

# Economic Update



**Funders Roundtable**

**March 23, 2016**

**Chad Wilkerson**

**Vice President, Economist, and OKC Branch Executive**

**Federal Reserve Bank of Kansas City**

**[www.kansascityfed.org/oklahomacity](http://www.kansascityfed.org/oklahomacity)**

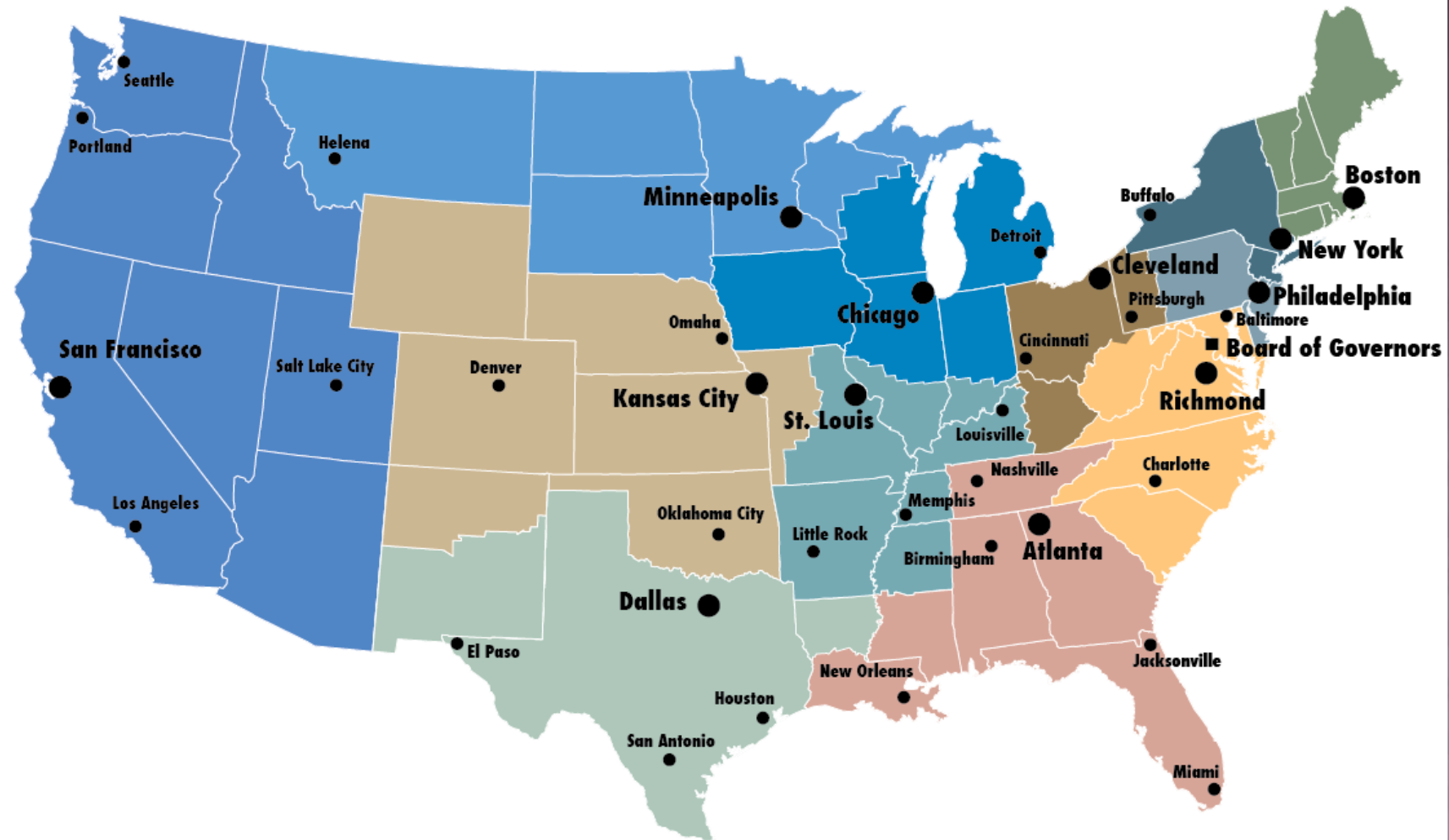


# Structure and Functions of the Federal Reserve System

- **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)**, 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

