

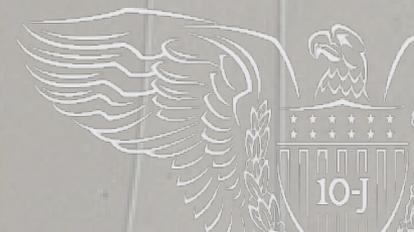
U.S. and Oklahoma Economic Outlook

*Poteau Economic Forum
July 19, 2018*

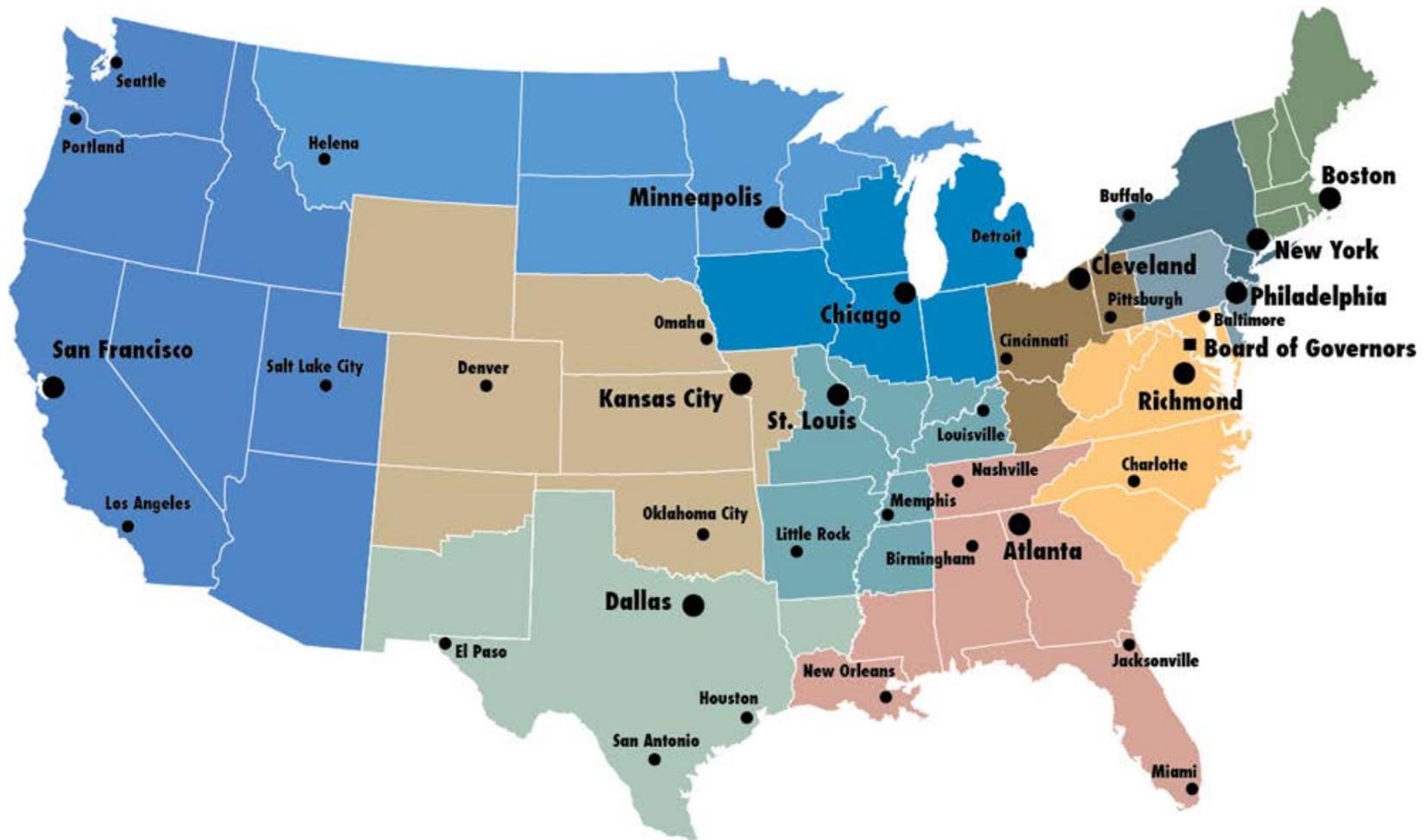
Chad Wilkerson

Oklahoma City Branch Executive and Economist

*The views expressed herein are those of the presenter only and do not necessarily reflect the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.



Structure & Functions of the Federal Reserve



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

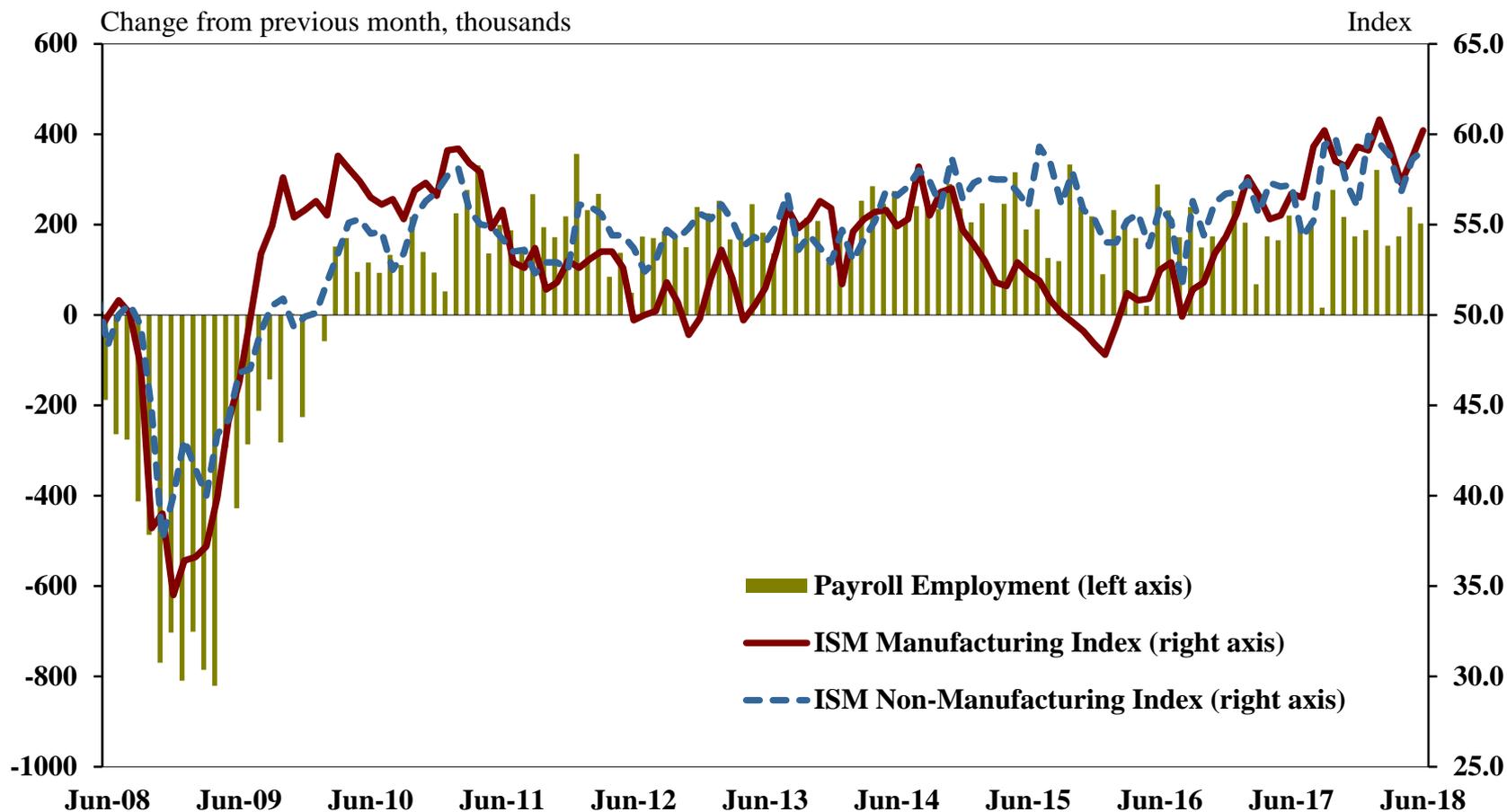
- **Functions and purposes ~ 45 staff**
 - Research on U.S. and Oklahoma economies; energy and manufacturing sectors
 - Economic and financial education outreach, including to low/moderate income
 - Examinations of Oklahoma financial institutions (~50 banks, ~175 holding cos.)
- **2018 OKC Fed Branch 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
 - **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



