

U.S. & Oklahoma Economic Outlook



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Purposes and Structure of the Federal Reserve System

- **Overall purposes of the Fed are to promote:**
 - National financial stability
 - Maximum sustainable economic growth
 - Low and stable inflation
- **Mission areas:**
 - Monetary policy – most visible role to the public, usually
 - Bank regulation – including lender of last resort
 - Payments systems – cash, checks, electronic payments
- **Monetary policy is set by the 12-member FOMC:**
 - The Federal Open Market Committee meets every 6 weeks
 - Voting members consist of:
 - the 7 Governors in Washington;
 - the New York Fed President;
 - 4 of the 11 other Fed presidents on a rotating basis

Federal Reserve Districts and Office Locations



The Kansas City and Oklahoma City Offices

- **Tenth District Headquarters in Kansas City**
 - Nearly **1,000 staff** involved in all mission areas
 - **New building** officially opened in June
- **Oklahoma City Branch Office**
 - **Staff and functions** – about 35 staff involved in economic research, bank examinations, and public and community affairs
 - **Branch board of directors** – 7 members from around the state; provide anecdotal information in advance of each FOMC meeting
- **Oklahoma City Branch Board of Directors**
 - *Chairman* **Richard Ratcliffe**, Chairman, Ratcliffe's Textbooks, Weatherford
 - **Steve Agee**, President, Agee Energy, and Professor, OCU, Oklahoma City
 - **Terry Almon**, President, Oklahoma Community Capital Corp., Broken Arrow
 - **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
 - **Fred Ramos**, President, RGF, Inc., Oklahoma City
 - **Doug Tippens**, President, Canadian State Bank, Yukon

Overall U.S. (and World) Economic Conditions

Joint Statement by Central Banks (October 8, 2008):

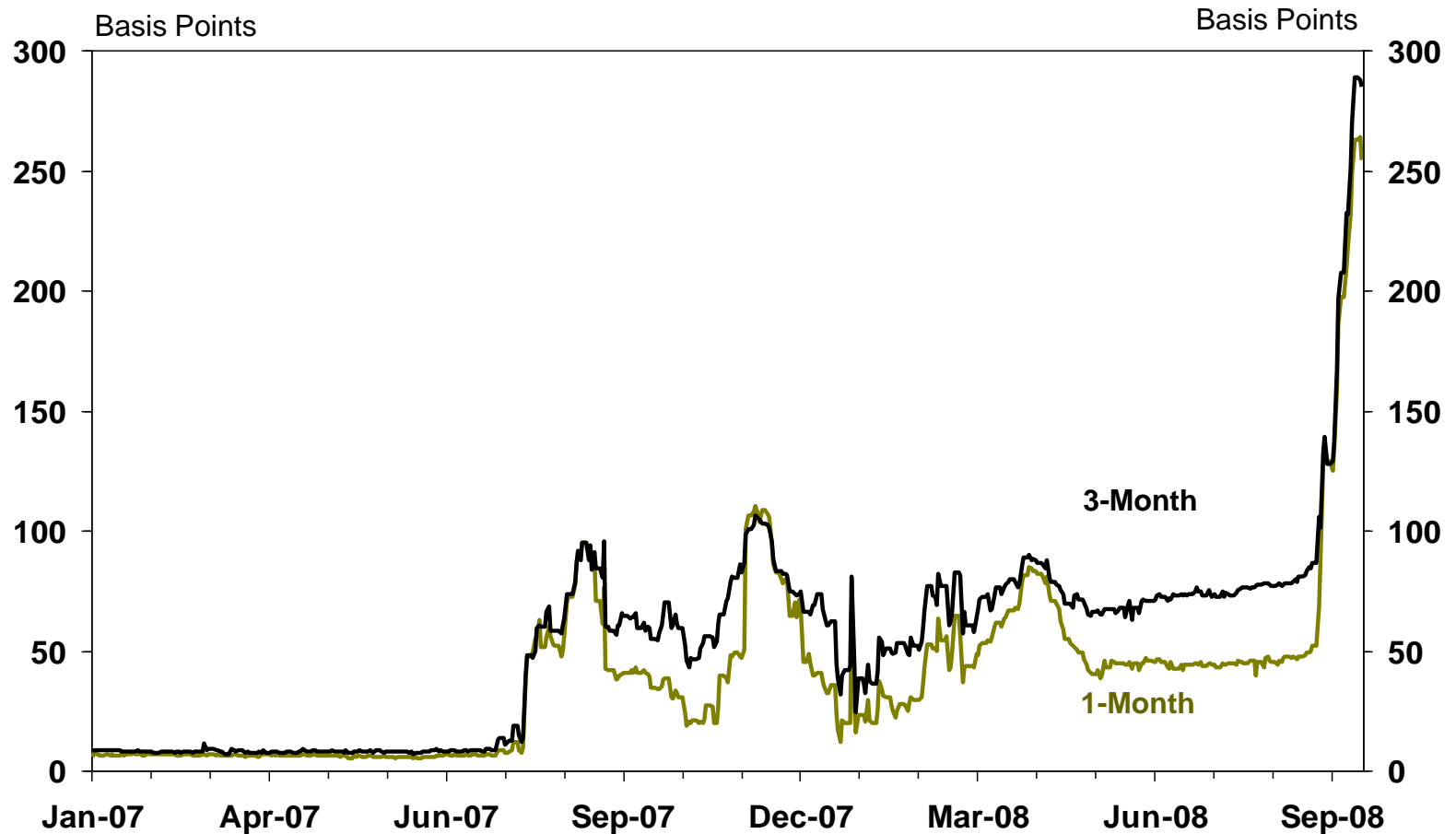
Inflationary pressures have started to moderate in a number of countries, partly reflecting a marked decline in energy and other commodity prices. Inflation expectations are diminishing and remain anchored to price stability. The recent intensification of the financial crisis has augmented the downside risks to growth and thus has diminished further the upside risks to price stability. Some easing of global monetary conditions is therefore warranted.

Federal Reserve Actions:

Incoming economic data suggest that the pace of economic activity has slowed markedly in recent months. Moreover, the intensification of financial market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of households and businesses to obtain credit. Inflation has been high, but the Committee believes that the decline in energy and other commodity prices and the weaker prospects for economic activity have reduced the upside risks to inflation.

