

Recovery in the U.S. and Regional Economies



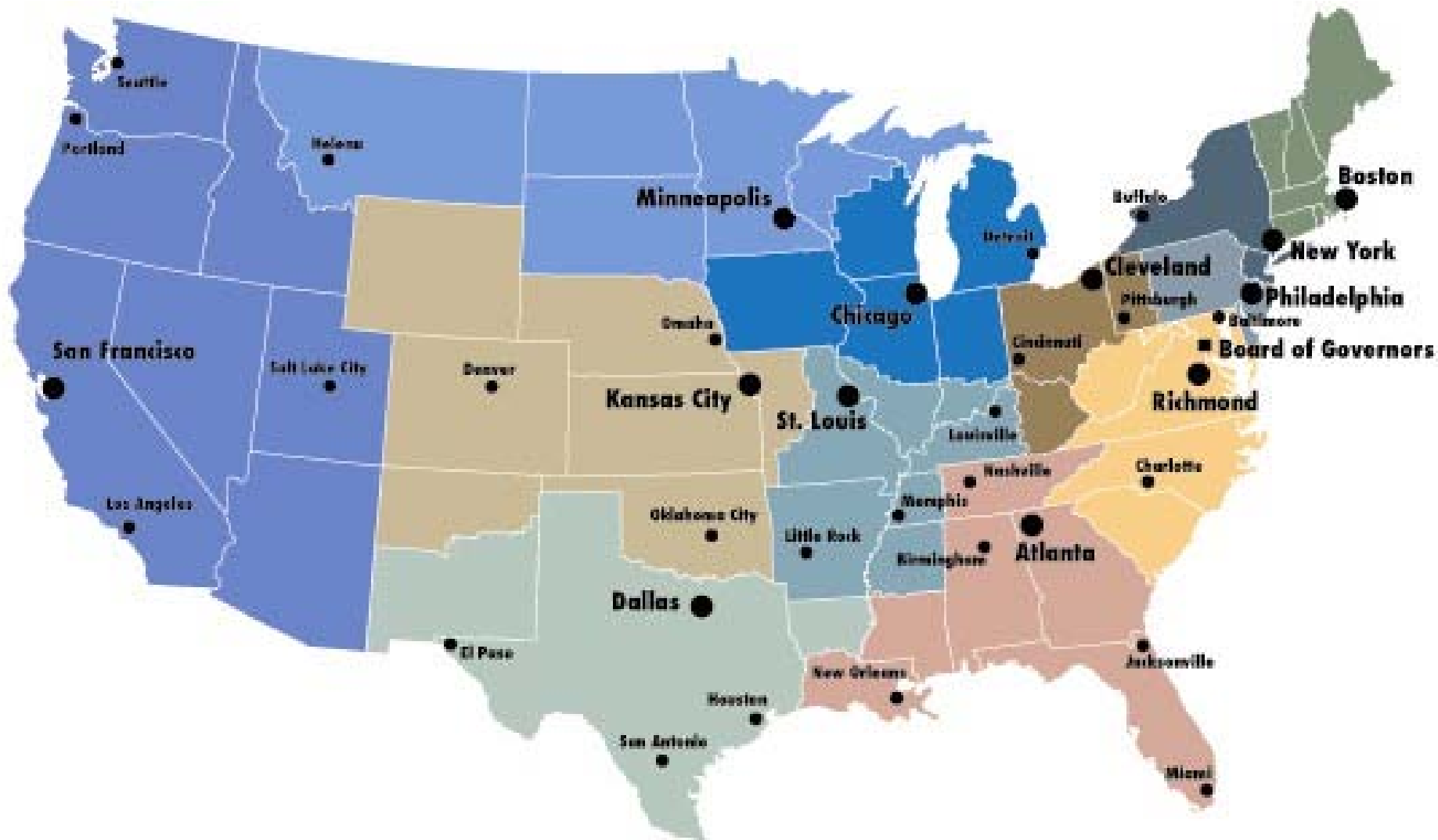
Chad Wilkerson

**Vice President & Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City**

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 – control 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 President 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

- **Staff and functions**

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

- **2010 board of directors**

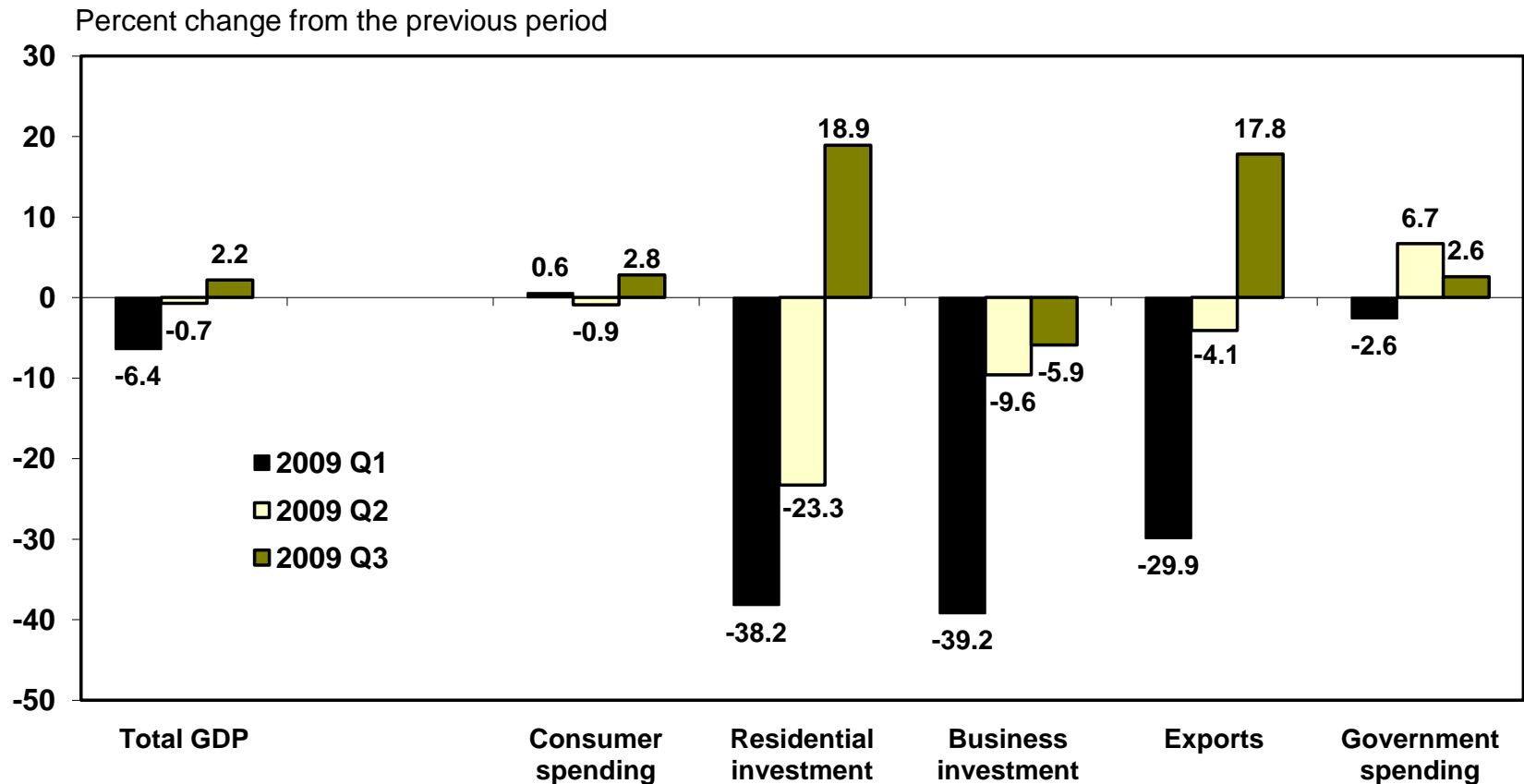
- **Steve Agee (chairman)**, President, Agee Energy, and Professor, OCU, OKC
 - **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
 - **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
 - **Jacque Fiegel**, Senior EVP & COO, Coppermark Bank, OKC
 - **Rose Washington Rentie**, Executive Director,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

