

# The Economy and Manufacturing in the U.S. and Oklahoma

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# Federal Reserve Districts and Office Locations



# 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

# 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

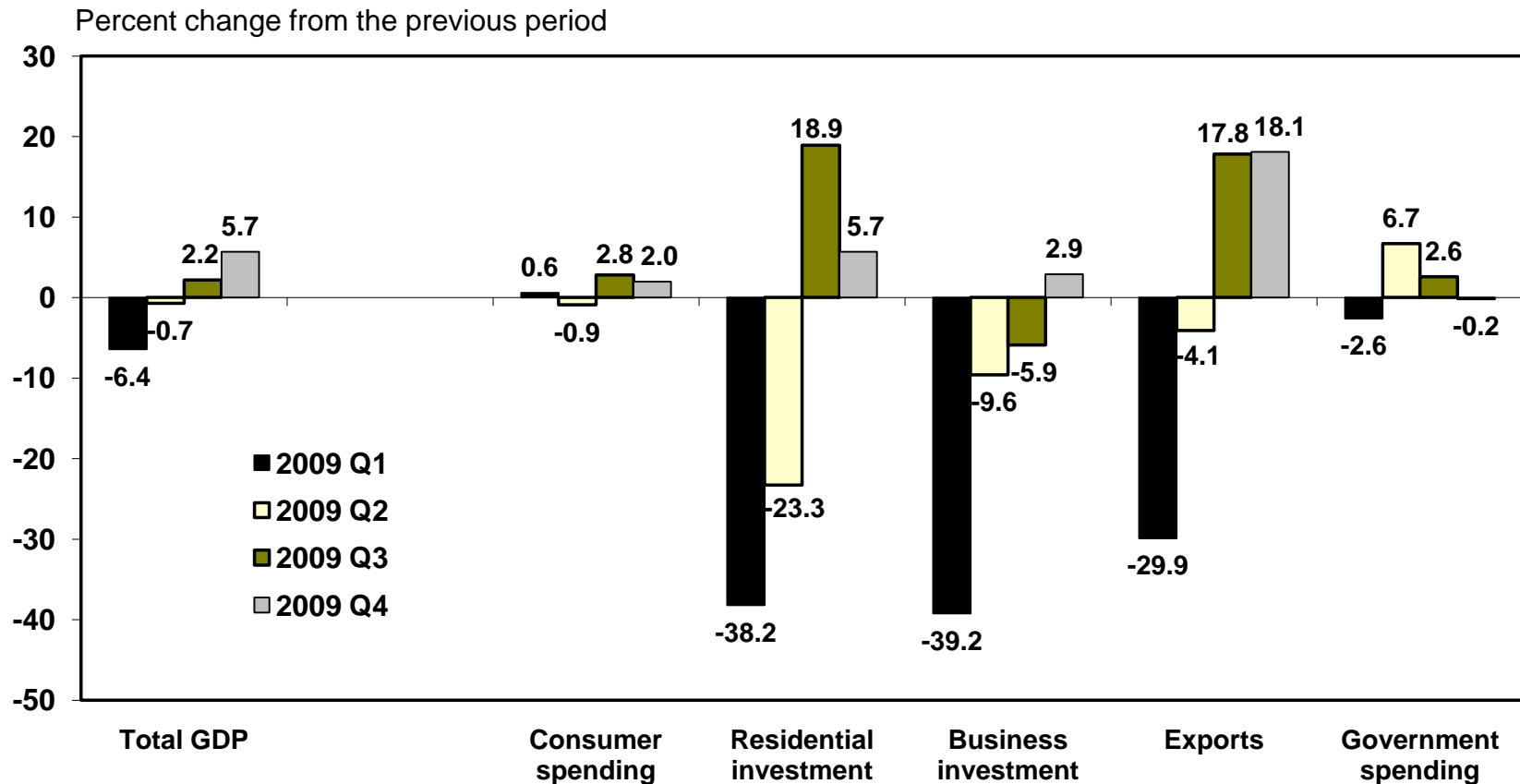
# The U.S. Economy

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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

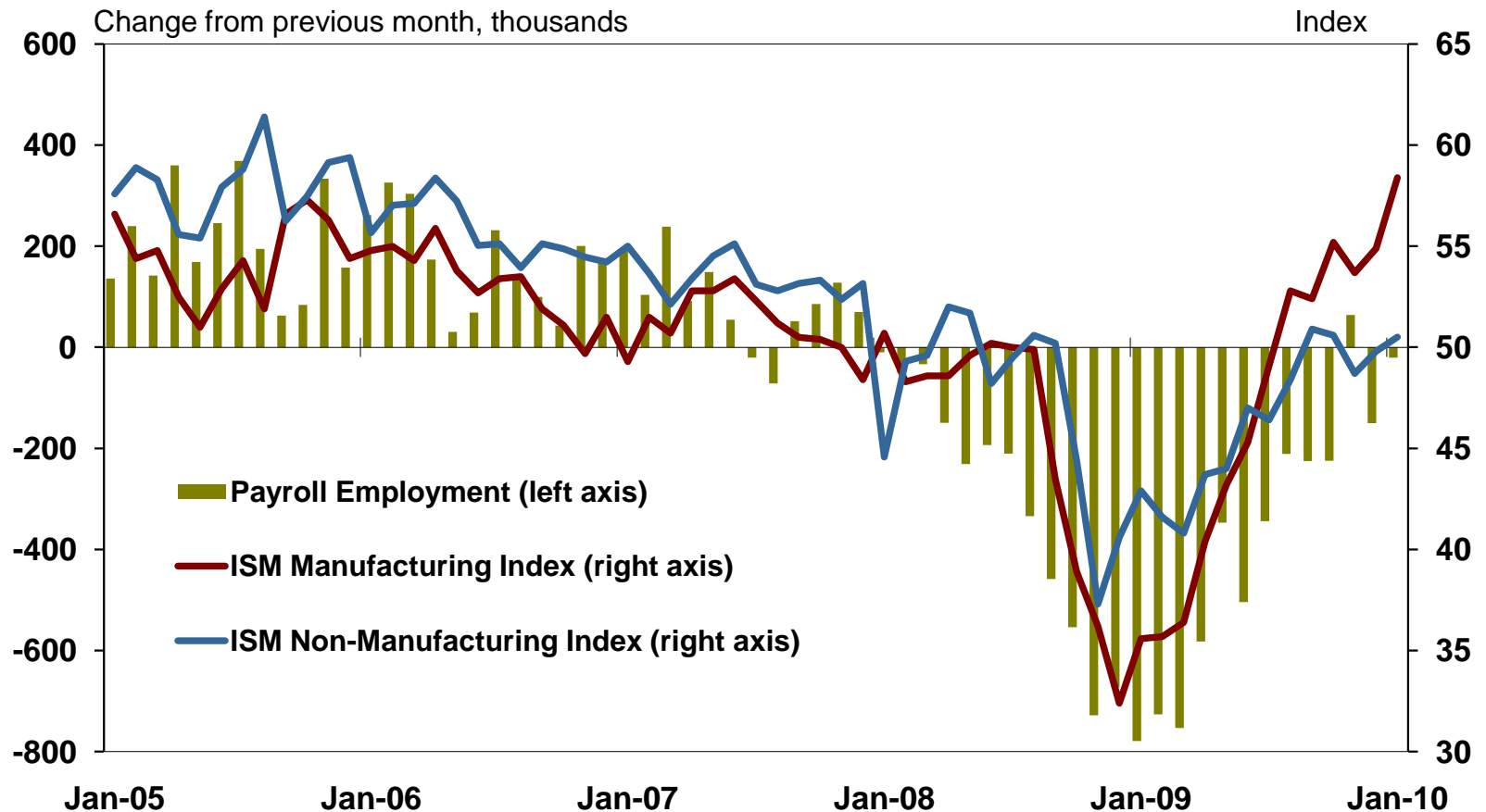
# Second half 2009 GDP growth was fairly strong, but boosted in part by government stimulus

