

The Economic Outlook for the U.S. and Oklahoma



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Overview of the Federal Reserve System

- **The “Fed” consists of three main entities:**
 - Board of Governors: 7 members appointed by U.S. President
 - Federal Reserve Banks: 12 total; semi-independent by design
 - Federal Open Market Committee: 19 members; 12 voting

- **As with most central banks, the Fed’s primary responsibilities fall within four general areas:**
 - Lender of last resort – provide liquidity in times of crisis
 - Monetary policy – promote full employment and low inflation
 - Bank regulation – ensure safety and soundness of banks
 - Financial services – bank for banks, bank for federal govt.



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

- **2011 branch board of directors**

- **Steve Agee (chairman)**, Dean, Oklahoma City Univ. Business School, 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



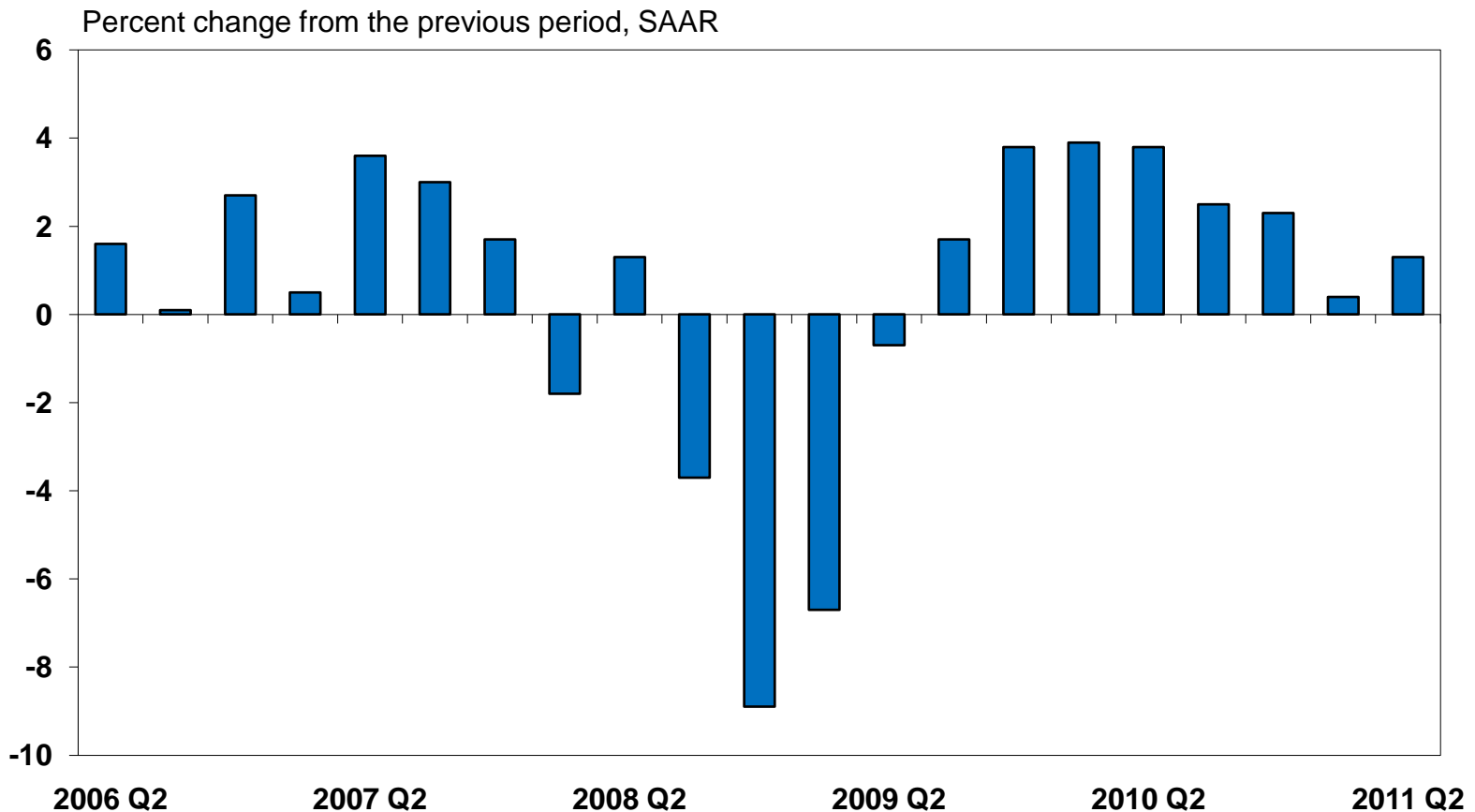
The U.S. Economy

- Review of 2011 economic data
- Discussion of recent events
- Inflation trends and risks



Real GDP growth has slowed in 2011, following solid growth in 2010

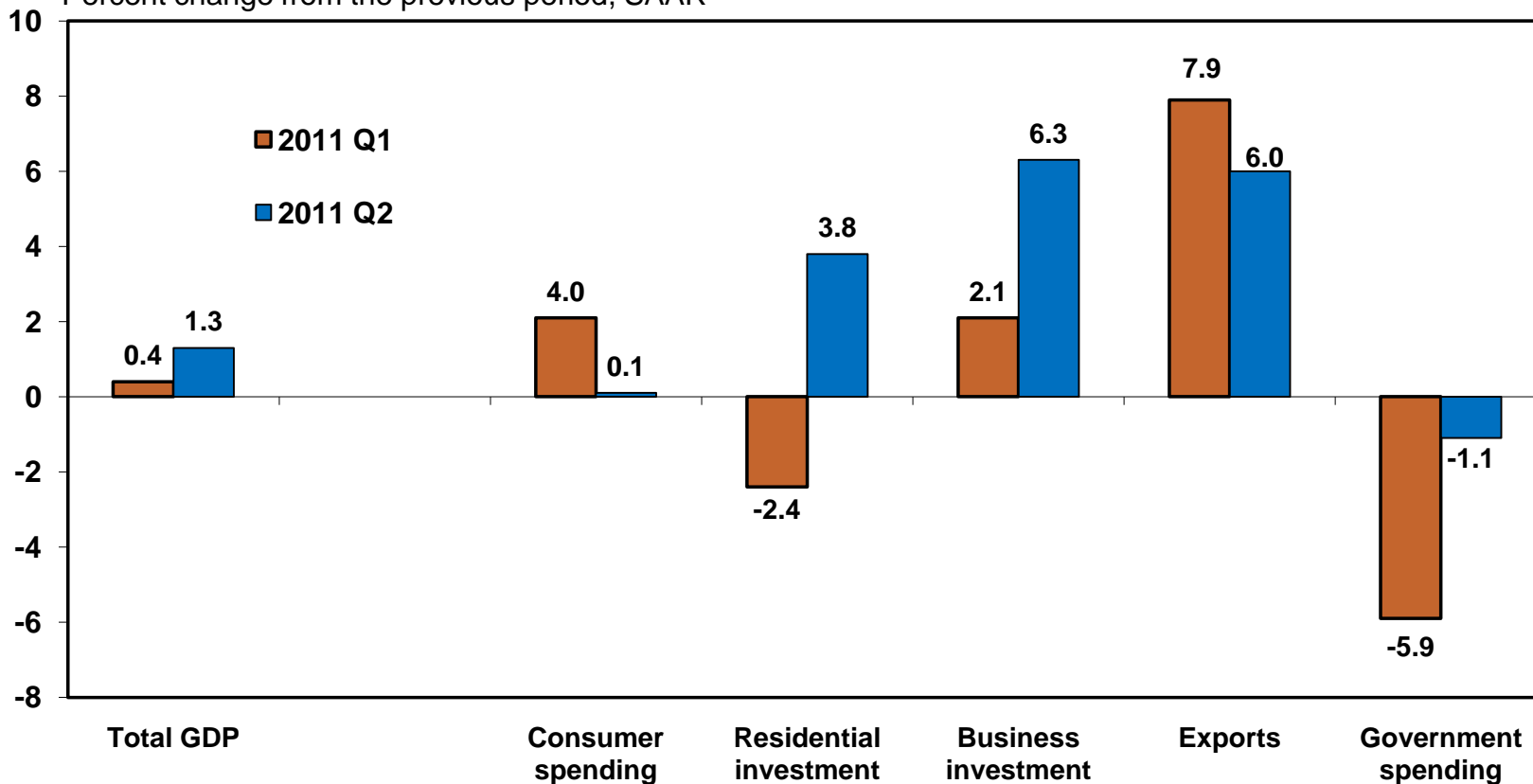
U.S. Real Gross Domestic Product



Consumer and government spending were particularly weak in Q2

Growth in Components of Real GDP

Percent change from the previous period, SAAR



Detailed GDP components reveal some interesting trends in the first half of 2011

Real GDP components that have grown 5% or more in 2011 (annualized)

