

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:**

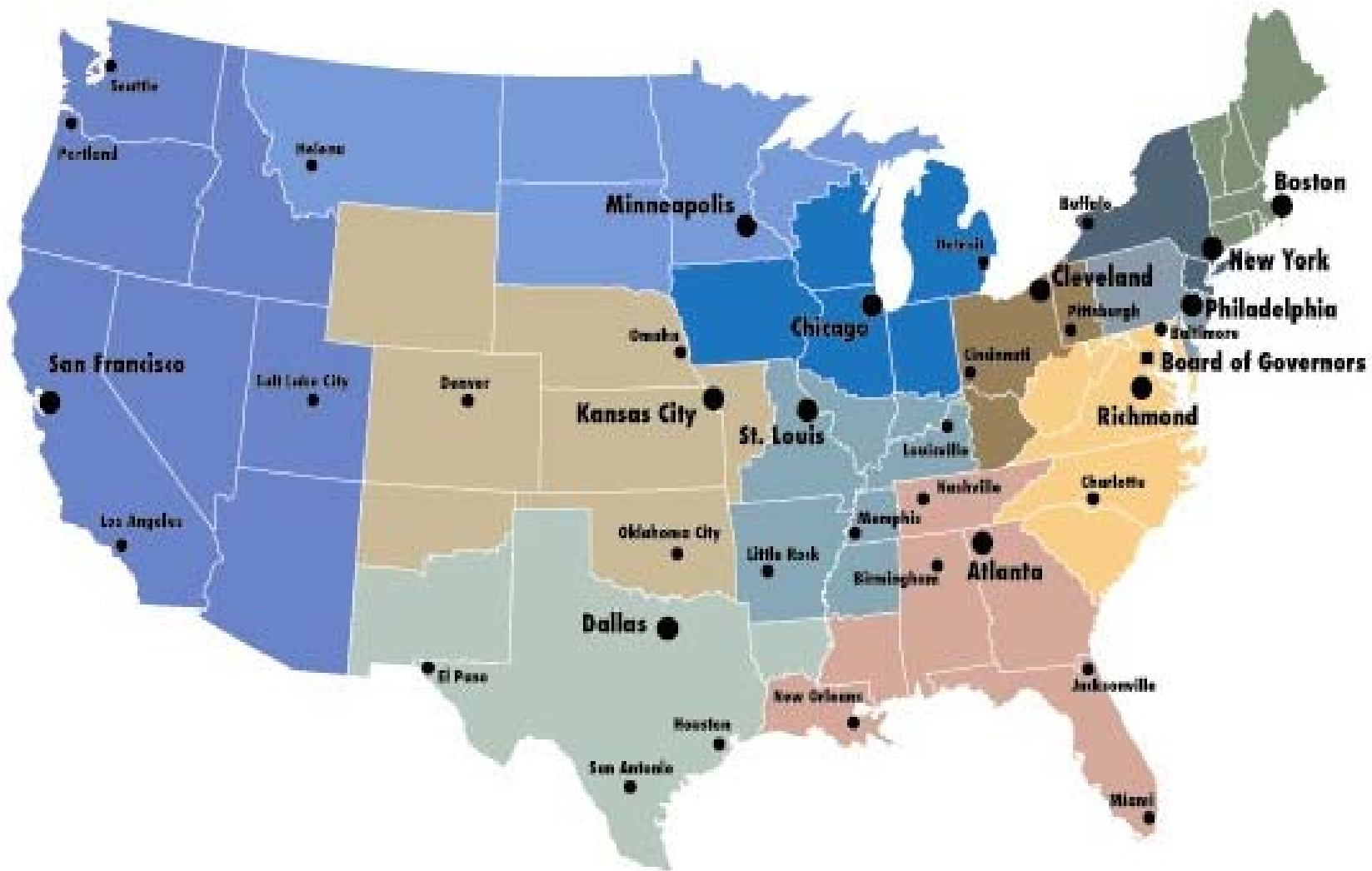
- Board of Governors: 7 members appointed by U.S. President
- Federal Reserve Banks: 12 total; semi-independent by design
- Federal Open Market Committee (FOMC): 19 members; 12 voting

- **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 of the Federal Reserve Bank of Kansas City

- **Branch staff and functions**

- 35-40 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

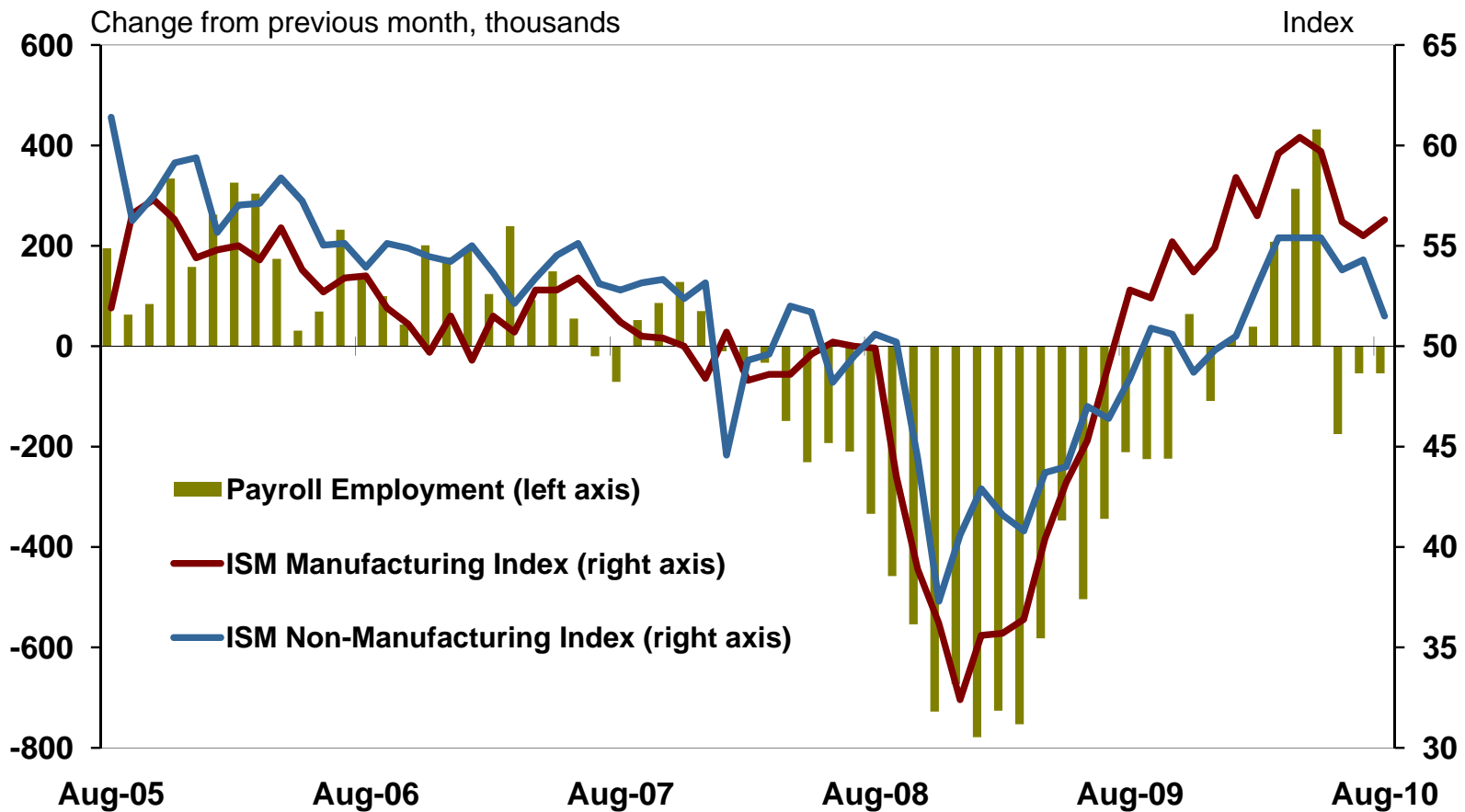
- U.S. economic growth has slowed, and forecasts call for moderate growth and low inflation heading forward

- Oklahoma's economy has grown solidly in 2010 following a shorter recession, but several risks to growth remain



National economic activity slowed during the summer, after stronger earlier growth

