

The Economy and Manufacturing in the U.S. and Oklahoma



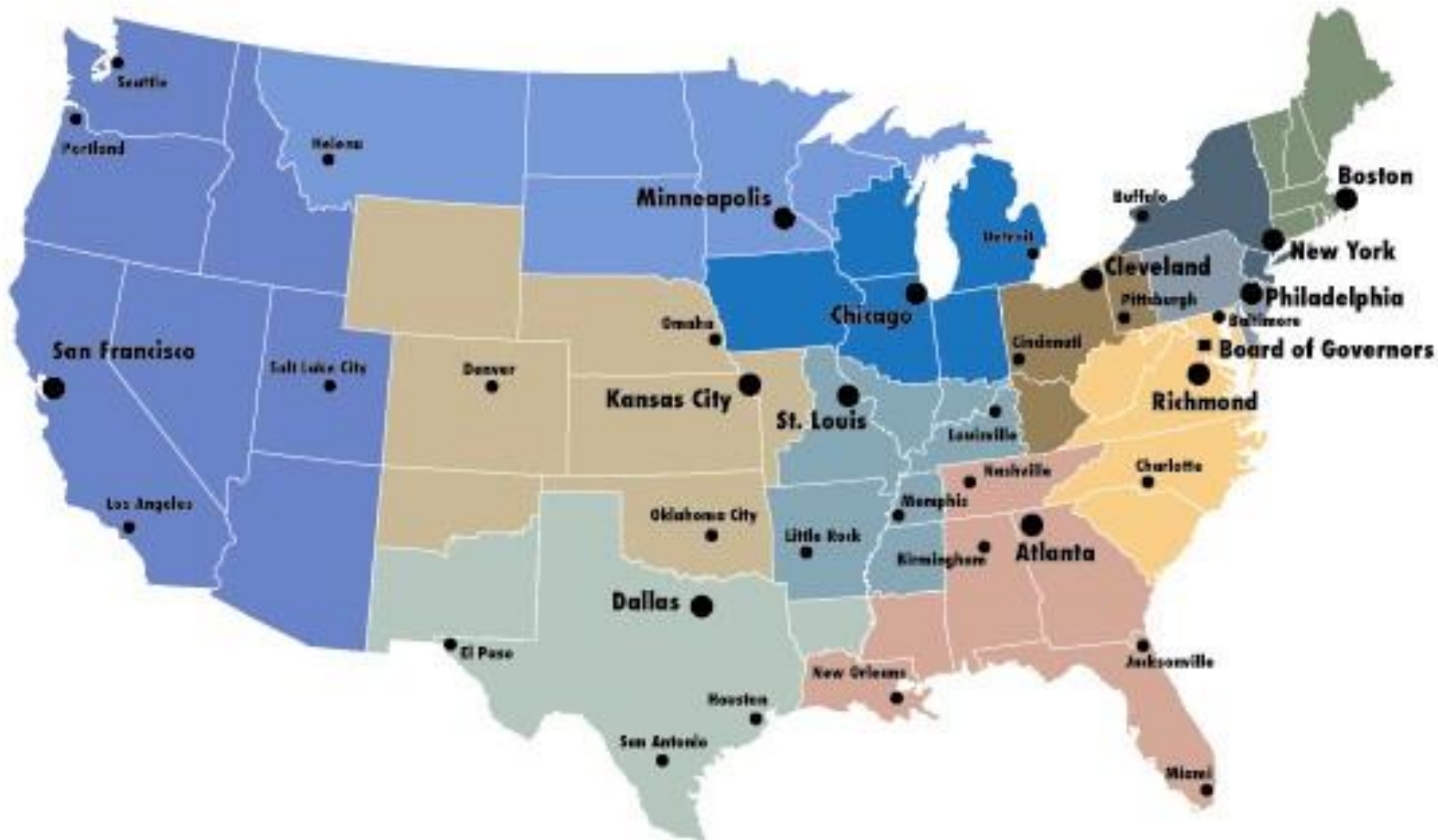
Chad Wilkerson

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 sustainable economic growth
 - Low and stable inflation
 - National financial stability
- **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

- **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**

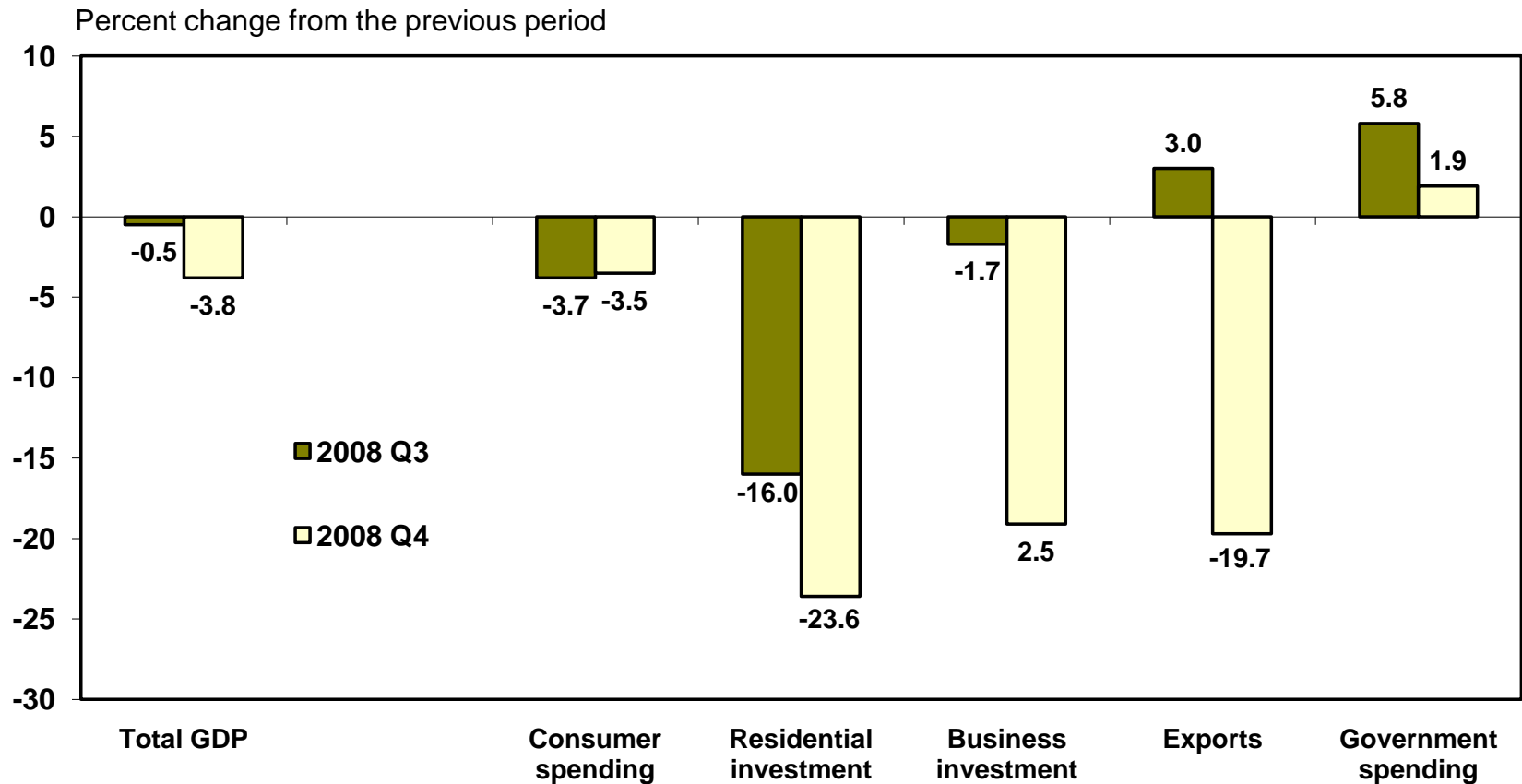
- *Chairman* **Steve Agee**, President, Agee Energy, and Professor, OCU, Oklahoma City
- **Terry Almon**, President, Oklahoma Community Capital Corp., Broken Arrow
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
- **Fred Ramos**, COO,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

