

Oklahoma Economic Update



CBAO – Horizon Leaders

March 1, 2016

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www.kansascityfed.org/oklahomacity



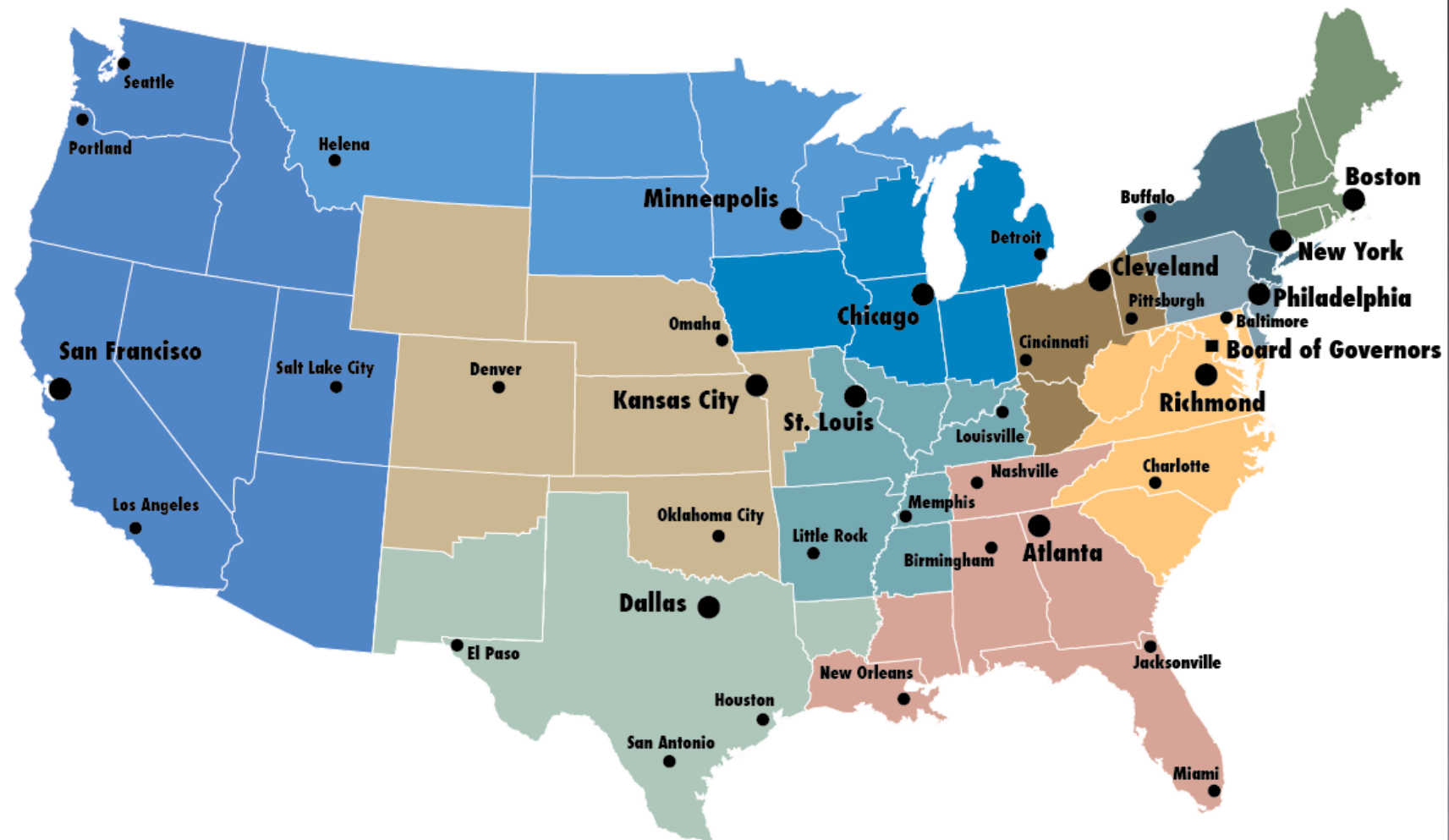
Structure and Functions of the Federal Reserve System

- **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 (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

