

U.S. and Oklahoma Economic Update

Oklahoma City Economic Forum
August 6, 2019

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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.



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 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

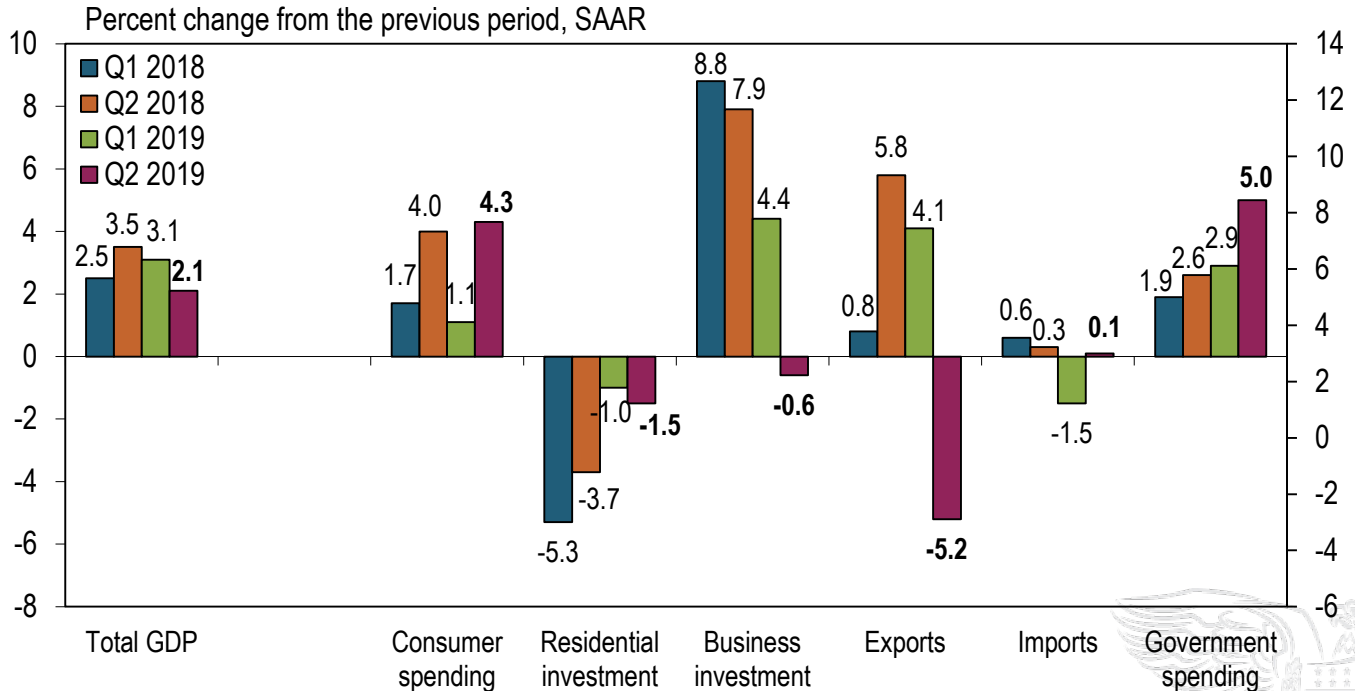


U.S. Economic Outlook and Monetary Policy



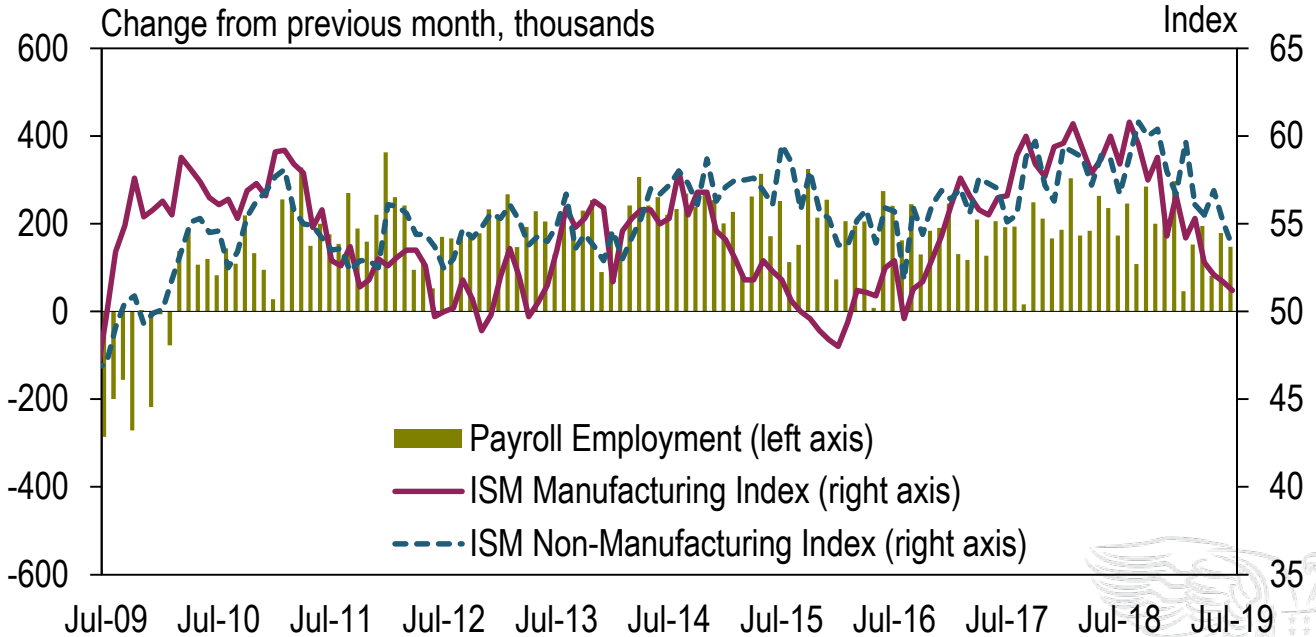
FOMC: “Although growth of household spending has picked up...business fixed investment has been soft.”

Contributions to Percent Change in Real GDP



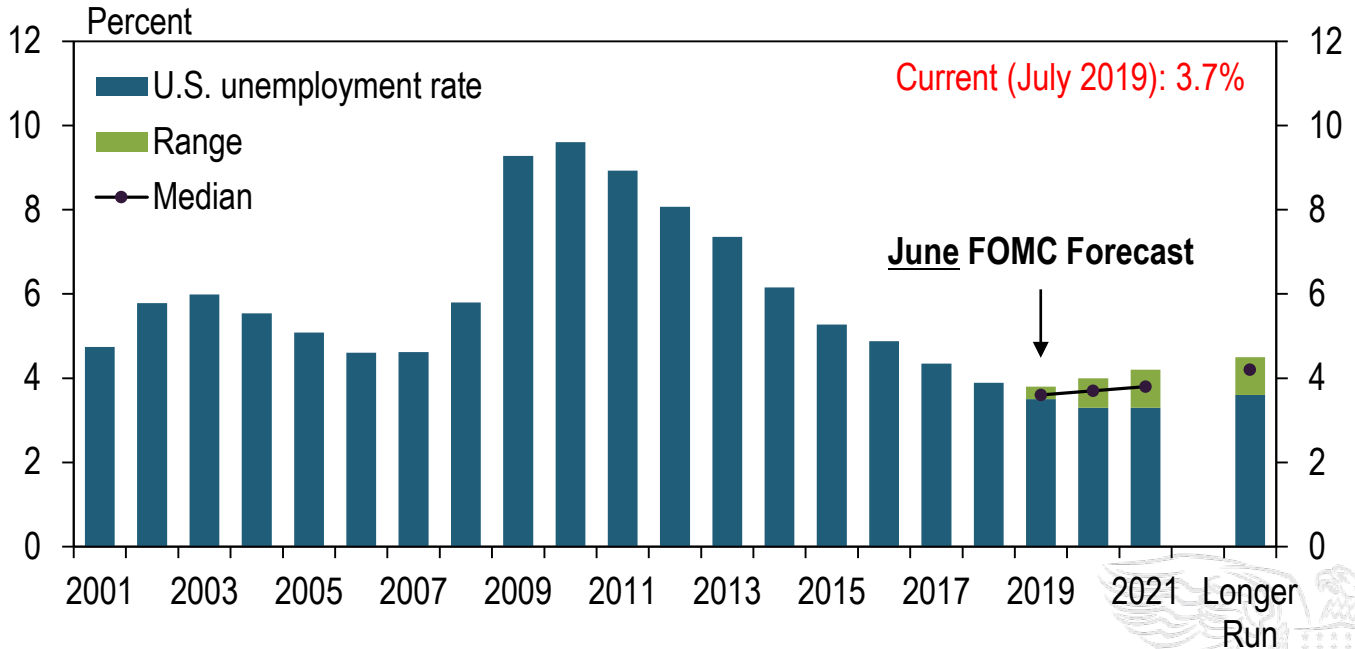
FOMC: “The labor market remains strong and... economic activity has been rising at a moderate rate.”

