U.S. and Ardmore Area Economic Update

Ardmore Economic Forum
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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
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, COO, 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 employment show growth remains strong into 2018

U.S. Payroll Employment and Business Indexes

“The Committee expects that, with further...adjustments...in...policy...labor market conditions will remain strong”
“Inflation on a 12-month basis is expected to move up in coming months and stabilize around the Committee’s 2 percent objective.”

PCE Inflation Index

Percent change, year-over-year

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

Federal Funds Rate
Year-end target

Current (Mar. 2018): 1.75%

Mar. FOMC Forecast
Ranges in Yellow

Sources: Federal Reserve Board, FOMC
The Fed has also begun to reduce its balance sheet, which grew considerably after the crisis.
Trends in the Oklahoma & Ardmore Area Economies
OK GDP has recovered from its downturn of 2015-16, and by mid-2017 was keeping pace with the nation.
For jobs, 2015-16 was the largest divergence between U.S. & OK since the ‘80s, but the gap has closed.
Employment has picked up in both up in metro and non-metro areas of the state since last year.
Job gains in non-metro areas have been led by growth in the mining sector, primarily oil and gas.
State tax revenues also improved following two tough years that remain challenges for the Legislature.

Oklahoma State Tax Revenues
Q1-18 through February

Source: OK Tax Commission
Banking conditions in Oklahoma also remain very good despite the 2015-16 economic slowdown.

Source: FDIC
Most of southern Oklahoma saw an increase in employment in 2017

Employment Growth
December 2017

Year-Over-Year Change

-8% to -4%
-4% to 0%
0% to 4%
4% to 8%
8% to 12%

Source: U.S. Bureau of Labor Statistics
The key industries around Ardmore, relative to the U.S., include goods production and government

### Personal Income Share by Industry, 2015

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Income</th>
<th>Location Quotient</th>
<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>U.S.</td>
<td>OK</td>
<td>Carter County</td>
<td>14-County Area</td>
<td>OK</td>
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<tr>
<td>Federal Government</td>
<td>4.1</td>
<td>5.5</td>
<td>0.9</td>
<td>13.4</td>
<td>1.4</td>
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<tr>
<td>Mining</td>
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<td>9.2</td>
<td>12.4</td>
<td>3.8</td>
<td>6.2</td>
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<tr>
<td>State &amp; Local Government</td>
<td>12.6</td>
<td>12.9</td>
<td>11.3</td>
<td>20.5</td>
<td>1.0</td>
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<td>Agriculture</td>
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<td>1.6</td>
<td>0.3</td>
<td>1.3</td>
<td>2.0</td>
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<td>Manufacturing</td>
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<td>8.5</td>
<td>17.9</td>
<td>10.7</td>
<td>0.9</td>
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<tr>
<td>Construction</td>
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<td>6.1</td>
<td>7.3</td>
<td>5.2</td>
<td>1.1</td>
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<tr>
<td>Trade</td>
<td>11.0</td>
<td>10.0</td>
<td>10.8</td>
<td>8.2</td>
<td>0.9</td>
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<td>Financial Activities</td>
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<td>3.5</td>
<td>2.5</td>
<td>2.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Transportation &amp; Utilities</td>
<td>4.3</td>
<td>10.9</td>
<td>8.4</td>
<td>N/A</td>
<td>2.5</td>
</tr>
<tr>
<td>Education &amp; Health</td>
<td>12.6</td>
<td>10.7</td>
<td>12.3</td>
<td>N/A</td>
<td>0.8</td>
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<tr>
<td>Leisure &amp; Hospitality</td>
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<td>3.6</td>
<td>N/A</td>
<td>N/A</td>
<td>0.8</td>
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<tr>
<td>Professional &amp; Business Services</td>
<td>22.6</td>
<td>14.0</td>
<td>9.5</td>
<td>N/A</td>
<td>0.6</td>
</tr>
</tbody>
</table>

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

*14-County Area includes the following counties: Atoka, Bryan, Carter, Coal, Comanche, Cotton, Garvin, Jefferson, Johnston, Love, Marshall, Murray, Pontotoc, and Stephens.

Source: U.S. Bureau of Economic Analysis
With strains in those industries in 2015-16, local unemployment rose somewhat but has since fallen.

*14-County Area includes the following counties: Atoka, Bryan, Carter, Coal, Comanche, Cotton, Garvin, Jefferson, Johnston, Love, Marshall, Murray, Pontotoc, and Stephens.

Source: U.S. Bureau of Labor Statistics
Regional factory activity has continued to improve in recent months, with optimism high.

Manufacturing Composite Indexes, Seasonally Adjusted

6-month expectations

ISM

Tenth Fed District

Source: ISM, FRBKC
Oil prices returned to profitable levels in 2017 for most firms, helping to boost activity.
Rig counts have increased since the downturn and remain at favorable levels

Weekly Oil Rig Counts

Source: Baker Hughes
The Oklahoma agriculture sector has shown some signs of stabilizing, with expectations improving.
OK farmland values improved in Q4, and are more favorable than other parts of the Tenth District

Source: FRBKC Agricultural Credit Survey
Summary

• The U.S. economy continues to grow, and the Fed has raised interest rates and begun to shrink its balance sheet.

• The Oklahoma economy has been hurt by low commodity prices, but improved in 2017-18.

• In the Ardmore region, unemployment has come down after rising in 2015-16, as key local industries have done better the past year.
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