

# 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



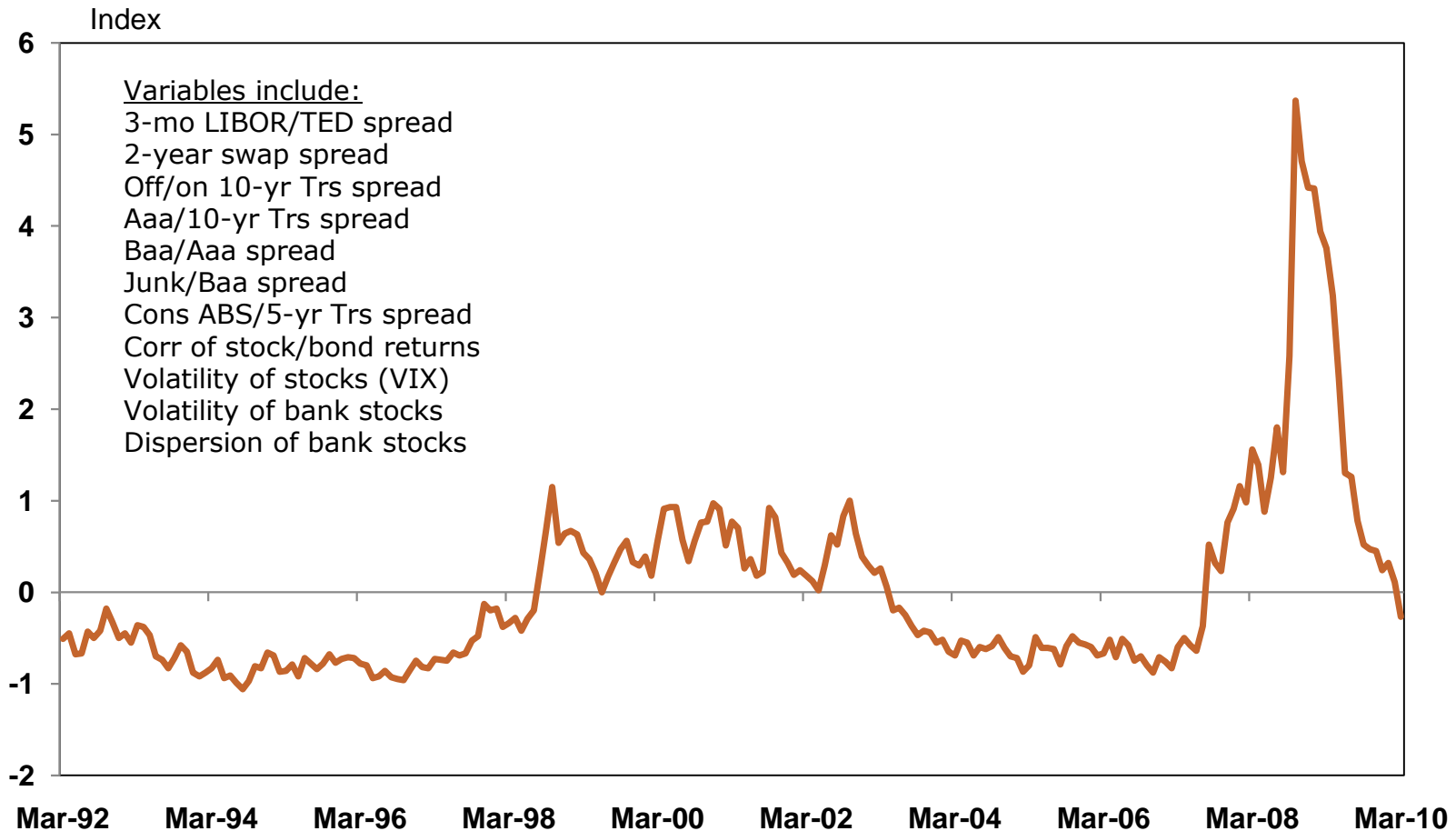
# The U.S. Economy

- 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



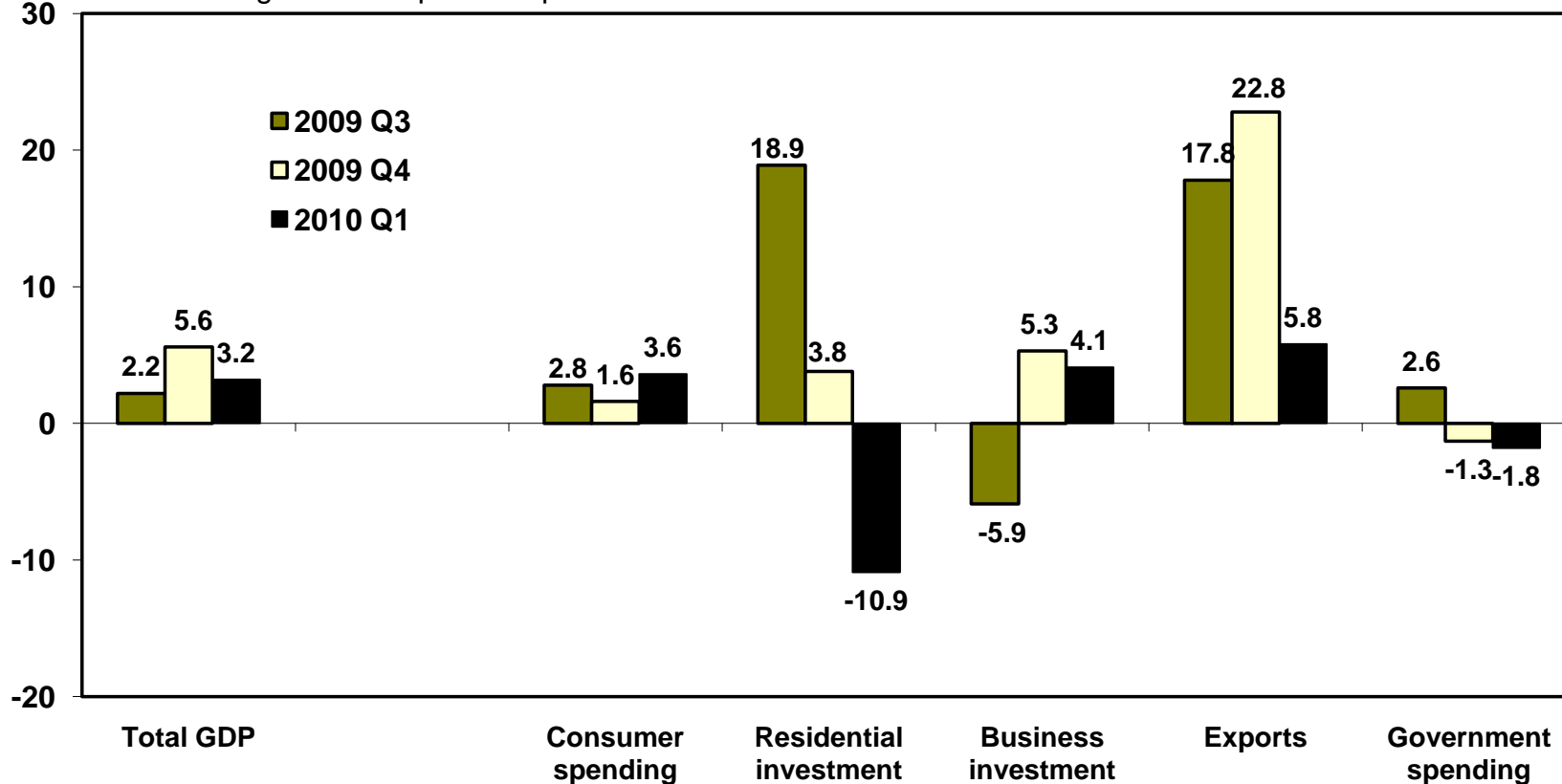
Source: KCFRB



# First quarter GDP growth was solid but not robust

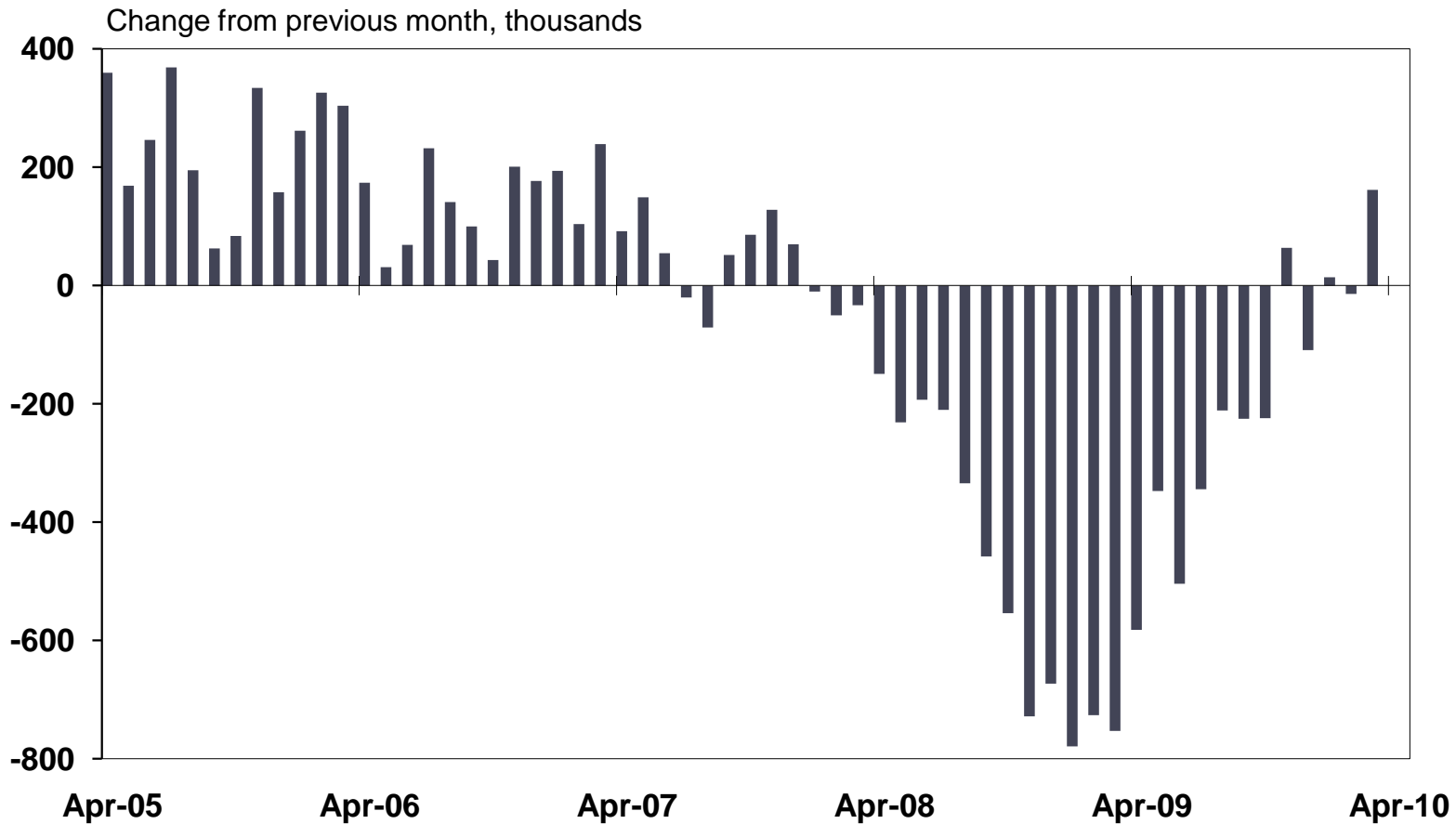
## Growth in Components of GDP

Percent change from the previous period