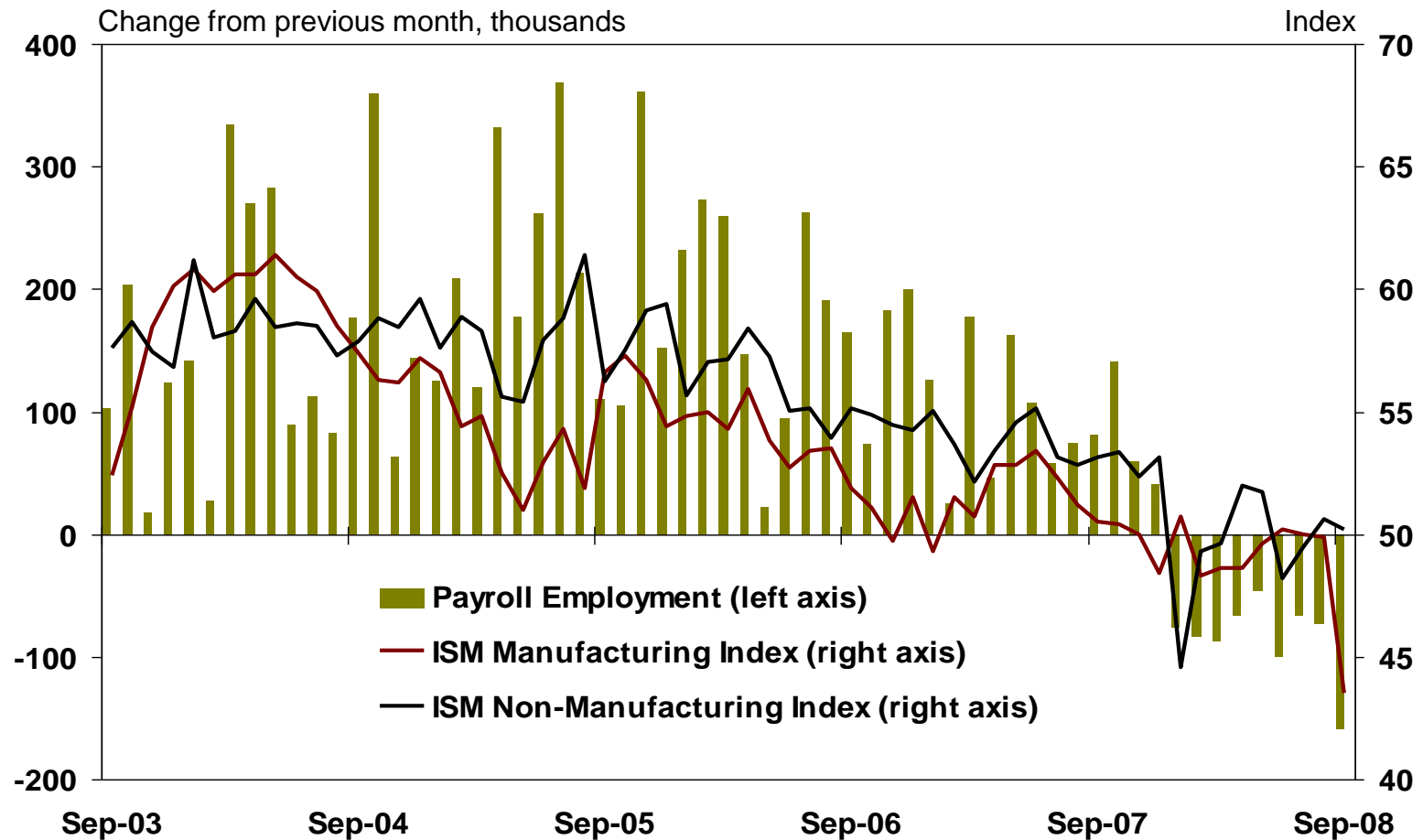
Credit spreads have widened tremendously, especially for interbank lending

LIBOR-OIS Spread



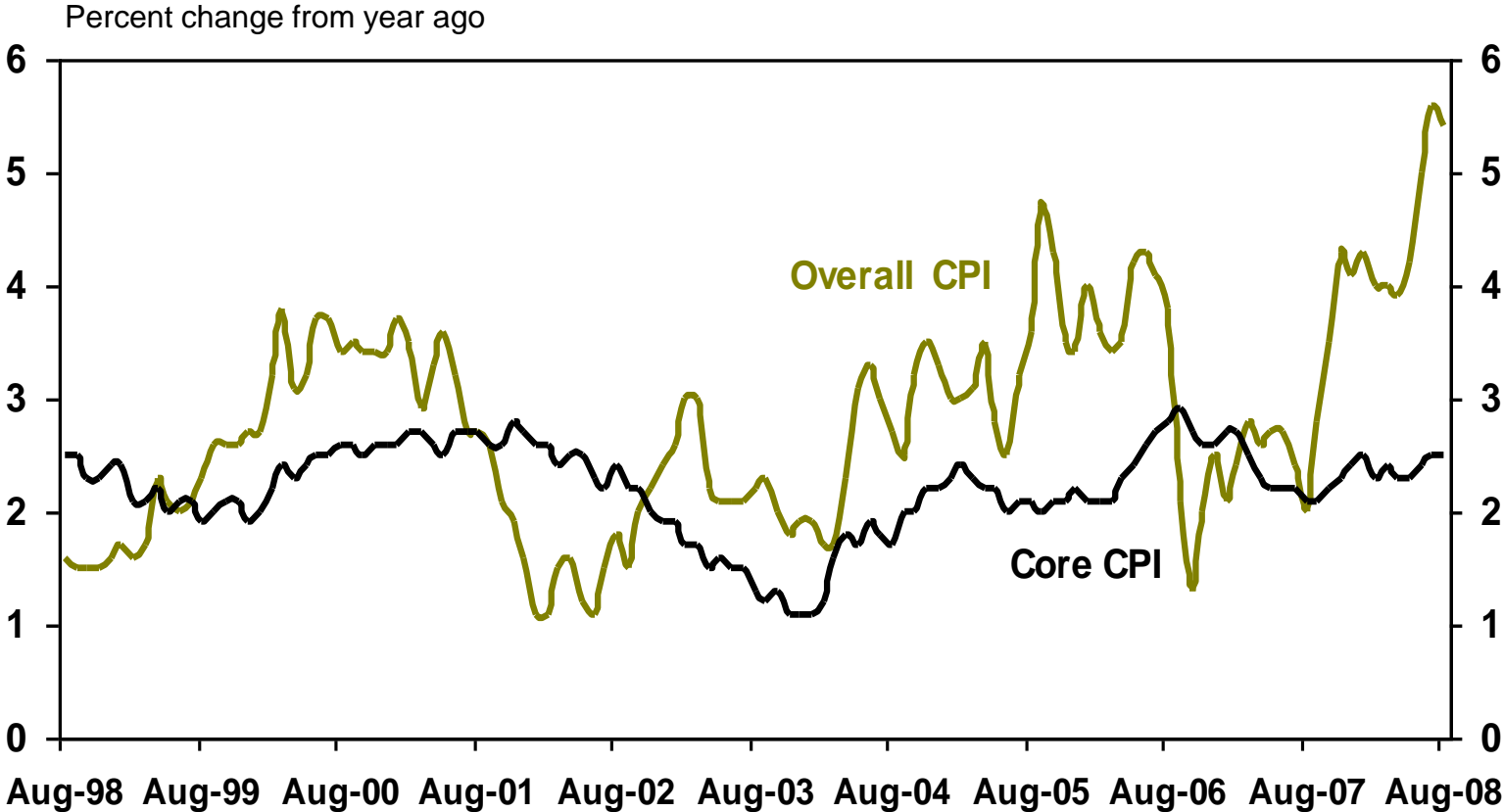
Third quarter data suggest U.S. economic activity has weakened

