

U.S. and Oklahoma Economic Outlook

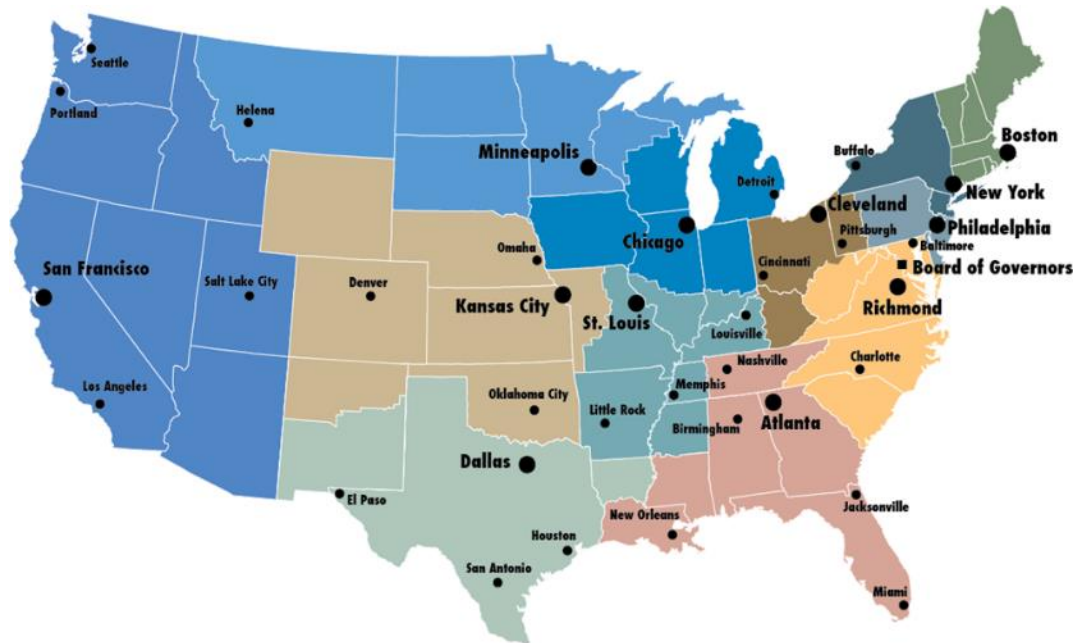
Council of Petroleum Accountants Societies
February 18, 2020

Chad Wilkerson
Vice President and Oklahoma City Branch Executive

*The views expressed herein are those of the presenter only and do not necessarily reflect the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.



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

- **2020 Is Our Centennial!** **OKC BRANCH 100** 
- **Functions and purposes ~ 50 staff**
 - Research on U.S. and Oklahoma economies; energy sector and business survey focus
 - Examinations of Oklahoma financial institutions (~45 banks, ~175 holding cos.)
 - Community development programming for low and moderate income groups, workforce focus
 - Economic education and public outreach programming
- **2020 OKC Fed Branch Board of Directors**
 - **Tina Patel (chair)**, Co-Owner & CFO, Promise Hotels, Tulsa
 - **Walt Duncan**, President, Duncan Oil Properties, Oklahoma City
 - **Susan Plumb**, Chair & CEO, Bank of Cherokee County, Tahlequah
 - **Brady Sidwell**, Principal, Sidwell Strategies, Enid
 - **Chris Turner**, President & CFO, First State Bank, Oklahoma City
 - **Katrina Washington**, Owner/Broker, Stratos Realty, Oklahoma City
 - **Dana Weber**, Chair & CEO, Webco Industries, Sand Springs



The Federal Reserve's Role in Monetary Policy

- **Dual Mandate from U.S. Congress:**

- 1) Maximum employment
- 2) Price stability

- **Federal Open Market Committee (FOMC):**

Board of Governors

- **Jerome H. Powell**, Chairman
- **Richard H. Clarida**, Vice Chairman
- **Randal K. Quarles**, Vice Chairman of Supervision
- **Lael Brainard**
- **Michelle W. Bowman**
- **Open**
- **Open**



Reserve Bank Presidents

- **John C. Williams**, New York, Vice Chairman
- **Patrick T. Harker**, Philadelphia
- **Robert S. Kaplan**, Dallas
- **Neel Kashkari**, Minneapolis
- **Loretta J. Mester**, Cleveland
- **Thomas I. Barkin**, Richmond
- **Raphael W. Bostic**, Atlanta
- **Mary C. Daly**, San Francisco
- **Charles L. Evans**, Chicago
- **James Bullard**, St. Louis
- **Esther L. George**, Kansas City
- **Eric Rosengren**, Boston



*Permanent voters in bold; 2020 rotating voters in red; 2021 rotating voters in blue

