

U.S. and Oklahoma Economic Update

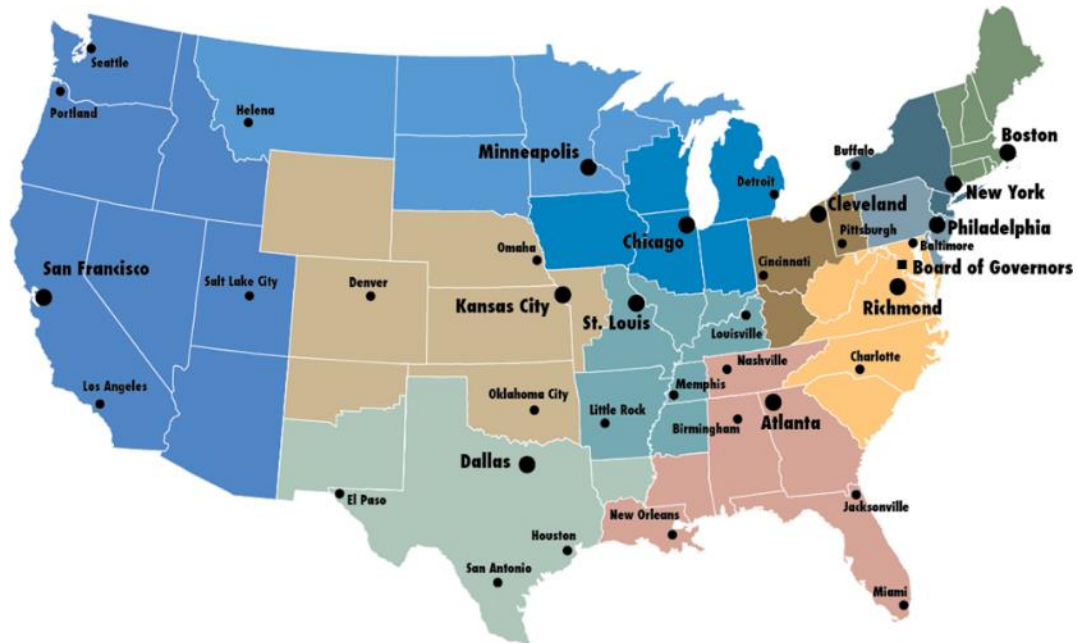
*Risk Management Association
November 7, 2019*

Chad Wilkerson
Vice President and Oklahoma City Branch Executive

*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 & Functions of the Federal Reserve



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

Primary responsibility areas:

- Monetary policy
- Bank regulation
- Financial services



The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

- **Functions and purposes ~ 50 staff**
 - Research on U.S. and Oklahoma economies; energy sector and business survey focus
 - Examinations of Oklahoma financial institutions (~45 banks, ~175 holding cos.)
 - Community development programming for low and moderate income groups, workforce focus
 - Economic education and public outreach programming
- **2019 OKC Fed Branch Board of Directors**
 - **Clint Abernathy (chair)**, Owner, Abernathy Farms, Inc., Altus
 - **Susan Chapman Plumb**, Chair & CEO, Bank of Cherokee County, Tahlequah
 - **Walt Duncan**, President, Duncan Oil Properties, Oklahoma City
 - **Tina Patel**, Co-Owner & CFO, Promise Hotels, Tulsa
 - **Chris Turner**, President & CFO, First State Bank, Oklahoma City
 - **Katrina Washington**, Owner/Broker, Stratos Realty, Oklahoma City
 - **Dana Weber**, Chair & CEO, Webco Industries, Sand Springs



The Federal Reserve's Role in Monetary Policy

- **Dual Mandate from U.S. Congress:**

- 1) Maximum employment
- 2) Price stability

- **Federal Open Market Committee (FOMC):**

Board of Governors

- **Jerome H. Powell**, Chairman
- **Richard H. Clarida**, Vice Chairman
- **Randal K. Quarles**, Vice Chairman of Supervision
- **Lael Brainard**
- **Michelle W. Bowman**
- **Open**
- **Open**



Reserve Bank Presidents

- **John C. Williams**, New York, Vice Chairman
- **James Bullard**, St. Louis
- **Charles L. Evans**, Chicago
- **Esther L. George**, Kansas City
- **Eric Rosengren**, Boston
- **Patrick T. Harker**, Philadelphia
- **Robert S. Kaplan**, Dallas
- **Neel Kashkari**, Minneapolis
- **Loretta J. Mester**, Cleveland
- **Thomas I. Barkin**, Richmond
- **Raphael W. Bostic**, Atlanta
- **Mary C. Daly**, San Francisco

*Permanent voters in bold; 2019 rotating voters in red; 2020 rotating voters in blue

