

The Economic Outlook for the U.S. and Oklahoma



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History and Structure of the Federal Reserve System

- **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

- **Branch staff and functions**

- 35 staff involved in economic research, examining banks, and public outreach

- **2010 branch board of directors**

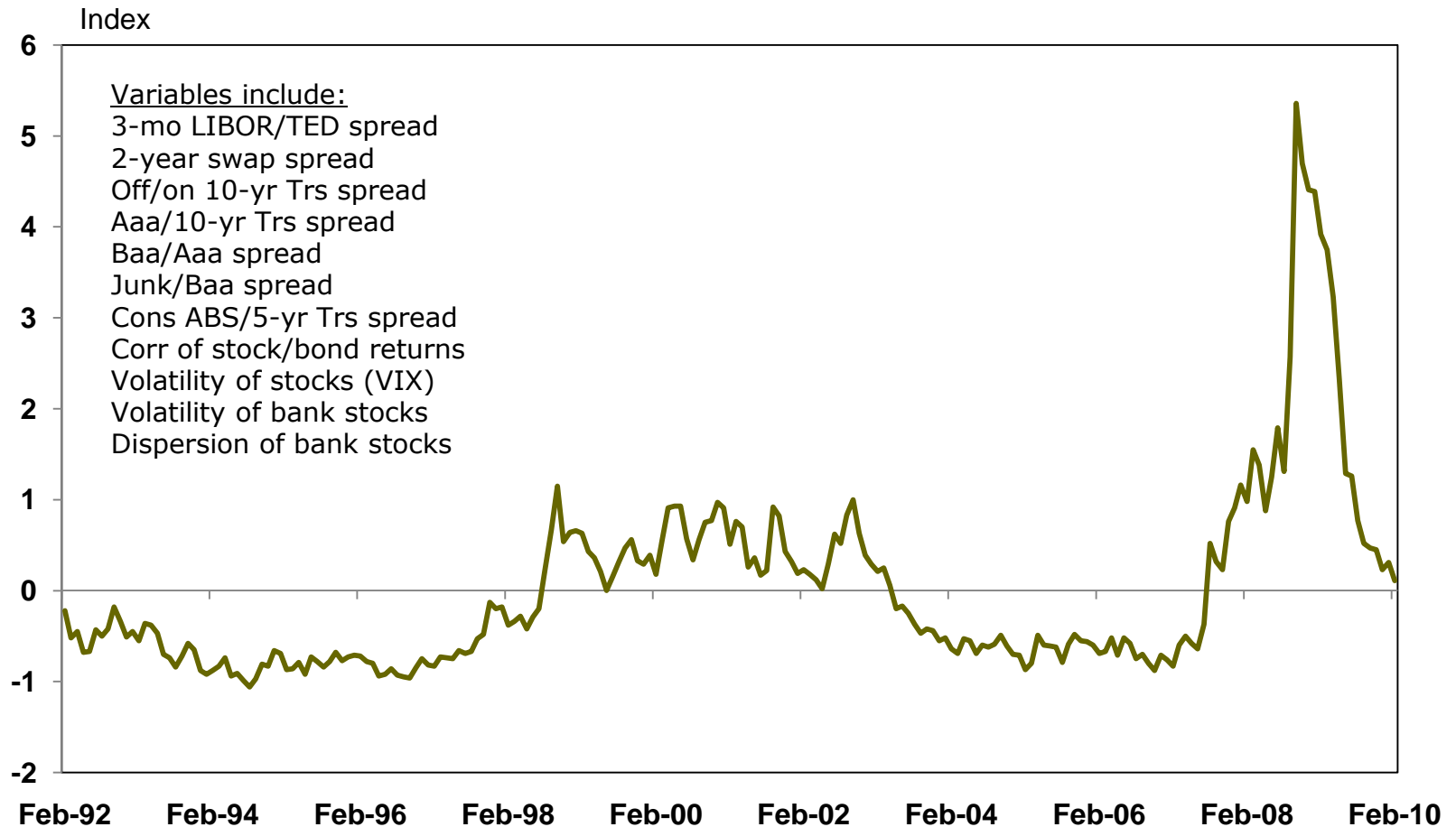
- **Steve Agee (chairman)**, President, Agee Energy, and Professor, OCU, OKC
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber and Supply Company, Tulsa
- **Jacque Fiegel**, Senior EVP and COO, Coppermark Bank, OKC
- **Rose Washington Rentie**, Executive 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

- Credit market conditions have improved, and the U.S. economy is growing again, but 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

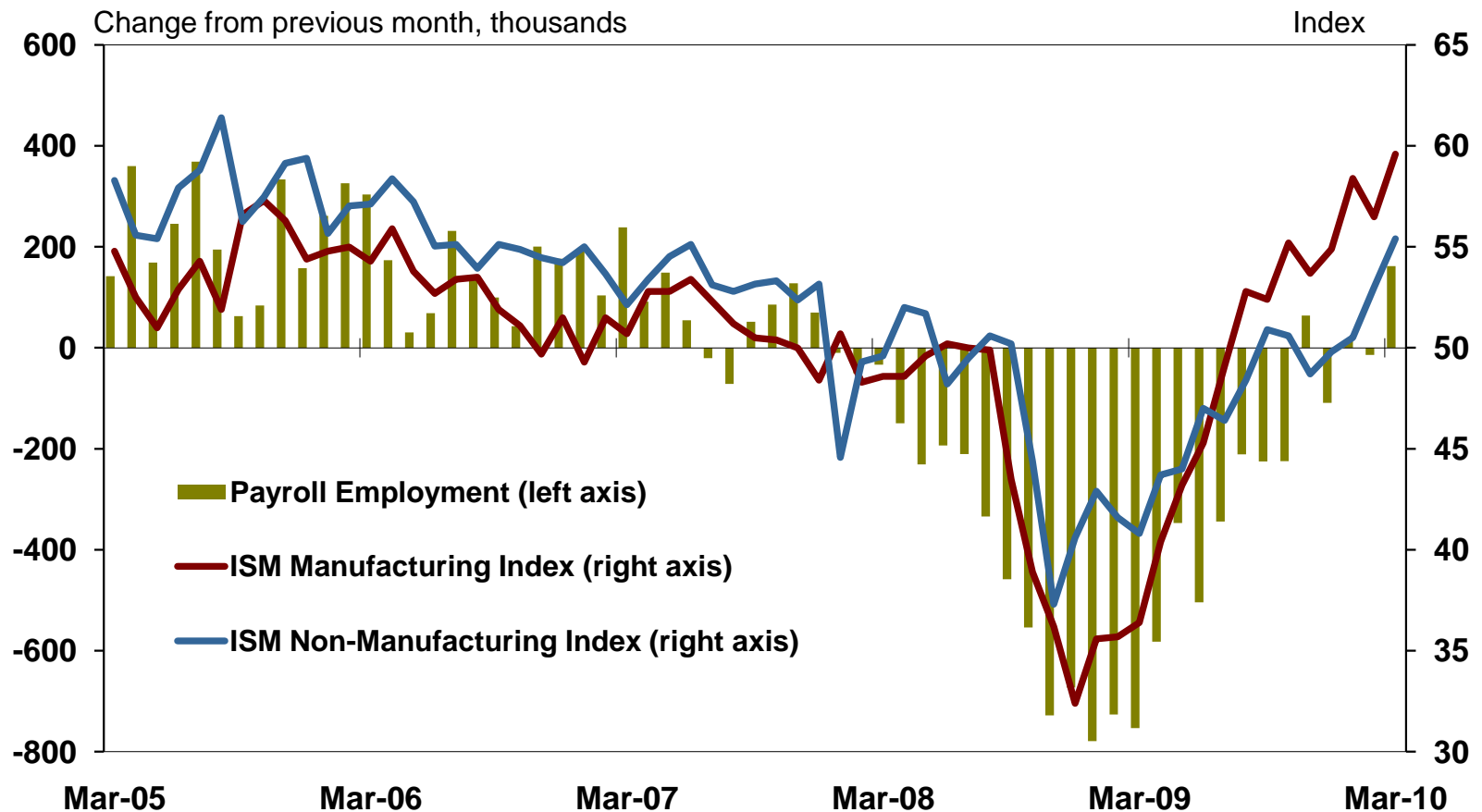
Broad measures of financial stress are nearing normal levels