National Business Indexes and Payroll Employment

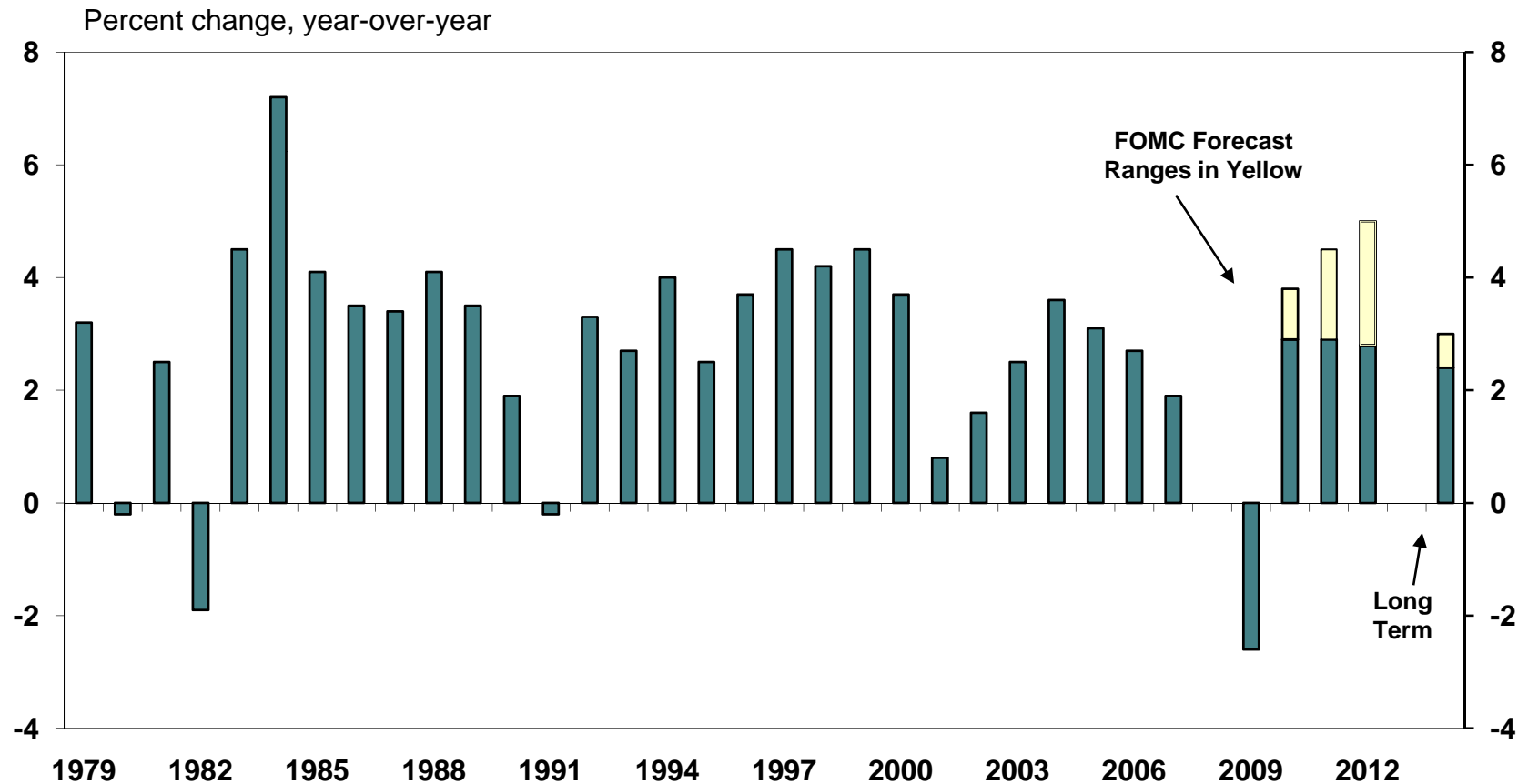


Source: Institute for Supply Management, Bureau of Labor Statistics



Heading forward, Fed policymakers expect a moderate GDP recovery

Gross Domestic Product

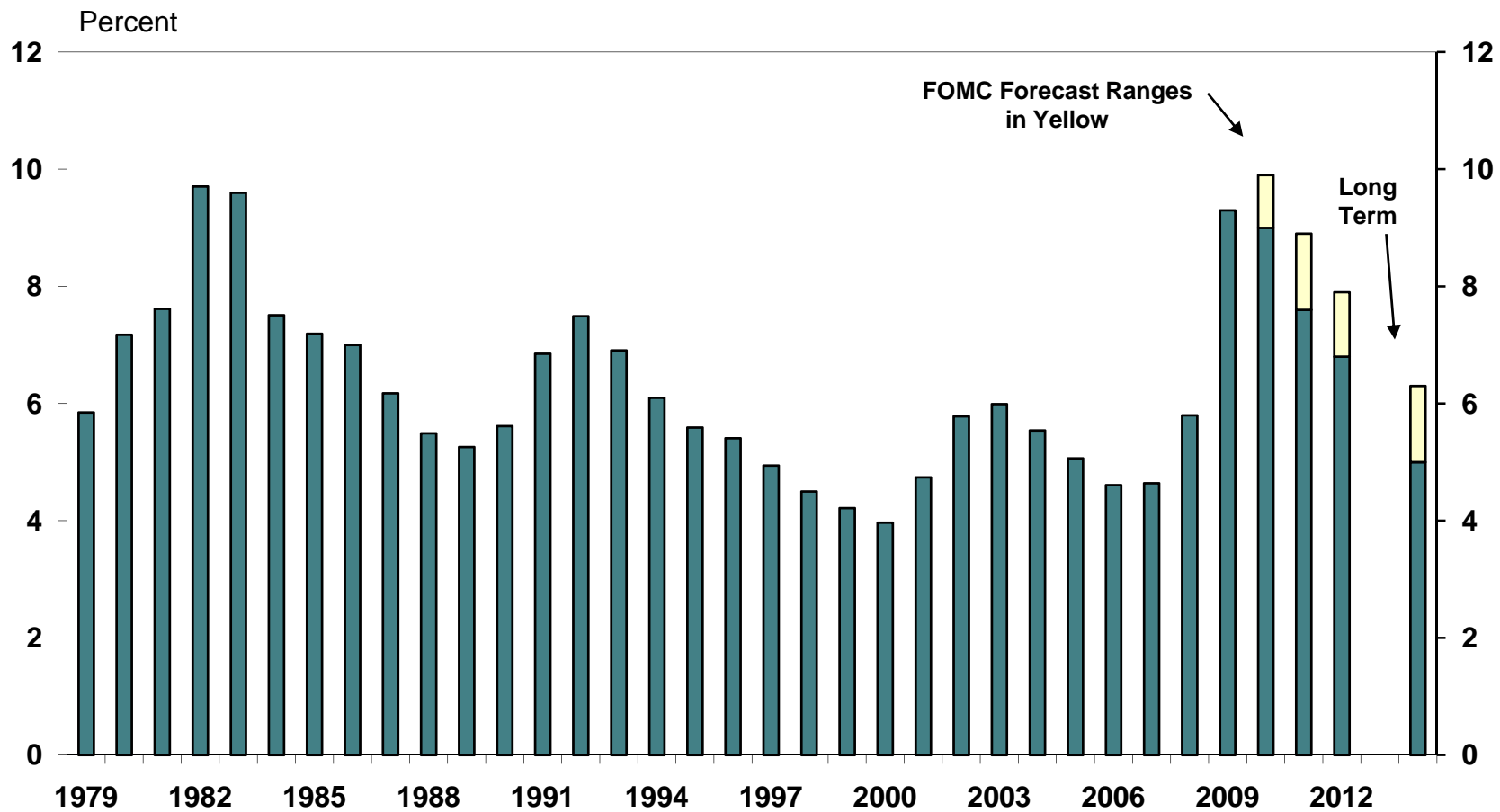


Source: U.S. Bureau of Economic Analysis, FOMC



But with unemployment remaining high for some time

