

U.S. and Oklahoma Economic Update



Sapulpa Chamber of Commerce
September 27, 2016

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www.kansascityfed.org/oklahomacity



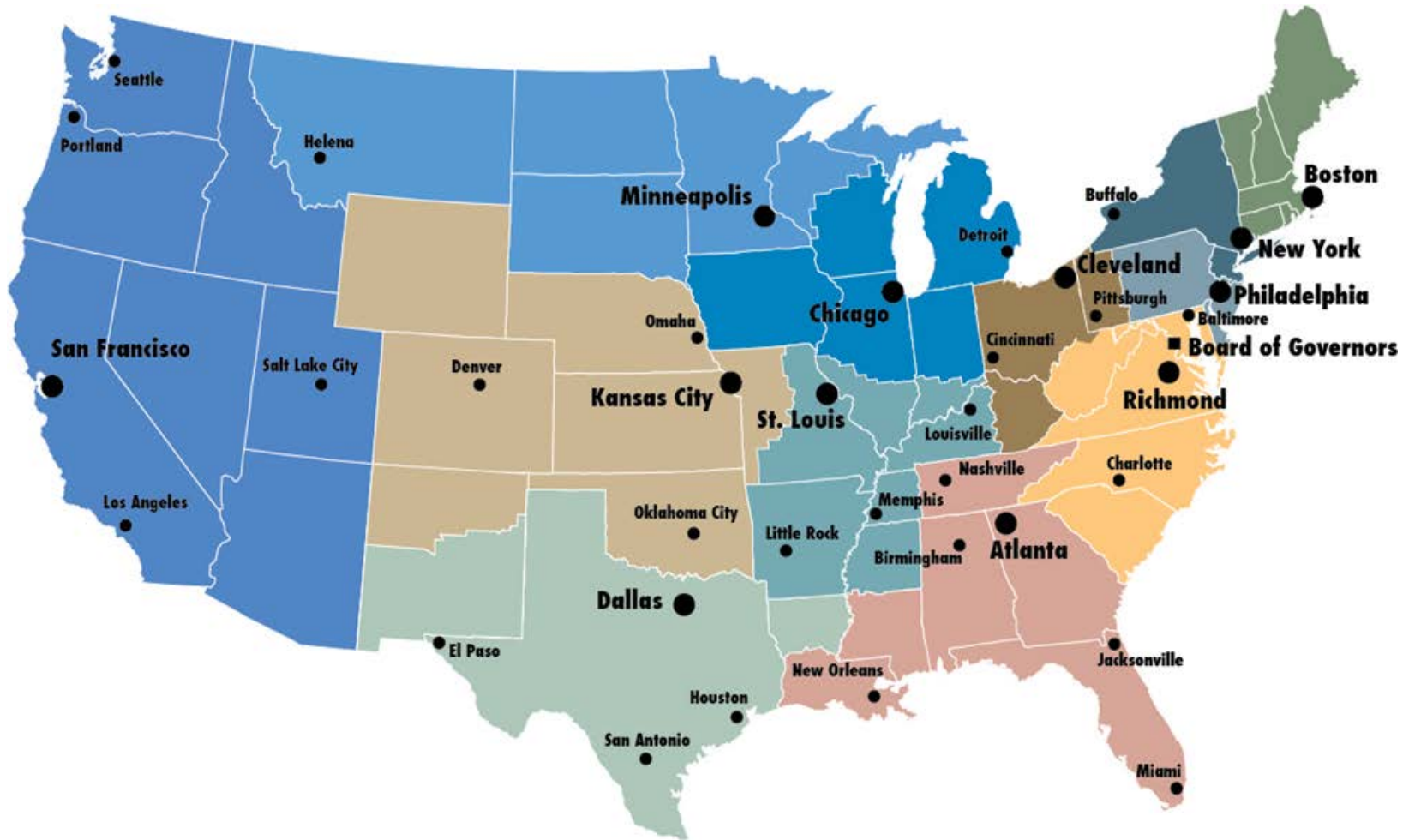
Structure and Functions of the Federal Reserve System

- **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 – approximately 40 staff**
 - Research on U.S. and Oklahoma economies
 - Economic, community, and financial education outreach
 - Examinations of Oklahoma financial institutions
- **2016 Branch Board of Directors**
 - **Pete Delaney (chair)**, Chairman & CEO (retired), OGE Energy Corp., OKC
 - **Clint Abernathy**, Owner, Abernathy Farms, Inc., Altus
 - **Michael Coffman**, CEO, Panhandle Oil & Gas, Inc., Oklahoma City
 - **Chuck Hall**, Chairman & CEO, Exchange Bank & Trust, Perry
 - **Jane Haskin**, President & CEO, First Bethany Bank & Trust, Bethany
 - **Tina Patel**, Co-Owner & CFO, Promise Hotels, Tulsa
 - **Doug Stussi**, EVP & CFO, Love's Travel Stops & Country Stores, OKC

