U.S. and Oklahoma Economic Update

Tahlequah Economic Forum
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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
GDP growth has been modest the past 3 quarters, with investment the main drag.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
U.S. unemployment is at long-term levels after falling considerably in recent years.

Unemployment Rate
Seasonally Adjusted

Current (Sept. 2016): 5.0%

Sources: U.S. Bureau of Labor Statistics, FOMC
U.S. inflation is low but expected to return to close to target in 2016

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

Federal Funds Rate
Year-end target

Current (Oct. 2016): 0.50%

Sept. FOMC Forecast Ranges in Yellow

Sources: Federal Reserve Board, FOMC
Trends in the Oklahoma Economy
Growth has diverged across the nation, with 6 states in or near recession, incl. Oklahoma.
Employment growth has also diverged across OK but lags the nation throughout.
Higher-paying jobs have done worse than lower-paying jobs across Oklahoma lately.
Unemployment has ticked up this year, but just to slightly above the national rate.

*Includes the following counties: Adair, Cherokee, Craig, Delaware, McIntosh, Mayes, Muskogee, Nowata, Ottawa, Rogers, Sequoyah, Wagoner, Washington

Source: U.S. Bureau of Labor Statistics
Unemployment is above the U.S. or OK in most of the counties in northeast Oklahoma

August 2016 Unemployment Rates

NE Oklahoma Counties

Source: U.S. Bureau of Labor Statistics
Employment in much of the area fell sharply in early 2016, after a solid 2015.

Total Employment Growth

Percent change, year-over-year

*Includes the following counties: Adair, Cherokee, Craig, Delaware, McIntosh, Mayes, Muskogee, Nowata, Ottawa, Rogers, Sequoyah, Wagoner, Washington

Source: U.S. Bureau of Labor Statistics
The regional jobs decline was driven by energy, but spread to other industries.

Northeastern Oklahoma* Employment Growth by Industry

Percent change, year-over-year

*Includes the following counties: Adair, Cherokee, Craig, Delaware, McIntosh, Mayes, Muskogee, Nowata, Ottawa, Rogers, Sequoyah, Wagoner, Washington

Source: U.S. Bureau of Labor Statistics
Energy and agriculture are key local drivers, along with tribal govt. and mfg.

Northeastern Oklahoma Personal Income Share by Industry 2014

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Income</th>
<th>NE OK</th>
<th>U.S.</th>
<th>NE OK Location Quotient</th>
<th>OK Location Quotient</th>
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</table>

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

*Includes the following counties: Adair, Cherokee, Craig, Delaware, McIntosh, Mayes, Muskogee, Nowata, Ottawa, Rogers, Sequoyah, Wagoner, Washington

Oil prices are back to $50/barrel, and natural gas prices have also improved a bit.

Source: EIA, Reuters

Oil and Natural Gas Spot Prices

$/ Million BTU

$/ barrel


Oil - WTI Spot (R)

Natural Gas - Henry Hub Spot (L)

Source: EIA, Reuters
But firms say energy prices need to be higher for much increased activity to occur.

Kansas City Fed Energy Survey Special Questions
2016

Survey ranges in orange

Source: FRBKC Energy Survey, Reuters
Oklahoma farm income and spending fell sharply in Q1 2016 but steadied a bit in Q2

Source: Federal Reserve Bank of Kansas City, Survey of Ag Credit Conditions
However, farmland values fell in Q2 after holding up better than the region last year.
One recent sign of cautious optimism in the state comes from manufacturing
Tribes have seen more solid employment growth than other types of local govt.

Oklahoma State and Local Government Employment Growth

Percent change, year-over-year

Source: ISM, FRBKC Manufacturing Survey
Summary

• The U.S. economy continues to grow, and the Fed is discussing raising interest rates

• Oklahoma’s economy has been hurt by low commodity prices, but unemployment remains relatively low

• Most key industries in NE Oklahoma show steadiness or signs of improvement
Questions?

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

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

For more analysis on regional manufacturing conditions, subscribe to our monthly Manufacturing Survey at:

https://www.kansascityfed.org/research/indicatorsdata/mfg

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