

U.S. & Oklahoma Economic Outlook

Oklahoma Wesleyan University

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www.kansascityfed.org/oklahomacity

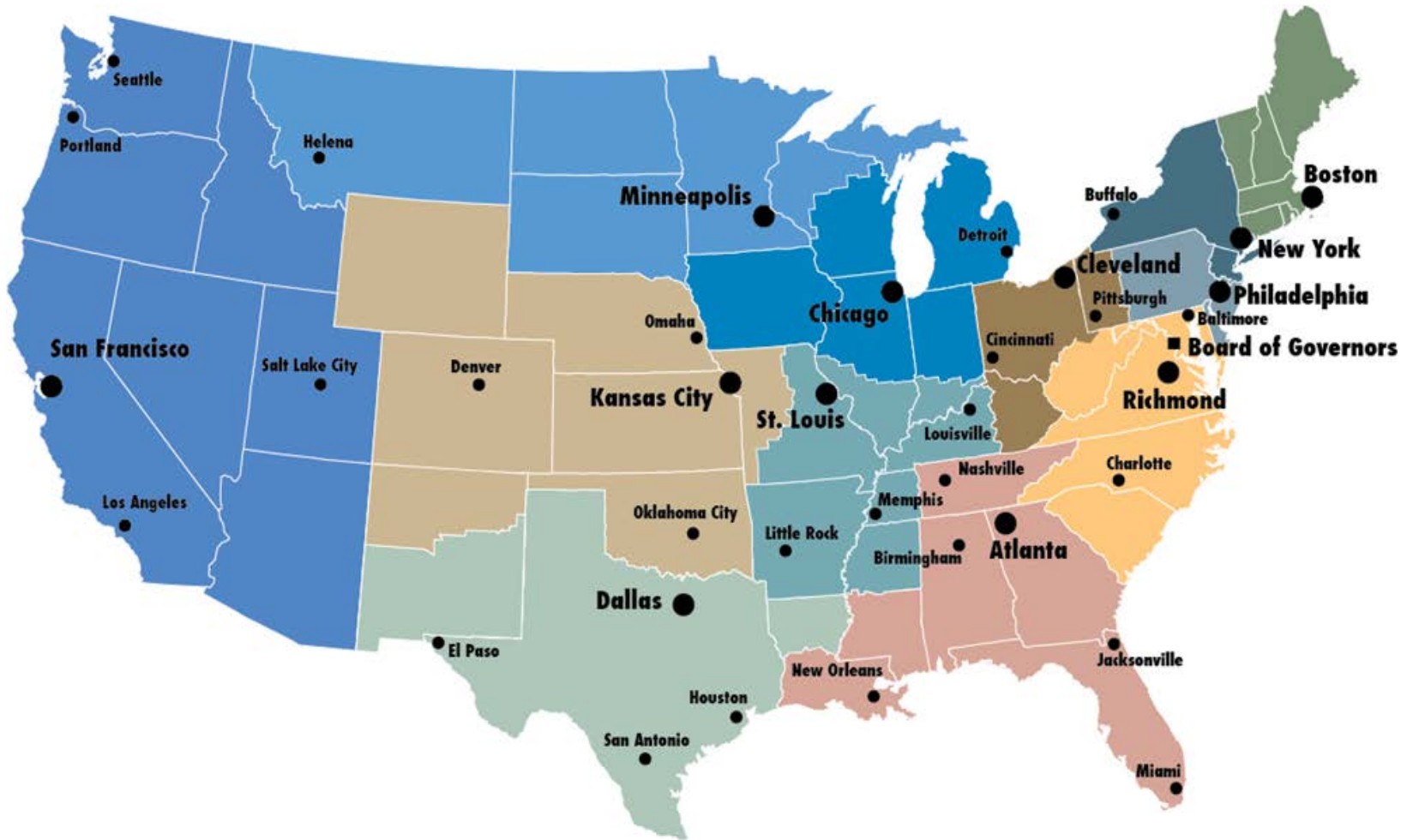
Structure and Functions of the Federal Reserve System

- **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 Oklahoma City Branch of the Federal Reserve Bank of Kansas City

- **Functions and purposes – 45 staff**

- **Connect the nation's central bank to Oklahoma communities, businesses, and banks**
- **Research on U.S. and Oklahoma economies, economic education and outreach**
- **Examinations of Oklahoma financial institutions (49 banks, 178 holding companies)**

- **2017 OKC Fed Branch Board of Directors**

- **Pete Delaney (chair)**, Chairman & CEO (retired), OGE Energy Corp., Oklahoma City
- **Clint Abernathy**, Owner, Abernathy Farms, Inc., Altus
- **Susan Chapman Plumb**, COO, Bank of Cherokee County, Tahlequah
- **Michael Coffman**, CEO (retired), Panhandle Oil & Gas, Inc., Oklahoma City
- **Chuck Hall**, Chairman & CEO, Exchange Bank & Trust, Perry
- **Tina Patel**, Co-Owner & CFO, Promise Hotels, Tulsa
- **Katrina Washington**, Owner/Broker, Stratos Realty, Oklahoma City

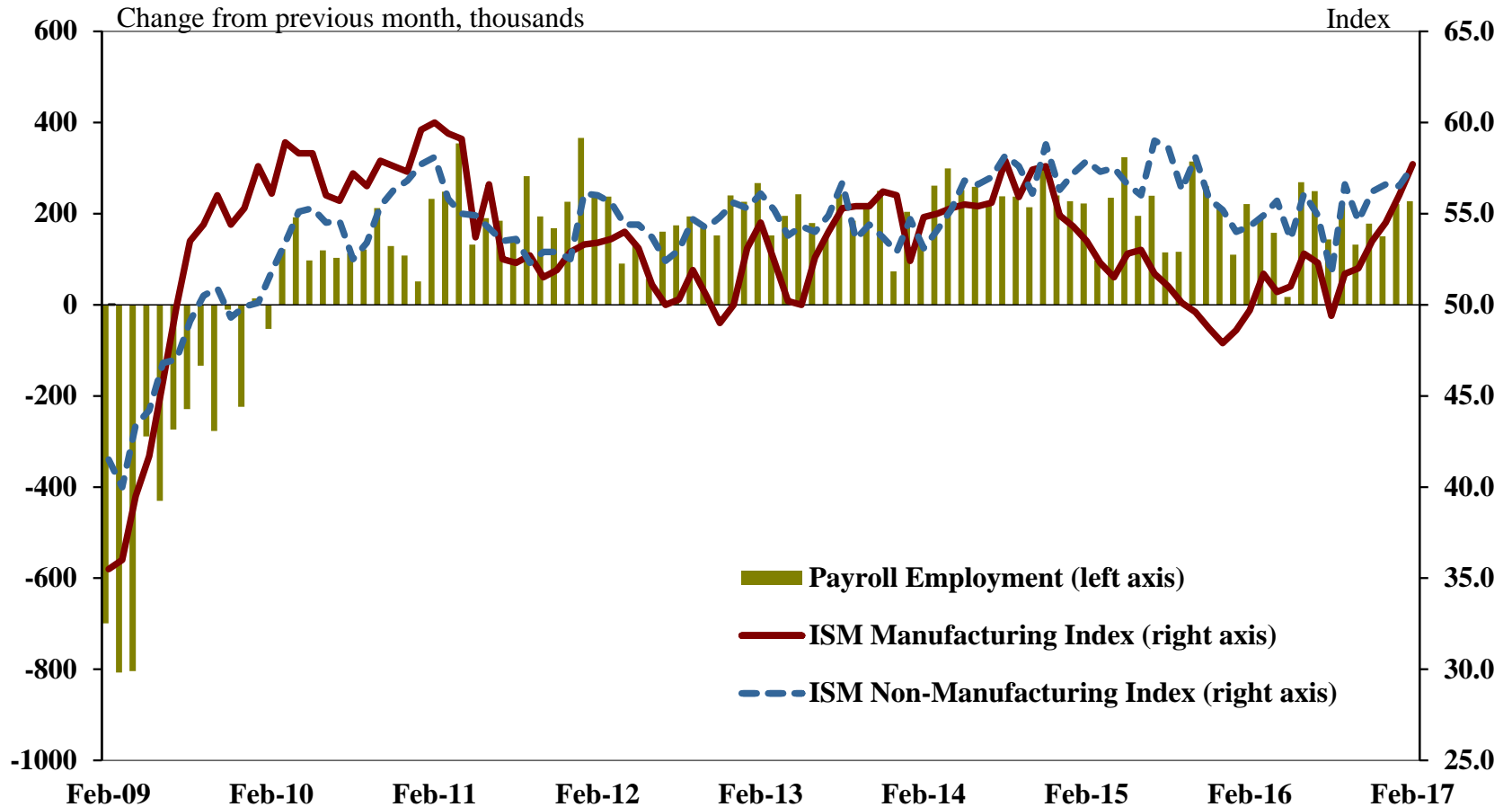
- **Oklahomans on Kansas City Fed head office Board**

- **Rose Washington (chair)**, Exec. Director, Tulsa Economic Development Corp., Tulsa
- **Doug Stussi**, EVP & CFO, Love's Travel Stops & Country Stores, Oklahoma City

The U.S. Economy and Monetary Policy

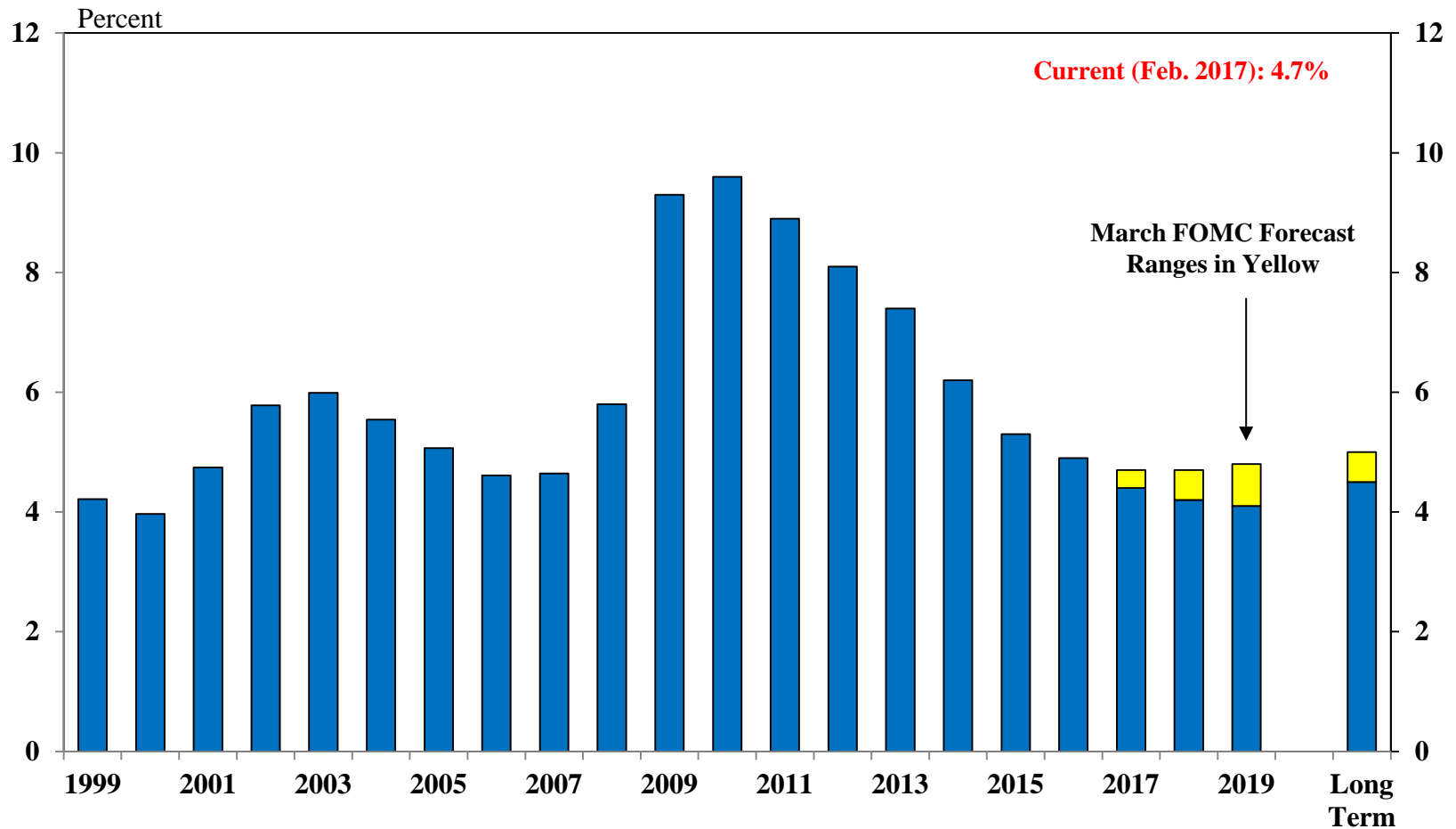
U.S. economic growth has picked up in early 2017 after an up-and-down 2016

