

U.S. and Oklahoma Economic Update

Oklahoma Manufacturing Alliance

November 13, 2017



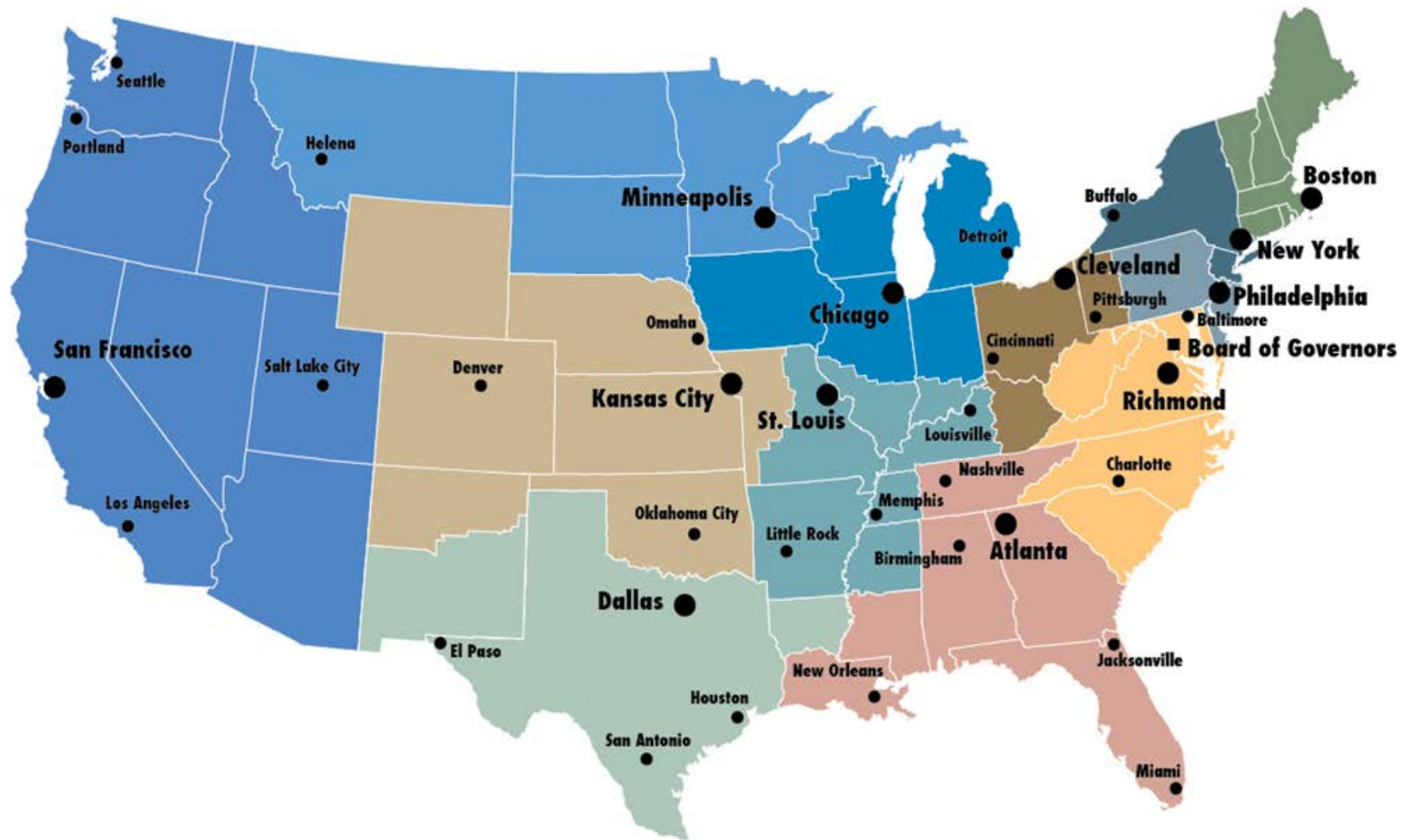
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Federal Reserve Bank of Kansas City

www.kansascityfed.org/oklahomacity

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

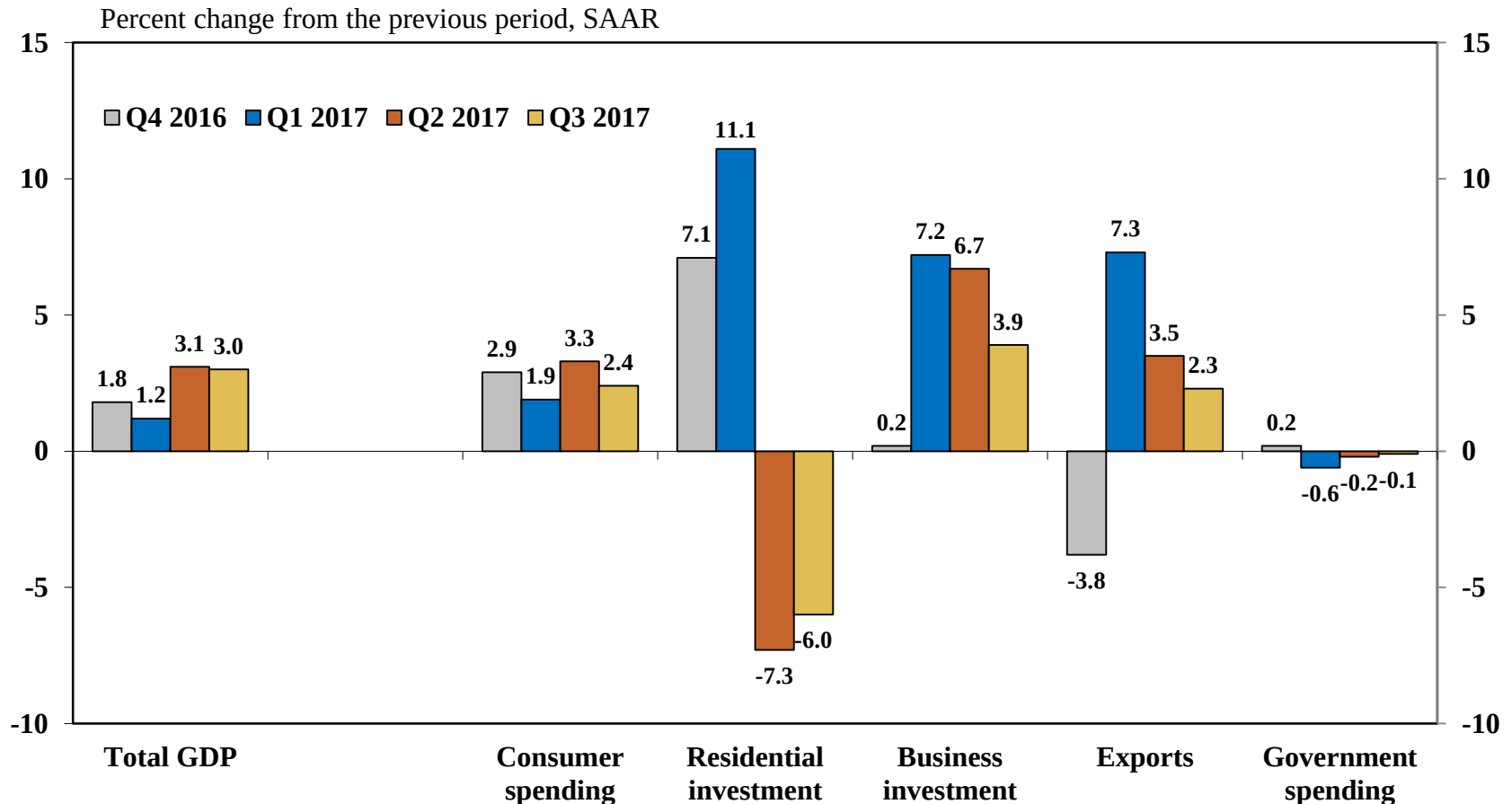
The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

- **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.)
- **2017 OKC Fed Branch Board of Directors**
 - **Pete Delaney (chair)**, Chairman/CEO (retired), OGE Energy Corp., OKC
 - **Clint Abernathy**, Owner, Abernathy Farms, Inc., Altus
 - **Susan Chapman Plumb**, COO, Bank of Cherokee County, Tahlequah
 - **Michael Coffman**, CEO (retired), Panhandle Oil & Gas, Inc., OKC
 - **Chuck Hall**, Chairman & CEO, Exchange Bank & Trust, Perry
 - **Tina Patel**, Co-Owner & CFO, Promise Hotels, Tulsa
 - **Katrina Washington**, Owner/Broker, Stratos Realty, Oklahoma City
- **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