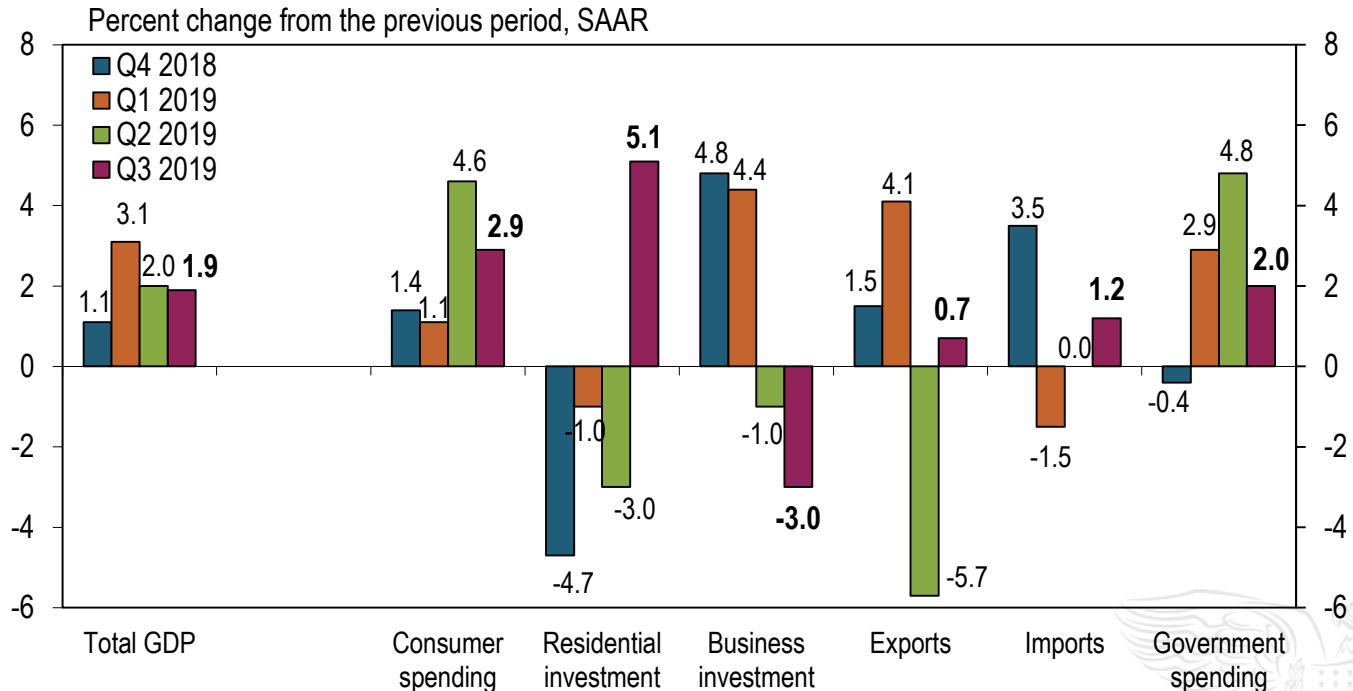


U.S. Economic Outlook and Monetary Policy



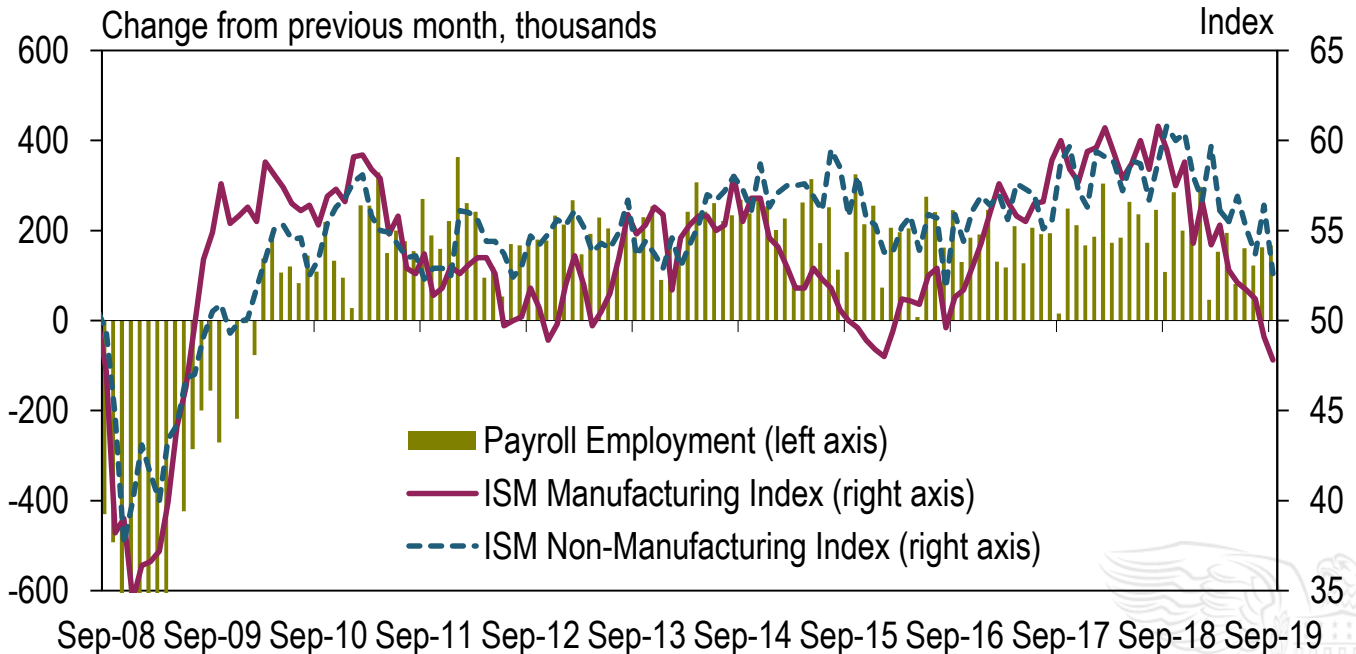
Oct. FOMC: “Economic activity has been rising at a moderate rate...household spending has been...strong”

Contributions to Percent Change in Real GDP



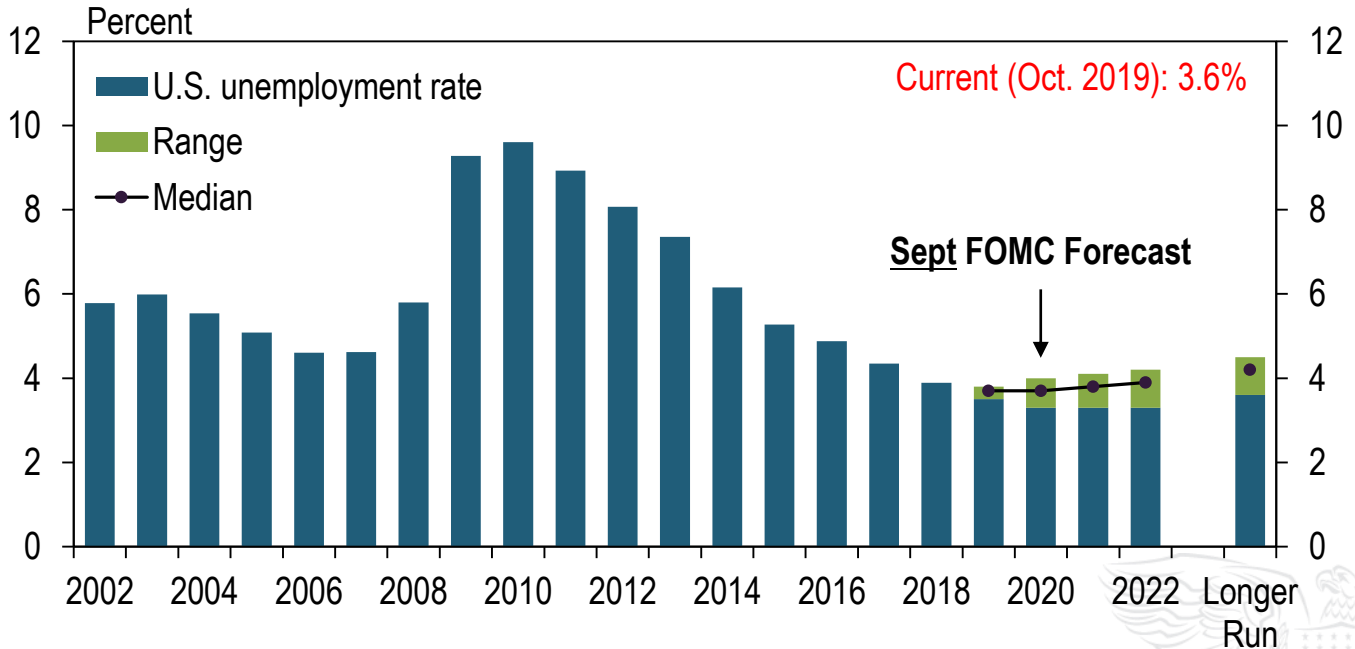
Oct. FOMC: “The labor market remains strong... business fixed investment and exports remain weak.”

U.S. Payroll Employment and Business Indexes



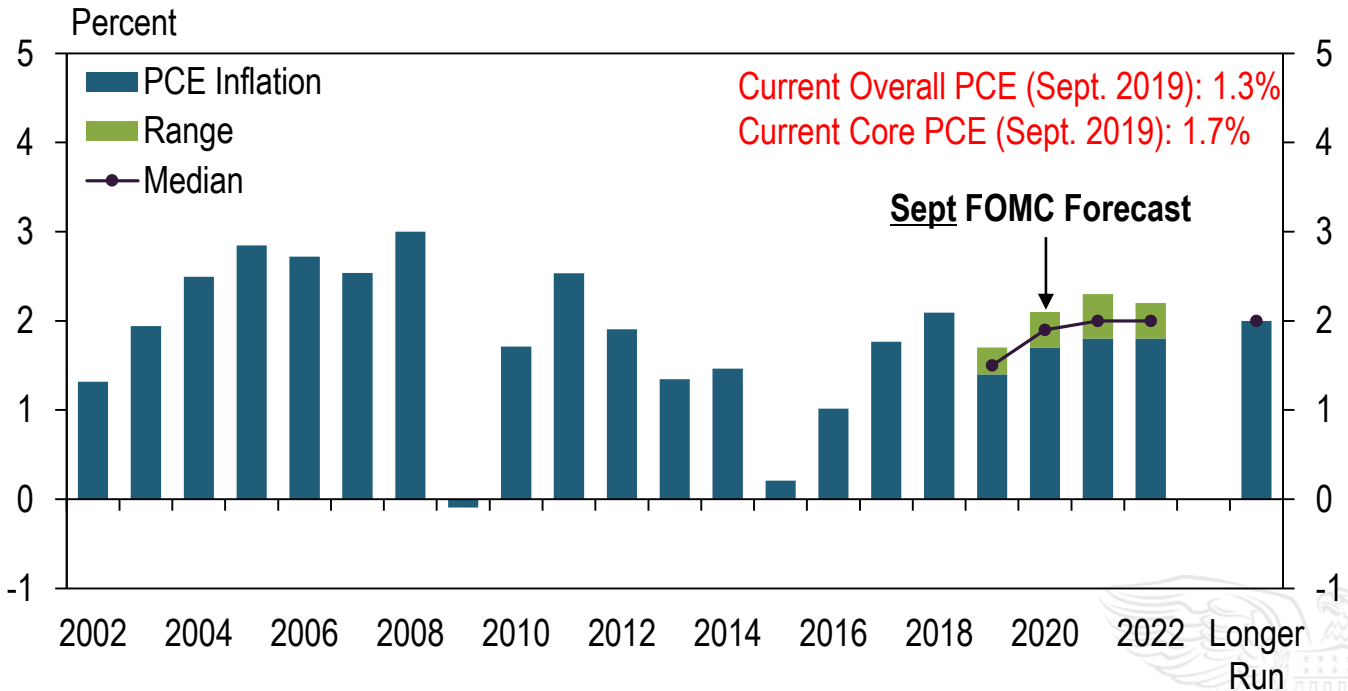
Oct. FOMC: “The unemployment rate has remained low.”