Unemployment Rate
Seasonally Adjusted

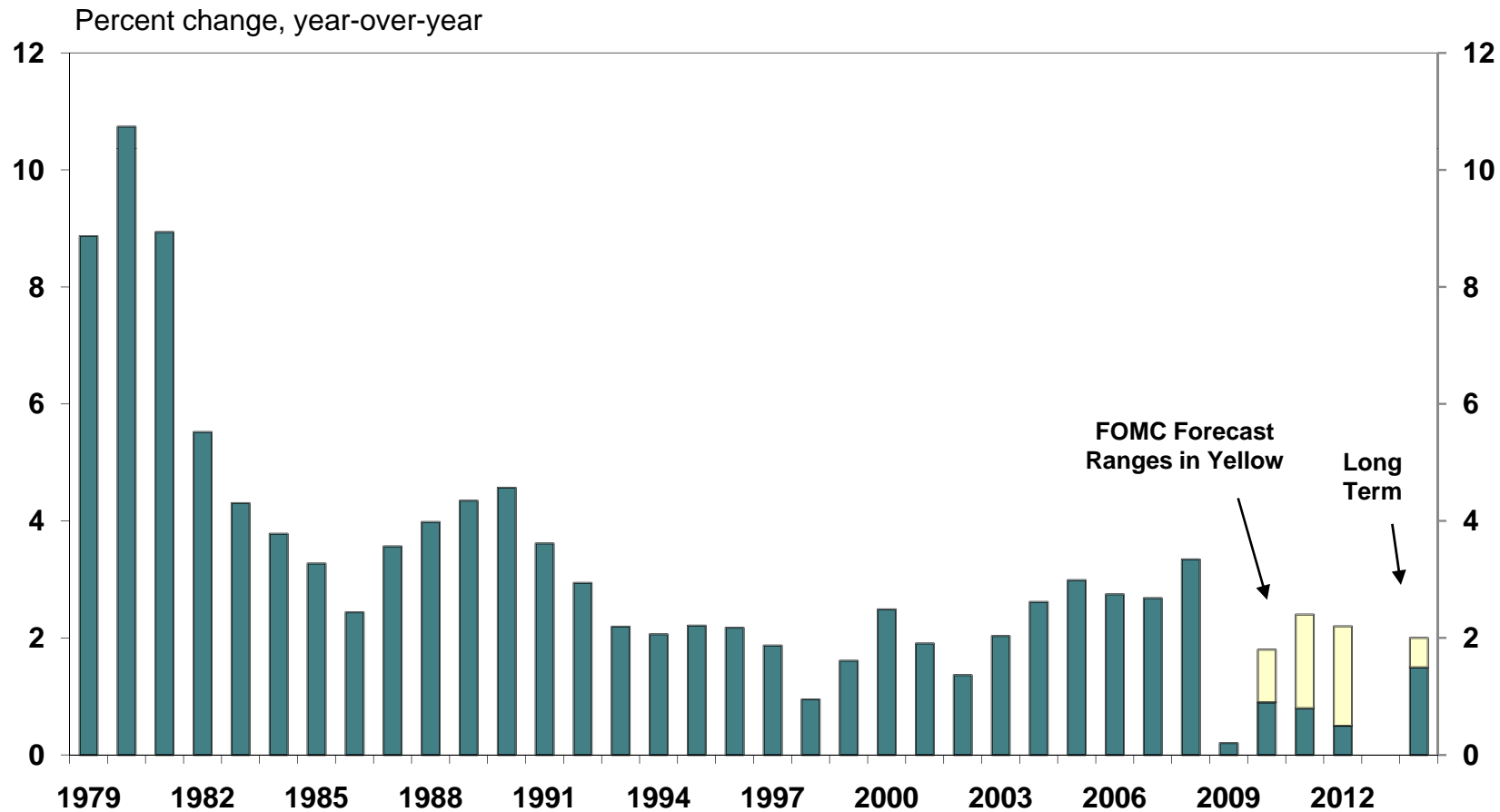


Source: U.S. Bureau of Labor Statistics, FOMC



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

PCE Inflation Index

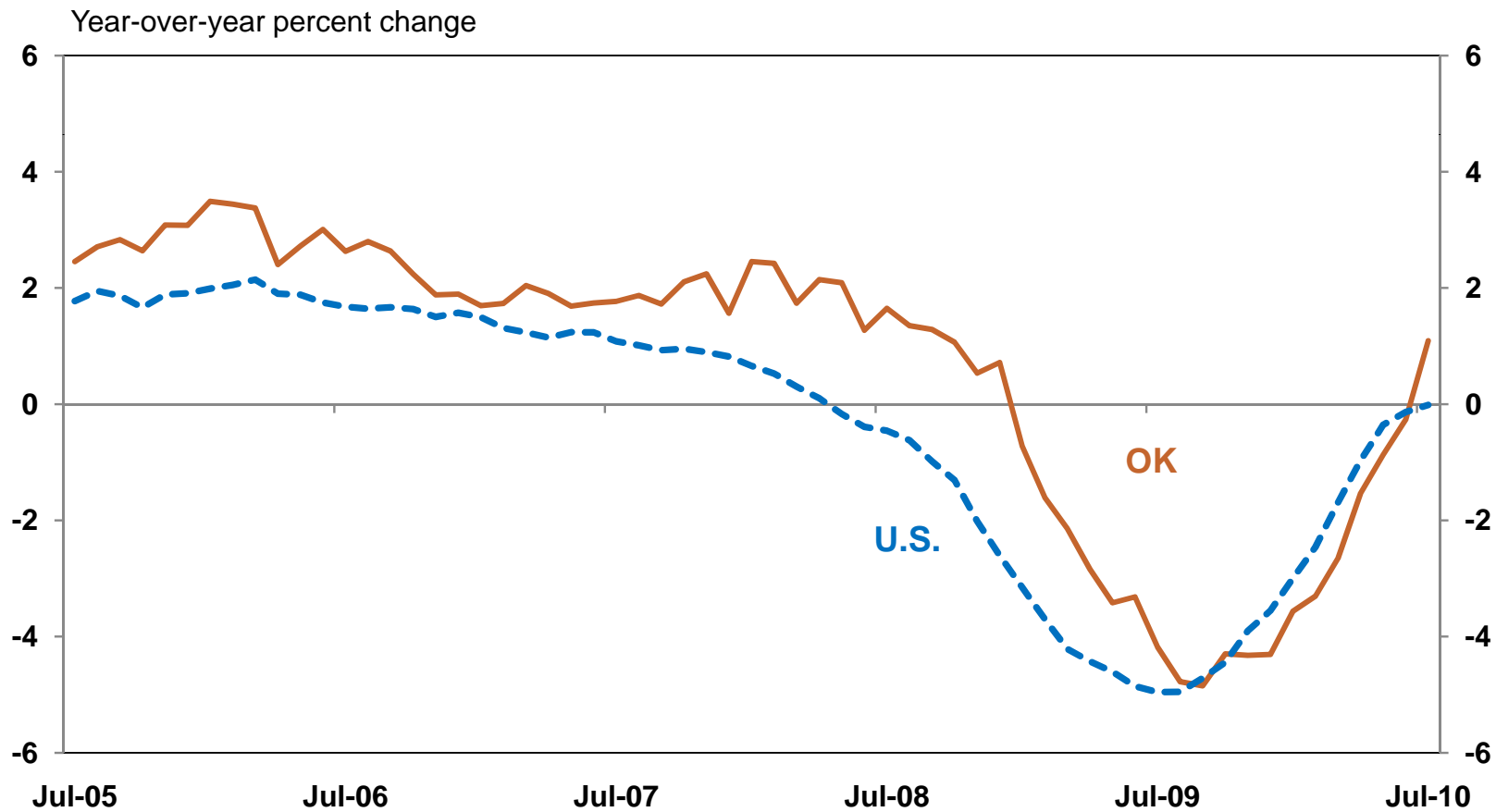


Source: U.S. Bureau of Economic Analysis, FOMC



As usual, Oklahoma entered this recession late, but is coming out with the nation

