

U.S. and Oklahoma Economic Outlook

Tulsa Economic Forum
April 10, 2018

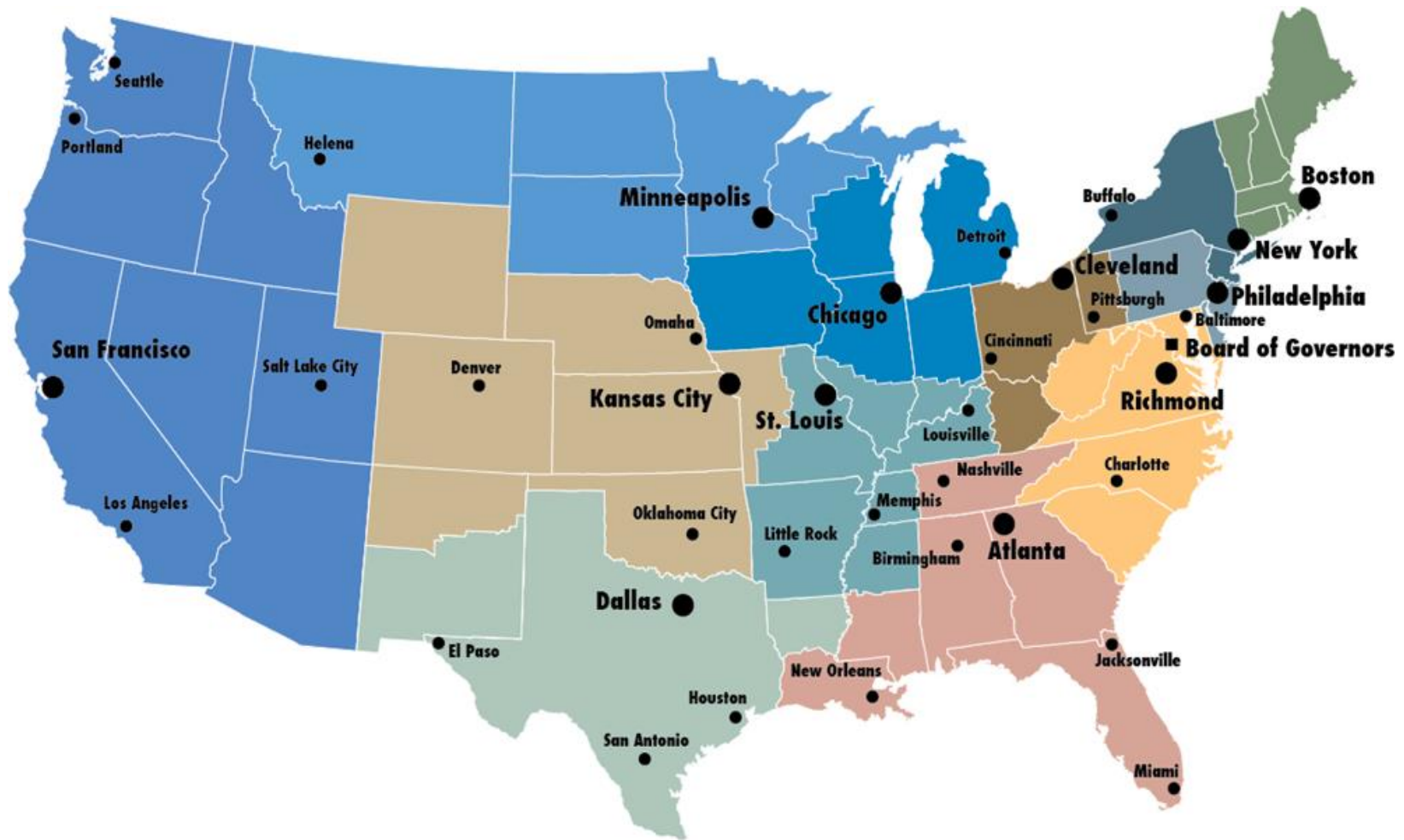
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Oklahoma City Branch Executive and Economist

*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

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

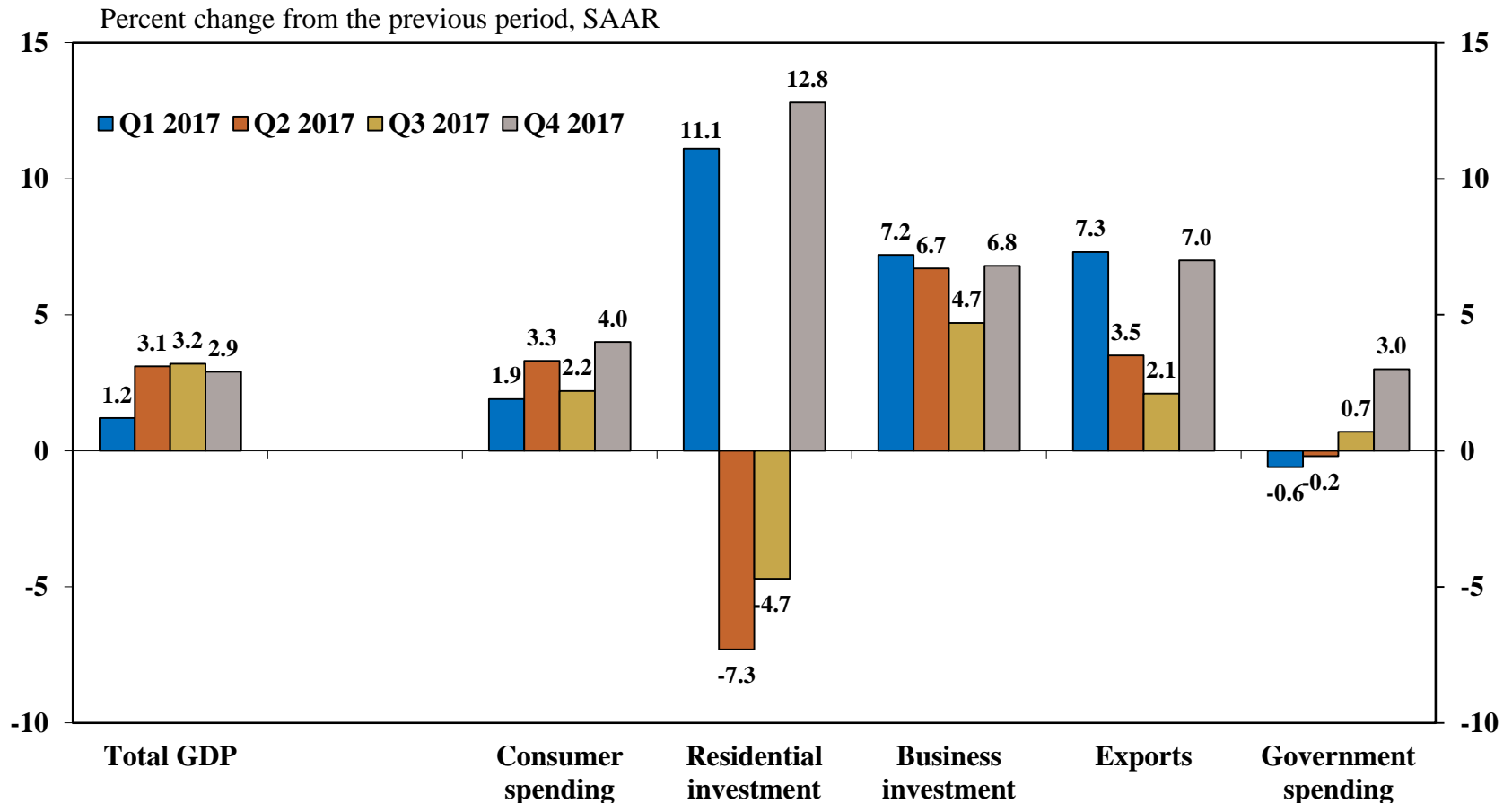
- **Functions and purposes – 45 staff**
 - Research on U.S. and Oklahoma economies; energy and manufacturing sectors
 - Economic and financial education outreach, including to low/moderate income
 - Examinations of Oklahoma financial institutions (~50 banks, ~175 holding cos.)
- **2018 OKC Fed Branch 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

The U.S. Economy and Monetary Policy



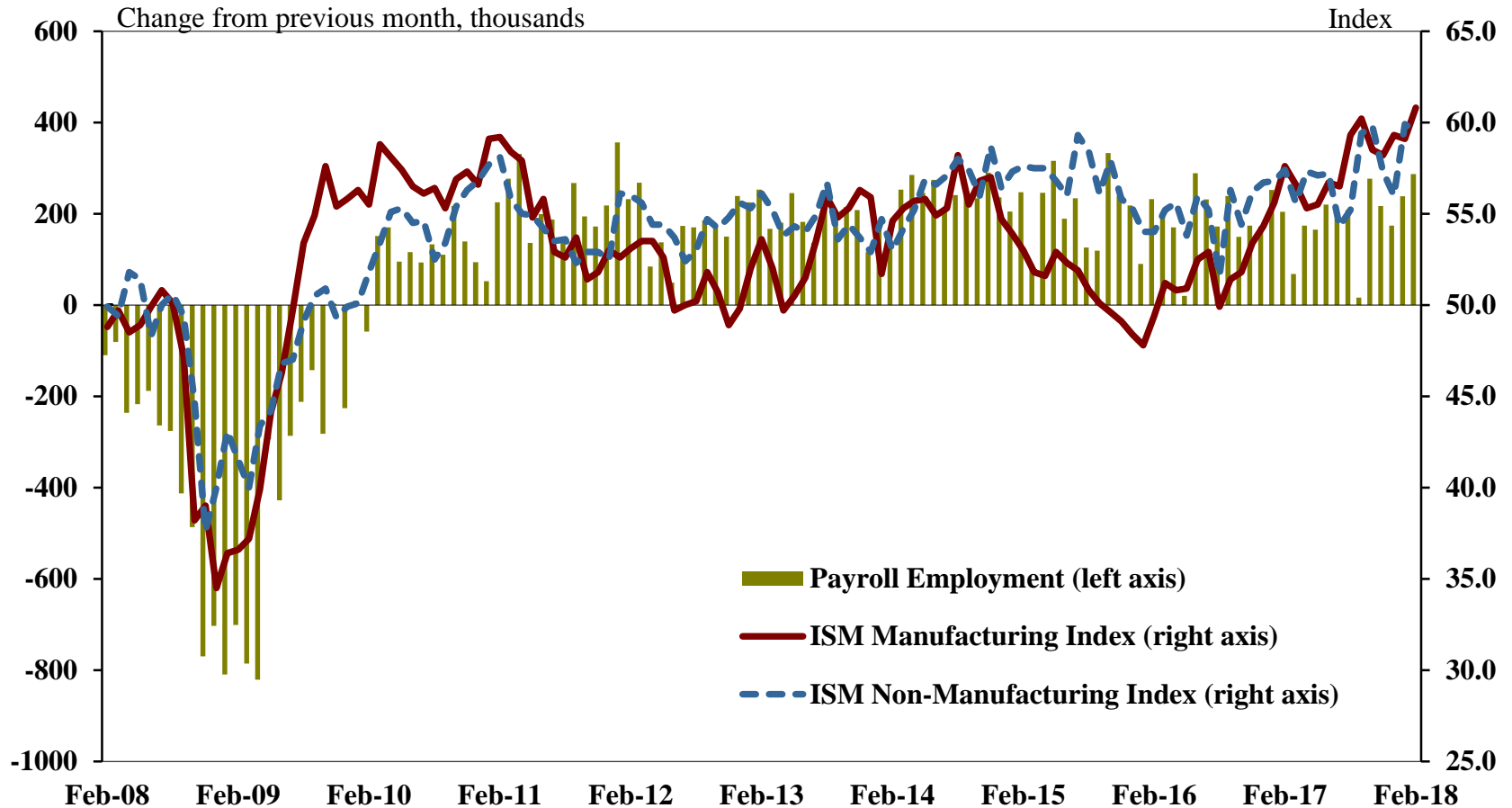
U.S. GDP growth remained solid in Q4, with strong consumer and business spending