- The U.S. economy is weakening, but credit markets and inflation are improving
- Oklahoma is stronger but also weakening
- Forecasts call for weakness throughout 2009, but many efforts are in place to boost growth

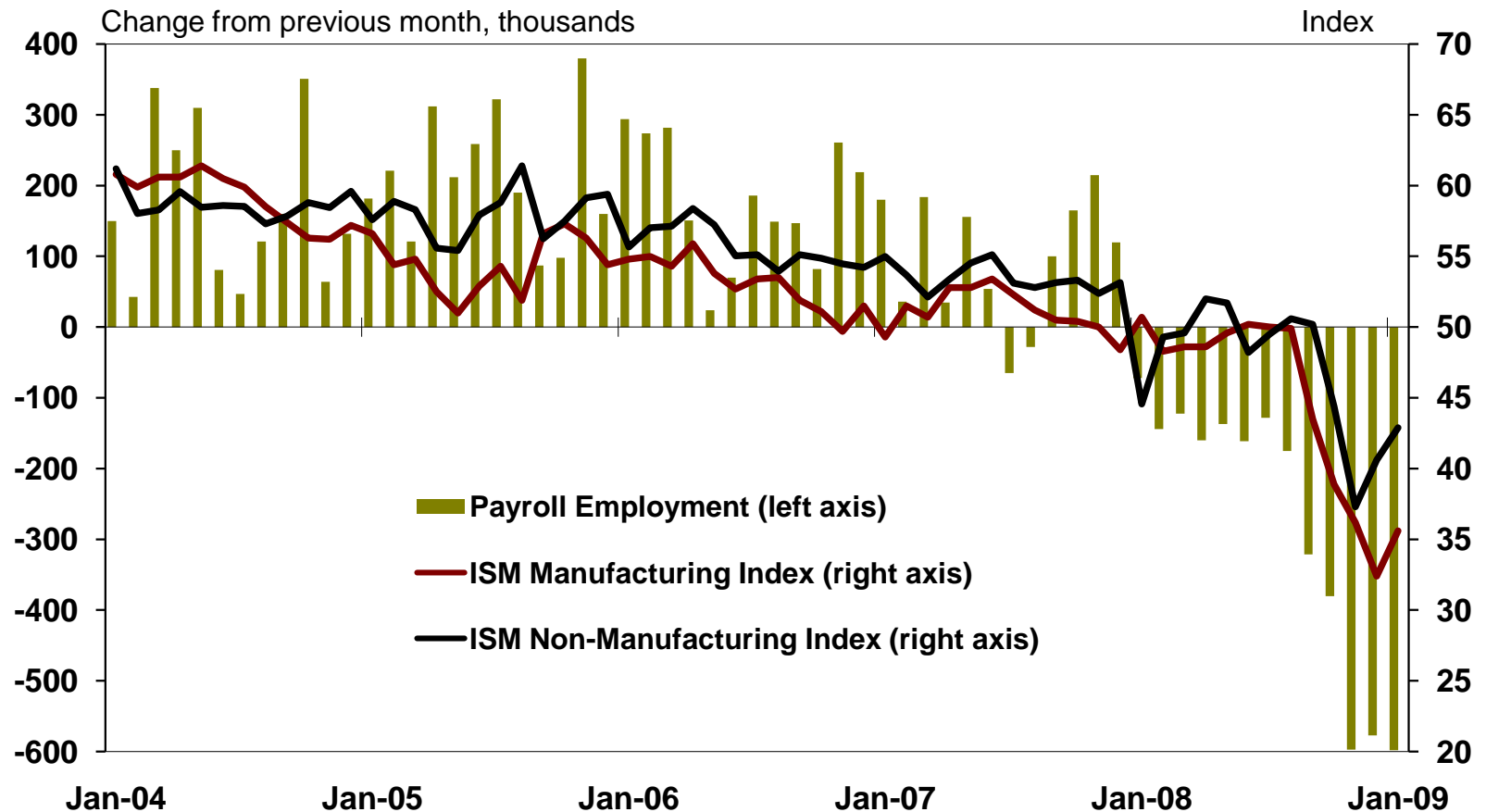
In the fourth quarter of last year, only government added to U.S. growth

Growth in Components of GDP



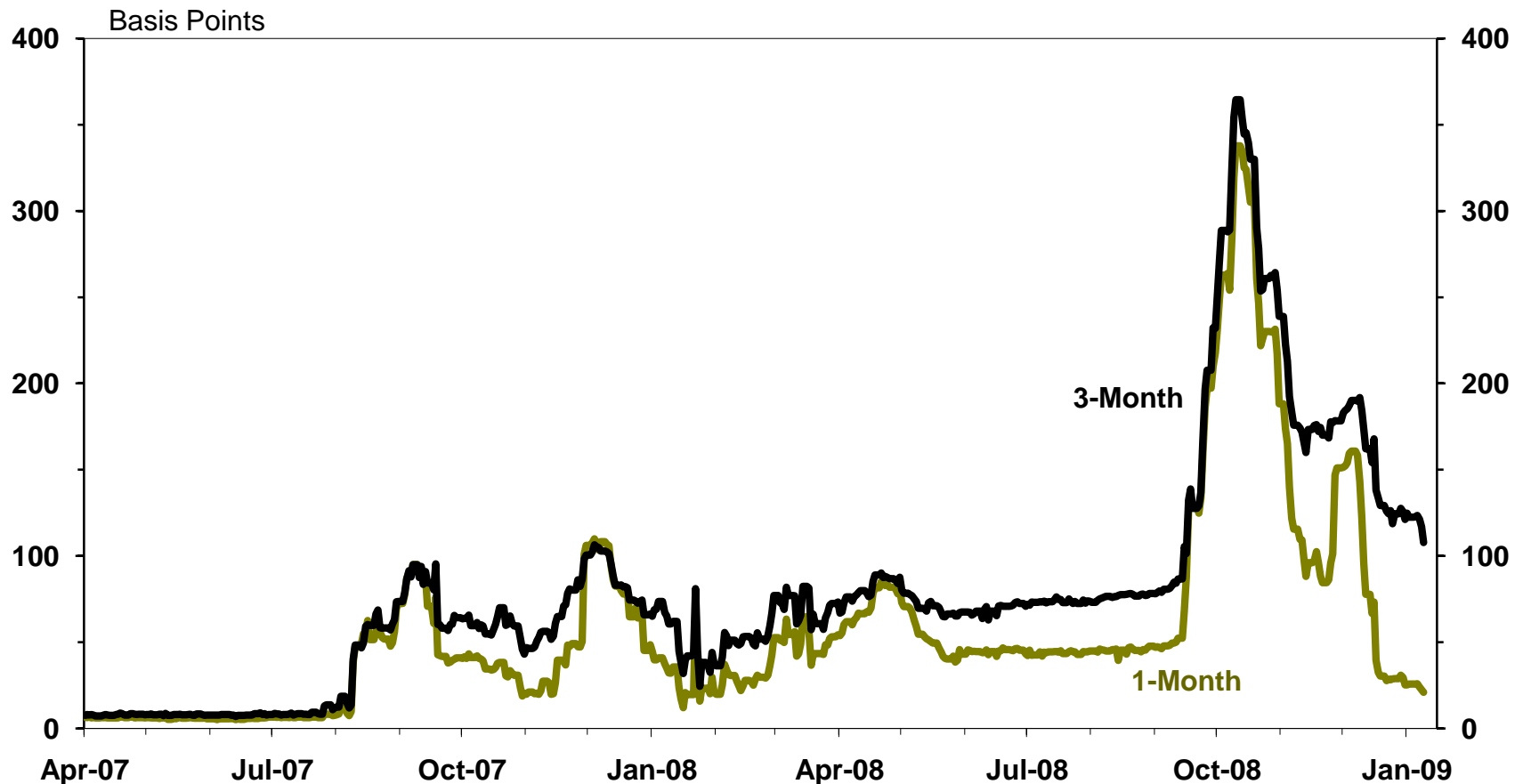
And weak U.S. business activity has continued on into 2009