U.S. Payroll Employment and Business Indexes



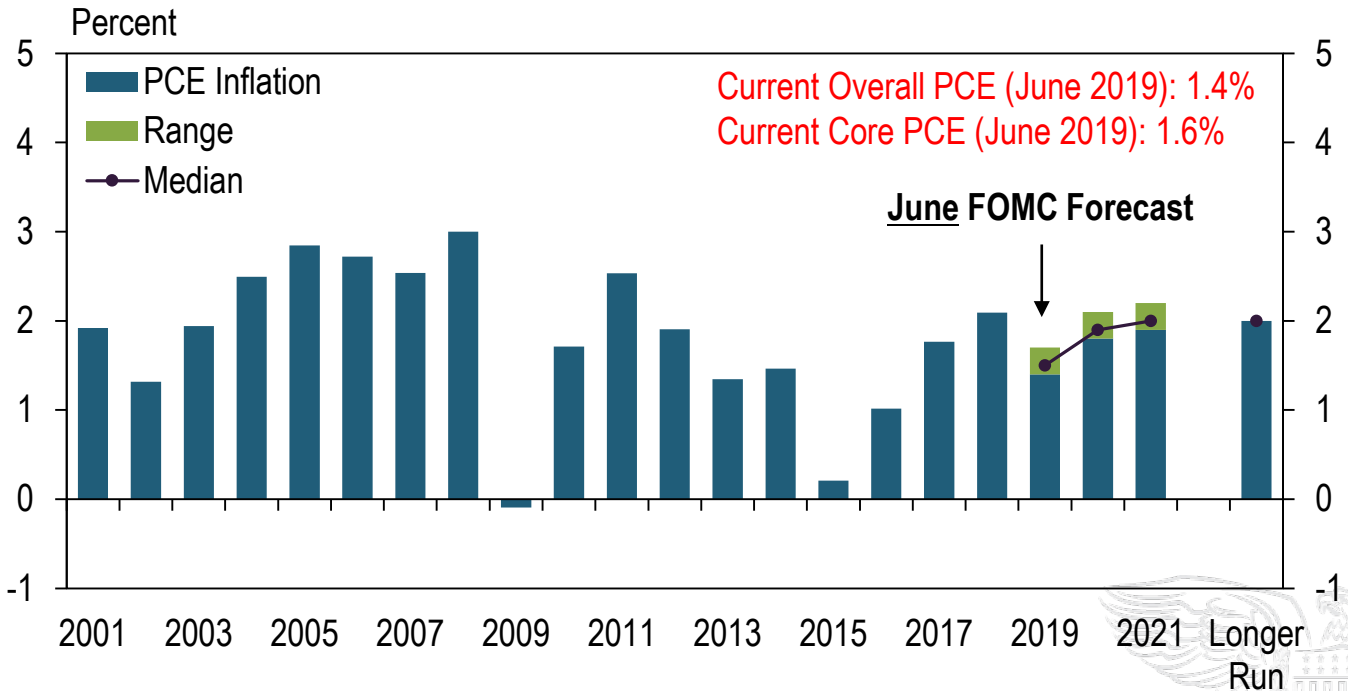
FOMC: “The unemployment rate has remained low.”

U.S. Unemployment Rate



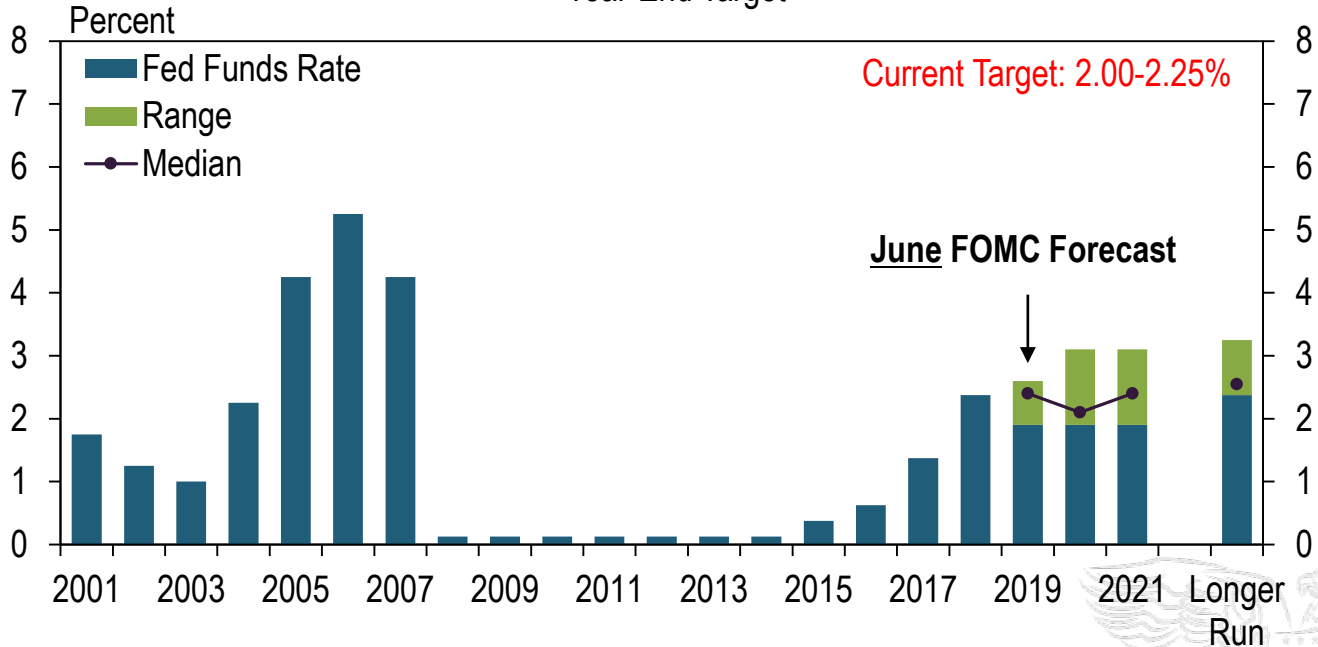
FOMC: “Overall inflation and inflation for items other than food and energy are running below 2%”

PCE Inflation Index



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

Federal Funds Rate
Year-End Target



From July 31, 2019 FOMC Statement

“In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 2 to 2-1/4 percent. This action supports the Committee’s view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective are the most likely outcomes, but uncertainties about this outlook remain. As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective...