1	Transportation equipment produced (autos, aircraft, etc.)	27.2%
2	Mining exploration, shafts, and well structures built	20.4
3	Recreational goods and vehicles purchased (TVs, guns, RVs, etc.)	11.9
4	Other durable goods purchased (jewelry, luggage, books, etc.)	7.1
5	Information processing equipment and software produced	5.7

Real GDP components that have declined 5% or more in 2011 (annualized)

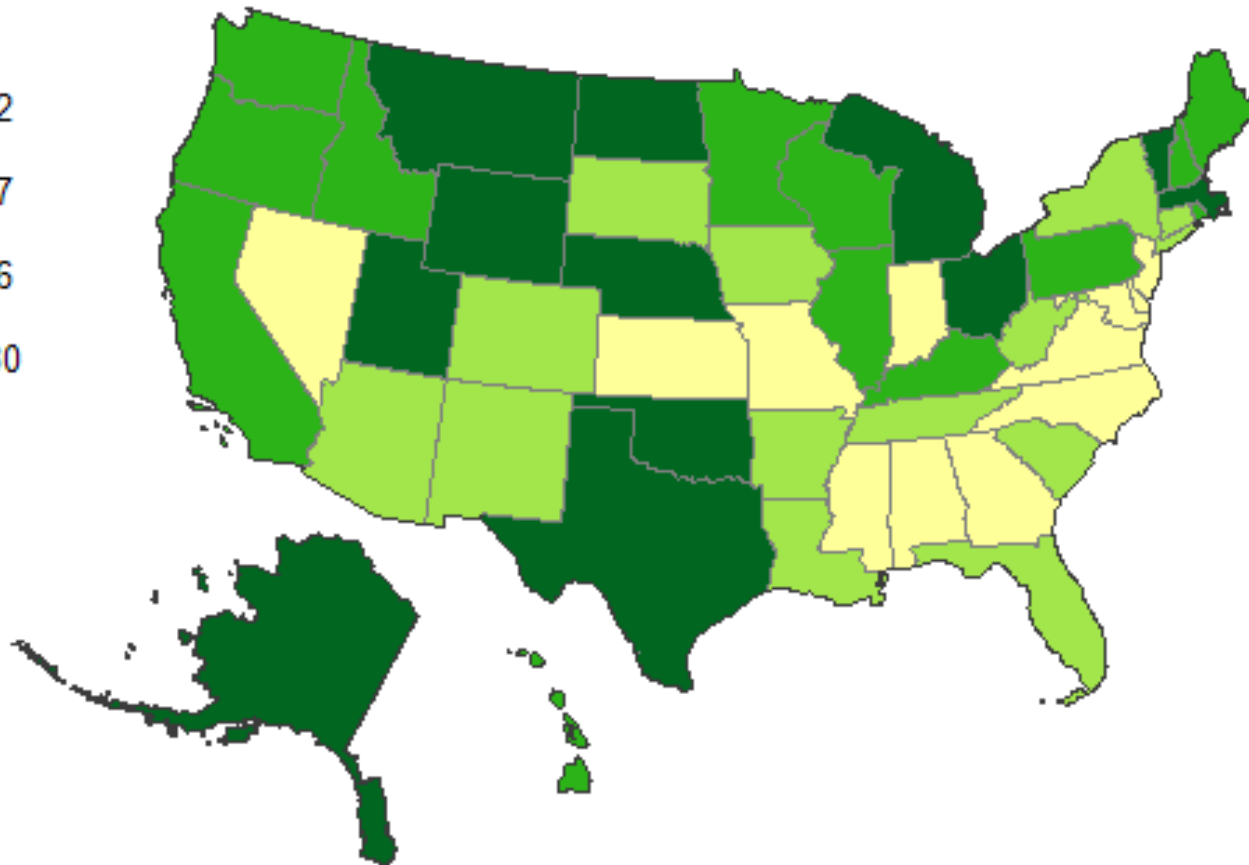
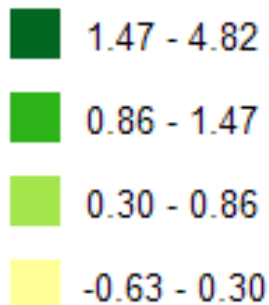
1	Power and communication structures built	-19.6%
2	Other structures built (schools, churches, hotels, etc.)	-11.8
3	Commercial and health care structures built	-11.0
4	Gasoline and other energy goods purchased	-6.3
5	Manufacturing structures built	-6.0
6	Motor vehicles and parts purchased	-5.3
7	Nondefense federal government expenditures	-5.1



