

Recession and Recovery in the U.S. and Oklahoma

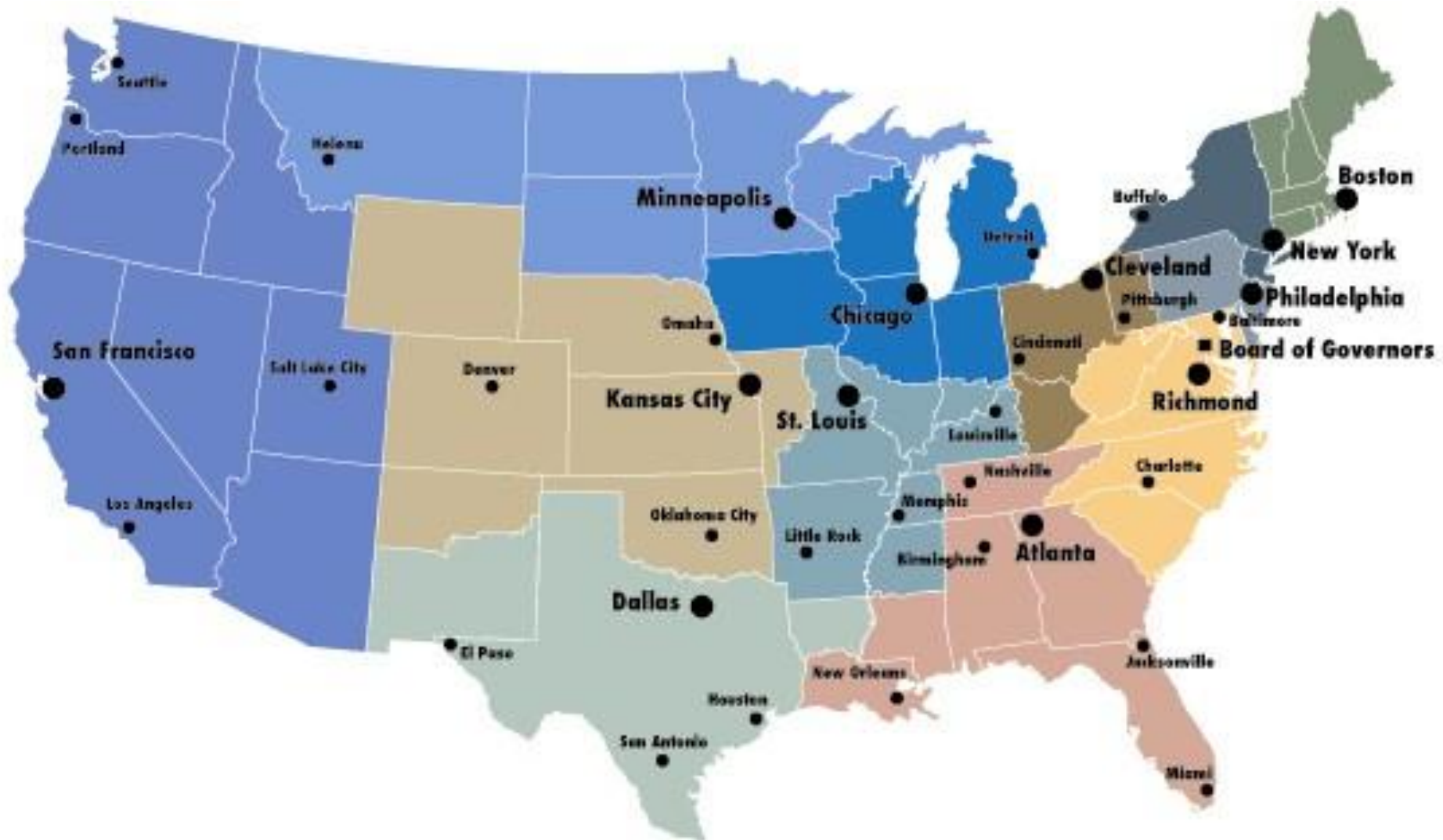


Chad Wilkerson
Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City

Purposes and Structure of the Federal Reserve System

- **Overall purposes of the Fed are to promote:**
 - Maximum sustainable 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**

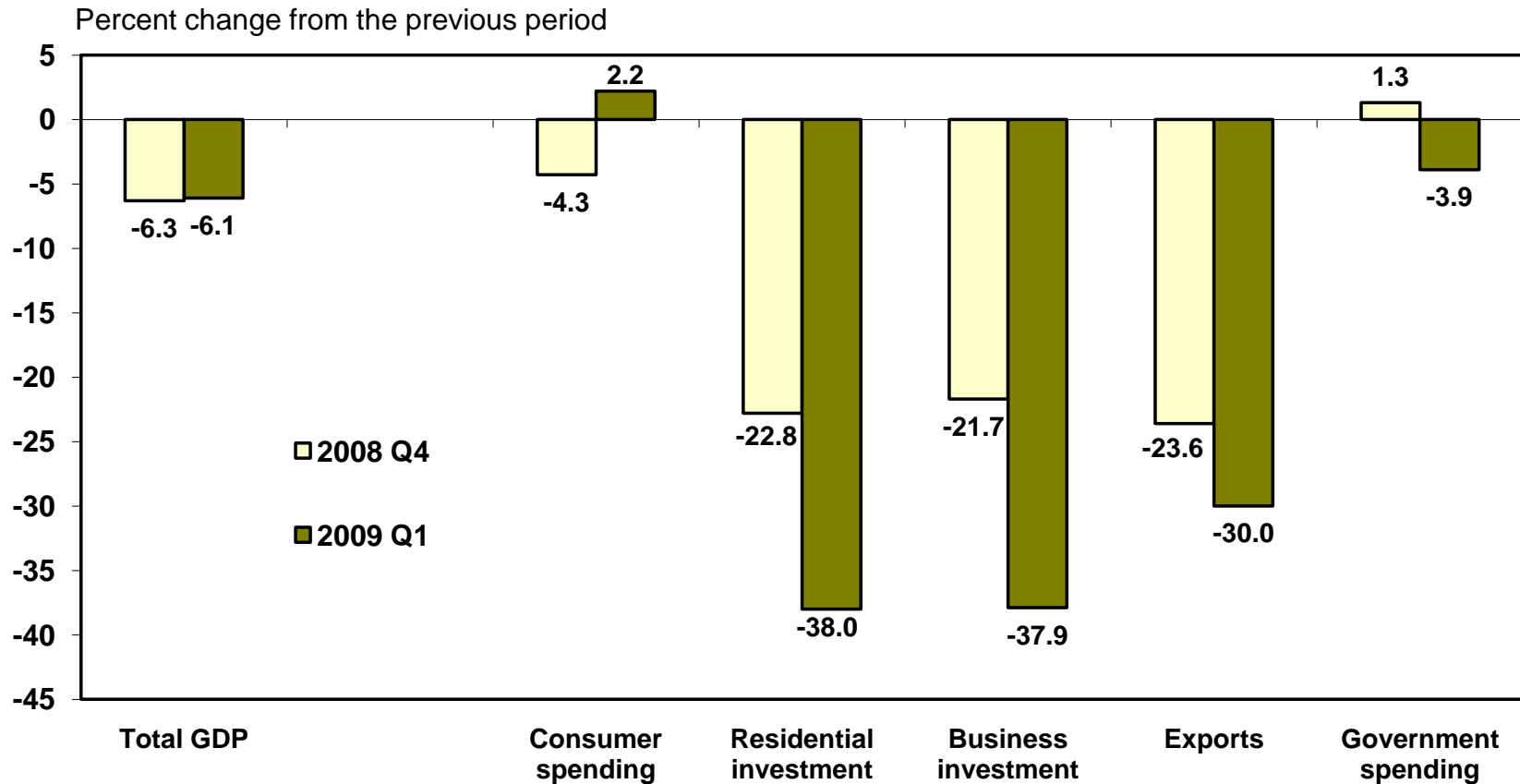
- *Chairman* **Steve Agee**, President, Agee Energy, and Professor, OCU, Oklahoma City
- **Terry Almon**, President, Oklahoma Community Capital Corp., Broken Arrow
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
- **Fred Ramos**, COO,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

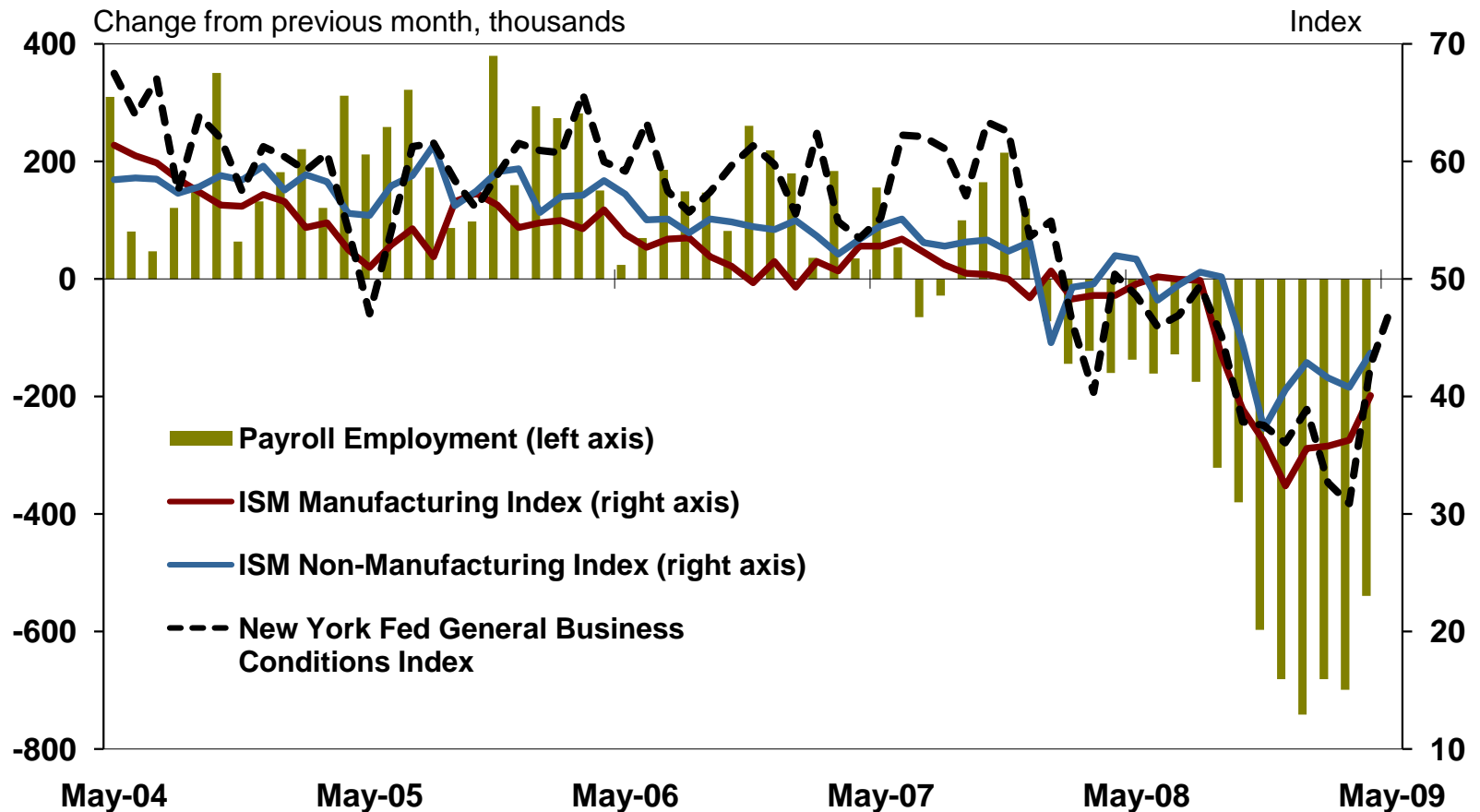
The U.S. economy contracted sharply in the two most recent quarters

