

The Economic Outlook for the U.S. and Oklahoma



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Overview of the Federal Reserve System

- **The “Fed” consists of three 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: 19 members; 12 voting

- **As with most central banks, the Fed’s primary responsibilities fall within four general areas:**
 - Lender of last resort – provide liquidity in times of crisis
 - Monetary policy – promote full employment and low inflation
 - Bank regulation – ensure safety and soundness of banks
 - Financial services – bank for banks, bank for federal govt.



Federal Reserve Districts and Office Locations



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



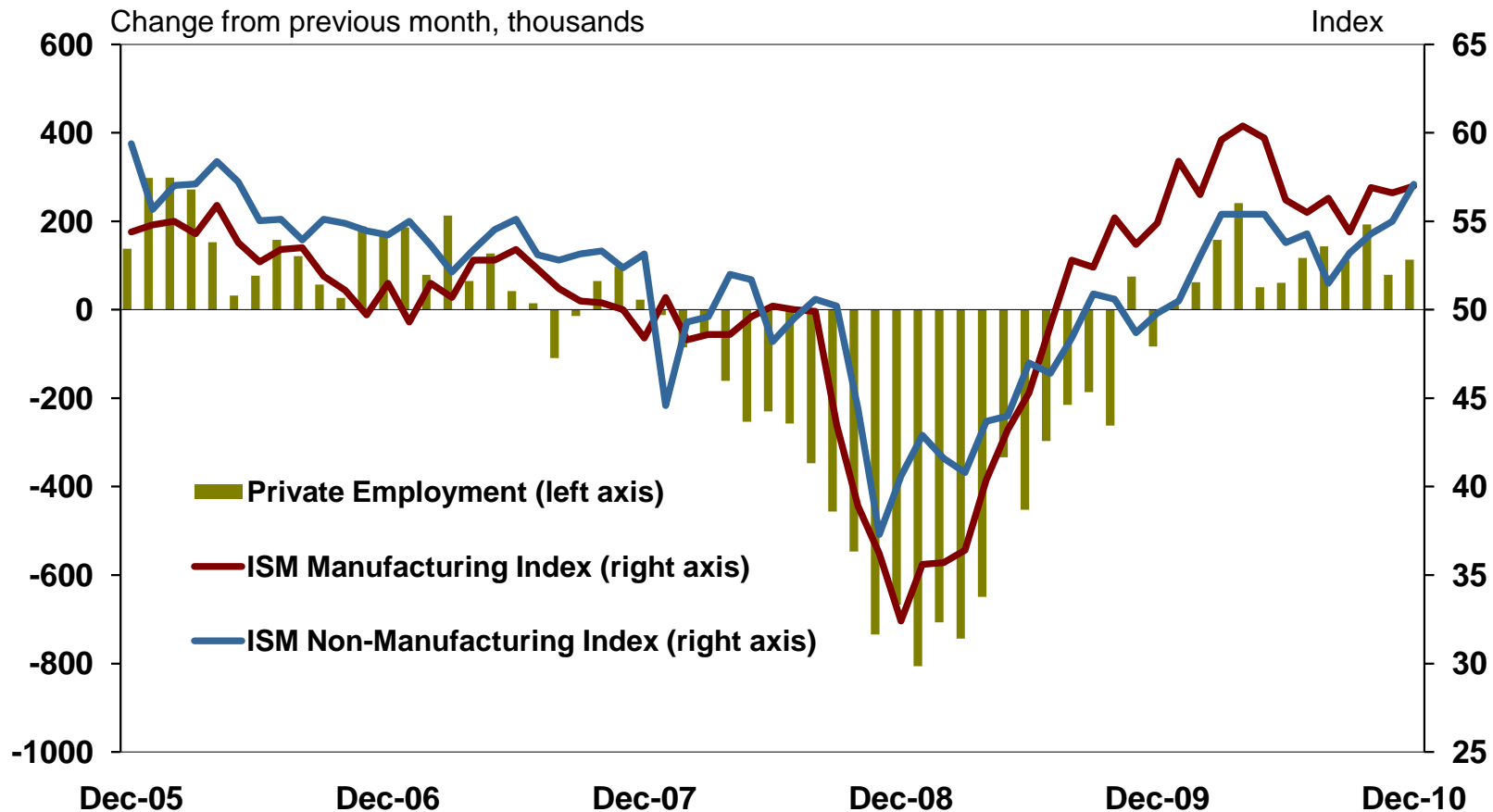
The U.S. Economic Outlook

- The pace of U.S. recovery has picked up recently but remains moderate
- Inflation remains low and is forecast to stay contained heading forward
- As always, there are several risks to the near- and long-term outlooks



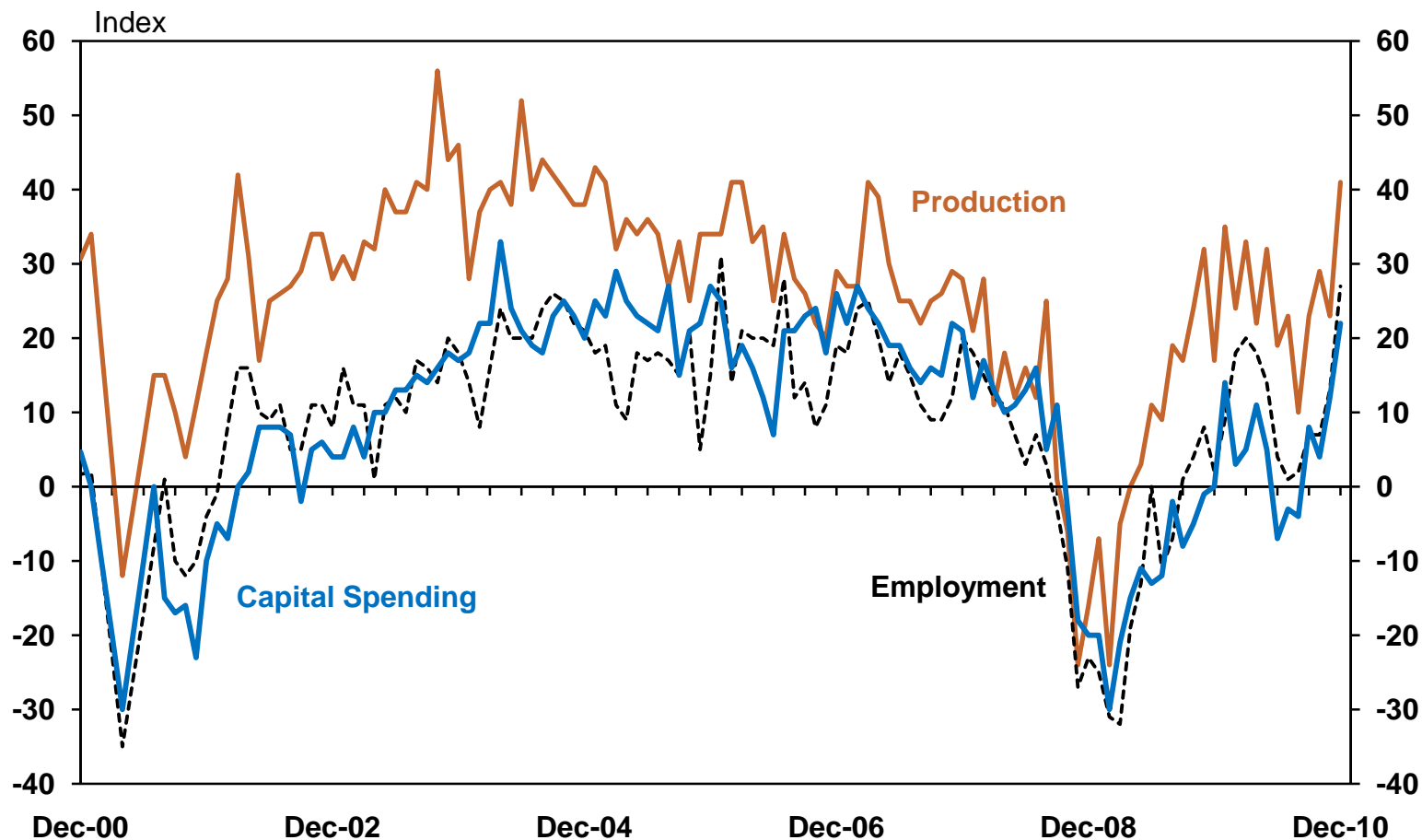
U.S. economic activity picked up in December, but job growth remains modest

