

# Recovery in the U.S. and Tenth District Economies



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# History and Structure of the Federal Reserve System

- **Founded by Congress in 1913 as the nation's third central bank, the Fed consists of 3 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 (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, consumer rights
- Financial services – bank for banks, bank for federal government



# Federal Reserve Districts and Office Locations



# Boards of Directors of the Federal Reserve Bank of Kansas City

## • **Kansas City**

- **Lu Cordova**, Boulder, CO
- **Paul DeBruce**, Kansas City, MO
- **David Brownback**, Ellsworth, KS
- **Robert Fricke**, Ashland, NE
- **Mark Gordon**, Buffalo, WY
- **John Ikard**, Lakewood, CO
- **Terry Moore**, Omaha, NE
- **Richard Ratcliffe**, Weatherford, OK
- **John Stout**, Shawnee Mission, KS

## • **Denver**

- **Barbara Mowry**, Westminster, CO
- **Bruce Alexander**, Denver
- **Charles Brown, III**, Wheatland, WY
- **Anne Haines Yatskowitz**, Albuquerque
- **Larissa Herda**, Littleton, CO
- **Margaret Kelly**, Denver
- **Mark Zaback**, Casper

## • **Oklahoma City**

- **Steve Agee**, Oklahoma City
- **Bill Anoatubby**, Ada
- **Jim Dunn**, Tulsa
- **Jacque Fiegel**, Oklahoma City
- **Rose Washington**, Tulsa
- **Doug Tippens**, Yukon
- **K. Vasudevan**, Bartlesville

## • **Omaha**

- **Lyn Wallin Ziegenbein**, Omaha
- **Todd Adams**, Ogallala
- **James Farrell**, Omaha
- **JoAnn Martin**, Lincoln
- **G. Richard Russell**, Omaha
- **Mark Sutko**, Kearney
- **James Thom**, Hastings



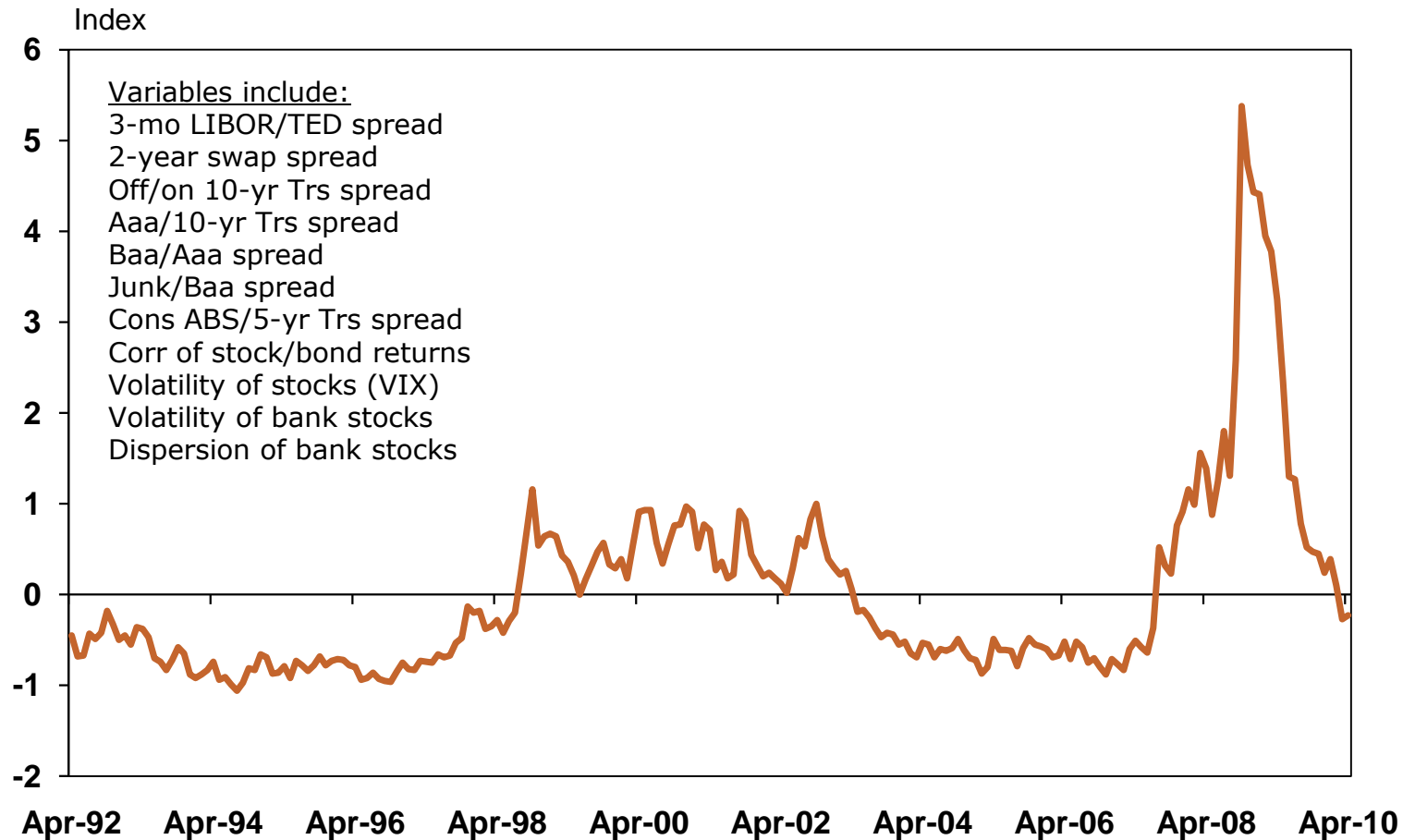
# The U.S. Economy

- Credit market conditions have improved, and the U.S. economy is growing again
- But recovery is expected to be moderate, as debt and uncertainty remain high
- Inflation is expected to remain tame in the near term, but longer-run risks exist



