

The Economy and Manufacturing 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 employment
 - Low and stable inflation
 - National financial stability
- **The 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**

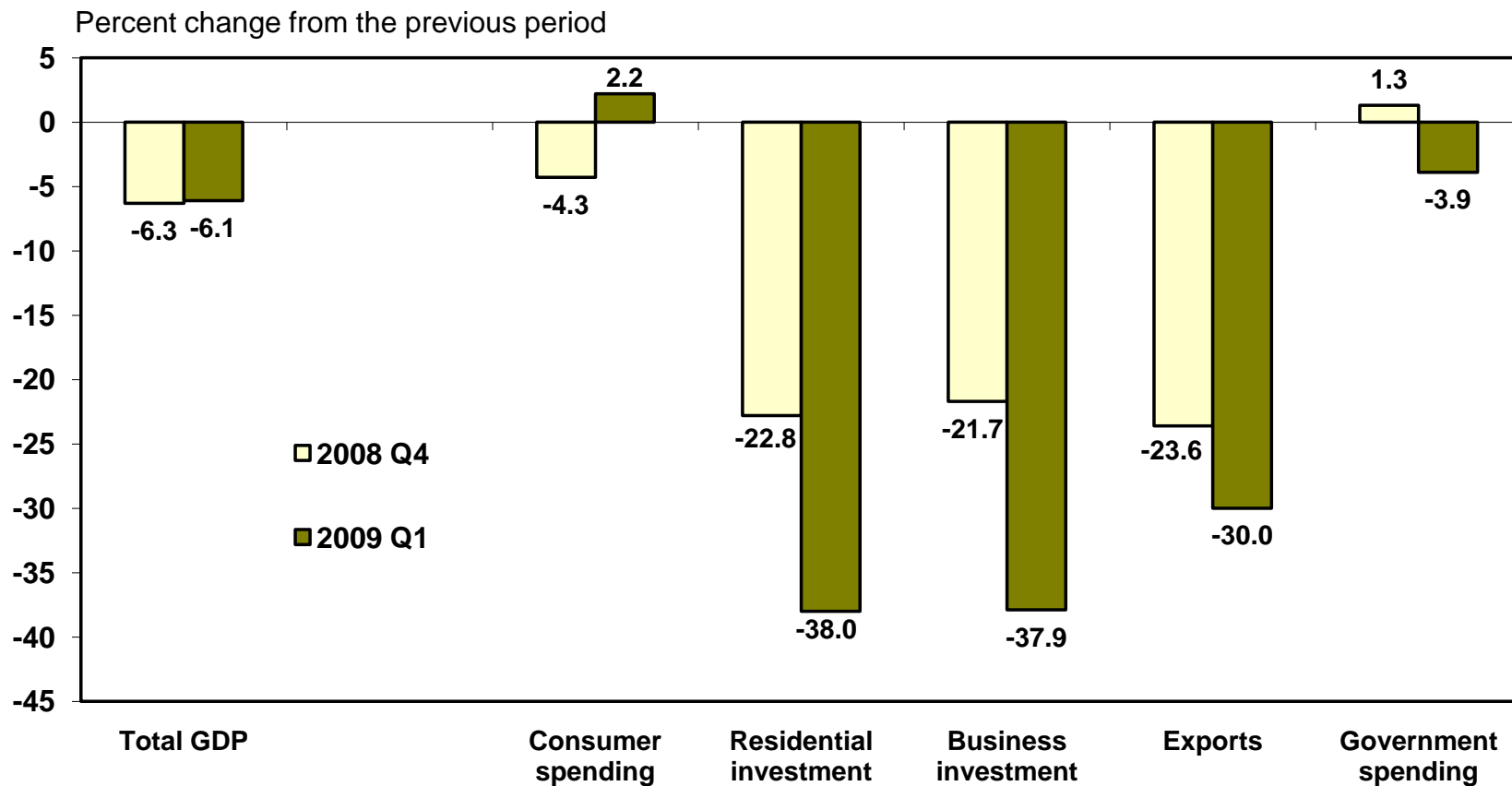
- *Chairman* **Steve Agee**, President, Agee Energy, and Professor, OCU, Oklahoma City
- **Terry Almon**, President, Oklahoma Community Capital Corp., Broken Arrow
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
- **Fred Ramos**, COO, 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

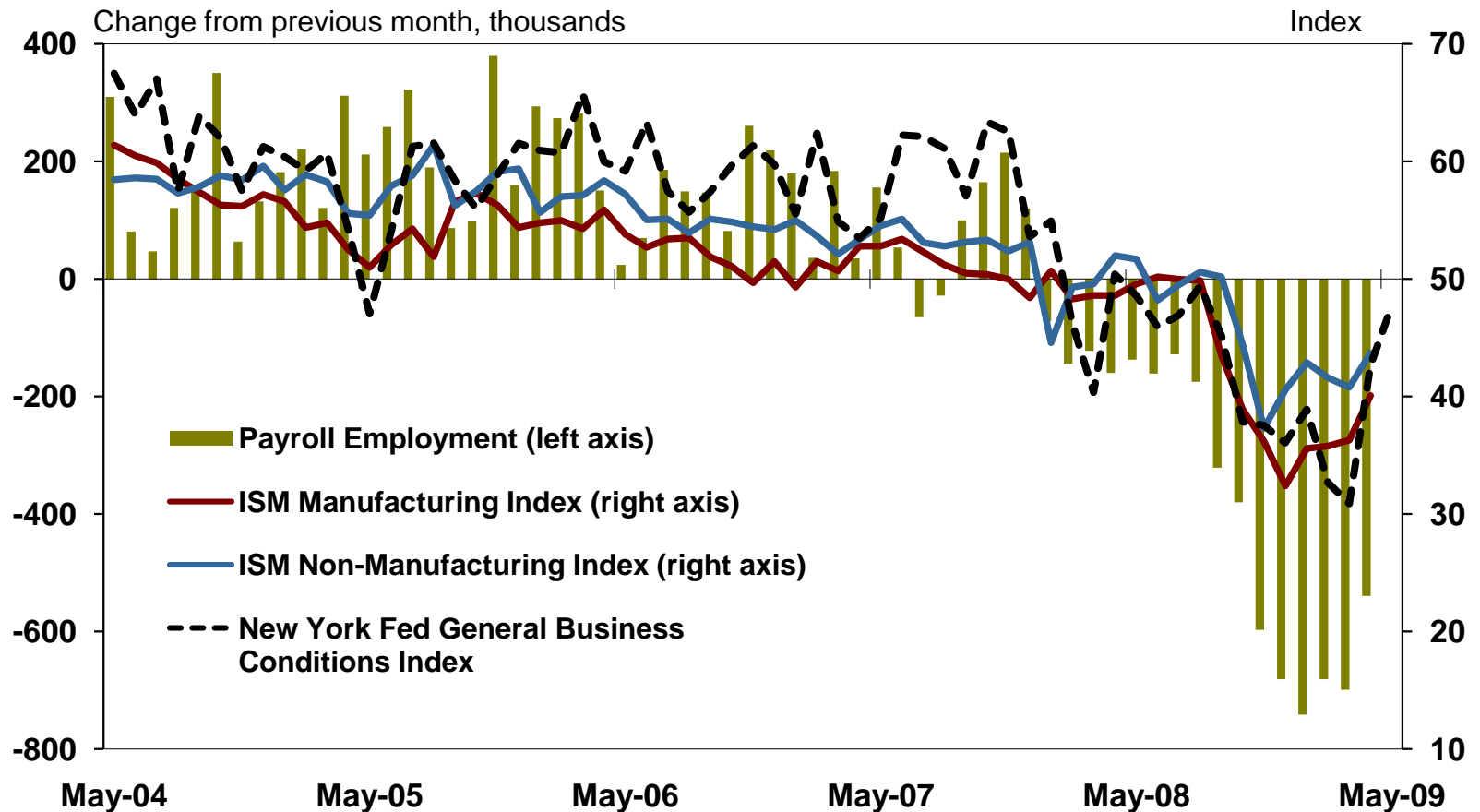
Consumer spending was positive in the first quarter, but other measures weakened further