U.S. Private Payroll Employment and Business Indexes



Our regional factory survey shows a recent increase in business expectations

Six-month-ahead Expectations for Tenth District Manufacturing Activity

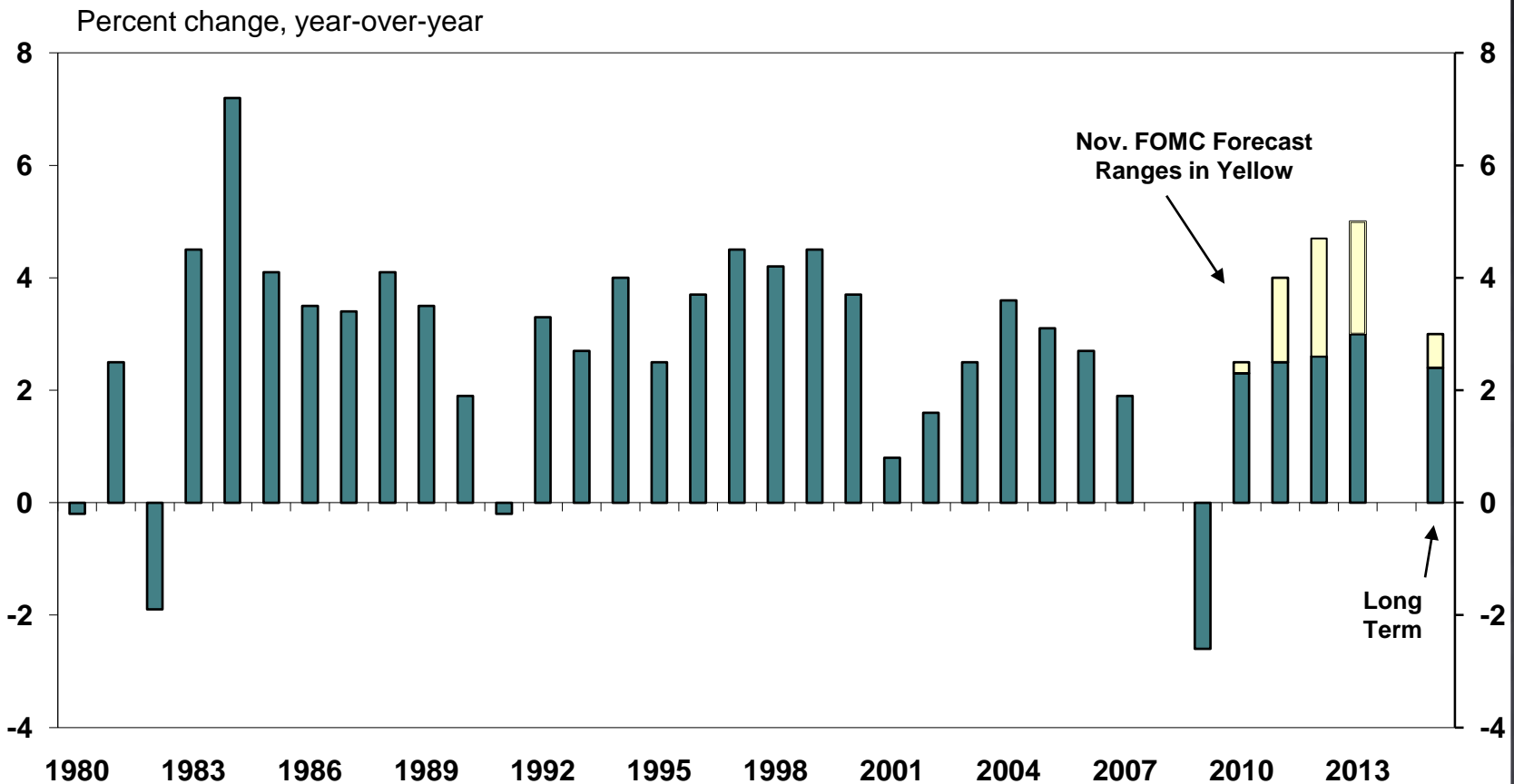


Source: FRBKC



Fed policymakers expect continued moderate U.S. GDP recovery

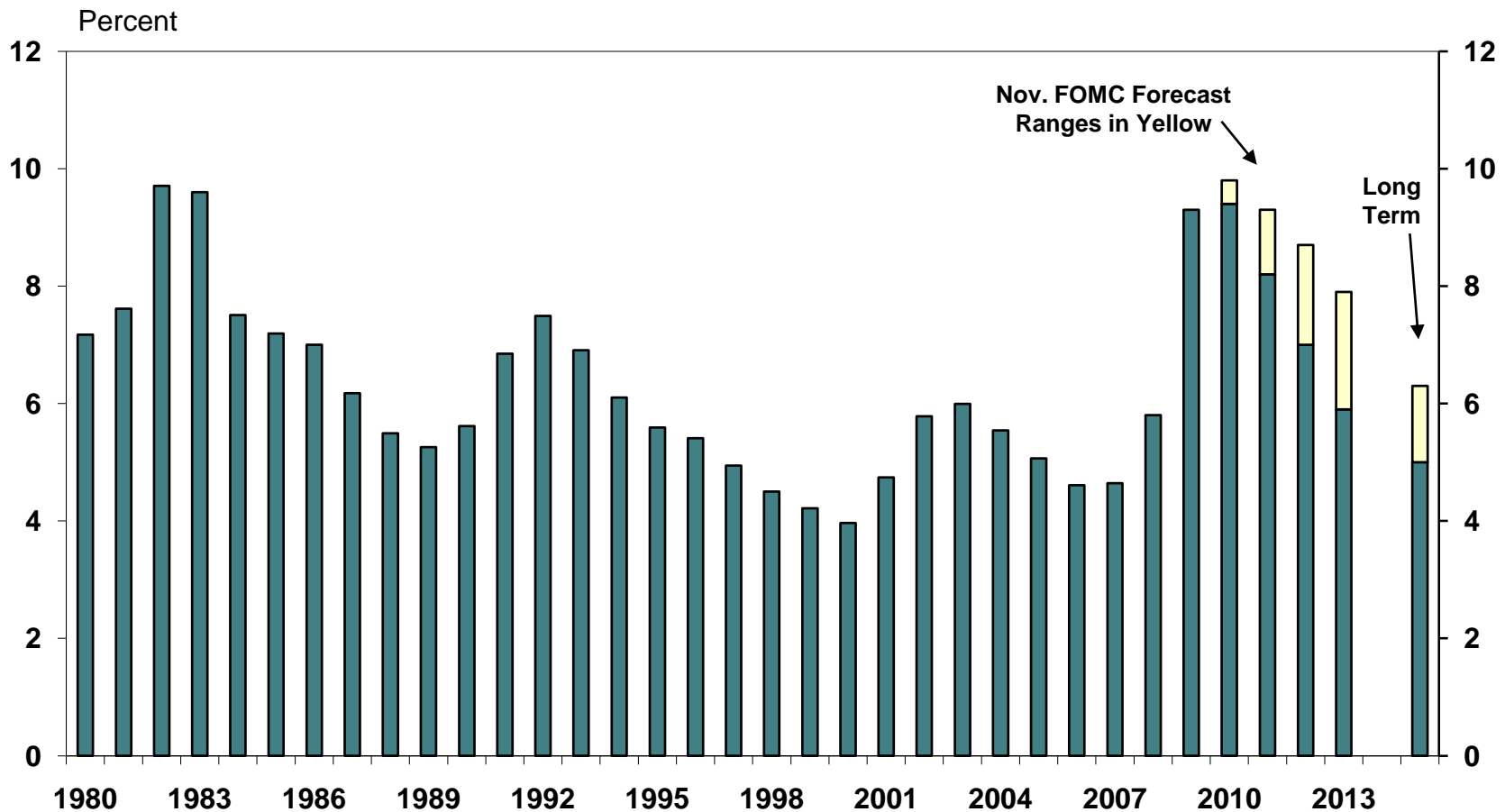
Real Gross Domestic Product