Kansas City Financial Stress Index



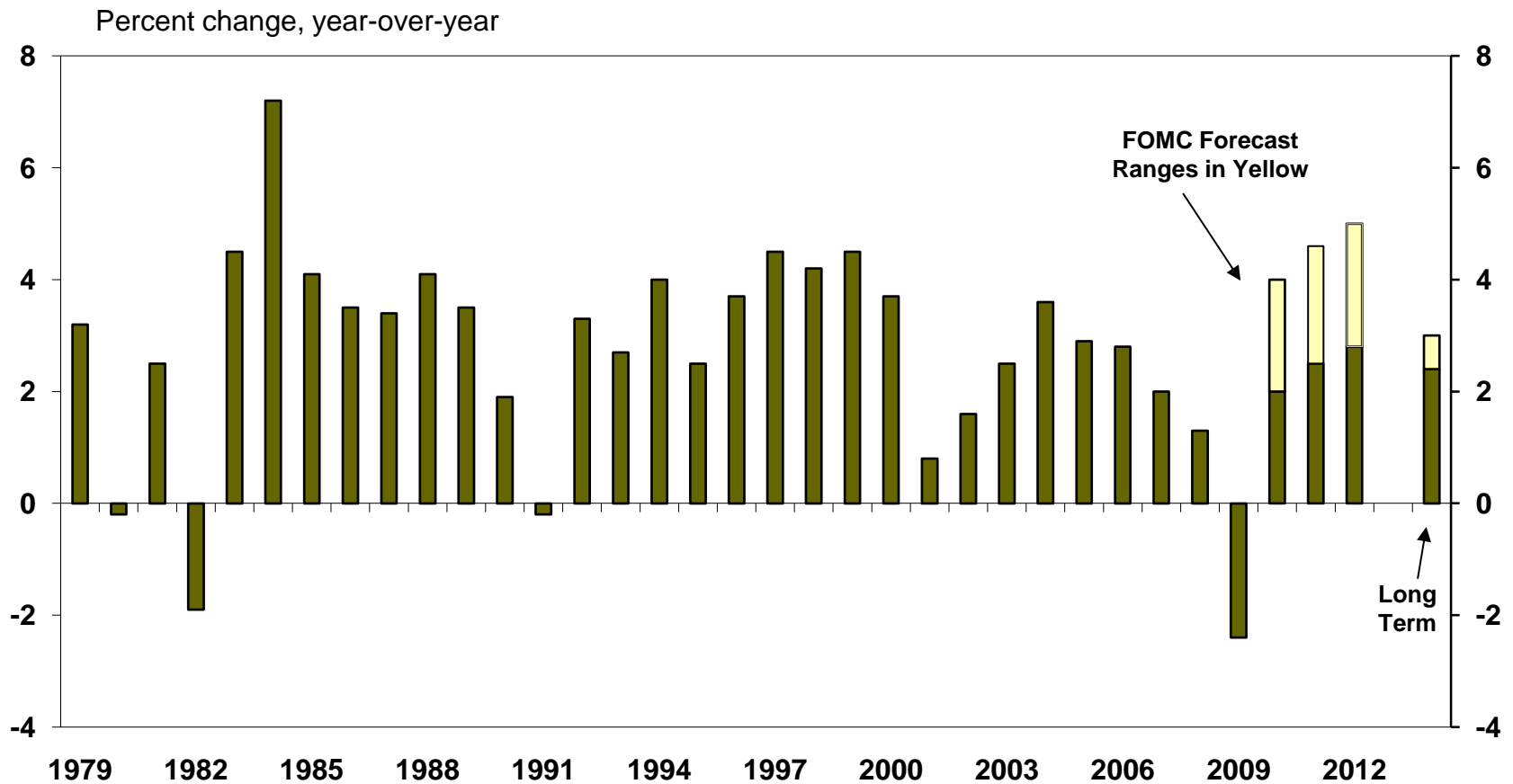
And early 2010 data show continued improvement in the U.S. economy

National Business Indexes and Payroll Employment



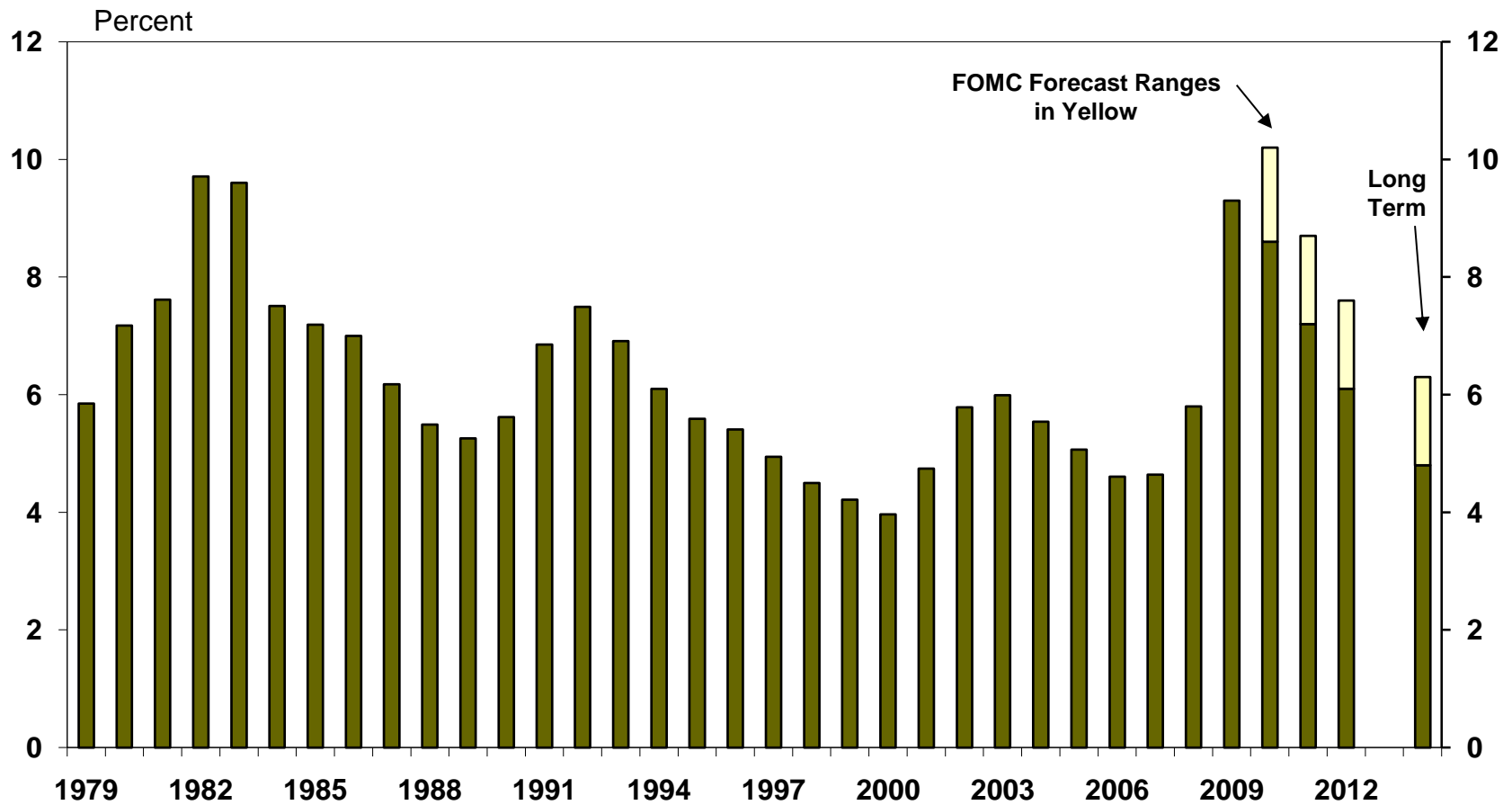
Heading forward, Fed policymakers generally expect a moderate recovery

Gross Domestic Product



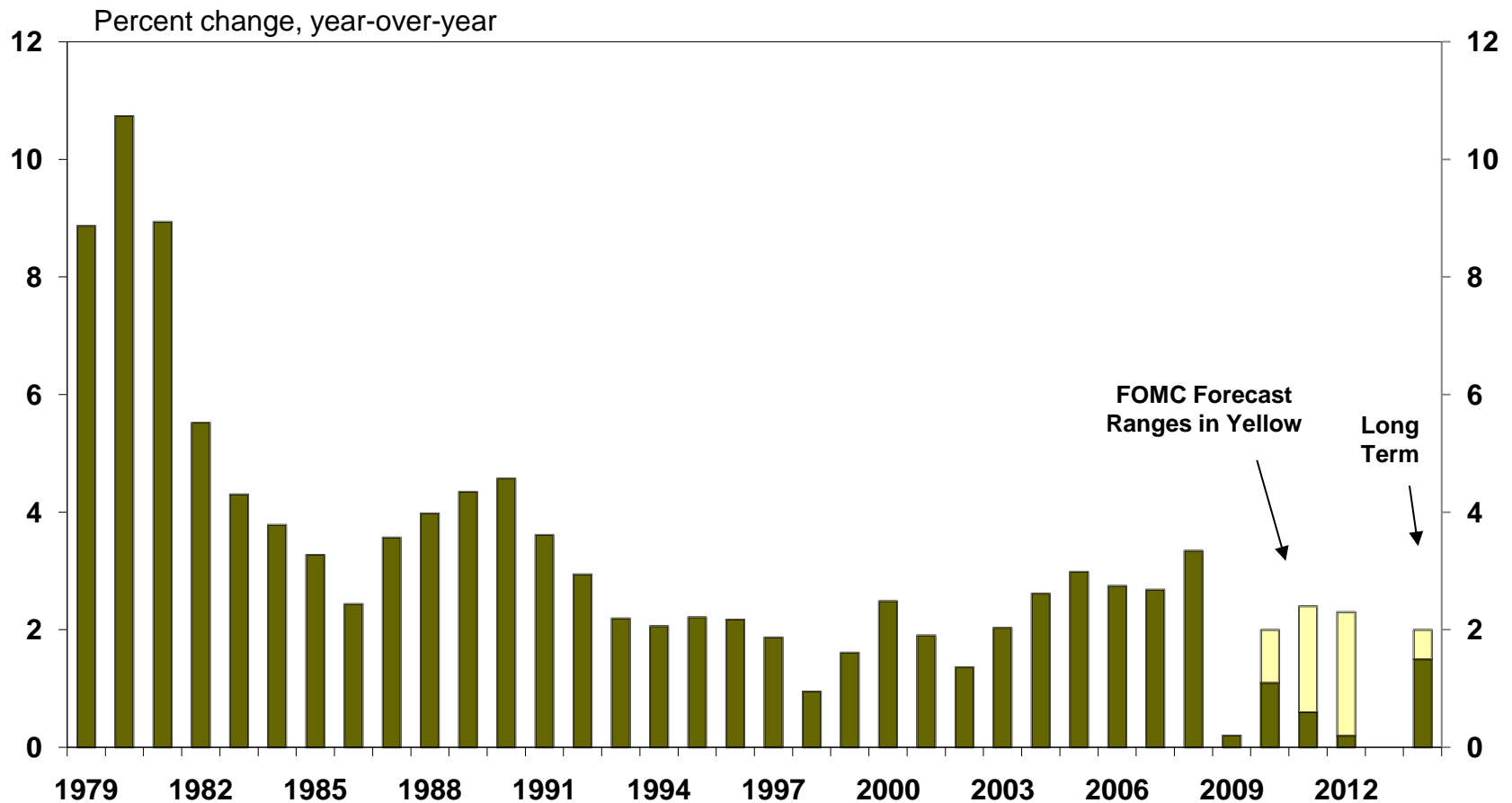
With unemployment remaining high for some time

