U.S. and Oklahoma Economic Outlook

Oklahoma Credit Union Executive Society
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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 three general areas:
  - Monetary policy – promote maximum employment and low inflation
  - Bank regulation – ensure soundness and fair lending of banks
  - Financial services – serve as 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
GDP growth slowed in the first quarter of 2017 due in part to a slowdown in consumer spending.

Growth in Components of Real GDP

<table>
<thead>
<tr>
<th>Component</th>
<th>Q2 2016</th>
<th>Q3 2016</th>
<th>Q4 2016</th>
<th>Q1 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GDP</td>
<td>4.3</td>
<td>3.5</td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Consumer spending</td>
<td>1.4</td>
<td>2.1</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Residential investment</td>
<td>-4.1</td>
<td>-7.7</td>
<td>0.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Business investment</td>
<td>1.0</td>
<td>1.4</td>
<td>0.9</td>
<td>1.8</td>
</tr>
<tr>
<td>Exports</td>
<td>13.8</td>
<td>11.4</td>
<td>10.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Government spending</td>
<td>0.8</td>
<td>0.2</td>
<td>-1.7</td>
<td>-1.1</td>
</tr>
</tbody>
</table>

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis
Most monthly data show U.S. economic growth remained solid in the first 4 months of the year.
U.S. unemployment has fallen to long-term average levels

Unemployment Rate
Seasonally Adjusted

Current (Apr. 2017): 4.4%

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
FOMC: “Inflation...has been running close to the Committee’s 2 percent longer-run objective”

PCE Inflation Index

Percent change, year-over-year

Current (Mar. 2017): 1.8%
Current Core (Mar. 2017): 1.6%

March FOMC Forecast
Ranges in Yellow

Sources: U.S. Bureau of Labor Statistics, FOMC
“The [FOMC] expects that economic conditions…will warrant …gradual increases in the federal funds rate”

Federal Funds Rate
Year-end target

Current (May 2017): 1.0%

March FOMC Forecast
Ranges in Yellow

Sources: Federal Reserve Board, FOMC
“[P]articipants agreed that reductions in the [Fed]'s securities holdings should be gradual and predictable”
Trends in the Oklahoma Economy
2016 was the largest divergence between U.S. and Oklahoma job growth since the 1980s

Payroll Employment Growth

Percent change, year-over-year

Source: U.S. Bureau of Labor Statistics
But employment in the state has stabilized, with growth occurring in some areas in recent months.
Jobs in most industries are above year-ago levels, but lag in state/local government and consumer spending.
Oil prices’ recent rise to $50/barrel has been followed by a near-doubling in the rig count.
The most active drilling areas now are in west Texas and west/central Oklahoma

Current Drilling Rig Locations,
As-of May 12, 2017

Source: Baker Hughes
Regional factory activity has improved considerably in recent months, with optimism high.
State tax revenues have finally risen back above year-ago levels, after falling for 2 years.

Note: Q2-17 includes only April

Source: OK Tax Commission
State unemployment ticked up last year but has since moved back below the national rate.
In housing, average home price growth across the state has slowed, but remains moderately positive.
Inventories of unsold homes remain quite low in the two large metros, despite job losses and oil prices.
Oklahoma homebuilding slowed once oil prices fell, likely keeping markets from getting oversupplied.

Source: U.S. Census Bureau
Office vacancy rates have risen slightly in Oklahoma’s metros, but much less than in Houston.
Banking conditions remain quite strong overall in the state despite recent economic weakness.

**Share of Banks Not Making a Profit**

Commercial Banks

- Source: FDIC
Oil and gas is still highly concentrated in the state, making the sector important for the state outlook.
Energy prices are around average profitable levels but are only expected to increase modestly.

Survey ranges in blue.
Summary

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

- The Oklahoma economy has been hurt by low commodity prices and spillover to other industries

- But conditions in state labor and real estate 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:


For more analysis on regional energy conditions, subscribe to our quarterly **Energy Survey**: [https://www.kansascityfed.org/research/indicatorsdata/energy](https://www.kansascityfed.org/research/indicatorsdata/energy)

For more analysis on factory conditions, subscribe to our **Manufacturing Survey**: [https://www.kansascityfed.org/research/indicatorsdata/mfg](https://www.kansascityfed.org/research/indicatorsdata/mfg)