

The U.S. and Regional Economic Outlooks



Chad Wilkerson

**Vice President & Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City**

Purposes and Structure of the Federal Reserve System

- **Overall purposes of the Fed are to promote:**
 - Low and stable inflation
 - Maximum sustainable employment
 - National financial stability (in conjunction with others)
- **The primary functional areas of the Fed are:**
 - Monetary policy – typically the most well-known role to the public
 - Bank regulation – of bank holding companies, state Fed member banks
 - Payments systems – cash; electronic; bank for federal government
- **The Federal Reserve System consists of:**
 - Board of Governors: 7 members who are appointed by the U.S. President and confirmed by the Senate to serve 14-year terms.
 - Federal Reserve Banks: 12 Banks, each serving a unique district.
 - Federal Open Market Committee (FOMC): Consists of 12 voting members and 19 total members; sets national monetary policy

Federal Reserve Districts and Office Locations



The Kansas City and Oklahoma City Offices

- **Headquarters office in Kansas City**

- Nearly **1,000 staff** involved in all mission areas
- **New building** officially opened in June 2008

- **Oklahoma City branch office**

- **Staff and functions** – 35 staff involved in economic research, bank examinations, and public and community affairs
- **Branch board of directors** – 7 members from around the state; provide anecdotal information in advance of each FOMC meeting

- **Oklahoma City branch board of directors**

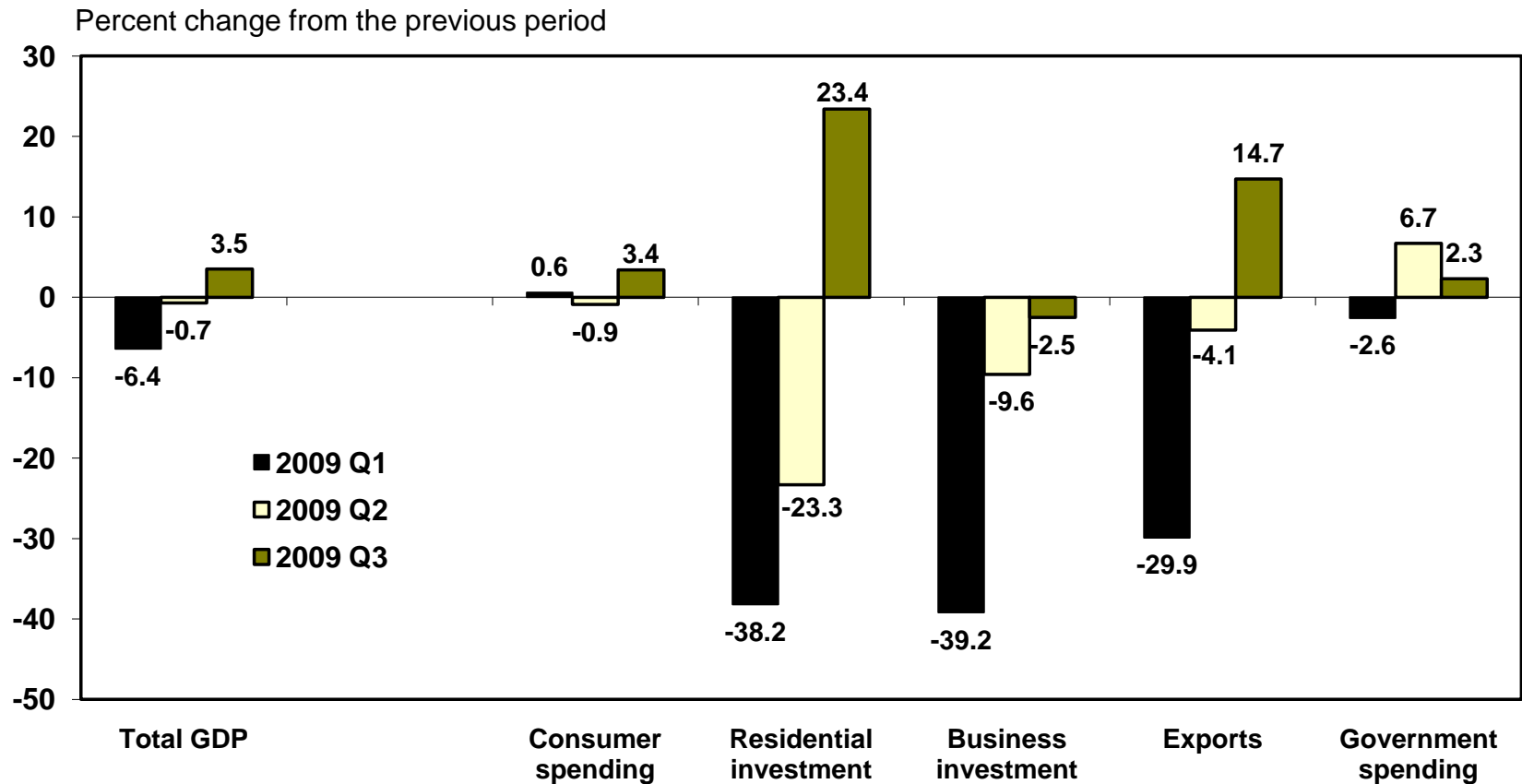
- *Chairman* **Steve Agee**, President, Agee Energy, and Professor, OCU, OKC
- **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
- **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
- **Jacque Fiegel**, Senior EVP & COO, Coppermark Bank, OKC
- **Fred Ramos**, COO, Latino Community Development Agency, OKC
- **Doug Tippens**, President and CEO, Canadian State Bank, Yukon
- **K. Vasudevan**, Chairman, Service and Technology Corp., Bartlesville

The U.S. Economy

- The U.S. economy is growing again, with help from monetary and fiscal stimulus
- But the strength of recovery is likely to be modest, due to a number of factors
- With modest growth, inflation is expected to remain tame in the near term

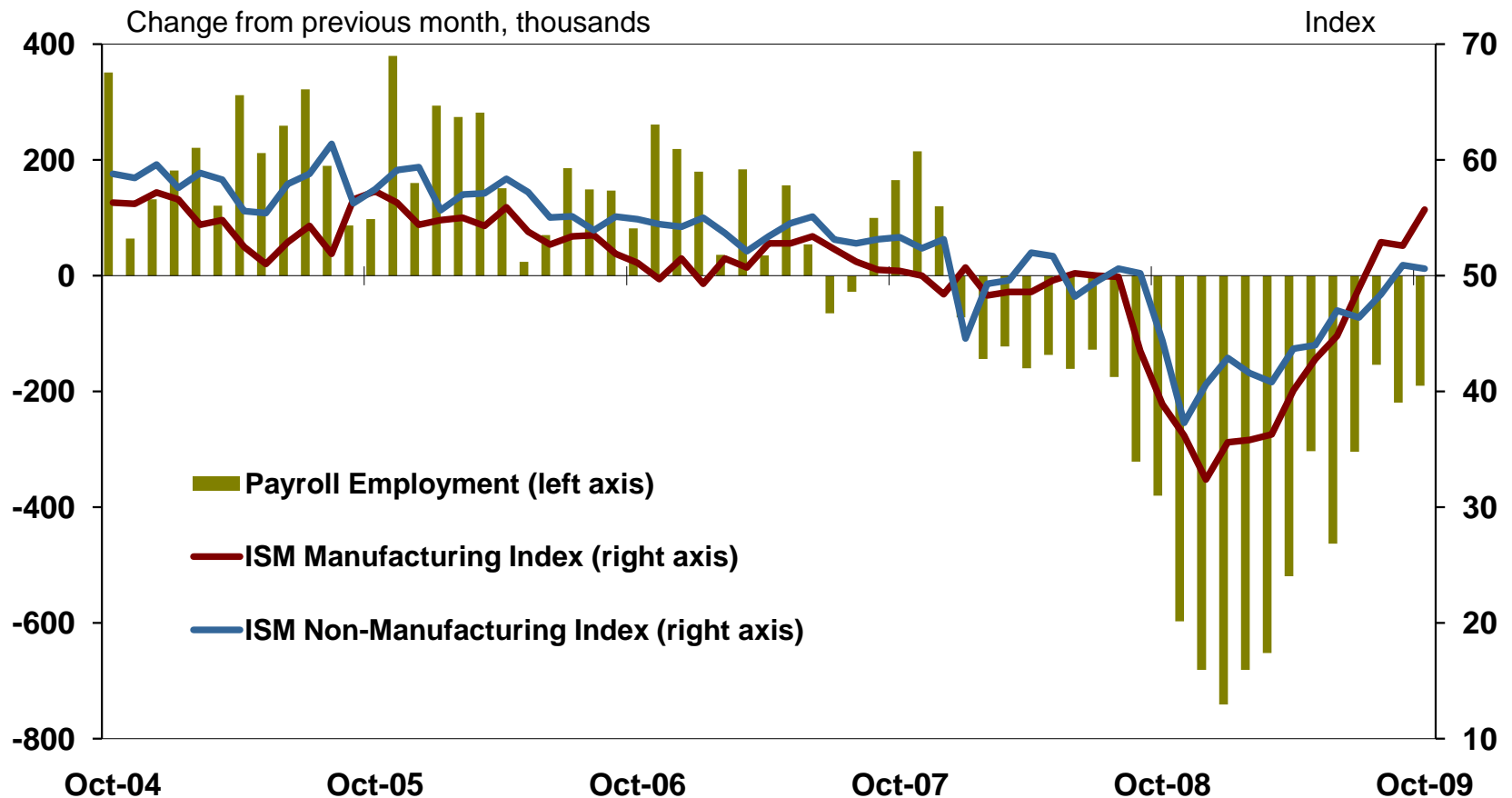
Third quarter GDP growth was quite positive, but was boosted by government stimulus