Unemployment Rate
Seasonally Adjusted



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

PCE Inflation Index



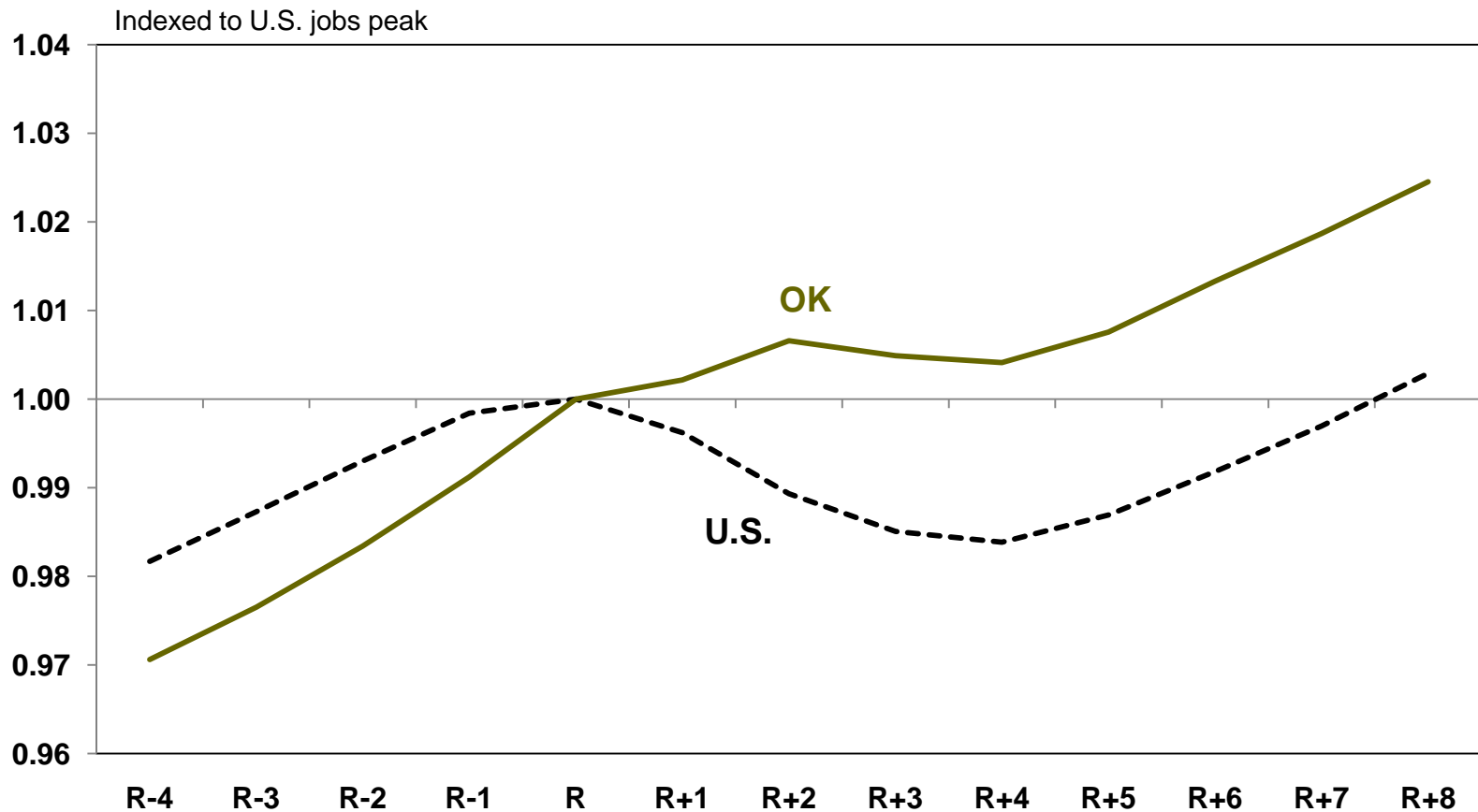
The Oklahoma Economy

- As usual in recessions, Oklahoma entered this recession much later than the nation, but then suffered huge job losses in 2009
- Signs of recovery are increasing, and conditions remain much better than in the nation, but low natural gas prices are a risk

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

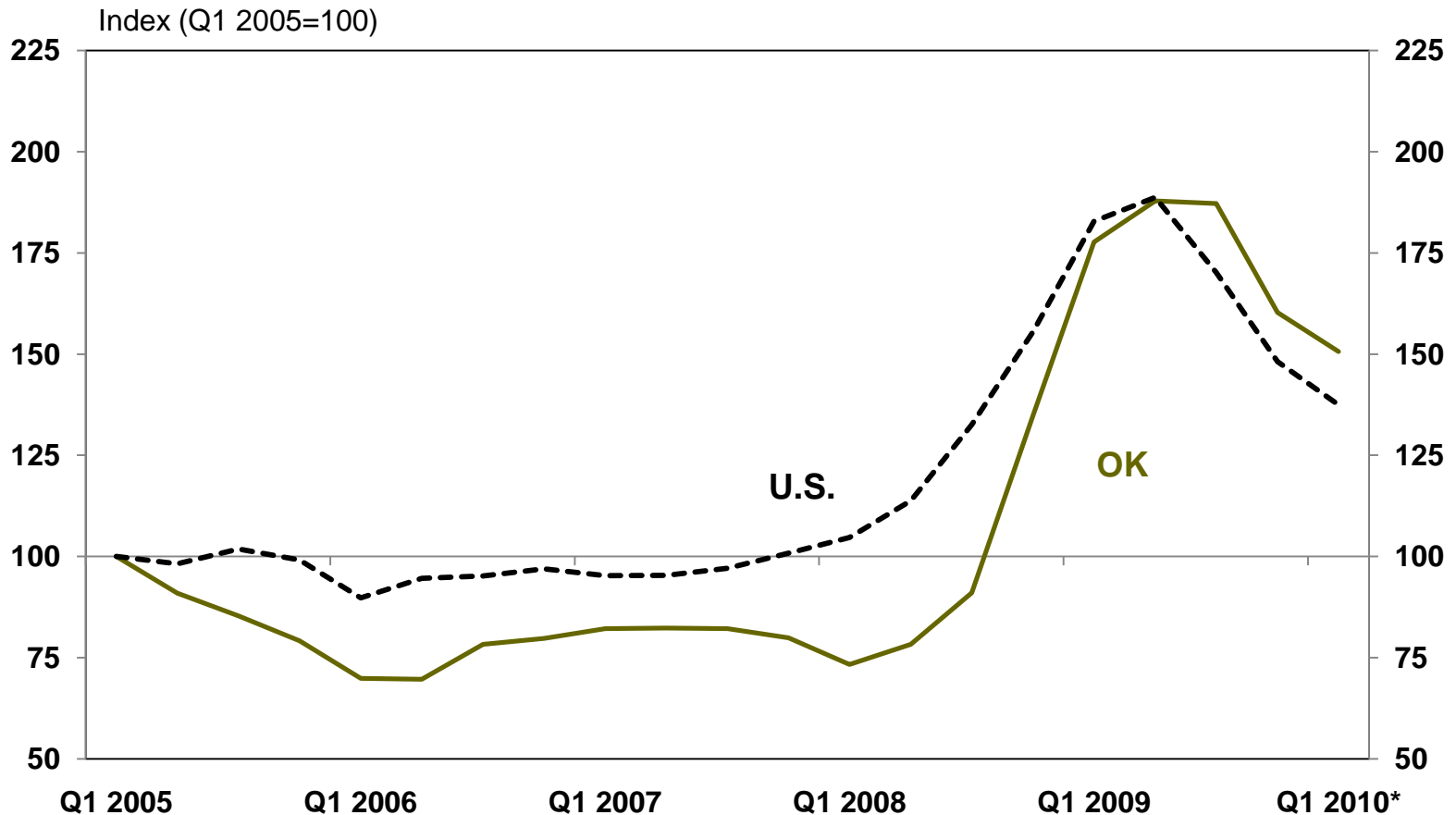
Average Recession Path, 1956-2006

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



Oklahoma entered this recession 3 quarters late and appears to have left 1 quarter late