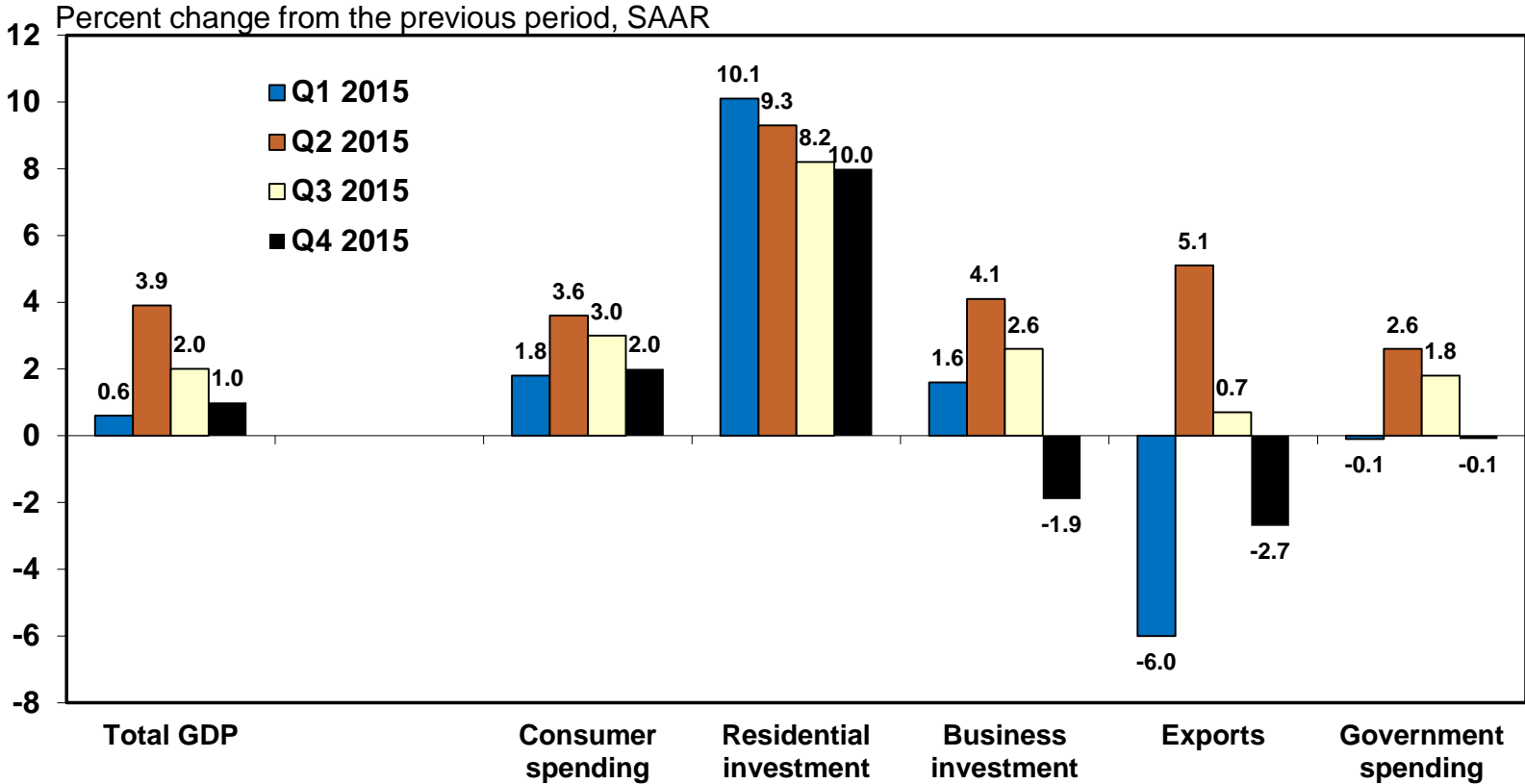


# **The U.S. Economy and Monetary Policy**



# U.S. GDP growth slowed somewhat in Q4, due to business investments and exports

## Growth in Components of Real GDP

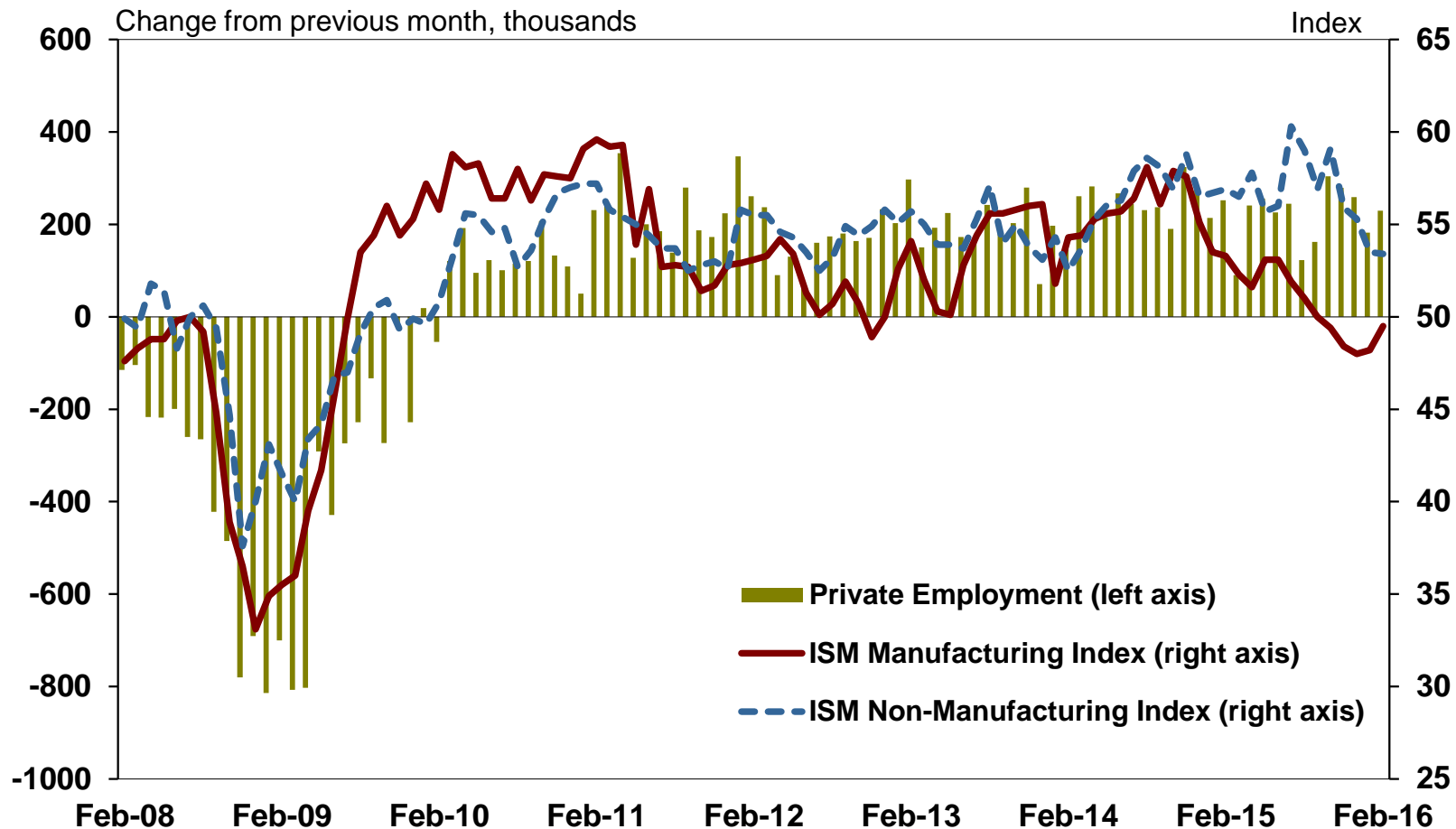


Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors



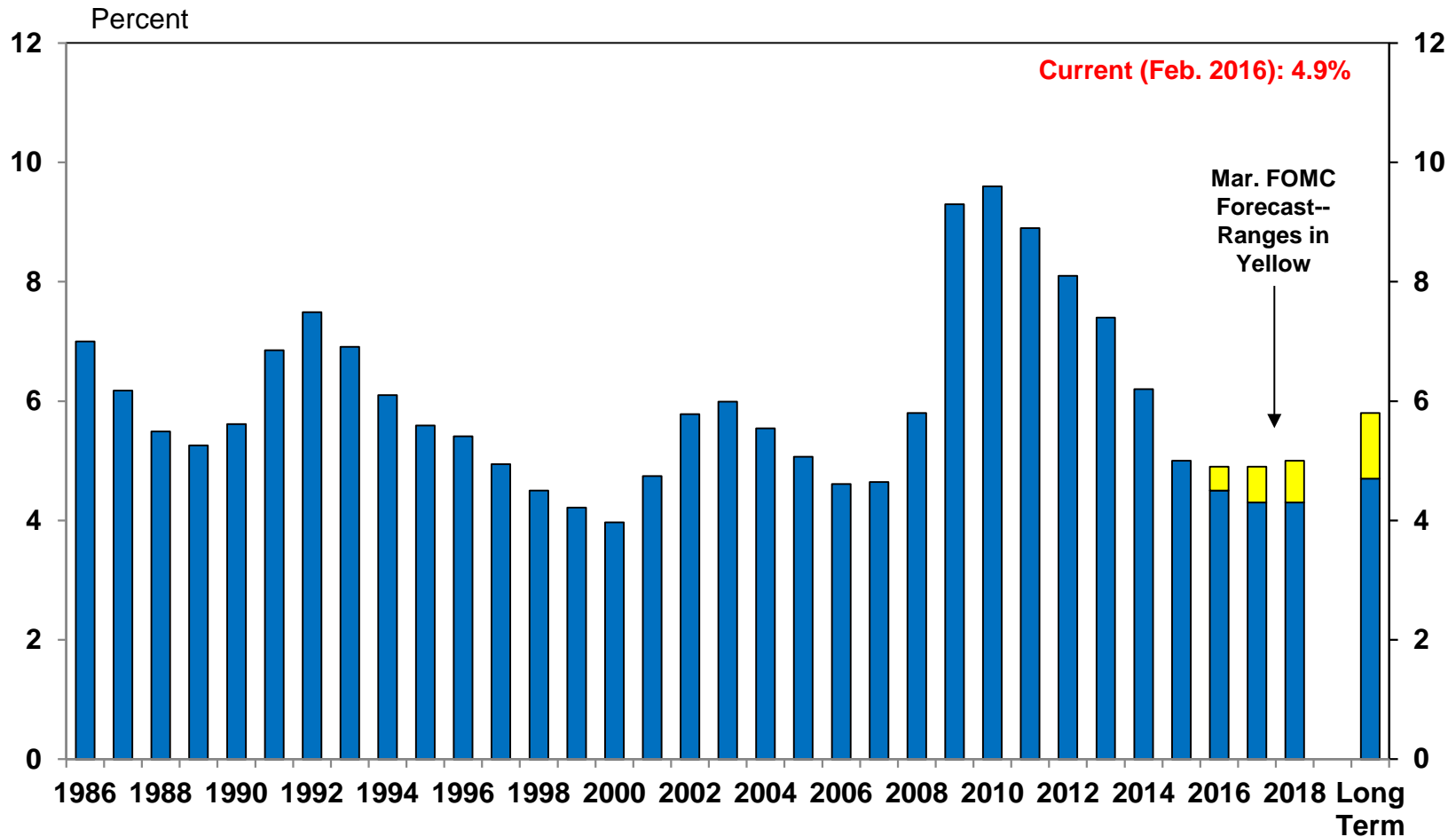
# U.S. factory activity has slowed, but job growth and services remain generally solid

## U.S. Private Payroll Employment and Business Indexes



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

**Unemployment Rate**  
Seasonally Adjusted



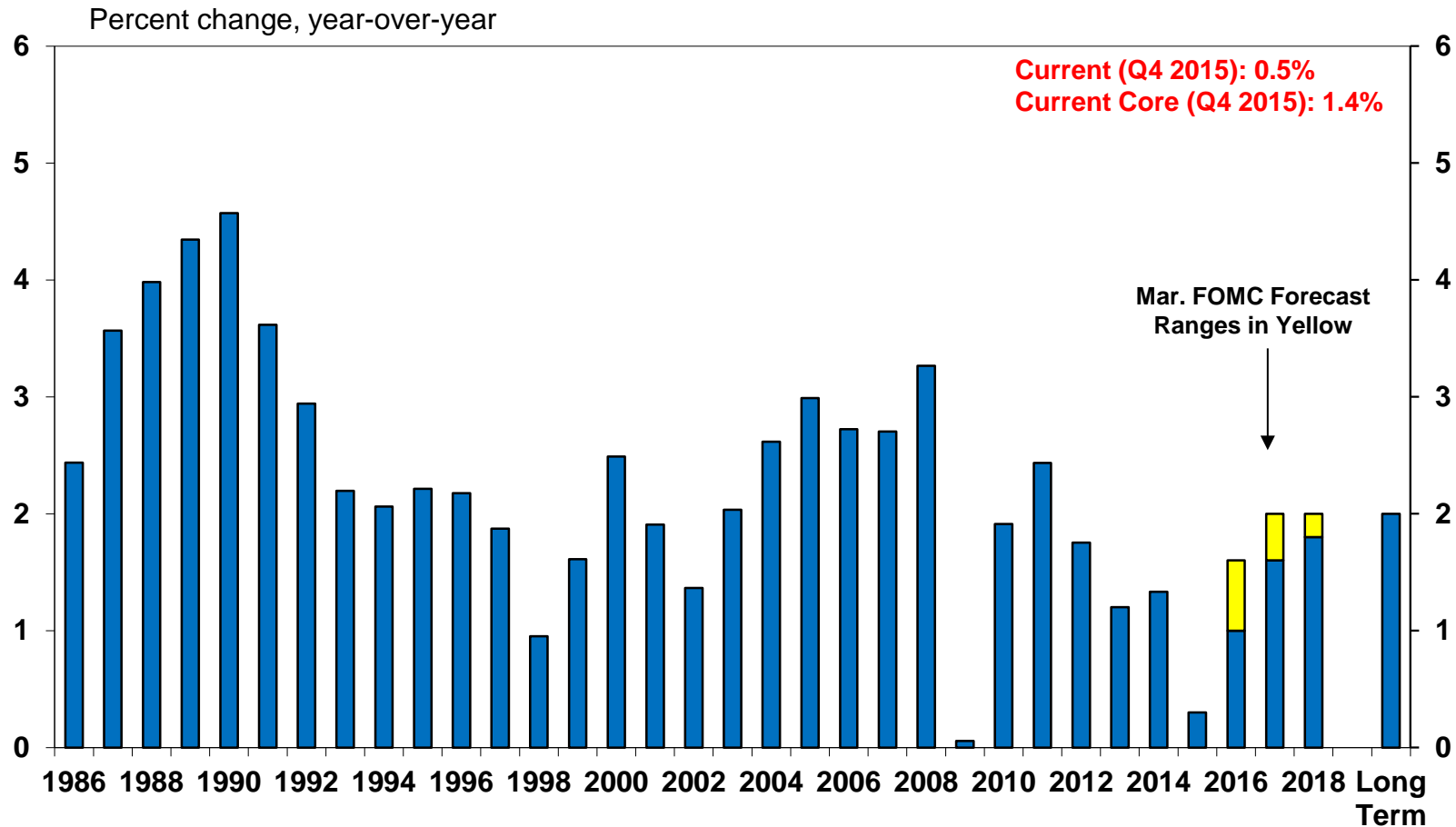
Sources: U.S. Bureau of Labor Statistics, FOMC





