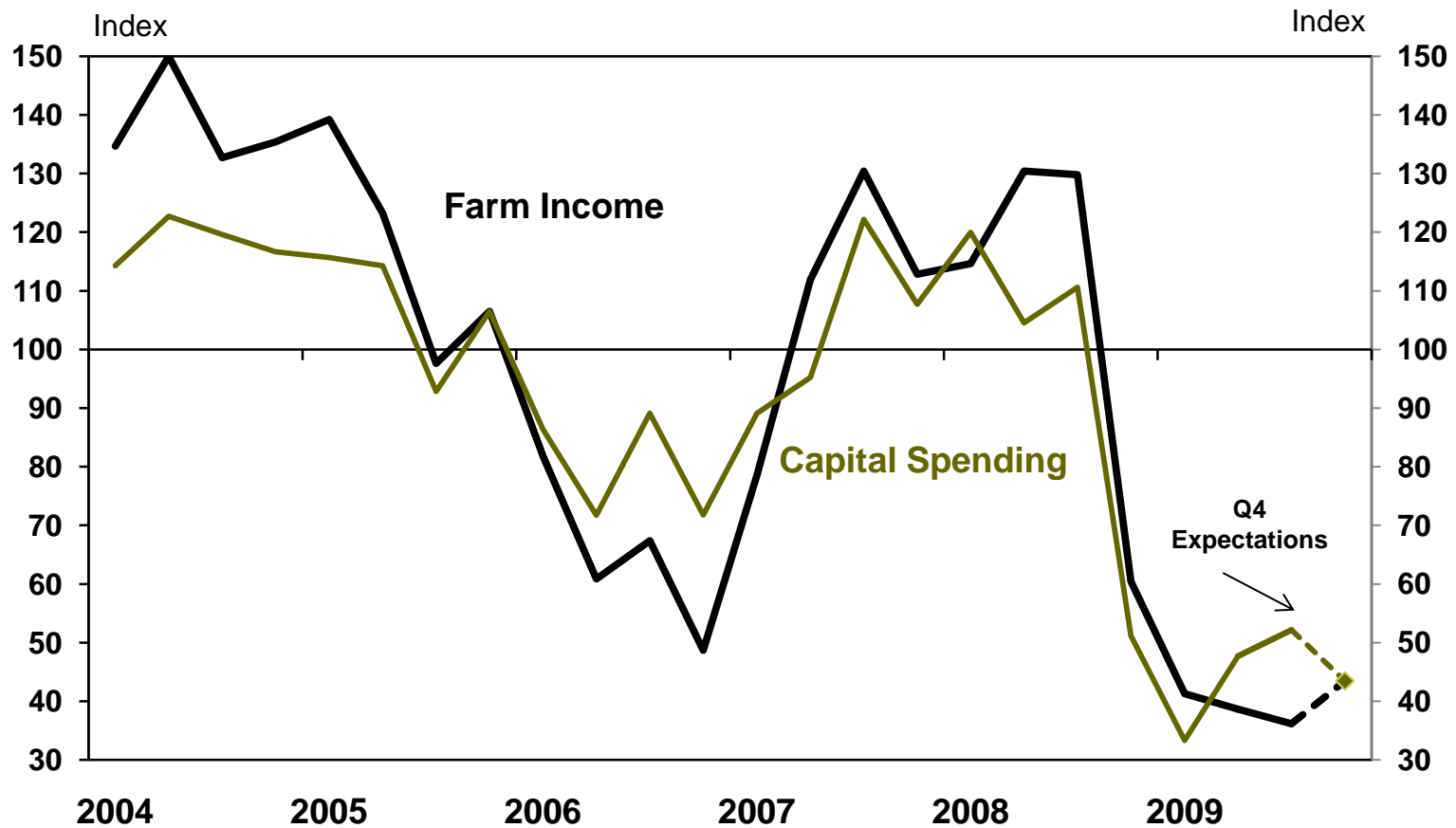
# Unlike the nation, home prices have held up quite well in Oklahoma, and are stabilizing

