U.S. & Oklahoma Economic Outlook

Sand Springs Chamber of Commerce
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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 – 45 staff
  • Research on U.S. and Oklahoma economies
  • Economic, community, and financial education outreach
  • Examinations of Oklahoma financial institutions

• 2017 OKC Branch Board of Directors
  • Pete Delaney (chair), Chairman & CEO (retired), OGE Energy Corp., OKC
  • Clint Abernathy, Owner, Abernathy Farms, Inc., Altus
  • Michael Coffman, CEO (retired), Panhandle Oil & Gas, Inc., Oklahoma City
  • Chuck Hall, Chairman & CEO, Exchange Bank & Trust, Perry
  • Tina Patel, Co-Owner & CFO, Promise Hotels, Tulsa
  • Susan Chapman Plumb, COO, Bank of Cherokee County, Tahlequah
  • Katrina Washington, Owner/Broker, Stratos Realty, Oklahoma City

• Oklahomans on Kansas City Fed head office Board
  • Rose Washington (chair), Exec. Director, Tulsa Economic Development Corp.
  • Doug Stussi, EVP & CFO, Love’s Travel Stops & Country Stores, OKC
The U.S. Economy and Monetary Policy
GDP growth was stronger in the 2\textsuperscript{nd} half of 2016 than in the 1\textsuperscript{st} half

Growth in Components of Real GDP

Source: U.S. Bureau of Economic Analysis
1st quarter 2017 data are just being released, and have so far been very solid.
U.S. unemployment has fallen to long-term average levels

Unemployment Rate
Seasonally Adjusted

Sources: U.S. Bureau of Labor Statistics, FOMC
Inflation has been low the past couple of years but has recently returned to near the long-term target.
“The [Federal Open Market] Committee expects …only gradual increases in the federal funds rate”

Federal Funds Rate
Year-end target

Current (Jan. 2017): 0.75%

Sources: Federal Reserve Board, FOMC
Trends in the Oklahoma Economy
Job growth in the U.S. has diverged, with Oklahoma in a slight jobs recession in 2016

Total Nonfarm Employment Growth
December 2016

U.S. 1.5%
This is the largest divergence between Oklahoma and the U.S. since the ‘80s, but the drop is small.
After falling in 4 of 5 previous quarters, Oklahoma real GDP rose slightly in Q3 2016
The two large metro areas have generally held up better than other parts of the state.

**Level of Payroll Employment**
Through December 2016

Index: Jan-15=100

Source: U.S. Bureau of Labor Statistics
Unemployment ticked up much of 2016 but has come down slightly in recent months.

Source: U.S. Bureau of Labor Statistics
Spillover has occurred from energy to other industries, but jobs in some industries are still up.

Job Growth by Industry
Dec-16

Percent change, year-over-year

Source: Bureau of Labor Statistics
Like the energy sector, agriculture in Oklahoma had a difficult 2016

Oklahoma Farm Income and Capital Spending

Source: FRBKC Survey of Ag Credit Conditions

Expected in three months
State and city sales tax receipts remain lower than a year ago but declines have been smaller lately.
Home price growth in Oklahoma has slowed, but remains moderately positive.

FHFA Home Price Index
Seasonally Adjusted

Percent change, year-over-year

Source: FHFA
Office vacancy rates have risen slightly in the two metros, but much less than Houston.
And nearly all banks in Oklahoma remain profitable through mid-2016
One struggling industry—manufacturing—has improved lately, with considerable optimism.

Manufacturing Composite Indexes,
Seasonally Adjusted

Source: ISM, FRBKC
Oil prices’ recent rise to $50/barrel has boosted drilling, and OPEC’s action helps

Source: EIA, Reuters
The most active areas now are in west Texas and northwest Oklahoma

Current Drilling Rig Locations,
As-of February 3, 2017

Source: Baker Hughes
Oil production is expected to rise slightly further in Oklahoma and Texas through 2018.
But firms say energy prices need to be a bit higher for a sizable increase in activity

Kansas City Fed Energy Survey Special Questions
2016

Survey ranges in orange

Source: FRBKC Energy Survey, Reuters
Summary

- The U.S. economy continues to grow, and the Fed has raised interest rates.

- Oklahoma’s economy has been hurt by low commodity prices, as well as spillover to related industries like manufacturing.

- However, conditions in real estate, banking, and labor markets have held on fairly well, and some growth and optimism has returned.
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

For more analysis on regional energy conditions, subscribe to our quarterly **Energy Survey** at:

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