# Broad measures of financial stress have returned to more normal levels

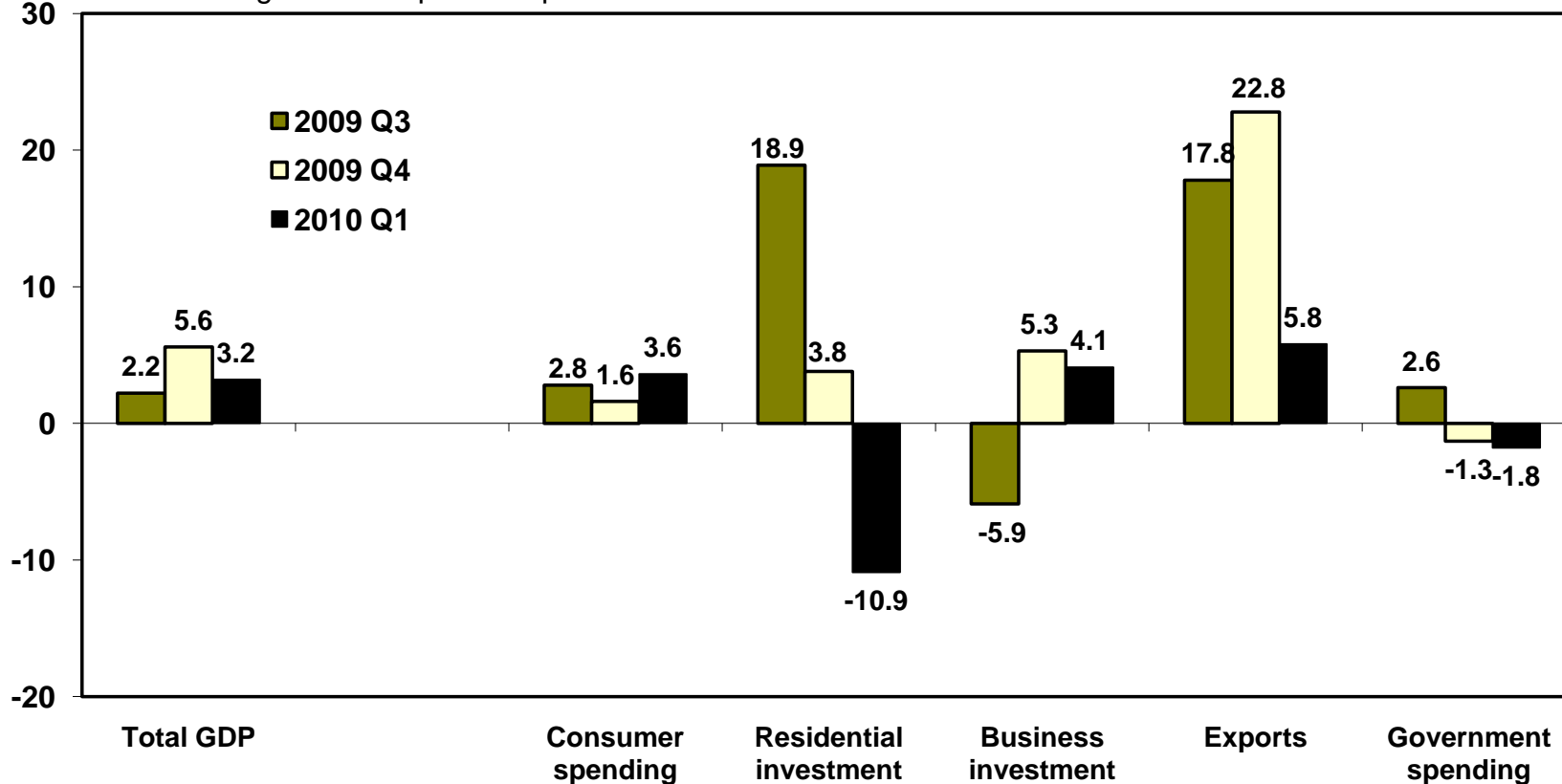
## Kansas City Financial Stress Index



# GDP expanded moderately in Q1 2010, helped by consumers and businesses

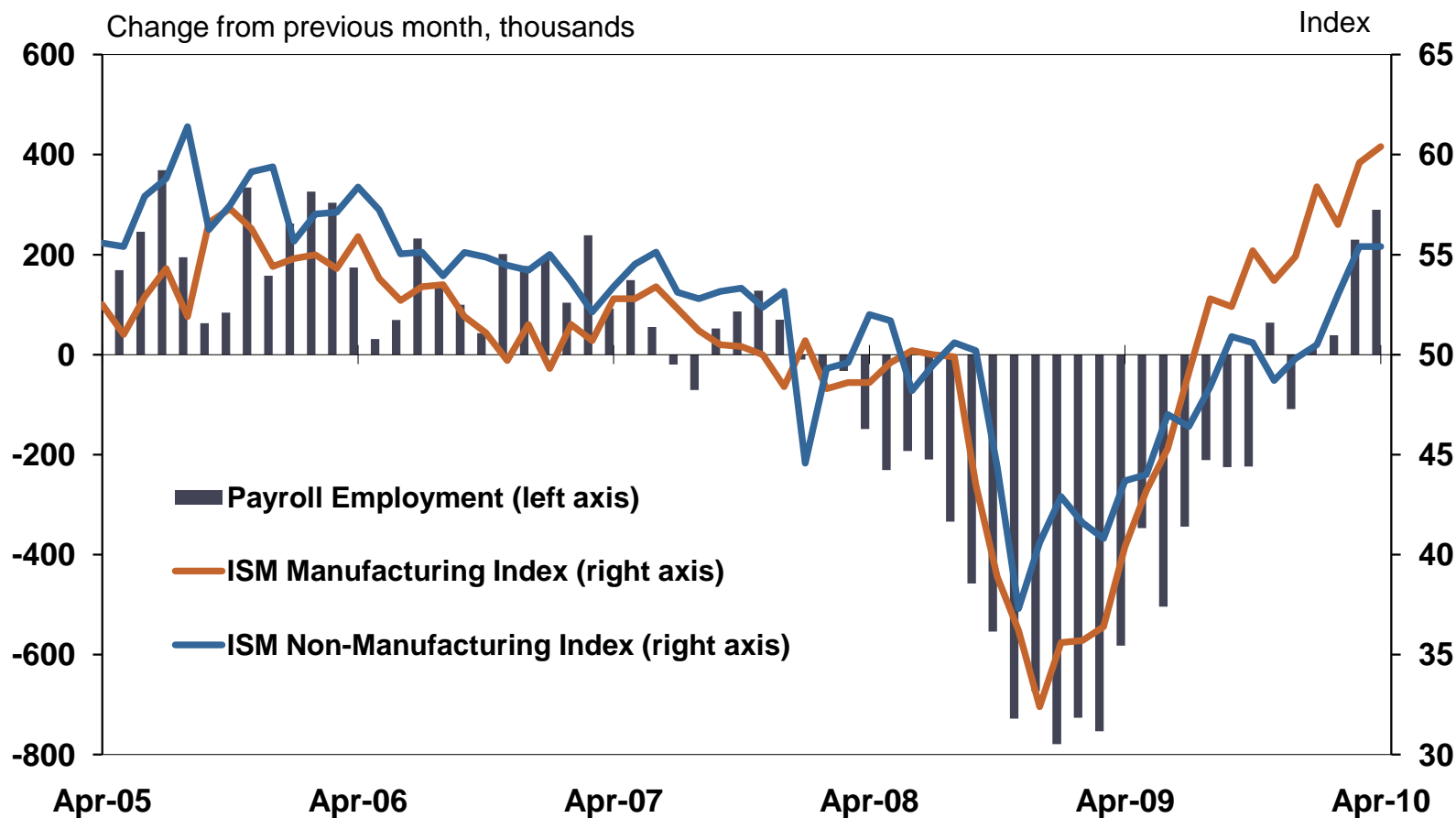
## Growth in Components of GDP

Percent change from the previous period



# And early Q2 2010 data show continued improvement in the U.S. economy

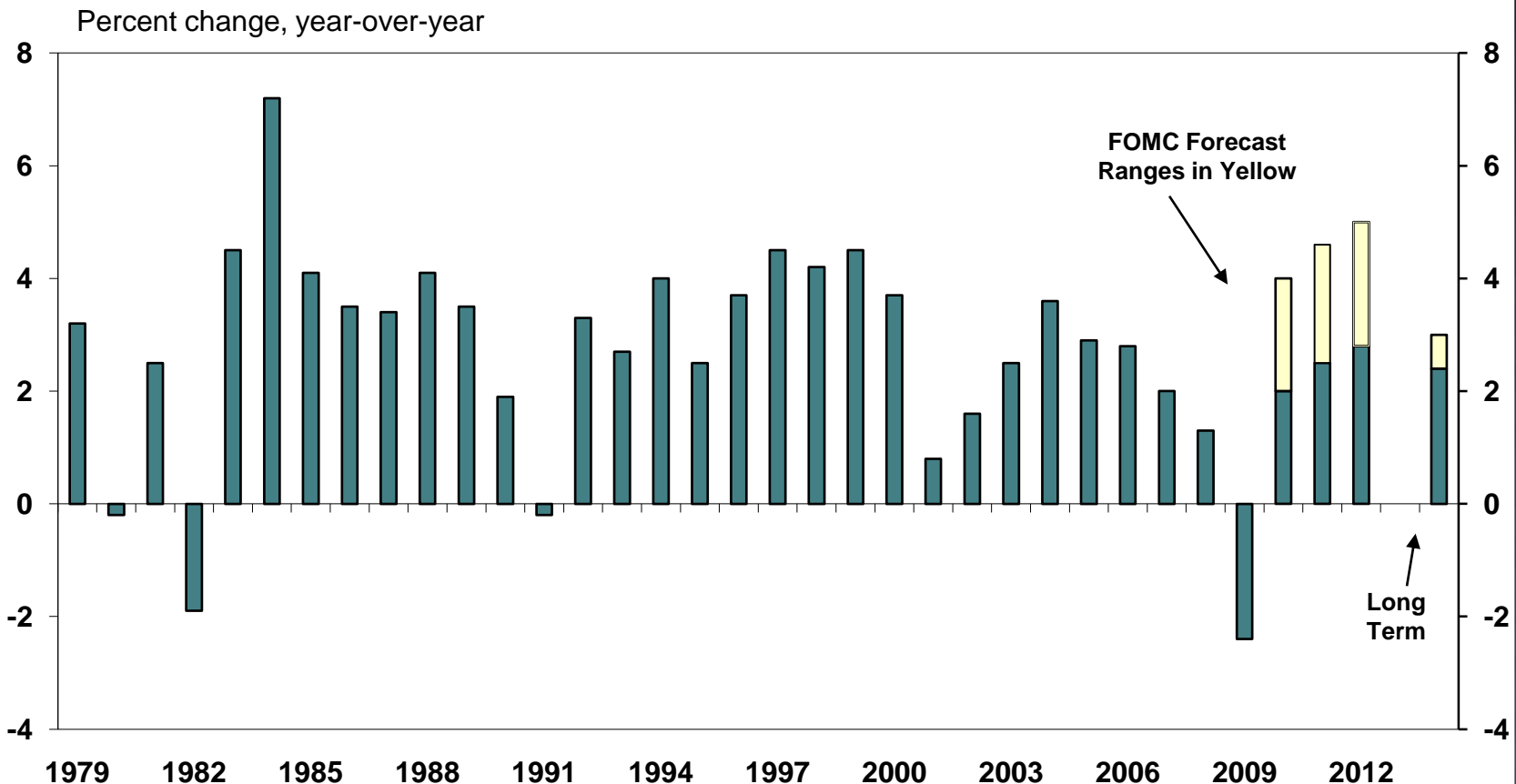
## National Business Indexes and Payroll Employment