Growth in Components of GDP



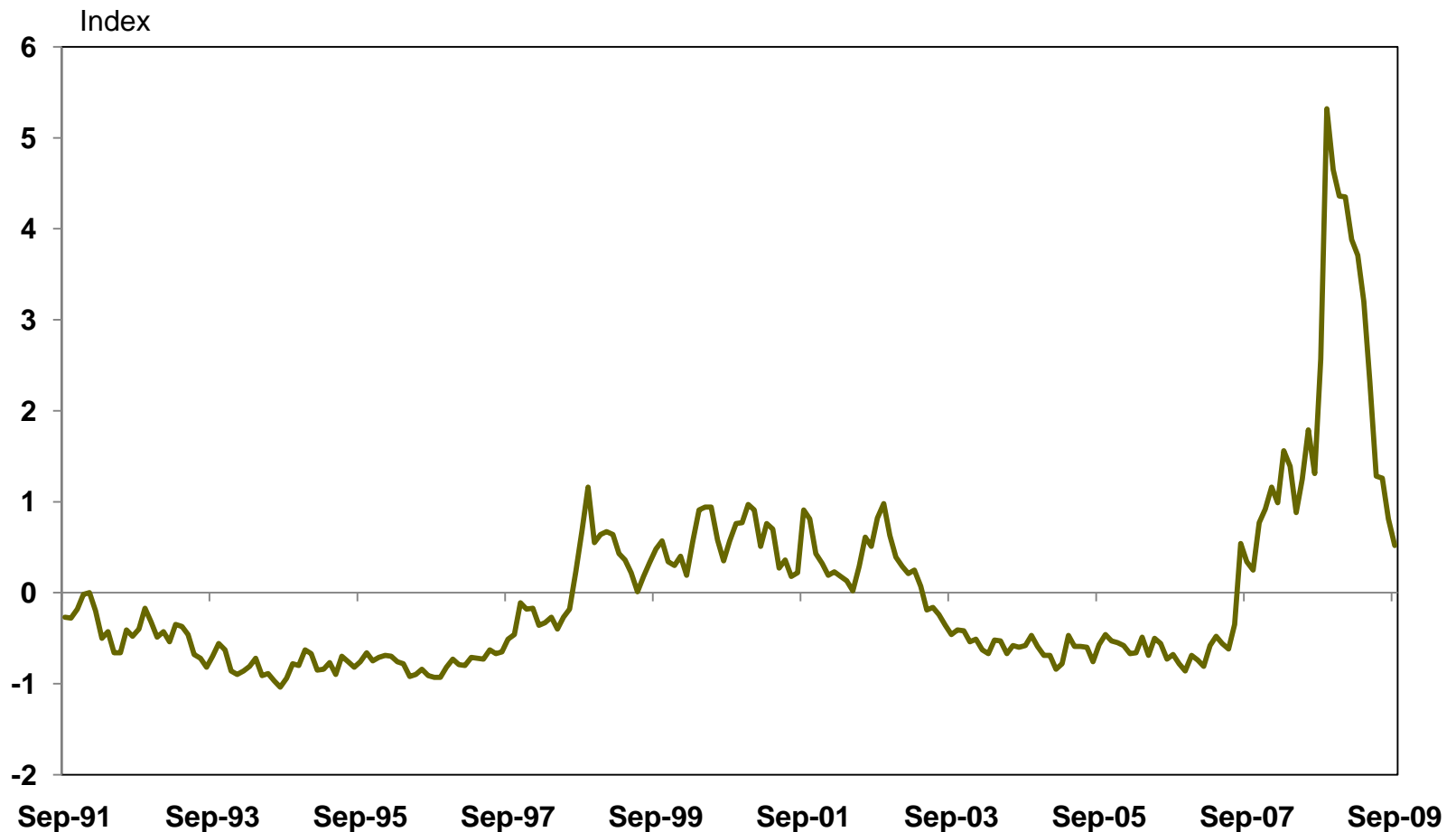
Early reads on the fourth quarter show moderate growth but continued job losses

National Business Indexes and Payroll Employment



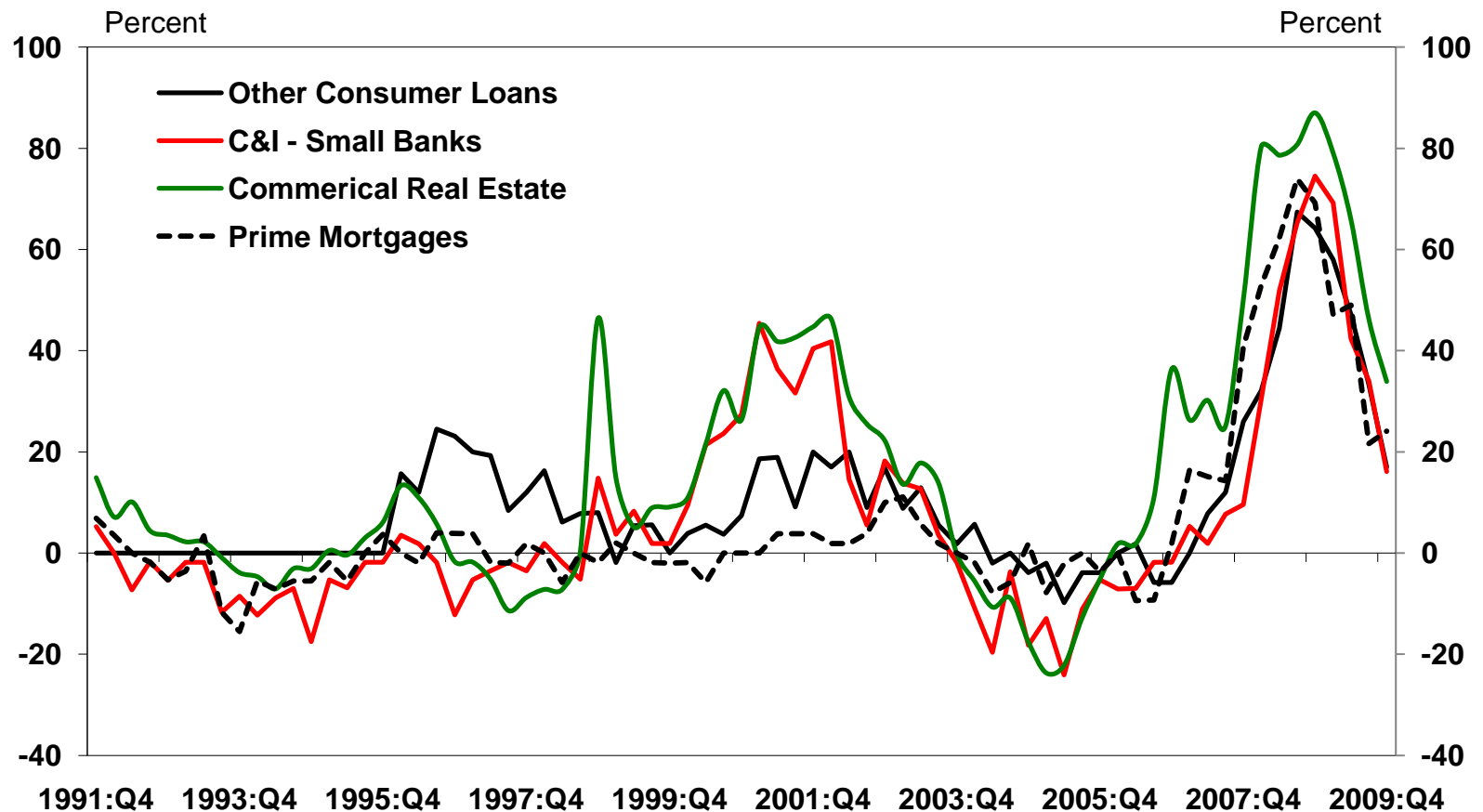
Credit market conditions have improved but remain somewhat stressed

