

The Economic Outlook for the U.S. and Oklahoma



Chad Wilkerson

Vice President, Economist, and Oklahoma City Branch Executive

Federal Reserve Bank of Kansas City

www.kansascityfed.org



History and Structure of the Federal Reserve System

- **The Federal Reserve System was created in 1913 (sponsored by OK Sen. R.L. Owen) and consists of:**

- Board of Governors: 7 members appointed by U.S. President
- Federal Reserve Banks: 12 total; semi-independent by design
- Federal Open Market Committee (FOMC): 19 members; 12 voting

- **As with most central banks around the world, the Fed's responsibilities fall within four general areas:**

- Monetary policy – control money supply to affect growth and inflation
- Lender of last resort – provide liquidity in times of financial crisis
- Bank regulation – ensure safety and soundness of banks
- Financial services – bank for banks, bank for federal government



Federal Reserve Districts and Office Locations



The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

- **History, staff, and functions**

- Branch office opened in 1920; currently have about 35 staff
- Functions include economic research, bank examinations, public outreach

- **2010 branch board of directors**

- **Steve Agee (chairman)**, President, Agee Energy, and Professor, OCU, OKC
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber and Supply Co., Tulsa
- **Jacque Fiegel**, Senior EVP and COO, Coppermark Bank, OKC
- **Rose Washington Rentie**, Executive Director, TEDC Creative Capital, Tulsa
- **Doug Tippens**, President and CEO, Bank of Commerce, Yukon
- **K. Vasudevan**, Chairman, Service and Technology Corp., Bartlesville



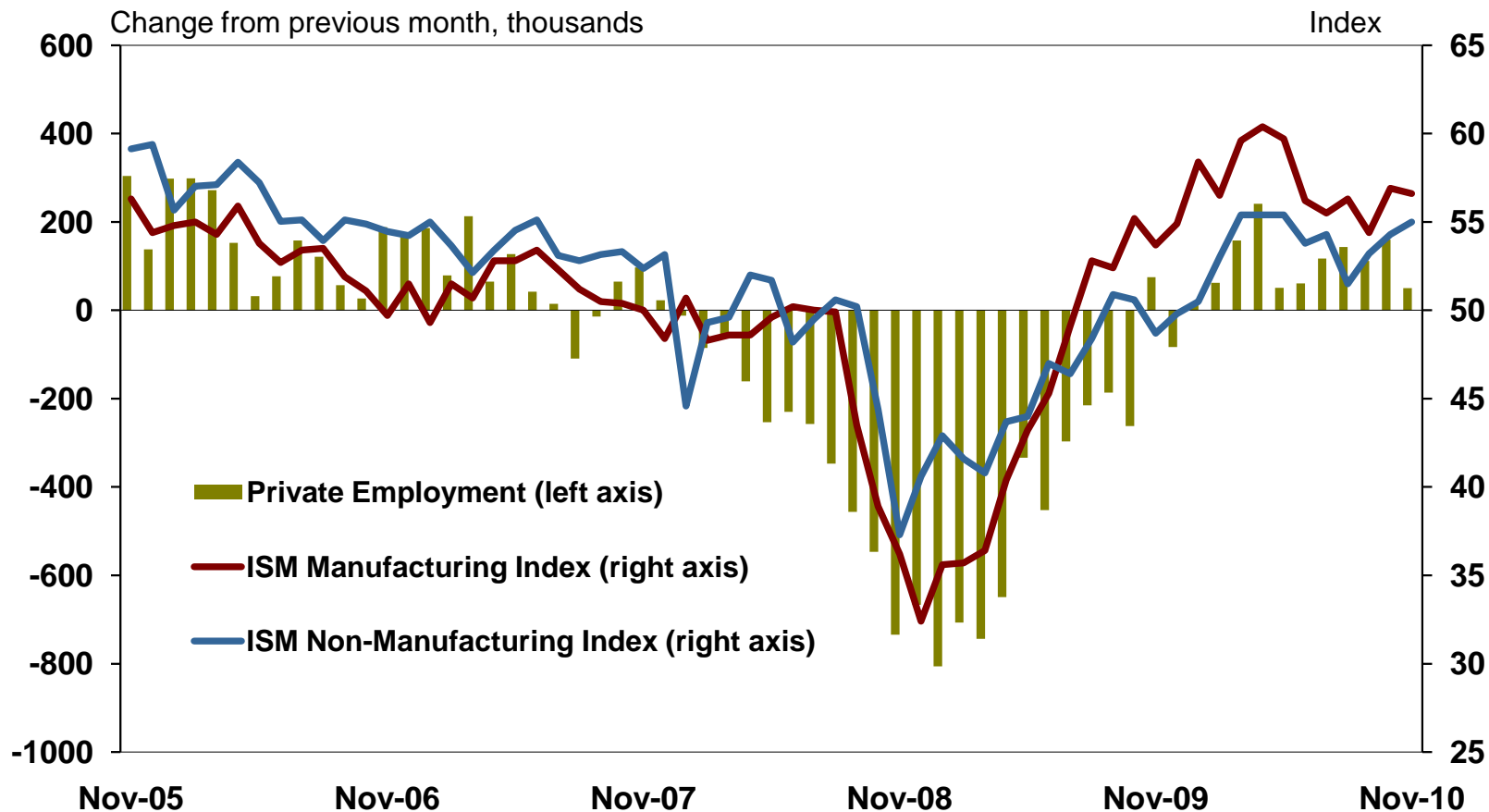
The Economic Outlook

- The pace of U.S. recovery remains moderate and is expected to stay on track, with inflation remaining low
- Oklahoma's recession and recovery path has been fairly typical for the state, but risks to growth remain



