U.S. and Oklahoma Economic Outlook

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Oklahoma City Branch
The U.S. Economy and Monetary Policy
U.S. business activity has slowed slightly, but job growth remains solid

U.S. Private Payroll Employment and Business Indexes

Change from previous month, thousands

U.S. unemployment is at long-term levels after falling considerably in recent years.

Unemployment Rate
Seasonally Adjusted

Current (Feb. 2016): 4.9%

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 (Q4 2015): 0.5%
Current Core (Q4 2015): 1.4%

Mar. FOMC Forecast
Ranges in Yellow

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

Federal Funds Rate
Year-end target

Current (Mar. 2016): 0.25-0.50%

Sources: Federal Reserve Board, FOMC
Trends in the Oklahoma Economy
Job trends have varied somewhat across Oklahoma the past couple of years.
Energy jobs have plummeted, but spillover to other industries has been fairly limited.

Job Growth by Industry
Feb-16

Source: Bureau of Labor Statistics
With many workers finding jobs in other industries, unemployment still remains low.

Unemployment Rate
Seasonally Adjusted

Source: U.S. Bureau of Labor Statistics
And Oklahoma home prices have continued to grow, similar to the nation.

FHFA Home Prices
Seasonally adjusted

Percent change, year-over-year.

Source: FHFA
Office vacancies have risen only slightly in Oklahoma’s two largest metros

Office Vacancy Rates

- U.S.
- OKC
- Tulsa

Source: TWR
In related news, banking conditions in the state have remained good.

Share of Banks Not Making a Profit
Commercial Banks

Source: FDIC
But state tax receipts continue to fall, creating difficulties for the state budget.

State Tax Receipts
Through Feb-16

Source: OK Tax Commission
And Oklahoma is highly concentrated in energy, of course, as well as agriculture.

### Oklahoma Personal Income Share by Industry

State - 2014, Metro/Non-Metro - 2012

<table>
<thead>
<tr>
<th>Industry</th>
<th>OK Location Quotient</th>
<th>OK % of Total Income</th>
<th>OKC Location Quotient</th>
<th>OKC % of Total Income</th>
<th>Tulsa Location Quotient</th>
<th>Tulsa % of Total Income</th>
<th>Non-Metro Location Quotient</th>
<th>Non-Metro % of Total Income</th>
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<tbody>
<tr>
<td>Mining</td>
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Note - Location quotient is the division of local share by national share.
The Outlook for Oklahoma Energy and Agriculture
Oil has risen back to $40 lately but remains low, and natural gas prices continue to sink.

Source: EIA, Chicago Mercantile Exchange

Energy Spot and Futures Prices

WTI Oil (R)

Henry Hub Natural Gas (L)

Source: EIA, Chicago Mercantile Exchange
World oil supply and demand are expected to be out of balance until late 2017.
Firms’ average price needed to increase drilling remains well above current prices.
The KC Fed’s Q4 energy survey showed further declines, with more expected.
Oklahoma farm income, investment, and rural household spending are falling

Oklahoma Farm Income

Expected in three months

Source: Federal Reserve Bank of Kansas City, Survey of Ag Credit Conditions
Farm credit conditions are also deteriorating in Oklahoma.

Oklahoma Credit Conditions

Source: Federal Reserve Bank of Kansas City, Survey of Ag Credit Conditions
Still, farmland values have held up in Oklahoma, unlike in the rest of our region.
The U.S. economy continues to grow, and the Fed has begun to raise interest rates.

Oklahoma employment and tax revenues continue to suffer from the oil downturn.

But unemployment remains low, and there has been little spillover to real estate so far.

The latest KC Fed energy and agriculture surveys suggest more difficulties ahead.