National Business Indexes and Payroll Employment



Meanwhile, inflation pressures remain high

Consumer Price Index



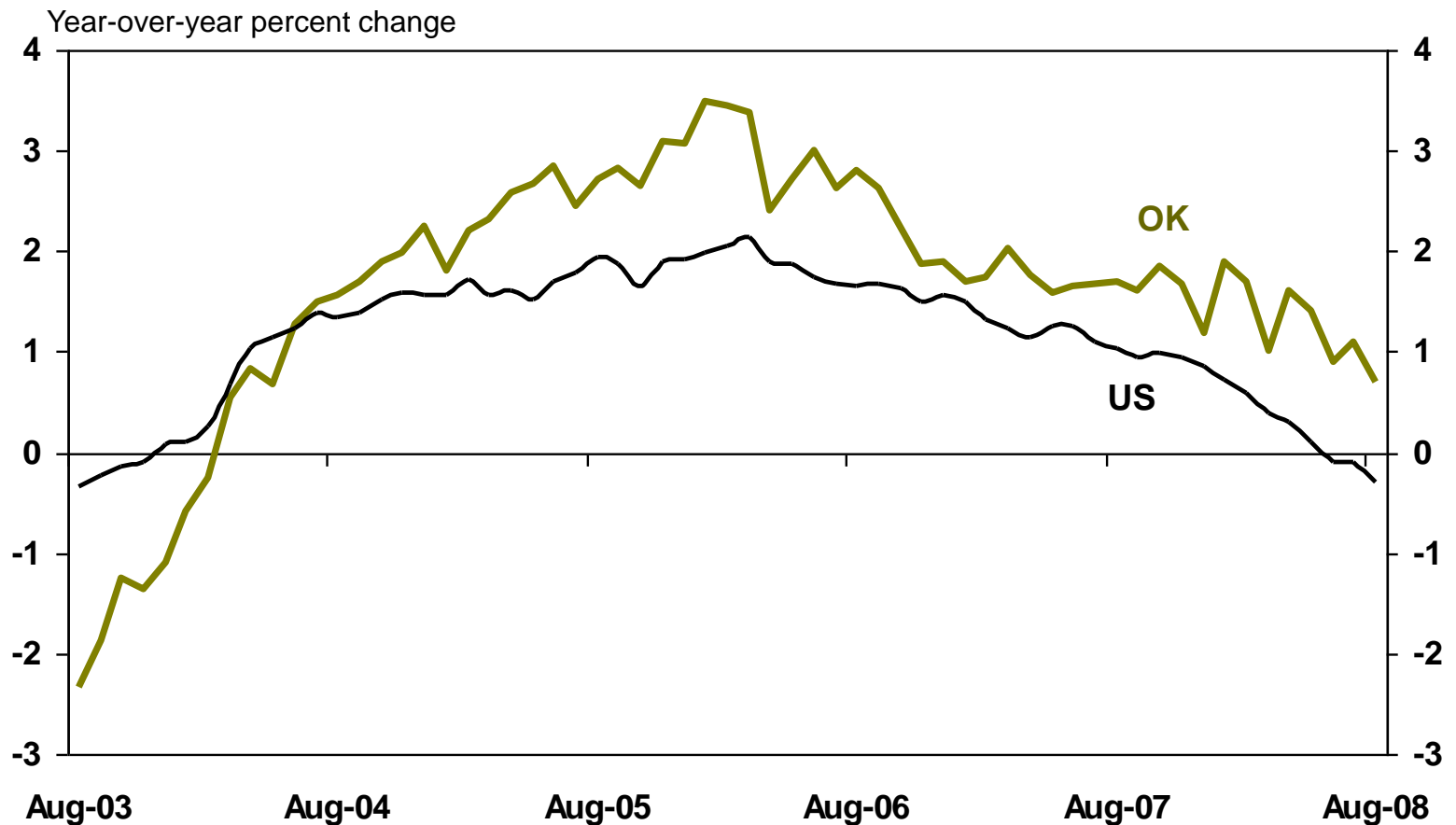
Source: U.S. Bureau of Labor Statistics

The Oklahoma Economic Outlook

- ❑ Oklahoma's economy remains solid, with housing and banking in better shape
- ❑ Solid energy activity should continue to help promote moderate overall growth in the state
- ❑ But the national situation bears watching, especially given tightening credit conditions

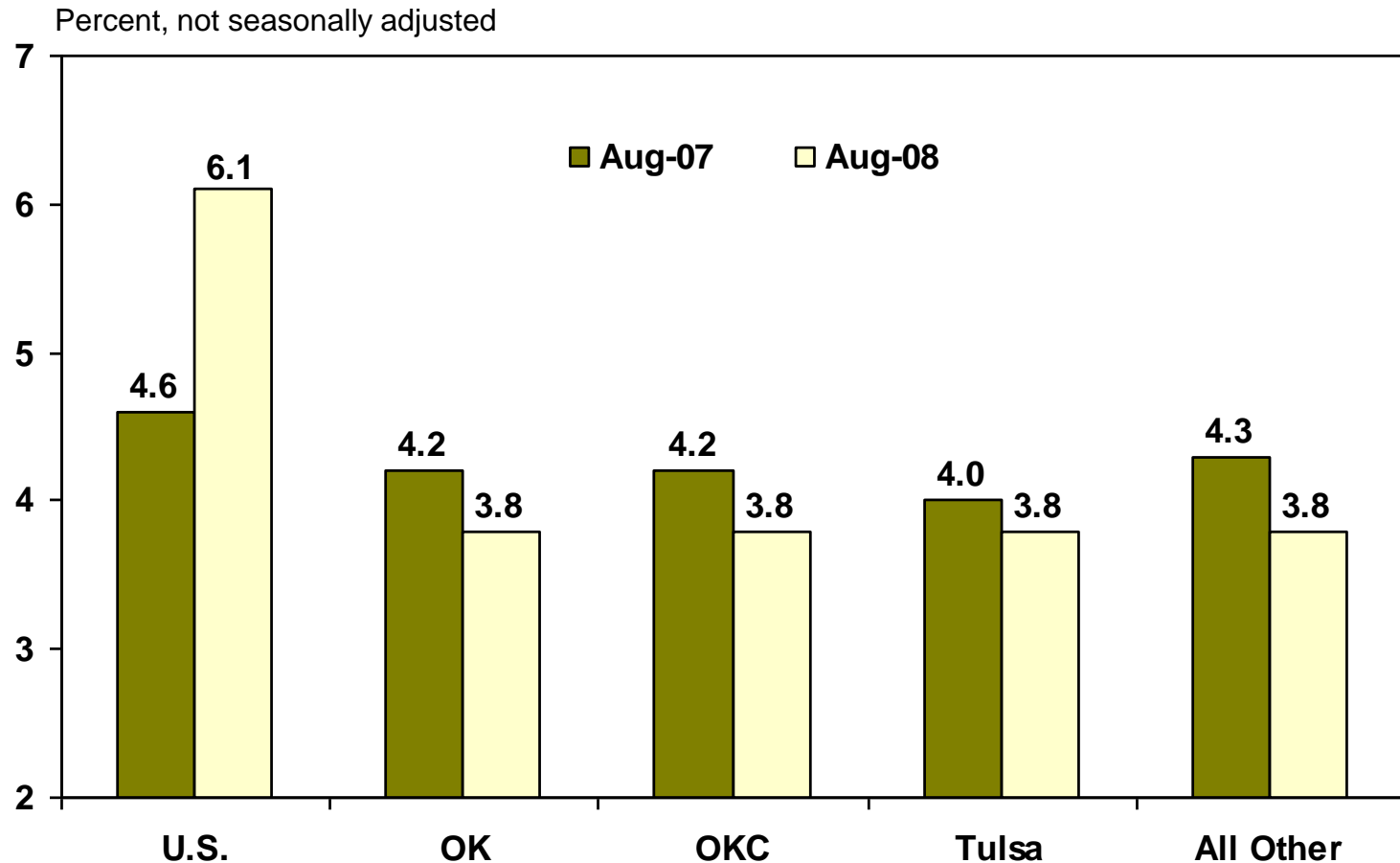
Oklahoma job growth has slowed but remains well above the national average