**Quality-Adjusted Home Price Growth**  
Purchase Only



# Agricultural conditions in the state remain rather weak, but also may have bottomed

## Oklahoma Agricultural Conditions



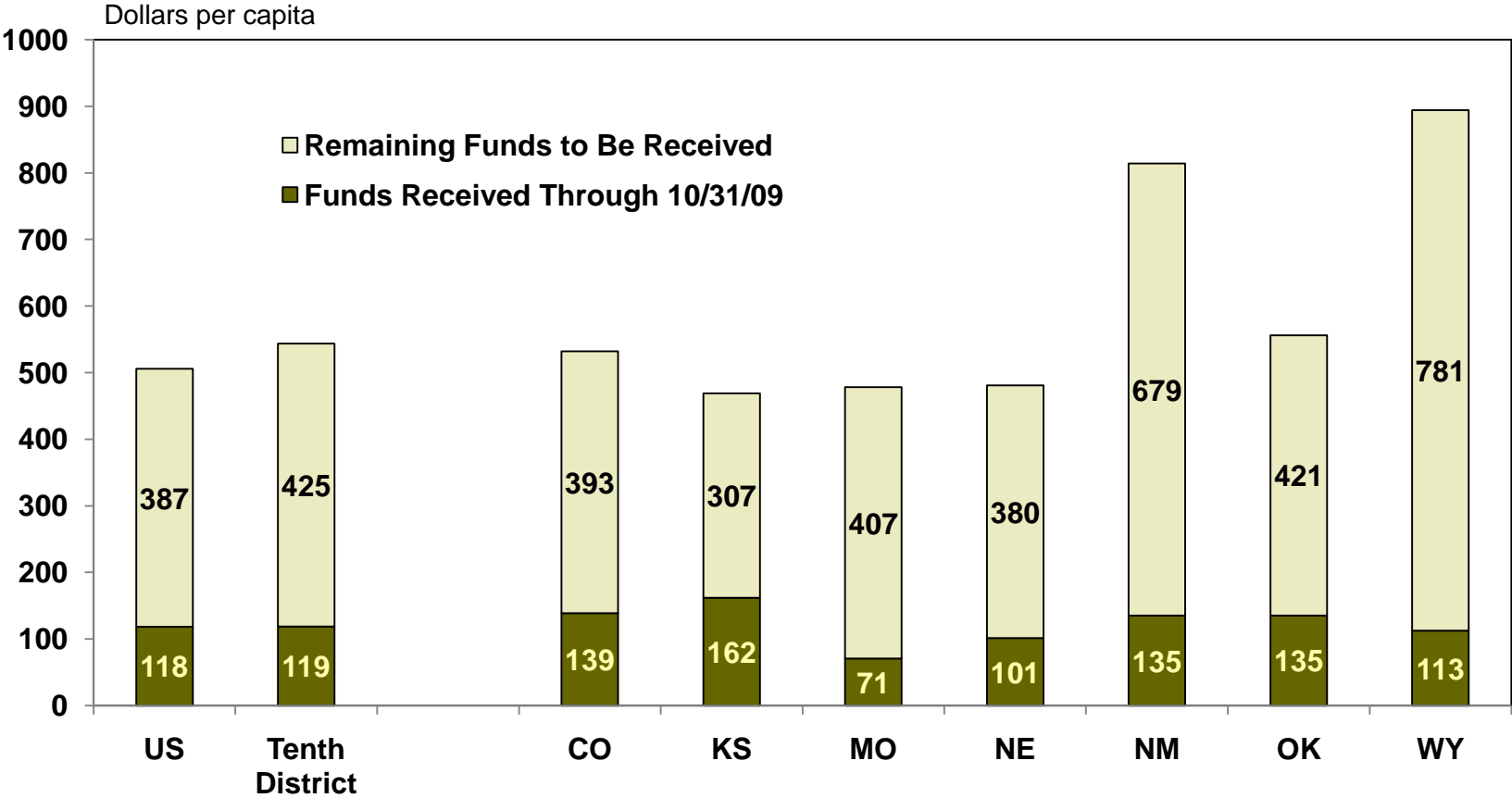
# So unemployment in Oklahoma remains much lower than in the nation