Growth in Components of GDP



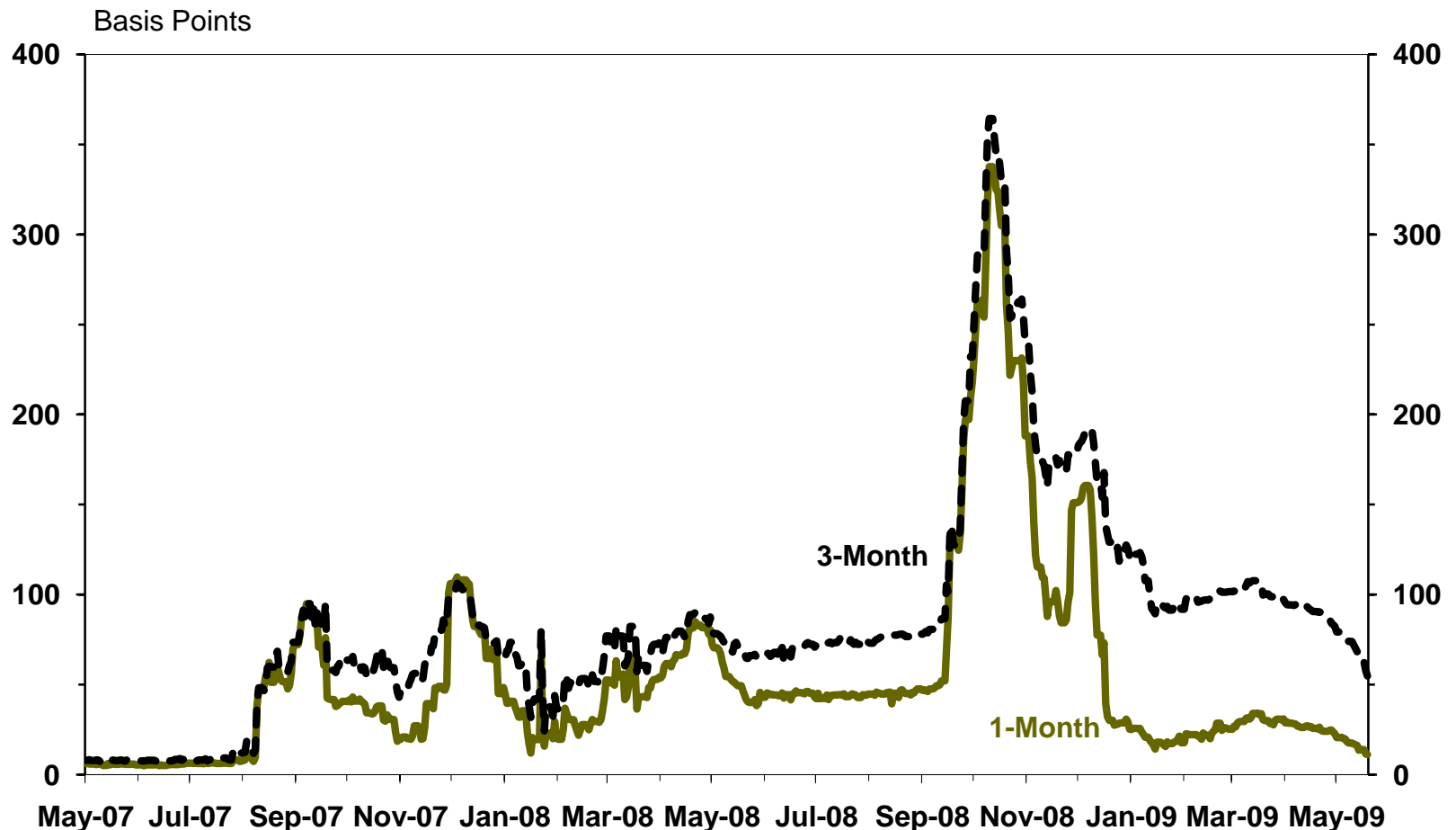
But the pace of decline appears much smaller in Q2

National Business Indexes and Payroll Employment



Interbank lending conditions have improved since the fall, but remain somewhat strained

LIBOR-OIS Spread



The U.S. policy response has been broad

□ Federal Reserve

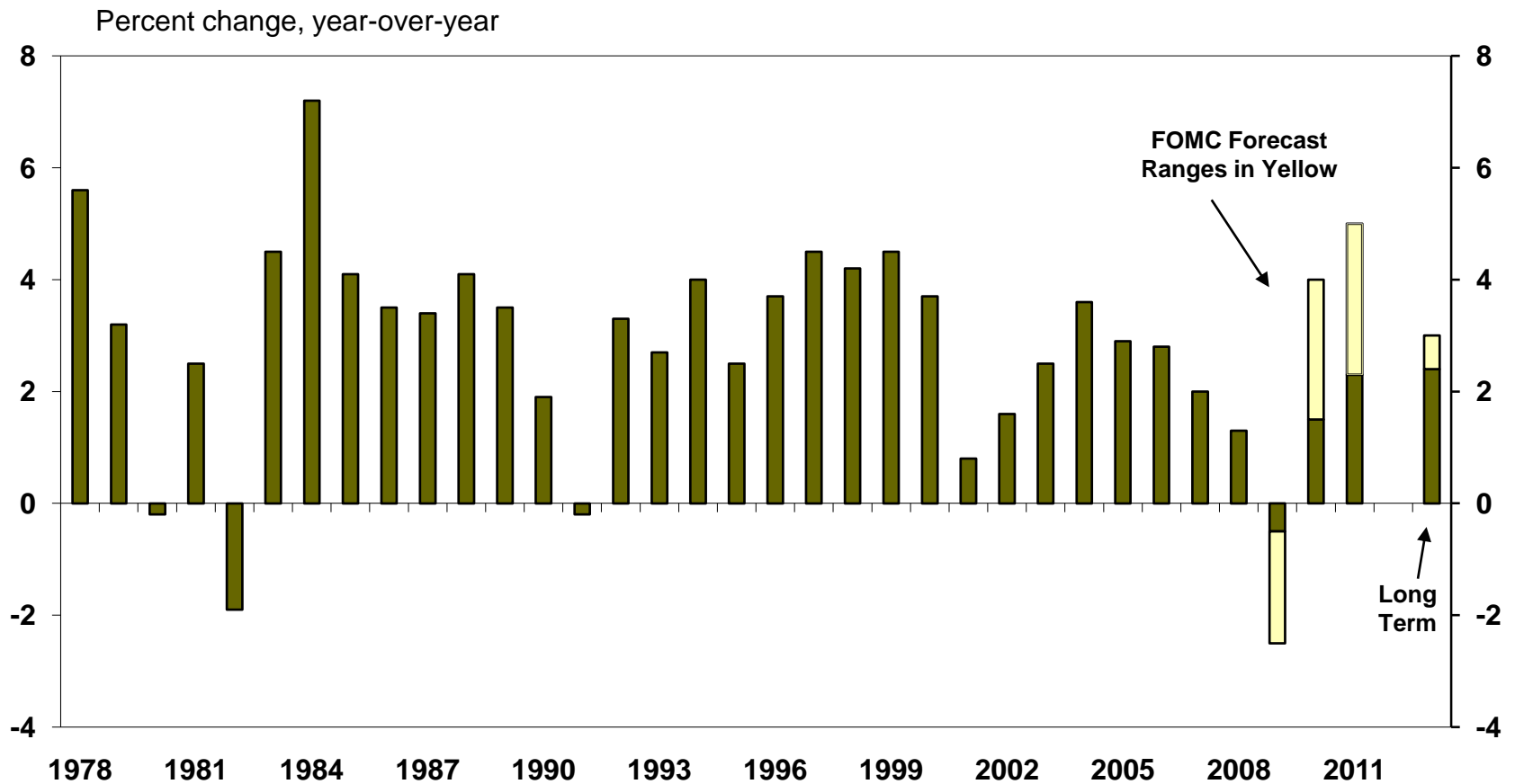
- Lowered the Fed Funds rate
- Implemented numerous liquidity facilities
- Purchased long-term securities

□ U.S. Treasury and Congress

- Passed the TARP
- Passed a large fiscal stimulus bill
- Some foreclosure prevention policies