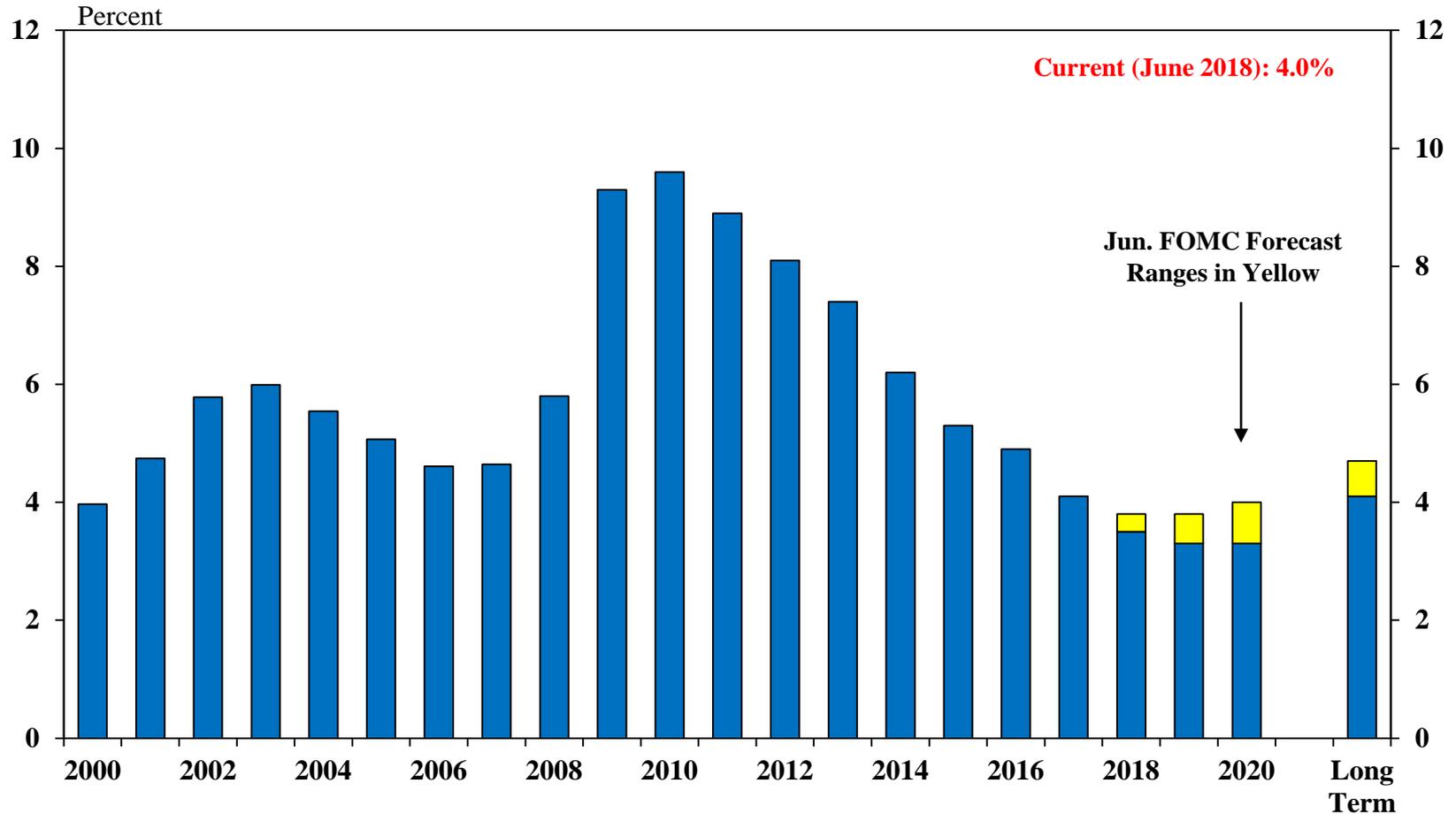
Monthly data on U.S. business activity and employment show 2018 growth remains strong

U.S. Payroll Employment and Business Indexes



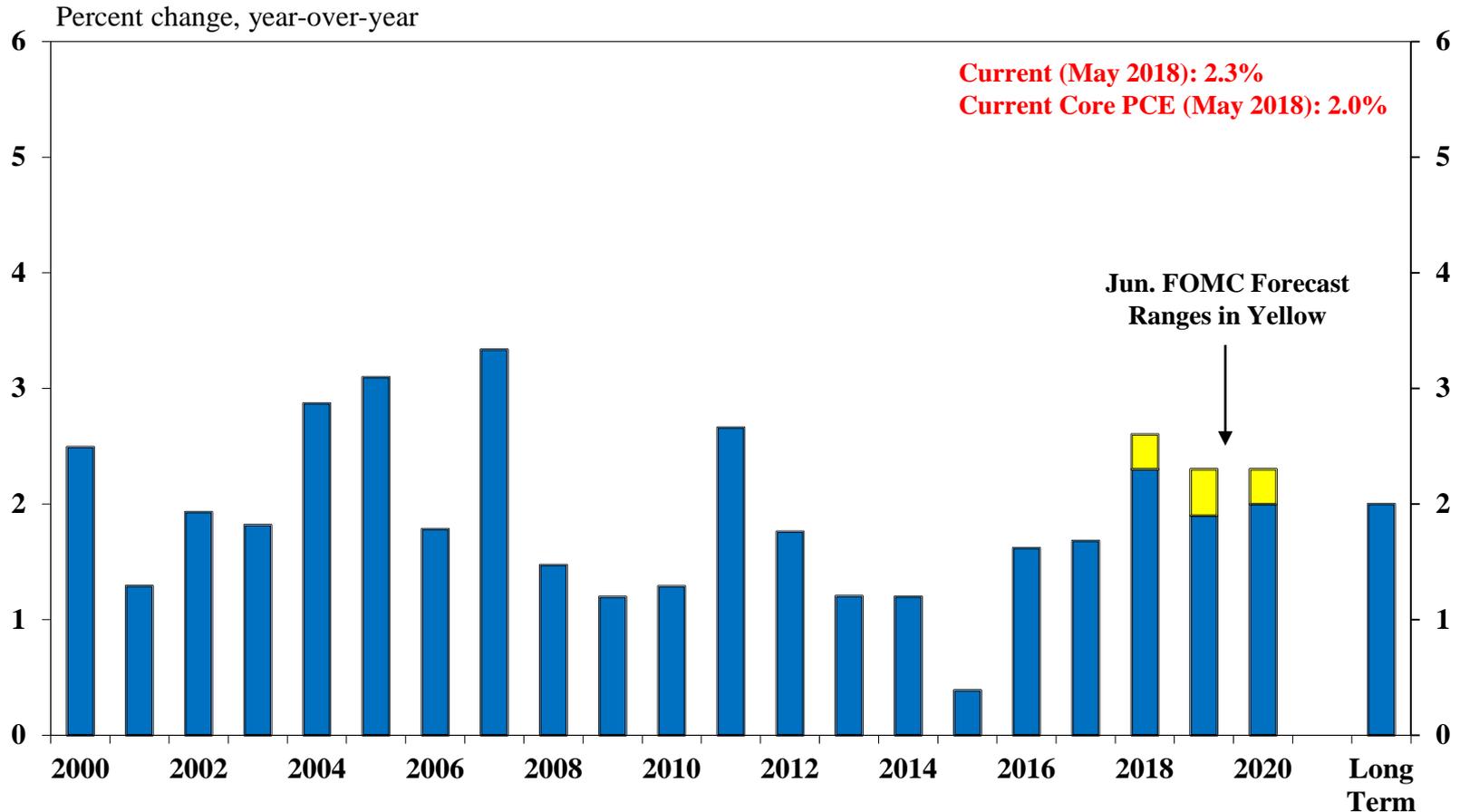
“The labor market has continued to strengthen...job gains have been strong and the unemployment rate has declined.”

