

Recession and Recovery in the U.S. and Oklahoma



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 – 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**

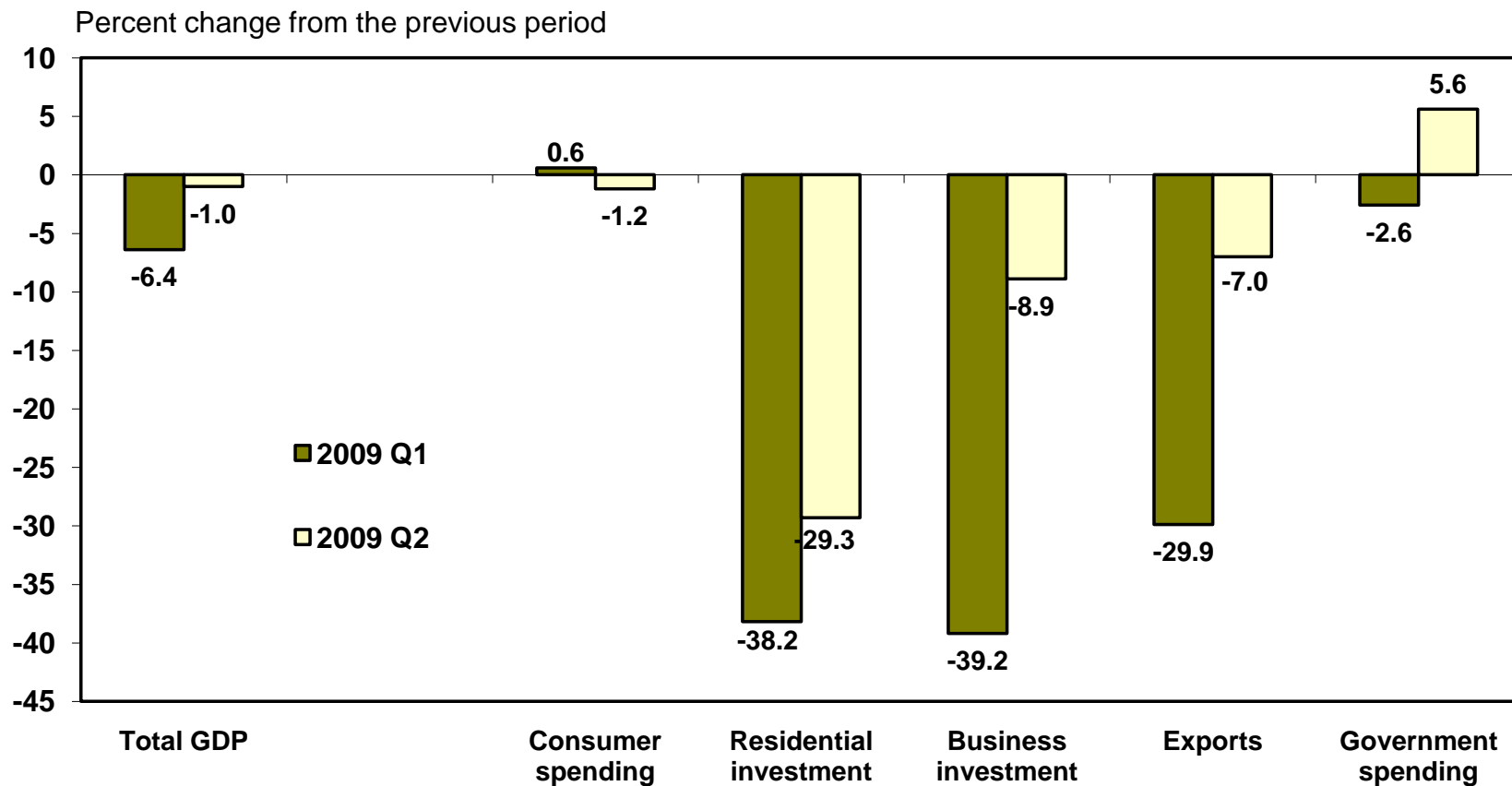
- *Chairman* **Steve Agee**, President, Agee Energy, and Professor, OCU, OKC
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
- **Jacque Fiegel**, Senior EVP & COO, Coppermark Bank, OKC
- **Fred Ramos**, COO, Latino Community Development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

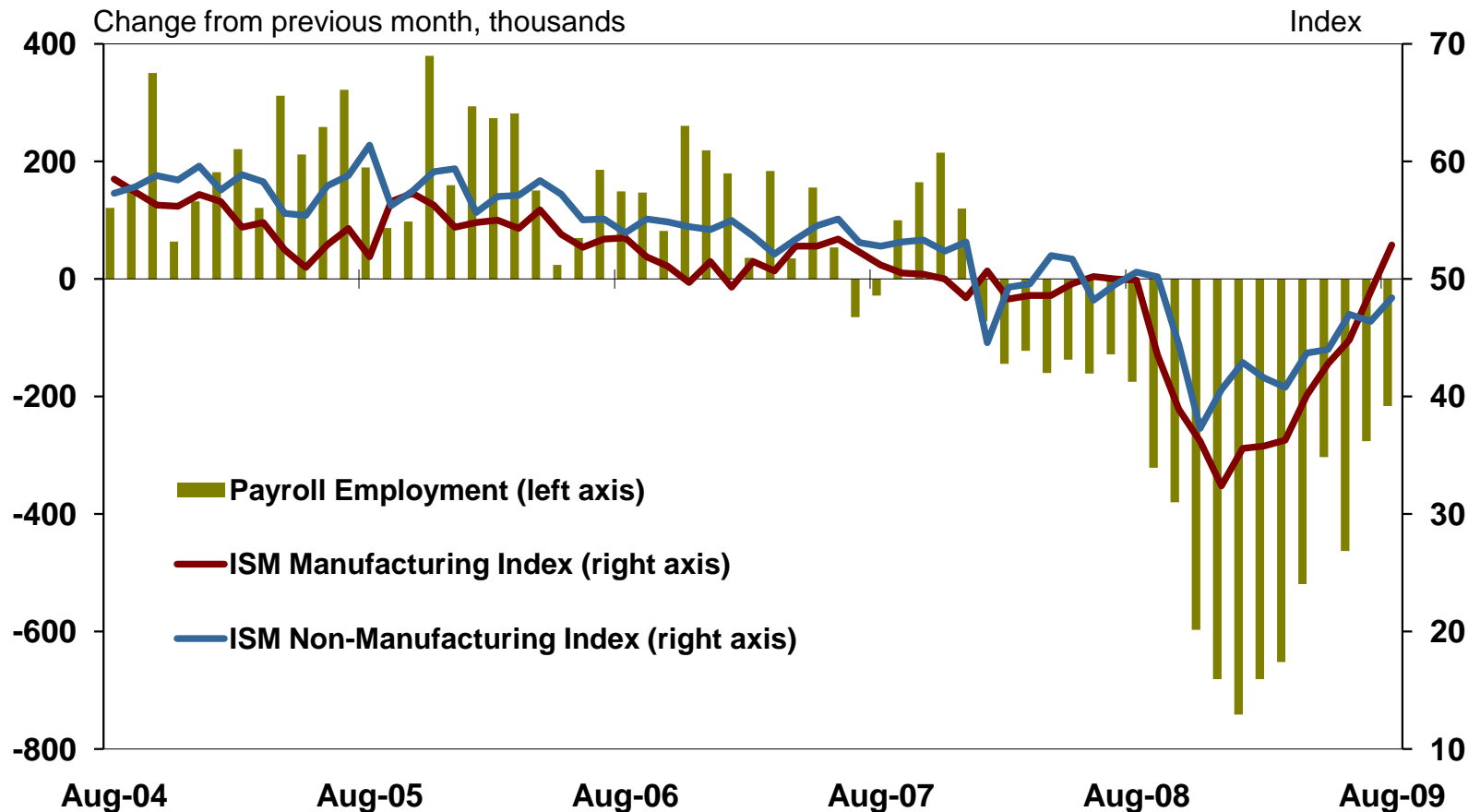
Second quarter growth was much less negative, boosted by government spending

