

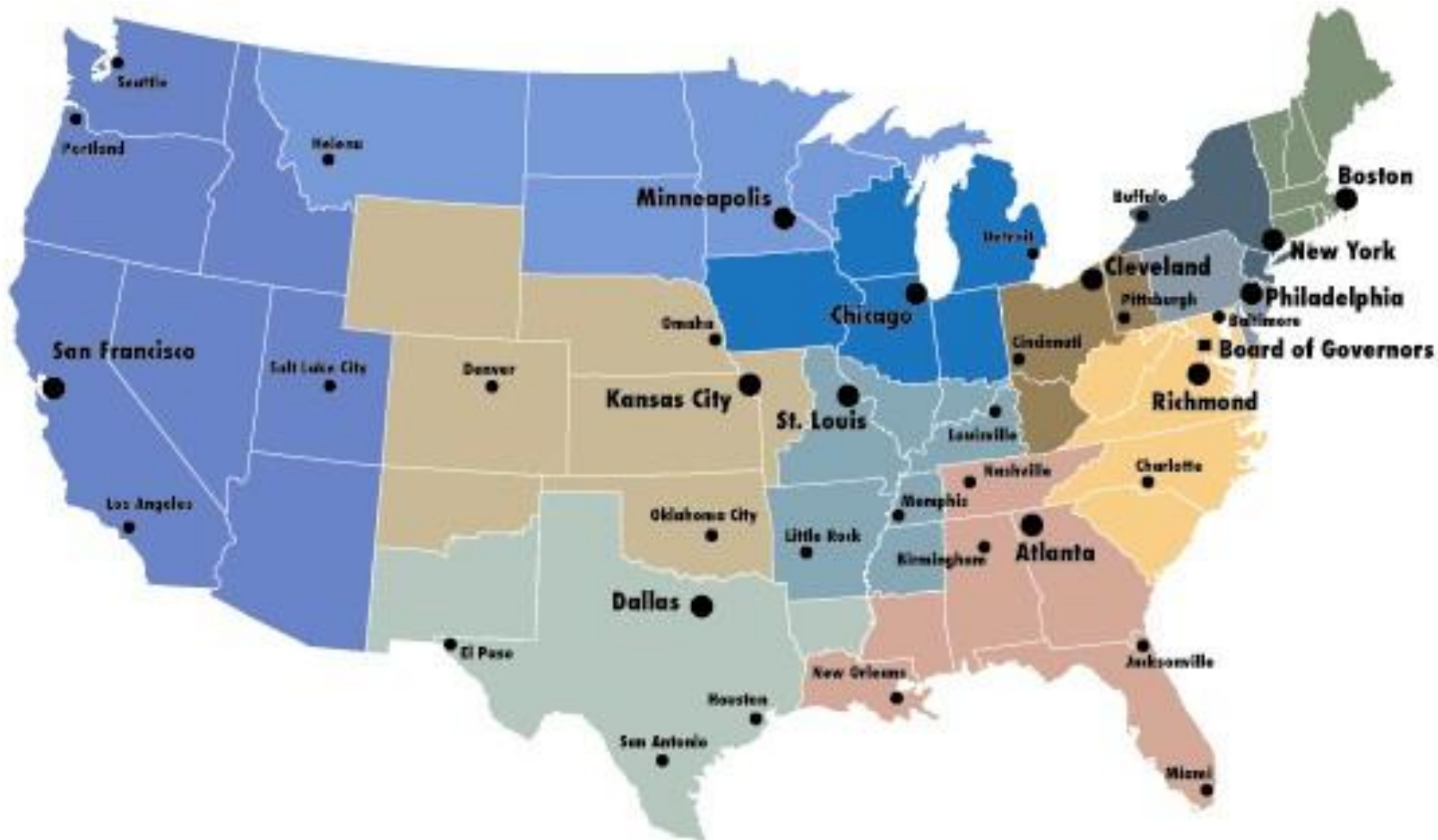
The Economic and Banking Outlook for the U.S. and Oklahoma



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Oklahoma City Branch Executive

Federal Reserve Districts and Office Locations



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

The Oklahoma City Branch Office of the Federal Reserve Bank of Kansas City

- **Branch staff and functions**

- 35 staff involved in economic research, bank examinations, and public outreach

- **2010 branch board of directors**

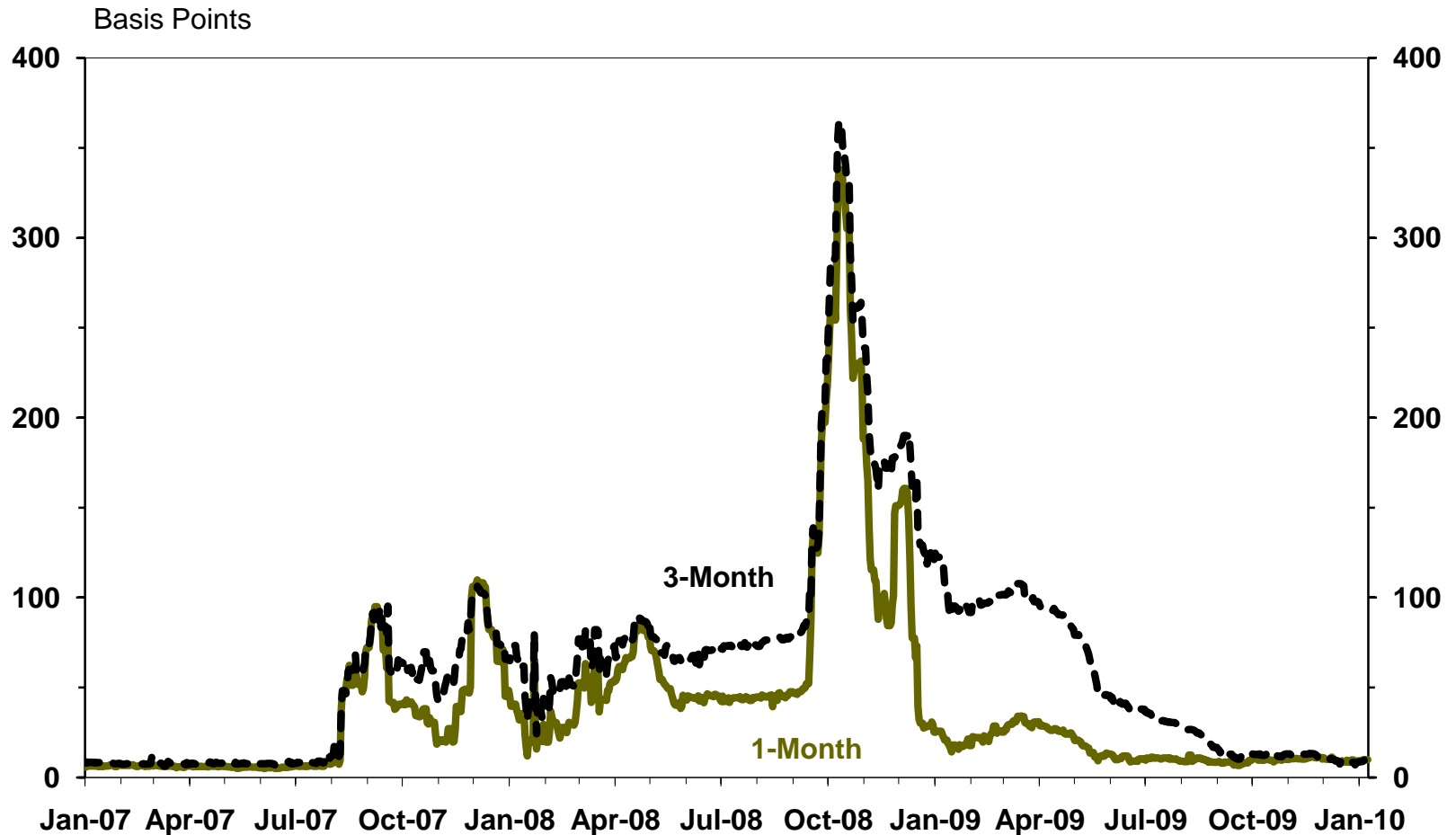
- **Steve Agee (chairman)**, President, Agee Energy, and Professor, OCU, OKC
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber and Supply Company, Tulsa
- **Jacque Fiegel**, Senior EVP and COO, Coppermark Bank, OKC
- **Rose Washington Rentie**, Executive Director, TEDC Creative Capital, Tulsa
- **Doug Tippens**, President and CEO, Bank of Commerce, Yukon
- **K. Vasudevan**, Chairman, Service and Technology Corp., Bartlesville

U.S. Economic and Banking Outlook

- ❑ Credit market conditions have improved, and the U.S. economy is growing again, but the recovery is expected to be moderate
- ❑ Inflation is expected to remain tame in the near term, but will require diligent actions to stay in check over the longer run

