

# The Economic Outlook for the U.S. and Oklahoma

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Federal Reserve Bank of Kansas City

# History and Structure of the Federal Reserve System

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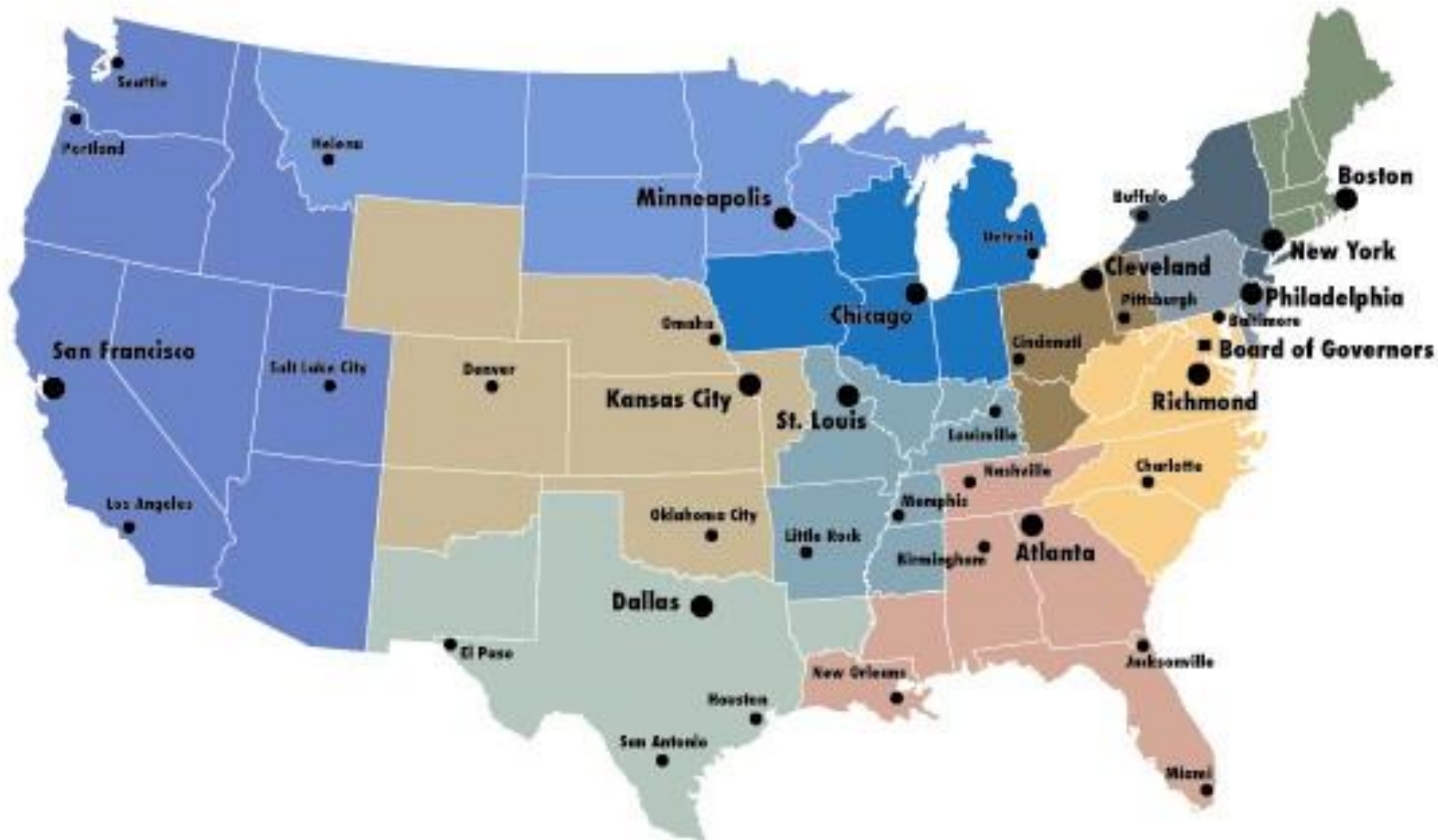
- **Founded by Congress in 1913 as the nation's third central bank, the Fed consists of 3 main entities:**

- 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, consumer rights
- Financial services – bank for banks, bank for federal government

# Federal Reserve Districts and Office Locations



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

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- **Branch staff and functions**

- 35 staff involved in economic research, examining banks, and 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 Company, 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

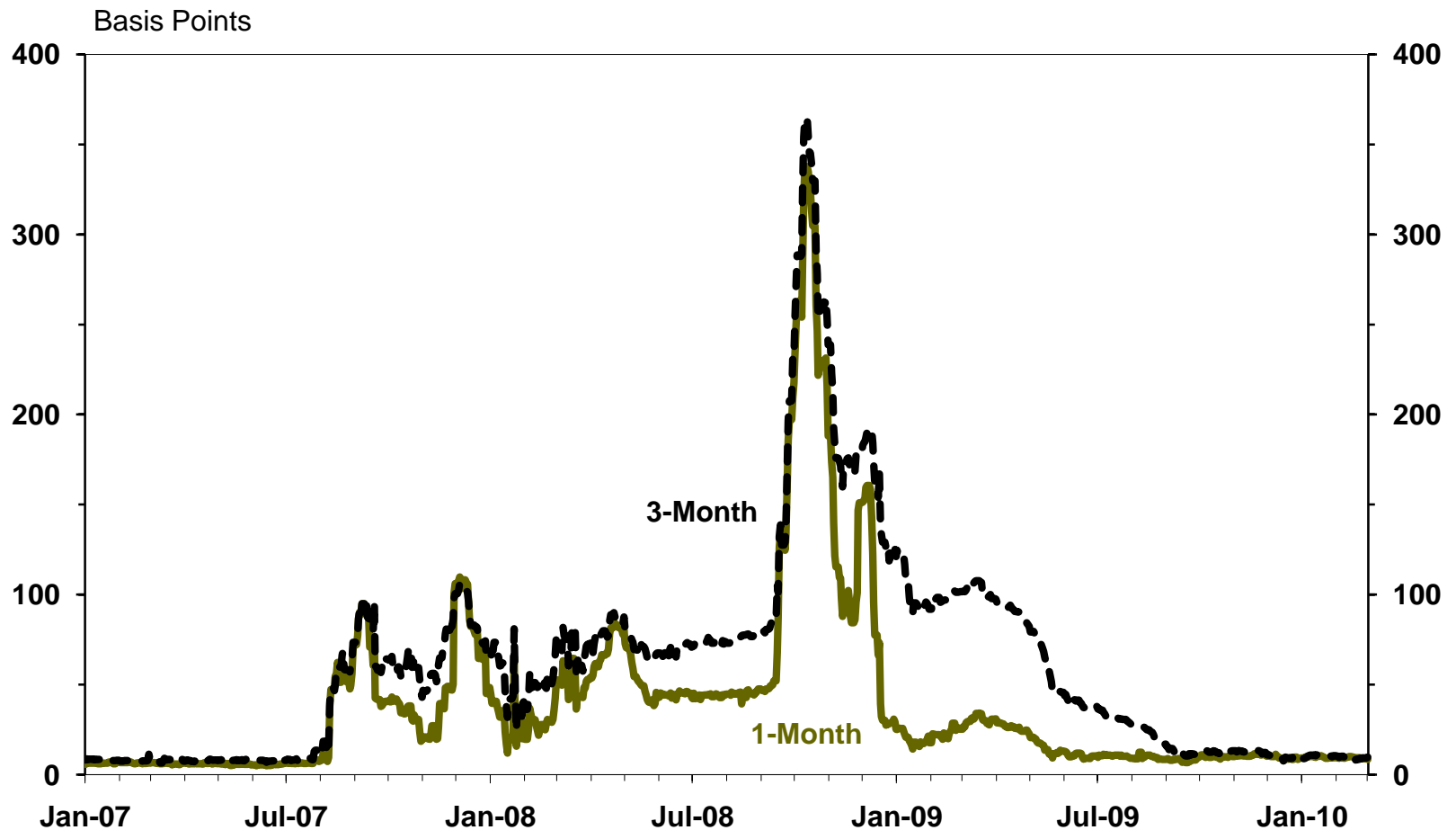
# The U.S. Economy

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- ❑ Credit market conditions have improved, and the U.S. economy is growing again, but the recovery is expected to be moderate
- ❑ Inflation is expected to remain tame in the near term, but will require diligent actions to stay in check over the longer run

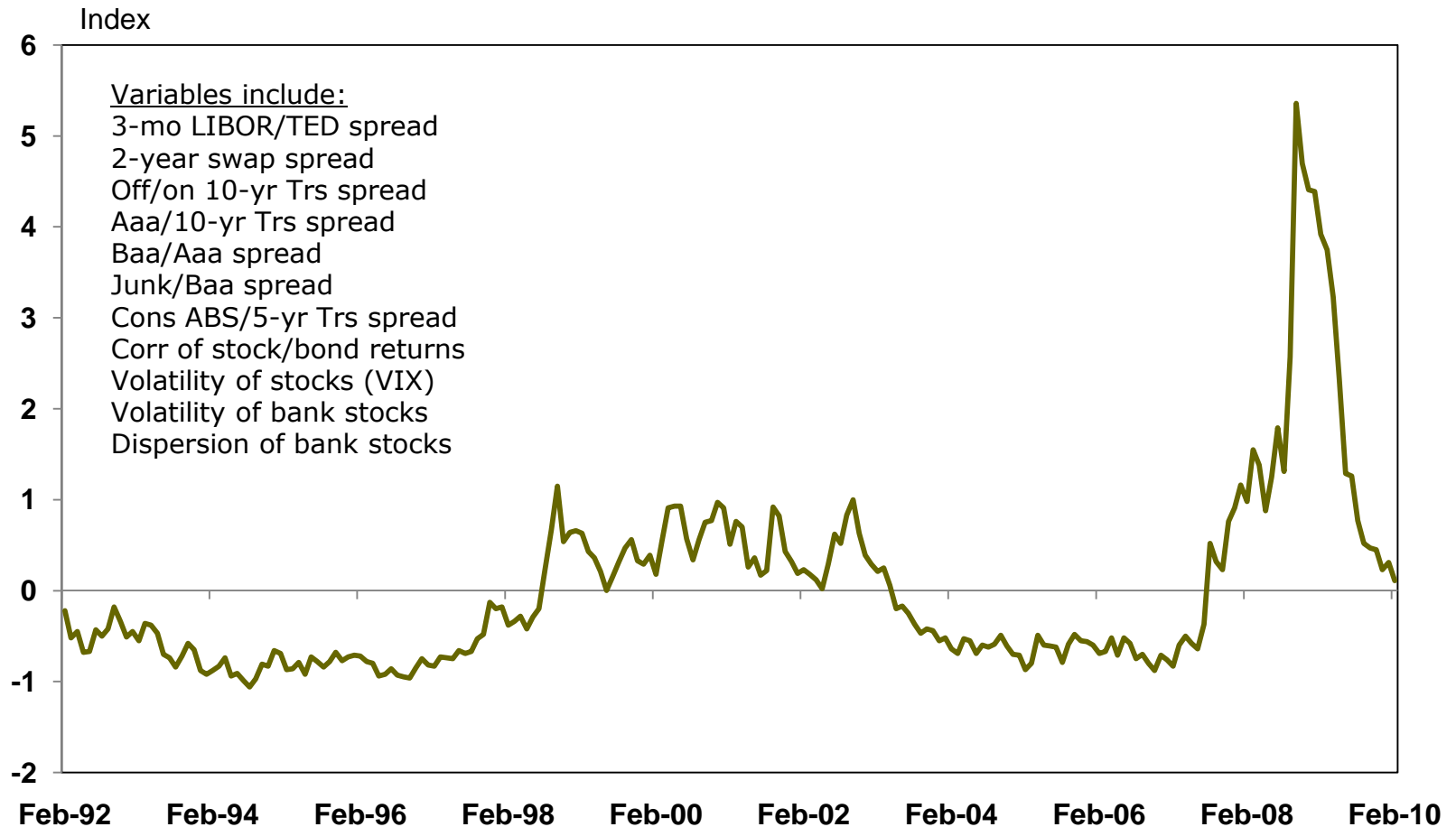
# Interbank lending markets have largely returned to normal in recent months

