

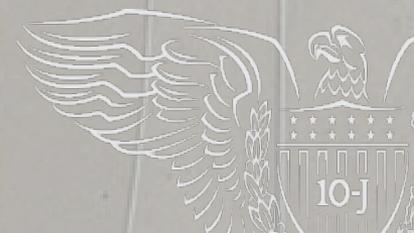
U.S. and Oklahoma Economic Outlook

*Claremore Economic Forum
August 28, 2018*

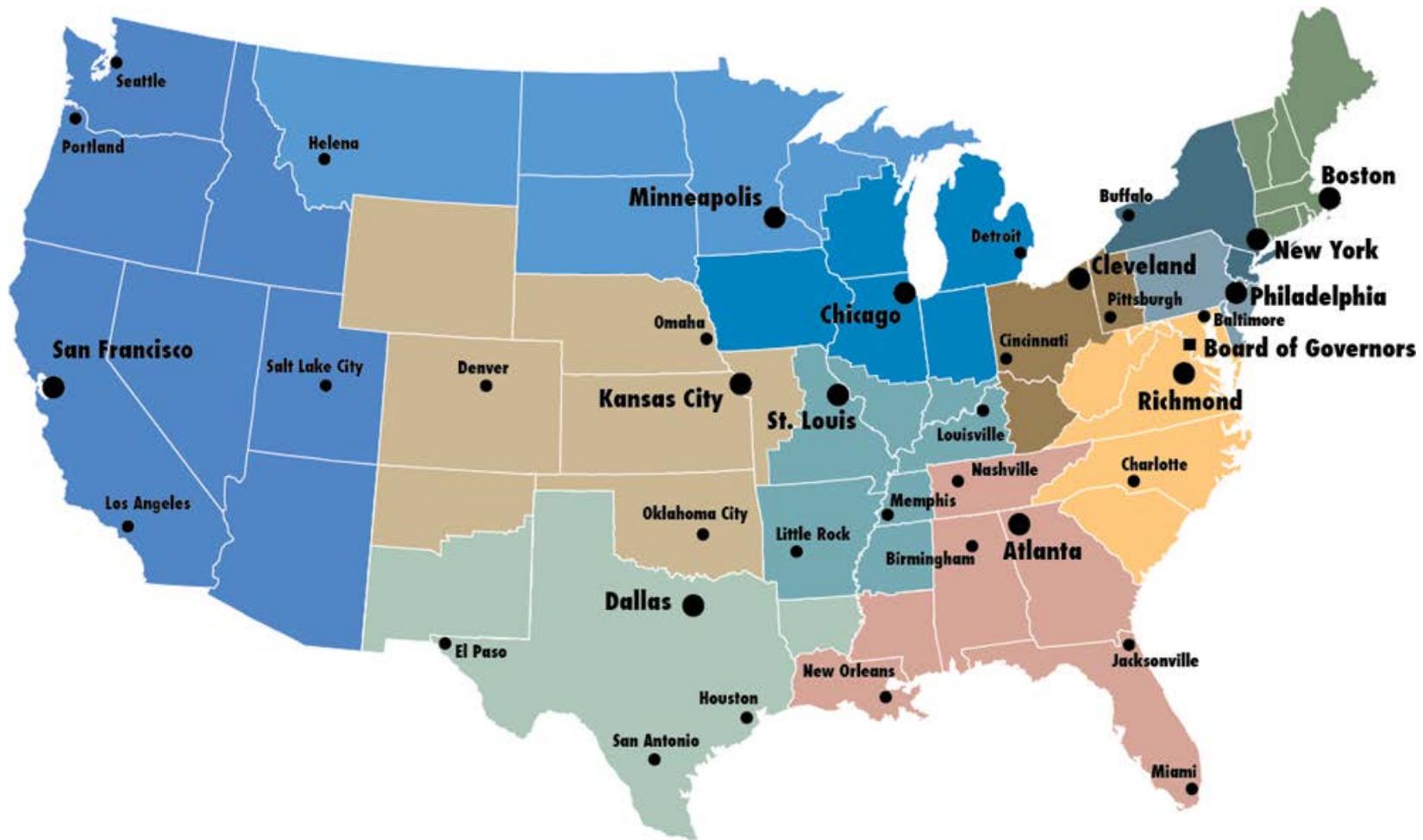
Chad Wilkerson

Oklahoma City Branch Executive and Economist

*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

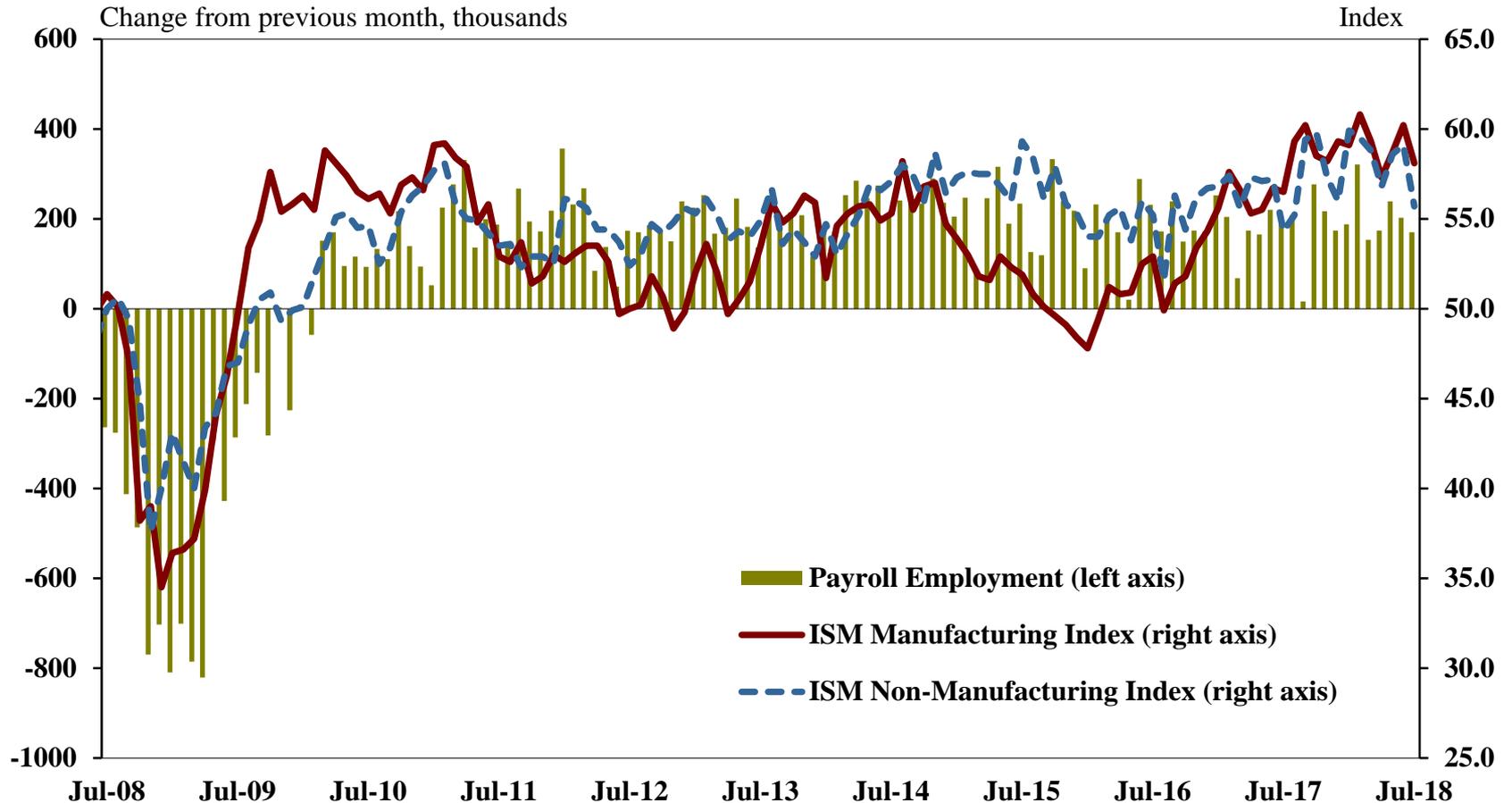
- **Functions and purposes ~ 45 staff**
 - Research on U.S. and Oklahoma economies; energy and manufacturing sectors
 - Economic and financial education outreach, including to low/moderate income
 - Examinations of Oklahoma financial institutions (~50 banks, ~175 holding cos.)
- **2018 OKC Fed Branch 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



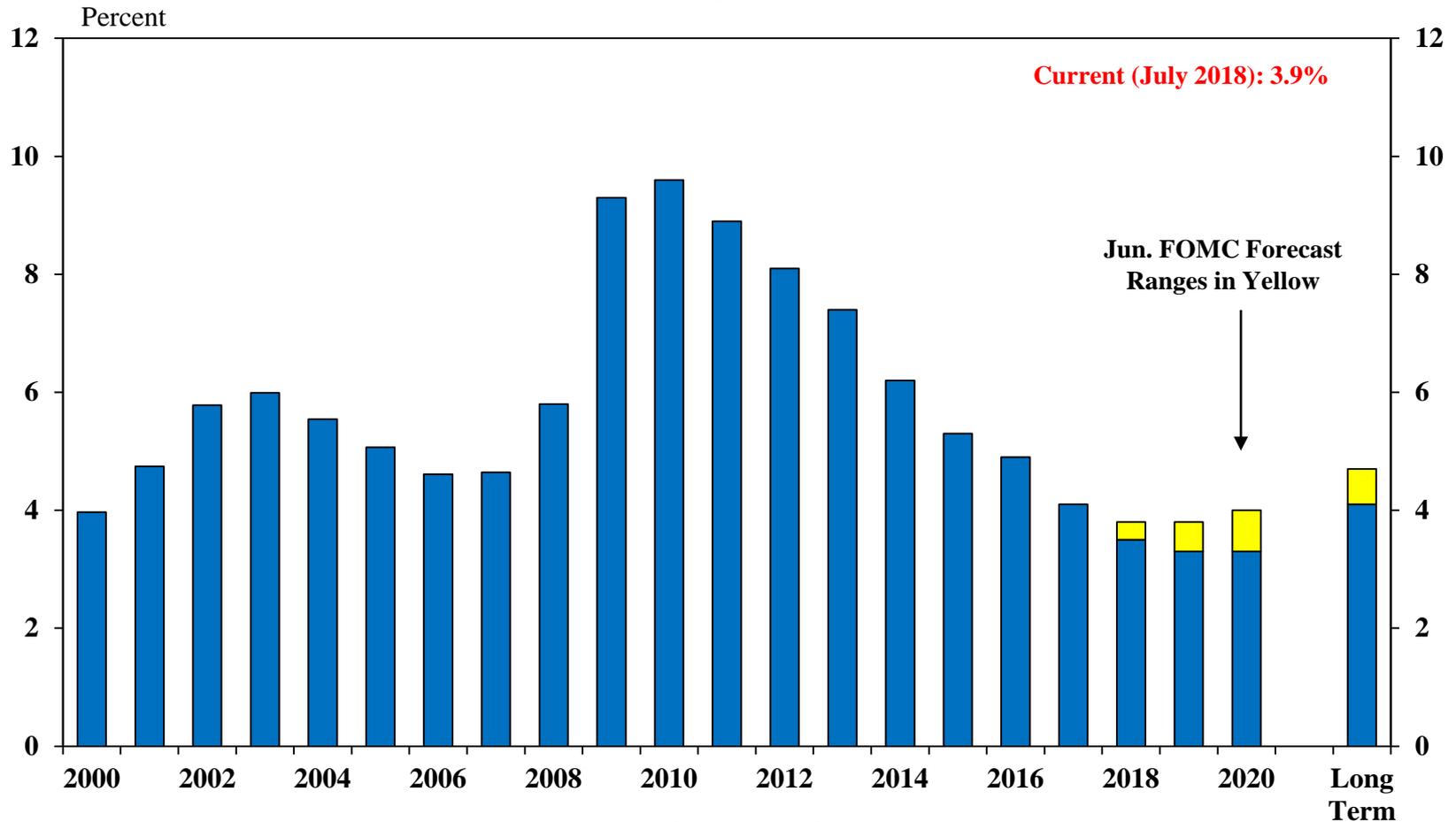
Monthly data on U.S. business activity and also show economic growth remains strong in mid-2018

