U.S. and Oklahoma Economic Update

OBA Young Professionals
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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
At mid-year, GDP was growing at about its long-term trend, but differed by sector.
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

PCE Inflation Index

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
On interest rates, most FOMC participants expect little change 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
When to begin tapering the rate of increase of the Fed’s balance sheet is a hot topic.
The Oklahoma Economy
OK employment is just above pre-recession levels, with some differences across the state.
Job growth varies throughout the nation, but generally lags in Oklahoma.

Employment Growth, Year-over-Year (percent)
October 2013

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

Source: Bureau of Labor Statistics
Rig counts have slipped somewhat but still remain relatively high.

Oklahoma Active Drilling Rig Count
Seasonally Adjusted

Source: Baker Hughes
And oil and gas production in the state has continued to increase.
Oklahoma unemployment is lower than most states with similar populations.

Unemployment Rates (percent)
October 2013

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
Home prices have held up considerably better than in the nation as a whole.
And banking conditions in the state remain better than in the nation as a whole.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
But the government shutdown had some negative impacts in several states.

Federal Shutdown Economic Growth Reduction
Q4 2013

Source: Wells Fargo Securities, Pew Center
High energy, government, and low high-tech activity make Oklahoma different from U.S.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Employment</th>
<th>Location Quotient</th>
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<tbody>
<tr>
<td>OK</td>
<td>U.S.</td>
<td></td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>3.7</td>
<td>1.6</td>
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<tr>
<td>Federal Government</td>
<td>3.1</td>
<td>2.2</td>
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<tr>
<td>State &amp; Local Government</td>
<td>19.3</td>
<td>14.4</td>
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<tr>
<td>Construction</td>
<td>4.5</td>
<td>4.4</td>
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<tr>
<td>Education &amp; Health</td>
<td>14.5</td>
<td>15.3</td>
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<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>18.7</td>
<td>19.9</td>
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<tr>
<td>Manufacturing</td>
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<tr>
<td>Leisure &amp; Hospitality</td>
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<tr>
<td>Financial Activities</td>
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<tr>
<td>Professional and Business Services</td>
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<tr>
<td>Information</td>
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<td>2.1</td>
</tr>
</tbody>
</table>

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

• The U.S. economy continues to grow at long-term trends, though several issues remain on the horizon

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