U.S. Unemployment Rate



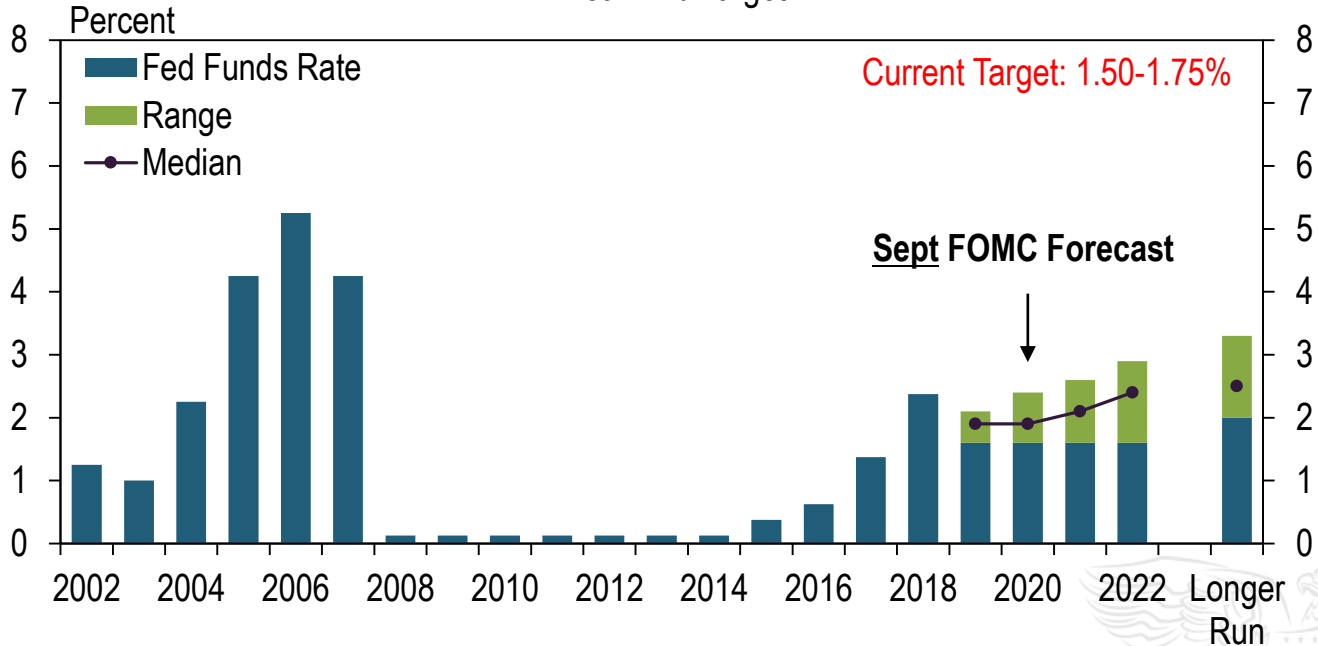
Oct. FOMC: “Overall inflation and inflation for items other than food and energy are running below 2%.”

PCE Inflation Index



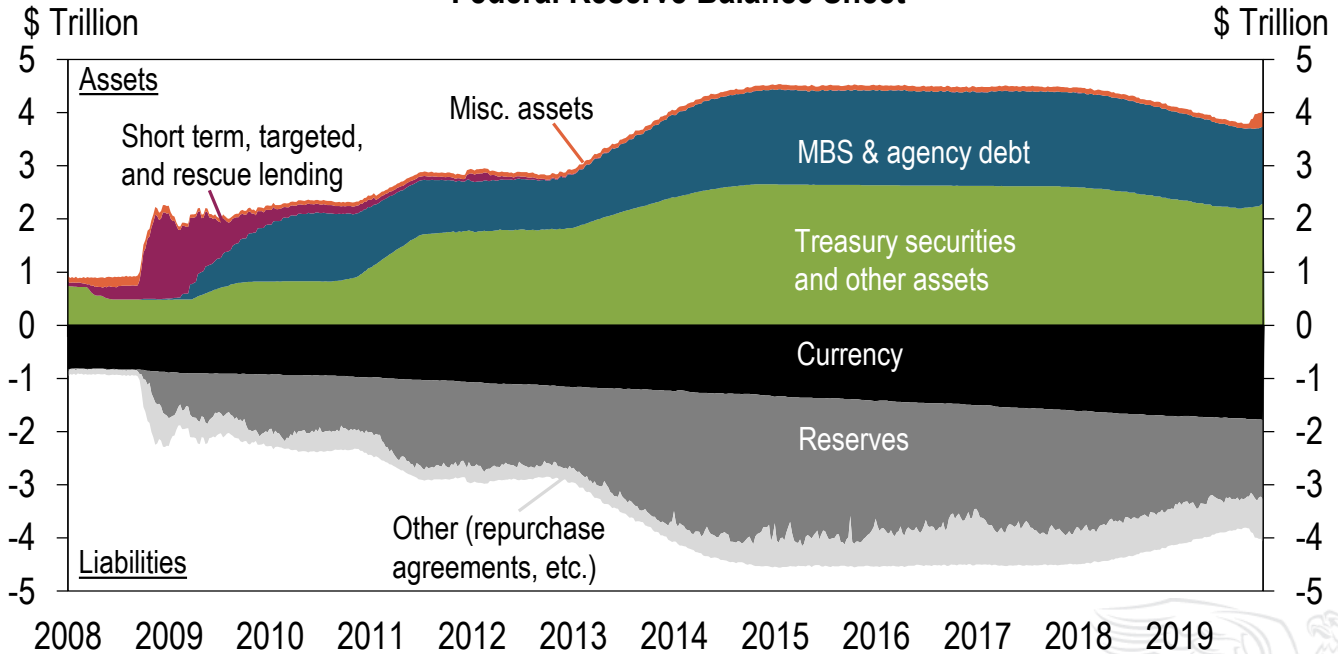
Oct. FOMC: “In light of... global developments... muted inflation... the [FOMC] decided to lower the... rate.”

Federal Funds Rate
Year-End Target



“In light of...increases in...reserve liabilities, the [FOMC] directs the Desk...to maintain...ample reserve balances.”