U.S. Payroll Employment and Business Indexes



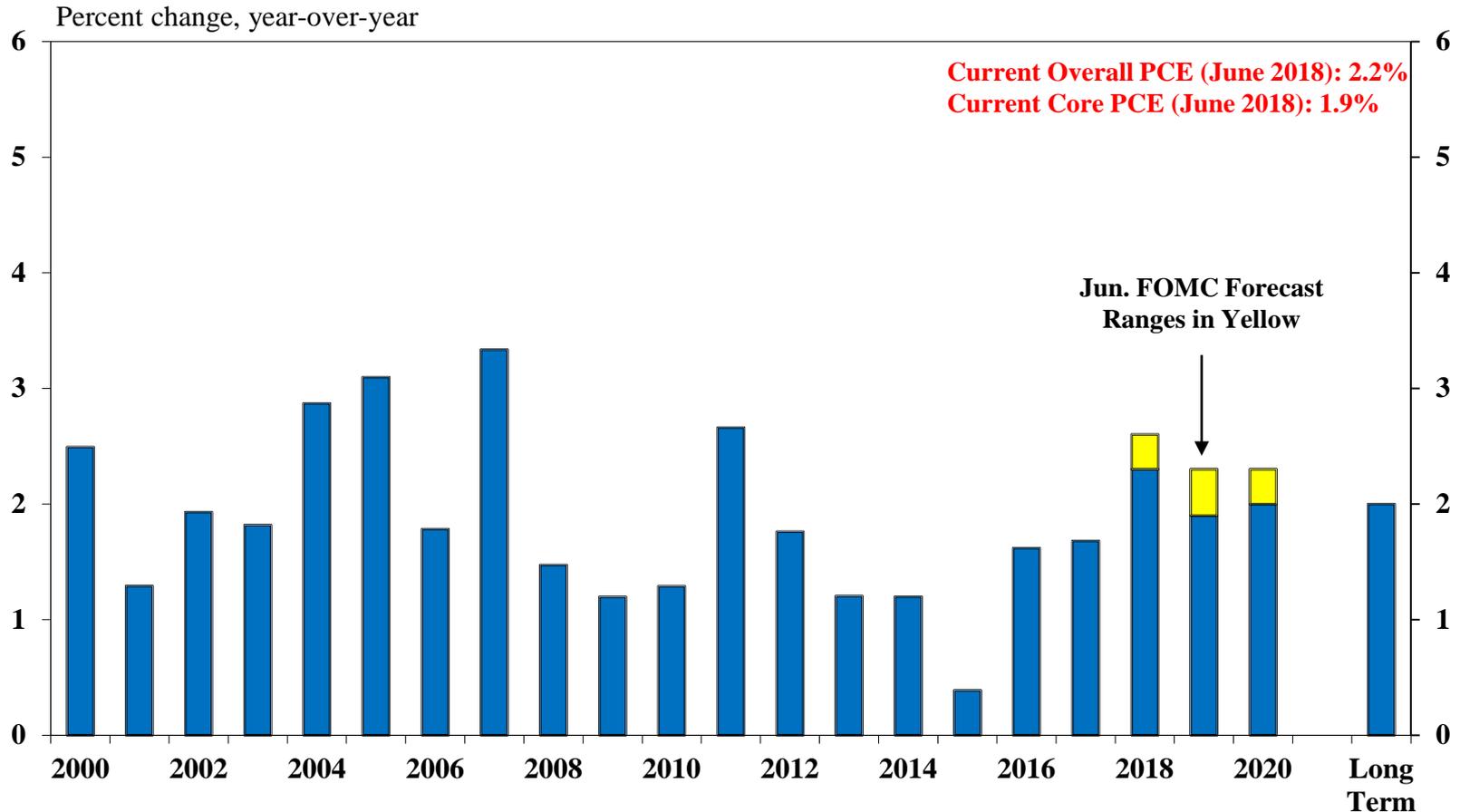
“The labor market has continued to strengthen...job gains have been strong and the unemployment rate has declined.”

Unemployment Rate Seasonally Adjusted



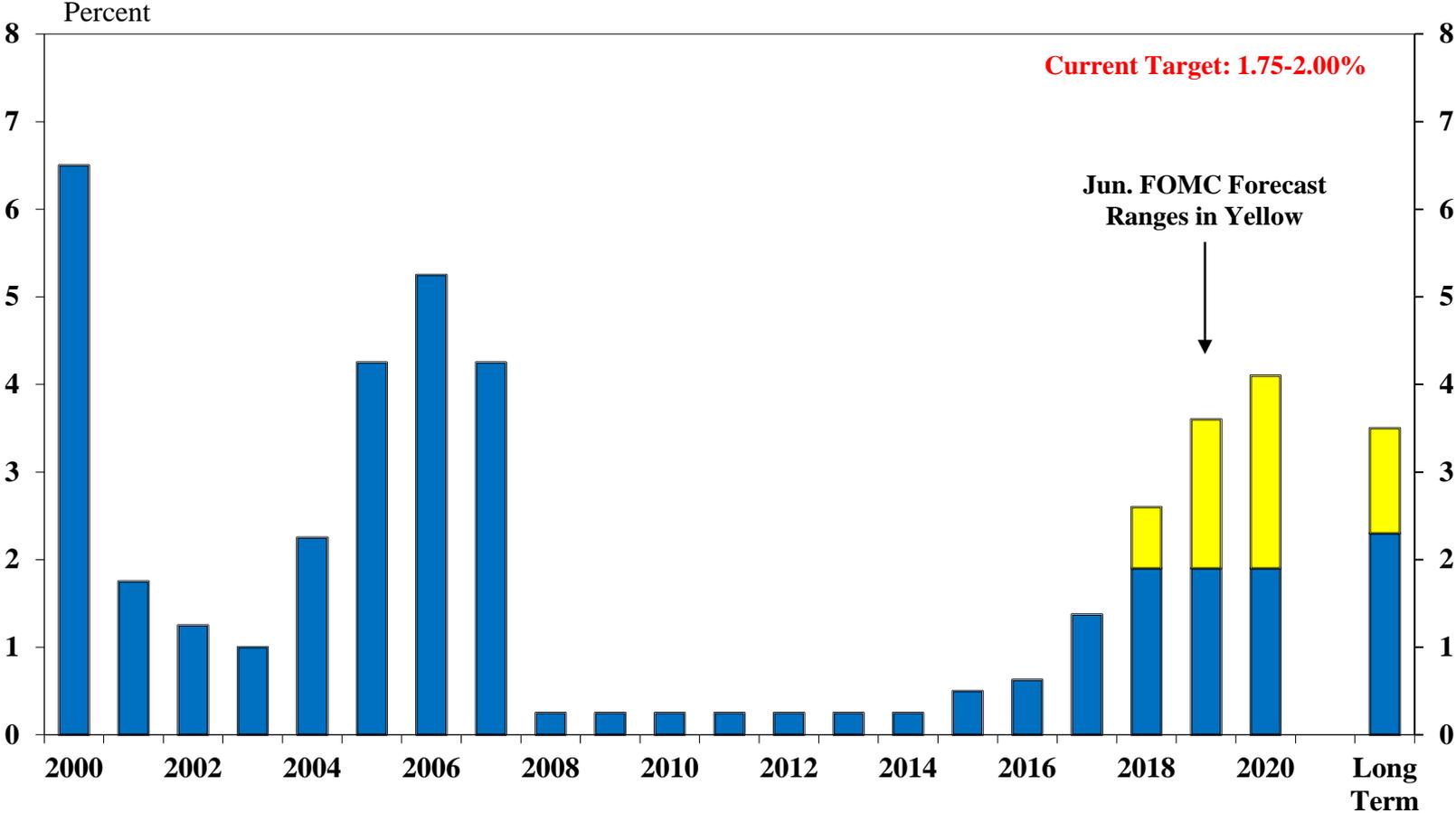
“On a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2 percent.”

PCE Inflation Index



“The [FOMC] expects that further gradual increases...for the federal funds rate will be consistent with sustained expansion...”