## LIBOR-OIS Spread



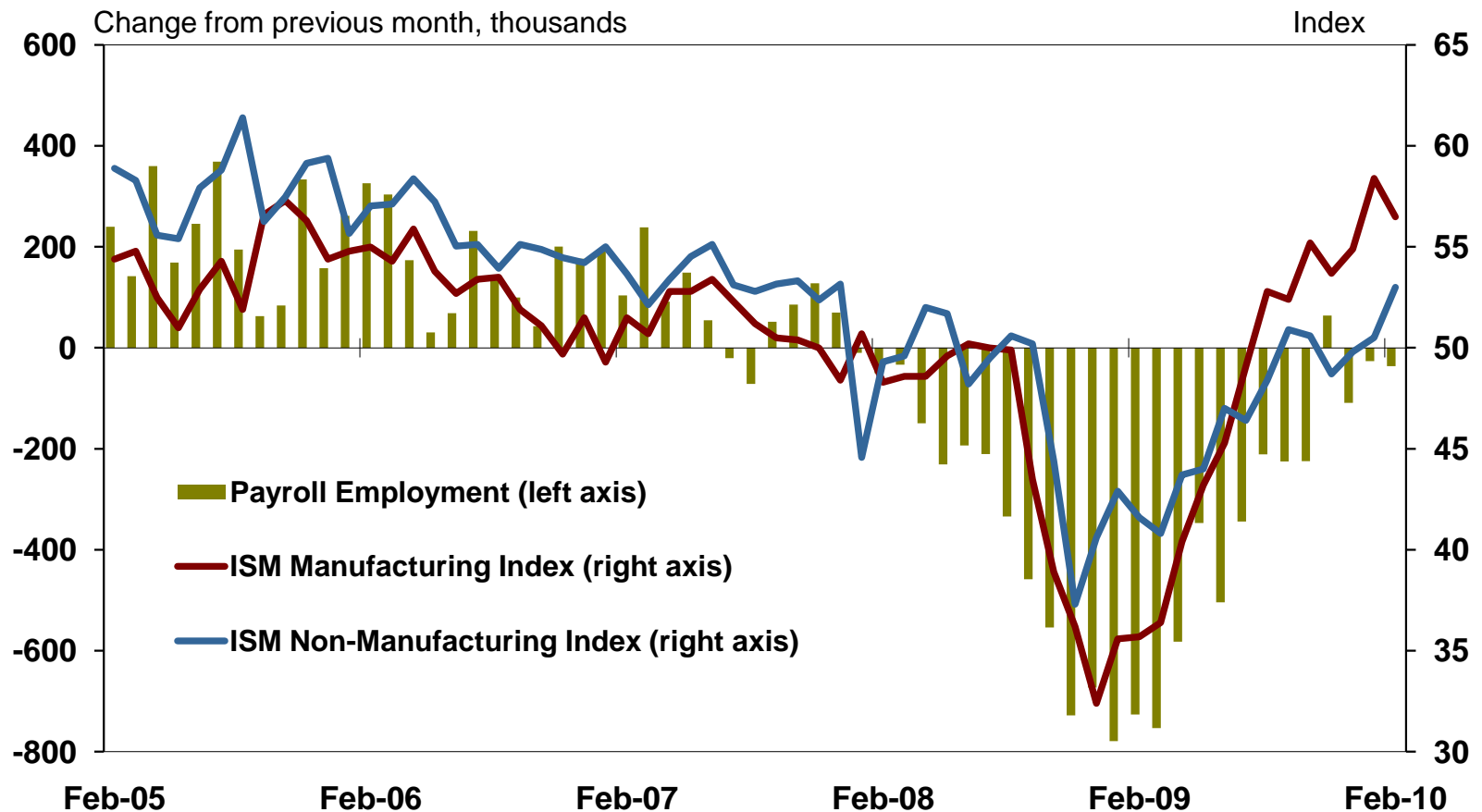
# And broader measures of financial stress are also nearing normal levels

## Kansas City Financial Stress Index



# Early 2010 data show continued improvement in the U.S. economy

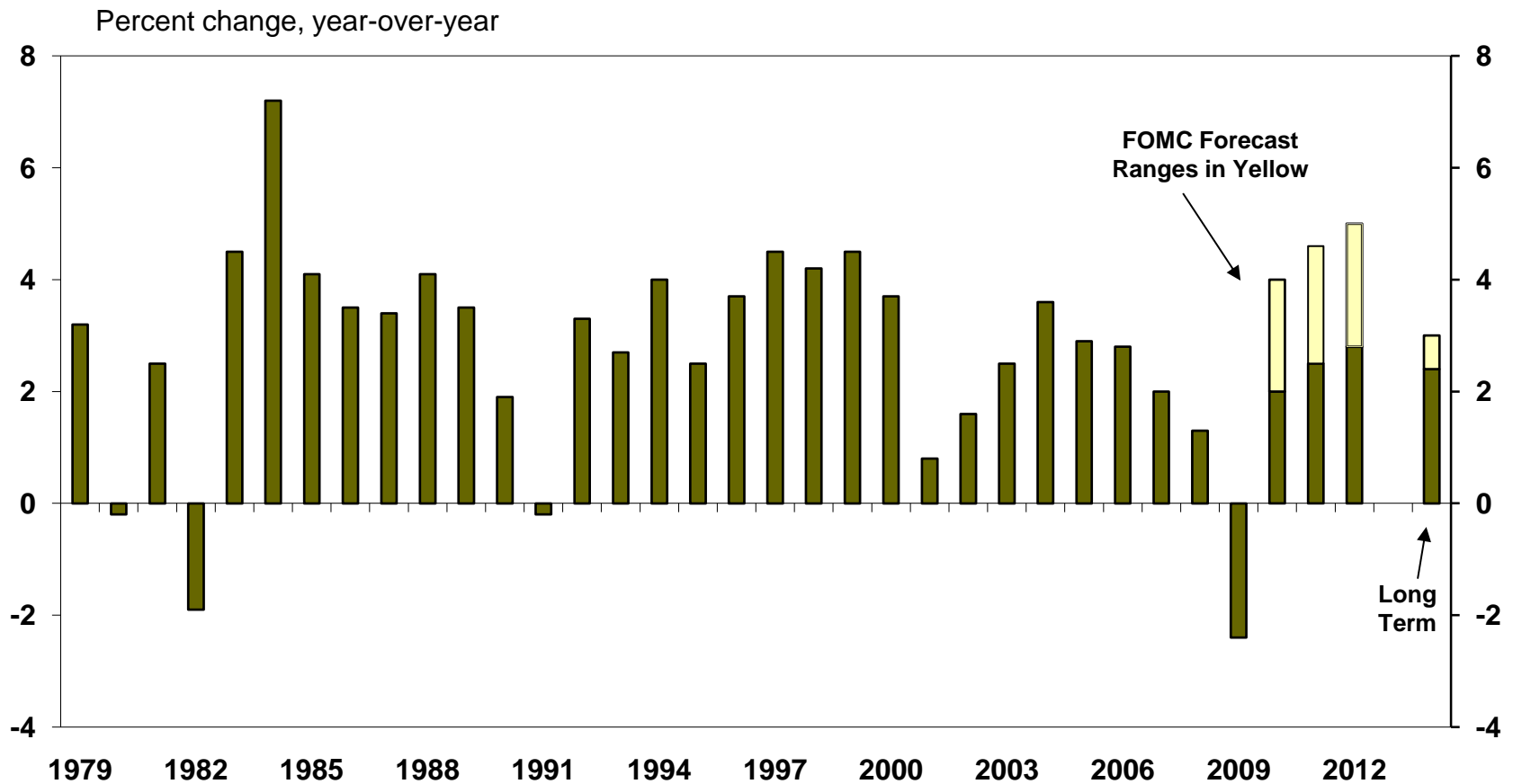
## National Business Indexes and Payroll Employment





