

U.S. and Regional Economic Outlook



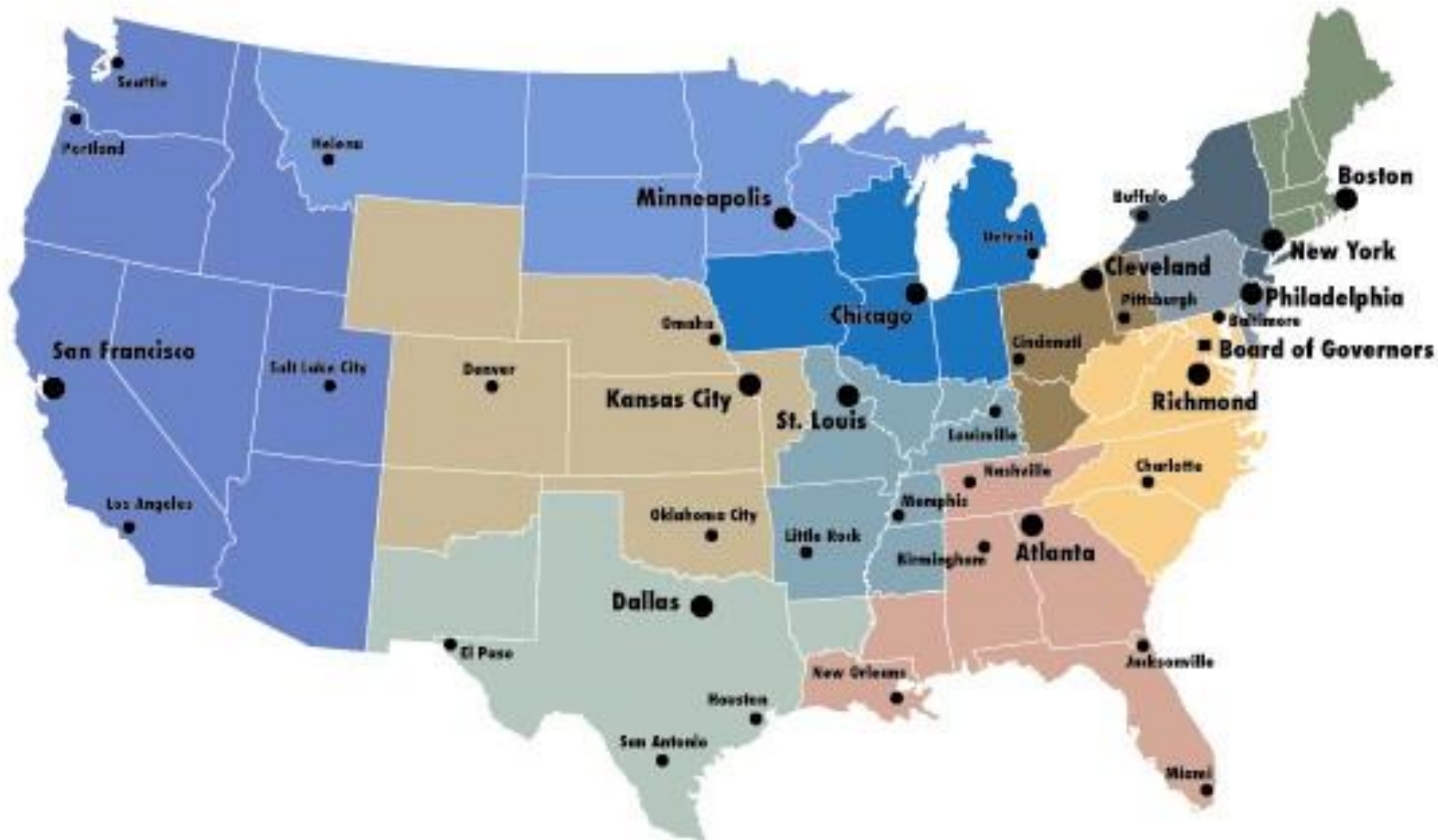
Chad Wilkerson

Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City

Purposes and Structure of the Federal Reserve System

- **Overall purposes of the Fed are to promote:**
 - Maximum sustainable economic growth/employment
 - Low and stable inflation
 - National financial stability
- **The three primary functional areas of the Fed are:**
 - Monetary policy – most visible role to the public, usually
 - Bank regulation – including lender of last resort
 - Payments systems – cash, checks, electronic payments
- **The Federal Reserve System consists of:**
 - Board of Governors: 7 members who are appointed by the U.S. President and confirmed by the Senate to serve 14-year terms.
 - Federal Reserve Banks: 12 Banks, each serving a unique district.
 - Federal Open Market Committee (FOMC): Comprised of the 7 Governors and the 12 Reserve Bank presidents (only 5 presidents are voting members, on a rotating basis).

Federal Reserve Districts and Office Locations



The Kansas City and Oklahoma City Offices

- **Headquarters in Kansas City**

- Nearly **1,000 staff** involved in all mission areas
- **New building** officially opened in June 2008

- **Oklahoma City branch office**

- **Staff and functions** – 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**

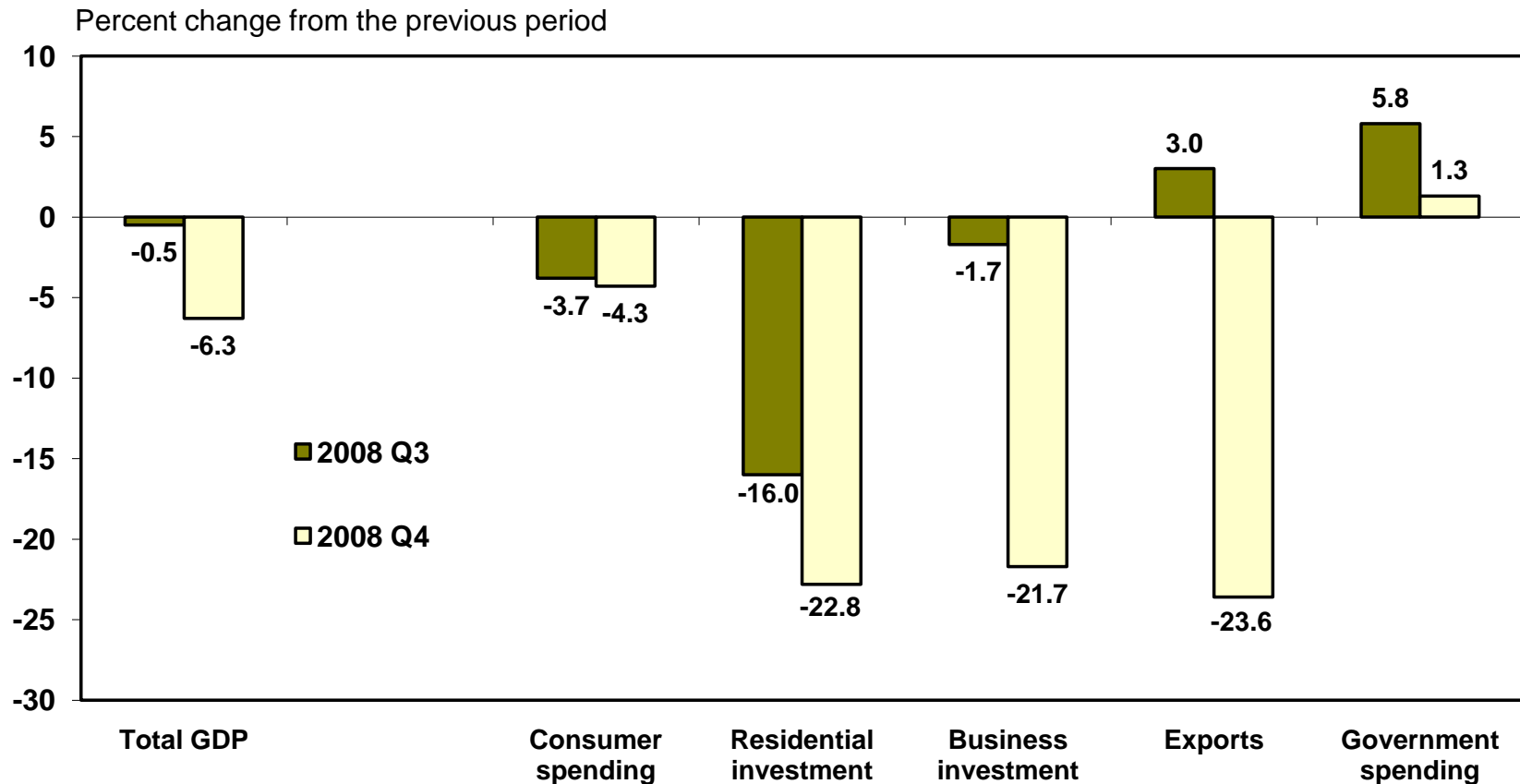
- *Chairman* **Steve Agee**, President, Agee Energy, and Professor, OCU, Oklahoma City
- **Terry Almon**, President, Oklahoma Community Capital Corp., Broken Arrow
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
- **Fred Ramos**, COO, Latino Community Development Agency, Oklahoma City
- **Doug Tippens**, President and CEO, Canadian State Bank, Yukon
- **K. Vasudevan**, Chairman, Service and Technology Corp., Bartlesville

The U.S. Economy

- The U.S. economy has weakened markedly but may be nearing a trough
- Credit and financial markets are improving, but strains remain
- Inflation has improved and is expected to remain tame