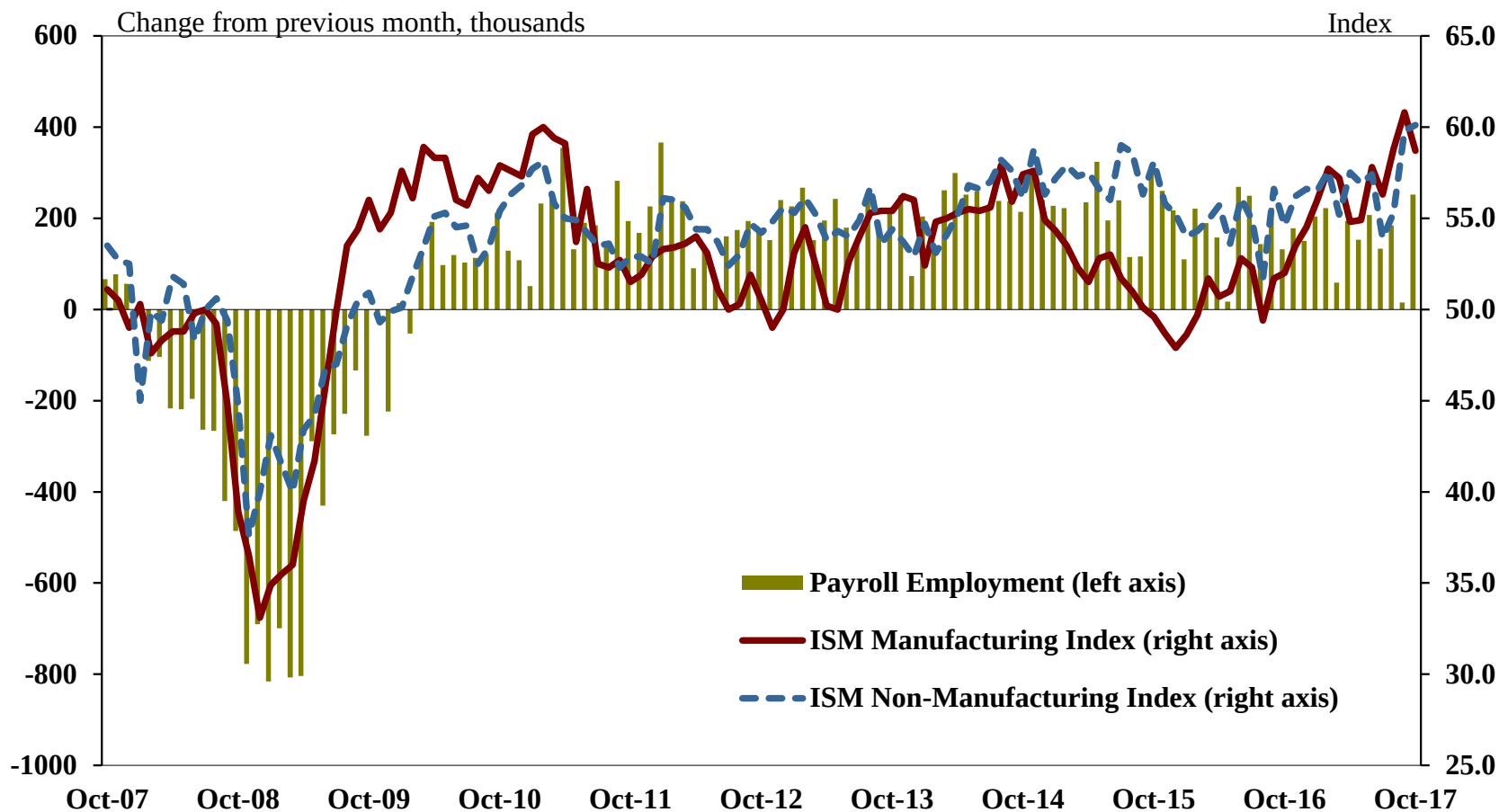
U.S. GDP growth remained solid in the third quarter, largely due to consumer spending

Growth in Components of Real GDP



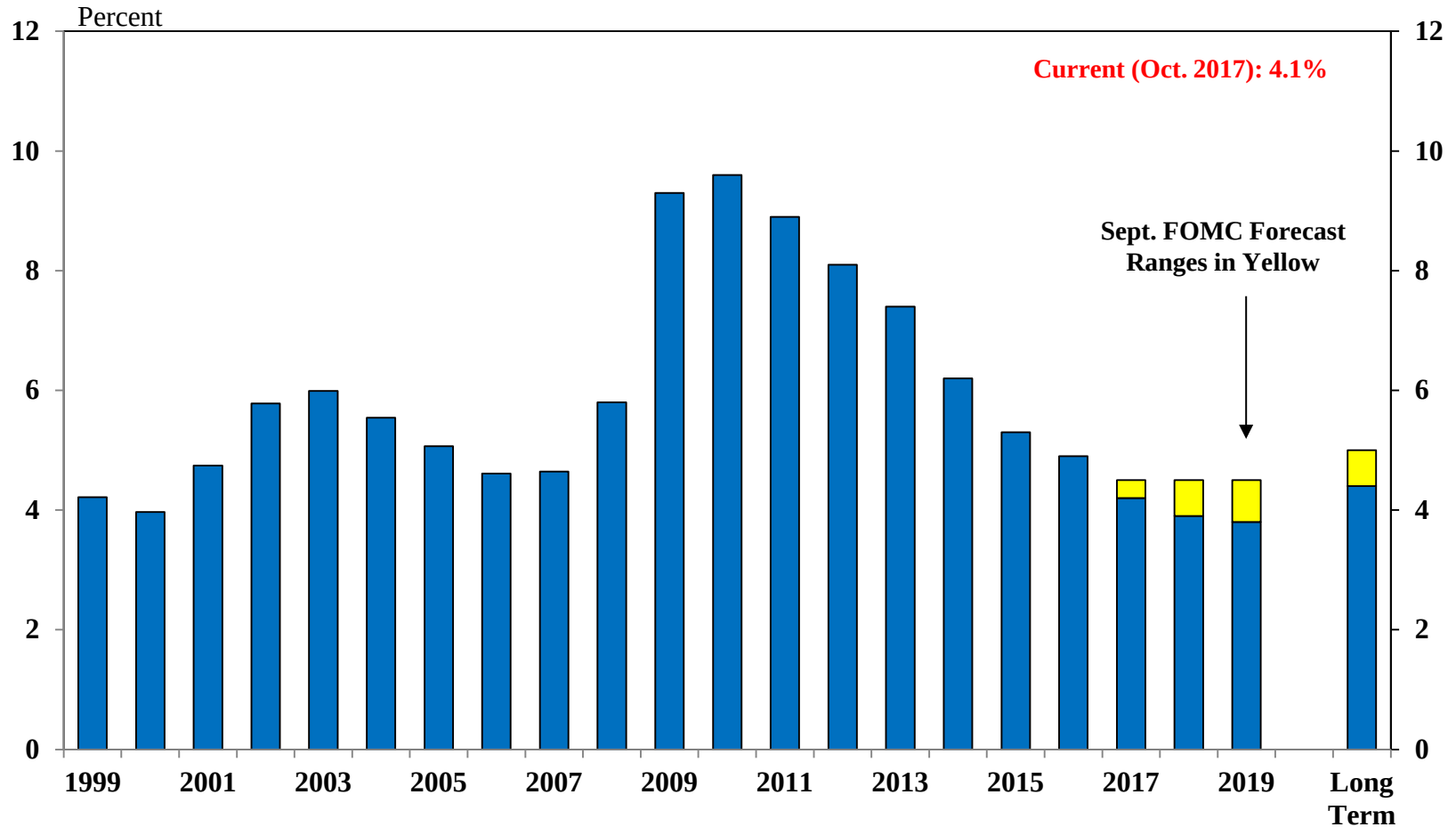
Monthly data on business activity and employment show U.S. growth remained solid through Q3 2017

U.S. Payroll Employment and Business Indexes



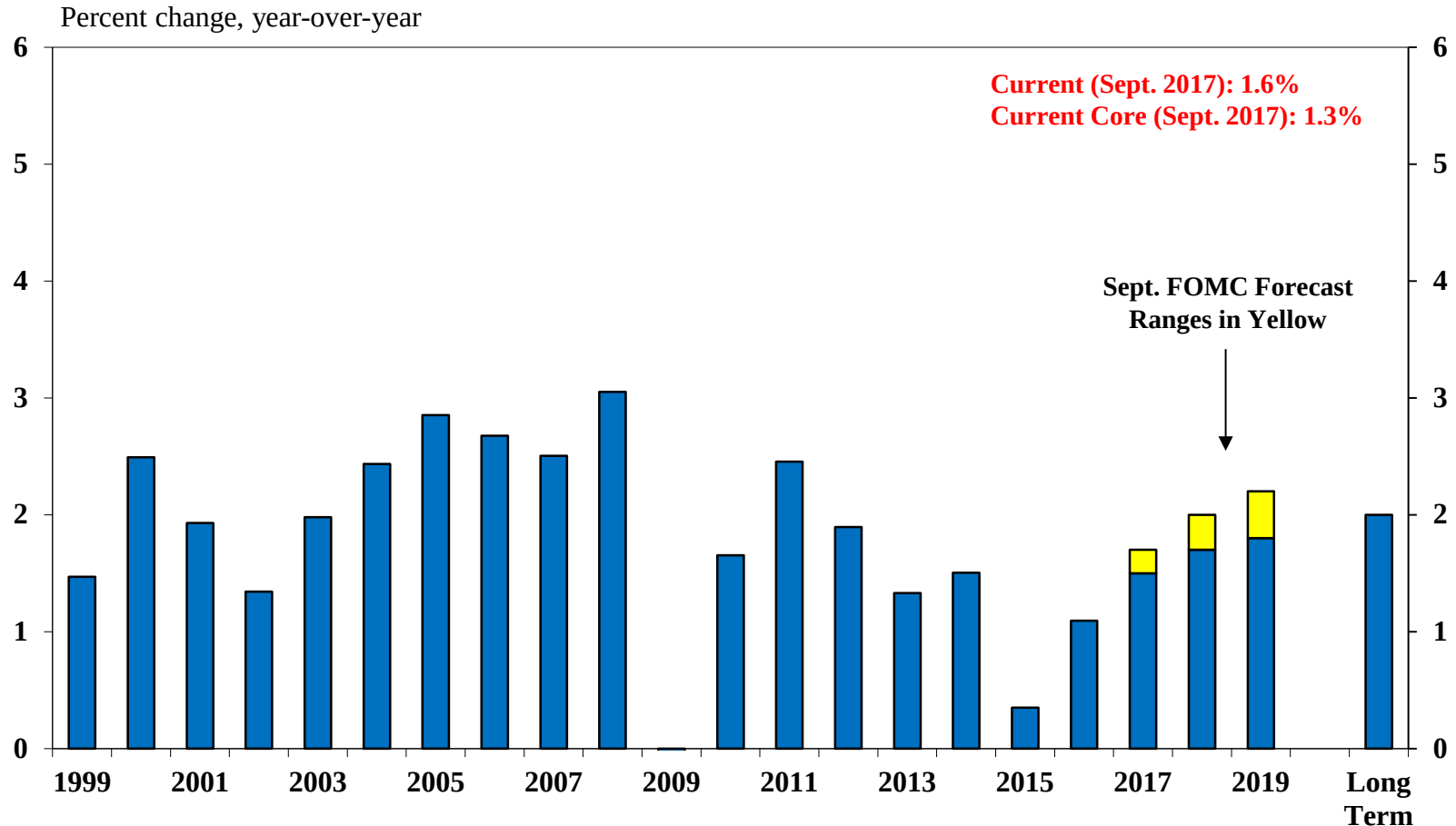
FOMC: “Job gains have remained solid in recent months, and the unemployment rate has stayed low.”

