

The Economic Outlook for the U.S. and Oklahoma



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History and Structure of the Federal Reserve System

- **The Federal Reserve Act of 1913 created the Fed; Senate sponsor was Oklahoman Robert L. Owen**
- **The Federal Reserve System consists of:**
 - Board of Governors: 7 members appointed by U.S. President
 - Federal Reserve Banks: 12 total; semi-independent by design
 - Federal Open Market Committee (FOMC): 19 members; 12 voting
- **As with most central banks around the world, the Fed's responsibilities fall within four general areas:**
 - Monetary policy – control money supply to affect growth and inflation
 - Lender of last resort – provide liquidity in times of financial crisis
 - Bank regulation – ensure safety and soundness of banks
 - Financial services – bank for banks, bank for federal government



Federal Reserve Districts and Office Locations



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

- **History, staff, and functions**

- Branch office opened in 1920; currently have about 35 staff
- Functions include economic research, bank examinations, public outreach

- **2010 branch 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 and Supply Co., Tulsa
- **Jacque Fiegel**, Senior EVP and 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



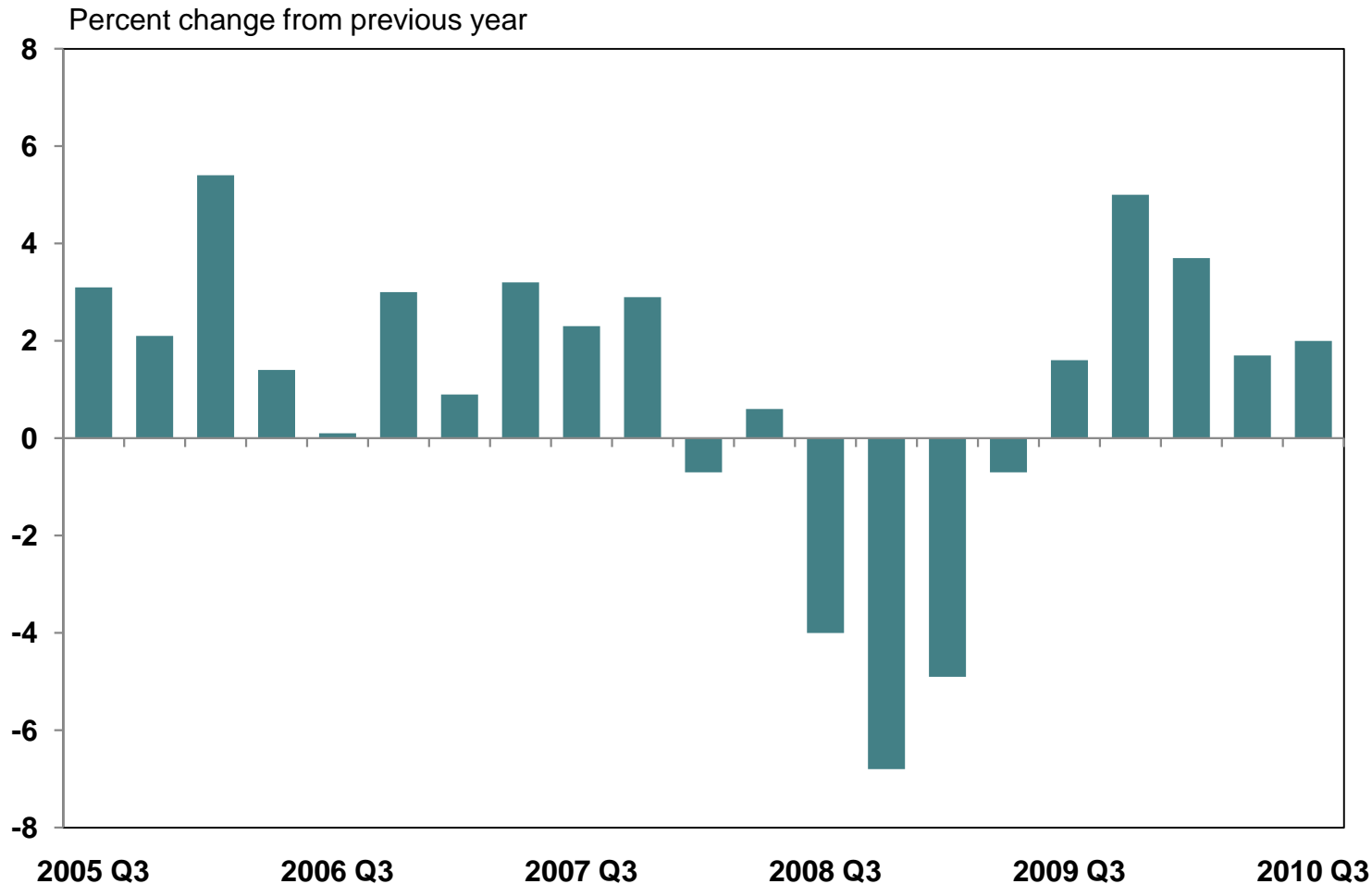
The U.S. Economic Outlook

- The pace of U.S. recovery has slowed somewhat from earlier in the year
- Economic forecasts call for continued moderate growth with low inflation



