

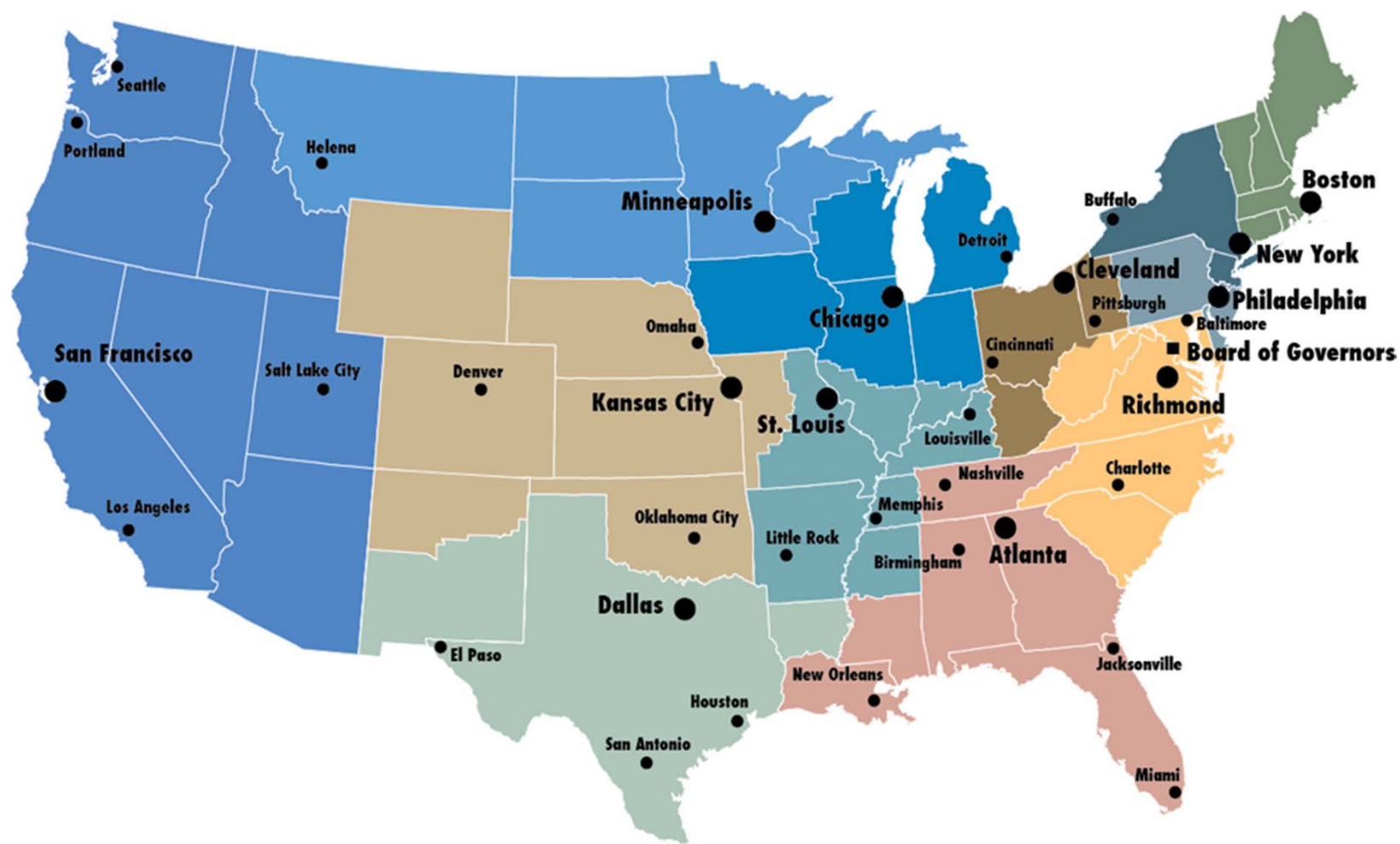
Oklahoma Economic Update

Federal Home Loan Bank of Topeka
October 23, 2017



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Federal Reserve Bank of Kansas City
www.kansascityfed.org/oklahomacity

Structure & Functions of the Federal Reserve



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

Primary responsibility areas:

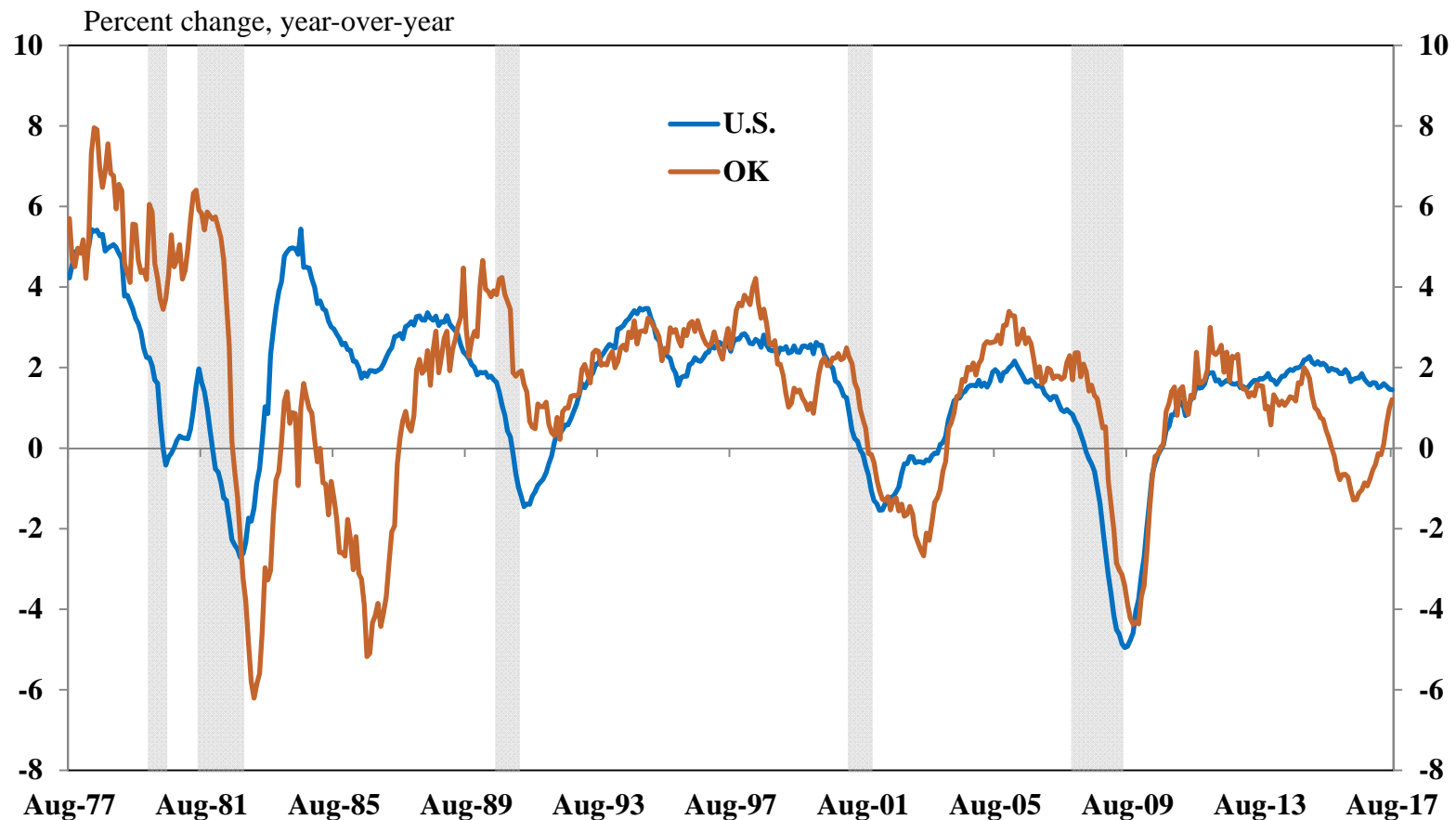
- Monetary policy
- Bank regulation
- Financial services

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

- **Functions and purposes – 45 staff**
 - Research on U.S. and Oklahoma economies; energy and manufacturing sectors
 - Economic and financial education outreach, including to low/moderate income
 - Examinations of Oklahoma financial institutions (~50 banks, ~175 holding cos.)
- **2017 OKC Fed Branch Board of Directors**
 - **Pete Delaney (chair)**, Chairman/CEO (retired), OGE Energy Corp., OKC
 - **Clint Abernathy**, Owner, Abernathy Farms, Inc., Altus
 - **Susan Chapman Plumb**, COO, Bank of Cherokee County, Tahlequah
 - **Michael Coffman**, CEO (retired), Panhandle Oil & Gas, Inc., OKC
 - **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 Econ. Dev. Corp., Tulsa
 - **Doug Stussi**, EVP & CFO, Love's Travel Stops & Country Stores, OKC

2015-16 was the largest divergence between U.S. & OK job growth since the '80s, but gap is closing