Payroll Employment

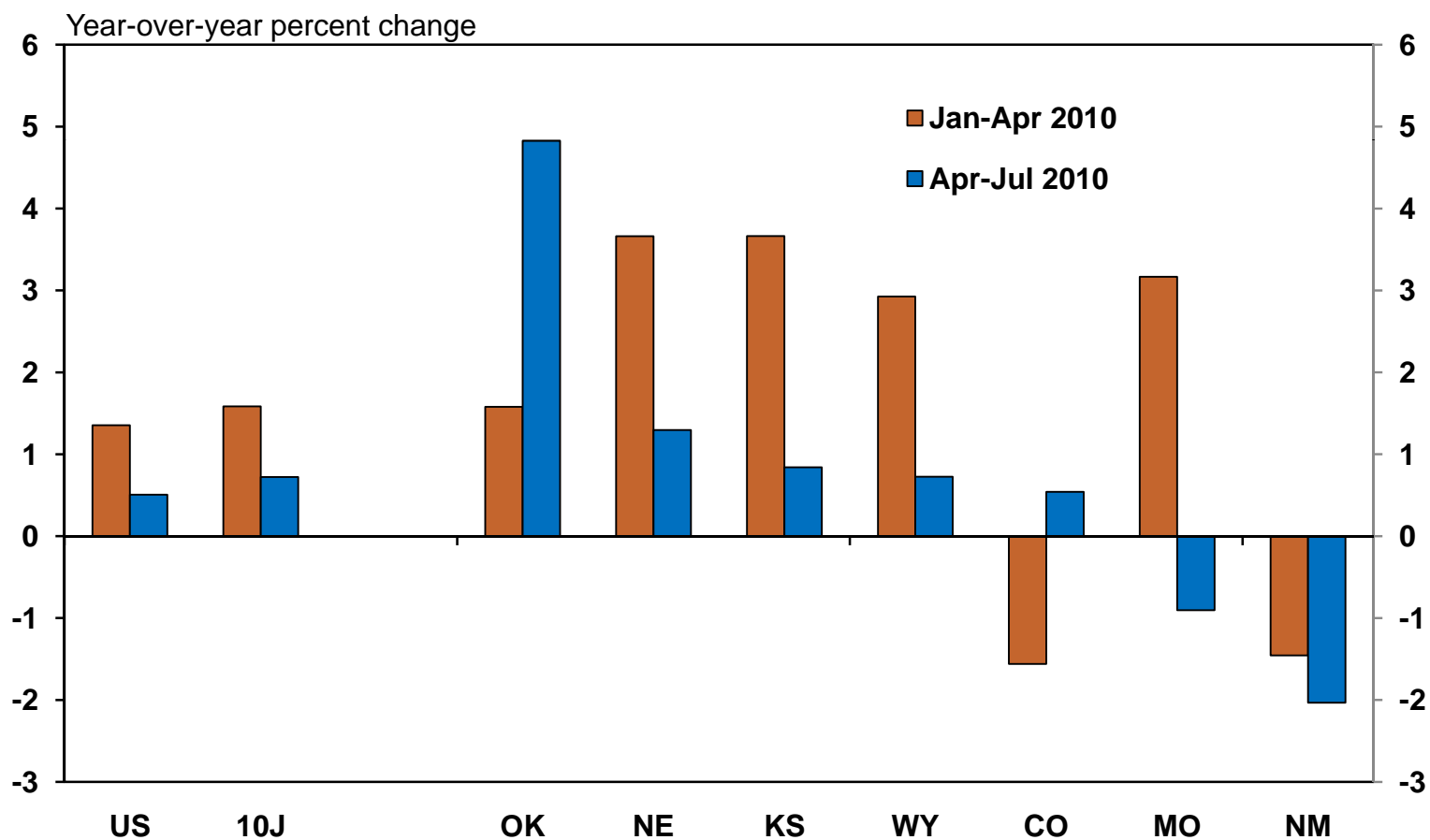


Source: U.S. Bureau of Labor Statistics



Indeed, recent Oklahoma employment growth has exceeded the nation and region

Nonfarm Employment Growth (excl. Fed Govt.)
Seasonally adjusted, annualized

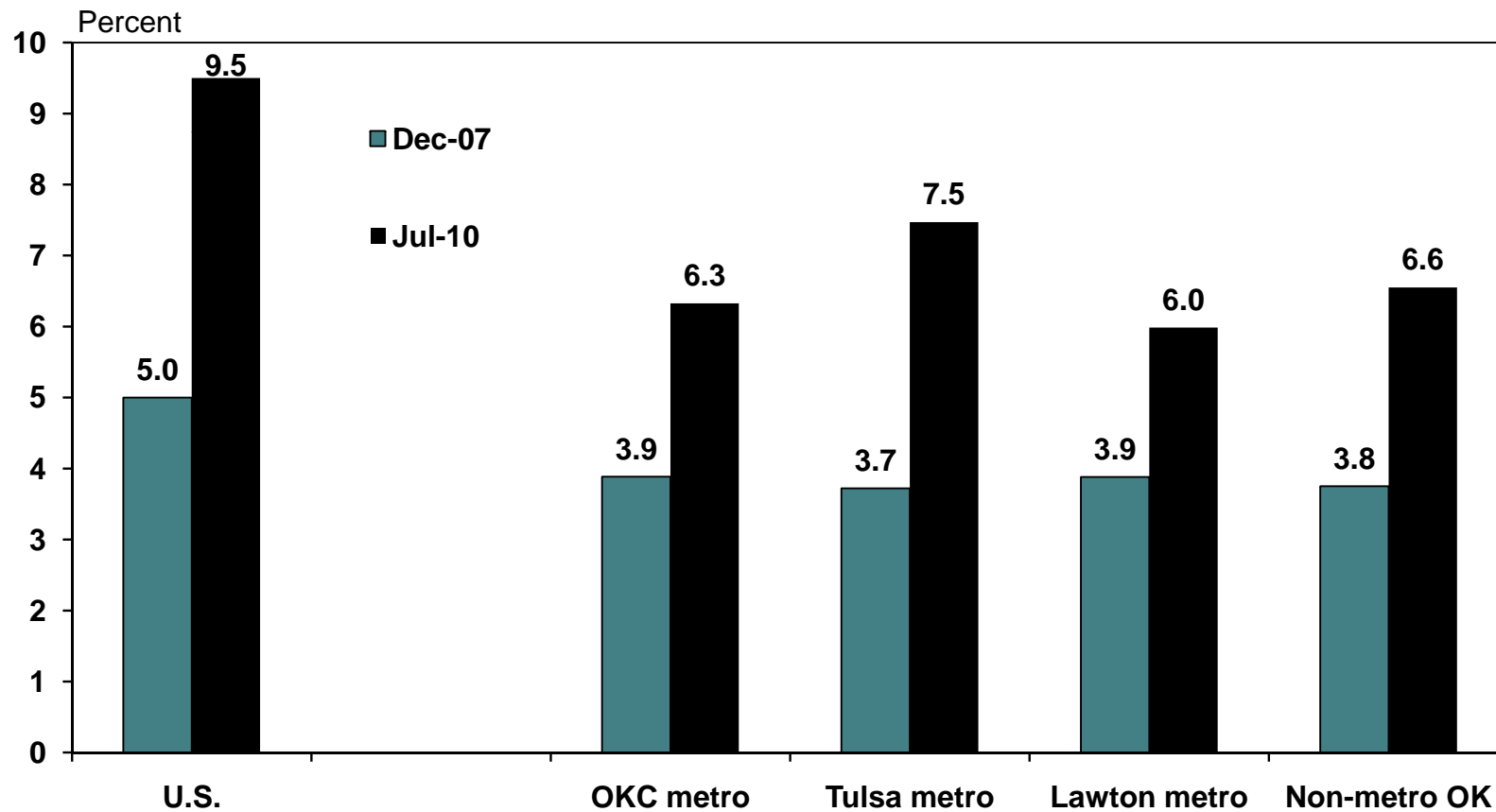


Source: U.S. Bureau of Labor Statistics



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

Unemployment Rate Seasonally Adjusted*



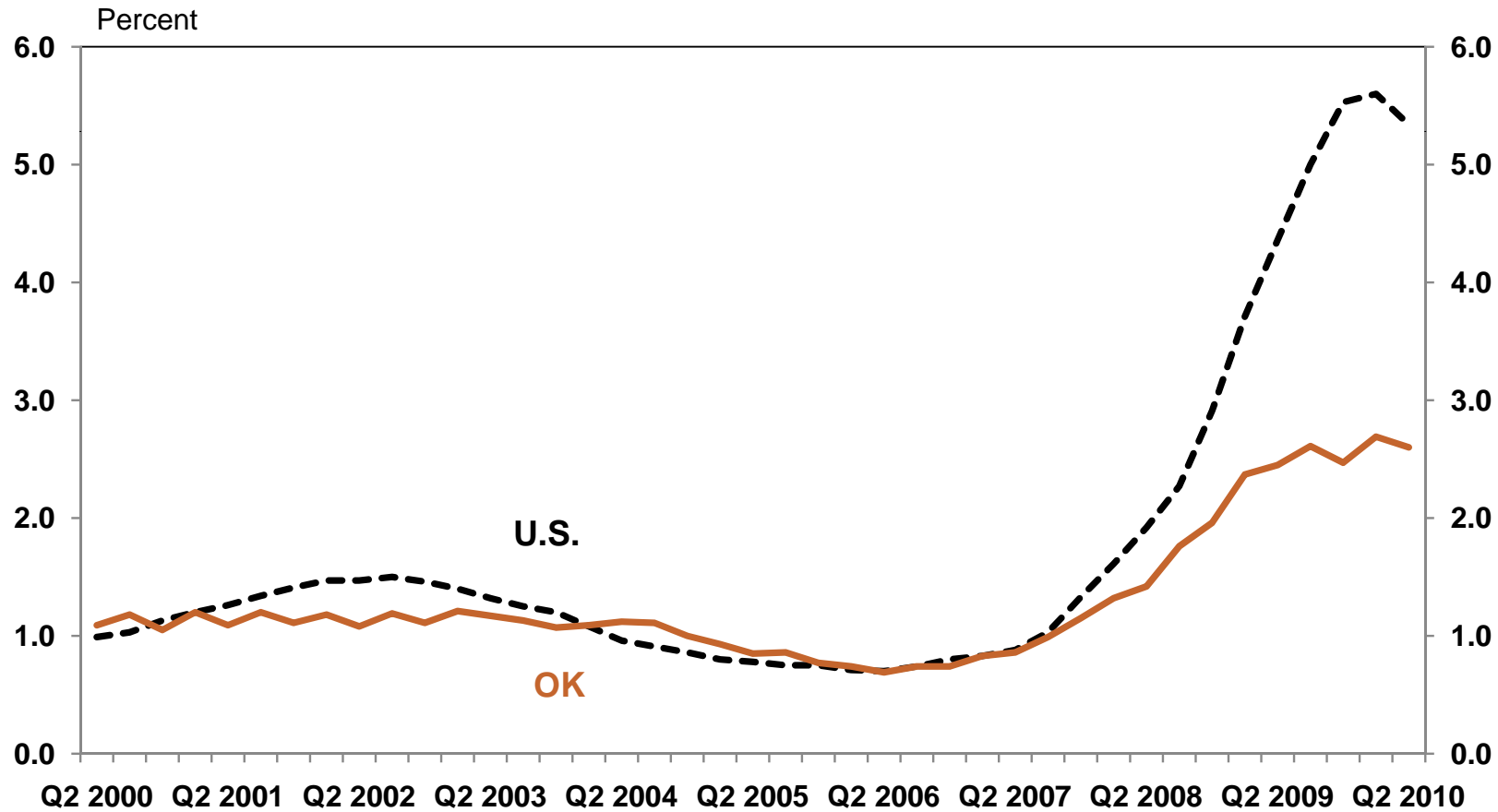
Source: U.S. Bureau of Labor Statistics

* Estimated by FRBKC



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

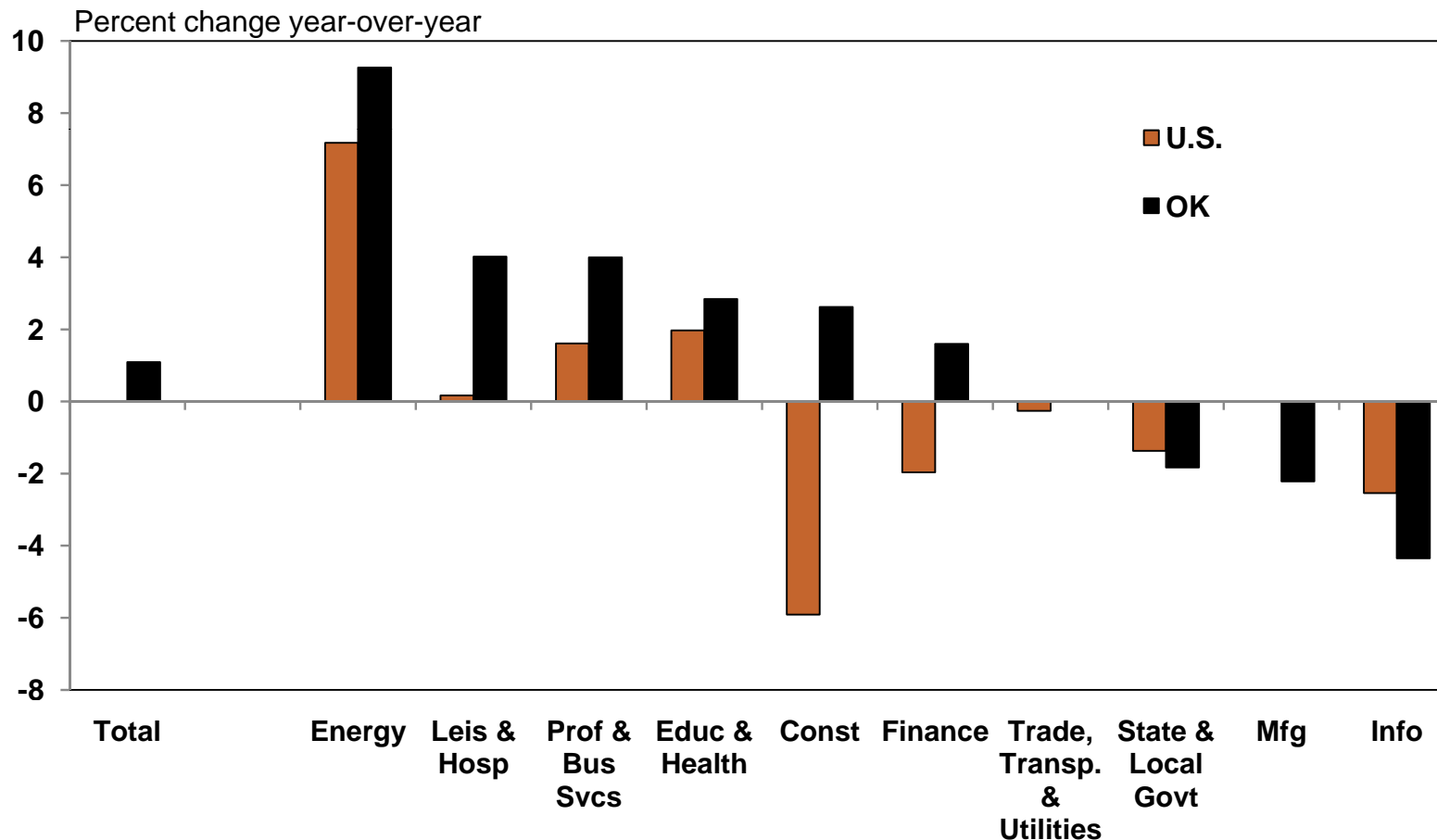


Source: FDIC



Recent solid state job growth has been driven by the energy and services industries