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

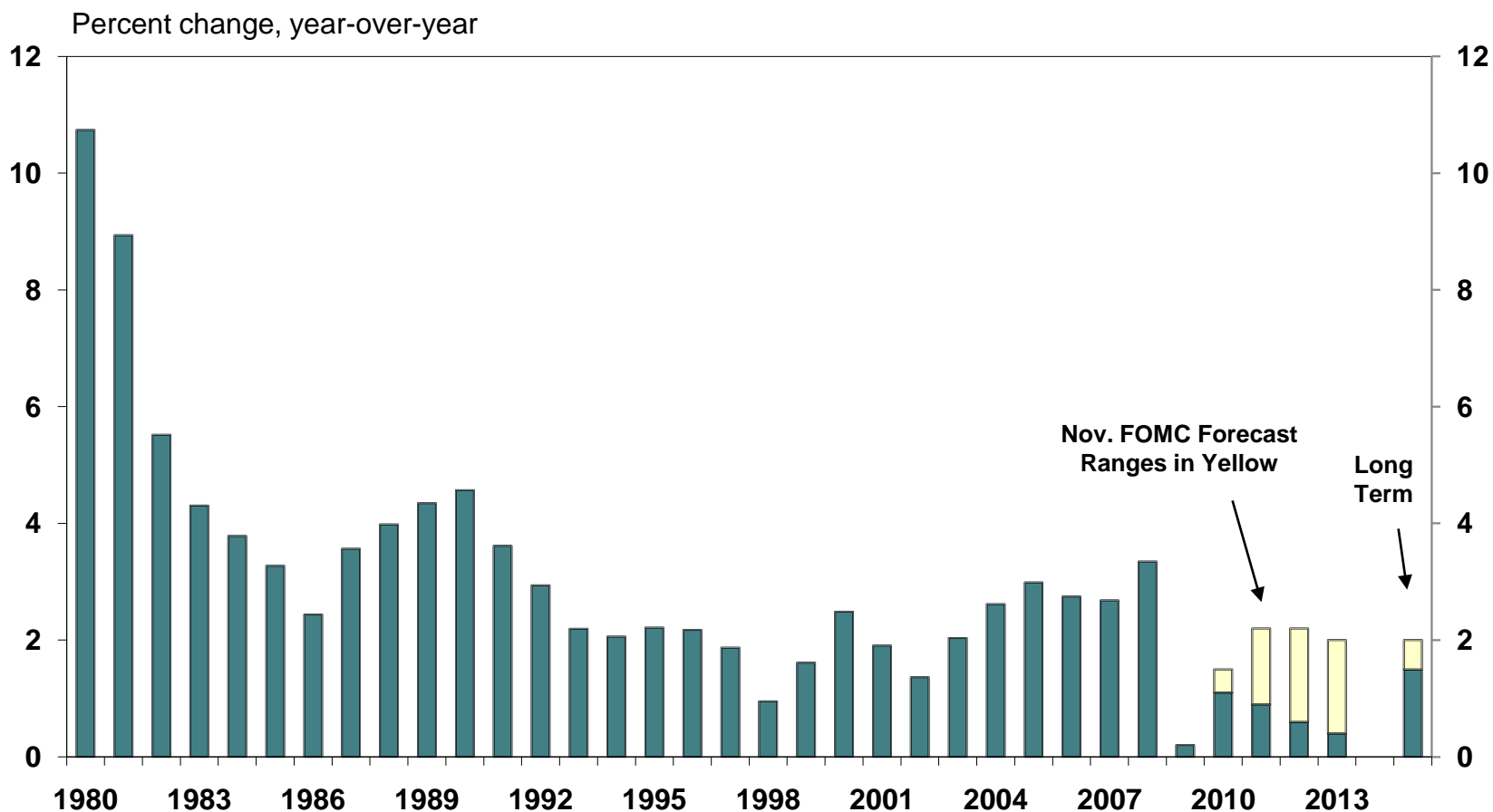
Unemployment Rate

Seasonally Adjusted



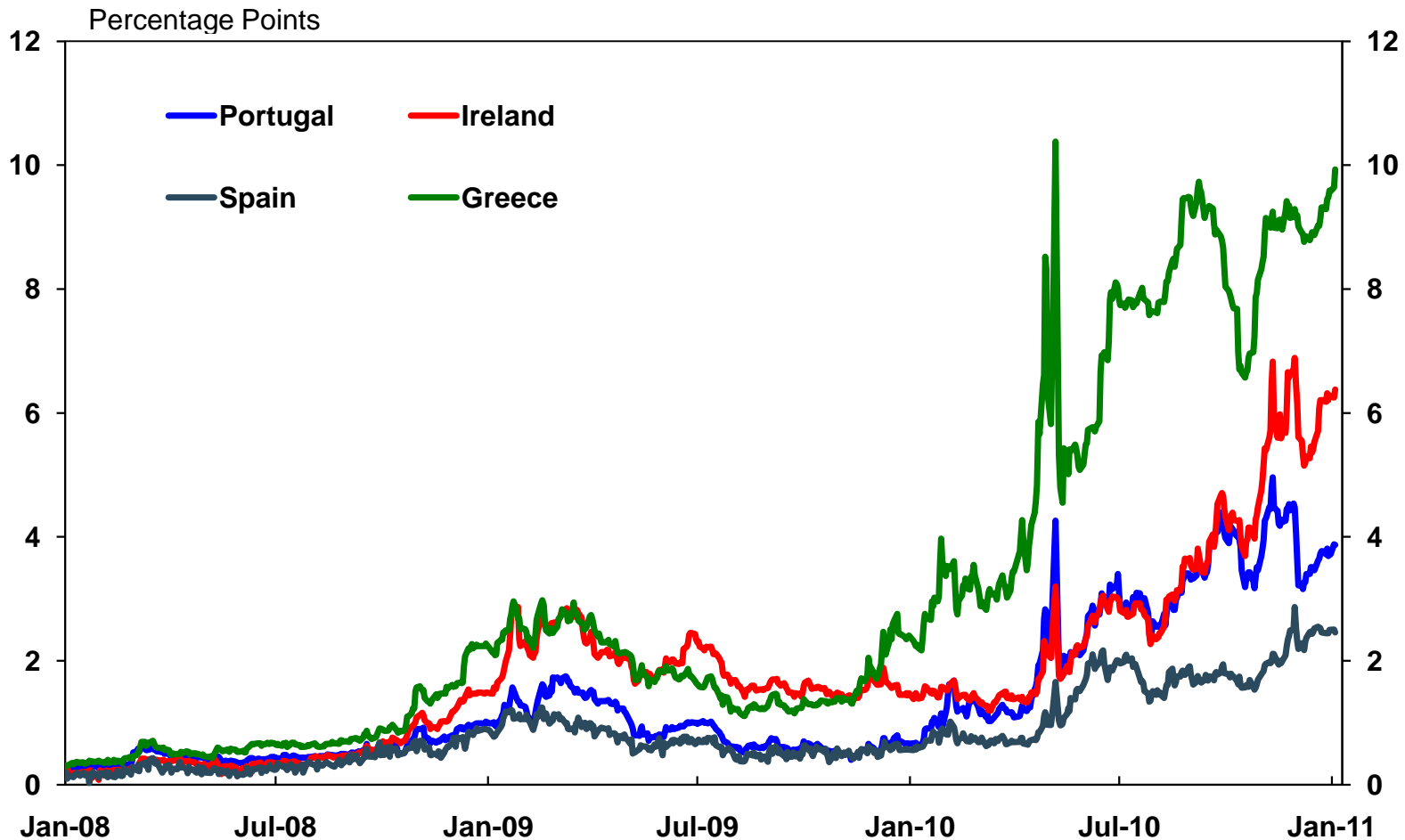
Inflation is expected to remain tame in the near term, but will require careful oversight

PCE Inflation Index



Europe's sovereign debt problem has flared up again, presenting risks

Spreads to German Bunds (10-yr)