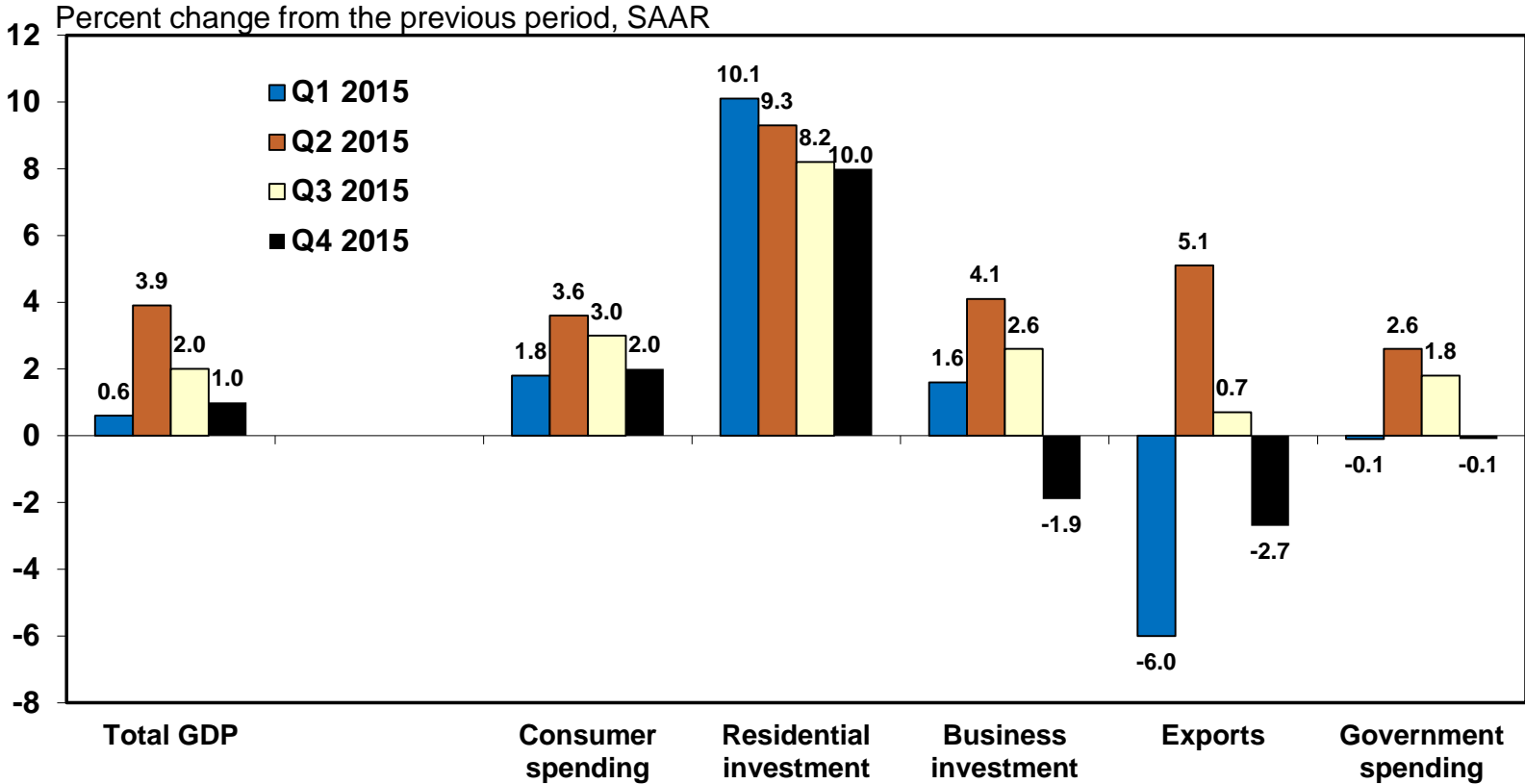


The U.S. Economy and Monetary Policy



GDP slowed somewhat in Q4, due to business investments and exports

Growth in Components of Real GDP

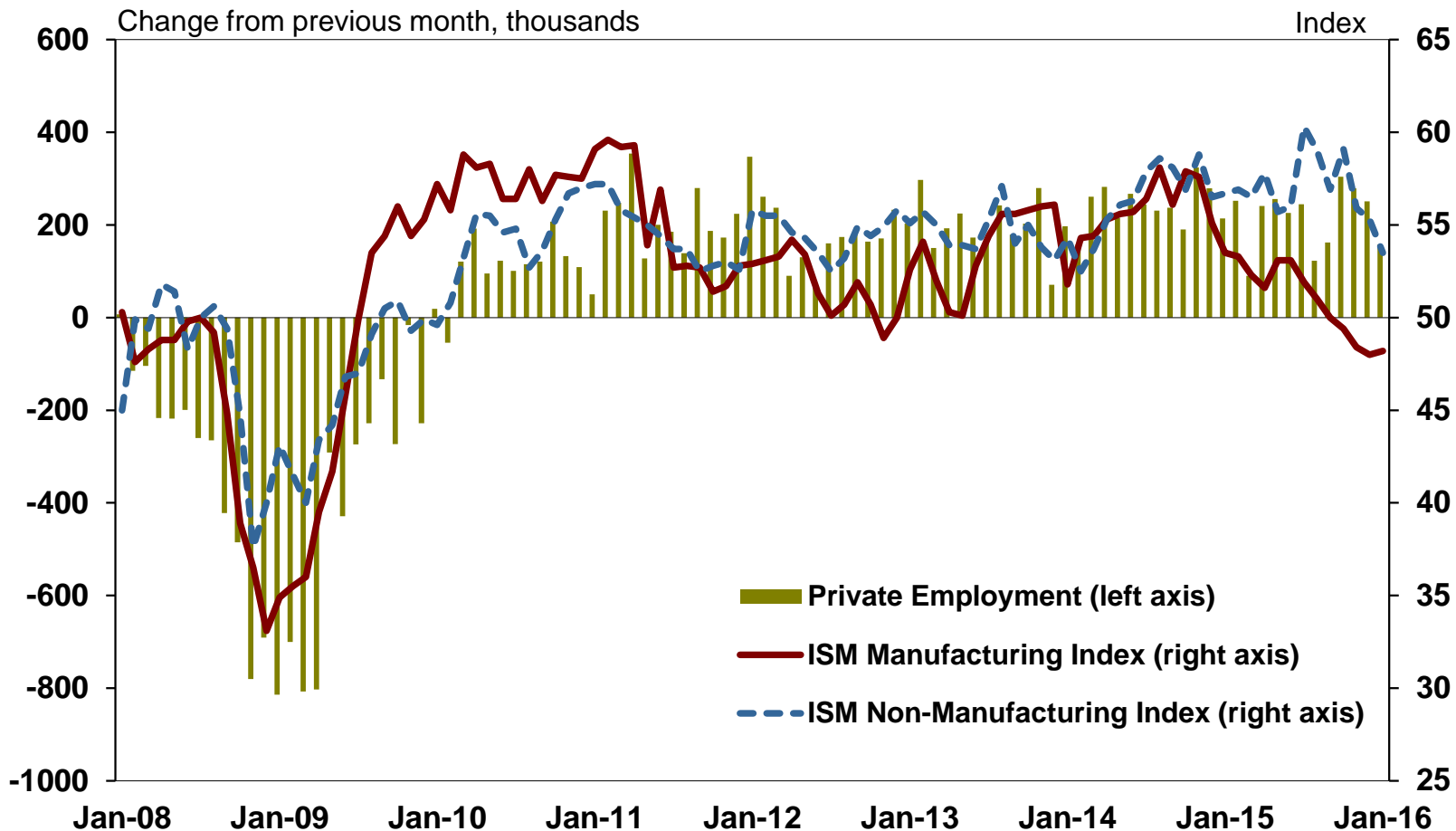


Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors



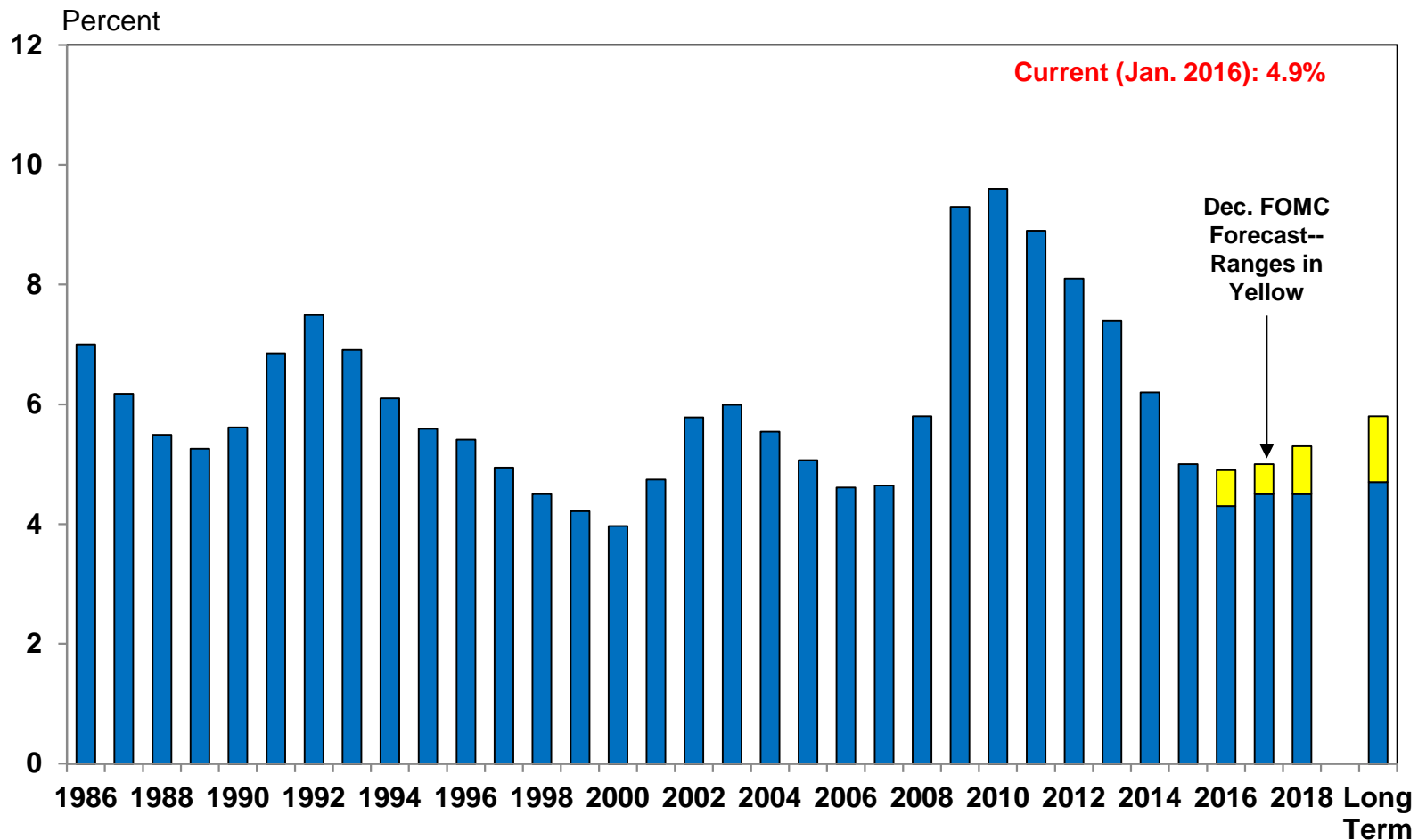
U.S. factory activity has slowed, but job growth and services remain solid

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

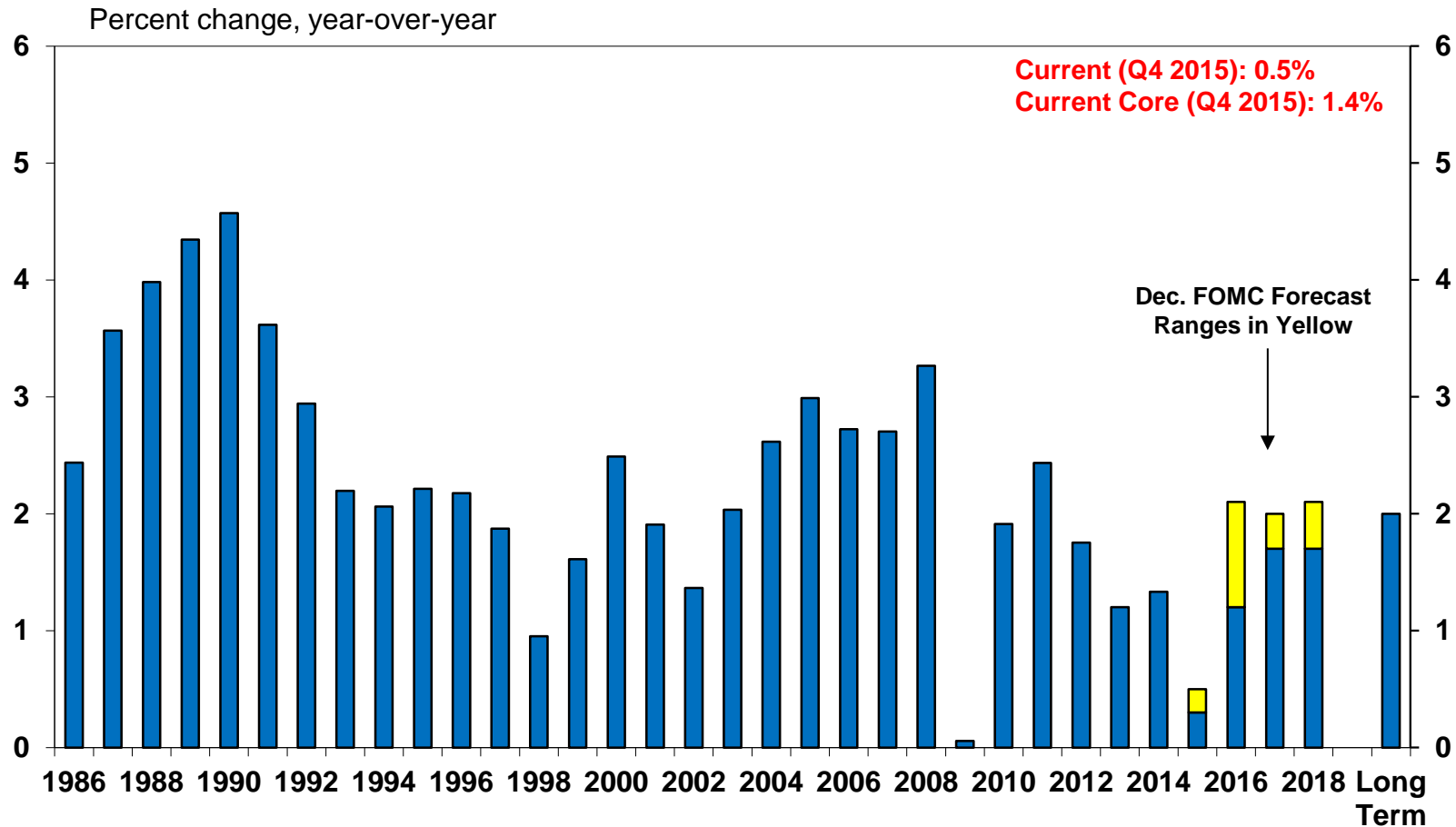


Sources: U.S. Bureau of Labor Statistics, FOMC



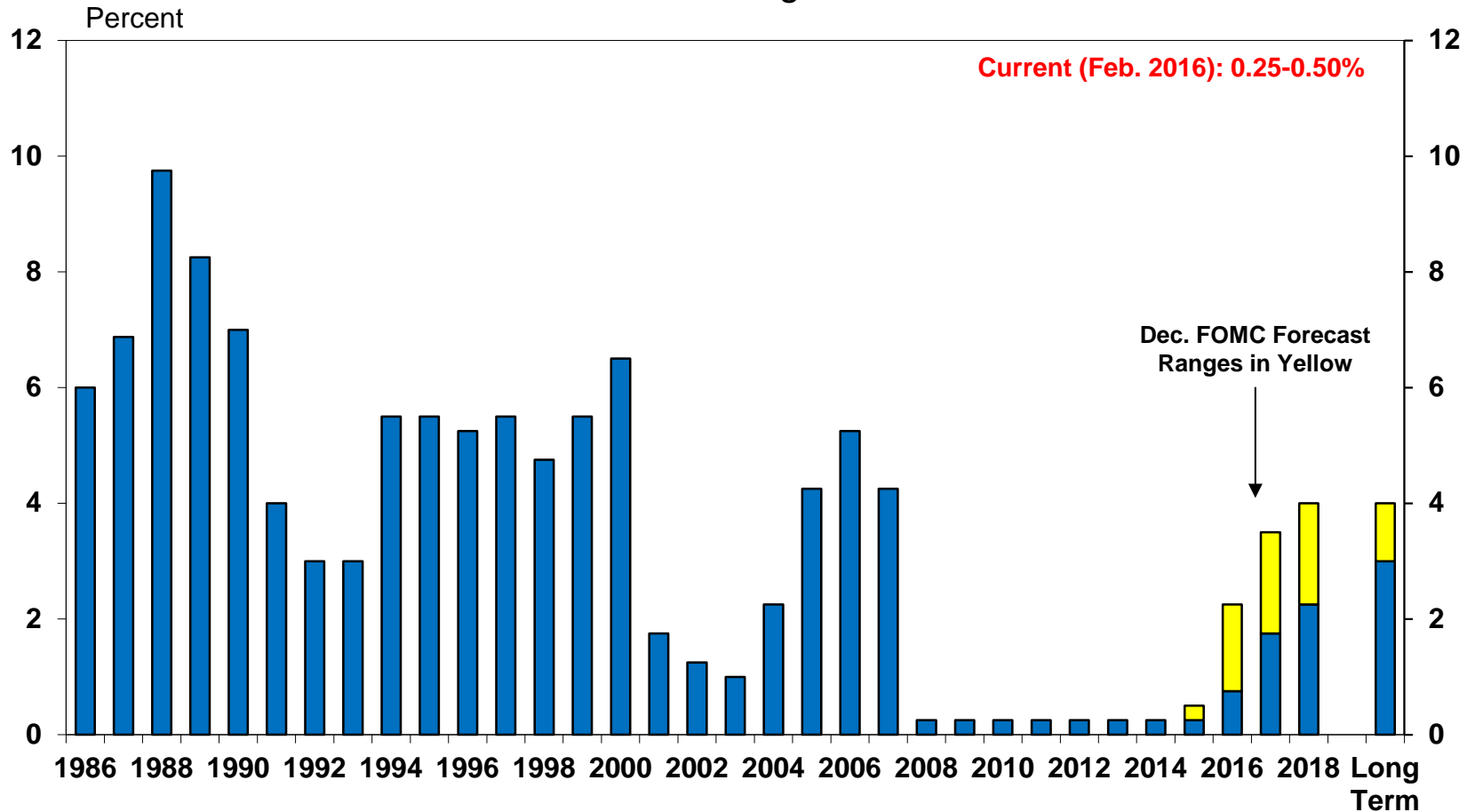
U.S. inflation is low but expected to return to close to target in 2016