States concentrated in energy, autos, and software have generally performed best

Employment Growth, Year-over-Year (percent)
June 2011

Scale

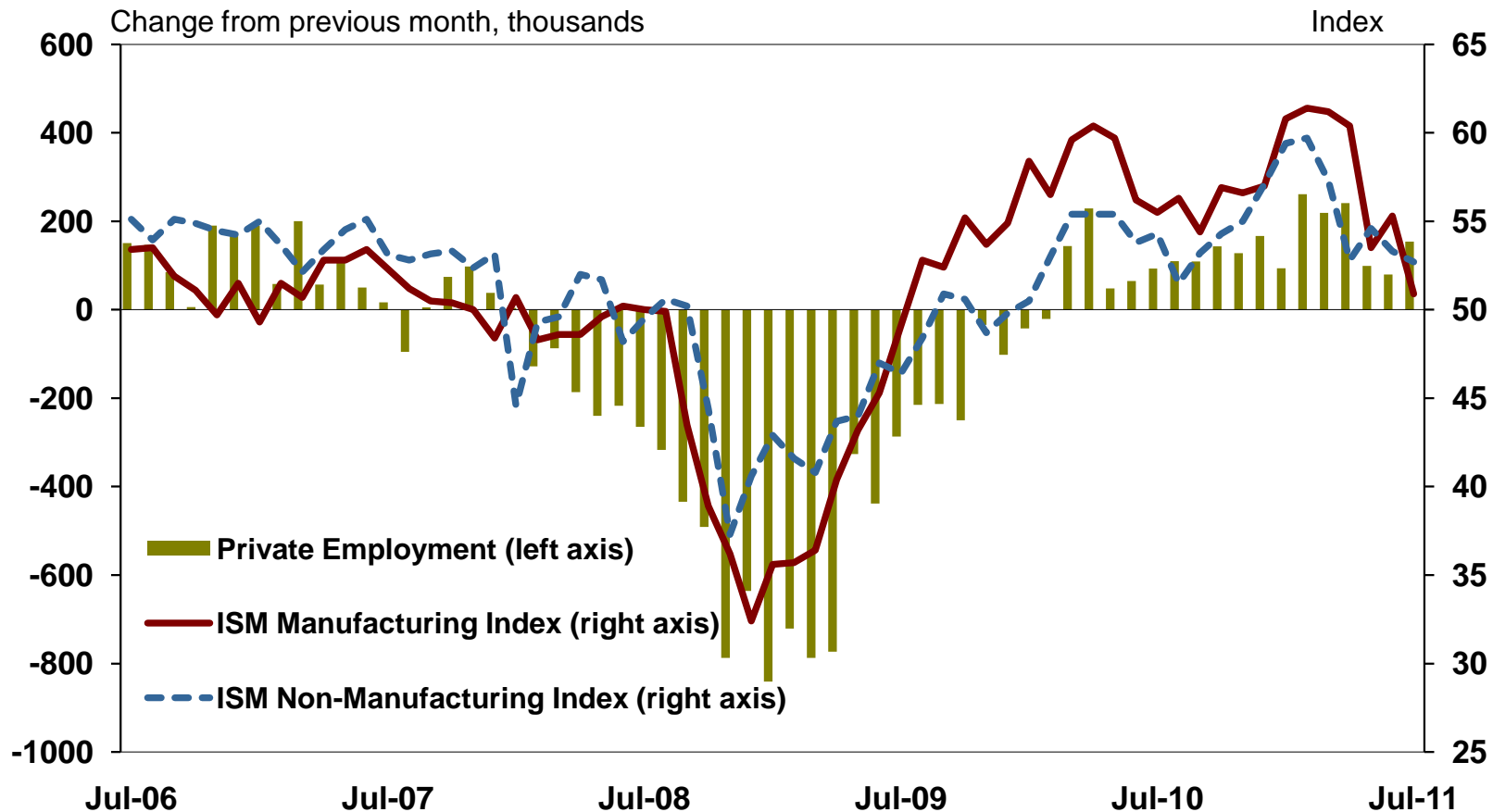


Source: U.S. Bureau of Labor Statistics



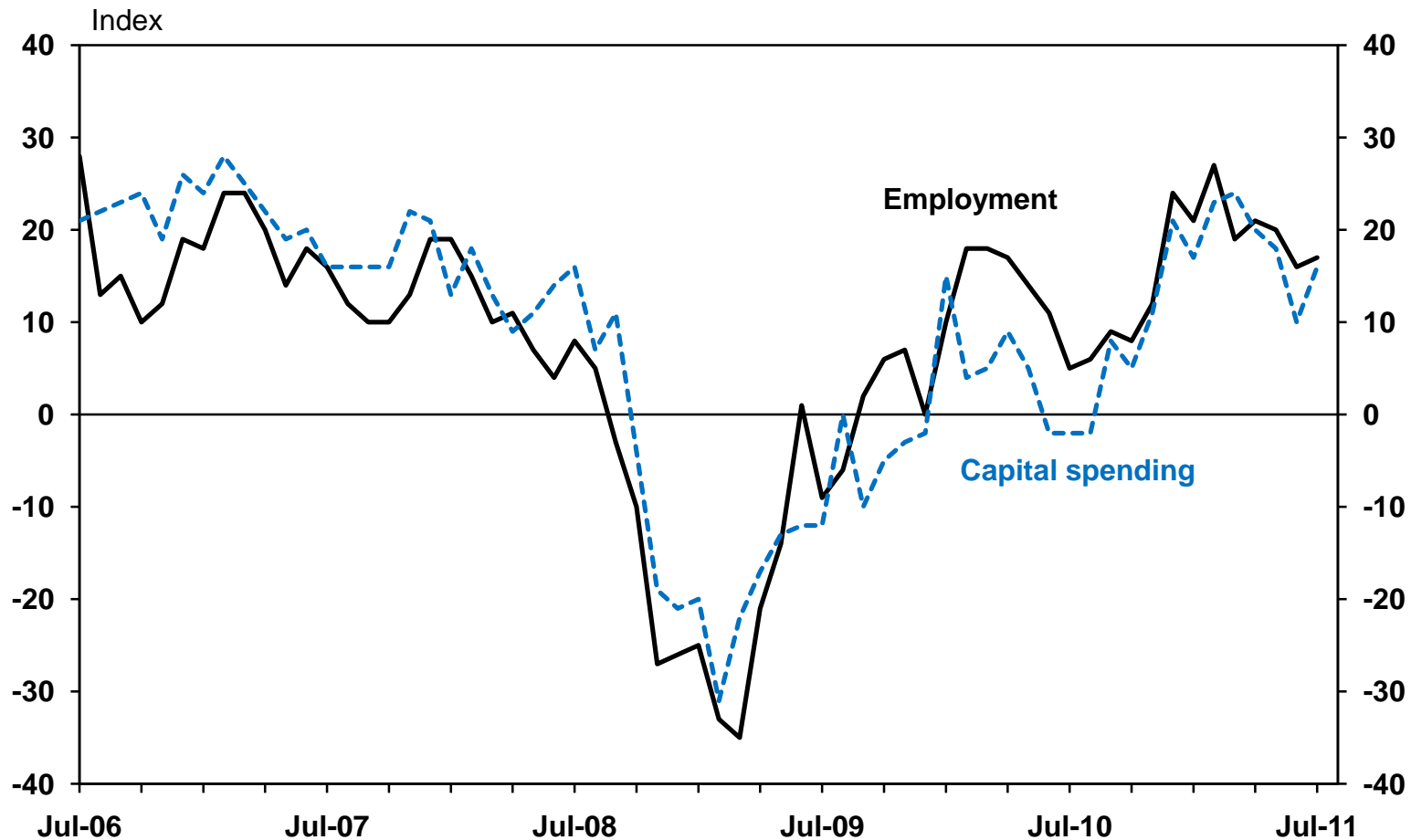
July data have been mixed but indicative of modest overall U.S. economic growth

U.S. Private Payroll Employment and Business Indexes



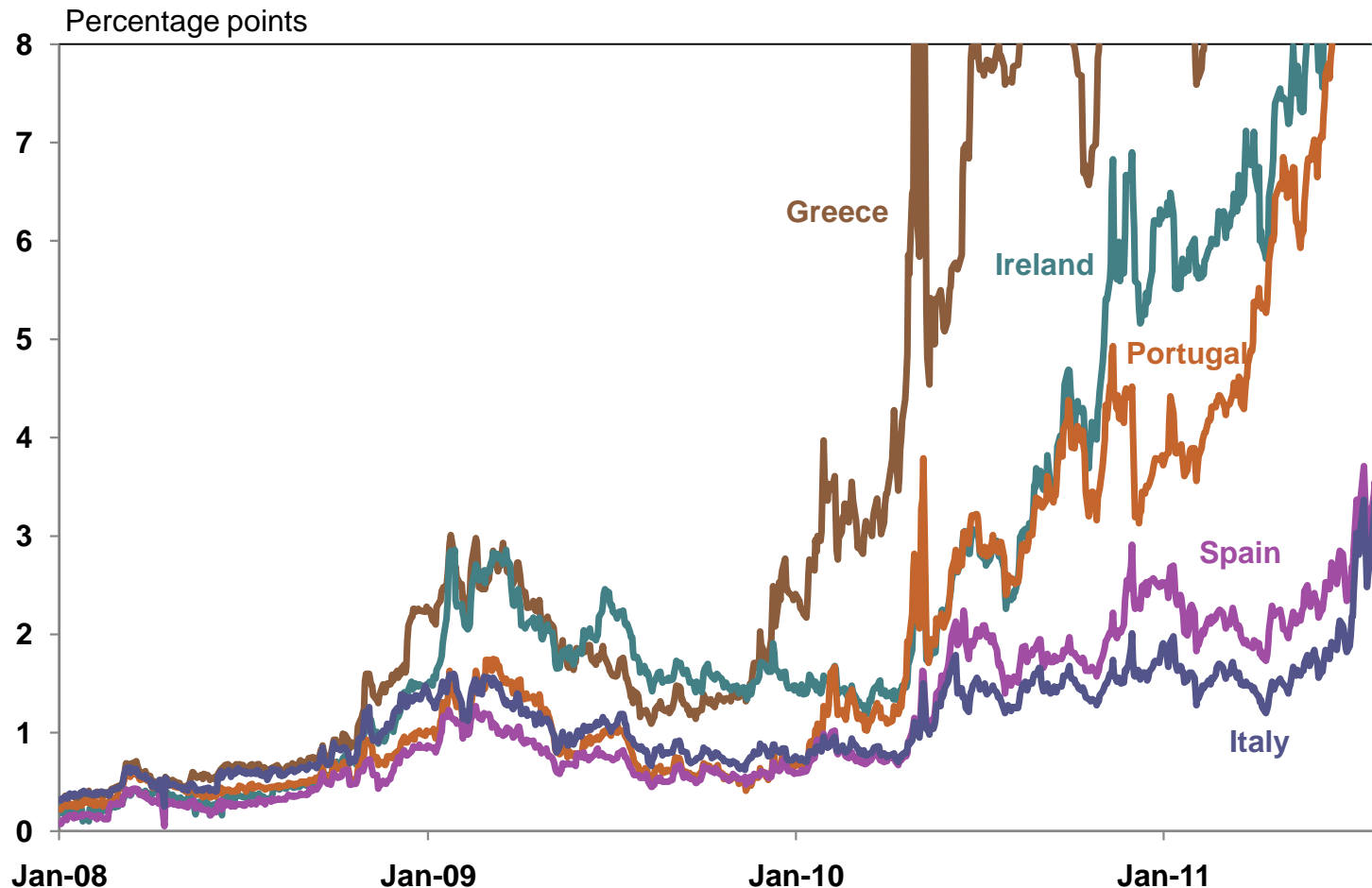
Firms' hiring and investment plans remained relatively solid through late July