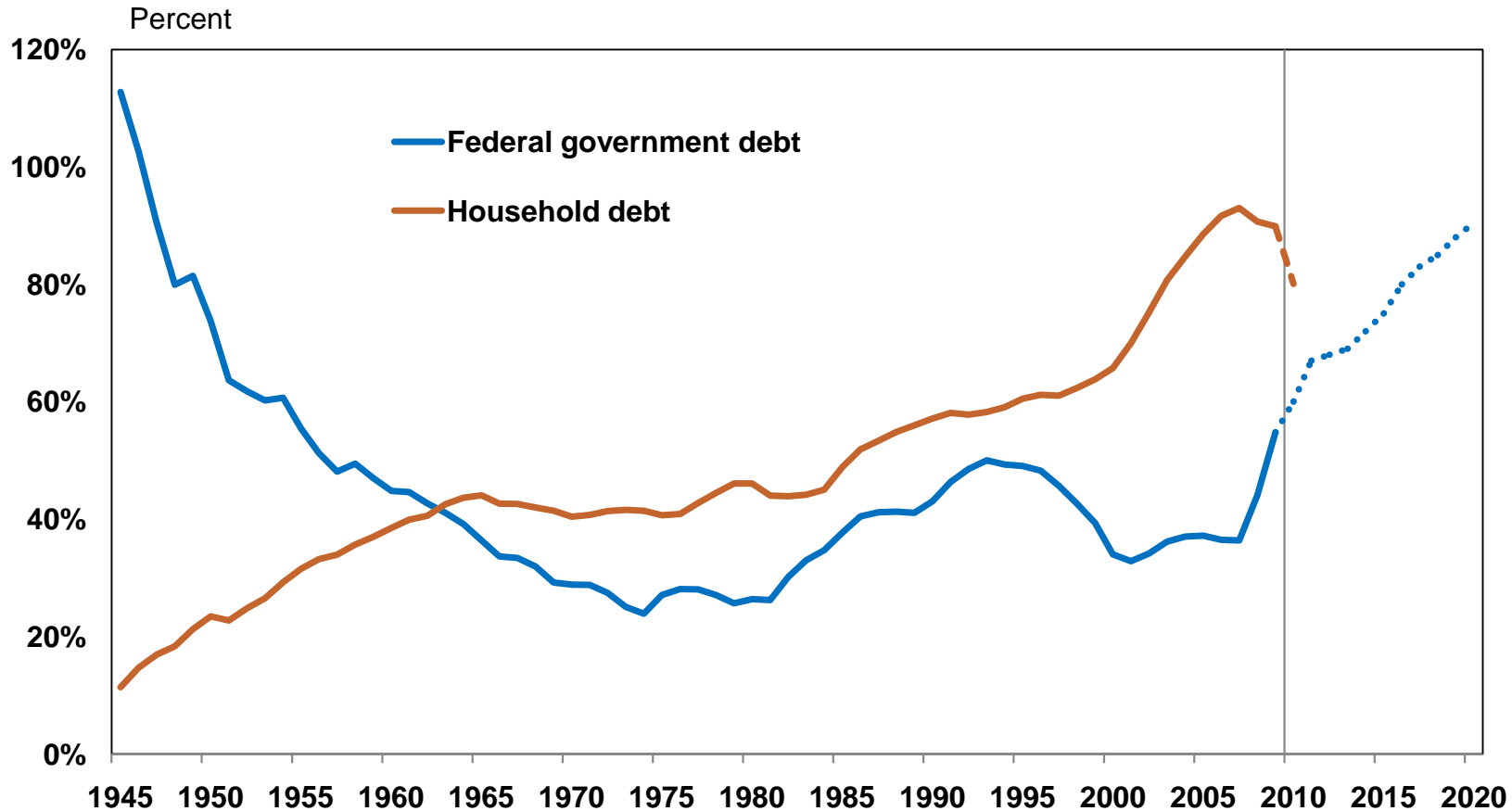


Source: Federal Reserve Board



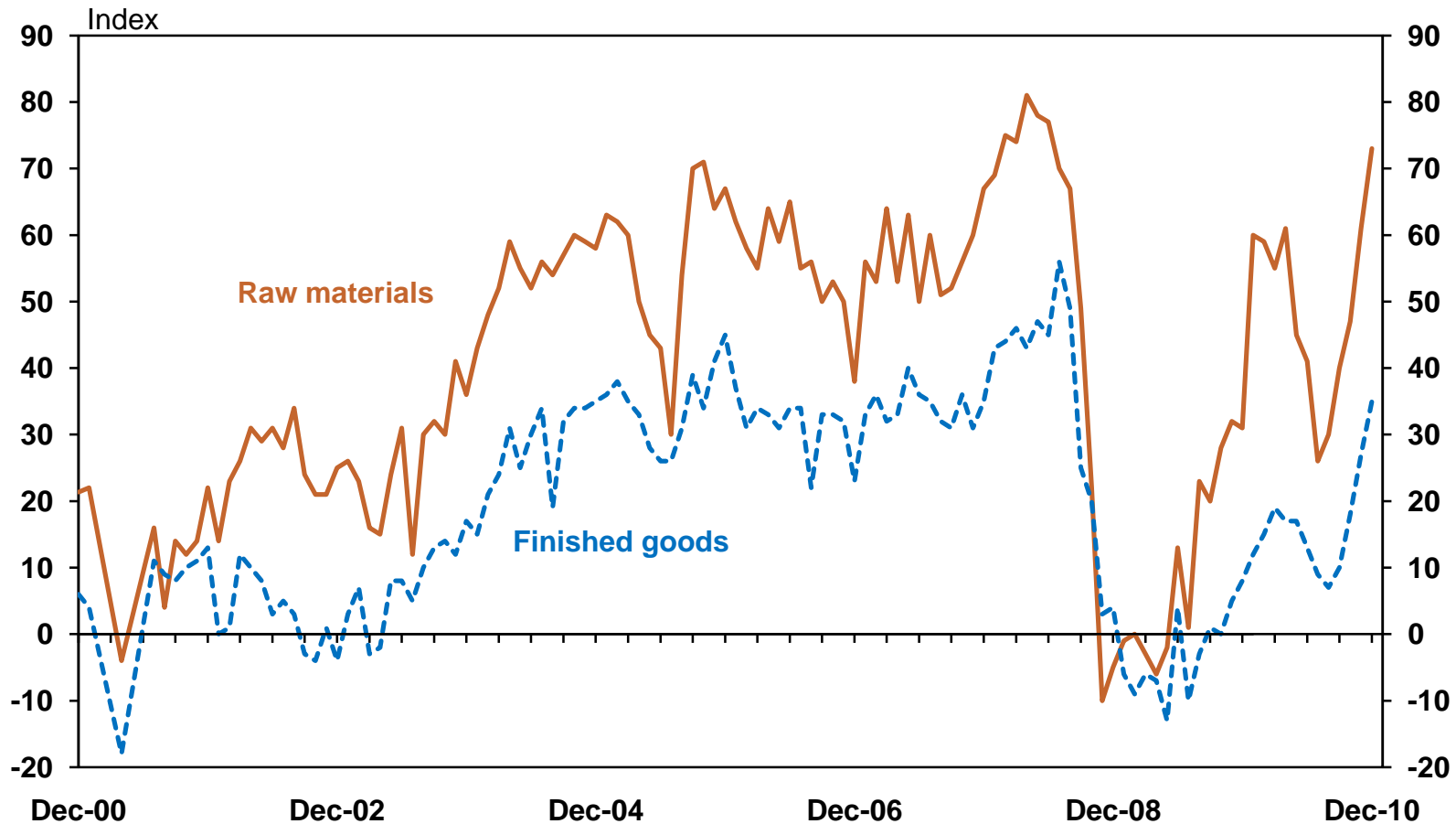
U.S. consumer debt could constrain growth and federal debt is a longer-term concern

U.S. Debt as a Share of GDP



Our regional survey shows a surge in the share of factories expecting higher prices