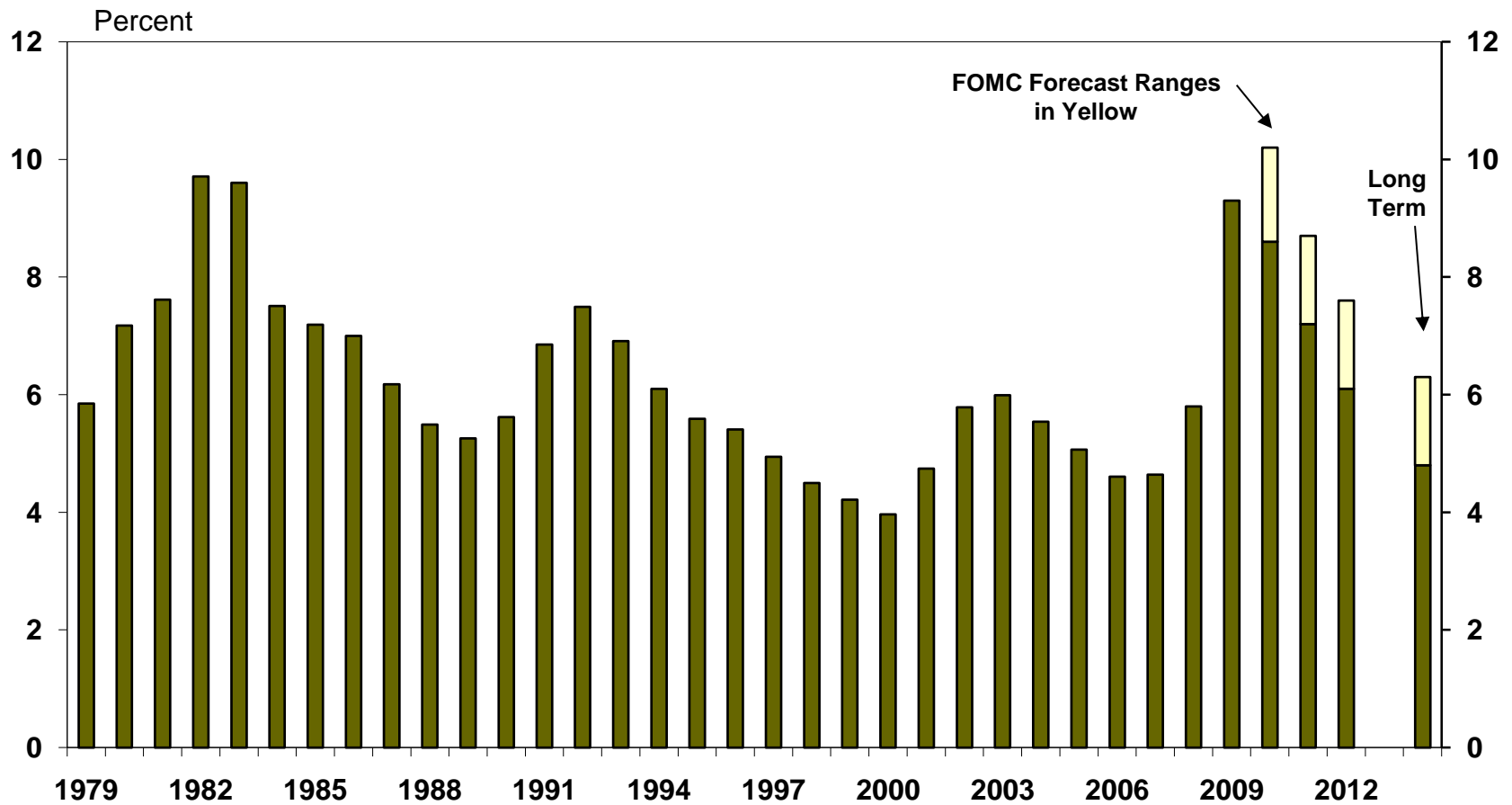
# Heading forward, Fed policymakers generally expect a moderate recovery

## Gross Domestic Product



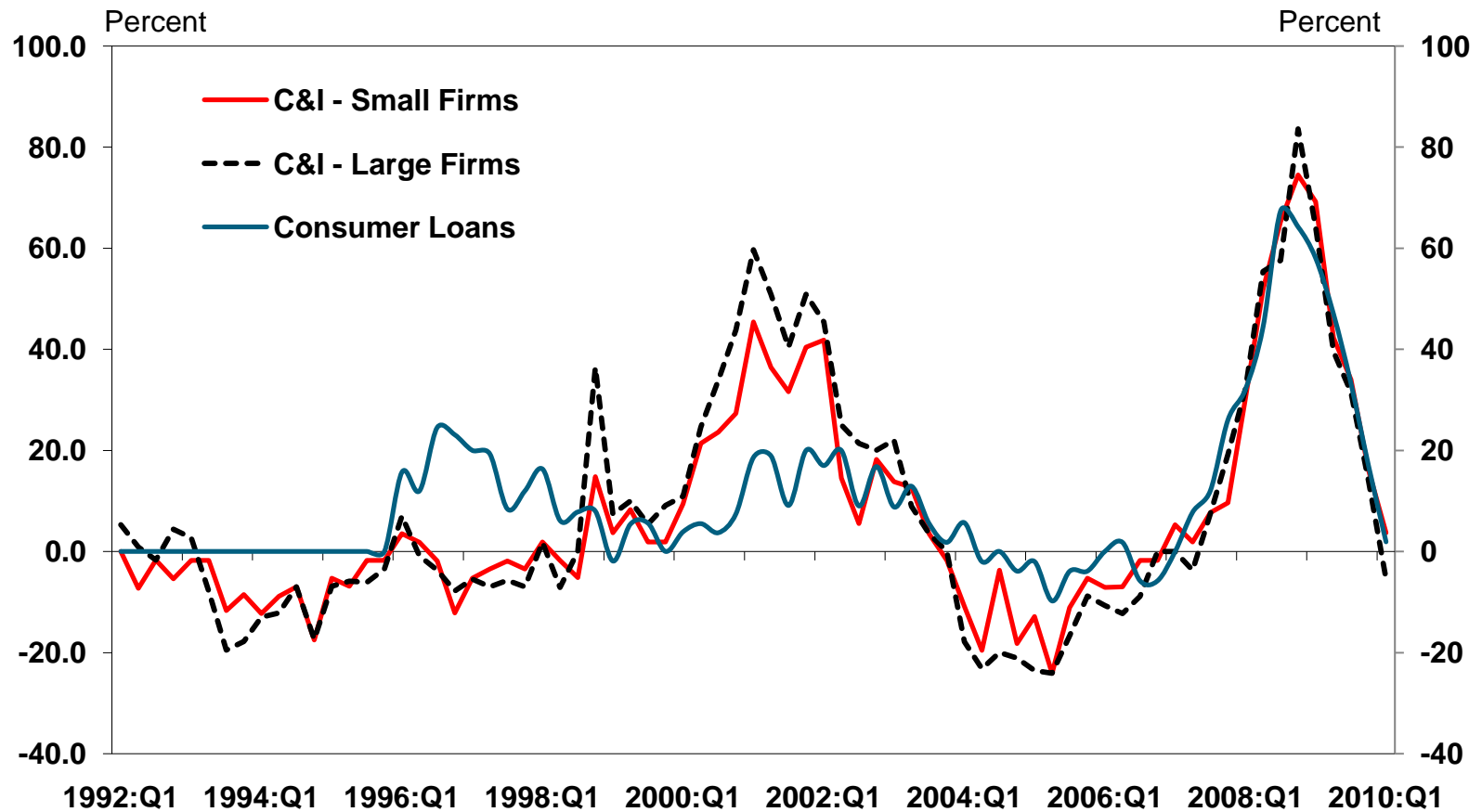
# With unemployment remaining high for some time

**Unemployment Rate**  
Seasonally Adjusted



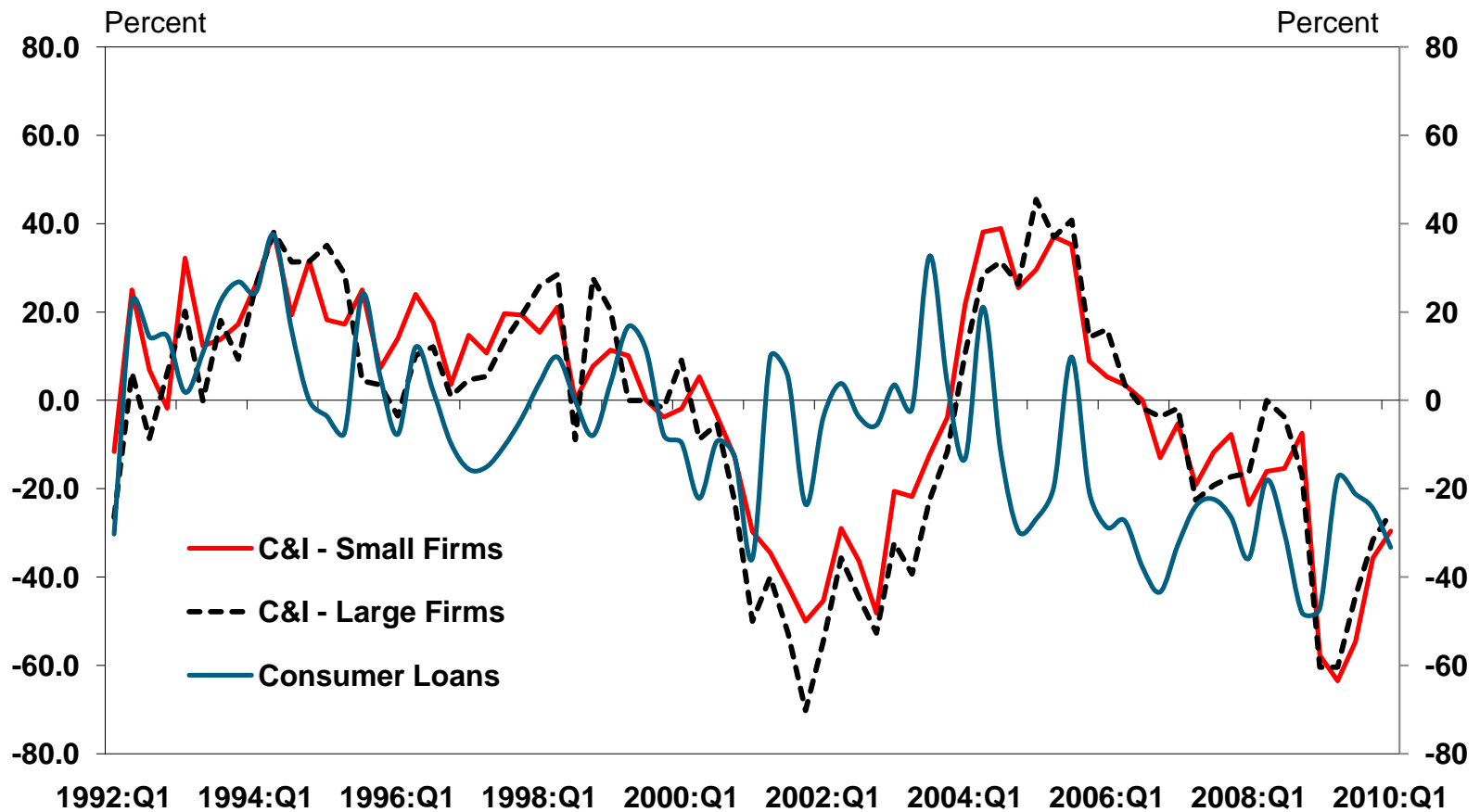
# One reason is credit standards are much tighter than a few years ago