PCE Inflation Index



Most FOMC participants have projected rate increases this year

Federal Funds Rate Year-end target

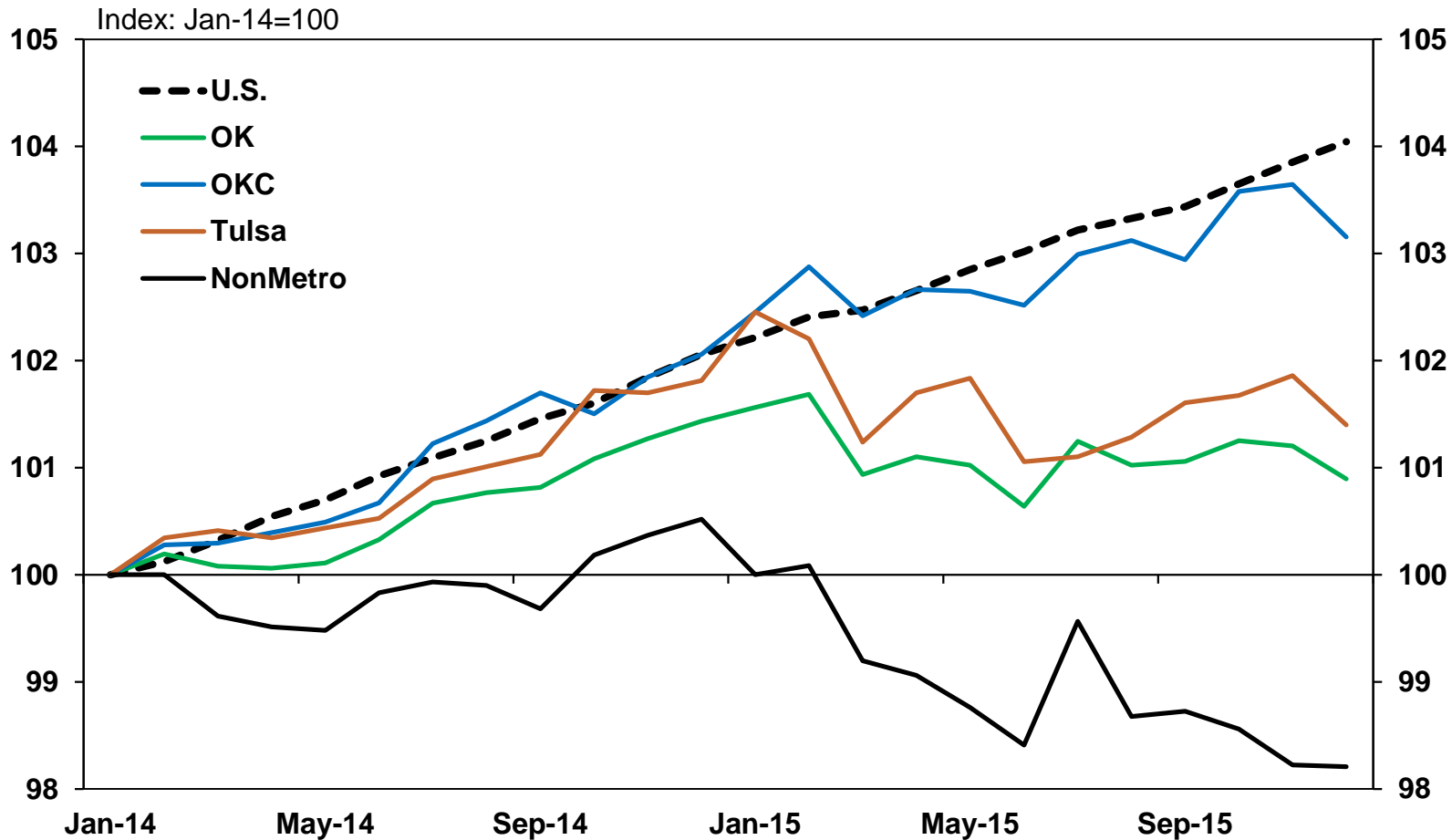


Trends in the Oklahoma Economy



Oklahoma employment has fallen from a year ago, especially in non-metro areas

Level of Payroll Employment
Through December 2015

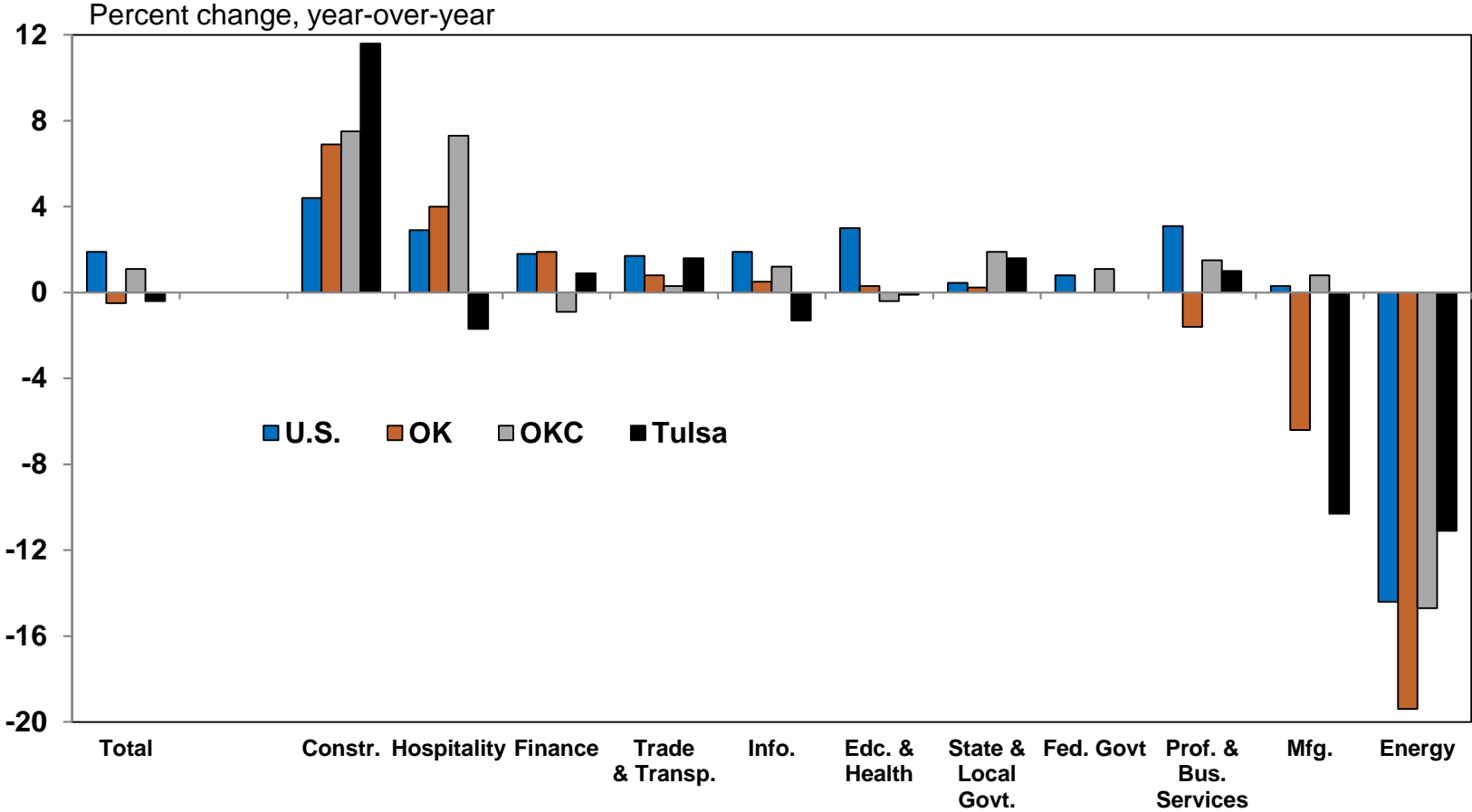


Source: U.S. Bureau of Labor Statistics



Energy jobs have fallen sharply the past year, pulling down overall state employment

Job Growth by Industry
Dec-15

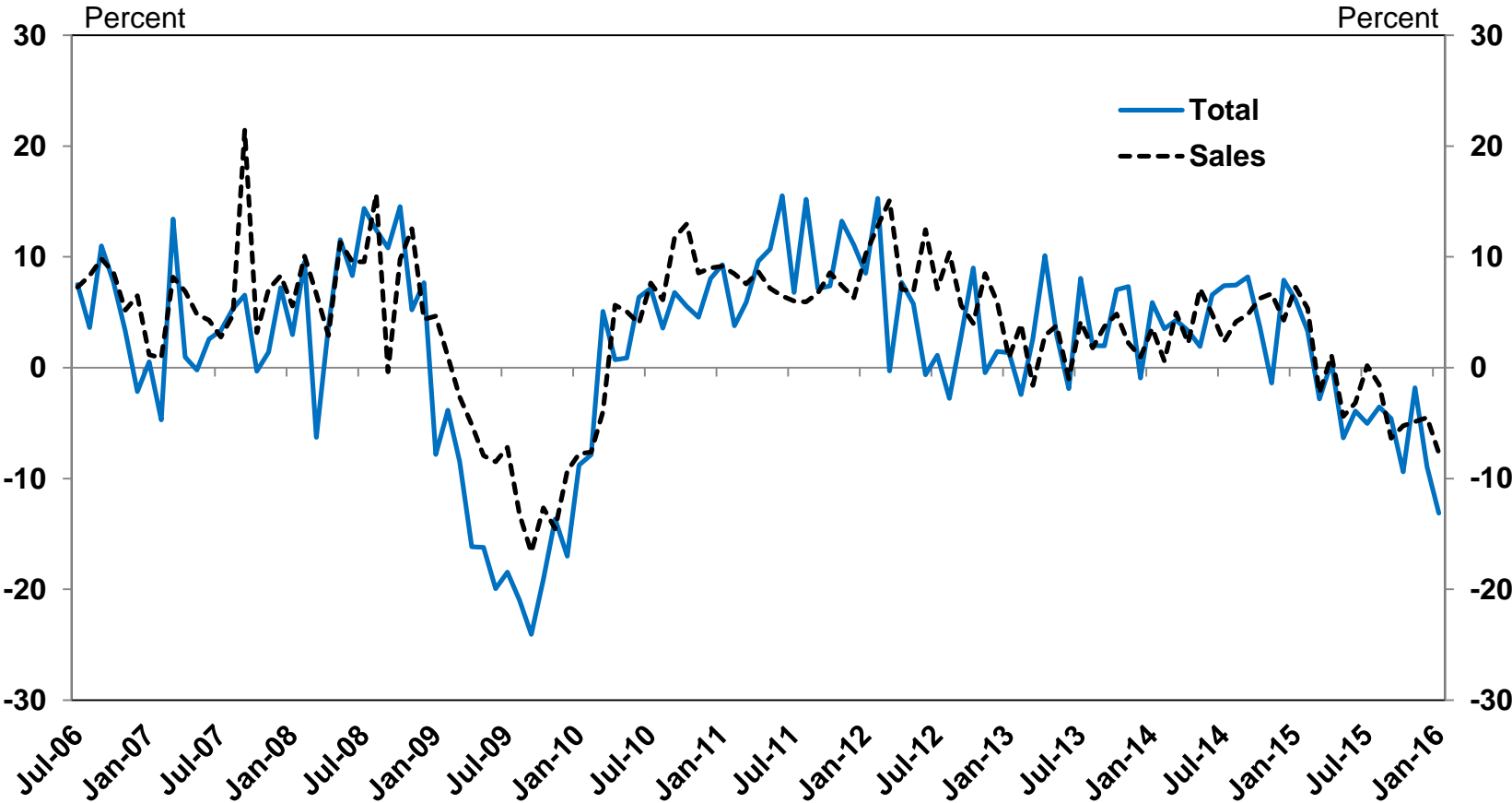


Source: Bureau of Labor Statistics



State tax receipts continue to fall, and in January had the worst decline since late '09