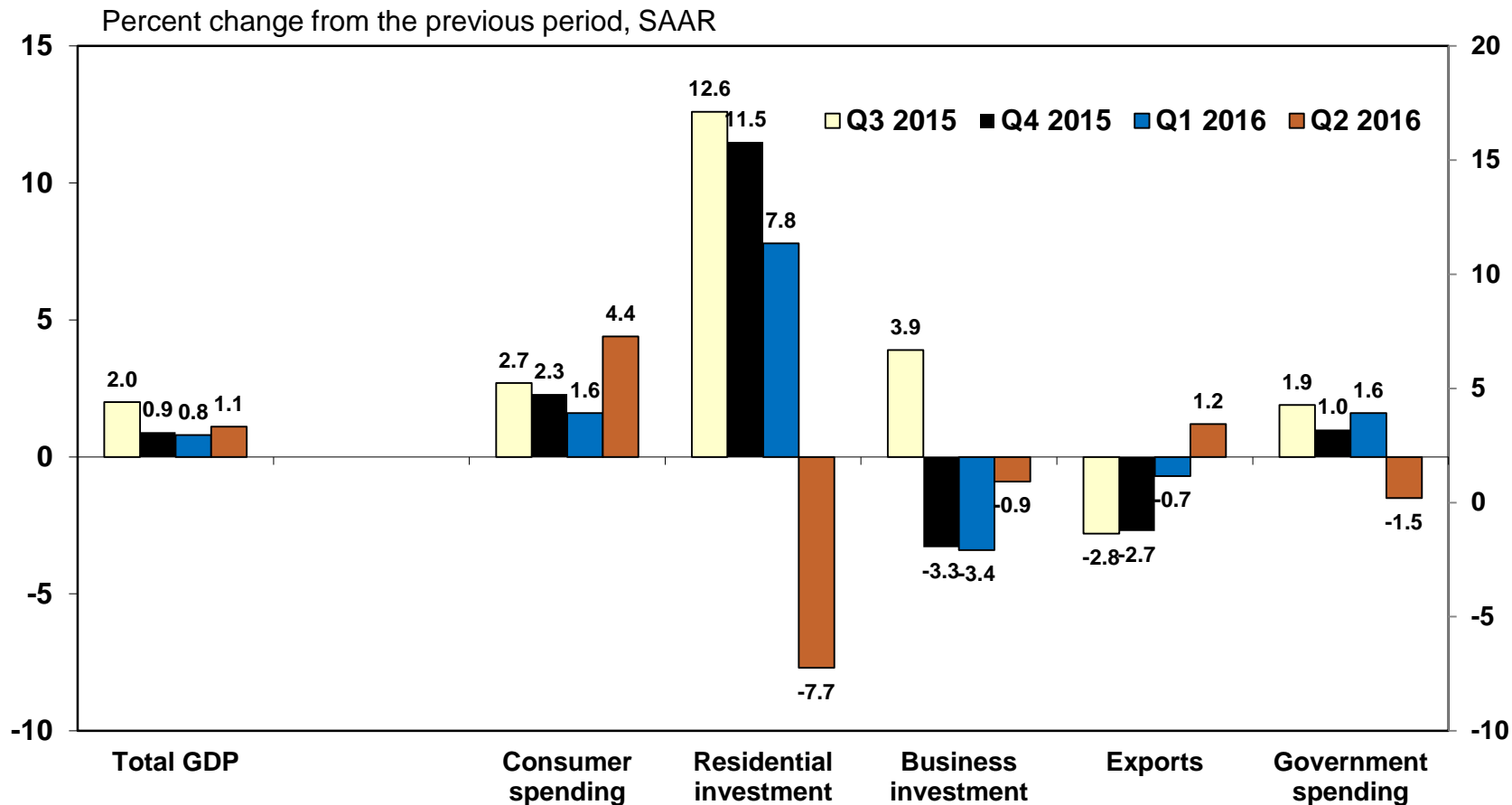


The U.S. Economy and Monetary Policy



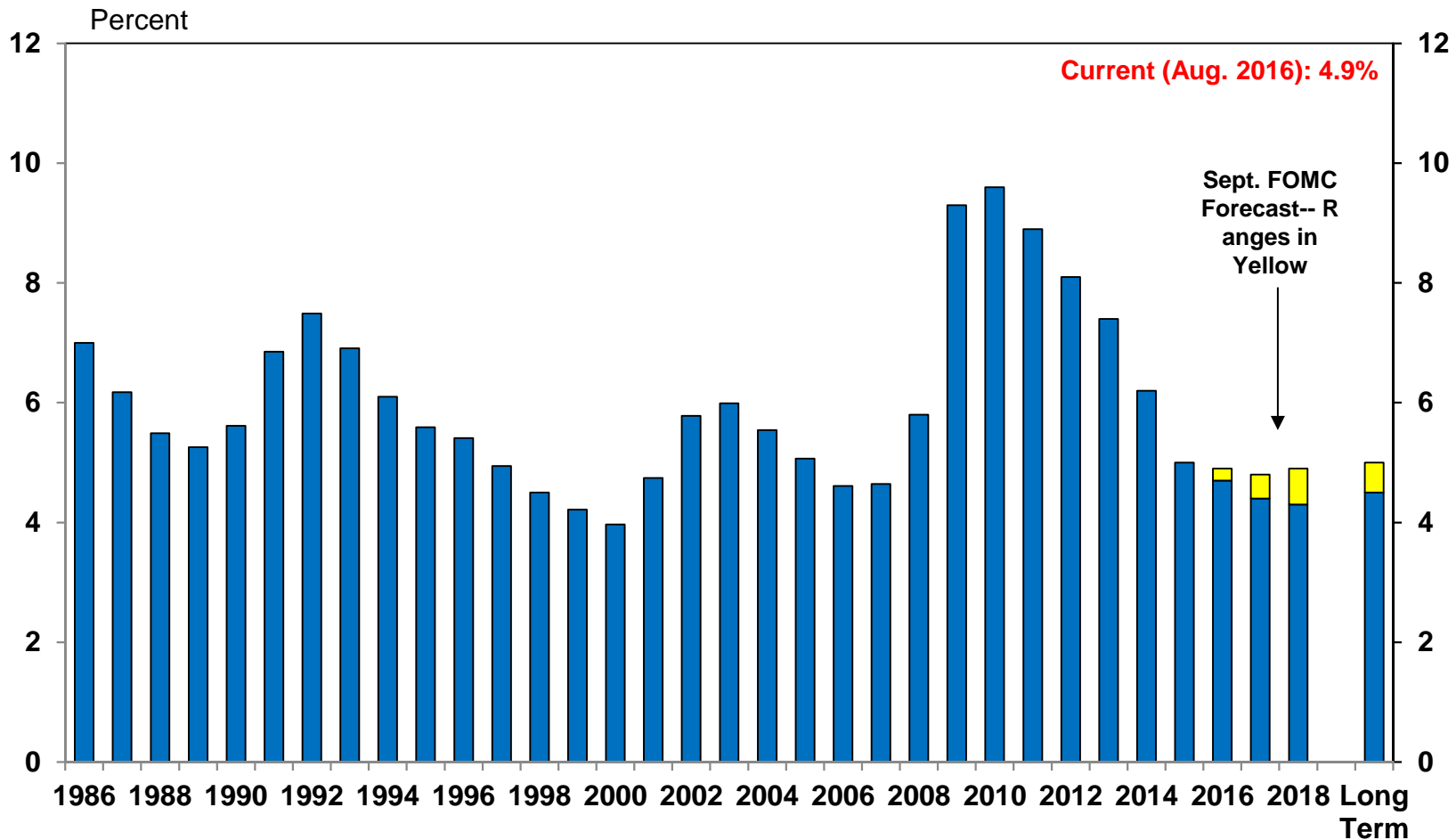
GDP growth has been modest the past 3 quarters, with investment the main drag

Growth in Components of Real GDP



U.S. unemployment is at long-term levels after falling considerably in recent years