“Voting against the action were Esther L. George and Eric S. Rosengren, who preferred at this meeting to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2 percent.”

August 2, 2019 Statement by KC Fed President Esther George

“I dissented with the decision to lower the target range for the federal funds rate. In my view, incoming economic data and the outlook for economic activity over the medium term warranted no change in the policy rate. The moderation of economic growth in 2019 is in line with my outlook that calls for a gradual decline to a trend level over the medium term. With moderate growth, record low unemployment, and a benign inflation outlook, maintaining the Committee’s policy settings at 2.25-2.5 percent would have been appropriate, in my view. There are certainly risks to the outlook as the economy faces the crosscurrents emanating from trade policy uncertainty and weaker global activity. Should incoming data point to a weakening economy, I would be prepared to adjust policy consistent with the Federal Reserve’s mandates for maximum sustainable employment and stable prices.”

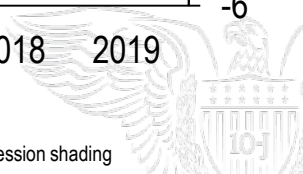
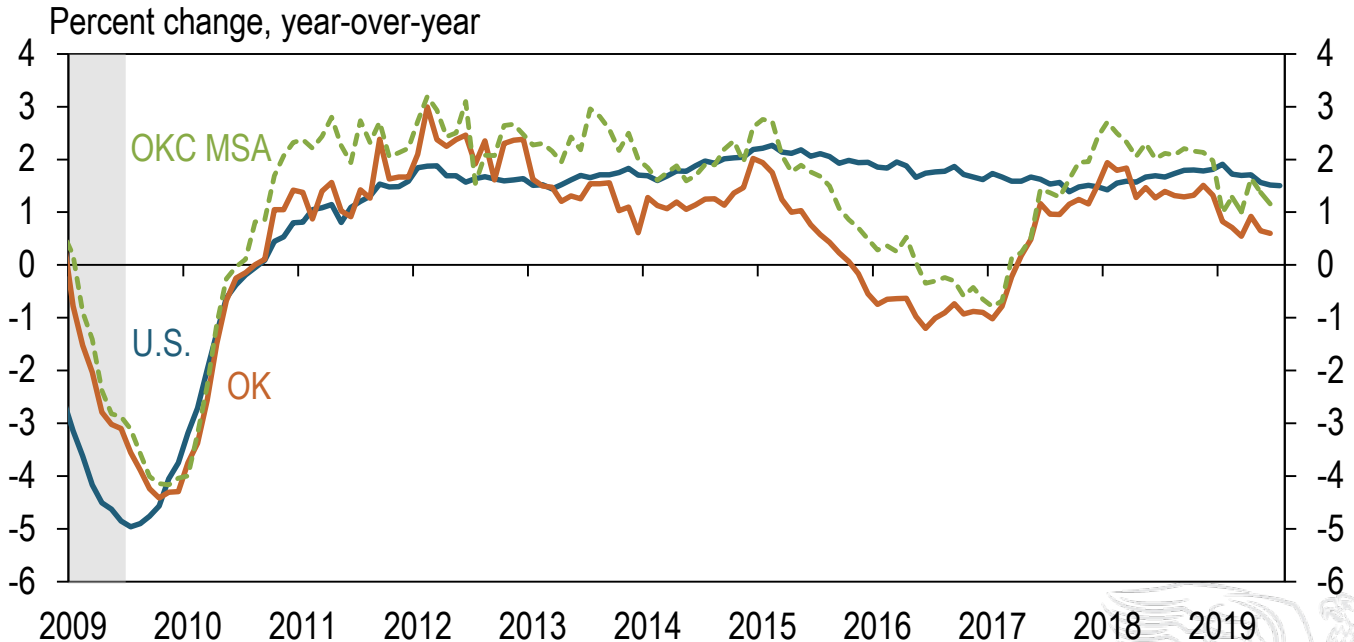


Oklahoma & OKC Metro Economic Outlook

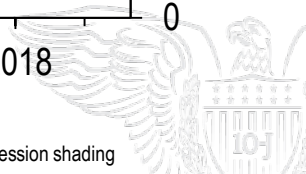
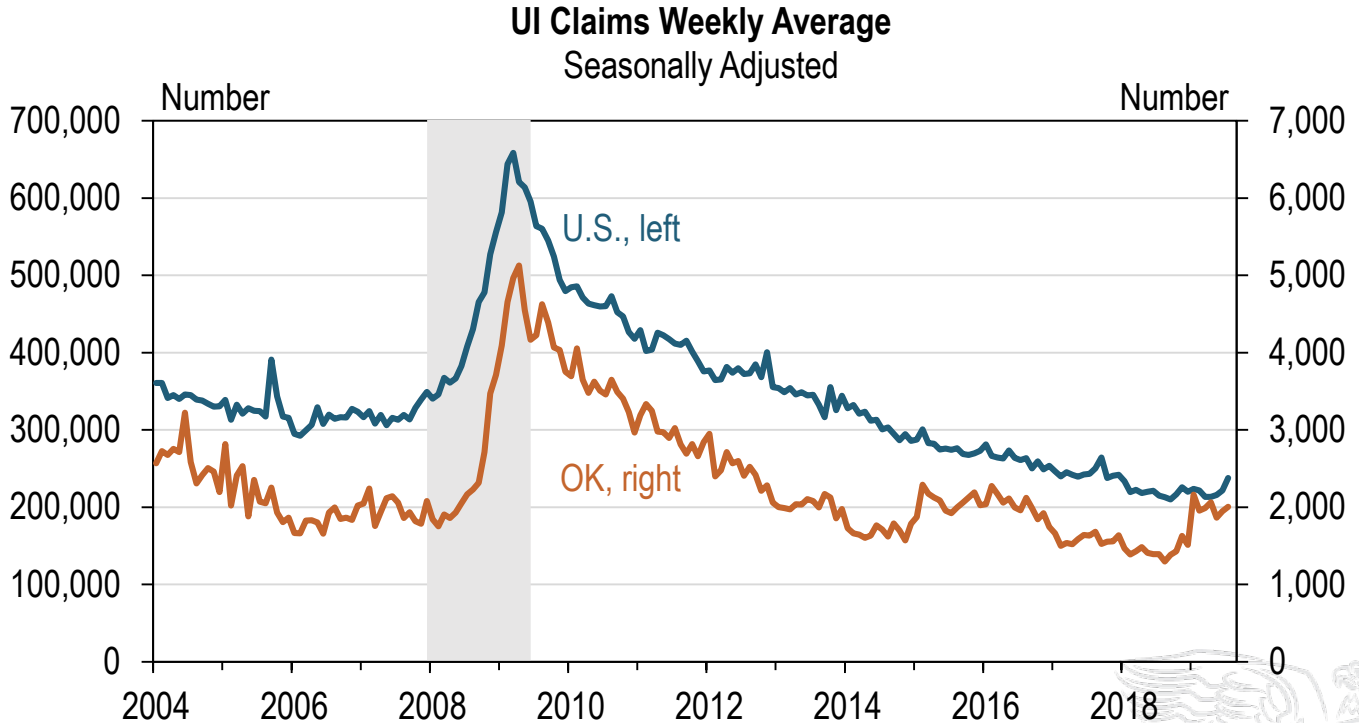


The pace of Oklahoma—and to a lesser extent OKC metro—job growth has slowed in 2019

