

Recession and Recovery in the U.S. and Oklahoma



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**

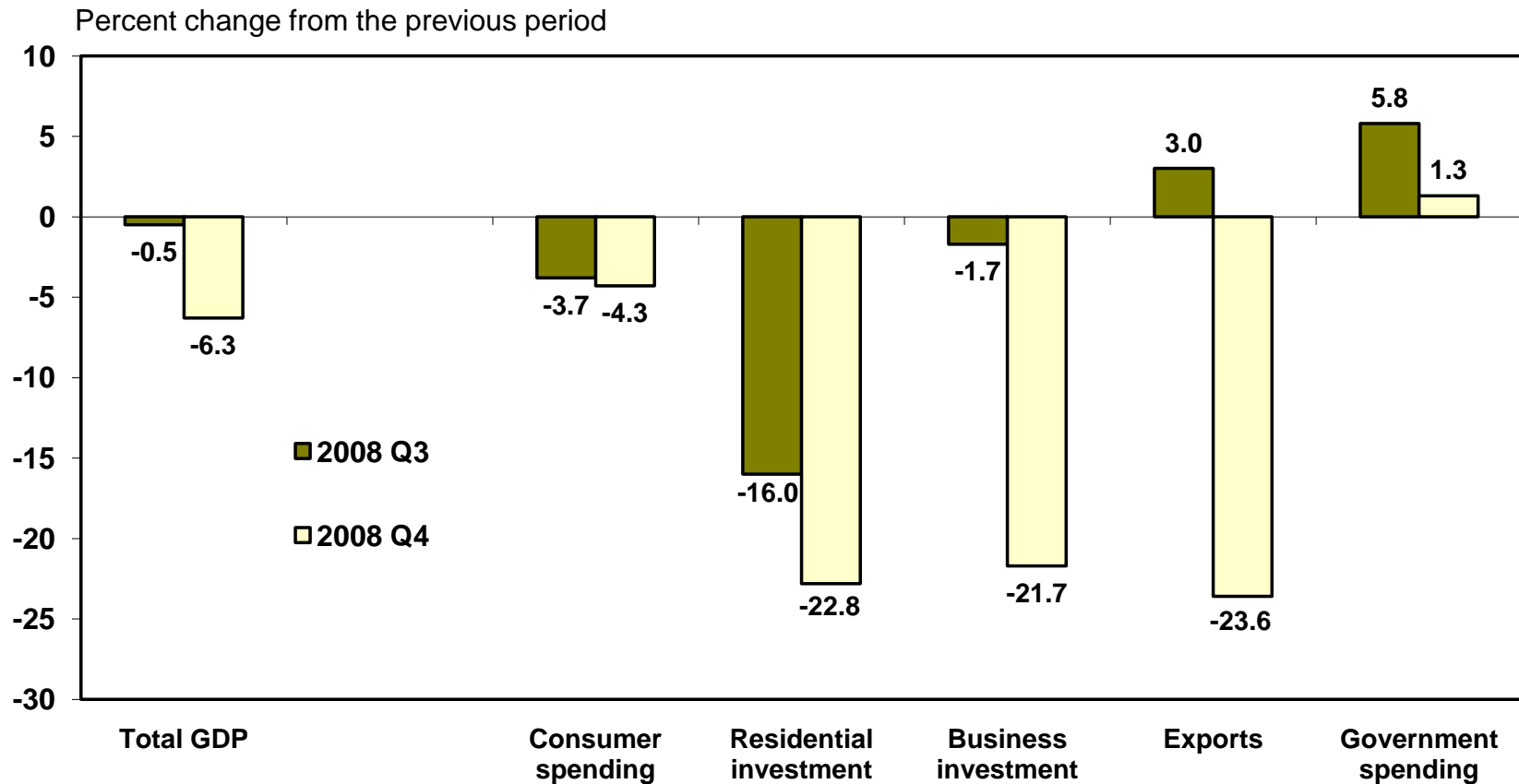
- *Chairman* **Steve Agee**, President, Agee Energy, and Professor, OCU, Oklahoma City
- **Terry Almon**, President, Oklahoma Community Capital Corp., Broken Arrow
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
- **Fred Ramos**, COO, 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 is still declining but may be nearing a bottom
- The strength of recovery will depend in part on better functioning credit markets
- Inflation has eased and is expected to remain tame in the near term

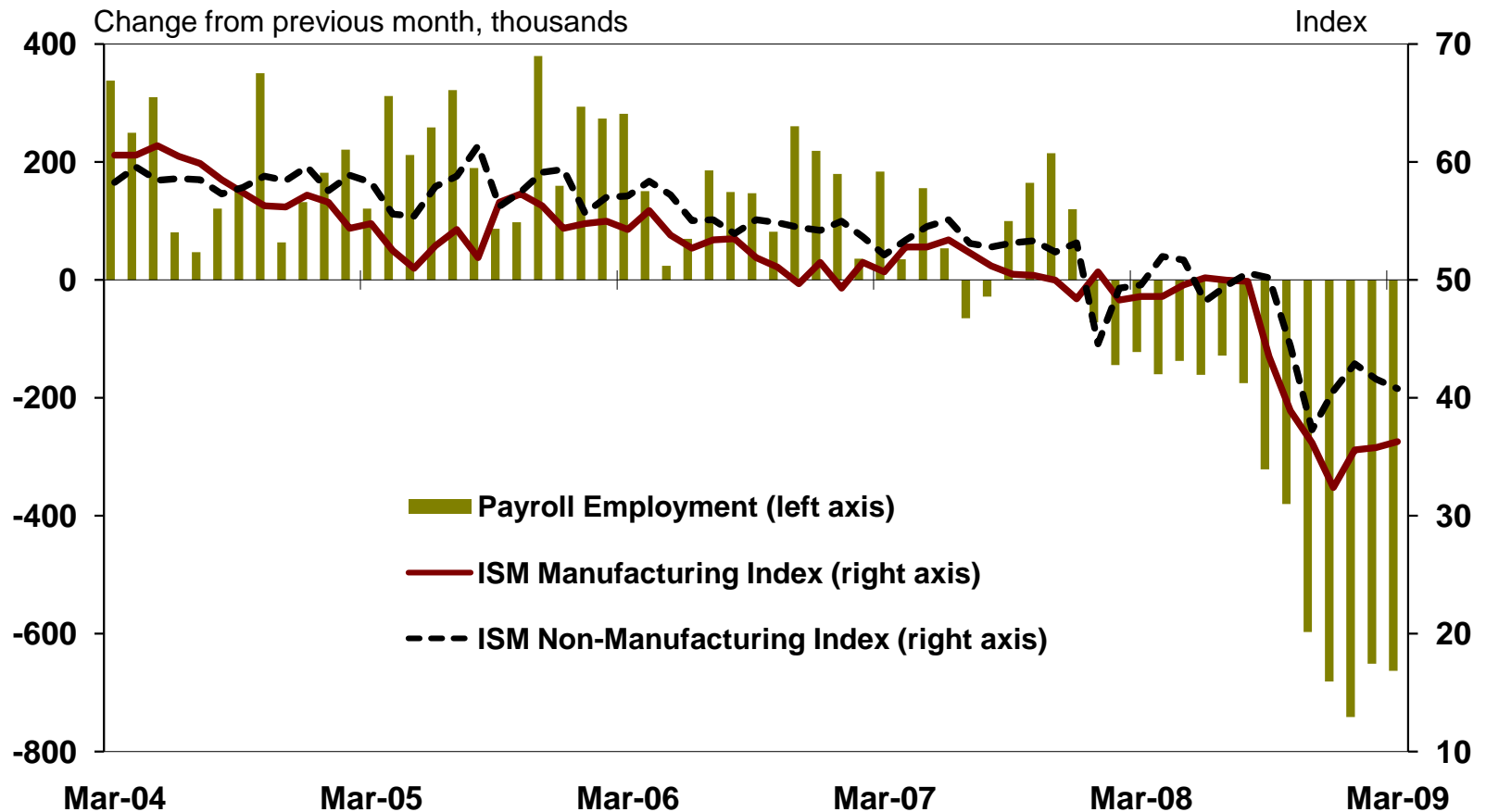
In the fourth quarter of last year, only government added to U.S. growth