# U.S. employment is finally growing

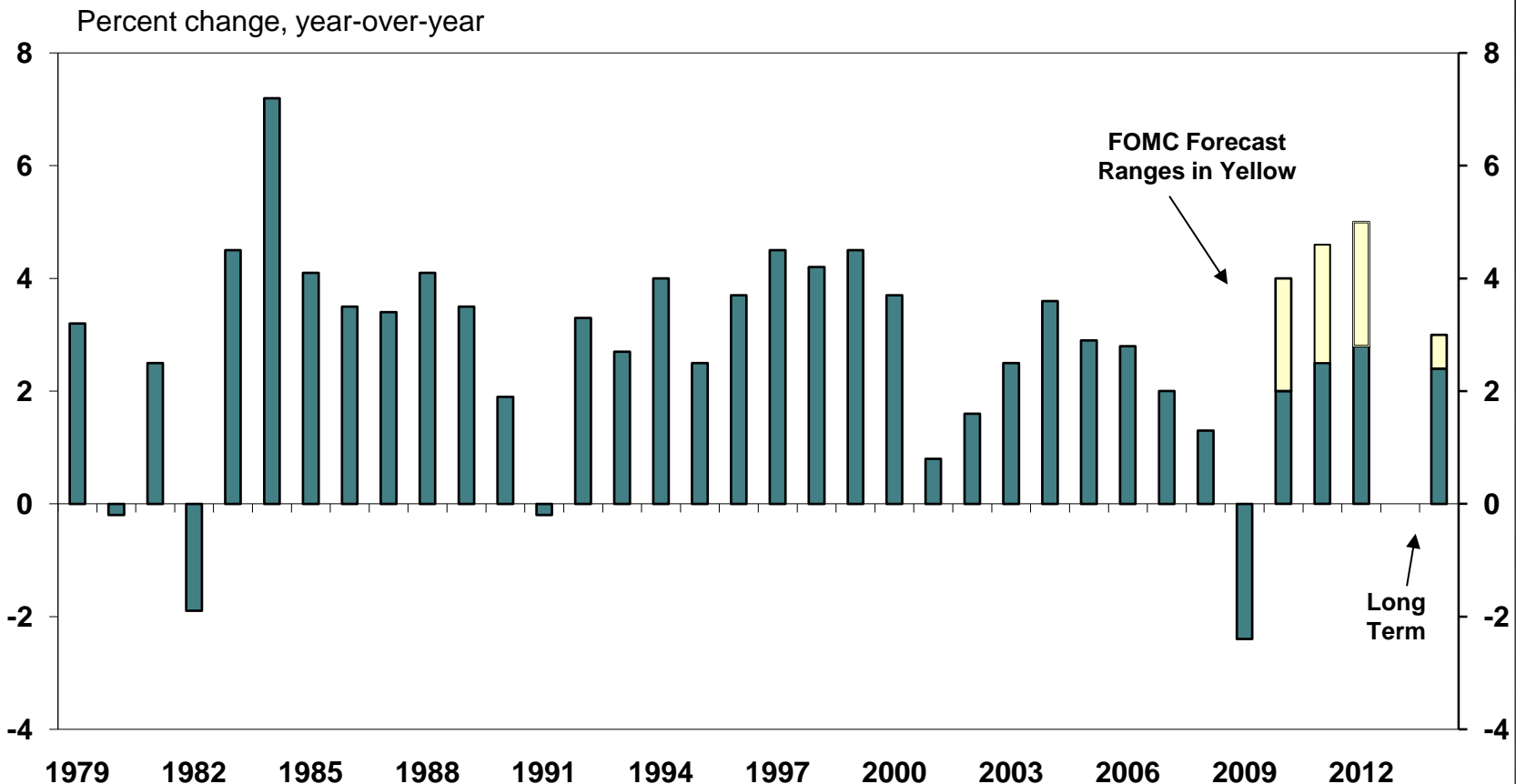
## National Payroll Employment





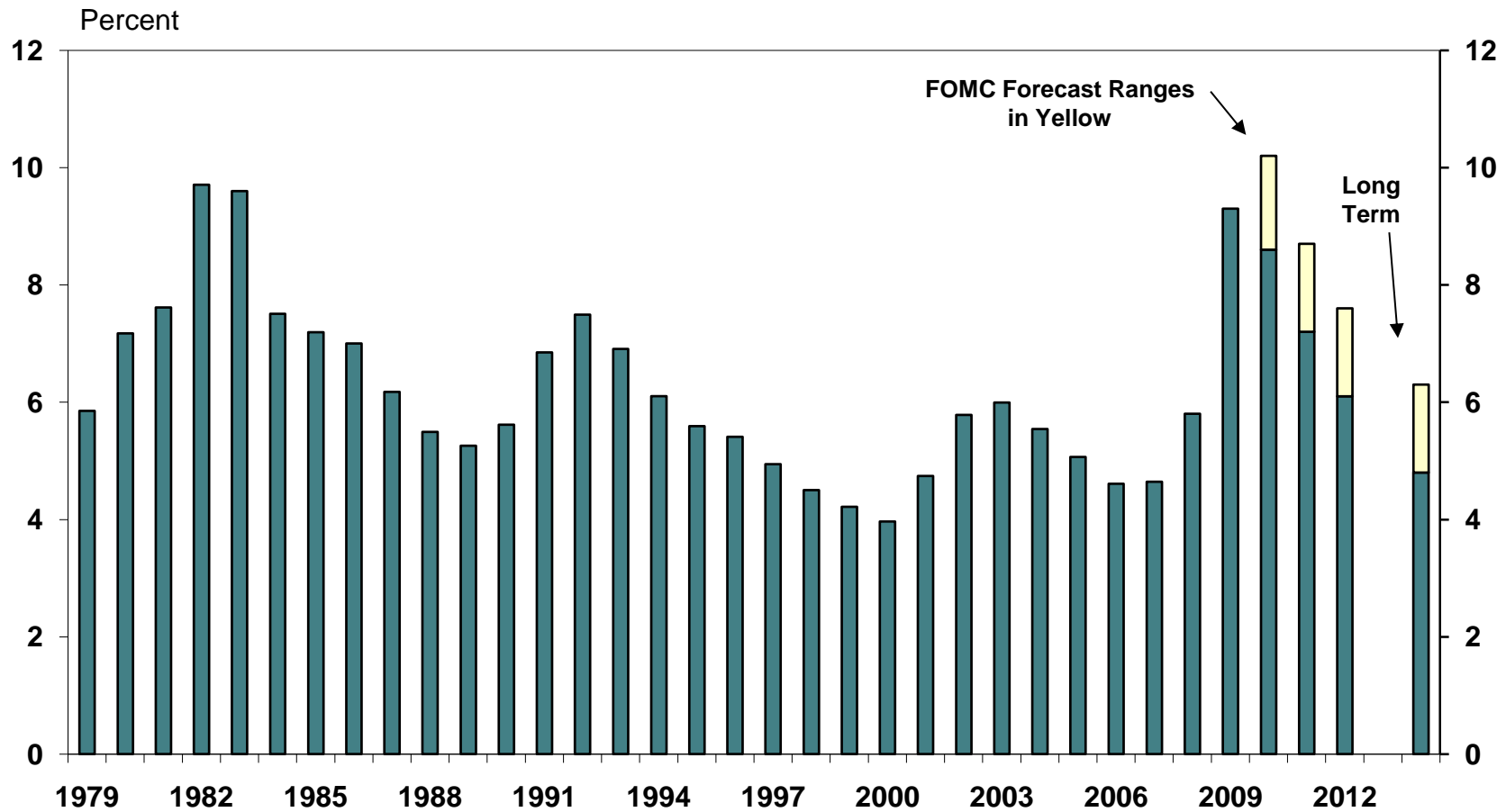
# Heading forward, Fed policymakers expect a moderate GDP recovery

## Gross Domestic Product



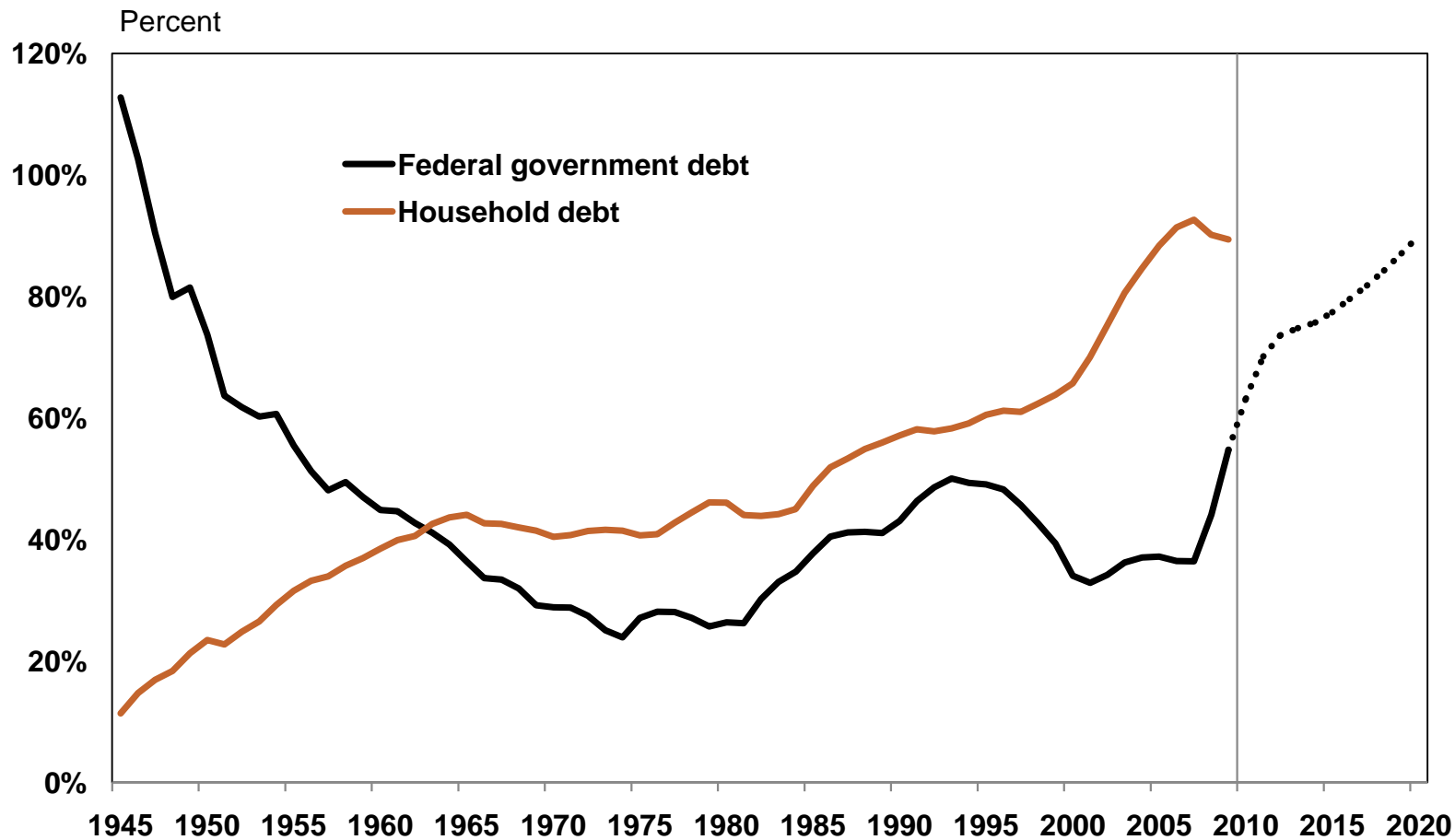
# With unemployment remaining high for some time