Unemployment Rate
Seasonally Adjusted

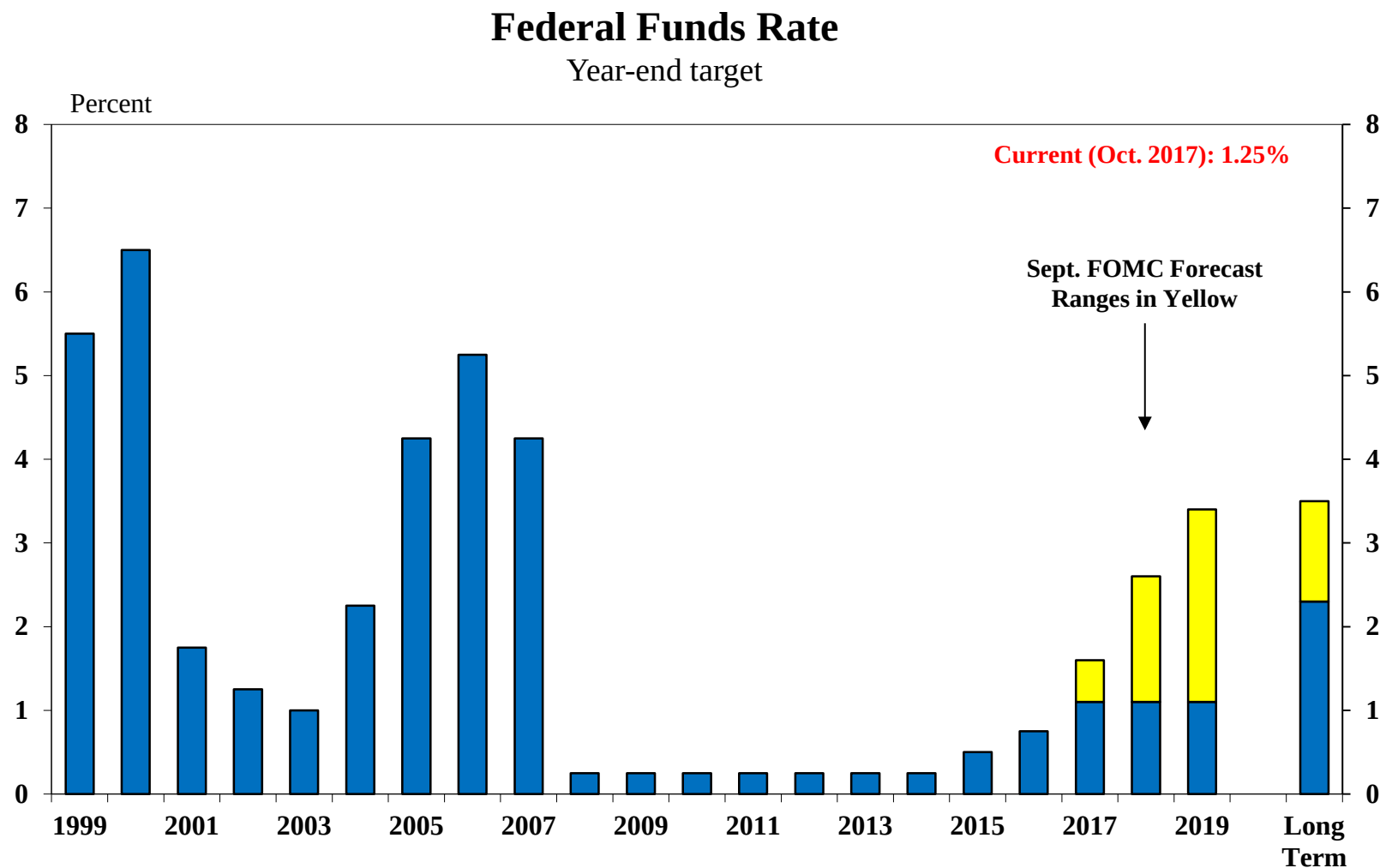


FOMC: “Inflation...is expected to...stabilize around the Committee’s 2% objective over the medium term”

PCE Inflation Index

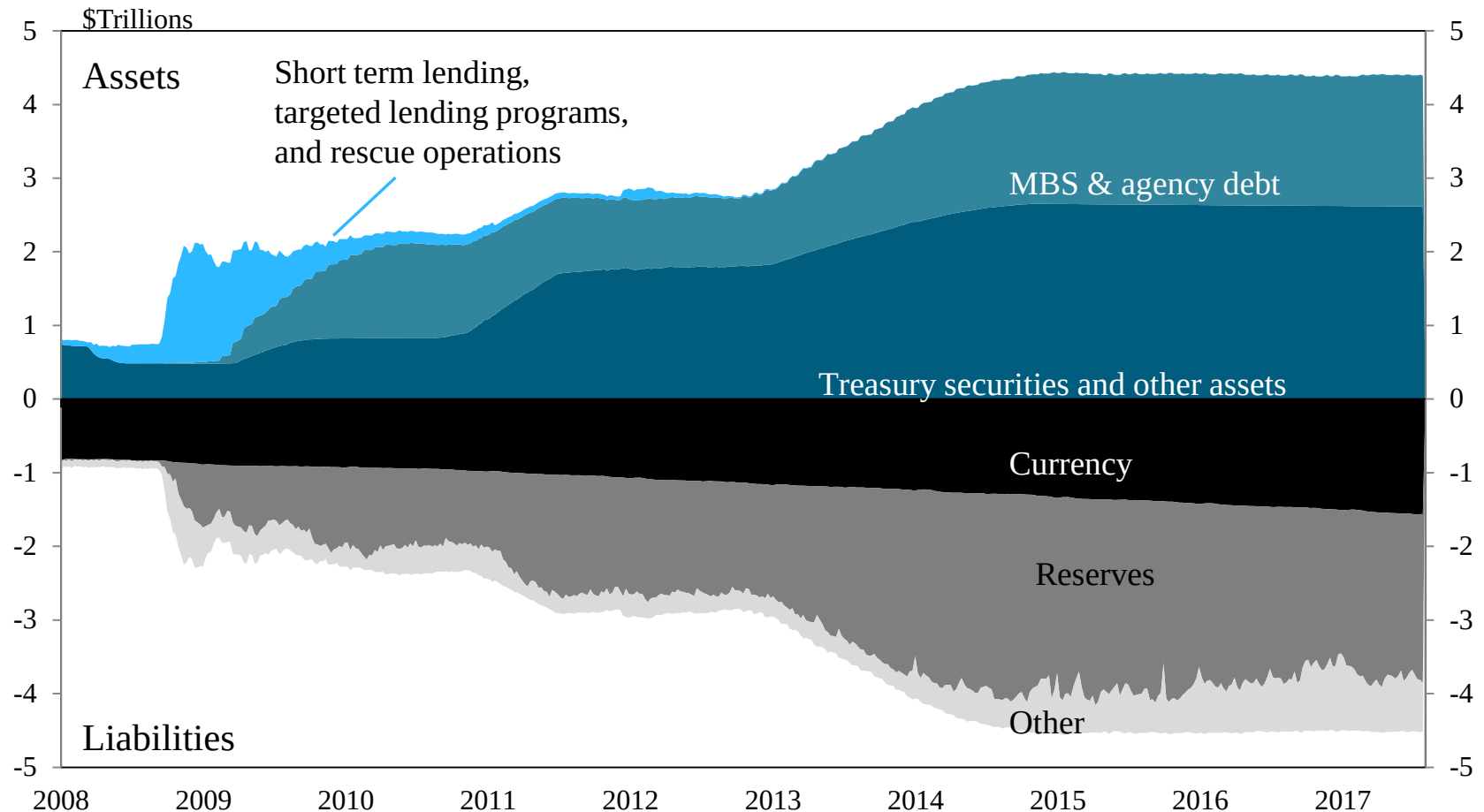


FOMC: “The Committee expects...conditions will evolve in a manner that will warrant gradual [rate] increases”



FOMC: “In October, the Committee will initiate the balance sheet normalization program”

