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

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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 – 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
  • Jim Dunn (chair), Chairman, Mill Creek Lumber & Supply, Tulsa
  • Paula Bryant-Ellis, COO, BOK Financial Mortgage Group, Tulsa
  • Linda Capps, Vice Chairman, Citizen Potawatomi Nation, Shawnee
  • Michael Coffman, CEO, Panhandle Oil & Gas, Inc., Oklahoma City
  • Pete Delaney, Chairman & CEO, OGE Energy Corp., Oklahoma City
  • Doug Tippens, President & CEO, Bank of Commerce, Yukon
  • K. Vasudevan, Chairman, Service & Technology Corp., Bartlesville
The U.S. Economy
GDP growth rebounded somewhat in Q3, but business spending weakened

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
Early fourth quarter data has been mixed, but suggestive of further modest growth.

U.S. Private Payroll Employment and Business Indexes

Change from previous month, thousands

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

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

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.
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 Dec. meeting, the FOMC expected unemployment to gradually improve.
And for inflation to remain at or near its long-term target through 2015
On monetary policy, most FOMC participants are expecting rates to hold until 2015

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
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
October 2012

Source: OK Employment Security Commission
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

*Compared to Q3 2012

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.
Exposure to the “fiscal cliff” is probably about average in Oklahoma as a whole.
On the positive side, housing activity has grown strongly in Oklahoma the past year.

Source: U.S. Census Bureau
Past due loans still remain much more elevated in the U.S. than Oklahoma.
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.
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