

The Fed and the Economy in the U.S. and Oklahoma



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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 – controls nation's money supply; lender of last resort
 - Bank regulation – all 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 appointed by Senate to 14-year terms.
 - Federal Reserve Banks: 12 Banks, each serving a unique district.
 - Federal Open Market Committee FOMC): 12 voting members

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

- **Staff and functions**

- Approximately 35 full-time staff involved in economic research; bank examinations; and public and community affairs

- **2010 board of directors**

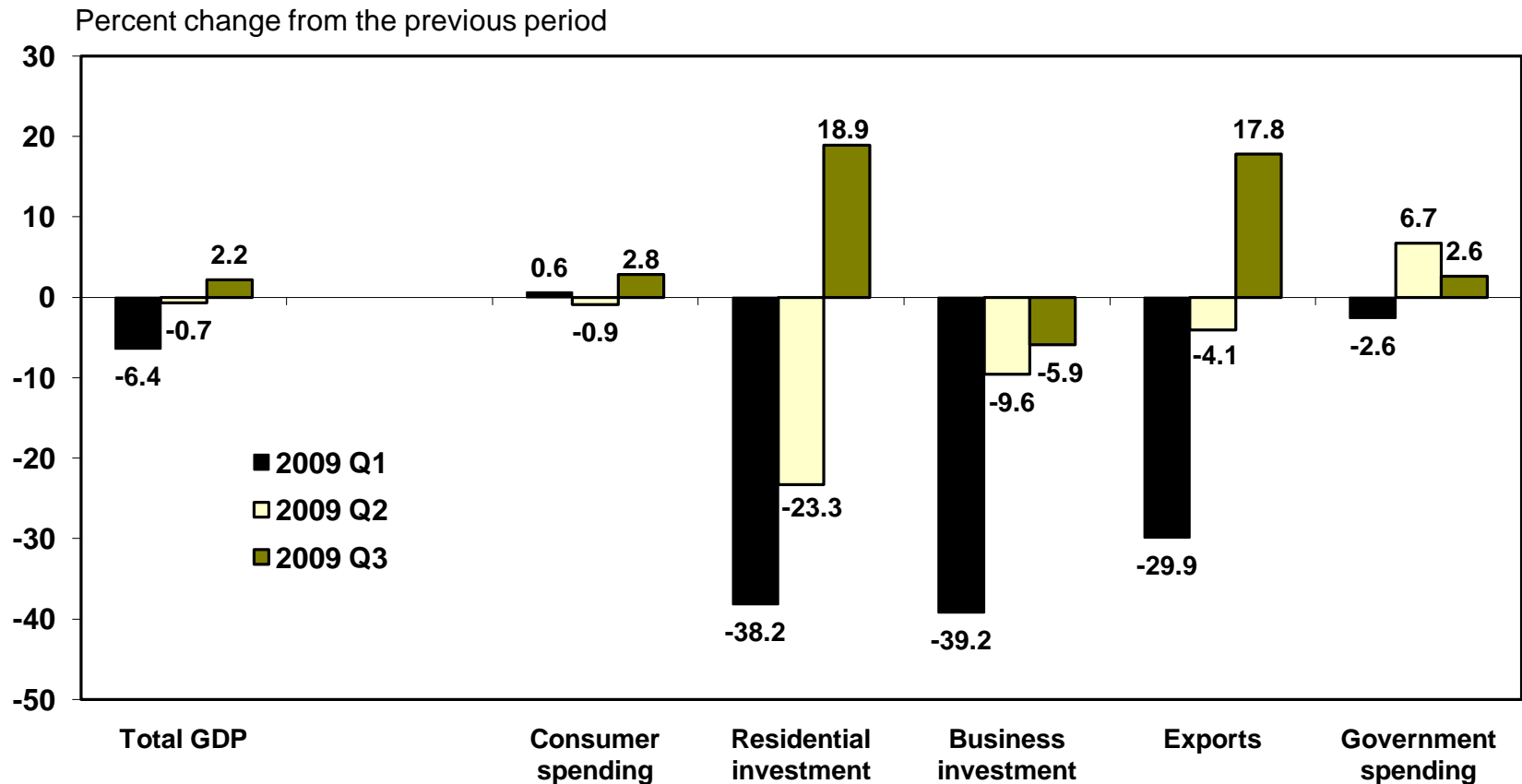
- **Steve Agee (chairman)**, President, Agee Energy, and Professor, OCU, OKC
 - **Bill Anoatubby**, Governor, Chickasaw Nation, Ada
 - **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
 - **Jacque Fiegel**, Senior EVP & COO, Coppermark Bank, OKC
 - **Rose Washington Rentie**, Executive Director, 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

- 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

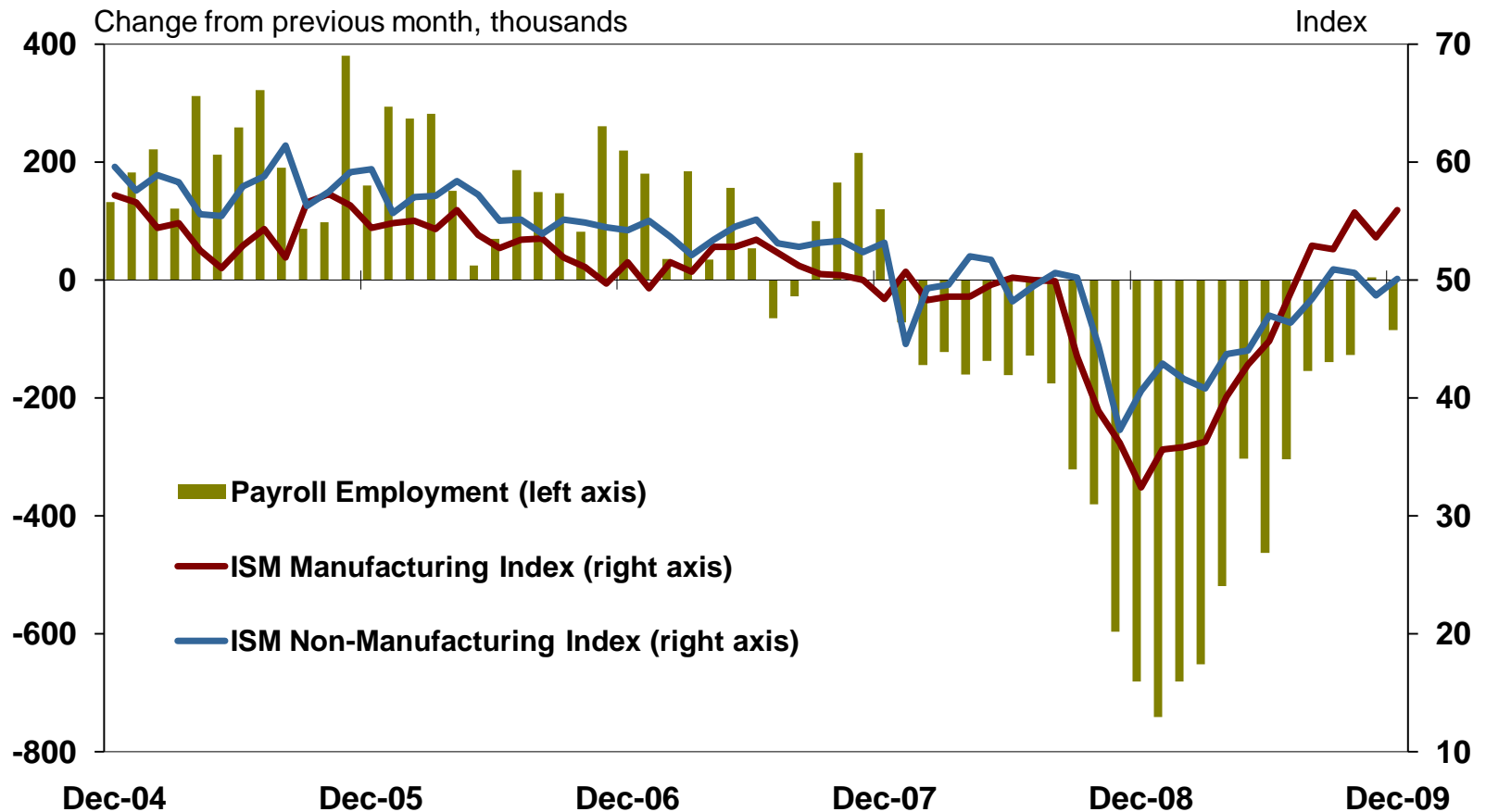
Third quarter GDP growth was finally positive, but was boosted by government stimulus