Growth in Components of GDP



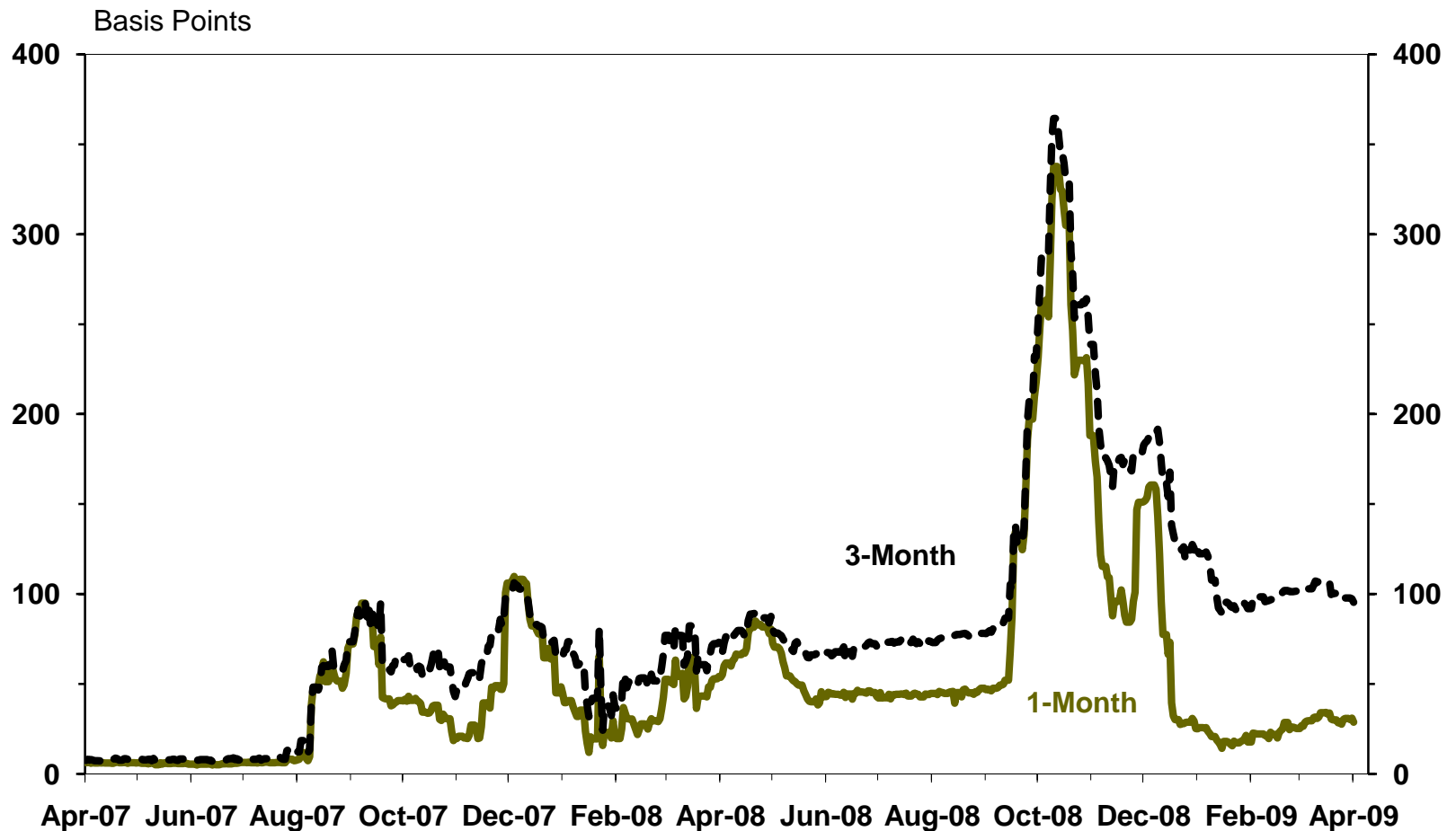
Weak activity has continued into 2009, but the declines may be stabilizing

National Business Indexes and Payroll Employment



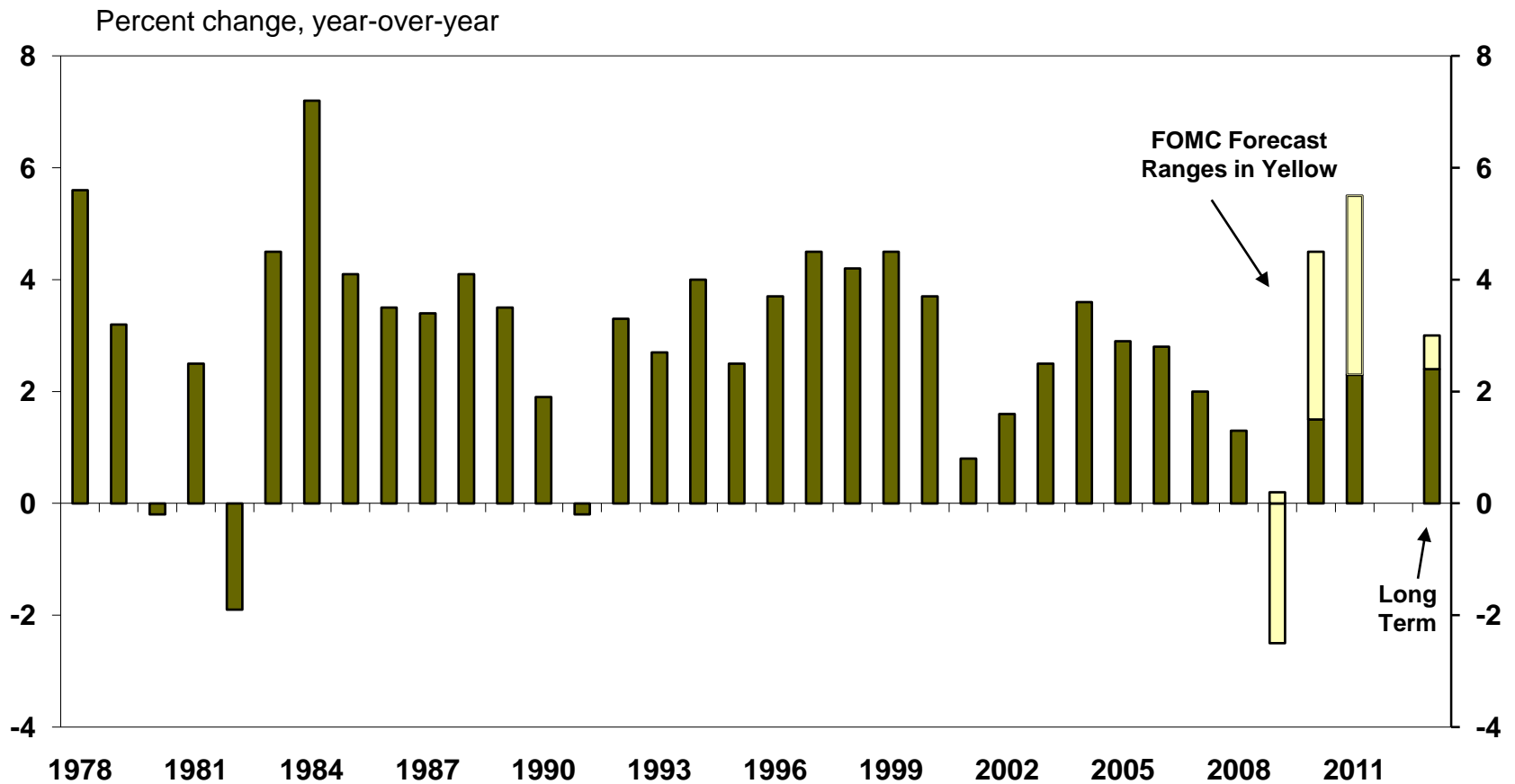
Interbank lending conditions have improved, but remain strained