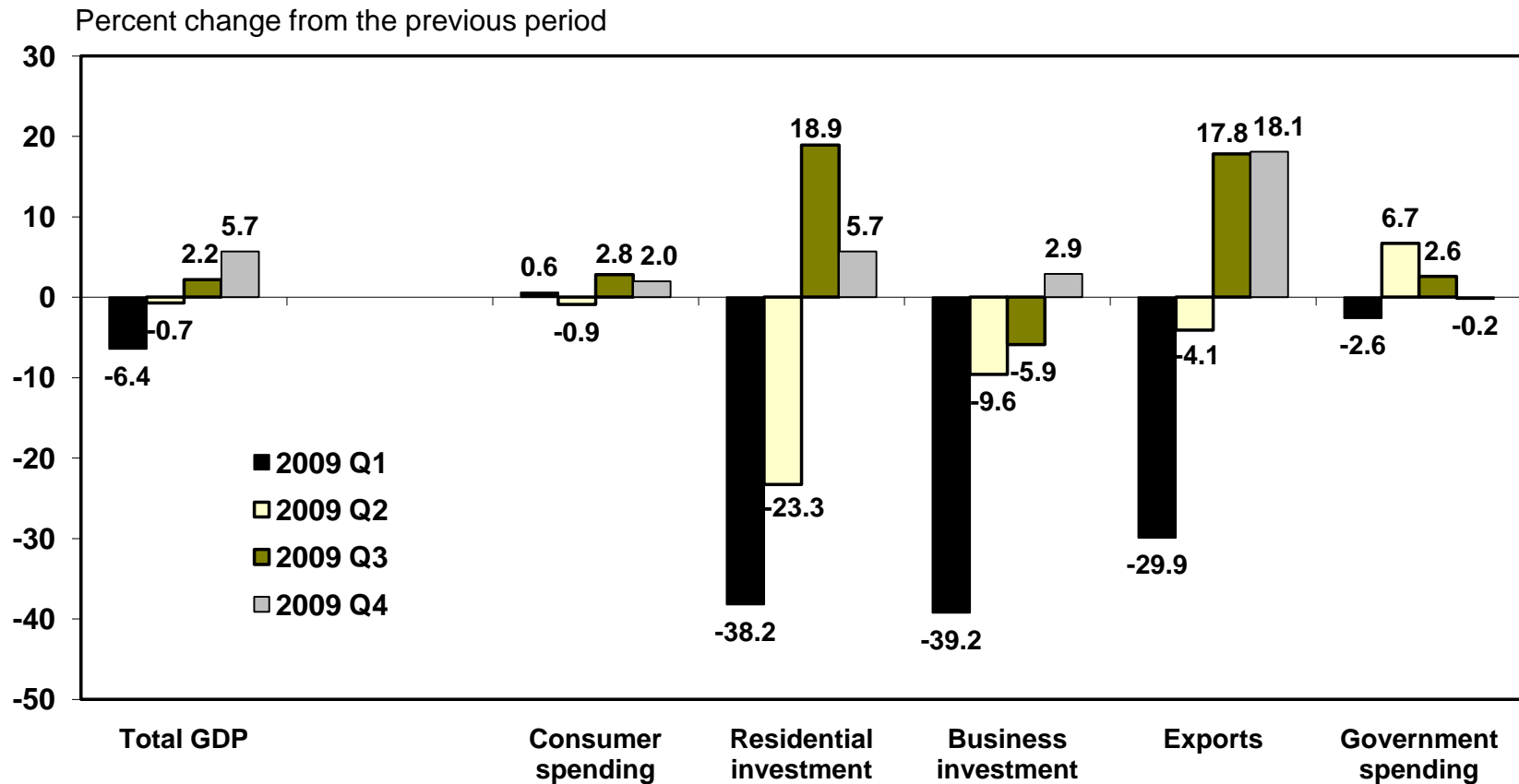
Interbank lending markets have largely returned to normal in recent months

LIBOR-OIS Spread



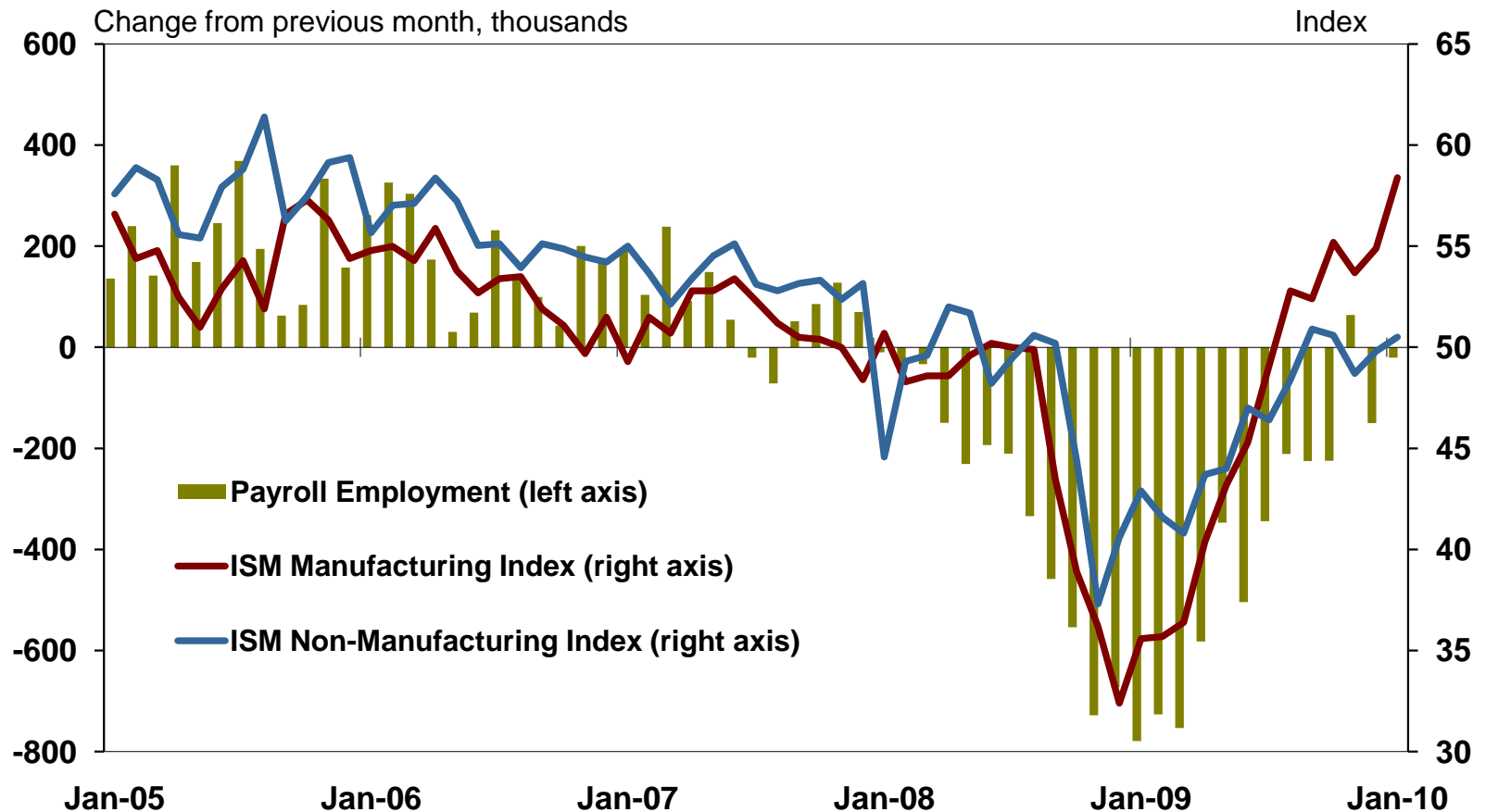
Second half 2009 GDP growth was fairly strong, but boosted in part by government stimulus

Growth in Components of GDP



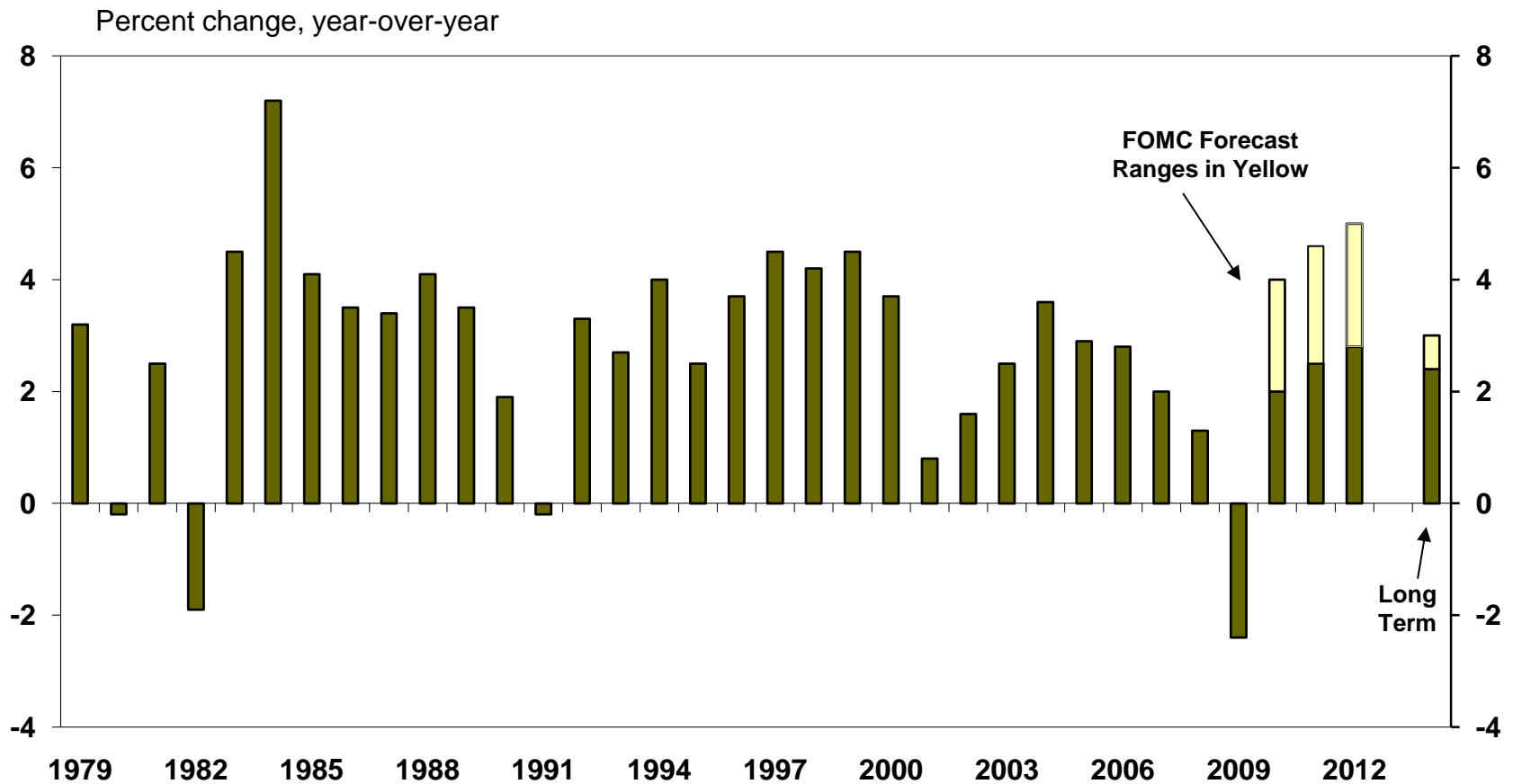
January 2010 data show further signs of improvement, especially in manufacturing

