

U.S. and Western Oklahoma Economic Update

Western Oklahoma Bankers Association

November 14, 2017



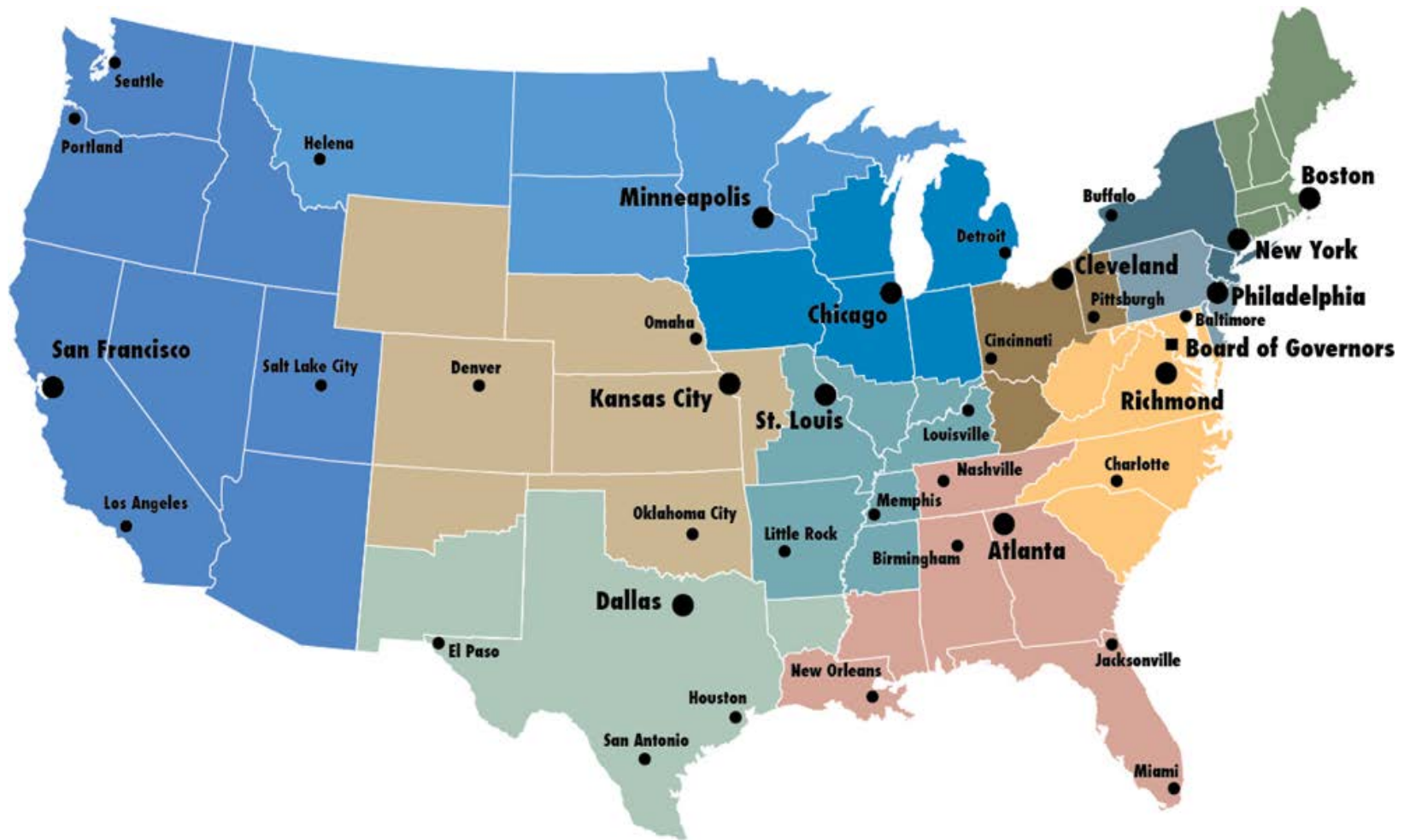
Chad Wilkerson

Oklahoma City Branch Executive and Economist

Federal Reserve Bank of Kansas City

www.kansascityfed.org/oklahomacity

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

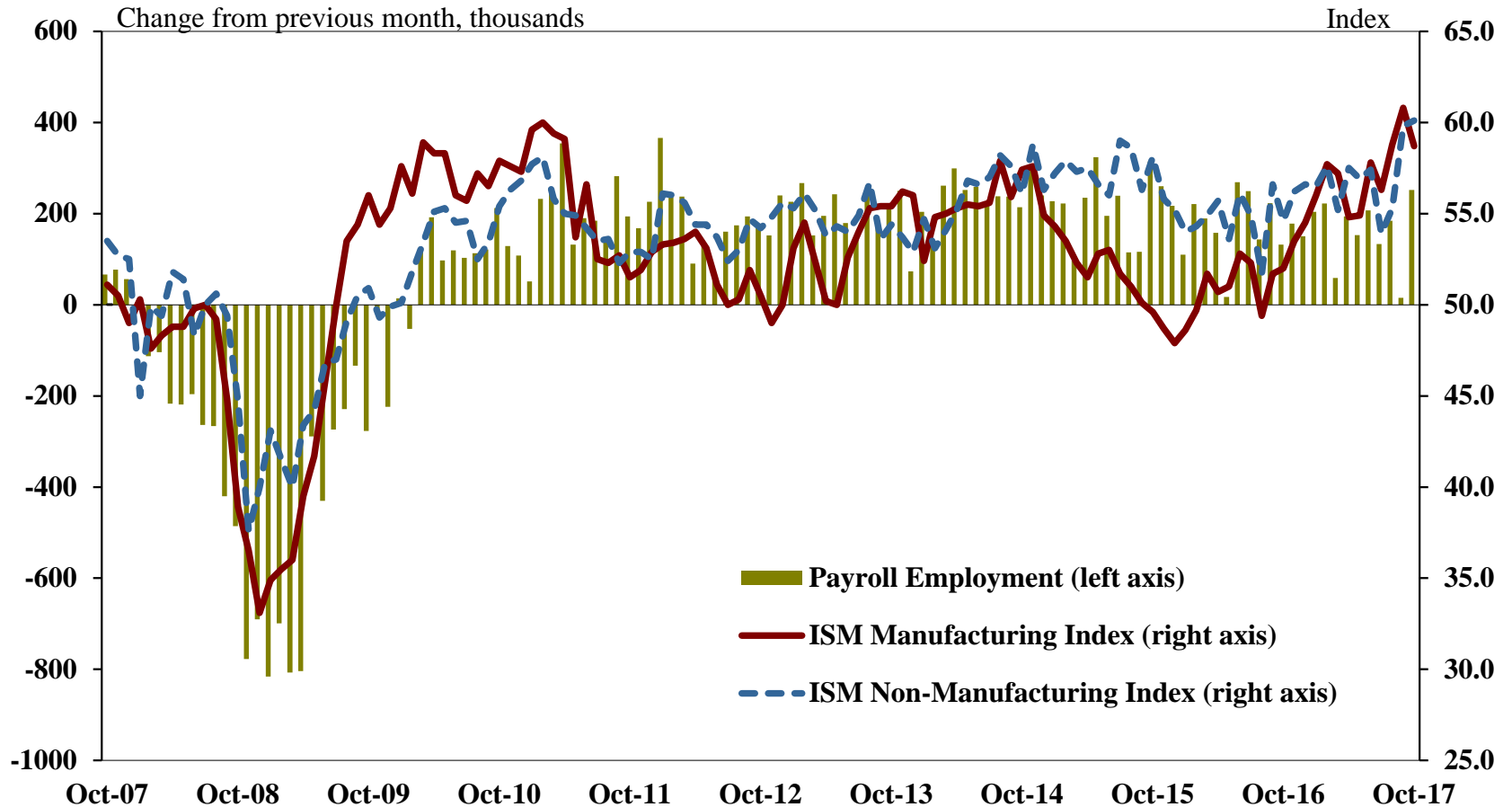
The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

- **Functions and purposes – 45 staff**
 - Research on U.S. and Oklahoma economies; energy and manufacturing sectors
 - Economic and financial education outreach, including to low/moderate income
 - Examinations of Oklahoma financial institutions (~50 banks, ~175 holding cos.)
- **2017 OKC Fed Branch Board of Directors**
 - **Pete Delaney (chair)**, Chairman/CEO (retired), OGE Energy Corp., OKC
 - **Clint Abernathy**, Owner, Abernathy Farms, Inc., Altus
 - **Susan Chapman Plumb**, COO, Bank of Cherokee County, Tahlequah
 - **Michael Coffman**, CEO (retired), Panhandle Oil & Gas, Inc., OKC
 - **Chuck Hall**, Chairman & CEO, Exchange Bank & Trust, Perry
 - **Tina Patel**, Co-Owner & CFO, Promise Hotels, Tulsa
 - **Katrina Washington**, Owner/Broker, Stratos Realty, Oklahoma City
- **Oklahomans on Kansas City Fed head office Board**
 - **Rose Washington (chair)**, Exec. Director, Tulsa Econ. Dev. Corp., Tulsa
 - **Doug Stussi**, EVP & CFO, Love's Travel Stops & Country Stores, OKC

