

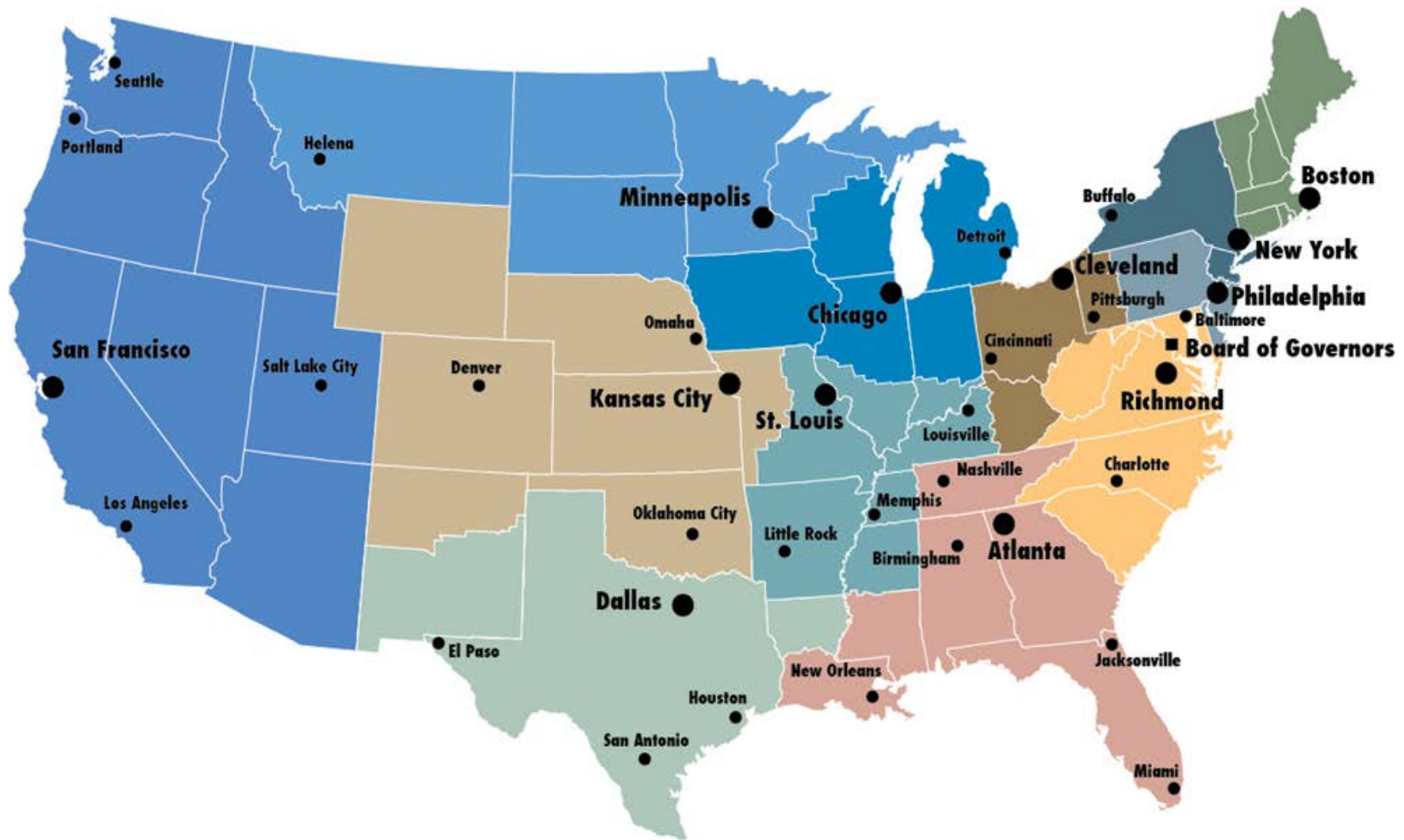
# **U.S. and Oklahoma Economic Update**

**NAIOP Commercial Real Estate Development Association  
November 8, 2017**



**Chad Wilkerson**  
**Oklahoma City Branch Executive and Economist**  
**Federal Reserve Bank of Kansas City**  
**[www.kansascityfed.org/oklahomacity](http://www.kansascityfed.org/oklahomacity)**

# 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

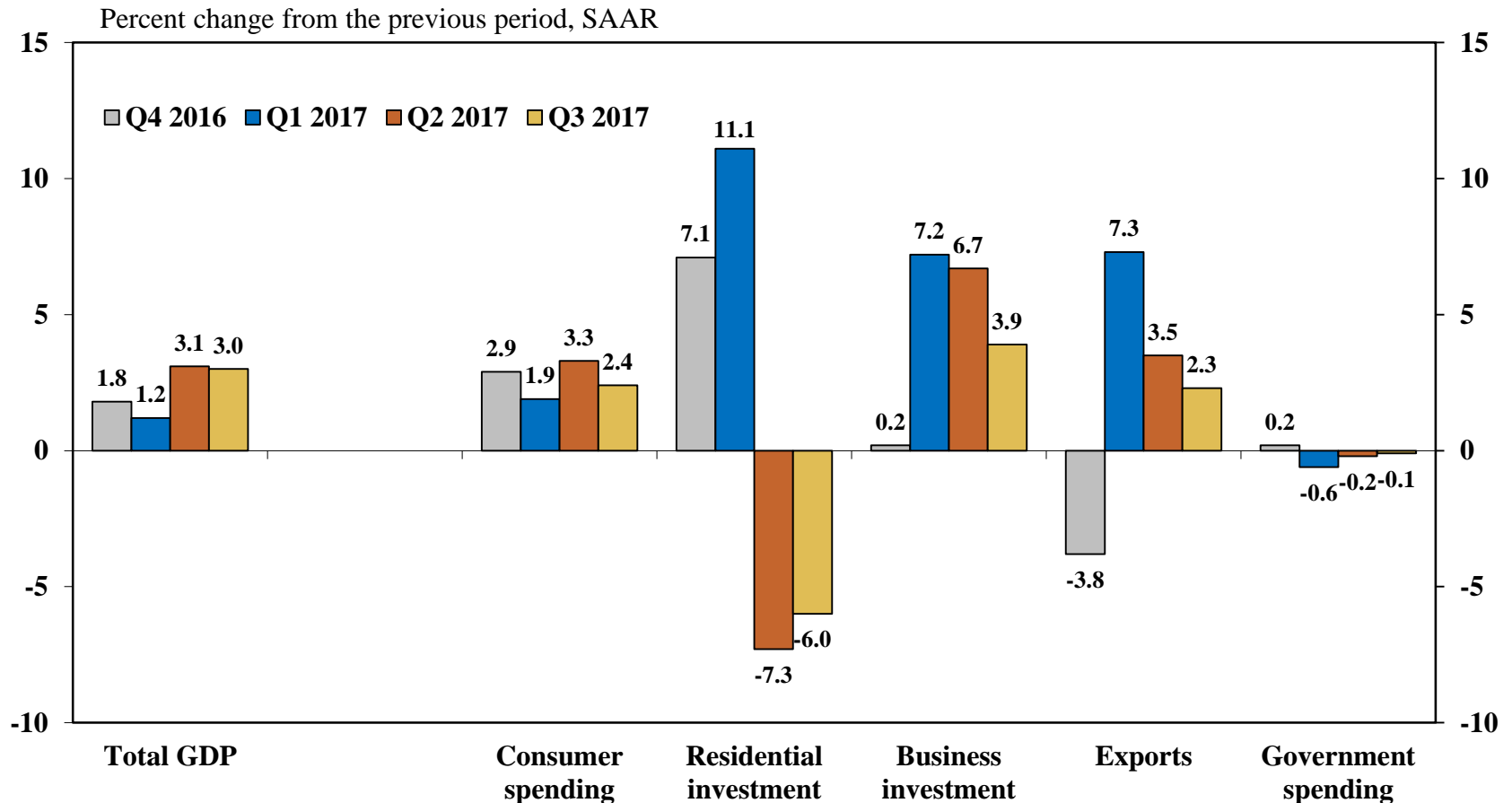
# **The Oklahoma City Branch of the Federal Reserve Bank of Kansas City**

- **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.)
- **2017 OKC Fed Branch Board of Directors**
  - **Pete Delaney (chair)**, Chairman/CEO (retired), OGE Energy Corp., OKC
  - **Clint Abernathy**, Owner, Abernathy Farms, Inc., Altus
  - **Susan Chapman Plumb**, COO, Bank of Cherokee County, Tahlequah
  - **Michael Coffman**, CEO (retired), Panhandle Oil & Gas, Inc., OKC
  - **Chuck Hall**, Chairman & CEO, Exchange Bank & Trust, Perry
  - **Tina Patel**, Co-Owner & CFO, Promise Hotels, Tulsa
  - **Katrina Washington**, Owner/Broker, Stratos Realty, Oklahoma City
- **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**

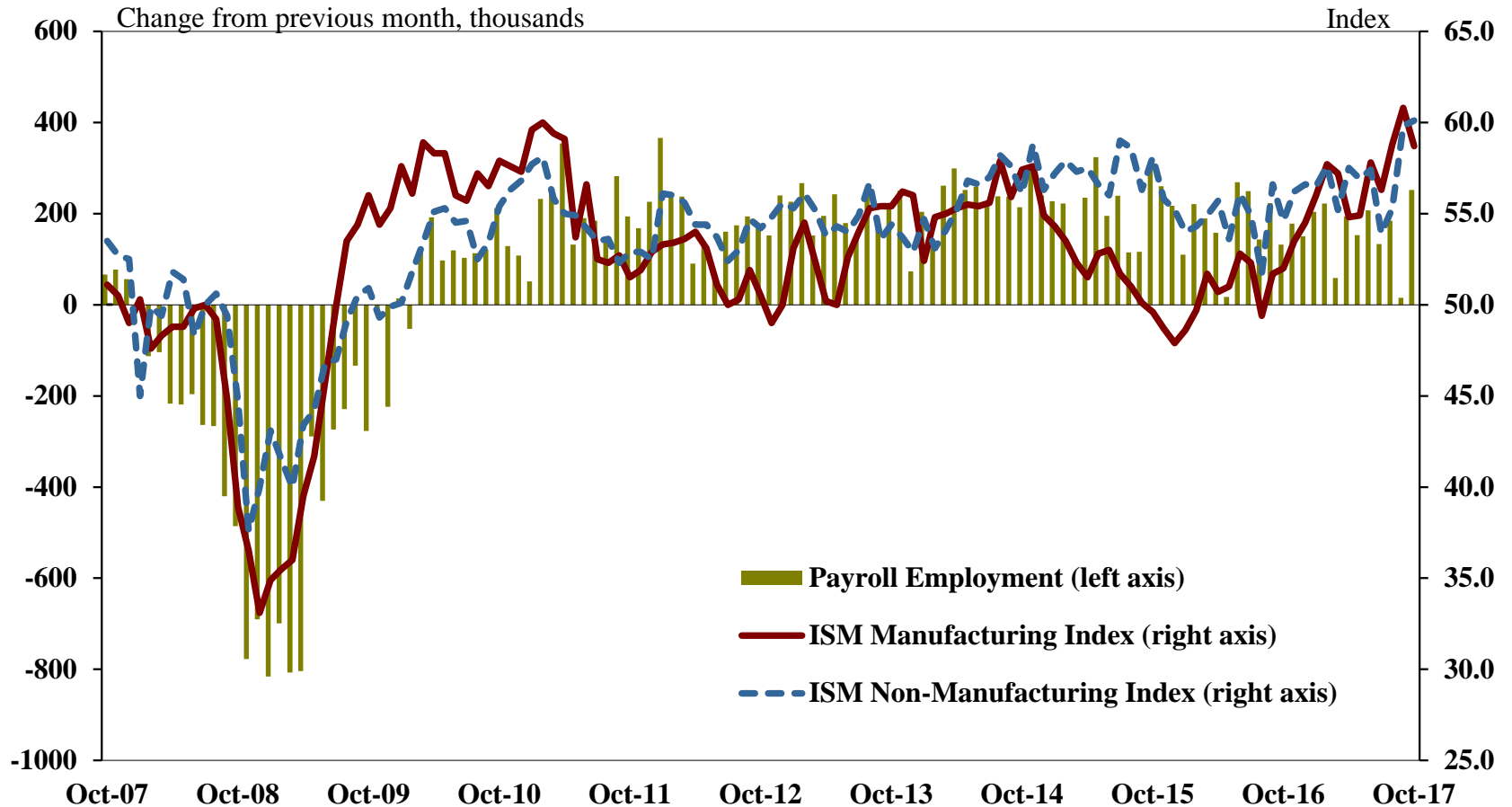
# U.S. GDP growth posted a second consecutive strong quarter in Q3 2017