## Growth in Components of GDP



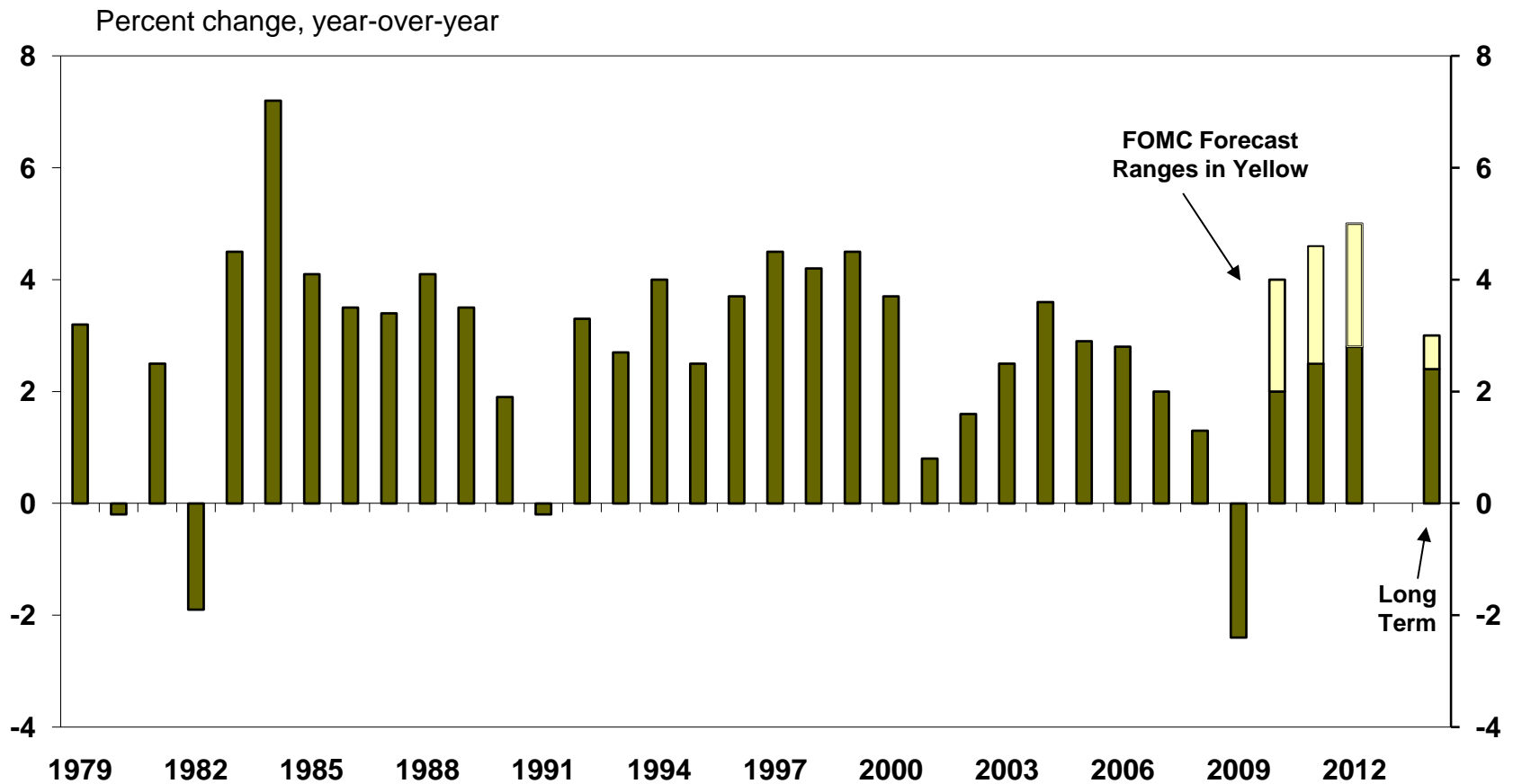
# January 2010 data show further signs of improvement, especially in manufacturing

## National Business Indexes and Payroll Employment



# Heading forward, Fed policymakers generally expect a moderate recovery

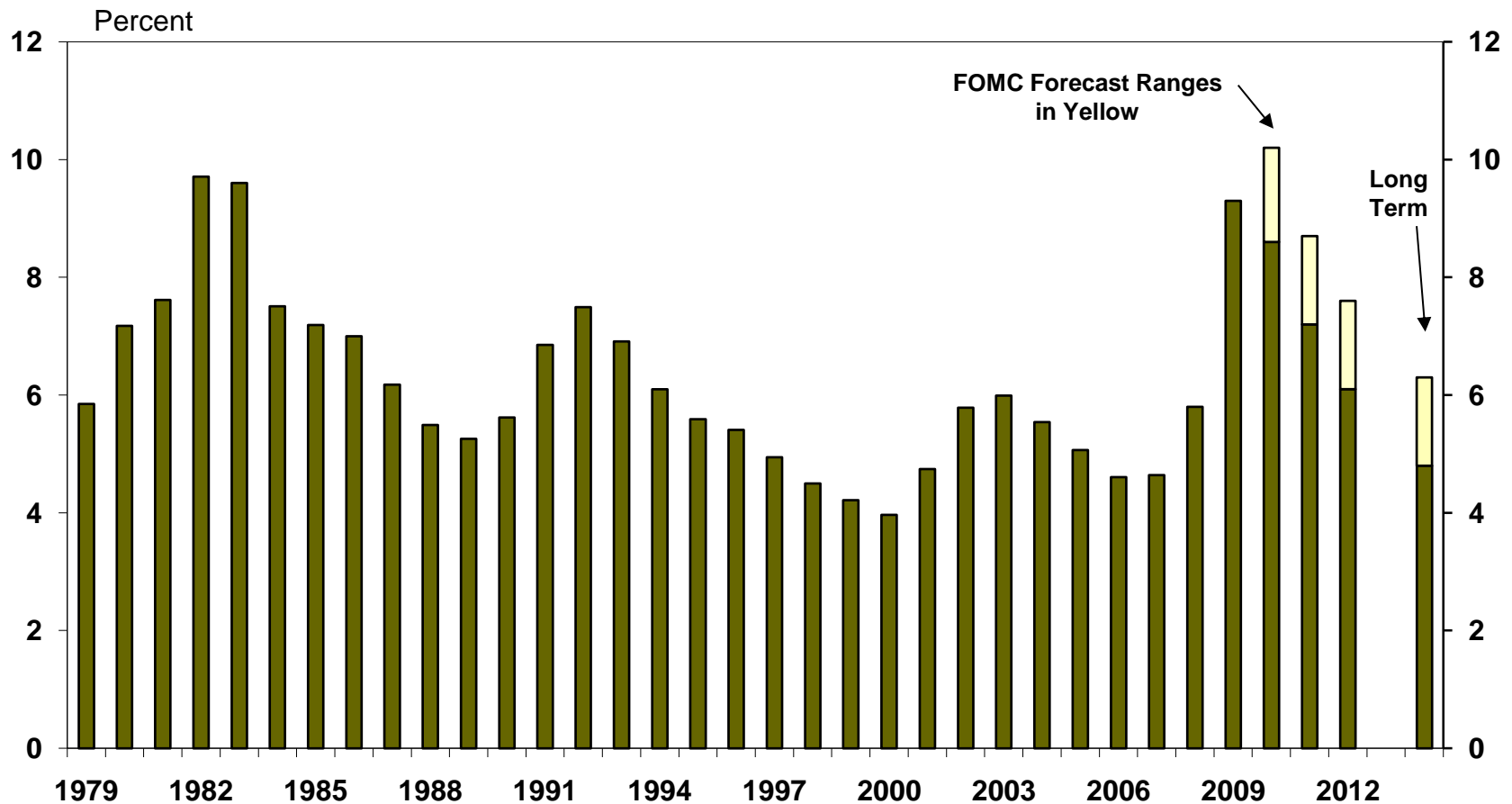
## Gross Domestic Product





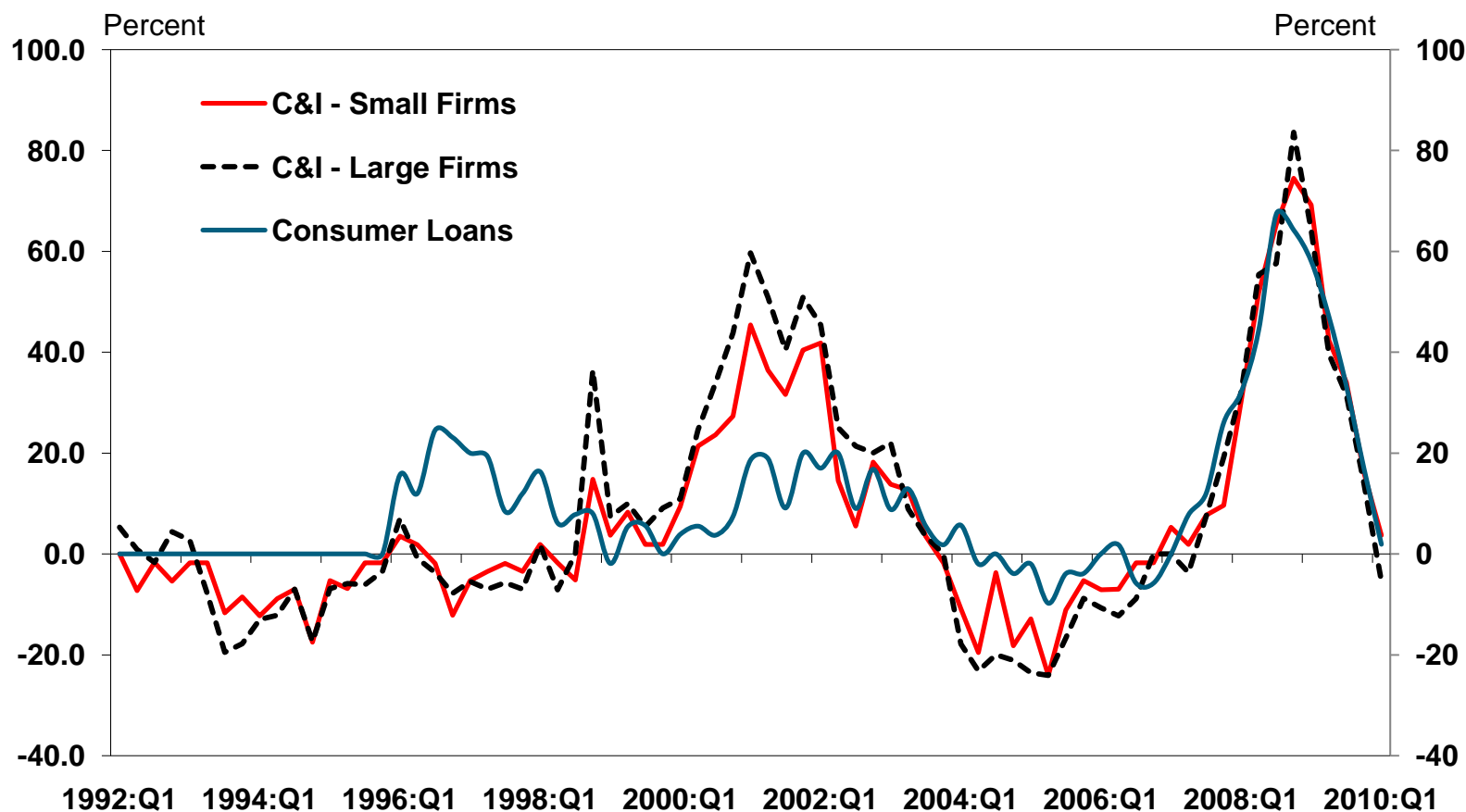
# But unemployment is expected to remain high for some time