## Net Percentage of Banks Tightening Loan Standards



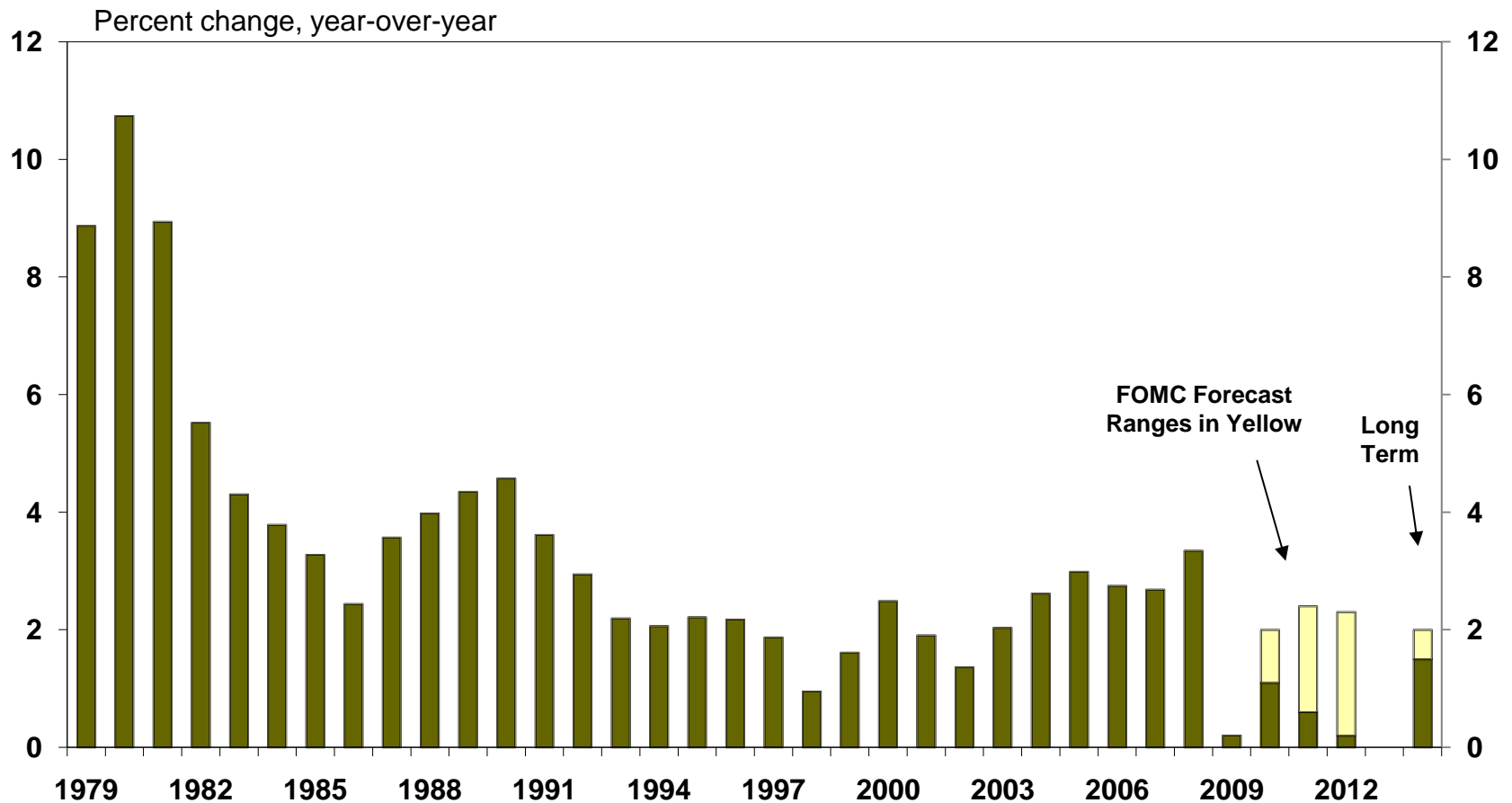
# But another is that loan demand remains very sluggish

## Net Percentage of Banks Reporting Increased Loan Demand



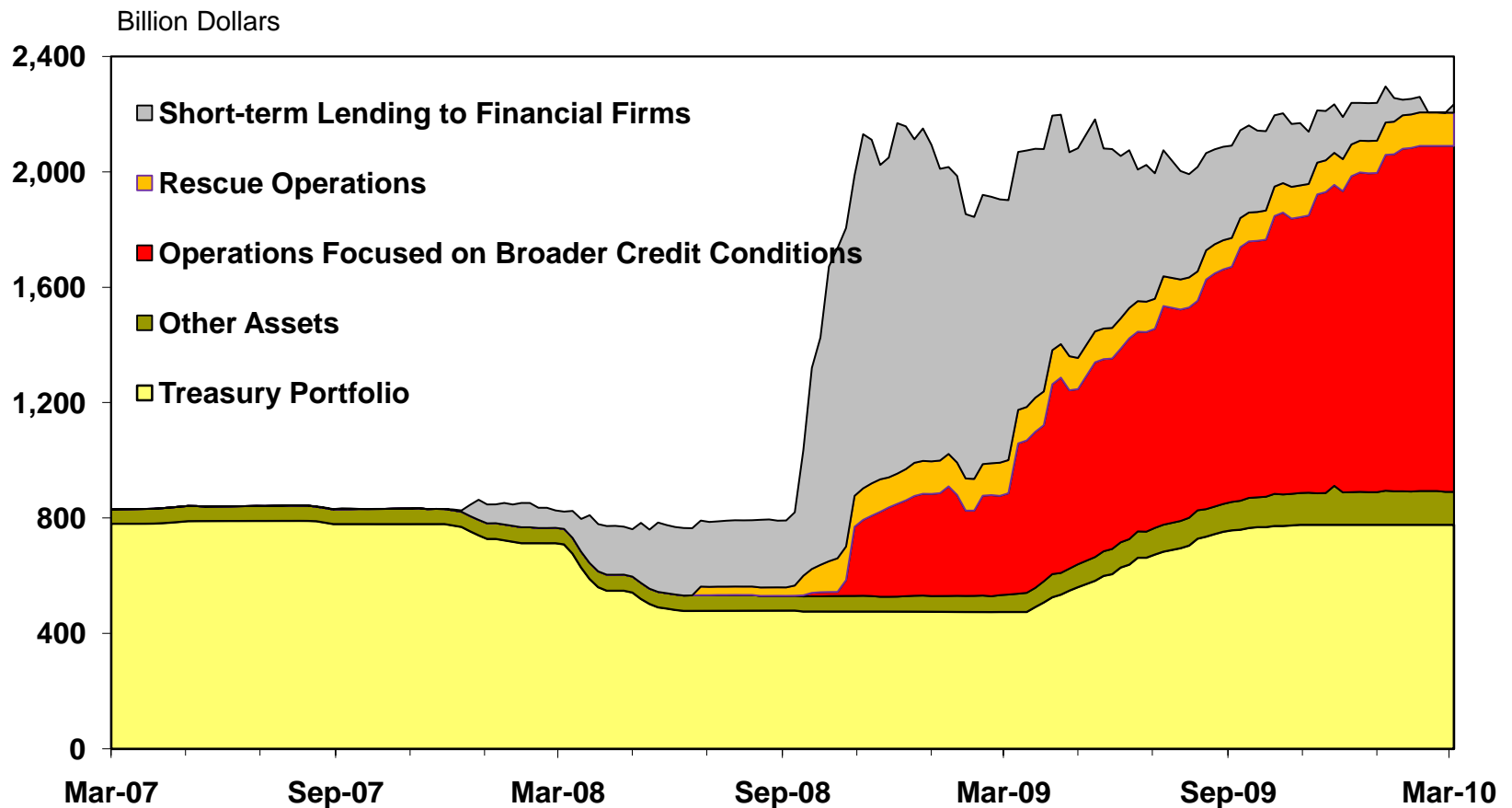
# Inflation is expected to remain tame in the near term, but will require careful oversight

## PCE Inflation Index



# The Fed's balance sheet is still large, with extra assets now largely MBS

## Federal Reserve Balance Sheet: Assets



# The Oklahoma Economy

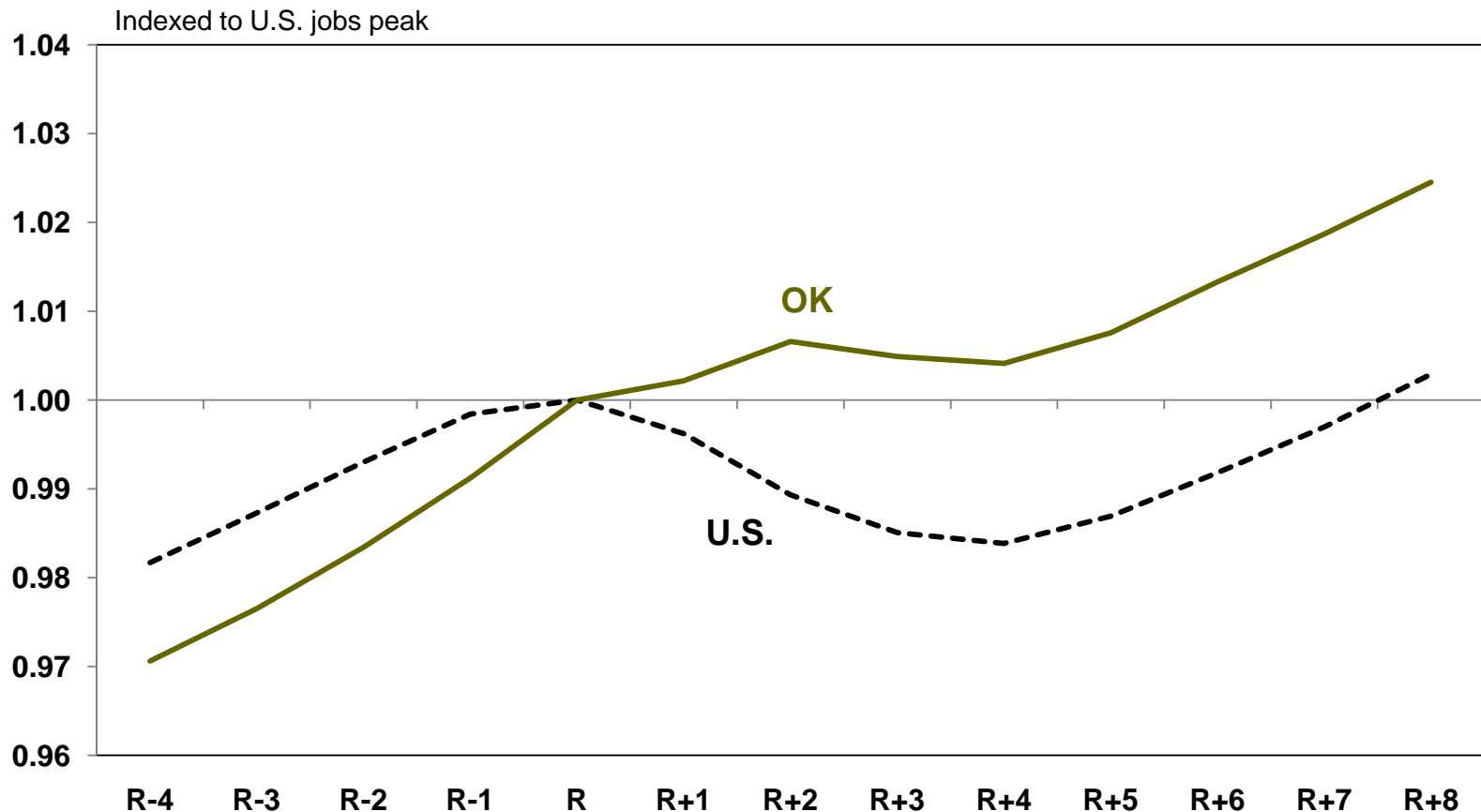
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- As usual in recessions, Oklahoma entered this recession later than the nation—not joining until energy prices fell in late 2008
- After steep declines for much of 2009, the state is showing recent signs of recovery—and conditions remain better than the nation