- 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

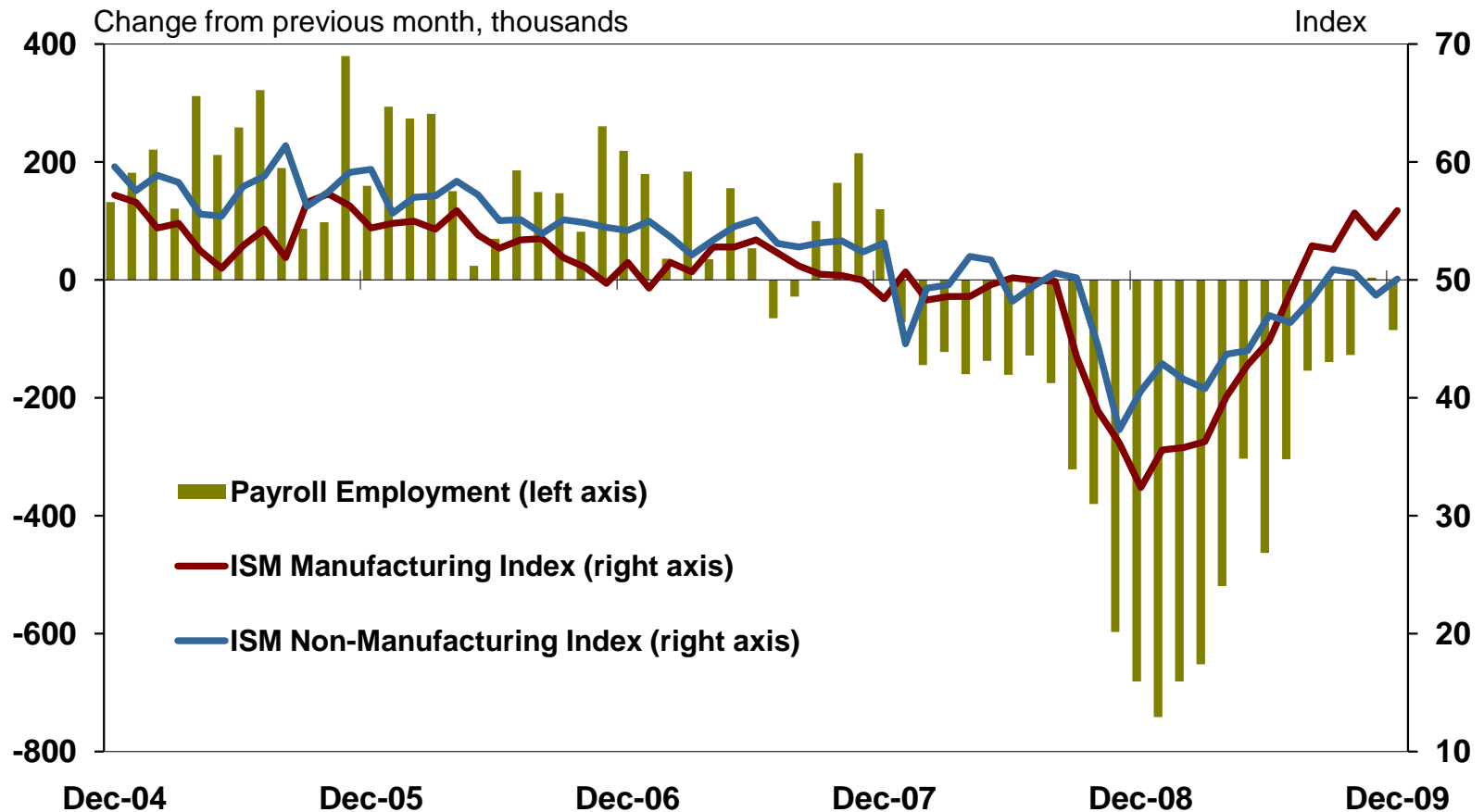
Third quarter GDP growth was finally positive, but was boosted by government stimulus

Growth in Components of GDP



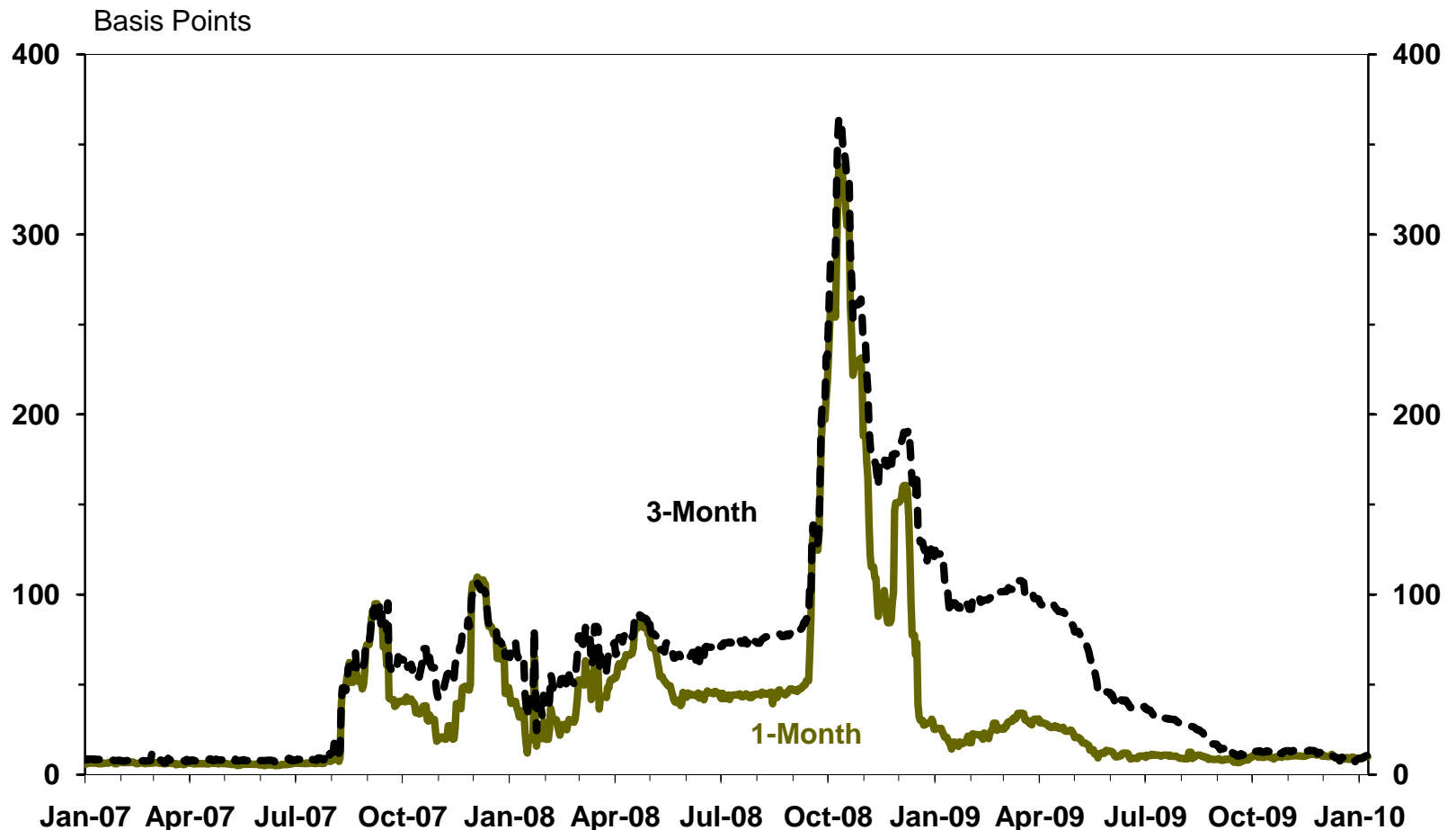
Data on the fourth quarter show moderate growth, with job losses diminishing

National Business Indexes and Payroll Employment



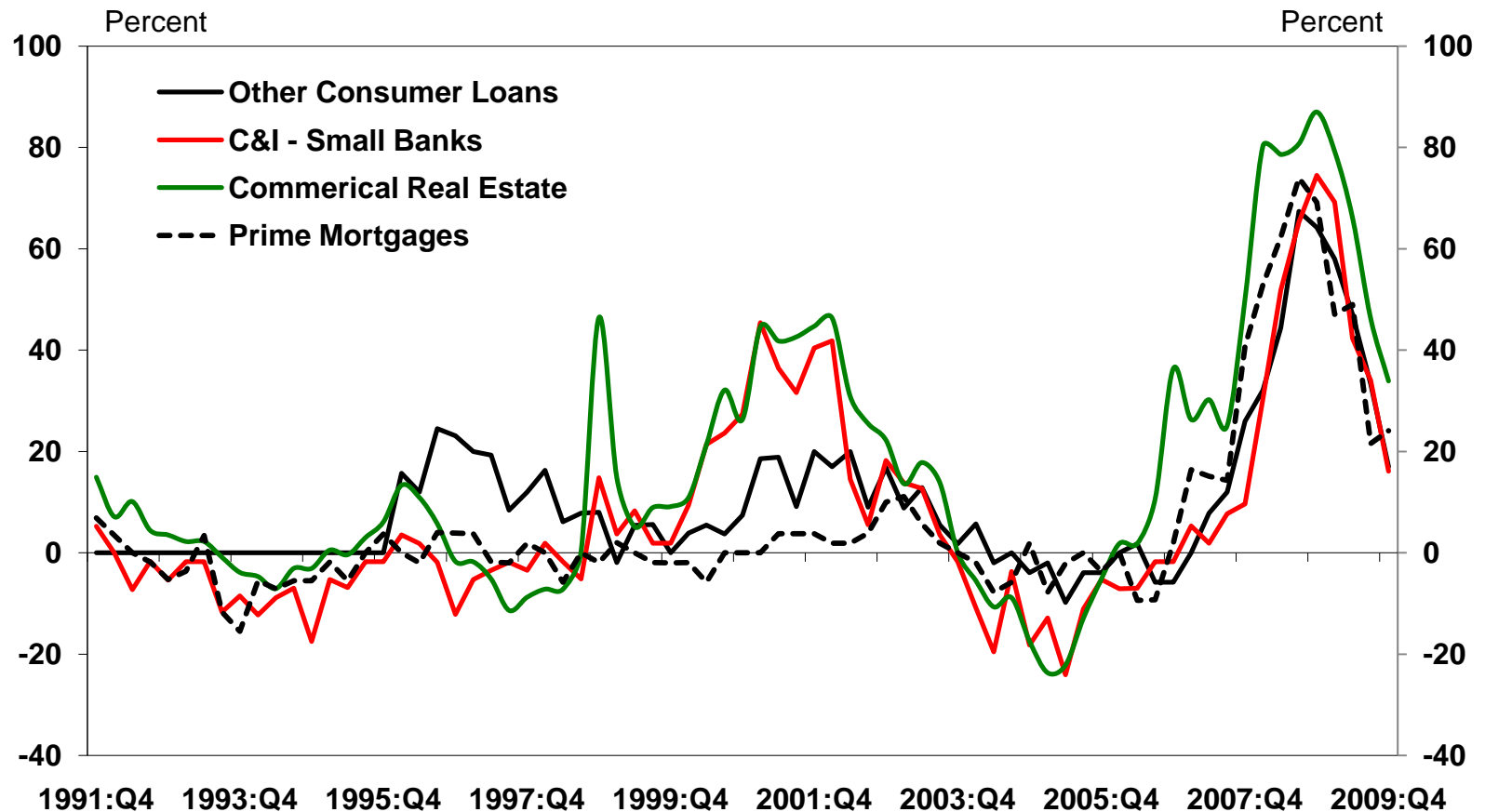
Credit market conditions have continued to stabilize in recent months