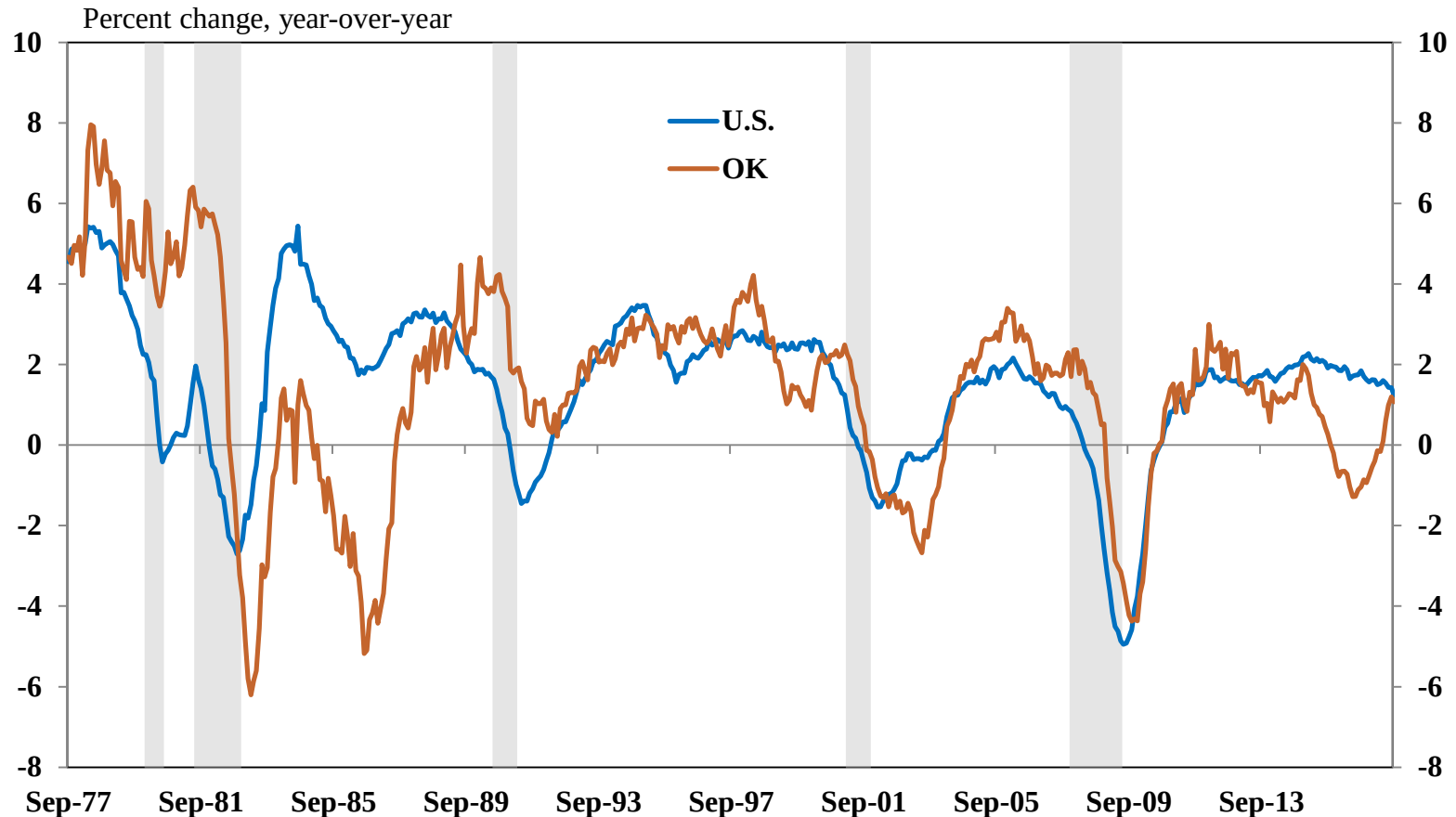
Federal Reserve Balance Sheet



Trends in the Oklahoma Economy

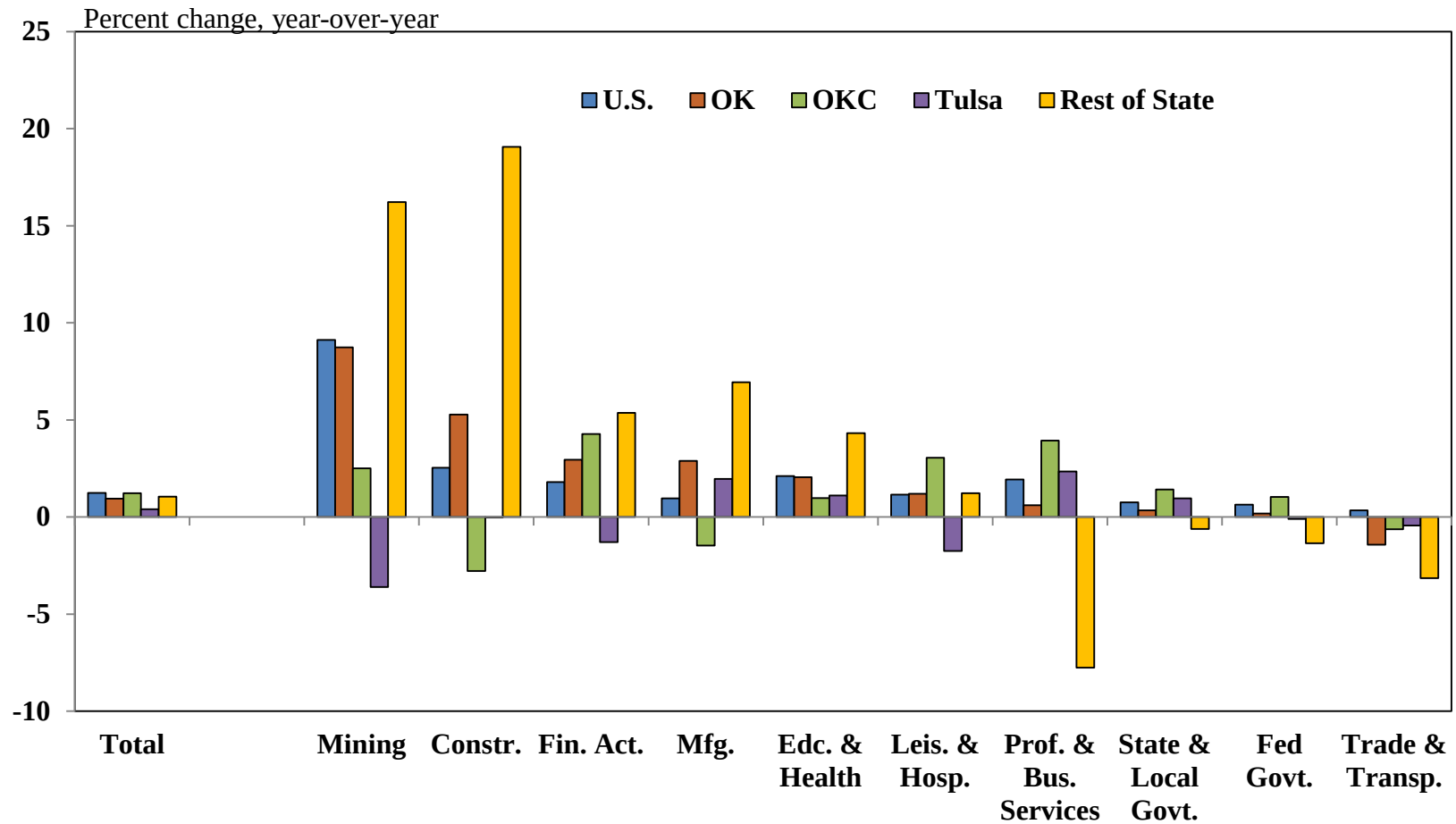
2015-16 was the largest divergence between U.S. & OK job growth since the '80s, but gap is closing

Payroll Employment Growth

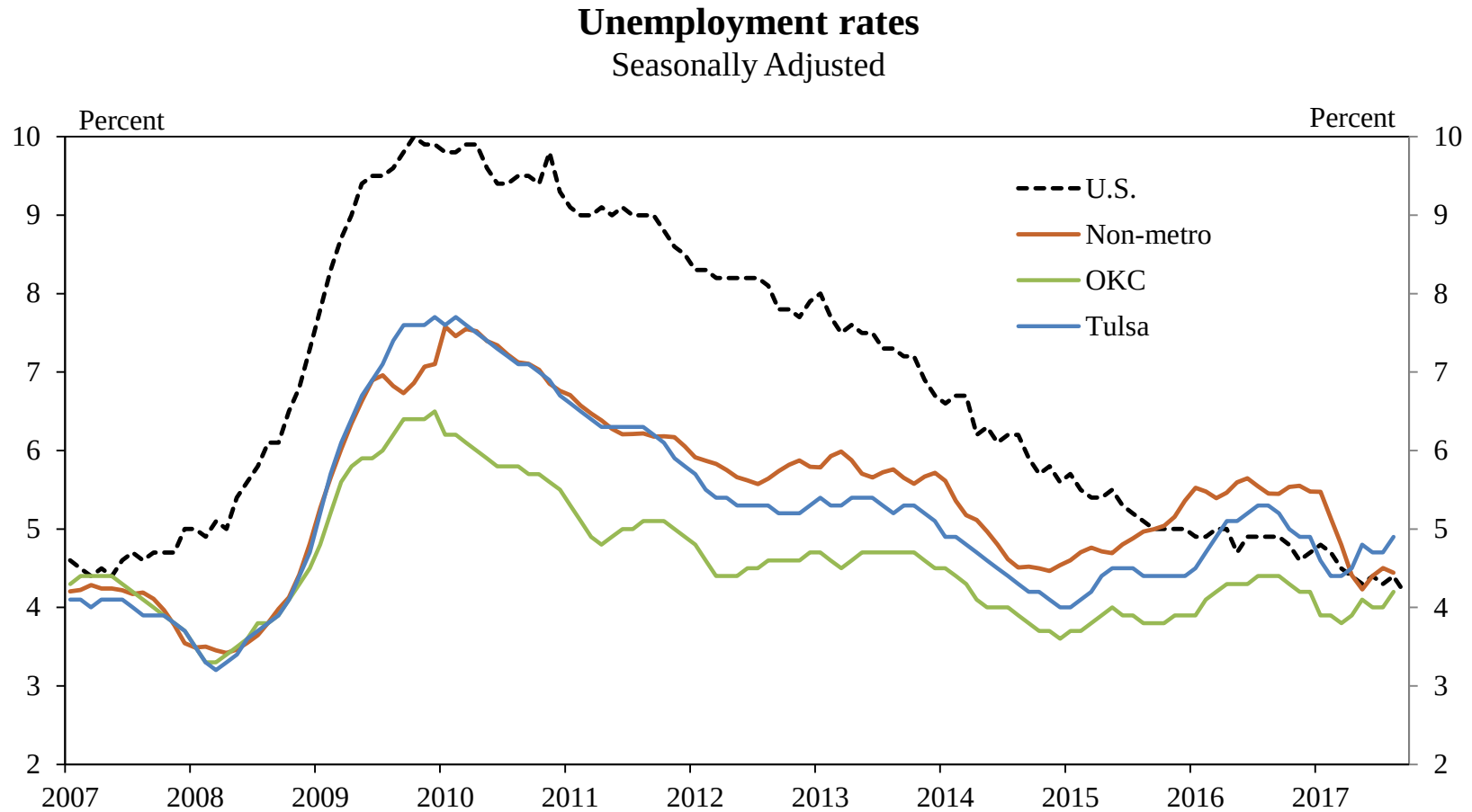


So far in 2017, goods-producing industries have mostly led the way in state job growth

