

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:**

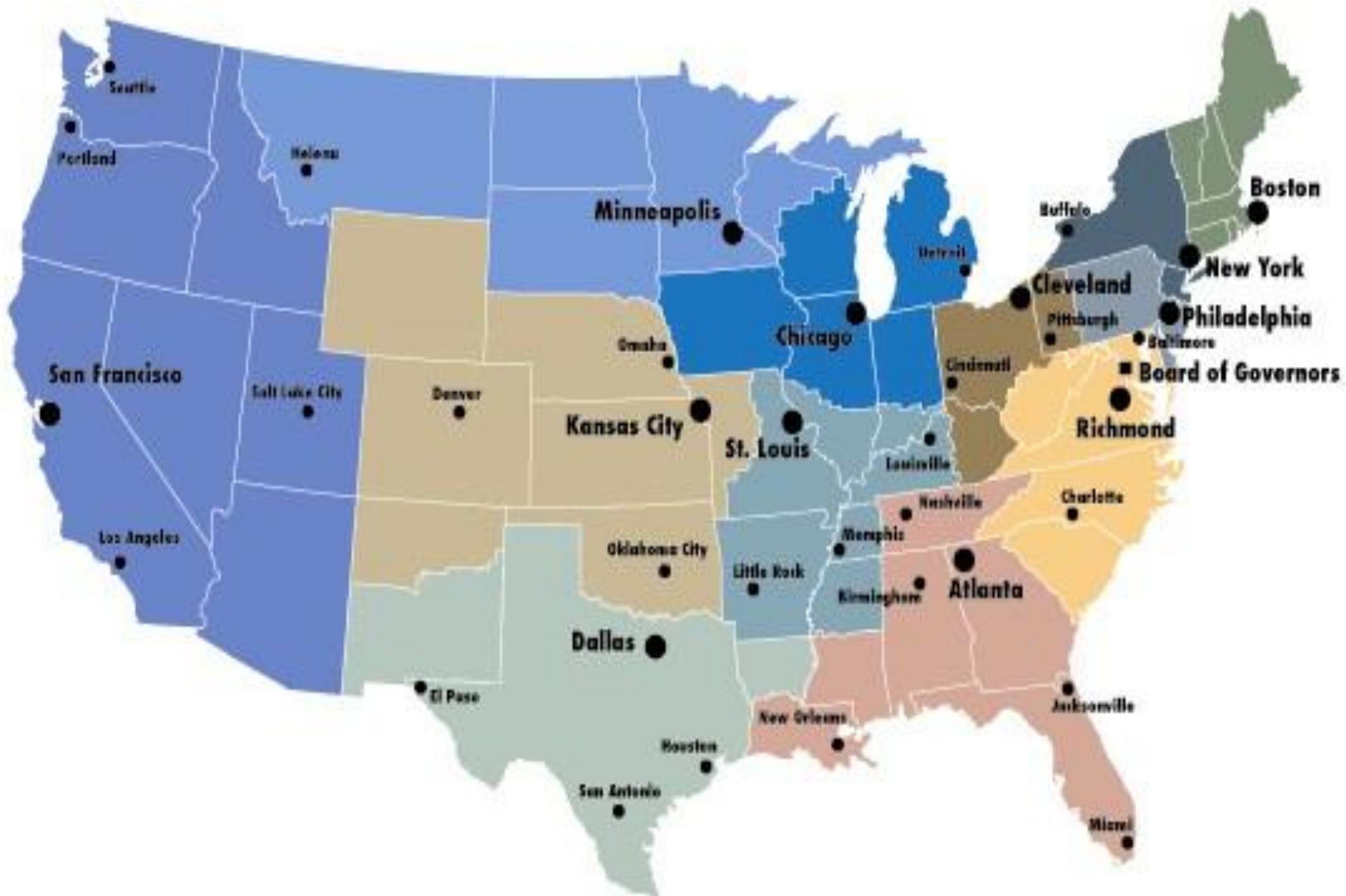
- Board of Governors: 7 members appointed by U.S. President
- Federal Reserve Banks: 12 total; semi-independent by design
- Federal Open Market Committee (FOMC): 19 members; 12 voting

- **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



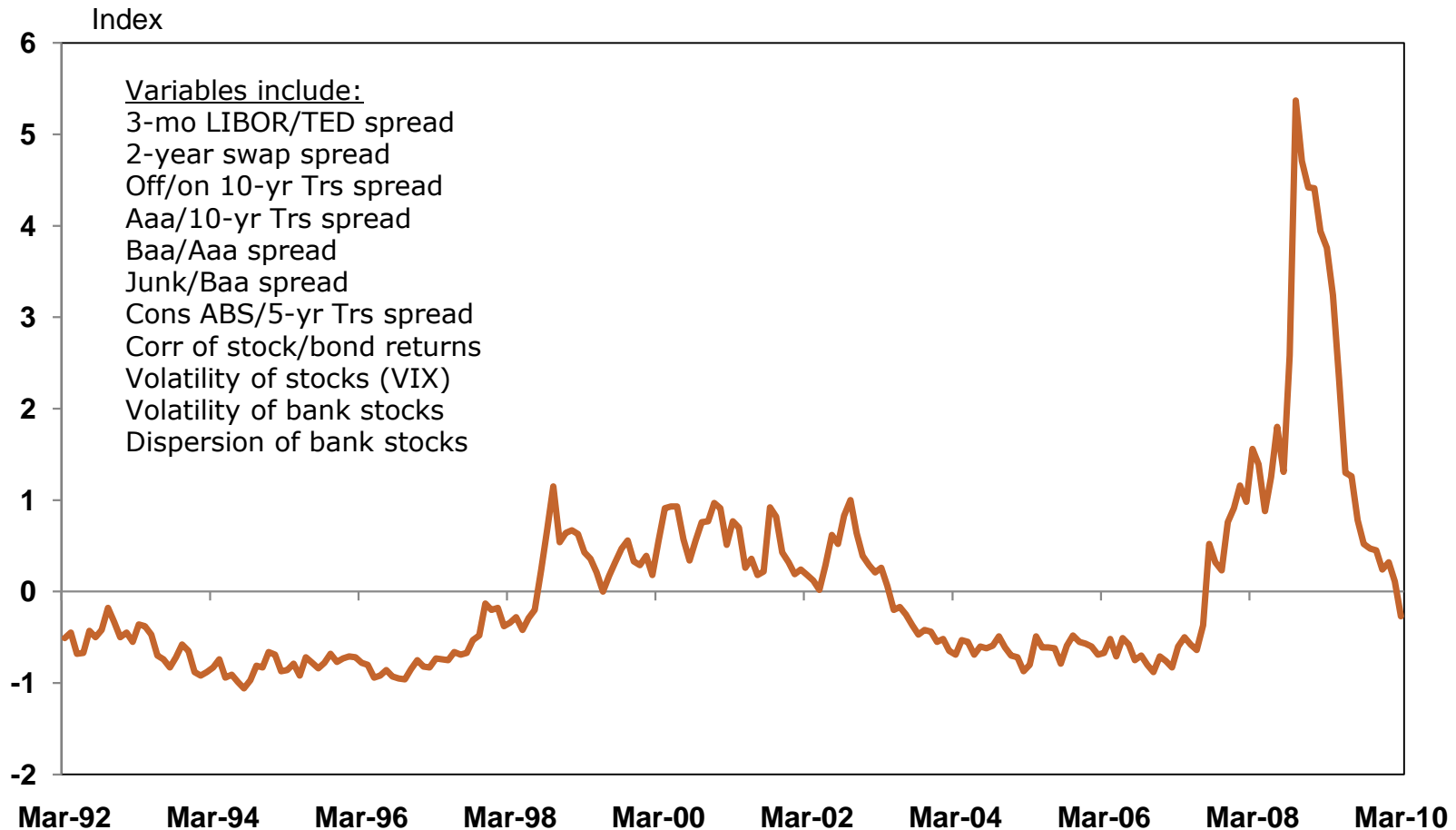
The U.S. Economy

- Credit market conditions have improved, and the U.S. economy is growing again
- But recovery is expected to be moderate, as debt and uncertainty remain high
- Inflation is expected to remain tame in the near term, but longer-run risks exist