Growth in Components of GDP



Weak business activity has continued into Q2, but the declines are getting smaller

National Business Indexes and Payroll Employment



The U.S. policy response has been broad

□ Federal Reserve

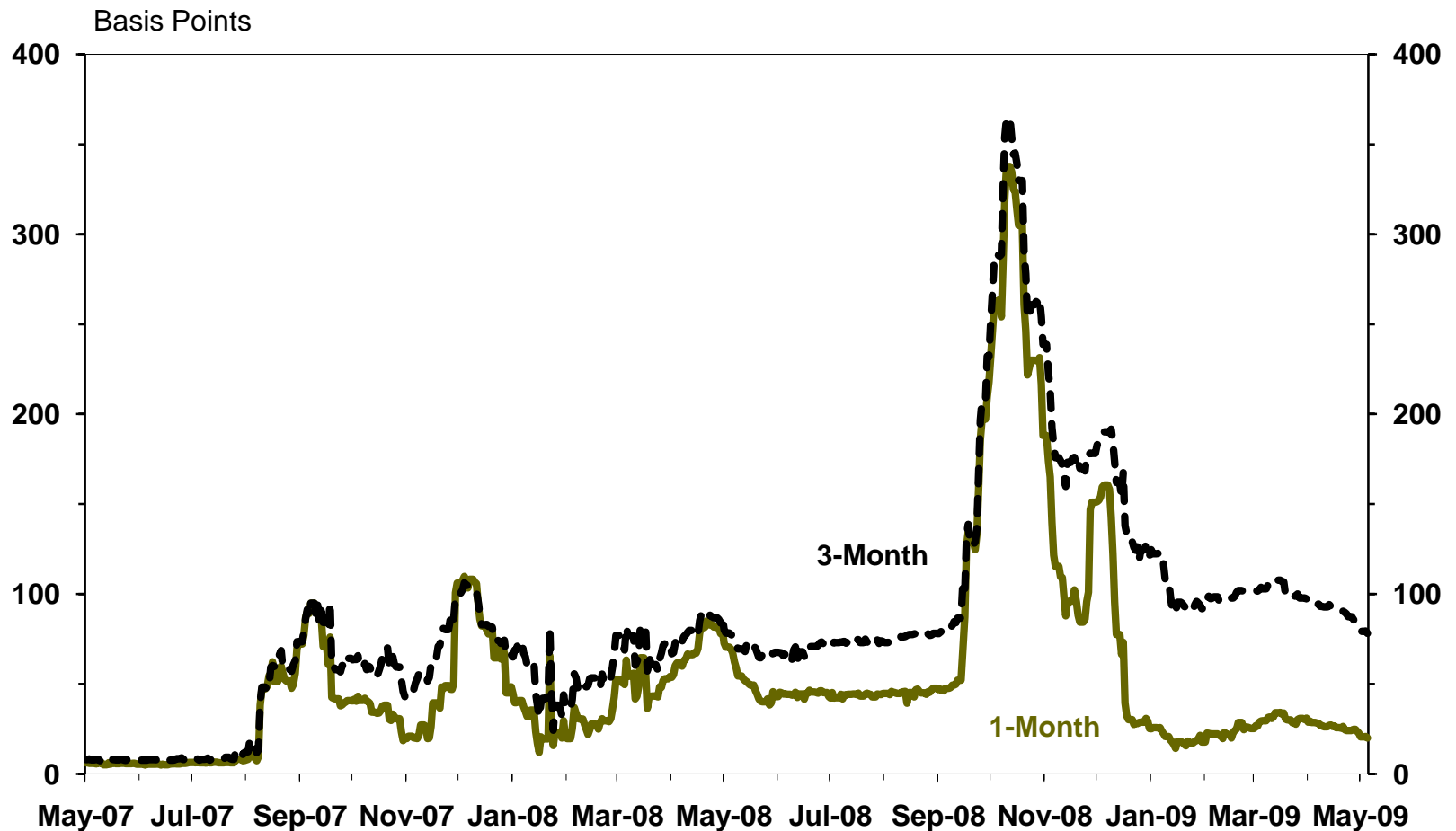
- Lowered the Fed Funds rate
- Implemented numerous liquidity facilities
- Purchased long-term securities

□ U.S. Treasury and Congress

- TARP
- Fiscal stimulus
- Foreclosure prevention policies

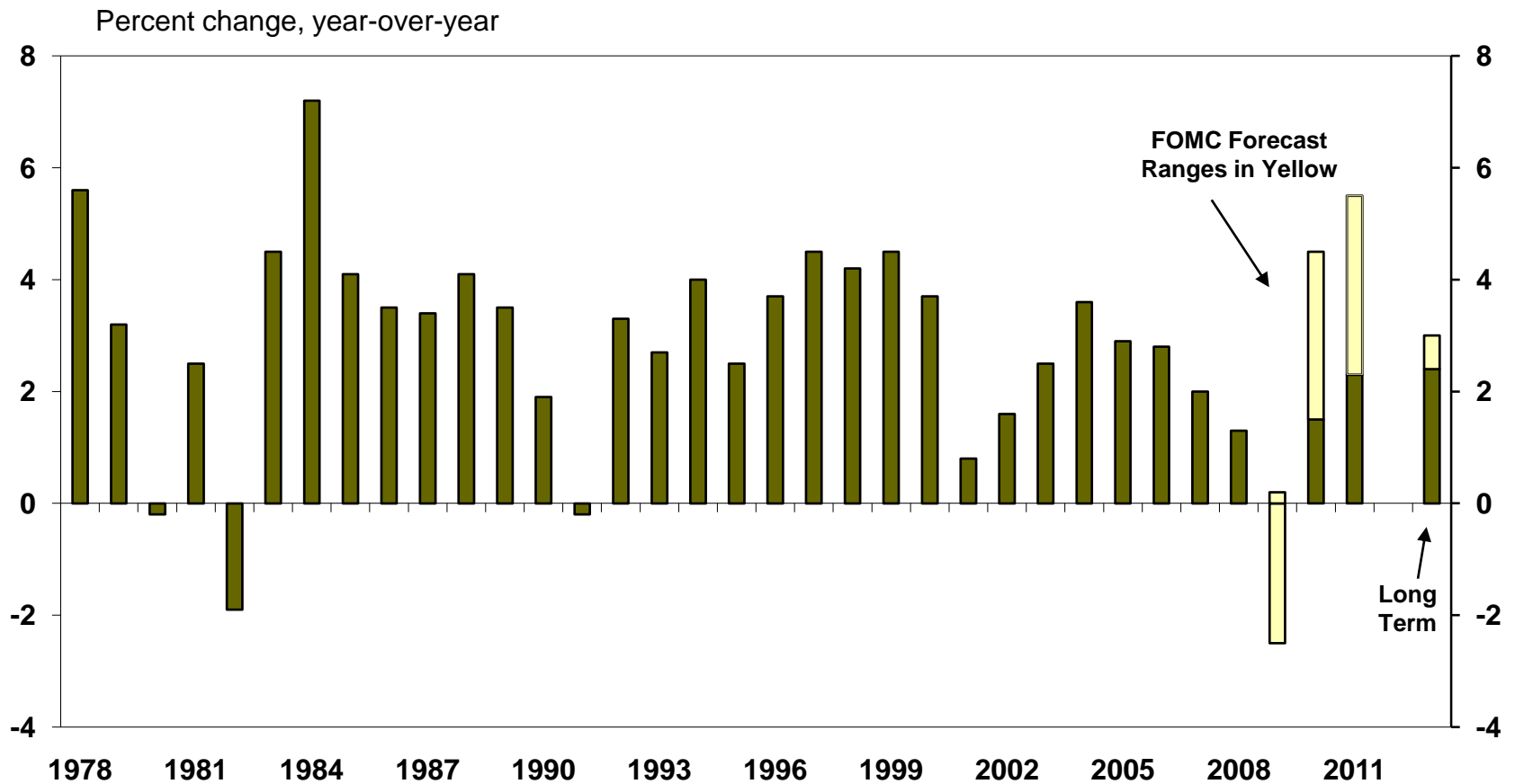
Interbank lending conditions have improved, but remain somewhat strained