**Unemployment Rate**  
Seasonally Adjusted



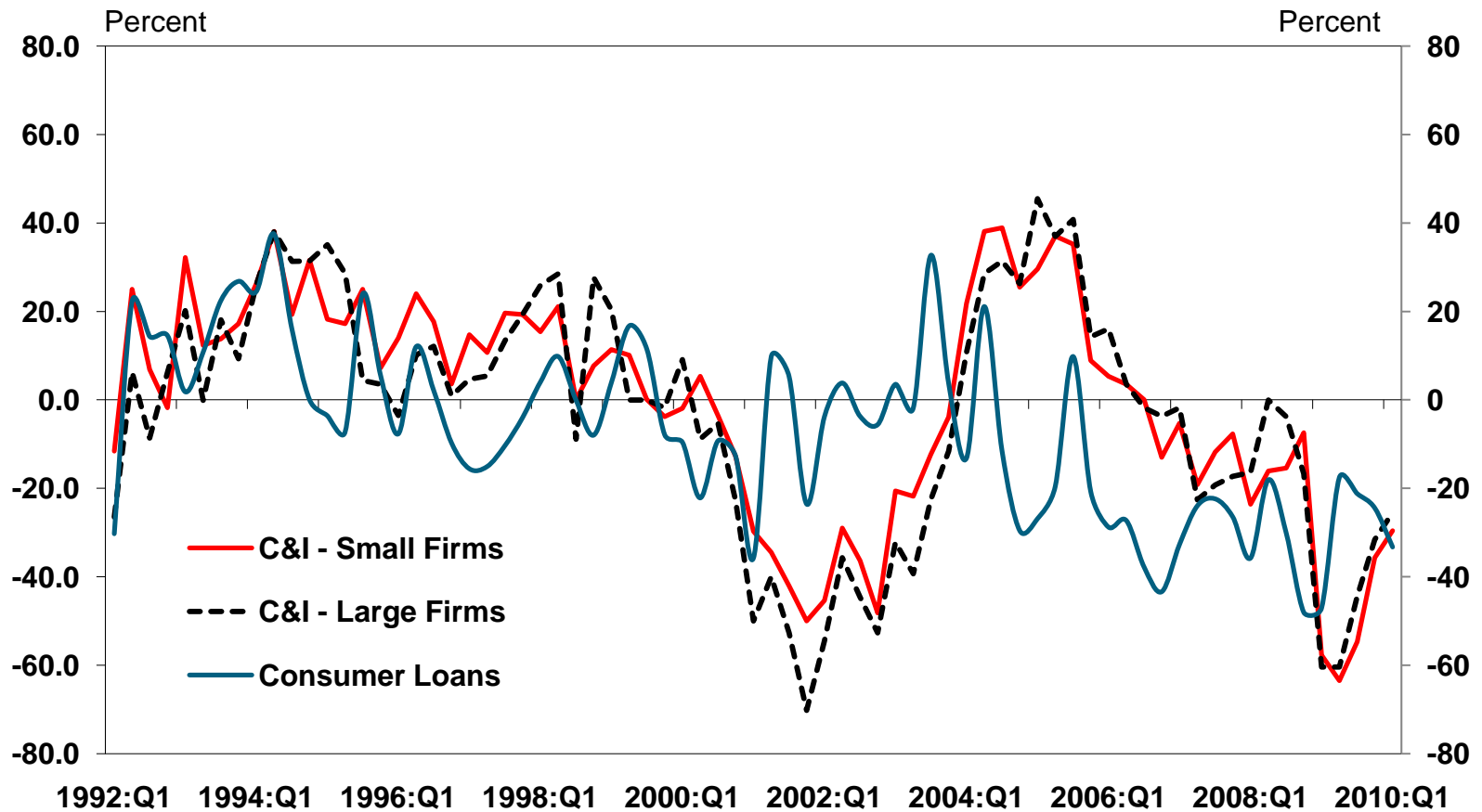
# After tightening recently, banks' lending standards were largely unchanged in Q1

## Net Percentage of Banks Tightening Loan Standards



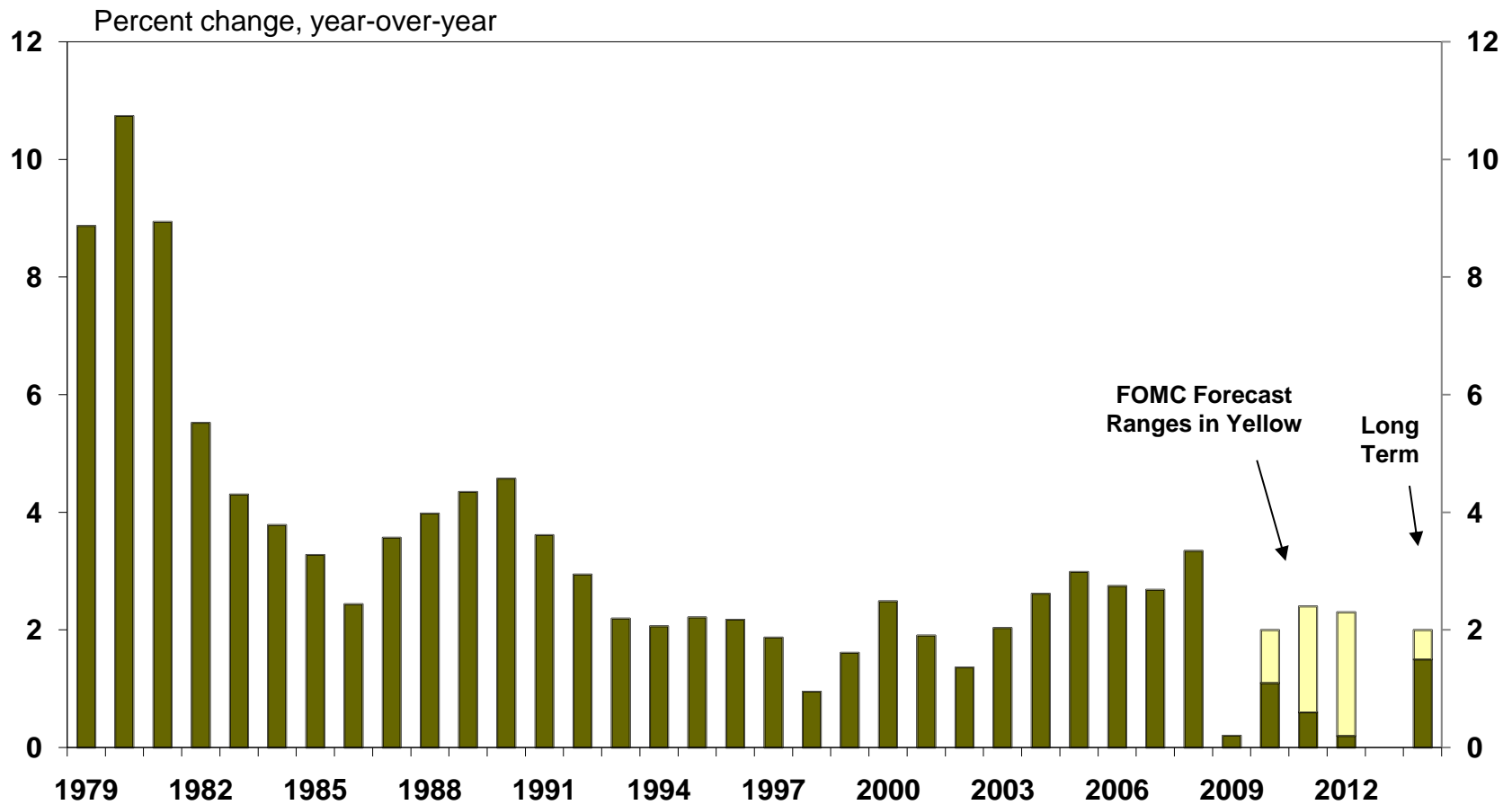
# Commercial loan demand is no longer falling as steeply, but remains somewhat weak

