The U.S. and Oklahoma Economies

Northwest Oklahoma State University
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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
State of the U.S. Economy
While U.S. GDP contracted in Q4, there were positive signs from investment

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
U.S. employment and business activity has grown fairly solidly in early 2013

Federal budget cuts are evenly split between defense and nondefense

### Total Sequestration Budget Cuts

<table>
<thead>
<tr>
<th>Programs</th>
<th>Reduction in budgetary resources (billions of $)</th>
<th>Percentage reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Defense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discretionary</td>
<td>42.7</td>
<td>7.9</td>
</tr>
<tr>
<td>Mandatory</td>
<td>*</td>
<td>7.8</td>
</tr>
<tr>
<td>Total</td>
<td>42.7</td>
<td>7.9</td>
</tr>
<tr>
<td><strong>Nondefense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discretionary</td>
<td>28.7</td>
<td>5.3</td>
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<tr>
<td>Medicare spending subject to 2 percent limit</td>
<td>9.9</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>5.8</td>
</tr>
<tr>
<td>Total</td>
<td>42.7</td>
<td>4.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>85</td>
</tr>
</tbody>
</table>

Sources: CBO
In its latest projections, the FOMC expected unemployment to gradually improve.
And for inflation to remain at or near its long-term target through 2015.

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
Trends and Risks in the Local Economy
Unlike the U.S., employment in Oklahoma is above pre-recession levels.

Level of Payroll Employment
Through February 2013

Index: Jan-08=100

Source: U.S. Bureau of Labor Statistics
Employment in NWOSU counties has been growing faster than other parts of the state.

Level of Payroll Employment
Through June 2012

Index: Jan-08=100

*Includes Garfield, Woods, and Woodward Counties

Source: U.S. Bureau of Labor Statistics
The local area’s most distinctive industry is energy, of course, which has done well

### Northwest Oklahoma and U.S. Employment Share by Industry 2011

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Employment</th>
<th>Location Quotient</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Northwest OK*</td>
<td>U.S.</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>10.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Construction</td>
<td>4.9</td>
<td>4.4</td>
</tr>
<tr>
<td>Trade, Transportation, &amp; Utilities</td>
<td>21.4</td>
<td>19.9</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
<td>15.3</td>
<td>14.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9.3</td>
<td>9.4</td>
</tr>
<tr>
<td>Education &amp; Health</td>
<td>13.2</td>
<td>15.2</td>
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<tr>
<td>Leisure &amp; Hospitality</td>
<td>9.2</td>
<td>10.7</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>4.5</td>
<td>5.9</td>
</tr>
<tr>
<td>Federal Government</td>
<td>1.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>9.5</td>
<td>13.9</td>
</tr>
<tr>
<td>Information</td>
<td>1.1</td>
<td>2.1</td>
</tr>
</tbody>
</table>

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

*Includes Garfield, Woods, and Woodward Counties

Source: U.S. Bureau of Labor Statistics
Unemployment is below national levels in most of Oklahoma, especially northwest.

County Unemployment Rates
January 2013

Source: OK Employment Security Commission
Unemployment appears to be highly correlated with drilling activity

Oil and Gas Rig Counts
April 2013

Source: Baker Hughes
But state job growth has slowed over the past year, especially in energy.

Oklahoma Employment Growth by Industry

Percent change, year-over-year

Source: Bureau of Labor Statistics
Oklahoma also has a bigger exposure to sequestration than the nation

Federal Spending as a Percent of State GDP
2010

Source: Wells Fargo Securities, Pew Center
And Oklahoma’s federal spending is more defense-related

Federal Spending as a Percent of State GDP
2010

Source: Wells Fargo Securities, Pew Center
The state’s exposure to federal cuts is concentrated in just a few areas.

Share of Oklahoma Federal Employment by County
2011

Source: U.S. Bureau of Labor Statistics
Regional factory activity, including in Okla., has also eased ahead of sequestration
In agriculture, crop prices have moderated somewhat, but still remain favorable.
Regional farmland prices continue to grow, although OK growth has slowed lately.
Problem loans are still elevated in OK, but much less so than in banks nationally.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
Summary

- U.S. economic growth remains moderate after the fiscal cliff and ahead of sequestration.

- Oklahoma economic activity remains stronger, especially in the northwest, but has slowed due largely to energy, and sequestration is a bigger risk.
Questions?

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

www.kansascityfed.org/publications/research/oke