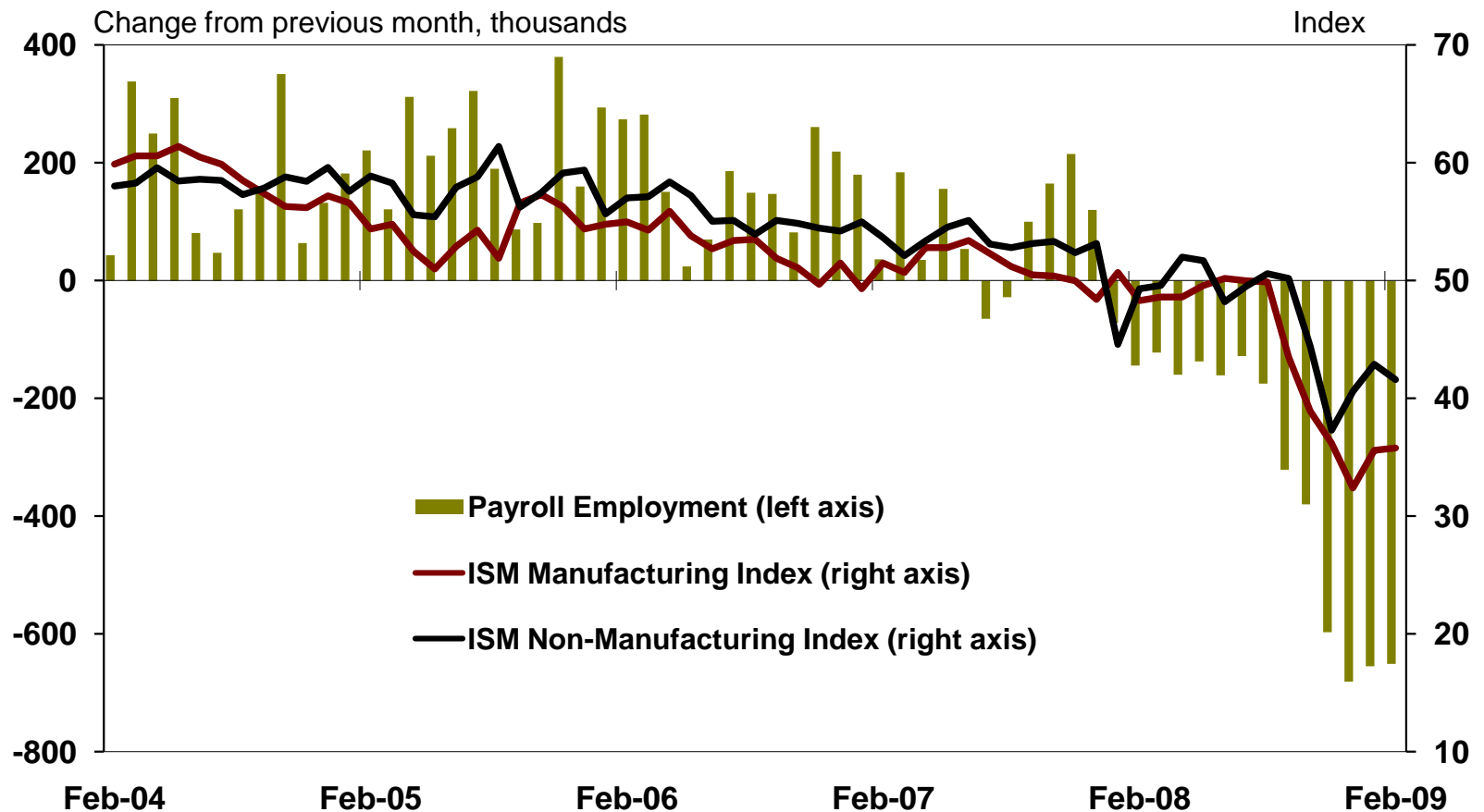
In the fourth quarter of last year, only government added to U.S. growth

Growth in Components of GDP



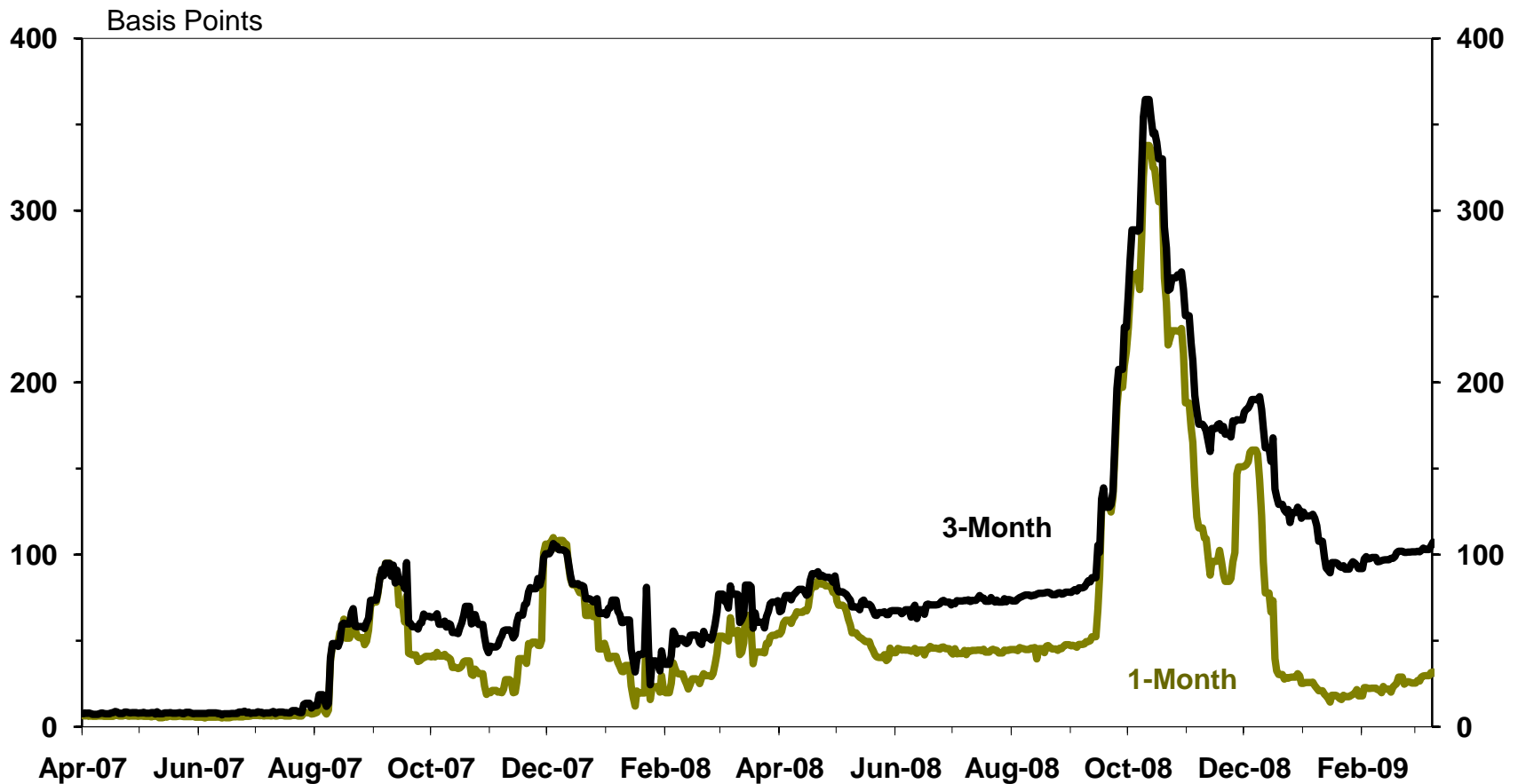
Weak U.S. business activity continued into 2009, but the declines may have stabilized

National Business Indexes and Payroll Employment



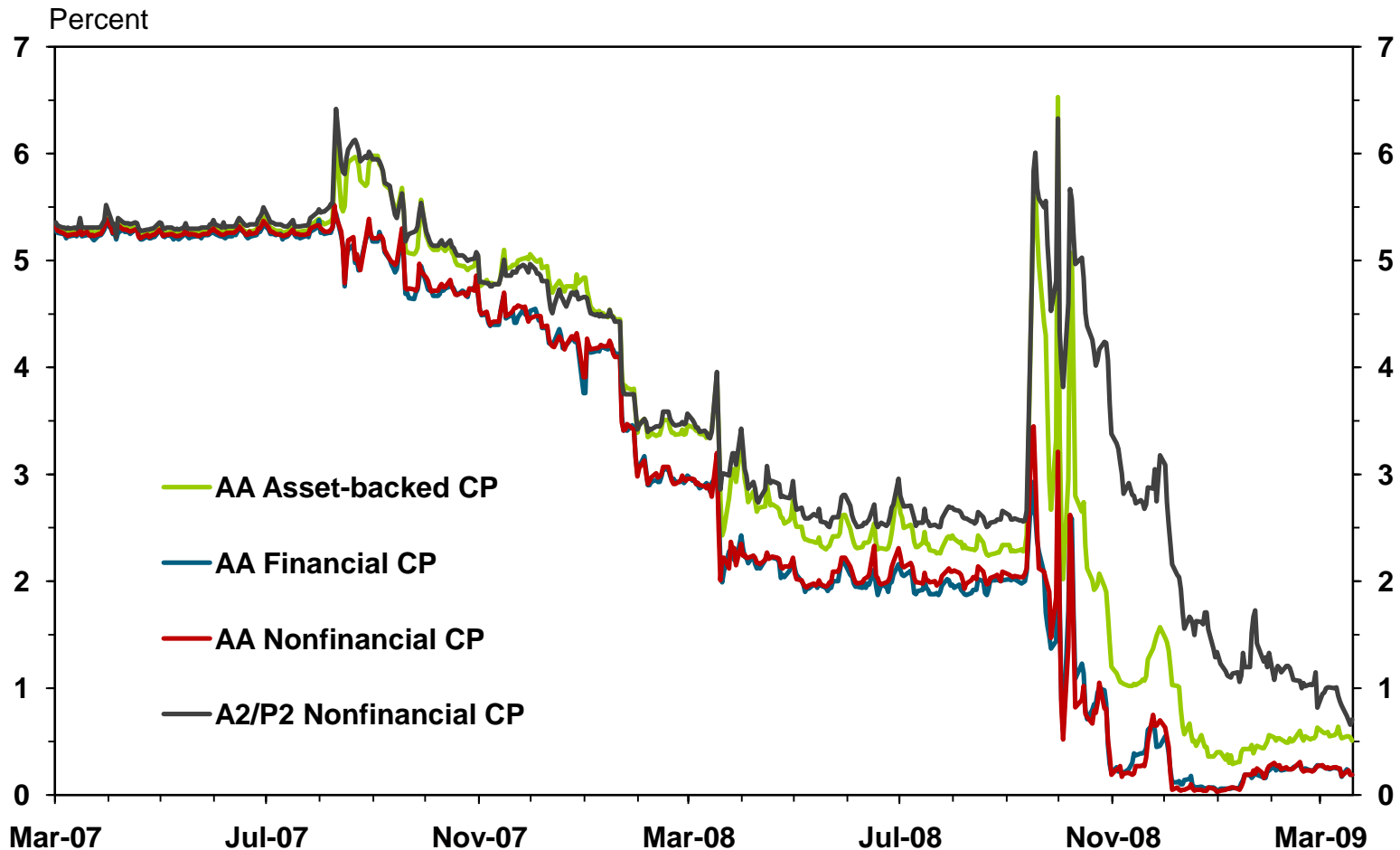
Short-term credit conditions have improved but remain somewhat strained