Employment Growth
July 2010

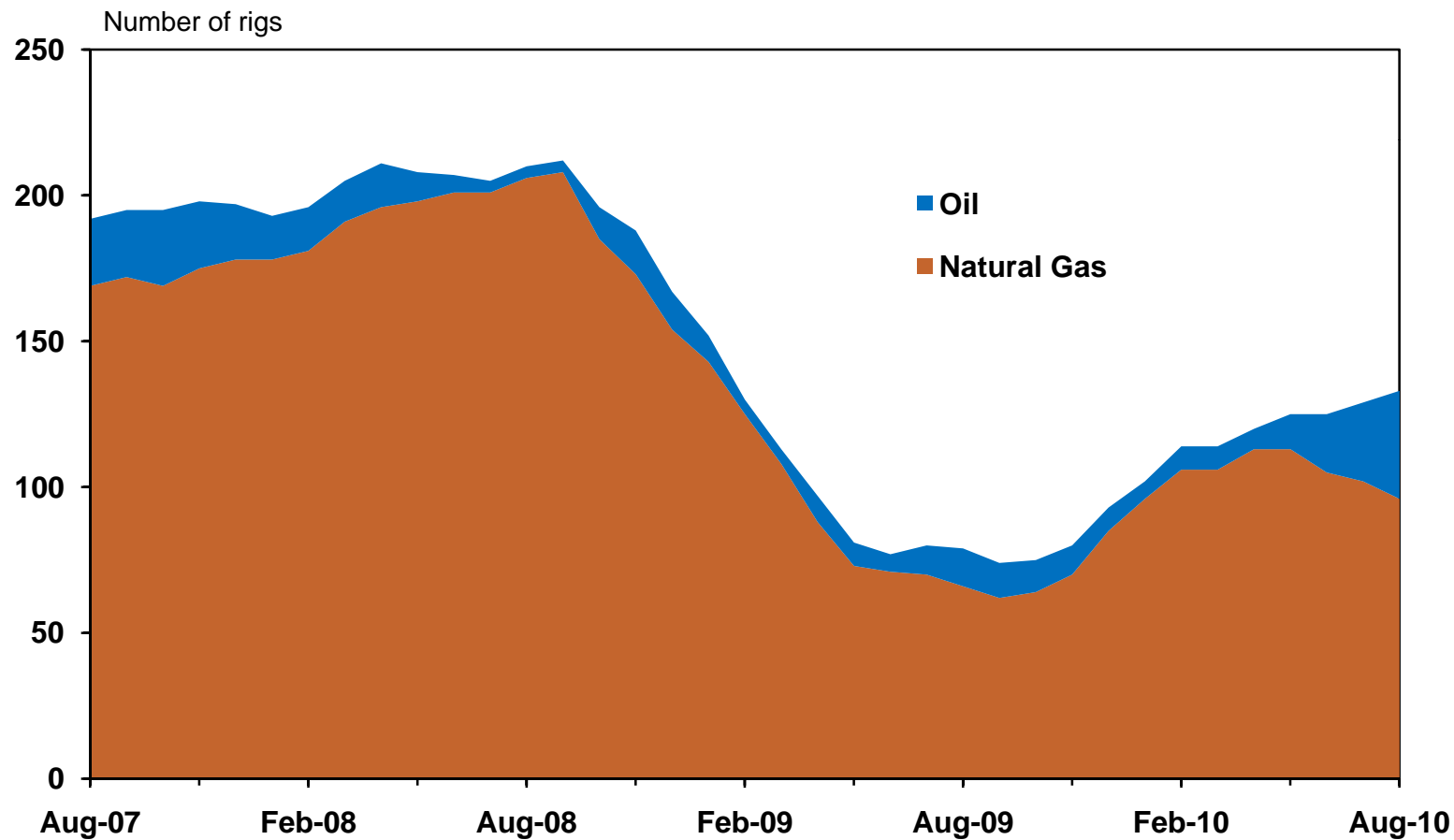


Source: Bureau of Labor Statistics



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

Oklahoma Rig Count

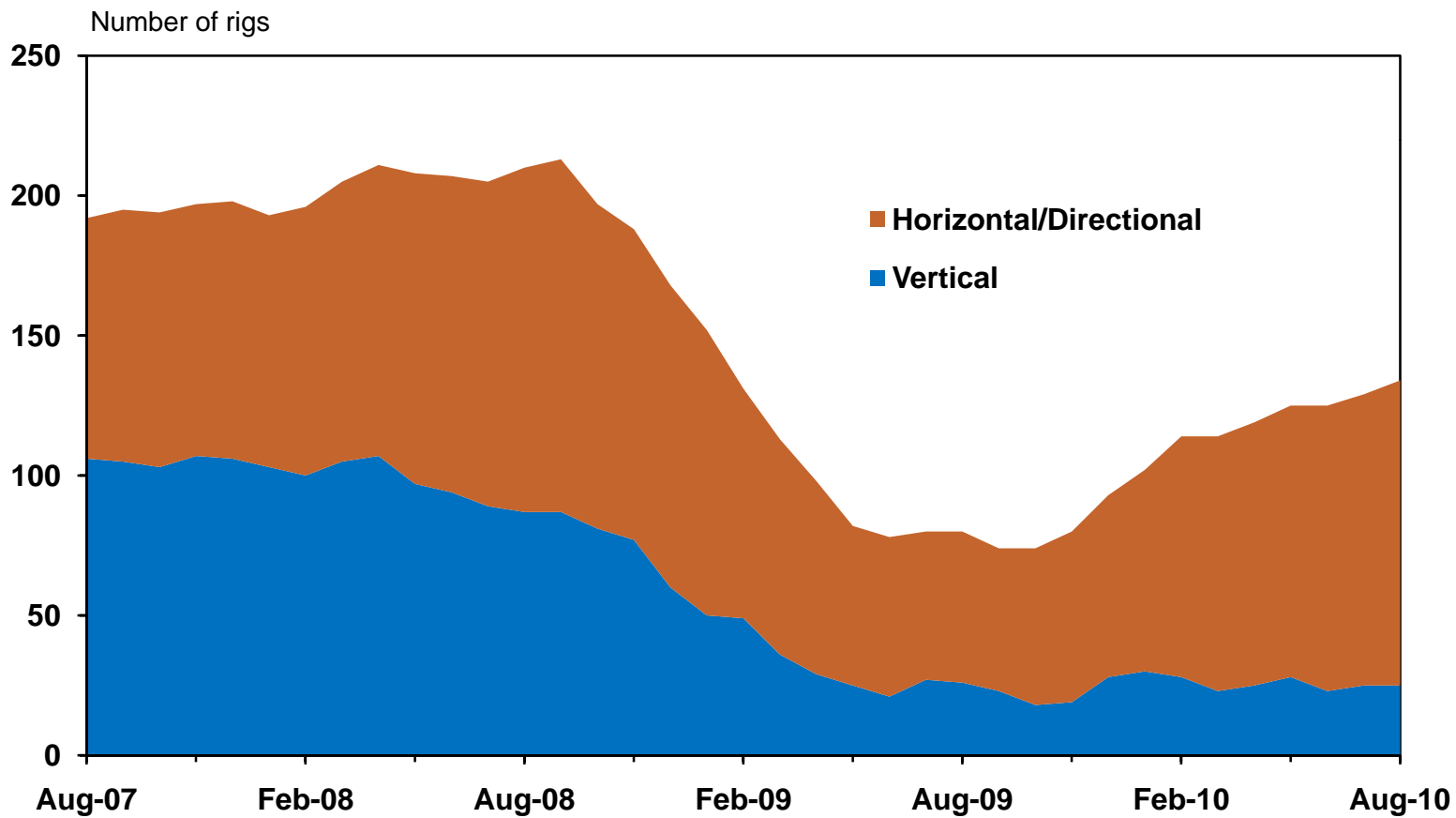


Source: Baker Hughes



And most of the recent rig count increase has been for expensive horizontal rigs

Oklahoma Rig Count

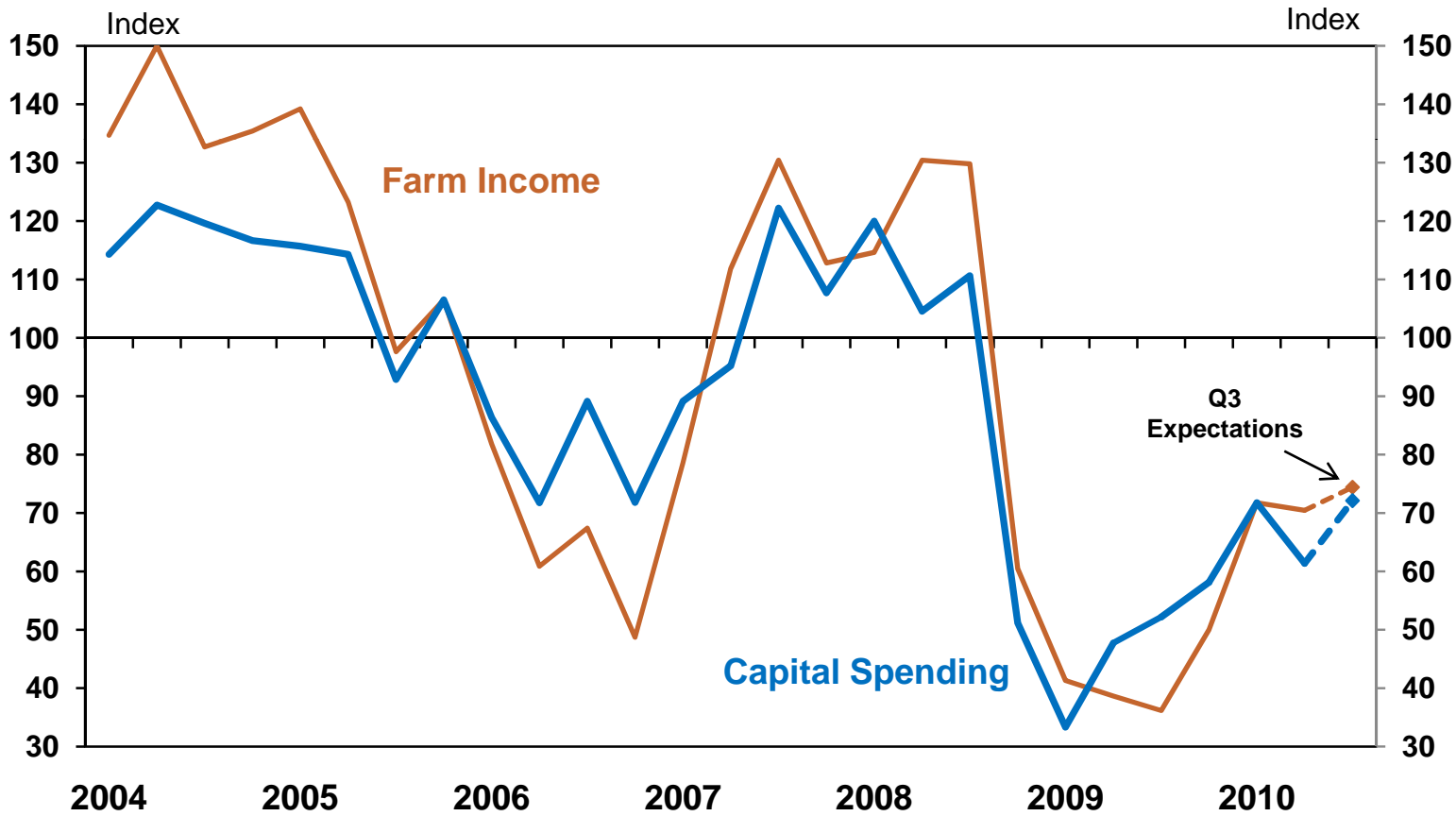


Source: Baker Hughes



