

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:**
 - Low and stable inflation
 - Maximum sustainable employment
 - National financial stability (in conjunction with others)
- **The primary functional areas of the Fed are:**
 - Monetary policy – typically the most well-known role to the public
 - Bank regulation – of 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 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): Consists of 12 voting members and 19 total members; sets national monetary policy

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**

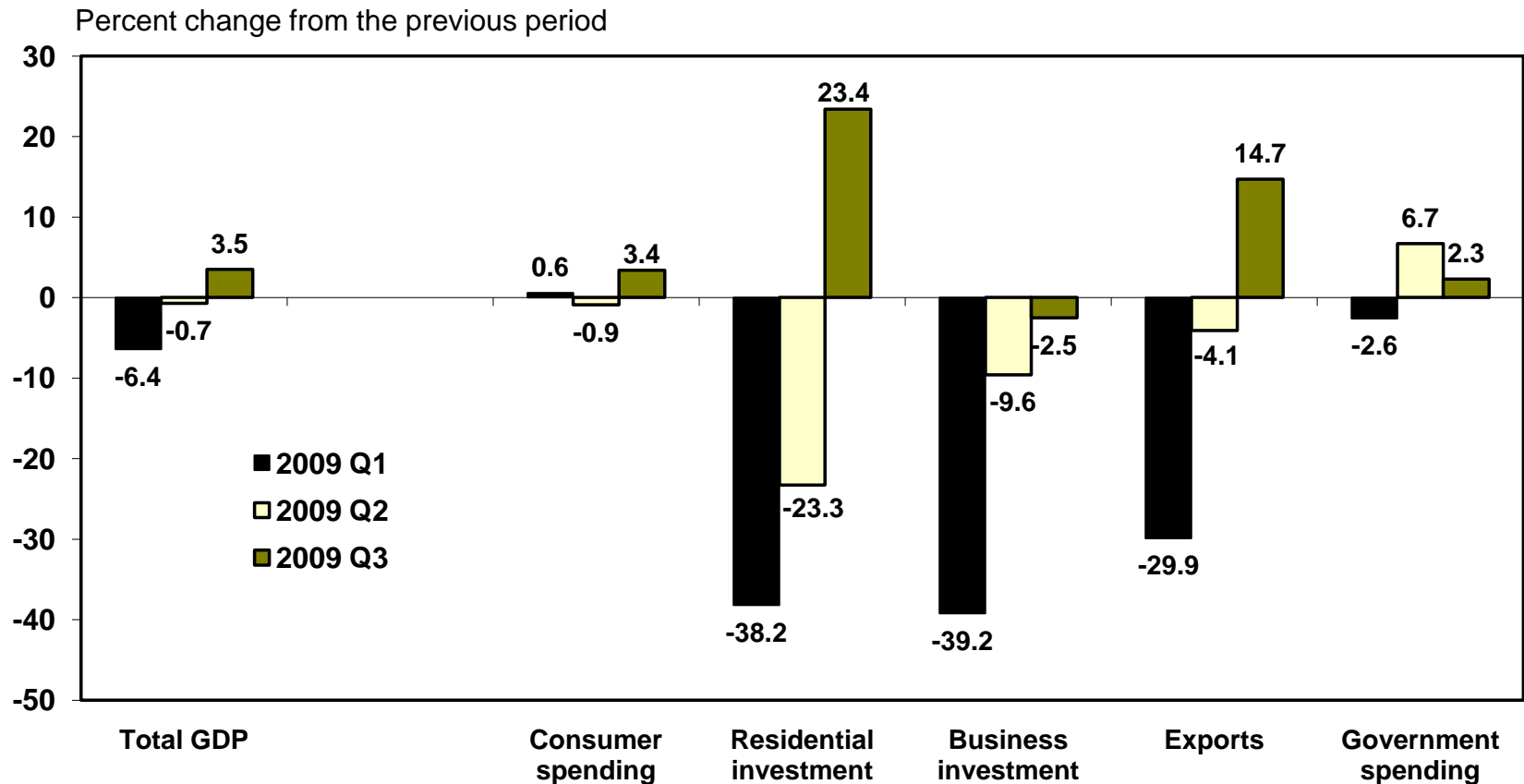
- *Chairman* **Steve Agee**, President, Agee Energy, and Professor, OCU, OKC
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
- **Jacque Fiegel**, Senior EVP & COO, Coppermark Bank, OKC
- **Fred Ramos**, COO, Latino Community Development 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 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

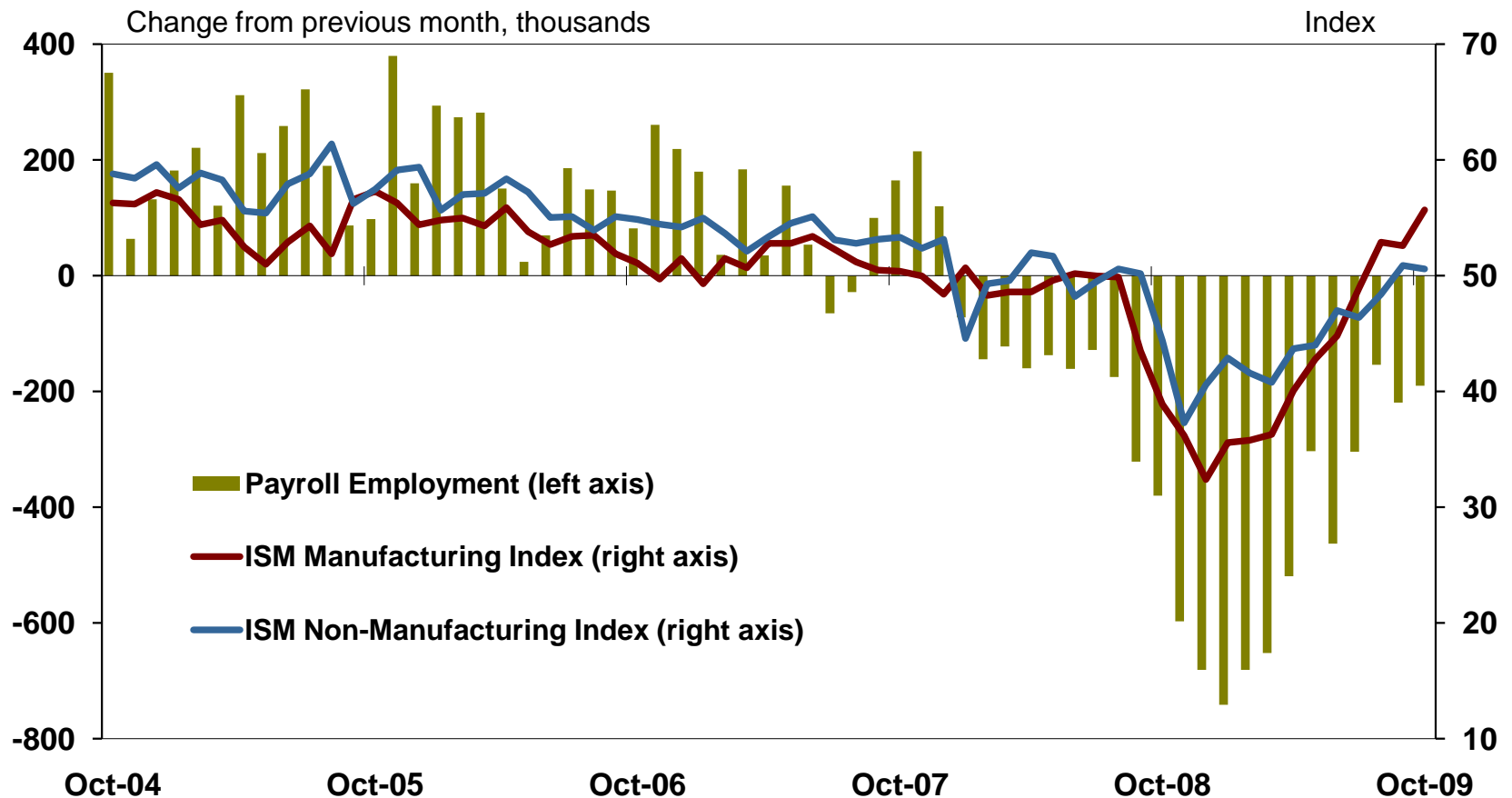
Third quarter GDP growth was quite positive, but was boosted by government programs

Growth in Components of GDP



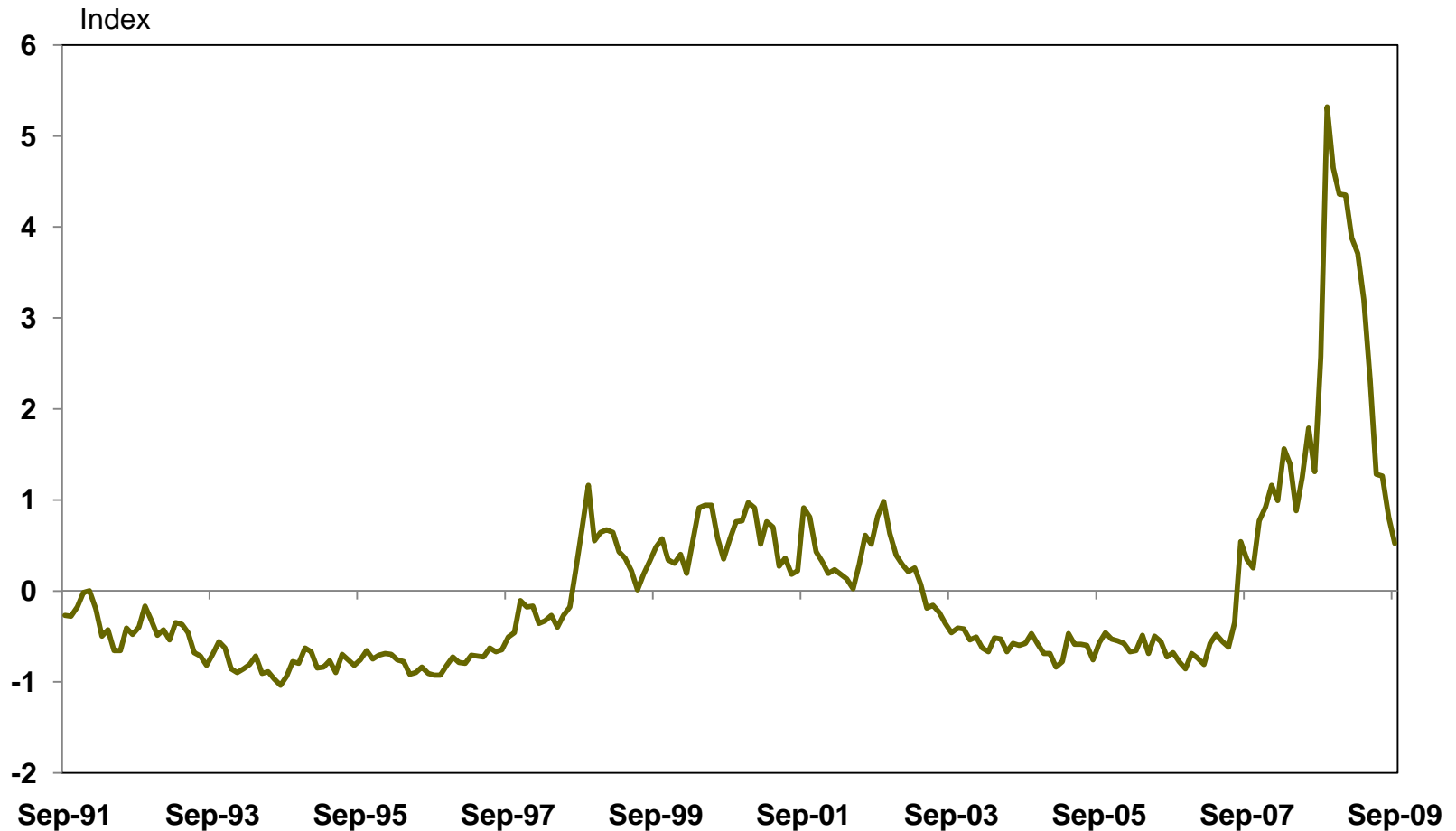
Early reads on the fourth quarter show moderate growth but continued job losses

