

U.S. and Western Oklahoma Economic Update



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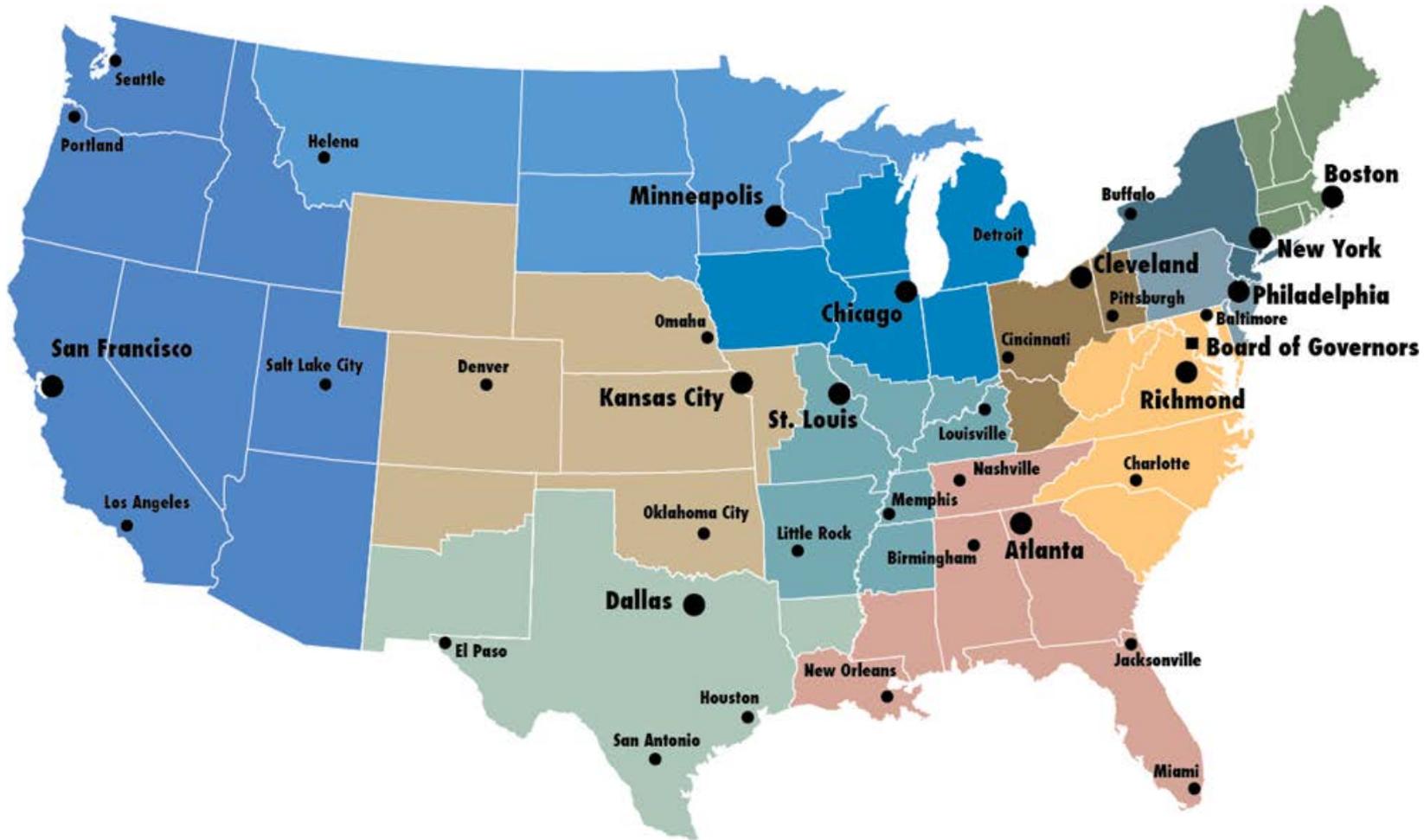
Structure and Functions of the Federal Reserve System

- **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



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 & CEO (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