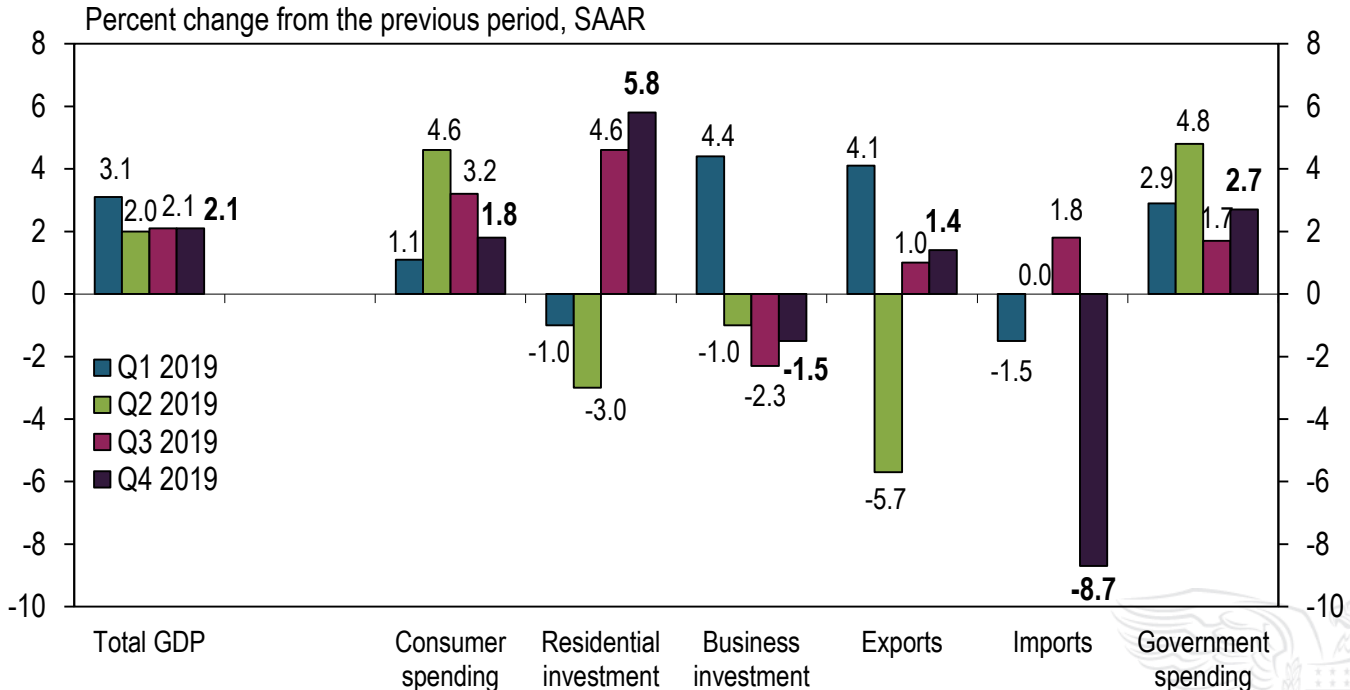


U.S. Economic Outlook and Monetary Policy



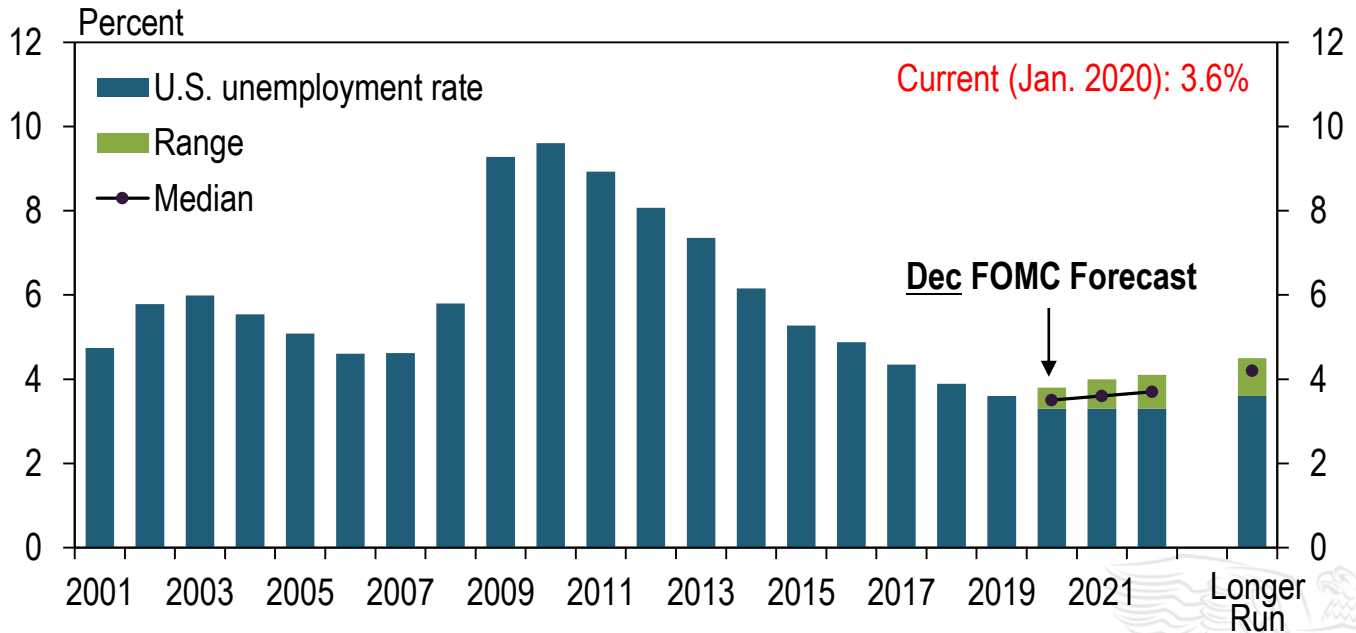
Jan. FOMC: “Economic activity has been rising at a moderate rate...household...rising...business...weak”

Percent Change in Components of Real GDP



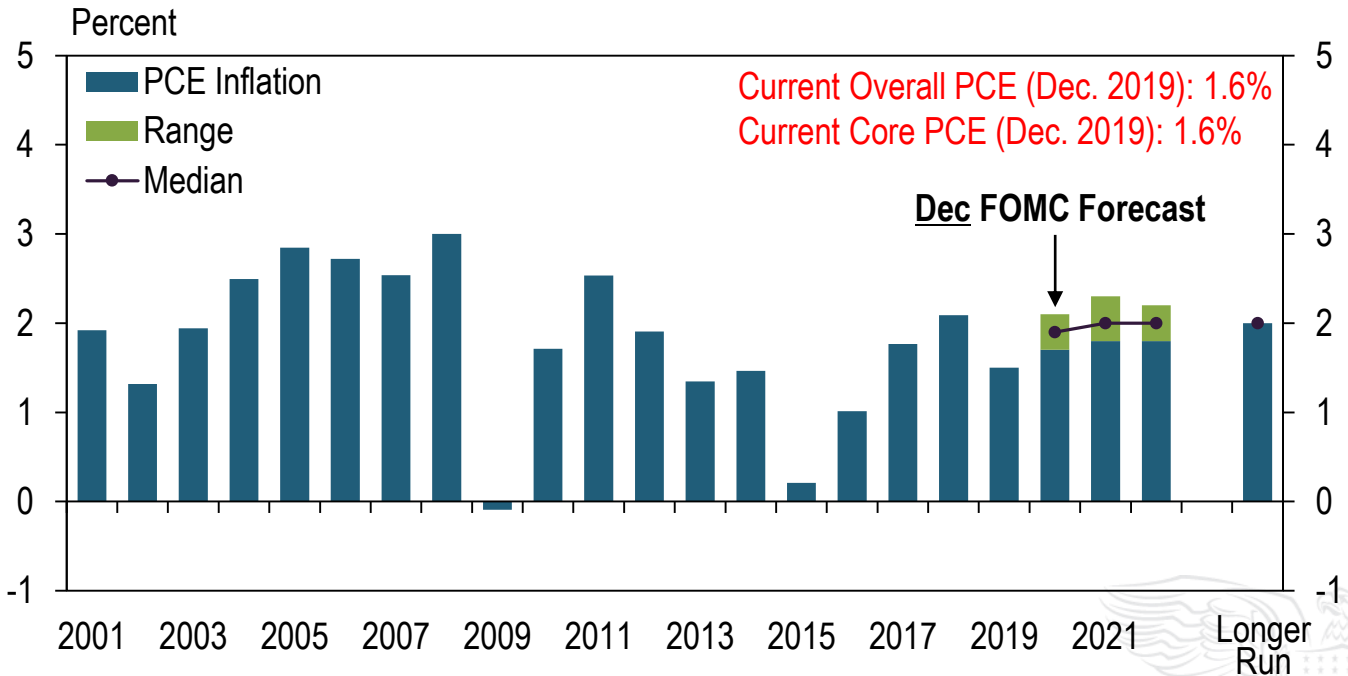
Jan. FOMC: “Job gains have been solid...and the unemployment rate has remained low.”

