

U.S. and Oklahoma Economic Outlook

*Tulsa Risk Management Association
November 13, 2018*

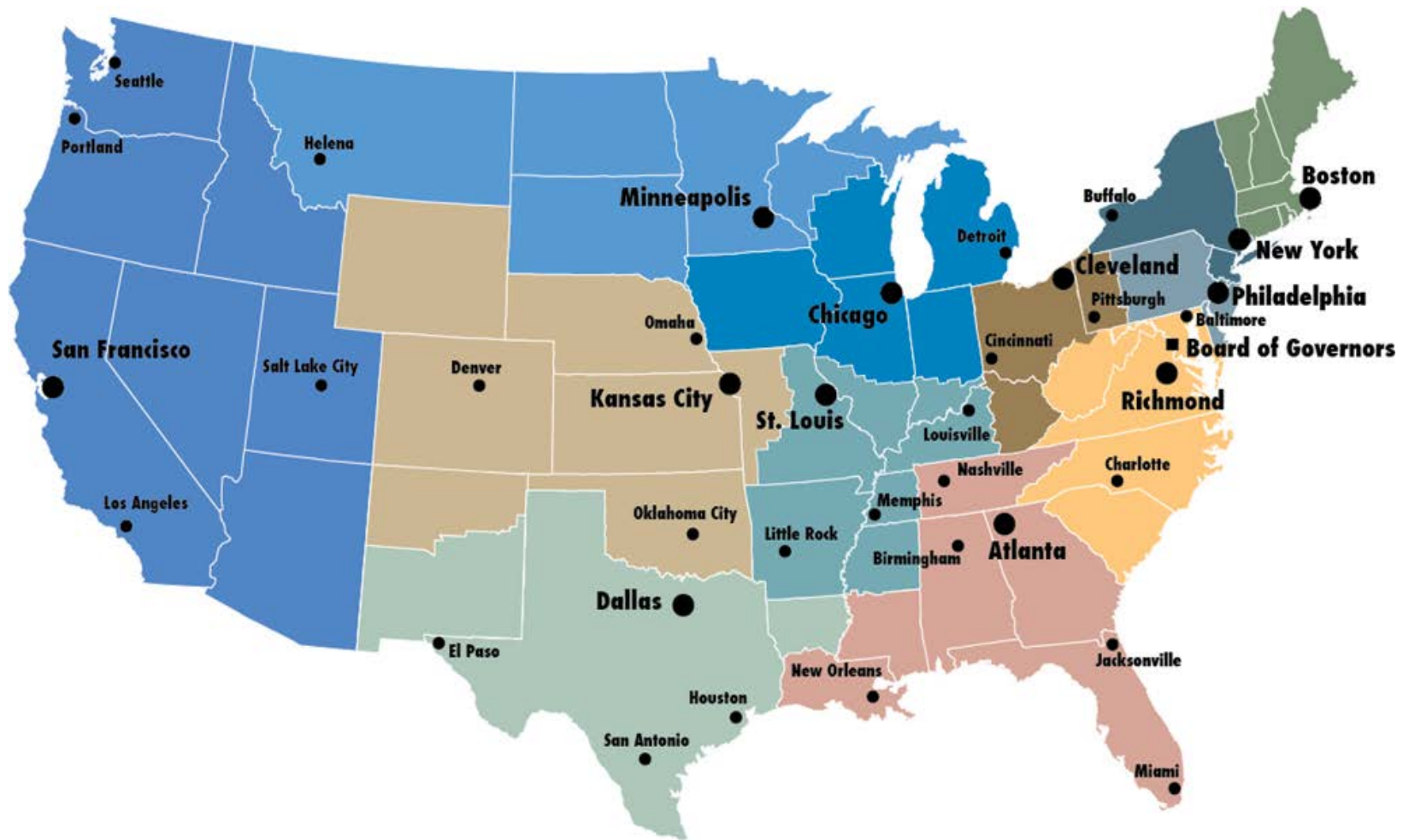
Chad Wilkerson

Oklahoma City Branch Executive and Economist

*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

Federal Open Market Committee (FOMC)

Board of Governors

- **Jerome H. Powell**, Chairman
- **Lael Brainard**
- **Richard H. Clarida**
- **Randal K. Quarles**
- **Open**
- **Open**
- **Open**

Reserve Bank Presidents

- **John C. Williams**, New York, Vice Chairman
- **Thomas I. Barkin**, Richmond
- **Raphael W. Bostic**, Atlanta
- **Mary C. Daly**, San Francisco
- **Loretta J. Mester**, Cleveland
- **James Bullard**, St. Louis
- **Charles L. Evans**, Chicago
- **Esther L. George**, Kansas City
- **Eric Rosengren**, Boston
- **Patrick T. Harker**, Philadelphia
- **Robert S. Kaplan**, Dallas
- **Neel Kashkari**, Minneapolis

*Permanent voters in bold; 2018 rotating voters in red; 2019 rotating voters in blue



The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

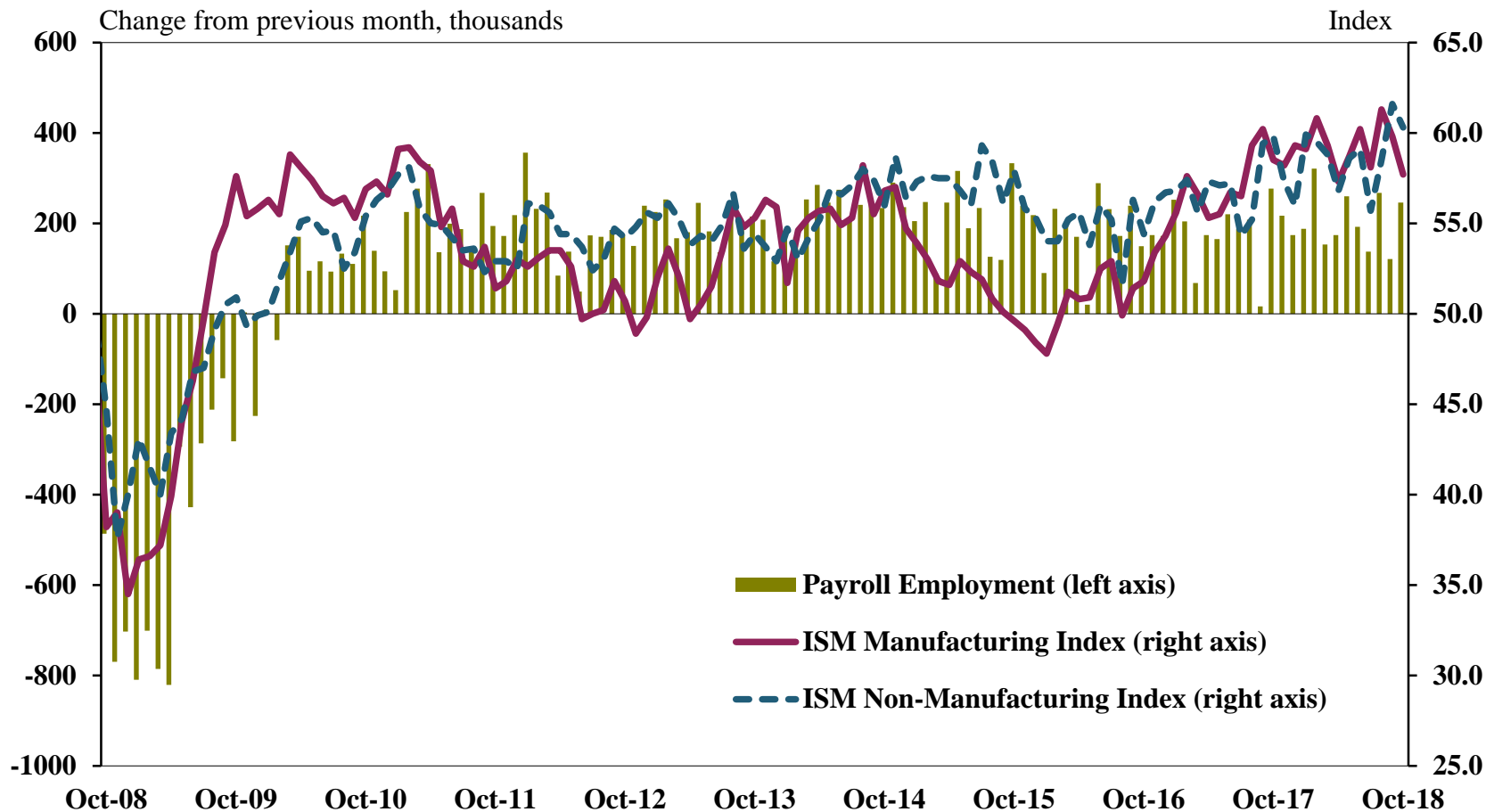
- **Functions and purposes ~ 45 staff**
 - Research on U.S. and Oklahoma economies; energy and manufacturing sectors
 - Economic and financial education outreach, including to low/moderate income
 - Examinations of Oklahoma financial institutions (~50 banks, ~175 holding cos.)
- **2018 OKC Fed Branch Board of Directors**
 - **Clint Abernathy (chair)**, Owner, Abernathy Farms, Inc., Altus
 - **Susan Chapman Plumb**, Board Chair & CEO, Bank of Cherokee County, Tahlequah
 - **Michael Coffman**, CEO (retired), Panhandle Oil & Gas, Inc., Oklahoma City
 - **Tina Patel**, Co-Owner & CFO, Promise Hotels, Tulsa
 - **Chris Turner**, President & CFO, First State Bank, Oklahoma City
 - **Katrina Washington**, Owner/Broker, Stratos Realty, Oklahoma City
 - **Dana Weber**, Vice-Chair & CEO, Webco Industries, Sand Springs
- **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

