

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**

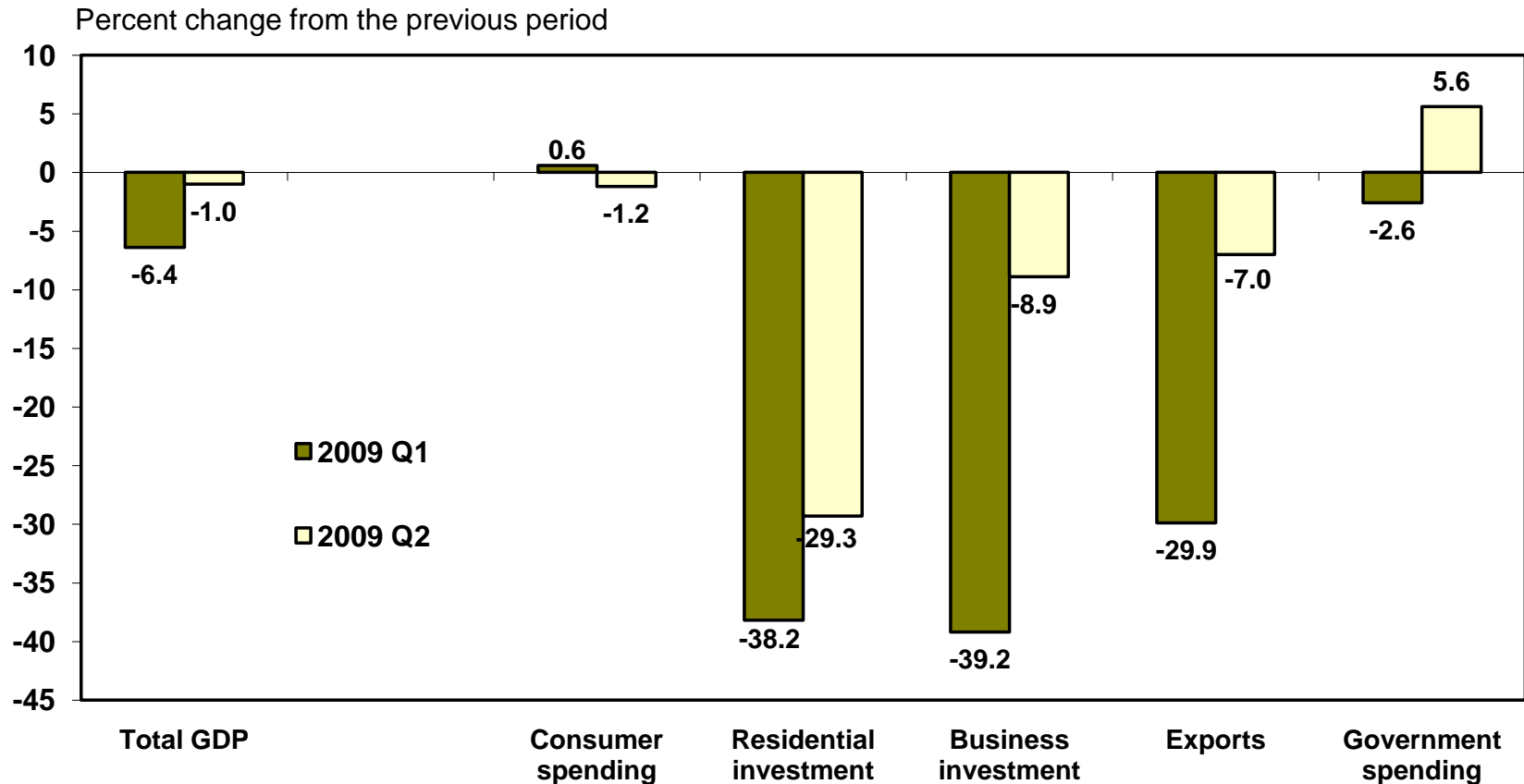
- *Chairman* **Steve Agee**, President, Agee Energy, and Professor, OCU, OKC
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
- **Jacque Fiegel**, Senior EVP & COO, Coppermark Bank, OKC
- **Fred Ramos**, COO, Latino Community Development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

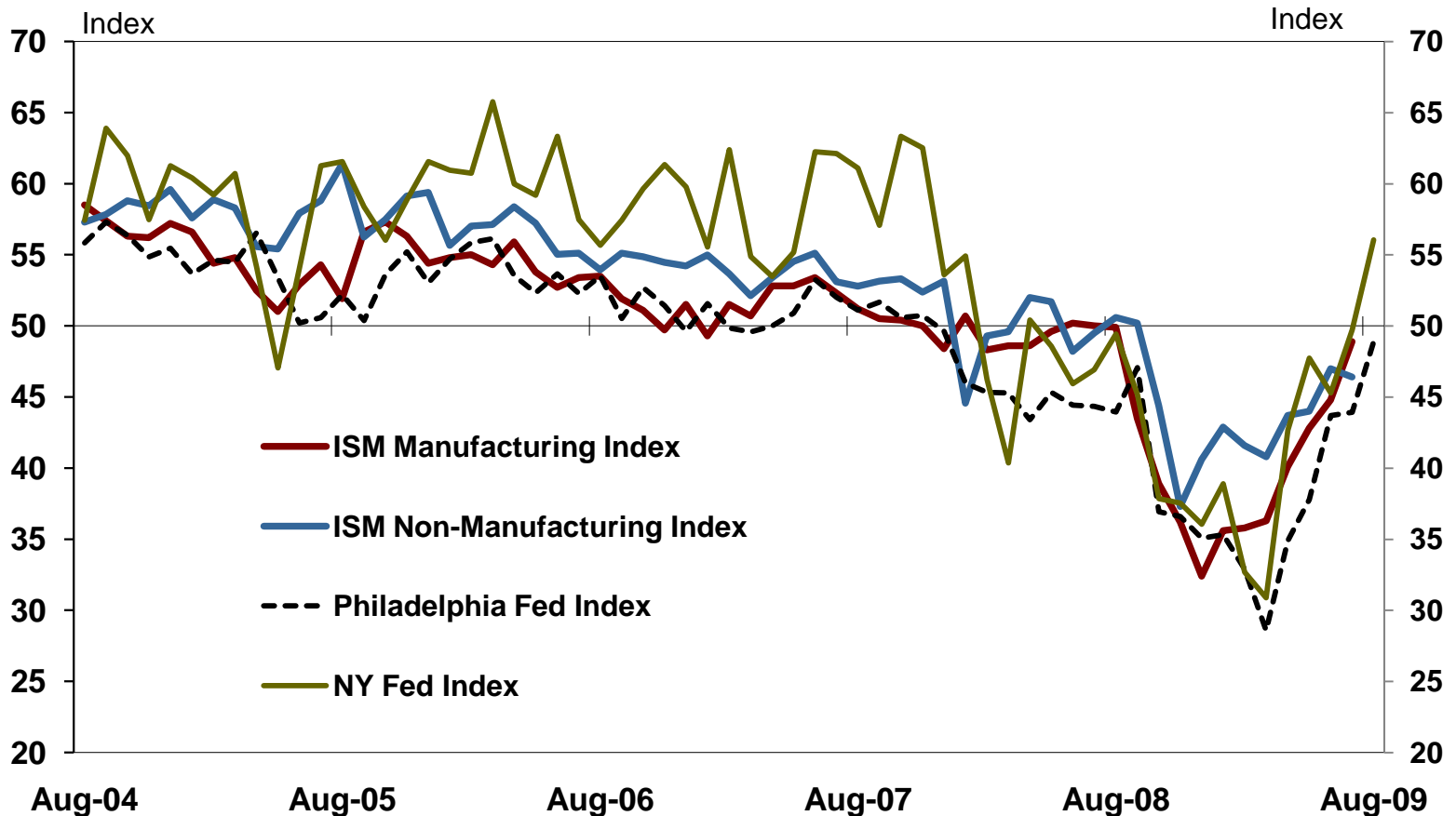
Second quarter growth was much less negative, boosted by government spending

Growth in Components of GDP



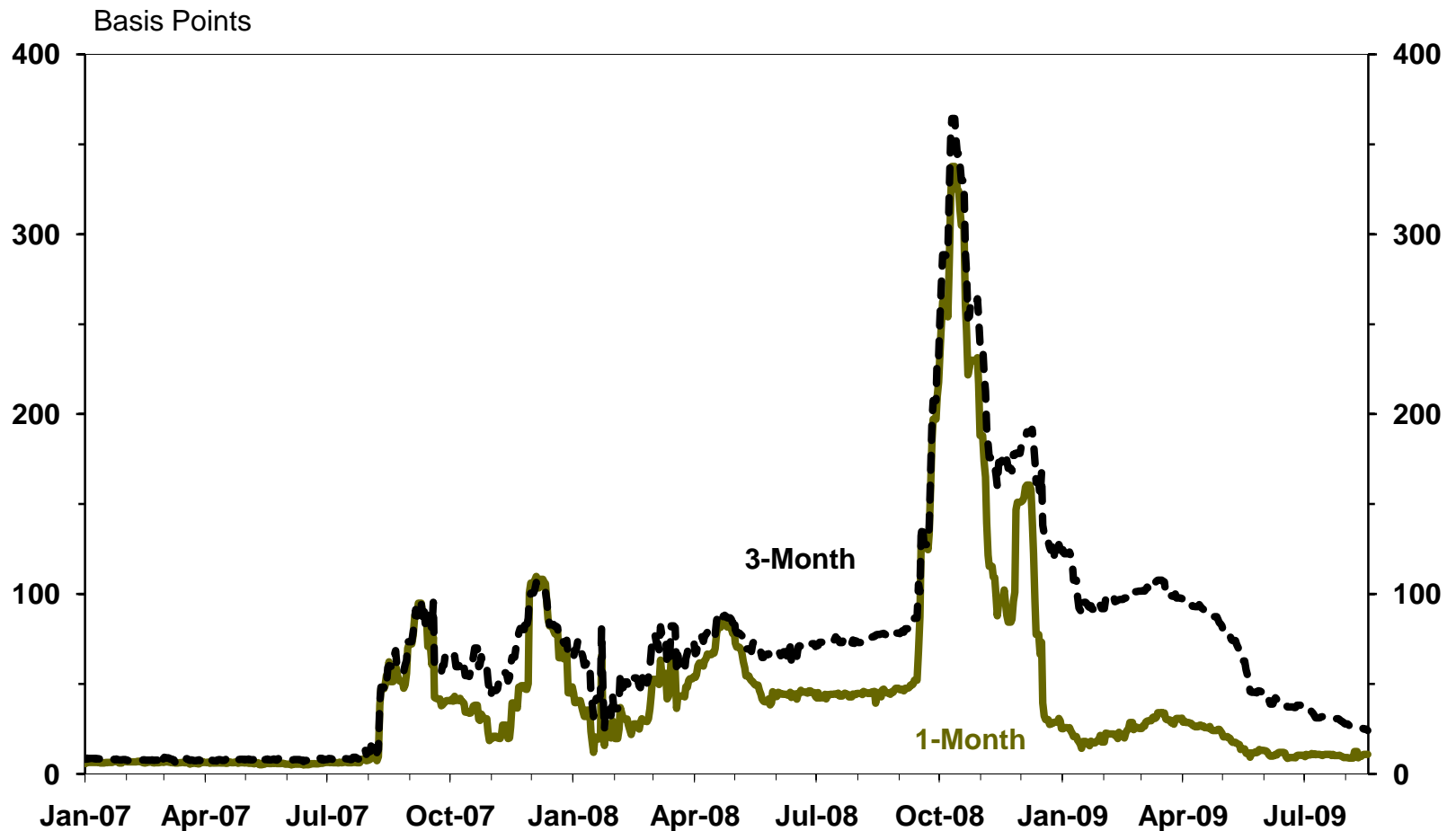
Recent survey indicators suggest declines in the U.S. economy may be over