National Business Indexes and Payroll Employment



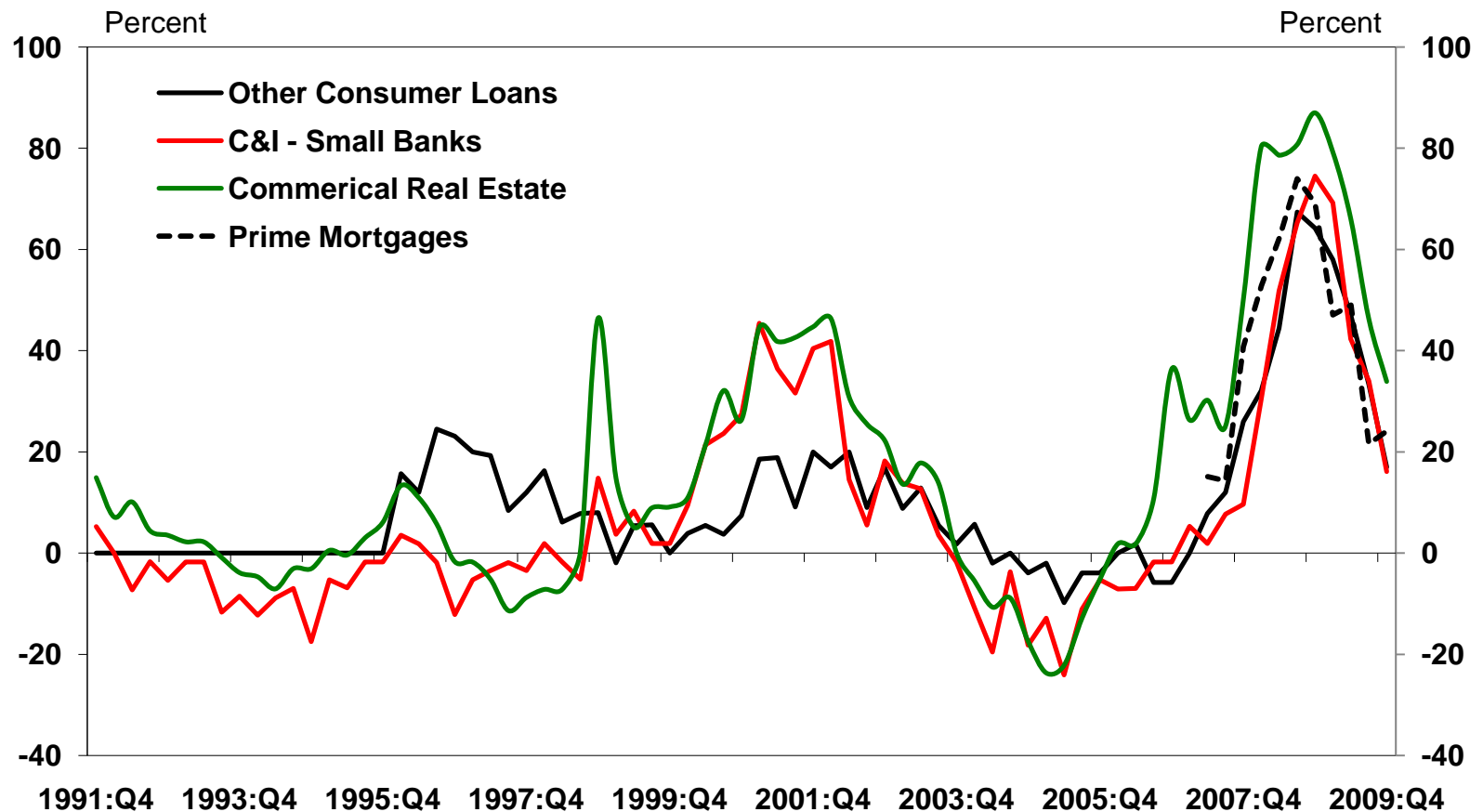
Credit market conditions have improved but remain somewhat stressed

Kansas City Financial Stress Index



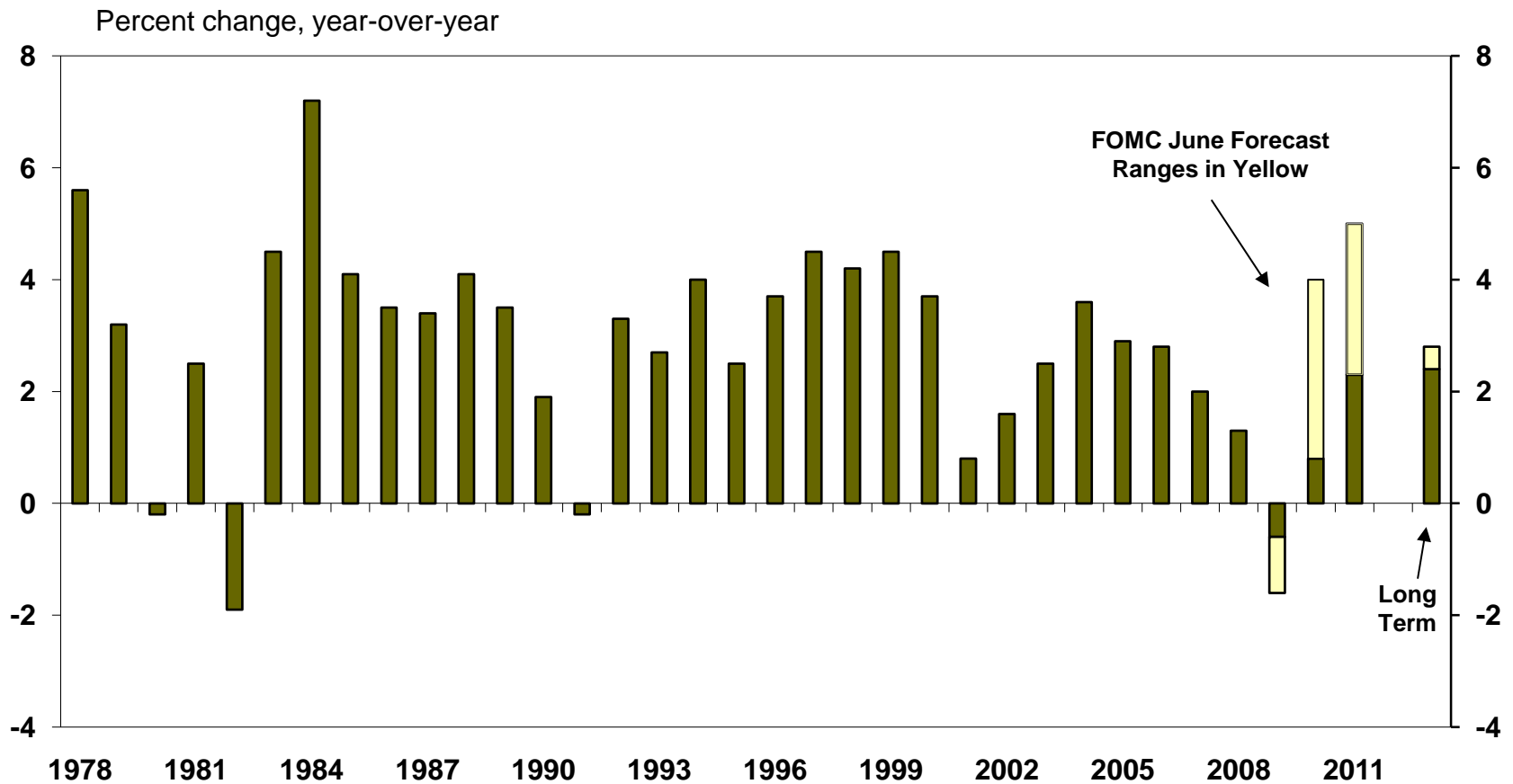
Banks' lending standards continue to tighten, but less than in recent quarters

Net Percentage of Banks Tightening Loan Standards
Business Loans



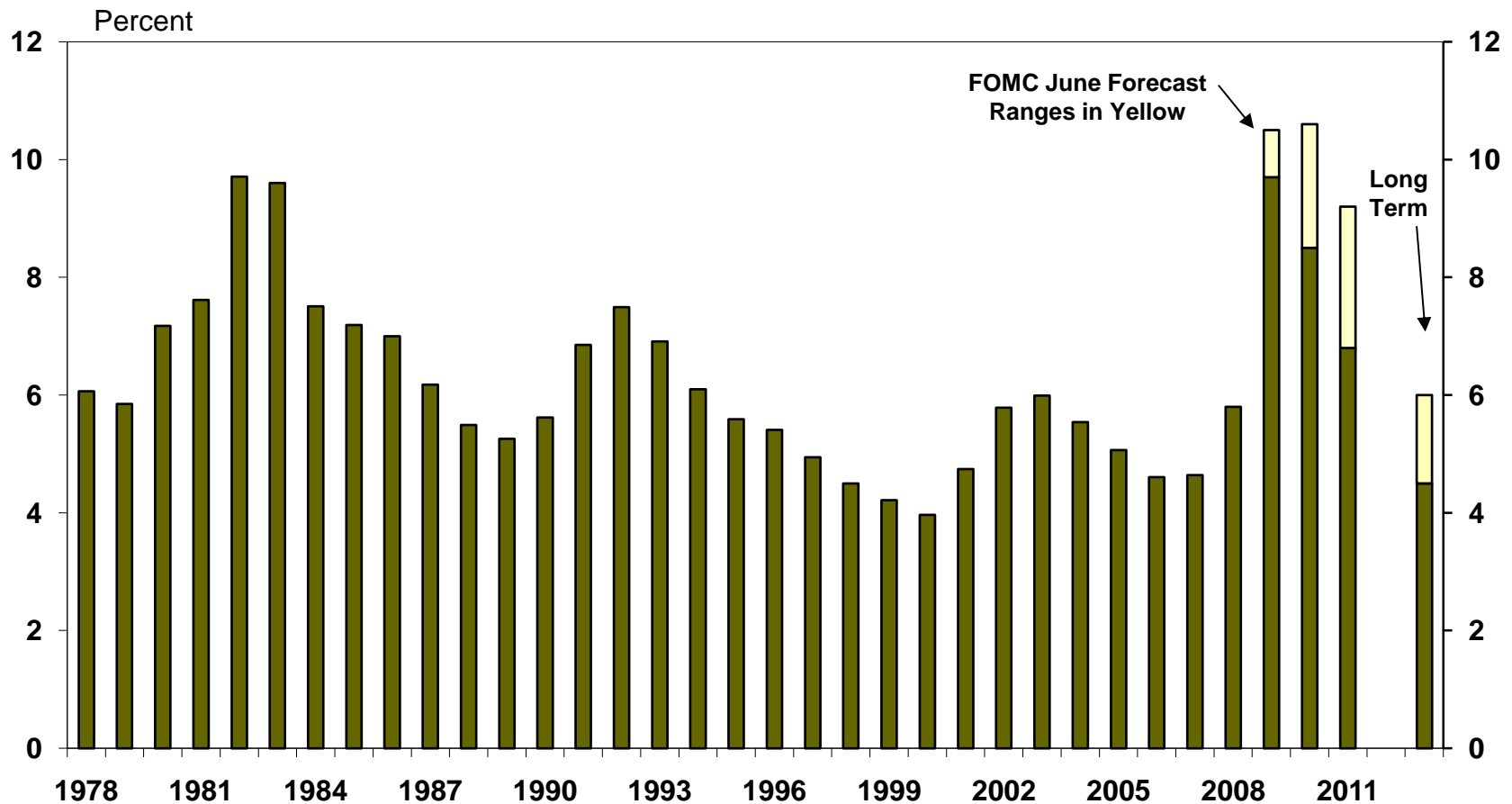
Heading forward, policy makers generally expect a gradual recovery

