U.S. and Northeast Oklahoma Economic Update

Oklahoma Innovation Forum
Pryor, OK
July 29, 2016

Chad Wilkerson
Vice President, Economist, and Oklahoma City Branch Executive
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)**, Chairman & 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
U.S. economic activity slowed somewhat in early 2016 but improved in June.
Recent employment trends have diverged across the country, with energy areas hit hard.

Total Nonfarm Employment Growth
June 2016

Source: U.S. Bureau of Labor Statistics
U.S. unemployment is at long-term levels after falling considerably in recent years

Unemployment Rate
Seasonally Adjusted

Current (June 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

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

Jun. FOMC Forecast Ranges in Yellow

Sources: U.S. Bureau of Labor Statistics, FOMC
FOMC participants expect moderate increases in rates heading forward
Trends in the Northeast Oklahoma Economy
Employment in Northeast Oklahoma fell in 2015, after a very strong 2014.

Total Employment Growth

Percent change, year-over-year

- U.S.
- OK
- NE OK*

*Includes the following counties: Delaware, Mayes, Rogers, and Wagoner

Source: U.S. Bureau of Labor Statistics
Farming, construction, and manufacturing have high concentrations in NE Oklahoma

### Northeastern Oklahoma Personal Income Share by Industry
2014

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Income</th>
<th>NE OK Location Quotient</th>
<th>OK Location Quotient</th>
<th>YOY Growth U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Northeast OK</td>
<td>U.S.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farming</td>
<td>3.5</td>
<td>1.1</td>
<td>3.1</td>
<td>1.8</td>
</tr>
<tr>
<td>Construction</td>
<td>15.9</td>
<td>5.8</td>
<td>2.7</td>
<td>1.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>27.1</td>
<td>10.0</td>
<td>2.7</td>
<td>0.9</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
<td>18.8</td>
<td>13.2</td>
<td>1.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>14.7</td>
<td>15.8</td>
<td>0.9</td>
<td>1.1</td>
</tr>
<tr>
<td>Mining</td>
<td>1.4</td>
<td>1.8</td>
<td>0.8</td>
<td>8.0</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>3.2</td>
<td>4.5</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Federal Government</td>
<td>2.3</td>
<td>4.3</td>
<td>0.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Information</td>
<td>1.7</td>
<td>3.5</td>
<td>0.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>3.6</td>
<td>9.5</td>
<td>0.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Education &amp; Health</td>
<td>3.7</td>
<td>13.1</td>
<td>0.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Prof. and Business Services</td>
<td>4.1</td>
<td>17.3</td>
<td>0.2</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Note - Location quotient is the division of local share by national share

*Includes the following counties: Delaware, Mayes, Rogers, & Wagoner

The regional jobs decline was driven primarily by weakness in manufacturing.

Northeast Oklahoma* Employment Growth by Industry

*Includes the following counties: Delaware, Mayes, Rogers, and Wagoner

Source: U.S. Bureau of Labor Statistics
Most factory job losses in Oklahoma have been in machinery and metals industries.

Source: U.S. Bureau of Labor Statistics
Oklahoma factory weakness continued in July, but firms were more optimistic

**Manufacturing Survey Composite Indexes**

Diffusion Index, 3 month-moving-avg.

Source: ISM, FRBKC Manufacturing Survey
Oklahoma farm income and spending have dropped dramatically over the past year

Source: Federal Reserve Bank of Kansas City, Survey of Ag Credit Conditions
But farmland values have largely held up in Oklahoma, unlike the rest of the region.
Local unemployment has ticked up in 2016, but just to the national rate, which is still low.

*Includes the following counties: Delaware, Mayes, Rogers, and Wagoner

Source: U.S. Bureau of Labor Statistics
Unemployment in most of northeast Oklahoma remains at or below 5 percent

May 2016 Unemployment Rates

Unemployment Rate
Statewide = 4.7%

- 2.7% - 4.5%
- 4.6% - 6.3%
- 6.4% - 9.4%

Source: U.S. Bureau of Labor Statistics
Summary

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

• The economy in Oklahoma and other energy states has been hurt by low energy prices

• Northeast Oklahoma’s important factory and agriculture industries are having difficulties

• However, despite recent upticks, Northeast Oklahoma’s unemployment rate remains low
Questions?

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

www.kansascityfed.org/publications/research/oke/