U.S. and Oklahoma Economic Outlook

Oklahoma Banking Association Emerging Leaders
August 17, 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.
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 was strong in Q2, following above-trend solid growth in previous quarters.

Growth in U.S. Real GDP and Its Components

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis
Monthly data on U.S. business activity and also show economic growth remains strong in mid-2018

U.S. Payroll Employment and Business Indexes

Change from previous month, thousands

Index

Payroll Employment (left axis)
ISM Manufacturing Index (right axis)
ISM Non-Manufacturing Index (right axis)

“The labor market has continued to strengthen...job gains have been strong and the unemployment rate has declined.”

Unemployment Rate
Seasonally Adjusted

Current (July 2018): 3.9%

Jun. FOMC Forecast Ranges in Yellow

Sources: U.S. Bureau of Labor Statistics, FOMC
“On a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2 percent.”

Sources: U.S. Bureau of Labor Statistics, FOMC
“The [FOMC] expects that further gradual increases...for the federal funds rate will be consistent with sustained expansion...”

Federal Funds Rate
Year-End Target

Current Target: 1.75-2.00%

Jun. FOMC Forecast
Ranges in Yellow

Sources: Federal Reserve Board, FOMC
The Fed has also begun to reduce its balance sheet

Federal Reserve Balance Sheet

Source: Federal Reserve Board
Trends in the Oklahoma Economy
Oklahoma GDP dropped considerably in 2015-16, after oil prices fell, but has mostly grown solidly since

Source: U.S. Bureau of Economic Analysis
In 2018, state job growth has matched the nation after lagging in 2015-16 the most since the 1980s.
Employment levels are trending up in the metro areas, but non-metro is still below early 2015 levels.
State job gains the past year have been led by mining (oil & gas), and most sectors have added workers.

Oklahoma Job Growth by Industry
June 2018

Source: Bureau of Labor Statistics
Manufacturing activity in the Tenth Fed District has posted record highs in 2018, even with trade concerns.

Source: Institute for Supply Management, FRBKC
The Oklahoma agriculture sector has shown some signs of stabilizing, with expectations up slightly.
Extreme drought in western Oklahoma has also eased somewhat lately, but the state mostly remains dry.
Banking conditions in Oklahoma remain very good despite the 2015-16 economic slowdown.

Source: FDIC
Tax revenues are also growing strongly, following revenue declines and budget cuts in recent years.

Oklahoma State Tax Revenues
Q3-18 through July

Source: OK Tax Commission
After rising in 2015-16, Oklahoma has matched the U.S. unemployment rate the past 2 years.
Unemployment is low across most of the state but remains somewhat higher in southeast OK

June 2017 Unemployment Rates

Source: U.S. Bureau of Labor Statistics
Employment has risen in every county over the past year, but especially in western Oklahoma.

**Employment Growth**
June 2017 – June 2018

**Year-over-year change**
- 0 - 5%
- 5.1 - 10%
- 10.1 - 15%
- 15.1 - 20%
- > 20.1%

Source: U.S. Bureau of Labor Statistics
Energy remains a large share of Oklahoma GDP, though it is well below its 2014 share.

Source: U.S. Bureau of Economic Analysis
Oil and gas production is at a record high, but with considerably fewer rigs and workers than in the past.

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.
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

Survey ranges in orange

Survey average

Current Price (8/16/2018)

Profitable Price

Substantial Increase Price

Price expected in 6 months

Price expected in 1 year

Price expected in 2 years

Price expected in 5 years

$/barrel

$/million Btu

Oil (WTI)

Natural Gas (Henry Hub)

Current Price (8/16/2018)

Profitable Price

Substantial Increase Price

Price expected in 6 months

Price expected in 1 year

Price expected in 2 years

Price expected in 5 years

$/barrel

$/million Btu

Source: FRBKC Energy Survey
Summary

• The U.S. economy continues to grow despite headwinds, and the Fed has been raising rates.

• The state and local economies were hurt by low commodity prices, but now are growing solidly.

• Strong productivity growth in the oil and gas sector could potentially limit future job growth.
Questions?

RECEIVE REGULAR UPDATES ABOUT
Oklahoma’s economy

For more analysis of the Oklahoma economy, regional manufacturing conditions and regional energy conditions, subscribe to receive e-mail alerts from the KANSAS CITY FED.

Visit kansascityfed.org/ealert to subscribe!