Unemployment Rate, November 2009



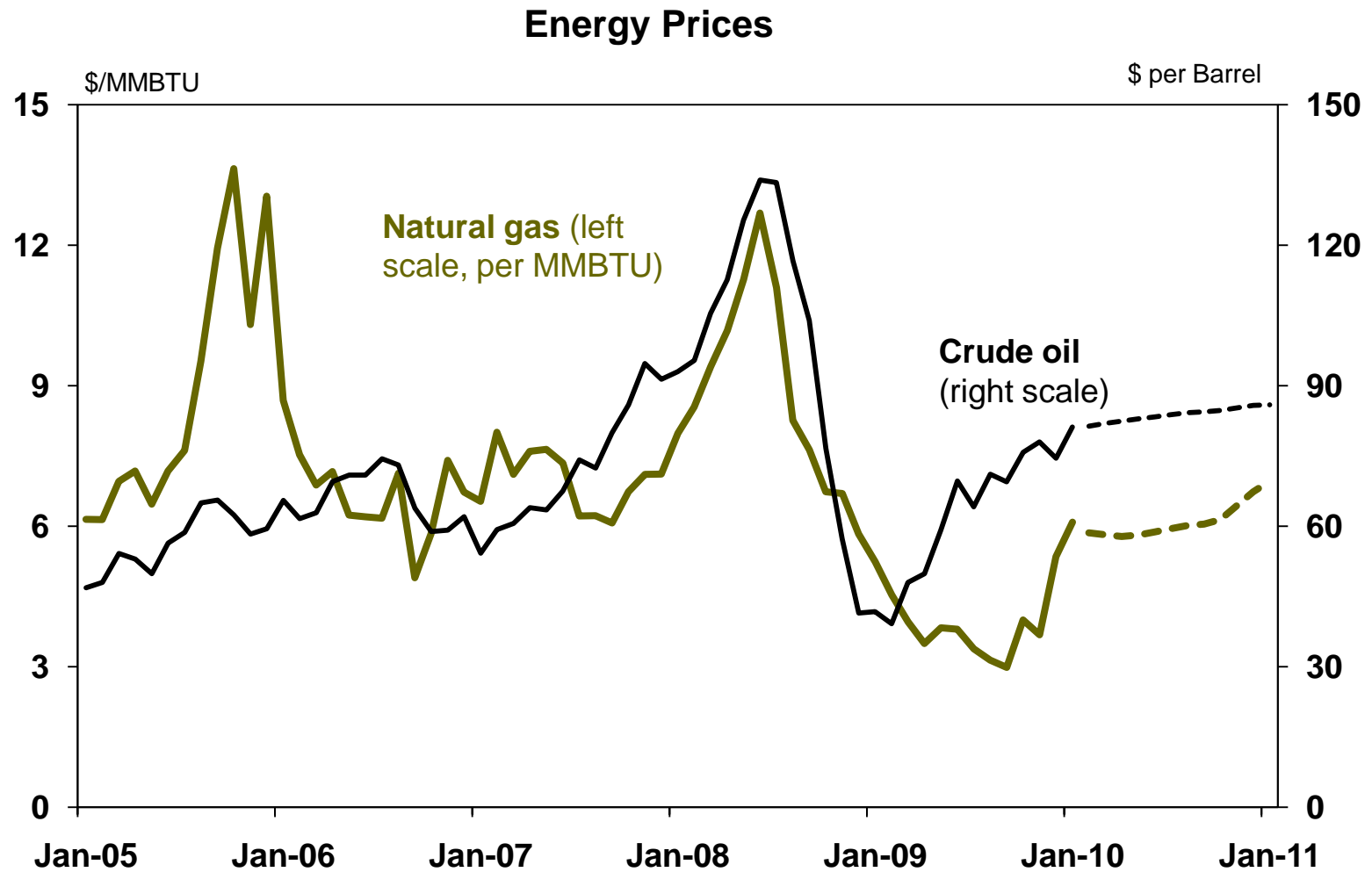
# Plus, our region and state are receiving slightly more fiscal stimulus than the nation