**Unemployment Rate**  
Seasonally Adjusted



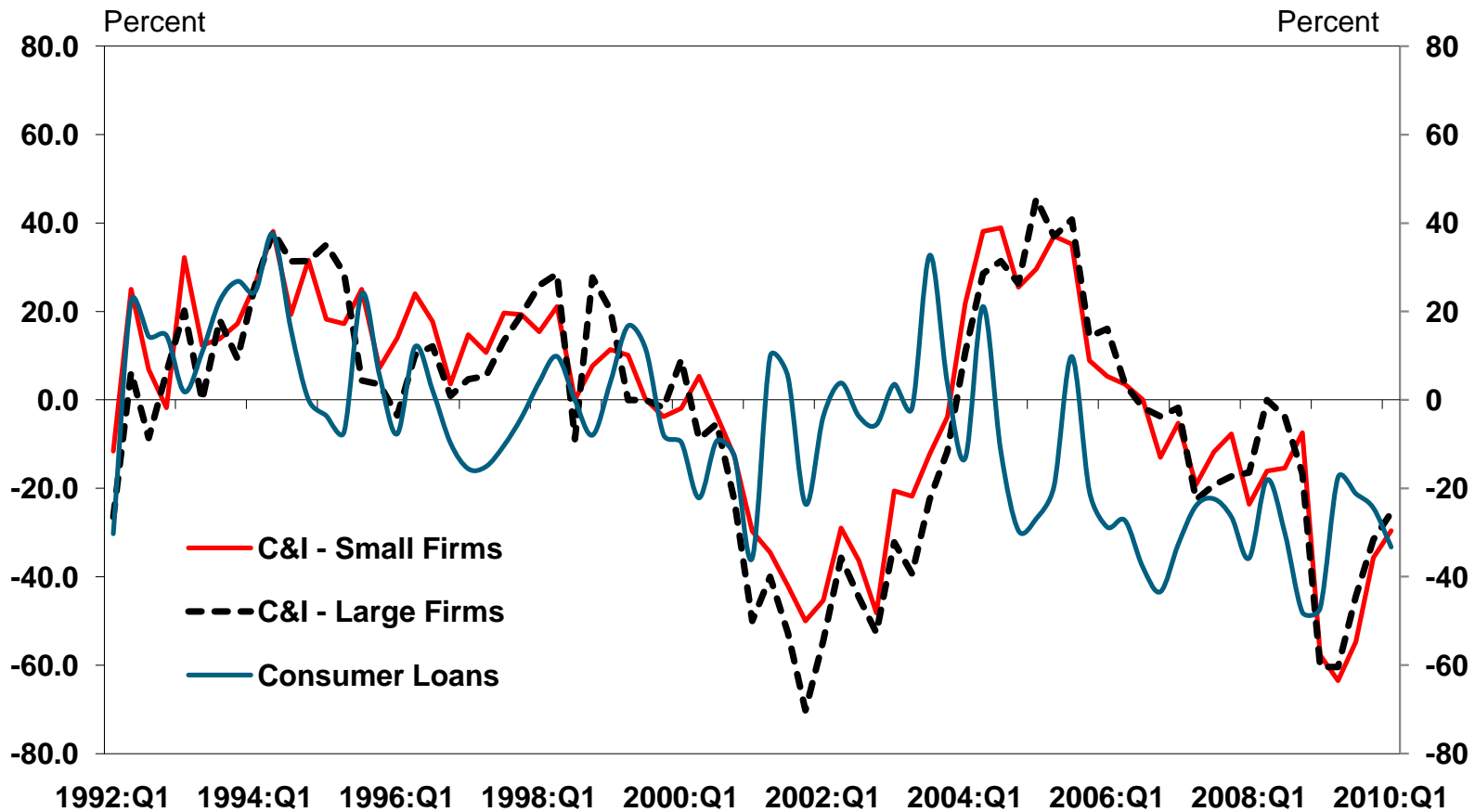
# Consumer debt could constrain short-run growth and federal debt projections are a concern

## U.S. Debt as a Share of GDP



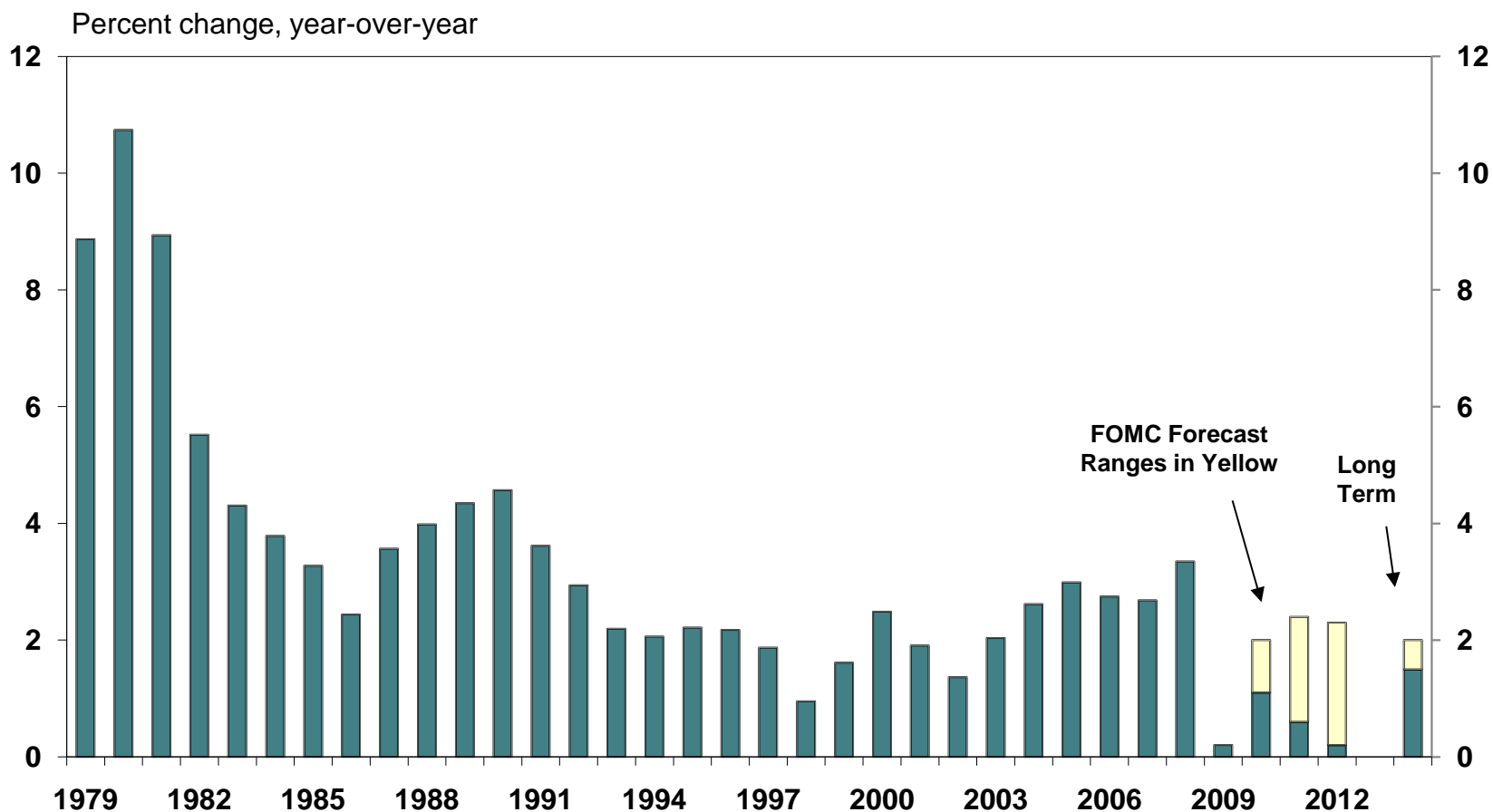
# Both business and consumer loan demand remain sluggish

## Net Percentage of Banks Reporting Increased Loan Demand



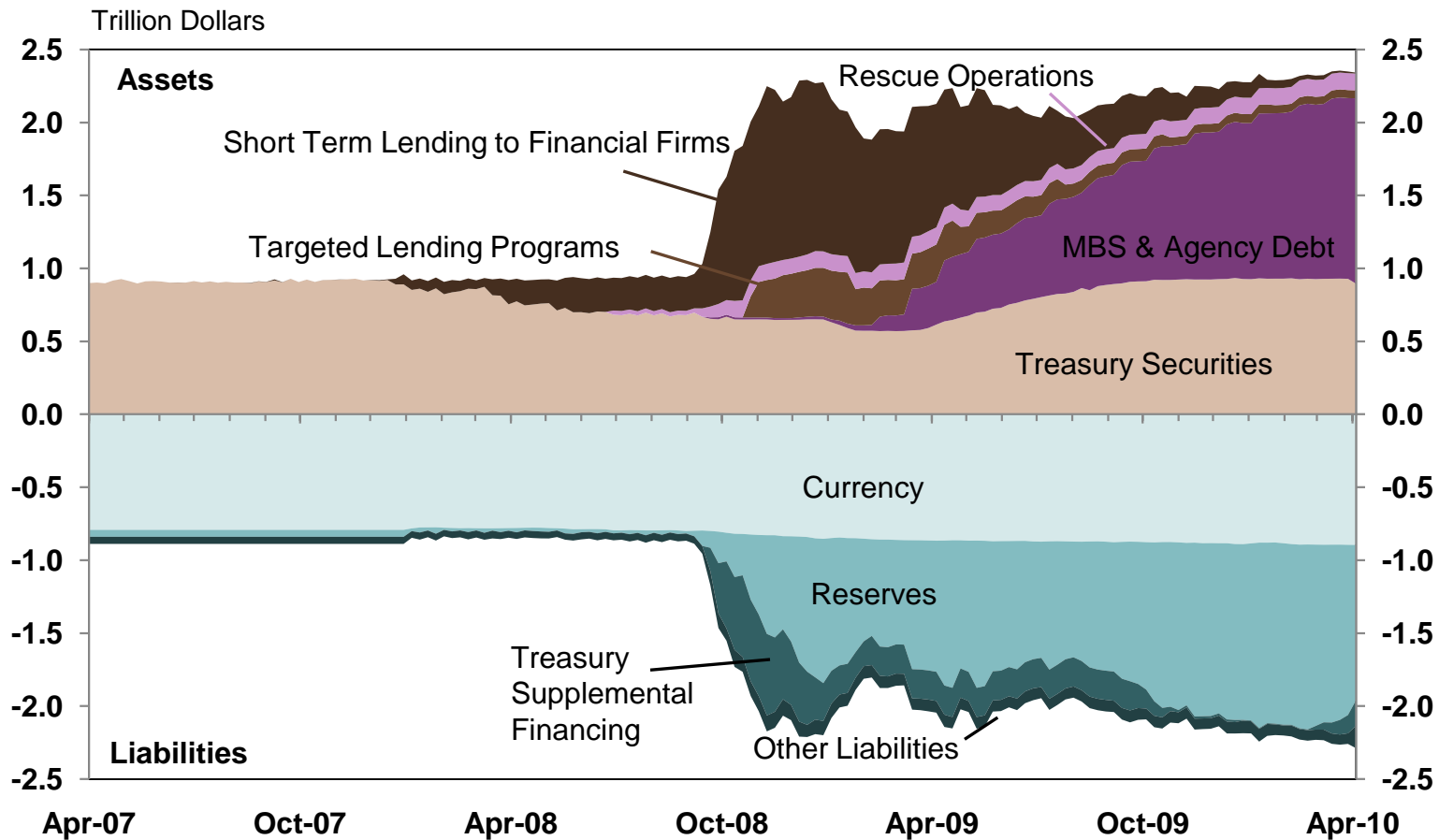
# Inflation is expected to remain tame in the near term, but will require careful oversight