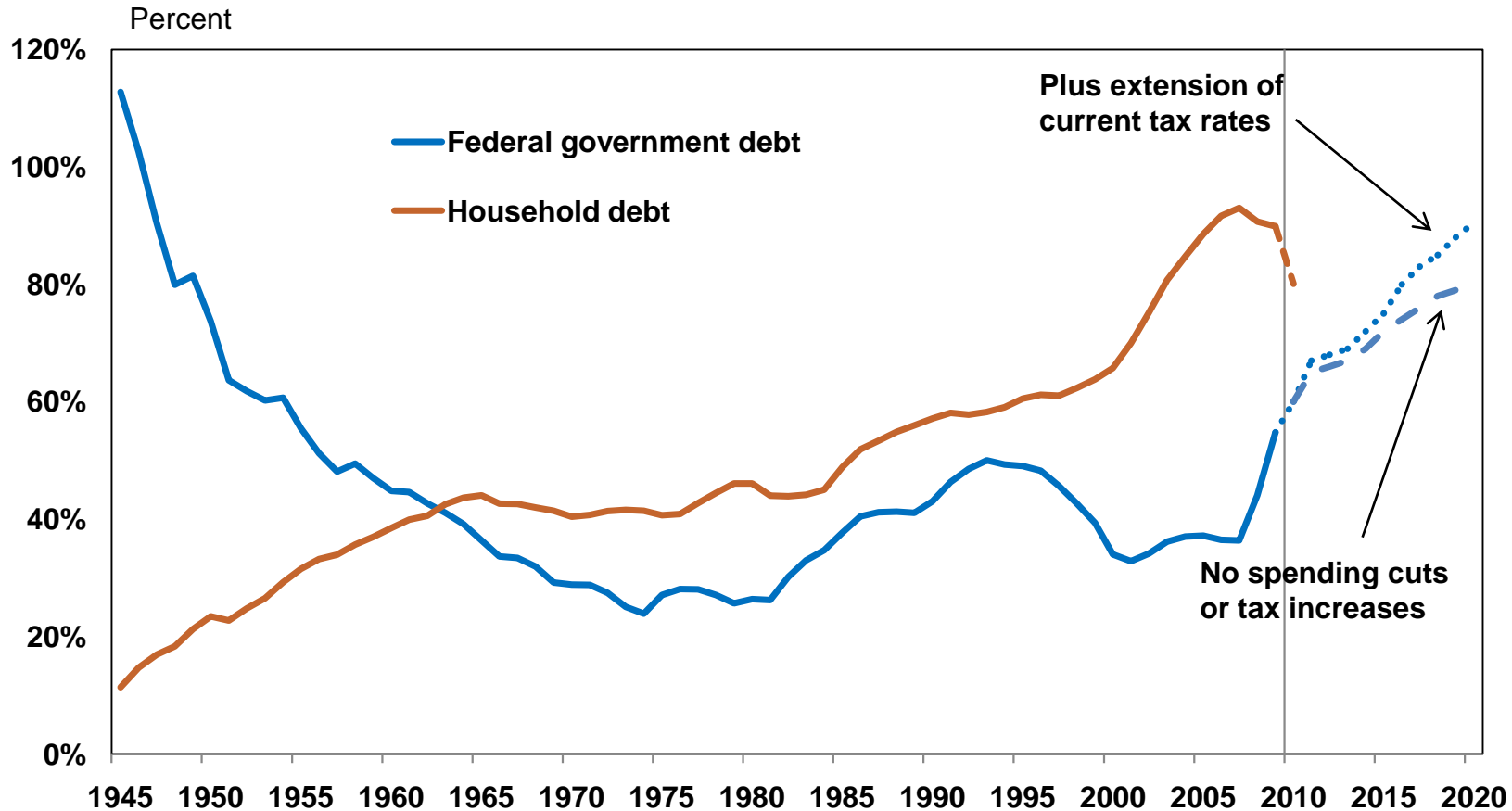
U.S. output continues to grow solidly, but job growth is modest

U.S. Private Payroll Employment and Business Indexes



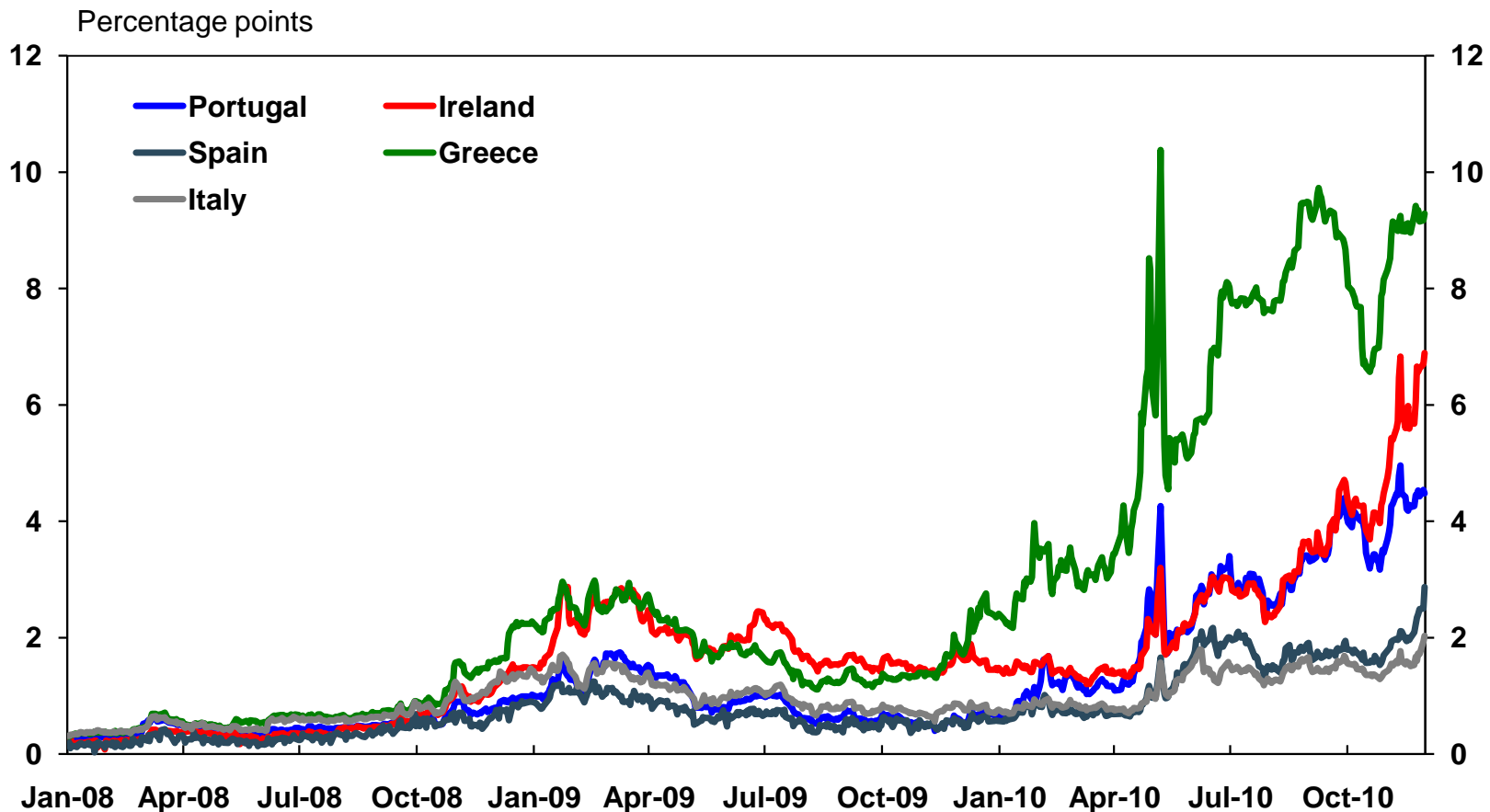
Consumer debt could constrain growth and federal debt is a longer-term concern

U.S. Debt as a Share of GDP



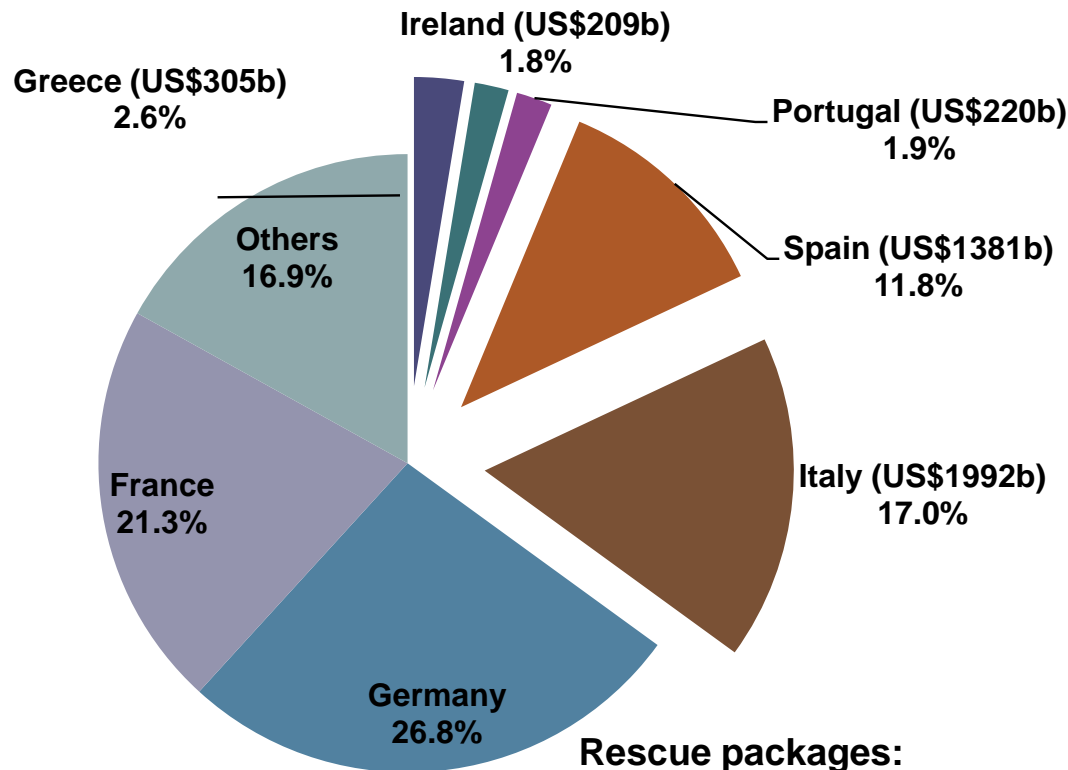
Europe's sovereign debt problem has also flared up again