The U.S. Economy and Monetary Policy

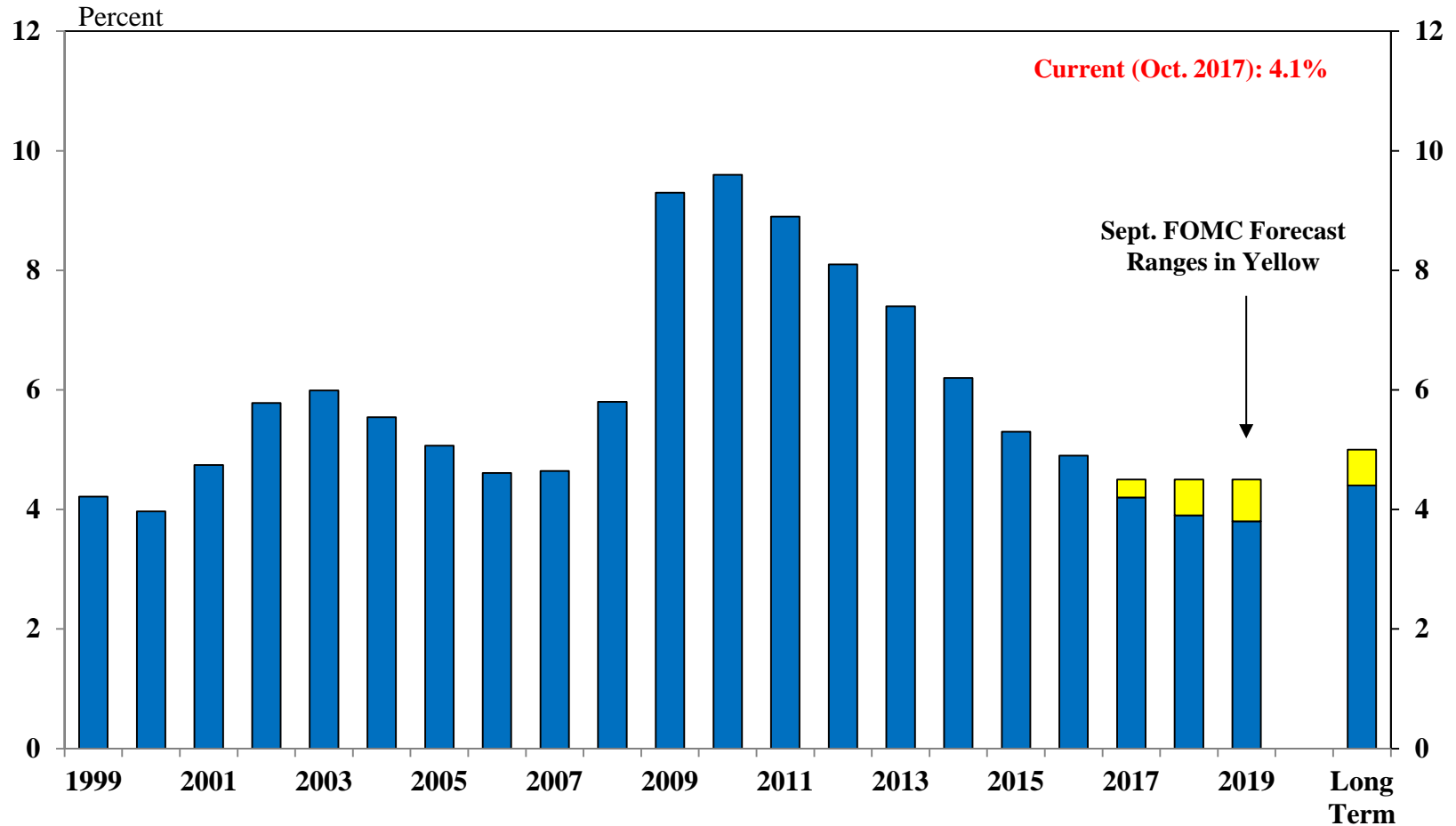
Monthly data on business activity and employment show U.S. growth remained strong in early Q4

U.S. Payroll Employment and Business Indexes



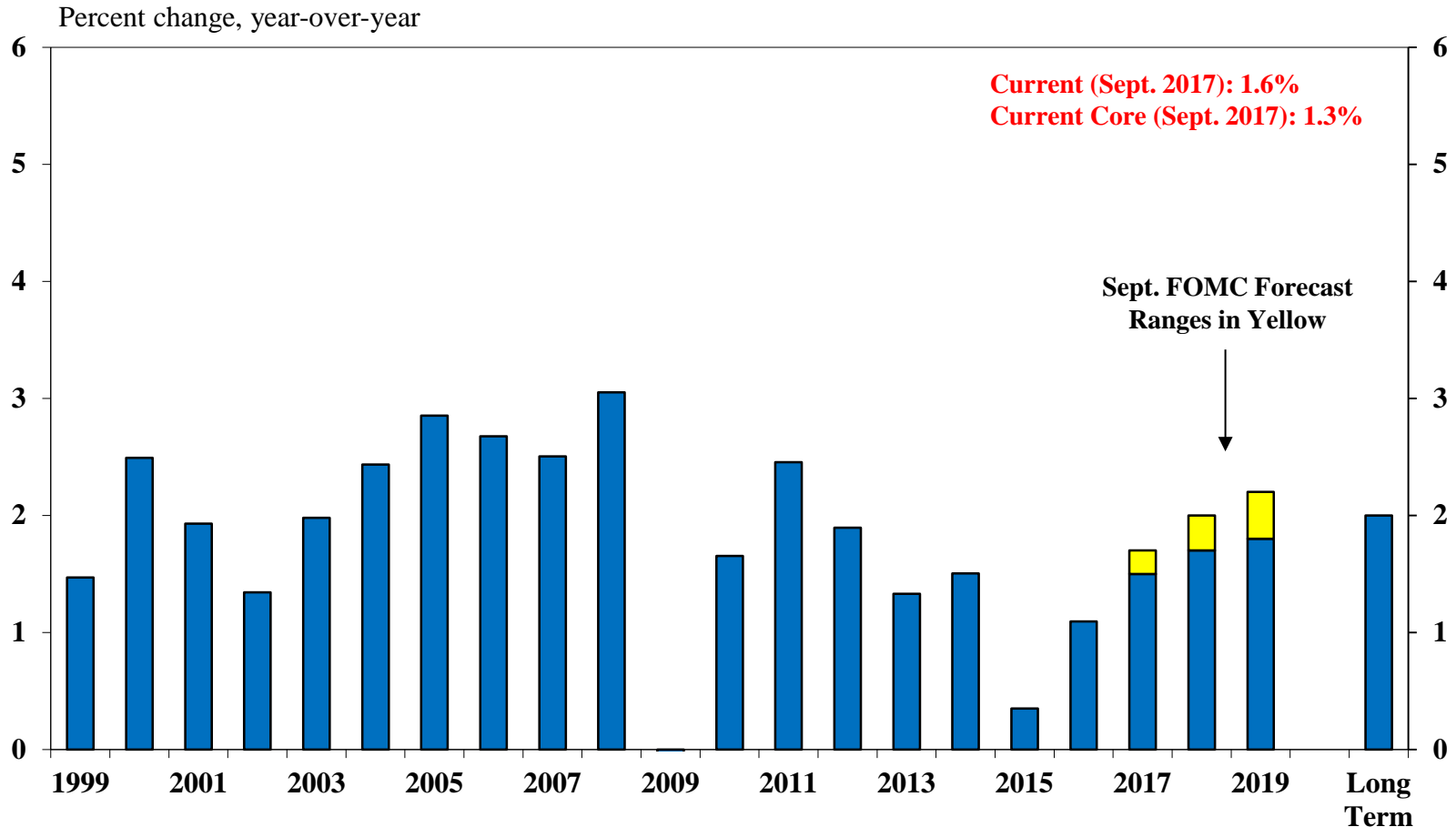
FOMC: “Although the hurricanes caused a drop in... employment...the unemployment rate declined further.”