National Business Indexes and Payroll Employment



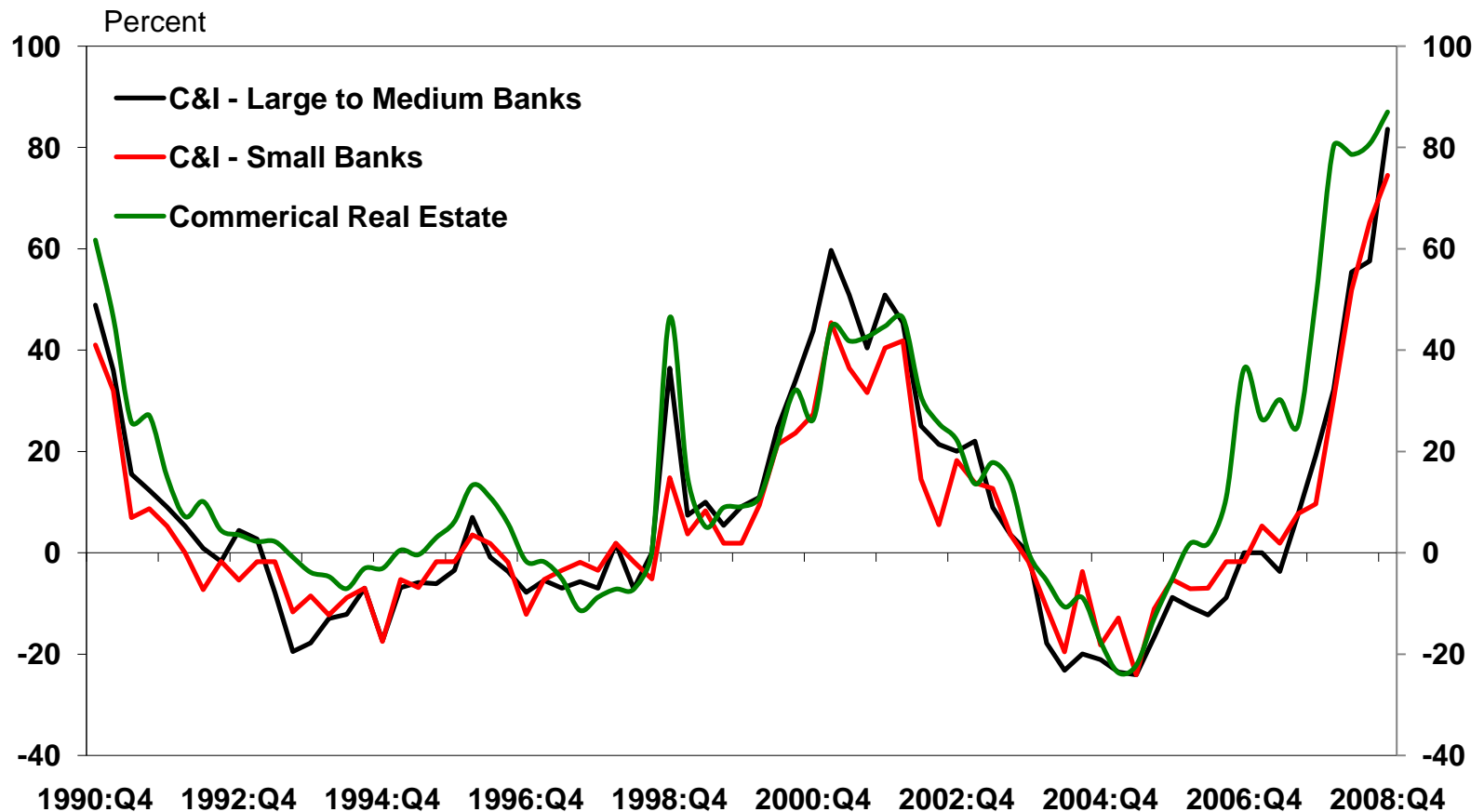
Short-term credit conditions have improved after worsening in September

LIBOR-OIS Spread



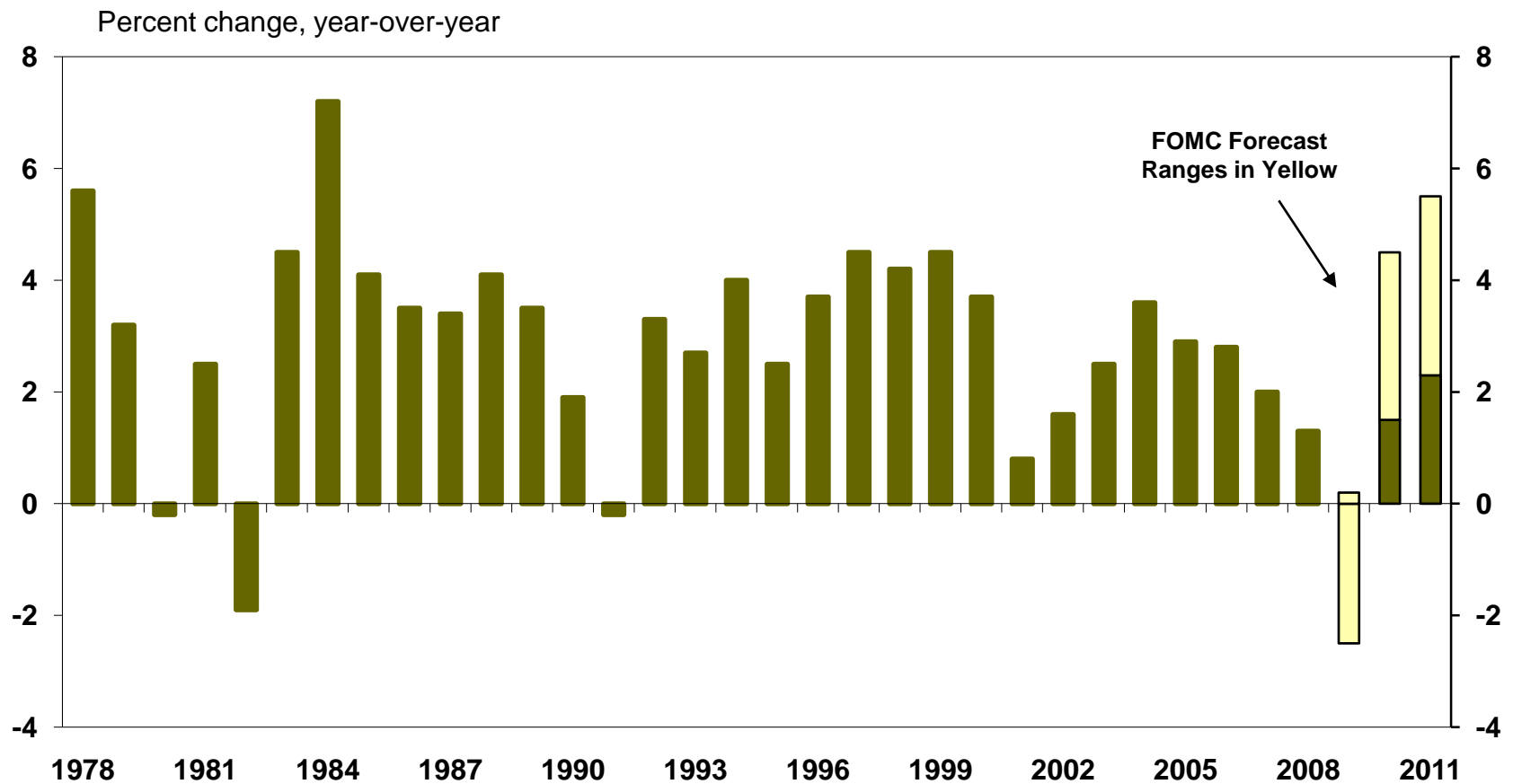
Still, bank lending standards on business loans continue to tighten