Six-month-ahead Expectations for Tenth District Manufacturing Prices

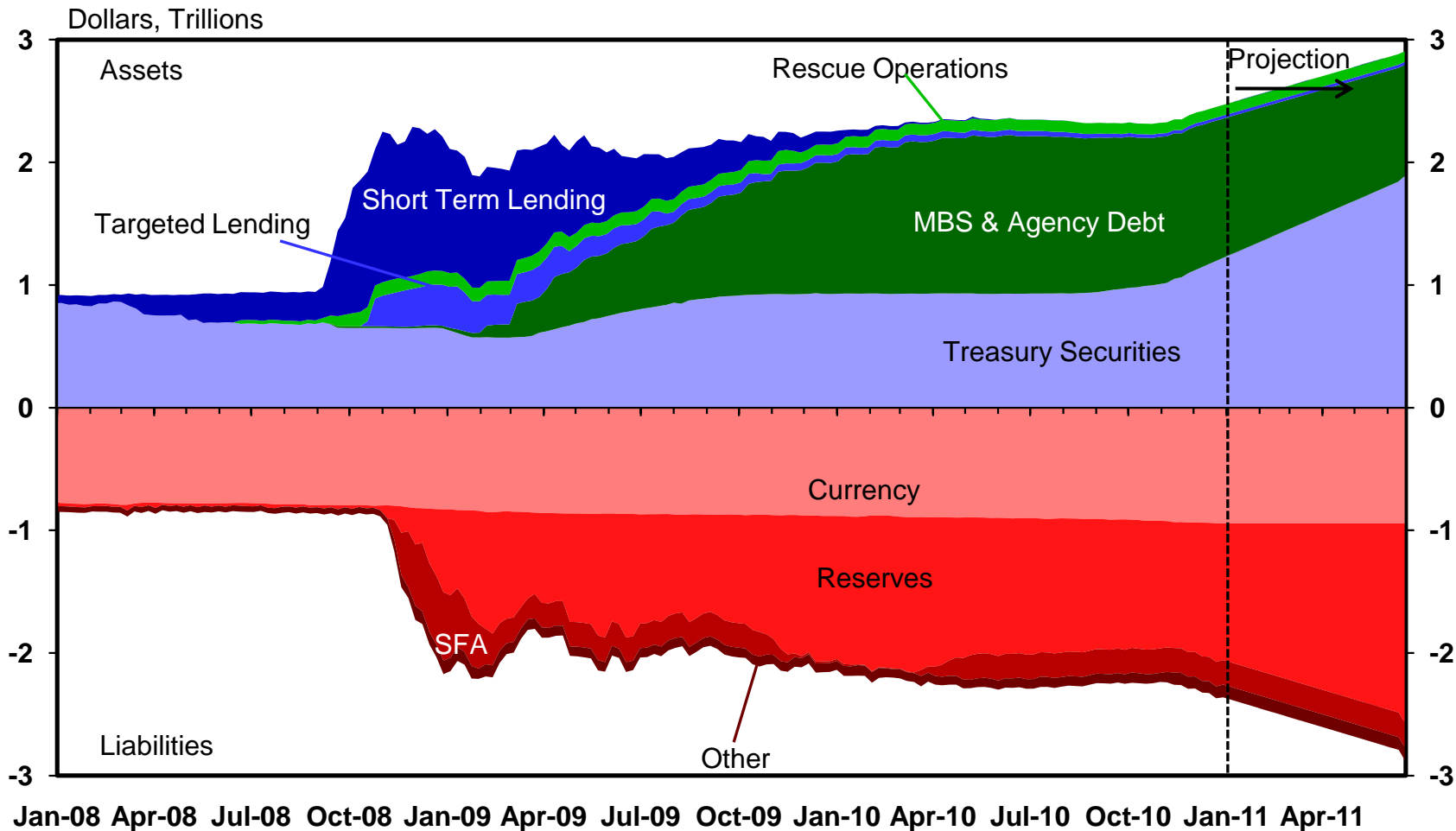


Source: FRBKC



And the Fed's balance sheet is expanding further, following recent FOMC decisions

Federal Reserve Balance Sheet



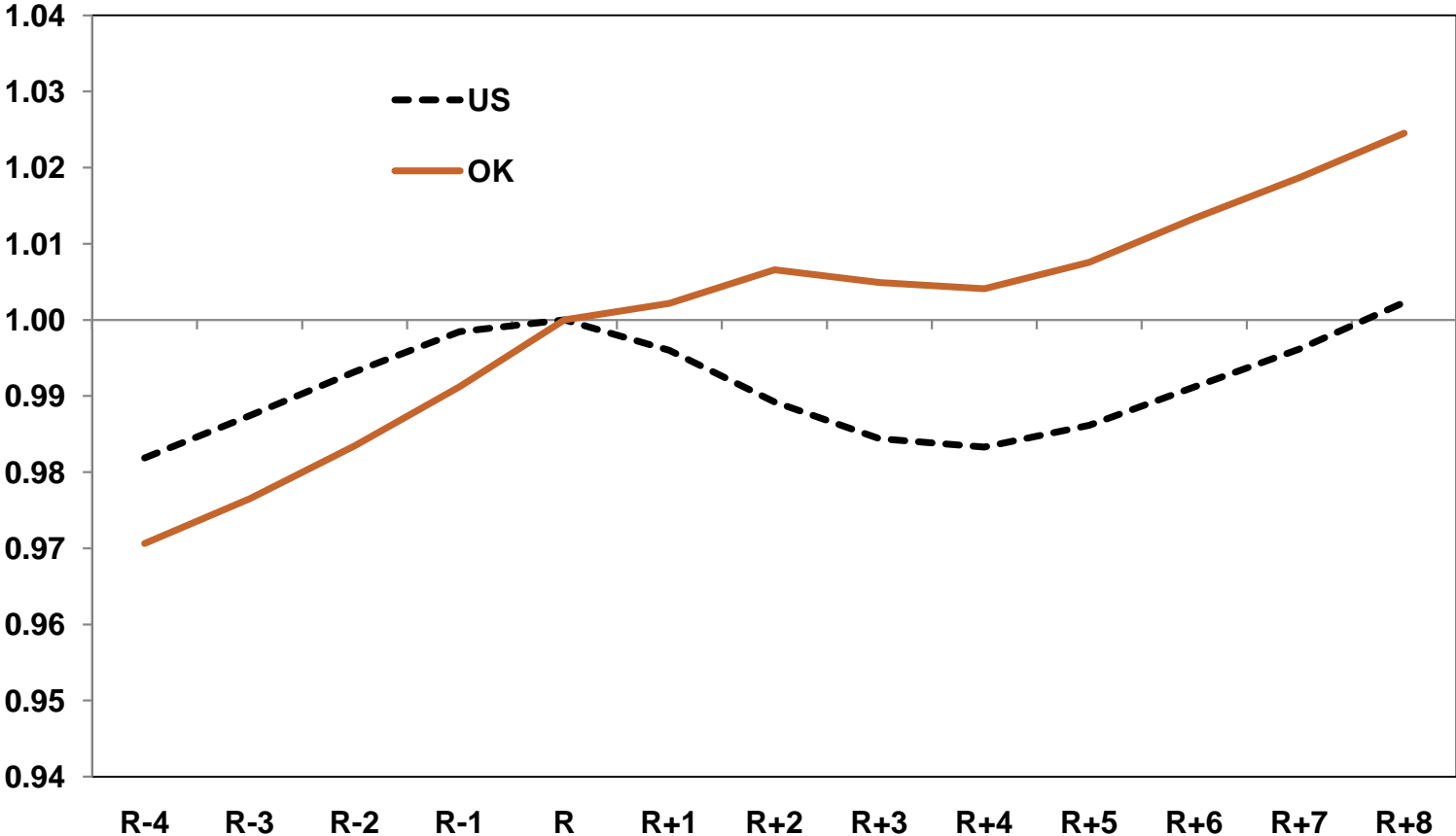
The Oklahoma Economic Outlook

- Oklahoma's recession and early recovery are similar to the usual historical pattern
- The state is now outpacing the nation, led by oil and gas but also some other sectors
- Banking and real estate conditions remain much better than in the nation



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)