Broad measures of financial stress are nearing normal levels

Kansas City Financial Stress Index



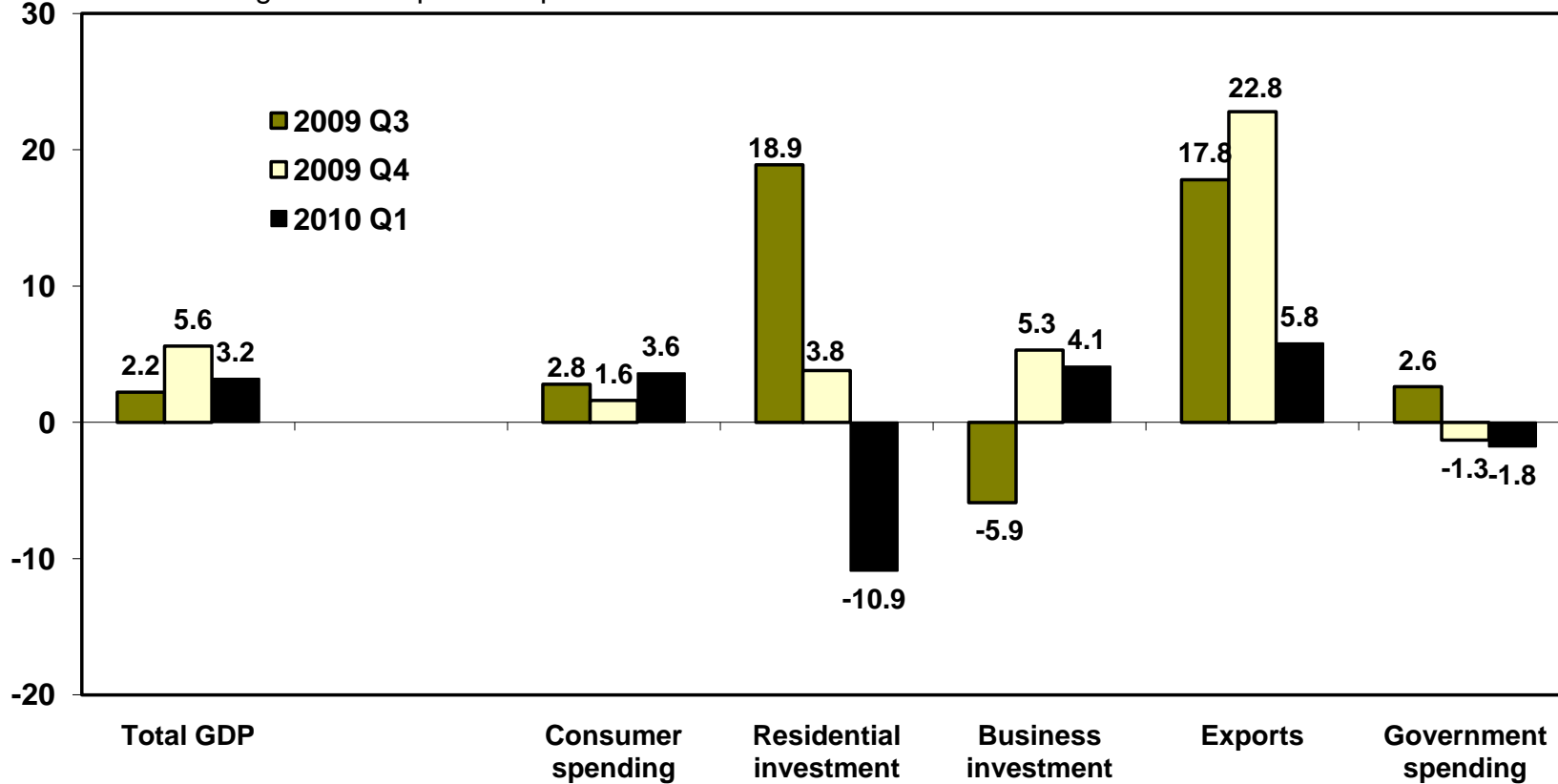
Source: KCFRB



First quarter GDP growth was solid but not robust

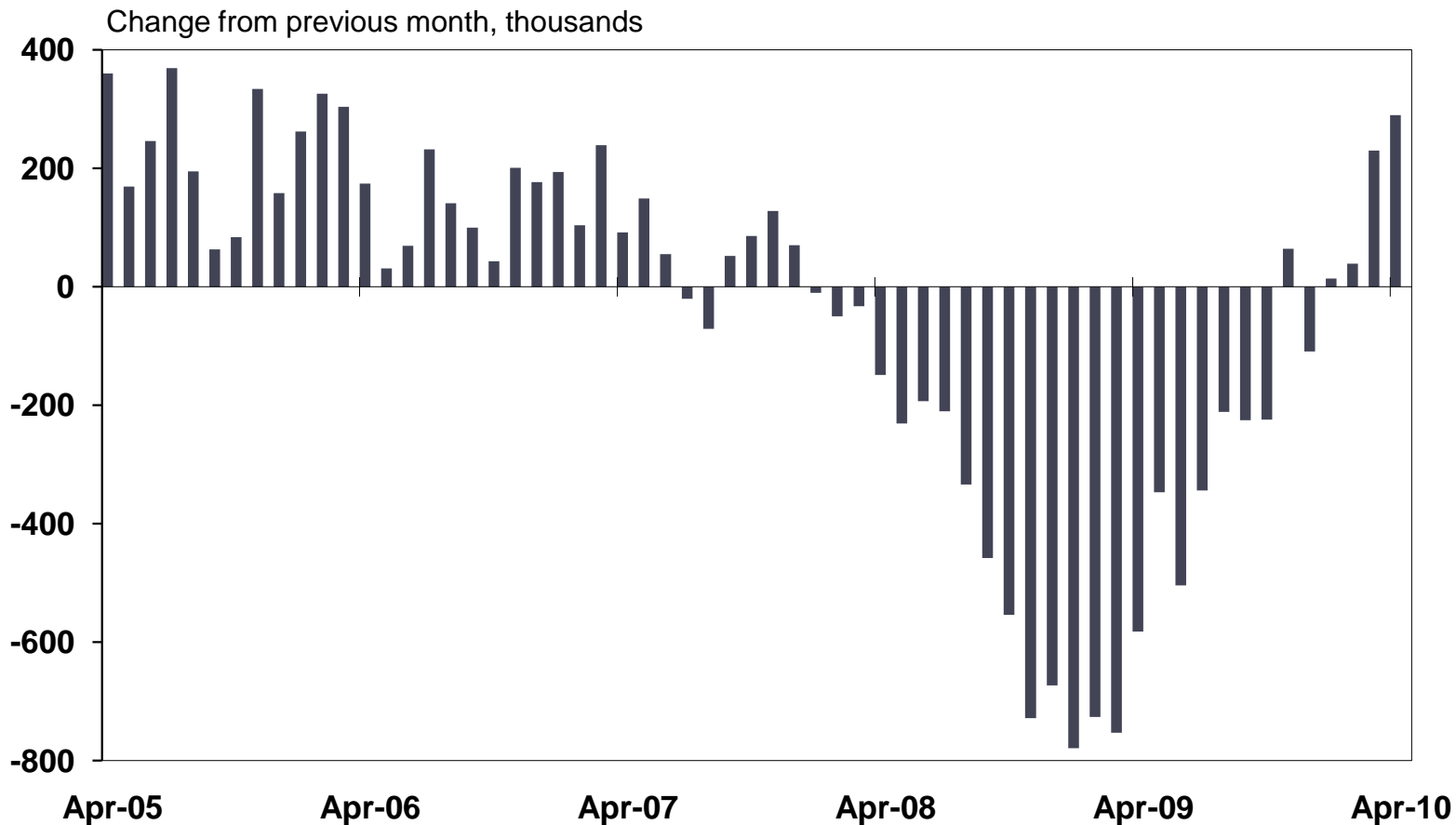
Growth in Components of GDP

Percent change from the previous period



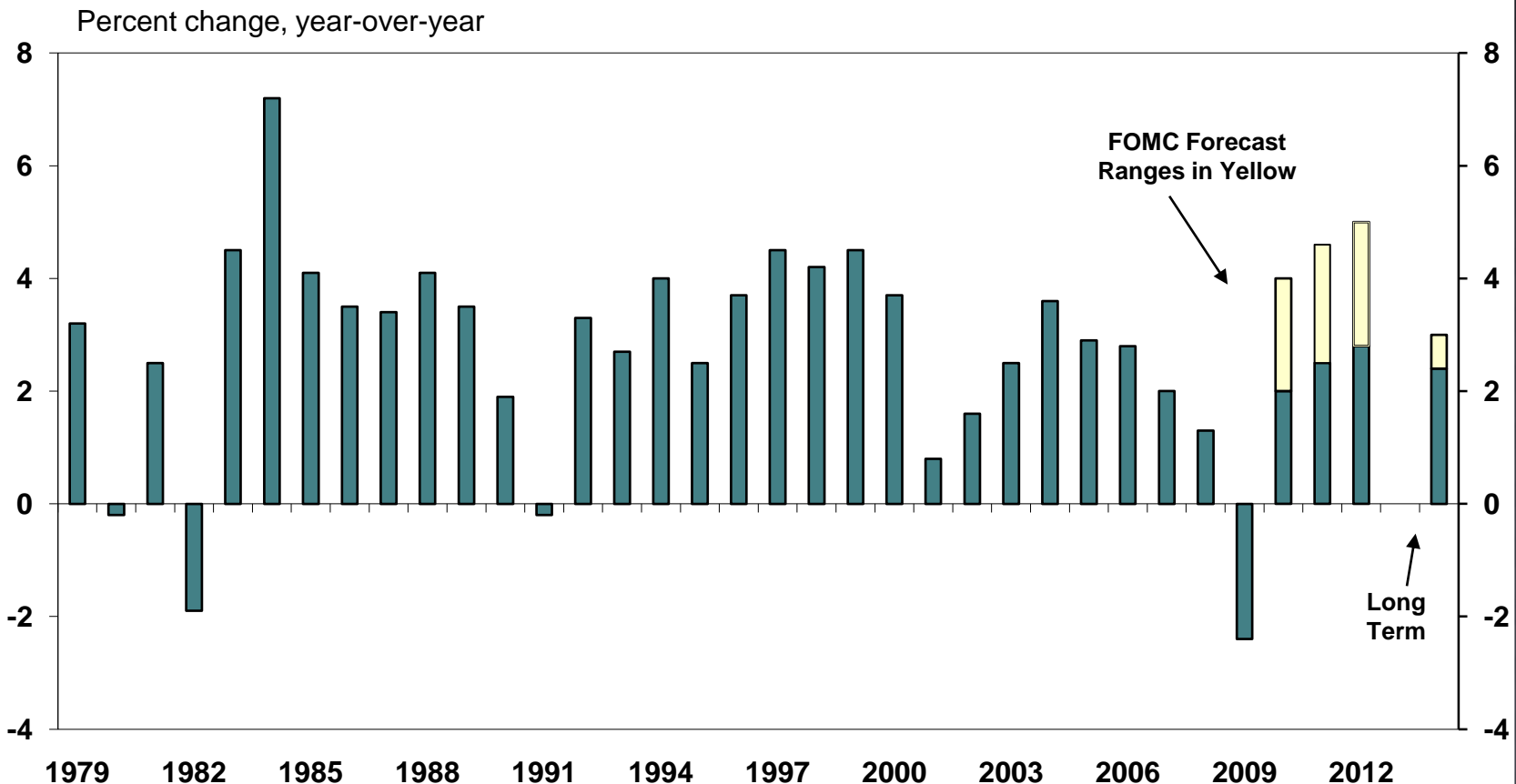
U.S. employment is finally growing again, following steep losses in 2008 and 2009

National Payroll Employment



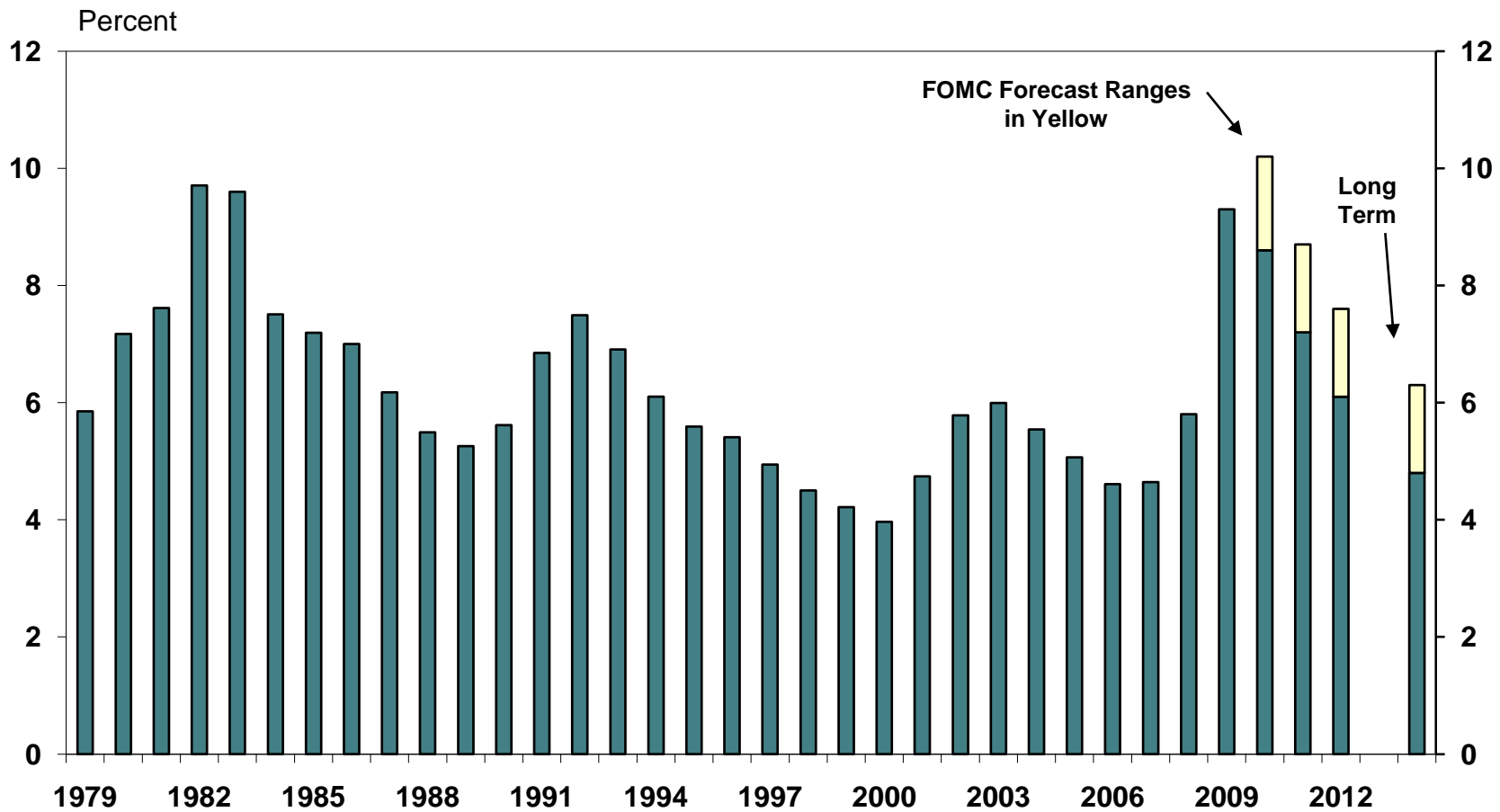
Heading forward, Fed policymakers expect a moderate GDP recovery

