

# The Economic Outlook for the U.S. and Oklahoma



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# History and Structure of the Federal Reserve System

- **The Federal Reserve System was created in 1913 (sponsored by OK Sen. R.L. Owen) and consists of:**

- Board of Governors: 7 members appointed by U.S. President
- Federal Reserve Banks: 12 total; semi-independent by design
- Federal Open Market Committee (FOMC): 19 members; 12 voting

- **As with most central banks around the world, the Fed's responsibilities fall within four general areas:**

- Monetary policy – control money supply to affect growth and inflation
- Lender of last resort – provide liquidity in times of financial crisis
- Bank regulation – ensure safety and soundness of banks
- Financial services – bank for banks, bank for federal government





# 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

- **2010 branch 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 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



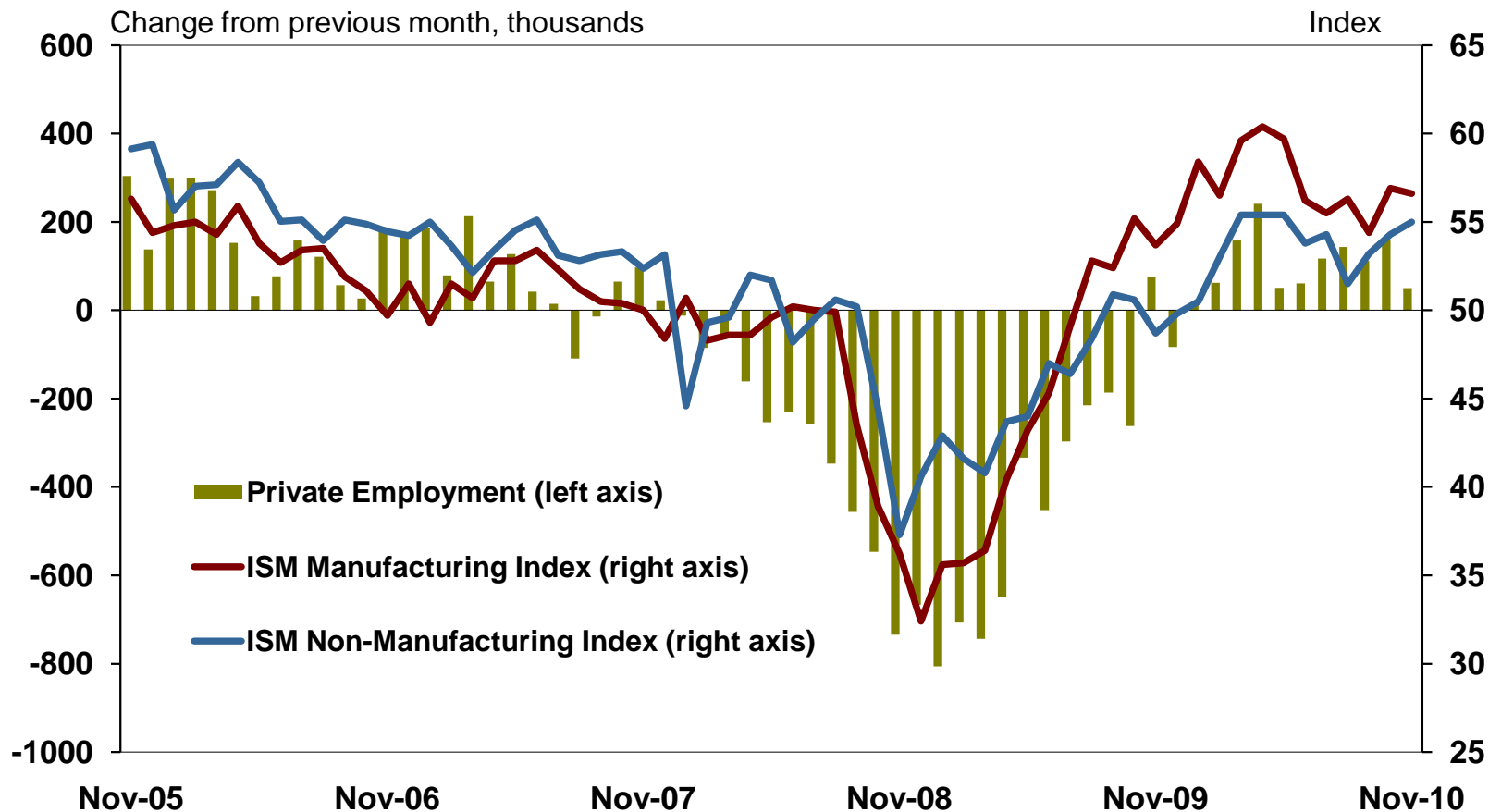
# The Economic Outlook

- The pace of U.S. recovery remains moderate and is expected to stay on track, with inflation remaining low
- Oklahoma's recession and recovery path has been fairly typical for the state, but risks to growth remain



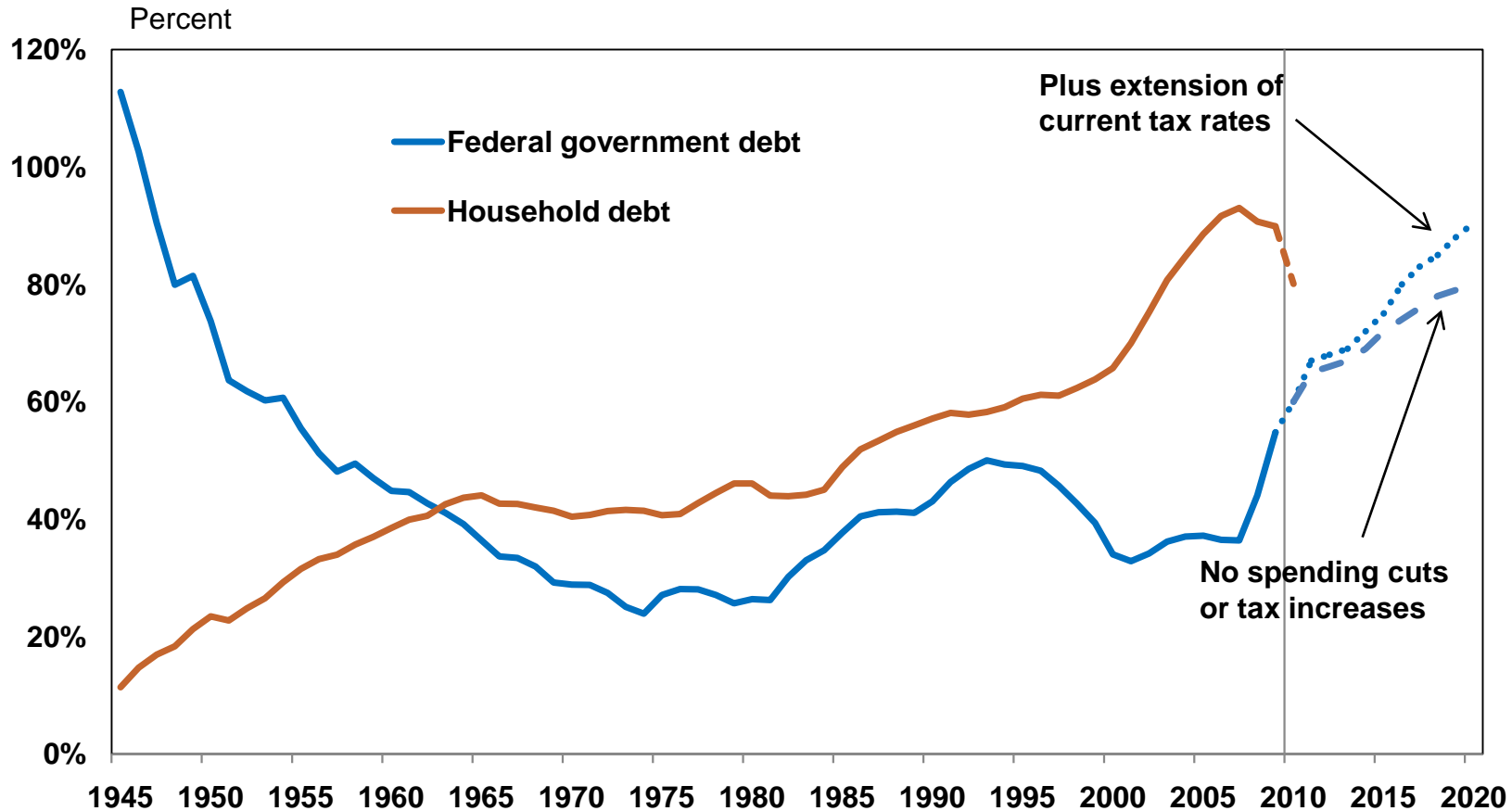
# U.S. output continues to grow solidly, but job growth is modest