Unemployment Rate
Seasonally Adjusted

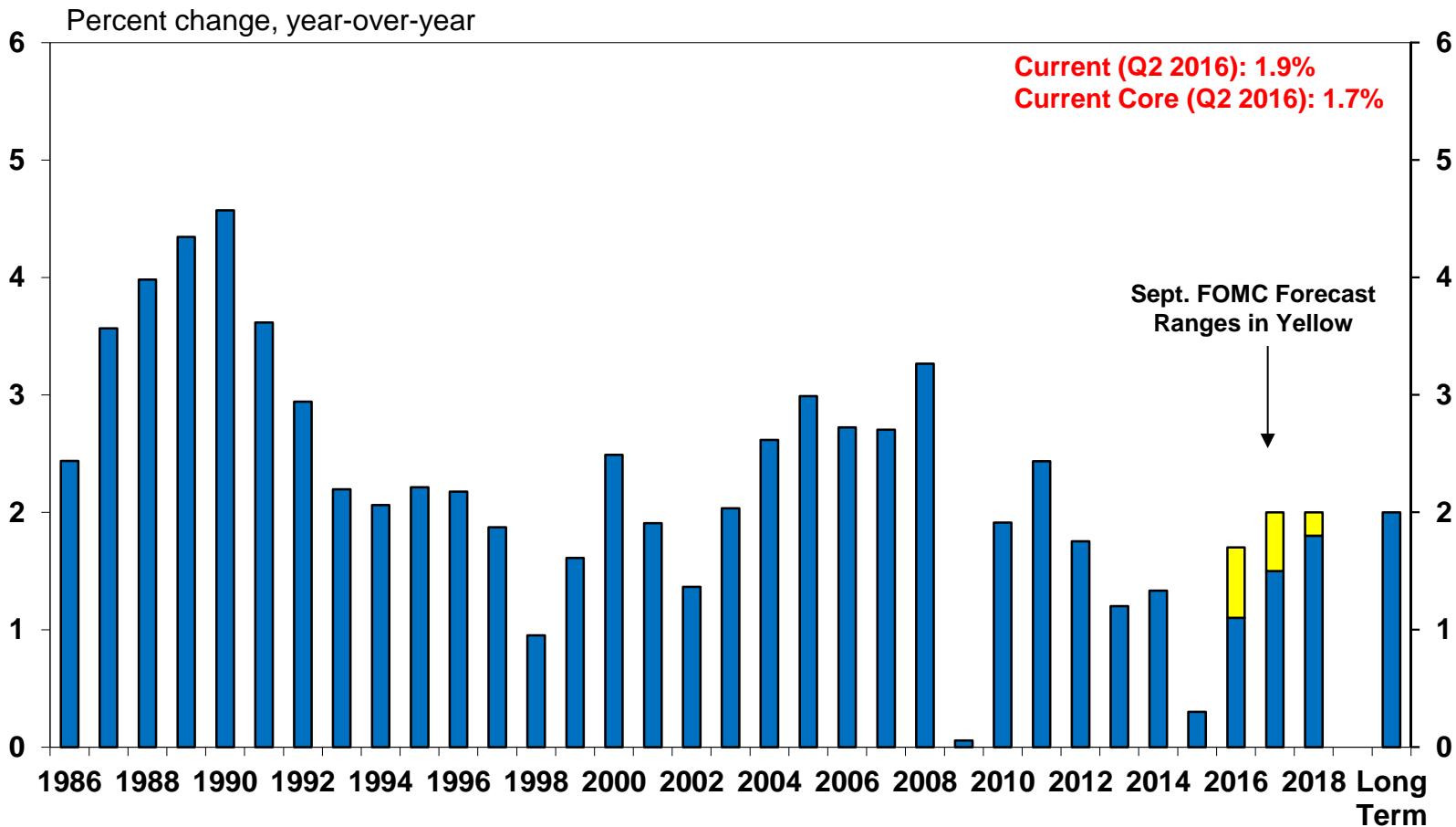


Sources: U.S. Bureau of Labor Statistics, FOMC

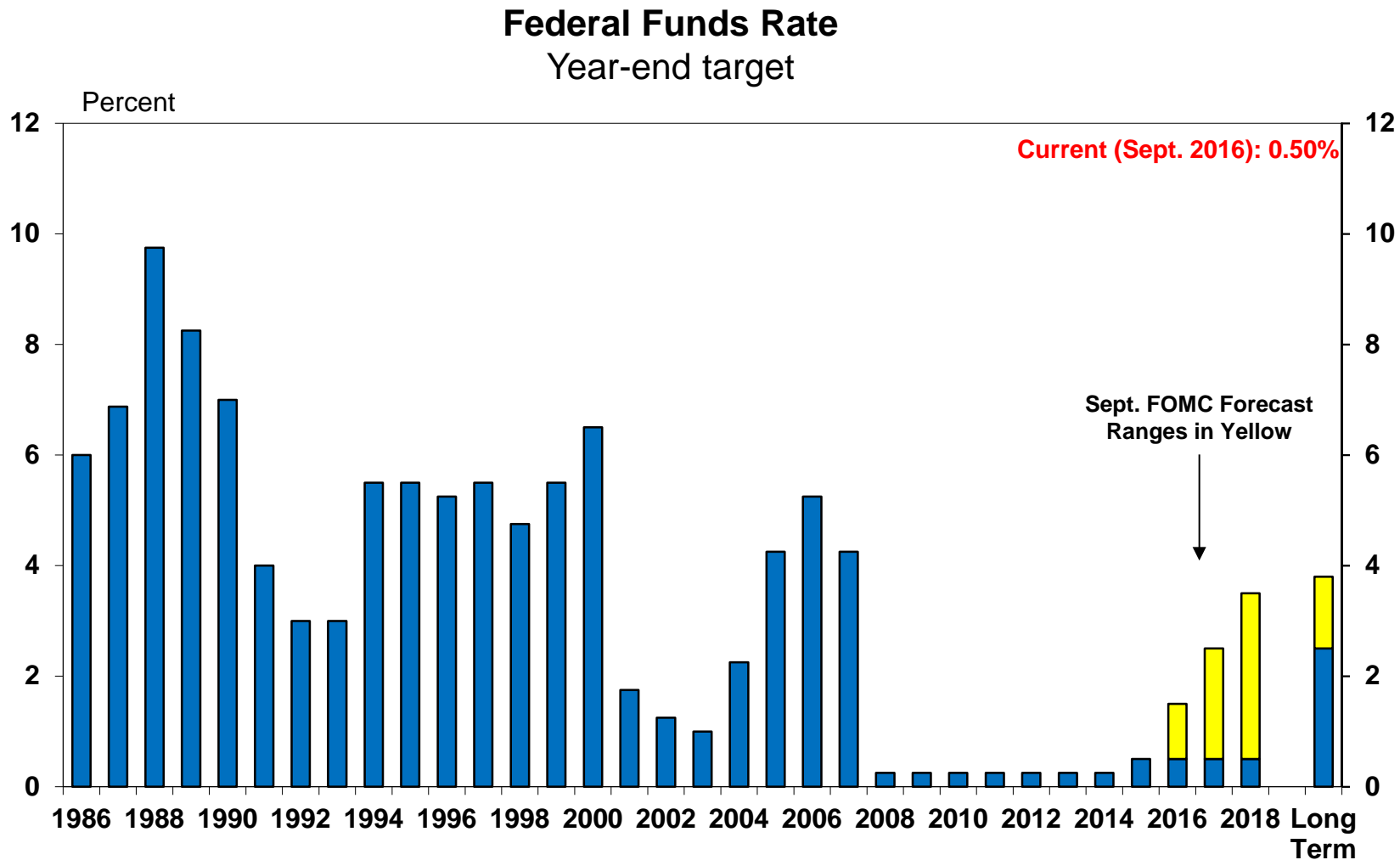


U.S. inflation is low but expected to return to close to target in 2016

PCE Inflation Index



FOMC participants expect moderate increases in interest rates heading forward



From FOMC Statement – Sept. 21, 2016

- *The Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.*
- *The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.*



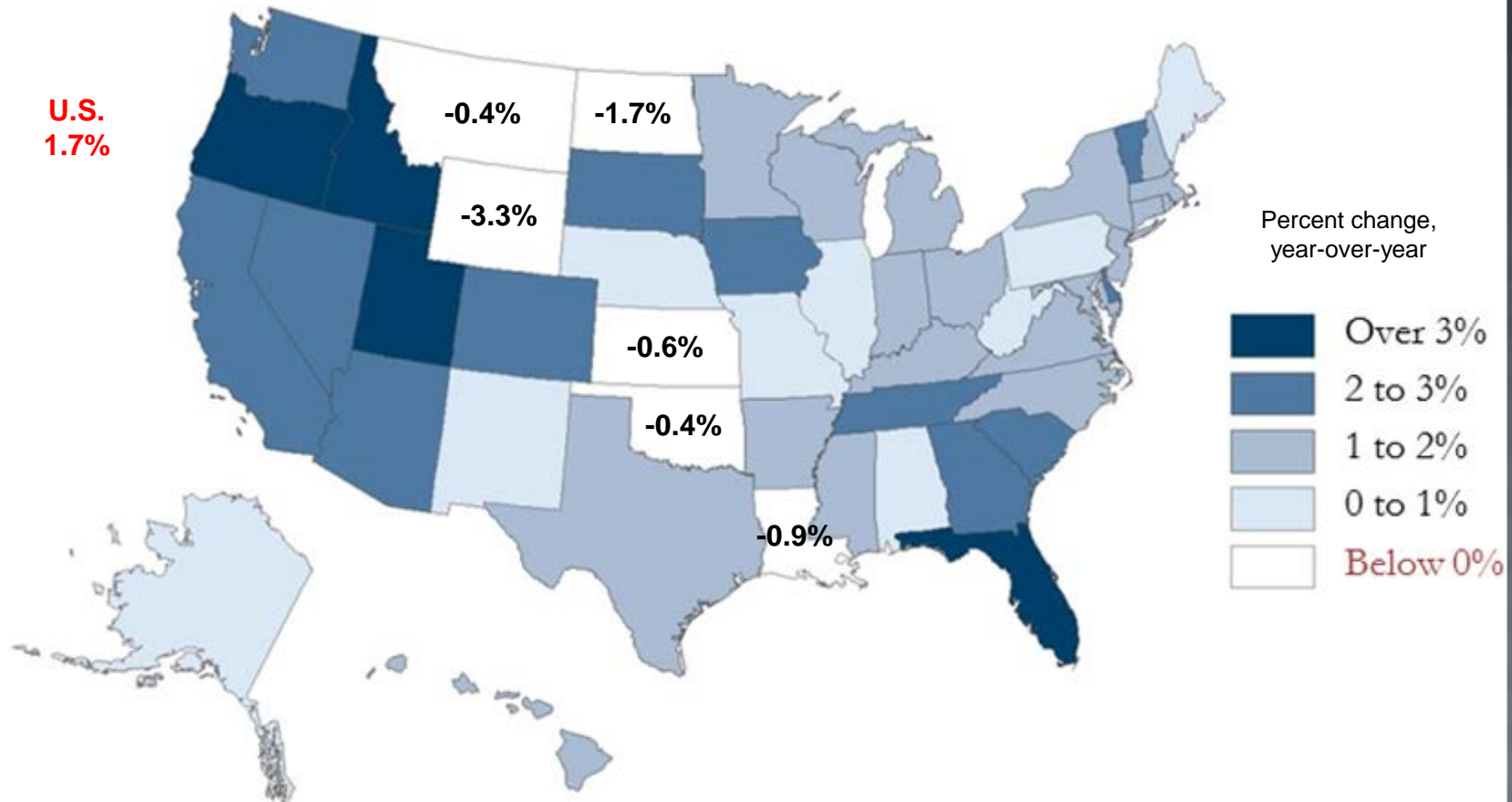
Trends in the Oklahoma Economy



Growth has diverged across the nation, with 6 states in or near recession, incl. Oklahoma

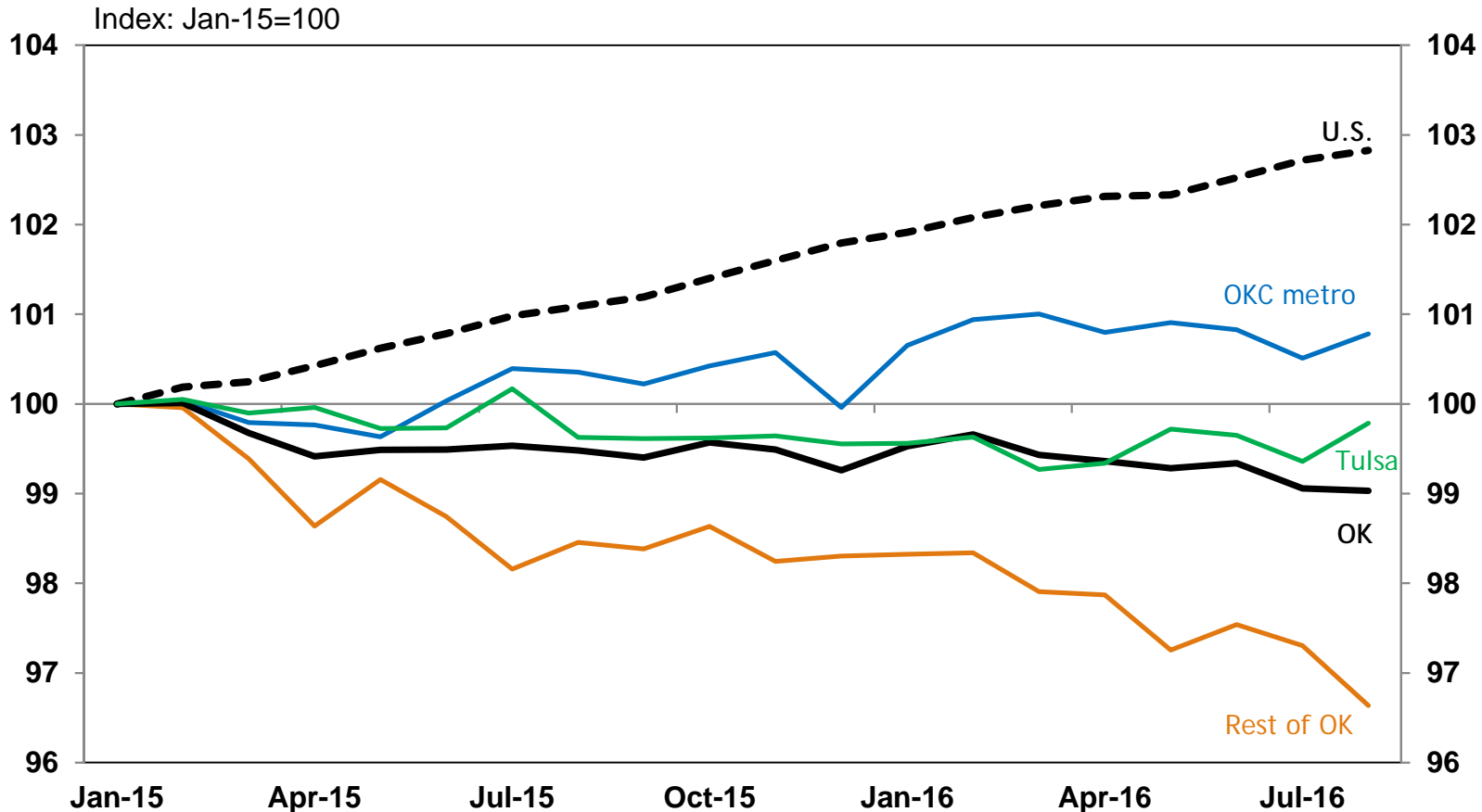
Total Nonfarm Employment Growth
August 2016