Spreads to German Bunds (10-yr)



But European nations most threatened are only a small part of Euro Zone GDP

Shares of Euro Zone GDP



Rescue packages:

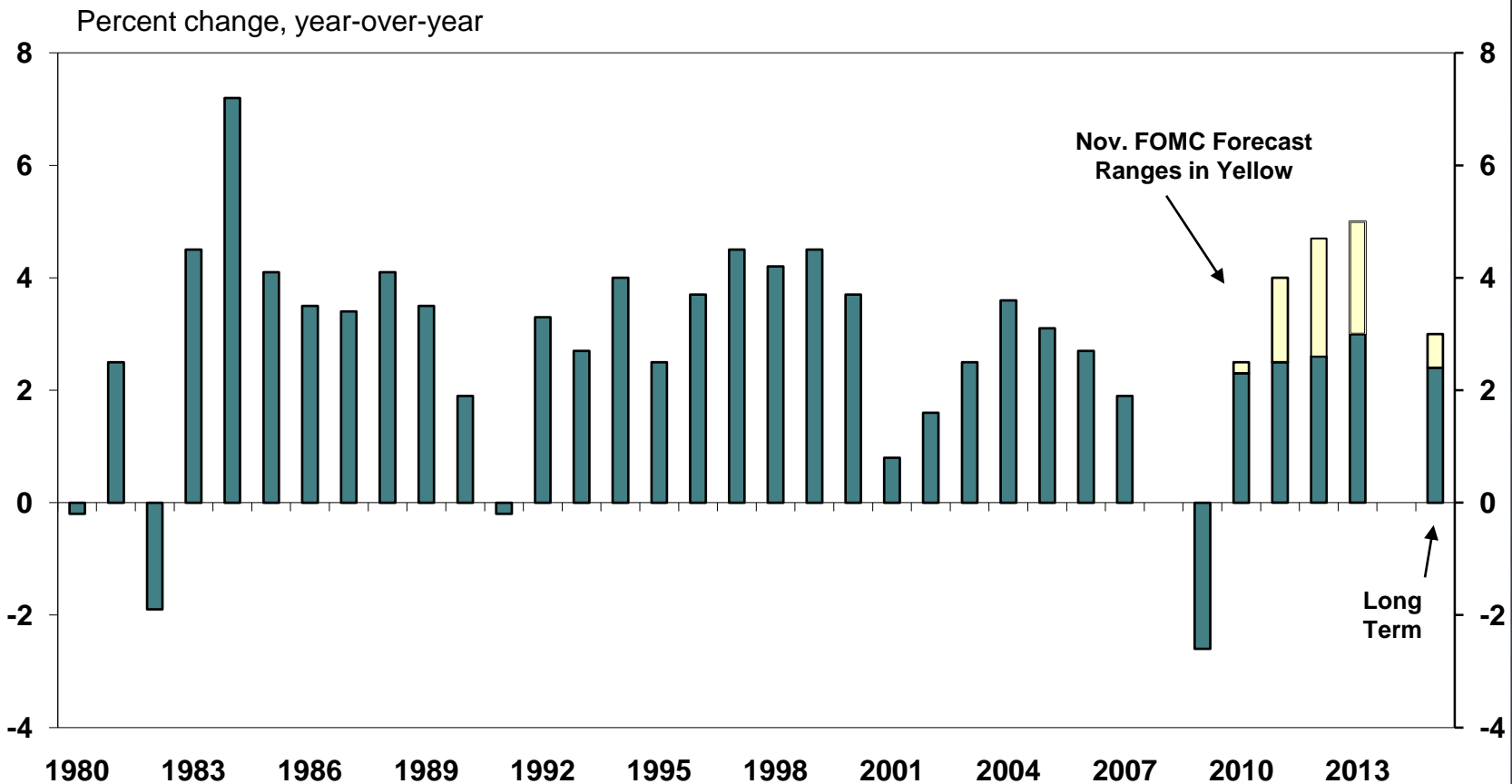
Greece: €110 billion=US\$144 billion

Ireland: €67.5 billion=US\$88 billion



Fed policymakers expect continued moderate U.S. GDP recovery