LIBOR-OIS Spread



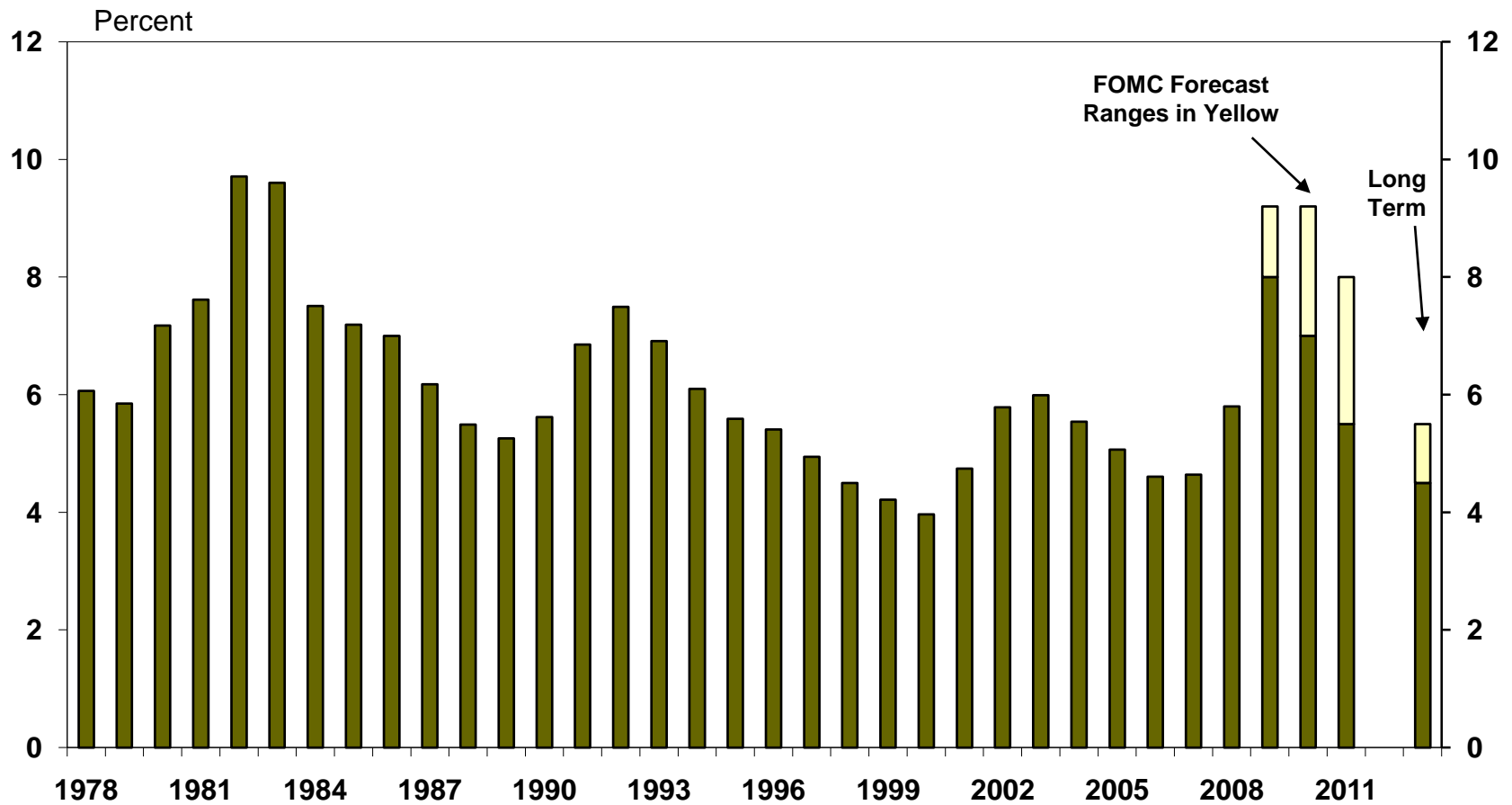
Heading forward, policy makers generally expect a gradual recovery

Gross Domestic Product



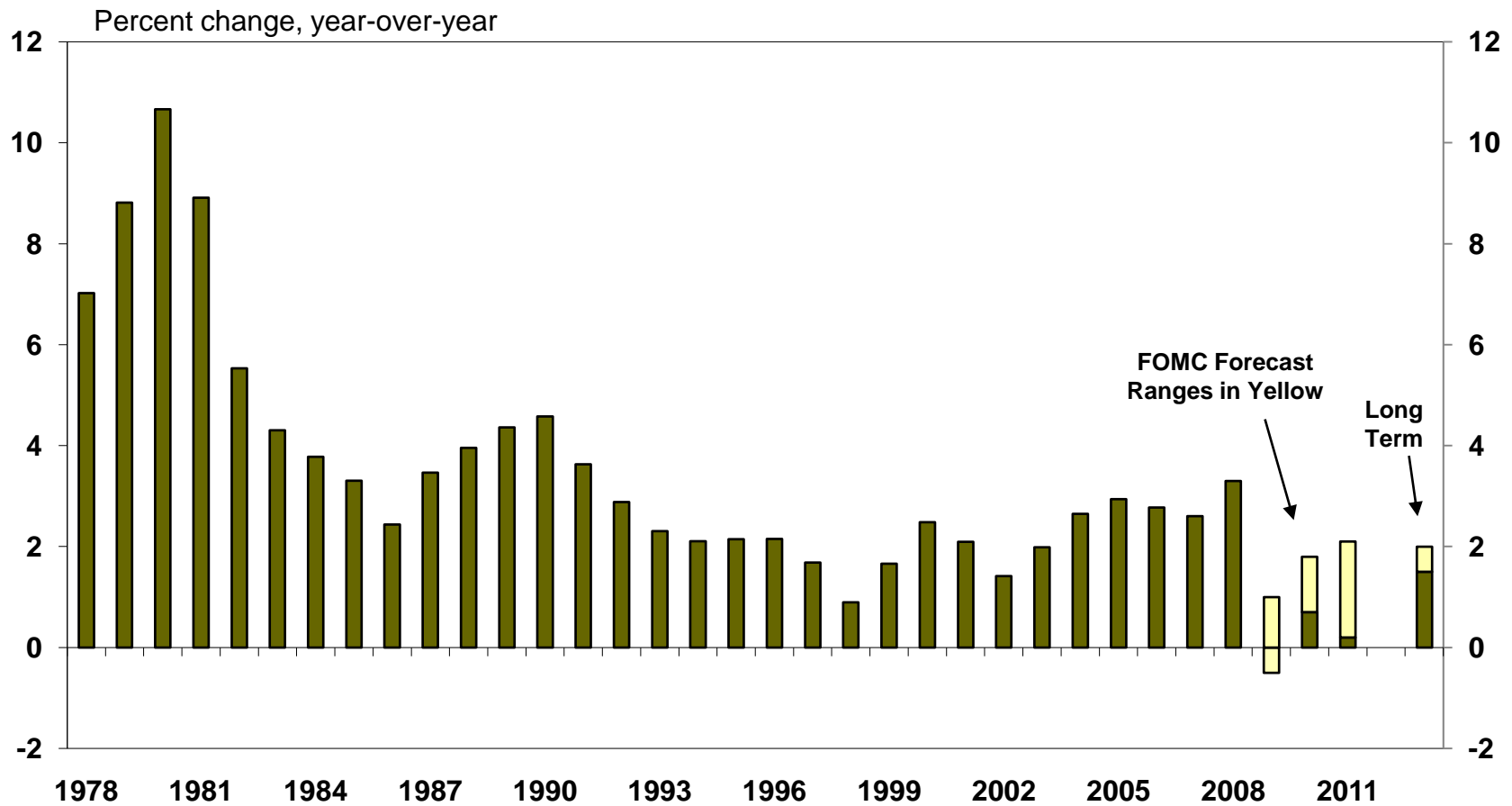
But U.S. unemployment is expected to rise further

