Economic Update

Funders Roundtable
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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.
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
U.S. GDP growth slowed somewhat in Q4, due to business investments and exports

Growth in Components of Real GDP

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
U.S. factory activity has slowed, but job growth and services remain generally solid.
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

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
Oklahoma and several other energy states now have lower employment than last year.
Job trends have varied somewhat across the state over the past couple of years.

Level of Payroll Employment
Through January 2016

Index: Jan-14=100

Source: U.S. Bureau of Labor Statistics
Energy jobs have fallen sharply the past year, pulling down other industries in many areas.

Source: Bureau of Labor Statistics
State tax receipts continue to fall, creating difficulties for the state budget.

Source: OK Tax Commission
The KC Fed’s Q4 energy survey showed further declines, with more expected. 

Year-Over-Year Energy Survey Indexes

Diffusion Index

Capital Expenditures
Total Profits
Number of Employees

Expectations

Source: FRBKC Energy Survey
Firms’ average price needed to increase drilling is above levels expected through most of 2017.

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**Firms’ Price Needed to Increase Drilling and Future Price Expectations**

*Q4 KC Fed Energy Survey*

- **Price Needed to Increase Drilling:** $73
- **2016 Year-End Expected WTI Price:** $60
- **2017 Year-End Expected WTI Price:** $60

**Source:** FRBKC Energy Survey
Most energy firms have decreased employment and are planning further cuts.

Total Employment Change by Energy Firms
Q4 KC Fed Energy Survey

Source: FRBKC Energy Survey
Most firms are also expecting increased mergers, defaults, and bankruptcies.

Q4 Energy Survey Firm Expectations for 2016

- Large increase in both M&A activity and defaults/bankruptcies: 45%
- Large increase in M&A but little change in defaults/bankruptcies: 10%
- Little change in M&A but large increase in defaults/bankruptcies: 35%
- Little change in both M&A activity and defaults/bankruptcies: 5%

Source: FRBKC Energy Survey
The energy sector is not as large as in the 1980s on some measures, but is on others.
A silver lining is that unemployment still remains low in the state, especially in OKC.

Source: U.S. Bureau of Labor Statistics
In addition, office vacancies and unsold homes have ticked up but remain low.

Source: CBRE and OKC Realtors
New home construction plans have leveled off recently, unlike the nation.
Compared to the early 1980s, the rate of office construction is relatively low.
In related news, banking conditions in the state have remained good.

Share of Banks Not Making a Profit
Commercial Banks

Source: FDIC
Summary

- 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.
- The latest KC Fed energy survey suggests more difficulties ahead.
- But state unemployment is low, with real estate and banking in good condition to date.