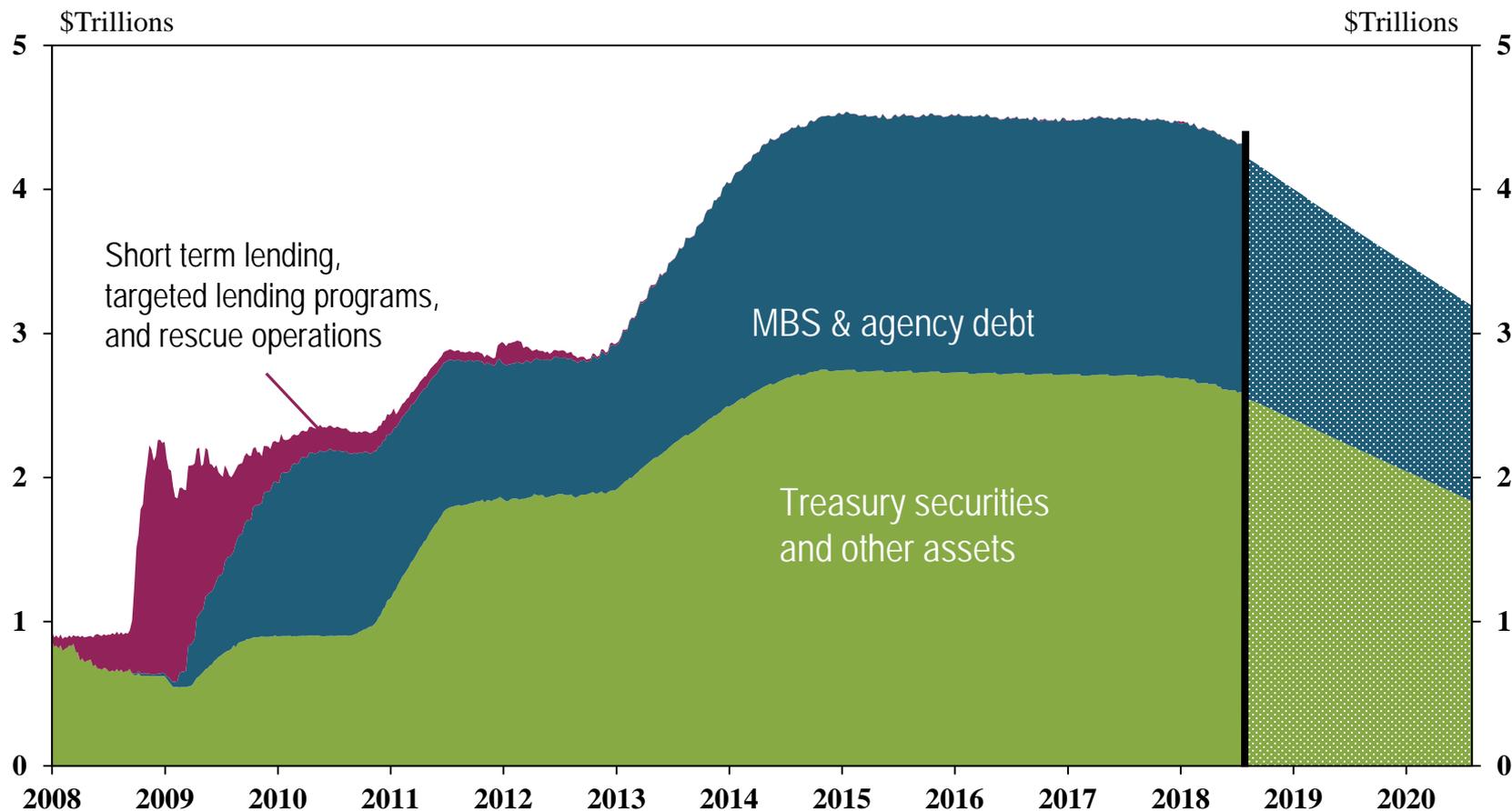
Federal Funds Rate Year-End Target



Sources: Federal Reserve Board, FOMC

The Fed has also begun to reduce its balance sheet

Federal Reserve Balance Sheet

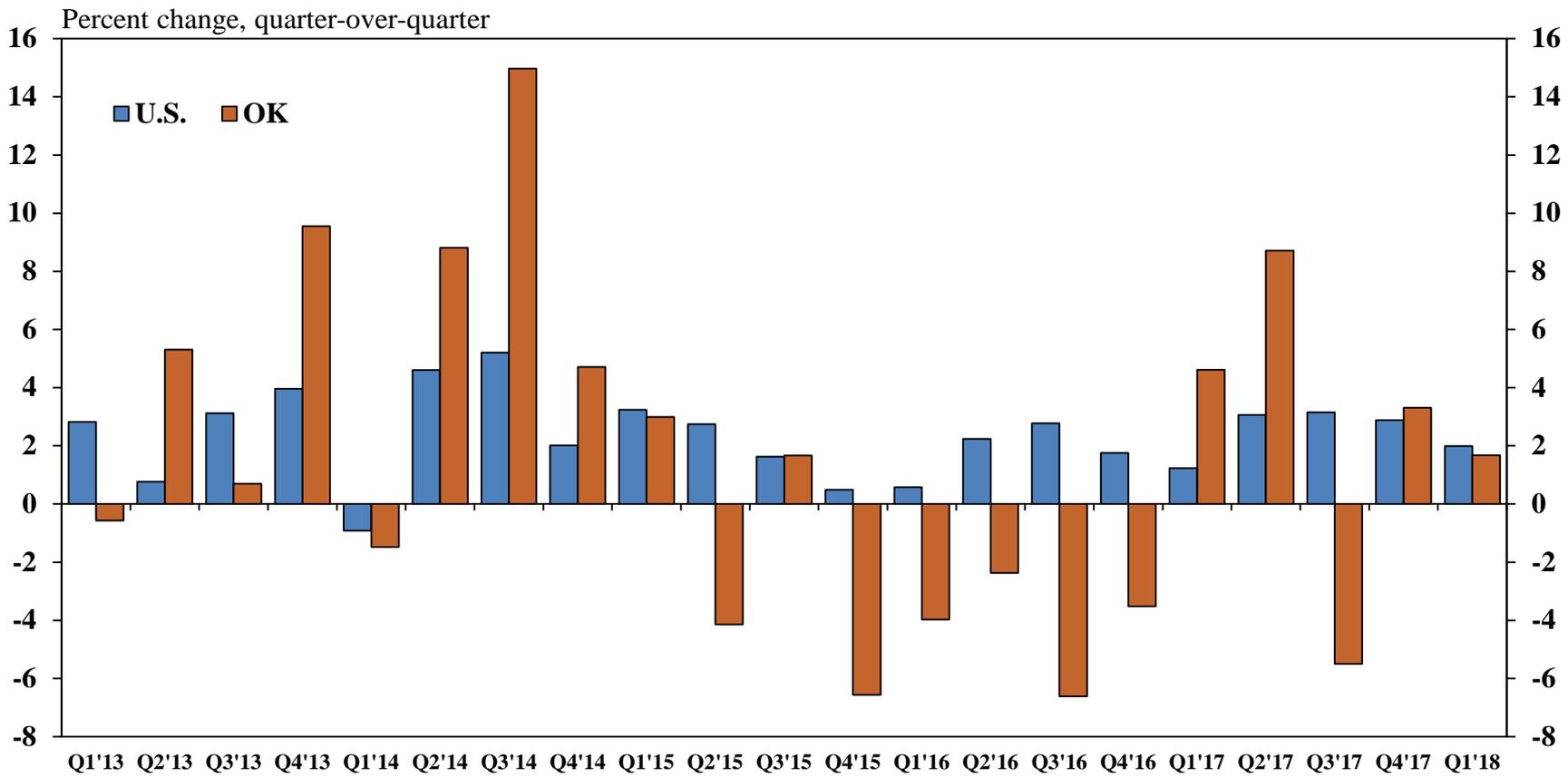


Trends in the Oklahoma & Claremore Area Economies



Oklahoma GDP dropped considerably in 2015-16, after oil prices fell, but has mostly grown solidly since

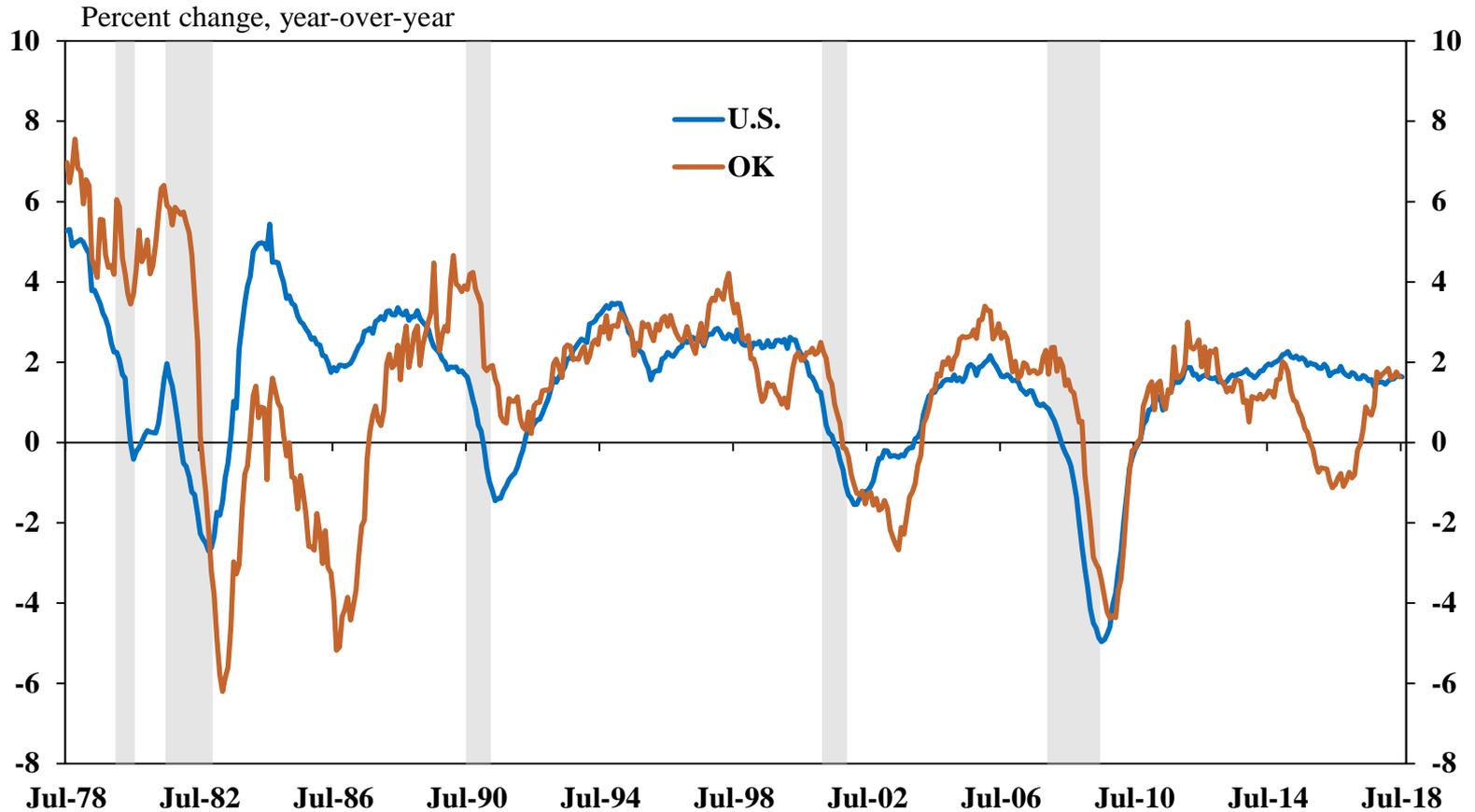
Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis

In 2018, state job growth has matched the nation after lagging in 2015-16 the most since the 1980s

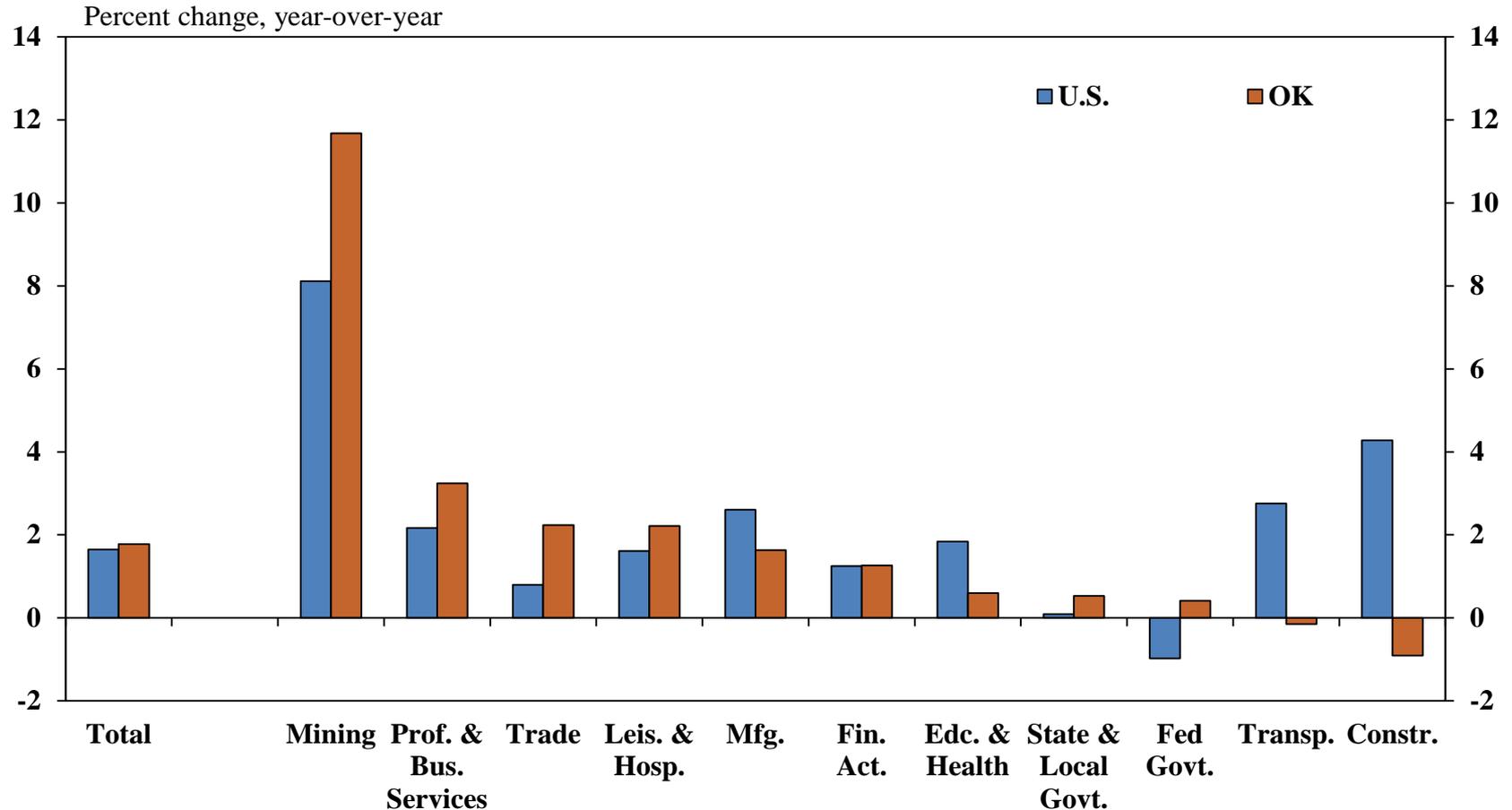
Payroll Employment Growth



State job gains the past year have been led by mining (oil & gas), and most sectors have added workers

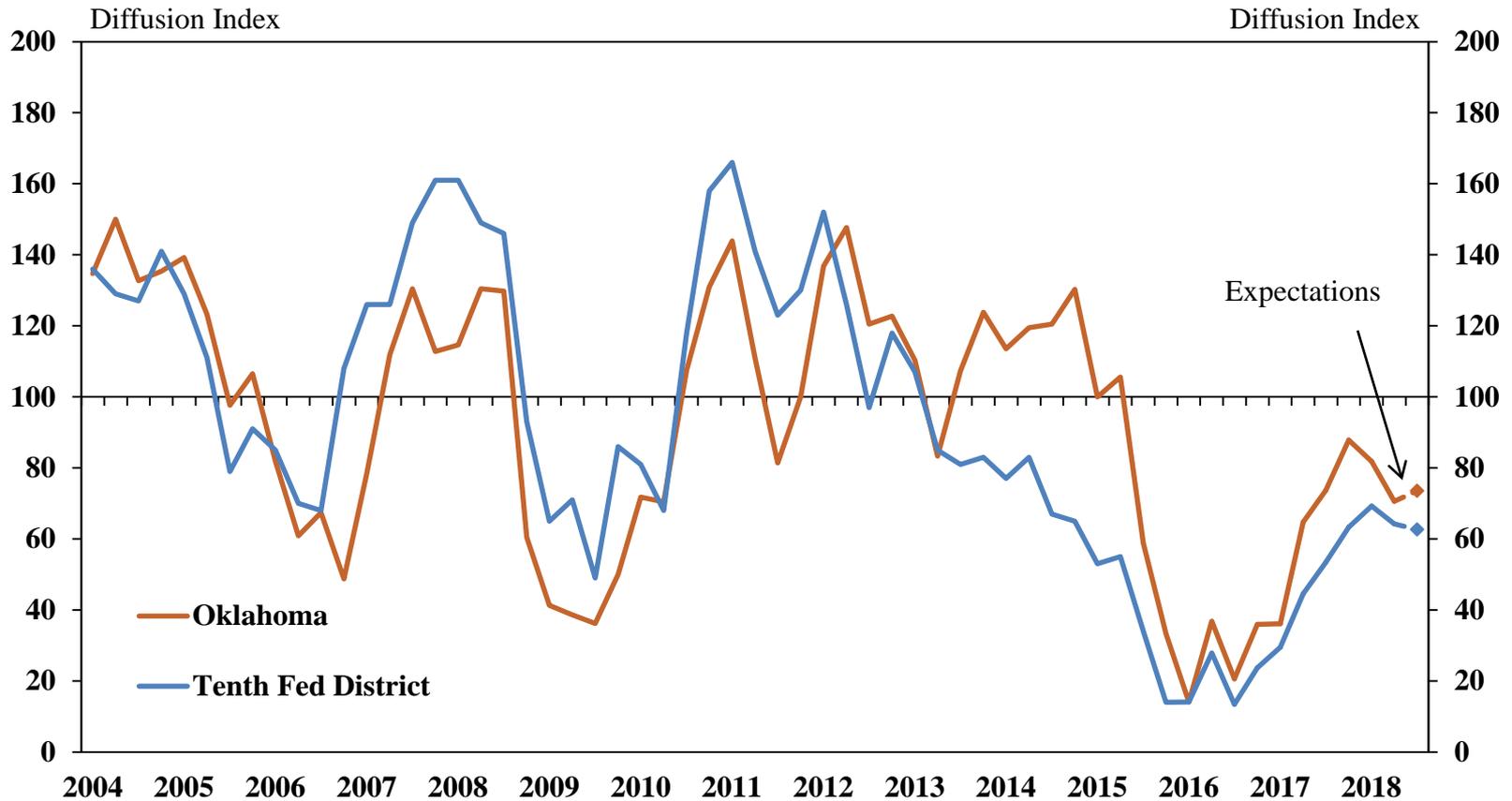
Oklahoma Job Growth by Industry

July 2018



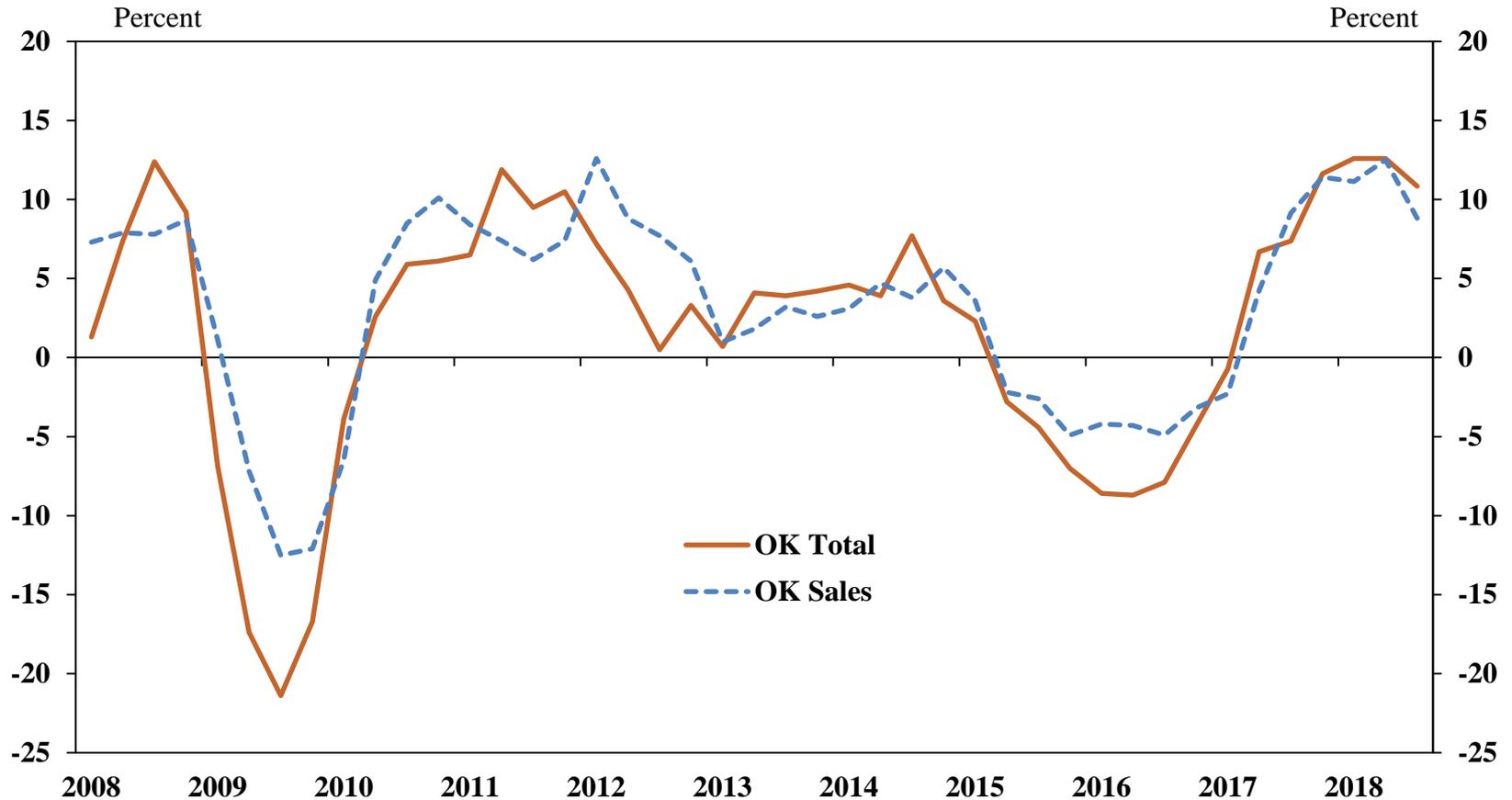
The Oklahoma agriculture sector has improved from a year ago, but conditions remain challenging overall