The recession ended in June 2009, and real GDP has now grown for 5 quarters

Real GDP Growth
Seasonally adjusted, annual rate



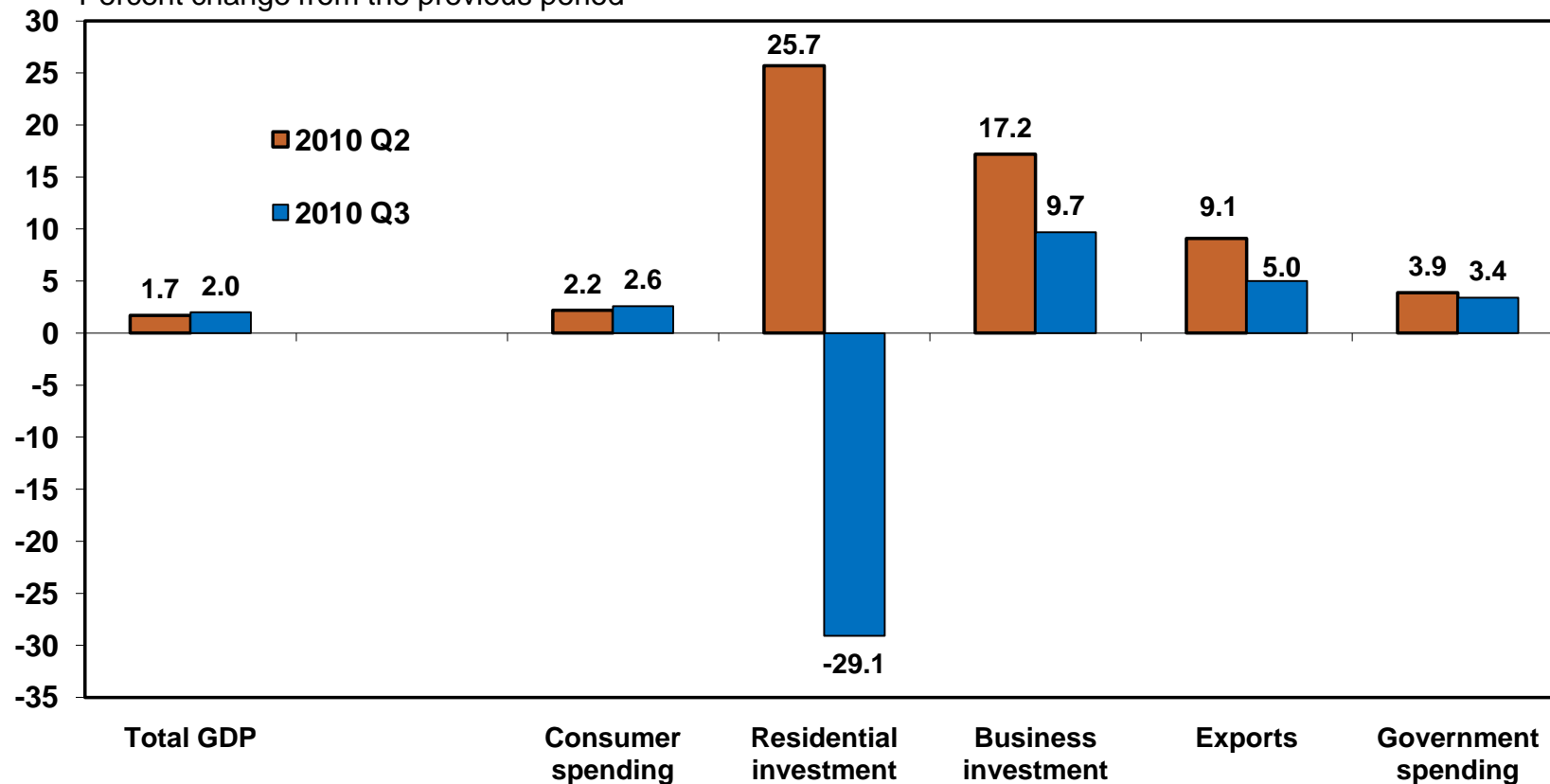
Source: Bureau of Economic Analysis



Recent growth has been driven by stronger business spending and exports

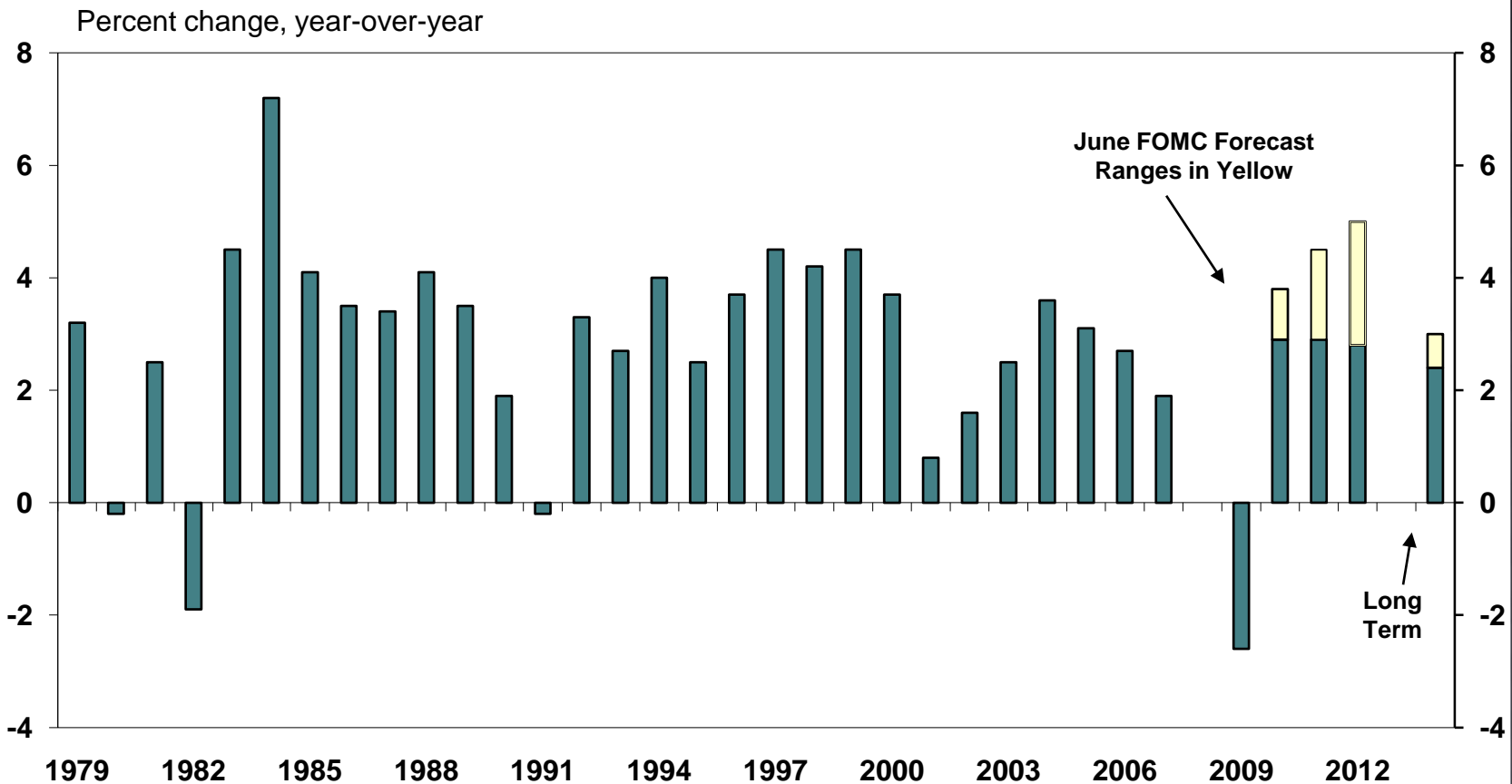
Growth in Components of GDP

Percent change from the previous period



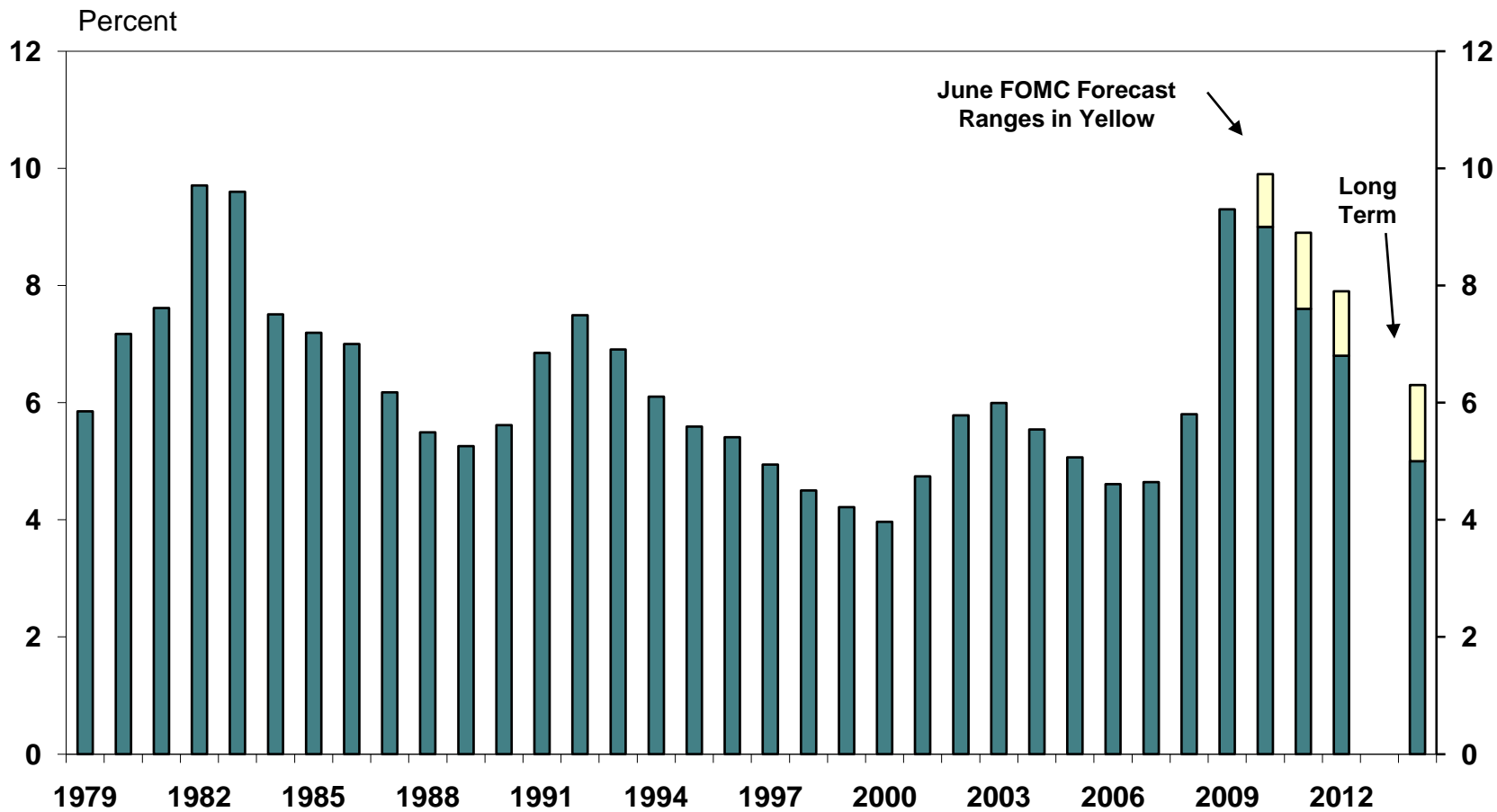
Heading forward, Fed policymakers expect continued moderate recovery