LIBOR-OIS Spread



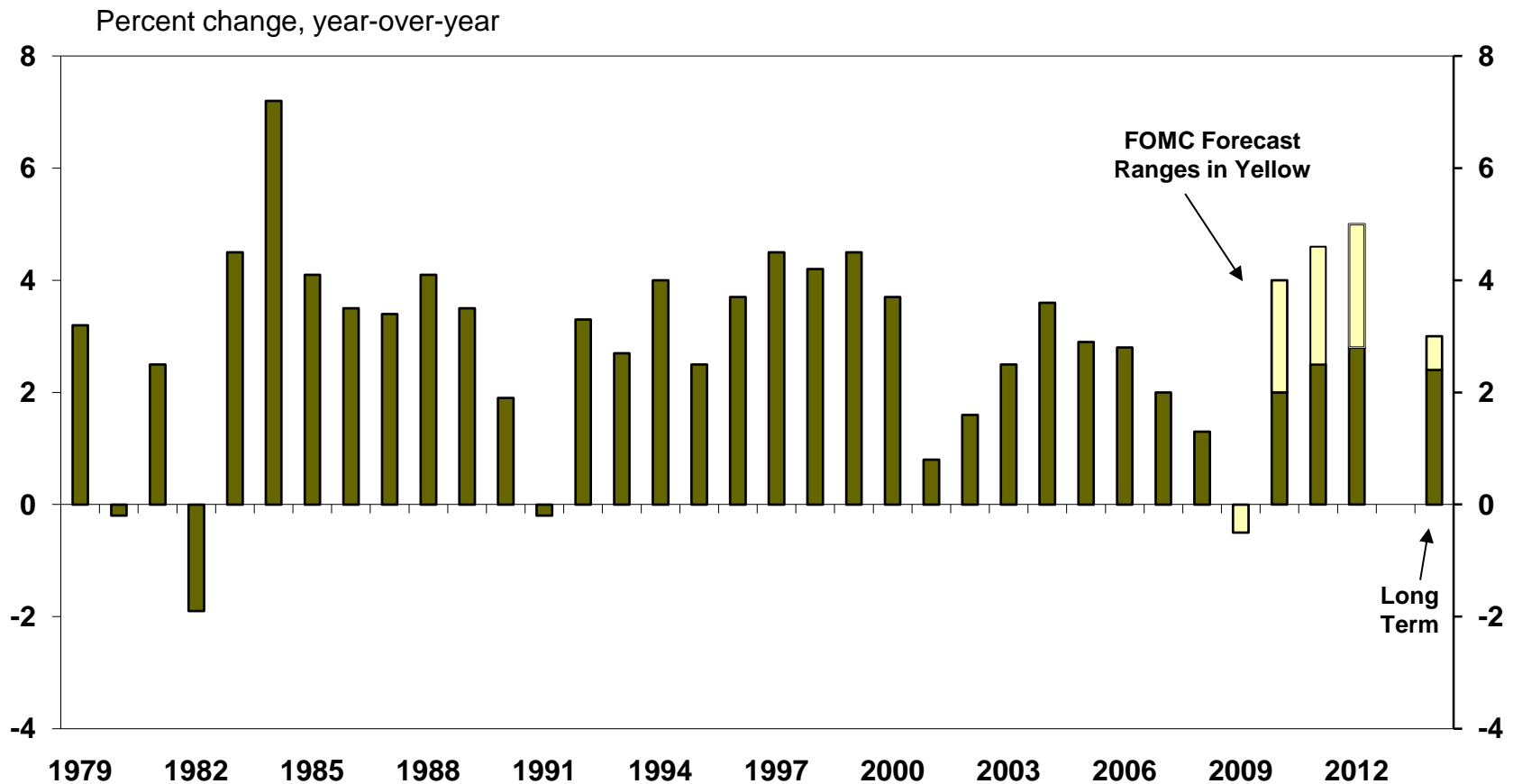
But banks' lending standards continue to tighten, although less than in recent quarters

Net Percentage of Banks Tightening Loan Standards
Business Loans



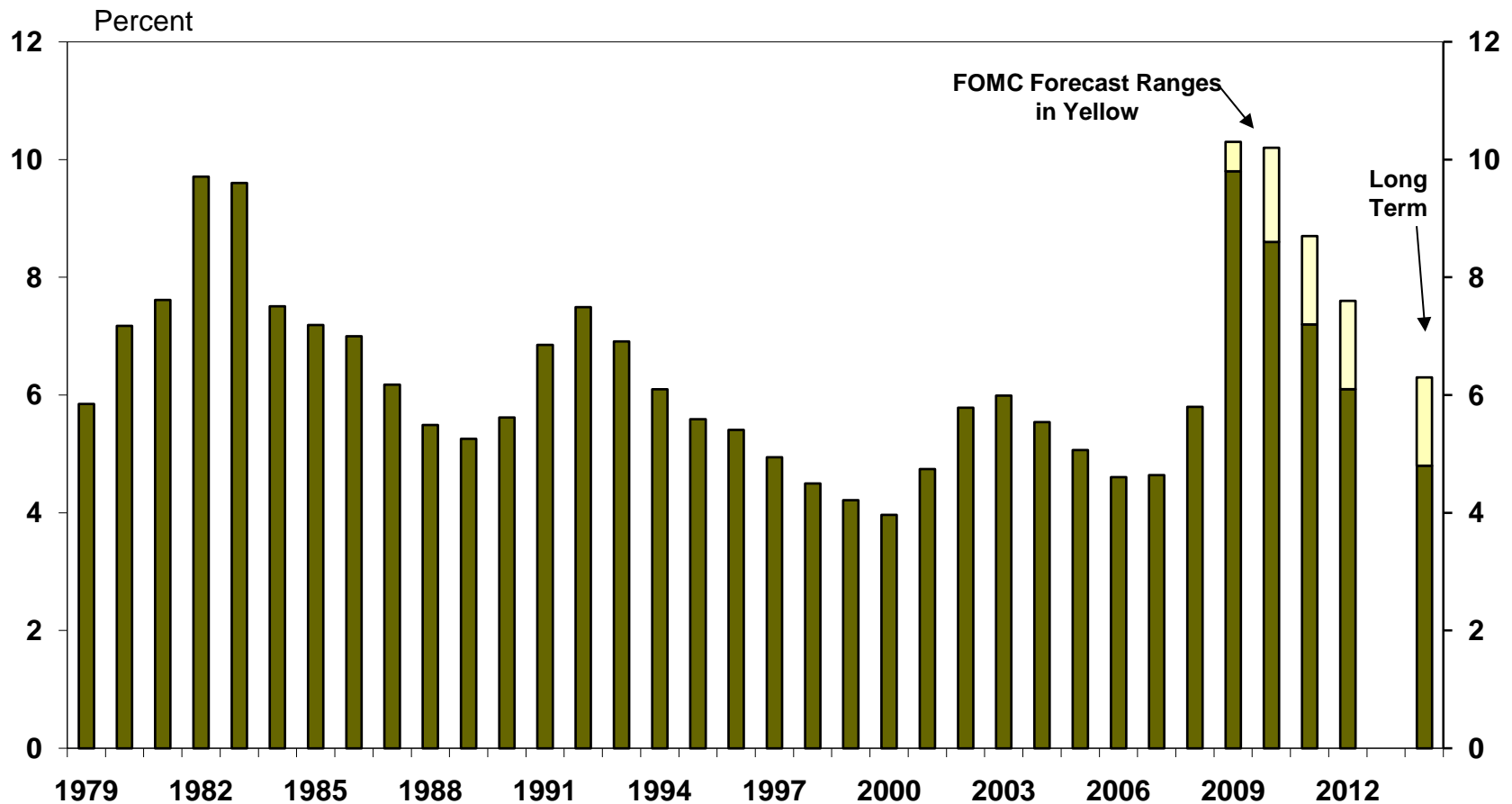
Heading forward, policy makers generally expect a moderate recovery

Gross Domestic Product



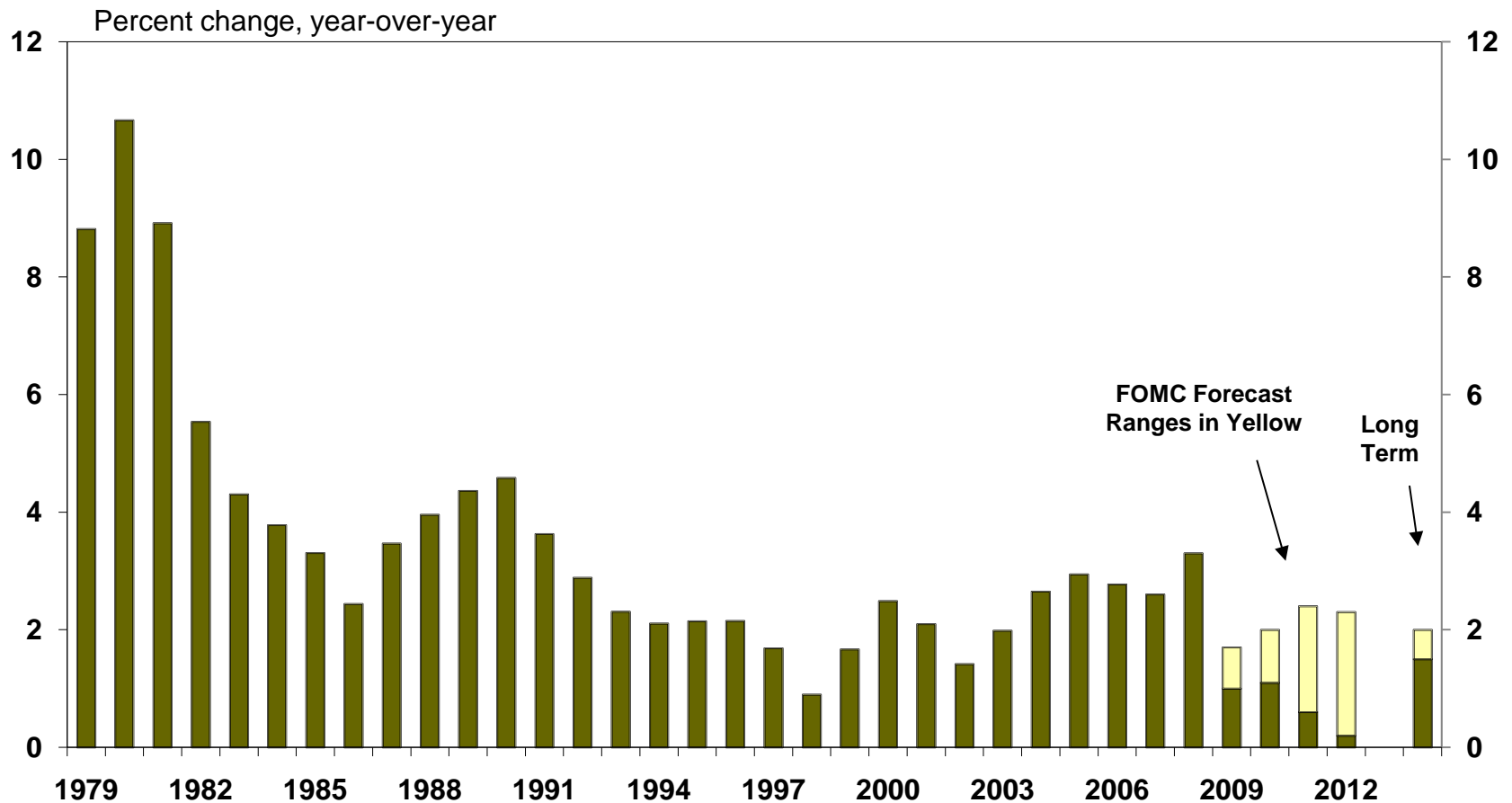
With unemployment expected to remain high for some time

