

U.S. and Oklahoma Economic Update

**Muskogee Rotary Club
September 28, 2017**



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www.kansascityfed.org/oklahomacity

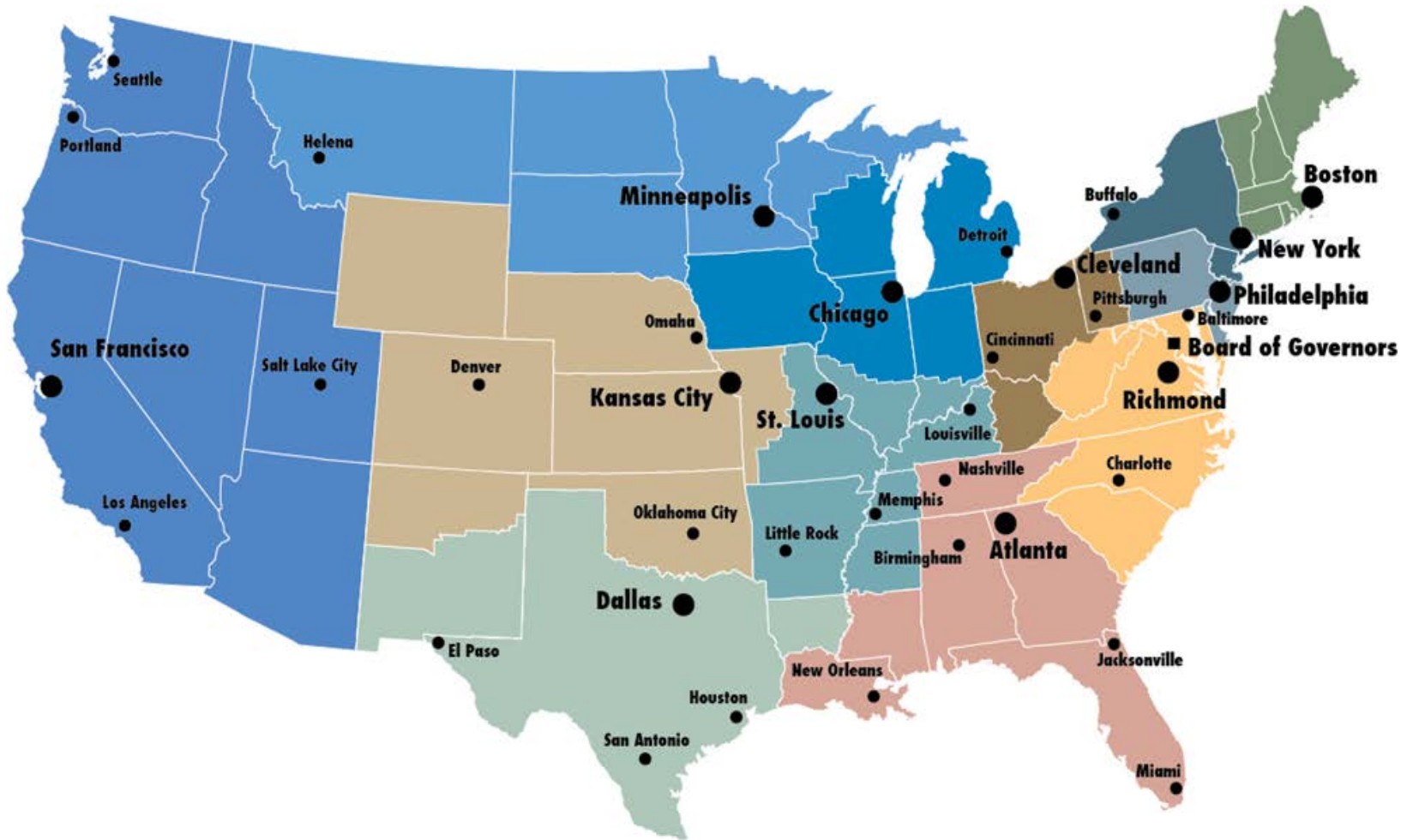
Structure and Functions of the Federal Reserve System

- **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 three general areas:**
 - Monetary policy – promote maximum employment and low inflation
 - Bank regulation – ensure soundness and fair lending of banks
 - Financial services – serve as 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 and purposes – 45 staff**

- **Connect the nation's central bank to Oklahoma communities, businesses, and banks**
- **Research on U.S. and Oklahoma economies, economic education and outreach**
- **Examinations of Oklahoma financial institutions (49 banks, 178 holding companies)**

- **2017 OKC Fed Branch Board of Directors**

- **Pete Delaney (chair)**, Chairman & CEO (retired), OGE Energy Corp., Oklahoma City
- **Clint Abernathy**, Owner, Abernathy Farms, Inc., Altus
- **Susan Chapman Plumb**, COO, Bank of Cherokee County, Tahlequah
- **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
- **Katrina Washington**, Owner/Broker, Stratos Realty, Oklahoma City

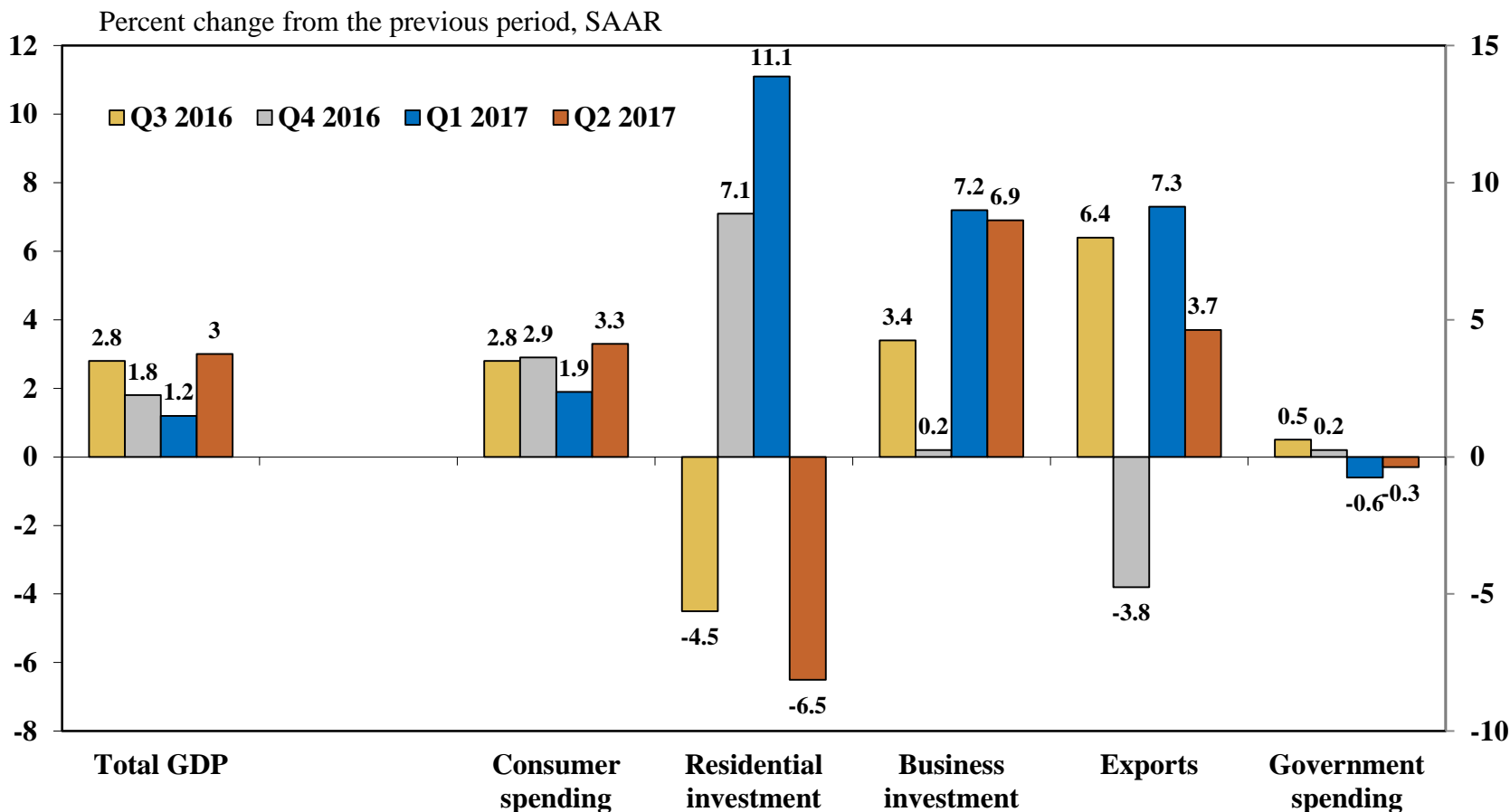
- **Oklahomans on Kansas City Fed head office Board**

- **Rose Washington (chair)**, Exec. Director, Tulsa Economic Development Corp., Tulsa
- **Doug Stussi**, EVP & CFO, Love's Travel Stops & Country Stores, Oklahoma City

