

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 of banks
- Financial services – bank for banks, bank for federal government



Federal Reserve Districts and Office Locations



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

- **Branch staff and functions**

- 35 staff involved in economic research, examining banks, 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



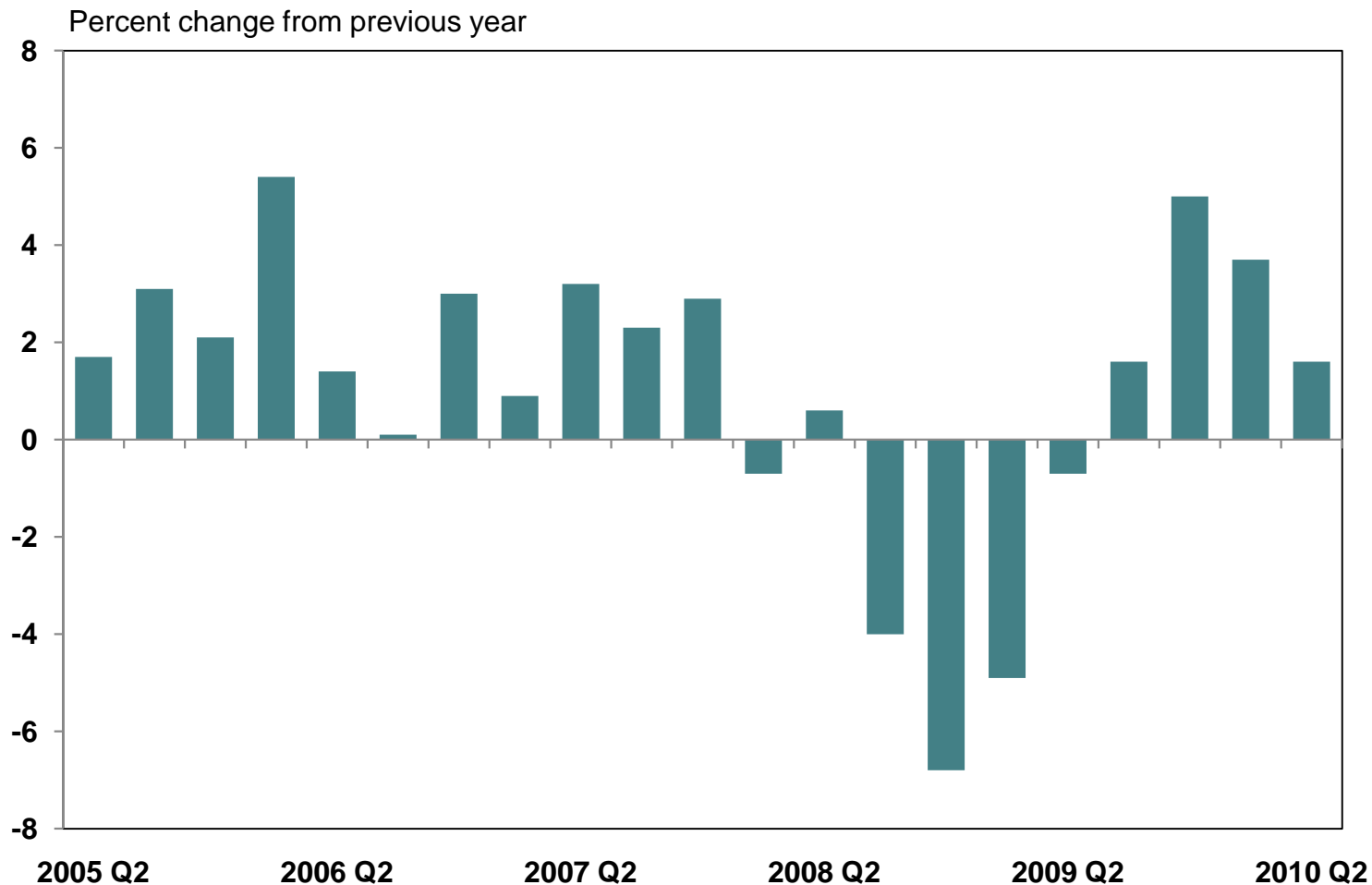
The Economic Outlook

- The pace of U.S. recovery has slowed, and forecasts call for moderate growth and low inflation heading forward
- Oklahoma's economy has grown solidly in 2010 following a shorter recession, but several risks to growth remain