National Business Indexes and Payroll Employment



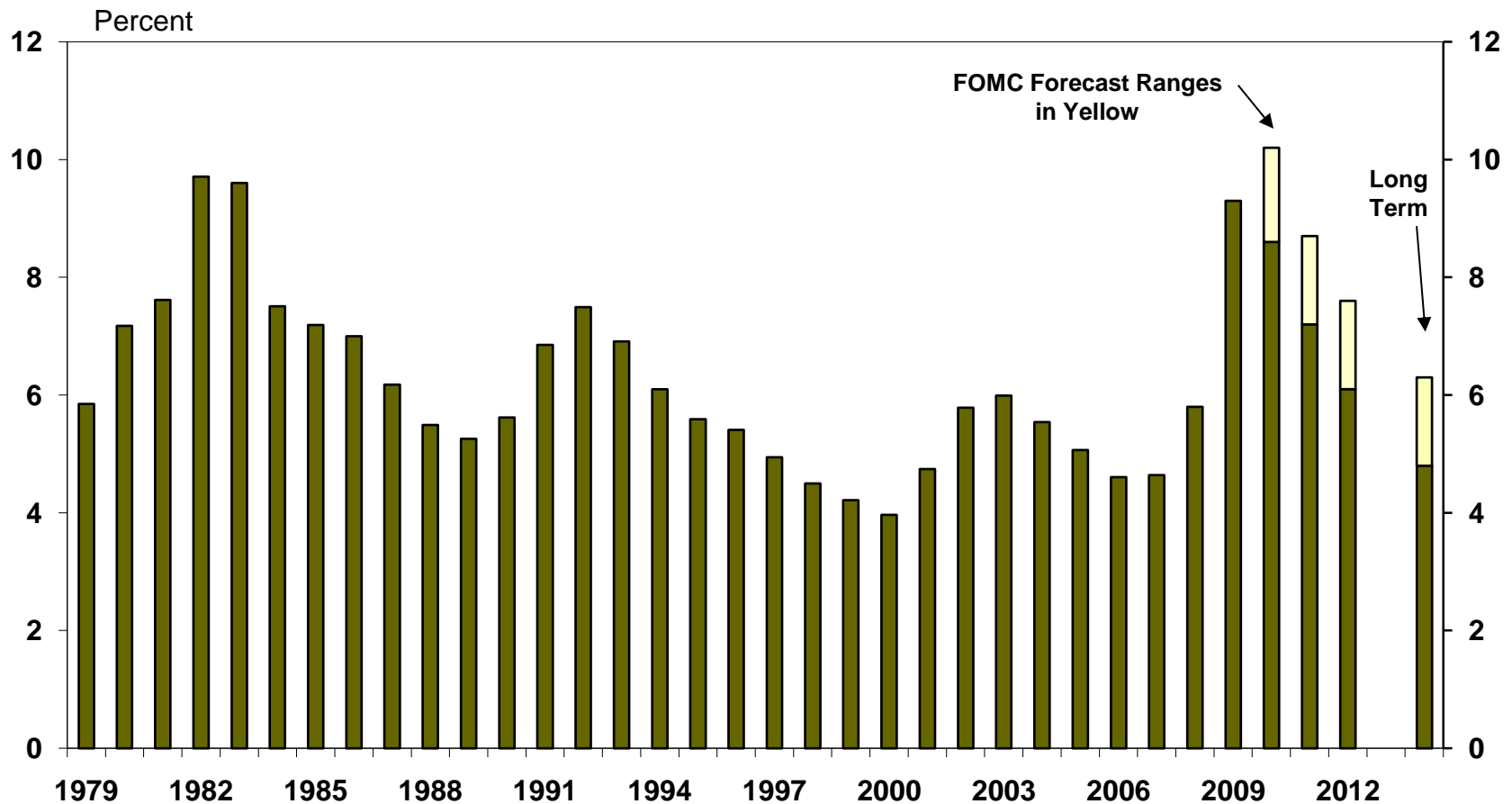
Heading forward, Fed policymakers generally expect a moderate recovery

Gross Domestic Product



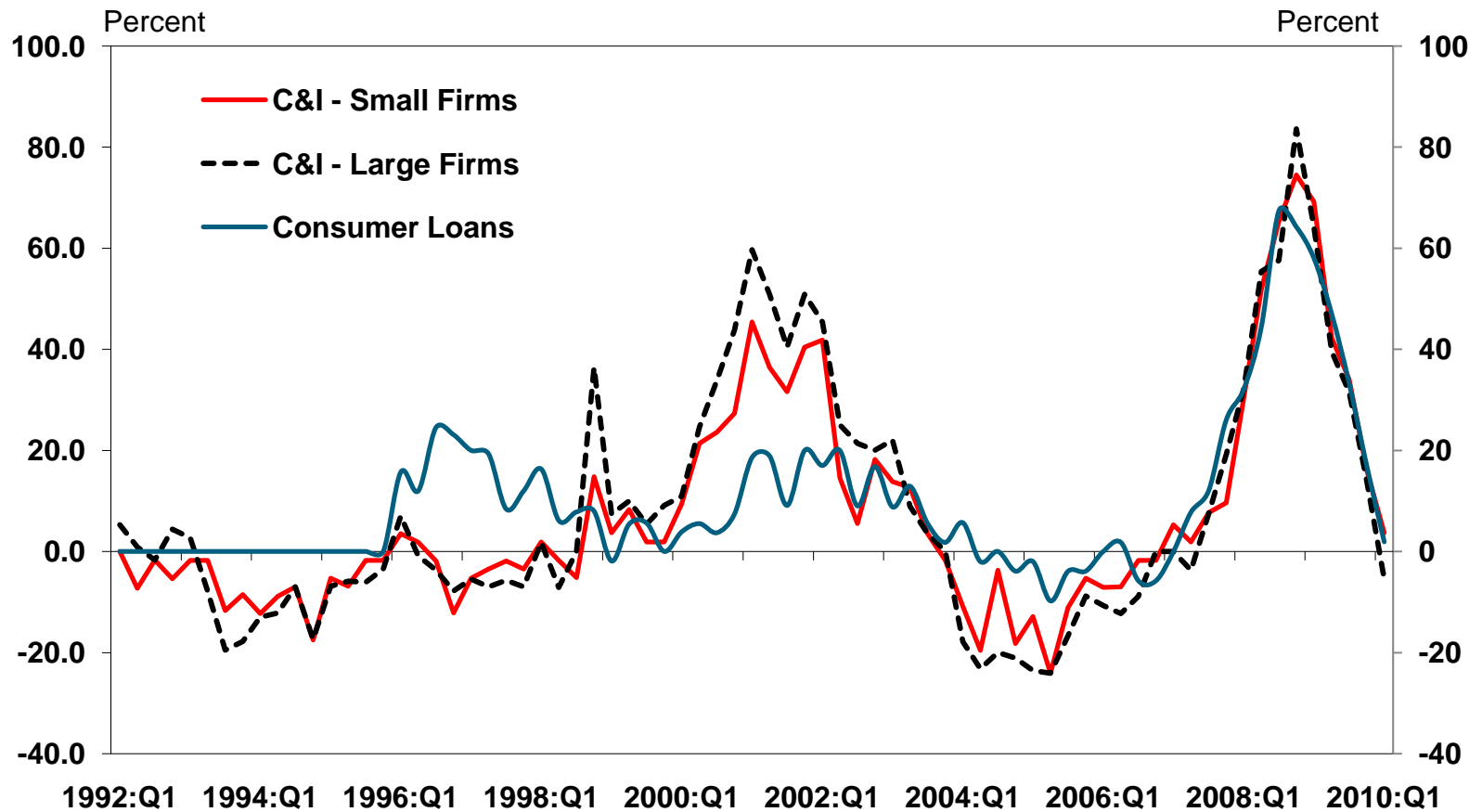
But unemployment is expected to remain high for some time

Unemployment Rate
Seasonally Adjusted



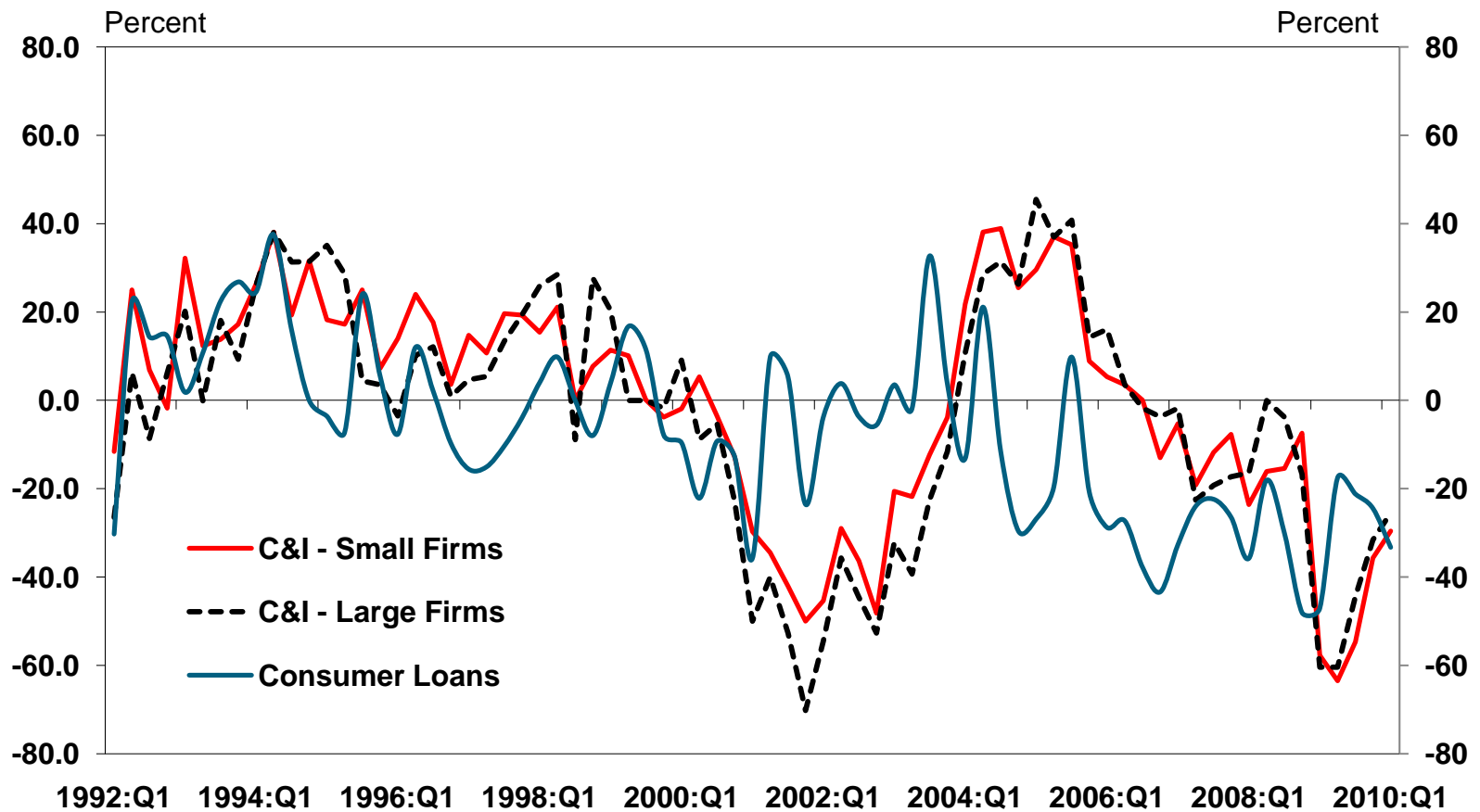
After tightening recently, banks' lending standards are largely unchanged in Q1