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

## Average Recession Path, 1956-2006

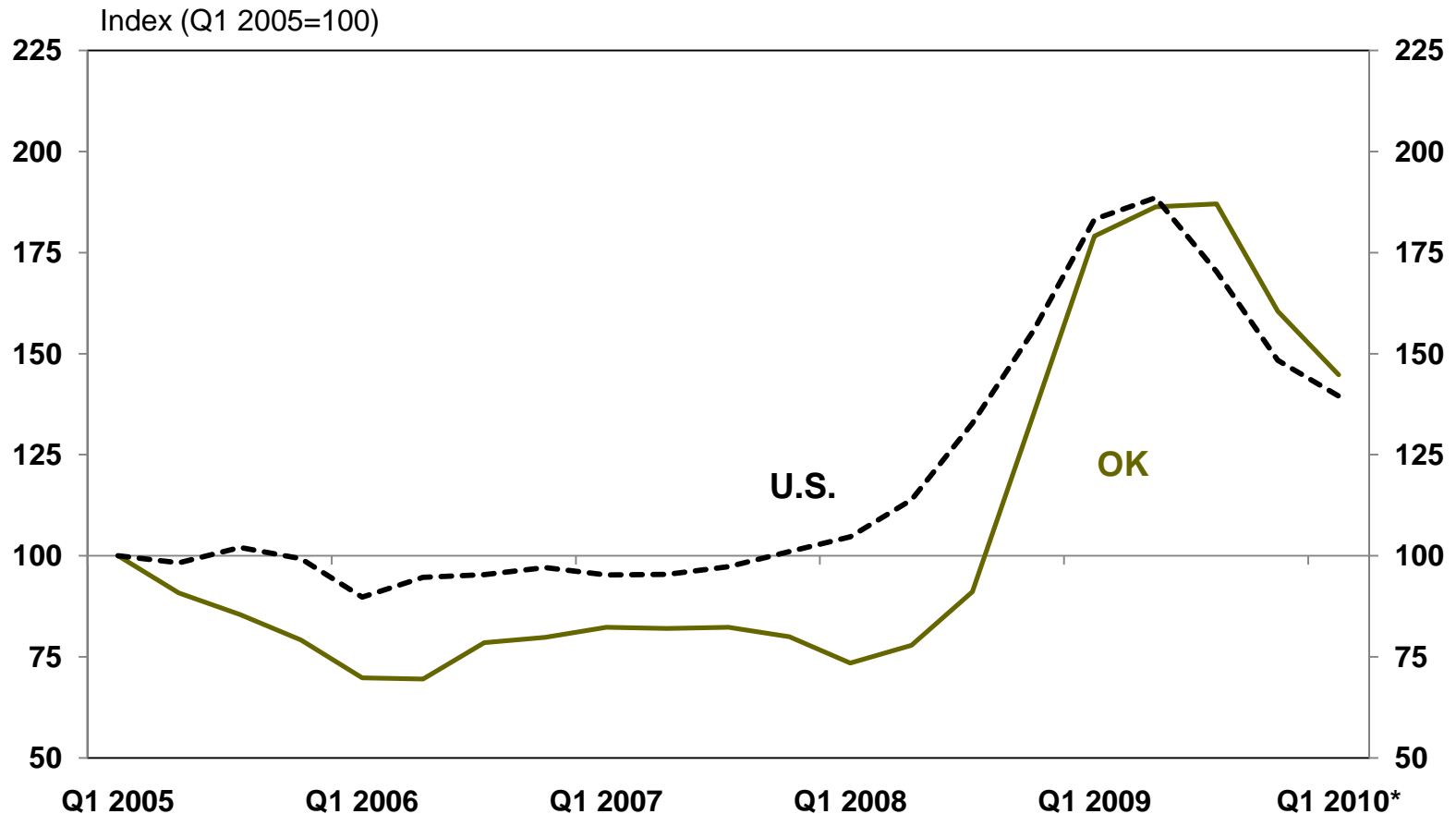
Employment level 4 quarters before and 8 quarters after U.S. jobs peak





# Oklahoma entered this recession 3 quarters late and appears to be leaving one quarter late

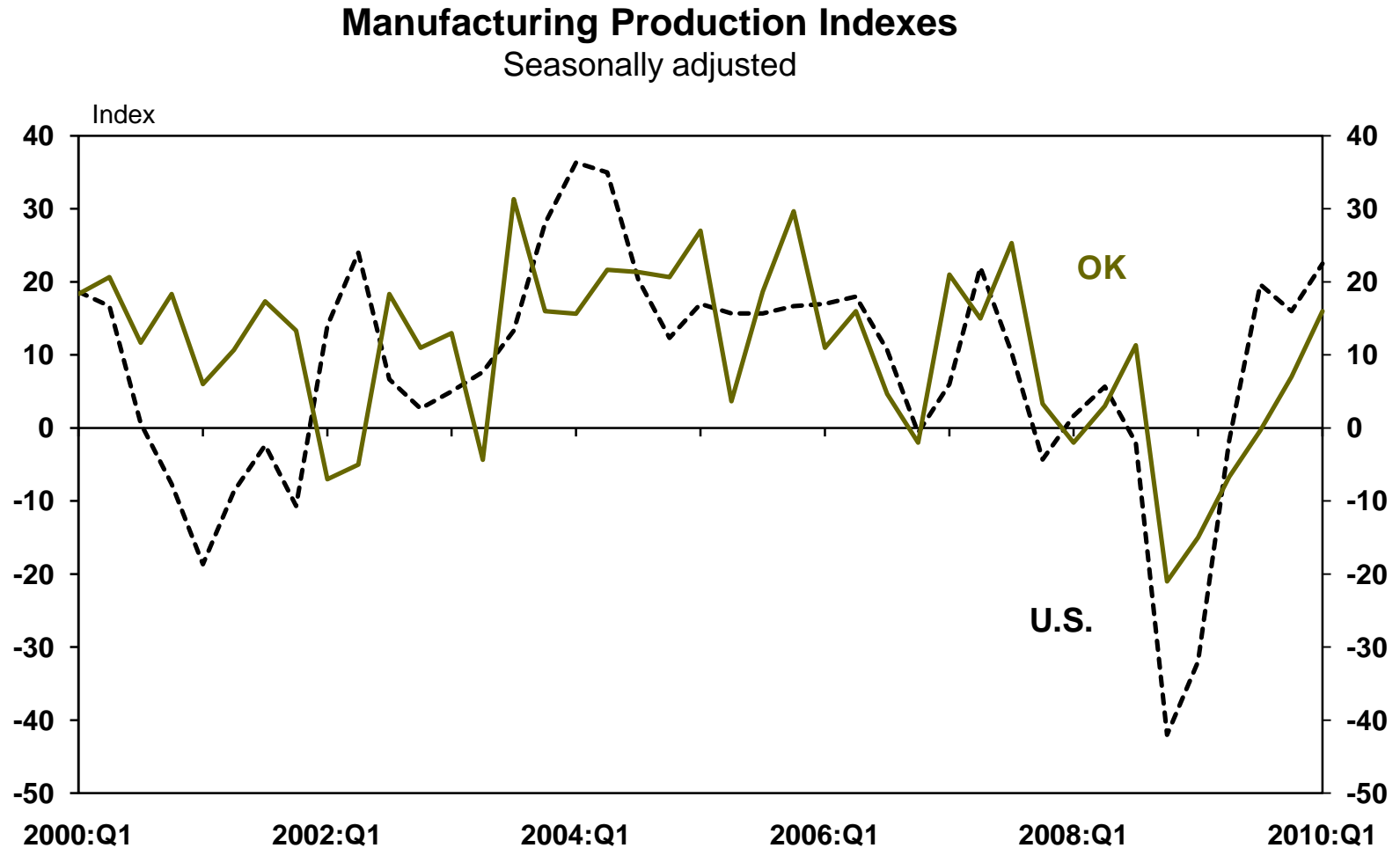
## Initial Claims for Unemployment Insurance