Net Percentage of Banks Tightening Loan Standards



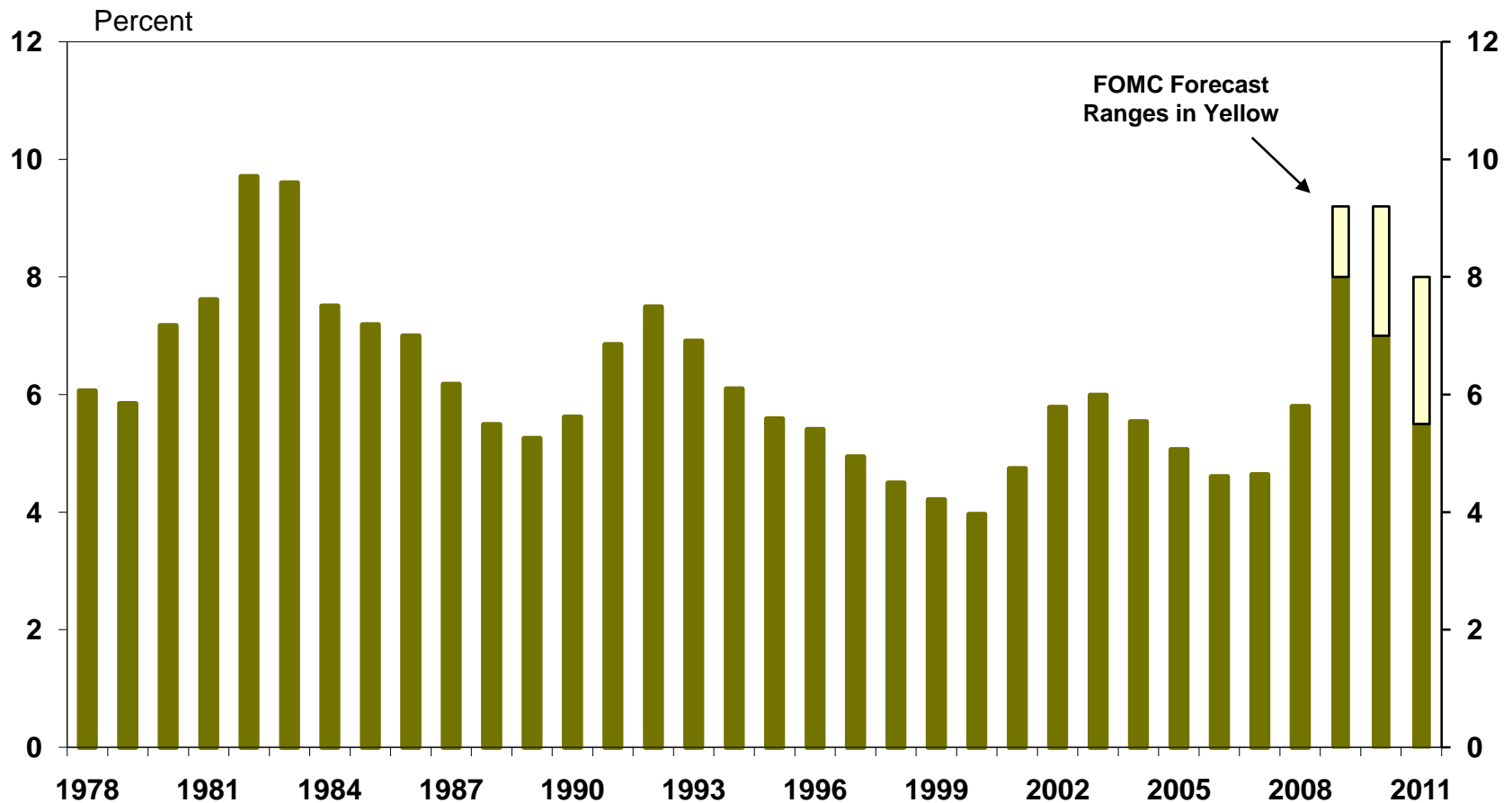
Policy-makers are increasingly pessimistic about the near-term economic outlook

Gross Domestic Product



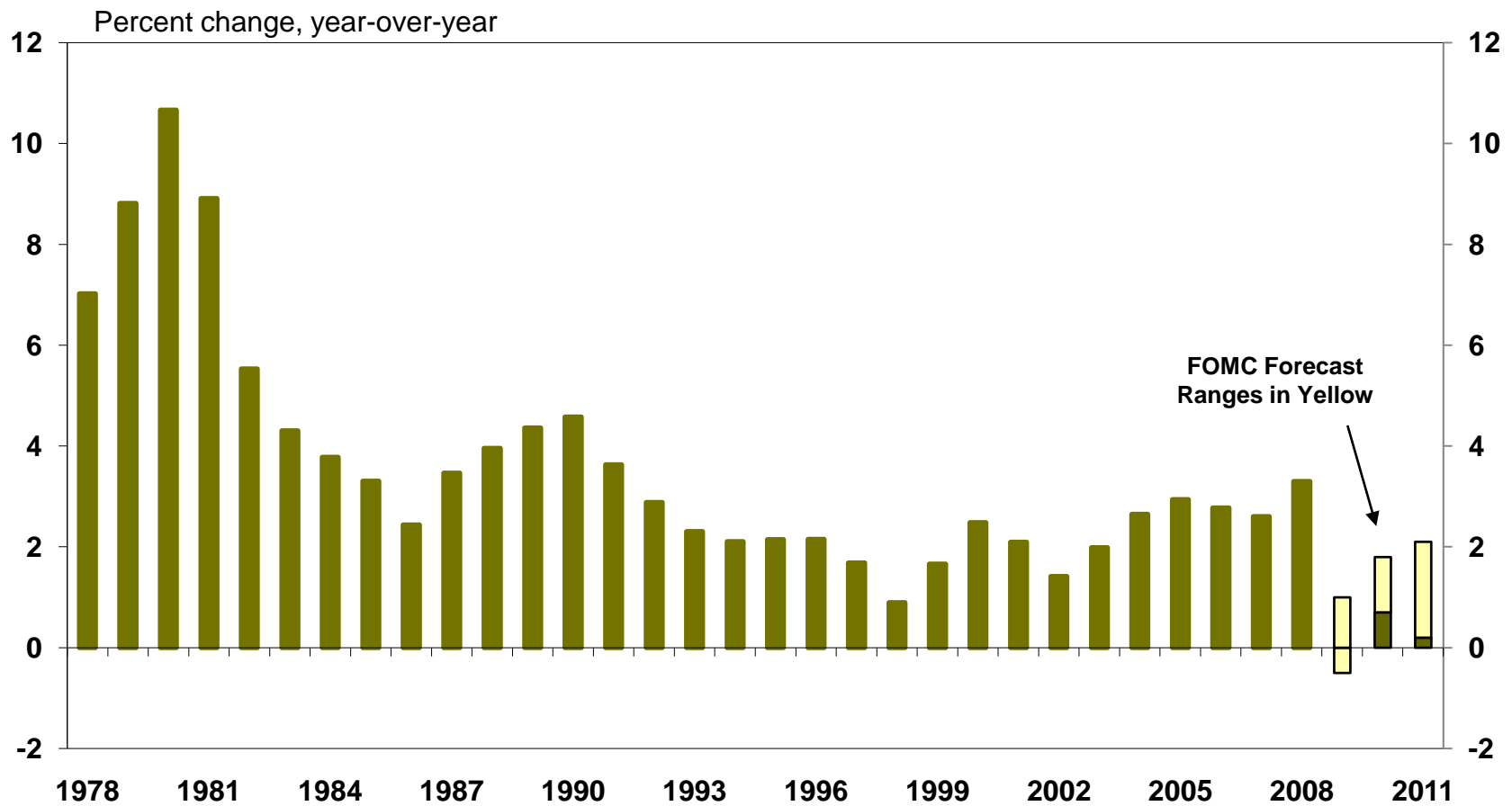
And U.S. unemployment is expected to rise further