Initial Claims for Unemployment Insurance

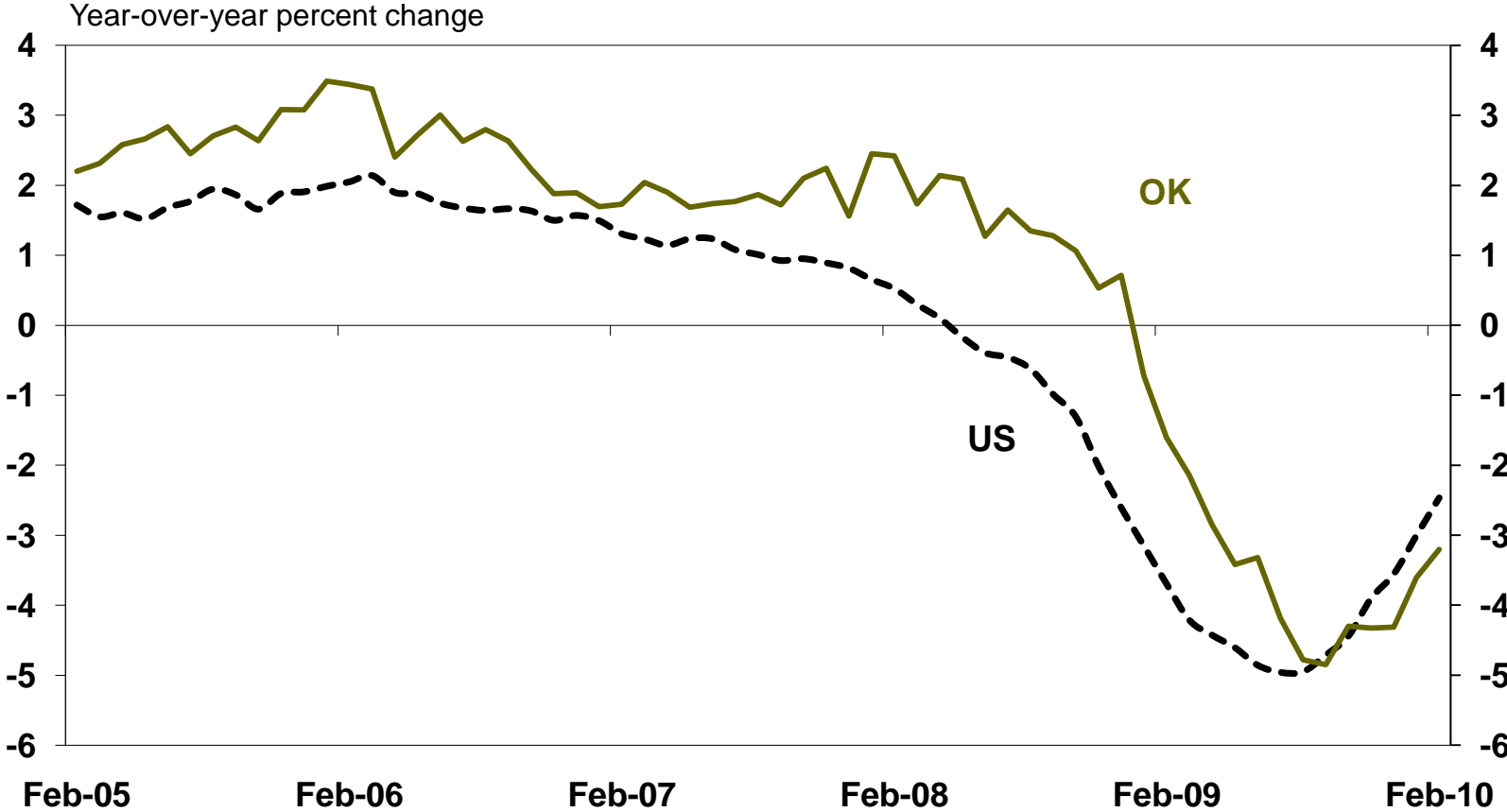


* Through first three weeks of March

Source: Bureau of Labor Statistics

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

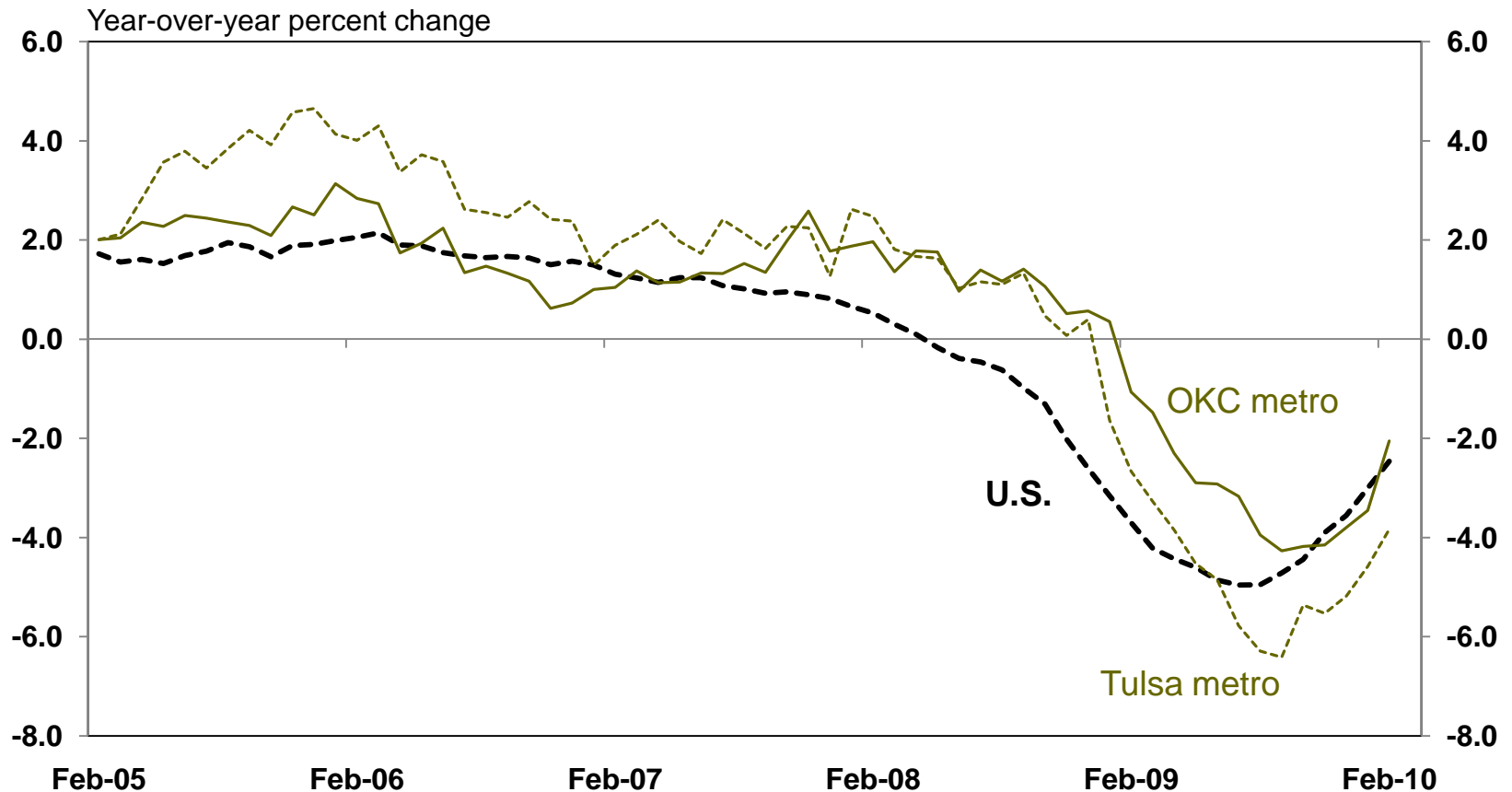
Nonfarm Payroll Employment Growth



Source: U.S. Bureau of Labor Statistics

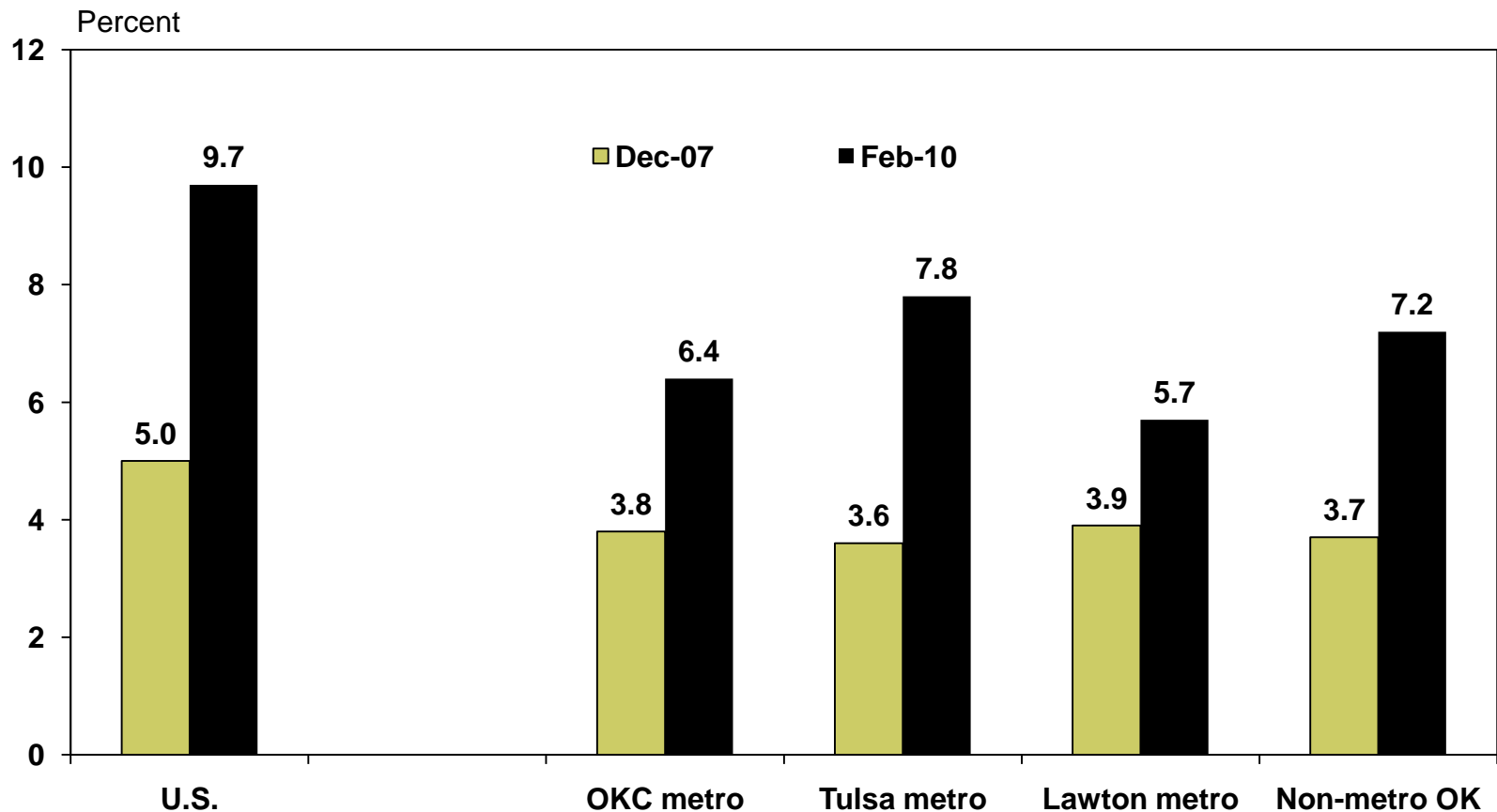
Oklahoma City held up better in 2009 than Tulsa, but both appear to have bottomed