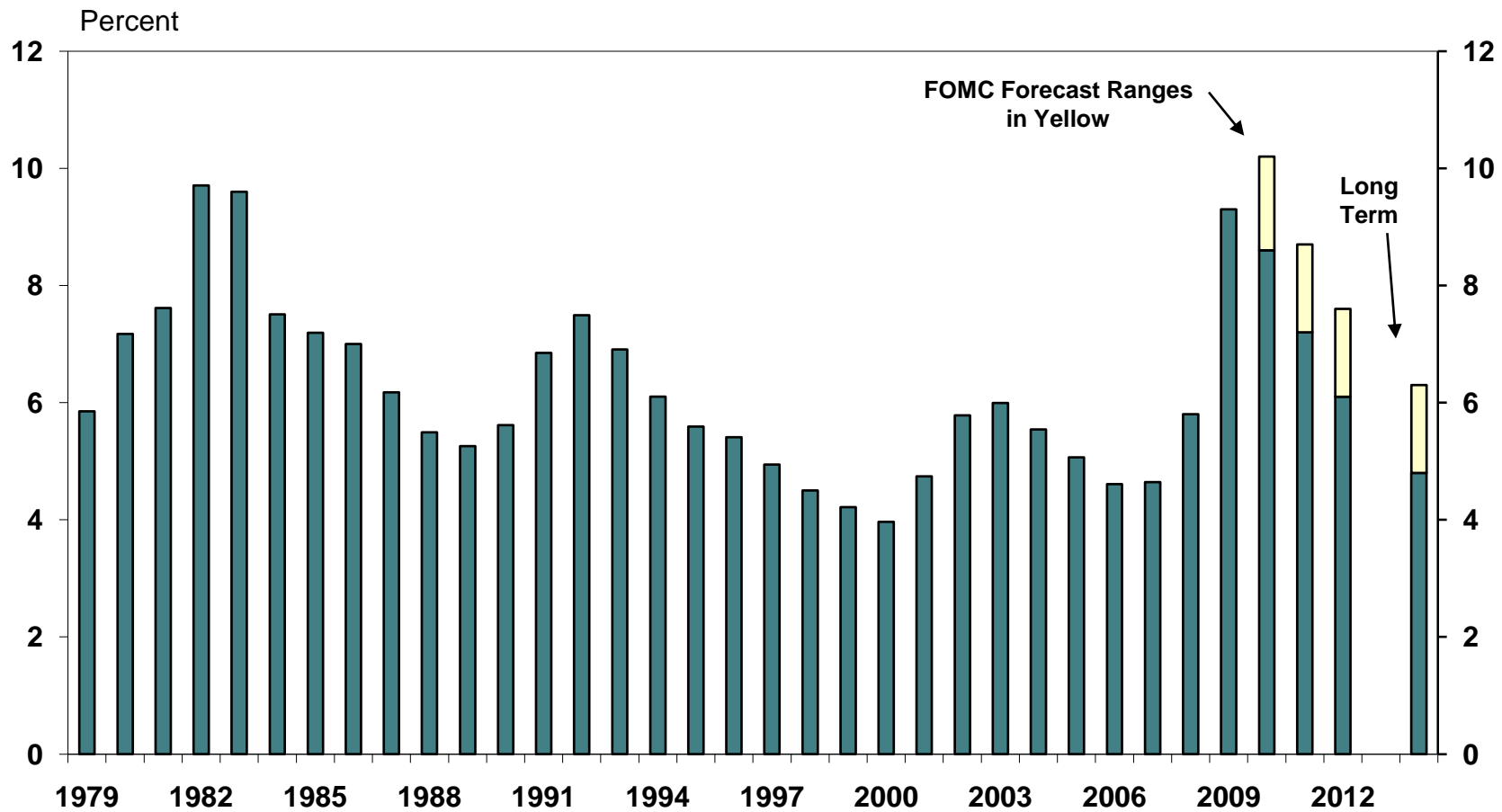
# Heading forward, Fed policymakers generally expect a moderate recovery

## Gross Domestic Product



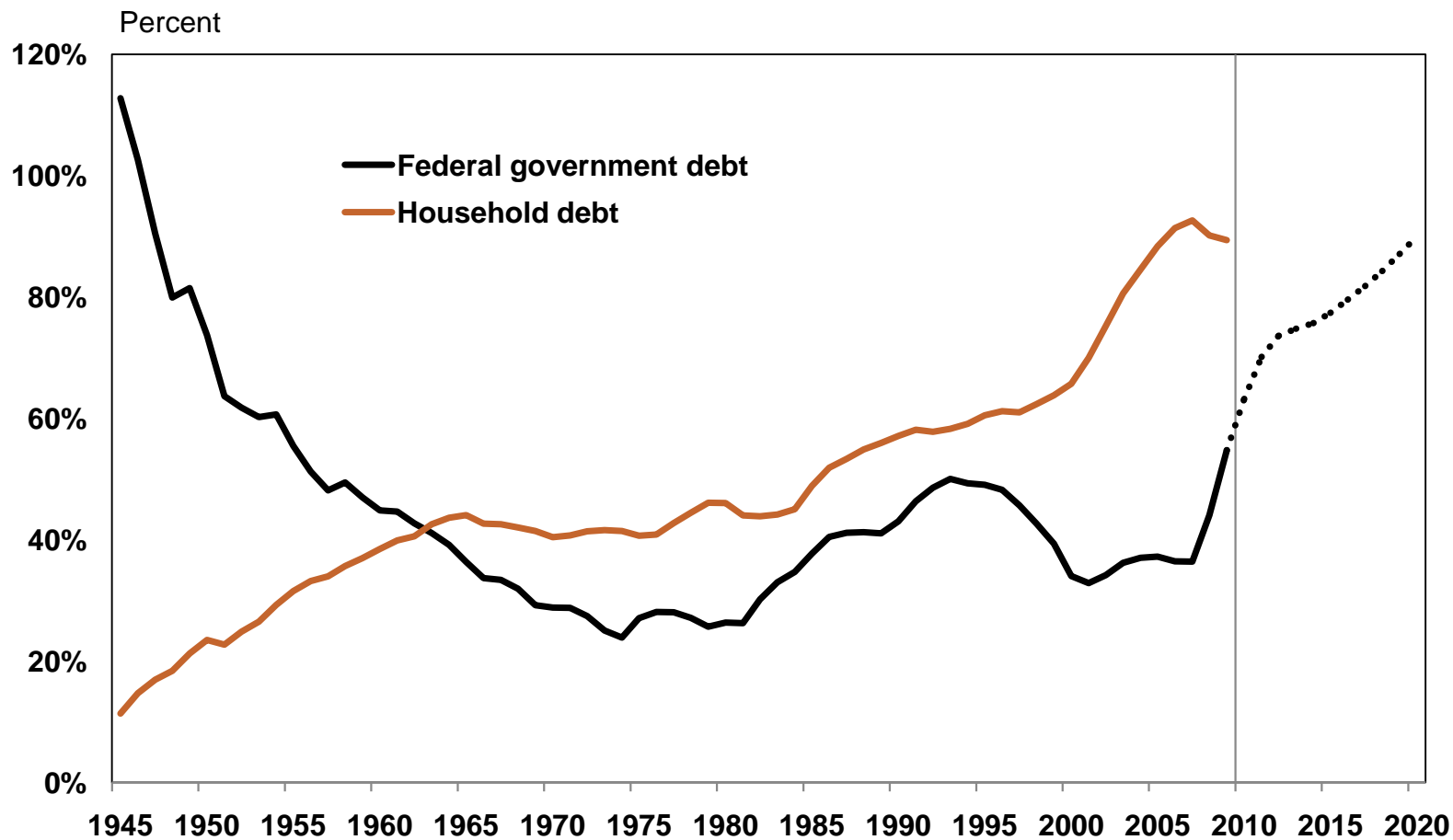
# With unemployment remaining high for some time

## Unemployment Rate Seasonally Adjusted



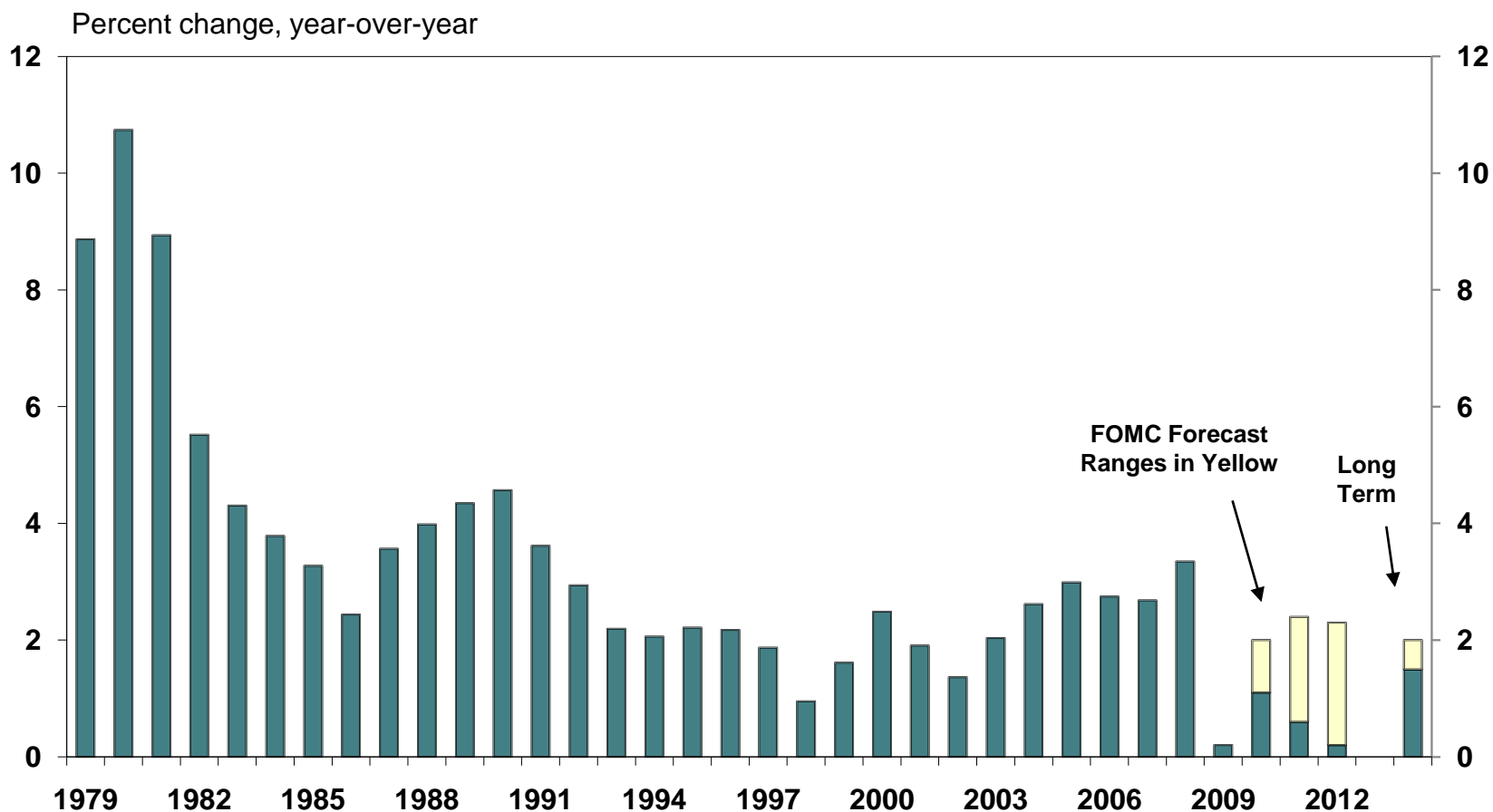
# Consumer debt could constrain short-run growth and federal debt projections are a concern