## Growth in Components of Real GDP



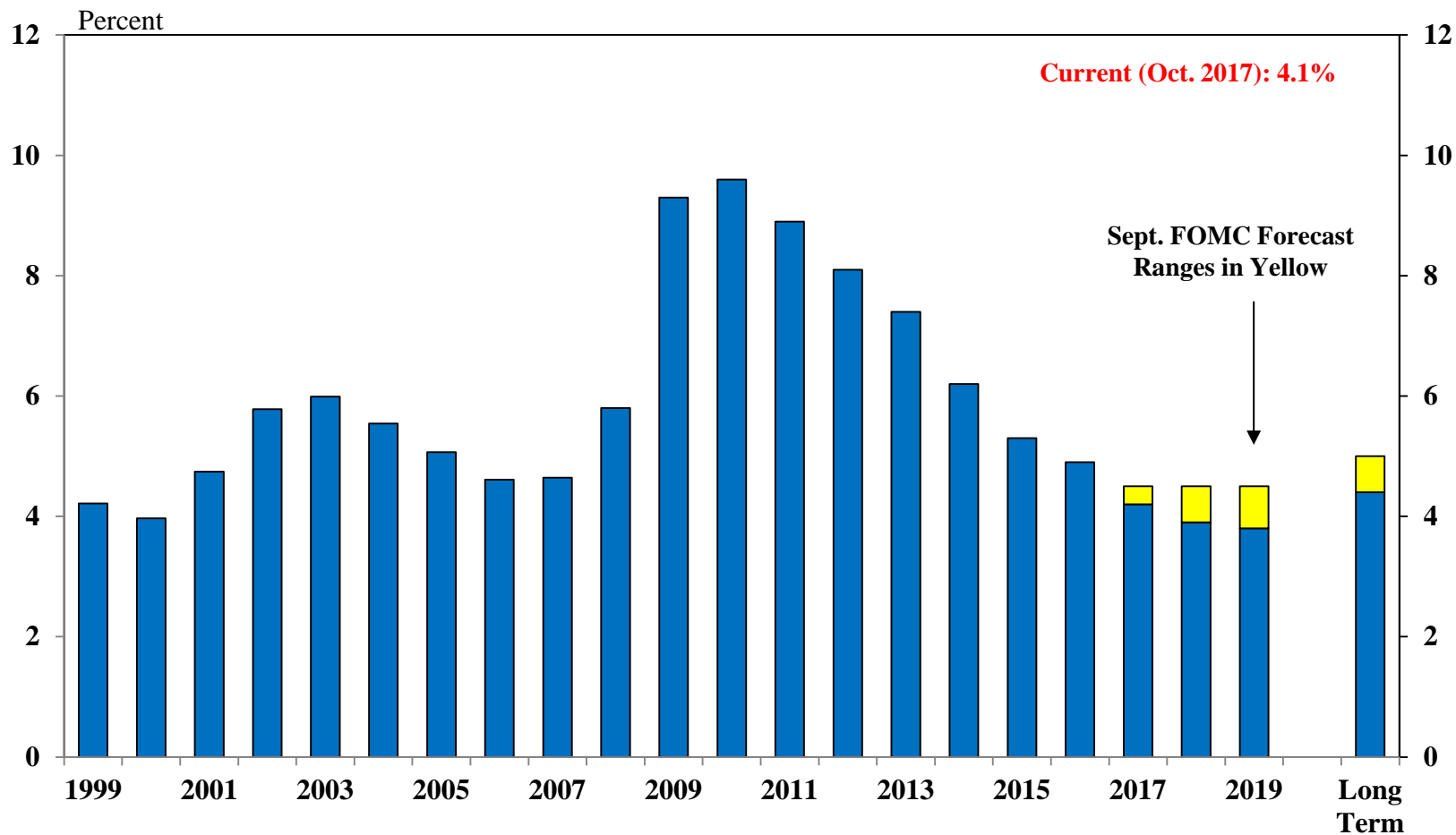
# Monthly data on business activity and employment show U.S. growth remained strong in early Q4

## U.S. Payroll Employment and Business Indexes



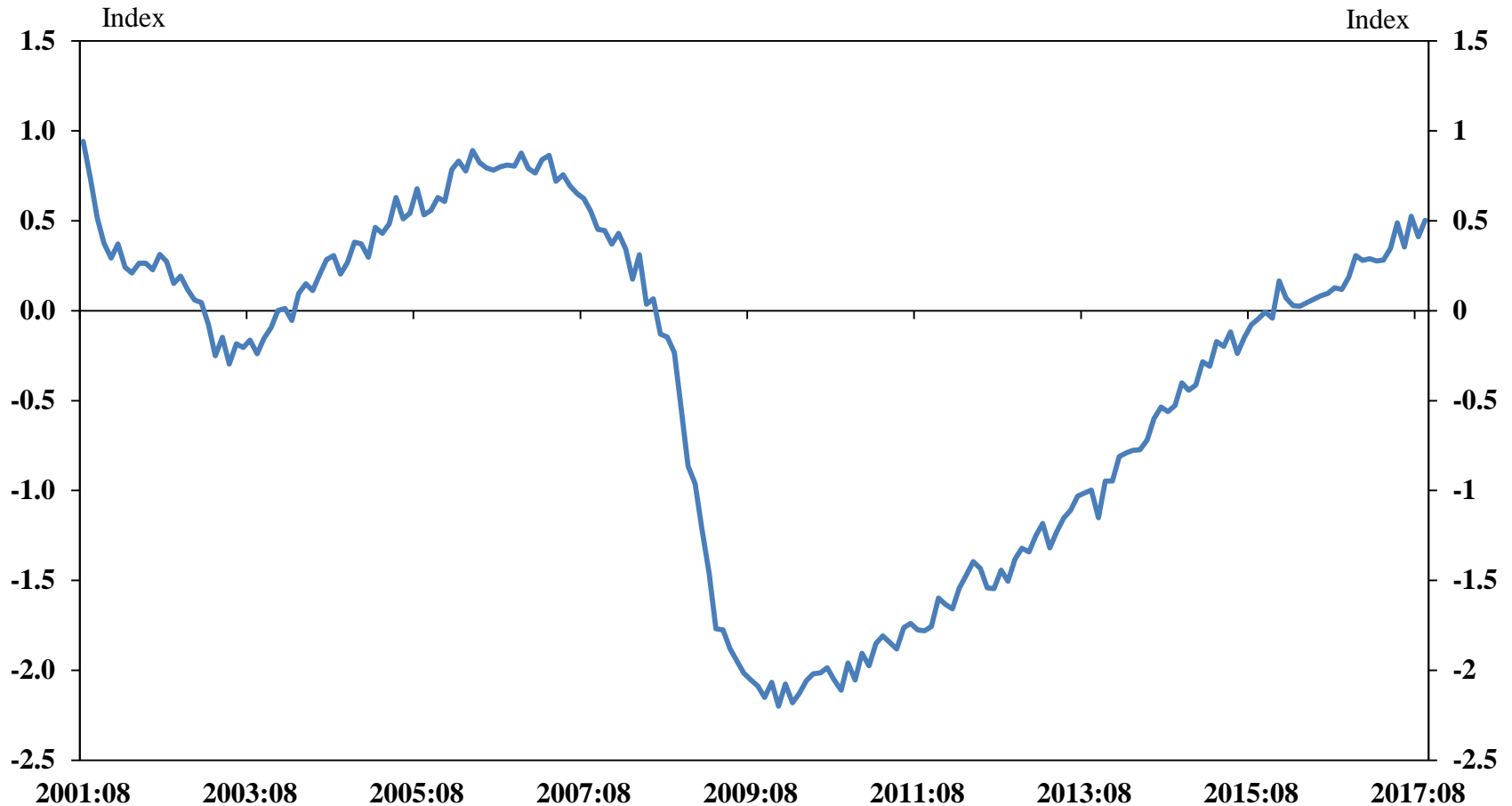
FOMC: “Although the hurricanes caused a drop in... employment...the unemployment rate declined further.”

### Unemployment Rate Seasonally Adjusted



# Broader measures of labor market conditions have shown continued improvement as well

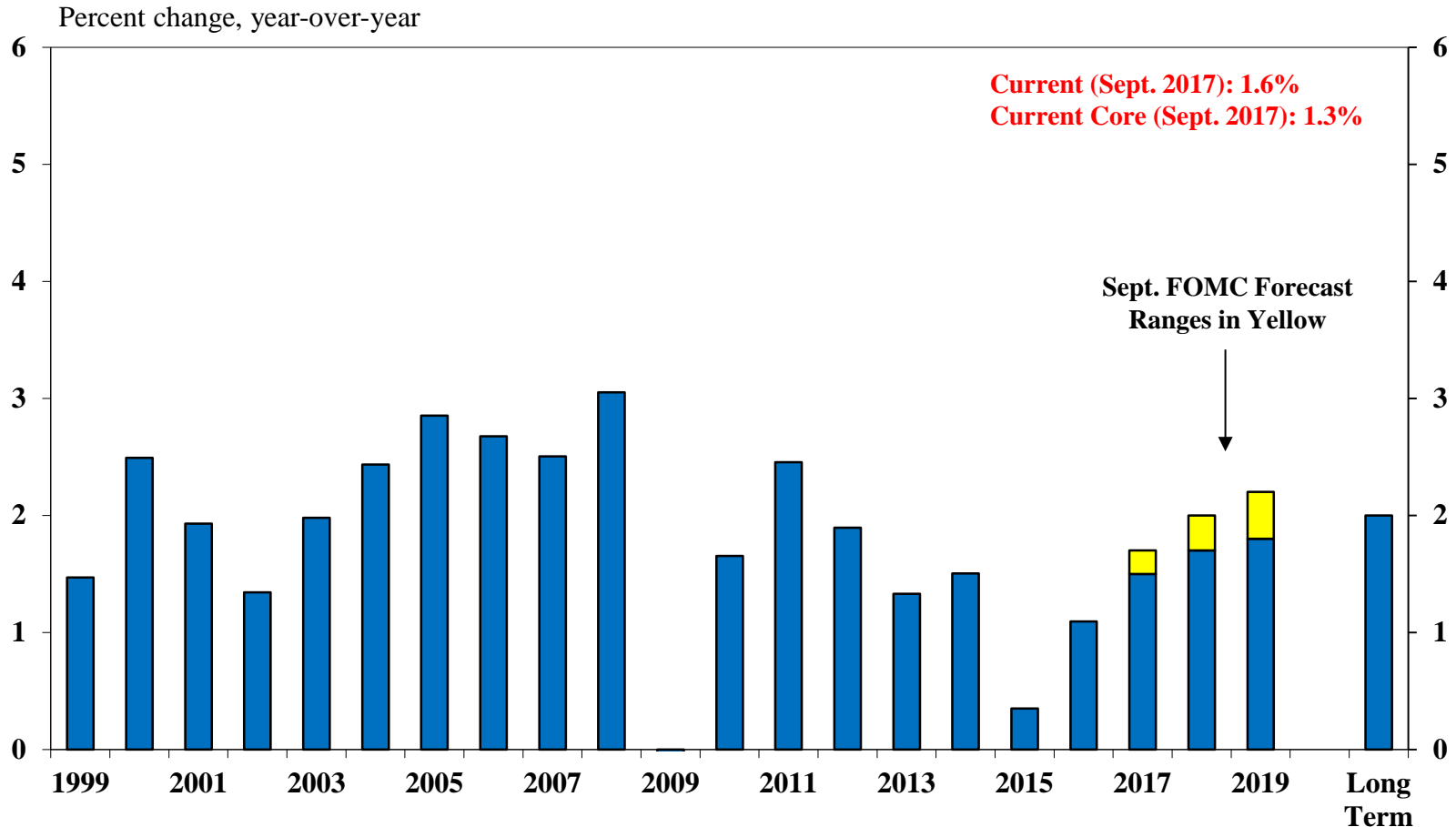
## Kansas City Fed U.S. Labor Market Conditions Index (LMCI)





