

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

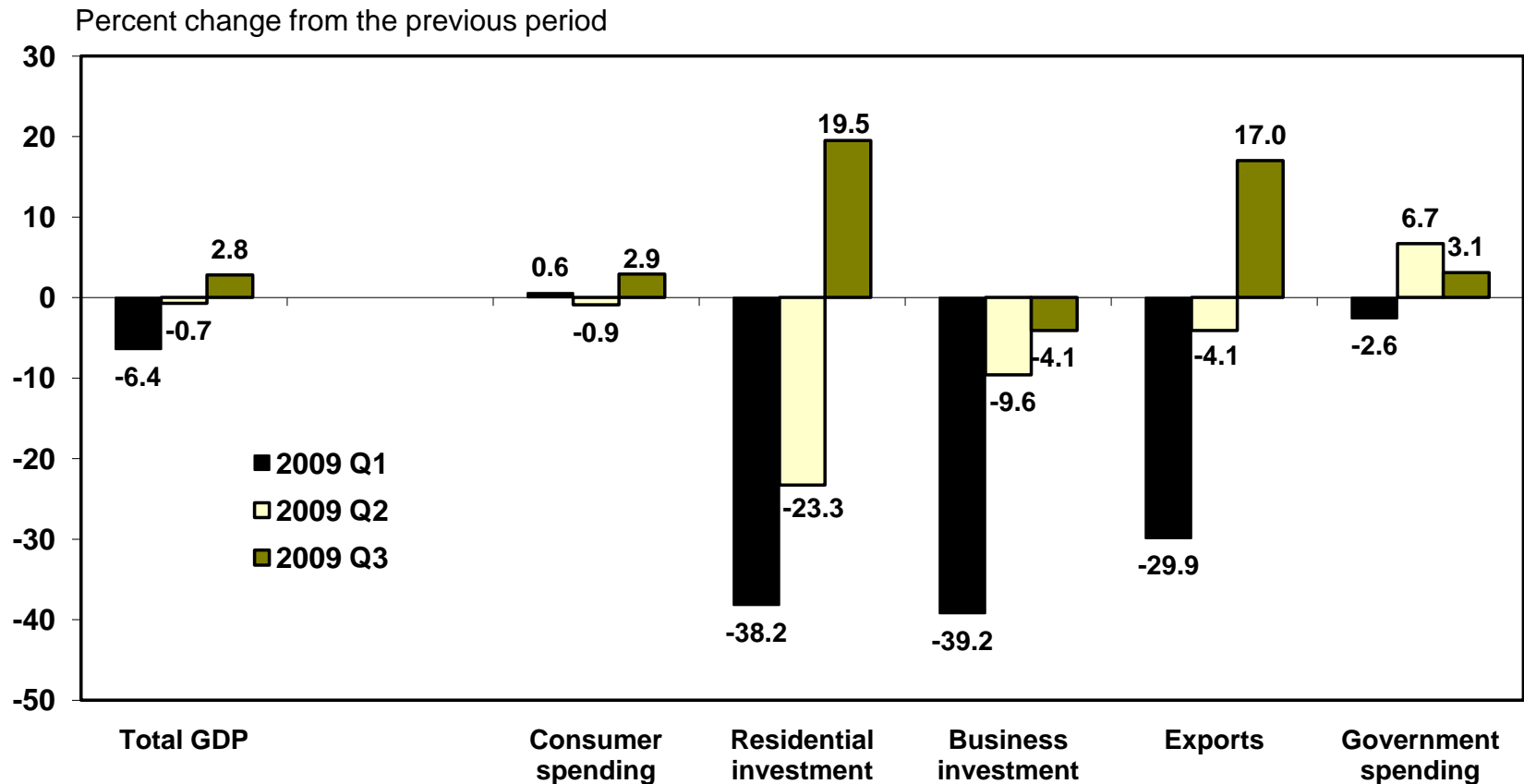


The U.S. Economy

- 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

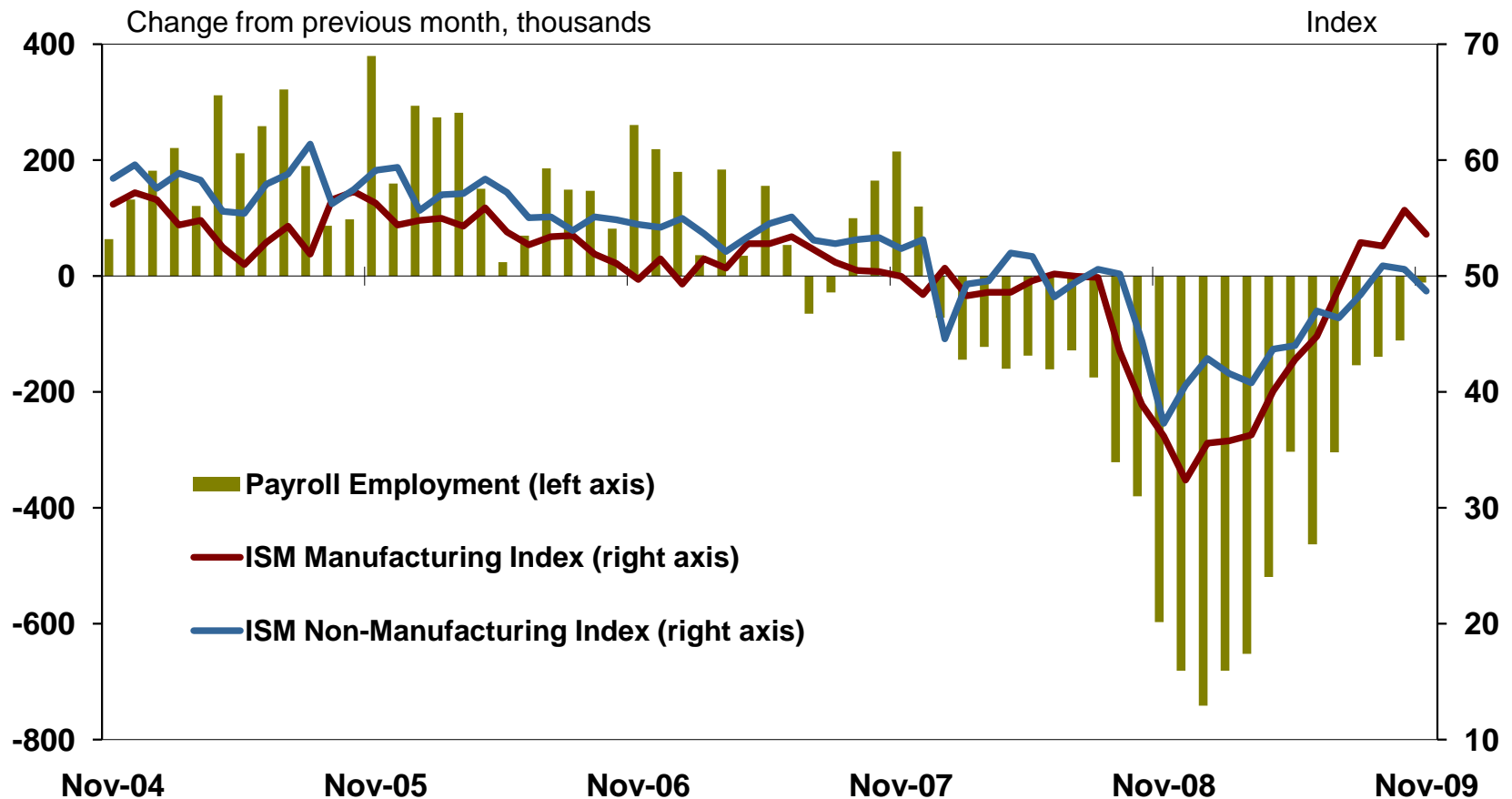
Third quarter GDP growth was quite positive, but was boosted by government stimulus

Growth in Components of GDP



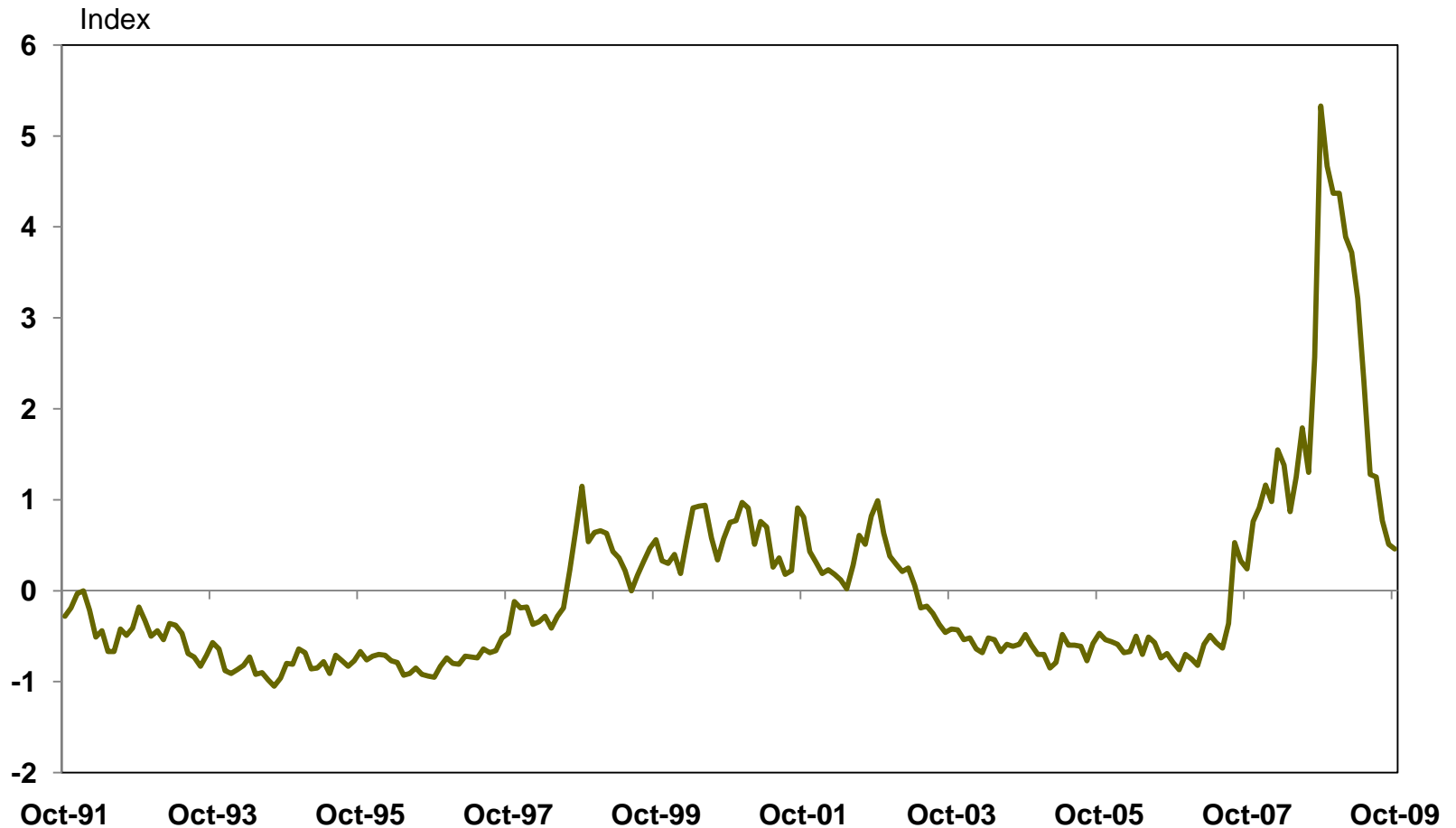
Early reads on the fourth quarter show moderate growth but continued job losses