## U.S. Private Payroll Employment and Business Indexes



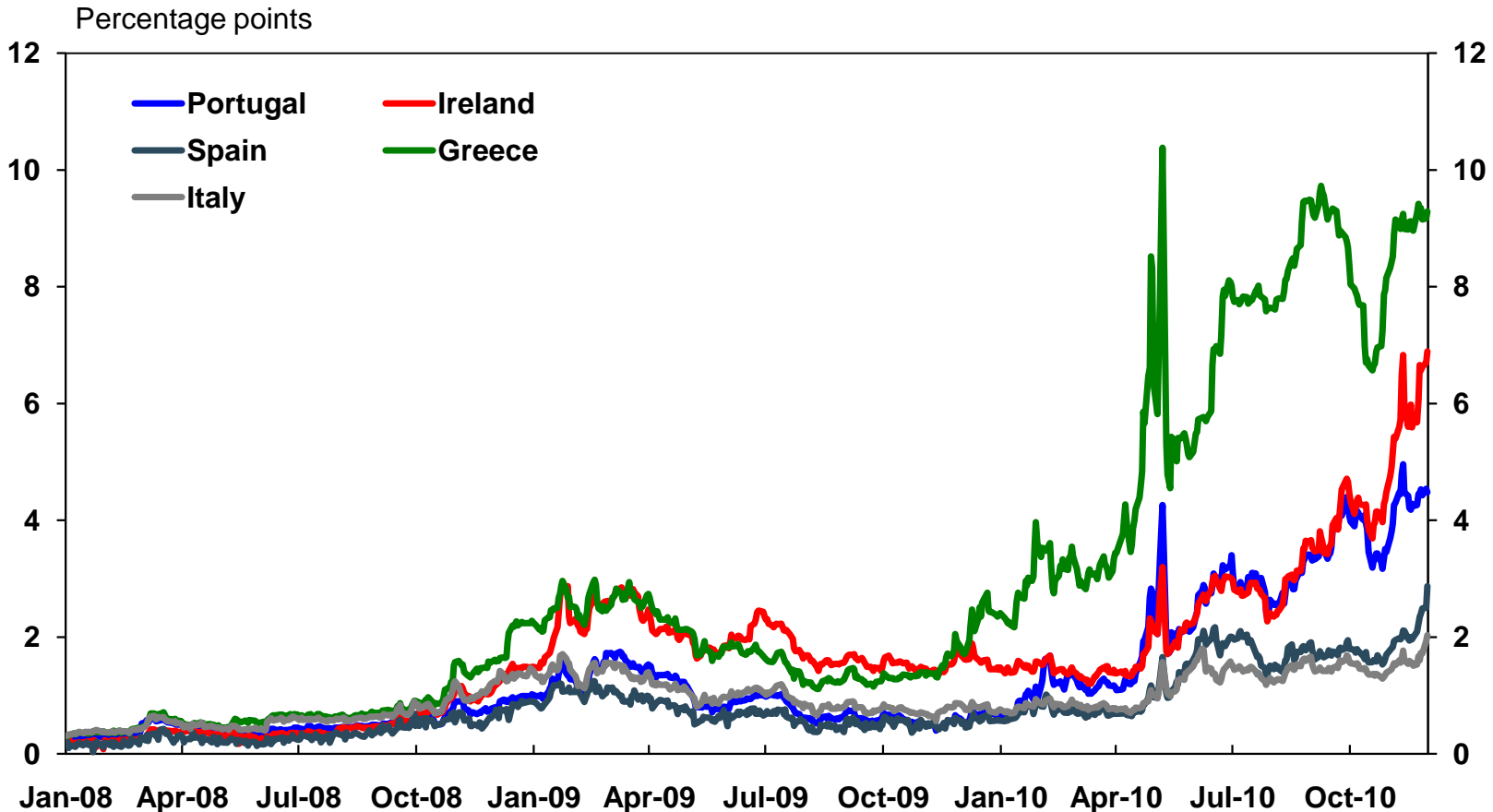
# Consumer debt could constrain growth and federal debt is a longer-term concern

## U.S. Debt as a Share of GDP



# Europe's sovereign debt problem has also flared up again

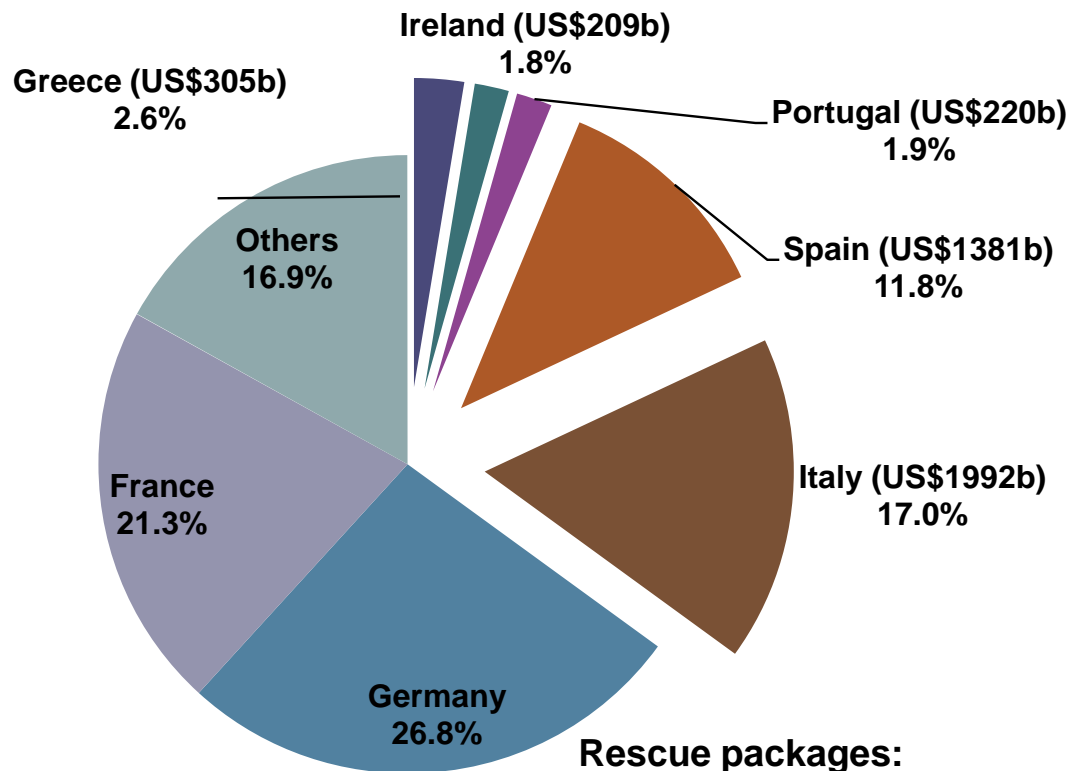
## Spreads to German Bunds (10-yr)





