U.S. and Oklahoma Economic Outlook

Plains Cotton Cooperative Association
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Chad Wilkerson
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 Oklahoma City Branch of the Federal Reserve Bank of Kansas City

• 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
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*
U.S. Economic Outlook and Monetary Policy
Dec. FOMC: “Economic activity has been rising at a moderate rate...household...strong...business...weak”

U.S. Payroll Employment and Business Indexes

Sources: Institute for Supply Management, Bureau of Labor Statistics
Dec. FOMC: “The unemployment rate has remained low.”

U.S. Unemployment Rate

- Current (Dec. 2019): 3.5%
- Dec FOMC Forecast:

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

PCE Inflation Index

Current Overall PCE (Nov. 2019): 1.5%
Current Core PCE (Nov. 2019): 1.6%

Sources: U.S. Bureau of Labor Statistics, FOMC
Dec. 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
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 claims for unemployment insurance have been running near 2015-16 levels since early 2019.

Sources: U.S. Department of Labor, NBER recession shading.
Total state tax receipts are now below year-ago levels, including sales tax revenues

Oklahoma Tax Revenues

Percent change, year-over-year

Note: Q4 2019 data through December.

Source: OK Tax Commission
Oklahoma’s main difference from the nation in terms of industrial structure is its very sizable energy sector.

Industry Share of GDP, 2018

Percent of total GDP

Govt. 14.5
Mining 1.7
Real Estate
Mfg.
Prof. & Bus. Services
Edc. & Health Services
Leisure & Hosp.
Retail
Fin. & Insurance
Const.
Info.
Ag.

Sources: U.S. Bureau of Labor Statistics, NBER recession shading
The slower state job growth in 2019 has been driven mainly by job losses in energy and manufacturing.
Regional energy firms expect drilling activity to drop further, though less sharply, with continued job cuts.

Kansas City Fed Energy Indexes

Index, vs. a year ago

Drilling/Business Activity
Number of Employees
Expectations

Source: FRBKC Energy Survey
Marginally profitable oil prices since spring, plus low natural gas prices, have contributed to slower activity.

Oil & Natural Gas Profitability and Prices

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

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

**December 2019 Rig Count Change from a Year Ago**

<table>
<thead>
<tr>
<th>State</th>
<th># of Rigs Change</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas</td>
<td>-140</td>
<td>-90%</td>
</tr>
<tr>
<td>New Mexico</td>
<td>-60</td>
<td>-64%</td>
</tr>
<tr>
<td>Louisiana</td>
<td>-40</td>
<td>-50%</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>-20</td>
<td>-30%</td>
</tr>
<tr>
<td>North Dakota</td>
<td>0</td>
<td>0%</td>
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<tr>
<td>Wyoming</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>20</td>
<td>20%</td>
</tr>
<tr>
<td>Colorado</td>
<td>40</td>
<td>40%</td>
</tr>
</tbody>
</table>

Source: Baker Hughes/Haver Analytics
Downtown office vacancy rates in OKC also rose considerably in 2019

Downtown Office Vacancy Rates

Source: CBRE
In agriculture, incomes have continued to decline, but land values have generally held up.
Commodity prices have seen a slight uptick recently but generally remain lower than in recent years.
Banking conditions in Oklahoma remain very good, similar to in the nation

Share of Banks Not Making a Profit
Commercial Banks

U.S.
OK

Source: FDIC
Despite slower job growth and rising UI claims, unemployment in Oklahoma also remains low.
Across the state, 67 out of 77 counties have less than 5% unemployment.
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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