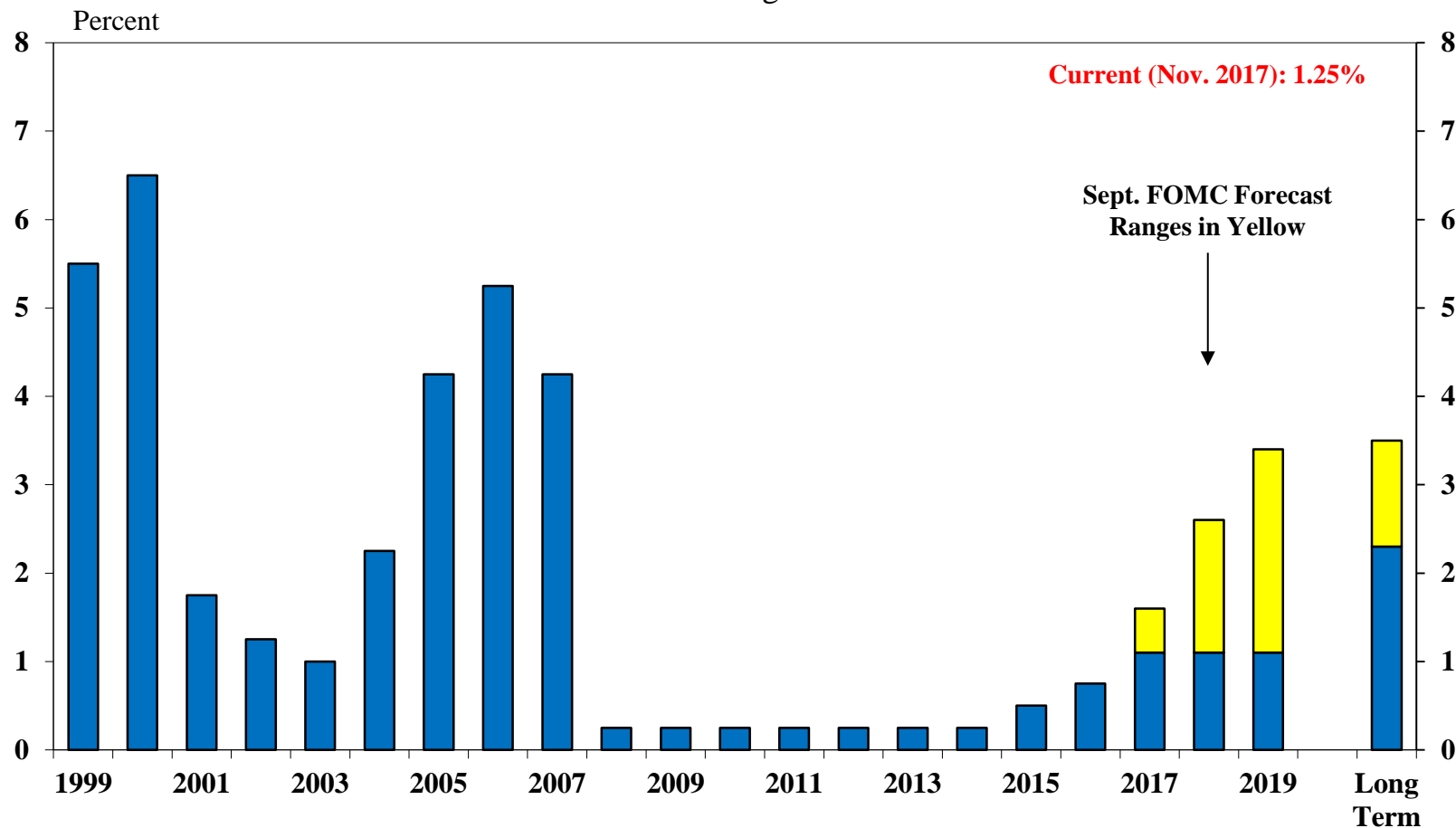
# FOMC: “Inflation...is expected to...stabilize around the Committee’s 2% objective over the medium term”

## PCE Inflation Index



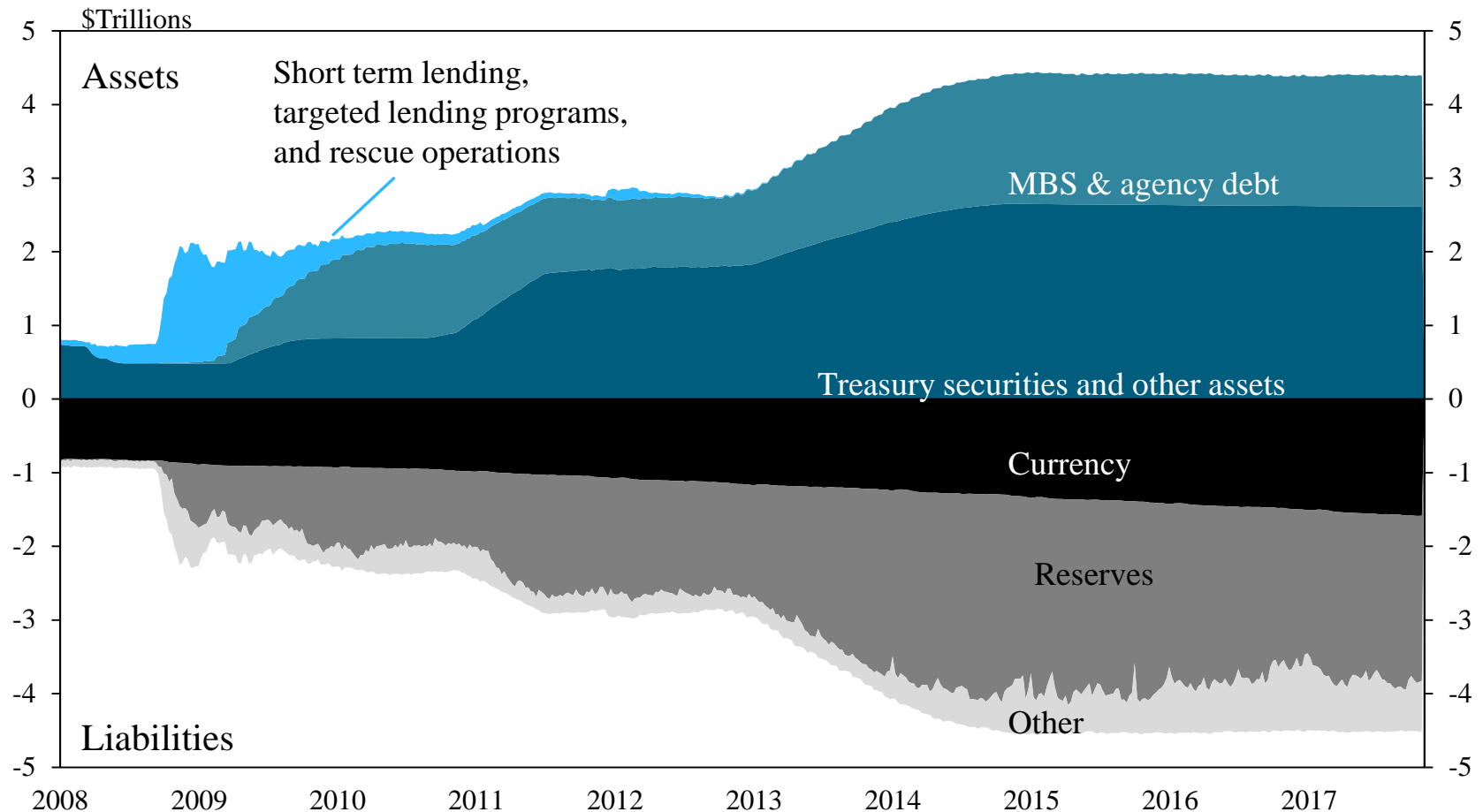
FOMC: “The Committee expects...conditions will evolve in a manner that will warrant gradual [rate] increases”

