

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:**
 - Price stability
 - Maximum employment
 - National financial stability
- **The primary functional areas of the Fed are:**
 - Monetary policy – adjusting overnight interest rate to affect economy
 - Bank regulation – bank holding companies, state member banks
 - 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 vote).

Federal Reserve Districts and Office Locations



The Kansas City and Oklahoma City Offices

- **Headquarters office 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**

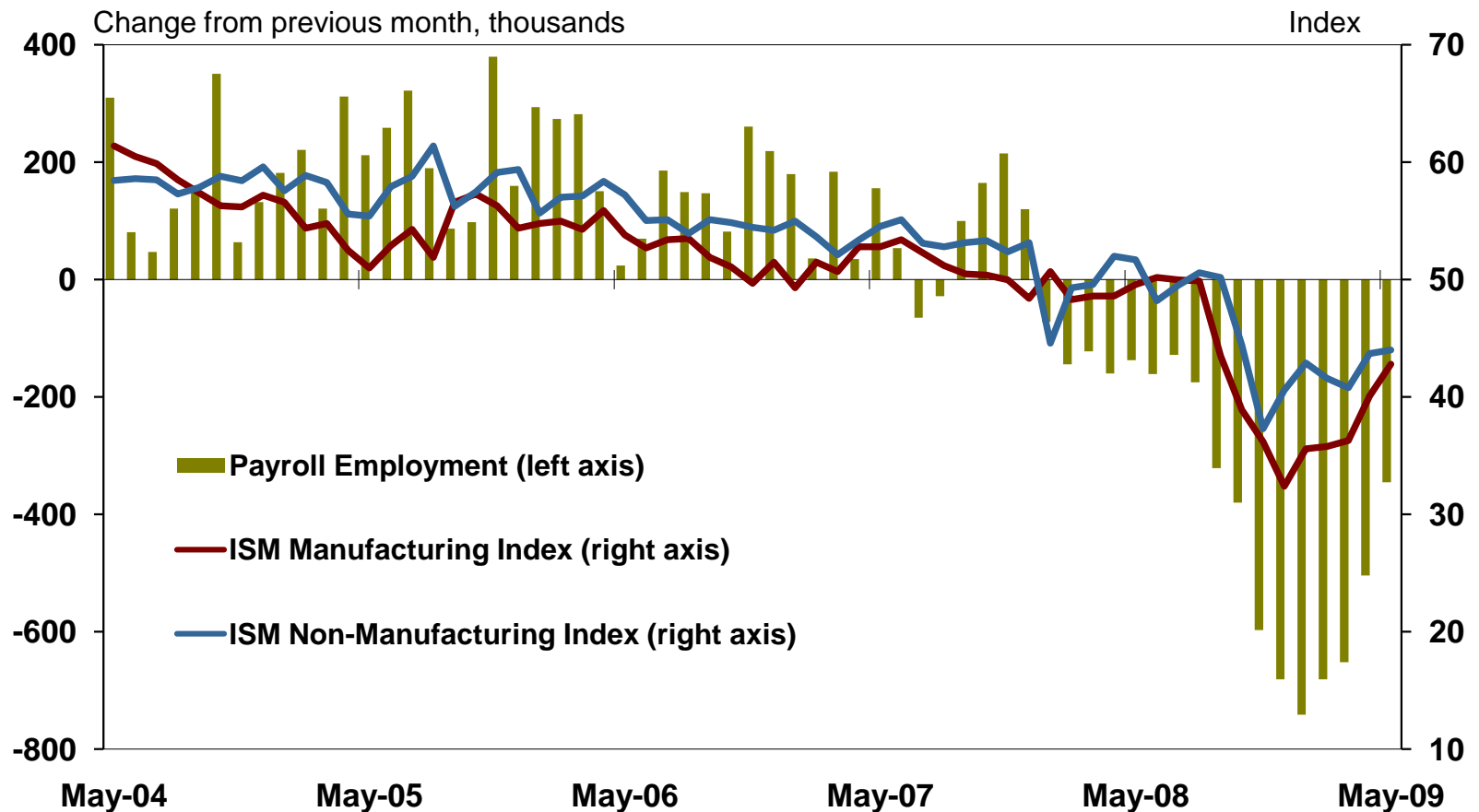
- *Chairman* **Steve Agee**, President, Agee Energy, and Professor, OCU, OKC
- **Terry Almon**, President, Oklahoma Community Capital Corp., Broken Arrow
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
- **Fred Ramos**, COO, Latino Community Development Agency, OKC
- **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 appears to be near a bottom
- The strength of recovery will depend in part on better credit conditions
- Inflation has eased and is expected to remain tame in the near term

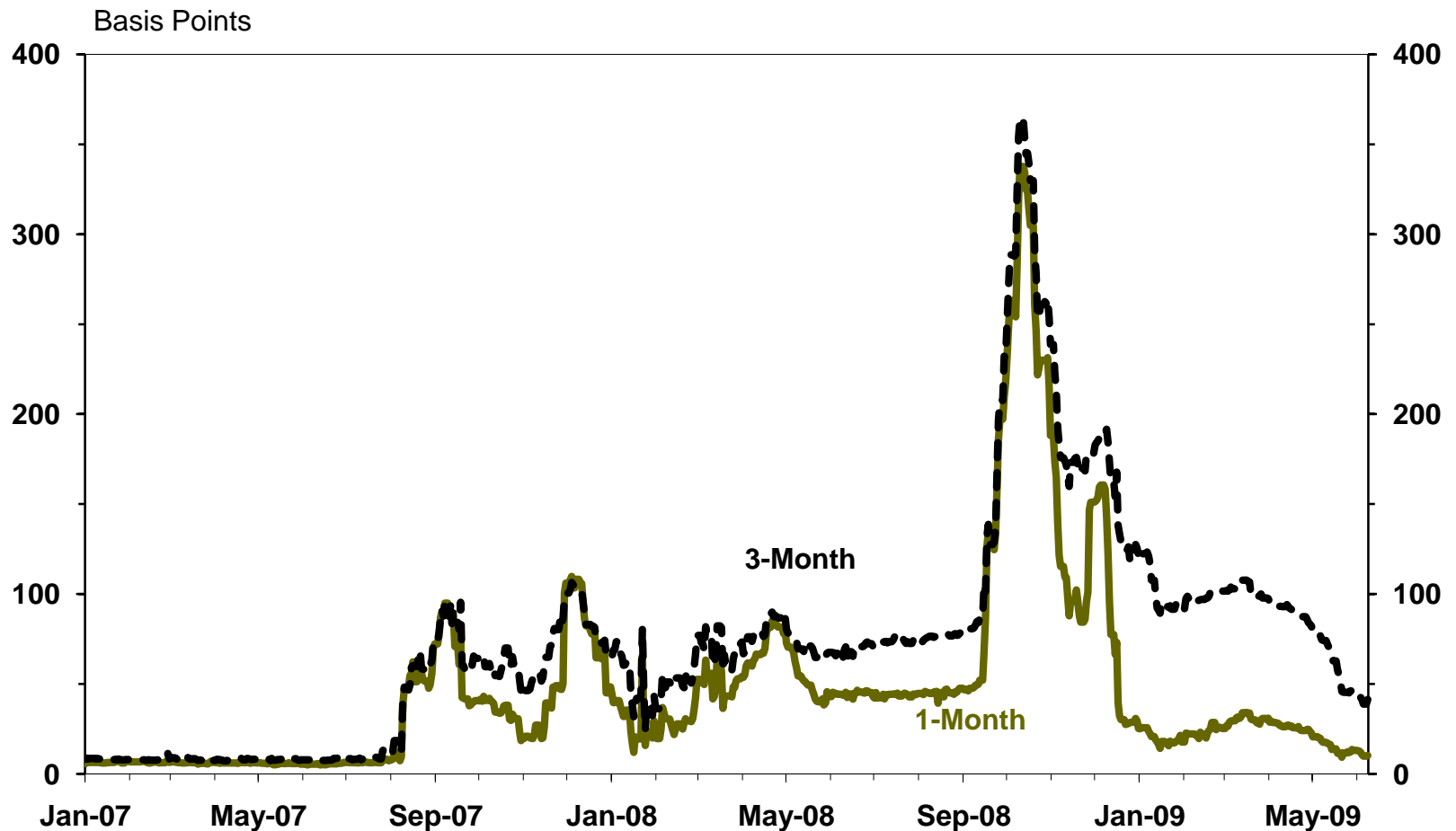
Following 2 very bad quarters, declines in the U.S. economy have been smaller in Q2 2009