LIBOR-OIS Spread



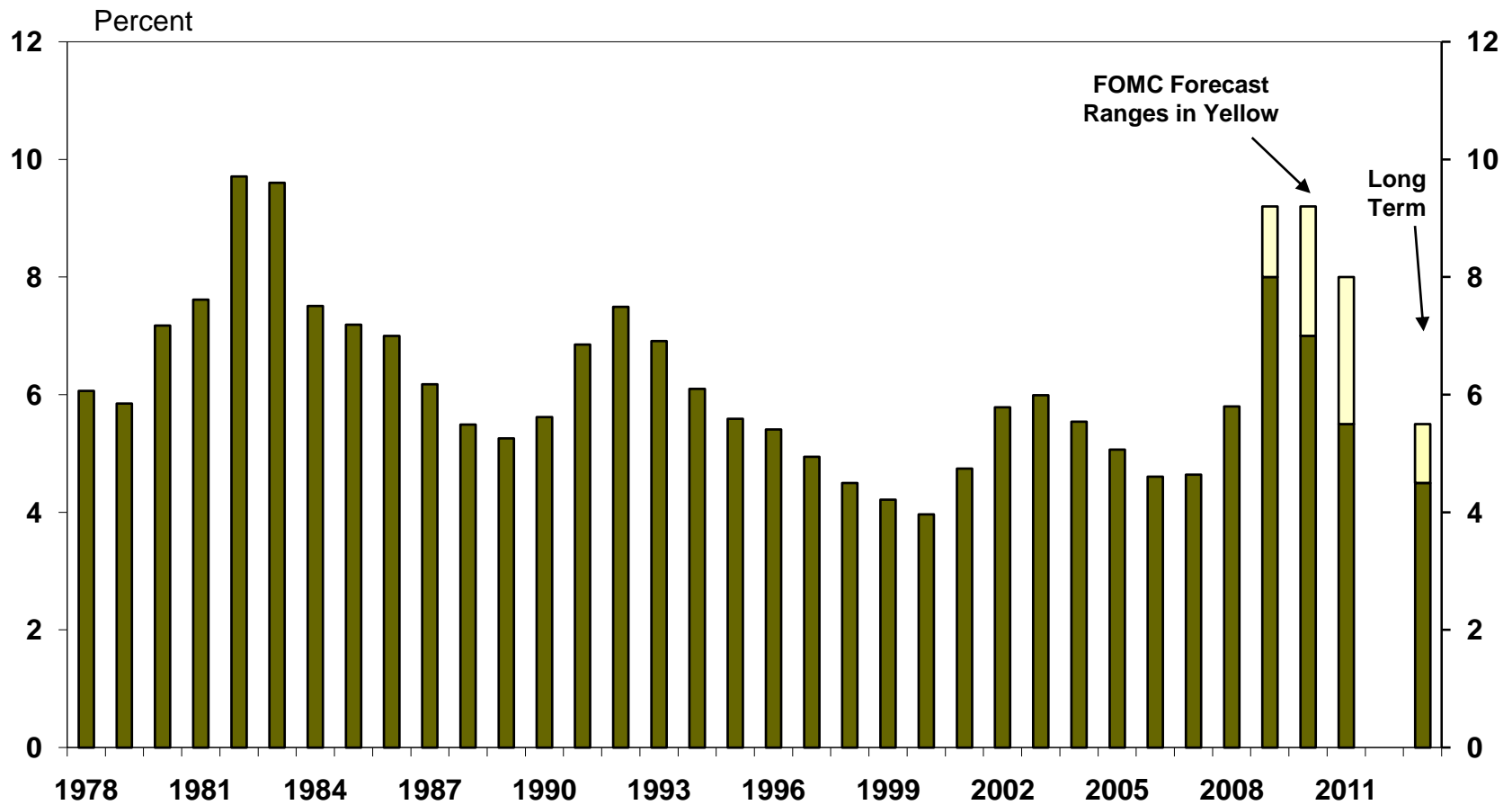
Policy-makers are pessimistic about the near-term economic outlook

Gross Domestic Product



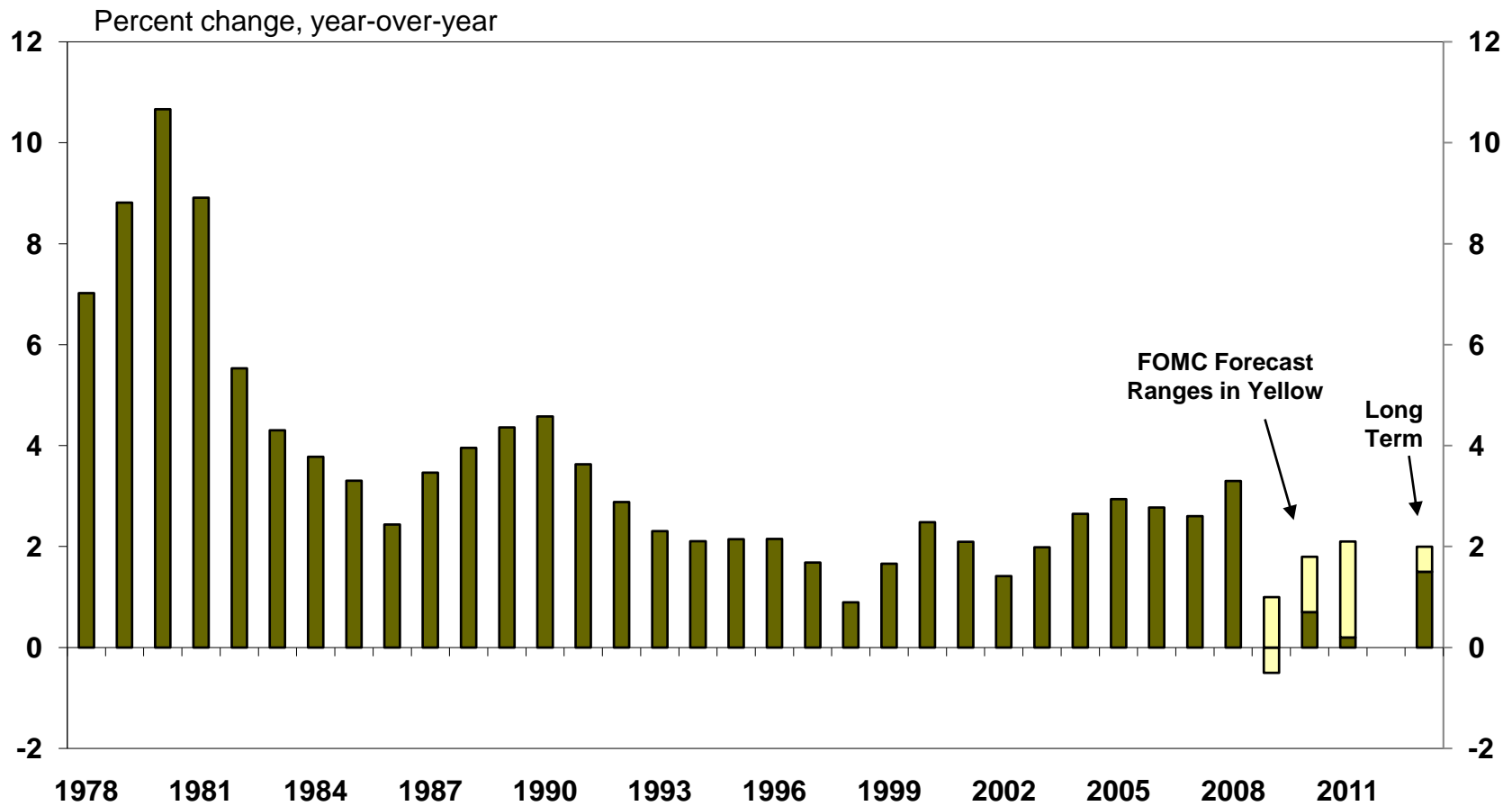
And U.S. unemployment is expected to rise further

Unemployment Rate
Seasonally Adjusted



Meanwhile, inflation is expected to moderate after rising in 2008

PCE Inflation Index



The Oklahoma Economy

- The state's economy and housing sector remain stronger than in the nation
- But the recent downturn in energy activity has dragged the state into recession
- Efforts to boost the U.S. economy are coming at a good time for Oklahoma, where national defense remains a stabilizing force

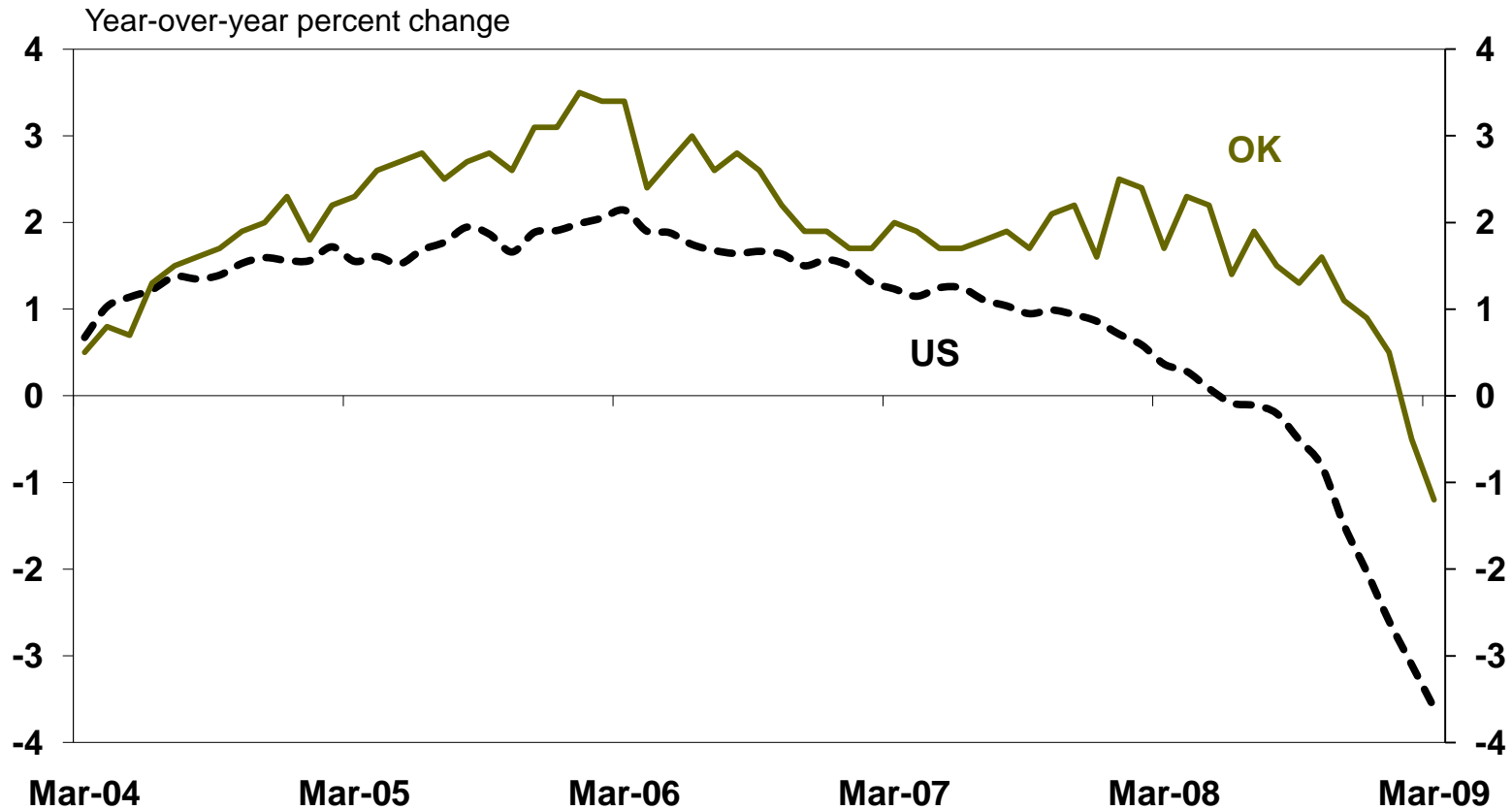
Unemployment remains relatively low in Oklahoma and most nearby states