Gross Domestic Product



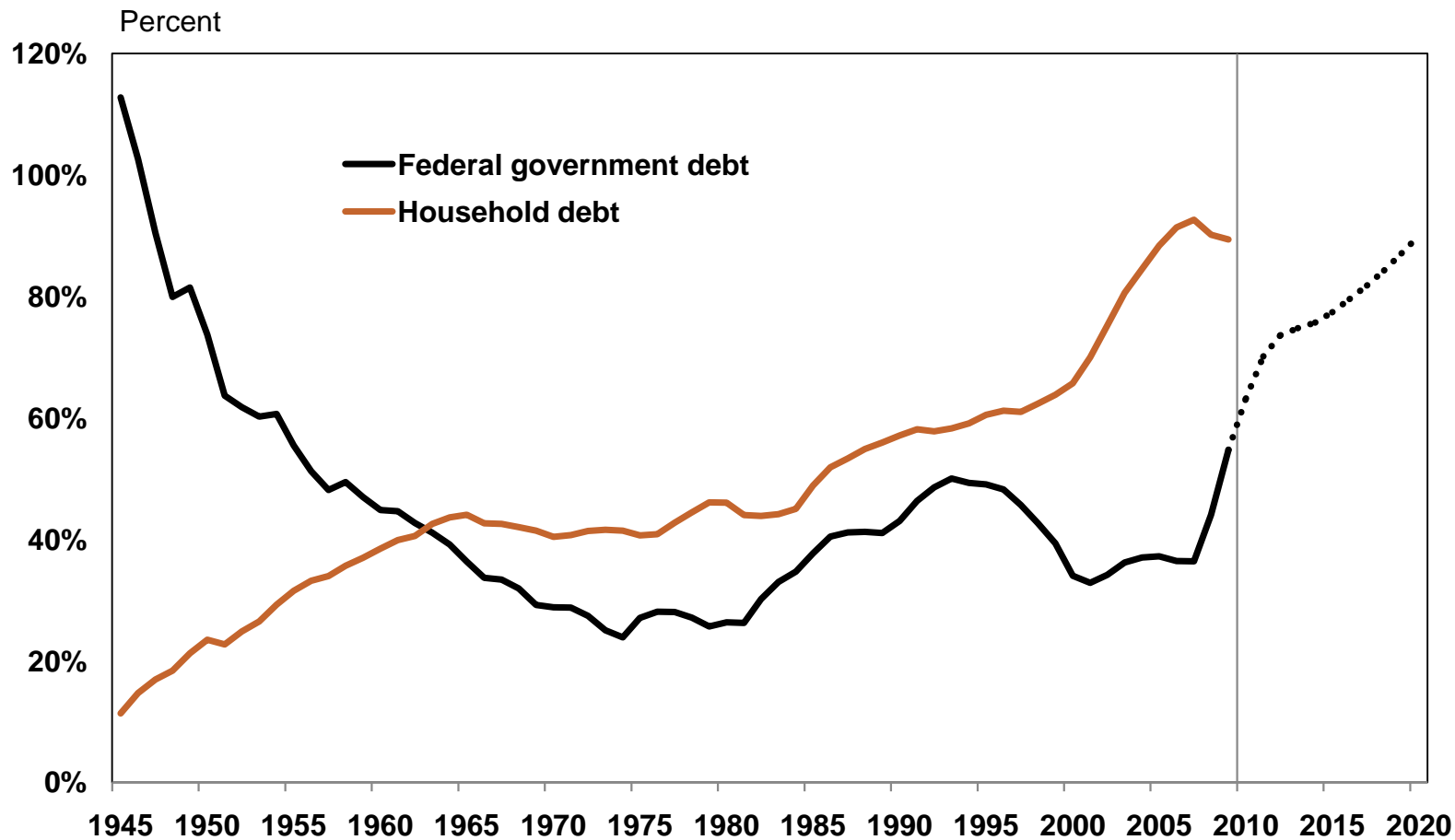
With unemployment remaining high for some time

Unemployment Rate Seasonally Adjusted



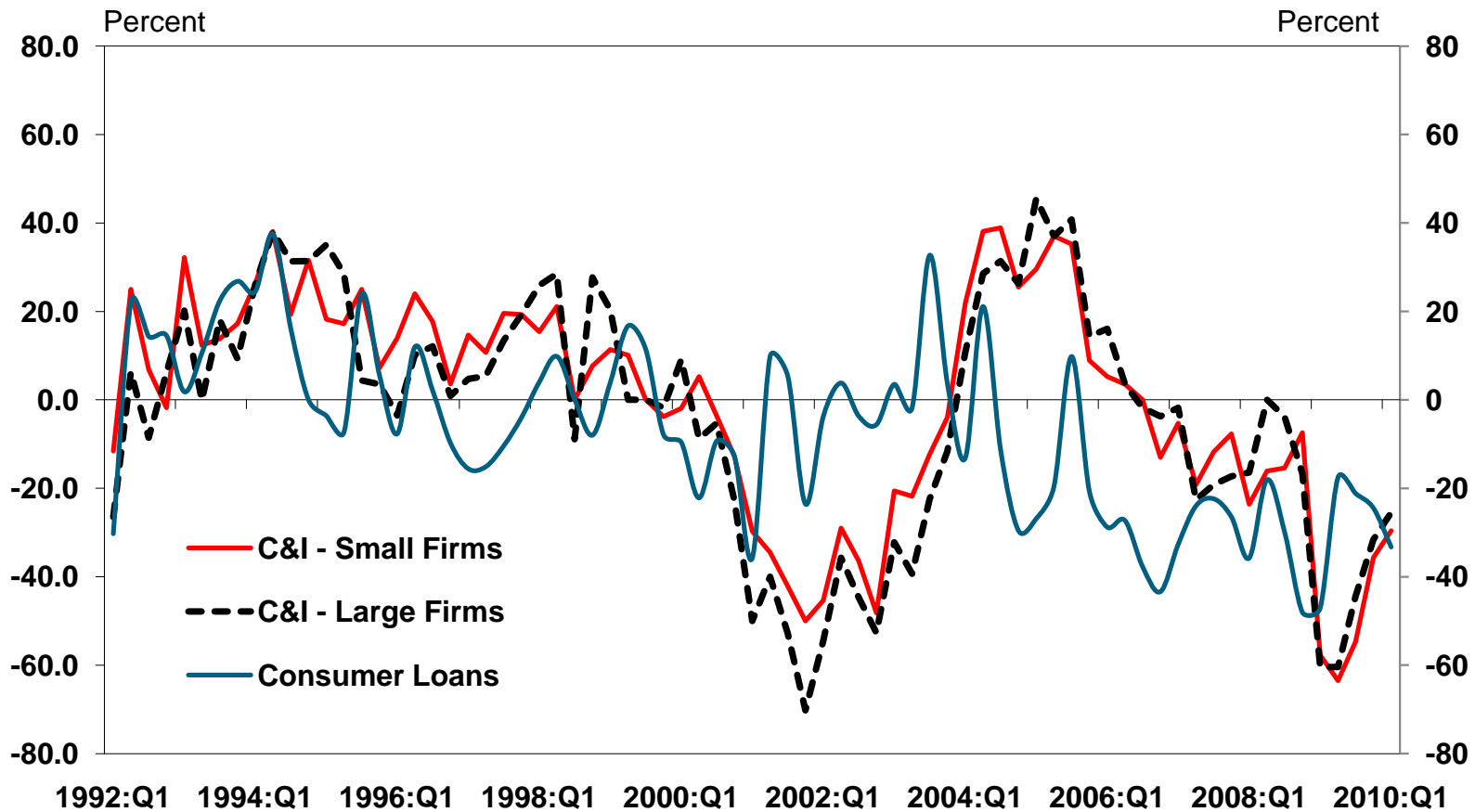
Consumer debt could constrain short-run growth and federal debt projections are a concern

U.S. Debt as a Share of GDP



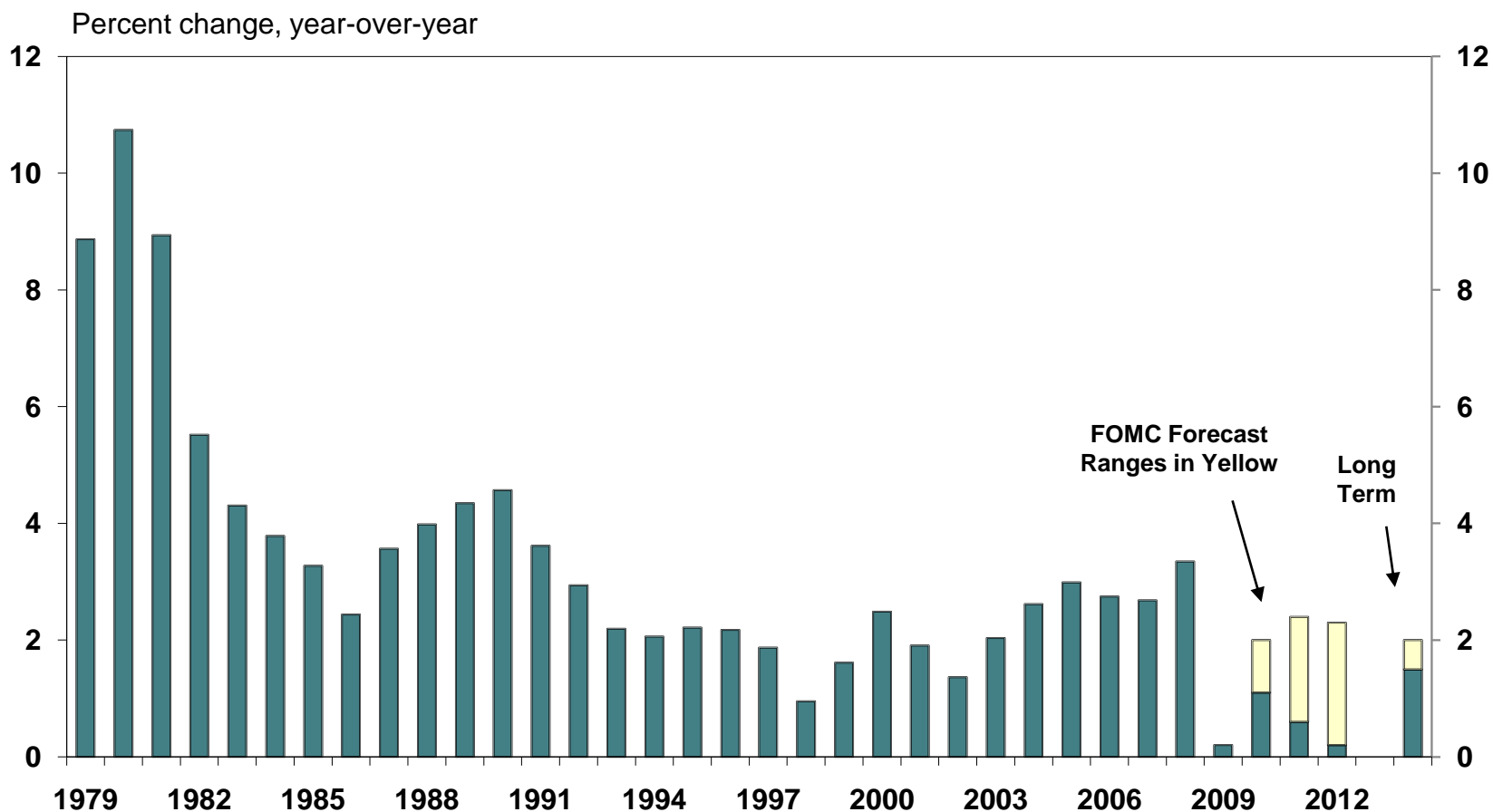
Both business and consumer loan demand remain sluggish