U.S. Unemployment Rate



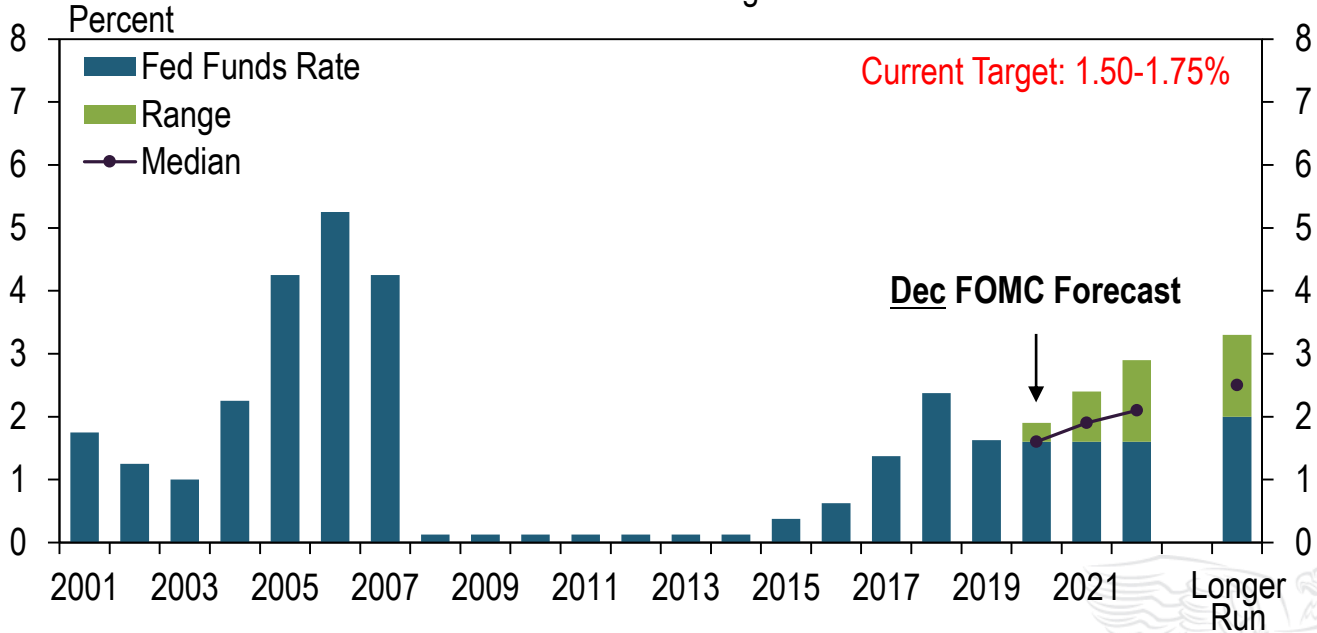
Jan. FOMC: “Overall inflation and inflation for items other than food and energy are running below 2%.”

PCE Inflation Index



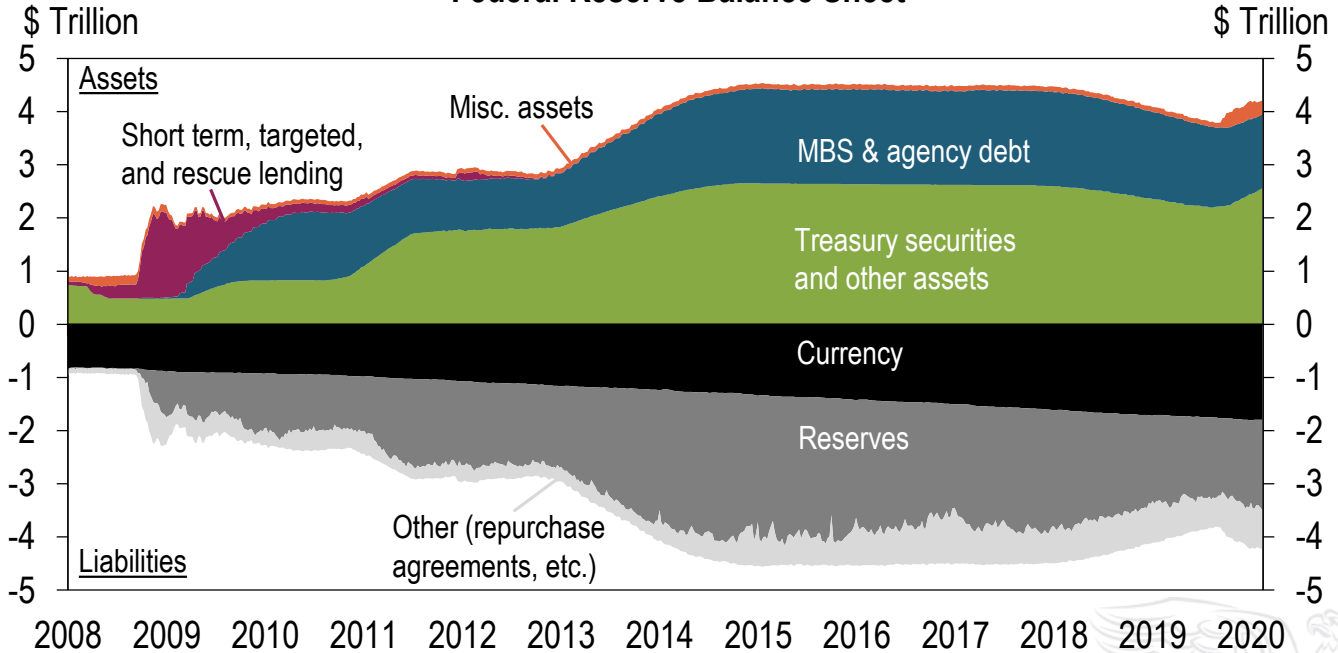
Jan. FOMC: “the [FOMC] decided to maintain the...rate... will continue to monitor...incoming information.”

Federal Funds Rate
Year-End Target



“In light of...increases in...liabilities, the [FOMC] directs the Desk...to maintain...ample reserve balances.”