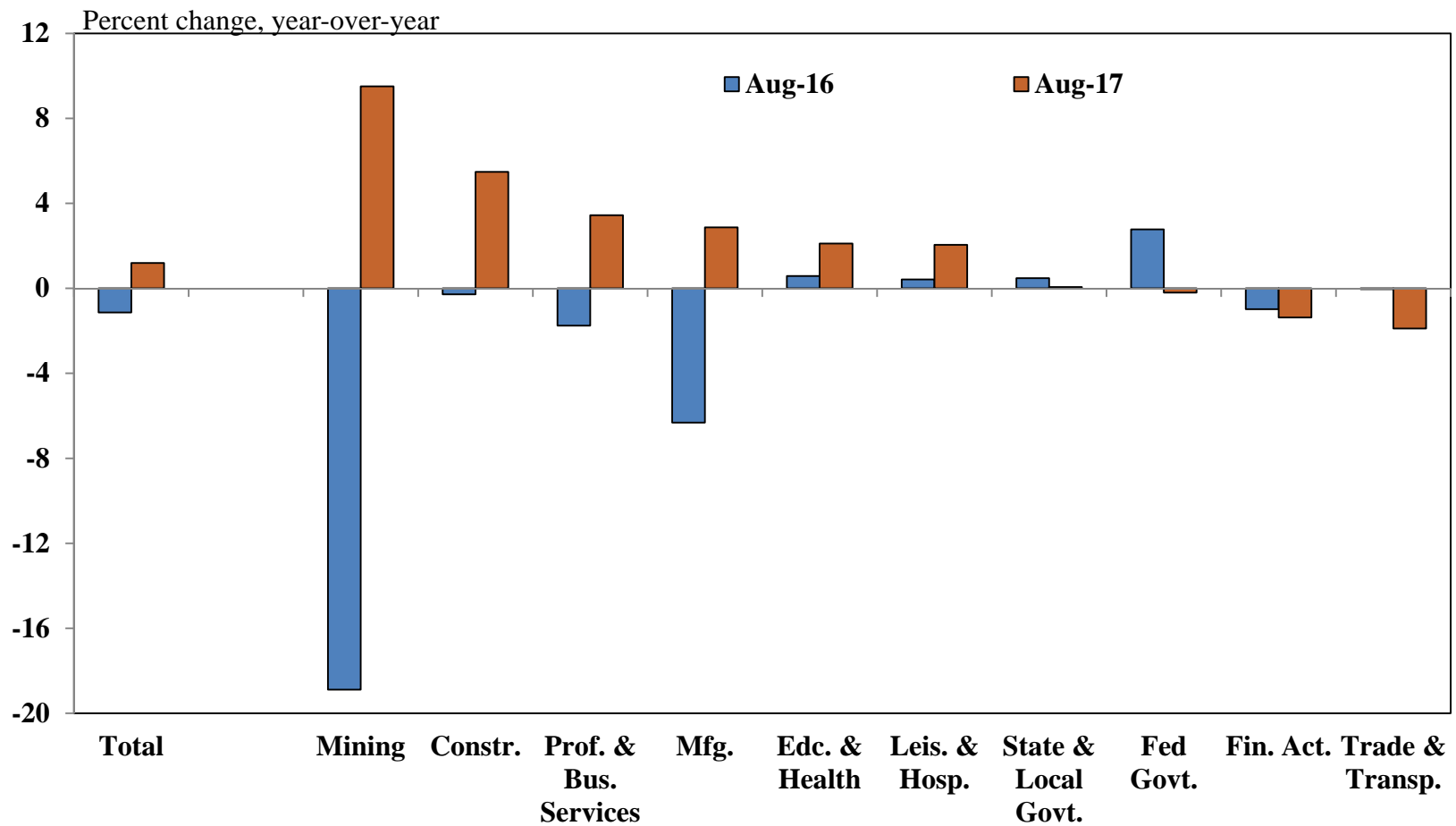
Payroll Employment Growth



So far in 2017, goods-producing industries have mostly led the way in state job growth

Oklahoma Job Growth by Industry

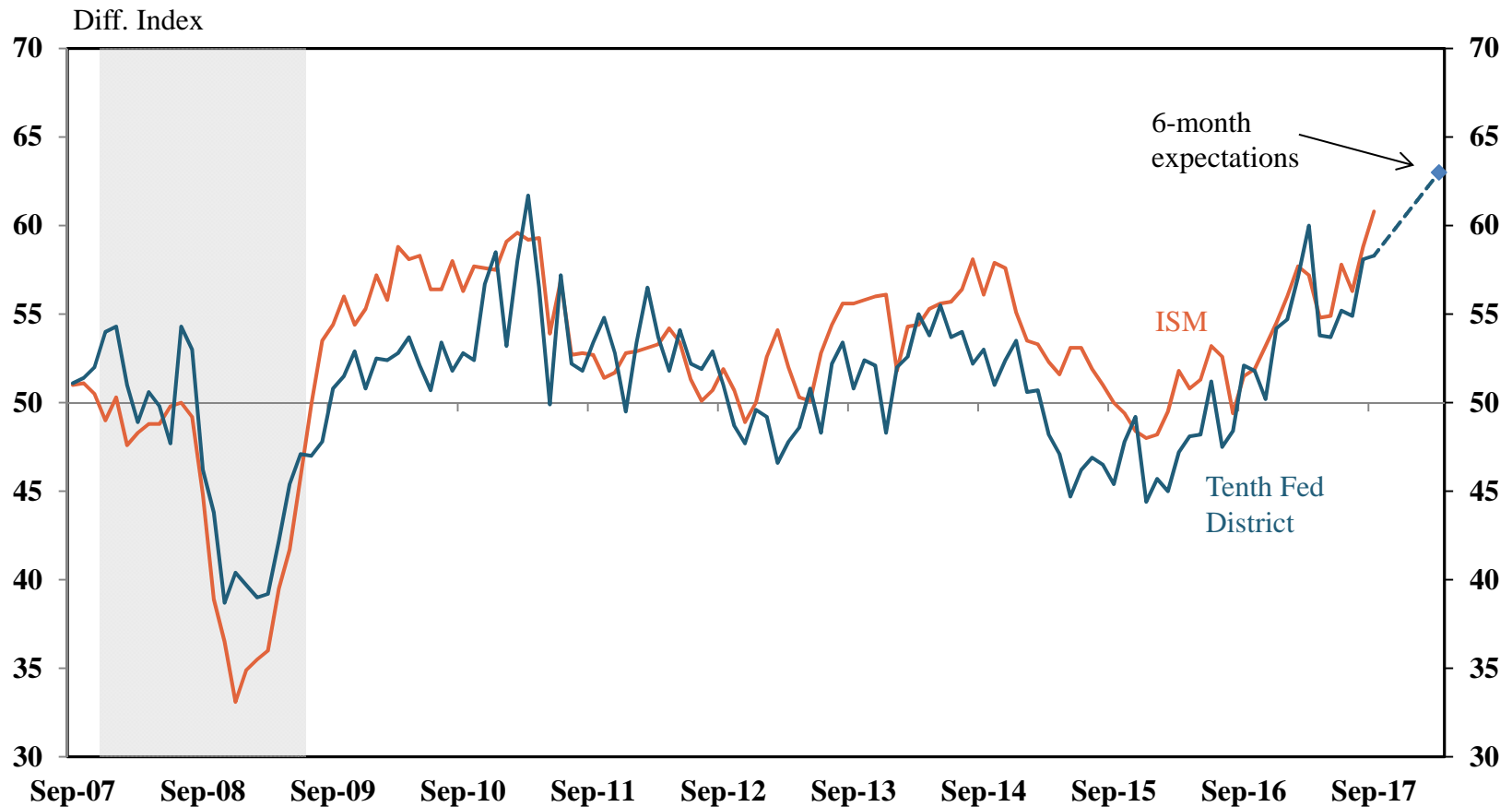
Aug-17



Source: Bureau of Labor Statistics

Regional factory activity has continued to improve in recent months, with optimism high