Farm Income Indexes



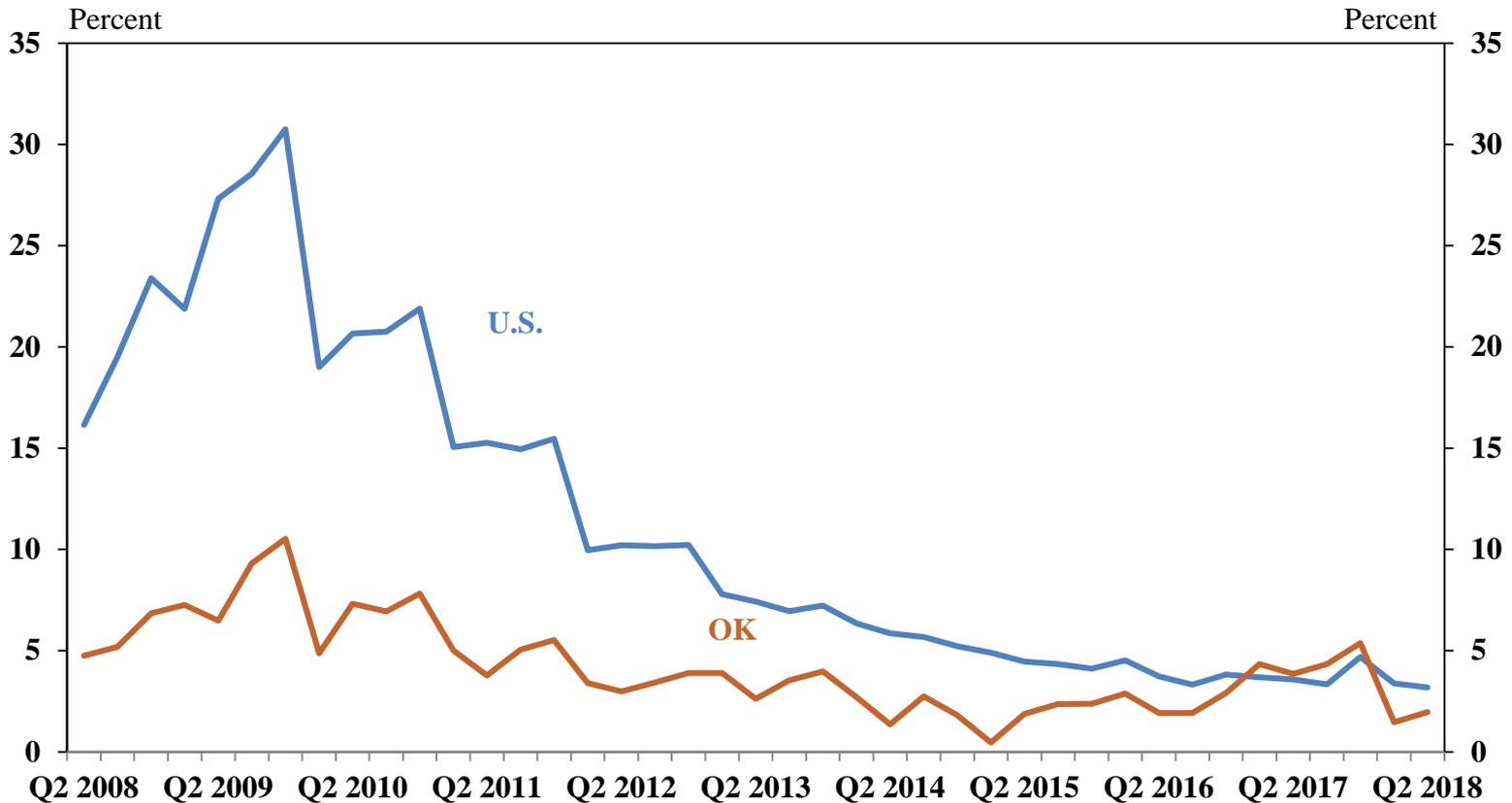
Tax revenues are also growing strongly, following revenue declines and budget cuts in recent years

Oklahoma State Tax Revenues
Q3-18 through July



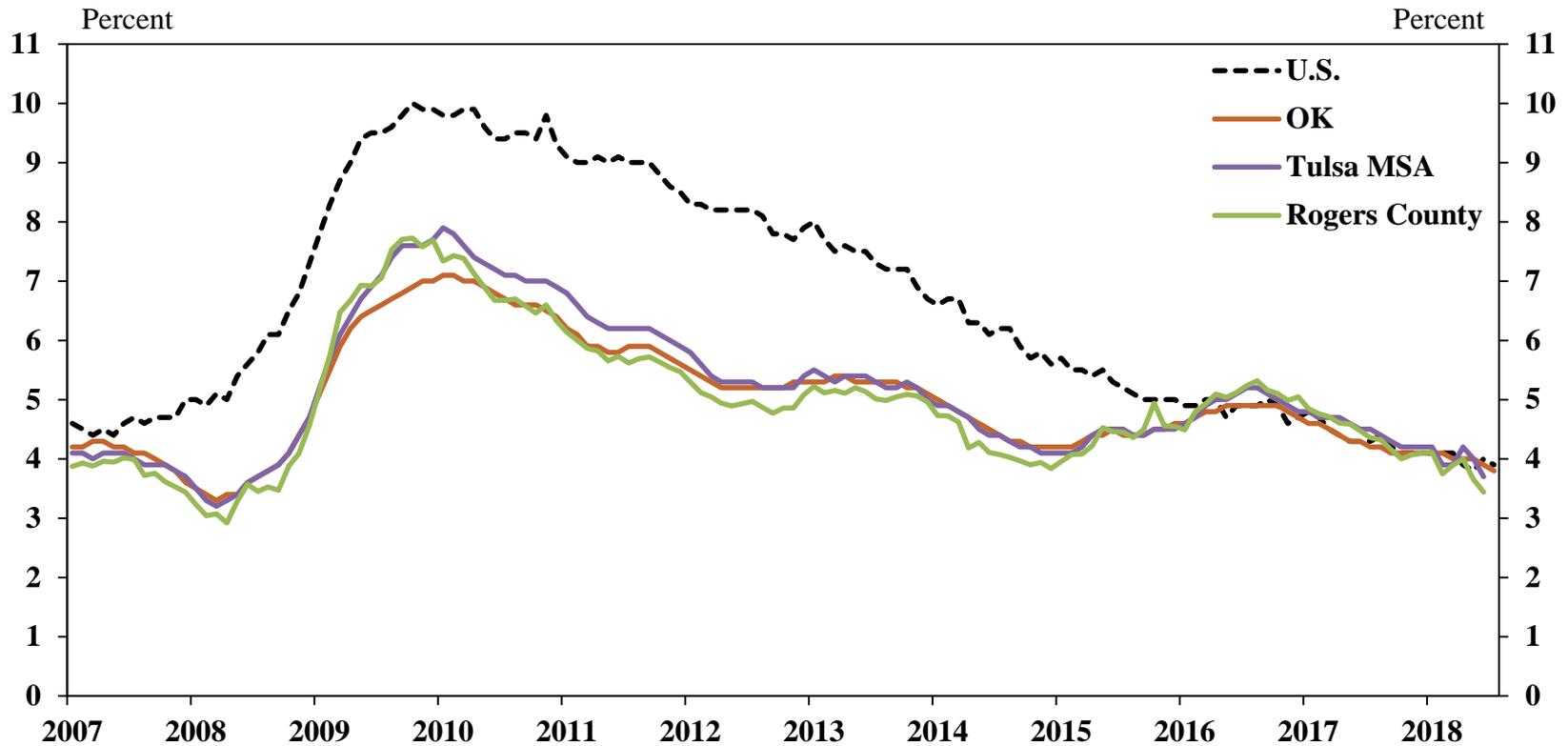
Banking conditions in Oklahoma remain very good despite the 2015-16 economic slowdown