Gross Domestic Product



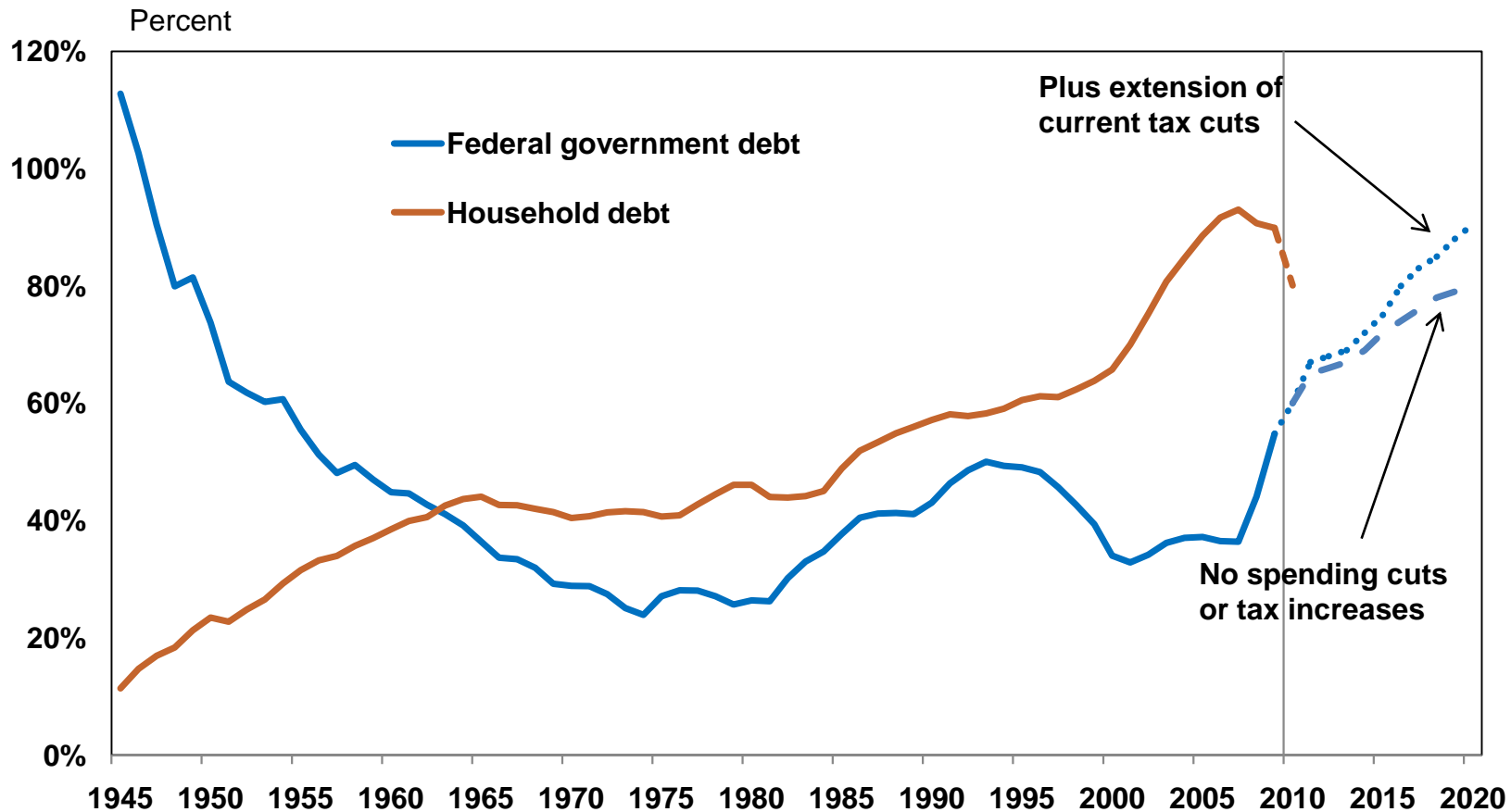
But with national unemployment remaining high for some time

Unemployment Rate
Seasonally Adjusted



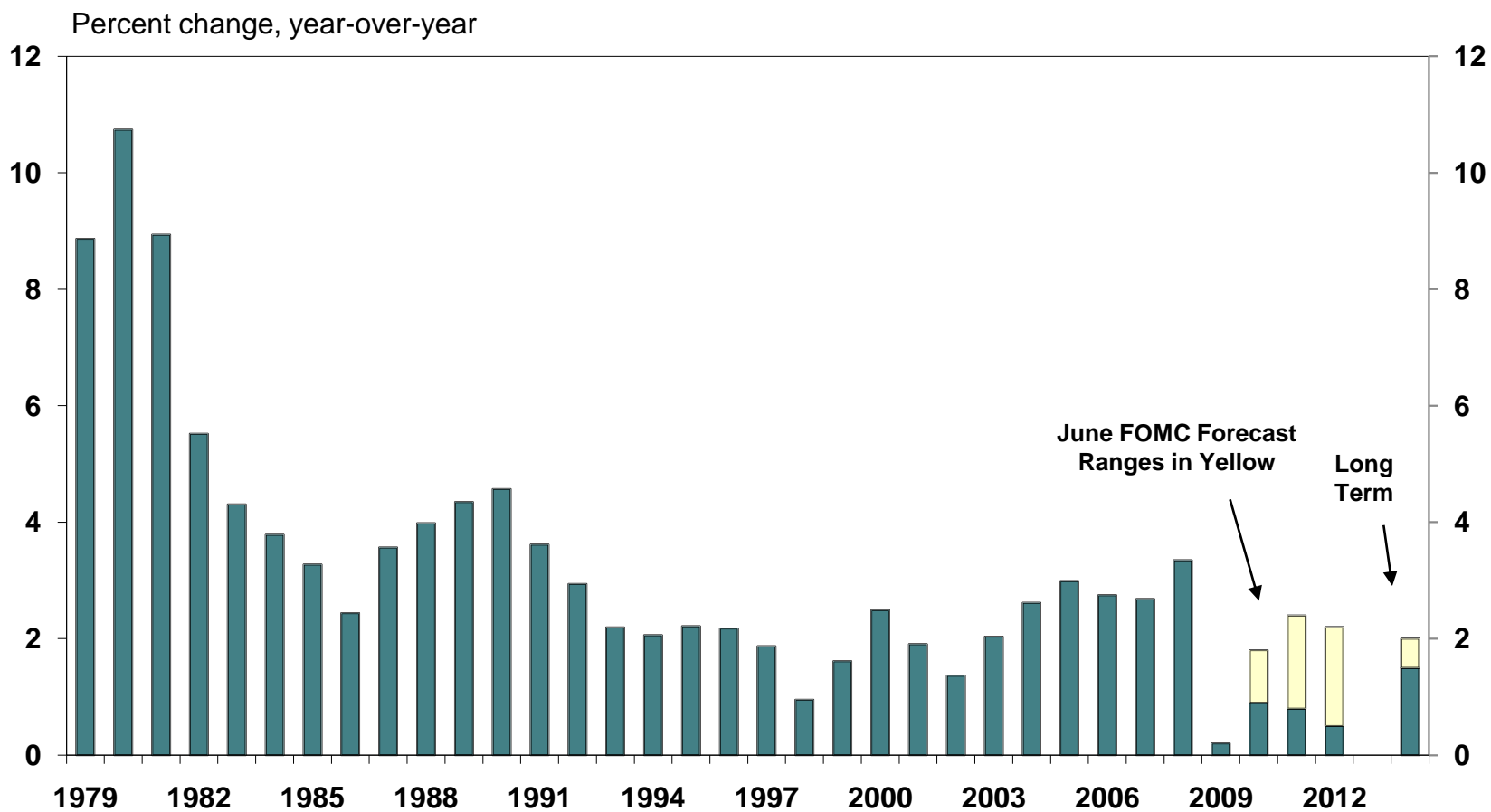
Consumer debt could constrain growth and federal debt is a longer-term concern