The U.S. Economy and Monetary Policy

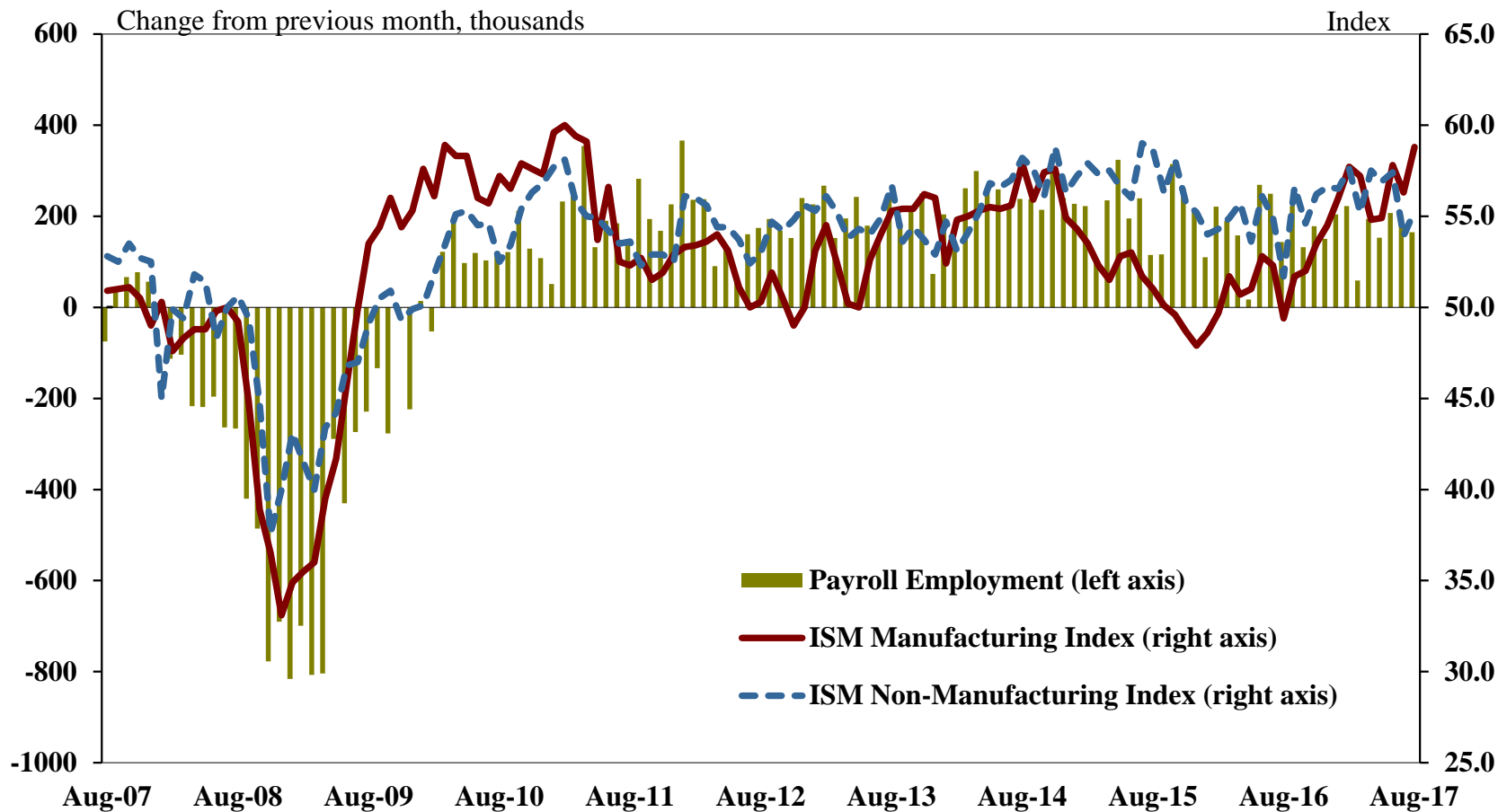
GDP growth rebounded in Q2 2017 due largely to a recovery in consumer spending growth

Growth in Components of Real GDP



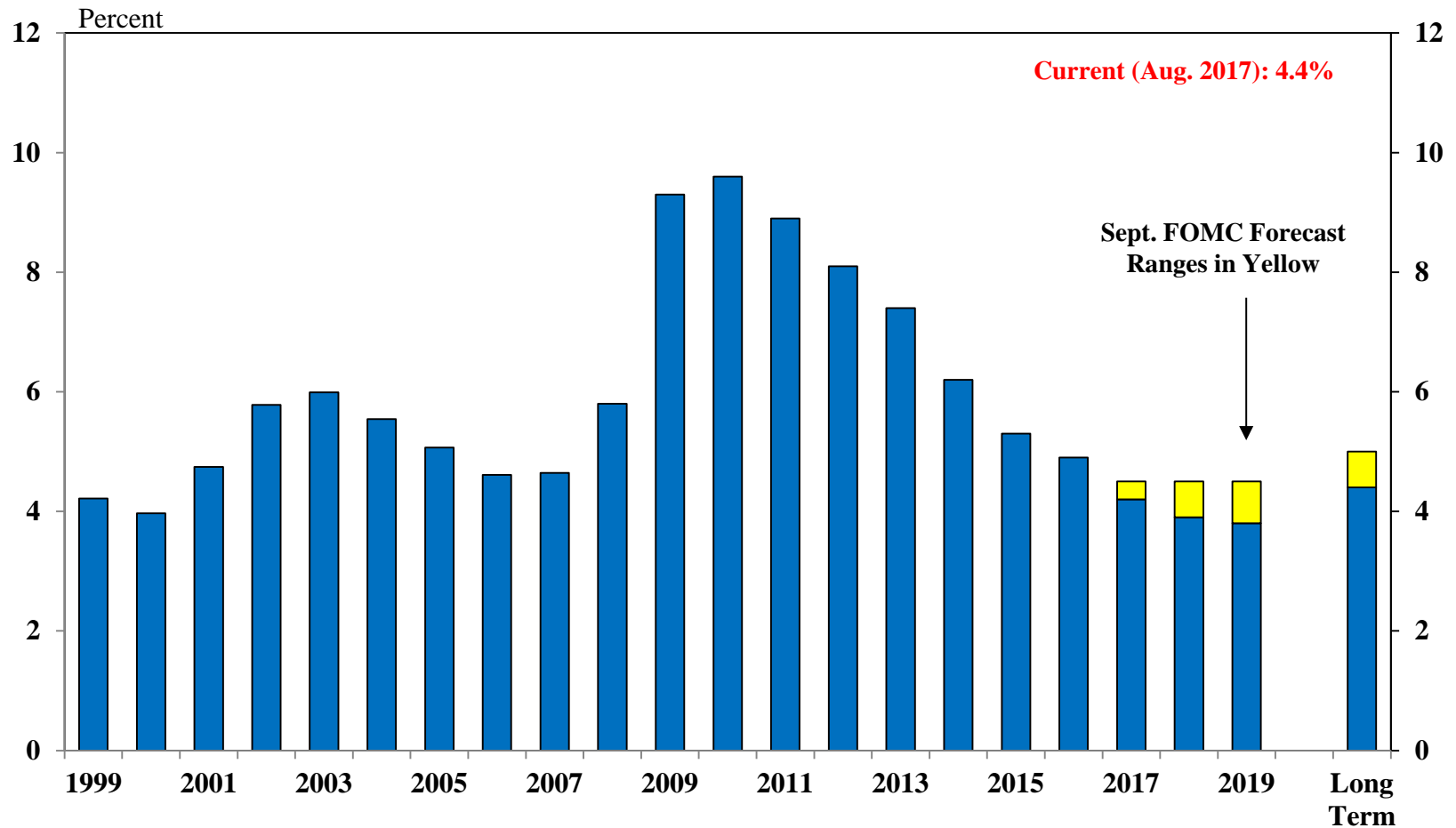
Most monthly data show U.S. economic growth has remained solid throughout 2017