### Federal Funds Rate Year-end target

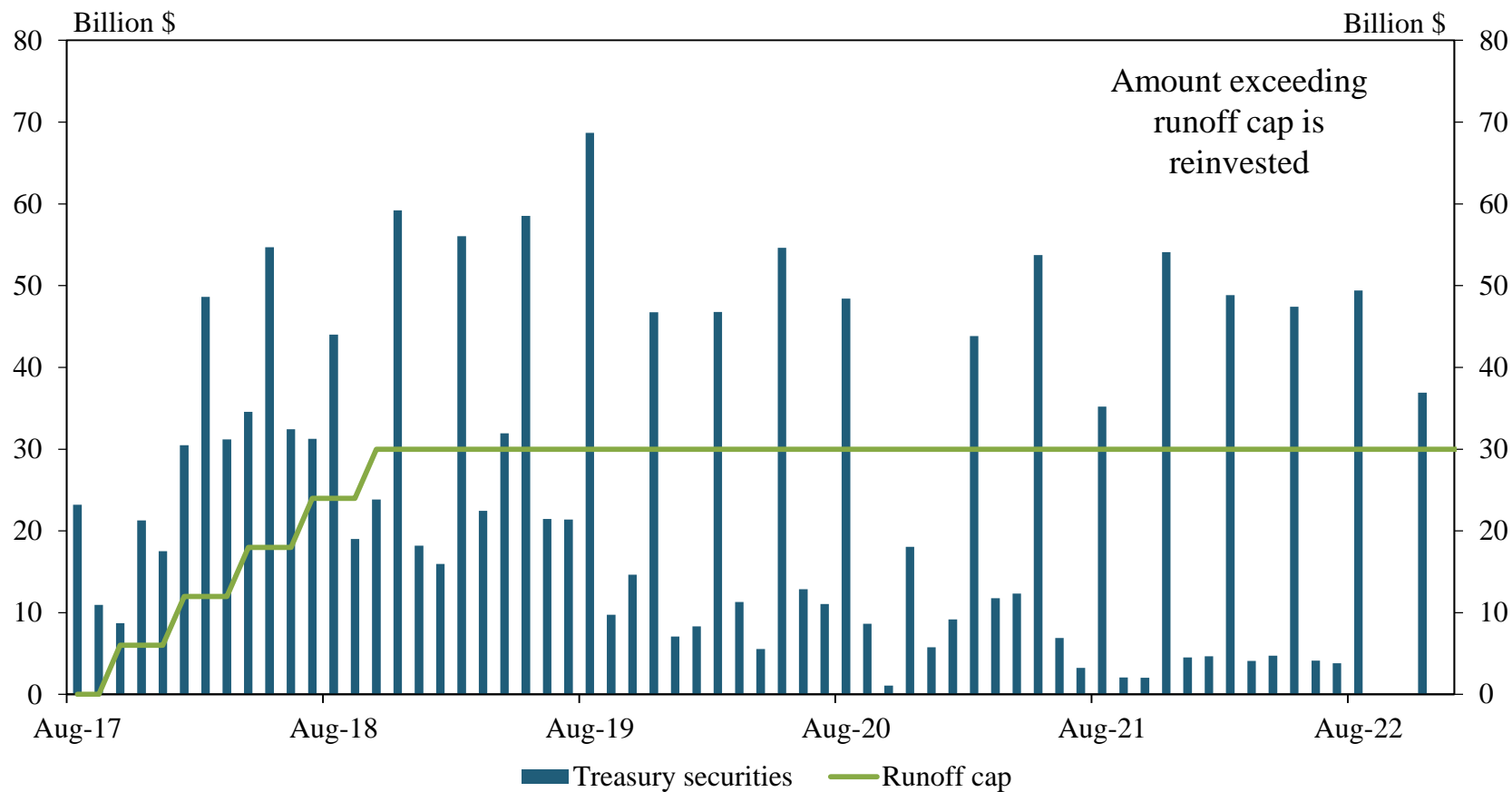


# FOMC: “The balance sheet normalization program initiated in October 2017 is proceeding.”

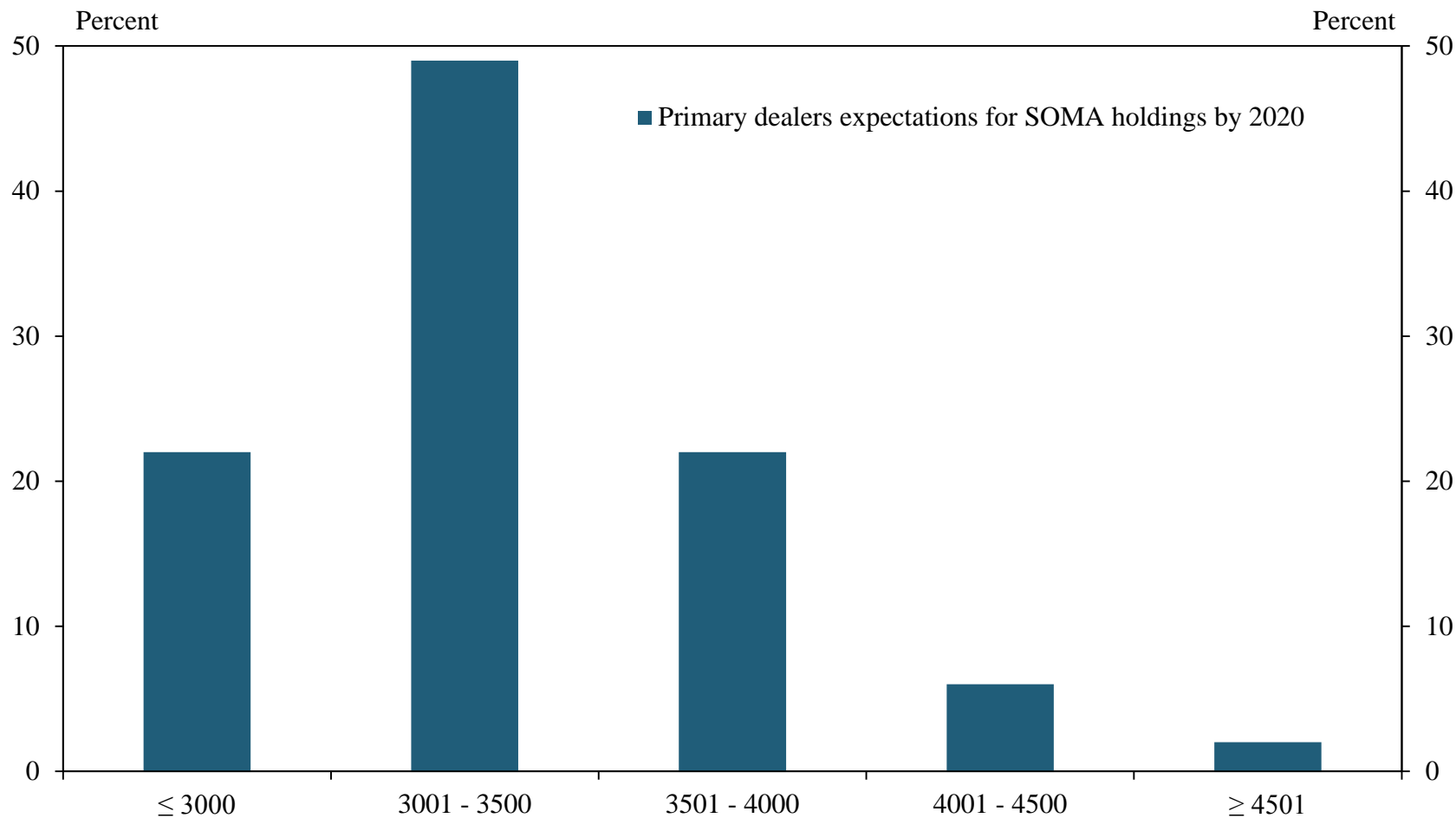
## Federal Reserve Balance Sheet



# A cap on the runoff of treasury securities ensures the balance sheet will shrink at a fairly even pace



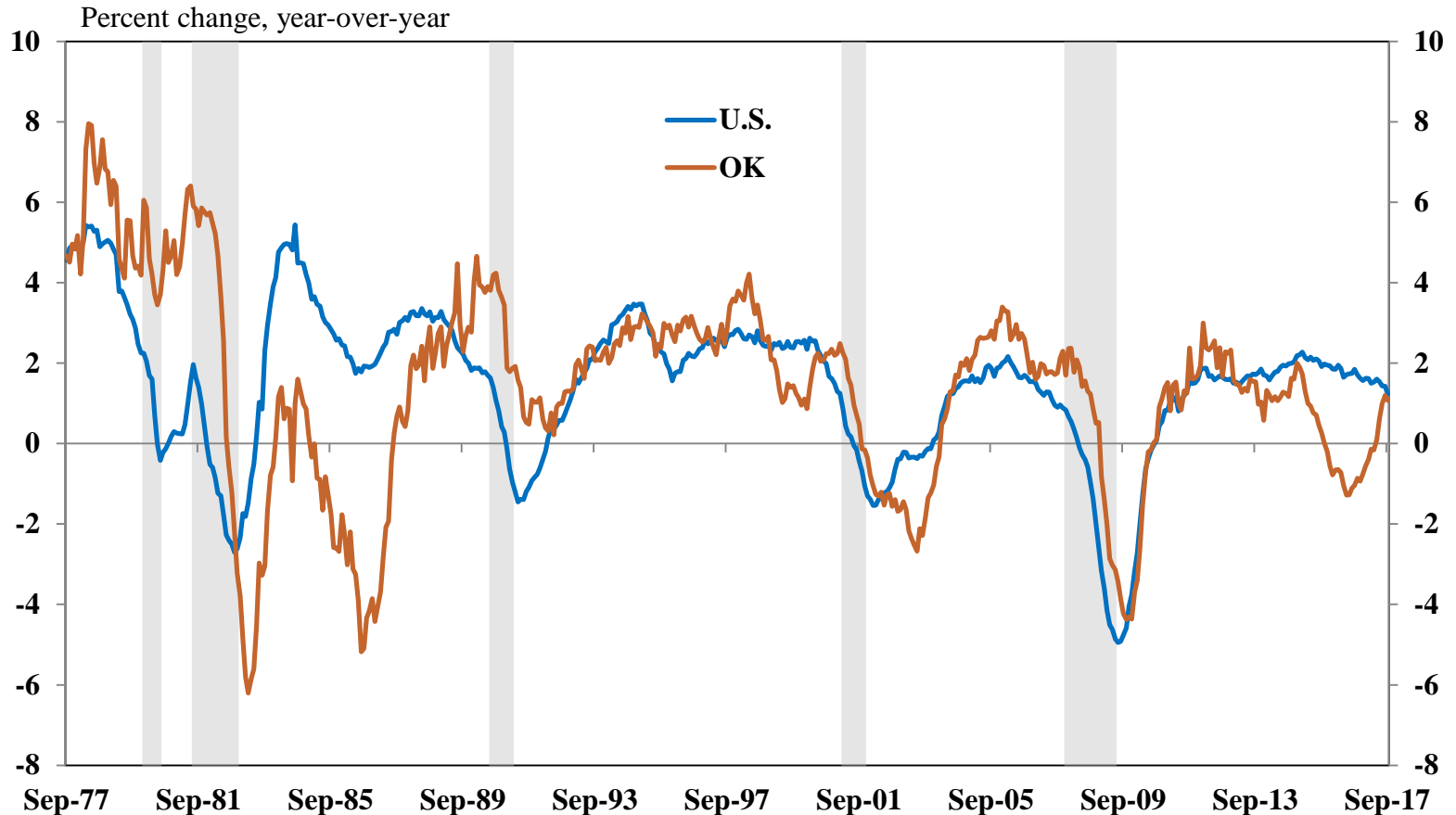
# Still, there is some variation in market expectations of the size of the Fed's balance sheet 3 years from now



# **Trends in the Oklahoma Economy**

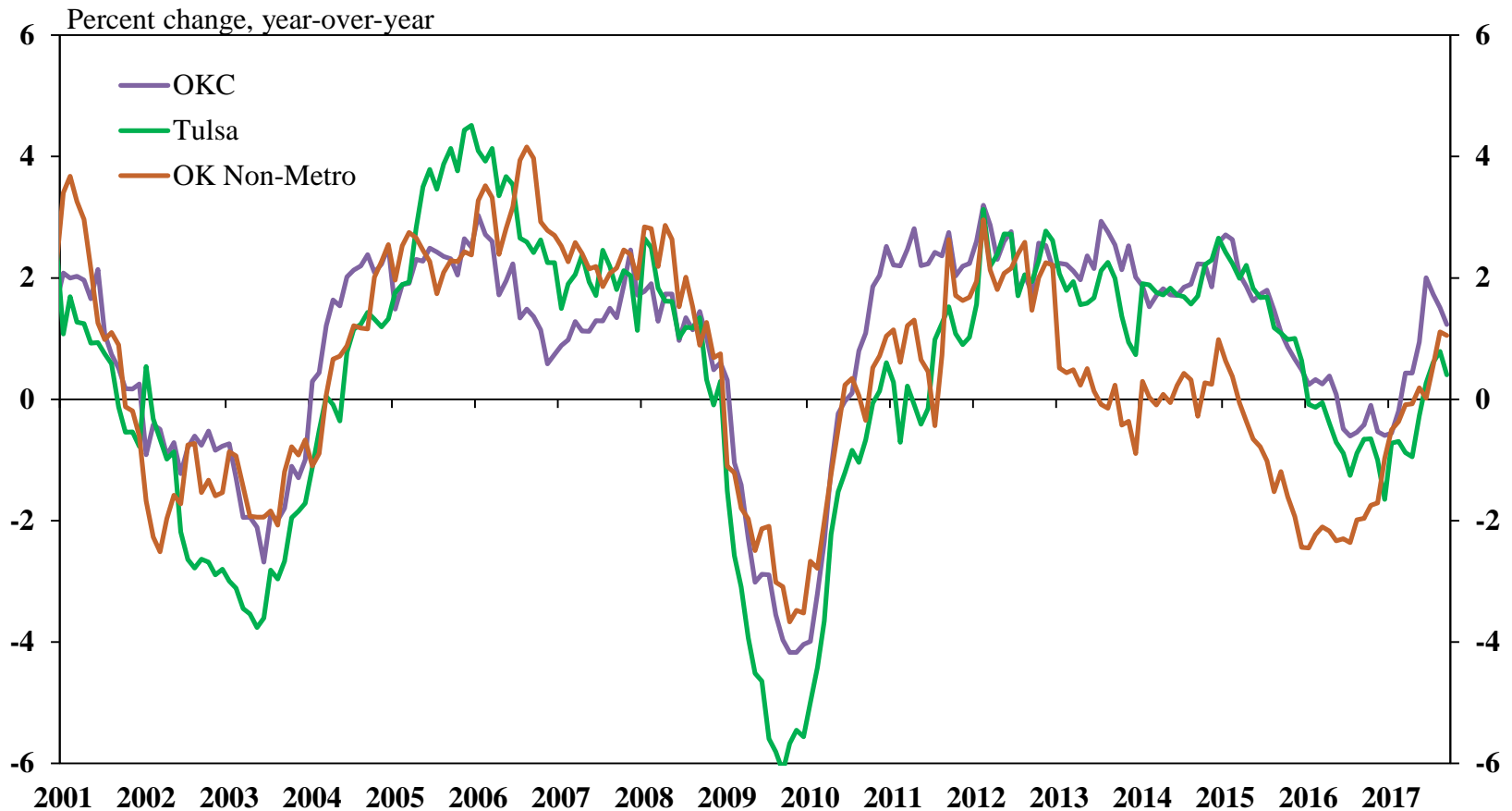
# 2015-16 was the largest divergence between U.S. & OK job growth since the '80s, but the gap has closed