Net Percentage of Banks Reporting Increased Loan Demand



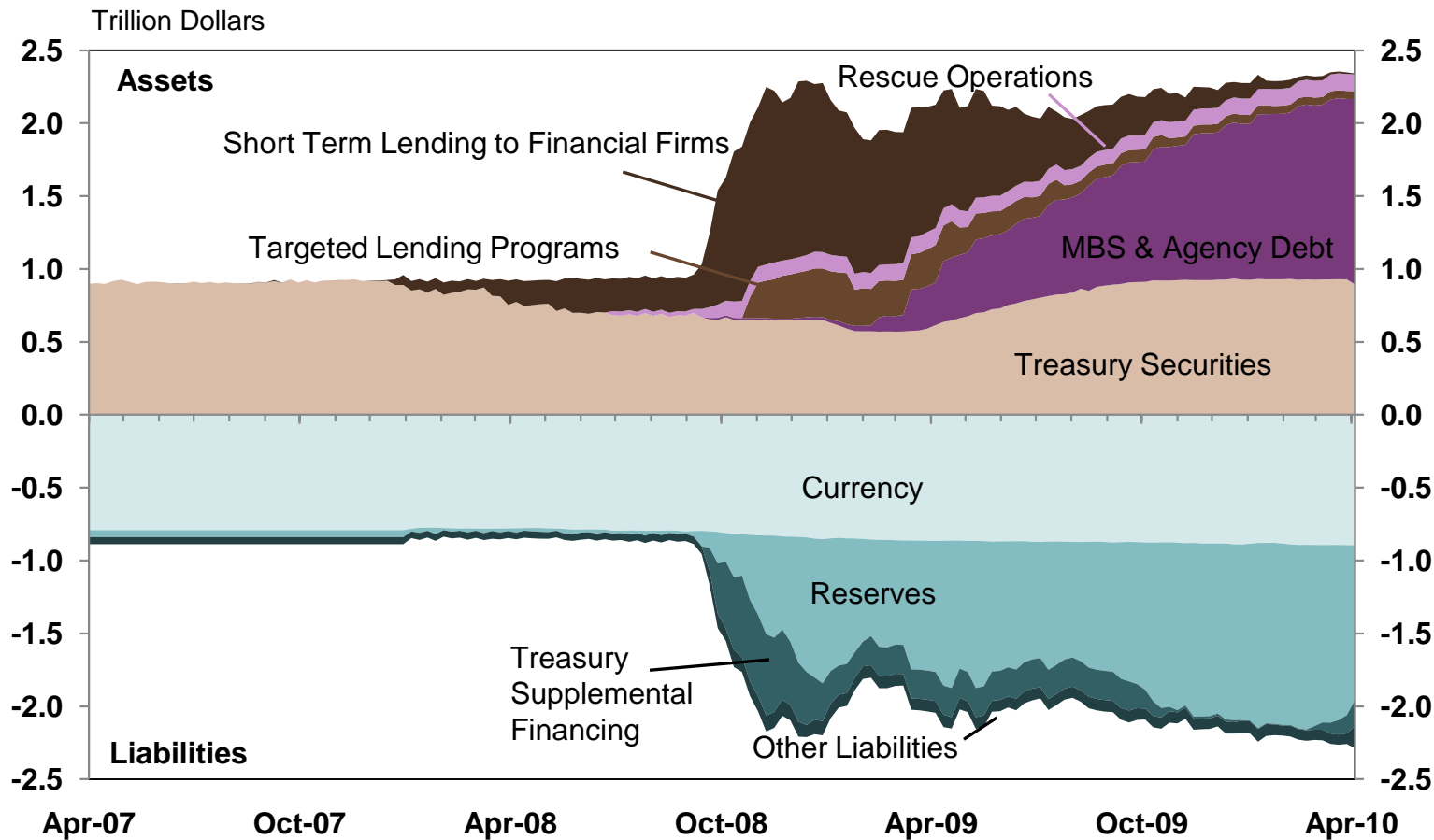
Inflation is expected to remain tame in the near term, but will require careful oversight

PCE Inflation Index



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

Federal Reserve Balance Sheet



The Oklahoma Economy

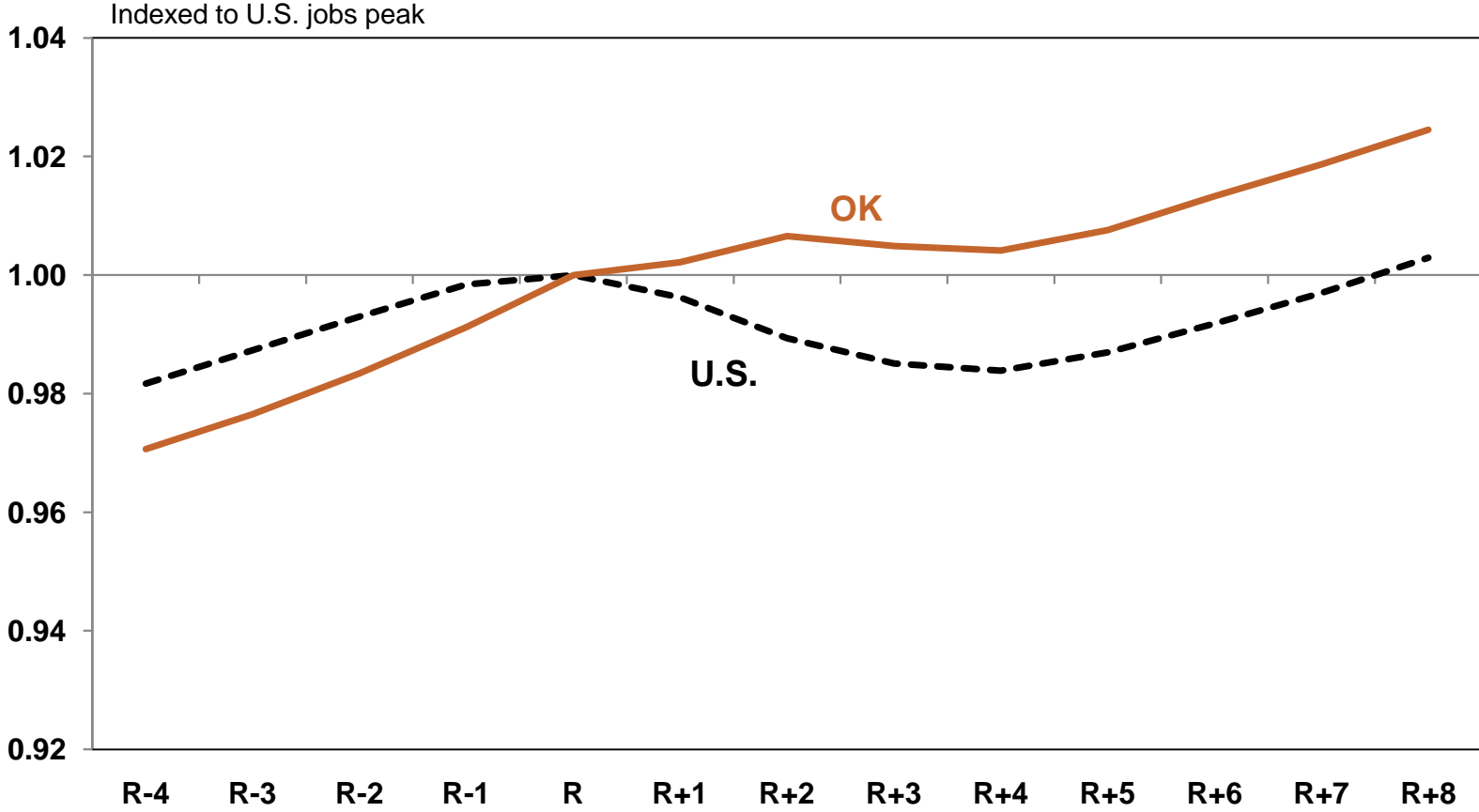
- As usual in recessions, Oklahoma entered this recession much later than the nation, and is recovering with only a slight delay
- Most sectors are growing, and conditions remain much better than in the nation
- But low natural gas prices are a risk



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



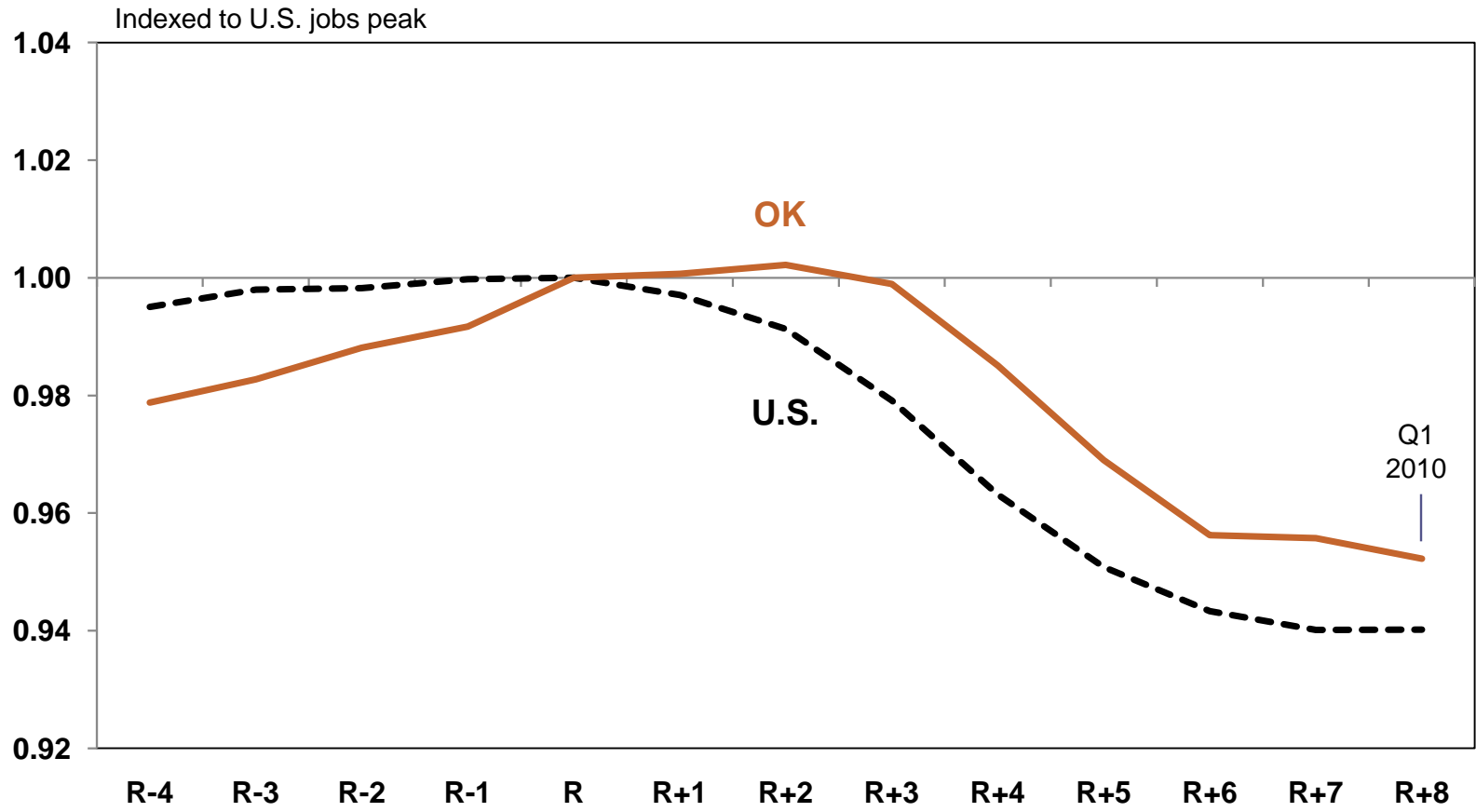
Source: U.S. Bureau of Labor Statistics



A fairly similar pattern appears to be playing out this time, though with bigger job losses