Unemployment Rate Seasonally Adjusted



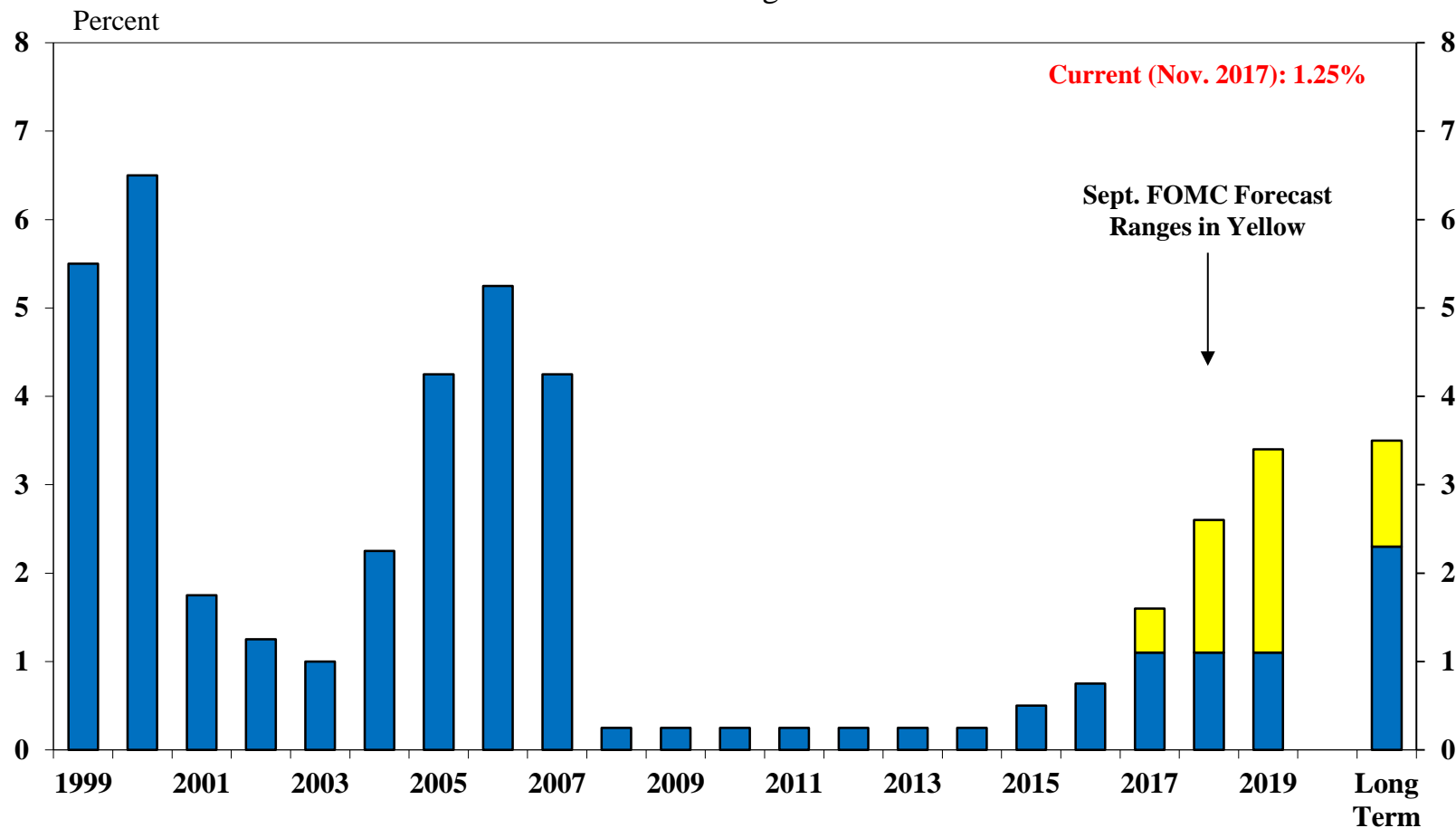
FOMC: “Inflation...is expected to...stabilize around the Committee’s 2% objective over the medium term”

PCE Inflation Index



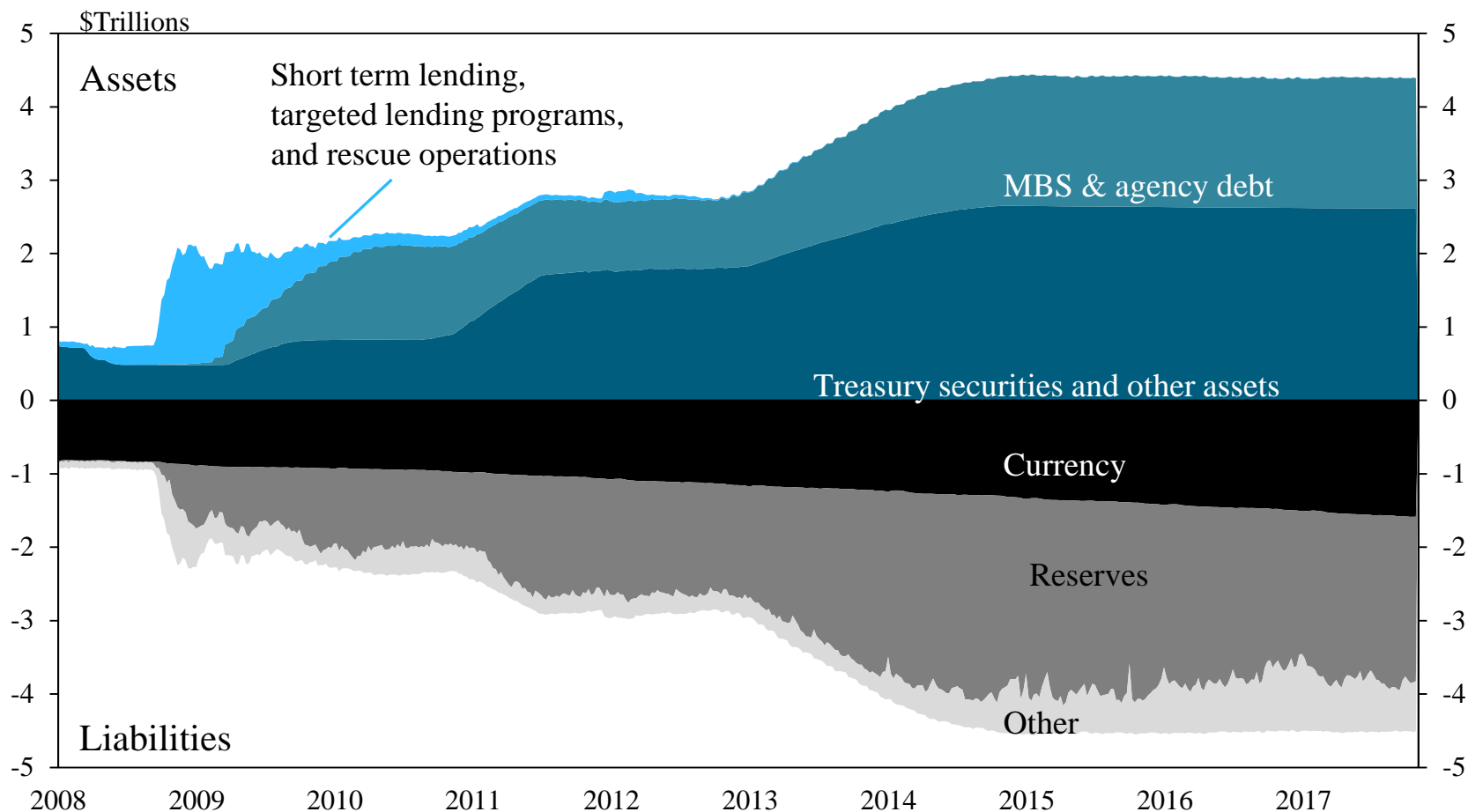
FOMC: “The Committee expects...conditions will evolve in a manner that will warrant gradual [rate] increases”

Federal Funds Rate Year-end target



FOMC: “The balance sheet normalization program initiated in October 2017 is proceeding.”