Federal Reserve Balance Sheet

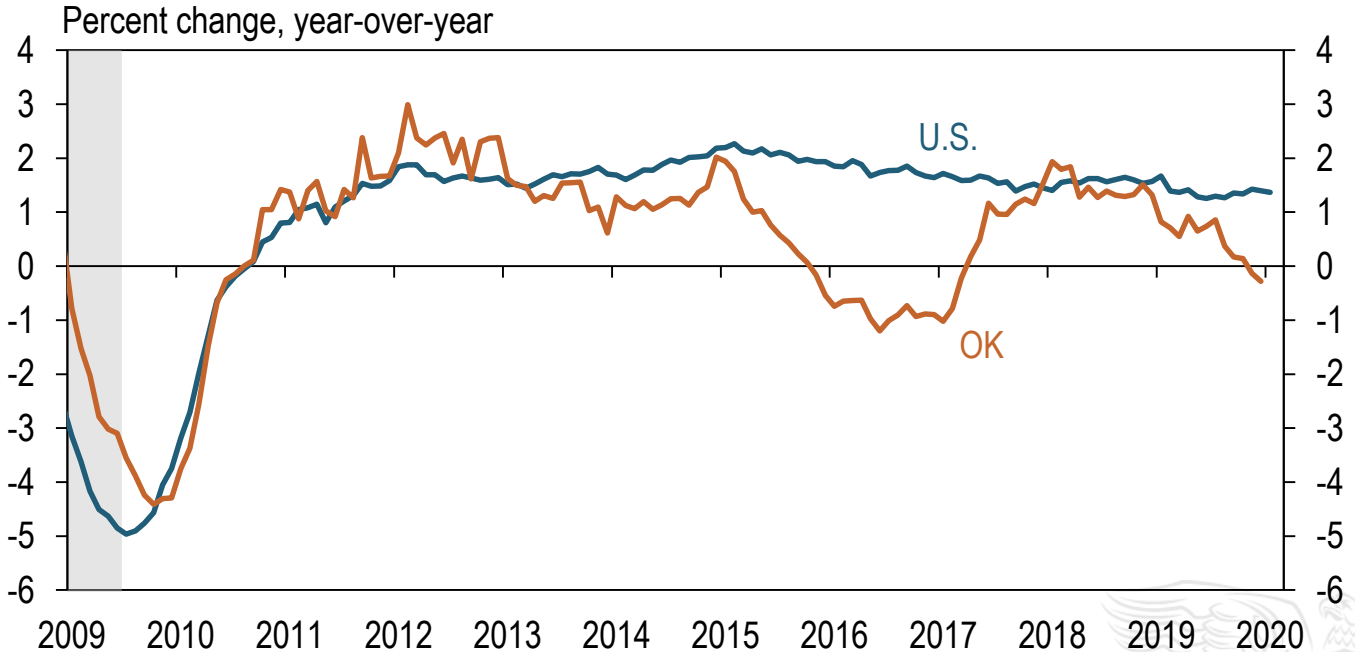


Oklahoma Economic Outlook

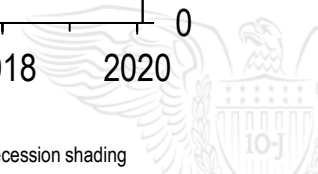
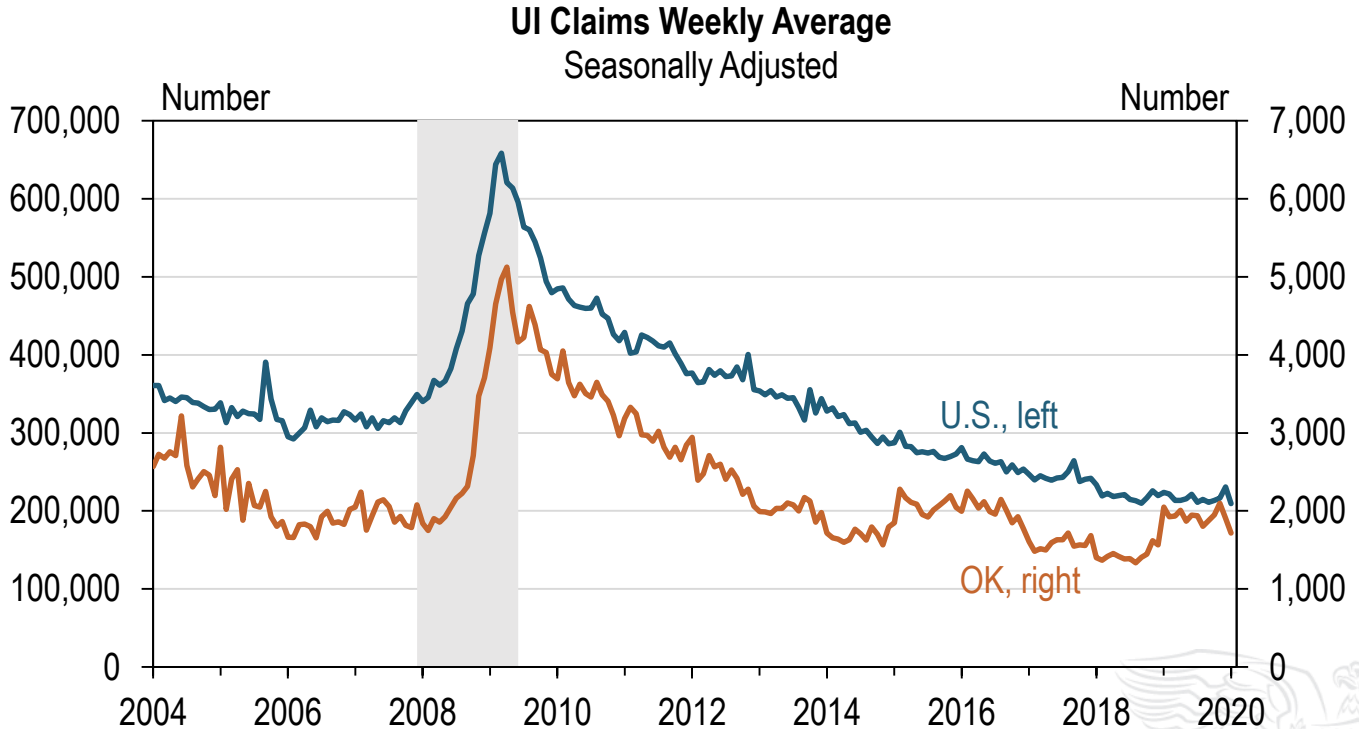


The pace of Oklahoma job growth slowed steadily in 2019, and was negative in November and December

Nonfarm Payroll Employment Growth

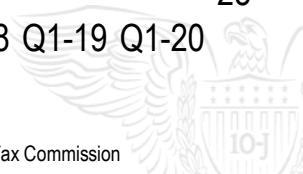
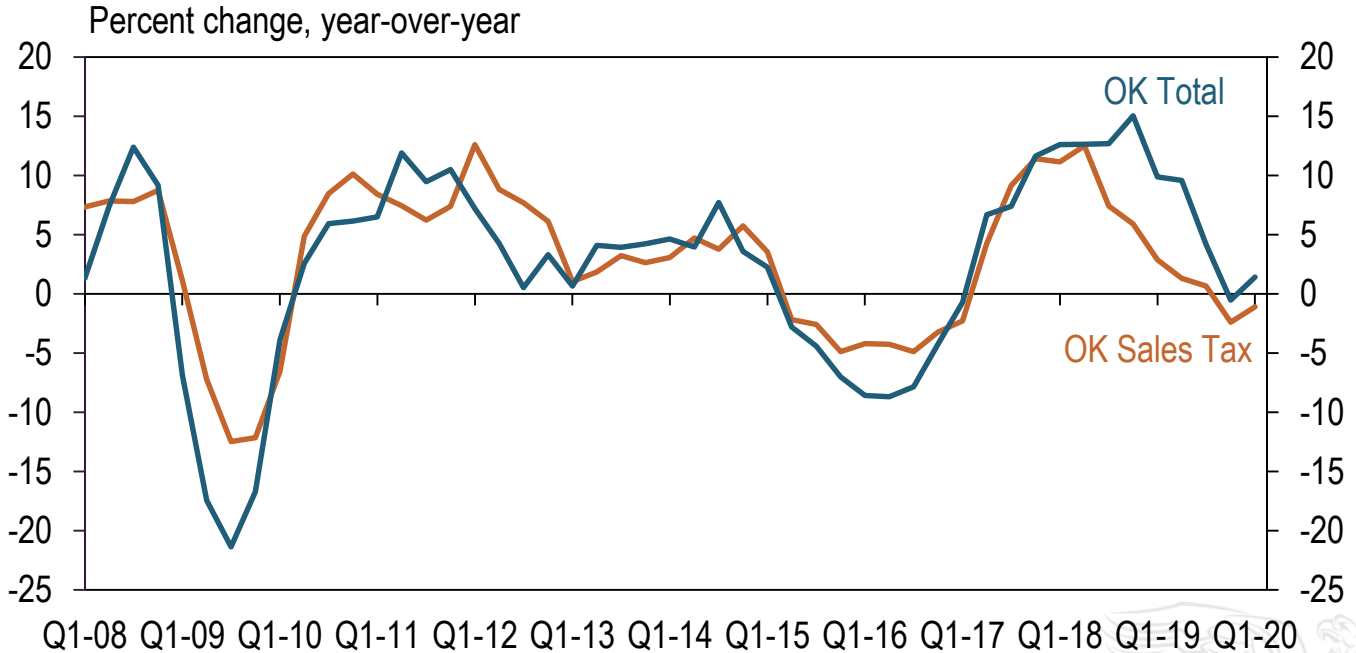


Weekly initial jobless claims in the state ran near 2015-16 levels in 2019, but improved slightly in January 2020



