U.S. and Oklahoma Economic Outlook

Oklahoma Bankers Association
May 24, 2016

Chad Wilkerson
Oklahoma City Branch Executive & Economist
Federal Reserve Bank of Kansas City
www.kansascityfed.org/oklahomacity
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 (Apr. 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

PCE Inflation Index

Percent change, year-over-year

Current (Q1 2016): 1.0%
Current Core (Q1 2016): 1.7%

Mar. FOMC Forecast Ranges in Yellow

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

Federal Funds Rate
Year-end target

Current (May 2016): 0.50%

Sources: Federal Reserve Board, FOMC
Trends in the Oklahoma Economy
Okla. employment has held up relatively well, but this includes a shift to lower-paying jobs.
Still, with many workers finding jobs in other industries, unemployment remains low.

Source: U.S. Bureau of Labor Statistics
In related news, banking conditions in the state have remained good.
Real estate conditions have begun to soften somewhat, but from very strong levels.

Office Vacancy Rates & Single-Family Permits

Index: 2006 Q1=100

Tulsa Office Vacancy Rate (R)

Oklahoma Single-Family Housing Permits (L)

OKC Office Vacancy Rate (R)

Source: TWR
Declining tax receipts are creating difficulties for government budgets

State Tax Receipts, Oklahoma
Through April 2016

Source: OK Tax Commission
And energy and agriculture remain the most unique industries in Oklahoma

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
World oil supply and demand are expected to remain out of balance for some time.

Source: EIA, Chicago Mercantile Exchange
Profitable prices for oil (and natural gas) remain above current prices

KC Fed Energy Survey Special Questions
Q3 2014 to Q1 2016

<table>
<thead>
<tr>
<th></th>
<th>Q3-14</th>
<th>Q1-15</th>
<th>Q3-15</th>
<th>Q1-16</th>
<th>Q2-15</th>
<th>Q4-15</th>
<th>Q3-15</th>
<th>Q4-15</th>
<th>Q3-15</th>
<th>Q4-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil Price Needed for</td>
<td>$79</td>
<td>$62</td>
<td>$60</td>
<td>$51</td>
<td>$73</td>
<td>$60</td>
<td>$70</td>
<td>$58</td>
<td>$50</td>
<td>$45</td>
</tr>
<tr>
<td>Profitability in</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active Areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price Needed to</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase Drilling</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significantly</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016 Year-End</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expected WTI Price</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017 Year-End</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expected WTI Price</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Natural Gas Price Needed for Profitability, Q1 2016: $3.28 average

Source: FRBKC Energy Survey
The KC Fed’s Q1 energy survey showed further energy declines, with more expected declines in access to credit and expectations. The survey also showed a decline in capital expenditures and a reduction in the number of employees.
Our ag credit survey also shows drops in Oklahoma farm income and spending.

Oklahoma Farm Income

Source: Federal Reserve Bank of Kansas City, Survey of Ag Credit Conditions
Still, farmland values have held up in Oklahoma, unlike in the rest of our region.
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 fairly limited spillover so far

• The latest KC Fed energy and agriculture surveys suggest more difficulties ahead