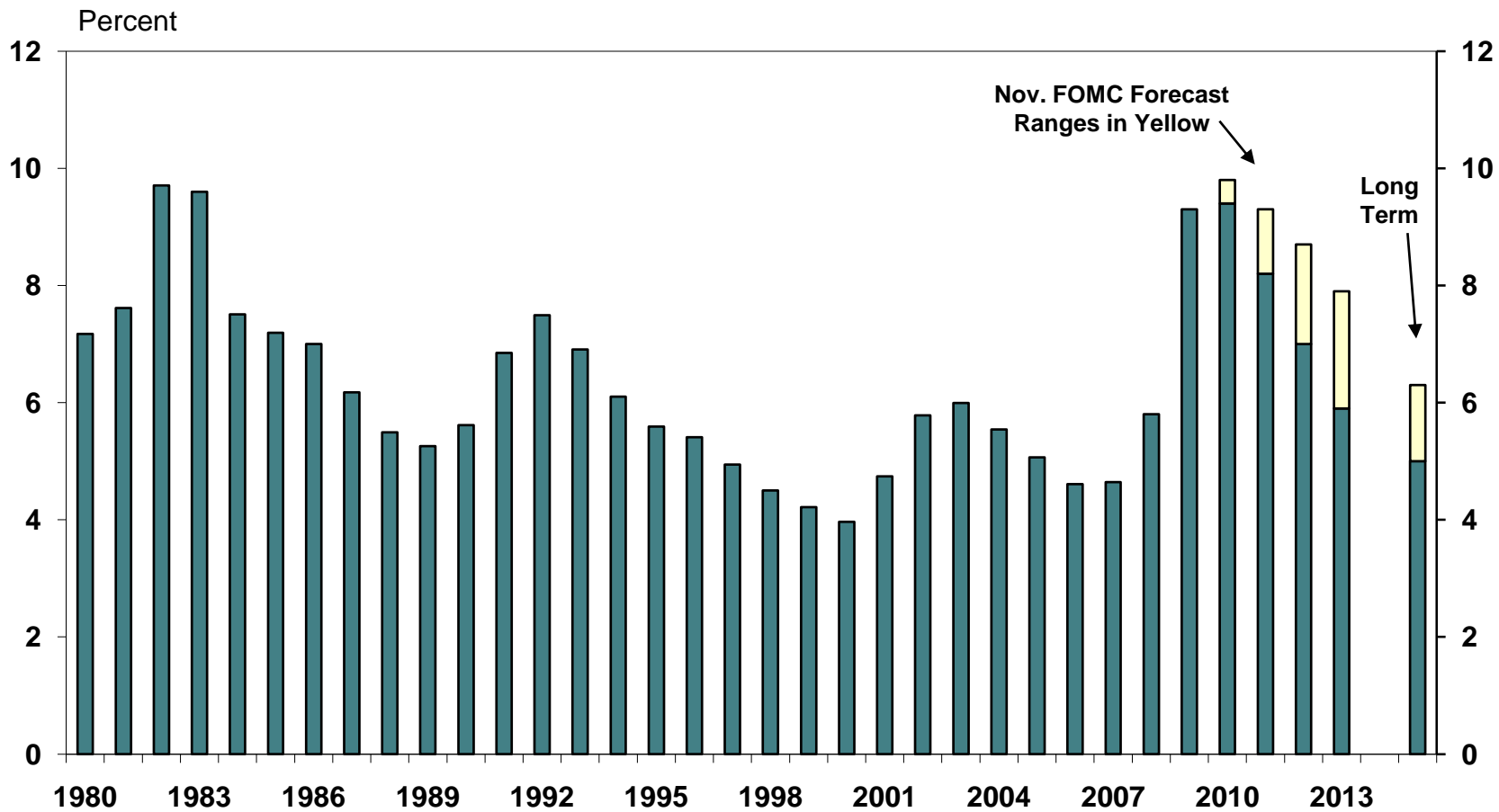
Real Gross Domestic Product



But with U.S. unemployment remaining high for some time

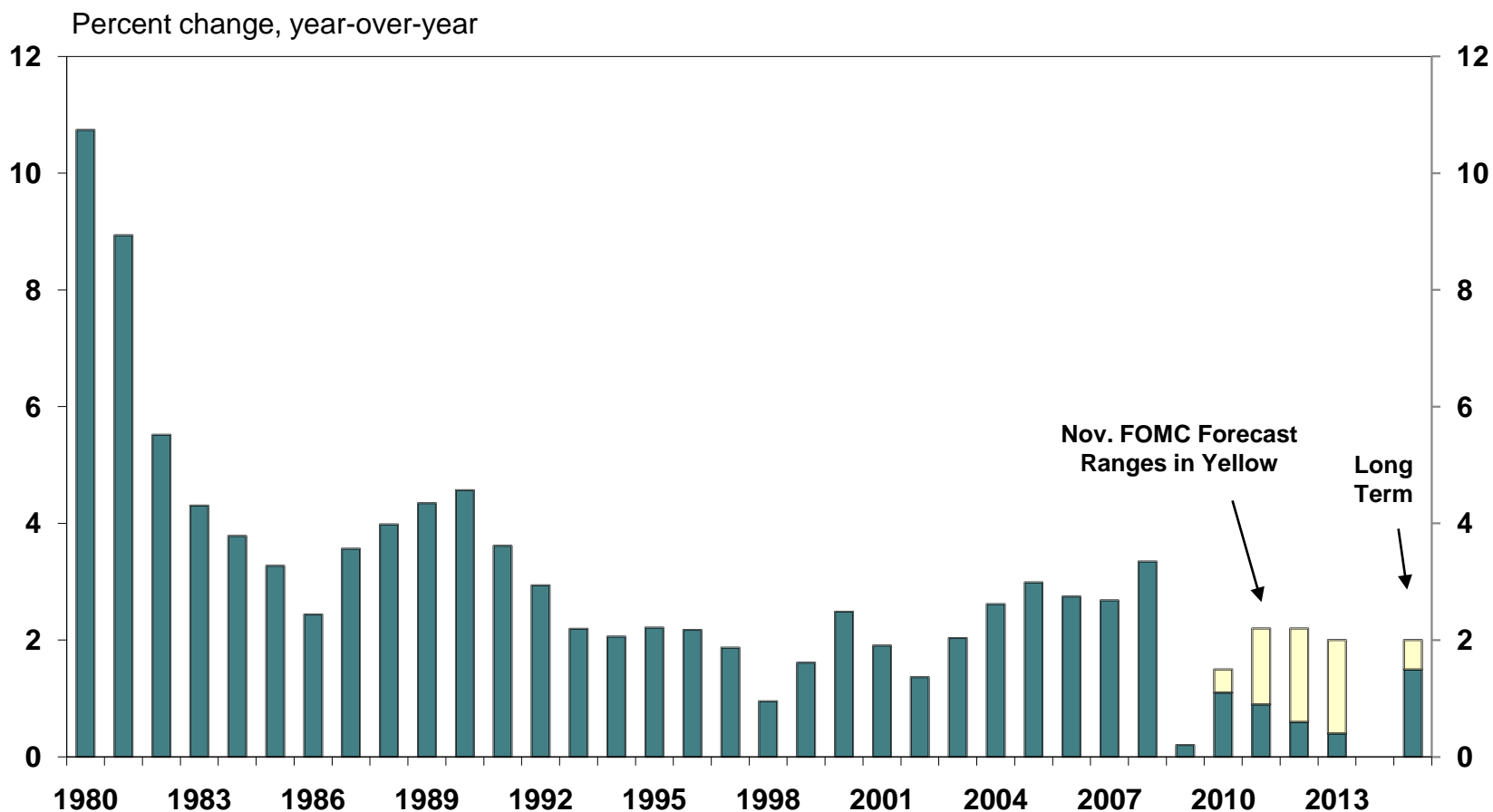
Unemployment Rate

Seasonally Adjusted



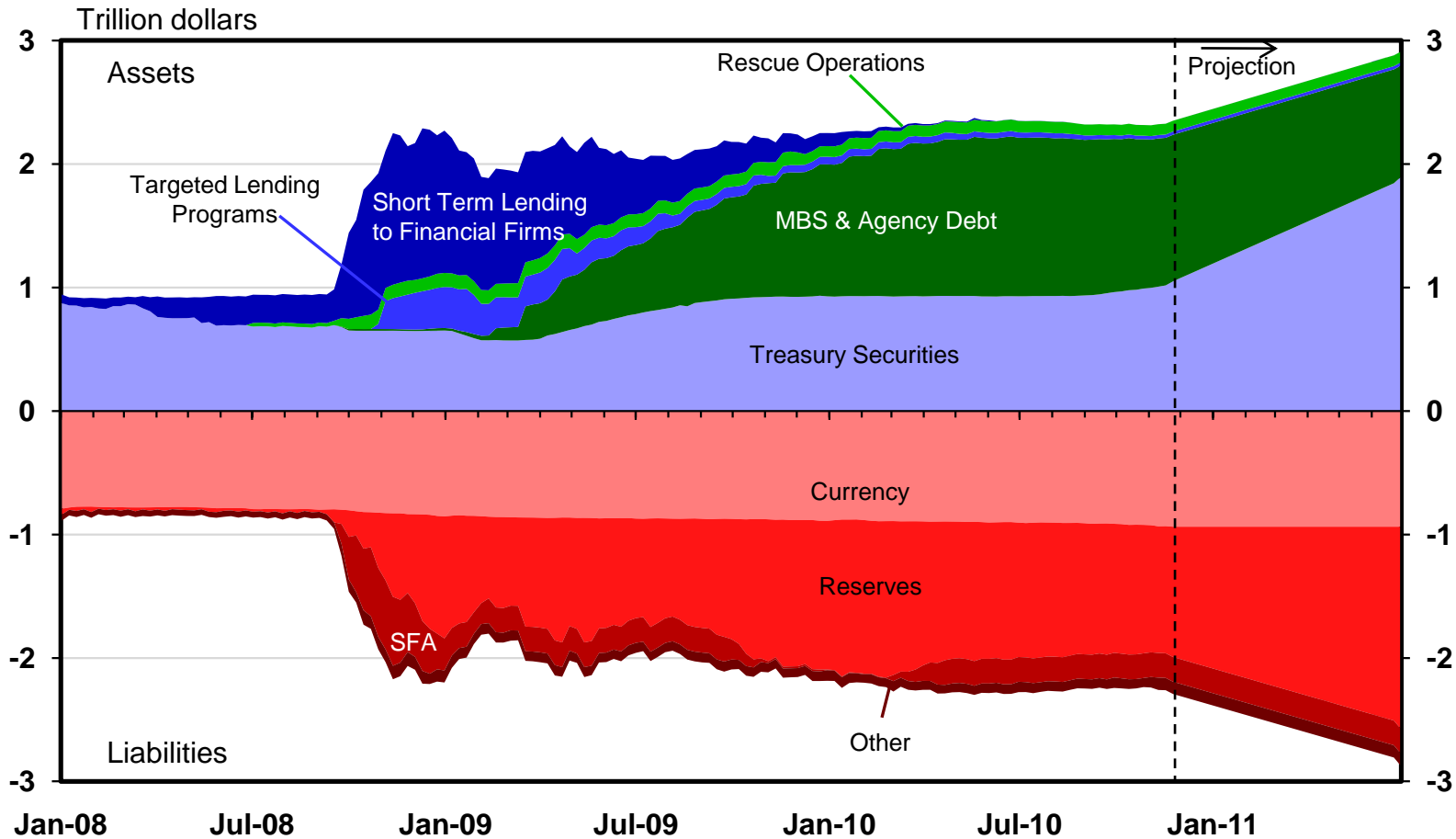
Inflation is expected to remain tame in the near term, but will require careful oversight