Unemployment Rate
Seasonally Adjusted



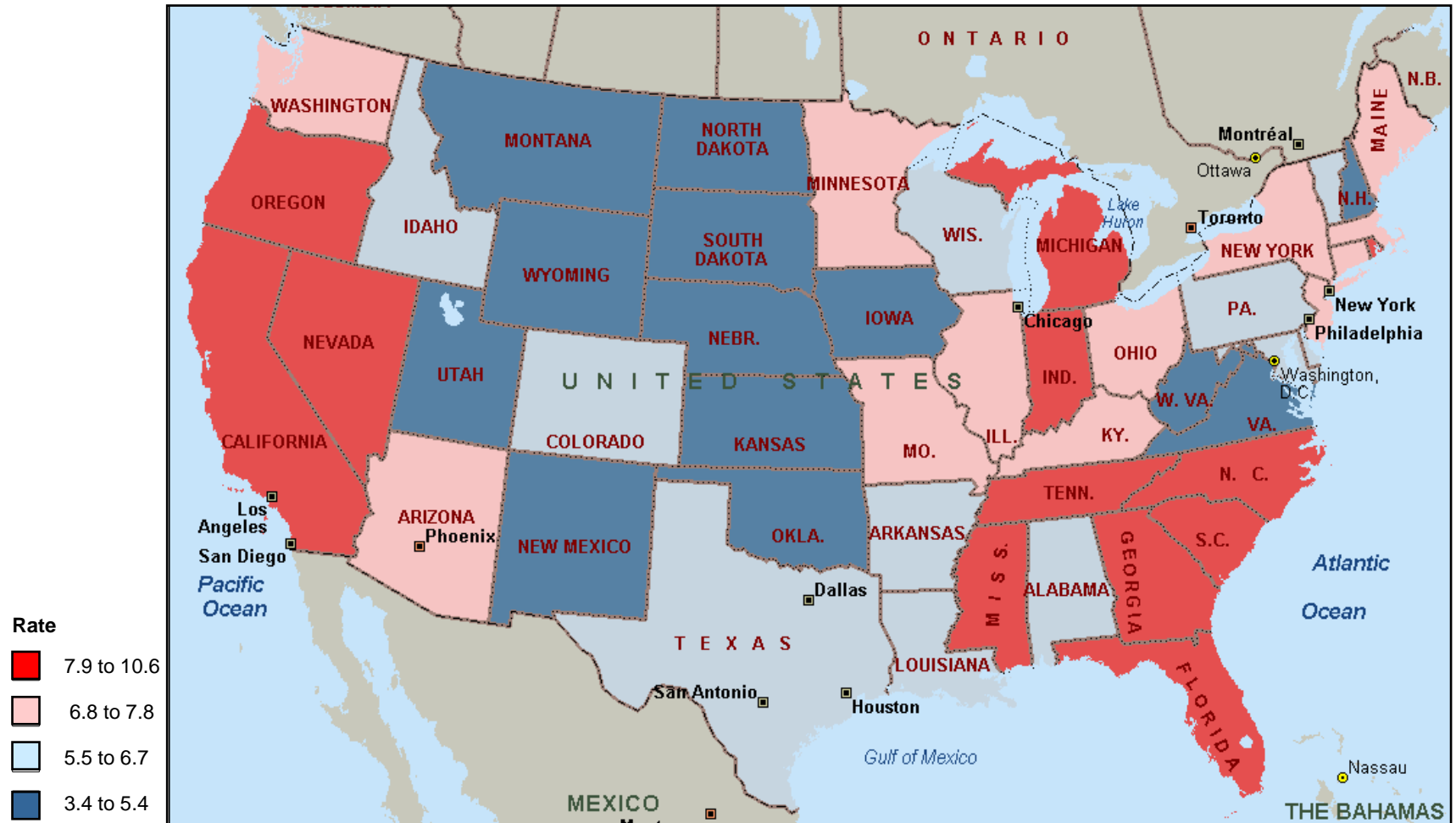
Meanwhile, inflation is expected to moderate after rising in 2008

PCE Inflation Index



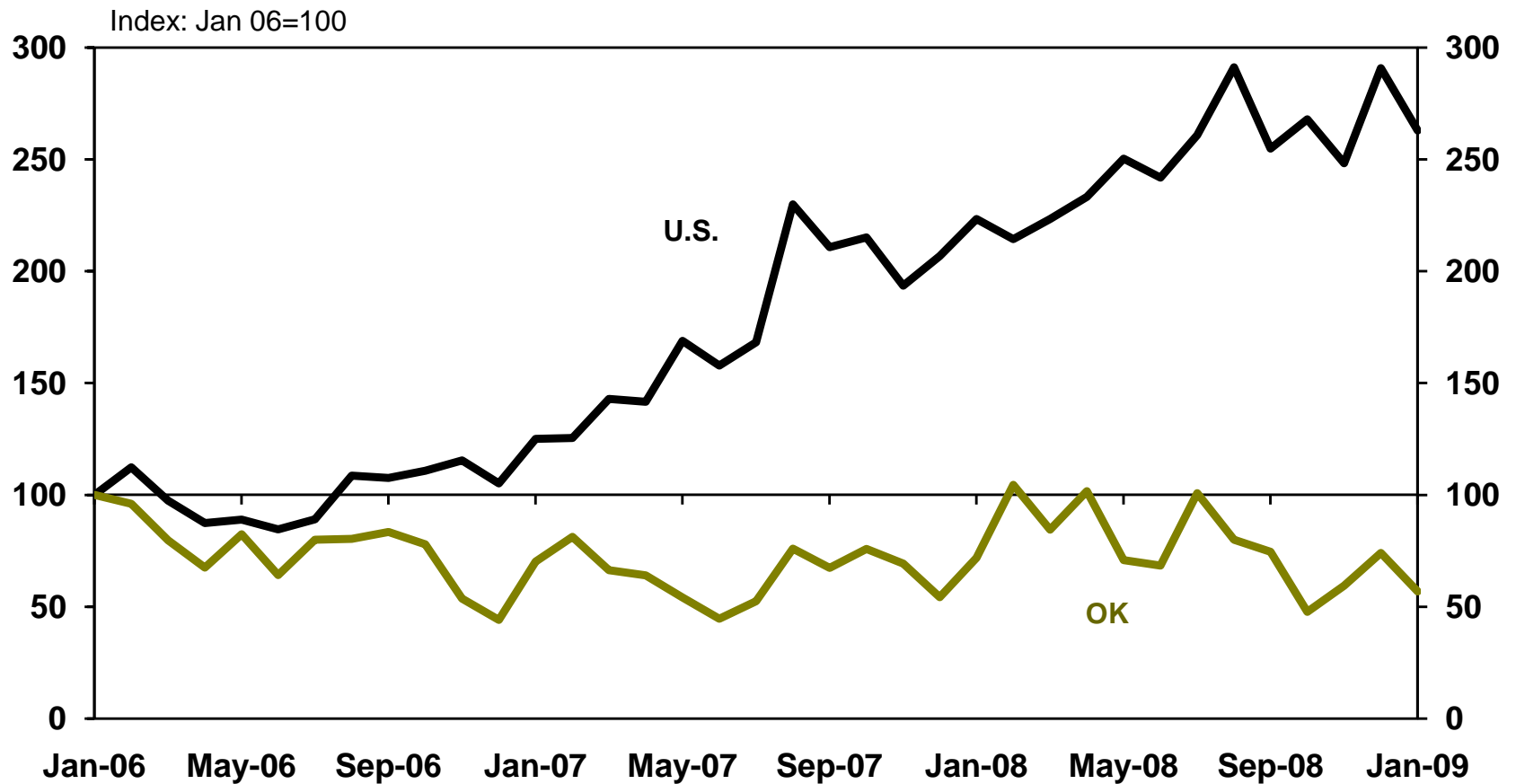
Unemployment remains relatively low in Oklahoma