## 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 Oklahoma Economy

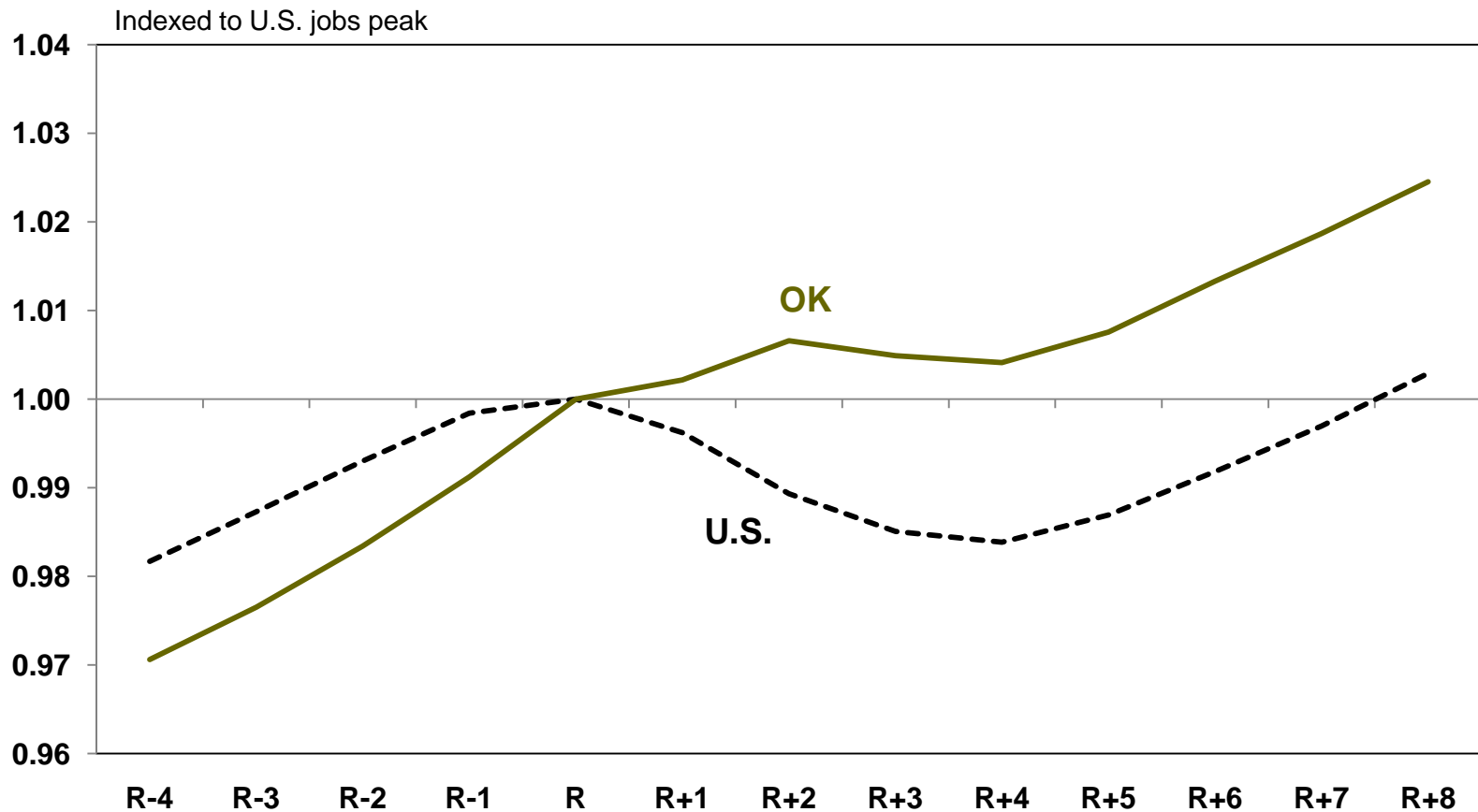
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- As usual in recessions, Oklahoma entered this recession later than the nation—not joining until energy prices fell in late 2008
- After steep declines for much of 2009, the state is showing recent signs of recovery—and conditions remain better than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

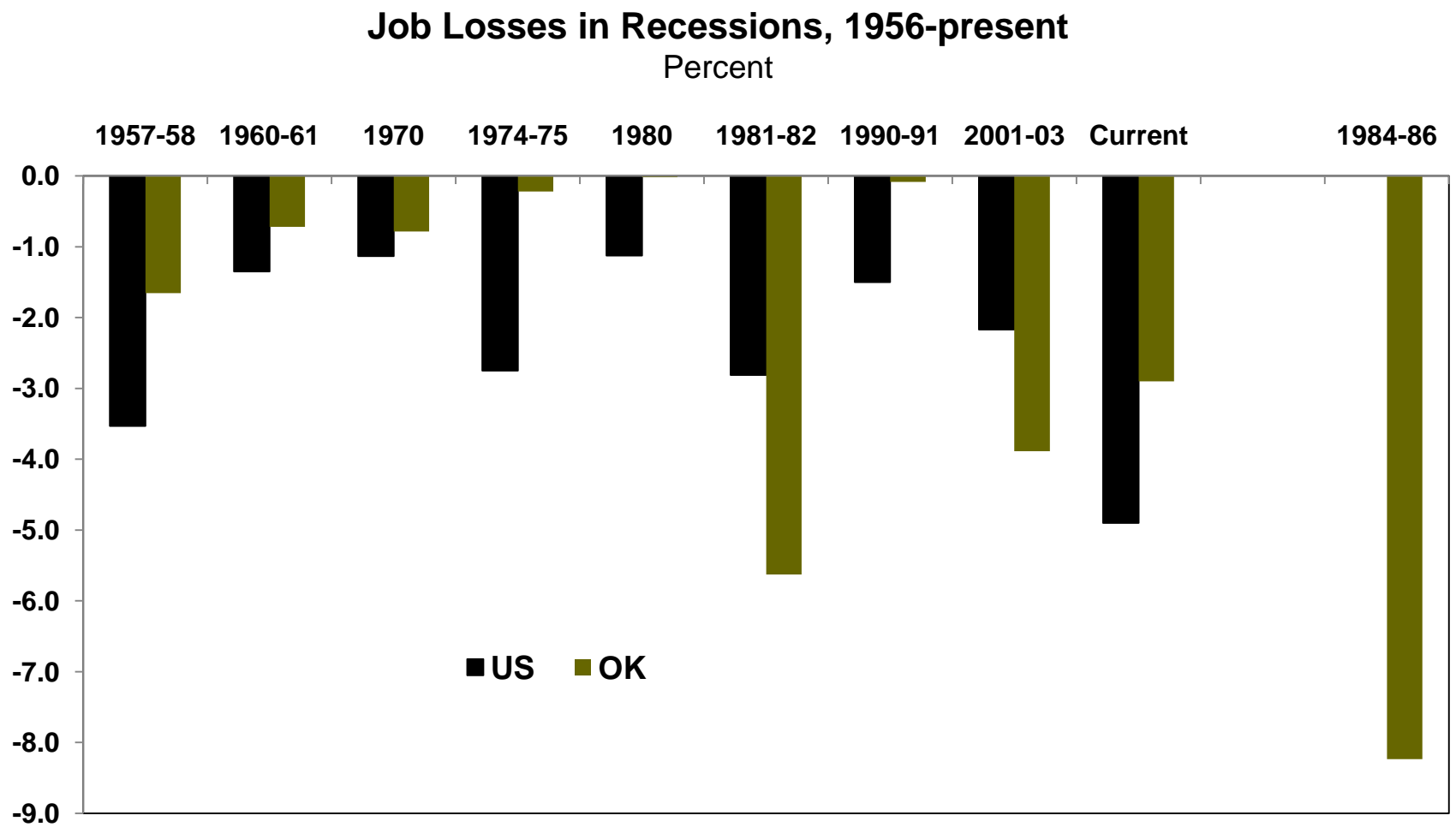
# Oklahoma usually enters recessions late but leaves around the same time as the nation

## Average Recession Path, 1956-2006

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



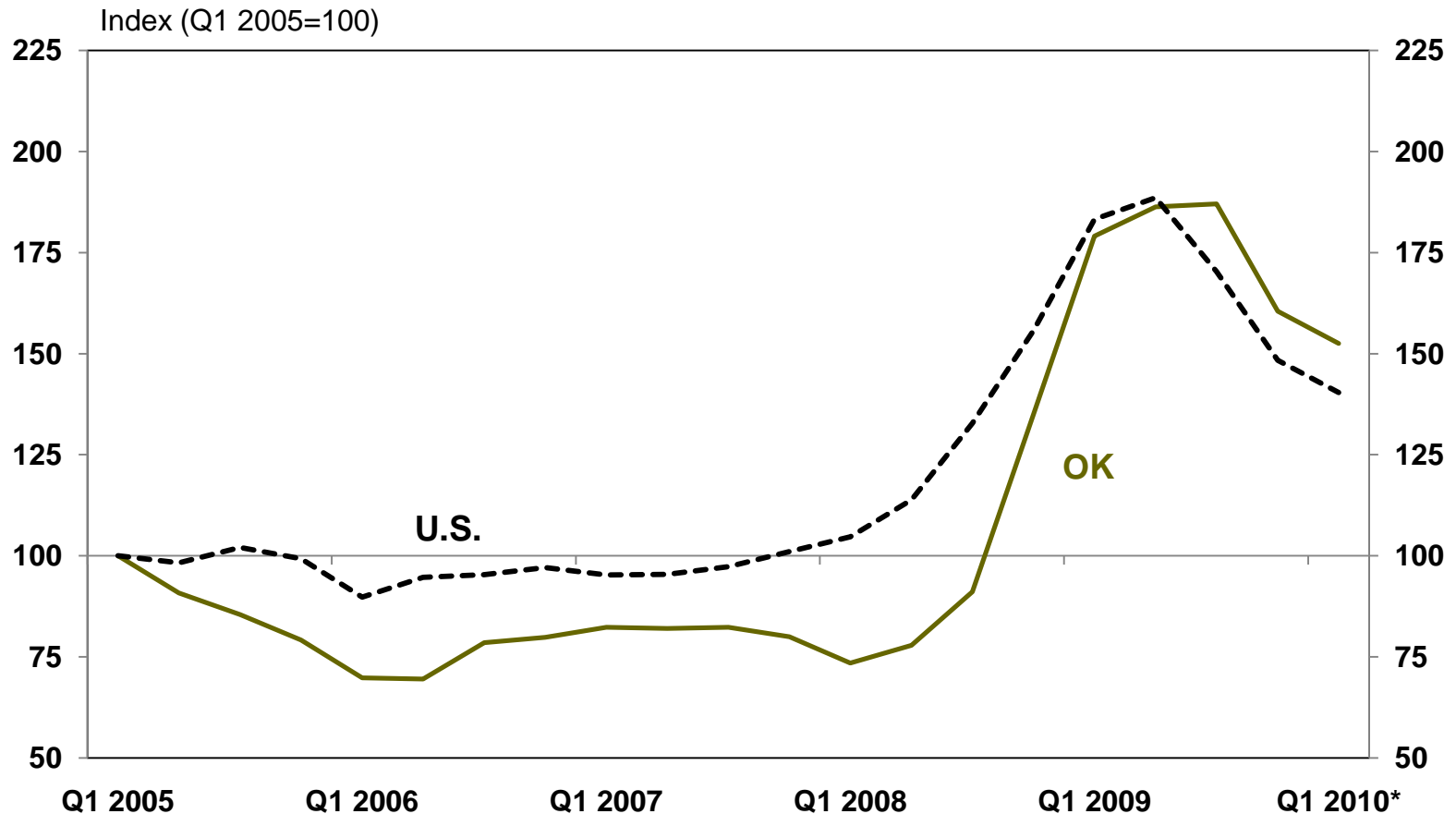
# The main exception in the postwar period was during the 1980s, of course