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

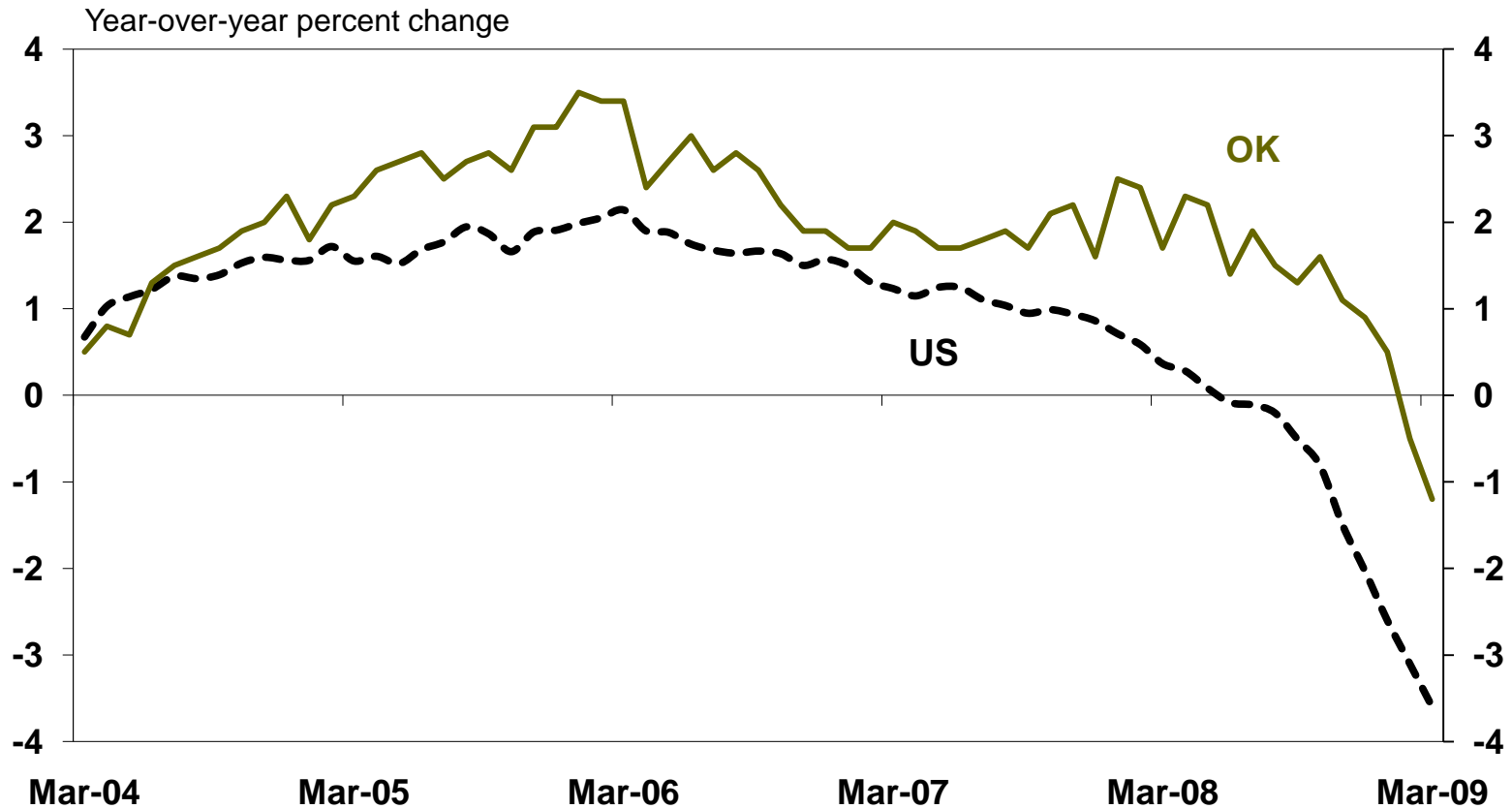
Unemployment remains relatively low in Oklahoma and most nearby states

Unemployment Rate, March 2009



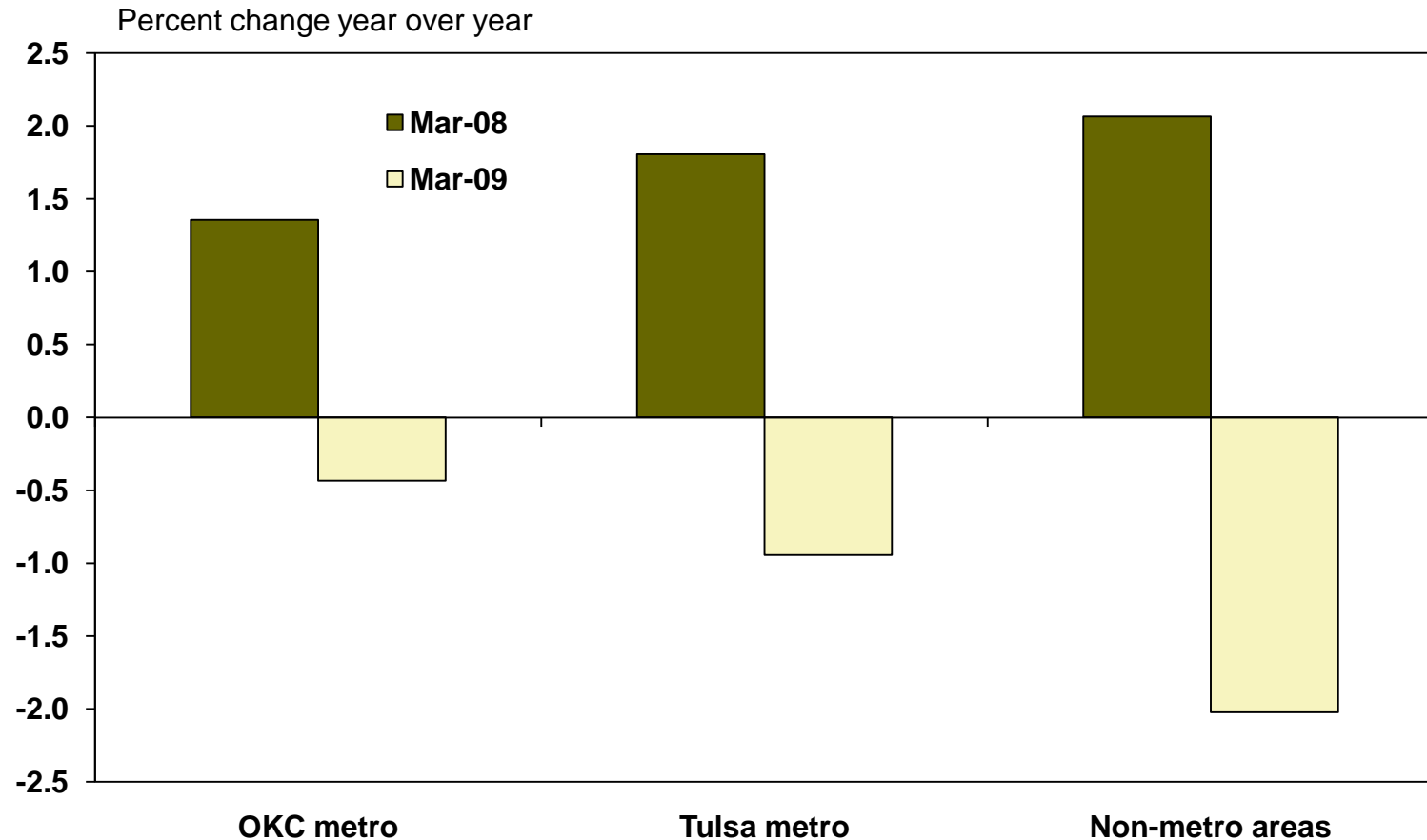
But jobs are now vanishing rapidly in Oklahoma, following a long boom