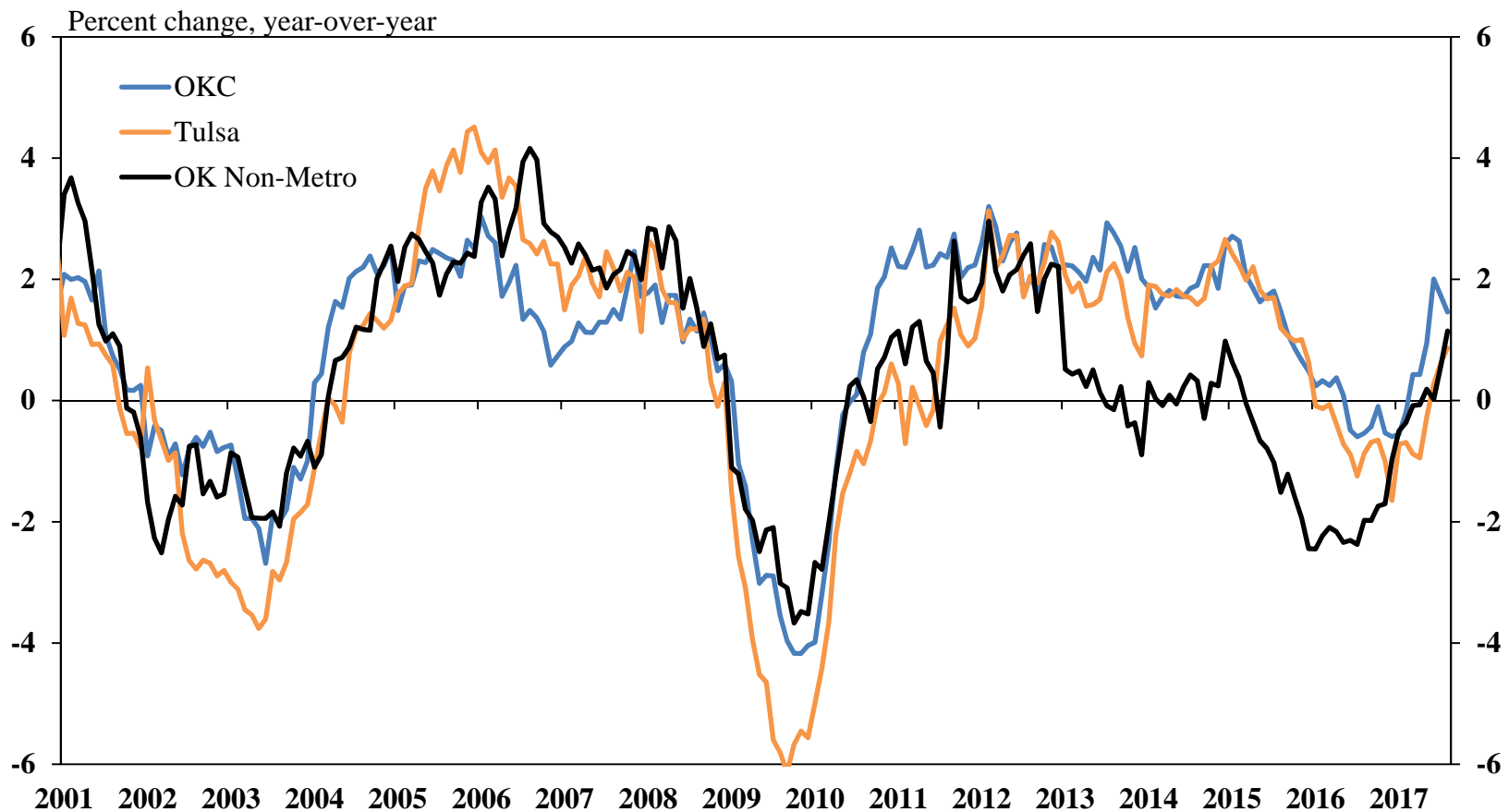
Manufacturing Composite Indexes, Seasonally Adjusted



Source: ISM, FRBKC

Looking across the state, non-metro areas were hit harder by the downturn, but have rebounded lately

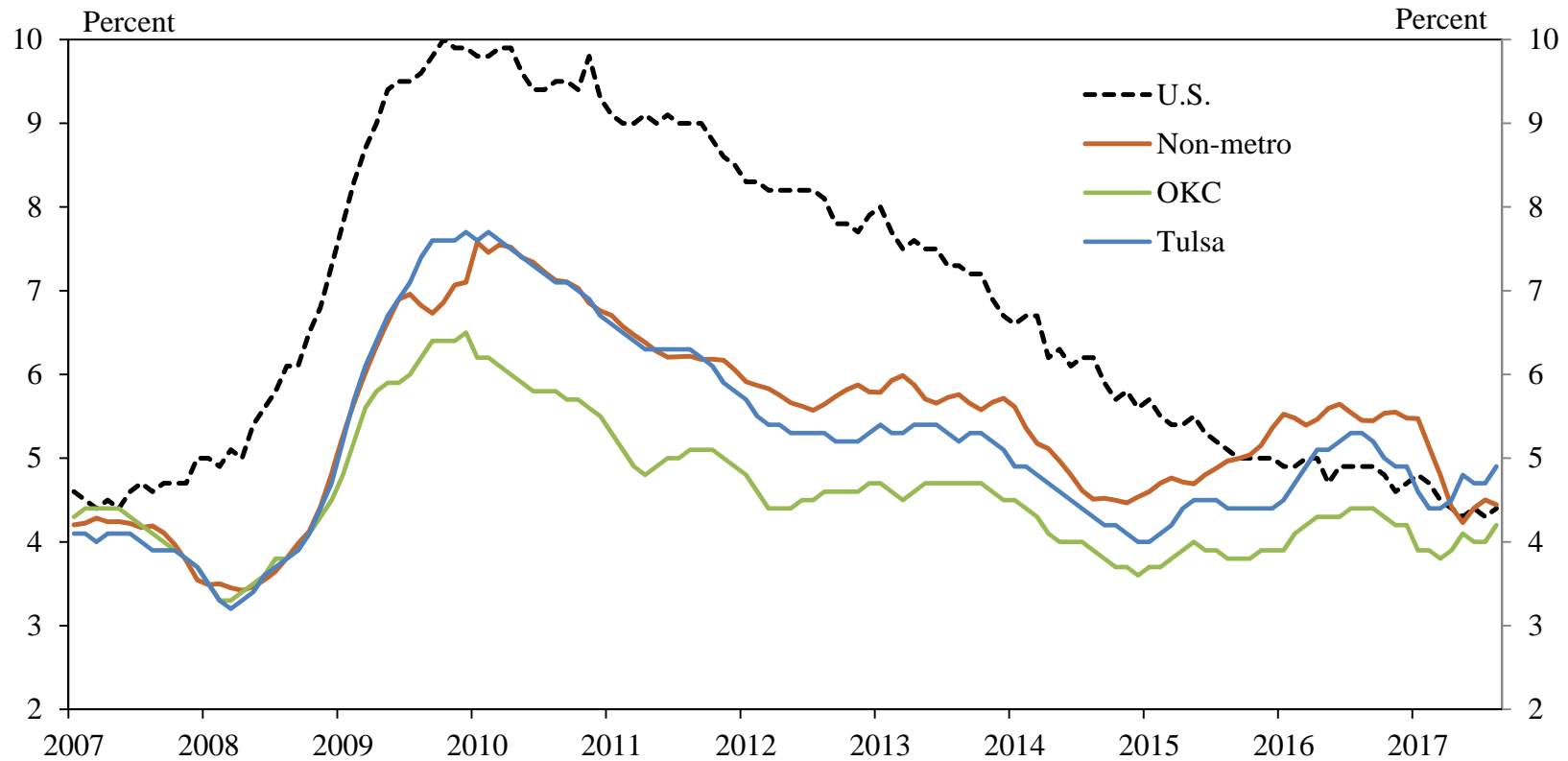
U.S. vs OK Metro vs. OK Non-Metro Job Growth



Source: Bureau of Labor Statistics

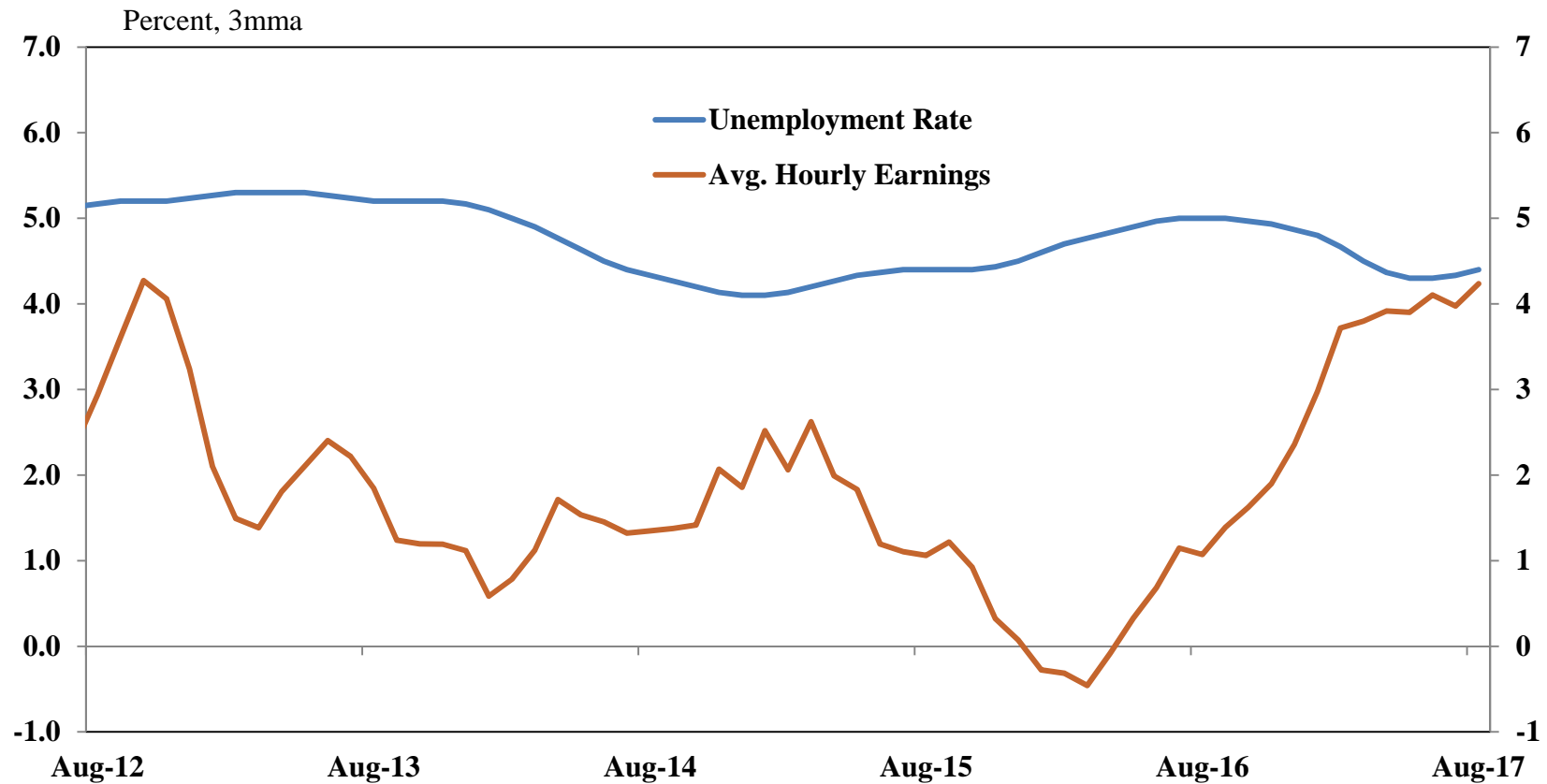
Despite the economic downturn of recent years, unemployment is low in most of the state