U.S. Payroll Employment and Business Indexes



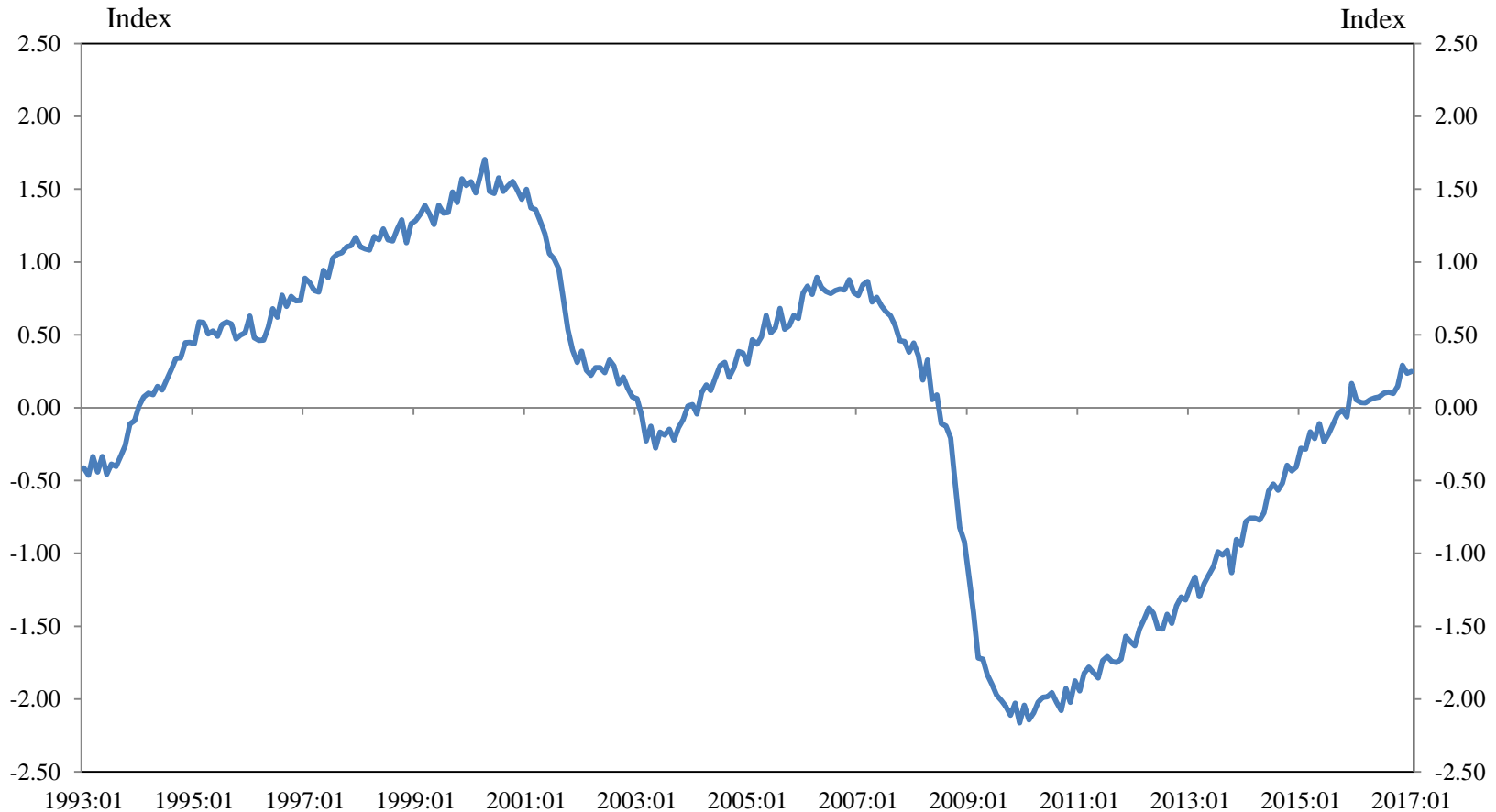
U.S. unemployment has fallen to long-term average levels

Unemployment Rate
Seasonally Adjusted



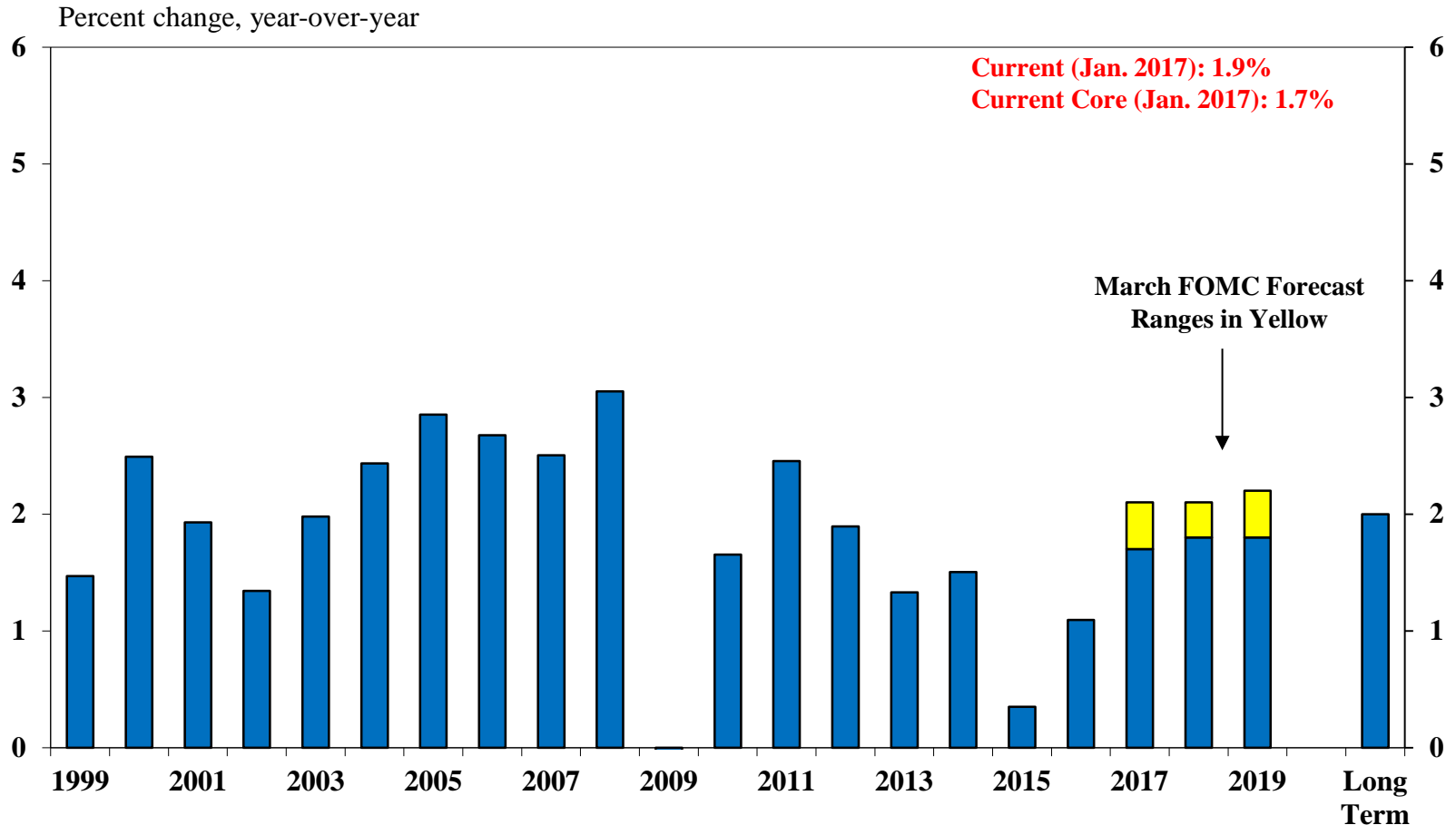
Broader measures of labor market conditions also show a return to normalcy