Kansas City Financial Stress Index



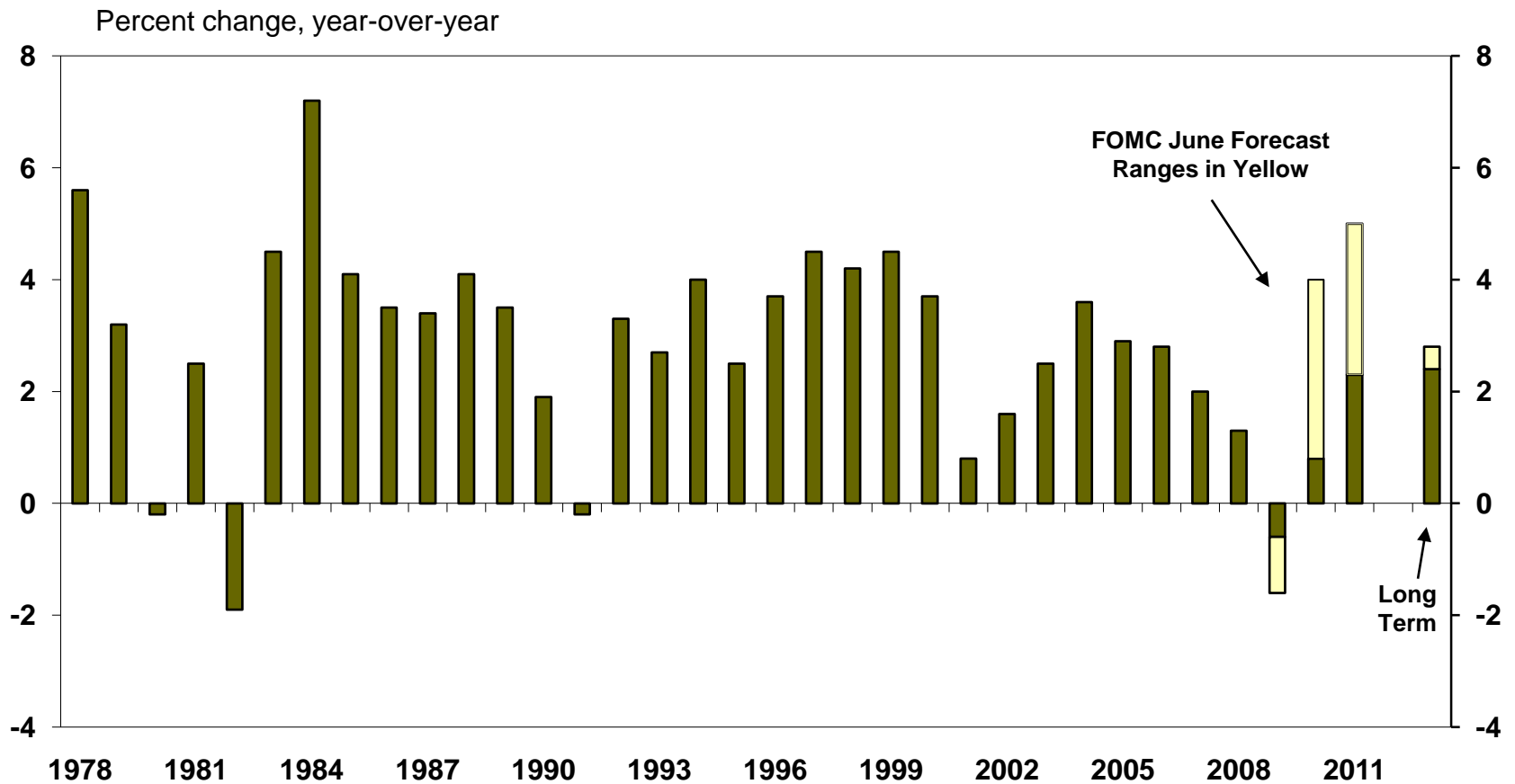
Banks' lending standards continue to tighten, but less than in recent quarters

Net Percentage of Banks Tightening Loan Standards
Business Loans



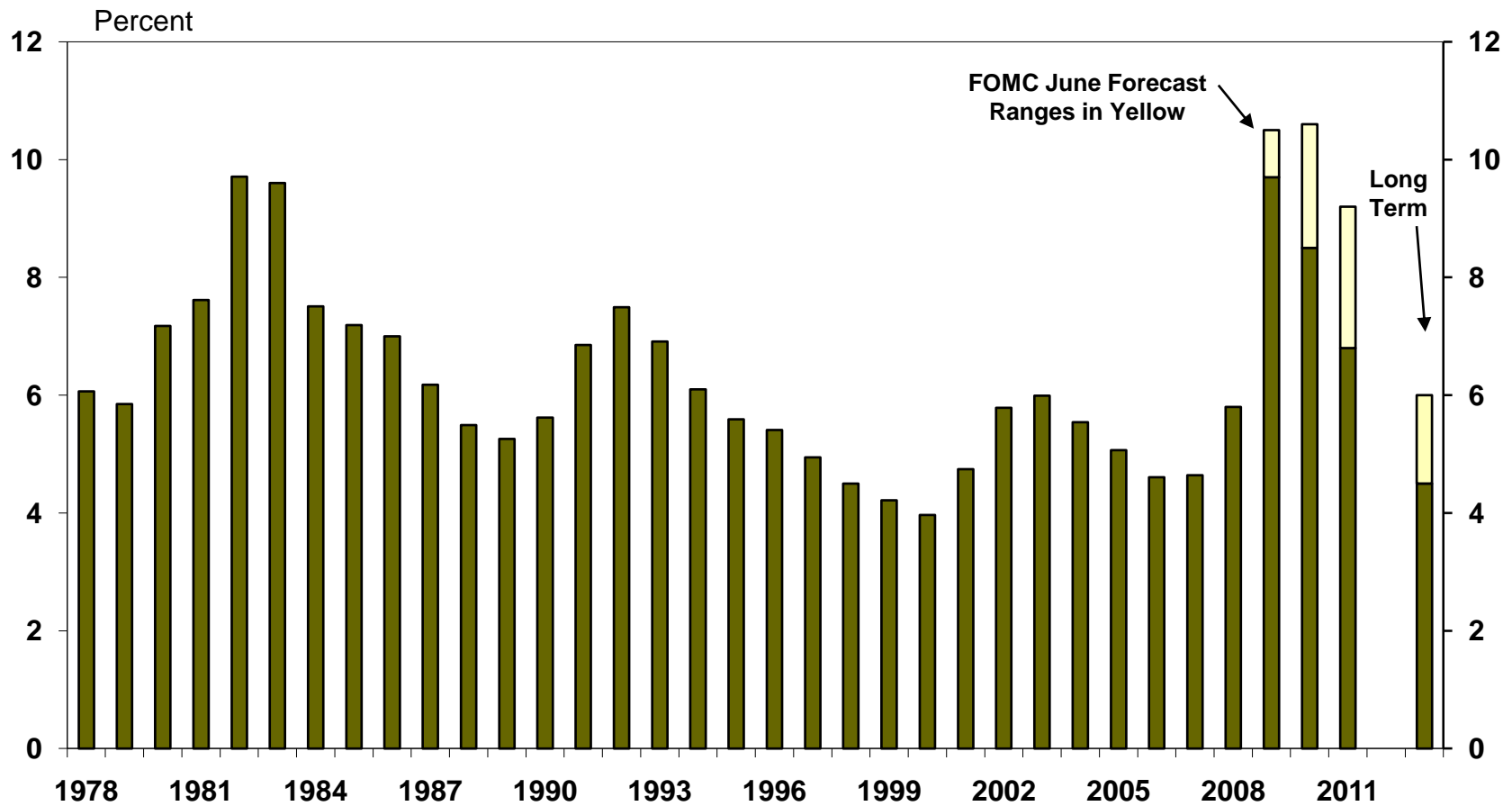
Heading forward, policy makers generally expect a gradual recovery