Nonfarm Payroll Employment Growth

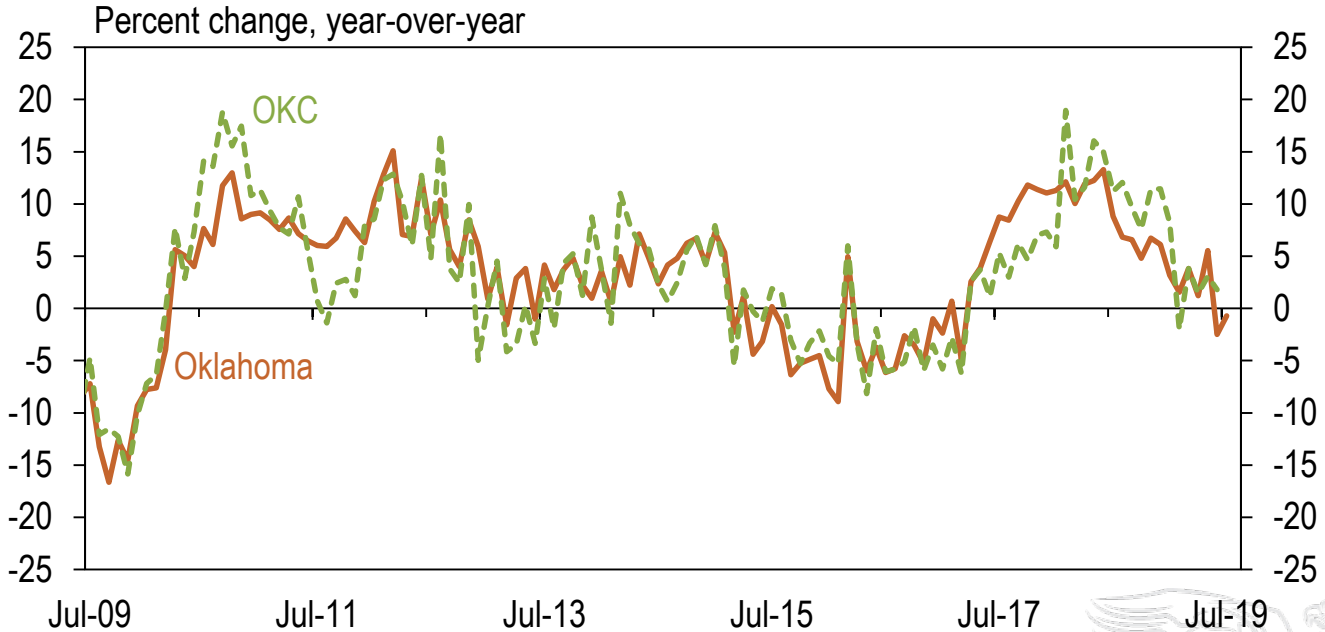


Indeed, new claims for unemployment insurance in Oklahoma have recently returned to 2015-2016 levels



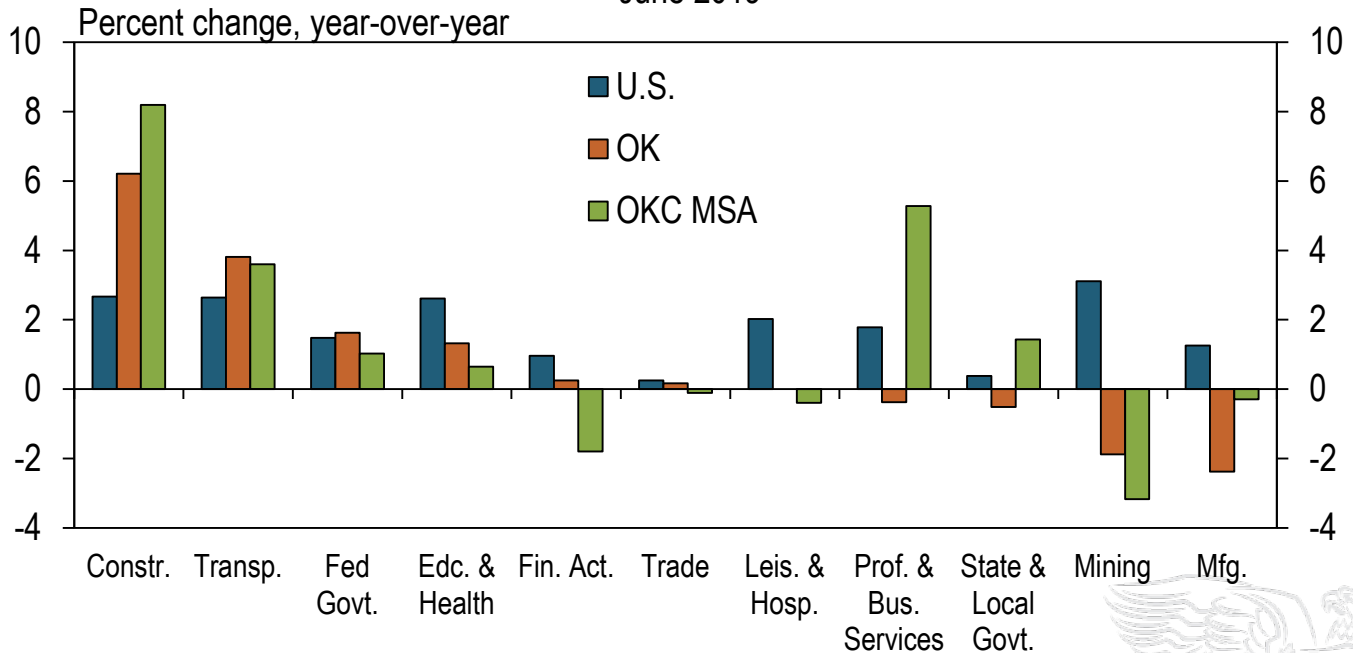
State sales tax growth has also been negative the past two months, while city receipts have lagged as well

Oklahoma and OKC Sales Tax Revenues



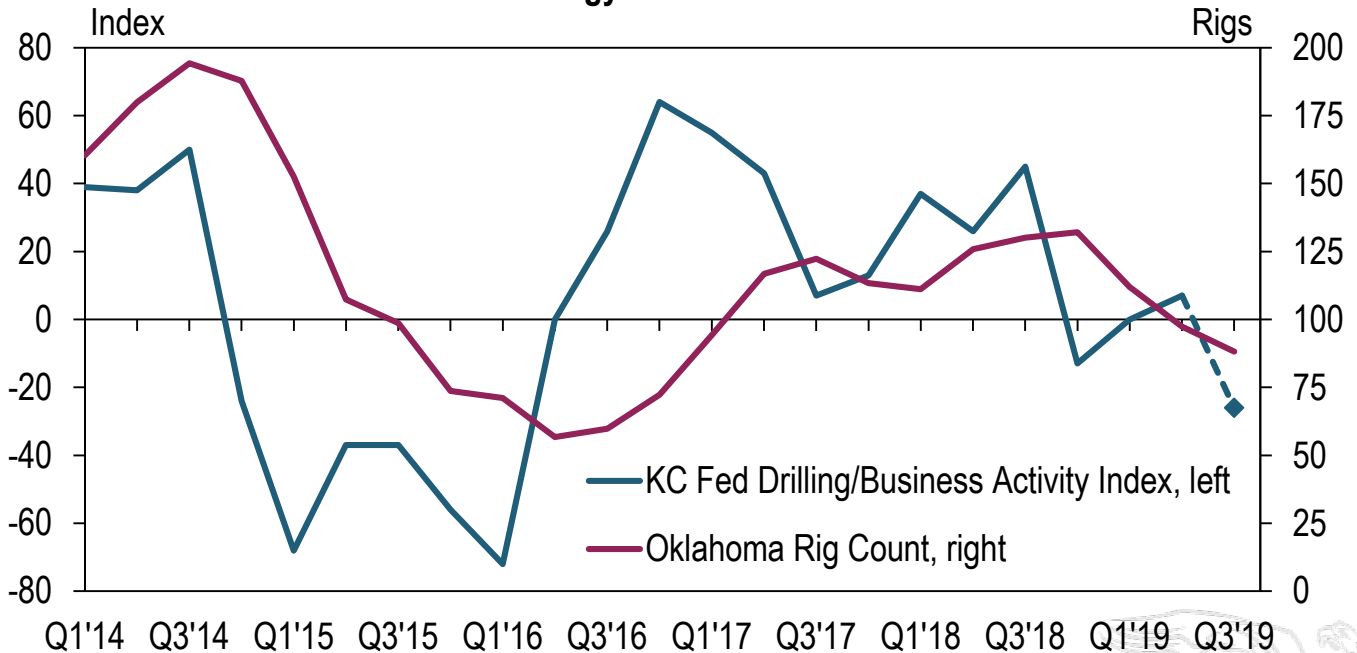
The slower state and metro job growth has been driven mainly by job losses in energy and manufacturing