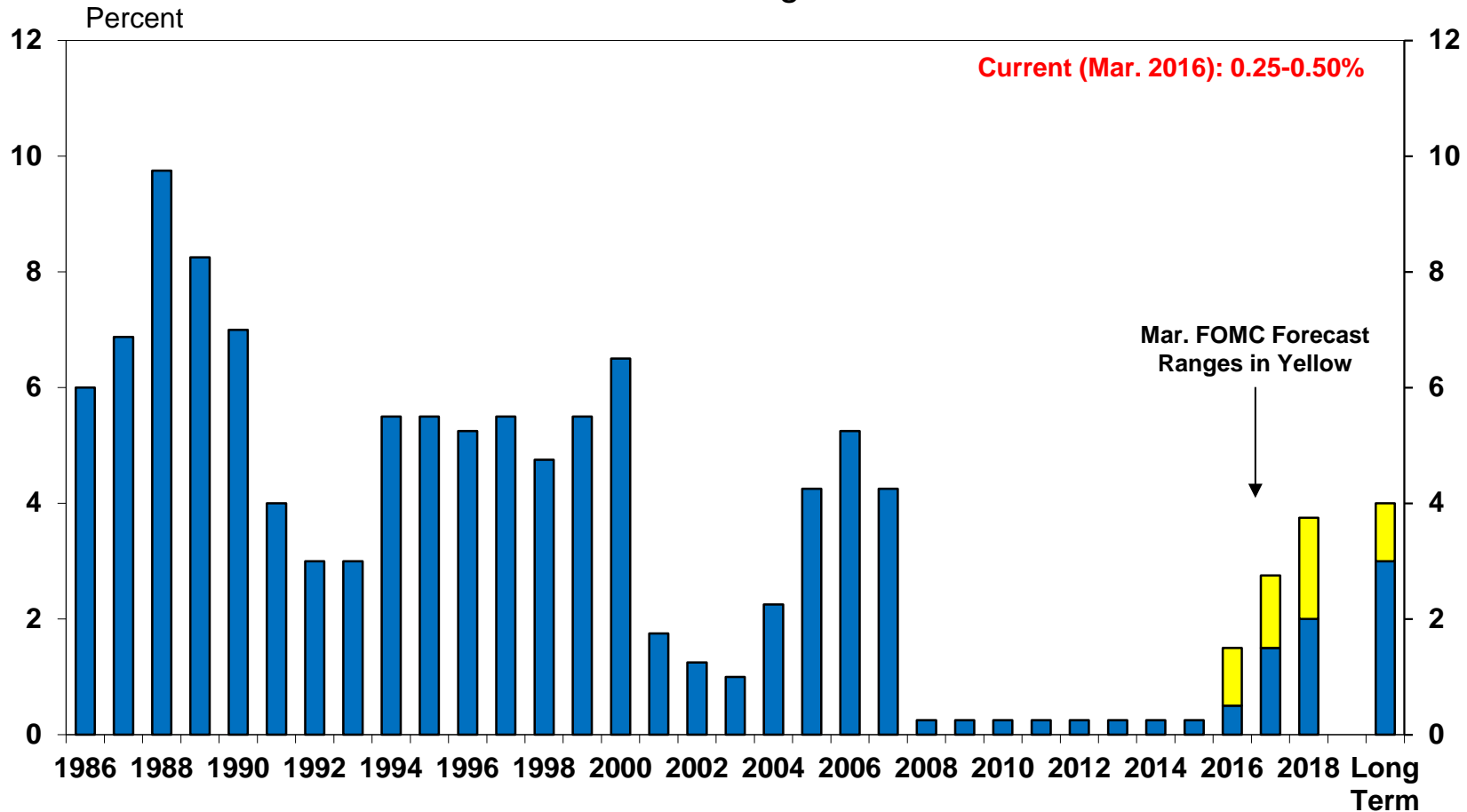
# U.S. inflation is low but expected to return to close to target in 2016