Current Recession Path

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

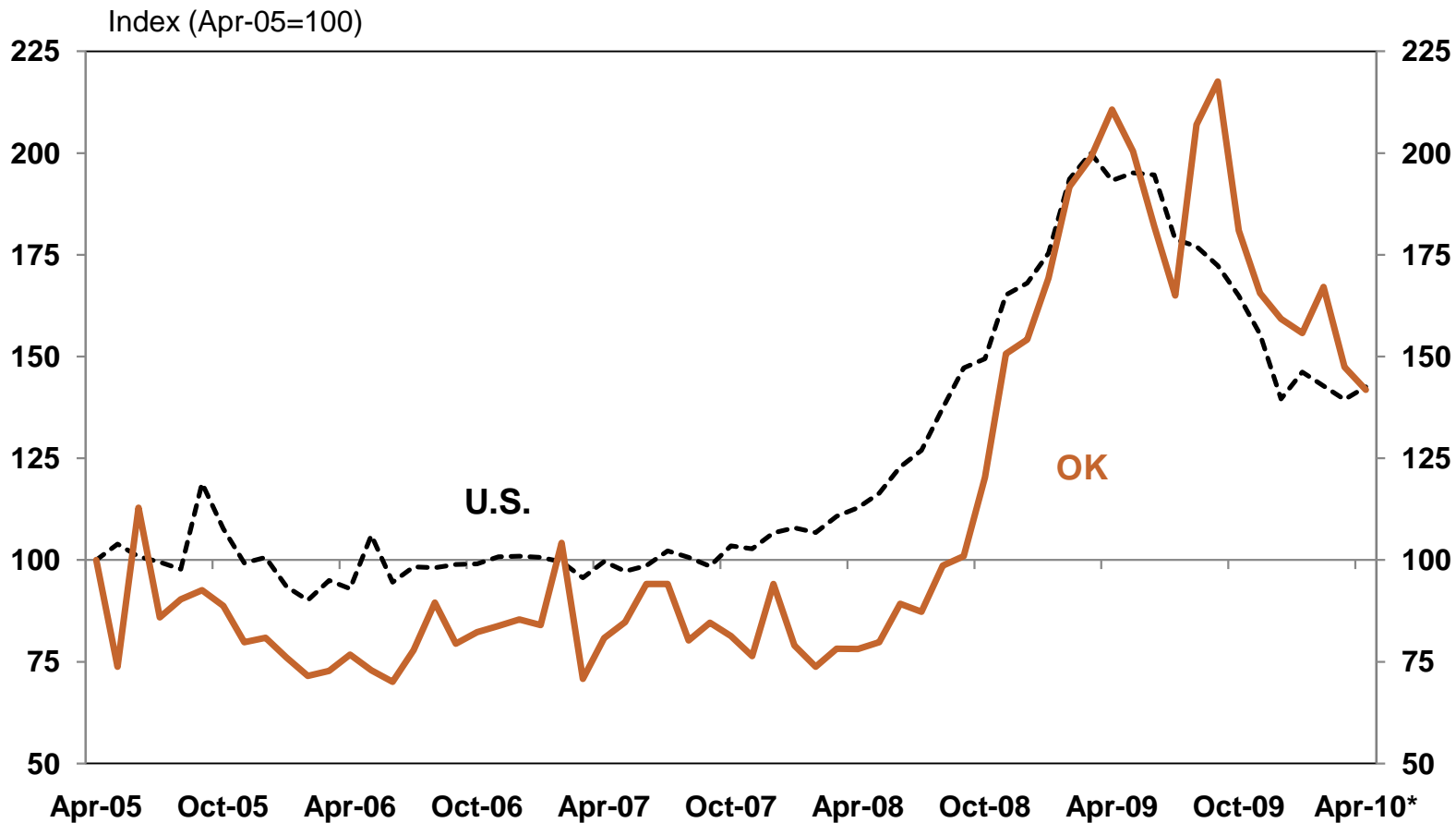


Source: U.S. Bureau of Labor Statistics



The most up-to-date labor market indicators show further OK improvement in April

Initial Claims for Unemployment Insurance



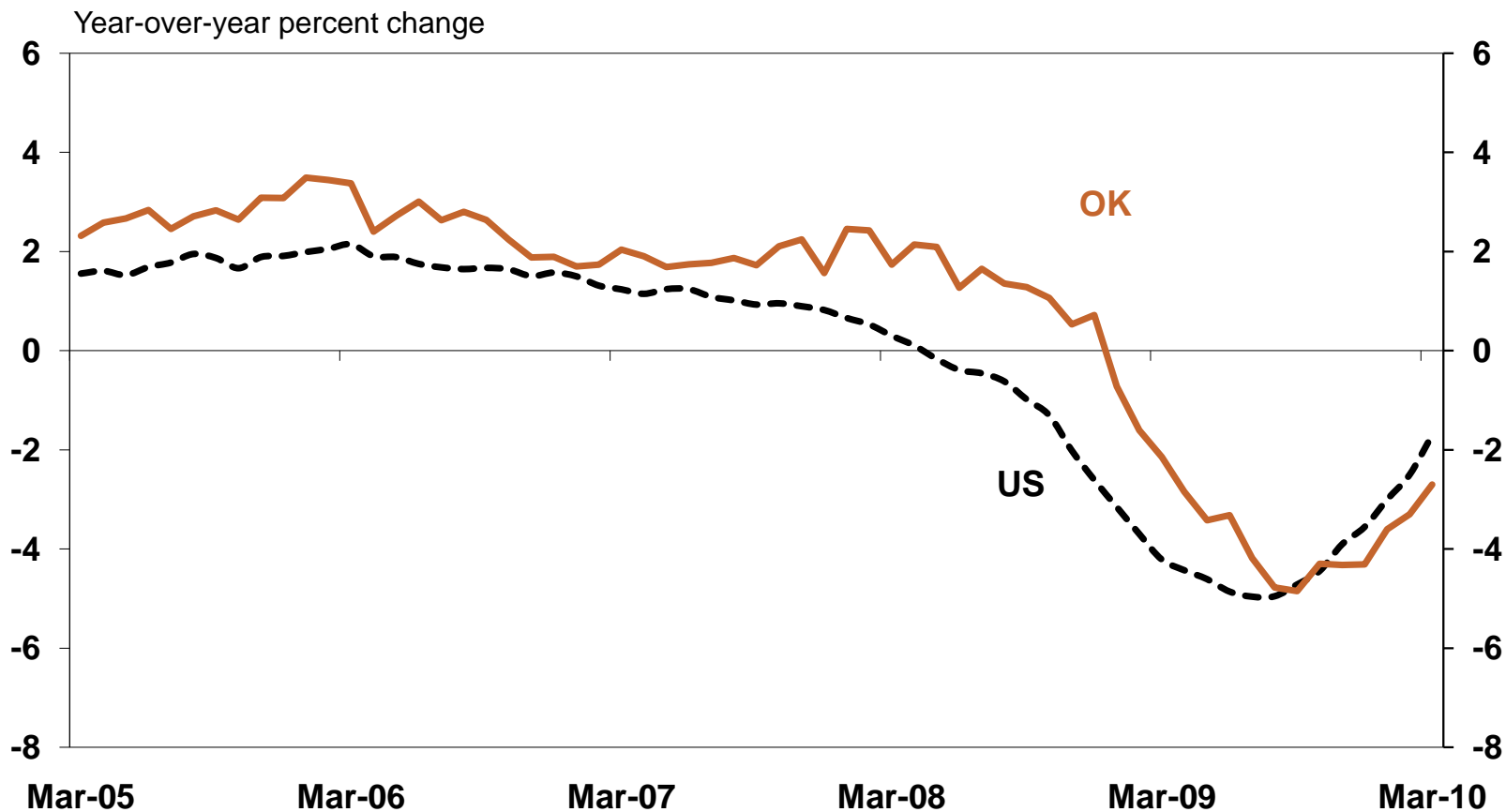
*Does not include last week of April

Source: Bureau of Labor Statistics



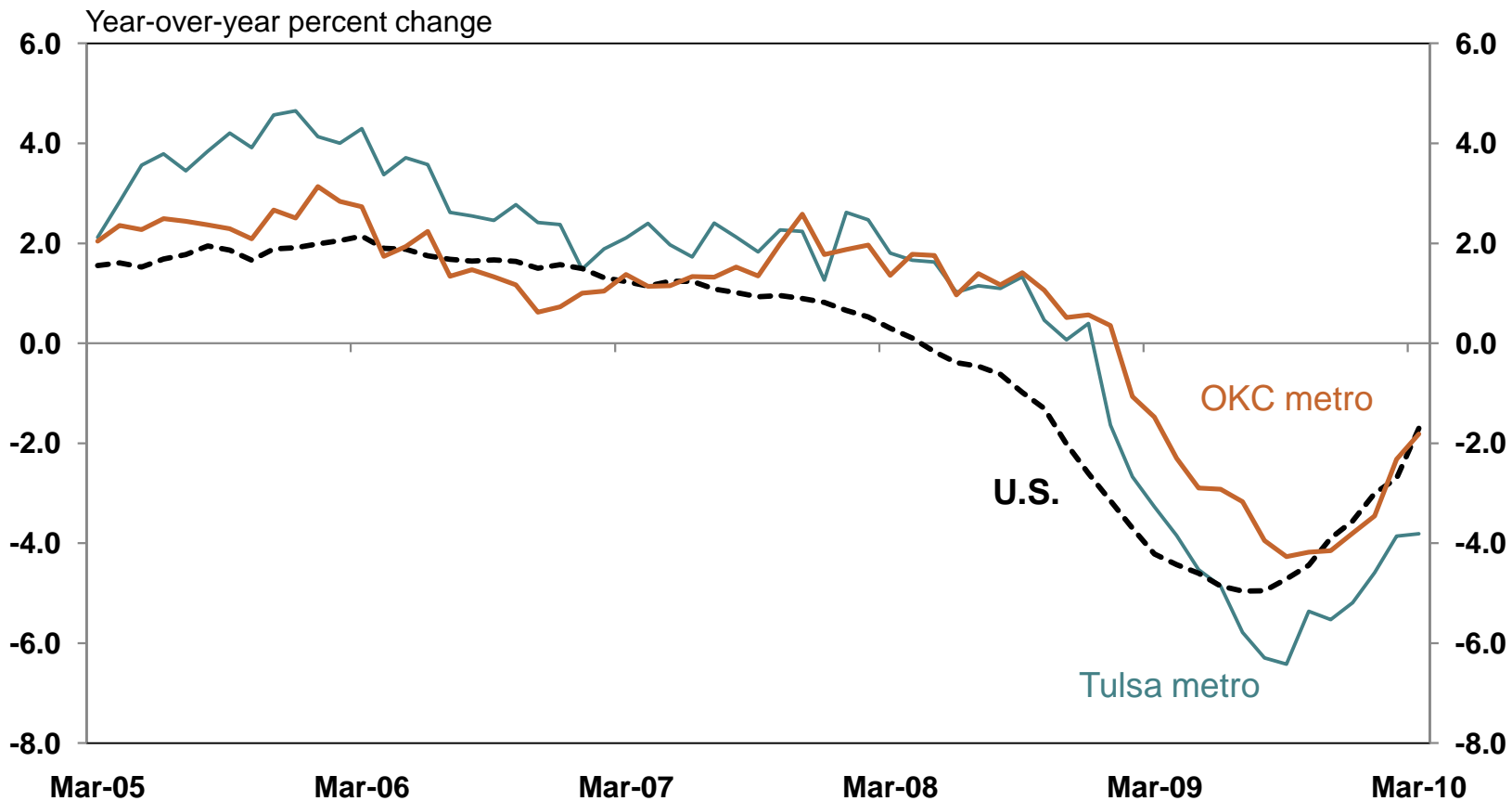
And monthly state jobs data are on an upward trend, only slightly delayed