Nonfarm Payroll Employment Growth



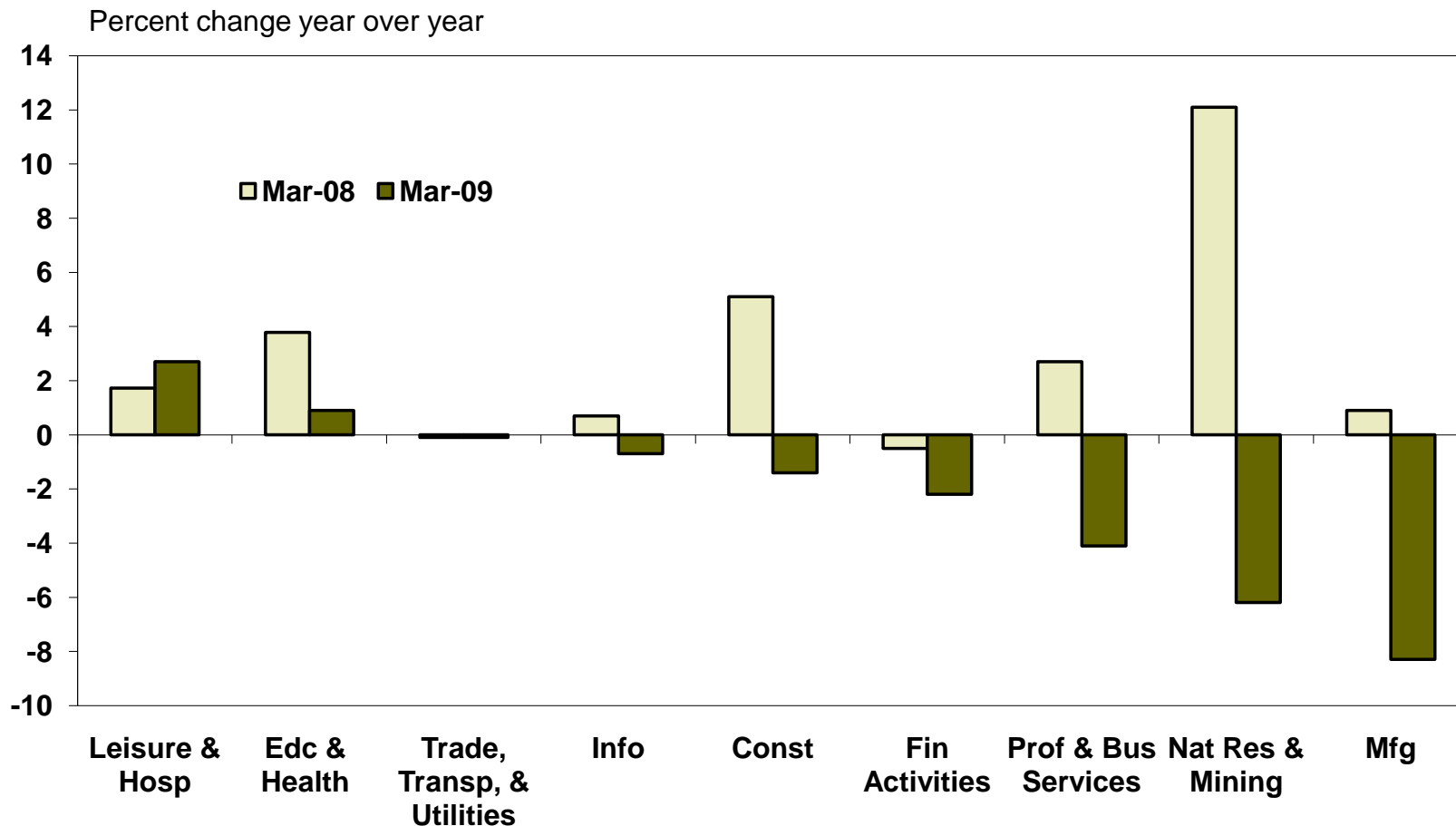
The decline in state job growth has been sharpest in non-metro areas

Employment Growth



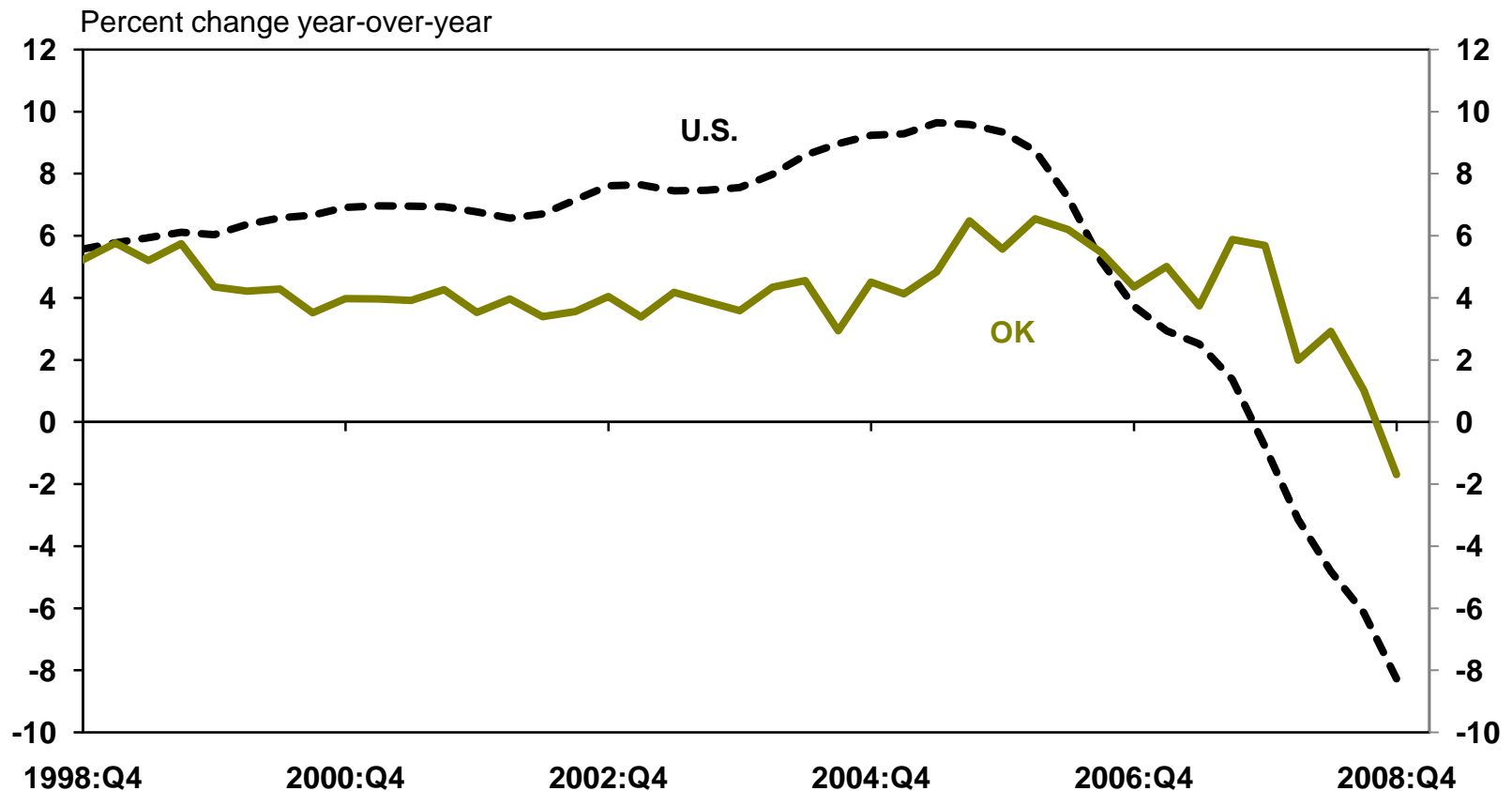
Jobs are now down from a year ago in most Oklahoma industries