National Business Indexes



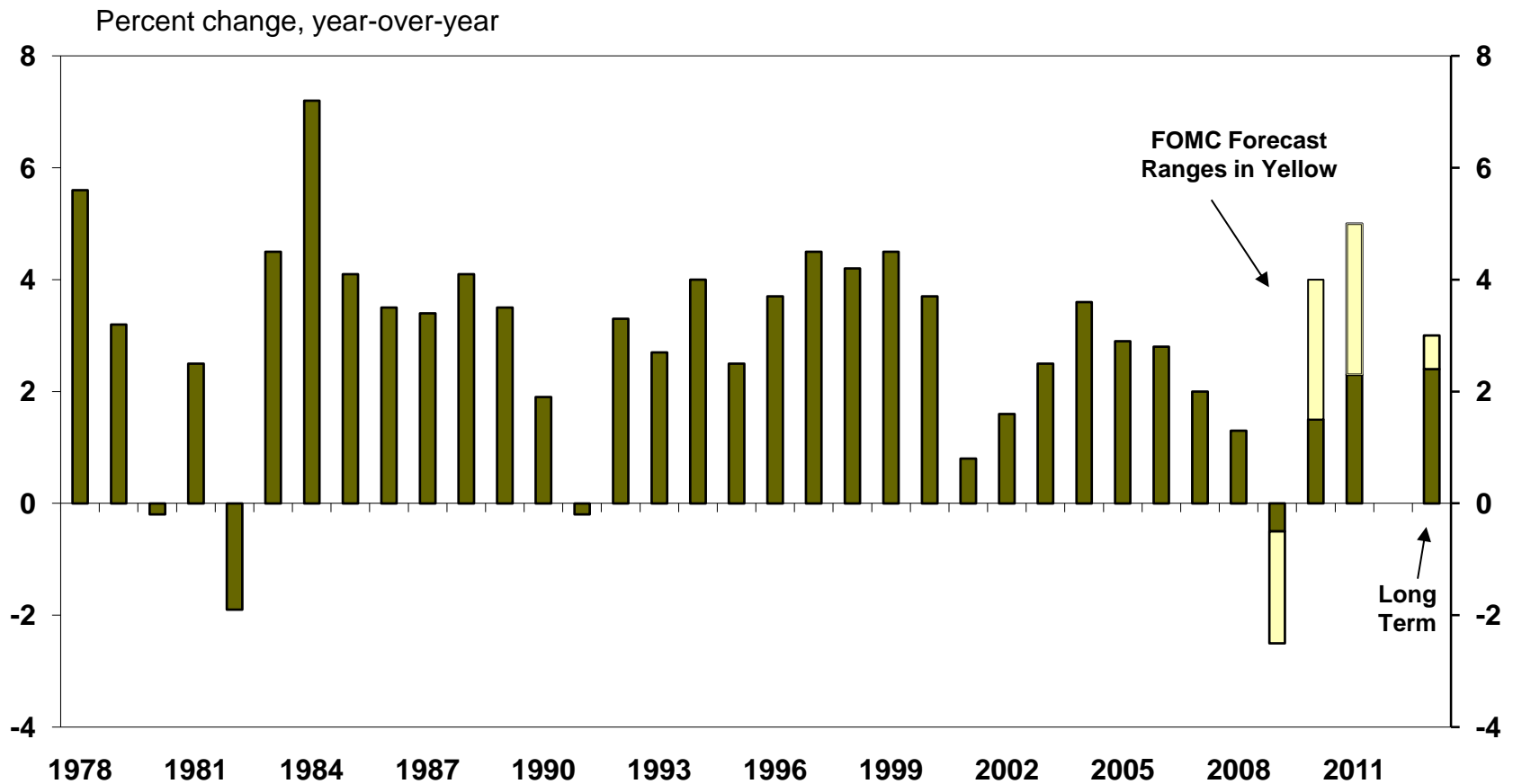
Credit market conditions have continued to stabilize in recent months as well

LIBOR-OIS Spread



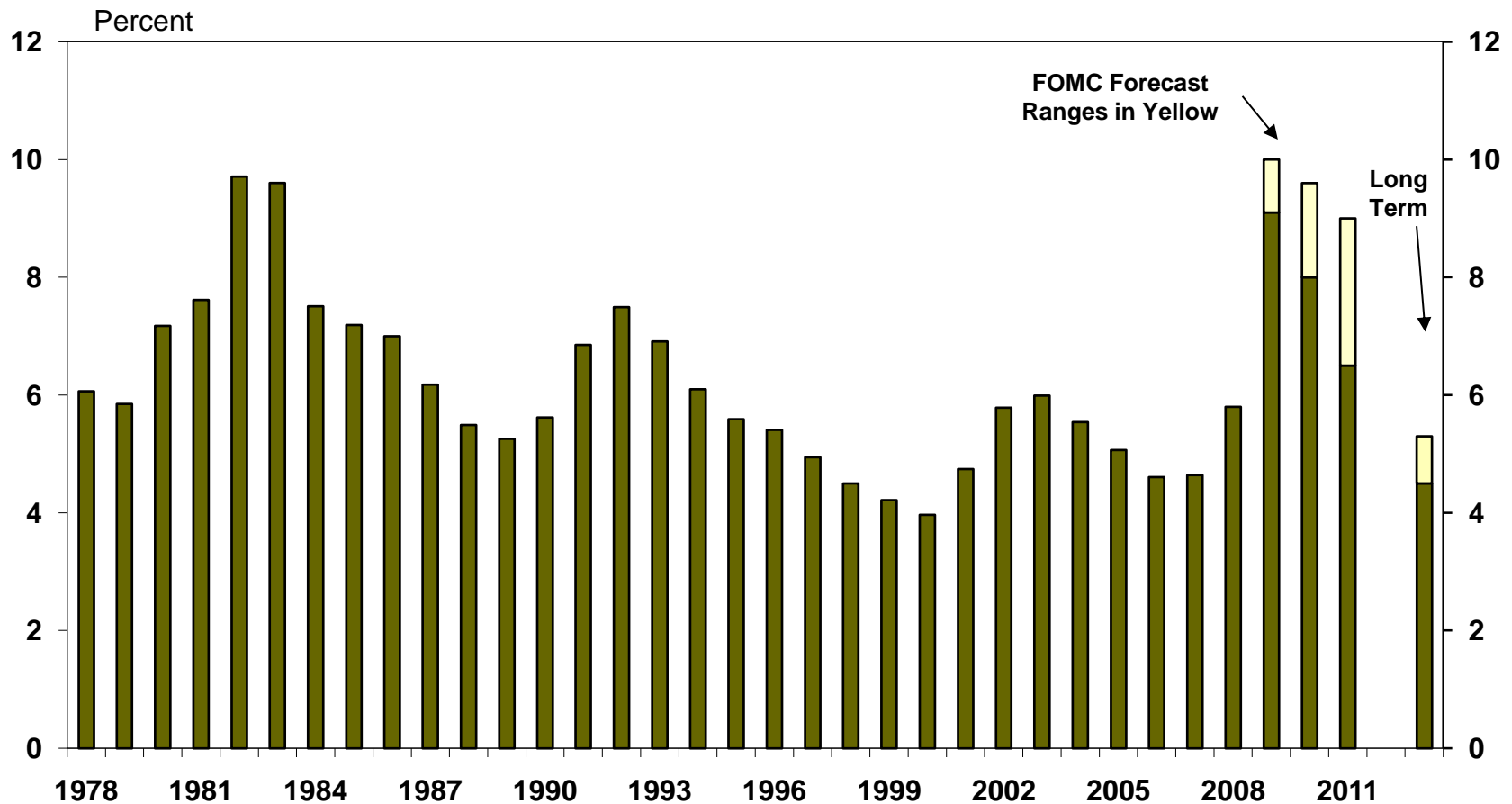
Heading forward, policy makers generally expect a gradual recovery