## Payroll Employment Growth



# Looking across the state, the large metro areas held up better, but Tulsa has lagged somewhat this year

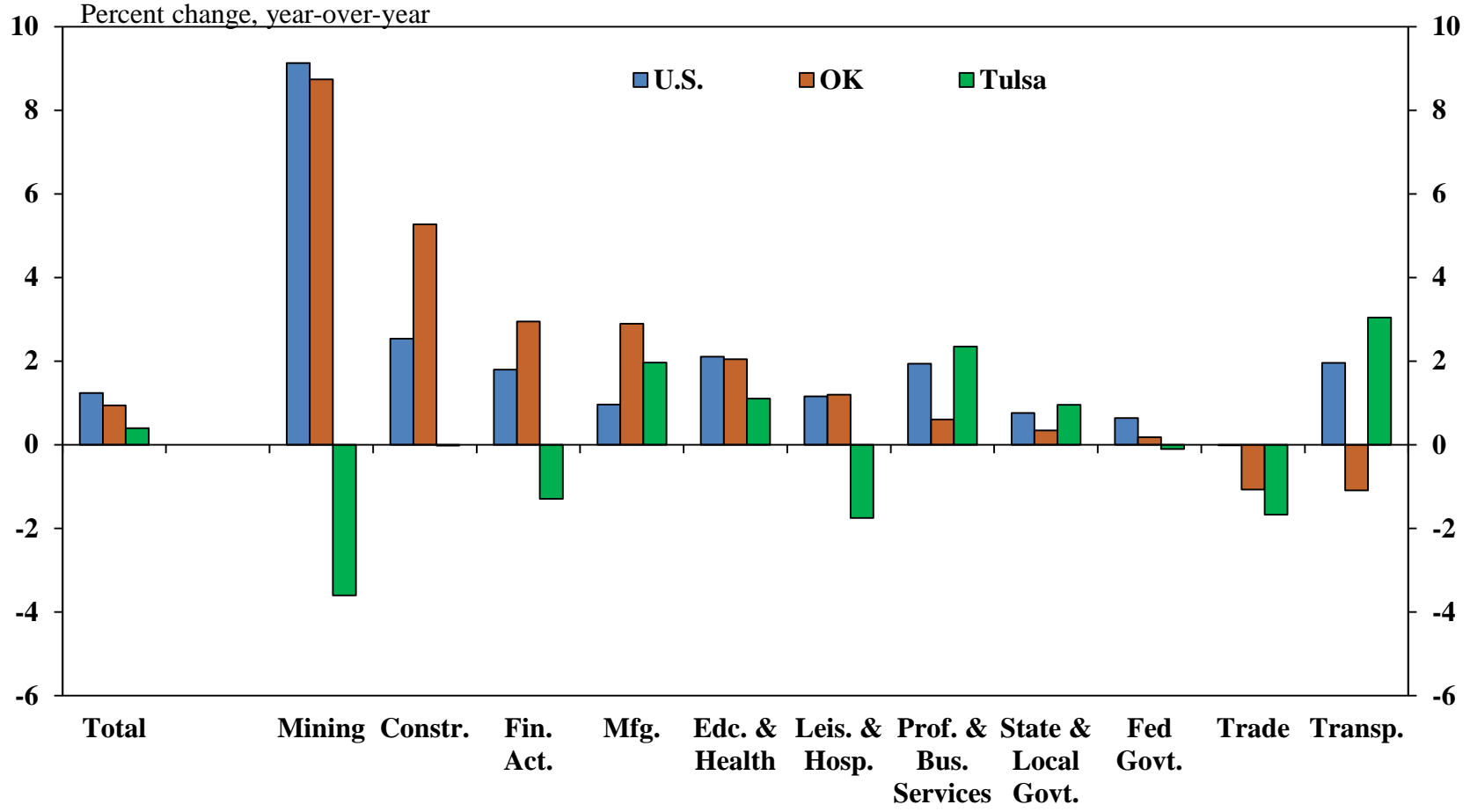
## U.S. vs OK Metro vs. OK Non-Metro Job Growth





# Energy sector growth has been slower in the Tulsa metro, but some other sectors have outpaced the nation

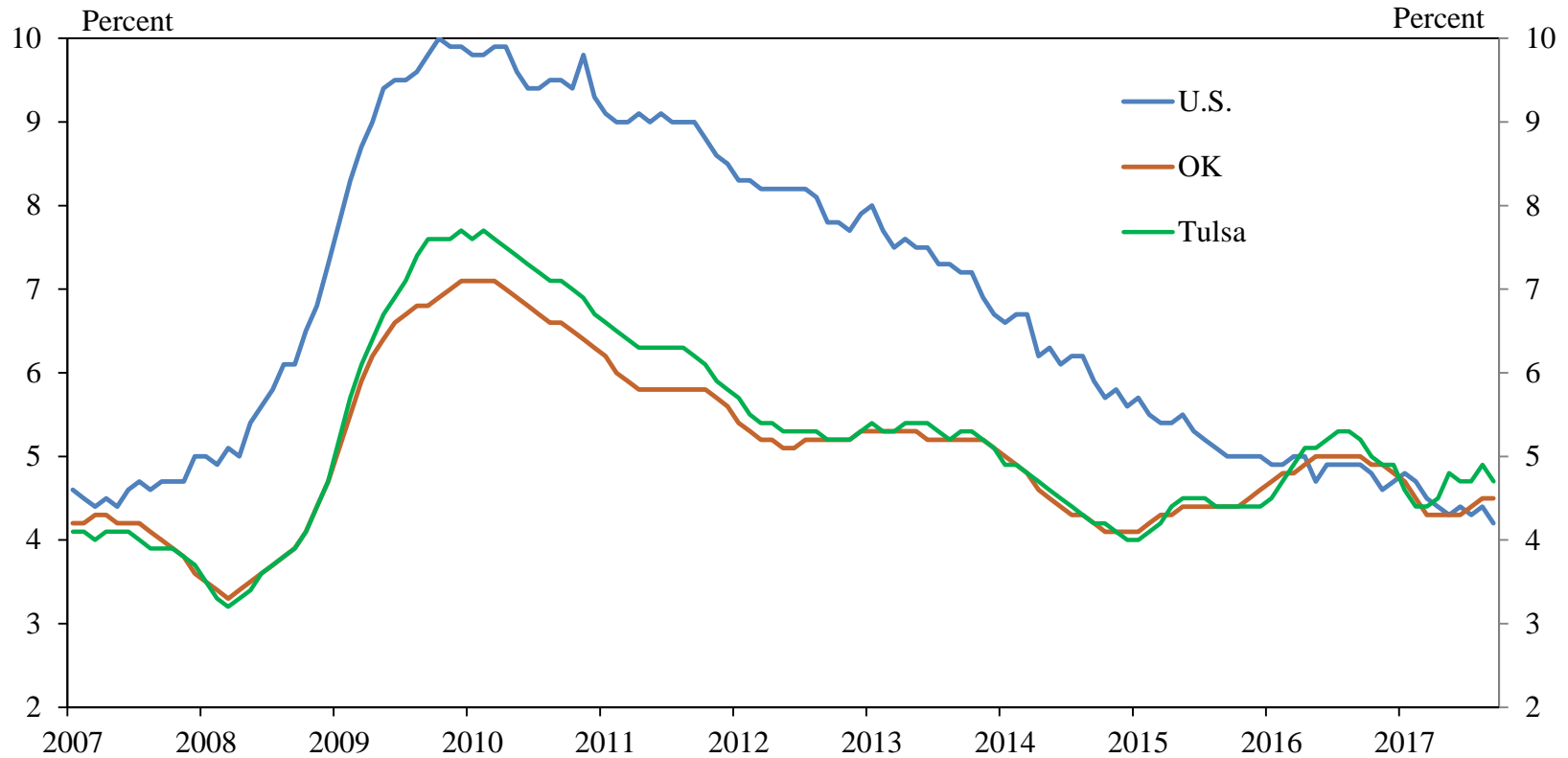
**Oklahoma Job Growth by Industry**  
Sept-17



Source: Bureau of Labor Statistics

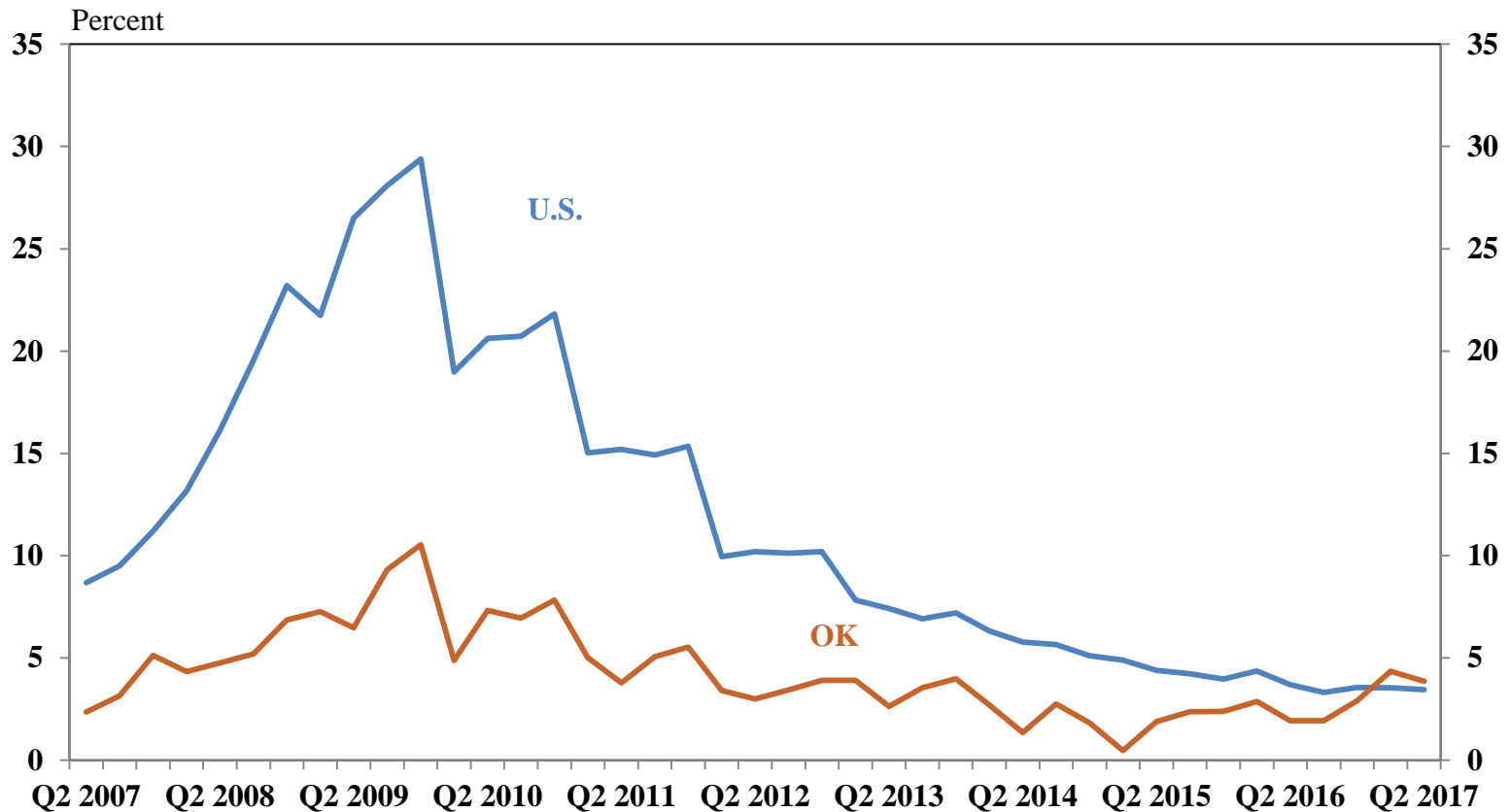
# Despite the economic downturn of recent years, unemployment is low in the state and Tulsa metro