Nonfarm Payroll Employment Growth



Unlike in the nation, unemployment rates are down across the state since last year

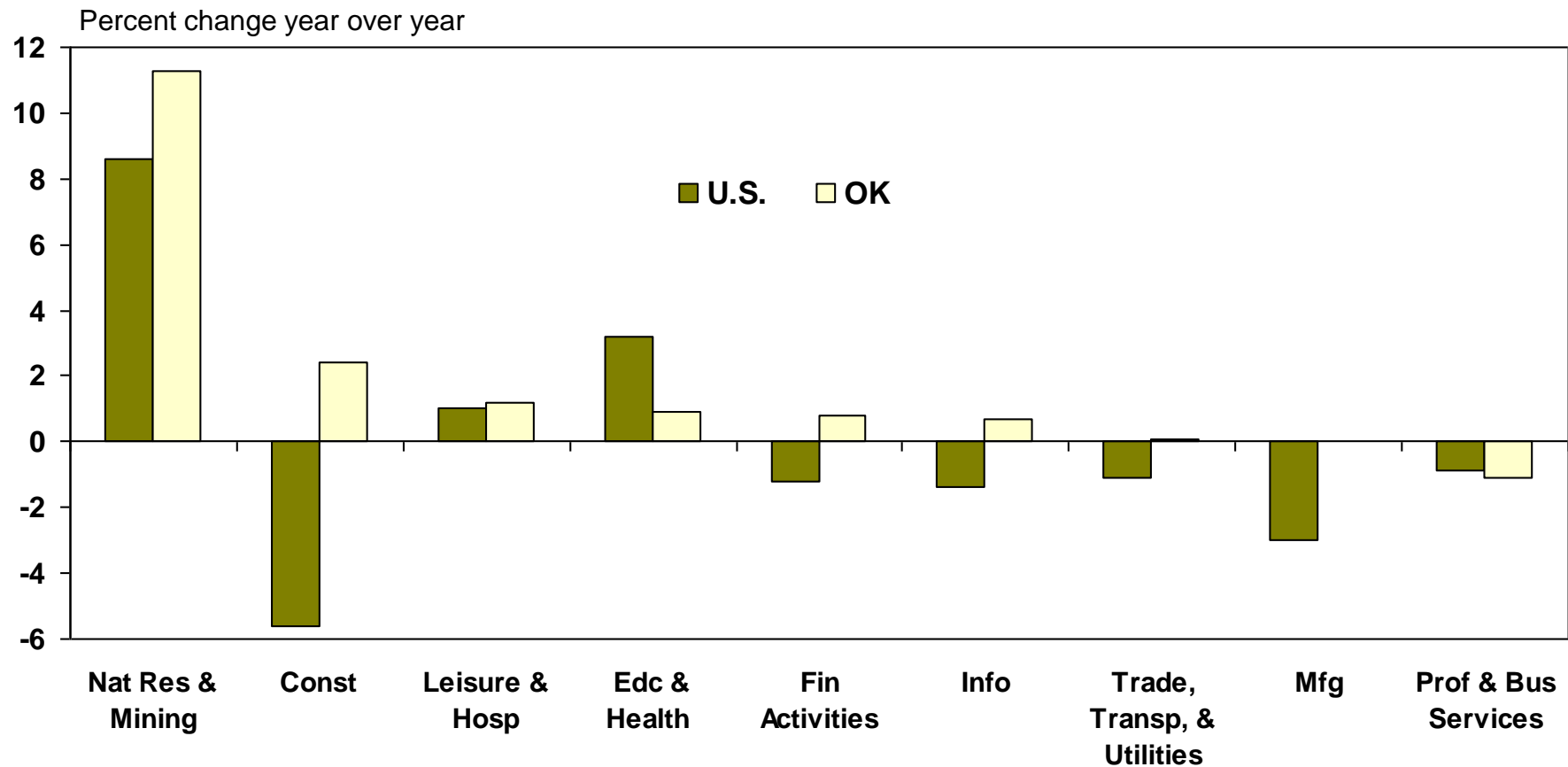
Unemployment Rates



Strength in Oklahoma job growth continues to be driven by the energy sector

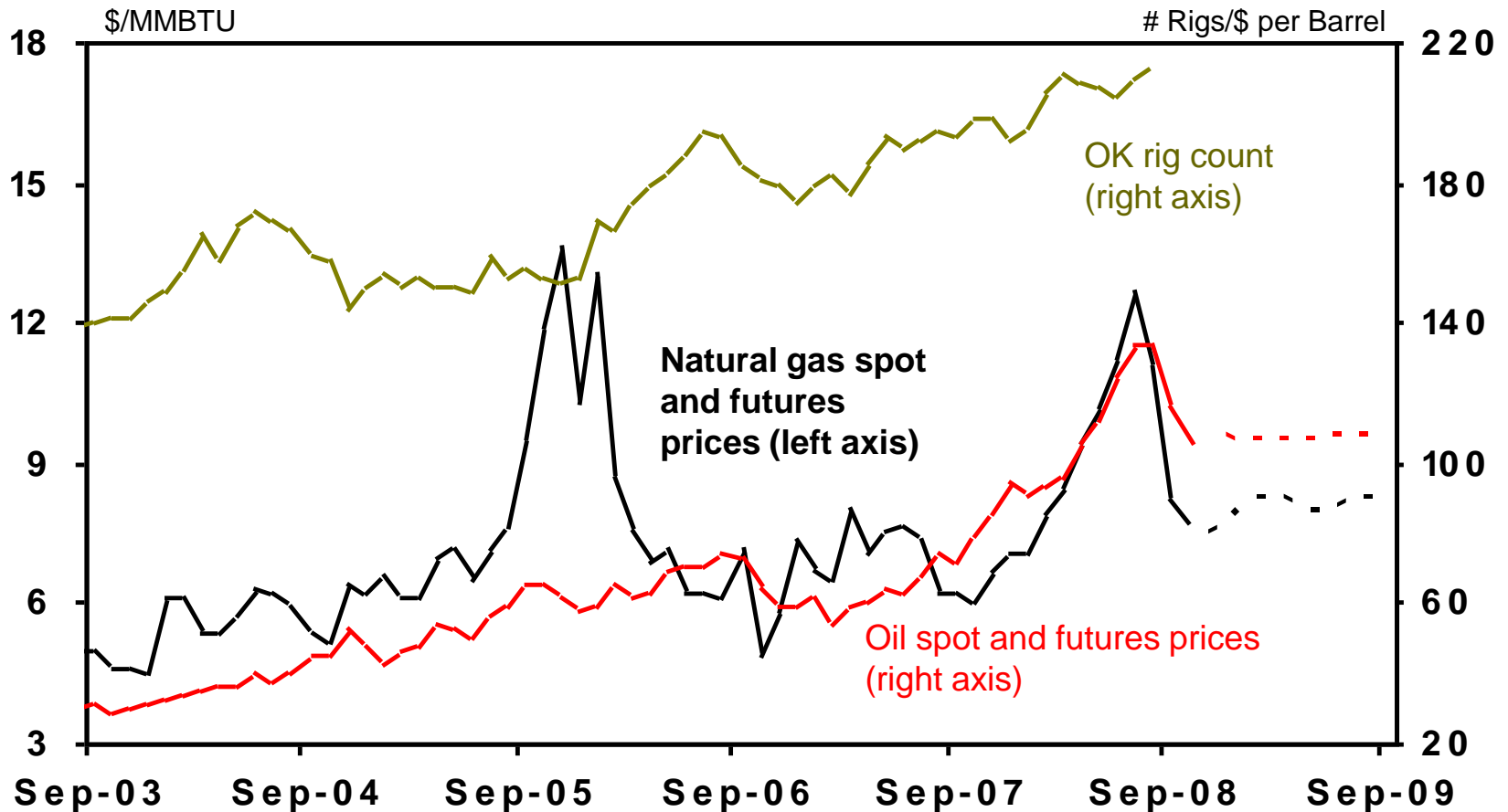
Employment Growth by Industry