Oklahoma Employment Growth by Industry



State home prices have held up better than in the nation, but are now easing

Quality-Adjusted Home Price Growth
Purchase-Only



So far, home foreclosures have remained relatively low in the state

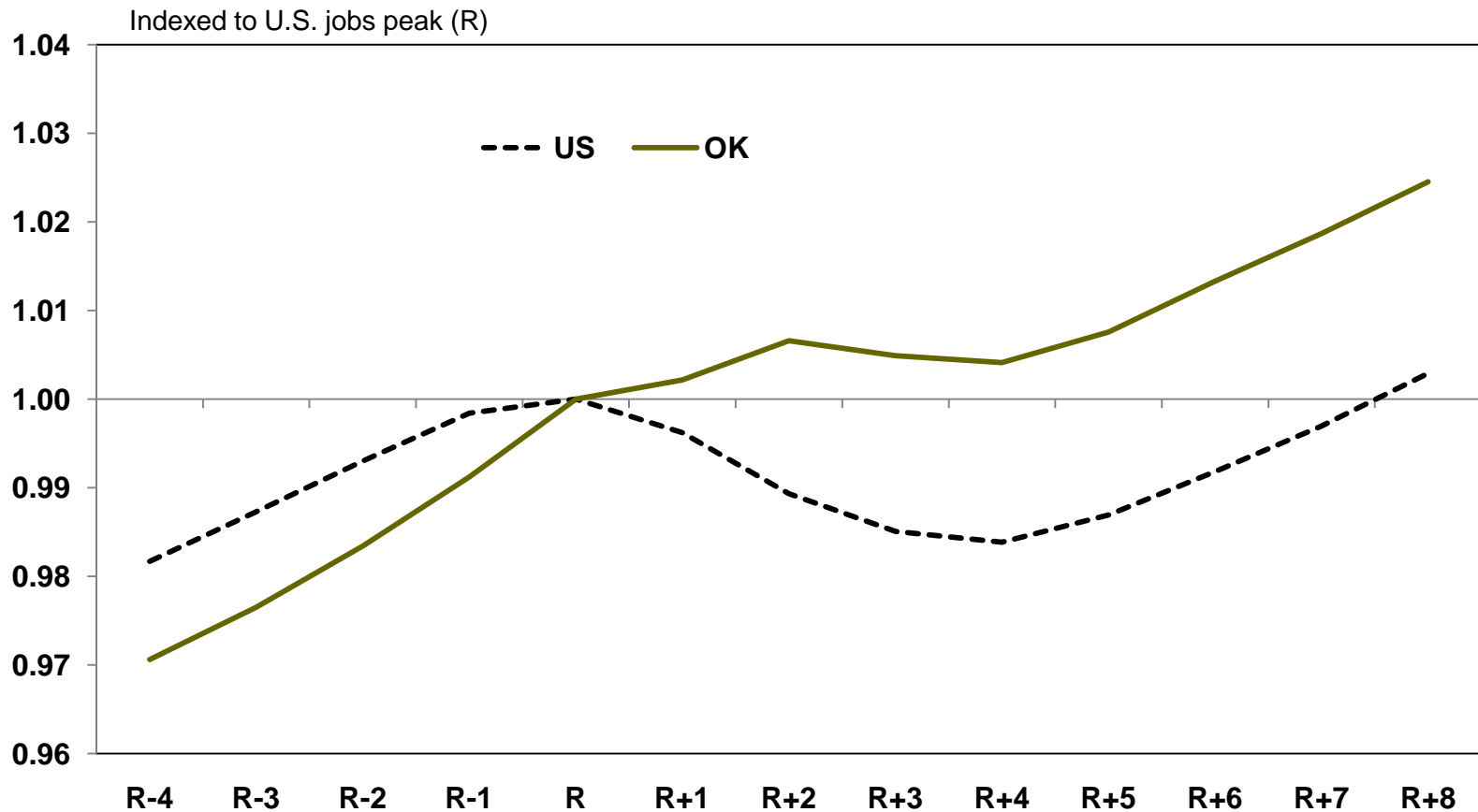
Foreclosure Rates, April 2009



Oklahoma usually enters recessions later than the nation but exits about the same time

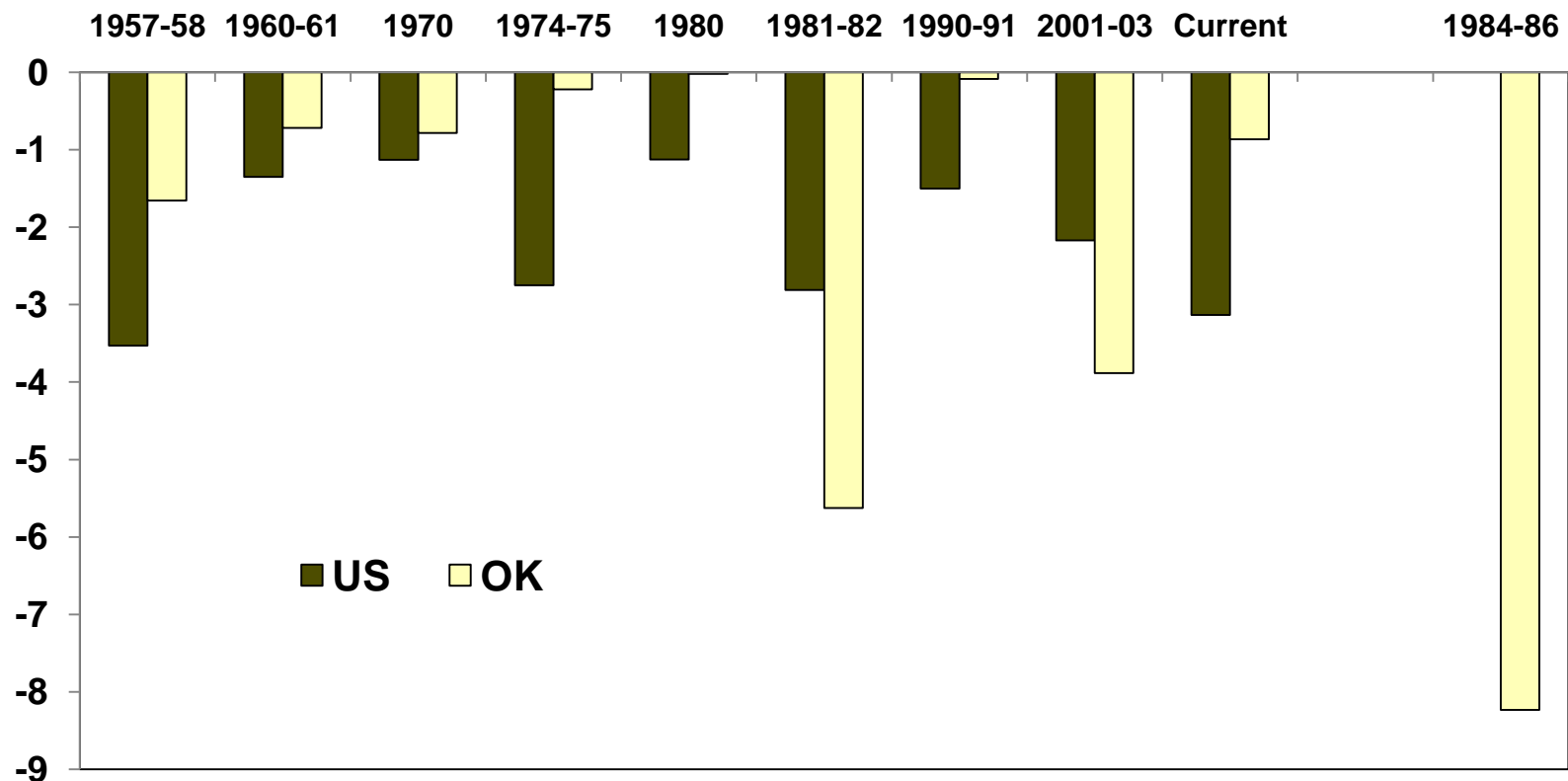
Average Recession Path, 1956-2006

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



With the shorter duration, Oklahoma's job losses in U.S. recessions are usually smaller