National Business Indexes and Payroll Employment



Credit market conditions have also improved but remain somewhat strained

LIBOR-OIS Spread



The U.S. policy response to the recession and financial crisis has been broad

□ Federal Reserve

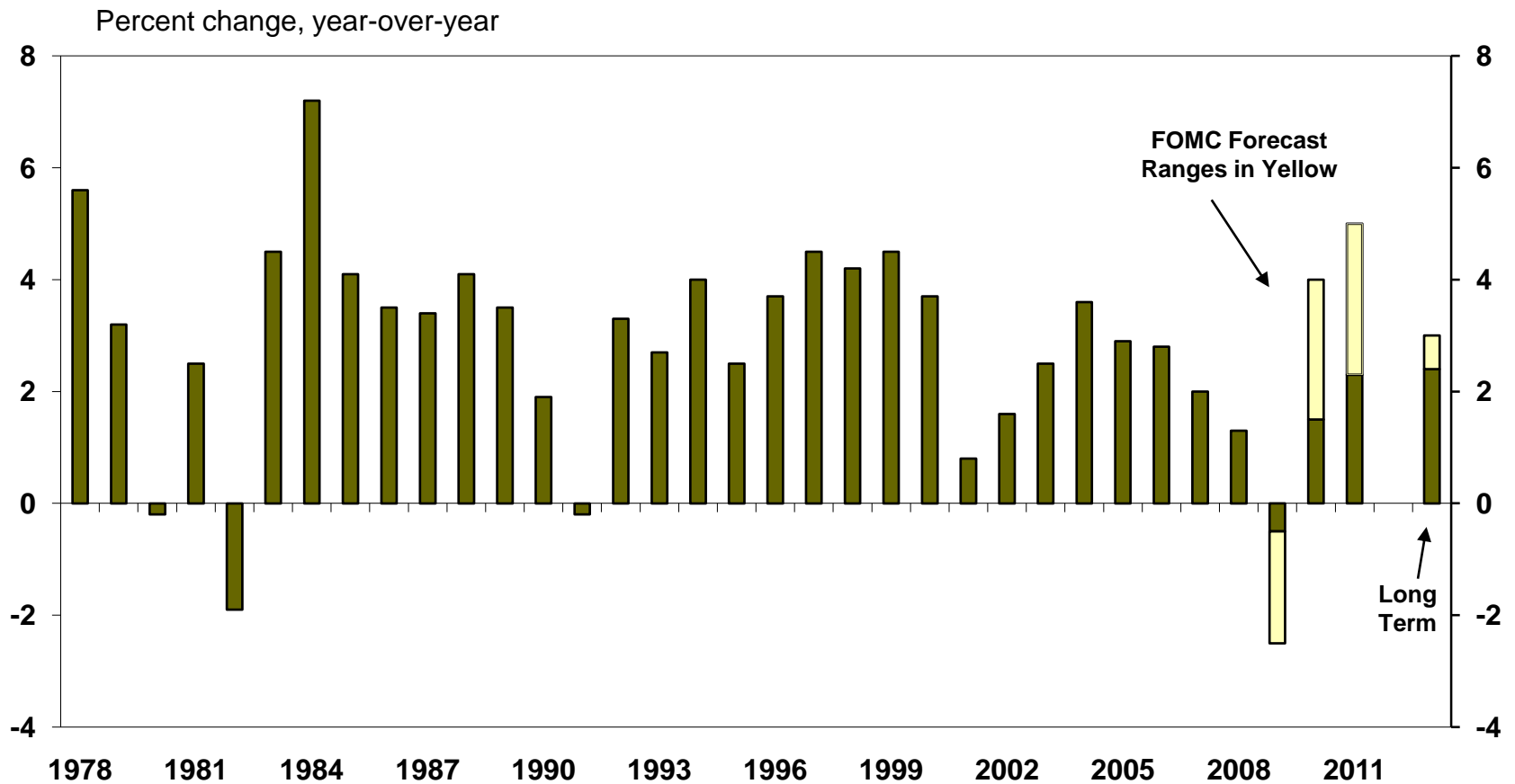
- Lowered the Fed Funds rate
- Implemented numerous liquidity facilities
- Purchased long-term securities

□ U.S. Treasury and Congress

- Passed the TARP
- Passed a large fiscal stimulus bill
- Some foreclosure prevention policies

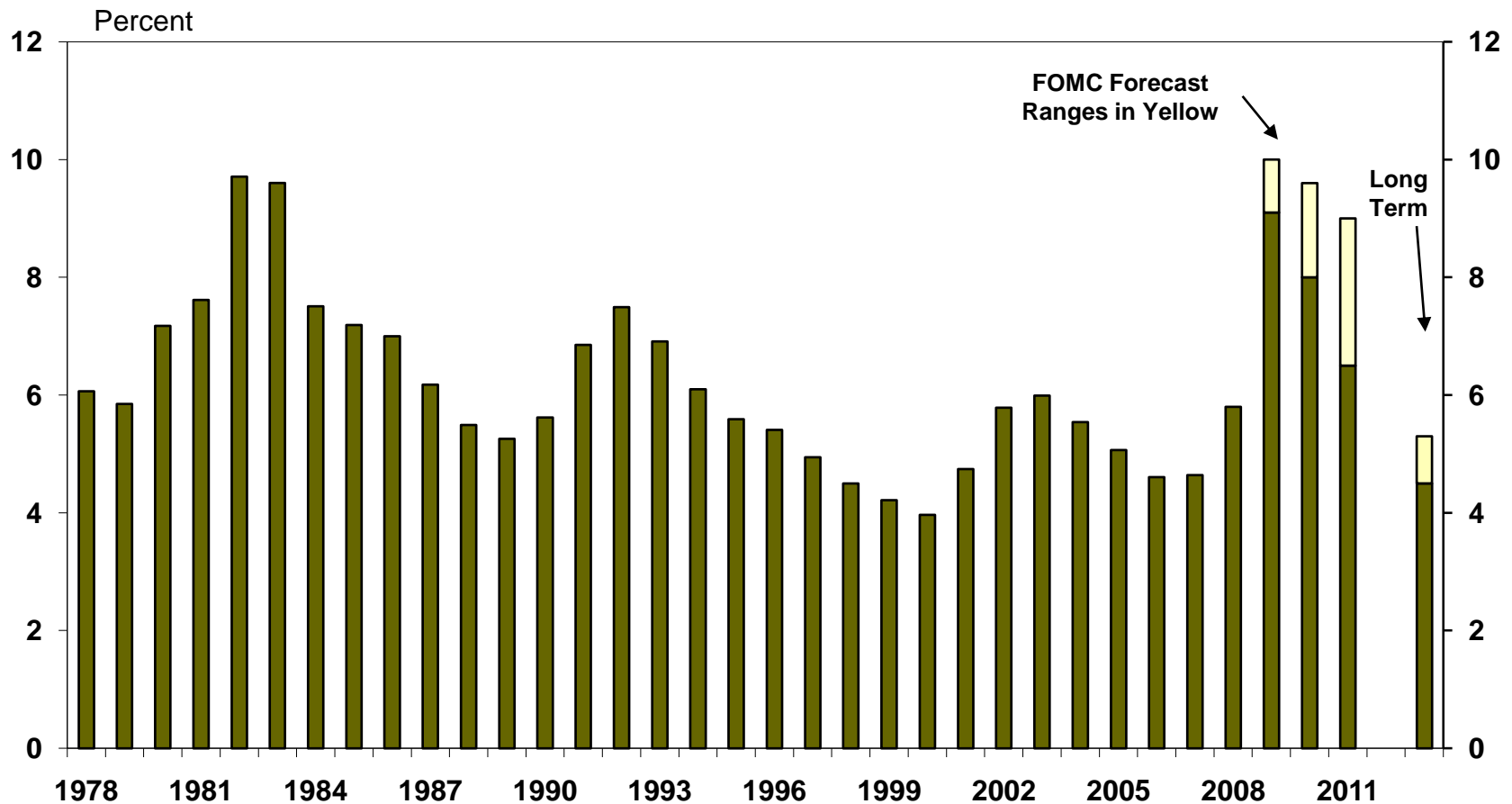
Heading forward, policy makers generally expect a gradual recovery

