Update on the U.S. and Oklahoma Economies Ahead of the Fiscal Cliff

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  • Examinations and inspections of Oklahoma financial institutions
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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

Financial stress in Europe remains higher than a few years ago, but has improved.

Eurozone and U.S. Financial Stress Index

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

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

Percent of GDP

-5.0
-4.5
-4.0
-3.5
-3.0
-2.5
-2.0
-1.5
-1.0
-0.5

Bush tax cuts - $180 bn
AMT - $120 bn
Payroll tax - $120 bn
Tax extenders - $20 bn
Obamacare - $20 bn
Business expensing - $10 bn

Pending tax increases

-3.0
-2.5
-2.0
-1.5
-1.0

Extended UI - $40 bn
Other - $40 bn
Medicare doc fix - $20 bn

Pending expiring programs

-2.5
-2.0
-1.5
-1.0

Sequestration - $110 bn
Initial debt plan - $40 bn

Pending spending cuts

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
The CBO projects that unemployment would rise 1 percent if we go over the fiscal cliff.
However, avoiding fiscal changes means further increases in the national debt.

Federal Public Debt as a Share of GDP

Sources: Congressional Budget Office
At its Sept. meeting, the FOMC expected unemployment to gradually improve.

Source: U.S. Bureau of Labor Statistics, FOMC
And for inflation to remain at or near its long-term target through 2015
Over a third of FOMC participants disagree about timing of monetary tightening

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

- Many areas of the state have returned to full employment, and most industries are growing

- However, energy activity has begun to slow, the fiscal cliff looms, and the drought lingers
There remains considerable variation in the rate of job growth across the nation.

Source: U.S. Bureau of Labor Statistics
Unlike the nation, unemployment has risen above pre-recession levels in Oklahoma.
State unemployment is low, but would be higher with more labor force participation.
Unemployment is especially low in northwest and south central Oklahoma

County Unemployment Rates
September 2012

Source: OK Employment Security Commission
Growth in energy jobs slowed in Q3, but other industries posted positive growth

Oklahoma Employment Growth by Industry

Percent change, quarter-to-quarter, annualized

Source: Bureau of Labor Statistics
Energy drilling is now declining, with oil no longer making up for declines in gas.
Natural gas and natural gas liquids prices have rebounded slightly but remain low.
Regional factory activity also declined in Oct., driven by uncertainties and slowing energy
In terms of European risk, Oklahoma has relatively little trade exposure.
Exposure to the “fiscal cliff” is probably about average in Oklahoma

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

Sources: U.S. Census Bureau, Consolidated Federal Funds Report
Severe to exceptional drought is still gripping the state and region.
Yet total U.S. net farm income is projected to rise, given high crop prices and insurance

**U.S. Real Net Farm Income**  
August 2012 forecast

Note: Forecast denoted with F

Source: U.S. Department of Agriculture
Livestock producers, however, are likely to continue to be squeezed by high feed costs.
Ag loans are more current than any other type of loan at Oklahoma banks

Share of Loans 90+ days Past Due
Q2 2012

Source: FDIC
And ag loans are much more important to Oklahoma banks than they are in the nation.
Regional farmland prices continue to surge, and have accelerated in Oklahoma.

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

Source: FRBKC Agricultural Credit Survey
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 drought and low natural gas prices have hurt recently.
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