Gross Domestic Product



But unemployment is expected to remain high for some time

Unemployment Rate
Seasonally Adjusted

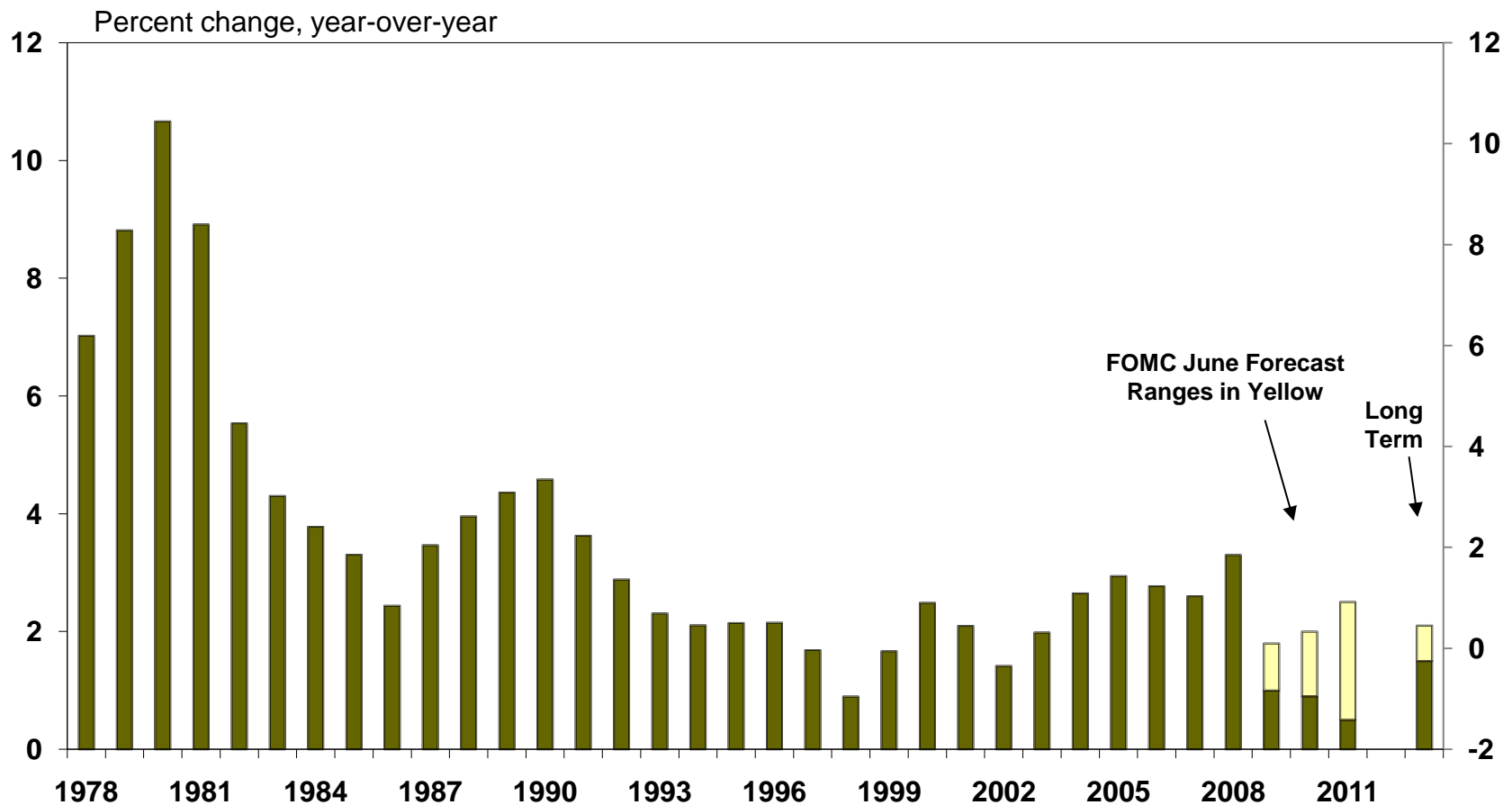


A list of reasons why U.S. recovery speed could be modest

- ❑ Some credit markets remain strained
- ❑ Consumers focus on repairing balance sheets and rebuilding wealth rather than spending
- ❑ Foreclosures continue to weigh on housing
- ❑ Problems in commercial real estate and general caution restrains business investment

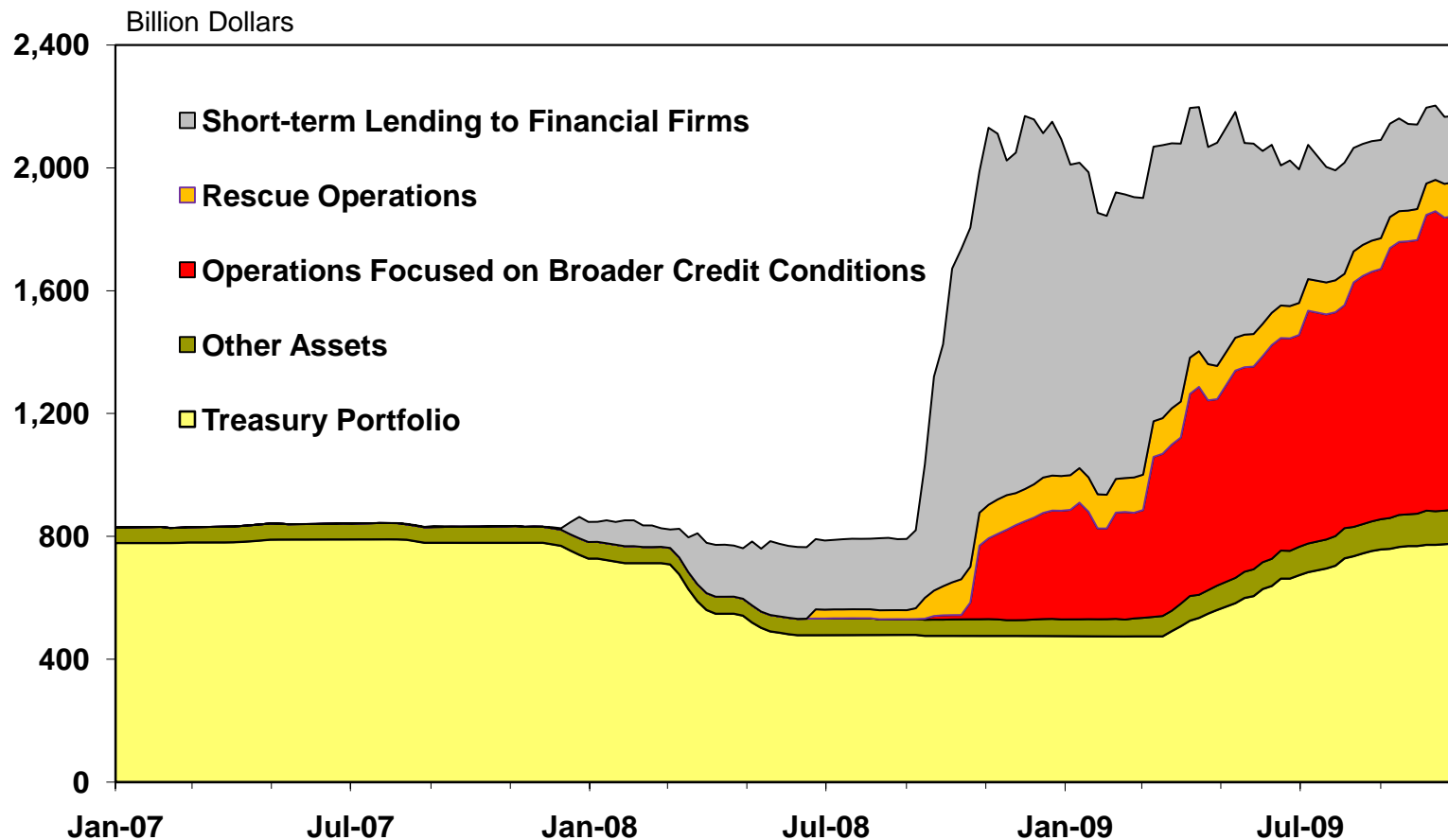
With modest growth, inflation is expected to remain fairly moderate in coming years