U.S. Economic Outlook



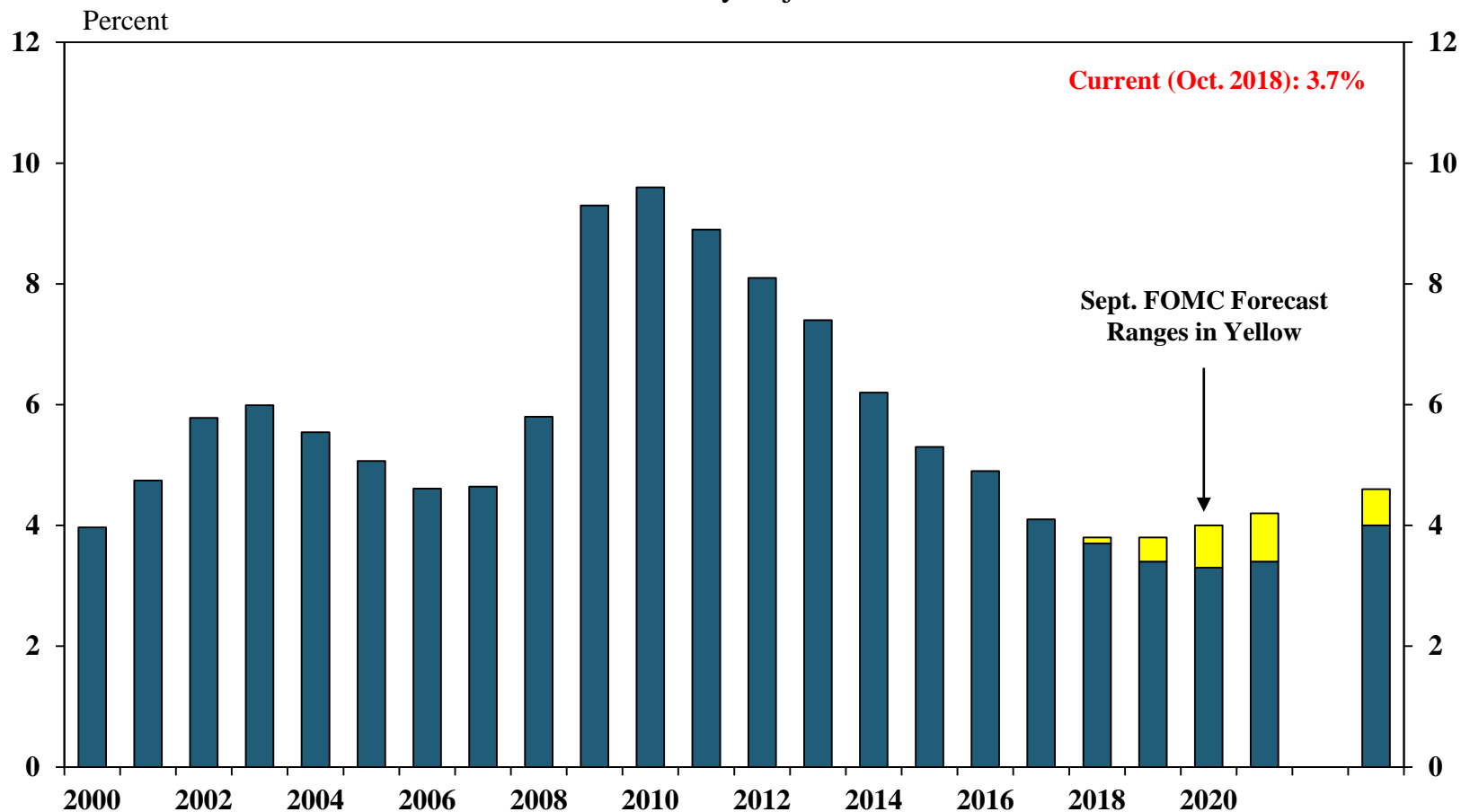
Monthly data on U.S. business activity show economic growth remains strong through Q3 2018

U.S. Payroll Employment and Business Indexes



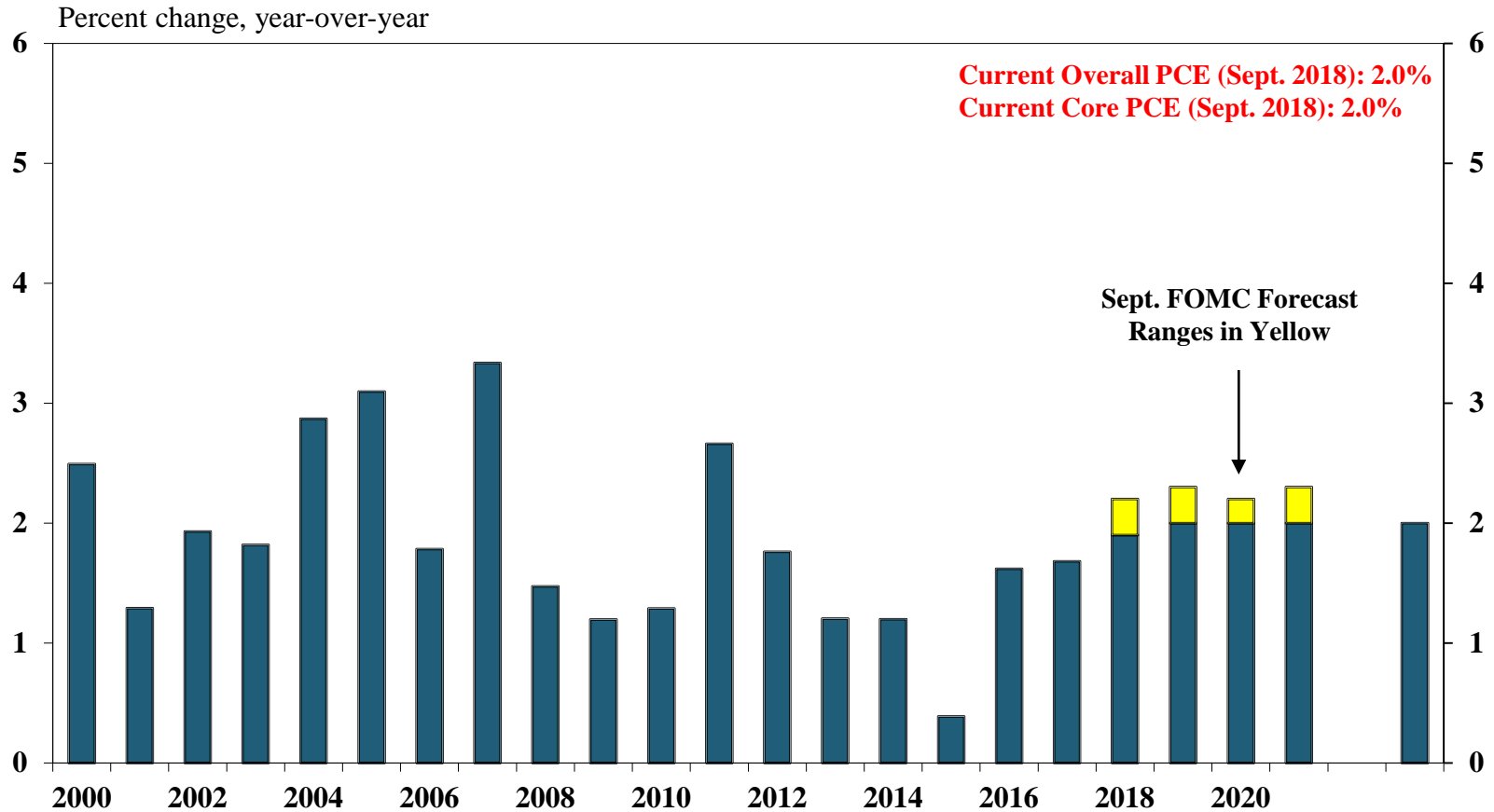
“Job gains have been strong, on average, in recent months,
and the unemployment rate has declined.”

