Oklahoma Economic Update

CBAO – Horizon Leaders
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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

[Map of the United States showing Federal Reserve Districts and office locations.]
The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

• **Functions – approximately 40 staff**
  - Research on U.S. and Oklahoma economies
  - Economic, community, and financial education outreach
  - Examinations of Oklahoma financial institutions

• **2016 Branch Board of Directors**
  - **Pete Delaney (chair)**, Chairman (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
  - **Jane Haskin**, President & CEO, First Bethany Bank & Trust, Bethany
  - **Tina Patel**, Co-Owner & CFO, Promise Hotels, Tulsa
  - **Doug Stussi**, EVP & CFO, Love’s Travel Stops & Country Stores, OKC
The U.S. Economy and Monetary Policy
GDP slowed somewhat in Q4, due to business investments and exports

Growth in Components of Real GDP

Percent change from the previous period, SAAR

- Total GDP
- Consumer spending
- Residential investment
- Business investment
- Exports
- Government spending

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
U.S. factory activity has slowed, but job growth and services remain solid

U.S. unemployment is at long-term levels after falling considerably in recent years

Unemployment Rate
Seasonally Adjusted

Current (Jan. 2016): 4.9%

Sources: U.S. Bureau of Labor Statistics, FOMC
U.S. inflation is low but expected to return to close to target in 2016

PCE Inflation Index

Percent change, year-over-year

Current (Q4 2015): 0.5%
Current Core (Q4 2015): 1.4%

Sources: U.S. Bureau of Labor Statistics, FOMC
Most FOMC participants have projected rate increases this year.

Federal Funds Rate
Year-end target

Sources: Federal Reserve Board, FOMC

Current (Feb. 2016): 0.25-0.50%

Dec. FOMC Forecast Ranges in Yellow

Percent

Trends in the Oklahoma Economy
Oklahoma employment has fallen from a year ago, especially in non-metro areas.
Energy jobs have fallen sharply the past year, pulling down overall state employment.

Job Growth by Industry
Dec-15

Energy jobs have fallen sharply the past year, pulling down overall state employment.

Source: Bureau of Labor Statistics
State tax receipts continue to fall, and in January had the worst decline since late ‘09.

Source: OK Tax Commission
The KC Fed’s Q4 energy survey showed further declines, with more expected.

Source: FRBKC Energy Survey
World oil supply and demand aren’t expected to come back into balance until late 2017

Global Oil Supply and Demand

- February Supply Forecast
- February Demand Forecast

Source: EIA
Firms’ average price needed to increase drilling is above levels expected through most of 2017.

Firms’ Price Needed to Increase Drilling and Future Price Expectations
Q4 KC Fed Energy Survey

Source: FRBKC Energy Survey
Most energy firms have decreased employment and are planning further cuts.

**Total Employment Change by Energy Firms**

Q4 KC Fed Energy Survey

Number of responses

- **Up more than 20%**
- **Up 10-20%**
- **Up less than 10%**
- **Down less than 10%**
- **Down 10-20%**
- **Down more than 20%**

Source: FRBKC Energy Survey
Most firms are also expecting increased mergers, defaults, and bankruptcies.

Q4 Energy Survey Firm Expectations for 2016

- Large increase in both M&A activity and defaults/bankruptcies: 45%
- Large increase in M&A but little change in defaults/bankruptcies: 10%
- Little change in M&A but large increase in defaults/bankruptcies: 35%
- Little change in both M&A activity and defaults/bankruptcies: 5%

Source: FRBKC Energy Survey
But drilling is still occurring in some parts of the state

Oil and Natural Gas Rigs
As-of February 1, 2016

Source: Baker Hughes
Oklahoma farm income has now also dropped after holding up in first half 2015.

Source: KCFRB Ag Credit Survey
Farmland values have fallen in most of our region but have so far held up in Oklahoma.
The energy sector is not as large as in the 1980s on some measures, but is on others.

Mining Sector Share of Oklahoma Economic Activity

Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis
One silver lining is that unemployment still remains low in the state, especially in OKC.

Source: U.S. Bureau of Labor Statistics
Office vacancies and unsold homes have ticked up but remain relatively low

OKC Office Vacancy Rate and Months Supply of Unsold Homes

Source: CBRE and OKC Realtors
New home construction plans have leveled off in recent months

Single-Family Housing Permits
3-month moving average, through Jan-16

Index: Jan-11=100

Source: U.S. Census Bureau

New home construction plans have leveled off in recent months.
And compared to the early 1980s, the rate of office construction is relatively low.
In related news, banking conditions in the state have remained good.

![Graph showing the share of banks not making a profit over time.](source: FDIC)
Past due loans have edged higher but remain much lower than a few years ago.
Summary

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

- Oklahoma employment and tax revenues continue to suffer from the oil downturn

- The latest KC Fed energy survey suggests more difficulties ahead, and ag-related industries are also now declining

- But state unemployment is low, with real estate and banking in good condition to date