Job Growth by Industry
June 2019



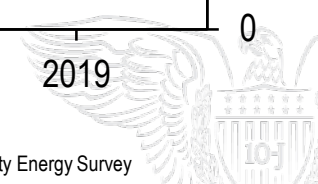
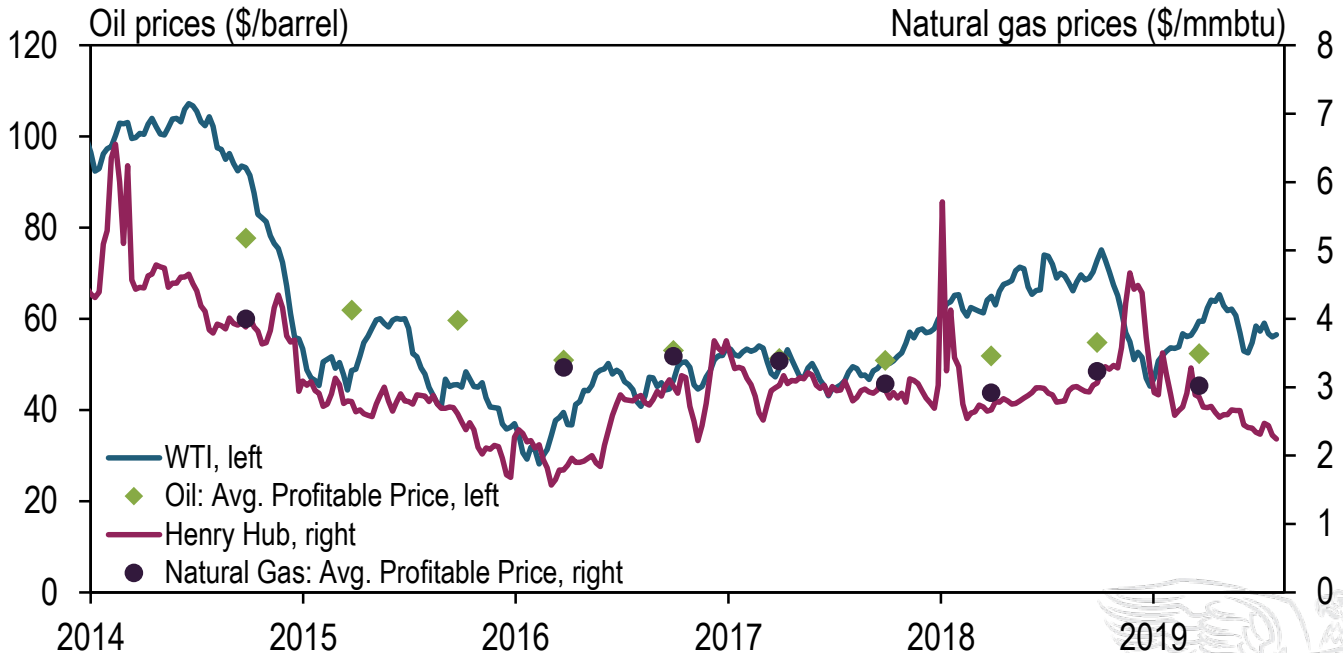
Oklahoma's rig count has dropped this year, and regional energy firms expect further slowing ahead

Energy Sector Indicators



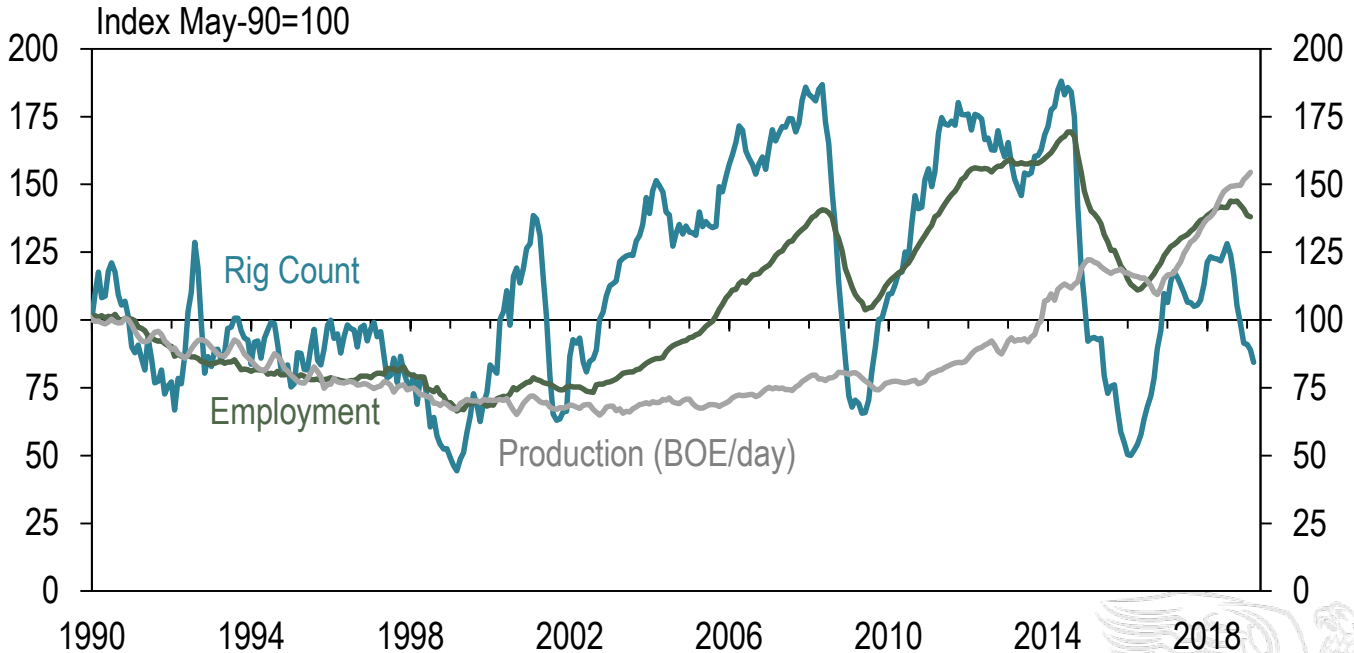
Volatile and marginally profitable oil prices, plus low natural gas prices, have contributed to slower activity

Oil & Natural Gas Profitability and Prices



Even with fewer rigs and workers this year, oil and gas production in the state continues to hit record highs

