U.S. and Oklahoma Economic Update

Phillips 66
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Megan Williams
Associate Economist and Regional Affairs Manager, Oklahoma City Branch
Federal Reserve Bank of Kansas City
www.kansascityfed.org/oklahomacity
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
At mid-year, GDP was growing at about its long-term trend, but differed by sector

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Q1 2013
Q2 2013
Q3 2013

Total GDP
Consumer spending
Residential investment
Business investment
Exports
Government spending

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
Recent data suggest faster U.S. growth, and employment gains have been solid.

In its latest projections, the FOMC expected unemployment to continue to improve.
And for inflation to remain at or near its long-term target through 2016

Source: U.S. Bureau of Economic Analysis, FOMC
On interest rates, most FOMC participants expect little change until 2015

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
When to begin tapering the rate of increase of the Fed’s balance sheet is a hot topic.
The Oklahoma Economy
Employment in Oklahoma is just above pre-recession levels, but has eased lately.

Level of Payroll Employment
Through August 2013

Index: Jan-08=100

Source: U.S. Bureau of Labor Statistics
Energy jobs have dipped lately, creating some risk, but other local sectors continue to grow.

Metro Employment Growth by Industry
August 2013

Source: Bureau of Labor Statistics
Looking at job growth by county, there is considerable variation across the state.

Household Employment Growth by County
Percent change, Aug-12 to Aug-13

- Bartlesville
But unemployment in most counties remains well below the U.S. rate

County Unemployment Rates
August 2013
Rig counts have slipped somewhat but still remain relatively high.

Oklahoma Active Drilling Rig Count

Source: Baker Hughes
And oil and gas production in the state has continued to increase.

Oklahoma Oil and Gas Production

Source: EIA
But federal spending cuts could continue to hurt some parts of the state.

Ratio of Federal Government Share of Employment in County vs. Nation
2011

Source: U.S. Bureau of Labor Statistics
Drought conditions have improved since last year, helping some areas of the state

U.S. Drought Monitor, October 2012

U.S. Drought Monitor, October 2013

Source: USDA
Residential construction has continued to increase, despite higher mortgage rates.

**Single-Family Housing Permits**
Seasonally adjusted

Number of permits, 3-month moving avg.

Source: U.S. Census Bureau
As in the nation, regional manufacturing activity improved in recent months.

Manufacturing Composite Indexes
Month-over-month, Seasonally Adjusted

Source: FRB Kansas City
And banking conditions in the state remain better than in the nation as a whole.
Long-term job growth in Wash. Co. has mostly been positive, even during the recession.

The most distinctive industry in Washington county, of course, is energy

### Washington County and U.S. Employment Share by Industry

2011

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Employment</th>
<th>Location Quotient</th>
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<tbody>
<tr>
<td></td>
<td>Washington County</td>
<td>U.S.</td>
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<tr>
<td>Natural Resources &amp; Mining</td>
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<td>Trade, Transportation &amp; Utilities</td>
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<tr>
<td>Education &amp; Health</td>
<td>15.3</td>
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<td>Leisure &amp; Hospitality</td>
<td>10.3</td>
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<td>State &amp; Local Government</td>
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<td>14.7</td>
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<td>Financial Activities</td>
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<tr>
<td>Professional and Business Services</td>
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<tr>
<td>Construction</td>
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<tr>
<td>Information</td>
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<tr>
<td>Manufacturing</td>
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<tr>
<td>Federal Government</td>
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</tbody>
</table>

Note - Location quotient is the division of local employment share by national employment share
Summary

• The Oklahoma economy has slowed in 2013, especially in non-metro areas due to energy, but remains solid overall.

• Conditions across the state are varied somewhat, but the Bartlesville area continues to grow at a solid rate.
Questions and Links

For more information about the Oklahoma City Branch of the Federal Reserve Bank of Kansas City, visit our website at:

http://www.kansascityfed.org/oklahomacity/

For more information about the Oklahoma economy, subscribe to the quarterly Oklahoma Economist at:

www.kansascityfed.org/publications/research/oke