## PCE Inflation Index



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

## Federal Reserve Balance Sheet



# The Oklahoma Economy

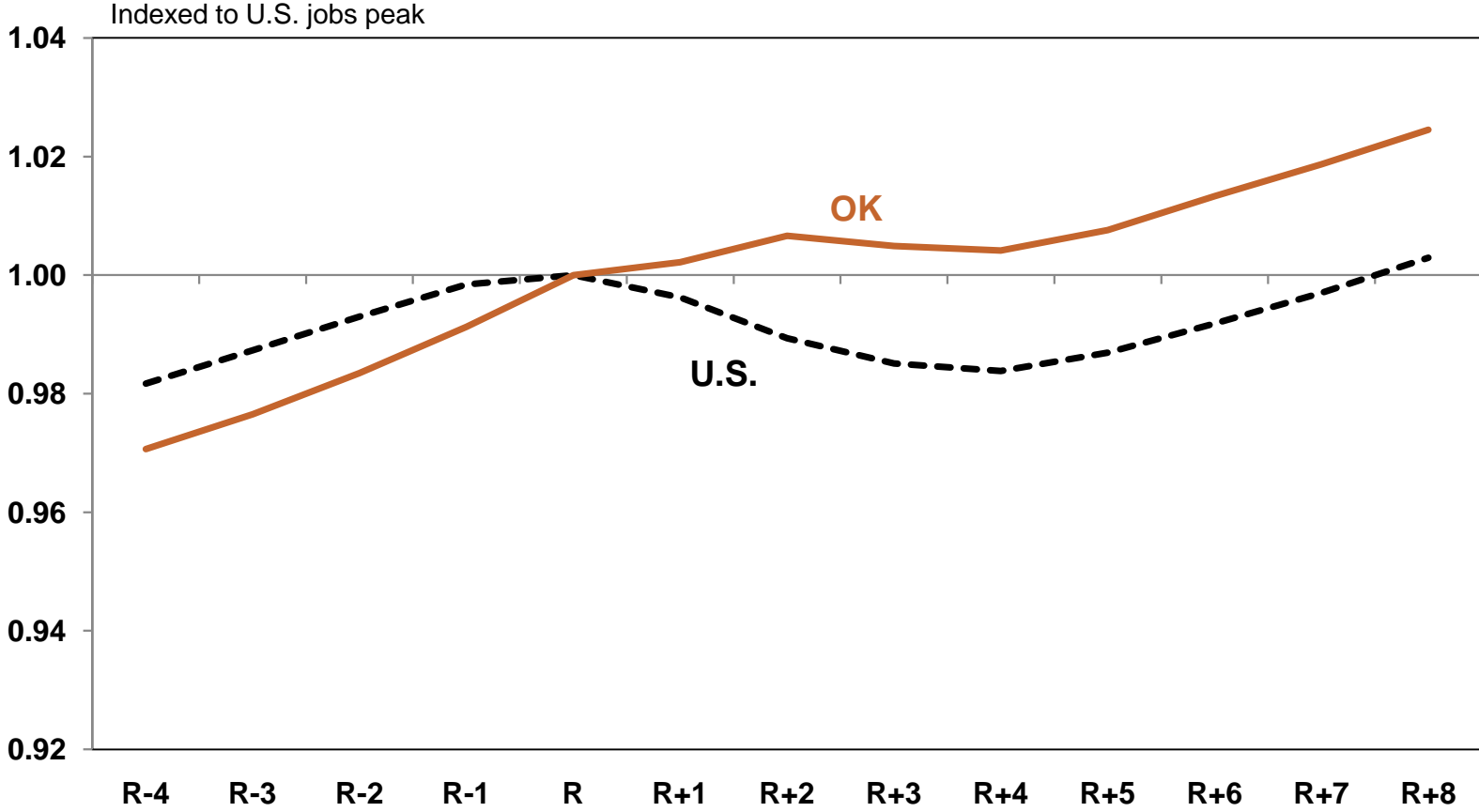
- As usual in recessions, Oklahoma entered this recession much later than the nation, and is recovering with only a slight delay
- Most sectors are growing, and conditions remain much better than in the nation
- But low natural gas prices are a risk