Nonfarm Payroll Employment Growth

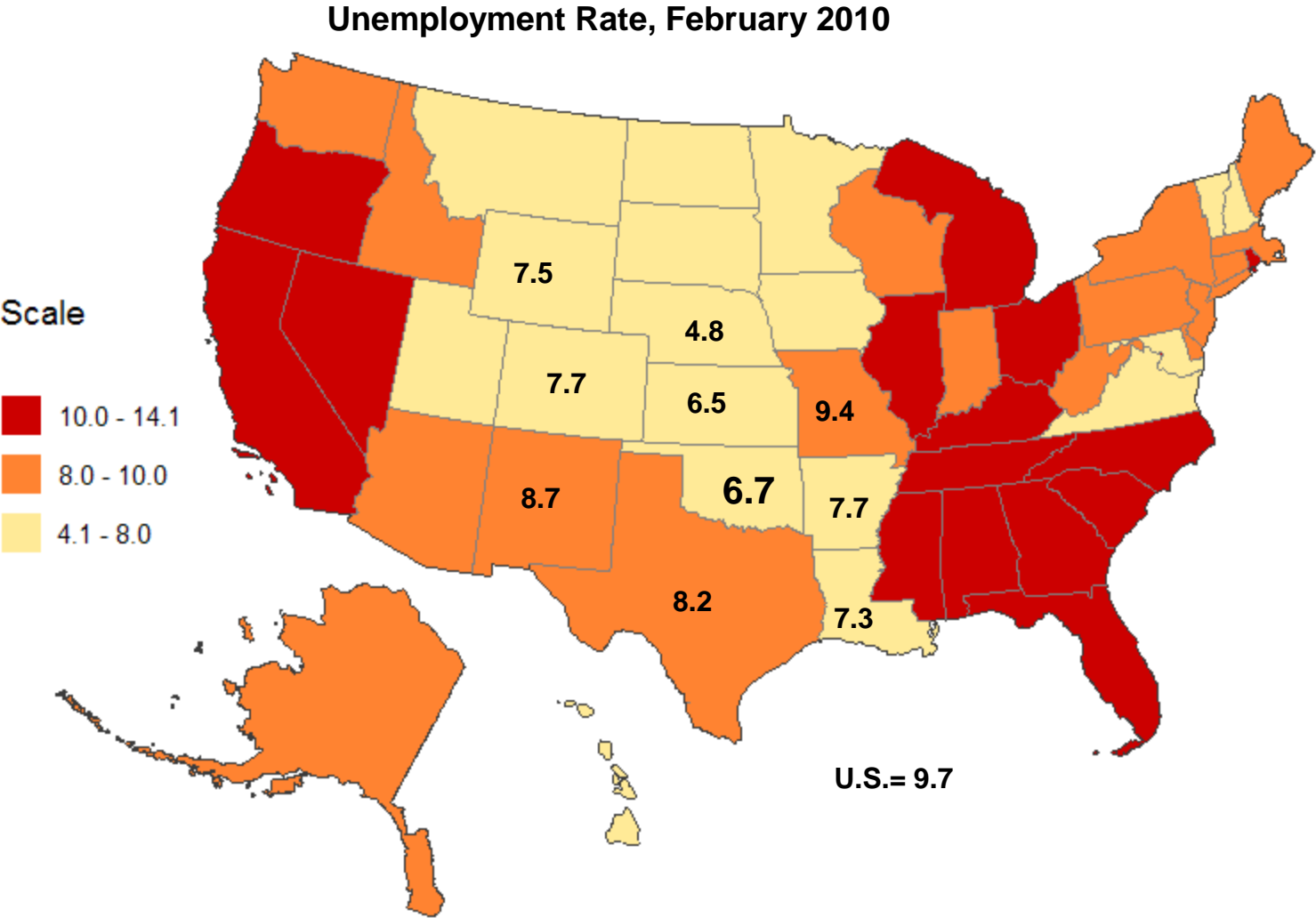


With shorter recessions and better starting points, unemployment remains relatively low

Unemployment Rate
Seasonally Adjusted*



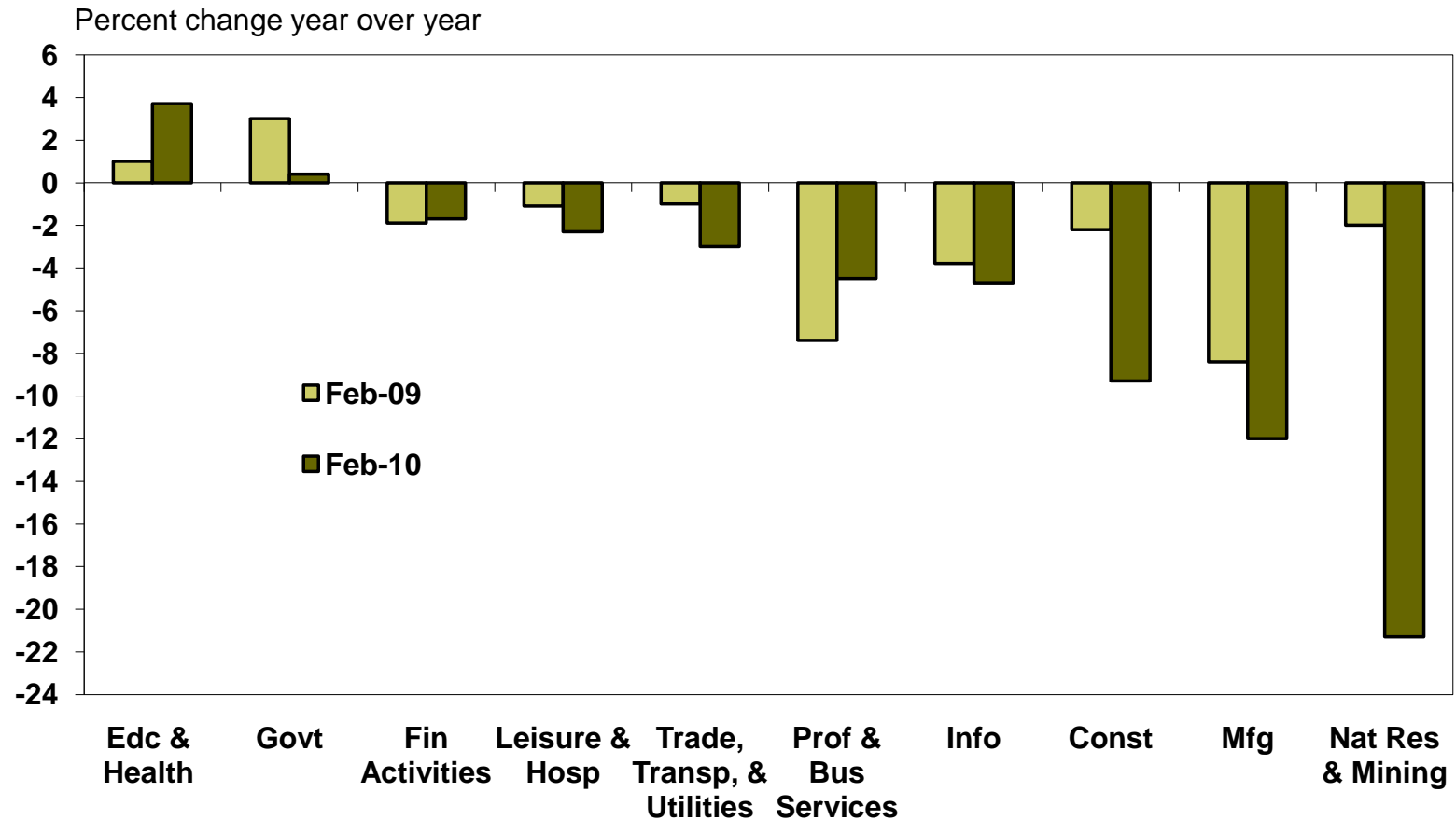
Indeed, our entire region maintains relatively low unemployment rates