U.S.
1.7%



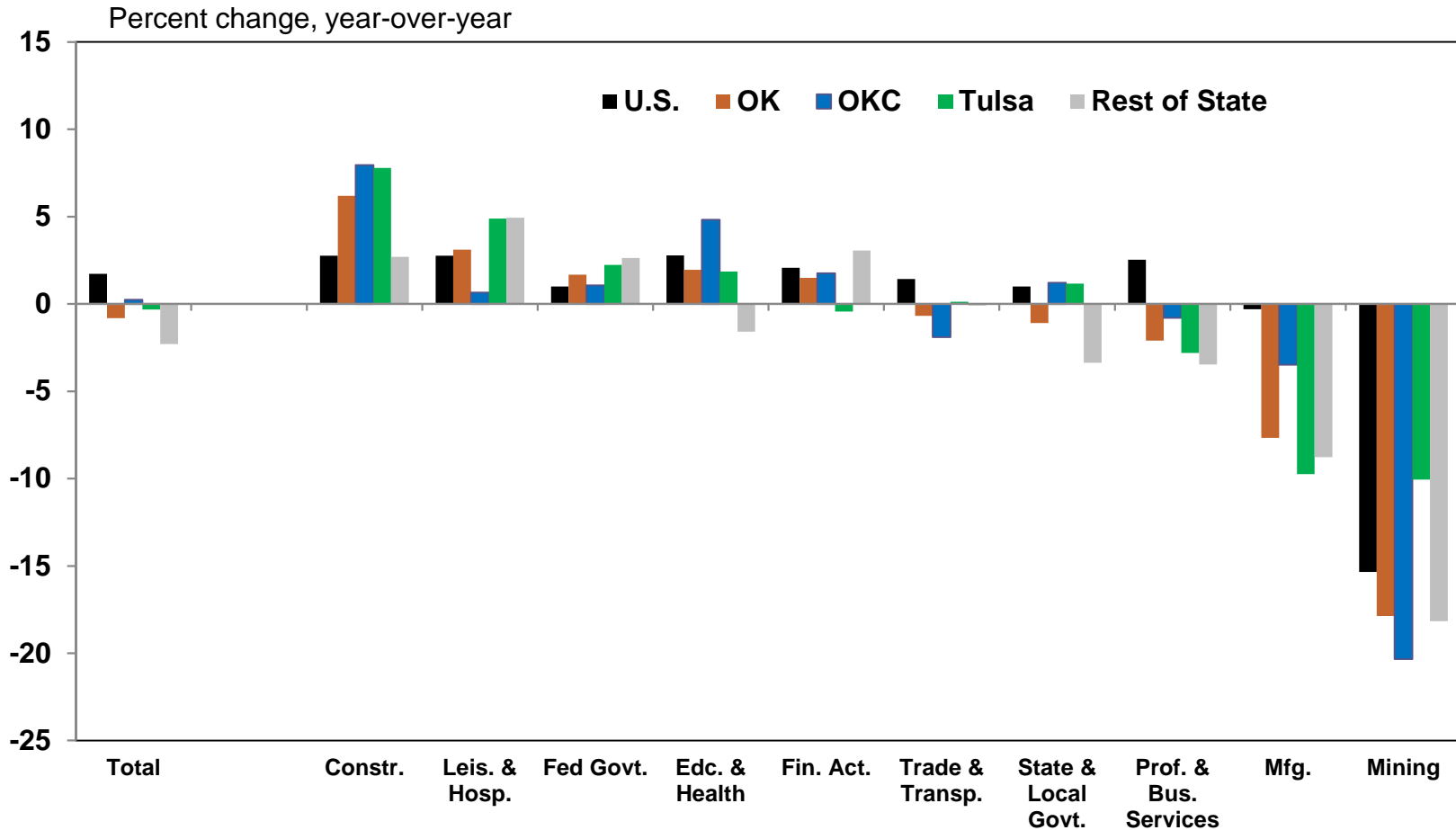
Employment growth has also diverged across OK but lags the nation throughout

Level of Payroll Employment
Through August 2016



Higher-paying jobs have done worse than lower-paying jobs across Oklahoma lately

Job Growth by Industry Aug-16

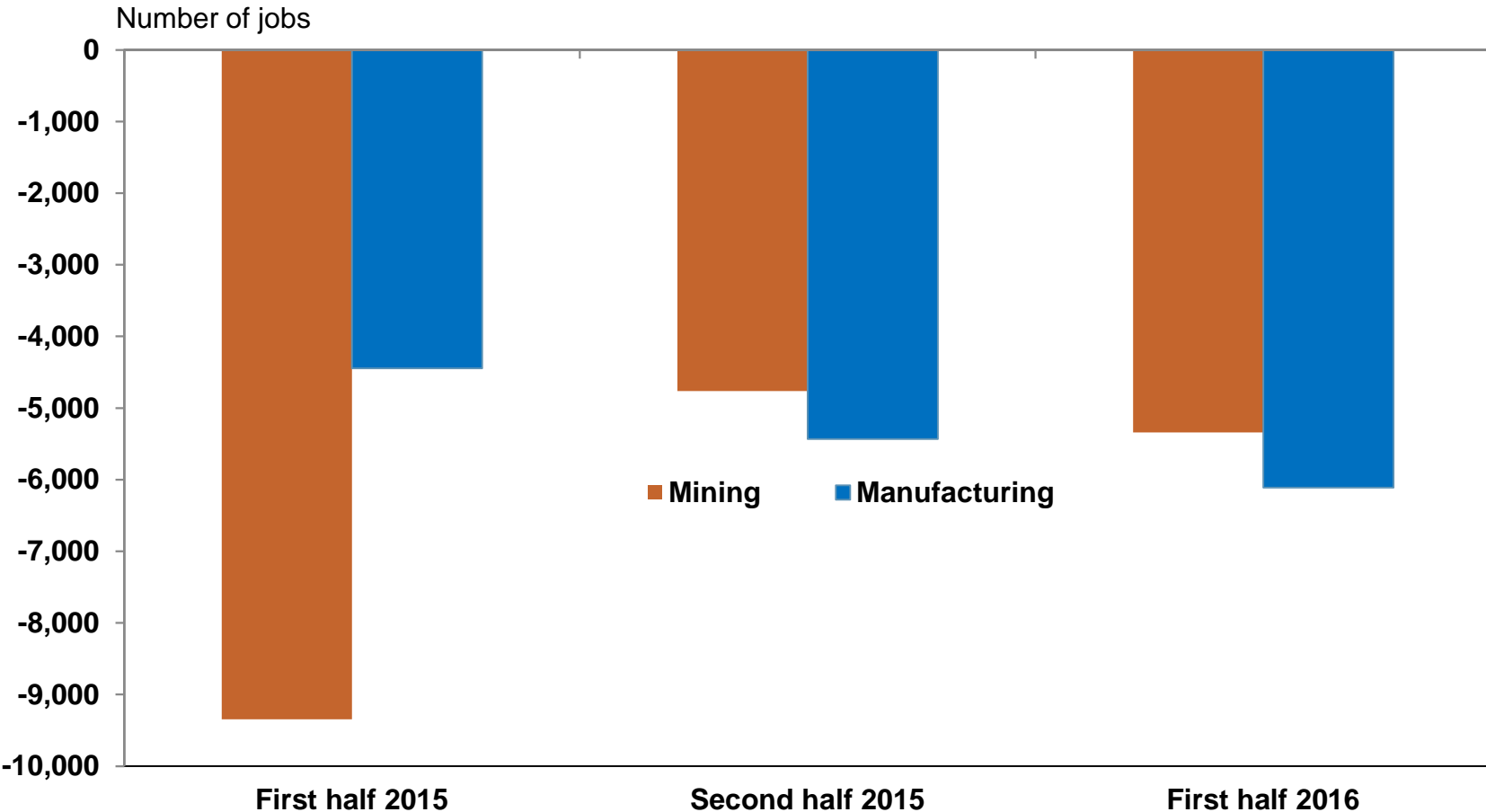


Source: Bureau of Labor Statistics



Since mid-2015, Oklahoma's factory sector has lost more jobs than the energy sector