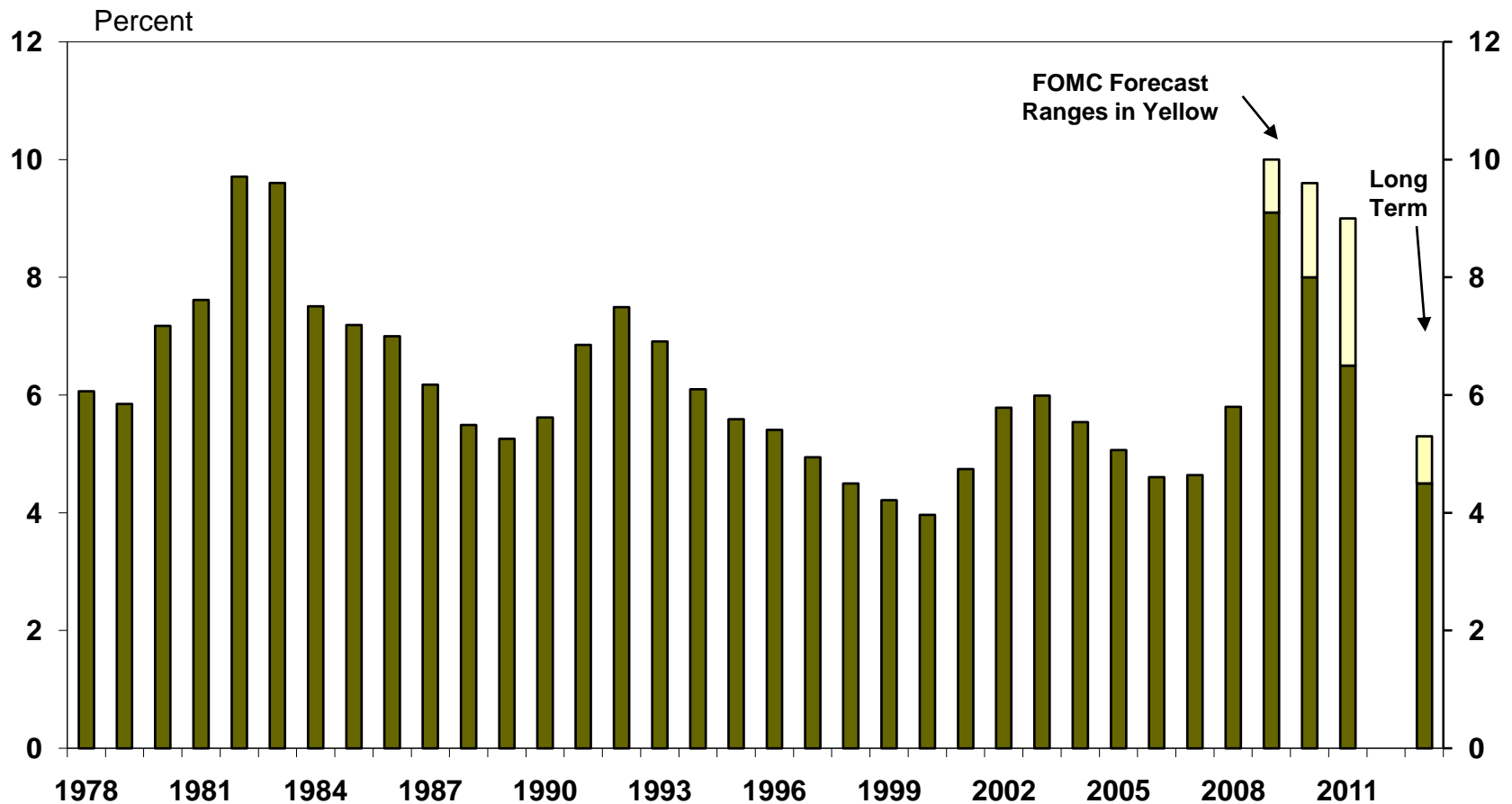
Heading forward, policy makers generally expect a gradual recovery

Gross Domestic Product



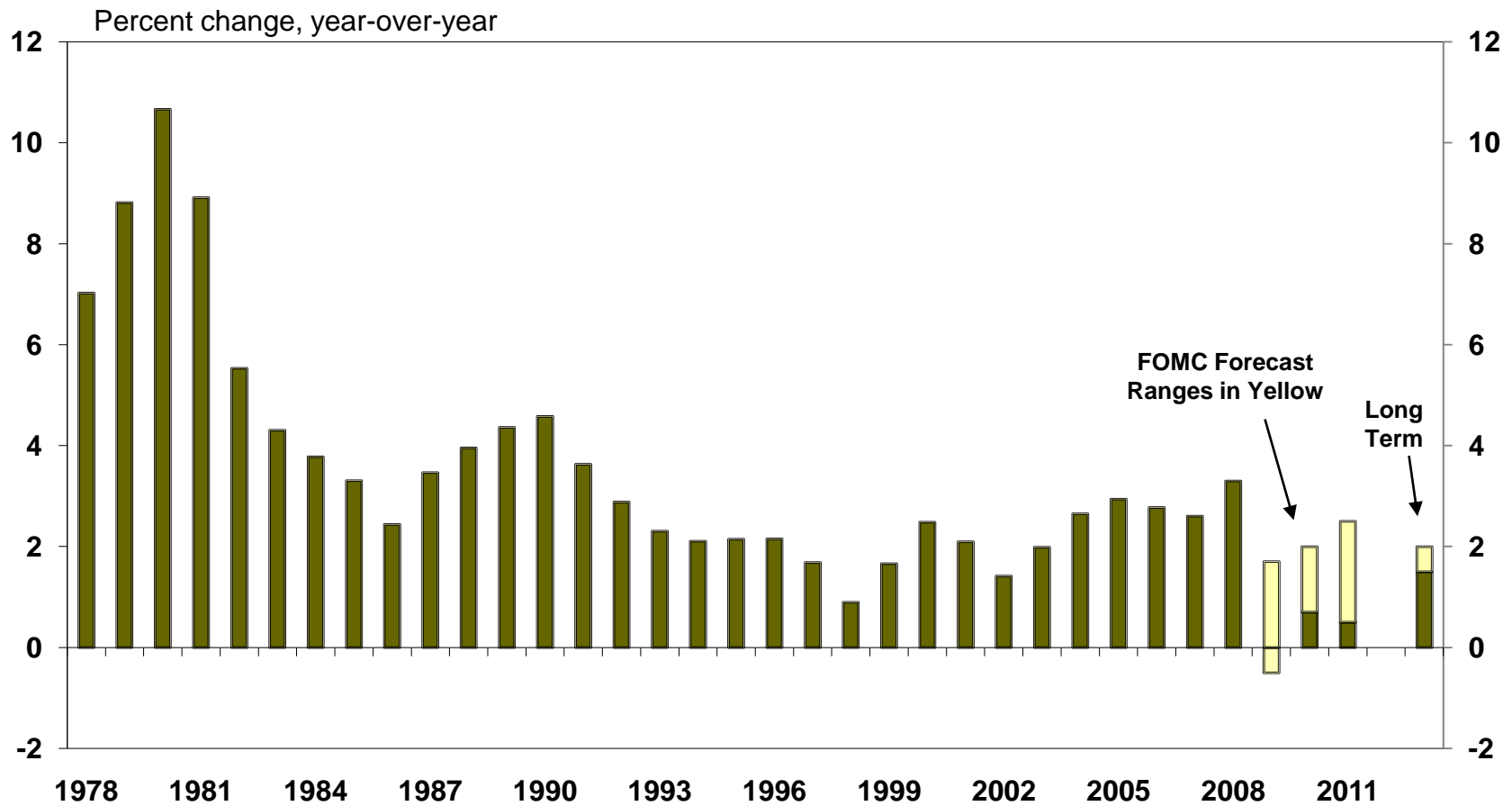
But U.S. unemployment is expected to remain elevated for some time

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 downturn in energy activity has dragged the state into recession
- Very recent data suggest a bottom is near, and efforts to boost the U.S. economy are coming at a good time for Oklahoma

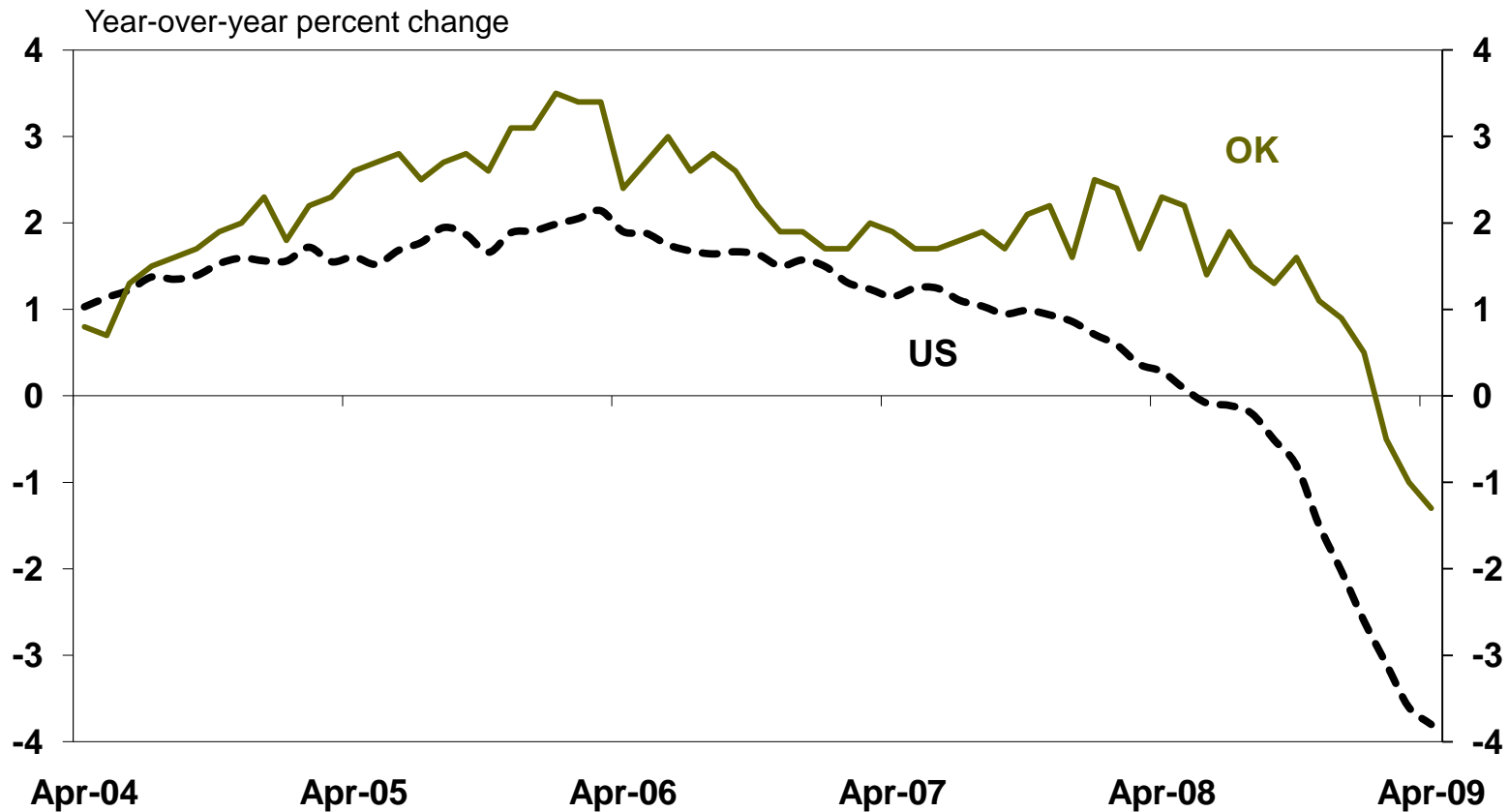
Unemployment remains relatively low in Oklahoma and most nearby states