The recession ended in June 2009, and real GDP has now grown for 4 quarters

Real GDP Growth
Seasonally adjusted, annual rate

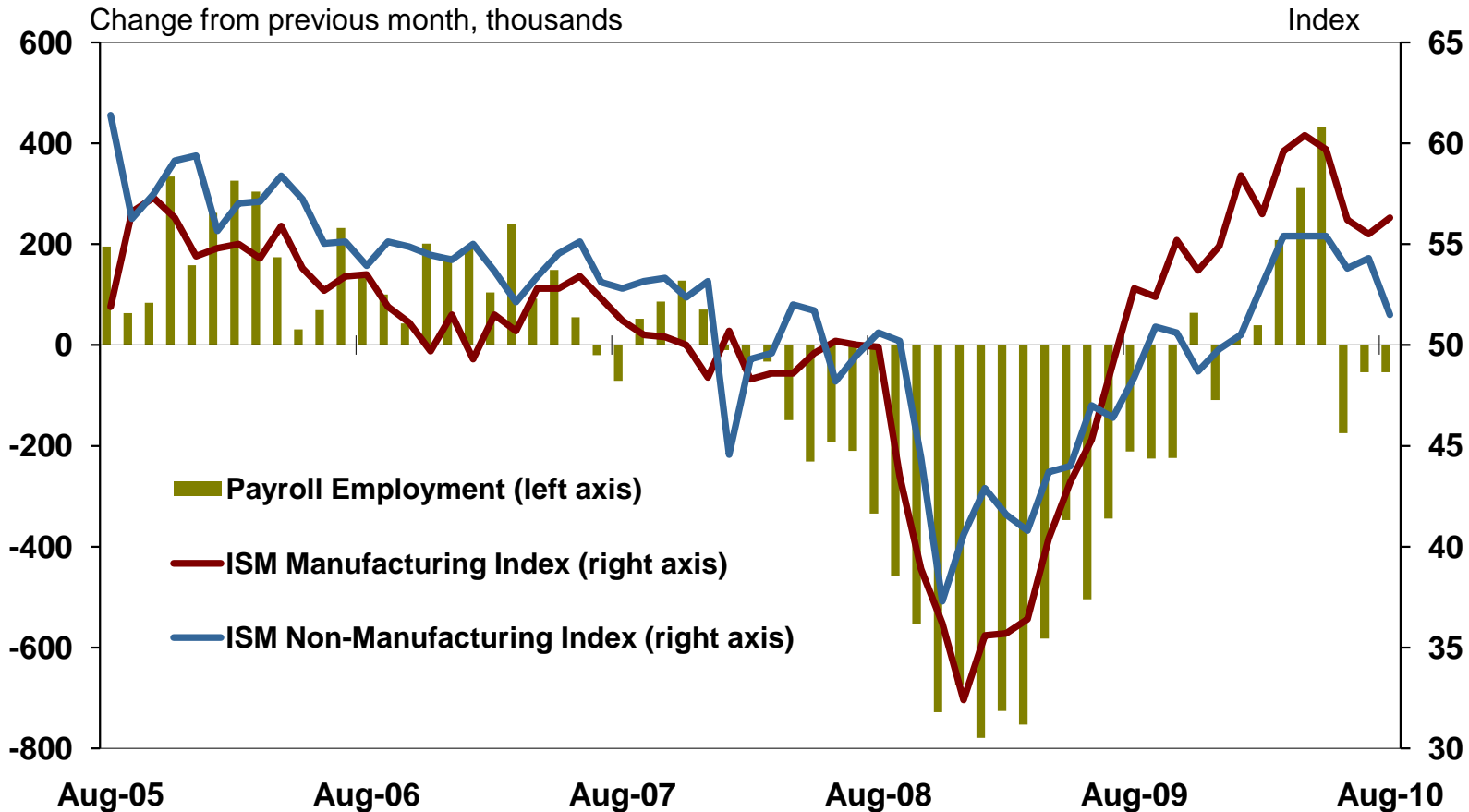


Source: Bureau of Economic Analysis



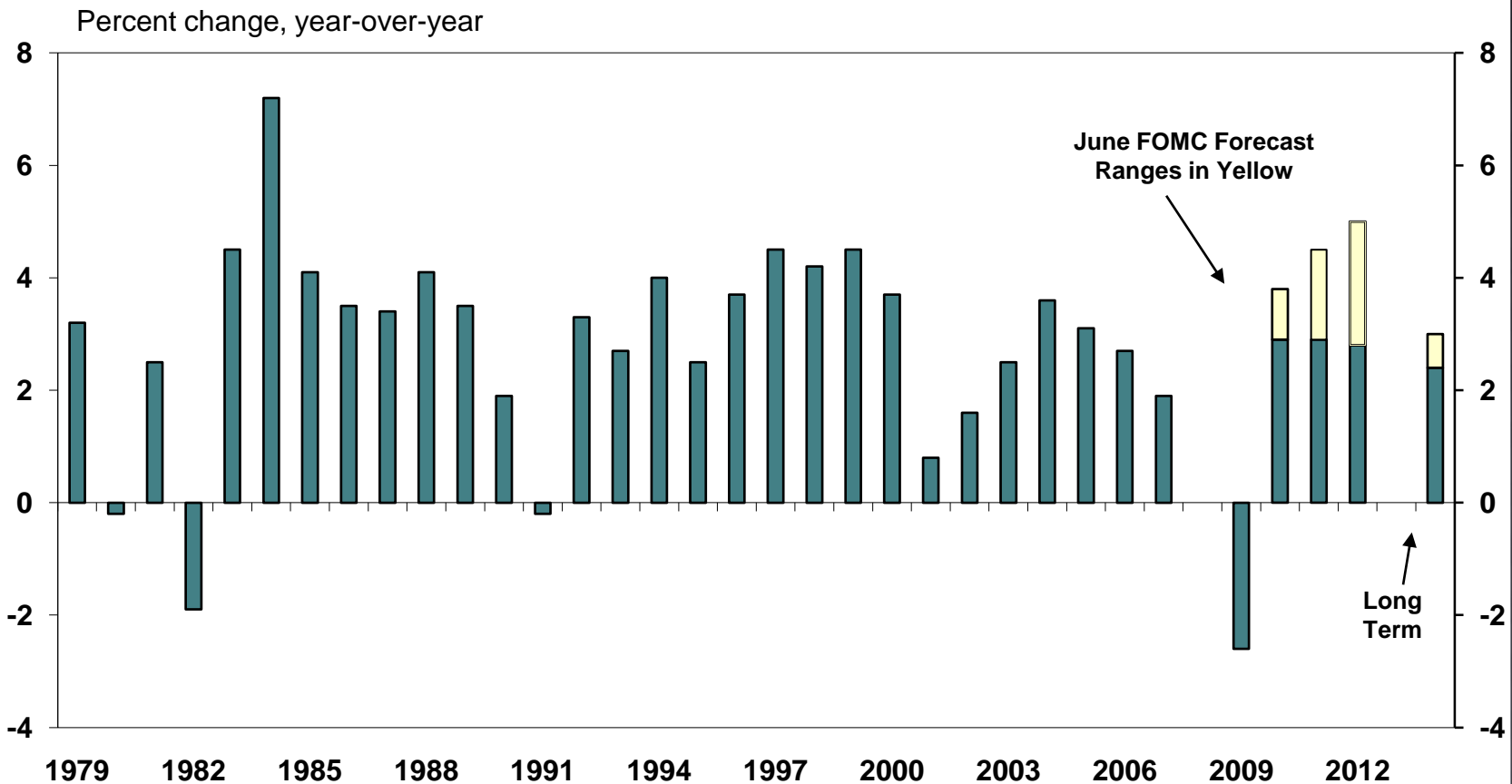
But national economic growth slowed somewhat during summer 2010

National Business Indexes and Payroll Employment



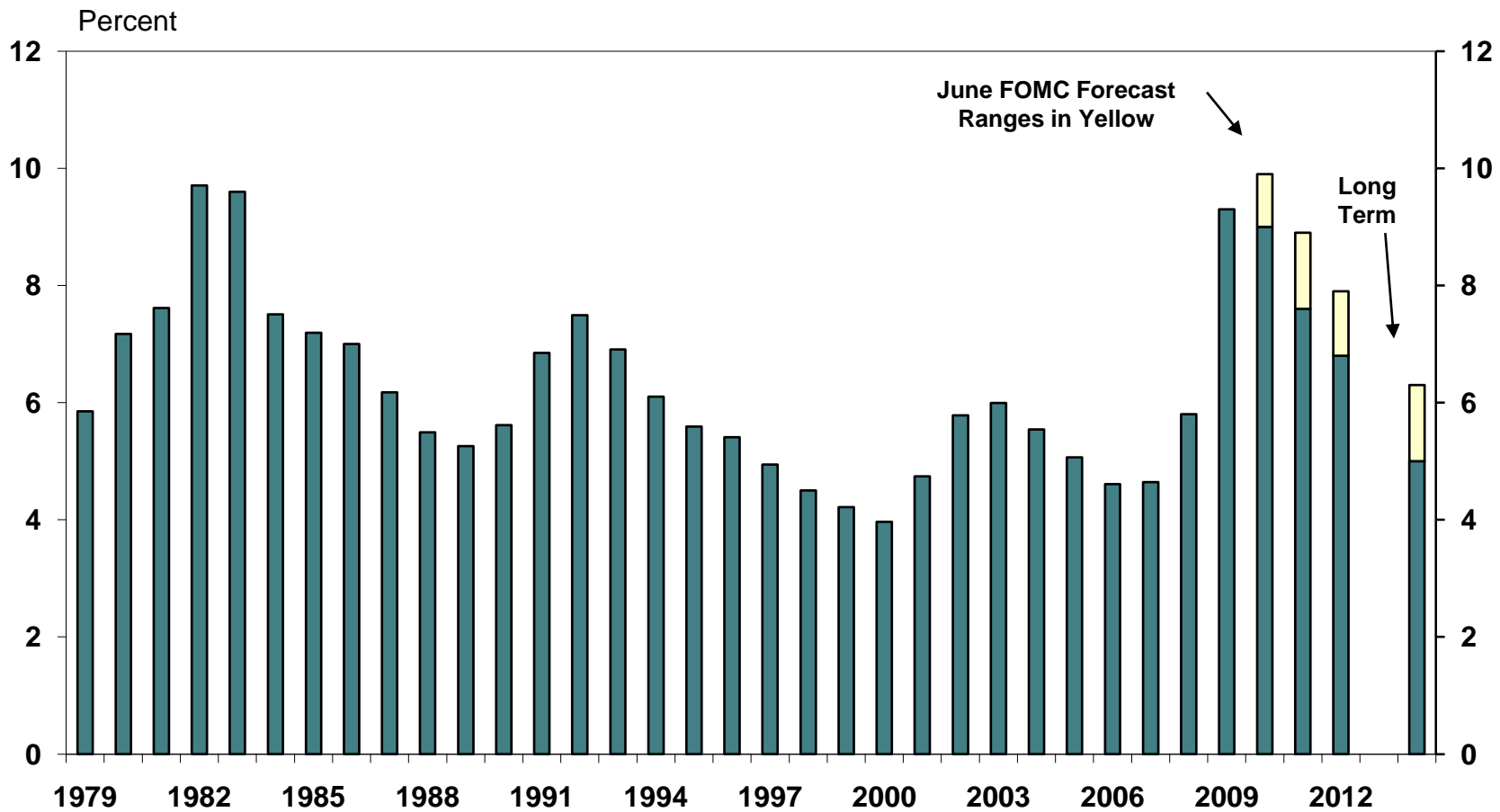
Heading forward, Fed policymakers expect a moderate GDP recovery