U.S. Labor Market Conditions Index



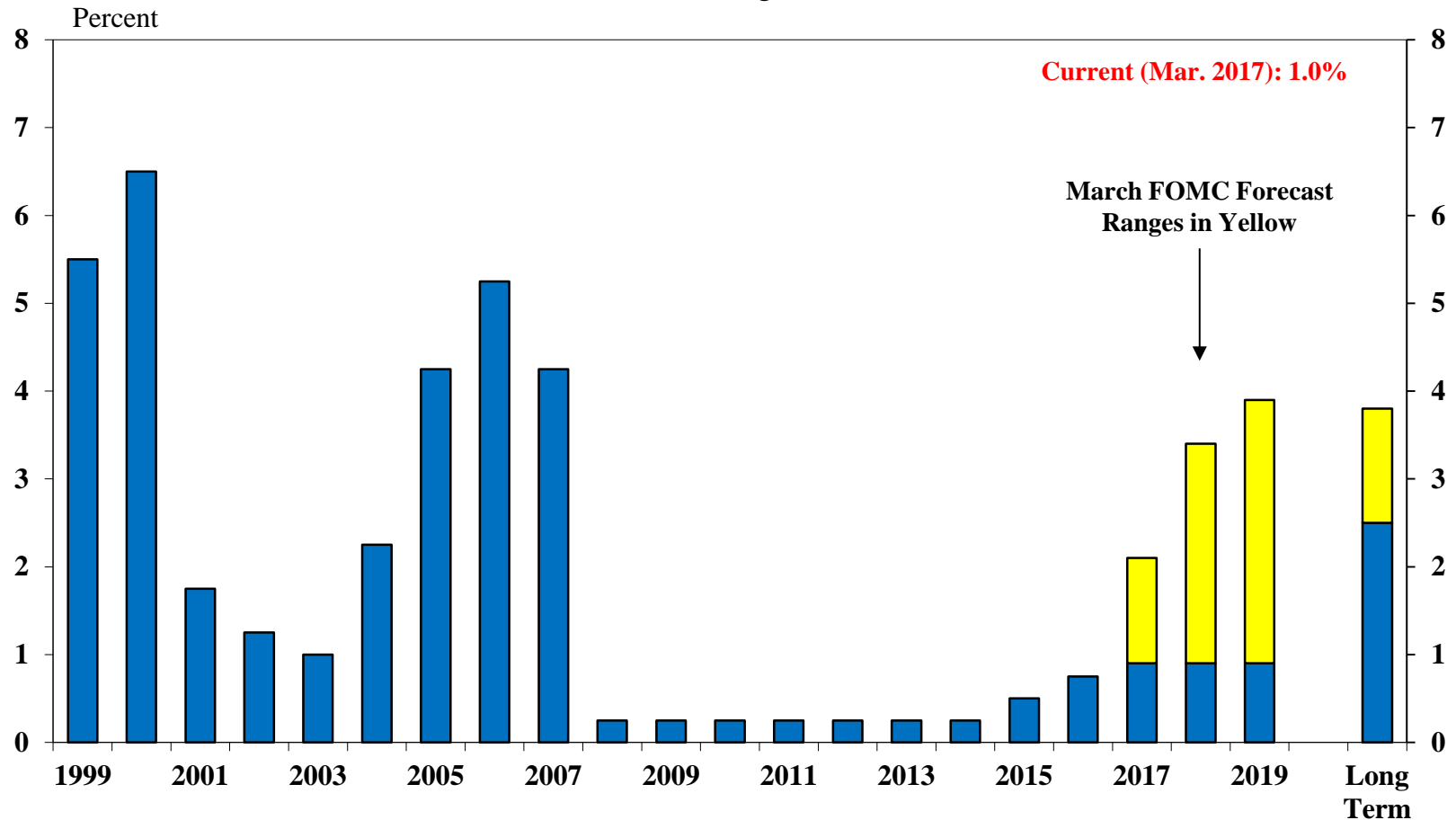
Inflation has been low the past couple of years but has recently returned to near the long-term target

PCE Inflation Index



“The [Federal Open Market] Committee expects... only gradual increases in the federal funds rate”

Federal Funds Rate Year-end target

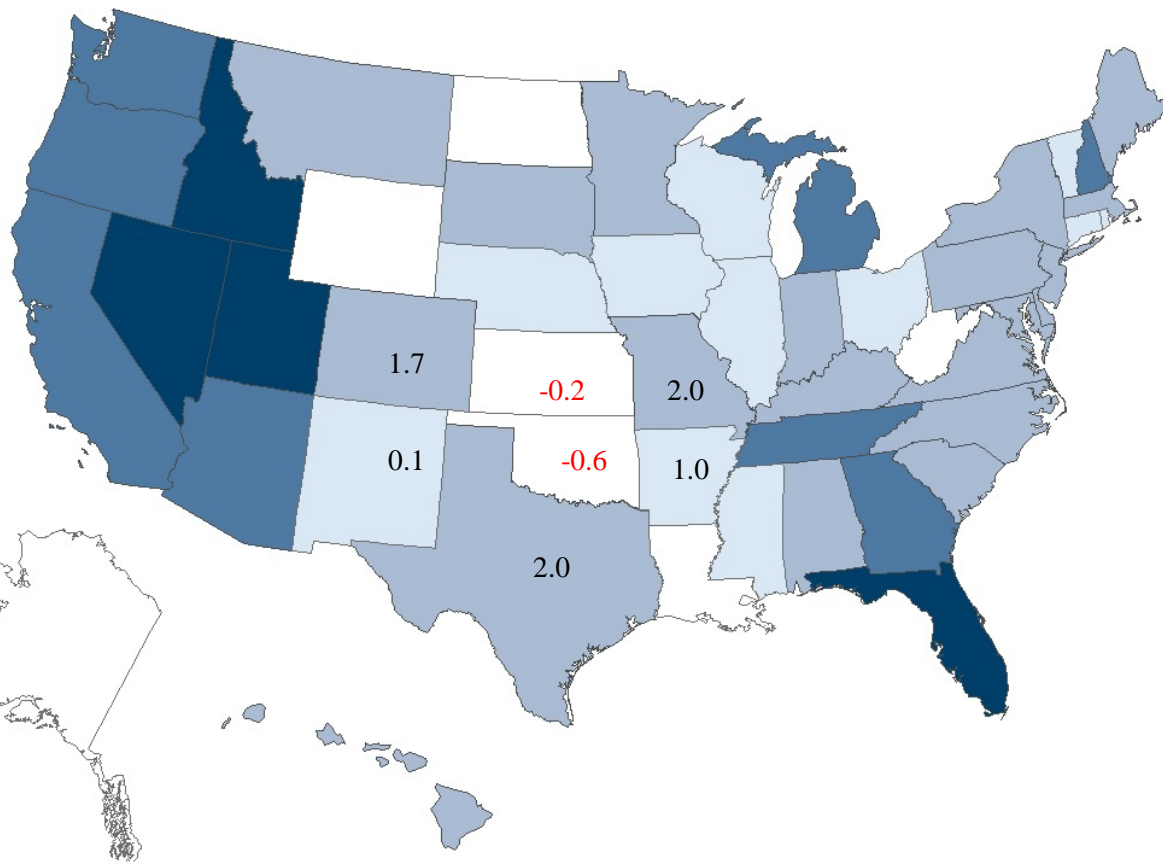


Trends in the Oklahoma Economy

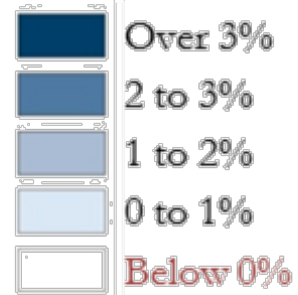
Job growth across the U.S. diverged widely in 2016, with Oklahoma in a slight jobs recession

