U.S. and Oklahoma Economic Update

Muskogee Rotary Club
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www.kansascityfed.org/oklahomacity

* The views expressed herein are those of the presenter only and do not necessarily reflect the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
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.
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

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis
Most monthly data show U.S. economic growth has remained solid throughout 2017.
“Job gains have remained solid in recent months, and the unemployment rate has stayed low.”

U.S. Unemployment Rate
including FOMC projections

Current (Aug. 2017): 4.4%

Sept. FOMC Forecast
Ranges in Yellow

Sources: U.S. Bureau of Labor Statistics, FOMC
“Inflation…is expected to…stabilize around the Committee’s 2% objective over the medium term”

PCE Inflation Index
including FOMC projections

Percent change, year-over-year

Current (Jul. 2017): 1.4%
Current Core (Jul. 2017): 1.4%

Sept. FOMC Forecast
Ranges in Yellow

Sources: U.S. Bureau of Labor Statistics, FOMC
“The Committee expects...conditions will evolve in a manner that will warrant gradual [rate] increases”

Federal Funds Rate
Year-end target

Current (Sept. 2017): 1.25%

Sept. FOMC Forecast
Ranges in Yellow

Sources: Federal Reserve Board, FOMC
“In October, the Committee will initiate the balance sheet normalization program”
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.
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.
So far in 2017, goods-producing industries have mostly led the way in state job growth.
The agriculture sector in the state generally remains weak, though less so than last year.

Farm Income

Source: FRBKC Agricultural Credit Survey
The number of rigs in Oklahoma has leveled off, as prices have remained at or below $50
Energy prices are around average profitable levels and generally expected to stay there.

**Kansas City Fed Energy Survey Special Questions**

- **Oil (WTI)**
  - Current price (9-18-17): $49.43
  - Survey average
  - $51
  - $56
  - $47
  - $49
  - $54
  - $61
  - Profitable price (Q1-17)
  - Substantial increase price (Q2-17)
  - Price expected in 6 months (Q2-17)
  - Price expected in 1 year (Q2-17)
  - Price expected in 2 years (Q2-17)
  - Price expected in 5 years (Q2-17)

- **Natural Gas (Henry Hub)**
  - Current price (9-18-17): $3.14
  - Survey ranges in blue
  - $3.38
  - $3.65
  - $3.05
  - $3.06
  - $3.25
  - $3.51
  - Profitable price (Q1-17)
  - Substantial increase price (Q2-17)
  - Price expected in 6 months (Q2-17)
  - Price expected in 1 year (Q2-17)
  - Price expected in 2 years (Q2-17)
  - Price expected in 5 years (Q2-17)

Source: FRBKC Energy Survey, Bloomberg
Unemployment rates in Oklahoma and locally are also better than last year, as job growth has returned.
The most important industries locally, relative to the nation, are government and manufacturing

### Muskogee Personal Income Share by Industry, 2015

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Income</th>
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<tr>
<td></td>
<td>Muskogee County</td>
<td>U.S.</td>
<td>Muskogee Co. LQ</td>
<td>OK Location Quotient</td>
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<td>Federal Government</td>
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<td>State &amp; Local Government</td>
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<td>1.5</td>
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<tr>
<td>Construction</td>
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<td>1.1</td>
<td>1.0</td>
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<td>Trade, Transportation &amp; Utilities</td>
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<td>16.2</td>
<td>1.1</td>
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<td>0.9</td>
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<td>Education &amp; Health</td>
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<td>Leisure &amp; Hospitality</td>
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<td>Professional and Business Services</td>
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<td>Mining</td>
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<td>0.1</td>
<td>7.2</td>
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</tr>
</tbody>
</table>

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

Source: U.S. Bureau of Economic Analysis
Regional factory activity has improved considerably in recent months, with optimism high.
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?

Source: FRBKC
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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