State Tax Receipts
Through Jan-16

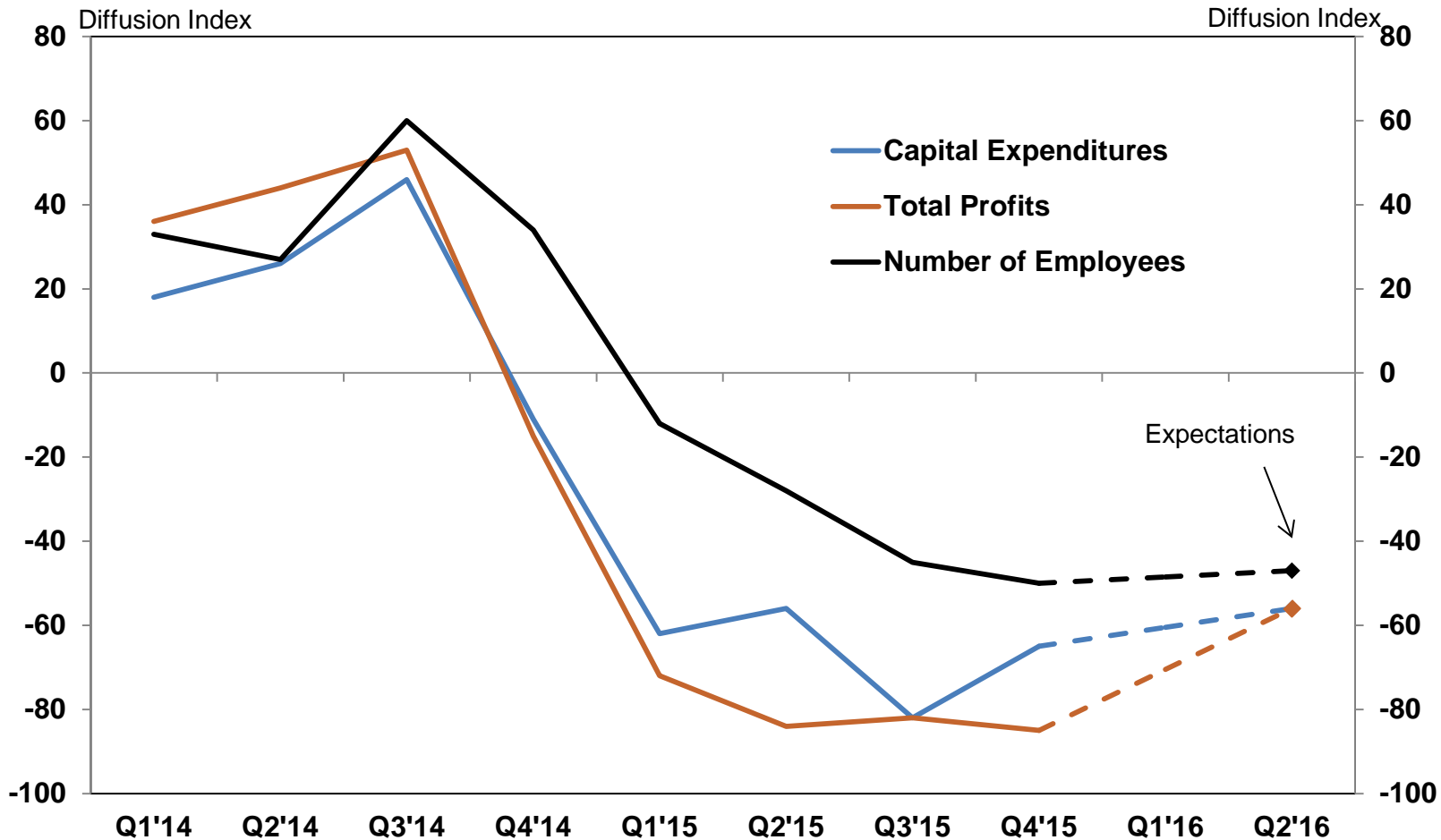


Source: OK Tax Commission



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

Year-Over-Year Energy Survey Indexes

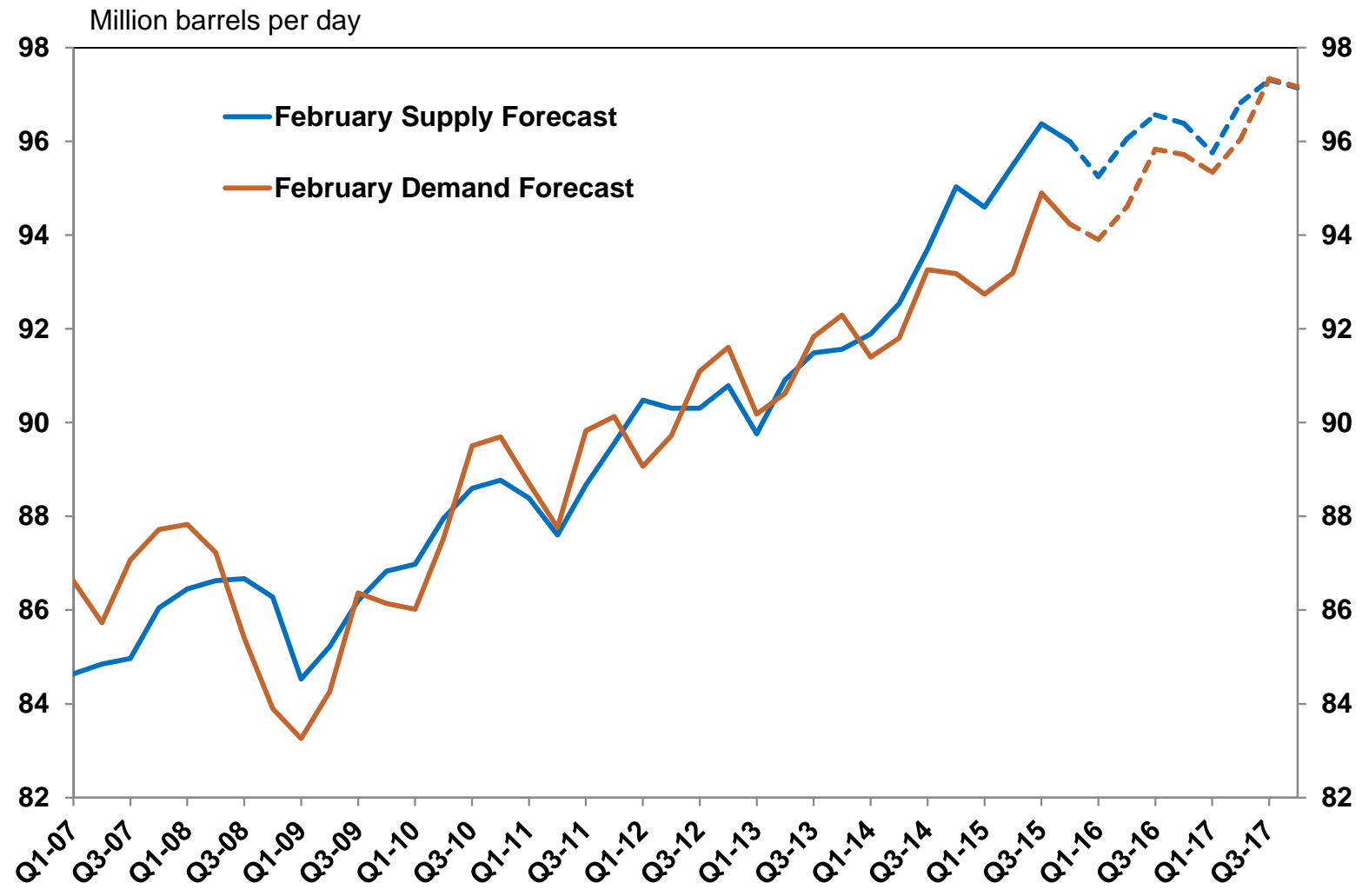


Source: FRBKC Energy Survey



World oil supply and demand aren't expected to come back into balance until late 2017