PCE Inflation Index



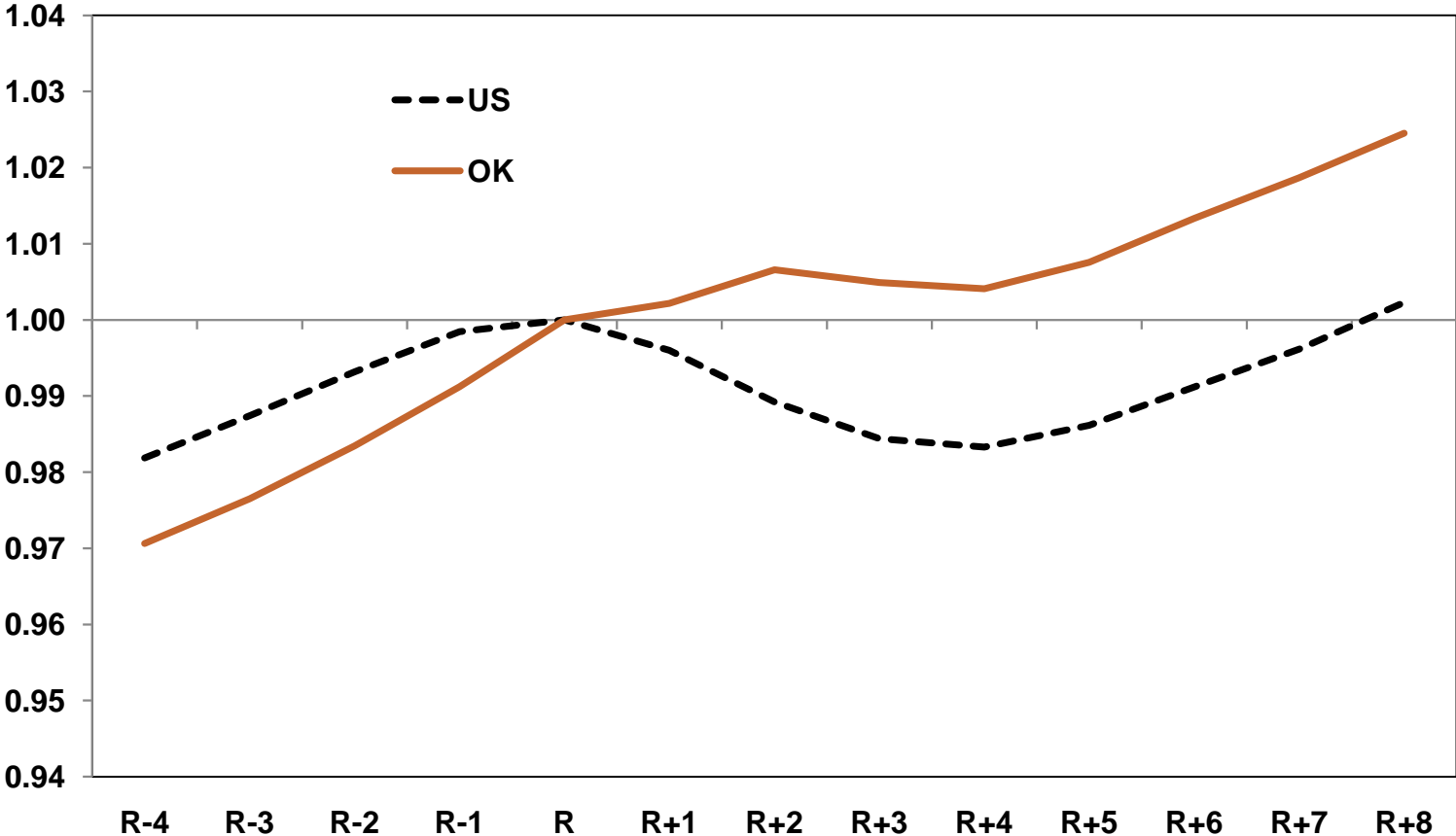
The FOMC's plans will swell the Fed's balance sheet further

Federal Reserve Balance Sheet



Oklahoma typically enters recessions late but exits around the same time as the nation

Average Recession and Recovery Path, 1956-2006
Employment level 4 quarters before and 8 quarters after U.S. jobs peak (R)