Unemployment Rate, April 2009



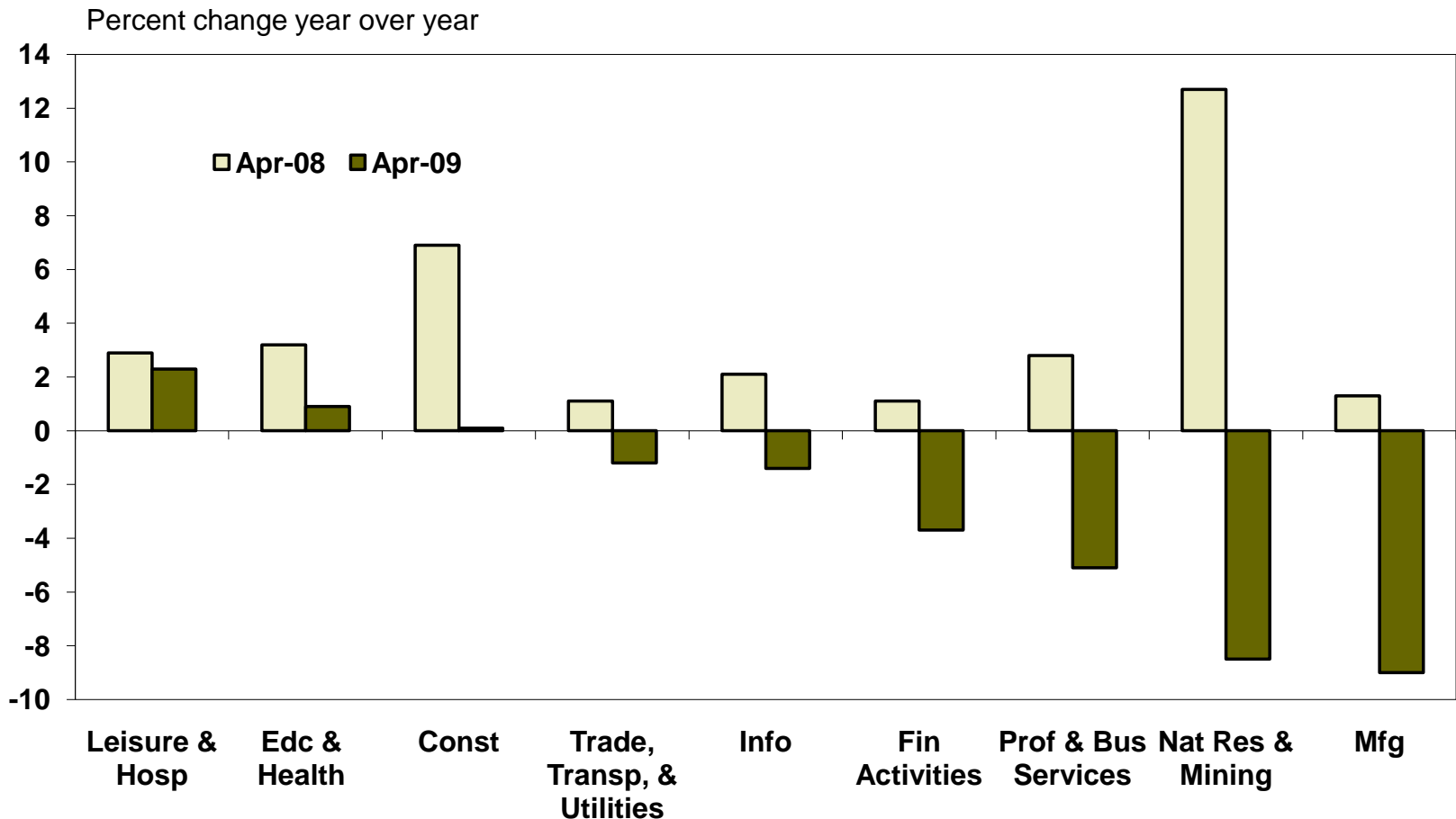
But jobs are now well below year-ago levels in Oklahoma, following a long boom

Nonfarm Payroll Employment Growth



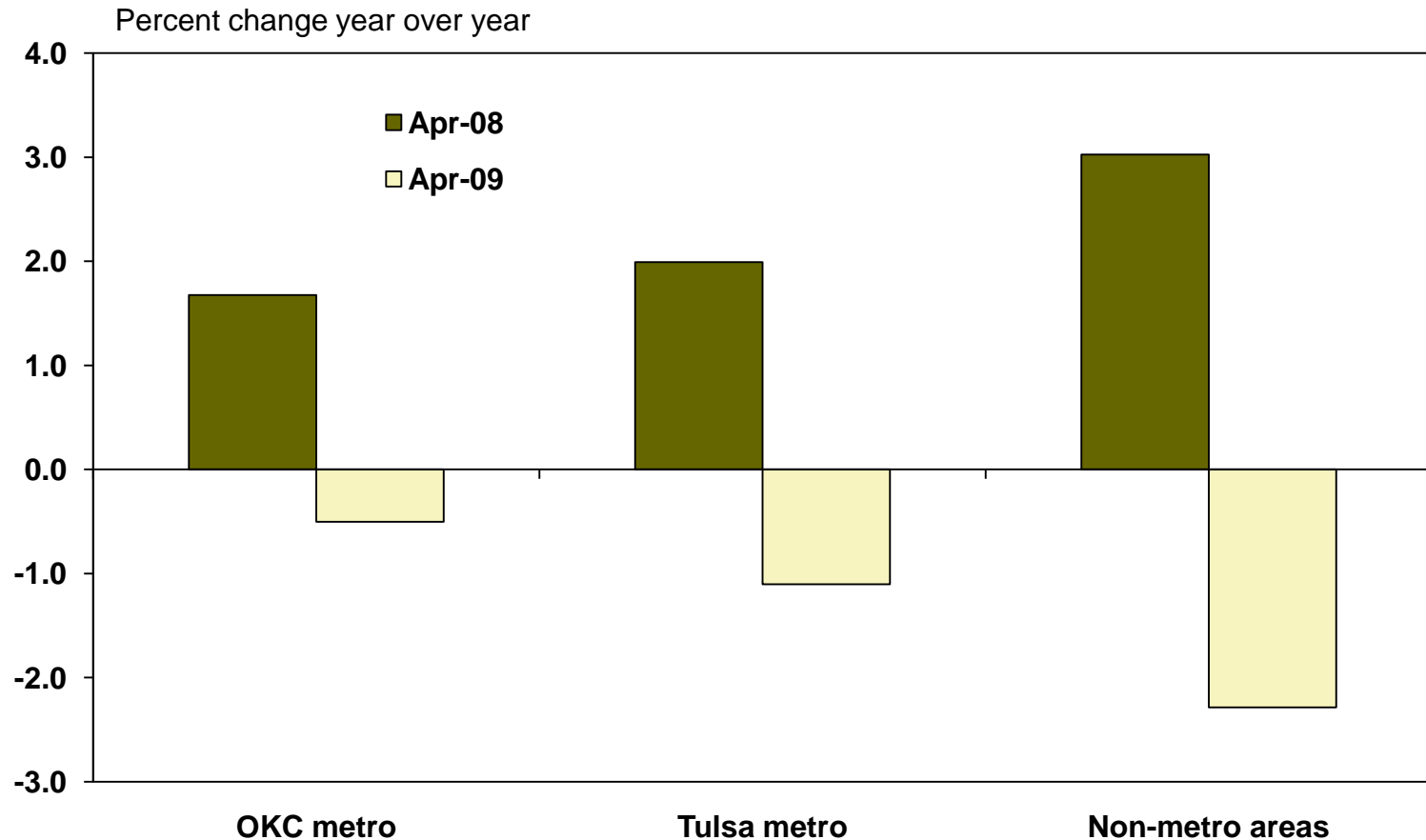
Employment is down in most industries in the state, especially energy and manufacturing

Oklahoma Employment Growth by Industry



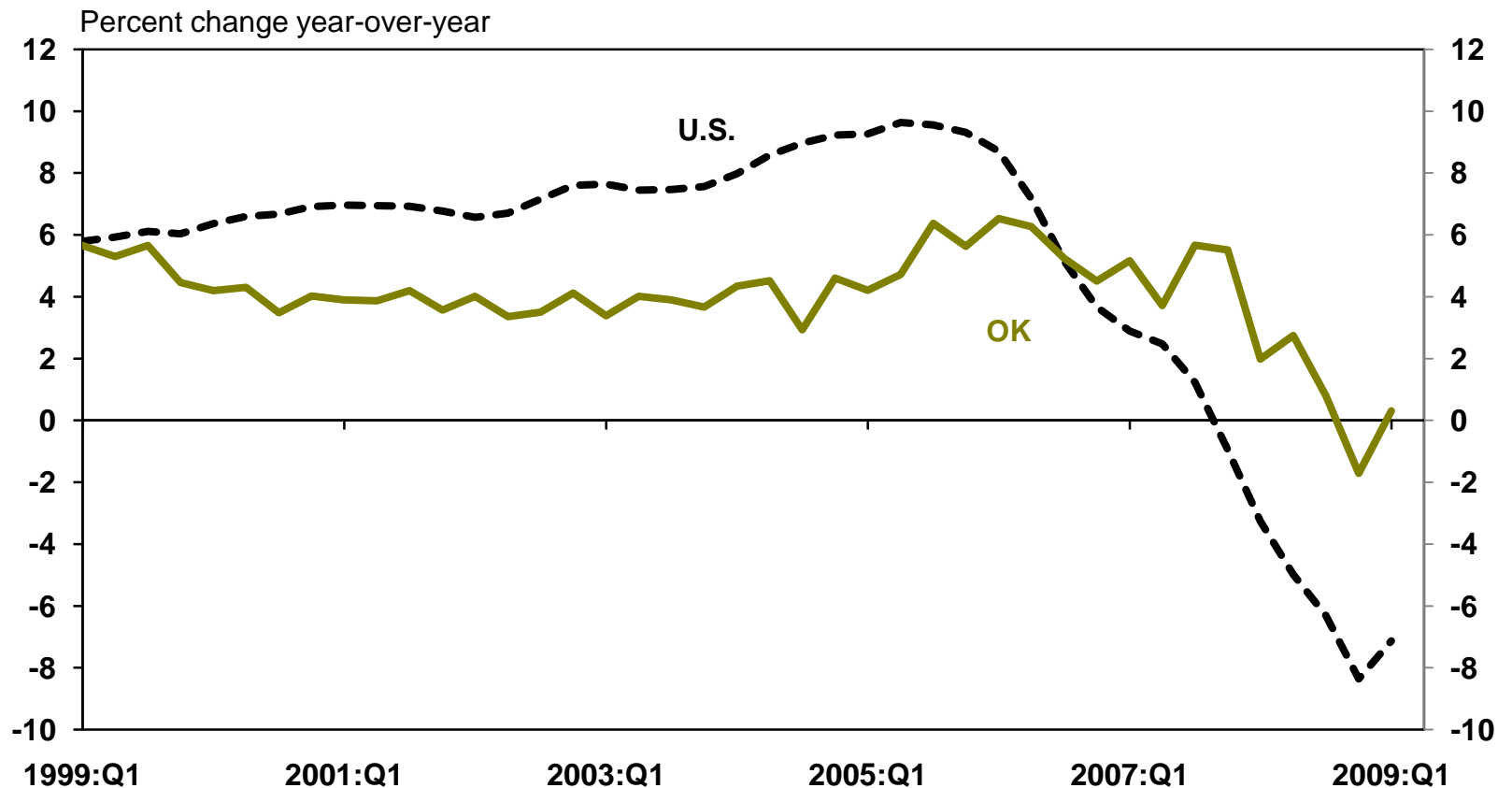
The decline in state job growth has been sharpest in non-metro areas