Federal Reserve Balance Sheet

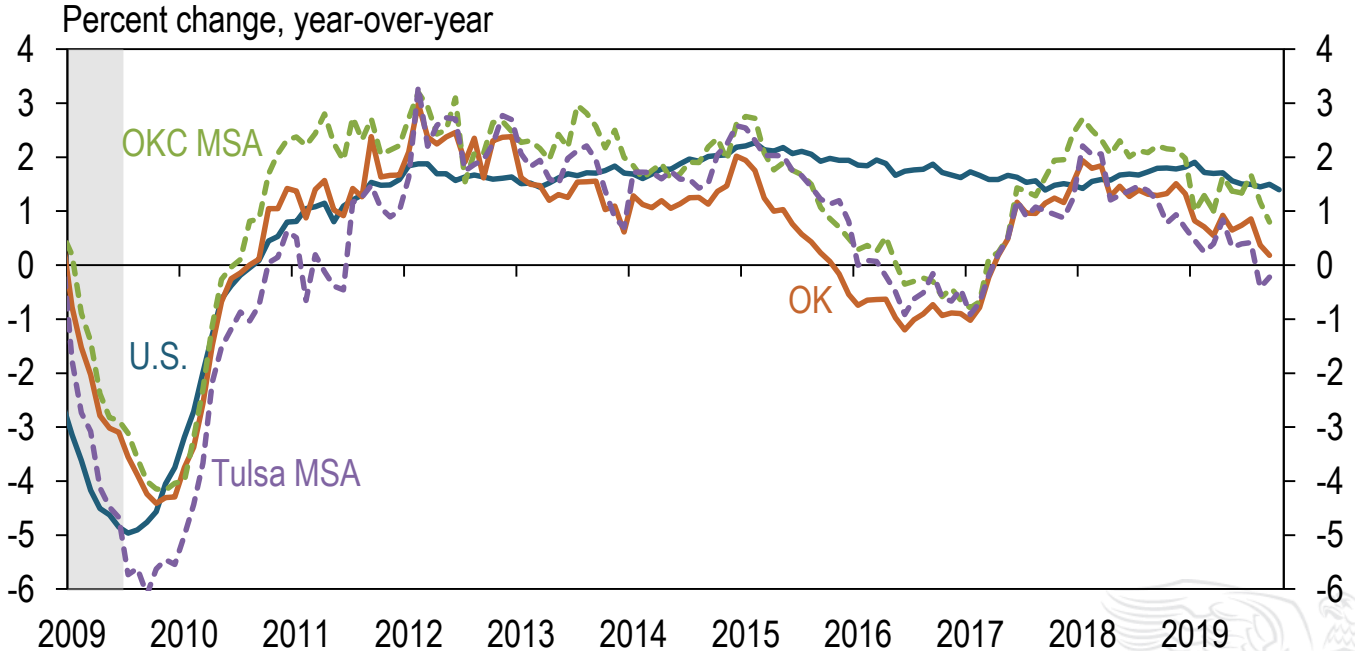


Oklahoma Economic Outlook



The pace of Oklahoma job growth has slowed in 2019

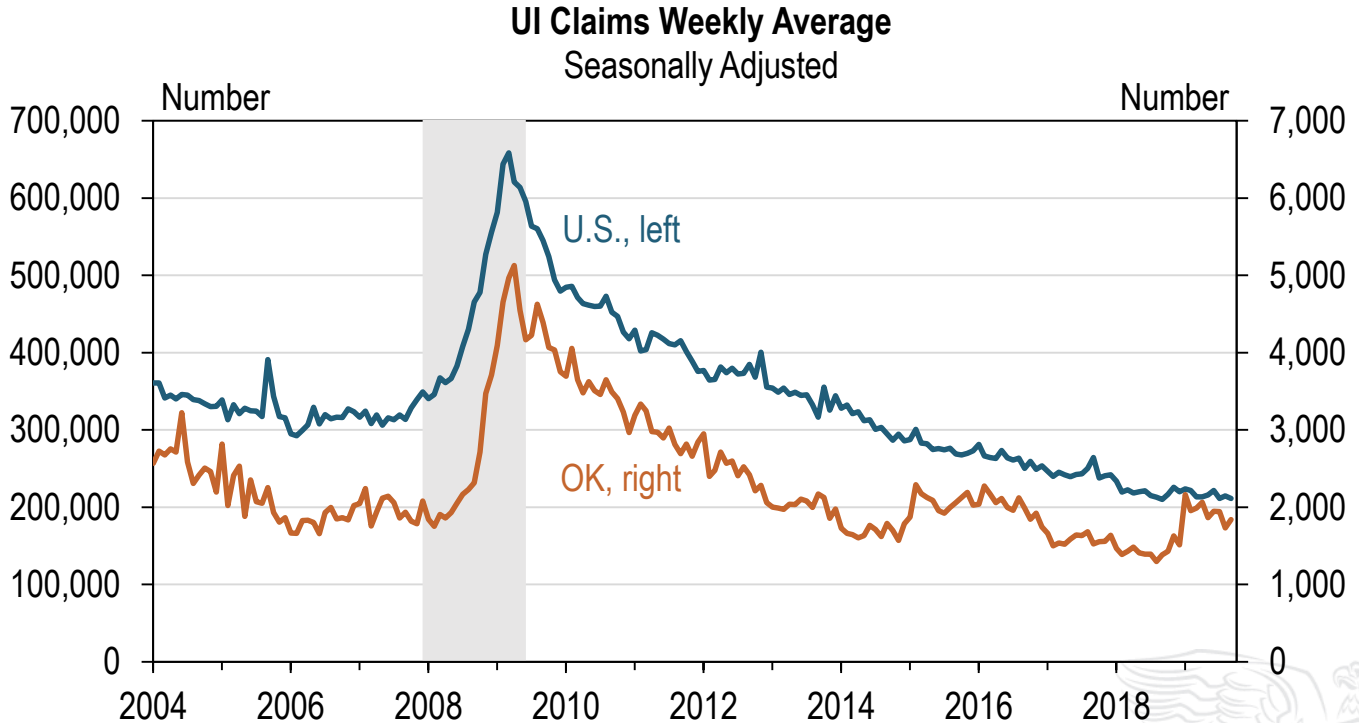
Nonfarm Payroll Employment Growth



Sources: U.S. Bureau of Labor Statistics, NBER recession shading

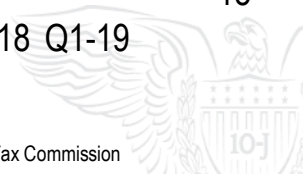
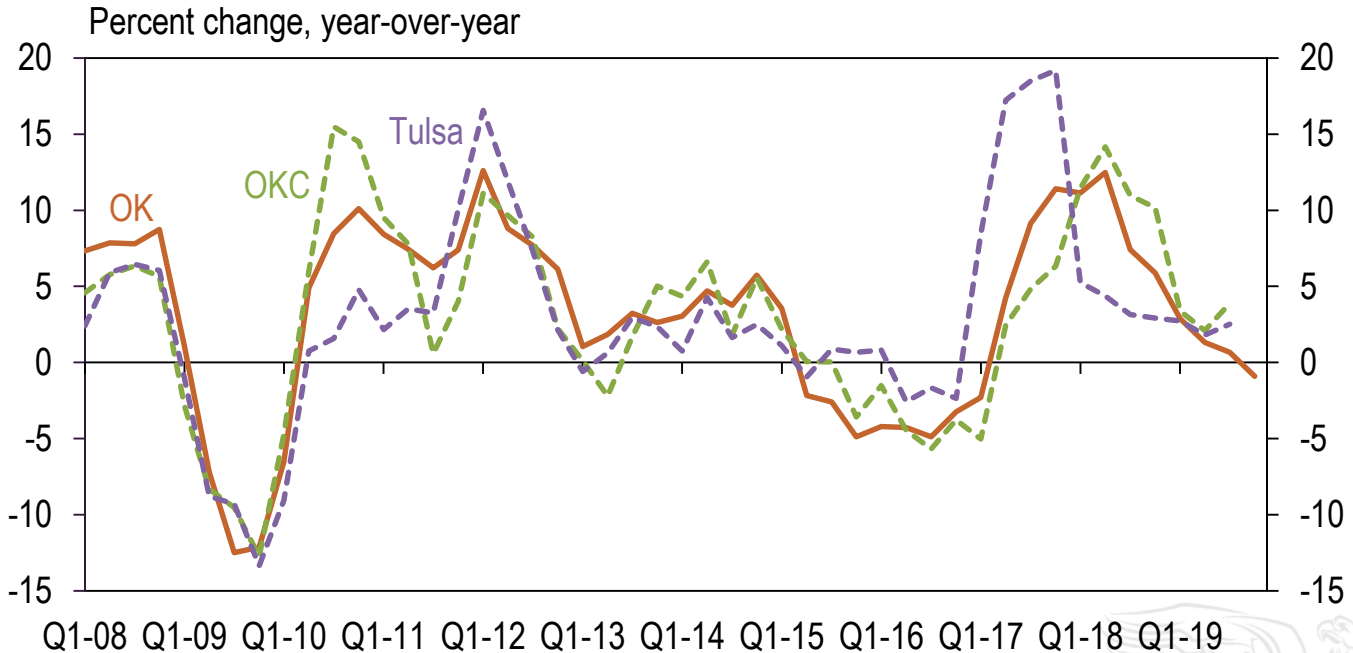


Indeed, new claims for unemployment insurance this year have returned to nearly 2015-16 levels



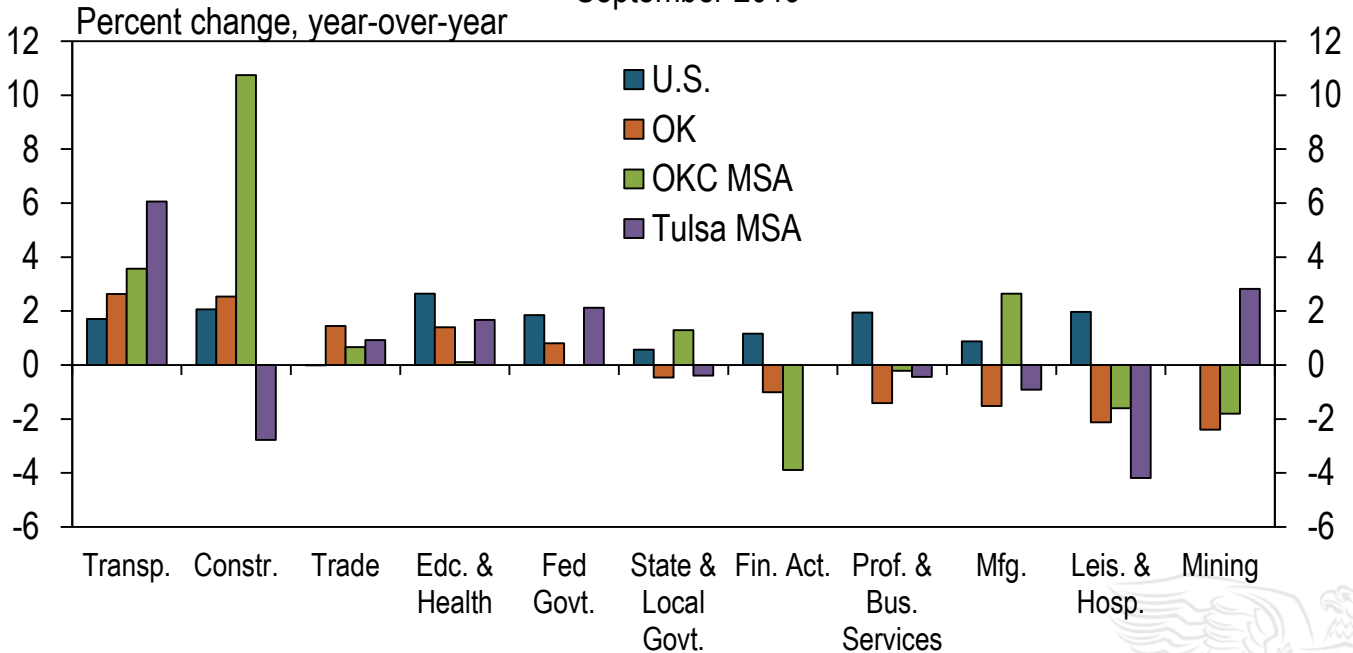
State sales tax growth picked back up slightly in the metros in Q3, but October state receipts were down