Unemployment rates
Seasonally Adjusted



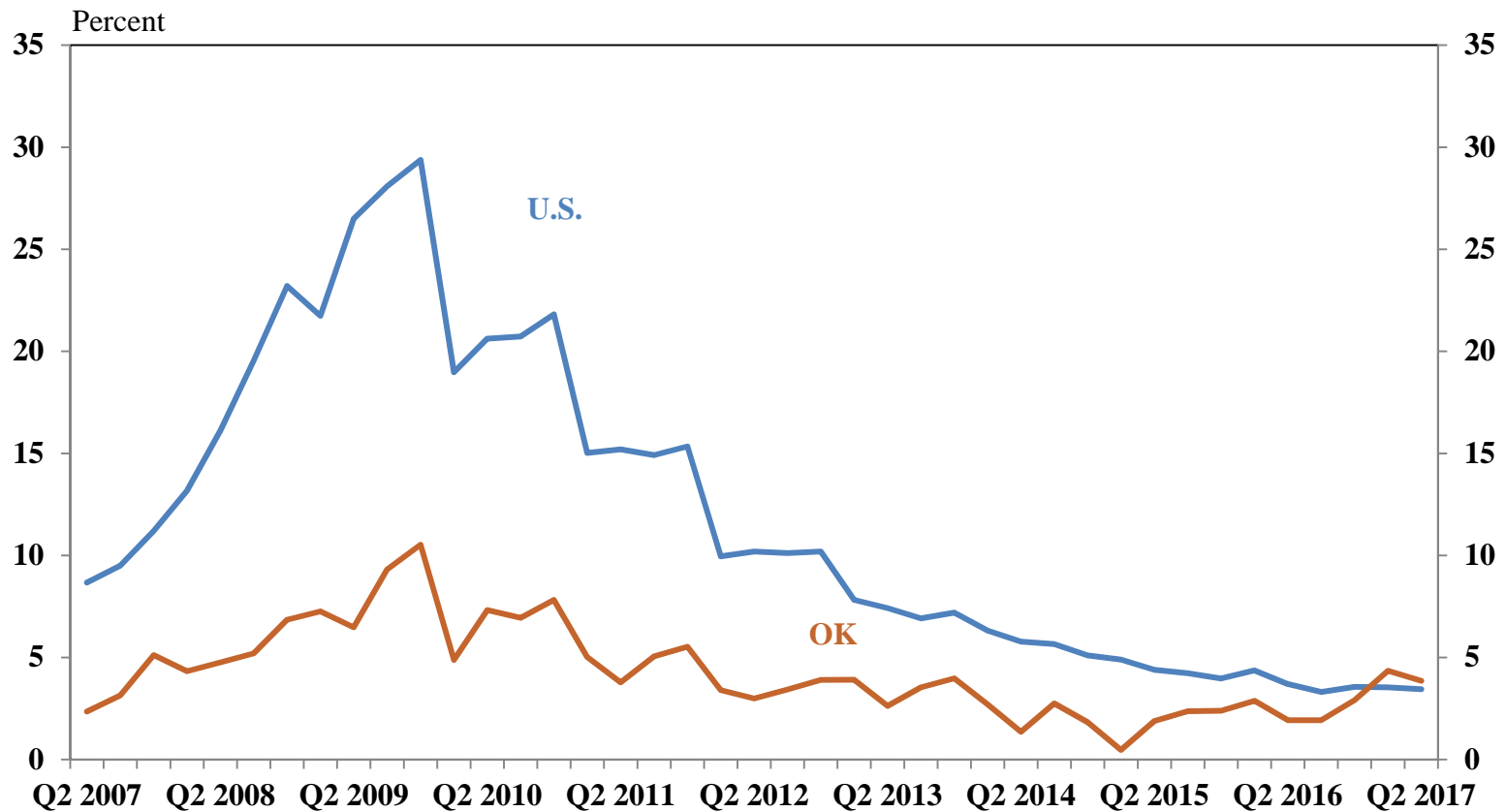
As unemployment has come back down this year, wage pressures have increased

Unemployment Rate and Average Hourly Earnings



Banking conditions also remain solid overall in the state despite recent economic weakness

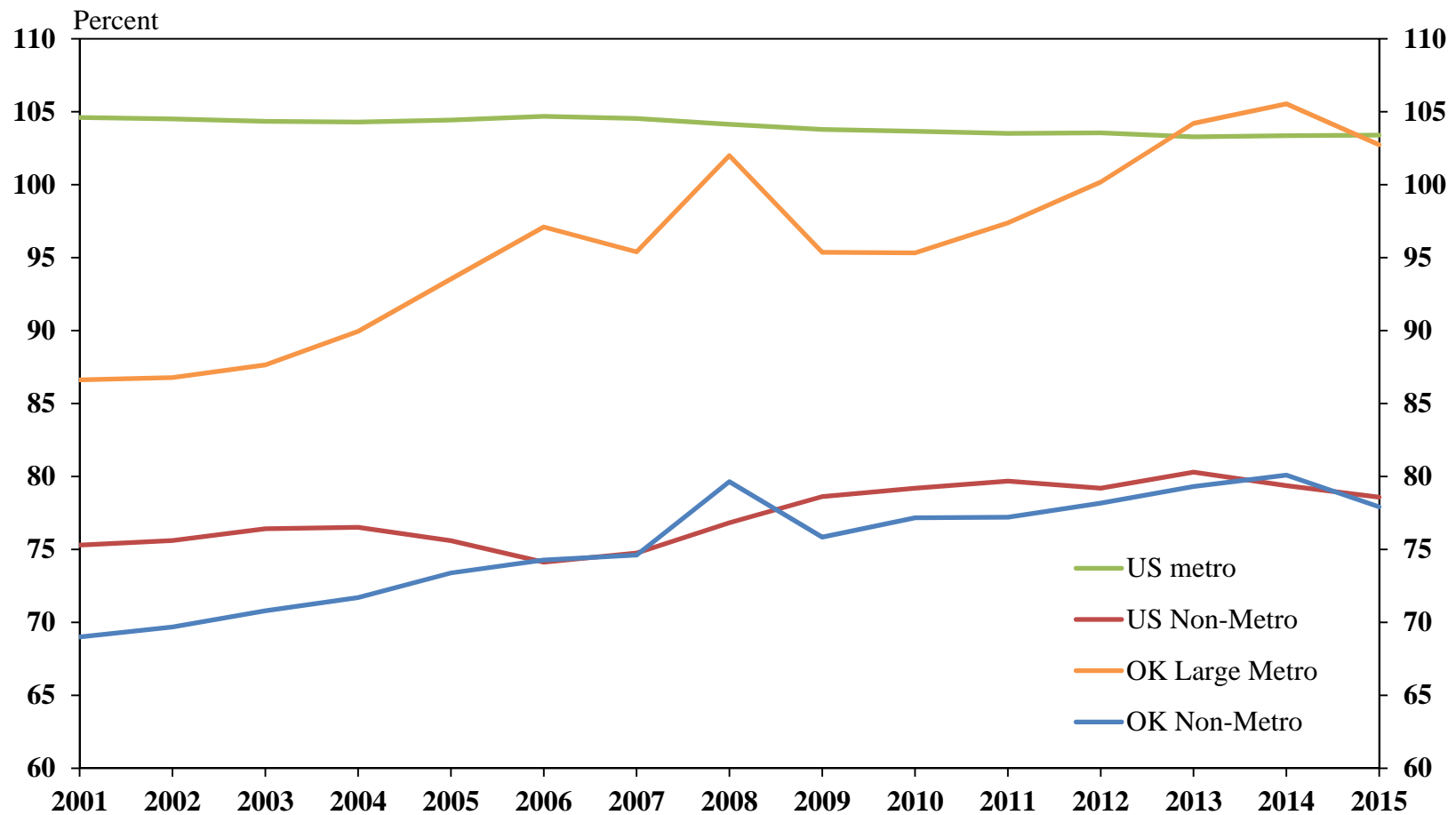
Share of Banks Not Making a Profit
Commercial Banks