National Business Indexes and Payroll Employment



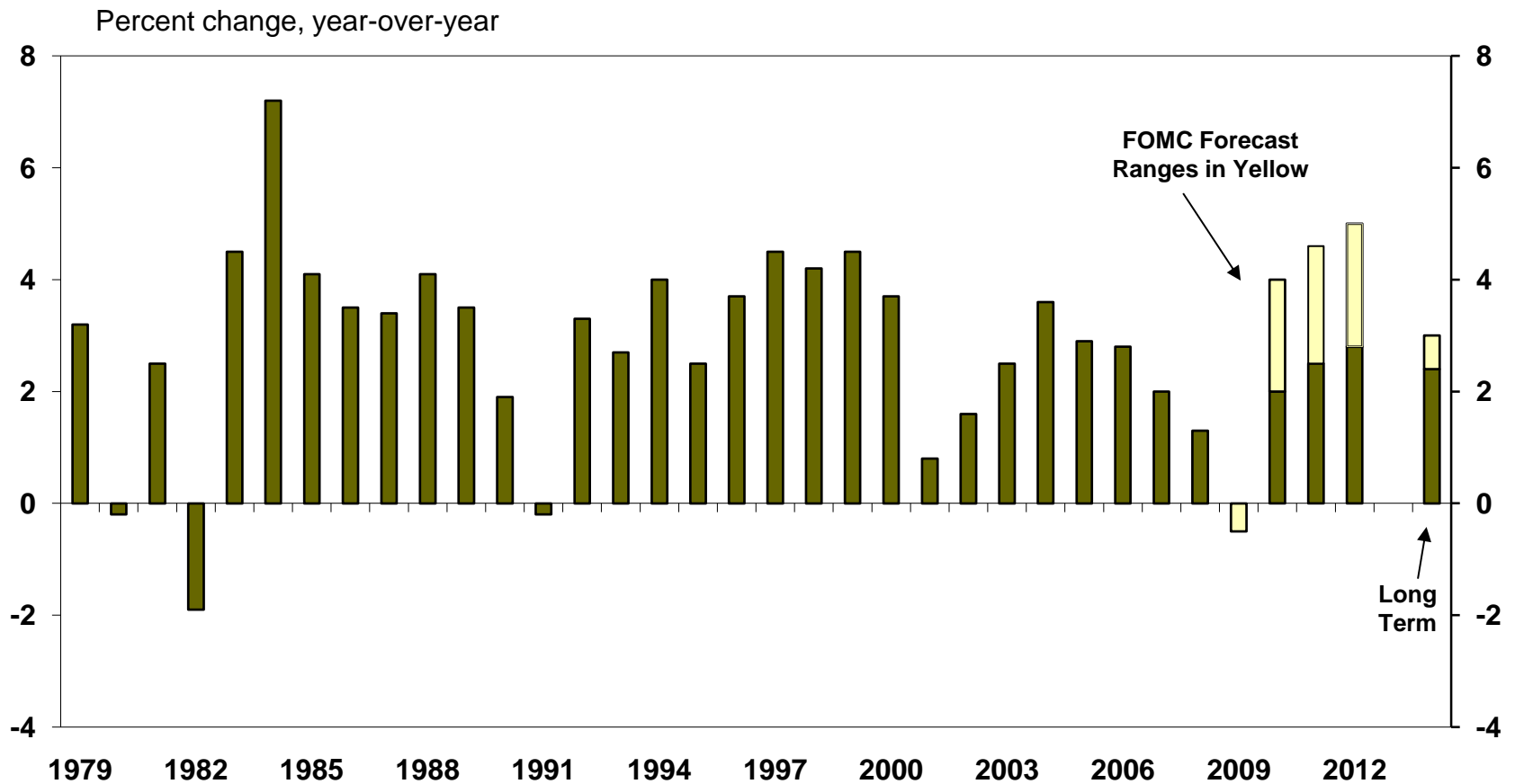
Credit market conditions have improved but remain somewhat stressed

Kansas City Financial Stress Index



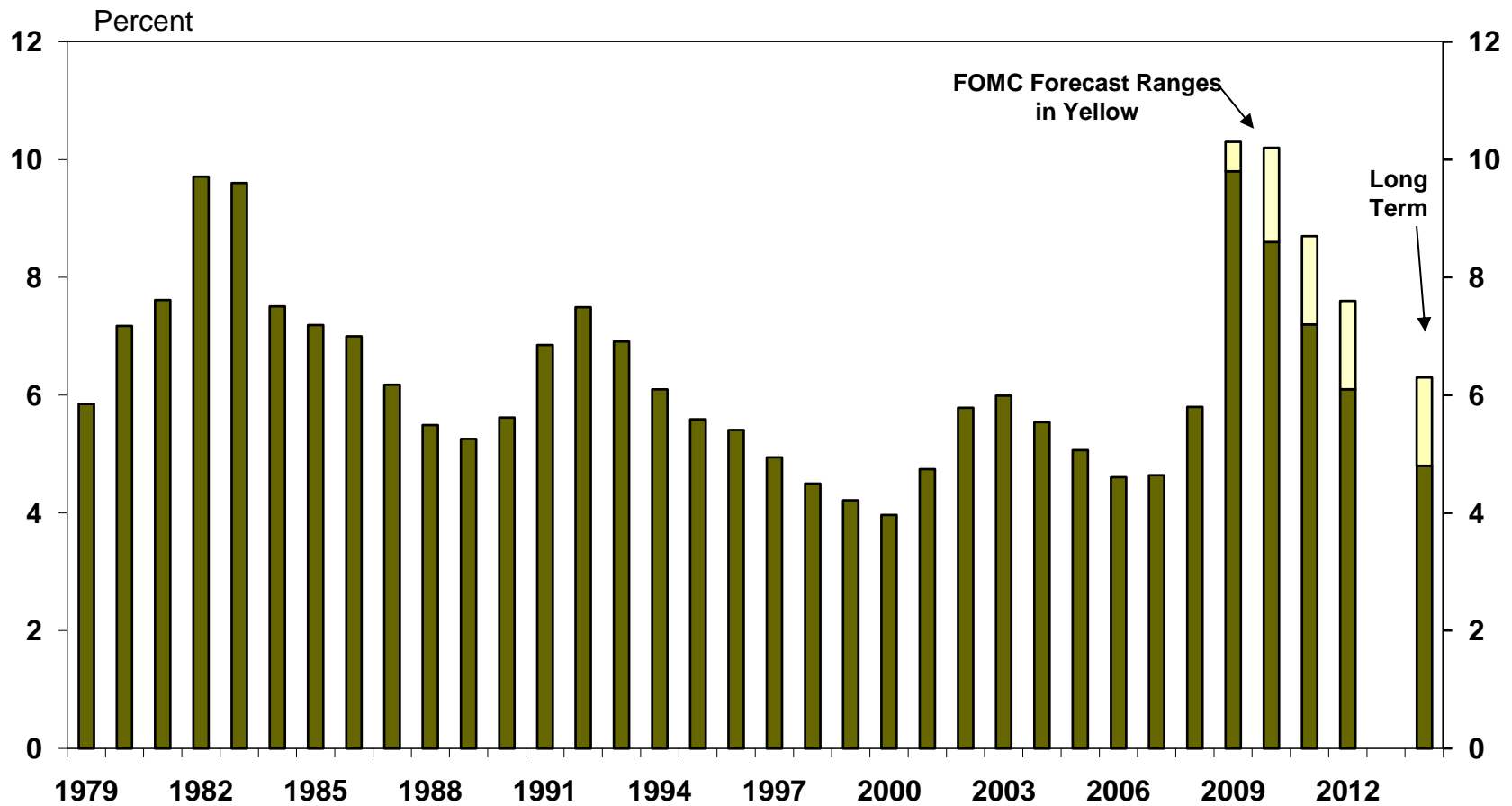
Heading forward, policy makers generally expect a gradual recovery