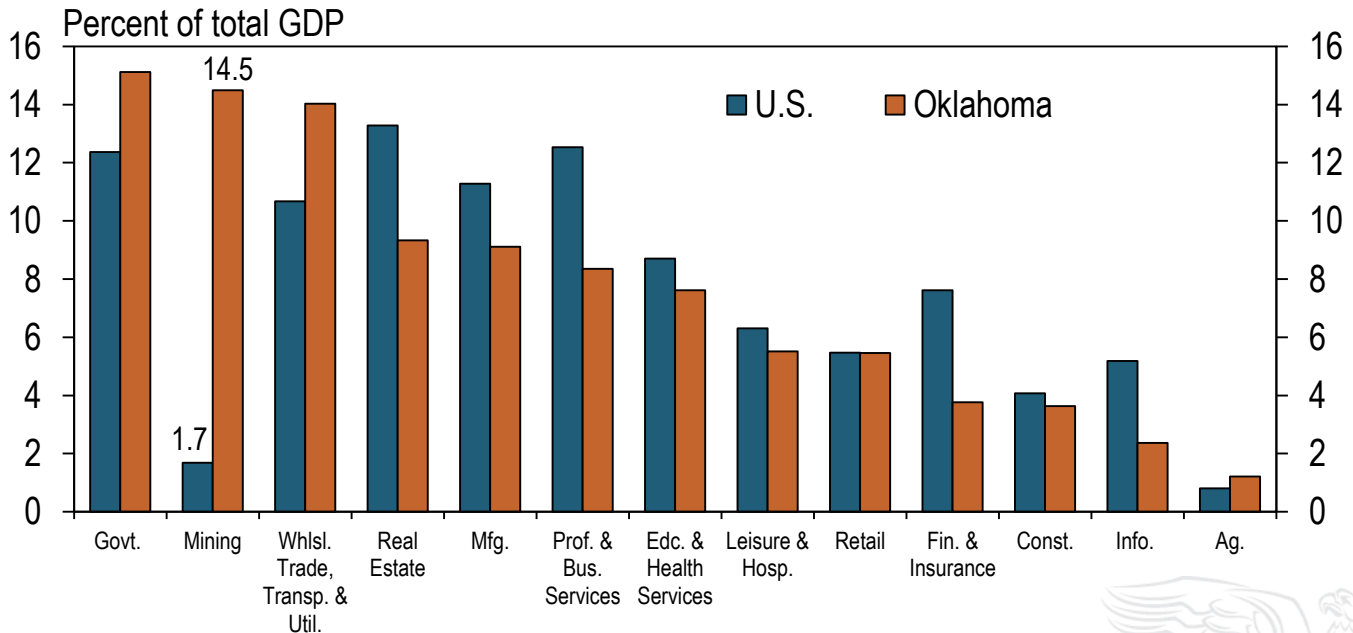
Total state tax receipts also rose slightly in January, but sales tax revenues are still below year-ago levels

Oklahoma Tax Revenues



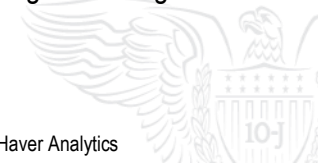
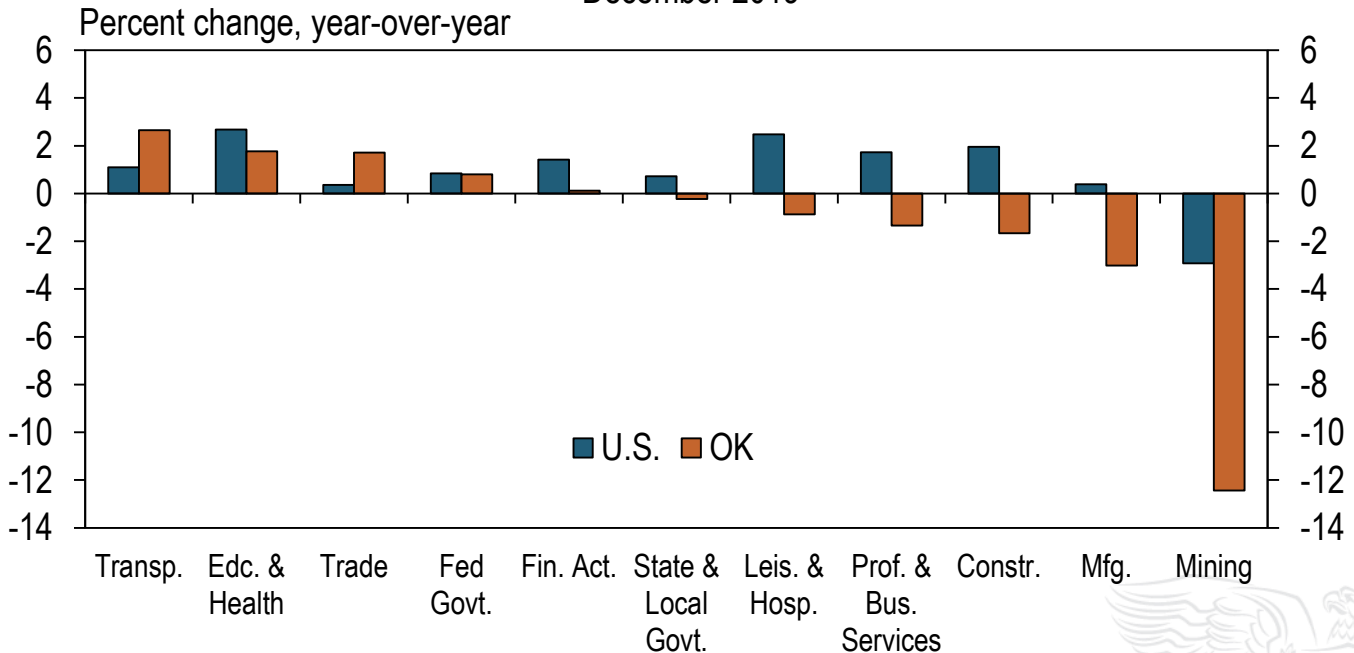
Oklahoma's main difference from the nation in terms of industrial structure is its very sizable energy sector