Net Percentage of Banks Tightening Loan Standards



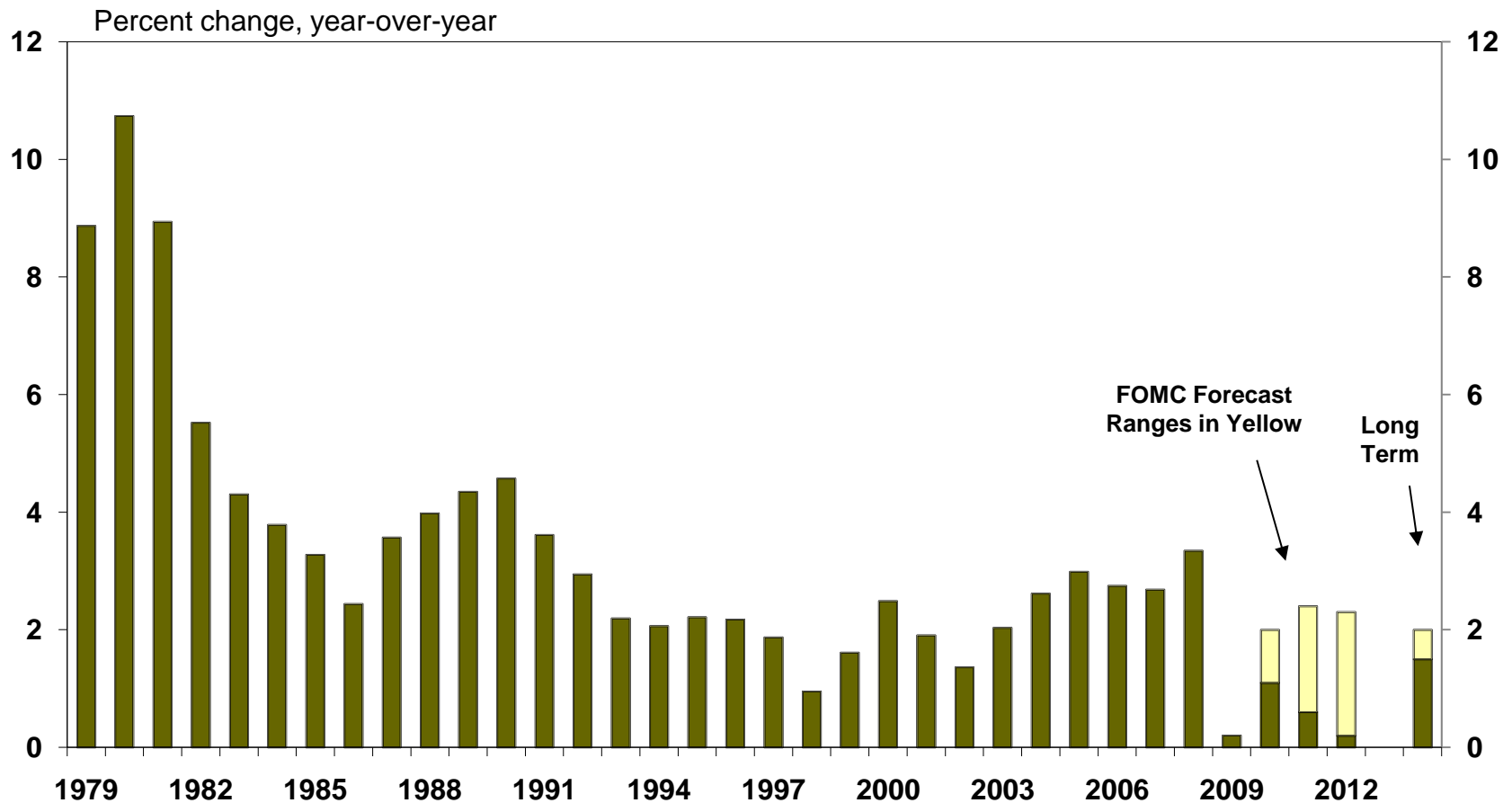
Loan demand is no longer falling as steeply, but it remains somewhat weak

Net Percentage of Banks Reporting Increased Loan Demand



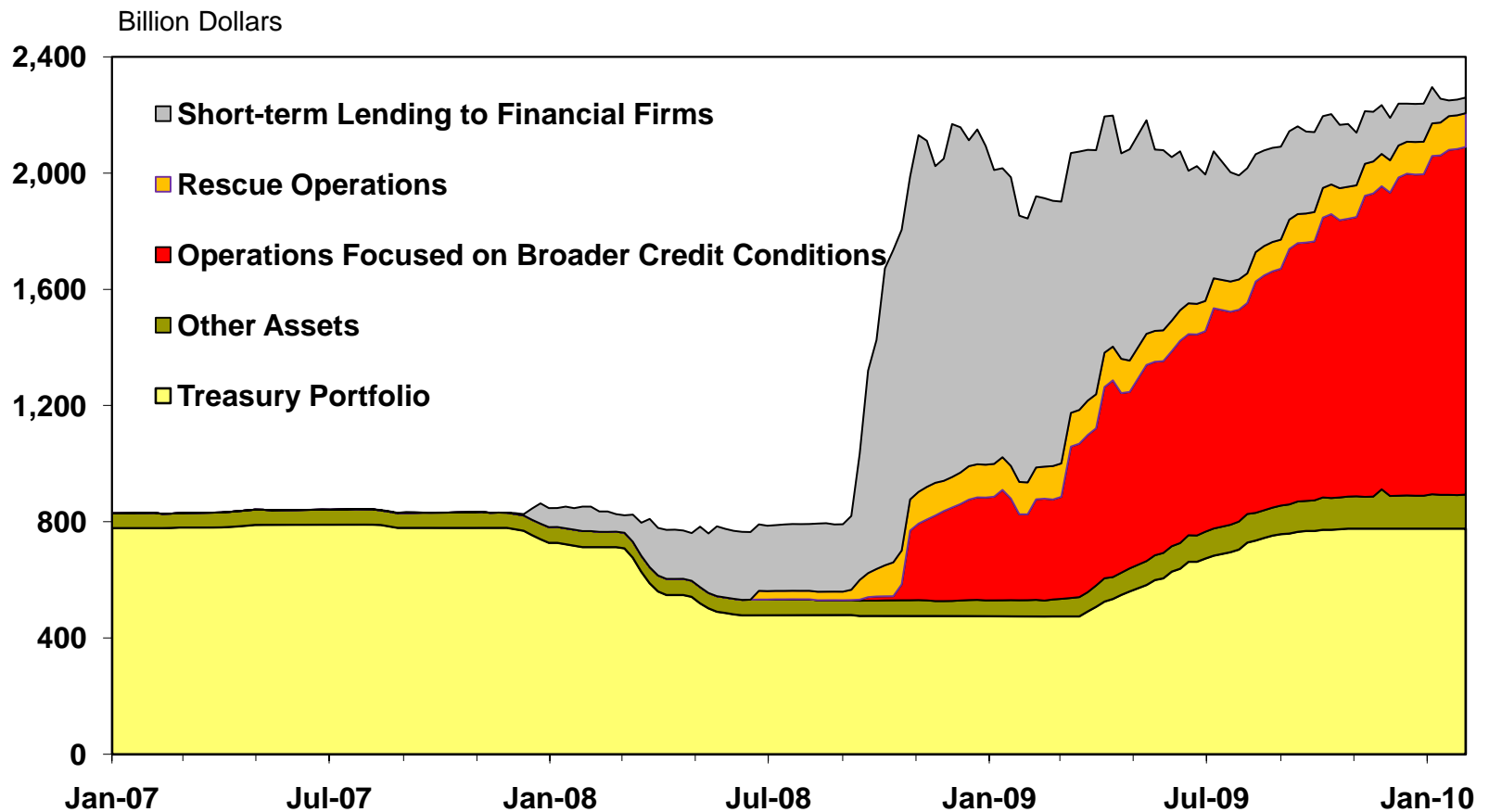
Near-term inflation is expected to remain tame, but will require diligent oversight