Oklahoma Oil & Gas Rig Count, Employment, and Production



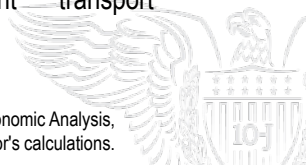
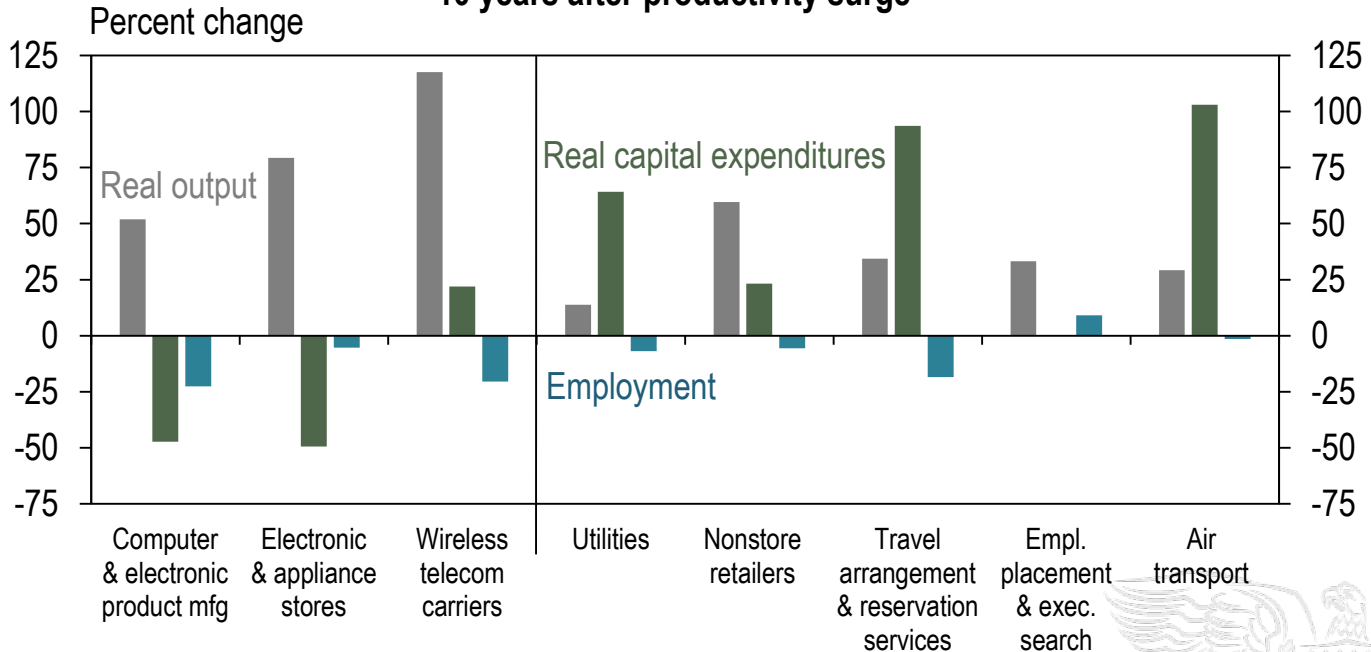
Note: Employment is for total mining and logging, which in Oklahoma is almost completely oil and gas related. Production is shown as a 3-month moving average.

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



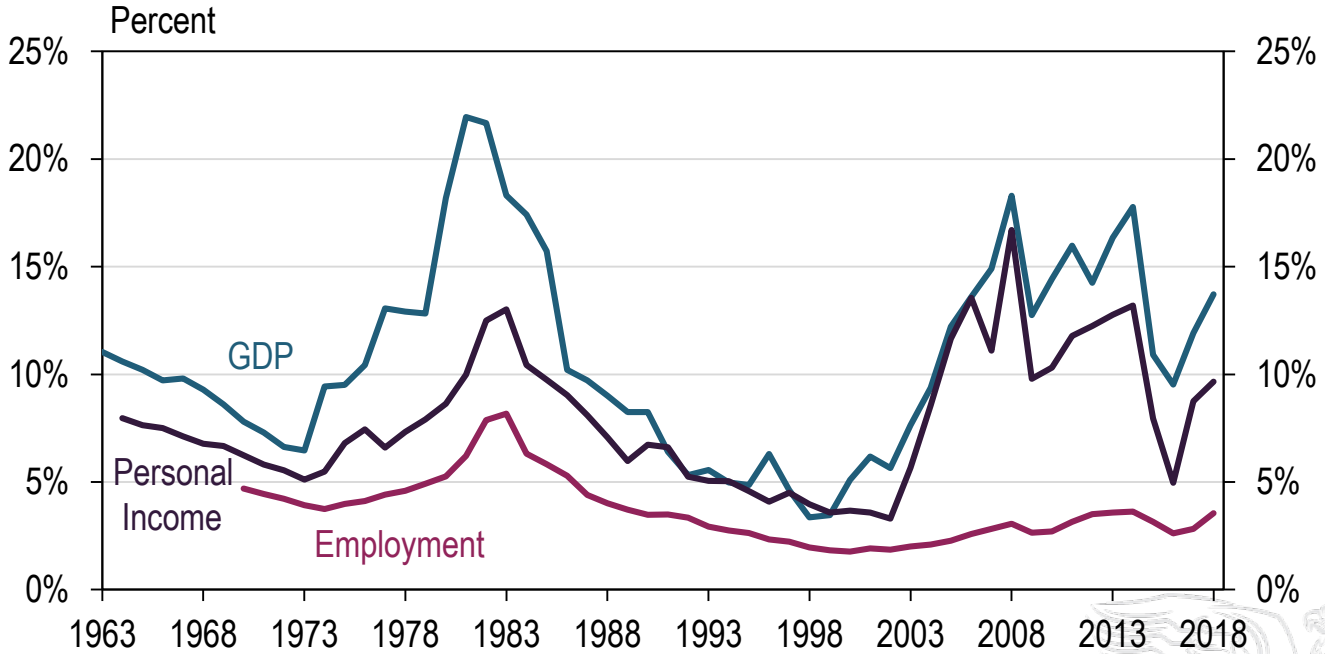
Past industries with rapid productivity gains generally shed jobs the following decade, even as output rose

Change in output, investment, and employment
10 years after productivity surge



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

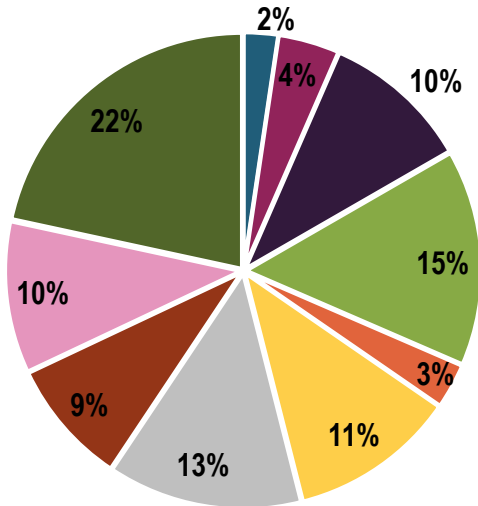
Mining Sector Share of Oklahoma Economic Activity



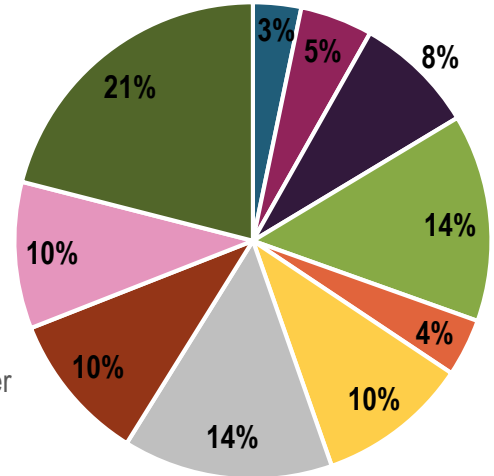
Industries' shares of Oklahoma employment have shifted slightly over the last 10-15 years, but not much