**Unemployment rates**  
Seasonally Adjusted



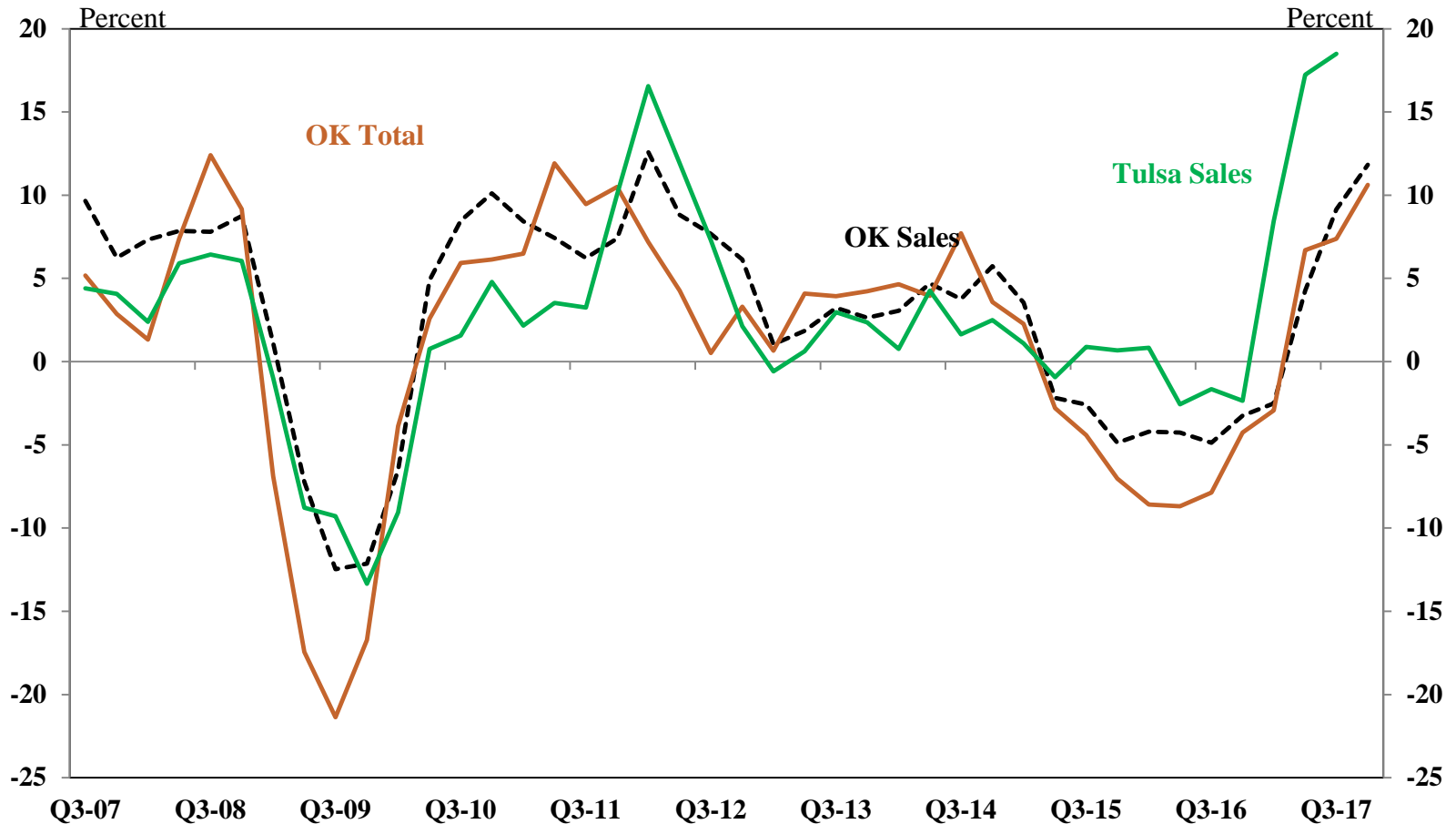
# Banking conditions also remain solid overall in the state despite recent economic weakness

**Share of Banks Not Making a Profit**  
Commercial Banks



# State tax revenues have risen back above year-ago levels in 2017, after falling for 2 year

**Tax Receipts**  
Through Q4-17\*



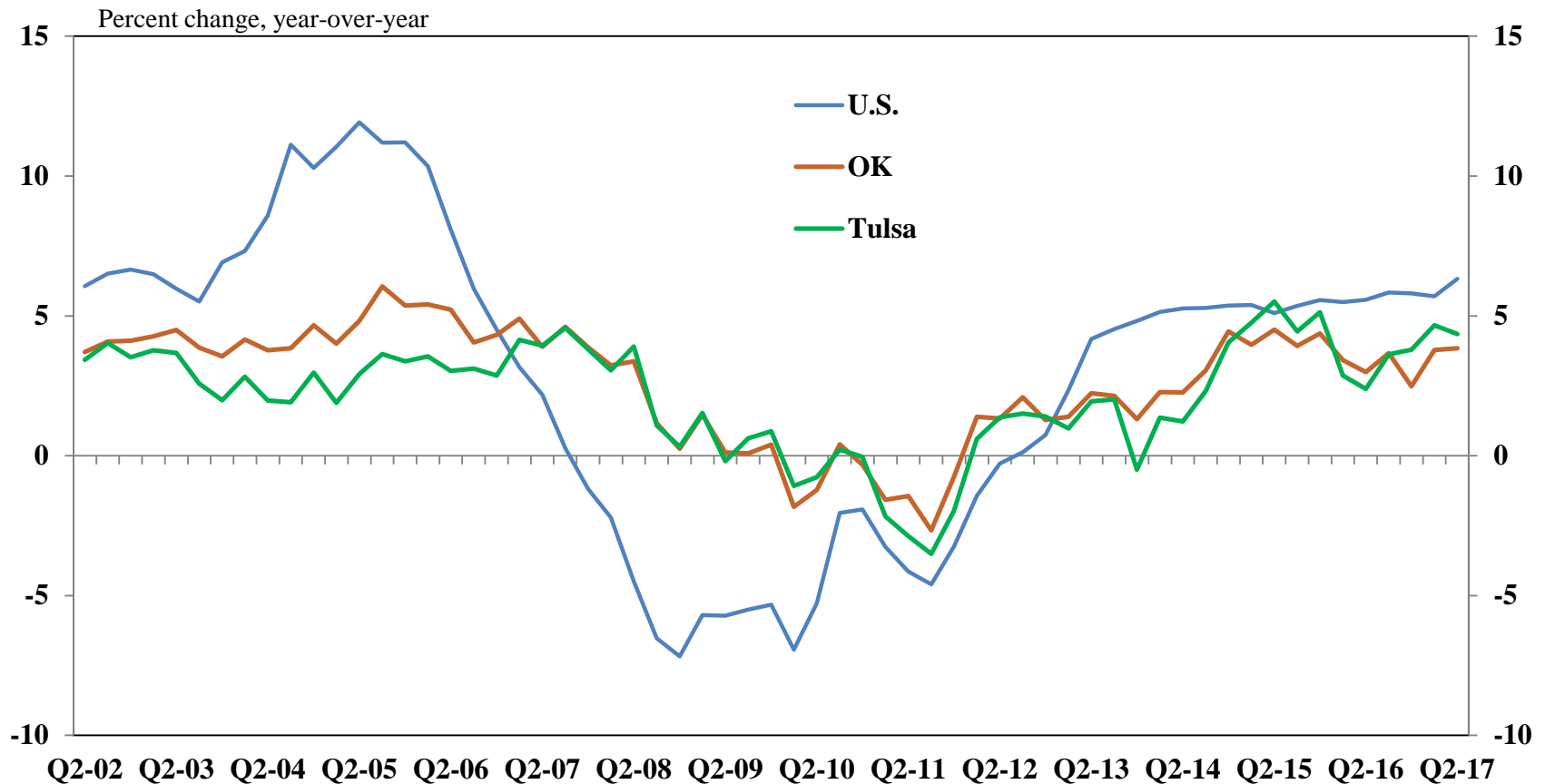
Note: Q4-17 includes only October



Source: OK Tax Commission

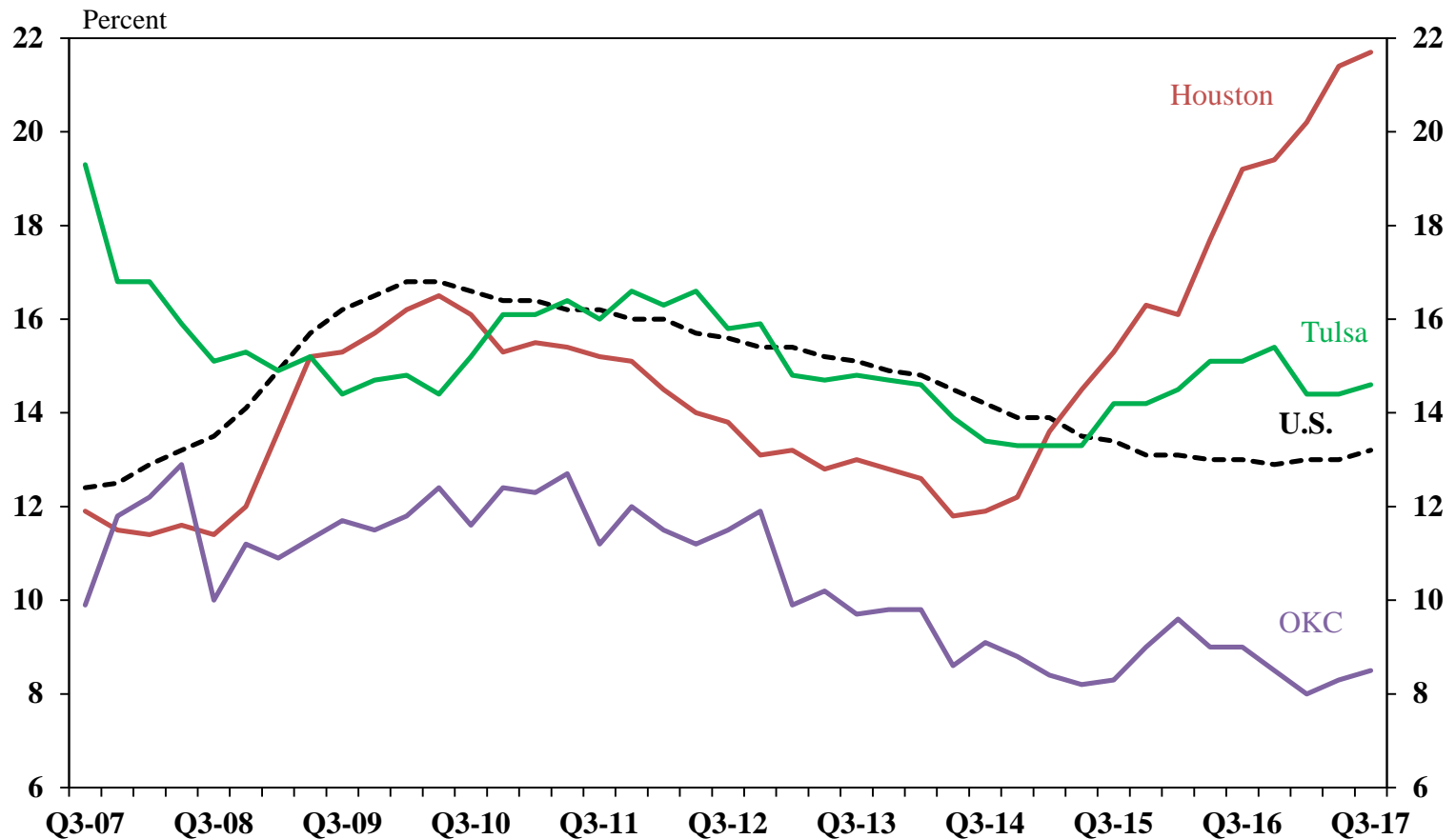
# In housing, home price growth across the state and metro has slowed, but remains moderately positive