PCE Inflation Index



The Fed's balance sheet has grown considerably over the past year

Federal Reserve Balance Sheet: Assets



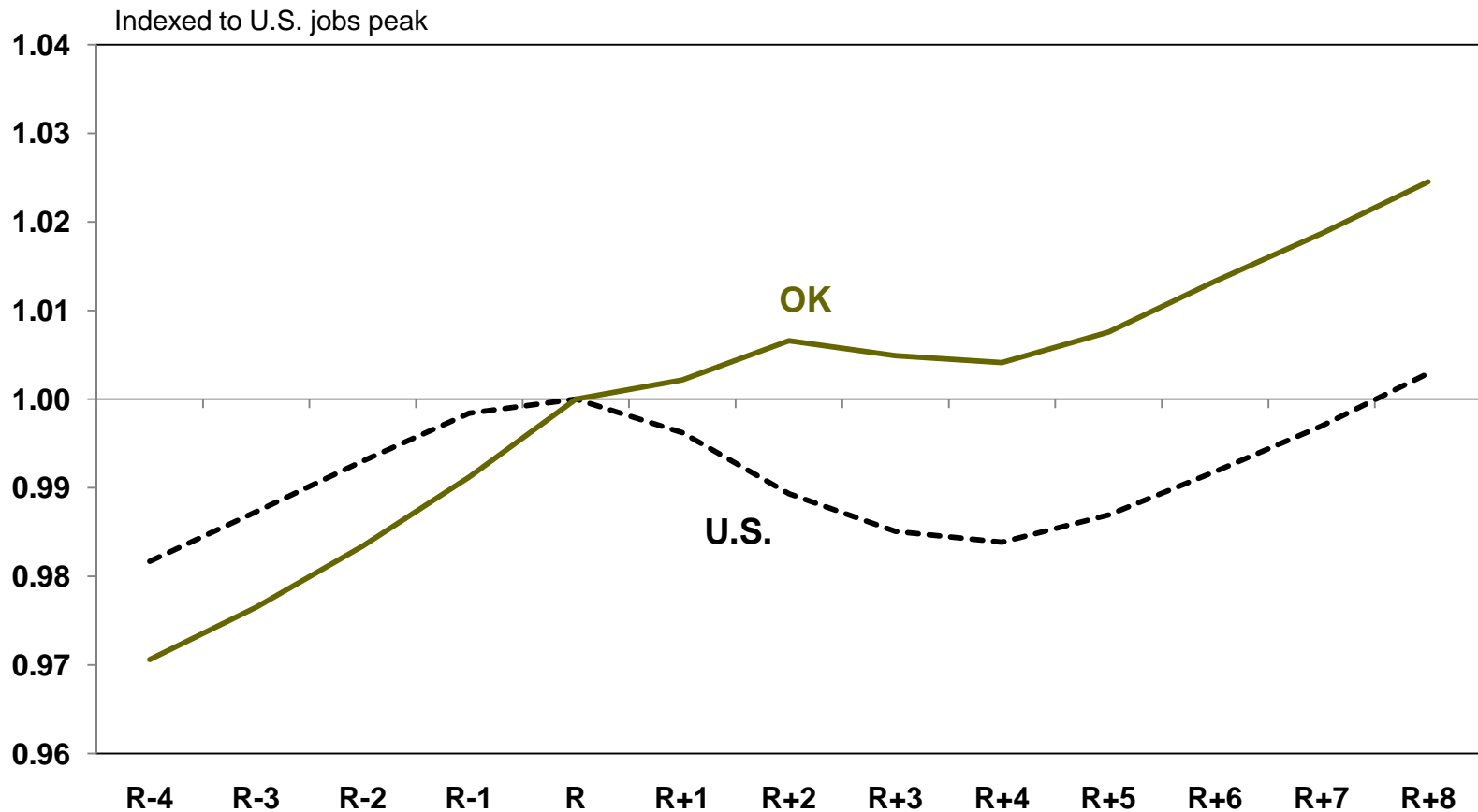
Oklahoma Economic and Banking Outlook

- As usual in recessions, Oklahoma entered this recession much later than the nation, and we appear to be recovering with only a slight lag
- With the shorter overall recession and less of a real estate bubble in recent years, banks in the state remain in better shape than the nation

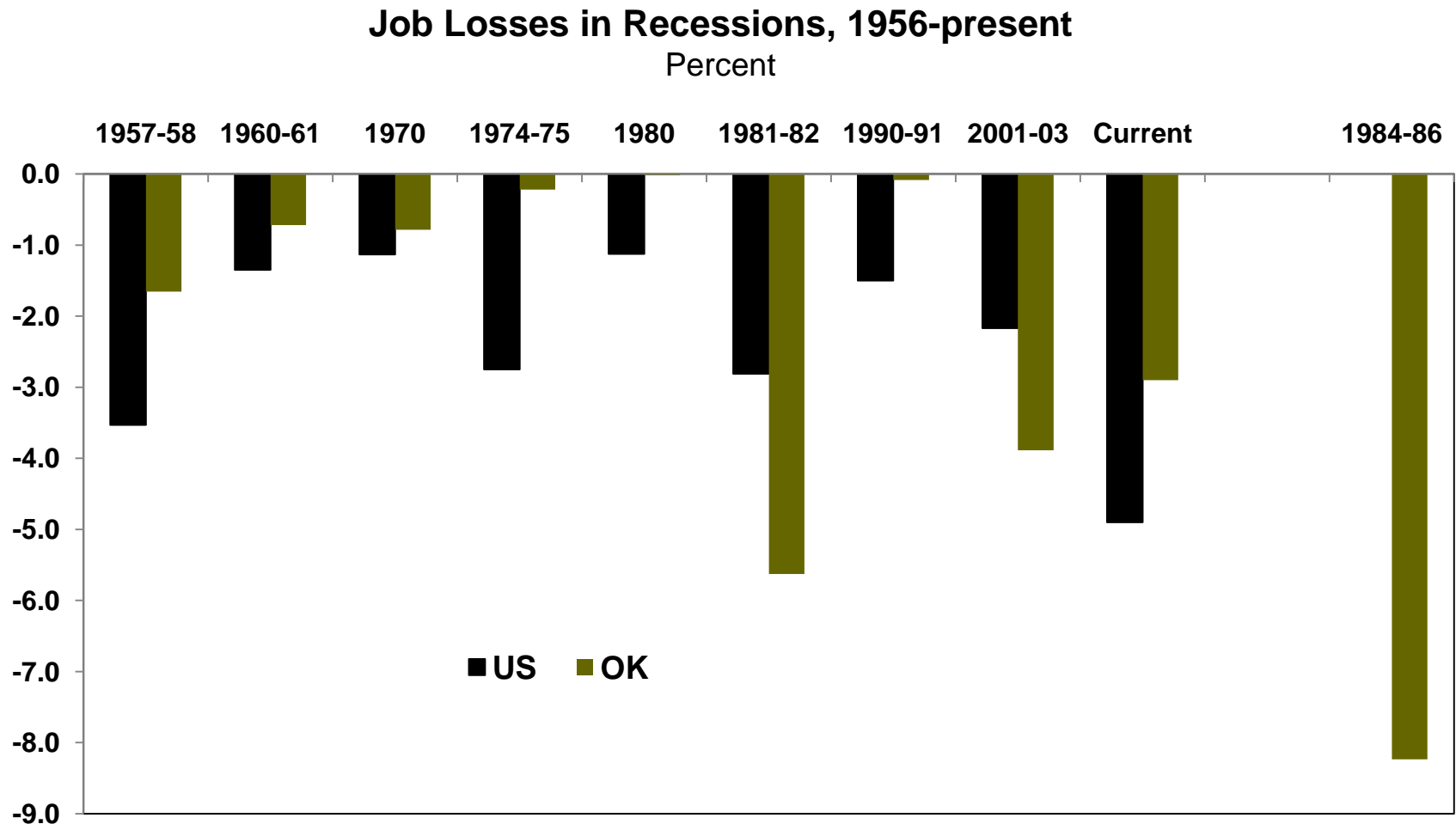
Oklahoma usually enters recessions late but leaves around the same time as the nation

Average Recession Path, 1956-2006

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

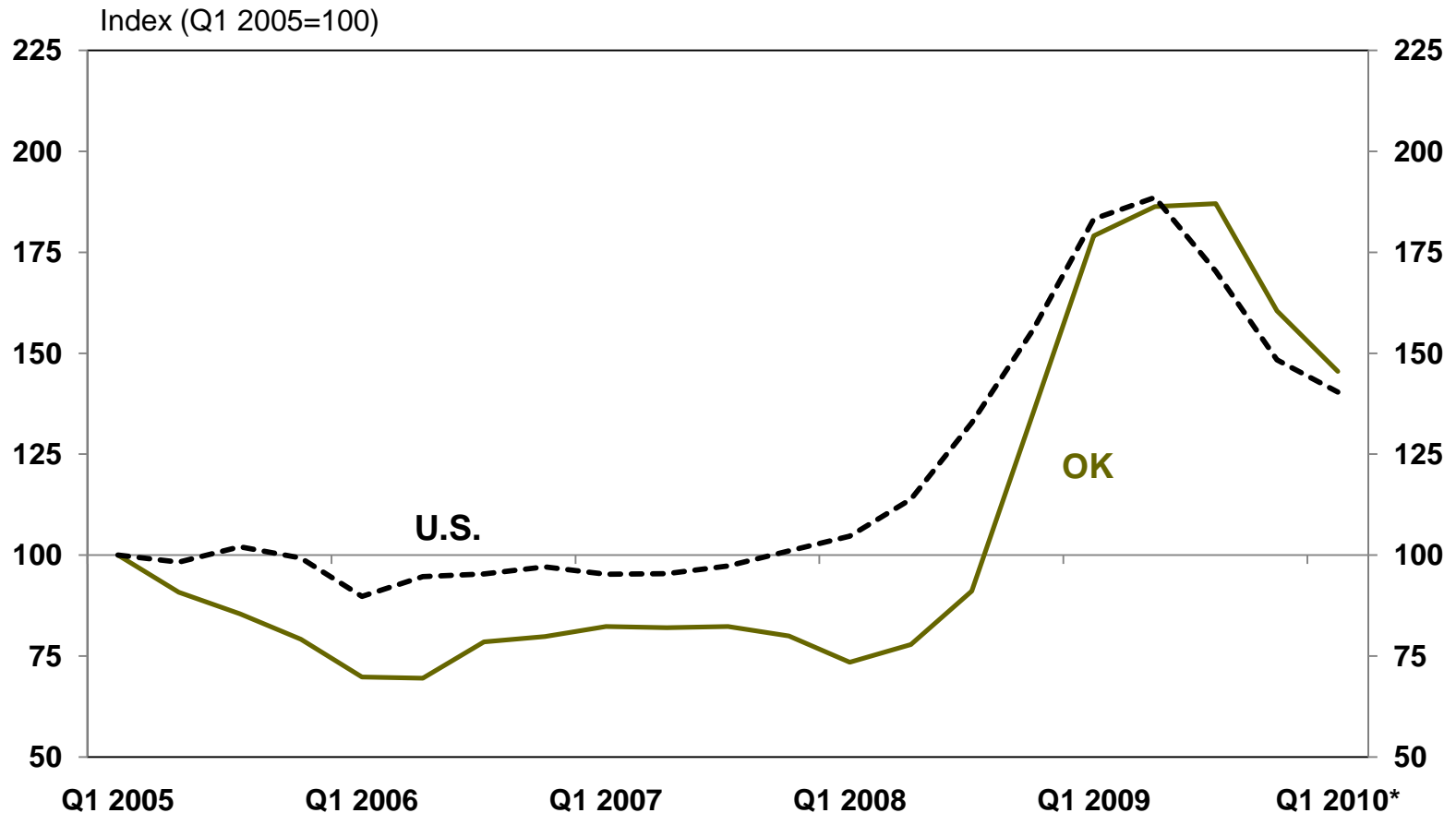


The main exception in the postwar period was during the 1980s, of course



Oklahoma entered this recession 3 quarters late and appears to be leaving one quarter late