## PCE Inflation Index



# FOMC participants expect moderate increases in rates heading forward

## Federal Funds Rate Year-end target

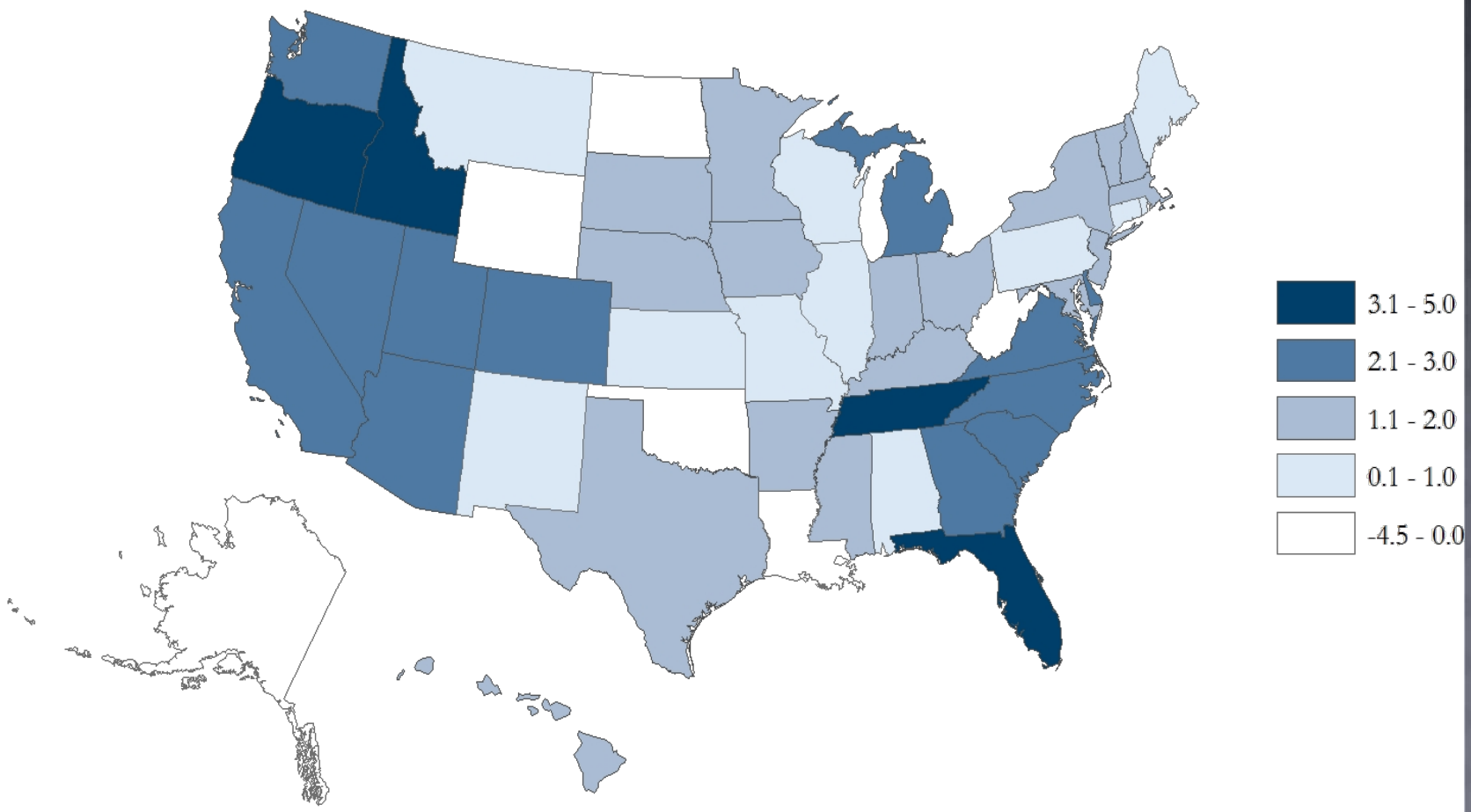


# Trends in the Oklahoma Economy



# Oklahoma and several other energy states now have lower employment than last year

**Employment Growth, Year-Over-Year**  
Jan-16

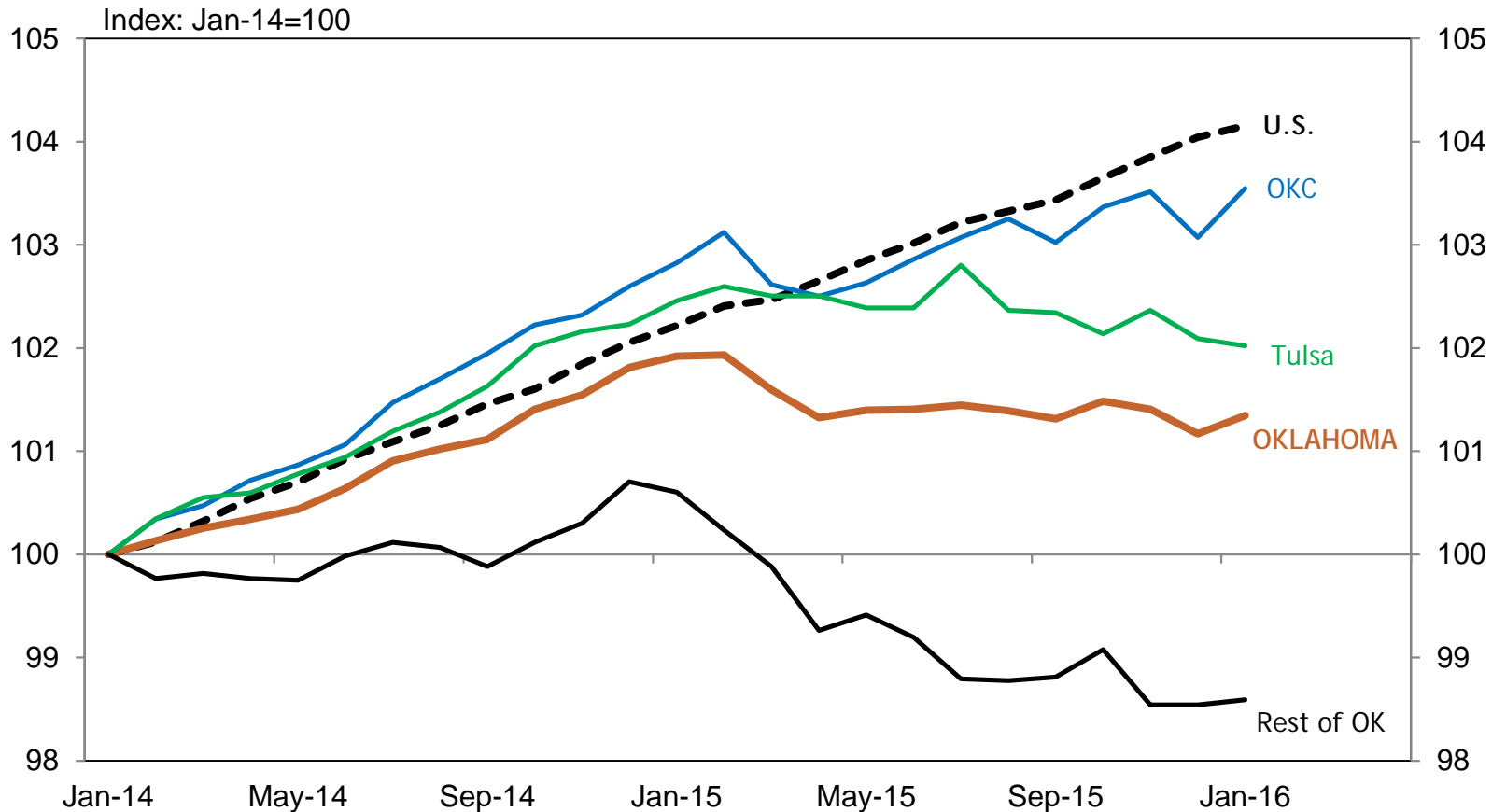


Source: U.S. Bureau of Labor Statistics



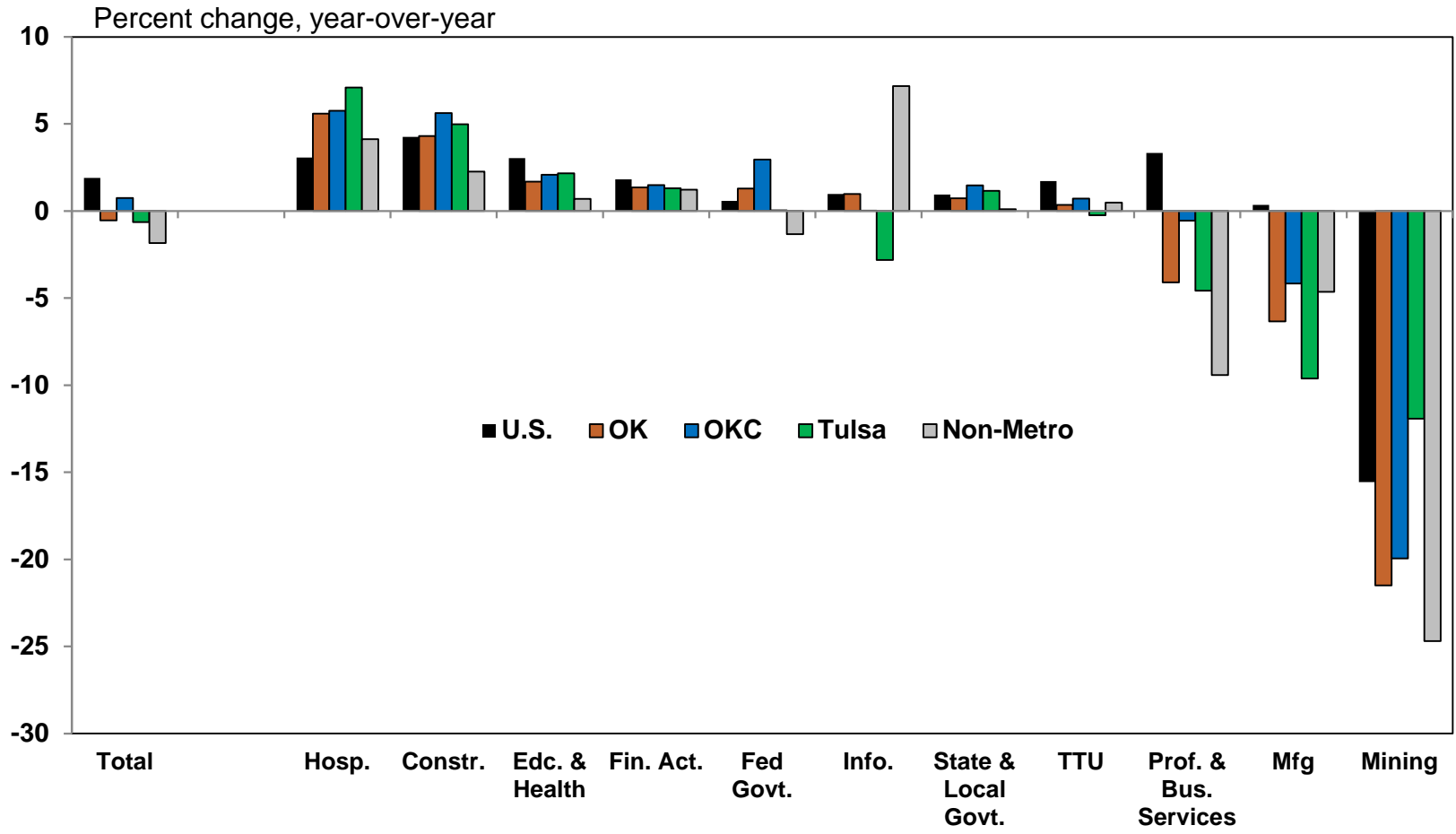
# Job trends have varied somewhat across the state over the past couple of years