**FHFA Home Price Index**  
Seasonally Adjusted



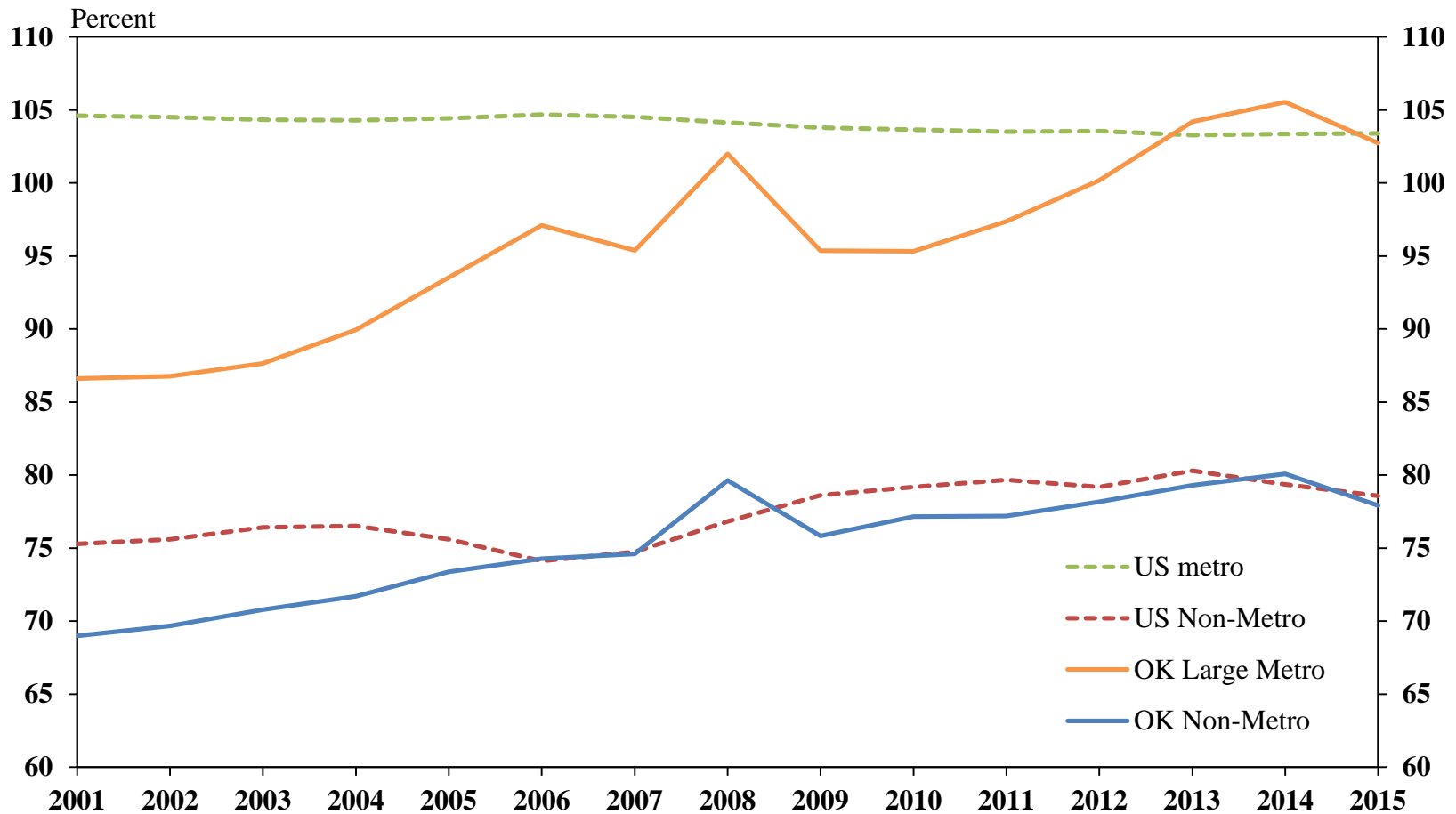
# Office vacancy rates in the Tulsa metro have come back down slightly this year after rising in 2015-16

## Metro Office Vacancy Rates



# Per capita incomes in both metro and non-metro Oklahoma have improved markedly this century

**U.S. Non-Metro vs. OK Non-Metro Per Capita Income**  
As a Share of National Average



# The industries in which Oklahoma is most highly concentrated have generally done best this century

## Oklahoma Personal Income Share by Industry, 2015

Industry	Percent of Total Income					Avg Annual Growth in OK 2001-2015*
	U.S.	OK	Tulsa	OKC	Non-Metro OK	
Mining	1.6	<b>10.8</b>	<b>13.5</b>	<b>9.3</b>	<b>10.4</b>	8.3
Transportation & Utilities	4.6	<b>12.4</b>	<b>21.8</b>	<b>6.2</b>	<b>7.4</b>	5.7
Farming	0.8	<b>1.6</b>	0.3	0.3	<b>5.3</b>	1.5
Education & Health	13.3	10.2	9.5	12.5	8.5	0.1
Construction	6.1	6.1	5.9	<b>6.2</b>	<b>6.3</b>	0.0
Prof. & Business Services	20.3	6.9	7.0	8.5	4.2	-0.3
Leisure & Hospitality	4.7	3.5	2.3	<b>4.8</b>	3.1	-0.8
State & Local Government	13.2	12.3	6.1	12.1	<b>20.3</b>	-0.9
Financial Activities	7.1	3.4	2.9	4.5	2.5	-1.6
Federal Government	3.0	<b>5.3</b>	1.3	<b>7.6</b>	<b>3.6</b>	-1.6
Trade	11.6	9.4	8.5	10.7	8.9	-1.7
Manufacturing	10.1	8.2	9.7	5.8	9.2	-3.0
Information	3.5	1.5	1.5	1.7	1.1	-4.3

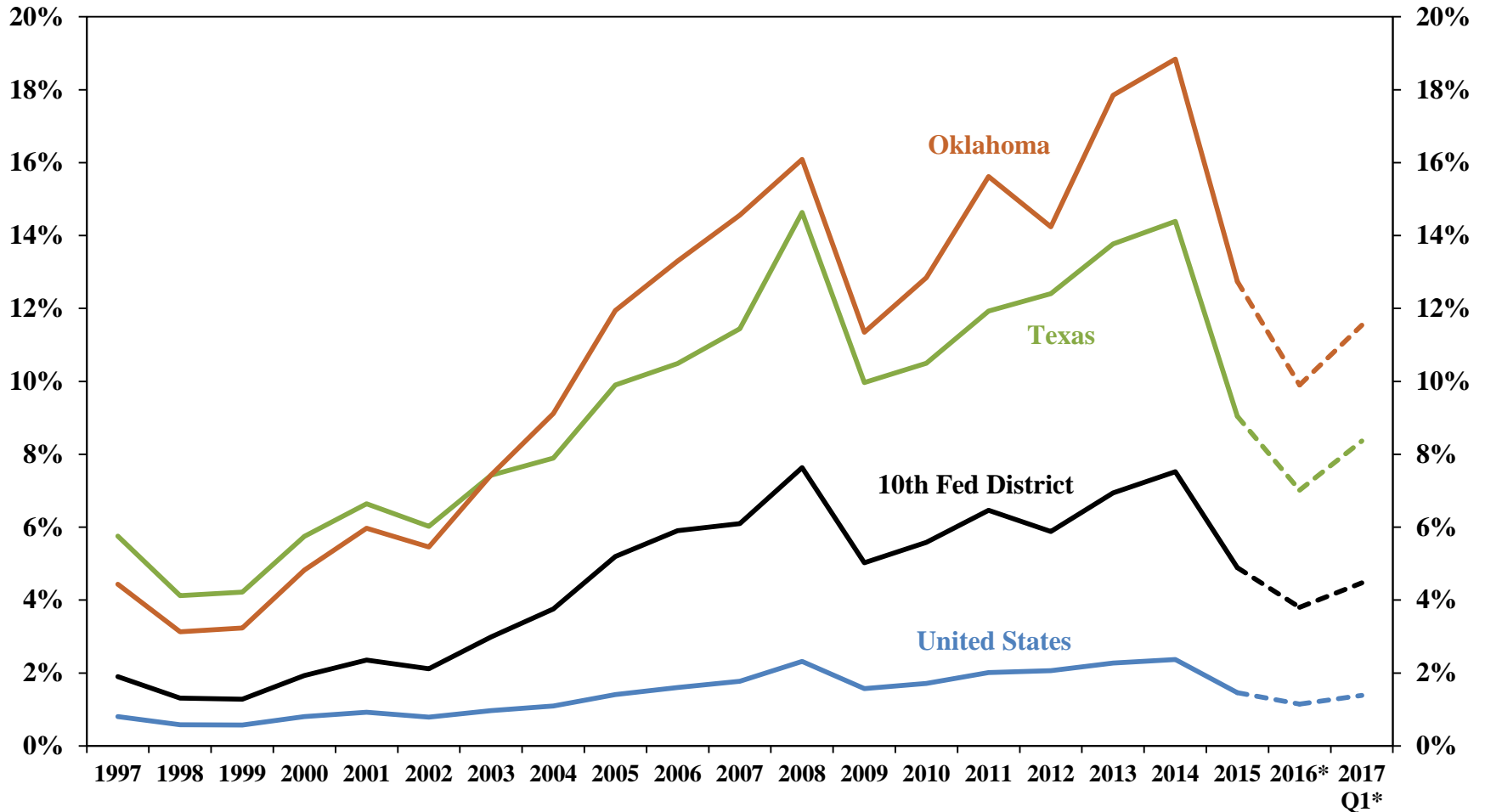
Note - 2014 percent of total income for Transp. & Utilities and Leis. & Hosp. in Non-metro regions.





