U.S. and Oklahoma Economic Update

Pension Trustee Education Conference
September 29, 2016

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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.
Federal Reserve Districts and Office Locations
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 & CEO (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
GDP growth has been modest the past 3 quarters, with investment the main drag.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

• Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
U.S. unemployment is at long-term levels after falling considerably in recent years

Unemployment Rate
Seasonally Adjusted

Current (Aug. 2016): 4.9%

Sept. FOMC Forecast-- Ranges in Yellow

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 (Q2 2016): 1.9%
Current Core (Q2 2016): 1.7%

Sept. FOMC Forecast Ranges in Yellow

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

Federal Funds Rate
Year-end target

Current (Sept. 2016): 0.50%

Sources: Federal Reserve Board, FOMC
The Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.

The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.
Trends in the Oklahoma Economy
Growth has diverged across the nation, with 6 states in or near recession, incl. Oklahoma.

Total Nonfarm Employment Growth
August 2016

Source: U.S. Bureau of Labor Statistics
Employment growth has also diverged across OK but lags the nation throughout.
Higher-paying jobs have done worse than lower-paying jobs across Oklahoma lately.
Since mid-2015, Oklahoma’s factory sector has lost more jobs than the energy sector.

Oklahoma Employment Change

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Mining</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>First half 2015</td>
<td>-9,000</td>
<td>-6,000</td>
</tr>
<tr>
<td>Second half 2015</td>
<td>-8,000</td>
<td>-5,000</td>
</tr>
<tr>
<td>First half 2016</td>
<td>-7,000</td>
<td>-4,000</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
Unemployment across the state has ticked up this year, including in the 2 big metros.
Unemployment is below the national rate in some parts of Oklahoma but above in most.

July 2016 Unemployment Rates

Source: U.S. Bureau of Labor Statistics
Home price growth in Oklahoma has slowed from its solid pace of recent years.

FHFA Home Price Index
Seasonally Adjusted

Percent change, year-over-year

Source: FHFA
Nearly all banks in Oklahoma remain profitable through mid-2016
But tax revenues are down at the state and city levels, pressuring some organizations.

Tax Receipts
Through Q3-16*

*Q3-16 through August 2016

Source: OK Tax Commission
Oil prices remain below $50/barrel, while natural gas prices have improved a bit.
World oil supply and demand are expected to remain out of balance a while longer.

Global Oil Supply and Demand
September 2016 Forecast

Source: EIA
Firms say energy prices need to be higher for much increased activity to occur.

Kansas City Fed Energy Survey Special Questions 2016

Survey ranges in orange

Source: FRBKC Energy Survey, Reuters
Oklahoma farm income and spending fell sharply in Q1 2016 but steadied a bit in Q2.

Source: Federal Reserve Bank of Kansas City, Survey of Ag Credit Conditions
However, farmland values fell in Q2 after holding up better than the region last year.
Summary

• The U.S. economy continues to grow, and the Fed is discussing raising interest rates

• Oklahoma’s economy has been hurt by low commodity prices, as well as spillover to some other related industries

• However, conditions in real estate, banking, and labor markets have held on fairly well
Questions?

For regular updates and analysis of the Oklahoma economy, subscribe to our quarterly Oklahoma Economist publication at:

www.kansascityfed.org/publications/research/oke/

For more analysis on regional manufacturing conditions, subscribe to our monthly Manufacturing Survey at:

https://www.kansascityfed.org/research/indicatorsdata/mfg

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