Source: FDIC

Per capita incomes in both metro and non-metro Oklahoma have improved markedly this century

U.S. Non-Metro vs. OK Non-Metro Per Capita Income
As a Share of National Average



Ag and energy are much bigger in OK than the US, and despite recent struggles, have done well since '01

Oklahoma Personal Income Share by Industry, 2015

Industry	Percent of Total Income									Avg Annual Growth in Non-Metro OK 2001-2015*
	U.S.	OK	OKC	Tulsa	Non-Metro					
					OK	NW	NE	SW	SE	
Mining	1.6	10.8	9.3	13.5	10.4	11.2	8.7	5.4	7.1	11.4
Farming	0.8	1.6	0.3	0.3	5.3	8.7	3.8	2.7	3.8	6.3
Construction	6.1	6.1	6.2	5.9	6.3	6.9	5.8	5.0	6.3	4.8
State & Local Government	13.2	12.3	12.1	6.1	20.3	18.3	19.7	14.8	24.1	4.6
Trade, Transportation & Utilities	16.2	21.8	16.9	30.3	16.4	n/a	n/a	n/a	n/a	4.3
Education & Health	13.3	10.2	12.5	9.5	8.5	n/a	5.0	4.8	n/a	3.8
Federal Government	3.0	5.3	7.6	1.3	3.6	2.8	4.9	19.3	3.0	3.3
Information	3.5	1.5	1.7	1.5	1.1	n/a	0.9	n/a	0.8	3.0
Leisure & Hospitality	4.7	3.5	4.8	2.3	3.1	n/a	2.5	n/a	n/a	2.9
Financial Activities	7.1	3.4	4.5	7.0	2.5	n/a	2.6	2.7	2.3	2.9
Manufacturing	10.1	8.2	5.8	9.7	9.2	7.2	11.0	n/a	9.7	1.0
Prof. & Business Services	20.3	6.9	8.5	7.0	4.2	n/a	3.1	n/a	n/a	0.2

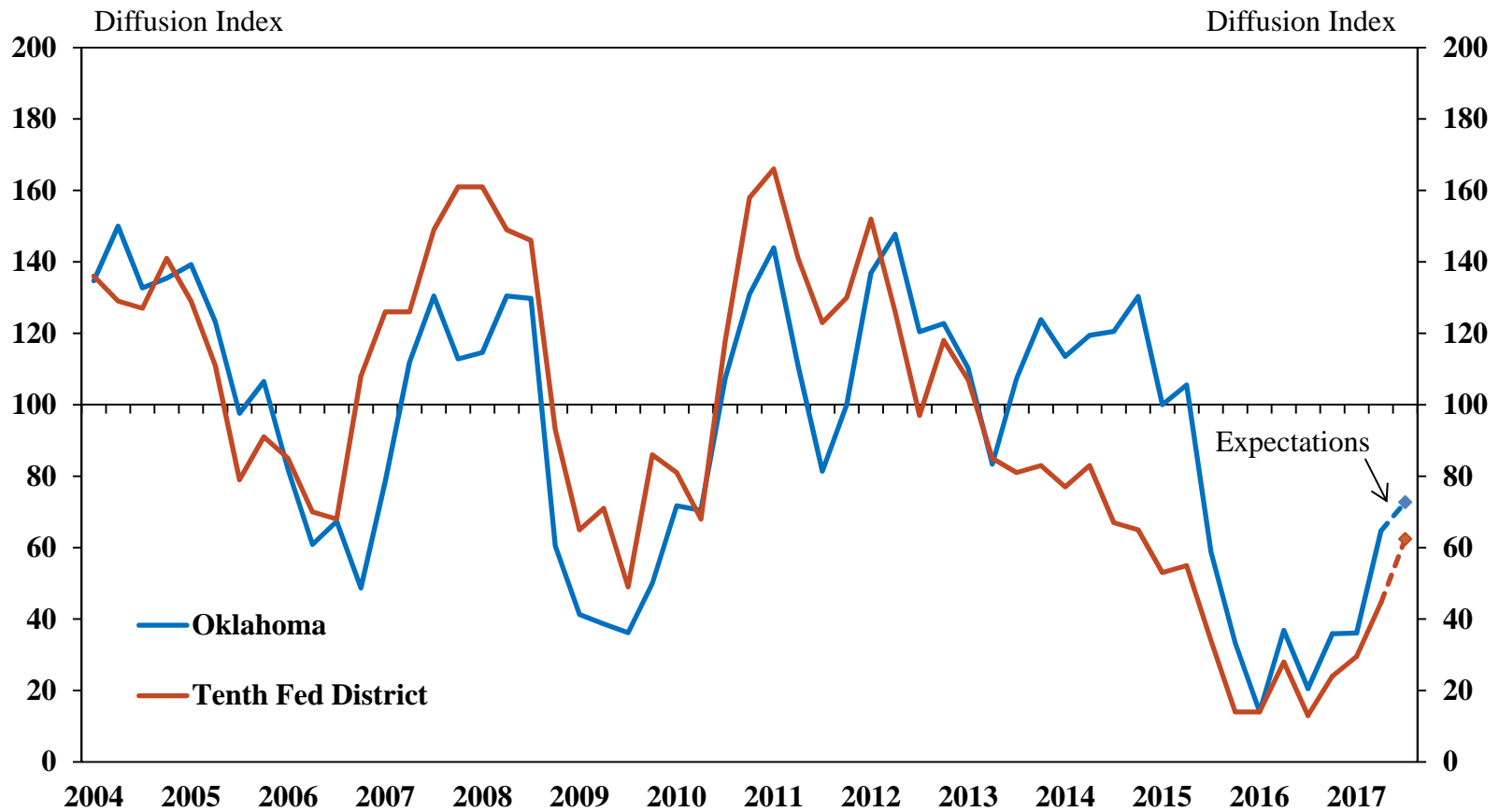
Note - 2014 percent of total income for TTU and Leis. & Hosp. in Non-metro regions.

*Mining from 2002, TT&U from 2013-2014, Prof. & Bus. Services and Ed. & Health from 2013, Leis. & Hosp. from 2002-2014.



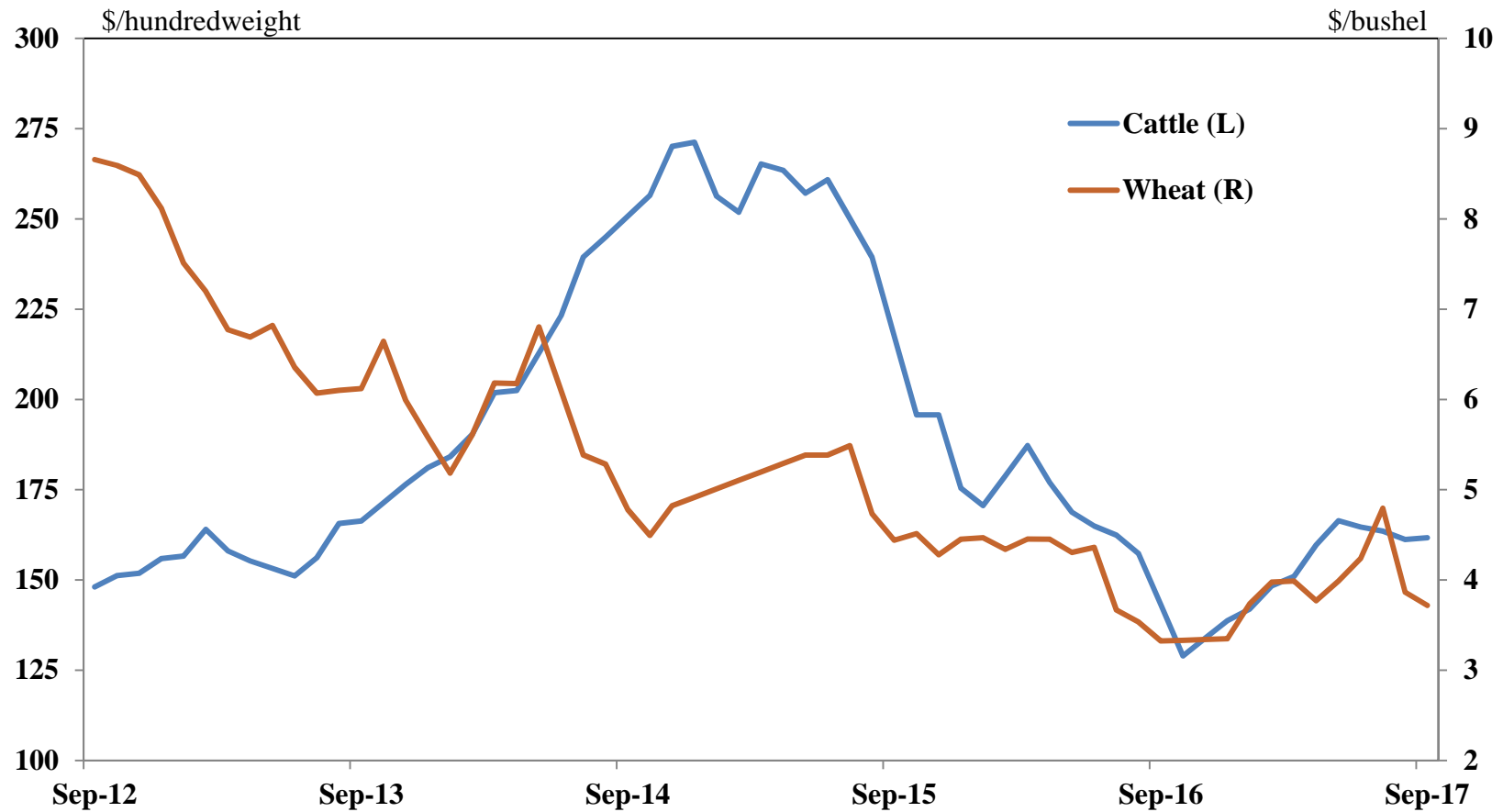
The agriculture sector in the state generally remains weak, though less so than last year