Gross Domestic Product



But unemployment is expected to remain high for some time

Unemployment Rate
Seasonally Adjusted

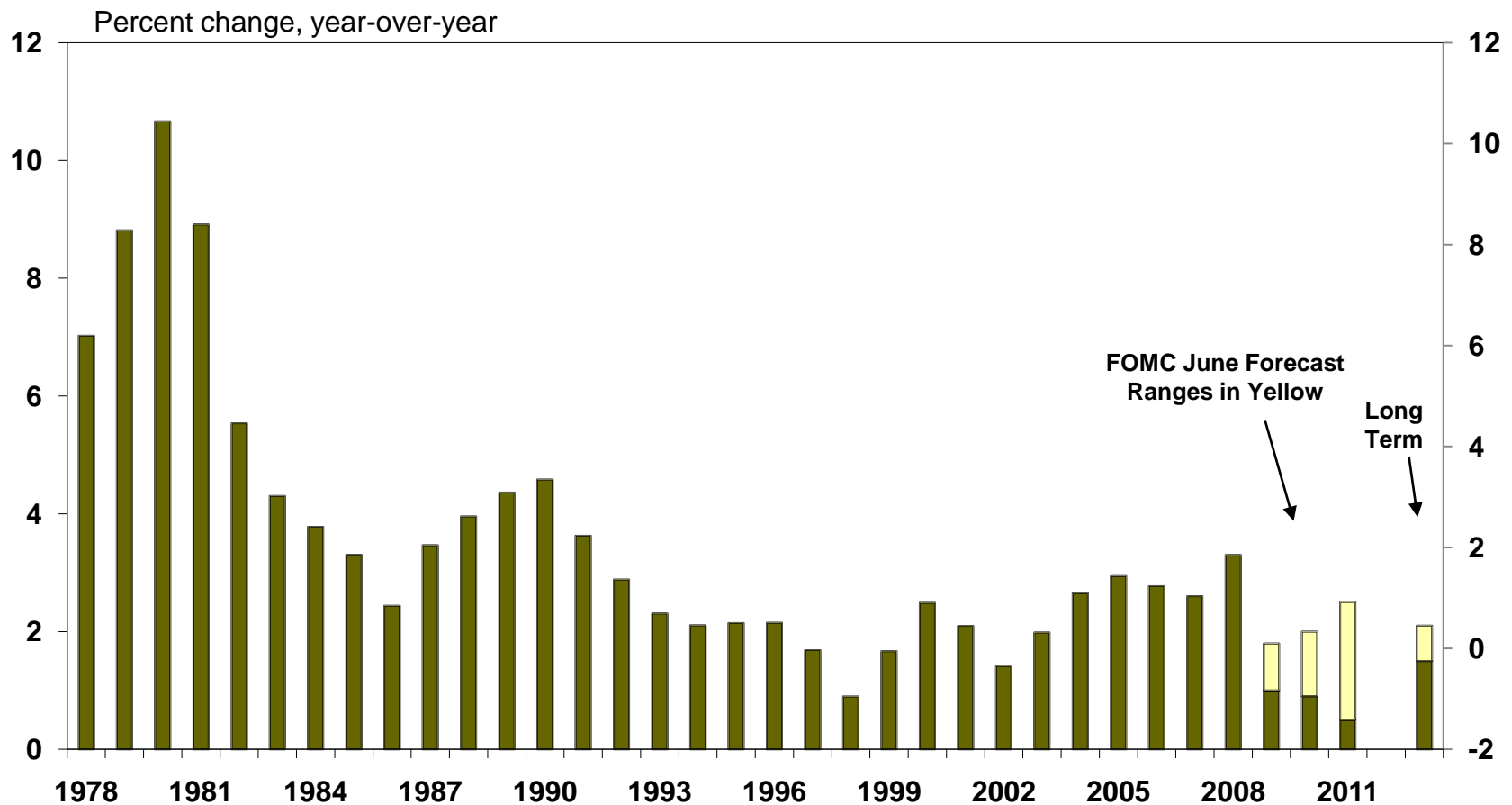


A list of reasons why U.S. recovery speed could be modest

- ❑ Some credit markets remain strained
- ❑ Consumers focus on repairing balance sheets and rebuilding wealth rather than spending
- ❑ Foreclosures continue to weigh on housing
- ❑ Problems in commercial real estate and general caution restrains business investment

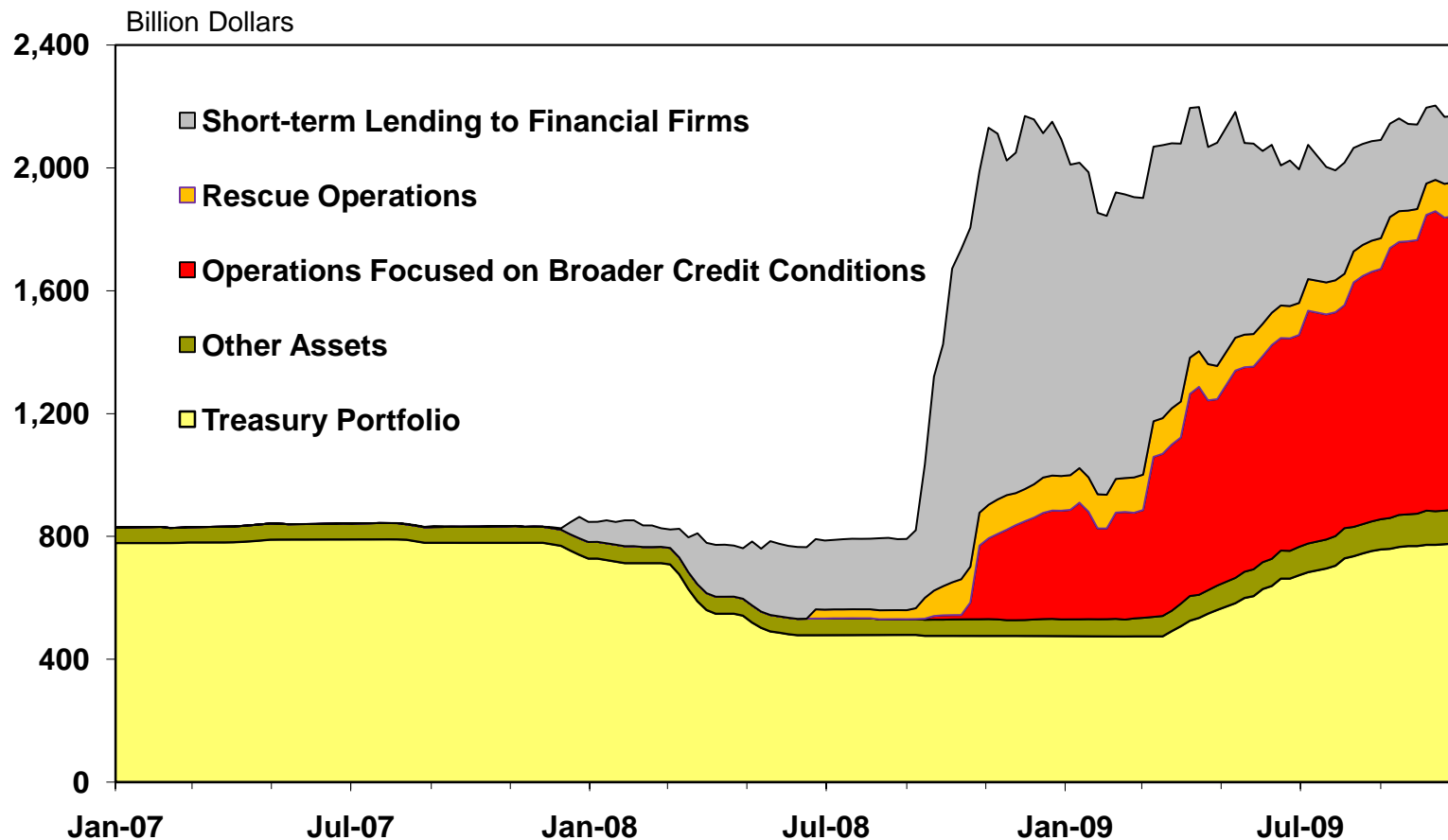
With modest growth, inflation is expected to remain fairly moderate in coming years