Total Nonfarm Employment Growth
January 2017

U.S.
1.6%

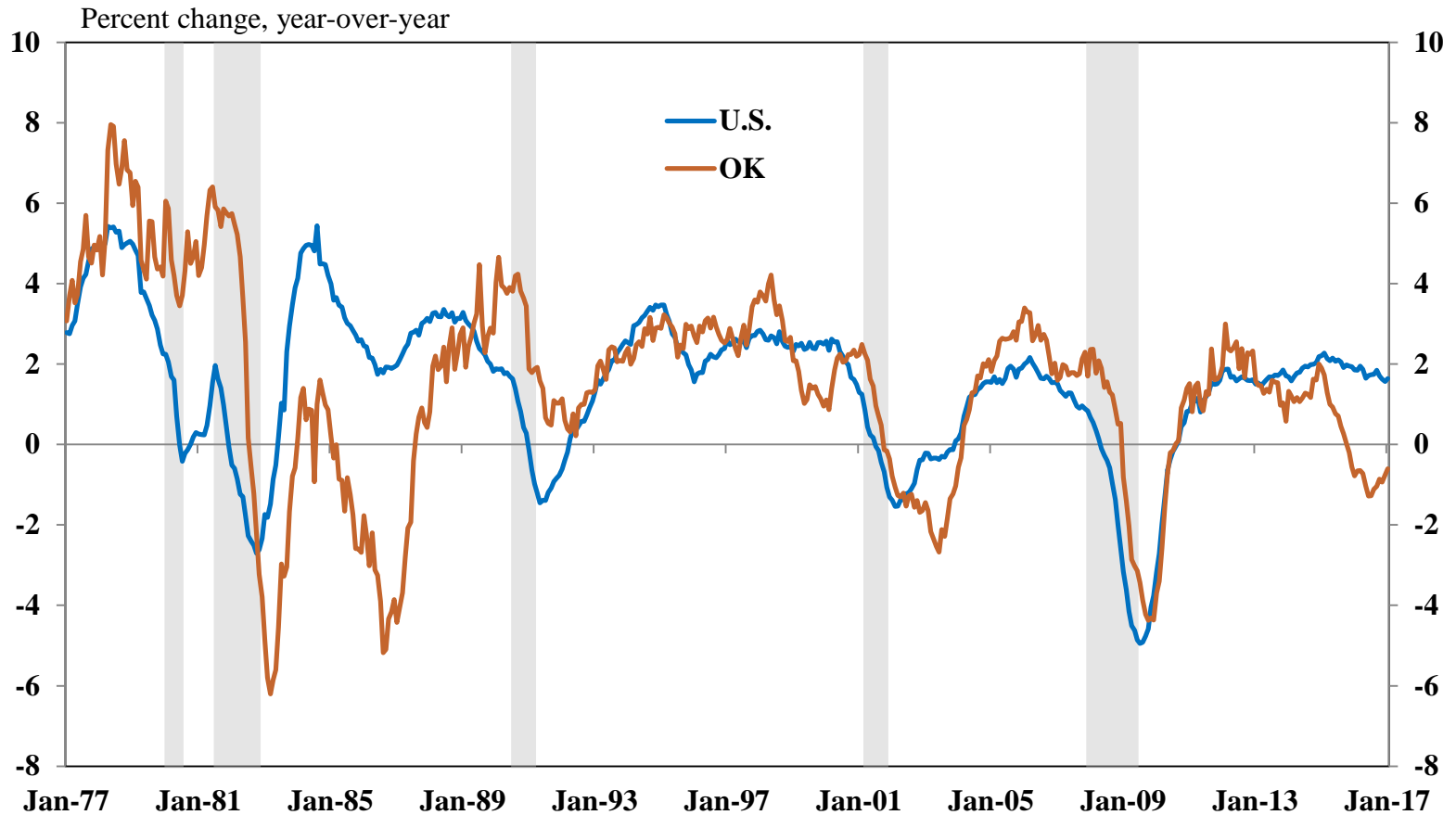


*Percent Change
Year-over-Year*



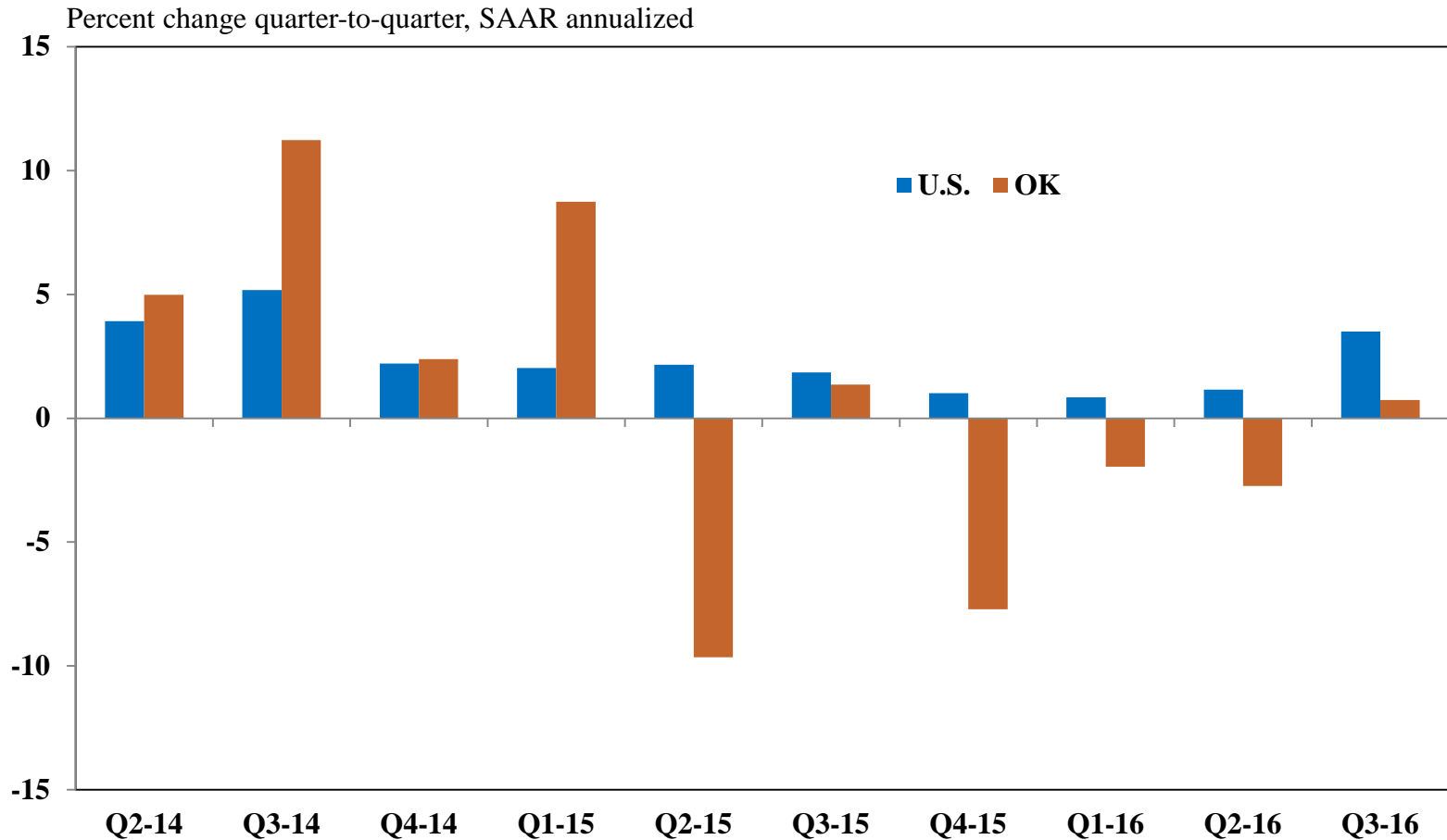
2016 was the largest divergence between U.S. and Oklahoma job growth since the 1980s

Payroll Employment Growth



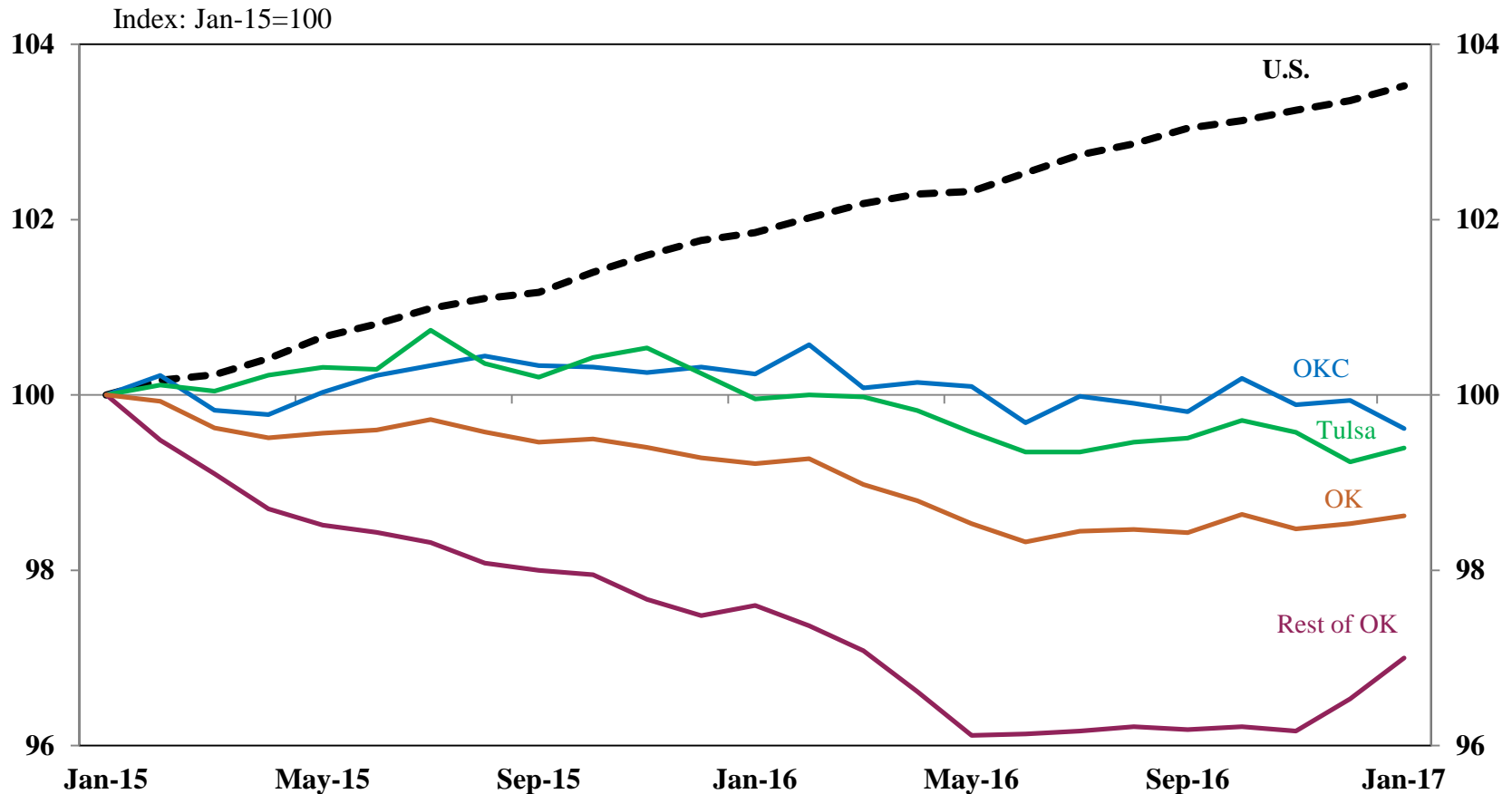
Oklahoma's real GDP also fell 3 straight quarters starting in late 2015, but rose slightly in Q3 2016

Real GDP Growth



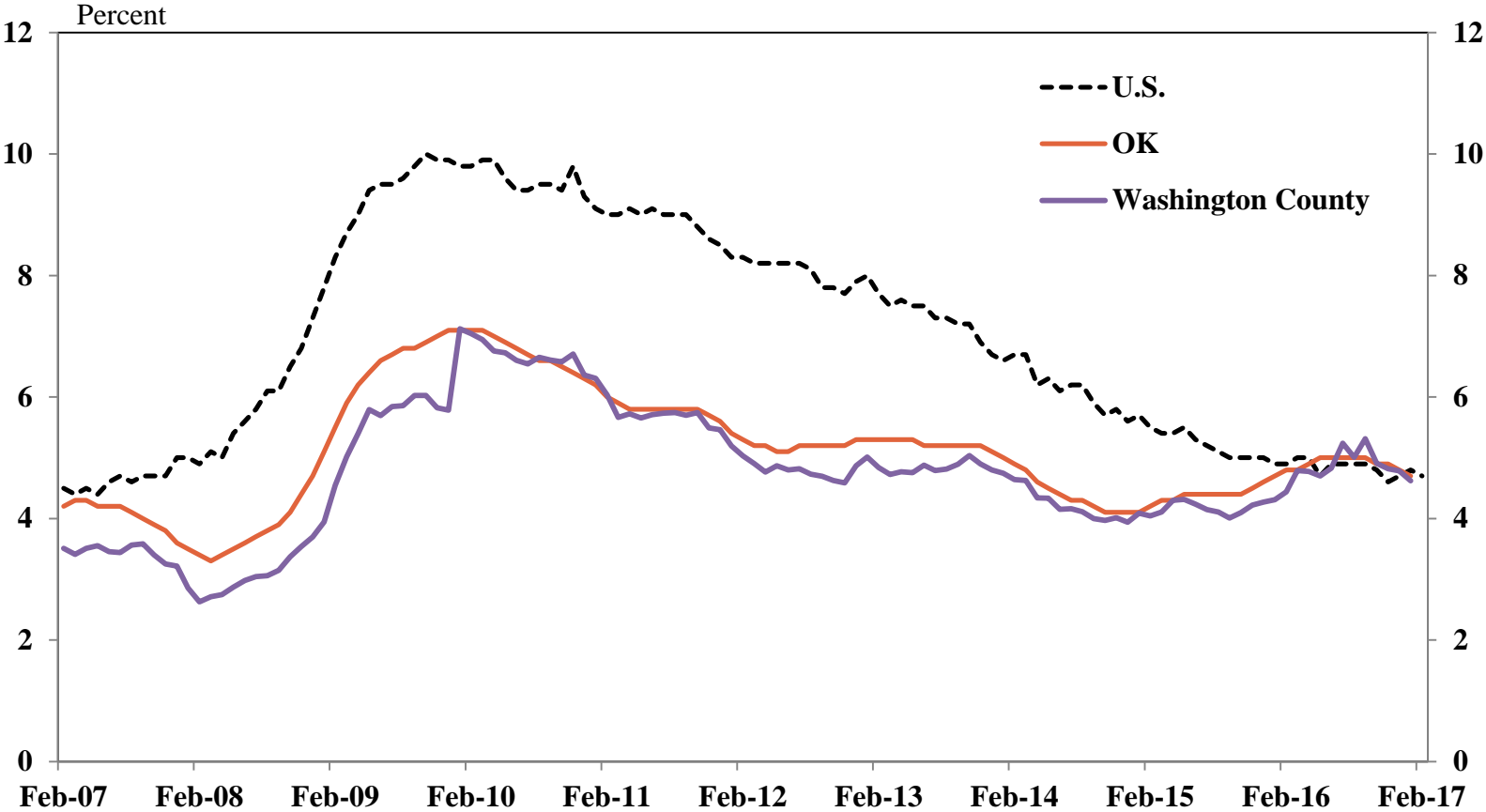
The two large metro areas have generally held up better than other parts of the state

Level of Payroll Employment
Through January 2017



Unemployment ticked up last year but has come down lately in both the state and Washington Co.