Unemployment Rate Seasonally Adjusted



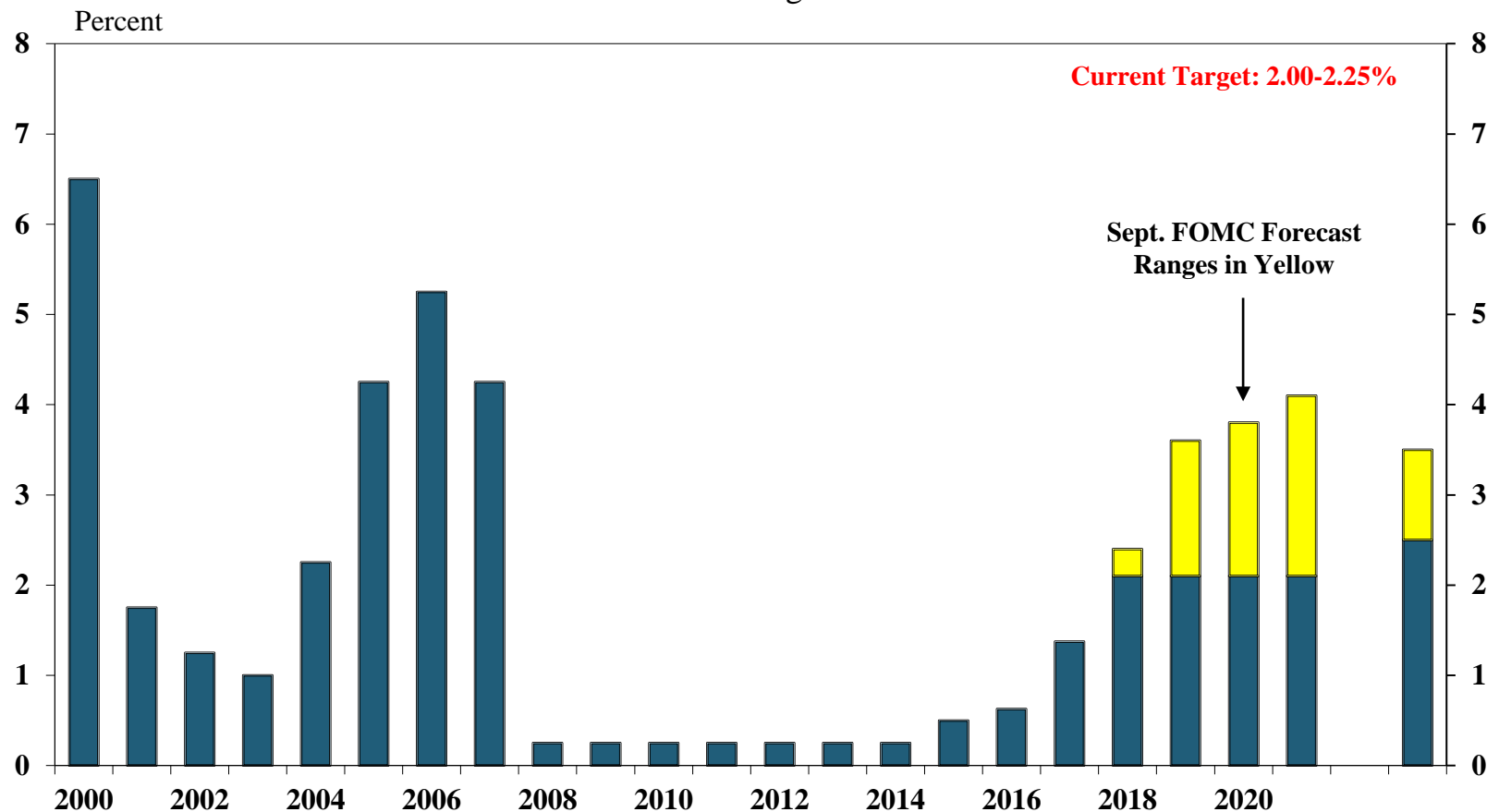
“On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent.”

PCE Inflation Index



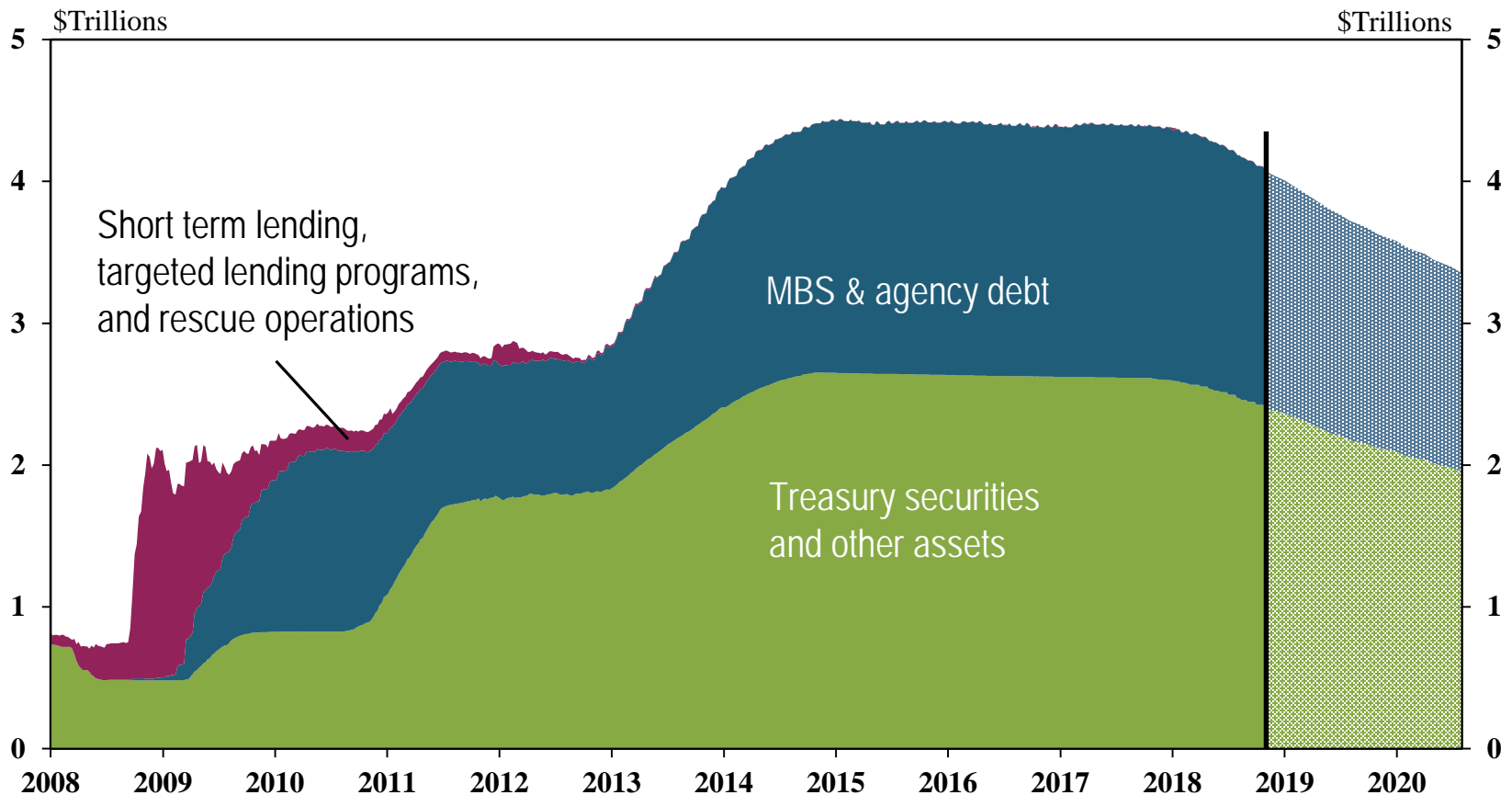
“The [FOMC] expects that further gradual increases...for the federal funds rate will be consistent with sustained expansion...”