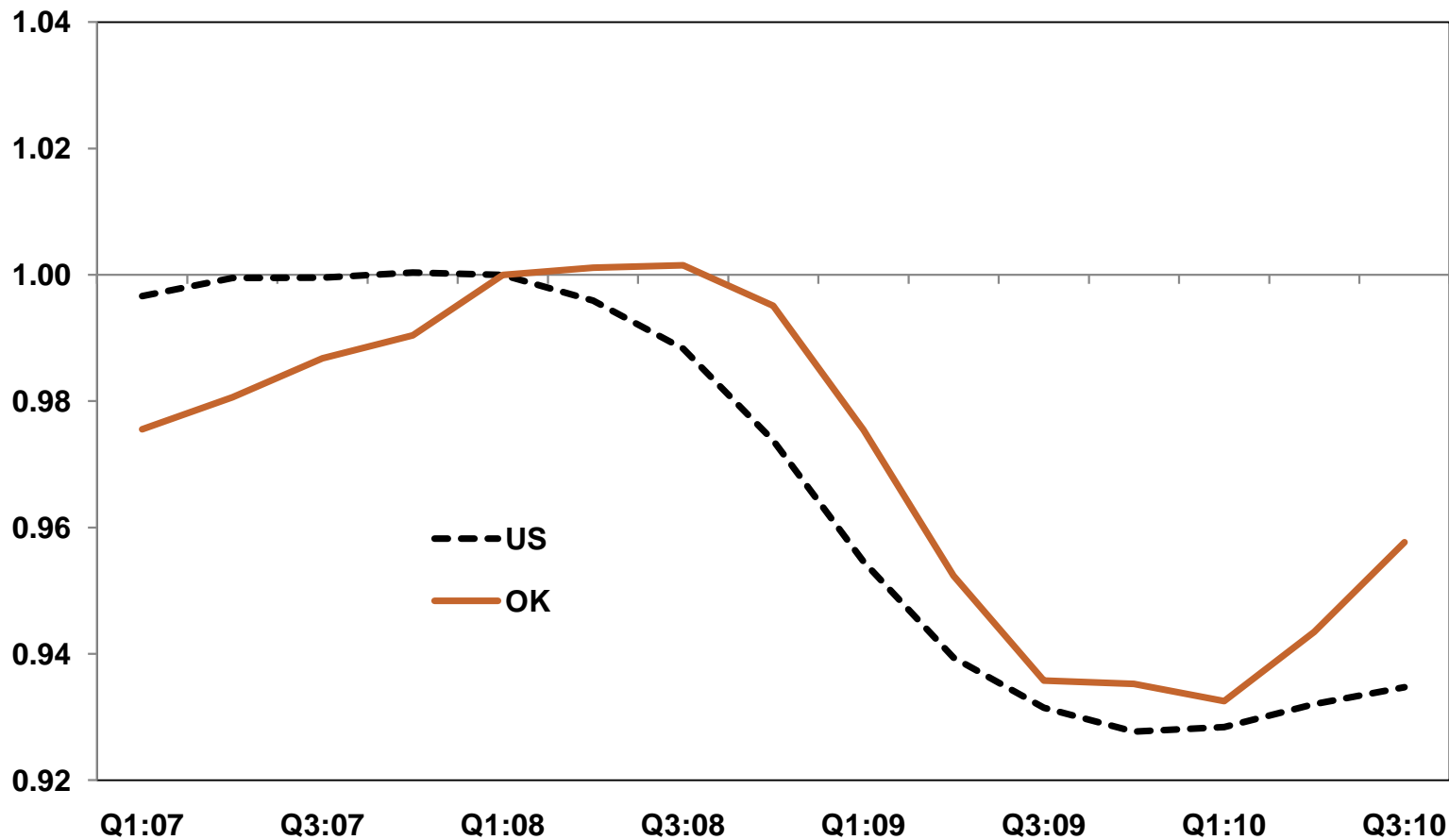
Source: U.S. Bureau of Labor Statistics



The current episode, while worse, has largely followed the historical pattern

Current Recession and Recovery Path

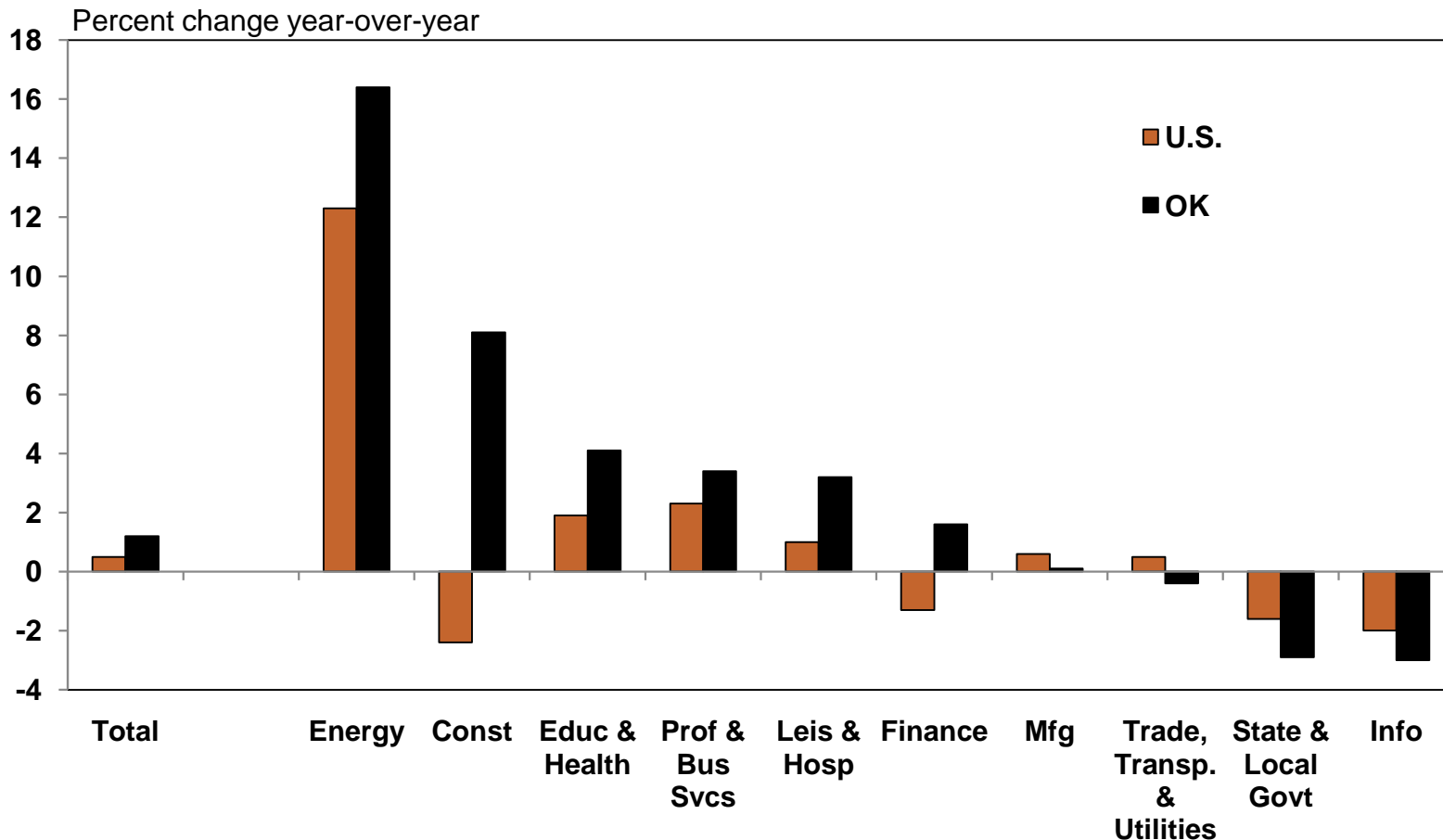
Employment level 4 quarters before and 10 quarters after U.S. jobs peak



Recent solid state job growth has been driven by energy, construction, and services