Oklahoma Job Growth by Industry
Sept-17

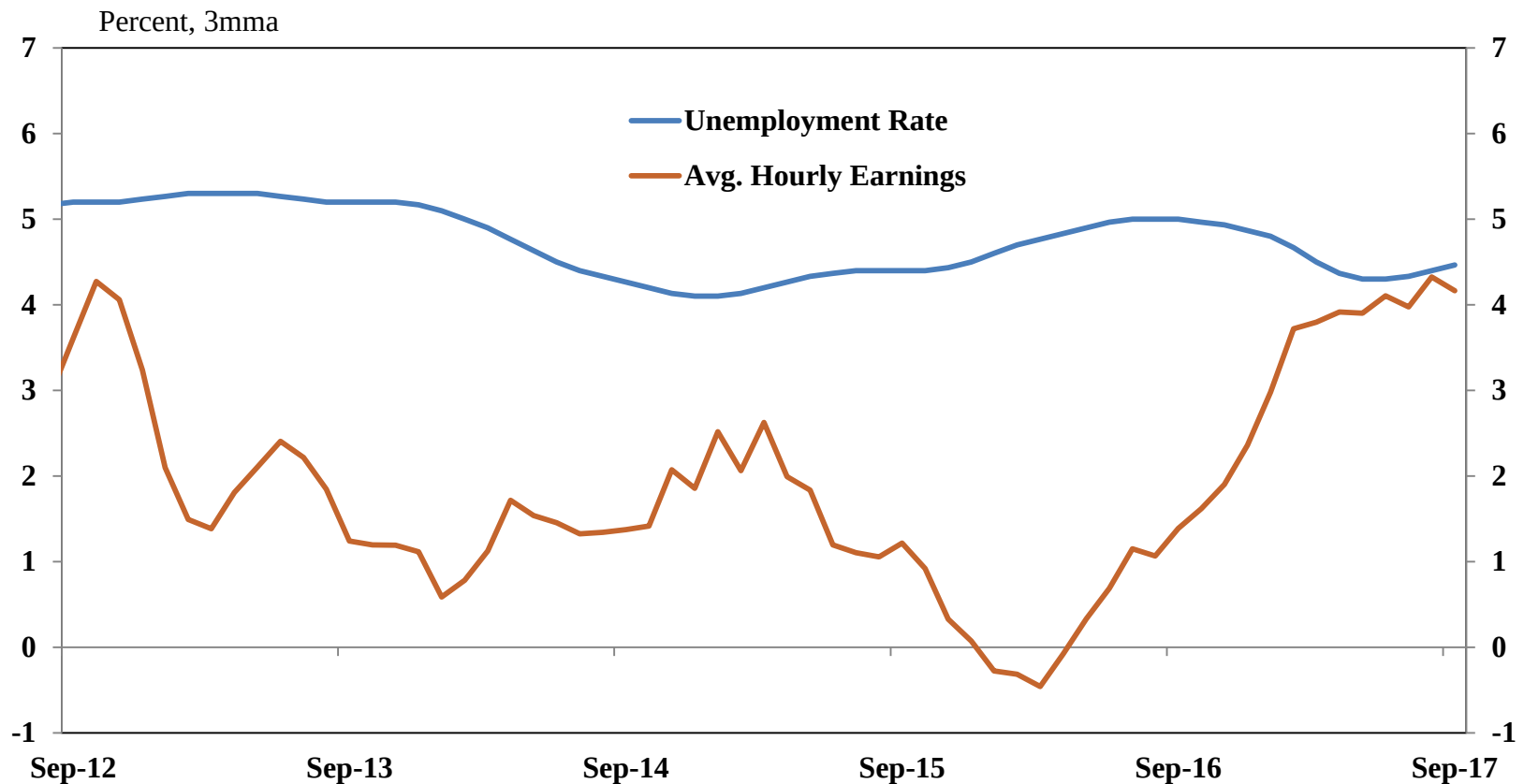


Despite the economic downturn of recent years, unemployment is low in most of the state



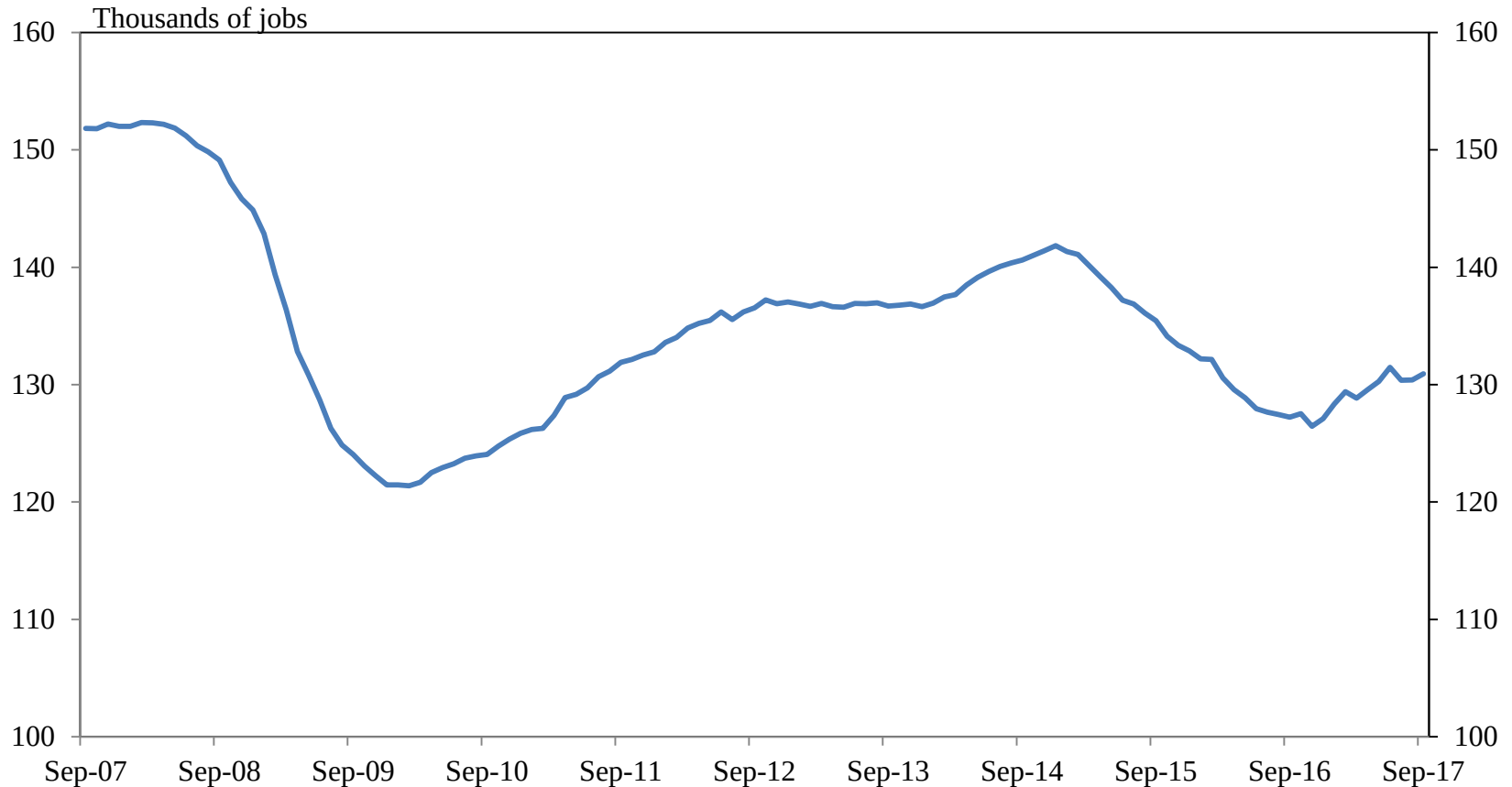
As unemployment has come back down this year, wage pressures have increased

Unemployment Rate and Average Hourly Earnings



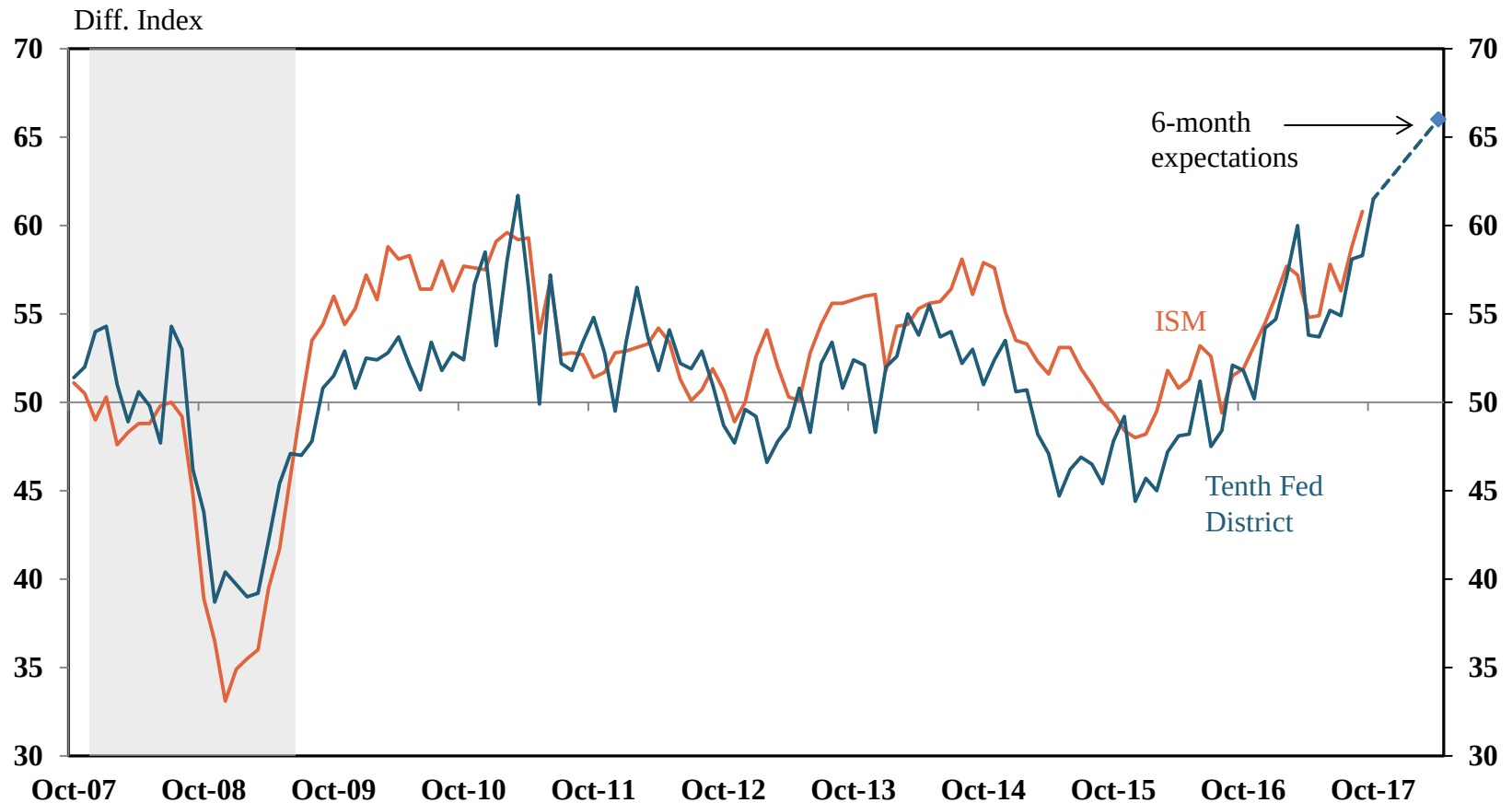
Manufacturing jobs in the state have stabilized the past few months following a steep decline