Federal Funds Rate Year-End Target



The Fed has also begun to reduce its balance sheet

Federal Reserve Balance Sheet

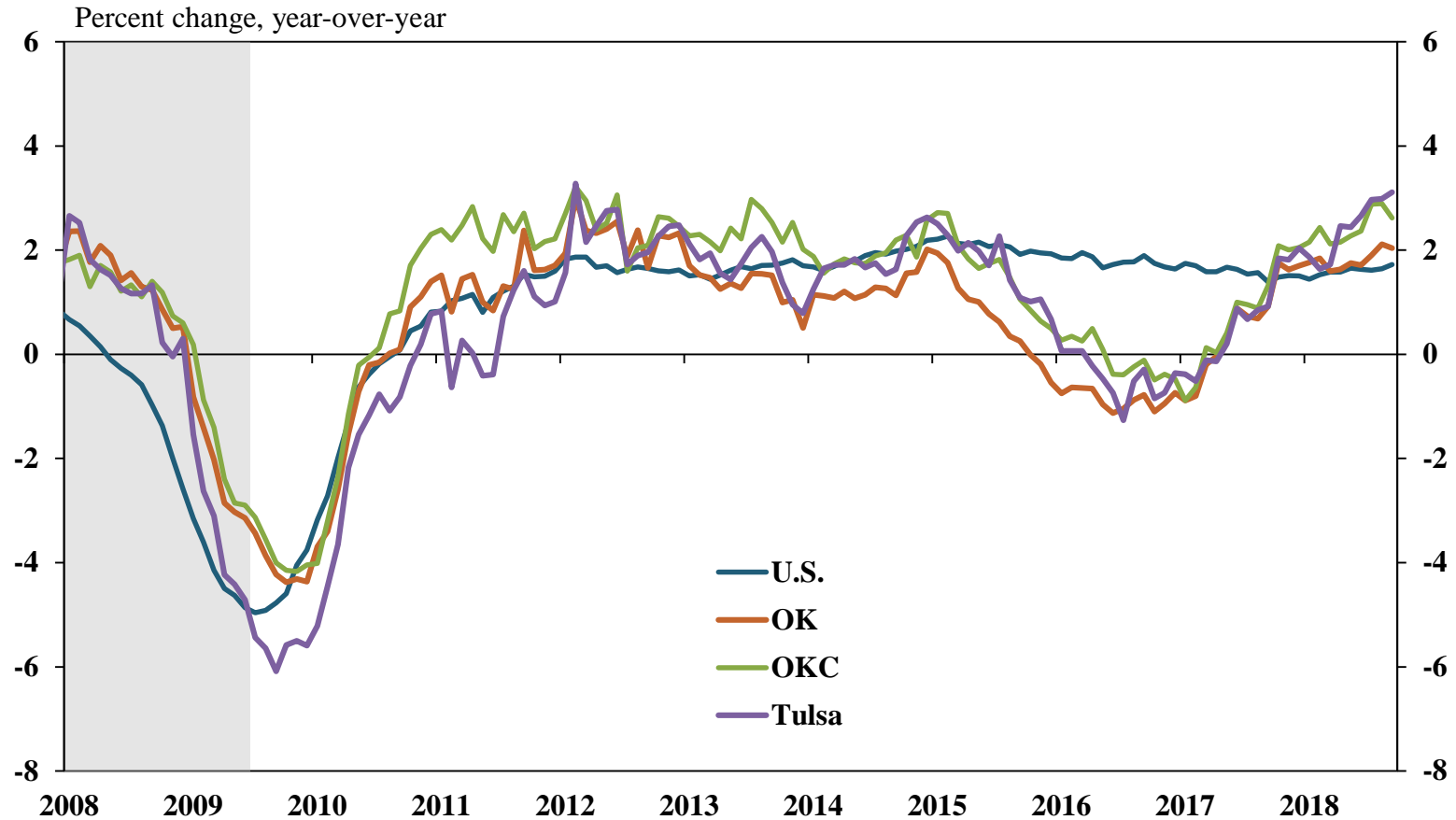


Oklahoma Economic Outlook



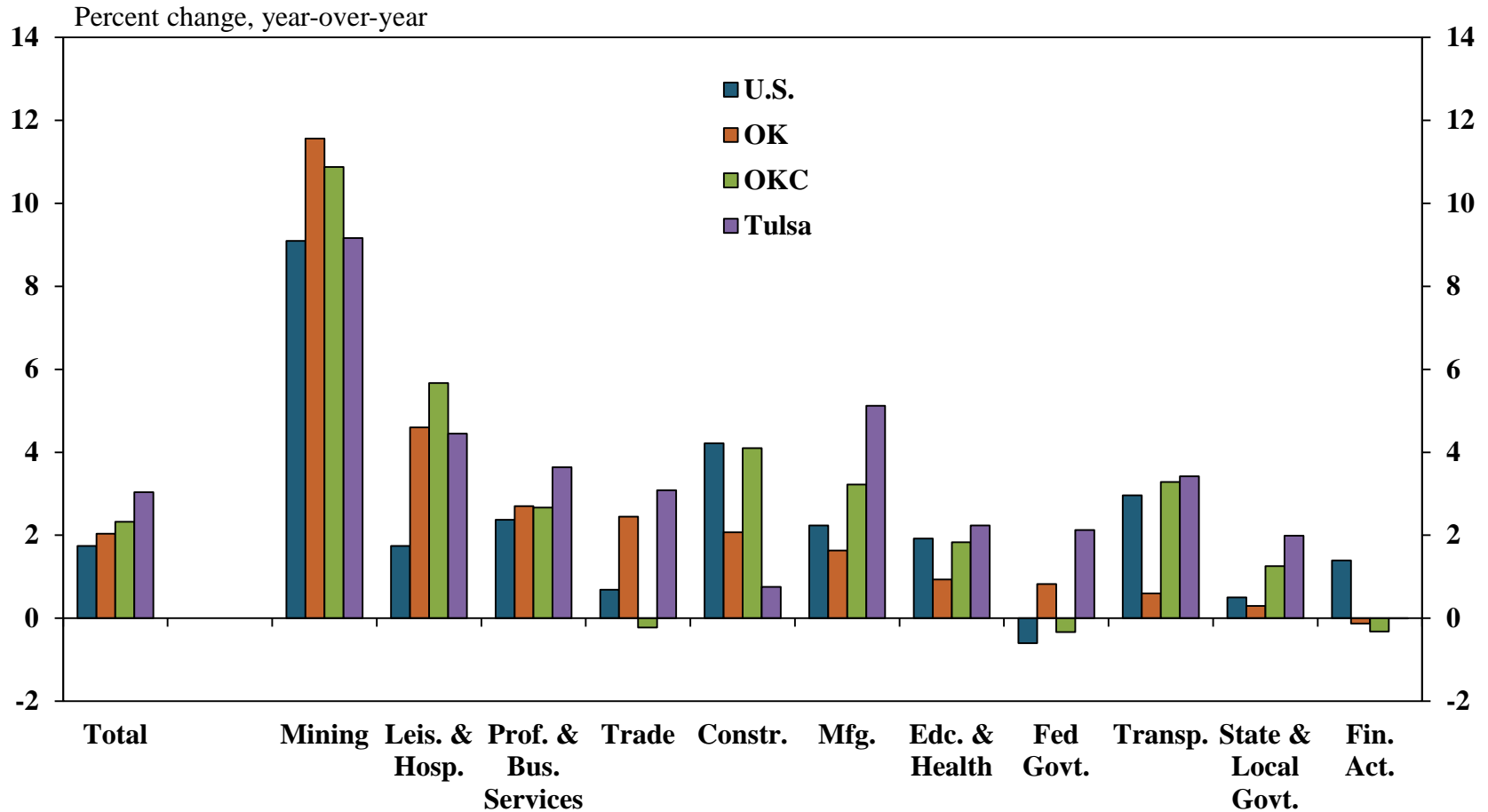
Metro job growth has outpaced the nation in 2018, and the state has also caught up after lagging in 2015-16