# 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



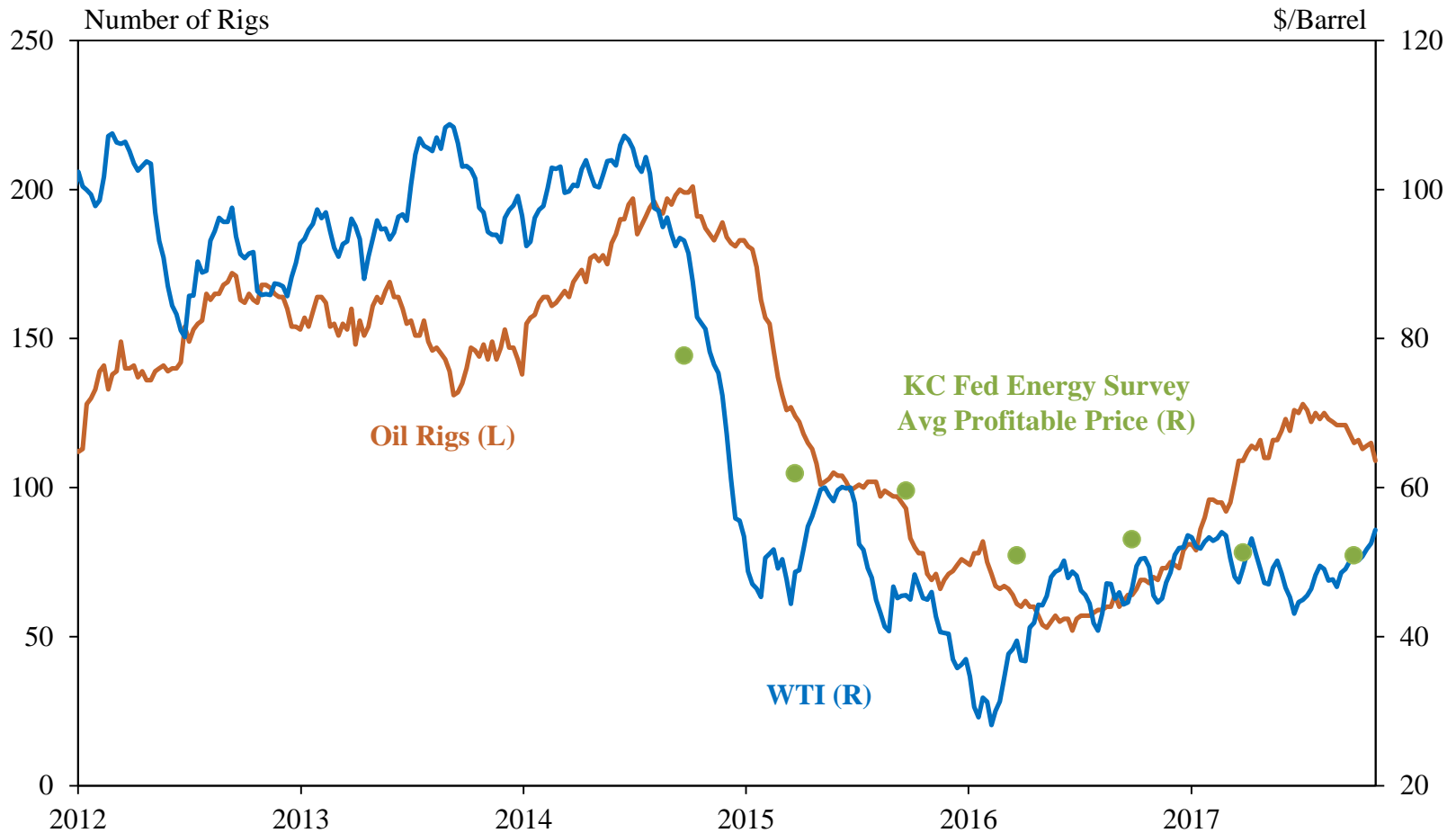
\*Oil & Gas Sector = NAICS 211 + NAICS 213;  
2016-17 estimates based on size of overall Mining sector



Source: U.S. Bureau of Economic Analysis; author's calculations

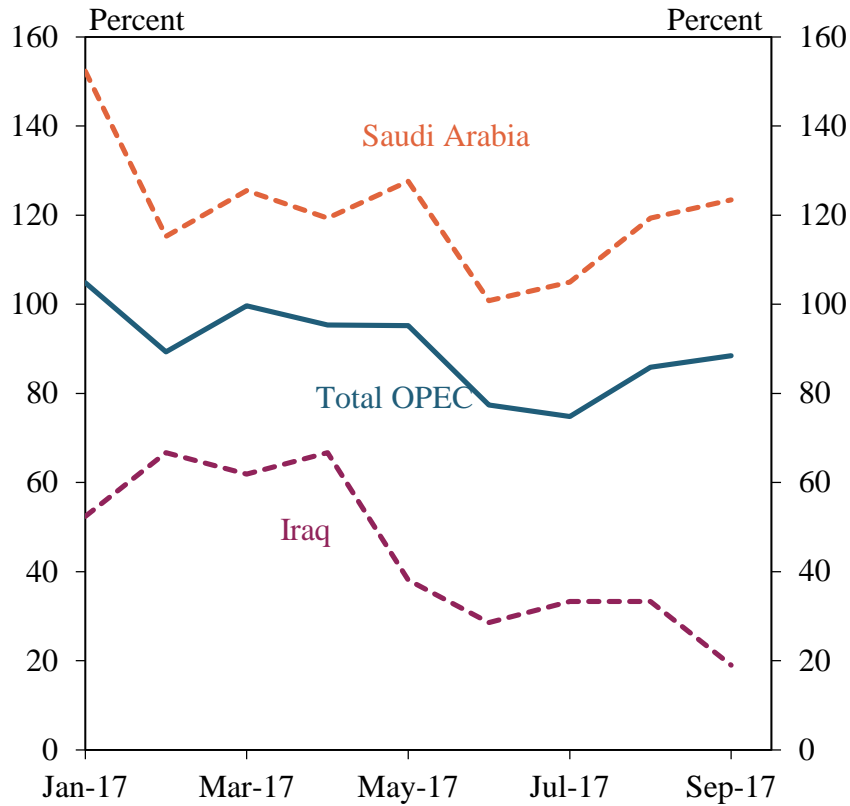
# The number of oil rigs in Oklahoma rose strongly in the first half of 2017 but has since tapered off

## WTI Spot Price vs. Oklahoma Rig Count

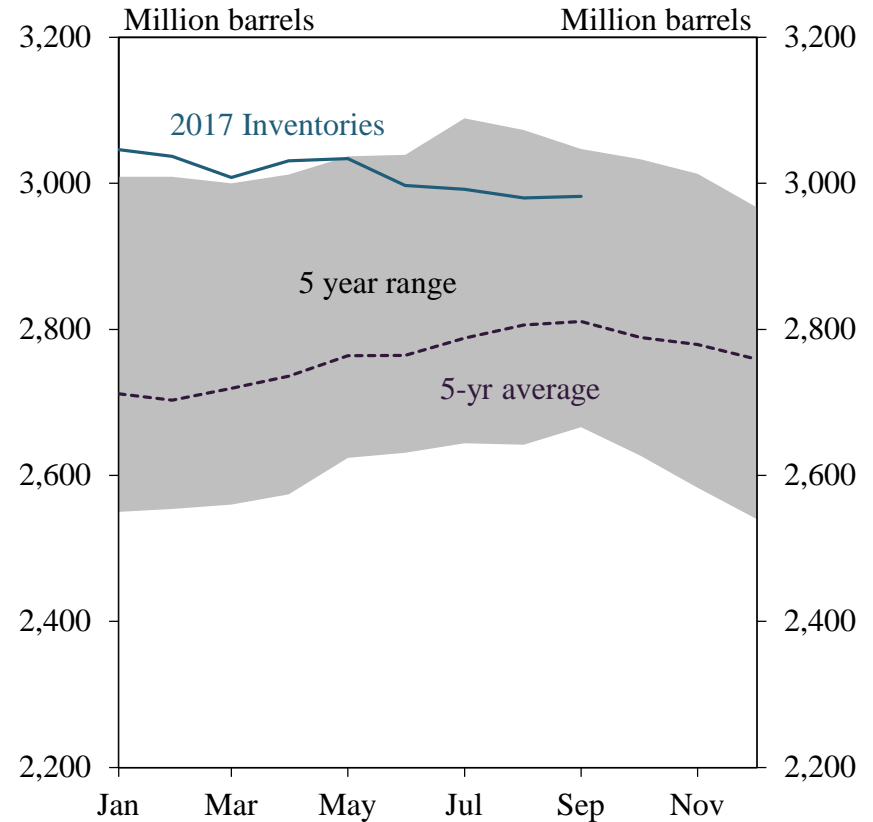


# OPEC compliance with cuts has also improved recently, helping push down world oil inventories

## OPEC Compliance

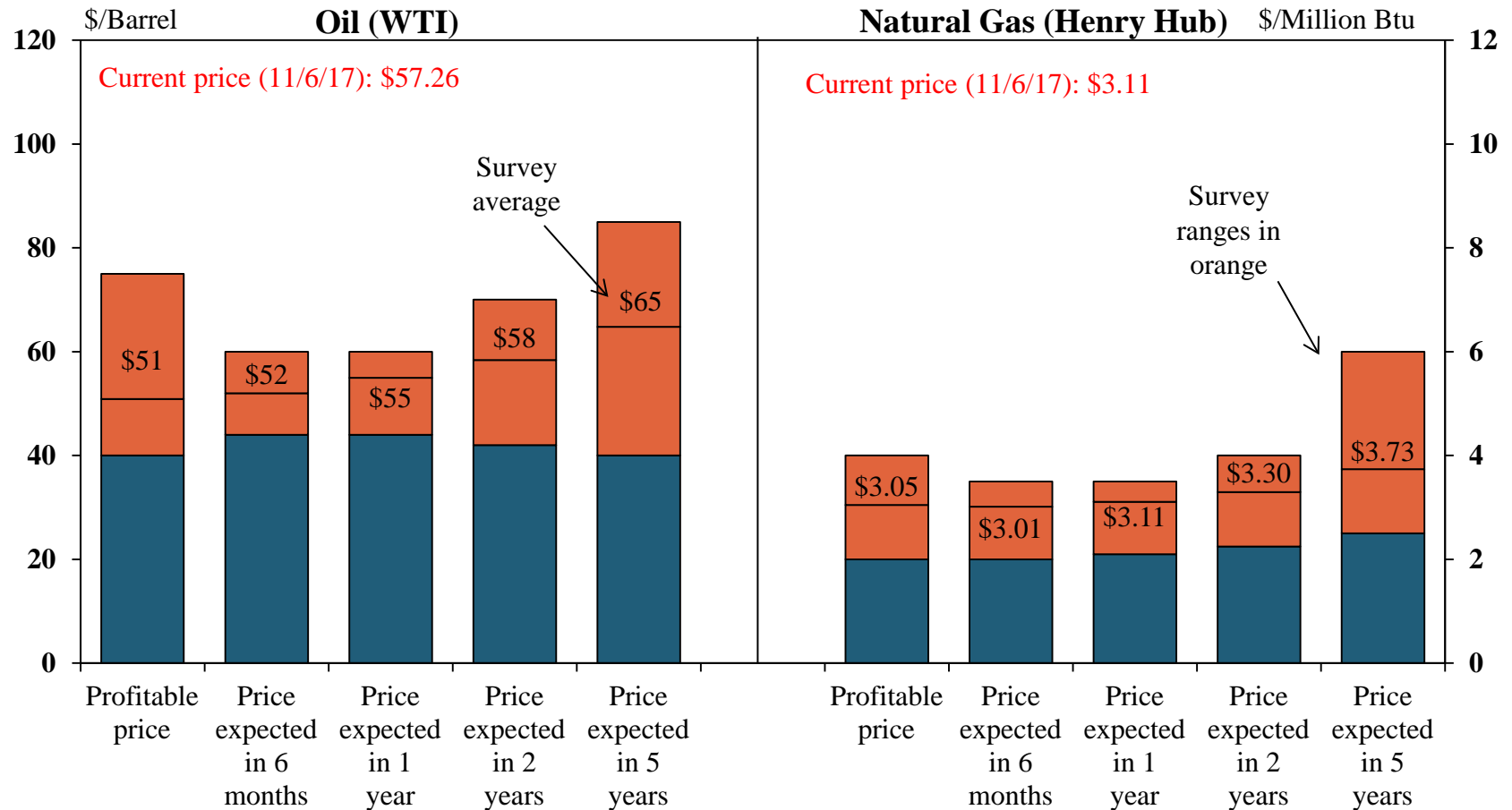


## OECD Petroleum Inventories



# Oil prices are now profitable for many District firms but are not expected to rise much further

## Tenth District Energy Survey Profitable Prices and Near-term Expectations



# Summary

- The U.S. economy continues to grow and the Fed has been tightening monetary policy
- The Oklahoma economy was hurt by low oil prices in 2015-16, but has rebounded in 2017
- The energy sector remains very sizable, and the outlook appears solid but perhaps not great



# Questions?

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

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