Oklahoma Nonfarm Employment Industry Share

Q1 2005



Q1 2019

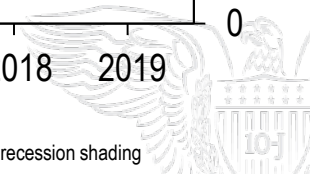
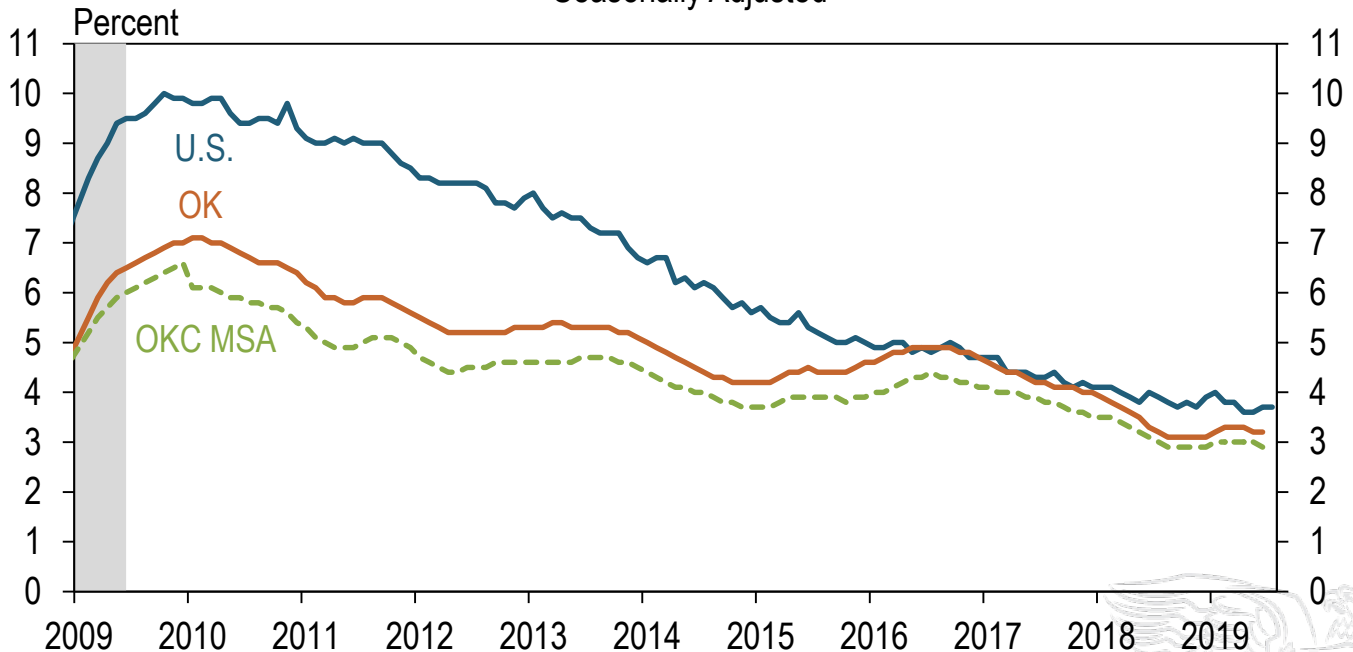


- Mining
- Construction
- Manufacturing
- Trade
- Transp. & Util.
- Business Svcs
- Edc. & Health
- Leis. & Hosp.
- Admin., Waste, & Other
- Government



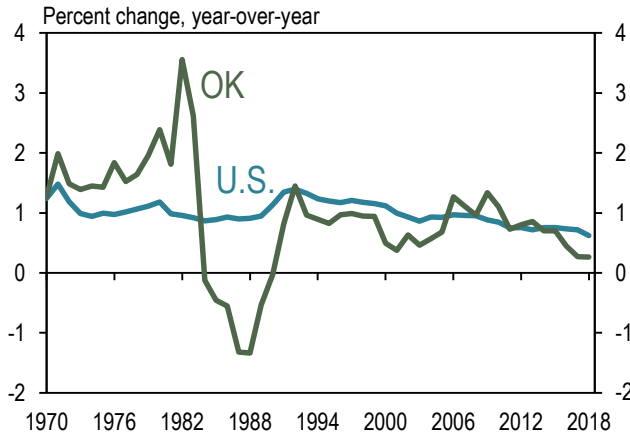
Despite slower state and metro economic growth recently, unemployment remains exceptionally low

Unemployment Rates
Seasonally Adjusted

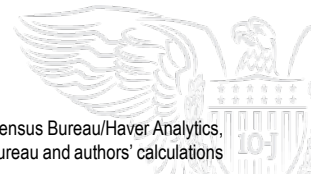
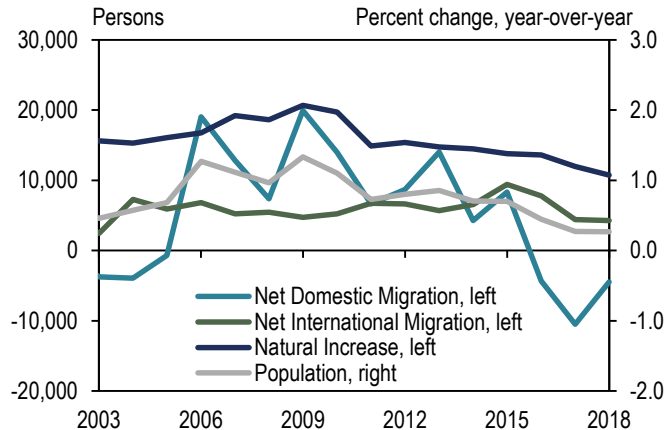


Looking at longer-term trends, more people have been leaving Oklahoma than moving into the state

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

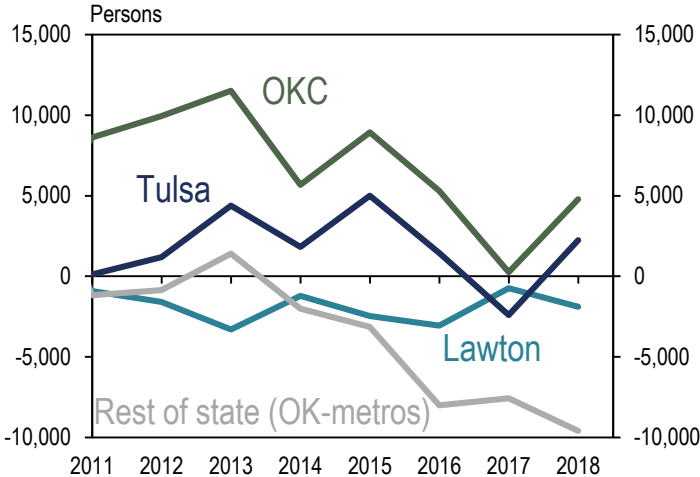


Oklahoma population changes by component, 2003-2018*

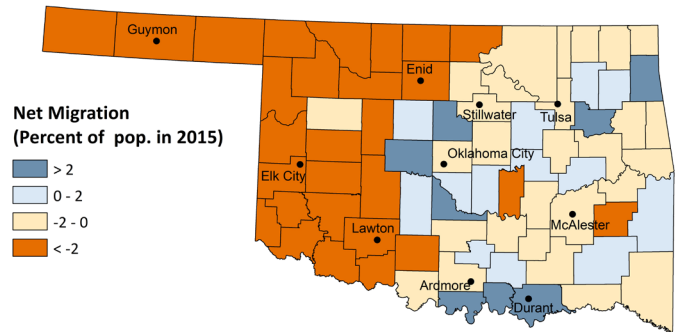


Large metro migration improved slightly in 2018, while outflows from western Oklahoma have been sizable