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



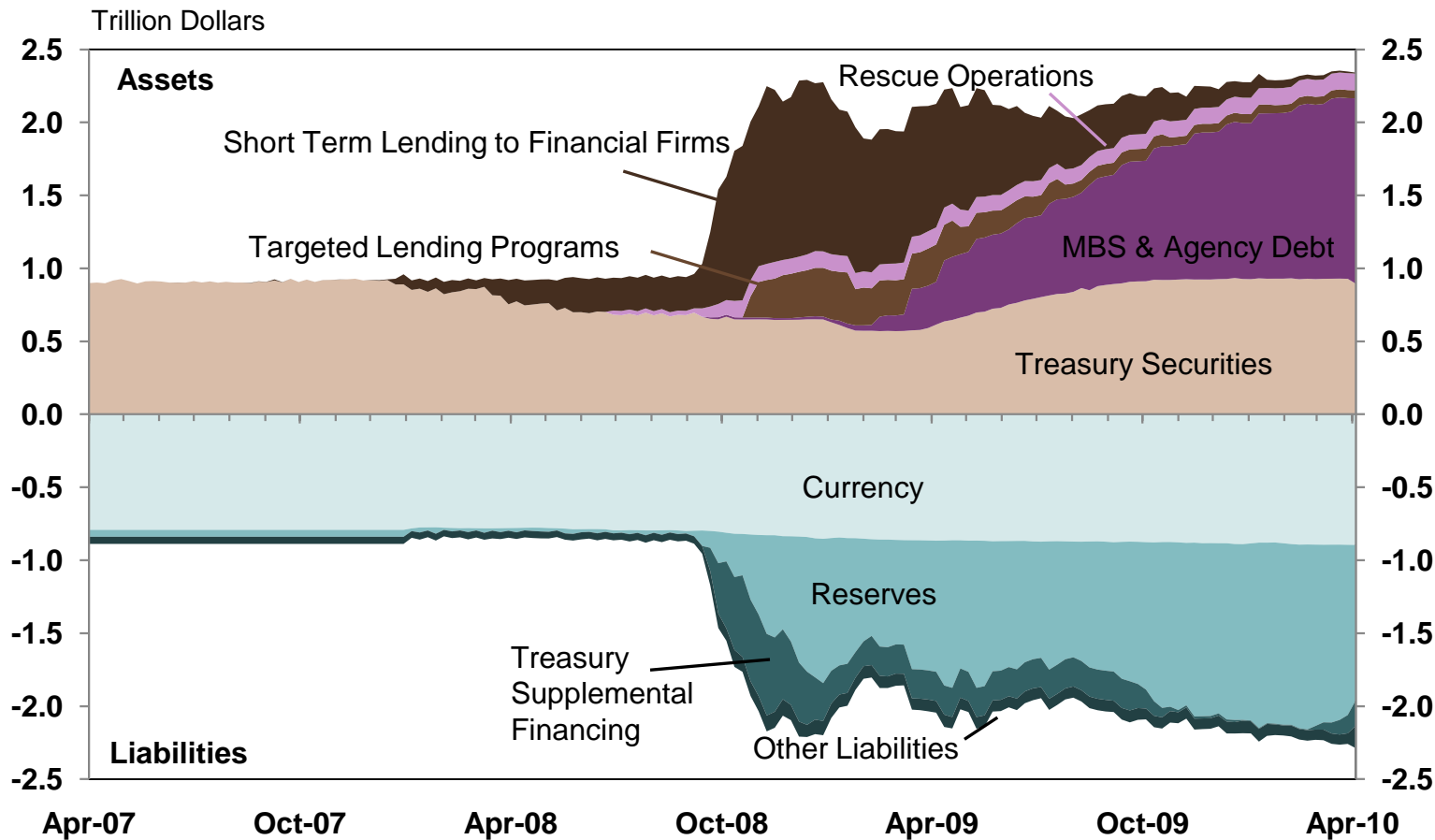
# Inflation is expected to remain tame in the near term, but will require careful oversight

## PCE Inflation Index



# The Fed's balance sheet is still large, with extra assets now largely MBS

## Federal Reserve Balance Sheet



# The Tenth District Economy

- As usual in recessions, our District and most of its states entered quite late
- Our recession exit appears to be similar to or just slightly delayed from the nation
- Overall conditions remain better in our region, but there are several risks