PCE Inflation Index



The Fed's balance sheet has grown

Federal Reserve Balance Sheet: Assets



November 4 FOMC statement

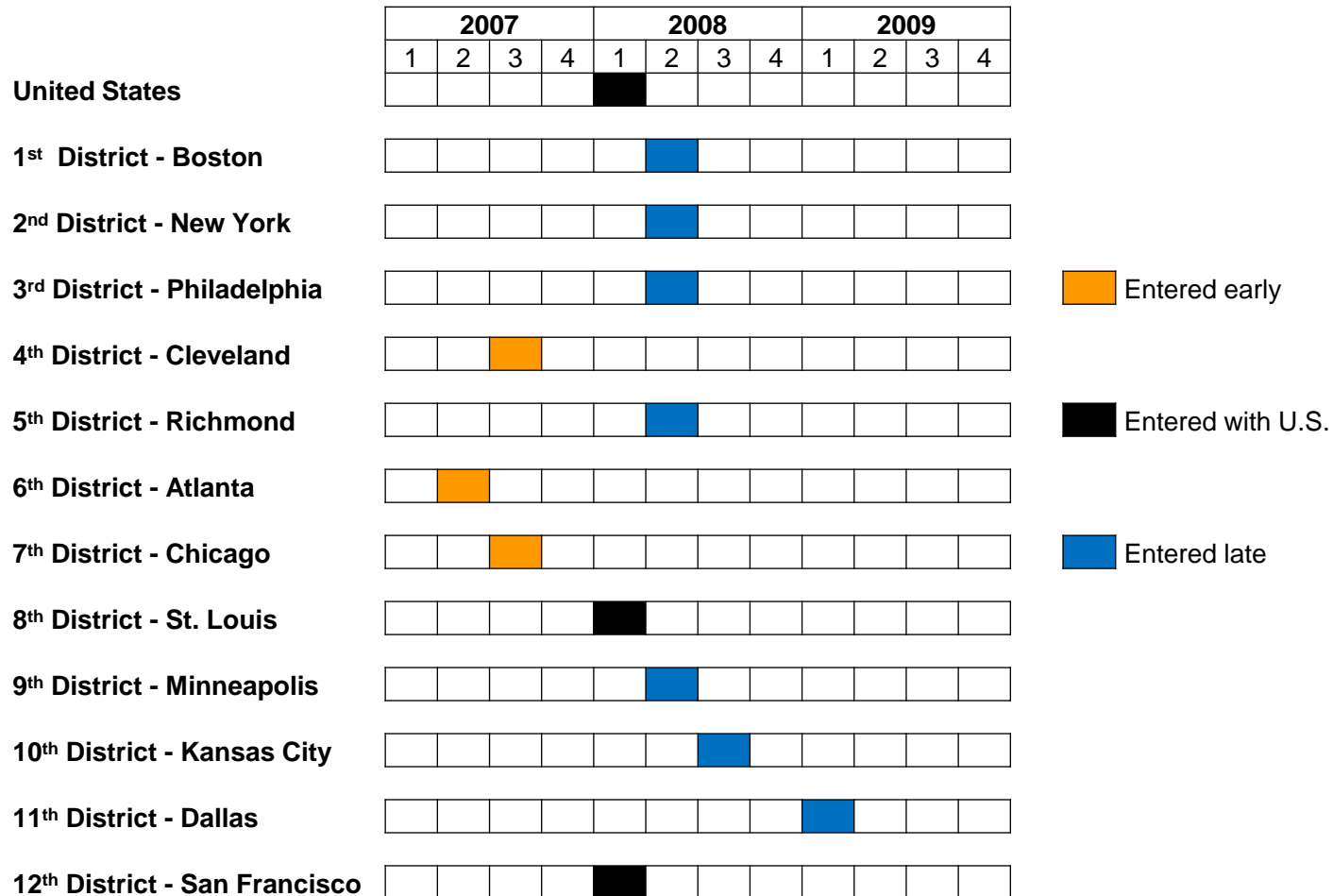
- In these circumstances, the Federal Reserve will continue to employ a wide range of tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period....
- In order to promote a smooth transition in markets, the Committee will gradually slow the pace of its purchases of both agency debt and agency mortgage-backed securities and anticipates that these transactions will be executed by the end of the first quarter of 2010. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

The Regional Economy and Oklahoma

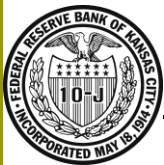
- As usual, our region and state entered this recession later than the nation
- Conditions in labor and housing markets remain much better than the nation
- Recent data suggest a regional and state bottom have been reached, but there are some risks to the rate of future growth