Growth in Components of GDP



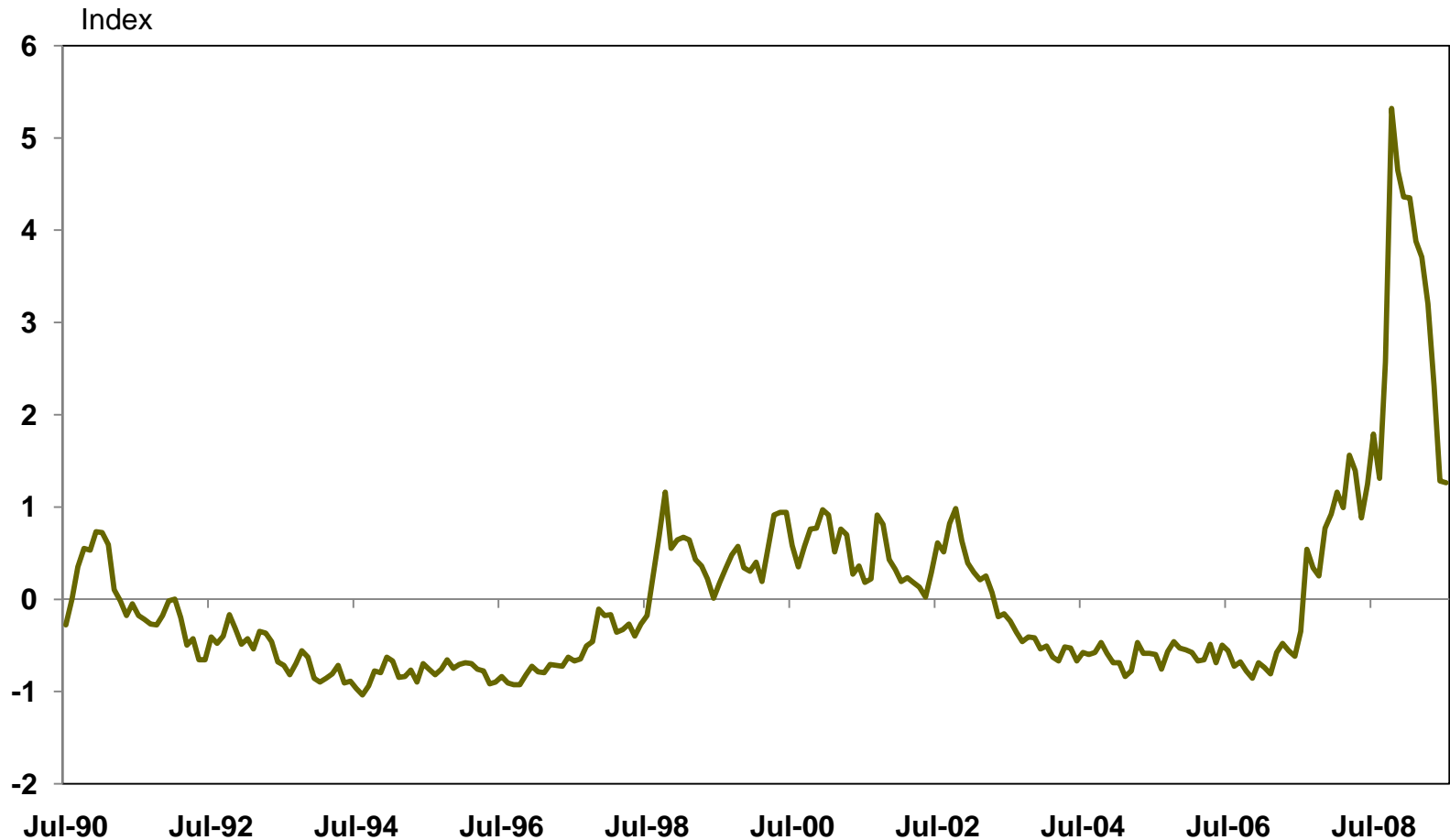
Signs of stabilization have emerged in the third quarter

National Business Indexes and Payroll Employment



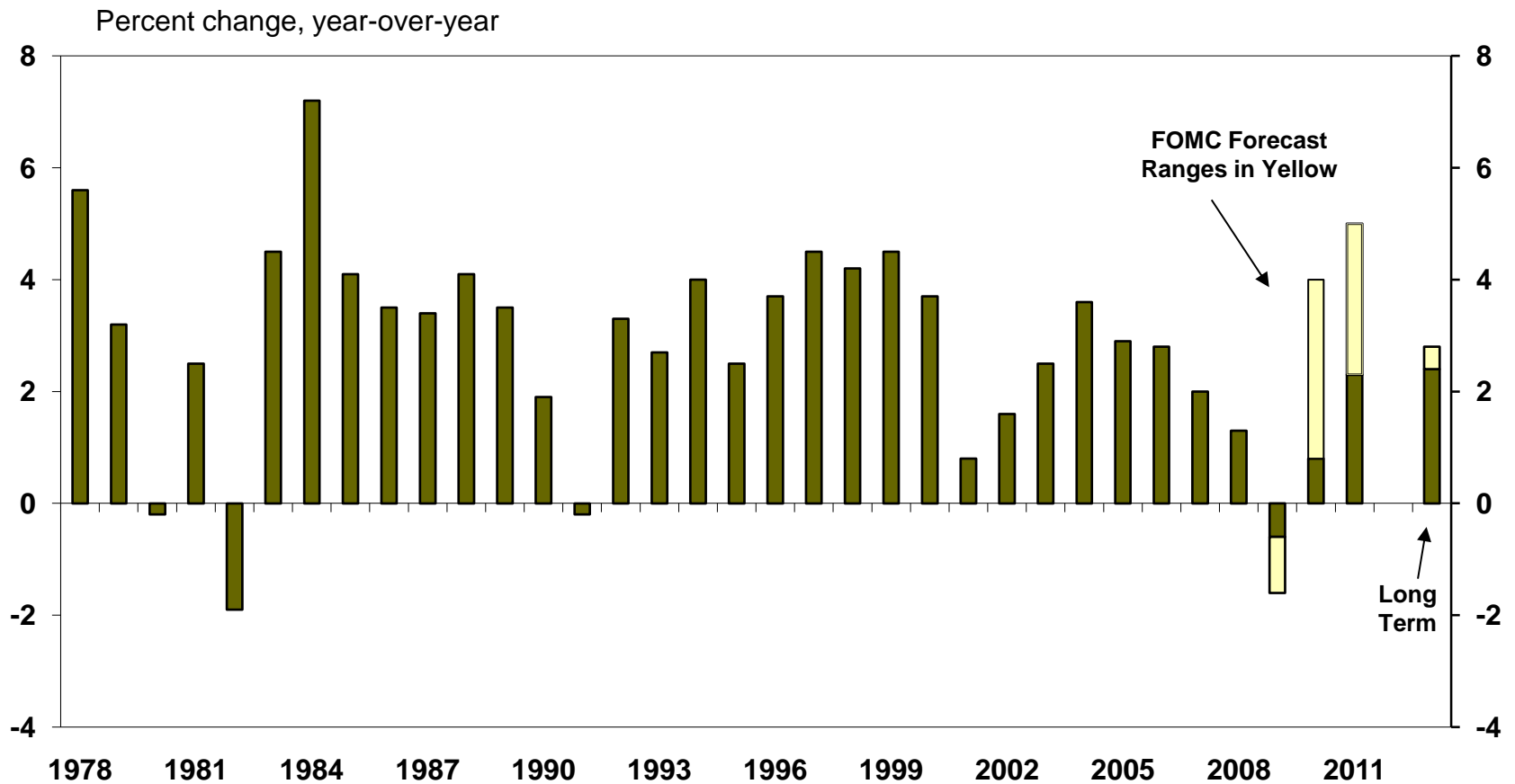
Credit market conditions have also improved but remain somewhat strained