Oklahoma Net Domestic Migration by Area, 2011-2018

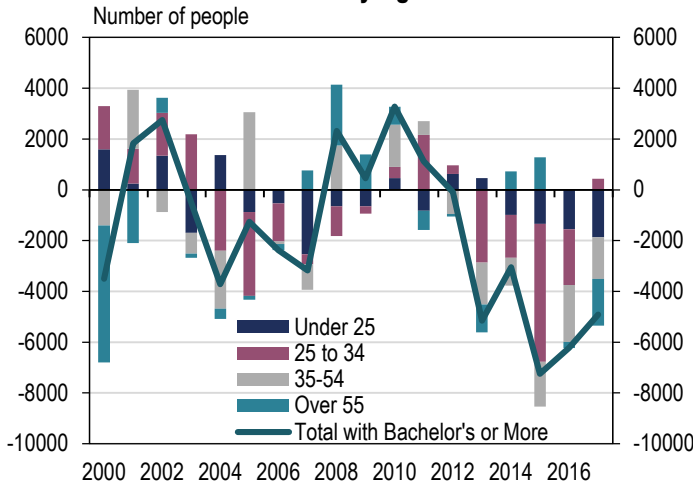


Net Domestic Migration by County, 2015-2018

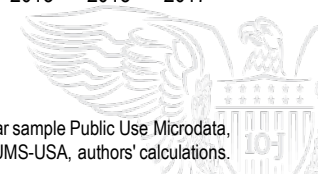
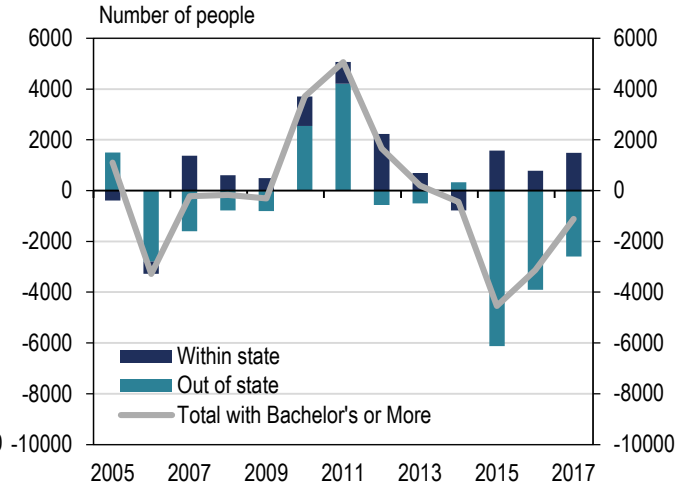


Highly educated Oklahomans of all age groups have been leaving, including from the OKC metro

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

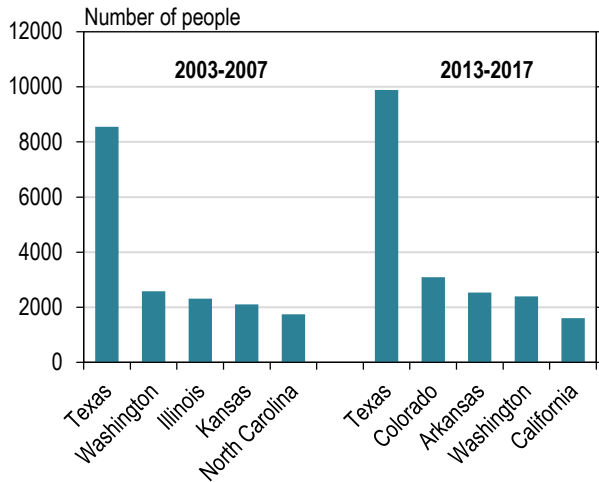


Oklahoma City MSA Net Domestic Migration of Those with a Bachelor's or More

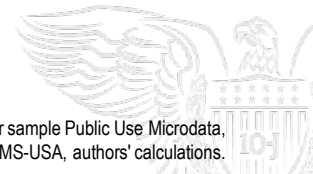
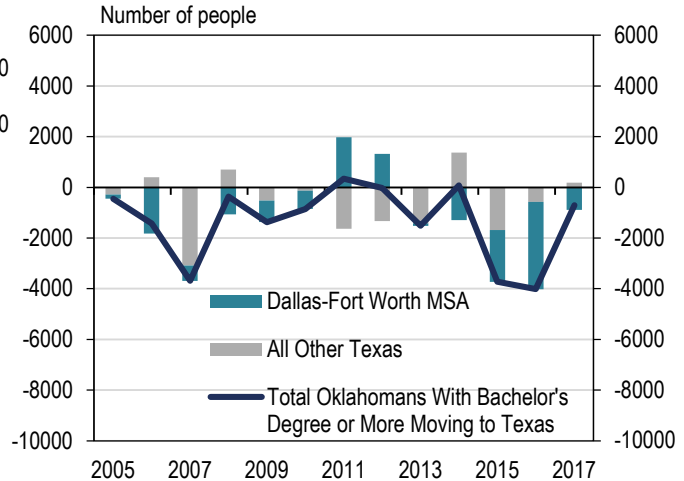


Oklahomans with a bachelor's degree or more are mostly moving to Texas, especially Dallas-Fort Worth

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



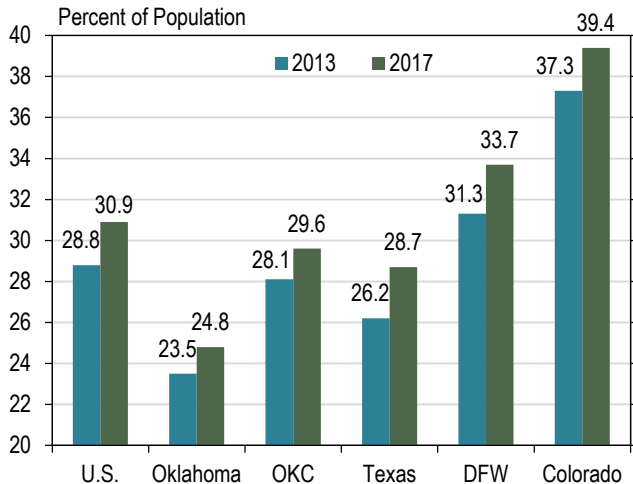
Net Migration of Oklahomans with a Bachelor's or More to Texas



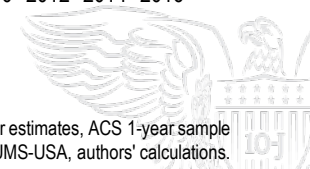
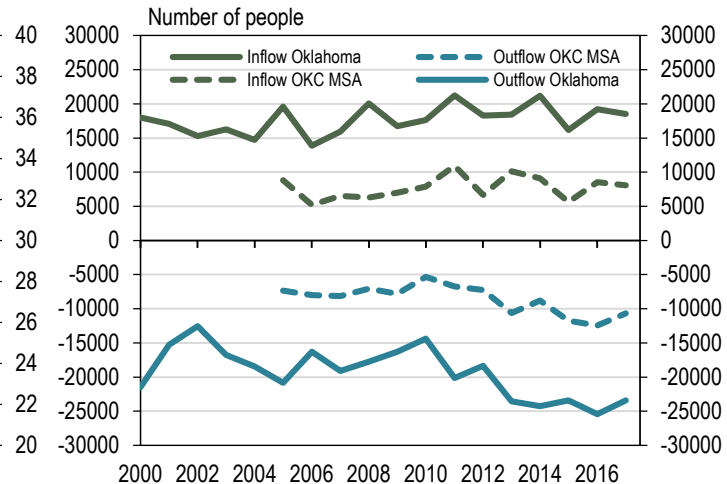
Consequence: Educational attainment is growing less

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



Summary

- The national economy continues to grow, with low unemployment, but business investment has slowed
- The Fed lowered its target for the federal funds rate by 25 basis points on July 31, with two FOMC members dissenting
- Oklahoma and OKC job growth has slowed in 2019, as lower energy 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



Questions?

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