Gross Domestic Product



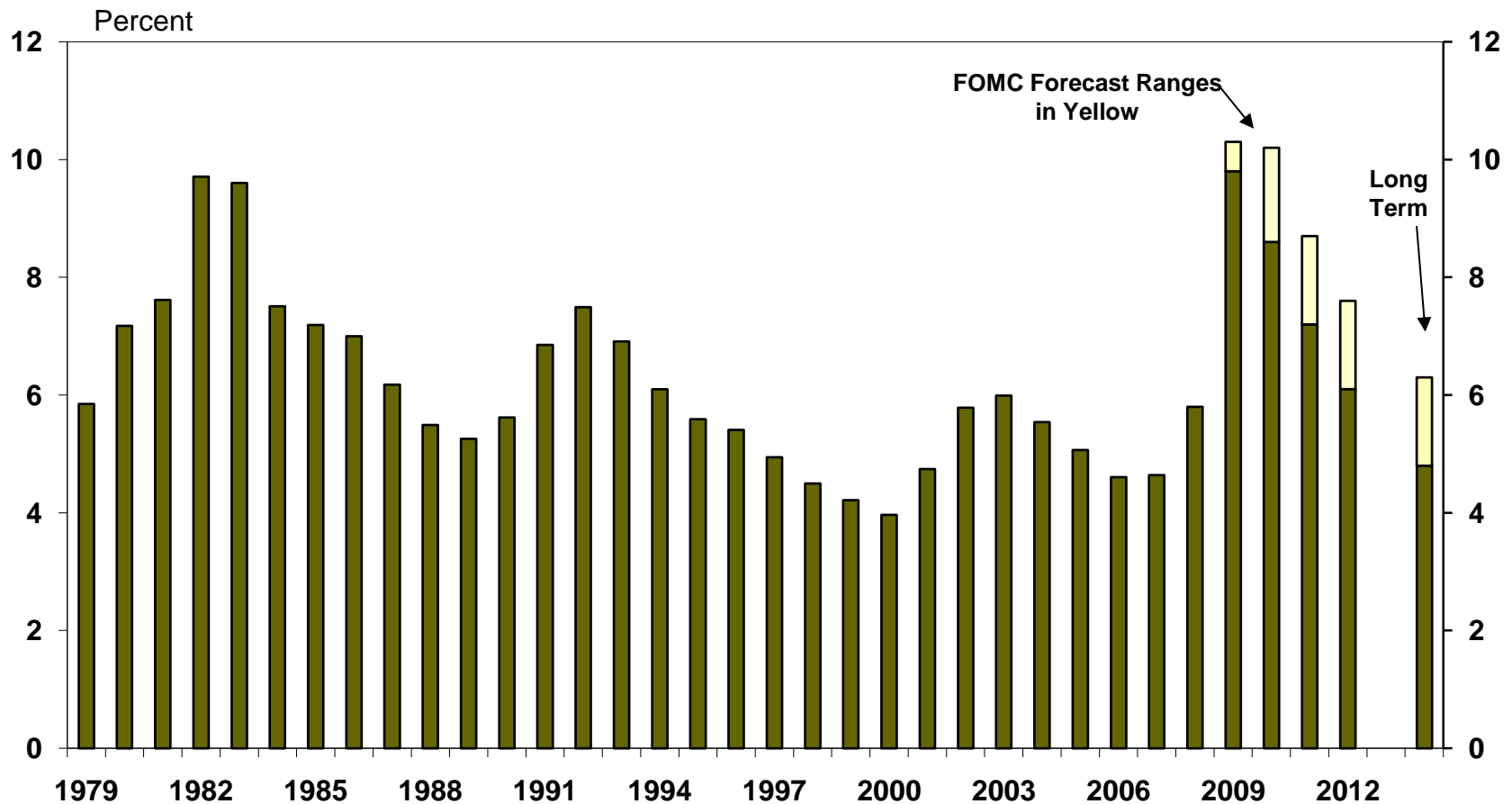
But unemployment is expected to remain high for some time

Unemployment Rate
Seasonally Adjusted



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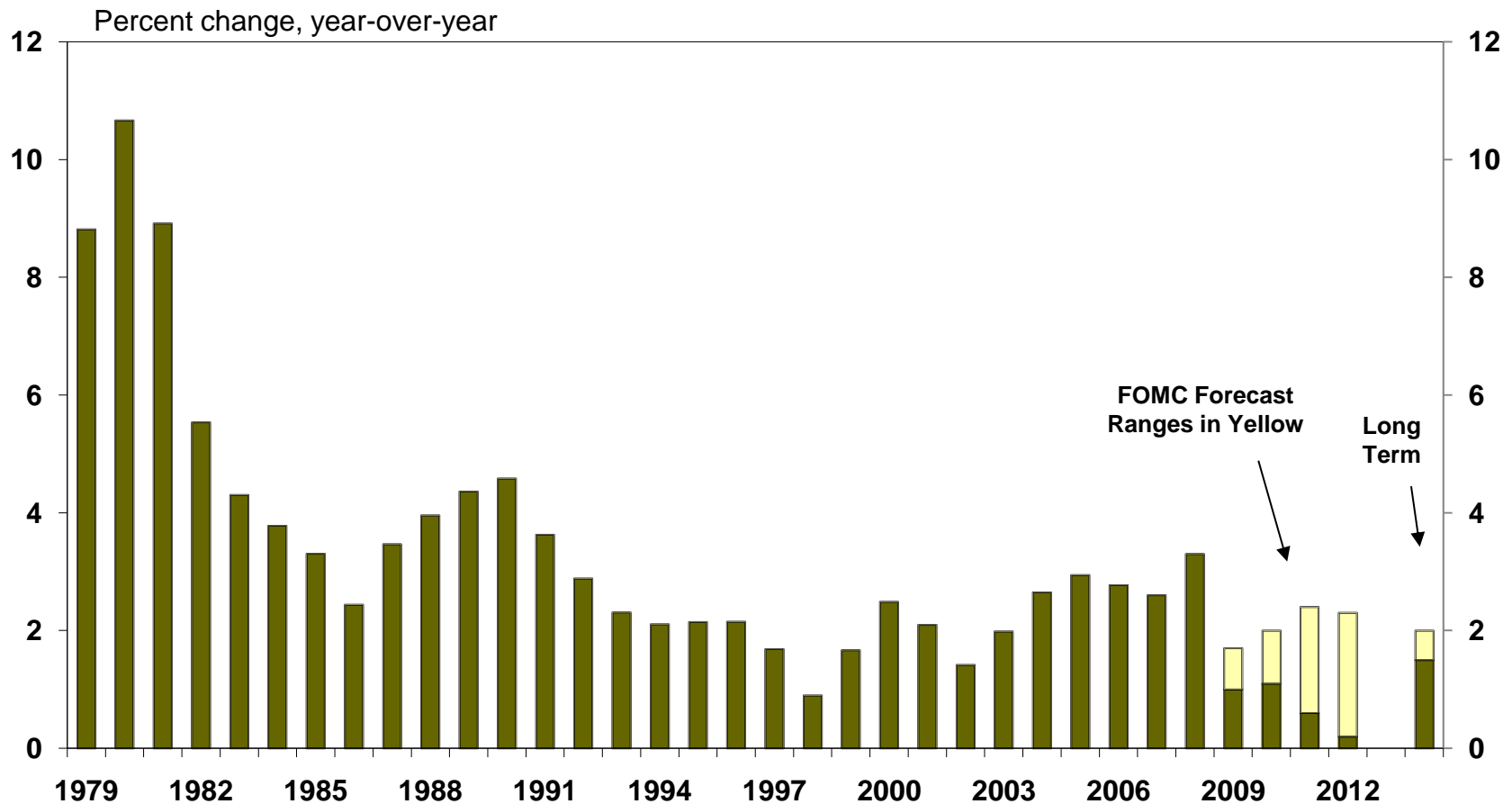


A list of reasons why U.S. recovery speed could be modest

- ❑ Some credit markets remain strained
- ❑ Consumers focus on repairing balance sheets and rebuilding wealth rather than spending
- ❑ Foreclosures and excess inventories continue to weigh on housing
- ❑ Problems in commercial real estate and general uncertainty restrain capital spending and hiring

