The U.S. Economy and Real Estate Trends by Region

Oklahoma Real Estate Commission Conference
June 2, 2016

Chad Wilkerson
Oklahoma City Branch Executive & Economist
Federal Reserve Bank of Kansas City
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), 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
Overall GDP growth slowed further in Q1, but housing investment picked up again.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
U.S. business activity improved in March and April, and 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 (Apr. 2016): 5.0%

Mar. 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 by next year

PCE Inflation Index

Percent change, year-over-year

Current (Q1 2016): 1.0%
Current Core (Q1 2016): 1.7%

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 (May 2016): 0.50%

Sources: Federal Reserve Board, FOMC
Real Estate and Economic Trends by Region
Home construction has dropped in energy states but is up strongly in most areas

Single-Family Housing Permits
Q1 2016

Source: U.S. Census Bureau
Home prices have generally grown solidly throughout the nation the past few years.

FHFA Home Price Index
Seasonally Adjusted

Source: FHFA
Some states are seeing exceptionally strong home price growth while energy areas are not.
Office vacancy rates also continue to improve outside of energy areas.
Auto and home loan balances boomed in energy counties before slowing recently.
Delinquencies have risen in U.S. energy counties, especially on auto loans.
Farmland values are also easing in many states as farm income declines.
Employment growth has been strongest on the coasts, weakest in energy areas.

Total Nonfarm Employment Growth
April 2016

Source: U.S. Bureau of Labor Statistics
Still, unemployment has remained relatively low in the middle of the country.

Source: U.S. Bureau of Labor Statistics
Energy workers appear to be finding other jobs, though sometimes at lower pay.

Employment Growth by Industry, US and Energy States
April 2016

Source: U.S. Bureau of Labor Statistics
The KC Fed’s Q1 energy survey suggested cuts in the sector may be easing.

Source: FRBKC Energy Survey
Oil inventory imbalances have improved quicker than expected, helping boost prices.
According to firms, profitable prices are now only slightly above current prices, for oil

<table>
<thead>
<tr>
<th>Q3-14</th>
<th>Q1-15</th>
<th>Q3-15</th>
<th>Q1-16</th>
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<tbody>
<tr>
<td>$79</td>
<td>$62</td>
<td>$60</td>
<td>$51</td>
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Oil Price Needed for Profitability in Active Areas

<table>
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<tr>
<th>Q2-15</th>
<th>Q4-15</th>
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<tbody>
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<td>$73</td>
<td>$60</td>
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Price Needed to Increase Drilling Significantly

<table>
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<tr>
<th>2016 Year-End Expected WTI Price</th>
<th>2017 Year-End Expected WTI Price</th>
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<tr>
<td>$70</td>
<td>$60</td>
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<td>$58</td>
<td>$56</td>
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Natural Gas Price Needed for Profitability, Q1 2016: $3.28 average

Source: FRBKC Energy Survey
Summary

• The U.S. economy continues to grow, and the Fed has begun to raise interest rates

• Construction and real estate activity remain strong in most areas of the country

• An exception is in energy-intensive areas, where loan delinquencies are rising

• But declines in energy areas appear to be slowing, as oil prices approach profitability
Questions and Links

For more information about the Oklahoma City Branch of the Federal Reserve Bank of Kansas City, visit our website at:

http://www.kansascityfed.org/oklahomacity/

For more information about the Oklahoma economy, subscribe to the quarterly Oklahoma Economist at:

www.kansascityfed.org/publications/research/oke