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

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www.kansascityfed.org/oklahomacity
Federal Reserve Districts and Office Locations
The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

- Functions – 40 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

- 2013 board of directors
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The U.S. Economy

- U.S. economic growth has been modest, as business investment and exports have waned

- 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
GDP growth rebounded somewhat in Q3, but business spending weakened.
Early fourth quarter data has been mixed, but suggestive of further modest growth.
Financial stress in Europe remains elevated, but has improved lately

Eurozone and U.S. Financial Stress

Source: FRBKC
The potential “fiscal cliff” of $720B+ and 4%+ of GDP is weighing on the economy

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Pending tax increases</td>
<td></td>
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<tr>
<td>Bush tax cuts</td>
<td>$180 bn</td>
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<tr>
<td>AMT</td>
<td>$120 bn</td>
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<tr>
<td>Payroll tax</td>
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<tr>
<td>Tax extenders</td>
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<tr>
<td>Obamacare</td>
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<tr>
<td>Business expensing</td>
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<td>Pending expiring programs</td>
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<tr>
<td>Extended UI</td>
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<tr>
<td>Other</td>
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<tr>
<td>Medicare doc fix</td>
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<tr>
<td>Pending spending cuts</td>
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<tr>
<td>Sequestration</td>
<td>$110 bn</td>
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<tr>
<td>Initial debt plan</td>
<td>$40 bn</td>
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Source: Merrill Lynch
Economic forecasters assume most of 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 Debt as a Share of GDP

Source: Congressional Budget Office
Fiscal cliff components would have varying effects on GDP and the federal deficit in 2013

Source: Moody's Analytics

Implied Multipliers on GDP and the Federal Deficit

2013

Ratio of GDP to deficit decline

Source: Moody's Analytics
At its Sept. meeting, the FOMC expected unemployment to gradually improve.

Unemployment Rate
Seasonally Adjusted

Source: U.S. Bureau of Labor Statistics, FOMC
And for inflation to remain at or near its long-term target through 2015

PCE Inflation Index

Percent change, year-over-year

Sept. FOMC Forecast Ranges in Yellow
Long Term

Source: U.S. Bureau of Economic Analysis, FOMC
On monetary policy, over a third of FOMC participants disagree about timing

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
The Oklahoma Economy

• Oklahoma’s economy continues to outperform the nation in 2012

• Energy intensive areas have done well, and housing is picking up

• But recently slower energy activity and the looming fiscal cliff are risks
Unlike the nation, employment has risen above pre-recession levels in Oklahoma.
Unemployment is lowest in energy and agriculture states, highest on the coasts.

Unemployment Rates (percent)
October 2012

Source: U.S. Bureau of Labor Statistics
Unemployment is below national levels in all but 4 (southeast) Oklahoma counties.

County Unemployment Rates
September 2012

- 2.3% – 4.2%
- 4.3% – 6.2%
- 6.3% – 9.9%

Source: OK Employment Security Commission
The location of current oil activity overlaps very closely with county unemployment.

Location of Active Drilling Rigs in Oklahoma
Nov. 21, 2012
Most industries in the state have continued to add jobs, but energy has shed jobs lately.

Oklahoma Employment Growth by Industry

Percent change, quarter-to-quarter, annualized

Source: Bureau of Labor Statistics
The state rig count is down from summer highs, as gas prices remain too low.
Regional manufacturing activity has also slowed in recent months.
Factory expectations have also eased, but remain positive except for hiring.

Manufacturing 6-Month Ahead Indexes
Seasonally Adjusted

Source: ISM, Federal Reserve Banks
Exposure to Europe is much less in Oklahoma than in the nation or even region.
Exposure to the “fiscal cliff” is probably about average in Oklahoma as a whole.

Federal Expenditures Per Capita, Fiscal Year 2010
U.S. and Tenth District states

Sources: U.S. Census Bureau, Consolidated Federal Funds Report
On the positive side, housing activity has grown strongly in Oklahoma the past year.

Single-Family Housing Permits
Seasonally adjusted

Number, 3-month moving avg.

Source: U.S. Census Bureau
Oklahoma home prices are edging up, and unlike U.S. are higher than pre-recession
Past due loans still remain much more elevated in the U.S. than Oklahoma.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
And the share of unprofitable banks in Oklahoma is basically back to “normal”

Source: FDIC
Regional farmland values are still up considerably from year-ago levels.

Tenth District Non-Irrigated Cropland Values
Percent Change, Year-over-year

Source: FRBKC Agricultural Credit Survey
Summary

- Recent U.S. economic growth has been modest, with low inflation, as fiscal concerns remain a focus.

- Oklahoma economic activity remains relatively solid, but low gas prices have hurt and the fiscal cliff looms.
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