# But European nations most threatened are only a small part of Euro Zone GDP

Shares of Euro Zone GDP



Rescue packages:

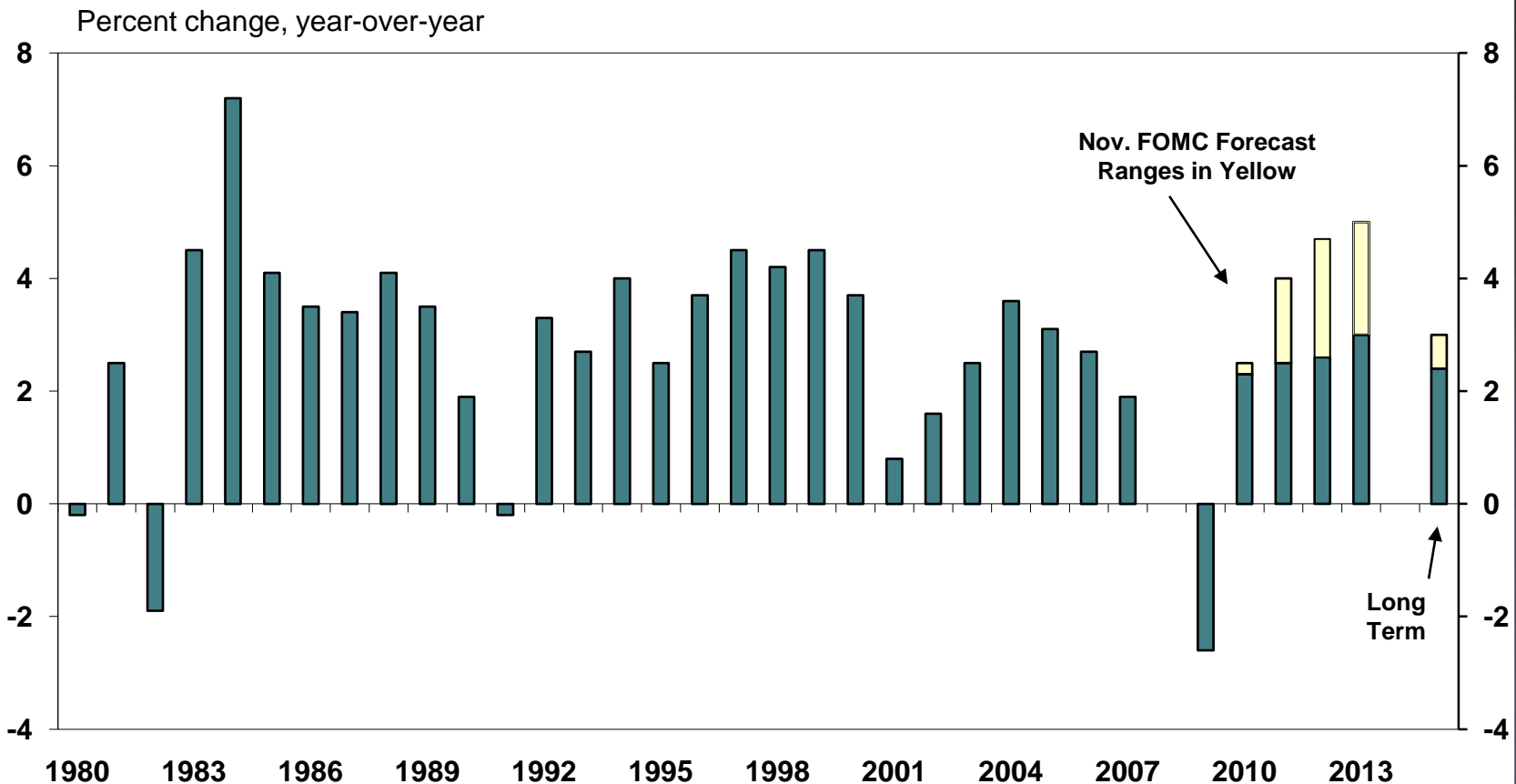
Greece: €10 billion=US\$144 billion

Ireland: €67.5 billion=US\$88 billion



# Fed policymakers expect continued moderate U.S. GDP recovery

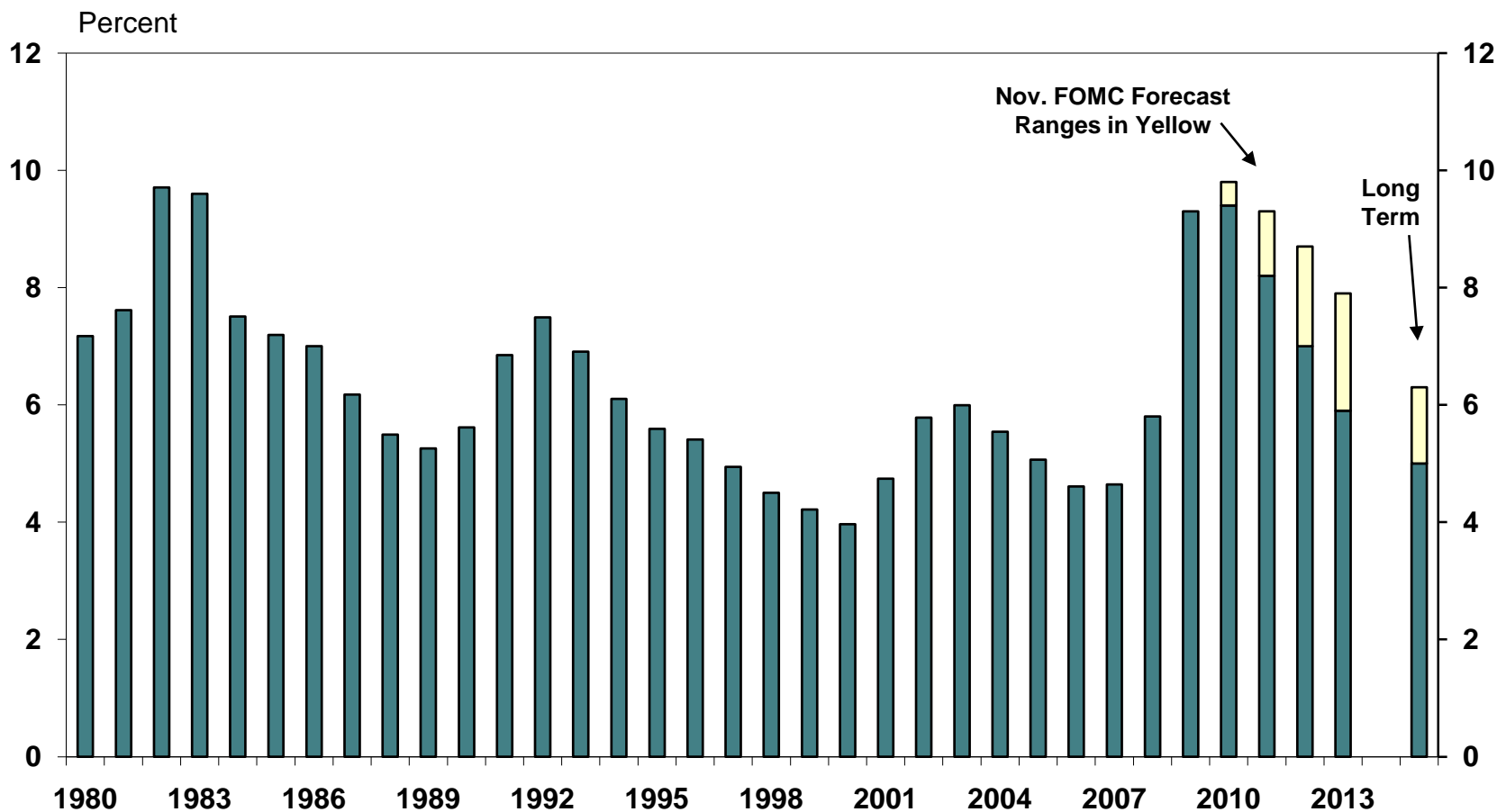