Gross Domestic Product



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

Unemployment Rate
Seasonally Adjusted

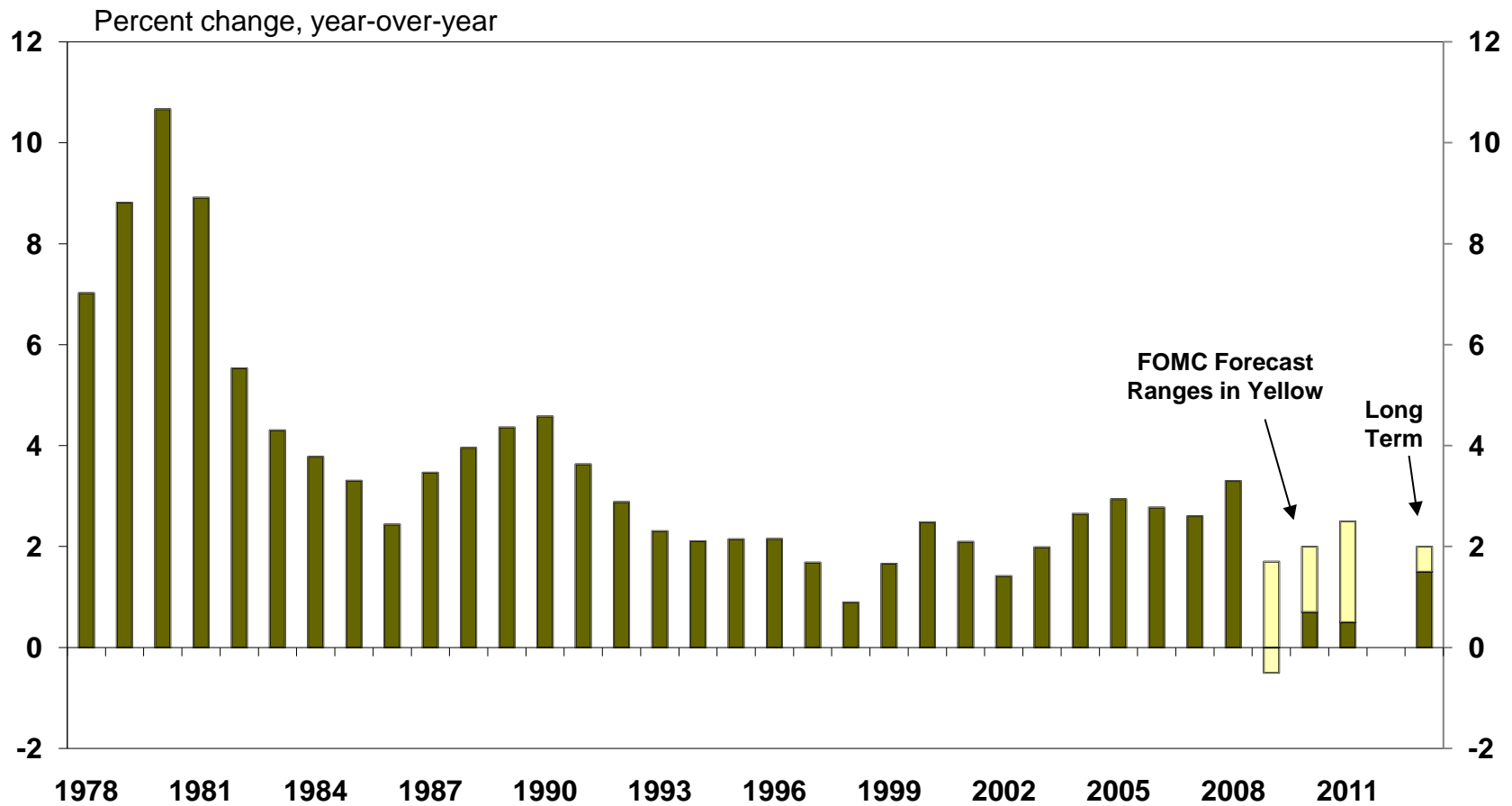


A list of reasons why U.S. recovery speed could be modest

- ❑ Consumers are focused on repairing balance sheets and rebuilding wealth, not spending
- ❑ Foreclosures continue to weigh on housing
- ❑ Problems in commercial real estate and general caution could restrain business investment
- ❑ A weakened global economy could limit exports
- ❑ Some credit markets remain strained

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

PCE Inflation Index

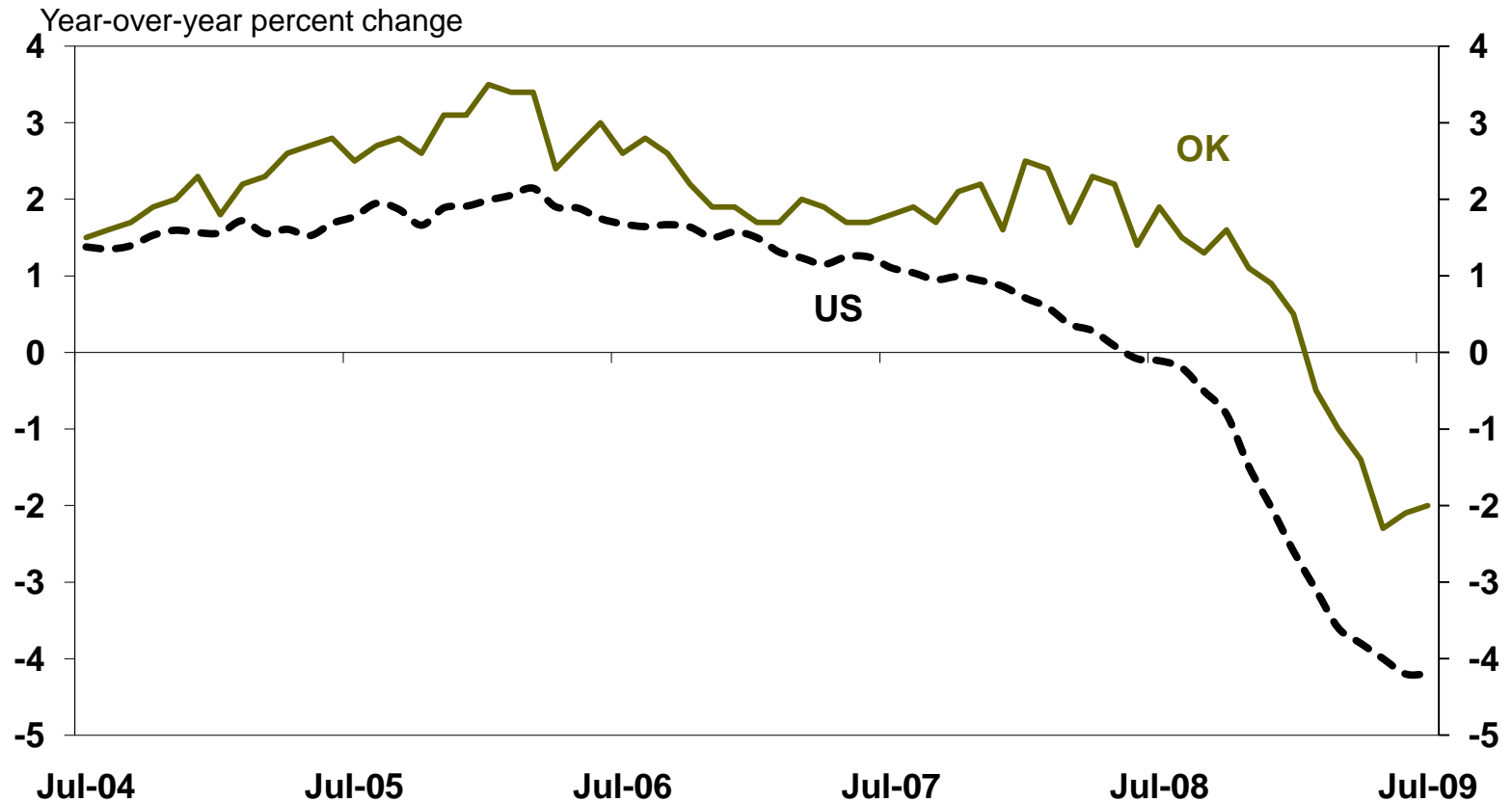


The Oklahoma Economy

- As in the nation, the state's economy appears to have stabilized, and at a better level
- The state's performance in this recession is typical of most post-war recessions, so far
- However, several risks remain in the state, though they appear smaller than in the nation

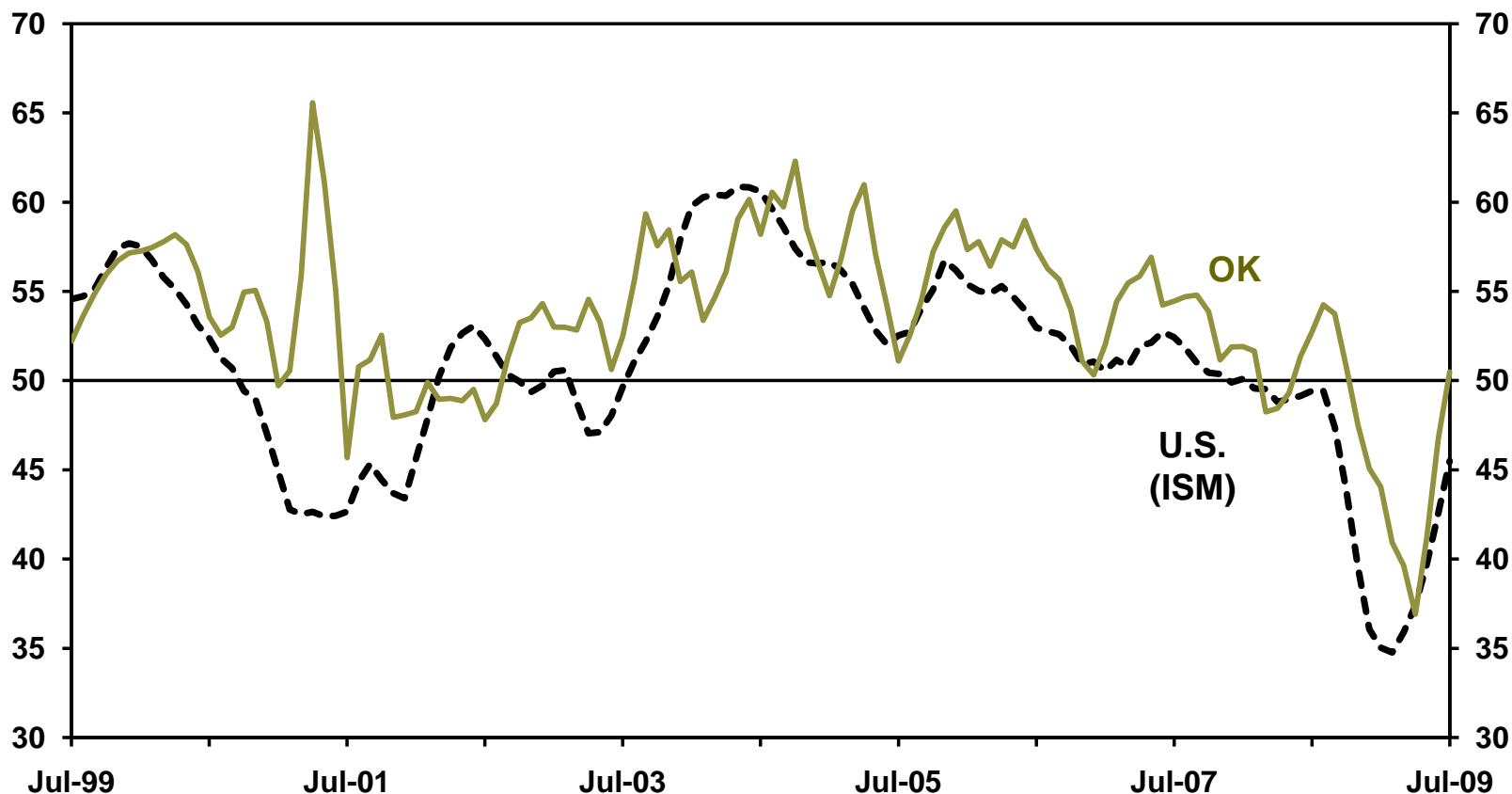
Oklahoma entered this recession later, but is also showing signs of stabilization

Nonfarm Payroll Employment Growth



Manufacturing indexes for the state also show later entry but recent stabilization

Manufacturing PMI Indexes
Seasonally adjusted, 3-month moving avg.