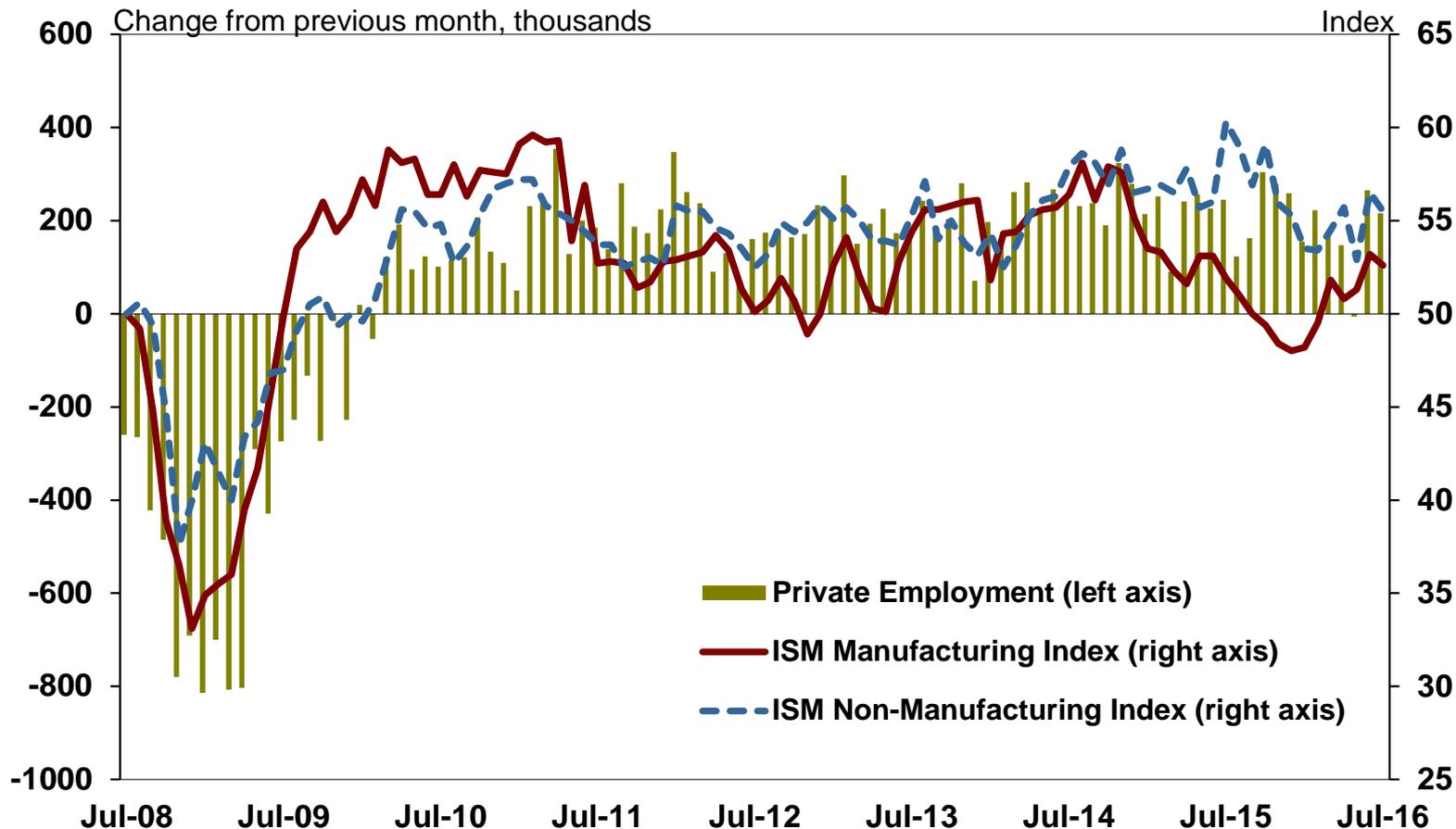


The U.S. Economy and Monetary Policy



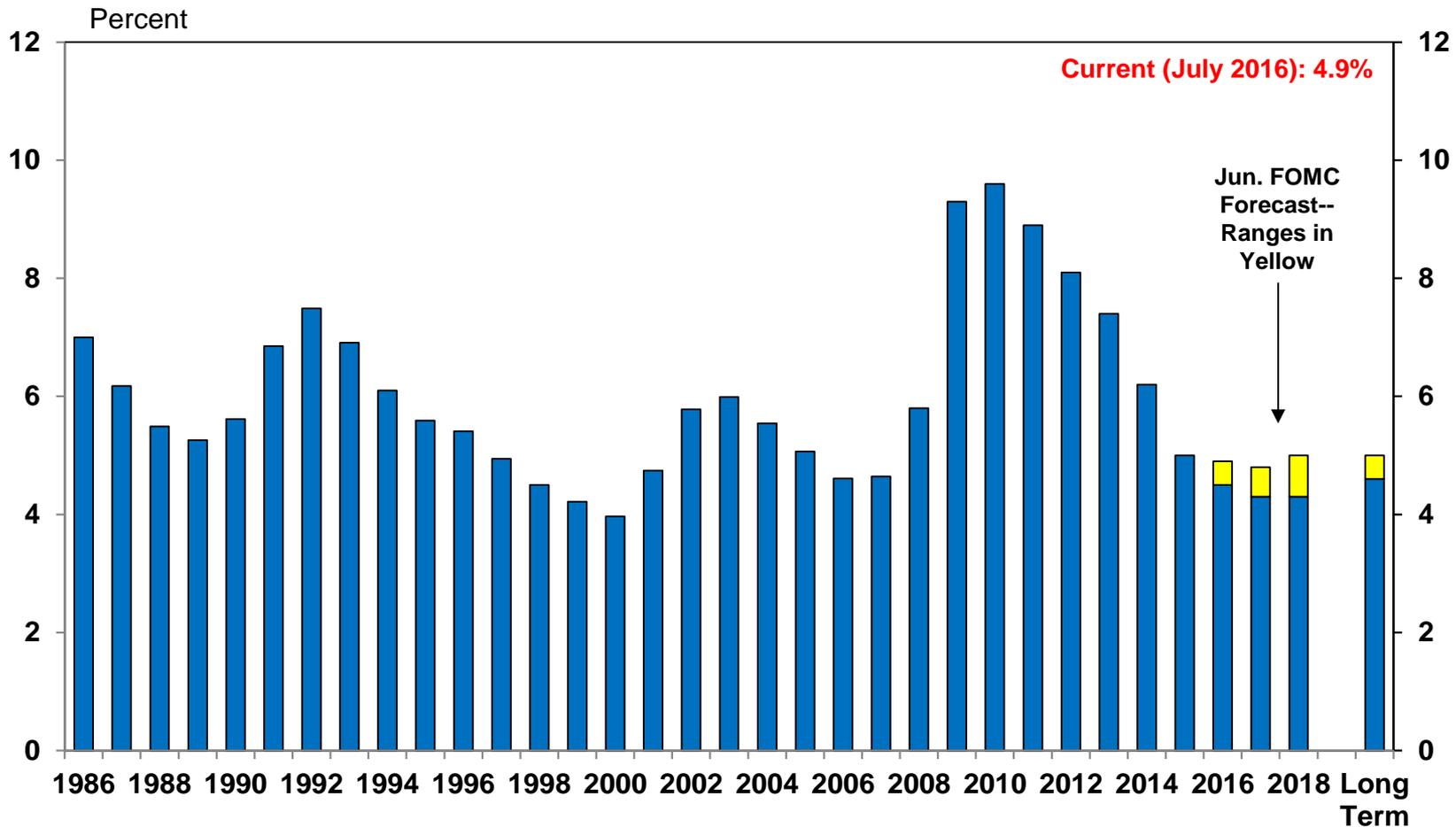
U.S. economic activity slowed somewhat in early 2016 but has improved recently