Gross Domestic Product



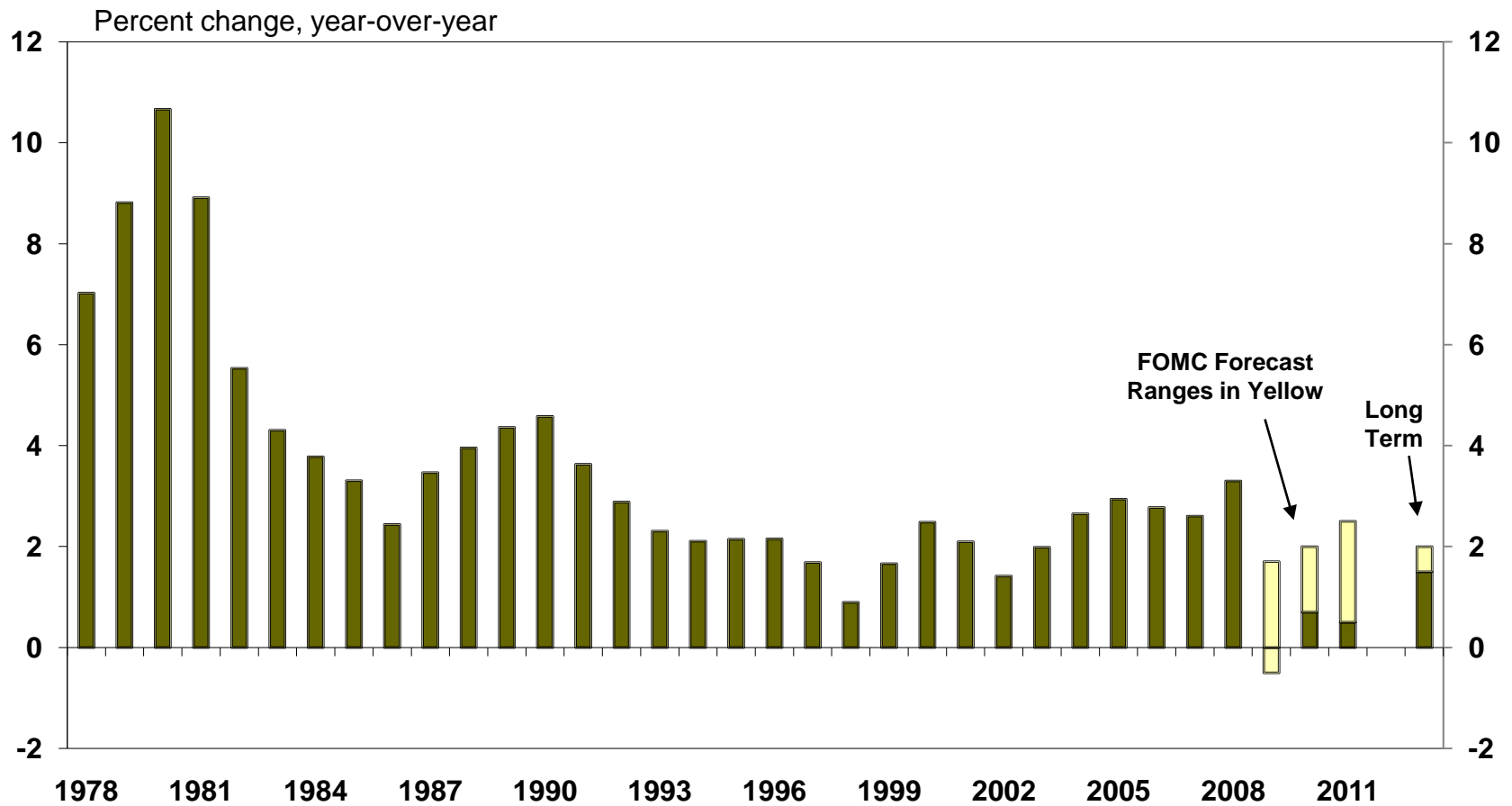
But U.S. unemployment is expected to remain elevated for some time

Unemployment Rate
Seasonally Adjusted



Meanwhile, inflation is expected to remain fairly moderate in coming years

PCE Inflation Index



The Oklahoma Economy

- The state's economy remains stronger than in the nation
- But job losses in recent months have been steep
- Recent data suggest a bottom may also be near in Oklahoma

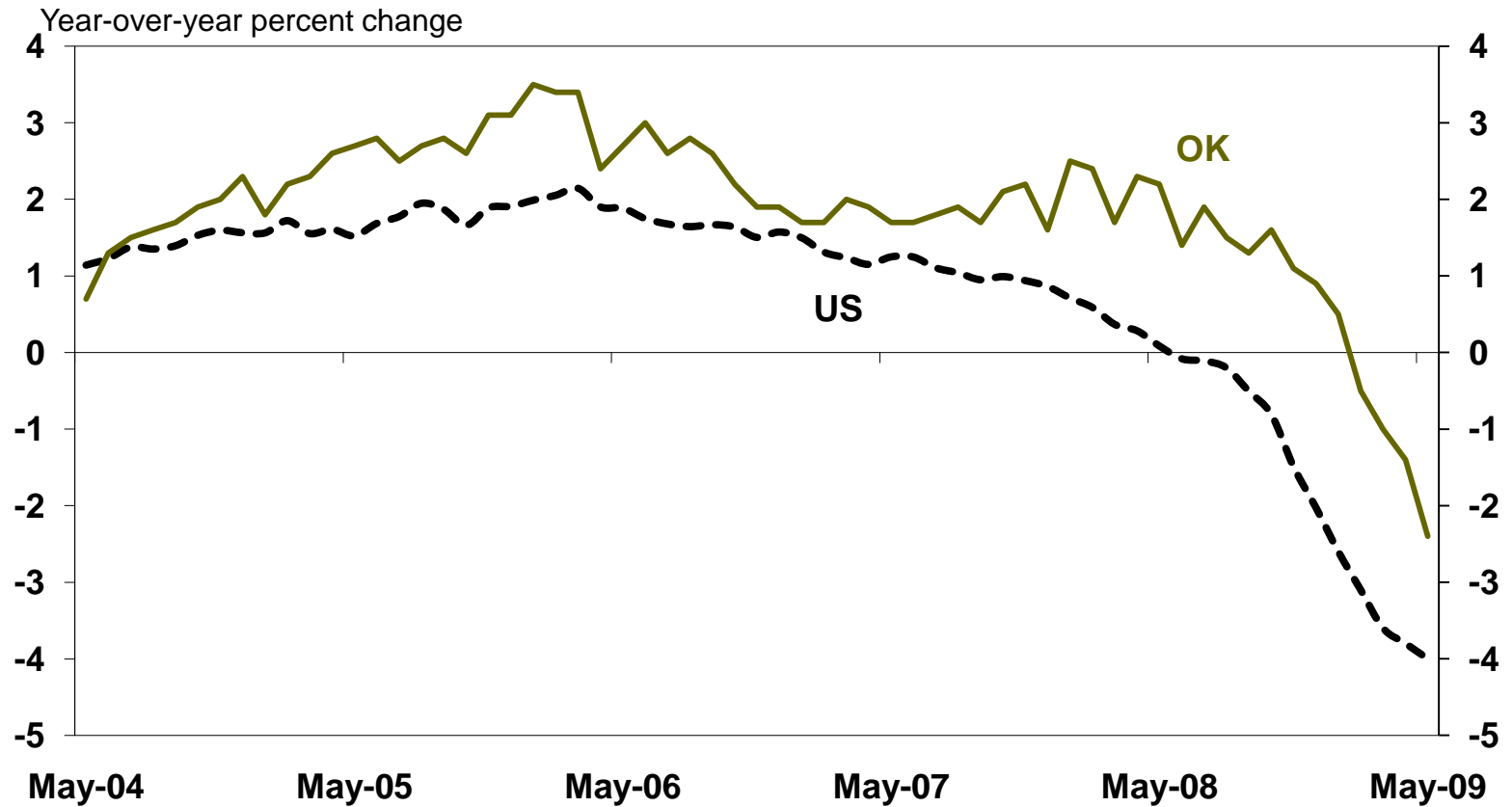
Unemployment remains relatively low in Oklahoma and most nearby states

Unemployment Rate, May 2009



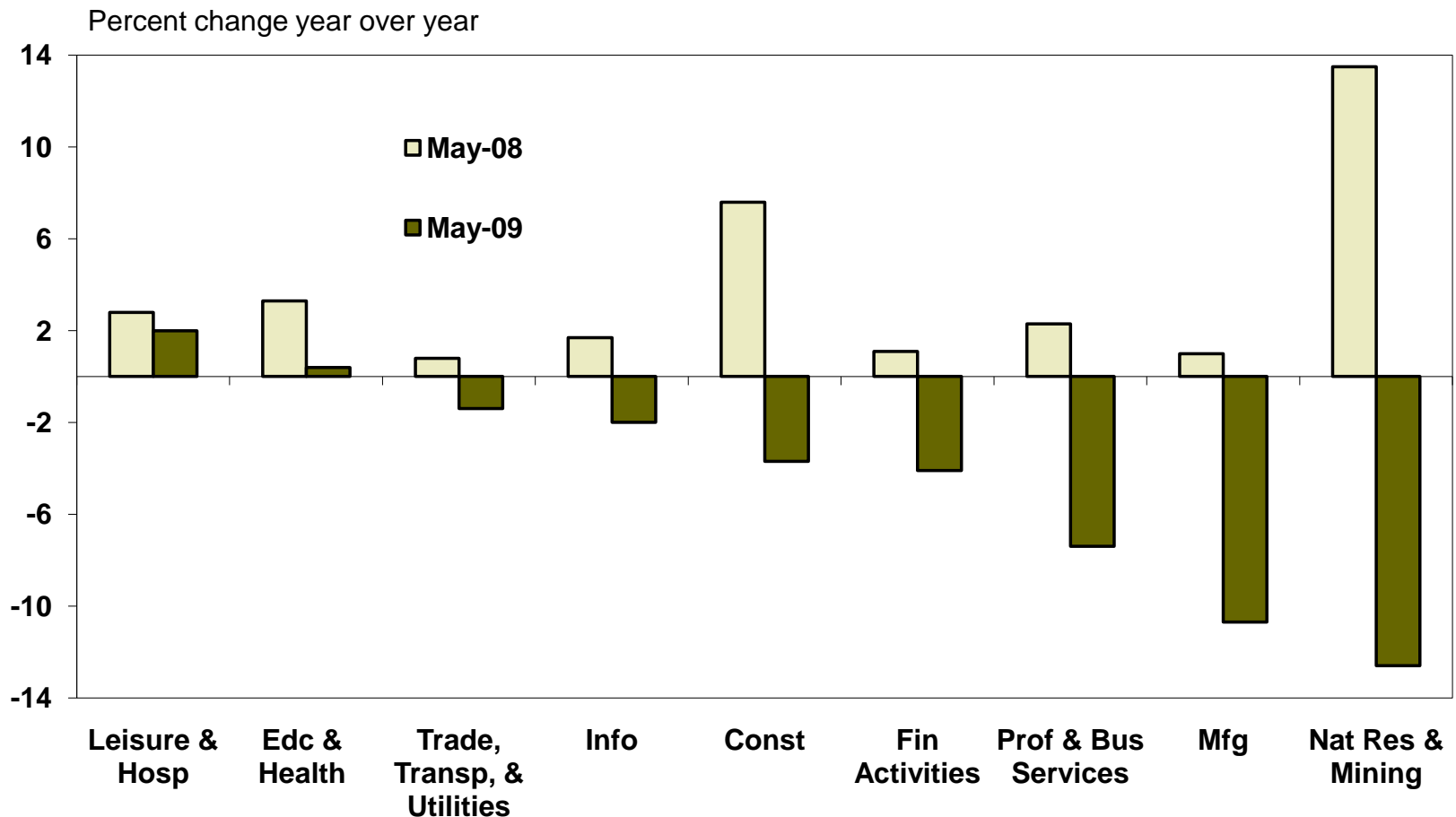
But jobs are now well below year-ago levels in Oklahoma, following a long boom

