U.S. & Oklahoma Economic Outlook

Evening at the Fed
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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 four general areas:
  • Lender of last resort – provide liquidity in times of crisis
  • Monetary policy – promote full employment and low inflation
  • Bank regulation – ensure safety and soundness of banks
  • Financial services – bank for banks, bank for federal govt.
Federal Reserve Districts and Office Locations
The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

• Functions – approximately 45 staff
  - Research on U.S. and Oklahoma economies
  - Economic, community, and financial education outreach
  - Examinations of Oklahoma financial institutions

• 2017 Branch Board of Directors
  - Pete Delaney (chair), Chairman & CEO (retired), OGE Energy Corp., OKC
  - Clint Abernathy, Owner, Abernathy Farms, Inc., Altus
  - Michael Coffman, CEO, Panhandle Oil & Gas, Inc., Oklahoma City
  - Chuck Hall, Chairman & CEO, Exchange Bank & Trust, Perry
  - Tina Patel, Co-Owner & CFO, Promise Hotels, Tulsa
  - Susan Chapman Plumb, COO, Bank of Cherokee County, Tahlequah
  - Katrina Washington, Owner/Broker, Stratos Realty, OKC
The U.S. Economy and Monetary Policy
GDP growth picked up in the 3rd quarter after sluggish growth in previous quarters.

Growth in Components of Real GDP

<table>
<thead>
<tr>
<th>Component</th>
<th>Q1 2016</th>
<th>Q2 2016</th>
<th>Q3 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GDP</td>
<td>-7.7</td>
<td>7.8</td>
<td>10.0</td>
</tr>
<tr>
<td>Consumer spending</td>
<td>0.8</td>
<td>1.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Residential investment</td>
<td>1.6</td>
<td>4.3</td>
<td>3.0</td>
</tr>
<tr>
<td>Business investment</td>
<td>-3.4</td>
<td>1.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Exports</td>
<td>-0.7</td>
<td>1.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Government spending</td>
<td>-1.7</td>
<td>1.6</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Economic Analysis
Fourth quarter data has so far shown continued solid U.S. economic expansion

U.S. Payroll Employment and Business Indexes

“The [FOMC] indicated that…the labor market has continued to strengthen”

Unemployment Rate
Seasonally Adjusted

Current (Dec. 2016): 4.7%

Sources: U.S. Bureau of Labor Statistics, FOMC
“Inflation has increased…but is still below the Committee’s 2 percent longer-run objective”
“The Committee expects...only gradual increases in the federal funds rate”

Sources: Federal Reserve Board, FOMC
Trends in the Oklahoma Economy
Job growth across the U.S. has diverged, with Oklahoma in a jobs recession.

Total Nonfarm Employment Growth
November 2016

U.S. 1.6%

Source: U.S. Bureau of Labor Statistics
This is the largest divergence in Oklahoma and national job growth since the 1980s.

Payroll Employment Growth

Percent change, year-over-year

Source: U.S. Bureau of Labor Statistics
However, while the state unemployment rate has risen, it still remains relatively low.
The increase in joblessness has been largely in oil and gas areas of the state.

County Unemployment Rates

November 2016

Unemployment Rate
Statewide = 5.1%
- 7.1% - 4.1%
- 4.1% - 3.9%
- 3.0% - 0.9%
- 0.0% - 0.0%

September 2015

Unemployment Rate
Statewide = 4.4%
- 2.1% - 3.8%
- 3.9% - 5.0%
- 5.7% - 7.8%

Source: U.S. Bureau of Labor Statistics
Spillover has occurred from energy, but there are still several industries growing.

Job Growth by Industry
Nov-16

Percent change, year-over-year

- U.S.
- OK

<table>
<thead>
<tr>
<th>Industry</th>
<th>U.S.</th>
<th>OK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2</td>
<td>-4</td>
</tr>
<tr>
<td>Educ. &amp; Health</td>
<td>2</td>
<td>-2</td>
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<tr>
<td>Fed Govt.</td>
<td>0</td>
<td>-2</td>
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<tr>
<td>Constr.</td>
<td>0</td>
<td>2</td>
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<tr>
<td>Leis. &amp; Hosp.</td>
<td>0</td>
<td>-2</td>
</tr>
<tr>
<td>Fin. Act.</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>State &amp; Local Govt.</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Trade &amp; Transp.</td>
<td>0</td>
<td>-2</td>
</tr>
<tr>
<td>Prof. &amp; Bus. Services</td>
<td>0</td>
<td>-2</td>
</tr>
<tr>
<td>Mfg.</td>
<td>0</td>
<td>-2</td>
</tr>
<tr>
<td>Mining</td>
<td>0</td>
<td>-2</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
Home price growth in Oklahoma has slowed, but remains moderately positive.

**FHFA Home Price Index**
Seasonally Adjusted

Percent change, year-over-year

Source: FHFA
One of the struggling regional industries—manufacturing—has improved considerably.
Oil prices’ recent rise to $50/barrel has boosted drilling, and OPEC’s action helps.
However, firms say energy prices need to be a bit higher for a sizable increase in activity.
The most active areas now are in west Texas (Permian) and northwest Oklahoma (STACK)

Current Drilling Rig Locations,
As-of December 16, 2016

Source: Baker Hughes
In contrast to energy, the outlook for agriculture in Oklahoma remains weak.

Oklahoma Farm Income and Capital Spending

Source: FRBKC Survey of Ag Credit Conditions

Expected in three months
Summary

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

- Oklahoma’s economy has been hurt by low commodity prices, as well as spillover to some other related industries.

- However, conditions in real estate, banking, and labor markets have held on fairly well, and there is some cautious optimism.
Questions?

For regular updates and analysis of the Oklahoma economy, subscribe to our quarterly **Oklahoma Economist** publication at:


For more analysis on regional manufacturing conditions, subscribe to our monthly **Manufacturing Survey** at:

[https://www.kansascityfed.org/research/indicatorsdata/mfg](https://www.kansascityfed.org/research/indicatorsdata/mfg)

For more analysis on regional energy conditions, subscribe to our quarterly **Energy Survey** at:

[https://www.kansascityfed.org/research/indicatorsdata/energy](https://www.kansascityfed.org/research/indicatorsdata/energy)