Oklahoma and Metro Sales Tax Revenues



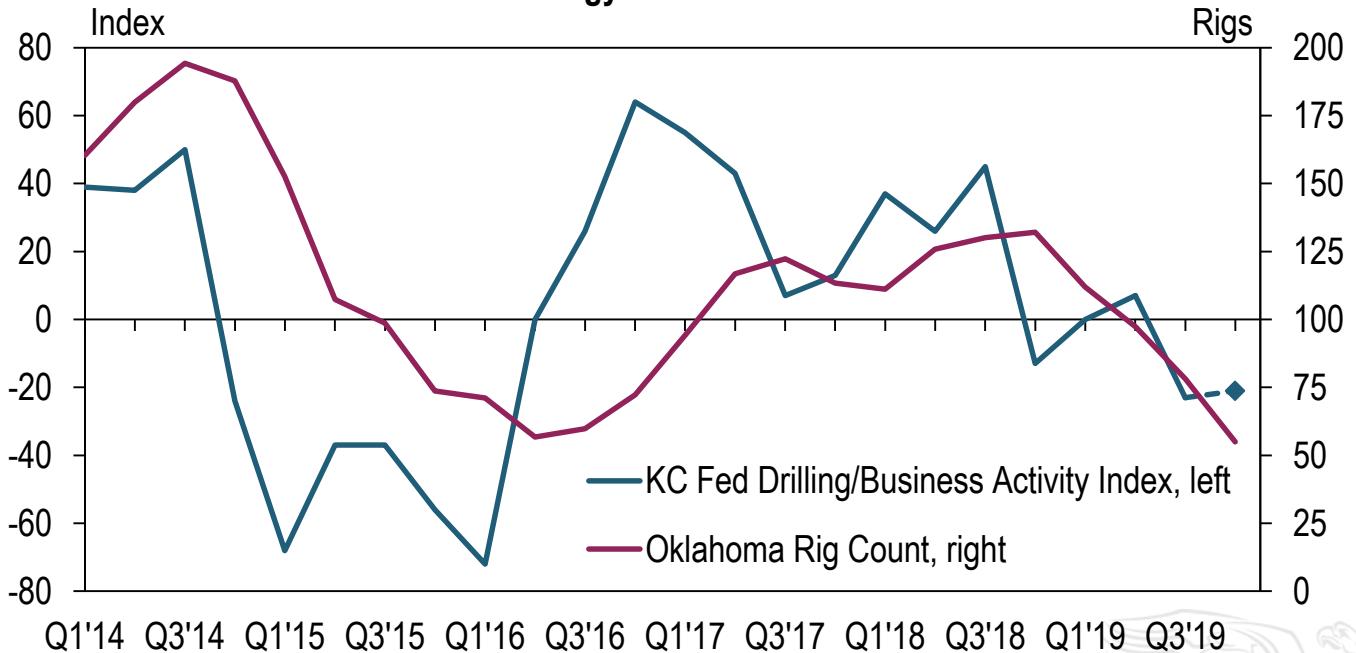
The slower state job growth has been driven mainly by job losses in energy and related sectors

Job Growth by Industry
September 2019



Oklahoma's rig count has dropped this year, and regional energy firms expect further slowing ahead

Energy Sector Indicators



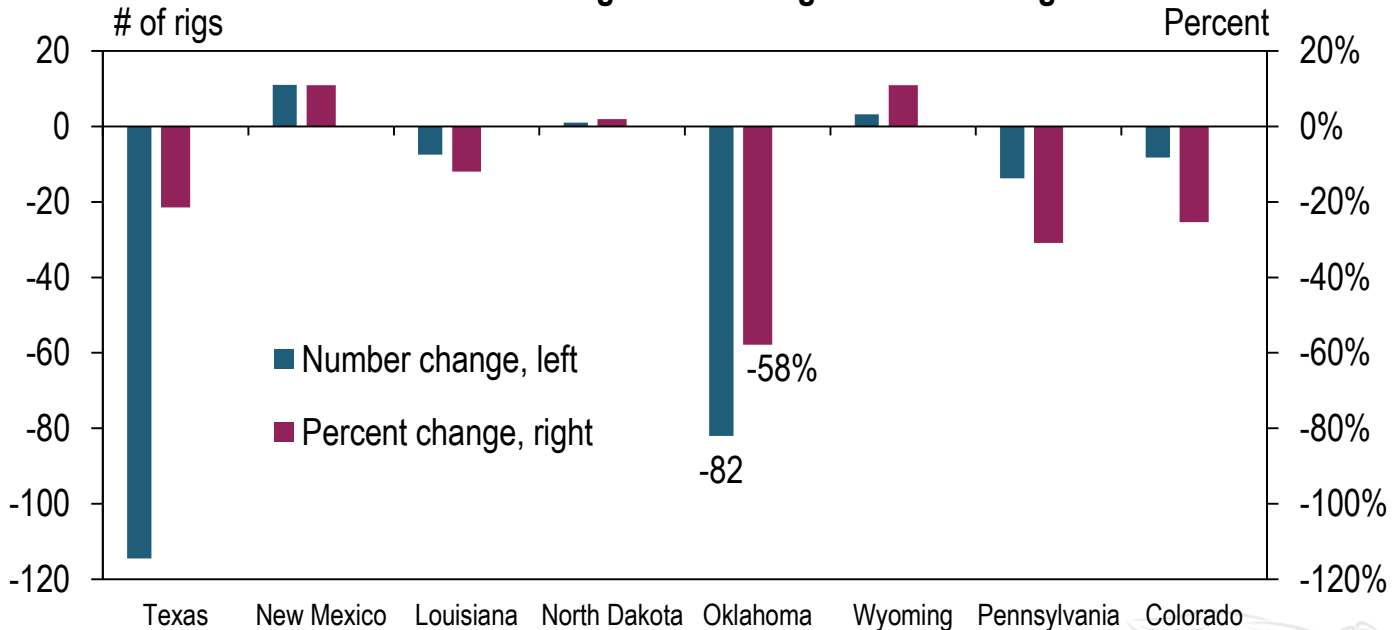
Note: Q4 2019 rig count data shown through October 2019.

Source: Federal Reserve Bank of Kansas City Energy Survey



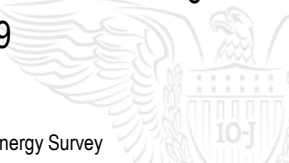
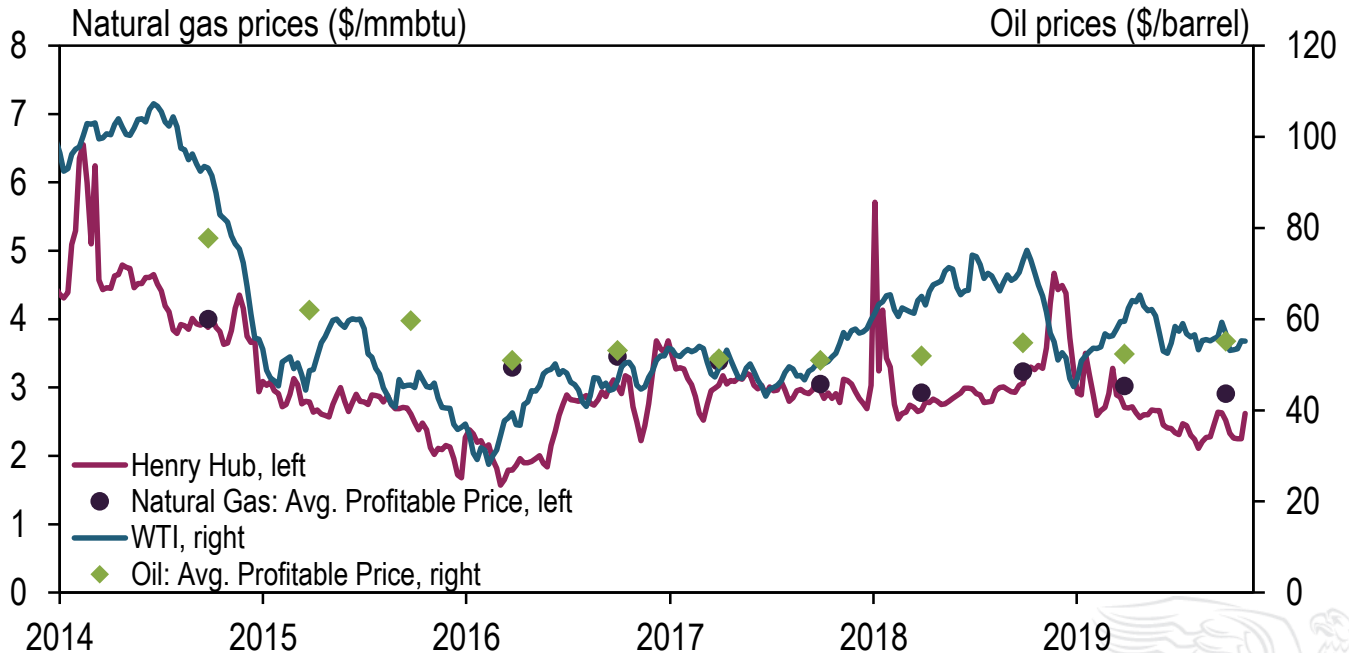
Oklahoma's percentage drop in rigs is easily the largest among the top 8 oil- and gas-producing states