Oklahoma Employment Change

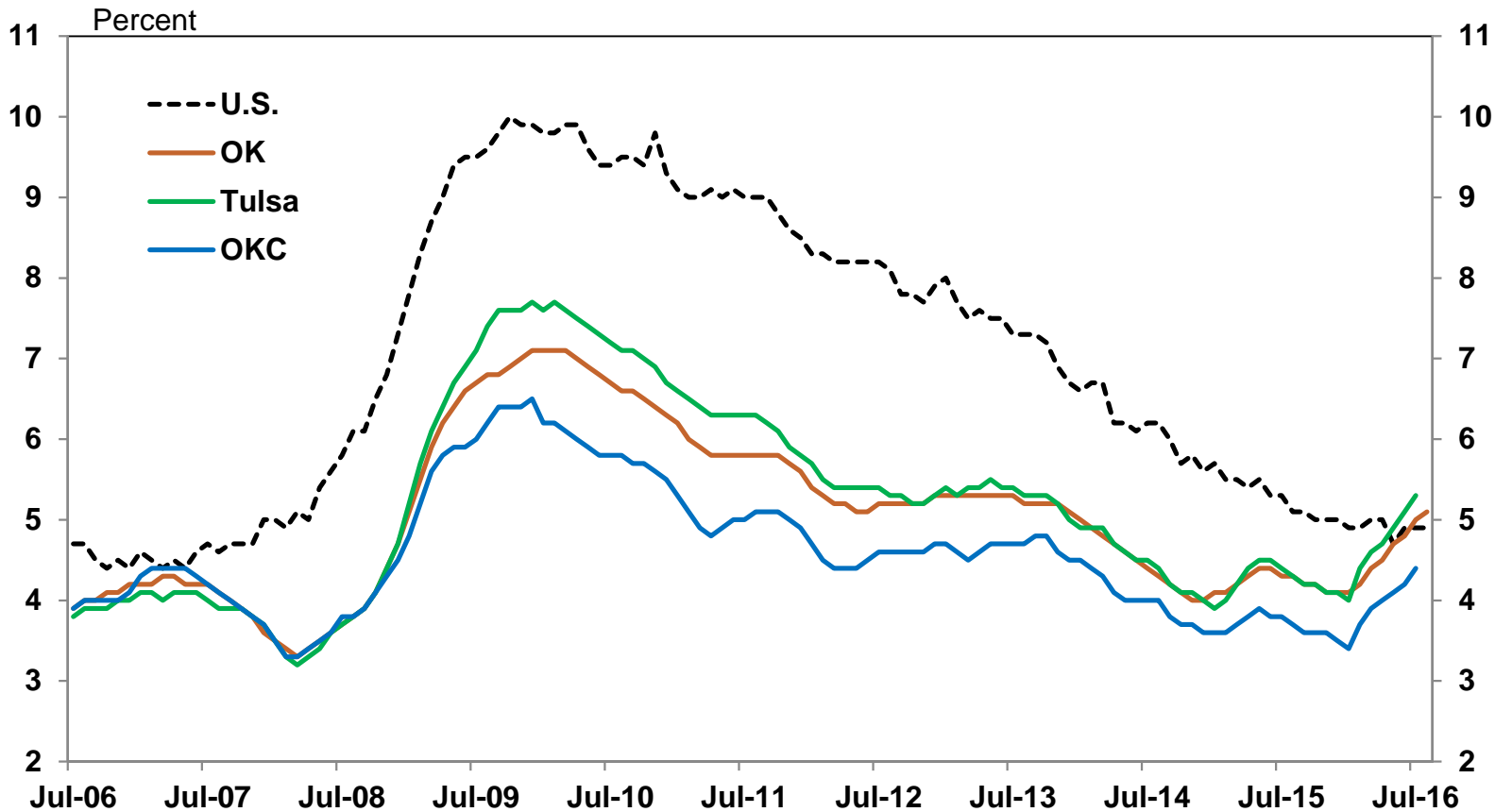


Source: Bureau of Labor Statistics



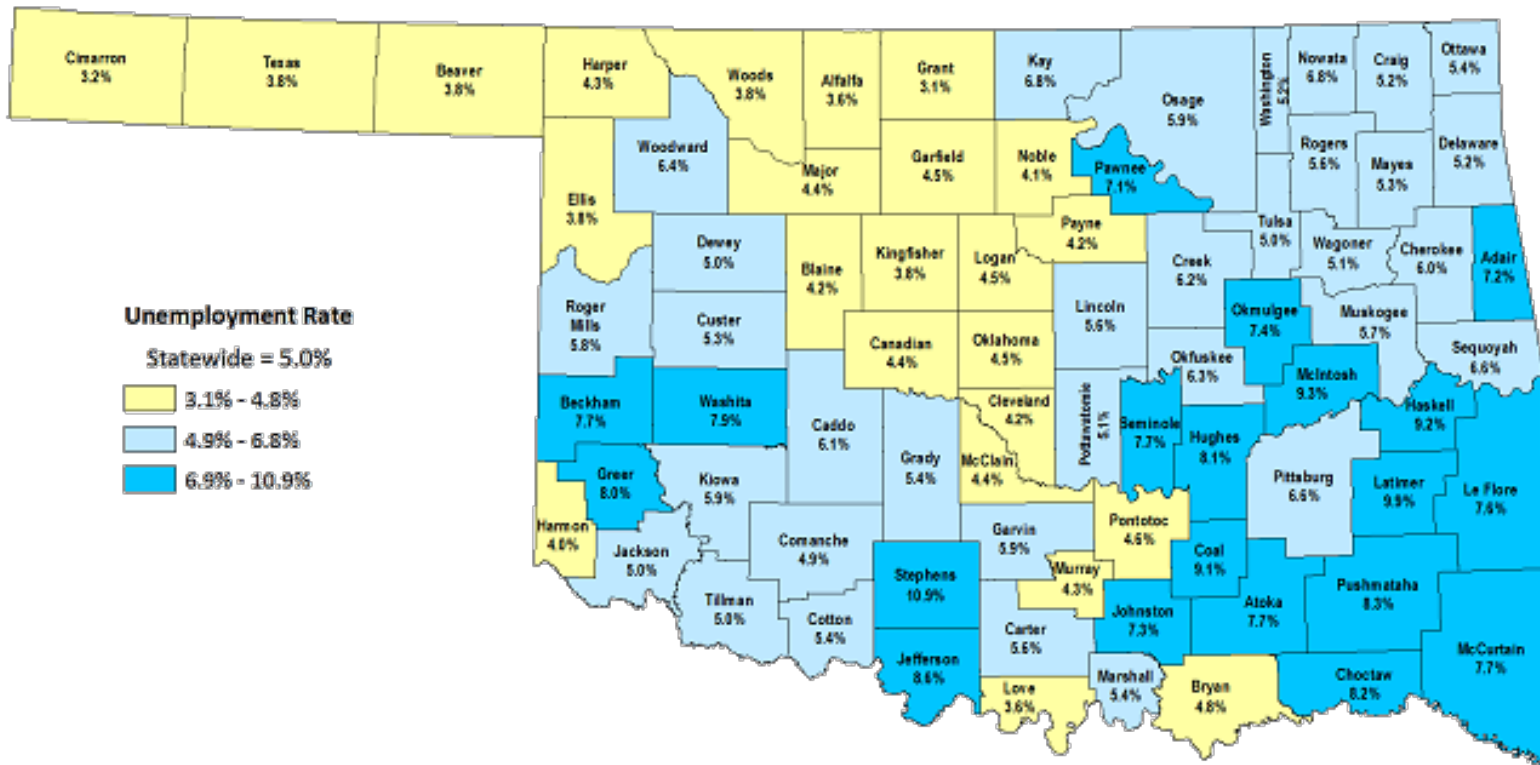
Unemployment across the state has ticked up this year, including in the 2 big metros

Unemployment Rates
Seasonally Adjusted



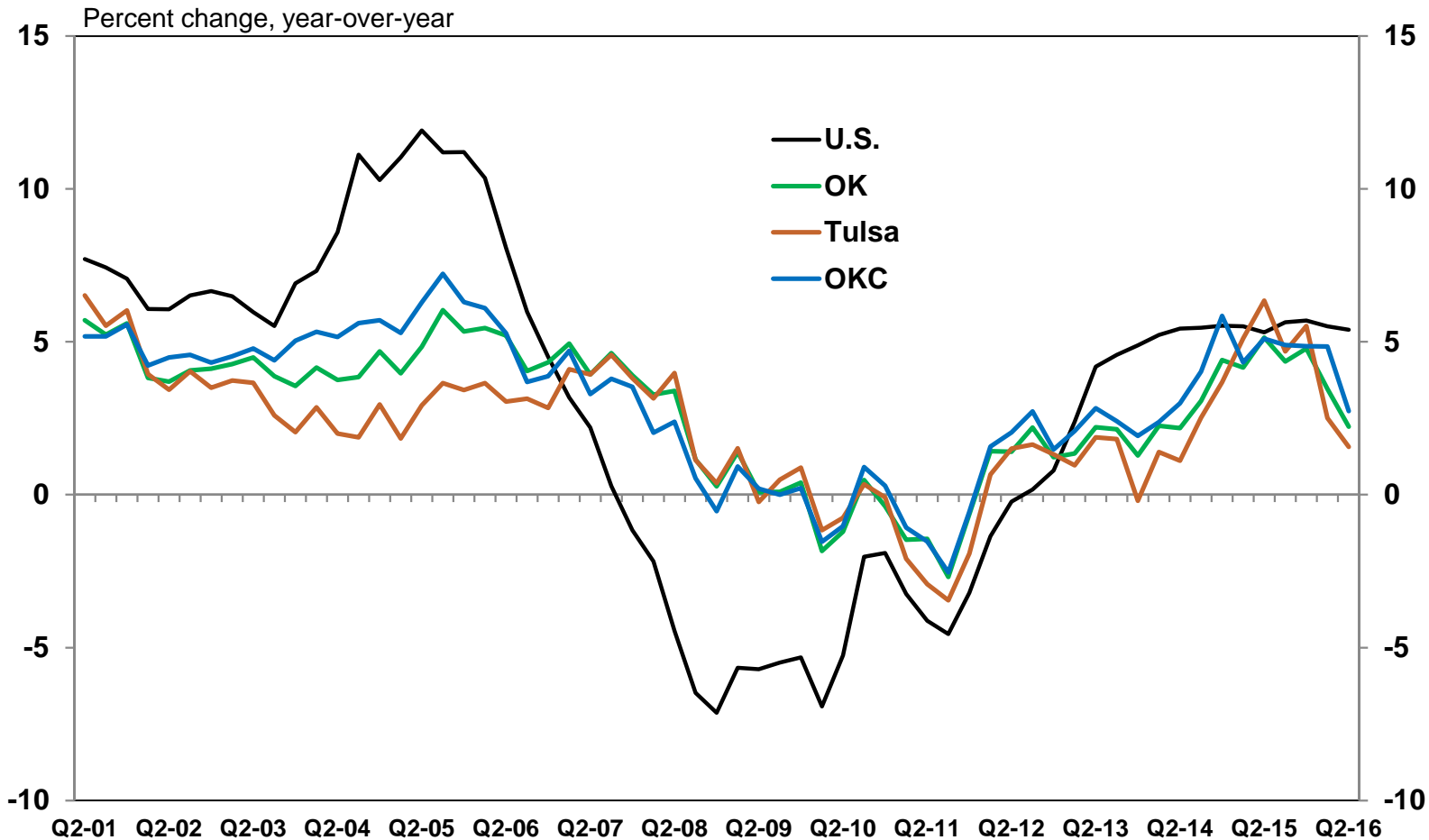
Unemployment is below the national rate in some parts of Oklahoma but above in most