U.S. Private Payroll Employment and Business Indexes



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

Unemployment Rate
Seasonally Adjusted

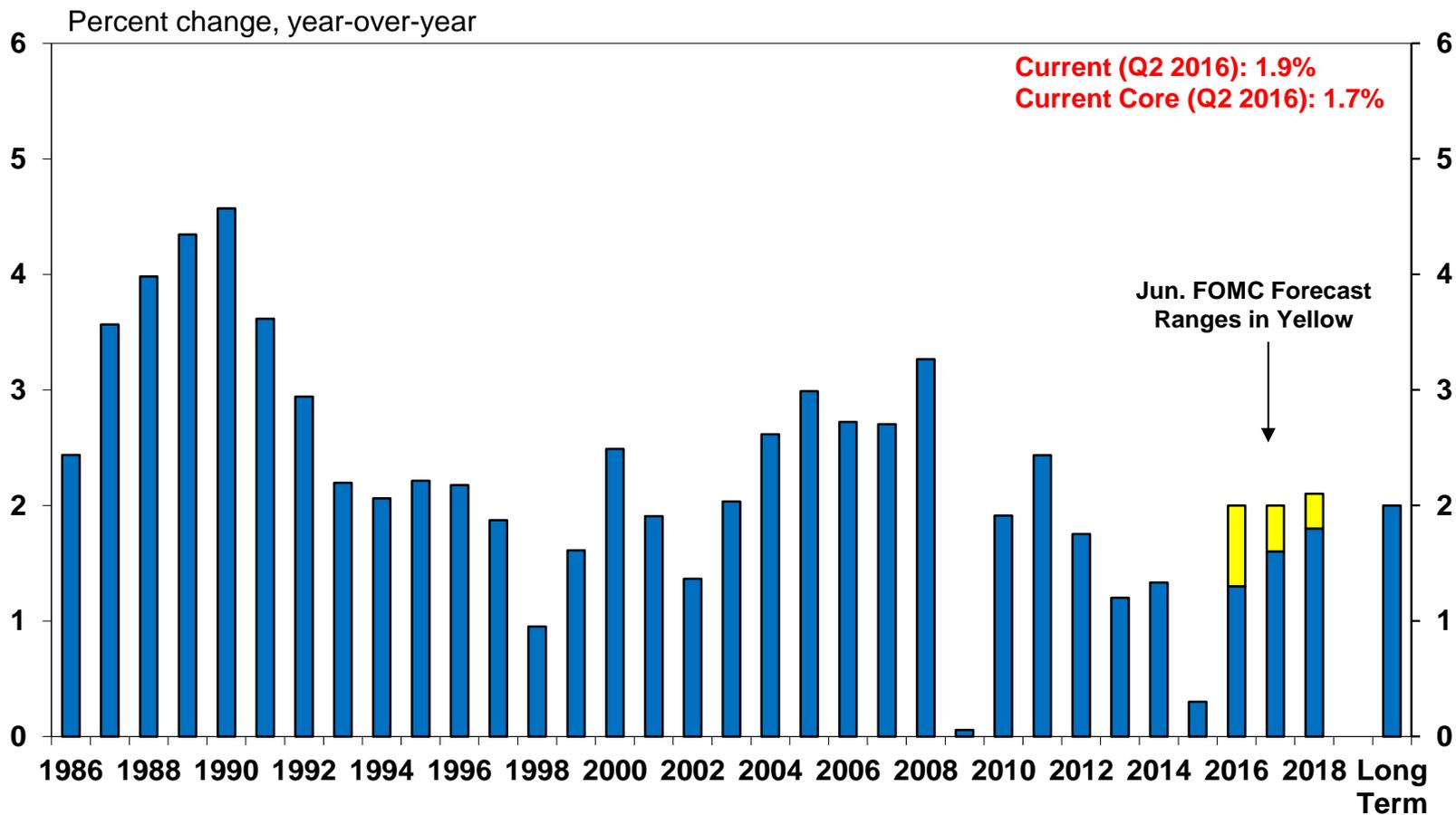


Sources: U.S. Bureau of Labor Statistics, FOMC



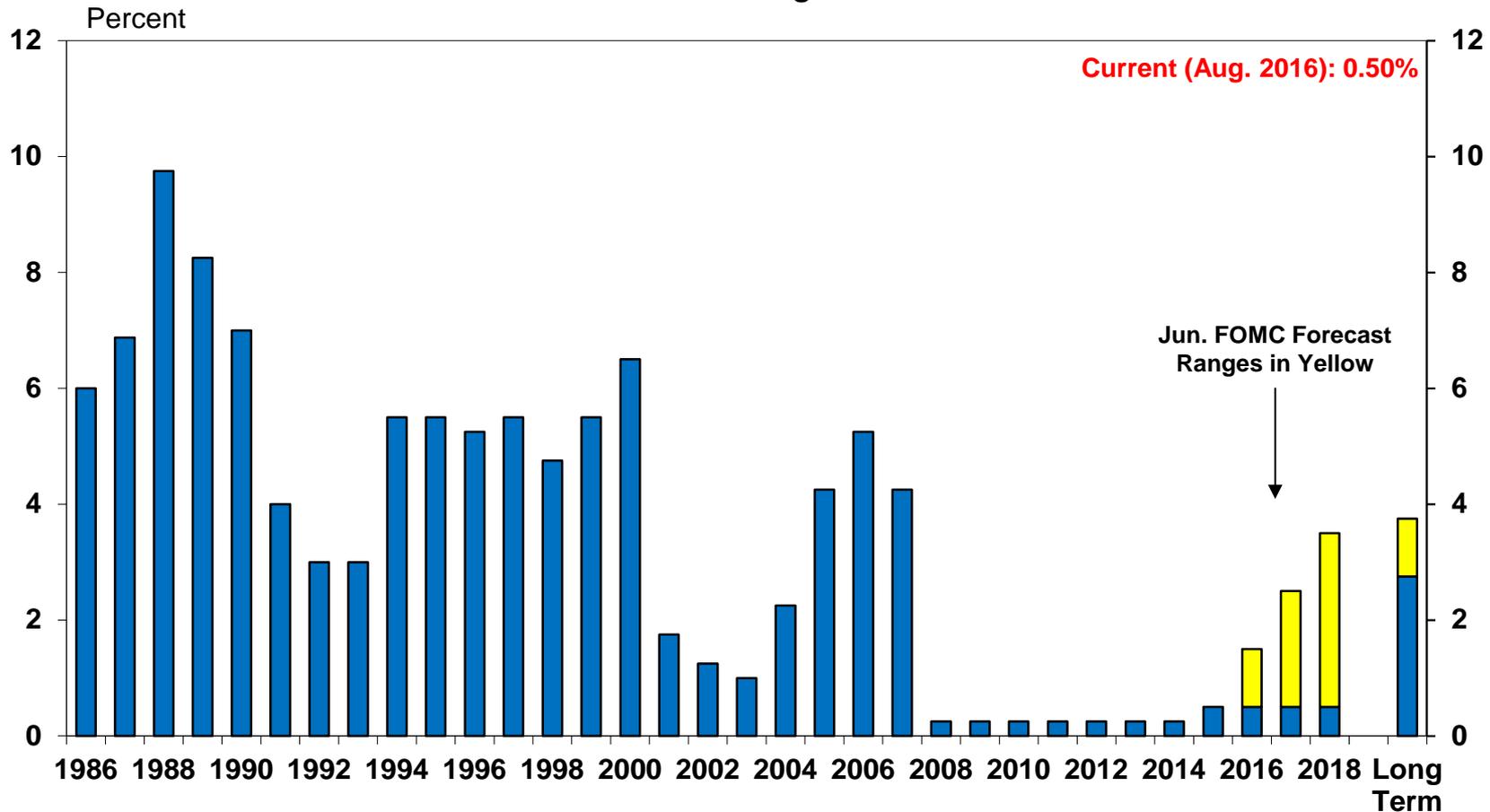
U.S. inflation is low but expected to return to close to target in 2016

PCE Inflation Index



FOMC participants expect moderate increases in rates heading forward

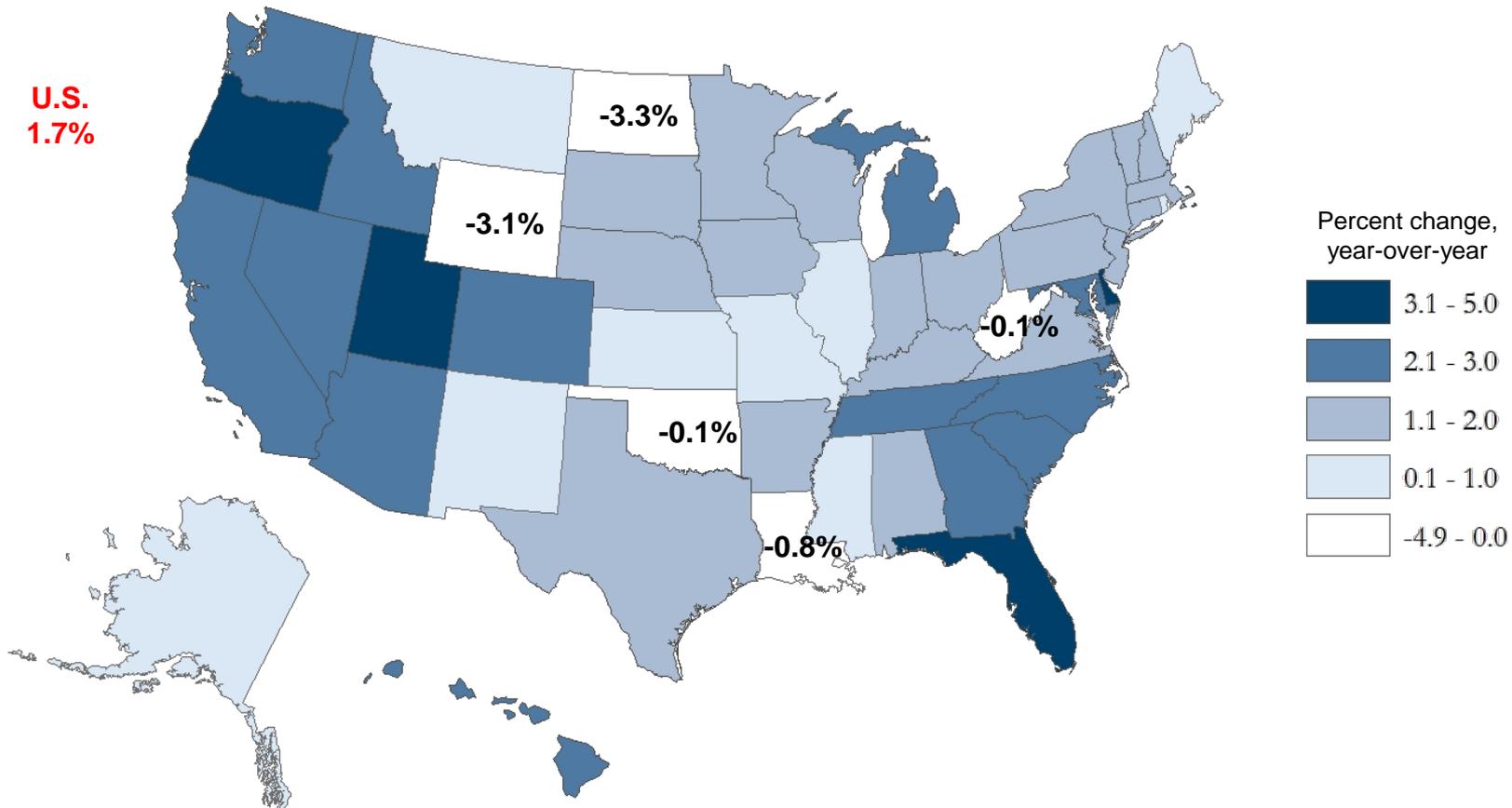
Federal Funds Rate
Year-end target



Recent employment trends have diverged across the country, with energy areas hit hard