Nonfarm Payroll Employment Growth

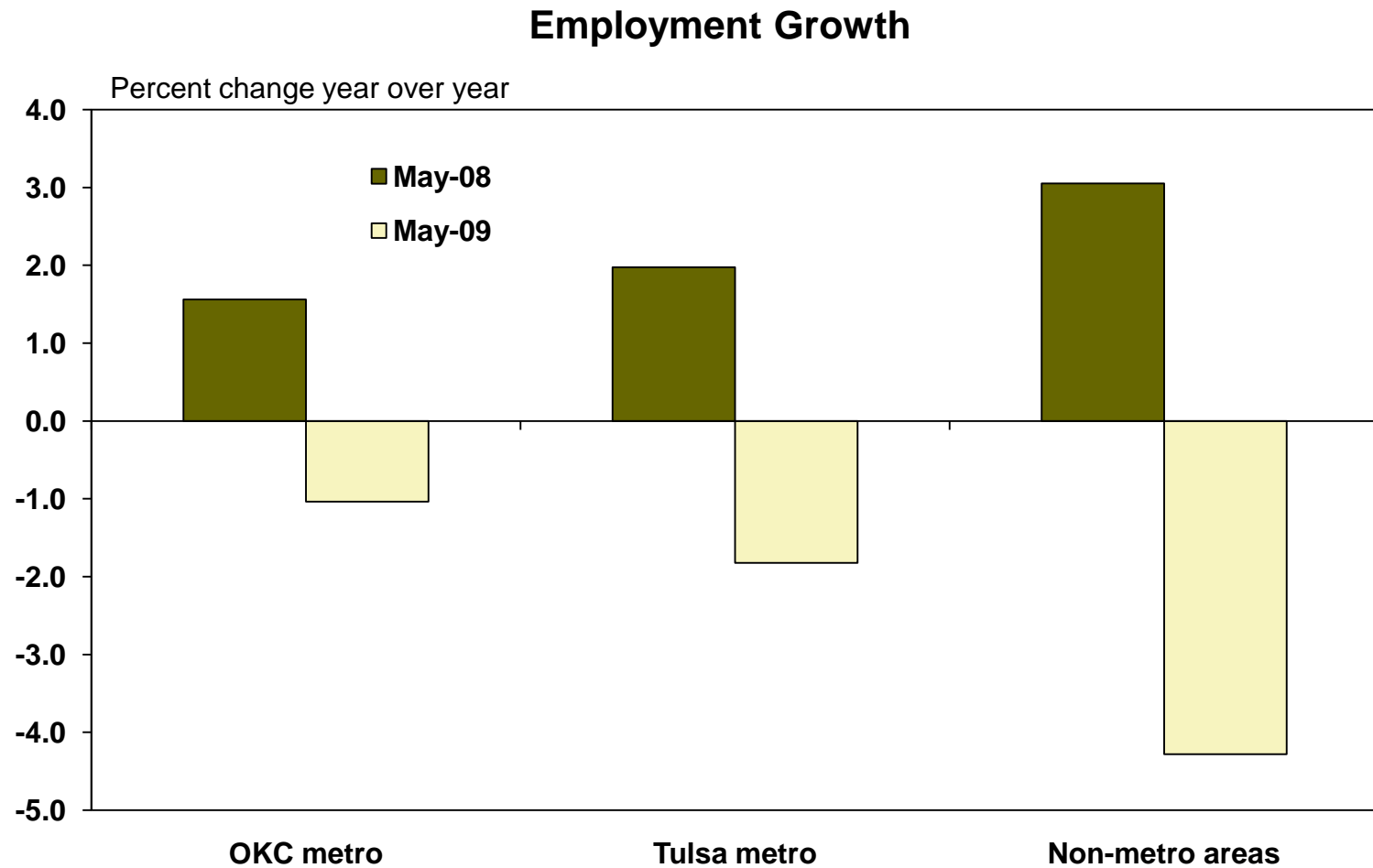


Employment is down in most industries in the state, especially energy and manufacturing