Gross Domestic Product



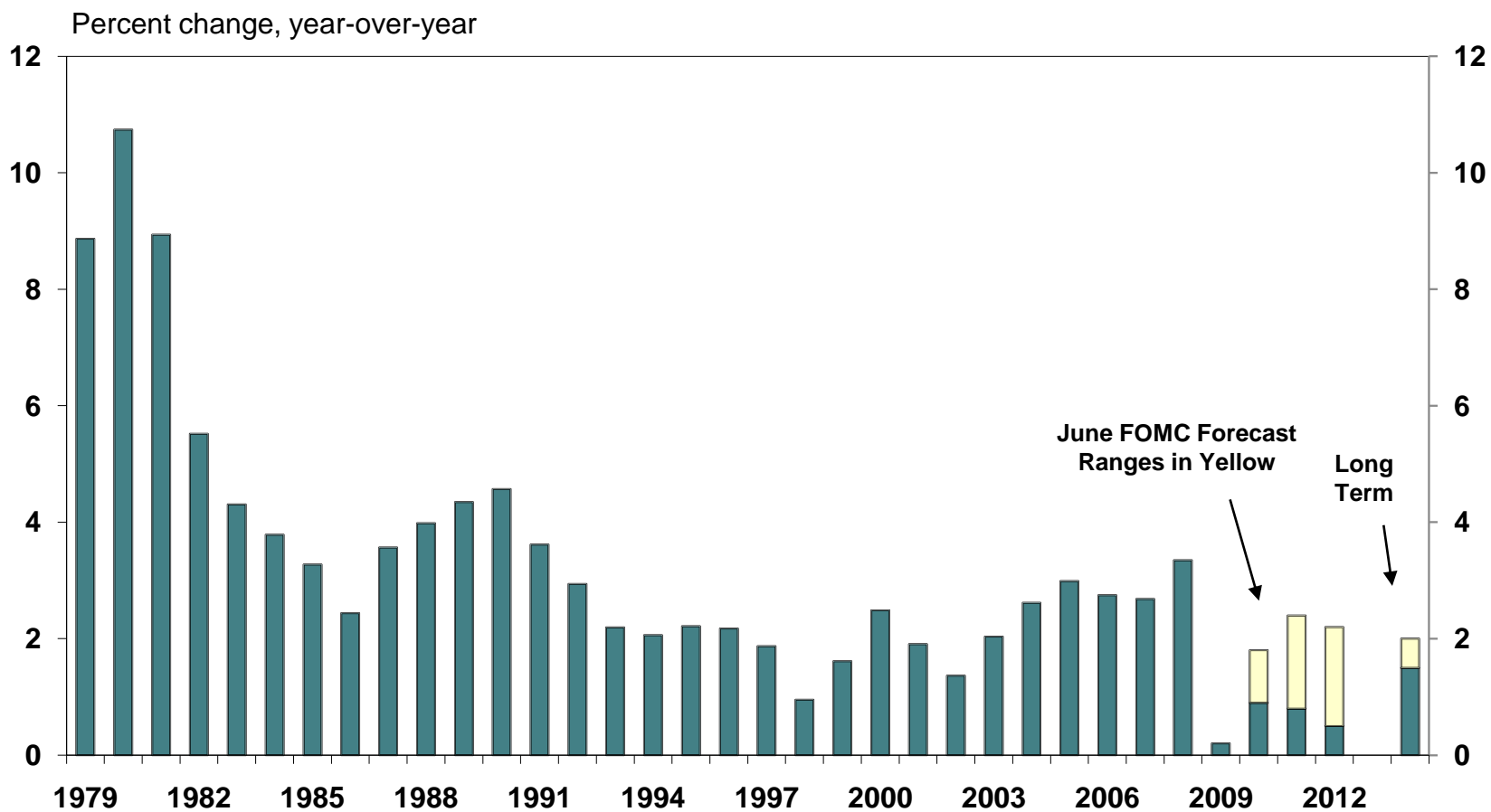
But with unemployment remaining high for some time

Unemployment Rate
Seasonally Adjusted



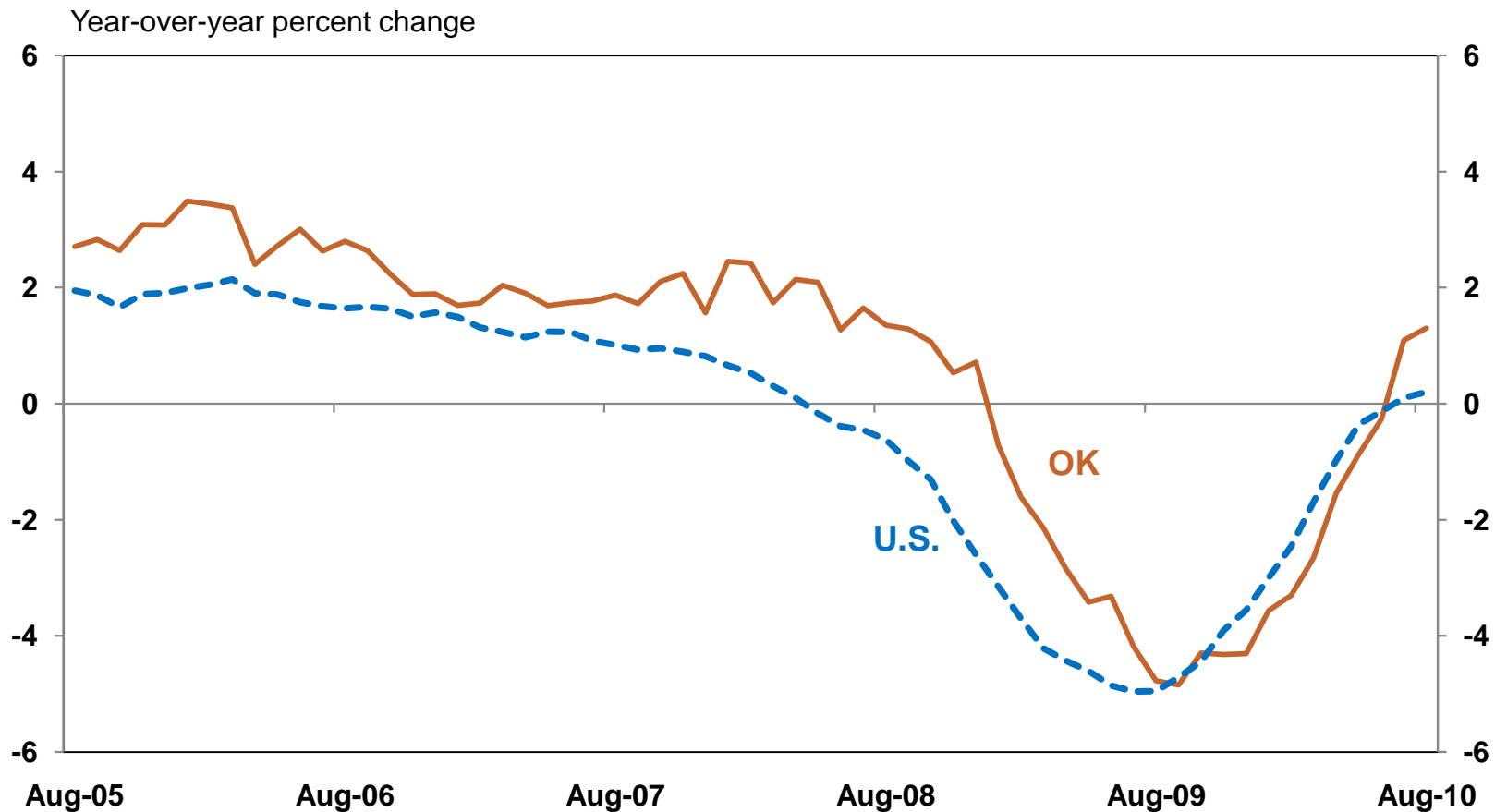
Inflation is expected to remain tame in the near term, but will require careful oversight