Tenth District Farm Income



Cattle prices have rebounded slightly, but wheat prices remain in the doldrums

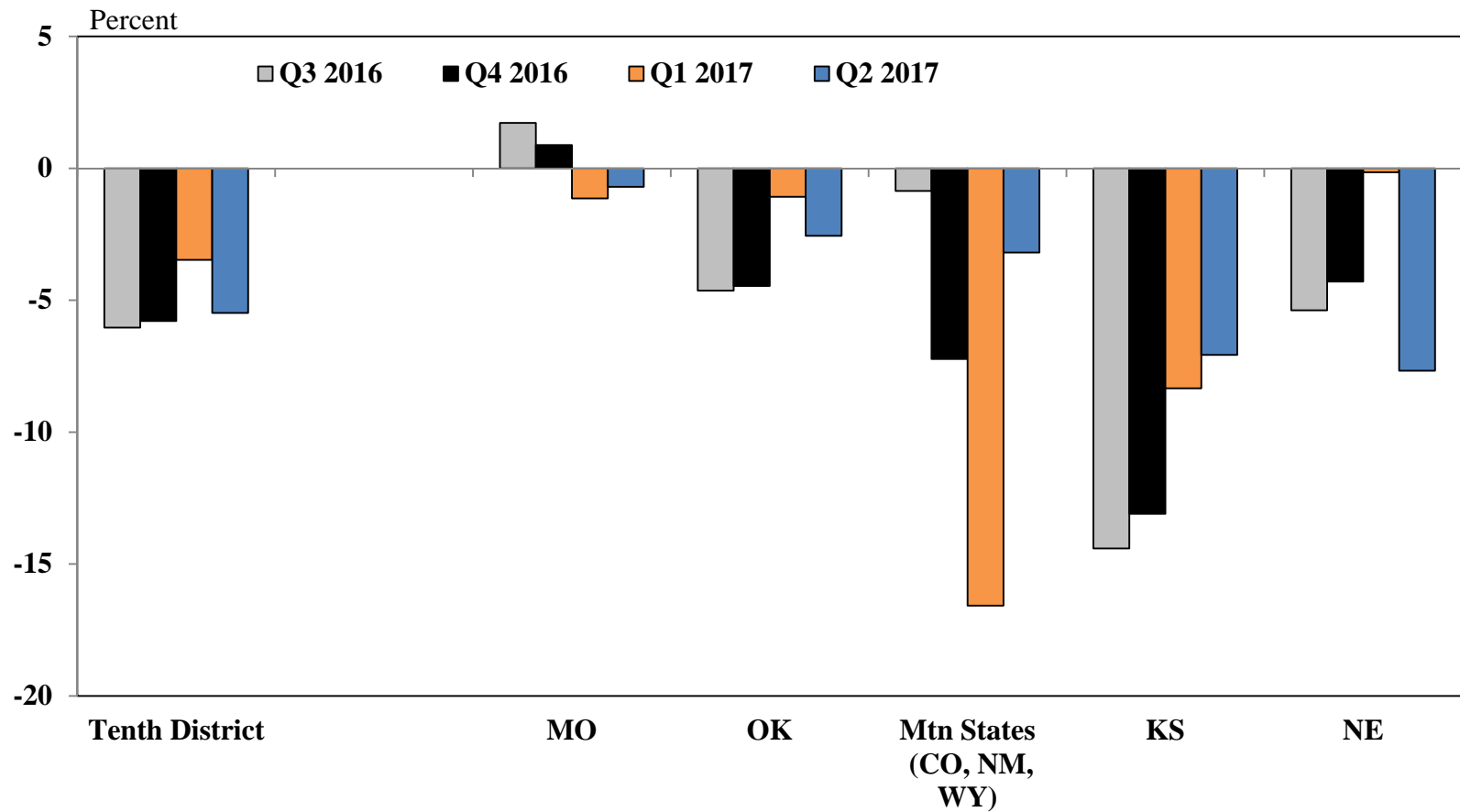
Agricultural Commodity Prices



Source: USDA, Haver Analytics

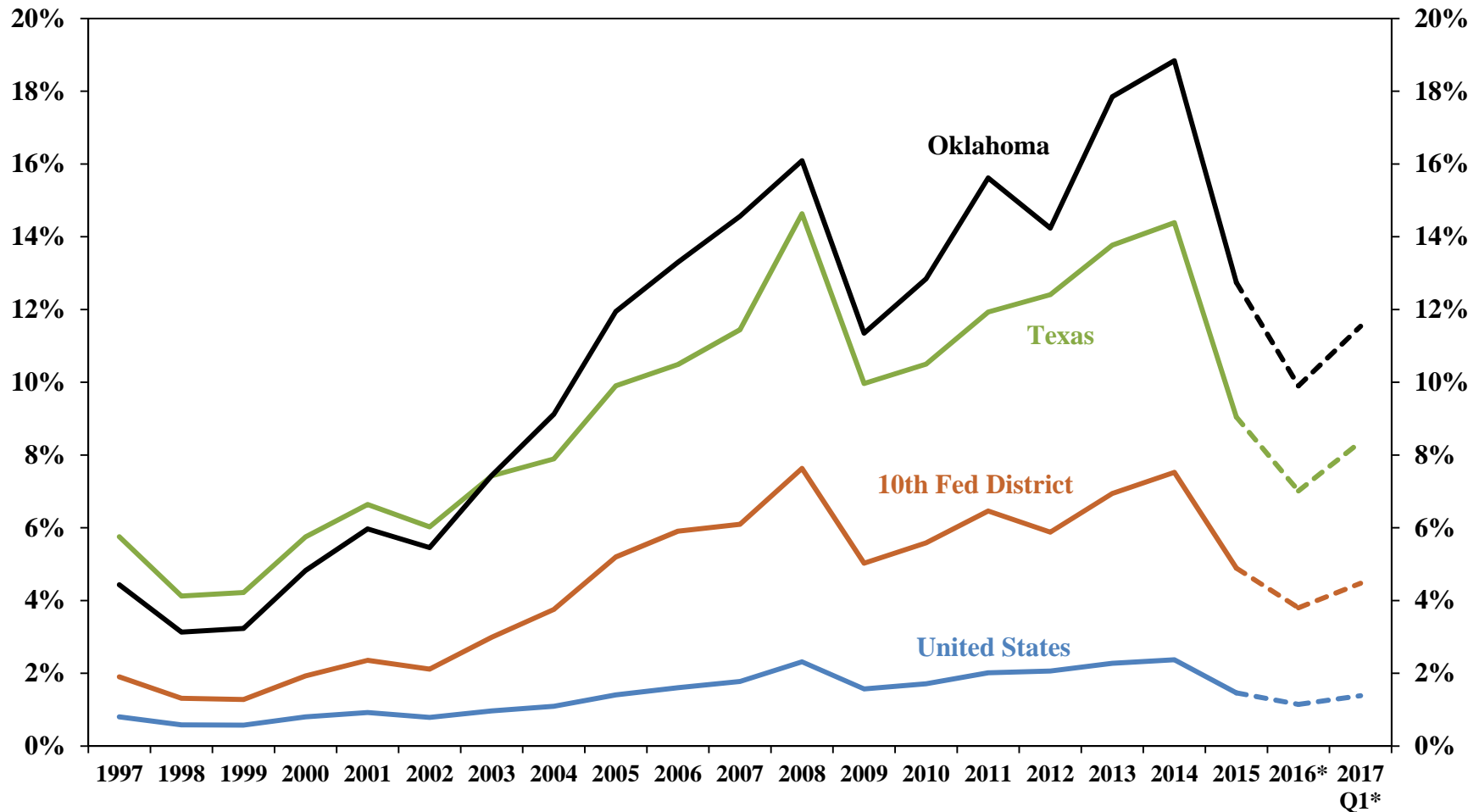
OK farmland values have fallen moderately in recent quarters, but less than in some states