Unemployment Rates
Seasonally Adjusted

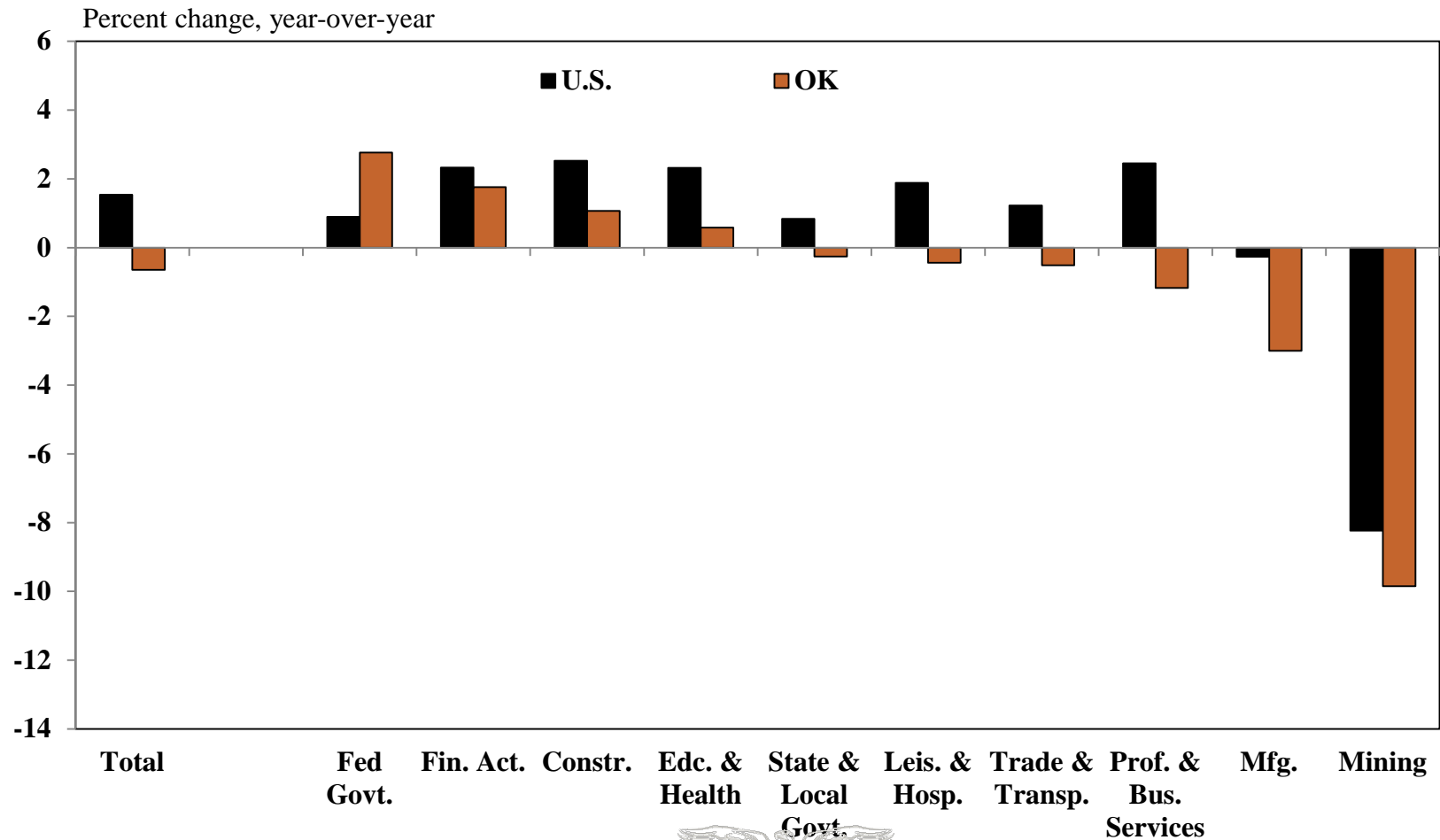


Source: U.S. Bureau of Labor Statistics

Spillover has occurred from energy to other industries, but jobs in some industries are still up

Job Growth by Industry

Jan-17



Source: Bureau of Labor Statistics

Energy remains the driving factor in and around the Bartlesville area

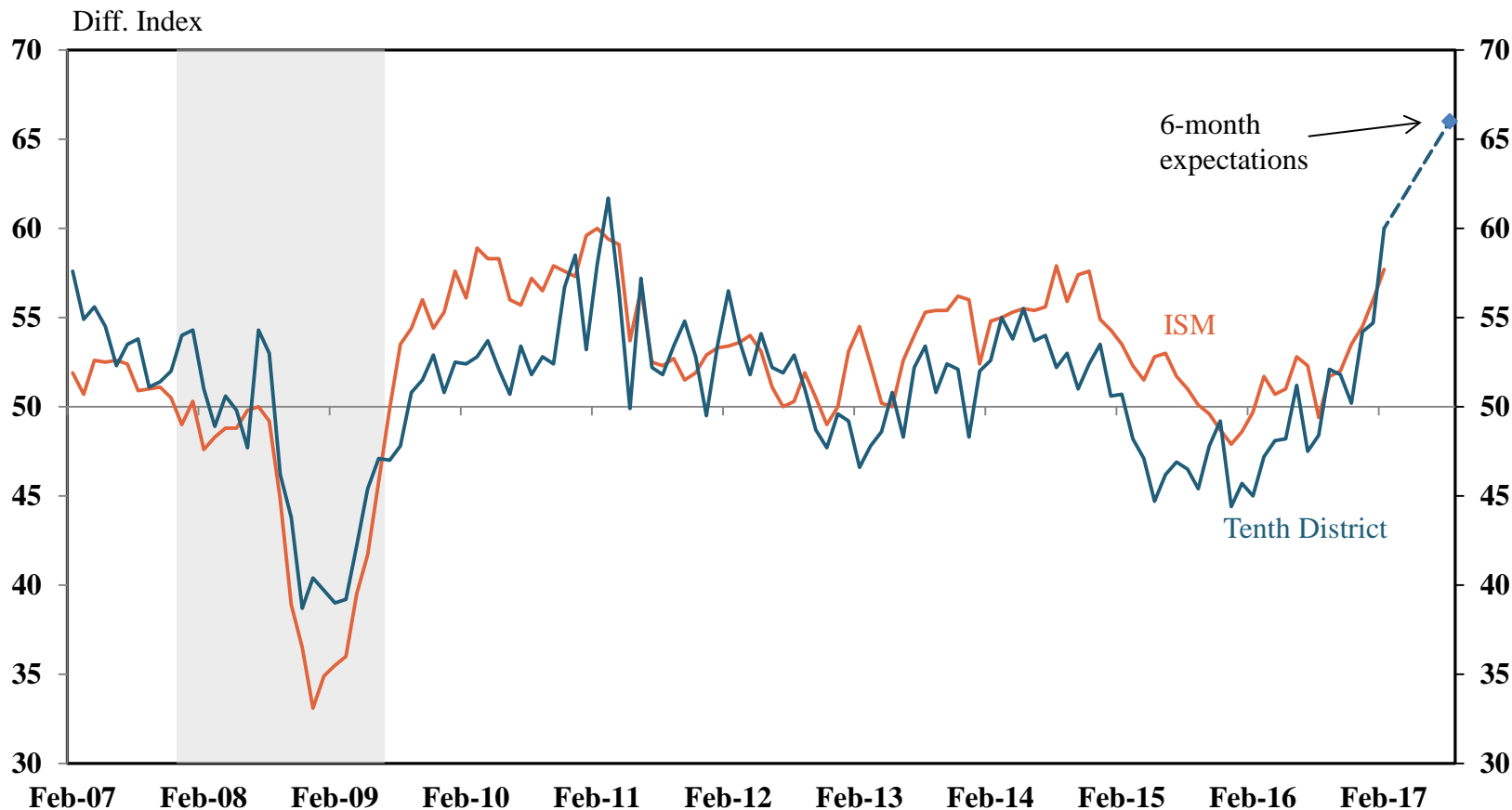
Washington County Personal Income Share by Industry 2015

Industry	Percent of Total Income		Wash. Co. Location Quotient	OK Location Quotient
	Wash. County	U.S.		
Mining	27.9	1.6	17.6	7.2
Trade, Transportation & Utilities	36.1	16.2	2.2	1.4
Manufacturing	7.9	10.1	0.8	0.9
Agriculture	0.6	0.8	0.7	2.0
Education & Health	8.4	13.3	0.6	0.8
Leisure & Hospitality	1.9	4.7	0.4	0.8
Construction	2.4	6.1	0.4	1.0
State & Local Government	5.1	13.2	0.4	1.0
Financial Activities	2.7	7.1	0.4	0.5
Professional and Business Services	6.1	20.3	0.3	0.6
Information	0.6	3.5	0.2	0.4
Federal Government	0.4	3.0	0.1	1.3

Note - Location quotient is the division of local share by national share

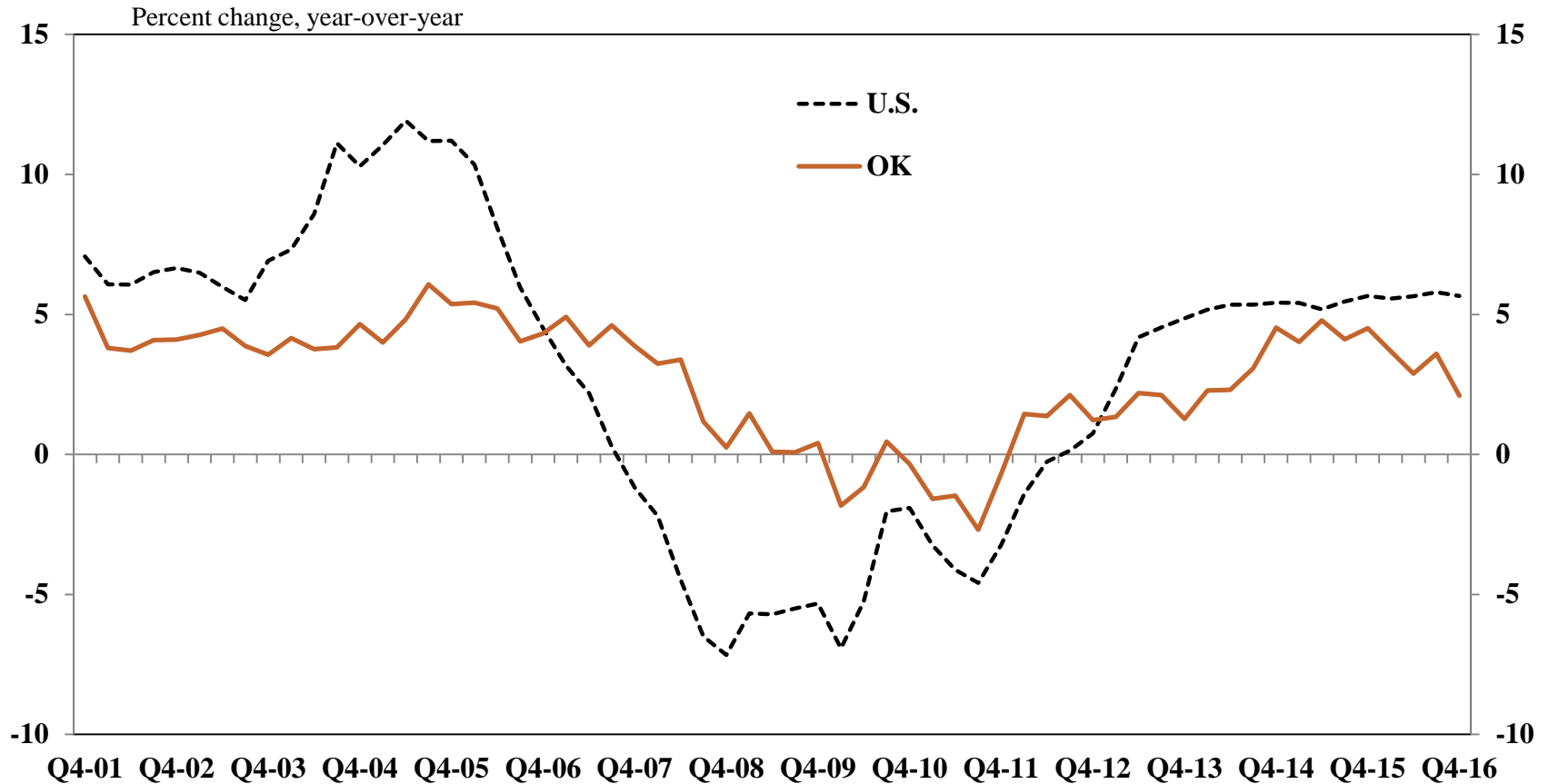
Overall factory activity in the region has improved lately, with considerable optimism