U.S. Payroll Employment and Business Indexes



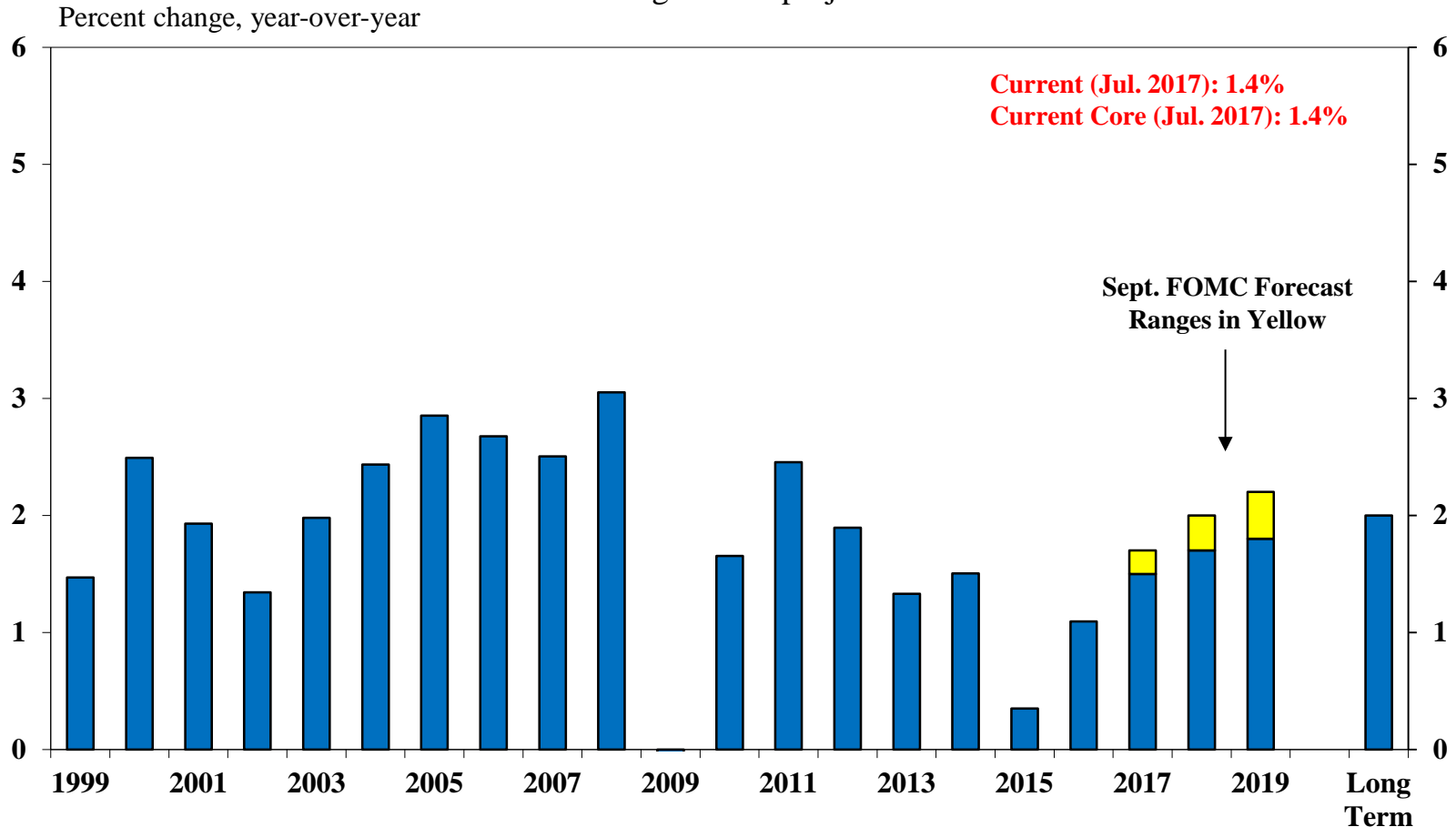
“Job gains have remained solid in recent months,
and the unemployment rate has stayed low.”

U.S. Unemployment Rate
including FOMC projections



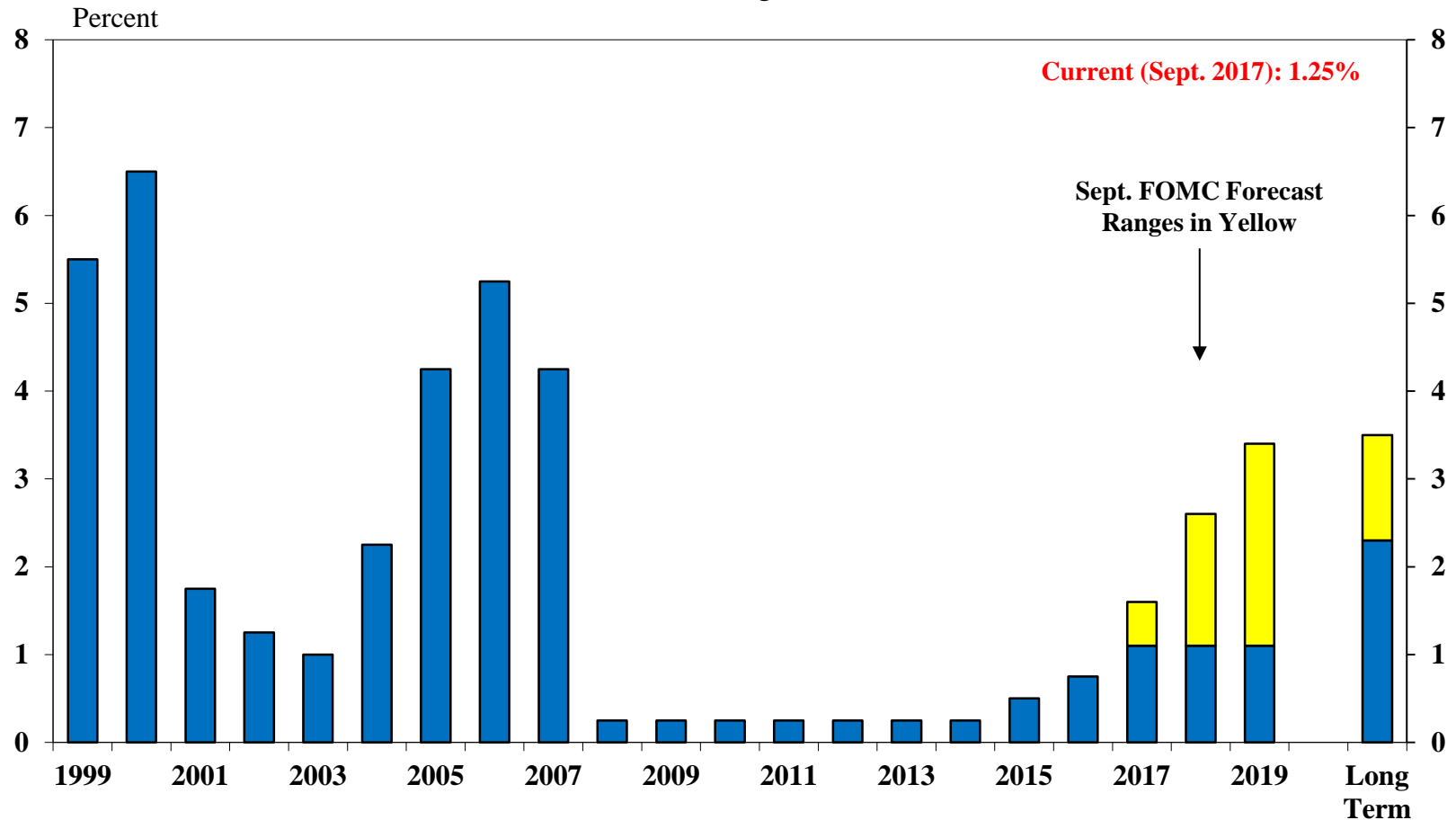
“Inflation...is expected to...stabilize around the Committee’s 2% objective over the medium term”

PCE Inflation Index including FOMC projections



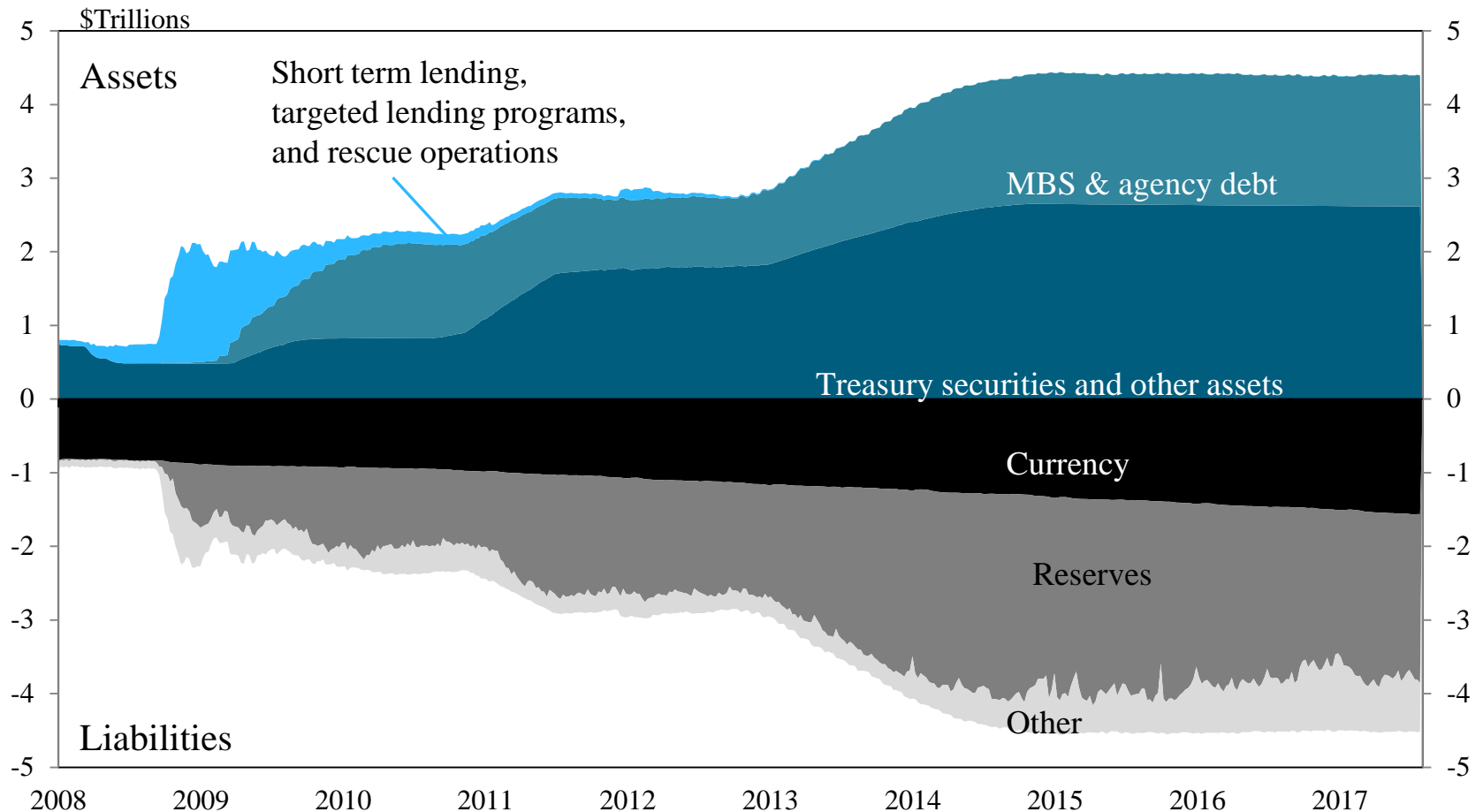
“The Committee expects...conditions will evolve in a manner that will warrant gradual [rate] increases”

