U.S. and Oklahoma Economic Outlook

United Way Agency Directors Meeting
April 6, 2016

Chad Wilkerson
Vice President, Economist, and Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City
www.kansascityfed.org/oklahomacity
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
U.S. business activity has slowed slightly, but job growth remains solid

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

Unemployment Rate
Seasonally Adjusted

Current (Mar. 2016): 5.0%

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

Sources: U.S. Bureau of Labor Statistics, FOMC
FOMC participants expect moderate increases in rates heading forward

Federal Funds Rate
Year-end target

Current (Mar. 2016): 0.50%

Mar. FOMC Forecast Ranges in Yellow

Sources: Federal Reserve Board, FOMC
Trends in the Oklahoma Economy
Job trends have varied somewhat across Oklahoma the past couple of years.
Energy jobs have plummeted, but spillover to other industries has been fairly limited

Job Growth by Industry
Feb-16

Source: Bureau of Labor Statistics
With many workers finding jobs in other industries, unemployment still remains low.

Unemployment Rate
Seasonally Adjusted

Source: U.S. Bureau of Labor Statistics
And Oklahoma home prices have continued to grow, similar to the nation

FHFA Home Prices
Seasonally adjusted

Percent change, year-over-year.

Source: FHFA
Office vacancies have risen only slightly in Oklahoma’s two largest metros

Office Vacancy Rates

Percent


U.S.
OKC
Tulsa

Source: TWR
In related news, banking conditions in the state have remained good.

Source: FDIC
But state tax receipts continue to fall, creating difficulties for the state budget.
And Oklahoma is highly concentrated in energy, where the outlook will be key.

### Oklahoma Personal Income Share by Industry

State - 2014, Metro/Non-Metro - 2012

<table>
<thead>
<tr>
<th>Industry</th>
<th>OK Location Quotient</th>
<th>OK % of Total Income</th>
<th>OKC Location Quotient</th>
<th>OKC % of Total Income</th>
<th>Tulsa Location Quotient</th>
<th>Tulsa % of Total Income</th>
<th>Non-Metro Location Quotient</th>
<th>Non-Metro % of Total Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>8.1</td>
<td>14.8</td>
<td>8.3</td>
<td>14.4</td>
<td>7.8</td>
<td>13.6</td>
<td>7.2</td>
<td>12.5</td>
</tr>
<tr>
<td>Farming</td>
<td>1.8</td>
<td>2.0</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>4.9</td>
<td>4.9</td>
</tr>
<tr>
<td>Federal Government</td>
<td>1.3</td>
<td>5.8</td>
<td>1.8</td>
<td>8.6</td>
<td>0.4</td>
<td>1.8</td>
<td>1.7</td>
<td>8.2</td>
</tr>
<tr>
<td>Construction</td>
<td>1.1</td>
<td>6.4</td>
<td>1.0</td>
<td>5.7</td>
<td>1.3</td>
<td>7.3</td>
<td>1.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Trade, Transp. &amp; Utilities</td>
<td>1.1</td>
<td>16.1</td>
<td>1.0</td>
<td>14.6</td>
<td>1.2</td>
<td>18.8</td>
<td>1.0</td>
<td>15.0</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
<td>1.0</td>
<td>13.0</td>
<td>0.9</td>
<td>12.1</td>
<td>0.6</td>
<td>7.7</td>
<td>1.4</td>
<td>19.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.9</td>
<td>9.4</td>
<td>0.7</td>
<td>6.8</td>
<td>1.3</td>
<td>13.3</td>
<td>1.0</td>
<td>9.9</td>
</tr>
<tr>
<td>Education &amp; Health</td>
<td>0.8</td>
<td>10.7</td>
<td>0.9</td>
<td>11.7</td>
<td>0.9</td>
<td>11.5</td>
<td>0.7</td>
<td>9.4</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>0.8</td>
<td>3.5</td>
<td>0.9</td>
<td>4.1</td>
<td>0.7</td>
<td>3.0</td>
<td>0.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Prof. &amp; Business Services</td>
<td>0.6</td>
<td>10.8</td>
<td>0.7</td>
<td>12.6</td>
<td>0.8</td>
<td>13.1</td>
<td>0.4</td>
<td>6.7</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>0.6</td>
<td>6.0</td>
<td>0.8</td>
<td>7.3</td>
<td>0.8</td>
<td>7.3</td>
<td>0.4</td>
<td>4.2</td>
</tr>
<tr>
<td>Information</td>
<td>0.5</td>
<td>1.6</td>
<td>0.5</td>
<td>1.8</td>
<td>0.7</td>
<td>2.3</td>
<td>0.3</td>
<td>0.9</td>
</tr>
</tbody>
</table>

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

Source: U.S. Bureau of Economic Analysis
The Outlook for Oklahoma Energy
Oil has risen back to $40 lately but remains low, and natural gas prices continue to sink.

Source: EIA, Chicago Mercantile Exchange

The chart shows the Energy Spot and Futures Prices for WTI Oil (R) and Henry Hub Natural Gas (L) from January 2011 to December 2017. The prices for WTI Oil are in dollars per million BTU, while the prices for Henry Hub Natural Gas are in dollars per barrel.
World oil supply and demand are expected to be out of balance until late 2017

Global Oil Supply and Demand

Million barrels per day

- March Supply Forecast
- March Demand Forecast

Source: EIA
Firms’ average price needed to increase drilling remains well above current prices

Firms’ Price Needed to Increase Drilling and Future Price Expectations
Q4 KC Fed Energy Survey

Price Needed to Increase Drilling

2016 Year-End Expected WTI Price

2017 Year-End Expected WTI Price

$/Barrel

$/Barrel

Q2-15  Q3-15  Q4-15

$73

$60

$70

$58

$50

$60

Source: FRBKC Energy Survey
The KC Fed’s Q4 energy survey showed further declines, with more expected.
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

• But unemployment remains low, and there has been little spillover to real estate so far

• The latest KC Fed energy surveys suggest more difficulties ahead for that sector