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

PCE Inflation Index

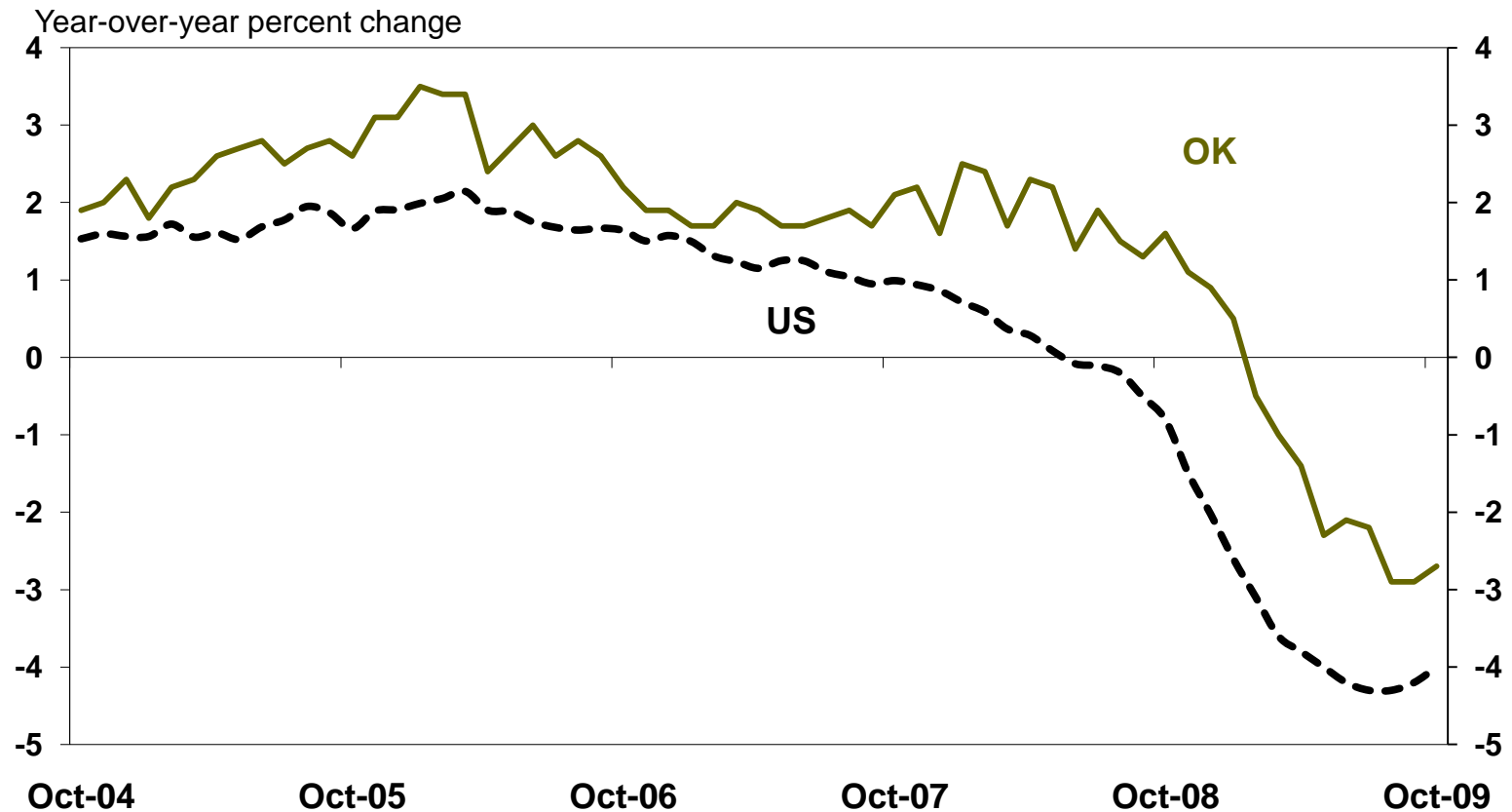


The Oklahoma Economy

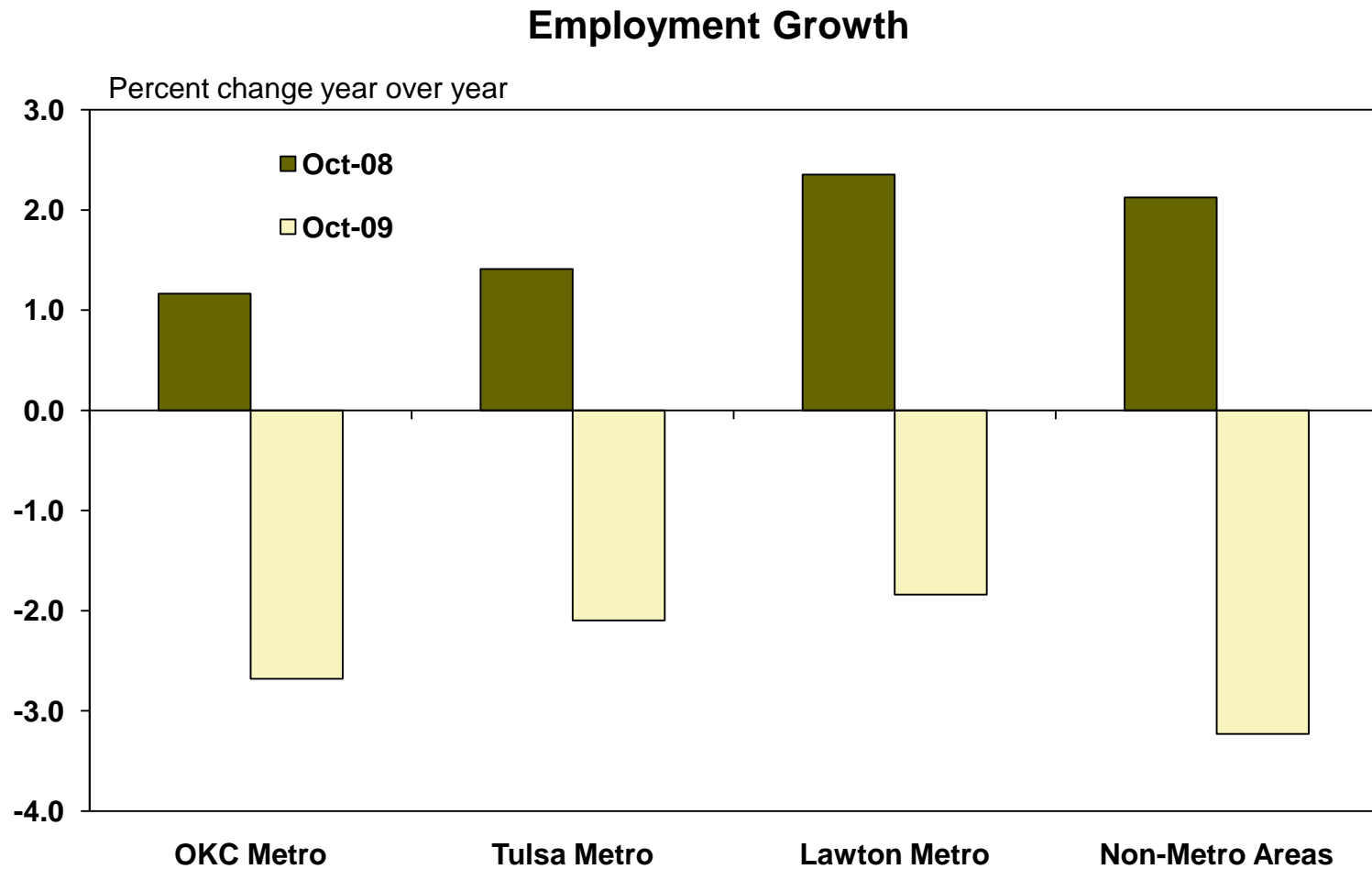
- As usual in recessions, Oklahoma entered this recession later than the nation
- Some mixed signs of stabilization have appeared, and fiscal stimulus is kicking in
- But several risks remain in the state, especially the future path of energy prices

