The U.S. and Oklahoma Economies Ahead of the Fiscal Cliff

Southern Oklahoma Bankers Association
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U.S. Economy and Monetary Policy

- U.S. economic growth has been moderate, as European and political concerns remain high

- How the fiscal cliff is resolved has bearing on both near-term growth and long-term debt

- The range of views among FOMC members about monetary policy remains relatively wide
U.S. GDP growth rebounded somewhat in Q3, but business investment & exports weakened.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis
Early fourth quarter data suggest moderate U.S. growth continues

U.S. Private Payroll Employment and Business Indexes

Change from previous month, thousands

Index

Financial stress in Europe remains higher than a few years ago, but has improved.
The “fiscal cliff” and political uncertainty are weighing on the economy.

Components of the “Fiscal Cliff”
In dollars and as a share of GDP

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<tr>
<th>Percent of GDP</th>
<th>Pending tax increases</th>
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<tbody>
<tr>
<td></td>
<td>Bush tax cuts - $180 bn</td>
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<td>AMT - $120 bn</td>
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<td>Payroll tax - $120 bn</td>
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<td>Tax extenders - $20 bn</td>
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<td>Obamacare - $20 bn</td>
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<td>Business expensing - $10 bn</td>
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<th>Percent of GDP</th>
<th>Pending expiring programs</th>
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<td>Extended UI - $40 bn</td>
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<td></td>
<td>Other - $40 bn</td>
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<td>Medicare doc fix - $20 bn</td>
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<th>Percent of GDP</th>
<th>Pending spending cuts</th>
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<td>Sequestration - $110 bn</td>
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<td>Initial debt plan - $40 bn</td>
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Source: Merrill Lynch
Economic forecasters generally assume the fiscal cliff will be avoided, without recession.

Real GDP Projections

Percent change, quarter-over-quarter (SAAR)

Sources: Blue Chip Economic Indicators, Congressional Budget Office, Haver Analytics
However, avoiding fiscal changes means further increases in the national debt.

Federal Public Debt as a Share of GDP

Sources: Congressional Budget Office
On monetary policy, over a third of FOMC participants disagree about timing issues.
At its Sept. meeting, the FOMC expected unemployment to gradually improve.
And for inflation to remain at or near its long-term target through 2015

PCE Inflation Index

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
The Oklahoma Economy

- Oklahoma’s economy has outperformed just about every other state since last year

- Southeast Oklahoma has outperformed the nation, but lags the rest of the state a bit

- Slower energy activity, the looming fiscal cliff, and the ongoing drought are drags
There remains considerable variation in the rate of job growth across the nation.
Unlike the nation, employment has risen above pre-recession levels in Oklahoma.
Southeast OK employment is above pre-recession levels, but has recently lagged.
Unemployment in parts of SE Okla. remains elevated, but is mostly lower than the U.S.

County Unemployment Rates
September 2012

Source: OK Employment Security Commission
State energy activity has edged down from its peak but appears to be leveling off

Oklahoma Rig Count
Seasonally Adjusted

Number of rigs

Source: Baker Hughes
Most current drilling activity in Oklahoma is for oil in the western half of the state.
Besides energy-related industries, most other Oklahoma industries have added jobs.
Exposure to Europe is much less in Oklahoma than in the nation or even region.
Exposure to the “fiscal cliff,” however, is probably at least average in Oklahoma.
The ongoing drought has had mixed effects across the state and region.
But Oklahoma’s banks continue to outperform the nation by a wide margin.
Summary

- Recent U.S. economic growth has been moderate, with low inflation, as fiscal and European concerns remain elevated.

- Oklahoma economic activity remains relatively solid, but low gas prices have hurt some areas, including the southeast.
Questions?

For more information about the Oklahoma and Kansas economies, subscribe to the quarterly Oklahoma Economist for Oklahoma and the Midwest Economist for Kansas at:

www.kansascityfed.org/publications/research/oke