Kansas City Financial Stress Index



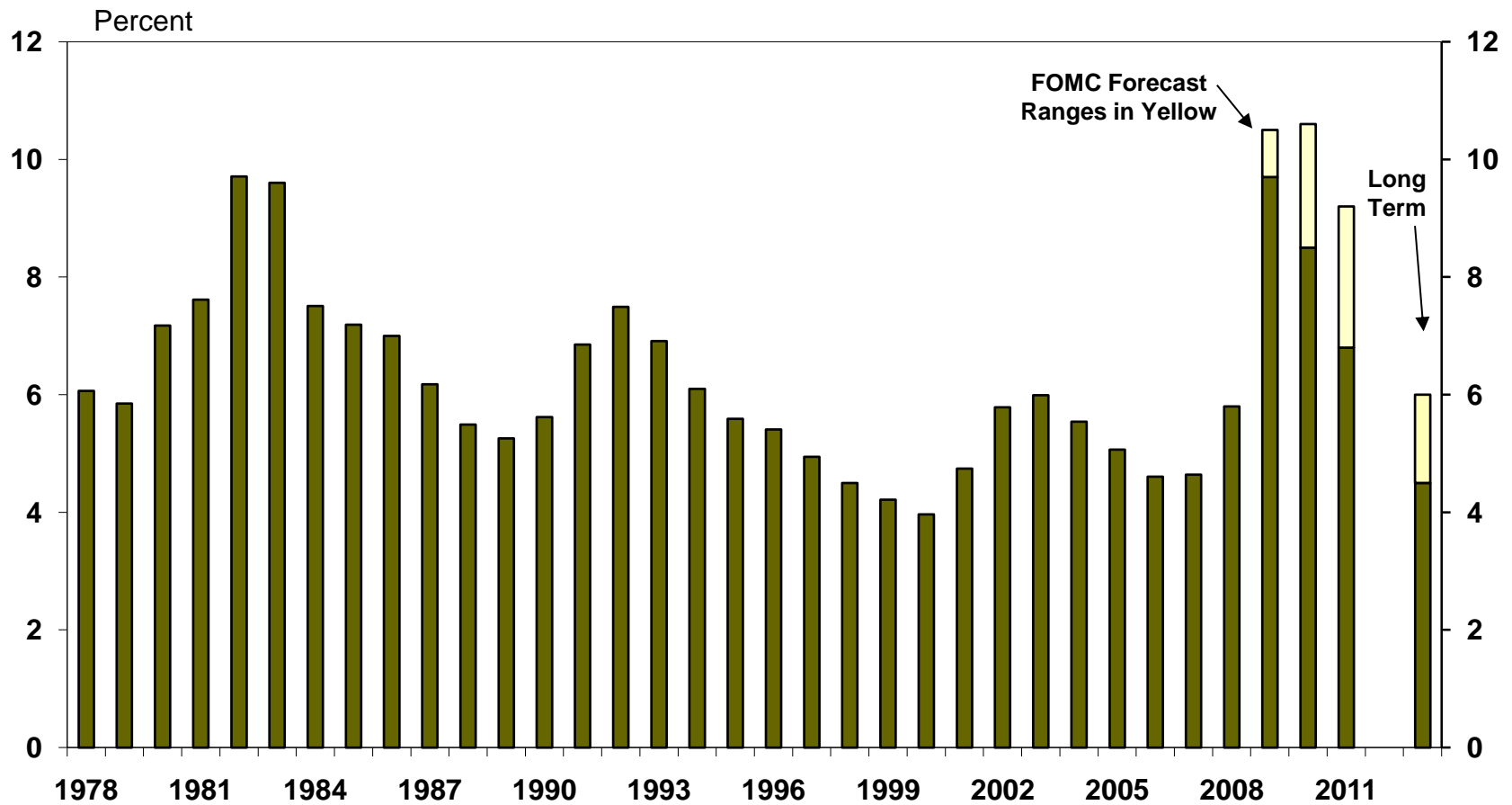
Heading forward, policy makers generally expect a gradual recovery

Gross Domestic Product



With unemployment coming down only slowly

Unemployment Rate
Seasonally Adjusted

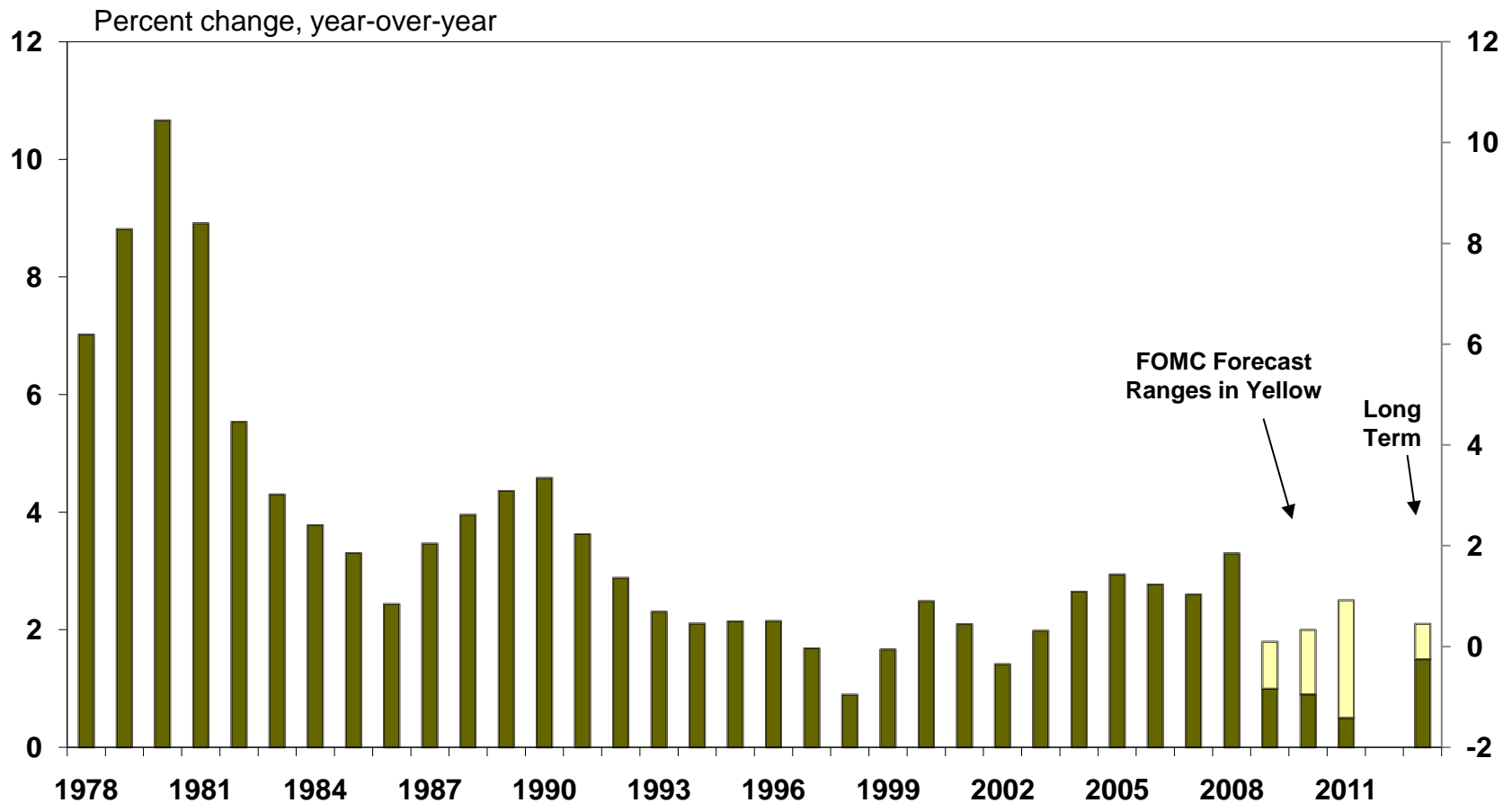


A list of reasons why U.S. recovery speed could be modest

- ❑ 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
- ❑ A weakened global economy limits exports