Total Nonfarm Employment Growth
June 2016

U.S.
1.7%



Trends in the Western Oklahoma Economy



Unemployment in most of Western Oklahoma remains relatively low

May 2016 Unemployment Rates

Northwest OK

Panhandle

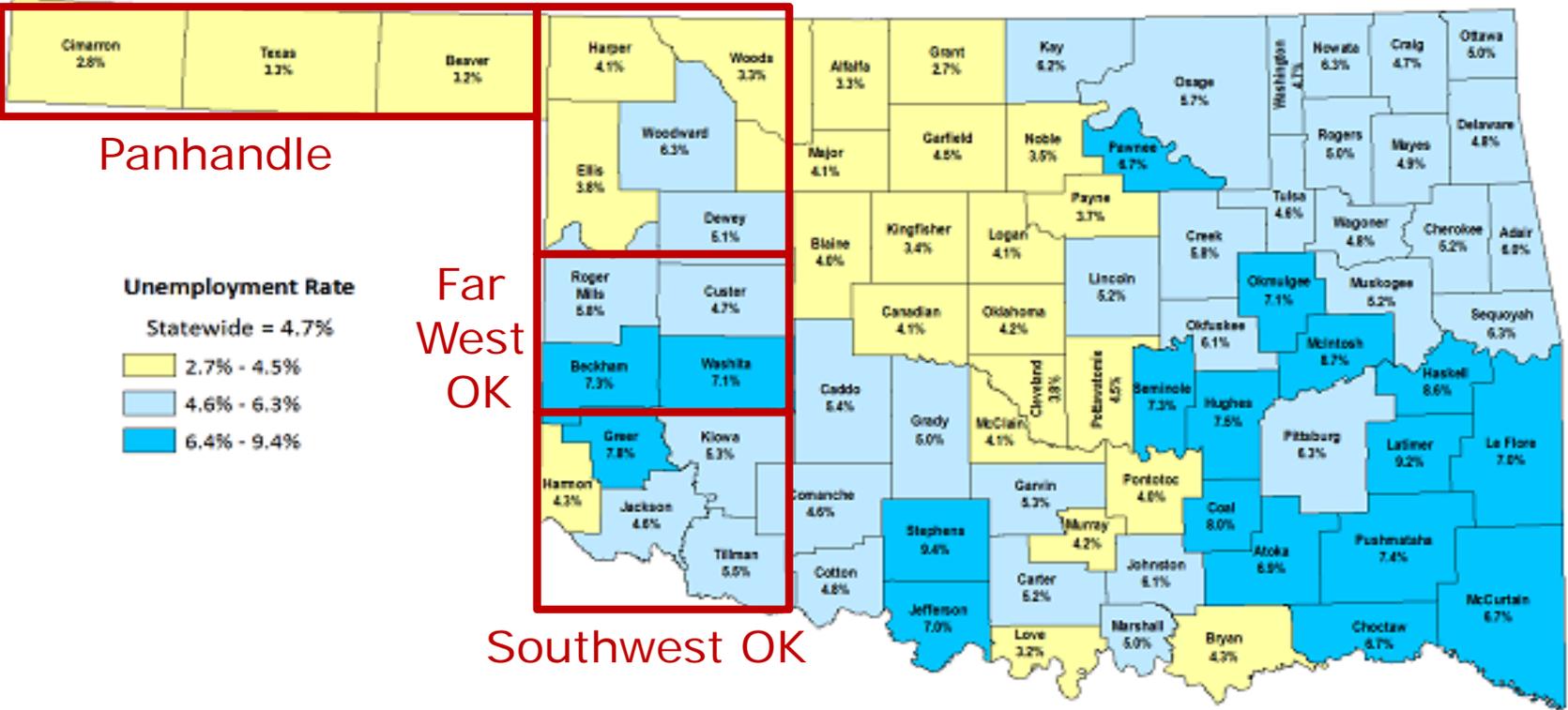
Far West OK

Southwest OK

Unemployment Rate

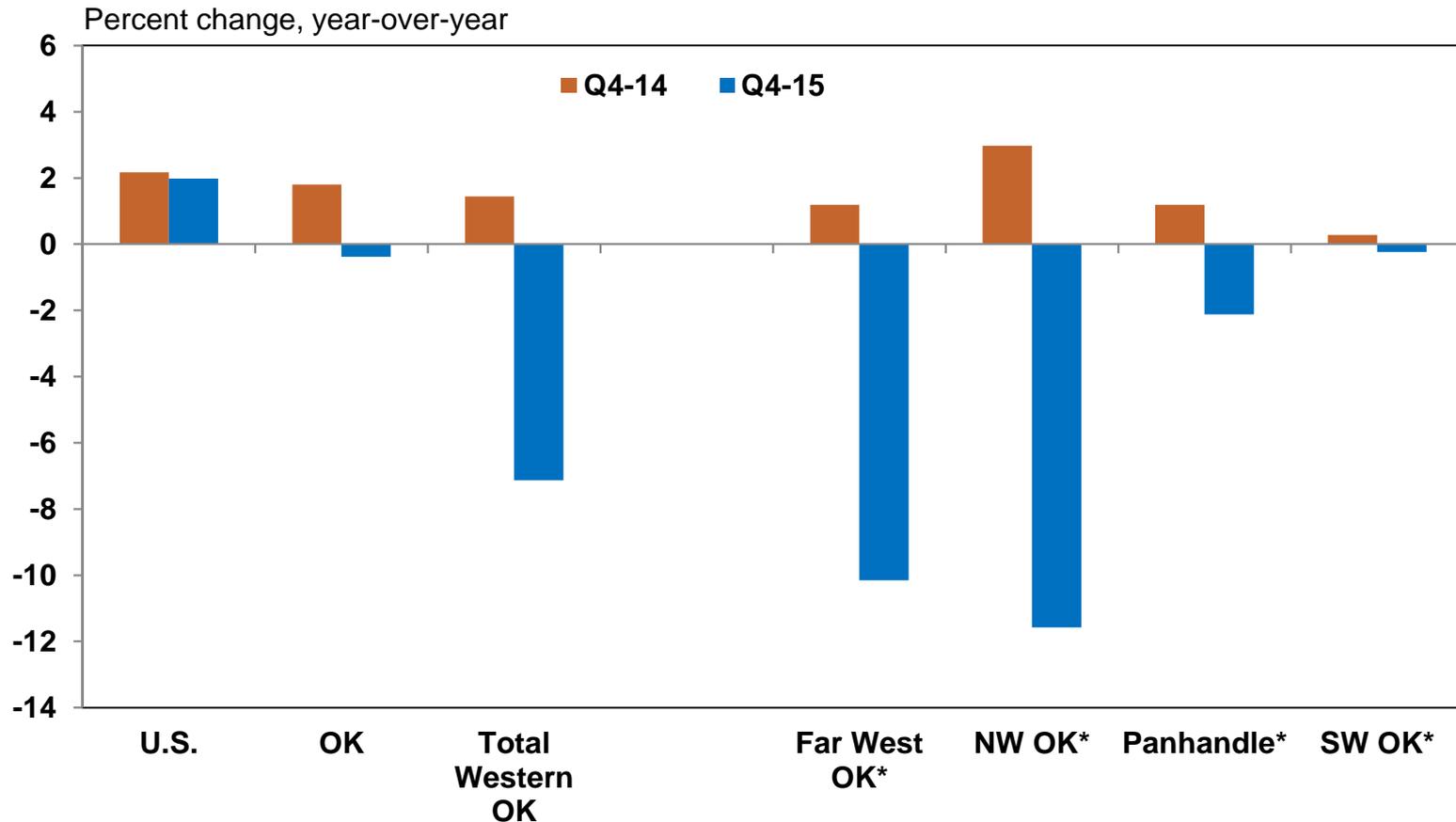
Statewide = 4.7%

- 2.7% - 4.5%
- 4.6% - 6.3%
- 6.4% - 9.4%



But employment in much of the area fell sharply in 2015, after a solid 2014

Total Employment Growth



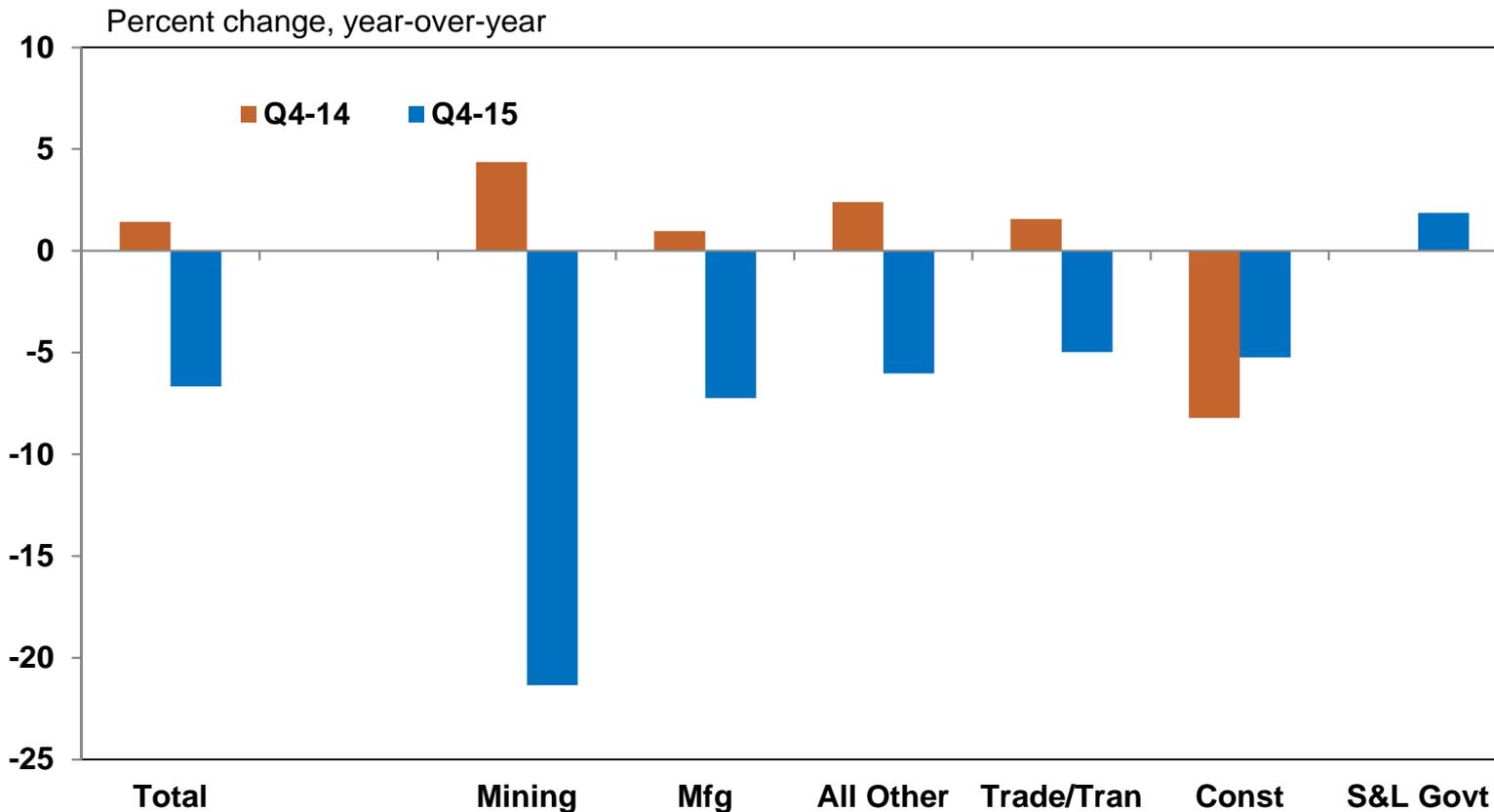
*Includes the following counties: Far West OK – Beckham, Roger Mills, Custer, Washita;
NW OK – Harper, Woods, Ellis, Woodward, Dewey; Panhandle – Cimmaron, Texas, Beaver;
SW OK – Greer, Harmon, Jackson, Kiowa, Tillman