## Real Gross Domestic Product



# But with U.S. unemployment remaining high for some time

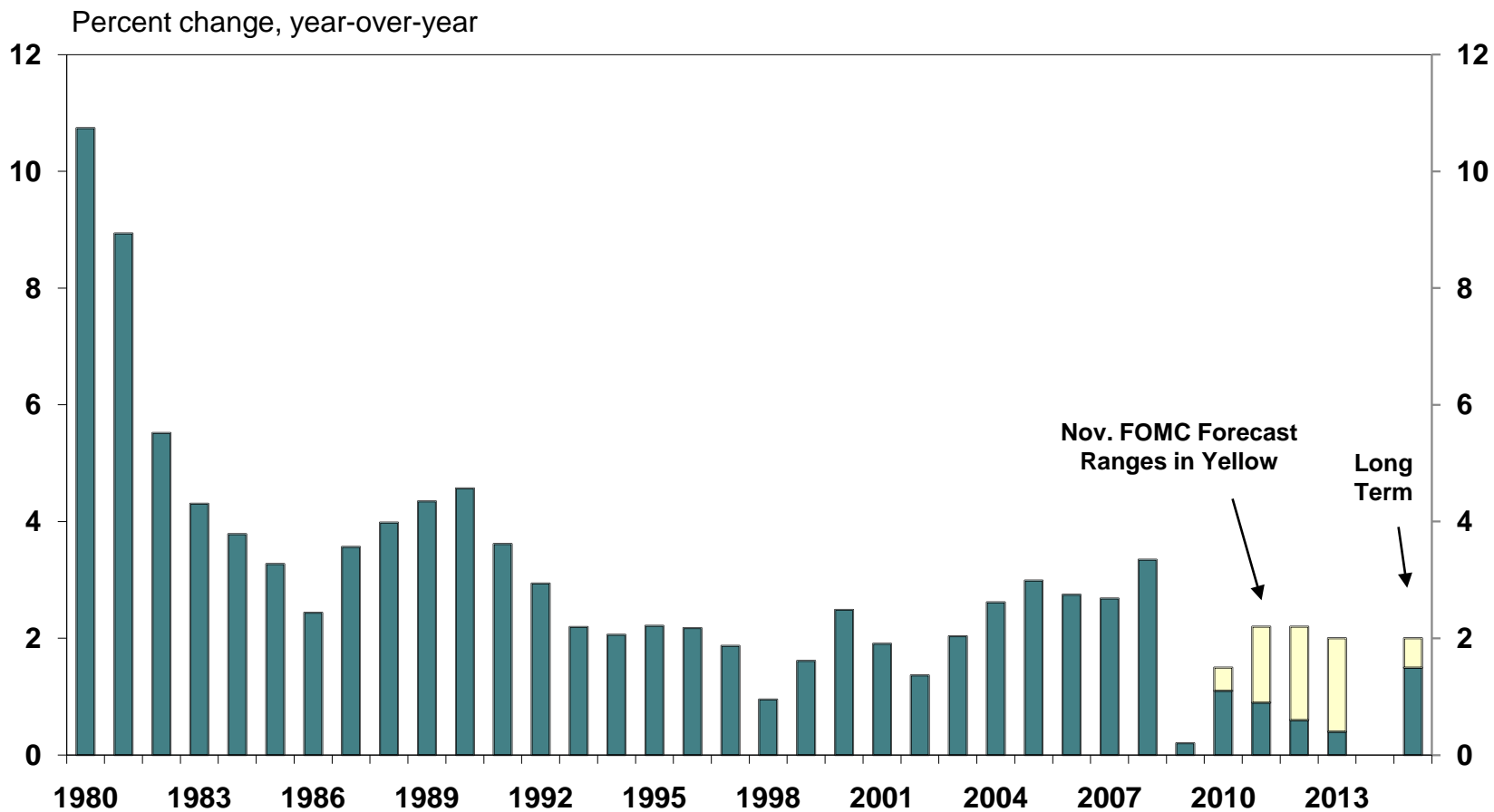
## Unemployment Rate

Seasonally Adjusted



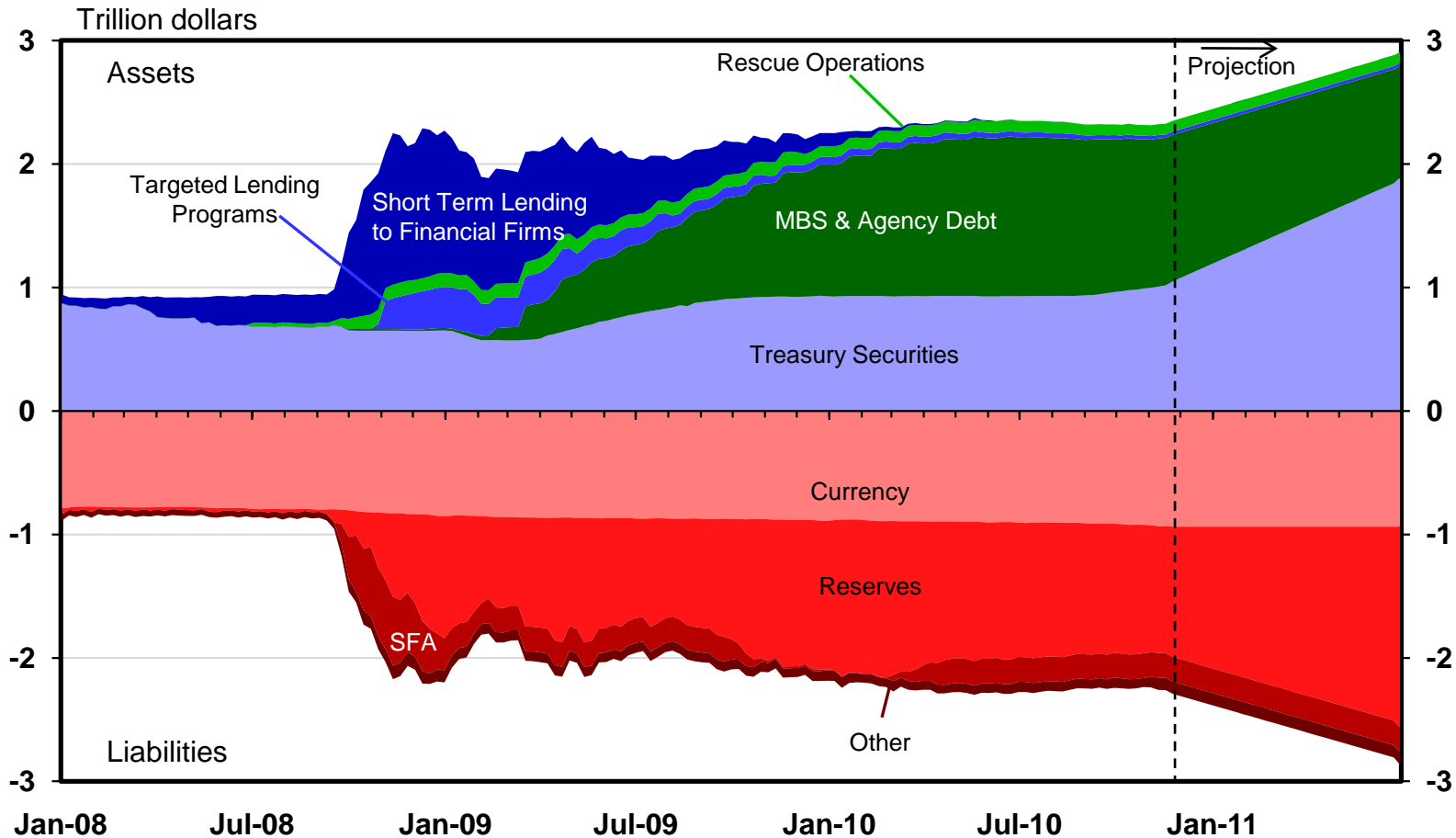
# Inflation is expected to remain tame in the near term, but will require careful oversight