Growth in Components of GDP



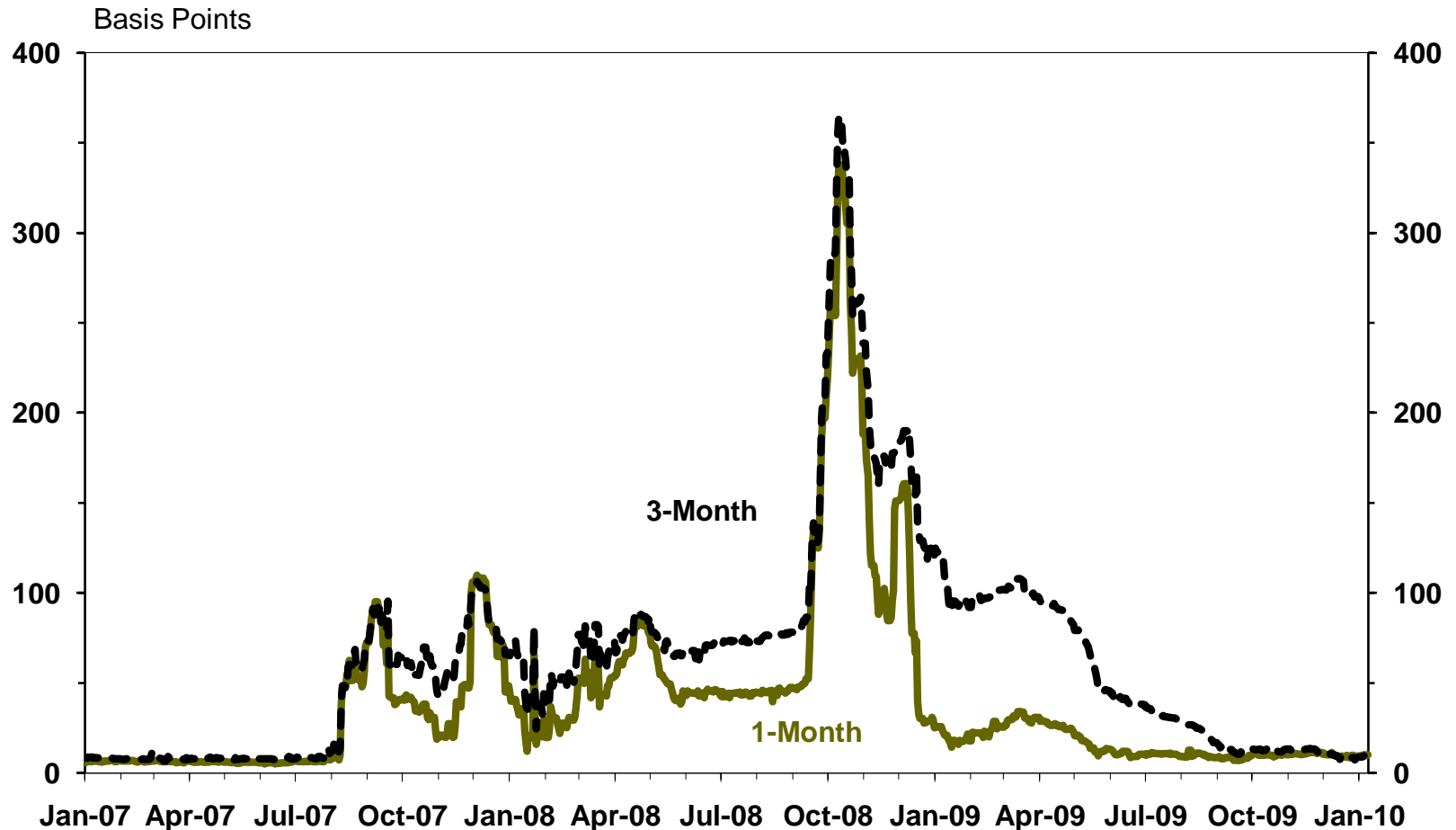
Data on the fourth quarter show moderate growth, with job losses diminishing

National Business Indexes and Payroll Employment



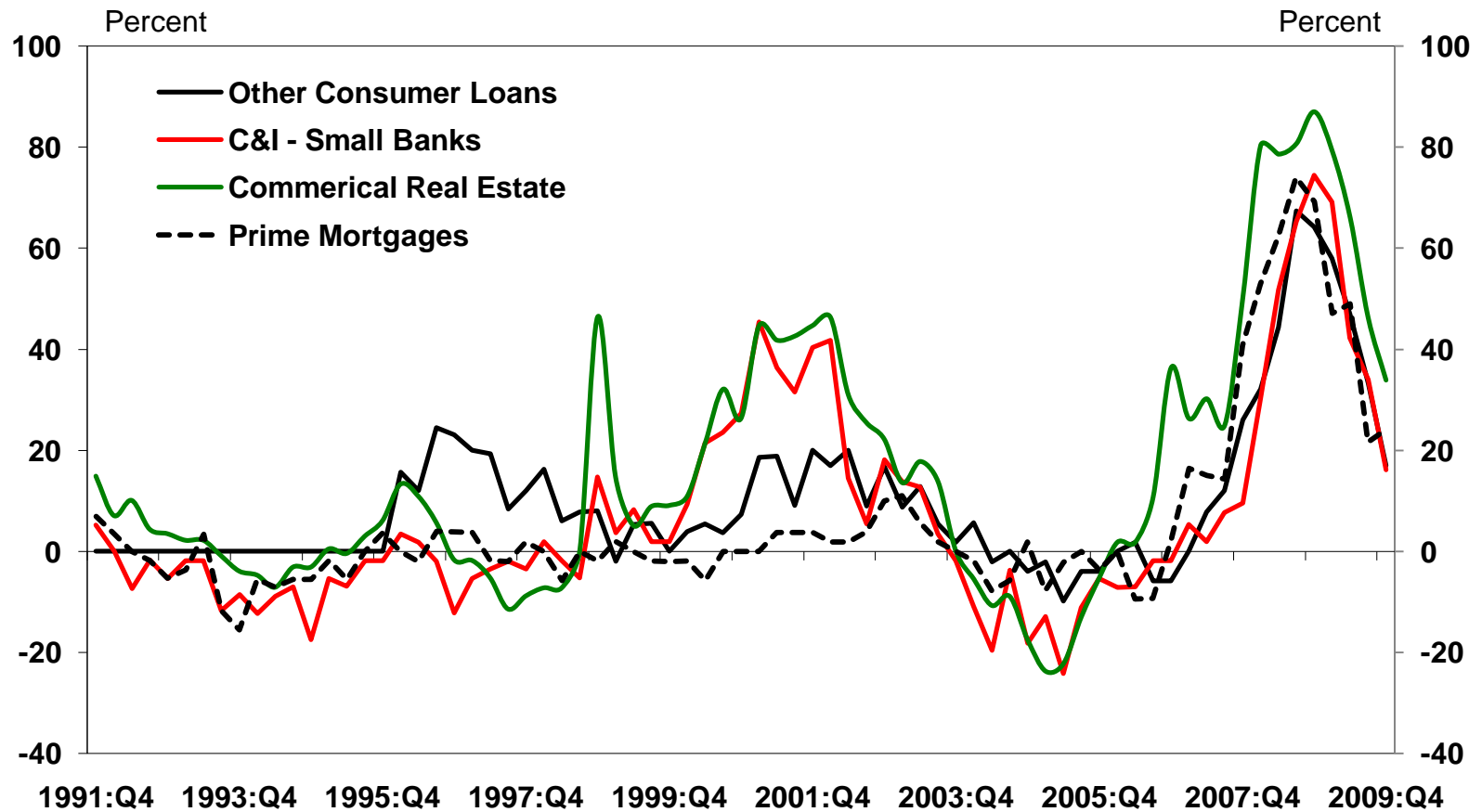
Credit market conditions have continued to stabilize in recent months