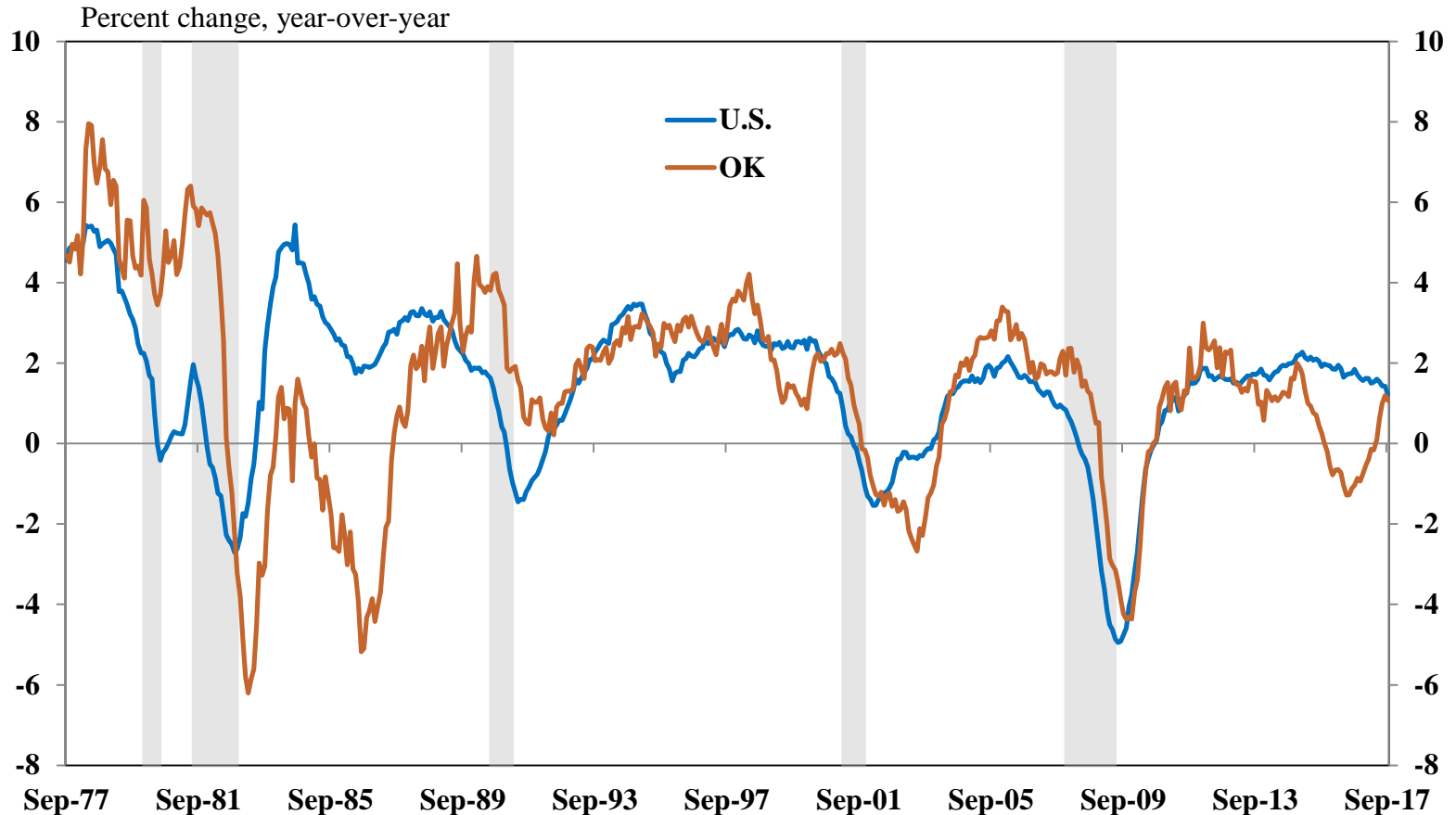
Federal Reserve Balance Sheet



Trends in the Western Oklahoma Economy

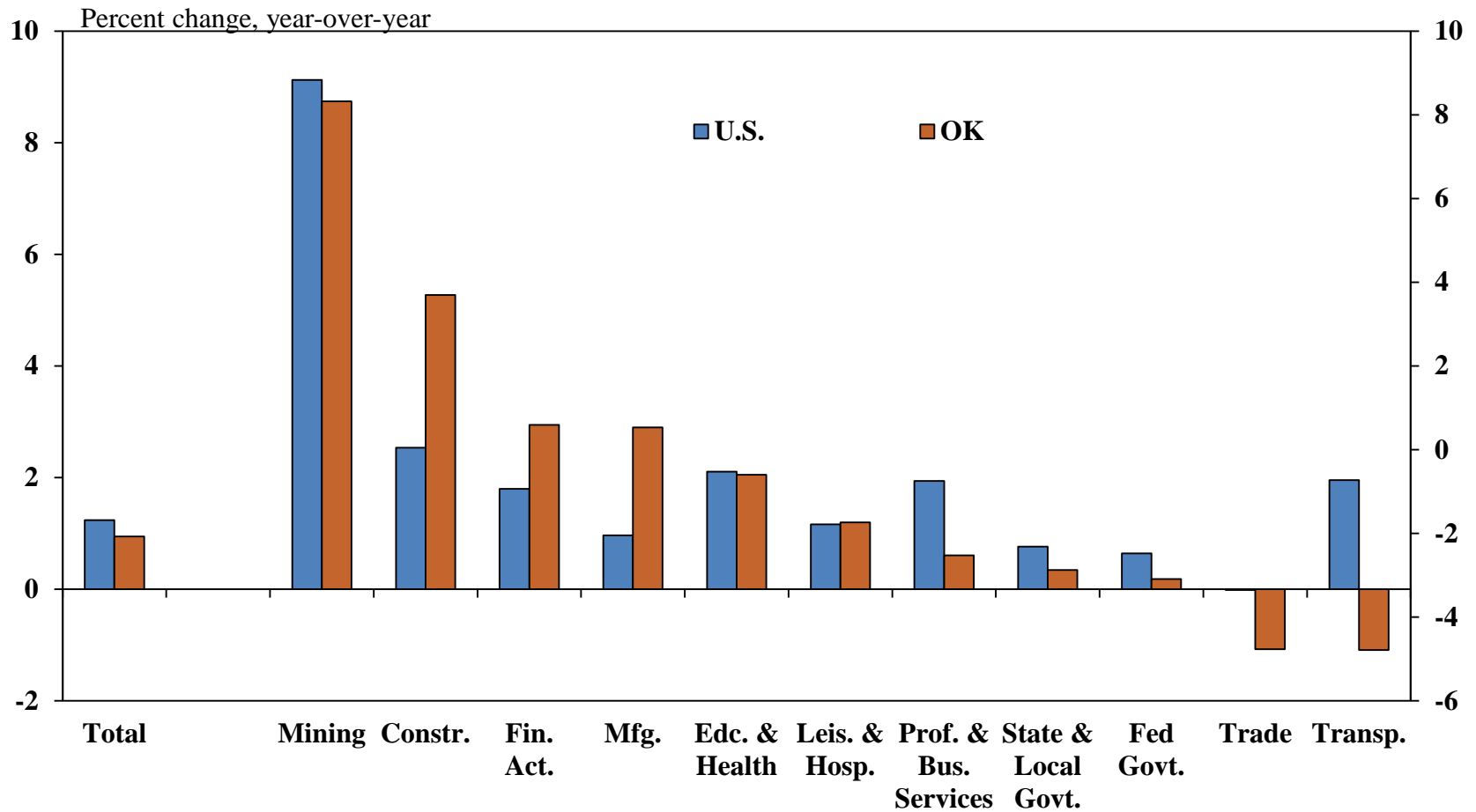
2015-16 was the largest divergence between U.S. & OK job growth since the '80s, but the gap has closed