U.S. Debt as a Share of GDP



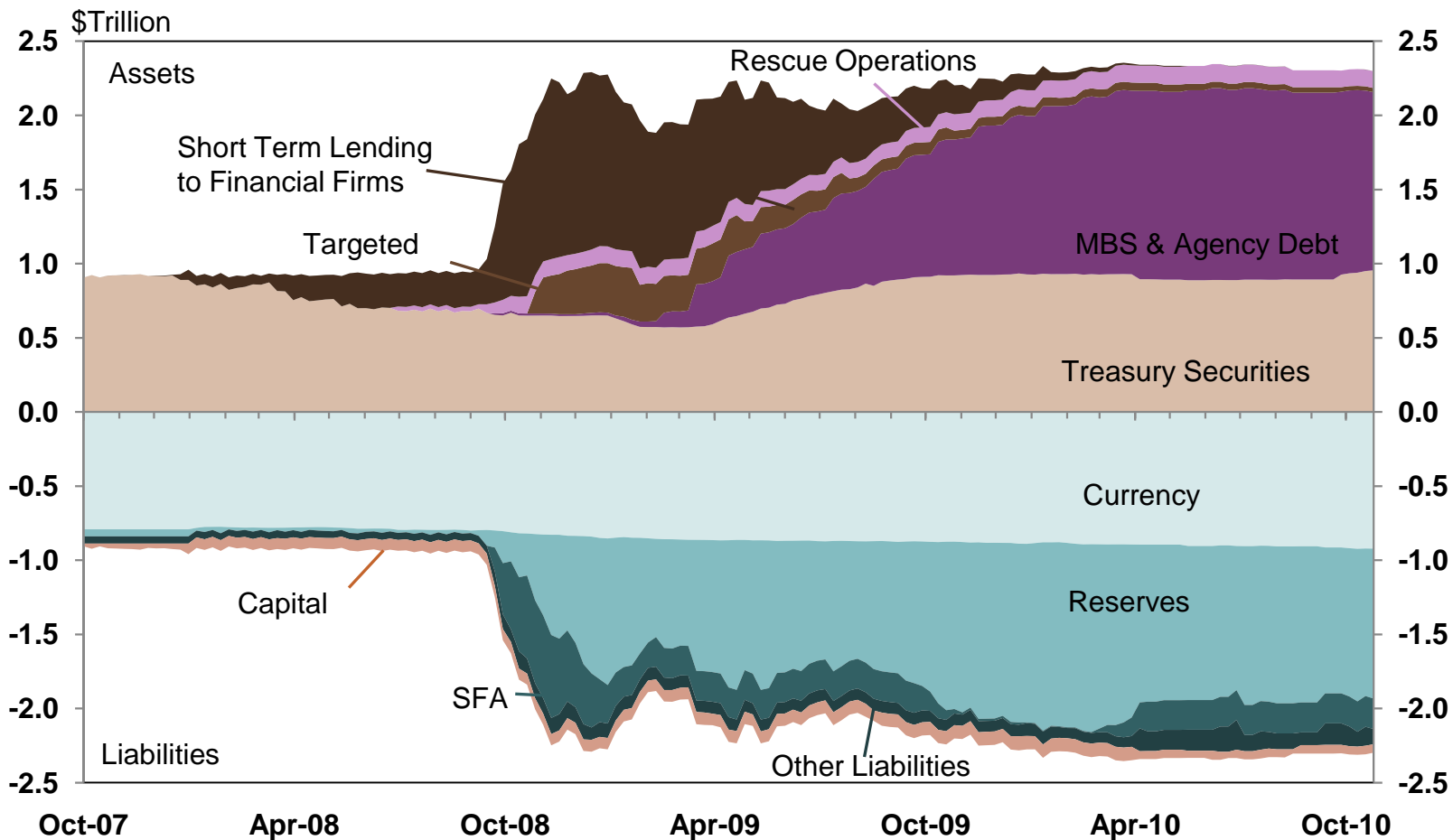
Inflation is expected to remain tame in the near term, but will require careful oversight

PCE Inflation Index



The Fed's balance sheet has grown to historical levels

Federal Reserve Balance Sheet



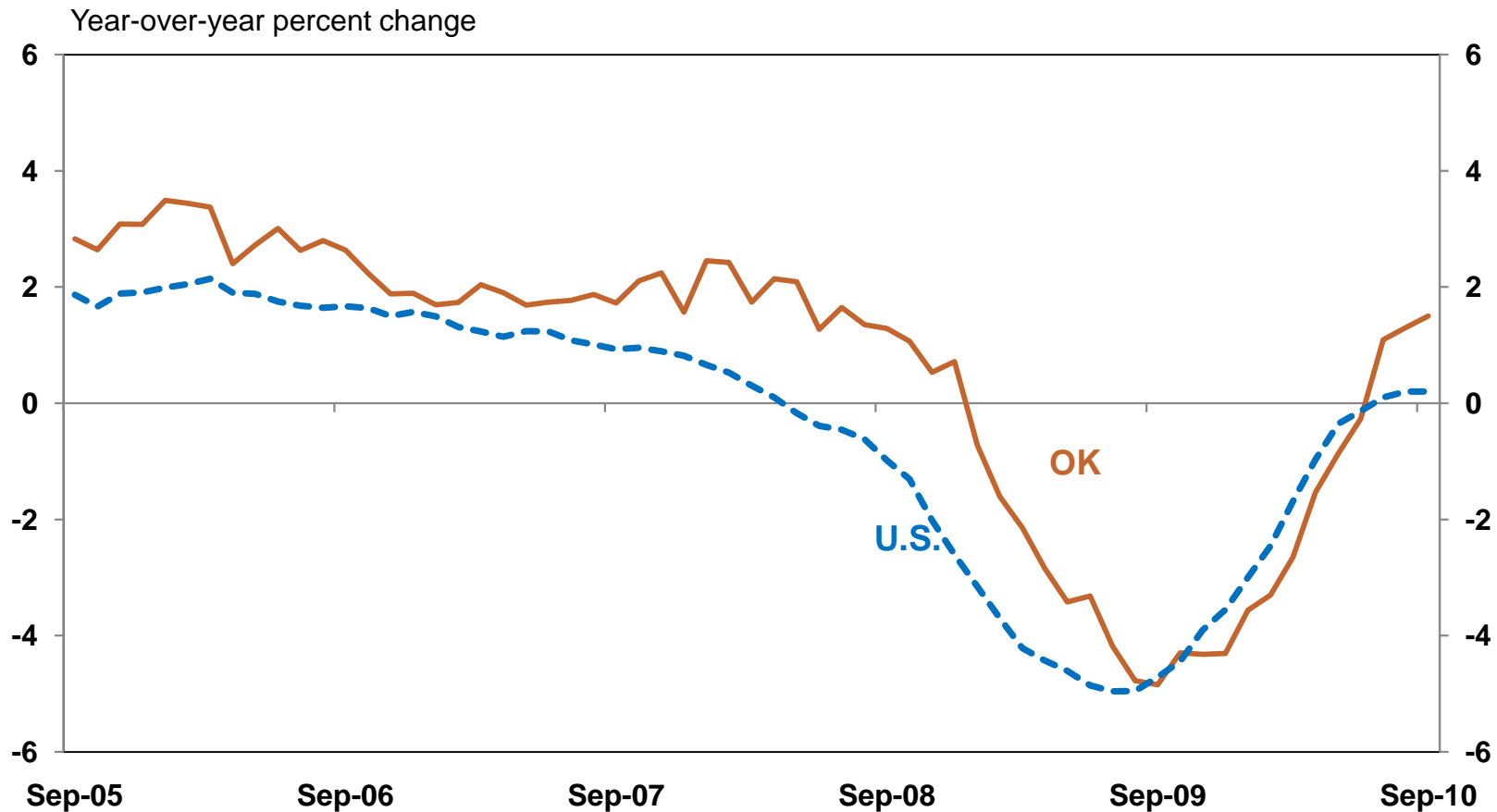
The Oklahoma Economic Outlook

- As usual, Oklahoma's recession was shorter and milder than the nation's
- The state also appears to have fewer risks, aside from low natural gas prices