LIBOR-OIS Spread



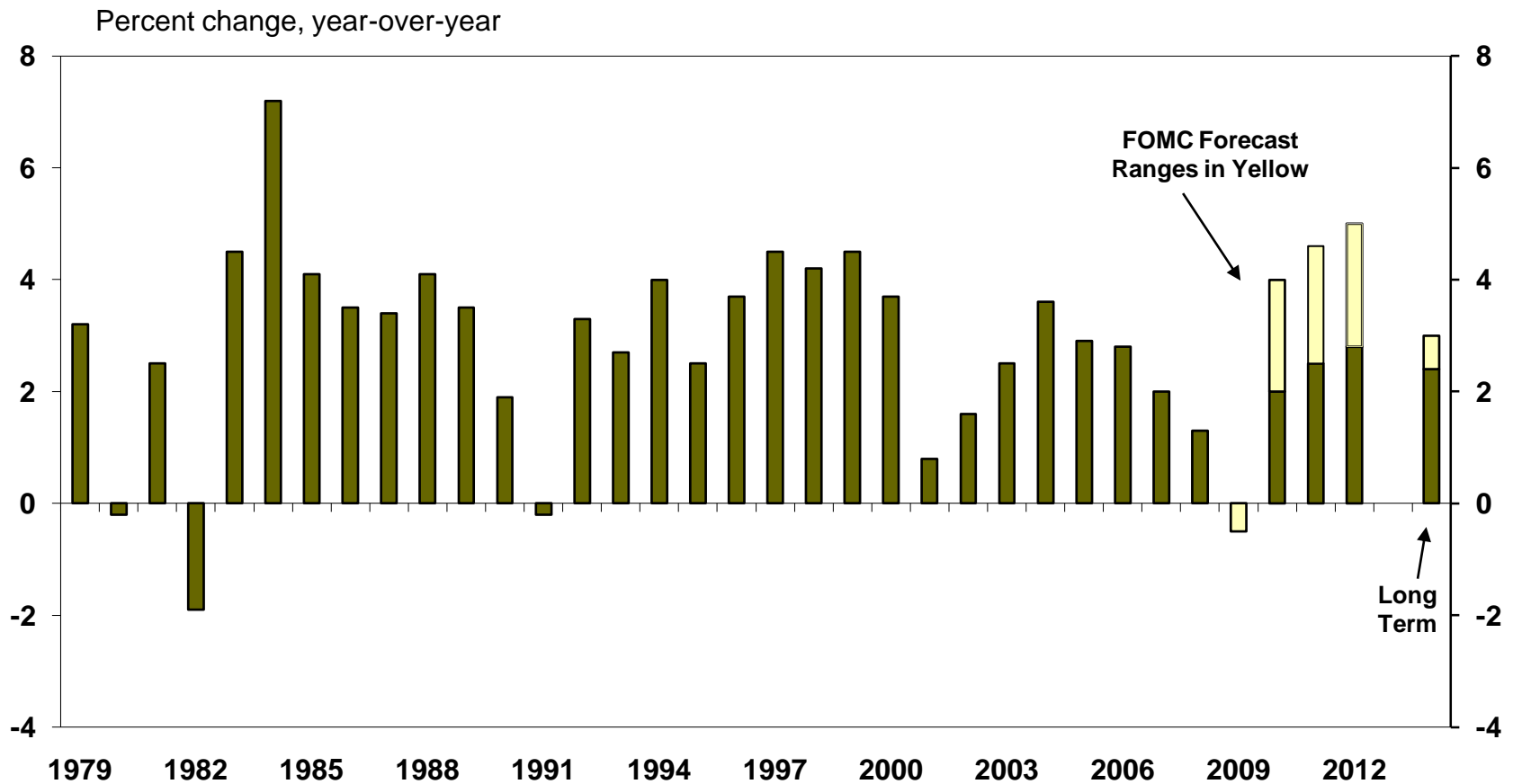
Banks' lending standards continue to tighten, but less than in recent quarters

Net Percentage of Banks Tightening Loan Standards
Business Loans



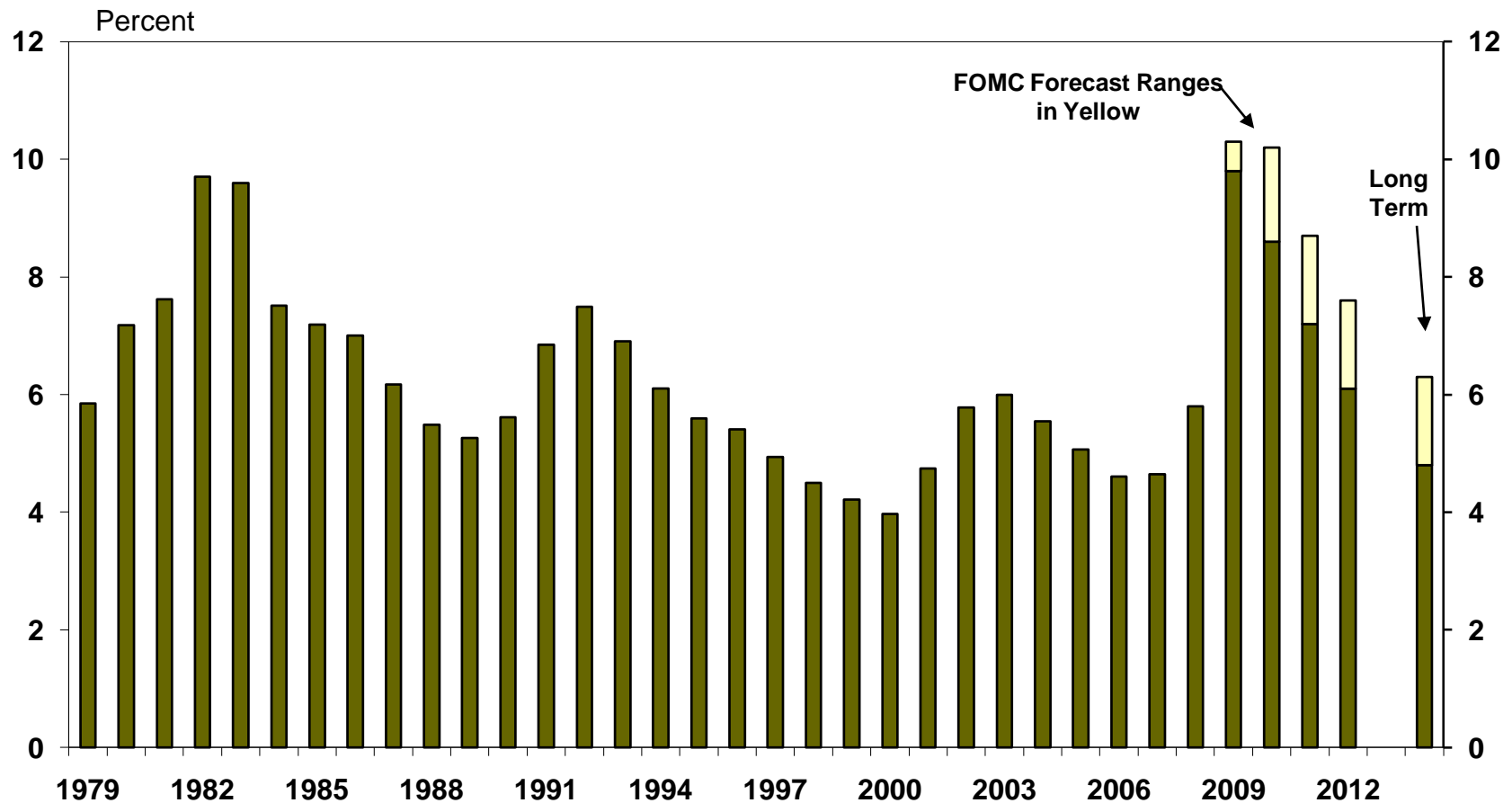
Heading forward, policy makers generally expect a moderate recovery

Gross Domestic Product



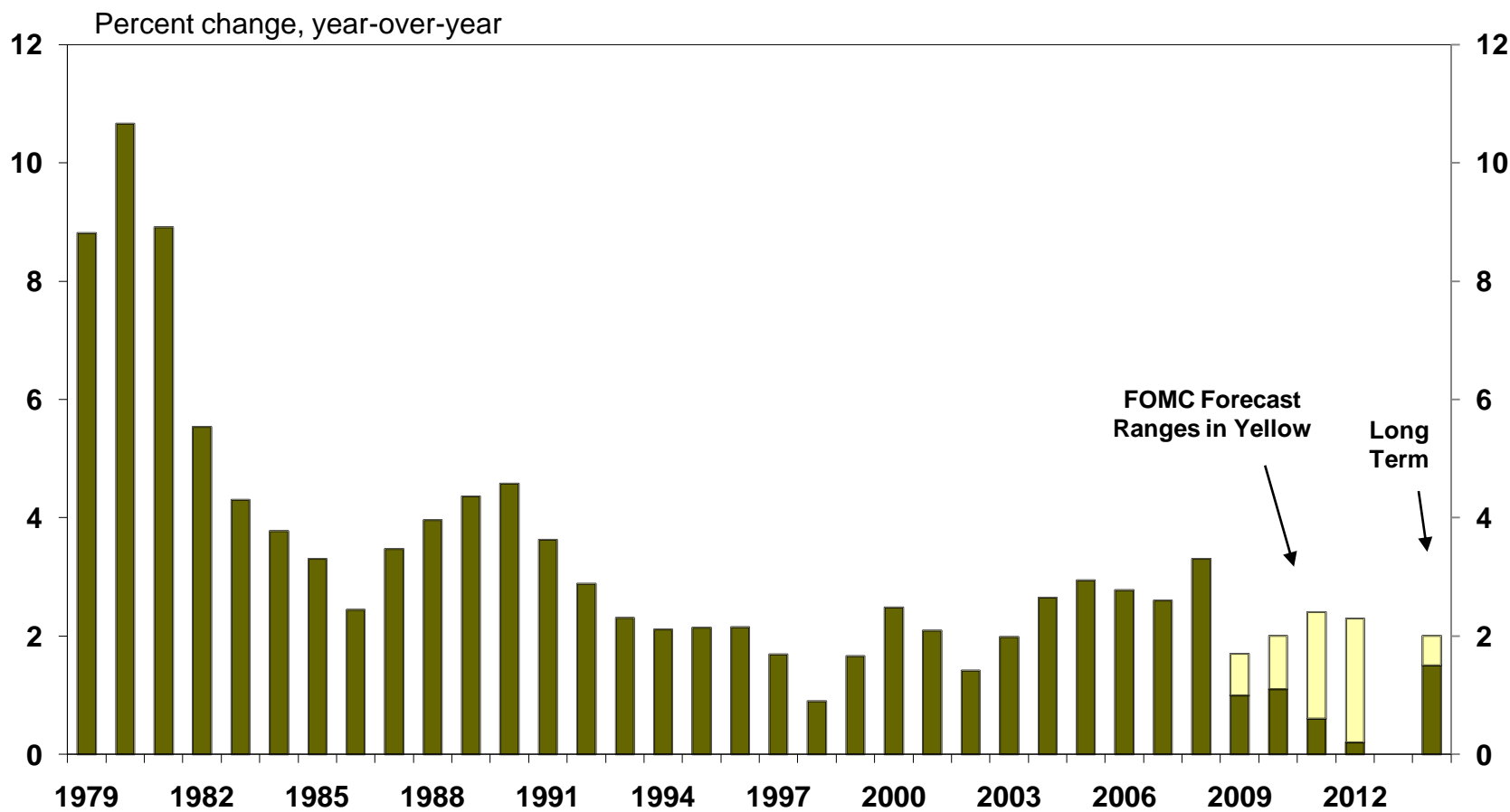
With unemployment expected to remain high for some time