Tenth District Manufacturing Survey Expectations
Net Share of Firms Planning to Expand in Next 6 Months



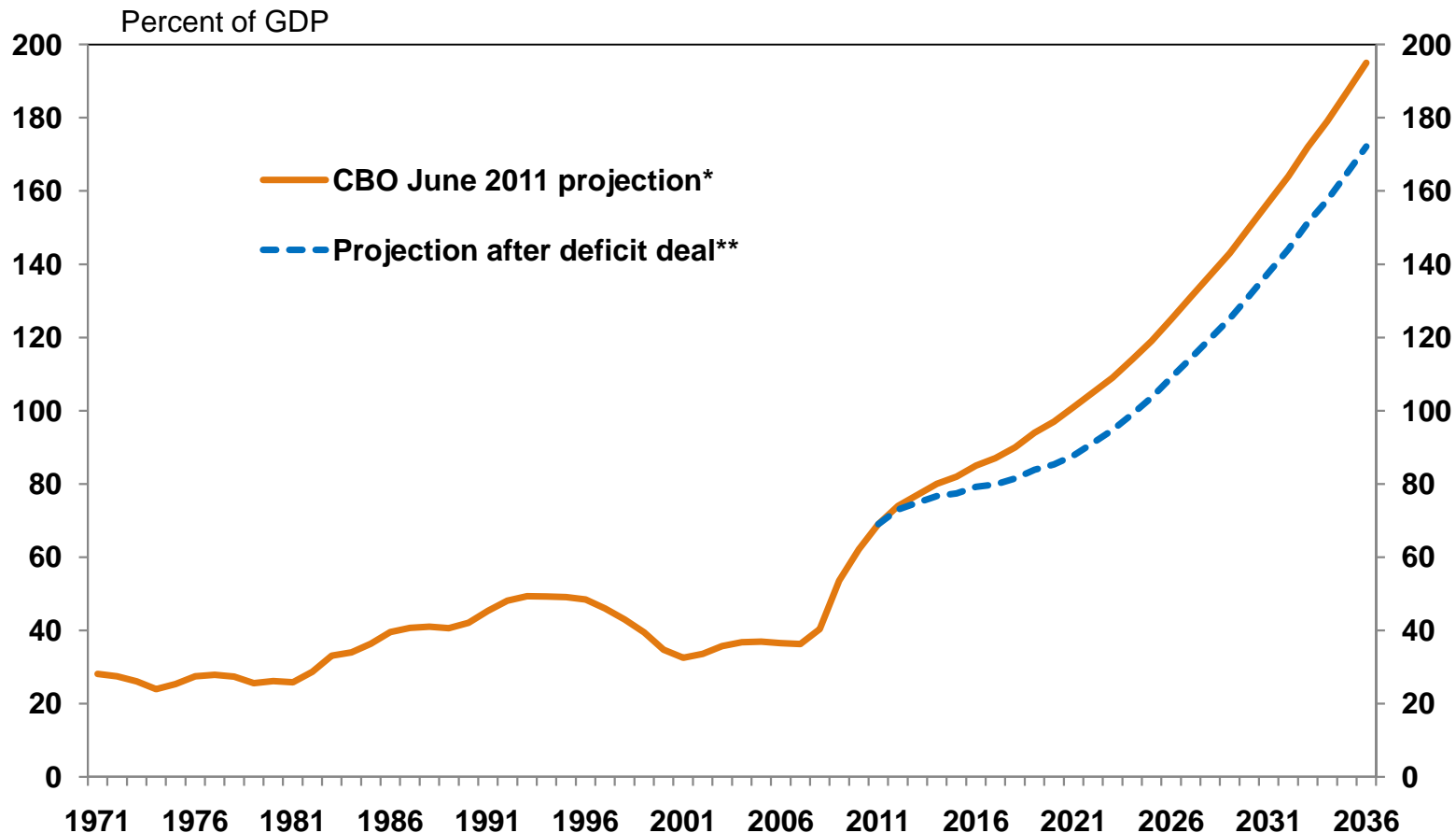
But Europe's sovereign debt crisis has spread, prompting the ECB to respond

Spreads to German Bunds (10-yr)



And U.S. government debt projections are still unsustainable, prompting a downgrade

CBO Federal Government Debt and Projections



* Alternative scenario

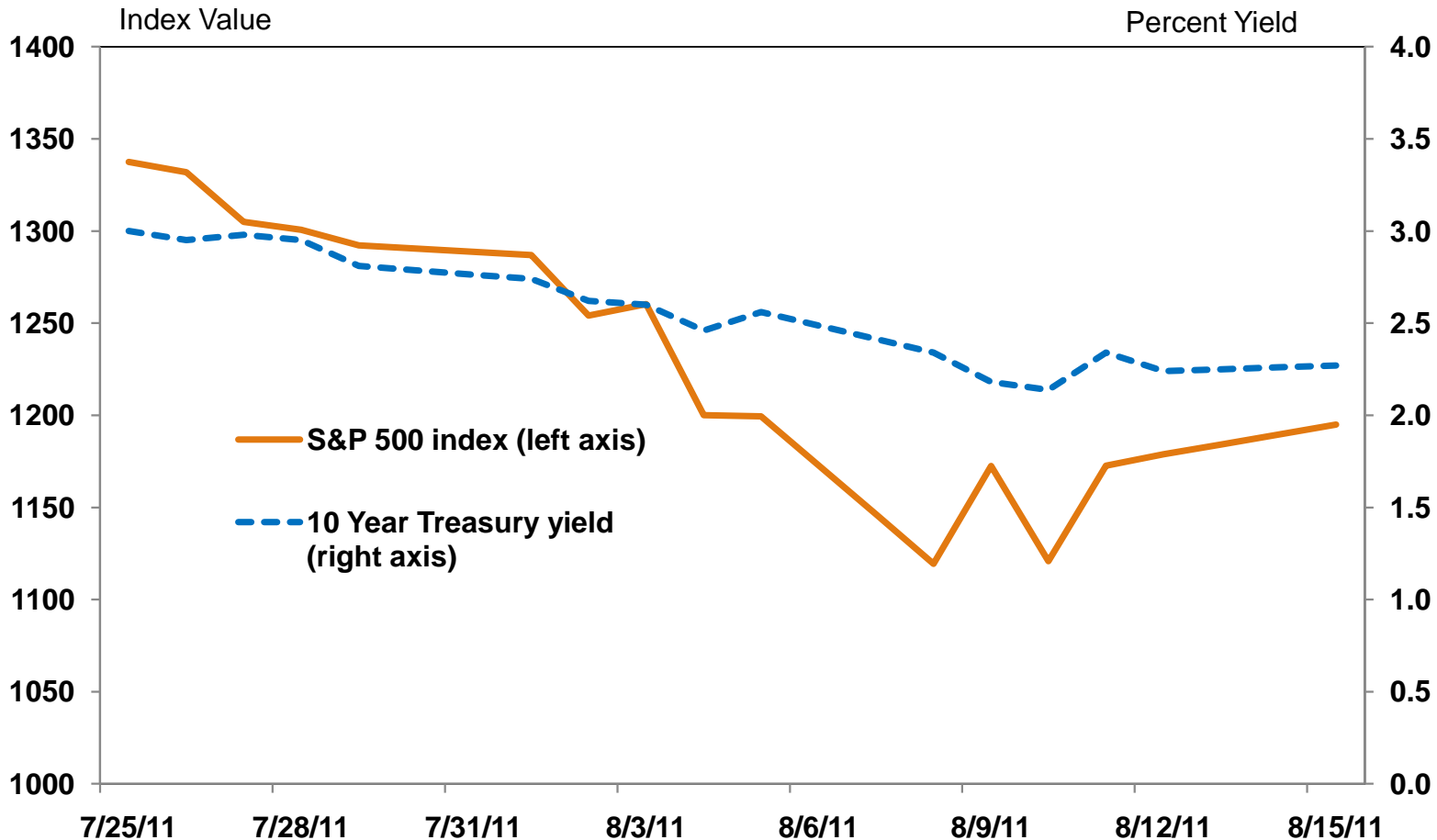
** FRBKC calculations based on limited information