October 2019 Rig Count Change from a Year Ago



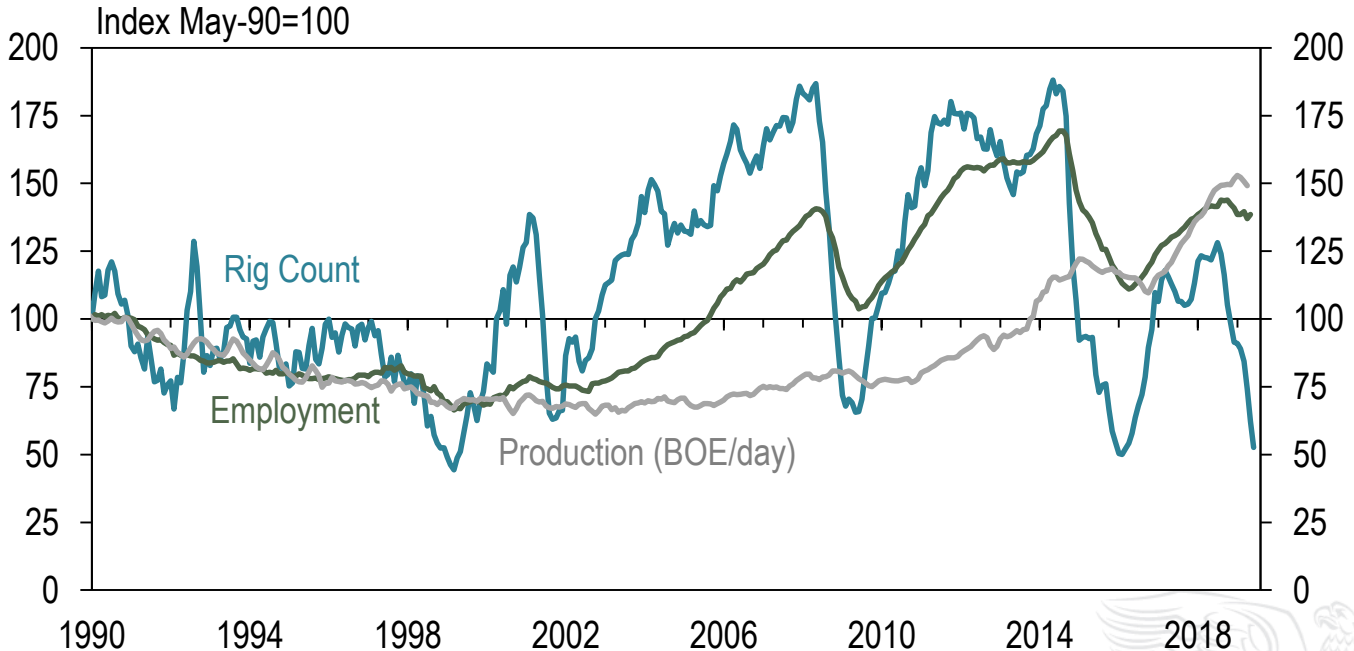
Volatile and marginally profitable oil prices, plus low natural gas prices, have contributed to slower activity

Oil & Natural Gas Profitability and Prices



Even with much fewer rigs and less workers, oil and gas production in the state remains very high

Oklahoma Oil & Gas Rig Count, Employment, and Production



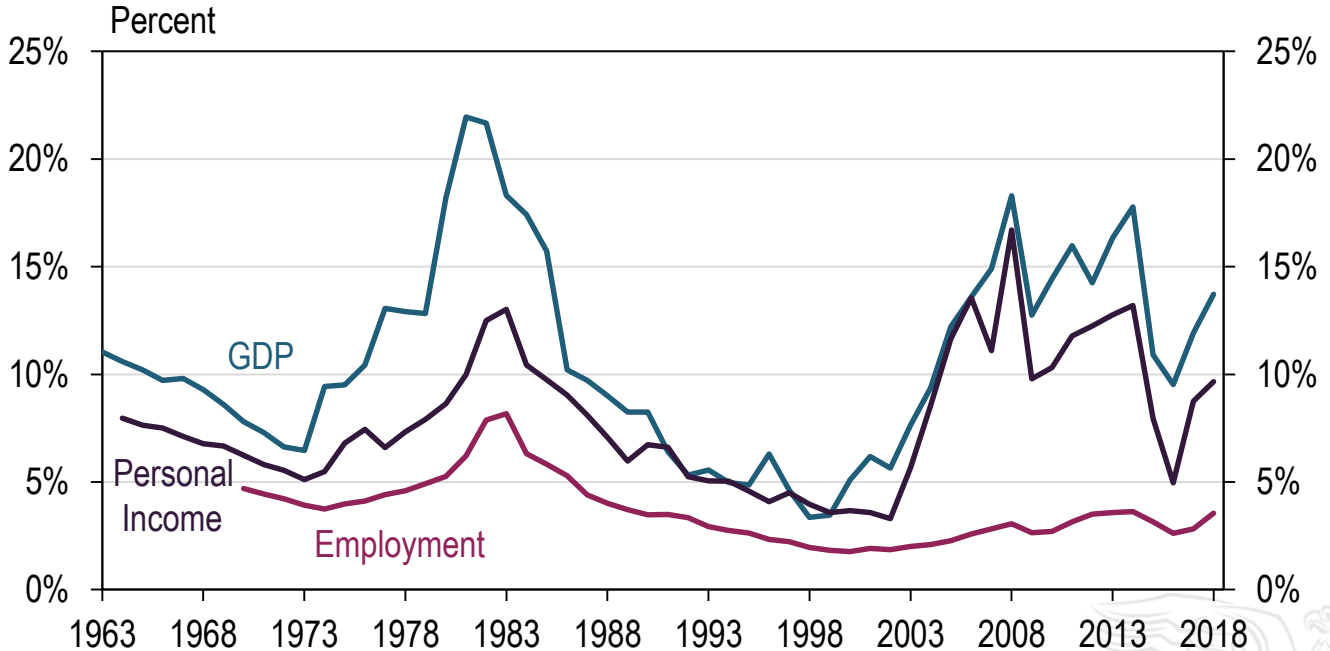
Note: Employment is for total mining and logging, which in Oklahoma is almost completely oil and gas related. Production is shown as a 3-month moving average.