Oklahoma has shed jobs rapidly in 2009 but perhaps a bottom has been reached

Nonfarm Payroll Employment Growth

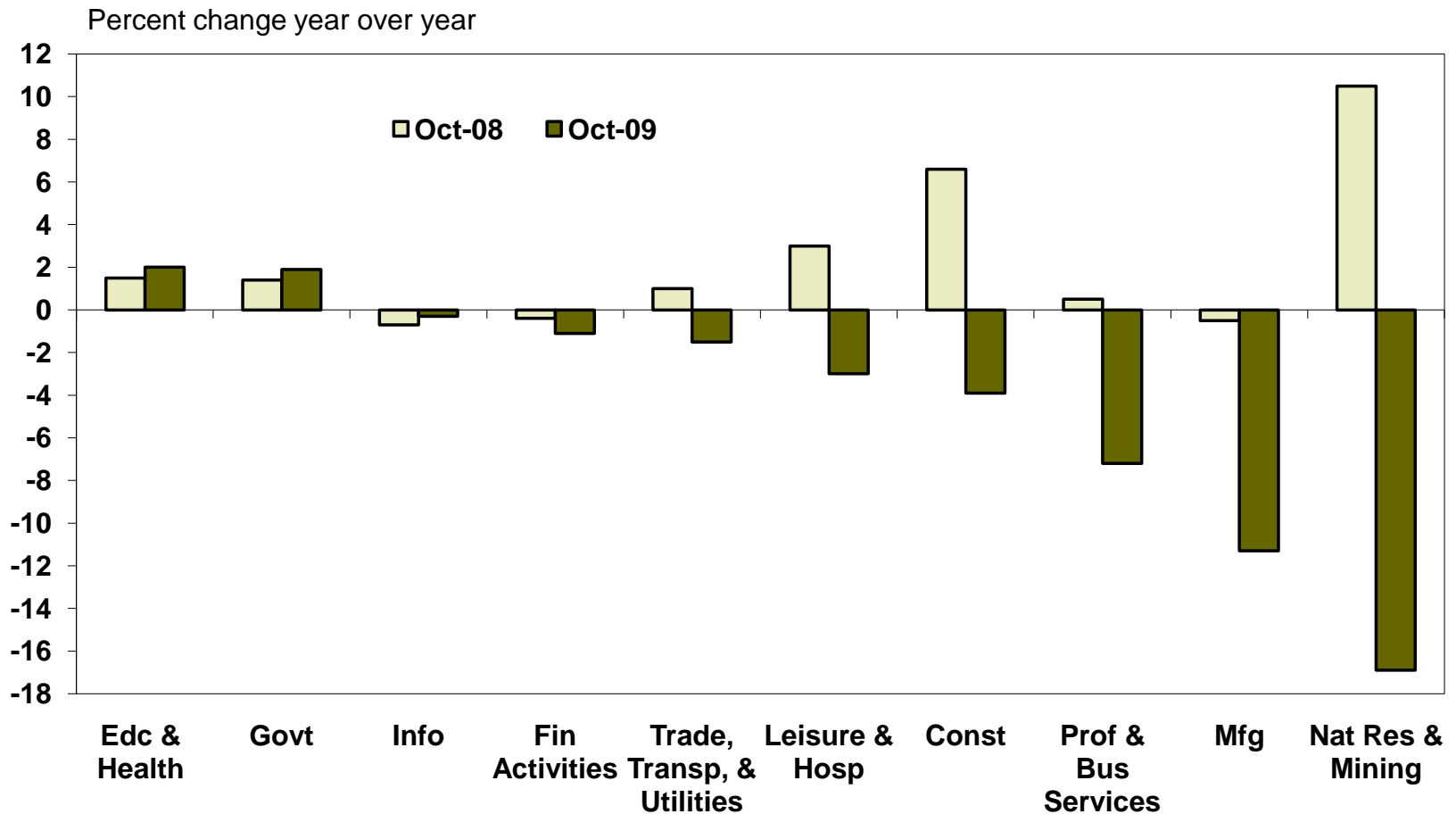


The decline in jobs has been sharpest in non-metro areas of the state



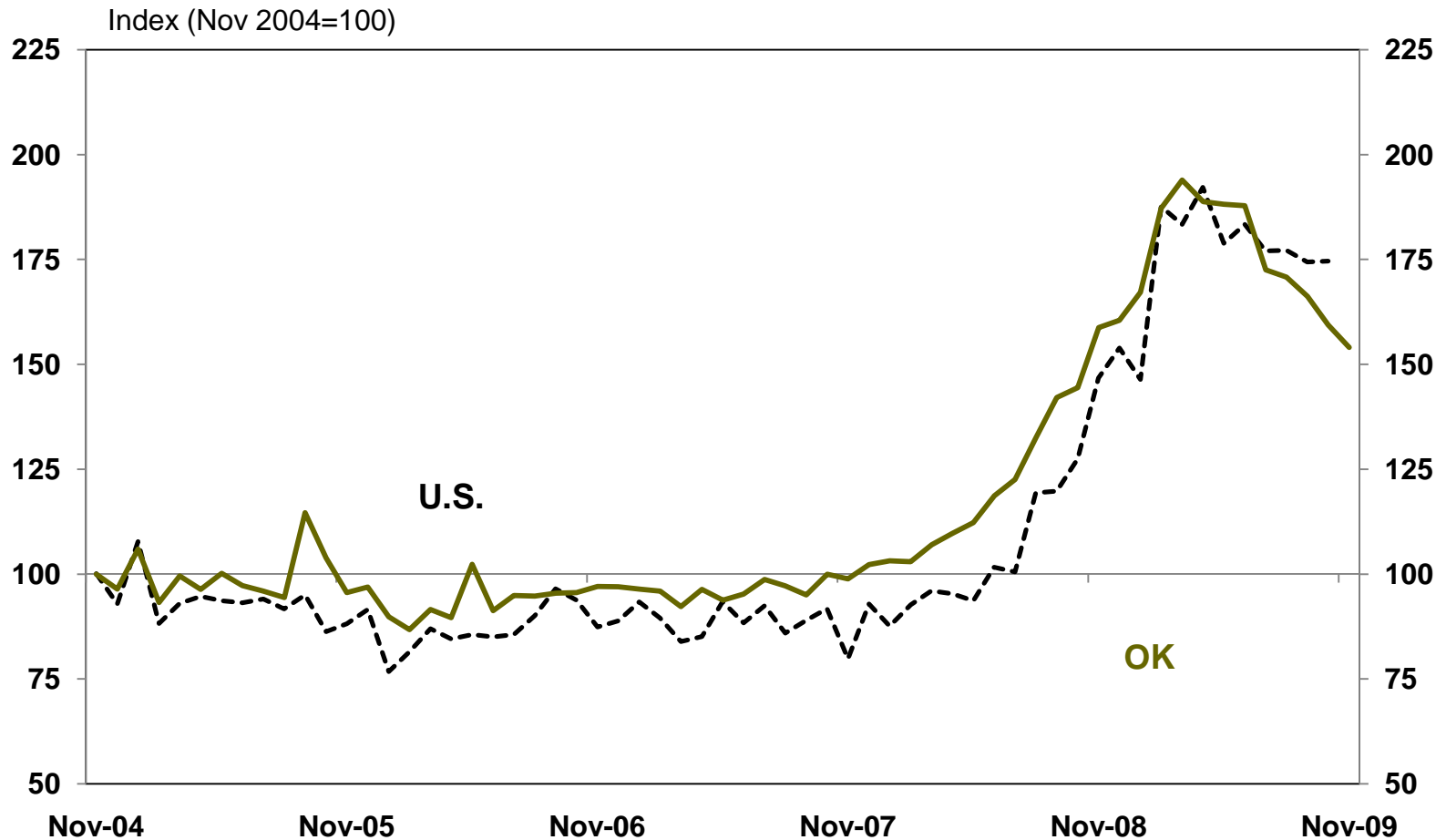
Jobs are down markedly from a year ago in many of the state's industries

Oklahoma Employment Growth by Industry



New jobless claims are still high in Oklahoma, but have come down slightly in recent months

Initial Claims for Unemployment Insurance



Labor market conditions remain much better than in the nation

Unemployment Rate, October 2009



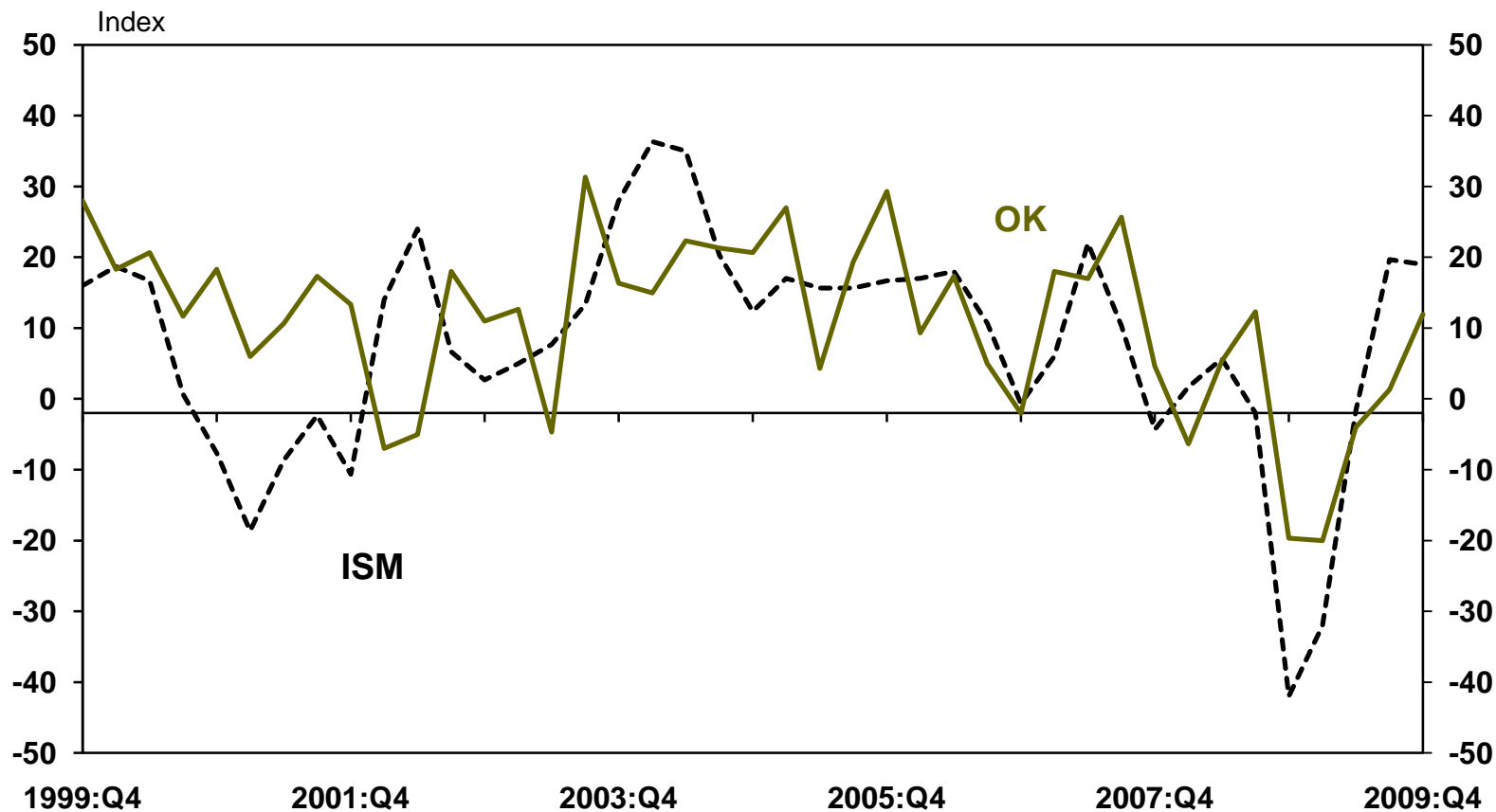
Oklahoma home prices have held up relatively well and appear to have stabilized