Initial Claims for Unemployment Insurance



*January only

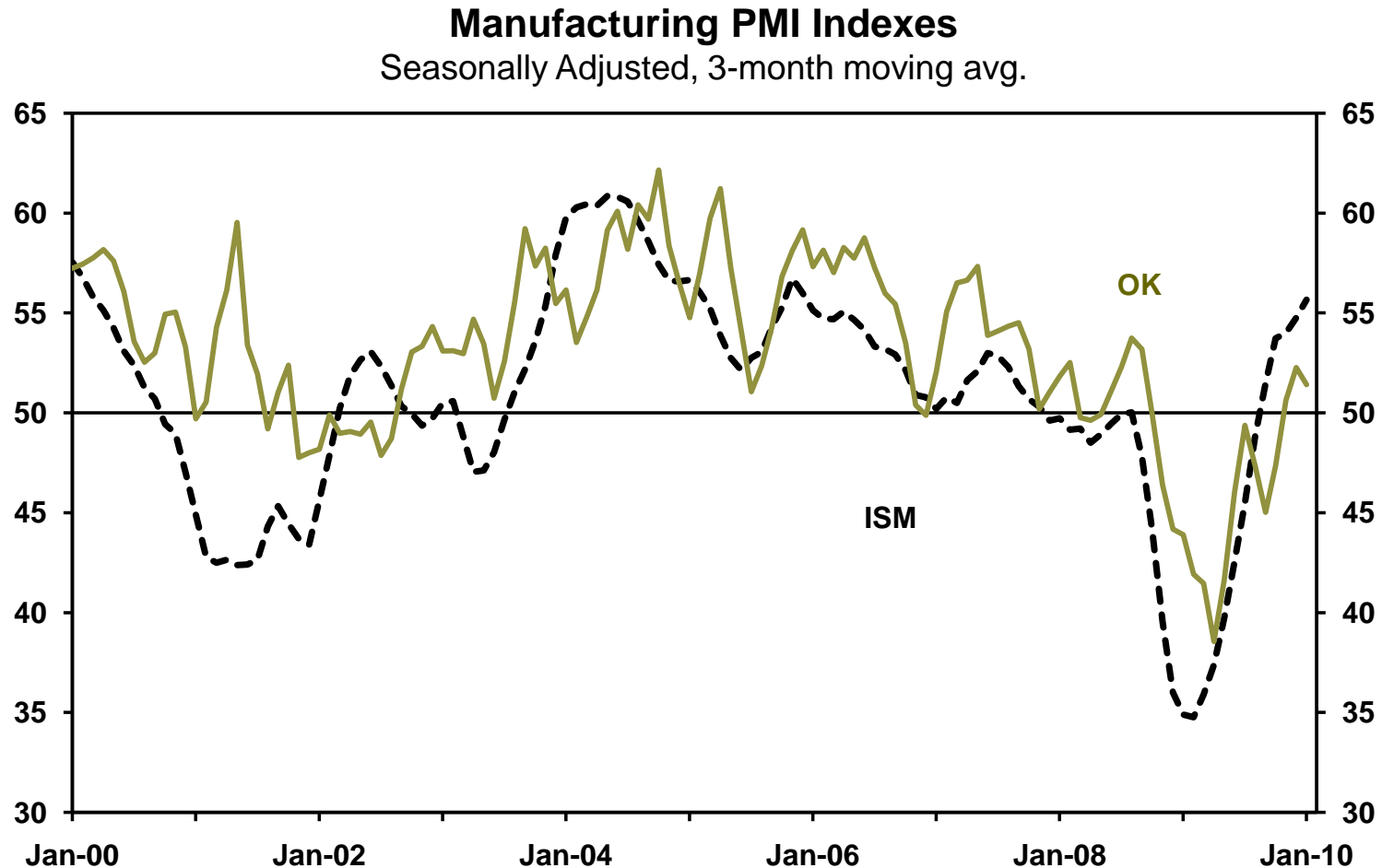
Source: Bureau of Labor Statistics

With a shorter recession, unemployment in Oklahoma remains relatively low

Unemployment Rate, December 2009



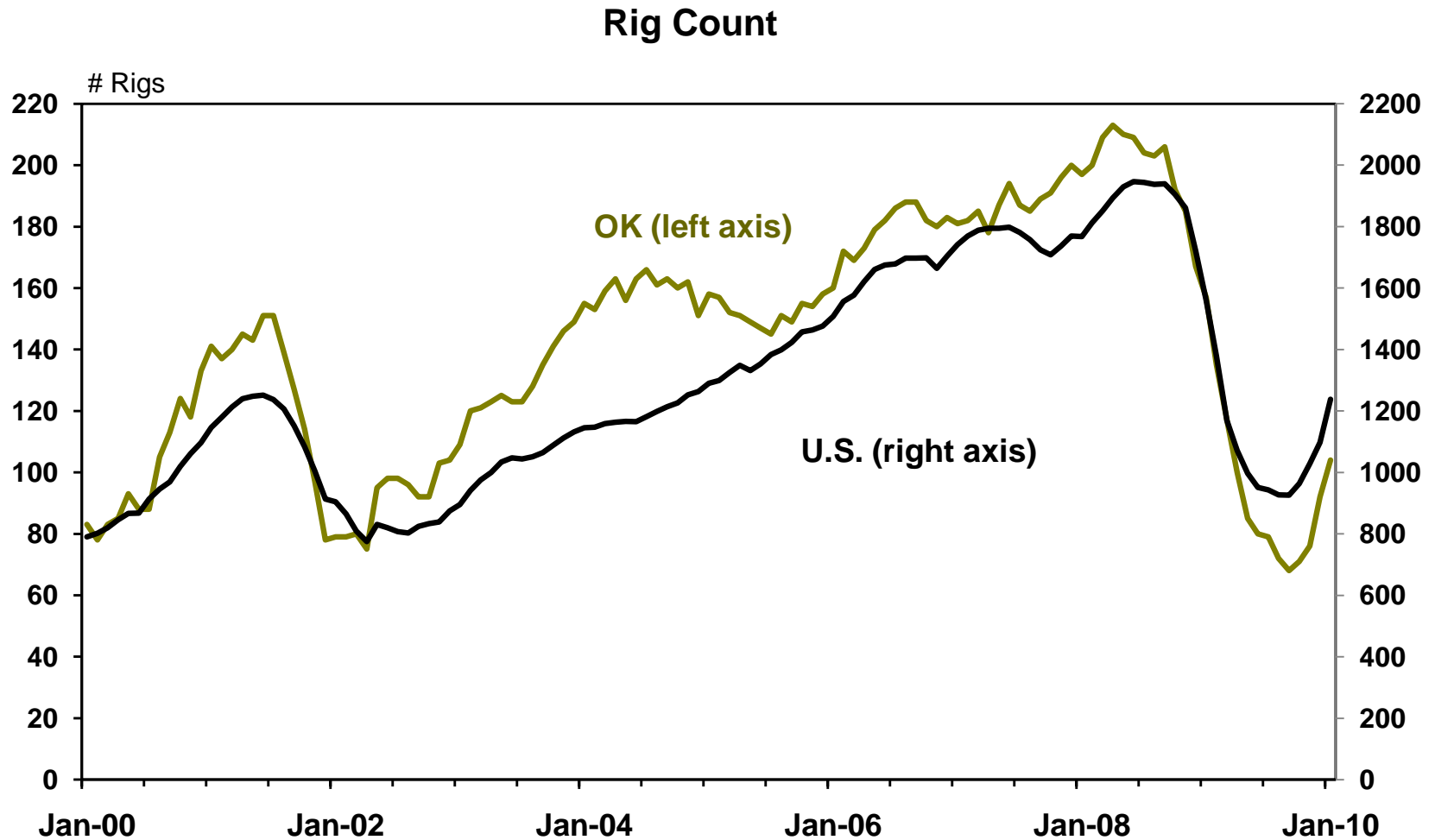
Recent data on state factory activity also show signs of recovery, even if again slightly lagged