Growth in Components of Real GDP



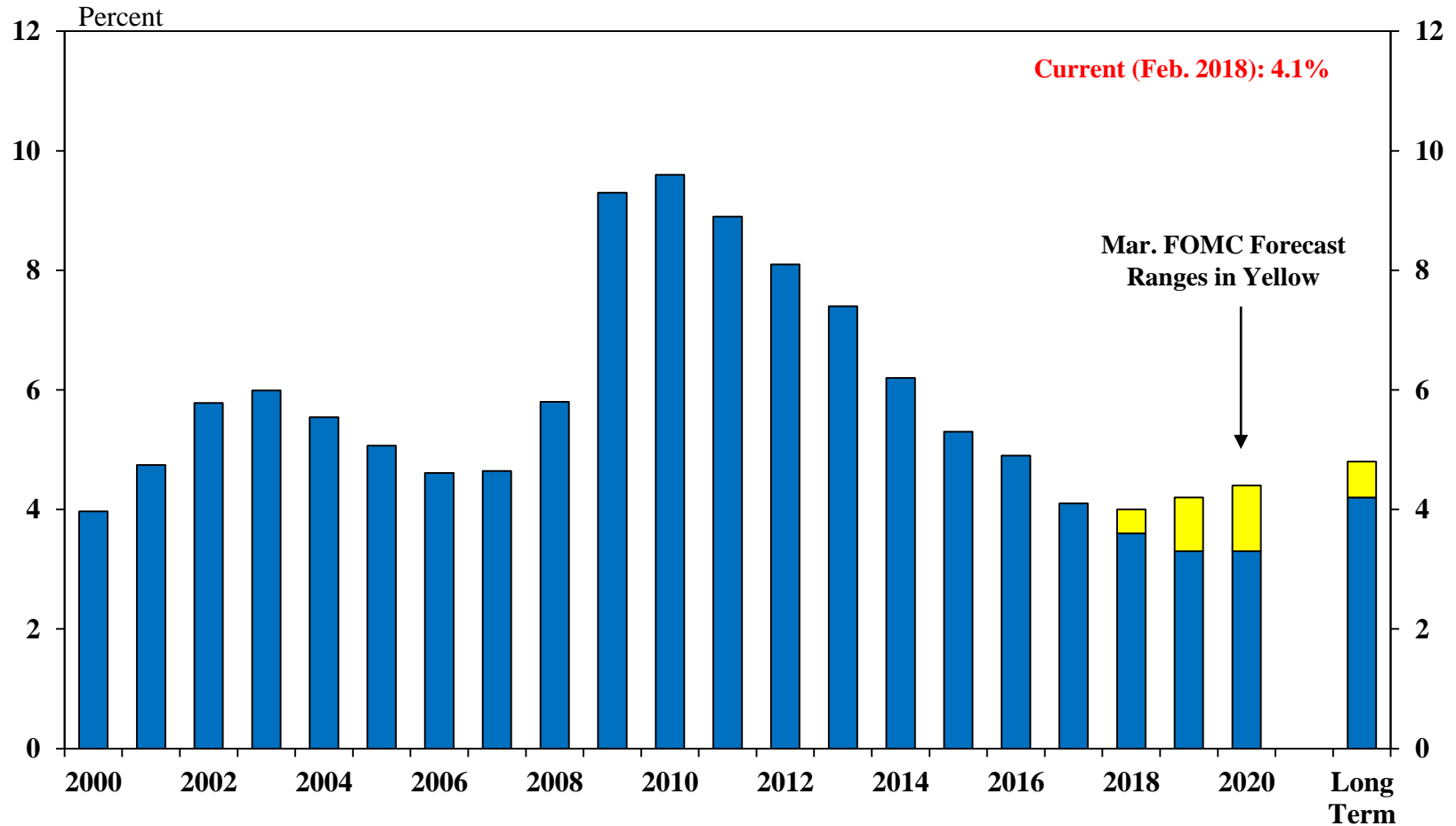
Monthly data on business activity and employment show U.S. growth remained strong into 2018

U.S. Payroll Employment and Business Indexes



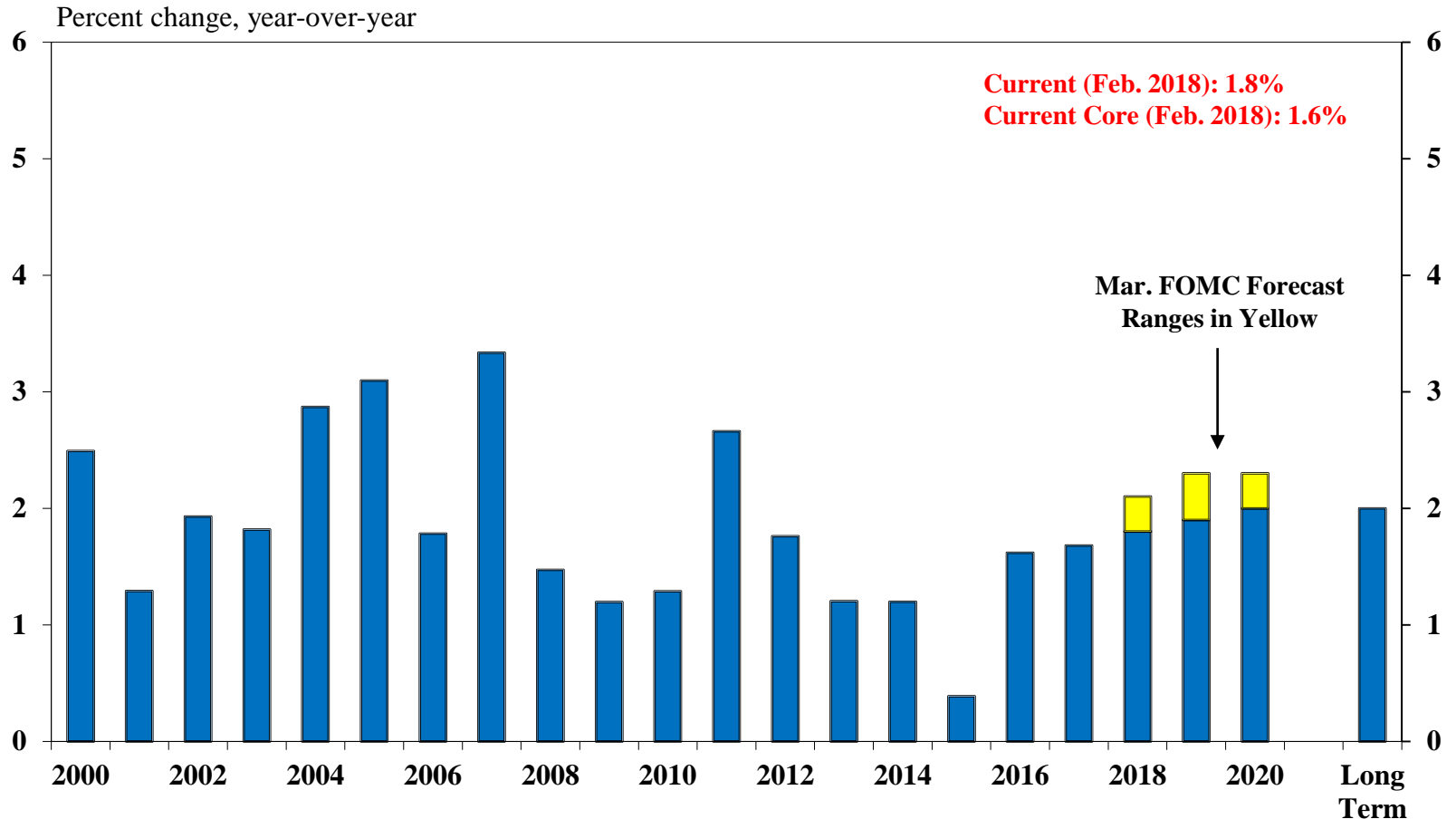
“The [FOMC] expects that, with further...adjustments...
in...policy...labor market conditions will remain strong”

Unemployment Rate Seasonally Adjusted



“Inflation on a 12-month basis is expected to move up in coming months and stabilize around the [FOMC’s] 2 percent objective.”

