U.S. and Western Oklahoma Economic Update

Western Oklahoma Bankers Association
November 14, 2017

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www.kansascityfed.org/oklahomacity

* 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

- **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.”

Sources: U.S. Bureau of Labor Statistics, FOMC
FOMC: “Inflation...is expected to...stabilize around the Committee’s 2% objective over the medium term”

Sources: U.S. Bureau of Labor Statistics, FOMC
FOMC: “The Committee expects…conditions will evolve in a manner that will warrant gradual [rate] increases”

Federal Funds Rate
Year-end target

Current (Nov. 2017): 1.25%

Sept. FOMC Forecast
Ranges in Yellow

Sources: Federal Reserve Board, FOMC
FOMC: “The balance sheet normalization program initiated in October 2017 is proceeding.”

Federal Reserve Balance Sheet

Assets
- Short term lending, targeted lending programs, and rescue operations
- MBS & agency debt
- Treasury securities and other assets

Liabilities
- Currency
- Reserves
- Other

Source: Federal Reserve Board
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.
State job growth in 2017 has been led by energy and construction, but most other sectors have also grown.
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.

Source: U.S. Bureau of Labor Statistics
Unemployment in nearly all of western OK is back below 5%, suggesting tight labor is limiting growth

September 2017 Unemployment Rates

Source: U.S. Bureau of Labor Statistics
Looking longer-term, per capita incomes in both metro and non-metro Oklahoma have improved this century.
Some of the biggest improvements in per capita incomes have been in western Oklahoma.

Oklahoma Per Capita Income

Share of National Average

- > 100%
- 90% - 100%
- 80% - 90%
- 70% - 80%
- 70% - 80%
- < 70%

Source: U.S. Bureau of Economic Analysis
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

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Income</th>
<th>W OK Location Quotient</th>
<th>Avg Annual Growth in Western OK 2001-2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Western OK</strong></td>
<td><strong>U.S.</strong></td>
<td><strong>W OK Location</strong></td>
<td><strong>Avg Annual Growth</strong></td>
</tr>
<tr>
<td>Mining</td>
<td>14.2</td>
<td>1.6</td>
<td>8.9</td>
</tr>
<tr>
<td>Transp. &amp; Utilities</td>
<td>7.1</td>
<td>4.6</td>
<td>1.5</td>
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<tr>
<td>Prof. &amp; Business Services</td>
<td>3.1</td>
<td>20.3</td>
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<tr>
<td>Construction</td>
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<td>0.9</td>
</tr>
<tr>
<td>Manufacturing</td>
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<td>10.1</td>
<td>0.6</td>
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<td>Agriculture</td>
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<tr>
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<td>3.5</td>
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<tr>
<td>Trade</td>
<td>9.3</td>
<td>11.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>2.3</td>
<td>4.7</td>
<td>0.5</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
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<td>13.2</td>
<td>1</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>2.3</td>
<td>7.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Federal Government</td>
<td>5.3</td>
<td>3</td>
<td>1.7</td>
</tr>
<tr>
<td>Education &amp; Health</td>
<td>3</td>
<td>13.3</td>
<td>0.2</td>
</tr>
</tbody>
</table>

*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.

Source: FRBKC Agricultural Credit Survey
Oklahoma farmland values also stabilized in Q3 after falling slightly in previous quarters.
The number of oil rigs in Oklahoma rose strongly in the first half of 2017 but has since tapered off.

Source: EIA, Baker Hughes, FRBKC Energy Survey
OPEC compliance with cuts has also improved recently, helping push down world oil 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

Oil (WTI) and Natural Gas (Henry Hub) prices as of 11/10/17:
- Oil (WTI): $57.15
- Natural Gas (Henry Hub): $3.17

Survey ranges in orange.
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:

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