August 2008



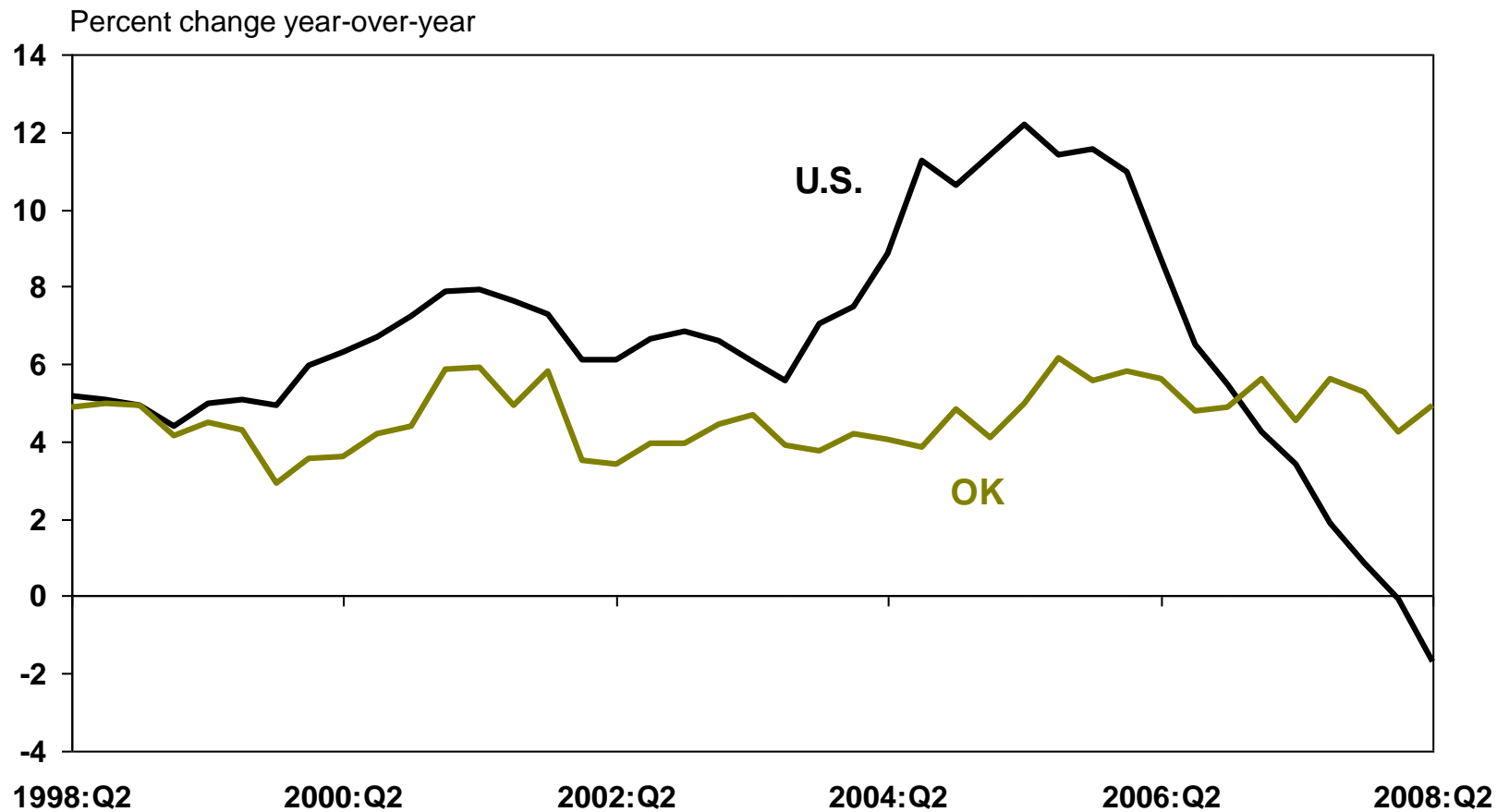
State oil and gas activity remains strong, and futures prices are still solid

Count of Active Drilling Rigs and Oil/Natural Gas Prices



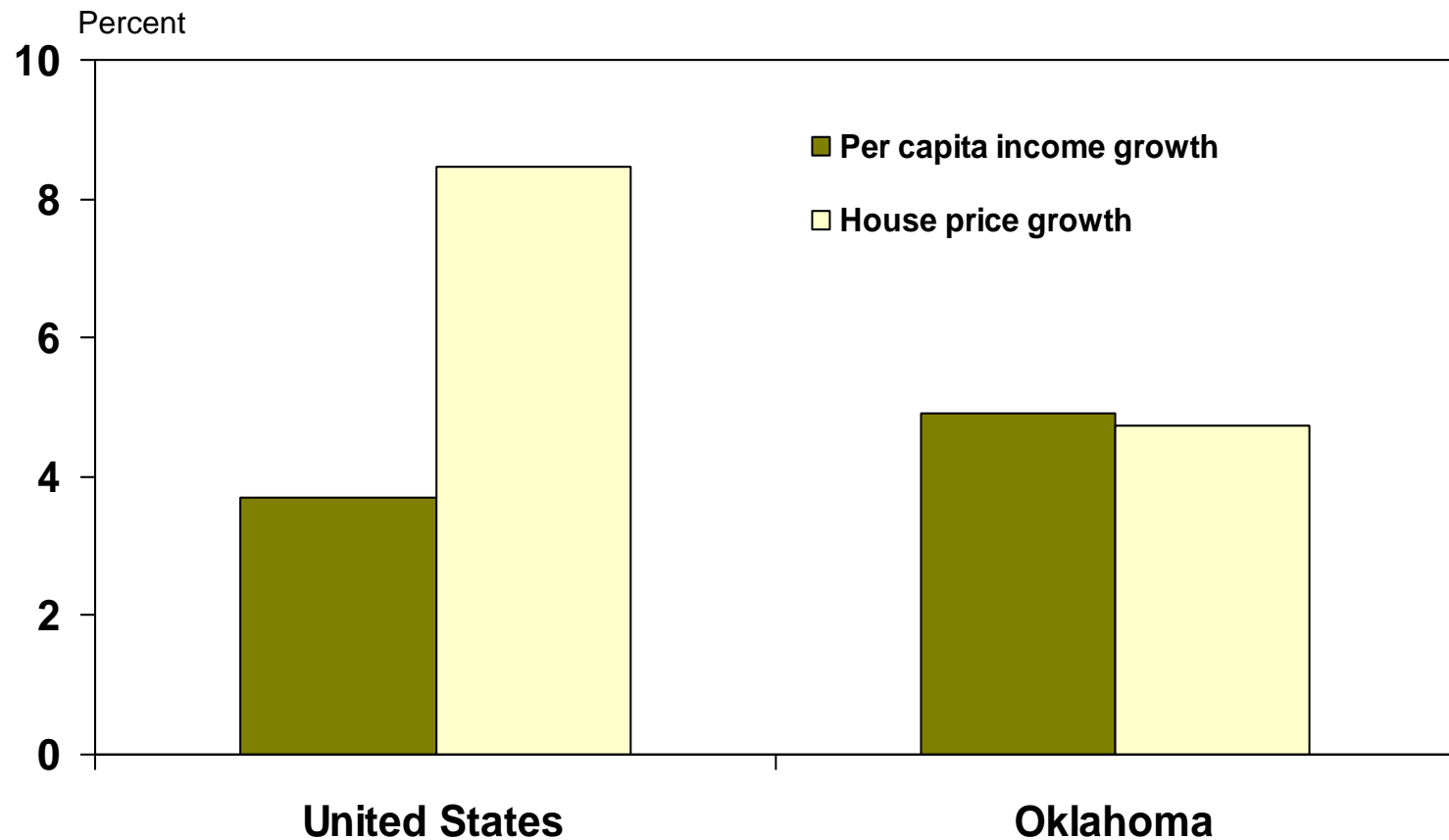
In housing, Oklahoma home prices continue to grow, even as U.S. prices fall