## PCE Inflation Index



# The FOMC's plans will swell the Fed's balance sheet further

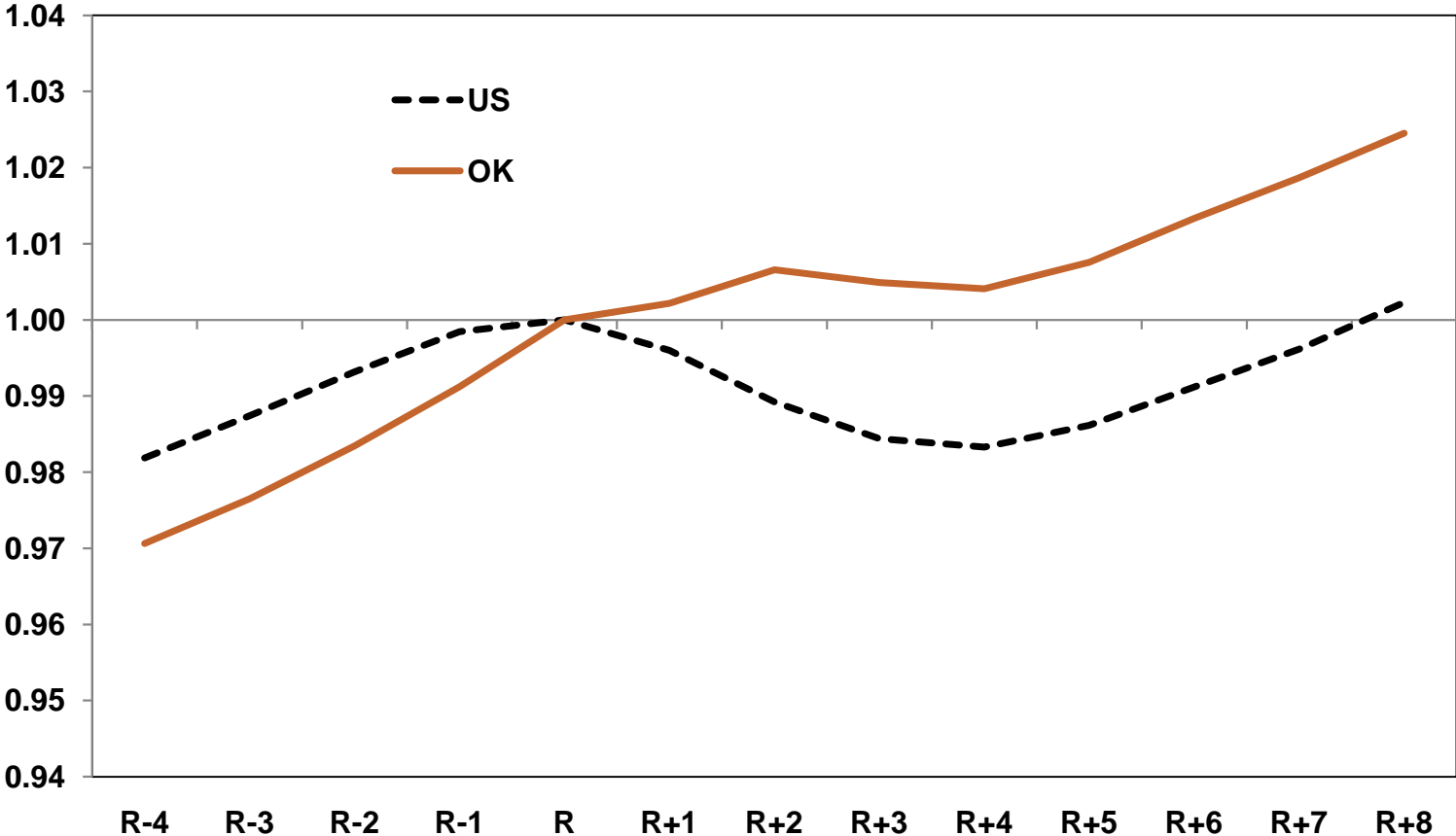
## Federal Reserve Balance Sheet



# Oklahoma typically enters recessions late but exits around the same time as the nation

## Average Recession and Recovery Path, 1956-2006

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



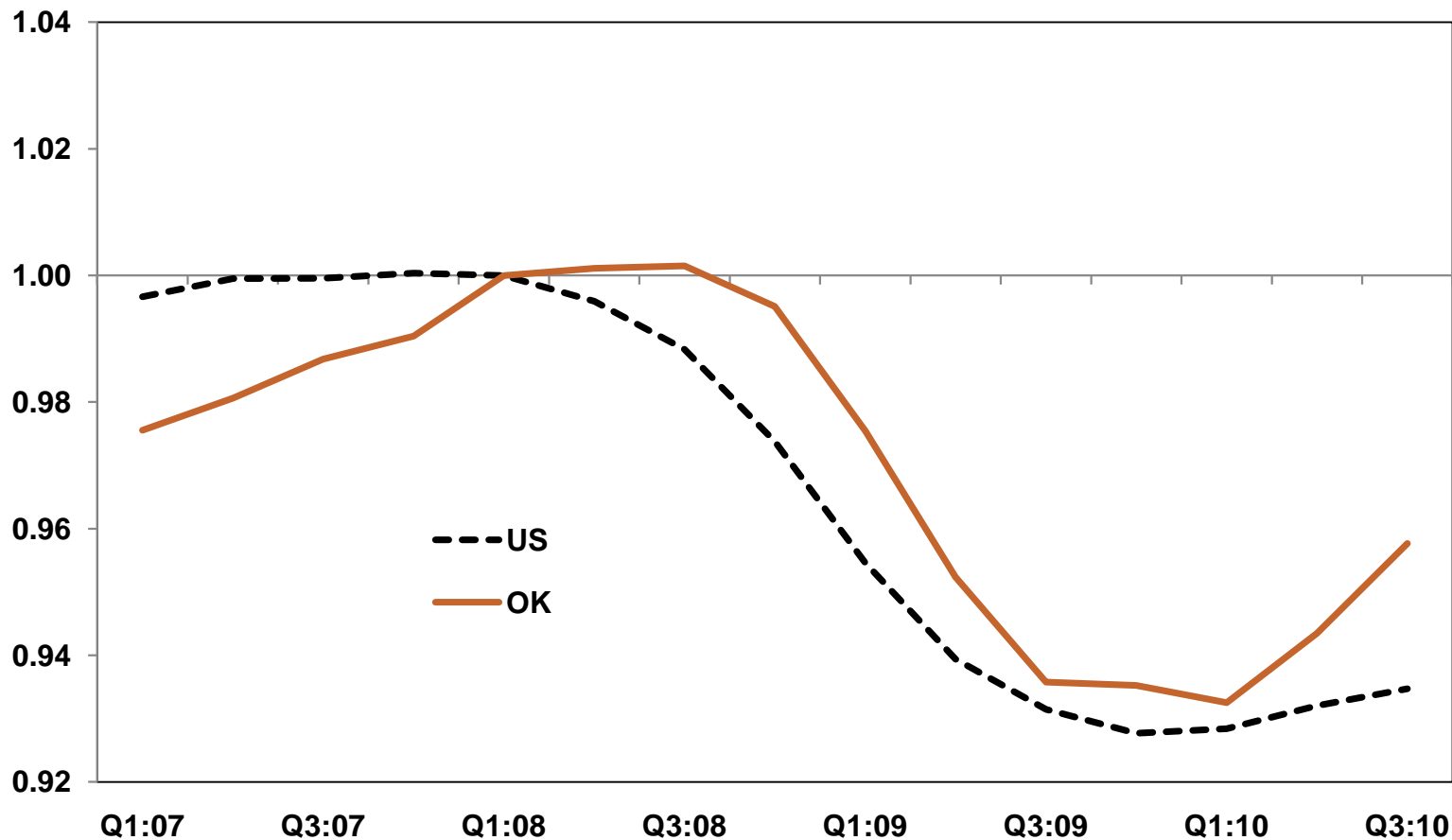
Source: U.S. Bureau of Labor Statistics