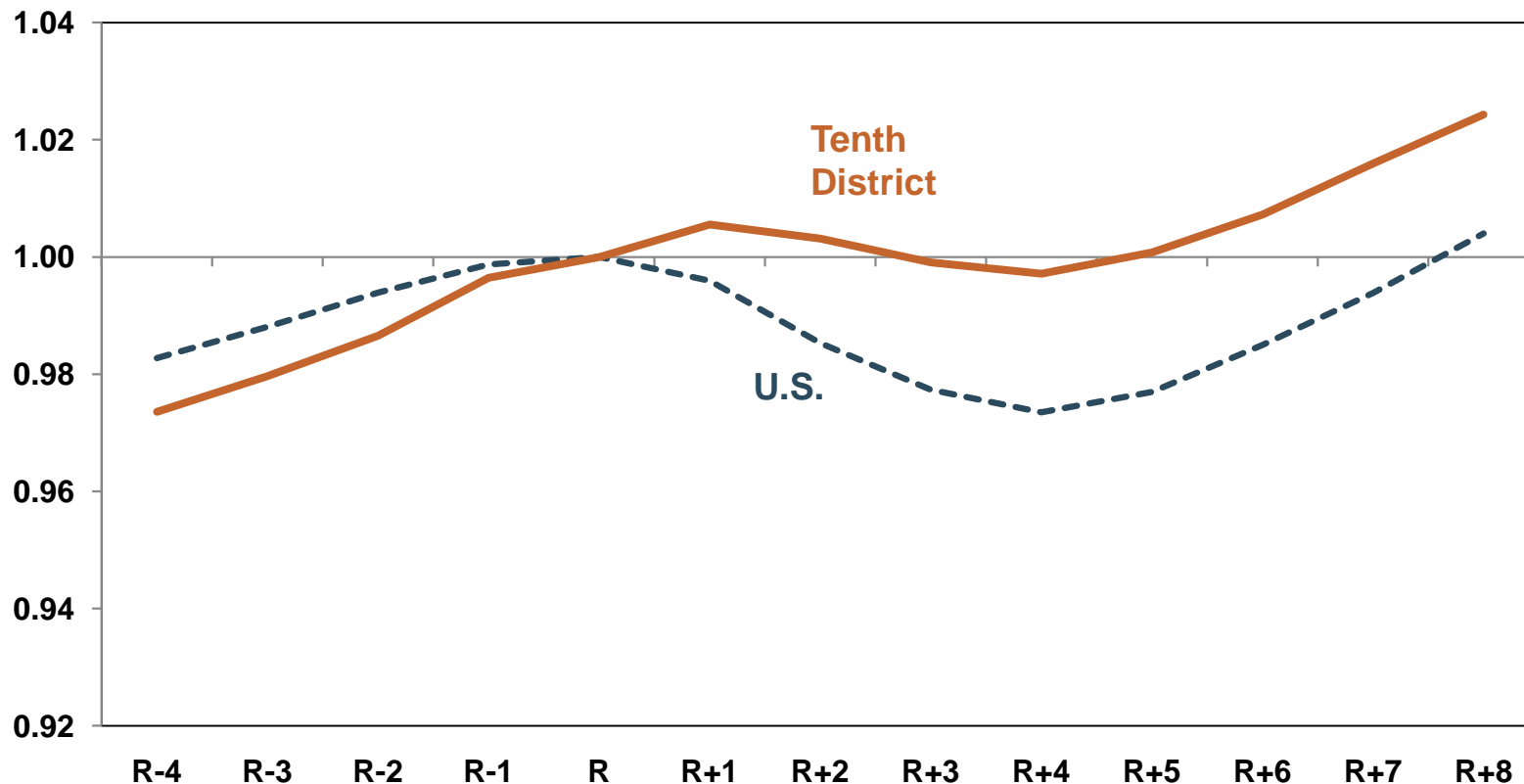


# The Tenth District usually enters deep recessions late but exits with the nation

## Average Deep Recession Path, 1956-2006\*

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

Indexed to U.S. jobs peak



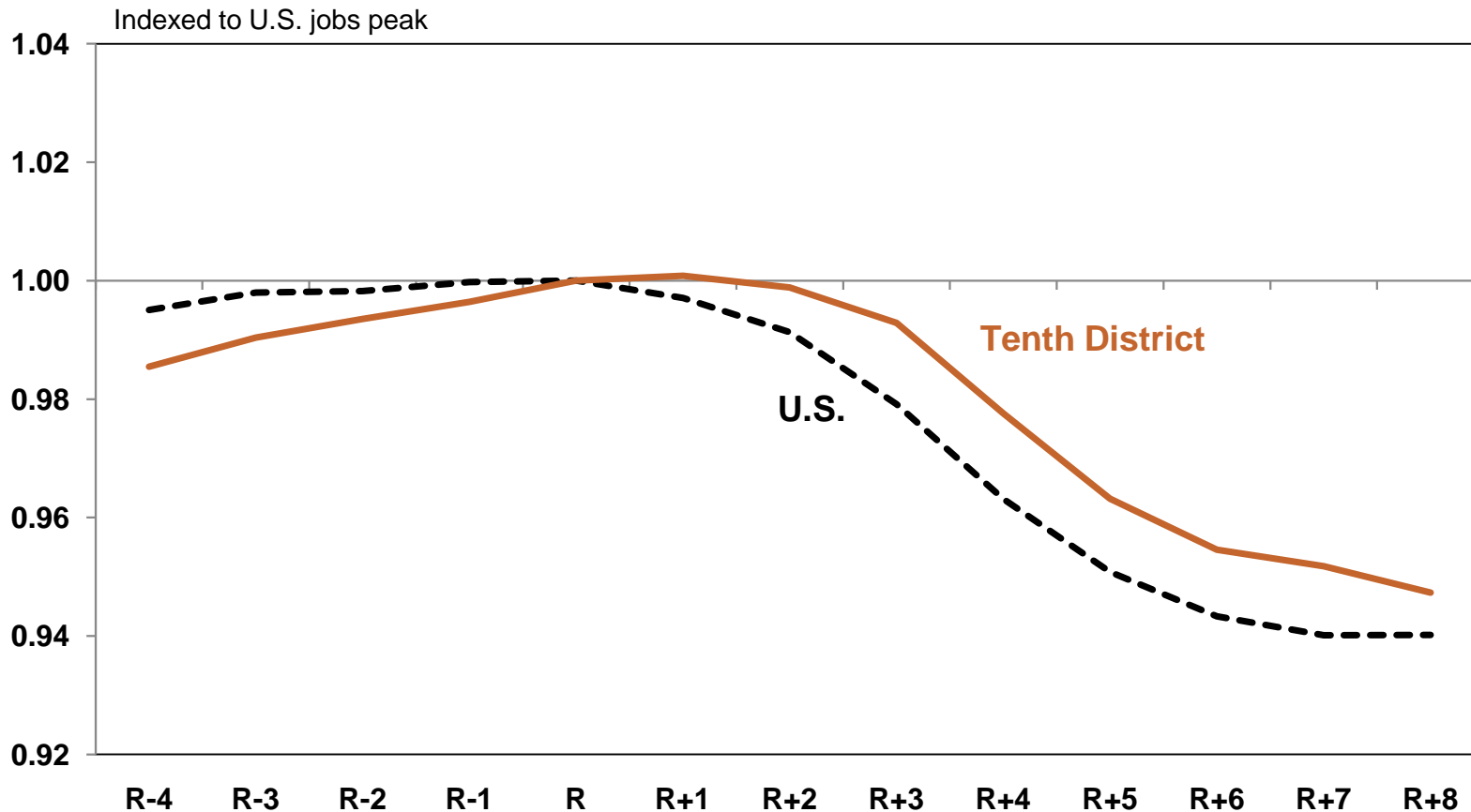
\* Includes 1957-58, 1974-75, 1981-82, and 2001-03 recessions



# This recession appears to be playing out largely as expected, though deeper

## Current Recession Path

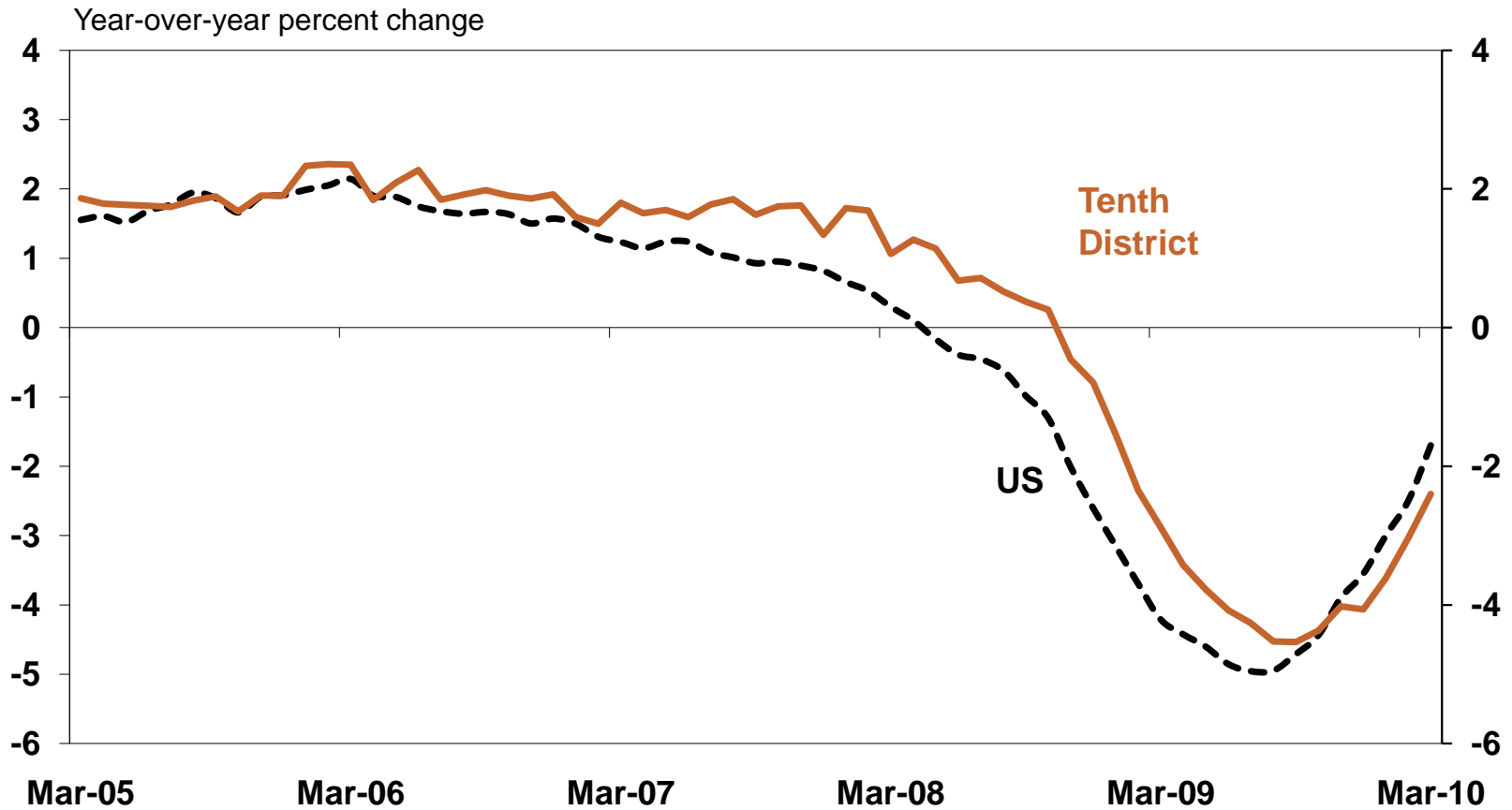
Employment level 4 quarters before and 8 quarters after U.S. jobs peak





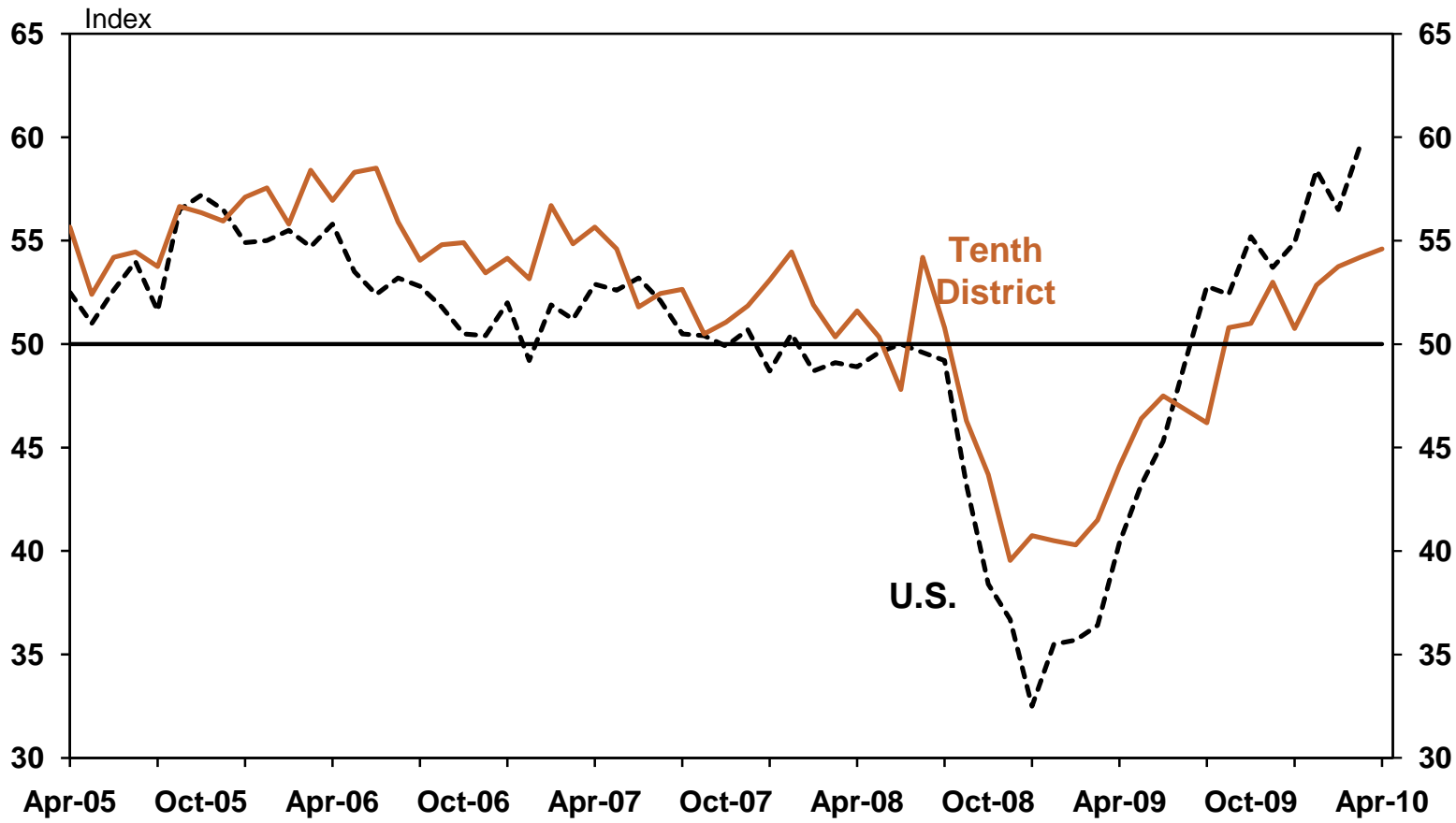
# Revised employment data show a similar story of very late entry, slightly late exit