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

PCE Inflation Index

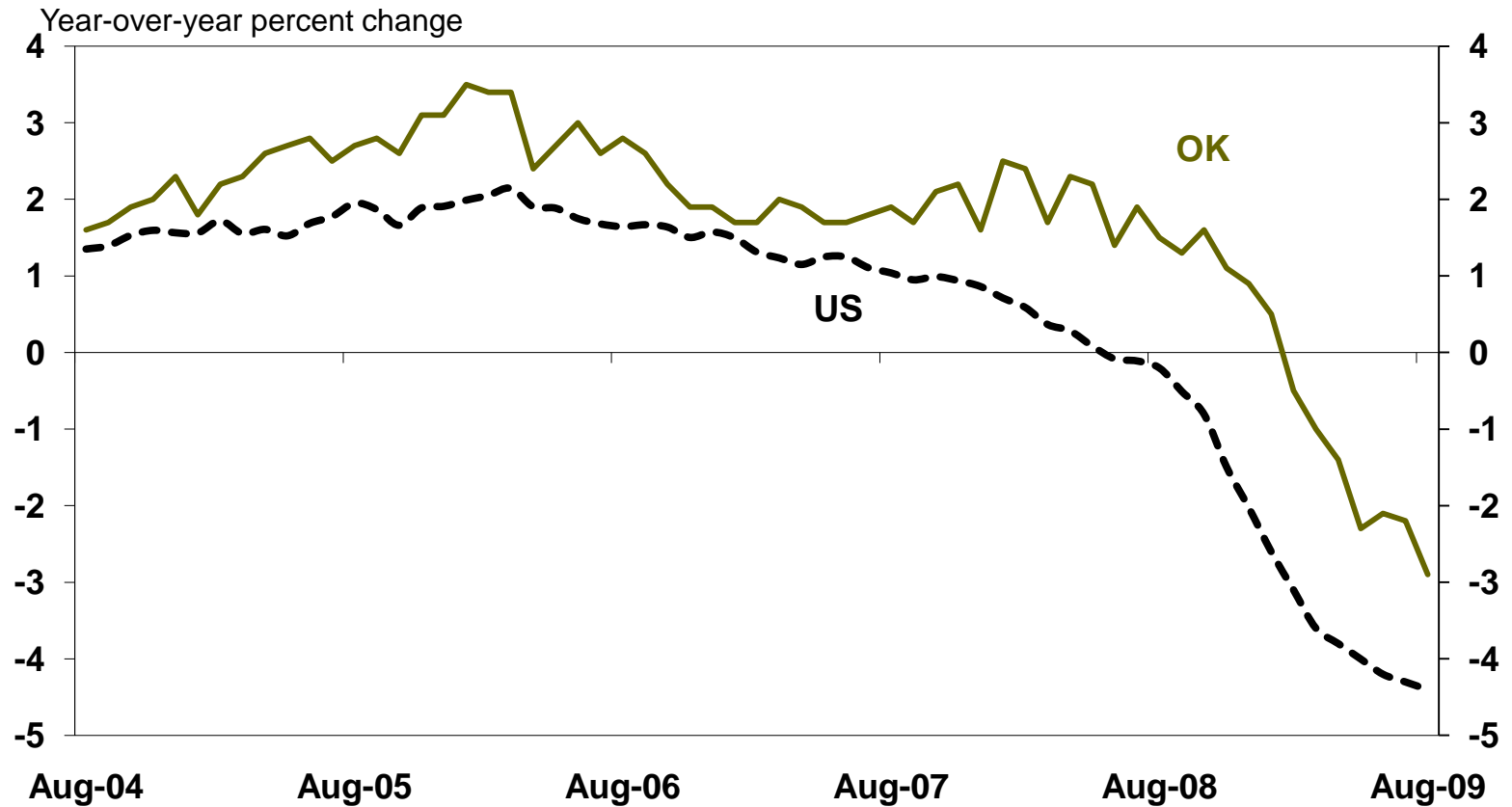


The Oklahoma Economy

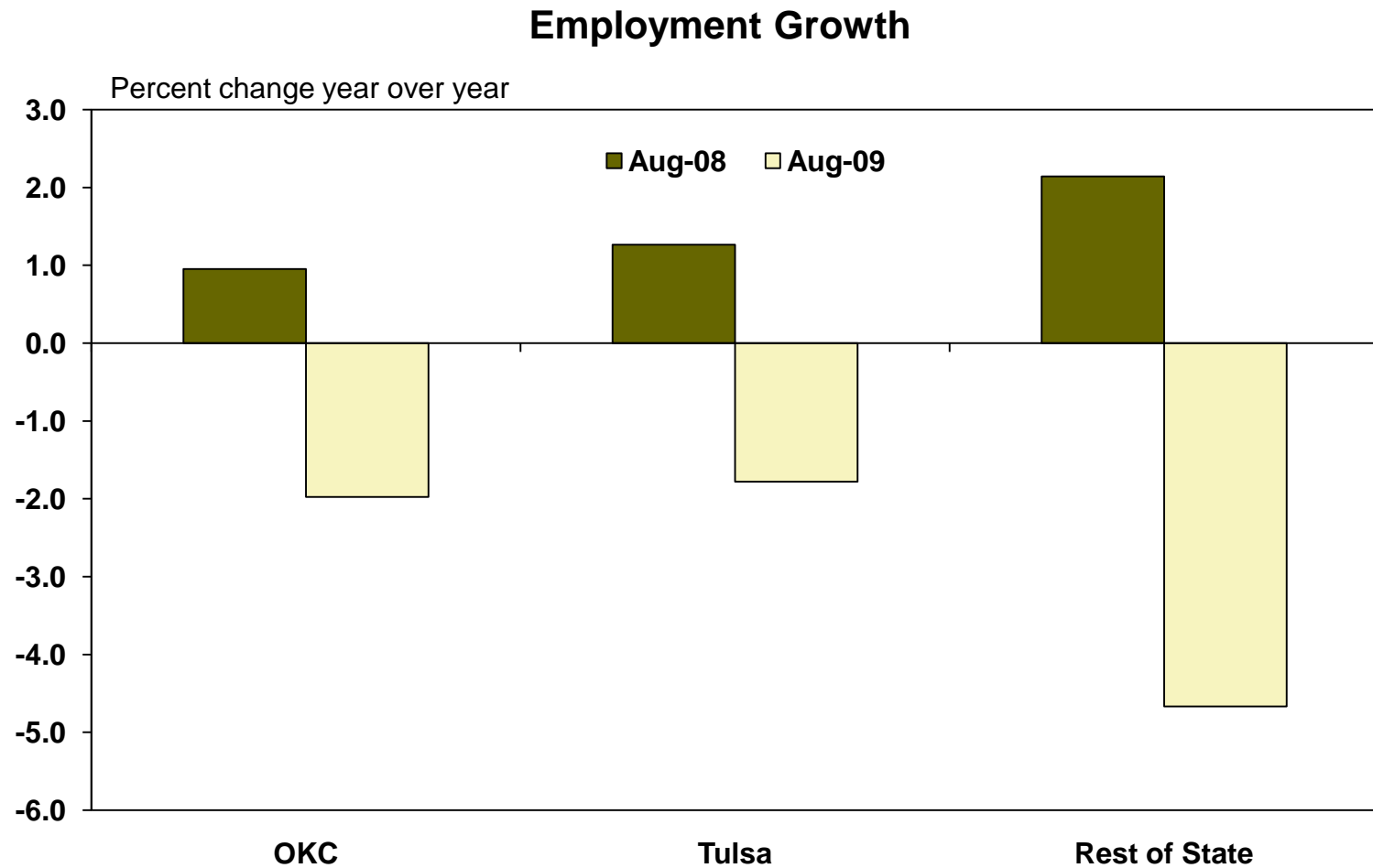
- As usual in recessions, Oklahoma entered this recession later than the nation
- Some mixed signs of stabilization have appeared, and fiscal stimulus is kicking in
- But several risks remain in the state, especially the future path of energy prices