Unemployment Rate, March 2009

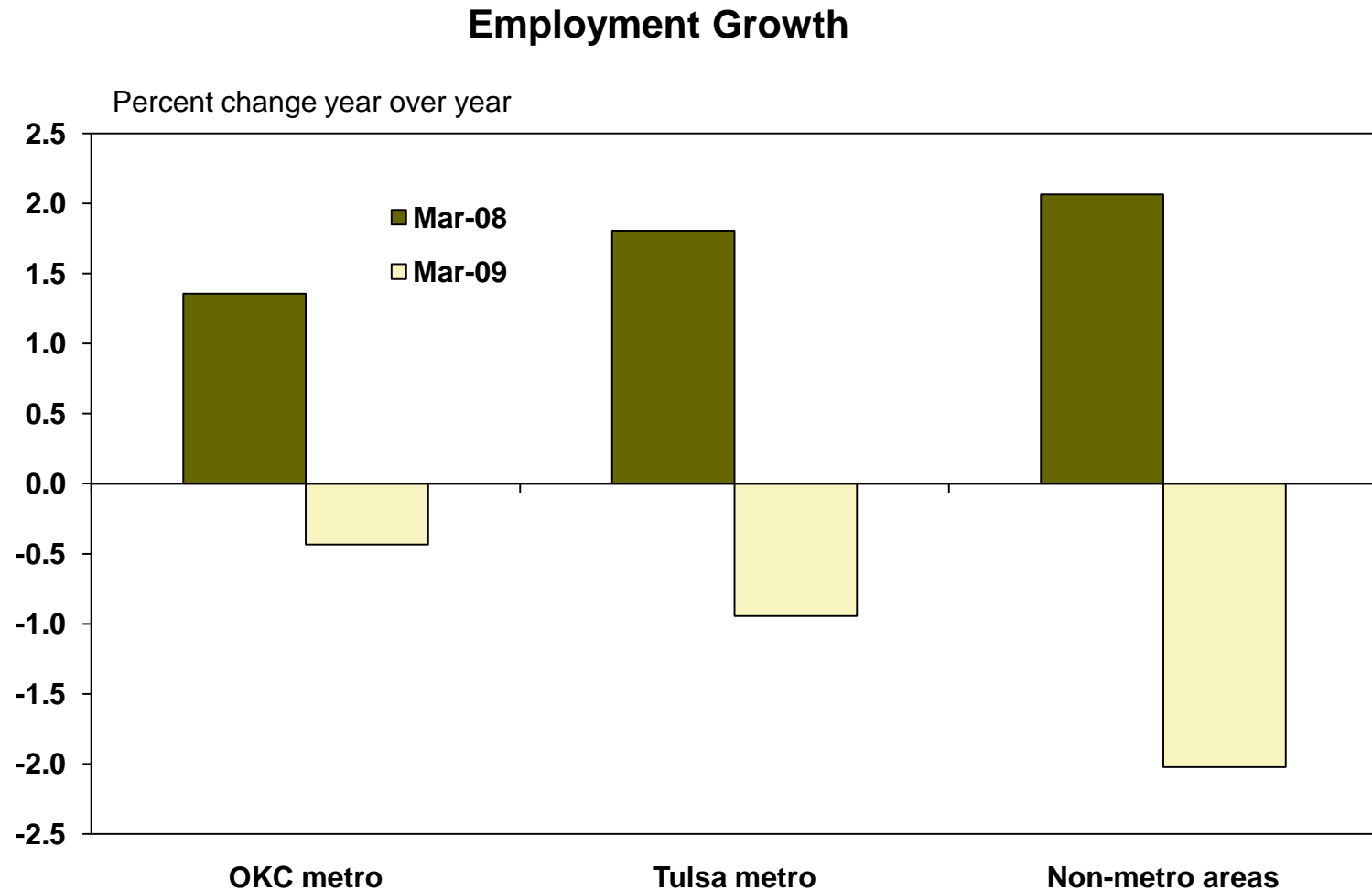


But jobs are now vanishing rapidly in Oklahoma, following a long boom

Nonfarm Payroll Employment Growth



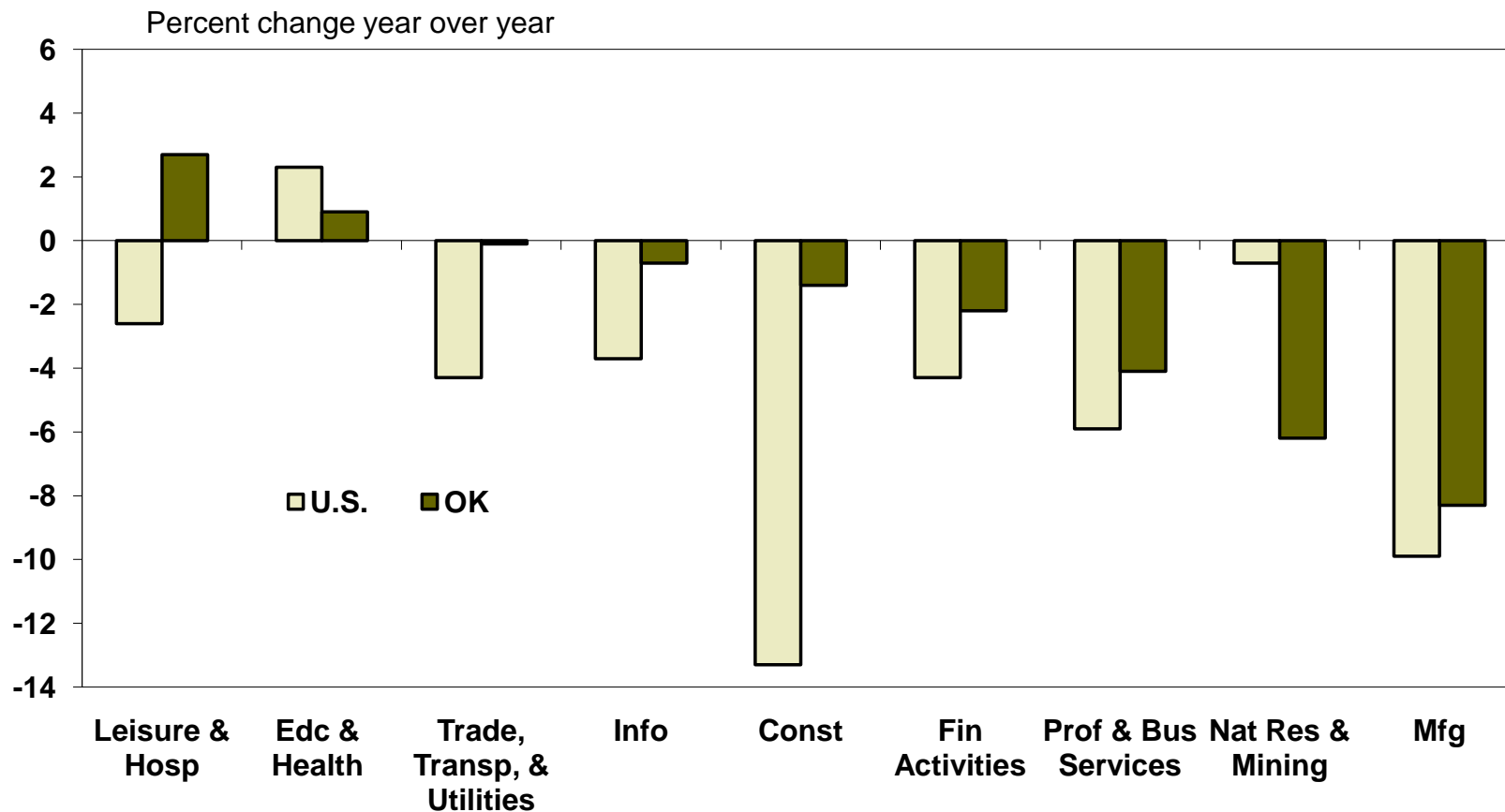
The decline in state job growth has been sharpest in non-metro areas