Employment Growth



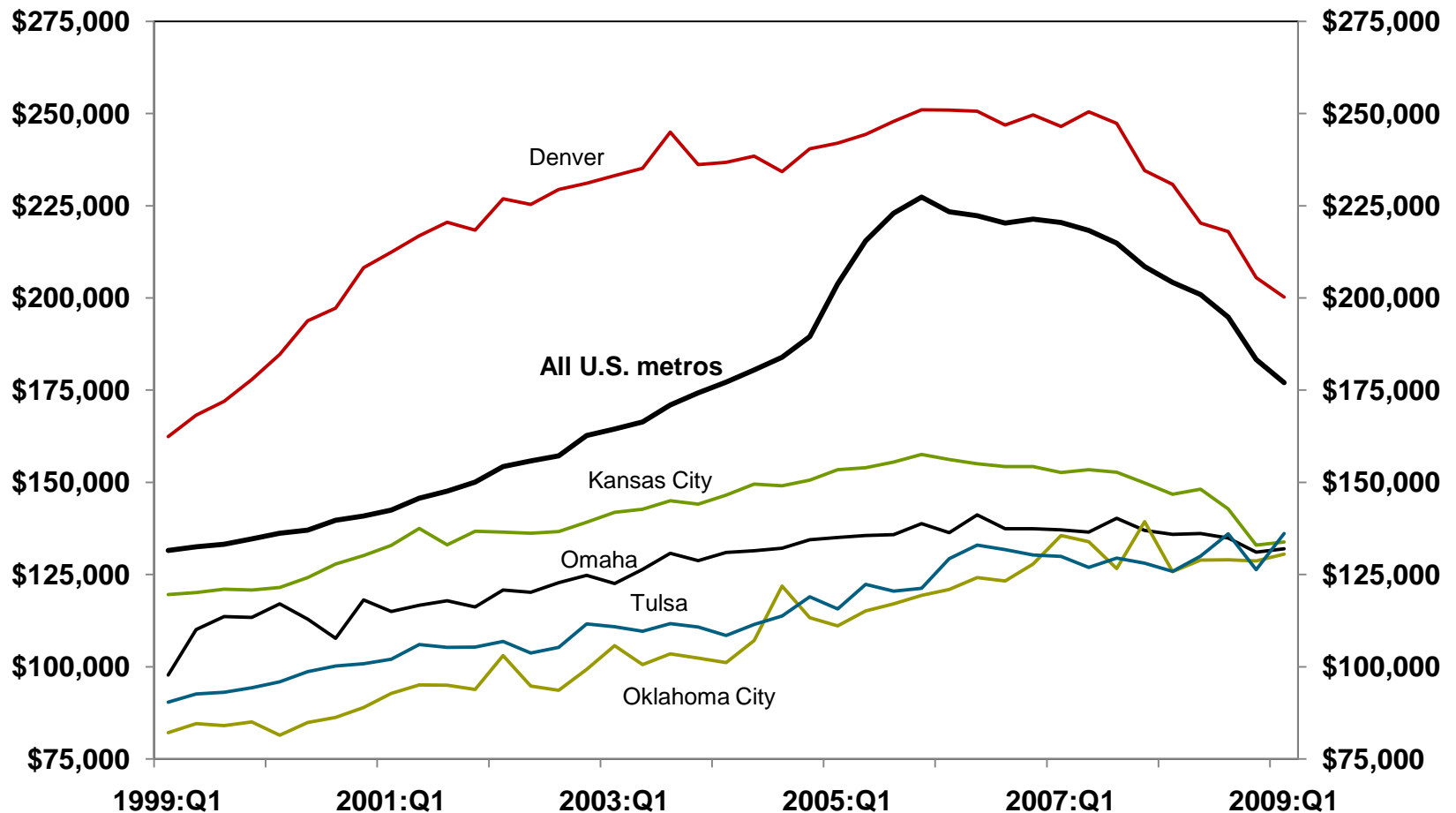
Unlike the nation, Oklahoma home prices remain similar to a year ago

Quality-Adjusted Home Price Growth Purchase-Only



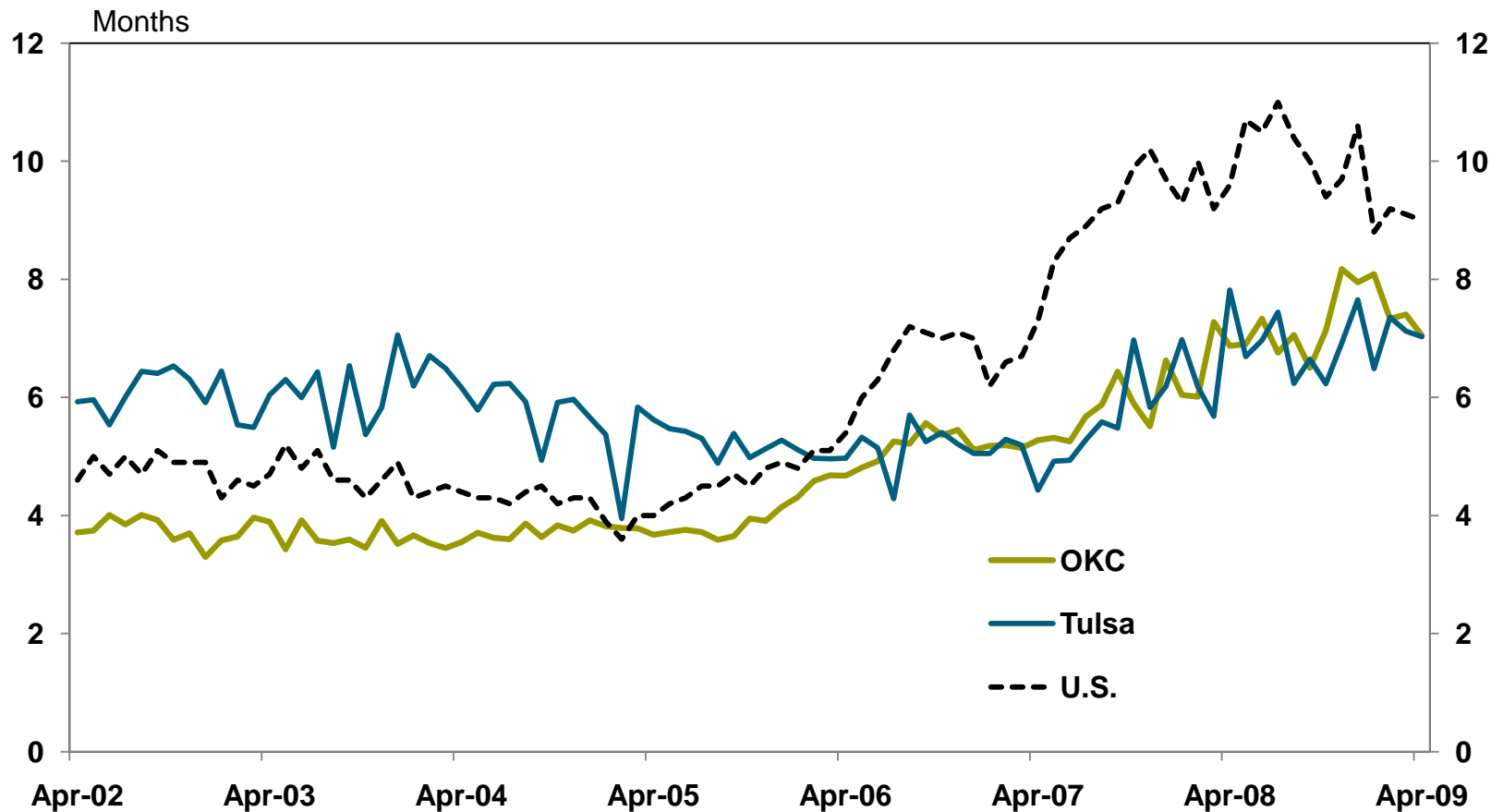
Indeed, OKC and Tulsa home prices have caught up with some other regional cities