PCE Inflation Index



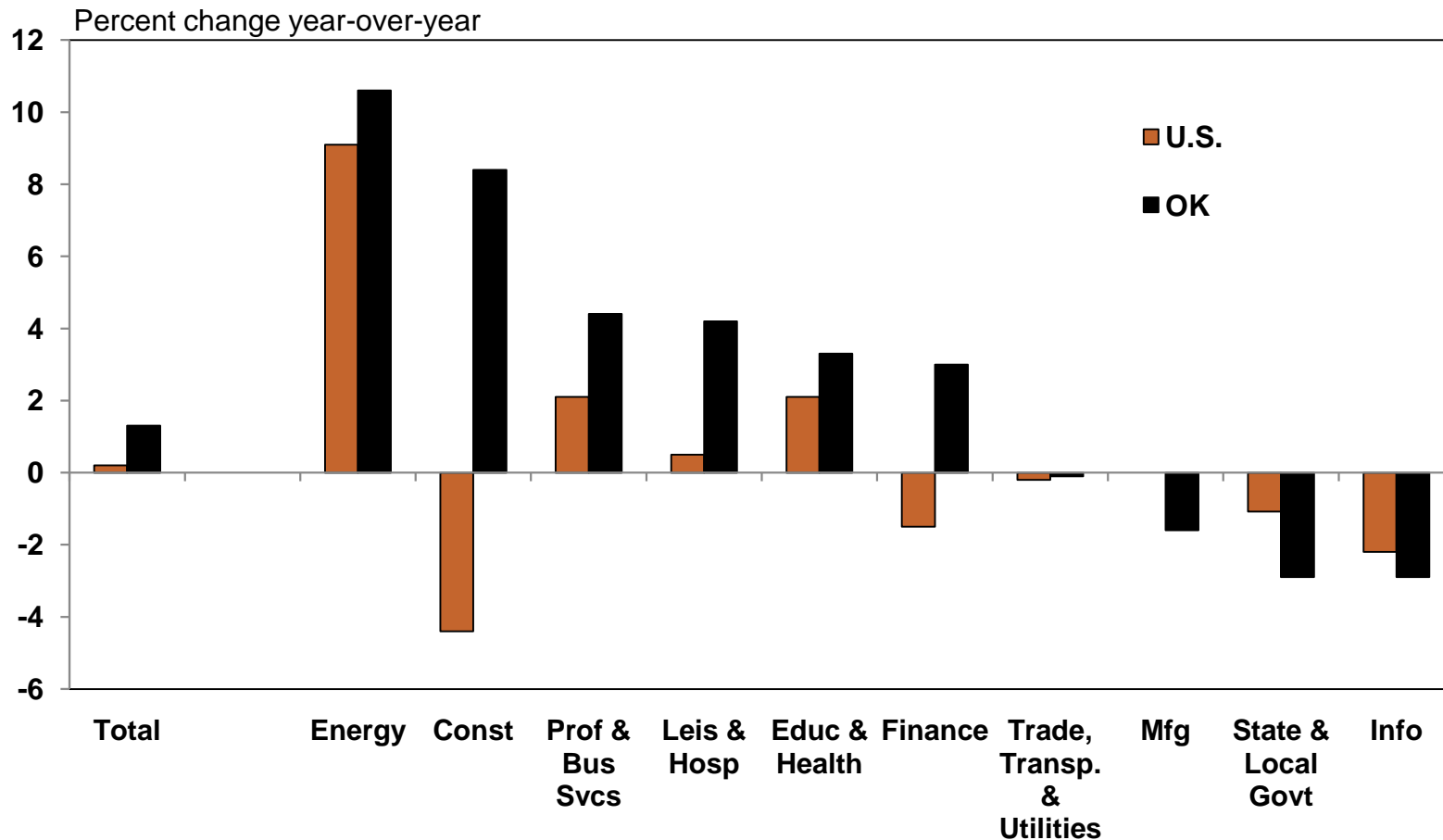
As usual, Oklahoma entered the recession late, but is now outpacing the nation

Payroll Employment



Recent solid state job growth has been driven by energy, construction, and services