\*Only one week of March

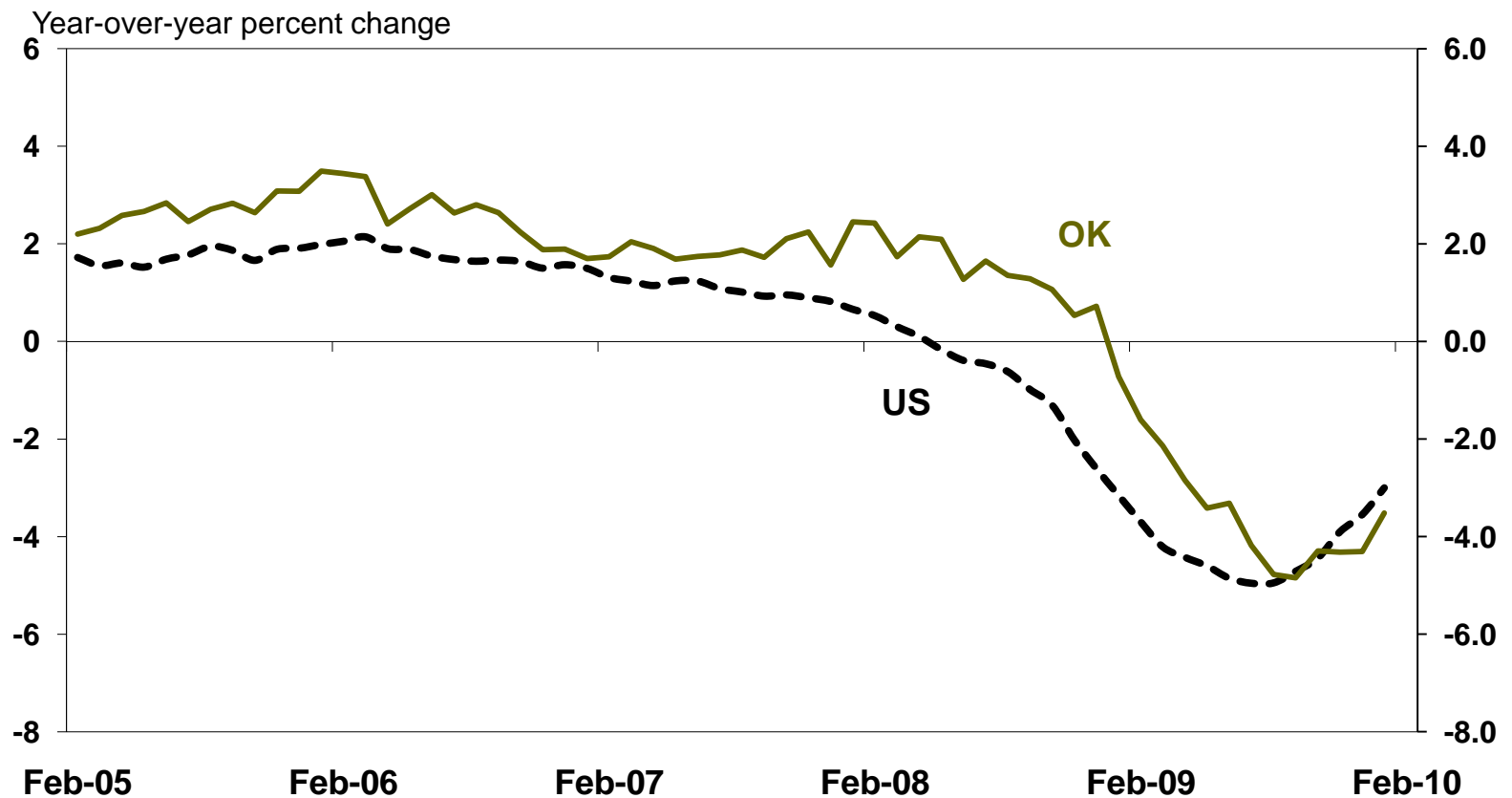
Source: Bureau of Labor Statistics

# Manufacturing surveys show solid output recovery in Oklahoma, slightly delayed



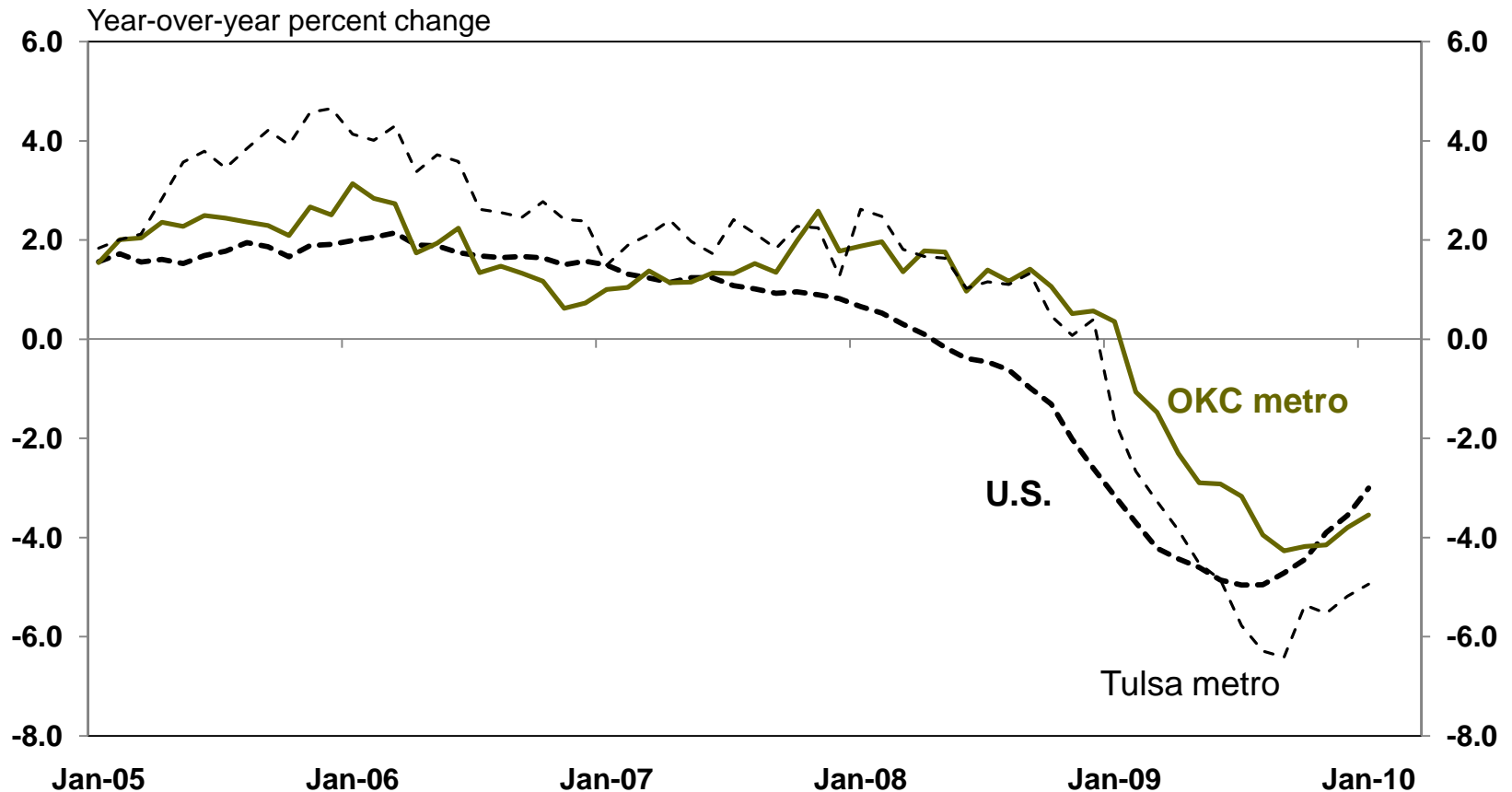
# Revised state jobs data show a similar story of very late entry, slightly late exit

## Nonfarm Payroll Employment Growth



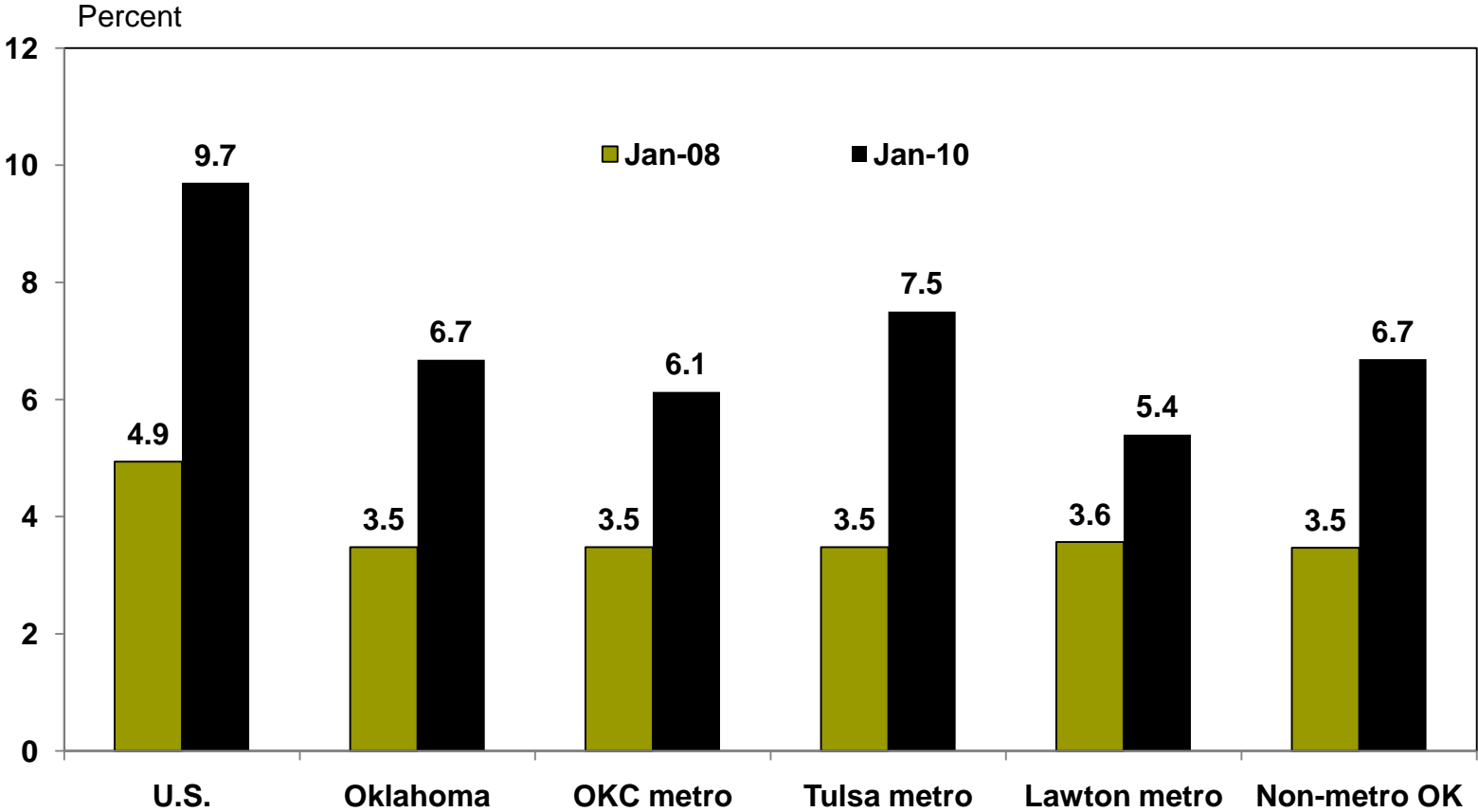
# Oklahoma City held up better in 2009 than Tulsa, due largely to less manufacturing

## Nonfarm Payroll Employment Growth



# Unemployment remains well below the national average throughout the state

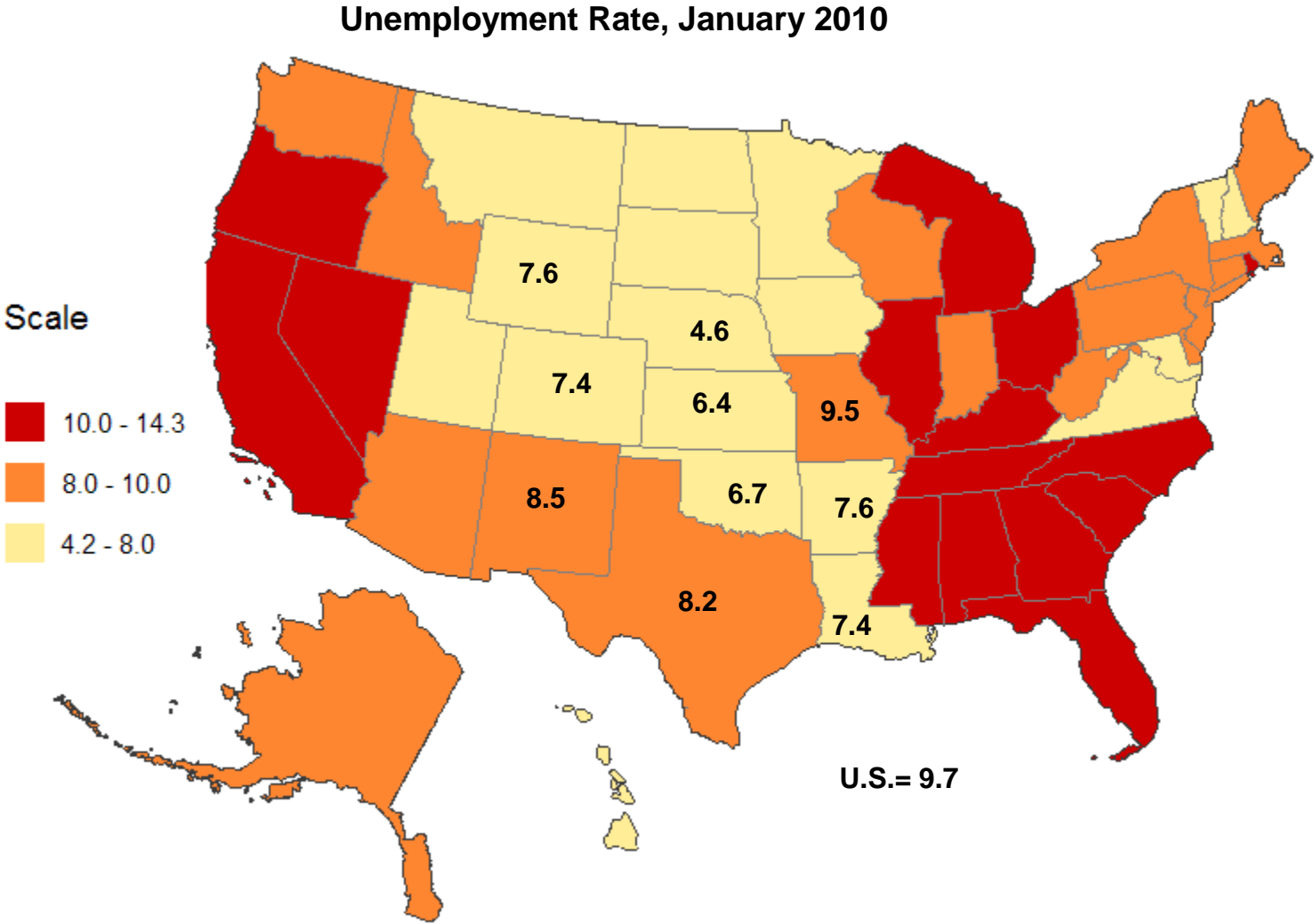
**Unemployment Rate**  
Seasonally Adjusted\*