Share of Banks Not Making a Profit
Commercial Banks



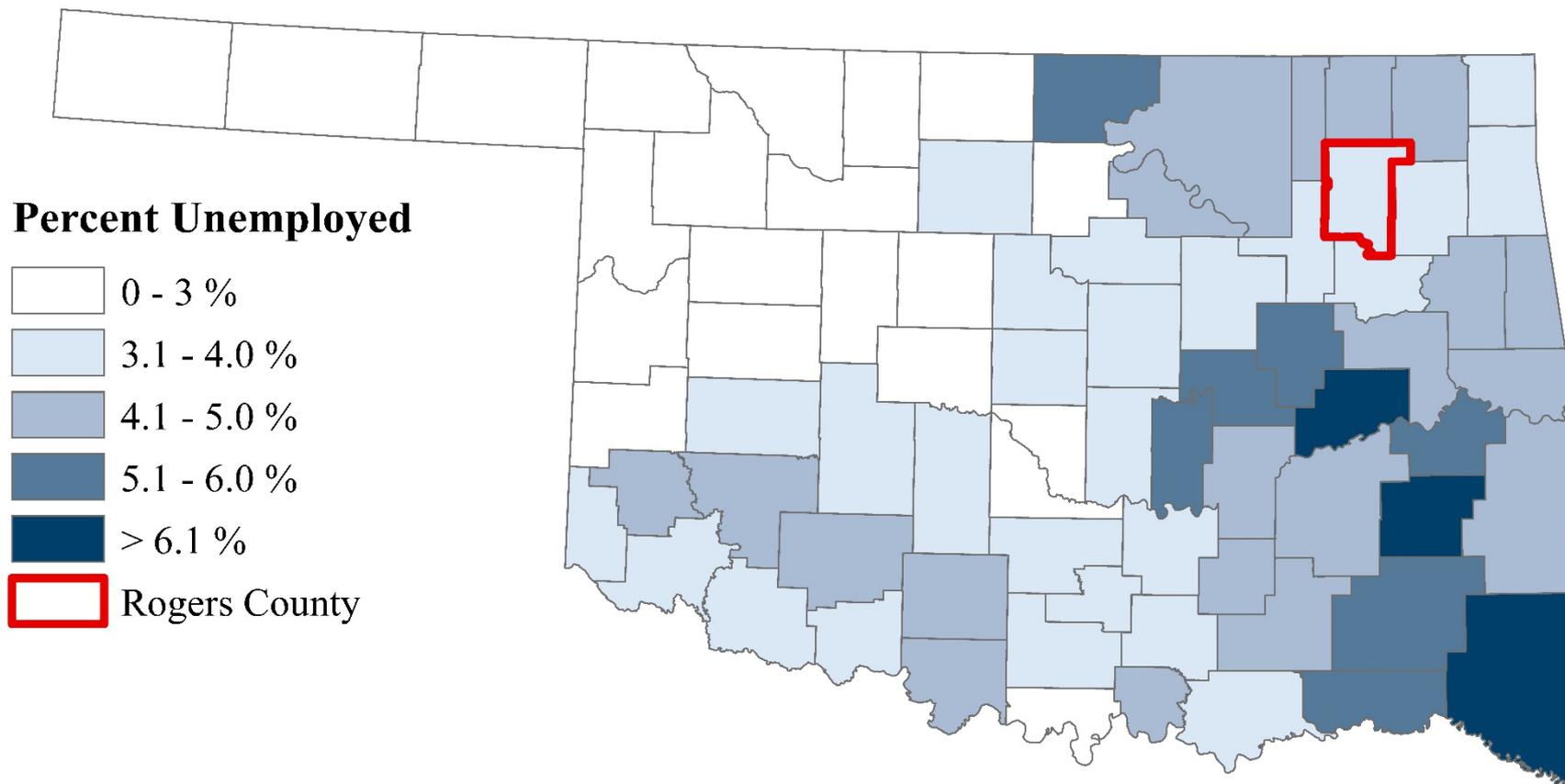
Unemployment has come down across the state, including in Rogers County and the Tulsa MSA

Unemployment rates
Seasonally Adjusted



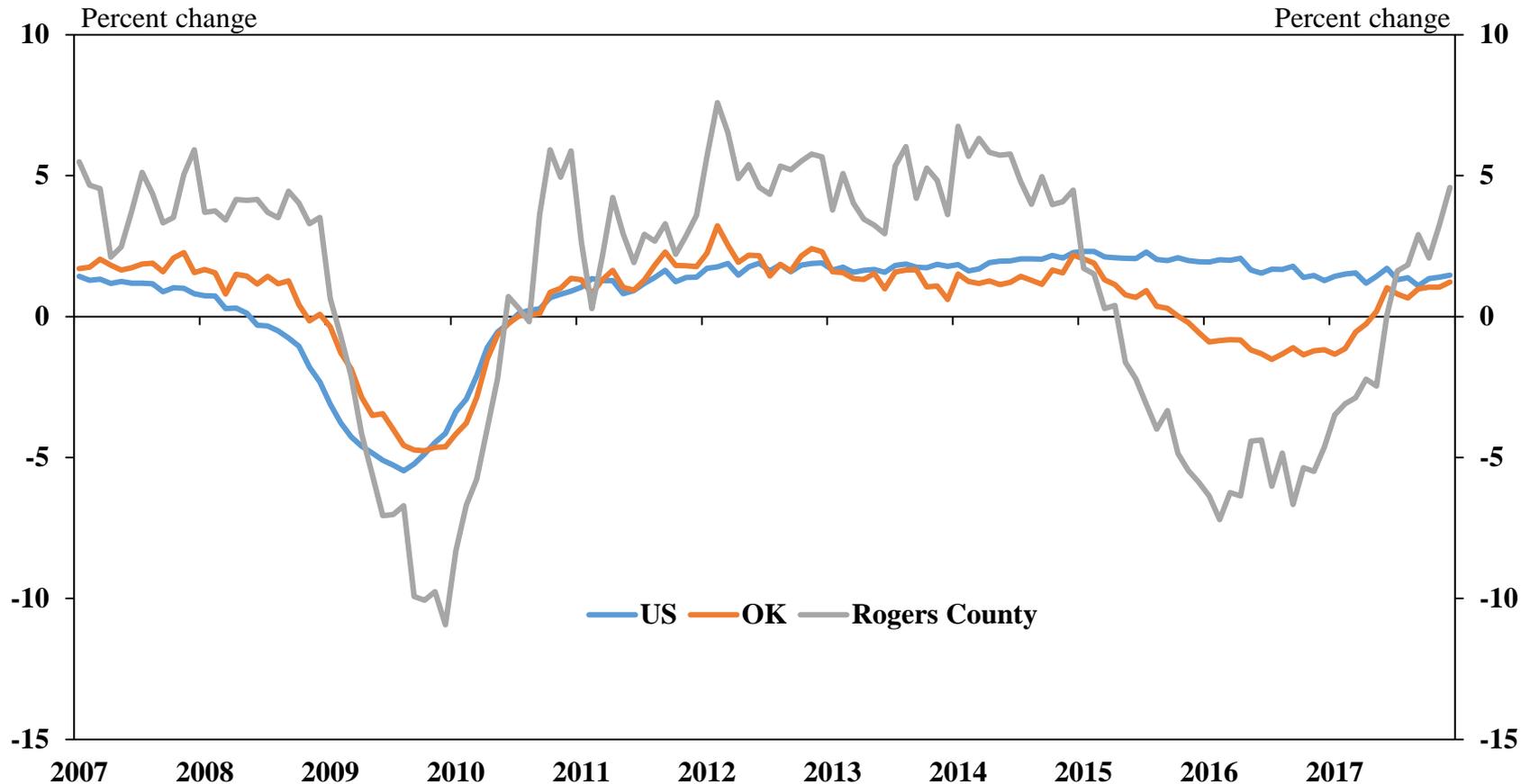
Unemployment across northeast Oklahoma is now below 5%, and is below 4% in many counties

June 2017 Unemployment Rates



Employment growth in Rogers County was very strong in 2017 after falling considerably in 2015-16

Percent Change in Number Employed
Year-over-year, not seasonally adjusted



Industries with the highest concentrations in Rogers County are construction and manufacturing

Personal Income Share by Industry, 2016

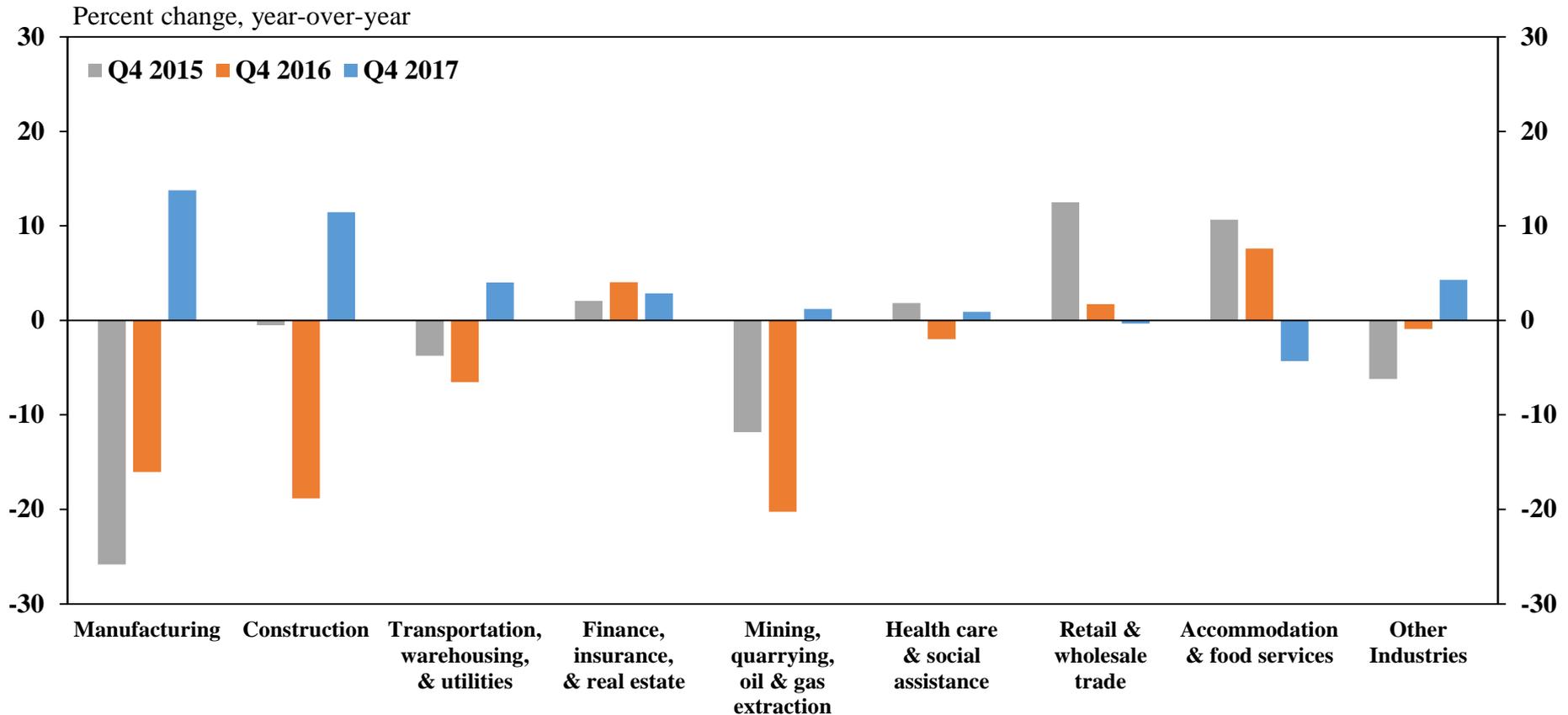
Industry	Percent of Total Income			Location Quotient	
	U.S.	OK	Rogers County	OK	Rogers County
Construction	6.0	6.4	14.4	1.1	2.4
Manufacturing	9.4	8.2	19.2	0.9	2.0
State & Local Government	12.6	13.8	19.5	1.1	1.5
Transportation & Utilities	4.4	10.7	5.7	2.4	1.3
Trade	10.9	10.2	11.2	0.9	1.0
Federal Government	4.0	5.9	3.0	1.5	0.7
Education & Health	12.9	11.5	7.2	0.9	0.6
Leisure & Hospitality	4.6	3.8	2.7	0.8	0.6
Mining	1.1	6.6	0.6	5.8	0.5
Agriculture	0.6	1.0	0.2	1.6	0.4
Financial Activities	6.6	3.6	1.7	0.5	0.3
Professional & Business Services	22.8	14.4	N/A	0.6	N/A