Employment Growth
August 2010

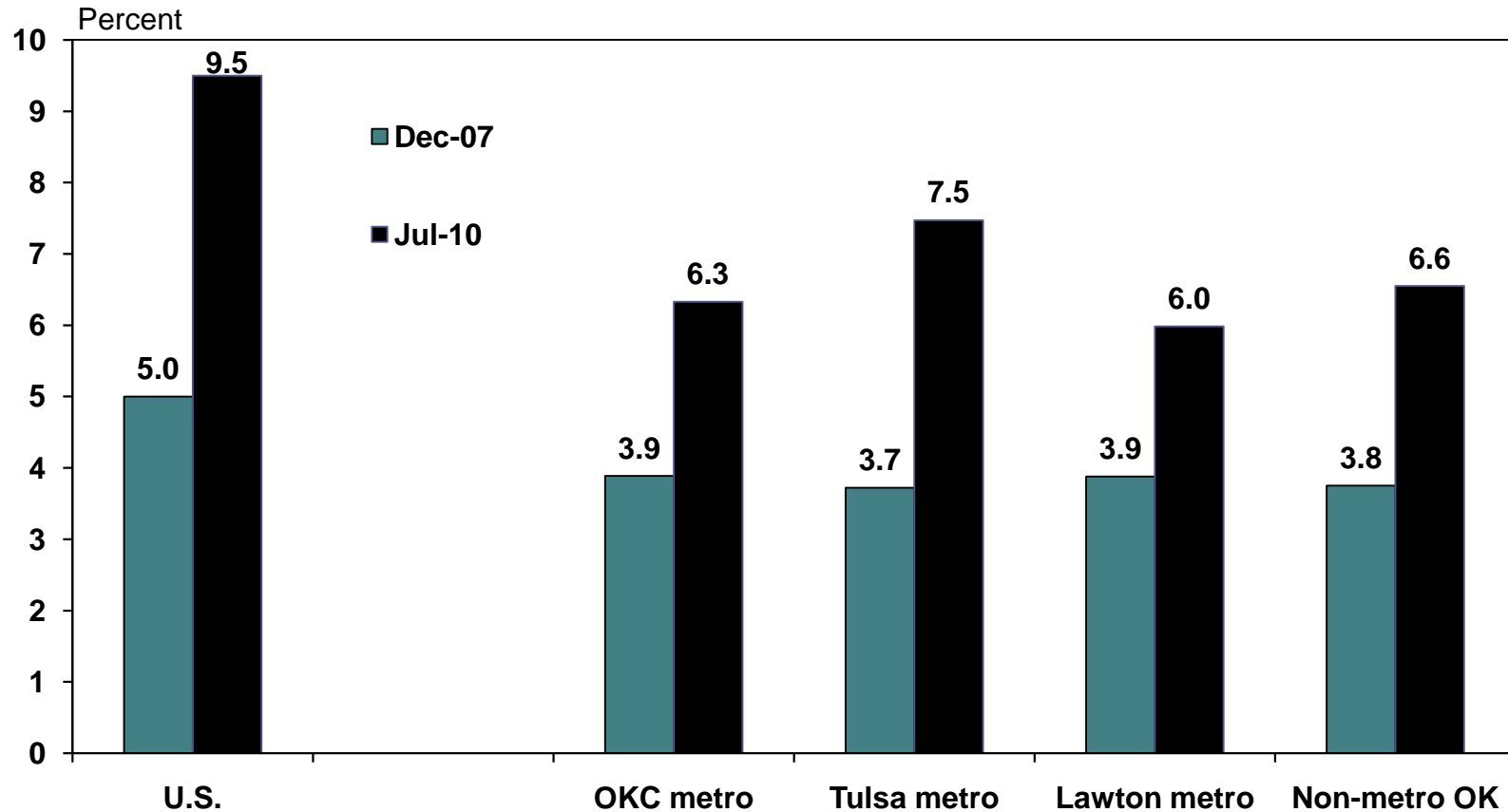


Source: Bureau of Labor Statistics



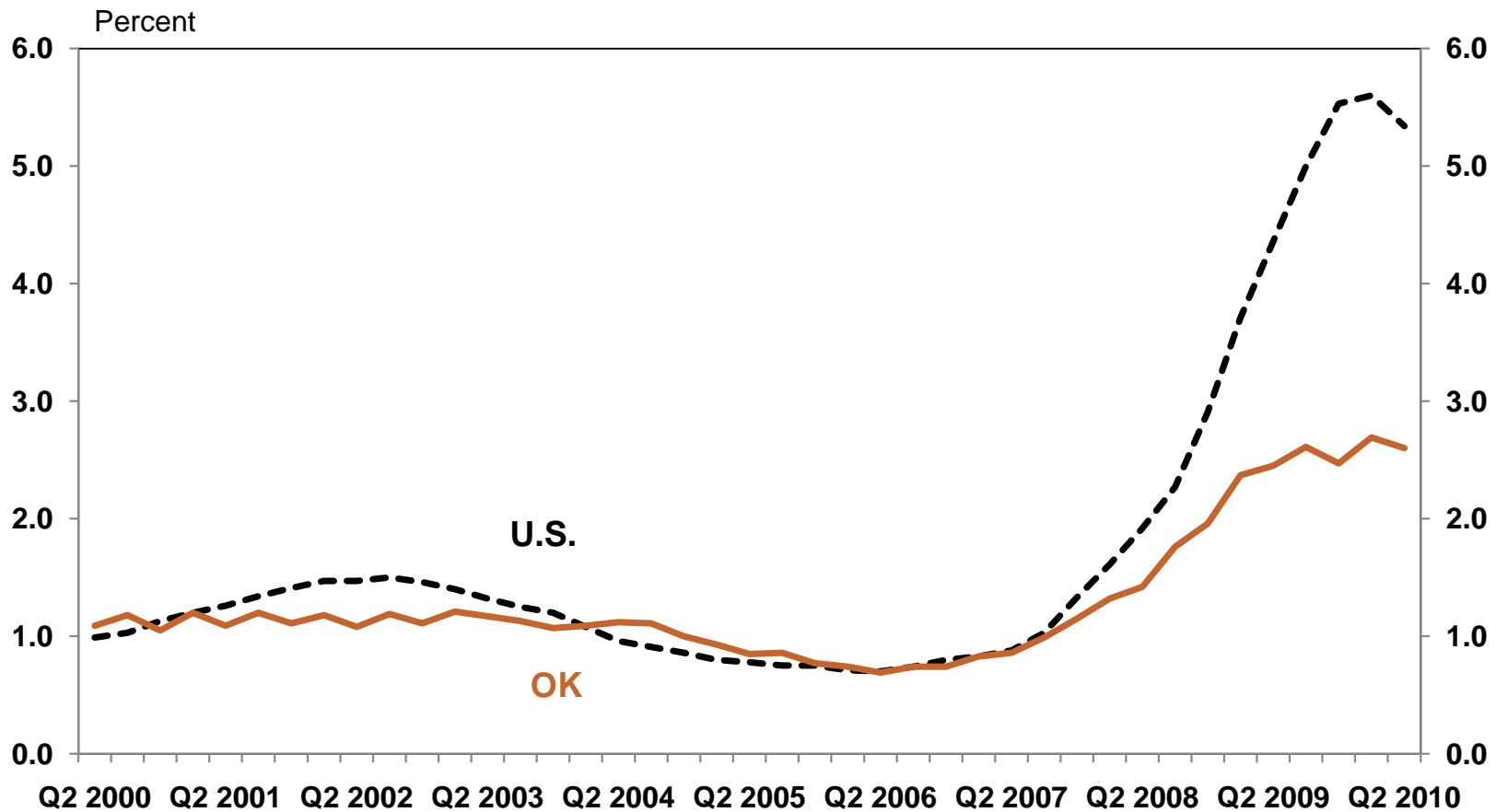
With our shorter recession, unemployment remains lower across the state

Unemployment Rate Seasonally Adjusted*



And overall, banks in the state remain in much better shape than in the nation

Noncurrent Loans as a Share of Total Loans Commercial Banks

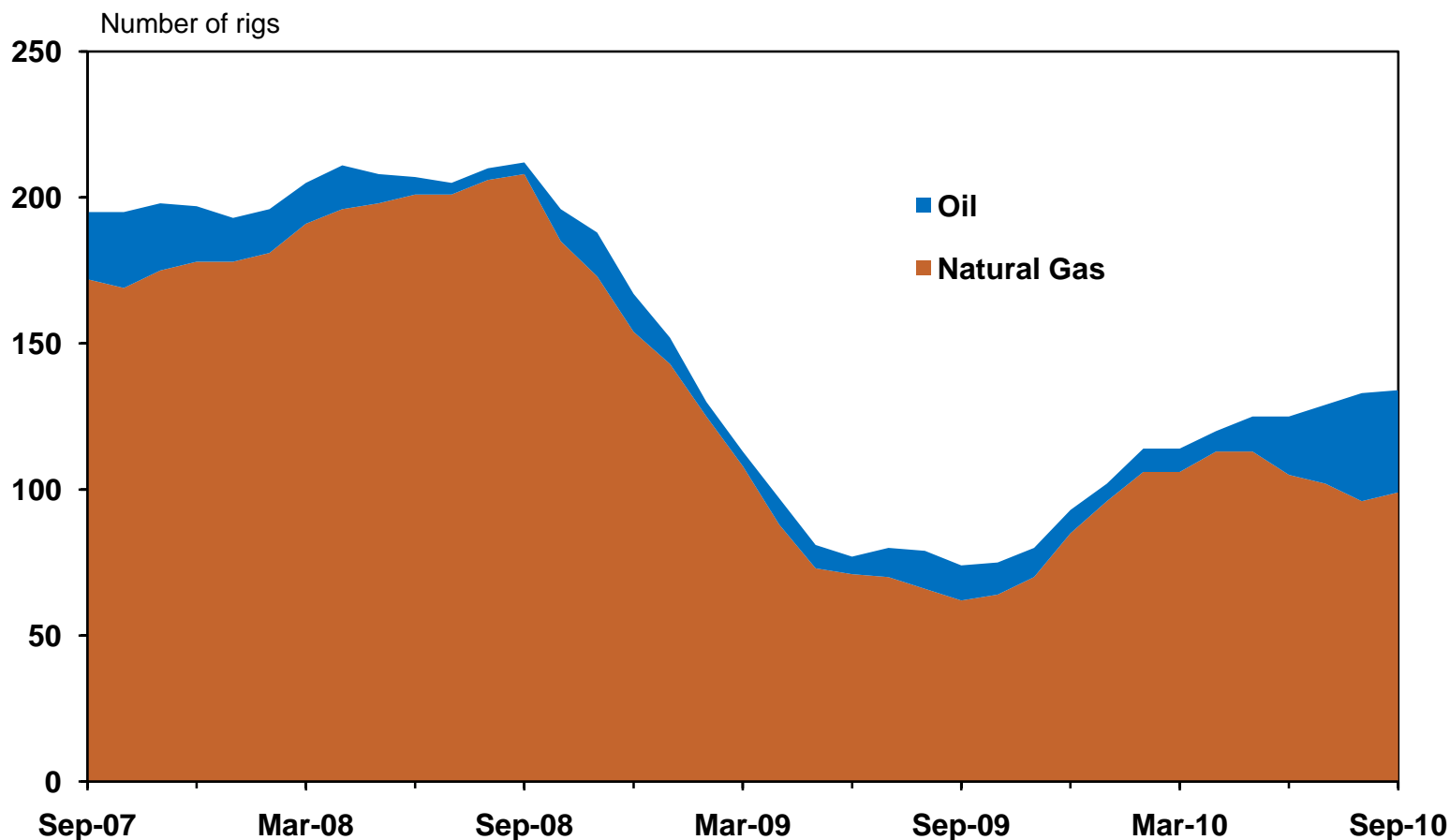


Source: FDIC



Oklahoma's gas rig count has eased with lower prices, but oil drilling has boomed

