U.S. & Oklahoma Economic Outlook

Oklahoma Wesleyan University
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* 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 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 and purposes – 45 staff
  - Connect the nation’s central bank to Oklahoma communities, businesses, and banks
  - Research on U.S. and Oklahoma economies, economic education and outreach
  - Examinations of Oklahoma financial institutions (49 banks, 178 holding companies)

- 2017 OKC Fed Branch Board of Directors
  - Pete Delaney (chair), Chairman & CEO (retired), OGE Energy Corp., Oklahoma City
  - Clint Abernathy, Owner, Abernathy Farms, Inc., Altus
  - Susan Chapman Plumb, COO, Bank of Cherokee County, Tahlequah
  - Michael Coffman, CEO (retired), Panhandle Oil & Gas, Inc., Oklahoma City
  - 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 Economic Development Corp., Tulsa
  - Doug Stussi, EVP & CFO, Love’s Travel Stops & Country Stores, Oklahoma City
The U.S. Economy and Monetary Policy
U.S. economic growth has picked up in early 2017 after an up-and-down 2016
U.S. unemployment has fallen to long-term average levels

Unemployment Rate
Seasonally Adjusted

Current (Feb. 2017): 4.7%

Sources: U.S. Bureau of Labor Statistics, FOMC
Broader measures of labor market conditions also show a return to normalcy

U.S. Labor Market Conditions Index

Source: FRBKC
Inflation has been low the past couple of years but has recently returned to near the long-term target.
“The [Federal Open Market] Committee expects… only gradual increases in the federal funds rate”

Federal Funds Rate
Year-end target

Current (Mar. 2017): 1.0%

March FOMC Forecast
Ranges in Yellow

Sources: Federal Reserve Board, FOMC
Trends in the Oklahoma Economy
Job growth across the U.S. diverged widely in 2016, with Oklahoma in a slight jobs recession.

Total Nonfarm Employment Growth
January 2017

U.S.
1.6%

Source: U.S. Bureau of Labor Statistics
2016 was the largest divergence between U.S. and Oklahoma job growth since the 1980s

Payroll Employment Growth

Source: U.S. Bureau of Labor Statistics
Oklahoma’s real GDP also fell 3 straight quarters starting in late 2015, but rose slightly in Q3 2016.

Real GDP Growth

Source: U.S. Bureau of Economic Analysis
The two large metro areas have generally held up better than other parts of the state.
Unemployment ticked up last year but has come down lately in both the state and Washington Co.

Source: U.S. Bureau of Labor Statistics
Spillover has occurred from energy to other industries, but jobs in some industries are still up.

Source: Bureau of Labor Statistics
Energy remains the driving factor in and around the Bartlesville area

Washington County Personal Income Share by Industry
2015

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Income Wash. County</th>
<th>U.S.</th>
<th>Wash. Co. Location Quotient</th>
<th>OK Location Quotient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>27.9</td>
<td>1.6</td>
<td>17.6</td>
<td>7.2</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>36.1</td>
<td>16.2</td>
<td>2.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7.9</td>
<td>10.1</td>
<td>0.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Agriculture</td>
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<td>0.8</td>
<td>0.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Education &amp; Health</td>
<td>8.4</td>
<td>13.3</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>1.9</td>
<td>4.7</td>
<td>0.4</td>
<td>0.8</td>
</tr>
<tr>
<td>Construction</td>
<td>2.4</td>
<td>6.1</td>
<td>0.4</td>
<td>1.0</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
<td>5.1</td>
<td>13.2</td>
<td>0.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>2.7</td>
<td>7.1</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Professional and Business Services</td>
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<td>20.3</td>
<td>0.3</td>
<td>0.6</td>
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<tr>
<td>Information</td>
<td>0.6</td>
<td>3.5</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Federal Government</td>
<td>0.4</td>
<td>3.0</td>
<td>0.1</td>
<td>1.3</td>
</tr>
</tbody>
</table>

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

Source: U.S. Bureau of Economic Analysis
Overall factory activity in the region has improved lately, with considerable optimism.
Home price growth in Oklahoma has slowed, but remains moderately positive.

FHFA Home Price Index
Seasonally Adjusted

Percent change, year-over-year

Source: FHFA
State tax revenues are finally showing signs of stabilization, after 2 years of declines.

Source: OK Tax Commission

*Q1-17 only includes January data
Office vacancy rates have risen slightly in the two large metros, but much less than Houston.
And nearly all banks in Oklahoma remain profitable

Share of Banks Not Making a Profit
Commercial Banks

Source: FDIC
Oil prices’ recent rise to $50/barrel has boosted drilling, and OPEC’s November action has helped
World oil supply and demand are expected to come (and stay) in line this quarter.

Global Oil Supply and Demand
March 2017 Forecast

Source: EIA
The most active drilling areas now are in west Texas and northwest Oklahoma.

Current Drilling Rig Locations,
As-of February 3, 2017

Source: Baker Hughes
And oil production in Oklahoma and Texas is expected to continue to grow through 2018.
But firms say energy prices need to be a bit higher for a sizable increase in activity

Kansas City Fed Energy Survey Special Questions

Survey ranges in orange
Summary

• The U.S. economy continues to grow, and the Fed has raised interest rates

• Oklahoma’s economy has been hurt by low commodity prices, as well as spillover to related industries like manufacturing

• However, conditions in real estate, banking, and labor markets have held on fairly well, and some growth and optimism has returned
Questions?

For regular updates and analysis of the Oklahoma economy, subscribe to our quarterly Oklahoma Economist publication at:

www.kansascityfed.org/publications/research/oke/

For more analysis on regional manufacturing conditions, subscribe to our monthly Manufacturing Survey at:

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

For more analysis on regional energy conditions, subscribe to our quarterly Energy Survey at:

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