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

Nonfarm Payroll Employment Growth



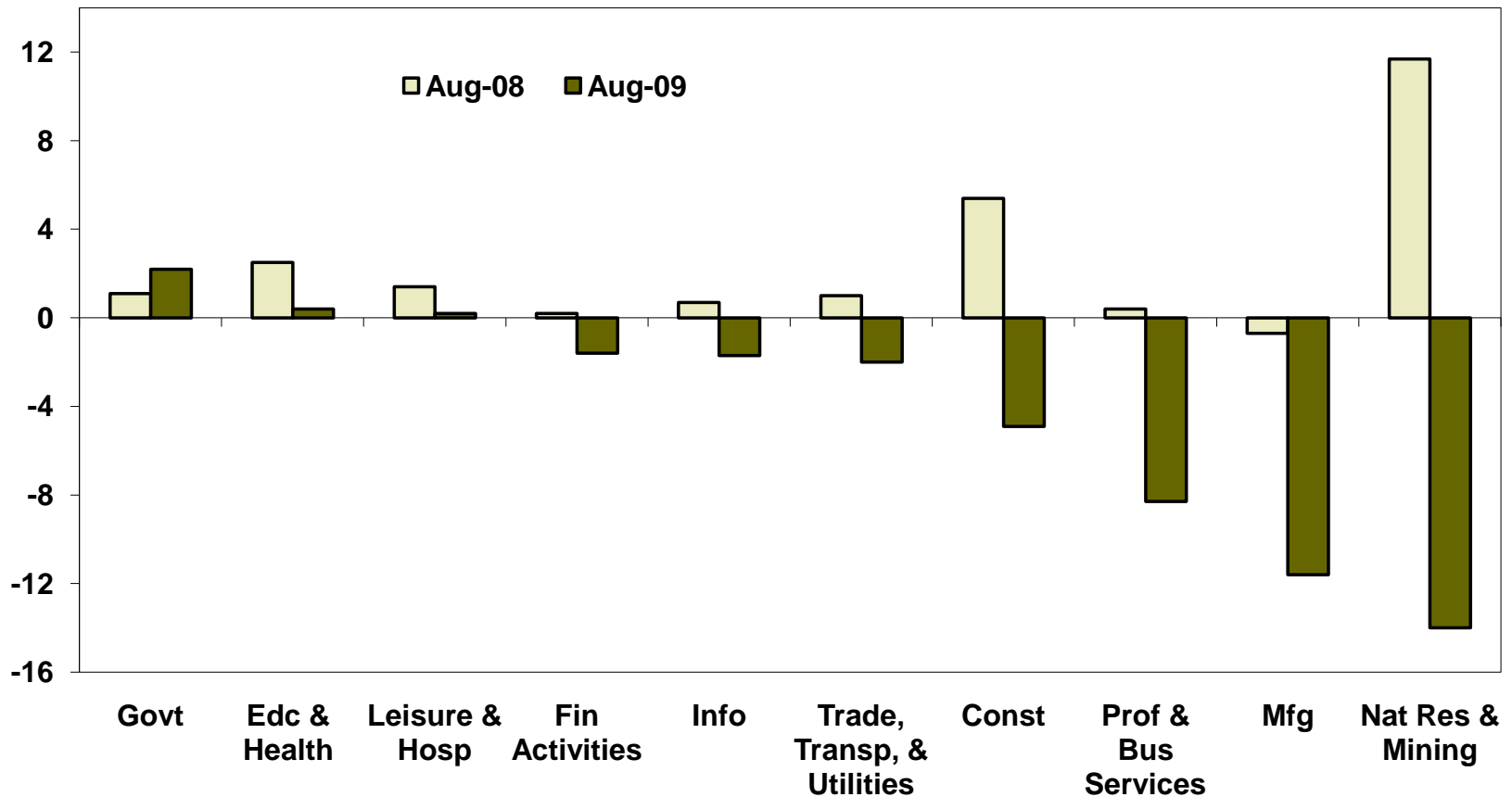
The decline in jobs has been sharpest in non-metro areas of the state



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

Oklahoma Employment Growth by Industry

Percent change year over year



Still, unemployment remains relatively low in Oklahoma and many nearby states

Unemployment Rate, August 2009



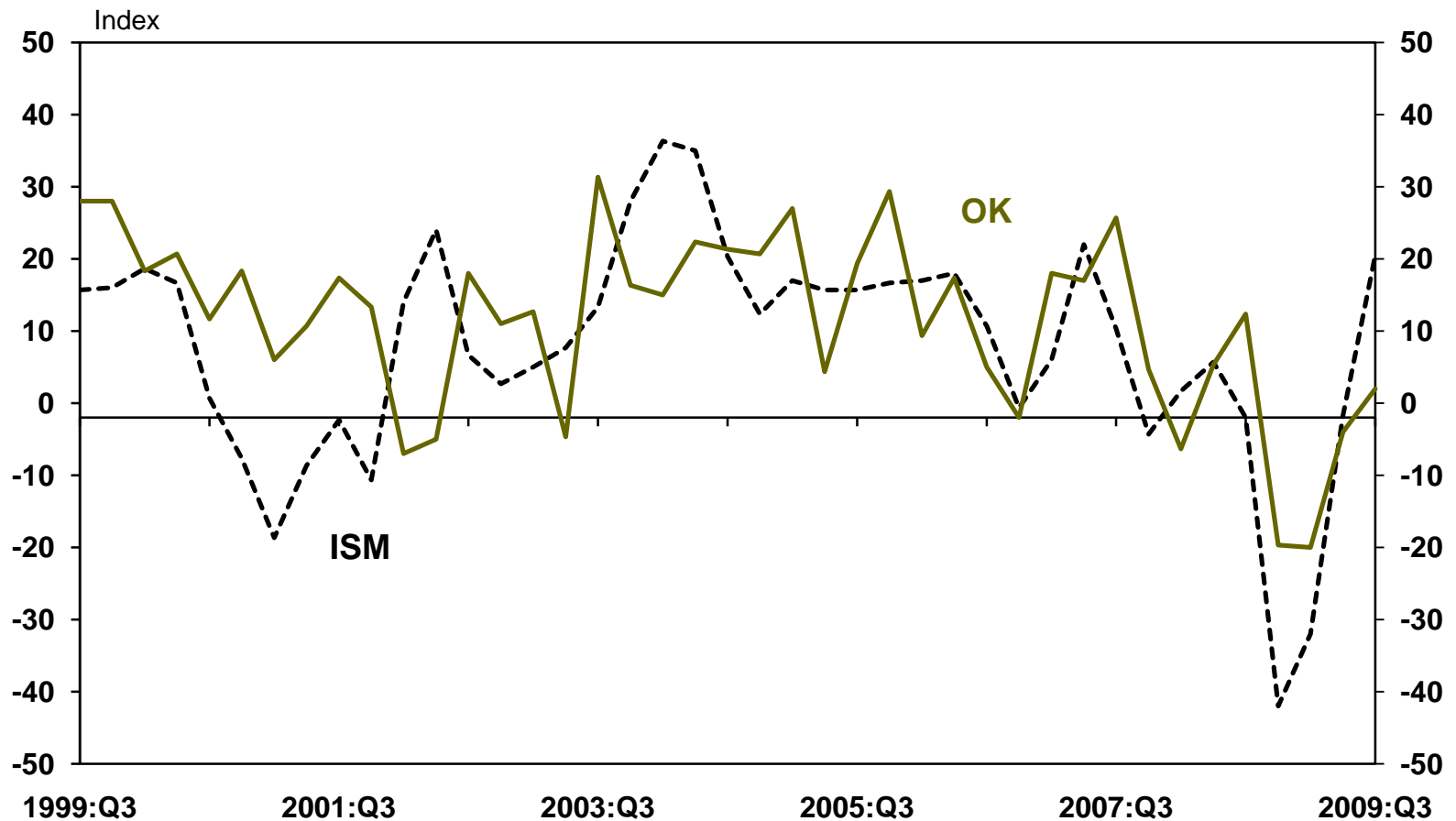
Oklahoma home prices have held up relatively well and appear to have stabilized