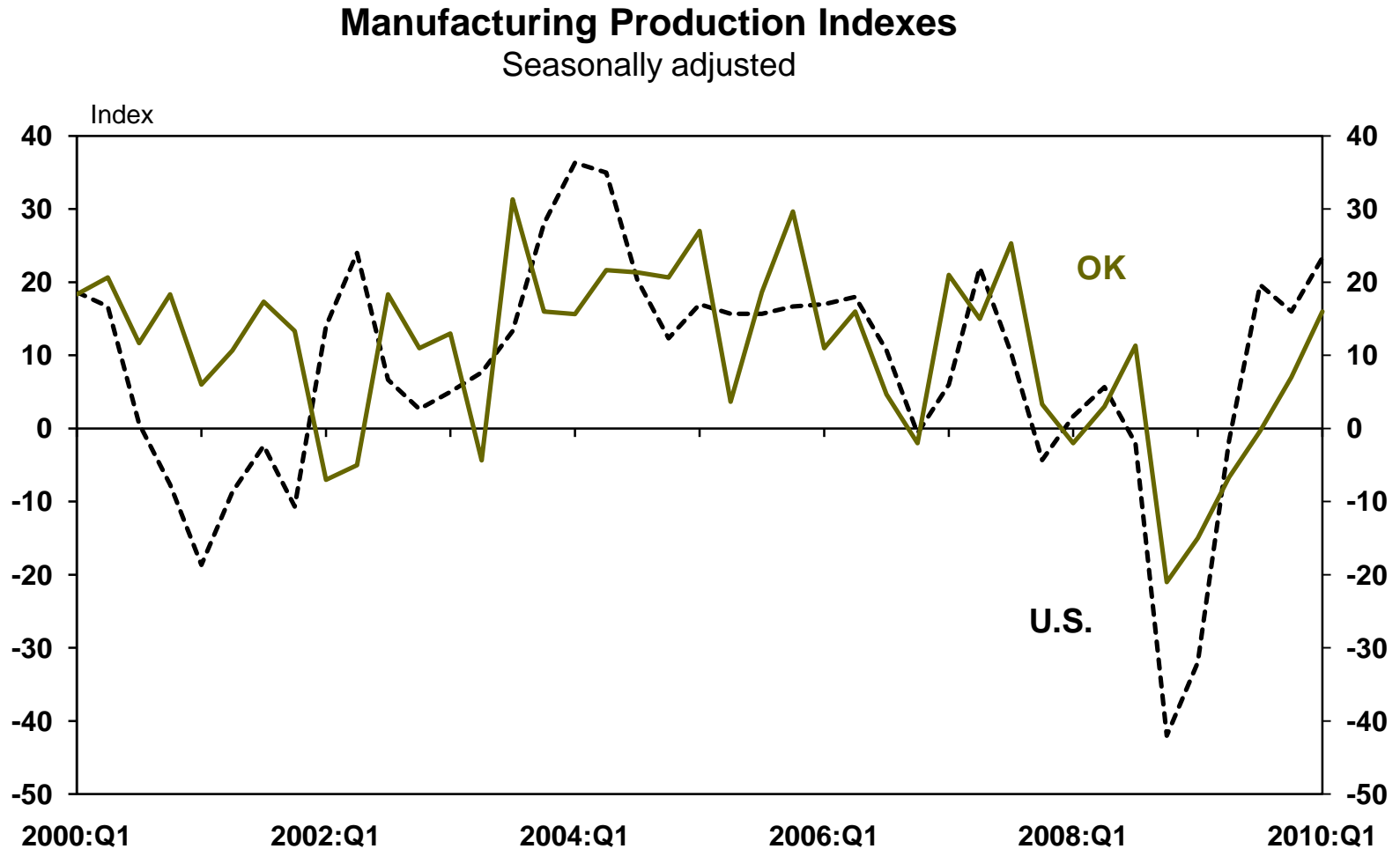
Source: Bureau of Labor Statistics

Energy and construction finally shed jobs in OK in 2009, and manufacturing bled further

Oklahoma Employment Growth by Industry
February 2010

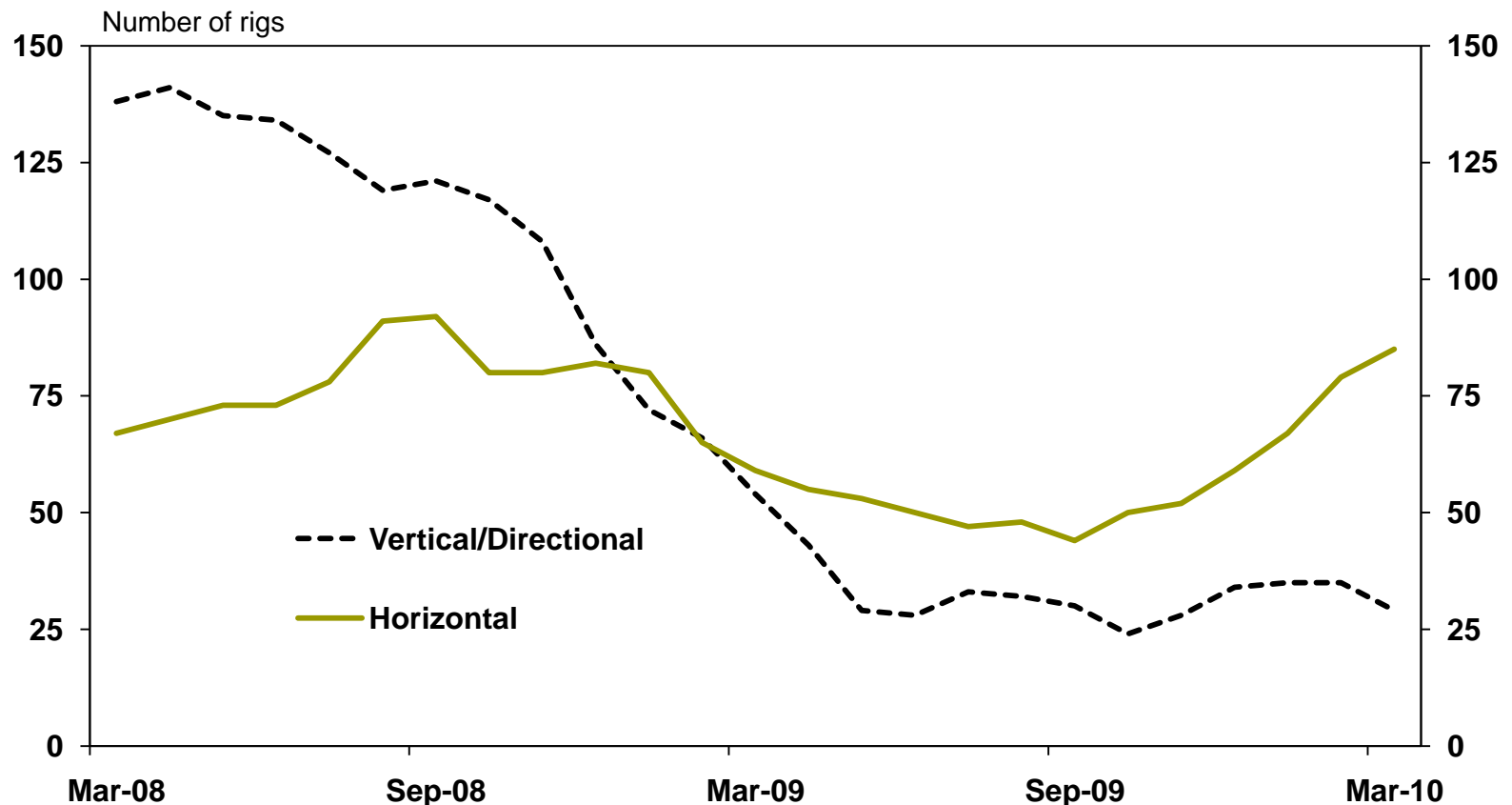


But manufacturing is showing solid output recovery in Oklahoma, slightly delayed



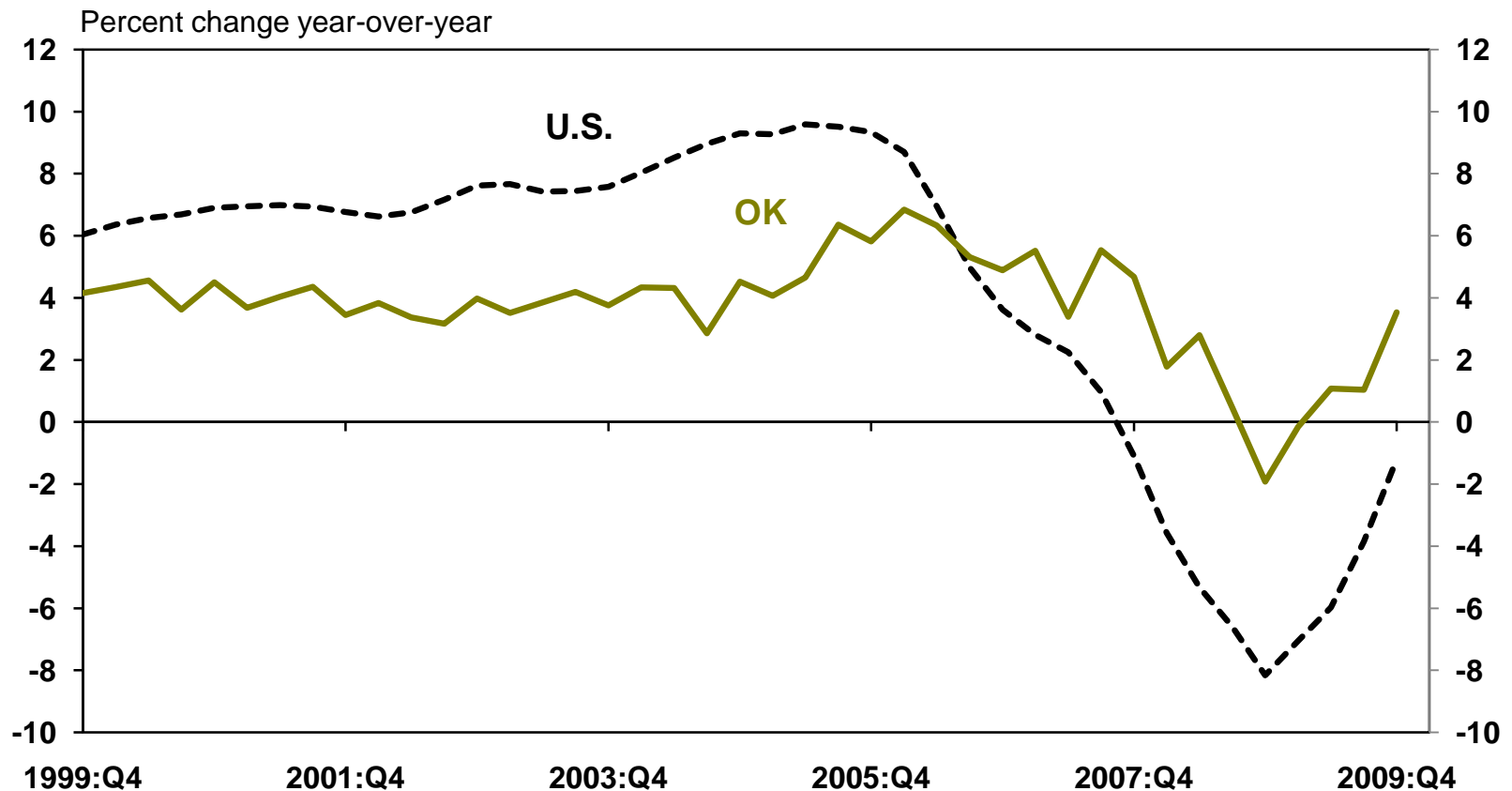
And Oklahoma's rig count has risen 72% since September: all horizontal, mostly gas