Note: Location quotient is the division of local share by national share



And the turnaround in Rogers Co. employment has been largely driven by turnarounds in those industries

Rogers County, OK Change in Employment by Industry



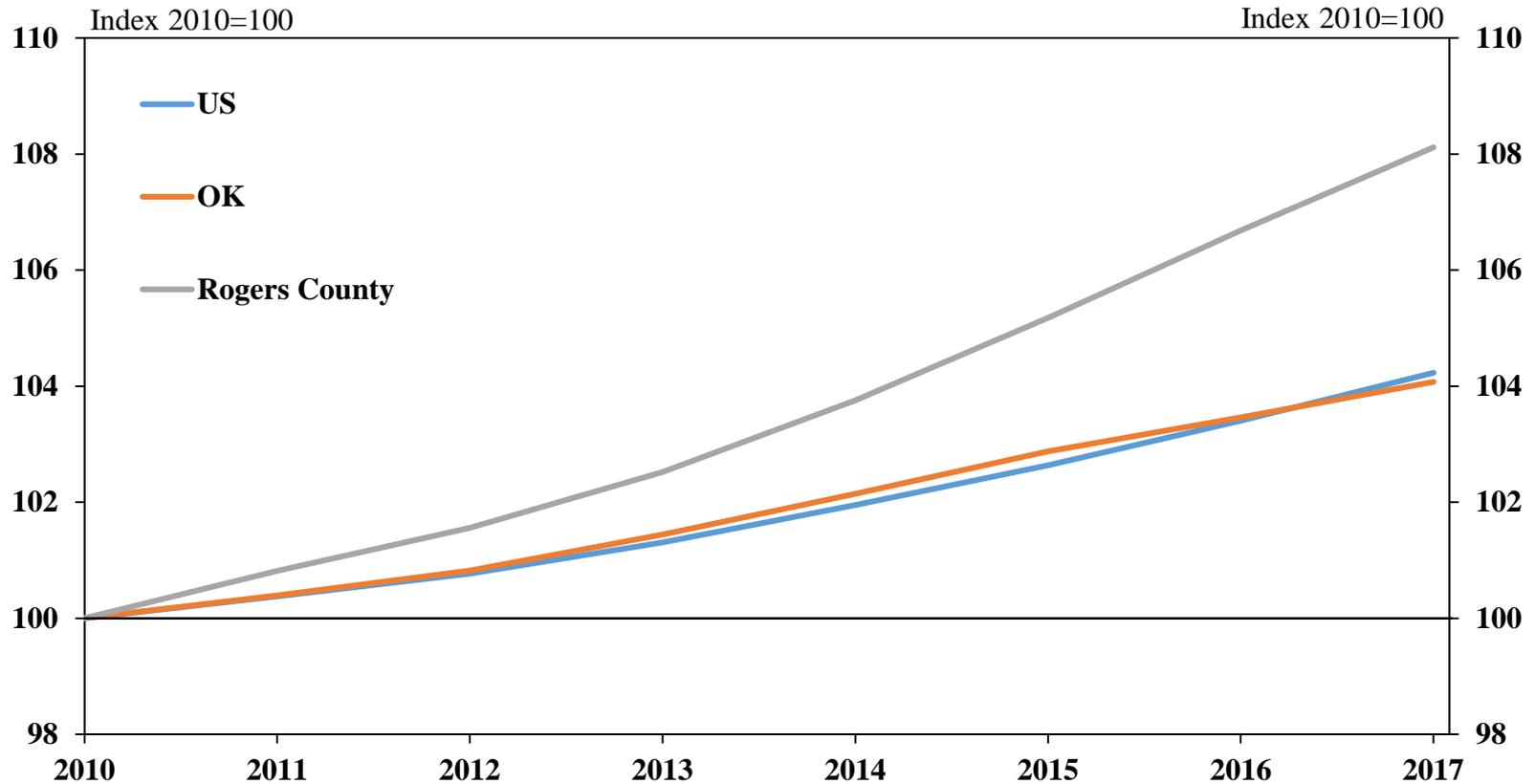
Note: Employment by industries defined by two-digit NAICS codes for private sectors with more than 100 employees



Source: U.S. Bureau of Labor Statistics

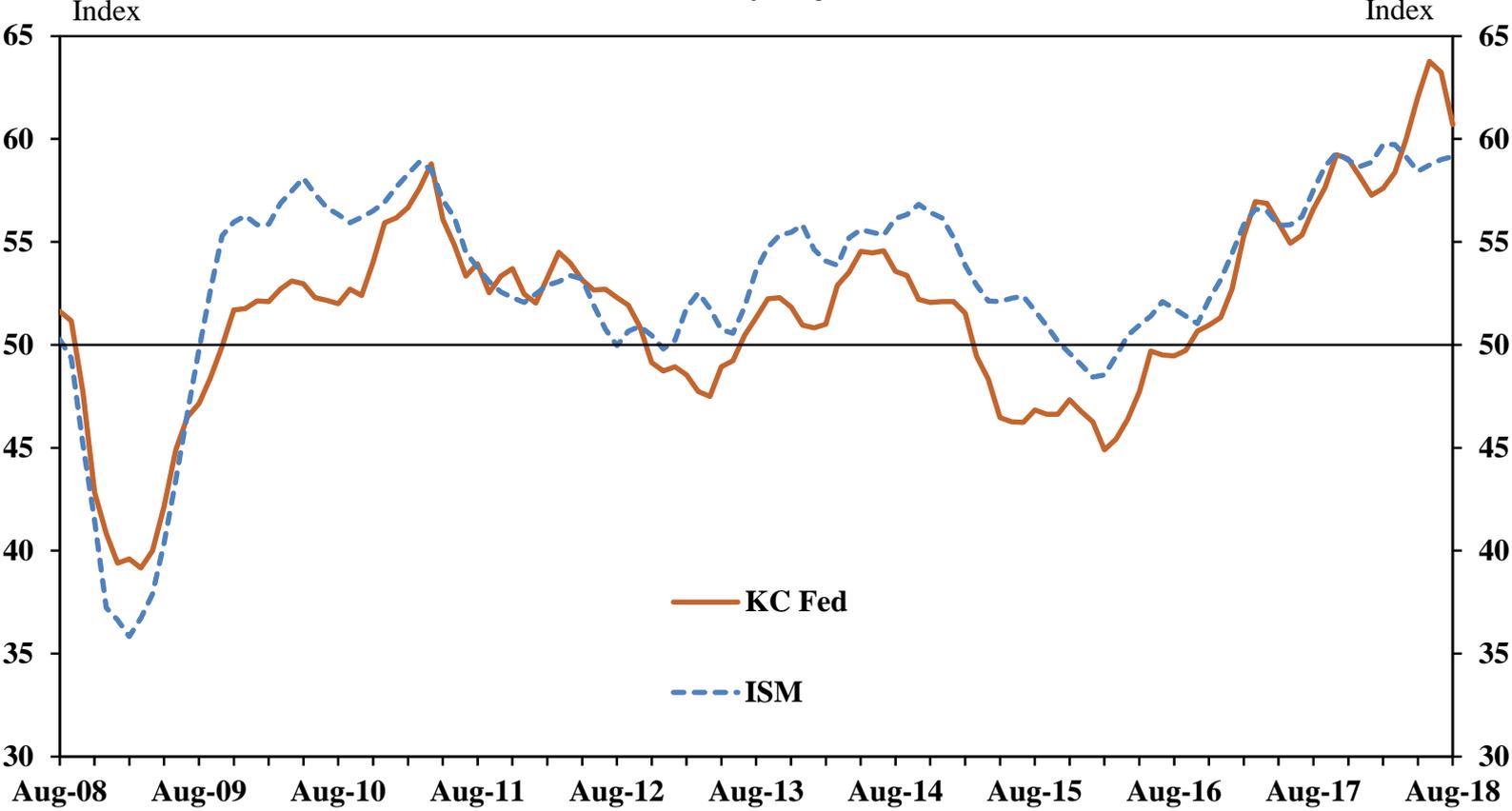
Growth in new housing units in Rogers County has greatly outpaced the state and nation since 2010

Annual Estimates of Housing Units



Manufacturing activity in the region has posted record growth in 2018, even with trade concerns