The timing of entry to this recession varied widely across the nation

Quarter of Entry to the Recession

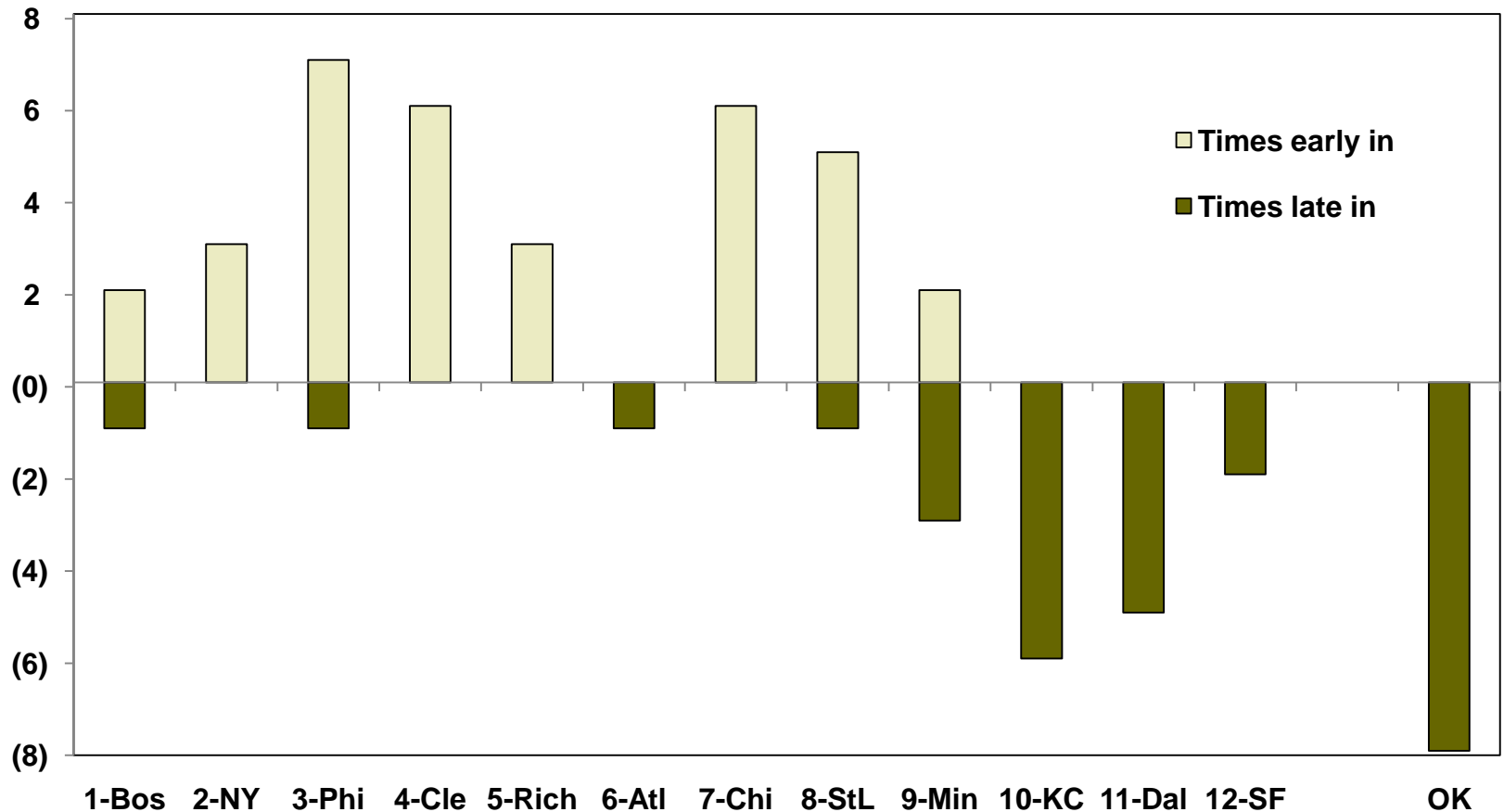


Source: U.S. Bureau of Labor Statistics



Our region is almost always late to recessions—and Oklahoma is *always* late

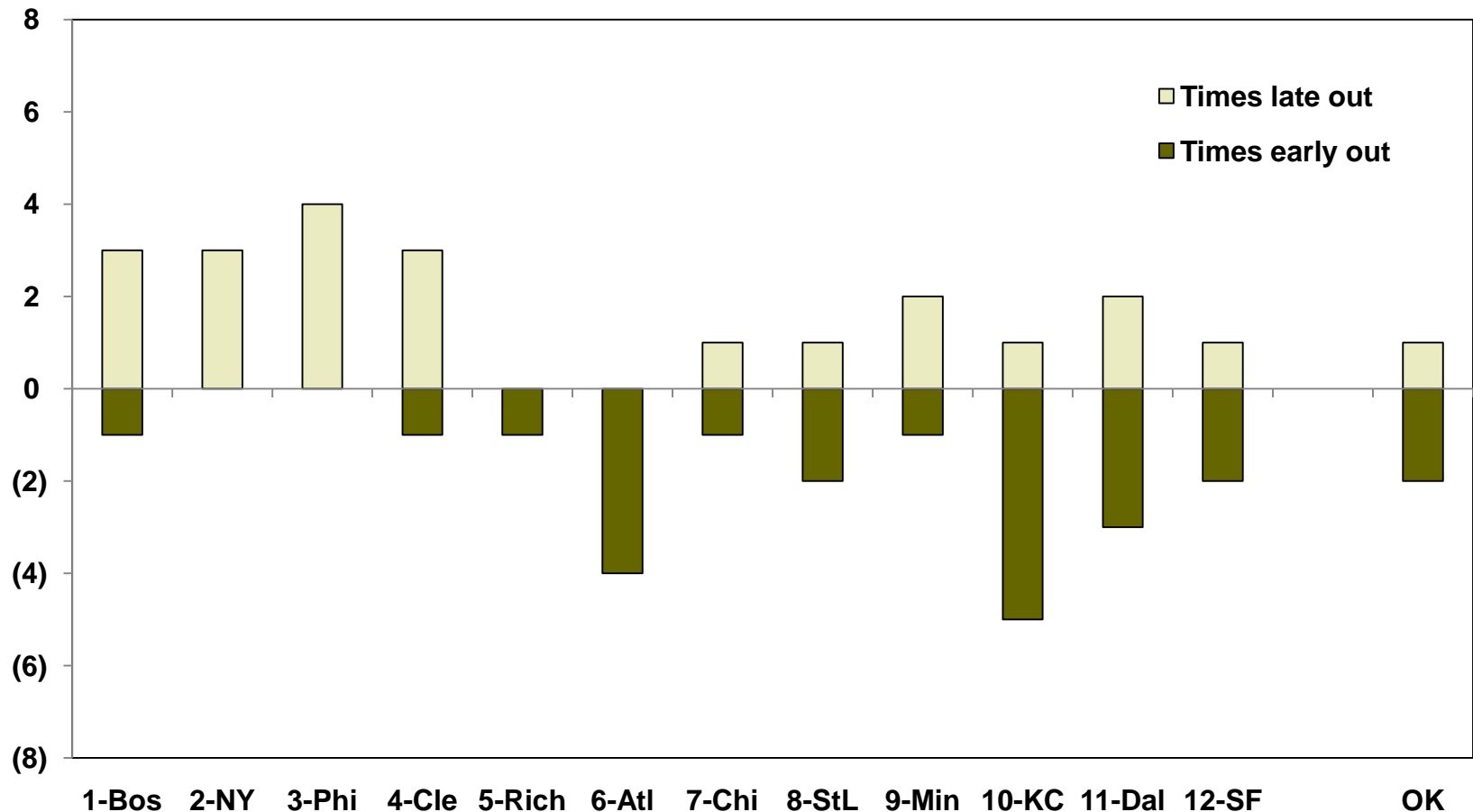
Historical Timing of Entry from Recessions by Fed District
For the eight U.S. recessions from 1957-2003



But exit from recessions tends to be more simultaneous across regions of the country

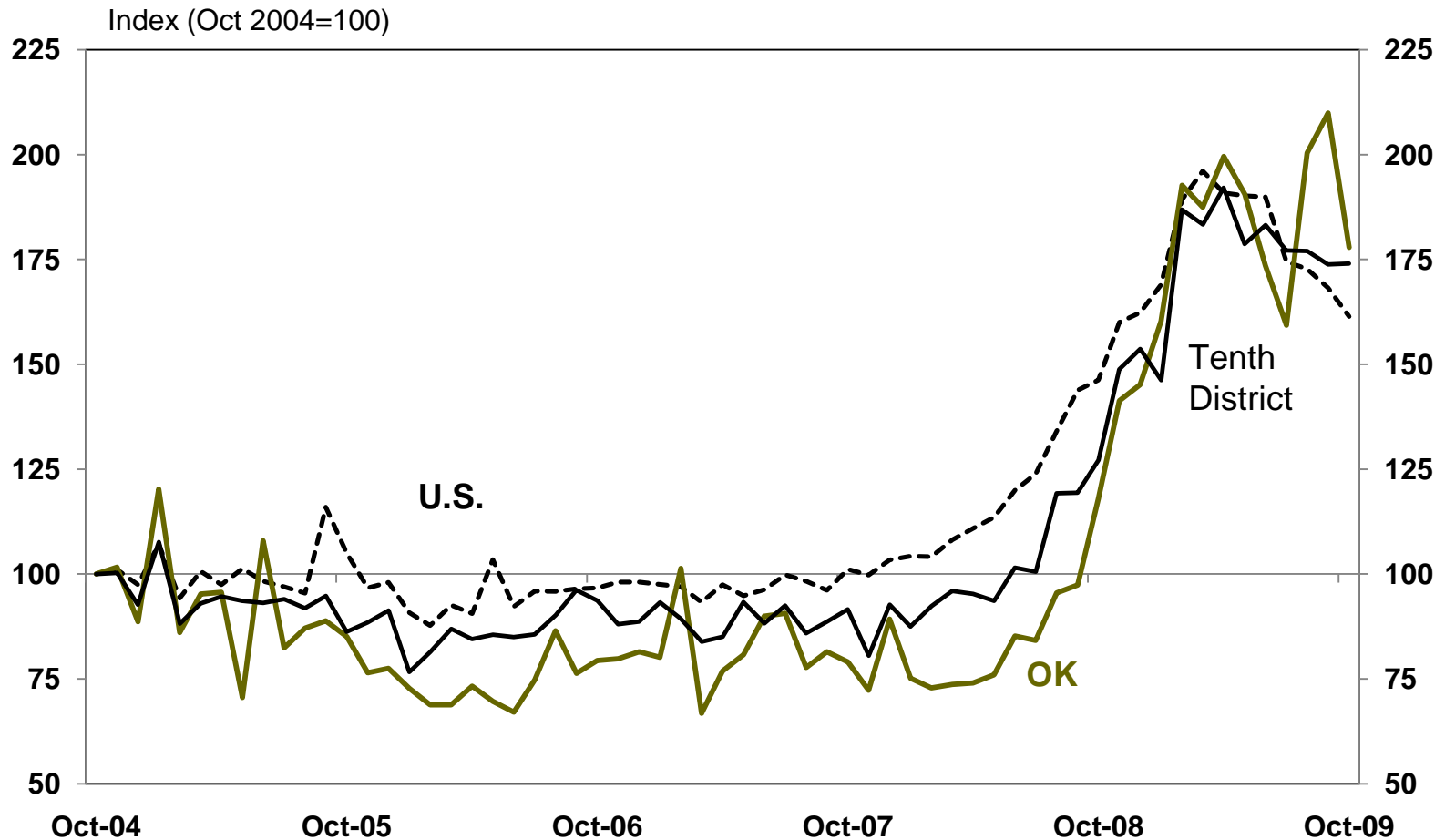
Historical Timing of Exit from Recessions by Fed District

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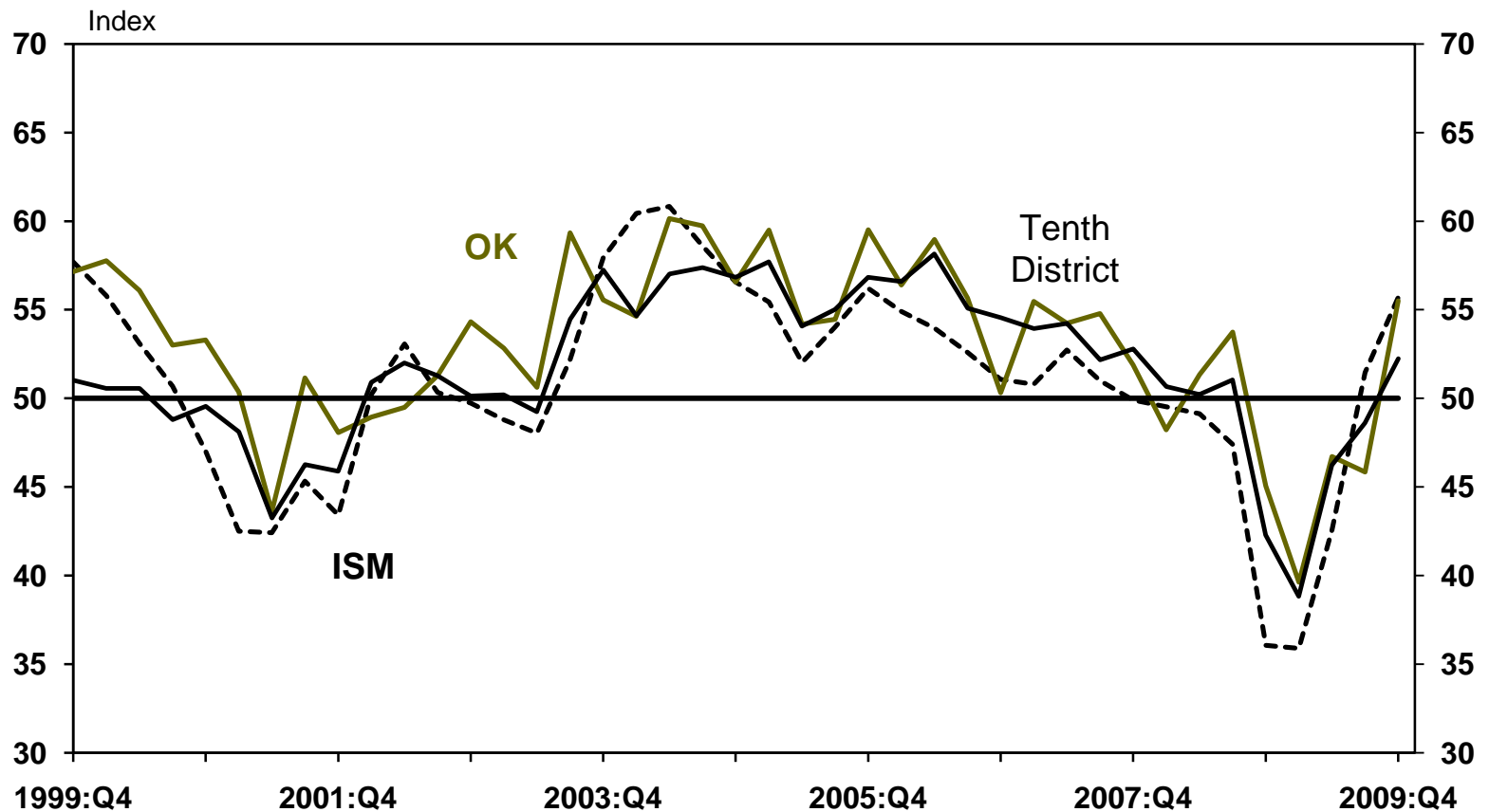
The most up-to-date labor market indicators show signs of a bottom in the region and state