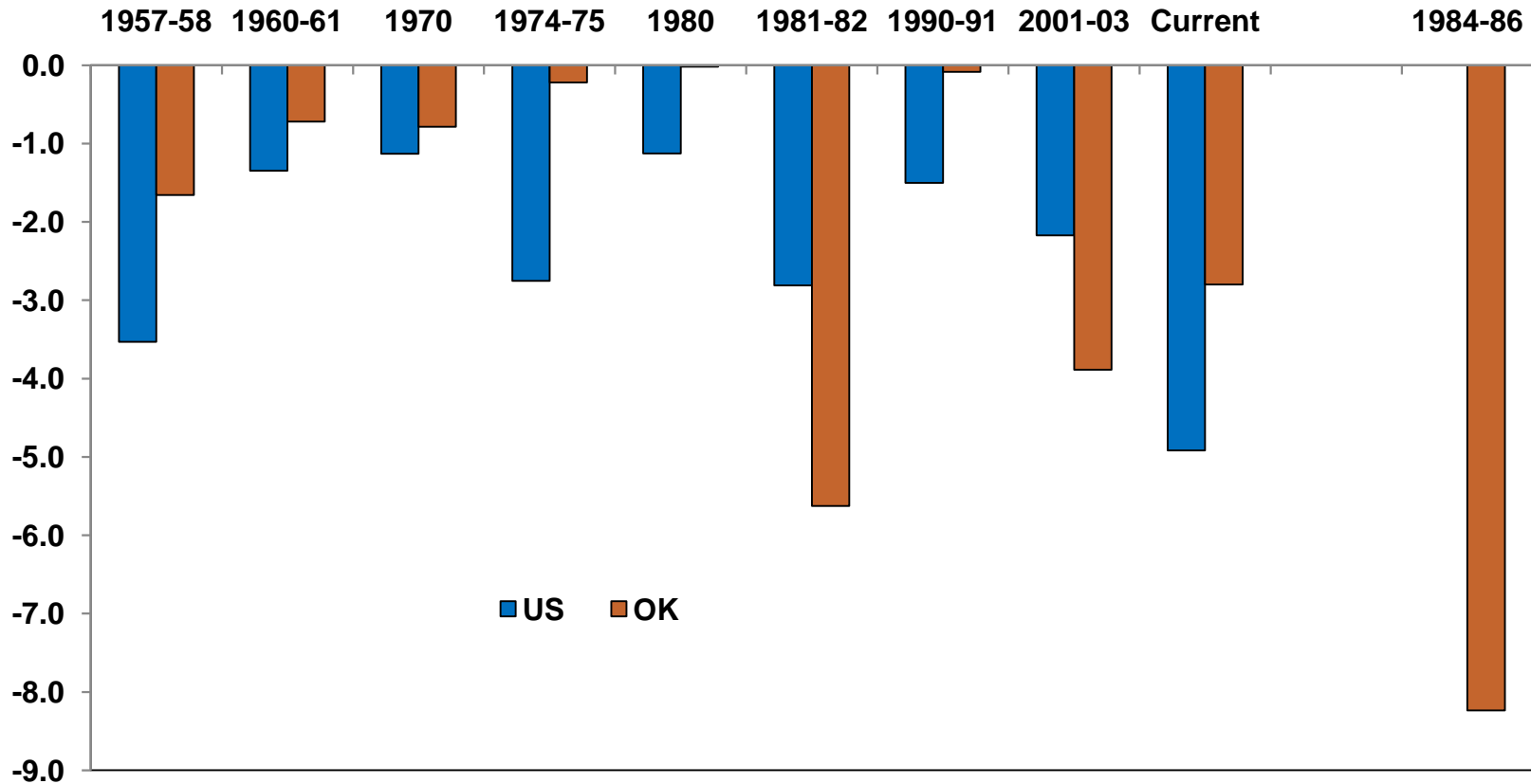
Oklahoma entered this recession late, but is now outpacing the nation

Payroll Employment



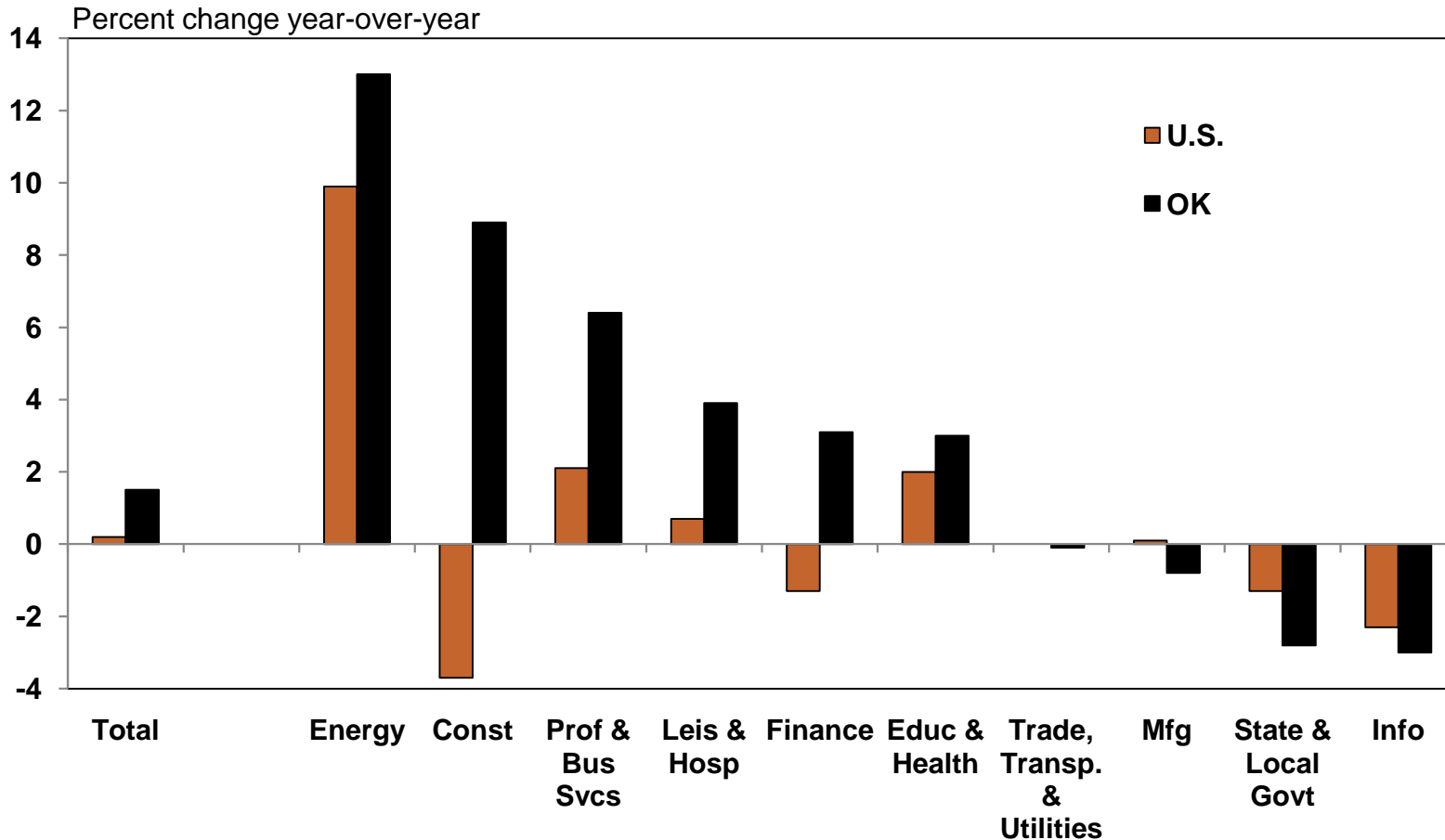
Oklahoma usually has this recession and recovery pattern, but with some exceptions

Job Losses in Recessions, 1956-present
Percent



Recent solid state job growth has been driven by energy, construction, and services

