U.S. and Oklahoma Economic Outlook

Wheatland Stocker Conference
Enid, OK
August 29, 2012

Chad Wilkerson
Oklahoma City Branch Executive and Economist
Federal Reserve Bank of Kansas City
www.kansascityfed.org/oklahomacity
Overview 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 – 35 staff
  - Economic research and outreach for U.S. monetary policy purposes
  - Examinations and inspections of Oklahoma financial institutions
  - Economic and financial education outreach to teachers and citizens
  - Community development outreach to low and moderate income areas

- 2012 board of directors
  - Jim Dunn (chair), Chairman, Mill Creek Lumber and Supply, Tulsa
  - Linda Capps, Vice Chairman, Citizen Potawatomi Nation, Shawnee
  - Pete Delaney, Chairman, CEO, & President, OGE Energy Corp., OKC
  - Doug Tippens, President and CEO, Bank of Commerce, Yukon
  - K. Vasudevan, Chairman, Service and Technology Corp., Bartlesville
  - Rose Washington, Exec. Director, Tulsa Economic Development Corp.
U.S. GDP growth eased slightly in Q2, and remains below the long-term trend.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis
July U.S. data were mixed but still suggestive of modest overall growth.
There have been past episodes when an ISM reading under 50 was not a recession
Financial stress in Europe continues to weigh on confidence but U.S. stress is about normal.

Eurozone and U.S. Financial Stress Index

Source: FRBKC
The “fiscal cliff” and political uncertainty are weighing on the U.S. economy.

Estimated Impact on 2013 GDP
Worst Case

-4
-3.5
-3
-2.5
-2
-1.5
-1
-0.5
0

Percentage points

- Sequestration (automatic discretionary cuts)
- 2001 and 2003 tax cuts lapse
- AMT fix expires
- End extended unemployment benefits
- End payroll tax holiday

Sources: Goldman Sachs
At its June meeting, the FOMC expected unemployment to gradually fall further.
And for inflation to remain at or below its long-term target

PCE Inflation Index

Percent change, year-over-year

June FOMC Forecast
Ranges in Yellow

Long Term

Source: U.S. Bureau of Economic Analysis, FOMC
The majority of FOMC members expect interest rates to stay low through 2014.

Federal Funds Rate
Year-end target

Note – Number of participants who project the initial increase will occur in the specified year in parenthesis

Source: U.S. Bureau of Economic Analysis, FOMC
There remains considerable variation in economic strength in the nation and region.

Employment Growth, Year-over-Year (percent)
July 2012

Scale
- 1.97 - 6.81
- 1.22 - 1.97
- 0.44 - 1.22
- -1.58 - 0.44

Source: U.S. Bureau of Labor Statistics
The level of jobs in Oklahoma is nearly back to pre-recession levels, unlike the U.S.
Oklahoma job growth has varied by industry the past year, but consistently led by energy.
Unemployment rates would be higher if participation were at pre-recession levels.

Unemployment Rate
Seasonally Adjusted

Source: Bureau of Labor Statistics
Unemployment is especially low in northwest and south central Oklahoma.

County Unemployment Rates
June 2012

Source: OK Employment Security Commission
Oklahoma home prices continue to hold up better than in the region or nation.

Home Price Index
Purchase-Only

Index: 2007Q2=100

Source: FHFA
Banks also remain in much better shape than in the nation as a whole.
And ag loans are more current than any other type of loan at Oklahoma banks.

Share of Loans 90+ days Past Due
Q1 2012

Source: FDIC
Ag loans are much more important to Oklahoma banks than they are in the nation.
Agricultural banks have funds available, but loan demand remains moderate.
Regional farmland prices continue to surge, and have accelerated in Oklahoma.
Agricultural conditions in the state have improved after last year’s drought.

Source: KCFRB Ag Credit Survey
But drought is now again extreme to exceptional in nearly all of Oklahoma
Crop prices have surged, and could rise further if drought persists

U.S. Crop Prices

Source: Commodity Research Bureau
Profits are down sharply for cattle producers, while hogs are breaking even.

U.S. Livestock Prices and Breakeven Costs

Source: USDA and Iowa State University
Exports as a whole are a smaller part of the state’s overall economy than in the nation

Exports as Share of GDP, 2010

Sources: U.S. Bureau of Economic Analysis, USDA, WISERTRADE

*Estimated by FRBKC
Looking ahead, purchasing managers in the region were mostly optimistic in July.

Tenth District Manufacturing Expectations
Six-Months Ahead, Seasonally Adjusted

Source: KC, Dallas FRB Manufacturing Surveys
Energy prices are always a risk, but oil has so far made up for the dropoff in natural gas.

Source: Baker Hughes
Conclusions

- Growth in the U.S. economy has slowed moderately, as concerns about Europe and politics remain elevated.
- Inflation has remained low, and monetary policymakers disagree about future paths.
- Oklahoma economic growth remains better than in the nation, but drought and low natural gas prices have hurt.
Questions?

For more information about the Oklahoma economy, subscribe to the quarterly Oklahoma Economist at:

www.kansascityfed.org/publications/research/oke