Source: Bureau of Labor Statistics

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

## Initial Claims for Unemployment Insurance



\*January only

Source: Bureau of Labor Statistics



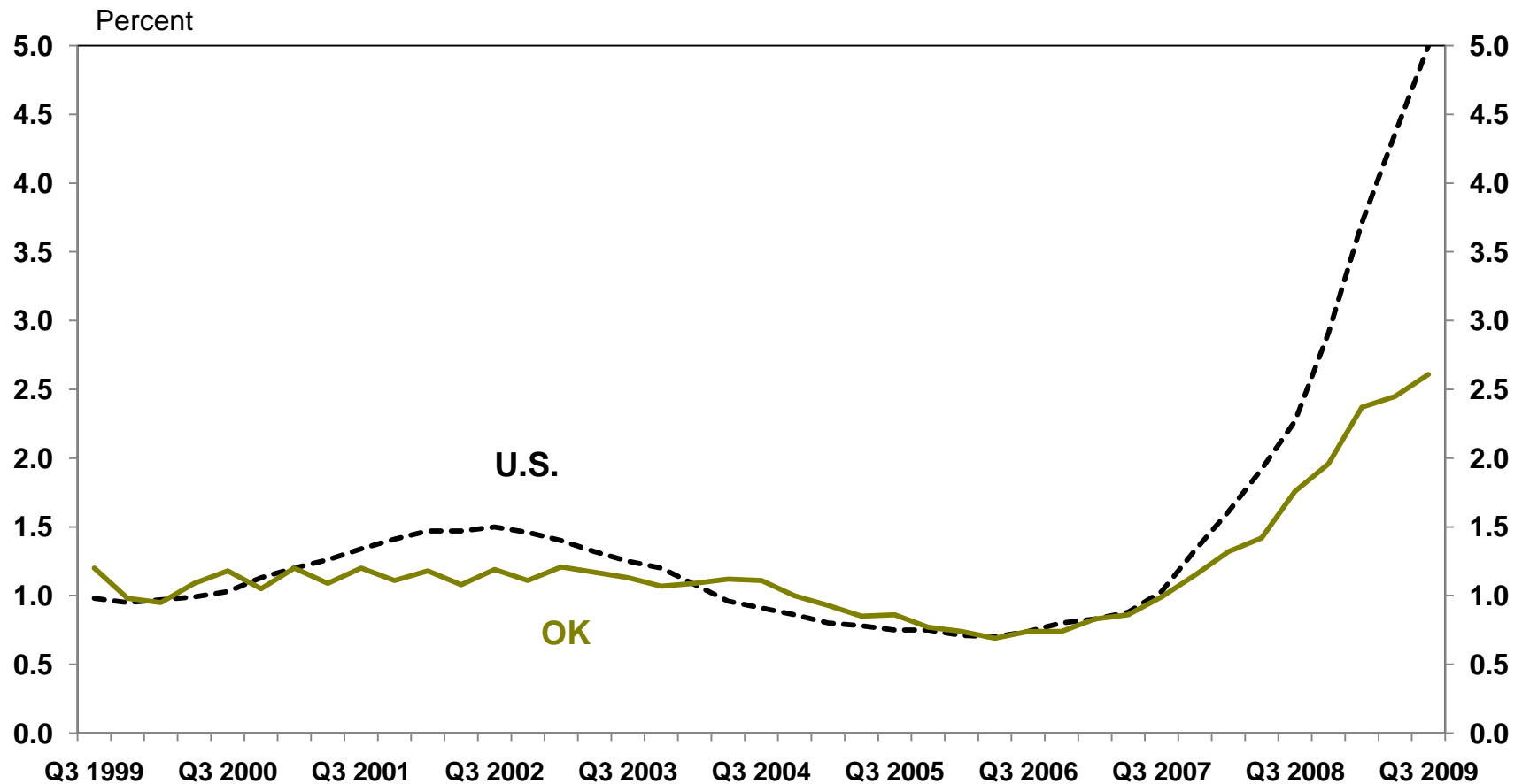
# But unemployment in Oklahoma is still lower than in all but 3 states (NE, ND, SD)

Unemployment Rate, December 2009



# And banks in the state remain in much better shape than in the nation

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



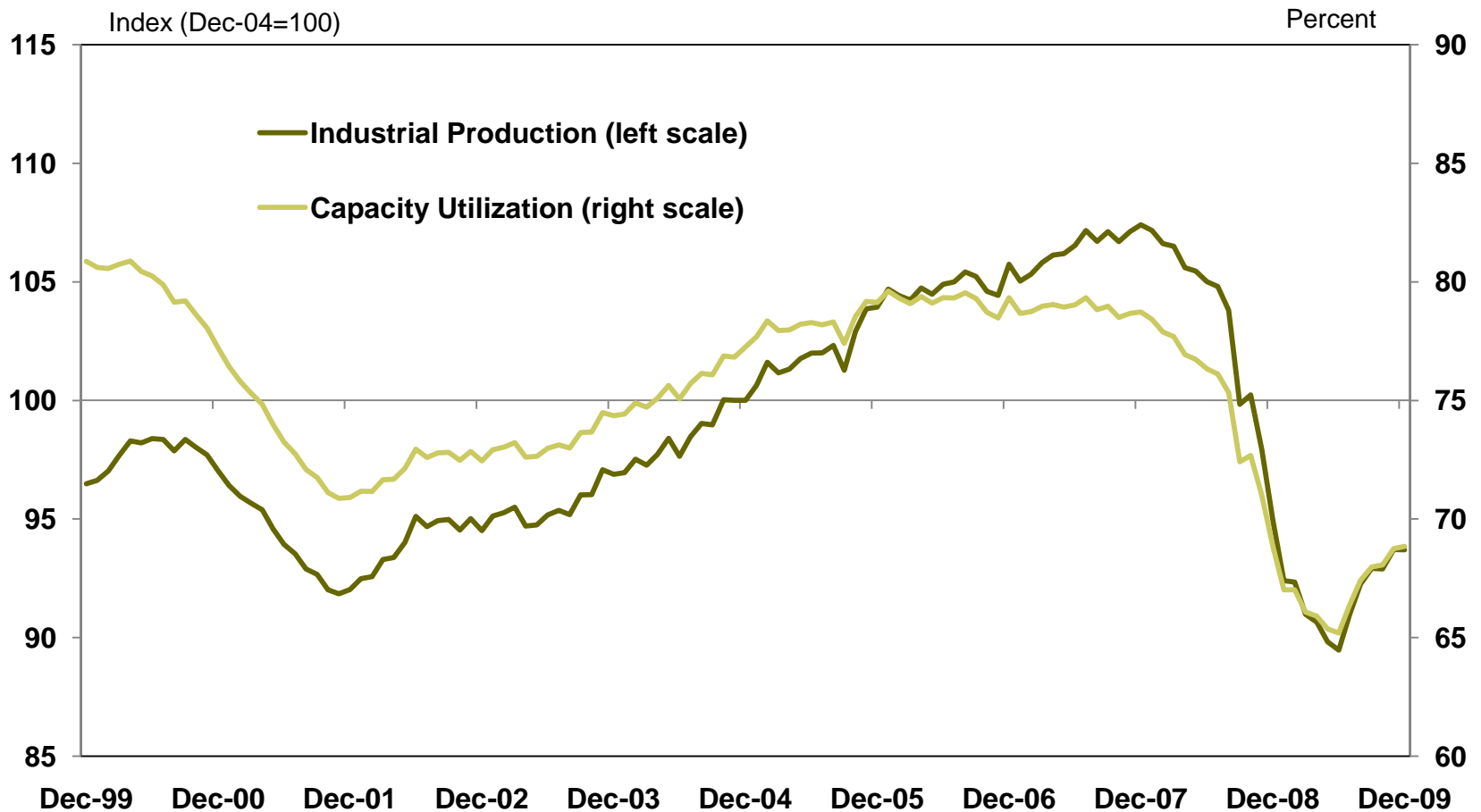
# The Manufacturing Sector

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- National and state factory activity is rising again and is expected to rise further, but excess capacity and uncertainty remain
- Hiring and spending plans remain cautious, and pricing power remains limited, but exports may provide future opportunities