Initial Claims for Unemployment Insurance



As do the latest results from national and regional manufacturing surveys

Manufacturing Composite Indexes
Seasonally adjusted

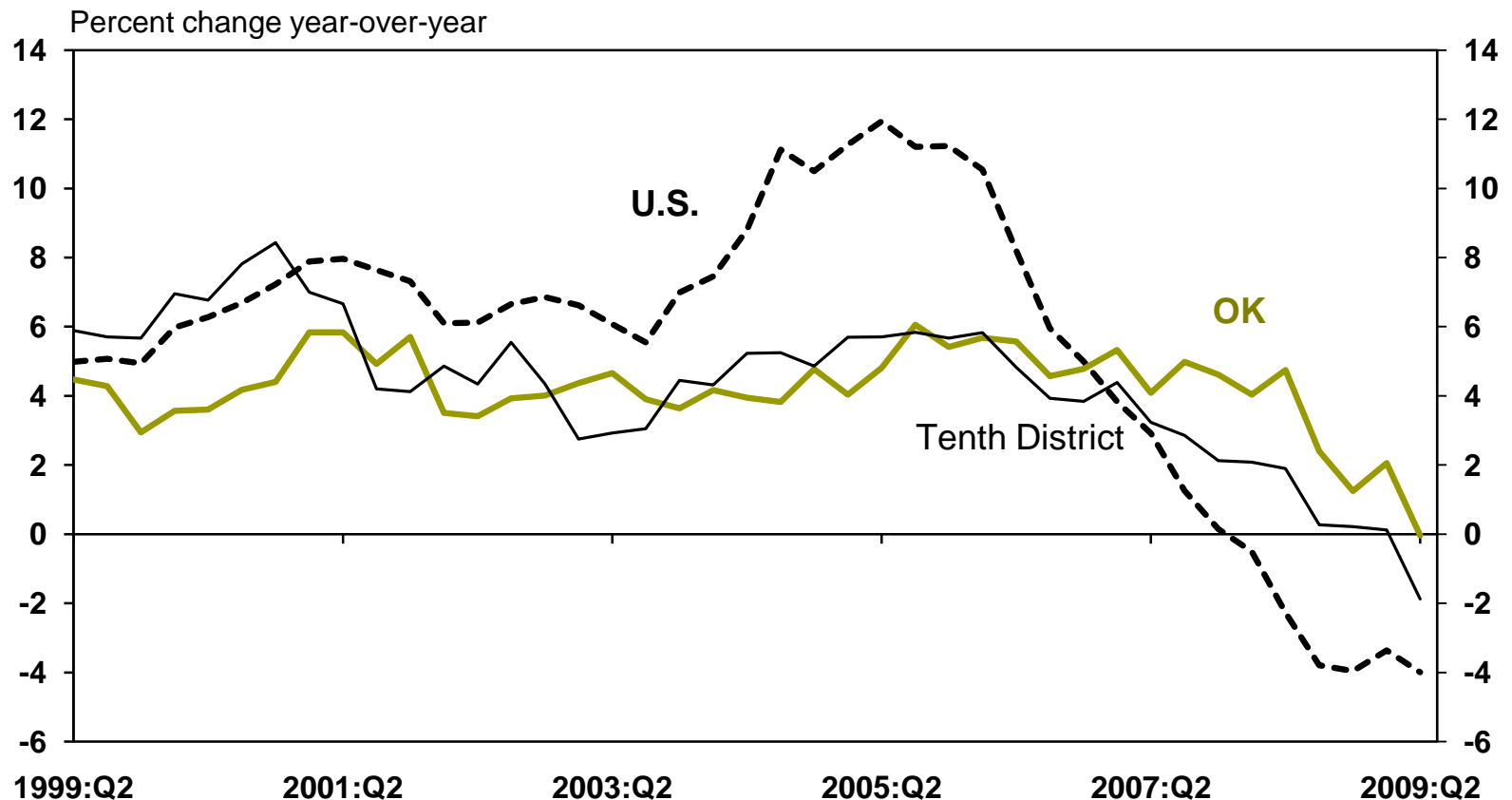


Note - 4th Quarter is only October

Source: ISM, FRBKC Manufacturing Survey

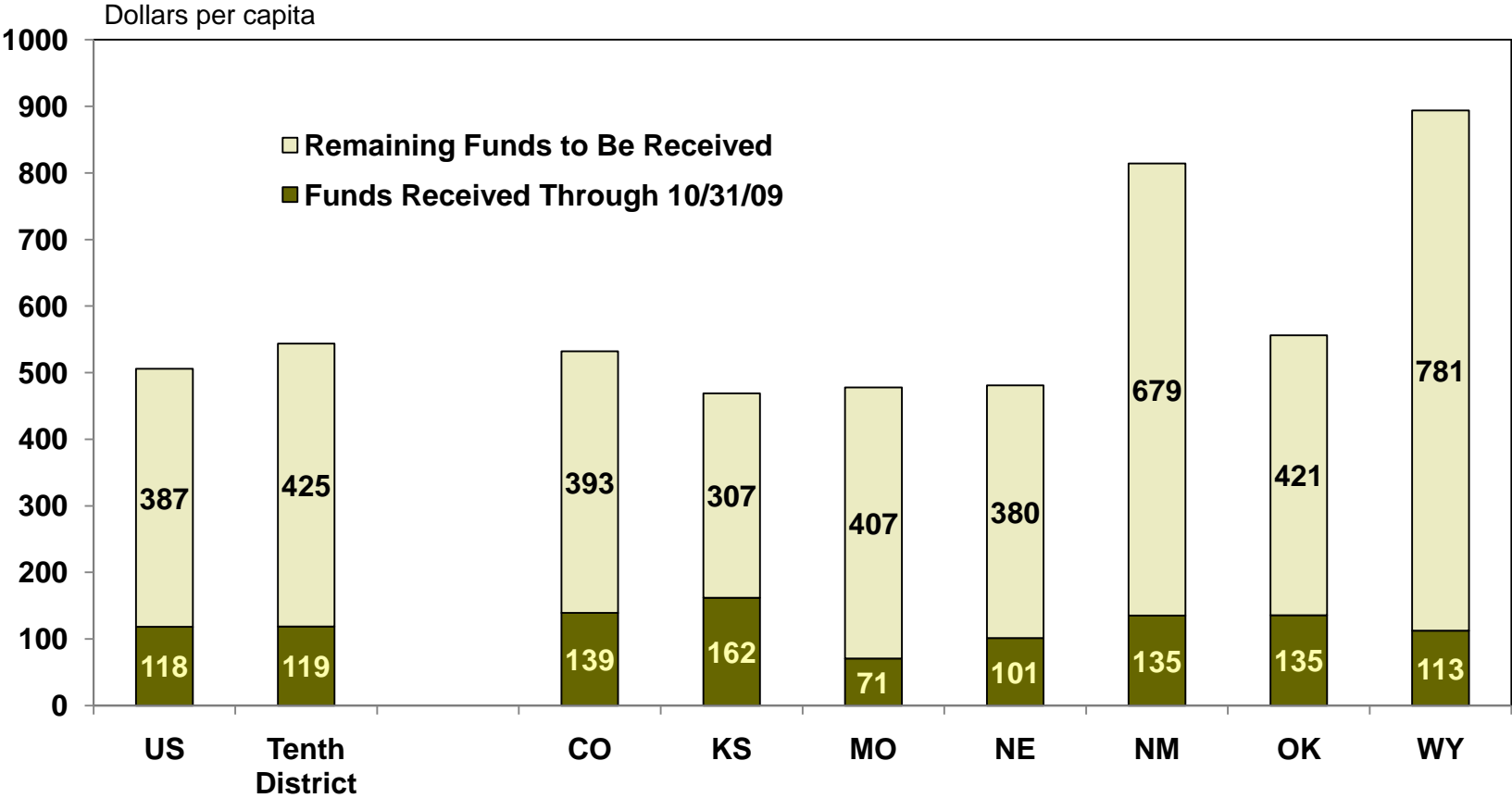
Home prices also have less risk of further declines in the region and state