Payroll Employment Growth

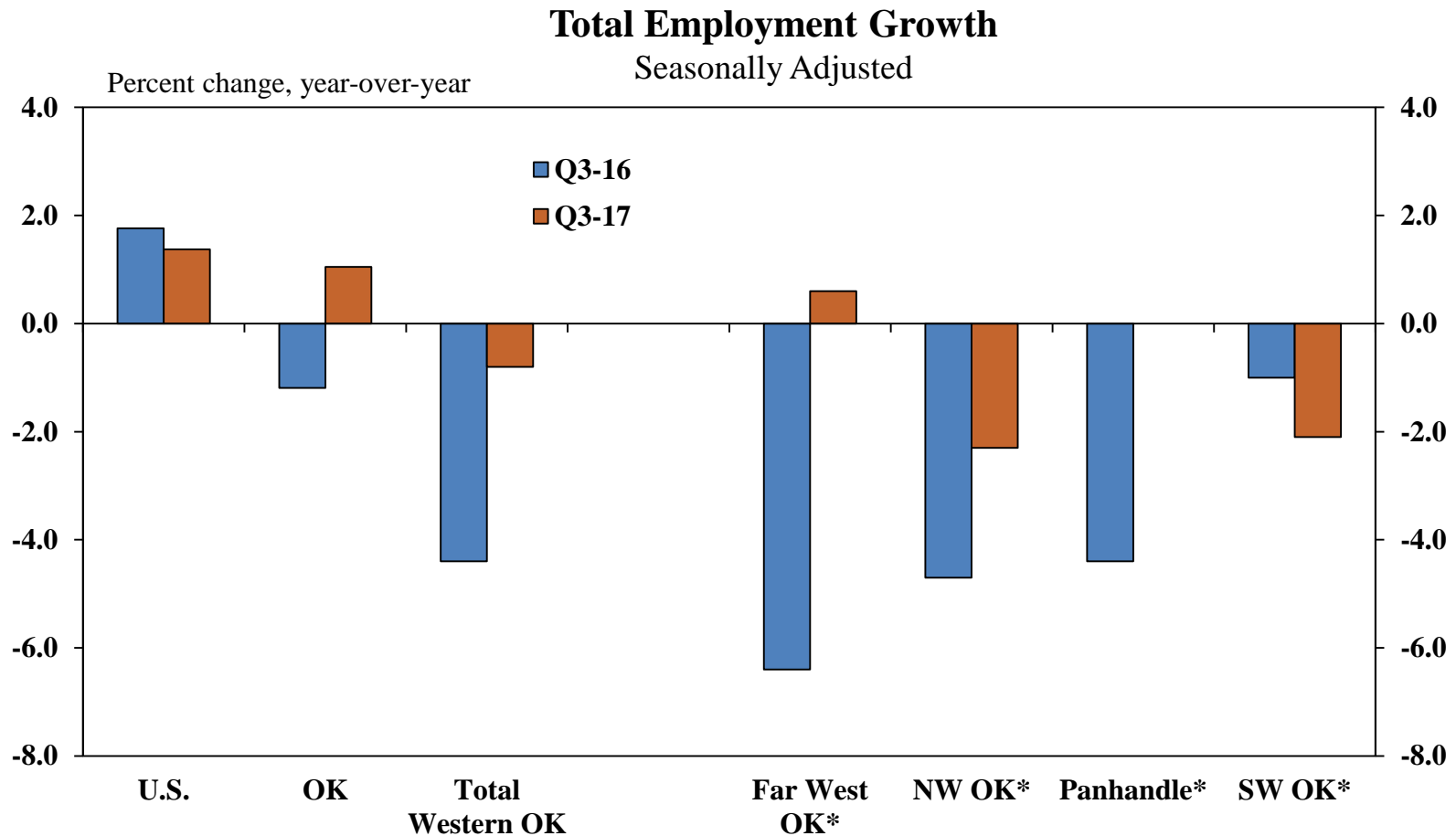


State job growth in 2017 has been led by energy and construction, but most other sectors have also grown

Oklahoma Job Growth by Industry
Sept-17



Employment trends have also improved in most of western Oklahoma this year, though more slowly

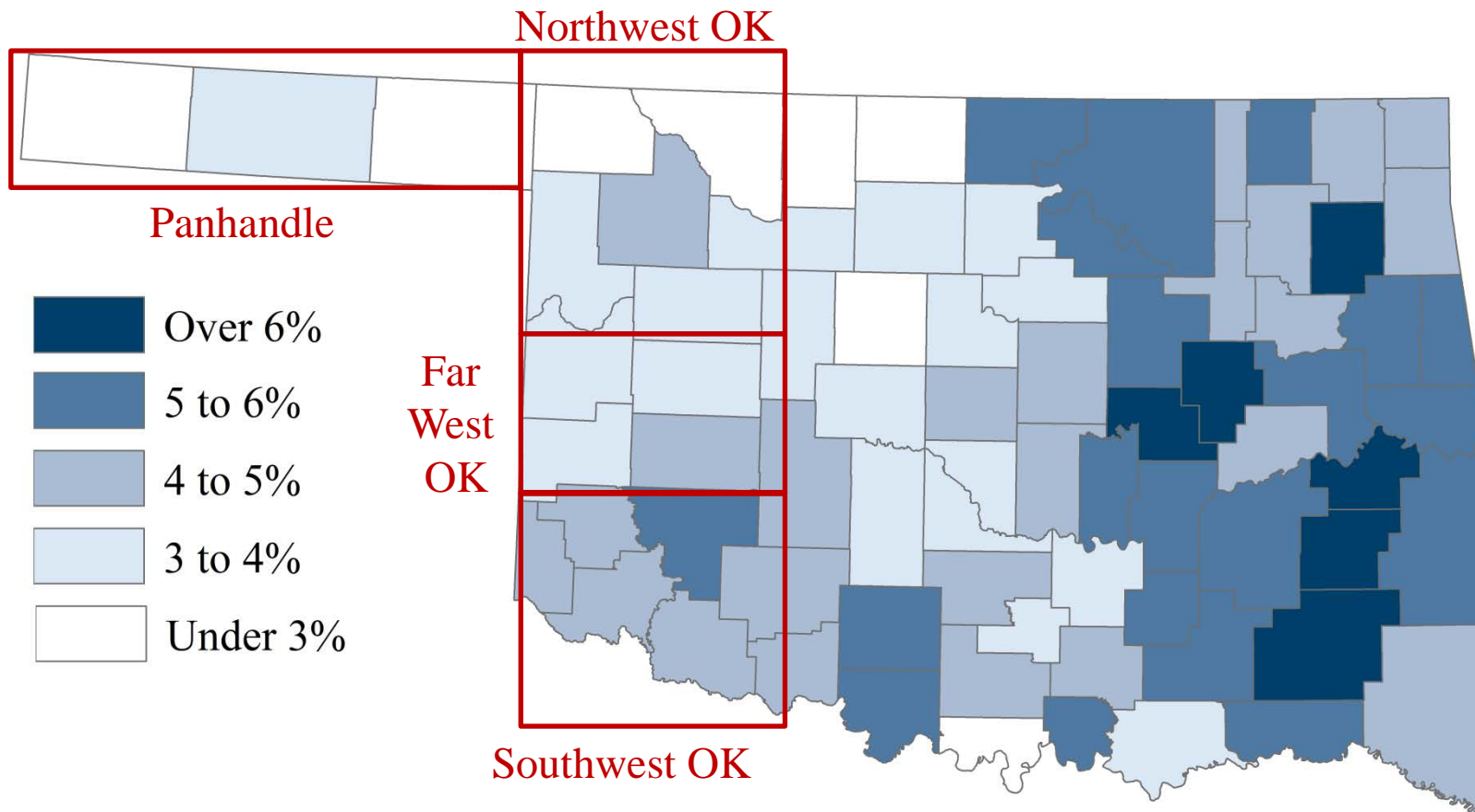


*Includes the following counties: Far West OK – Beckham, Roger Mills, Custer, Washita; NW OK – Harper, Woods, Ellis, Woodward, Dewey; Panhandle – Cimarron, Texas, Beaver; SW OK – Greer, Harmon, Jackson, Kiowa, Tillman



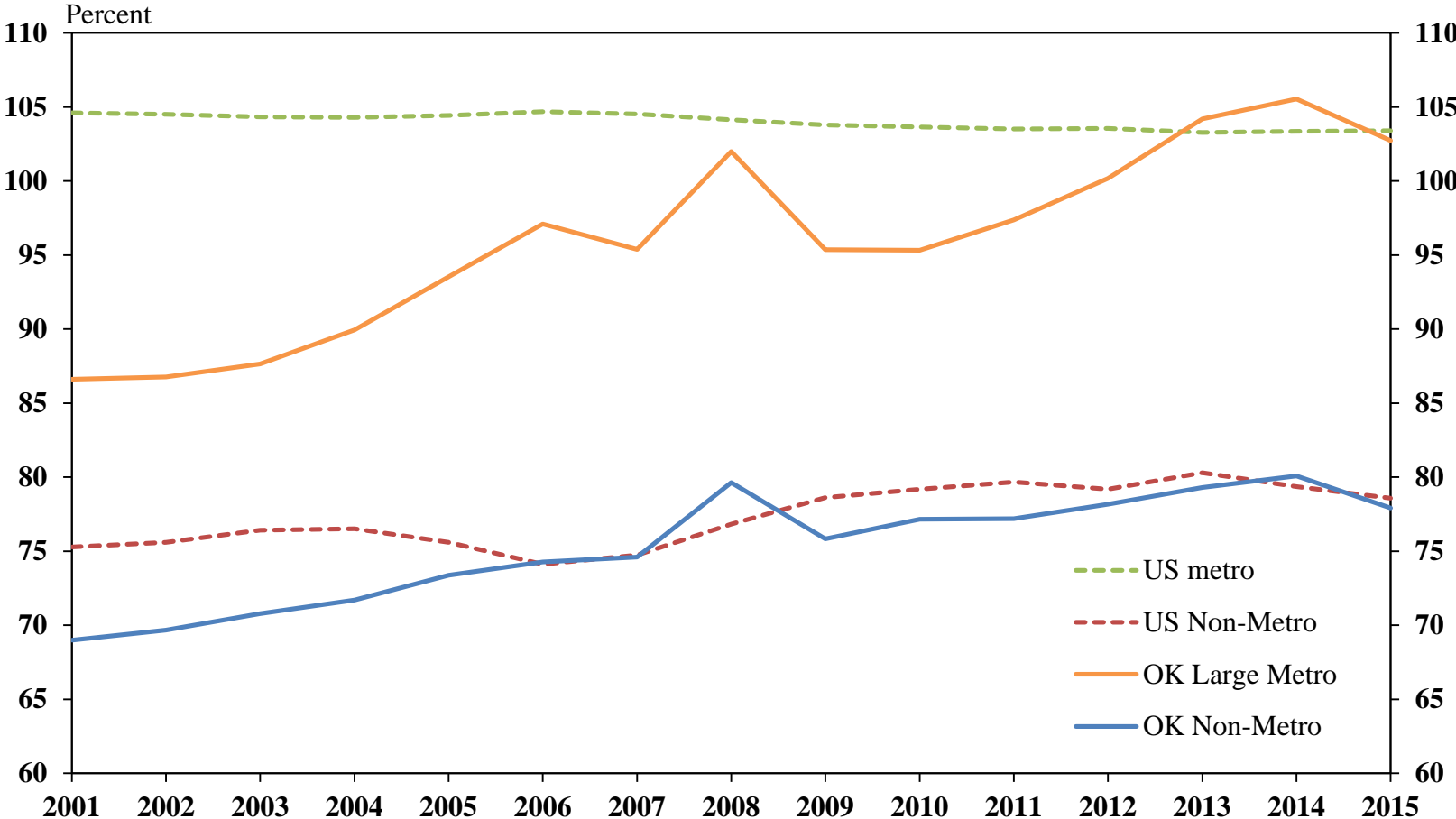
Unemployment in nearly all of western OK is back below 5%, suggesting tight labor is limiting growth