Sources: Baker Hughes, U.S. Energy Information Administration



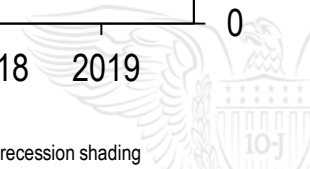
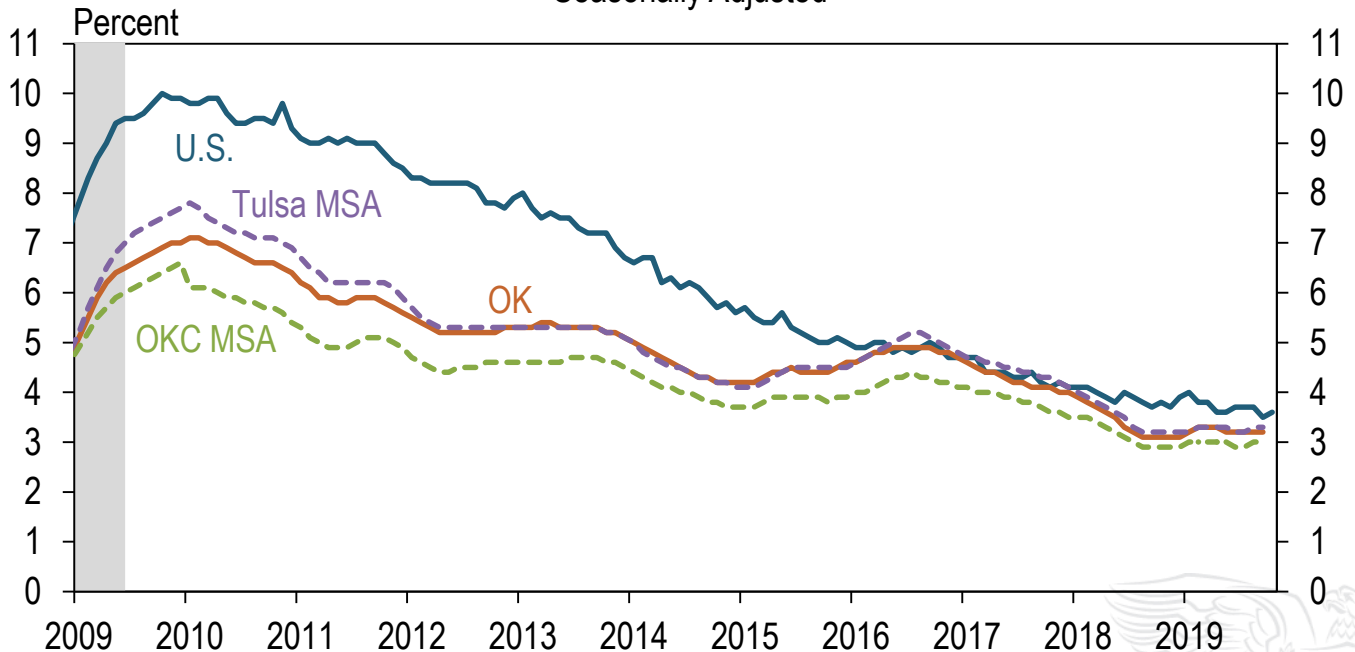
Oil and gas's share of Oklahoma's economy remains high, especially in terms of GDP and income

Mining Sector Share of Oklahoma Economic Activity



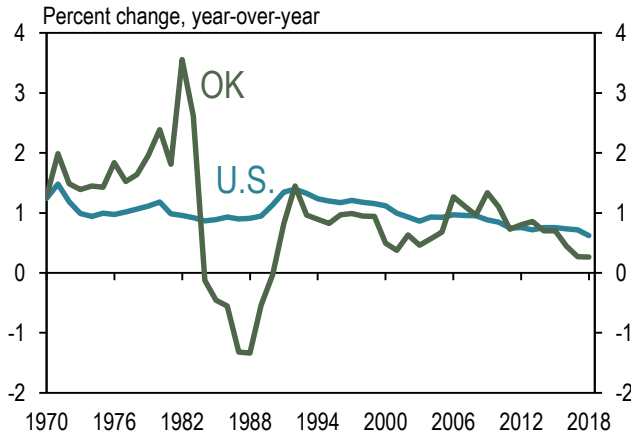
Despite slower job growth and rising UI claims this year, unemployment remains low across the state

Unemployment Rates
Seasonally Adjusted

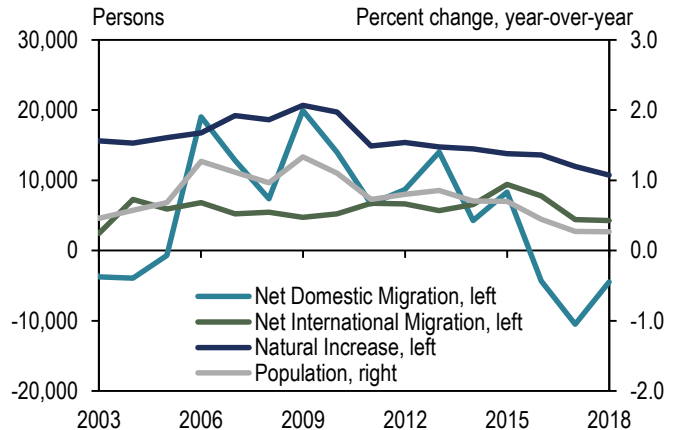


Looking at longer-term trends, more people have been leaving Oklahoma than moving into the state

U.S. vs. Oklahoma population growth, 1970-2018

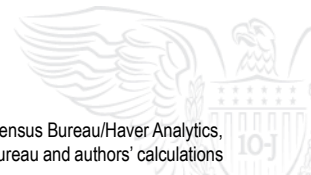


Oklahoma population changes by component, 2003-2018*



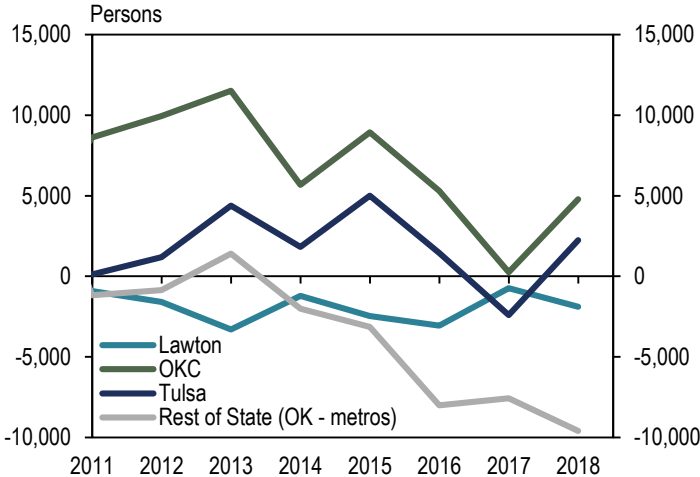
Note: Annual BEA population data used through 2017, Census population data used for the most recent year.

Sources: Bureau of Economic Analysis, Census Bureau/Haver Analytics, Population and Housing Unit Estimates – Census Bureau and authors' calculations

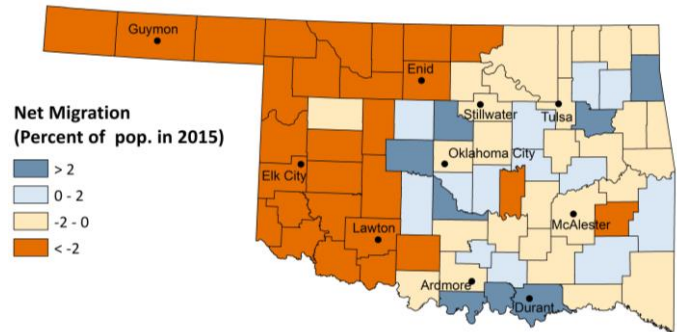


Large metro migration improved slightly in 2018, while outflows from western Oklahoma have been sizeable

Oklahoma Net Domestic Migration by Area, 2011-2018

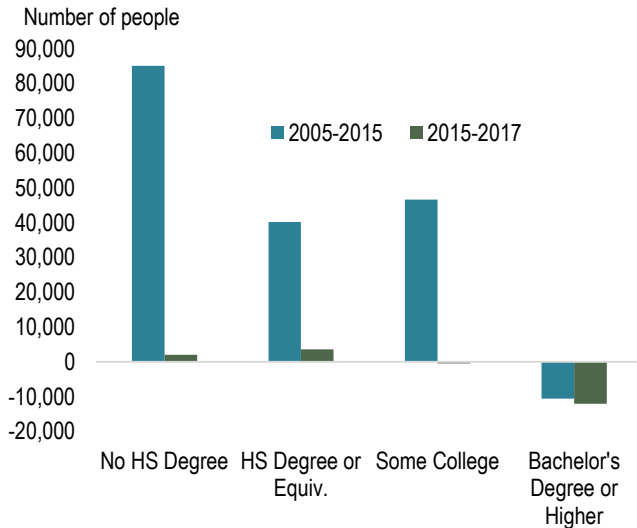


Net Domestic Migration by County, 2015-2018

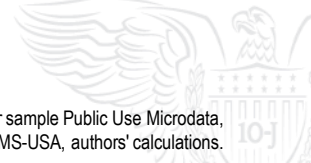
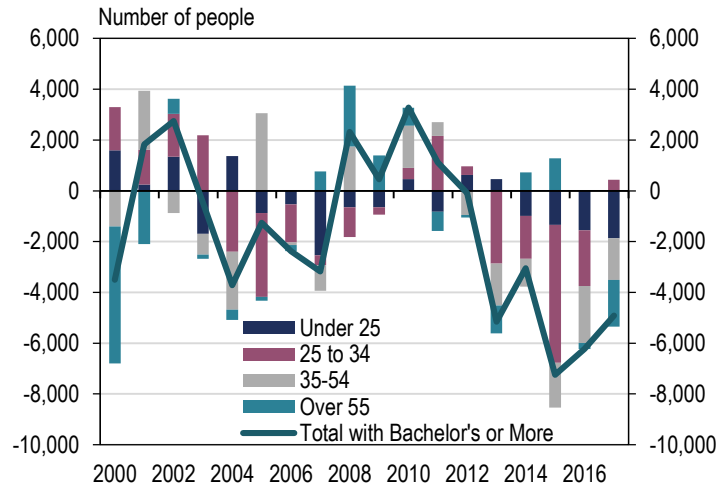