# 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

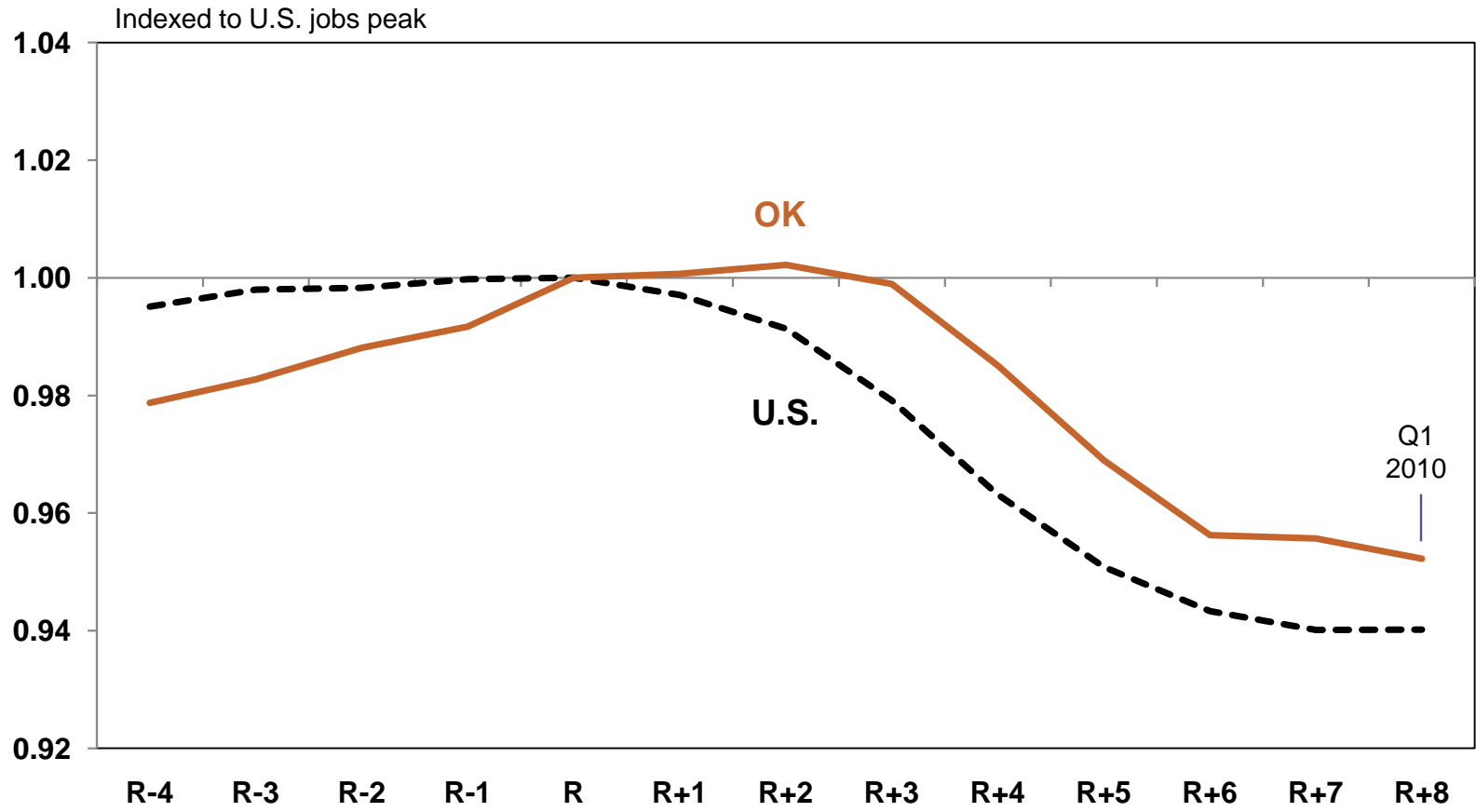




# A fairly similar pattern appears to be playing out this time, though with bigger job losses

## Current Recession Path

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

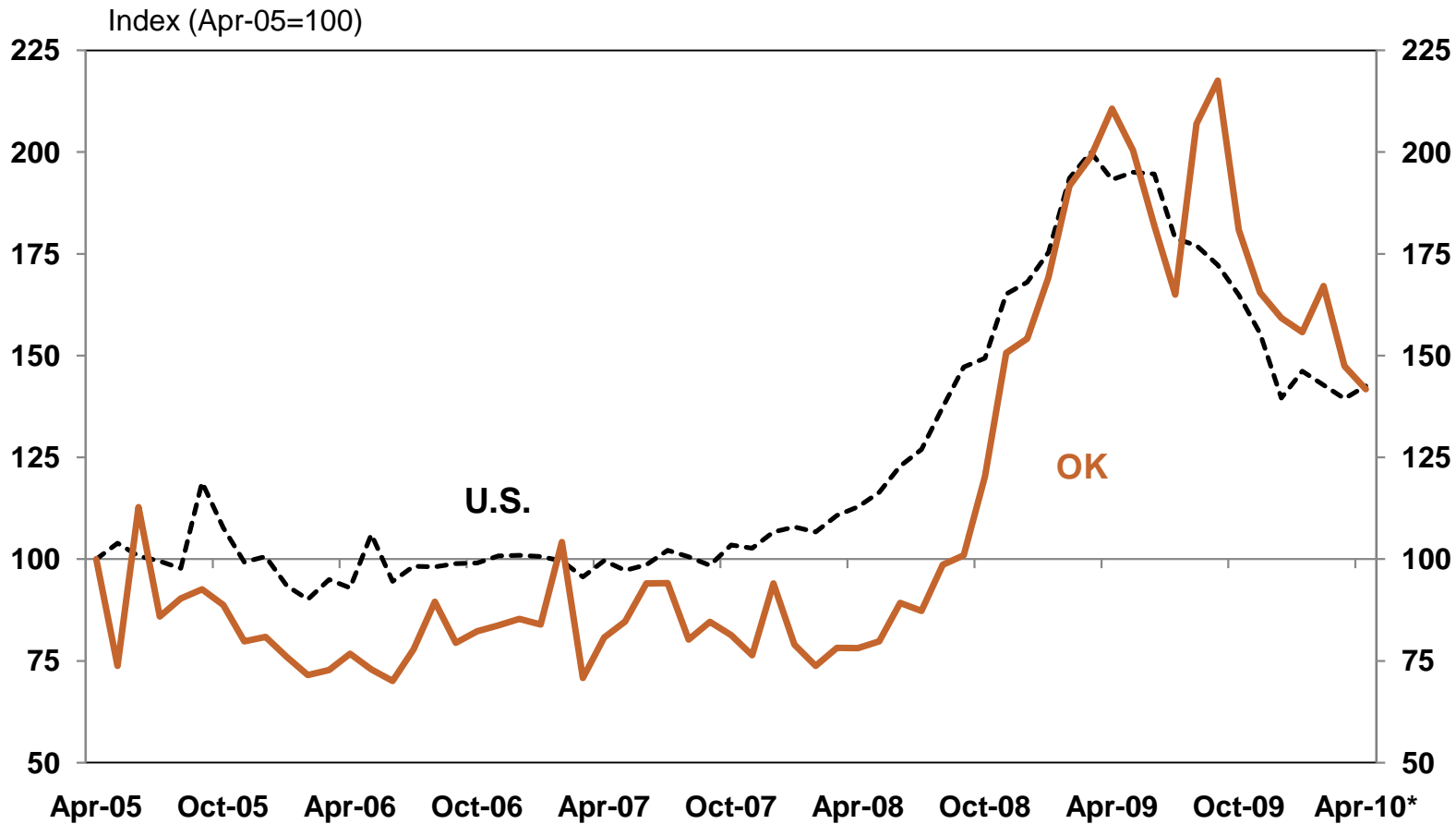


Source: U.S. Bureau of Labor Statistics



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

## Initial Claims for Unemployment Insurance

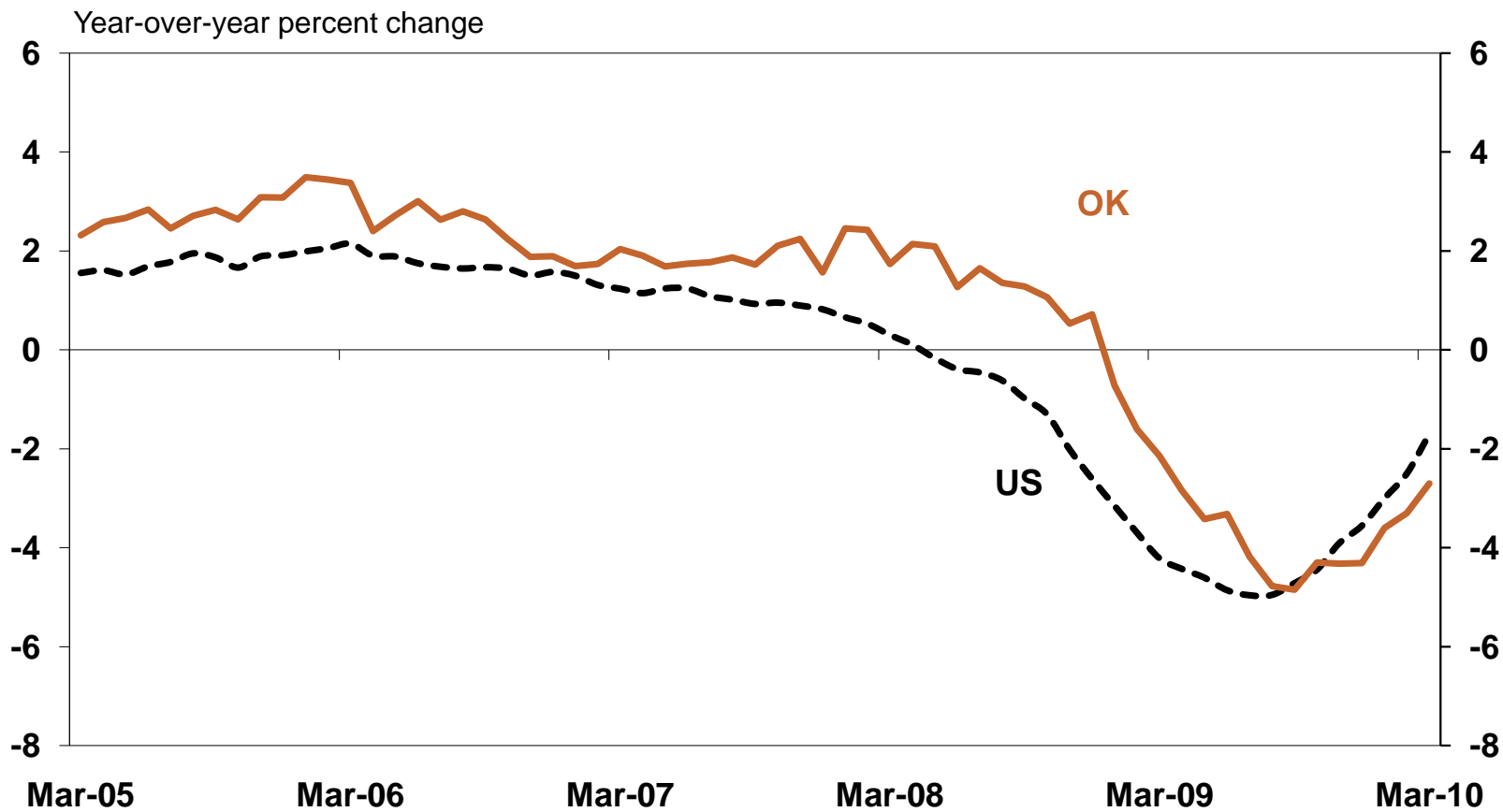


\*Does not include last week of April



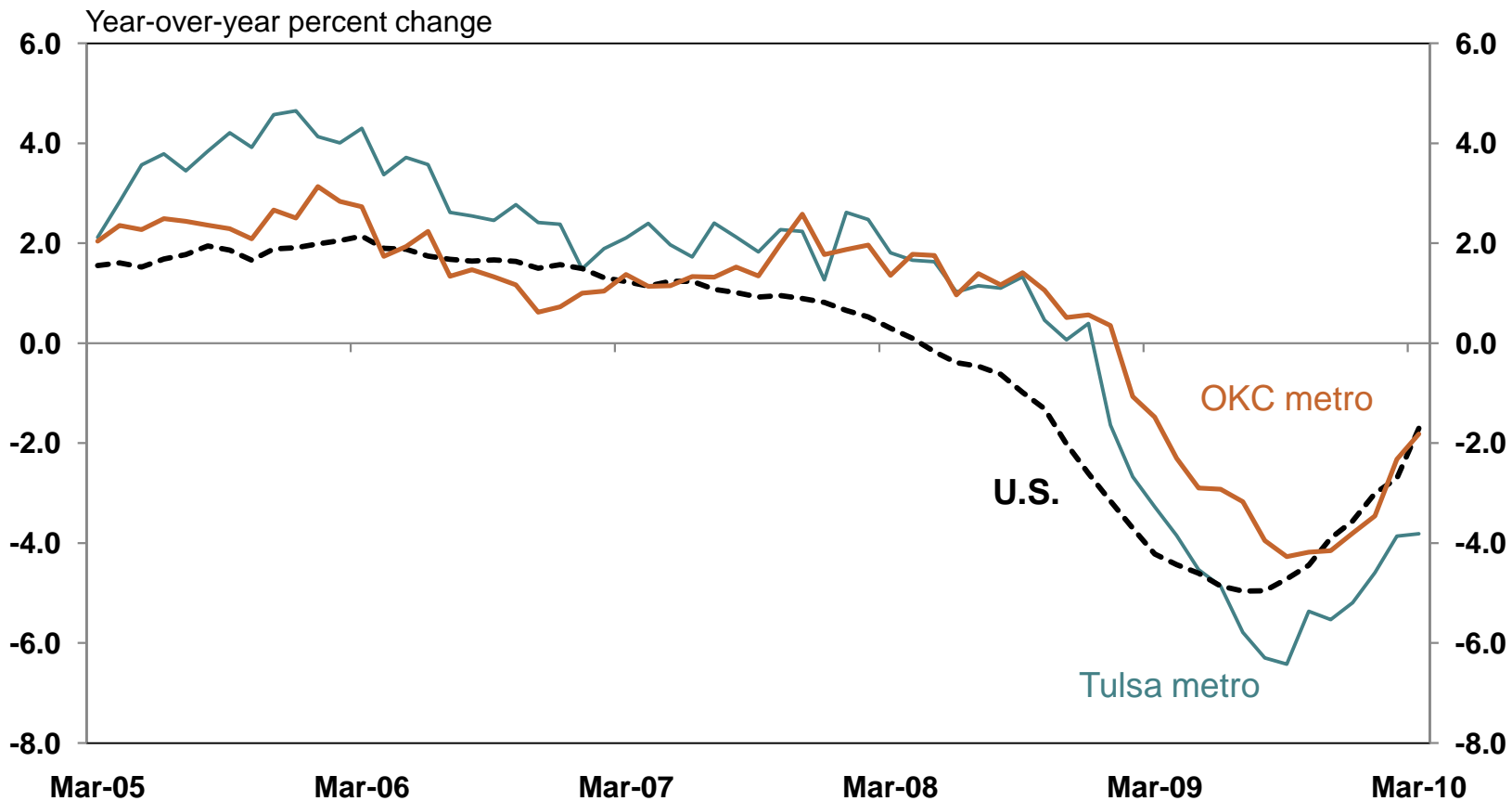
# And monthly state jobs data are on an upward trend, only slightly delayed