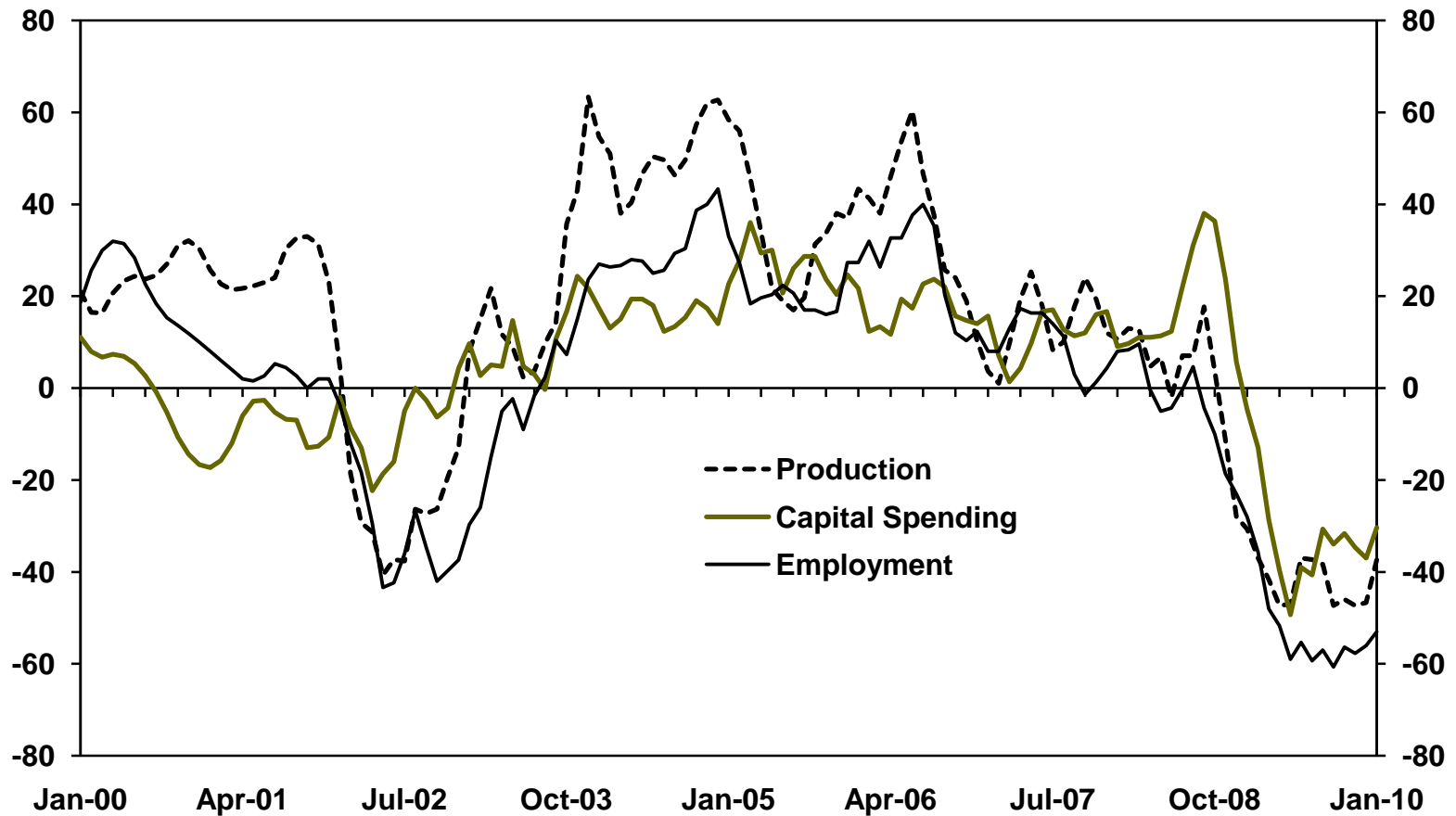
# U.S. industrial production is rising, but much excess capacity remains