Industry Share of GDP, 2018



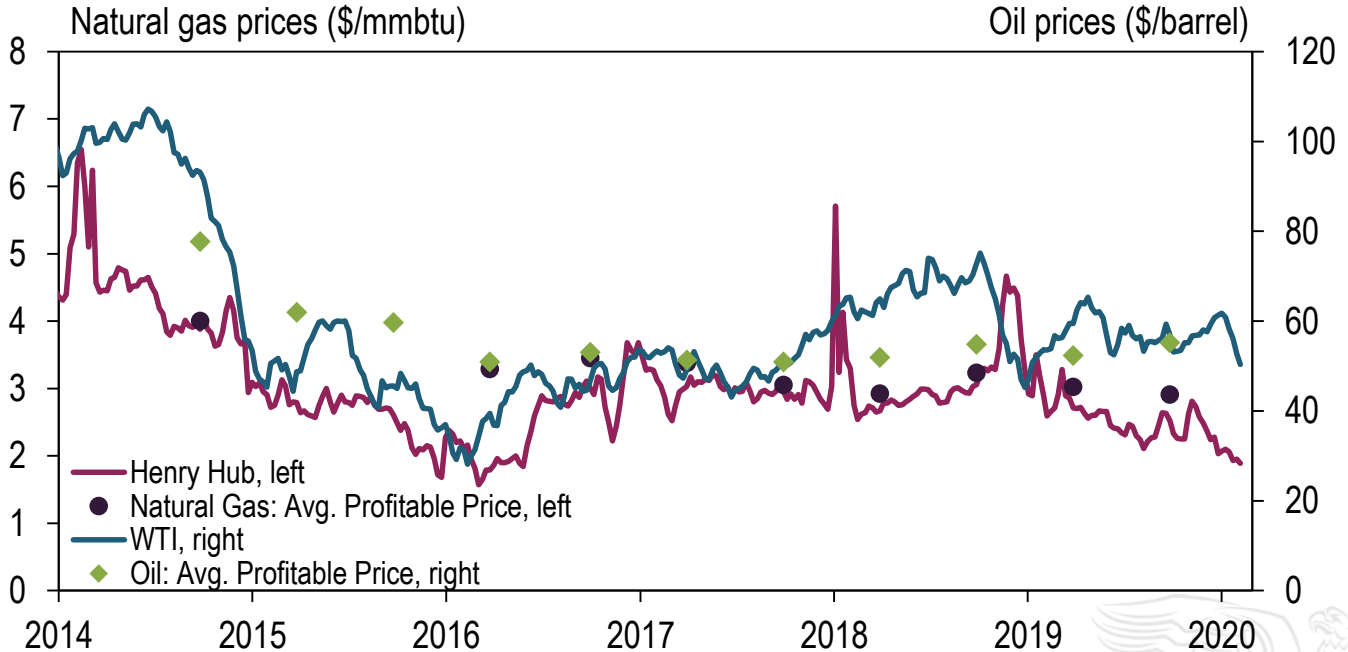
The slower state job growth in 2019 has been driven mainly by job losses in energy and related sectors

Job Growth by Industry
December 2019



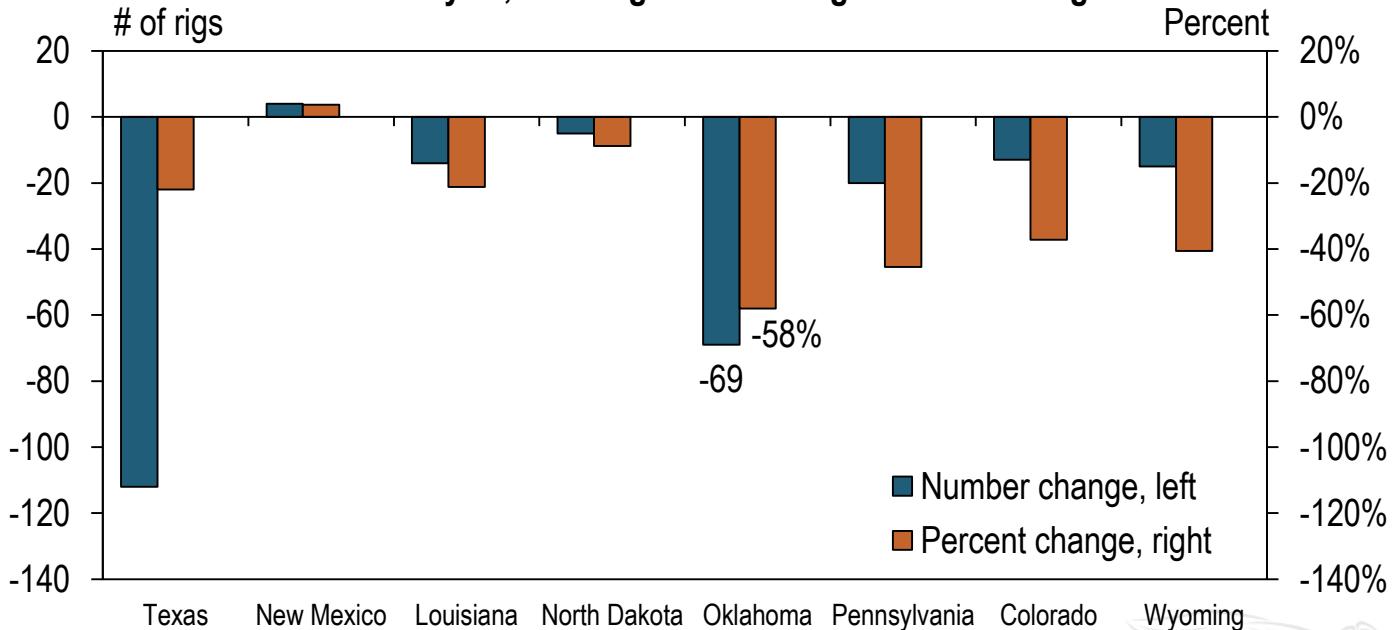
Marginally profitable oil prices since spring, plus low natural gas prices, have contributed to slower activity

Oil & Natural Gas Profitability and Prices



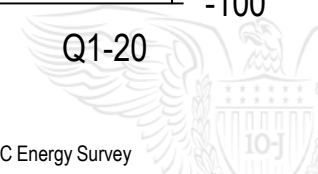
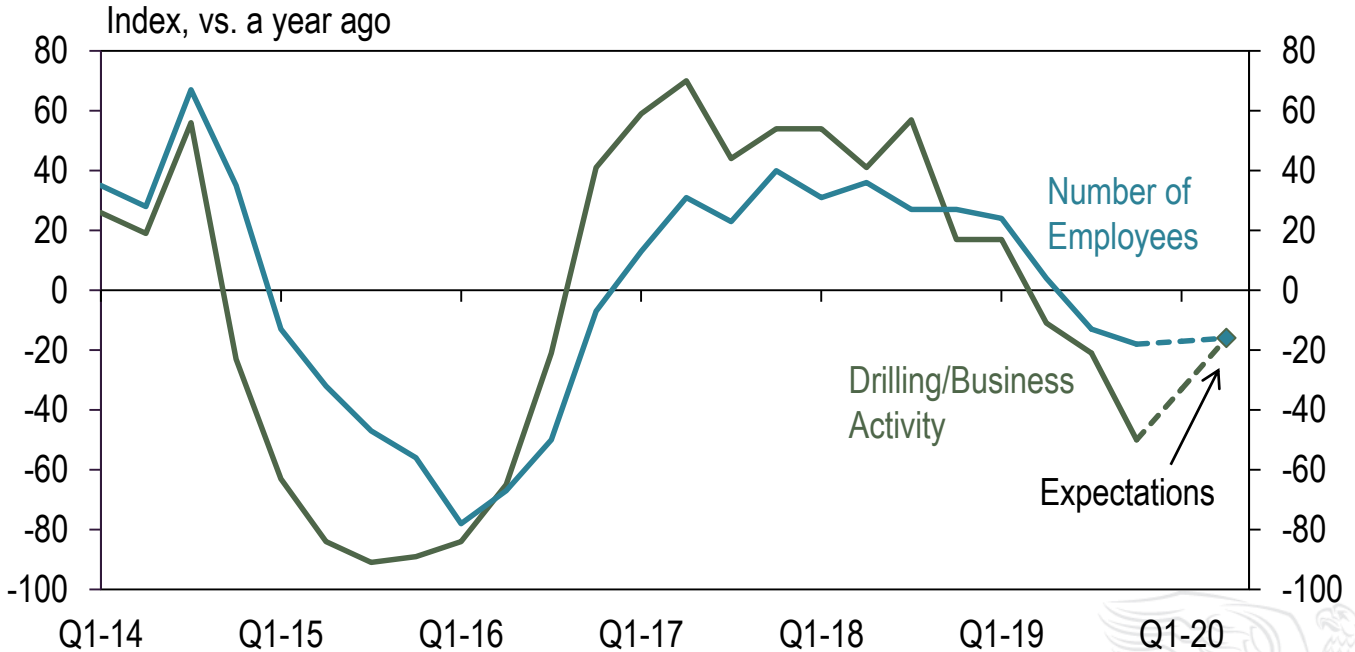
Oklahoma's percentage drop in rigs has been the largest among the top 8 oil- and gas-producing states