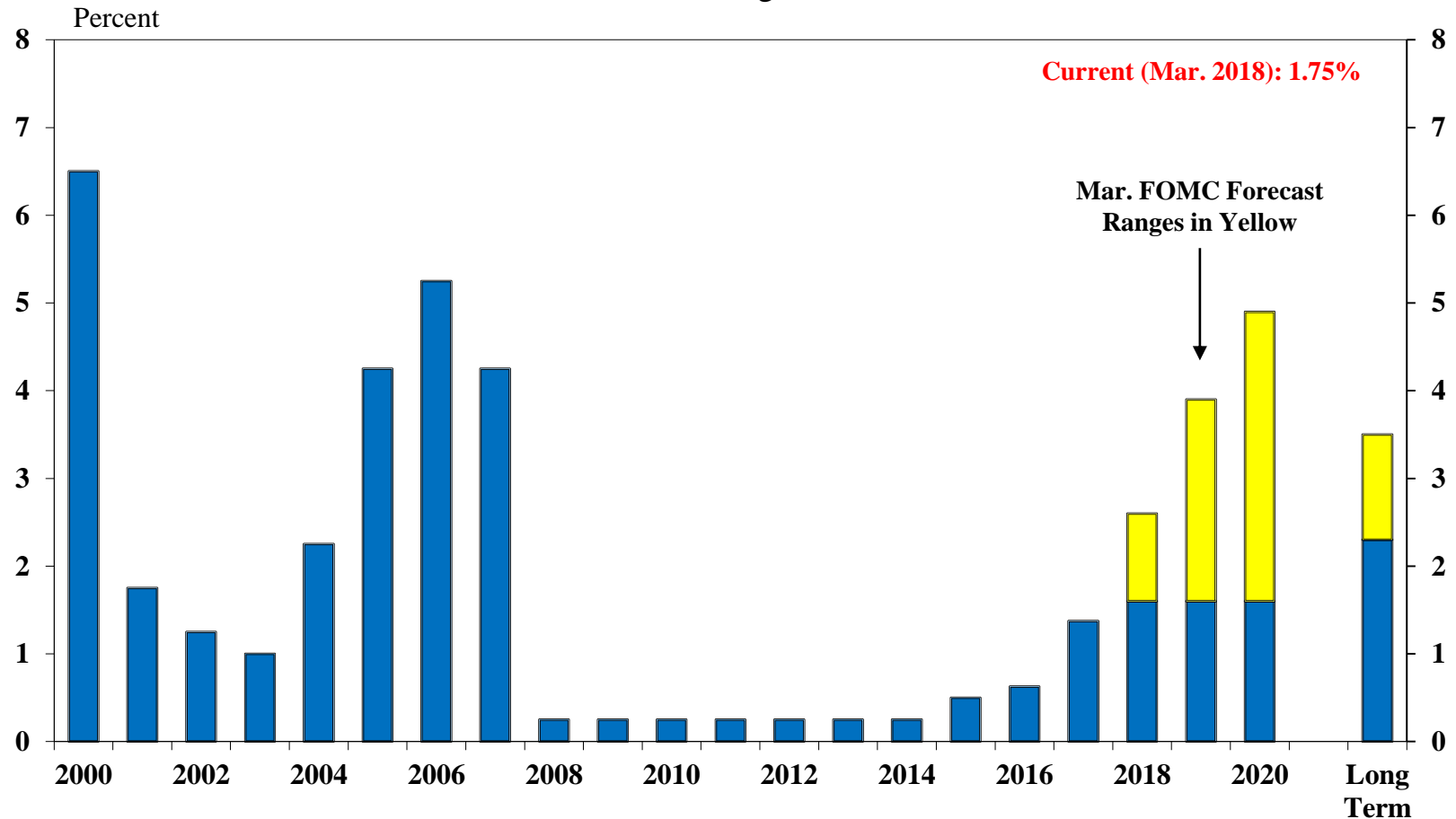
PCE Inflation Index



“The [FOMC] expects that economic conditions...will warrant further gradual increases in the federal funds rate.”

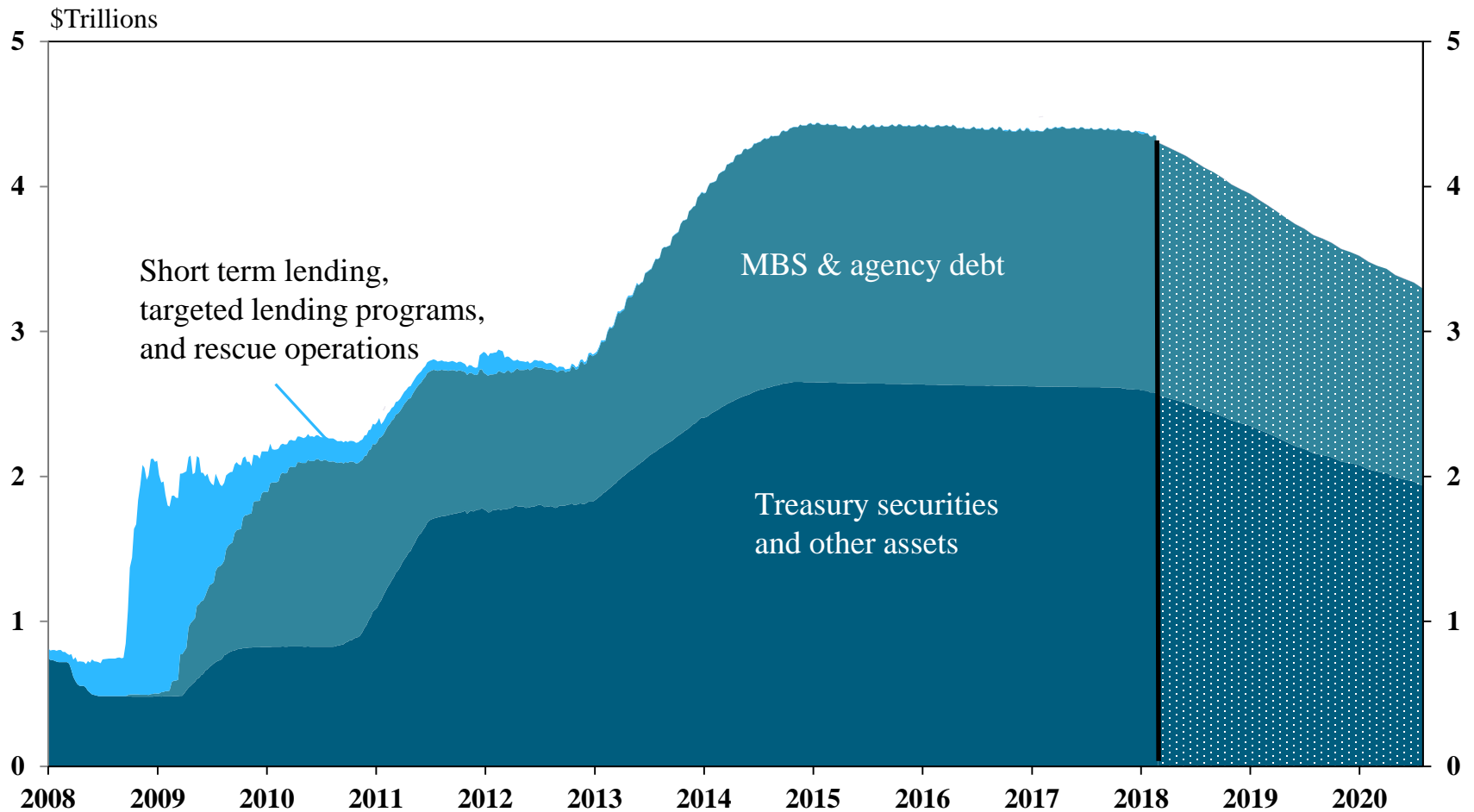
Federal Funds Rate

Year-end target



The Fed has also begun to reduce its balance sheet, and the normalization will be gradual

Federal Reserve Balance Sheet

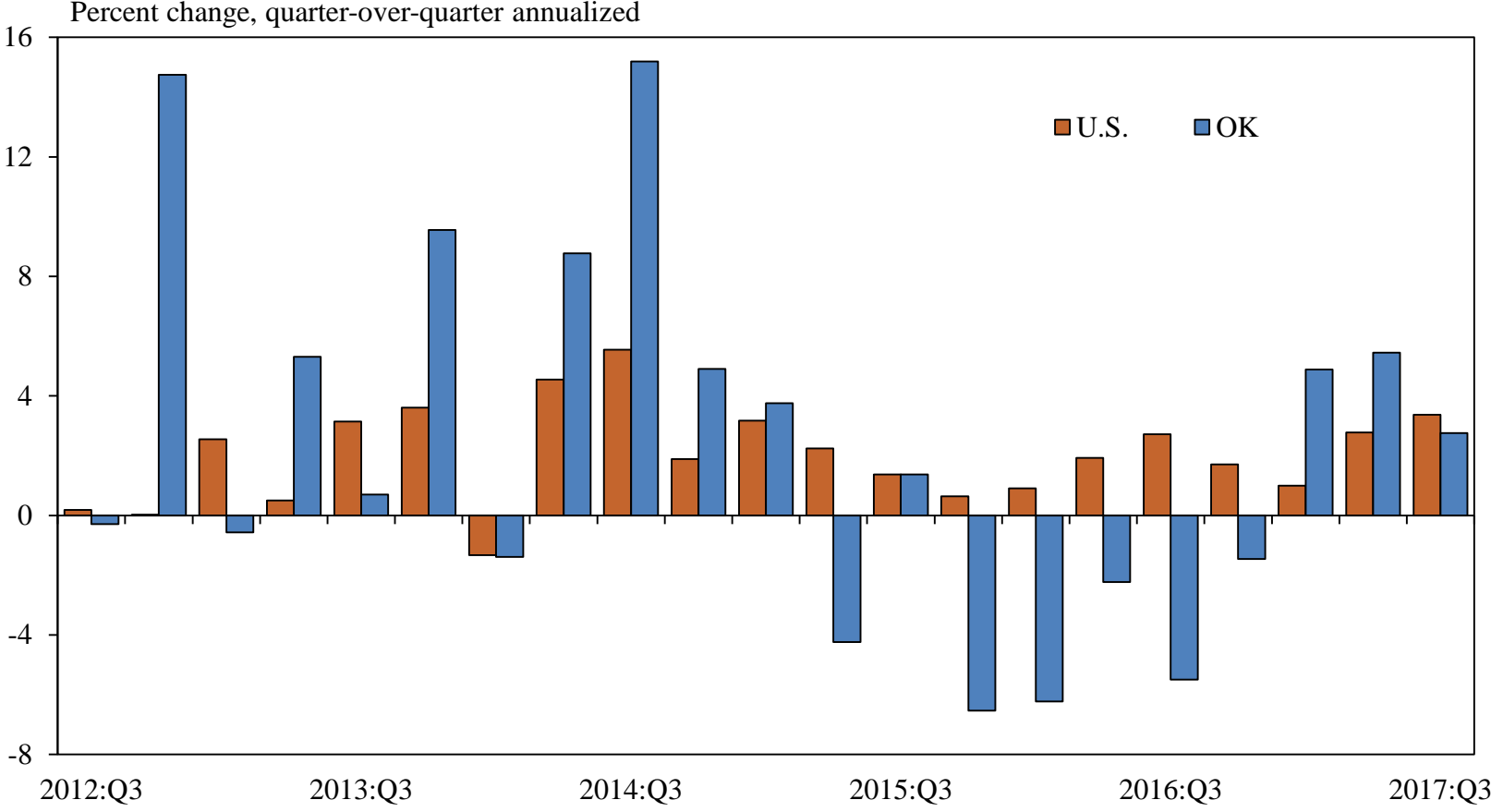


Trends in the Oklahoma & Tulsa Area Economies



OK GDP has recovered from its downturn of 2015-16, and by mid-2017 was keeping pace with the nation