# The current episode, while worse, has largely followed the historical pattern

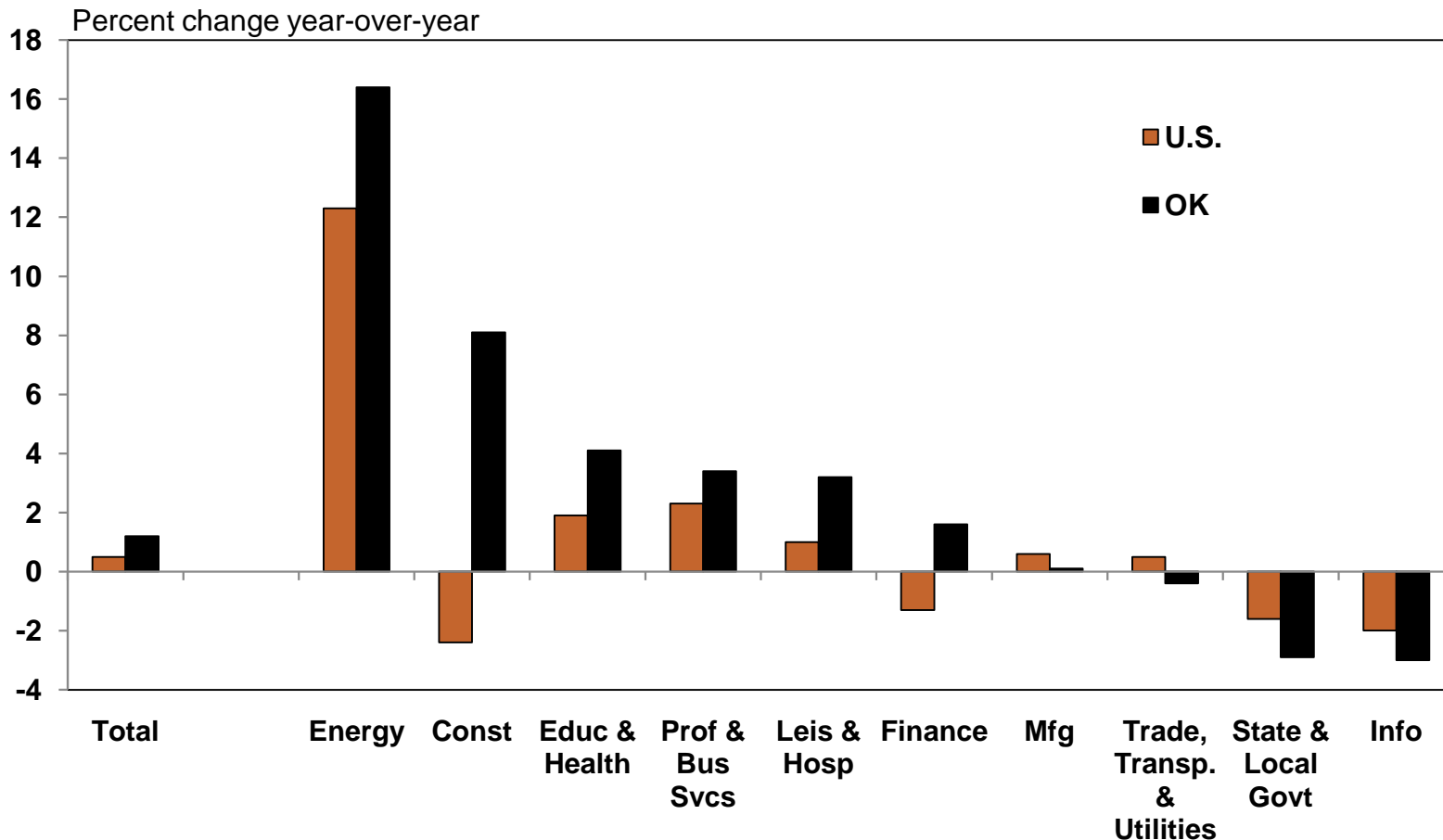
## Current Recession and Recovery Path

Employment level 4 quarters before and 10 quarters after U.S. jobs peak



# Recent solid state job growth has been driven by energy, construction, and services

## Employment Growth October 2010



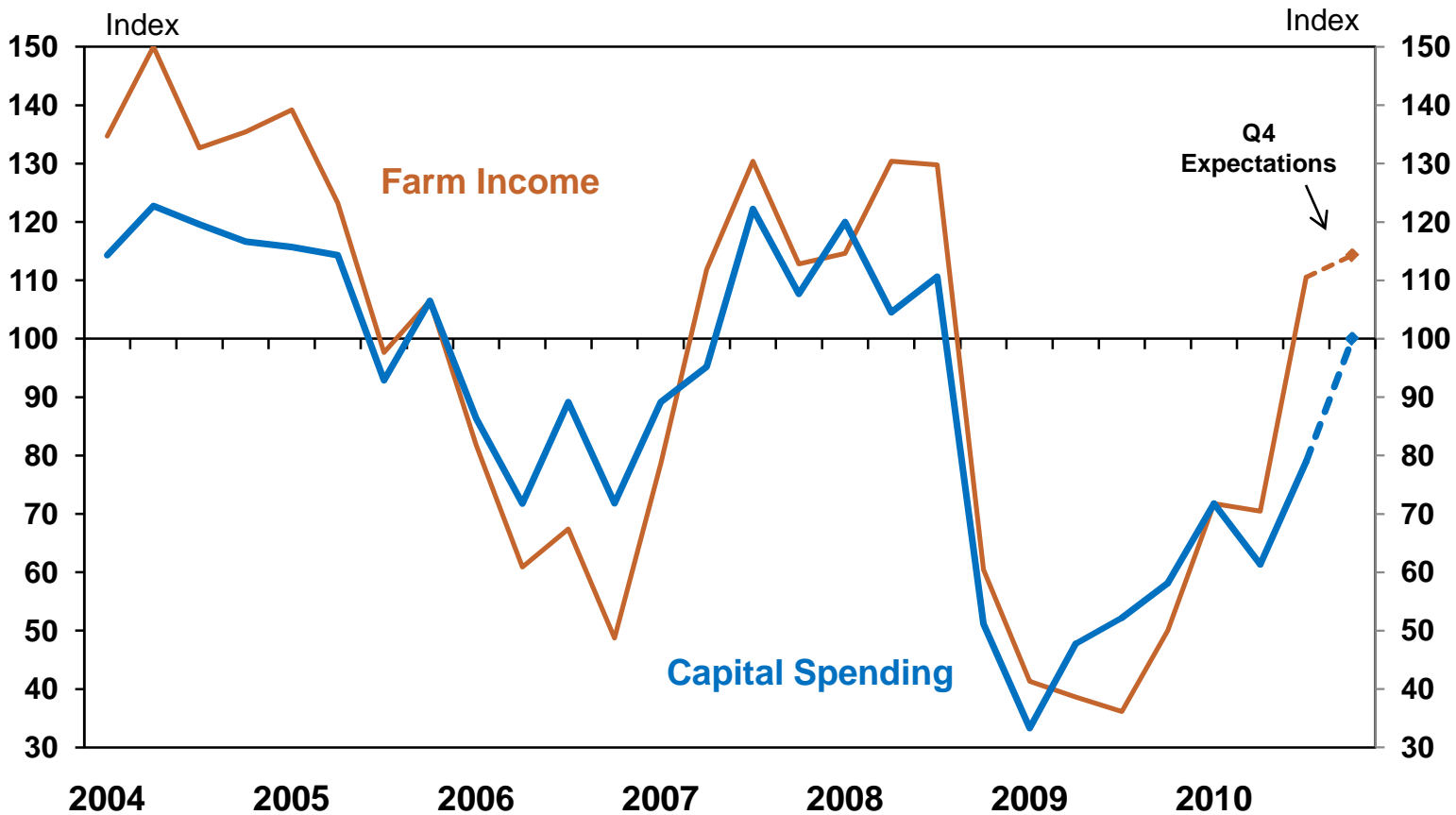
Source: Bureau of Labor Statistics