Oklahoma Employment Growth by Industry

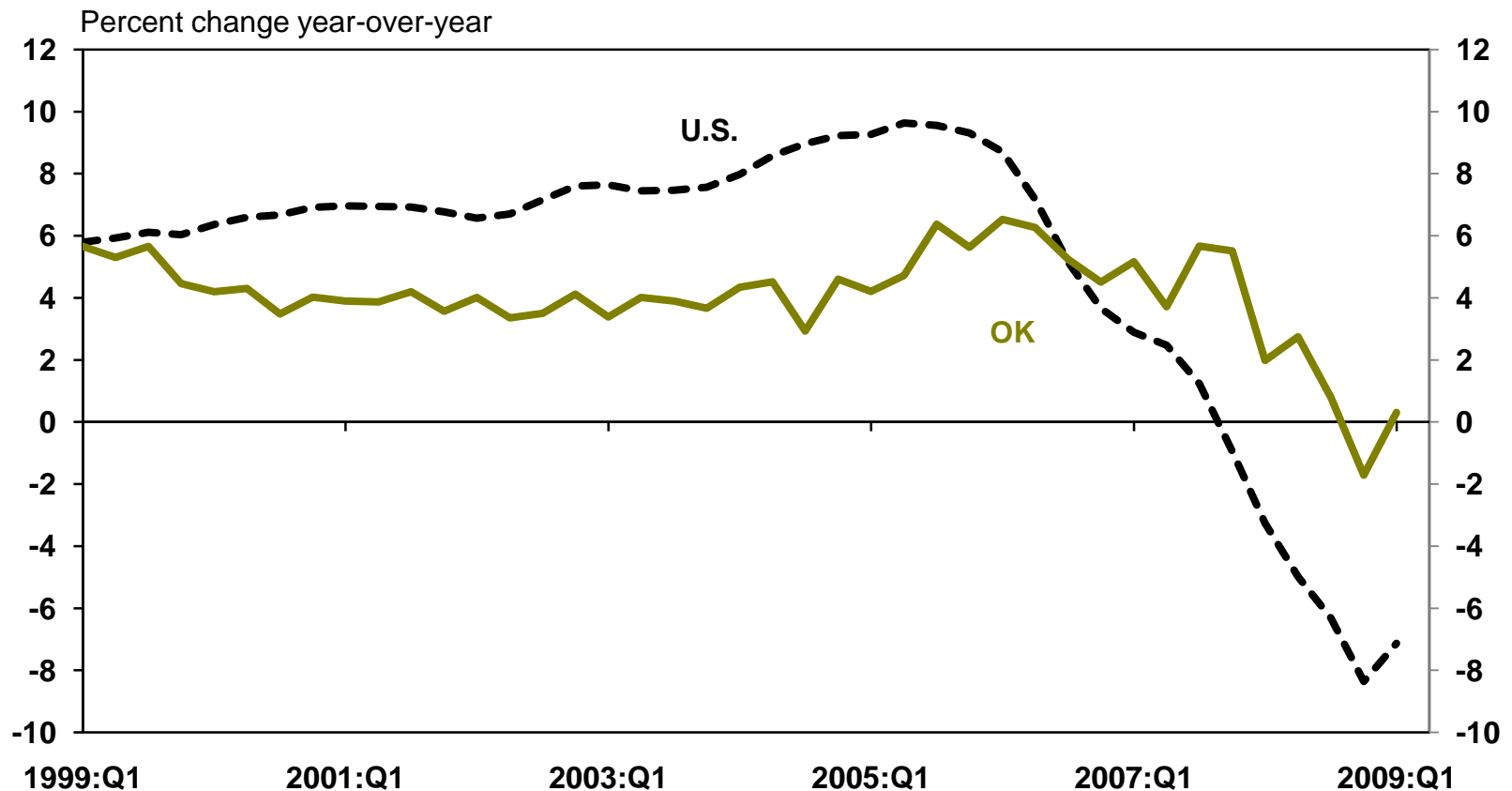


The decline in jobs has been sharpest in the state's non-metro areas



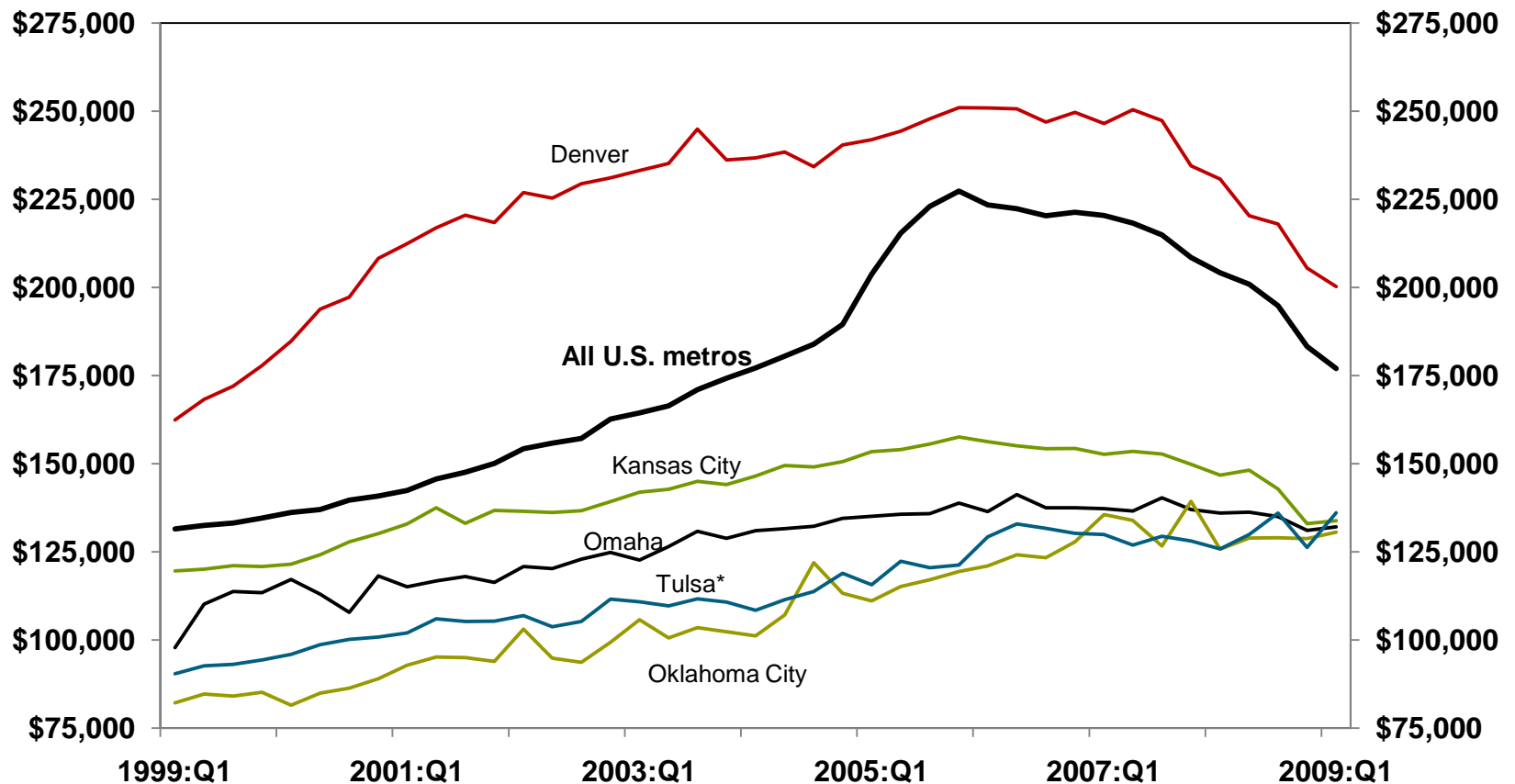
Unlike the nation, Oklahoma home prices remain similar to a year ago

Quality-Adjusted Home Price Growth
Purchase-Only



Indeed, OKC and Tulsa home prices have caught up with some other regional cities

Median Home Prices in U.S. and Five Largest Tenth District Cities

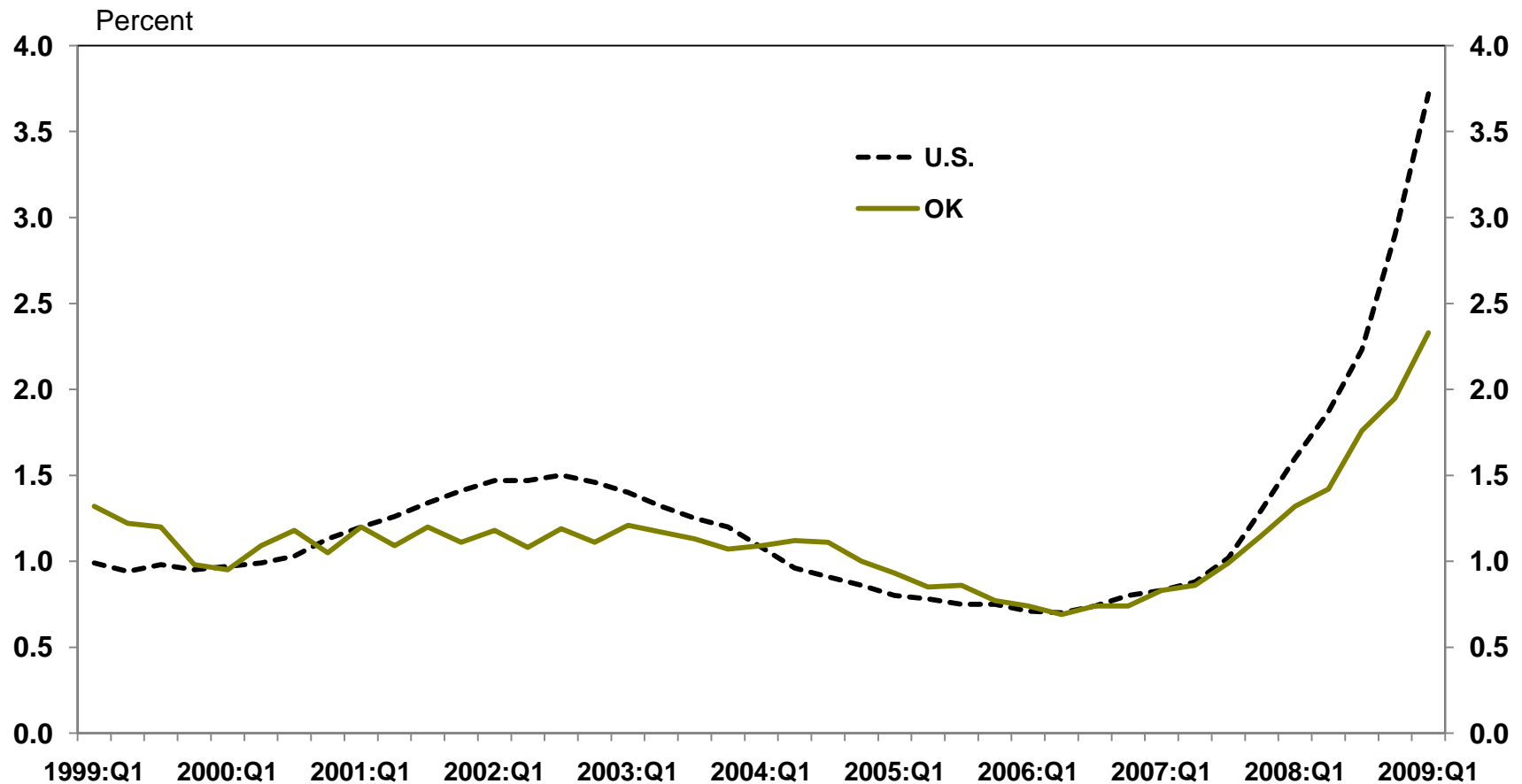


* Tulsa data are from NAR through Q3 2008, then estimated for more recent quarters by using growth rates in FHFA's Tulsa home price index