Unemployment Rate
Seasonally Adjusted



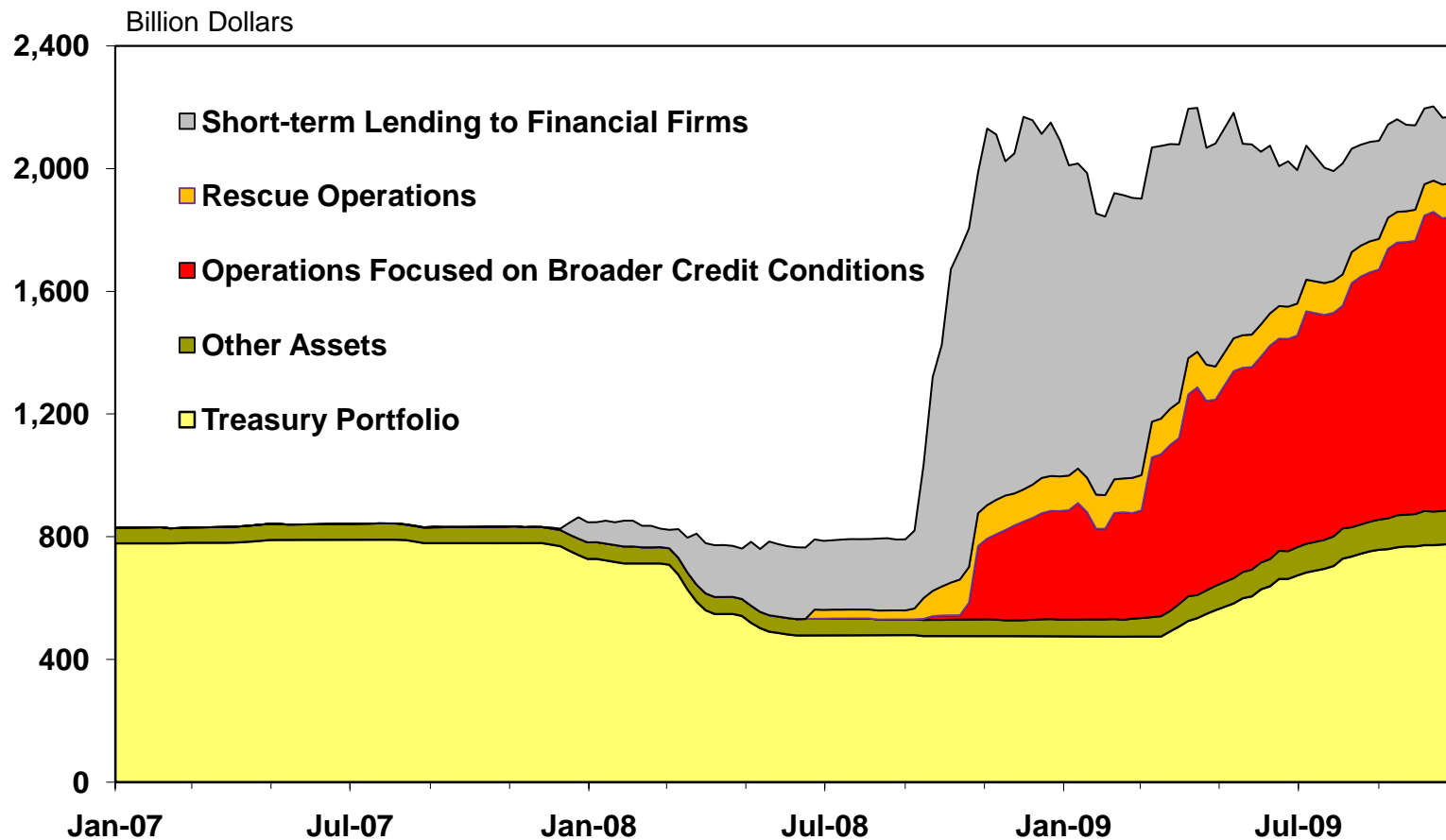
With moderate growth and excess capacity, near-term inflation is expected to remain tame

PCE Inflation Index



The Fed's balance sheet has grown

Federal Reserve Balance Sheet: Assets



December 16 FOMC statement

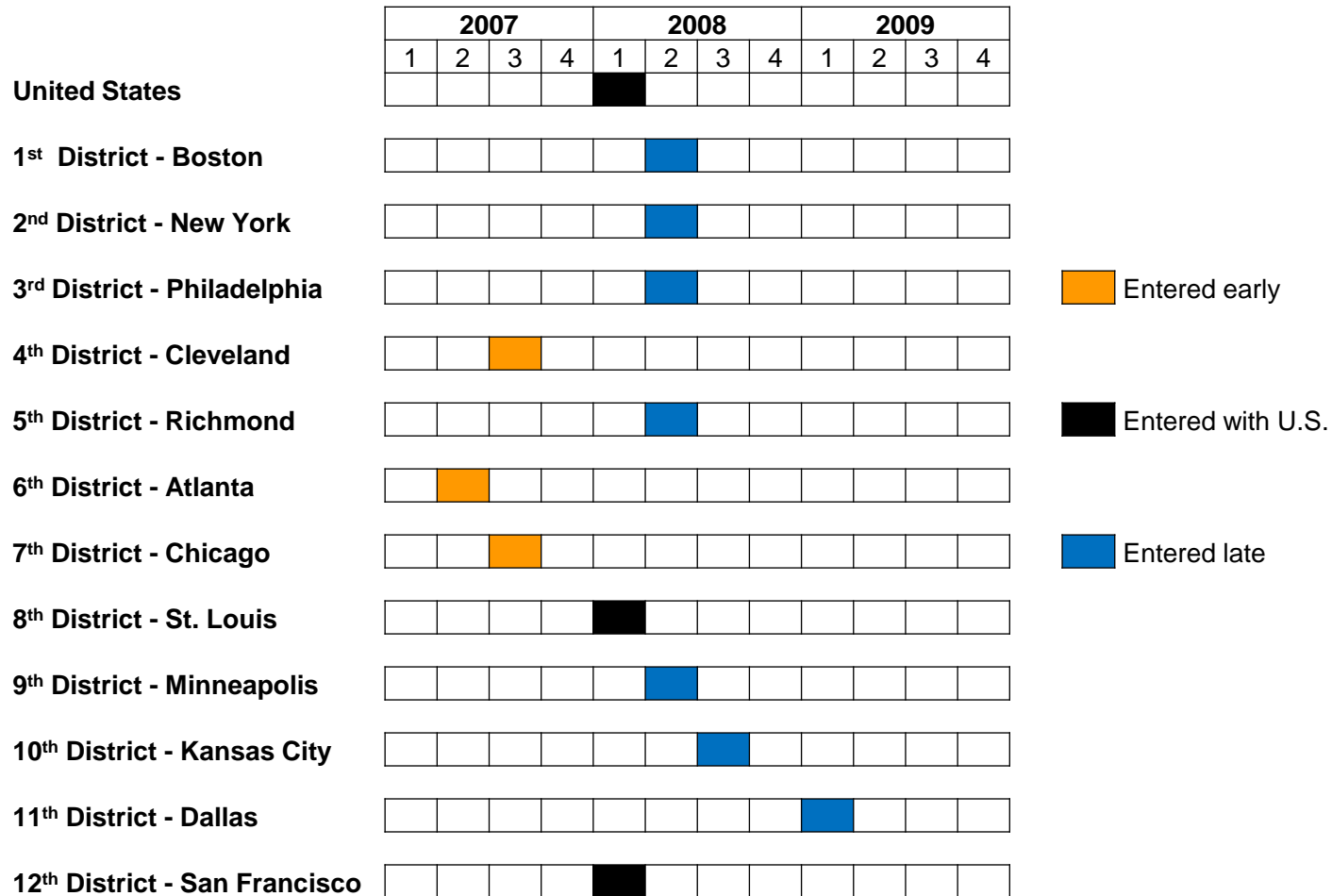
“The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period. To provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve is in the process of purchasing \$1.25 trillion of agency mortgage-backed securities and about \$175 billion of agency debt. In order to promote a smooth transition in markets, the Committee is gradually slowing the pace of these purchases, and it anticipates that these transactions will be executed by the end of the first quarter of 2010. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets.”