**Level of Payroll Employment**  
Through January 2016



# Energy jobs have fallen sharply the past year, pulling down other industries in many areas

**Job Growth by Industry**  
Jan-16

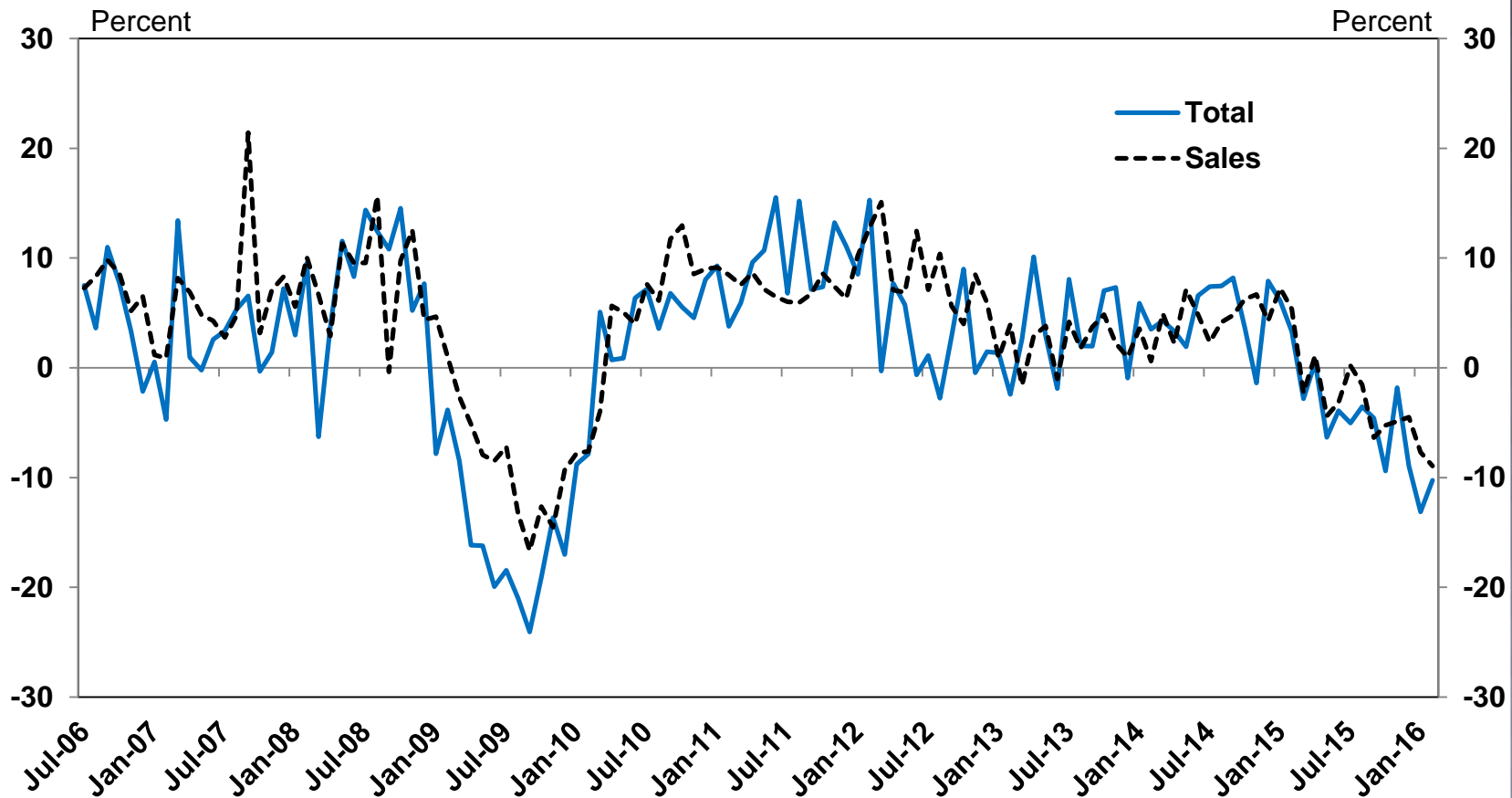


Source: Bureau of Labor Statistics



# State tax receipts continue to fall, creating difficulties for the state budget

State Tax Receipts  
Through Feb-16

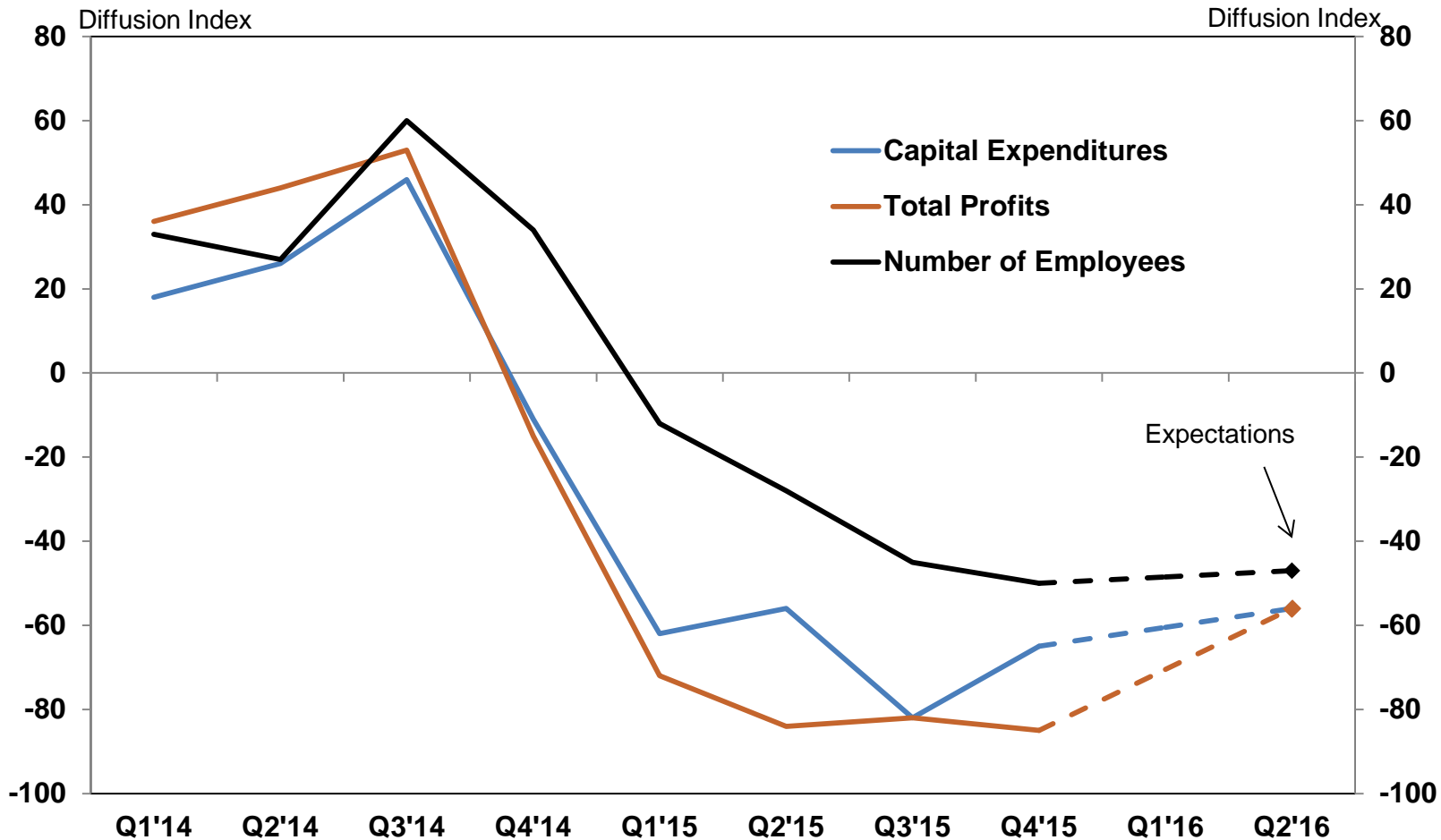


Source: OK Tax Commission



# The KC Fed's Q4 energy survey showed further declines, with more expected

## Year-Over-Year Energy Survey Indexes



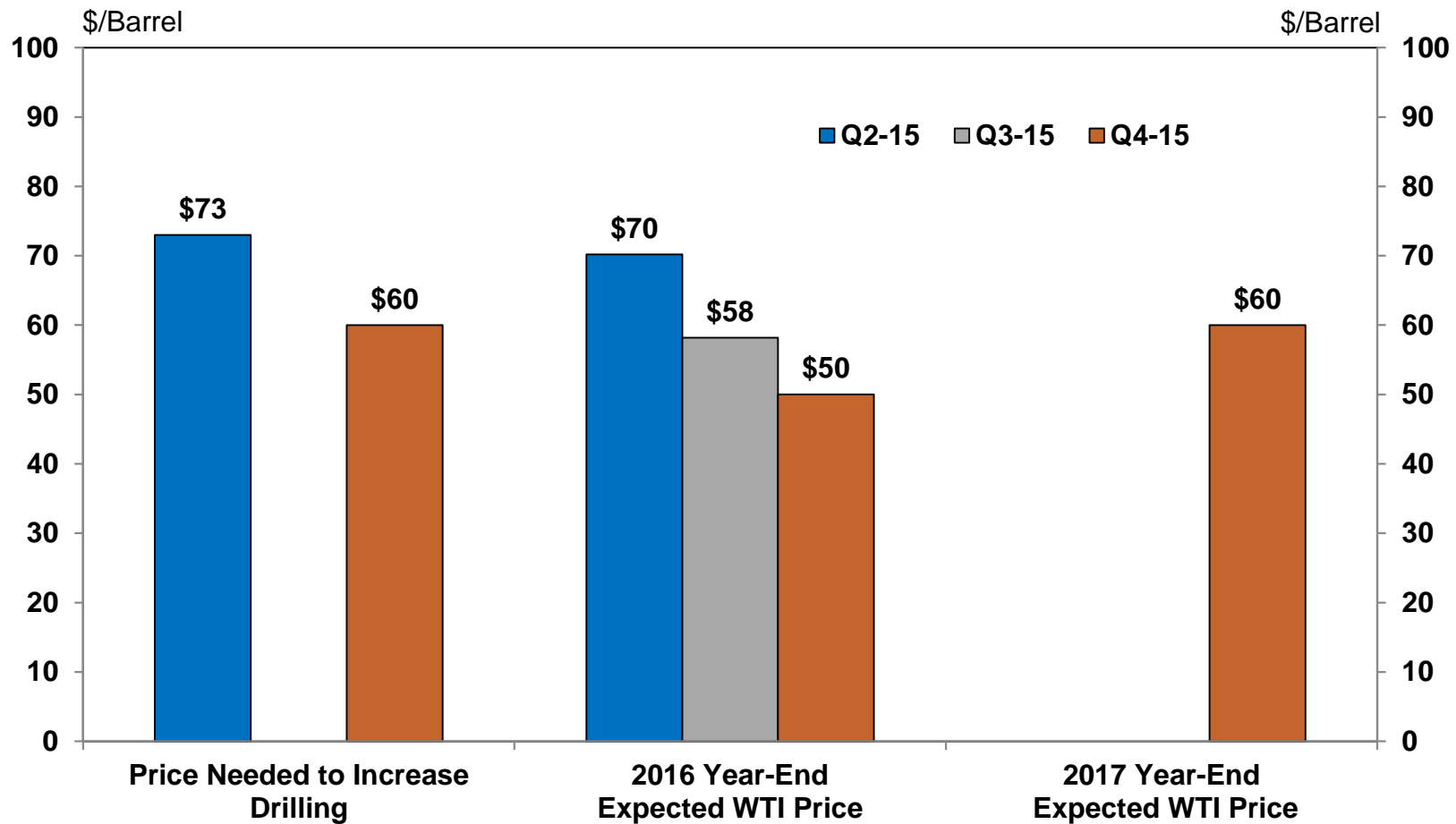