Unemployment Rate Seasonally Adjusted



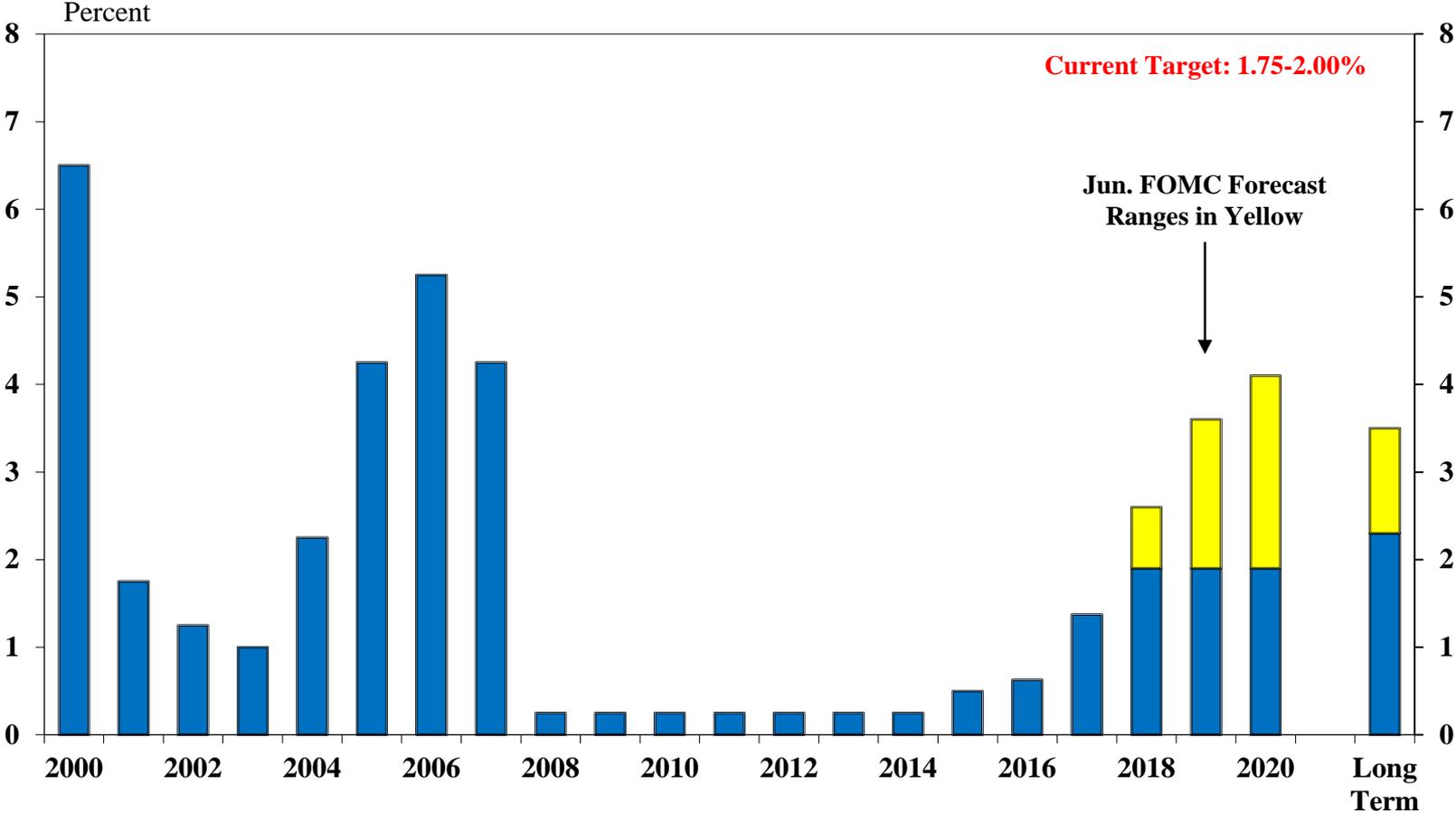
“On a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2 percent.”

PCE Inflation Index



“The [FOMC] expects that further gradual increases...for the federal funds rate will be consistent with sustained expansion...”