## Nonfarm Payroll Employment Growth



# Regional output data suggest employment should continue to trend upward

**Manufacturing PMI Indexes**  
Seasonally adjusted

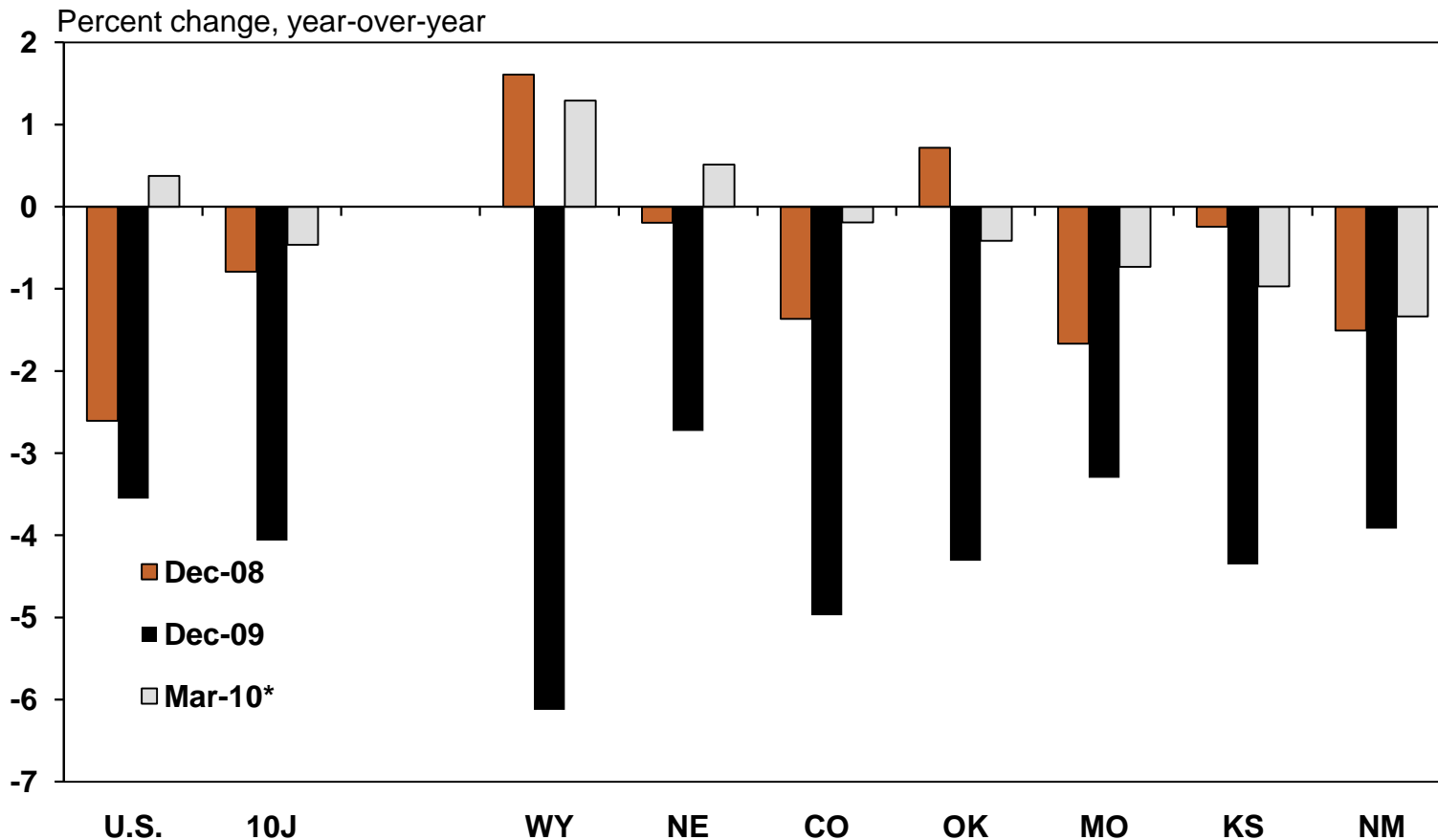


Source: ISM, FRBKC Manufacturing Survey



# Employment is growing or stabilizing in most Tenth District states

## Nonfarm Payroll Employment



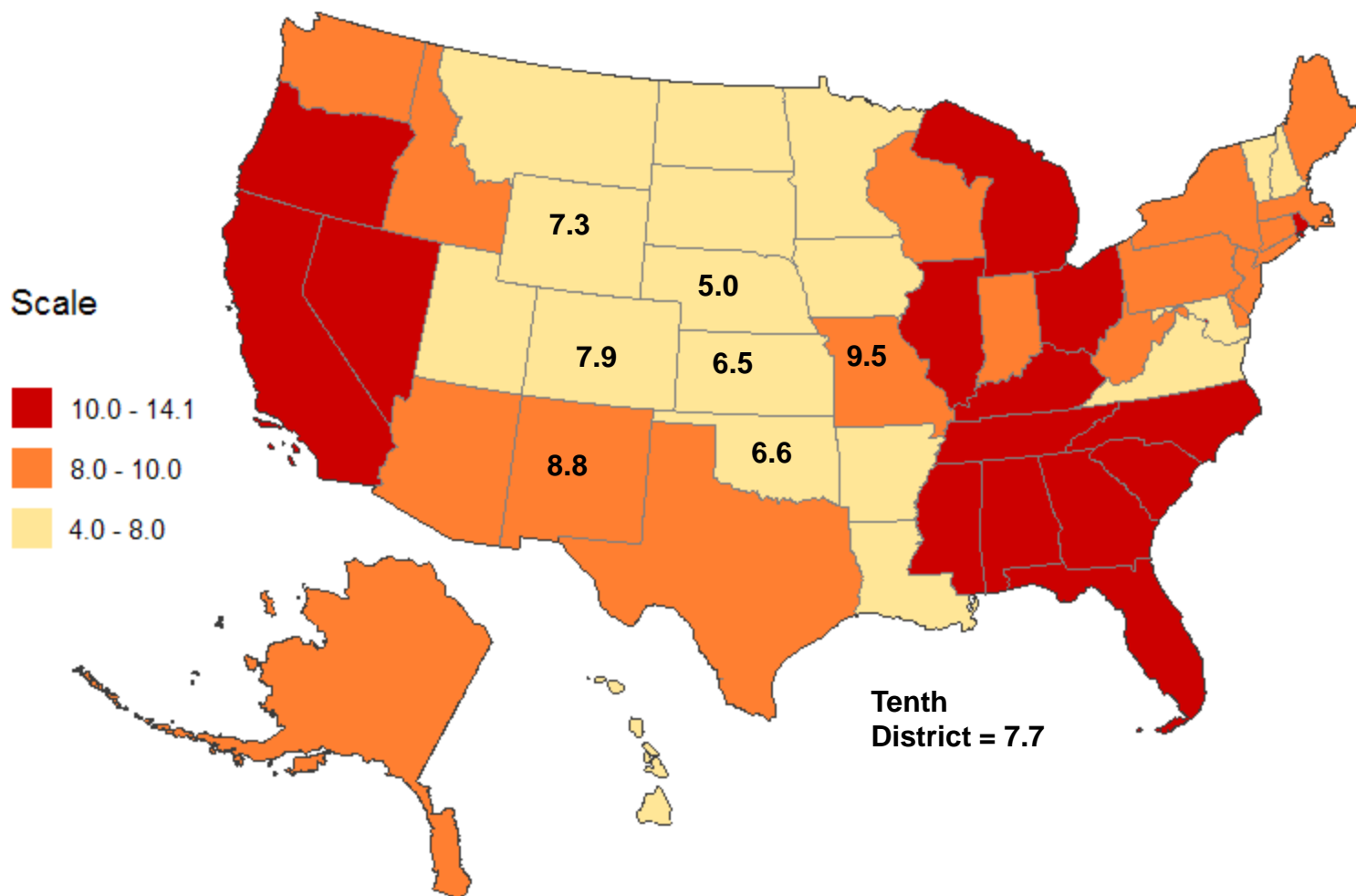
\*Annualized growth rate of December 2009 to March 2010