Unemployment Rate, December 2008



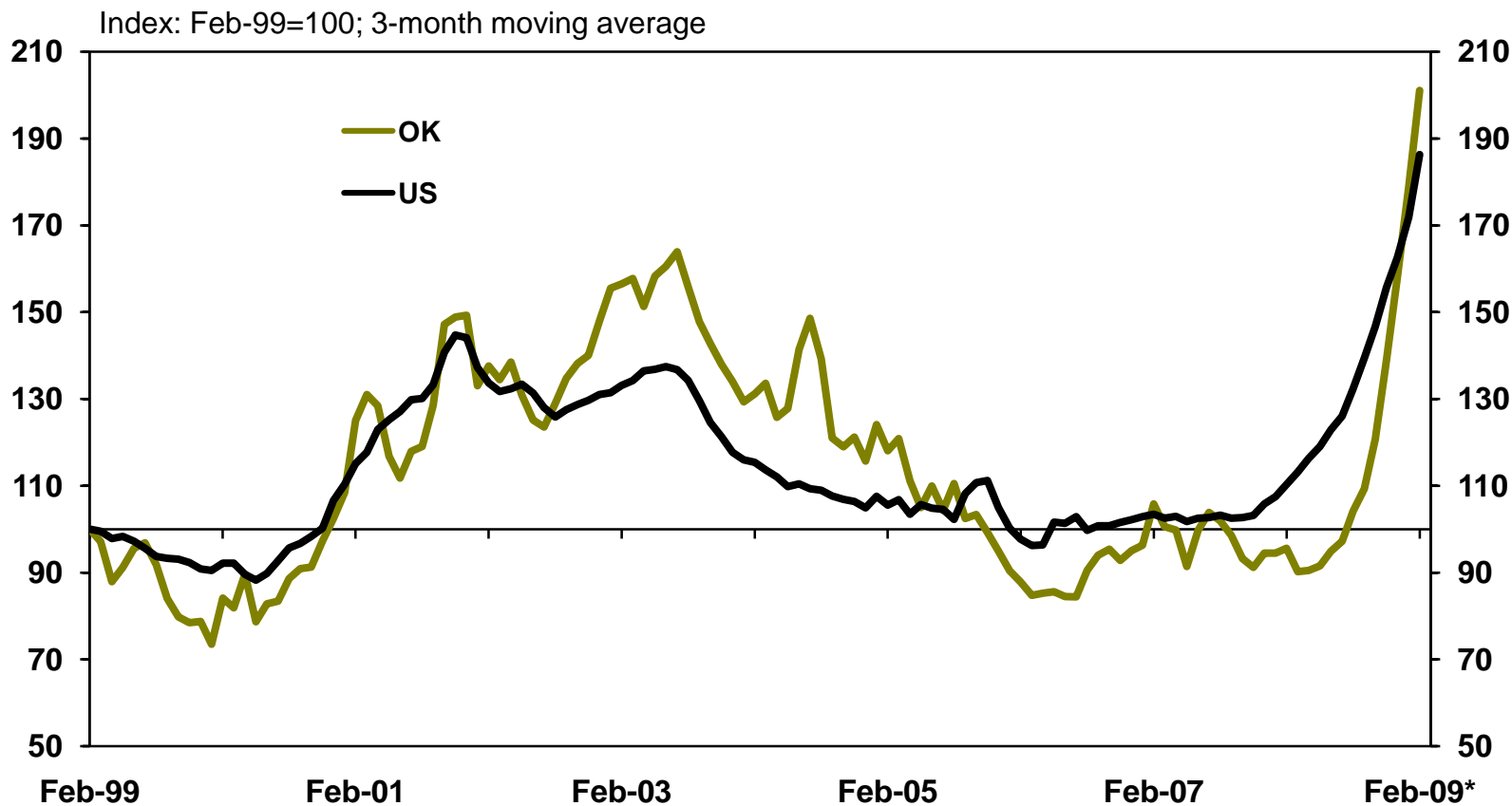
And so far, foreclosures have remained in check in Oklahoma

Total Foreclosures, U.S. vs. Oklahoma



But unemployment claims are now rising rapidly, changing the picture for the state

Weekly Unemployment Insurance Claims

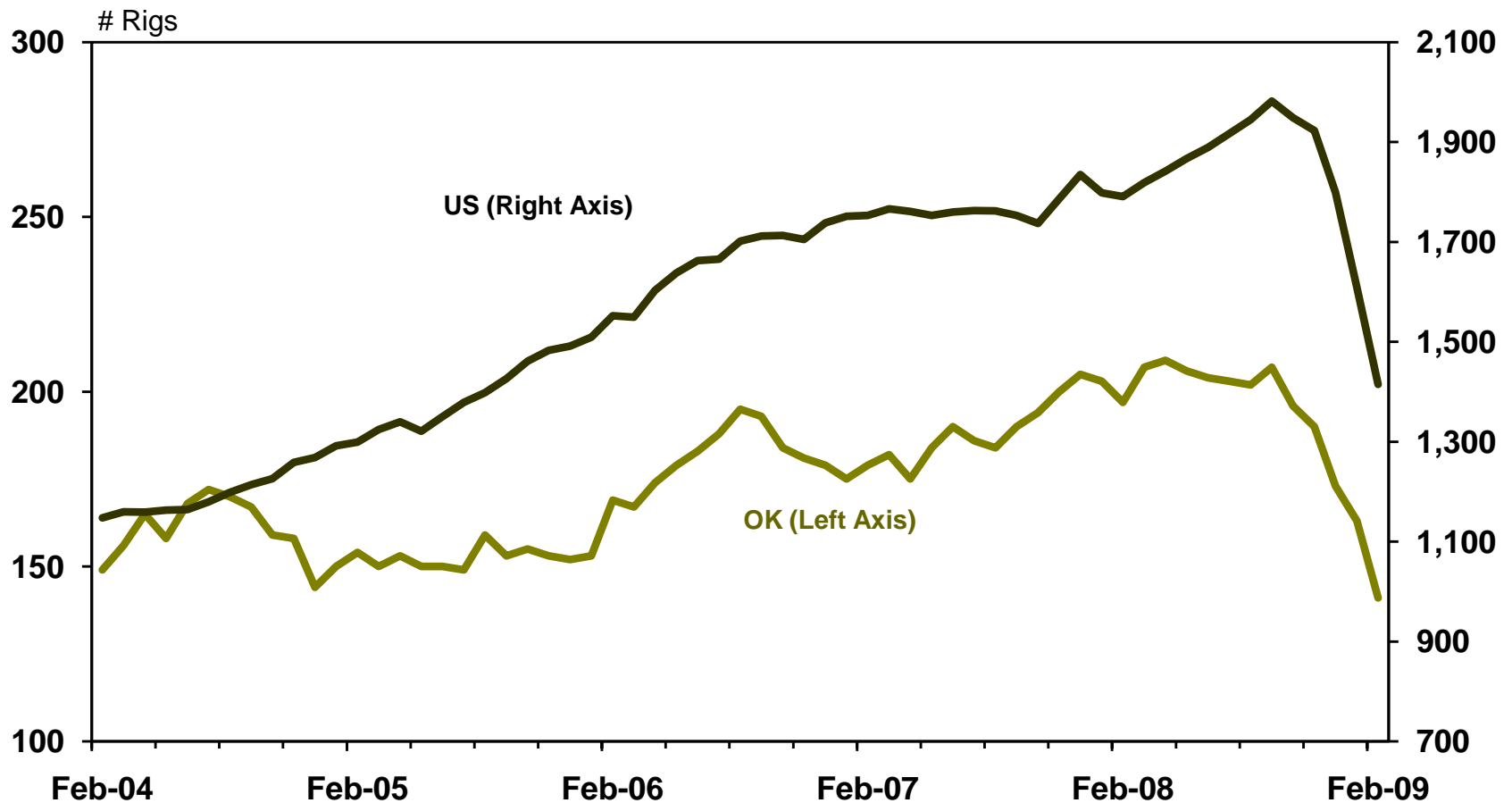


*Preliminary data

Source: U.S. Bureau of Labor Statistics

The rig count has fallen sharply in recent months and is expected to fall further