PCE Inflation Index



But the Fed's balance sheet has grown, presenting some challenges

Federal Reserve Balance Sheet: Assets

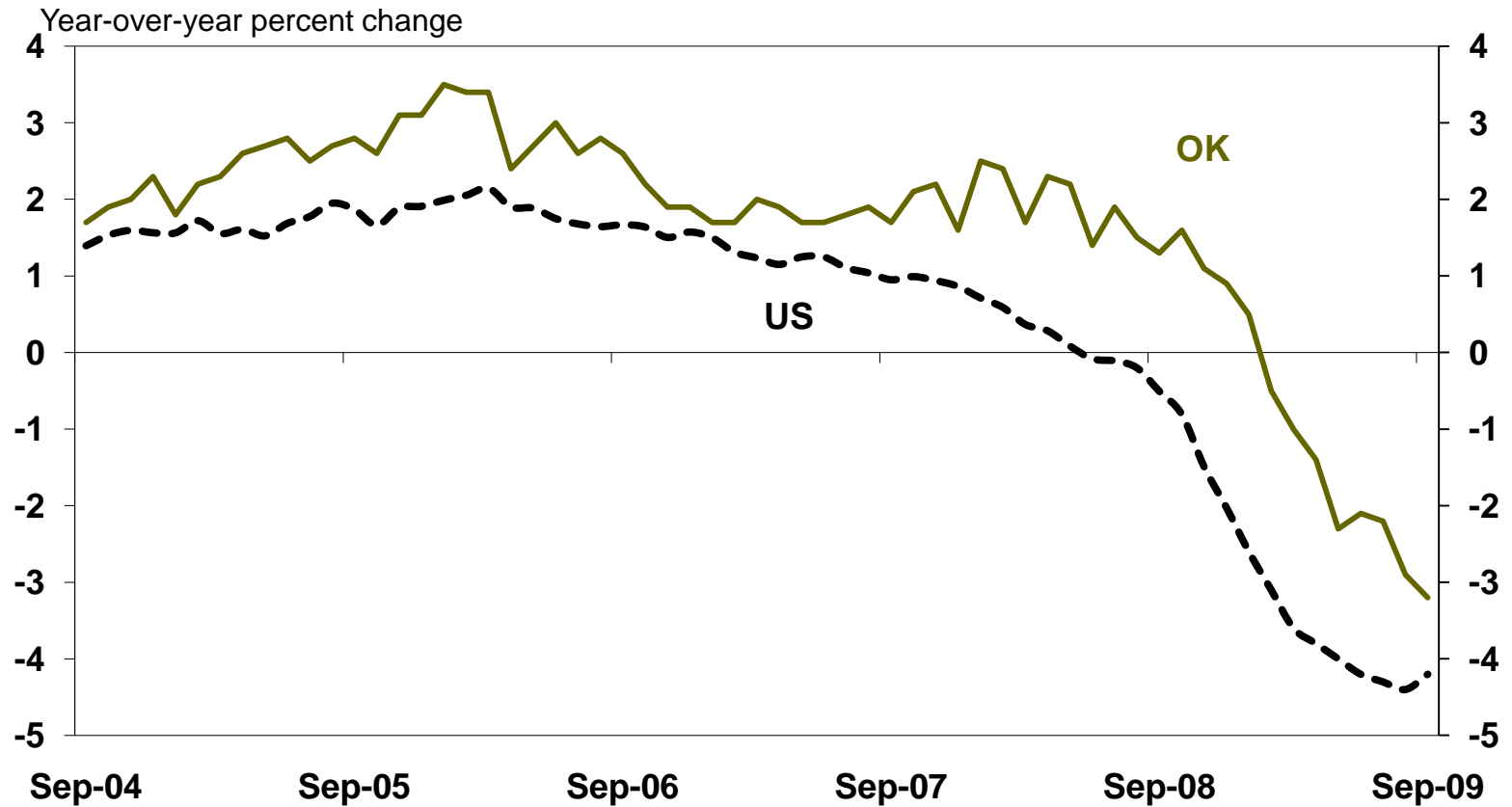


The Oklahoma Economy

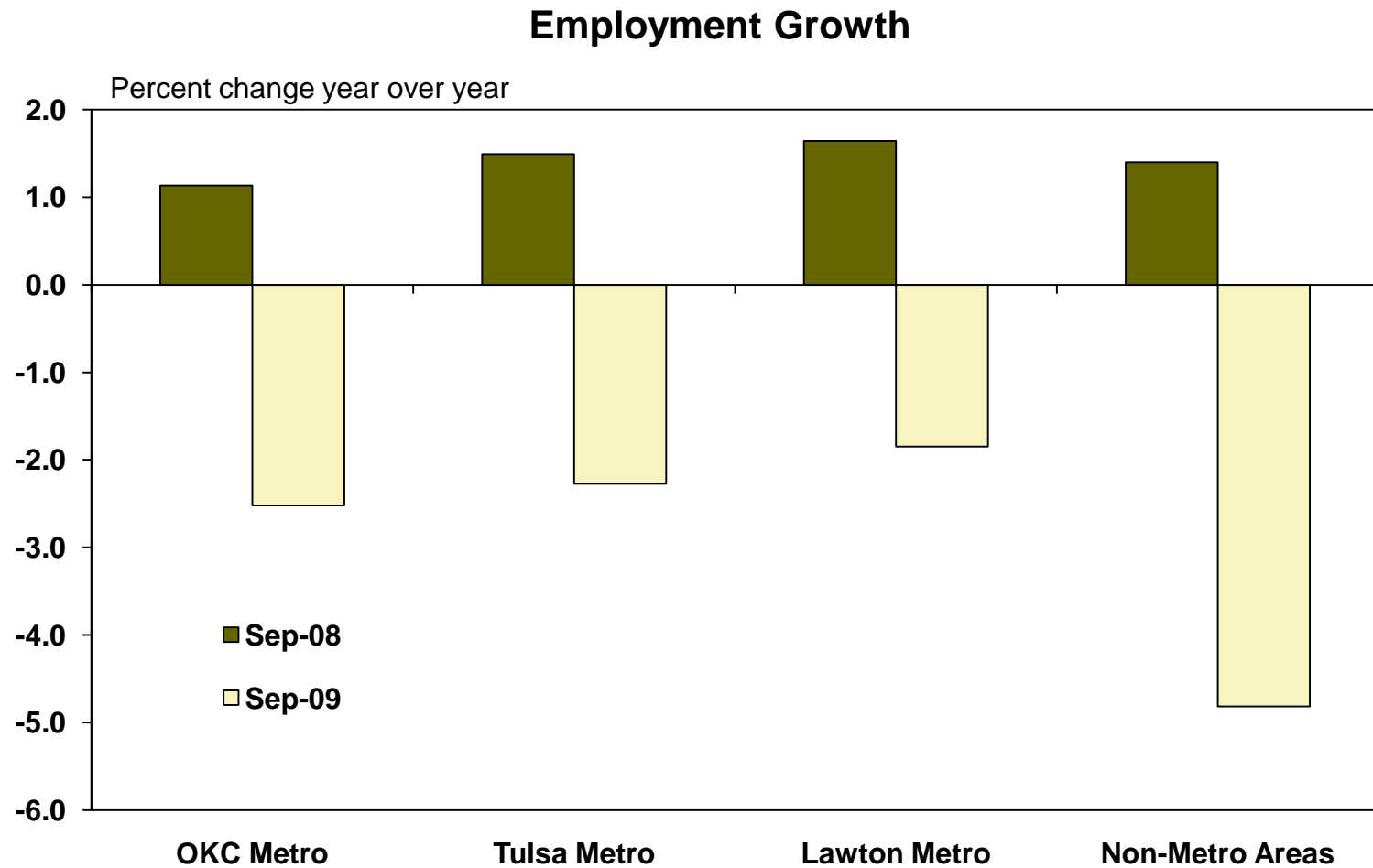
- As usual in recessions, Oklahoma entered this recession later than the nation
- Some signs of stabilization have appeared recently, and fiscal stimulus is kicking in
- But several risks remain, especially the future path of energy prices

Oklahoma entered this recession late but has shed jobs rapidly in 2009

Nonfarm Payroll Employment Growth



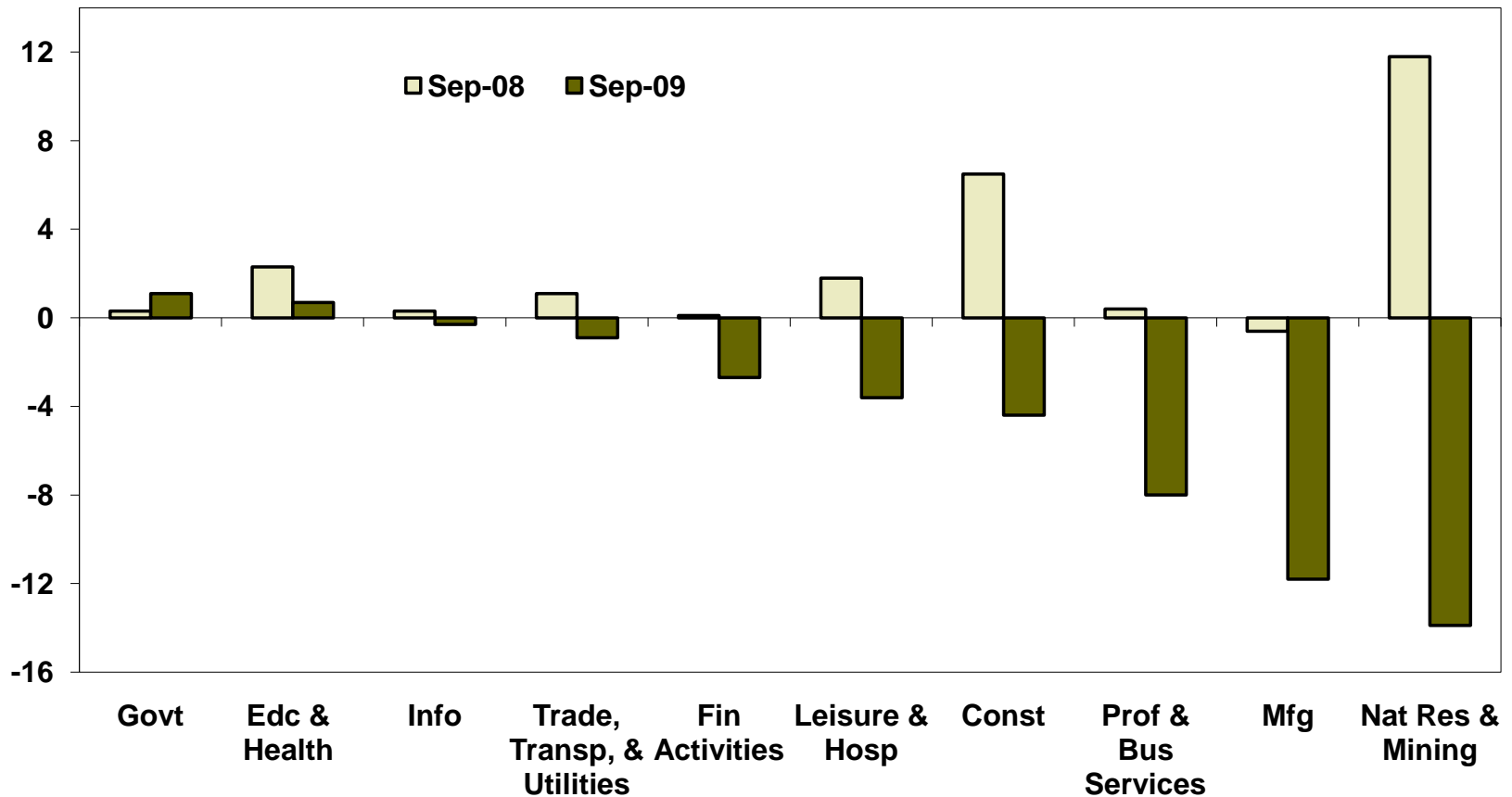
The decline in jobs has been sharpest outside of the three metro areas



Jobs are down markedly from a year ago in several of the state's industries

Oklahoma Employment Growth by Industry

Percent change year over year



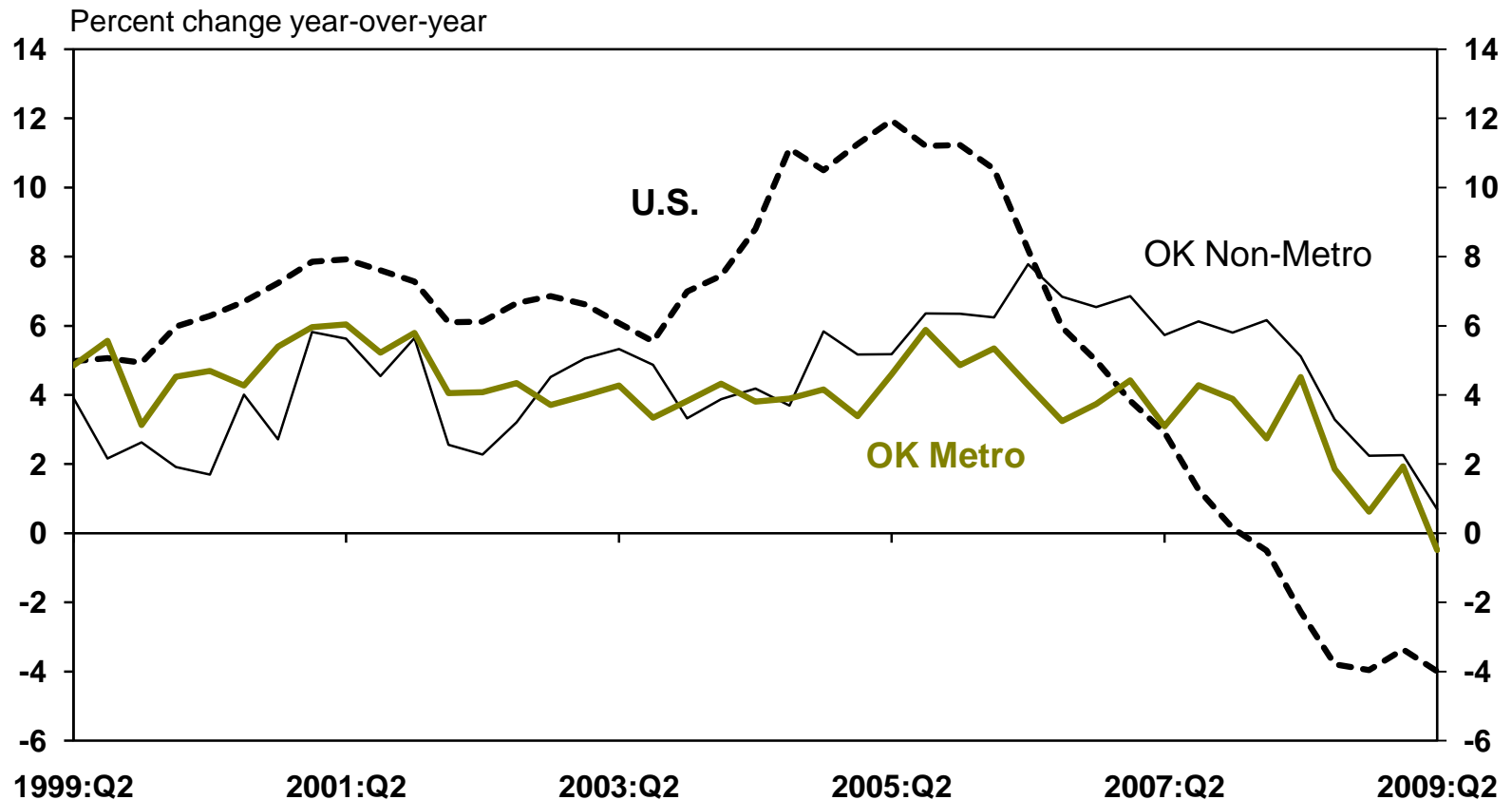
But unemployment remains relatively low in Oklahoma and many nearby states