## Nonfarm Payroll Employment Growth



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

## Nonfarm Payroll Employment Growth

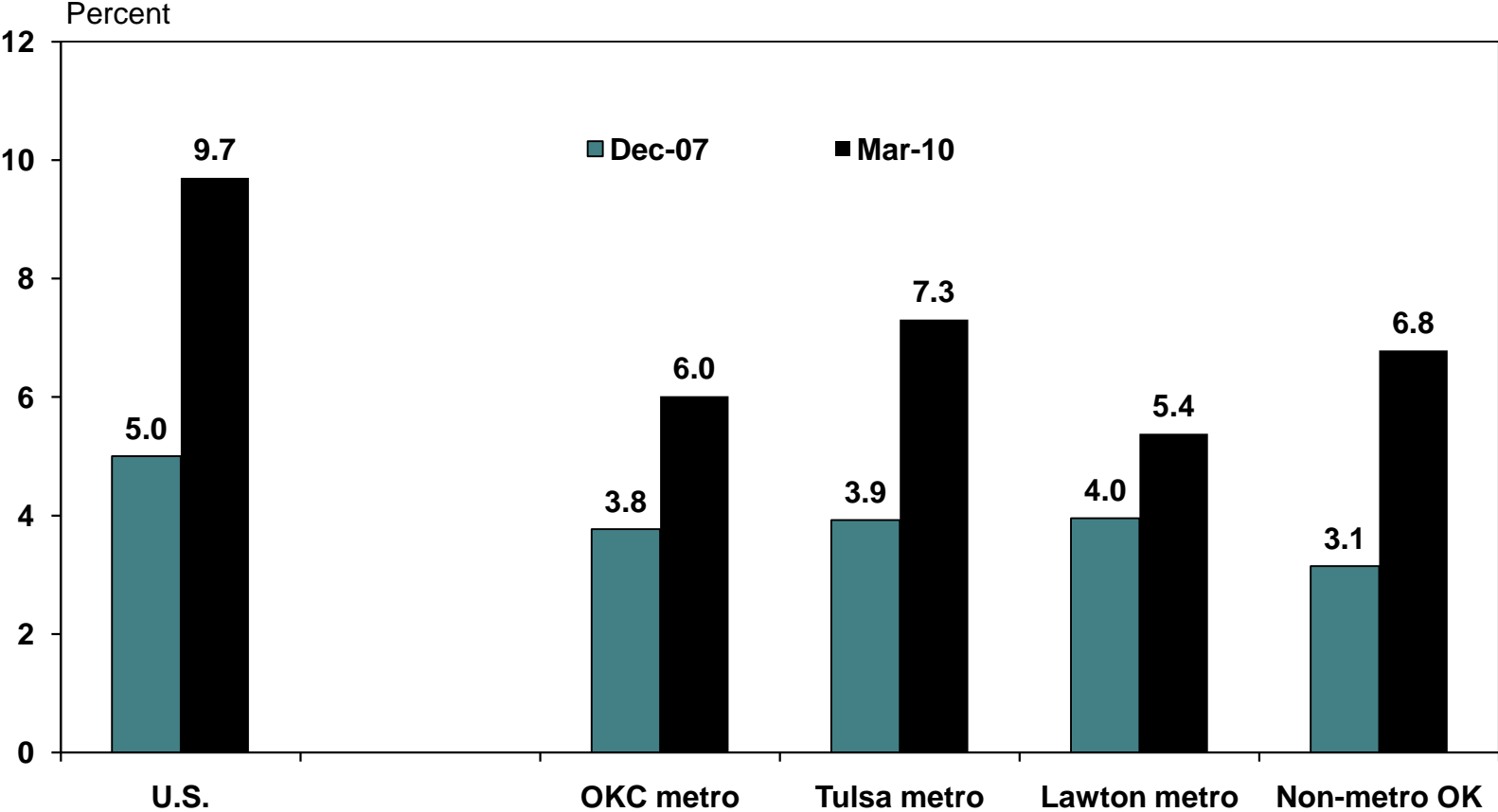


Source: U.S. Bureau of Labor Statistics



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

**Unemployment Rate**  
Seasonally Adjusted\*



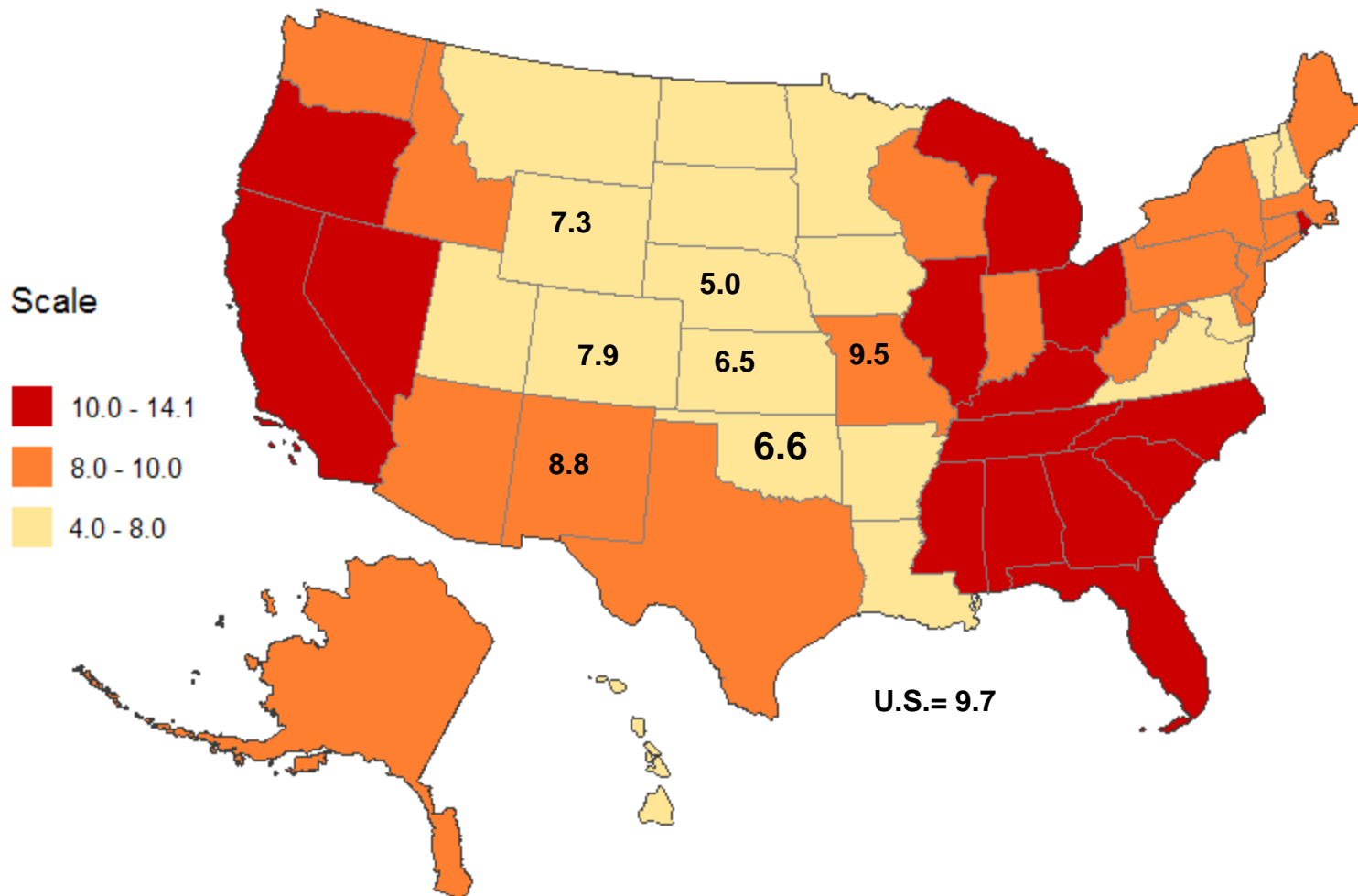
Source: U.S. Bureau of Labor Statistics

\* Estimated by FRBKC



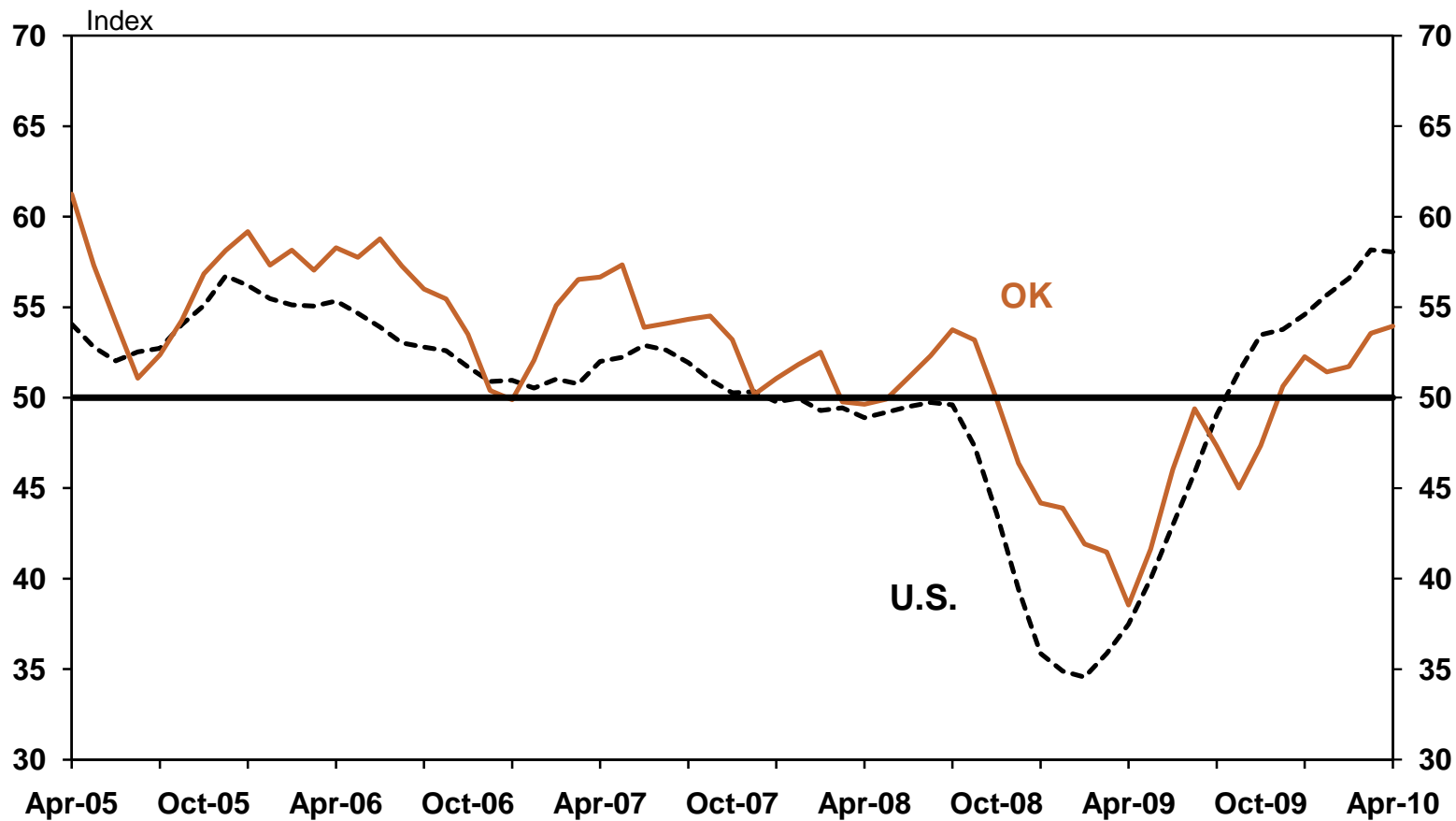
# Indeed, our entire region maintains relatively low unemployment rates