Nonfarm Payroll Employment Growth



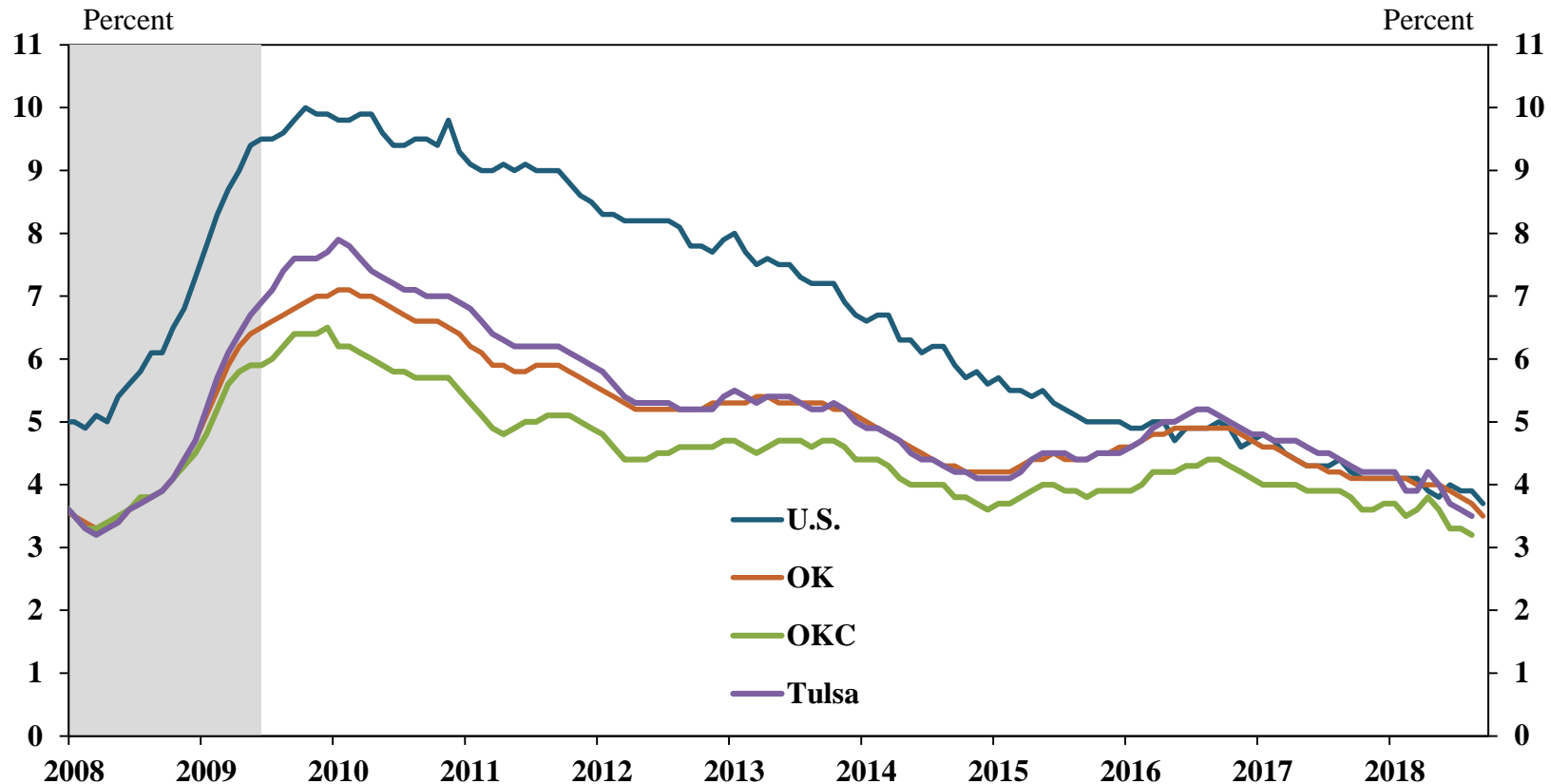
State and metro job gains this year have been led by mining (oil & gas), but most sectors have added jobs

Oklahoma Job Growth by Industry
September 2018



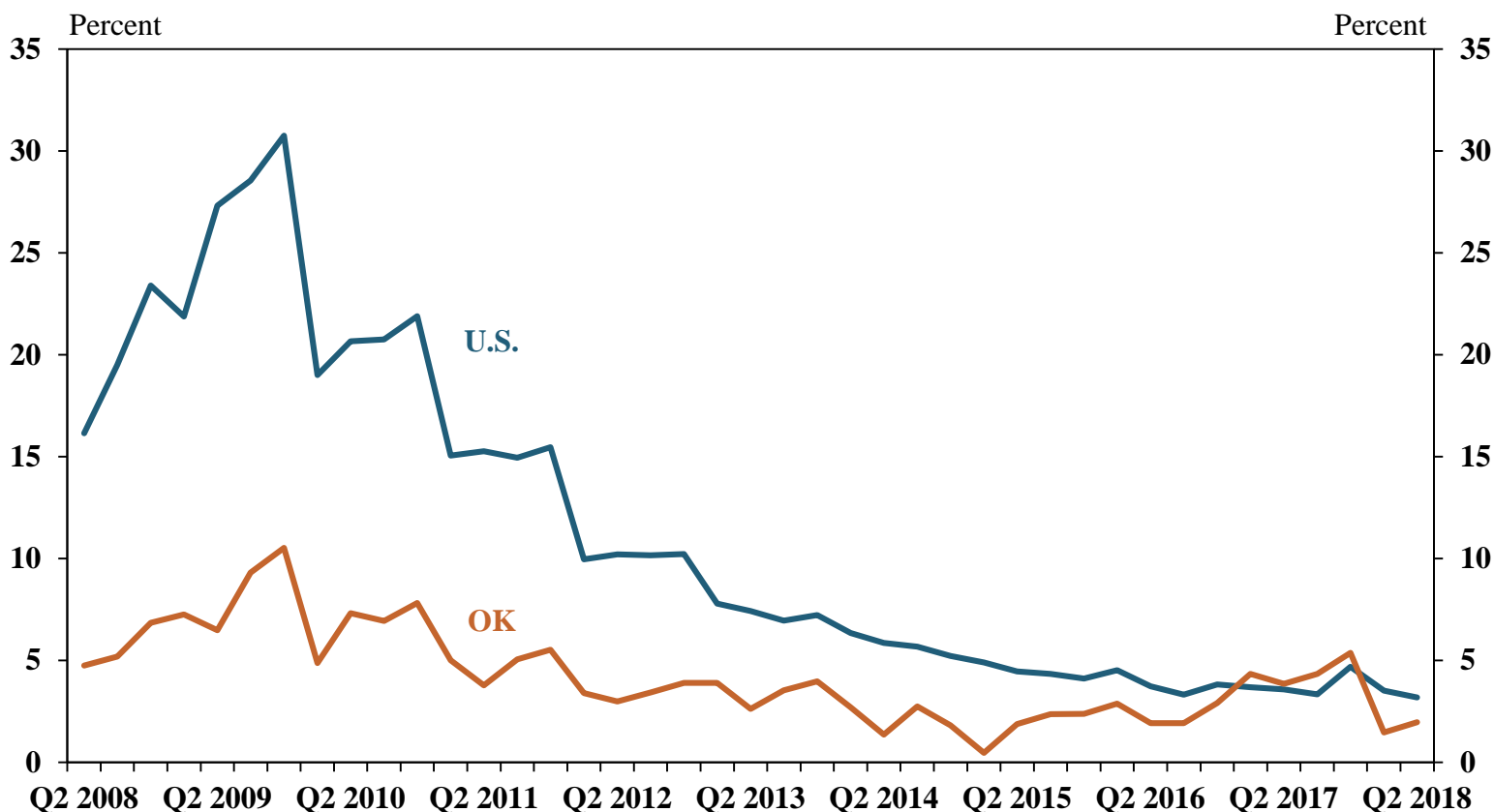
Unemployment has come down in both the state and the 2 large metros, to exceptionally low levels