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

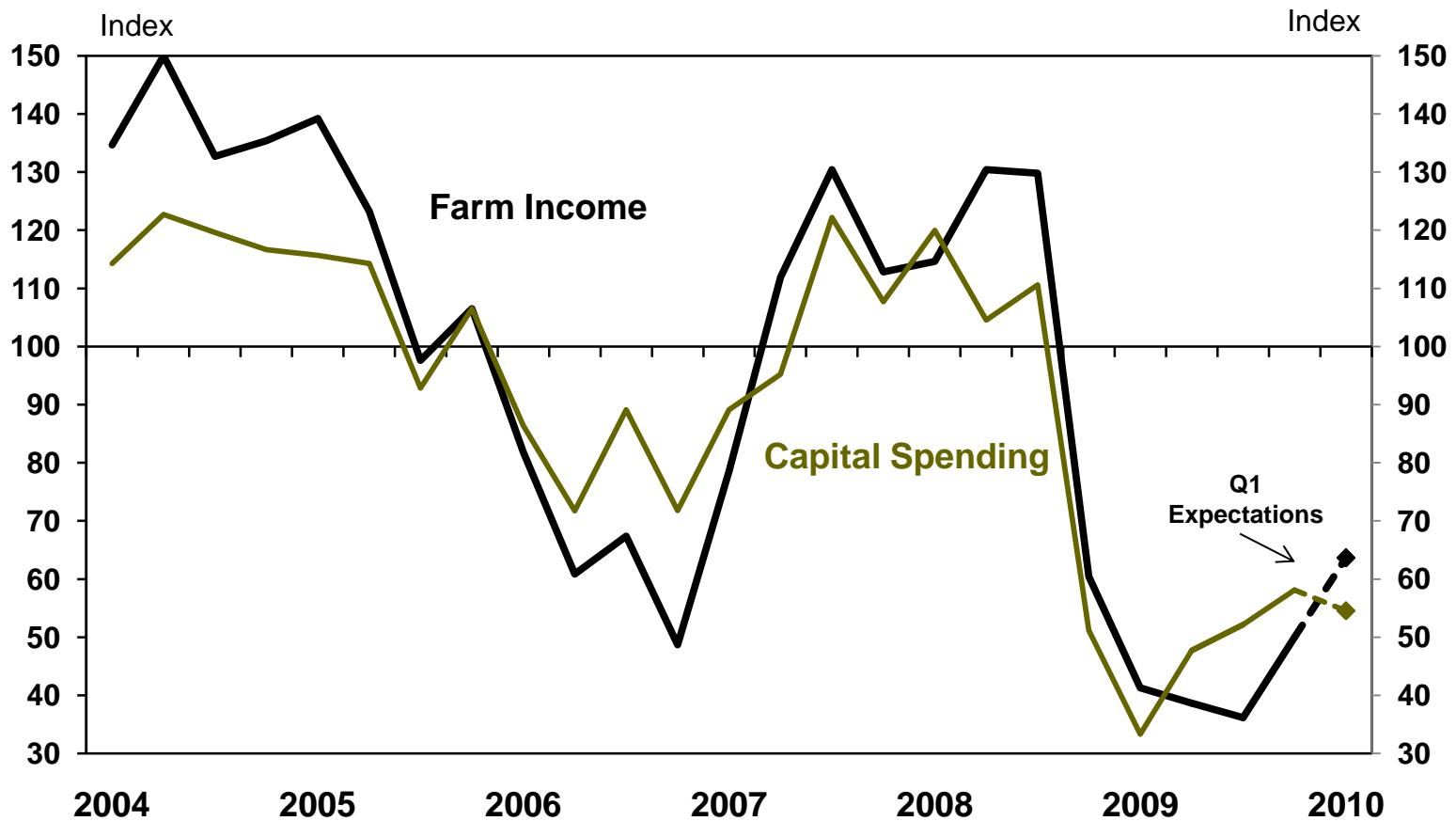
Source: ISM, FRBKC Manufacturing Survey

Importantly, the rig count is rising again after falling dramatically in 2009



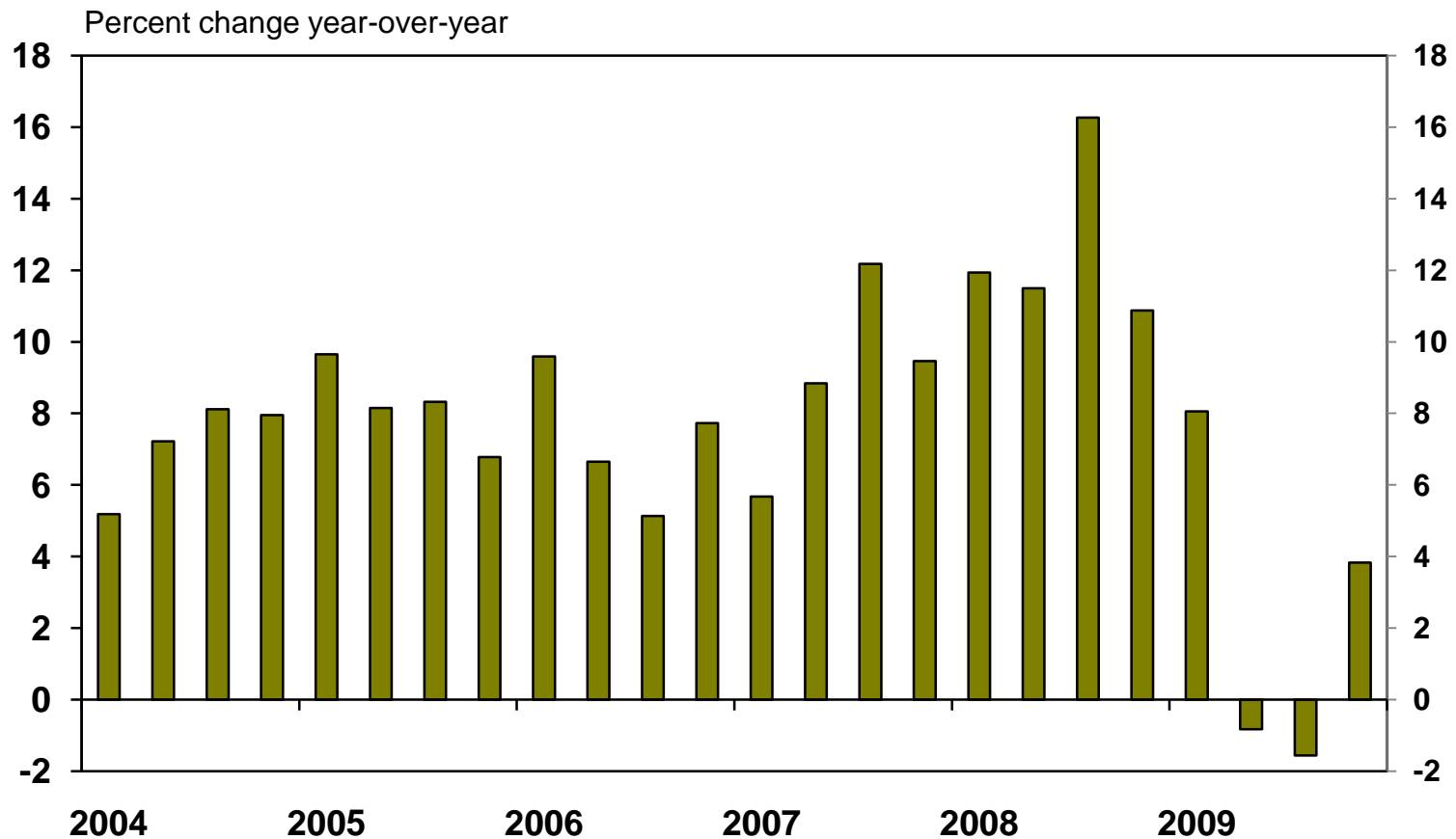
Agricultural conditions in the state remain rather weak, but also may have bottomed

Oklahoma Agricultural Conditions



Farmland values in the state rebounded slightly in the fourth quarter

Oklahoma Agricultural Land Values Non-Irrigated Cropland



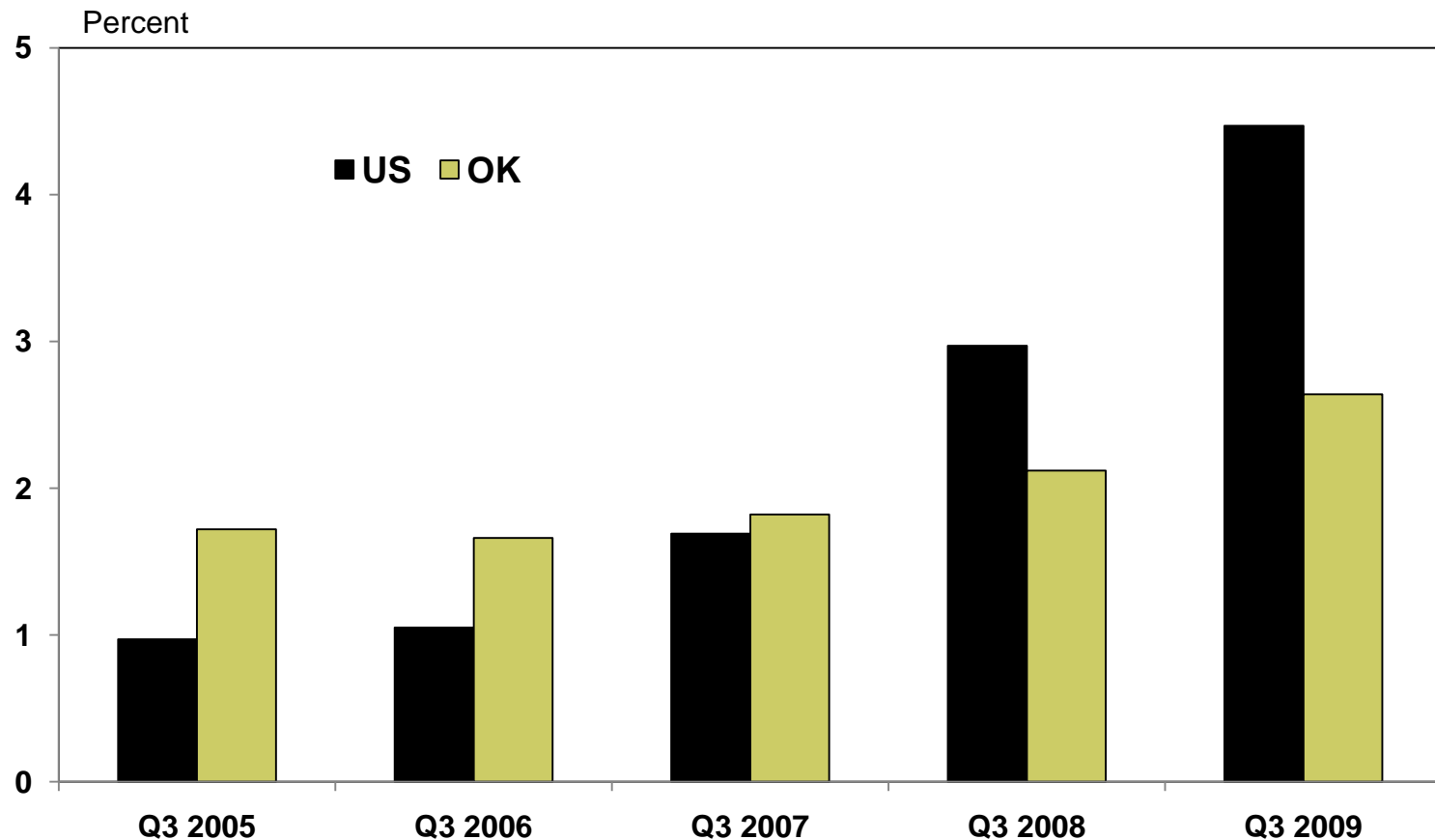
Unlike the nation, home prices have held up quite well in Oklahoma, and are stabilizing