September 2017 Unemployment Rates



Looking longer-term, per capita incomes in both metro and non-metro Oklahoma have improved this century

U.S. Non-Metro vs. OK Non-Metro Per Capita Income As a Share of National Average



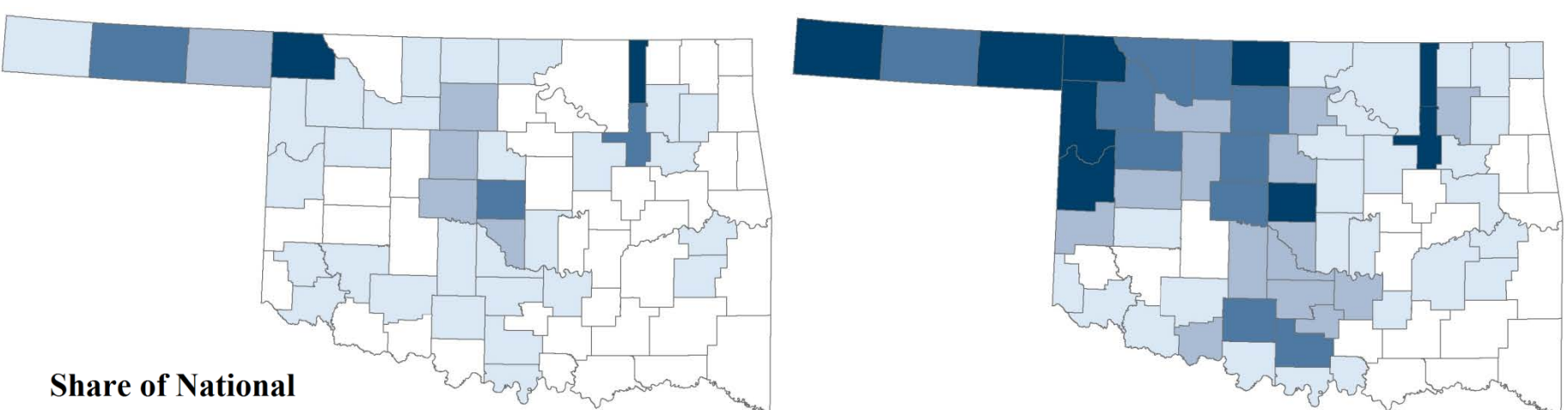
Source: U.S. Bureau of Economic Analysis

Some of the biggest improvements in per capita incomes have been in western Oklahoma

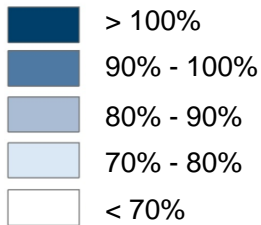
Oklahoma Per Capita Income

2001

2015



Share of National Average



Ag and energy, of course, dominate the western Oklahoma economy, and both have had a good century

Western Oklahoma Personal Income Share by Industry 2015

Industry	Percent of Total Income		W OK Location Quotient	Avg Annual Growth in Western OK 2001-2015
	Western OK*	U.S.		
Mining	14.2	1.6	8.9	13.3
Transp. & Utilities	7.1	4.6	1.5	9.3
Prof. & Business Services	3.1	20.3	0.2	9.0
Construction	5.7	6.1	0.9	8.7
Manufacturing	6.1	10.1	0.6	7.7
Agriculture	13.8	0.8	16.6	6.1
Information	0.9	3.5	0.3	5.5
Trade	9.3	11.6	0.8	5.1
Leisure & Hospitality	2.3	4.7	0.5	3.9
State & Local Government	13.8	13.2	1	2.7
Financial Activities	2.3	7.1	0.3	2.1
Federal Government	5.3	3	1.7	1.8
Education & Health	3	13.3	0.2	1.4

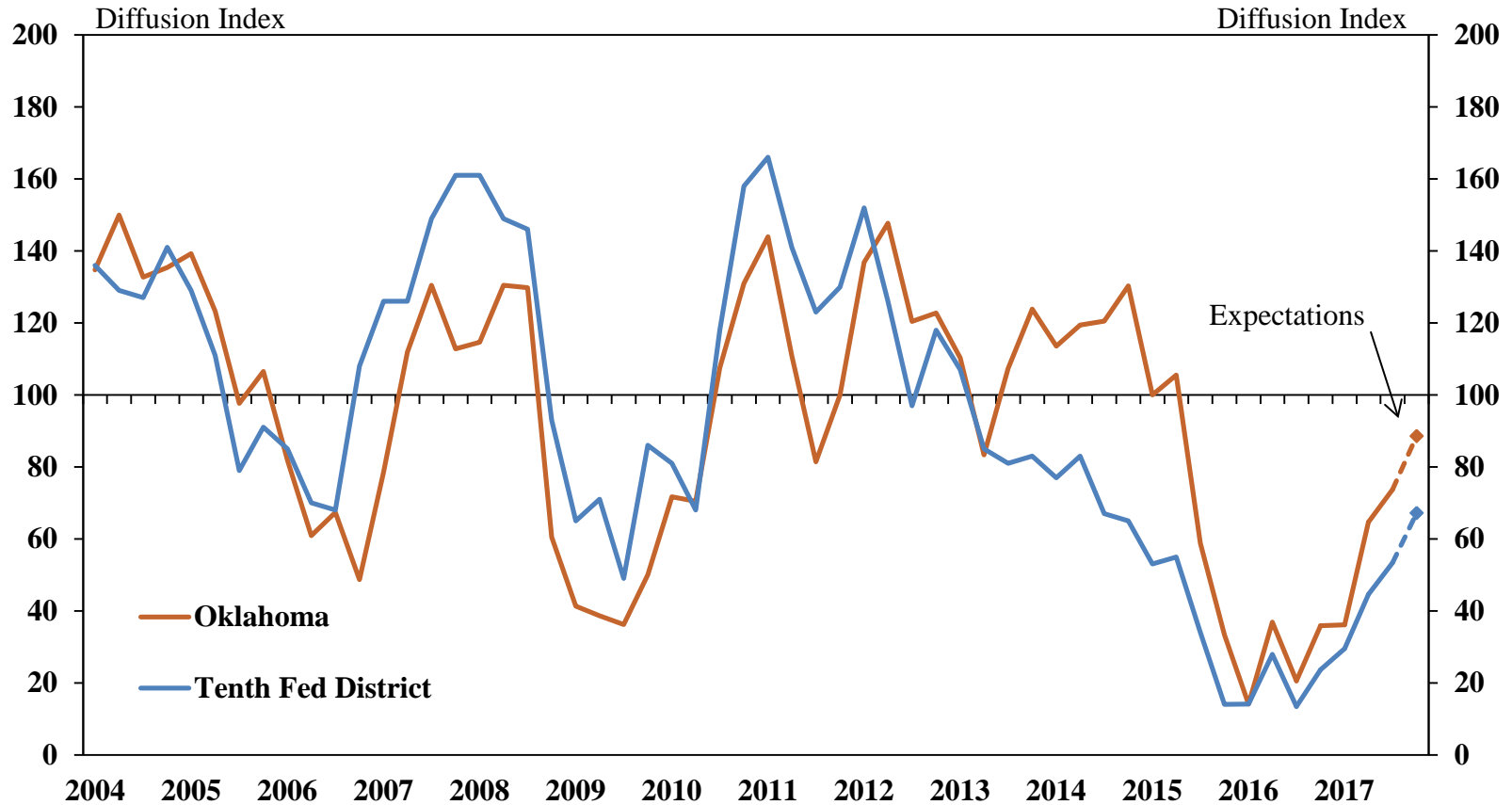
Note - Location quotient is the division of local share by national share