Federal Funds Rate Year-end target



“In October, the Committee will initiate the balance sheet normalization program”

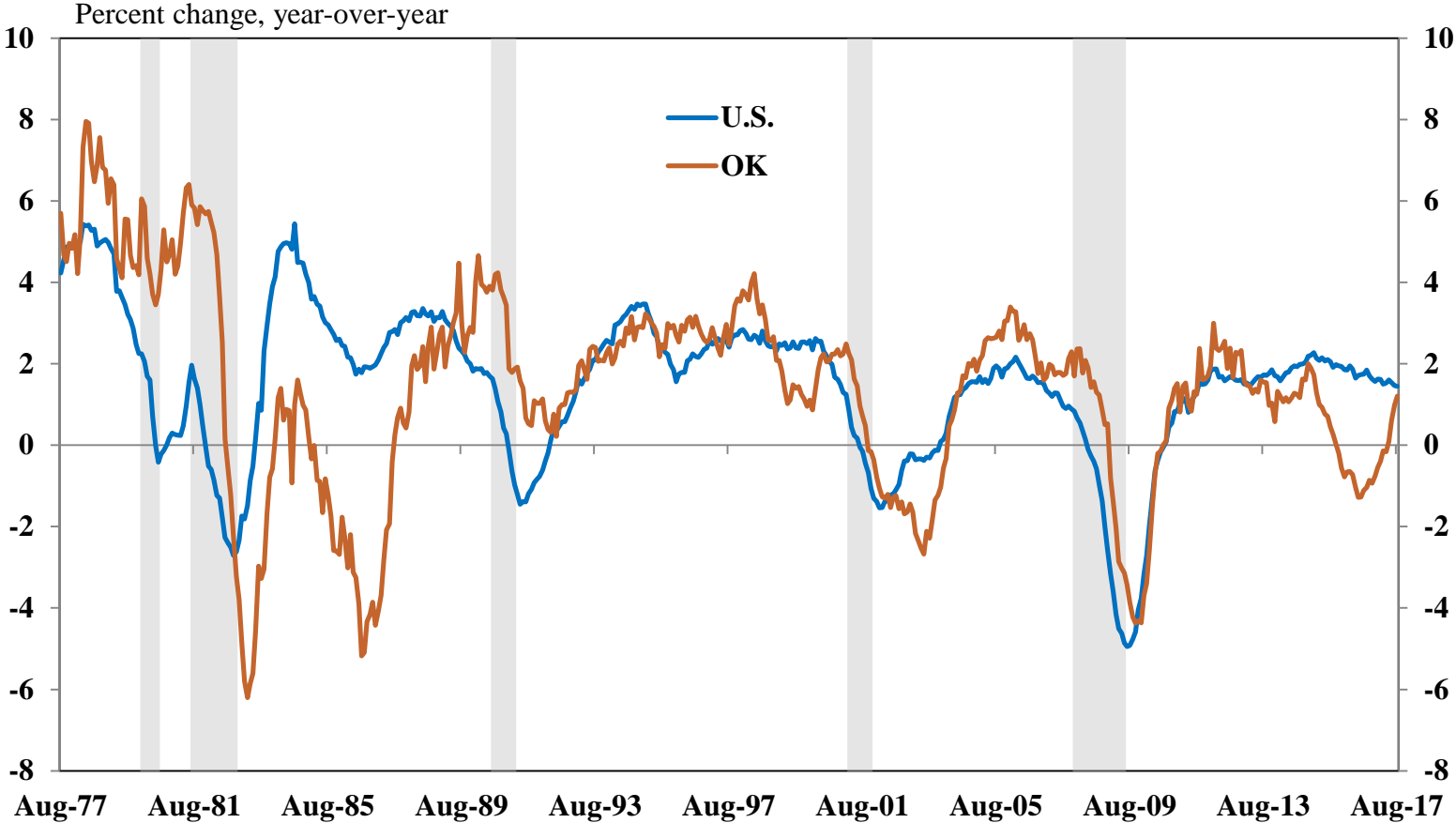
Federal Reserve Balance Sheet



Trends in the Oklahoma Economy and Muskogee

2016 was the largest divergence between U.S. and OK job growth since the '80s, but gap is closing

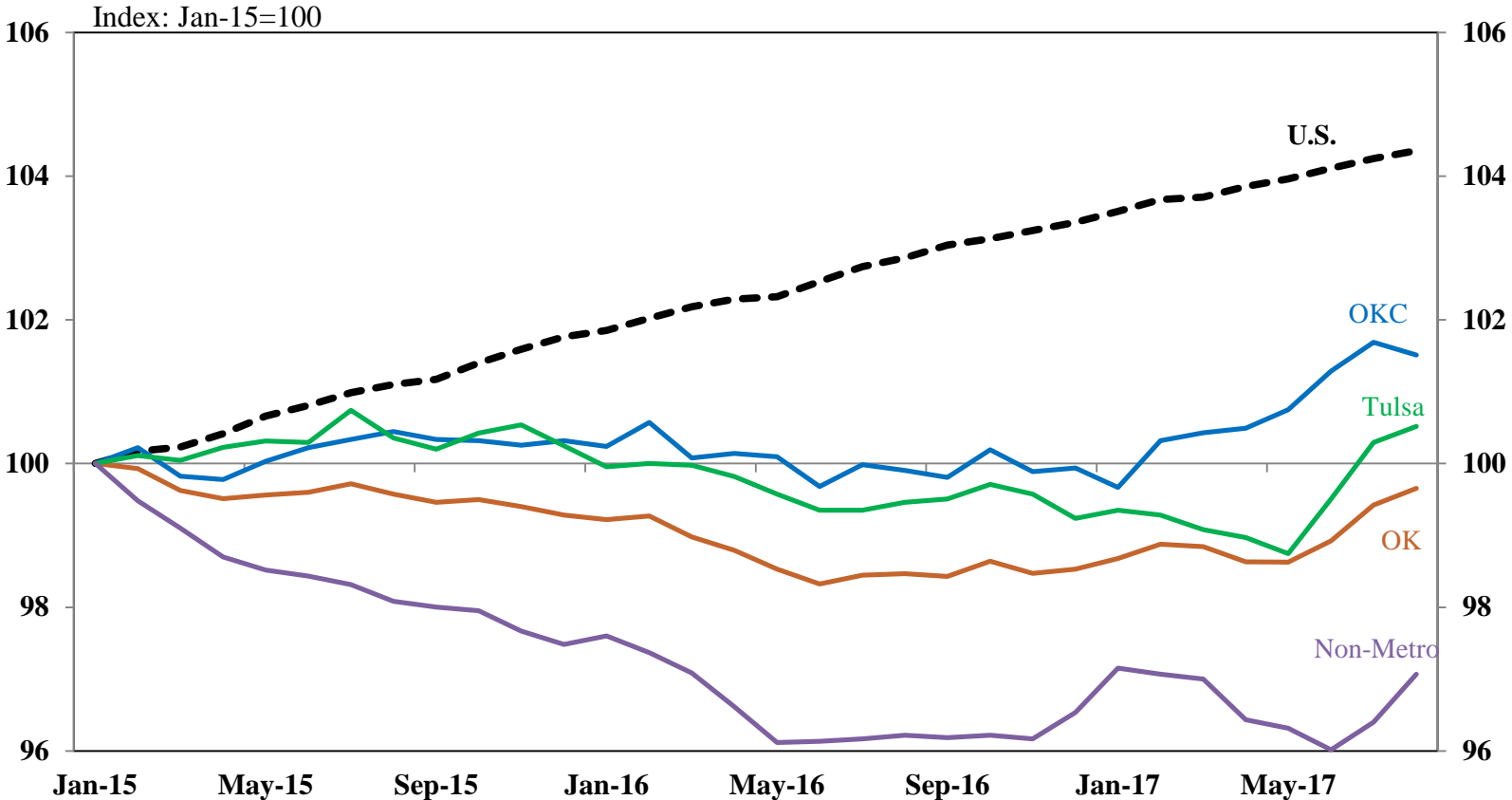
Payroll Employment Growth



Source: U.S. Bureau of Labor Statistics

Employment levels are trending up across the state, but with some areas still below early 2015 levels