Unemployment Rate, September 2009



Oklahoma home prices have also held up relatively well, unlike the nation

Quality-Adjusted Home Price Growth Purchase-Only

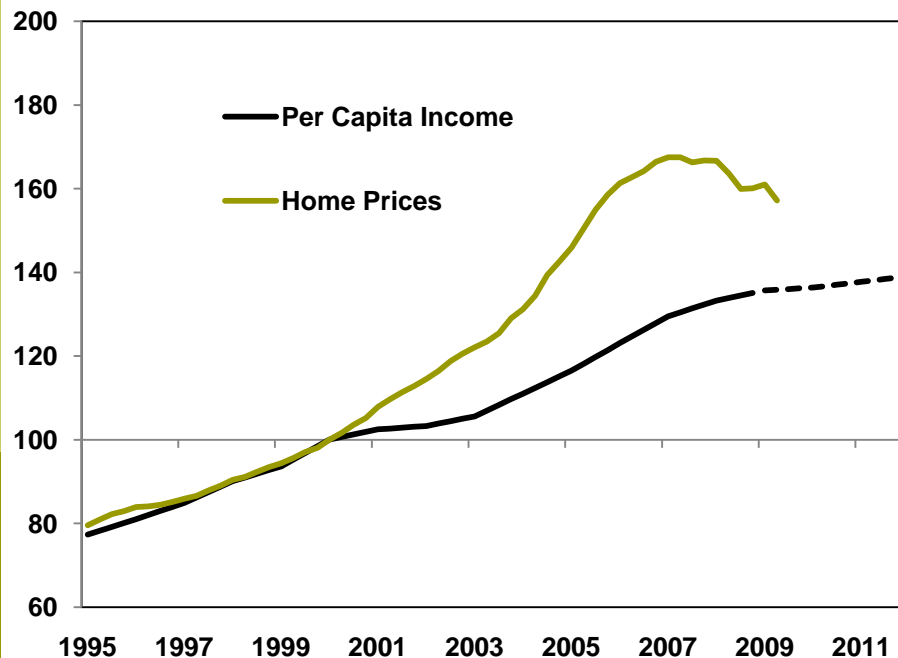


And home prices here appear to be better in line with fundamentals

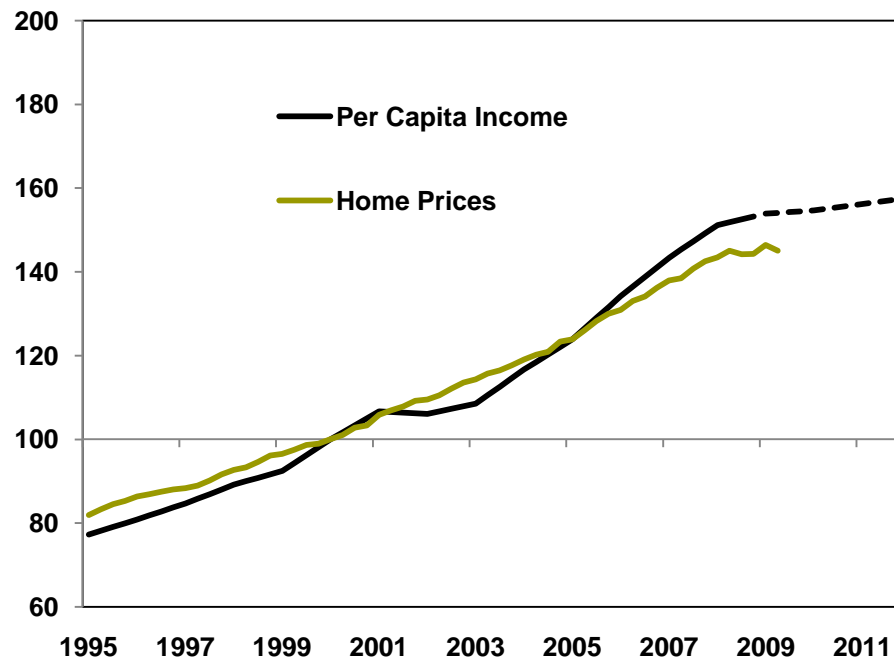
Home Prices and Per Capita Income Levels*

Index: 2000=100

U.S.

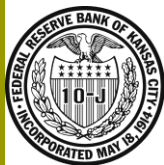


Oklahoma



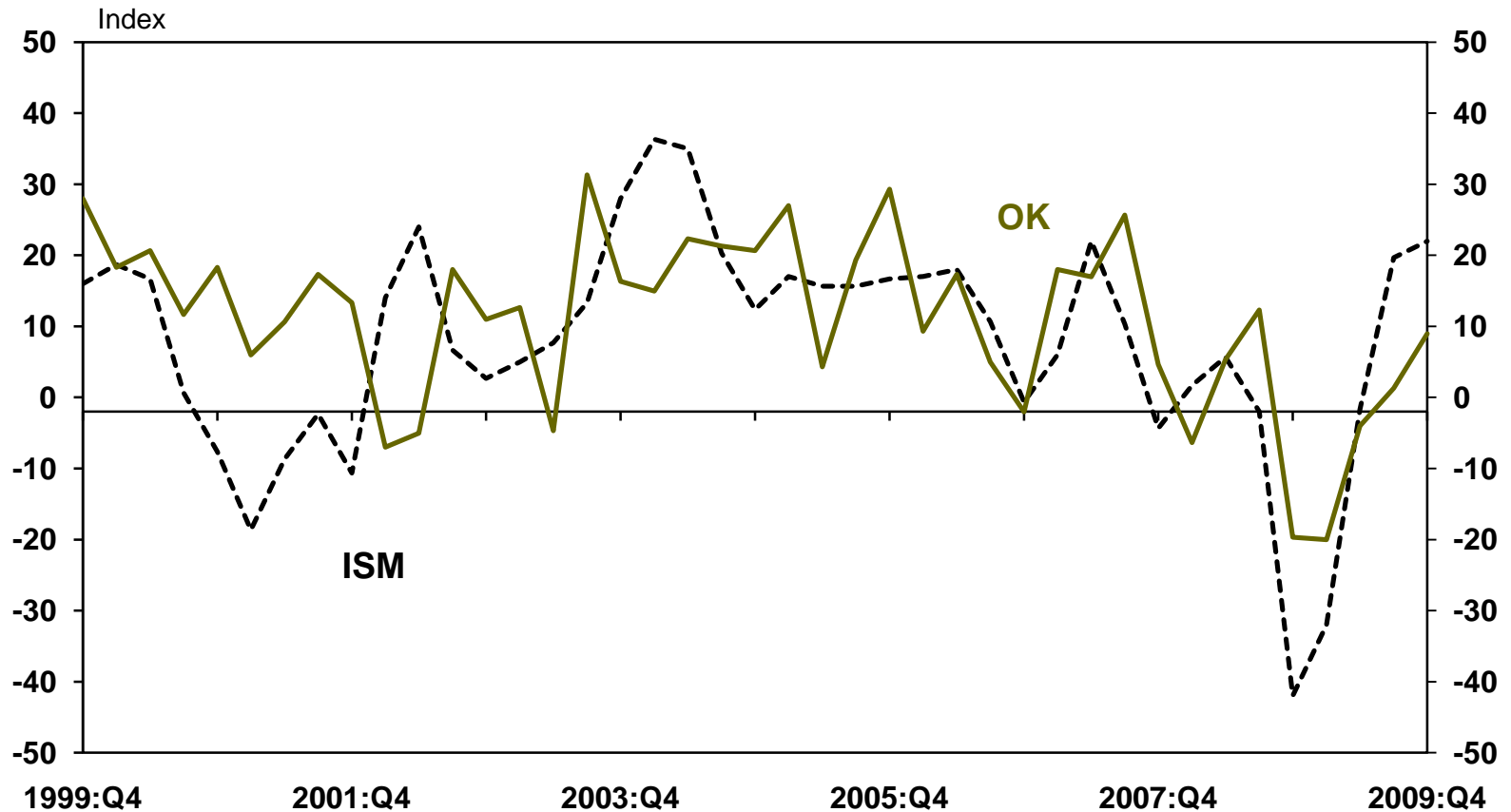
*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2008. For 2009-11, Macroeconomic Advisers' forecast for U.S. per capita income growth is used as an estimate.

Source: FHFA, BEA



Manufacturing indexes for the state have shown some improvement recently

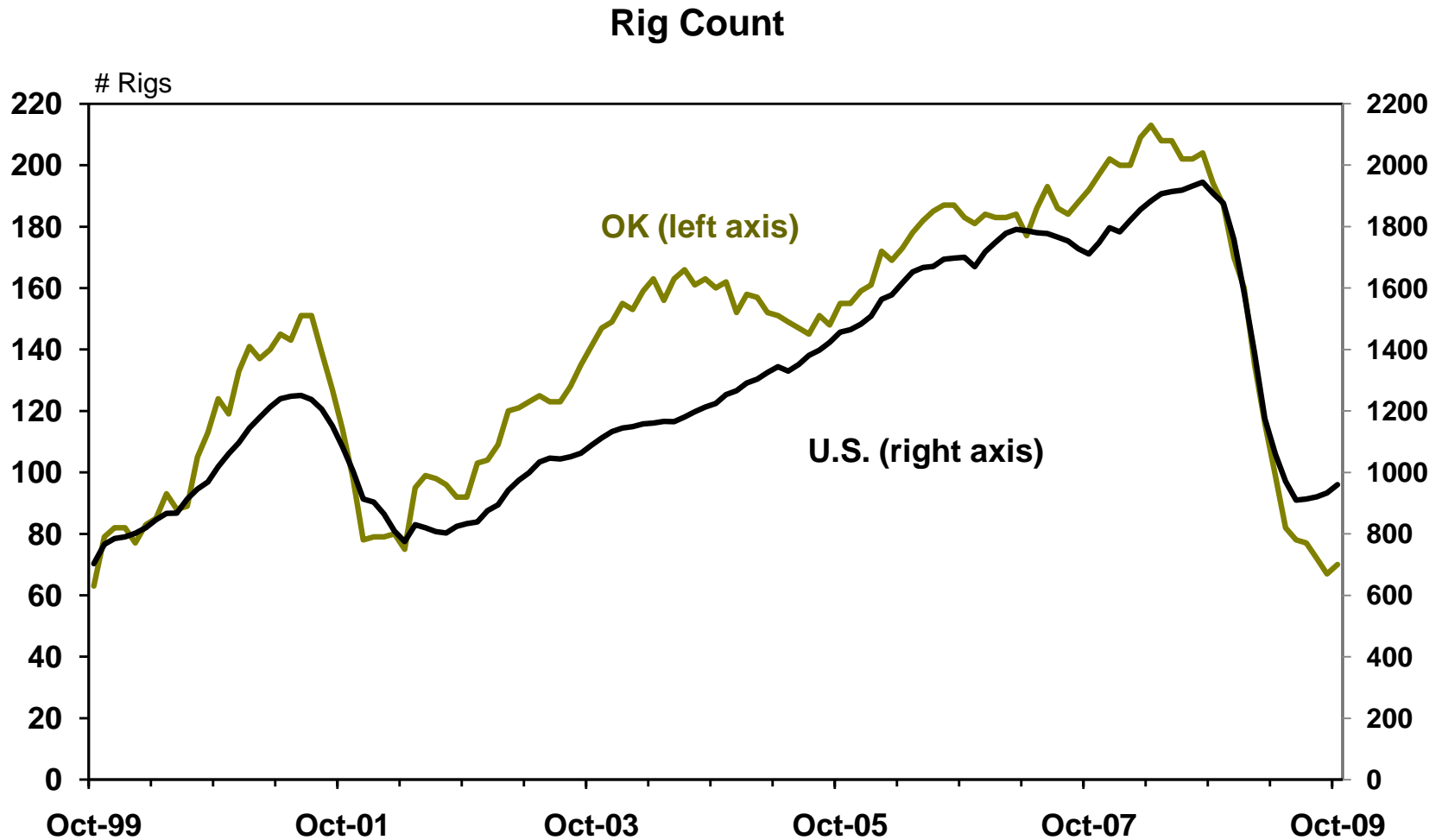
Manufacturing Production Indexes
Seasonally adjusted