July 2016 Unemployment Rates



Home price growth in Oklahoma has slowed from its solid pace of recent years

FHFA Home Price Index
Seasonally Adjusted

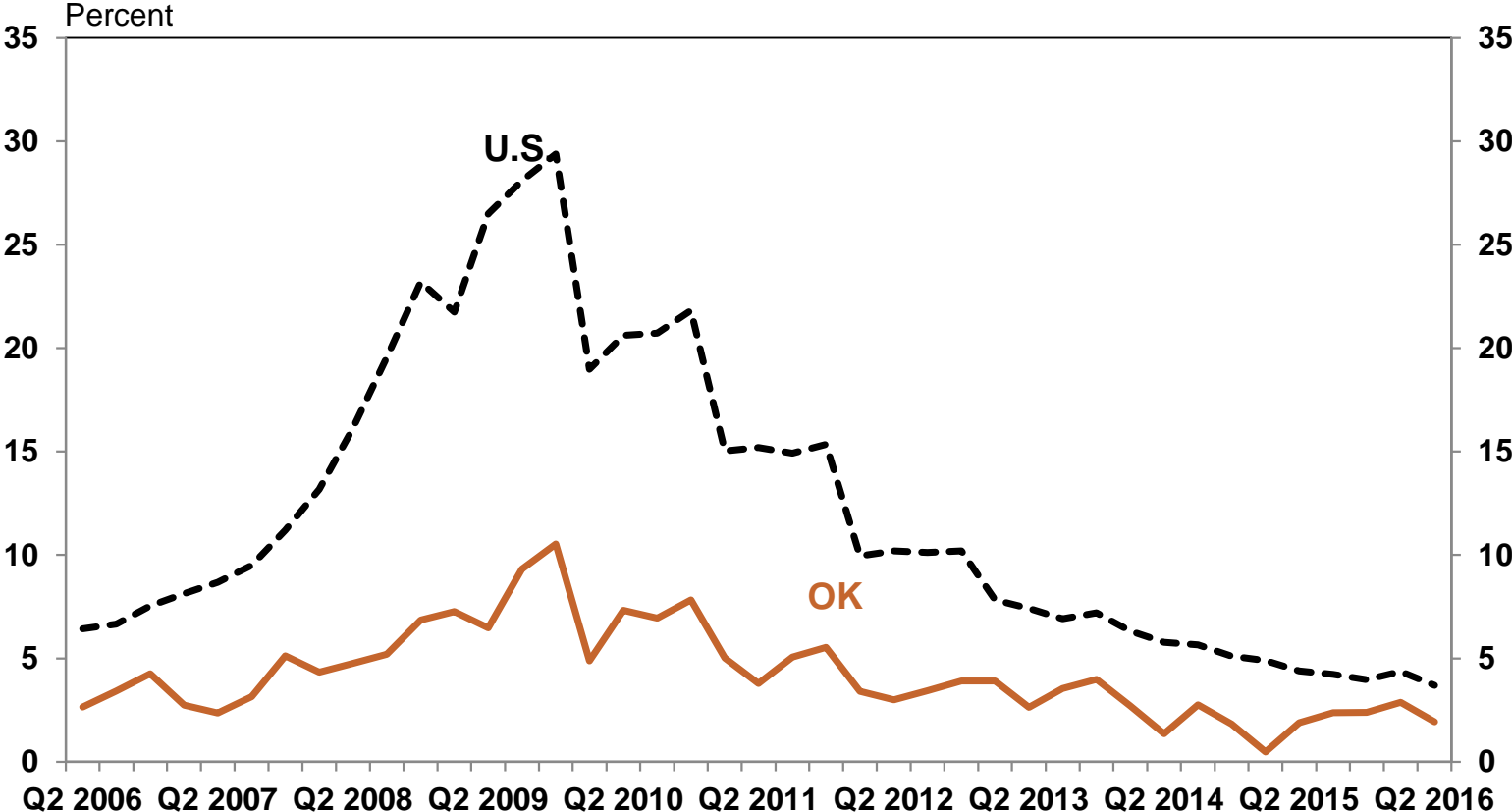


Source: FHFA



Nearly all banks in Oklahoma remain profitable through mid-2016

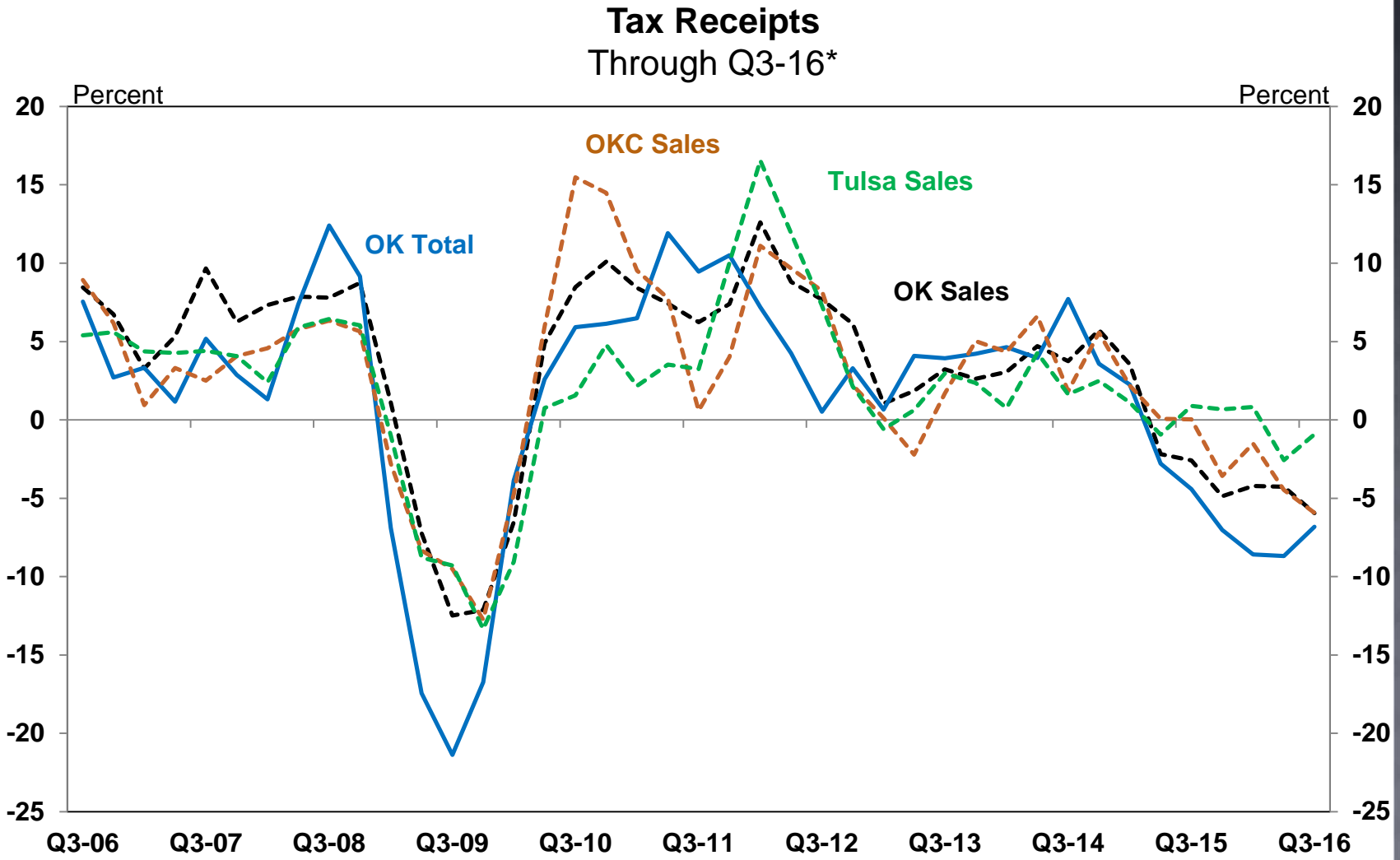
Share of Banks Not Making a Profit Commercial Banks



Source: FDIC



But tax revenues are down at the state and city levels, pressuring some organizations