Global Oil Supply and Demand

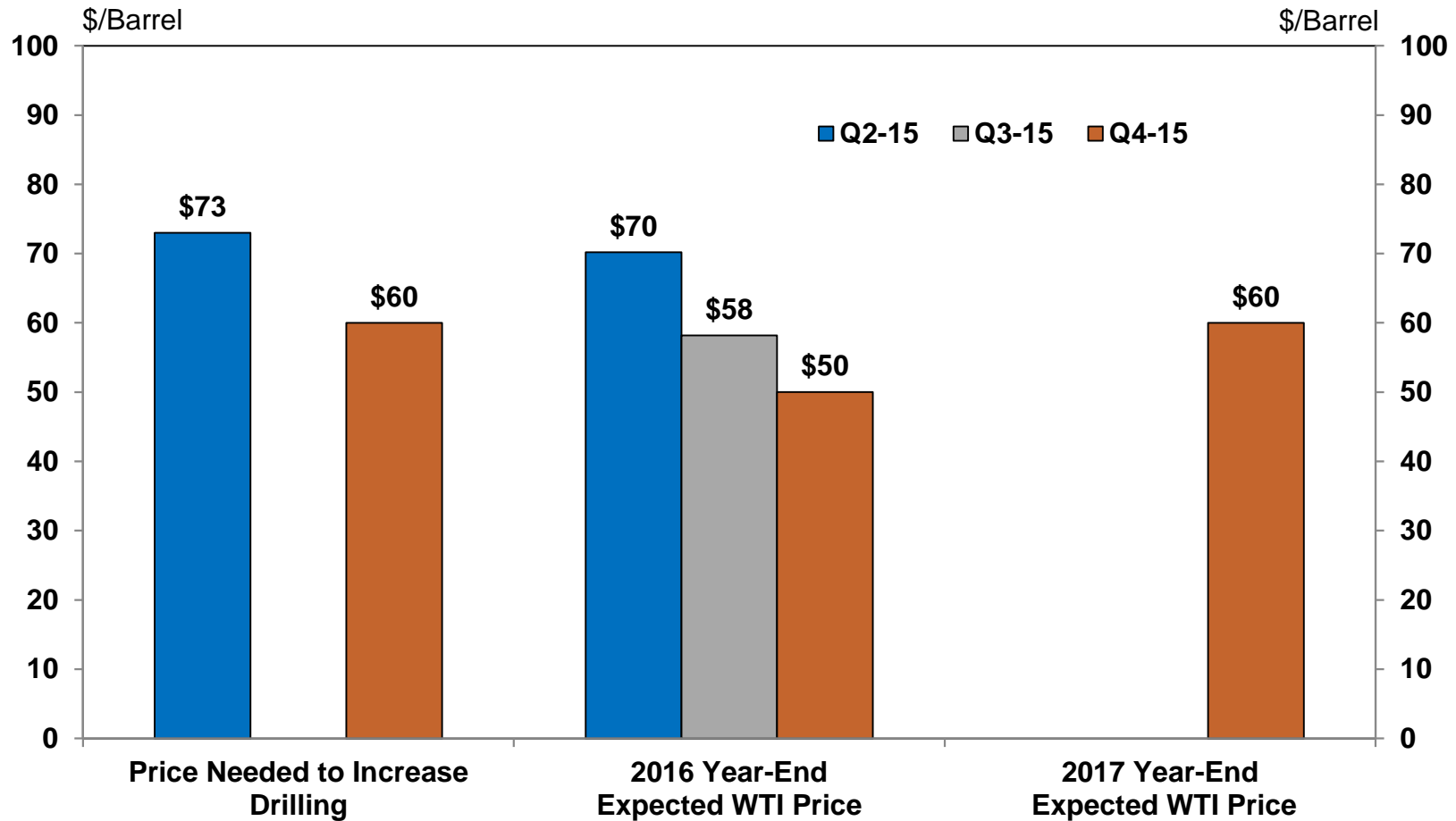


Source: EIA



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

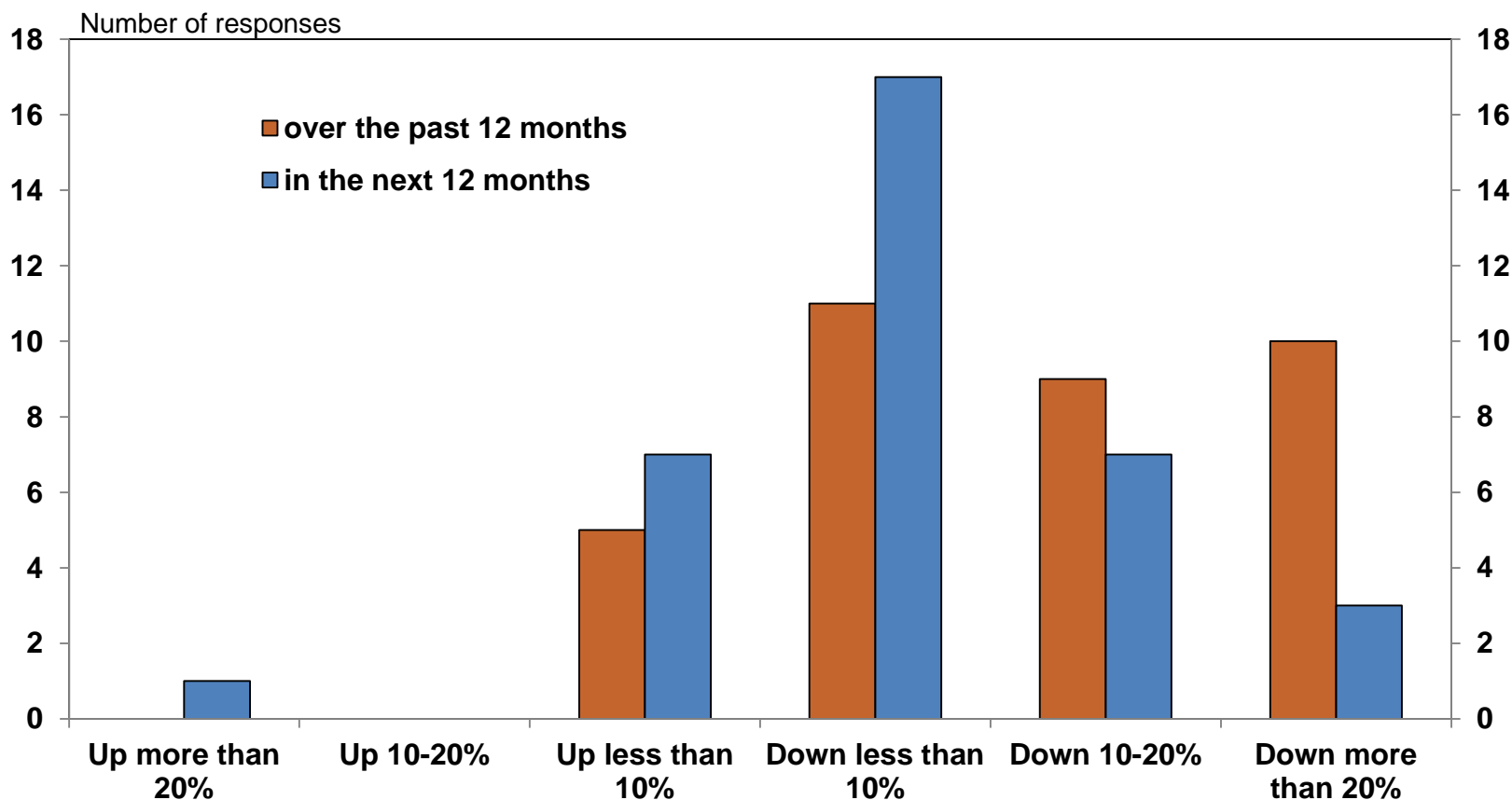


Source: FRBKC Energy Survey



Most energy firms have decreased employment and are planning further cuts

Total Employment Change by Energy Firms
Q4 KC Fed Energy Survey

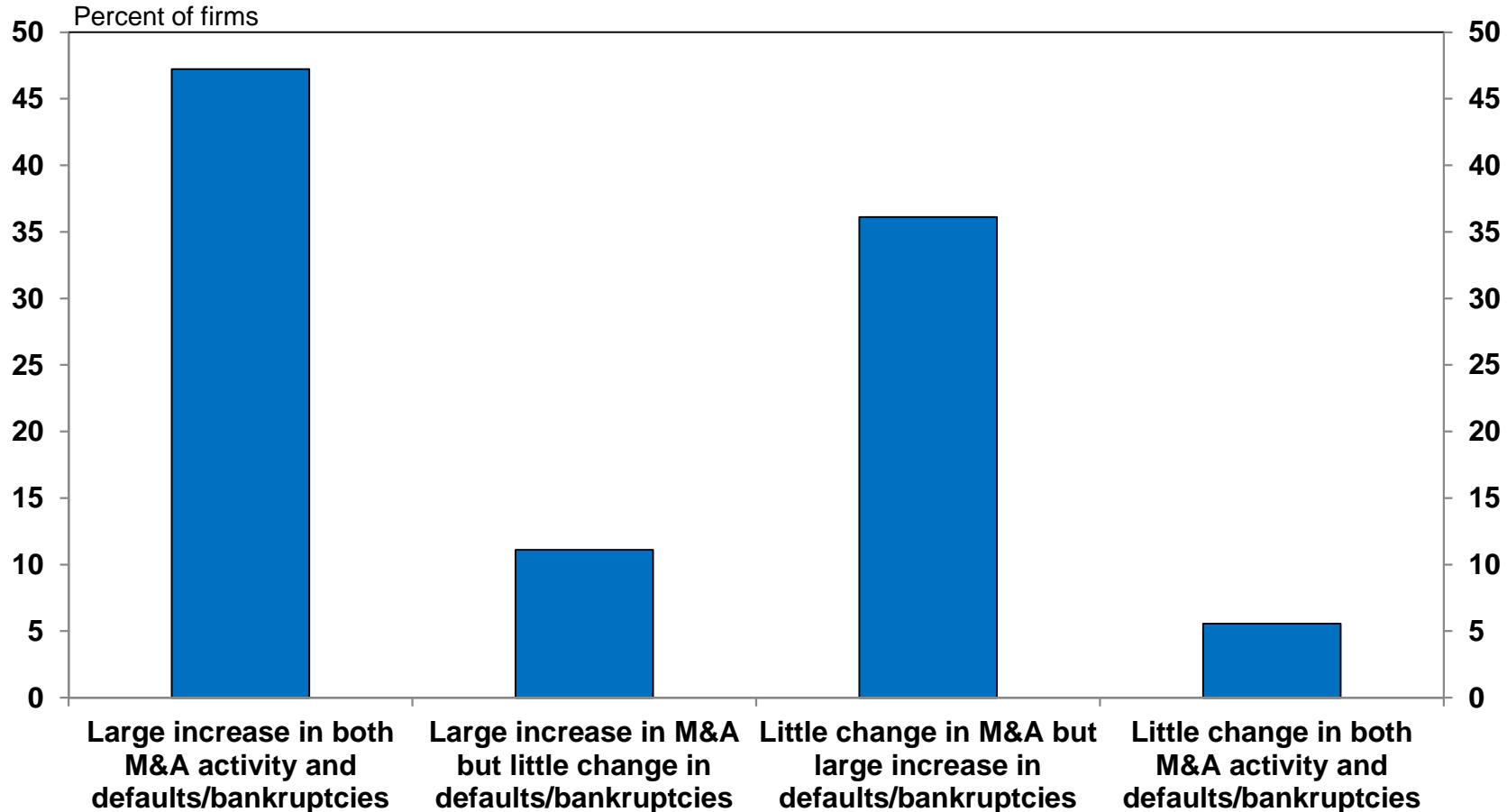


Source: FRBKC Energy Survey



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

Q4 Energy Survey Firm Expectations for 2016