February 14, 2020 Rig Count Change from a Year Ago



In late December, regional energy firms expected drilling activity to drop further, with continued job cuts

Kansas City Fed Energy Indexes

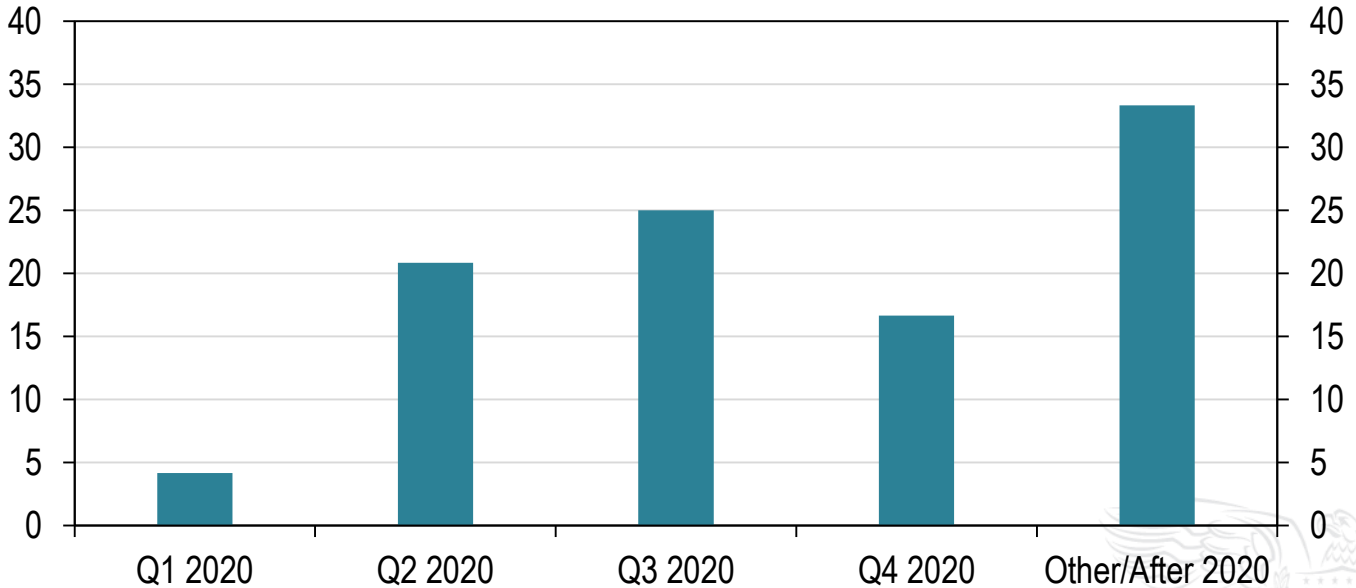


Most District energy firms did not expect rig counts to increase in the near-term

Kansas City Fed Energy Survey Question:

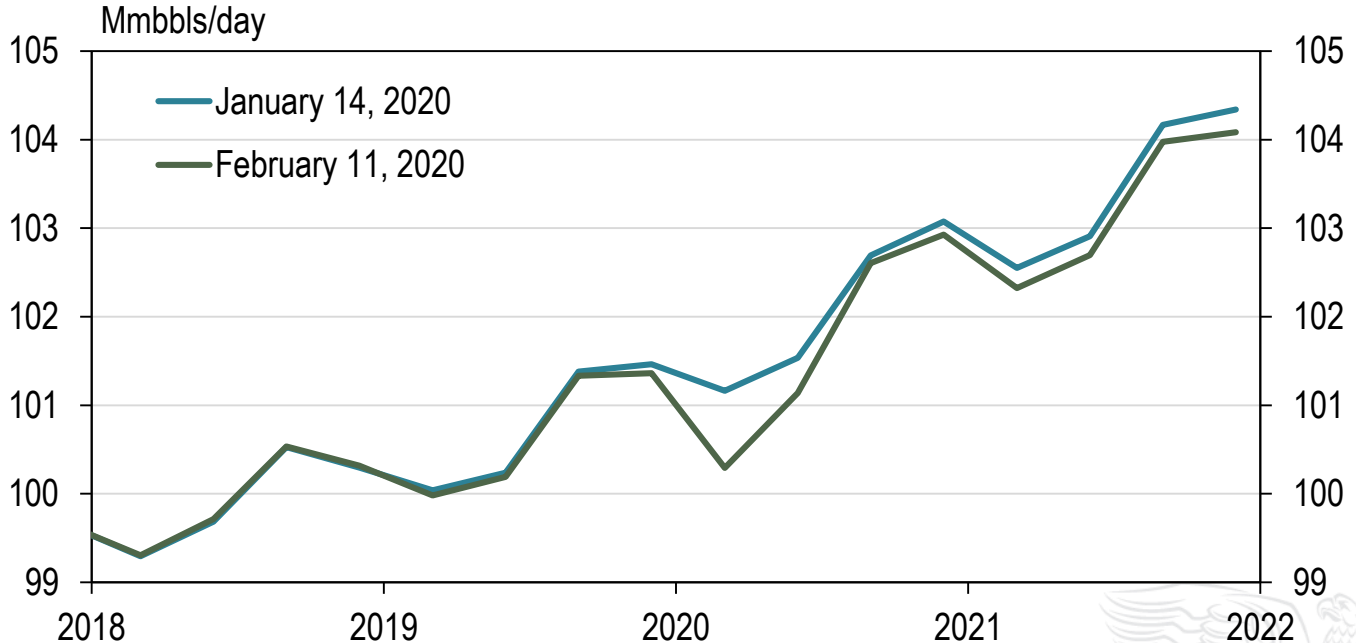
“In what quarter does your firm expect the U.S. rig count to begin rising again?”