Nonfarm Payroll Employment Growth



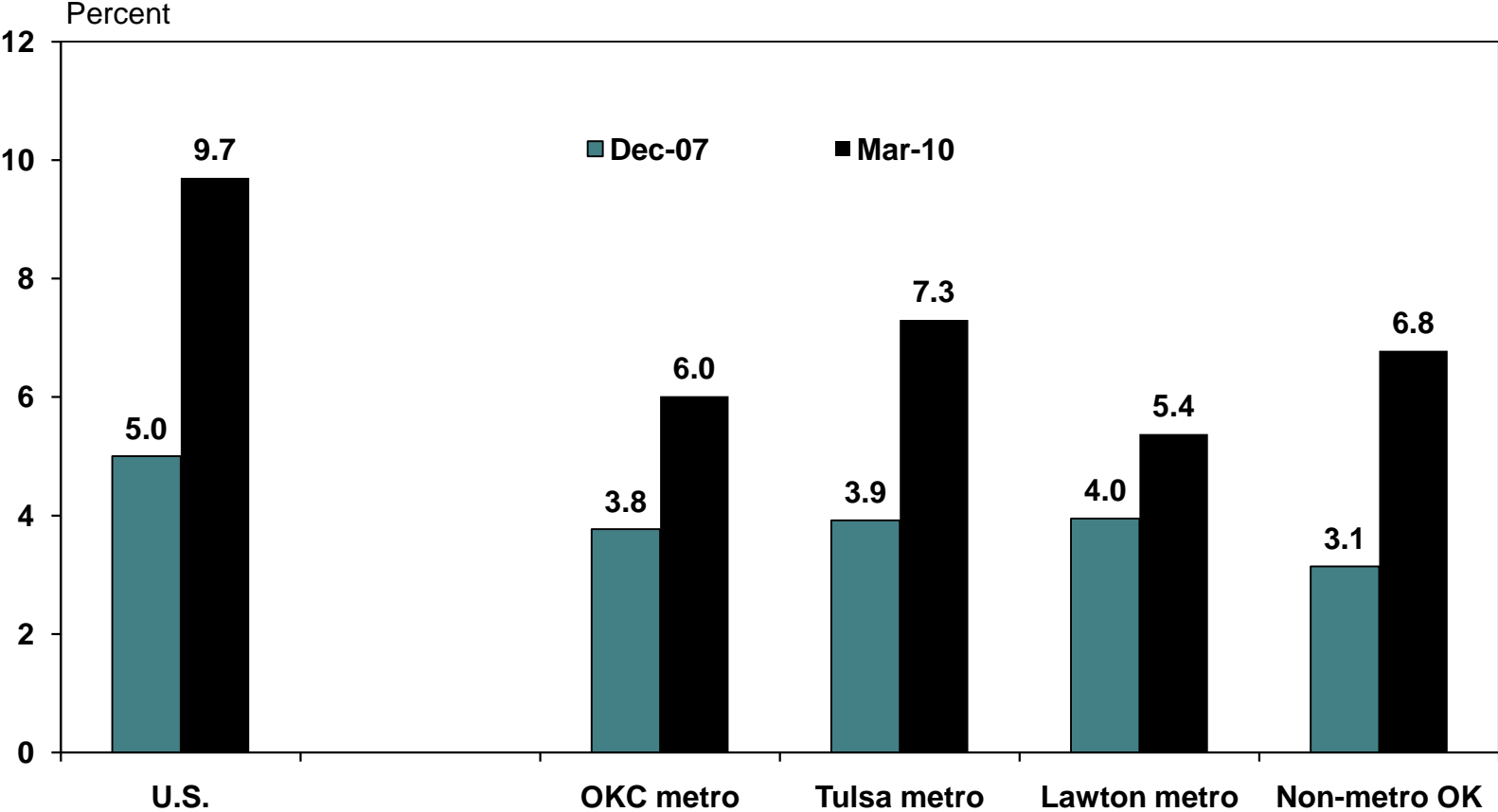
Oklahoma City held up better in 2009 than Tulsa, due largely to less manufacturing

Nonfarm Payroll Employment Growth



With our shorter recession, unemployment is lower than U.S. across the state

Unemployment Rate
Seasonally Adjusted*



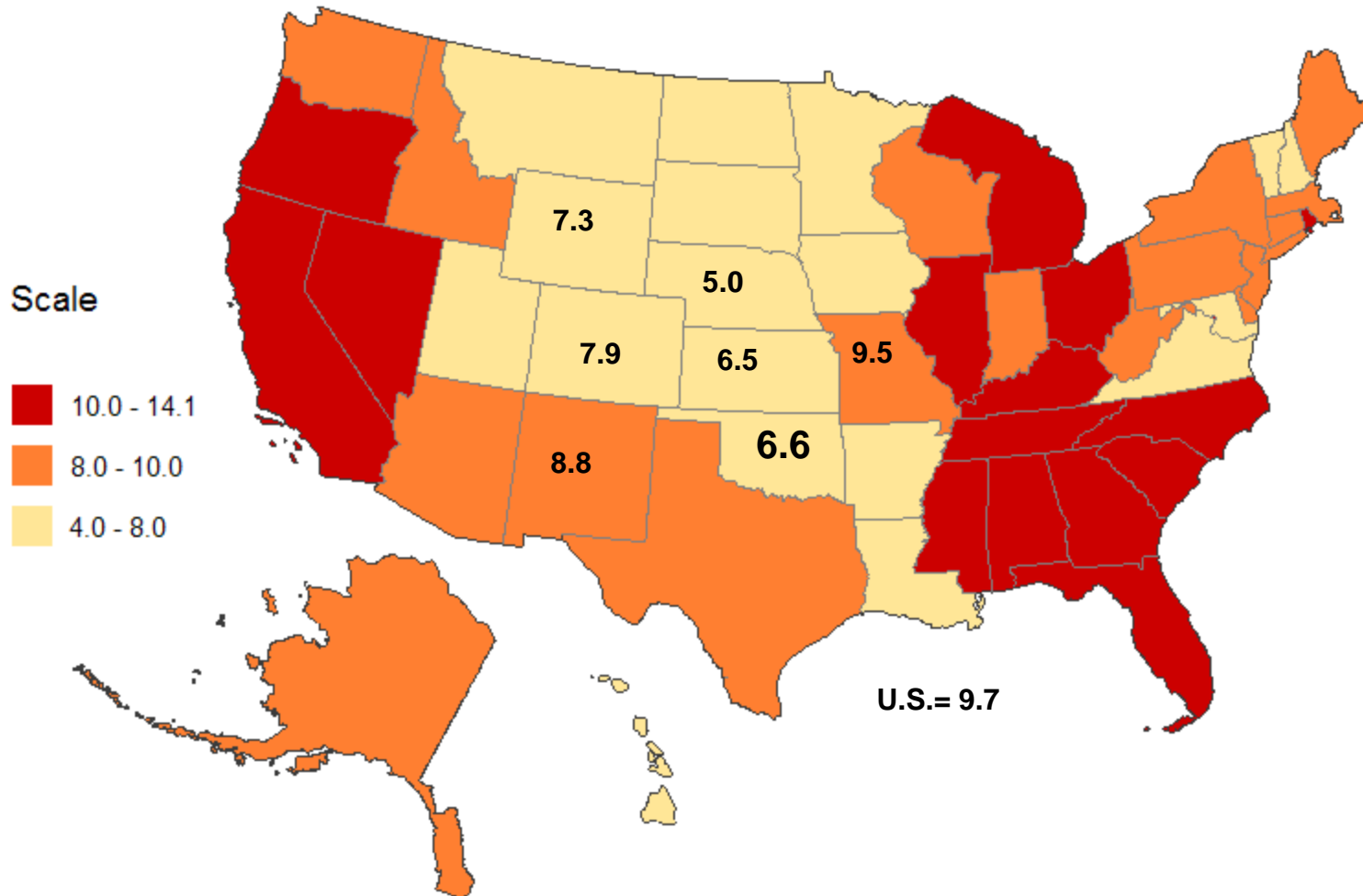
Source: U.S. Bureau of Labor Statistics

* Estimated by FRBKC



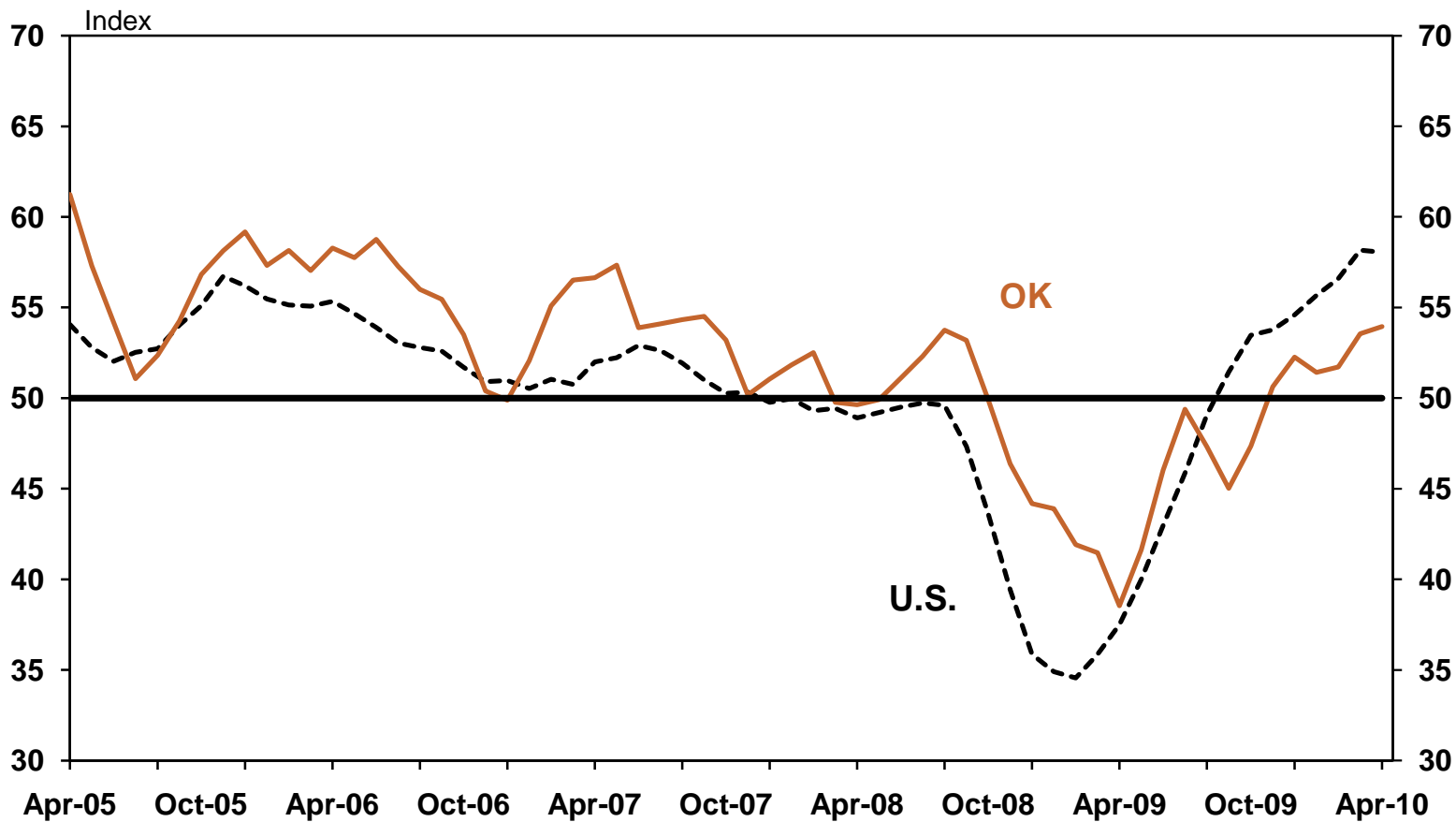
Indeed, our entire region maintains relatively low unemployment rates

Unemployment Rate, March 2010



Manufacturing surveys show solid output recovery in Oklahoma, slightly delayed

Manufacturing PMI Indexes
Seasonally adjusted, 3-month moving avg.