Jobs are now down from a year ago in most industries in the state

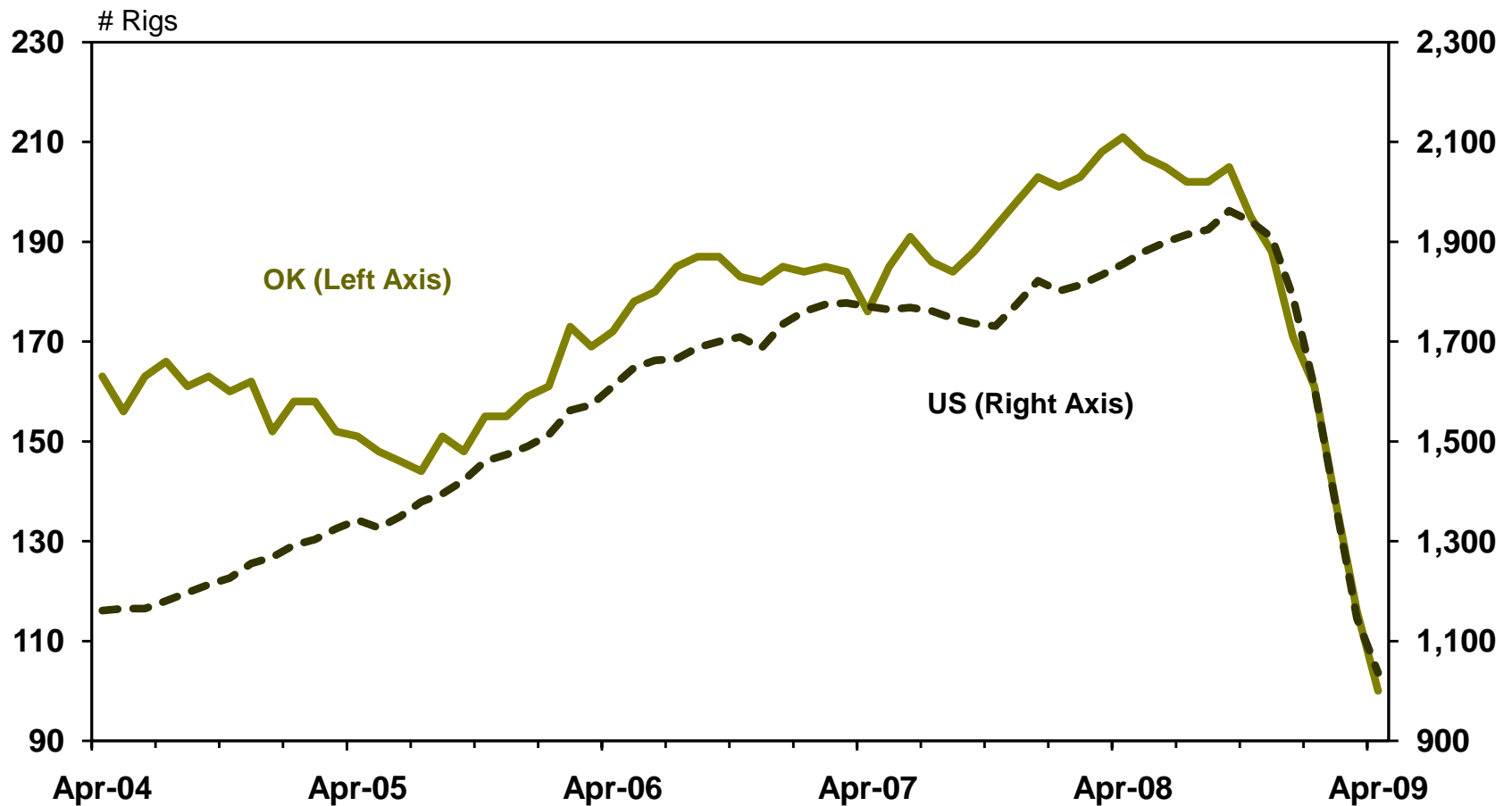
Employment Growth by Industry

March 2009



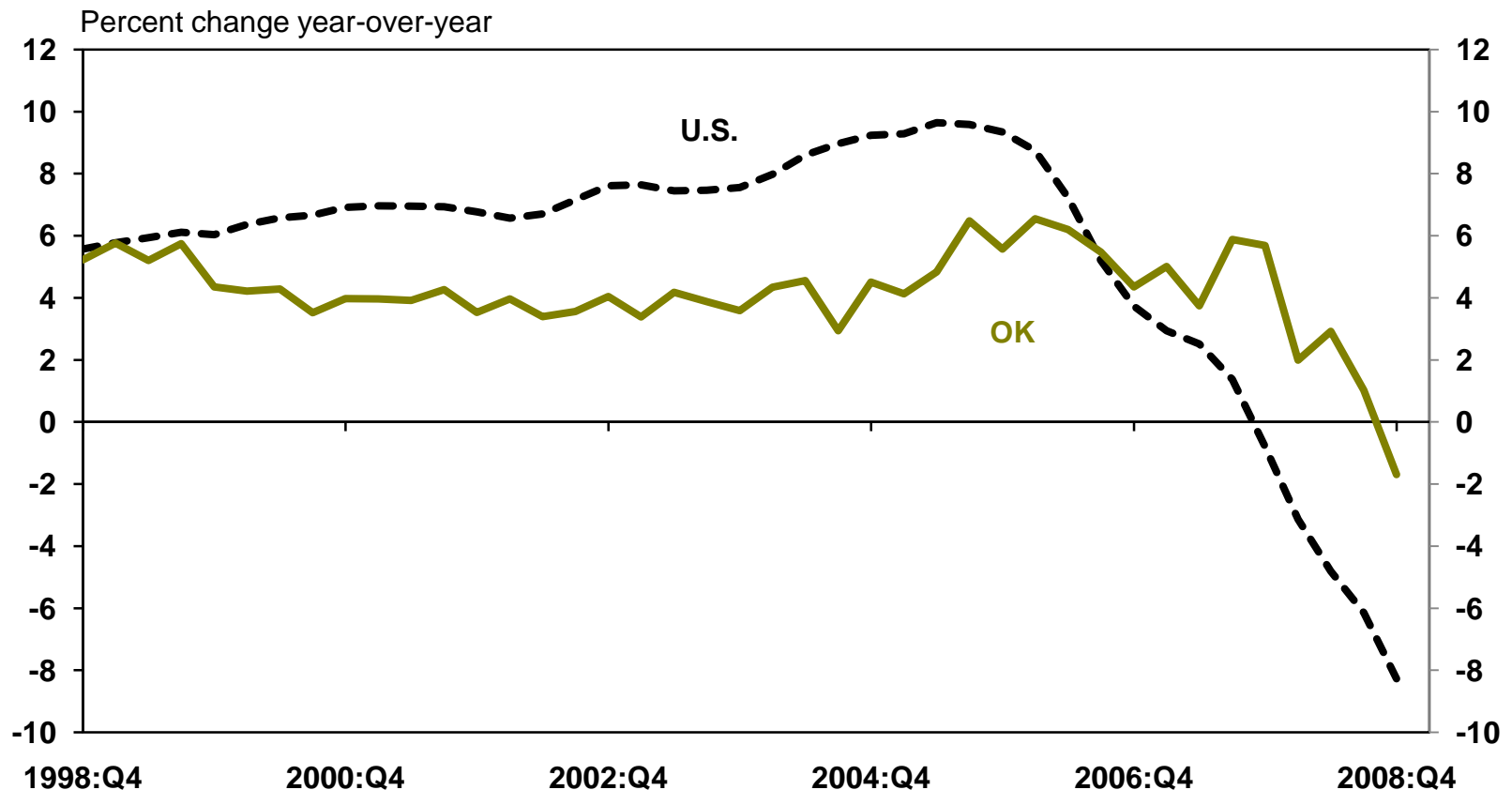
The state's energy sector has seen an especially sharp decline in activity in 2009