Median Home Prices



The supply of unsold homes has leveled and remains much lower than the nation

Months Supply of Unsold Homes Seasonally Adjusted



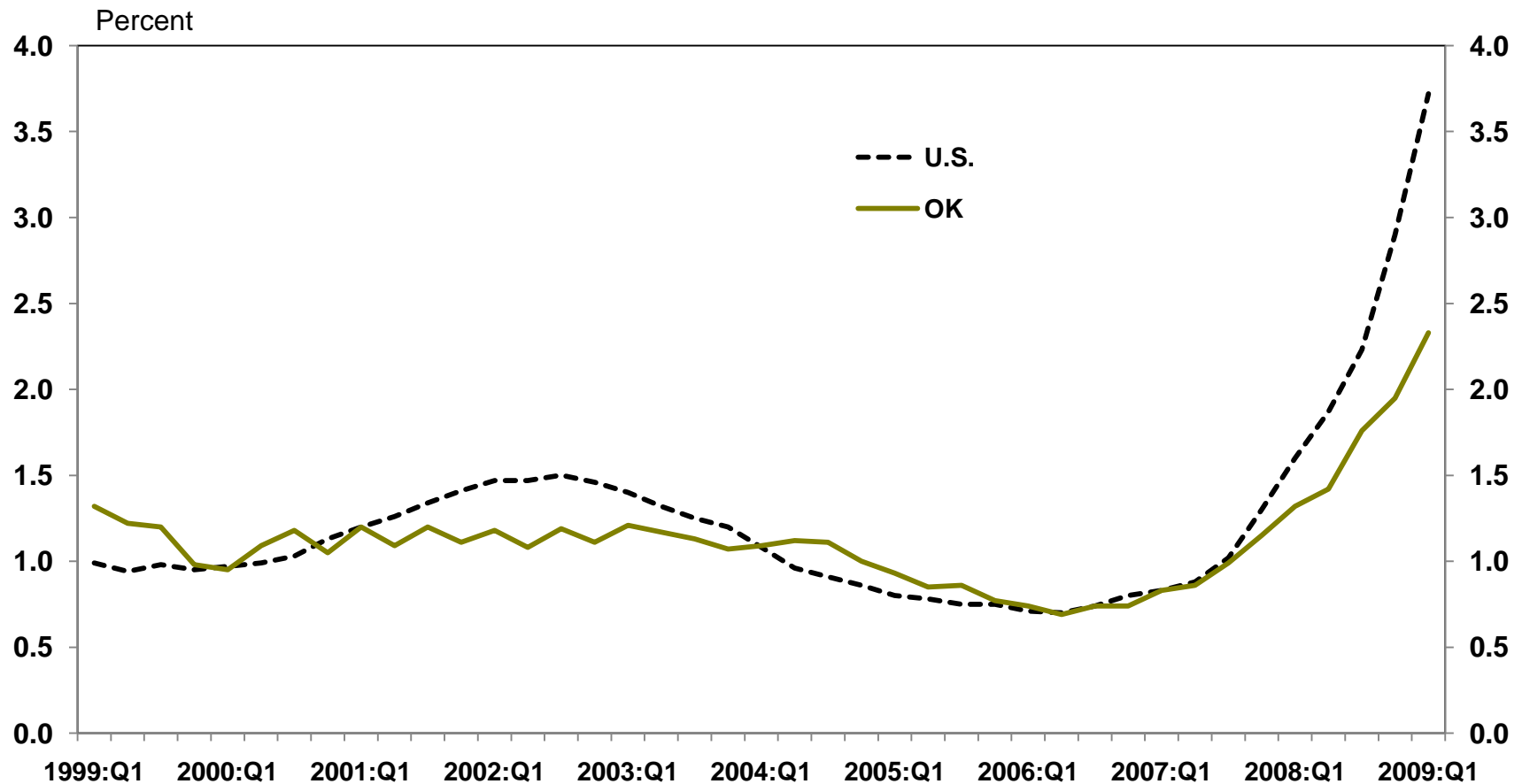
And home foreclosures have remained relatively low in the state

Foreclosure Rates, April 2009



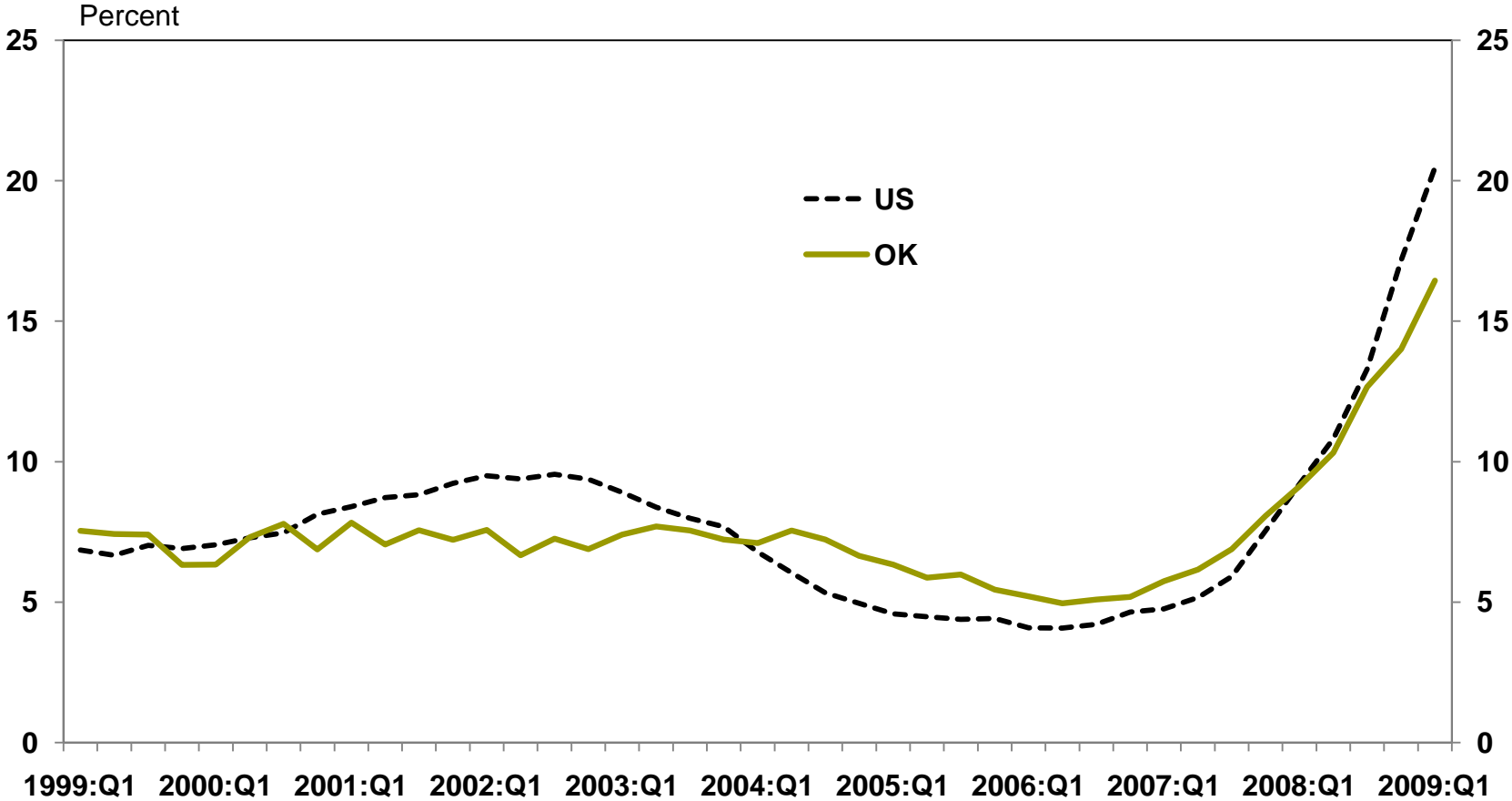
Past due loans have risen at Oklahoma banks, but much less than in the nation

Noncurrent Loans as a Share of Total Loans
Commercial Banks



Delinquent loans as a share of capital now exceeds 15 percent in the state

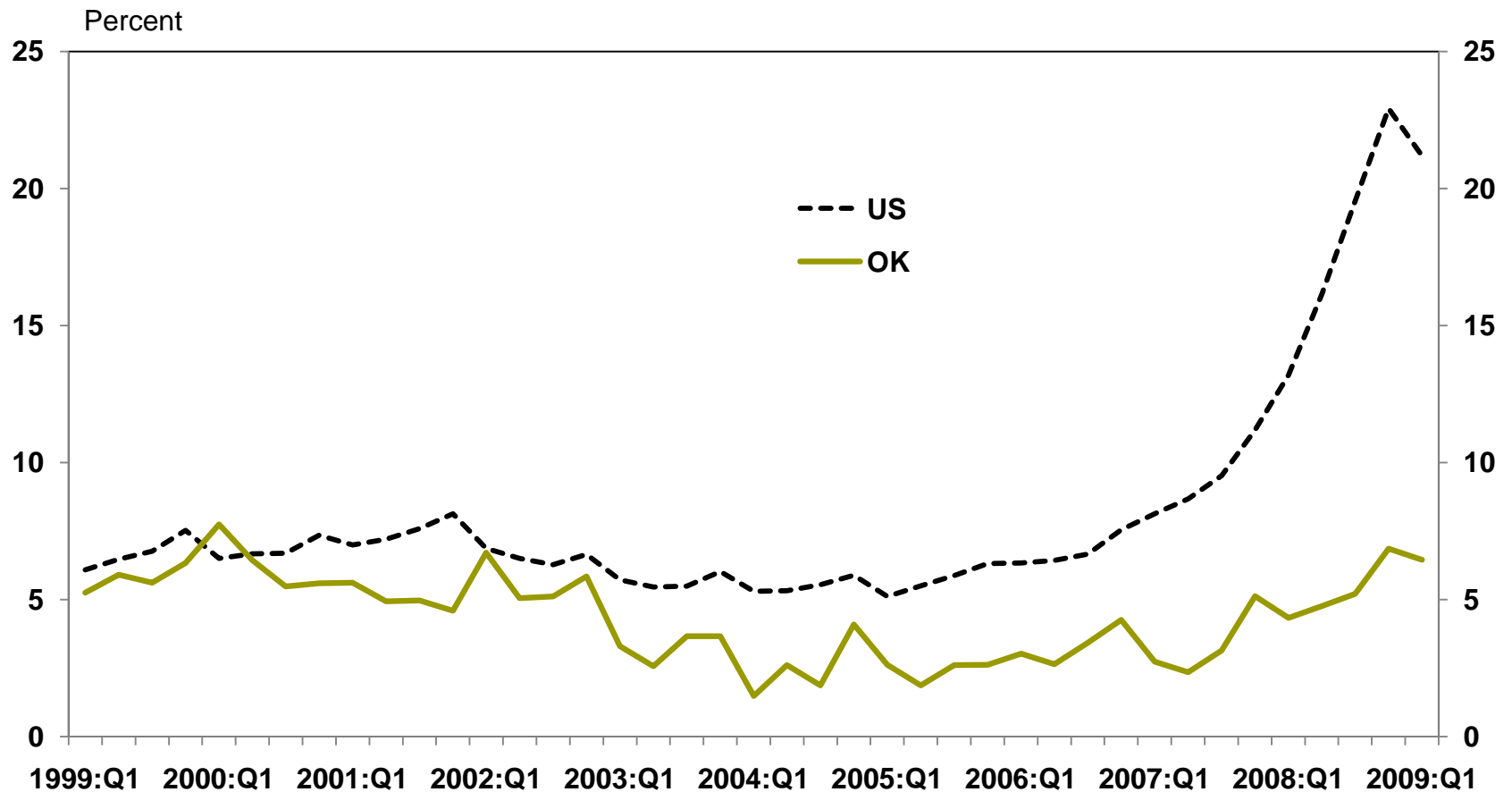
Noncurrent Loans as a Share of Equity Capital Commercial Banks