Quality-Adjusted Home Price Growth



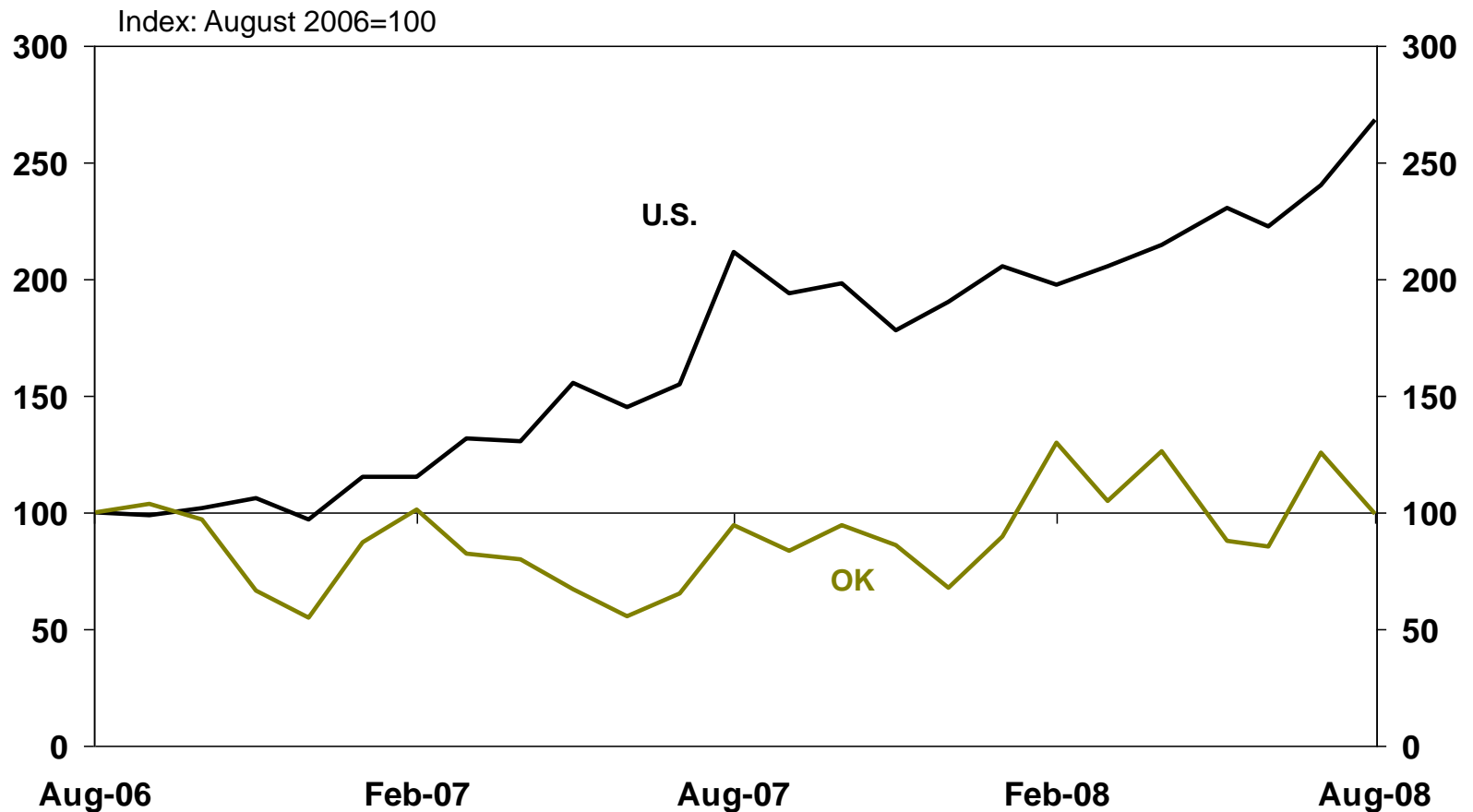
House price fundamentals were more in line in Oklahoma from 2000 to 2005