Count of Active Drilling Rigs



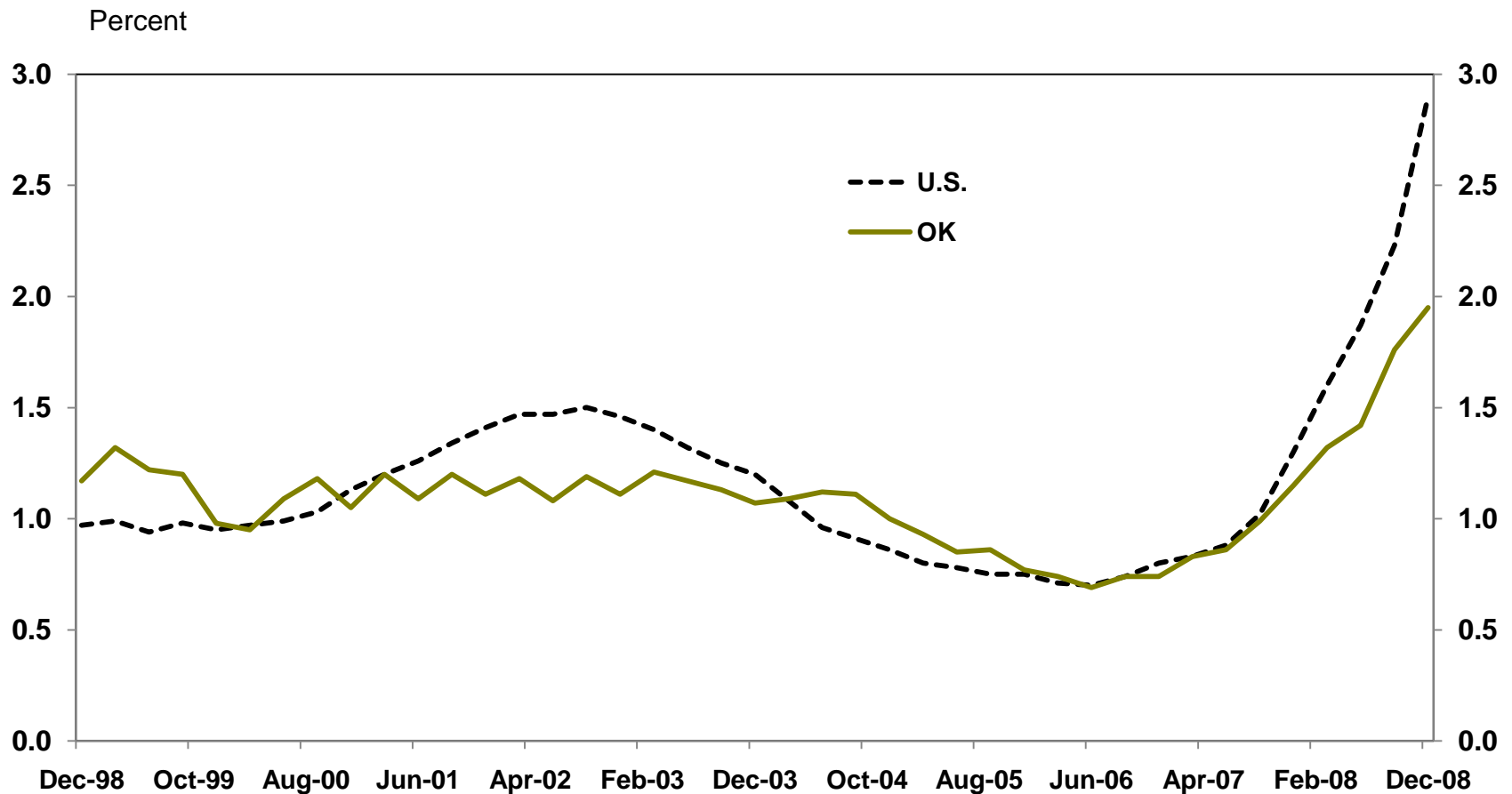
Home prices are still holding up better than in the nation, but are now lower than last year

Quality-Adjusted Home Price Growth
Purchase-Only



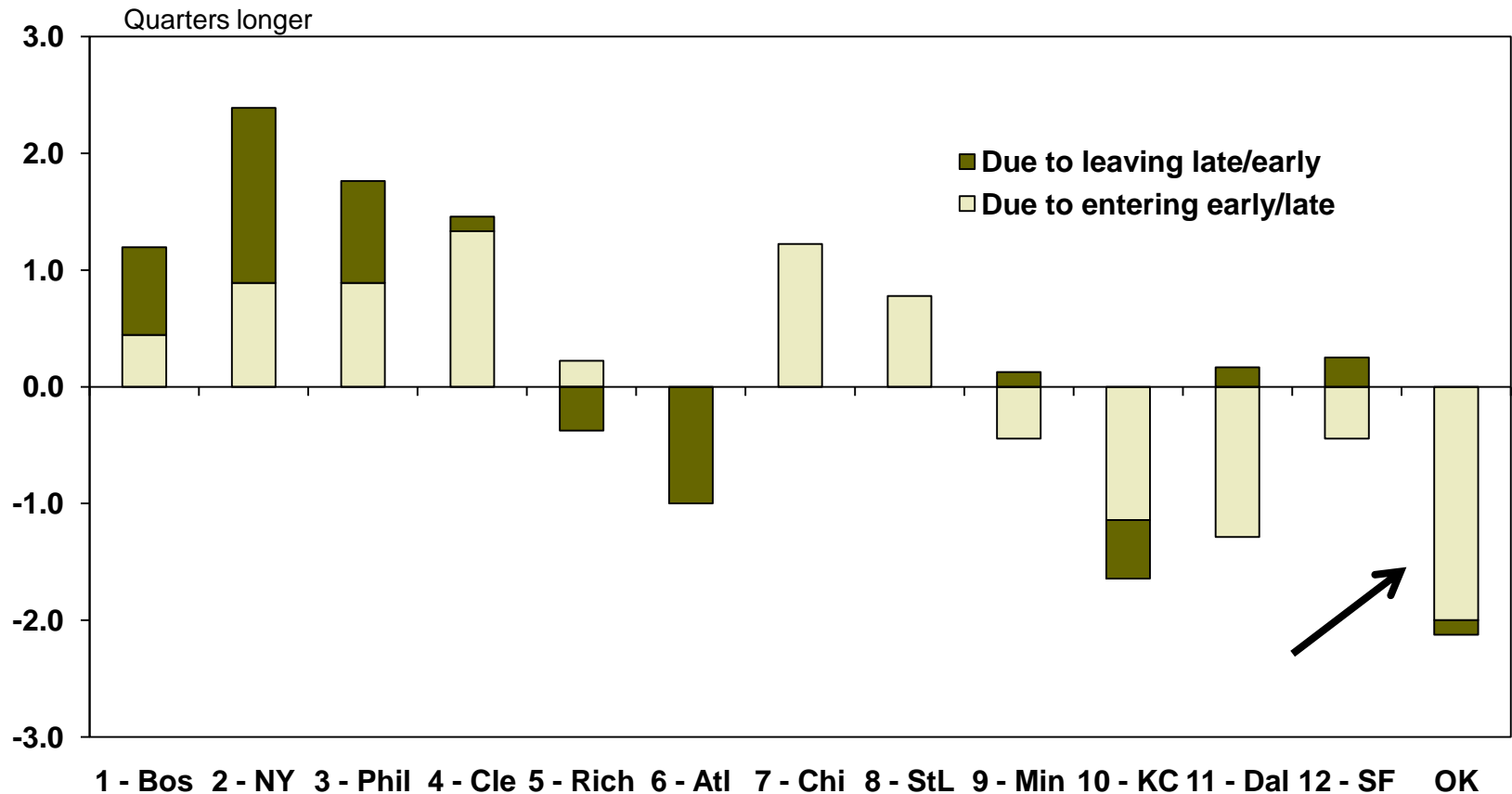
Delinquent loans have risen at Oklahoma banks, but less so than in the nation

