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

* 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.)

- 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

Source: U.S. Bureau of Economic Analysis
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

Sources: U.S. Bureau of Labor Statistics, FOMC

Current (Oct. 2017): 4.1%

Sept. FOMC Forecast
Ranges in Yellow

Sources: U.S. Bureau of Labor Statistics, FOMC
Broader measures of labor market conditions have shown continued improvement as well.
FOMC: “Inflation…is expected to…stabilize around the Committee’s 2% objective over the medium term”
FOMC: “The Committee expects…conditions will evolve in a manner that will warrant gradual [rate] increases”

Federal Funds Rate
Year-end target

Sources: Federal Reserve Board, FOMC
FOMC: “The balance sheet normalization program initiated in October 2017 is proceeding.”

Federal Reserve Balance Sheet

Source: Federal Reserve Board
A cap on the runoff of treasury securities ensures the balance sheet will shrink at a fairly even pace.

Amount exceeding runoff cap is reinvested.

Sources: MPA, Federal Reserve Bank of New York, Federal Reserve
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.
Looking across the state, the large metro areas held up better, but Tulsa has lagged somewhat this year.
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.
Banking conditions also remain solid overall in the state despite recent economic weakness.

Source: FDIC
State tax revenues have risen back above year-ago levels in 2017, after falling for 2 years.

Note: Q4-17 includes only October
In housing, home price growth across the state and metro has slowed, but remains moderately positive.
Office vacancy rates in the Tulsa metro have come back down slightly this year after rising in 2015-16.
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

Source: U.S. Bureau of Economic Analysis
The industries in which Oklahoma is most highly concentrated have generally done best this century.

Oklahoma Personal Income Share by Industry, 2015

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>1.6</td>
<td><strong>10.8</strong></td>
<td>13.5</td>
<td><strong>9.3</strong></td>
<td><strong>10.4</strong></td>
<td>8.3</td>
</tr>
<tr>
<td>Transportation &amp; Utilities</td>
<td>4.6</td>
<td><strong>12.4</strong></td>
<td>21.8</td>
<td><strong>6.2</strong></td>
<td><strong>7.4</strong></td>
<td>5.7</td>
</tr>
<tr>
<td>Farming</td>
<td>0.8</td>
<td><strong>1.6</strong></td>
<td>0.3</td>
<td>0.3</td>
<td><strong>5.3</strong></td>
<td>1.5</td>
</tr>
<tr>
<td>Education &amp; Health</td>
<td>13.3</td>
<td>10.2</td>
<td>9.5</td>
<td>12.5</td>
<td>8.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Construction</td>
<td>6.1</td>
<td>6.1</td>
<td>5.9</td>
<td><strong>6.2</strong></td>
<td><strong>6.3</strong></td>
<td>0.0</td>
</tr>
<tr>
<td>Prof. &amp; Business Services</td>
<td>20.3</td>
<td>6.9</td>
<td>7.0</td>
<td>8.5</td>
<td>4.2</td>
<td>-0.3</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>4.7</td>
<td>3.5</td>
<td>2.3</td>
<td><strong>4.8</strong></td>
<td>3.1</td>
<td>-0.8</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
<td>13.2</td>
<td>12.3</td>
<td>6.1</td>
<td>12.1</td>
<td><strong>20.3</strong></td>
<td>-0.9</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>7.1</td>
<td>3.4</td>
<td>2.9</td>
<td>4.5</td>
<td>2.5</td>
<td>-1.6</td>
</tr>
<tr>
<td>Federal Government</td>
<td>3.0</td>
<td><strong>5.3</strong></td>
<td>1.3</td>
<td><strong>7.6</strong></td>
<td><strong>3.6</strong></td>
<td>-1.6</td>
</tr>
<tr>
<td>Trade</td>
<td>11.6</td>
<td>9.4</td>
<td>8.5</td>
<td>10.7</td>
<td>8.9</td>
<td>-1.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10.1</td>
<td>8.2</td>
<td>9.7</td>
<td>5.8</td>
<td>9.2</td>
<td>-3.0</td>
</tr>
<tr>
<td>Information</td>
<td>3.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.7</td>
<td>1.1</td>
<td>-4.3</td>
</tr>
</tbody>
</table>

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

Source: U.S. Bureau of Economic Analysis
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.
OPEC compliance with cuts has also improved recently, helping push down world oil inventories.

**OPEC Compliance**

- Saudi Arabia
- Total OPEC
- Iraq

**OECD Petroleum Inventories**

- 2017 Inventories
- 5 year range
- 5-yr average

Sources: IEA, EIA
Oil prices are now profitable for many District firms but are not expected to rise much further.
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:
www.kansascityfed.org/publications/research/oke/

For updates on regional energy, agriculture, and manufacturing activity, subscribe to our periodic surveys:
https://www.kansascityfed.org/research/indicatorsdata/energy
https://www.kansascityfed.org/research/indicatorsdata/agcreditsurvey
https://www.kansascityfed.org/research/indicatorsdata/mfg