Annual Growth in Per Capita Incomes and Home Prices
2000 - 2005

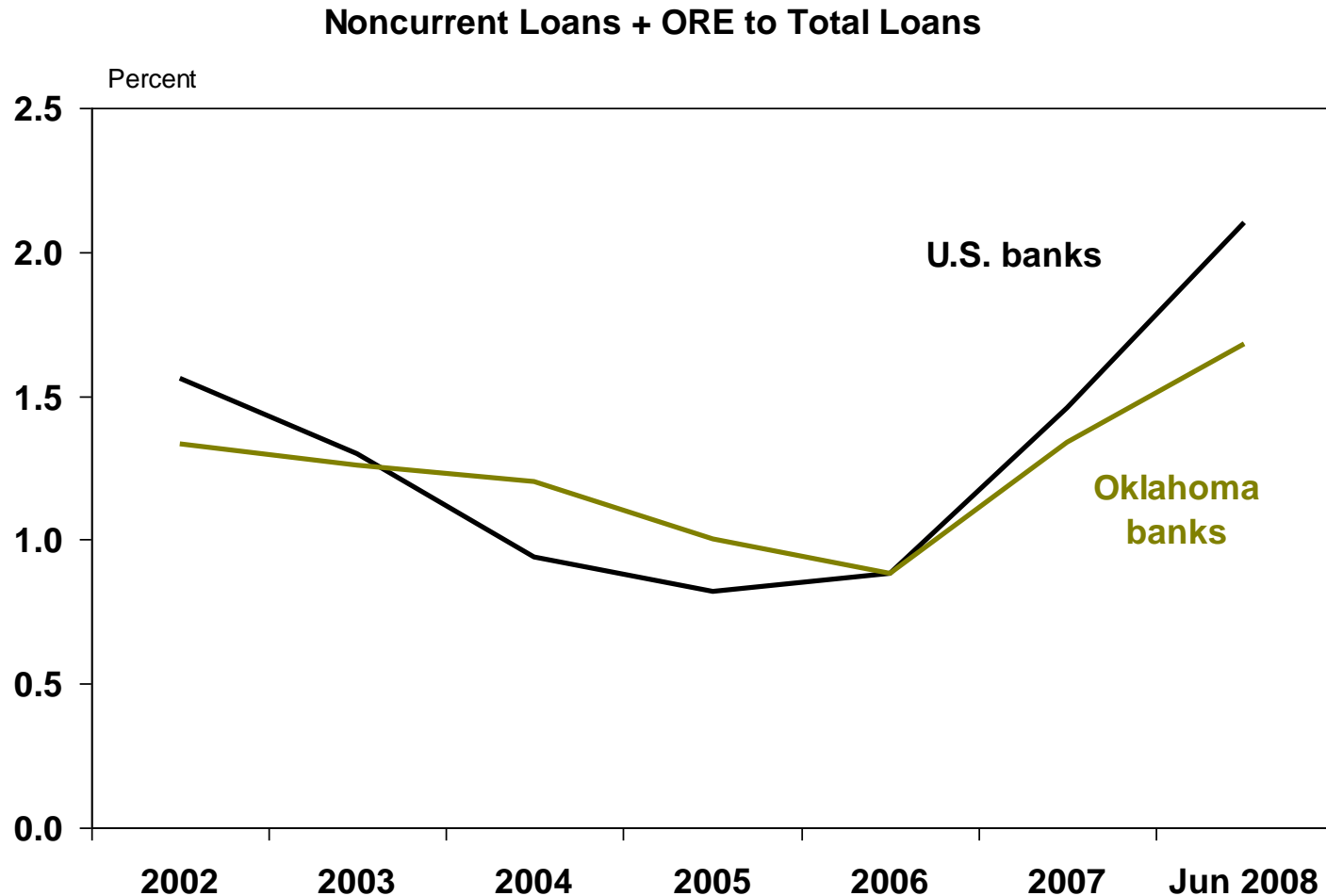


Foreclosure rates have remained relatively stable in Oklahoma, unlike the nation

Foreclosures in the U.S. vs. Oklahoma

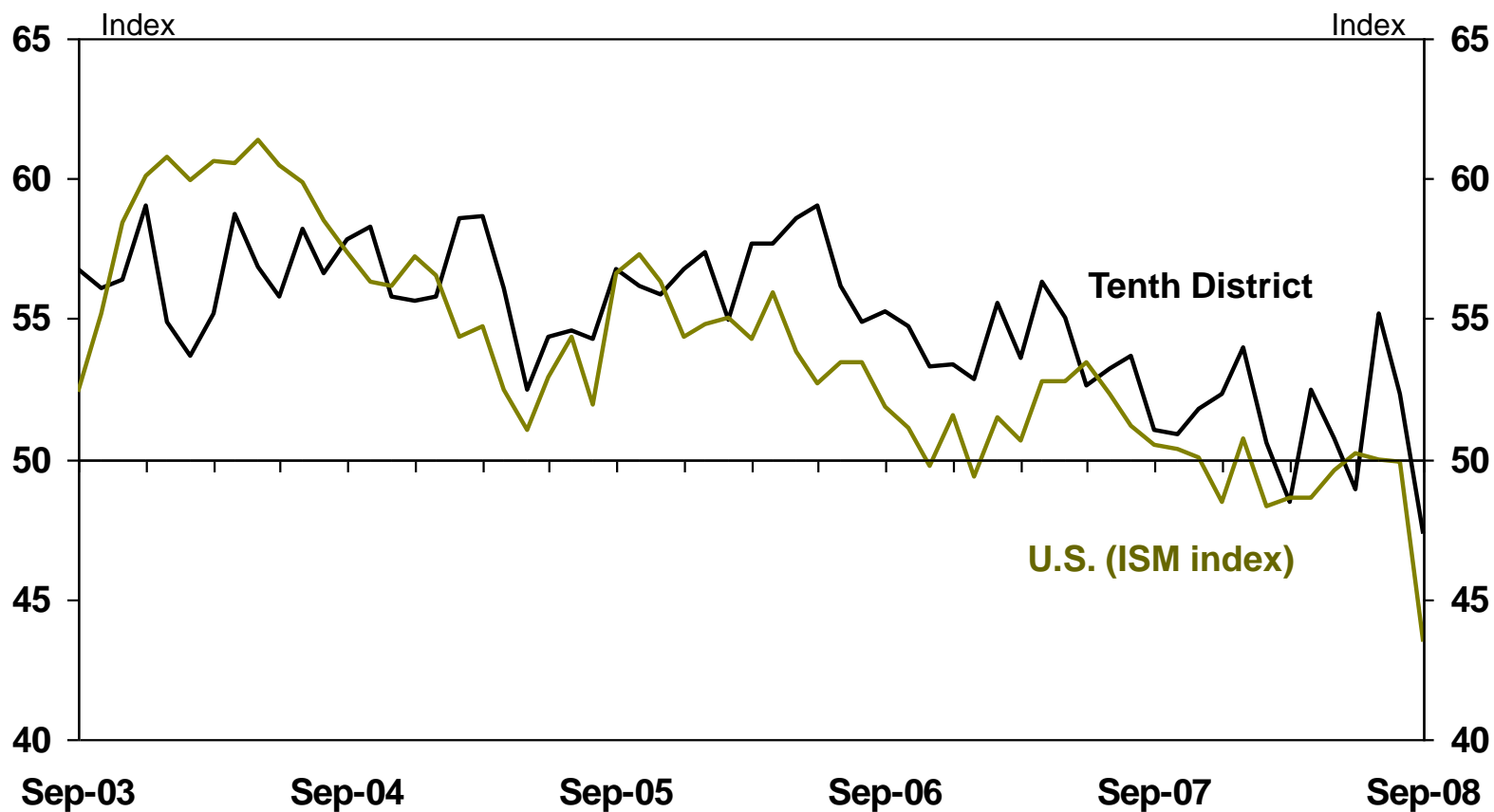


Loan delinquencies are rising at Oklahoma banks, but less than in the nation



Manufacturing activity has slowed in the Tenth Fed District, but less than in the nation