Noncurrent Loans and Leases as a Share of Total Commercial Banks



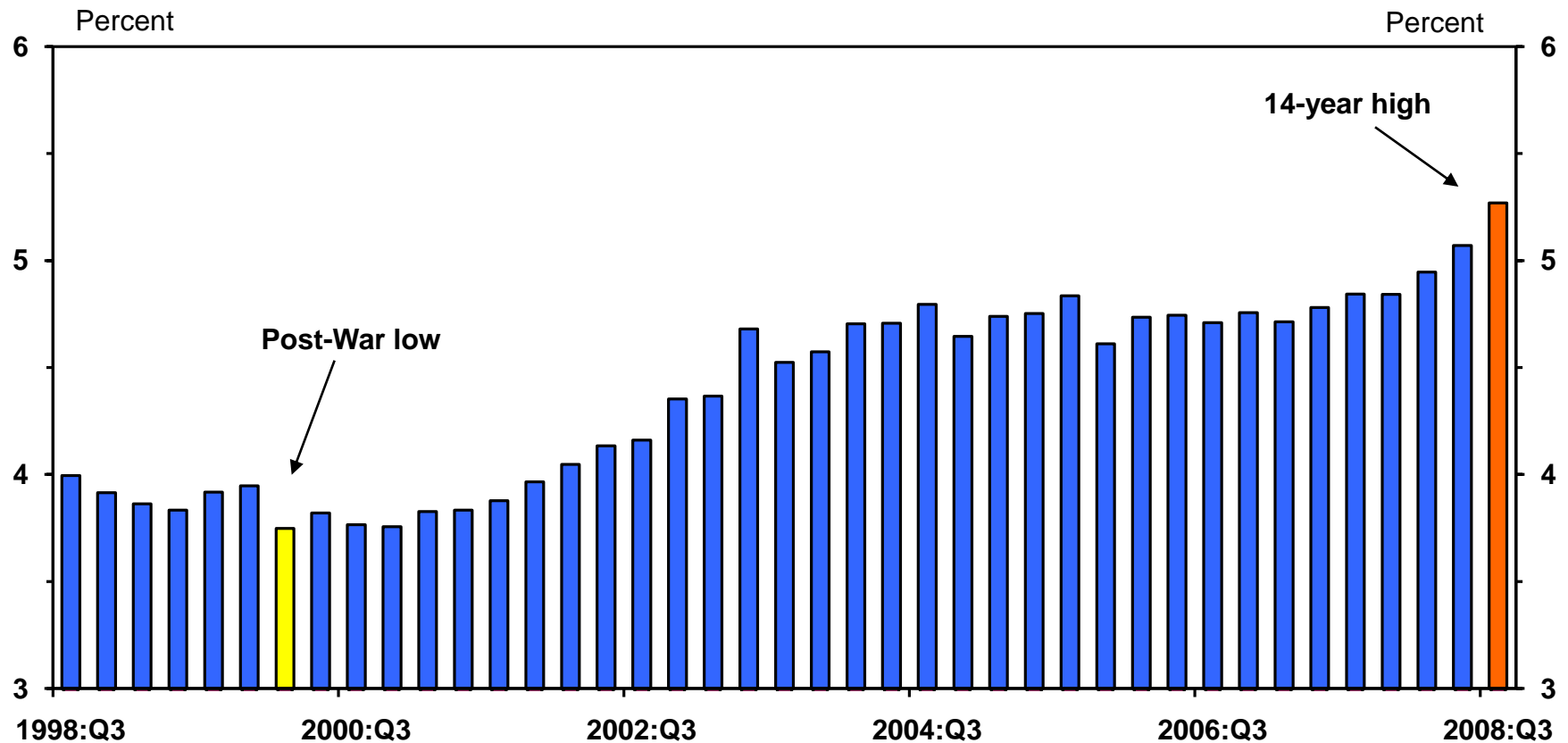
Oklahoma usually enters recessions late but leaves about the same time as the nation

Average Length of Jobs Recessions Relative to the Nation, 1957-2003
By Federal Reserve District



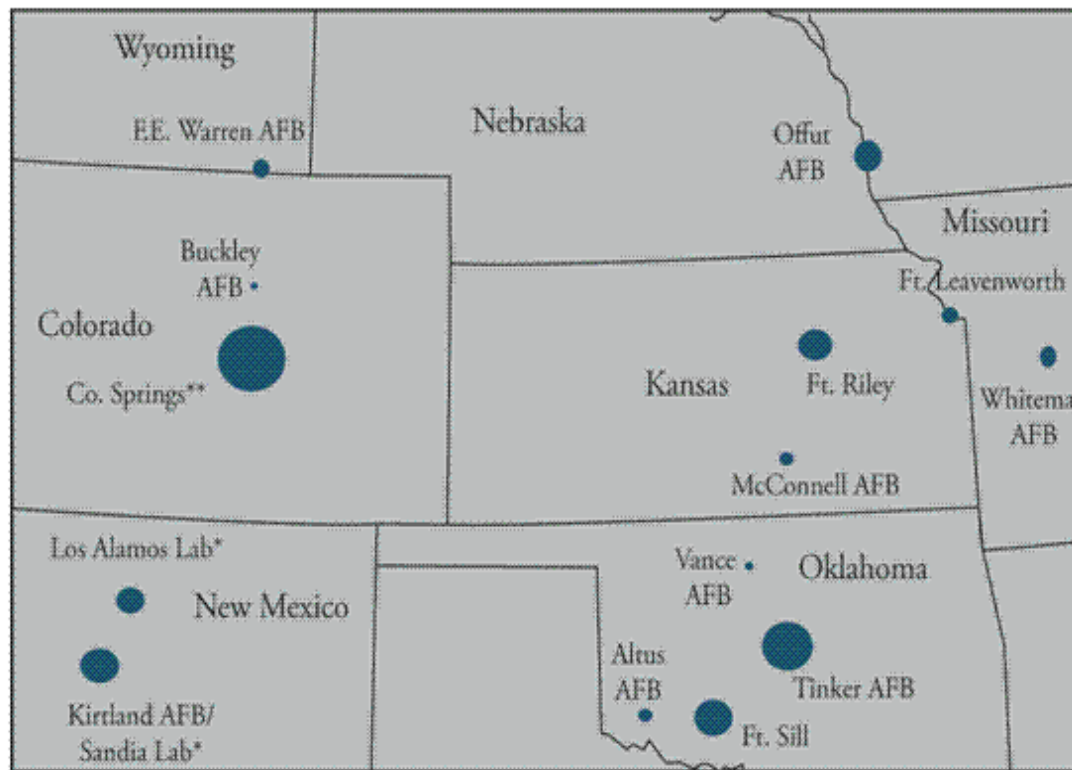
National defense has grown in importance to the U.S. economy in recent years

National Defense Spending as a Share of U.S. GDP



The Tenth Federal Reserve District has some of the nation's largest military bases

Defense Personnel Concentrations in the Tenth District



Number of
personnel



> 20,000



10,000-20,000



5,000-10,000



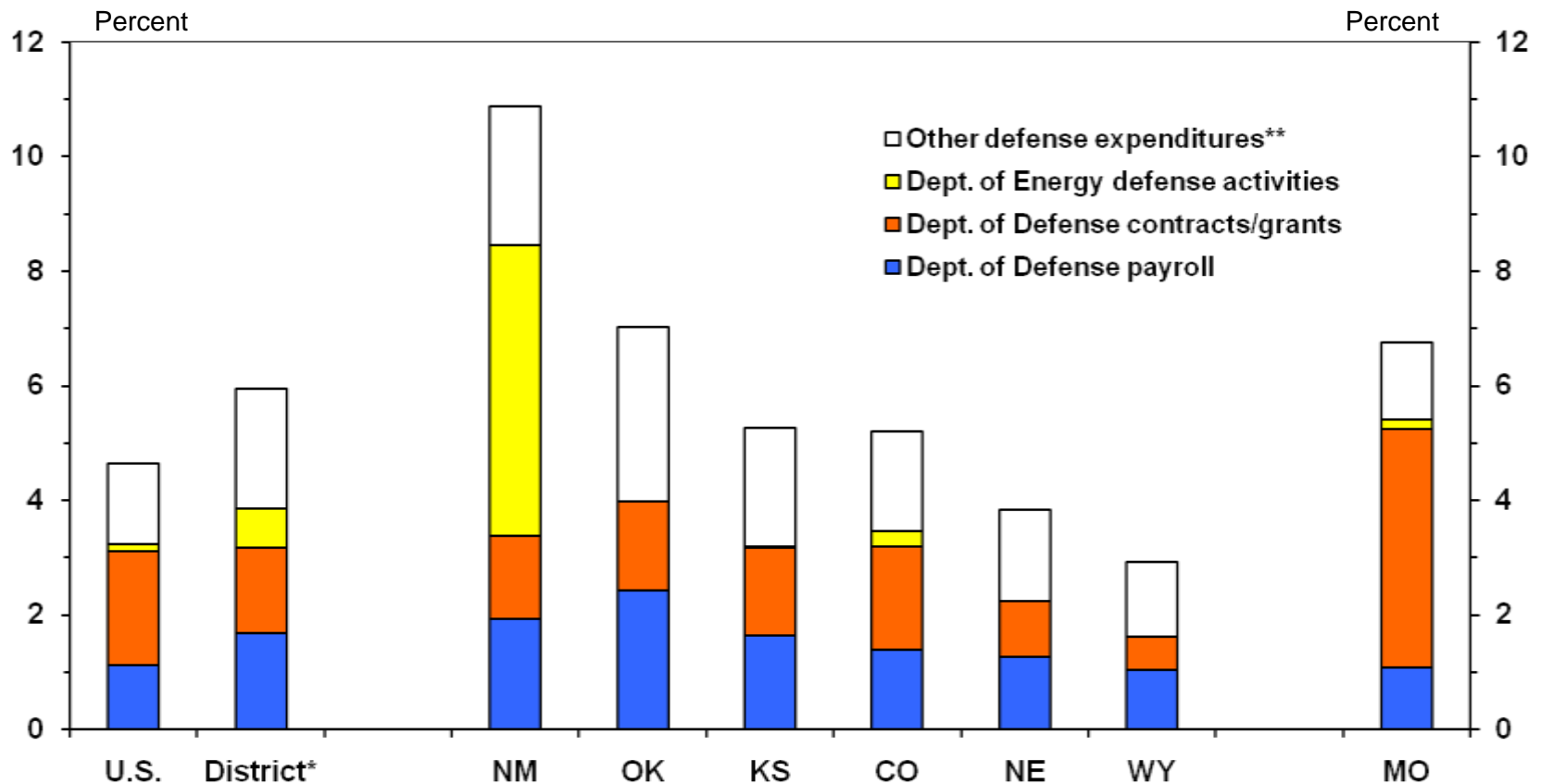
< 5,000

**Colorado Springs houses the following institutions:

- Fort Carson (19,500)
- Peterson AFB (5,700)
- Schriever AFB (2,300)
- U.S. Air Force Academy (7,800)