Quality-Adjusted Home Price Growth
Purchase Only



Home foreclosures have risen in Oklahoma, but much less than in the nation

Foreclosures as a Share of All Home Mortgages



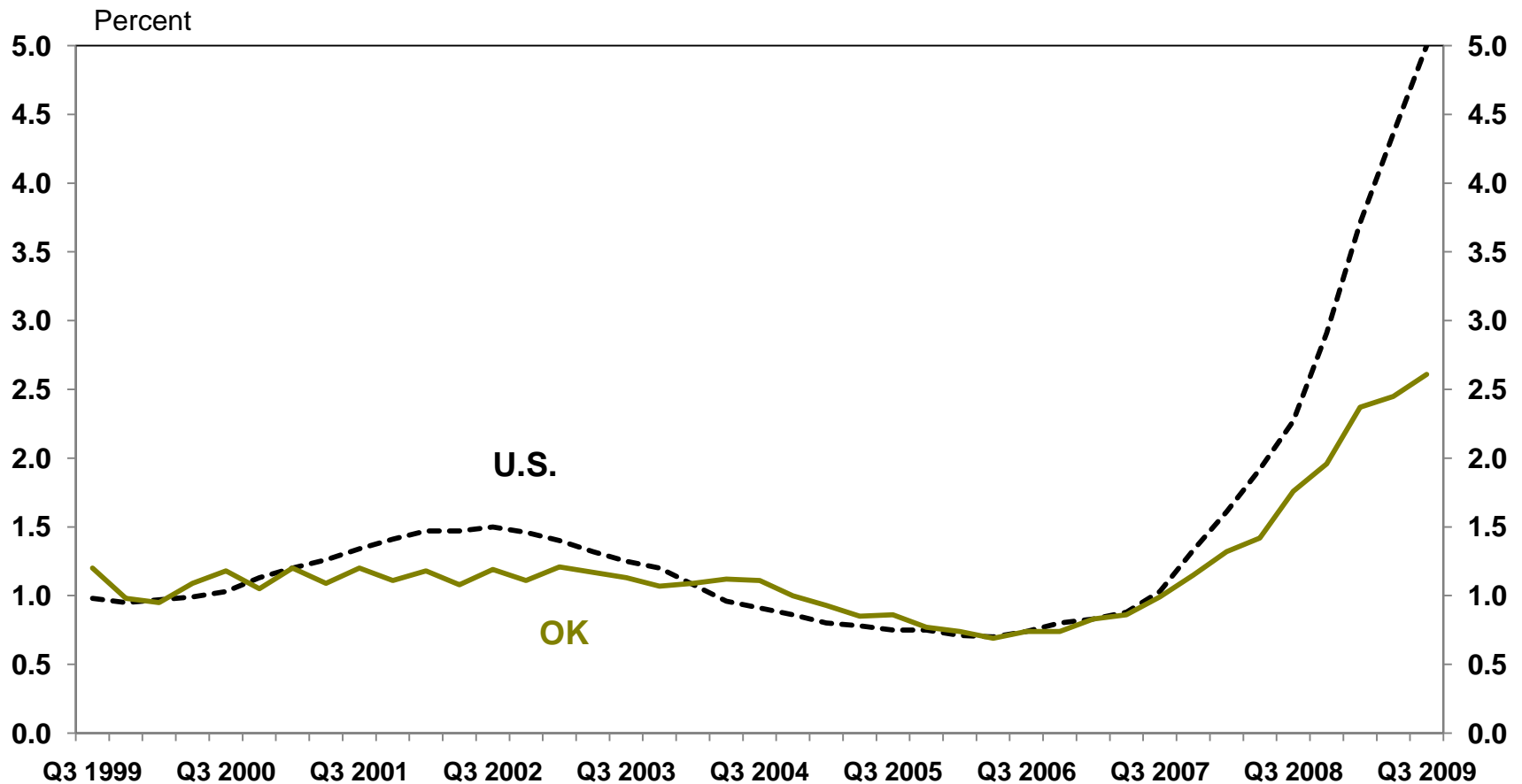
Most U.S. foreclosure activity is still concentrated in just a few states

Foreclosures as a Share of All Households, January 2010



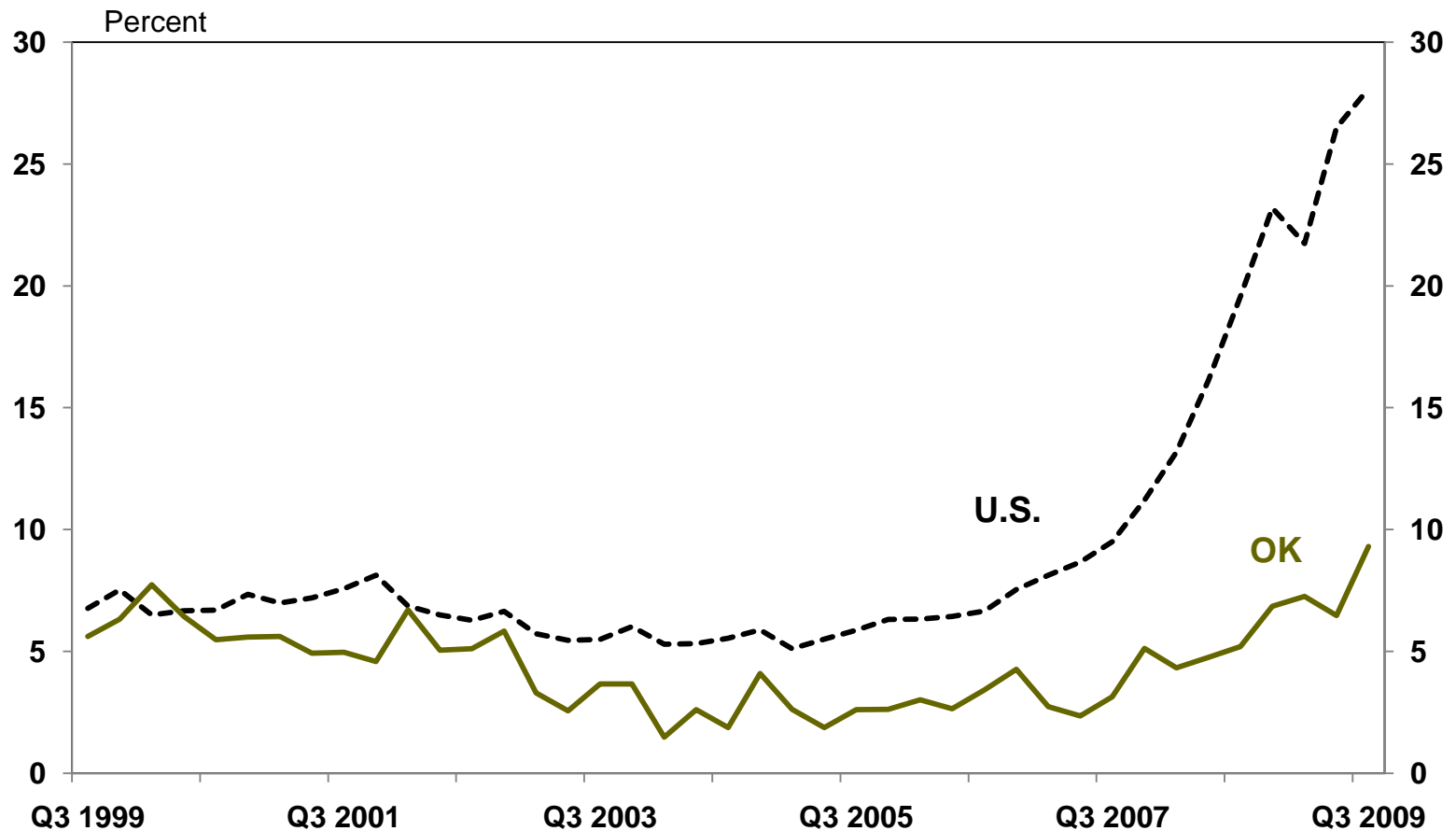
Overall past due loans at Oklahoma banks are much lower than in the nation

Noncurrent Loans as a Share of Total Loans
Commercial Banks



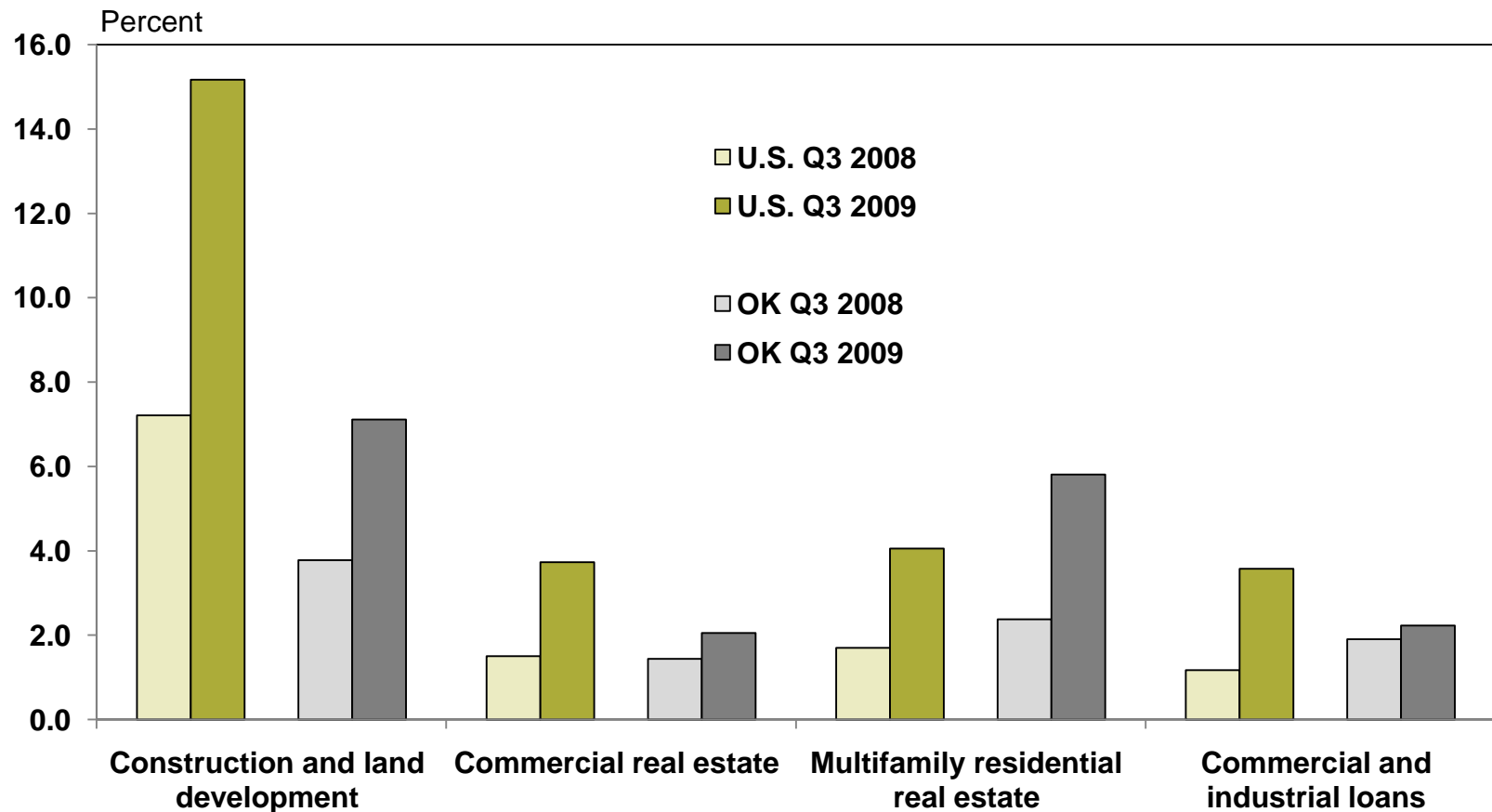
And the share of Oklahoma banks that remain profitable is still fairly high

Share of Commercial Banks that are Unprofitable



Real estate loans are a growing problem, but again less than in the nation

Past Due Loans by Type
(Commercial banks, loans 90 days or more past due)



Summary

- The U.S. economy is growing again, but the pace of recovery is expected to be fairly moderate compared to past deep recessions
- With a slight lag, Oklahoma's economy is also growing again, and overall conditions remain much better than in the nation