Oklahoma Rig Count by Type



Home prices clearly held up better in Oklahoma, and have recently edged higher

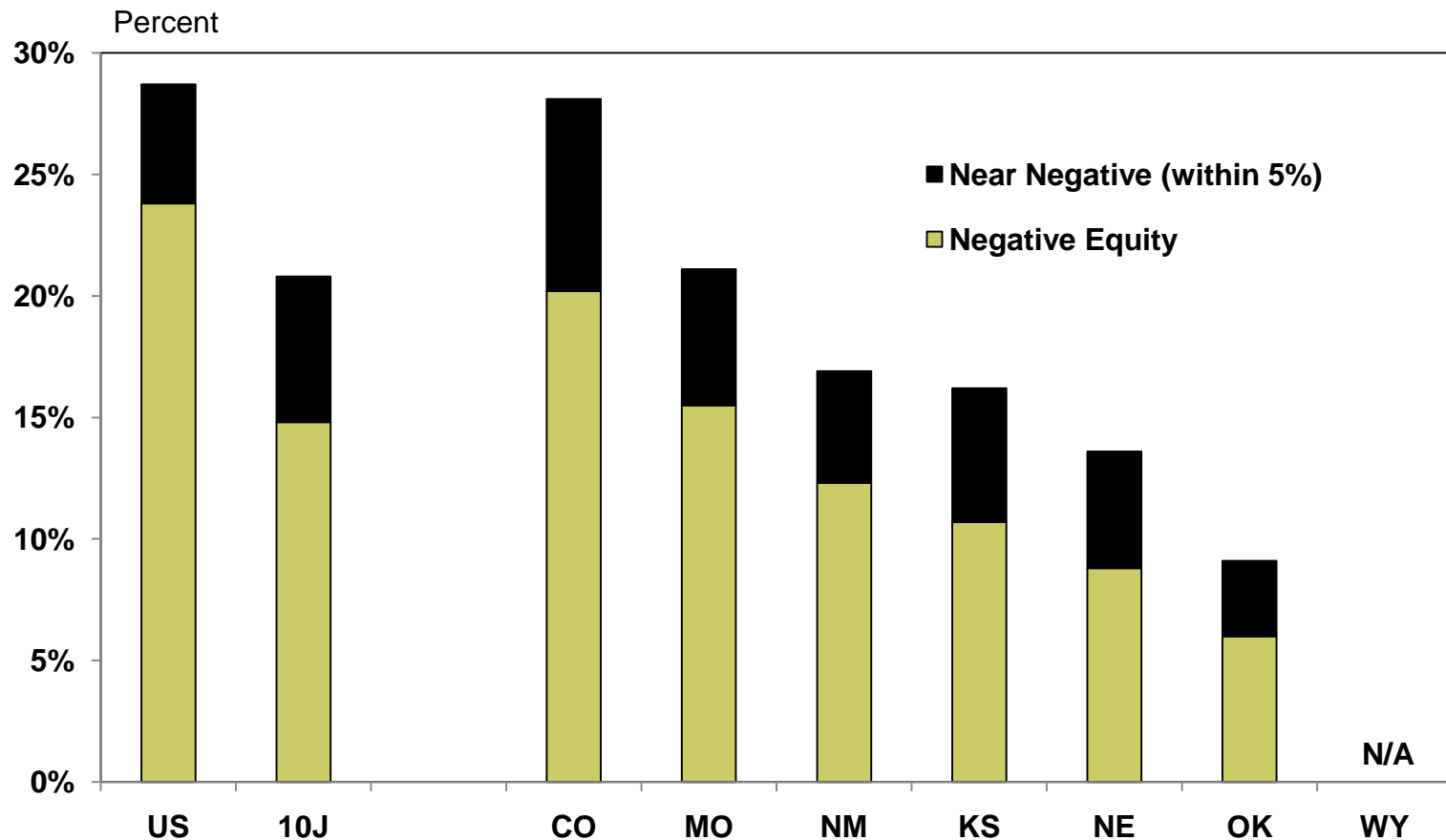
Quality-Adjusted Home Price Growth
Purchase-Only



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

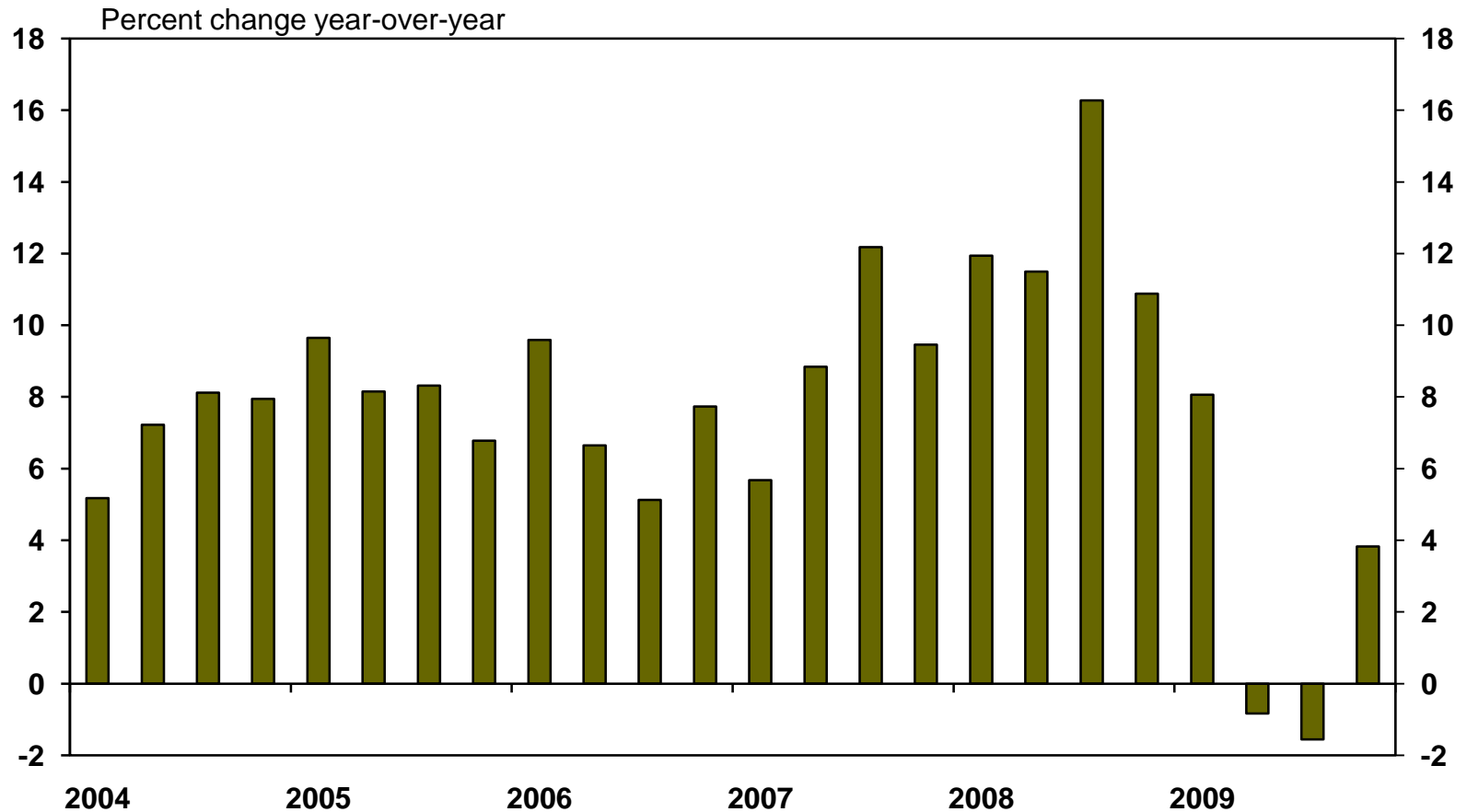
Share of Mortgages Underwater or Nearly So

Q4 2009



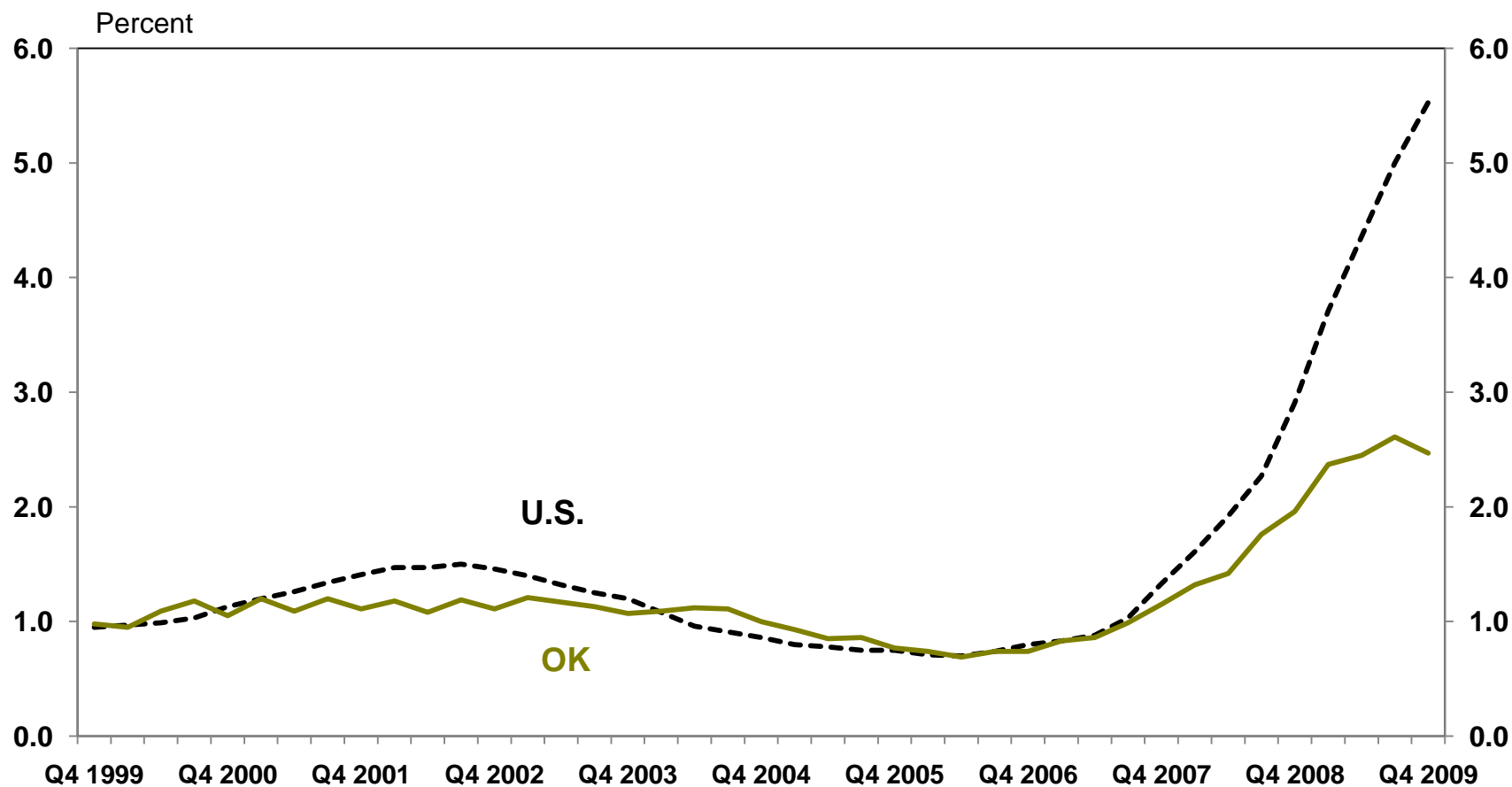
Farmland values in the state also rebounded slightly in Q4 2009