Source: U.S. Bureau of Labor Statistics

\* Estimated by FRBKC

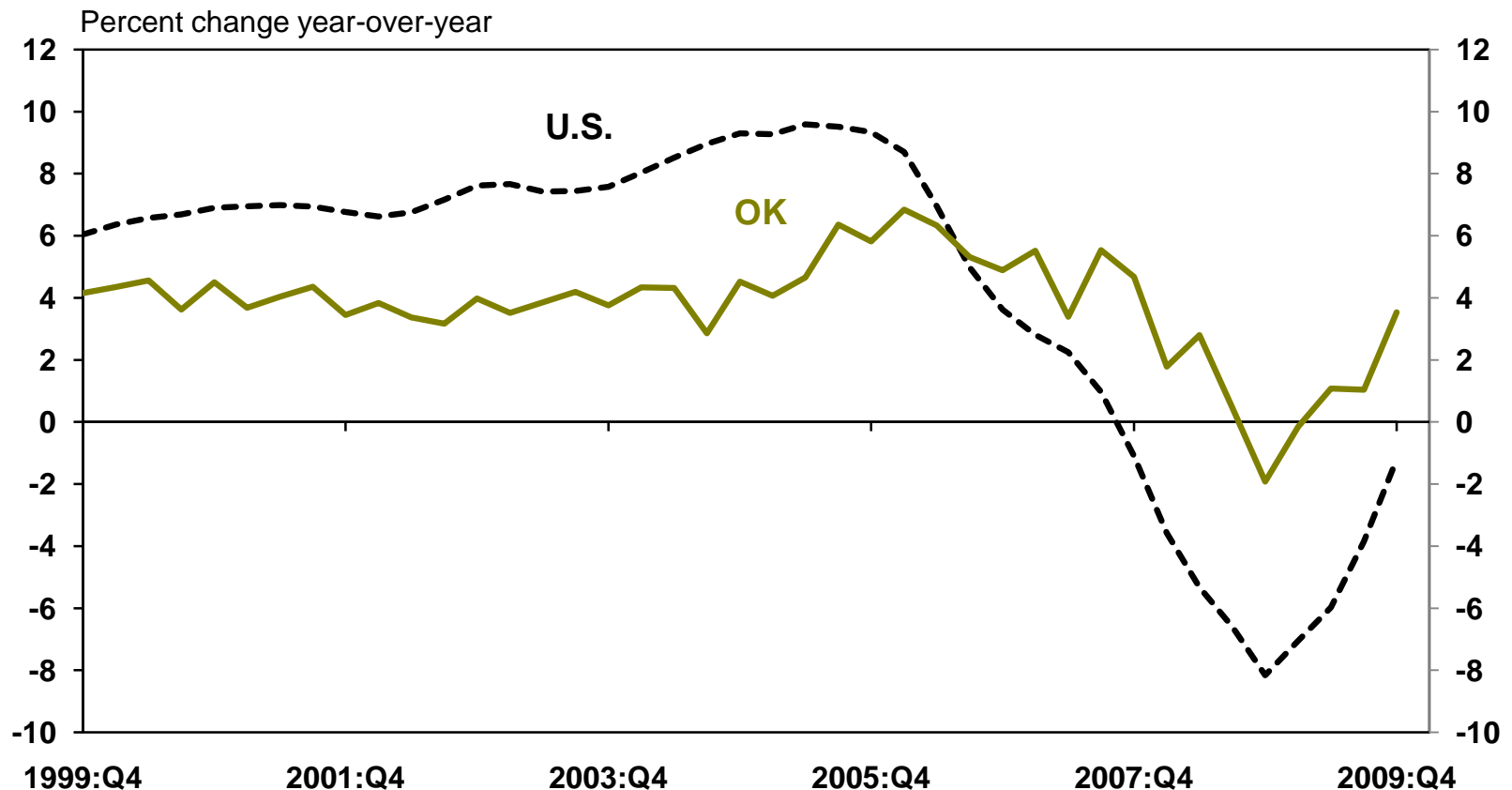
# Indeed, our entire region maintains relatively low unemployment rates



Source: Bureau of Labor Statistics

# Home prices clearly held up better here, providing cushion to consumers and banks

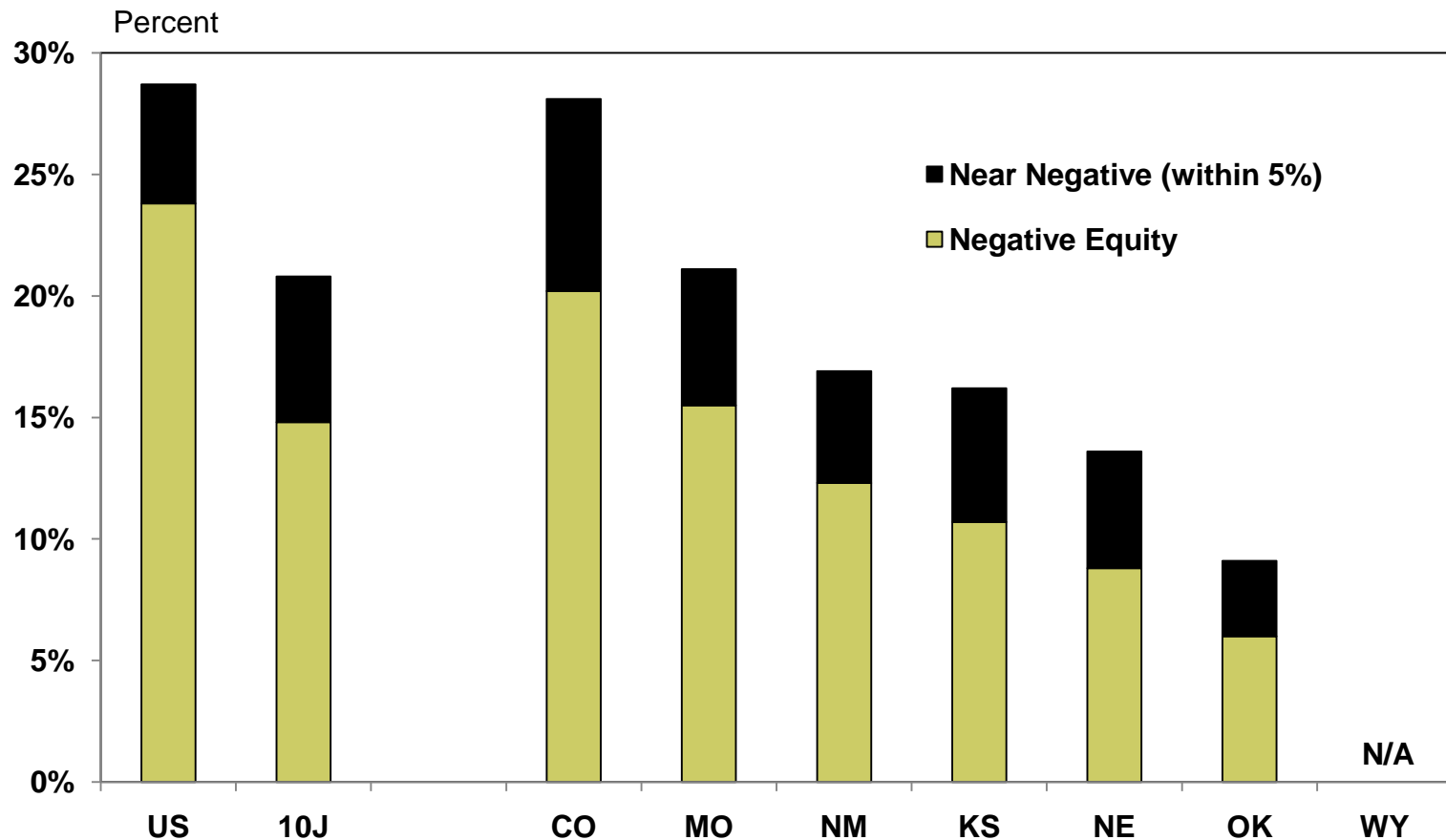
**Quality-Adjusted Home Price Growth**  
Purchase-Only