Employment Growth September 2010

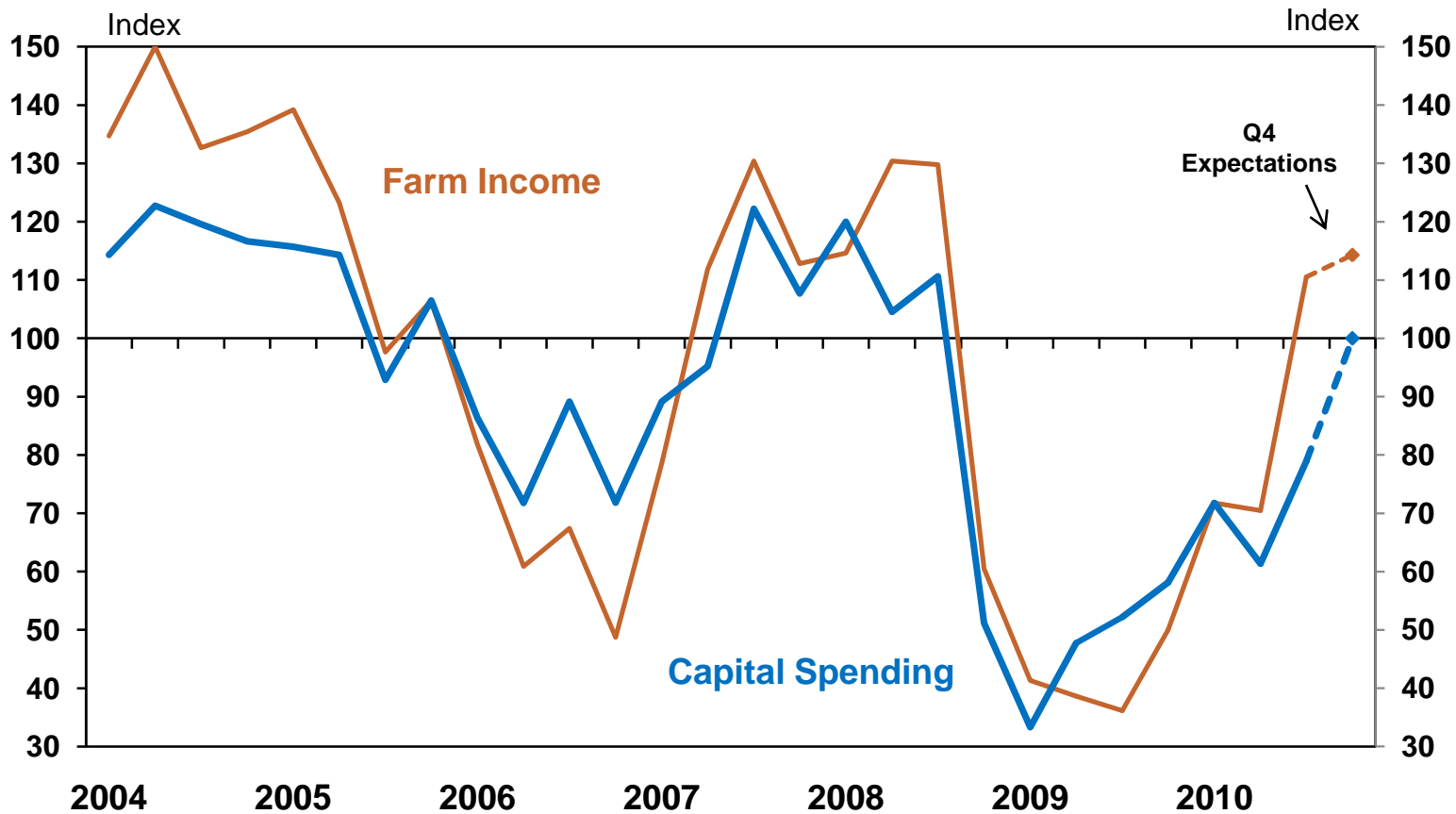


Source: Bureau of Labor Statistics



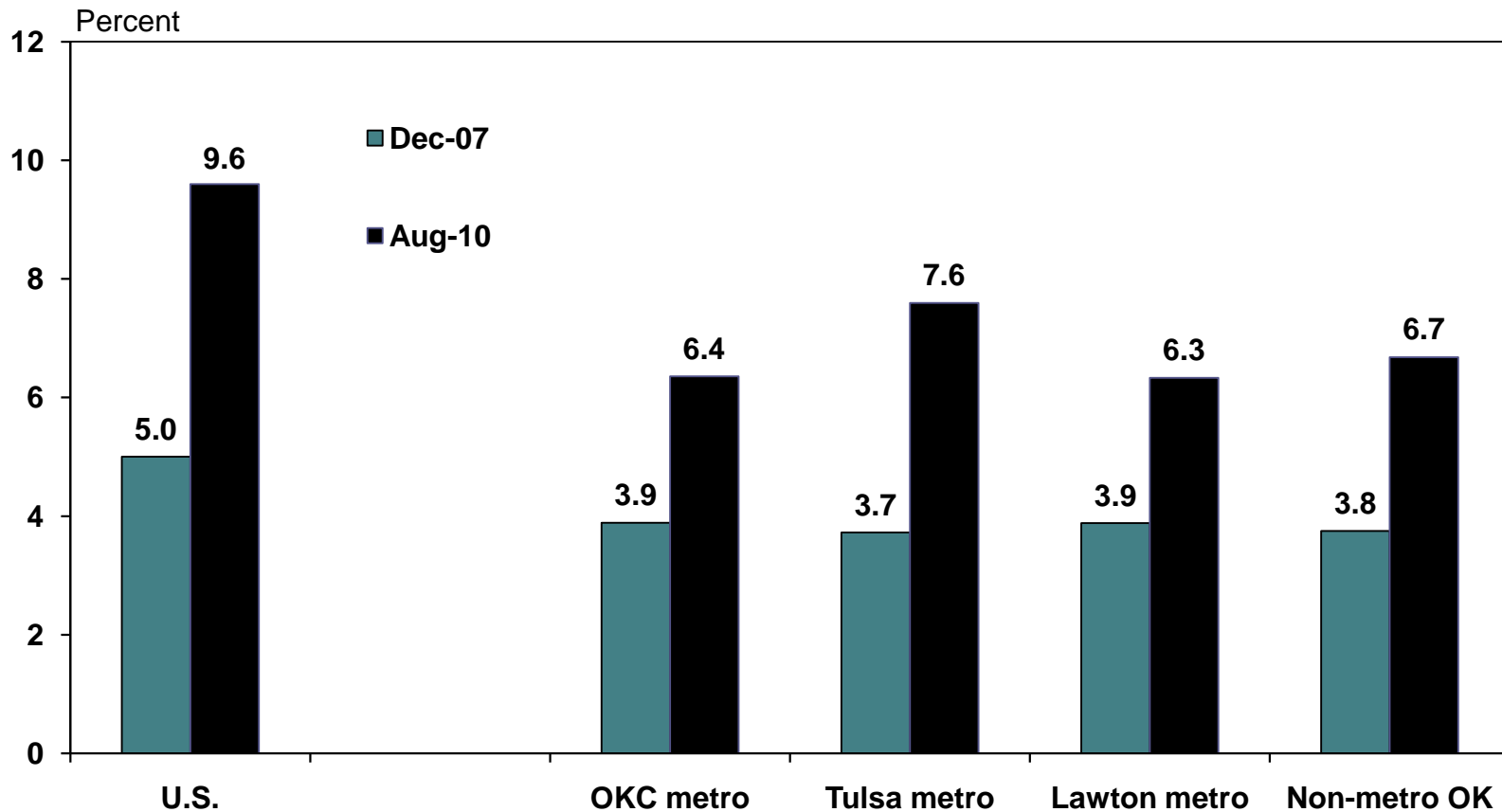
Agricultural conditions in the state have also improved after bottoming in 2009

Oklahoma Agricultural Conditions



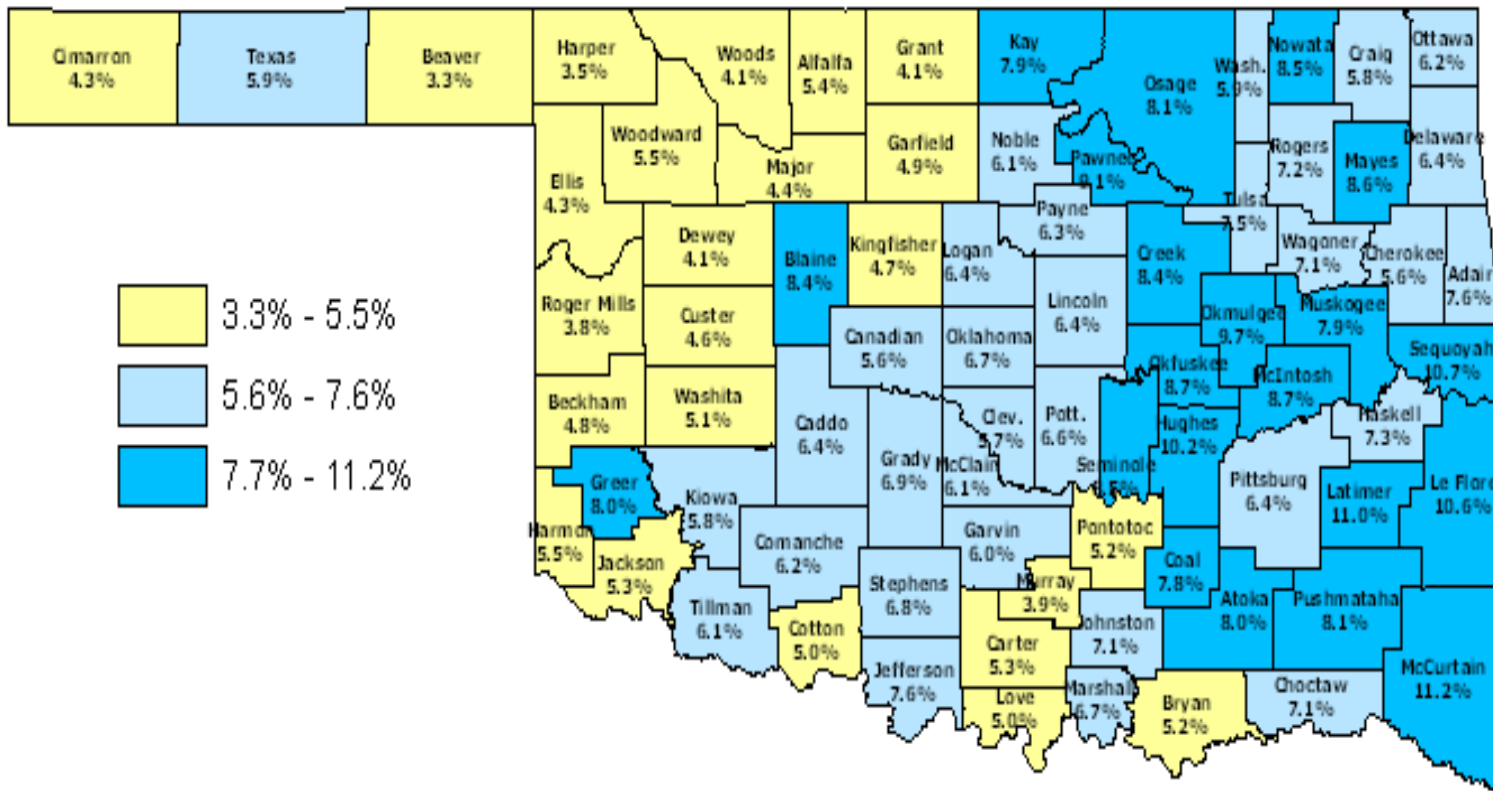
With our shorter recession, unemployment remains relatively low in most of the state