LIBOR-OIS Spread



Commercial paper rates have fallen sharply since last fall

Commercial Paper Rates by Type



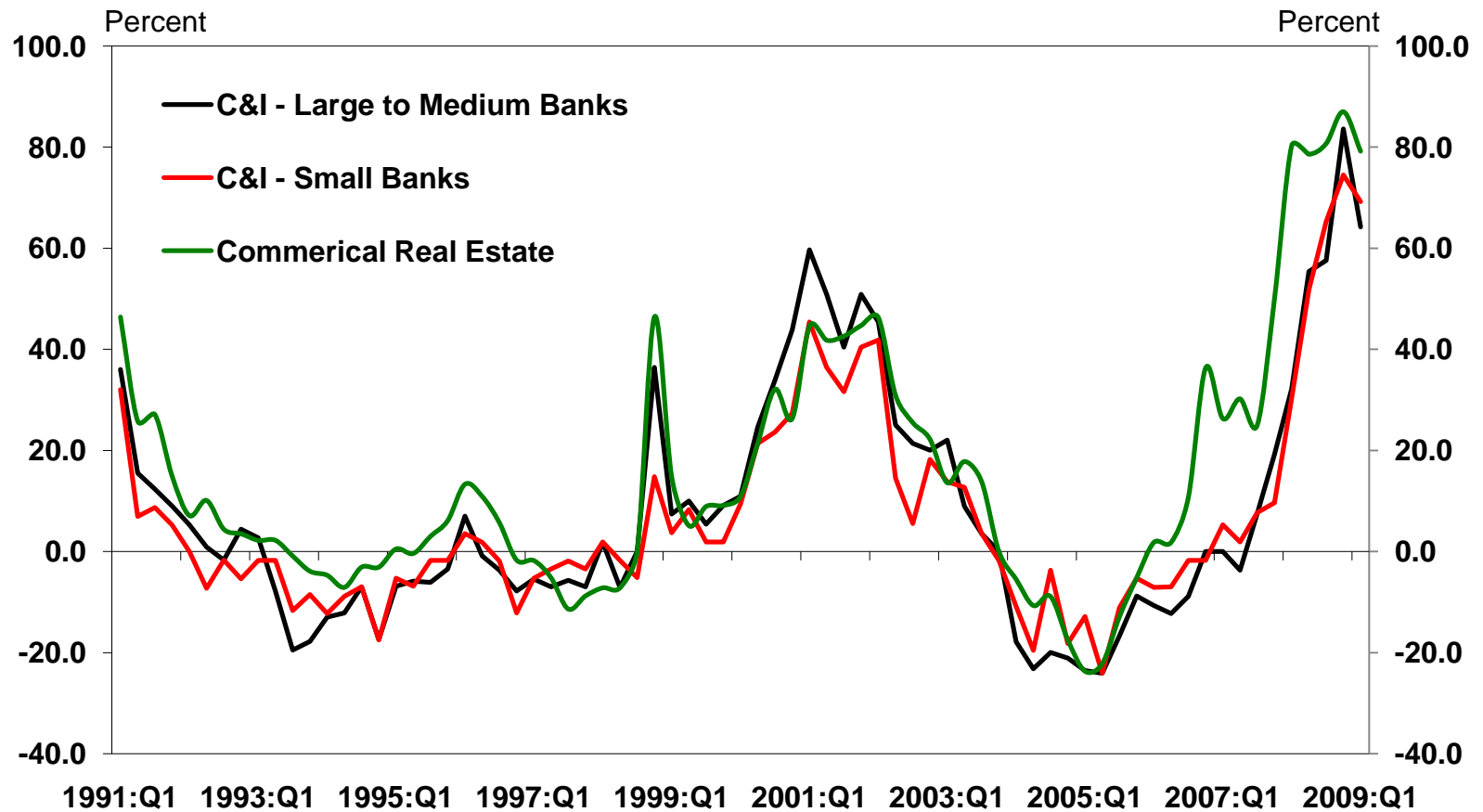
And mortgage rates have declined recently

30 Year Fixed Rate Mortgage Rate



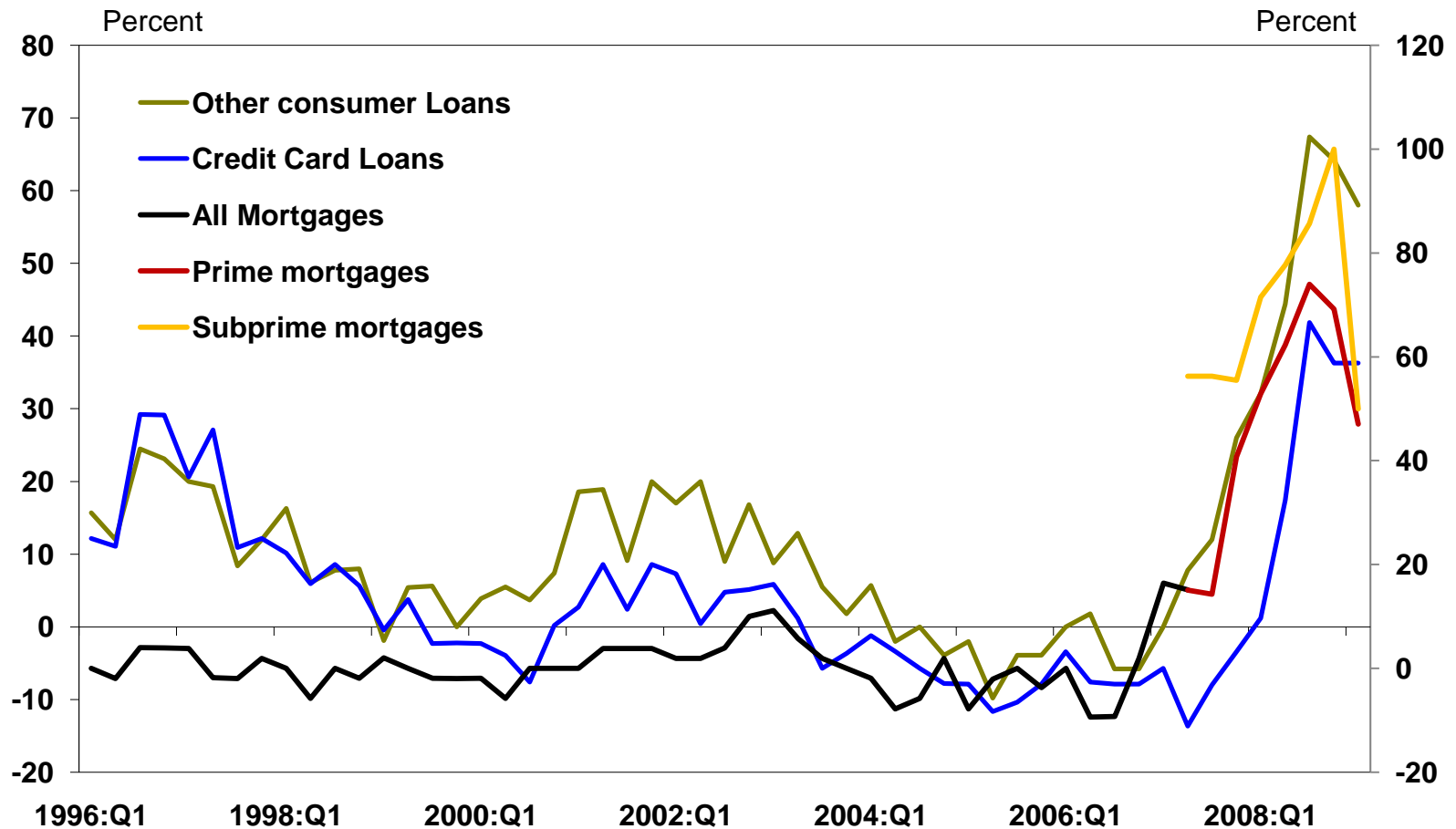
But bank lending standards on business loans continue to tighten