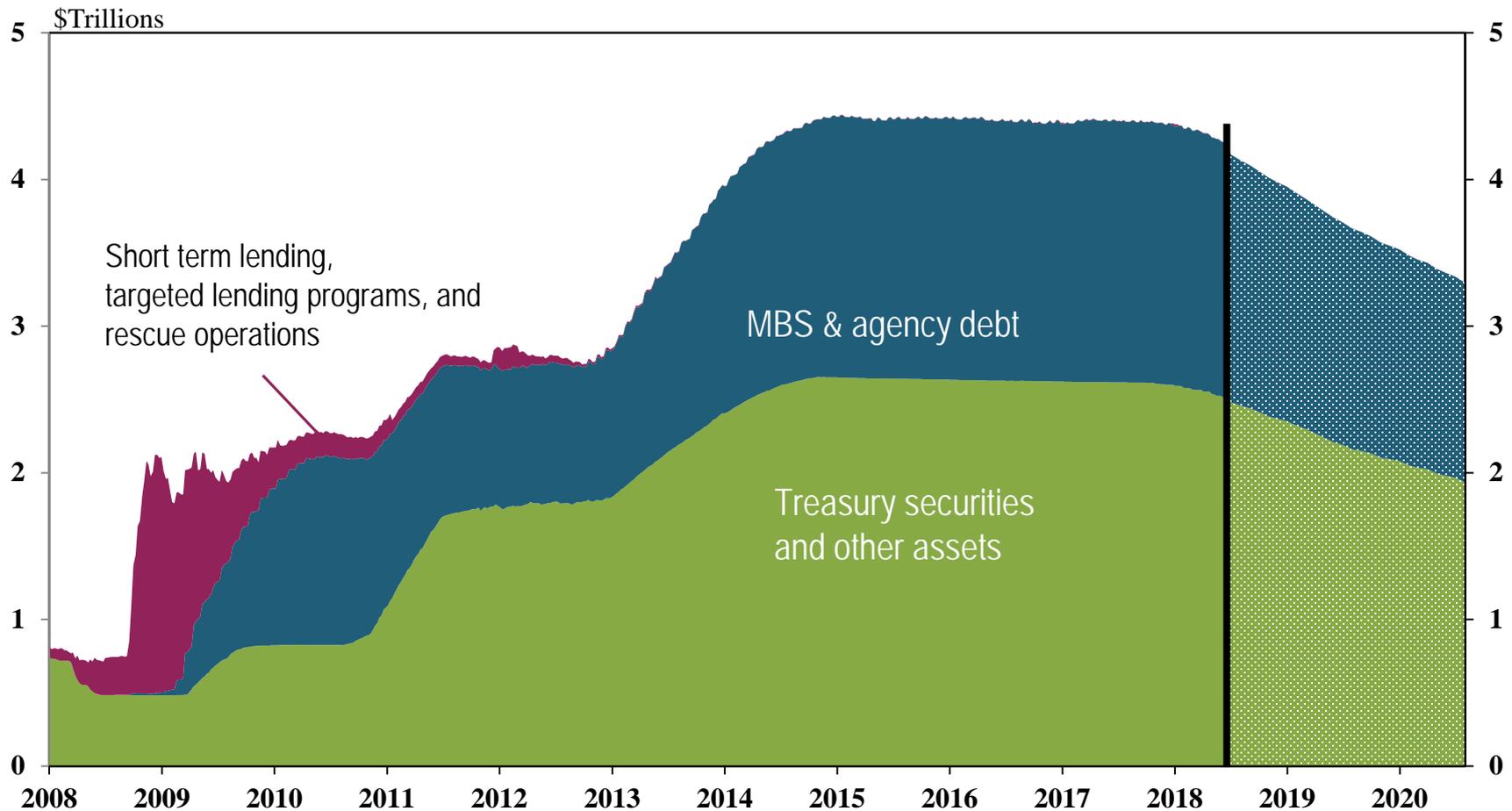
Federal Funds Rate Year-end target



Sources: Federal Reserve Board, FOMC

The Fed has also begun to reduce its balance sheet

Federal Reserve Balance Sheet

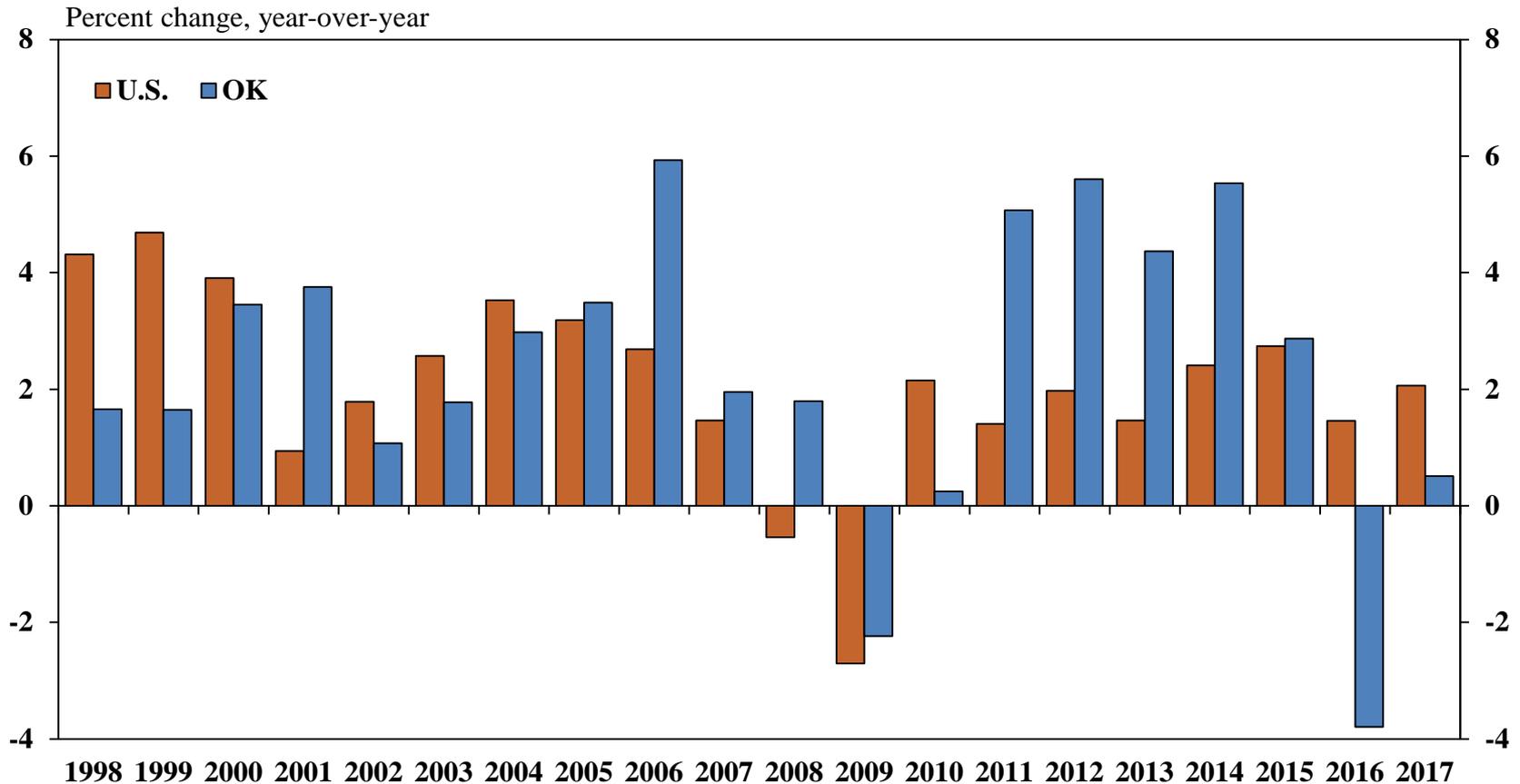


Trends in the Oklahoma & Poteau Area Economies



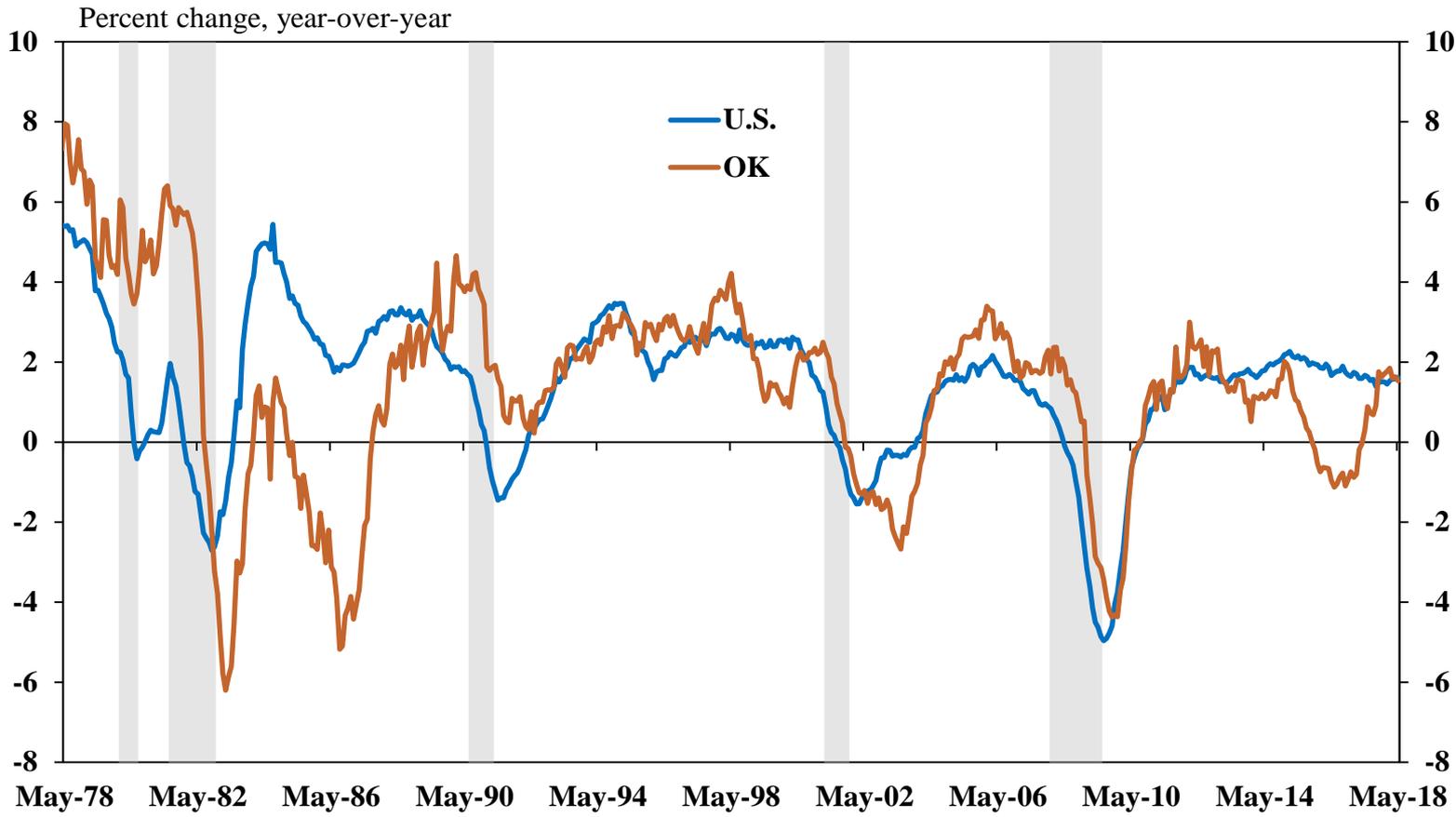
Oklahoma GDP dropped considerably in 2016, after oil prices fell, but began to rebound in 2017

Real Gross Domestic Product



In early 2018, state job growth has matched the nation after lagging in 2015-16 the most since the 1980s