Unemployment Rate
Seasonally Adjusted



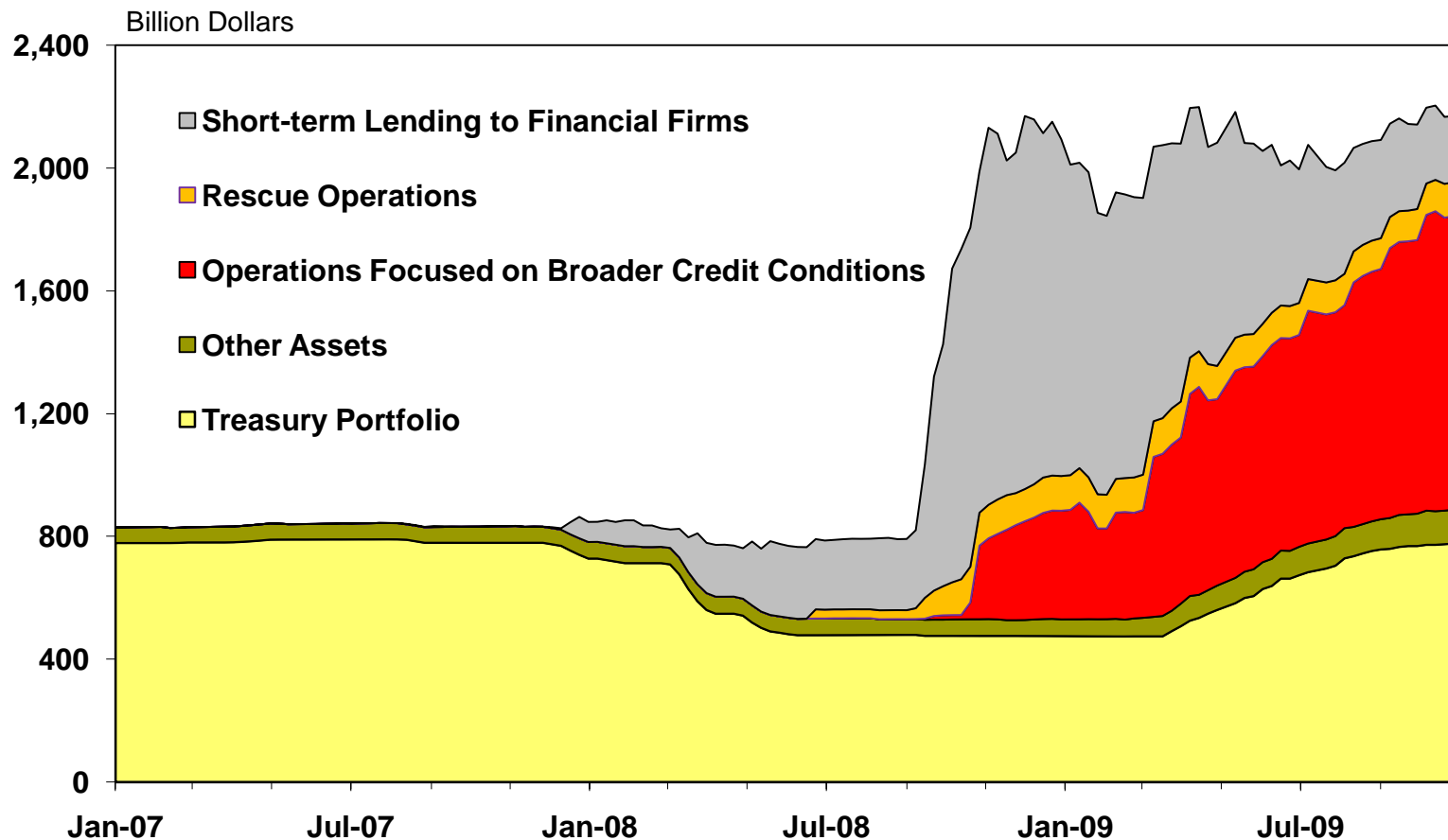
With moderate growth and excess capacity, near-term inflation is expected to remain tame

PCE Inflation Index



The Fed's balance sheet is much larger than before the crisis

Federal Reserve Balance Sheet: Assets



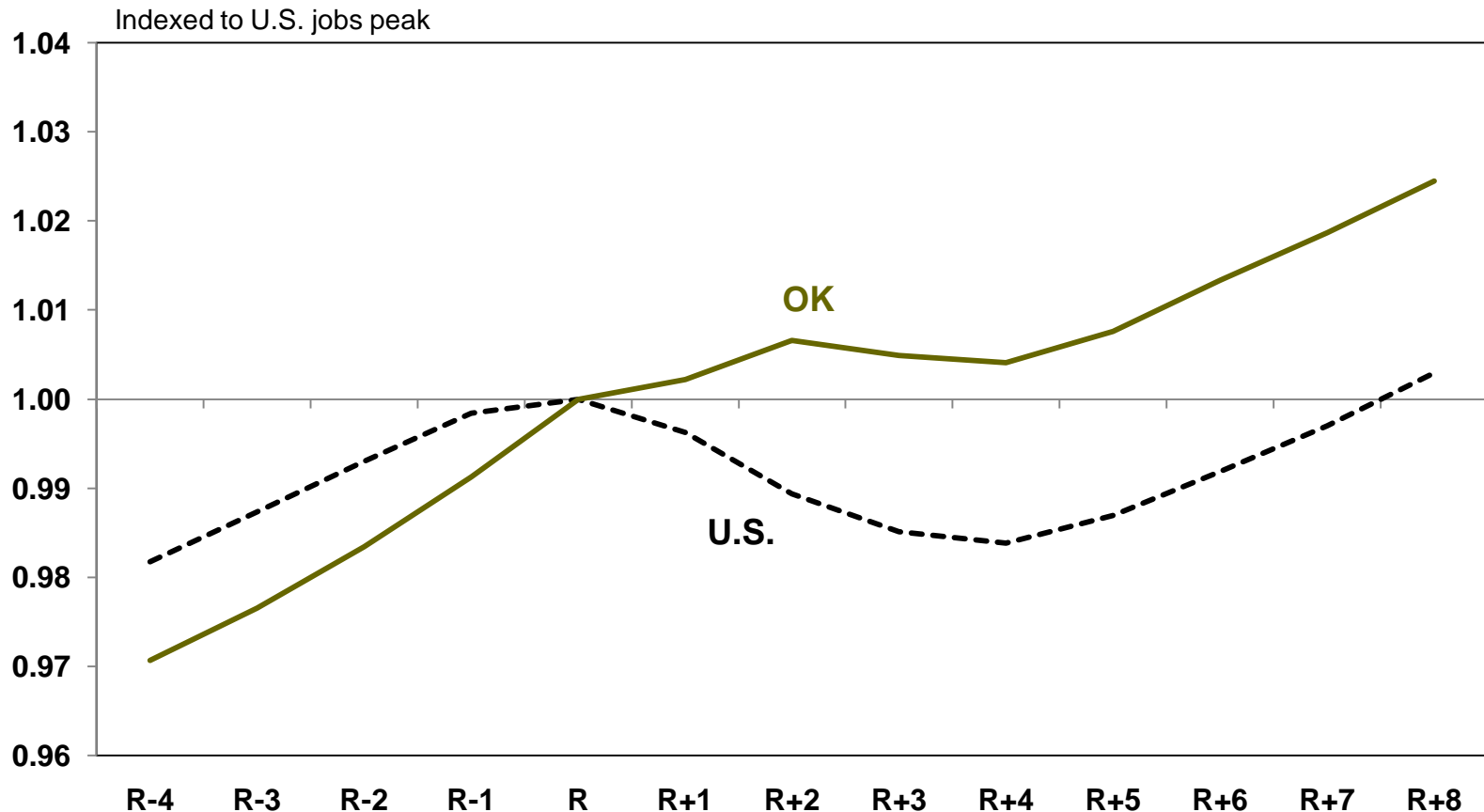
The Oklahoma Economy

- As usual in recessions, Oklahoma entered this recession later than the nation
- After steep declines for much of 2009, the state is showing early signs of recovery
- But some risks remain, including the future path of energy prices