Net Percentage of Banks Tightening Loan Standards Business Loans



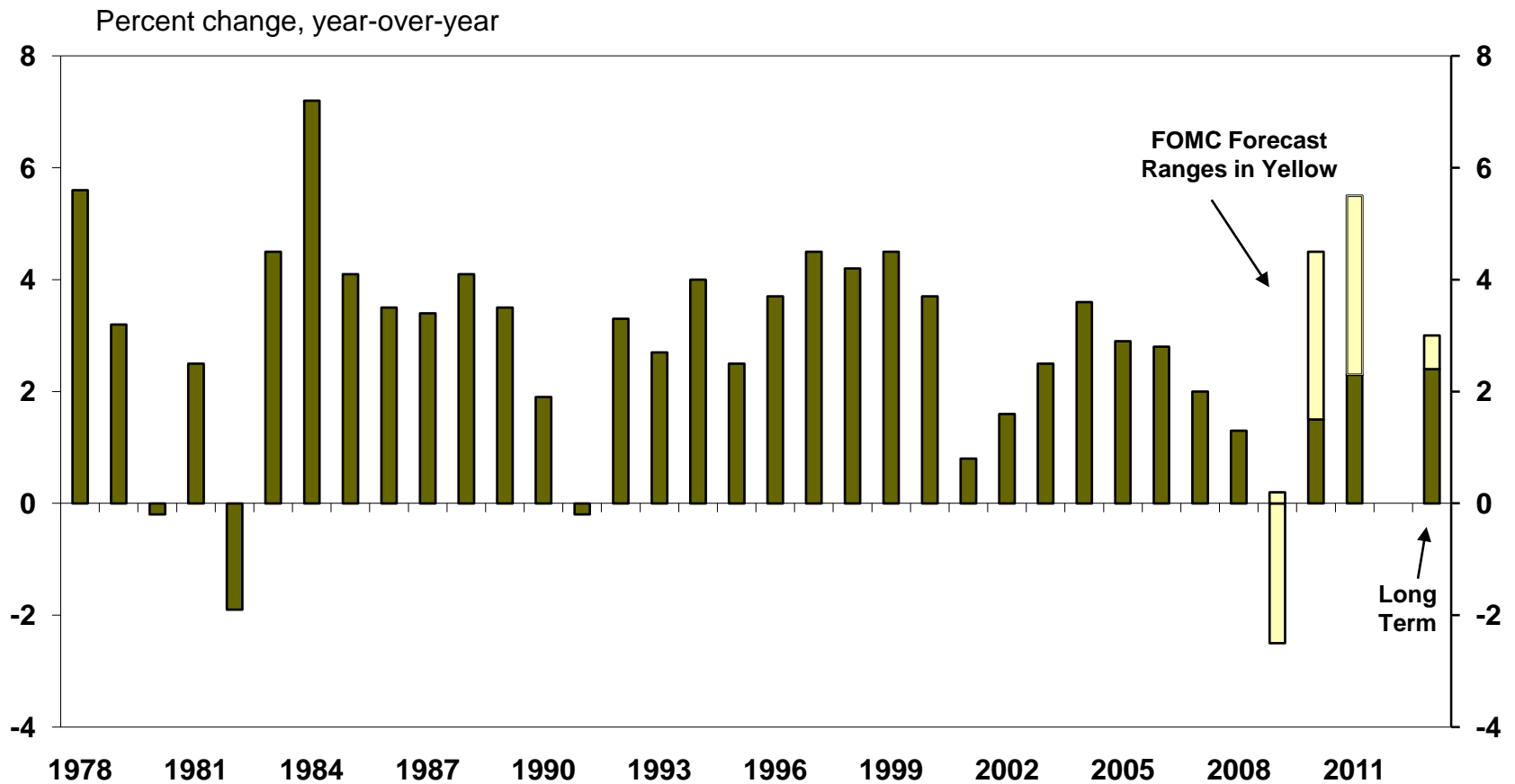
And consumer lending standards also continue to tighten

Net Percentage of Banks Tightening Loan Standards Consumer Loans



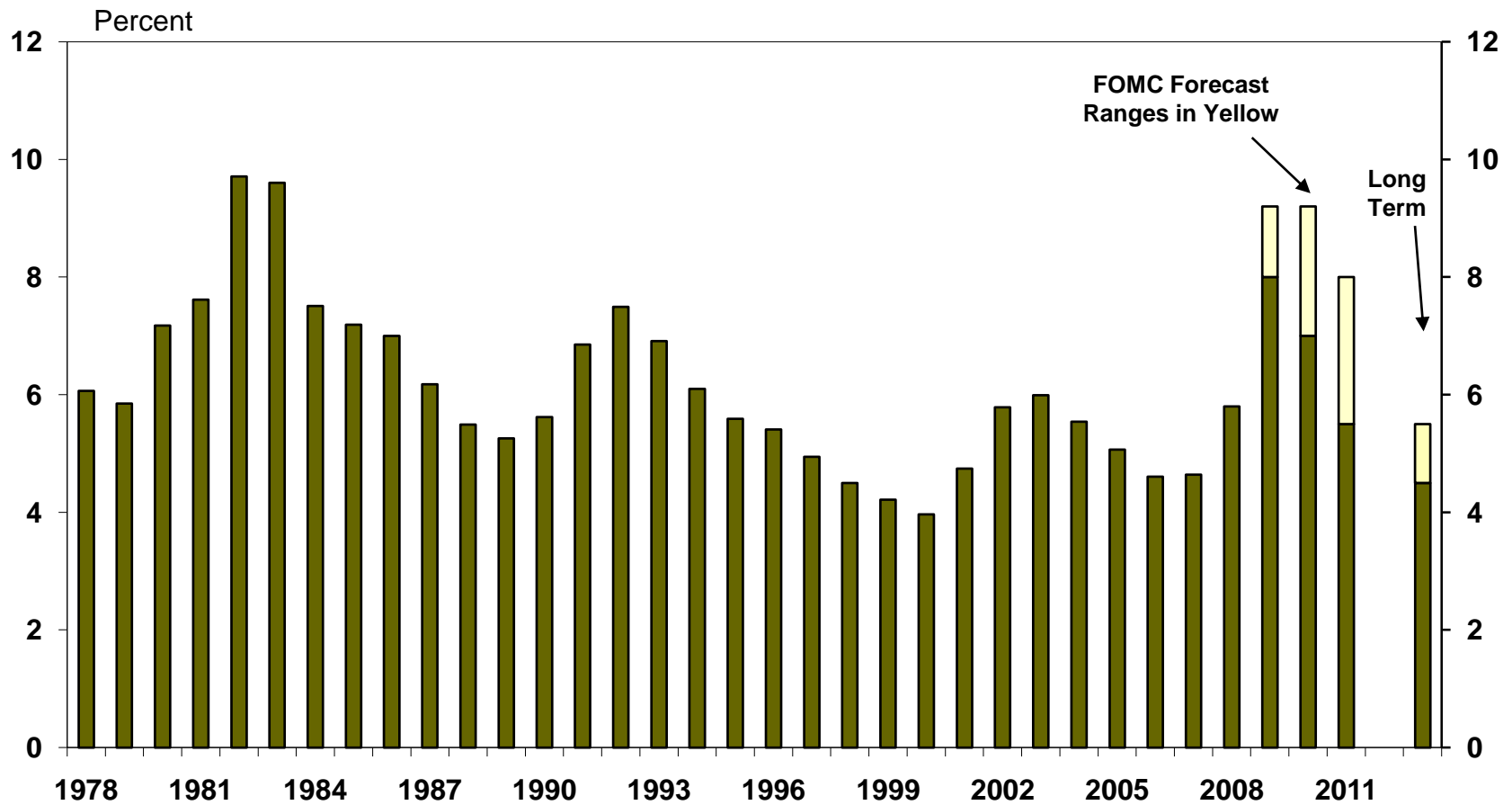
Policy-makers are pessimistic about the near-term economic outlook