# Agricultural conditions in the state have also improved after bottoming in 2009

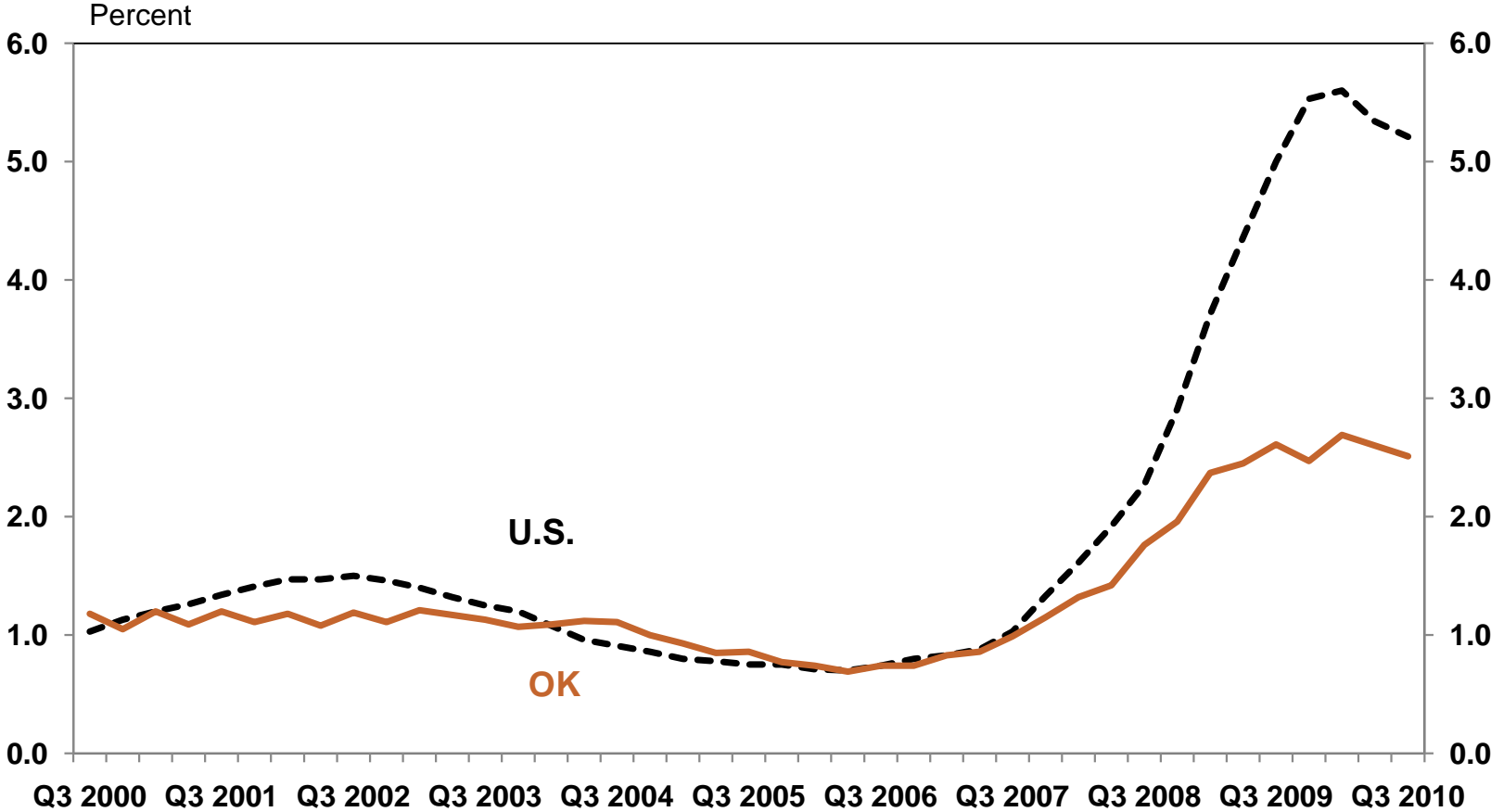
## Oklahoma Agricultural Conditions





# And Oklahoma banks remain in much better shape than in the nation as a whole

## Noncurrent Loans as a Share of Total Loans Commercial Banks

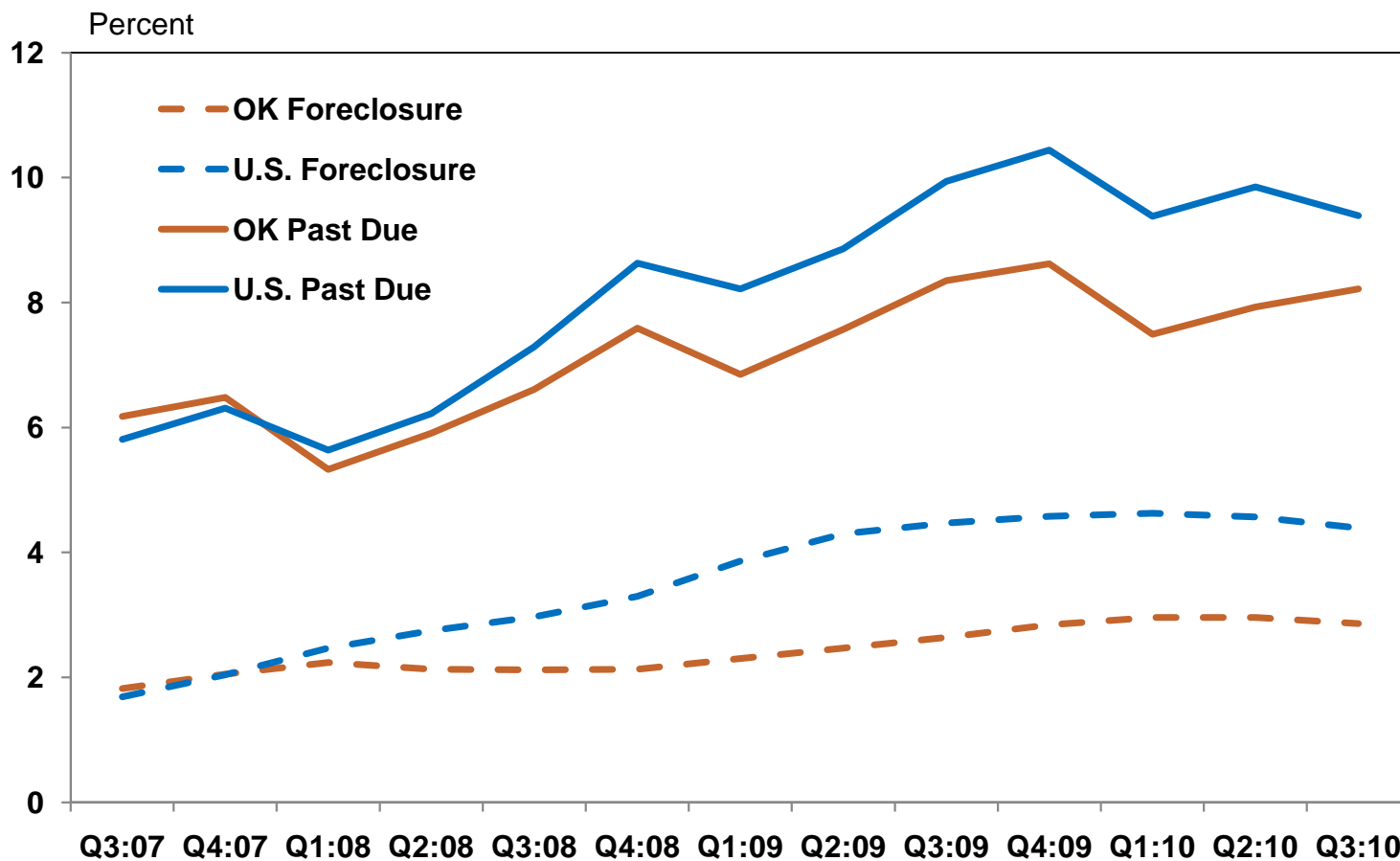


Source: FDIC