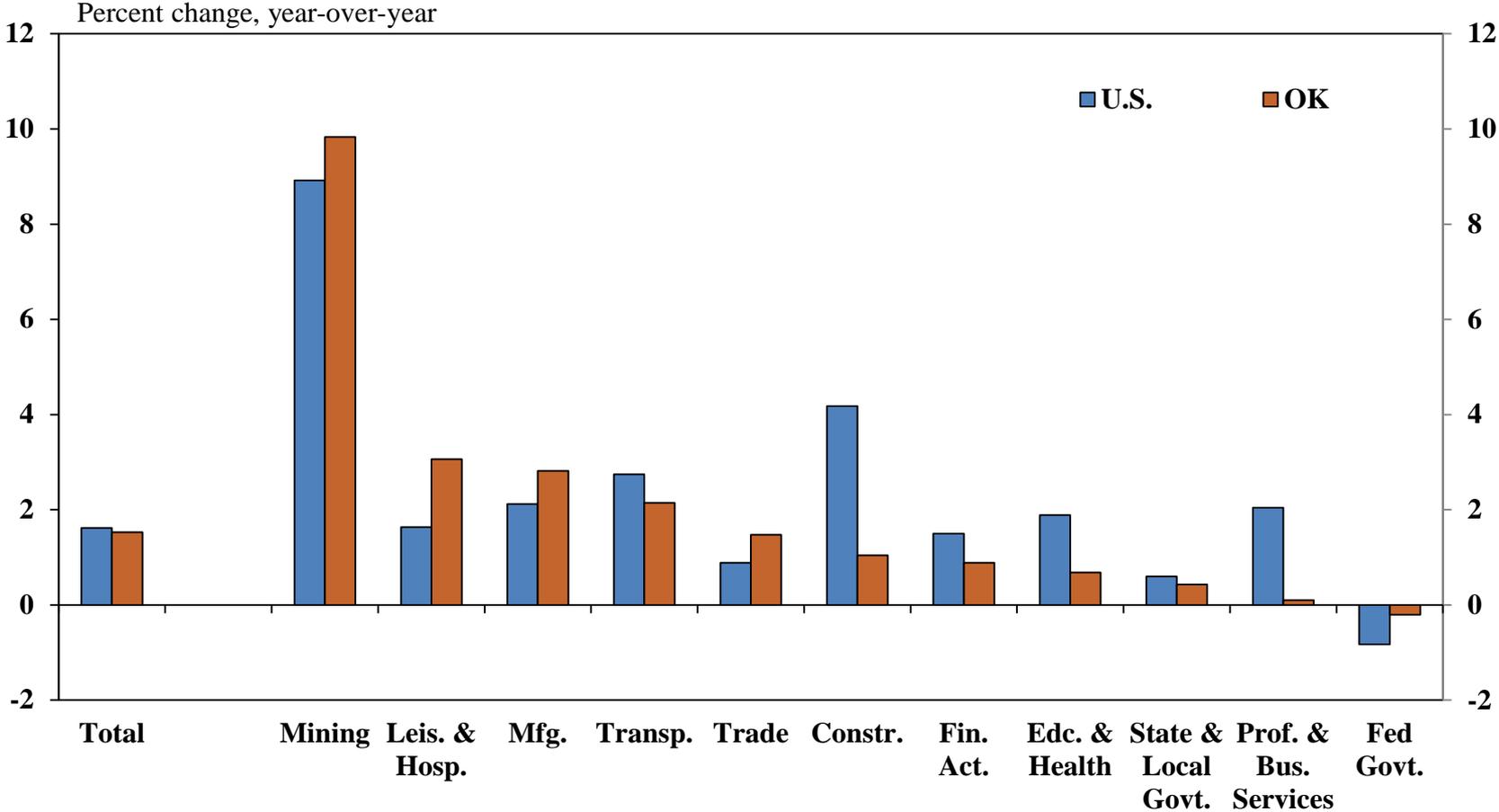
Payroll Employment Growth



Source: U.S. Bureau of Labor Statistics

State job gains the past year have been led by mining (oil & gas), but all private sectors have added workers