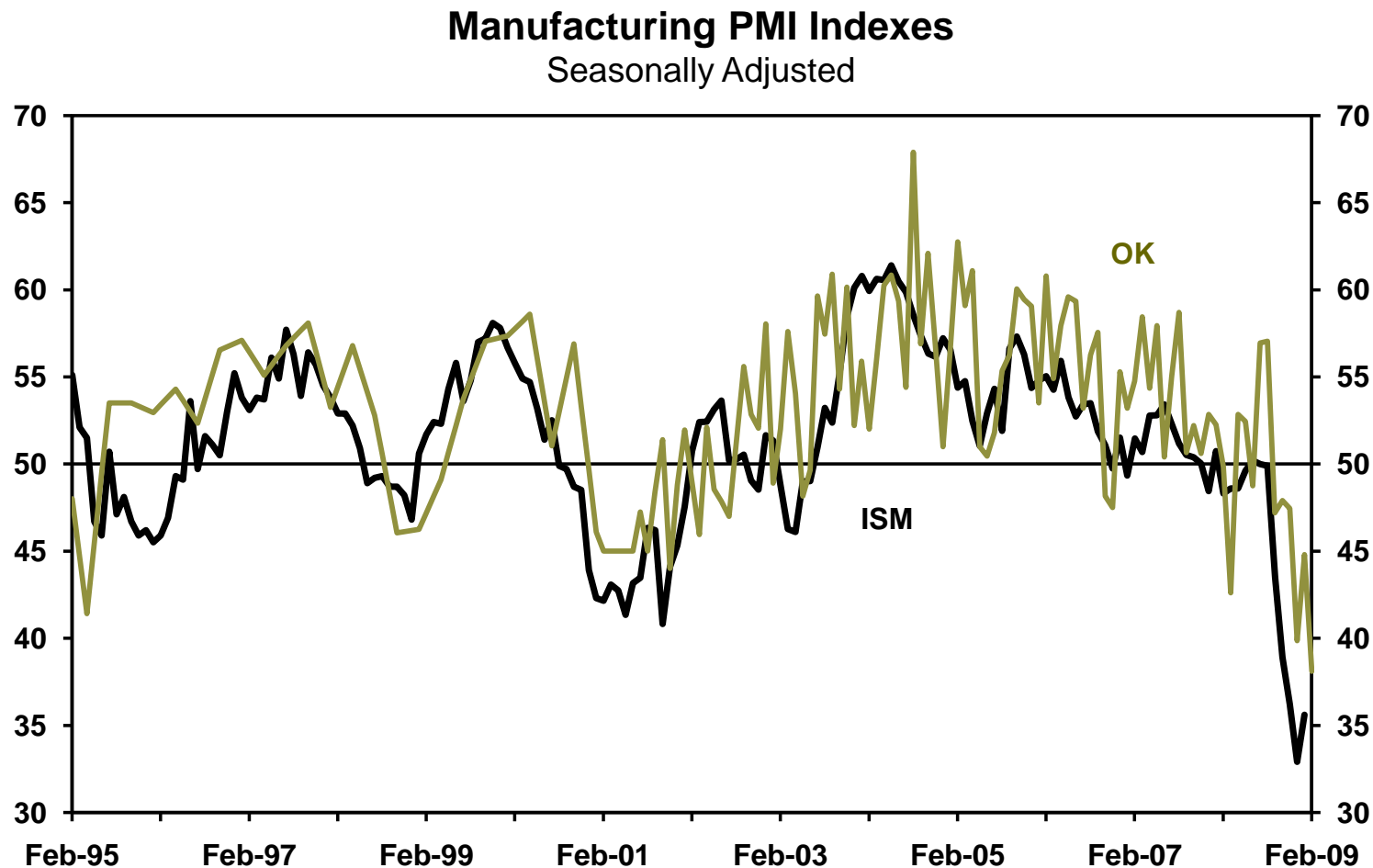
Count of Active Drilling Rigs



Manufacturing in Oklahoma

- The sector is currently struggling
- It remains a sizable part of the economy
- Future opportunities exist

Manufacturing activity in the state has fallen sharply in recent months

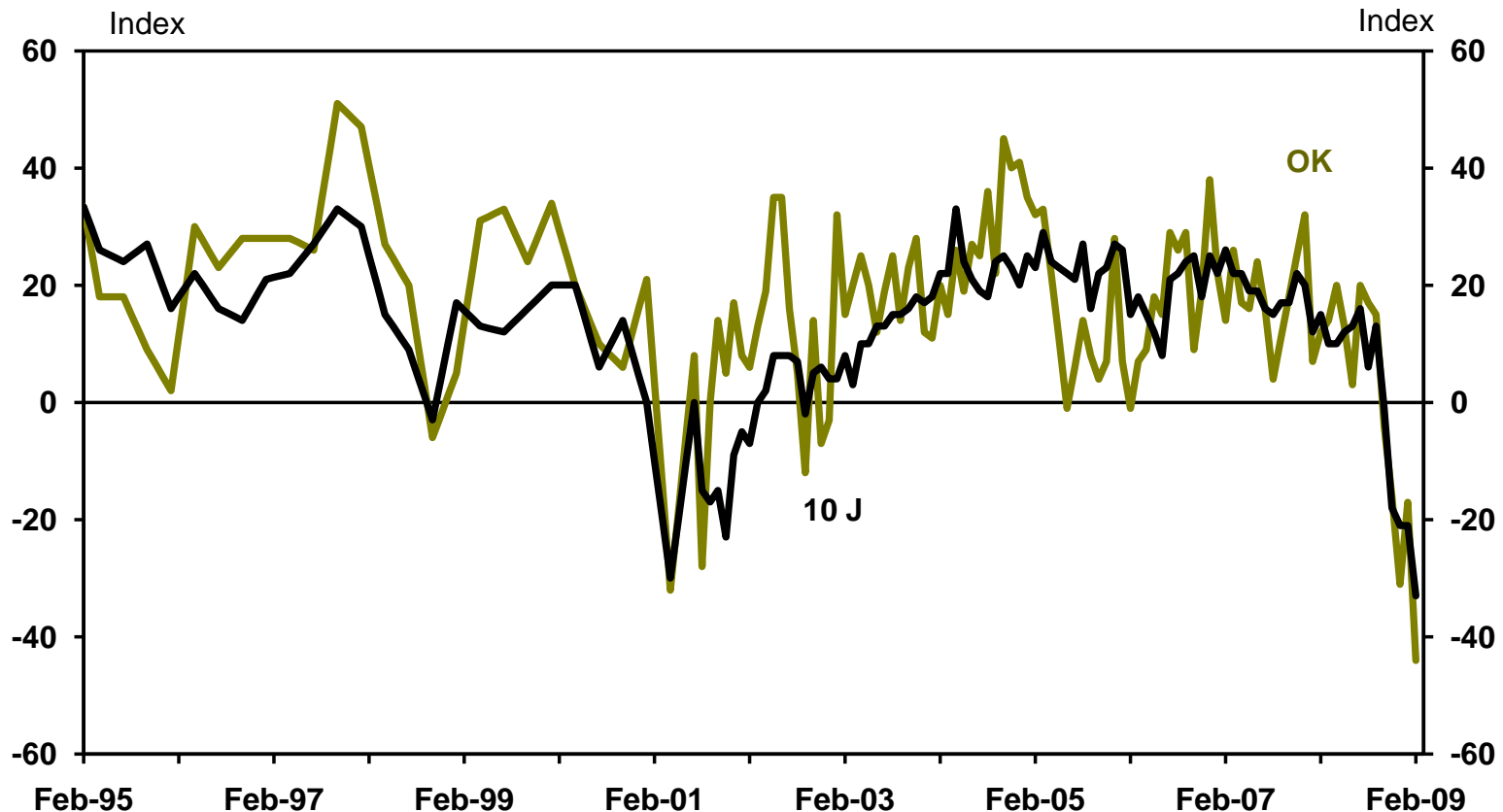


Note: OK index is computed on ISM basis (50 = zero change)

