U.S. and Regional Economic Update

Chad Wilkerson
Oklahoma City Branch
Executive and Economist
Federal Reserve Bank of Kansas City
Key Takeaways

• The U.S. economy continues to grow, but the rate of growth varies widely across states

• Areas concentrated in energy activity have slowed, and agricultural conditions are weak

• Real estate activity and values have held up relatively well despite weak energy and ag

• The rebound in oil prices has produced some breathing room, but concerns remain
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

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
U.S. business activity has slowed slightly, but job growth remains solid
U.S. unemployment is at long-term levels after falling considerably in recent years

Unemployment Rate
Seasonally Adjusted

Current (May 2016): 4.7%

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

Current (Q1 2016): 1.0%
Current Core (Q1 2016): 1.7%

Mar. FOMC Forecast Ranges in Yellow

Sources: U.S. Bureau of Labor Statistics, FOMC
FOMC participants expect moderate increases in rates heading forward

Federal Funds Rate
Year-end target

Current (May 2016): 0.50%

Sources: Federal Reserve Board, FOMC
Regional Economic Conditions
Employment growth has been weakest in energy states and strongest on the coasts.

Total Nonfarm Employment Growth
April 2016

Percent Change
Year-over-Year

- Over 3%
- 2 to 3%
- 1 to 2%
- 0 to 1%
- Below 0%

Source: U.S. Bureau of Labor Statistics
Still, unemployment has remained fairly low in the Midwest and energy states.

Unemployment Rates
April 2016

Source: U.S. Bureau of Labor Statistics
Manufacturing has fallen more in energy regions than elsewhere in the country.

Source: FRB Surveys, ISM
Home construction has dropped in several energy states

Single-Family Housing Permits
Q1 2016

Source: U.S. Census Bureau
But home prices have continued to grow throughout the country

FHFA Purchase-Only Home Price Index
Q1 2016

Source: FHFA
Loan balances have increased in energy states versus the rest of the nation.
But, to date, delinquencies in energy states have only risen markedly for autos.

Source: New York Fed Consumer Credit Panel
Office vacancy rates have edged higher in energy cities across BKD’s region.

Change in Office Vacancy Rates
Q1-15 to Q1-16

Source: TWR
U.S. farm income fell sharply last year and is expected to be down again this year.

U.S. Real Net Farm Income

Source: USDA
* Forecast for 2016.
The majority of Plains states contacts have reported a decrease in farm income.

Percent of Bankers Reporting a Decrease in Farm Income

Q1 2016, year-over-year

Source: Ag Credit Survey, Federal Reserve Banks of Kansas City and Minneapolis
Still, farmland values have held up relatively well across the middle U.S.

Non-Irrigated Farmland Values
2016 Q1, % change, y/y

Source: FRBKC Agricultural Credit Survey
Oil prices have rebounded somewhat, but inventories are expected to remain elevated.

Global Supply vs. Demand

Source: EIA
Oil prices are nearing profitable levels, according to firms in the Tenth District.

**KC Fed Energy Survey Special Questions**

Q3 2014 to Q1 2016

- **Oil Price Needed for Profitability in Active Areas**
  - Q3-14: $79
  - Q2-15: $73
  - Q1-15: $62
  - Q3-15: $60
  - Q1-16: $51

- **Price Needed to Increase Drilling Significantly**
  - Q3-14: $70
  - Q2-15: $60
  - Q1-15: $58
  - Q3-15: $50
  - Q4-15: $45

- **2016 Year-End Expected WTI Price**
  - Q1-14: $70
  - Q2-15: $56

- **Natural Gas Price Needed for Profitability, Q1 2016:** $3.28 average

Source: FRBKC Energy Survey
The KC Fed’s Q1 energy survey showed energy sector declines were expected to slow.
The U.S. economy continues to grow, but the rate of growth varies widely across states. Areas concentrated in energy activity have slowed, and agricultural conditions are weak. Real estate activity and values have held up relatively well despite weak energy and ag. The rebound in oil prices has produced some breathing room, but concerns remain.
Chad Wilkerson
(405) 270-8614
Chad.Wilkerson@kc.frb.org
Questions and Links

For more information about the Oklahoma City Branch of the Federal Reserve Bank of Kansas City, visit our website at:

http://www.kansascityfed.org/oklahomacity/

For more information about the Oklahoma economy, subscribe to the quarterly Oklahoma Economist at:

www.kansascityfed.org/publications/research/oke