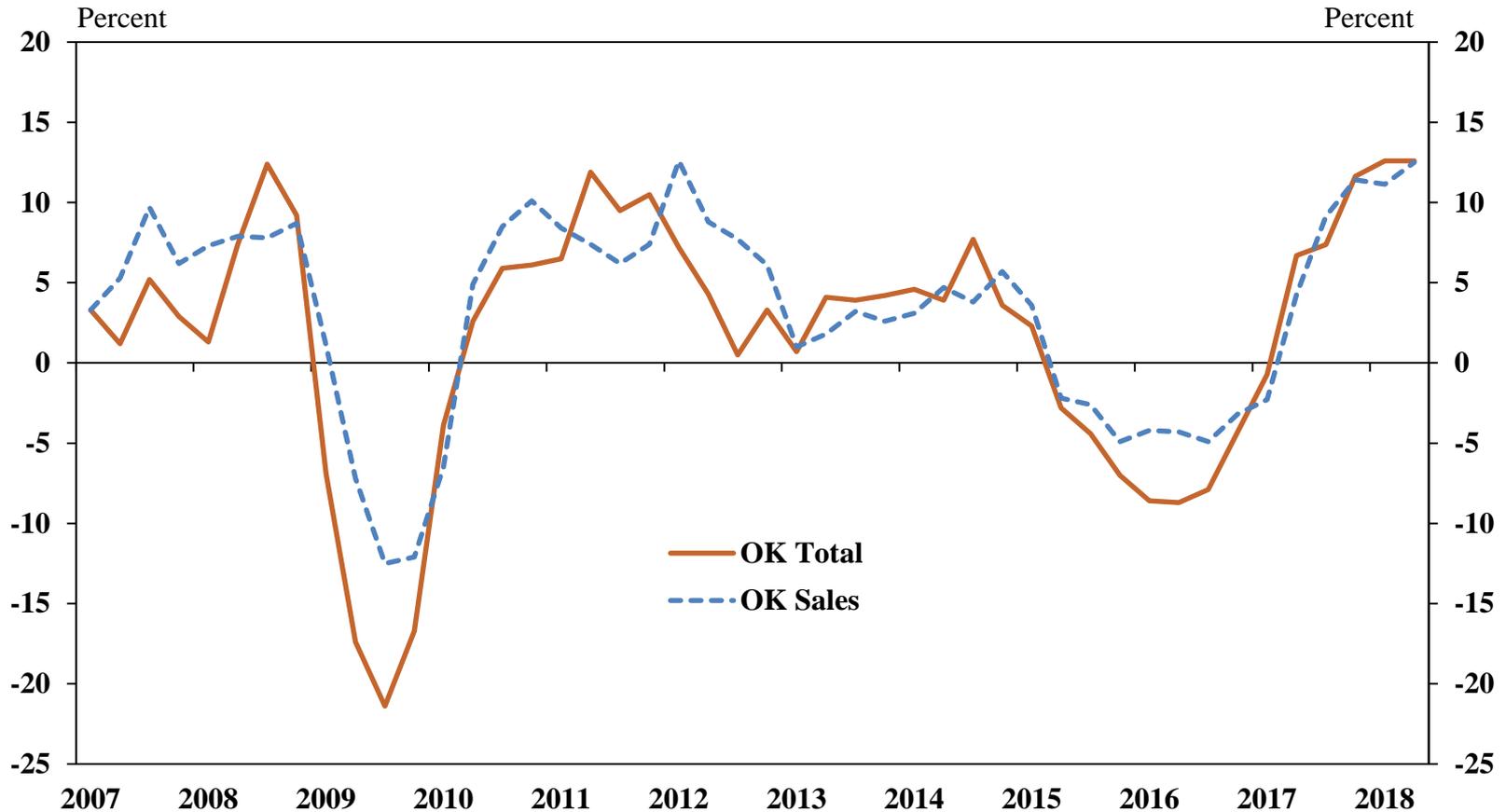
Oklahoma Job Growth by Industry
May-18



Source: Bureau of Labor Statistics

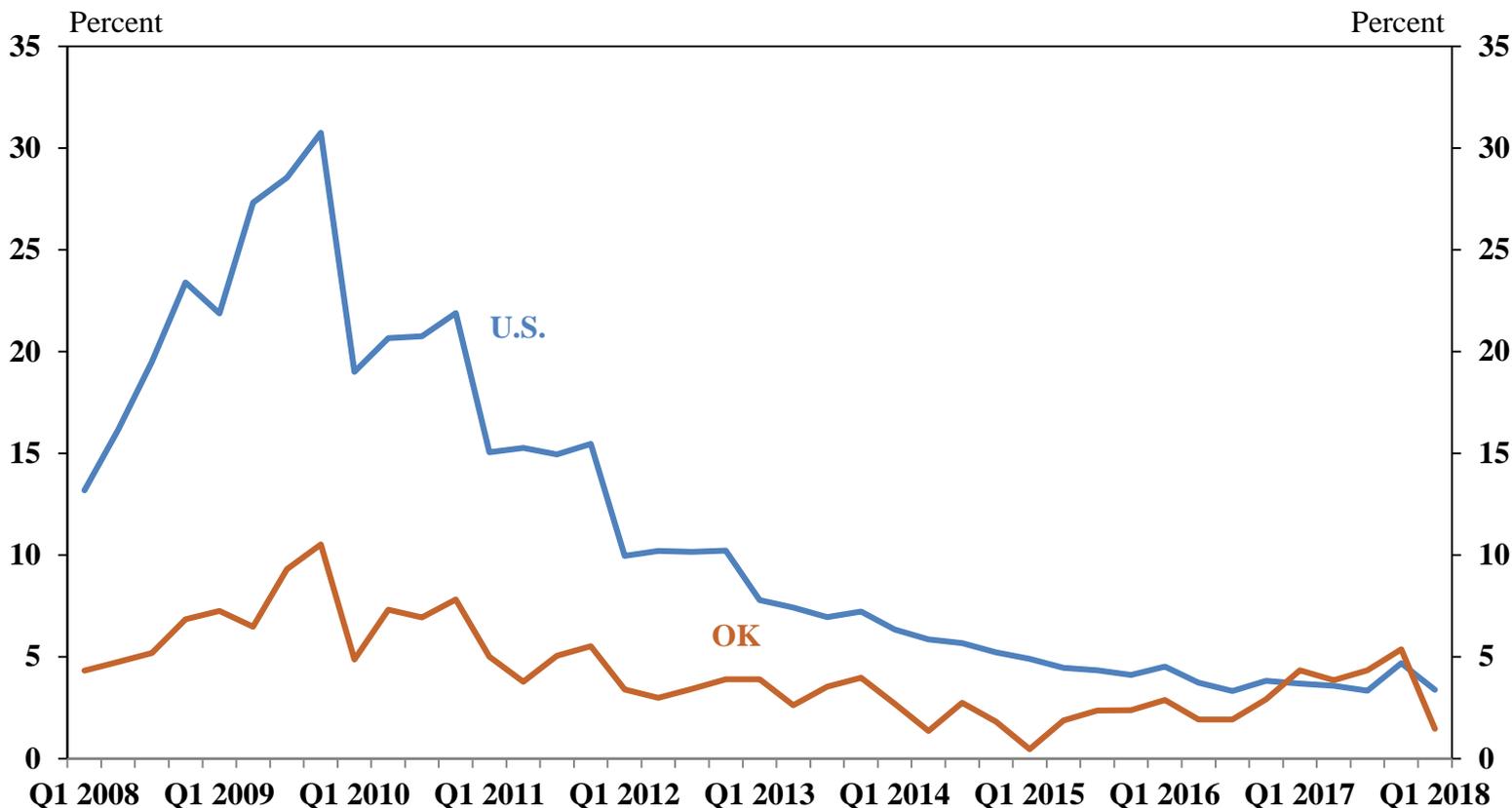
Tax revenues are also growing strongly, after several years that remain challenges for the Legislature

Oklahoma State Tax Revenues
Q2-18 through June



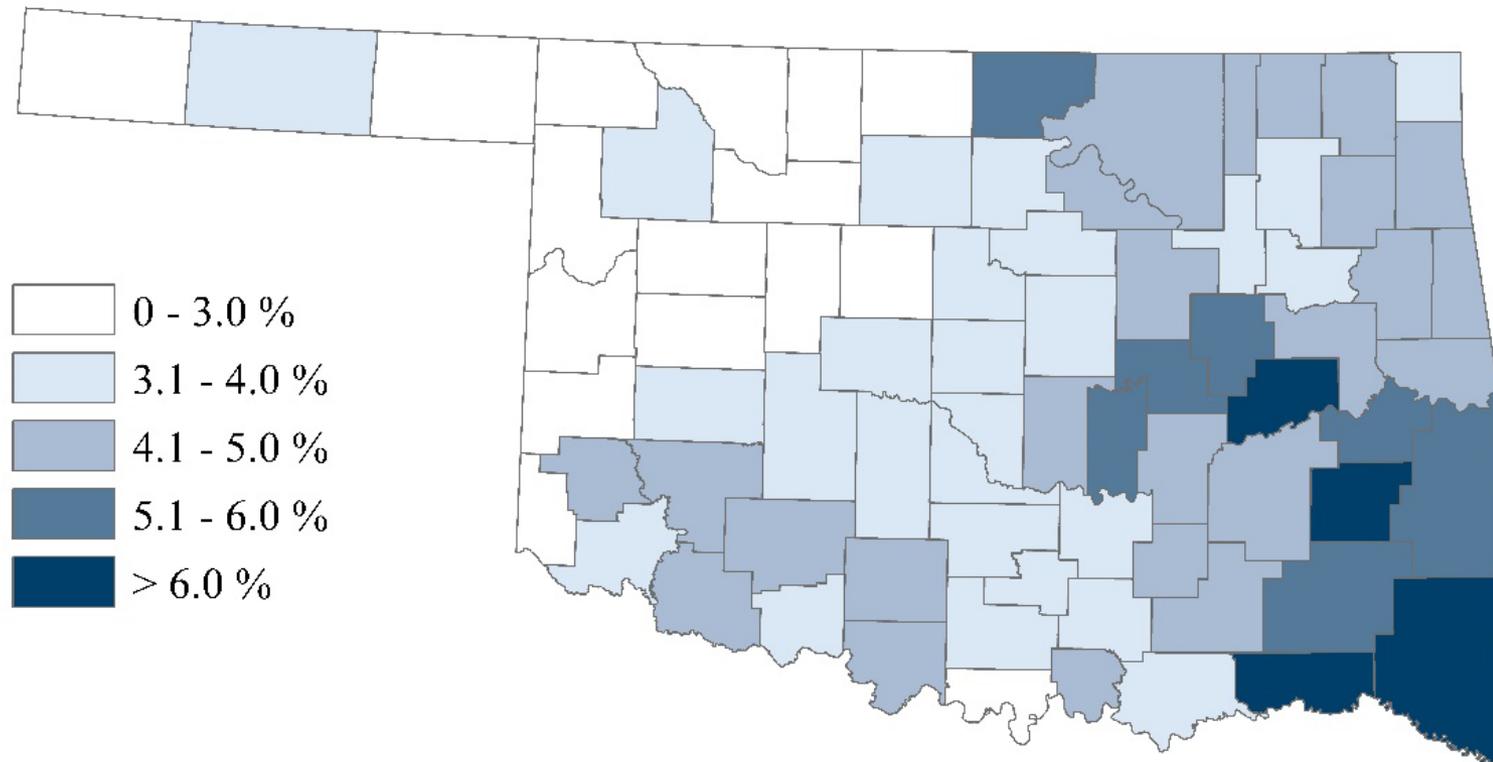
Banking conditions in Oklahoma also remain very good despite the 2015-16 economic slowdown