Manufacturing Composite Indexes, Seasonally Adjusted



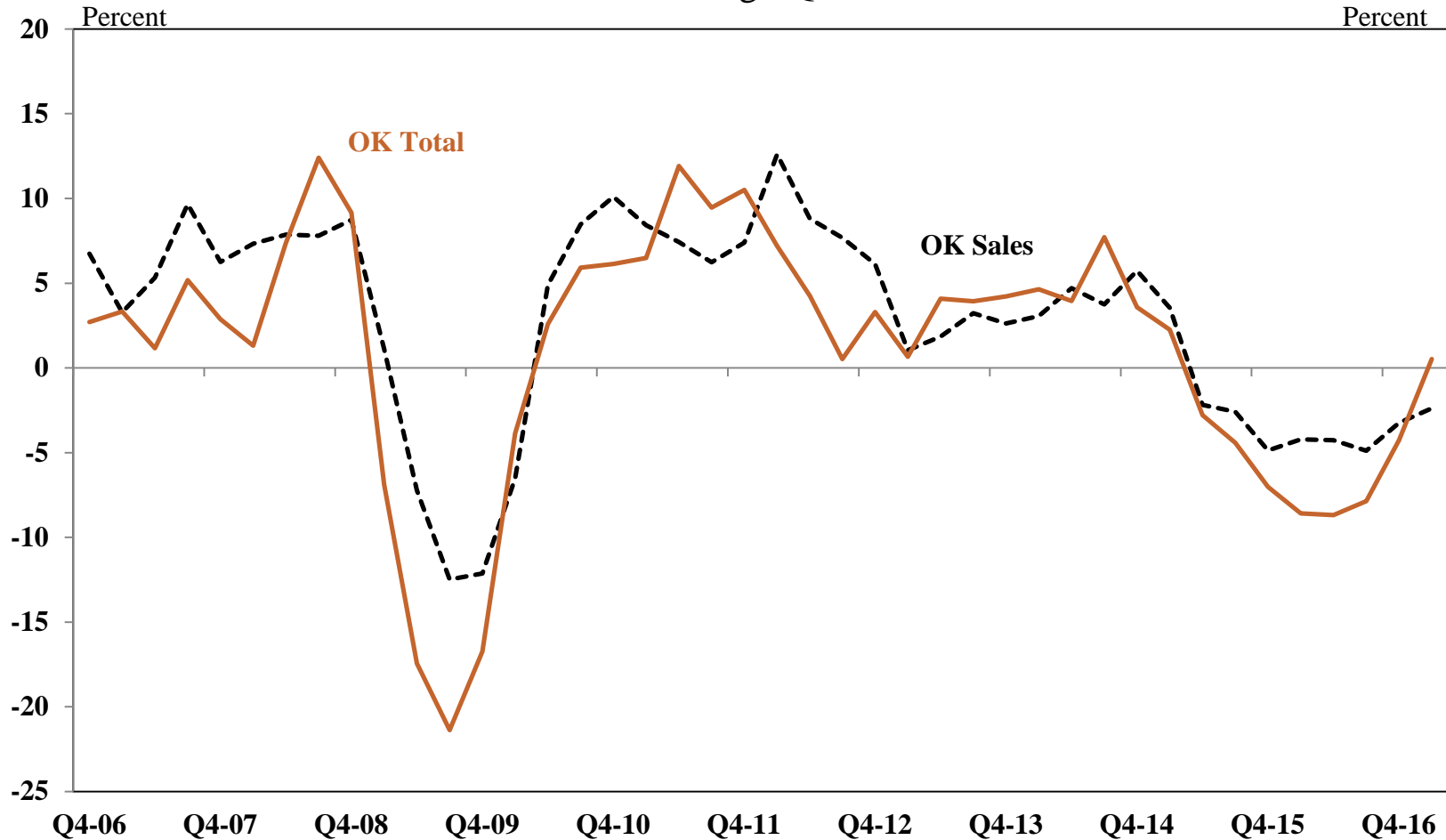
Home price growth in Oklahoma has slowed, but remains moderately positive

FHFA Home Price Index
Seasonally Adjusted



State tax revenues are finally showing signs of stabilization, after 2 years of declines