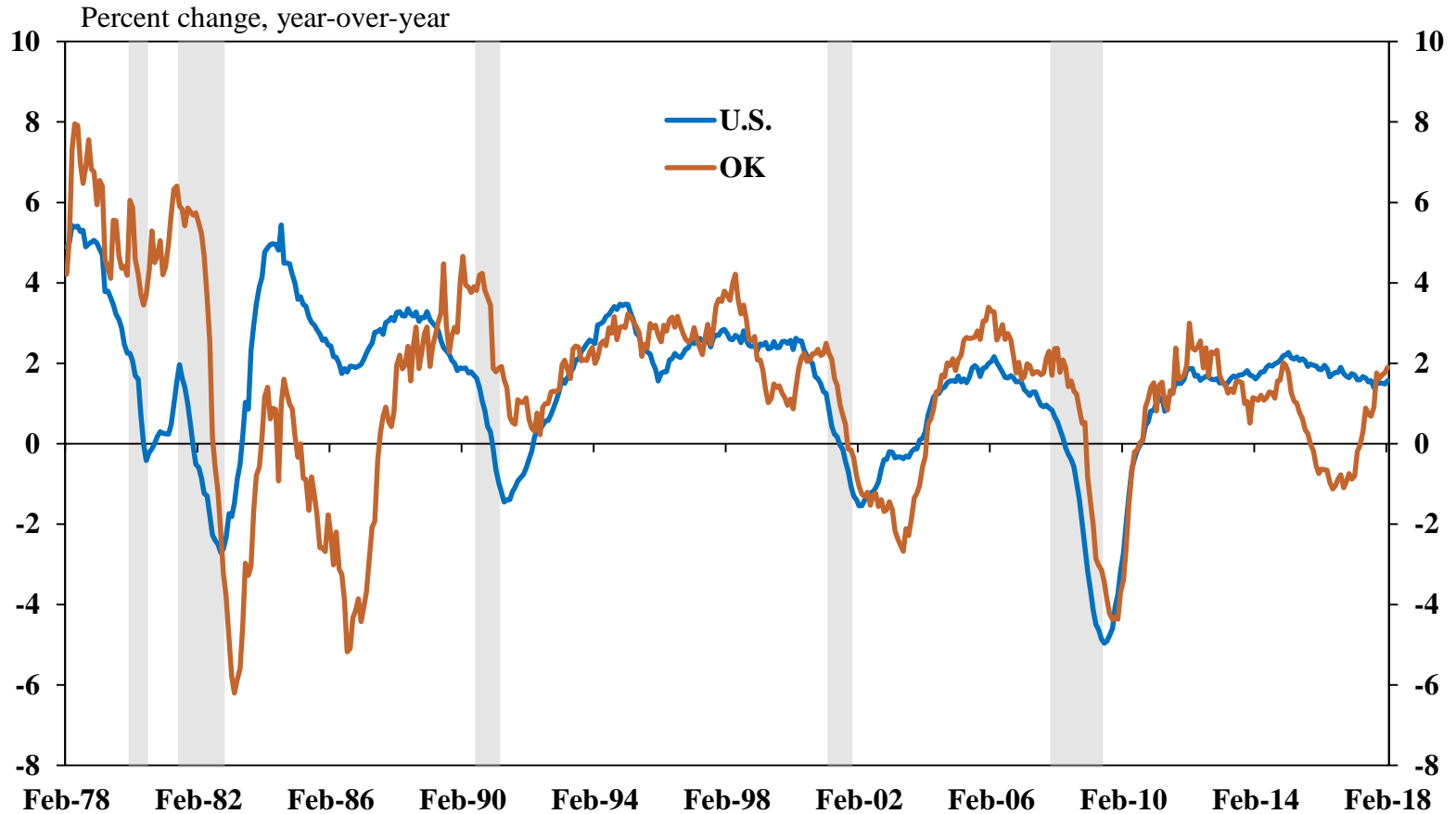
Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis

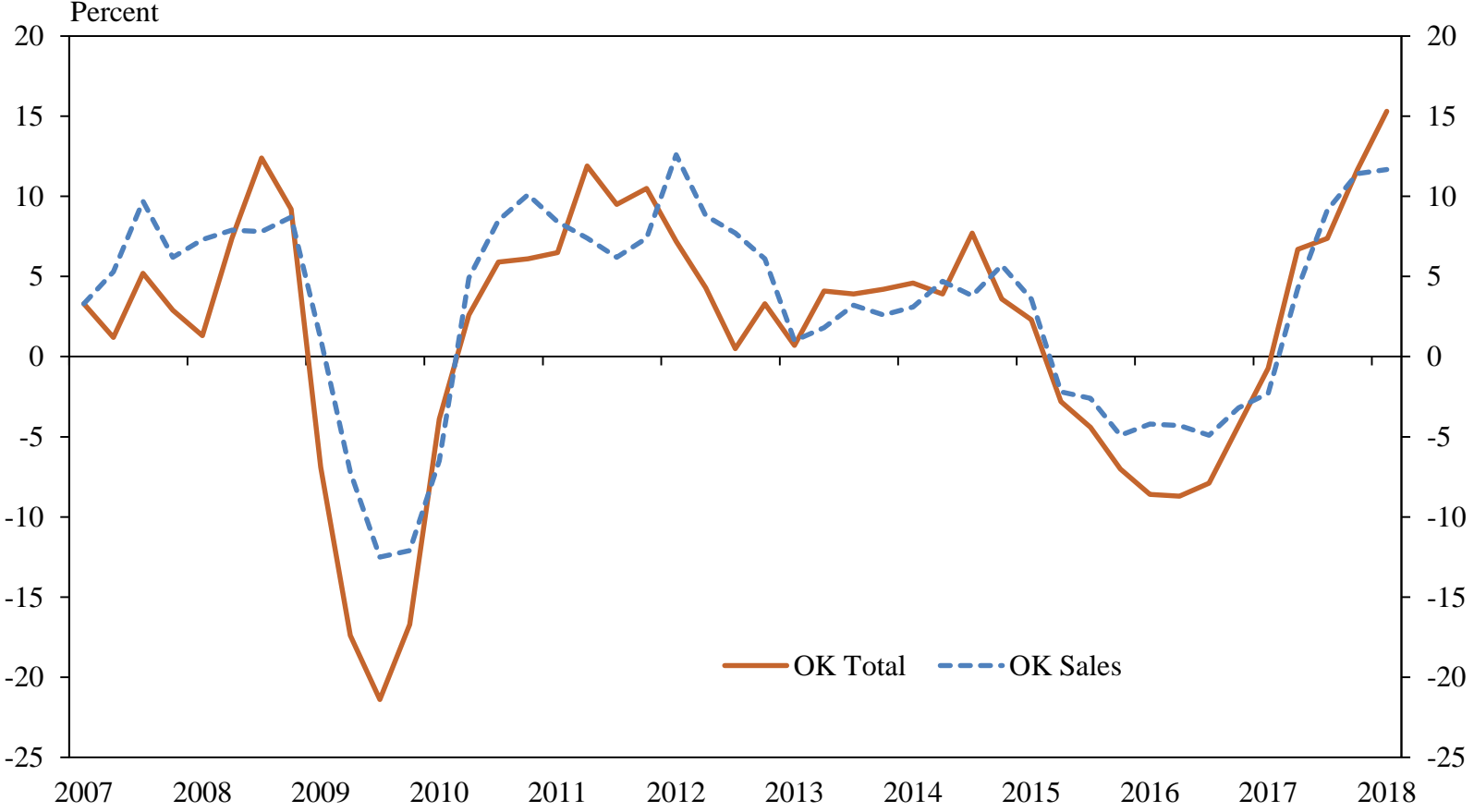
For jobs, 2015-16 was the largest divergence between U.S. & OK since the '80s, but the gap has closed

Payroll Employment Growth



Tax revenues have also improved following two tough years that remain challenges for the Legislature

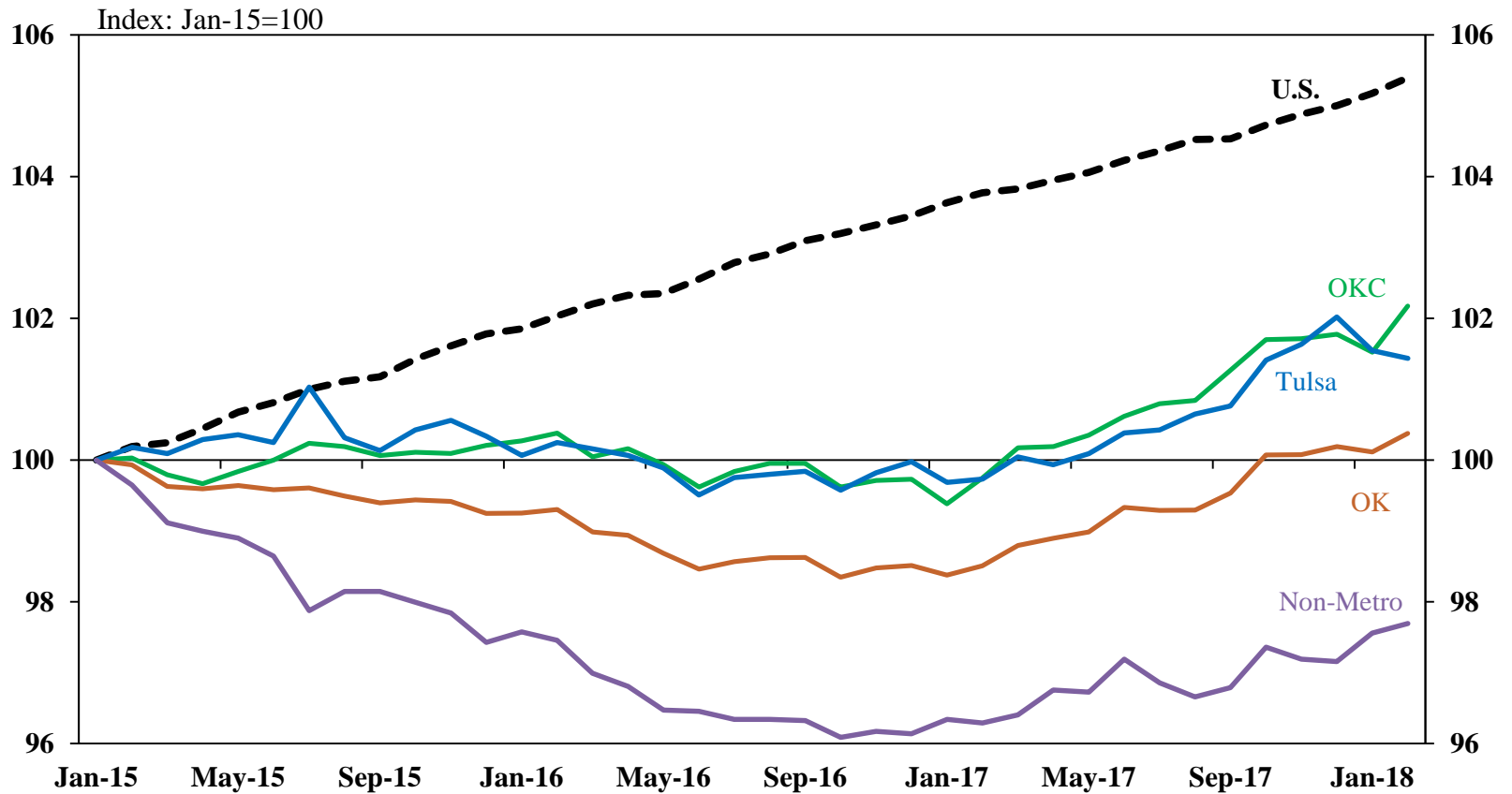
Oklahoma State Tax Revenues
Q1-18 through February