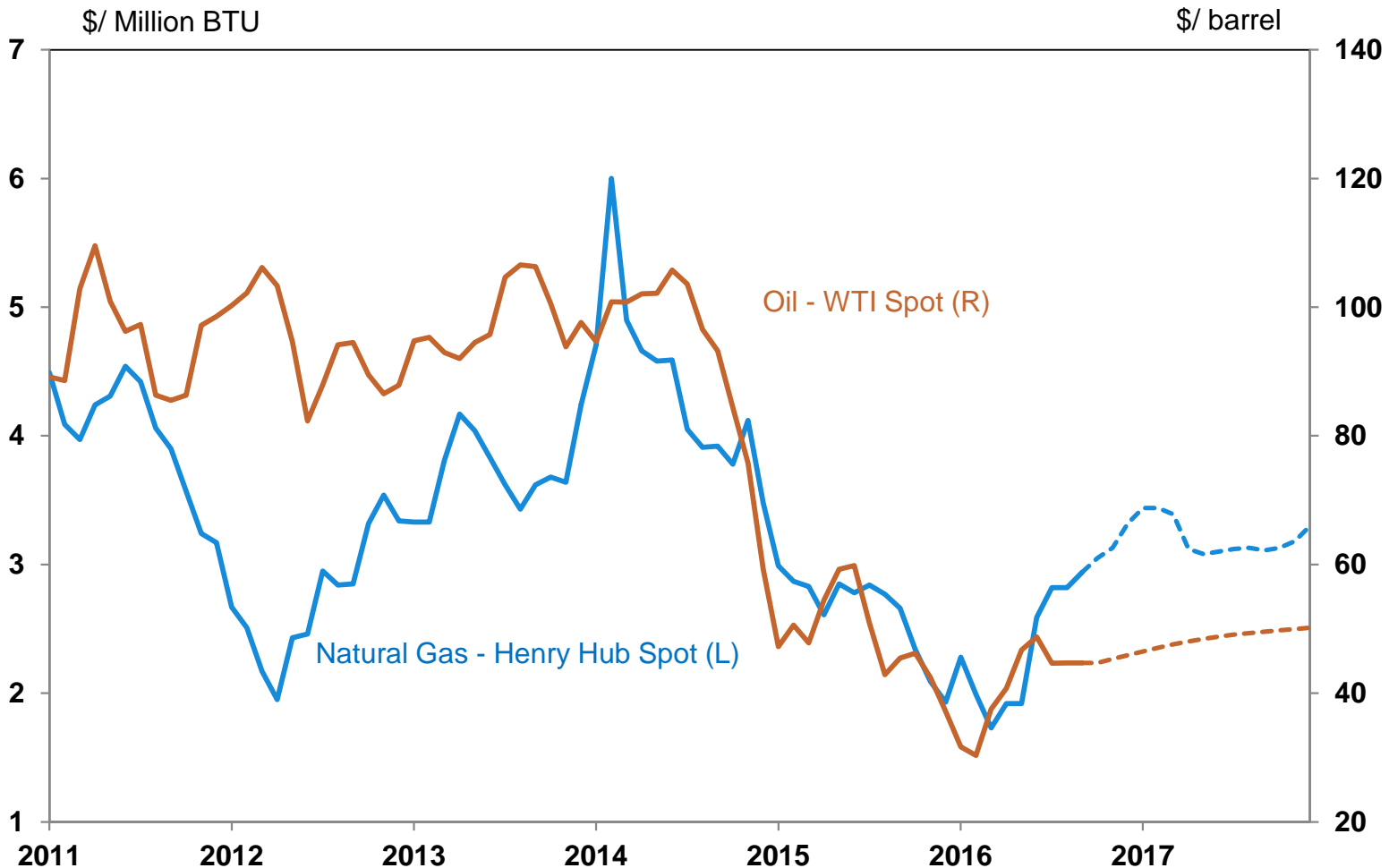
*Q3-16 through August 2016

Source: OK Tax Commission



Oil prices remain below \$50/barrel, while natural gas prices have improved a bit