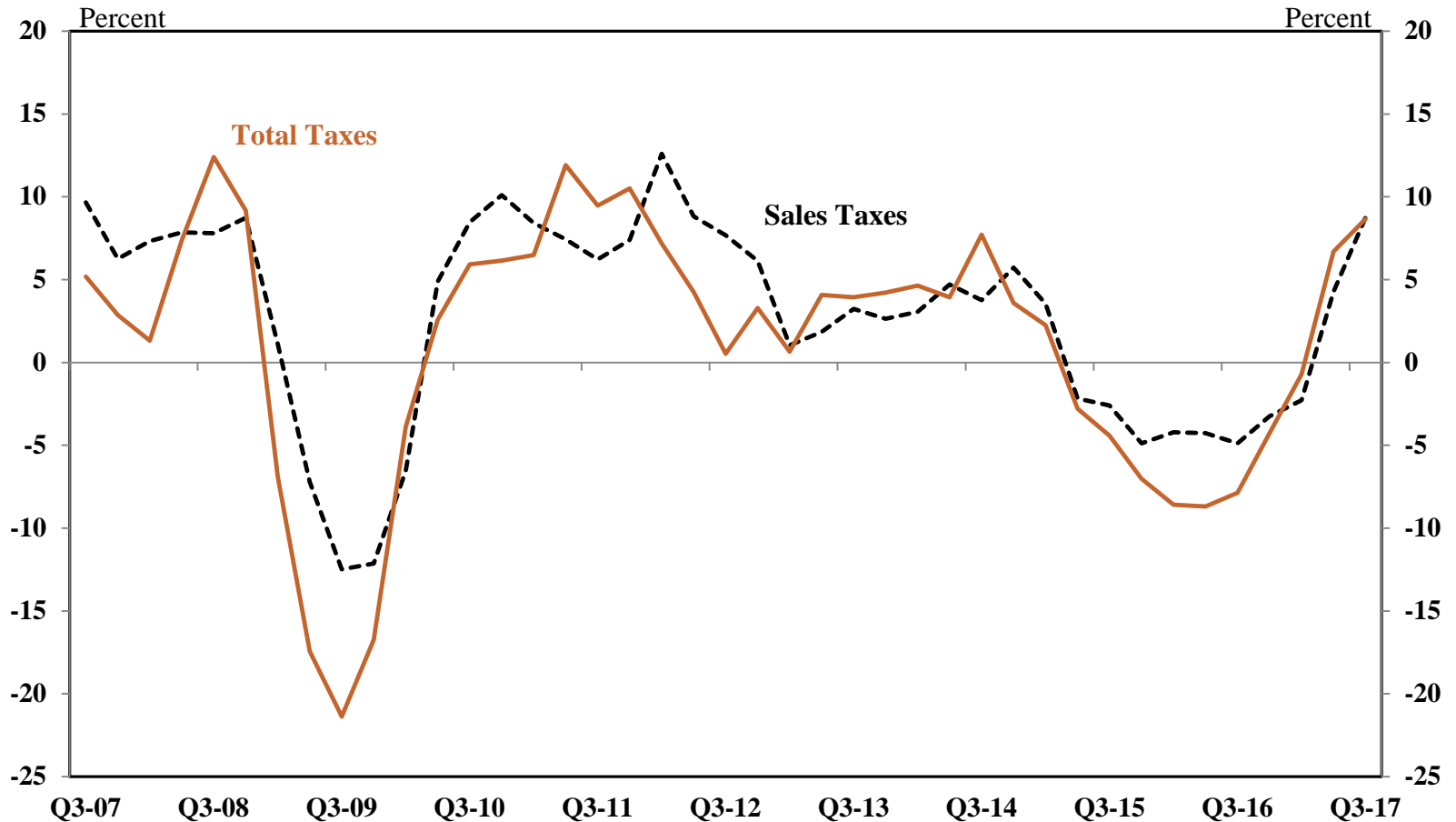
Level of Payroll Employment
Through August 2017



Source: U.S. Bureau of Labor Statistics

State tax revenues have finally risen back above year-ago levels, after falling for 2 years

Oklahoma State Tax Receipts
Through Q3-17*



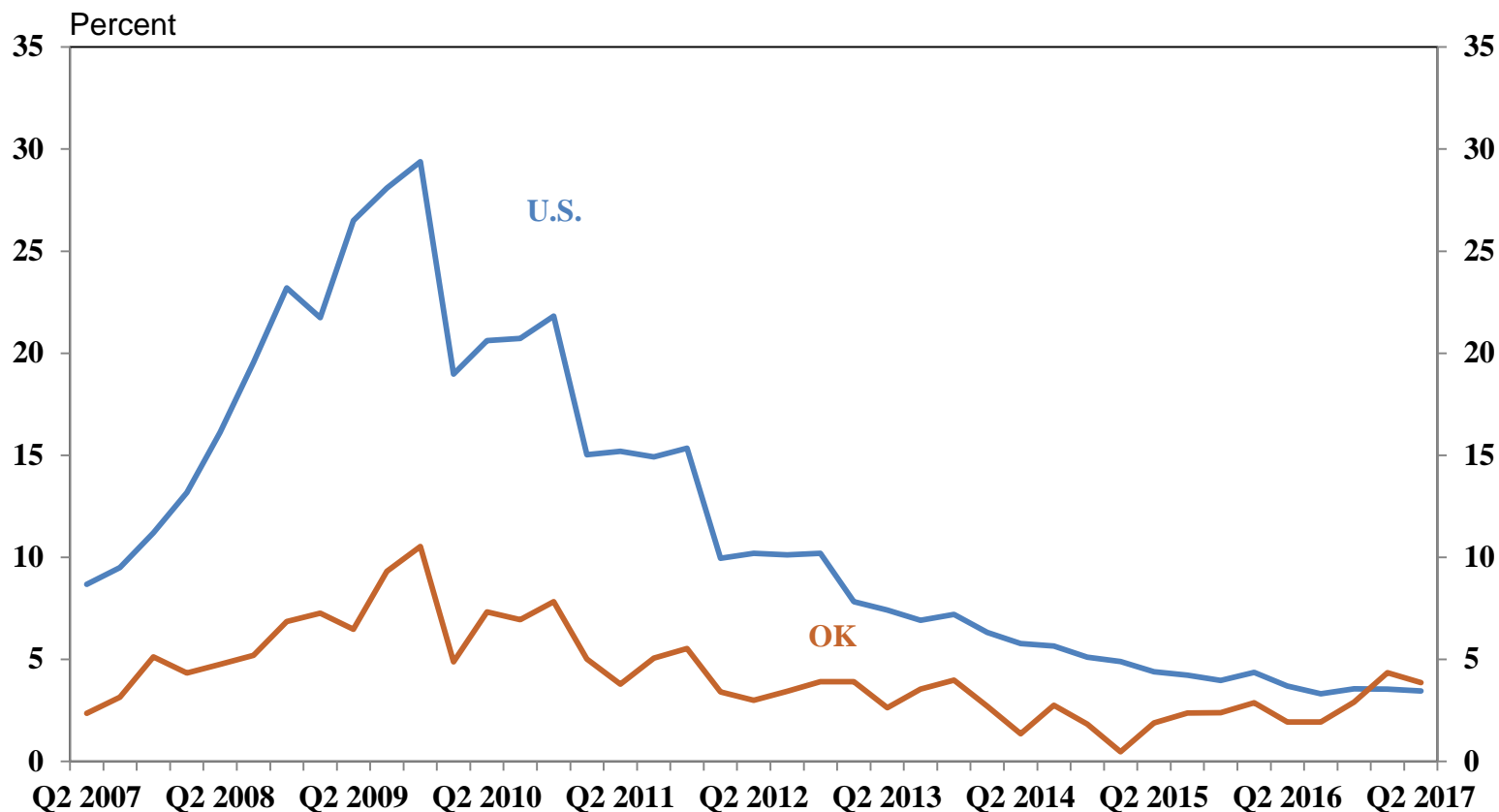
Note: Q3-17 for OK and includes July only