Source: OK Tax Commission

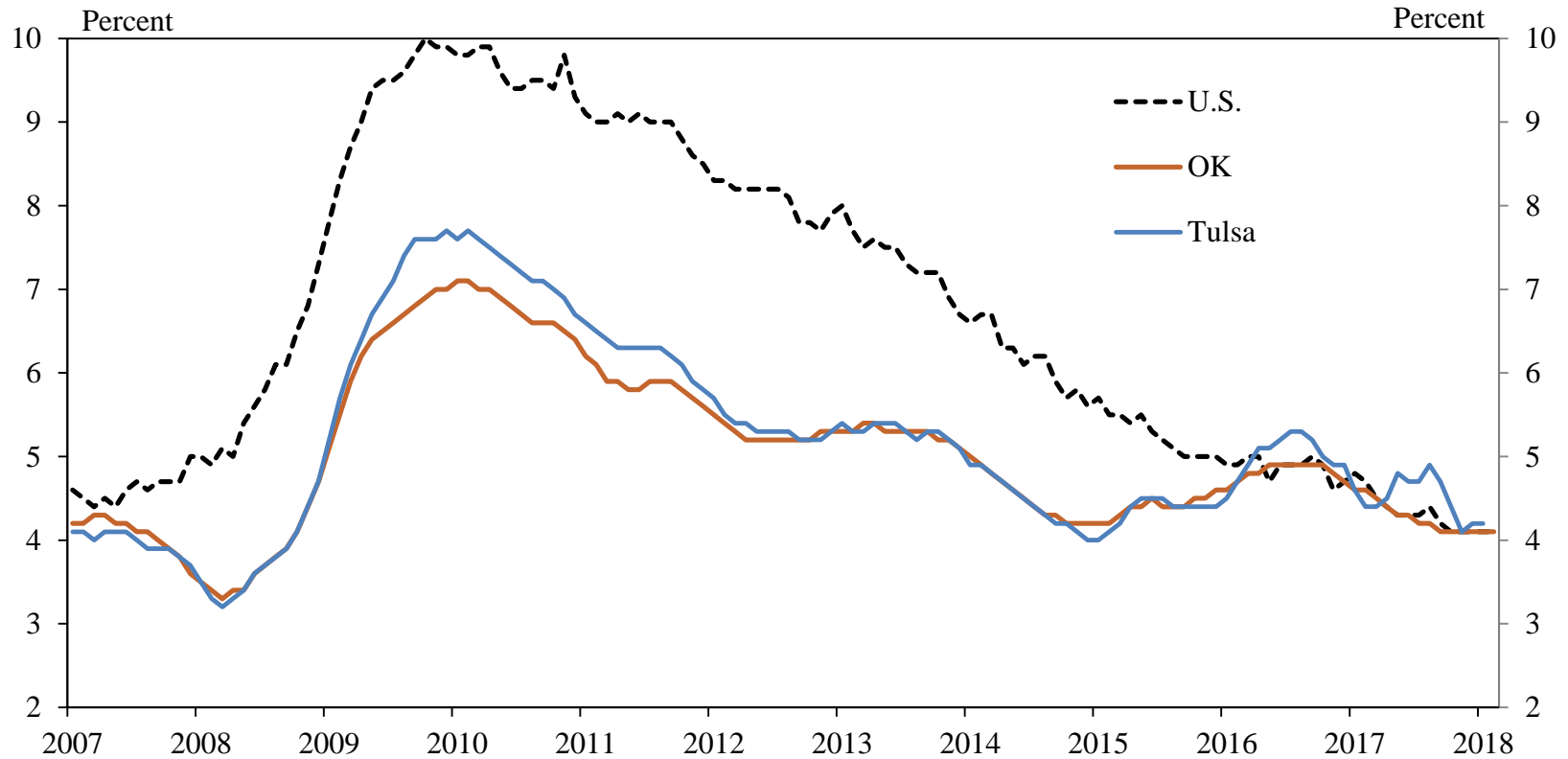
Employment levels are trending up in the metro areas, but non-metro is still below early 2015 levels

Level of Payroll Employment
Through February 2018



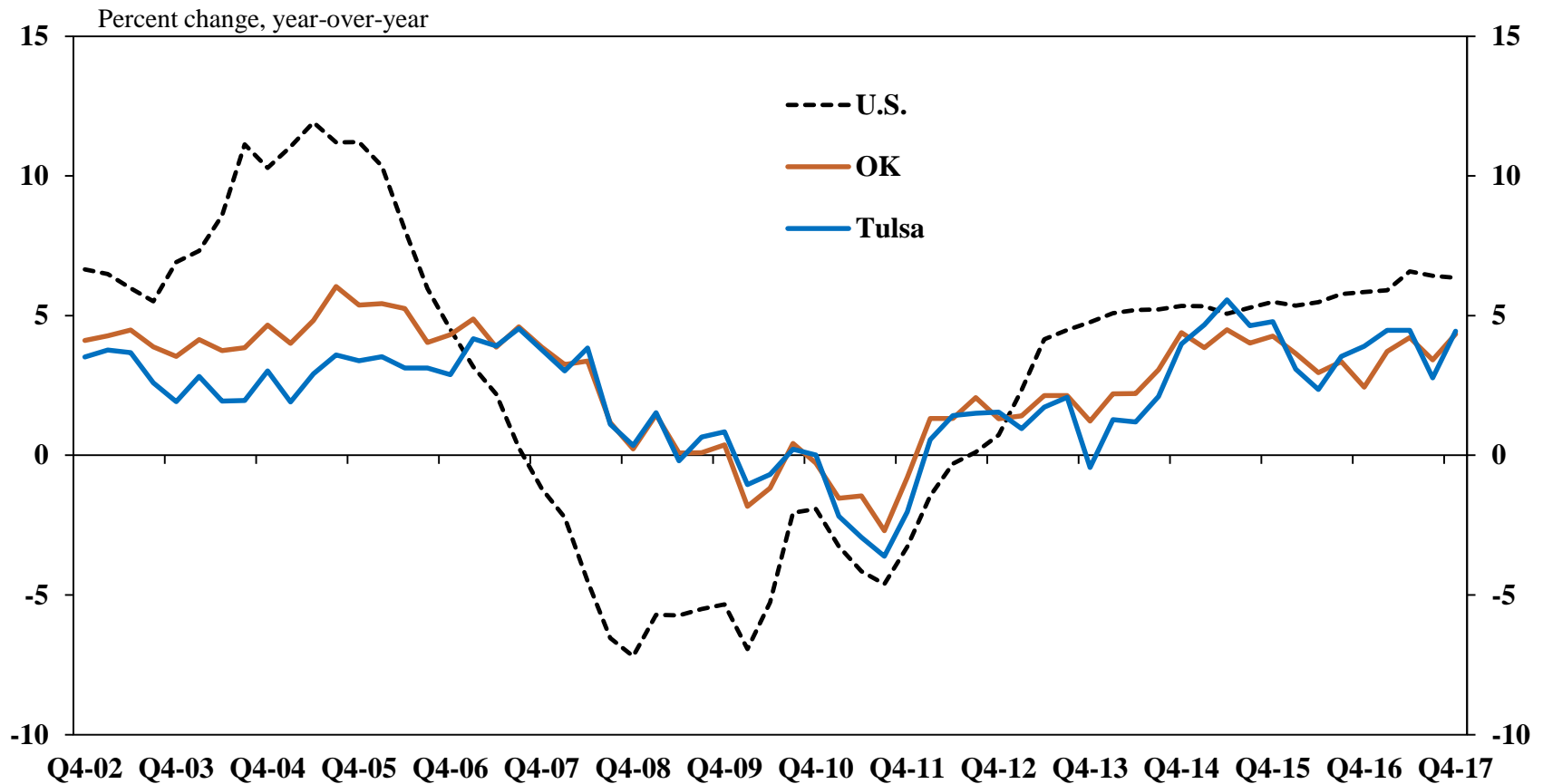
Unemployment in the Tulsa area is now back down to national and state levels, after rising above in 2016-17

Unemployment rates
Seasonally Adjusted



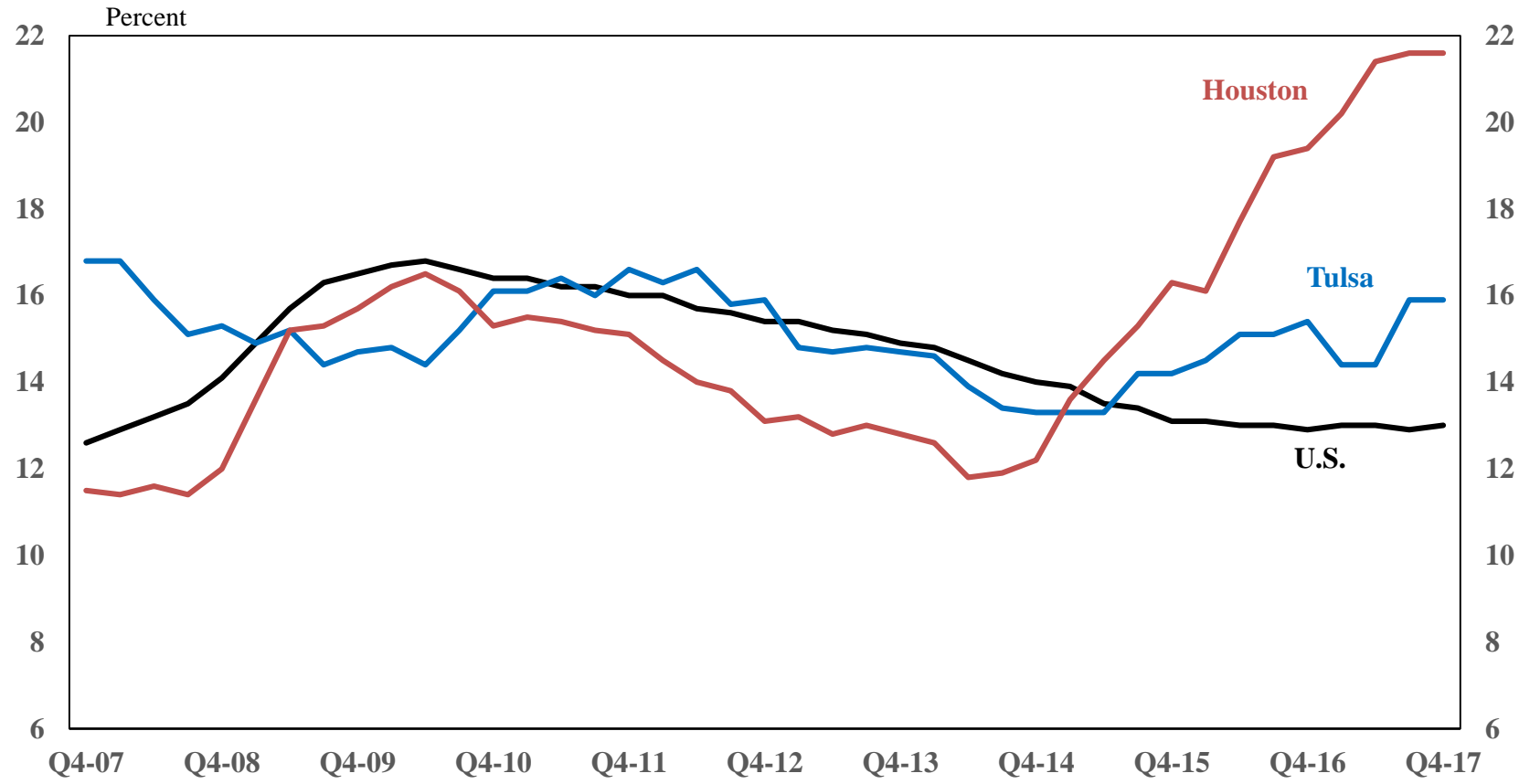
In housing, average home price growth across the state remains below the nation, but still positive