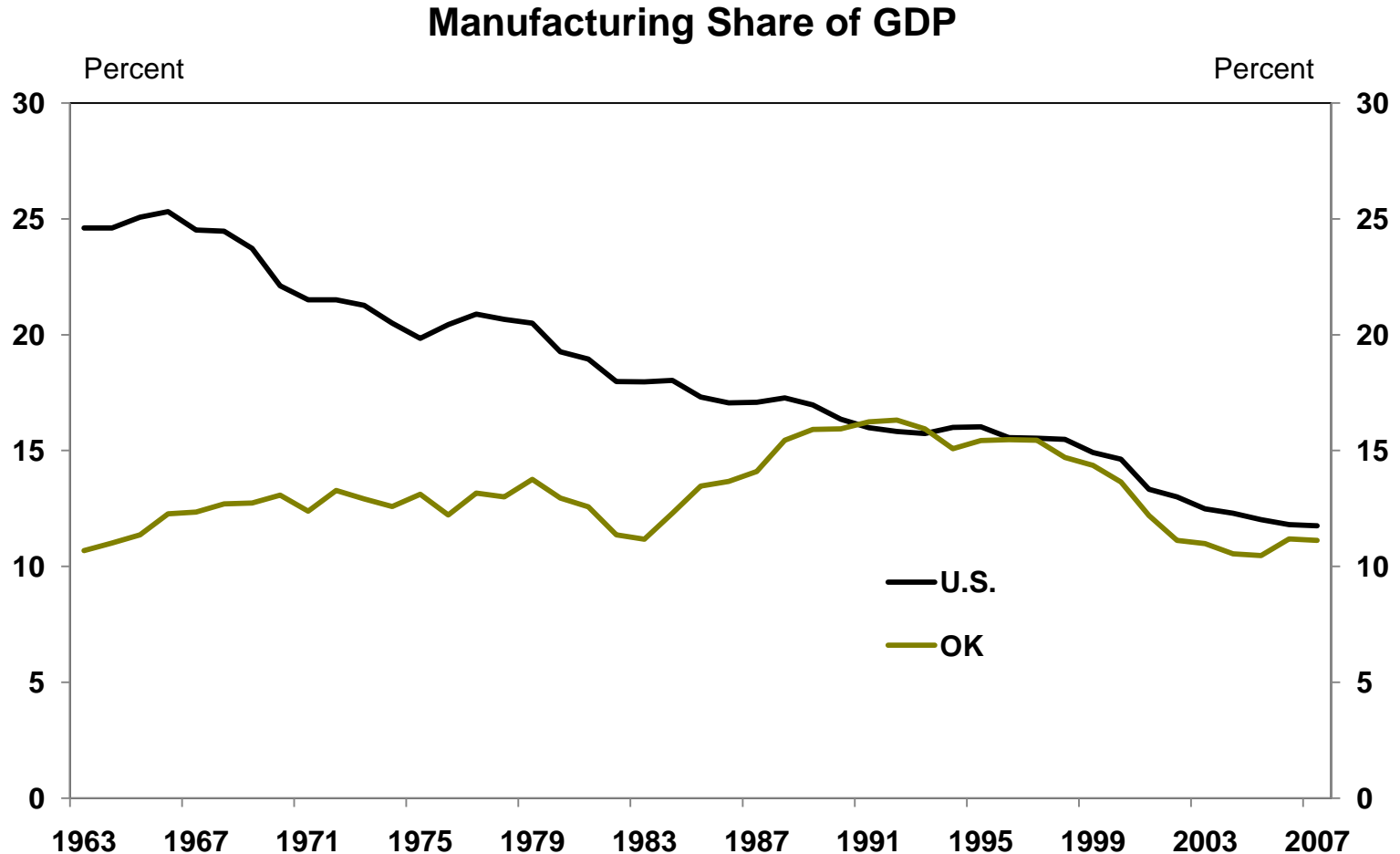
Source: ISM, FRBKC Manufacturing Survey

Most factories now plan to cut 2009 capital spending, in contrast to a few months ago

Manufacturing Capital Spending Plans
Six-months ahead

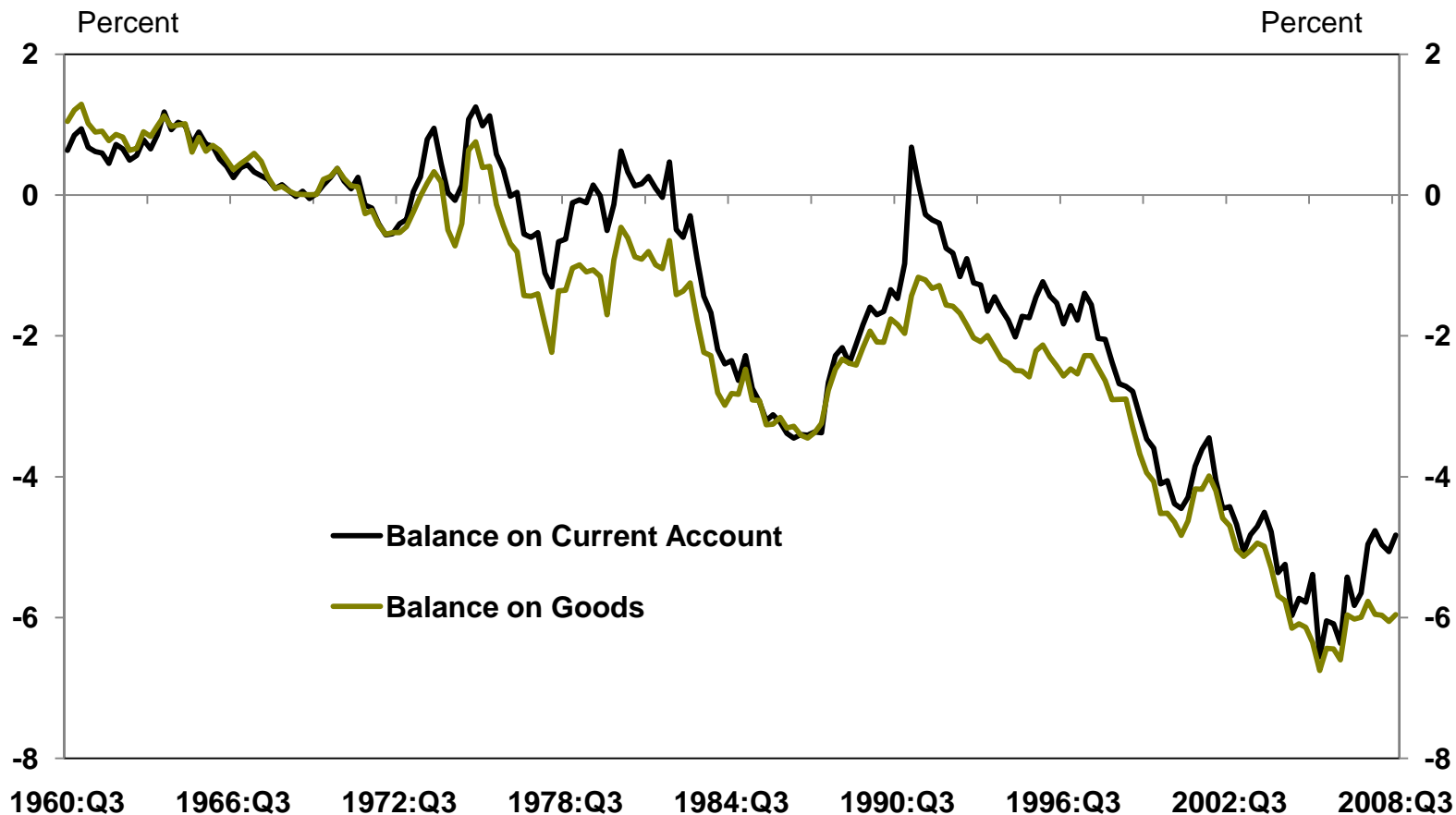


Manufacturing's share of Oklahoma's economy has remained sizable



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 have deteriorated
- Oklahoma conditions remain better, but some recent high-frequency data have been worse
- Efforts to boost U.S. growth should benefit OK
- Manufacturing should remain a vital part of the state's economy heading forward