U.S. and Oklahoma Economic Outlook

Central Oklahoma Manufacturing Association
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*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.
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 – 45 staff
  - Research on U.S. and Oklahoma economies; energy and manufacturing sectors
  - Economic and financial education outreach, including to low/moderate income
  - Examinations of Oklahoma financial institutions (~50 banks, ~175 holding cos.)

- 2018 OKC Fed Branch Board of Directors
  - Clint Abernathy (chair), Owner, Abernathy Farms, Inc., Altus
  - Susan Chapman Plumb, Board Chair & CEO, Bank of Cherokee County, Tahlequah
  - Michael Coffman, CEO (retired), Panhandle Oil & Gas, Inc., 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, Vice-Chair & CEO, Webco Industries, Sand Springs

- Oklahomans on Kansas City Fed head office Board
  - Rose Washington (chair), Exec. Director, Tulsa Econ. Dev. Corp., Tulsa
  - Doug Stussi, EVP & CFO, Love’s Travel Stops & Country Stores, OKC
The U.S. Economy and Monetary Policy
U.S. GDP growth slowed slightly in the first quarter, but still remained solid overall.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis
“The [FOMC] expects that, with further…adjustments…in…policy…labor market conditions will remain strong”
“Inflation on a 12-month basis is expected to run near the [FOMC’s] symmetric 2 percent objective over the medium term.”

Sources: U.S. Bureau of Labor Statistics, FOMC
“The [FOMC] expects that economic conditions…will warrant further gradual increases in the federal funds rate.”

Federal Funds Rate
Year-end target

Current (Apr. 2018): 1.75%

Mar. FOMC Forecast
Ranges in Yellow

Sources: Federal Reserve Board, FOMC
The Fed has also begun to reduce its balance sheet, and the normalization will be gradual.
U.S. debt has been rising and is projected to rise further

U.S. Federal Debt Held by the Public

Source: Congressional Budget Office
The risk of U.S. default still seems low, even in the longer run

Government Debt Projections – United States

Fiscal limit in a recession
Fiscal limit at normal time
Debt 2007
Debt 2017
Projected debt 2047

Sources: FRBKC Calculations, Congressional Budget Office
Trends in the Oklahoma Economy
OK GDP has recovered from its downturn of 2015-16, and overall grew similarly as the nation in 2017.

Source: U.S. Bureau of Economic Analysis
Employment is now growing faster than the nation after lagging the most since the ‘80s in 2015-16

Payroll Employment Growth

Percent change, year-over-year

Source: U.S. Bureau of Labor Statistics
Unemployment has come down across the state and is well below the national average in the OKC metro.
Tax revenues are also growing strongly, after several years that remain challenges for the Legislature.
Banking conditions in Oklahoma also remain very good despite the 2015-16 economic slowdown.

Source: FDIC
The Oklahoma agriculture sector has shown some signs of stabilizing, with expectations up slightly.
Job gains have so far been led by growth in the mining sector, but manufacturing has also had solid gains.
Manufacturing jobs in the state have increased slightly the past few months following a decline.
Most of the increases have been in metro areas, with non-metro relatively flat over the past decade.

Oklahoma Manufacturing Employment by Metro Area,
Through March 2018, Seasonally Adjusted

Source: U.S. Bureau of Labor Statistics
Despite trade fears, regional factory activity has continued to rise strongly in recent months.
Manufacturers anticipated some effects from proposed tariffs, but most expected the severity to be low/medium.
In other positive news, exports remained favorable in both Oklahoma and the U.S. last year.

Total Export Value

Source: FRBKC
Manufacturing prices remain elevated, with a marked increase in selling prices recently.

Manufacturing Price Expectations,
Six-months ahead, Seasonally Adjusted

Source: FRBKC
The oil and gas sector remains especially sizable in the state, even after dropping in recent years.

Oil and Gas Sector Share of GDP*
1997-2017

*Oil & Gas Sector = NAICS 211 + NAICS 213;
2017 estimates based on size of overall Mining sector

Source: U.S. Bureau of Economic Analysis; author’s calculations
Oil prices have continued to rise since mid-2017, while natural gas prices have mostly trended down.
World oil demand has now exceeded supply for five straight quarters, pushing down global oil inventories.

Global Supply and Demand

Source: EIA
Most firms can profitably drill for oil in the areas they are active, while natural gas may be another story.

Energy Survey Oil & Gas Prices

Survey ranges in orange

Survey average

Source: FRBKC Energy Survey
But it takes a lot fewer rigs—and workers—to produce lots of oil than it did just a few years ago.

Source: EIA, Baker Hughes
Summary

- The U.S. economy continues to grow, and the Fed has been raising interest rates.

- The Oklahoma economy was hurt by low oil and gas prices, but now is growing solidly.

- Strong productivity growth in the oil and gas sector could potentially limit future job growth.
Questions?

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