Note - 4th Quarter is only October

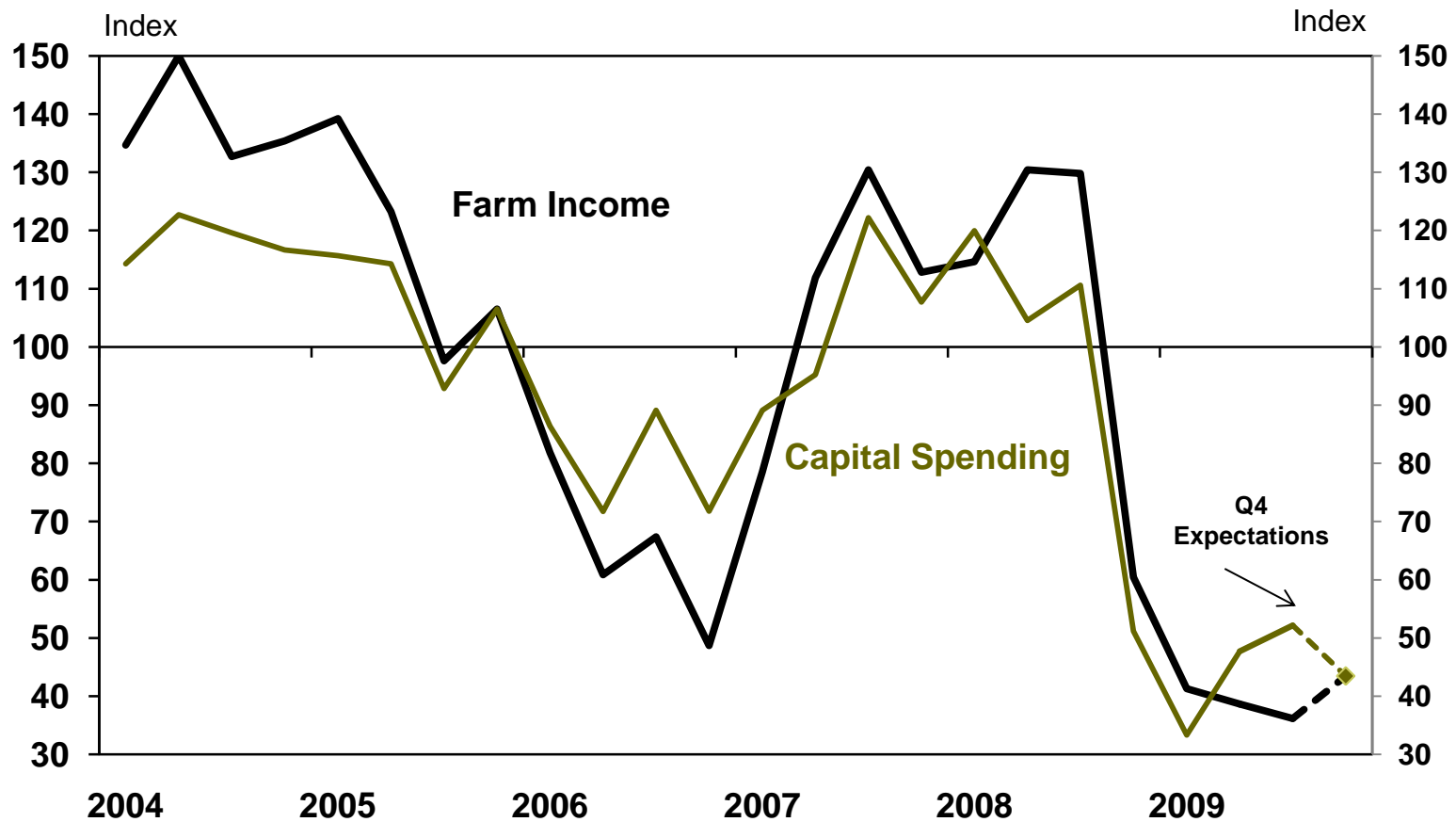
Source: ISM, FRBKC Manufacturing Survey

And, importantly, the rig count may have bottomed following a steep fall



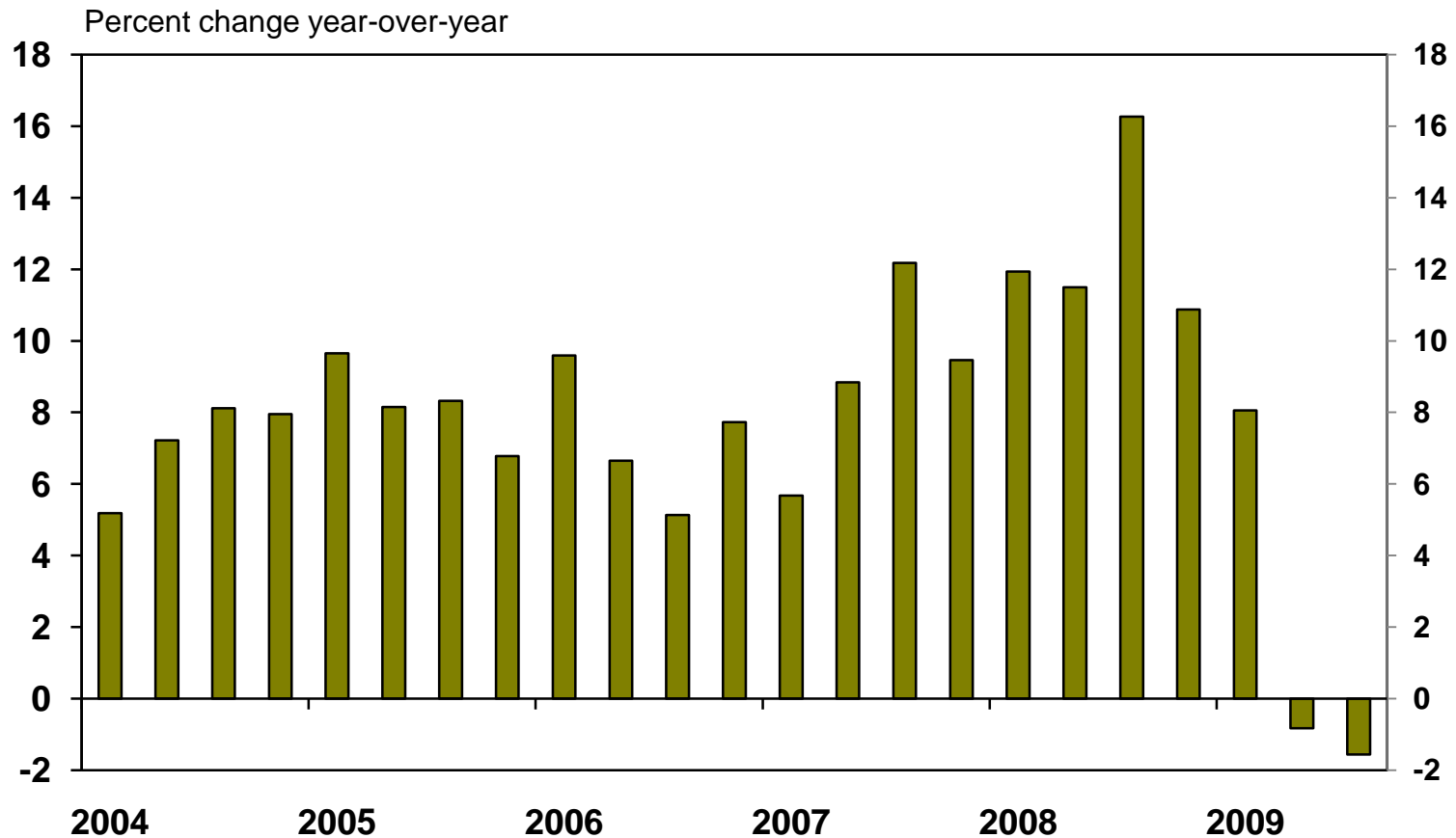
Agricultural conditions in the state remain rather weak, but also may have bottomed

Oklahoma Agricultural Conditions



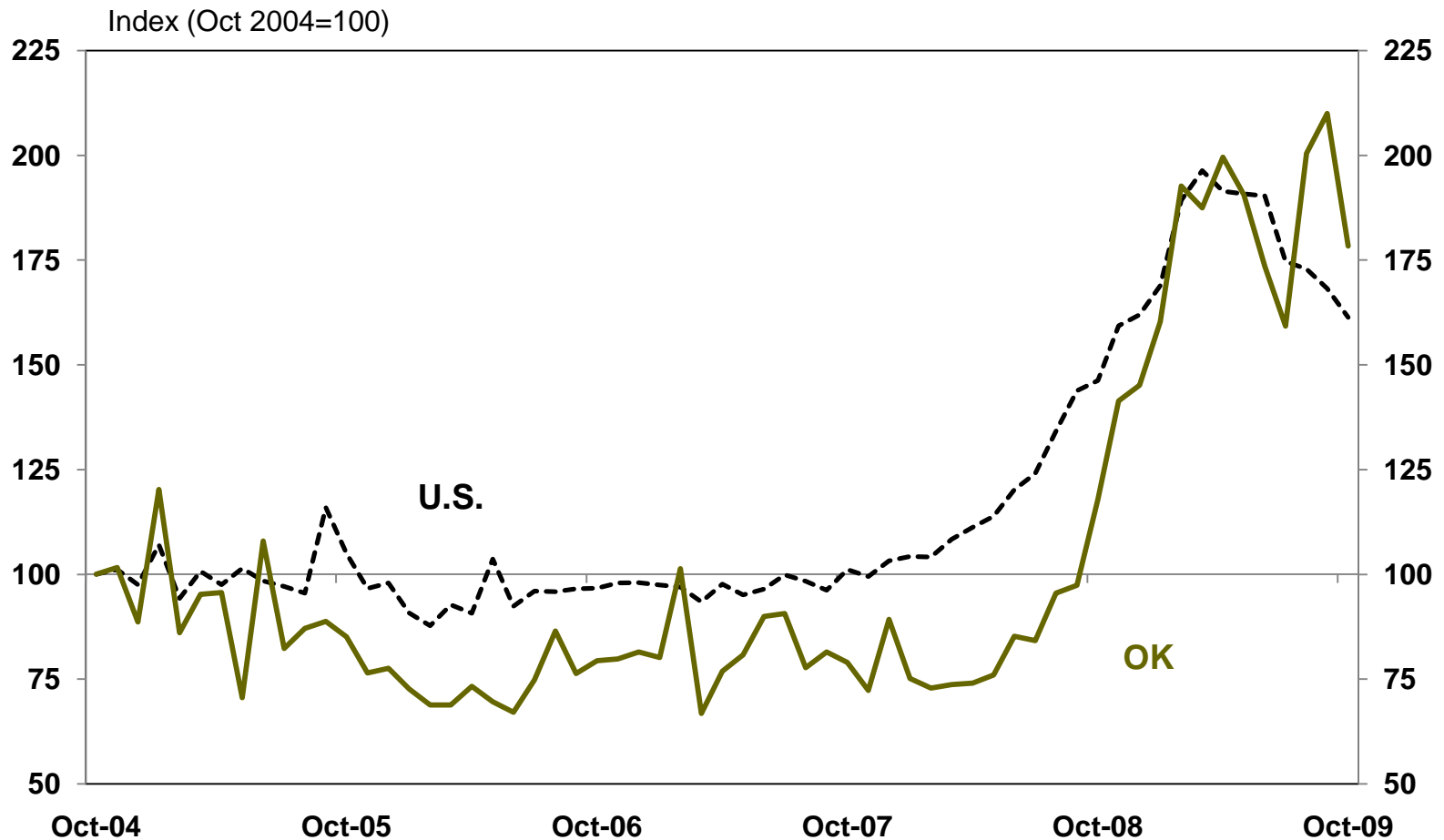
Farmland values in the state have flattened recently after rising rapidly in recent years

Oklahoma Agricultural Land Values Non-Irrigated Cropland



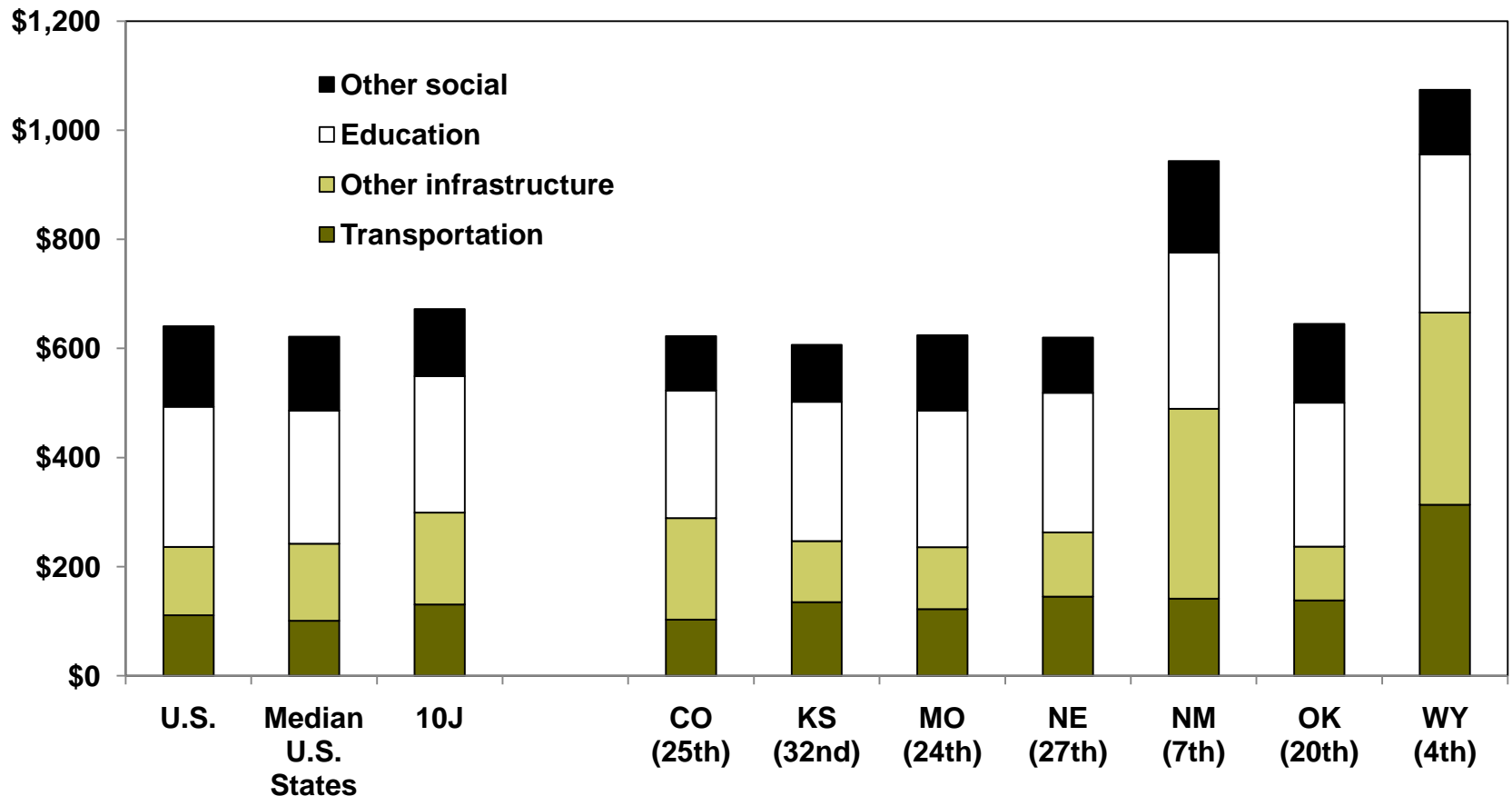
After rising in August and September, counter to the nation, new jobless claims fell in October