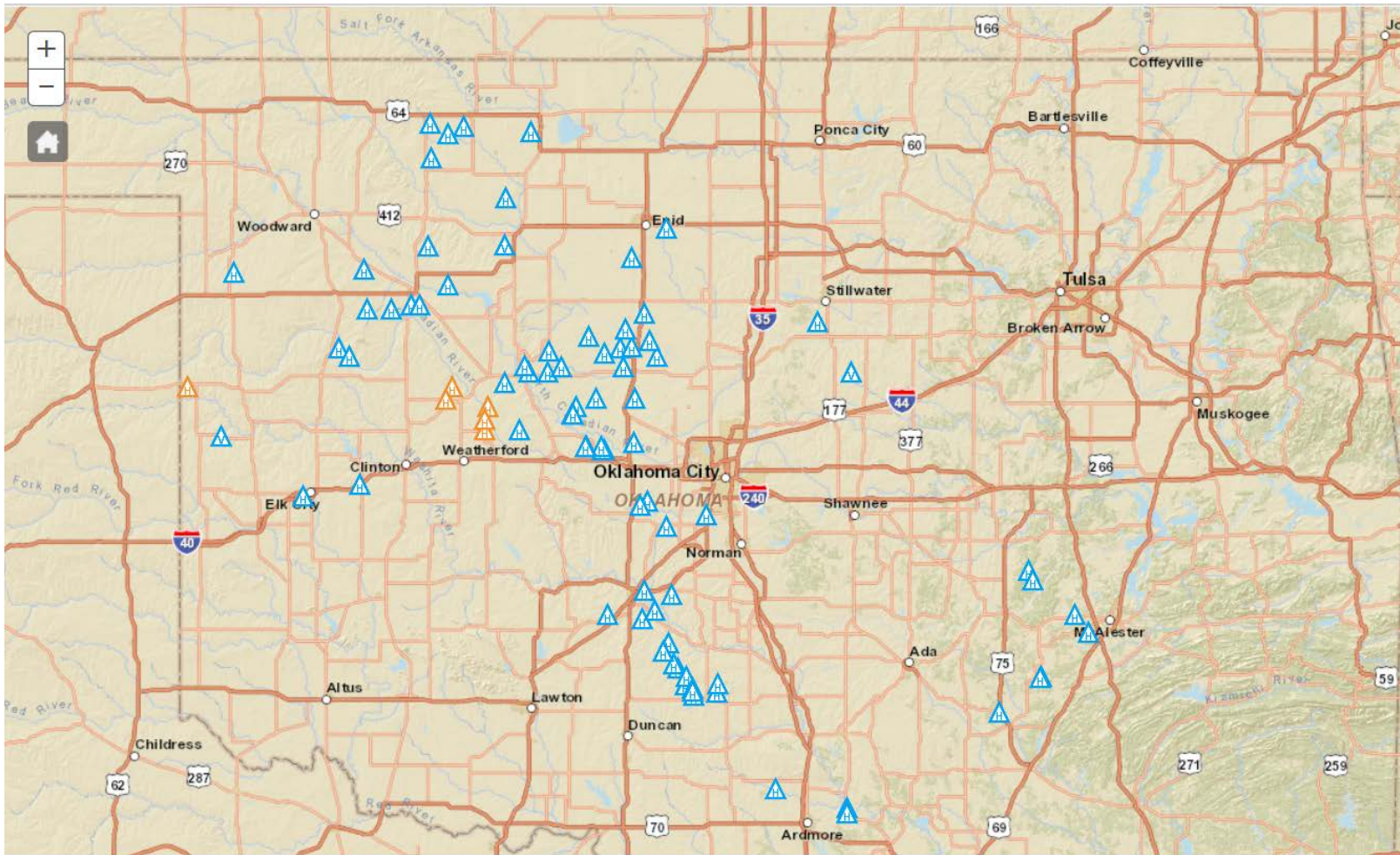


Source: FRBKC Energy Survey



But drilling is still occurring in some parts of the state

Oil and Natural Gas Rigs As-of February 1, 2016

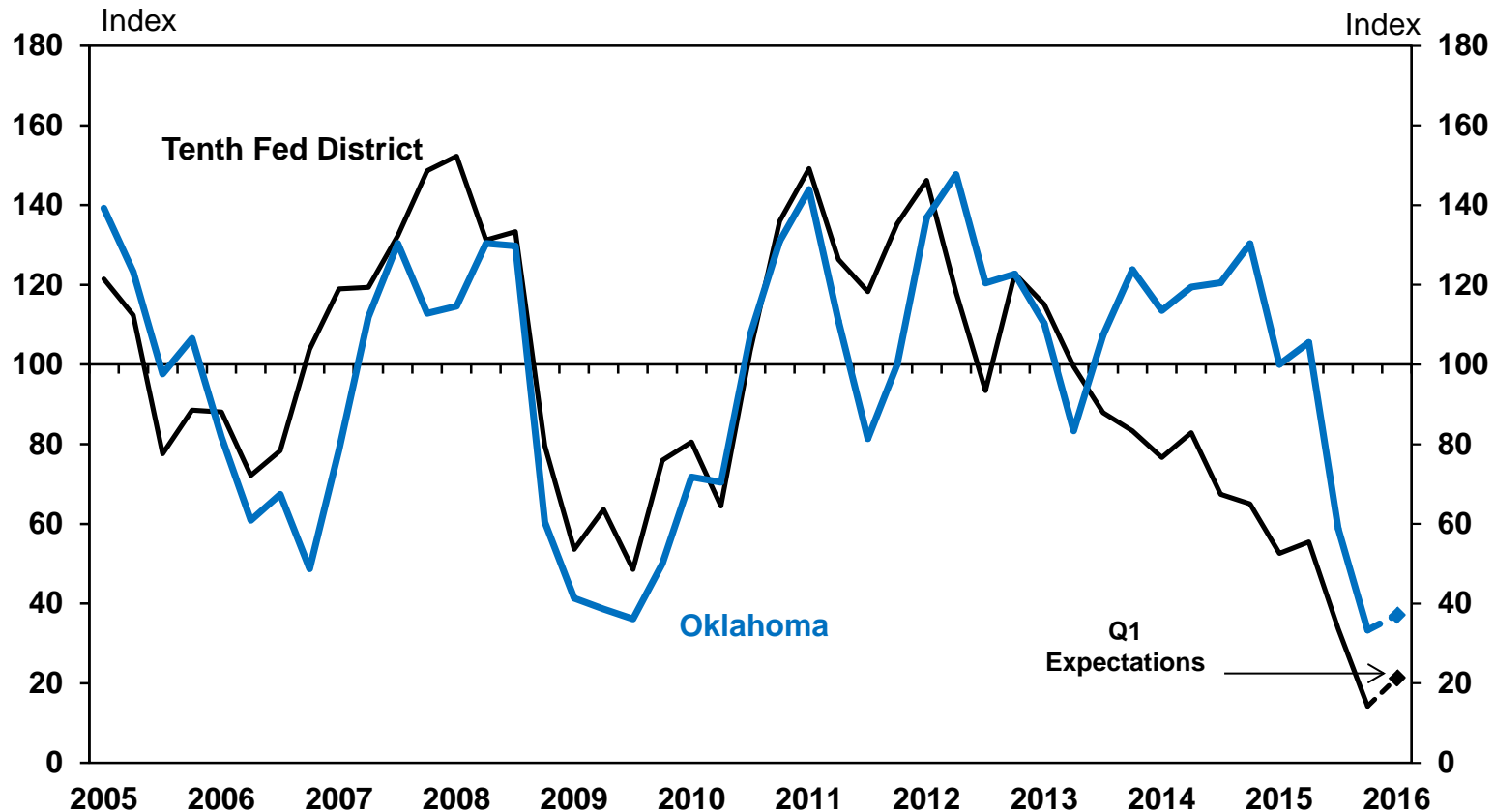


Source: Baker Hughes



Oklahoma farm income has now also dropped after holding up in first half 2015

Farm Income Indexes

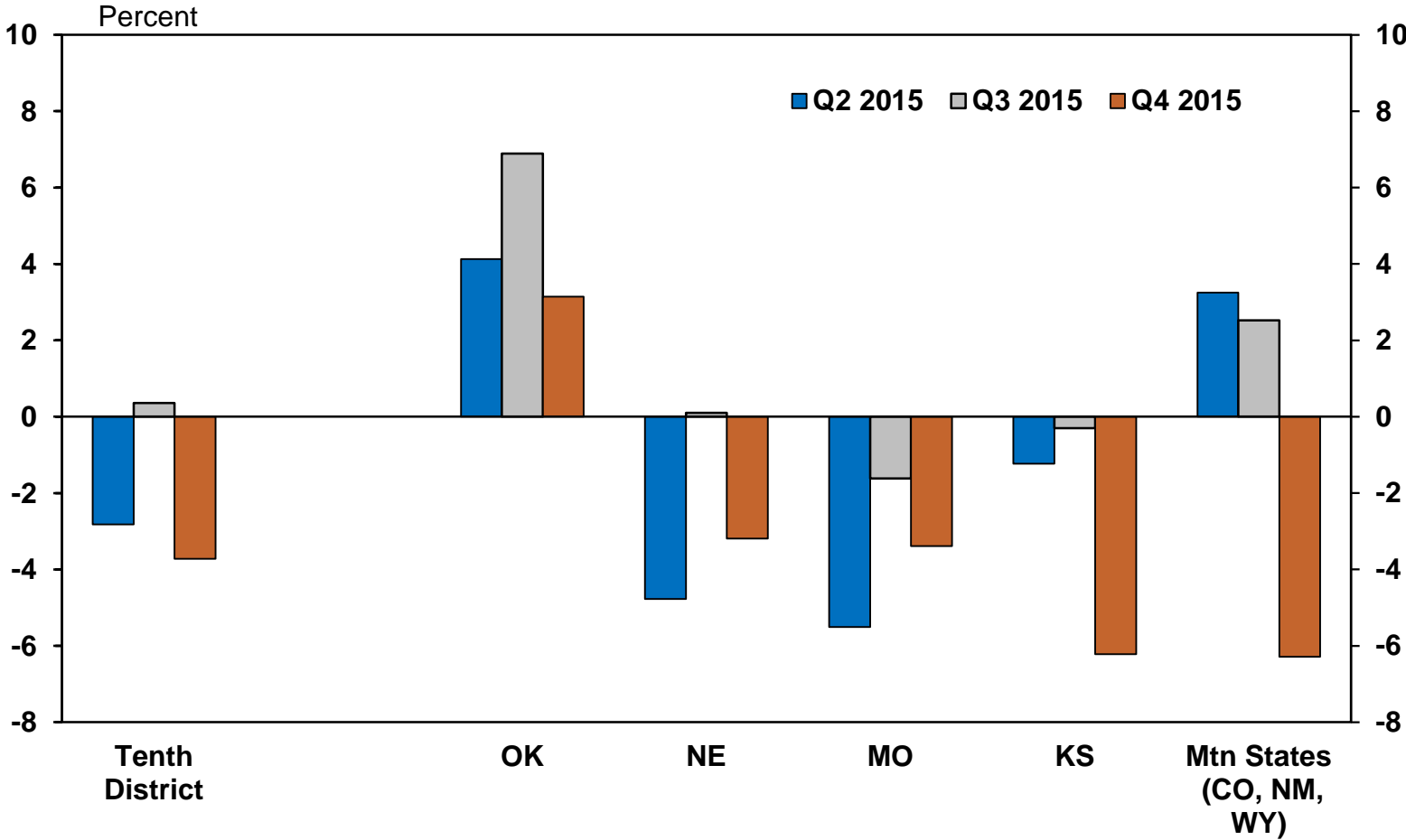


Source: KCFRB Ag Credit Survey



Farmland values have fallen in most of our region but have so far held up in Oklahoma