Quality-Adjusted Home Price Growth



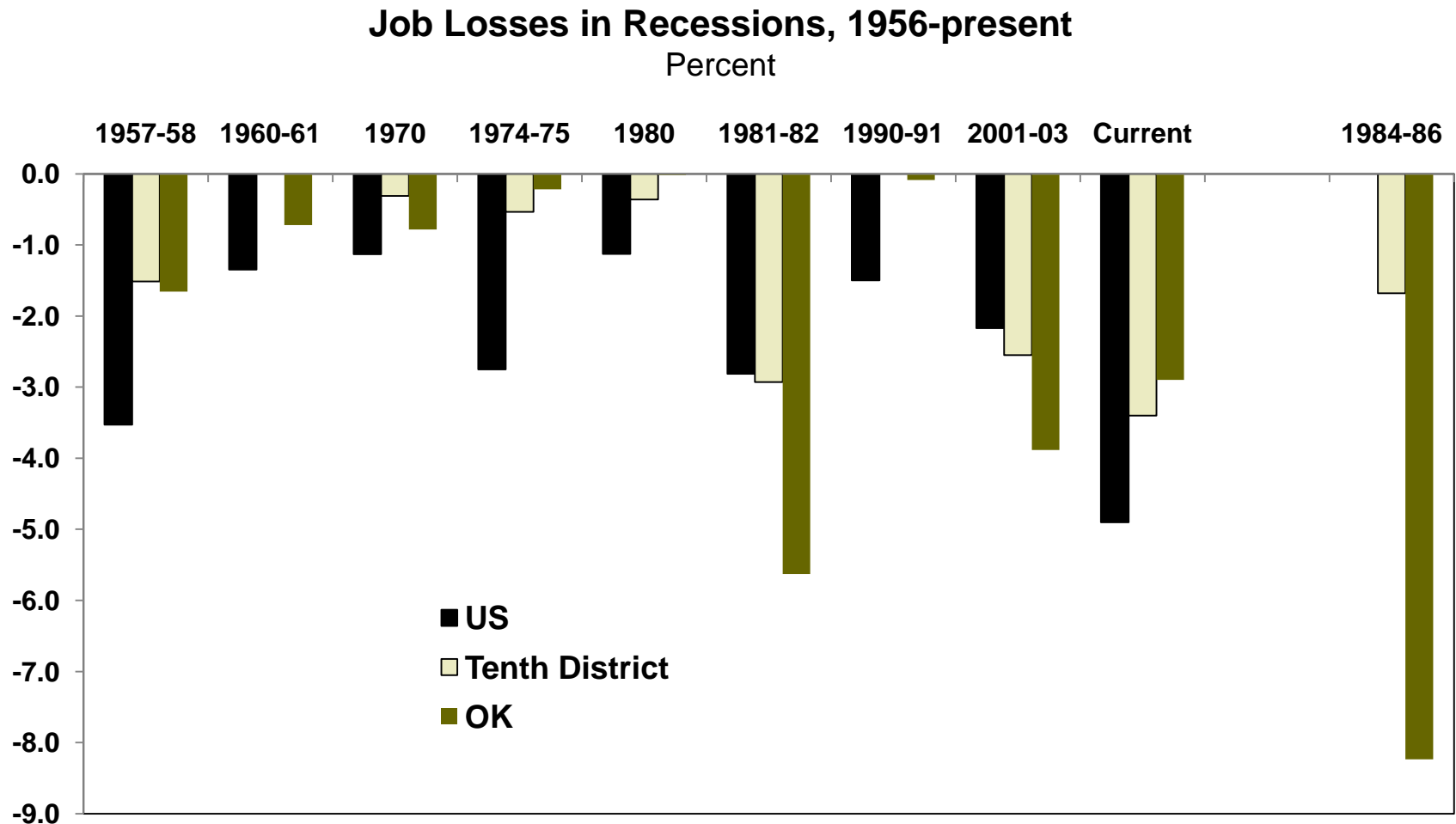
And our region and state are receiving slightly more fiscal stimulus than the nation

Per Capita Stimulus Package Spending U.S. and Tenth District States

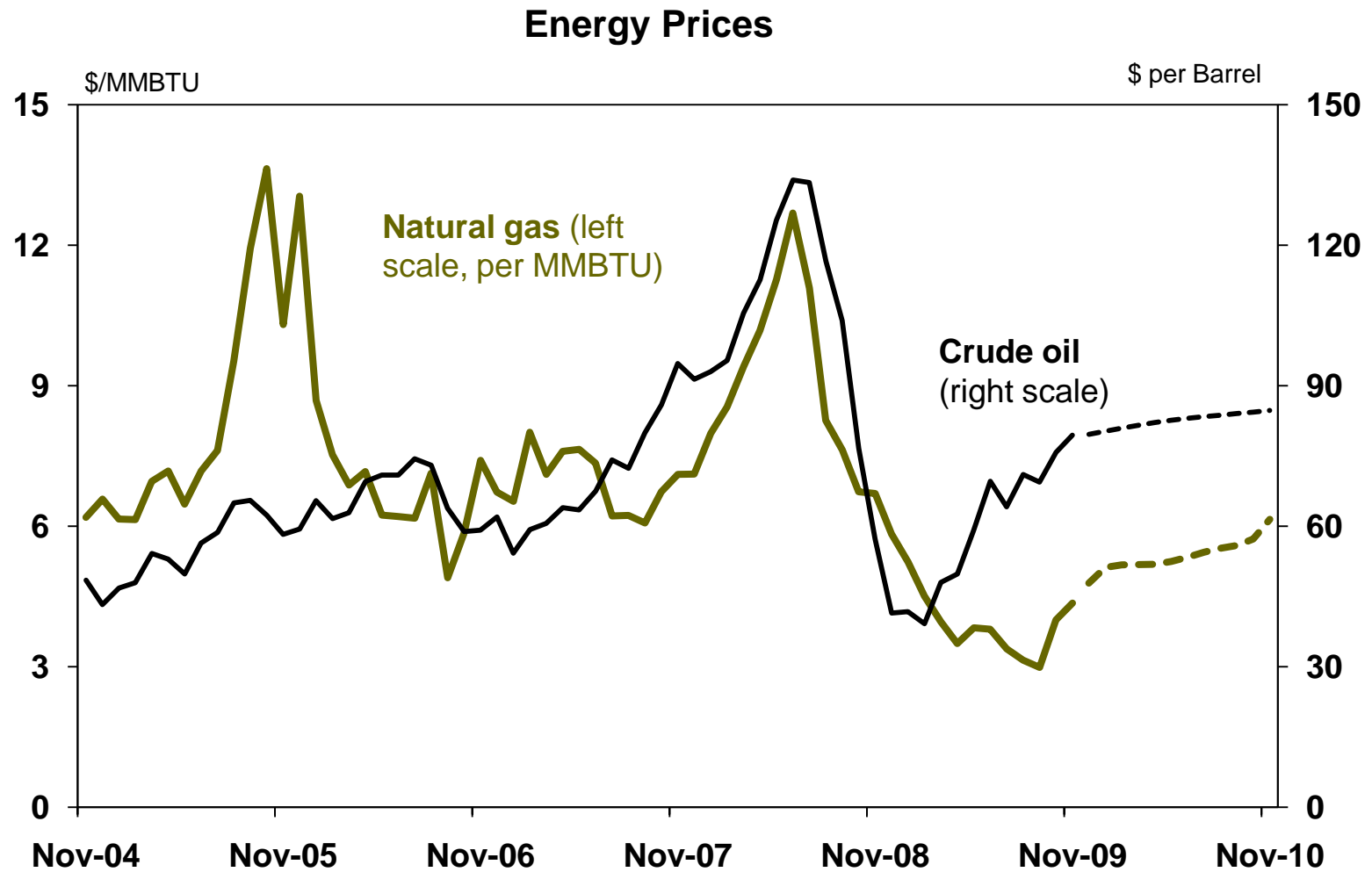


Source: Recovery.gov

Only two postwar recessions have hit our region and state worse than the nation



Energy prices remain the primary risk relative to the nation



Summary

- The U.S. economy is growing again, aided by monetary and fiscal stimulus
- Regional and Oklahoma data also suggest early signs of a recovery
- But recovery is likely to be modest, both nationally and regionally, with energy prices a risk in the region