U.S. & Oklahoma Economic Outlook

RMA
December 20-21, 2016

Chad Wilkerson
Vice President, Economist, and Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City
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 45 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
  - **Susan Chapman Plumb**, COO, Bank of Cherokee County, Tahlequah *(new in 2017)*
  - **Katrina Washington**, Owner/Broker, Stratos Realty, OKC *(new in 2017)*
The U.S. Economy and Monetary Policy
GDP growth picked up in the 3rd quarter after sluggish growth in previous quarters.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis
Fourth quarter data has so far shown continued solid U.S. economic expansion.

U.S. Payroll Employment and Business Indexes

Change from previous month, thousands

Index

Payroll Employment (left axis)
ISM Manufacturing Index (right axis)
ISM Non-Manufacturing Index (right axis)

“The [FOMC] indicated that…the labor market has continued to strengthen”

Unemployment Rate
Seasonally Adjusted

Current (Nov. 2016): 4.6%

Sources: U.S. Bureau of Labor Statistics, FOMC
“Inflation has increased…but is still below the Committee’s 2 percent longer-run objective”

PCE Inflation Index

Percent change, year-over-year

Sources: U.S. Bureau of Labor Statistics, FOMC

Current (Q3 2016): 1.0%
Current Core (Q3 2016): 1.7%

Dec. FOMC Forecast
Ranges in Yellow

Long Term
“The Committee expects…only gradual increases in the federal funds rate”

Federal Funds Rate
Year-end target

Current (Dec. 2016): 0.75%

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

Total Nonfarm Employment Growth
November 2016

U.S. 1.6%

Percent Change Year-over-Year

- Over 3%
- 2 to 3%
- 1 to 2%
- 0 to 1%
- Below 0%

Source: U.S. Bureau of Labor Statistics
Oklahoma GDP has fallen in the past three quarters, and in four out of the last five.
Sales and city sales tax receipts also fell further in Q3

Tax Receipts
Through Q3-16*

*Q3-16 through August 2016

Source: OK Tax Commission
This is the largest divergence in Oklahoma and national job growth since the 1980s.
The metro areas have held up better than non-metro parts of the state.

Level of Payroll Employment
Through November 2016

Index: Jan-15=100

Source: U.S. Bureau of Labor Statistics
Spillover has occurred from energy, but there are still several industries growing.

Job Growth by Industry
Nov-16

Percent change, year-over-year

Source: Bureau of Labor Statistics
Unemployment has ticked up this year, but just to slightly above the national rate
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

Share of Banks Not Making a Profit
Commercial Banks

Source: FDIC
One of the struggling regional industries—manufacturing—has improved.
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 (Permian) and northwest Oklahoma (STACK)

Current Drilling Rig Locations,
As-of December 16, 2016

Source: Baker Hughes
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

Survey average

Source: FRBKC Energy Survey, Reuters
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, as well as spillover to some other related industries

- However, conditions in real estate, banking, and labor markets have held on fairly well, and there is some cautious optimism
Questions?

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


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

[https://www.kansascityfed.org/research/indicatorsdata/mfg](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](https://www.kansascityfed.org/research/indicatorsdata/energy)