U.S. and Oklahoma Economic Outlook

Bartlesville Rotary
March 2, 2020

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Vice President and Oklahoma City Branch Executive

*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.
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 Federal Reserve’s Role in Monetary Policy

• Dual Mandate from U.S. Congress:
  1) Maximum employment
  2) Price stability

• Federal Open Market Committee (FOMC):

  Board of Governors
  • Jerome H. Powell, Chairman
  • Richard H. Clarida, Vice Chairman
  • Randal K. Quarles, Vice Chairman of Supervision
  • Lael Brainard
  • Michelle W. Bowman
  • Open
  • Open

  Reserve Bank Presidents
  • John C. Williams, New York, Vice Chairman
  • Patrick T. Harker, Philadelphia
  • Robert S. Kaplan, Dallas
  • Neel Kashkari, Minneapolis
  • Loretta J. Mester, Cleveland
  • Thomas I. Barkin, Richmond
  • Raphael W. Bostic, Atlanta
  • Mary C. Daly, San Francisco
  • Charles L. Evans, Chicago
  • James Bullard, St. Louis
  • Esther L. George, Kansas City
  • Eric Rosengren, Boston

*Permanent voters in bold; 2020 rotating voters in red; 2021 rotating voters in blue*
The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

- 2020 Is Our Centennial!

- Functions and purposes ~ 50 staff
  - Research on U.S. and Oklahoma economies; energy sector and business survey focus
  - Examinations of Oklahoma financial institutions (~45 banks, ~175 holding cos.)
  - Community development programming for low and moderate income groups, workforce focus
  - Economic education and public outreach programming

- 2020 OKC Fed Branch Board of Directors
  - Tina Patel (chair), Co-Owner & CFO, Promise Hotels, Tulsa
  - Walt Duncan, President, Duncan Oil Properties, Oklahoma City
  - Susan Plumb, Chair & CEO, Bank of Cherokee County, Tahlequah
  - Brady Sidwell, Principal, Sidwell Strategies, Enid
  - Chris Turner, President & CFO, First State Bank, Oklahoma City
  - Katrina Washington, Owner/Broker, Stratos Realty, Oklahoma City
  - Dana Weber, Chair & CEO, Webco Industries, Sand Springs
U.S. Economic Outlook and Monetary Policy
Jan. FOMC: “Economic activity has been rising at a moderate rate...household...rising...business...weak”

Percent Change in Components of Real GDP

Percent change from the previous period, SAAR

<table>
<thead>
<tr>
<th>Component</th>
<th>Q1 2019</th>
<th>Q2 2019</th>
<th>Q3 2019</th>
<th>Q4 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GDP</td>
<td>3.1</td>
<td>2.0</td>
<td>2.0</td>
<td>2.1</td>
</tr>
<tr>
<td>Consumer spending</td>
<td>2.1</td>
<td>2.0</td>
<td>1.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Residential investment</td>
<td>1.1</td>
<td>3.2</td>
<td>4.6</td>
<td>6.2</td>
</tr>
<tr>
<td>Business investment</td>
<td>-1.0</td>
<td>-1.0</td>
<td>-2.3</td>
<td>-2.3</td>
</tr>
<tr>
<td>Exports</td>
<td>4.1</td>
<td>1.0</td>
<td>1.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Imports</td>
<td>-5.7</td>
<td>0.0</td>
<td>-1.5</td>
<td>-8.6</td>
</tr>
<tr>
<td>Government spending</td>
<td>0.0</td>
<td>1.8</td>
<td>2.9</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Economic Analysis
Jan. FOMC: “Job gains have been solid…and the unemployment rate has remained low.”

U.S. Unemployment Rate

Current (Jan. 2020): 3.6%

Dec FOMC Forecast

Sources: U.S. Bureau of Labor Statistics, FOMC
Jan. FOMC: “Overall inflation and inflation for items other than food and energy are running below 2%.”

Current Overall PCE (Jan. 2020): 1.7%
Current Core PCE (Jan. 2020): 1.6%

Sources: U.S. Bureau of Labor Statistics, FOMC
Jan. FOMC: “the [FOMC] decided to maintain the…rate…will continue to monitor…incoming information.”

Federal Funds Rate
Year-End Target

Current Target: 1.50-1.75%

Dec FOMC Forecast

Sources: U.S. Bureau of Labor Statistics, FOMC
“In light of...increases in...liabilities, the [FOMC] directs the Desk...to maintain...ample reserve balances.”
Oklahoma Economic Outlook
The pace of Oklahoma job growth slowed steadily in 2019, and was negative in November and December.

Nonfarm Payroll Employment Growth

Percent change, year-over-year

Sources: U.S. Bureau of Labor Statistics, NBER recession shading
Weekly initial jobless claims in the state ran near 2015-16 levels in 2019, but improved slightly in January 2020.

Sources: U.S. Department of Labor, NBER recession shading.
Total state tax receipts also rose slightly in January, but sales tax revenues are still below year-ago levels.

Note: Q1 2020 data through January.

Source: OK Tax Commission
Oklahoma’s main difference from the nation in terms of industrial structure is its very sizable energy sector.
The slower state job growth in 2019 has been driven mainly by job losses in energy and related sectors.
A warm winter and lower natural gas and oil prices have contributed to slower activity

Oil & Natural Gas Profitability and Prices

Natural gas prices ($/mmbtu)  Oil prices ($/barrel)

- Henry Hub, left
- Natural Gas: Avg. Profitable Price, left
- WTI, right
- Oil: Avg. Profitable Price, right

Sources: EIA, FRBKC Energy Survey
Oklahoma’s percentage drop in rigs has been the largest among the top 8 oil- and gas-producing states.

February 28, 2020 Rig Count Change from a Year Ago

- Texas: -120% (18 rigs)
- New Mexico: -70% (7 rigs)
- North Dakota: -60% (0 rigs)
- Louisiana: -50% (0 rigs)
- Oklahoma: -58% (-67 rigs)
- Pennsylvania: -40% (-110 rigs)
- Wyoming: -30% (0 rigs)
- Colorado: -20% (0 rigs)

Source: Baker Hughes/Haver Analytics
In late December, regional energy firms expected drilling activity to drop further, with continued job cuts.

**Kansas City Fed Energy Indexes**

Index, vs. a year ago

<table>
<thead>
<tr>
<th>Q1-14</th>
<th>Q1-15</th>
<th>Q1-16</th>
<th>Q1-17</th>
<th>Q1-18</th>
<th>Q1-19</th>
<th>Q1-20</th>
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Source: FRBKC Energy Survey
Since then, forecasts for world oil demand have weakened, following the coronavirus outbreak.

World Petroleum Demand Forecasts

Mmbbls/day

Sources: Energy Information Association Short-Term Energy Outlook, authors’ calculations.
Despite slower job growth and elevated UI claims, unemployment in Oklahoma remains low.

Unemployment Rates
Seasonally Adjusted

Sources: U.S. Bureau of Labor Statistics, NBER recession shading
Banking conditions in Oklahoma also remain very good, similar to in the nation

Share of Banks Not Making a Profit
Commercial Banks

Source: FDIC
Summary

- The national economy continues to grow, with low unemployment, but business investment has slowed.

- Oklahoma’s economy slowed in 2019 and by the end of the year no longer appeared to be growing overall, as weak energy activity spread to some other sectors.

- Still, unemployment remains low and banking conditions are good, which should help the state if further economic deterioration occurs.
Questions?

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Oklahoma’s economy

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