Source: CBO



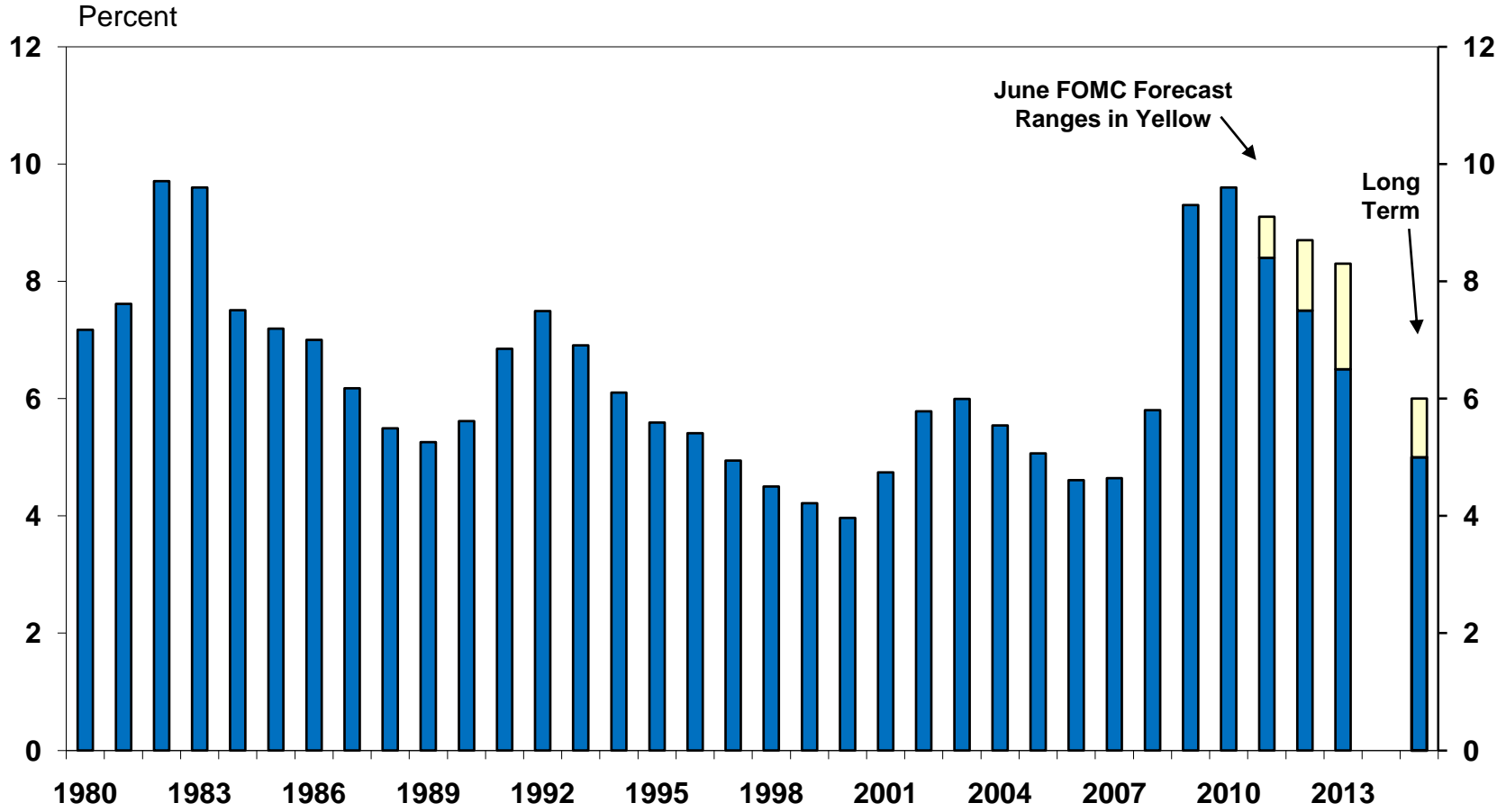
Yet Treasury yields have continued to drift lower, while stock prices have tanked