Quality-Adjusted Home Price Growth
Purchase Only



Manufacturing indexes for the state also show some improvement recently

Manufacturing Production Indexes
Seasonally adjusted

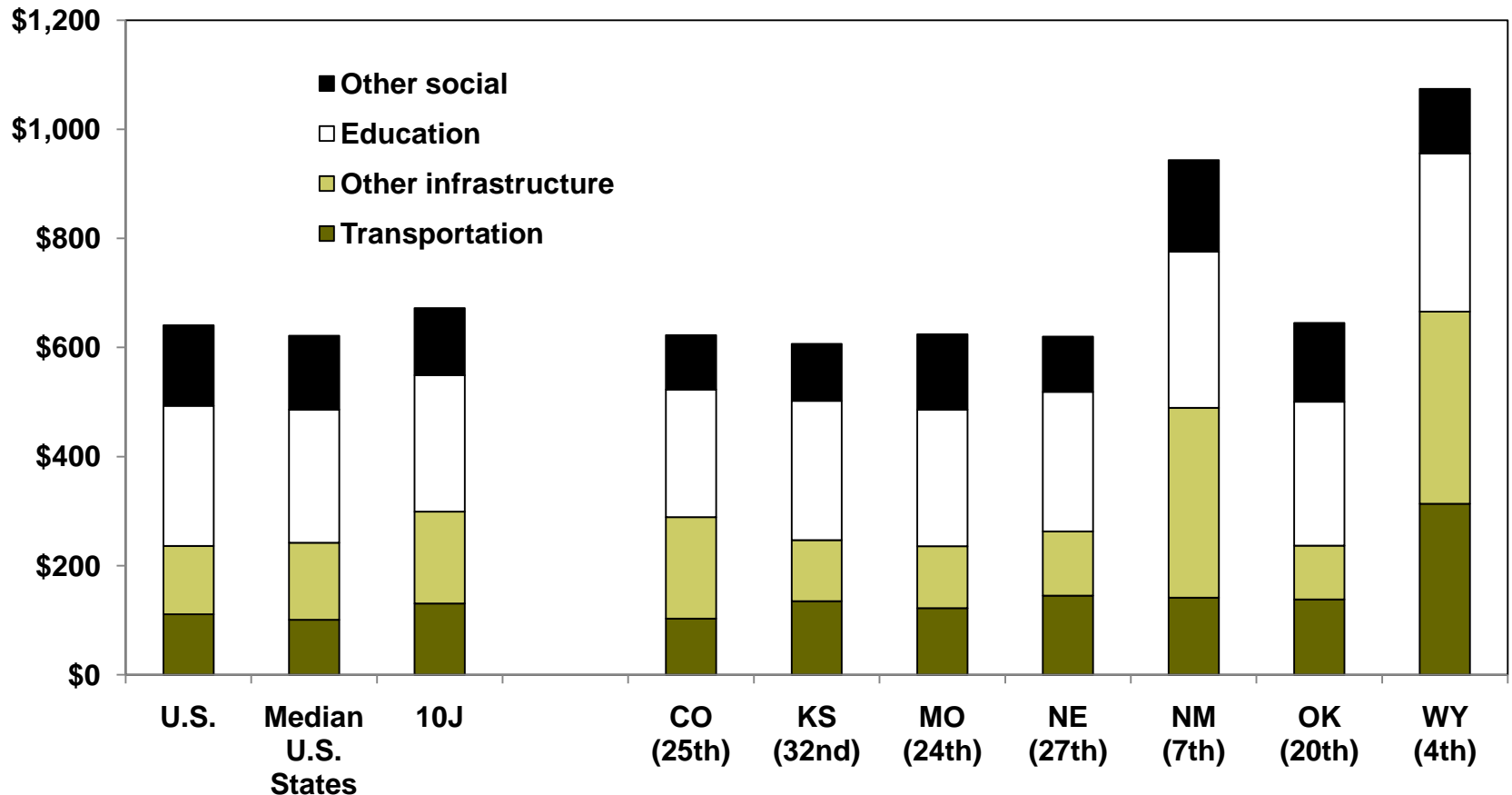


Note - 4th Quarter is October & November

Source: ISM, FRBKC Manufacturing Survey

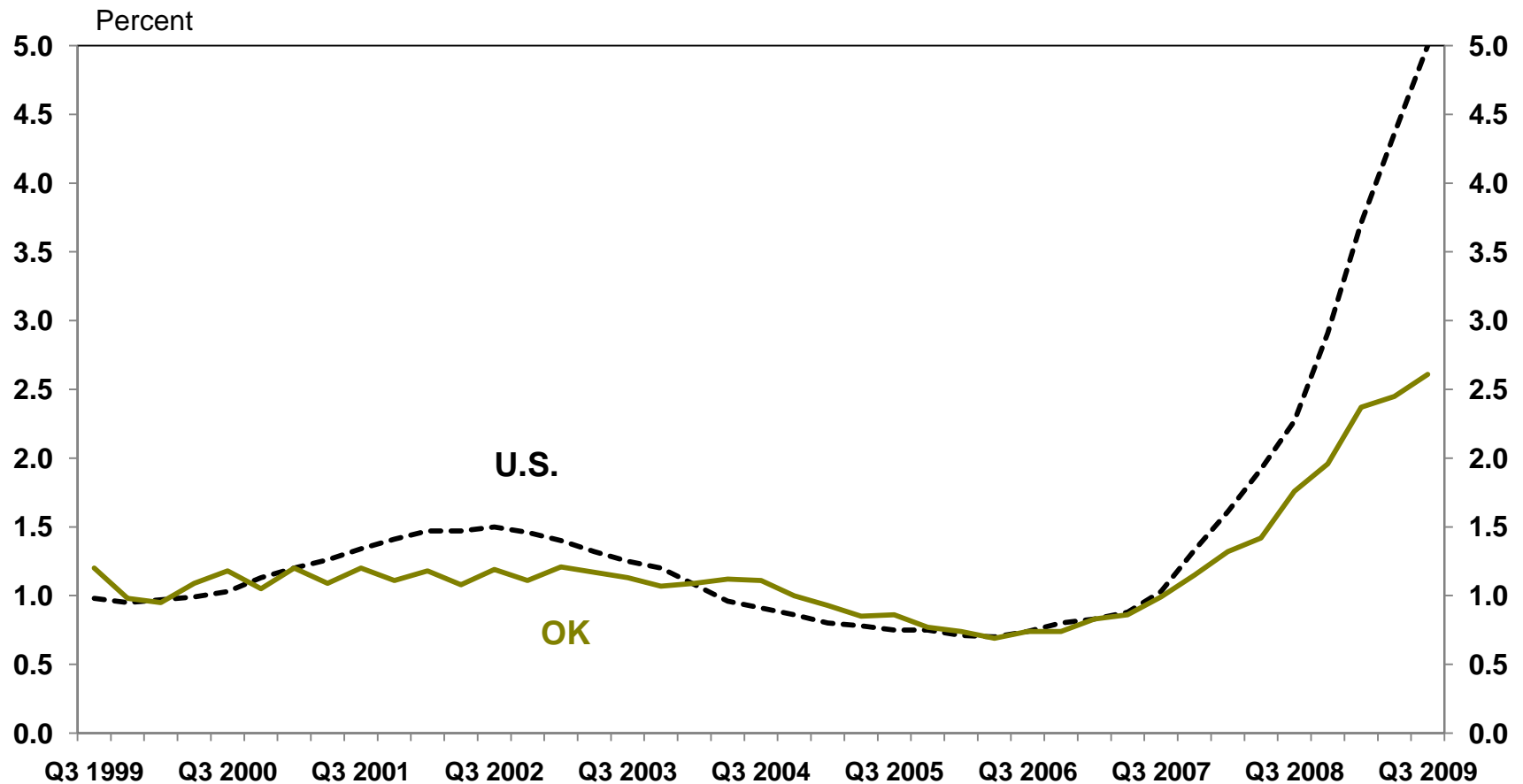
And Oklahoma is receiving about as much fiscal stimulus as the nation

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



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

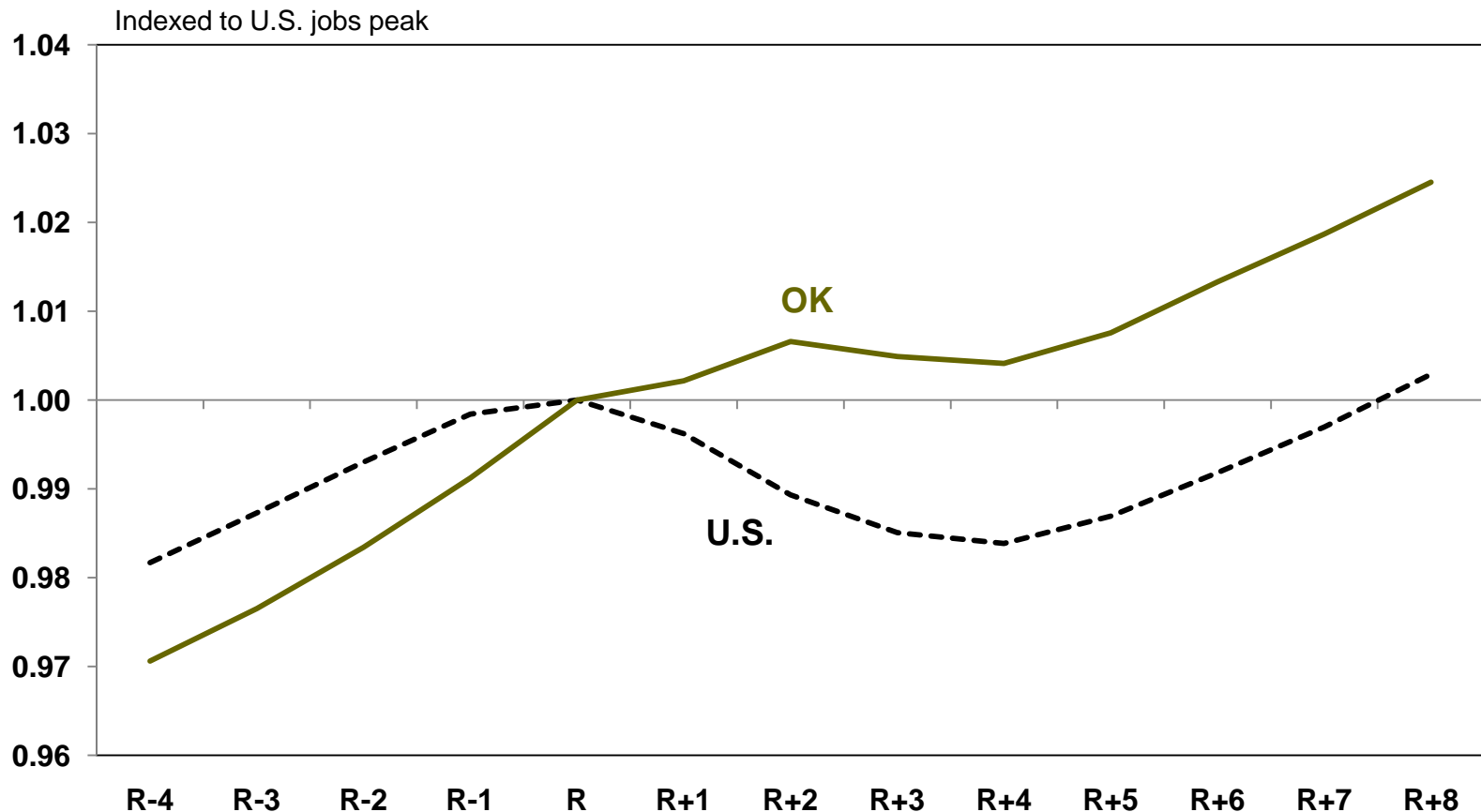
Noncurrent Loans as a Share of Total Loans
Commercial Banks



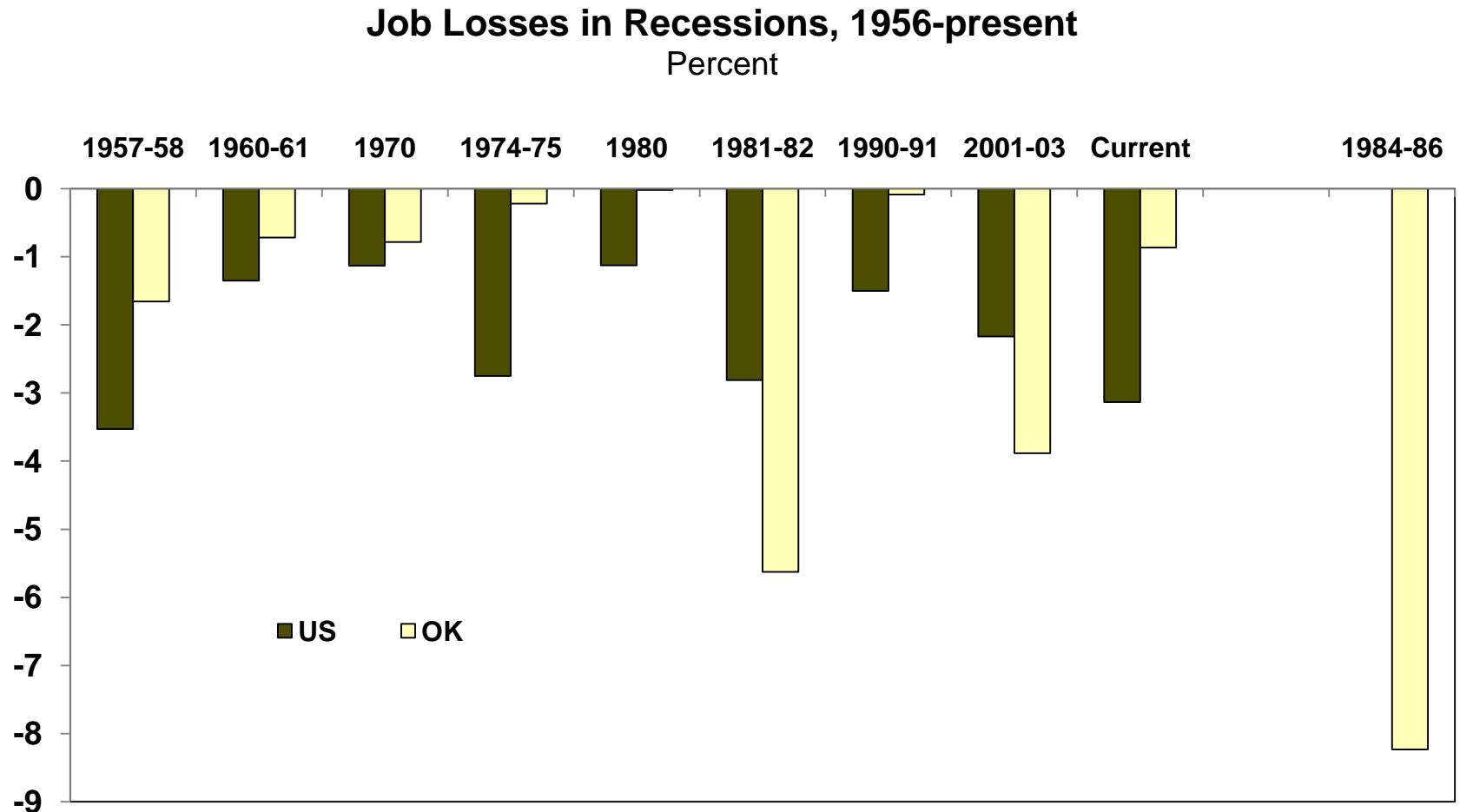
So far, Oklahoma's performance in this recession is consistent with history