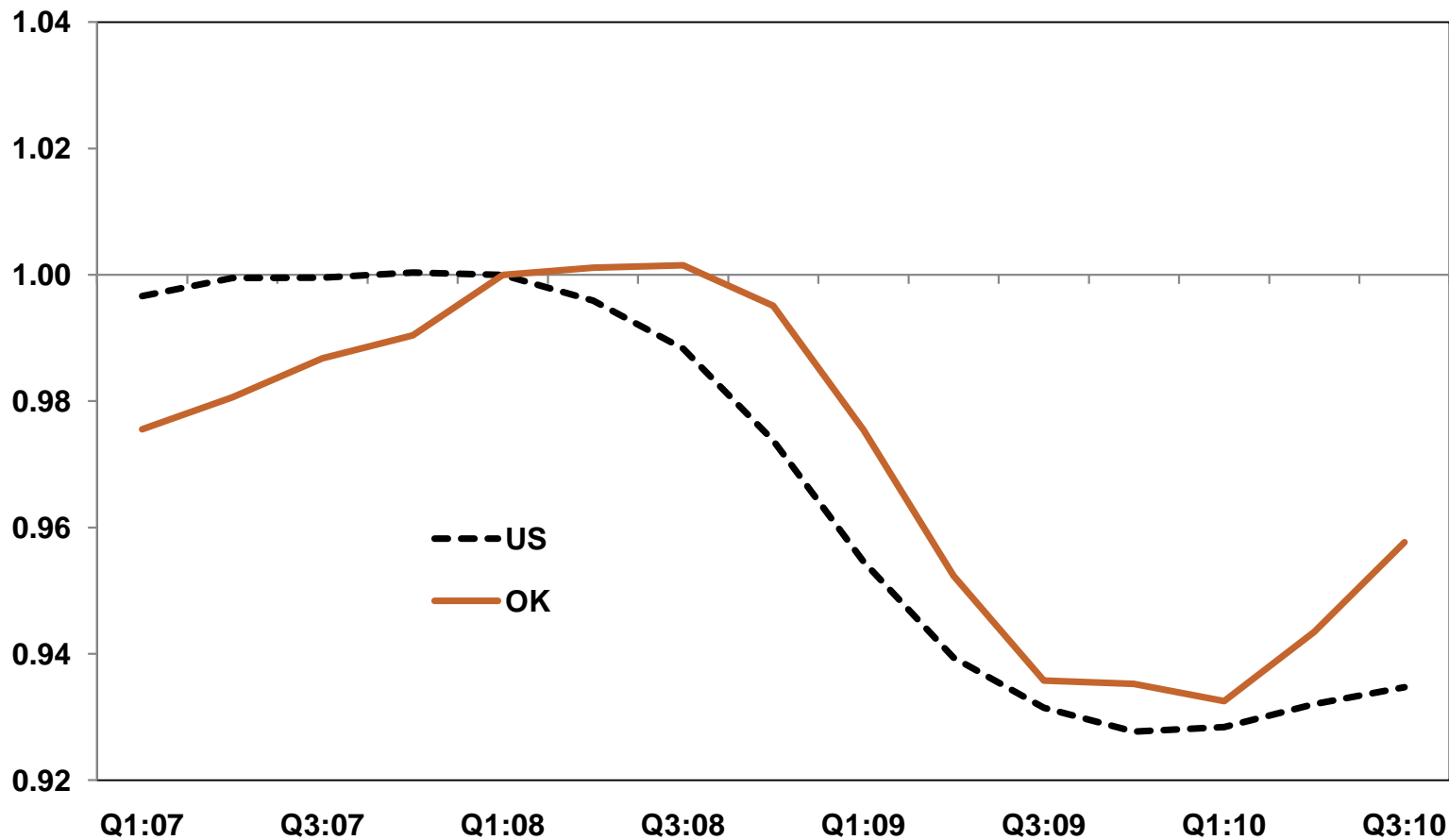
Source: U.S. Bureau of Labor Statistics



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

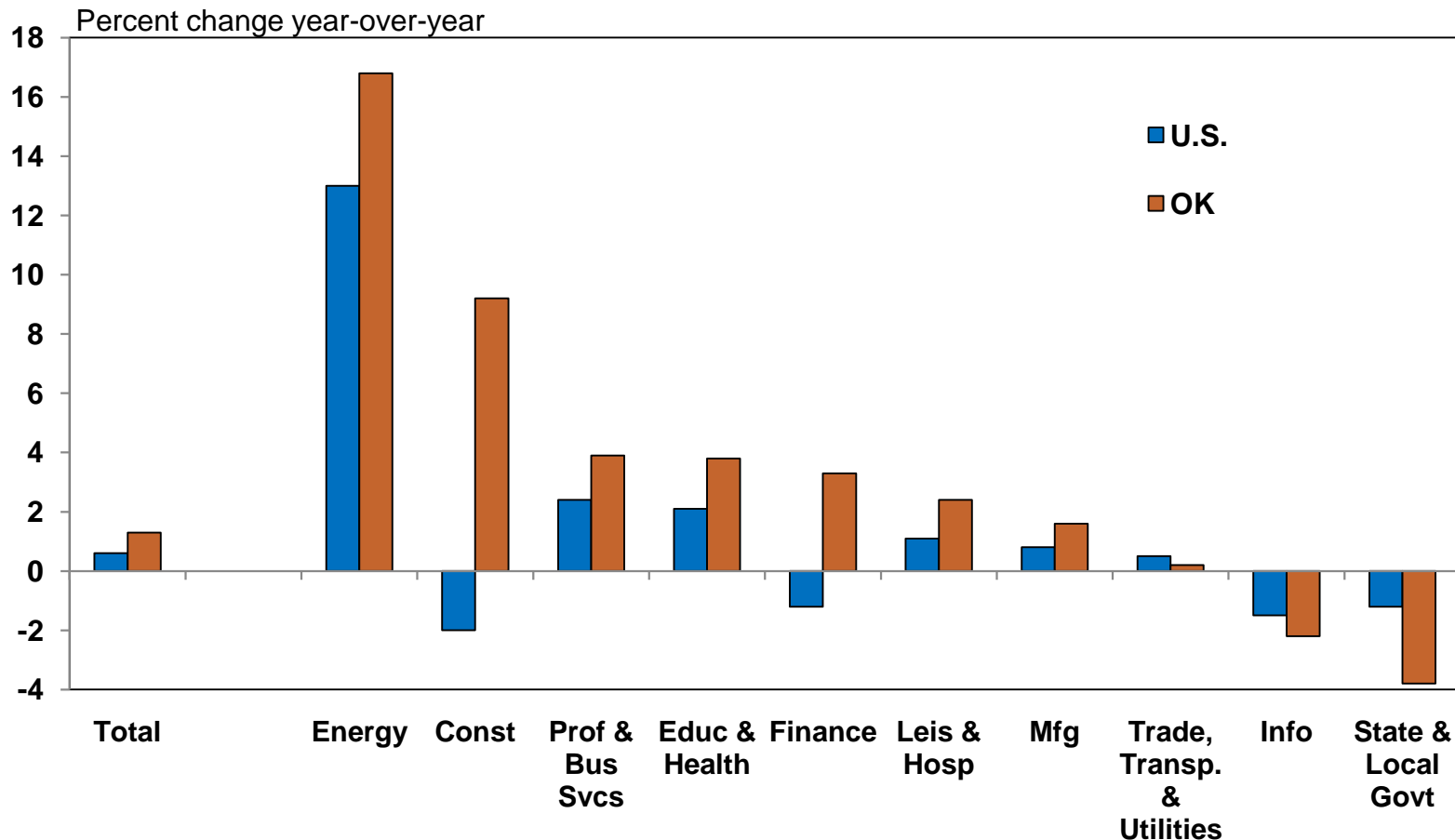
Current Recession and Recovery Path

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



Recent state job growth has been led by energy, but other sectors are growing