S&P 500 Index vs. 10 Year Treasury Yield



At its June meeting the FOMC forecast U.S. unemployment to come down only slowly

Unemployment Rate
Seasonally Adjusted

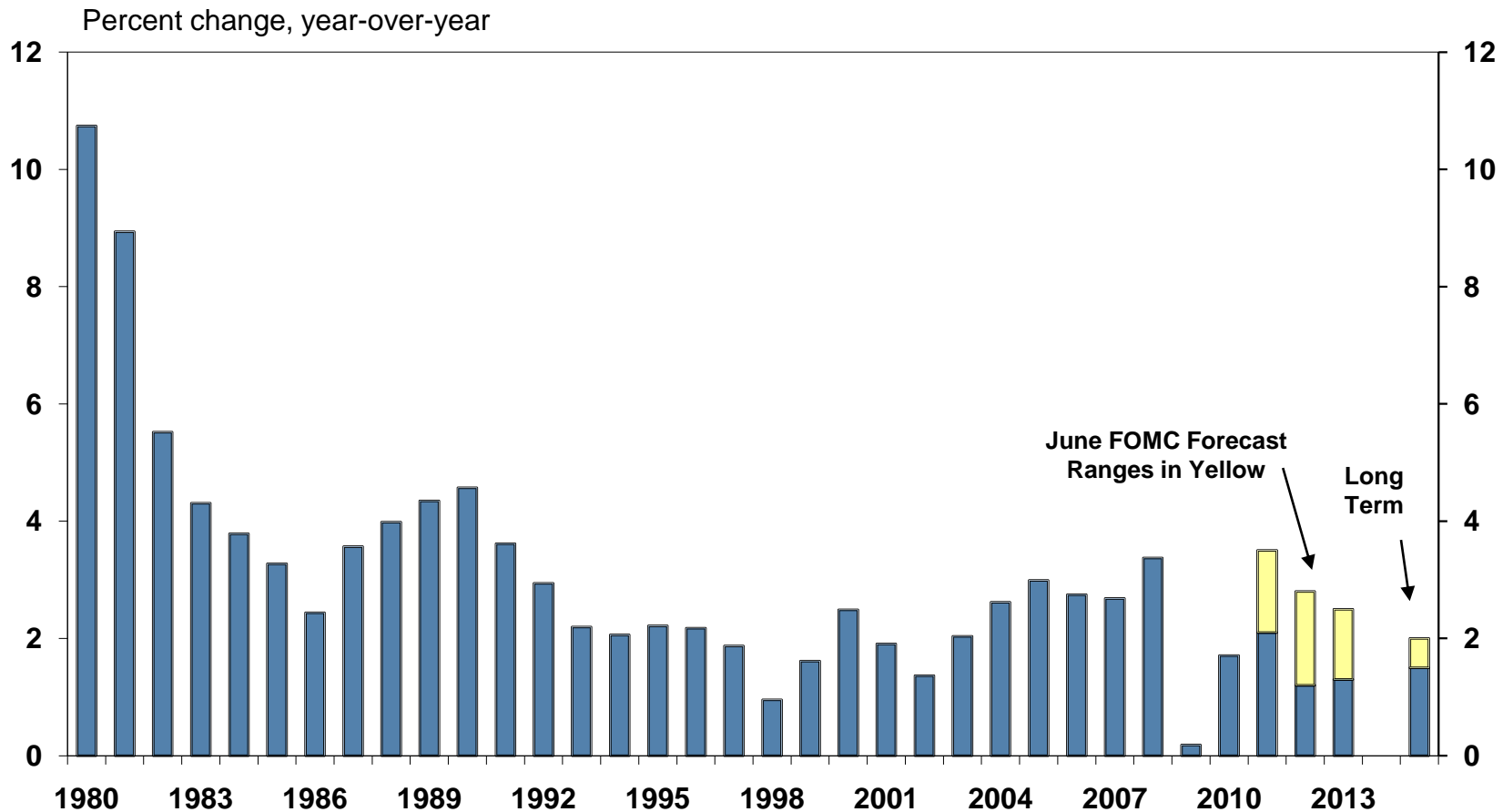


Source: U.S. Bureau of Labor Statistics, FOMC



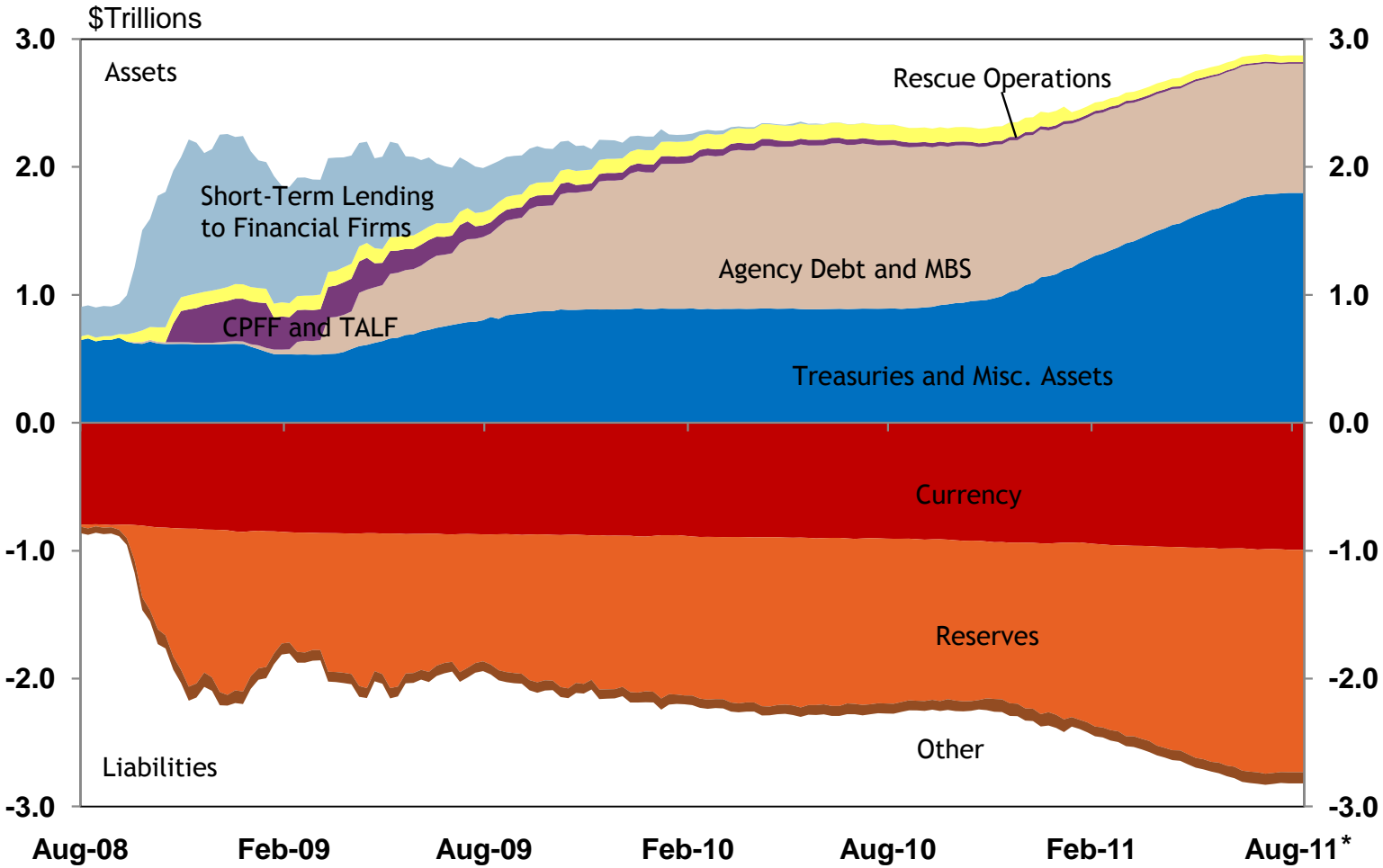
And for inflation pressures to ease after rising with oil and food prices

PCE Inflation Index



The Fed's balance sheet has tripled in size, and the federal funds rate is near zero

Federal Reserve Balance Sheet



*Only contains one week of data

Source: Federal Reserve Board



August 9, 2011 FOMC Statement

“The Committee now expects a somewhat slower pace of recovery over coming quarters than it did at the time of the previous meeting and anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Moreover, downside risks to the economic outlook have increased. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate further.”

“The Committee currently anticipates that economic conditions — including low rates of resource utilization and a subdued outlook for inflation over the medium run — are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013. The Committee also will maintain its existing policy of reinvesting principal payments from its securities holdings.”



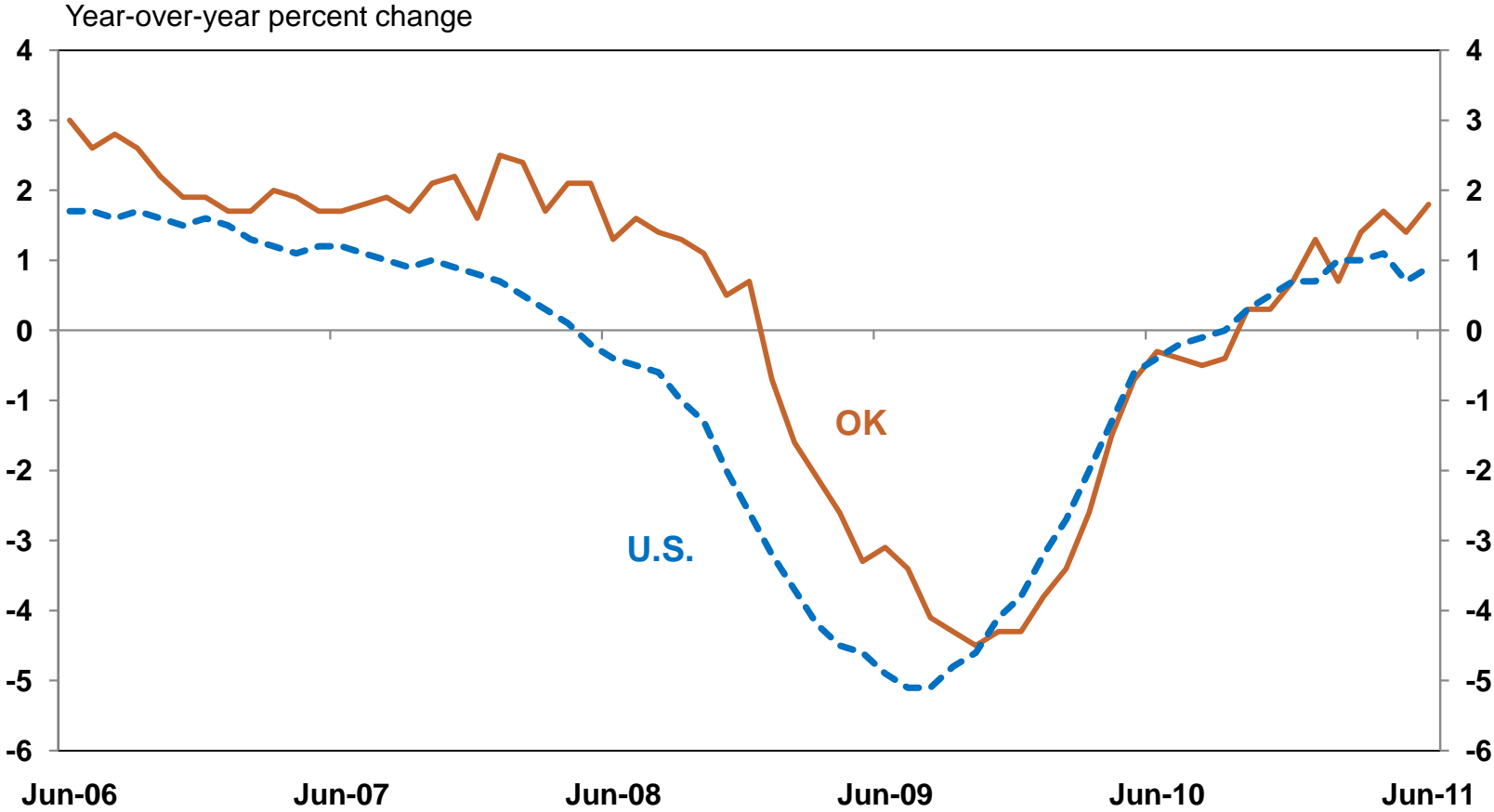
The Oklahoma Economy

- Review of recent economic data
- A closer look at labor markets
- Trends in energy prices



