U.S. and Oklahoma Economic Outlook

Bartlesville Economic Update
June 22, 2018

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Oklahoma City Branch Executive and Economist

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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**, 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
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• **Oklahomans on Kansas City Fed head office Board**
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  - **Doug Stussi**, EVP & CFO, Love’s Travel Stops & Country Stores, OKC
The U.S. Economy and Monetary Policy
U.S. GDP growth slowed slightly in the first quarter, but still remained solid overall.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis
“The labor market has continued to strengthen...job gains have been strong and the unemployment rate has declined.”

Unemployment Rate
Seasonally Adjusted

Current (May 2018): 3.8%

Sources: U.S. Bureau of Labor Statistics, FOMC
"On a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2 percent."
“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

Source: Federal Reserve Board
Trends in Oklahoma & Bartlesville Area Economies
Oklahoma GDP dropped considerably in 2016, after oil prices fell, but began to rebound in 2017
In early 2018, state job growth has matched the nation after lagging in 2015-16 the most since the 1980s.
State job gains the past year have been led by mining (oil & gas), but all private sectors have added workers.
Mining is obviously a key industry in Bartlesville relative to the U.S. and even to OK as a whole

### Personal Income Share by Industry, 2016

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Income</th>
<th>Location Quotient</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U.S.</td>
<td>OK</td>
</tr>
<tr>
<td>Mining</td>
<td>1.1</td>
<td>6.6</td>
</tr>
<tr>
<td>Transportation &amp; Utilities</td>
<td>4.4</td>
<td>10.7</td>
</tr>
<tr>
<td>Education &amp; Health</td>
<td>12.9</td>
<td>11.5</td>
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<tr>
<td>Agriculture</td>
<td>0.6</td>
<td>1.0</td>
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<tr>
<td>Manufacturing</td>
<td>9.4</td>
<td>8.2</td>
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<tr>
<td>Construction</td>
<td>6.0</td>
<td>6.4</td>
</tr>
<tr>
<td>Trade</td>
<td>10.9</td>
<td>10.2</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>4.6</td>
<td>3.8</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
<td>12.6</td>
<td>13.8</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>6.6</td>
<td>3.6</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>22.8</td>
<td>14.4</td>
</tr>
<tr>
<td>Federal Government</td>
<td>4.0</td>
<td>5.9</td>
</tr>
</tbody>
</table>

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

Source: U.S. Bureau of Economic Analysis
With energy sector strains in 2015-16, state and area unemployment rose somewhat but has since fallen.

*Micropolitan area, not seasonally adjusted

Source: U.S. Bureau of Labor Statistics
State tax revenues are growing strongly, after several years that remain challenges for the Legislature.
Banking conditions in Oklahoma also remain very good despite the 2015-16 economic slowdown.

Source: FDIC
The Oklahoma agriculture sector has shown some signs of stabilizing, with expectations up slightly.
The oil and gas sector remains especially sizable in the state, even after dropping in recent years.

Oil and Gas Sector Share of GDP*
1997-2017

*Oil & Gas Sector = NAICS 211 + NAICS 213; 2017 estimates based on size of overall Mining sector

Source: U.S. Bureau of Economic Analysis; author’s calculations
Most firms can now profitably drill for oil in the areas they are active, and natural gas prices can often work.

Energy Survey Oil & Gas Prices

Source: FRBKC Energy Survey
But it takes a lot fewer rigs—and people—to produce oil and gas than it did just a few years ago.

U.S. Oil & Gas Rig Count, Employment, and Production

Index May-90=100

- Rig Count
- Employment
- Production (BOE/day)

Note: Employment is for NAICS 211, 213111, and 213112. Production is shown as a 3-month moving average.

Source: EIA, Baker Hughes
Most other industries with similar productivity surges saw drops in employment in the following decade.

**Change in Output, Investment, and Employment**

Ten years after productivity surge

Sources: U.S. Census Bureau, Bureau of Economic Analysis, Bureau of Labor Statistics, Haver Analytics, Author’s calculations
Summary

• The U.S. economy continues to grow, and the Fed has been raising interest rates.

• The Oklahoma and Bartlesville economies were hurt by low oil and gas prices, but now are doing well.

• Strong productivity growth in the oil and gas sector could potentially limit future job growth.
Questions?

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