Employment Growth November 2010

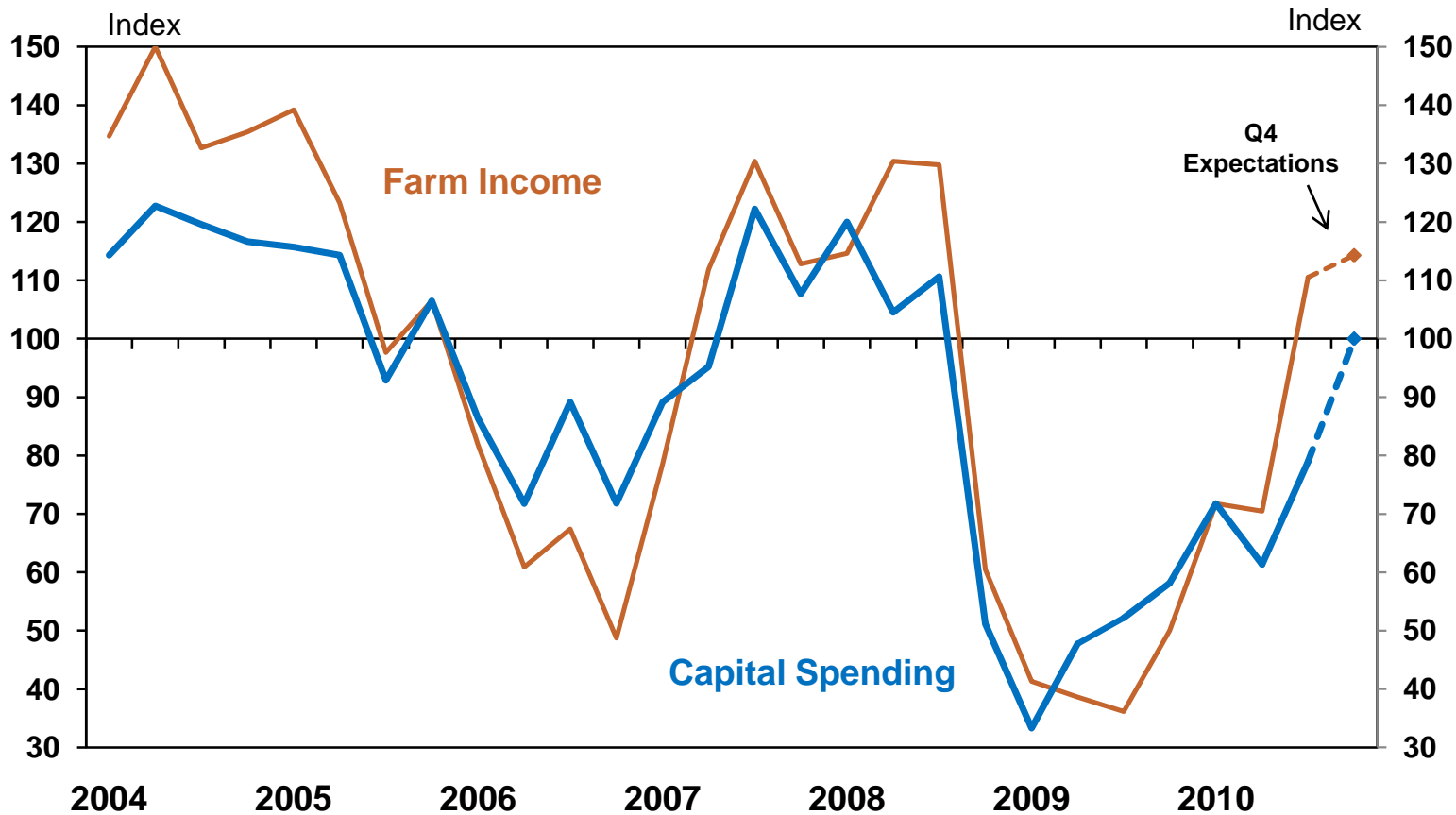


Source: Bureau of Labor Statistics



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

Oklahoma Agricultural Conditions

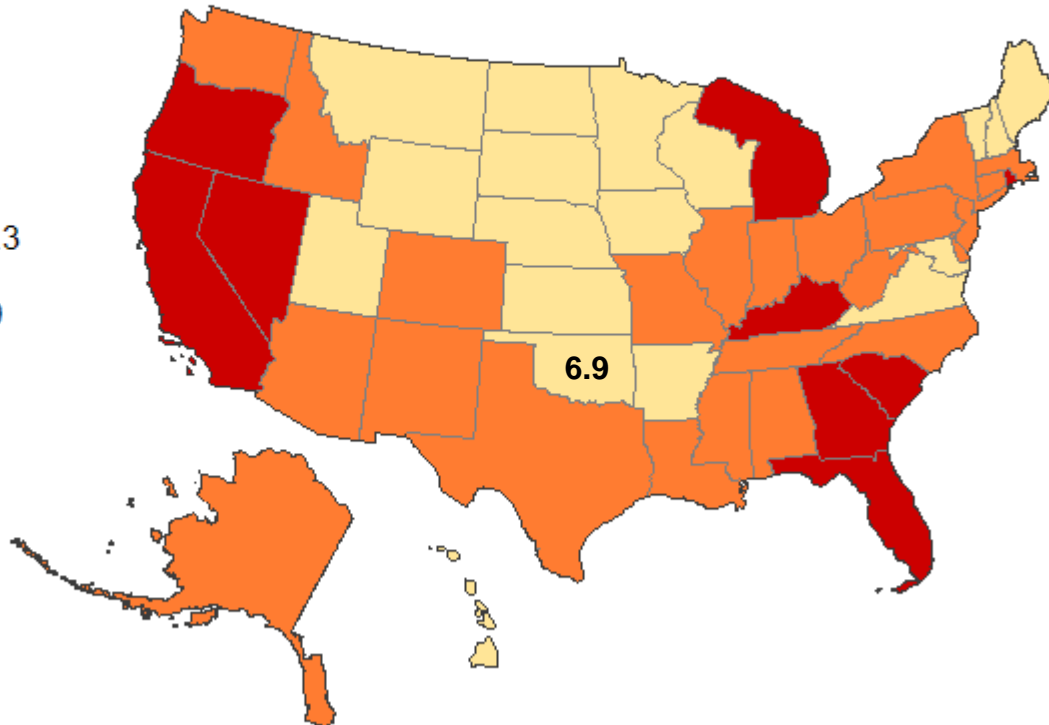
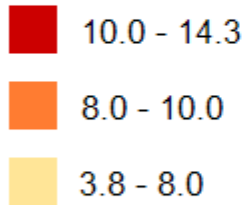