Average Recession Path, 1956-2006

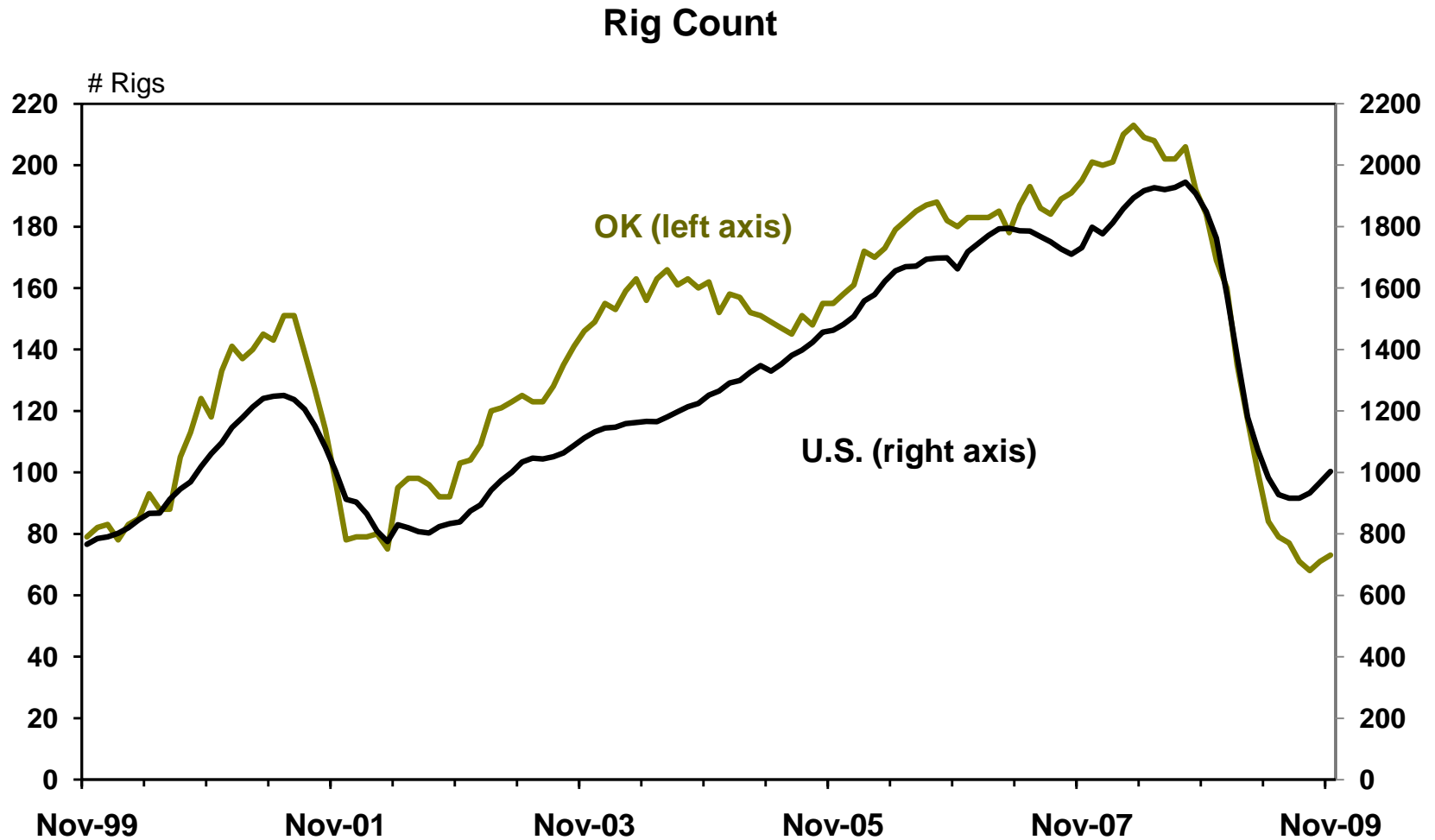
Employment level 4 quarters before and 8 quarters after U.S. jobs peak