Unemployment Rate, March 2010



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

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

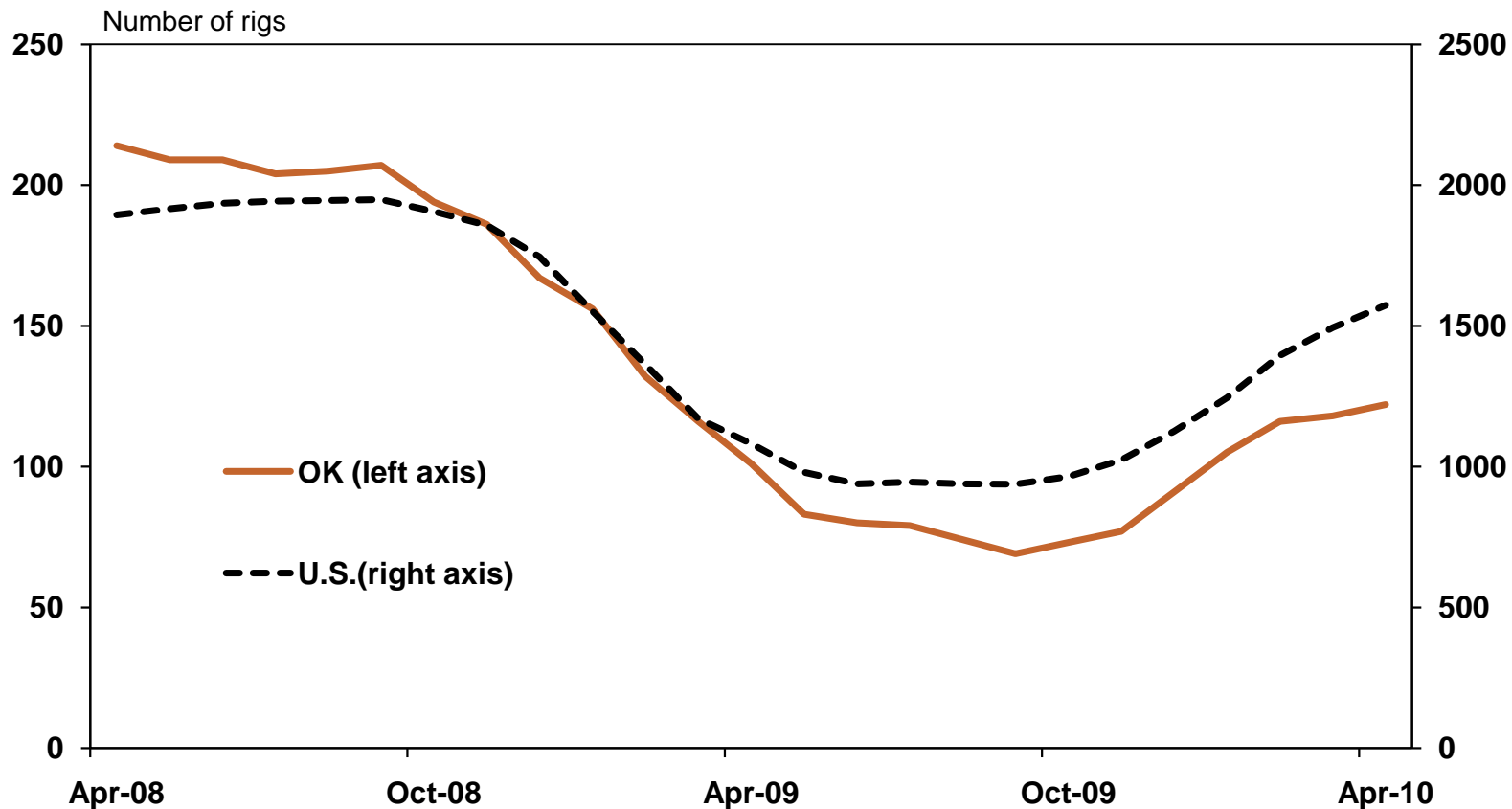


Source: ISM, FRBKC Manufacturing Survey



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

## Total Rig Count



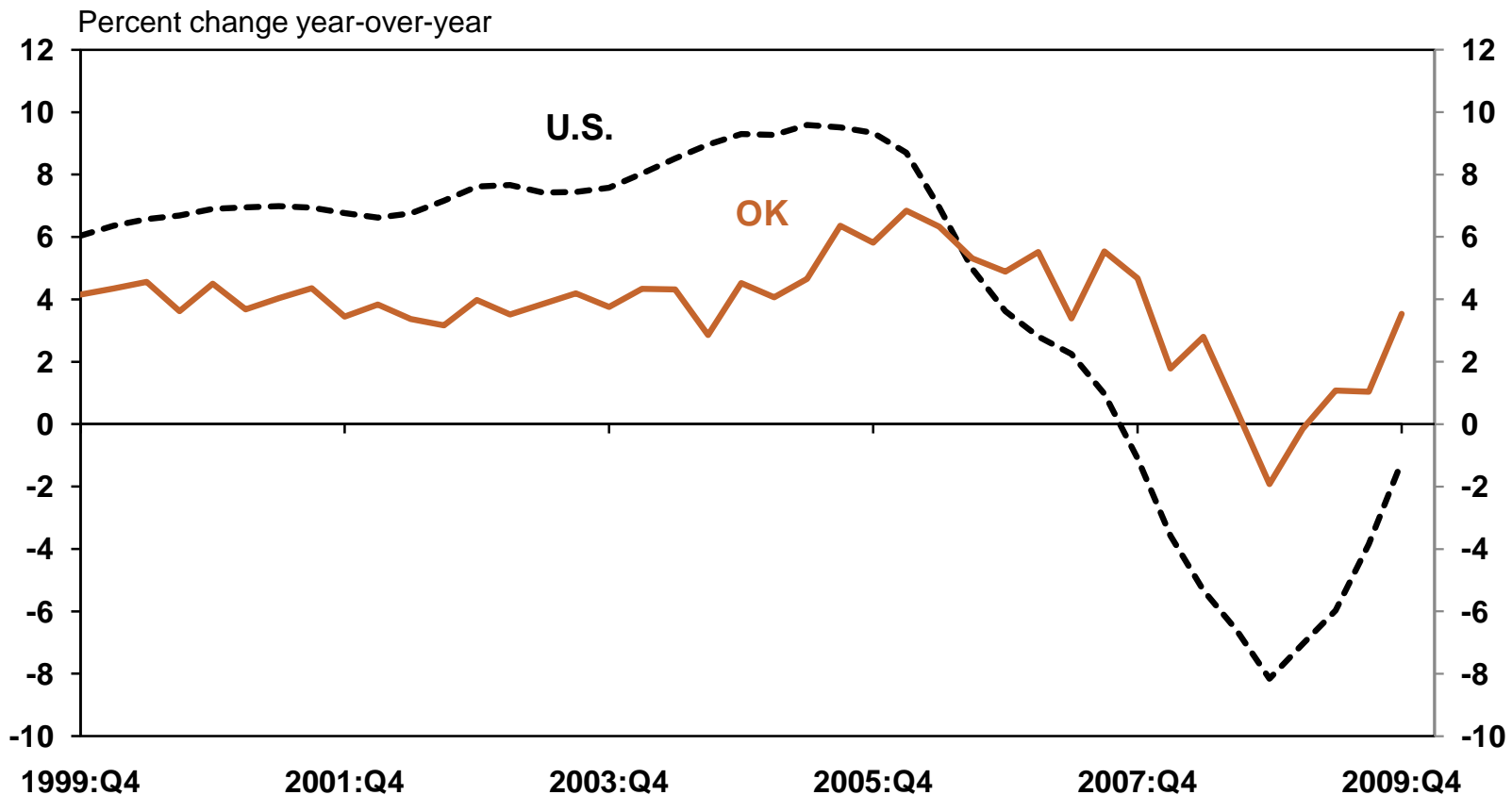
Source: Baker Hughes





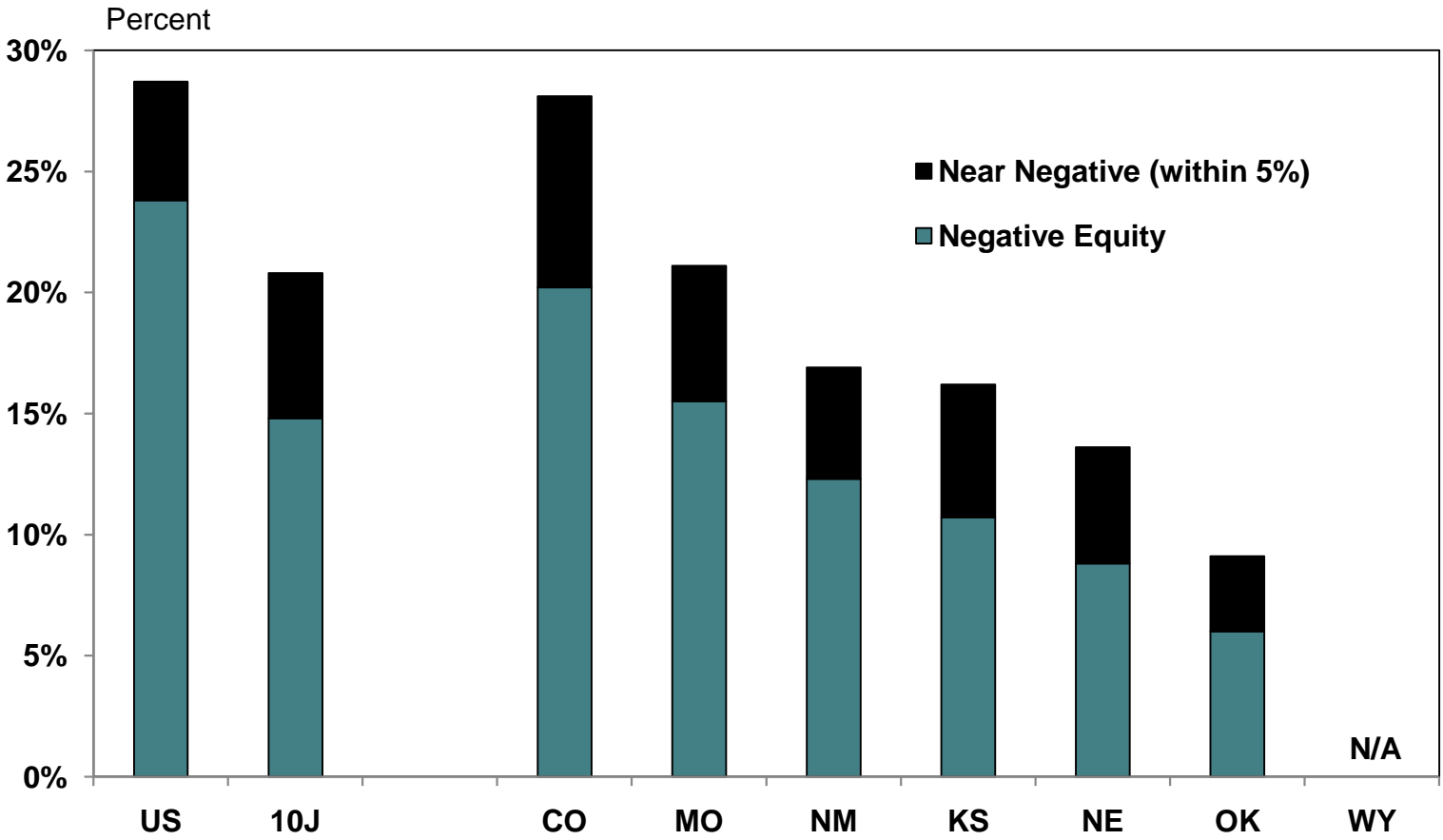
# Home prices clearly held up better here, providing cushion to consumers and banks