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

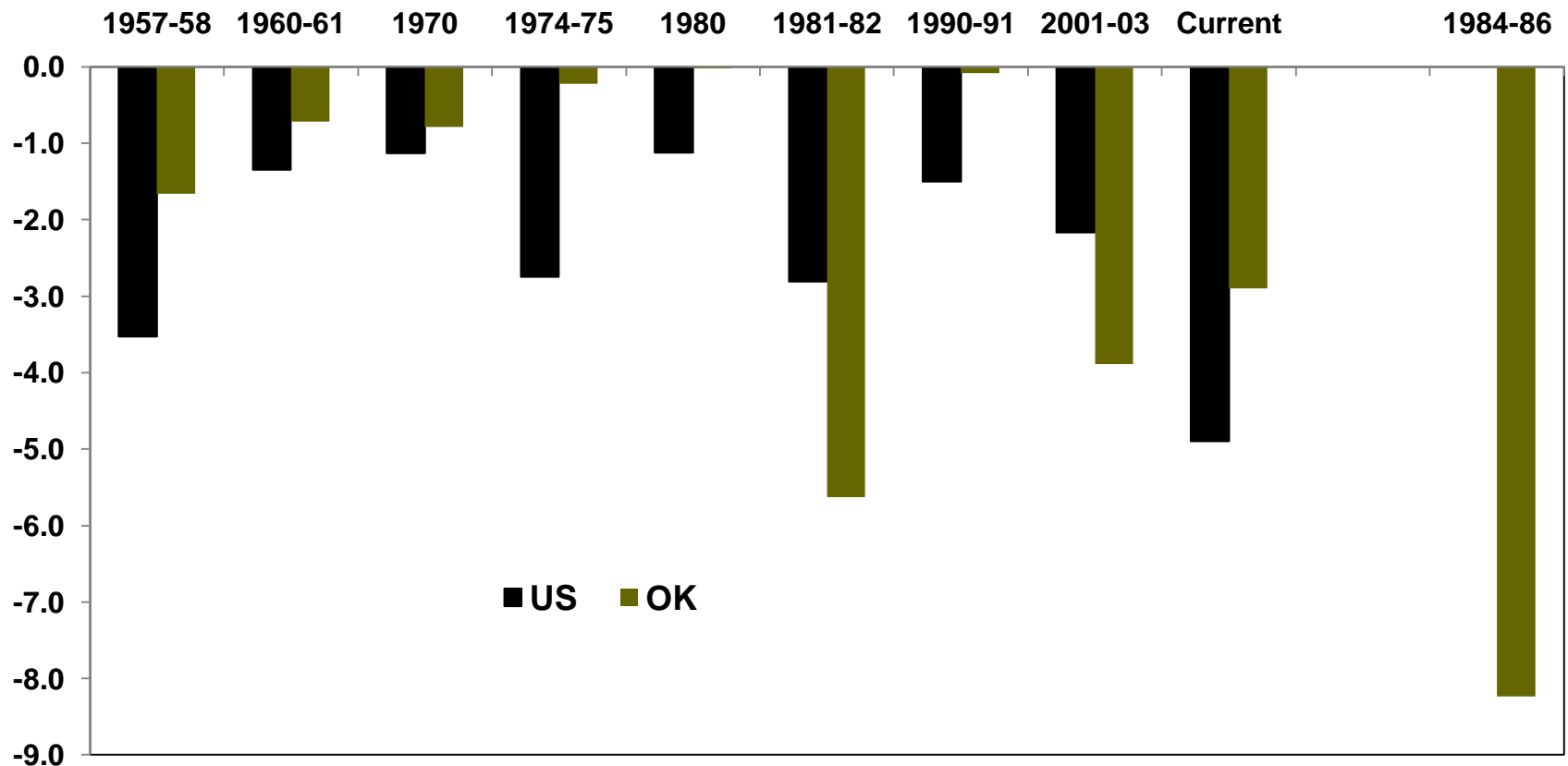
Average Recession Path, 1956-2006

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



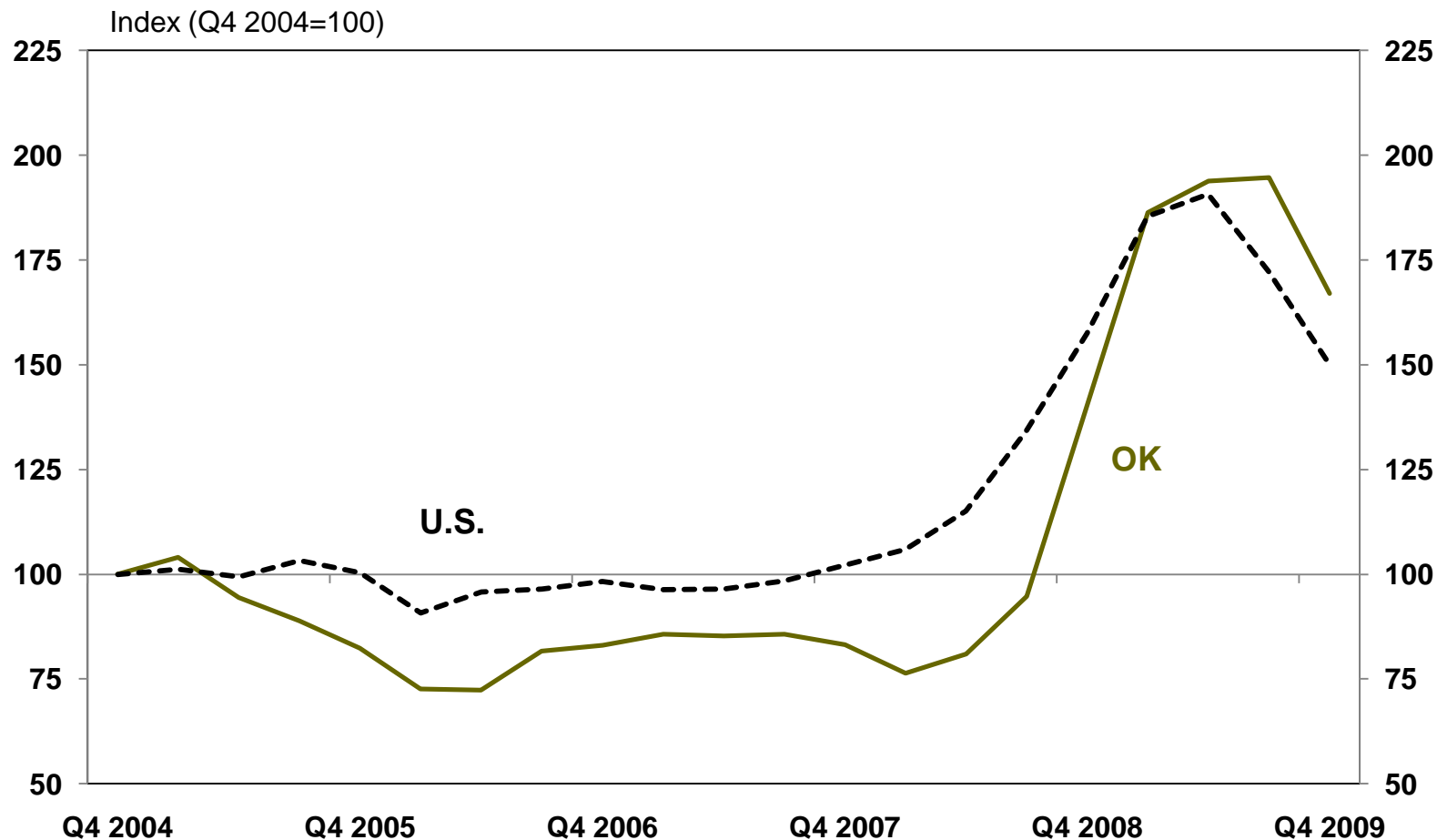
The main exception in the postwar period was during the 1980s, of course

