Oklahoma Economic Update

Central Oklahoma Workforce Board
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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.
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

Change from previous month, thousands

Index

-1000 -800 -600 -400 -200 0 200 400 600

Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13 Jan-14 Jan-15 Jan-16

Private Employment (left axis)
ISM Manufacturing Index (right axis)
ISM Non-Manufacturing Index (right axis)

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

Unemployment Rate
Seasonally Adjusted

Current (Jan. 2016): 4.9%

Sources: U.S. Bureau of Labor Statistics, FOMC
U.S. inflation is low but expected to return to close to target in 2016

Current (Q3 2015): 0.3%
Current Core (Q3 2015): 1.3%

Dec. FOMC Forecast Ranges in Yellow

Sources: U.S. Bureau of Labor Statistics, FOMC
Most FOMC participants have projected rate increases this year

Federal Funds Rate
Year-end target

Current (Jan. 2016): 0.25-0.50%

Sources: Federal Reserve Board, FOMC
Trends in the Oklahoma Economy
Oklahoma employment has fallen from a year ago, especially in non-metro areas.
Energy jobs have fallen sharply the past year, pulling down overall state employment.

Job Growth by Industry
Dec-15

Percent change, year-over-year

Source: Bureau of Labor Statistics
State tax receipts continue to fall, and in January had the worst decline since late ‘09
The energy sector is not as large as in the 1980s on some measures, but is on others.
The KC Fed’s Q4 energy survey showed further declines, with more expected.
World oil supply and demand aren’t expected to come back into balance until late 2017

Source: EIA
Firms’ average price needed to increase drilling is above levels expected through most of 2017.
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 energy firms have decreased employment and are planning further cuts.
- The chart shows the total employment change by energy firms over the past 12 months and in the next 12 months.
- The categories include: Up more than 20%, Up 10-20%, Up less than 10%, Down less than 10%, Down 10-20%, and Down more than 20%.
- The number of responses for each category is indicated on the chart.
- The chart is sourced from the FRBKC Energy Survey.
Most firms are also expecting increased mergers, defaults, and bankruptcies.

Q4 Energy Survey Firm Expectations for 2016

- Large increase in both M&A activity and defaults/bankruptcies: 45%
- Large increase in M&A activity but little change in defaults/bankruptcies: 10%
- Little change in M&A activity but large increase in defaults/bankruptcies: 35%
- Little change in both M&A activity and defaults/bankruptcies: 5%

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
Oklahoma farm income has now also dropped after holding up in first half 2015.
One silver lining is that unemployment still remains low in the state, especially in OKC.
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 showed another decline in the sector in Q4, with expectations of more difficulties ahead

- Ag-related industries are also now declining, but unemployment remains low in the state