Indeed, the District has a large defense presence overall, including in Oklahoma

Defense Spending as a Share of GDP, 2006



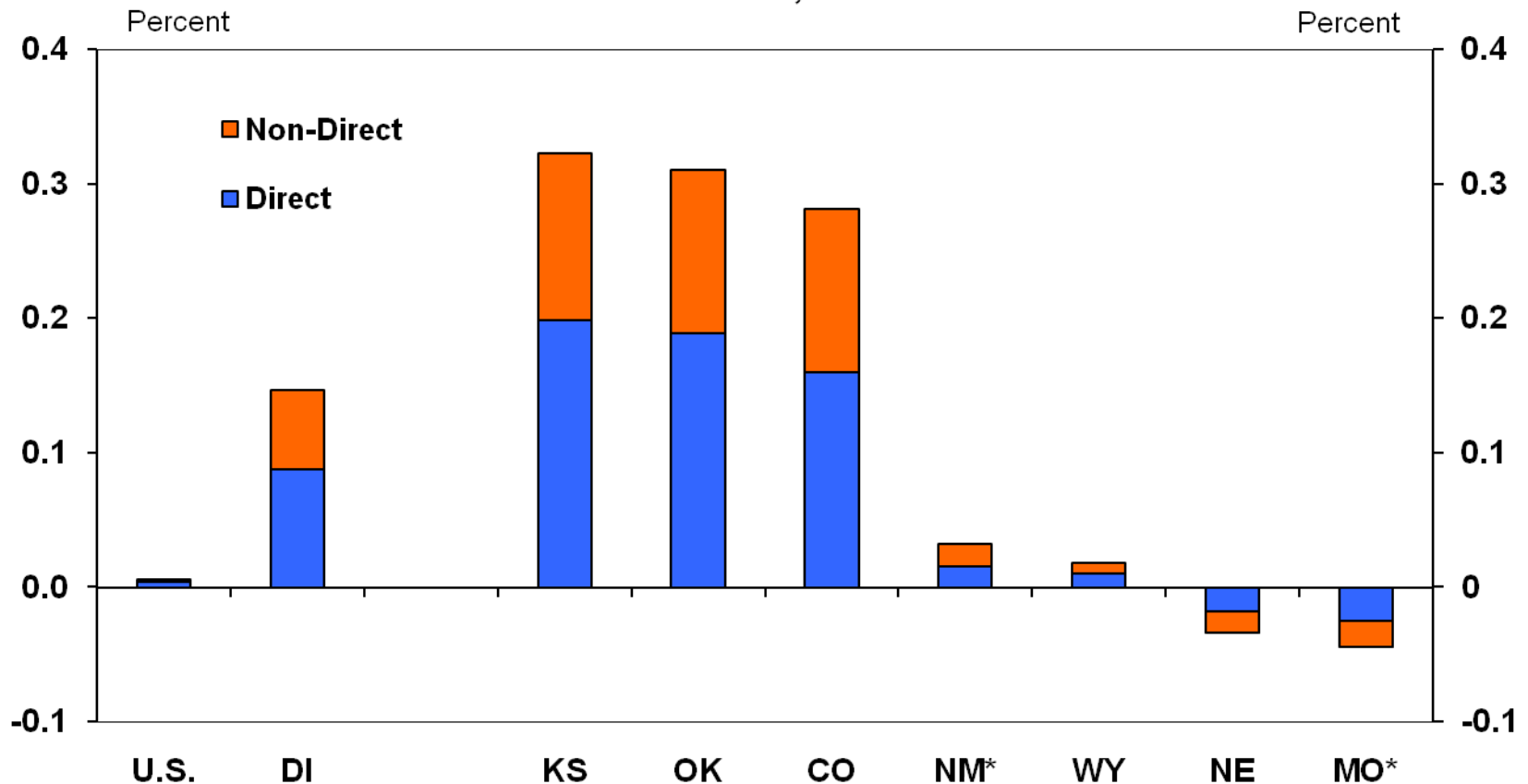
* Excluding Missouri

** Actual for U.S., estimated for District and states

Sources: U.S. Departments of Defense and Energy, Bureau of Economic Analysis

Oklahoma was one of the big winners in the ongoing BRAC round

Projected Employment Growth from 2005 BRAC Recommendations, 2006-2010

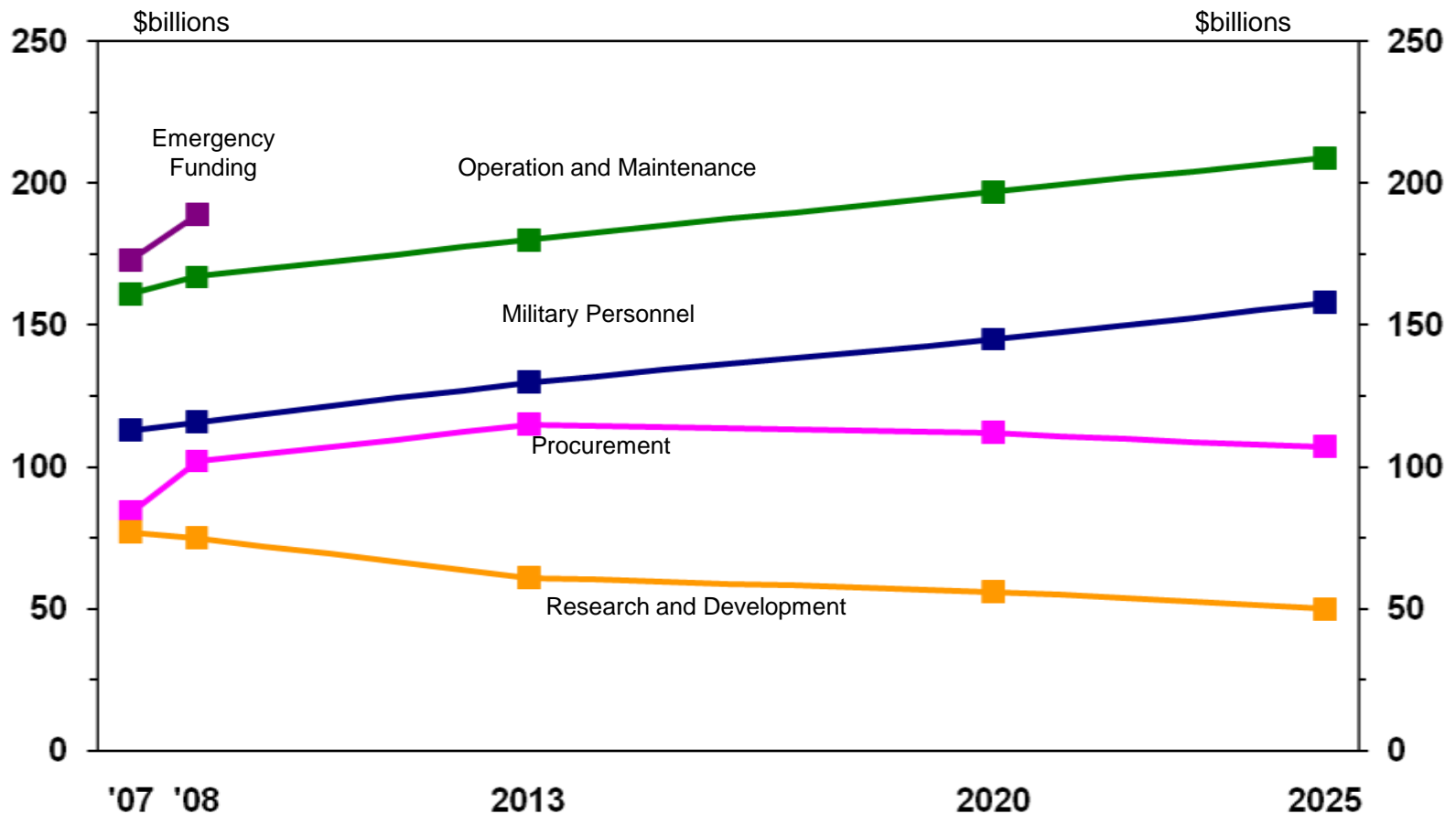


*Tenth District Only

Source: U.S. Department of Defense

The types of defense concentrated in the region are expected to grow long-term

Projected U.S. Resources for Defense, 2007-2025



Source: Congressional Budget Office

Summary

- Although still declining, the U.S. economy may be nearing a bottom--but credit is still strained
- With the steep recent decline in energy activity, Oklahoma has finally entered the recession
- Efforts to boost U.S. growth in 2009 and 2010 should benefit Oklahoma as well, and defense spending should provide an additional boost