Job Losses in Recessions, 1956-present
Percent



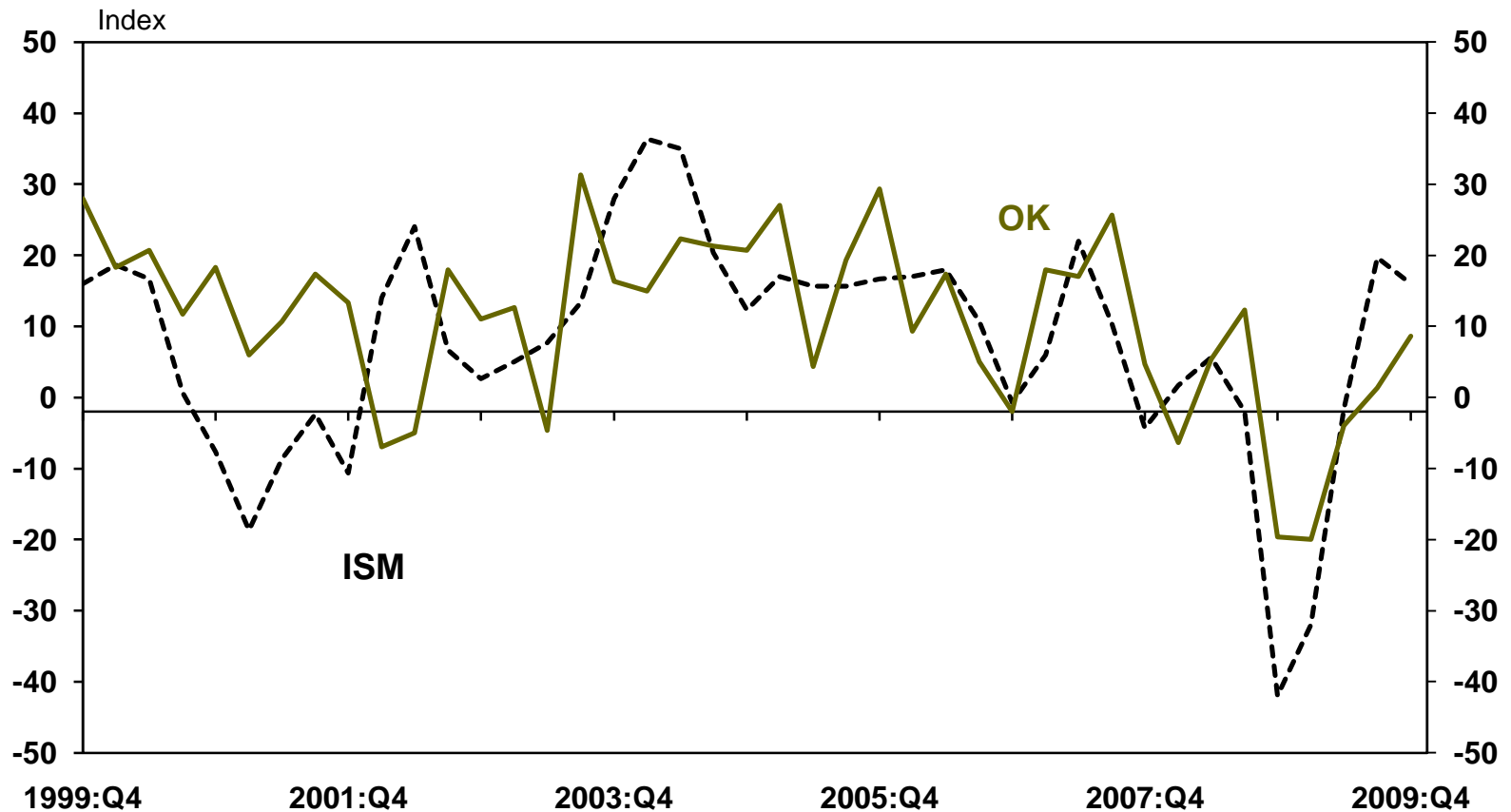
Oklahoma entered this recession 3 quarters late and appears to be leaving 1 quarter late