Source: NAR, FHFA

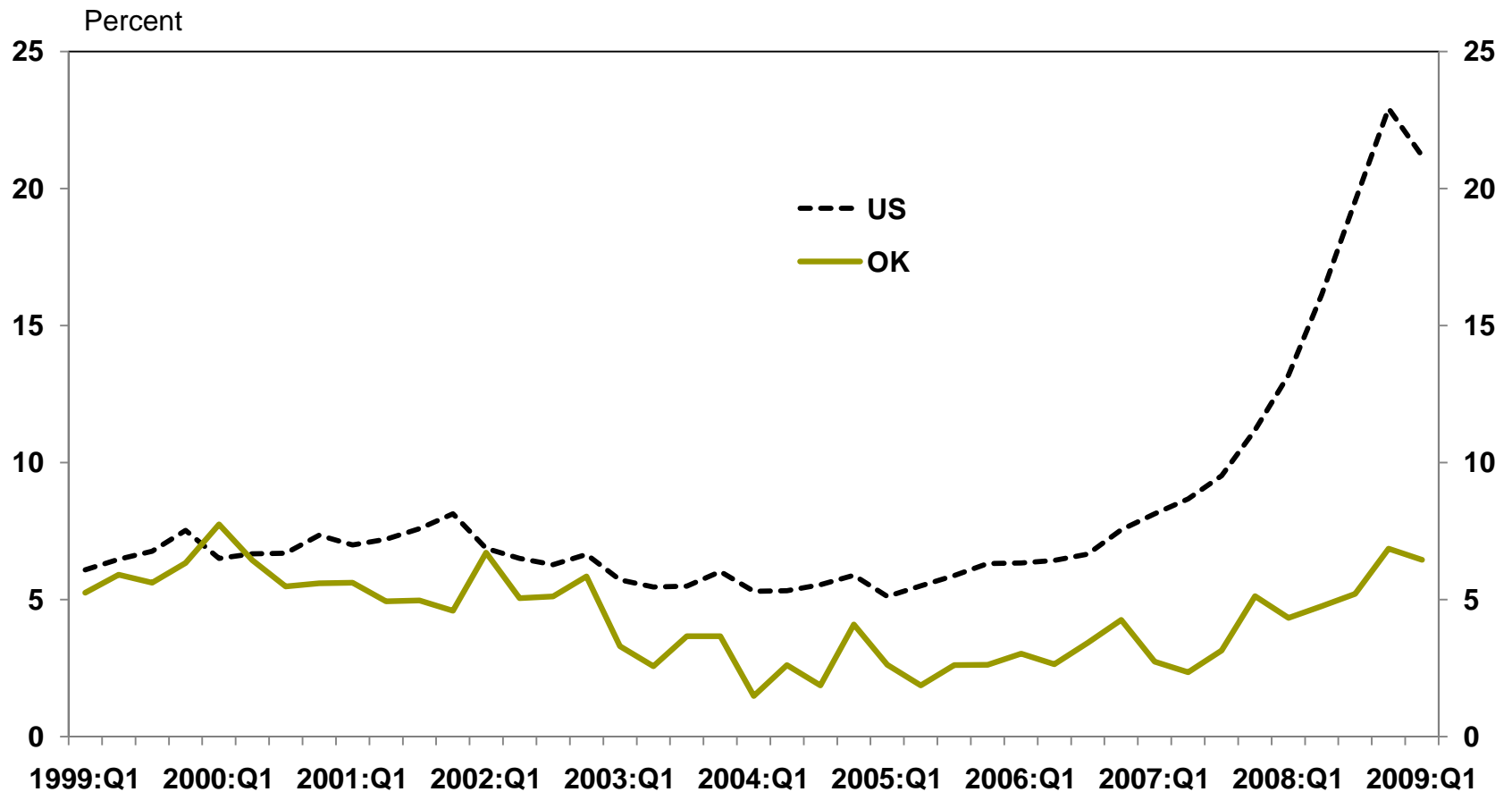
Past due loans have risen at Oklahoma banks, but much less than in the nation

Noncurrent Loans as a Share of Total Loans
Commercial Banks



The number of unprofitable banks has risen only marginally in OK

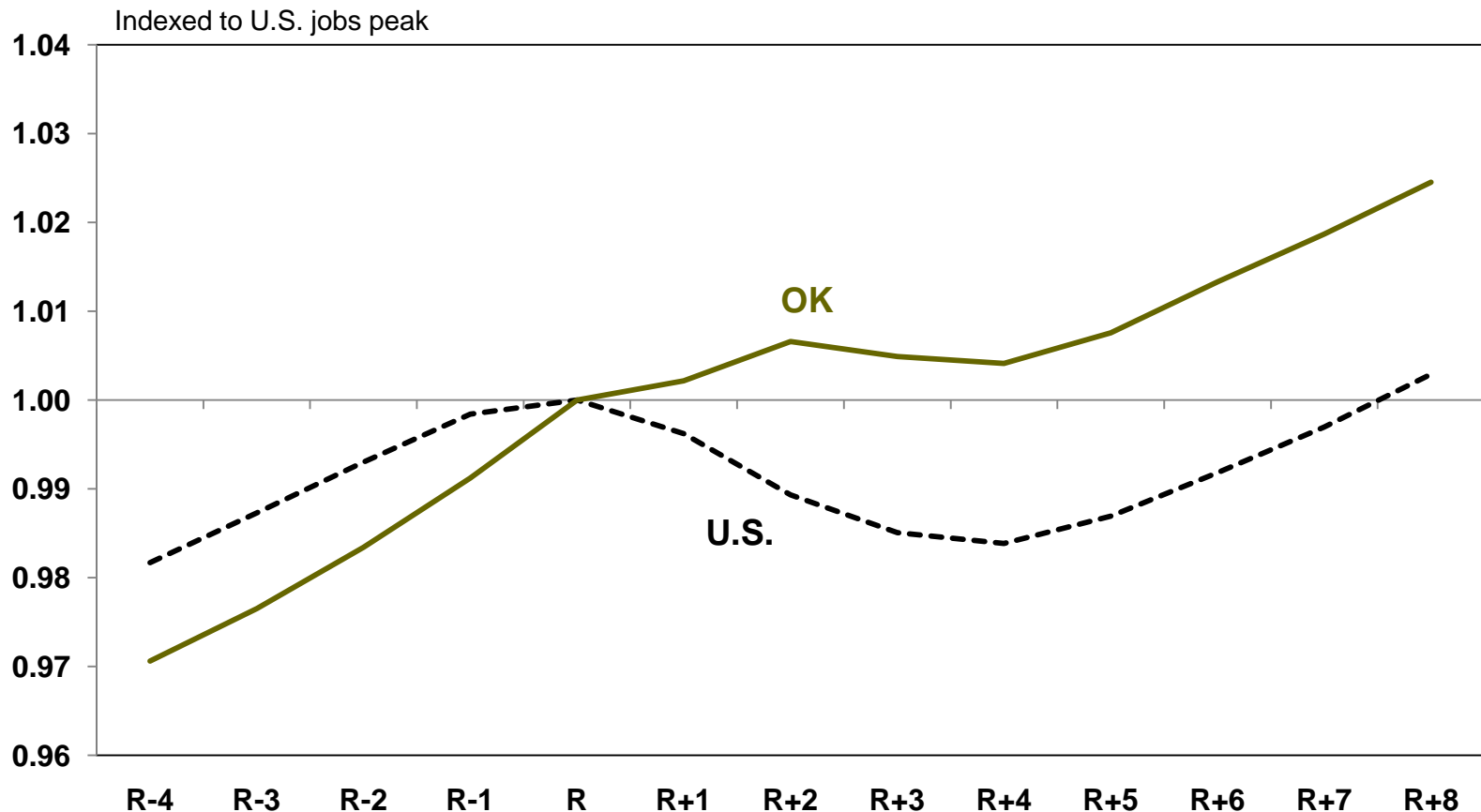
Share of Banks Unprofitable in the Quarter
Commercial Banks



Oklahoma usually enters recessions later than the nation but exits about the same time