The Regional Economy and Oklahoma

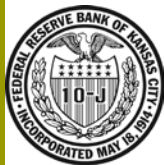
- As usual, our region and state entered this recession later than the nation
- Conditions in labor and housing markets remain much better than the nation
- Recent data suggest a regional and state bottom have been reached

The timing of entry to this recession varied widely across the nation

Quarter of Entry to the Recession

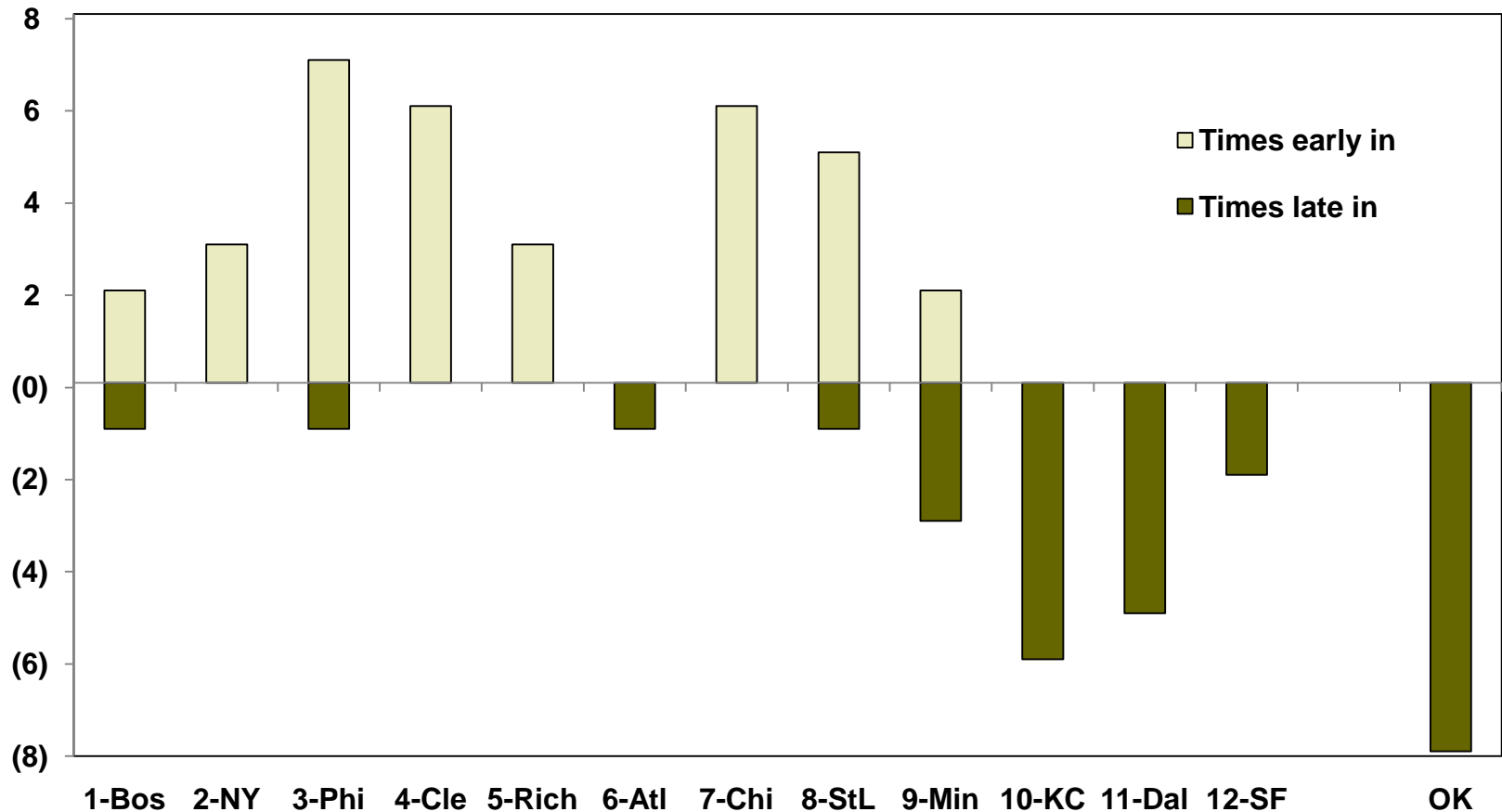


Source: U.S. Bureau of Labor Statistics



Our region is almost always late to recessions—and Oklahoma is *always* late

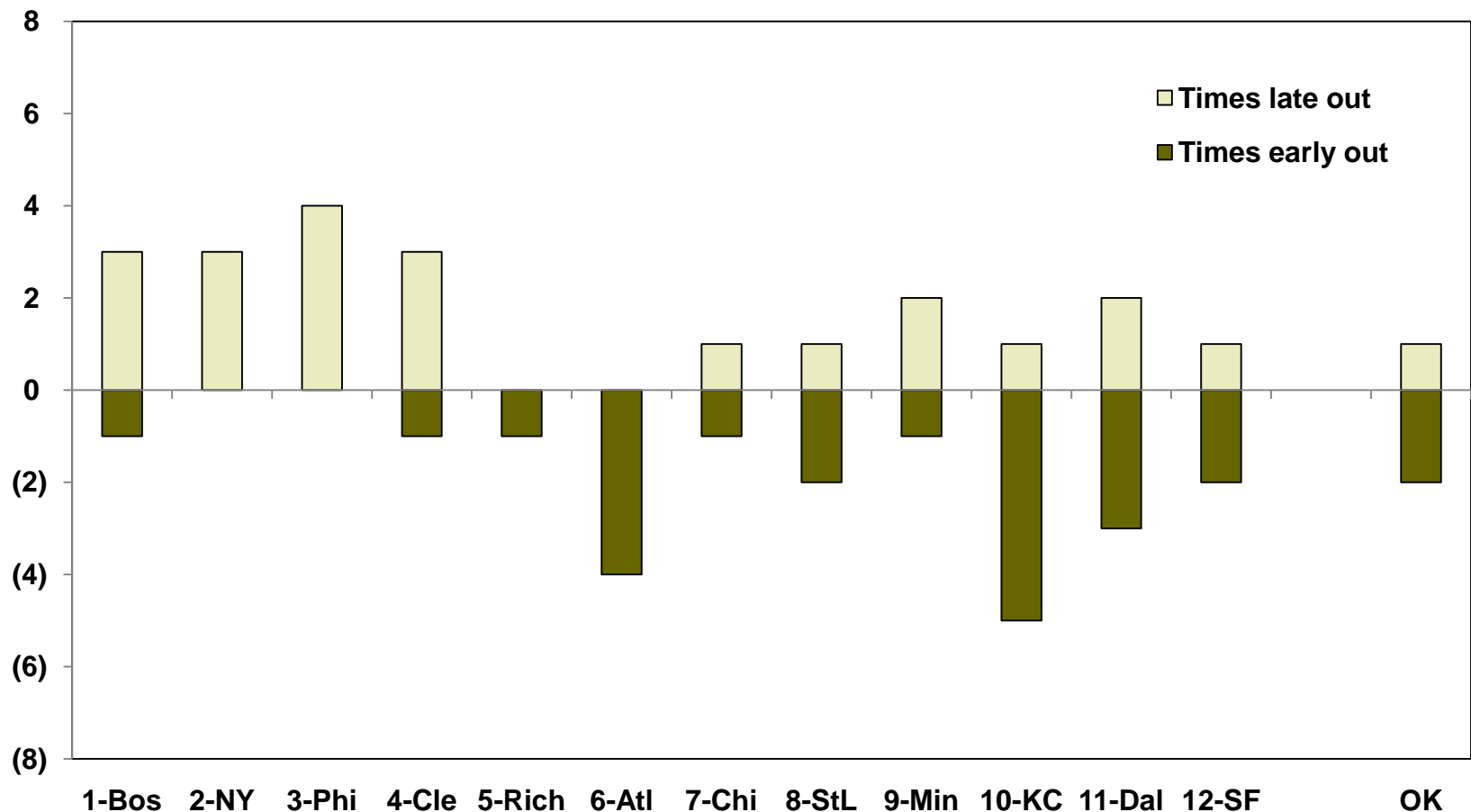
Historical Timing of Entry from Recessions by Fed District
For the eight U.S. recessions from 1957-2003



But exit from recessions tends to be more simultaneous across regions of the country