Oklahoma had a much milder recession, and has been outpacing the nation recently

Payroll Employment

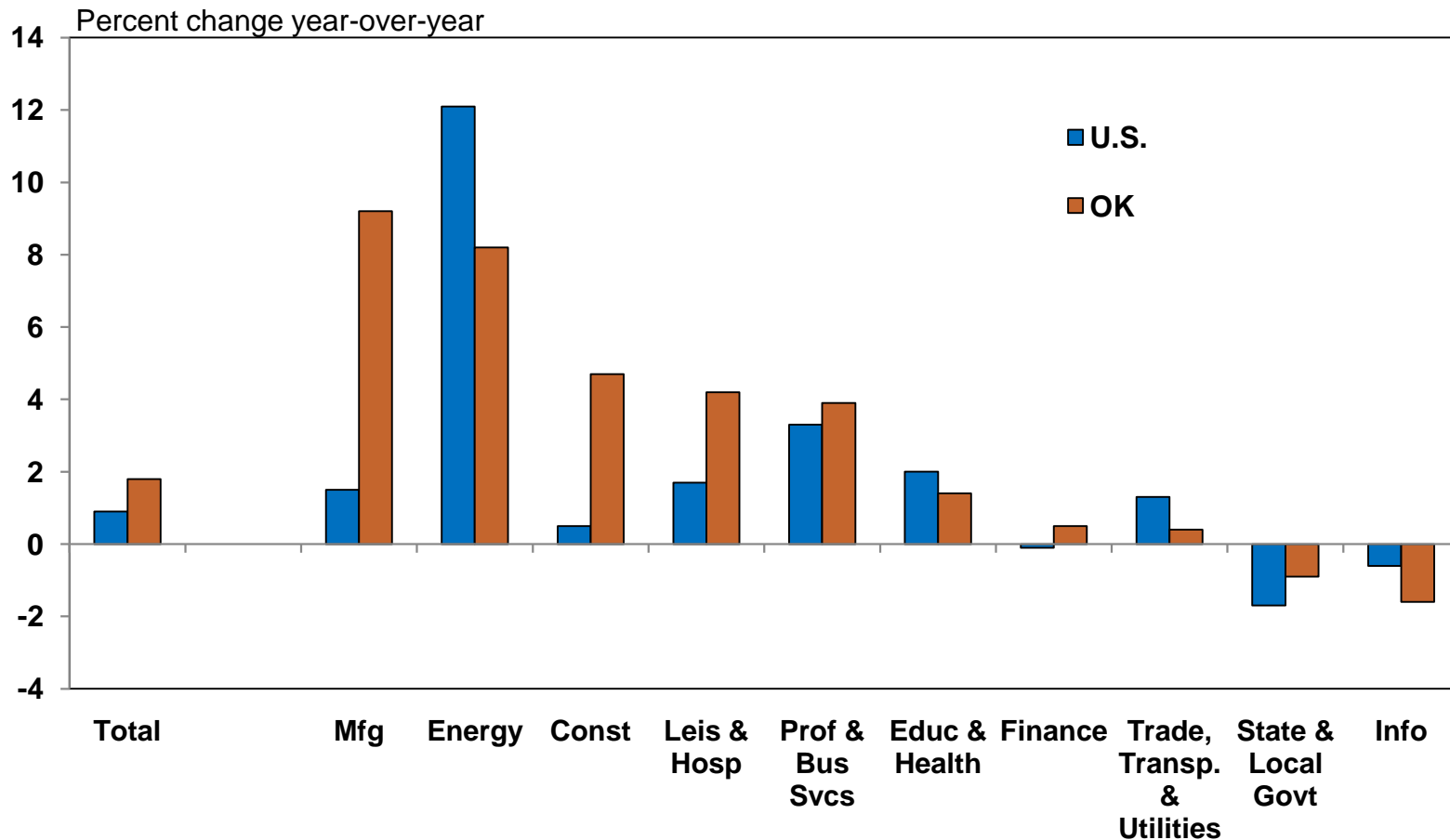


Source: U.S. Bureau of Labor Statistics



Most Oklahoma sectors have grown solidly in 2011, but two continue to shed jobs

Employment Growth June 2011

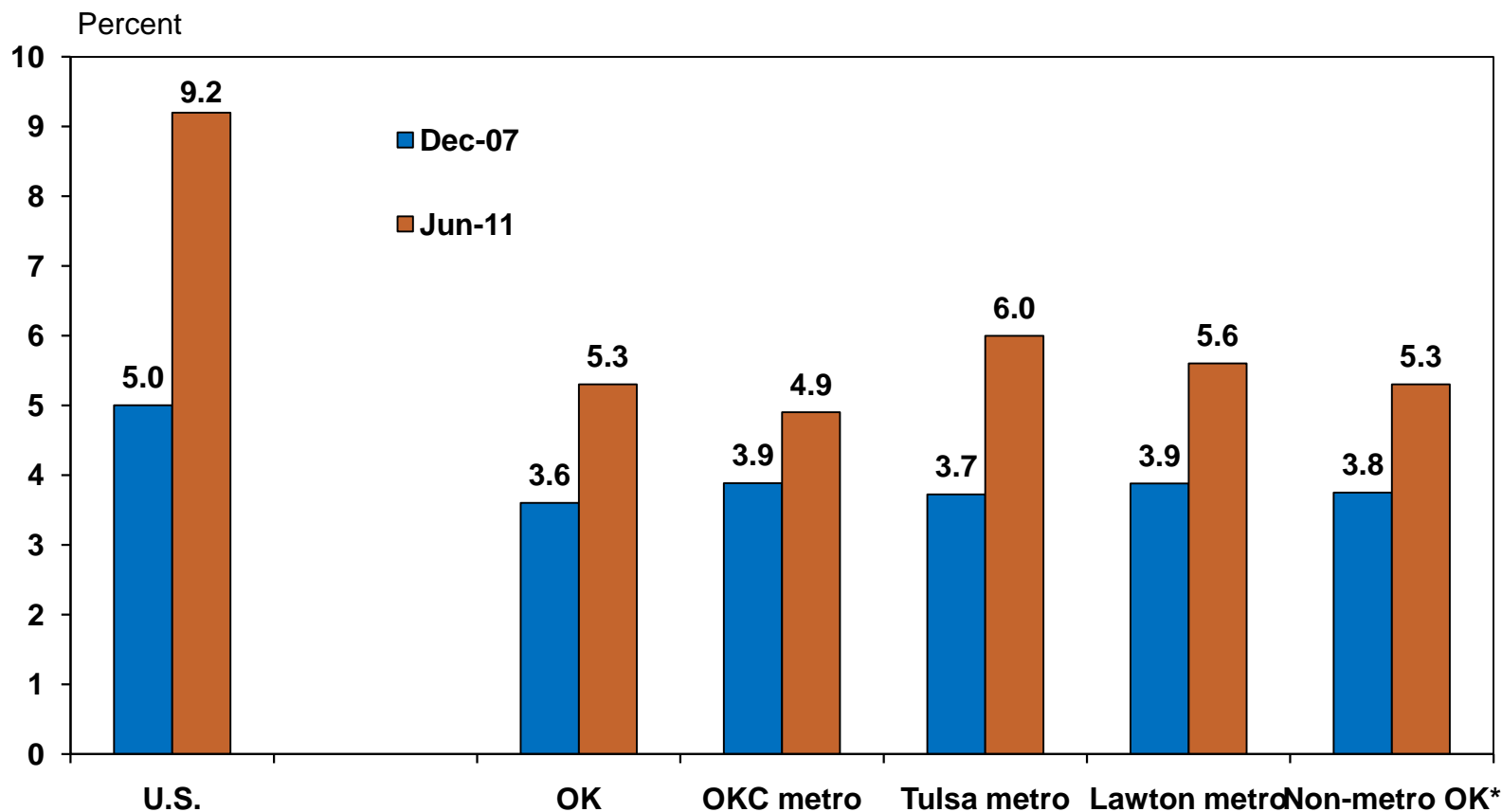


Source: Bureau of Labor Statistics



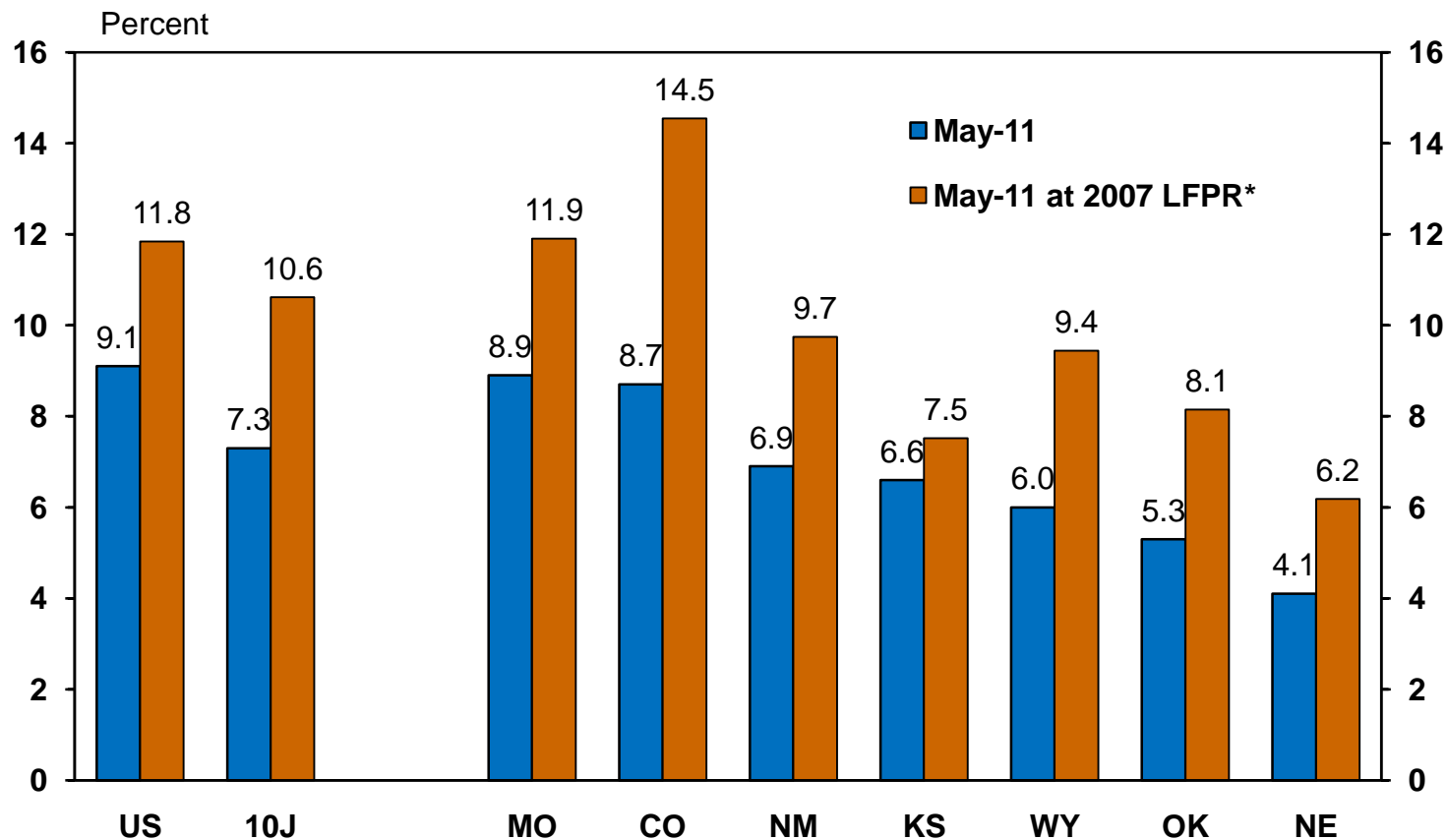
Unemployment in much of the state is at what is often considered “full employment”

Unemployment Rate Seasonally Adjusted*



