U.S. and Oklahoma Economic Outlook

Oklahoma City Chapter of CPAs
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Oklahoma City Branch Executive and Economist

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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
Federal Open Market Committee (FOMC)

Board of Governors
- Jerome H. Powell, Chairman
- Lael Brainard
- Richard H. Clarida
- Randal K. Quarles
- Open
- Open
- Open

Reserve Bank Presidents
- John C. Williams, New York, Vice Chairman
- Thomas I. Barkin, Richmond
- Raphael W. Bostic, Atlanta
- Mary C. Daly, San Francisco
- Loretta J. Mester, Cleveland
- 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

*Permanent voters in bold; 2018 rotating voters in red; 2019 rotating voters in blue*
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
U.S. Economic Outlook
Monthly data on U.S. business activity show economic growth remains strong through Q3 2018.
“Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low.”

Sources: U.S. Bureau of Labor Statistics, FOMC
“On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent.”

Current Overall PCE (Aug. 2018): 2.2%
Current Core PCE (Aug. 2018): 2.0%

Sept. FOMC Forecast
Ranges in Yellow

Sources: U.S. Bureau of Labor Statistics, FOMC
“The [FOMC] expects that further gradual increases...for the federal funds rate will be consistent with sustained expansion...”
The Fed has also begun to reduce its balance sheet.
Oklahoma and OKC Metro Economic Outlook
Metro job growth has outpaced the nation in 2018, and the state has also caught up after lagging in 2015-16

Nonfarm Payroll Employment Growth

Source: U.S. Bureau of Labor Statistics, NBER recession shading
State and metro job gains this year have been led by mining (oil & gas), but most sectors have added jobs.
Unemployment has come down in both the state and the metro, to exceptionally low levels.

Unemployment rates
Seasonally Adjusted

Source: U.S. Bureau of Labor Statistics
Banking conditions in Oklahoma also remain very good despite the 2015-16 economic slowdown.
Regional factory growth remains strong despite tariffs, but recently has slowed slightly from a record pace.
Oklahoma goods exports have increased in all industries and with all major trade partners in 2018

Oklahoma’s Goods Exports and Export Growth

- OK Total
- Canada
- China
- EU
- Japan
- Mexico
- All other countries
- Farm production, food, & beverages
- Mining & chemicals
- Metals & machinery
- Computers & high tech
- Transportation equipment
- All Others

Sources: WISERTrade, authors’ calculations
Materials prices have risen with the tariffs, though, with some firms able to pass increases through.

Manufacturing Price Indexes
2008 - present

Prices paid for raw materials
Prices received for finished goods

Sources: FRBKC, NBER recession shading
Oil and gas production is at a record high, but with considerably fewer rigs and workers than in 2014.

**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.

Source: Baker Hughes, EIA/Haver Analytics
Most firms can profitably drill for oil in the areas they are active, and natural gas prices work for some firms.

**Energy Survey Oil & Gas Prices**

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<thead>
<tr>
<th></th>
<th>Oil (WTI)</th>
<th>Natural Gas (Henry Hub)</th>
<th>$/barrel</th>
<th>$/million Btu</th>
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<tbody>
<tr>
<td>Current Price</td>
<td>$73</td>
<td>$3.40</td>
<td>10/15/2018</td>
<td>10/15/2018</td>
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<tr>
<td>Profitable Price</td>
<td>$55</td>
<td>$3.23</td>
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<tr>
<td>Substantial Price</td>
<td>$69</td>
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<td>Increase</td>
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<td>Price expected in 6 months</td>
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<tr>
<td>Price expected in 1 year</td>
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<td>Price expected in 2 years</td>
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<td>Price expected in 5 years</td>
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<td>Survey average</td>
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<tr>
<td>Survey ranges in orange</td>
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Source: Federal Reserve Bank of Kansas City Energy Survey
Summary

• The U.S. economy continues to grow despite headwinds, and the Fed has been raising rates.

• The state and local economies were hurt by low commodity prices, but now are growing solidly.

• Energy and manufacturing activity have been strong, despite tariffs and trade concerns.
Questions?

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