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

Oklahoma Society of CPAs
November 28, 2012

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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

• 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. Economy and Monetary Policy

• U.S. economic growth has been moderate, and is expected to remain sluggish in Q4 2012

• 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.
Early fourth quarter data suggest moderate U.S. growth continues

U.S. Private Payroll Employment and Business Indexes

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

Percent of GDP

Sources: Merrill Lynch

Sequestration - $110 bn
Tax extenders - $20 bn
Payroll tax - $120 bn
Bush tax cuts - $180 bn
AMT - $120 bn
Obamacare - $20 bn
Business expensing - $10 bn
Extended UI - $40 bn
Other - $40 bn
Medicare doc fix - $20 bn
Sequestration - $110 bn
Initial debt plan - $40 bn
Pending tax increases
Pending expiring programs
Pending spending cuts
Economic forecasters generally assume the fiscal cliff will be avoided, without recession.
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

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
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

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

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

- State employment growth is positive, with some slowing in a few industries

- 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.

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

Source: U.S. Bureau of Labor Statistics
Unlike the nation, employment has risen above pre-recession levels in Oklahoma.
Most Oklahoma sectors have added jobs in recent months, with a few exceptions.

Oklahoma Employment Growth by Industry

Percent change, quarter-to-quarter, annualized

Source: Bureau of Labor Statistics

*Compared to Q3 2012
Metro OKC and rural Oklahoma employment is above pre-recession levels

Oklahoma Job Growth
Q3 2012

Source: U.S. Bureau of Labor Statistics
Unemployment is lower in western and northwestern parts of the state.

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

Source: Baker Hughes
Most current drilling activity in Oklahoma is for oil in the western half of the state.

Location of Active Drilling Rigs in Oklahoma
Nov. 21, 2012
Manufacturing activity has slowed in recent months, mostly due to uncertainty.
Housing permits have rebounded, and remain much healthier than U.S. levels

Source: U.S. Census Bureau
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
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

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

Sources: U.S. Census Bureau, Consolidated Federal Funds Report
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 and the fiscal cliff remains a risk.
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