Oklahoma Manufacturing Employment, Seasonally Adjusted



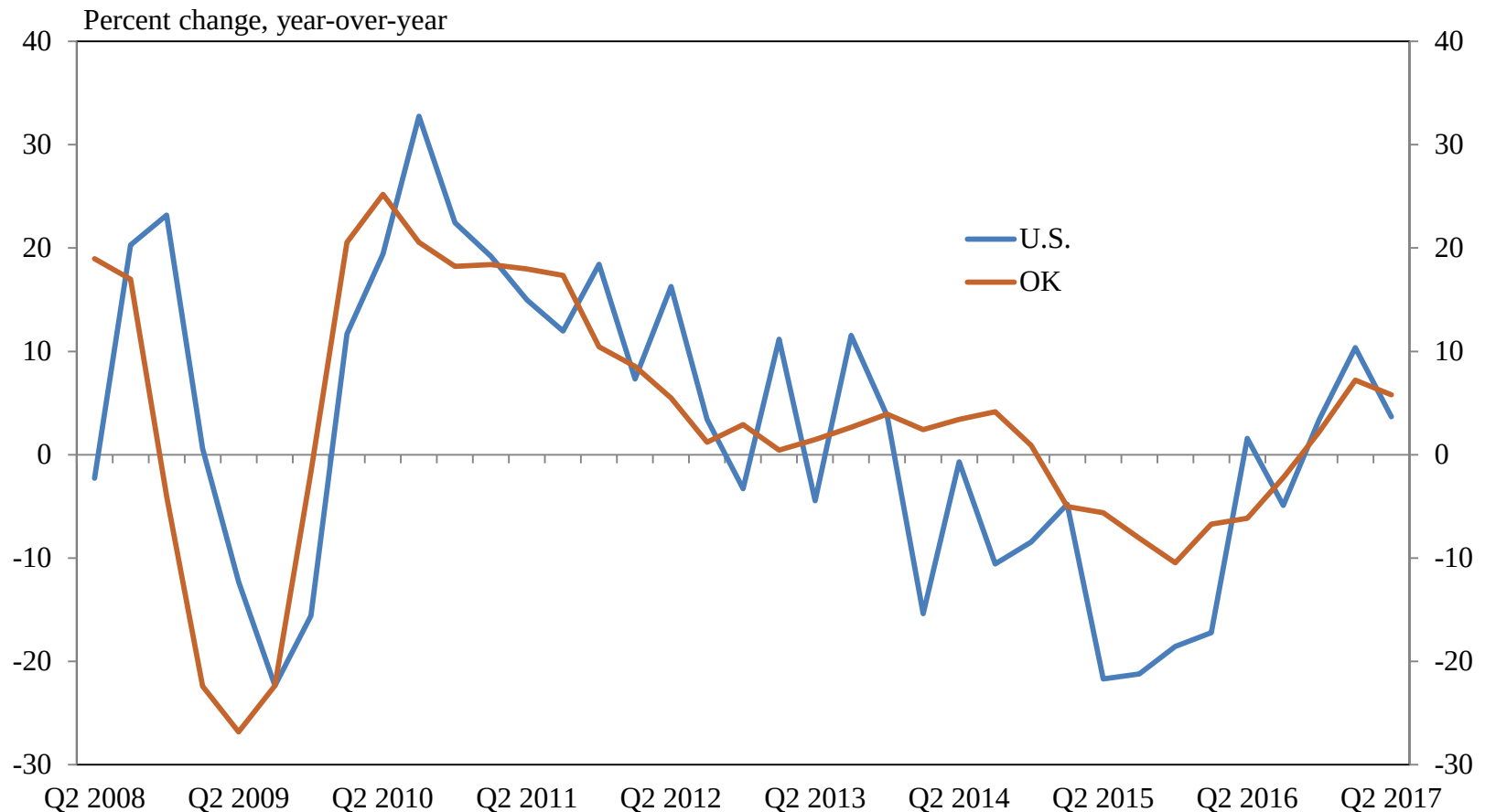
Regional factory activity has continued to improve in recent months, with optimism high

Manufacturing Composite Indexes, Seasonally Adjusted



In other positive news, exports have picked up in both Oklahoma and the U.S.