Source: OK Tax Commission

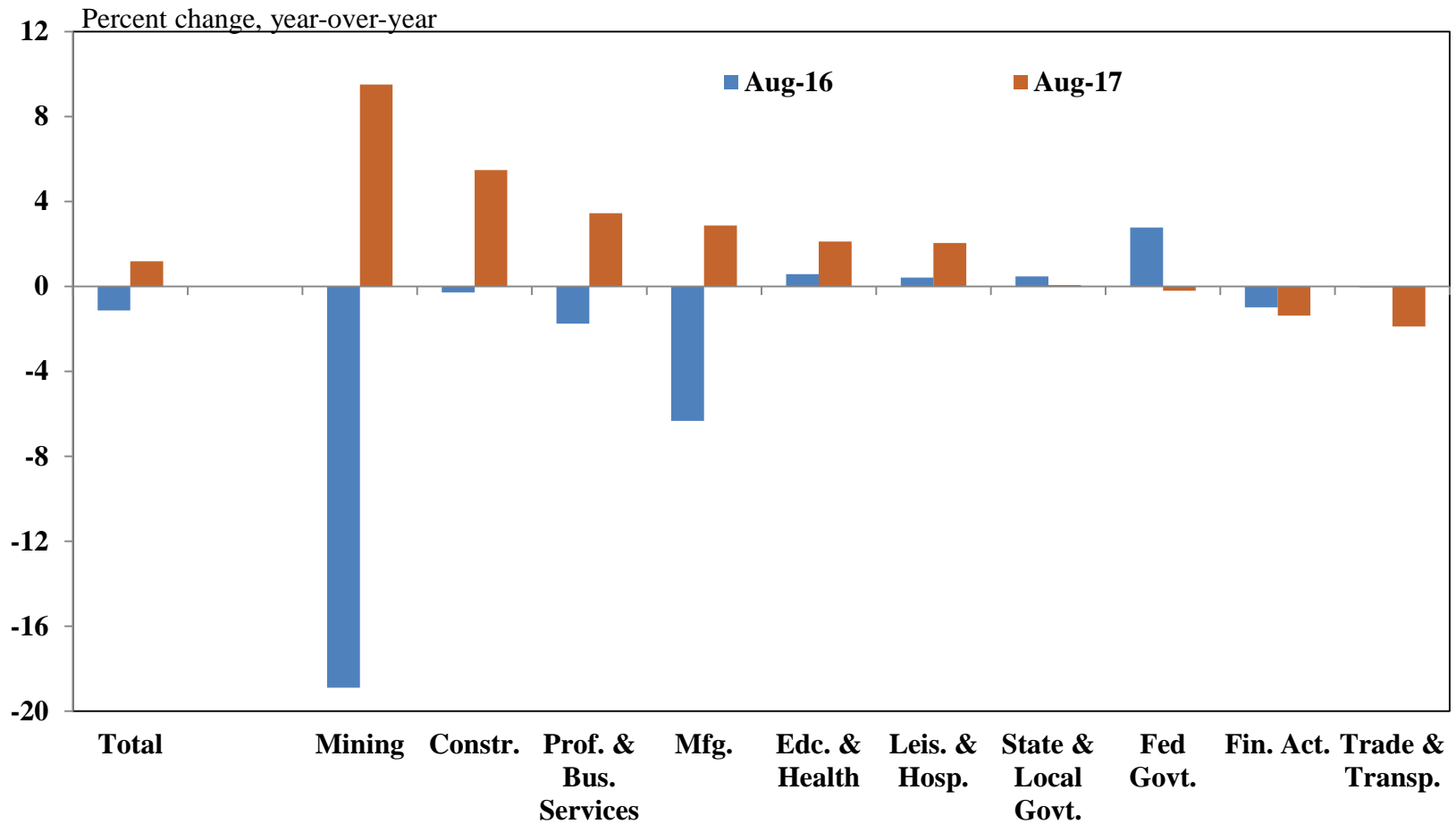
Banking conditions also remain solid overall in the state despite recent economic weakness

Share of Banks Not Making a Profit
Commercial Banks



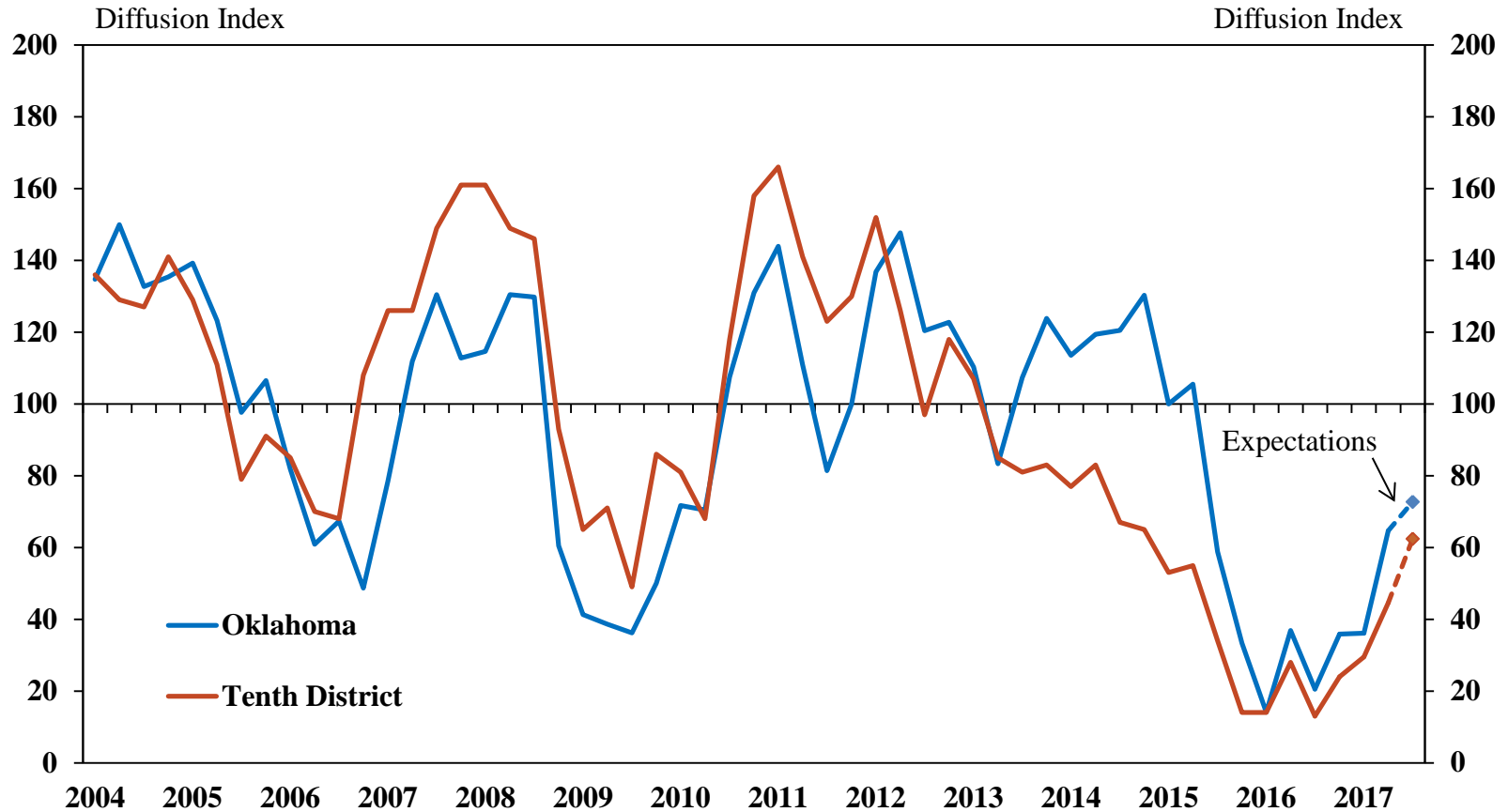
So far in 2017, goods-producing industries have mostly led the way in state job growth

Oklahoma Job Growth by Industry
Aug-17



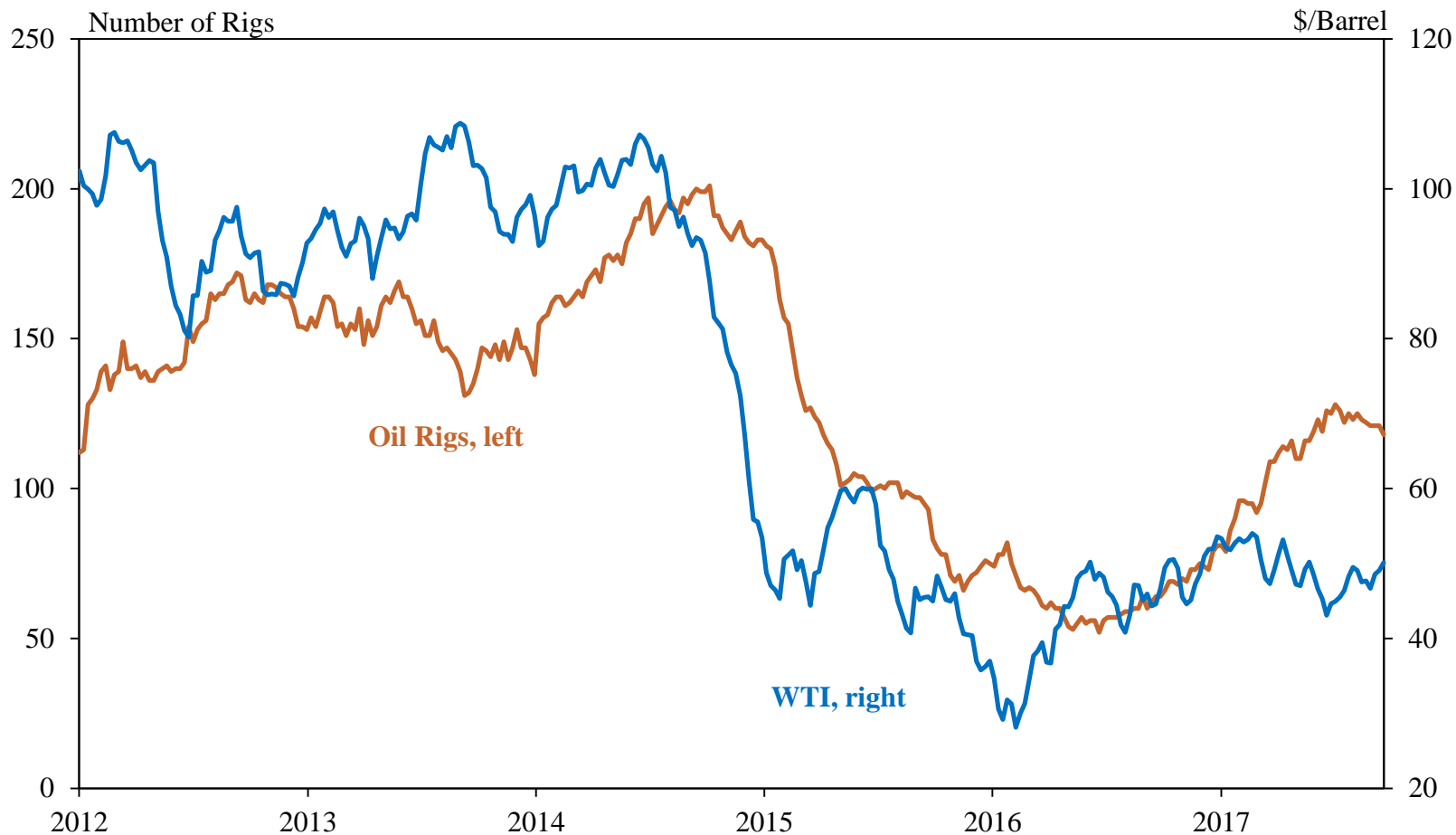
The agriculture sector in the state generally remains weak, though less so than last year