Source: U.S. Bureau of Labor Statistics



The regional jobs decline was driven by energy, but spread to other industries

Western Oklahoma* Employment Growth by Industry



*Includes the following counties: Beckham, Roger Mills, Custer, Washita, Harper, Woods, Ellis, Woodward, Dewey, Cimmaron, Texas, Beaver, Greer, Harmon, Jackson, Kiowa, Tillman

Source: U.S. Bureau of Labor Statistics



Agriculture and energy, of course, dominate the economy of western Oklahoma

Western Oklahoma Personal Income Share by Industry 2014

Industry	Percent of Total Income		W OK Location Quotient	OK Location Quotient
	Western OK*	U.S.		
Agriculture	16.0	1.1	14.5	1.8
Mining	20.9	1.8	11.5	8.0
Federal Government	5.4	4.3	1.2	1.3
Trade, Transportation & Utilities	17.9	15.8	1.1	1.1
Construction	6.1	5.8	1.0	1.1
State & Local Government	13.6	13.2	1.0	1.0
Manufacturing	7.1	10.0	0.7	0.9
Financial Activities	4.1	9.5	0.4	0.6
Leisure & Hospitality	2.0	4.5	0.4	0.8
Information	0.8	3.5	0.2	0.4
Prof. and Business Services	3.3	17.3	0.2	0.6
Education & Health	2.9	13.1	0.2	0.8

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

*Includes the following counties: Beckham, Roger Mills, Custer, Washita, Harper, Woods, Ellis, Woodward, Dewey, Cimmaron, Texas, Beaver, Greer, Harmon, Jackson, Kiowa, Tillman



Within the region, though, ag and energy's relative importance differs somewhat

Western Oklahoma Personal Income Location Quotients 2014

Industry	Far West OK*	Northwest OK*	Panhandle*	Southwest OK*
Agriculture	5.1	11.9	37.3	15.1
Mining	14.2	19.1	3.6	1.0
Construction	1.4	1.3	0.5	0.4
Manufacturing	0.8	0.3	1.4	0.5
Trade, Transportation & Utilities	1.6	1.1	0.8	0.6
Information	0.2	0.1	0.4	0.2
Financial Activities	0.6	0.4	0.2	0.3
Professional and Business Services	0.2	0.2	0.2	0.1
Education & Health	0.0	0.3	0.1	0.6
Leisure & Hospitality	0.8	0.3	0.0	0.5
Federal Government	0.4	0.3	0.3	5.7
State & Local Government	0.9	0.8	0.9	1.8

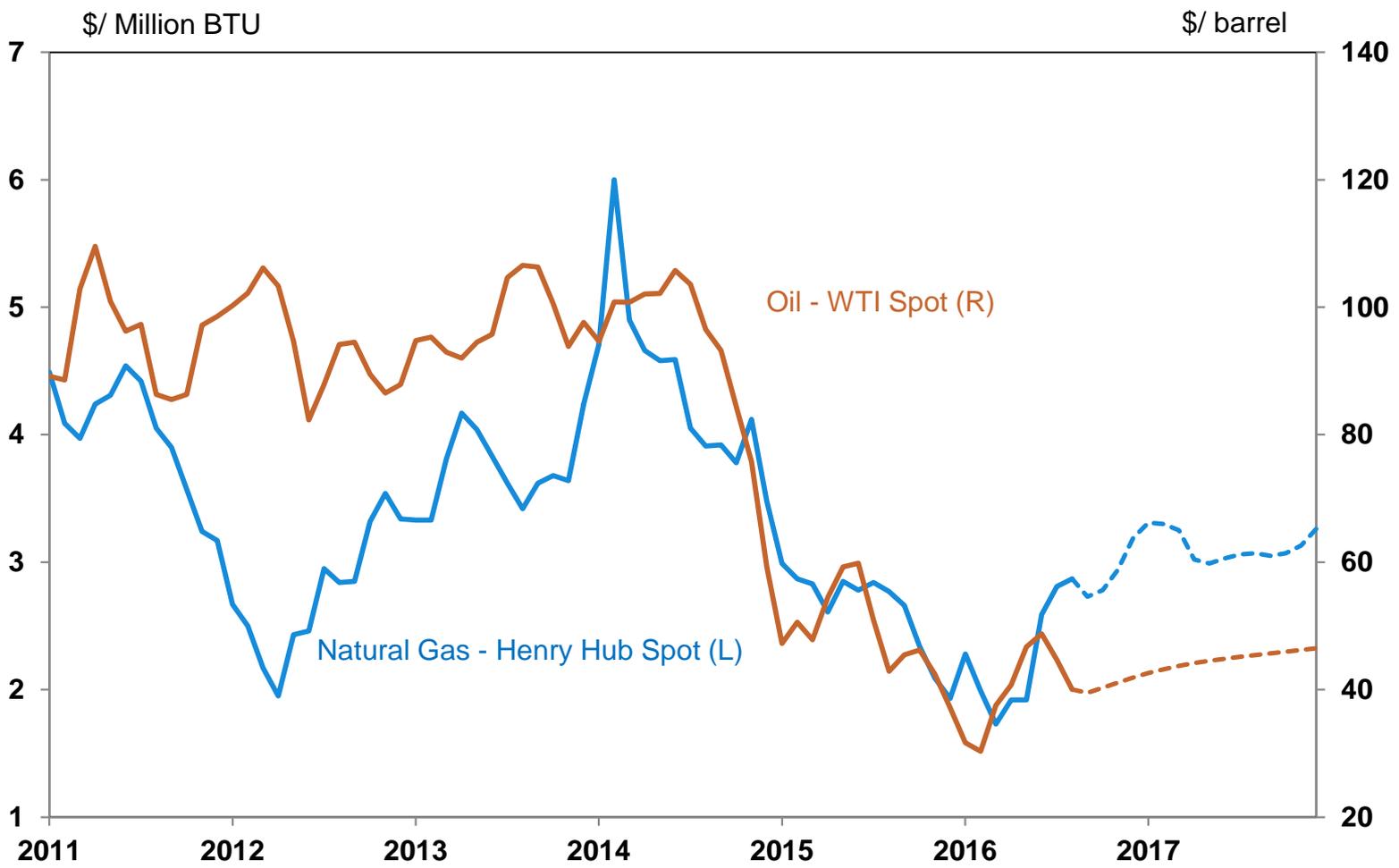
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Oil prices have eased again after rising in Q2, while natural gas prices have improved a bit