Employment Growth

October 2010

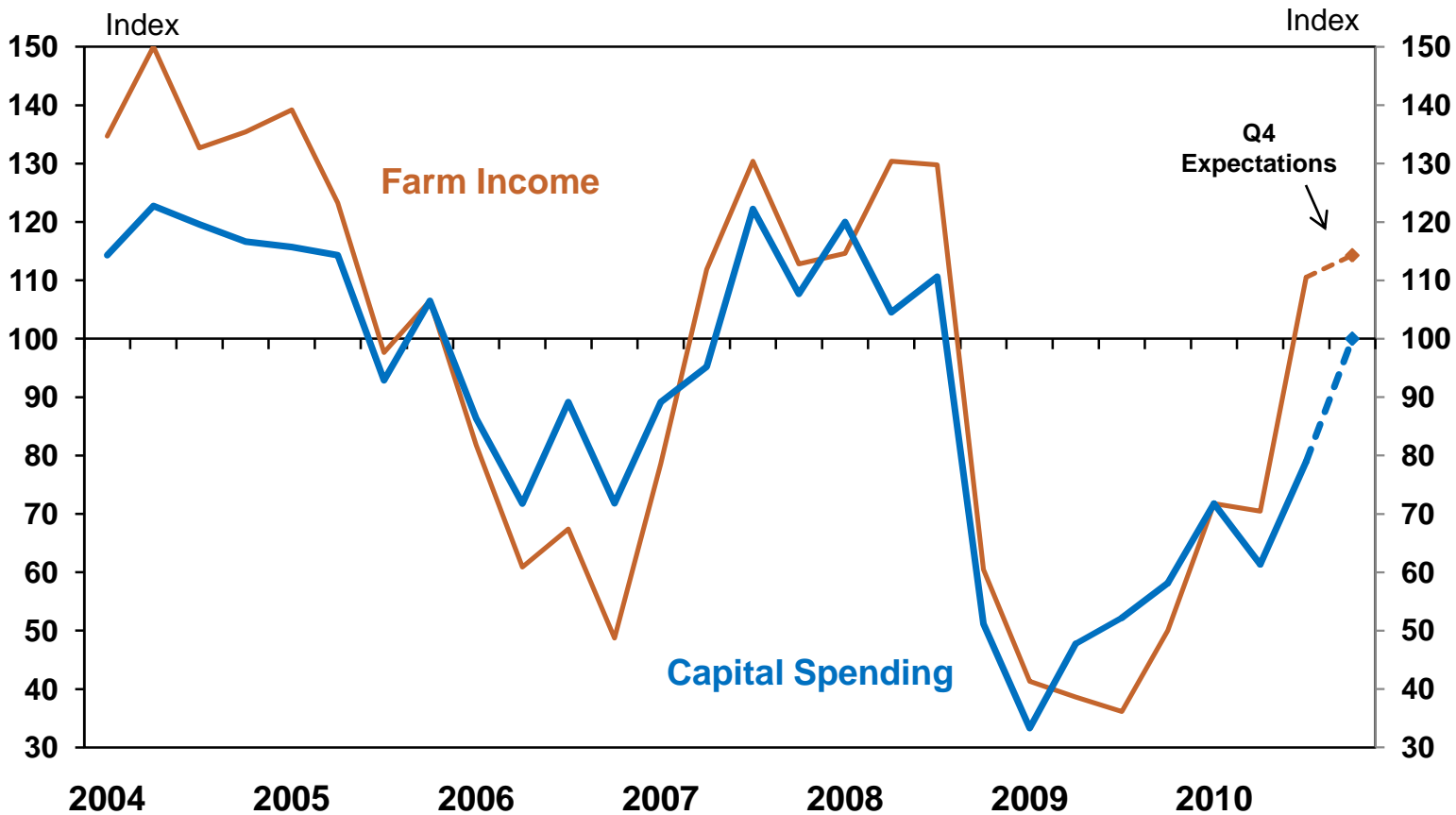


Source: Bureau of Labor Statistics



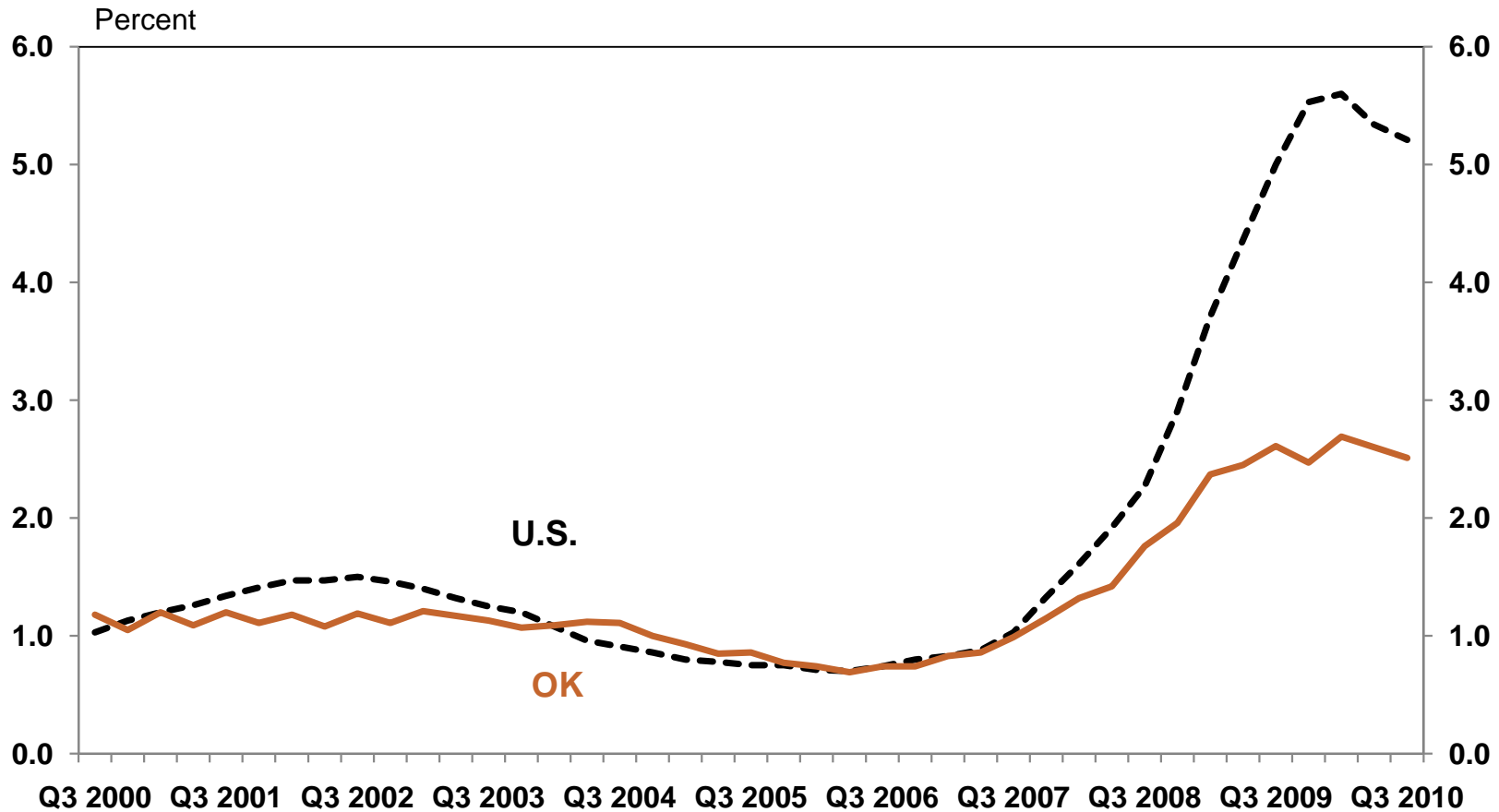
Agricultural conditions in the state have also improved after bottoming in 2009