Oklahoma Rig Count

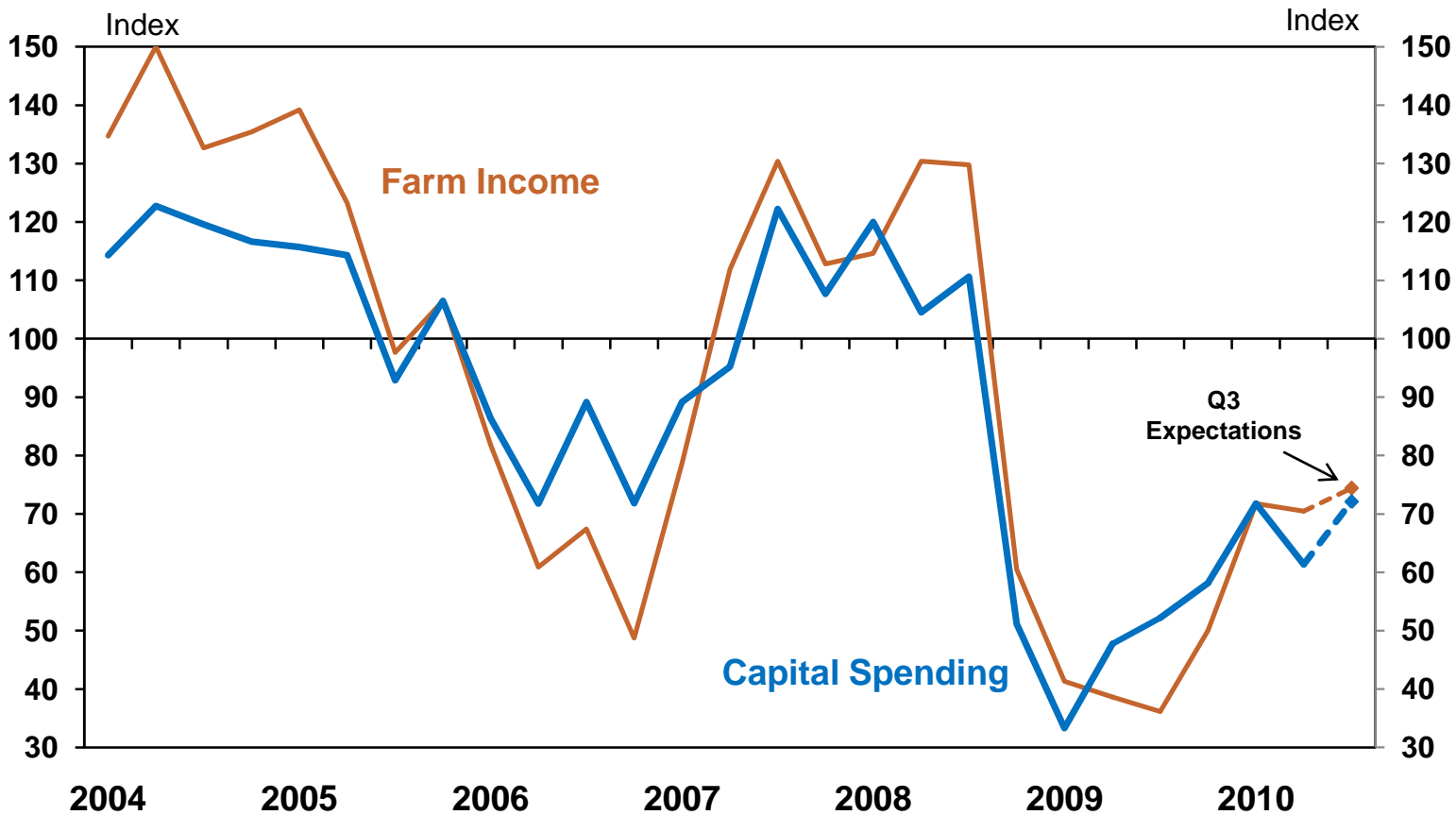


Source: Baker Hughes



Agricultural conditions in the state have also improved after bottoming in 2009

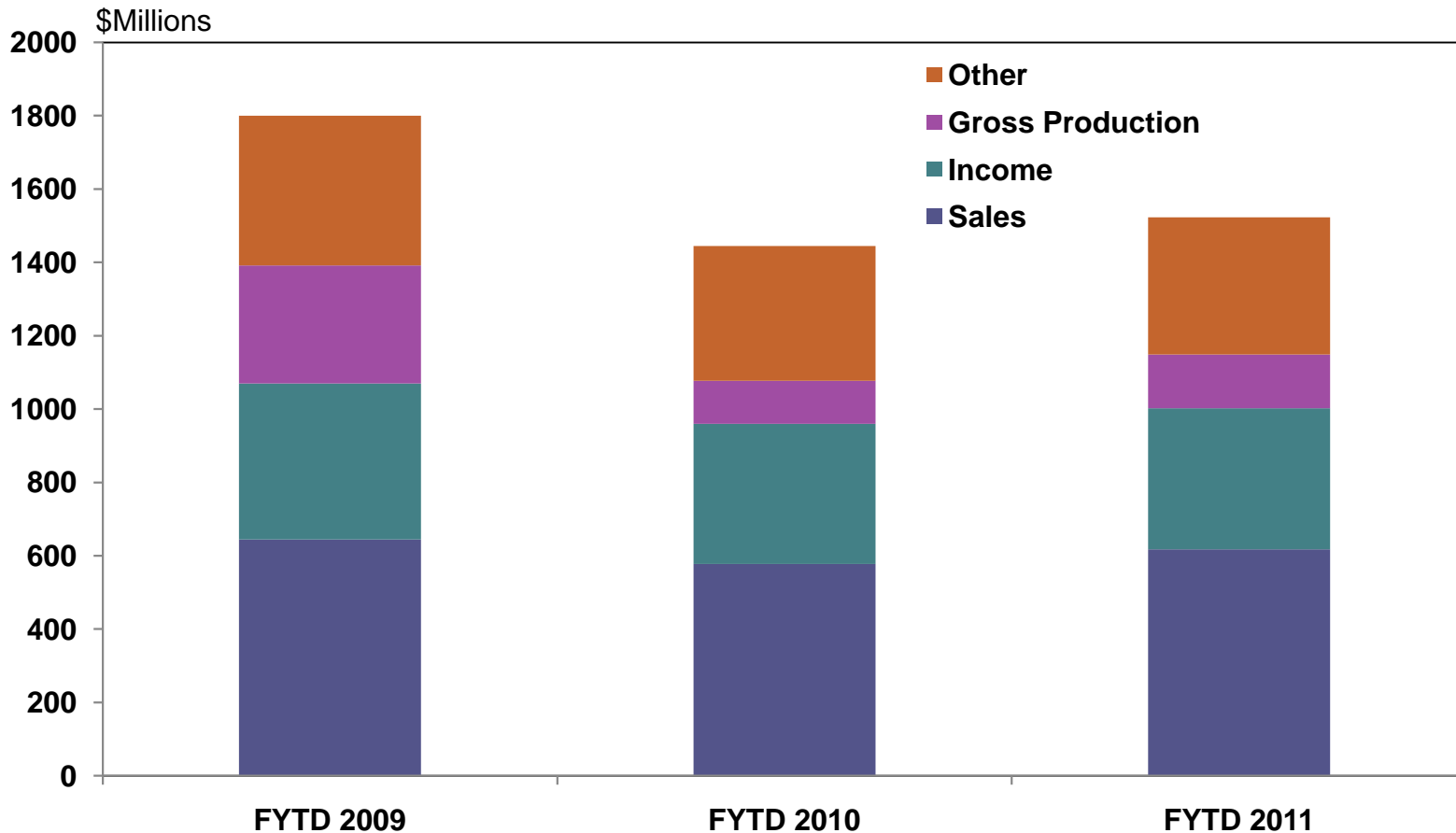
Oklahoma Agricultural Conditions



State tax revenues are finally back above year ago levels, but still well below FY2009