Source: FDIC

But the number of unprofitable banks has increased only marginally in OK

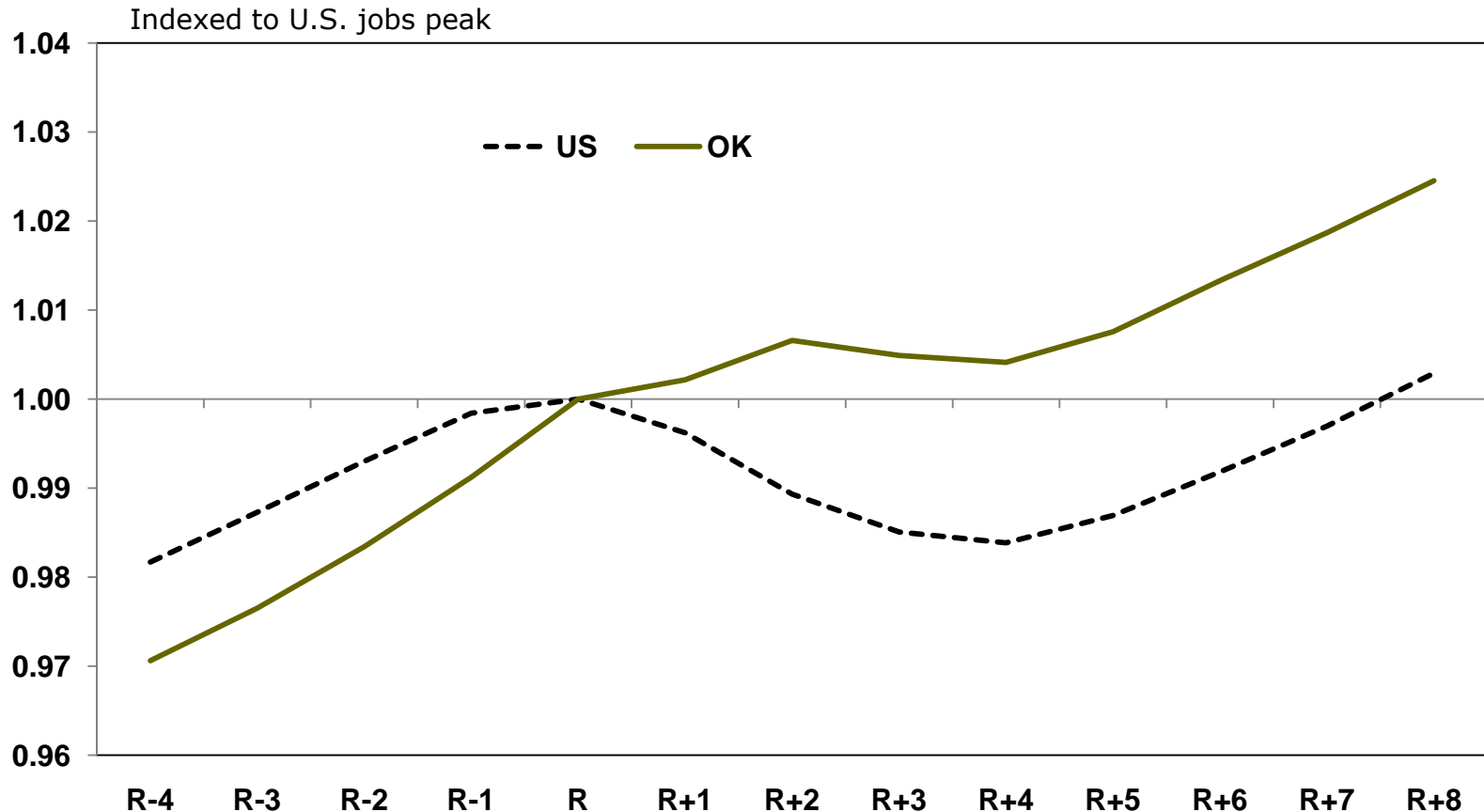
Share of Banks Unprofitable in the Quarter
Commercial Banks