Gross Domestic Product



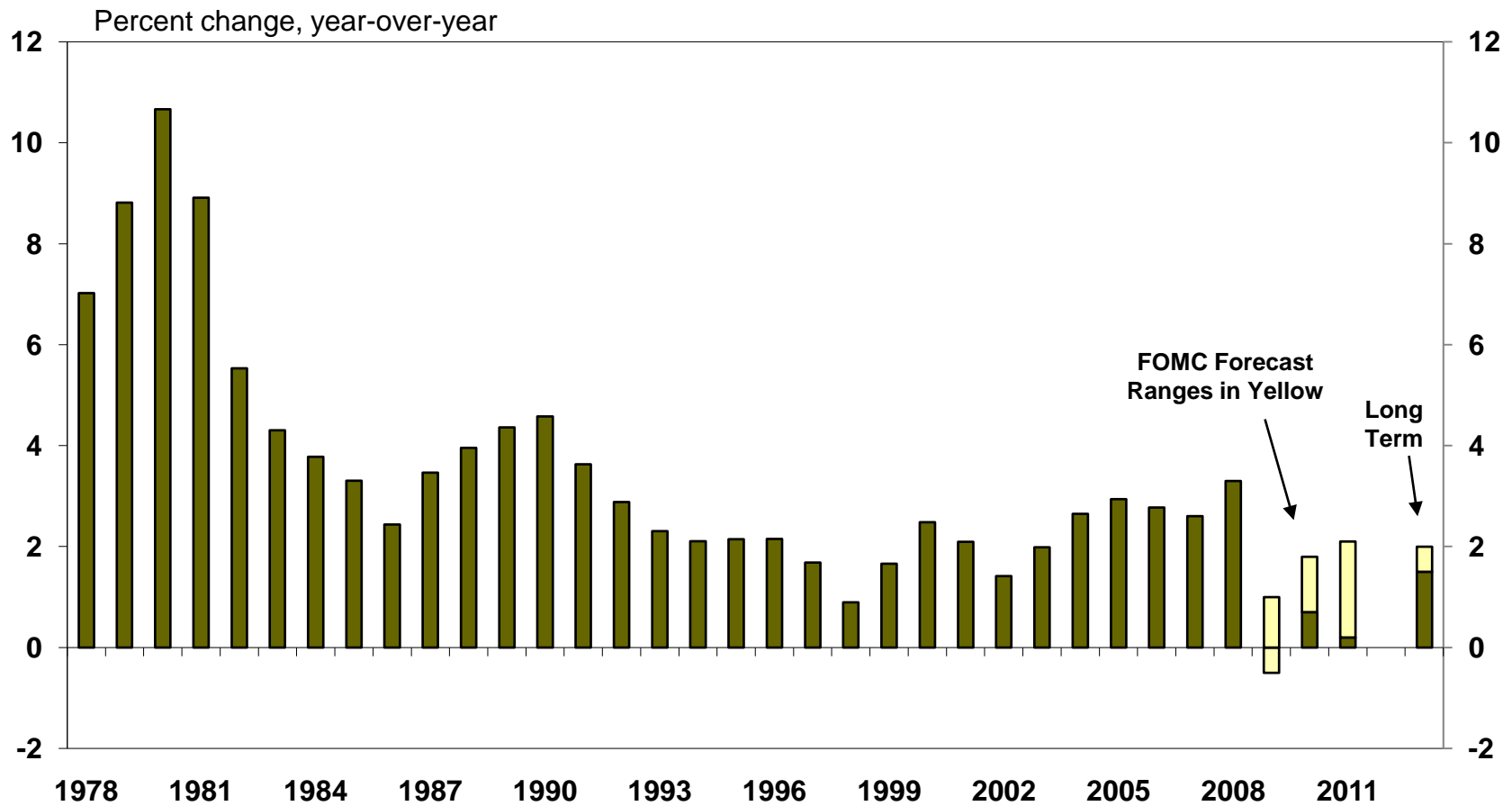
And U.S. unemployment is expected to rise further

Unemployment Rate
Seasonally Adjusted



Meanwhile, inflation is expected to moderate after rising in 2008

PCE Inflation Index

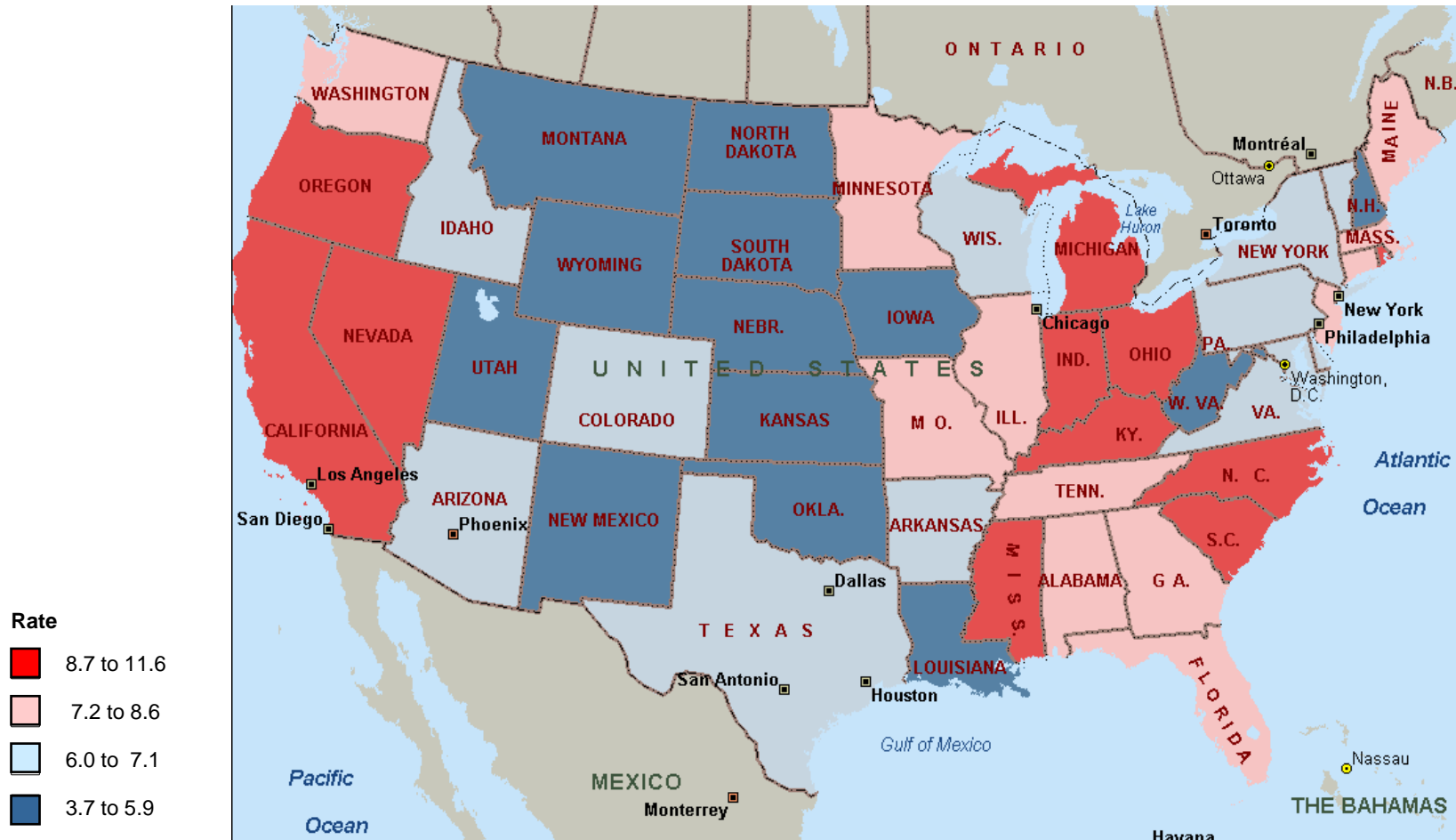


The Regional Economy

- The Oklahoma economy remains stronger than the nation, as do the economies of most nearby states
- But recent high-frequency data have been worse in the region
- Efforts to boost the U.S. economy are coming at a good time for the region

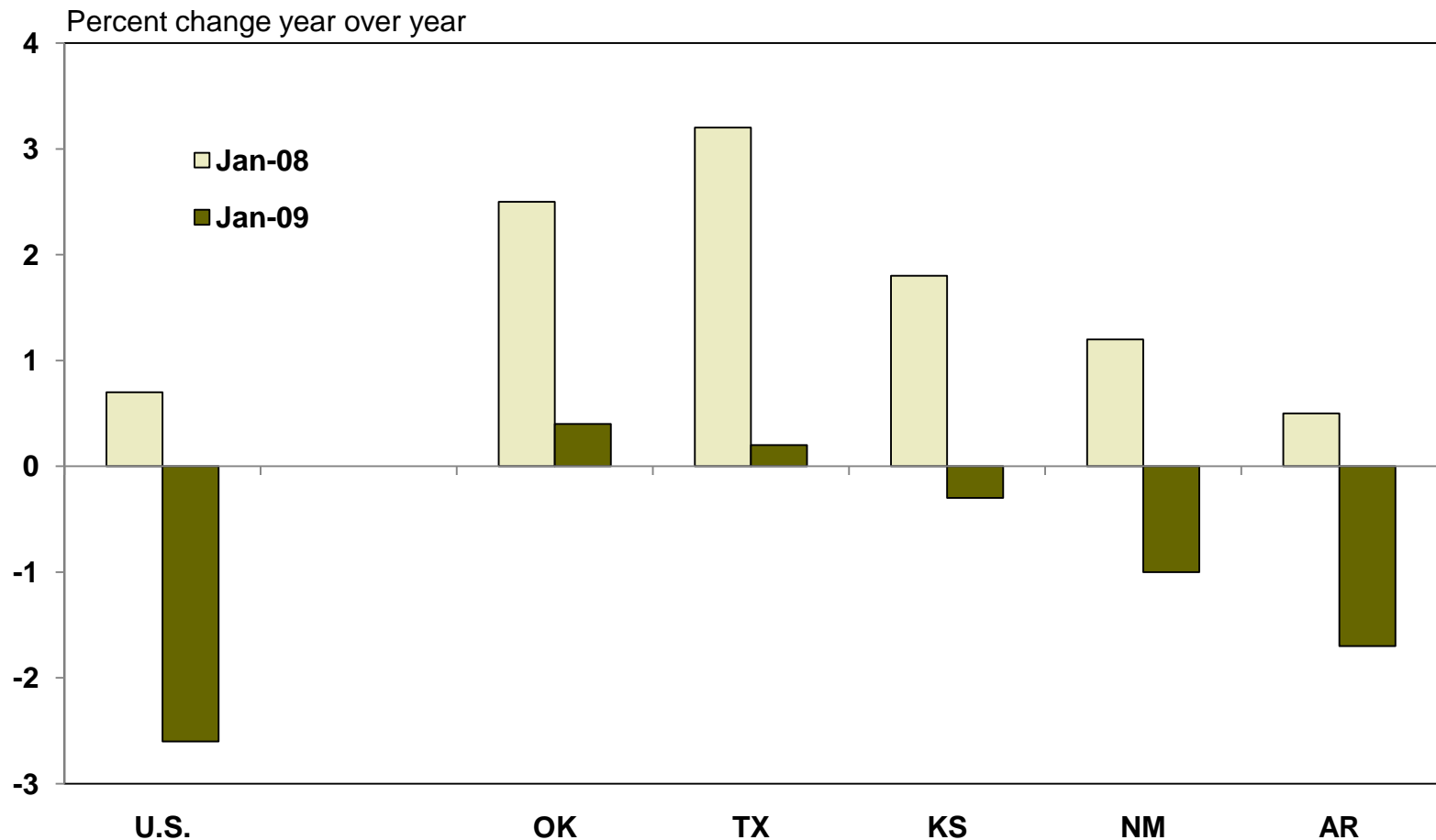
Unemployment remains relatively low in Oklahoma and surrounding states