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

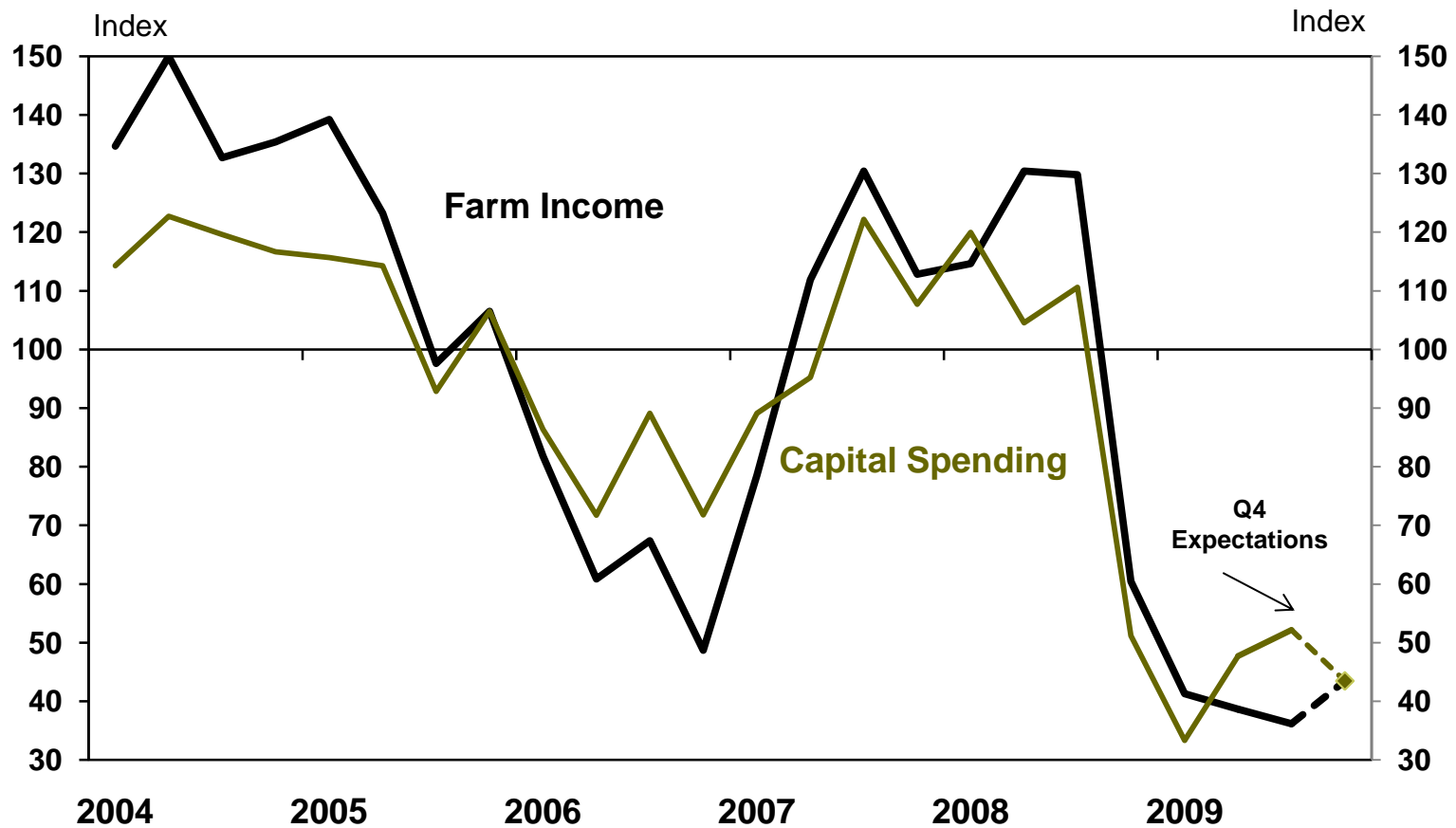


The rig count appears to have bottomed following a steep fall



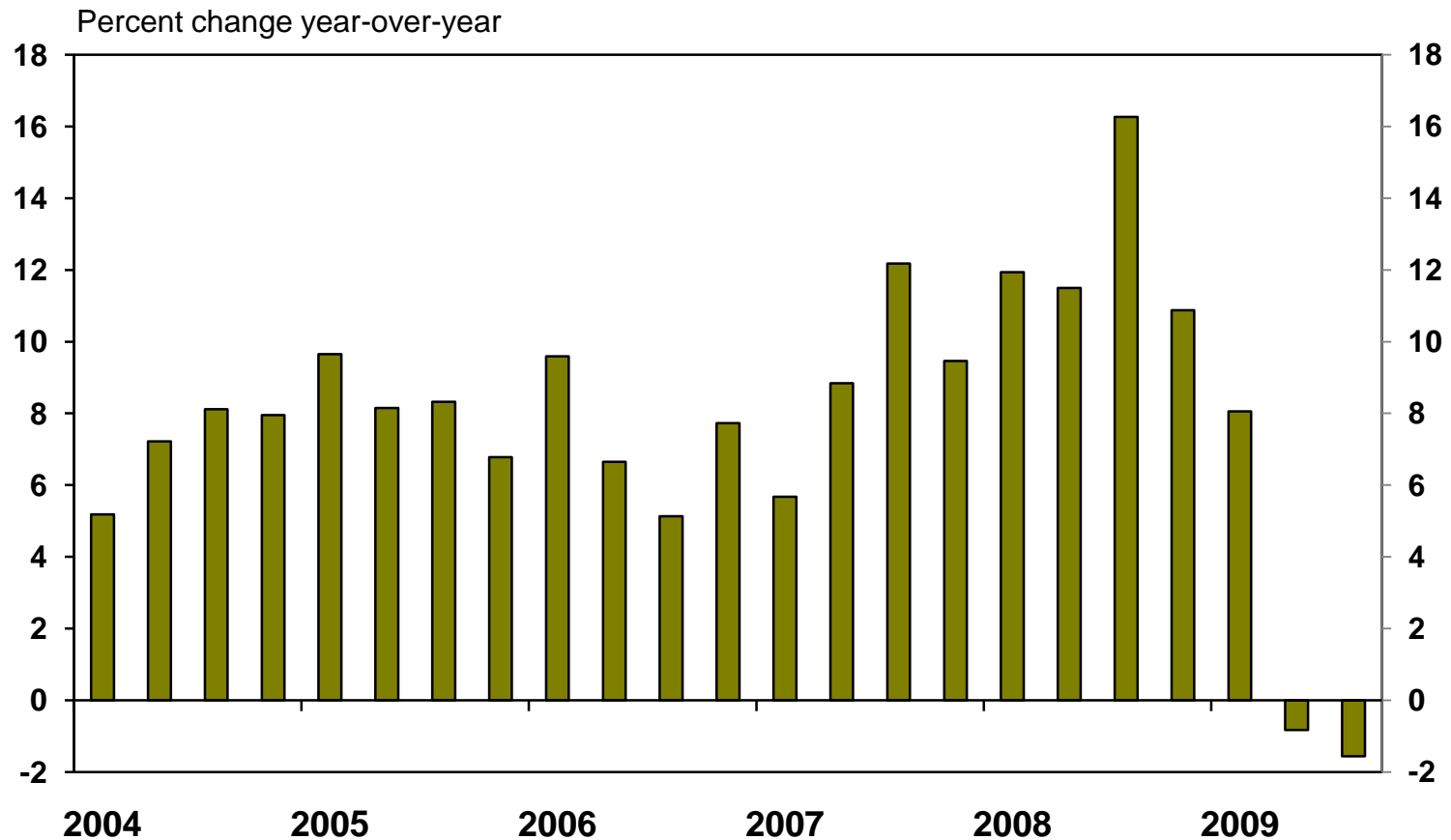
Agricultural conditions in the state remain rather weak, but also may have bottomed

Oklahoma Agricultural Conditions



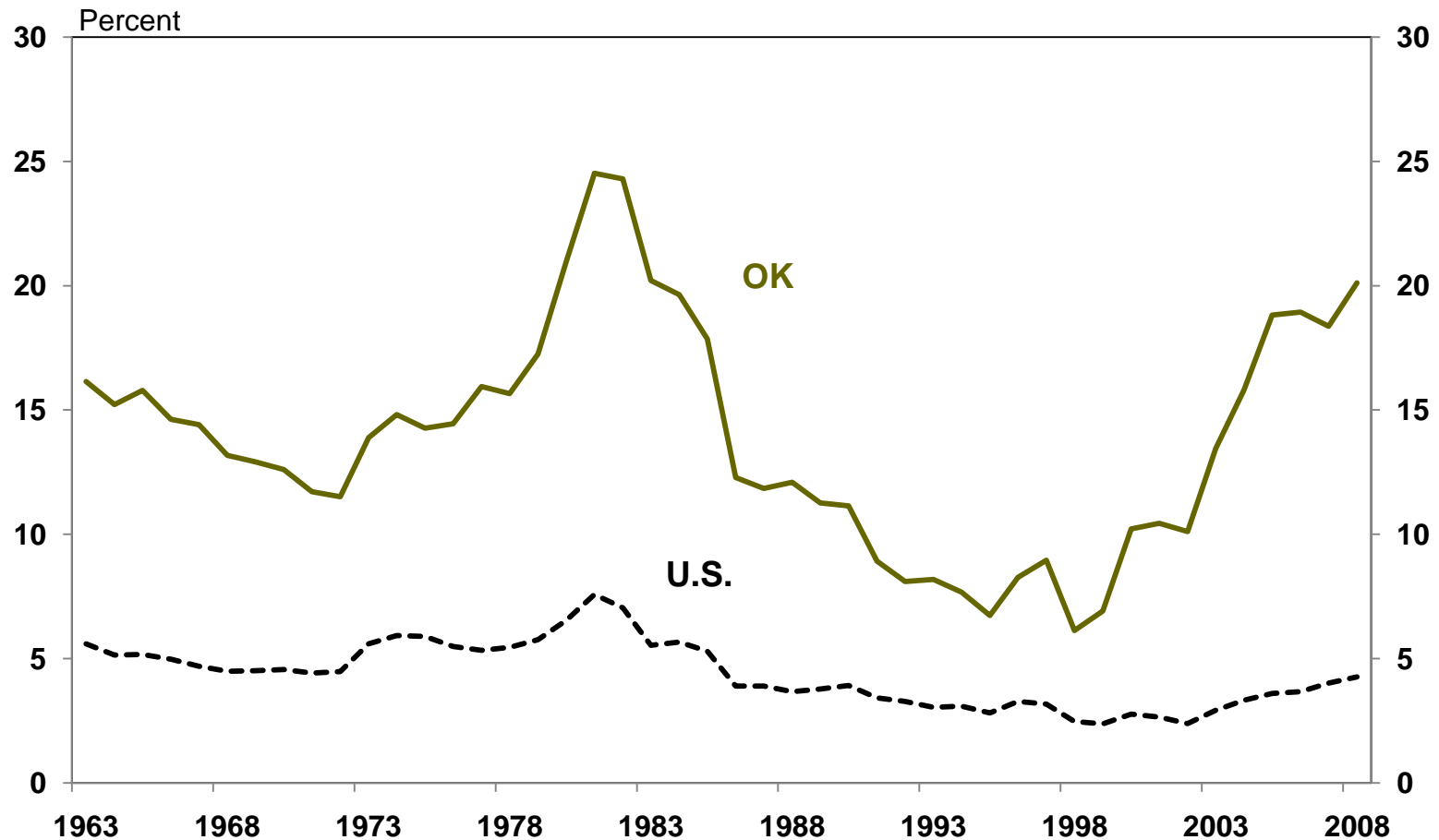
Farmland values in the state have flattened recently after rising rapidly in recent years

Oklahoma Agricultural Land Values Non-Irrigated Cropland

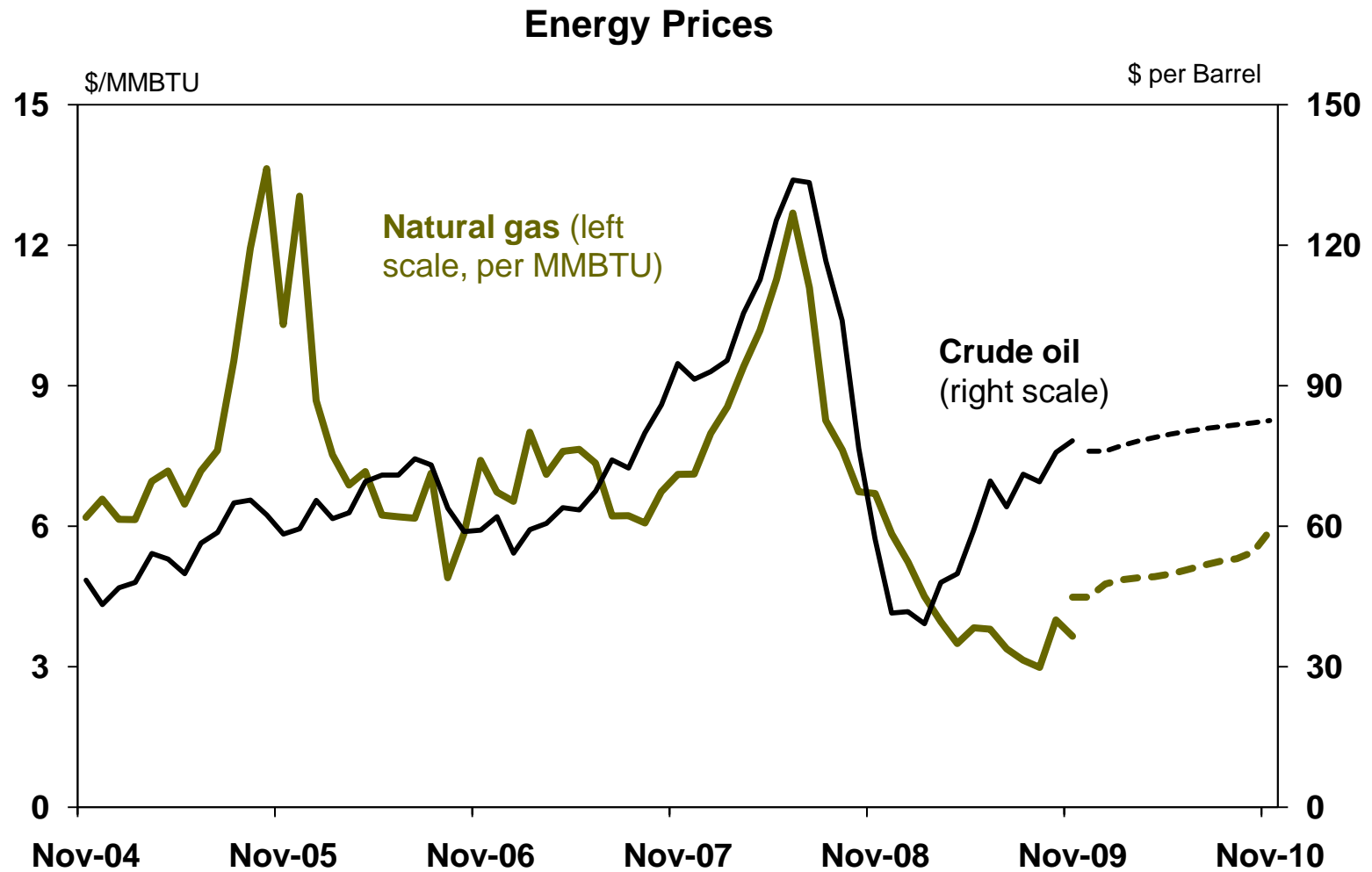


But in the past five years, Oklahoma's economy has become much less diversified

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



Energy prices remain the primary risk relative to the nation



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