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

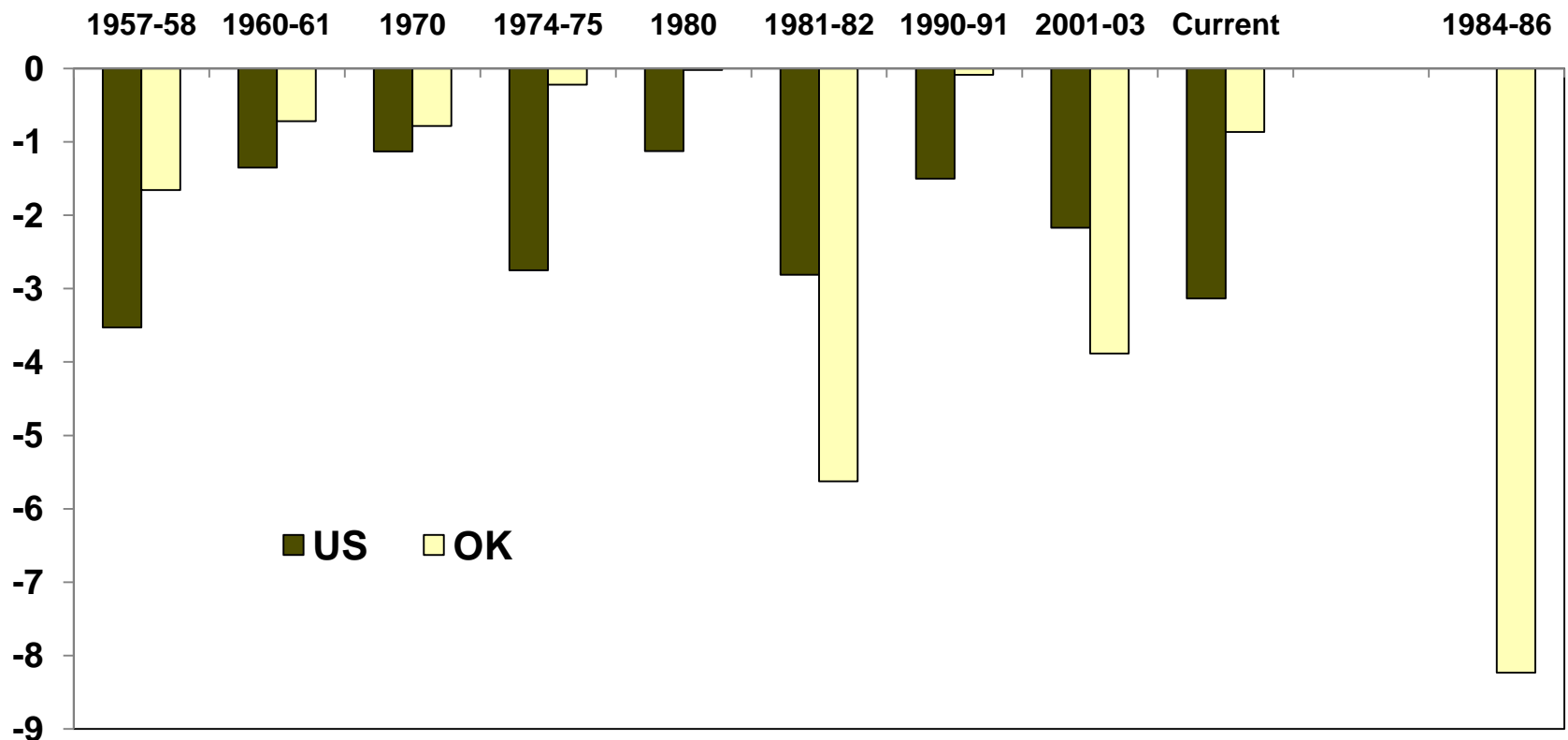
Average Recession Path, 1956-2006

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



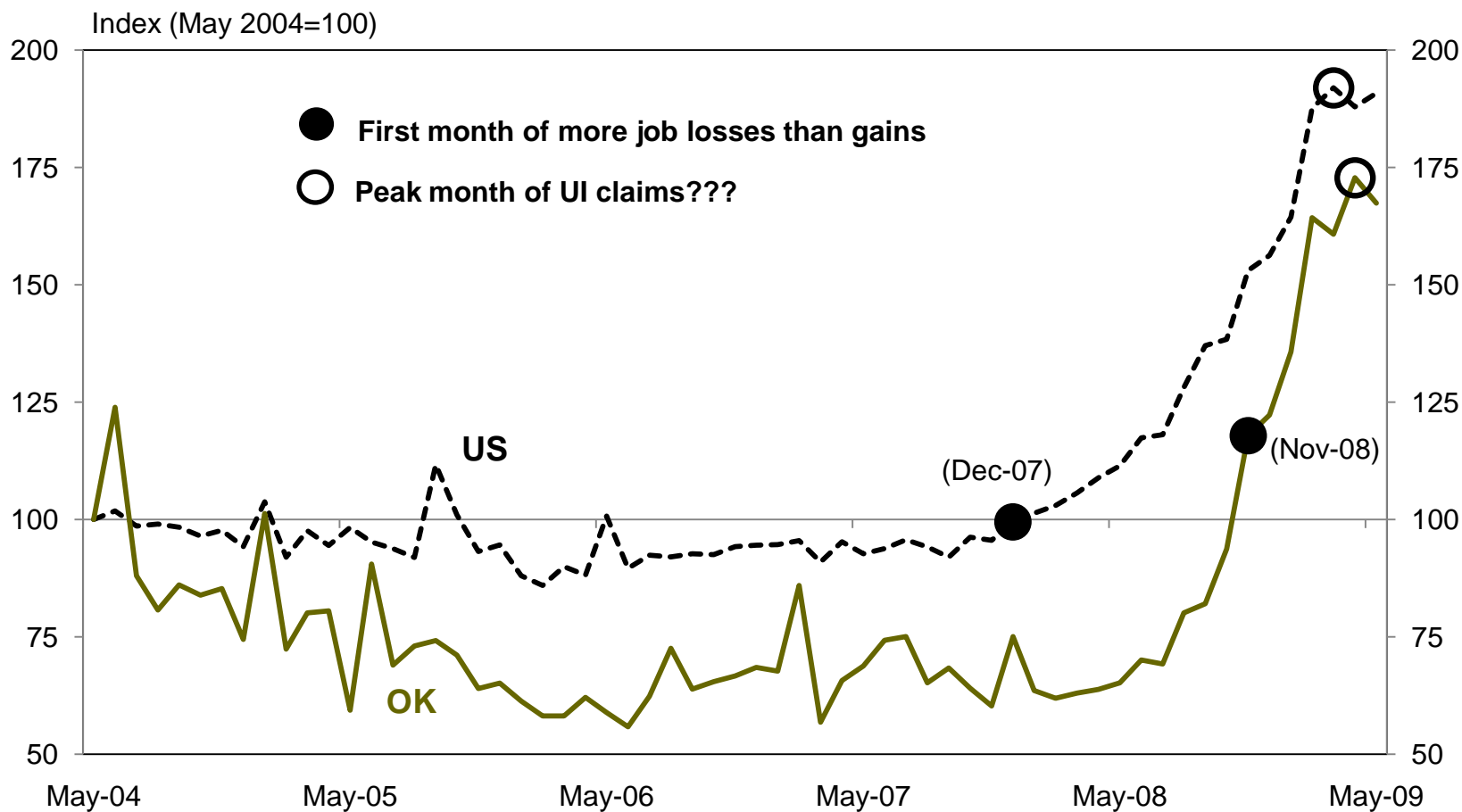
With the shorter duration, Oklahoma's job losses in U.S. recessions are usually smaller

Job Losses in Recessions, 1956-present
Percent



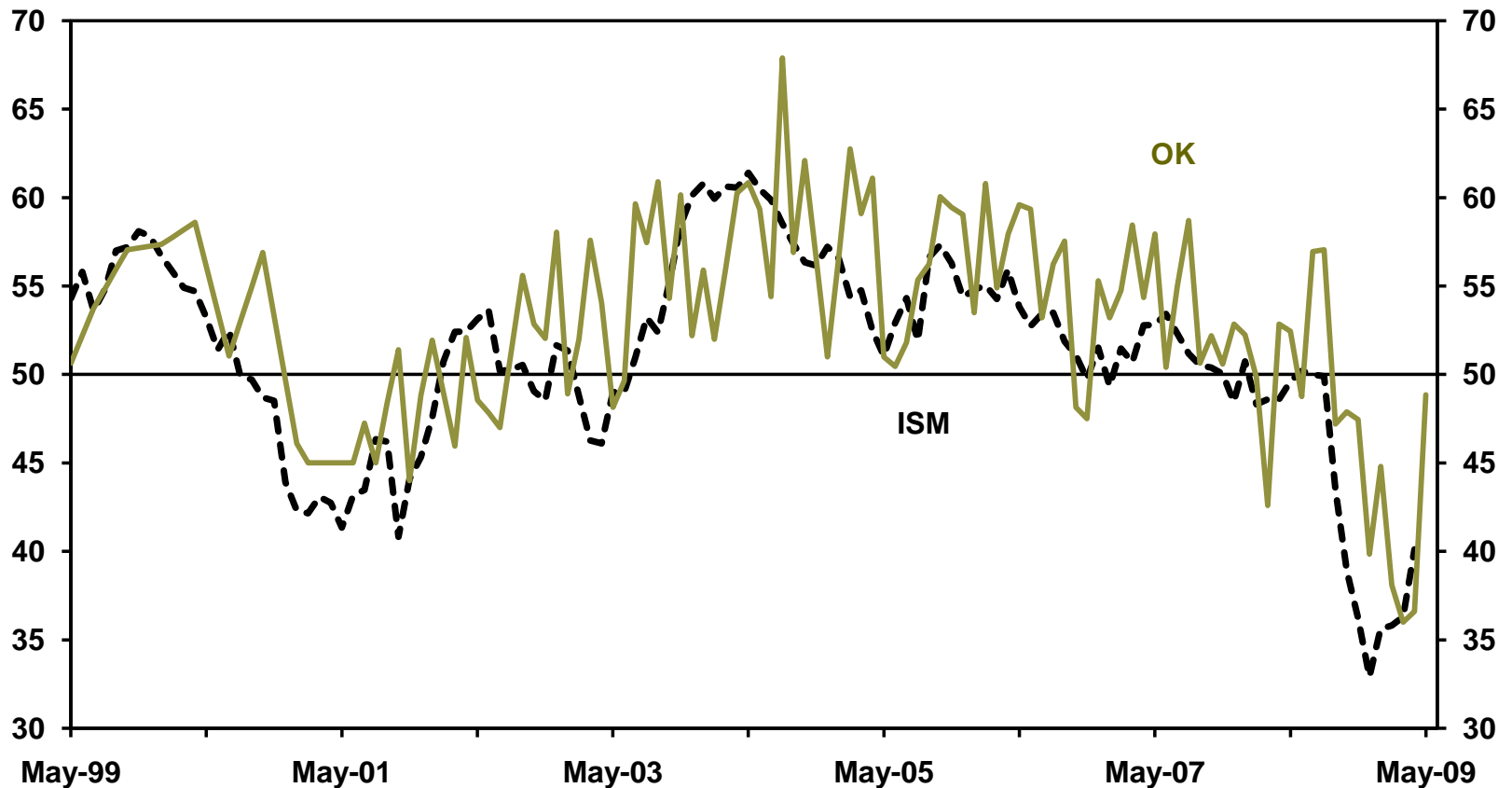
So far, the state is largely following its usual pattern during U.S. recessions

Initial Claims for Unemployment Insurance



Manufacturing activity in the state declined only slightly in May

Manufacturing PMI Indexes
Seasonally Adjusted

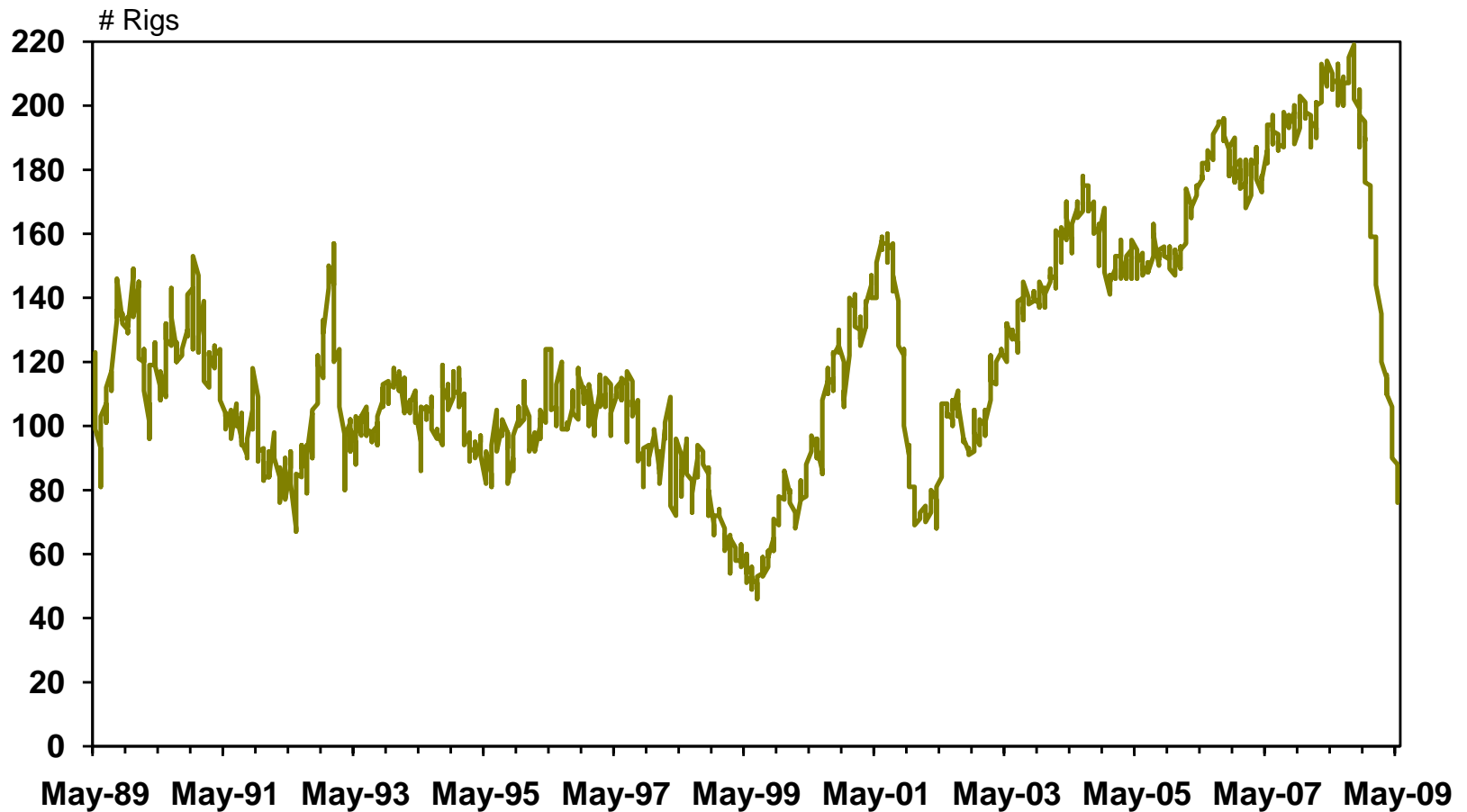


Note: OK index is computed on ISM basis (50 = zero change)

Source: ISM, FRBKC Manufacturing Survey

And the state's drilling rig count may not have much further to fall?

Count of Active Drilling Rigs



Summary

- ❑ The U.S. economy may be near a bottom, but recovery will depend on improved credit markets
- ❑ As usual, Oklahoma entered the recession later than the nation, but recent data are encouraging
- ❑ Efforts to boost U.S. growth in 2009 and 2010 should help, but slow energy activity is a risk