Historical Timing of Exit from Recessions by Fed District

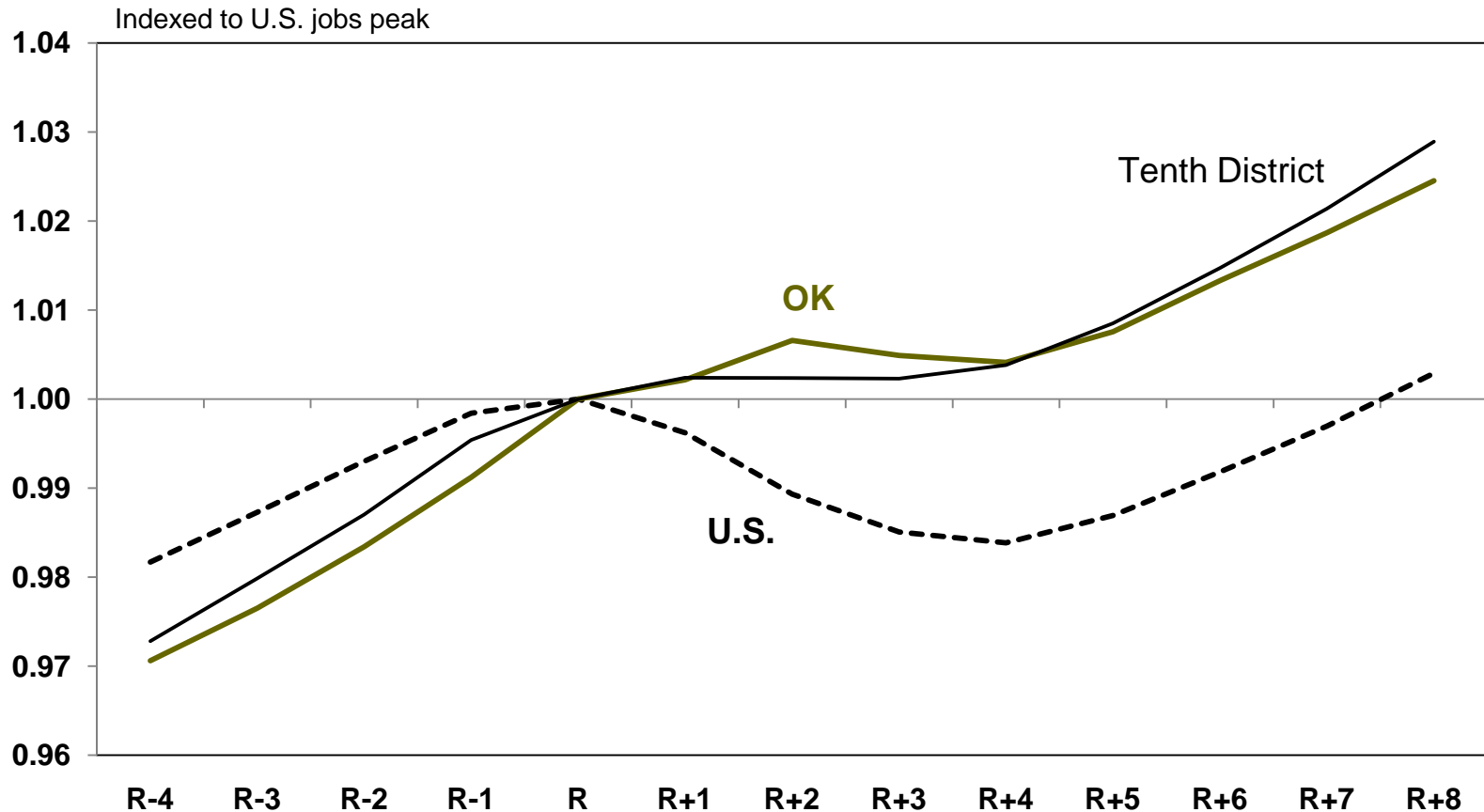
For the eight U.S. recessions from 1957-2003



The average postwar recession path of the state and region are quite favorable

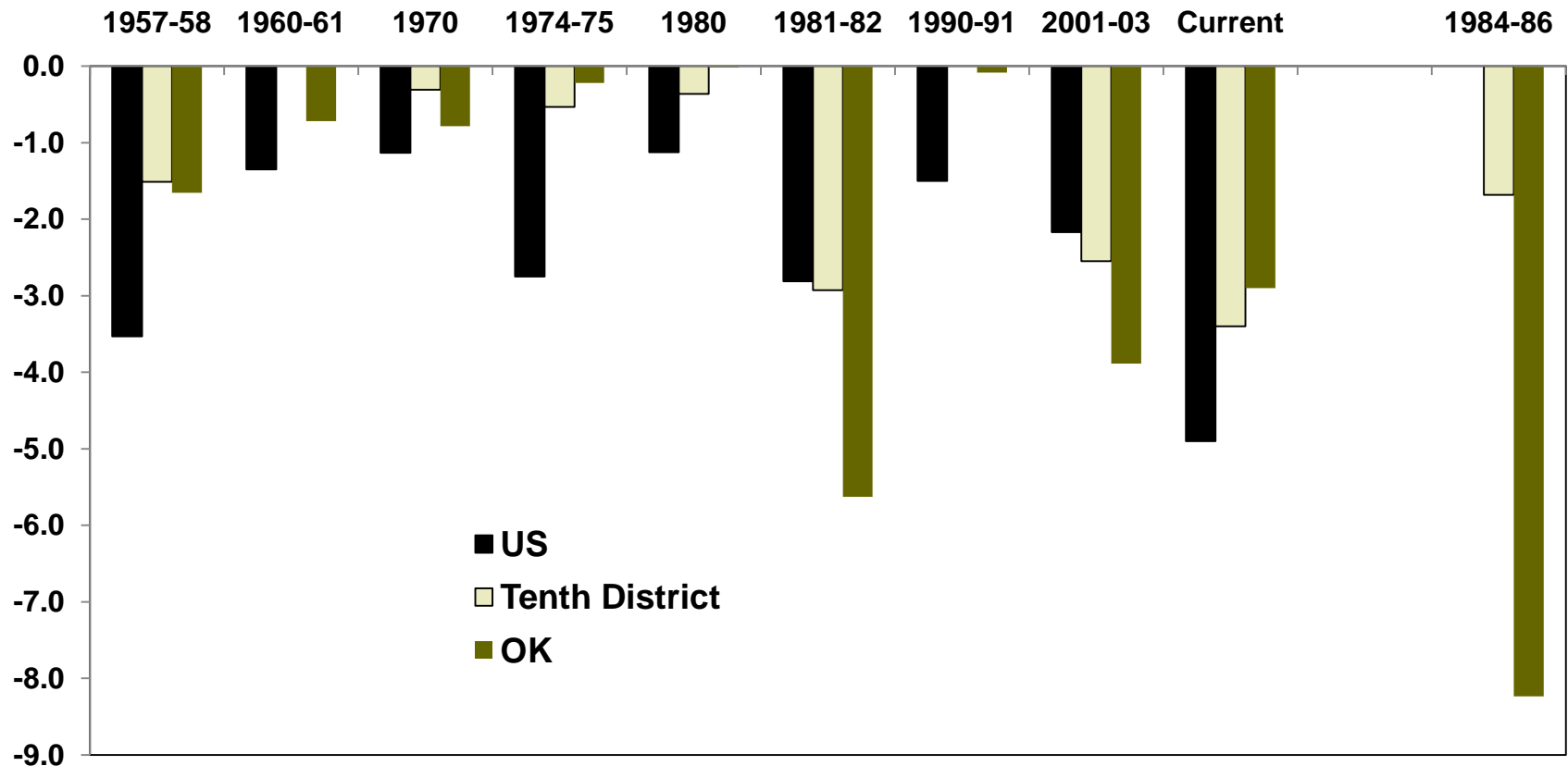
Average Recession Path, 1956-2006

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



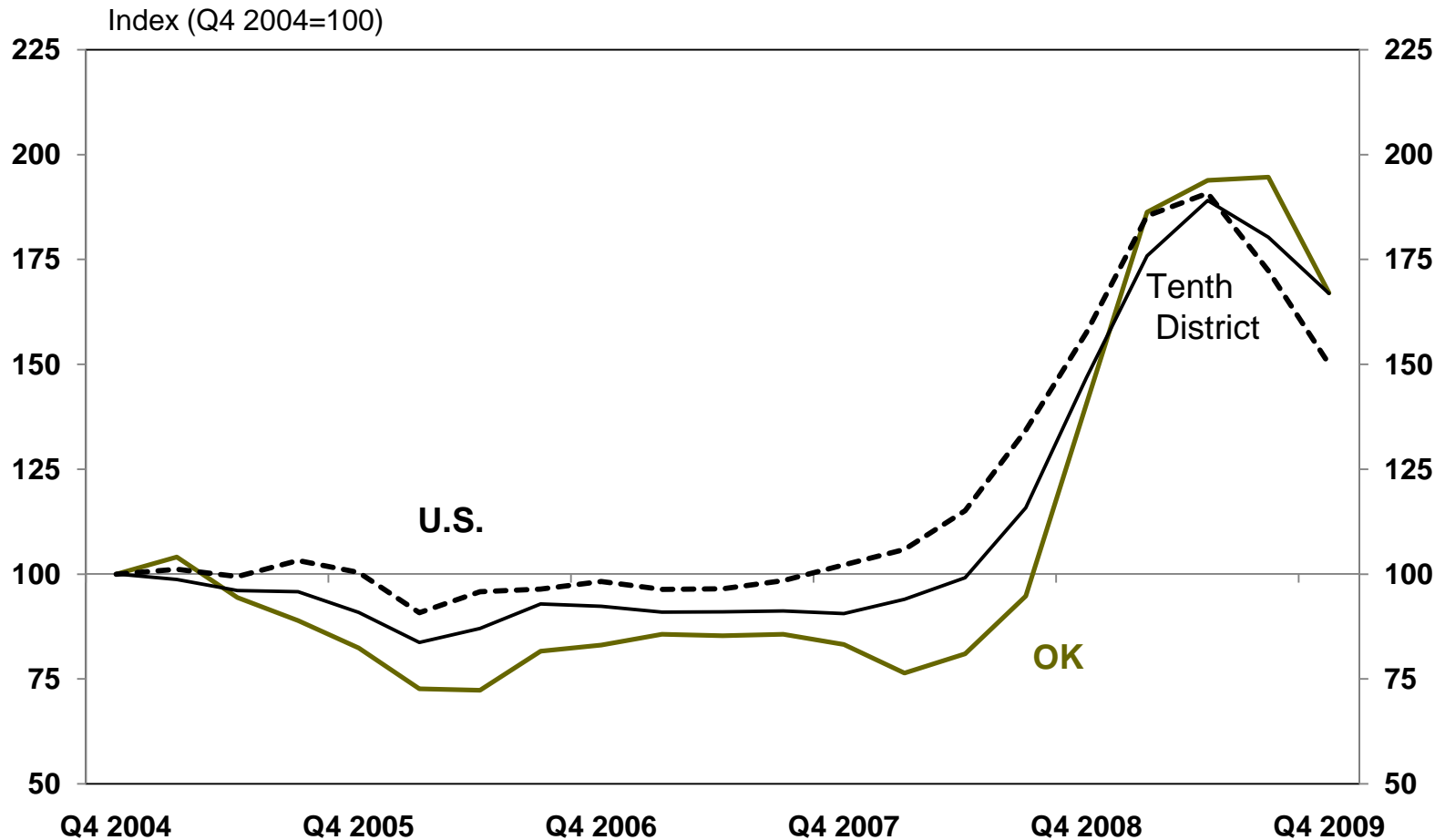
Only two postwar recessions have hit our region and state worse than the nation