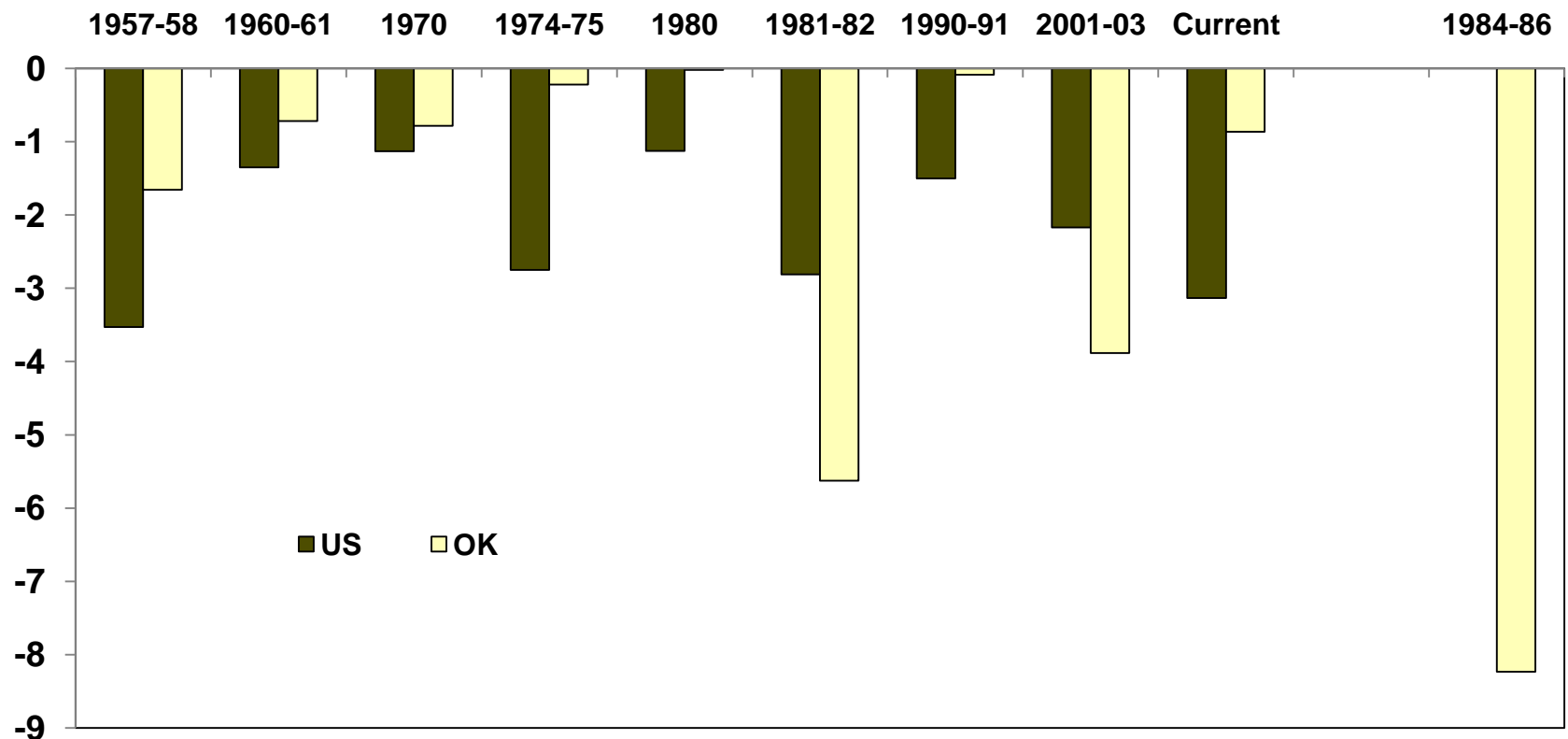
Average Recession Path, 1956-2006

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



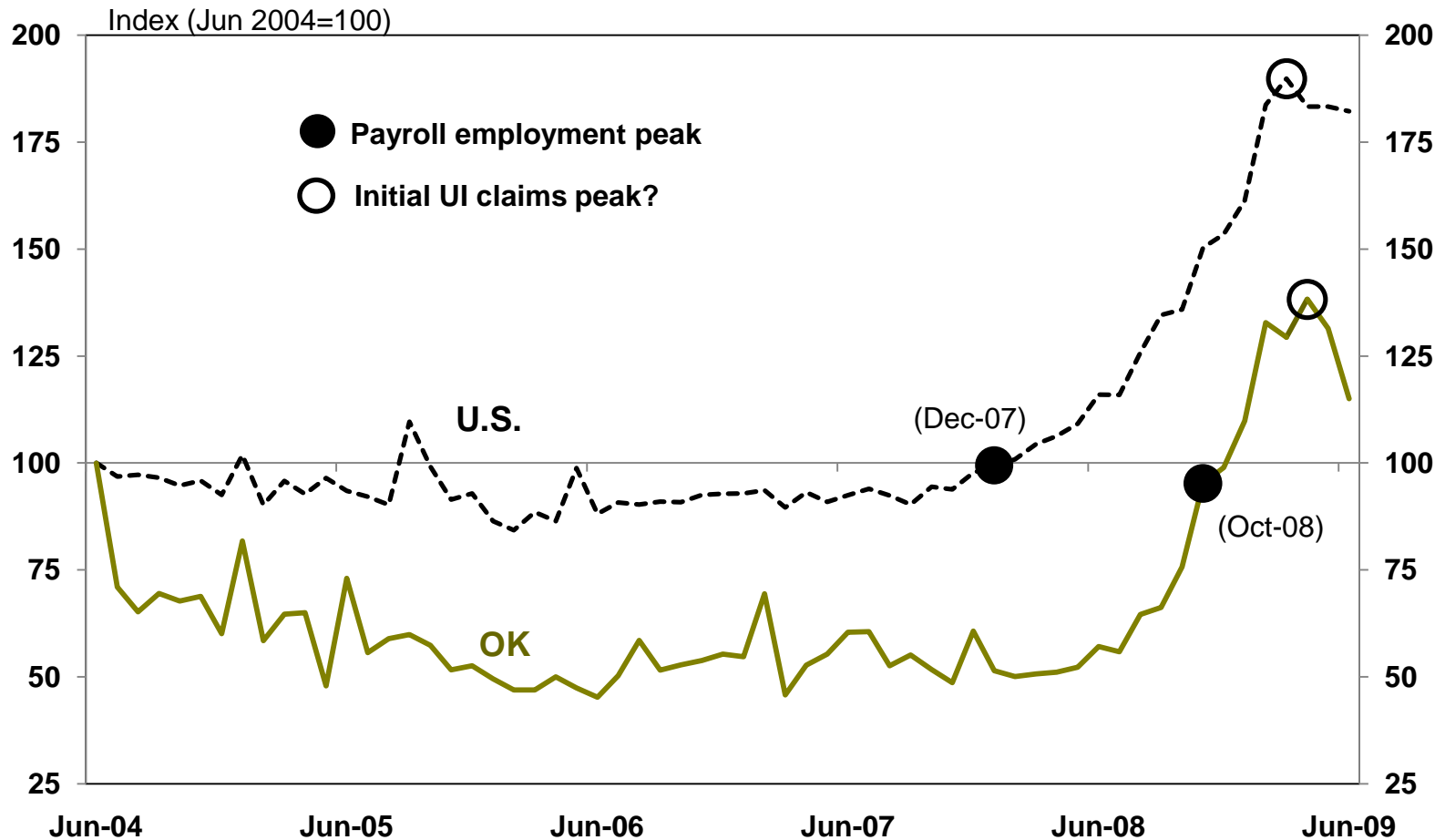
With the shorter duration, Oklahoma's job losses in U.S. recessions are usually smaller

Job Losses in Recessions, 1956-present
Percent



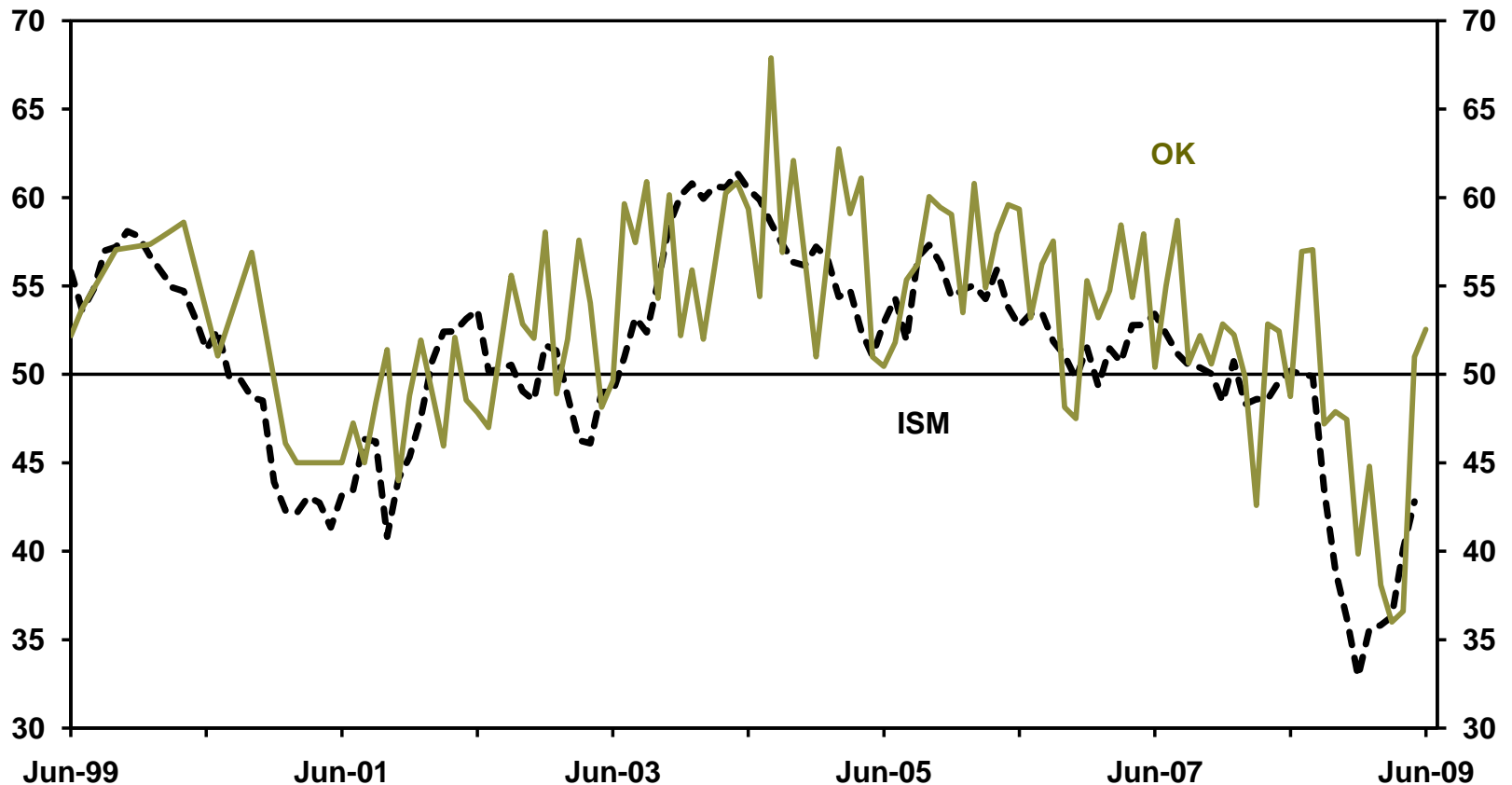
So far, the state is largely following its usual pattern during U.S. recessions