# Housing continues to be a risk, but much less so than in the nation

## Foreclosure and Past Due Mortgage Rates

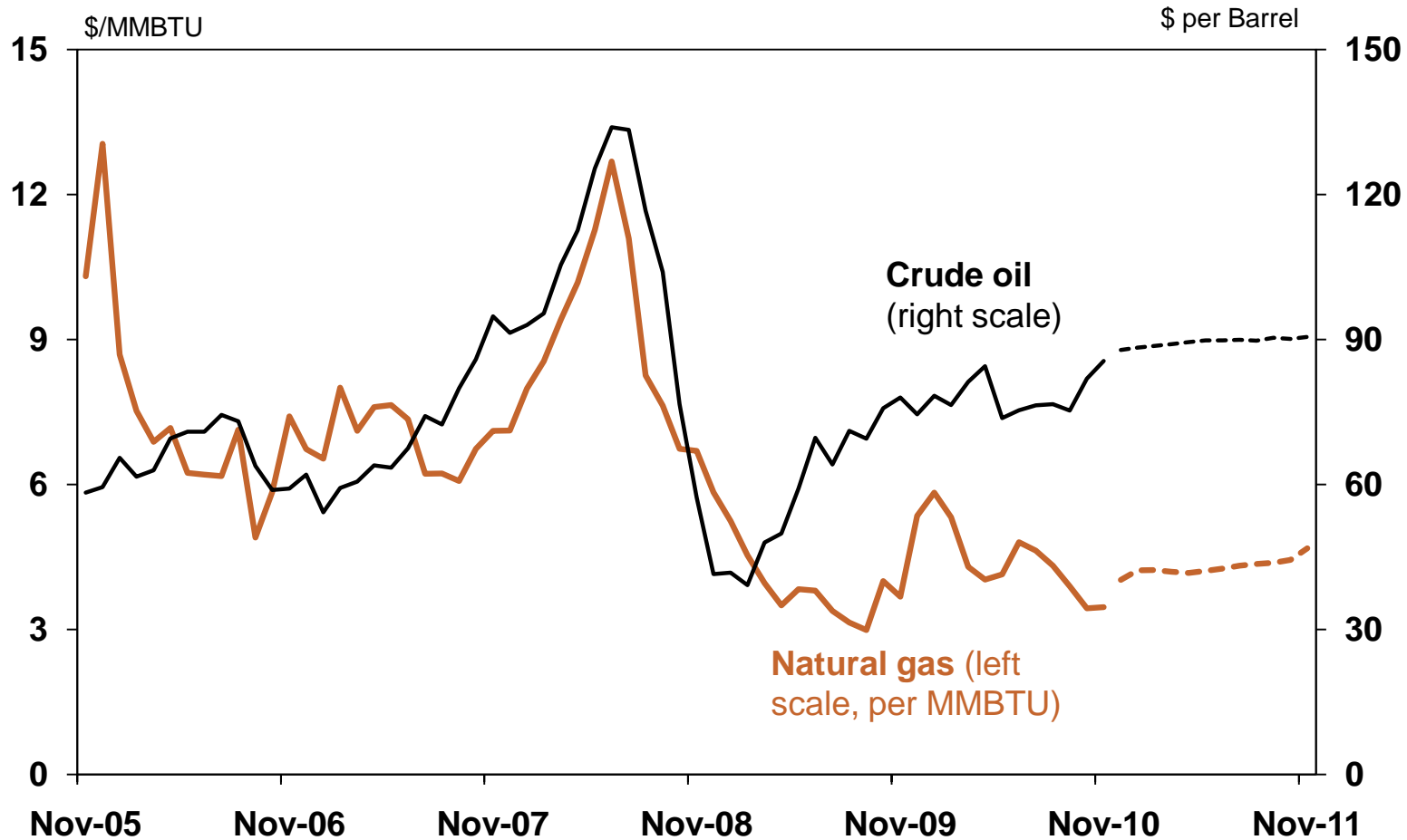


Source: MBA



# Natural gas prices remain the state's biggest risk, but high oil prices have helped

## Energy Prices



Source: Bloomberg



# Summary

- The U.S. economy is recovering and expected to continue to grow moderately, with low inflation
- Oklahoma's economy is also recovering and remains in much better shape than the nation