Tax Receipts
Through Q1-17*

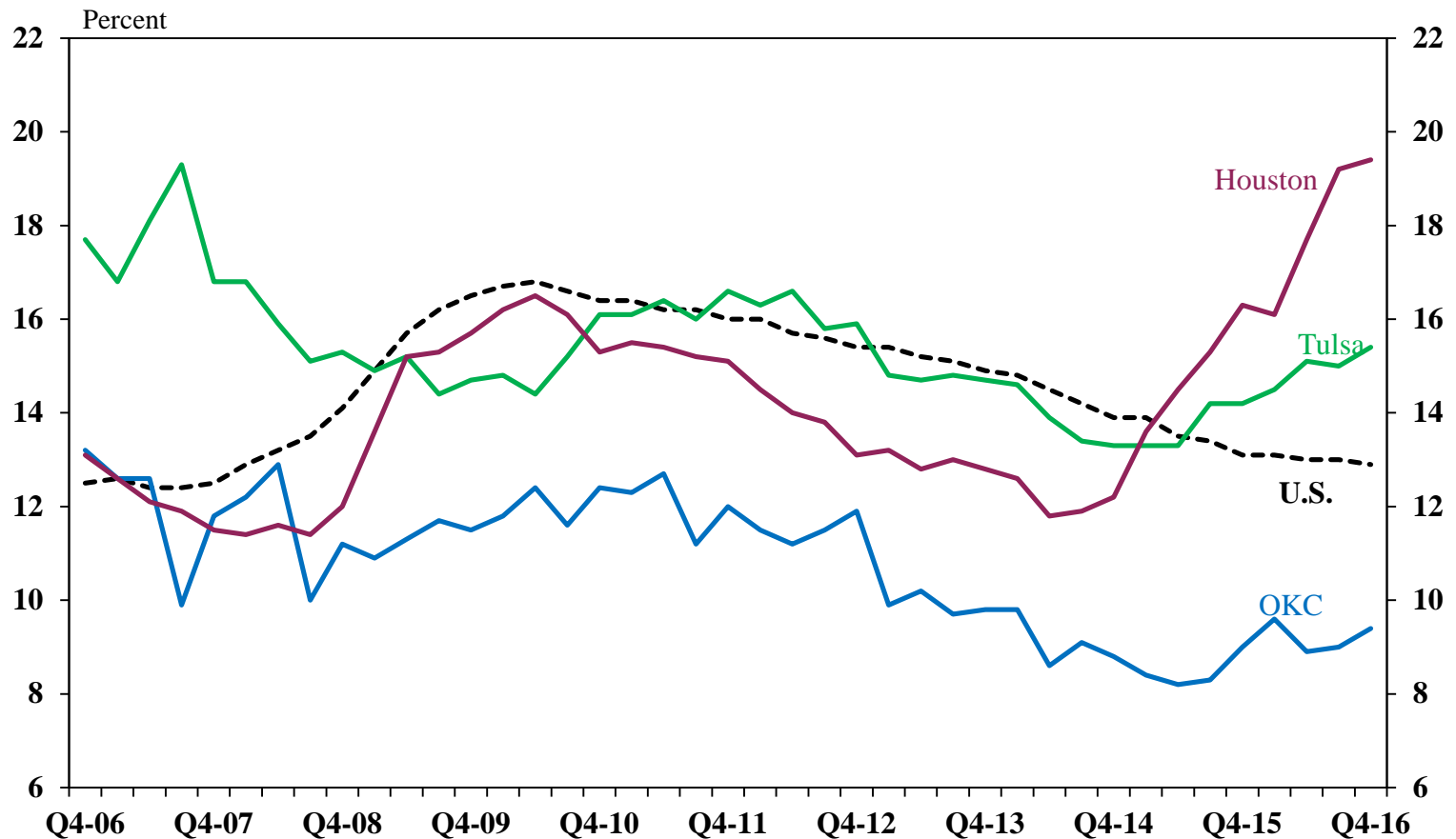


*Q1-17 only includes January data



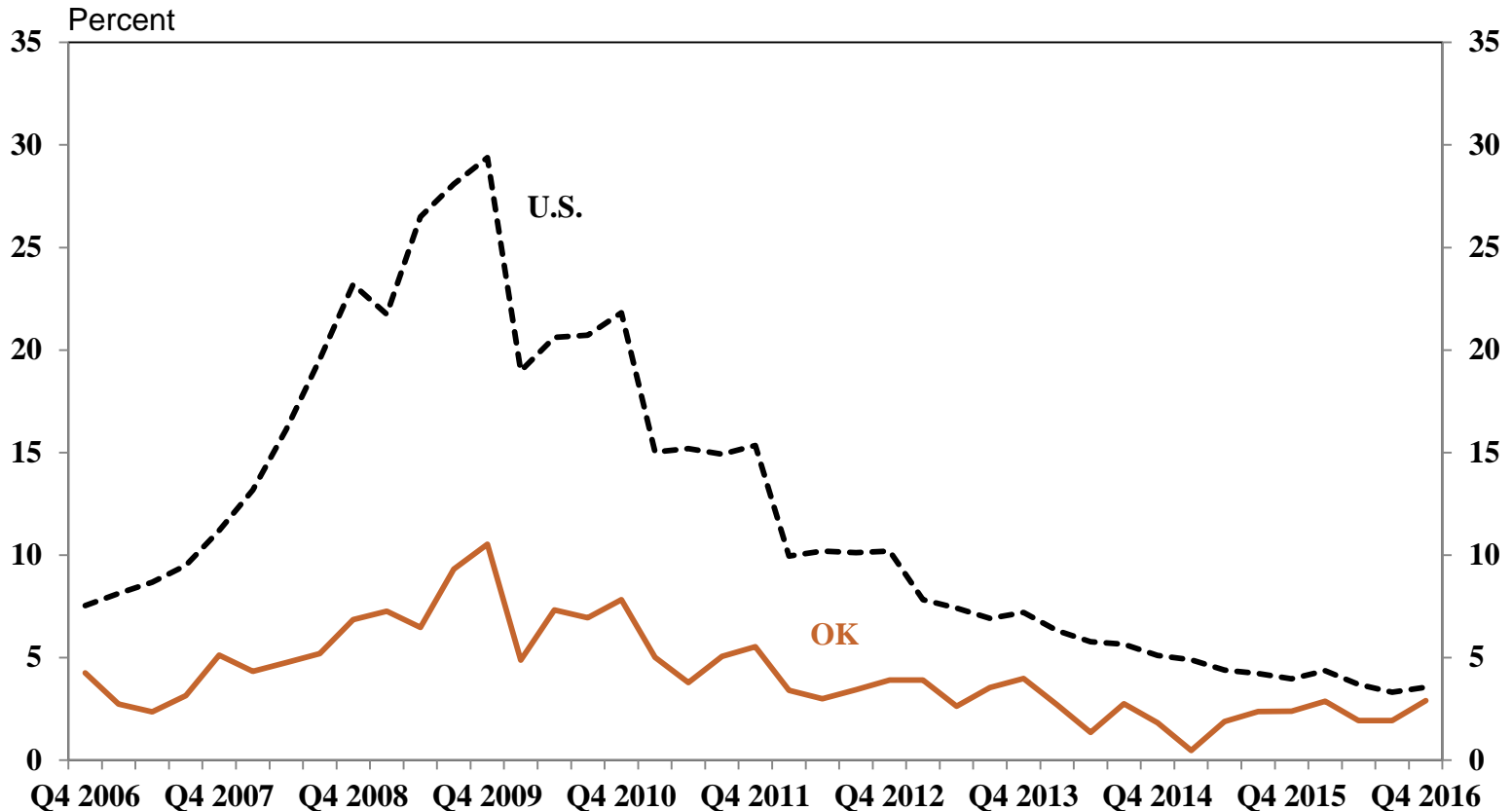
Office vacancy rates have risen slightly in the two large metros, but much less than Houston

Metro Office Vacancy Rates



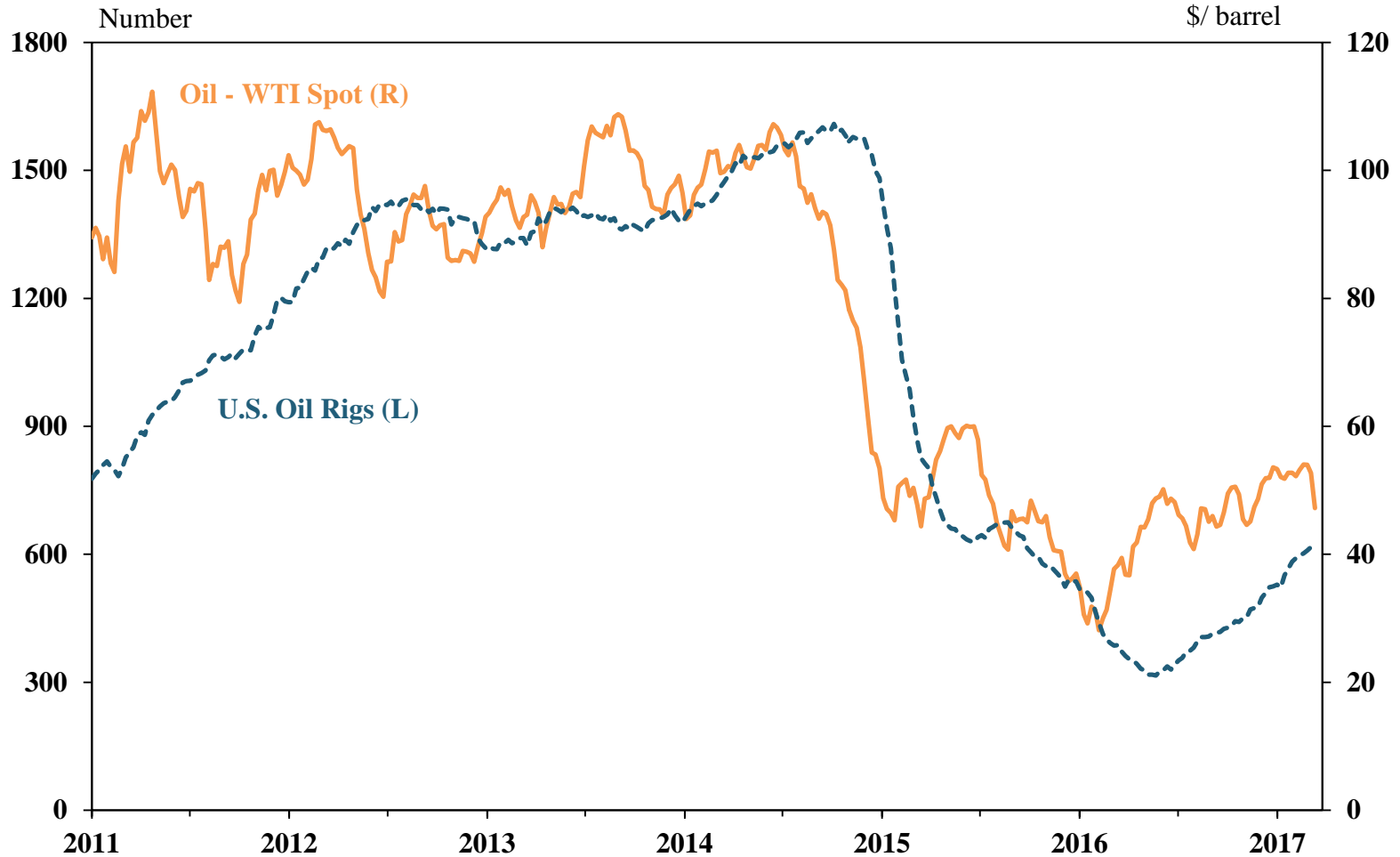
And nearly all banks in Oklahoma remain profitable

Share of Banks Not Making a Profit Commercial Banks



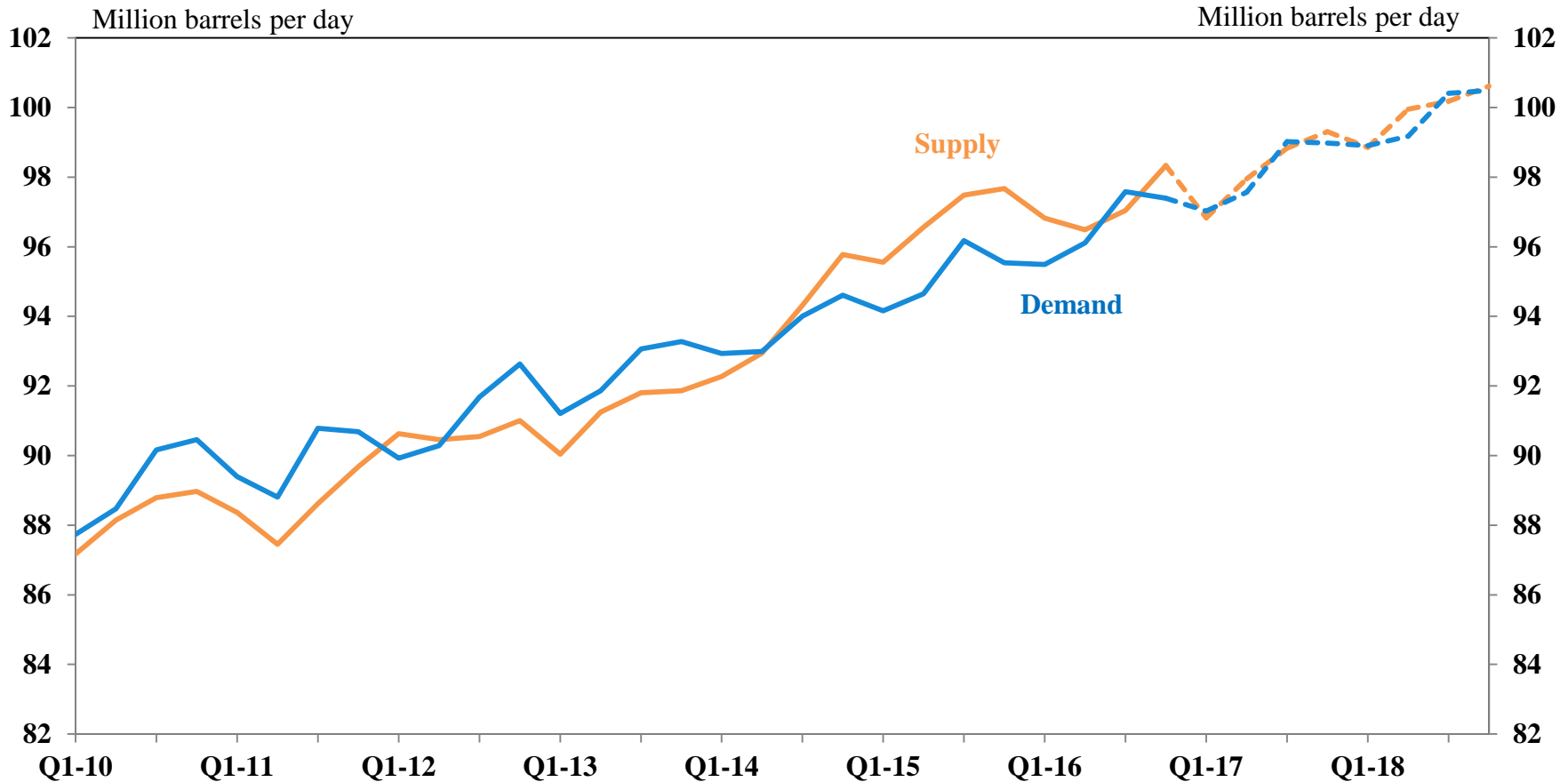
Oil prices' recent rise to \$50/barrel has boosted drilling, and OPEC's November action has helped