Manufacturing PMI Index
U.S. vs. Tenth District

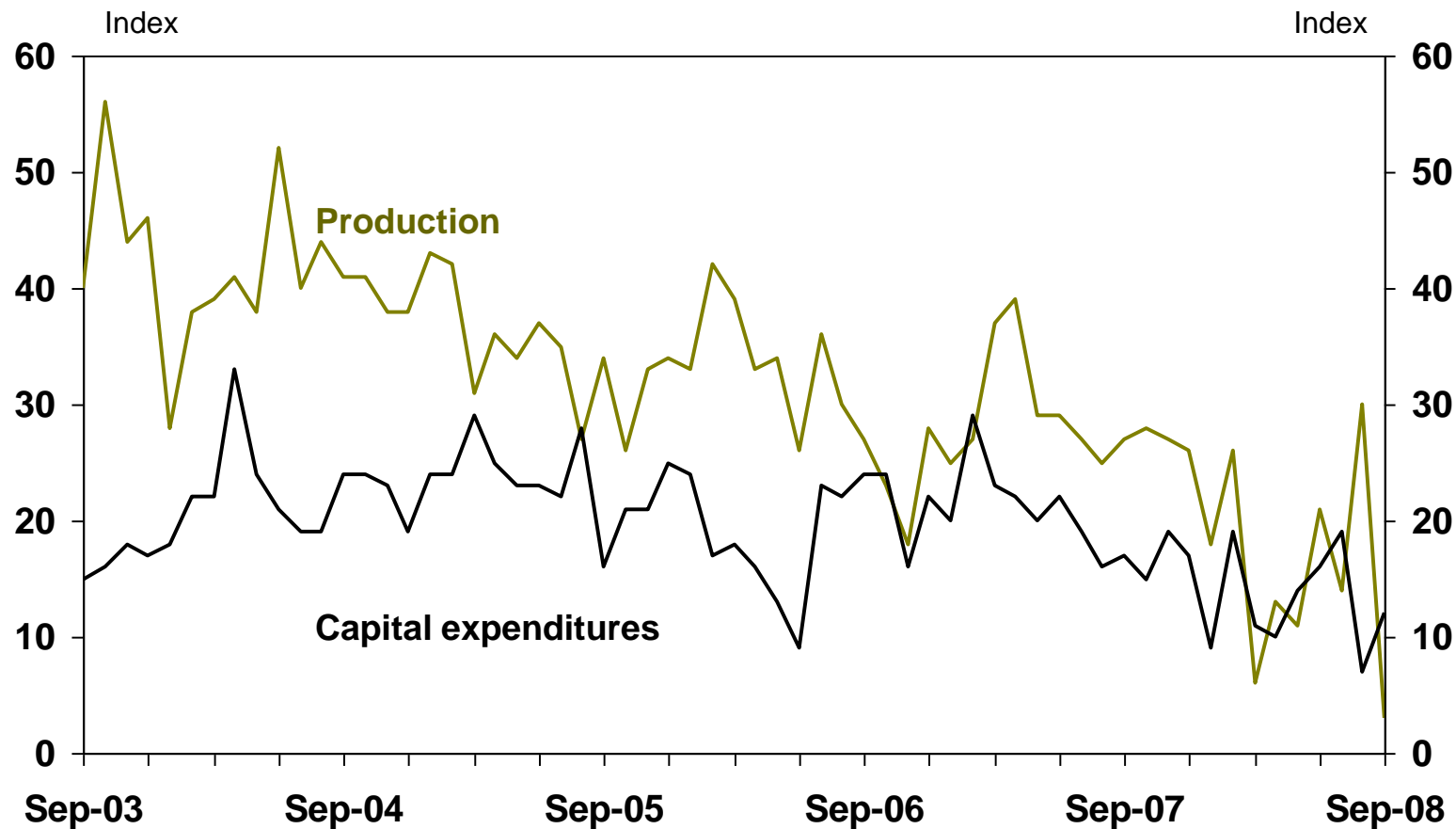


Note – Tenth District is computed on an ISM basis (50=zero change)

Source: KCFRB Manufacturing Survey, ISM

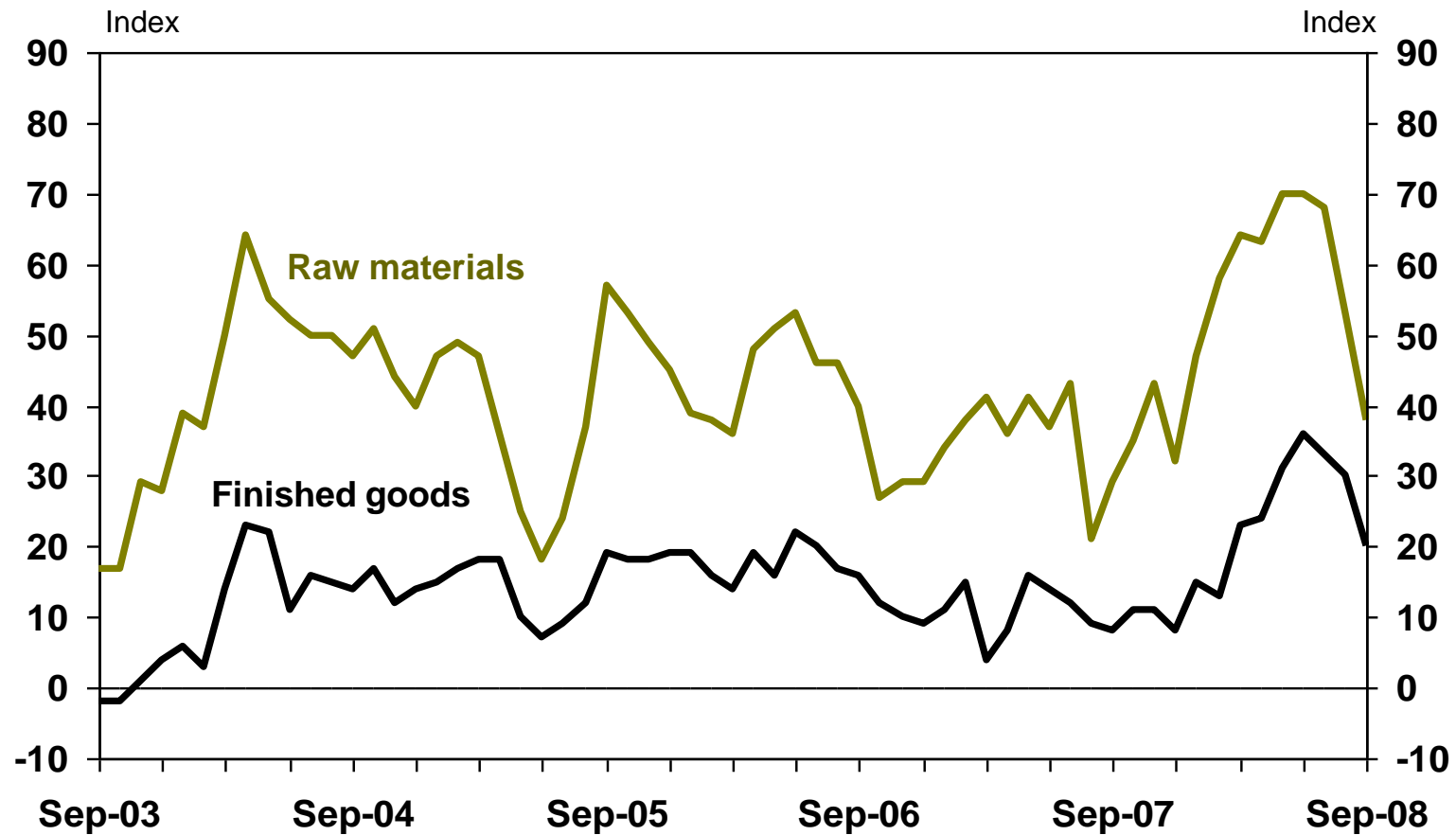
Regional factory expectations are lower than a year ago, but still not off a cliff

Tenth District Indexes
Six months ahead



Manufacturing price indexes eased considerably in September

Tenth District Price Indexes
Month-over-Month



Summary

- ❑ U.S. and world economic conditions, including in manufacturing, have deteriorated in recent weeks, due to concerns about tighter credit
- ❑ Oklahoma economic growth has also slowed lately, but to a much lesser degree, given stronger energy and housing fundamentals

Questions?