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

Source: ISM, FRBKC Manufacturing Survey

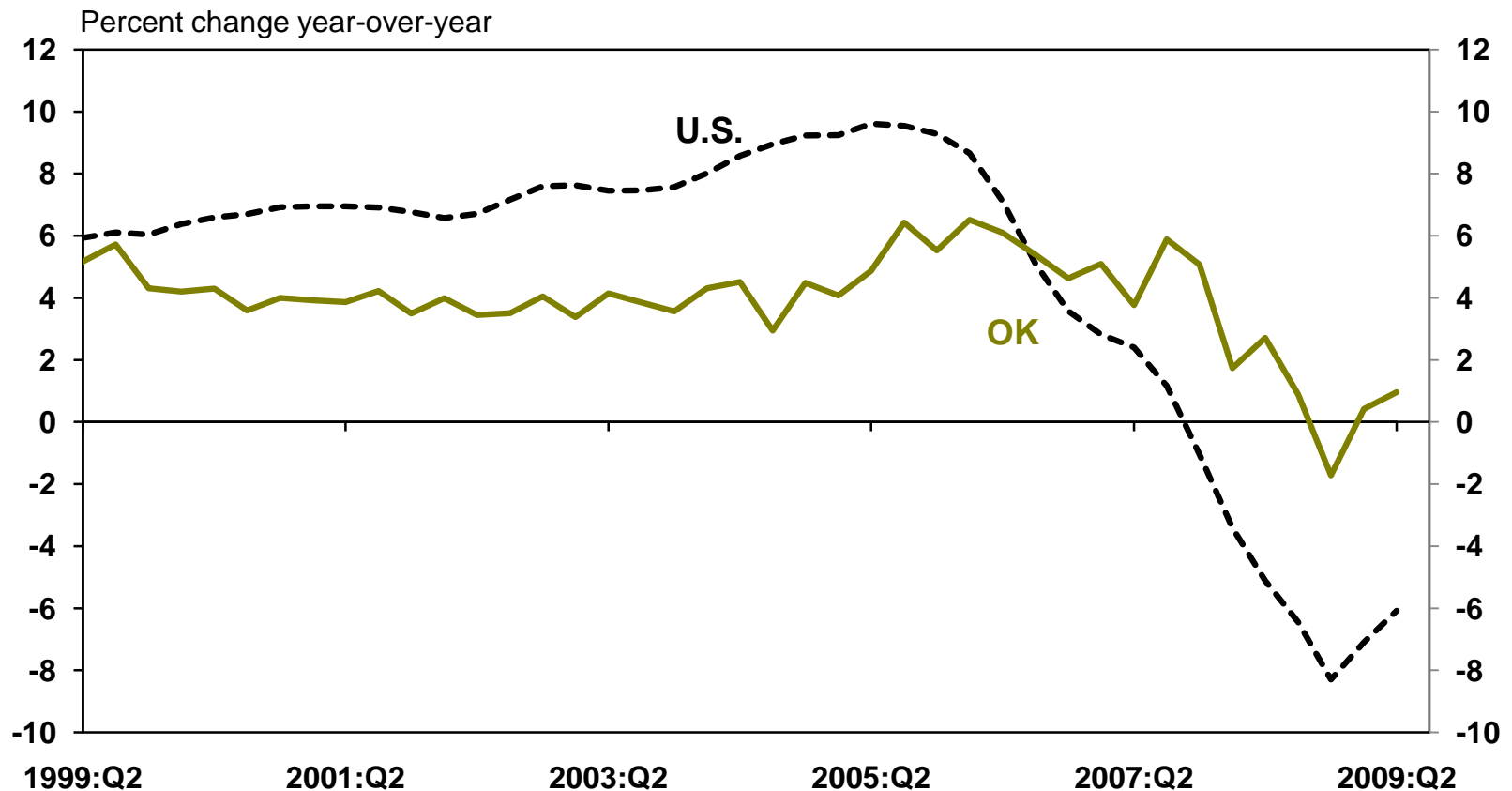
Unemployment is still relatively low in Oklahoma and most nearby states

Unemployment Rate, July 2009



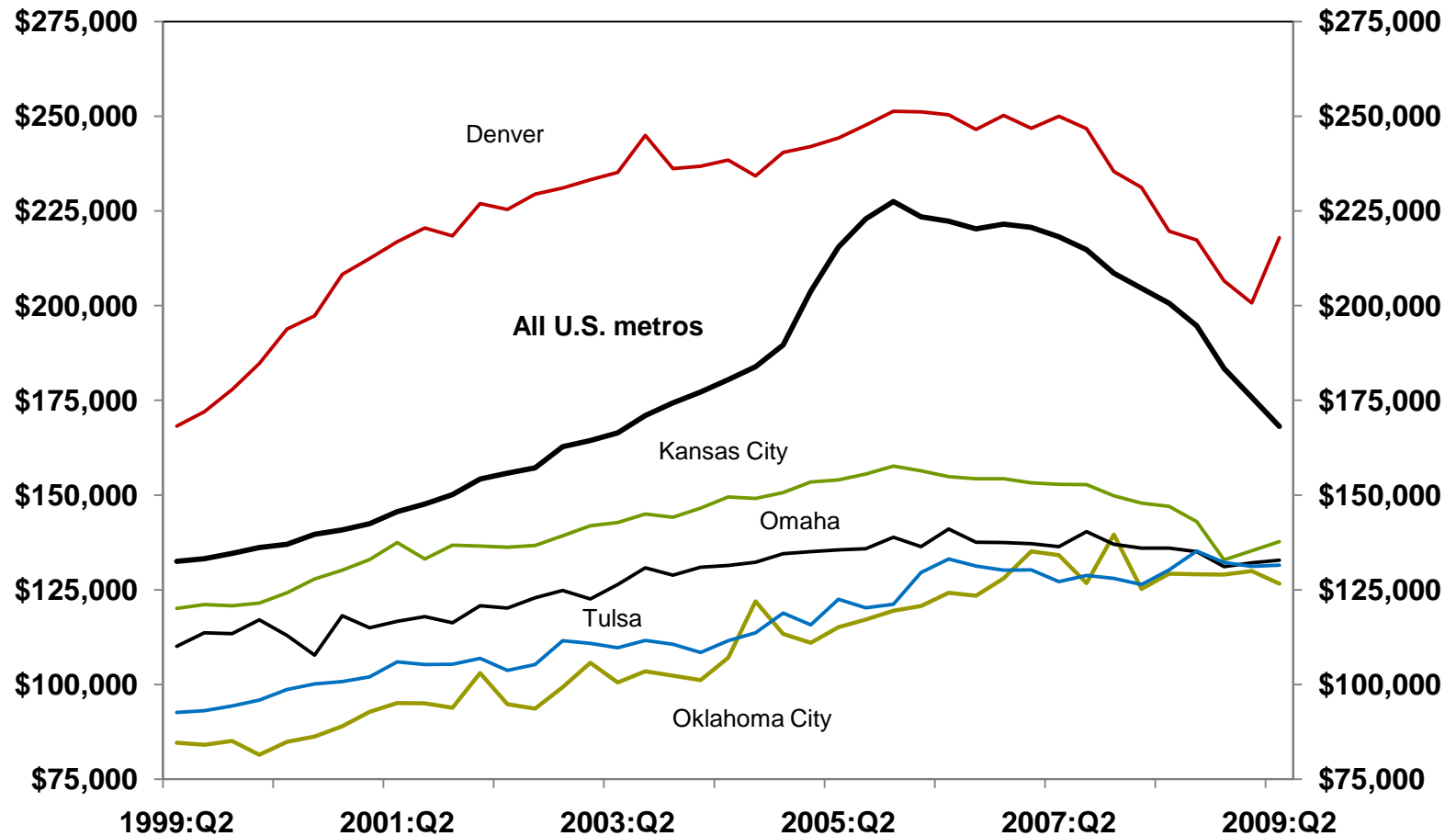
Unlike the nation, Oklahoma home prices have also held up relatively well

Quality-Adjusted Home Price Growth
Purchase-Only



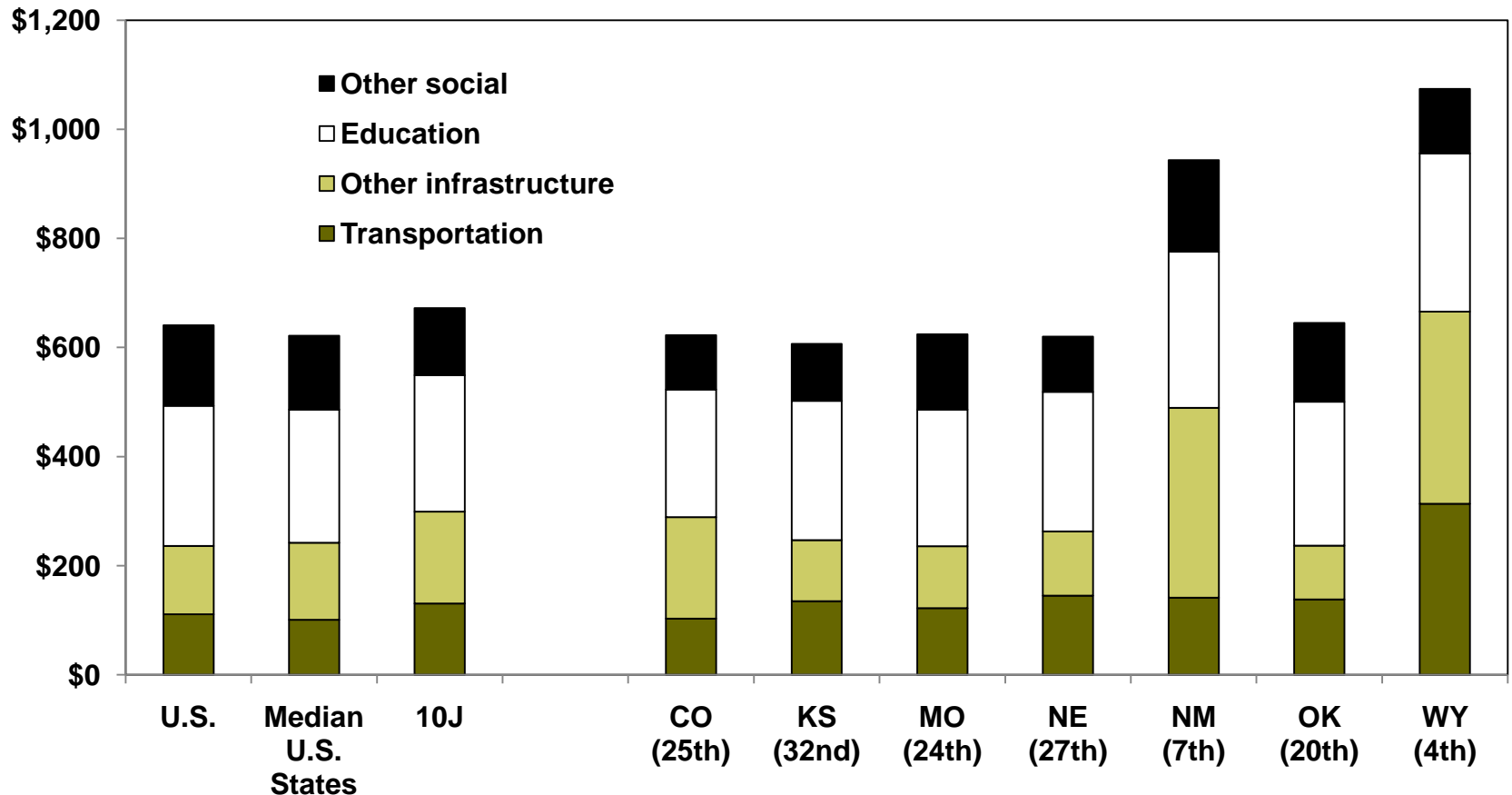
Indeed, OKC and Tulsa home prices have caught up with some other regional cities