Oklahoma Agricultural Land Values Non-Irrigated Cropland



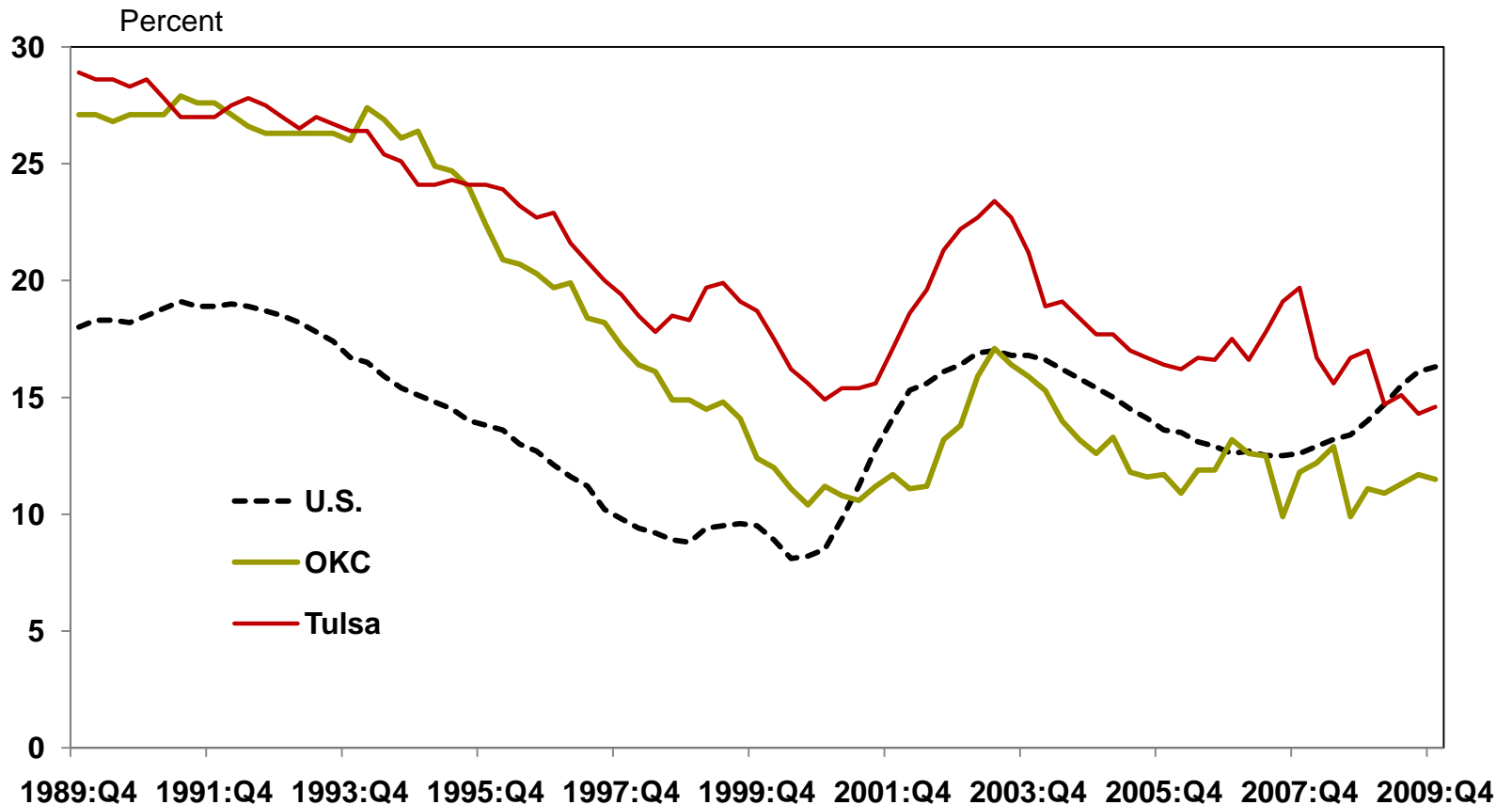
Overall, banks in the state remain in much better shape than in the nation

Noncurrent Loans as a Share of Total Loans
Commercial Banks

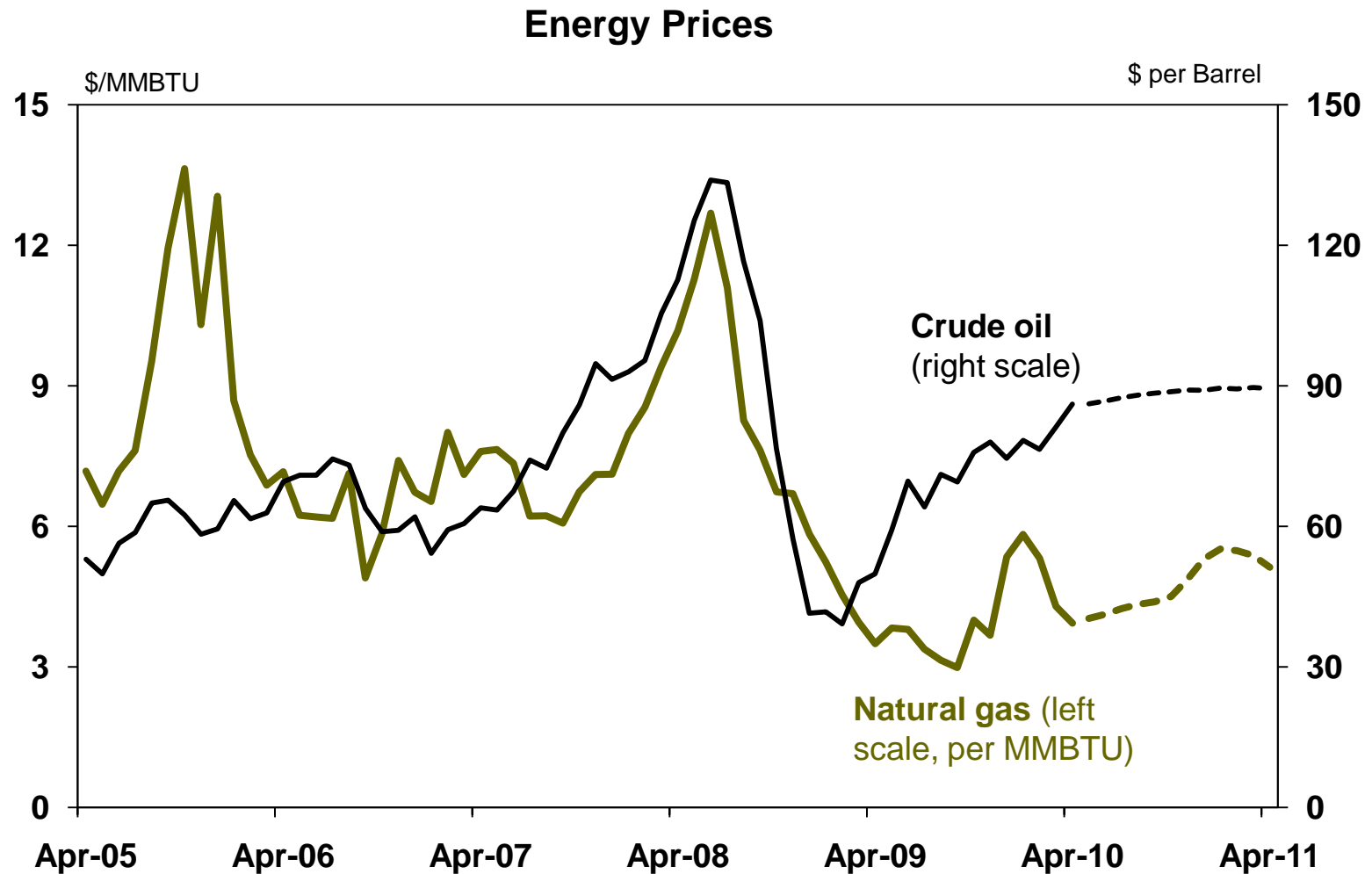


Commercial real estate is a risk, but office vacancies remain lower than in the nation

Office Vacancy Rates



Weakening natural gas prices provide the biggest risk to Oklahoma's growth



Summary

- 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