Unemployment Rate, January 2009



But job growth has largely come to a halt in the region, following a boom in some areas

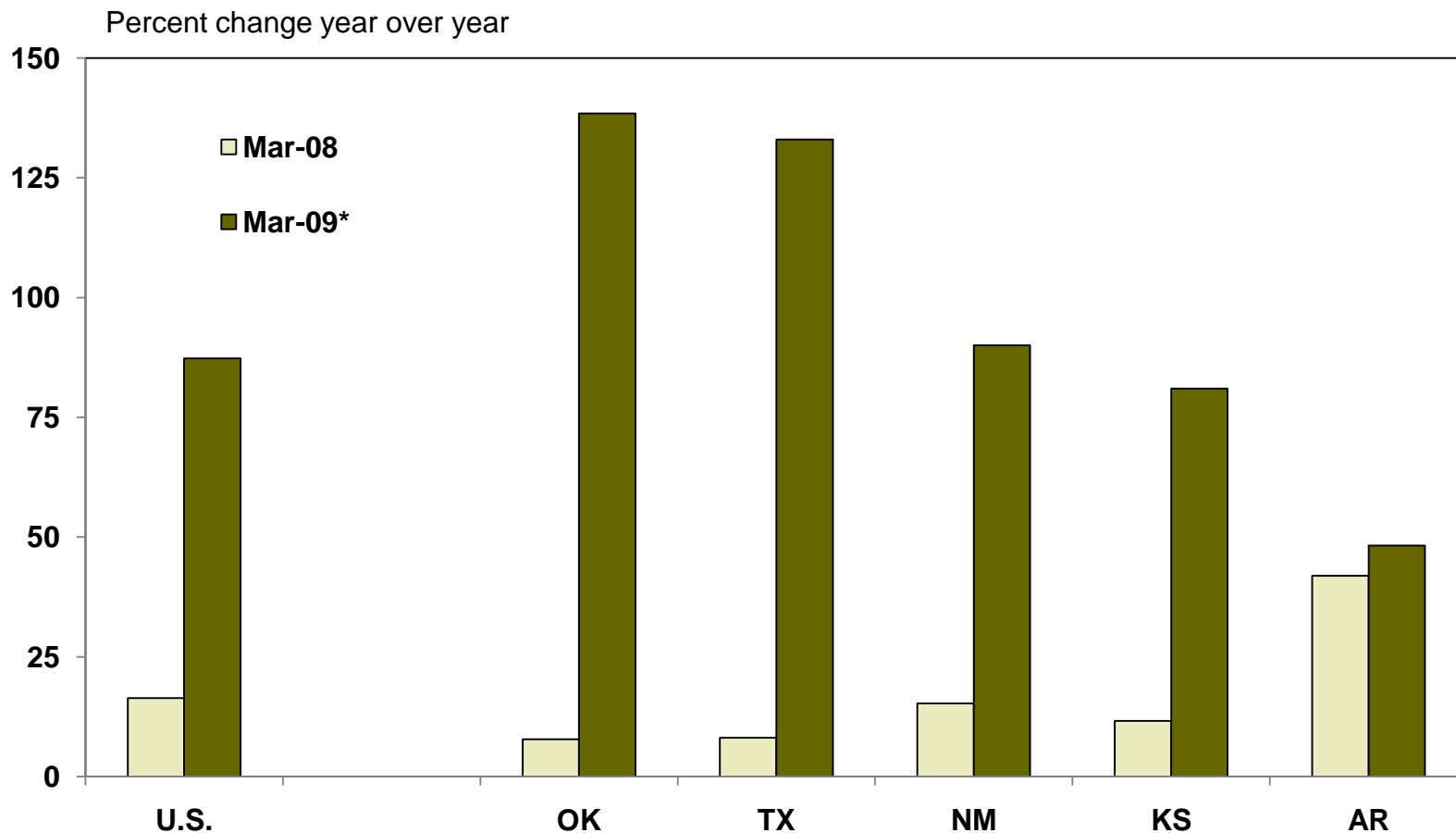
Nonfarm Payroll Employment Growth



Source: U.S. Bureau of Labor Statistics

Indeed, recent trends in unemployment claims suggest rapidly declining conditions