Initial Claims for Unemployment Insurance

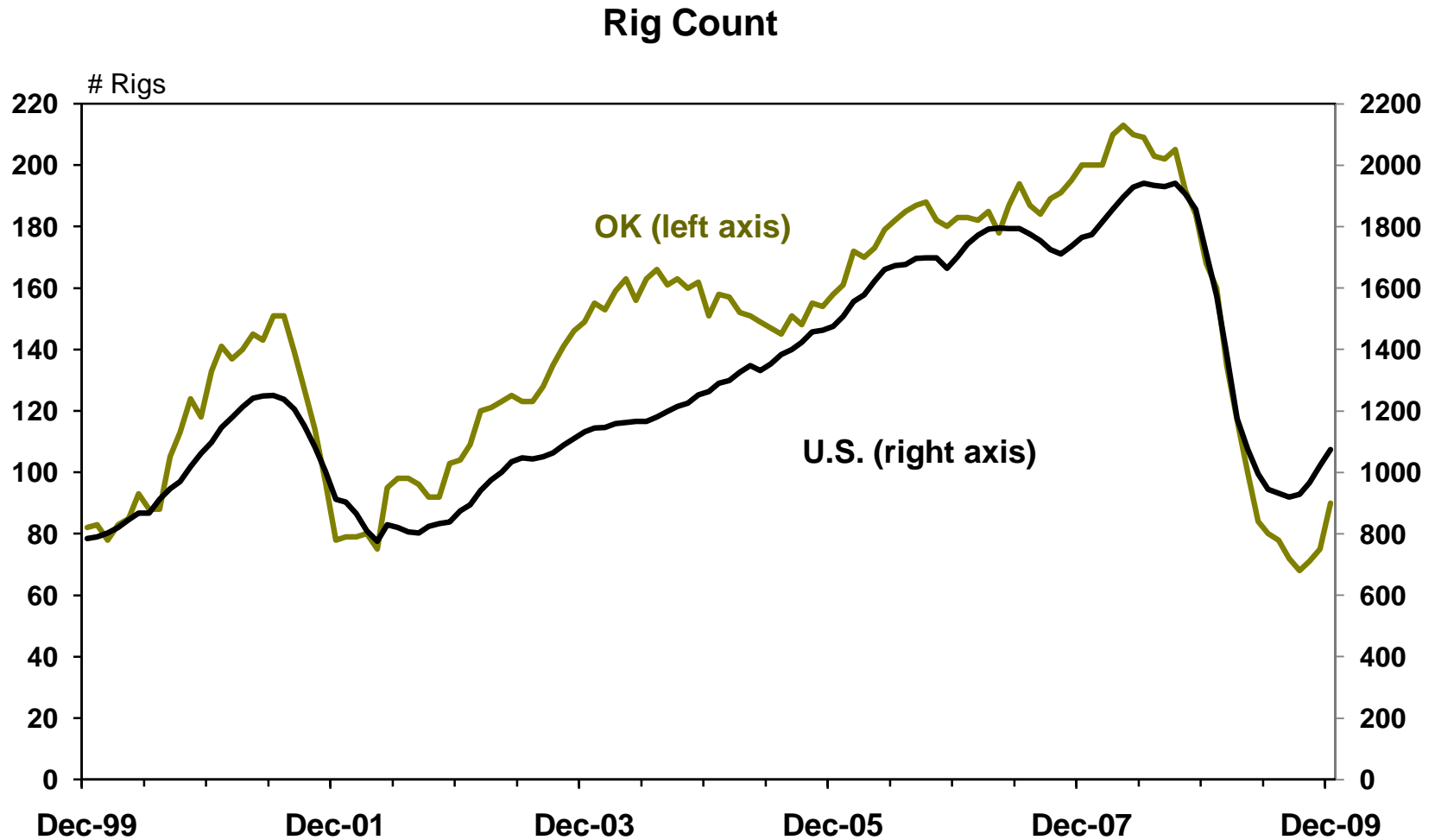


Manufacturing indexes for the state show similar signs of recent recovery

Manufacturing Production Indexes
Seasonally adjusted

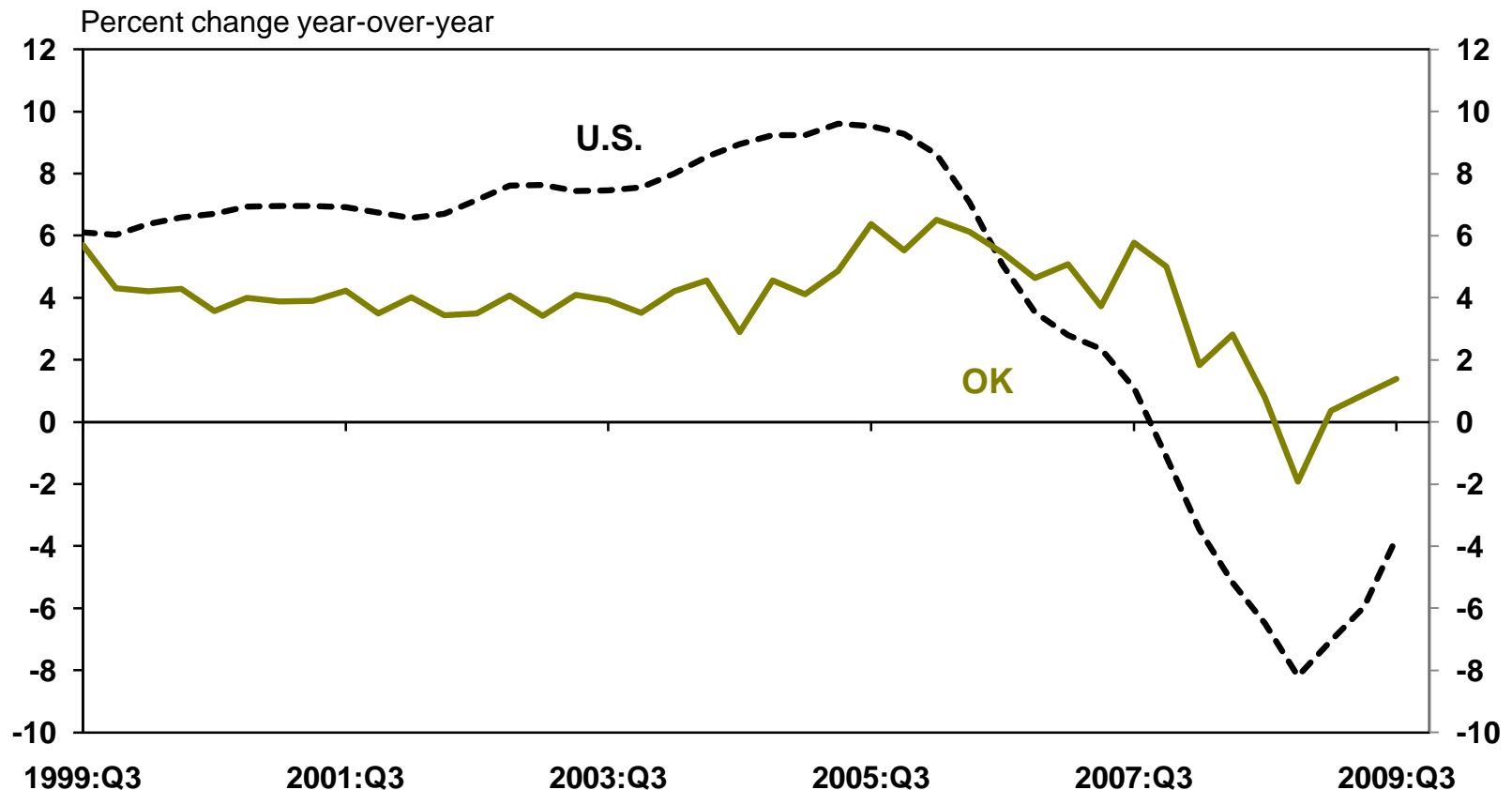


And importantly, the rig count is rising again after falling dramatically in 2009



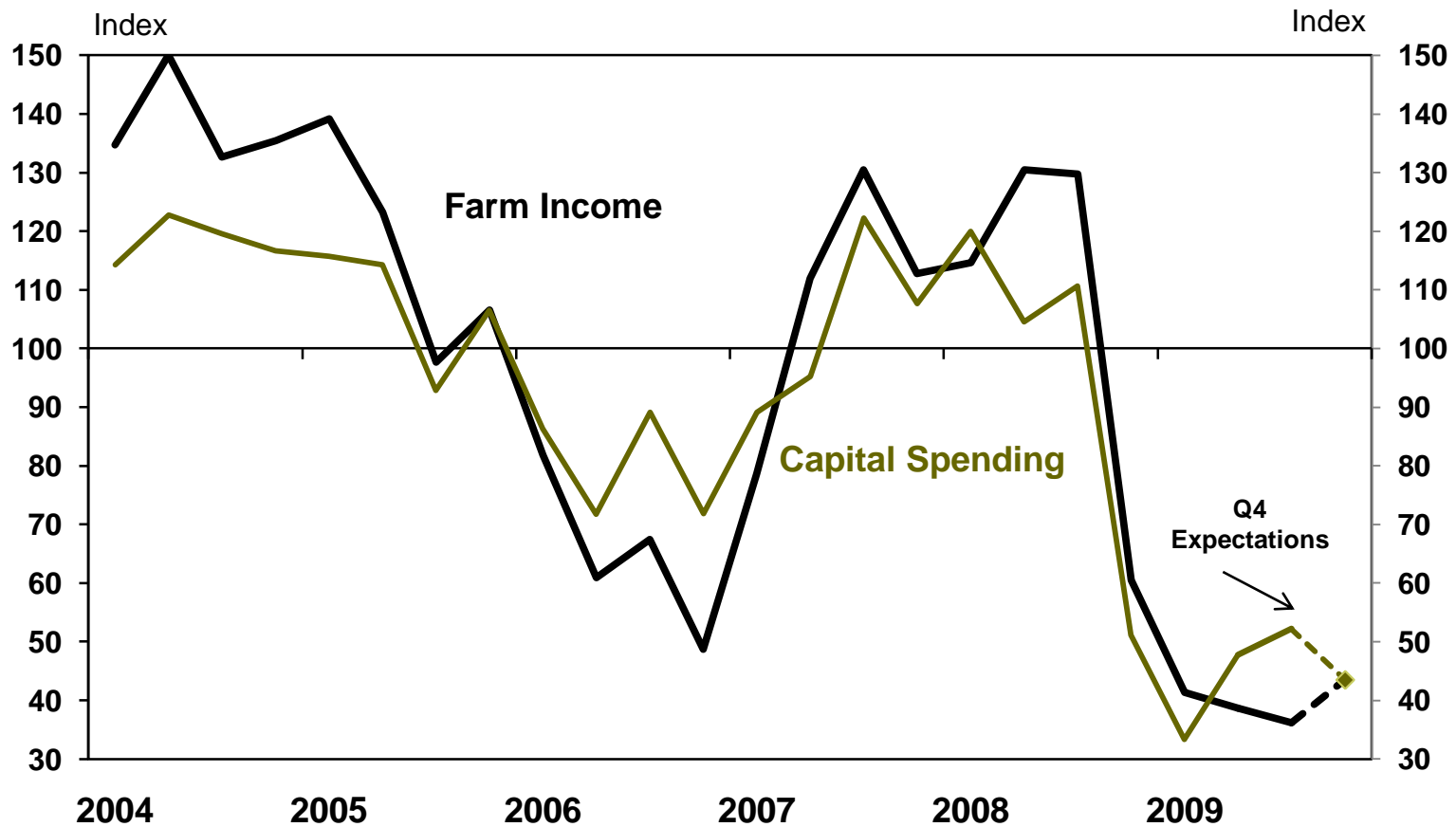
Unlike the nation, home prices have held up quite well in Oklahoma, and are stabilizing

Quality-Adjusted Home Price Growth
Purchase Only



Agricultural conditions in the state remain rather weak, but also may have bottomed

Oklahoma Agricultural Conditions



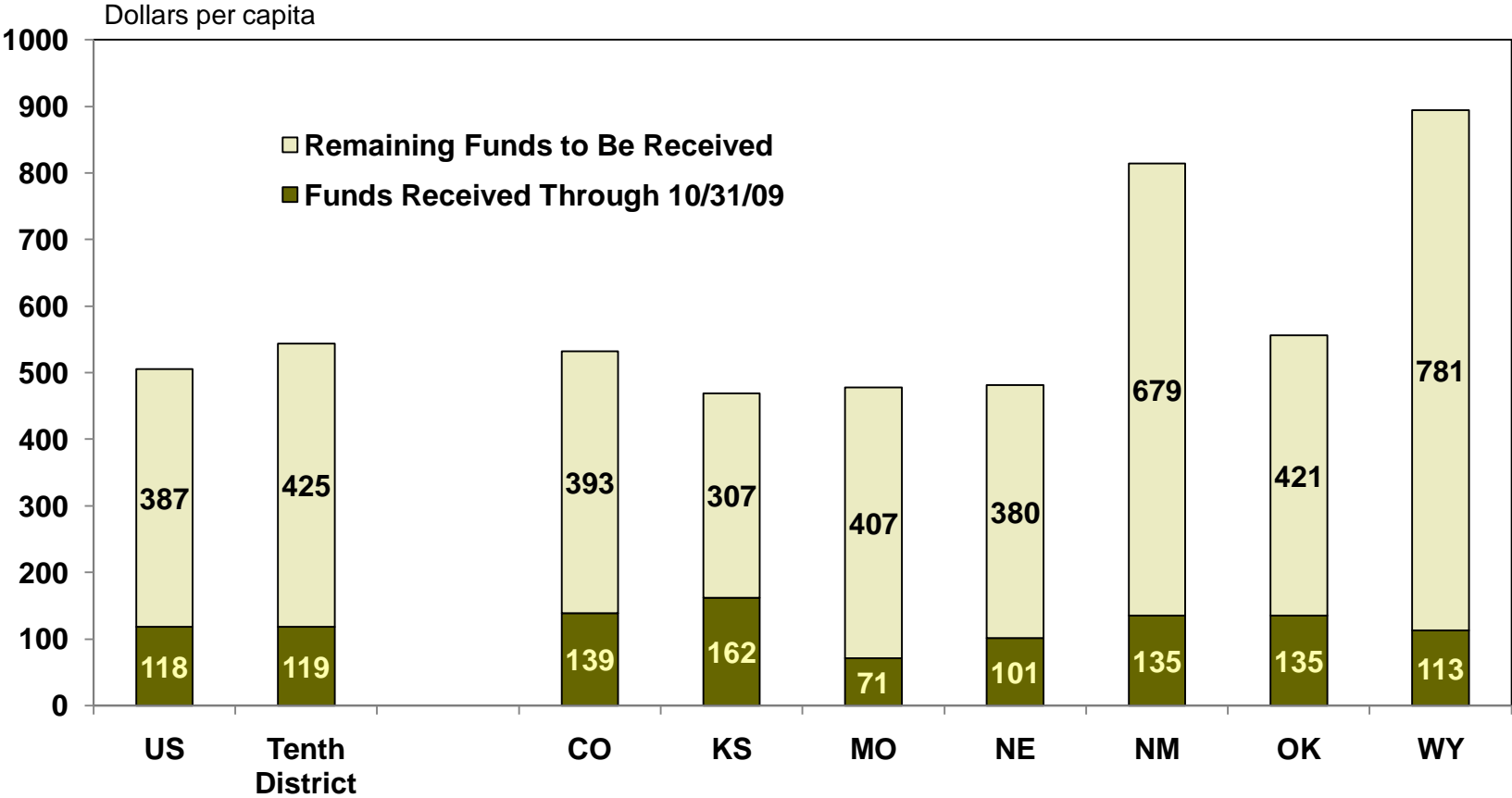
So unemployment in Oklahoma remains much lower than in the nation