Initial Claims for Unemployment Insurance



And Oklahoma is receiving about as much fiscal stimulus as the nation

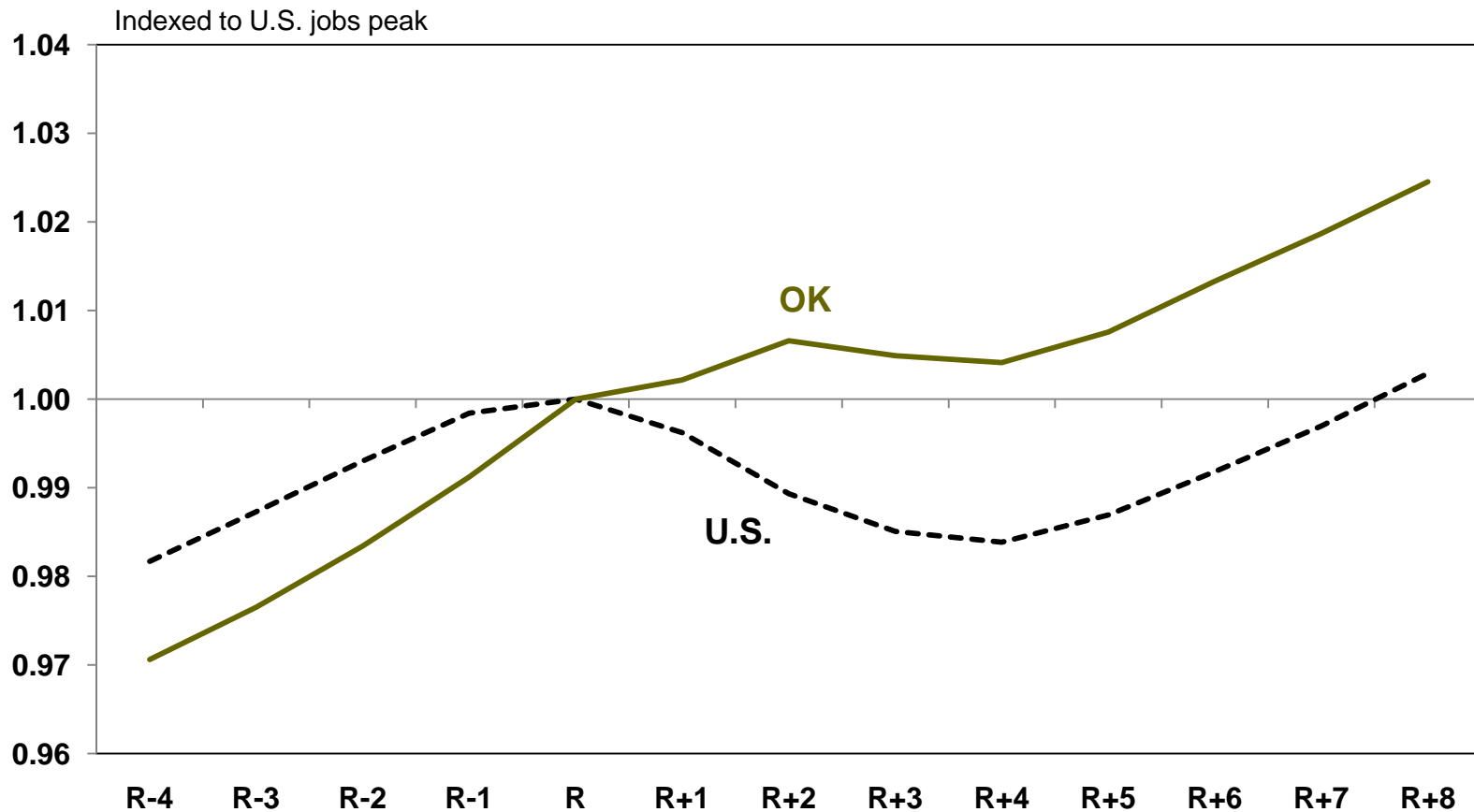
Per Capita Stimulus Package Spending
U.S. and Tenth District



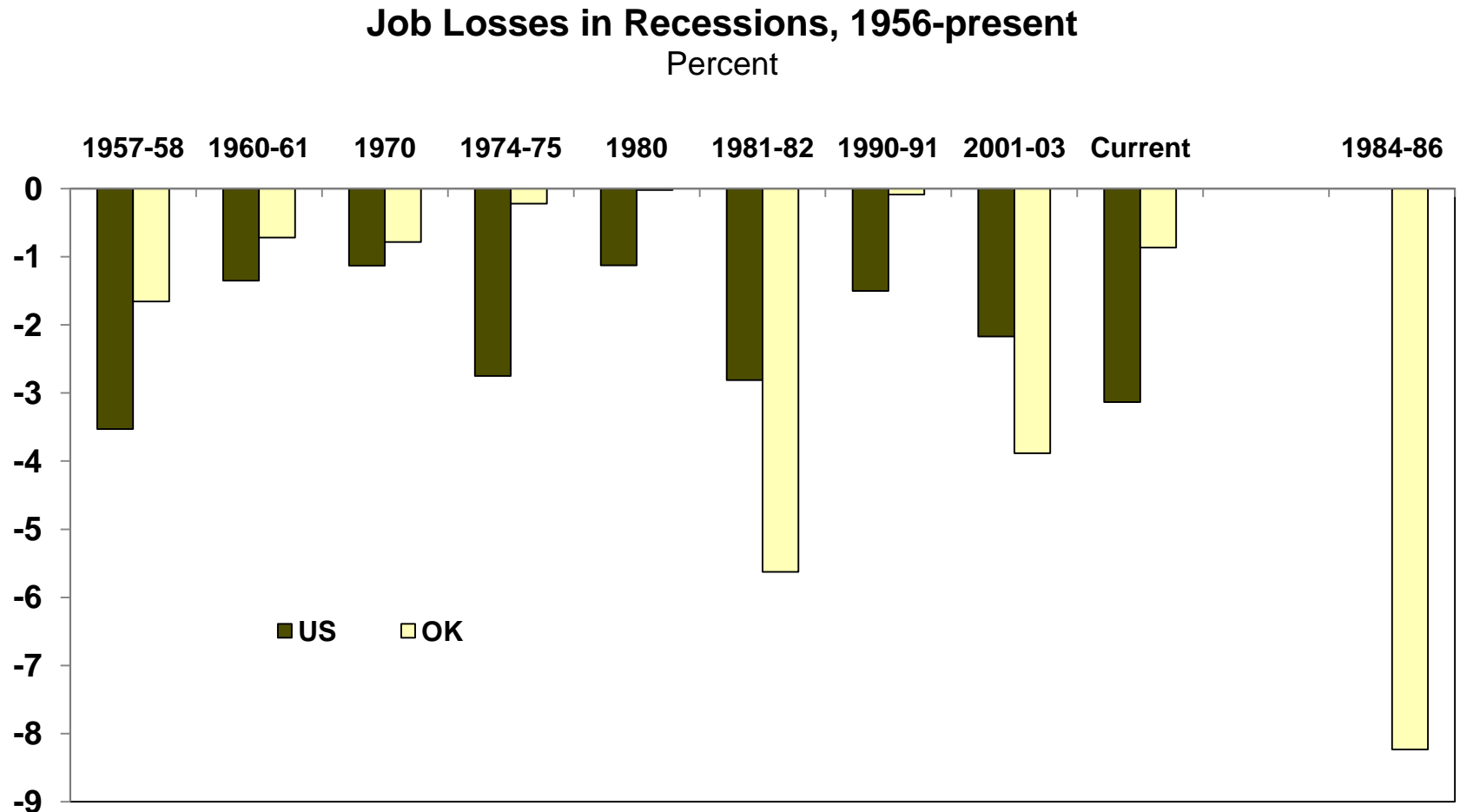
So far, Oklahoma's performance in this recession is fairly consistent with history

Average Recession Path, 1956-2006

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

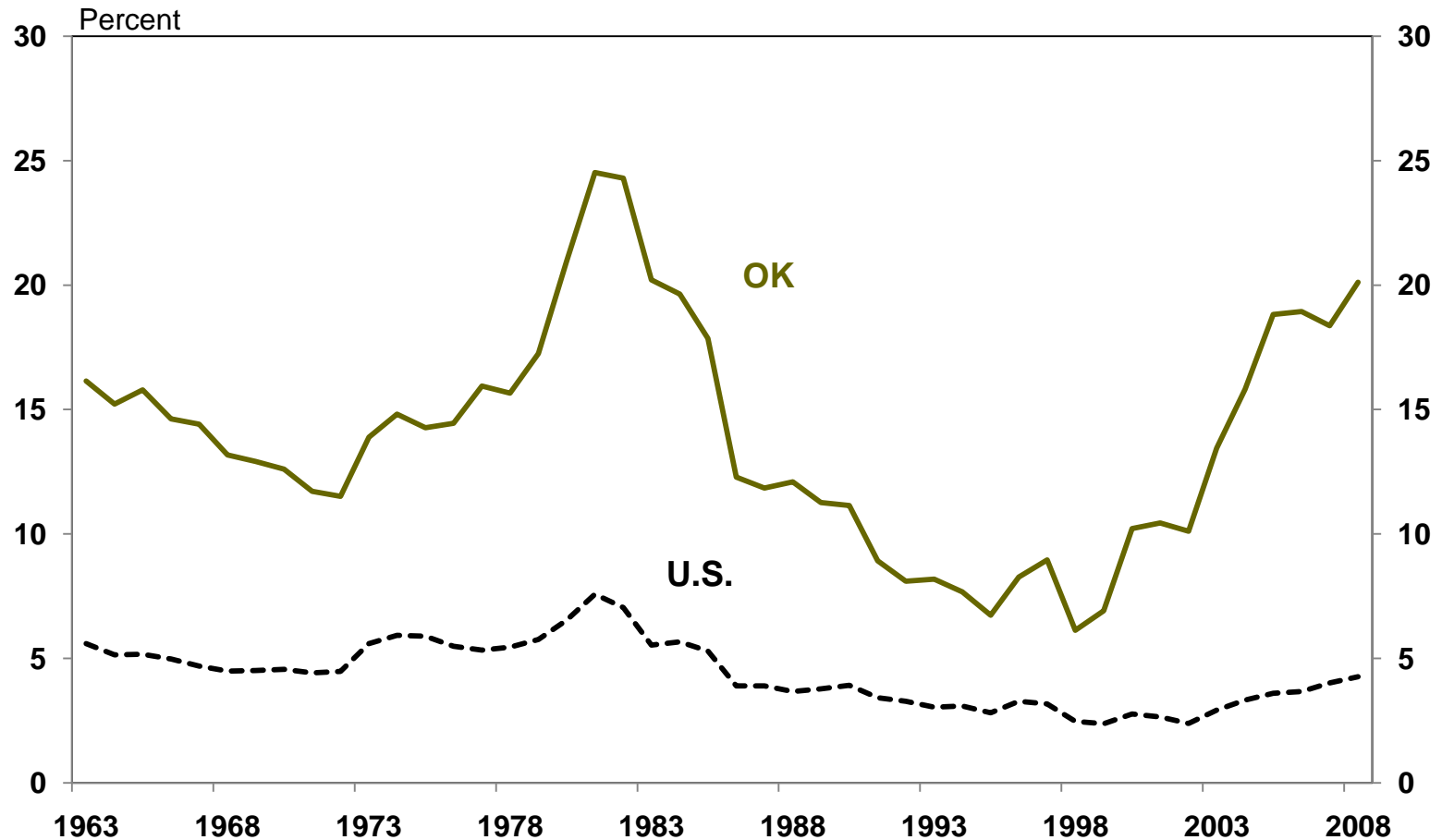


With their shorter duration, Oklahoma's job losses in U.S. recessions are usually smaller