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



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

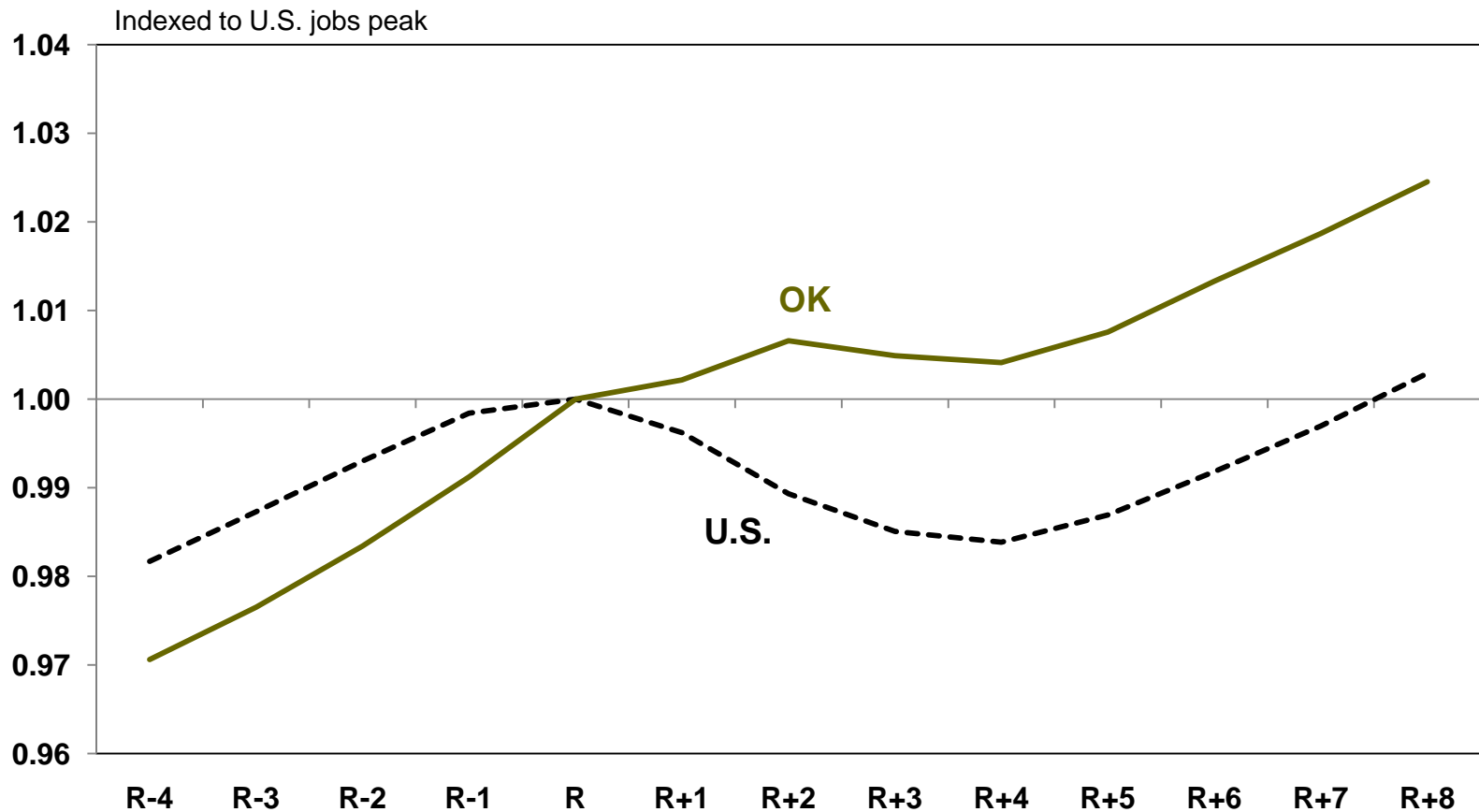
Per Capita Stimulus Package Spending
U.S. and Tenth District



Overall, Oklahoma's performance in this recession appears to be fairly typical

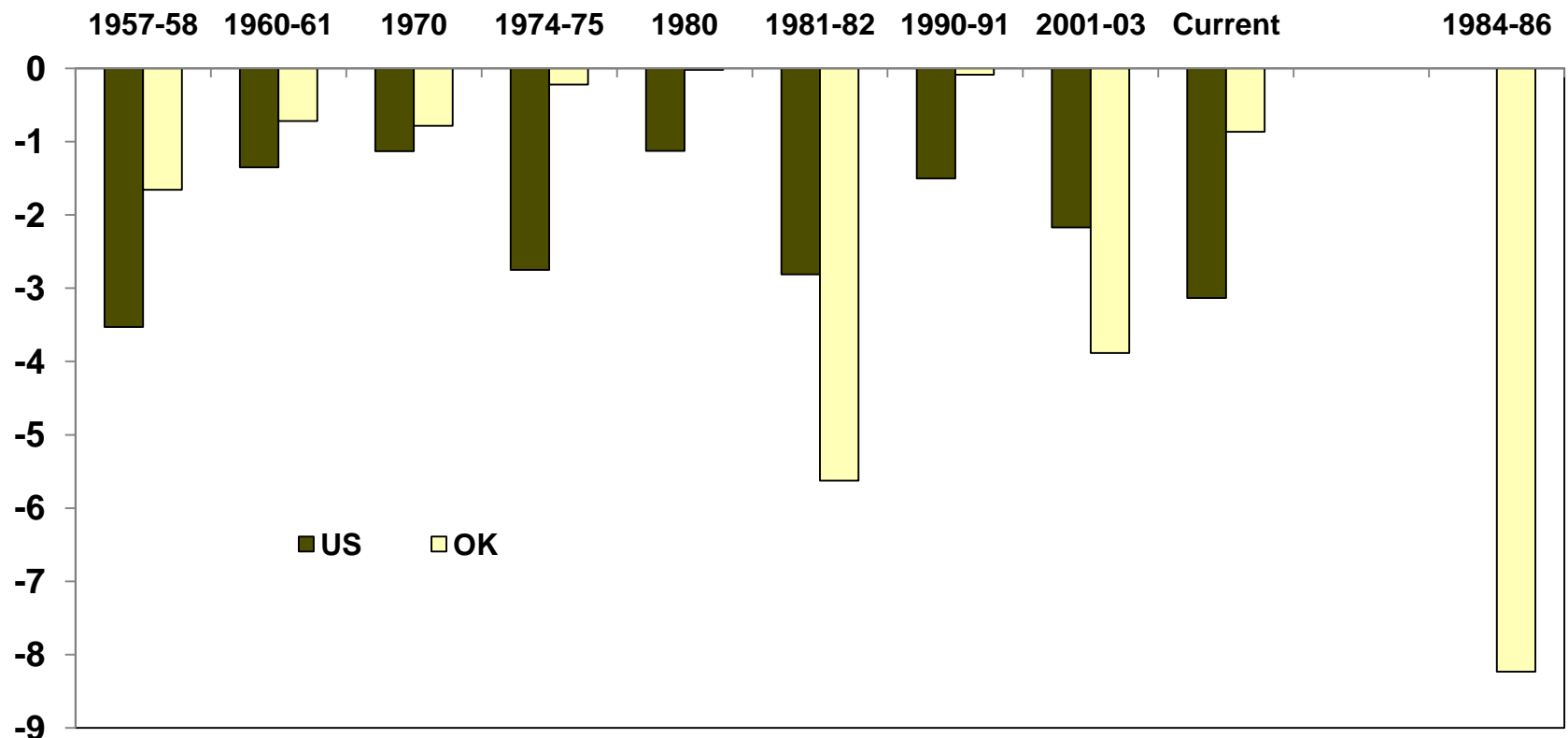
Average Recession Path, 1956-2006

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



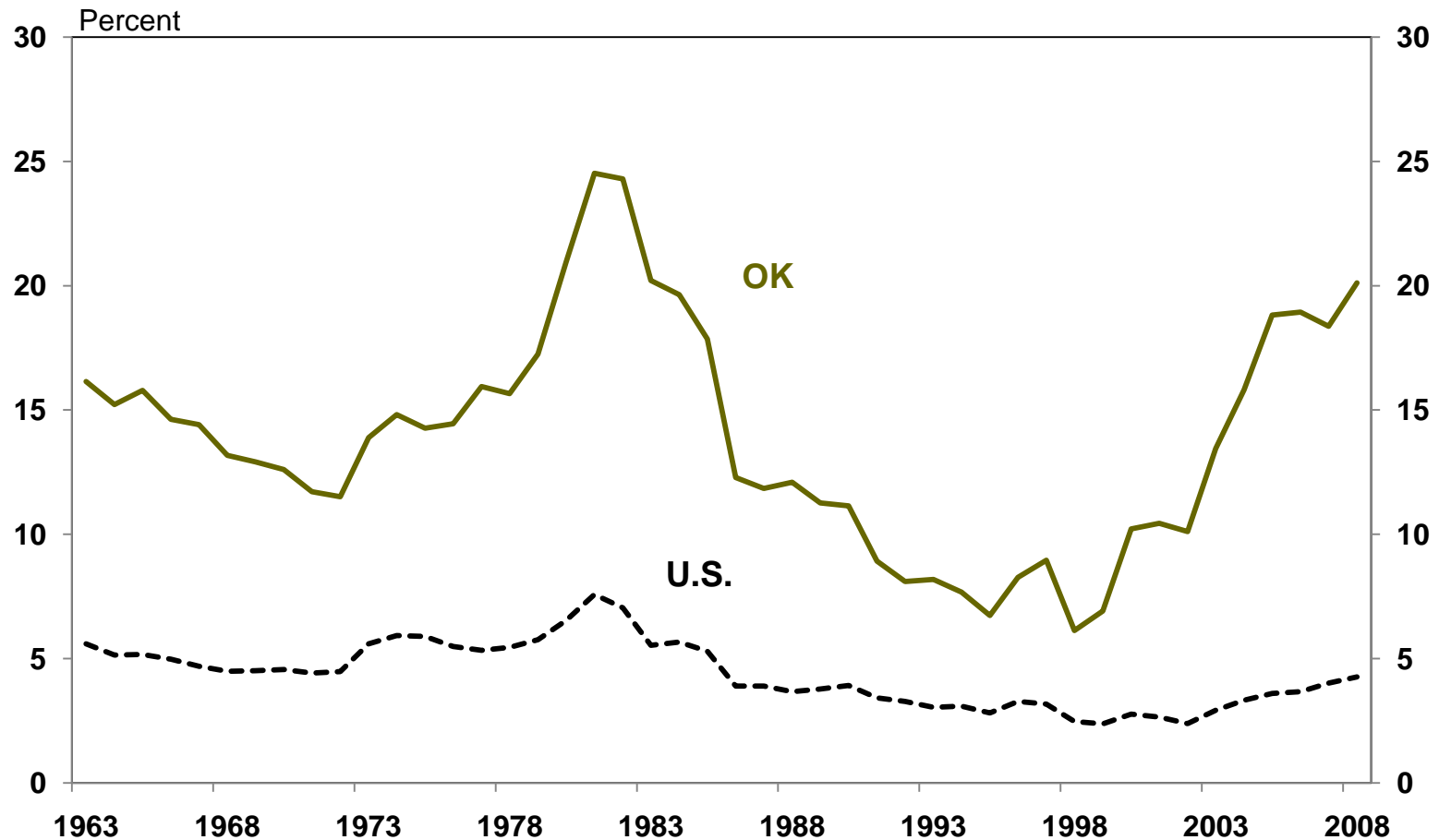
With their shorter duration, Oklahoma's job losses in U.S. recessions are usually smaller