Source: U.S. Bureau of Labor Statistics



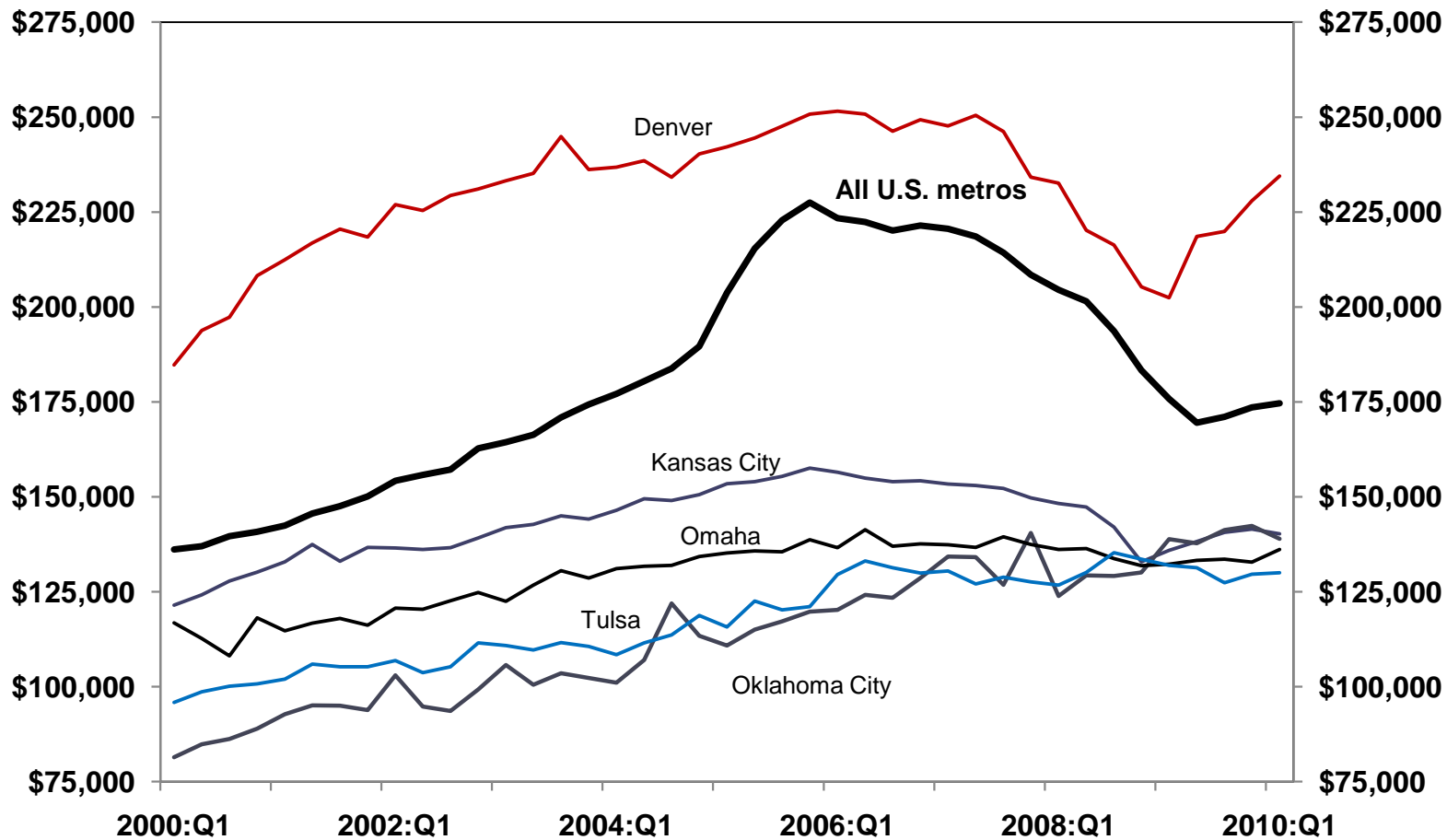
# With shorter recessions and better starting points, joblessness is lower in the region