Quality-Adjusted Home Price Growth
Purchase-Only



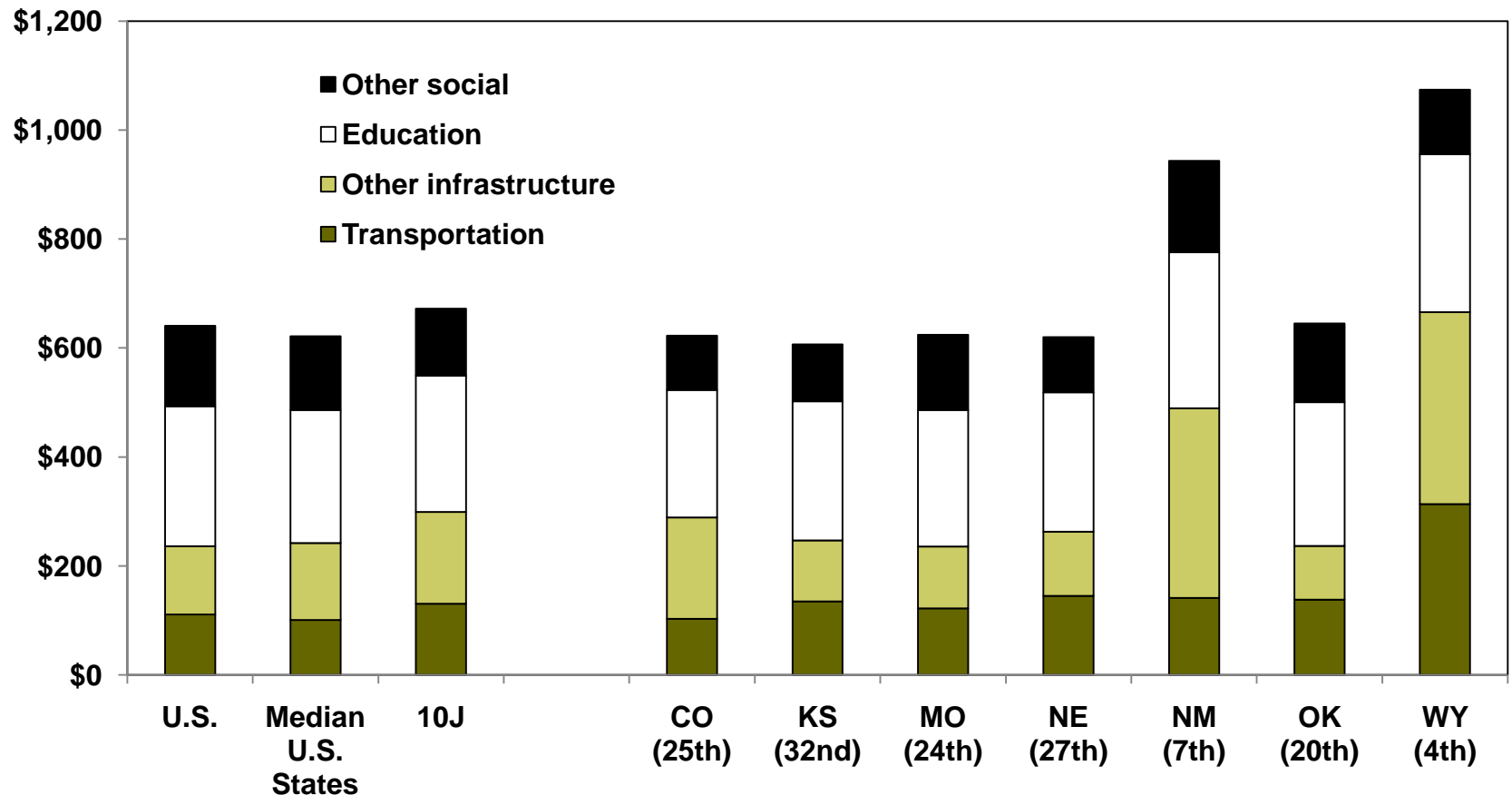
Manufacturing indexes for the state also show some stabilization in Q3 2009

Manufacturing Production Indexes
Seasonally adjusted



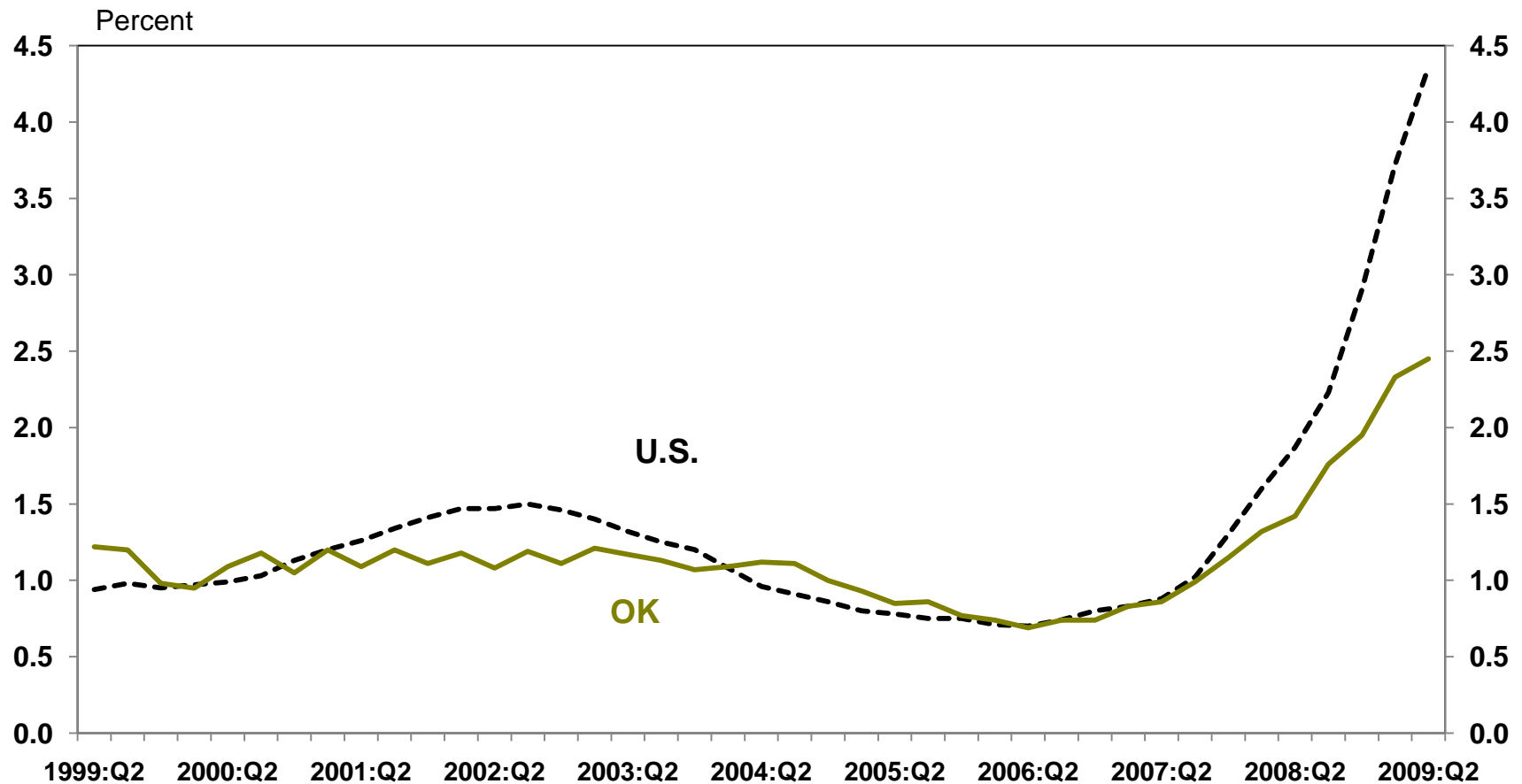
And Oklahoma is receiving about as much fiscal stimulus as the nation