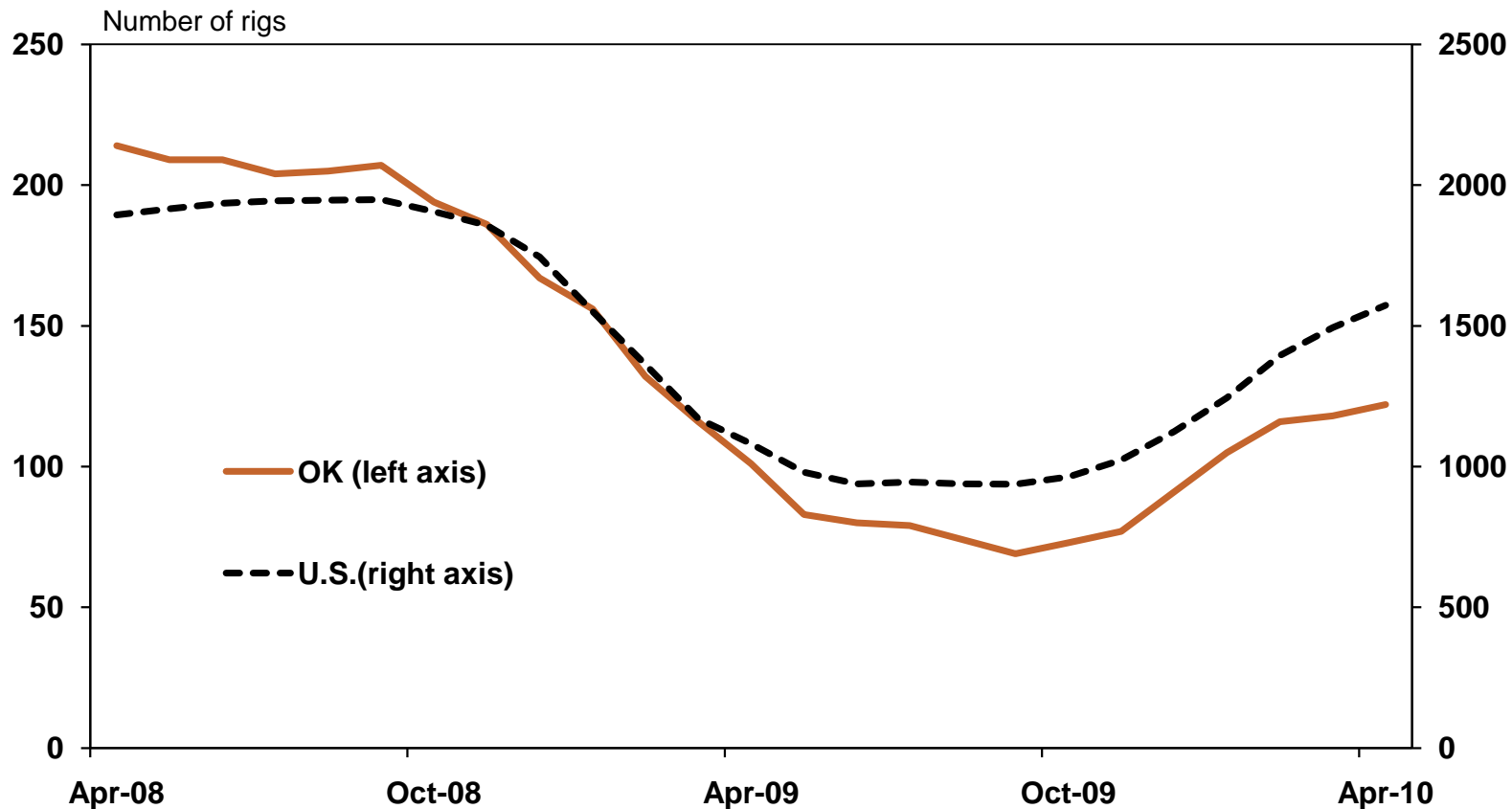


Source: ISM, FRBKC Manufacturing Survey



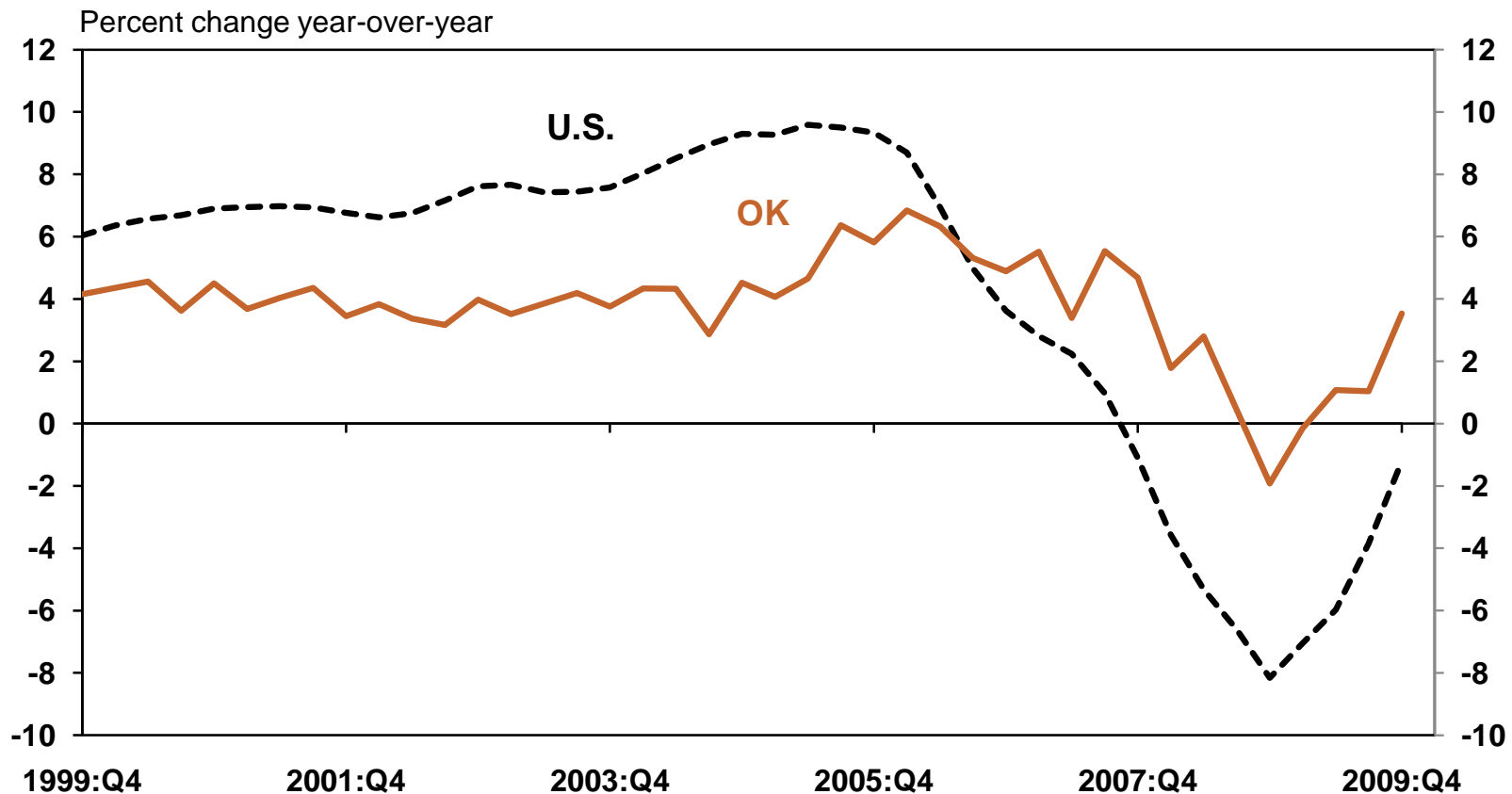
Oklahoma's rig count has risen 75% since September, but leveled off recently

Total Rig Count



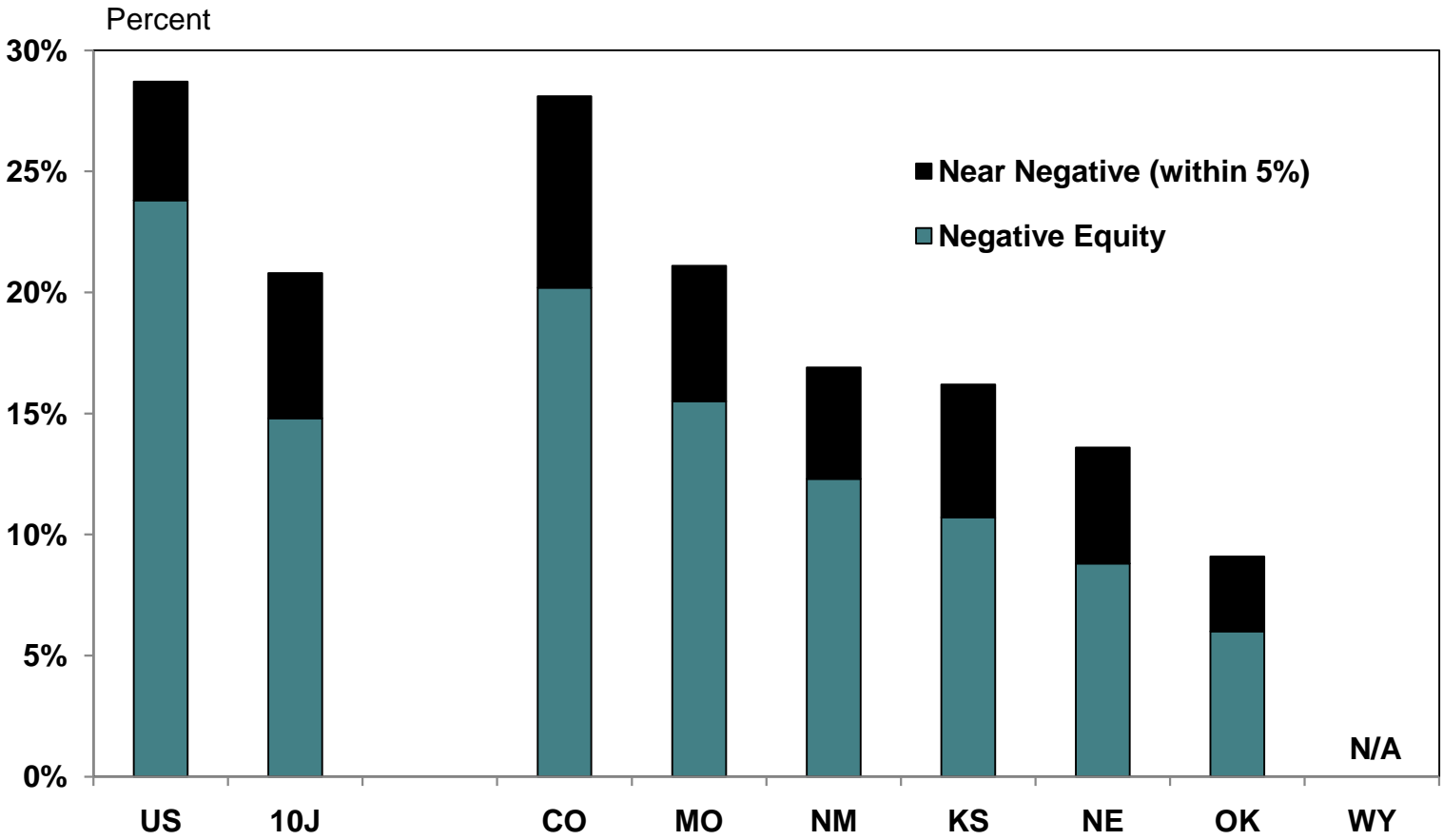
Home prices clearly held up better here, providing cushion to consumers and banks