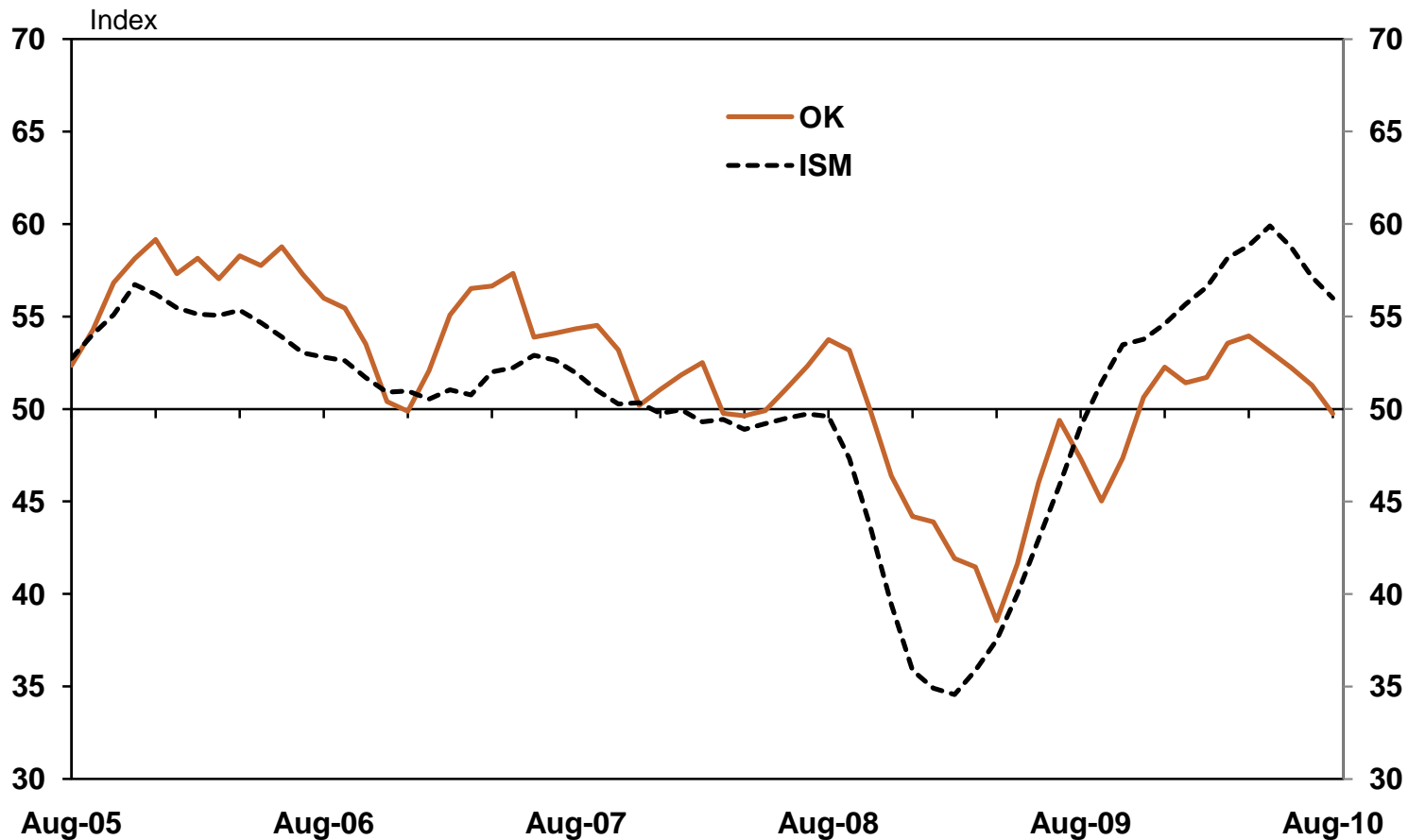
Oklahoma Fiscal Year-to-Date Tax Revenues

July and August of Each Fiscal Year



As in the nation, Oklahoma factory activity has slowed in recent months

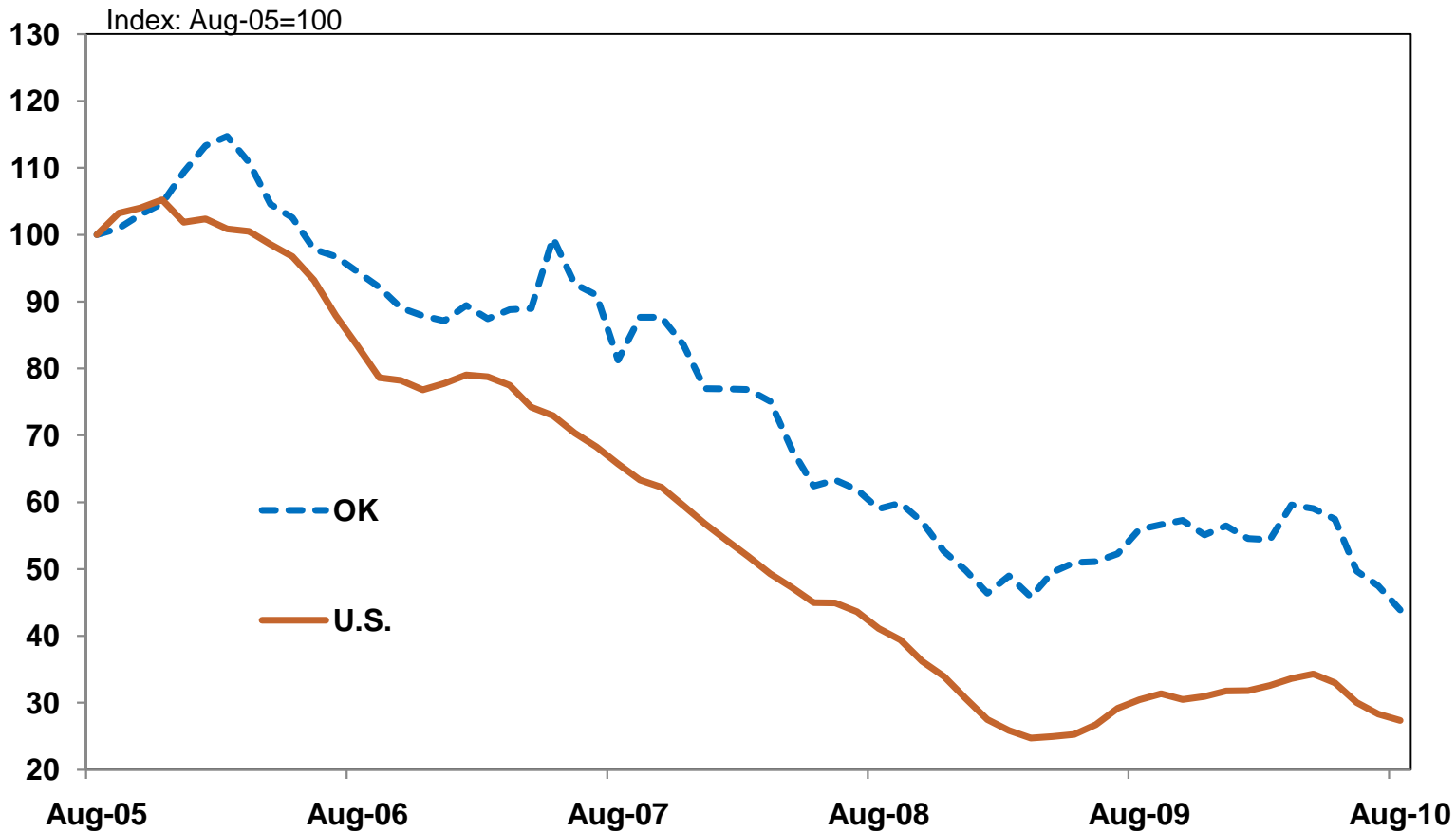
Manufacturing PMI Indexes
Seasonally adjusted, 3-month moving avg.



And homebuilding has also decreased since the spring

Oklahoma Residential Construction Activity

Seasonally adjusted, 3-month moving avg.