Job Losses in Recessions, 1956-present
Percent



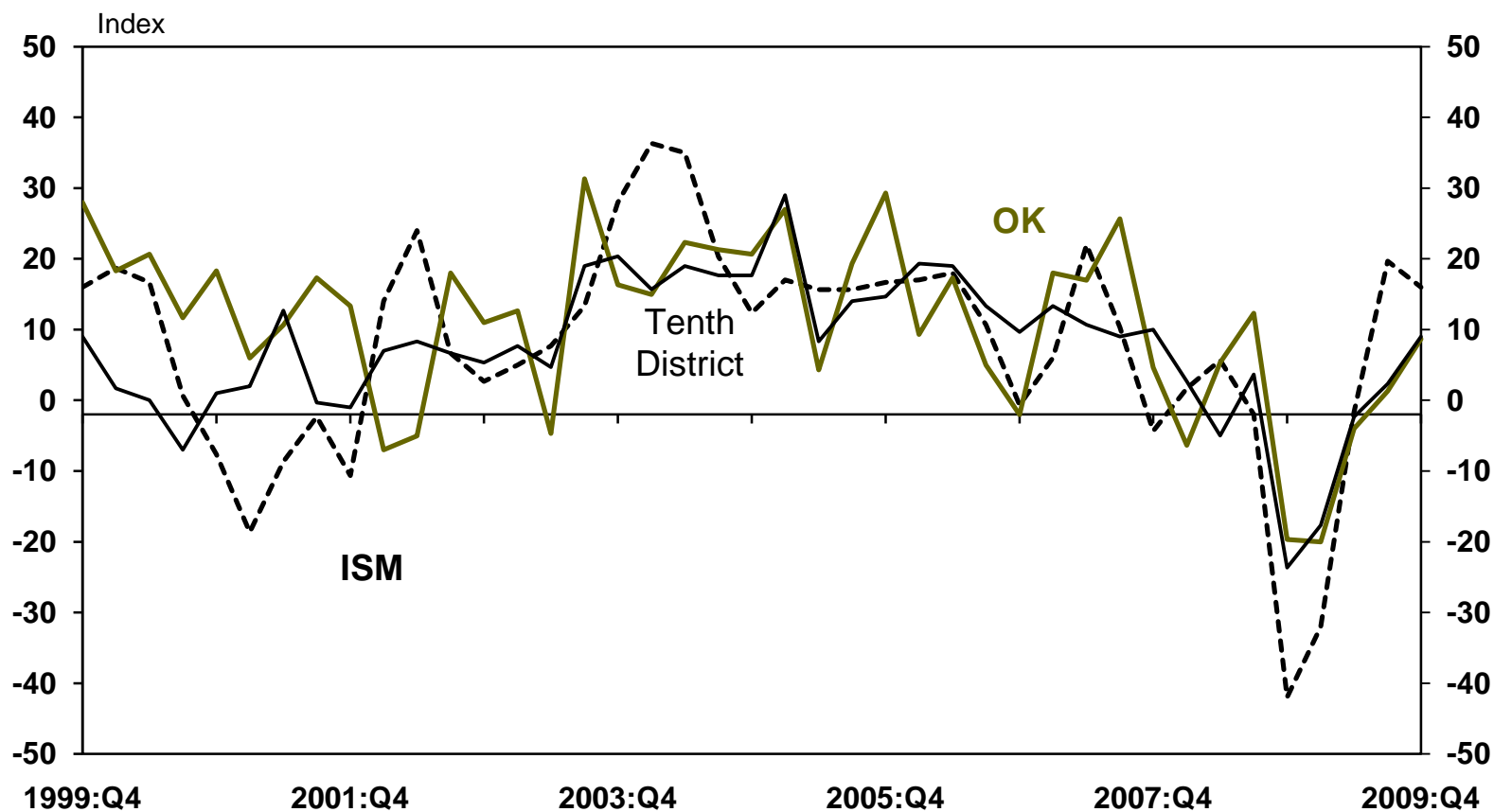
This recession largely followed the historical pattern, though with a slight lag at the end

Initial Claims for Unemployment Insurance



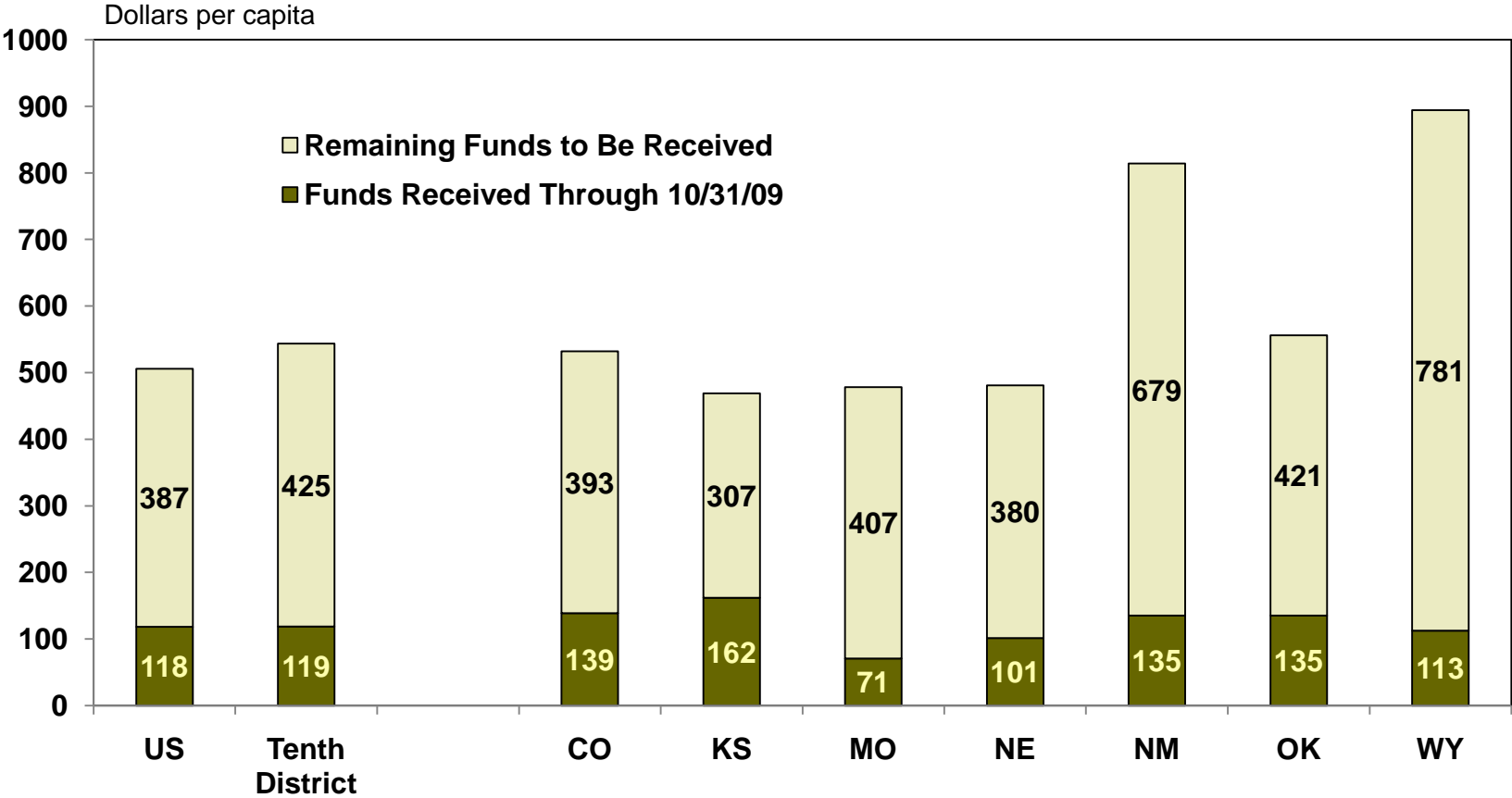
Manufacturing indexes for the state and region show some improvement recently

Manufacturing Production Indexes
Seasonally adjusted



And 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

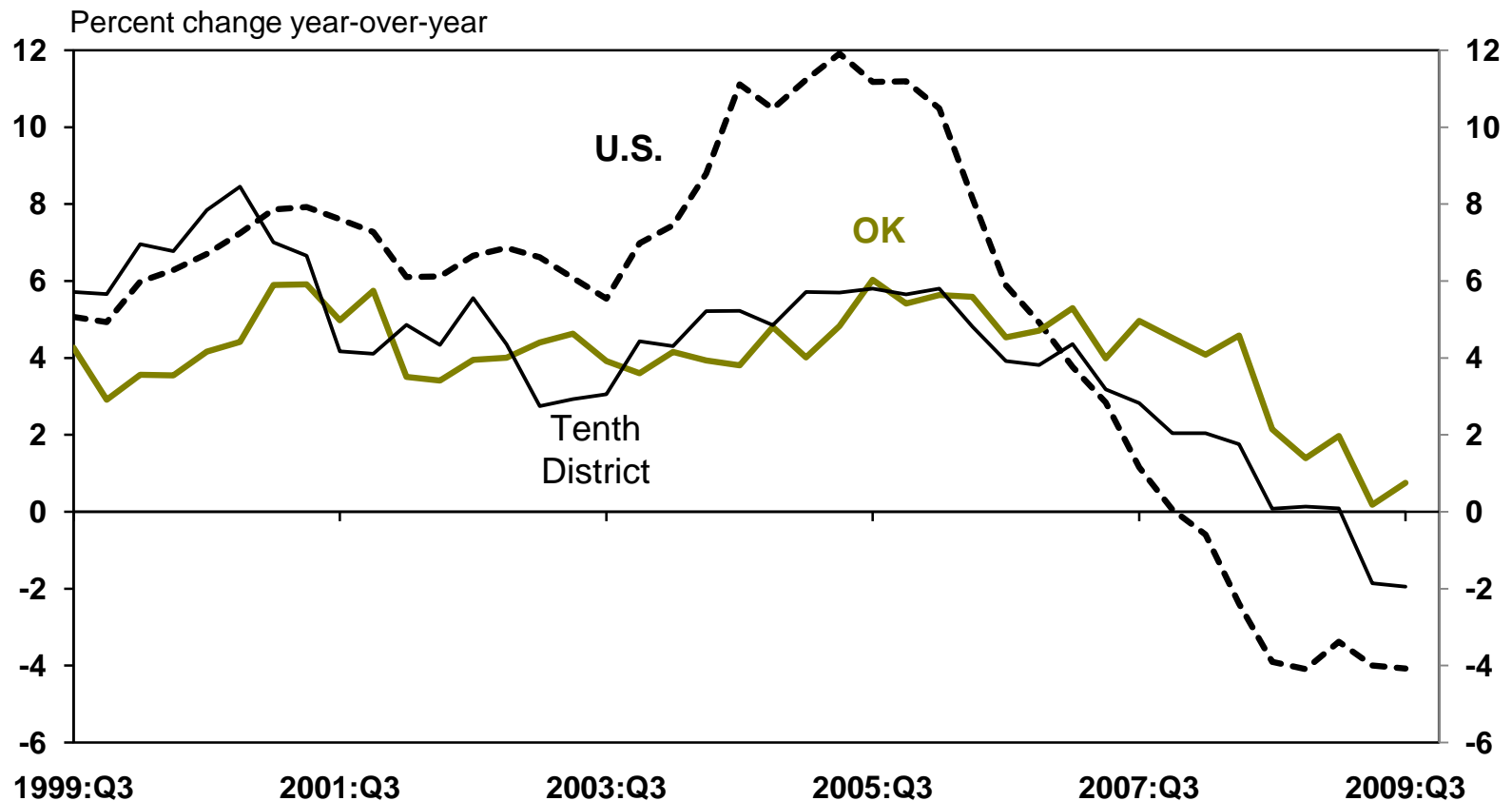
So unemployment in our region remains much lower than in the nation