**U.S. Industrial Production Index**  
Seasonally Adjusted

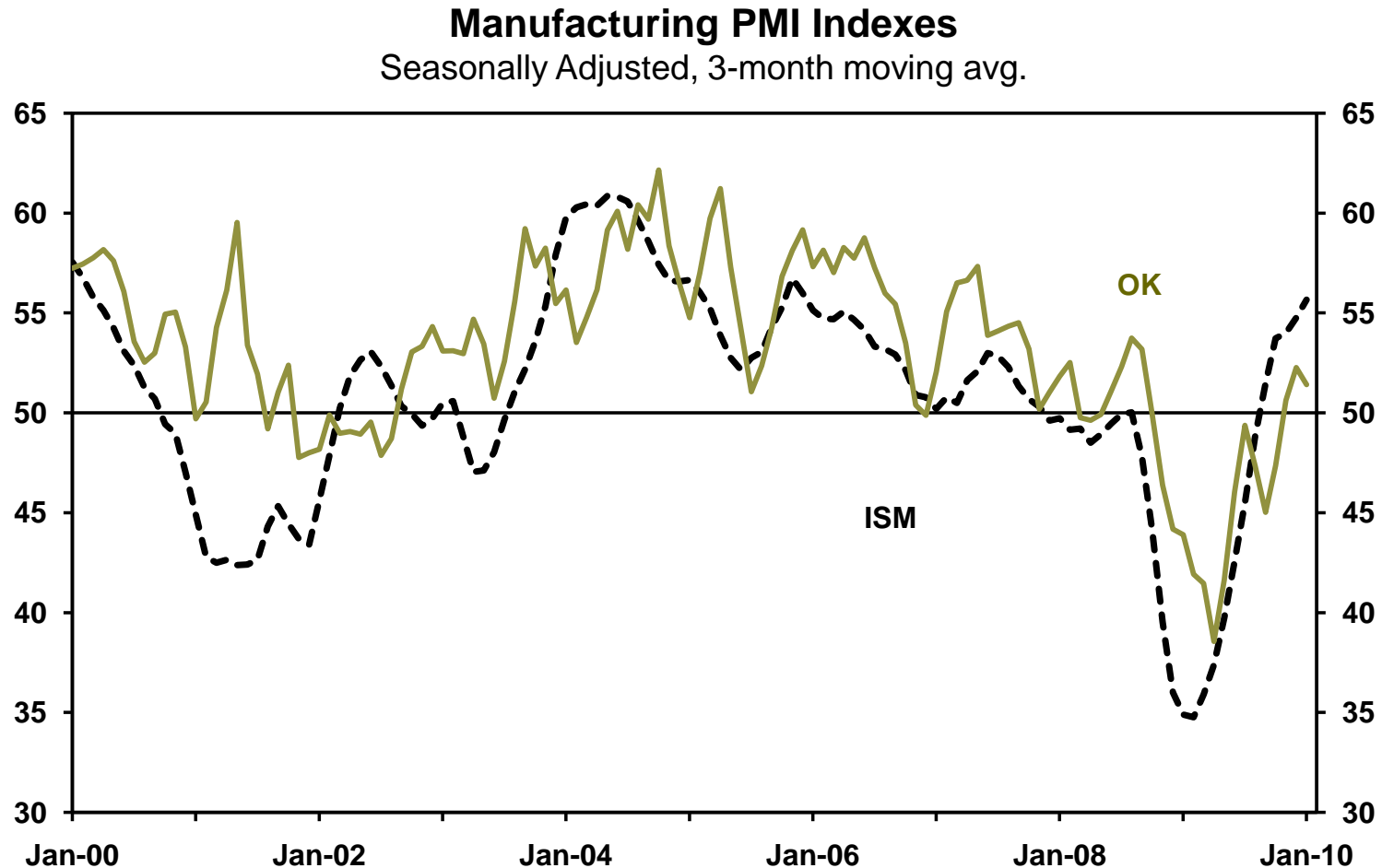


# As in the nation, factory activity in Oklahoma remains well below year-ago levels

**OK Manufacturing Indexes**  
Year-over-year, 3-month moving avg.



# But recent national and state factory indexes show expansion is again underway

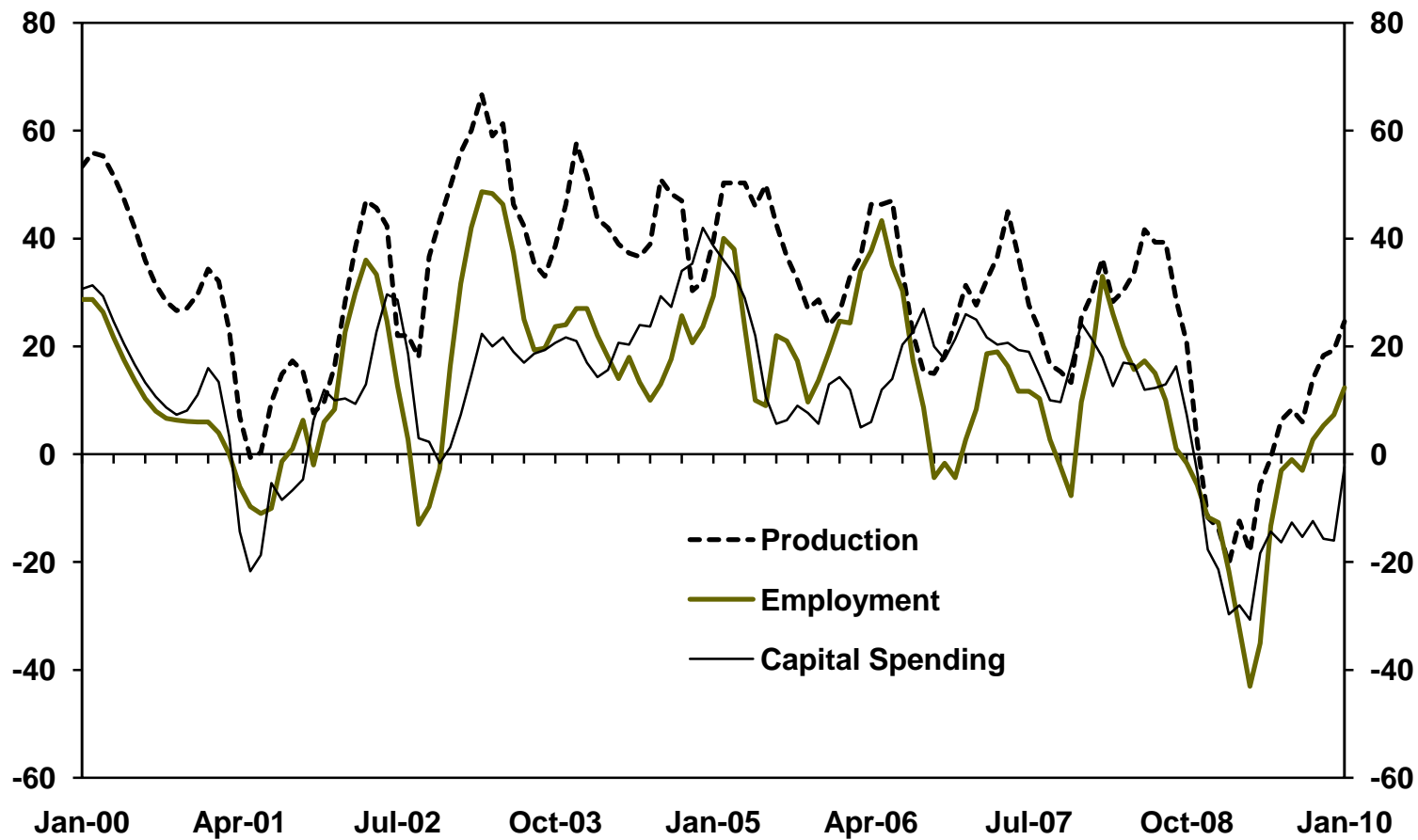


Note: OK index is computed on ISM basis (50 = zero change)

Source: ISM, FRBKC Manufacturing Survey

# Oklahoma production is expected to rise further, but hiring and spending plans remain modest

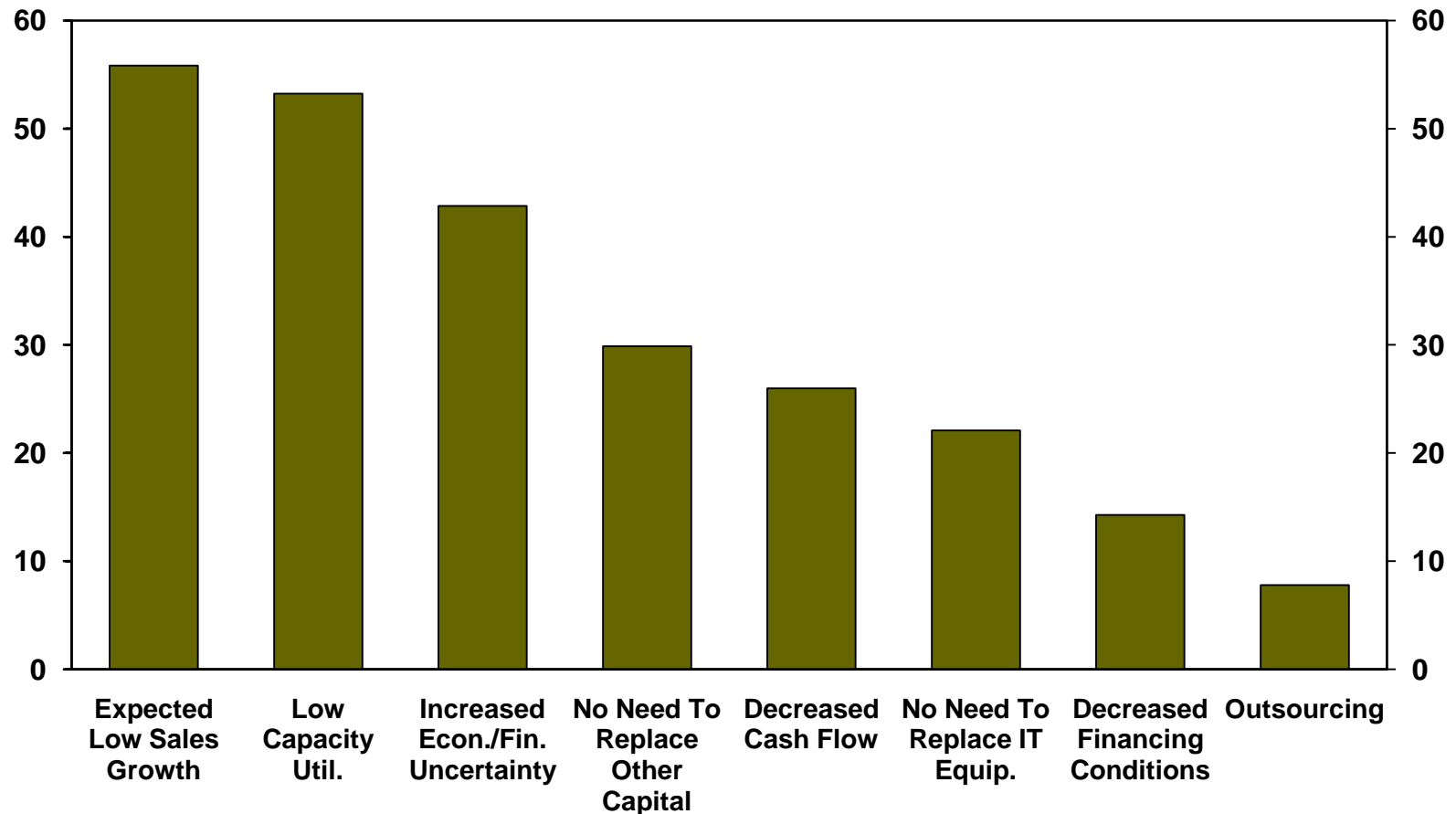
**OK Manufacturing Indexes**  
Six-month ahead, 3-month moving avg.