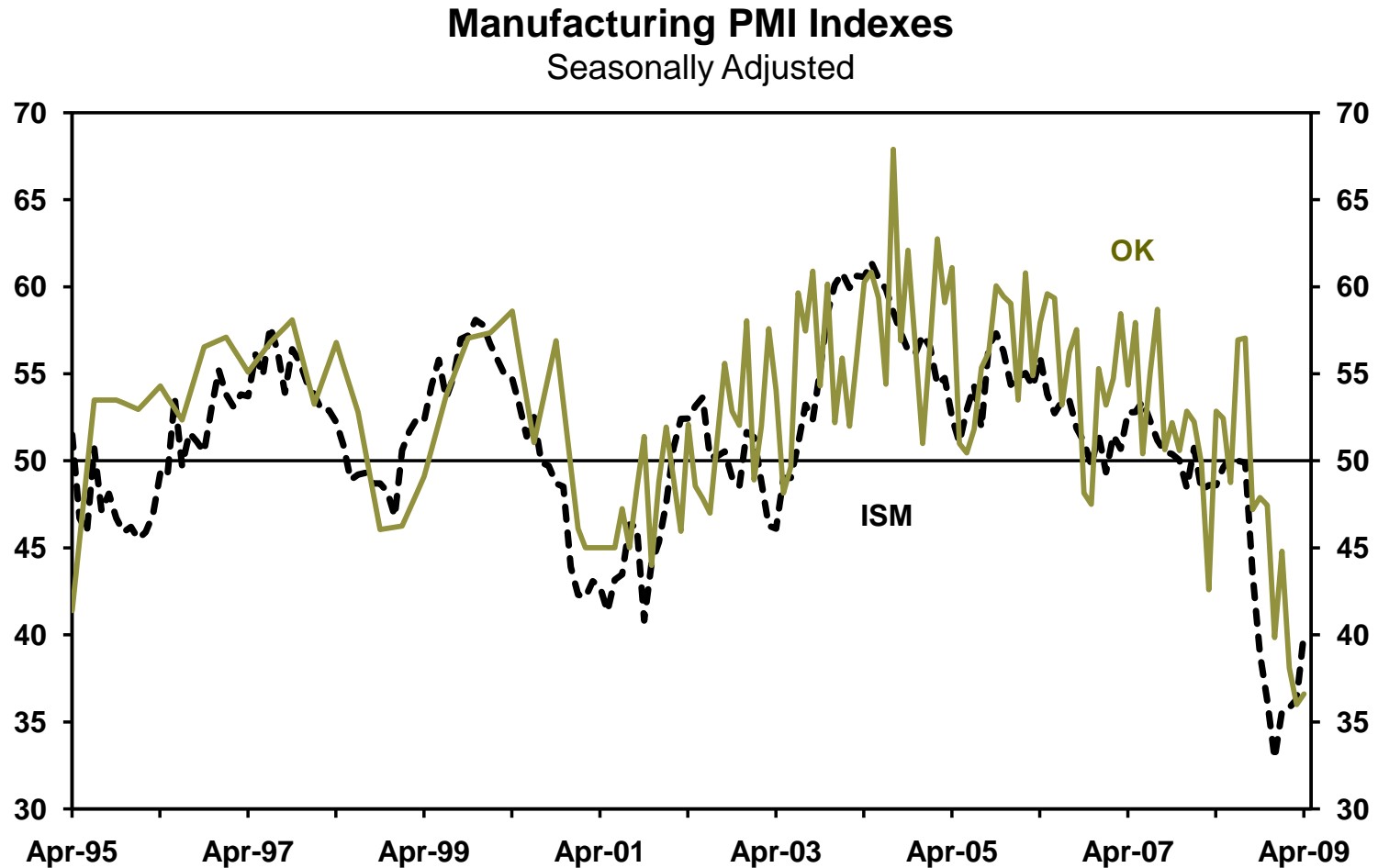
Job Losses in Recessions, 1956-present
Percent



Manufacturing in Oklahoma

- The sector is currently struggling, but a bottom may be forming
- It remains a sizable part of the Oklahoma economy
- Future opportunities exist

Manufacturing activity in the state has fallen sharply in recent months

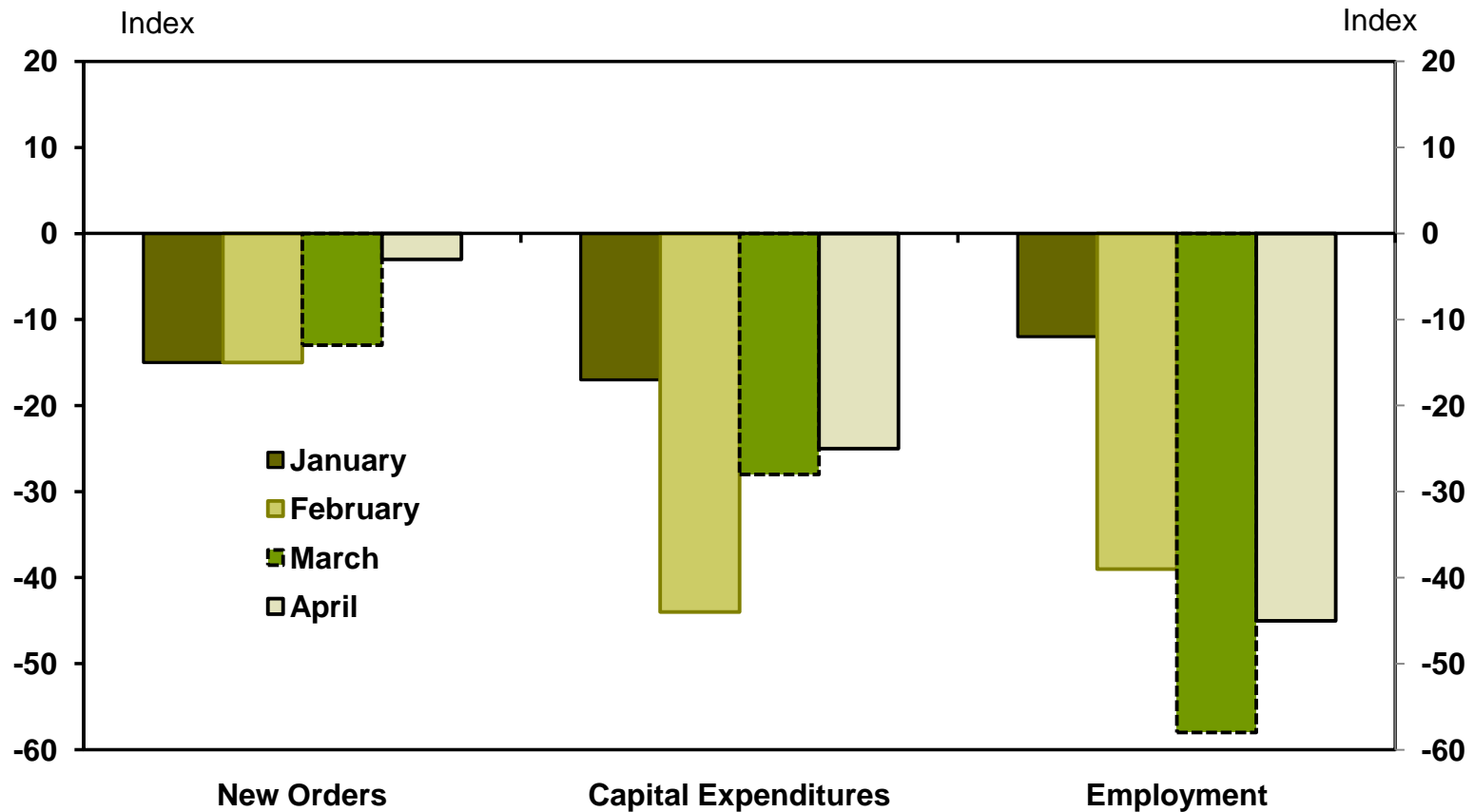


Note: OK index is computed on ISM basis (50 = zero change)