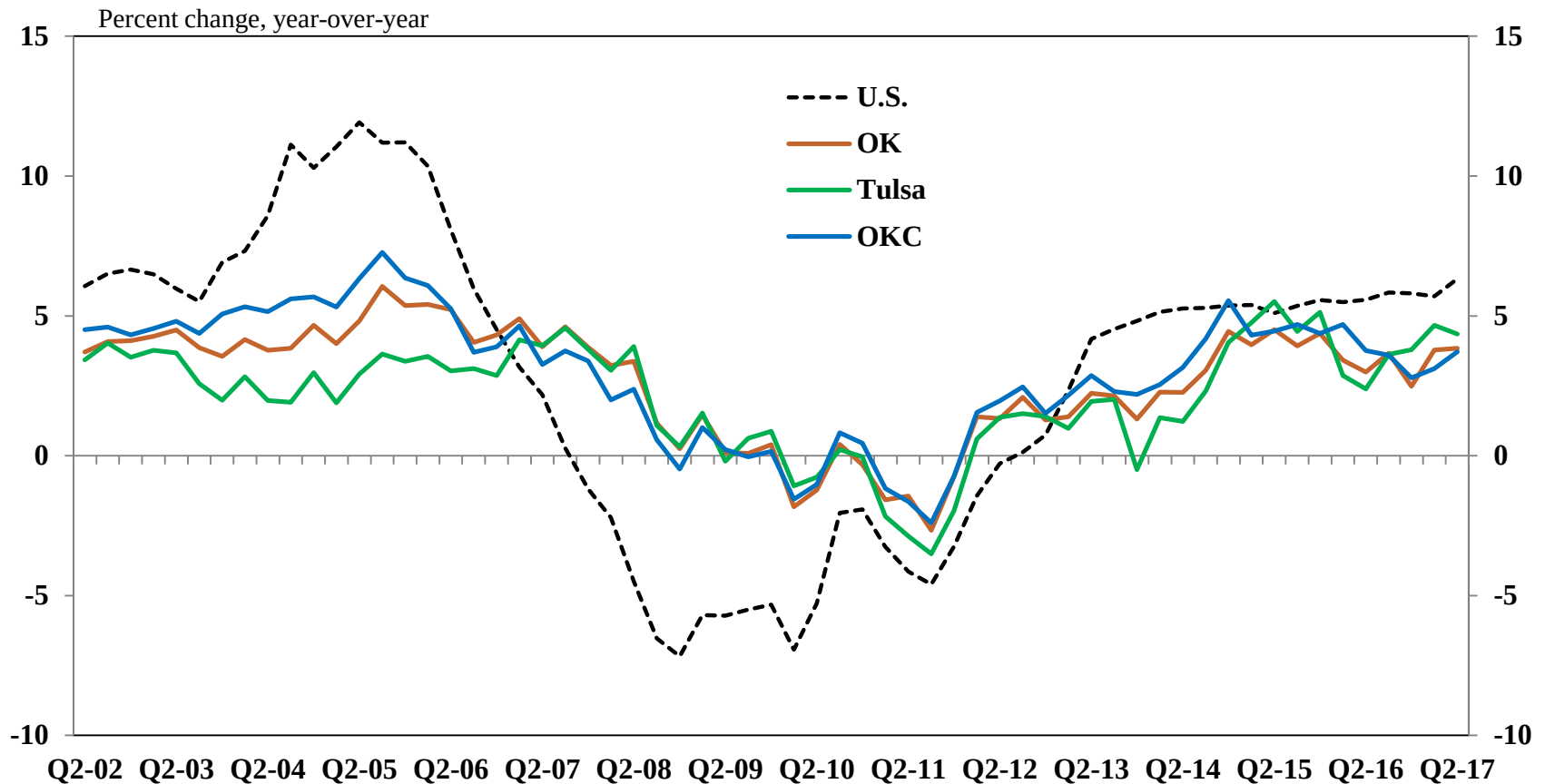
Total Export Value



Source: FRBKC

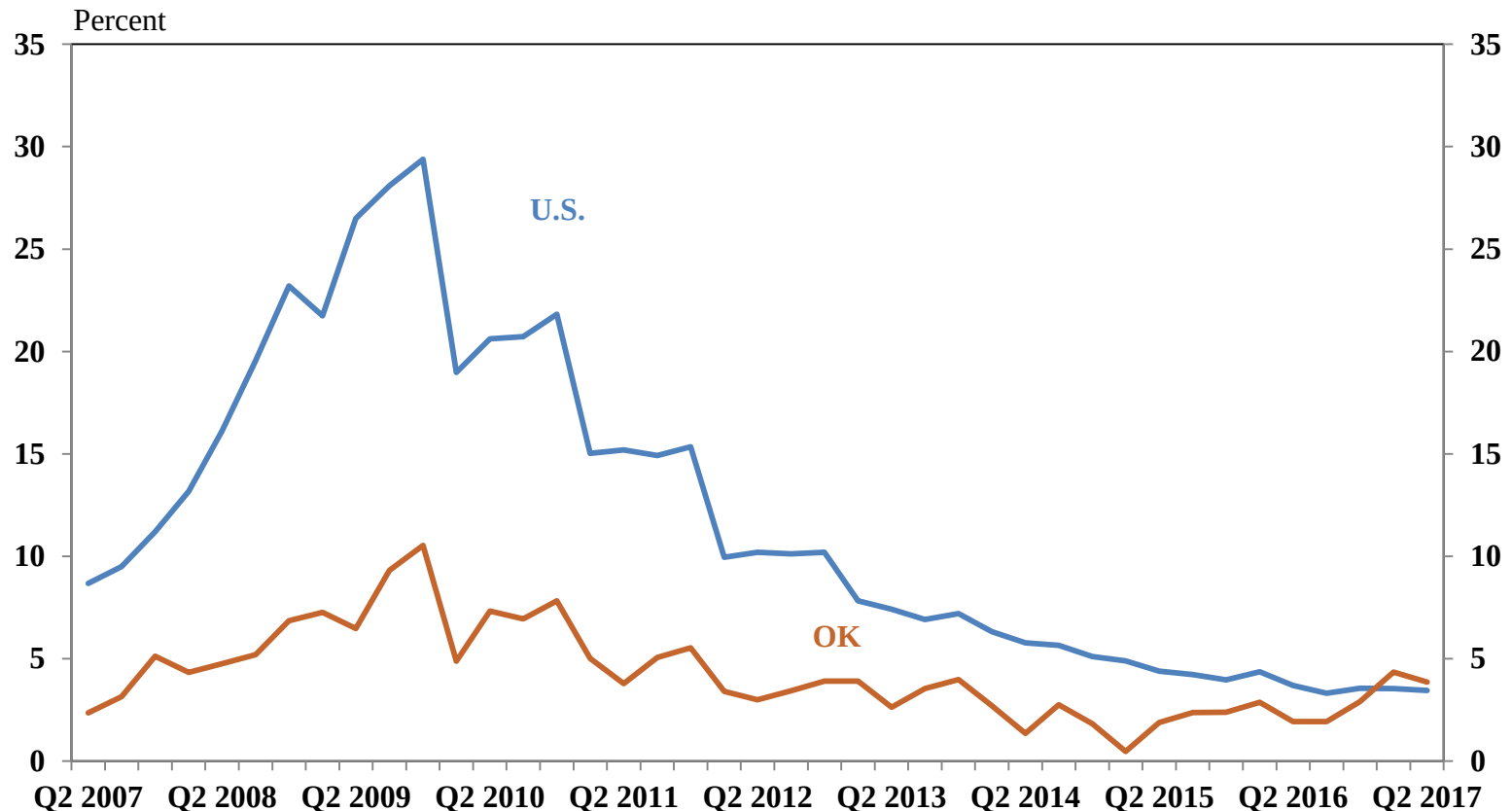
In housing, average home price growth across the state has slowed, but remains moderately positive

FHFA Home Price Index
Seasonally Adjusted



Banking conditions also remain solid overall in the state despite recent economic weakness

Share of Banks Not Making a Profit
Commercial Banks



Ag and energy are much bigger in OK than the US, and despite recent struggles, have done well since '01

Oklahoma Personal Income Share by Industry, 2015

	Percent of Total Income									Avg Annual Growth in Non-Metro OK 2001-2015*
Industry	U.S.	OK	OKC	Non-Metro						
				Tulsa	OK	NW	NE	SW	SE	
Mining	1.6	10.8	9.3	13.5	10.4	11.2	8.7	5.4	7.1	11.4
Farming	0.8	1.6	0.3	0.3	5.3	8.7	3.8	2.7	3.8	6.3
Construction	6.1	6.1	6.2	5.9	6.3	6.9	5.8	5.0	6.3	4.8
State & Local Government	13.2	12.3	12.1	6.1	20.3	18.3	19.7	14.8	24.1	4.6
Trade, Transportation & Utilities	16.2	21.8	16.9	30.3	16.4	n/a	n/a	n/a	n/a	4.3
Education & Health	13.3	10.2	12.5	9.5	8.5	n/a	5.0	4.8	n/a	3.8
Federal Government	3.0	5.3	7.6	1.3	3.6	2.8	4.9	19.3	3.0	3.3
Information	3.5	1.5	1.7	1.5	1.1	n/a	0.9	n/a	0.8	3.0
Leisure & Hospitality	4.7	3.5	4.8	2.3	3.1	n/a	2.5	n/a	n/a	2.9
Financial Activities	7.1	3.4	4.5	7.0	2.5	n/a	2.6	2.7	2.3	2.9
Manufacturing	10.1	8.2	5.8	9.7	9.2	7.2	11.0	n/a	9.7	1.0
Prof. & Business Services	20.3	6.9	8.5	7.0	4.2	n/a	3.1	n/a	n/a	0.2

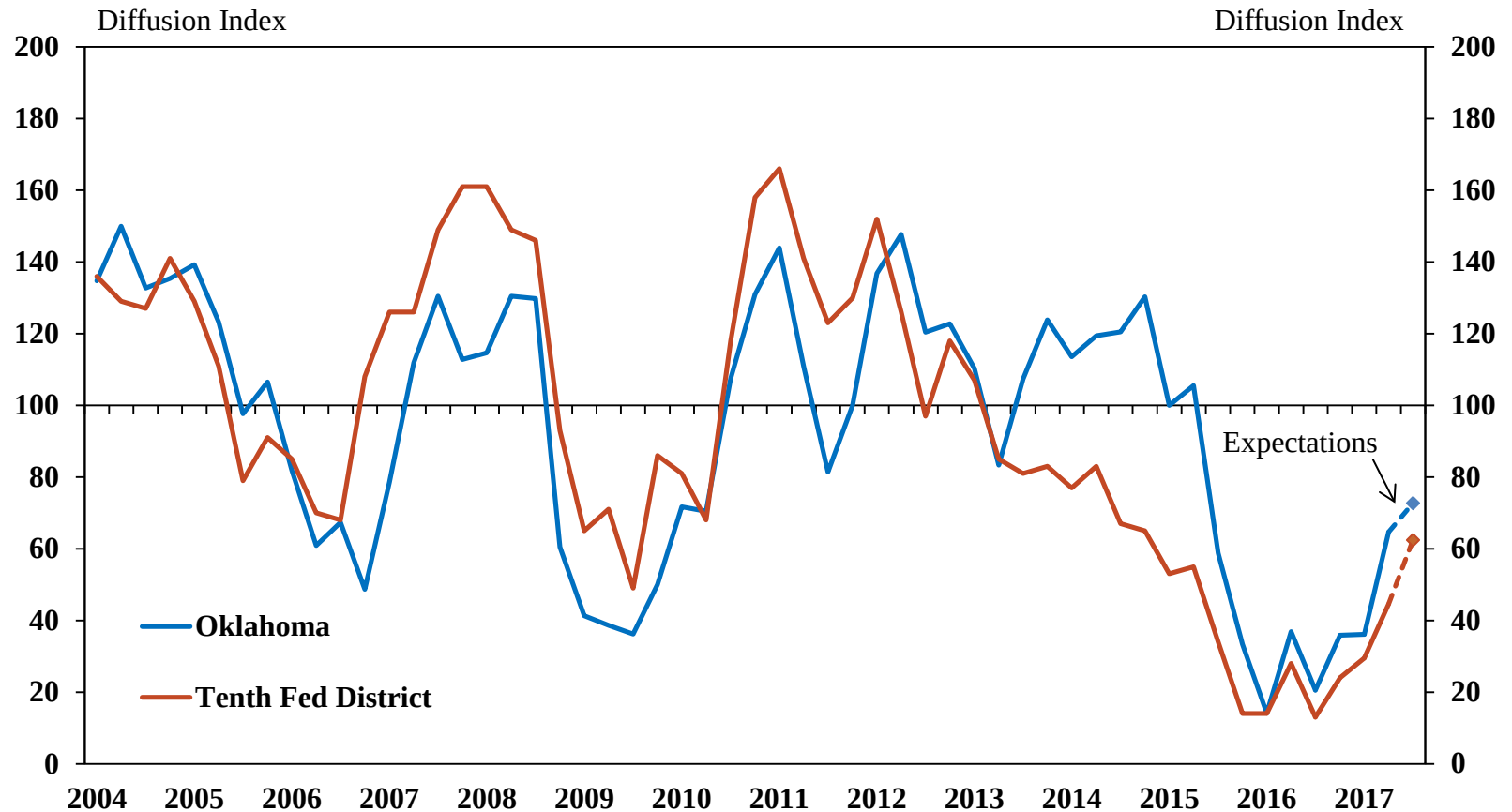
Note - 2014 percent of total income for TTU and Leis. & Hosp. in Non-metro regions.

*Mining from 2002, TT&U from 2013-2014, Prof. & Bus. Services and Ed. & Health from 2013, Leis. & Hosp. from 2002-2014.



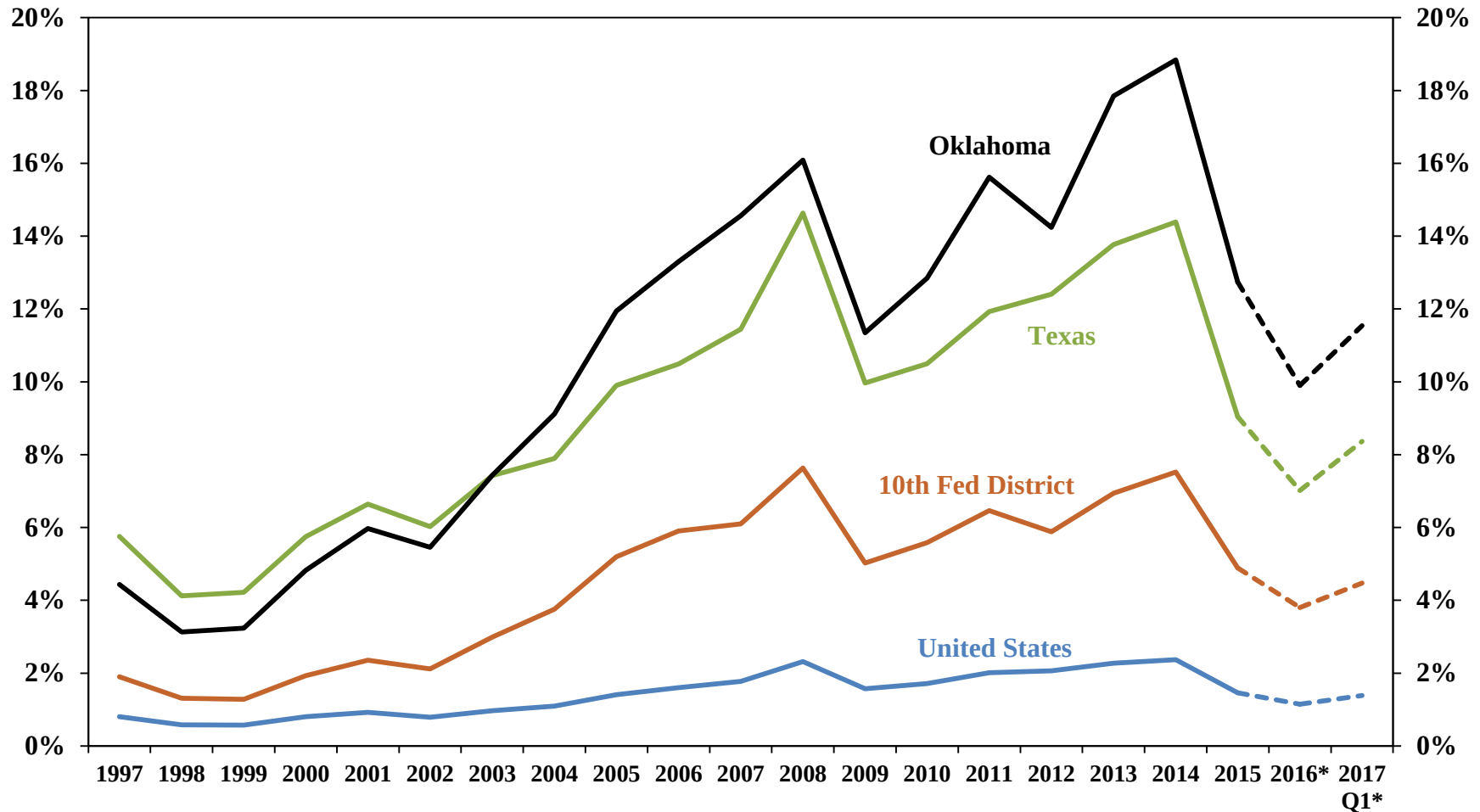
The agriculture sector in the state generally remains weak, though less so than last year