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

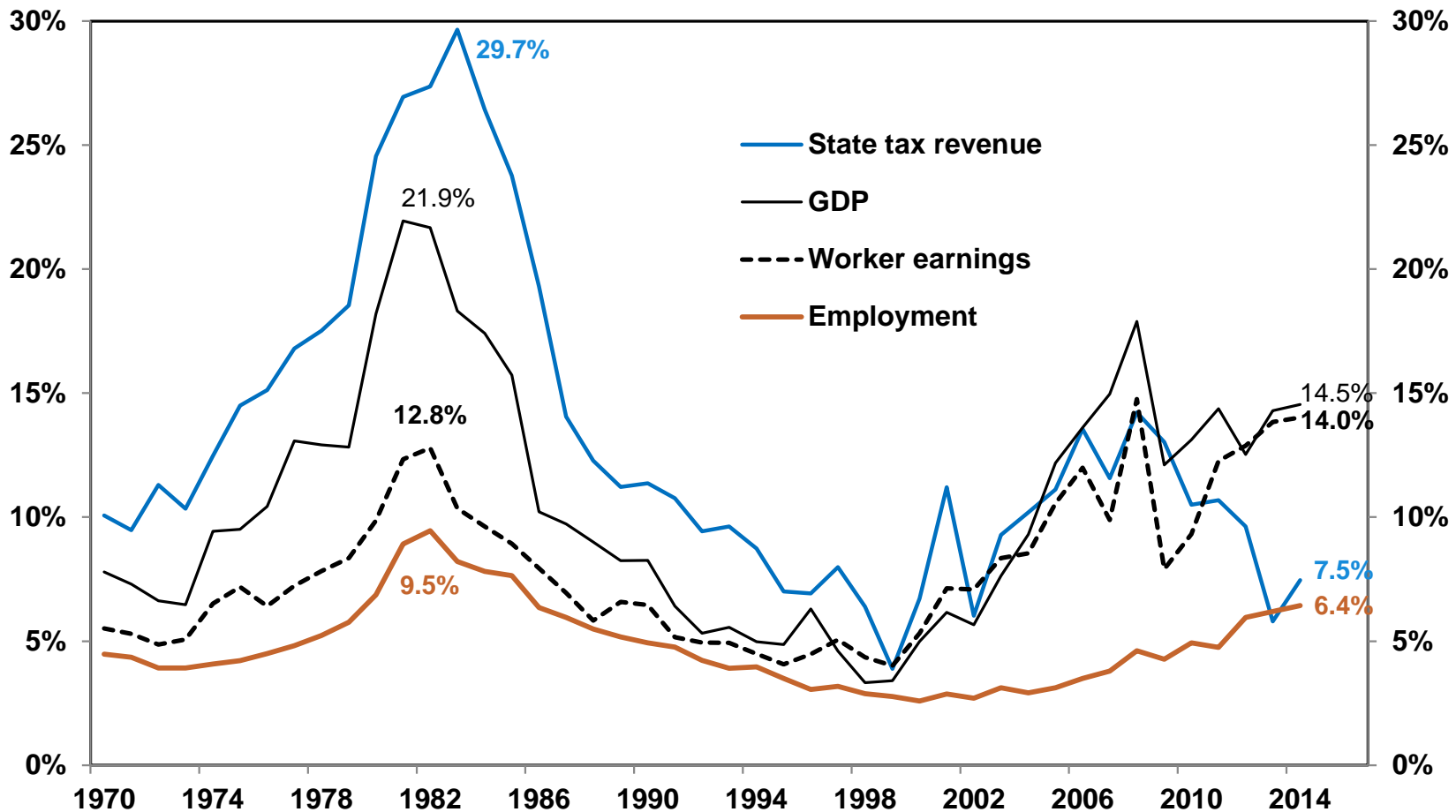


Source: FRBKC Agricultural Credit Survey



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

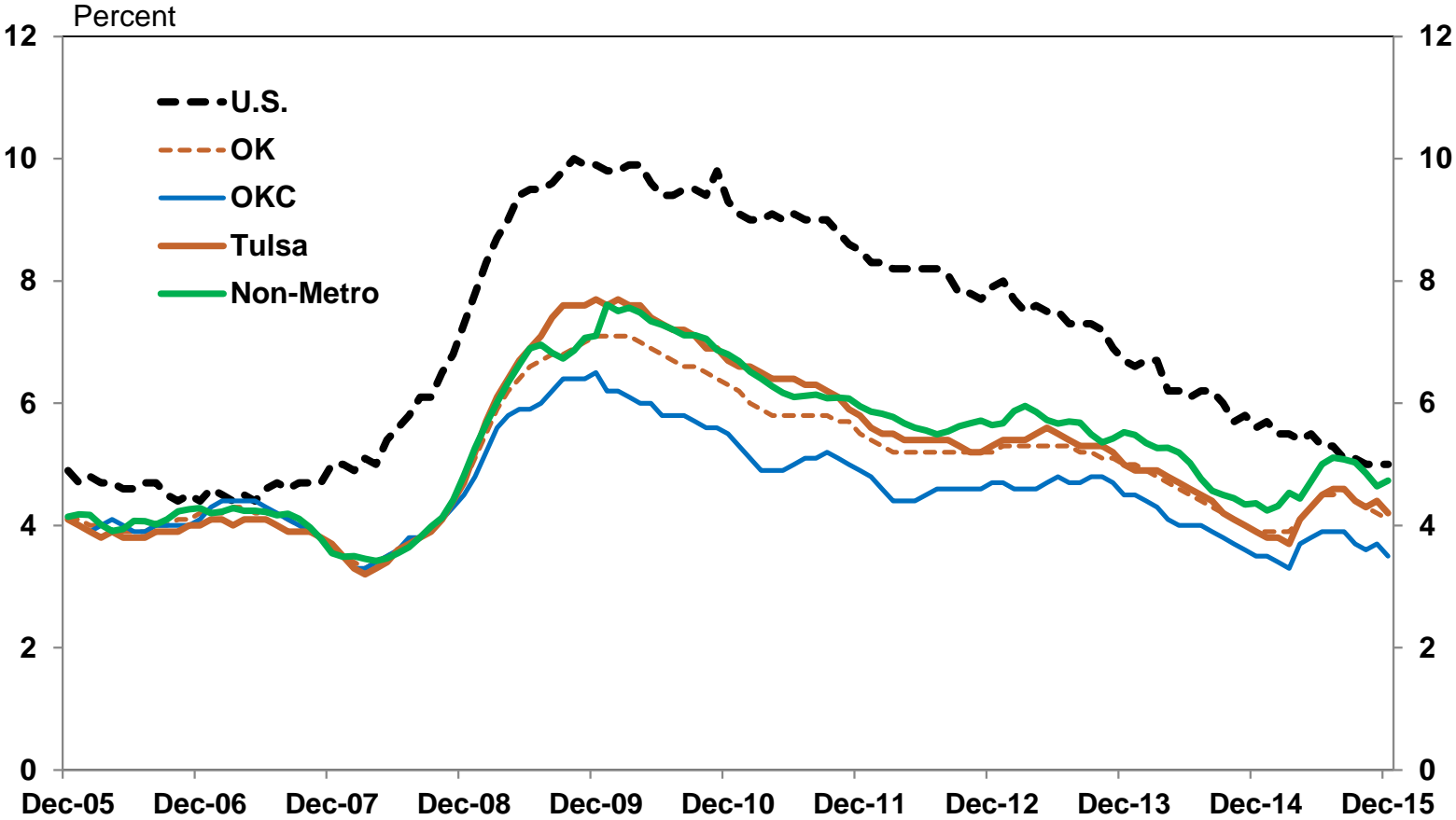


Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis



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

Unemployment Rate Seasonally Adjusted

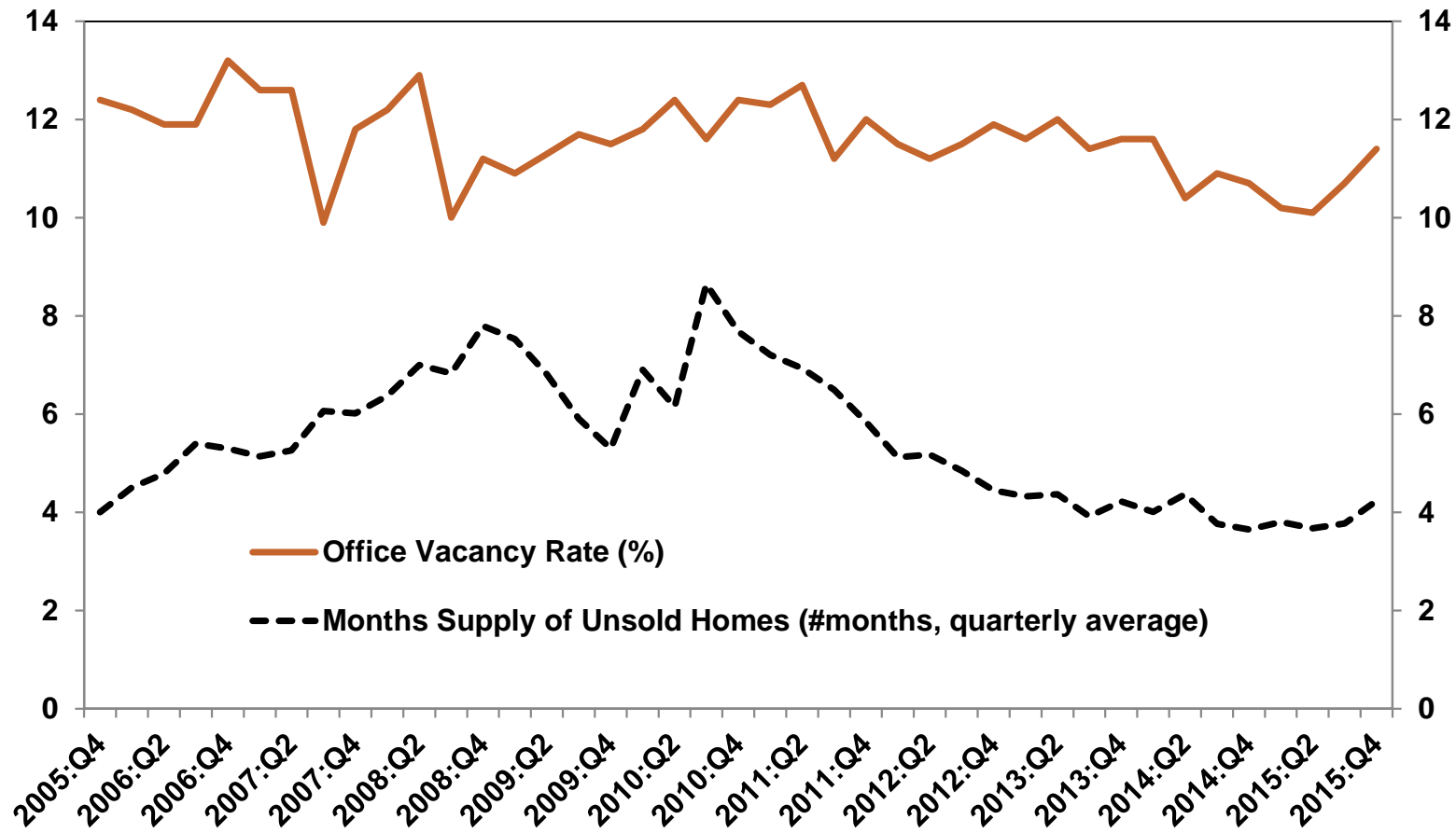


Source: U.S. Bureau of Labor Statistics



Office vacancies and unsold homes have ticked up but remain relatively low

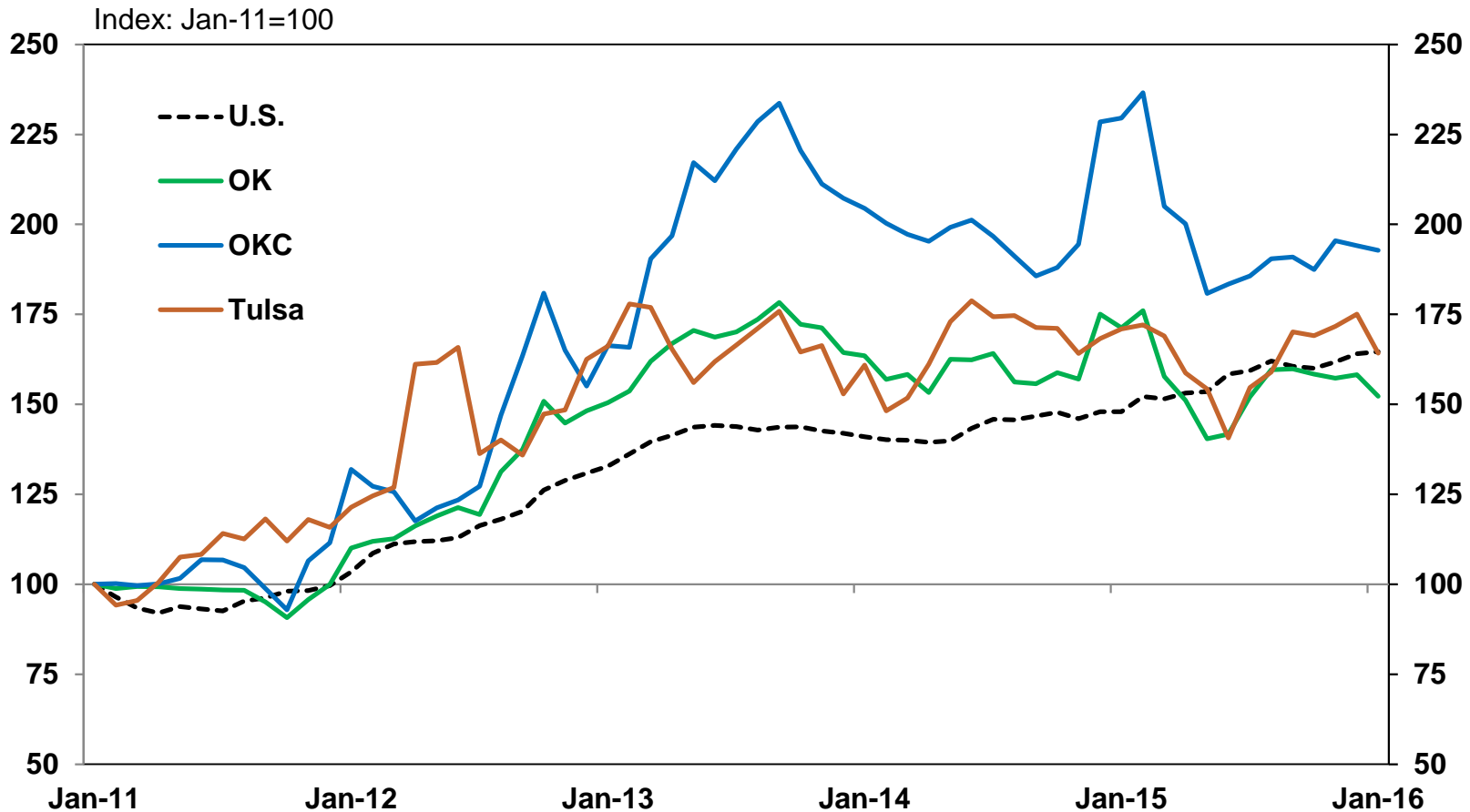
OKC Office Vacancy Rate and Months Supply of Unsold Homes