Unemployment Rate, November 2009



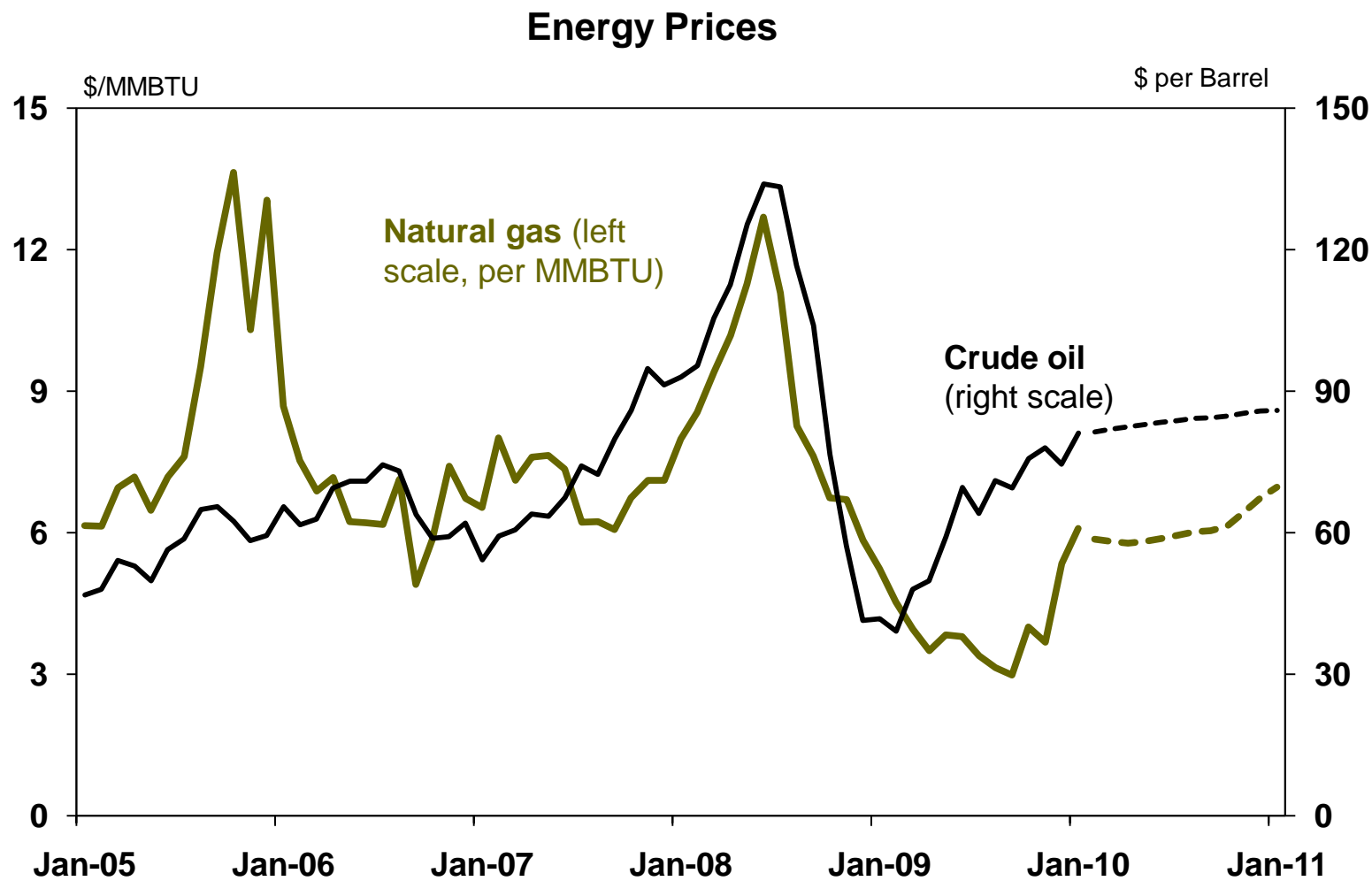
Plus, our region and state are receiving slightly more fiscal stimulus than the nation

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



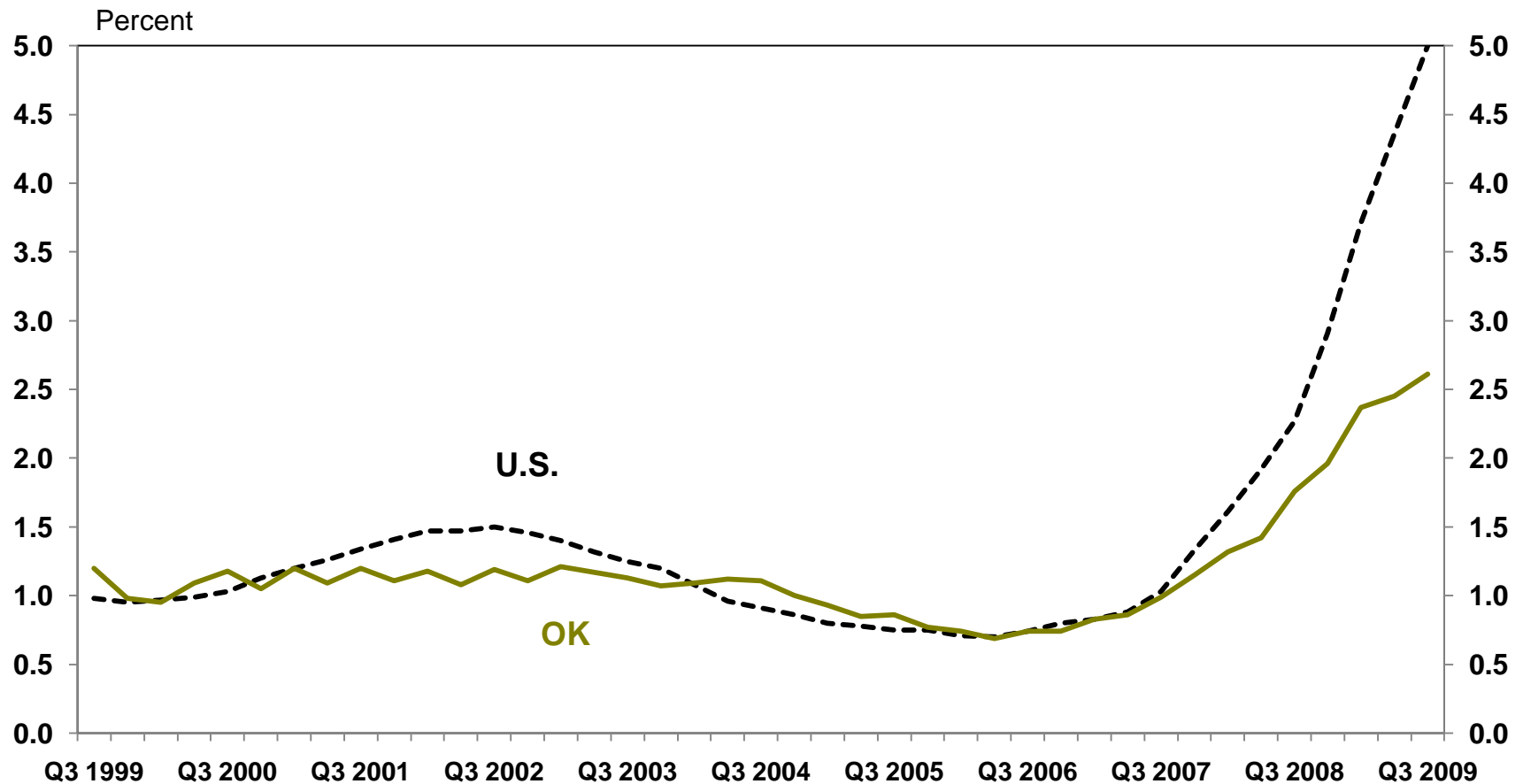
Source: Recovery.gov

Energy prices remain the primary risk, but natural gas has recently turned back up



Banks in the state remain in much better shape than in the nation

Noncurrent Loans as a Share of Total Loans
Commercial Banks



Summary

- The U.S. economy is growing again, but recovery is expected to be modest
- Oklahoma is also showing some early signs of recovery, and fiscal stimulus is kicking in
- Still, the future path of energy prices remains a risk for later in the year