Unemployment Rate
Seasonally Adjusted*



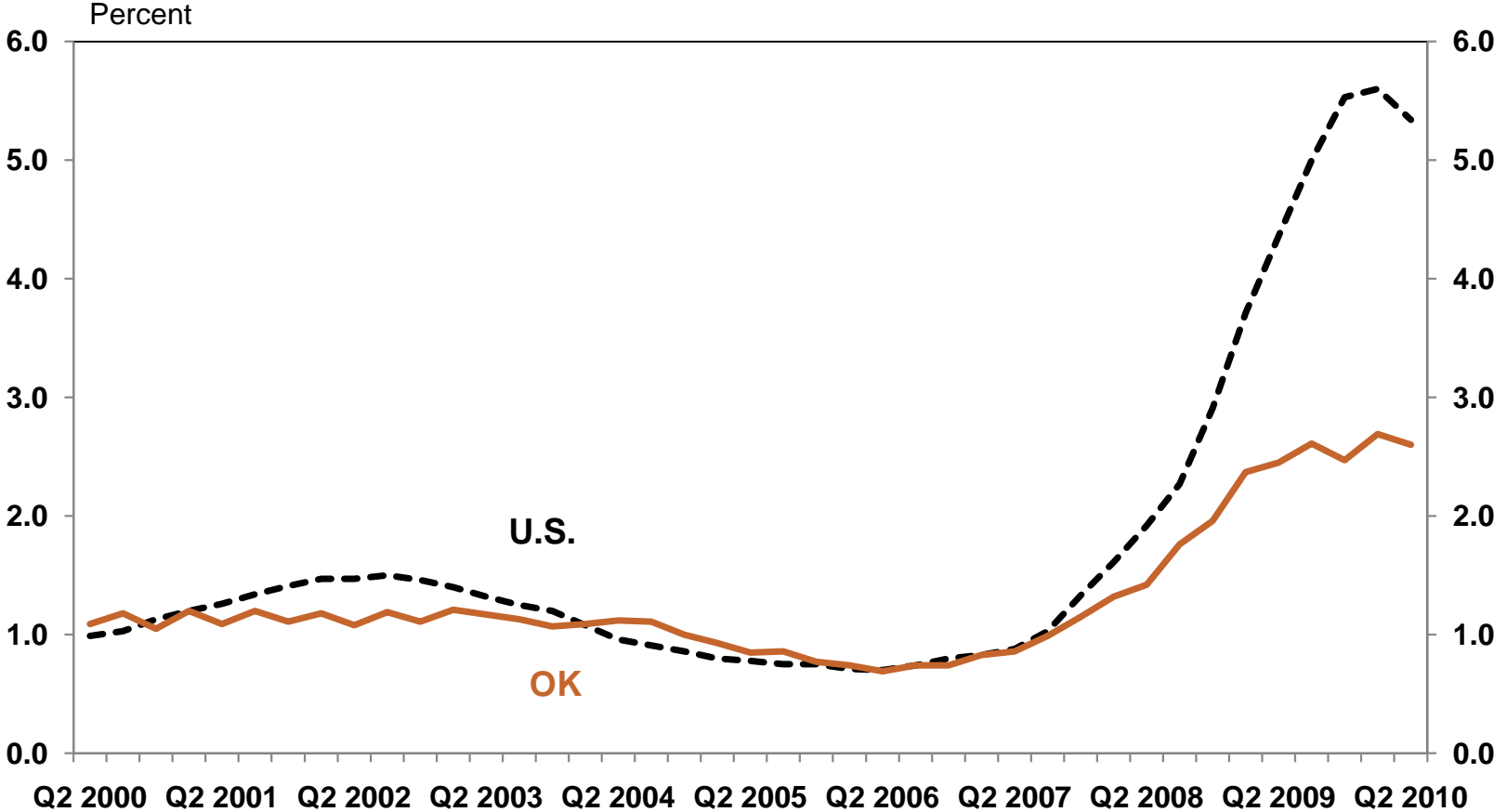
The exceptions would include parts of eastern and southeastern Oklahoma