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

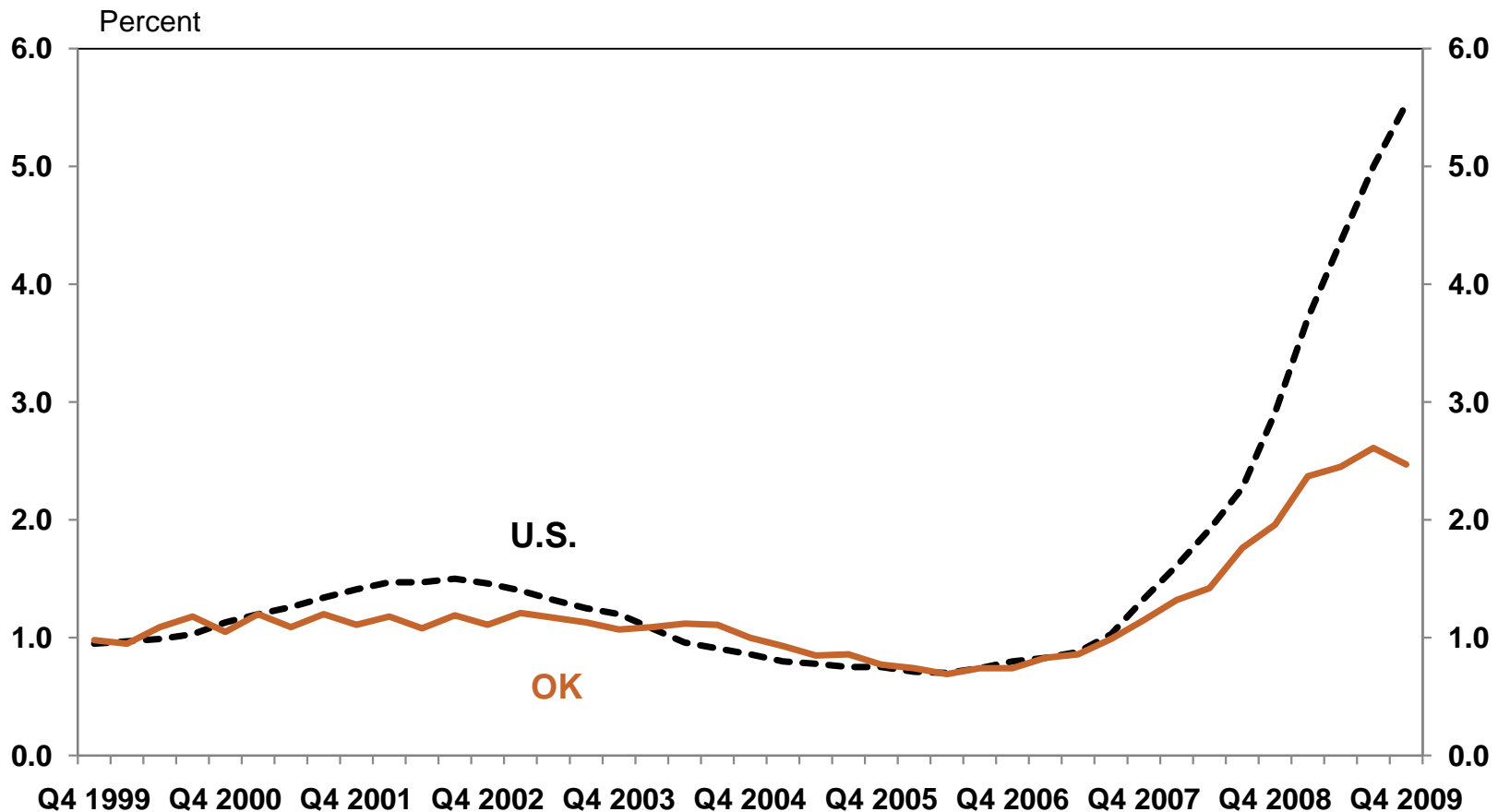


Source: First American CoreLogic



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

Noncurrent Loans as a Share of Total Loans
Commercial Banks

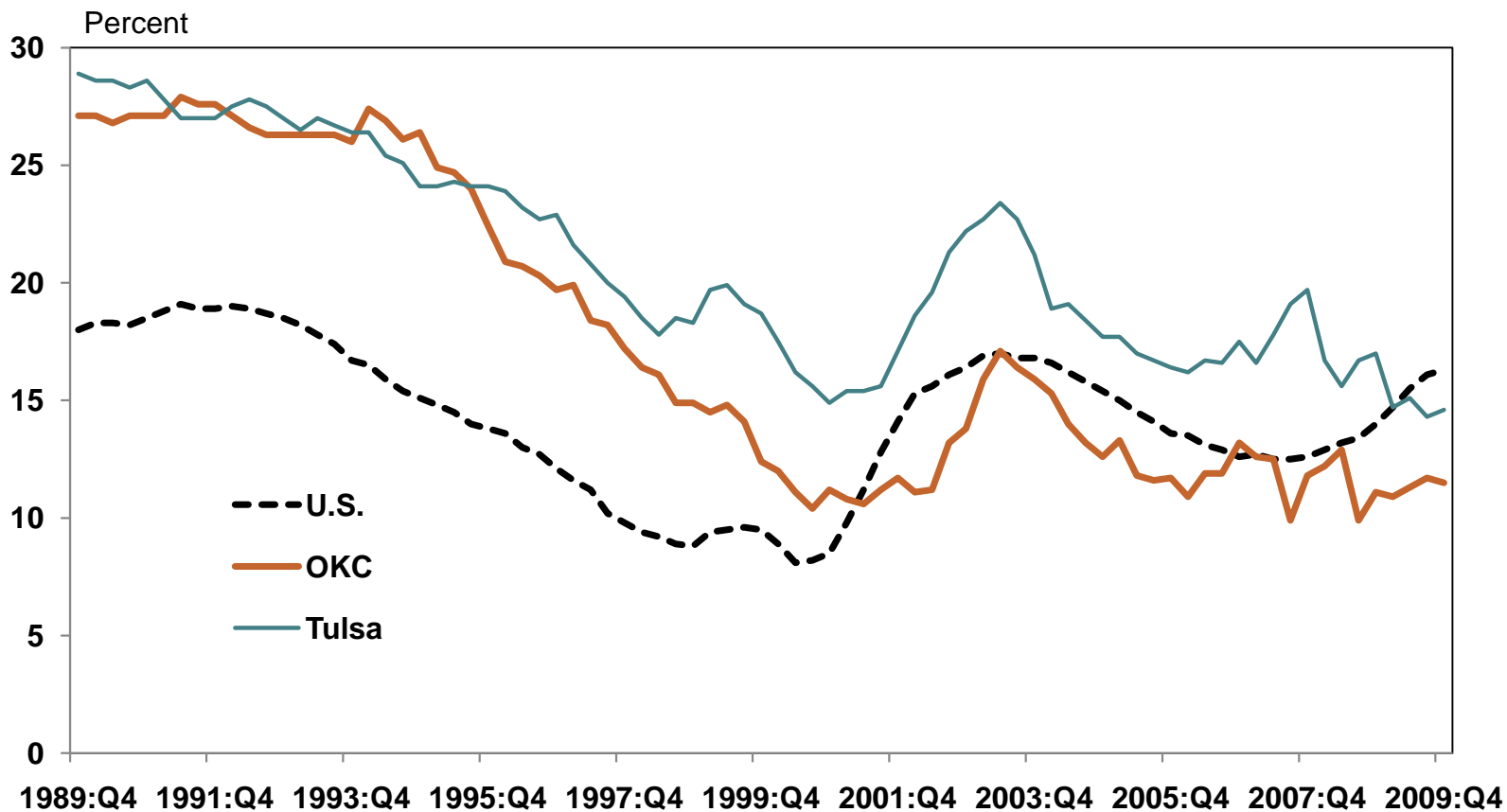


Source: FDIC



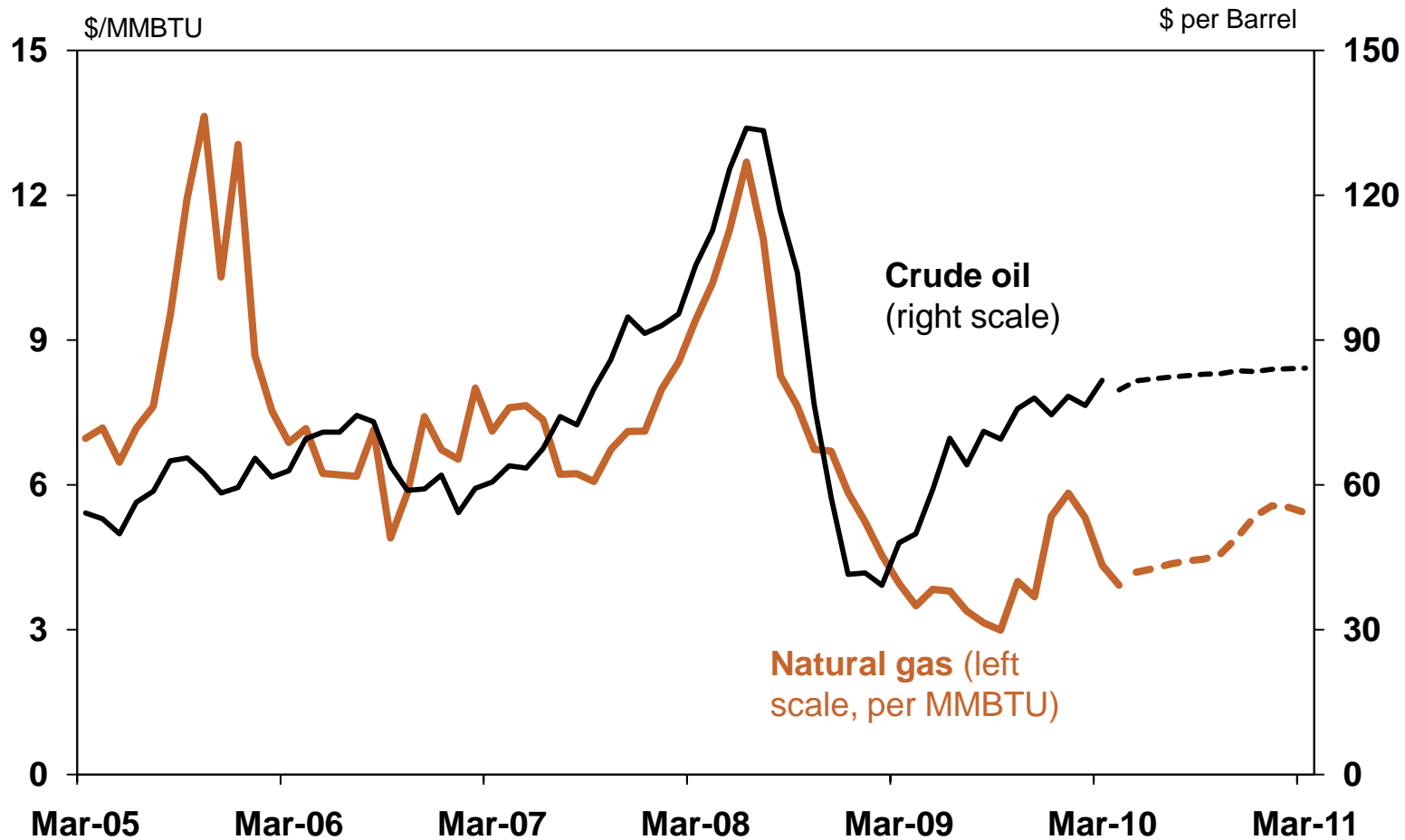
Commercial real estate is also in better condition than the nation, but is a risk

Office Vacancy Rates



But natural gas prices are the biggest risk relative to the nation

Energy Prices



Source: Bloomberg



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