Source: FRBKC Energy Survey





# Firms' average price needed to increase drilling is above levels expected through most of 2017

## Firms' Price Needed to Increase Drilling and Future Price Expectations Q4 KC Fed Energy Survey

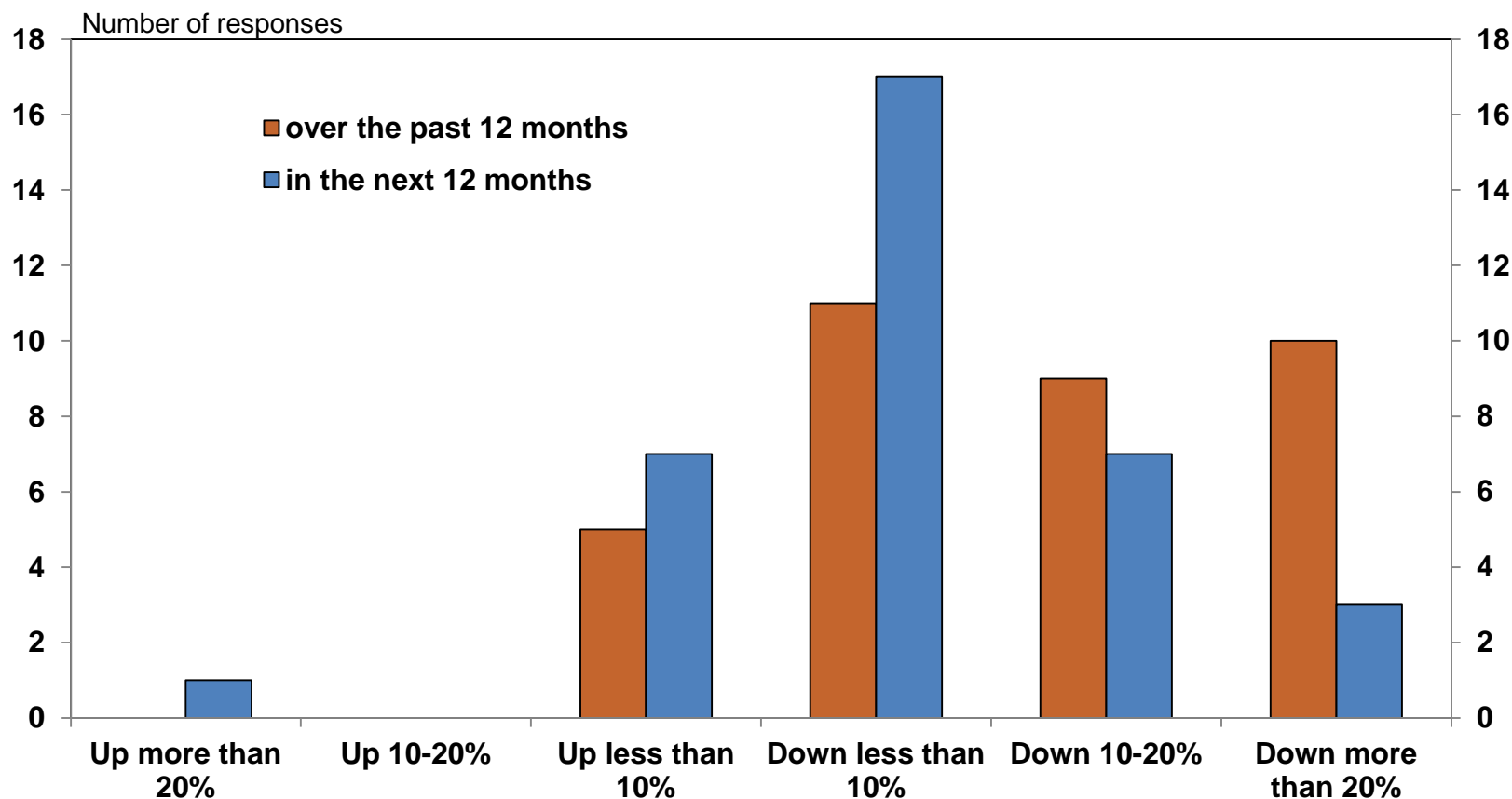


Source: FRBKC Energy Survey



# Most energy firms have decreased employment and are planning further cuts

**Total Employment Change by Energy Firms**  
Q4 KC Fed Energy Survey

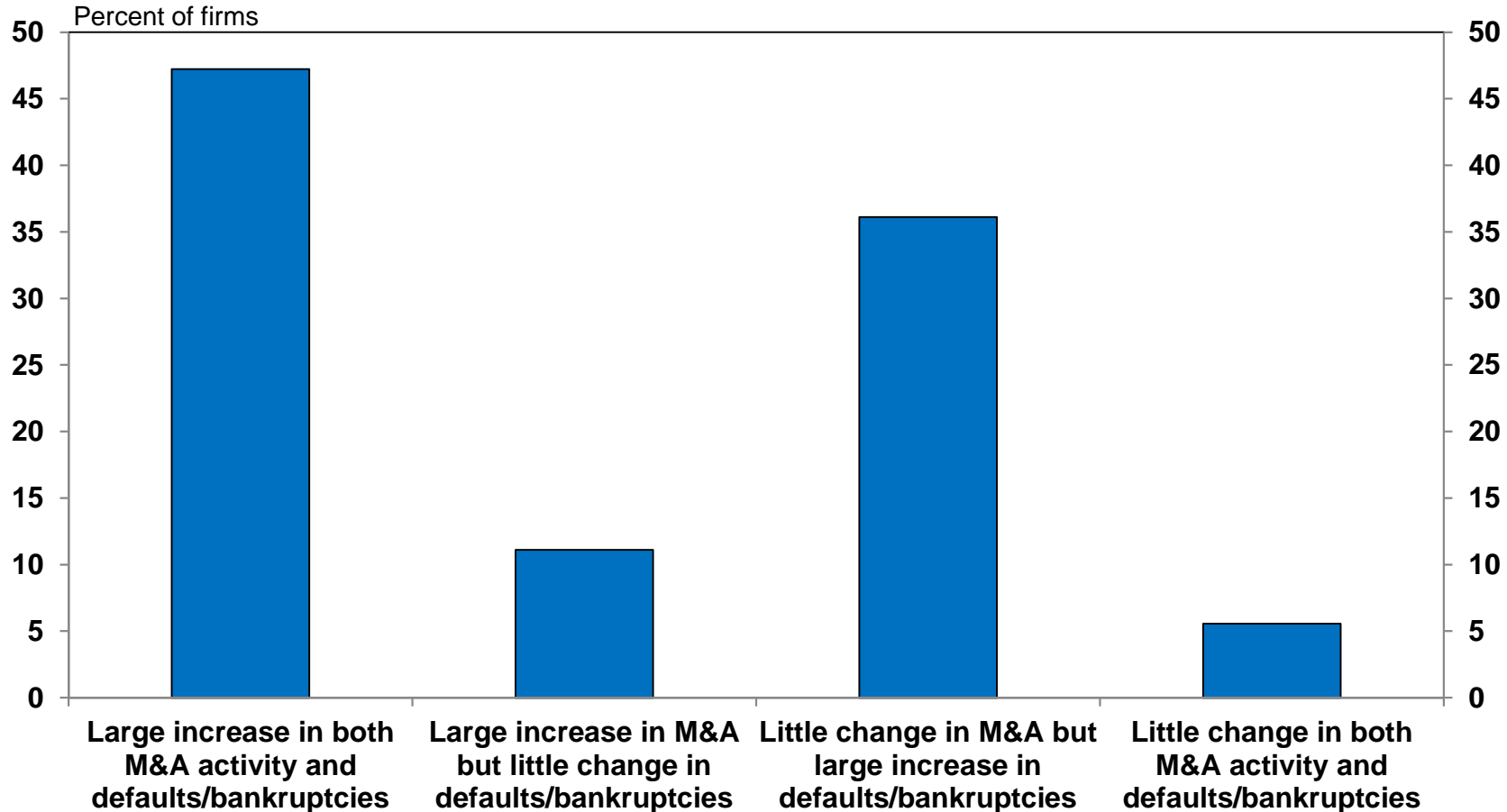


Source: FRBKC Energy Survey



# Most firms are also expecting increased mergers, defaults, and bankruptcies

## Q4 Energy Survey Firm Expectations for 2016

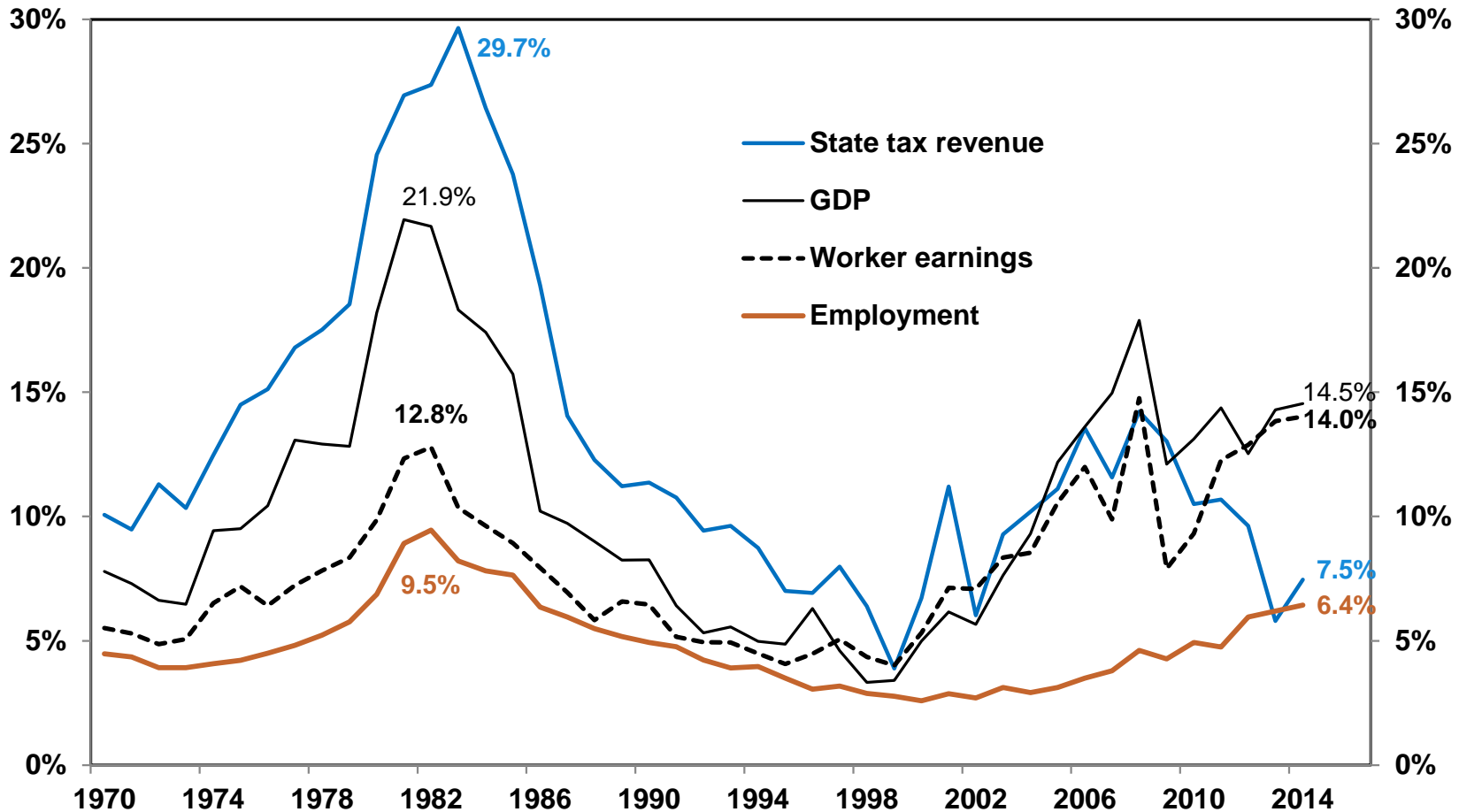