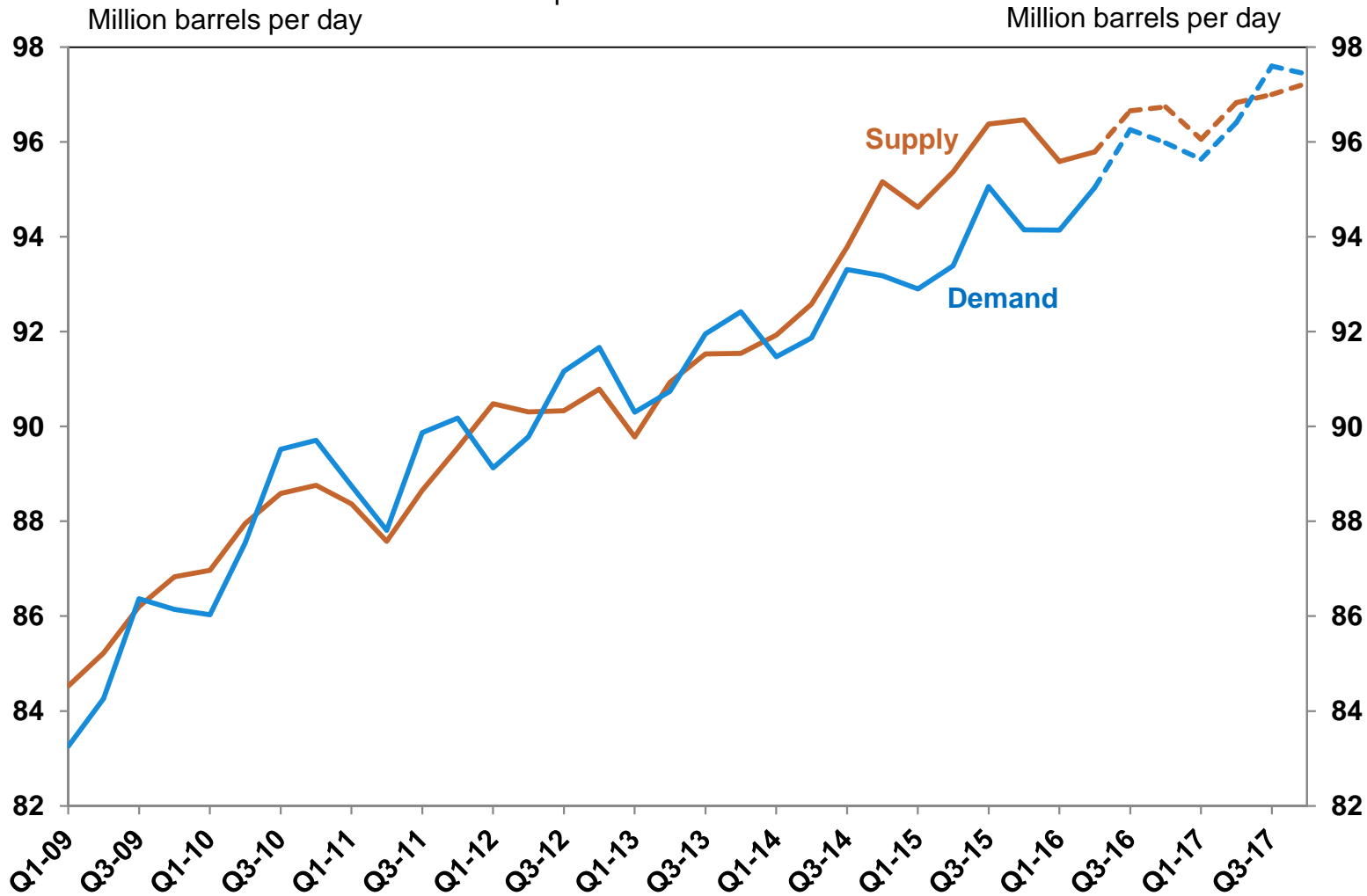
Oil and Natural Gas Spot Prices



World oil supply and demand are expected to remain out of balance a while longer

Global Oil Supply and Demand

September 2016 Forecast

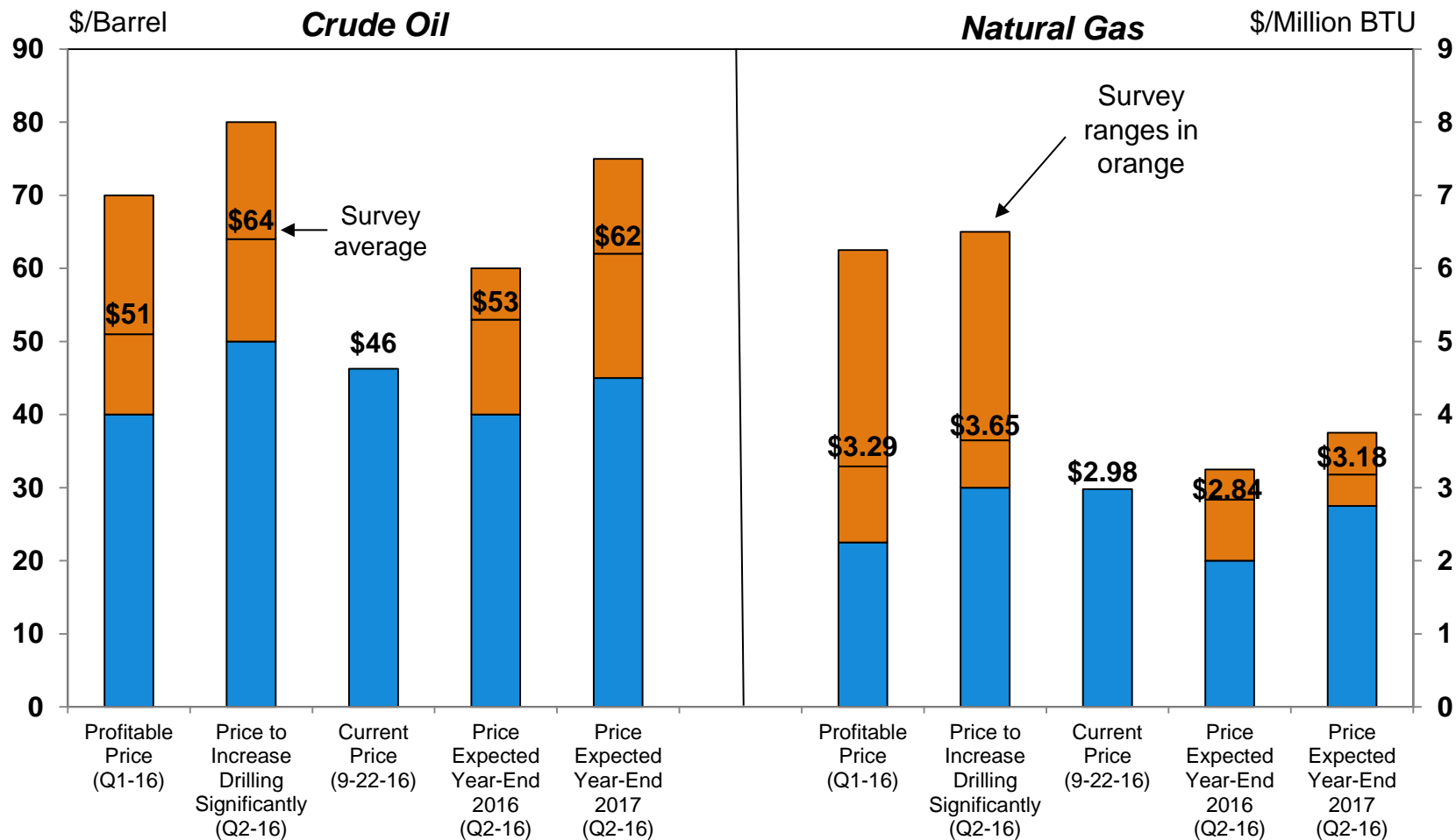


Source: EIA



Firms say energy prices need to be higher for much increased activity to occur

Kansas City Fed Energy Survey Special Questions
2016

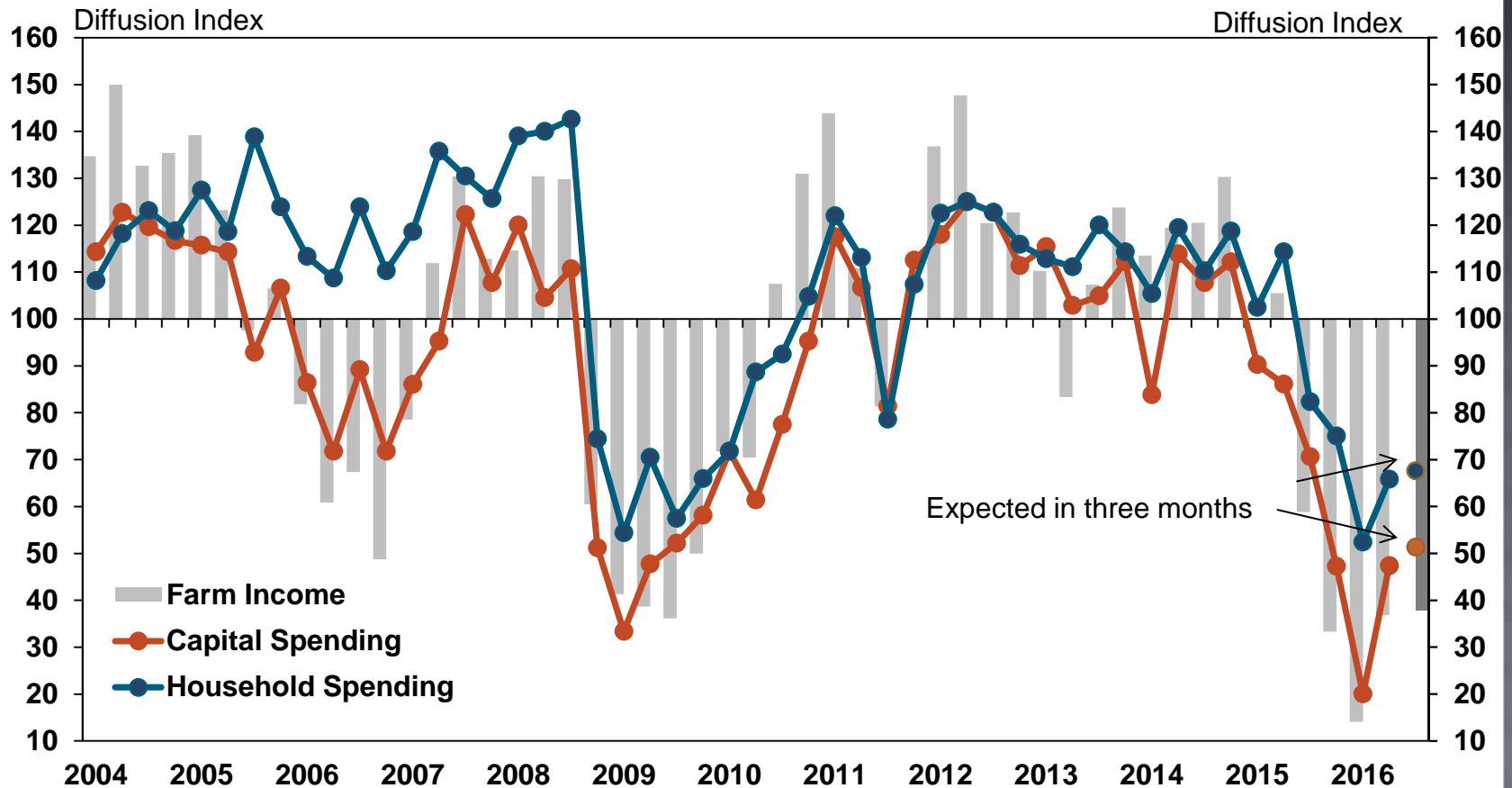


Source: FRBKC Energy Survey, Reuters



Oklahoma farm income and spending fell sharply in Q1 2016 but steadied a bit in Q2

Oklahoma Farm Income

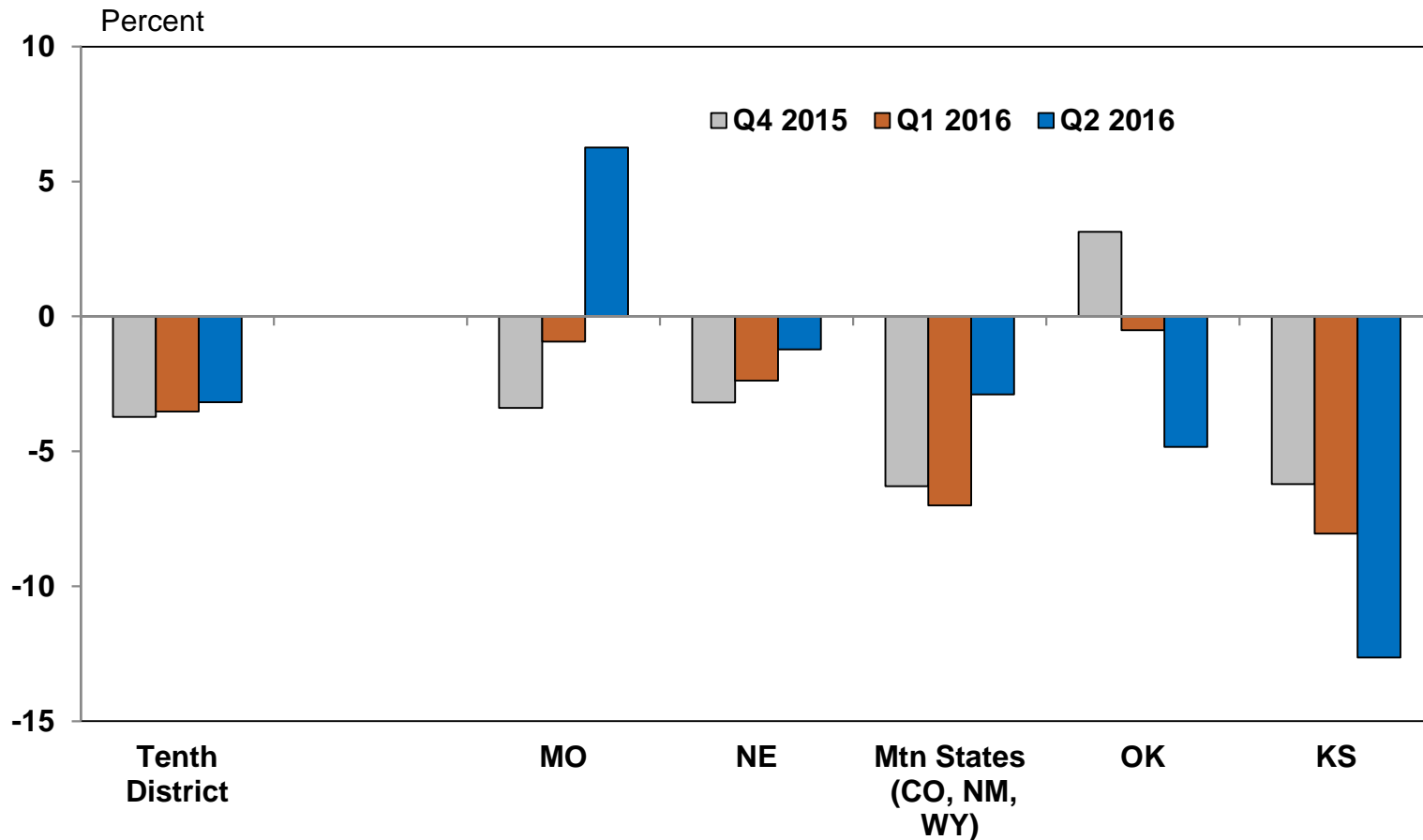


Source: Federal Reserve Bank of Kansas City, Survey of Ag Credit Conditions



However, farmland values fell in Q2 after holding up better than the region last year

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



Summary

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



Questions?

For regular updates and analysis of the Oklahoma economy, subscribe to our quarterly **Oklahoma Economist** publication at:

www.kansascityfed.org/publications/research/oke/

For more analysis on regional manufacturing conditions, subscribe to our monthly **Manufacturing Survey** at:

<https://www.kansascityfed.org/research/indicatorsdata/mfg>

For more analysis on regional energy conditions, subscribe to our quarterly **Energy Survey** at:

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