New home construction plans have leveled off in recent months

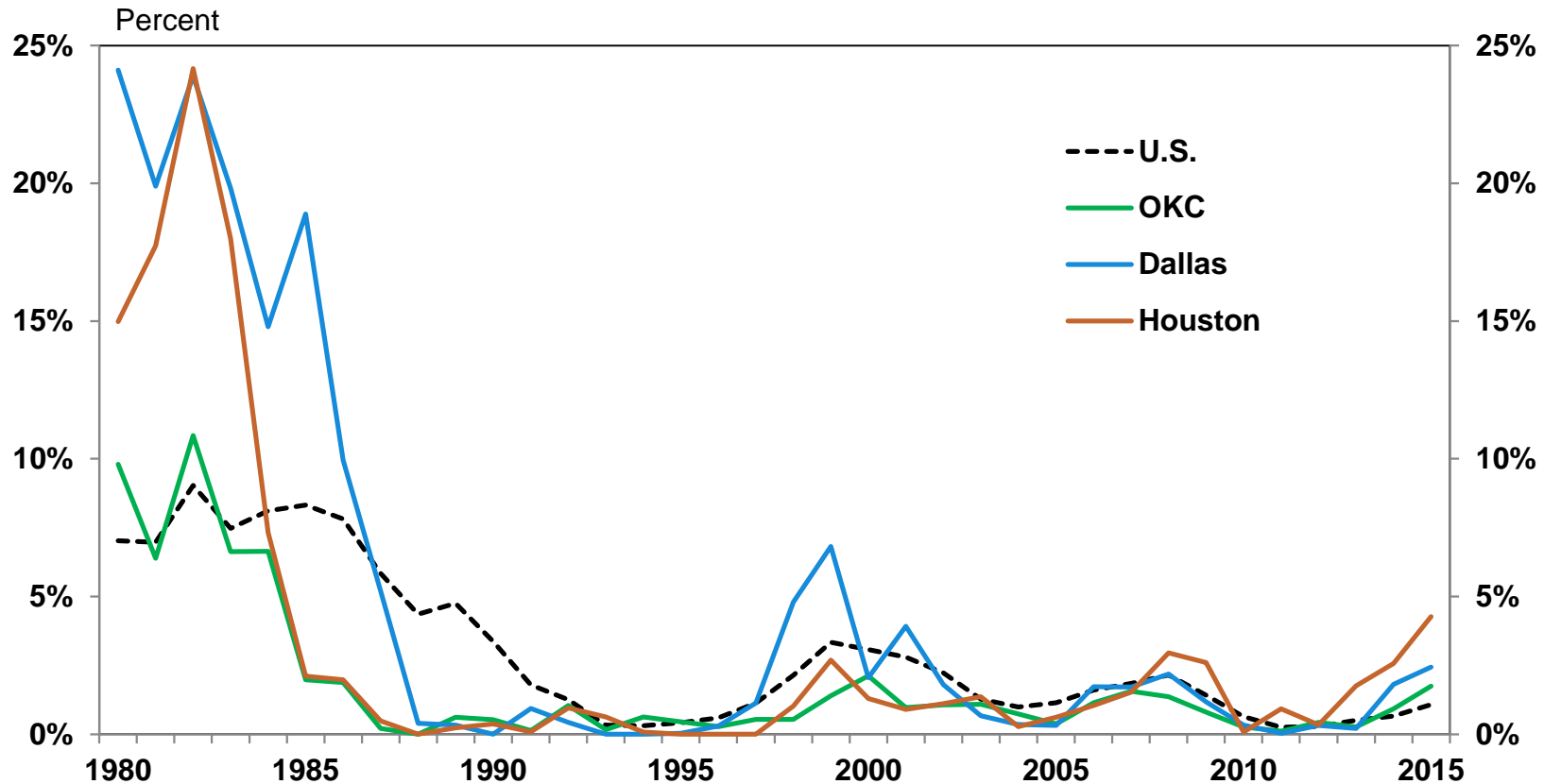
Single-Family Housing Permits

3-month moving average, through Jan-16



And compared to the early 1980s, the rate of office construction is relatively low

Office Square Feet Added
As Share of Total Office Space

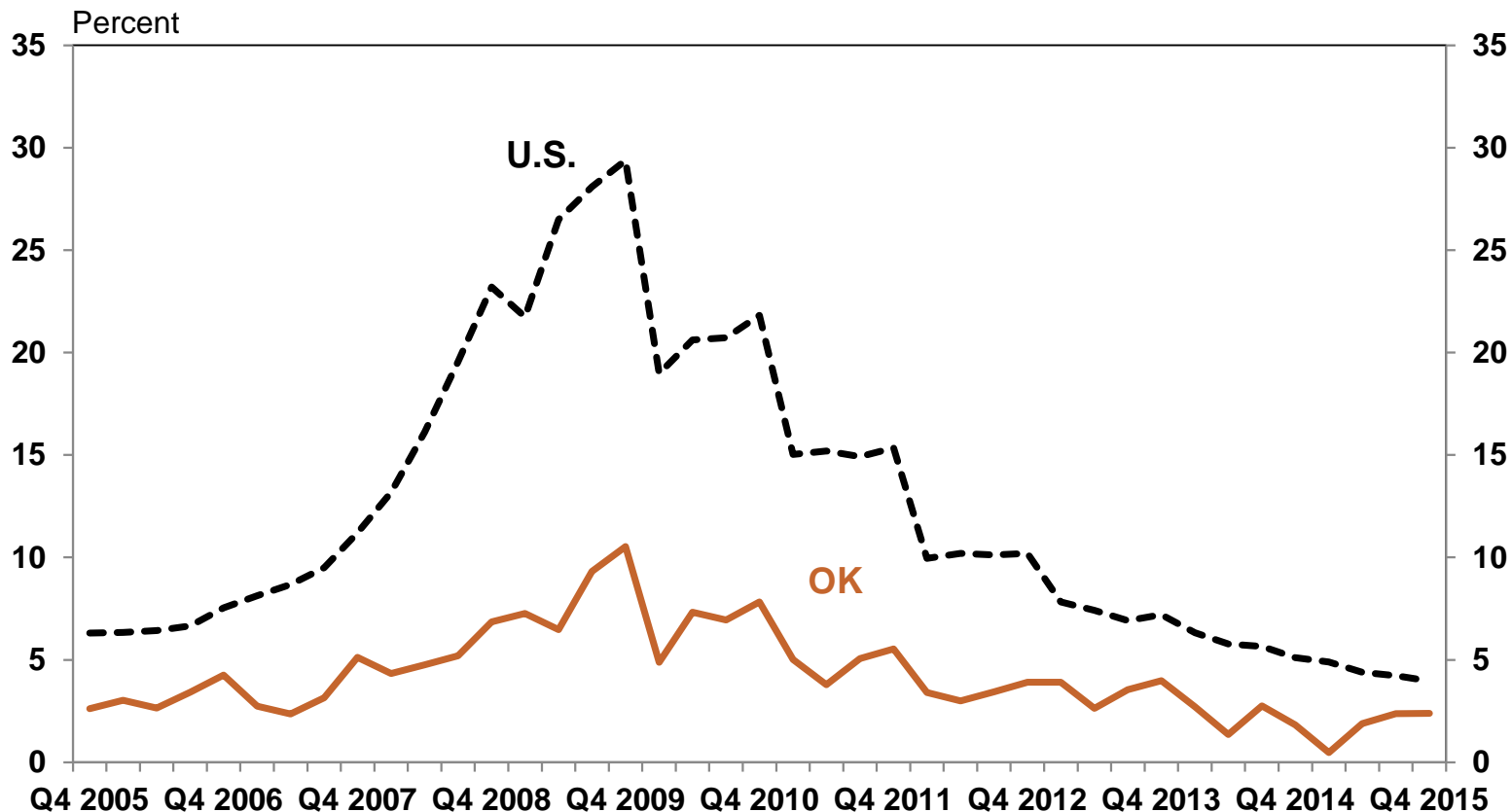


Source: TWR



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

Share of Banks Not Making a Profit Commercial Banks

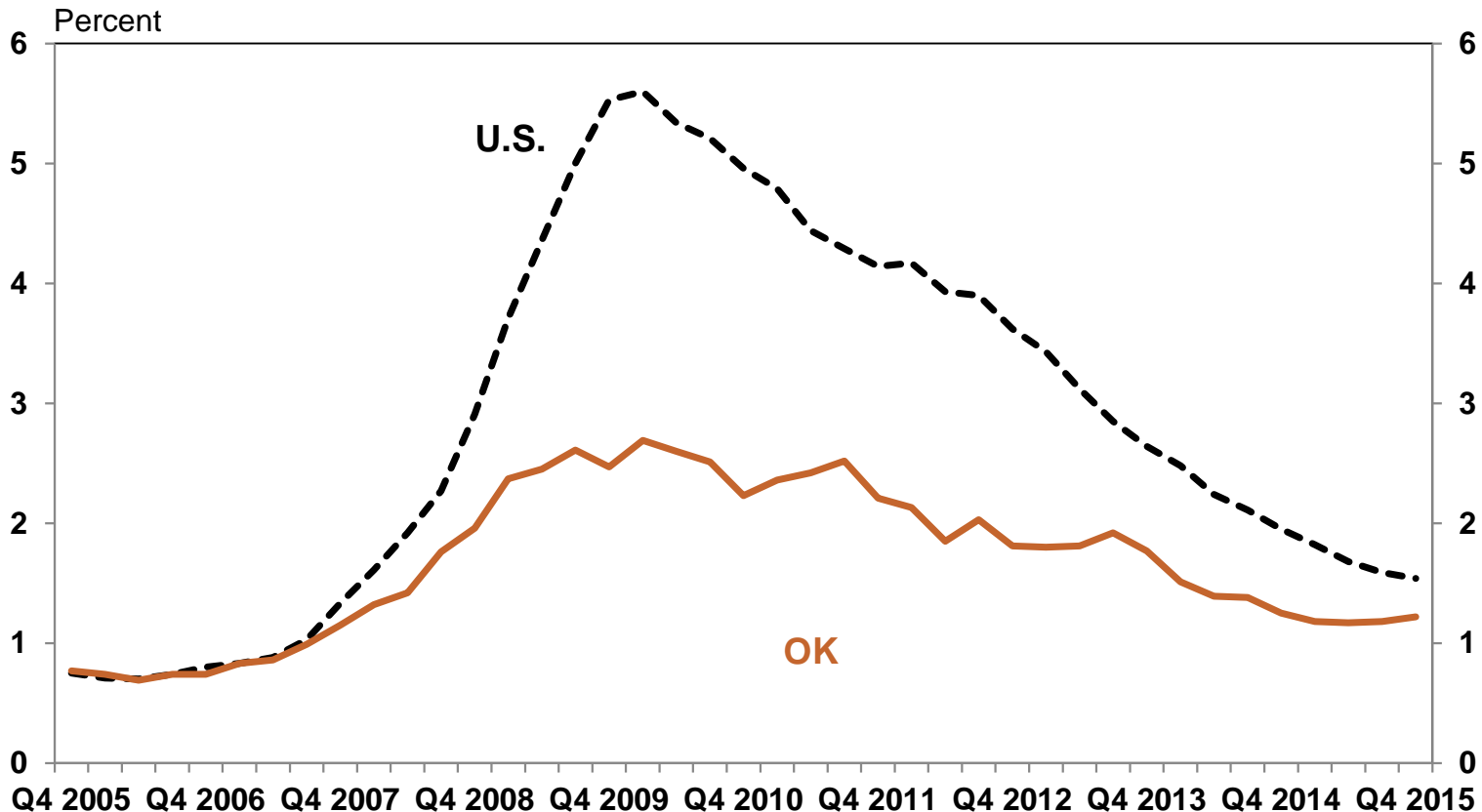


Source: FDIC



Past due loans have edged higher but remain much lower than a few years ago

Noncurrent Loans as a Share of Total Loans
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, and ag-related industries are also now declining
- But state unemployment is low, with real estate and banking in good condition to date