Oil and Natural Gas Spot Prices



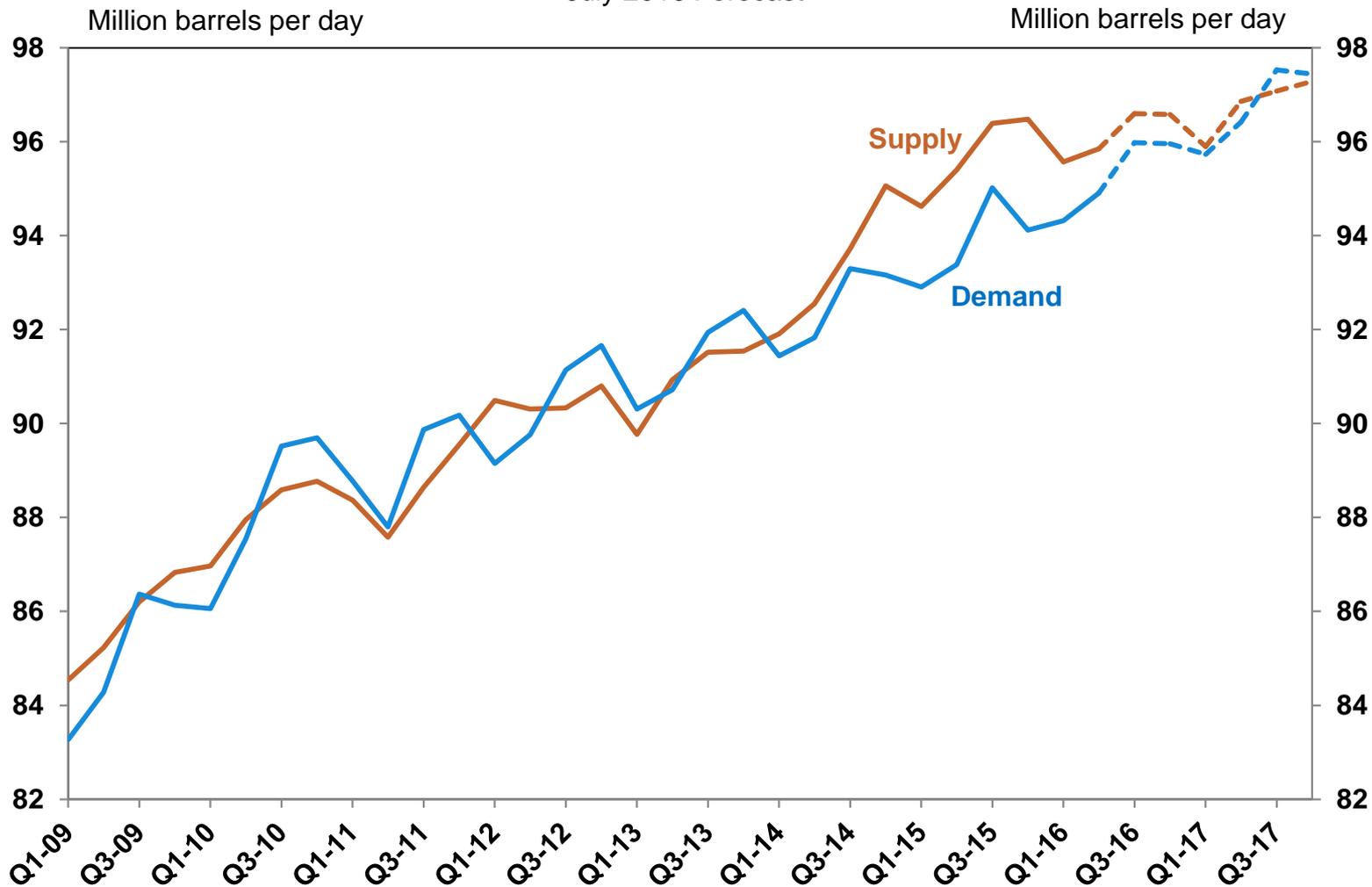
Source: EIA, Reuters



World oil supply and demand are expected to remain out of balance a while longer

Global Oil Supply and Demand

July 2016 Forecast

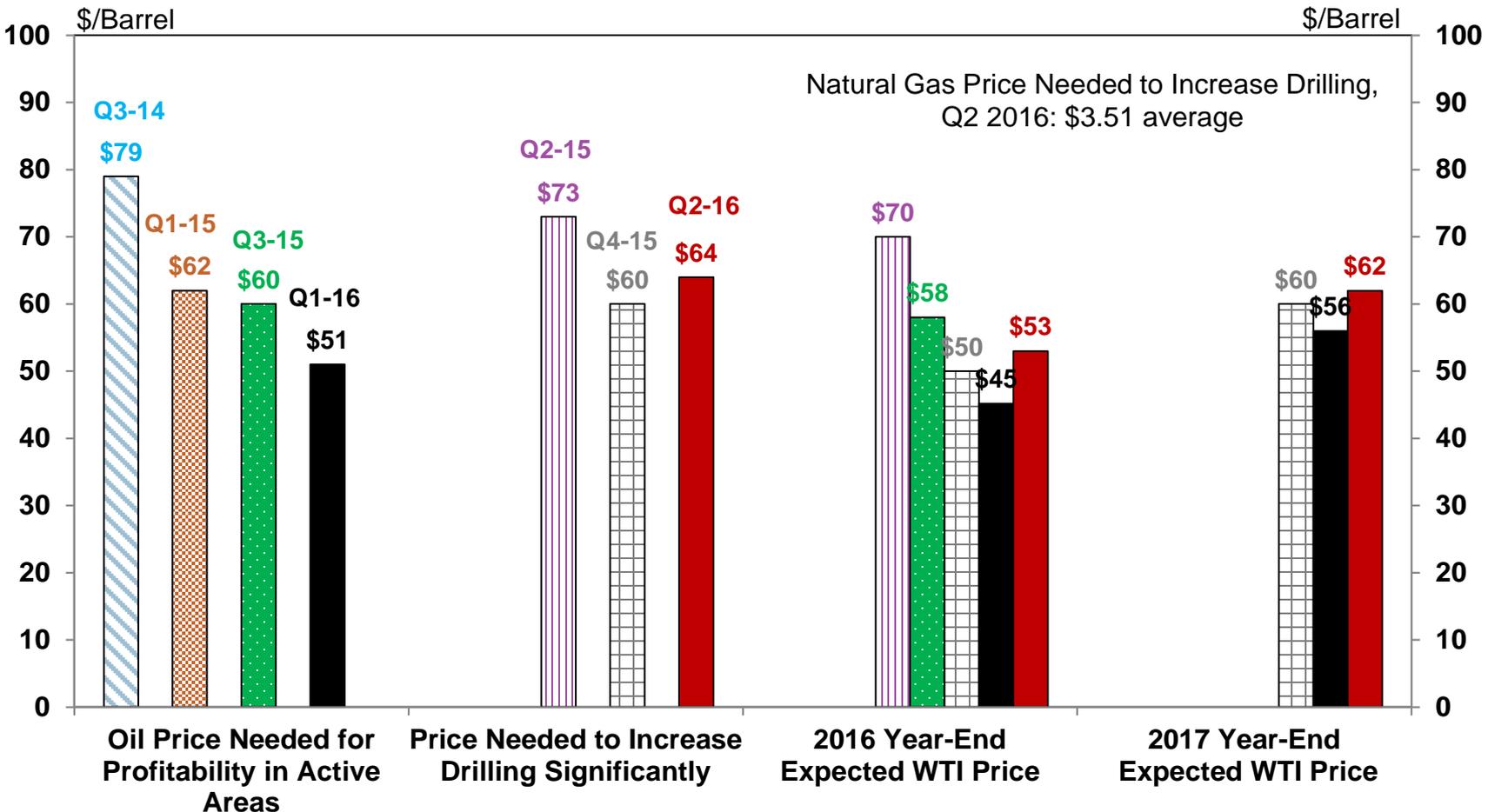


Source: EIA



According to firms, energy prices need to be higher for much increased activity to occur