Agricultural conditions in the state have improved after bottoming in 2009

Oklahoma Agricultural Conditions

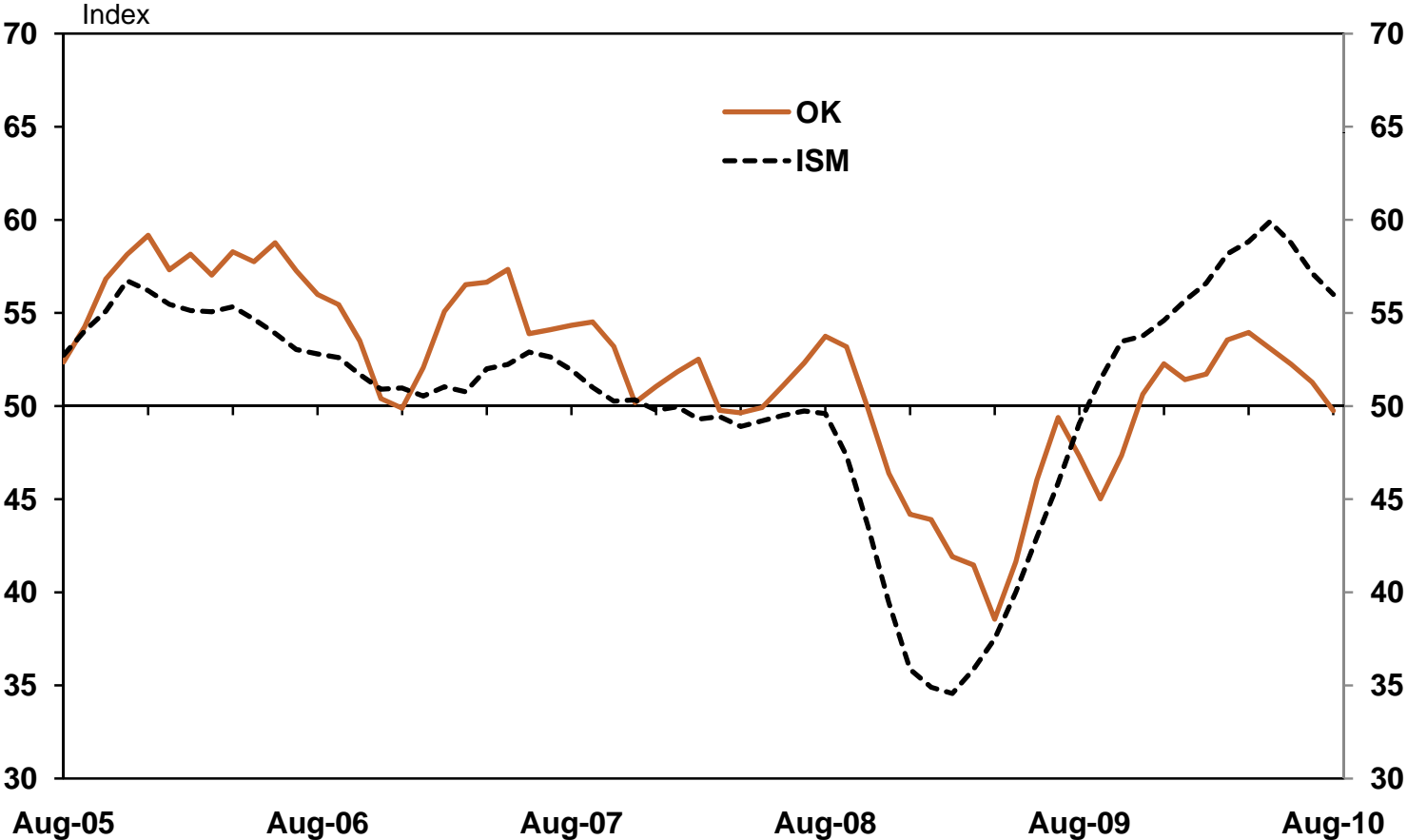


Source: KCFRB Ag Credit Survey

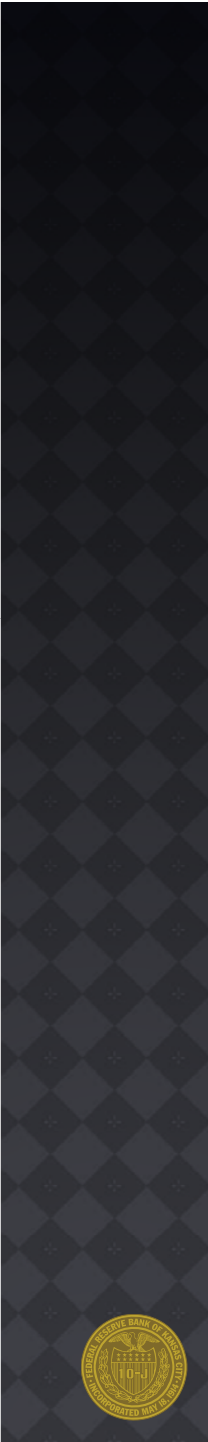


As in the nation, Oklahoma factory activity has slowed in recent months

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

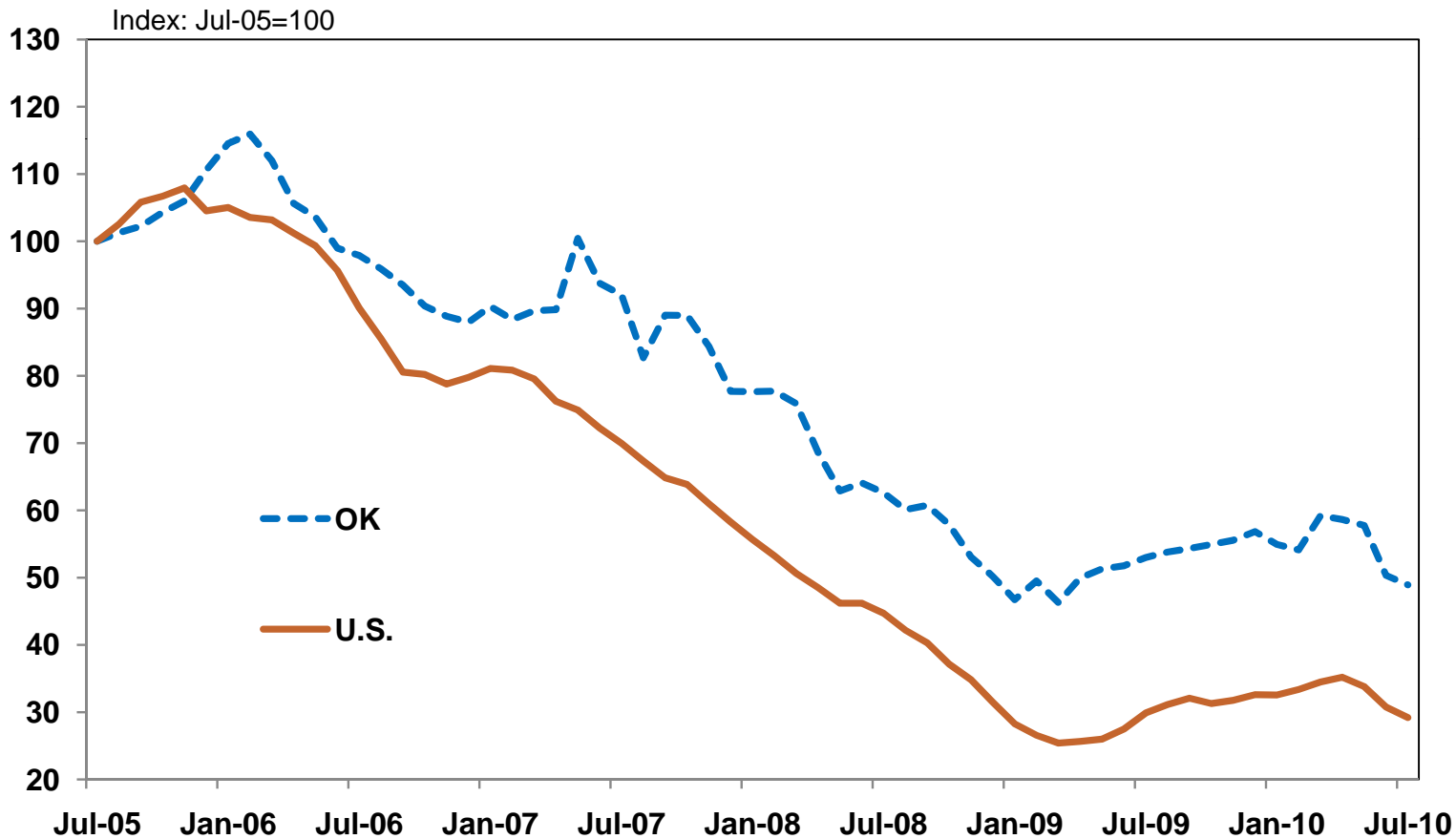


Source: ISM, FRBKC Manufacturing Survey