Unemployment rates
Seasonally Adjusted



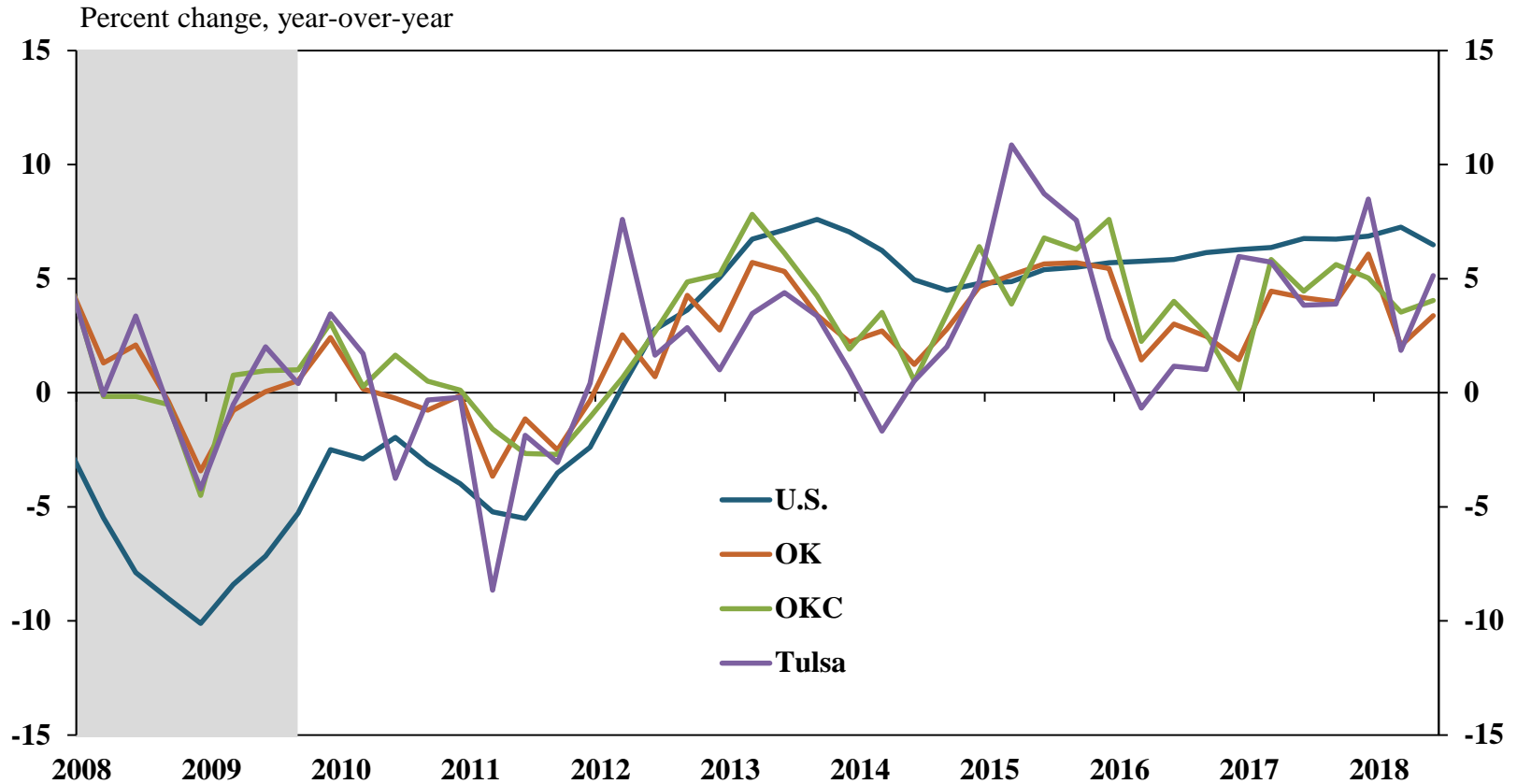
Banking conditions in Oklahoma also remain very good despite the 2015-16 economic slowdown

Share of Banks Not Making a Profit
Commercial Banks



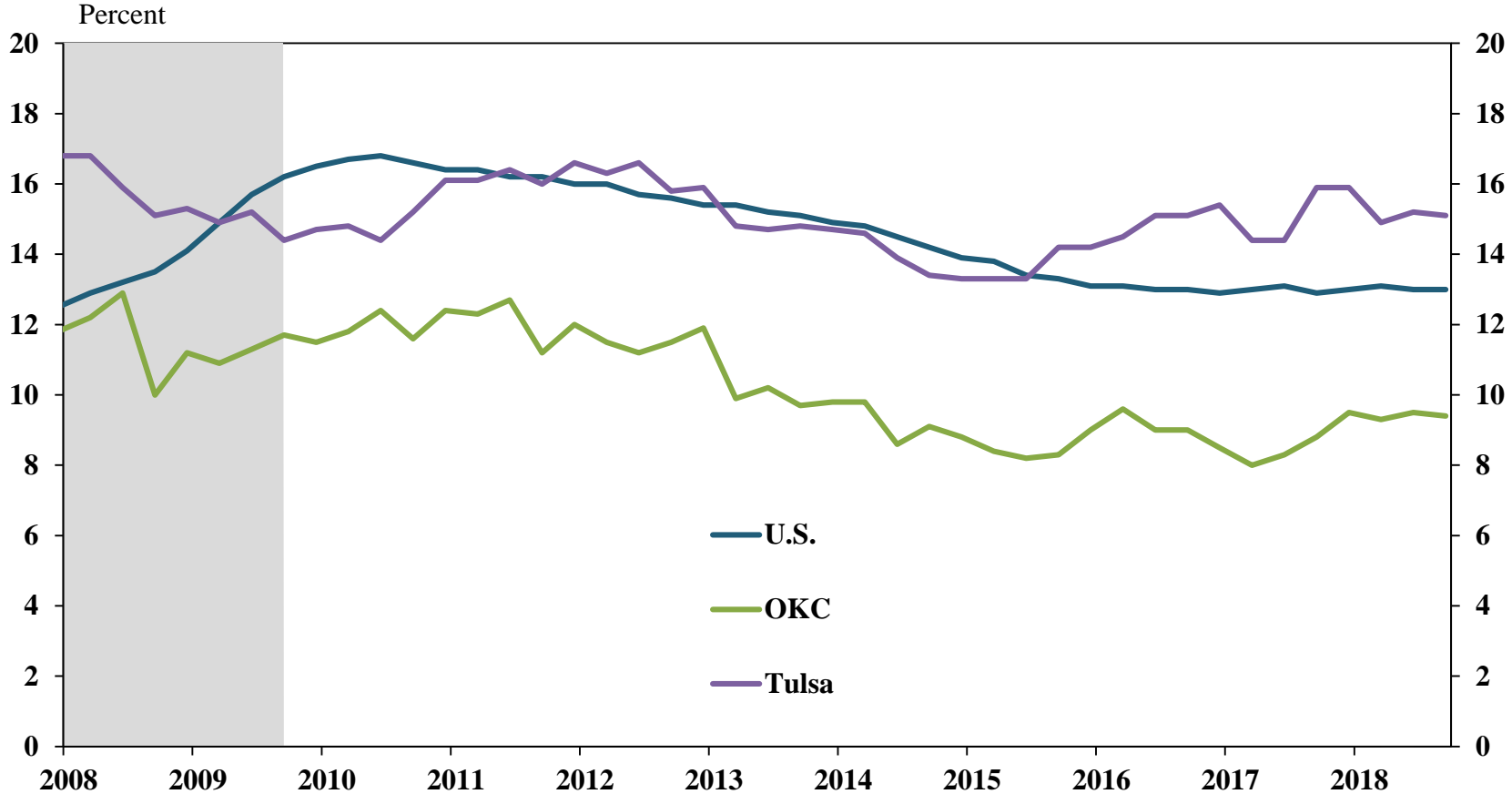
Home prices have continued to increase steadily in the Oklahoma City and Tulsa metros

Home Prices: Purchase-Only Indexes Seasonally Adjusted



Office vacancy rates in both Oklahoma City and Tulsa have leveled off after rising some in 2016-17