Tenth District Farmland Values
Percent Change, Year-over-year



The oil and gas sector remains especially sizable in the state, even after dropping in recent years

Oil and Gas Sector Share of GDP*
1997-2017



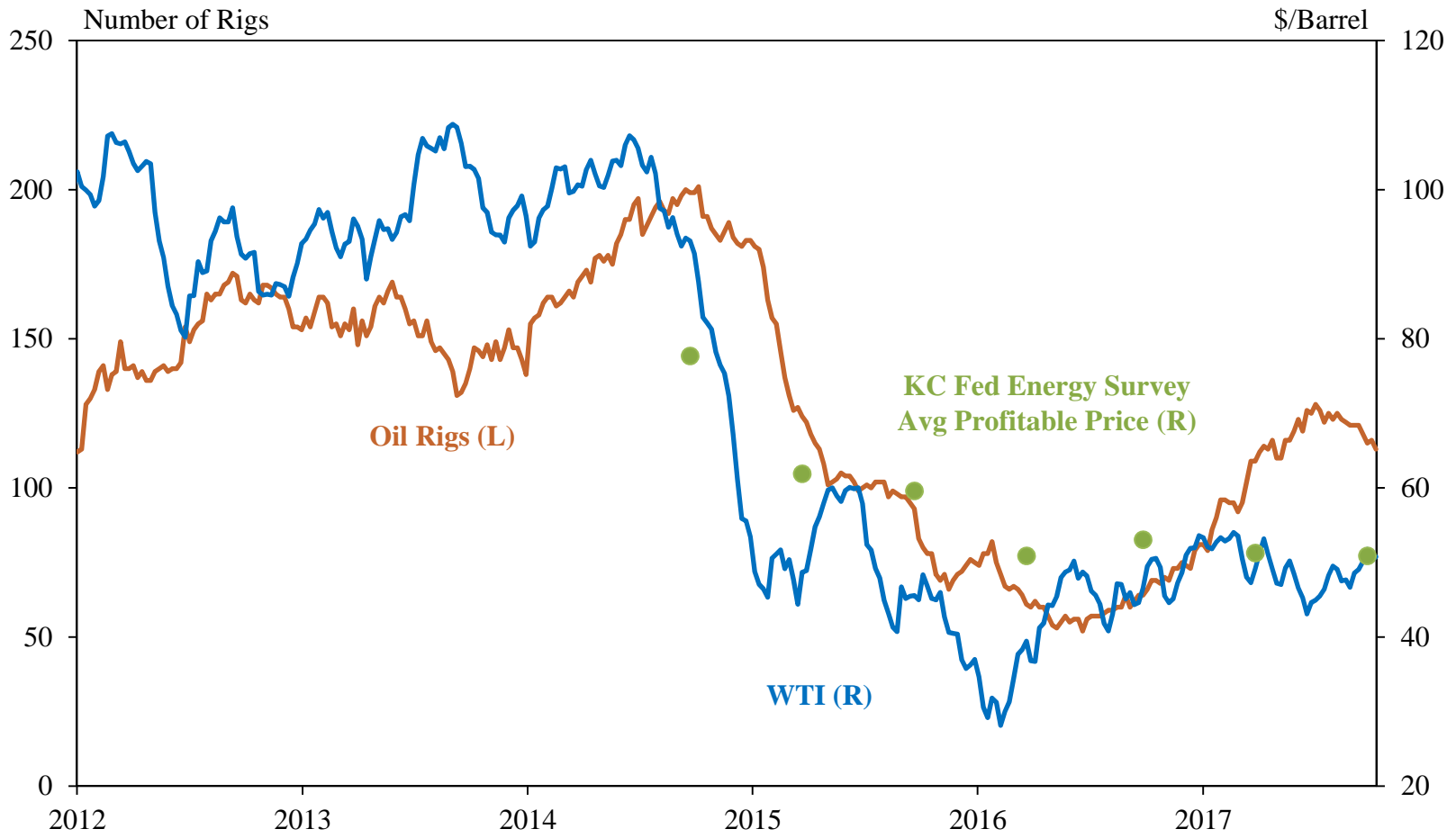
*Oil & Gas Sector = NAICS 211 + NAICS 213;
2016-17 estimates based on size of overall Mining sector



Source: U.S. Bureau of Economic Analysis; author's calculations

The number of oil rigs in Oklahoma rose strongly in the first half of 2017 but has since tapered off

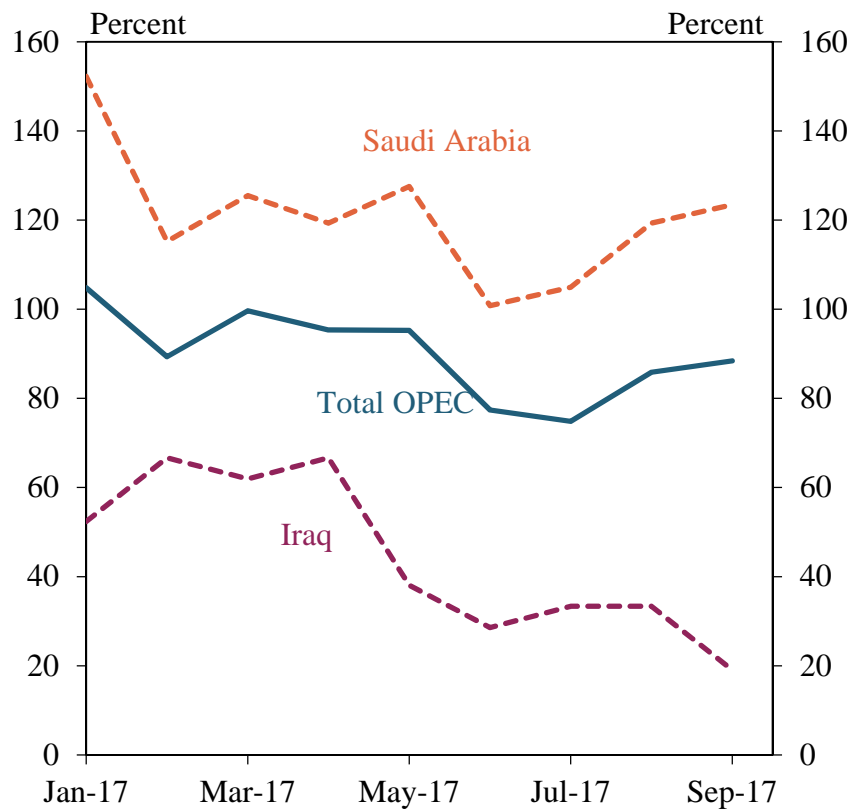
WTI Spot Price vs. Oklahoma Rig Count



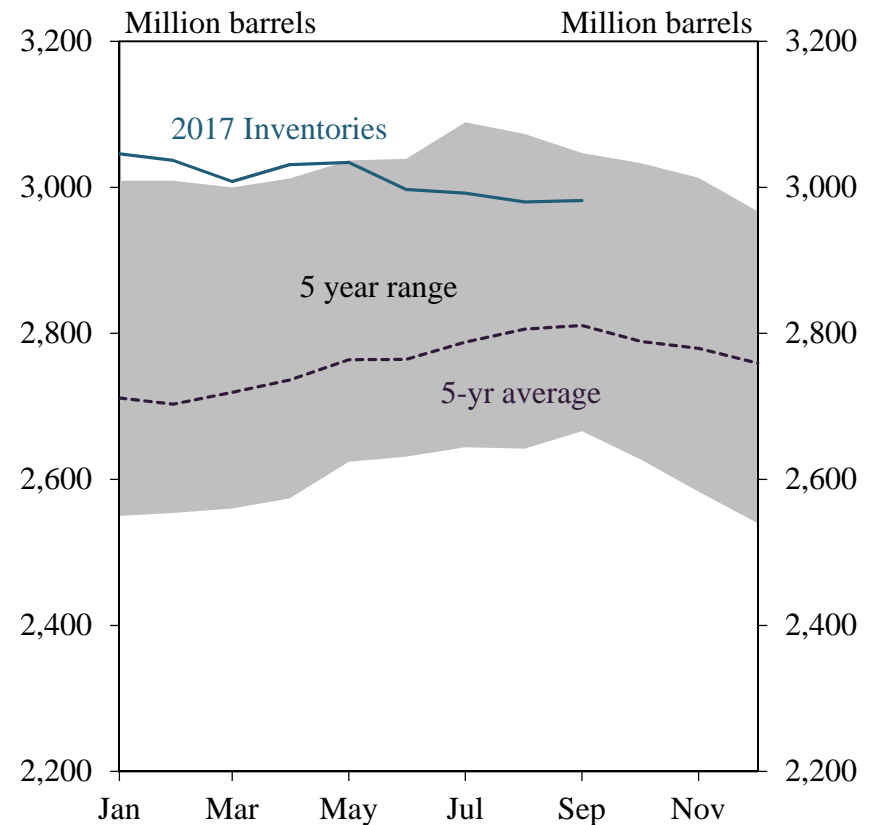
Source: EIA, Baker Hughes, FRBKC Energy Survey