Tenth District Farm Income



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



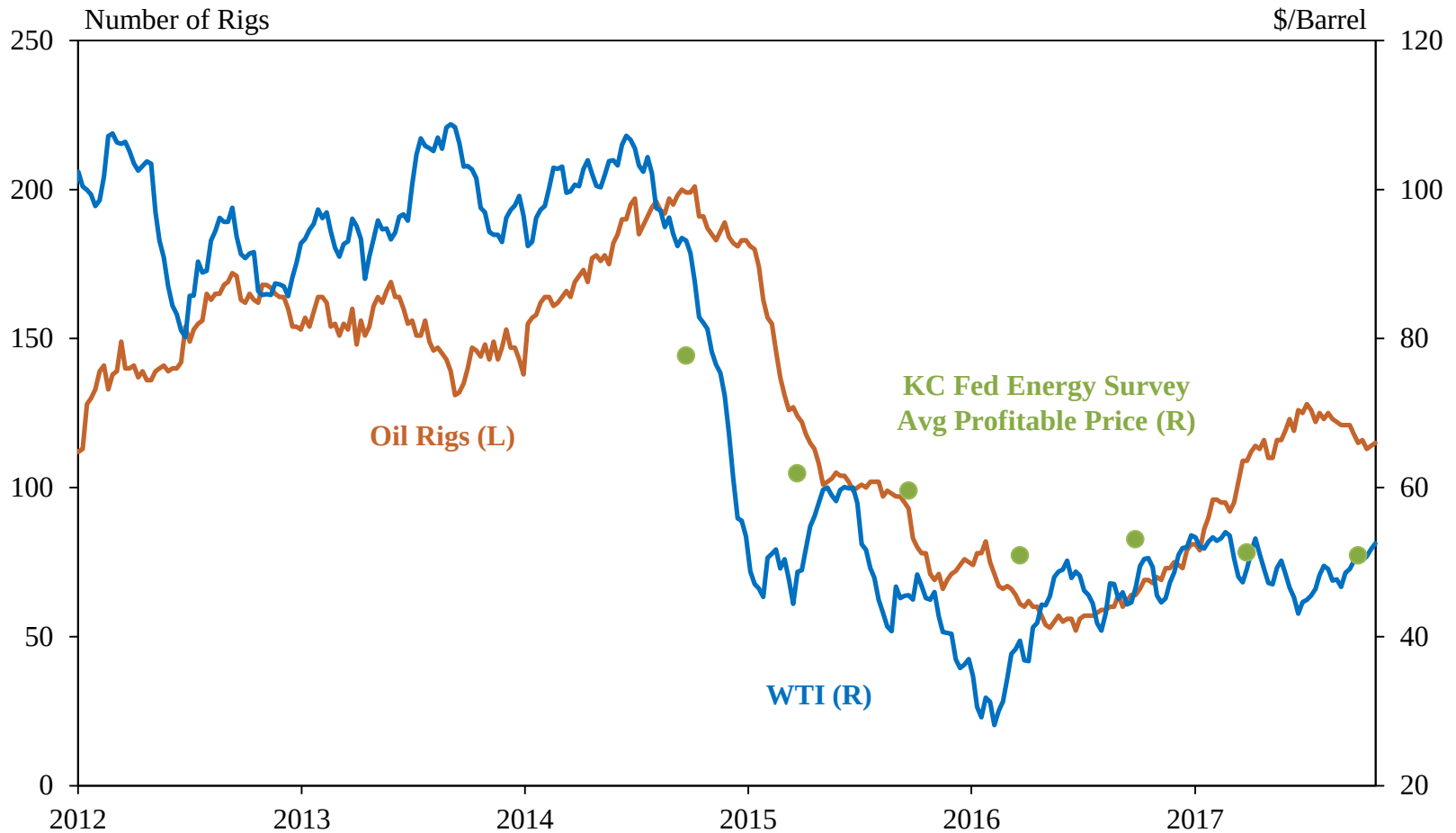
*Oil & Gas Sector = NAICS 211 + NAICS 213;
2016-17 estimates based on size of overall Mining sector



Source: U.S. Bureau of Economic Analysis; author's calculations

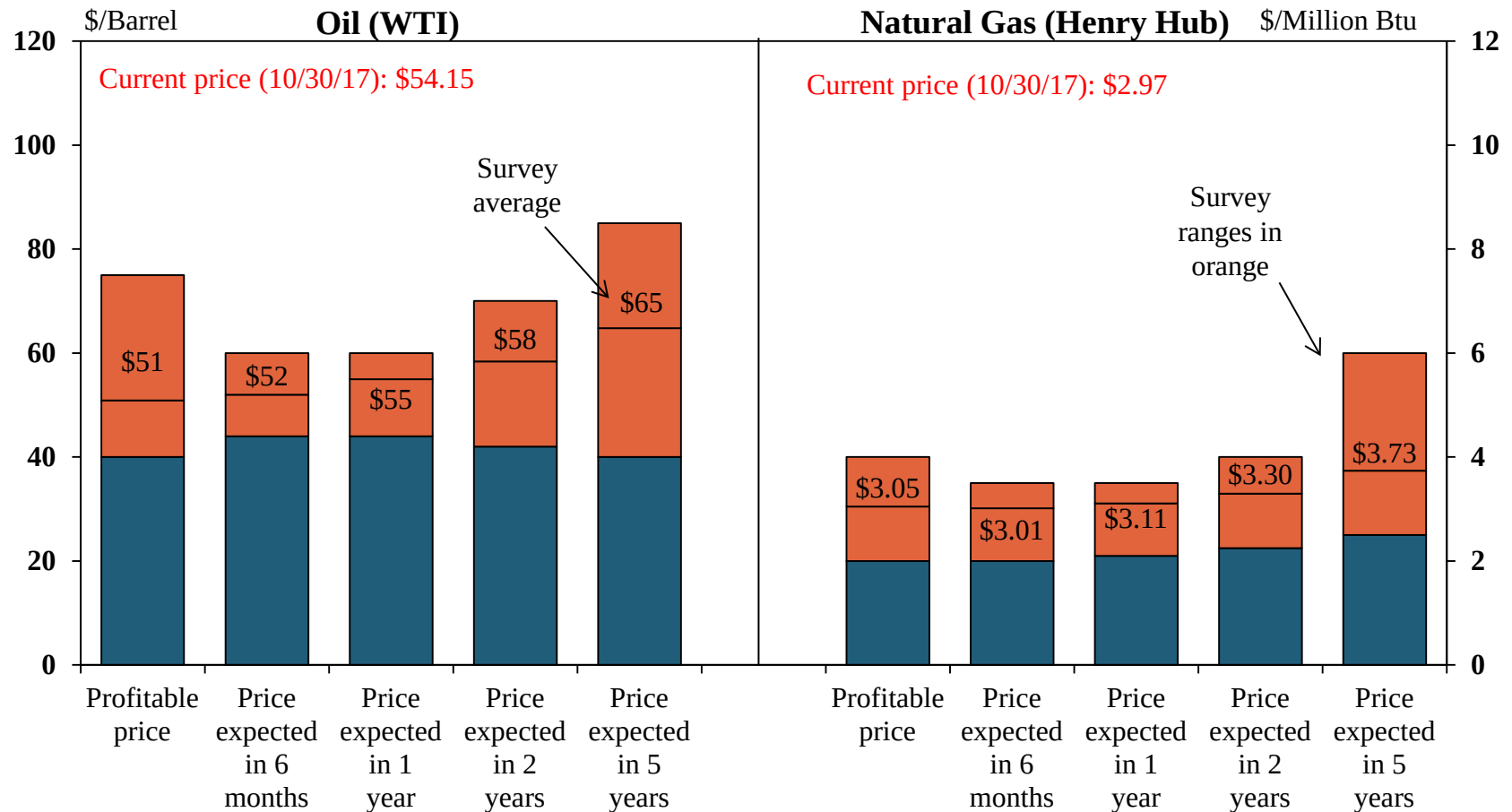
The number of oil rigs in Oklahoma rose strongly in the first half of 2017 but has since tapered off

WTI Spot Price vs. Oklahoma Rig Count



Oil prices remain profitable for some District firms, but are not expected to rise considerably

Tenth District Energy Survey Profitable Prices and Near-term Expectations



Summary

- The Oklahoma economy has been hurt by low commodity prices, but has stabilized in 2017.
- Manufacturing has rebounded solidly, with strong growth expected in future months
- The energy sector remains very sizable, and the outlook appears solid but perhaps not great



Questions?

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