FHFA Home Price Index
Seasonally Adjusted



Office vacancy rates in the Tulsa metro still remain above the U.S., but have generally stabilized

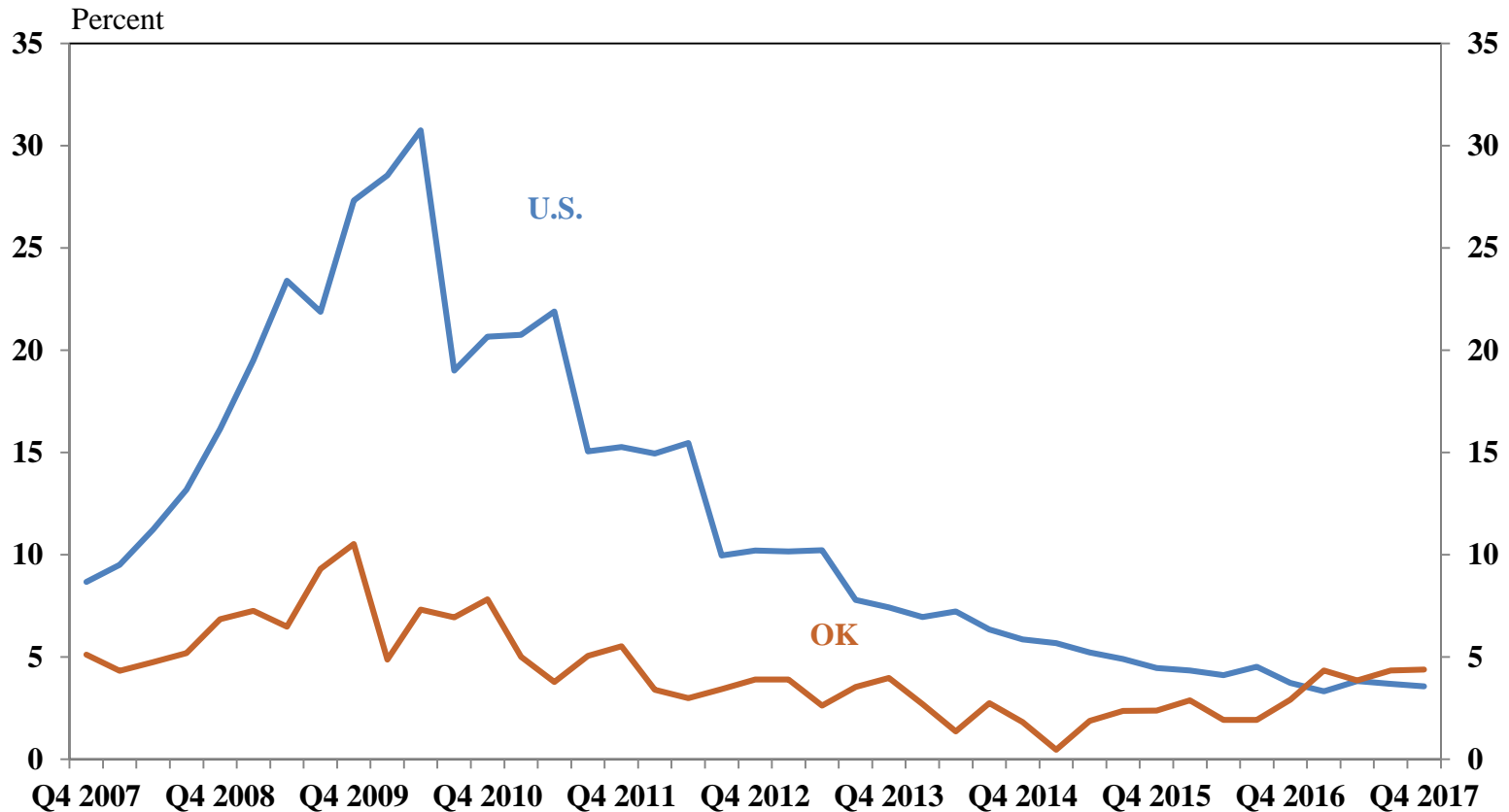
Metro Office Vacancy Rates



Source: CBRE

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

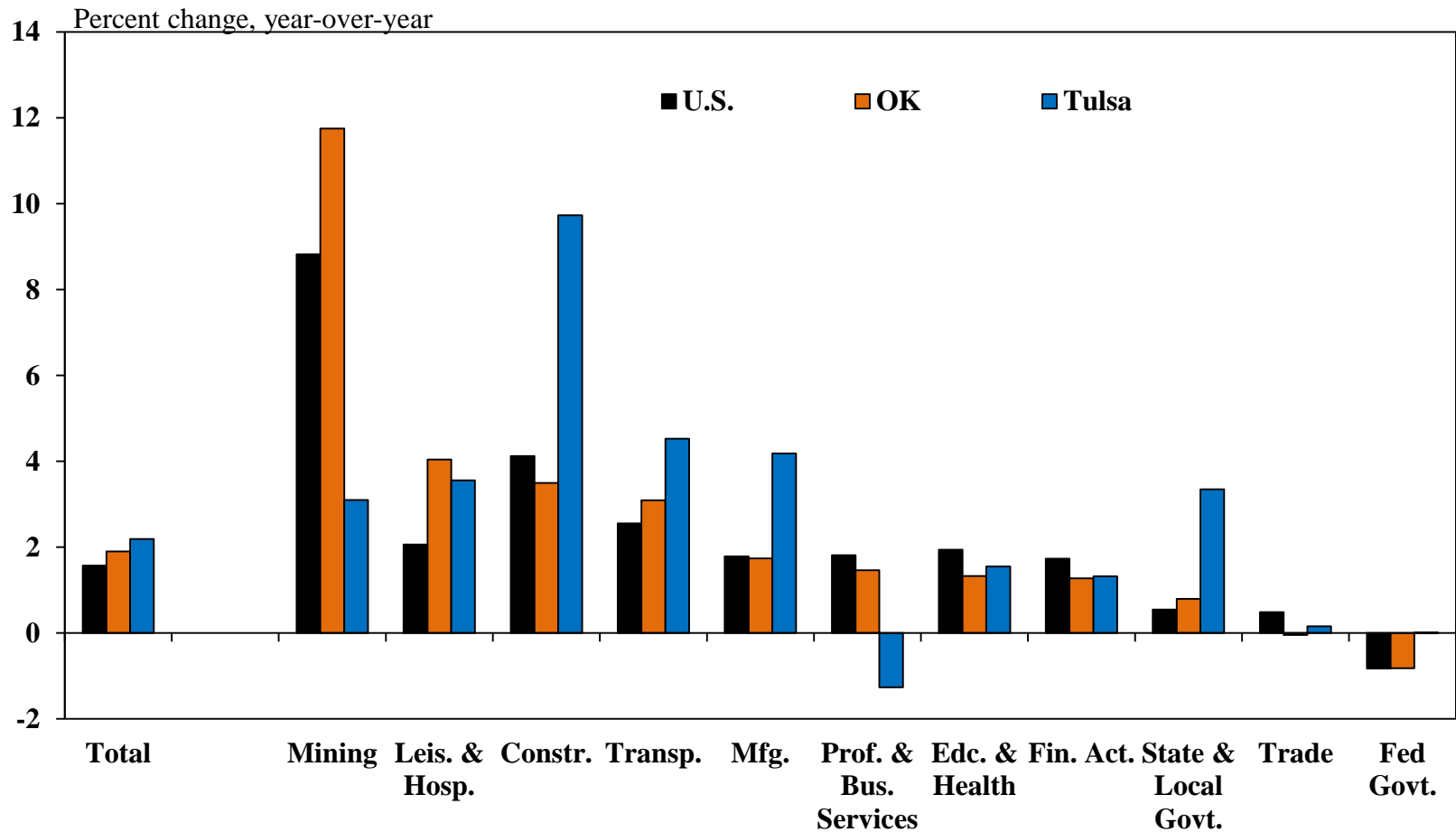
Share of Banks Not Making a Profit
Commercial Banks



Employment growth in the Tulsa metro over the past year is fairly broad-based across industries