Percent of firms



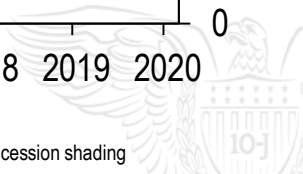
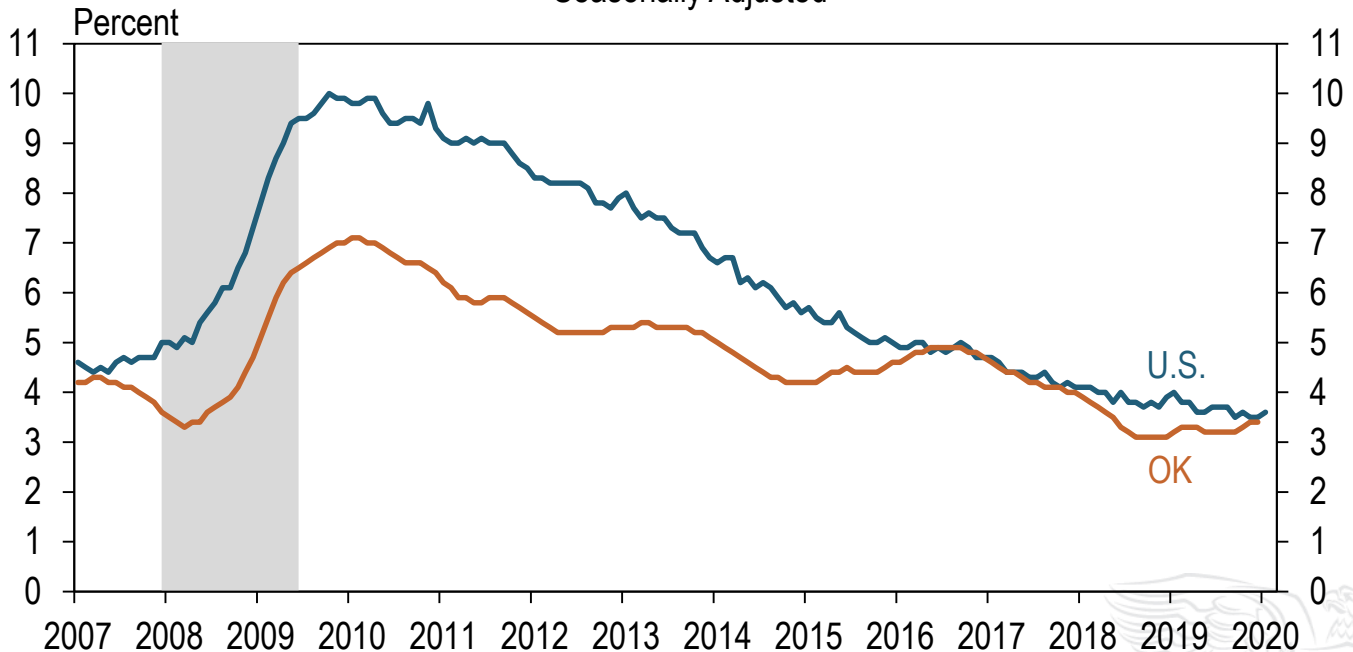
Since then, forecasts for world oil demand have weakened, following the coronavirus outbreak

World Petroleum Demand Forecasts



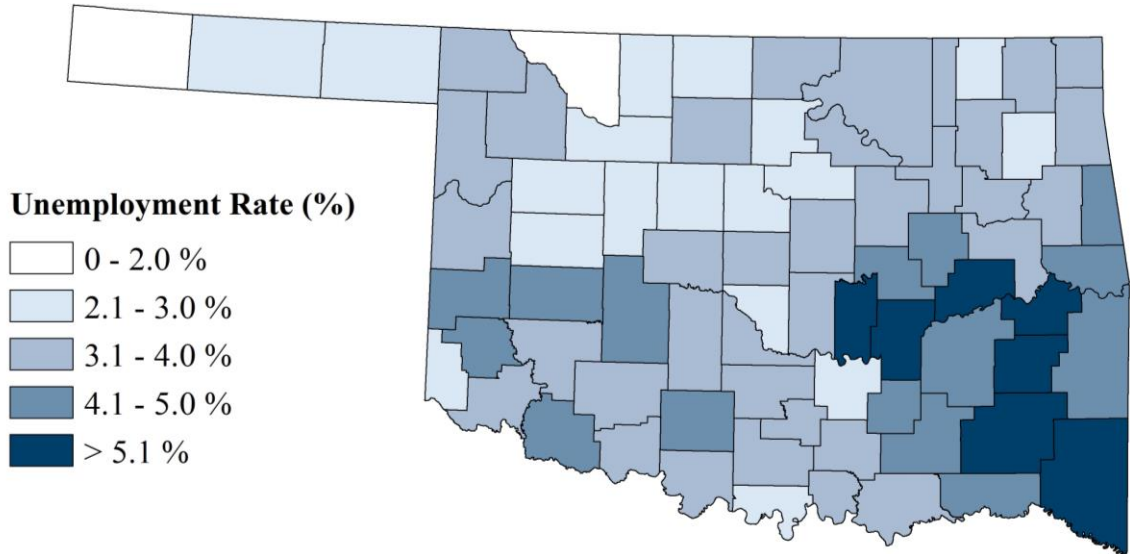
Despite slower job growth and elevated UI claims, unemployment in Oklahoma remains low

Unemployment Rates
Seasonally Adjusted



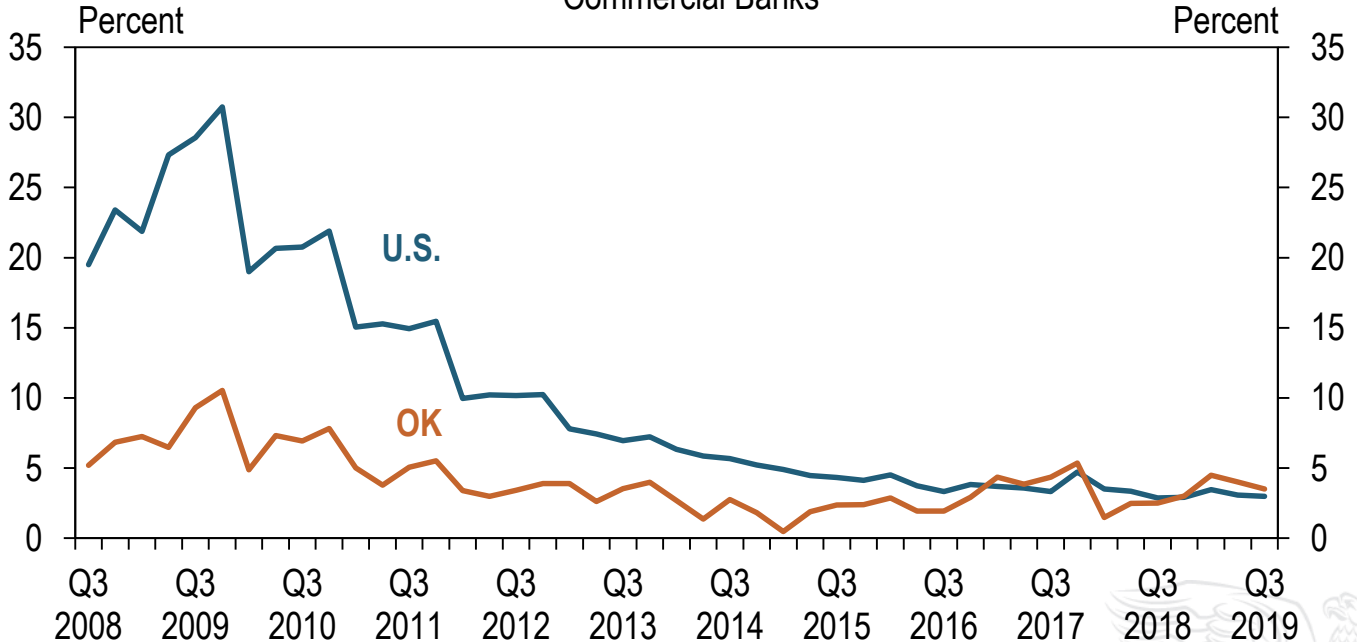
Across the state, 70 out of 77 counties have less than 5% unemployment

County Unemployment Rates
December 2019



Banking conditions in Oklahoma also remain very good, similar to in the nation

Share of Banks Not Making a Profit
Commercial Banks



Summary

- The national economy continues to grow, with low unemployment, but business investment has slowed
- Oklahoma's economy slowed in 2019 and by the end of the year no longer appeared to be growing overall, as weak energy activity spread to some other sectors
- Still, unemployment remains low and banking conditions are good, which should help the state if further economic deterioration occurs



Questions?

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Oklahoma's economy

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