Share of Banks Not Making a Profit
Commercial Banks



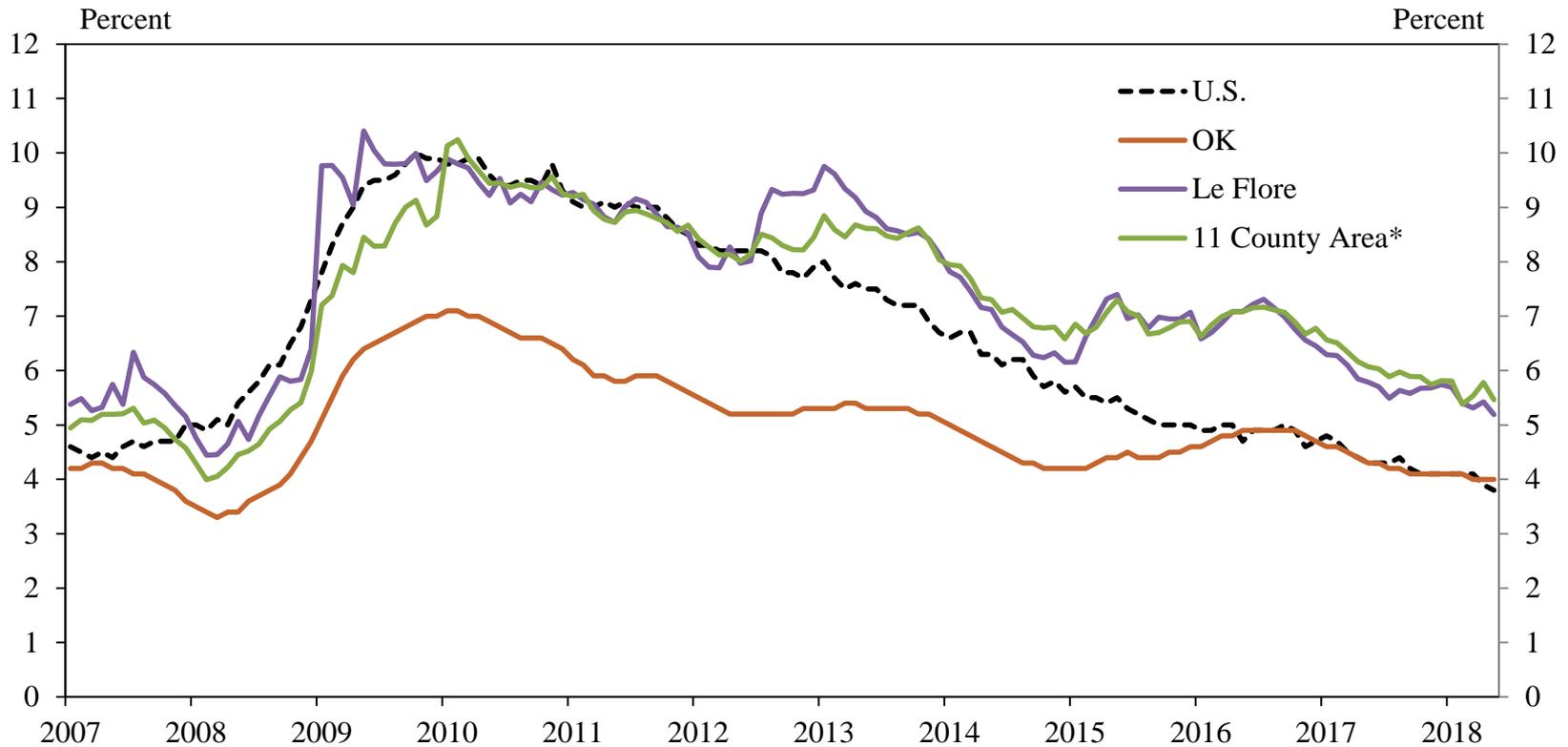
Unemployment is low across most of the state but remains somewhat higher in southeast OK

May 2017 Unemployment Rates



Joblessness around Poteau has come down to about where it was before the Great Recession

Unemployment rates
Seasonally Adjusted



*11 County Area includes the following counties: Adair, Cherokee, Haskell, Latimer, Le Flore, McCurtain, McIntosh, Muskogee, Pittsburg, Pushmataha, and Sequoyah



Source: U.S. Bureau of Labor Statistics

Key industries in Eastern Oklahoma

Personal Income Share by Industry, 2016

Industry	Percent of Total Income				Location Quotient		
	U.S.	OK	Le Flore County	11 County Area	OK	Le Flore County	11 County Area
Agriculture	0.6	1.0	10.0	2.9	1.6	16.3	4.7
Mining	1.1	6.6	5.0	2.6	5.8	4.4	2.3
Federal Government	4.0	5.9	2.2	8.7	1.5	0.6	2.2
State & Local Government	12.6	13.8	31.7	25.8	1.1	2.5	2.0
Transportation & Utilities	4.4	10.7	8.1	5.3	2.4	1.8	1.2
Construction	6.0	6.4	5.6	6.2	1.1	0.9	1.0
Manufacturing	9.4	8.2	7.6	9.8	0.9	0.8	1.0
Trade	10.9	10.2	7.7	8.5	0.9	0.7	0.8
Leisure & Hospitality	4.6	3.8	N/A	2.4	0.8	N/A	0.5
Financial Activities	6.6	3.6	2.6	2.4	0.5	0.4	0.4
Education & Health	12.9	11.5	N/A	4.4	0.9	N/A	0.3
Professional & Business Services	22.8	14.4	N/A	2.2	0.6	N/A	0.1

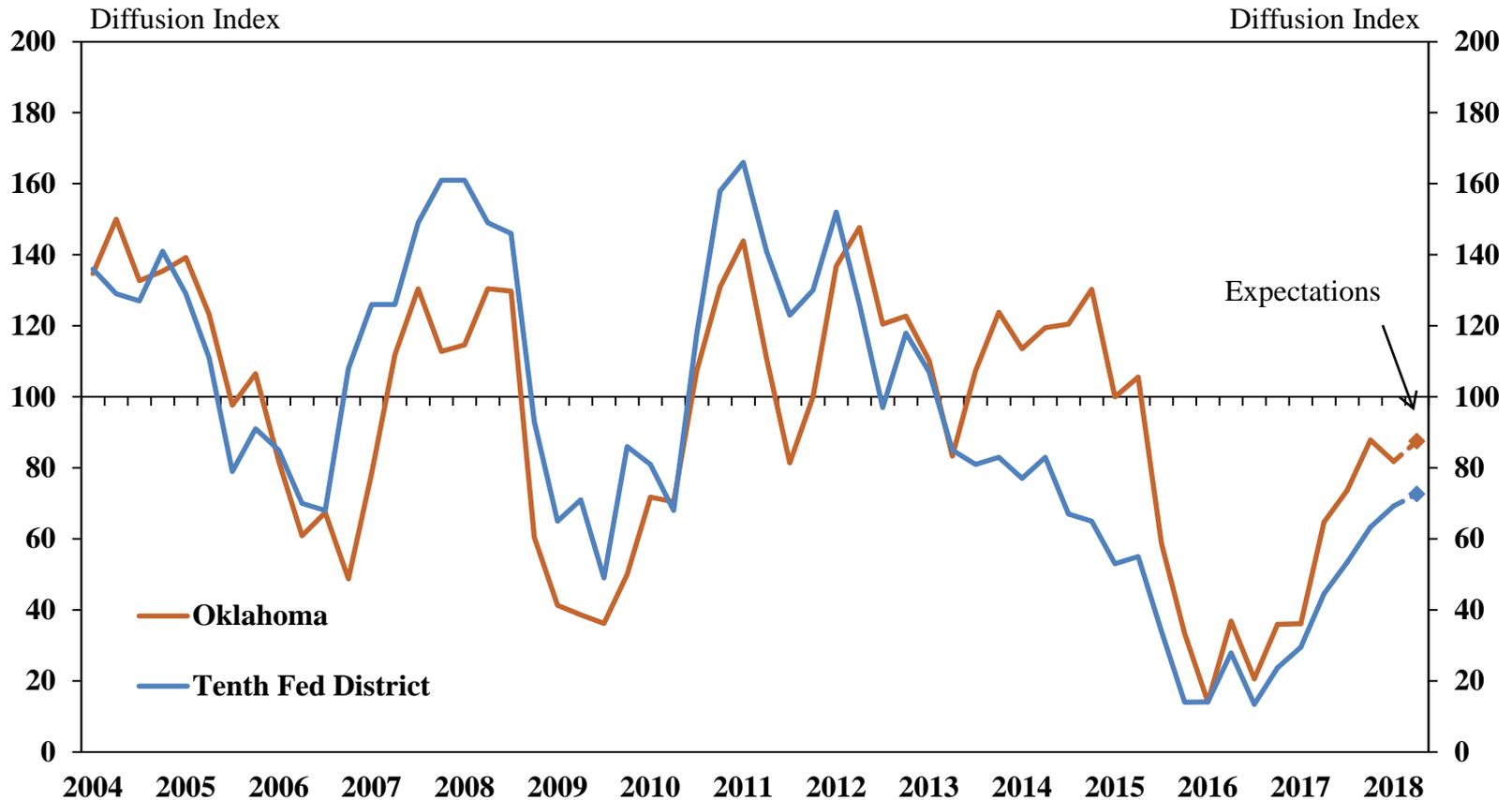
Note: Location quotient is the division of local share by national share