Job Losses in Recessions, 1956-present
Percent

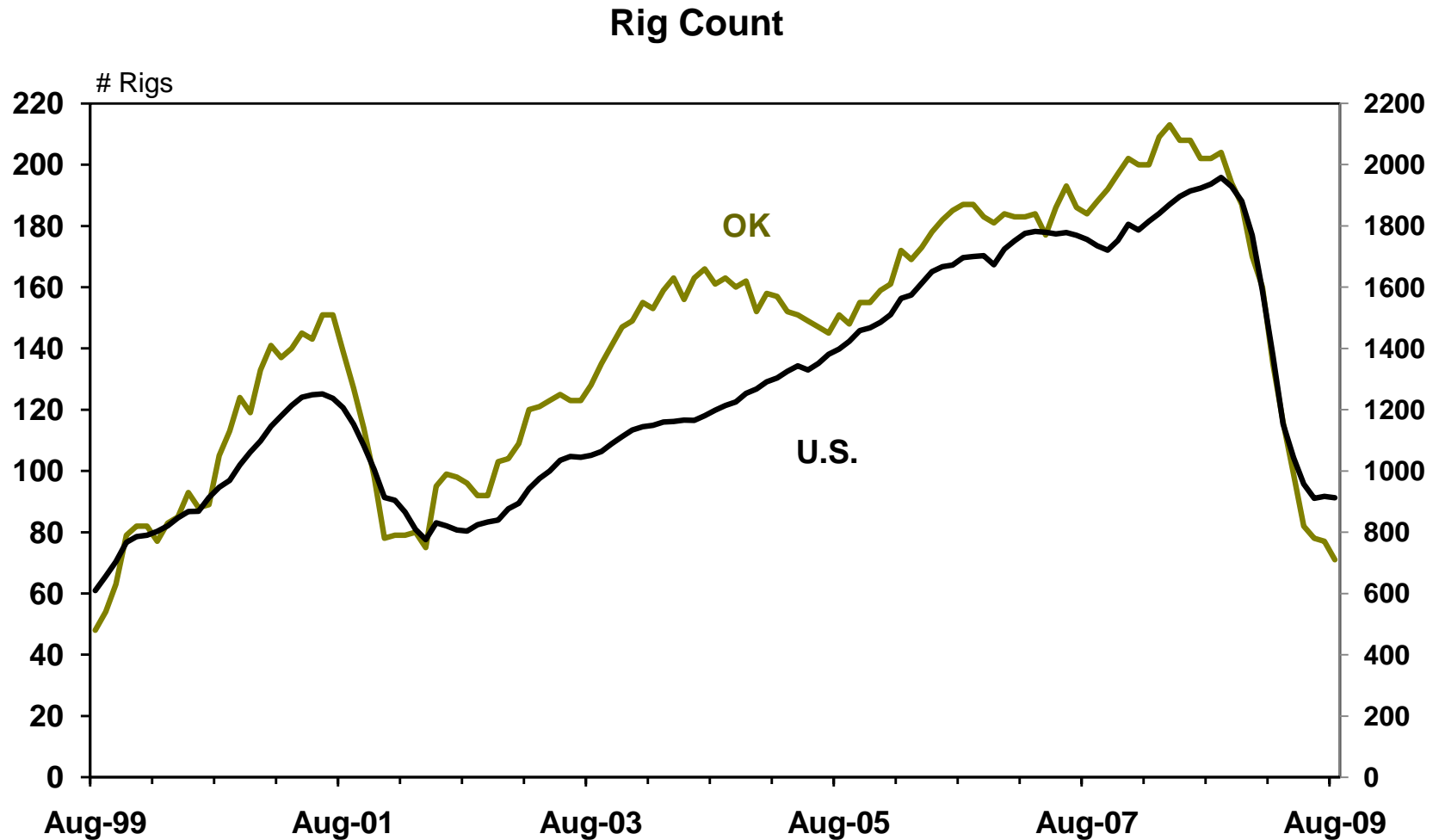


But in the past five years, Oklahoma's economy has become much less diversified

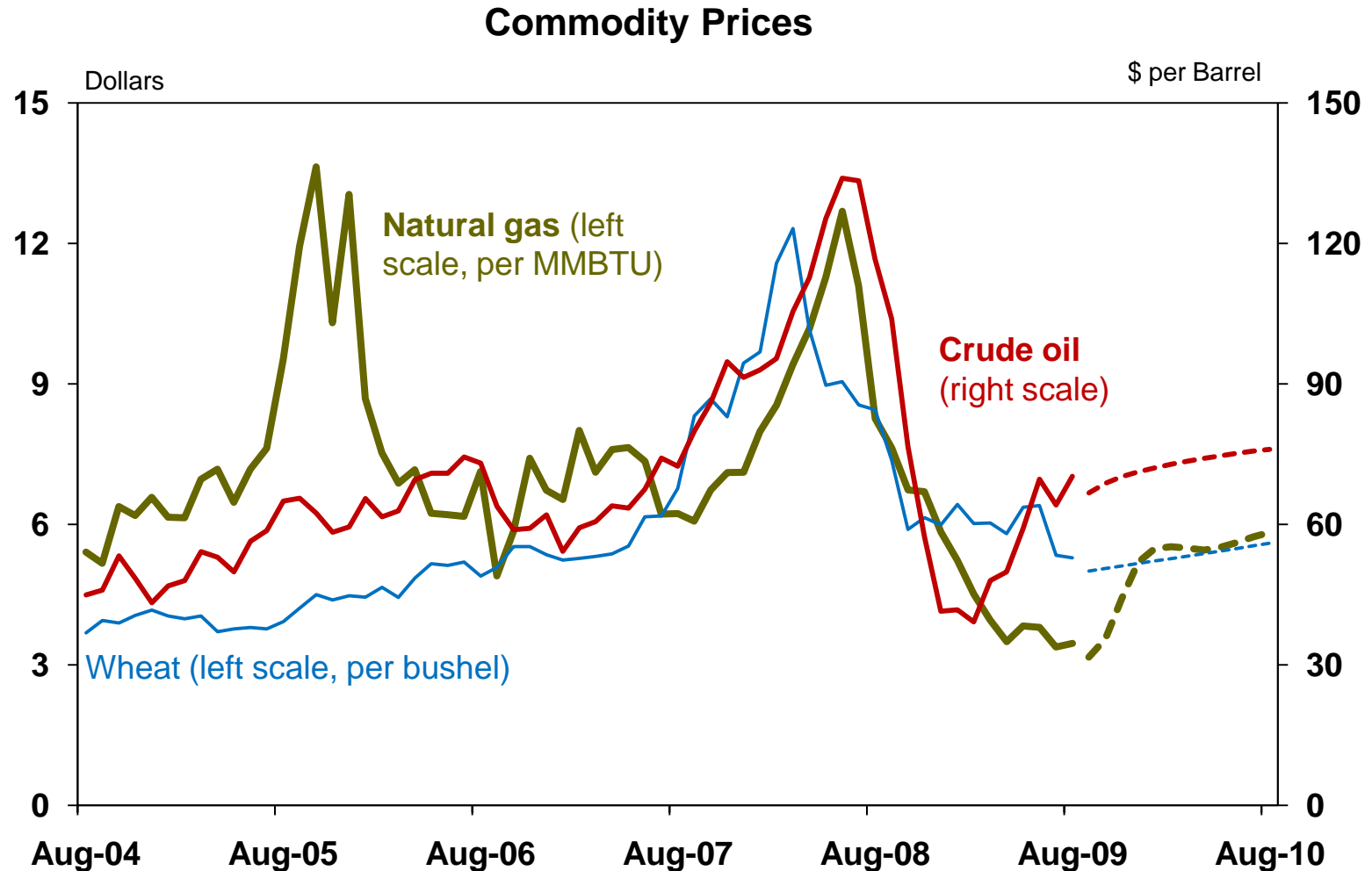
Energy and Agriculture's Share of GDP, 1963-2008