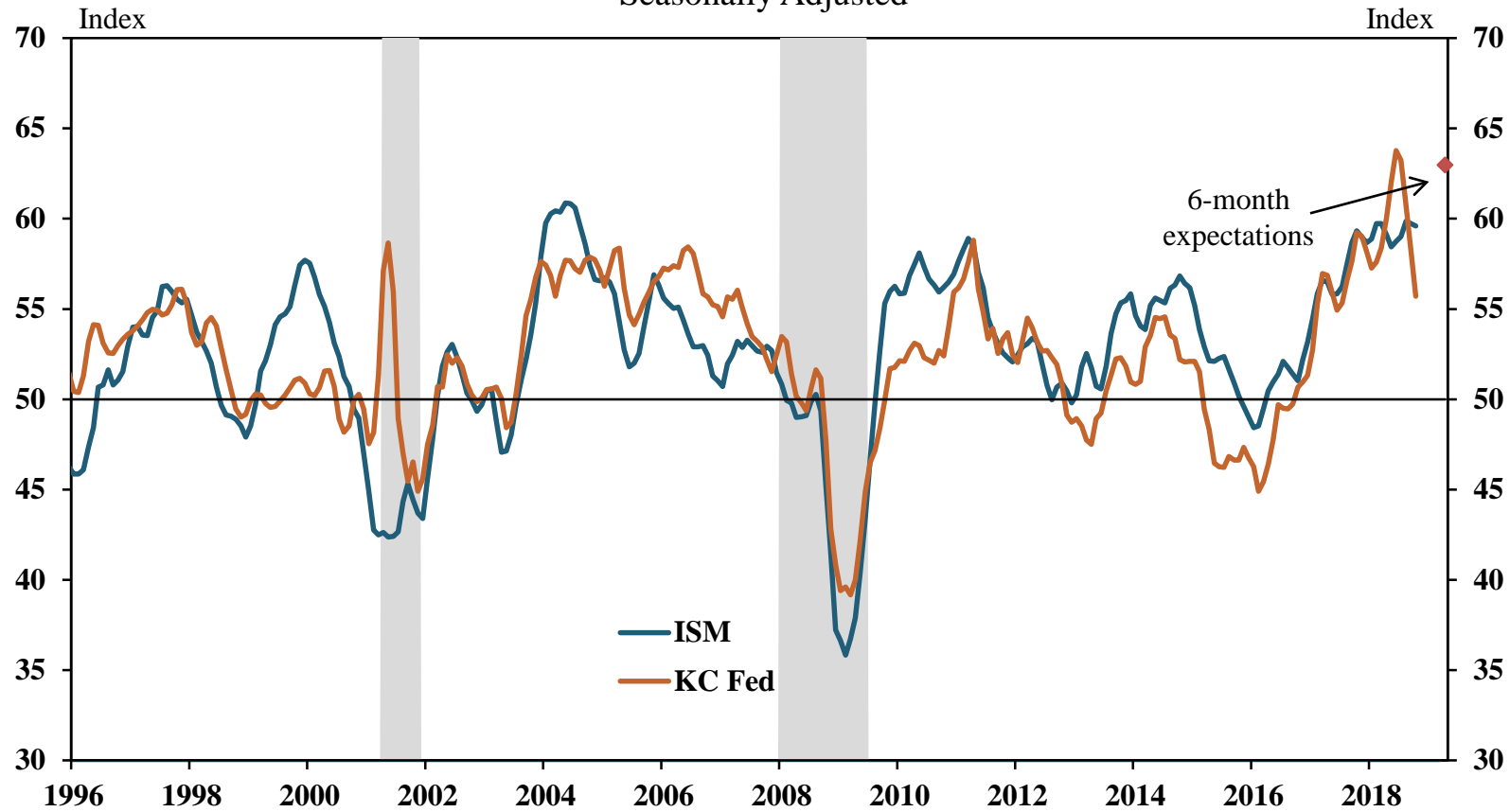
Office Vacancy Rates



Source: CBRE

Regional factory growth remains strong despite tariffs, but recently has slowed slightly from a record pace

Monthly Manufacturing Composite Indexes Seasonally Adjusted



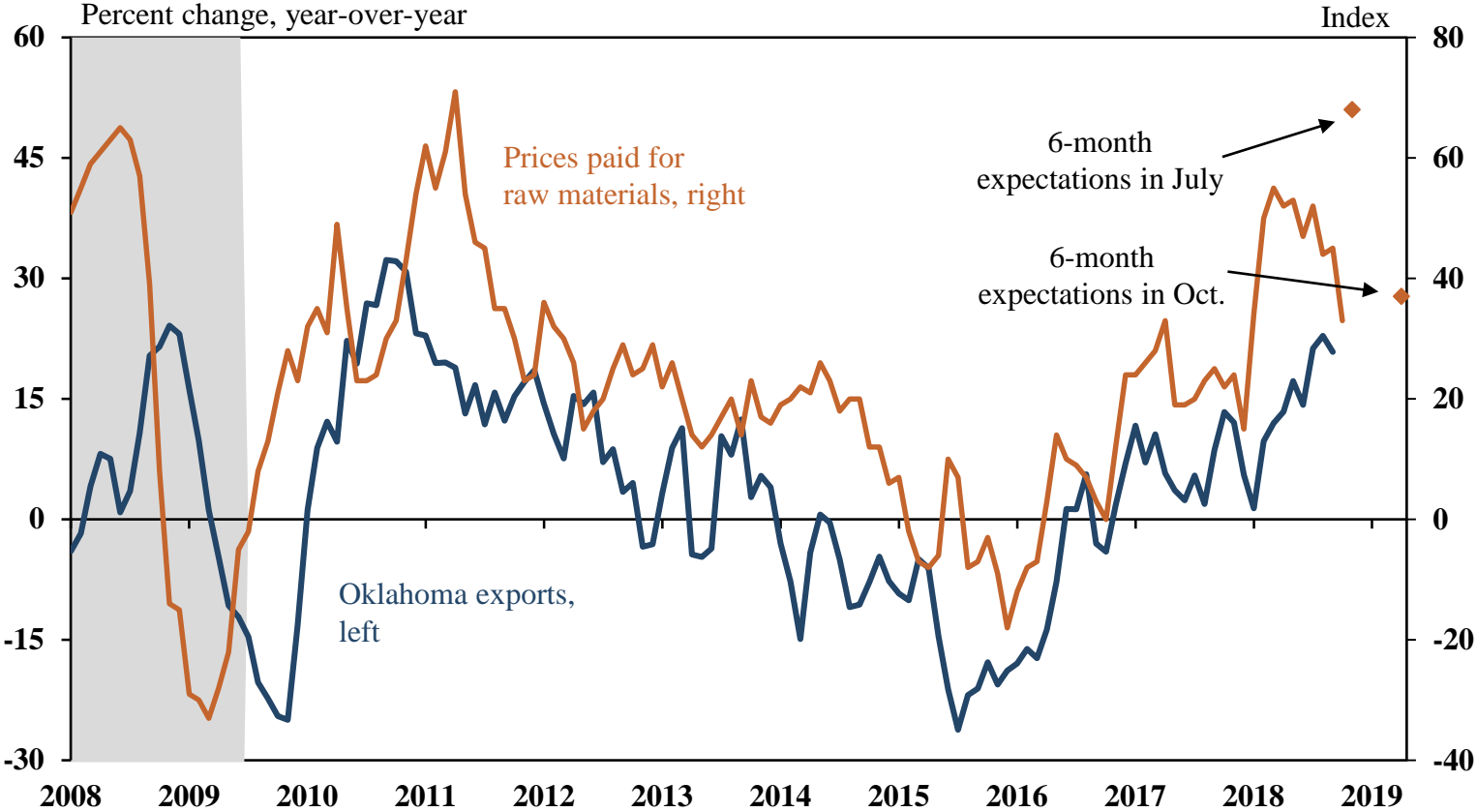
Note: Indexes are shown as three-month moving averages



Sources: Federal Reserve Bank of Kansas City, Institute for Supply Management, NBER recession shading

Materials prices have risen with the tariffs, but Oklahoma's exports continue to rise

Manufacturing Price Indexes 2008 - present



Note: Exports data shown as three-month moving average.



Sources: FRBKC, NBER recession shading, U.S. Census Bureau, WISERTrade

The mining (oil & gas) sector makes the economy of the state and 2 large metros unique

Personal Income Share by Industry, 2016

Industry	Percent of Total Income				Location Quotient		
	U.S.	OK	Oklahoma County	Tulsa County	OK	Oklahoma County	Tulsa County
Mining	1.1	6.6	5.6	8.8	5.8	4.9	7.8
Transportation & Utilities	4.4	10.7	6.3	21.2	2.4	1.4	4.8
Agriculture	0.6	1.0	0.0	0.0	1.6	0.0	0.0
Federal Government	4.0	5.9	9.7	1.4	1.5	2.4	0.3
Construction	6.0	6.4	5.4	5.0	1.1	0.9	0.8
State & Local Government	12.6	13.8	10.3	5.6	1.1	0.8	0.4
Education & Health	12.9	11.5	14.4	12.6	0.9	1.1	1.0
Trade	10.9	10.2	10.8	10.5	0.9	1.0	1.0
Manufacturing	9.4	8.2	5.1	9.1	0.9	0.5	1.0
Leisure & Hospitality	4.6	3.8	4.7	3.1	0.8	1.0	0.7
Professional & Business Services	22.8	14.4	19.8	15.8	0.6	0.9	0.7
Financial Activities	6.6	3.6	4.5	4.1	0.5	0.7	0.6