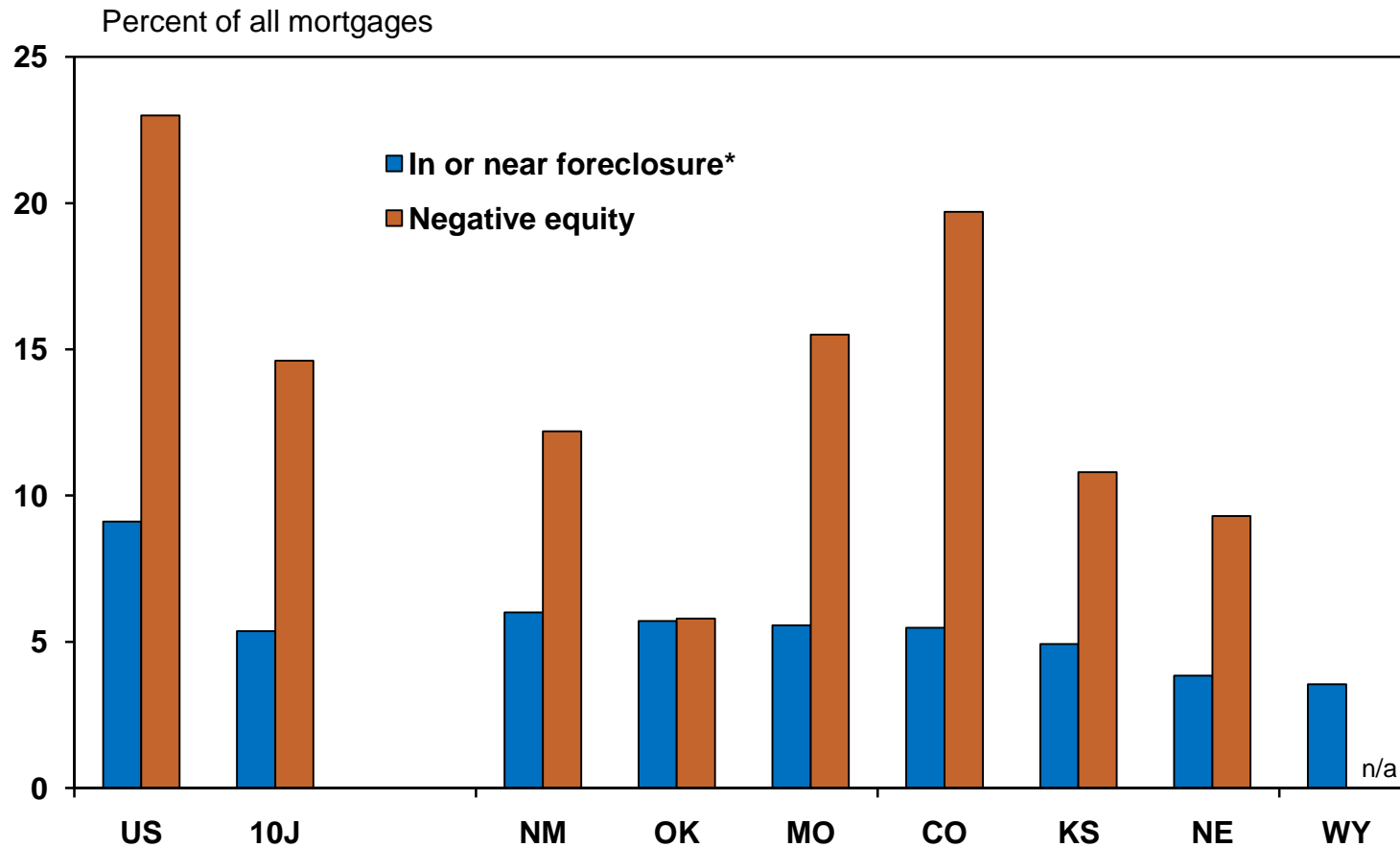


Source: F.W. Dodge



The state is at risk of further foreclosures, though less so than the nation

Foreclosures and Negative Equity Mortgages U.S. and Tenth Federal Reserve District, Q2 2010



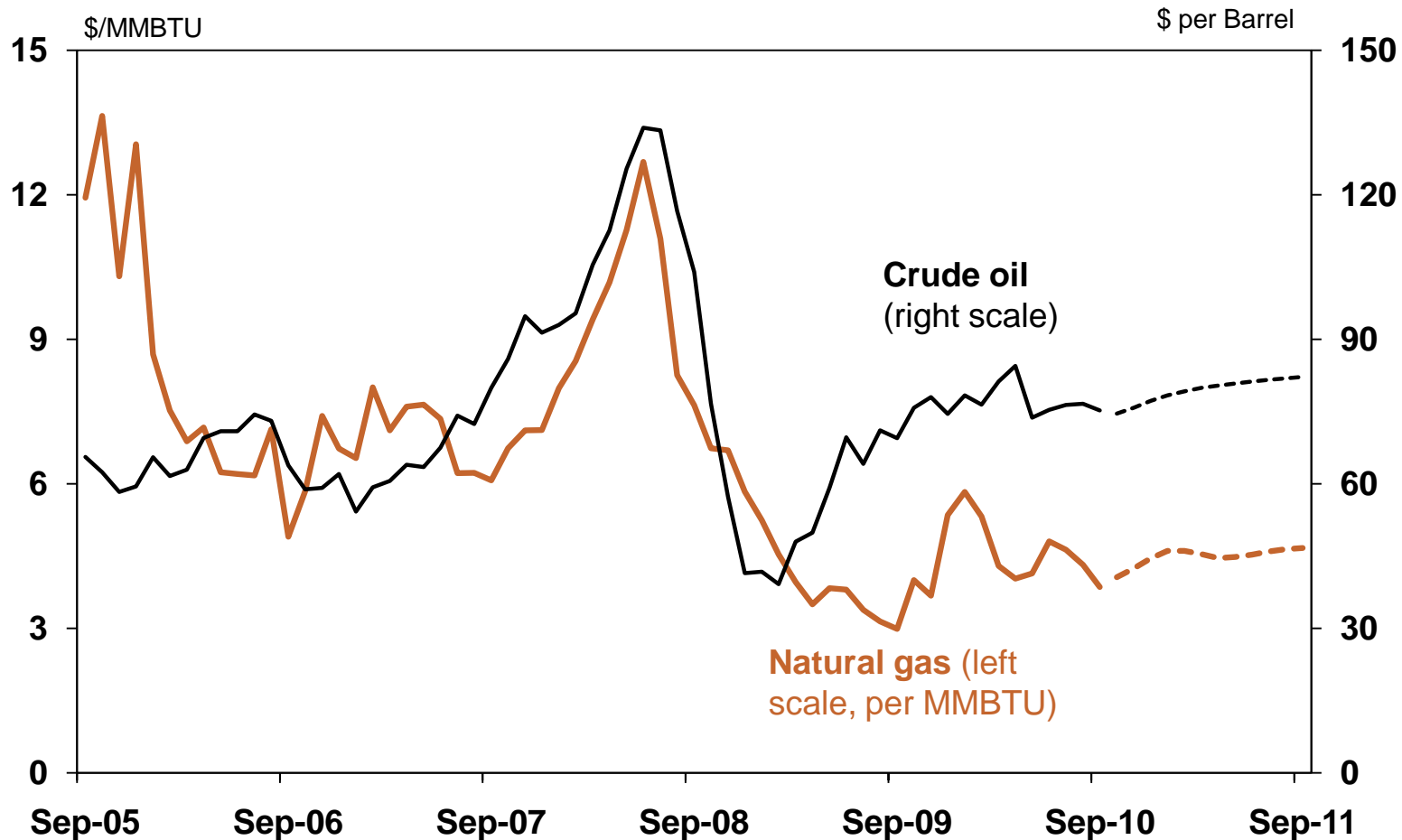
*Over 90 days past due

Source: MBA, Corelogic



Natural gas prices remain the biggest risk relative to the nation

Energy Prices



Source: Bloomberg



Summary

- The U.S. economy is recovering and expected to grow modestly, although growth slowed during the summer
- Oklahoma's economy is also recovering and remains in better shape than the nation, following a shorter recession