The rig count has slowed its freefall but continues to edge down in the state

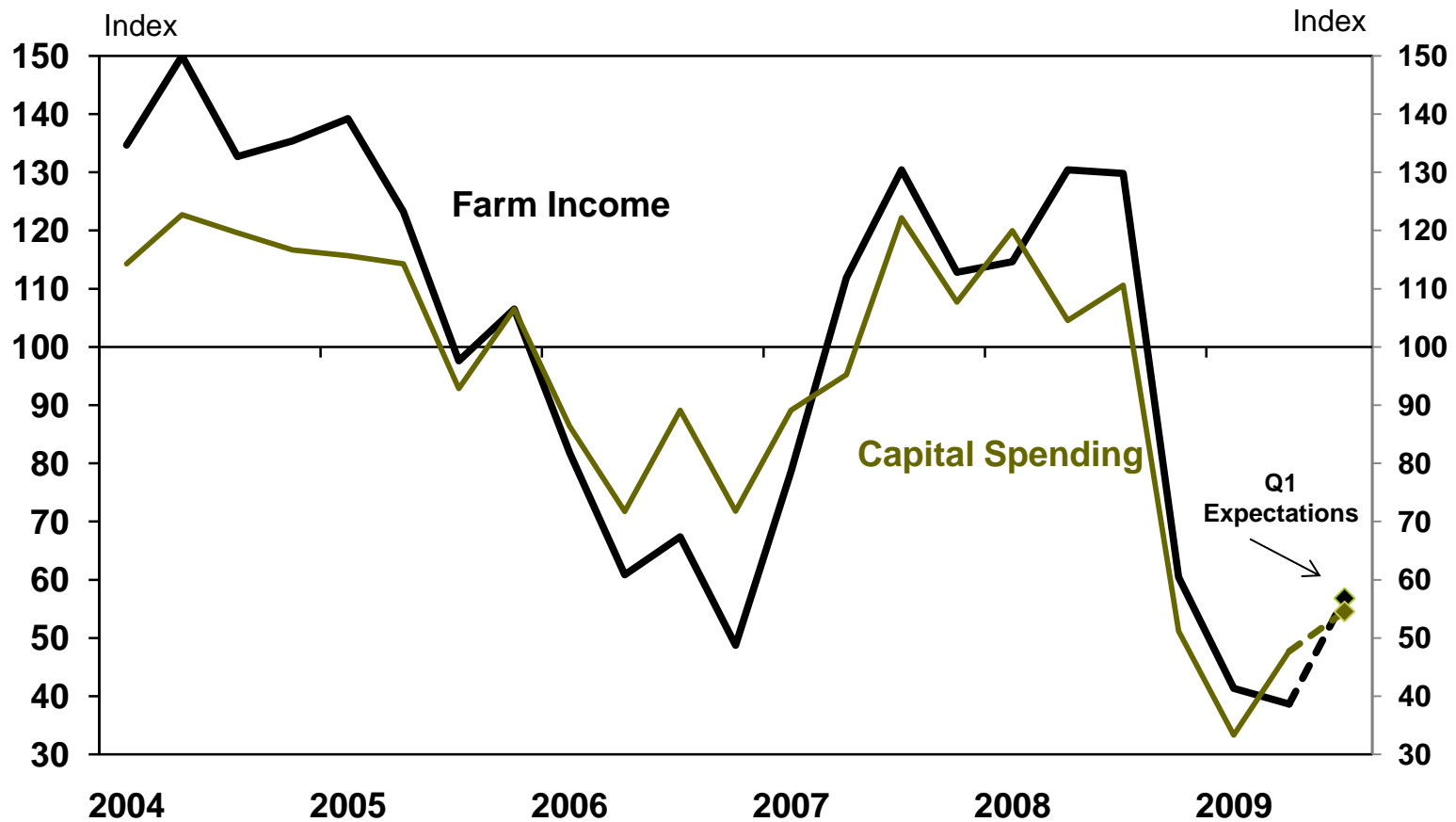


After peaking last year, important commodity prices are now going in different directions



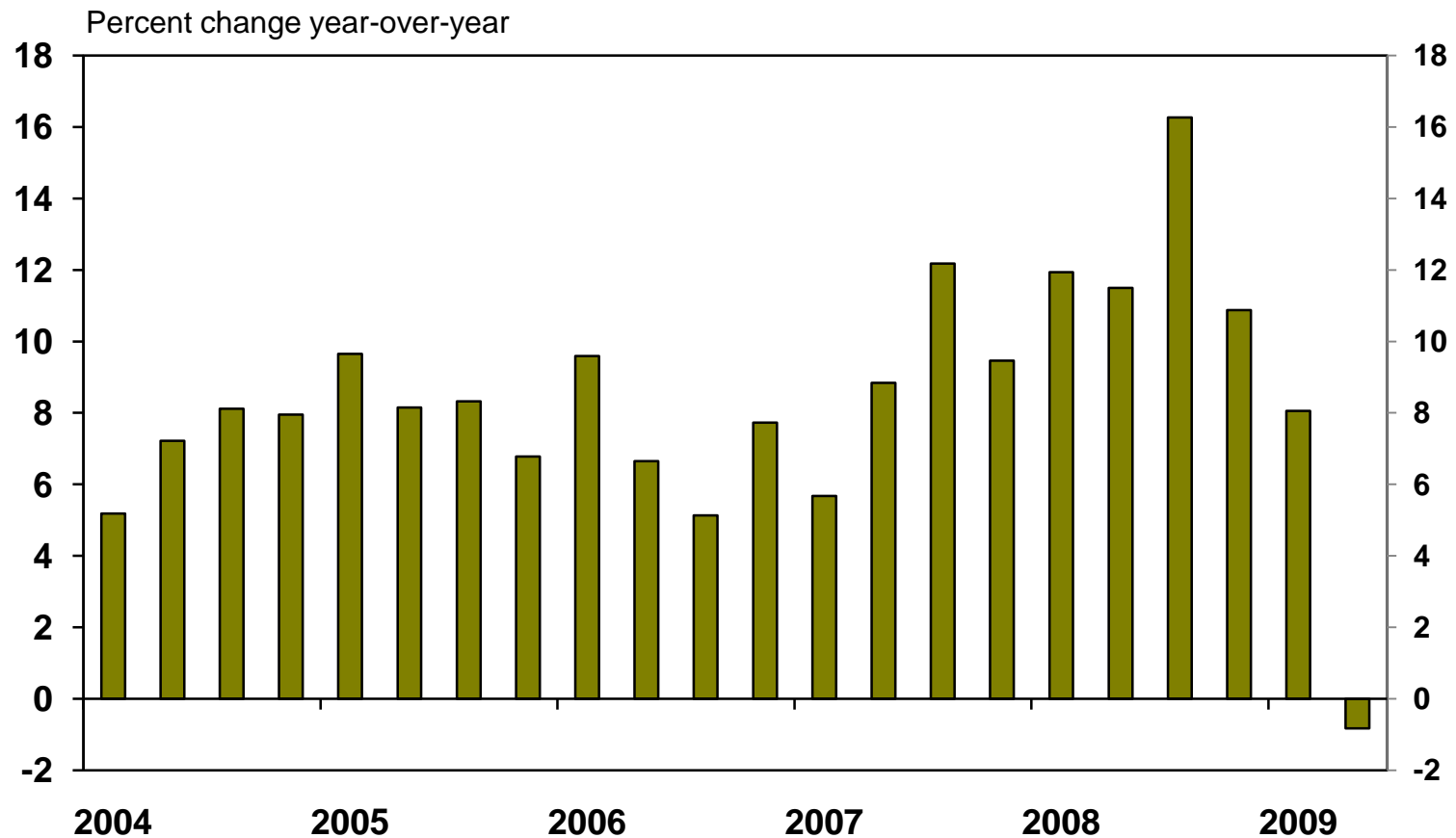
Agricultural conditions in the state remain rather weak, but the bottom appears past

Oklahoma Agricultural Conditions



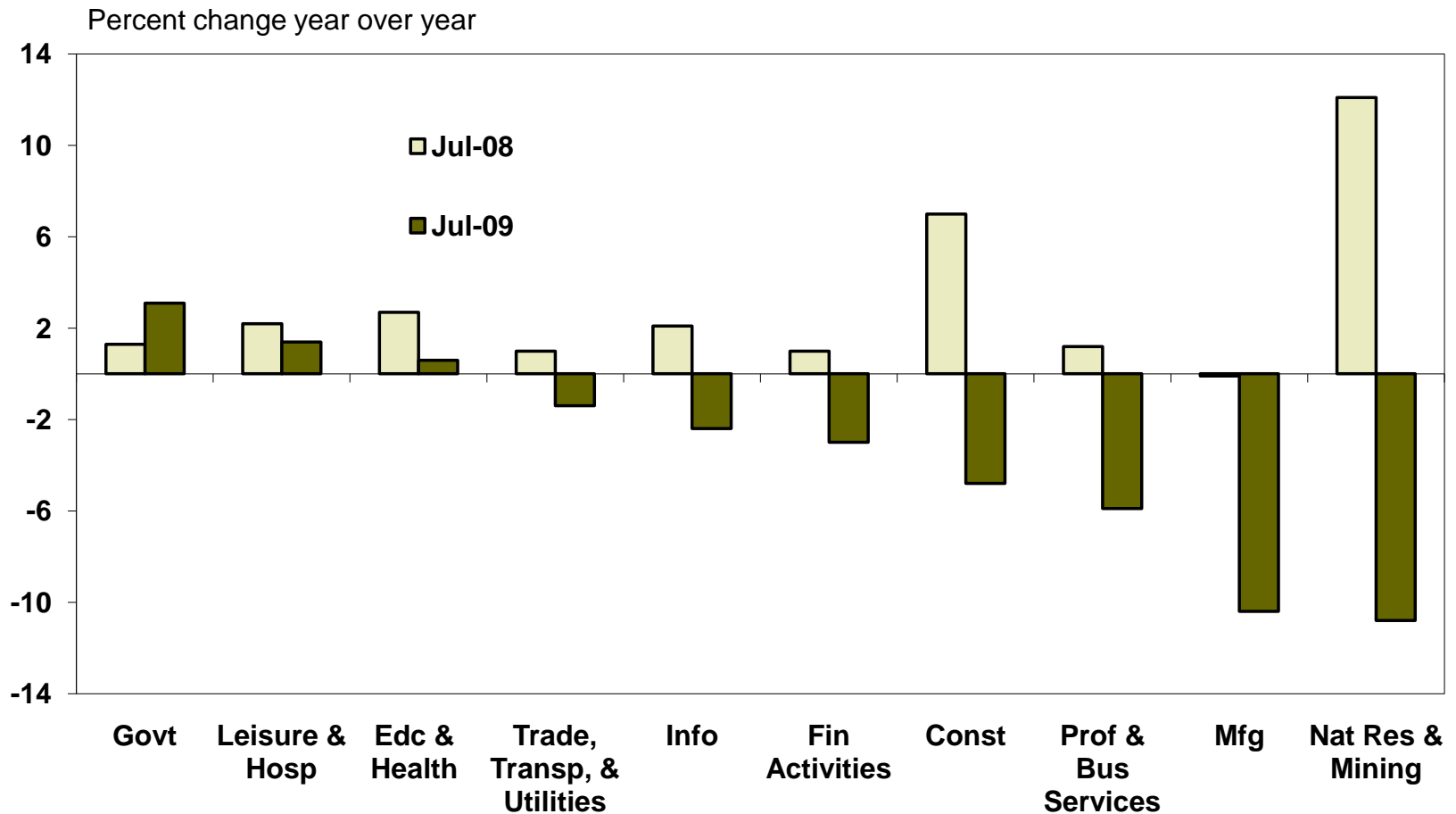
Farmland values in the state have flattened recently after rising rapidly in recent years