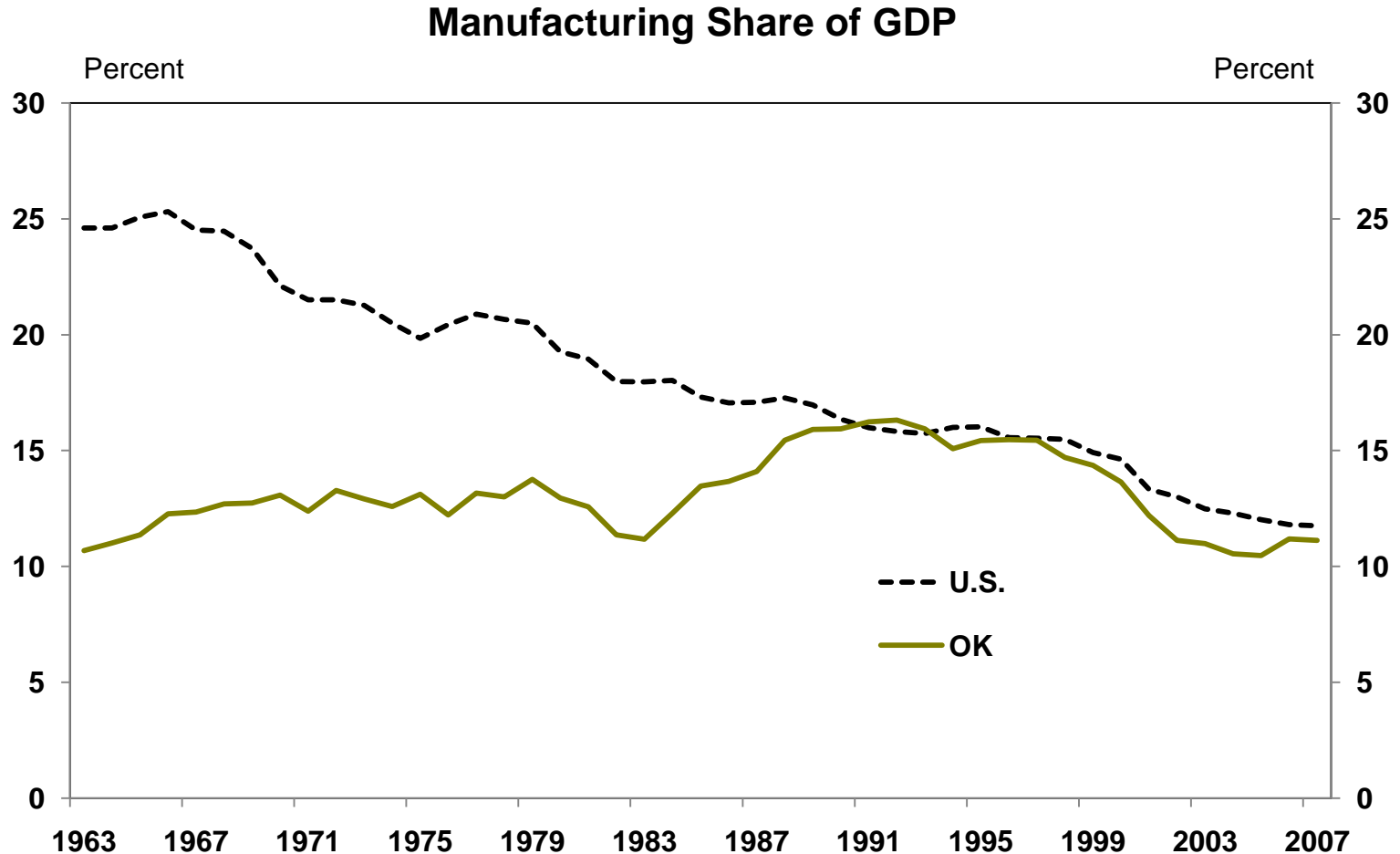
Source: ISM, FRBKC Manufacturing Survey

Factory expectations in the state are becoming less negative

Manufacturing Expectations in Oklahoma
Six-months ahead

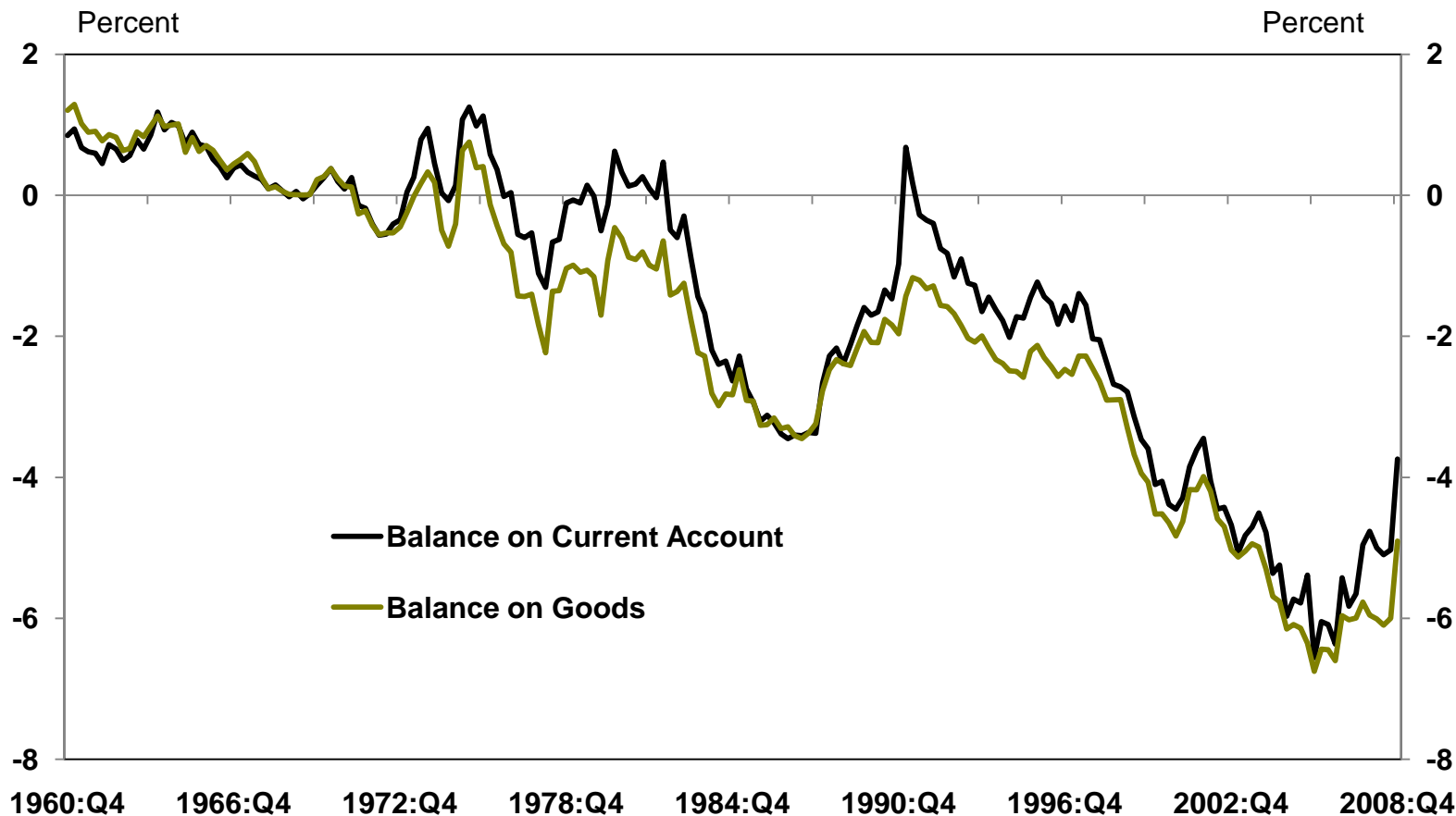


Manufacturing's share of Oklahoma's economy has remained sizable



The U.S. trade imbalance must ultimately be reversed, providing a future opportunity

U.S. Trade Deficit As a Share of GDP



Summary

- ❑ U.S. economic conditions are still declining, but signs of a bottom are emerging
- ❑ Oklahoma conditions remain better, but recent data show a clear deterioration
- ❑ Efforts to boost U.S. growth should benefit OK
- ❑ Manufacturing should remain a vital part of the state's economy heading forward