Farm Income



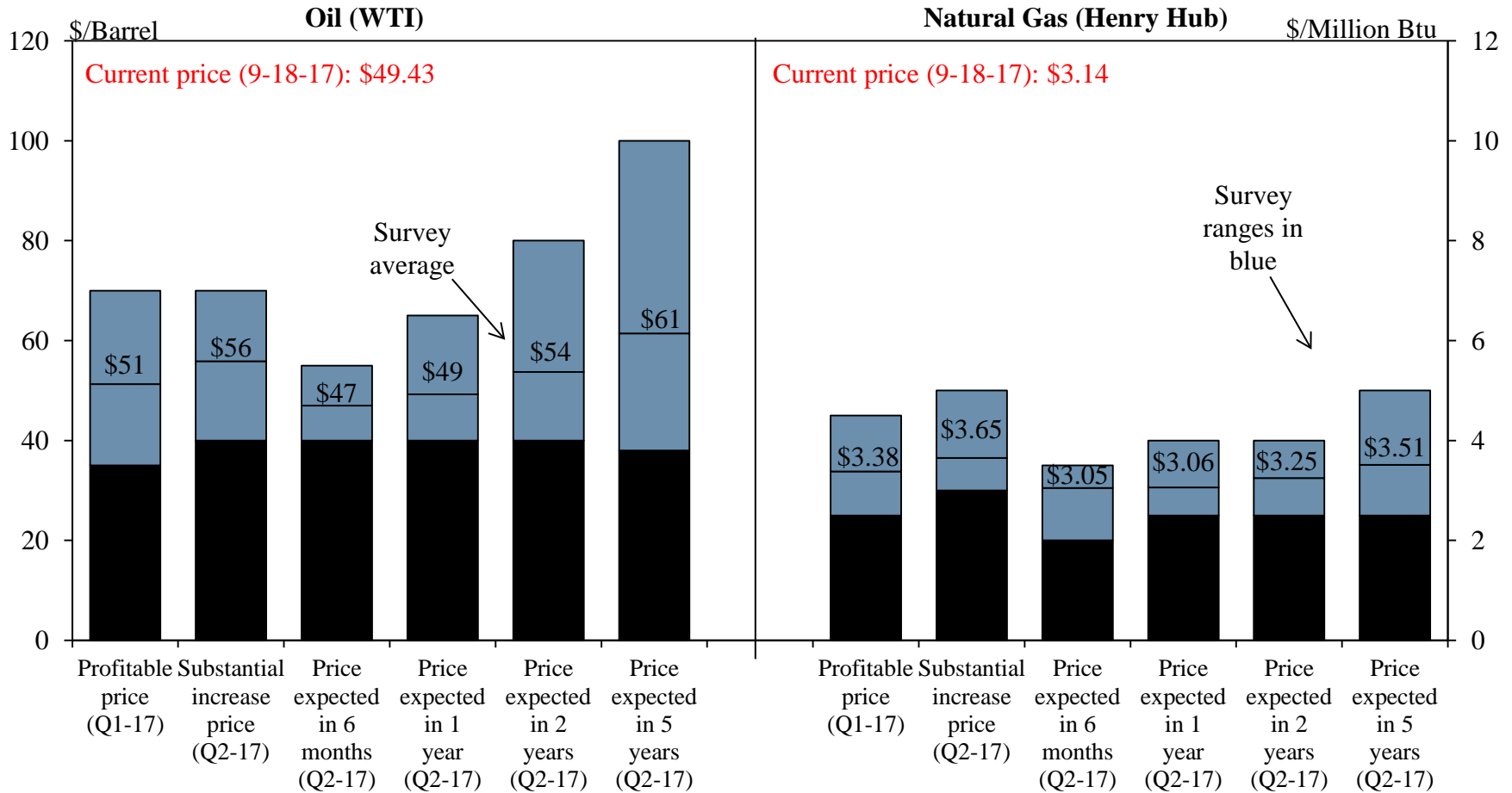
The number of rigs in Oklahoma has leveled off, as prices have remained at or below \$50

WTI Spot Price vs. Rig Count



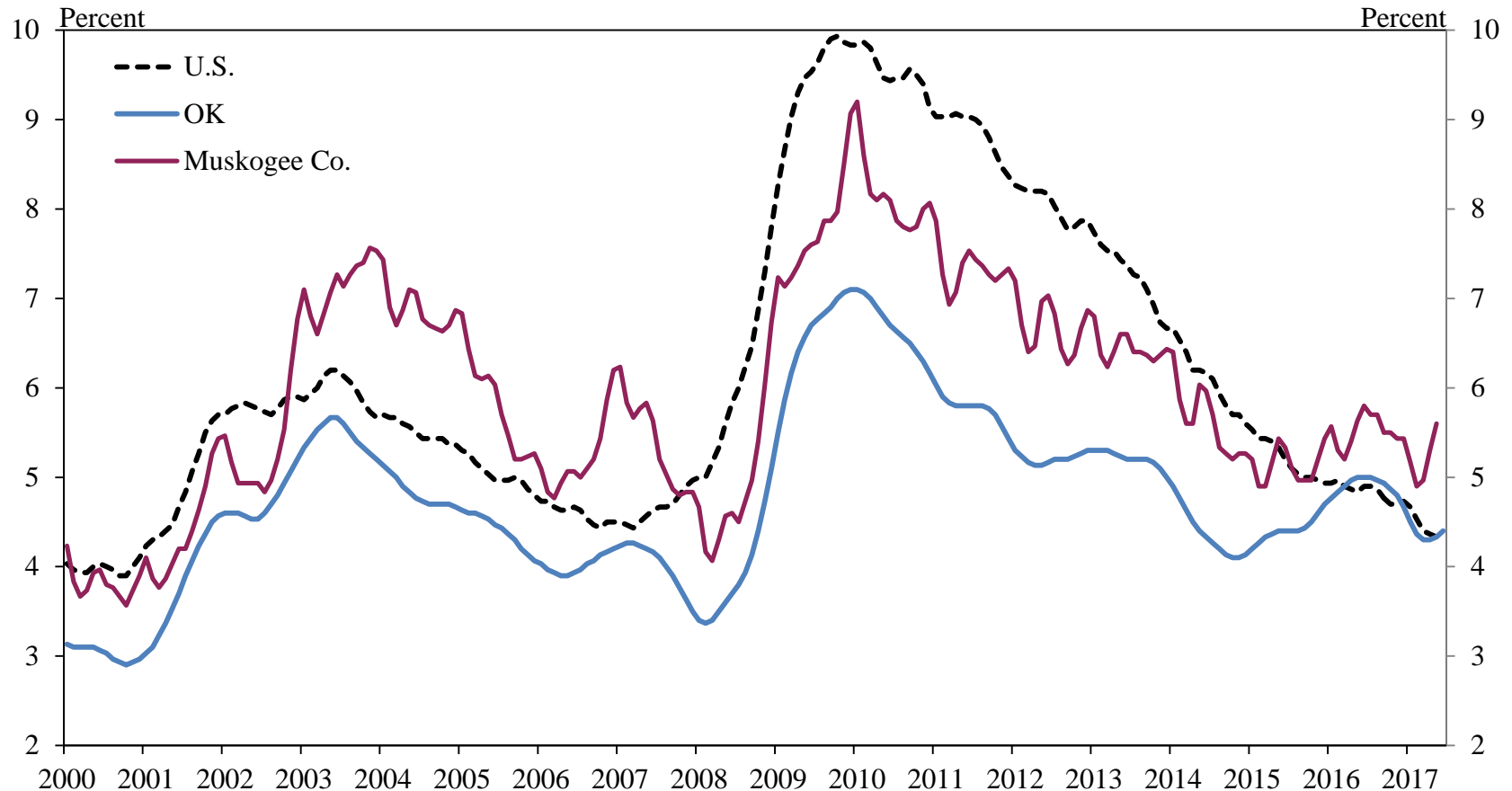
Energy prices are around average profitable levels and generally expected to stay there

Kansas City Fed Energy Survey Special Questions



Unemployment rates in Oklahoma and locally are also better than last year, as job growth has returned

Unemployment Rates Seasonally Adjusted



The most important industries locally, relative to the nation, are government and manufacturing