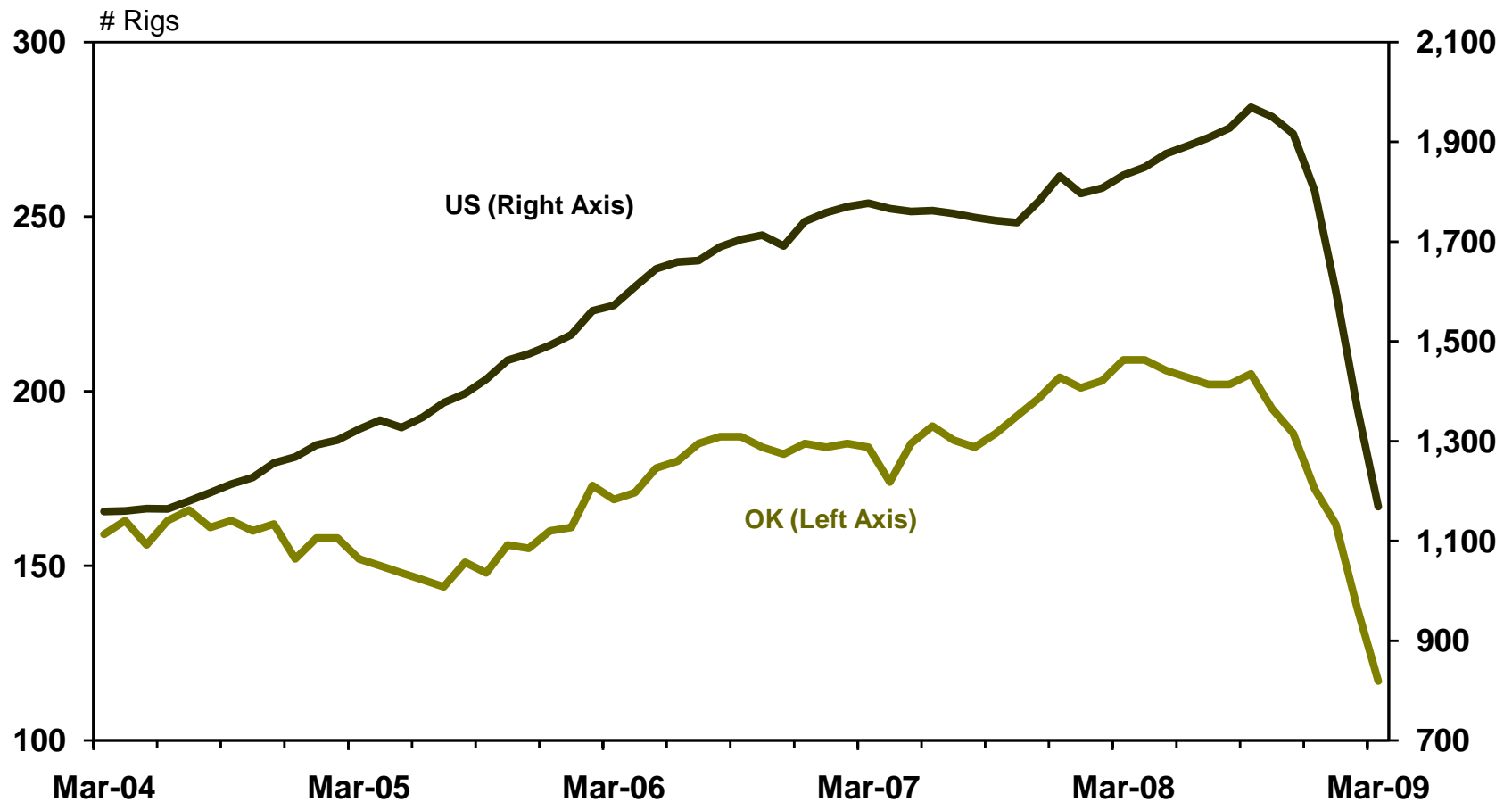
Weekly Unemployment Insurance Claims



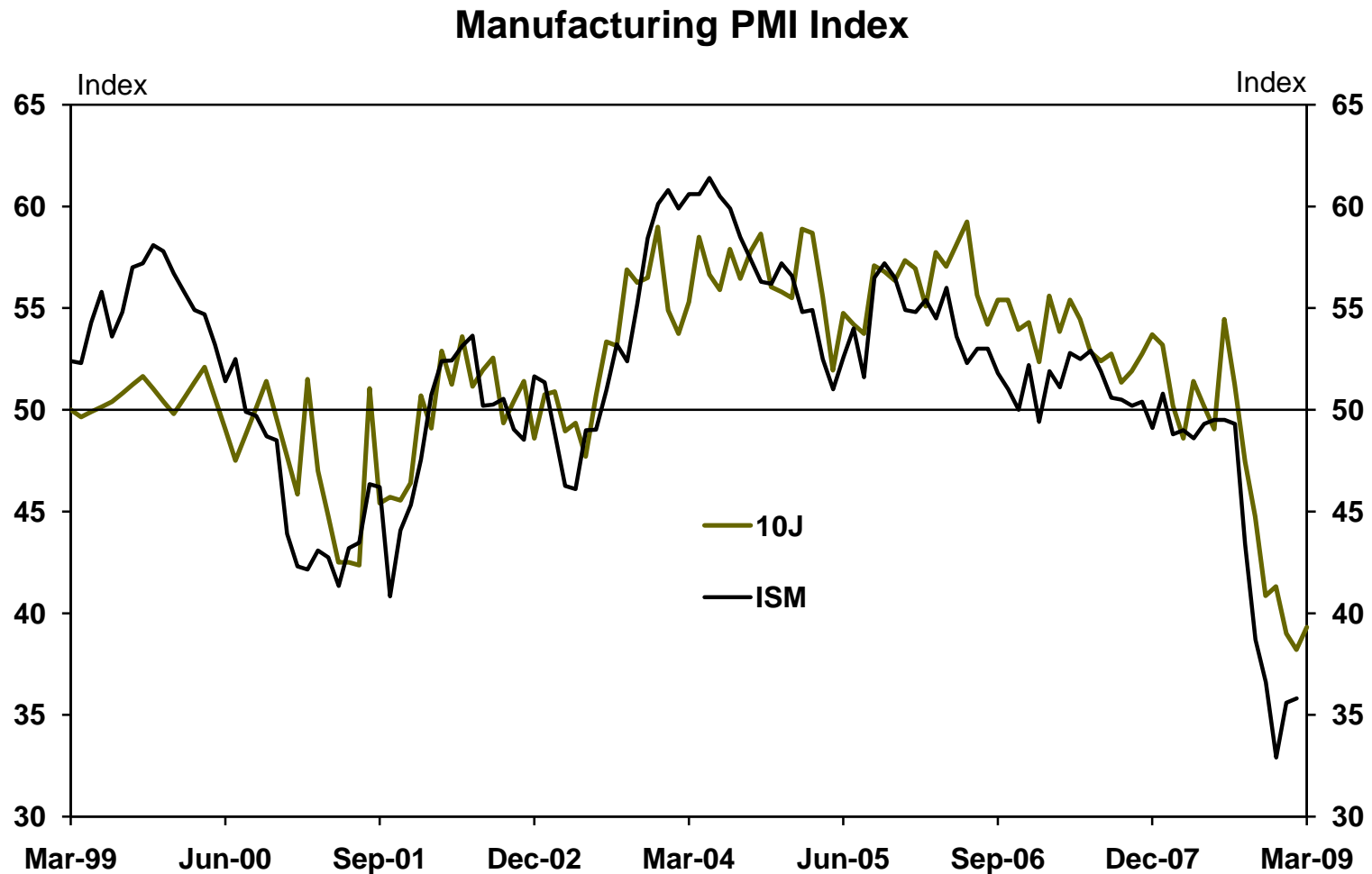
*Preliminary Data
Source: U.S. Bureau of Labor Statistics

The energy sector is seeing a considerable decline in activity in 2009

Count of Active Drilling Rigs

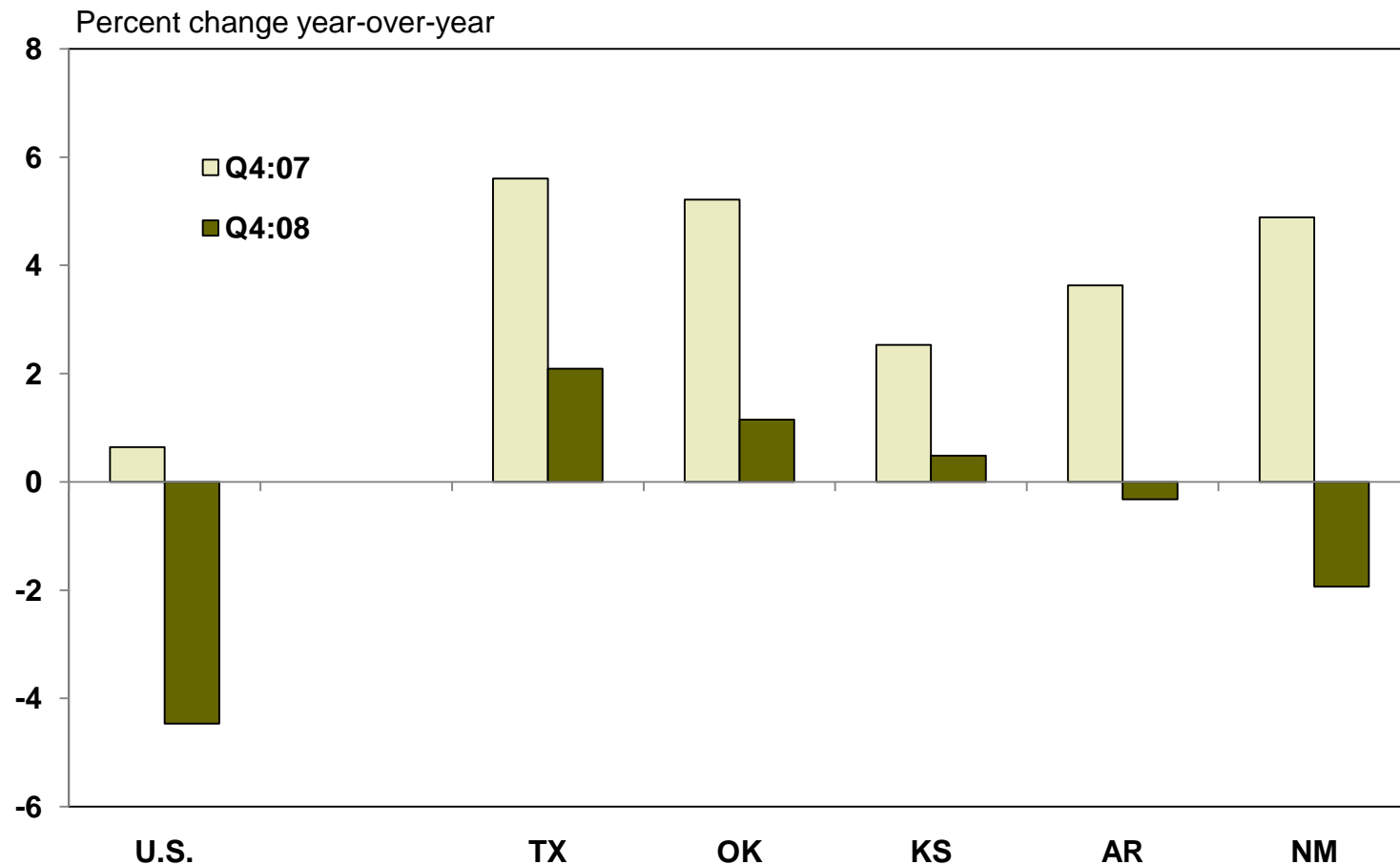


Manufacturing in the region has also been declining rapidly, though may be stabilizing



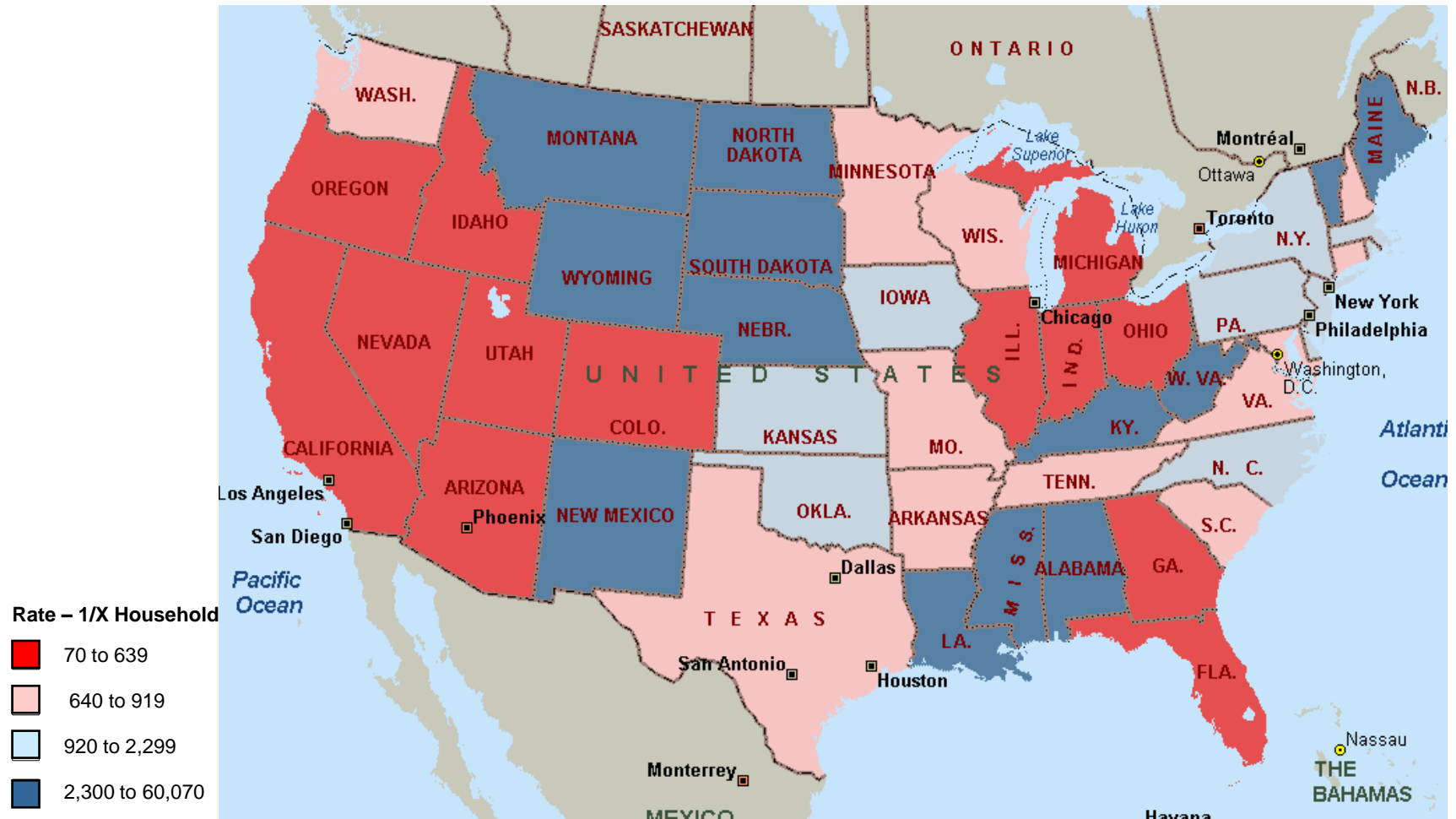
Home prices in the region were holding up much better through the end of 2008