Oklahoma Unemployment Rates by County, August 2010



Oklahoma banks also remain in much better shape than in the nation as a whole

Noncurrent Loans as a Share of Total Loans Commercial Banks

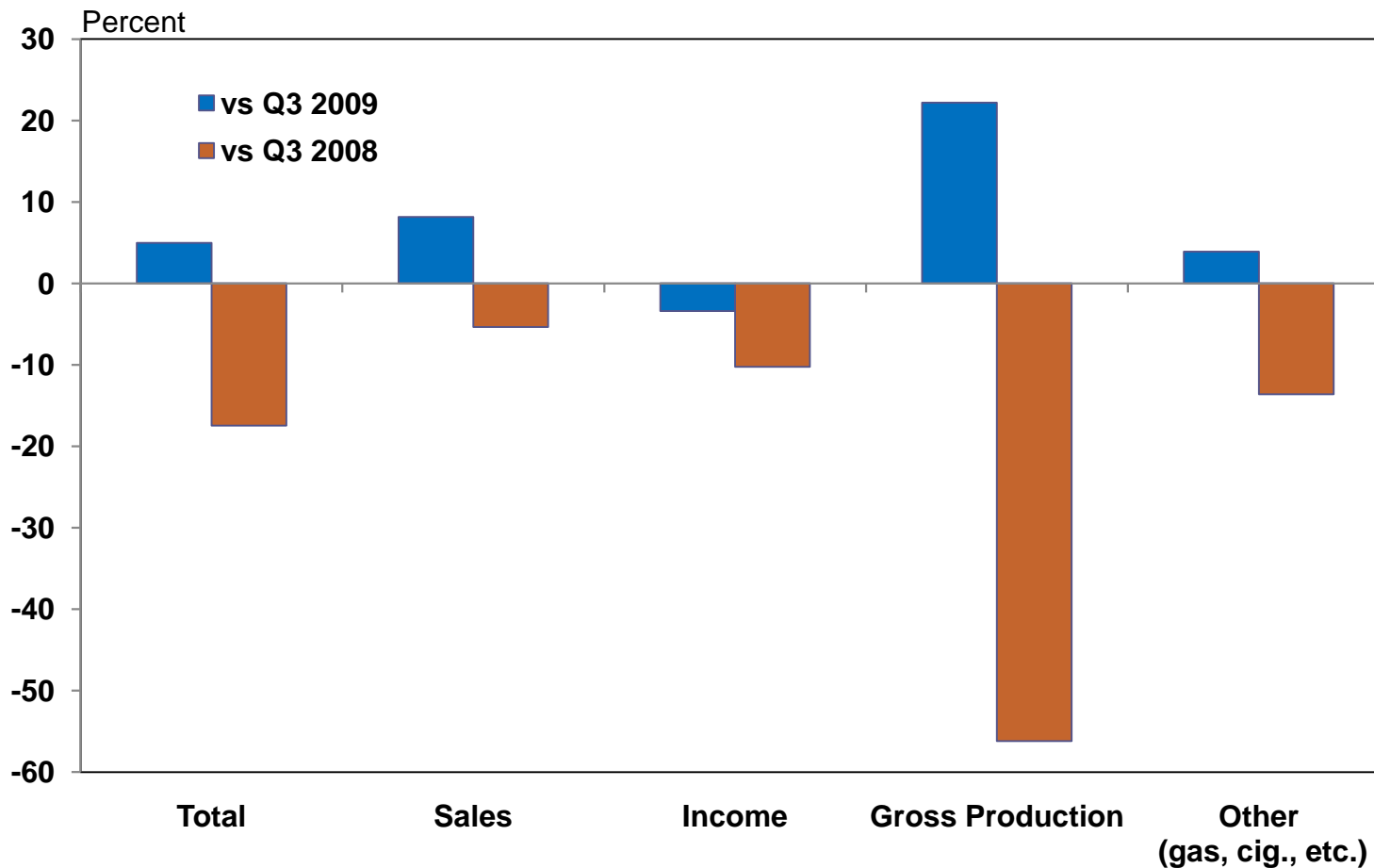


Source: FDIC



State tax revenues are up from last year, but still well down from two years ago

Oklahoma State Tax Revenue Growth
Q3 2010

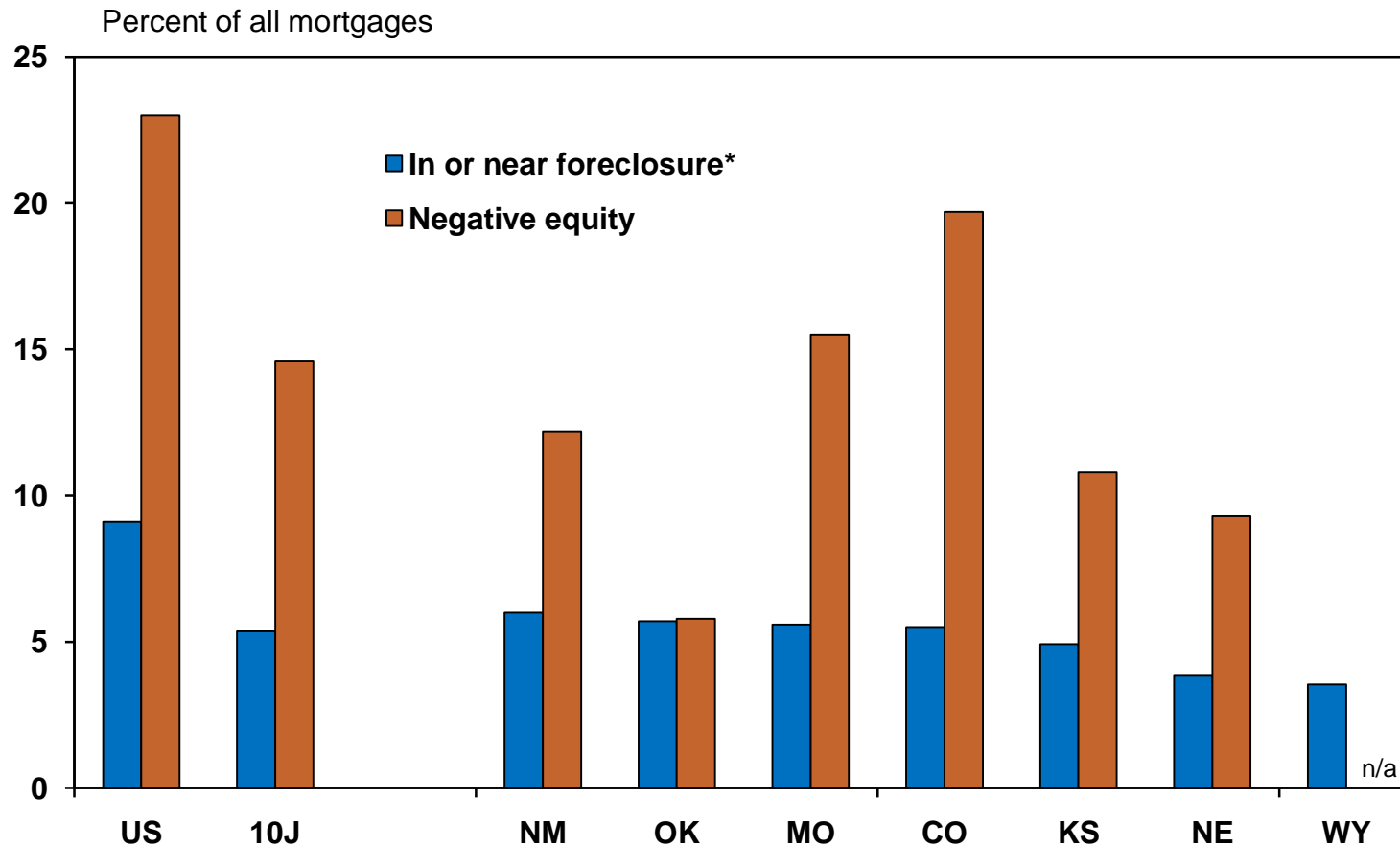


Source: Oklahoma Tax Commission



The state is at risk of further foreclosures, though less so than the nation

Foreclosures and Negative Equity Mortgages U.S. and Tenth Federal Reserve District, Q2 2010



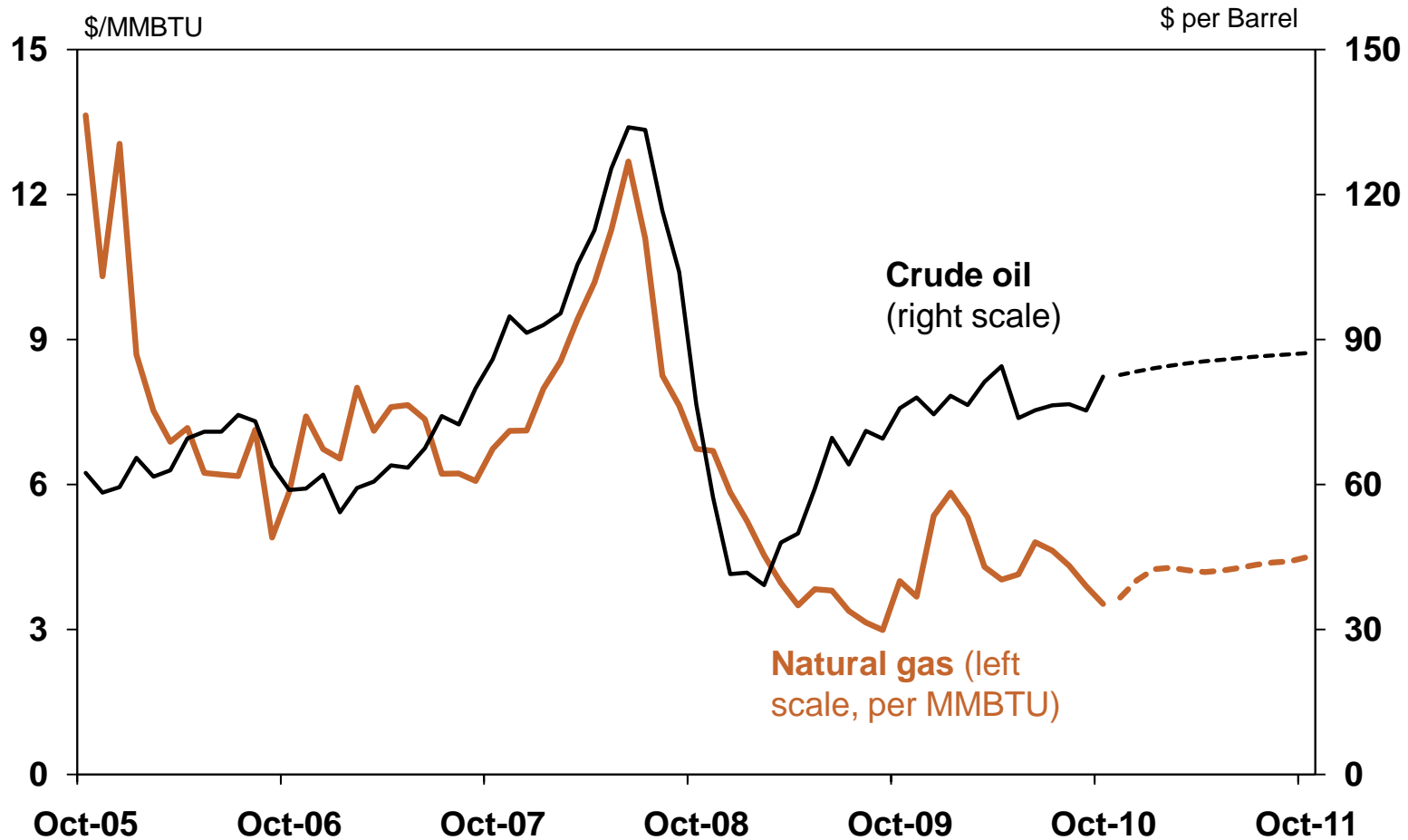
*Over 90 days past due

Source: MBA, Corelogic



Natural gas prices remain the biggest risk relative to the nation

Energy Prices



Source: Bloomberg



Summary

- The U.S. economy is recovering and is expected to continue to grow moderately
- Oklahoma's economy is also recovering and remains in better shape overall