Monthly Manufacturing Composite Indexes Seasonally Adjusted



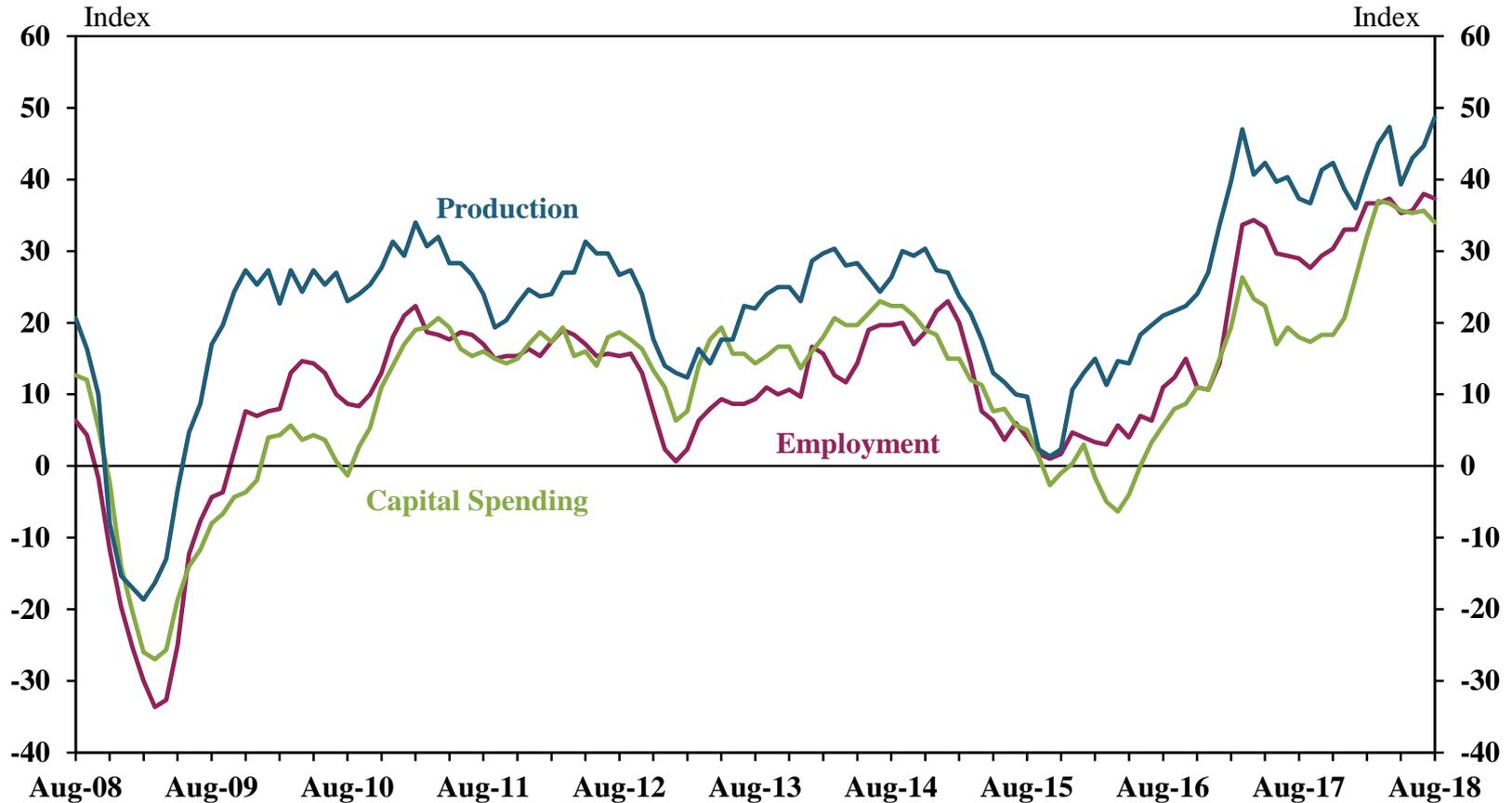
Note: Indexes are shown as three-month moving averages



Source: Institute for Supply Management, FRBKC

Expectations for manufacturing also remain strong, including for capital spending and employment

Tenth District Manufacturing Expectations
Six-month-ahead indexes



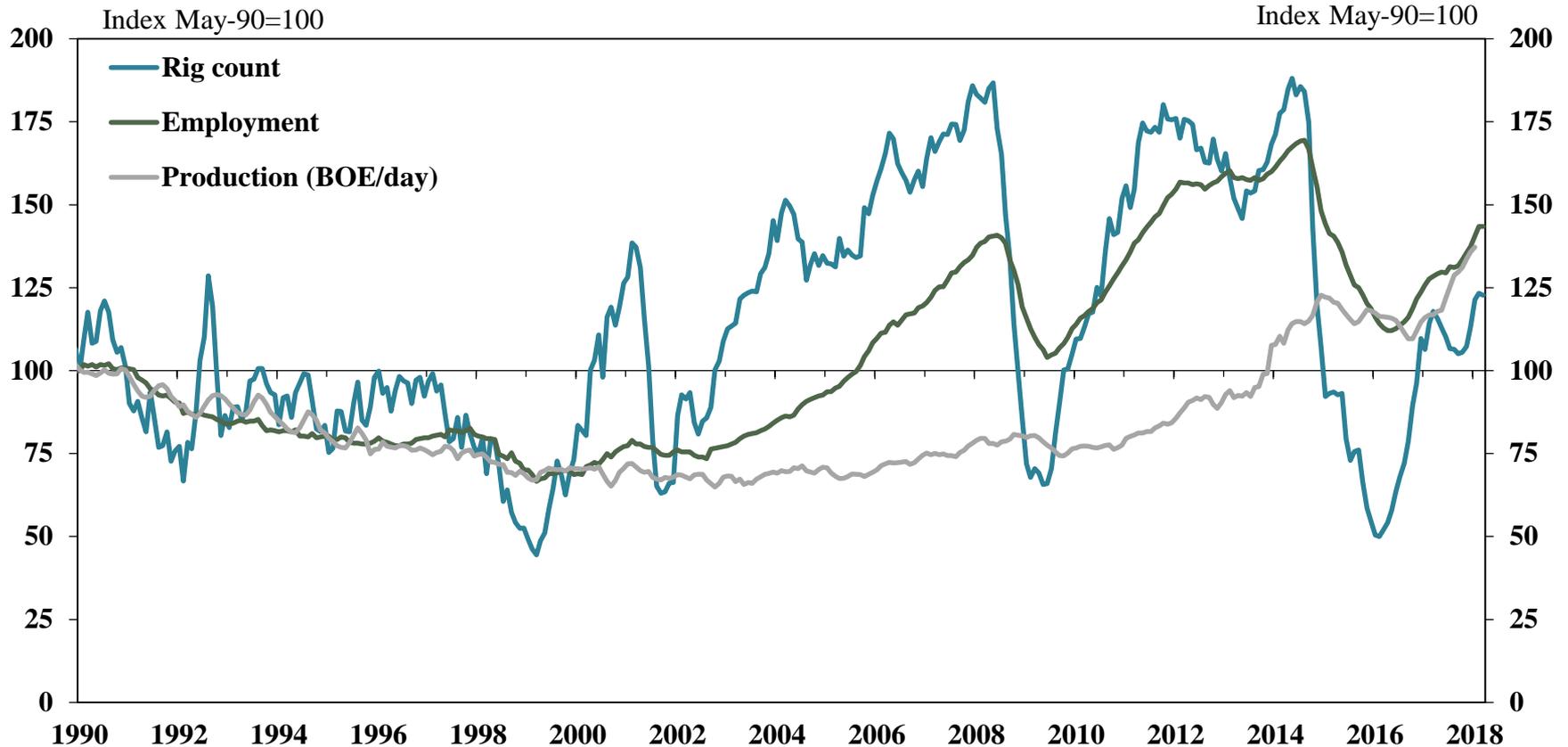
Note: Indexes are shown as three-month moving averages



Source: Institute for Supply Management, FRBKC

Oil and gas production is at a record high, but with considerably fewer rigs and workers than in the past

Oklahoma Oil & Gas Rig Count, Employment, and Production



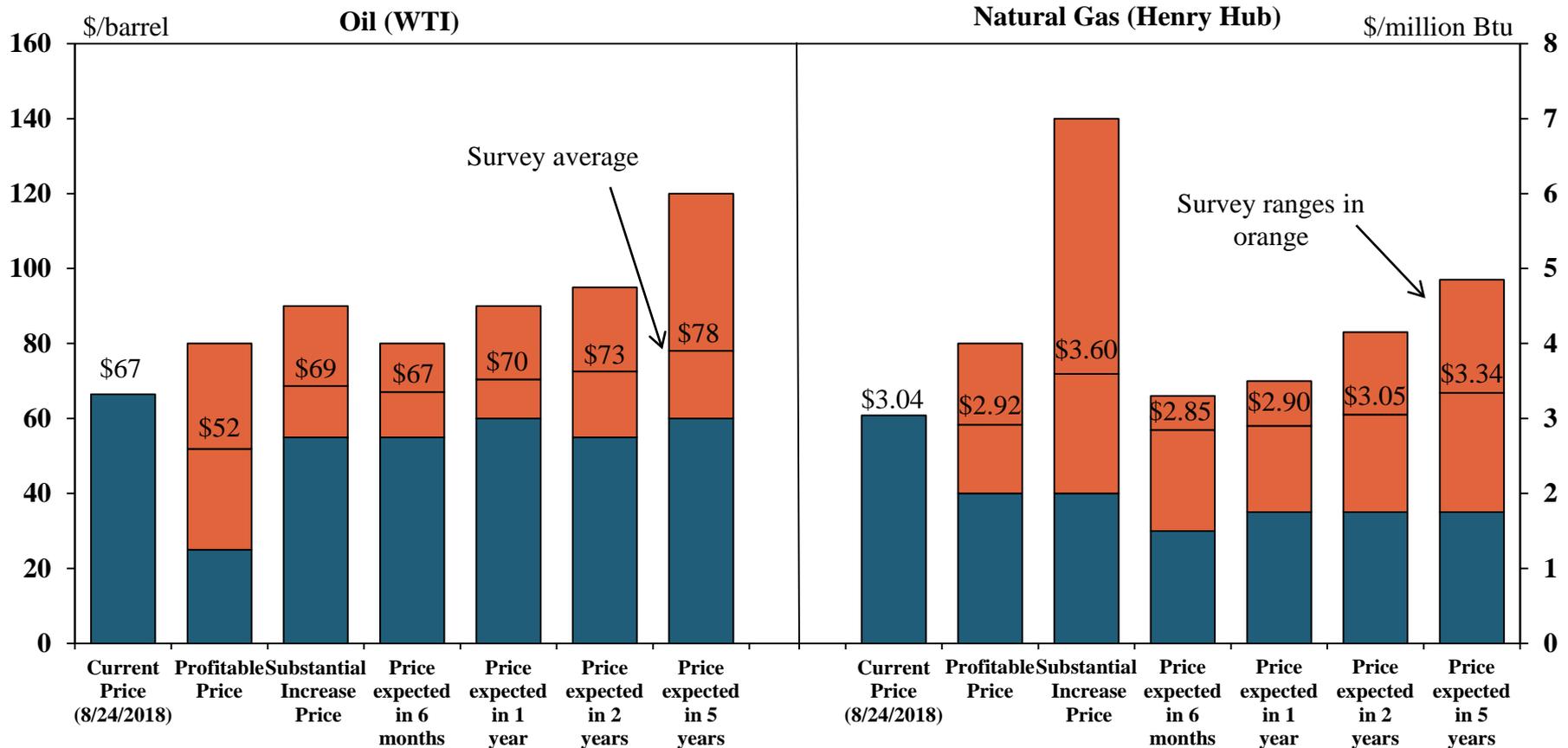
Note: Employment is for total mining and logging, which in Oklahoma is almost completely oil and gas related. Production is shown as a 3-month moving average.



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



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



Questions?

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