U.S. and Regional Economic Outlook

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Overview of the Federal Reserve System

- The “Fed” consists of three 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: 19 members; 12 voting

- As with most central banks, the Fed’s primary responsibilities fall within four general areas:
  - Lender of last resort – provide liquidity in times of crisis
  - Monetary policy – promote full employment and low inflation
  - Bank regulation – ensure safety and soundness of banks
  - Financial services – bank for banks, bank for federal govt.
Federal Reserve Districts and Office Locations
The U.S. Economy
Real GDP growth picked up somewhat in Q3, but still remains moderate.

U.S. Real Gross Domestic Product

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, FOMC
Business investment was strong, exports grew further, and consumers spent more.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

- Total GDP
- Consumer spending
- Residential investment
- Business investment
- Exports
- Government spending

Source: U.S. Bureau of Economic Analysis
Monthly indicators through November suggest continued moderate growth

U.S. Private Payroll Employment and Business Indexes

Financial stress in Europe remains the biggest risk to U.S. and world growth

3-month EURIBOR & LIBOR Spreads (to OIS)

Source: Bloomberg
At its November meeting, the FOMC expected fairly solid U.S. GDP recovery

Real Gross Domestic Product

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
But for unemployment to only come down slowly the next few years
And for inflation pressures to ease slightly after rising with oil and food prices in 2011.

Source: U.S. Bureau of Economic Analysis, FOMC
Regional and Industry Outlook
There is considerable variation in economic growth across the nation—and region.
States with high concentrations of energy activity tend to be doing the best right now.
Unemployment rates throughout our region remain lower than in the nation.

Unemployment Rate (percent)
October 2011

Source: U.S. Bureau of Labor Statistics
However, labor markets may not be overly tight due to labor force dropouts.

Unemployment Rate by State
Seasonally Adjusted

Percent

US | DIST | MO | CO | KS | NM | OK | WY | NE
---|-----|----|----|----|----|----|----|----
9.1 | 7.2 | 8.7 | 8.3 | 6.7 | 6.6 | 5.9 | 5.8 | 4.2
11.8 | 11.1 | 11.7 | 15.1 | 11.7 | 9.1 | 9.9 | 6.0 | 6.0

*LFPR= Labor Force Participation Rate

Source: Bureau of Labor Statistics
And while some District states are nearing pre-recession job levels, others are not.

Change in Employment Since January 2008
Seasonally Adjusted

Source: U.S. Bureau of Labor Statistics
Residential construction activity in both the nation and region remains sluggish.

Value of Residential Construction Contracts
Seasonally Adjusted

Index: Oct-06=100

Tenth District

U.S.

Source: F.W.Dodge, Inc.
But home prices in most of our region, including Oklahoma, have held up much better.

Five-Year Change in Home Prices
Purchase-Only, 2011 Q3 (percent)

Source: U.S. Bureau of Labor Statistics
Fewer real estate problems also means banks in the region remain in better condition.

Percent of Banks Experiencing a Loss
June 30, 2011

* Percentage of banks with negative net income (YTD)

Source: Reports of Condition and Income
Manufacturing growth remains moderate in both the nation and our region

Note – Tenth District calculated on an ISM basis; Above 50 indicates expansion

Source: KCFRB Manufacturing Survey
And factory expectations for this area are fairly positive heading forward.
Surging farmland prices likely pose a risk in some parts of our region

Tenth District Non-Irrigated Cropland Values
Percent Change, Year-over-year

- District
- NE
- KS
- MO
- Mtn States (CO, NM, WY)
- OK

Percent

Source: FRBKC Agricultural Credit Survey
Summary

- The U.S. economy is growing moderately but is facing headwinds from Europe.

- Fed forecasts call for modestly improving unemployment and falling inflation in 2012.

- Economic activity in the Tenth Federal Reserve District is somewhat stronger.

- The outlook for the region remains relatively good, though land prices appear to be a risk.