# The main reasons for holding back spending are low sales and low capacity utilization

## Top Reasons for Not Increasing Capital Spending

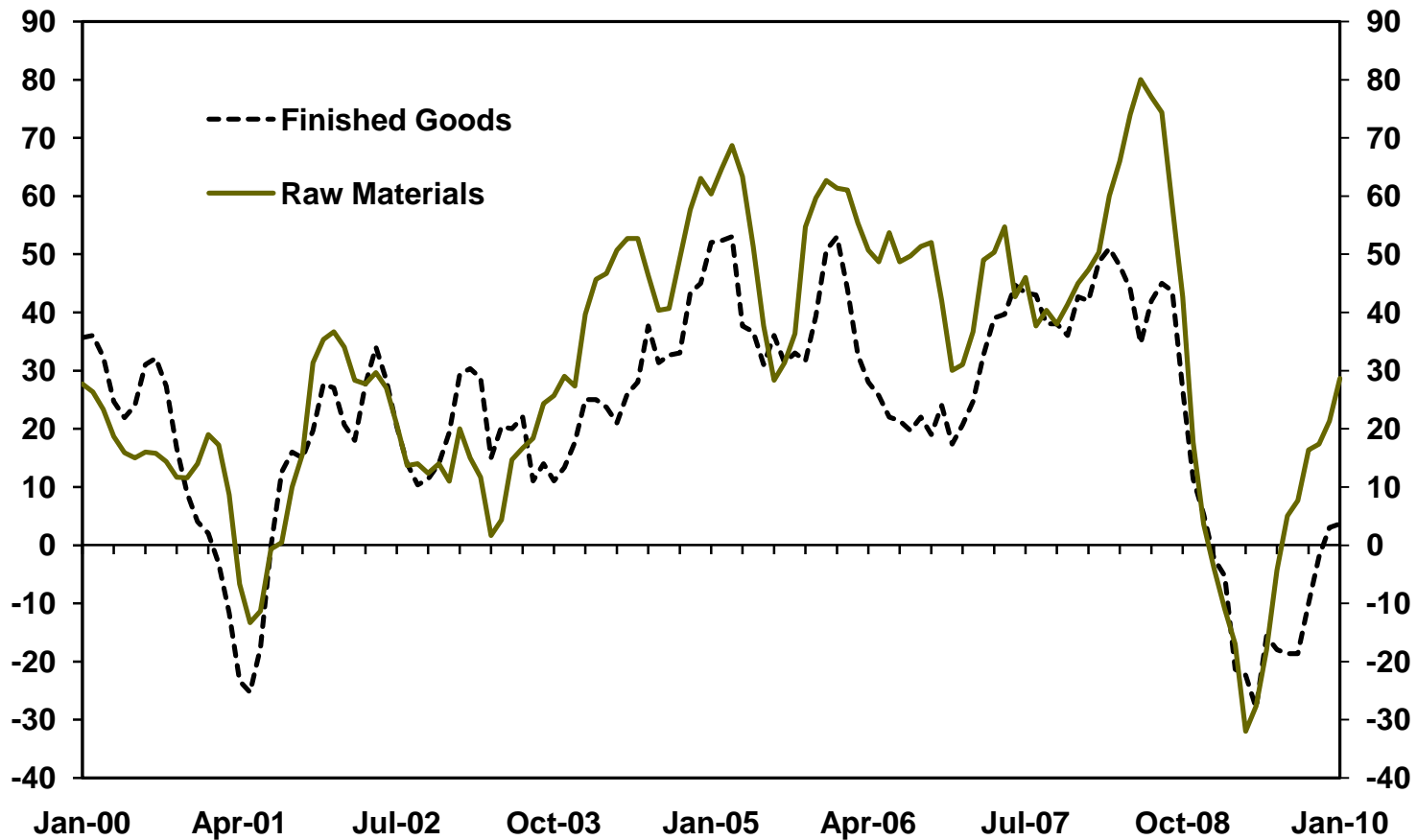
Share of firms choosing each reason





# A lack of pricing power may be another challenge for the state's factories

**OK Manufacturing Price Indexes**  
Six-month ahead, 3-month moving avg.

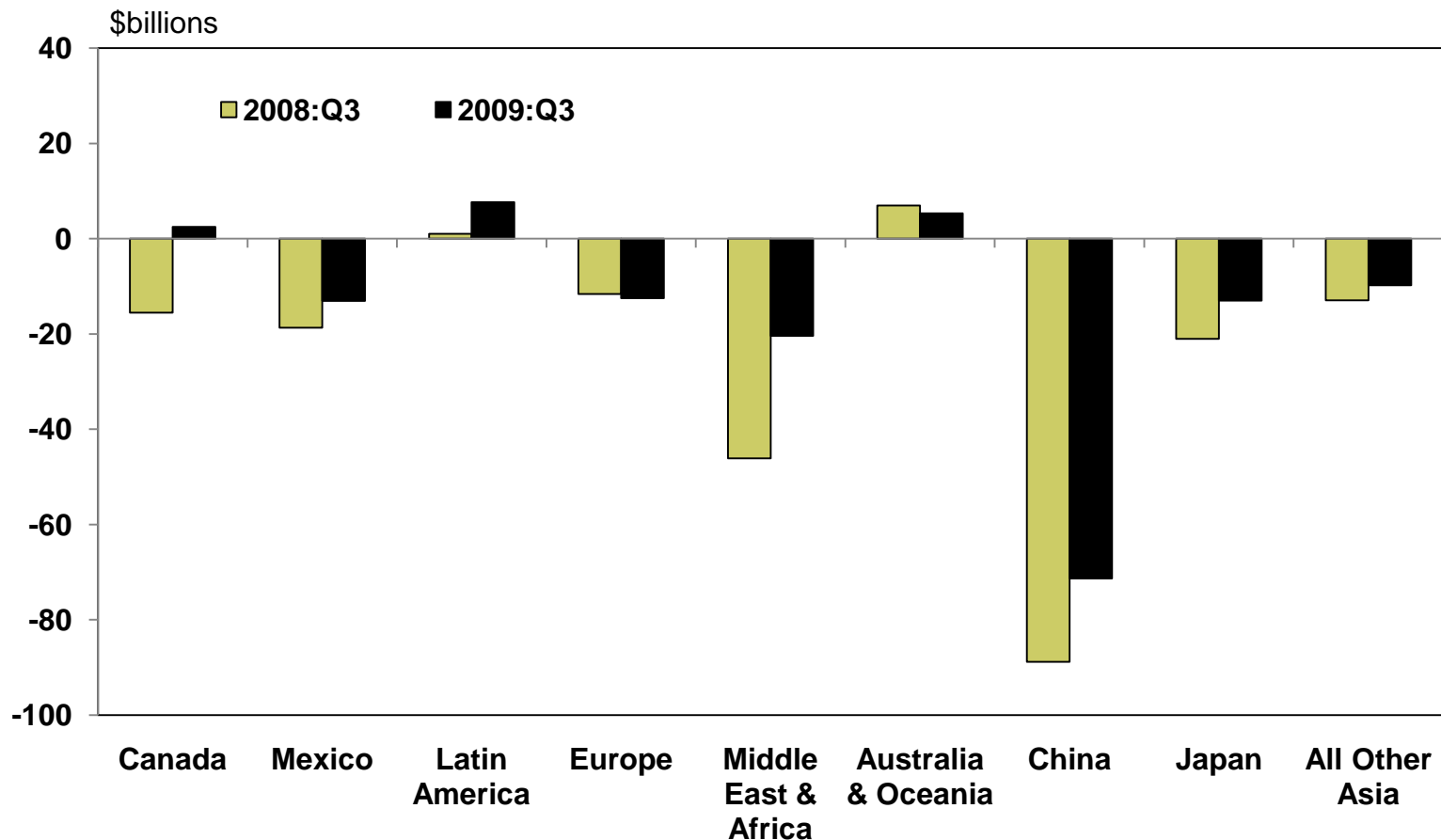


# Longer-term, the U.S. trade imbalance provides an opportunity for manufacturing



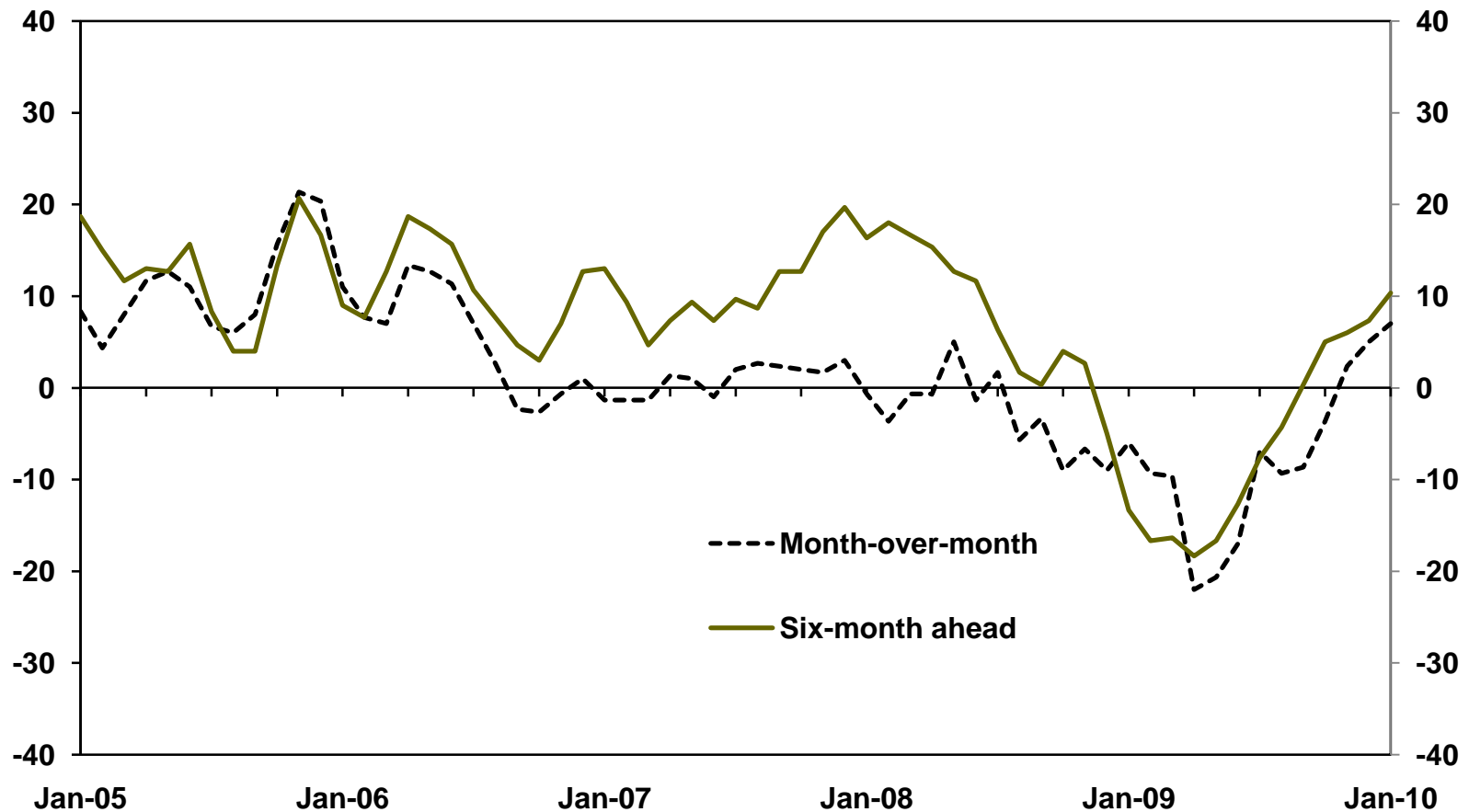
# The largest trade imbalance is with China, which could present future opportunities

## U.S. Trade Balance by Country/Region



# Exports are beginning to pick up again in Oklahoma and are expected to rise further

## Oklahoma Manufacturing Exports Indexes



# Summary

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- ❑ The U.S. economy is growing again, but recovery speed is expected to be modest
- ❑ Oklahoma's economy remains in better shape and is also showing signs of recovery
- ❑ Manufacturing activity both nationally and locally is rebounding only moderately, but exports may present future opportunities