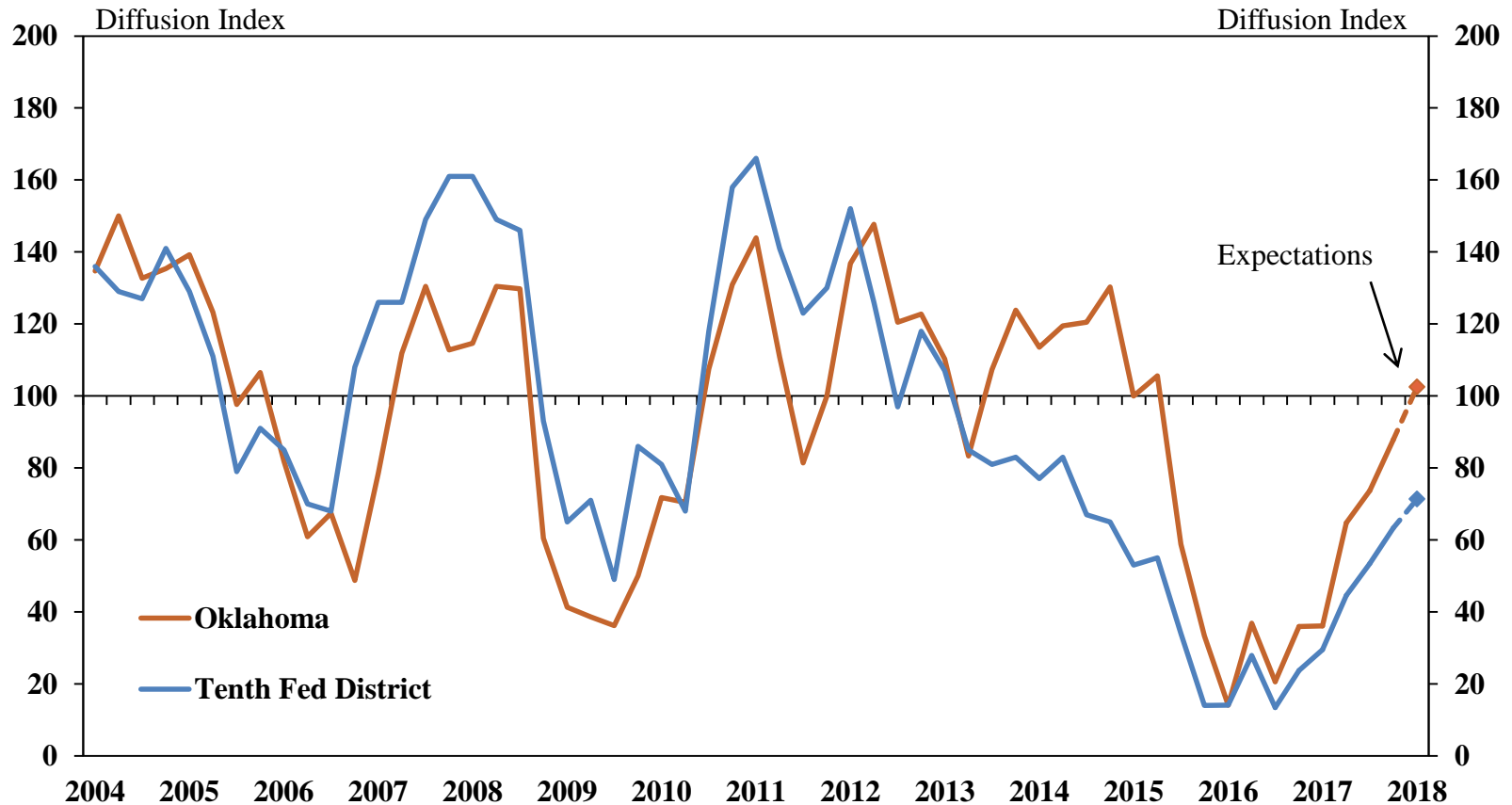
Oklahoma Job Growth by Industry

Feb-18



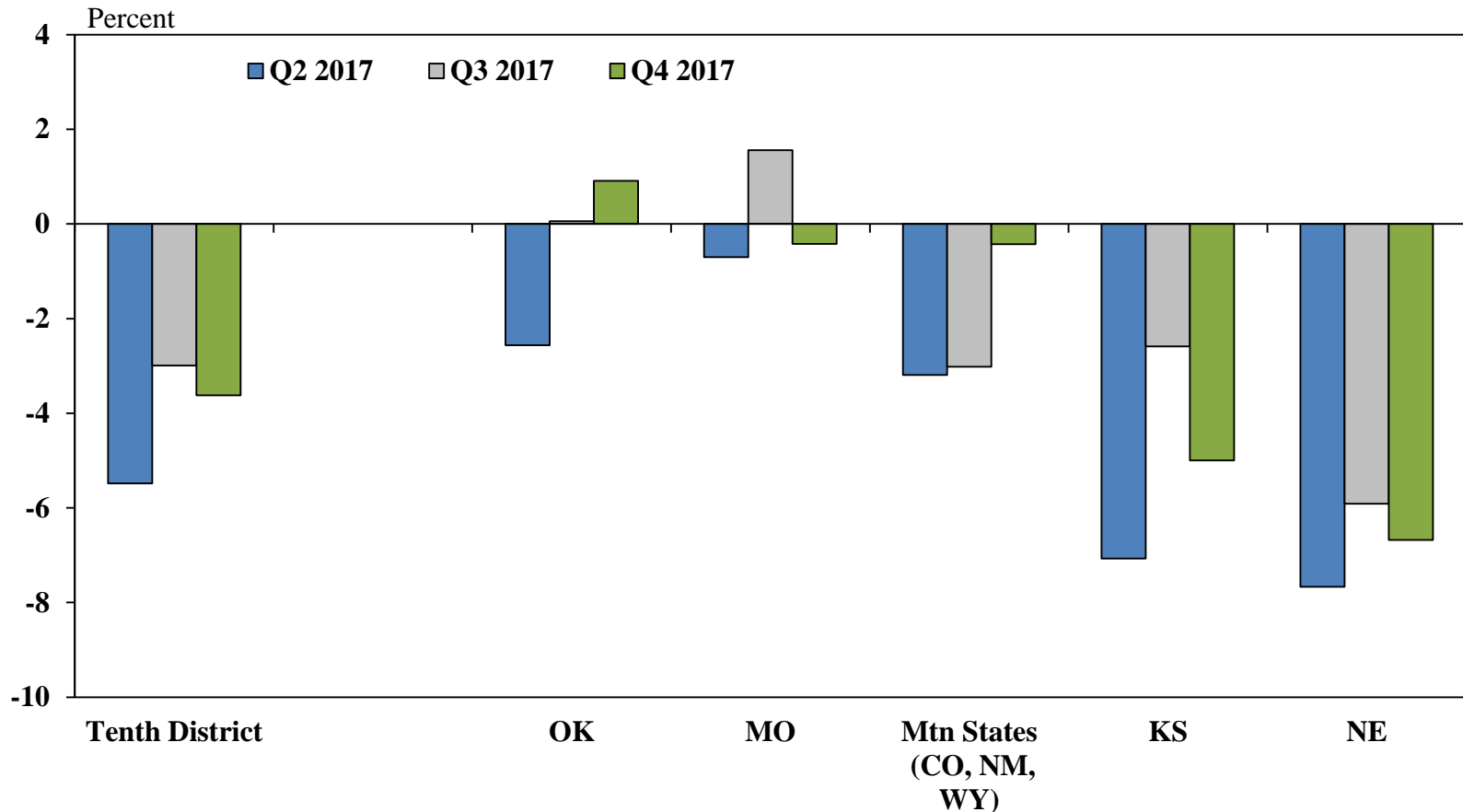
The Oklahoma agriculture sector has shown some signs of stabilizing, with expectations improving

Farm Income Indexes



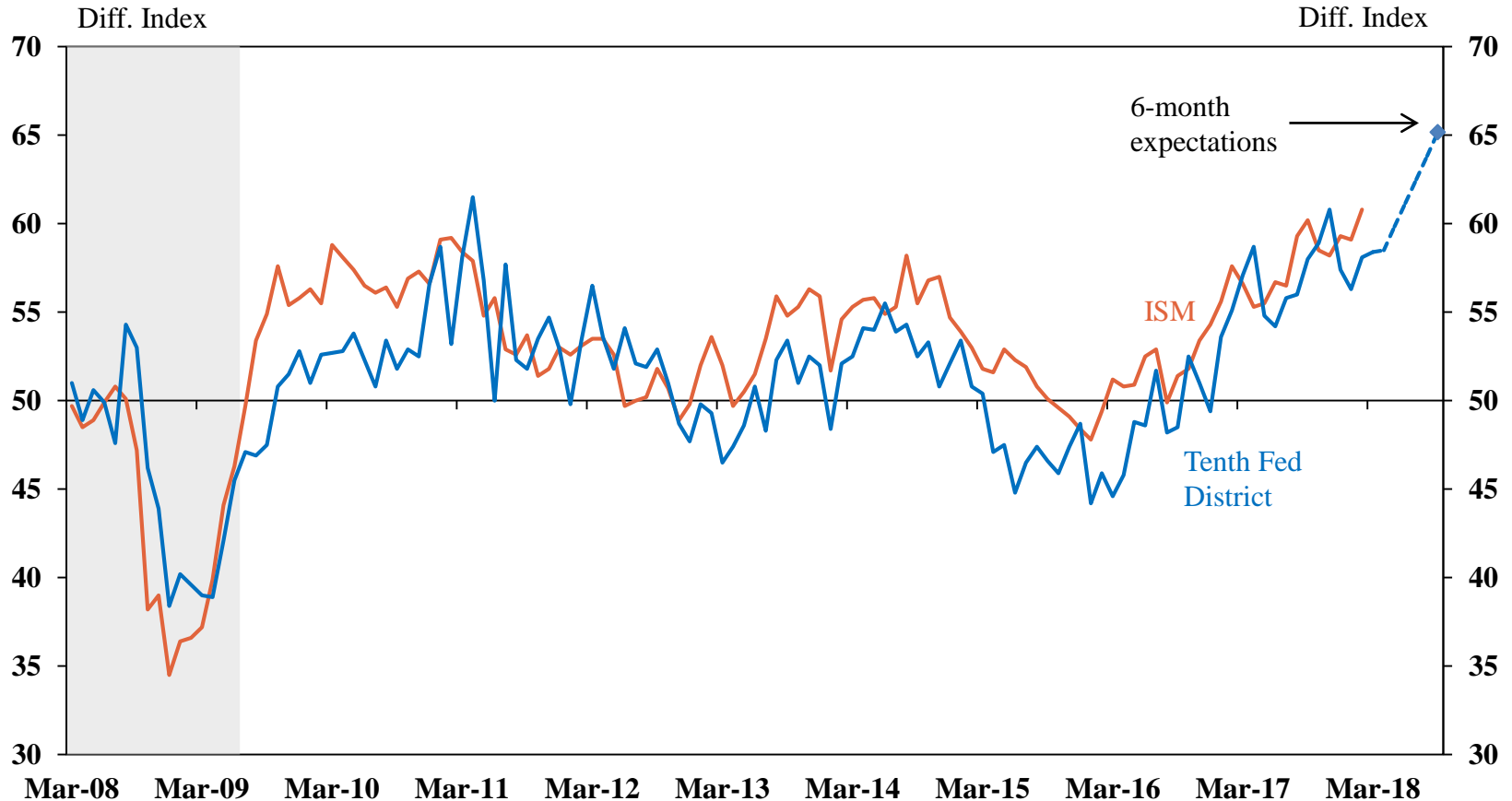
OK farmland values improved in Q4, and are more favorable than other parts of the District