## 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

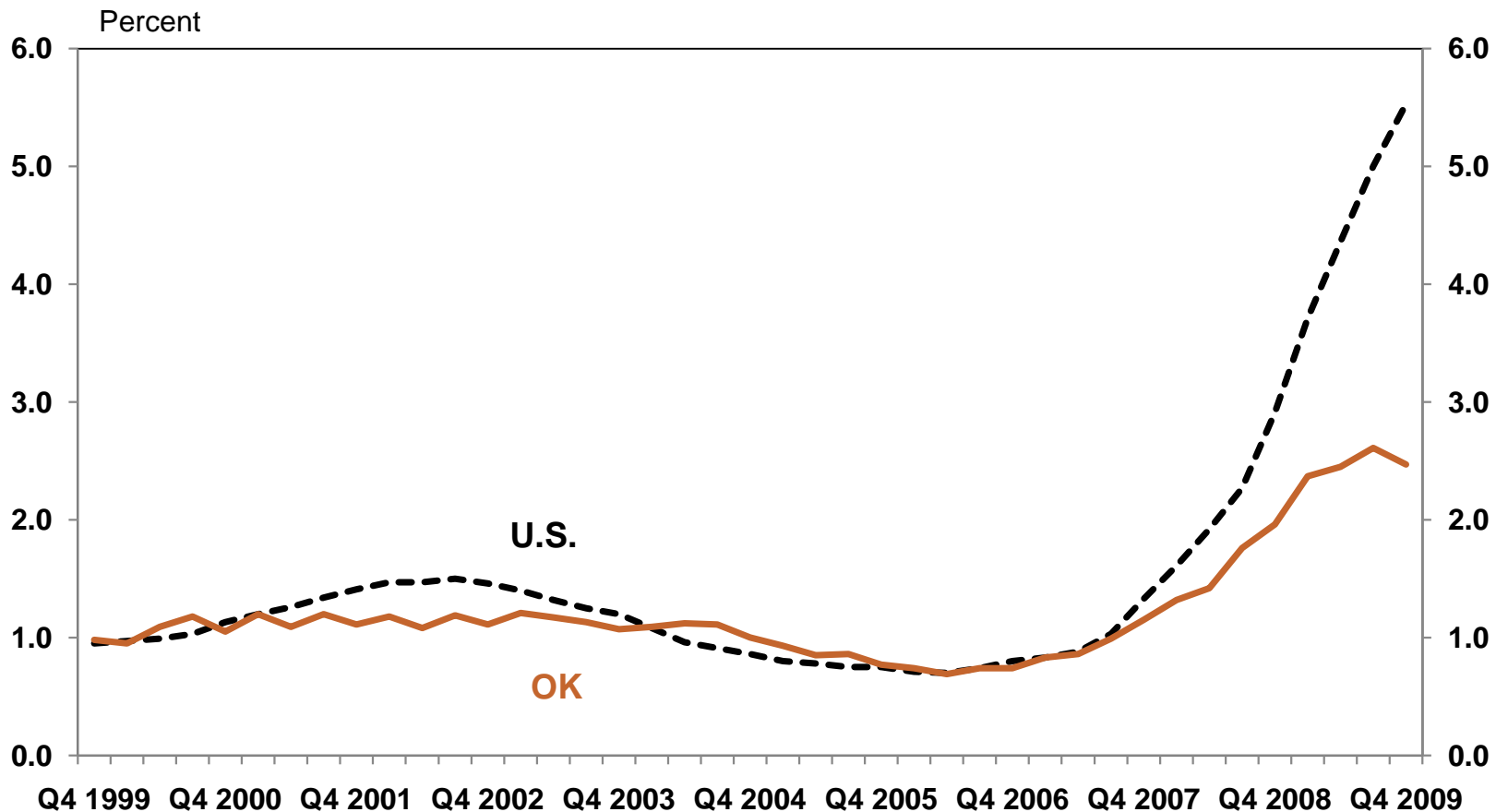


Source: First American CoreLogic



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

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

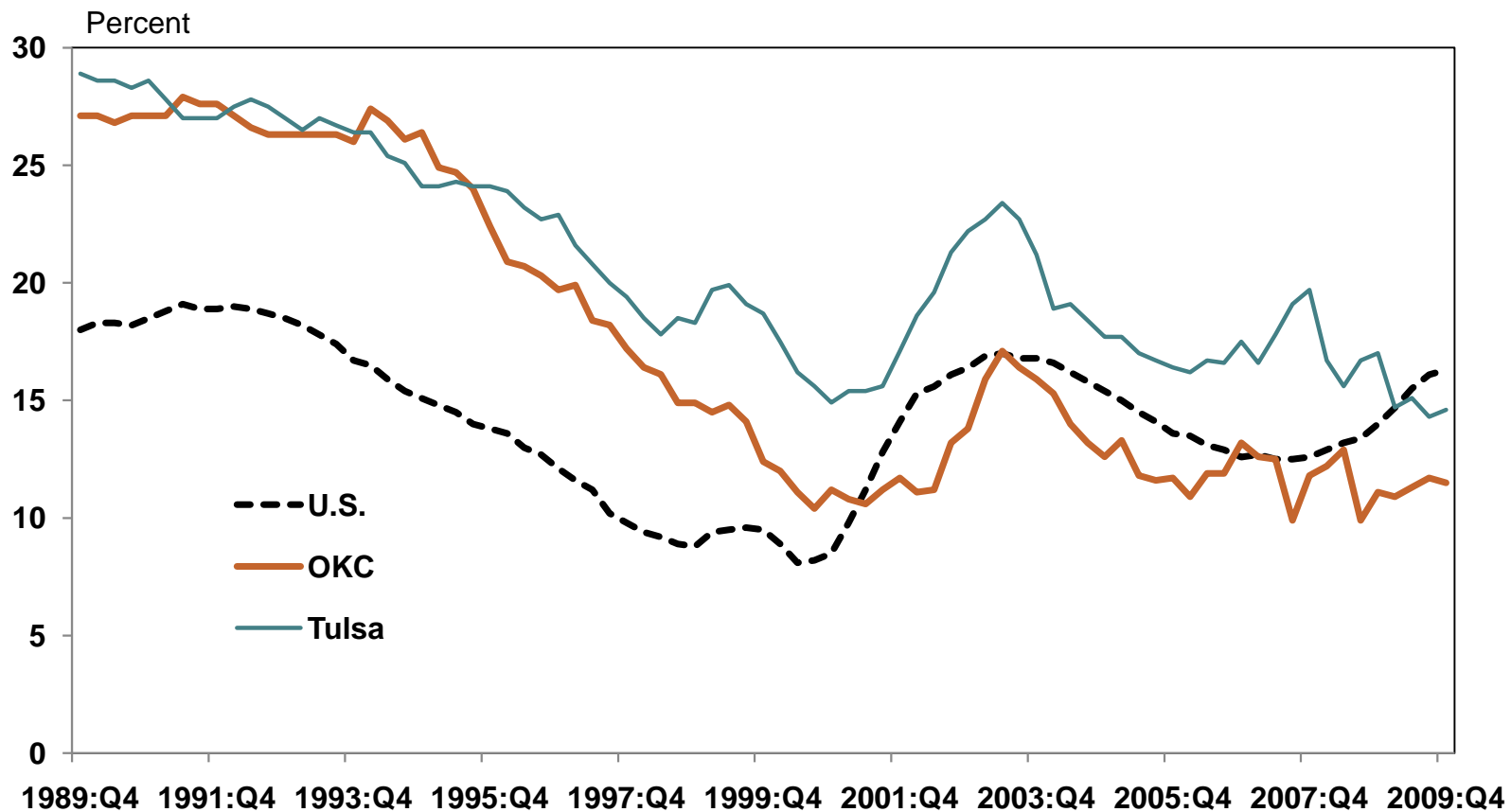


Source: FDIC



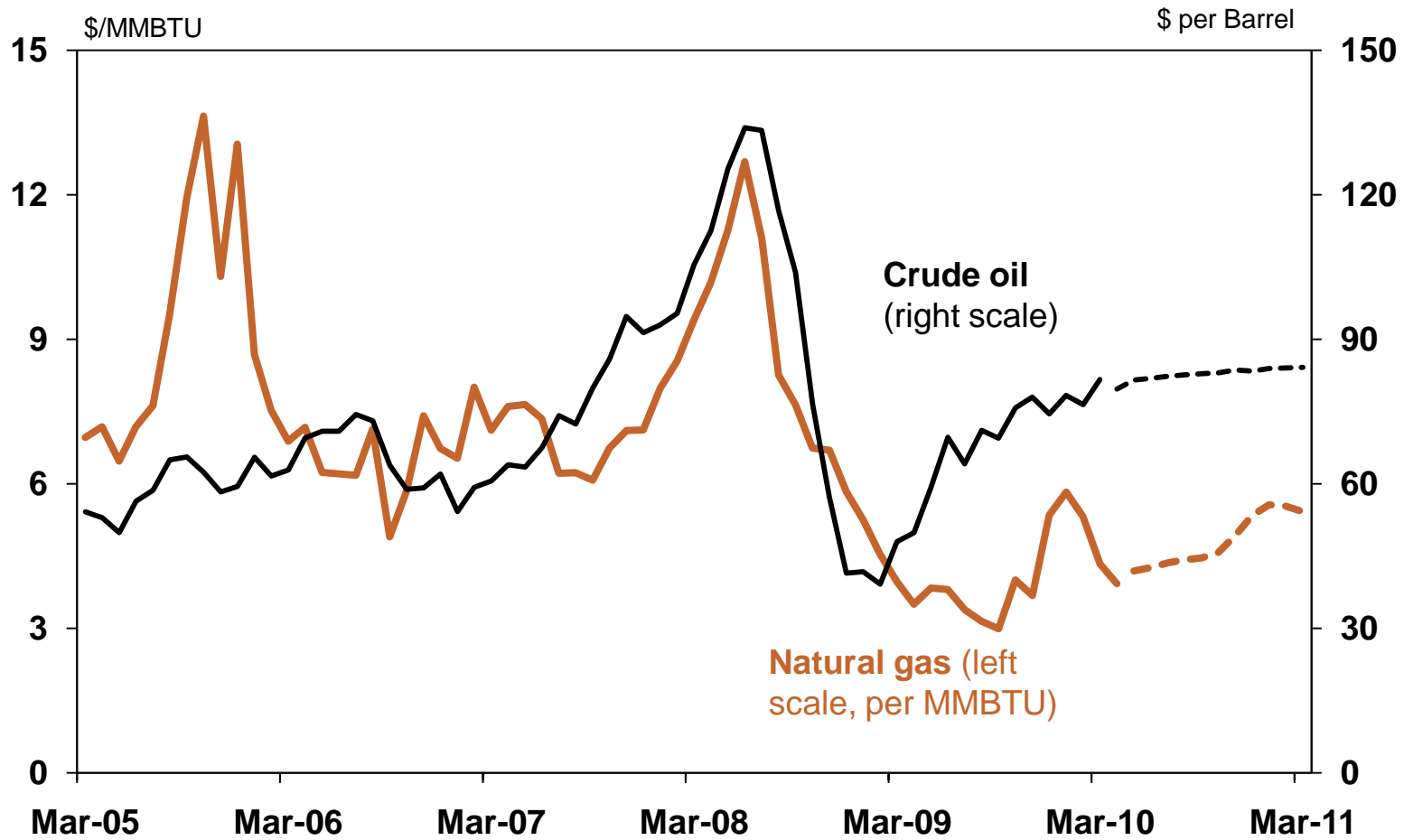
# Commercial real estate is also in better condition than the nation, but is a risk

## 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