Source: FRBKC Energy Survey



# The energy sector is not as large as in the 1980s on some measures, but is on others

## Mining Sector Share of Oklahoma Economic Activity

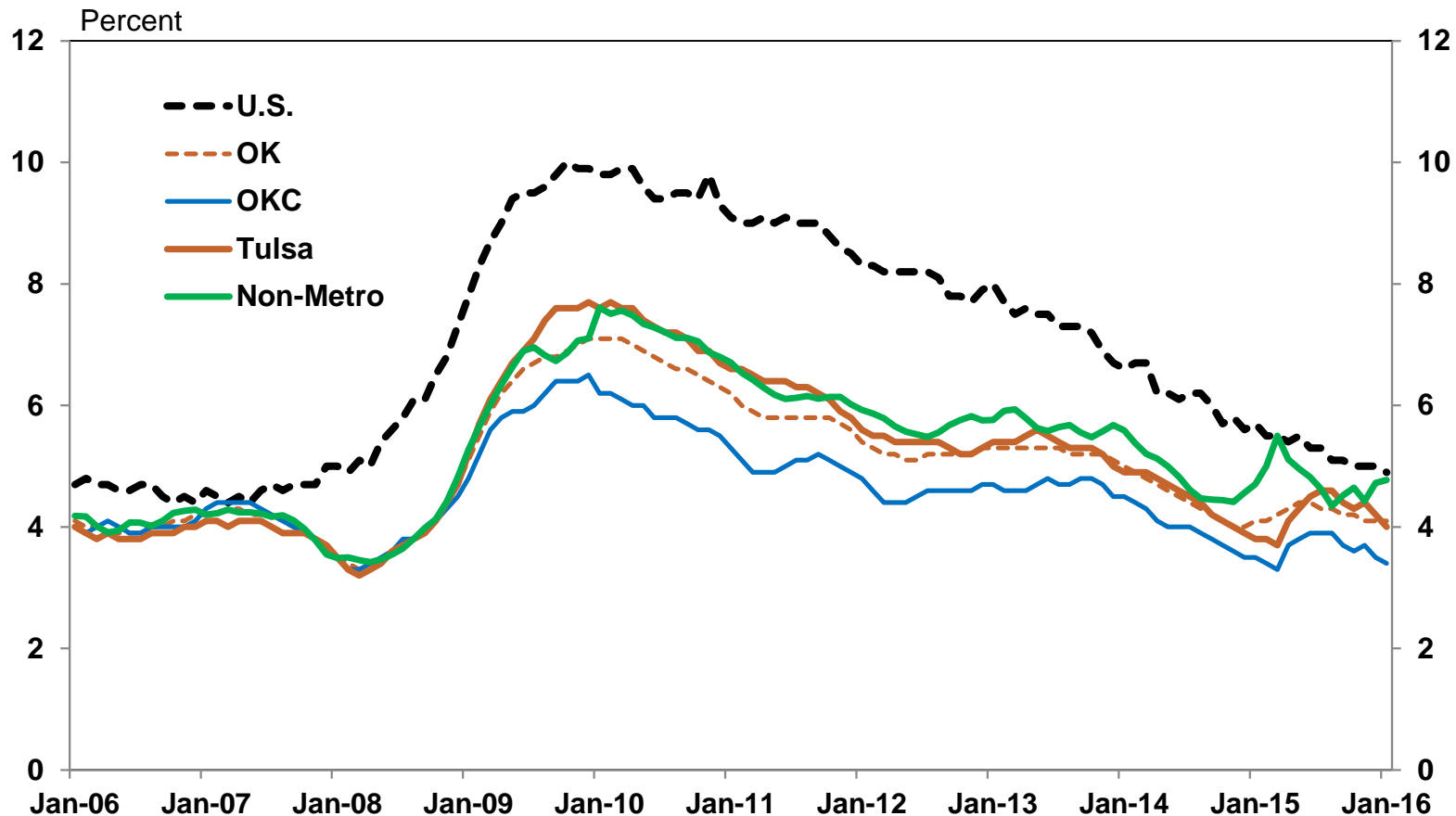


Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis



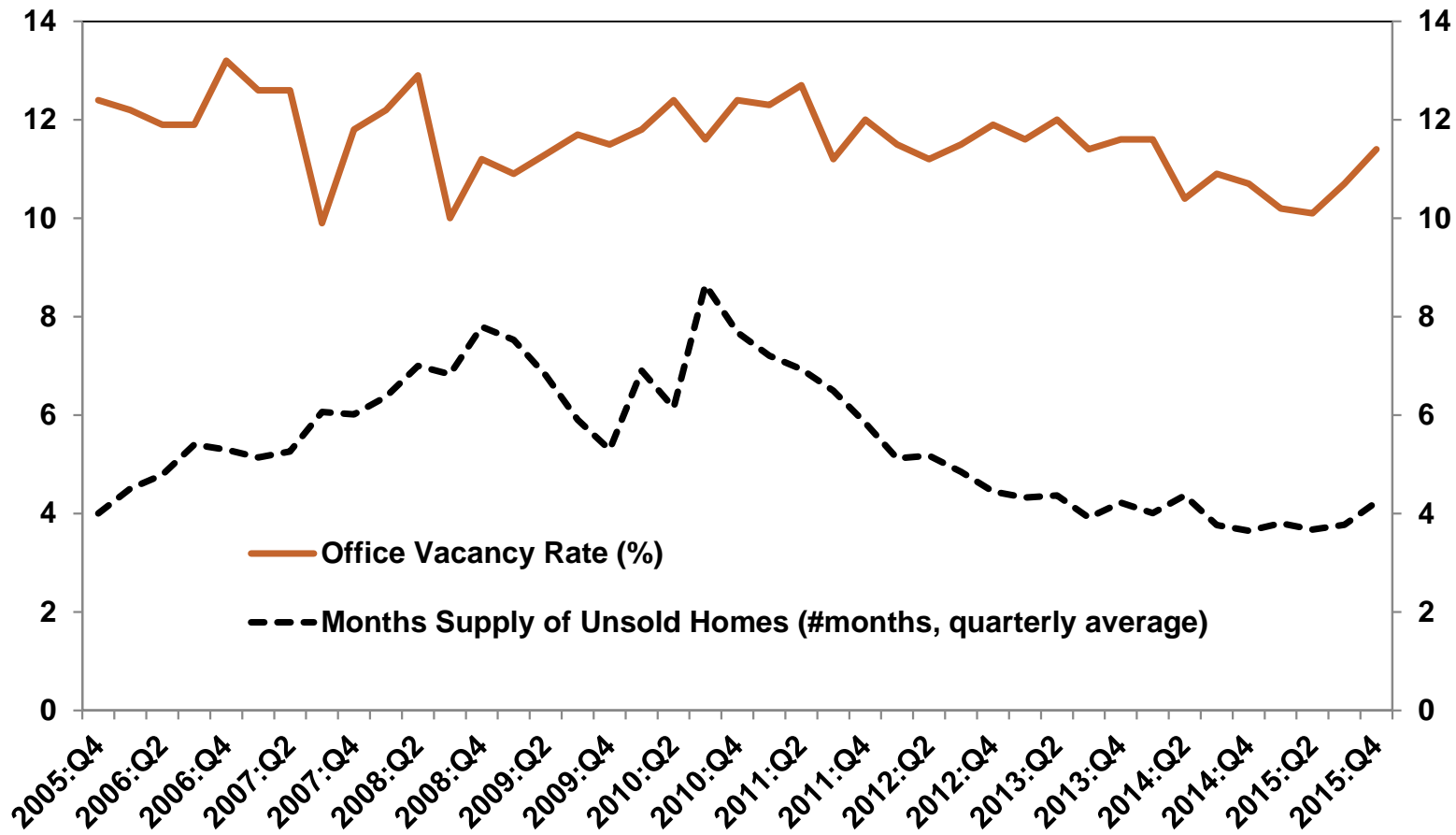
# A silver lining is that unemployment still remains low in the state, especially in OKC

## Unemployment Rate Seasonally Adjusted



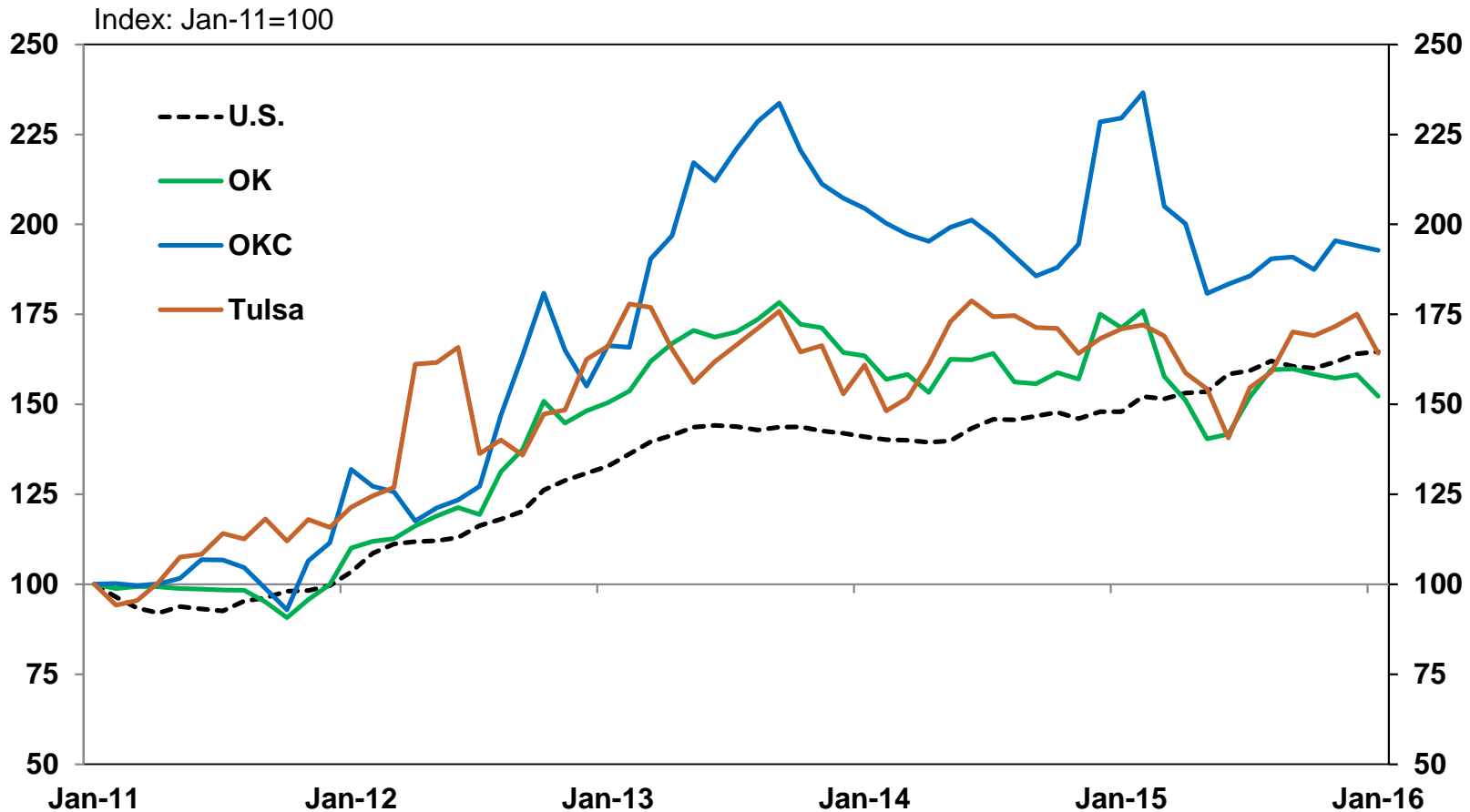
# In addition, office vacancies and unsold homes have ticked up but remain low