OPEC compliance with cuts improved in August, helping push down world oil inventories

OPEC Compliance



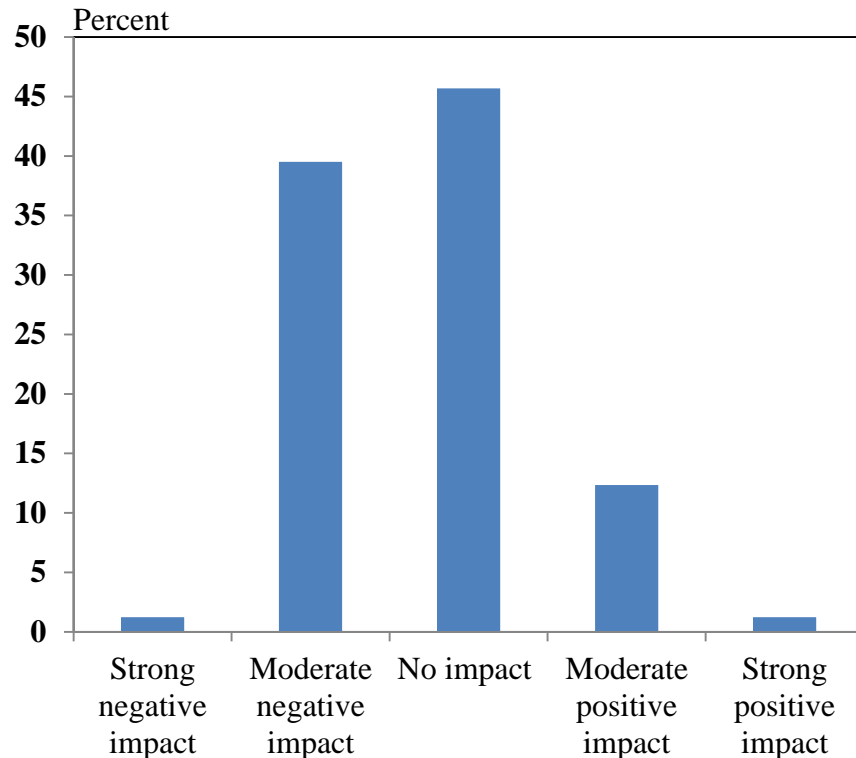
OECD Petroleum Inventories



The anticipated impact from hurricanes on regional factories and energy activity was mostly moderate

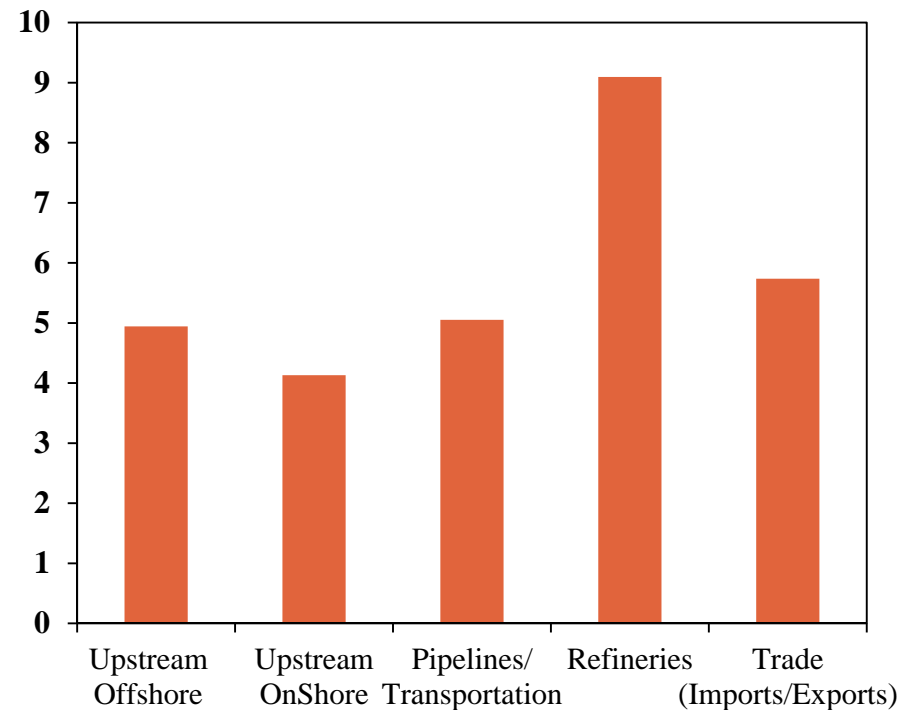
What type of impact is your firm anticipating as a result of Hurricanes Harvey and/or Irma?

Special question in Sept. 2017 FRBKC Mfg. Survey



Estimated Duration of Impact from Hurricane Harvey (avg. # of weeks)

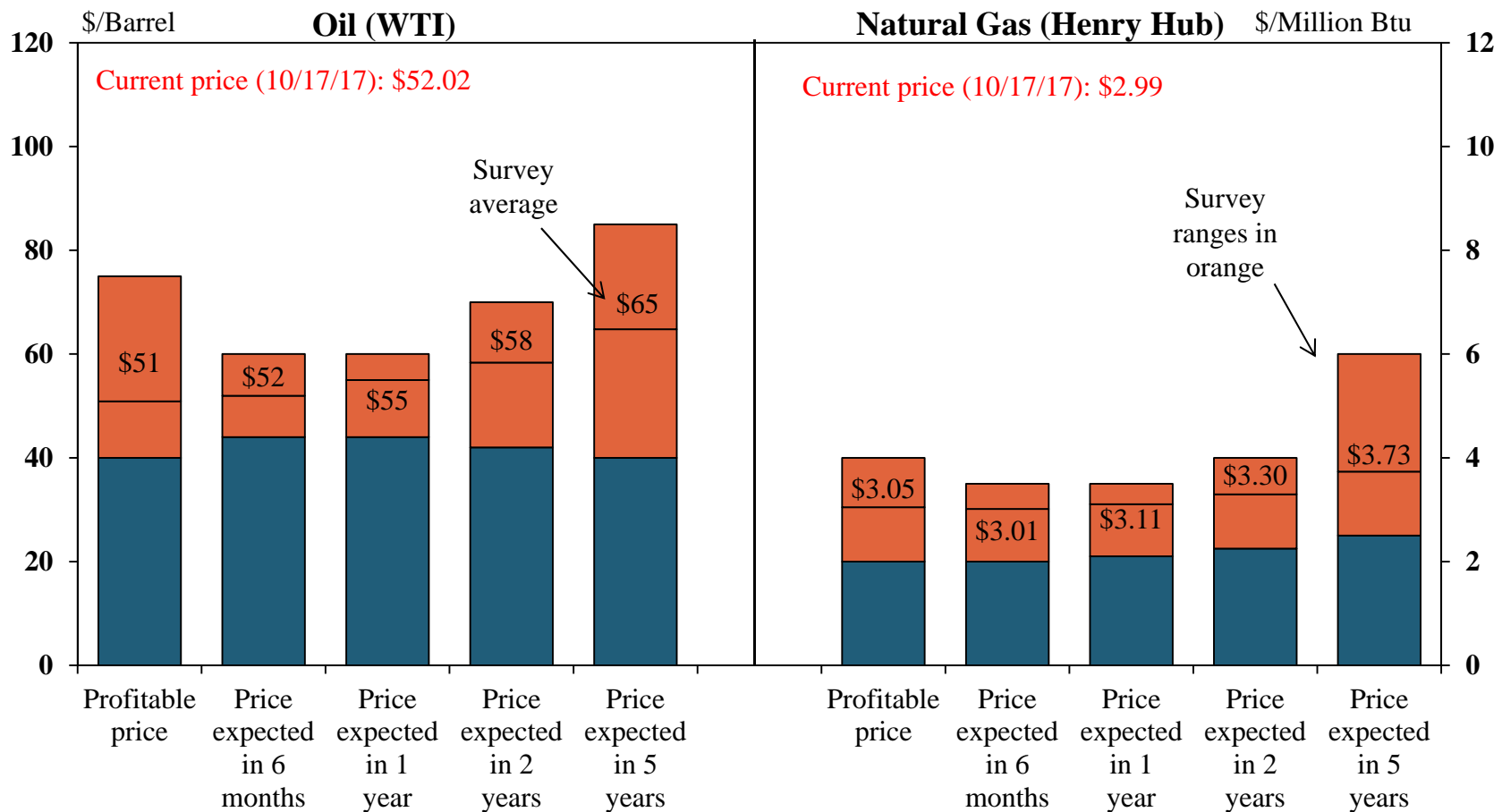
Special question in Q3 FRBKC Energy Survey



Source: FRBKC

Oil prices remain profitable for some District firms, but are not expected to rise considerably

Tenth District Energy Survey Profitable Prices and Near-term Expectations



Summary

- The Oklahoma economy has been hurt by low commodity prices, but has stabilized in 2017.
- Non-metro areas were hit harder, but have also rebounded as goods-producing industries grew
- The energy sector remains very sizable, and the outlook appears solid but perhaps not great



Questions?

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