With Oklahoma's shorter recession, unemployment remains relatively low

Unemployment Rate by State

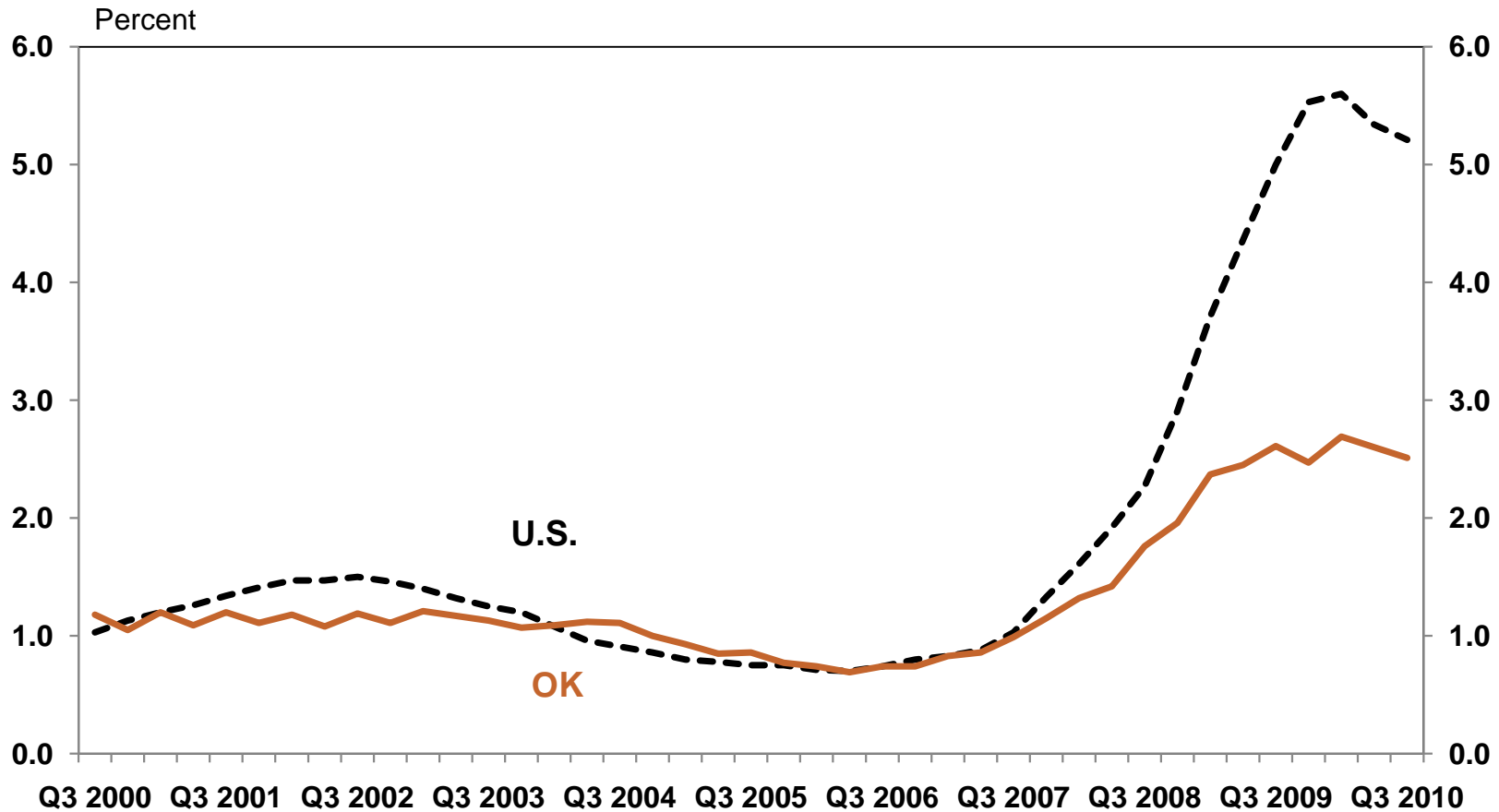
November 2010

Scale



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

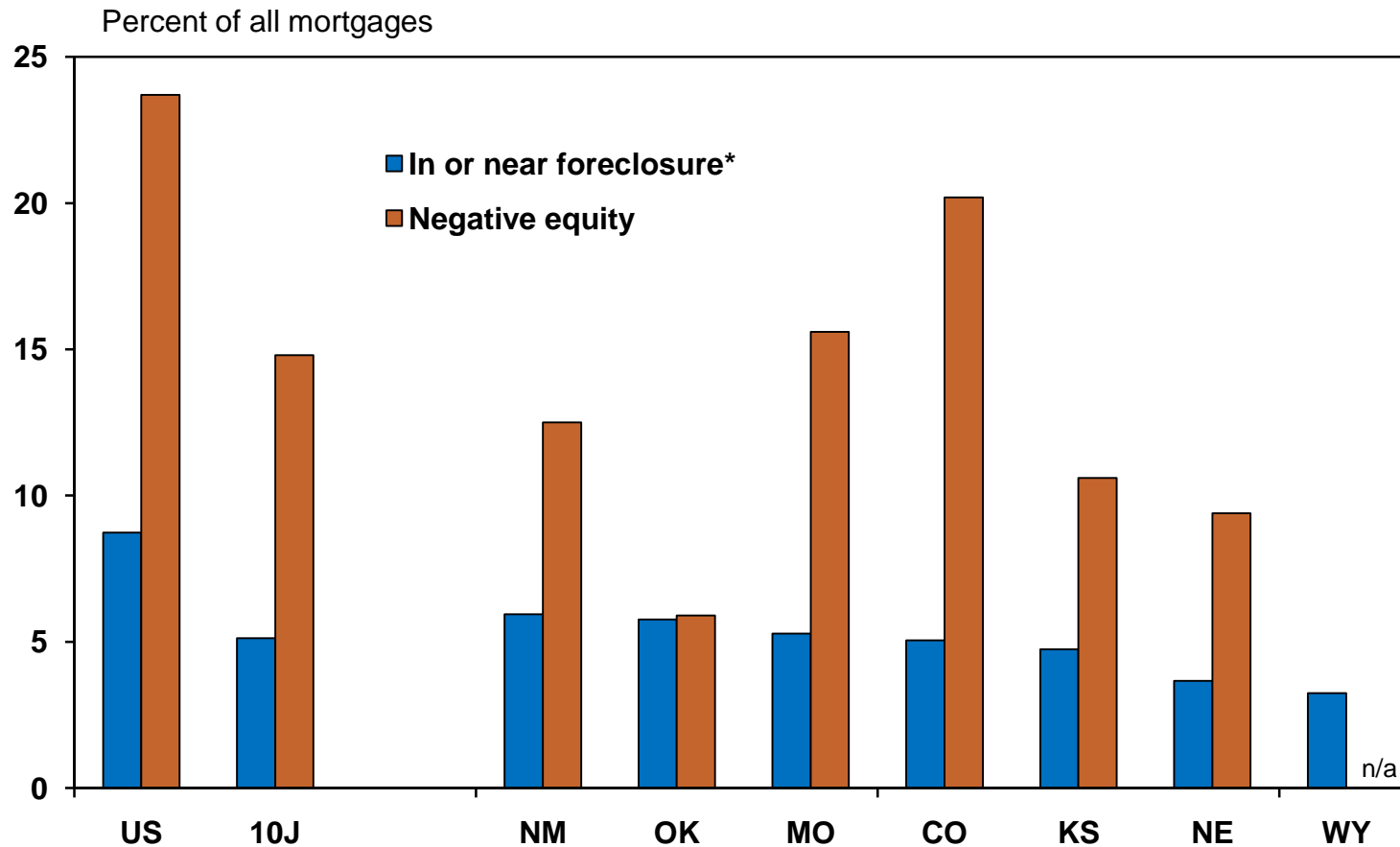


Source: FDIC



The state is at risk of further foreclosures, though much less so than the nation

Foreclosures and Negative Equity Mortgages U.S. and Tenth Federal Reserve District, Q3 2010



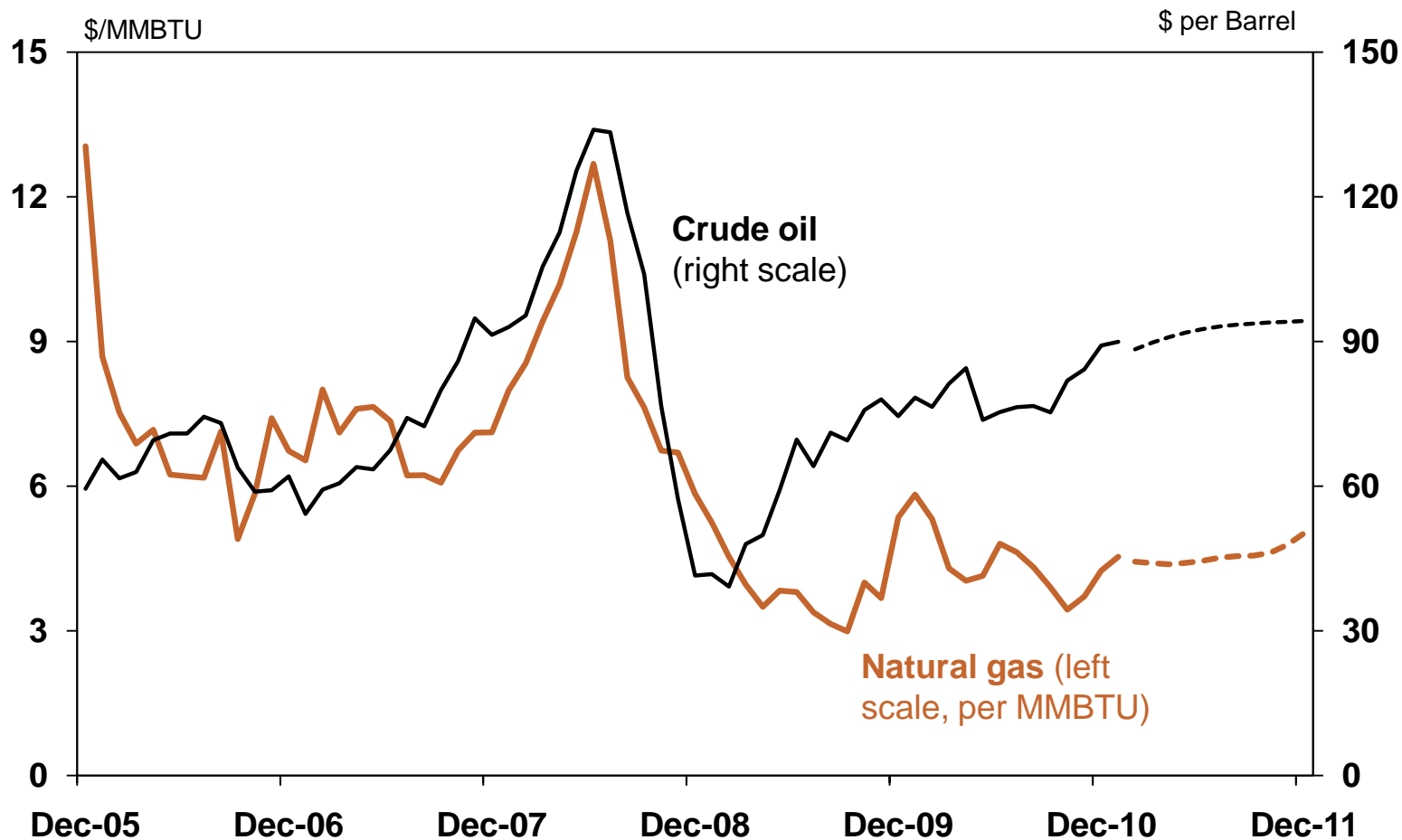
*Over 90 days past due

Source: MBA, Corelogic



Energy prices are always a risk but have shown positive signs lately

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