## OKC Office Vacancy Rate and Months Supply of Unsold Homes



# New home construction plans have leveled off recently, unlike the nation

**Single-Family Housing Permits**  
3-month moving average, through Jan-16

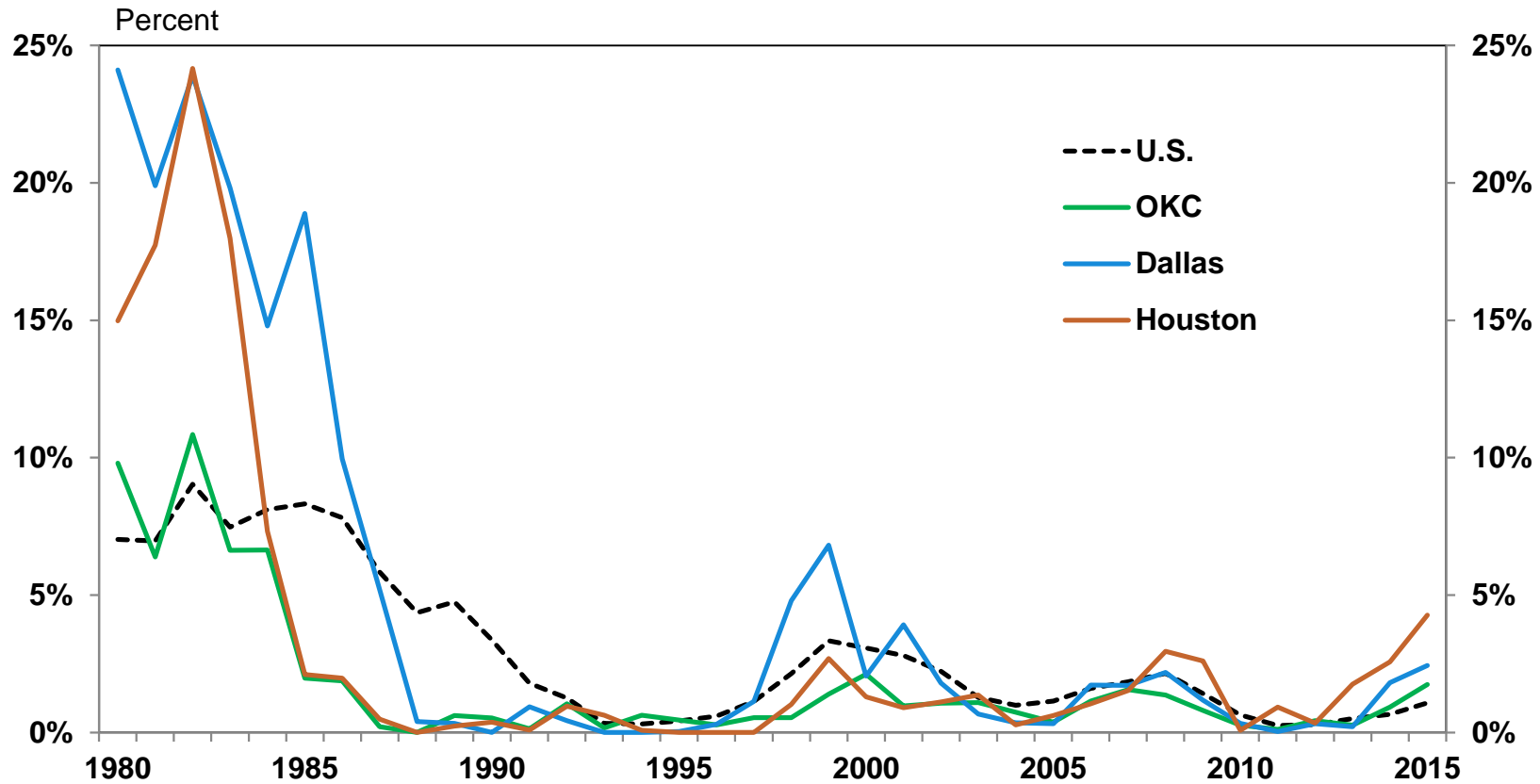


Source: U.S. Census Bureau



# Compared to the early 1980s, the rate of office construction is relatively low

**Office Square Feet Added**  
As Share of Total Office Space



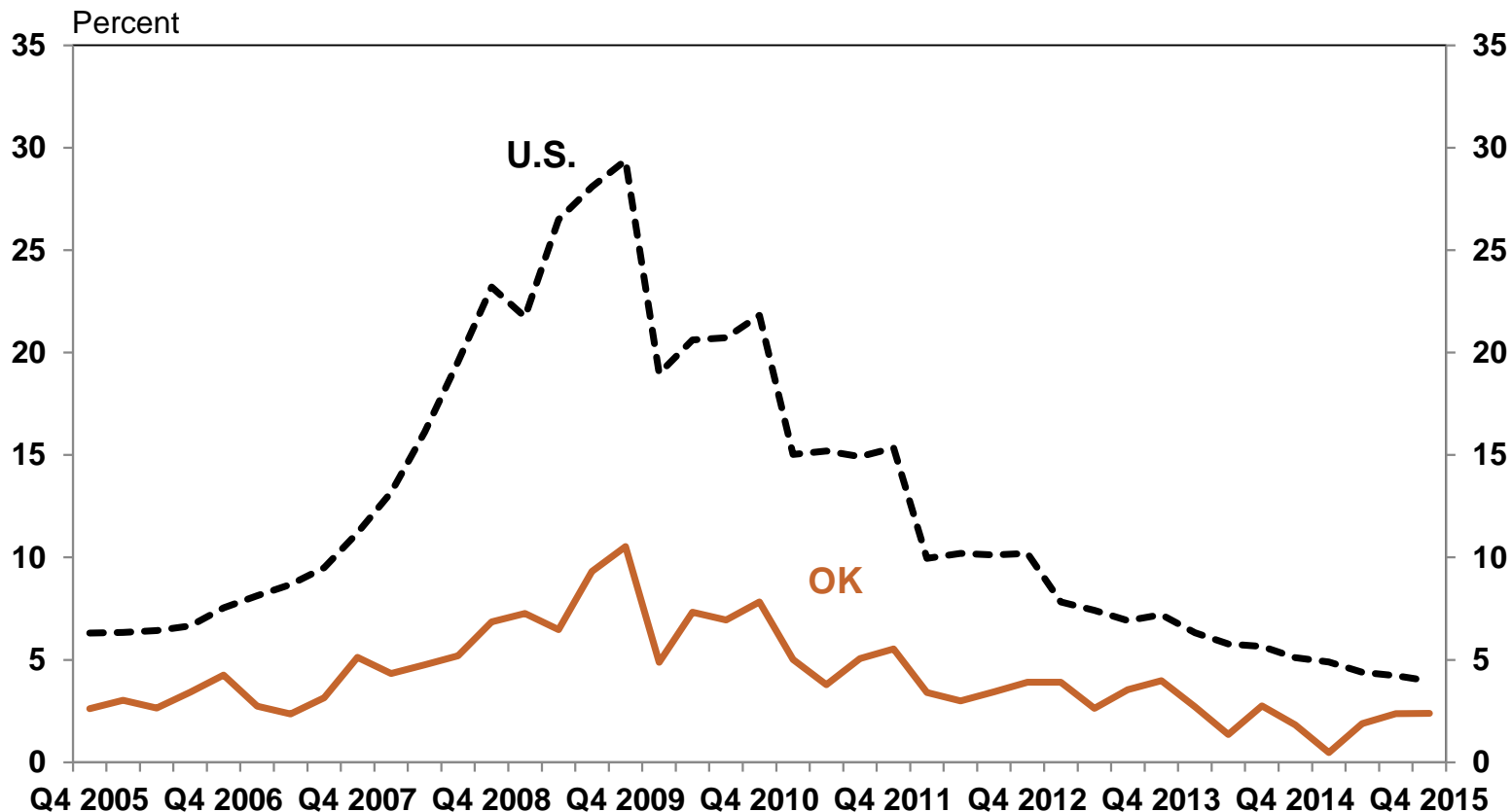
Source: TWR





# In related news, banking conditions in the state have remained good

## Share of Banks Not Making a Profit Commercial Banks



Source: FDIC



# Summary

- The U.S. economy continues to grow, and the Fed has begun to raise interest rates
- Oklahoma employment and tax revenues continue to suffer from the oil downturn
- The latest KC Fed energy survey suggests more difficulties ahead
- But state unemployment is low, with real estate and banking in good condition to date