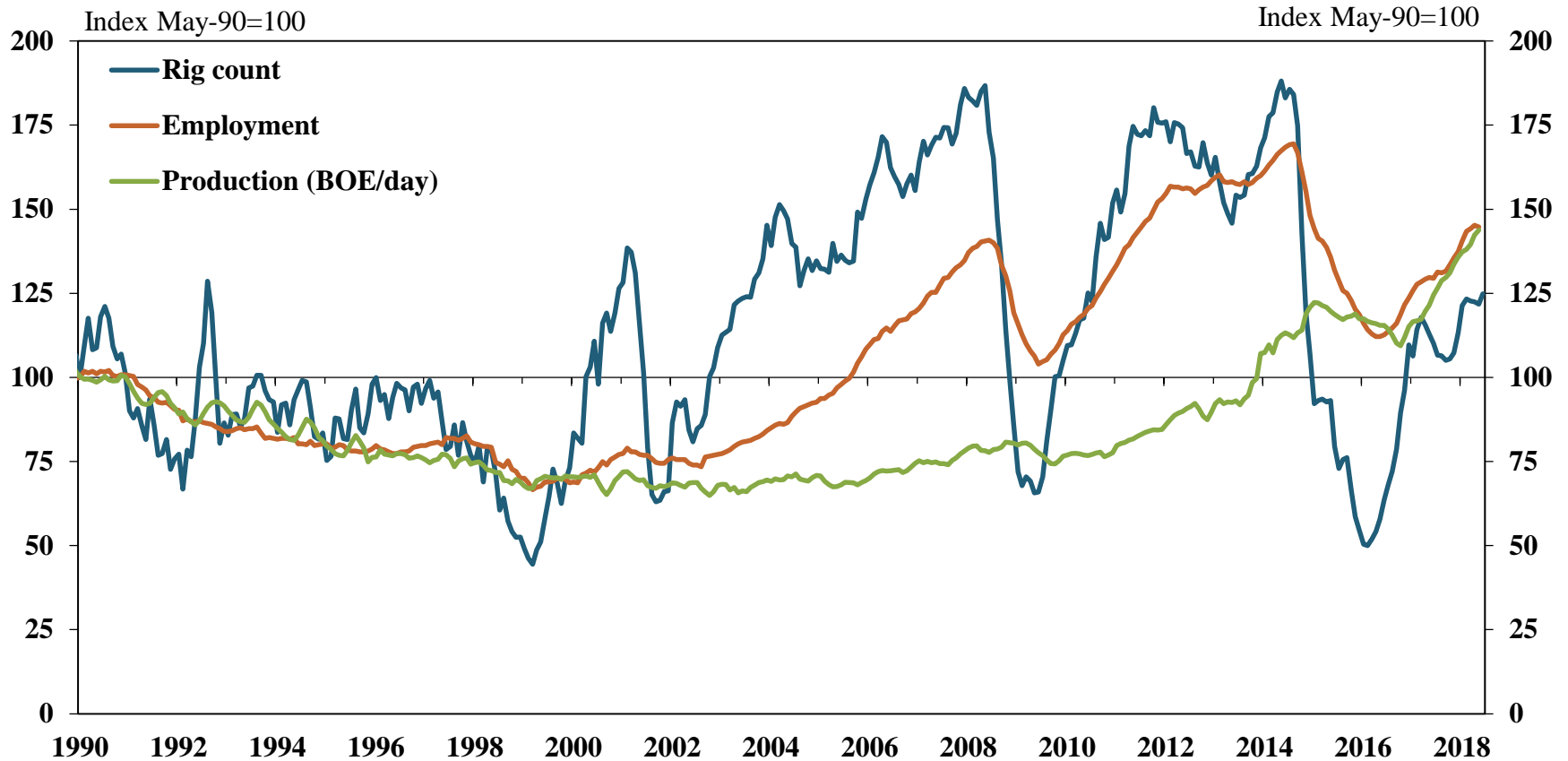
Note: Location quotient is the division of local share by national share.

Red denotes industries with a higher concentration than the U.S.



Oil and gas production is at a record high, but with considerably fewer rigs and workers than in 2014

Oklahoma Oil & Gas Rig Count, Employment, and Production



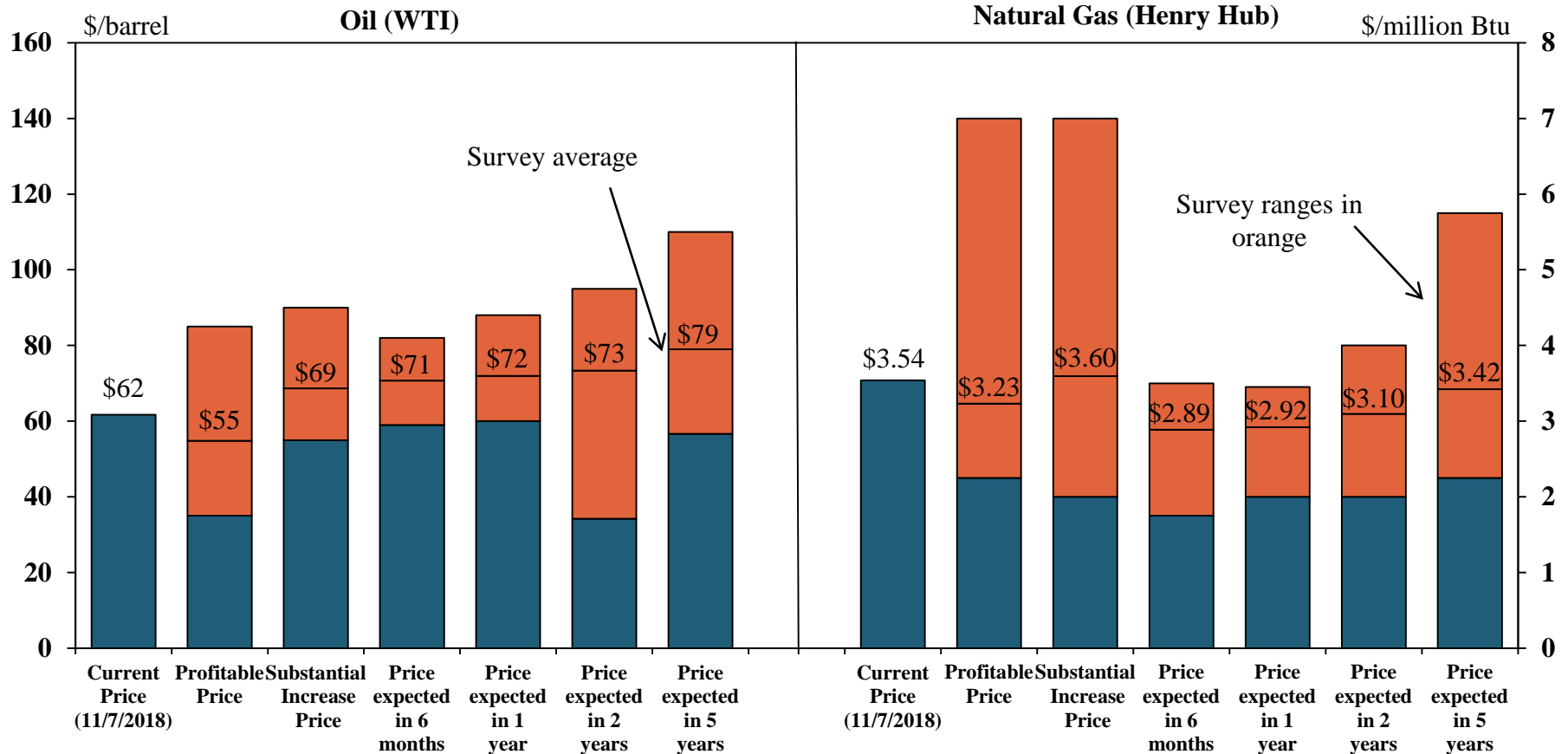
Note: Employment is for total mining and logging, which in Oklahoma is almost completely oil and gas related. Production is shown as a 3-month moving average.



Source: Baker Hughes, EIA/Haver Analytics

Most firms can profitably drill for oil in the areas they are active, and natural gas prices work for some firms

Energy Survey Oil & Gas Prices



Summary

- The U.S. economy continues to grow despite headwinds, and the Fed has been raising rates.
- The state and metro economies were hurt by low commodity prices, but now are growing solidly.
- Energy and manufacturing activity have been strong, despite tariffs and trade concerns.



Questions?

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