Unemployment Rate, November 2009



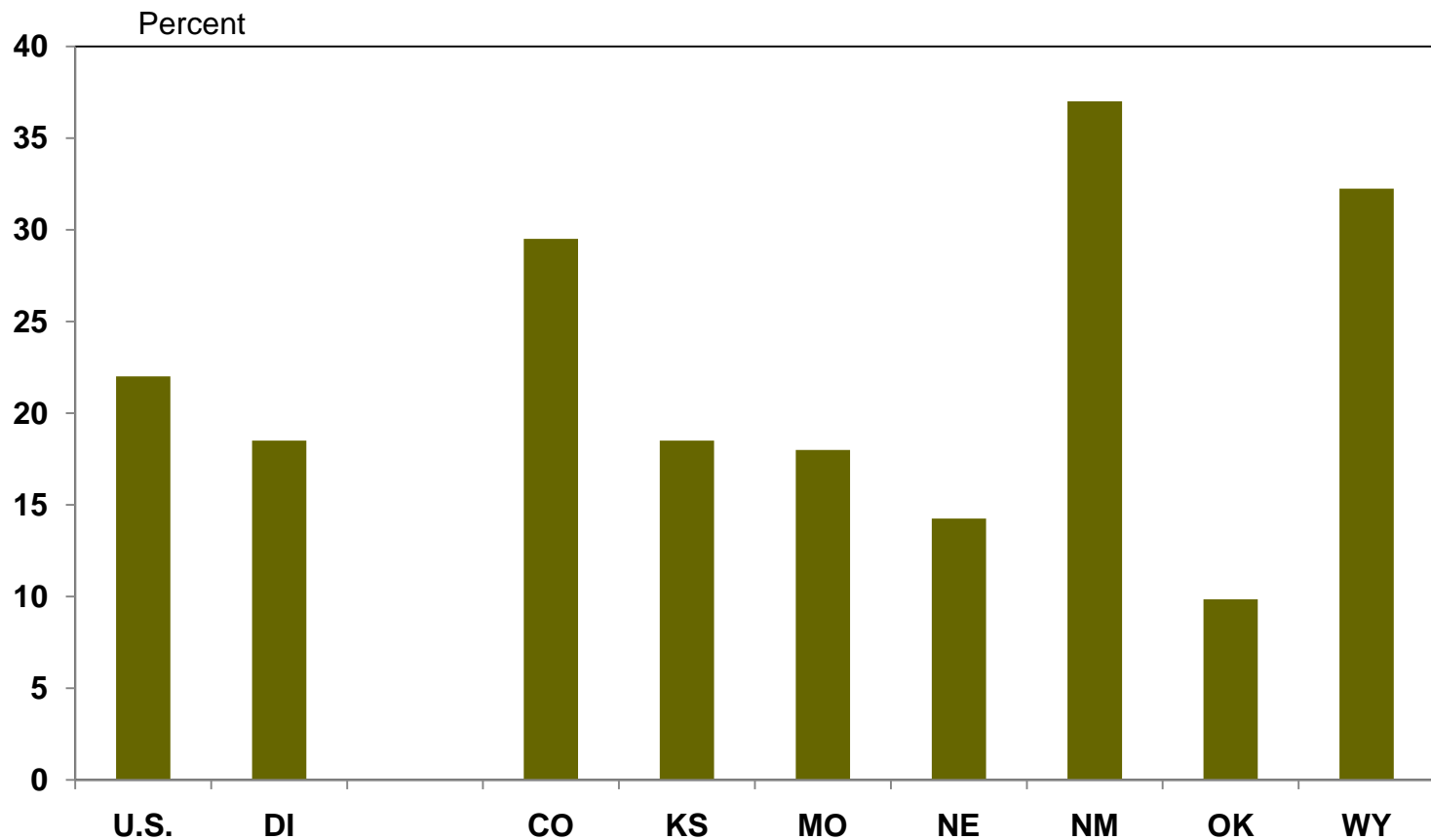
Home prices have held up better in our region, especially in Oklahoma, and are stabilizing

Quality-Adjusted Home Price Growth

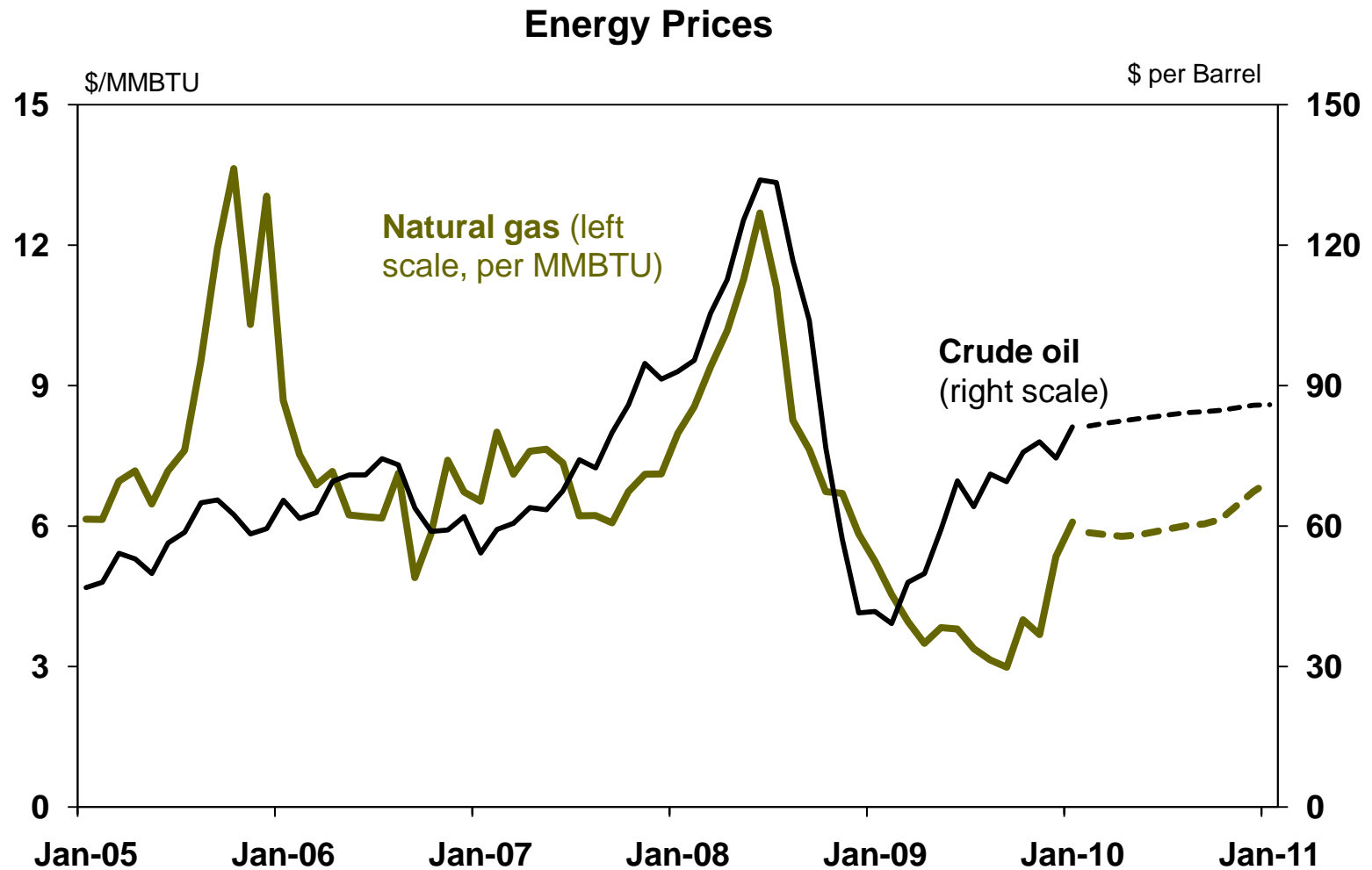


Banking problems are smaller in our region, especially in areas with stable home values

Percentage of Problem Banks



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



Summary

- The U.S. economy is growing again, aided by monetary and fiscal stimulus
- Regional and Oklahoma data also suggest early signs of a recovery
- But national and regional recovery is likely to be somewhat moderate