Oil Spot Prices and Rig Counts



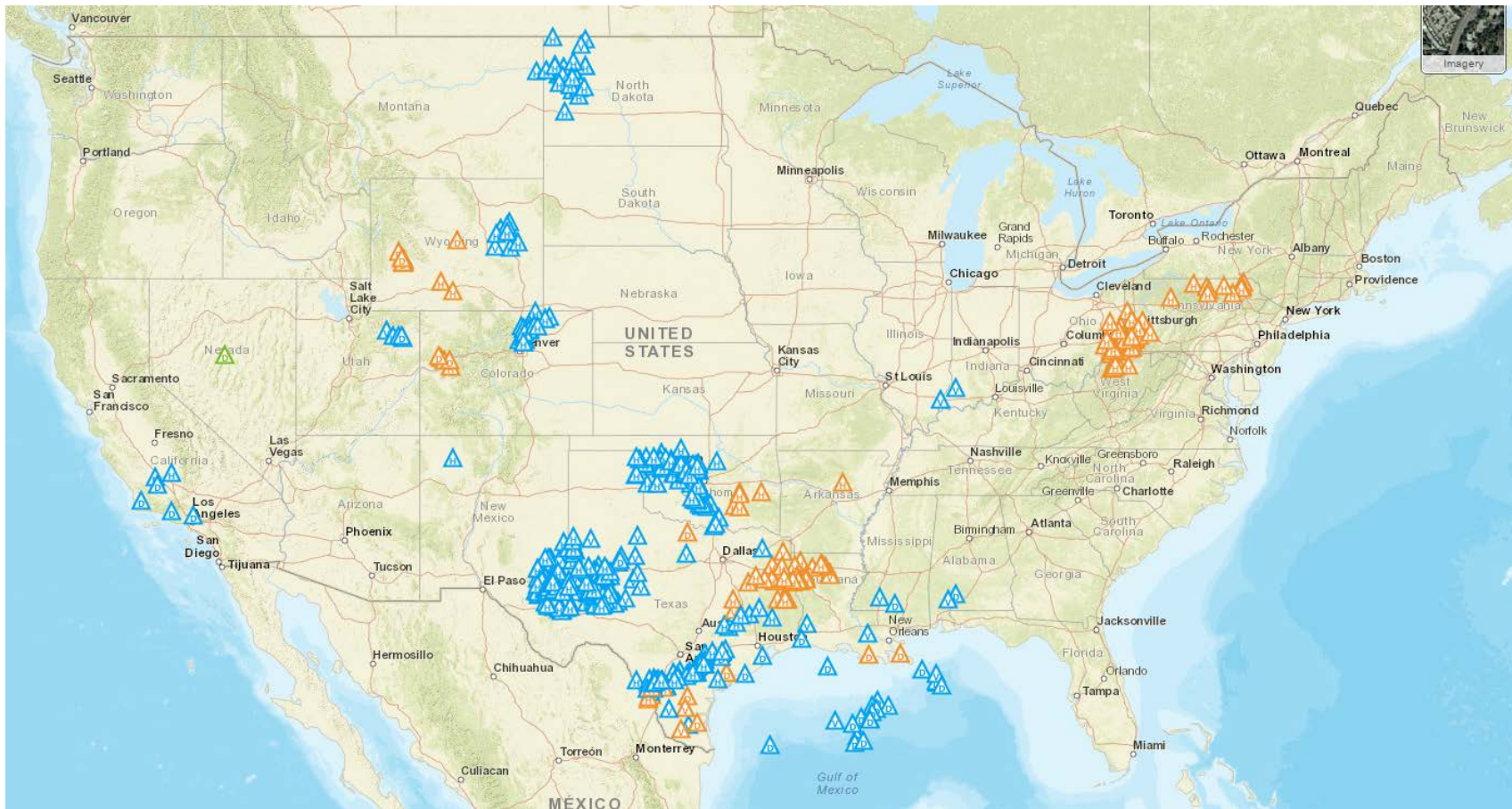
World oil supply and demand are expected to come (and stay) in line this quarter

Global Oil Supply and Demand
March 2017 Forecast



The most active drilling areas now are in west Texas and northwest Oklahoma

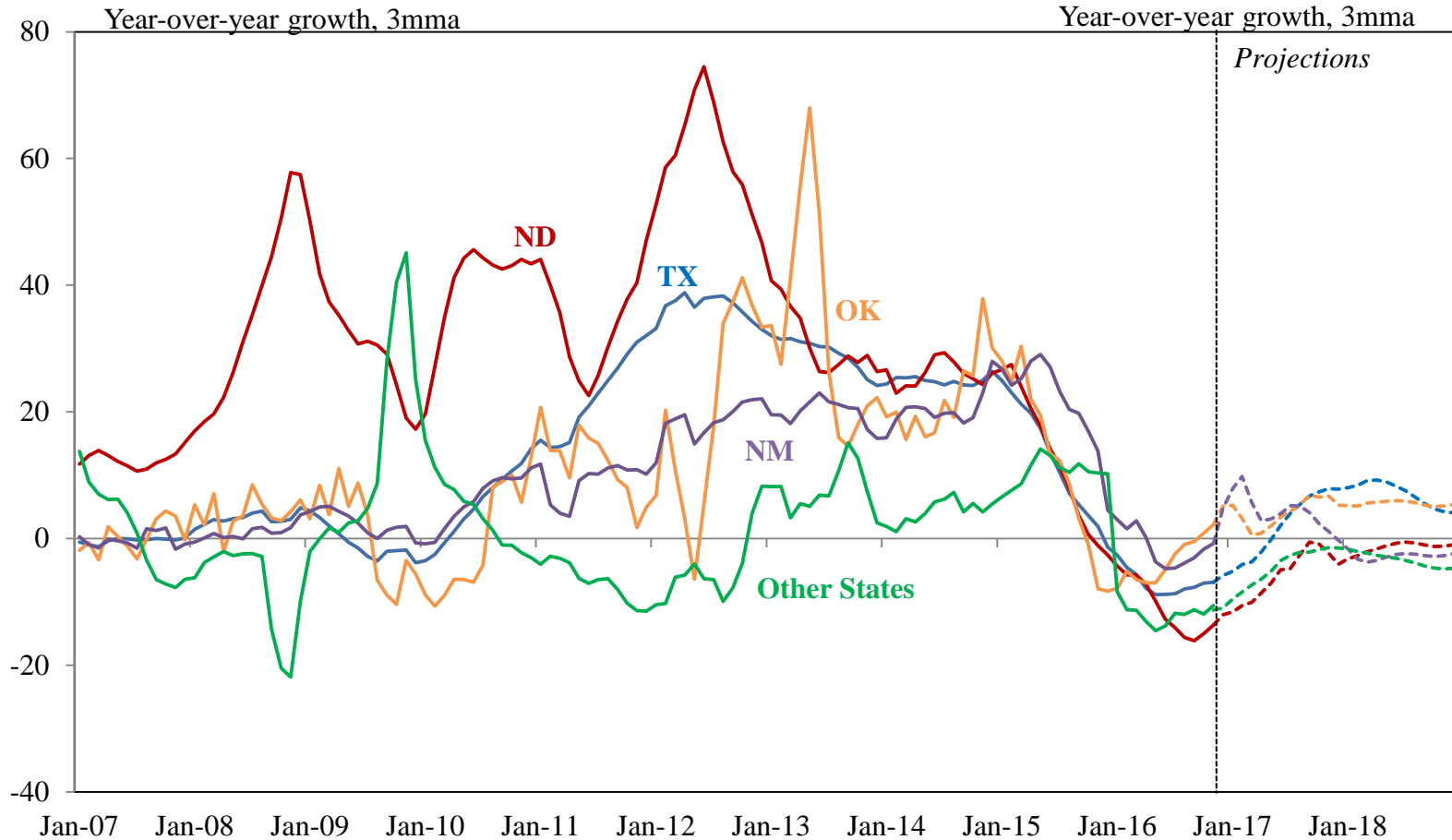
**Current Drilling Rig Locations,
As-of February 3, 2017**



Source: Baker Hughes

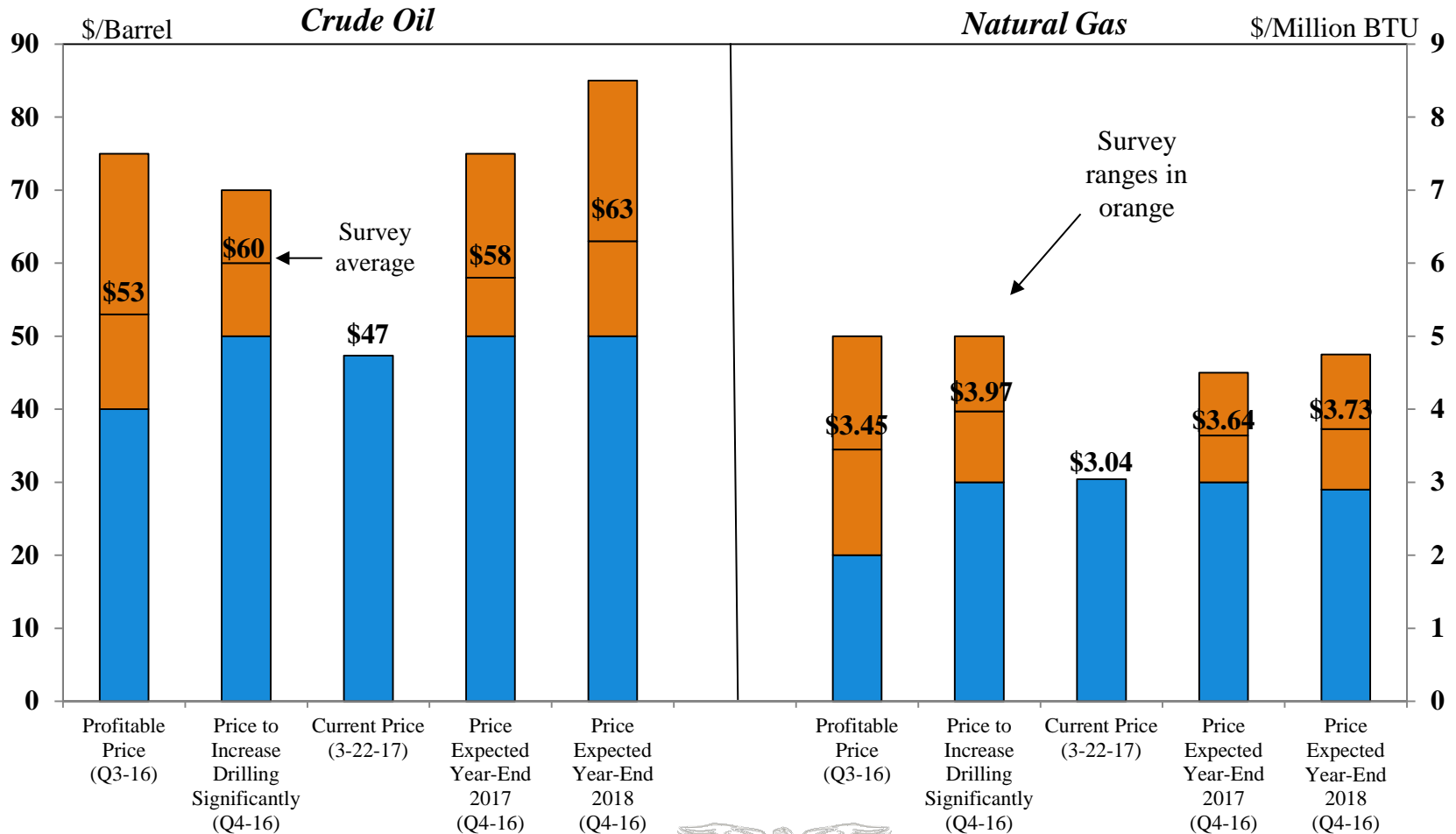
And oil production in Oklahoma and Texas is expected to continue to grow through 2018

Oil Production by State



But firms say energy prices need to be a bit higher for a sizable increase in activity

Kansas City Fed Energy Survey Special Questions



Summary

- The U.S. economy continues to grow, and the Fed has raised interest rates
- Oklahoma's economy has been hurt by low commodity prices, as well as spillover to related industries like manufacturing
- However, conditions in real estate, banking, and labor markets have held on fairly well, and some growth and optimism has returned



Questions?

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