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



Past due loans are rising at Oklahoma banks, but less than in the nation

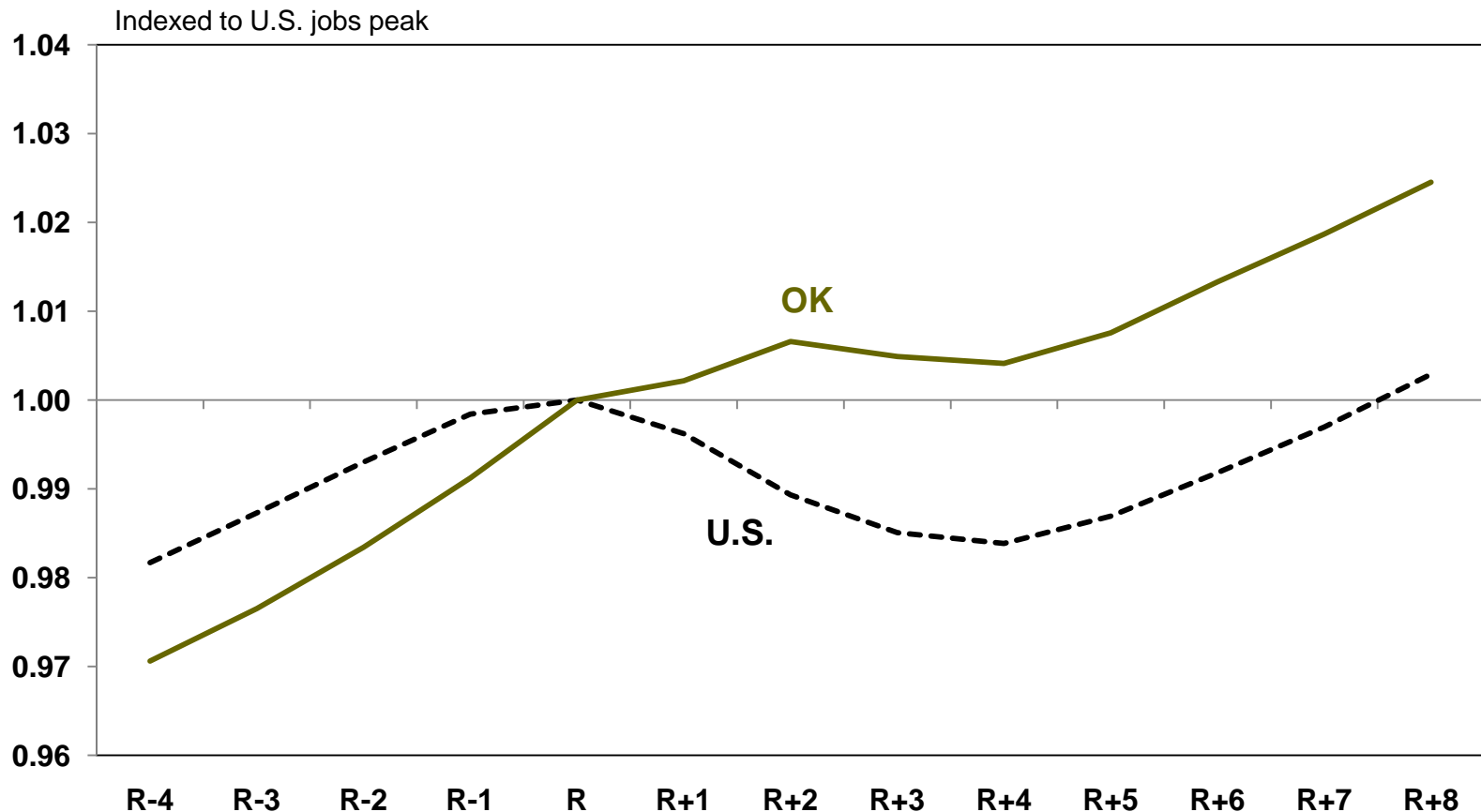
Noncurrent Loans as a Share of Total Loans
Commercial Banks