*Includes the following counties: Beckham, Roger Mills, Custer, Washita, Harper, Woods, Ellis, Woodward, Dewey, Cimarron, Texas, Beaver, Greer, Harmon, Jackson, Kiowa, Tillman



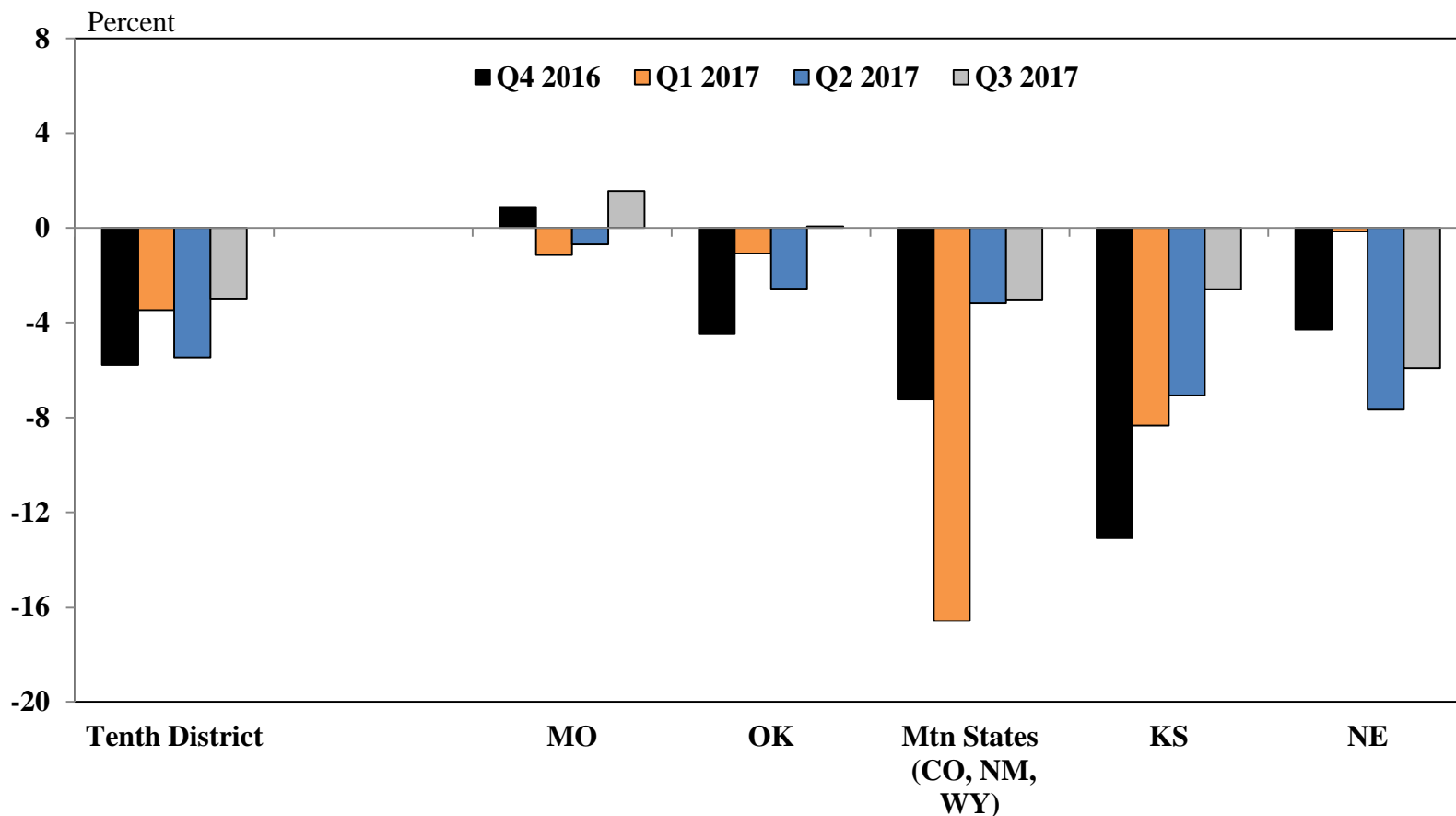
The agriculture sector in the state remains rather weak, but less so than last year or in nearby states

Farm Income Indexes



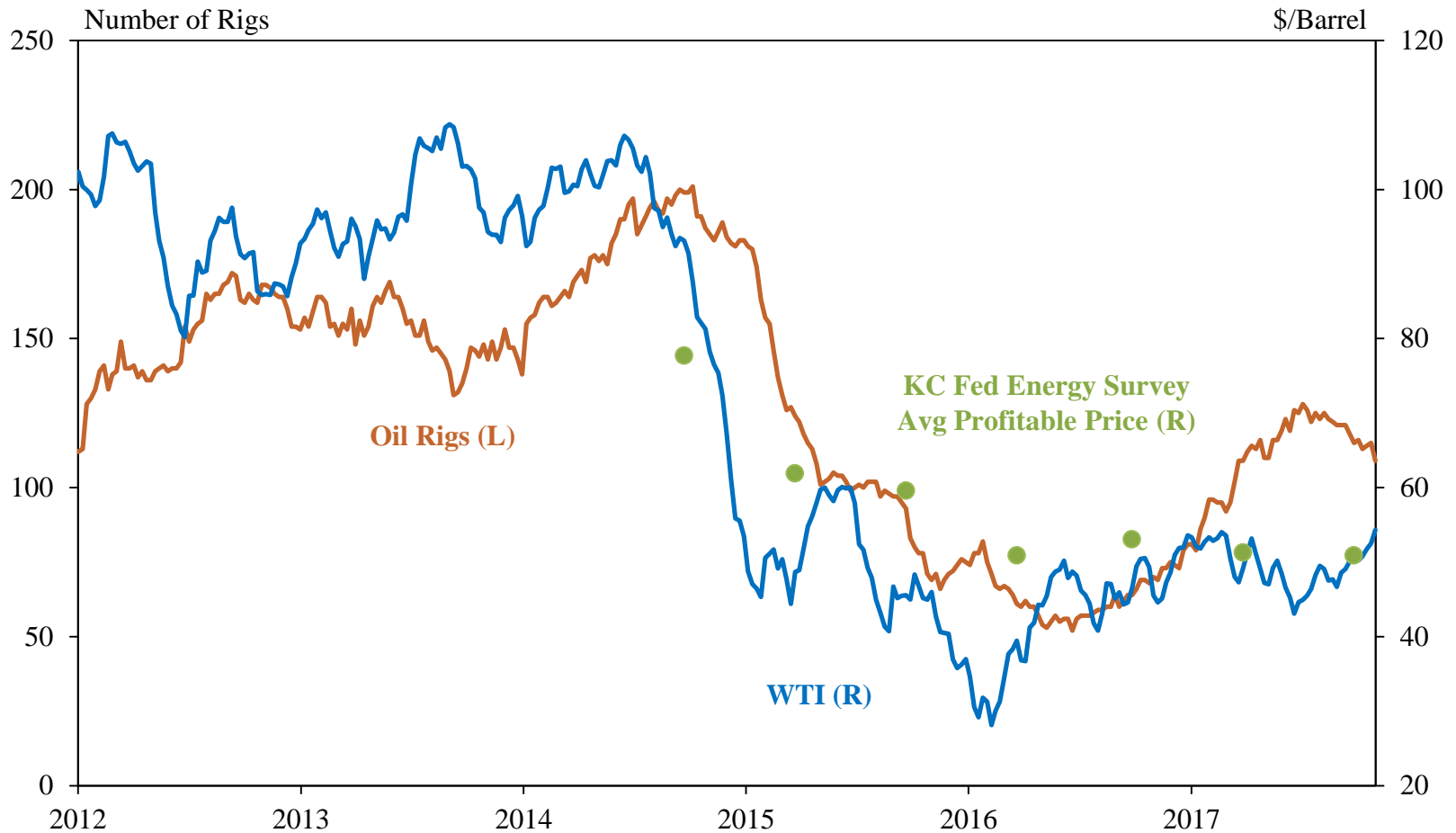
Oklahoma farmland values also stabilized in Q3 after falling slightly in previous quarters