Highly educated Oklahomans of all age groups have been leaving the state, especially since 2013

Oklahoma Net Domestic Migration by Education Level

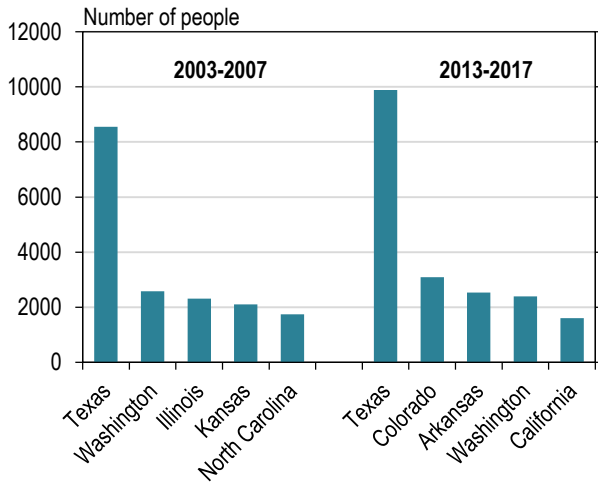


Oklahoma Net Domestic Migration of Those with a Bachelor's Degree or More by Age

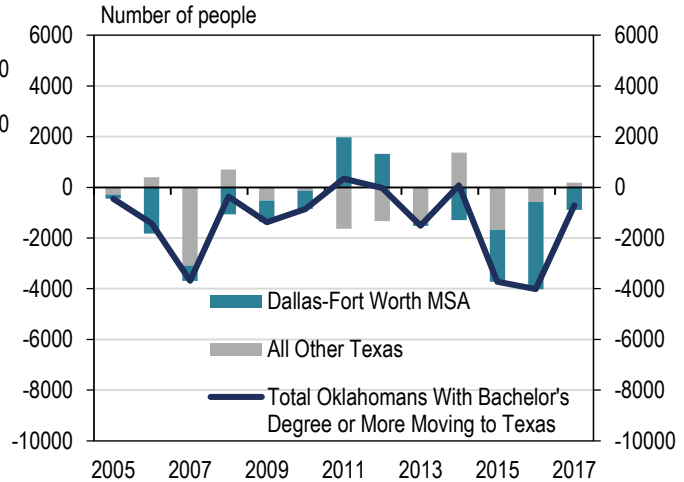


Oklahomans with a bachelor's degree or more are mostly moving to Texas, especially Dallas-Fort Worth

States Gaining the Most Oklahomans with a Bachelor's or More on Net

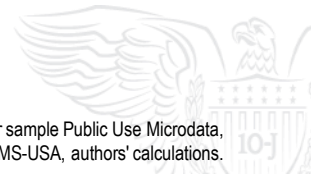


Net Migration of Oklahomans with a Bachelor's or More to Texas



Note: Metro area timeseries data was harmonized in IPUMS using the 2013 OMB delineations.

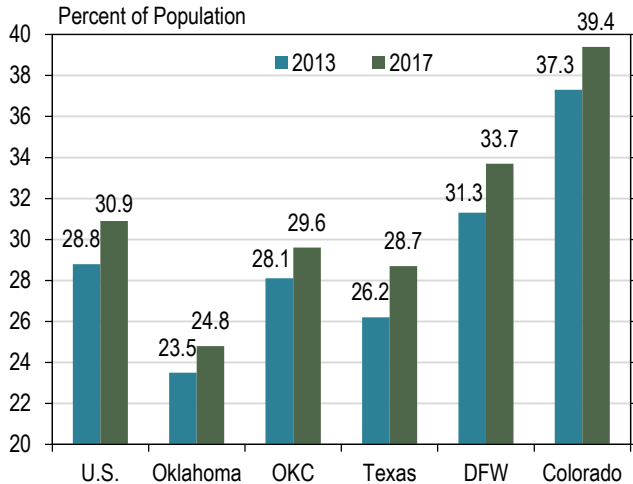
Sources: U.S. Census Bureau ACS 1-year sample Public Use Microdata, IPUMS-USA, authors' calculations.



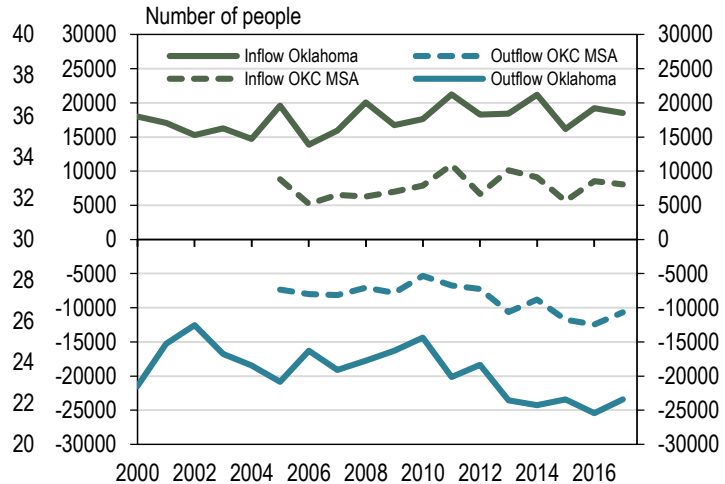
Consequence: Educational attainment is growing less

Silver lining?: People keep coming, just more have left

Educational Attainment as the Share of Population Over 25 with a Bachelor's or More



Oklahoma Domestic Migration Flows of Those with a Bachelor's or More



Plus, while Oklahoma job growth has lagged the nation, some industries in the state have grown considerably

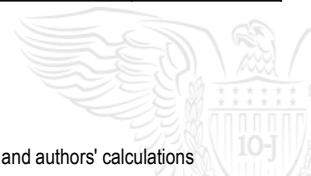
Oklahoma Industries Adding the Most Jobs, 2013-2018

Rank	Industries Adding the Most Jobs	OK Empl. Change	OK Empl. % Change	U.S. Empl. % Change	OK Empl. Share 2018	Location Quotient 2013	Location Quotient 2018
1	Restaurants	14,359	12%	14%	8.1%	1.1	1.1
2	Warehousing and storage	8,148	153%	61%	0.8%	0.7	1.1
3	Aerospace product and parts manufacturing	6,314	94%	1%	0.8%	1.2	2.4
4	Gambling industries*	3,729	21%	-13%	1.3%	11.1	16.4
5	Executive, legislative and general government*	3,439	12%	3%	2.0%	0.9	1.1
6	Outpatient care centers	3,074	48%	37%	0.6%	0.8	0.9
7	Building equipment contractors	3,019	14%	24%	1.6%	1.1	1.1
8	Management of companies and enterprises	2,647	16%	13%	1.2%	0.7	0.7
9	Other amusement and recreation industries	2,324	25%	18%	0.7%	0.7	0.8
10	Utility system construction	2,321	23%	24%	0.8%	1.9	2.1
11	Computer systems design and related services	2,018	27%	25%	0.6%	0.4	0.4
12	Accounting and bookkeeping services	2,011	15%	8%	1.0%	1.2	1.4
13	Offices of other health practitioners	2,008	26%	23%	0.6%	0.9	1.0
14	Other ambulatory health care services	1,908	50%	14%	0.4%	1.2	1.7
15	Gasoline stations	1,764	11%	8%	1.1%	1.6	1.7
16	Insurance agencies and brokerages	1,521	15%	24%	0.7%	0.9	0.9

* Local Government Sector

Note: Only includes industries with data disclosed for both 2013 and 2018. A sizeable portion of the growth in aerospace product and parts manufacturing (NAICS 3364) jobs in Oklahoma in recent years appears to be due to the reclassification of several thousand jobs in air transportation (NAICS 481) to that sector.

Sources: Bureau of Labor Statistics QCEW data and authors' calculations



Summary

- The national economy continues to grow, with low unemployment, but business investment has slowed
- Oklahoma's economy has slowed in 2019, as lower oil and gas prices hurt, but unemployment remains very low
- A longer-term trend worth watching is the state's switch in net domestic migration flows in recent years, as more highly educated Oklahomans have been moving out
- At the same time, some industries in the state have continued to thrive, many of which pay good wages



Questions?

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