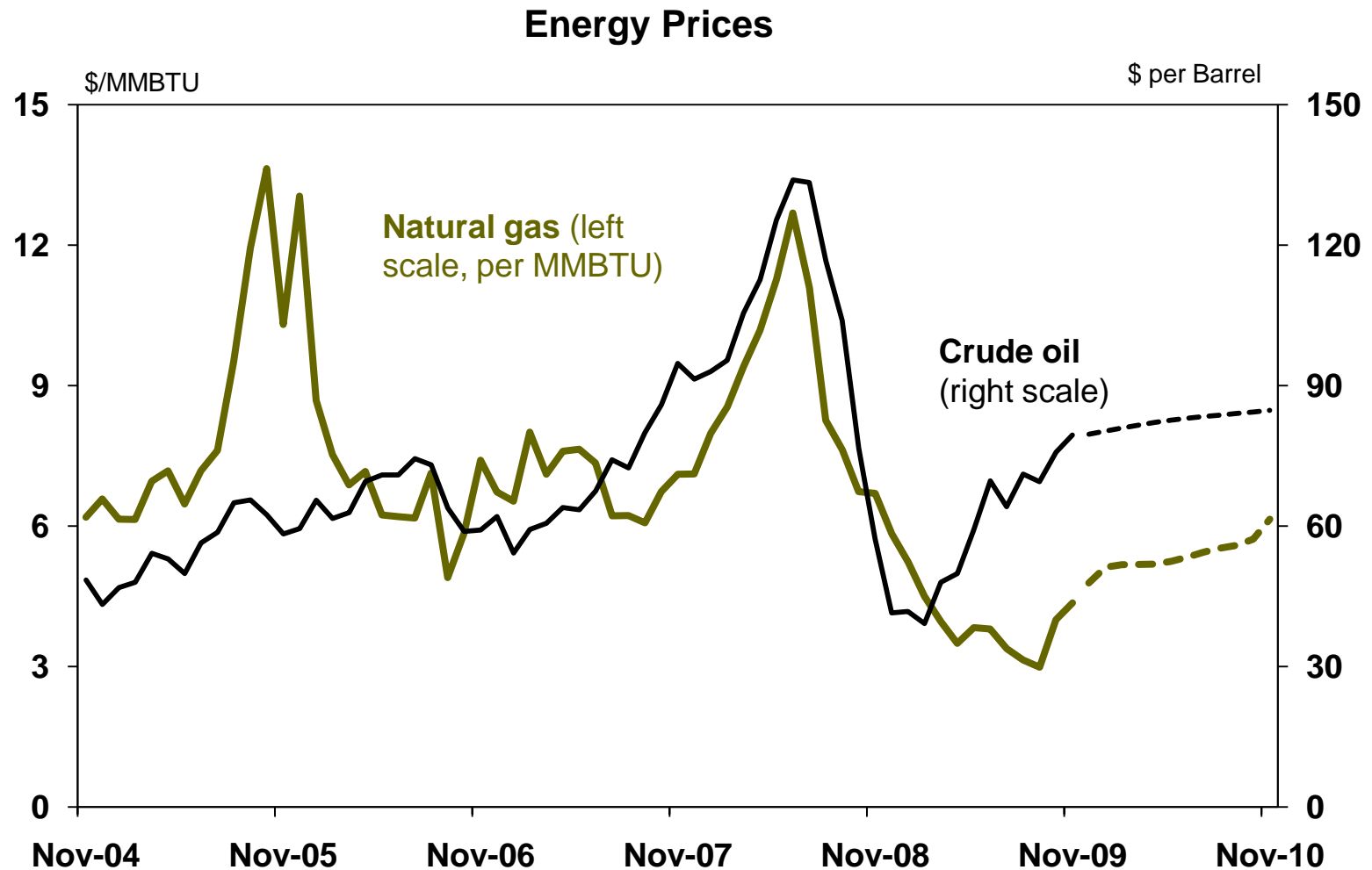


But in the past five years, Oklahoma's economy has become much less diversified

Energy and Agriculture's Share of GDP, 1963-2008

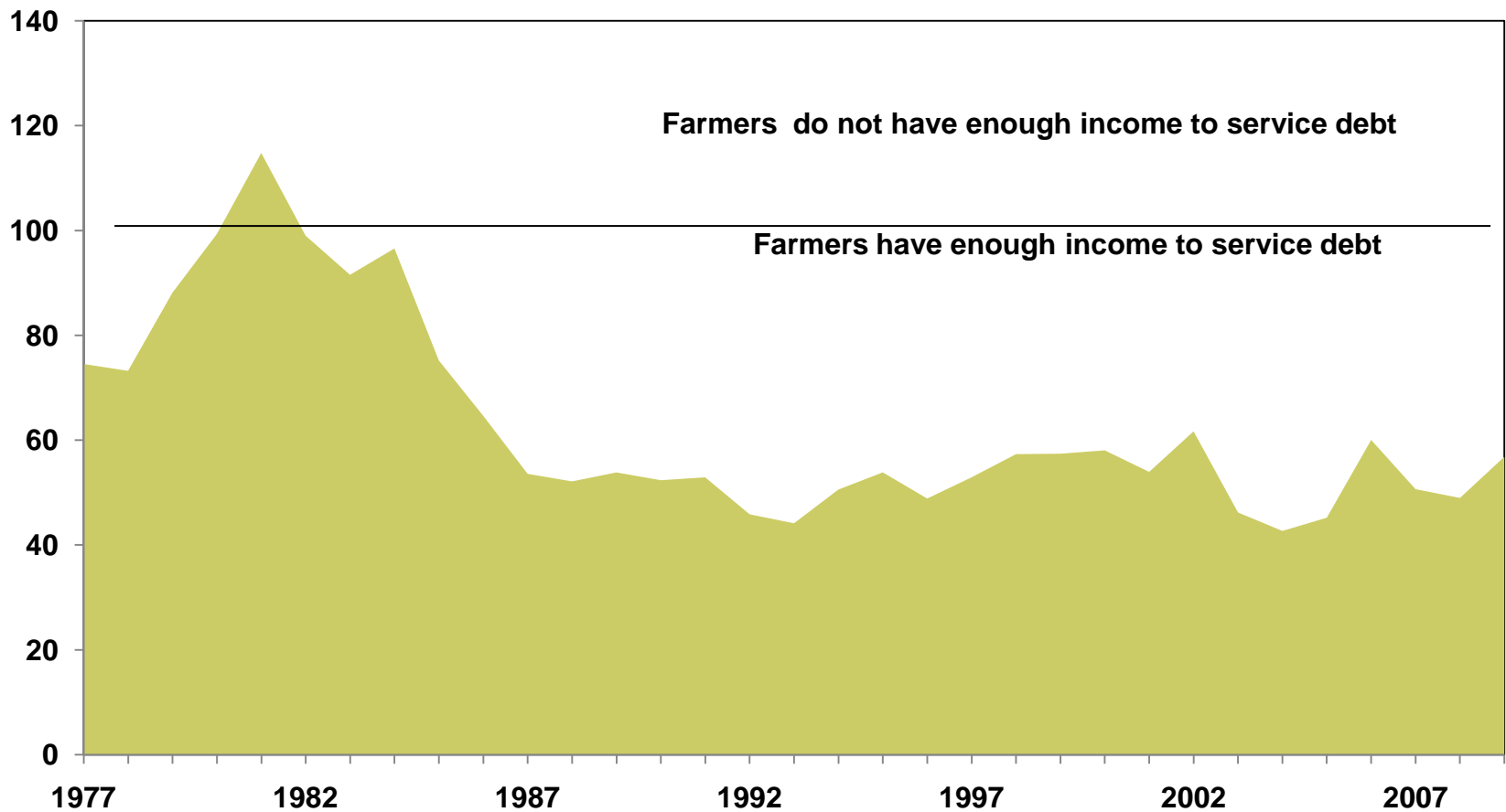


Oil and gas prices have diverged in 2009, but both have been rising recently



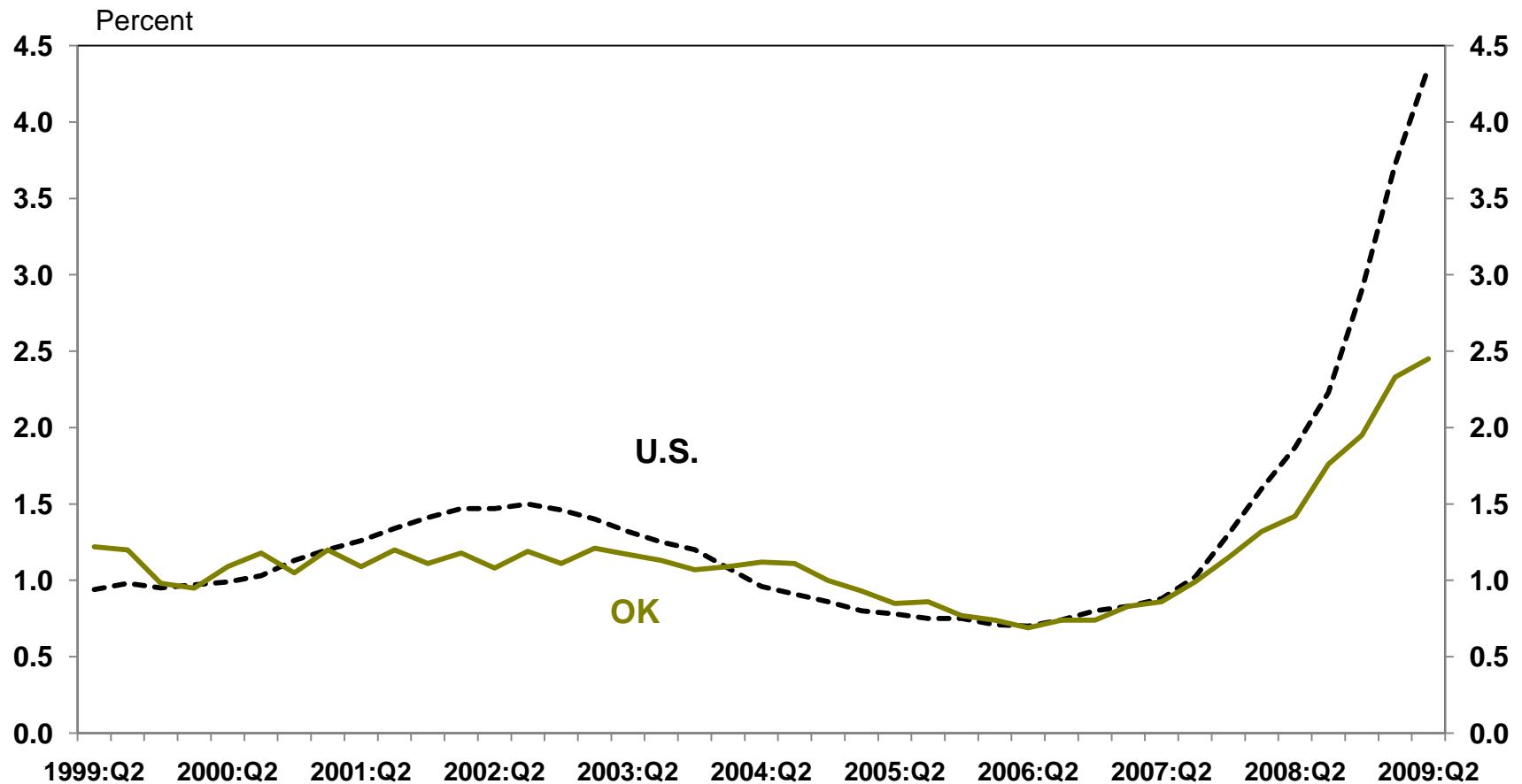
And farm leverage is much lower than in the early 1980s

U.S. Debt Repayment Capacity Utilization Ratio



Oklahoma banks also remain in relatively better shape than the nation

Noncurrent Loans as a Share of Total Loans
Commercial Banks



Summary

- The U.S. economy is growing, but job losses continue and recovery is expected to be modest
- Oklahoma is showing some stabilizing signs, and stimulus is kicking in here as well
- Some key risks to growth remain in the state, but these appear smaller than in the past