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

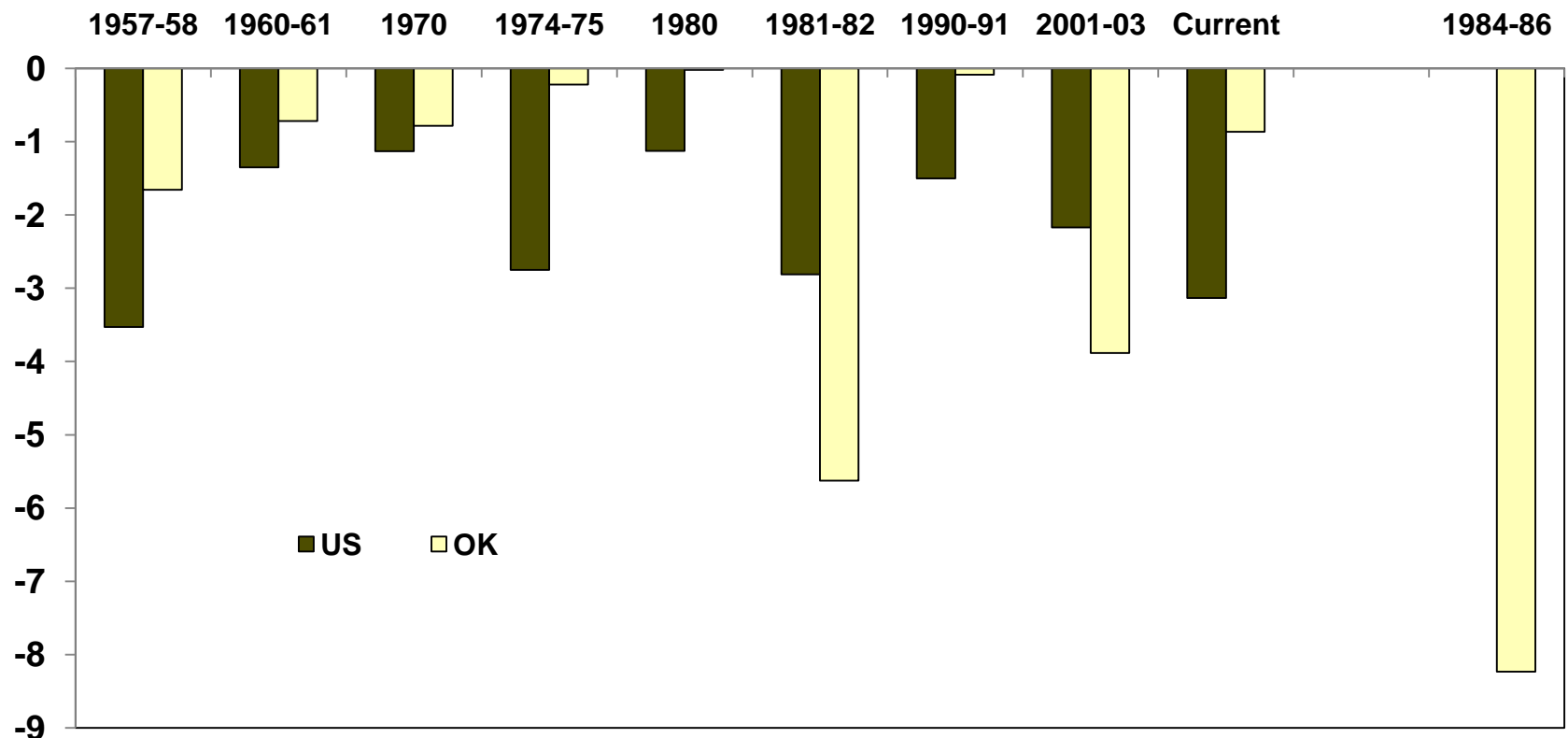
Average Recession Path, 1956-2006

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



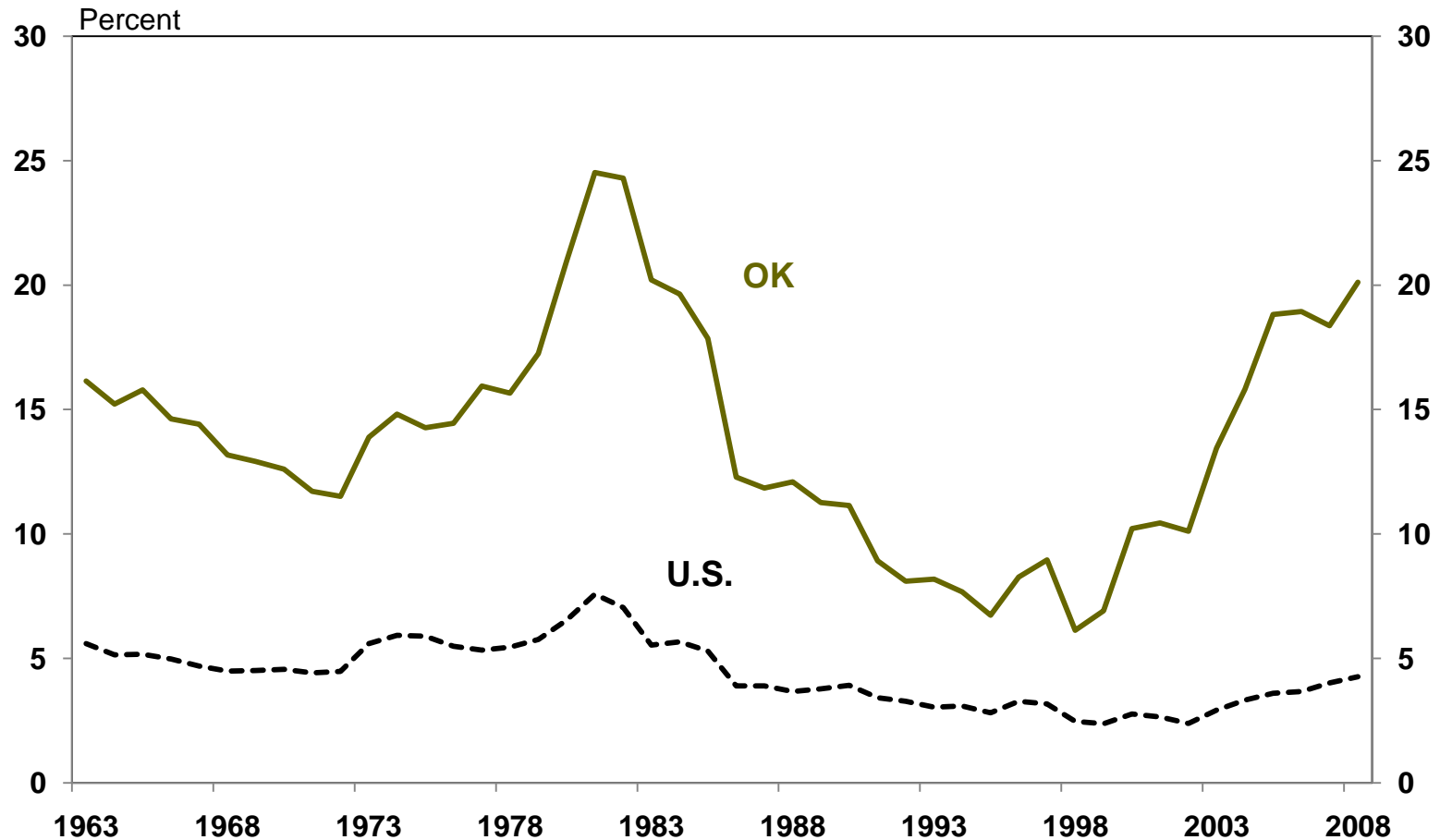
With their shorter duration, Oklahoma's job losses in U.S. recessions are usually smaller

Job Losses in Recessions, 1956-present
Percent

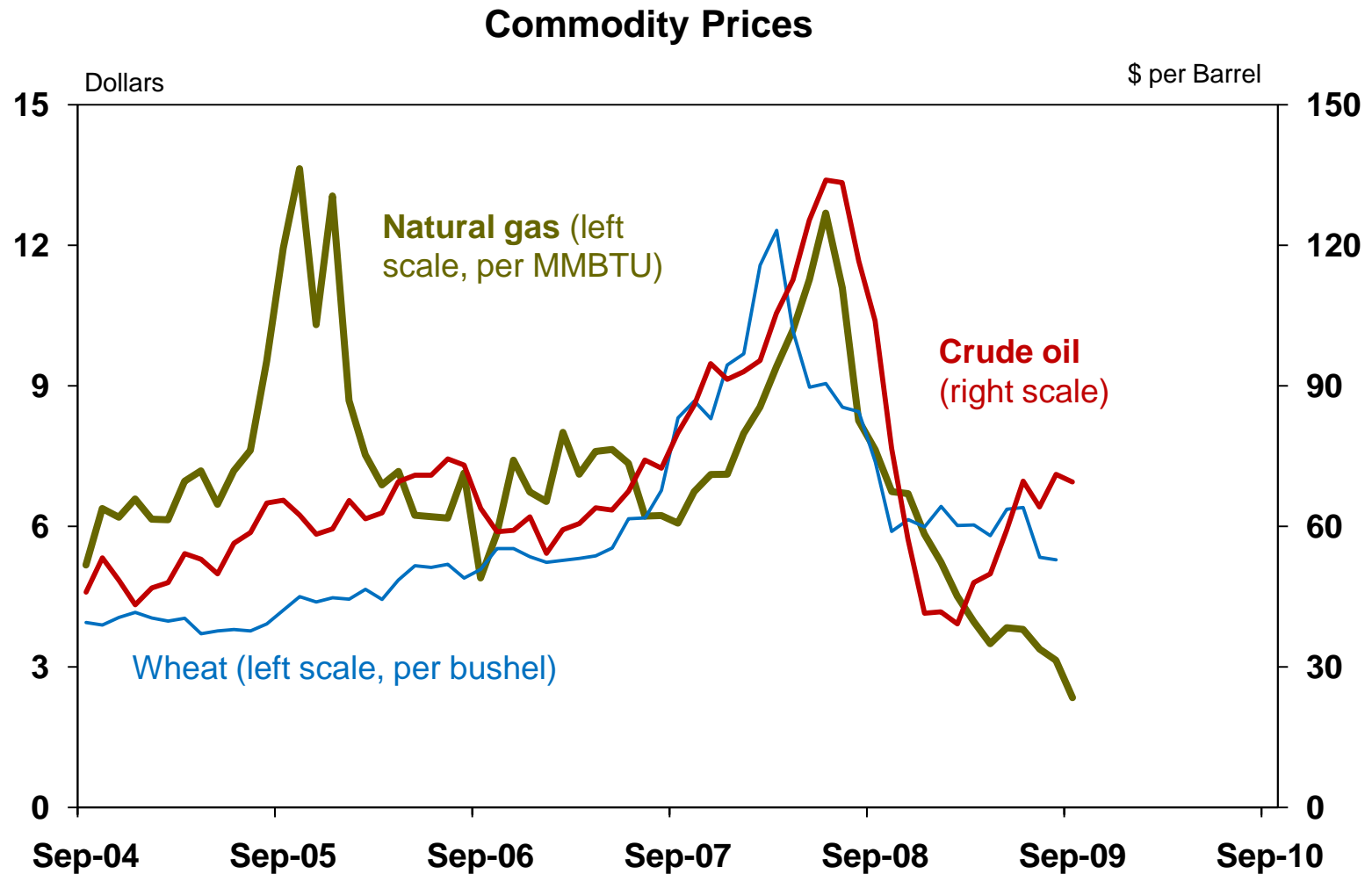


But in the past five years, Oklahoma's economy has become much less diversified

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



After peaking last year, important commodity prices are now going in different directions



Summary

- The U.S. economy appears to have stabilized, but recovery is expected to be modest
- Oklahoma also shows some stabilizing signs, and fiscal stimulus is kicking in
- Still, a number of risks to growth remain, especially the future path of energy prices