Oklahoma Agricultural Conditions



And Oklahoma banks remain in much better shape than in the nation as a whole

Noncurrent Loans as a Share of Total Loans
Commercial Banks

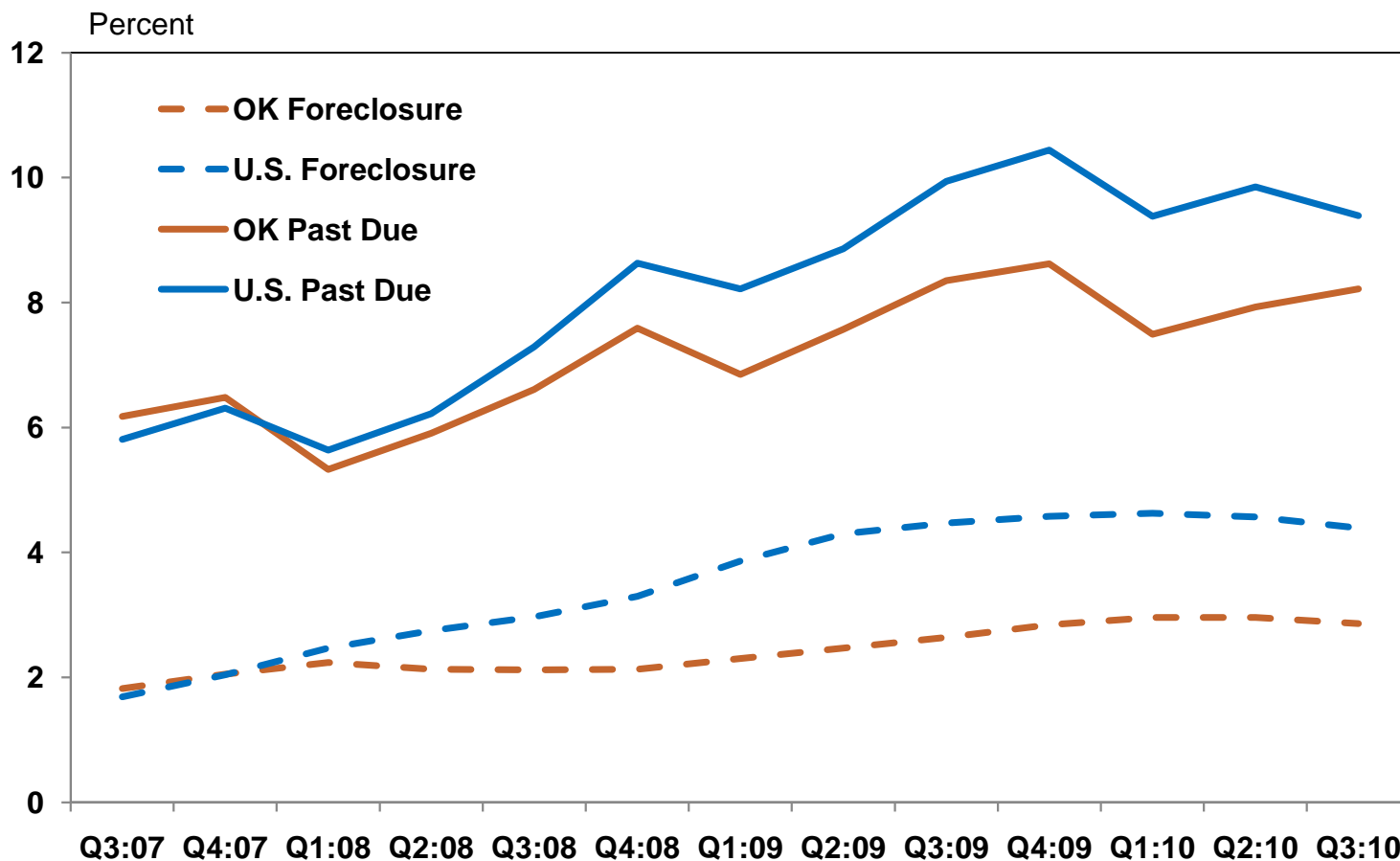


Source: FDIC



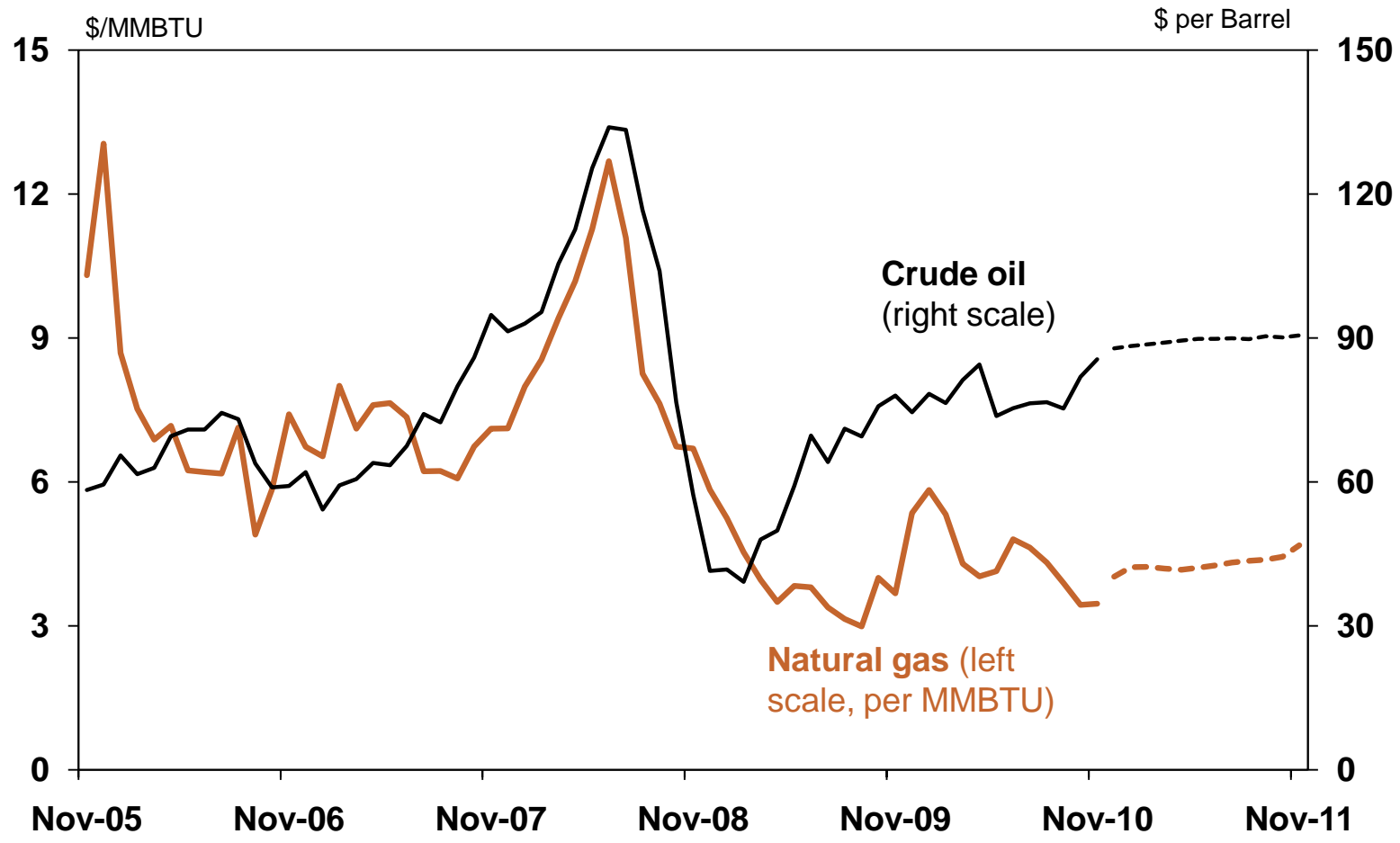
Housing continues to be a risk, but much less so than in the nation

Foreclosure and Past Due Mortgage Rates



Natural gas prices remain the state's biggest risk, but high oil prices have helped

Energy Prices



Source: Bloomberg



Summary

- The U.S. economy is recovering and expected to continue to grow moderately, with low inflation
- Oklahoma's economy is also recovering and remains in much better shape than the nation