Construction activity has also decreased, though it remains stronger than the nation

Oklahoma Residential Construction Activity
Seasonally adjusted, 3-month moving avg.

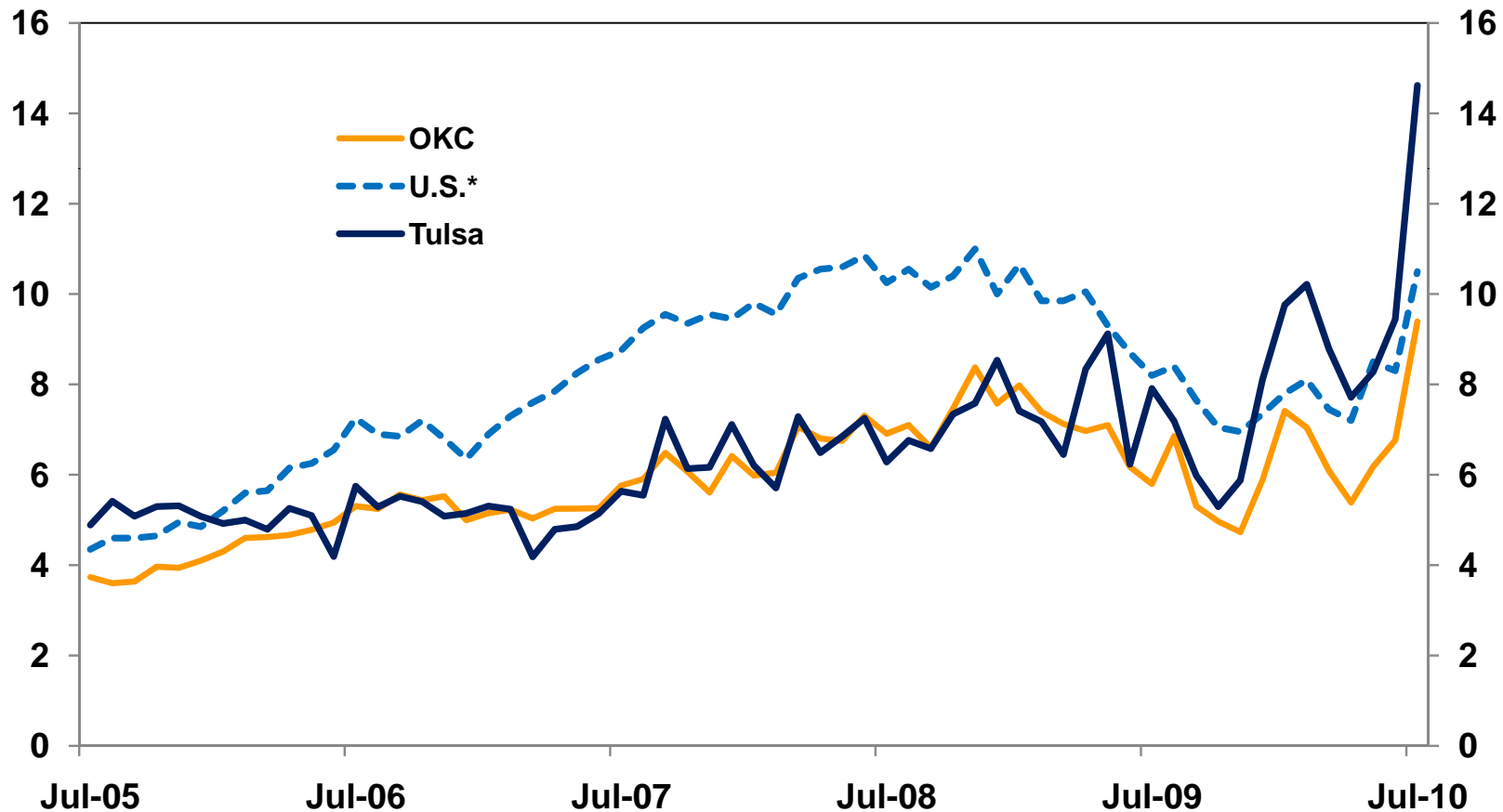


Source: F.W. Dodge



Unsold home inventories surged with the expiration of homebuyer incentives

Months Supply of Unsold Homes
Seasonally Adjusted



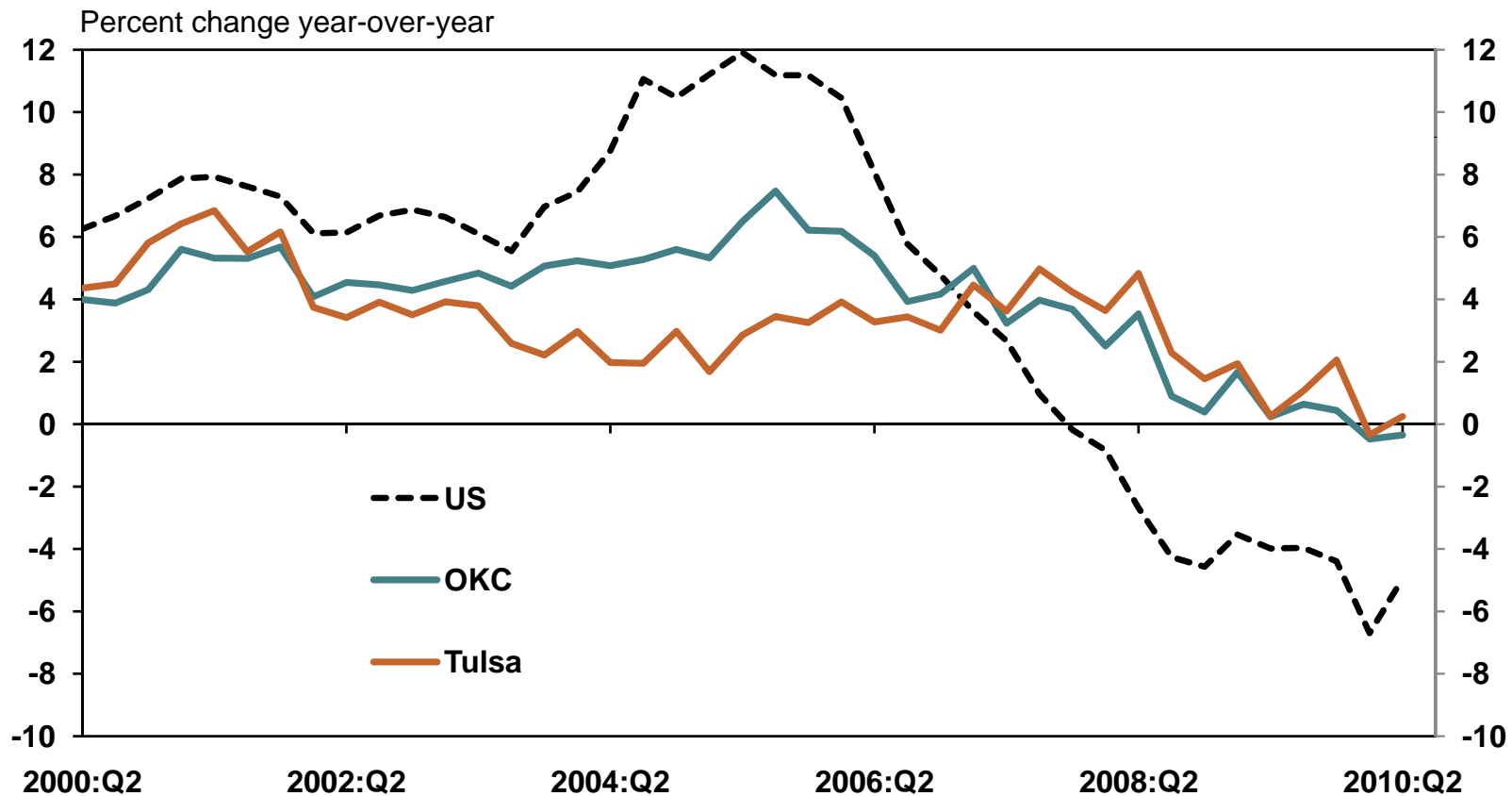
* Combination of existing and new home inventories