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



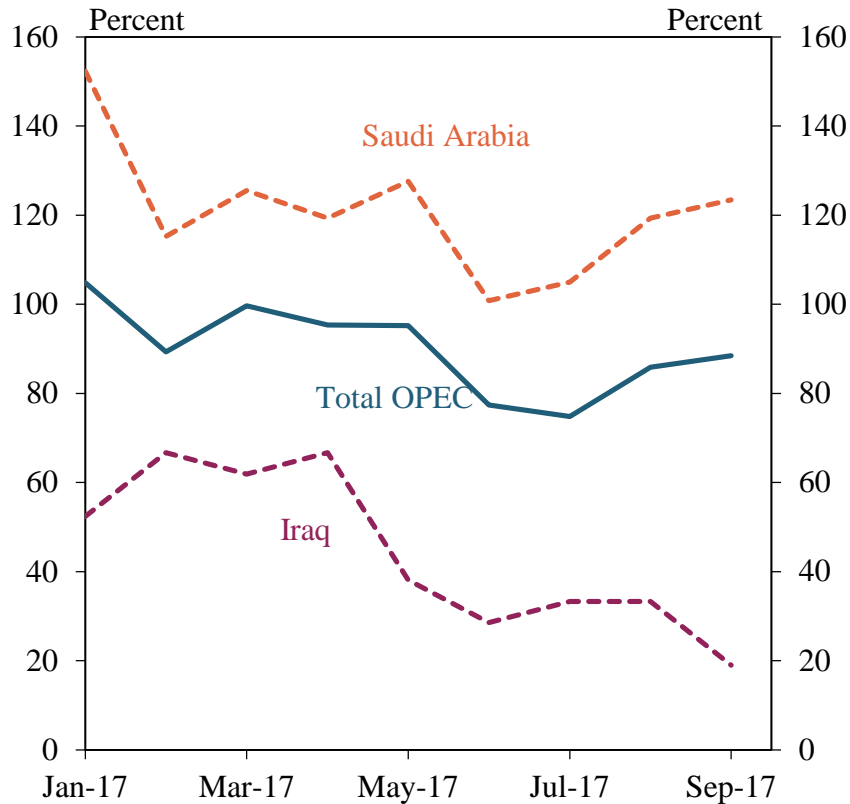
The number of oil rigs in Oklahoma rose strongly in the first half of 2017 but has since tapered off

WTI Spot Price vs. Oklahoma Rig Count

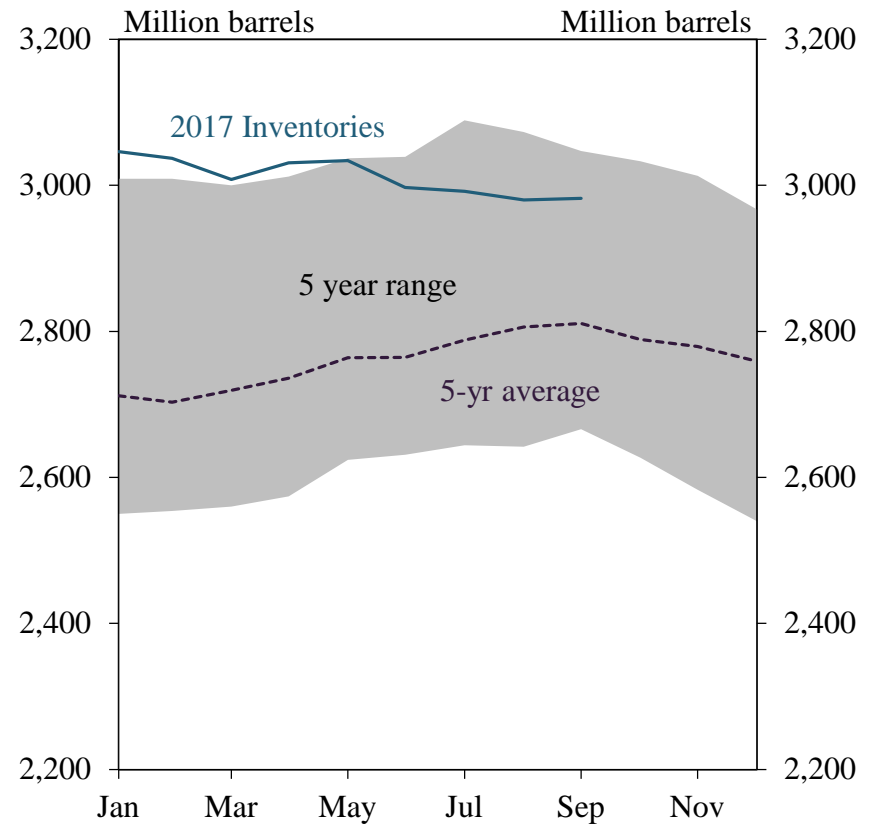


OPEC compliance with cuts has also improved recently, helping push down world oil inventories

OPEC Compliance

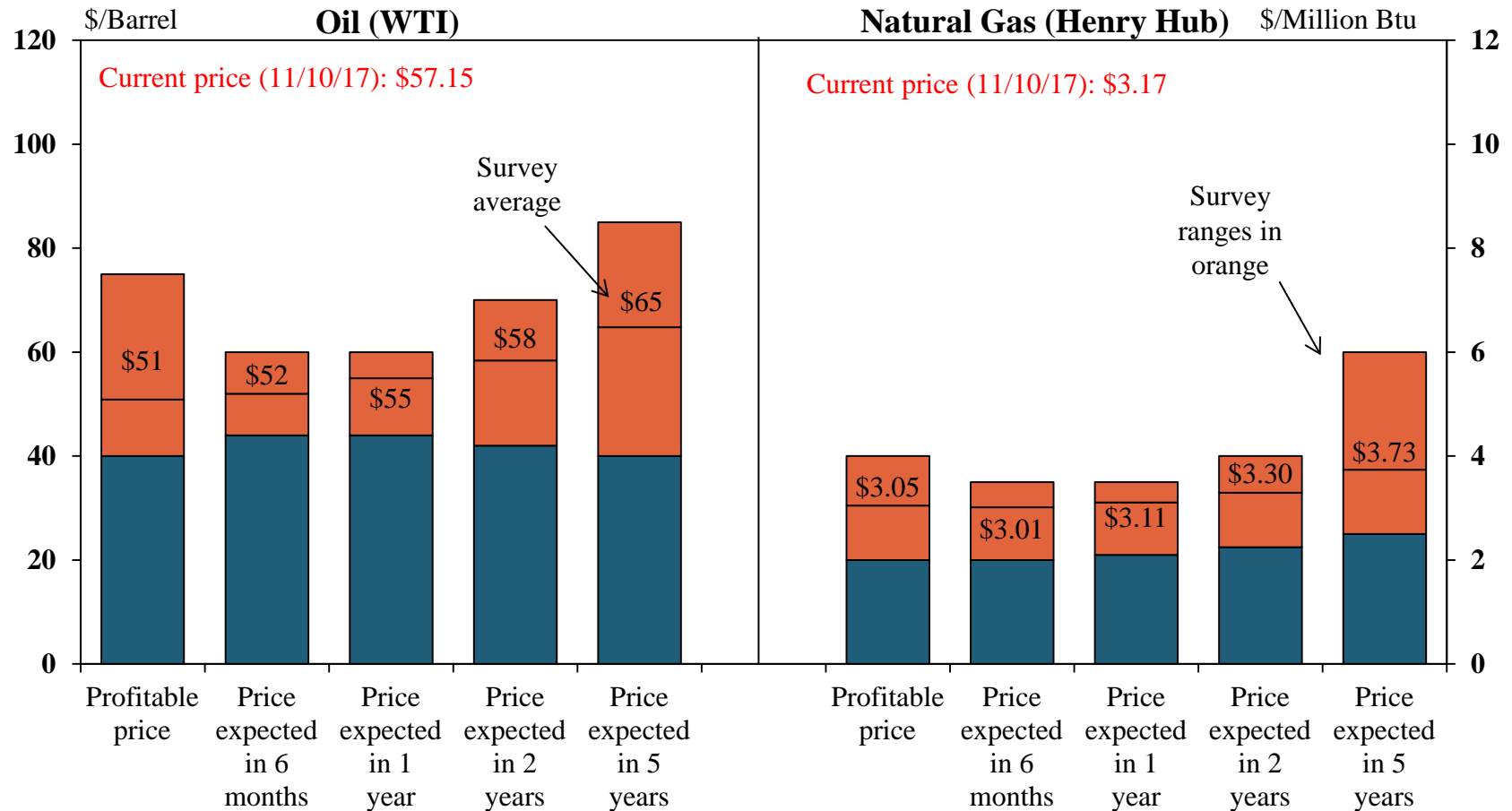


OECD Petroleum Inventories



Oil prices are now profitable for most regional energy firms but are not expected to rise much further

Tenth District Energy Survey Profitable Prices and Near-term Expectations



Summary

- The U.S. economy continues to grow and the Fed has been tightening monetary policy
- The western Oklahoma economy was hurt by low oil prices in 2015-16, but is now stabilizing
- Stronger energy activity and some improvement in ag have been key reasons for the rebound



Questions?

For regular analysis of the Oklahoma economy, please visit the resources available on the OKC Fed branch web page:

www.kansascityfed.org/oklahomacity

For updates on regional **energy, agriculture, and manufacturing** activity, subscribe to our periodic surveys:

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

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

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