However, labor markets may not be overly tight due to labor force dropouts

Unemployment Rate by State
Seasonally Adjusted

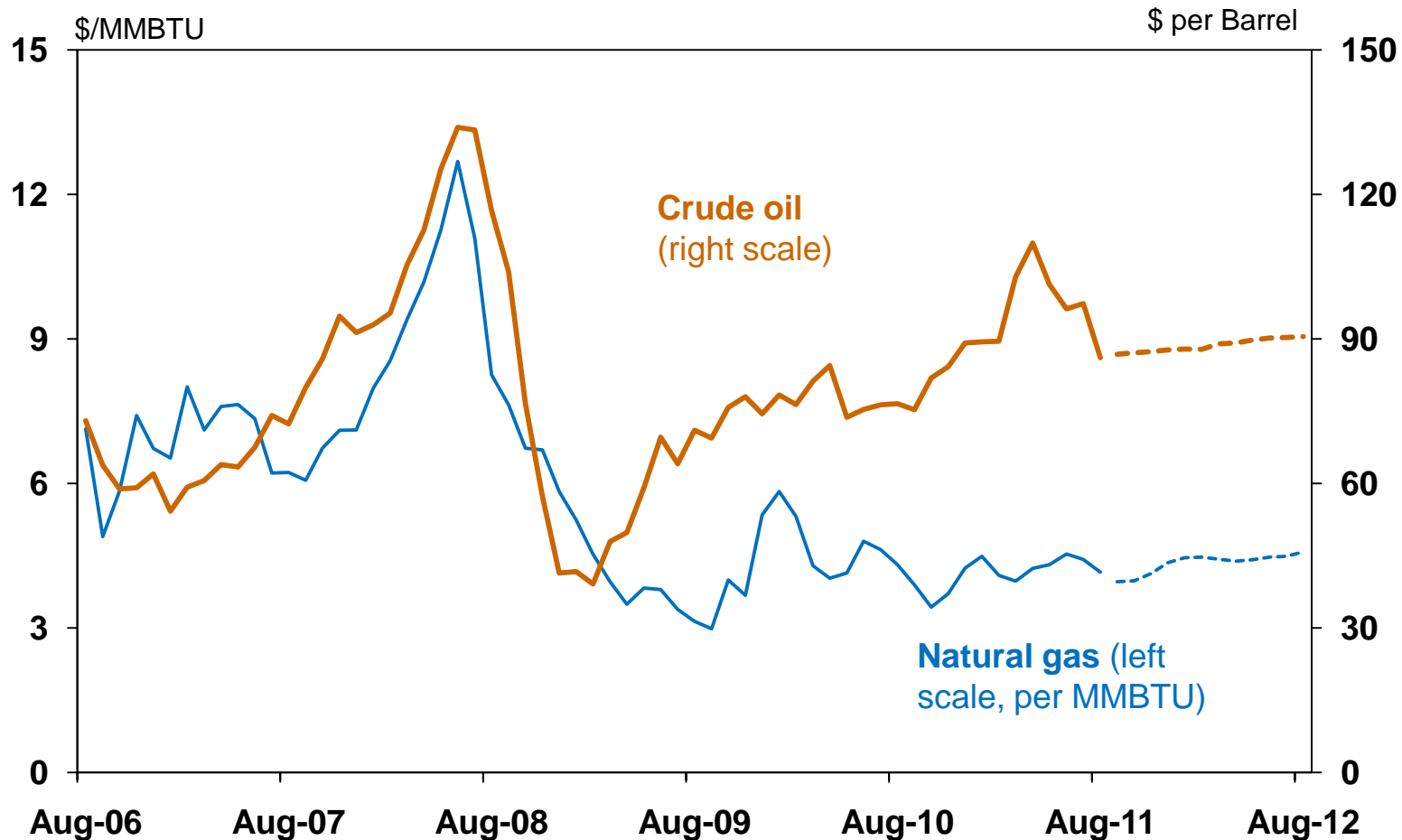


*LFPR= Labor Force Participation Rate



As always, energy prices are Oklahoma's biggest risk relative to nation

Energy Prices



Source: Bloomberg



Summary

- The U.S. economy is facing some headwinds following only modest expansion in the first half of 2011
- Oklahoma's growth has been more solid, and fundamentals remain better in the state than the nation