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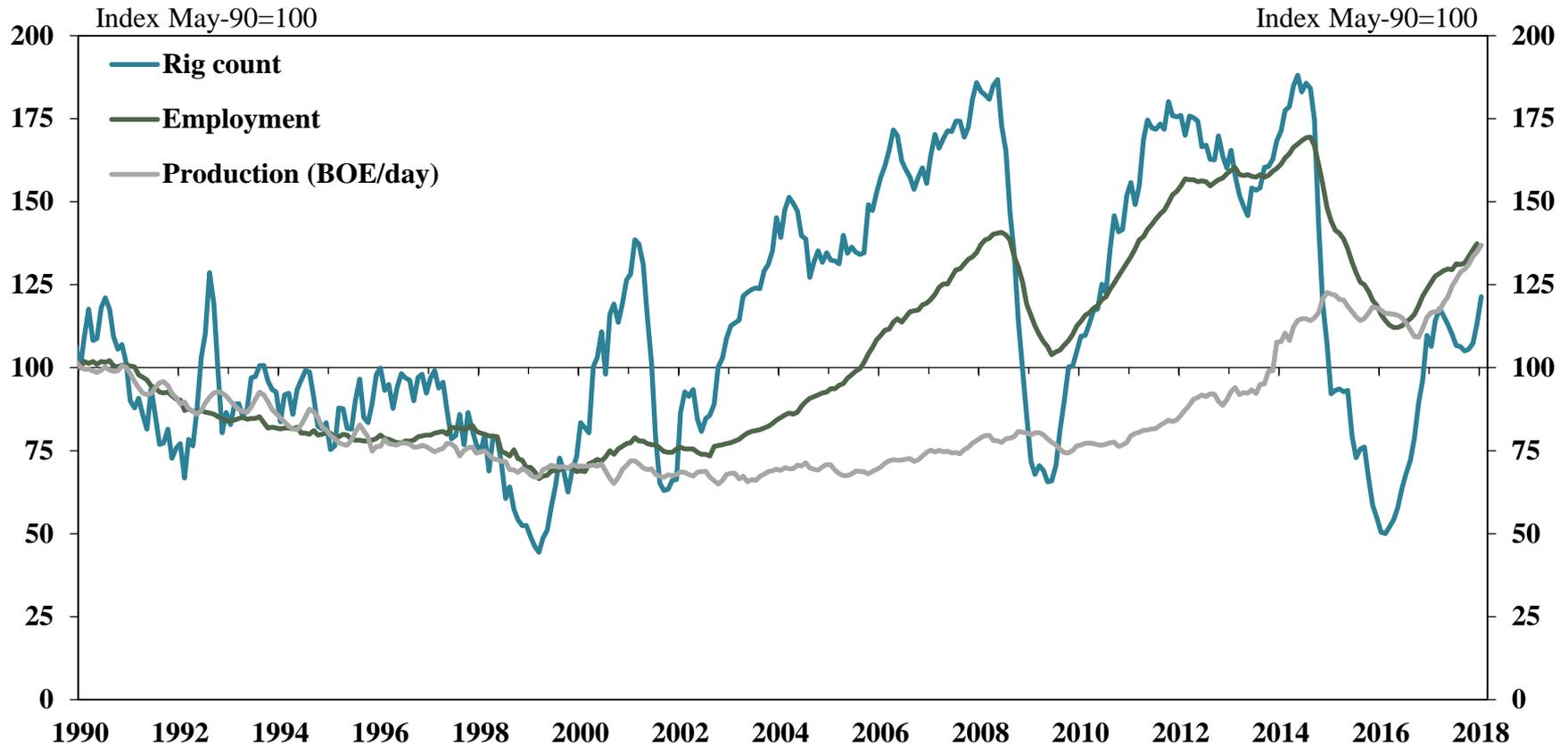
The Oklahoma agriculture sector has shown some signs of stabilizing, with expectations up slightly

Farm Income Indexes



Oil and gas production is at a record high, but with considerably fewer rigs and workers than in the past

Oklahoma Oil & Gas Rig Count, Employment, and Production



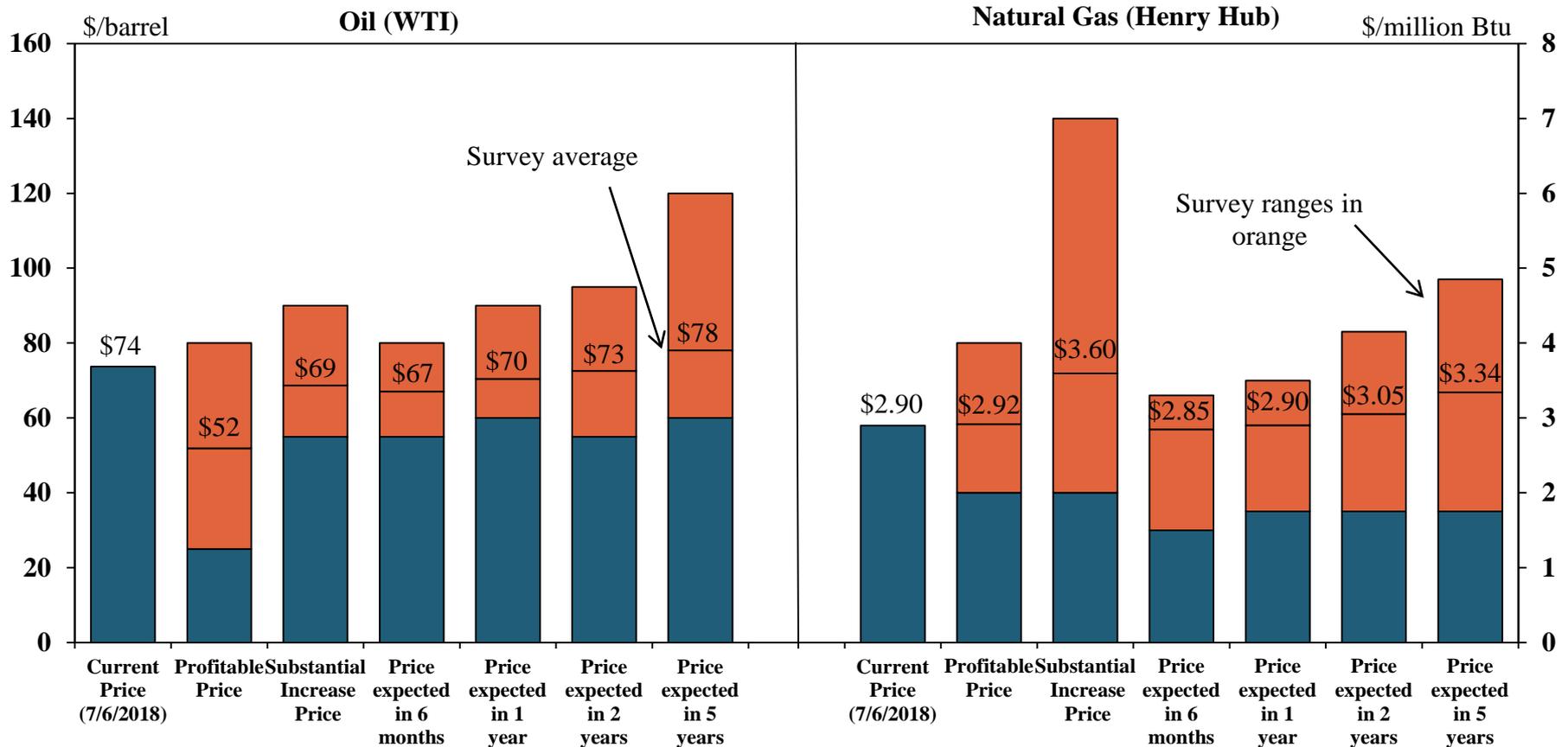
Note: Employment is for total mining and logging, which in Oklahoma is almost completely oil and gas related. Production is shown as a 3-month moving average.



Source: Baker Hughes, EIA/Haver Analytics

Most firms can profitably drill for oil in the areas they are active, and natural gas prices work for some firms

Energy Survey Oil & Gas Prices



Summary

- The U.S. economy continues to grow despite headwinds, and the Fed has been raising rates.
- The state and local economies were hurt by low commodity prices, but now are growing solidly.
- Strong productivity growth in the oil and gas sector could potentially limit future job growth.



Questions?

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