Source: NAR, Local realtors associations



Home prices have continued to hold up better across the state than in the nation

Quality-Adjusted Home Price Growth

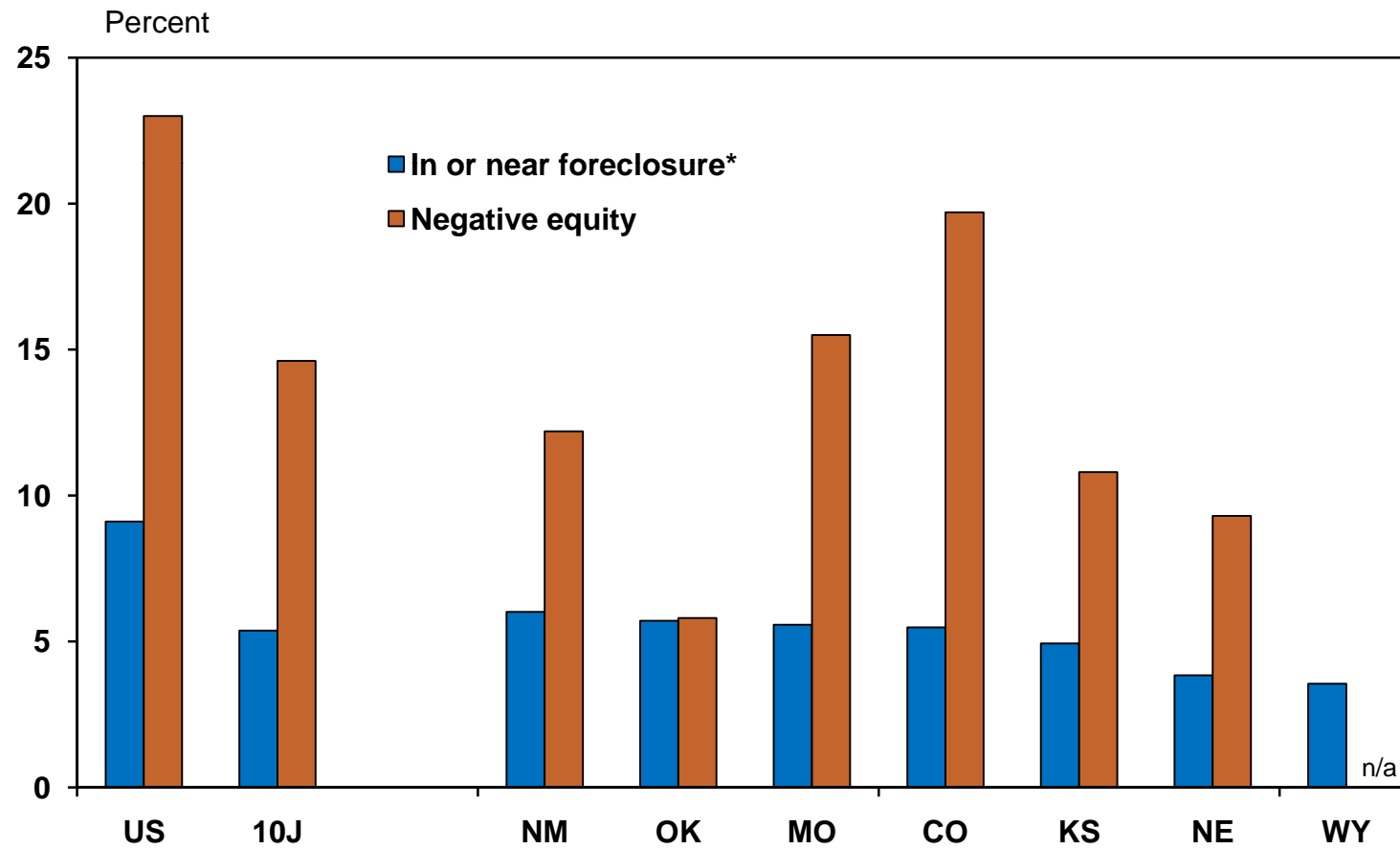


Source: FHFA



And while foreclosures in the state have risen, future risks remain smaller

Foreclosures and Negative Equity Mortgages
As a share of all mortgages, Q2 2010



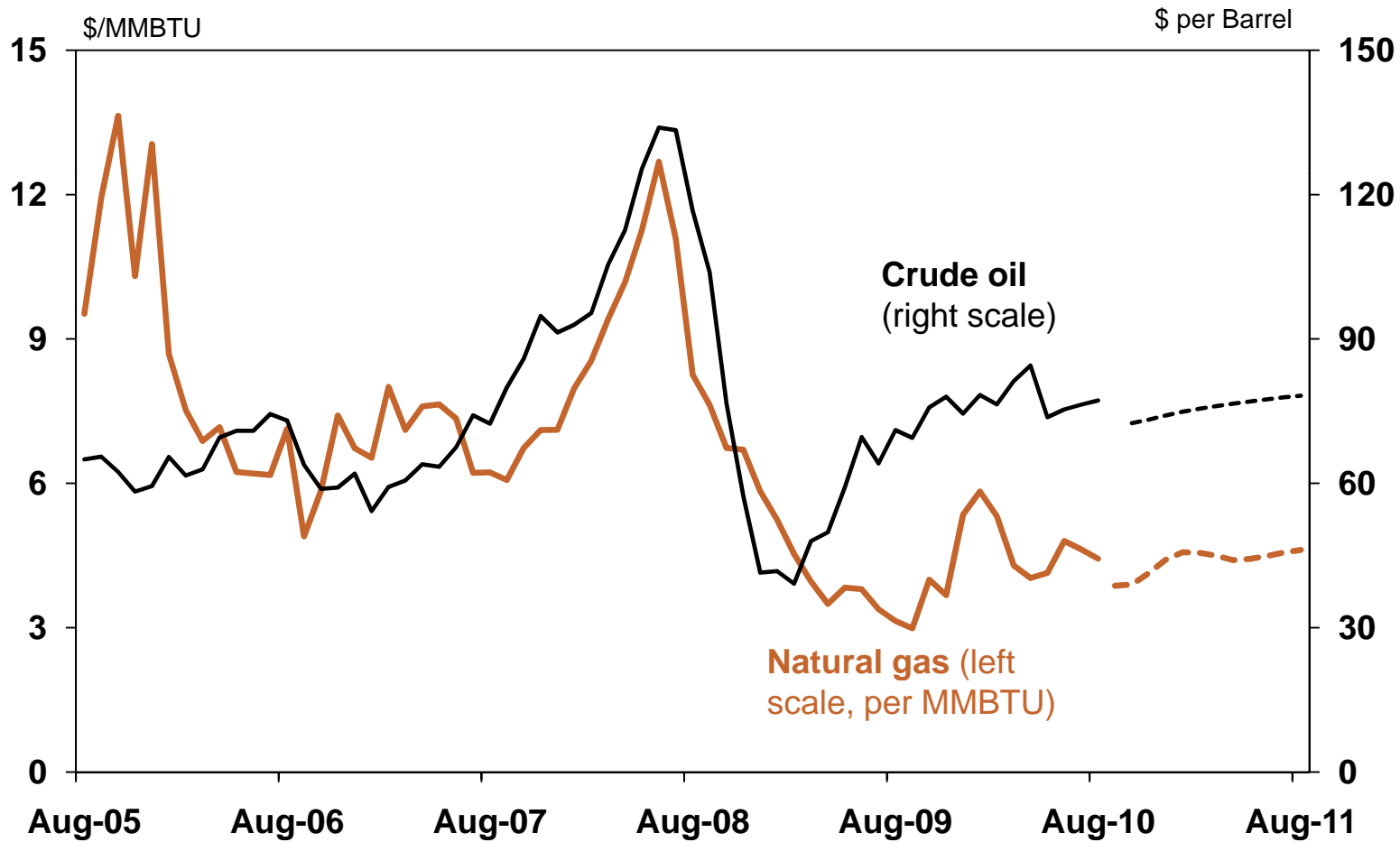
*Over 90 days past due

Source: MBA, Corelogic



Natural gas prices remain the biggest risk relative to the nation

Energy Prices



Source: Bloomberg



Questions?