Muskogee Personal Income Share by Industry, 2015

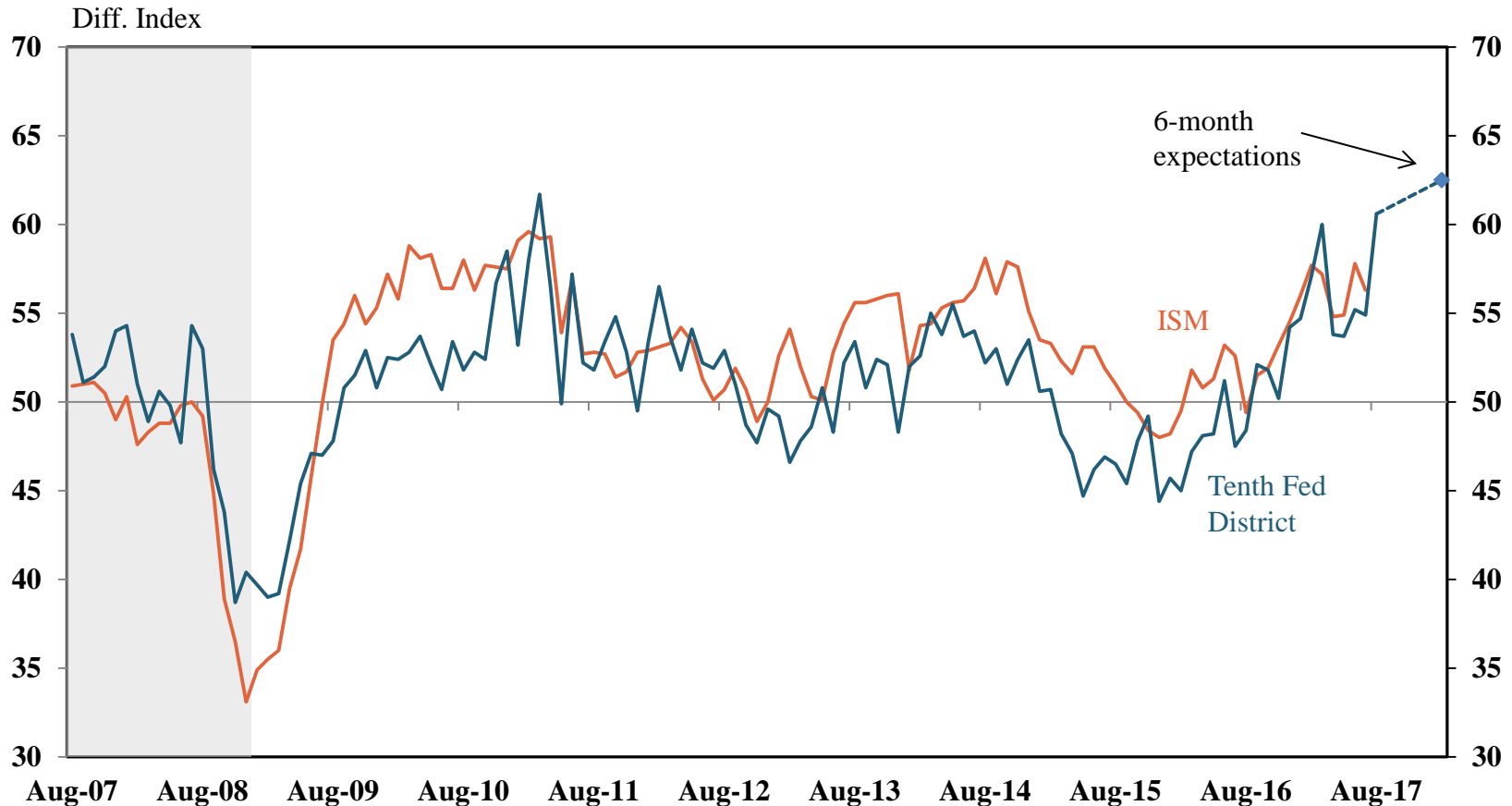
Industry	Percent of Total Income		Muskogee Co. LQ	OK Location Quotient
	Muskogee County	U.S.		
Federal Government	17.8	3.0	5.9	1.3
Manufacturing	15.7	10.1	1.6	0.9
State & Local Government	19.5	13.2	1.5	1.0
Construction	6.8	6.1	1.1	1.0
Trade, Transportation & Utilities	17.2	16.2	1.1	1.4
Agriculture	0.7	0.8	0.9	2.0
Education & Health	10.7	13.3	0.8	0.8
Leisure & Hospitality	3.2	4.7	0.7	0.8
Financial Activities	3.0	7.1	0.4	0.5
Information	1.1	3.5	0.3	0.4
Professional and Business Services	4.1	20.3	0.2	0.6
Mining	0.2	1.6	0.1	7.2

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



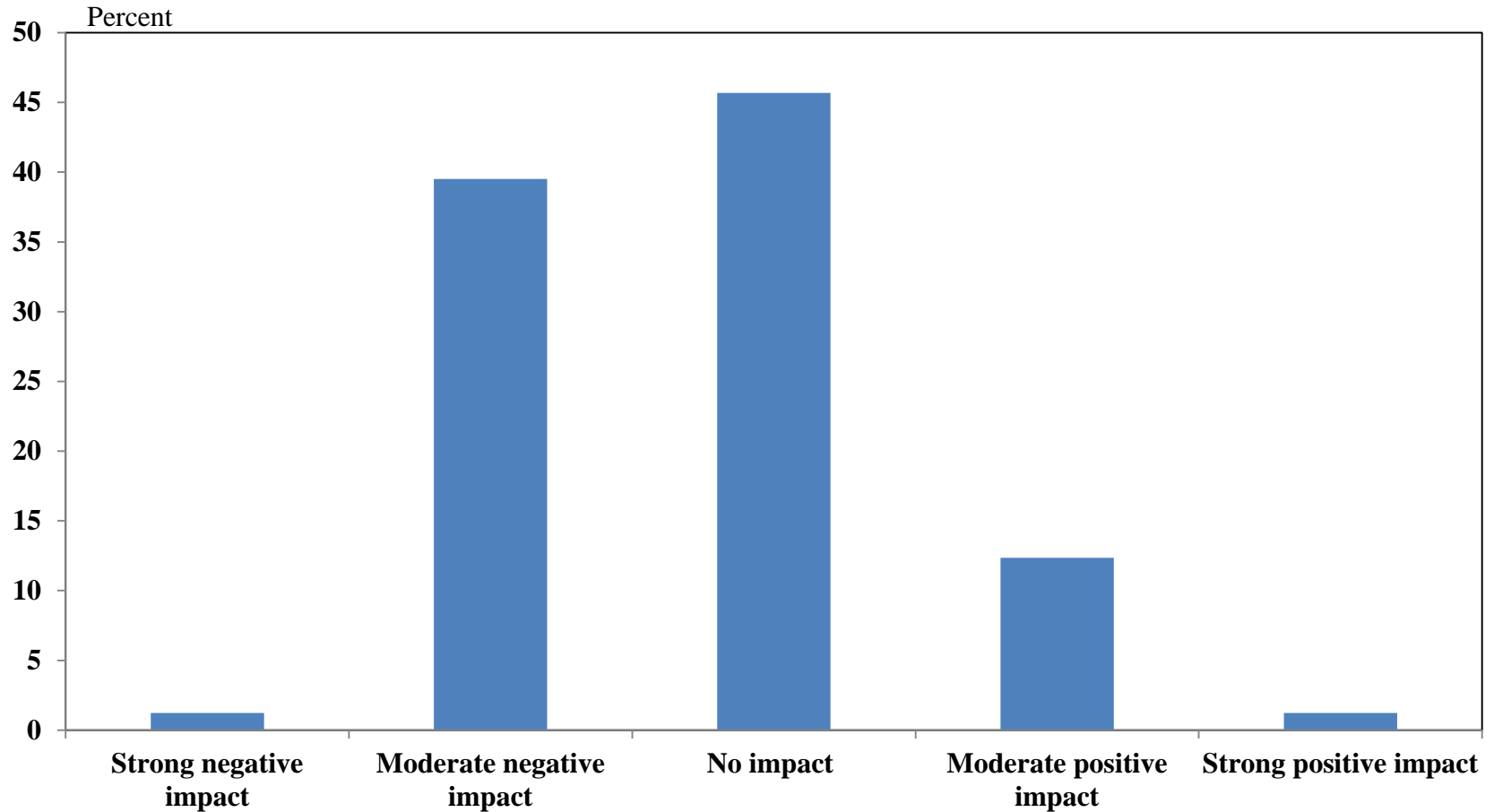
Regional factory activity has improved considerably in recent months, with optimism high

Manufacturing Composite Indexes, Seasonally Adjusted



The anticipated impact on regional factories from hurricanes is mostly moderate

What type of impact is your firm anticipating as a result of Hurricanes Harvey and/or Irma?



Summary

- The U.S. economy continues to grow, and the Fed has raised interest rates and plans to reduce its balance sheet.
- The Oklahoma economy has been hurt by low commodity prices, but has stabilized in 2017 and is now growing in most parts of the state.
- In Muskogee County, unemployment remains slightly above the national average but key local industries have done better in 2017.



Questions?

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

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

For updates on regional **energy, agriculture, and manufacturing** activity, subscribe to our periodic surveys:

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