Unemployment Rate, March 2010



# Home prices clearly held up better here, providing cushion to consumers and banks

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



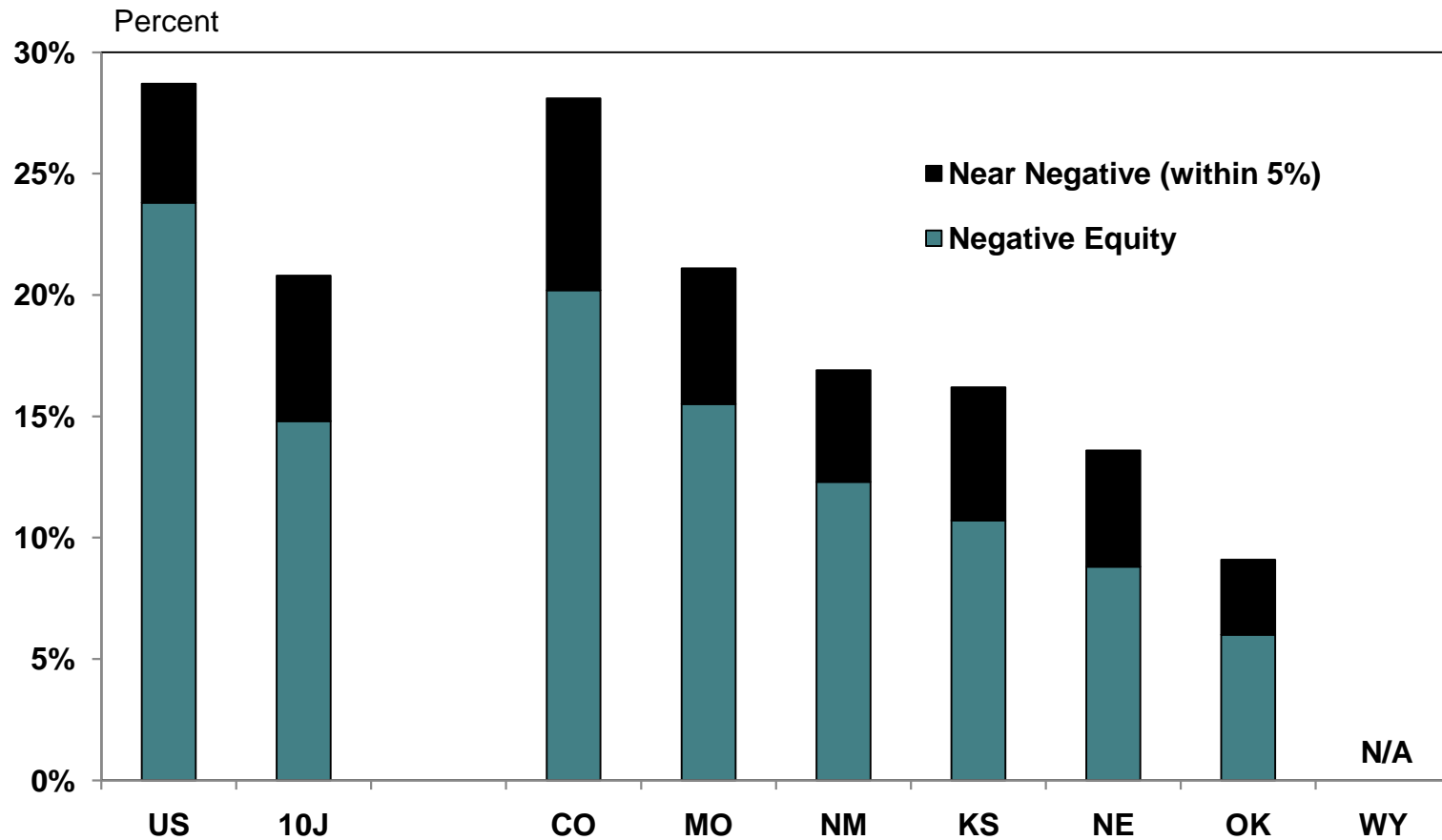
Source: NAR



# Our mortgages generally remain in better shape, but some states have risks

## Share of Mortgages Underwater or Nearly So

Q4 2009

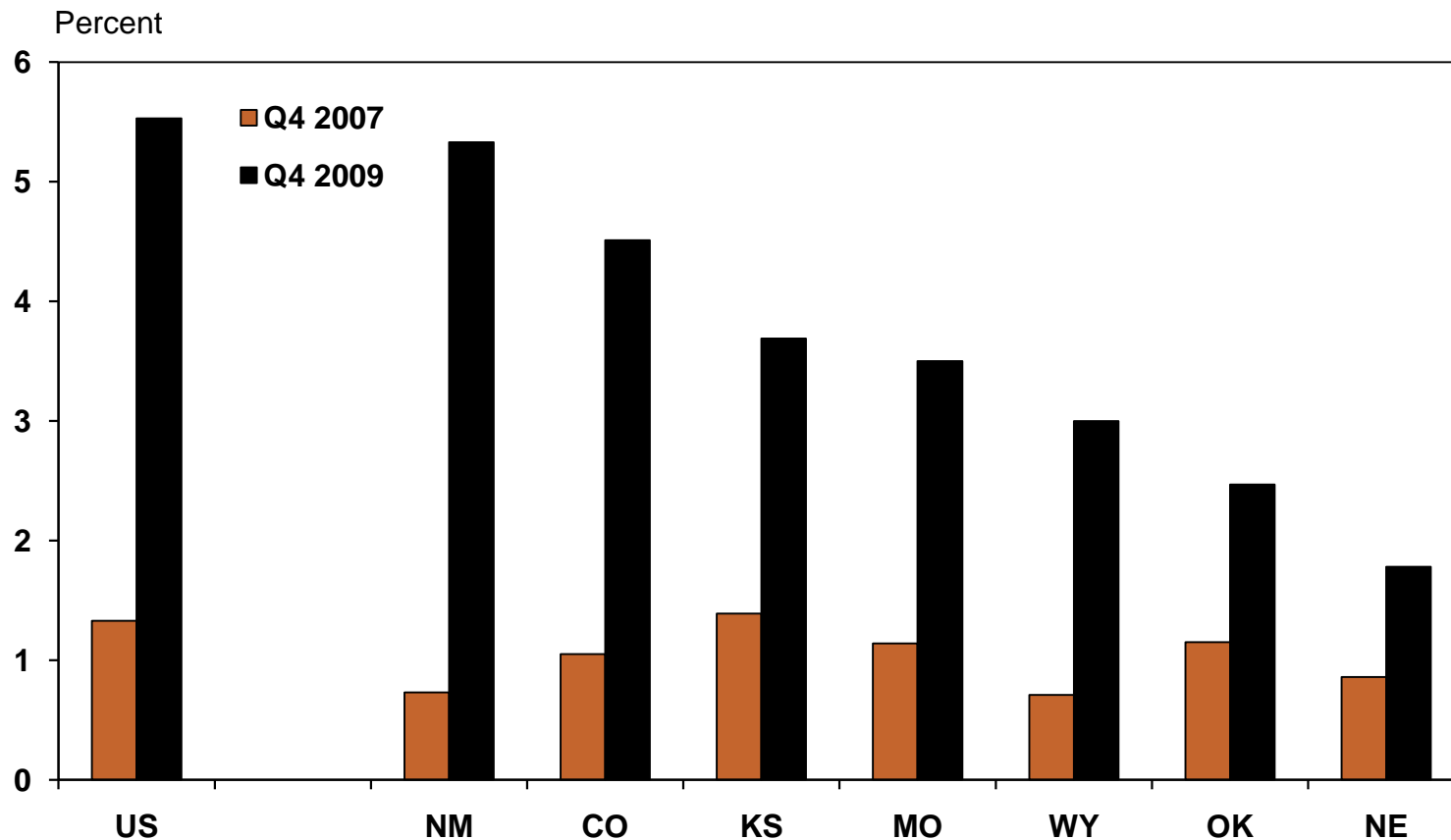


Source: First American CoreLogic



# Banks also remain in much better shape in most District states

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

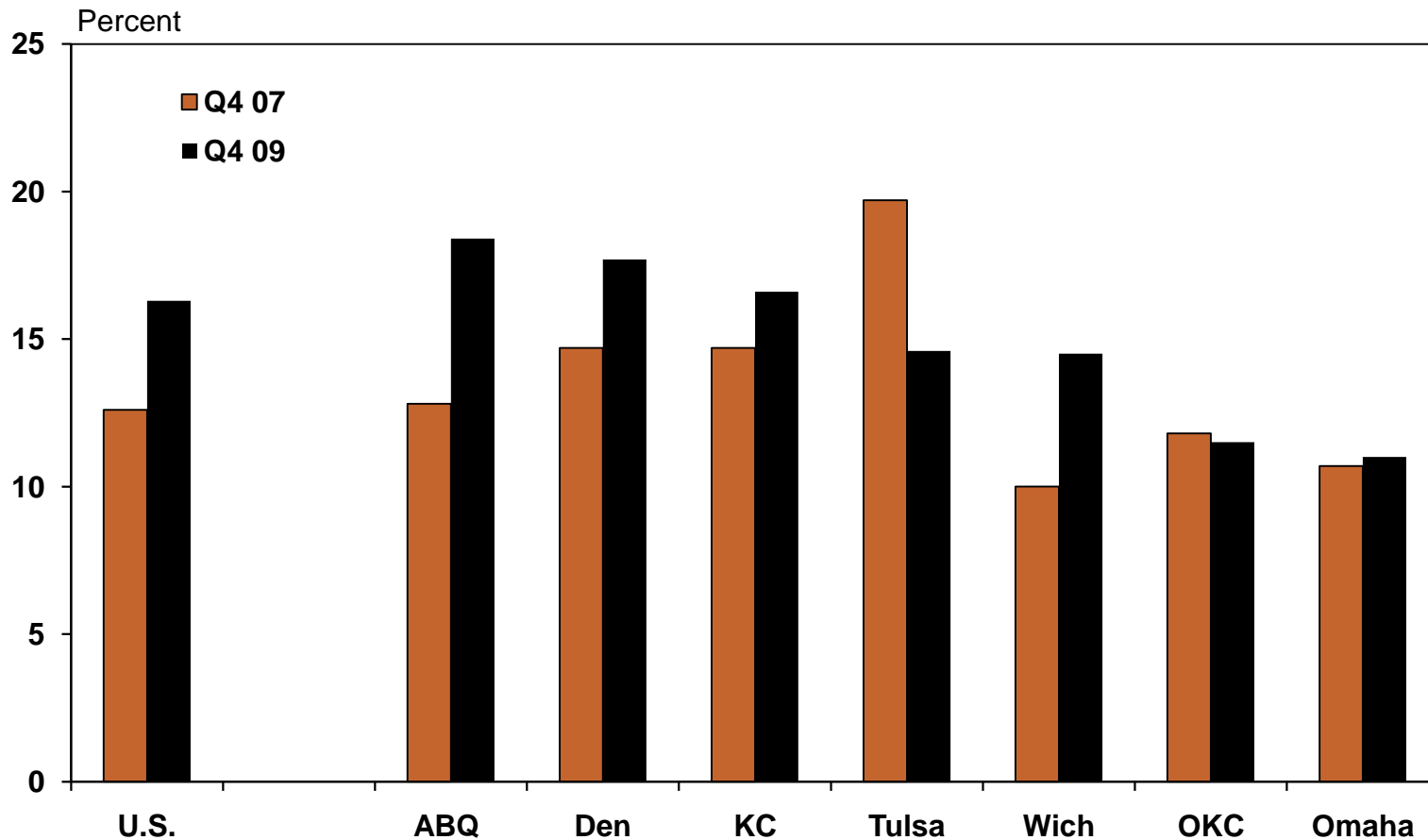


Source: FDIC



# Commercial real estate is also a risk in some of the region's cities

## Office Vacancy Rates



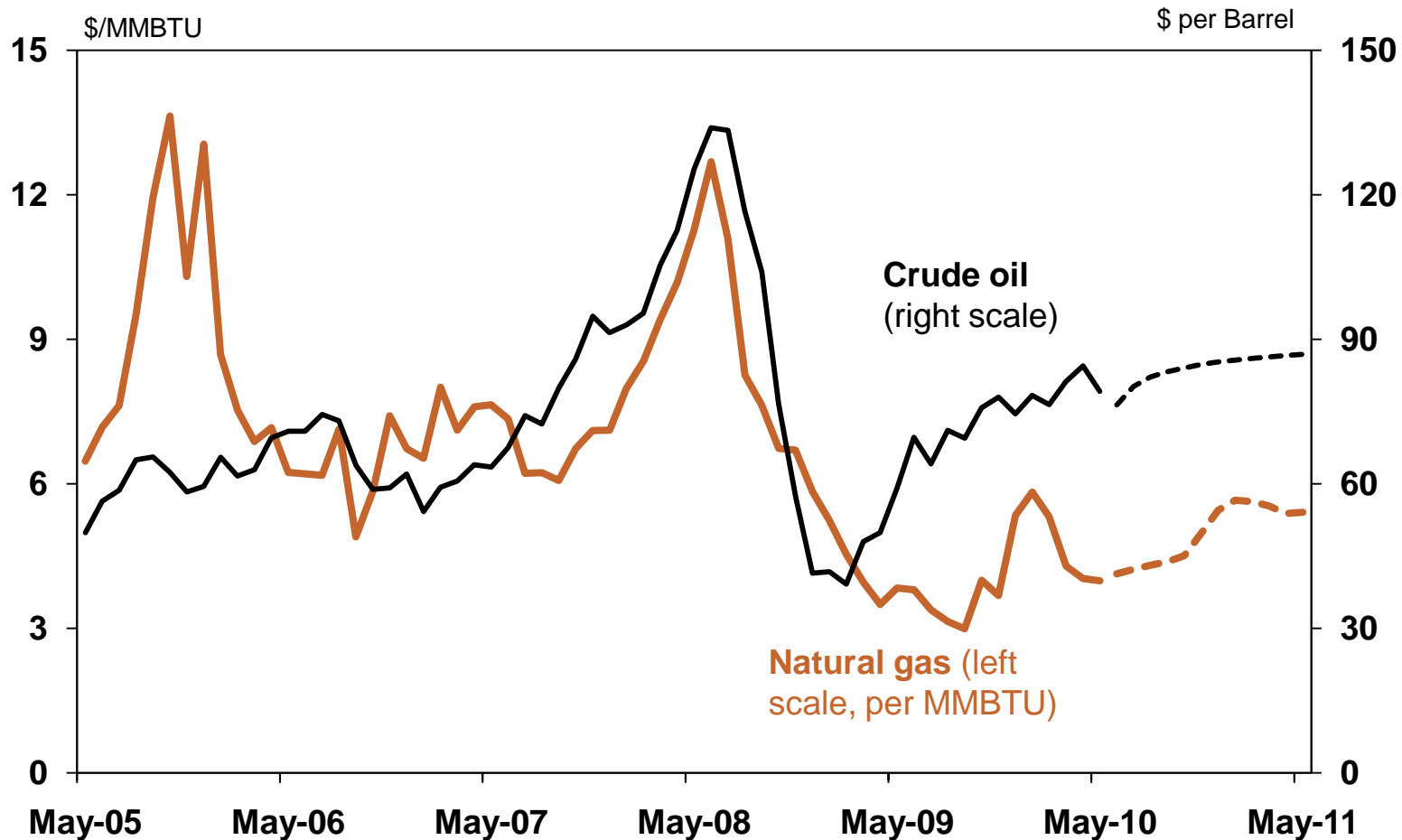
Source: Torto Wheaton





# And weak natural gas prices are also a risk in some areas of the region

## Energy Prices



Source: Bloomberg



# Summary

- The U.S. economy is growing again, but recovery speed is expected to be modest
- The recession in the Tenth District has been milder, but recovery is slightly delayed
- Regional conditions generally remain better, but there are several risks to growth in 2010