Quality-Adjusted Home Price Growth



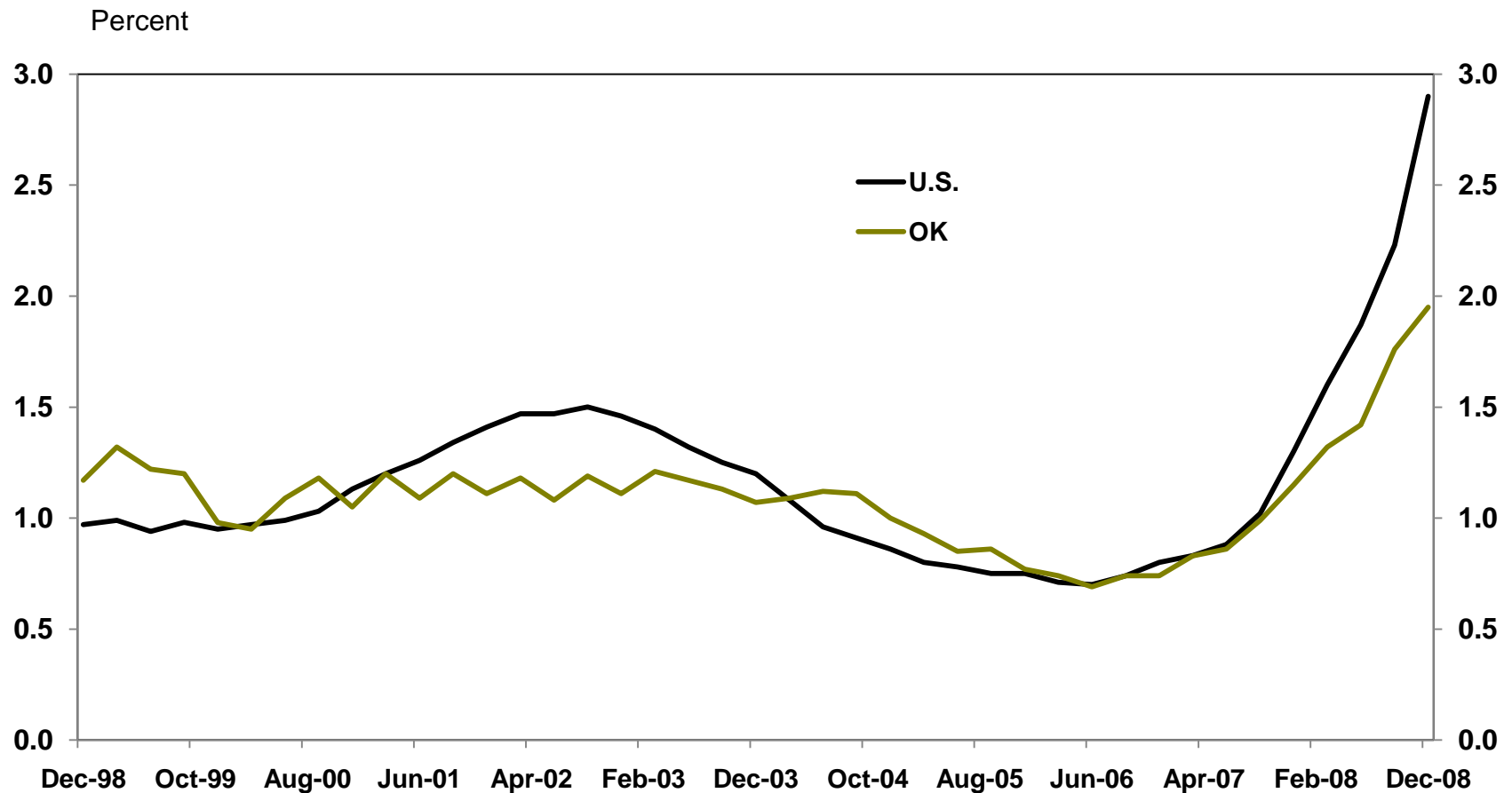
And so far, foreclosures have largely remained in check in the region

Foreclosure Rates, February 2009



Delinquent loans have risen in Oklahoma, but less than in the nation

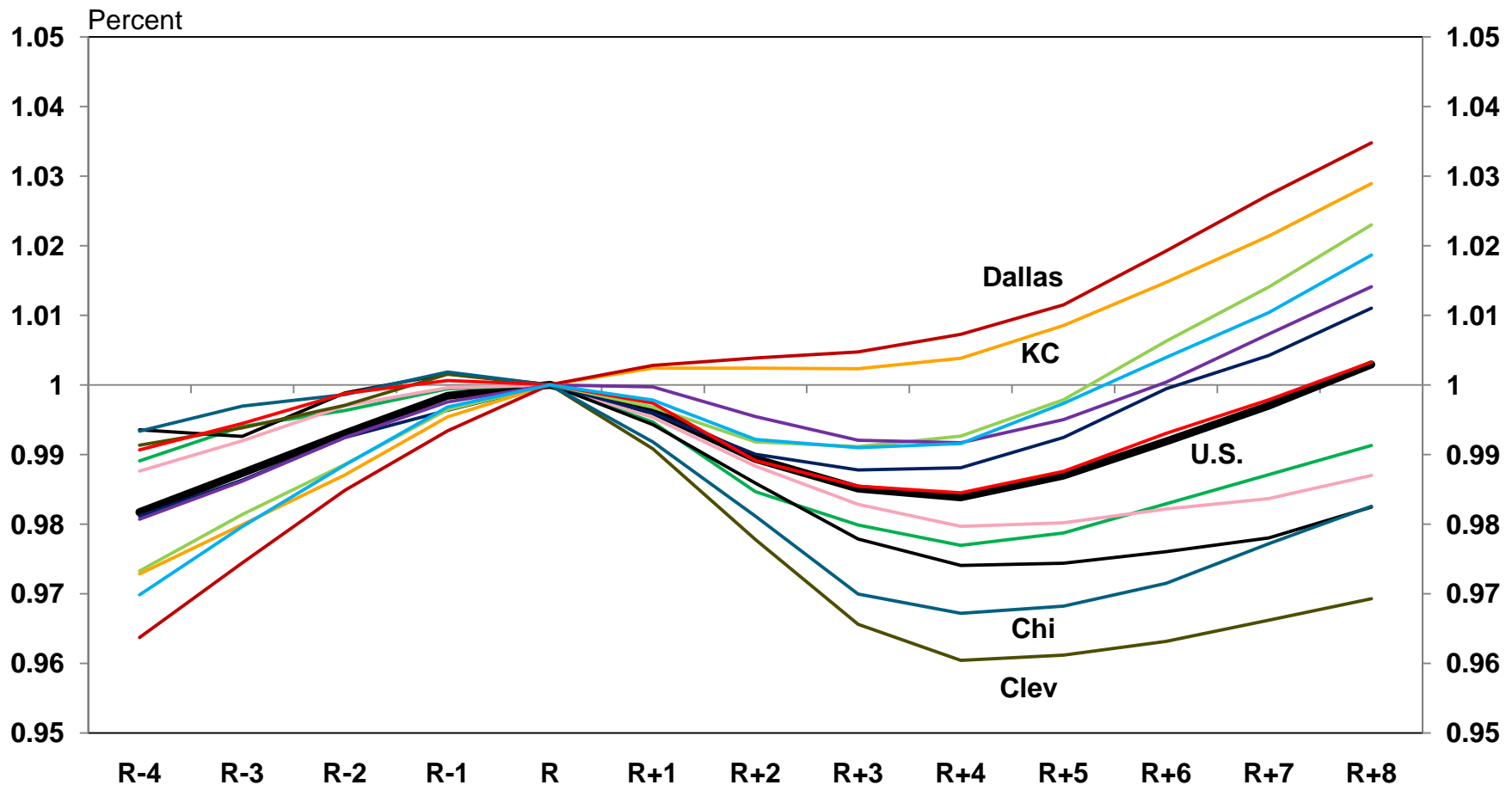
Noncurrent Loans and Leases as a Share of Total Commercial Banks



Recessions in this region are usually brief if they are in conjunction with a U.S. recession

Average Recession Path of Federal Reserve Districts, 1957-2003

Four quarters before and eight quarters after U.S. jobs peak



Summary

- ❑ U.S. economic conditions have deteriorated, though credit markets show some signs of improvement
- ❑ Oklahoma and regional conditions remain better, but some recent high-frequency data have been worse
- ❑ Efforts to boost U.S. growth should benefit Oklahoma and the region