KC Fed Energy Survey Special Questions
Q3 2014 to Q2 2016

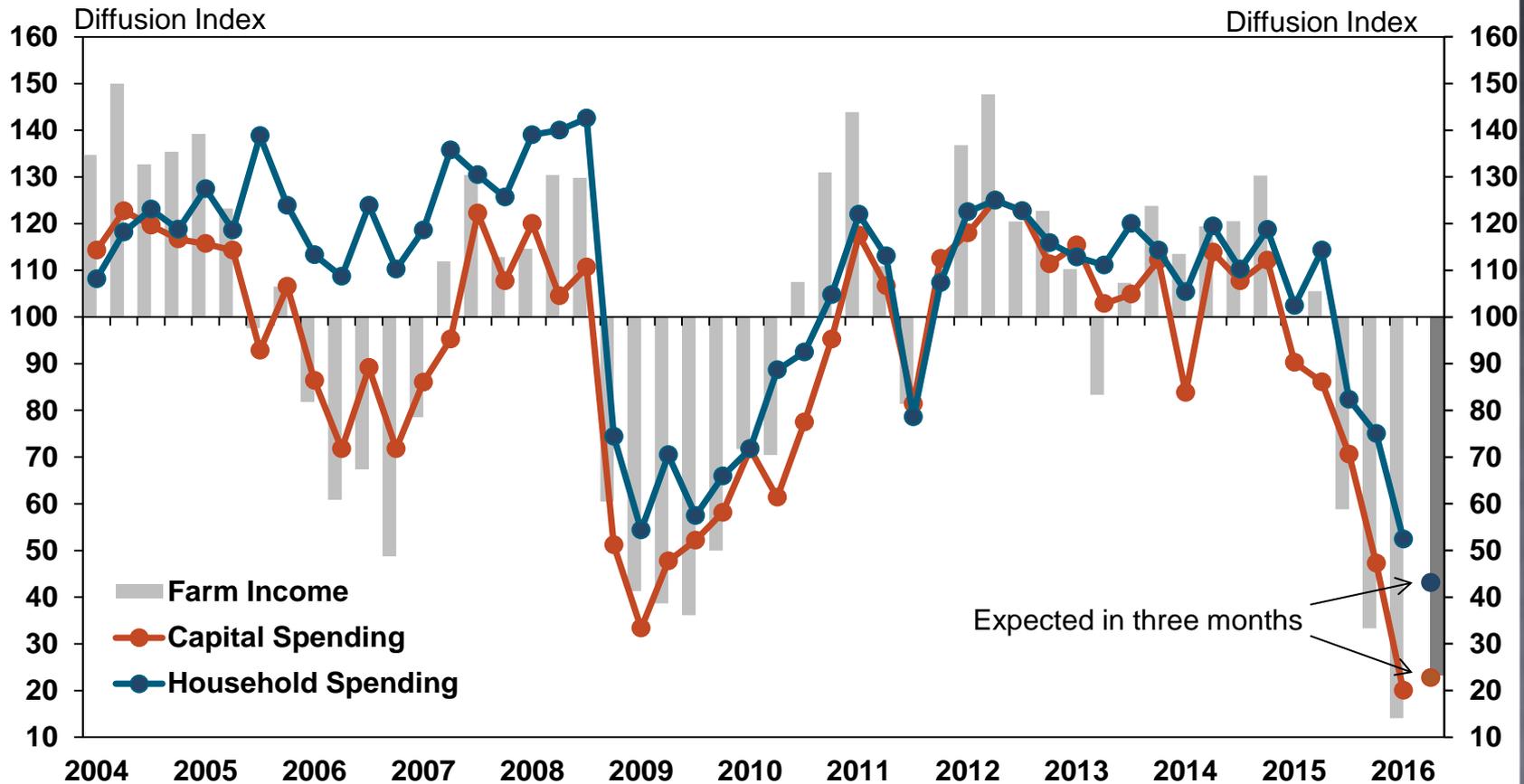


Source: FRBKC Energy Survey

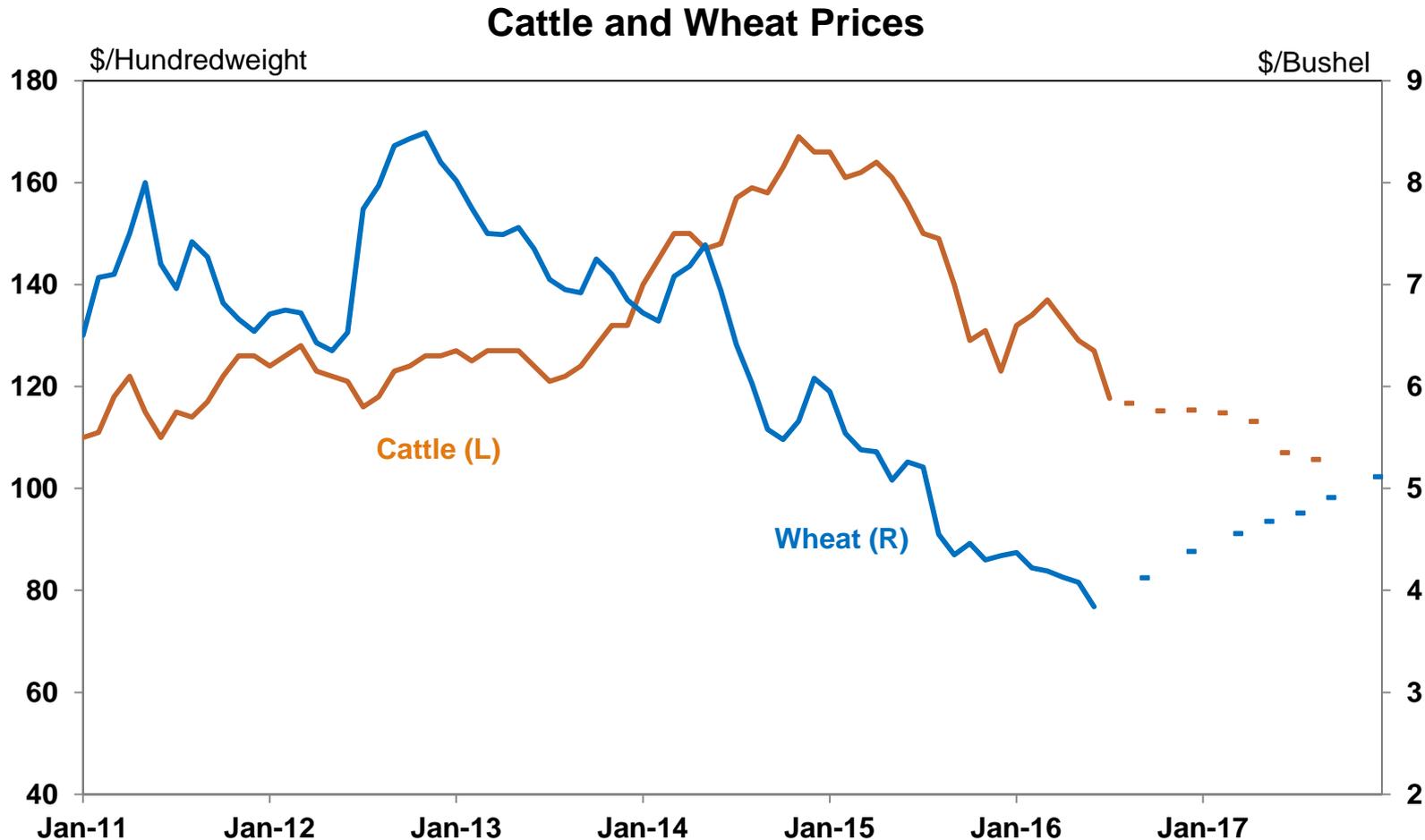


In agriculture, Oklahoma farm income and spending have dropped dramatically

Oklahoma Farm Income

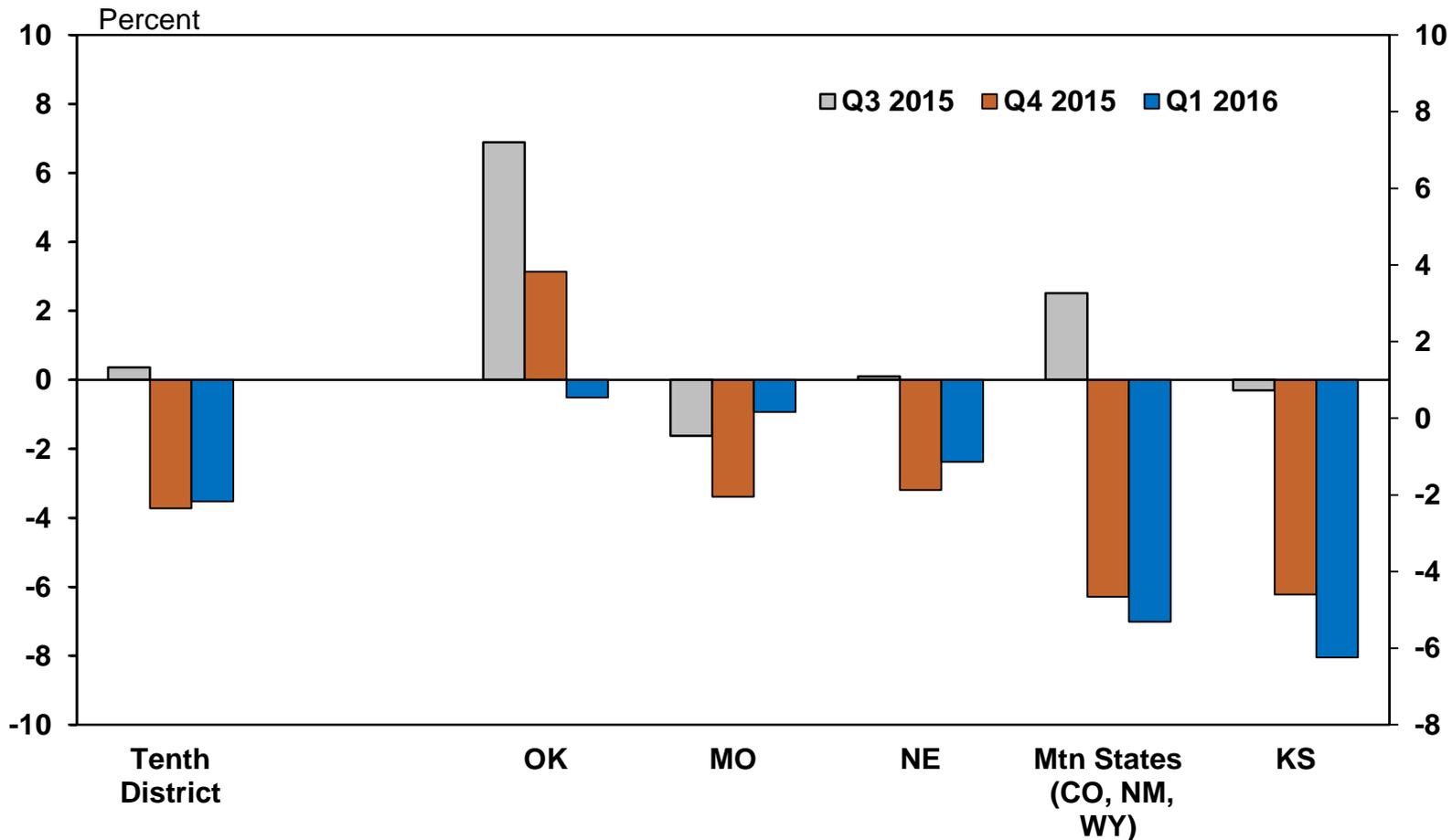


Cattle and wheat prices have plummeted over the past couple of year



But farmland values have largely held up in Oklahoma, unlike the rest of the region