Initial Claims for Unemployment Insurance



The June KC Fed manufacturing survey showed a second month of growth in OK

Manufacturing PMI Indexes
Seasonally Adjusted

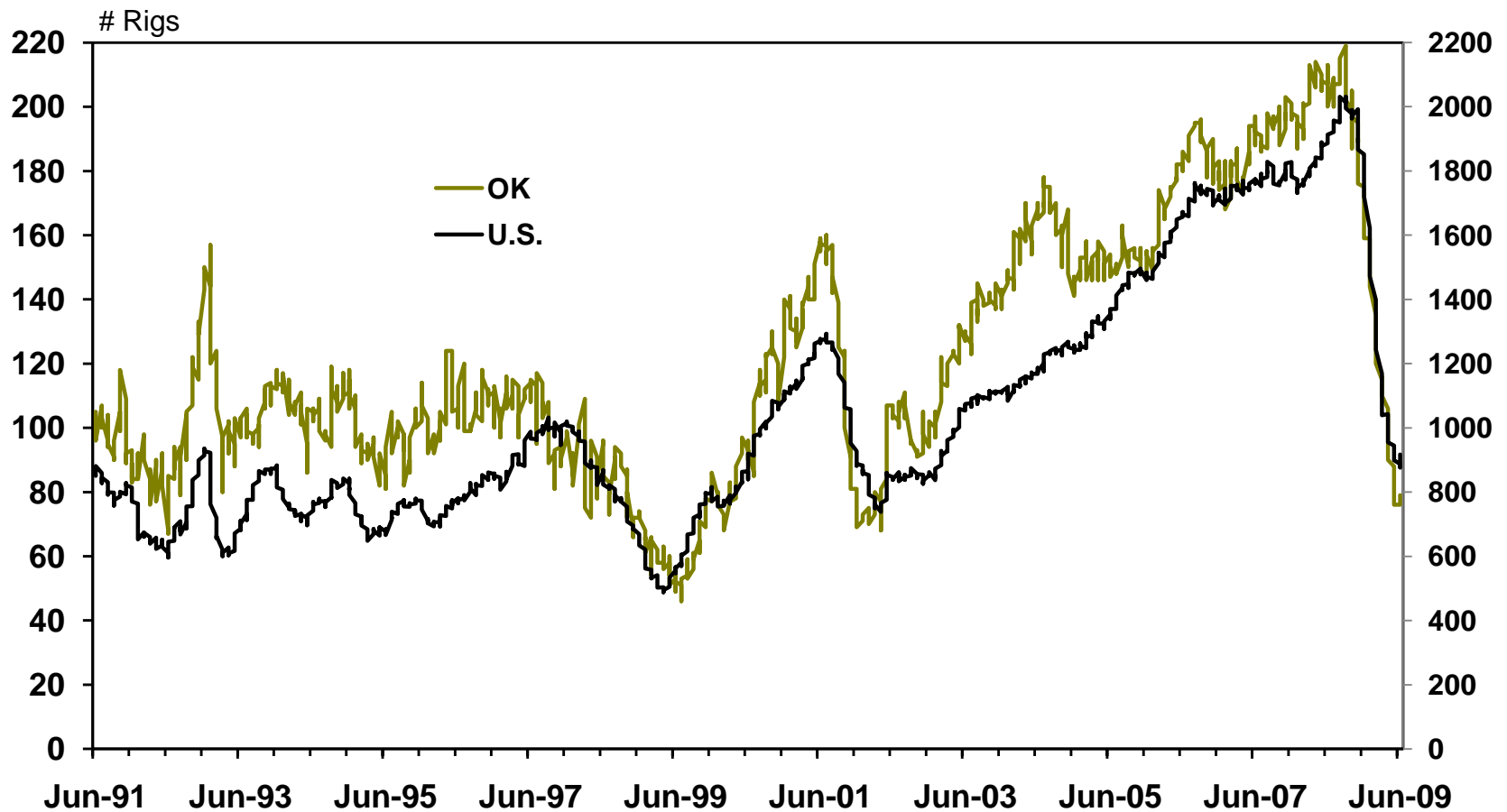


Note: OK index is computed on ISM basis (50 = zero change)

Source: ISM, FRBKC Manufacturing Survey

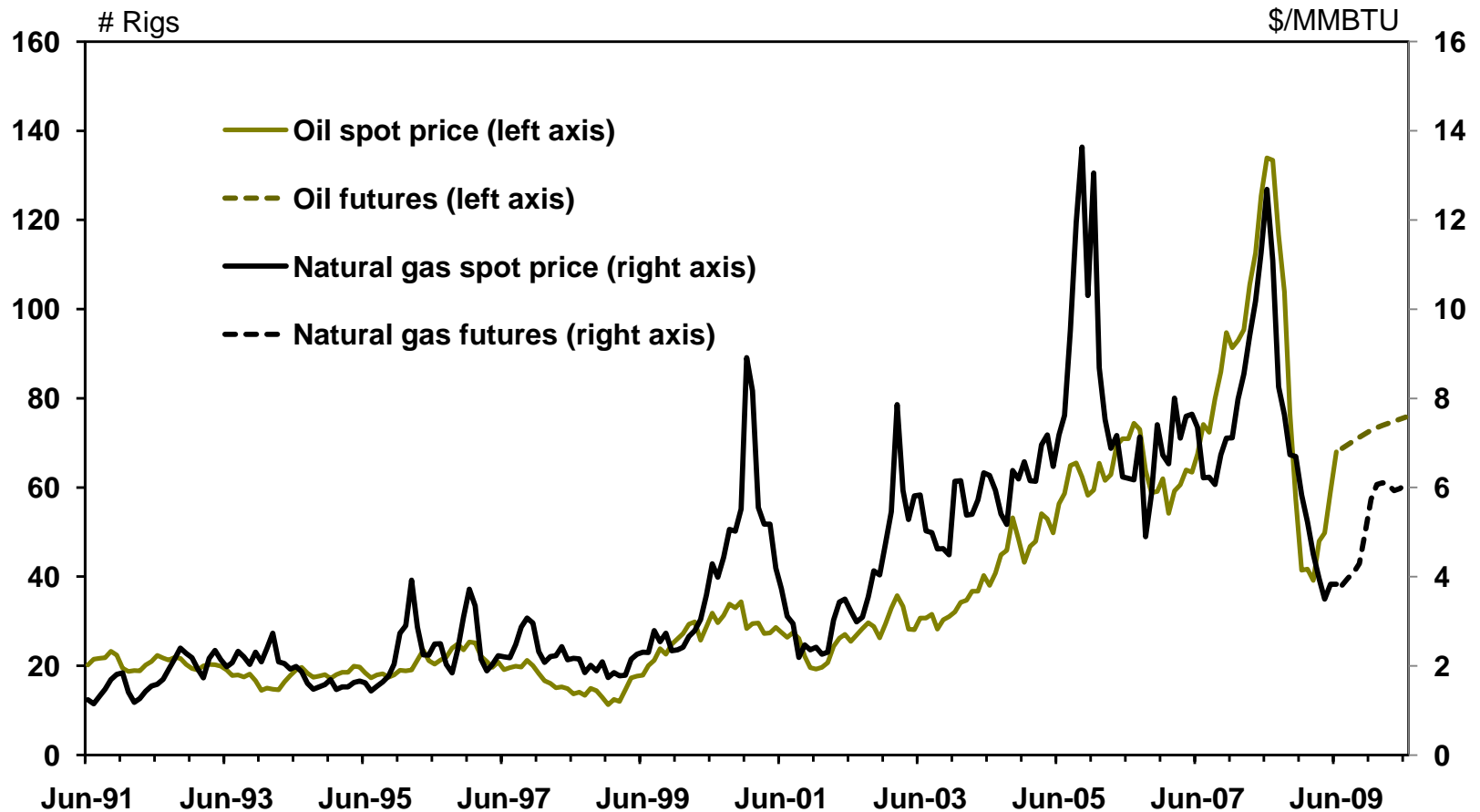
The wild card remains the energy sector, where the rig count has edged higher in June

Rig Count



But energy prices remain uncertain, with oil moving up and gas still depressed

Oil and Natural Gas Prices



Summary

- ❑ The U.S. economy may be near a bottom, but recovery is likely to be modest for some time
- ❑ As usual, Oklahoma entered the recession later than the nation, but recent data are encouraging
- ❑ Efforts to boost U.S. growth in 2009 and 2010 should help, but slow energy activity is a risk