U.S. and Southeast Oklahoma Economic Outlook

Hugo Economic Forum
August 10, 2017

Chad Wilkerson
Oklahoma City Branch Executive & Economist
Federal Reserve Bank of Kansas City
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 slowed in the first quarter of 2017 due in part to a slowdown in consumer spending.

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 remained solid in the first 4 months of the year.
“Job gains have been solid…since the beginning of the year, and the unemployment rate has declined.”

Unemployment Rate
Seasonally Adjusted

Current (Jul. 2017): 4.3%

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

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 (Aug. 2017): 1.25%

June FOMC Forecast
Ranges in Yellow

Sources: Federal Reserve Board, FOMC
“The Committee expects to begin implementing its balance sheet normalization program relatively soon”

Source: Federal Reserve Board
The Southeast Oklahoma Economy
Southeast Oklahoma (from I-35 to AR, and from I-40 to TX) has 14% of the state’s labor force.
The region’s most important industries relative to the nation are agriculture, energy, and government.

**OK Personal Income Share by Industry, 2015**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Income</th>
<th>Location Quotient</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US</td>
<td>OK</td>
</tr>
<tr>
<td>Agriculture</td>
<td>0.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Mining</td>
<td>1.6</td>
<td>11.8</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
<td>13.2</td>
<td>13.4</td>
</tr>
<tr>
<td>Federal Government</td>
<td>3.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Construction</td>
<td>6.1</td>
<td>6.6</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>16.2</td>
<td>23.8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10.1</td>
<td>8.9</td>
</tr>
<tr>
<td>Education &amp; Health</td>
<td>13.3</td>
<td>11.2</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>4.7</td>
<td>3.9</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>7.1</td>
<td>3.8</td>
</tr>
<tr>
<td>Information</td>
<td>3.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Prof. &amp; Business Services</td>
<td>20.3</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Note - Location quotient is the division of local share by national share.
With strains in ag, energy, and government in 2015-16, unemployment moved up to 6% but has since fallen.

Unemployment rates
Seasonally Adjusted, Jun-17

Note: SE OK unemployment rate through May-17

Source: U.S. Bureau of Labor Statistics
Rural energy jobs have recovered some over the past year but government jobs are down.
The agriculture sector in the state generally remains weak, though less so than last year.

Source: FRBKC Agricultural Credit Survey, USDA
OK farmland values have fallen moderately in recent quarters, but less than in some states.
Natural gas drilling has picked up modestly in 2017 after essentially stopping in 2015 and 2016

Active Drilling Rigs
August 4, 2017

Source: Baker Hughes
Energy prices are slightly below levels needed for a substantial increase in drilling.

**Kansas City Fed Energy Survey Special Questions**

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

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

Current price (8-03-17): $49.73
Current price (8-03-17): $2.80

Survey ranges in blue

Source: FRBKC Energy Survey, Reuters
State tax revenues have finally risen back above year-ago levels, after falling for 2 years.
And sales tax revenues are also up in most counties in Southeast Oklahoma this year.
Summary

• The U.S. economy continues to grow, and the Fed has raised interest rates

• Southeast Oklahoma was hurt in 2015-16 by low commodity prices and spillover to other industries

• But in 2017, unemployment has come down and sales tax revenues have risen in the region
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:

https://www.kansascityfed.org/research/indicatorsdata/energy

https://www.kansascityfed.org/research/indicatorsdata/agcreditsurvey

https://www.kansascityfed.org/research/indicatorsdata/mfg