### Per Capita Stimulus Package Spending U.S. and Tenth District States



Source: Recovery.gov

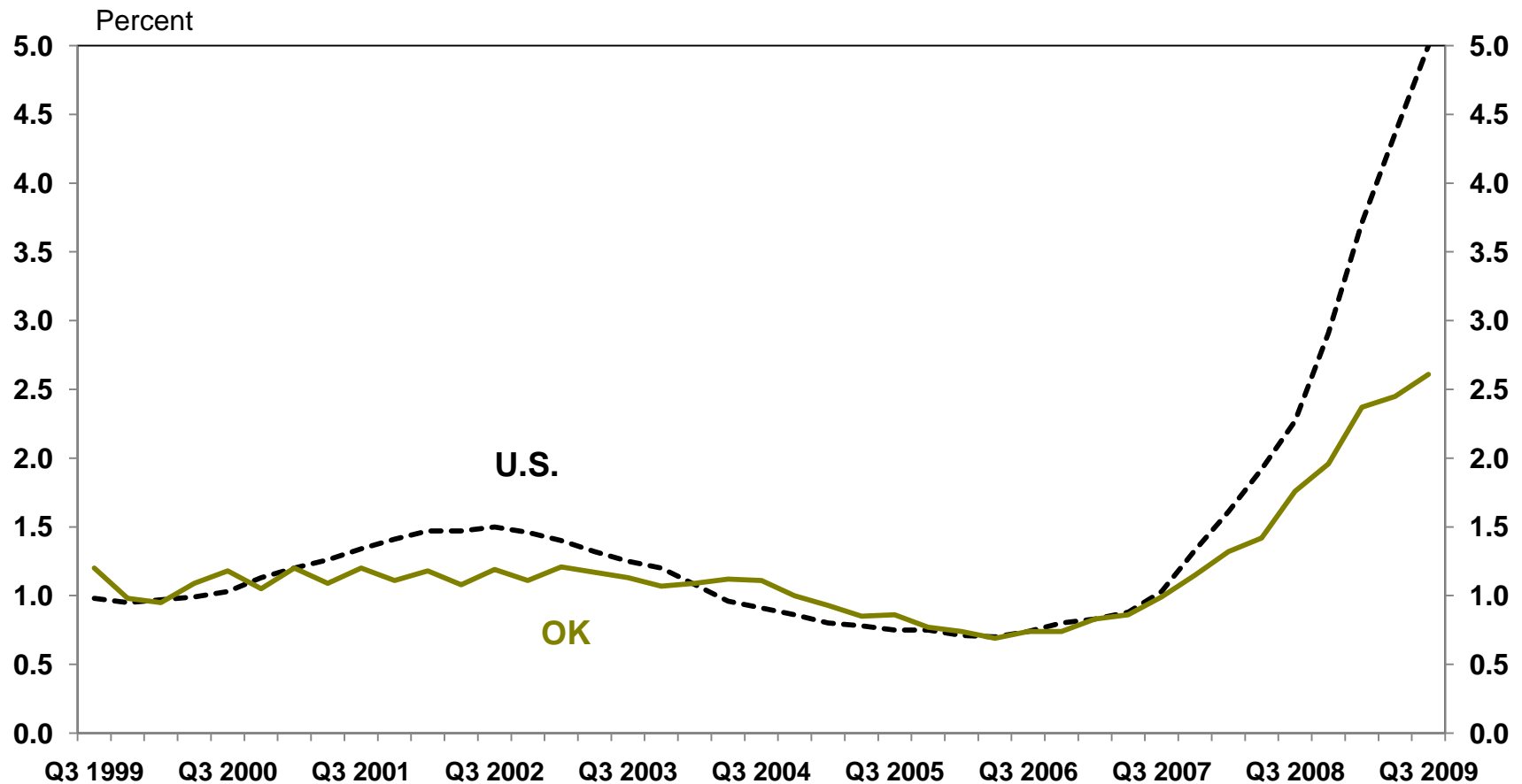
# Energy prices remain the primary risk, but natural gas has recently turned back up





# Banks in the state remain in much better shape than in the nation

**Noncurrent Loans as a Share of Total Loans**  
Commercial Banks



# Summary

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- The U.S. economy is growing again, but recovery is expected to be modest
- Oklahoma is also showing some early signs of recovery, and fiscal stimulus is kicking in
- Still, the future path of energy prices remains a risk for later in the year