Tenth District Farmland Values
Percent Change, Year-over-year



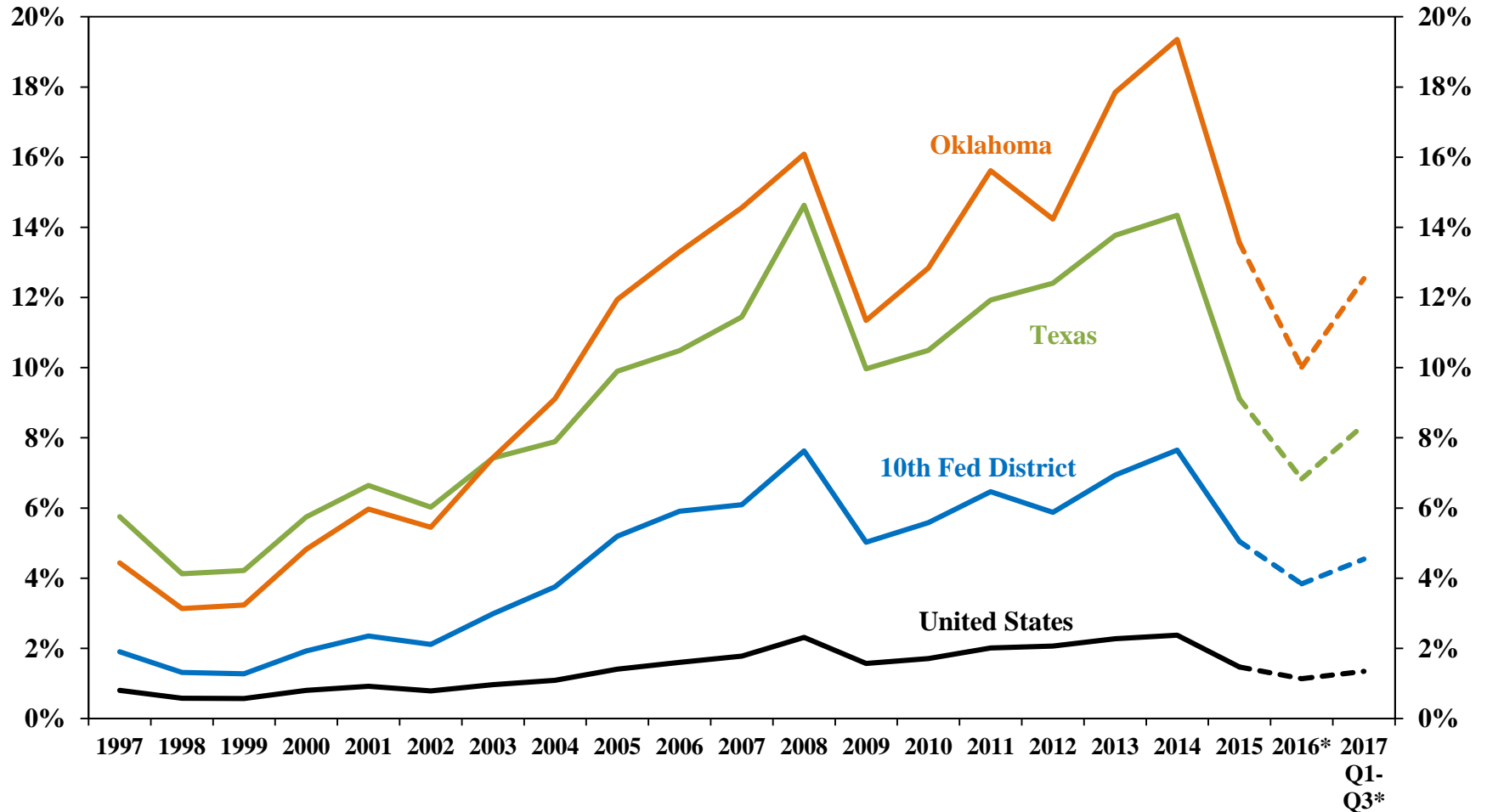
Regional factory activity has continued to improve in recent months, with optimism high

Manufacturing Composite Indexes, Seasonally Adjusted



The oil and gas sector remains especially sizable in the state, even after dropping in recent years

Oil and Gas Sector Share of GDP*
1997-2017

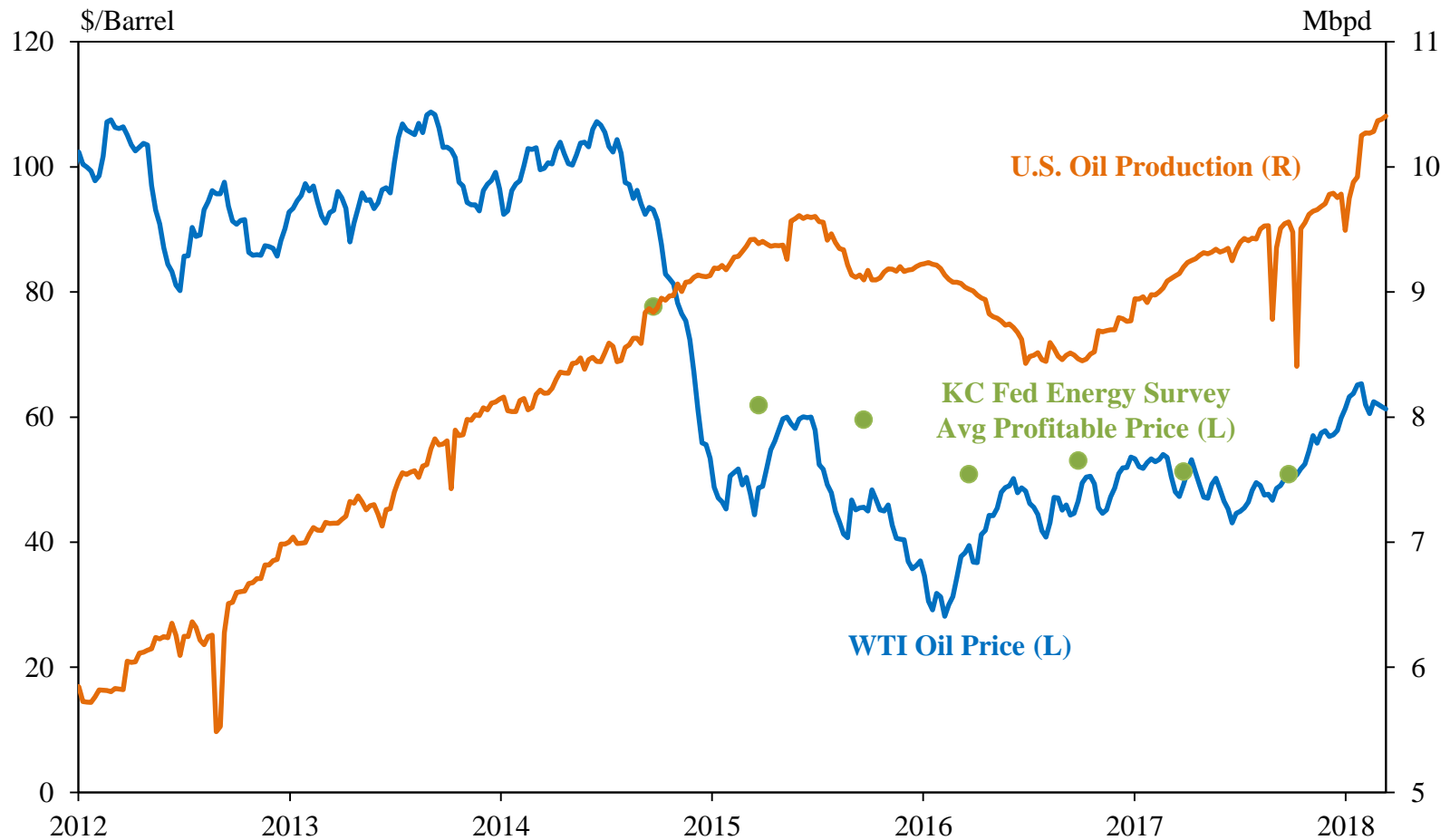


*Oil & Gas Sector = NAICS 211 + NAICS 213;
2016-17 estimates based on size of overall Mining sector



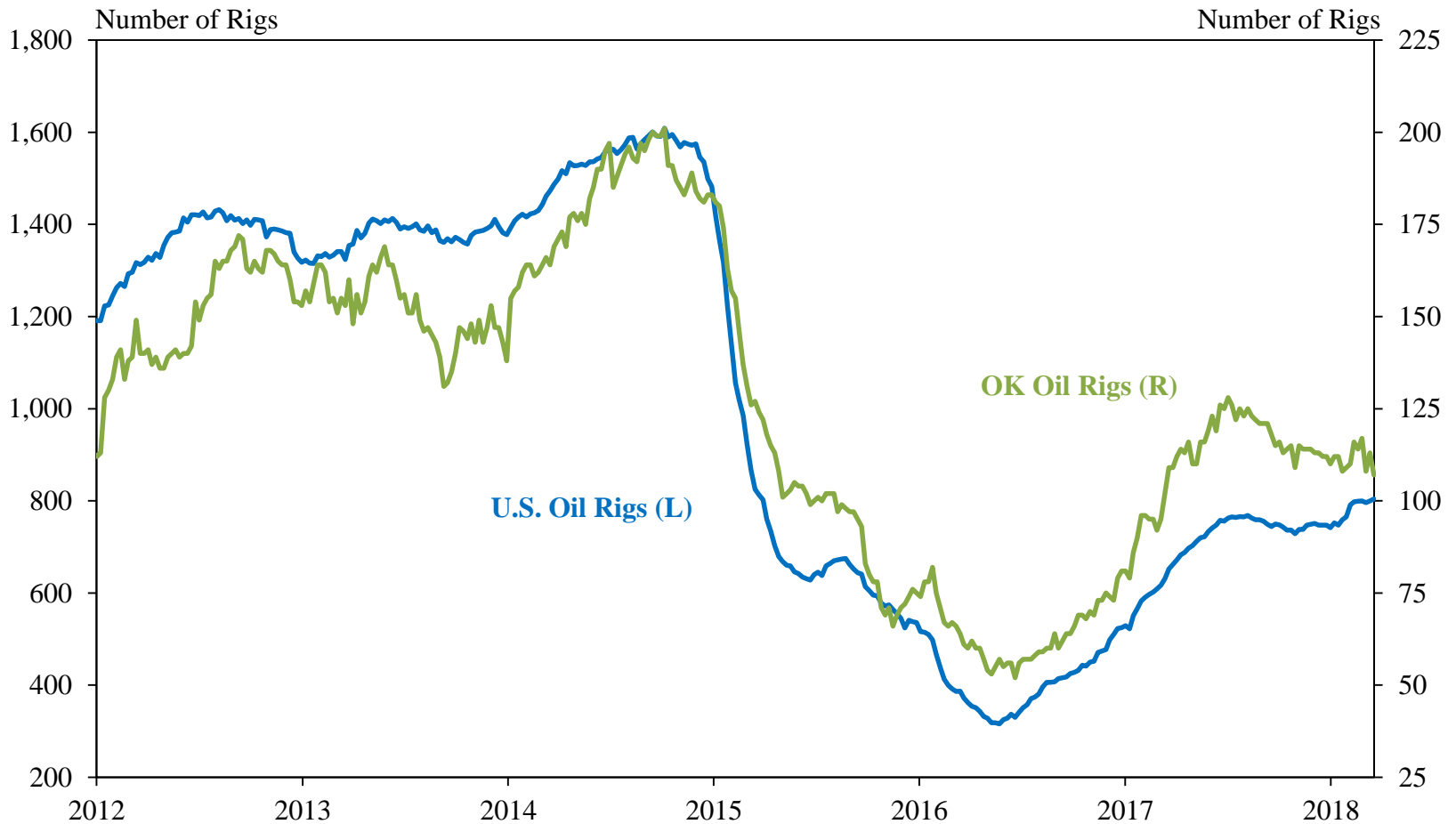
Oil prices returned to profitable levels in 2017 for most firms, helping to boost activity

WTI Spot Price vs. Energy Survey Profitable Price vs. Oil Production



Rig counts have increased since the downturn and remain at favorable levels

Weekly Oil Rig Counts



Source: Baker Hughes

Summary

- The U.S. economy continues to grow, and the Fed has been raising interest rates.
- The Oklahoma economy has been hurt by low commodity prices, but now is growing solidly.
- In the Tulsa area, unemployment has come down after rising in 2015-16, as key local industries did better in 2017.



Questions?

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