Tenth District Farmland Values
Percent Change, Year-over-year

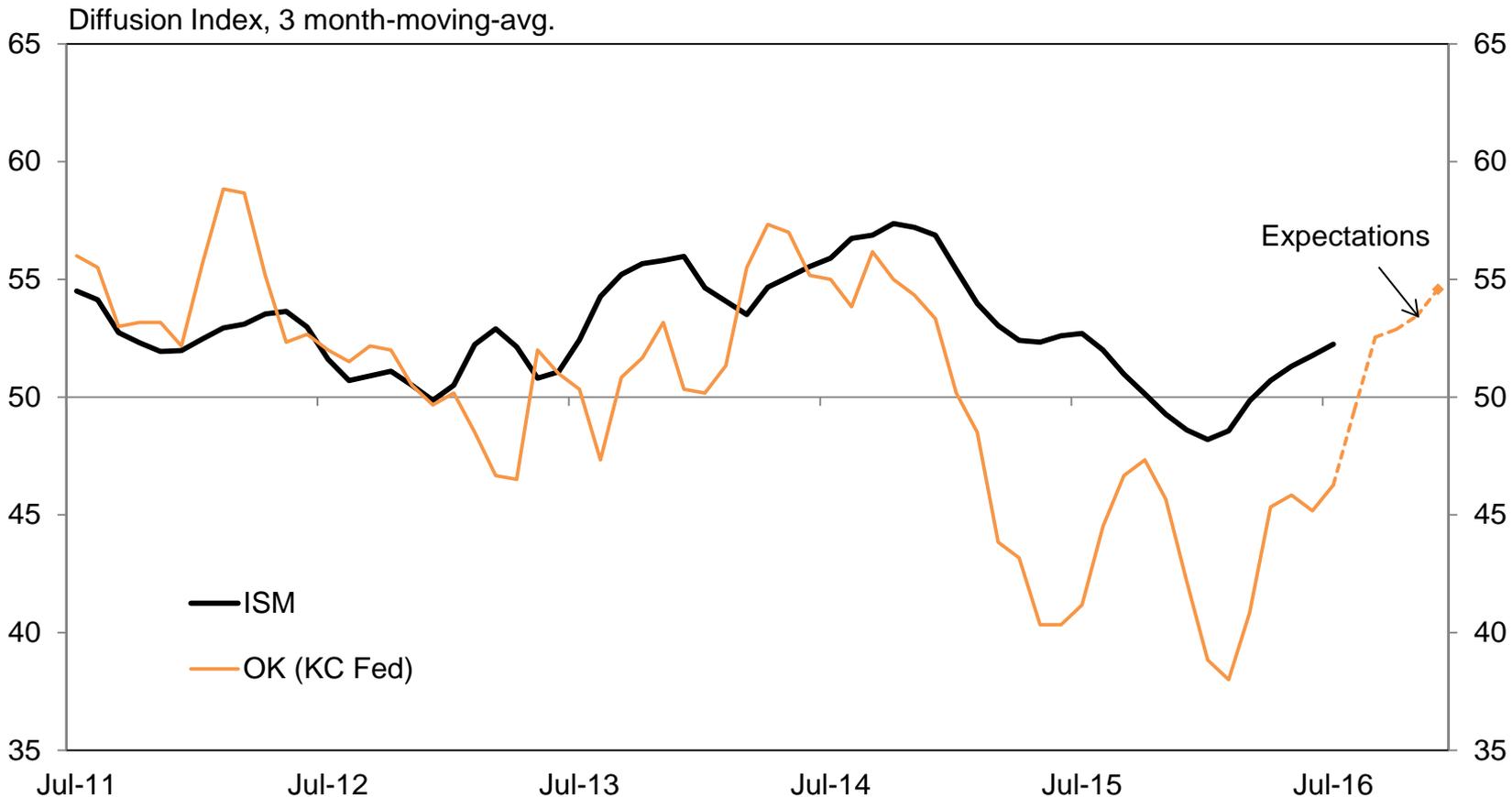


Source: FRBKC Agricultural Credit Survey



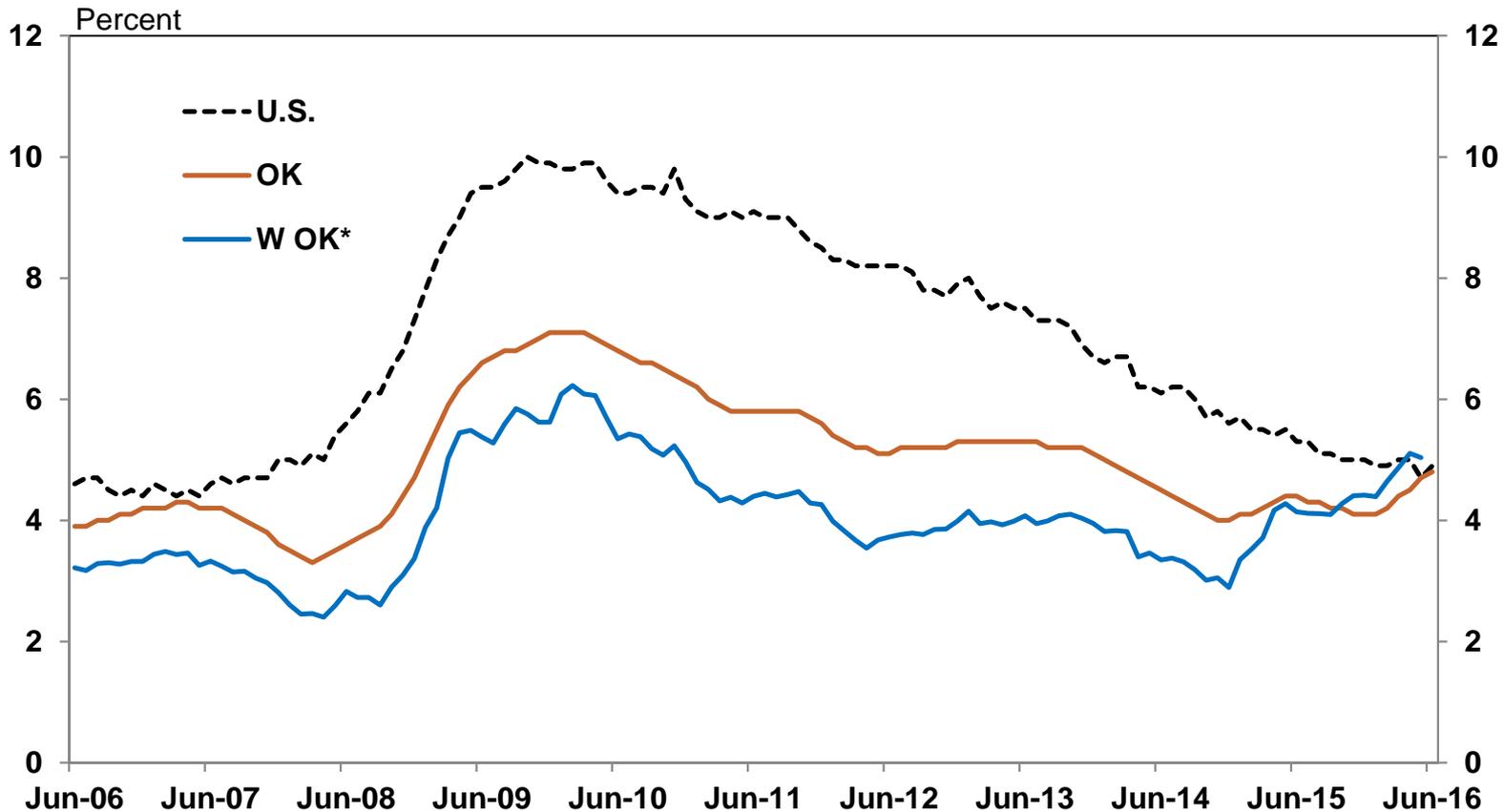
One recent sign of cautious optimism in the state comes from manufacturing

Manufacturing Survey Composite Indexes



And again, although unemployment has risen in the region, it's still relatively low

Unemployment Rates
Seasonally Adjusted



*Includes the following counties: Beckham, Roger Mills, Custer, Washita, Harper, Woods, Ellis, Woodward, Dewey, Cimmaron, Texas, Beaver, Greer, Harmon, Jackson, Kiowa, Tillman

Source: U.S. Bureau of Labor Statistics



Summary

- The U.S. economy continues to grow, and the Fed has begun to raise interest rates
- The economy in western Oklahoma has been hurt by low energy prices
- Western Oklahoma's important agriculture industry is also having difficulties
- However, some firms are optimistic and unemployment remains relatively low



Questions?

For regular updates and analysis of the Oklahoma economy, subscribe to our quarterly **Oklahoma Economist** publication at:

www.kansascityfed.org/publications/research/oke/