Oklahoma Agricultural Land Values Non-Irrigated Cropland

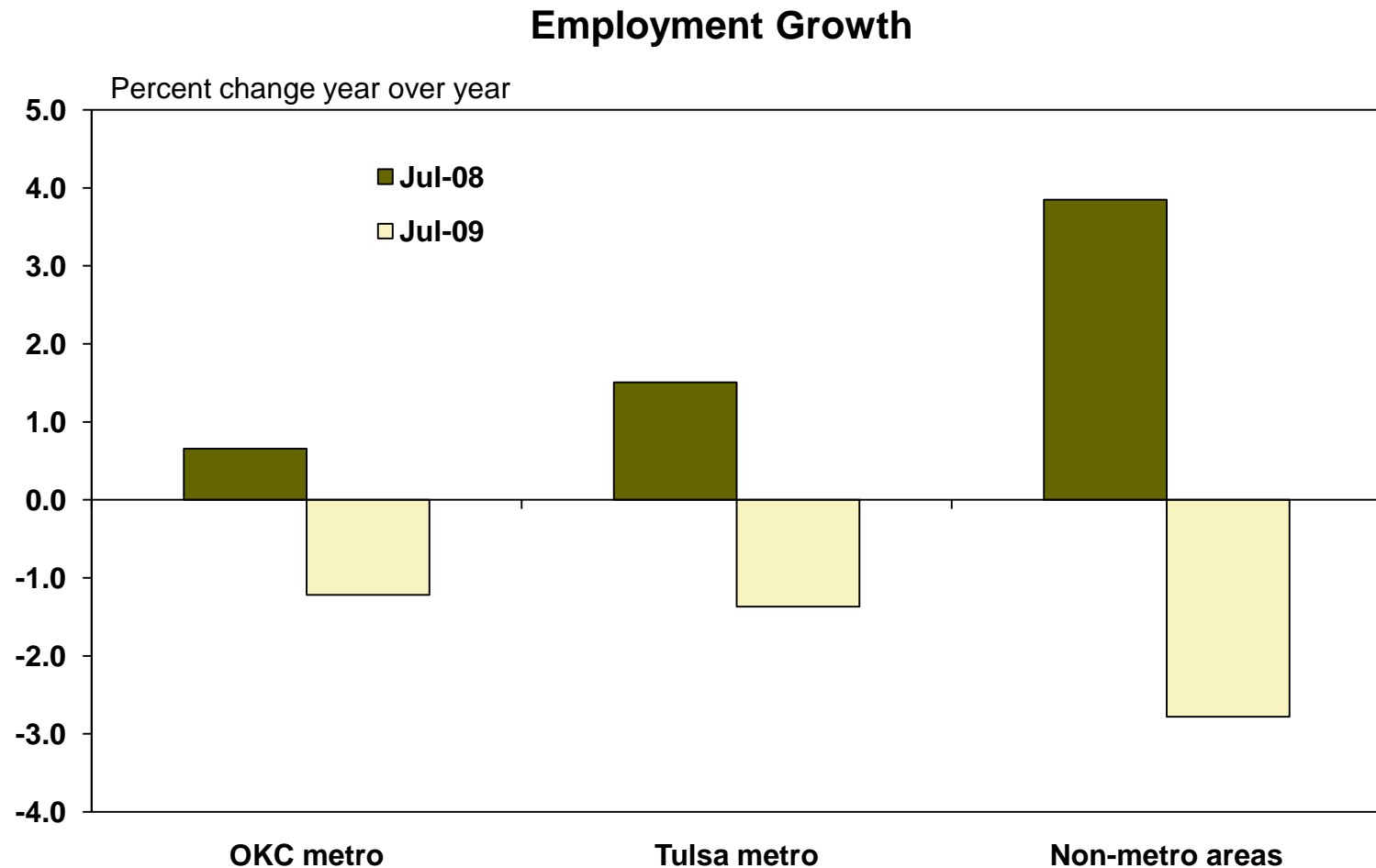


Jobs are still down markedly from a year ago in several of the state's industries

Oklahoma Employment Growth by Industry



And the decline in jobs has been especially sharp in non-metro areas of the state



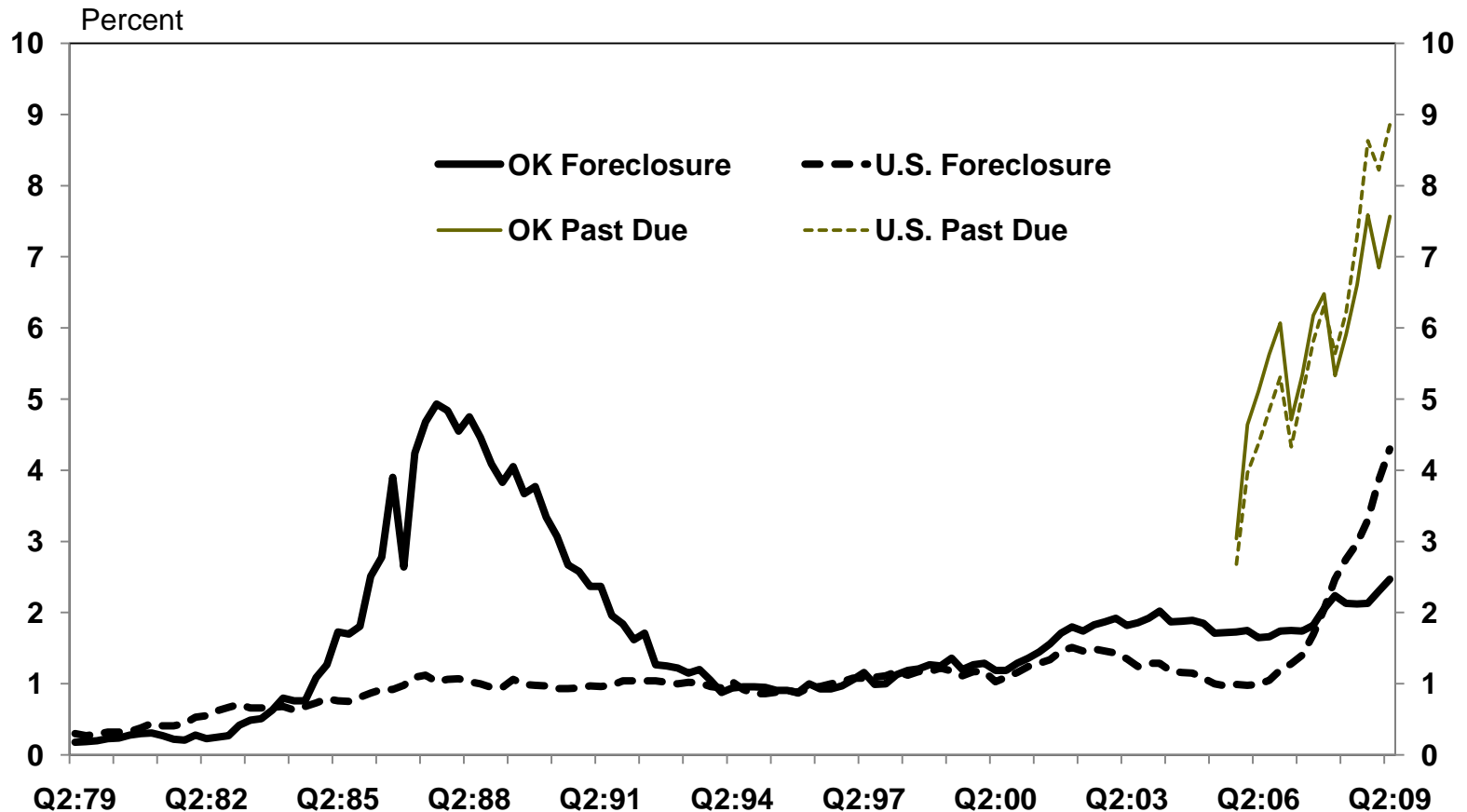
Foreclosures remain relatively low away from the western sunbelt, Florida, and Great Lakes

Foreclosure Rates, 2009 Q2



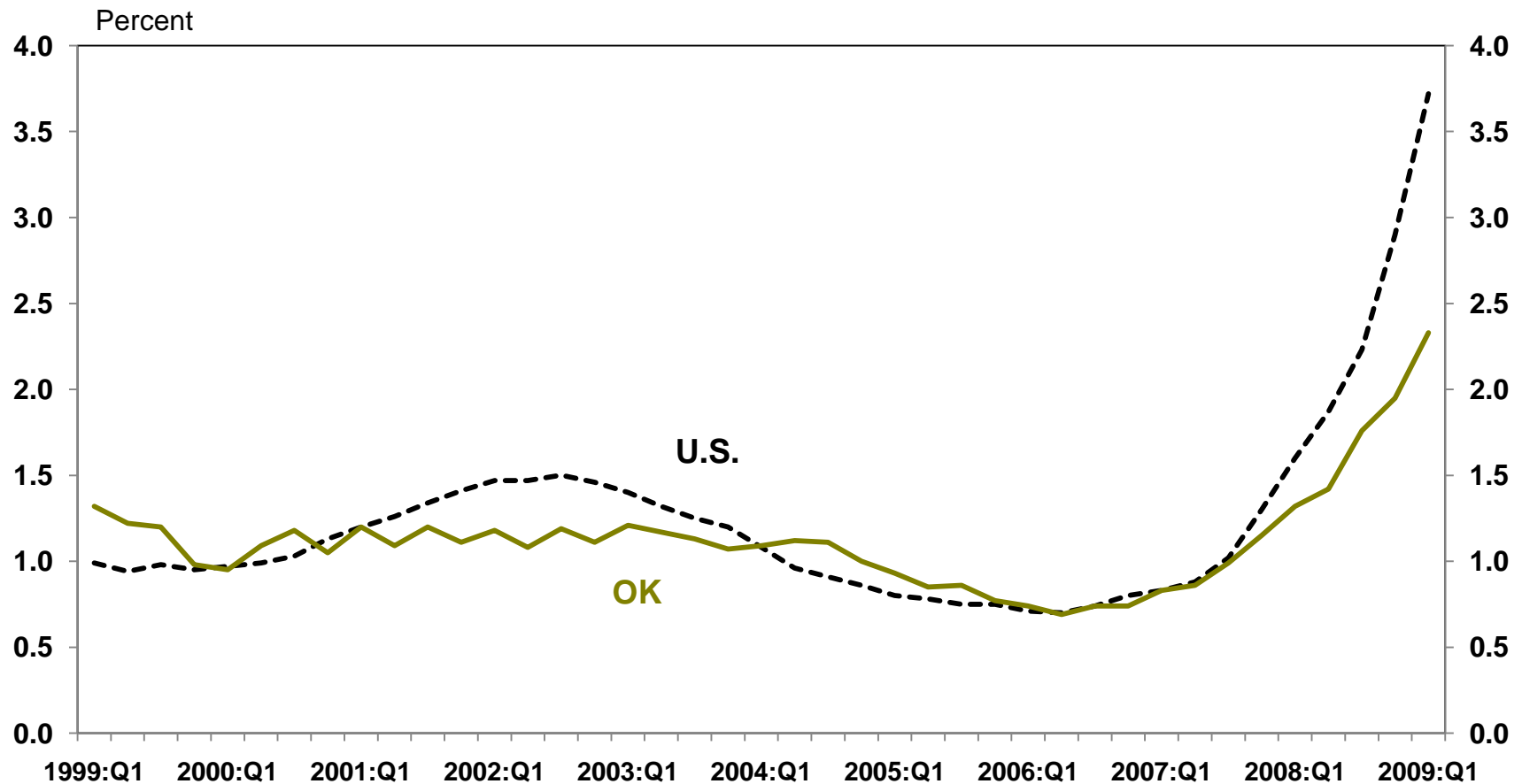
But while our mortgage problems are smaller than the nation's, they are increasing

Foreclosure and Past Due Mortgage Rates
U.S. vs. Oklahoma



Overall past due loans are also rising at Oklahoma banks, but less than in the nation

Noncurrent Loans as a Share of Total Loans
Commercial Banks



Summary

- The U.S. economy appears to have stabilized, but recovery is expected to be modest
- Oklahoma, after entering the recession much later, also appears to have stabilized
- Still, a number of risks to growth remain in the state, including especially energy prices