# Mortgages are in much better position in Oklahoma than in the nation or even region

## Share of Mortgages Underwater or Nearly So

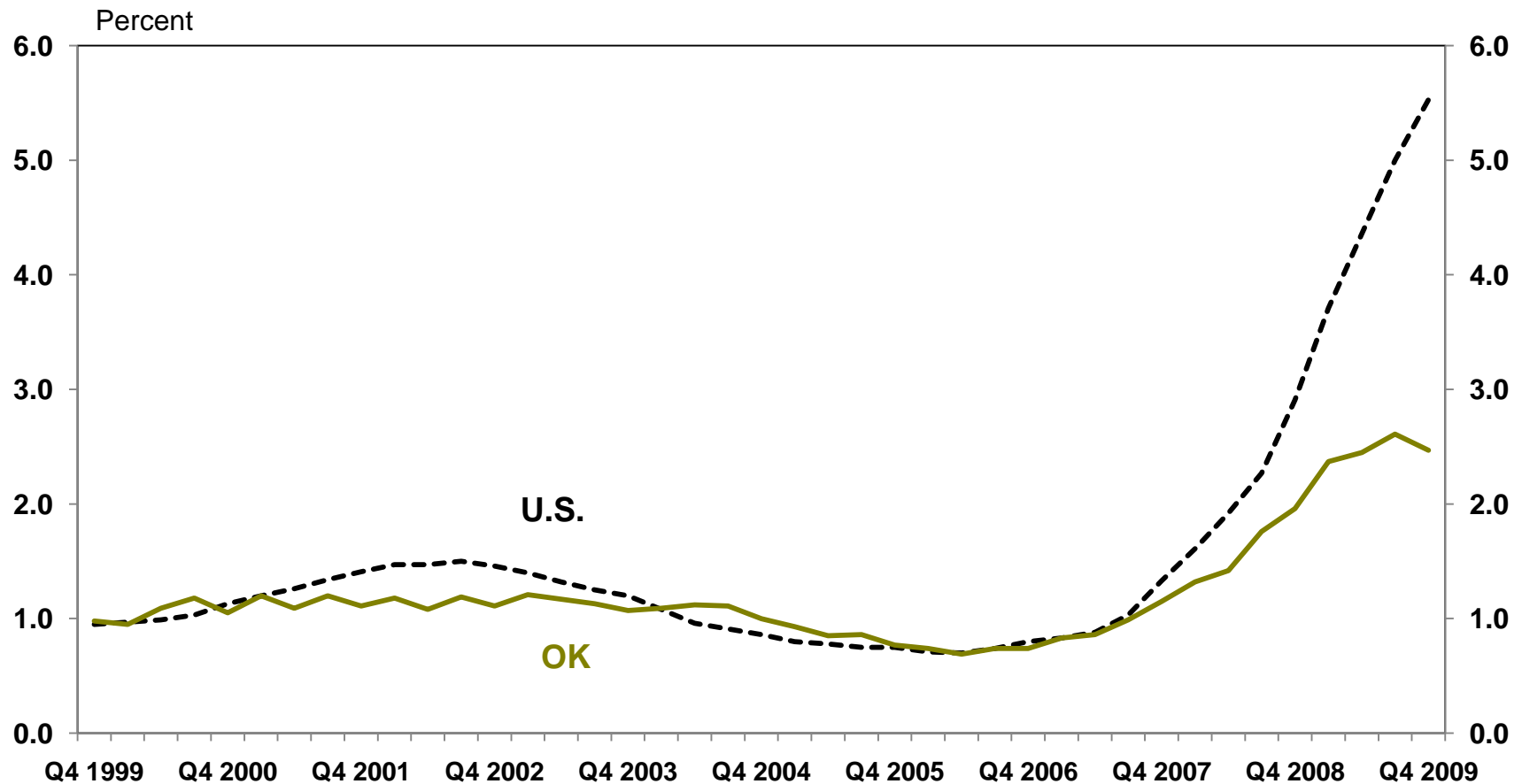
Q4 2009





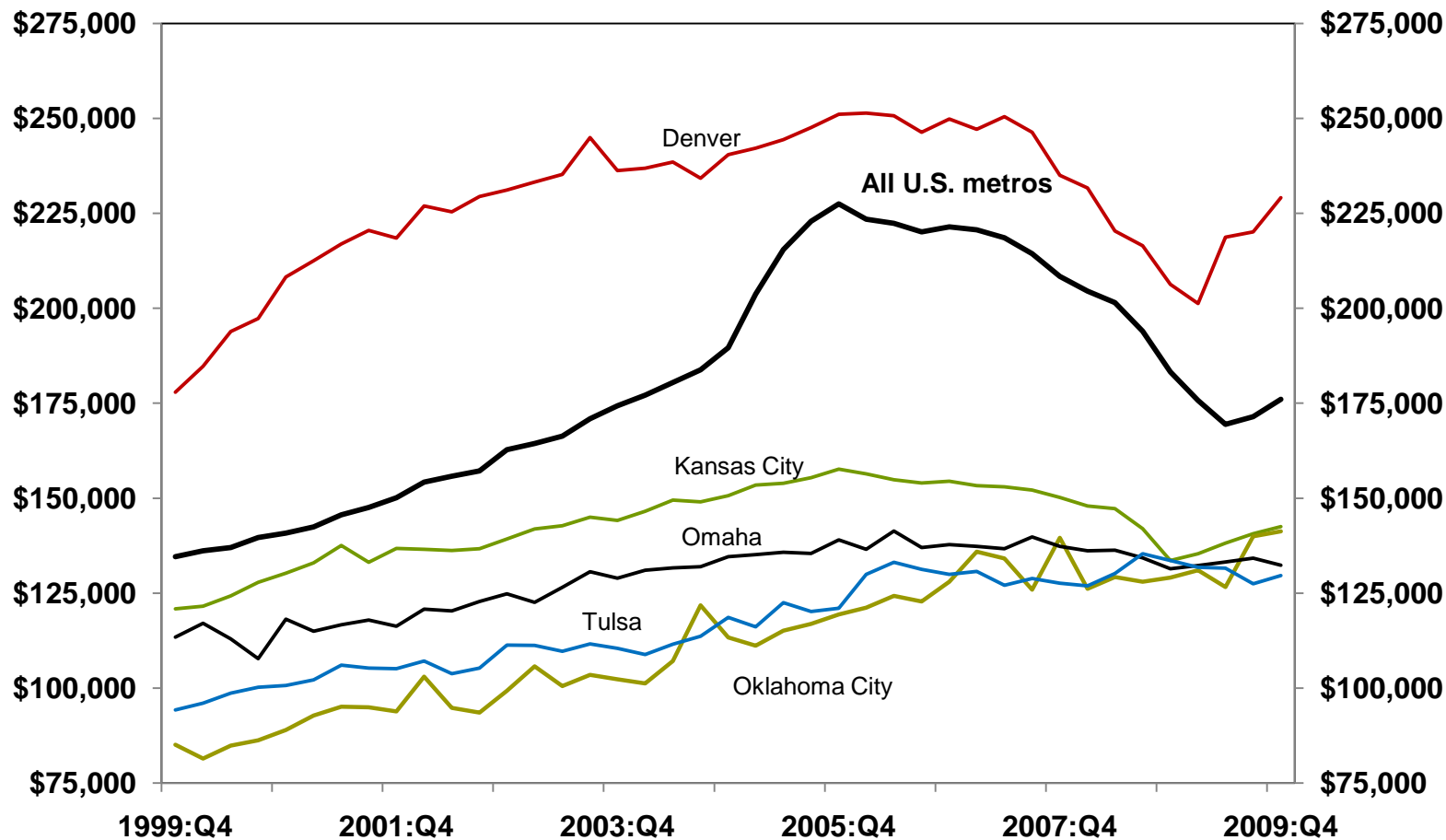
# Banks in the state also remain in much better shape than in the nation

**Noncurrent Loans as a Share of Total Loans**  
Commercial Banks

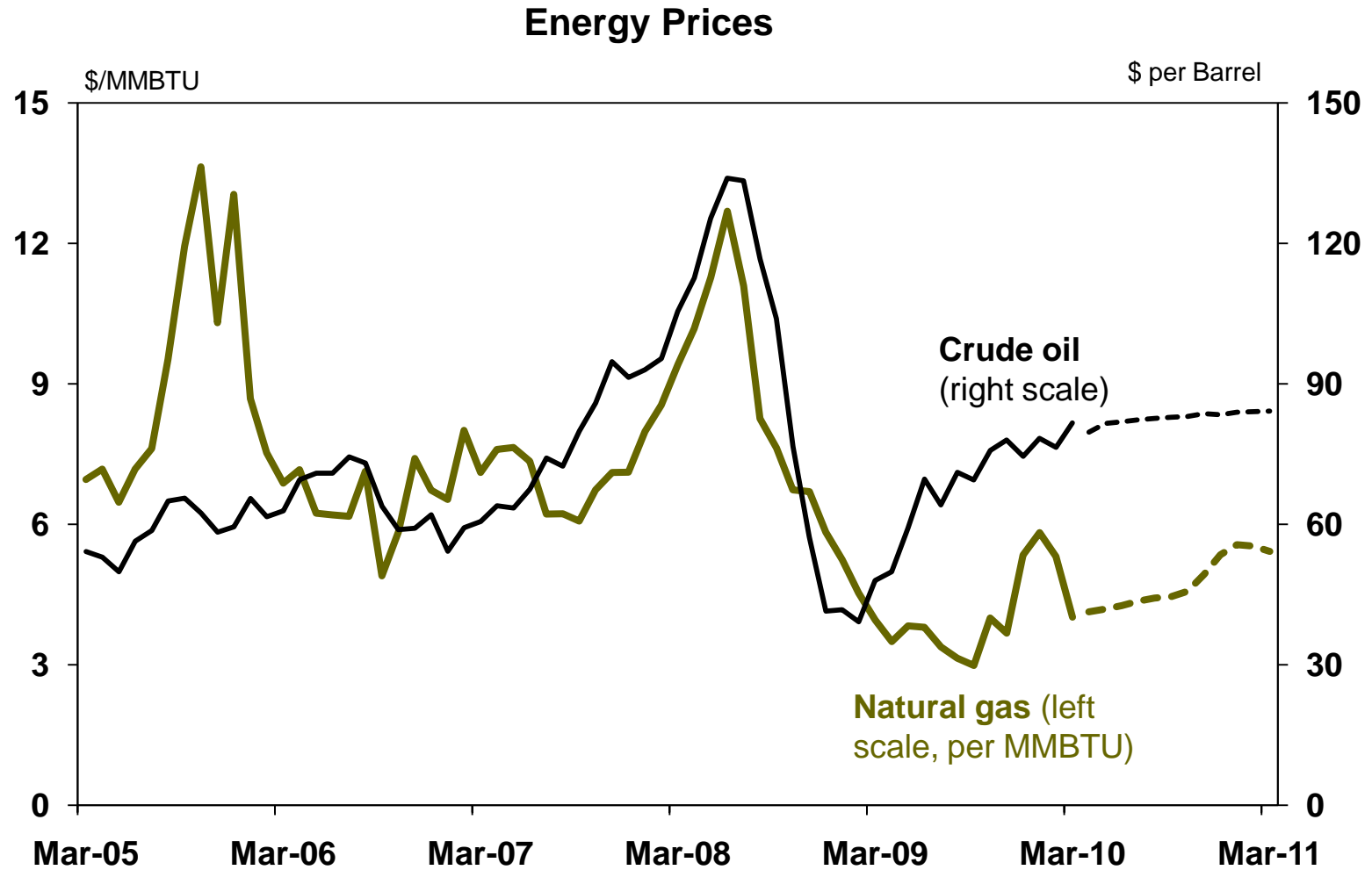


# OKC and Tulsa home prices have caught up with some other regional cities

## Median Home Prices in U.S. and Five Largest Tenth District Cities



# But weakening natural gas prices provide a risk relative to the nation



# Summary

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- The U.S. economy is growing again, but recovery speed is expected to be modest
- Near-term inflation risks remain low, but long-term risks will require diligent action
- Oklahoma's economy is showing signs of recovery, and from a better level, but recent natural gas price trends are a risk