The U.S. and Oklahoma Economies After the Fiscal Cliff

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www.kansascityfed.org/oklahomacity
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The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

• Functions – 40 staff
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  • 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

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The U.S. Economy
Q4 monthly U.S. data have been mixed, but suggestive of further moderate growth

U.S. Private Payroll Employment and Business Indexes

Forecasters lowered their GDP projections only slightly after the fiscal cliff deal

Real GDP Projections

Percent change, quarter-over-quarter (SAAR)

Sources: Blue Chip Economic Indicators
High-end tax rates increased with the deal but overall are similar to rates in early 2000s

Federal Tax Rates
2000-present

Percent of GDP

Source: Tax Foundation
Nearly everyone’s after-tax 2013 income will be affected, but high incomes the most

Average Impact on 2013 After-Tax Income from Fiscal Cliff Deal

Percent

-2.1

-1.3

-1.2

-1.5

-3.9

-6.9

All Income Groups

< $106K

$106K - $265K

$265K - $530K

$530K - $1.1M

> $1.1M

---Adjusted Gross Income---

Source: Tax Foundation
The fiscal cliff deal did little to address long-term federal debt issues

Federal Debt Held by the Public
1790-2042

Percent of GDP

Source: Congressional Budget Office
Federal spending projections are well above projected revenues, especially after 2020.
The majority of long-term spending increases are due to health care costs and net interest.

Federal Spending Components as a Share of GDP
2000-2042

Percent

Actual     Projected


Net Interest
All Other Spending
National Defense
Medicaid, CHIP, and Exchange Subsidies
Medicare
Social Security

Source: Congressional Budget Office
Bending the health care cost curve will be a key source of solving long-term debt issues.

Federal Spending on Major Healthcare Programs
Under CBO Long-term Scenario and Three Assumptions About Excess Cost Growth (i.e., beyond GDP) After 2022

Source: Congressional Budget Office
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

PCE Inflation Index

Percent change, year-over-year

Source: U.S. Bureau of Economic Analysis, FOMC
On monetary policy, most FOMC participants expect 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 Fed’s balance sheet is at historically high levels and set to rise further.

Federal Reserve Balance Sheet

Assets
- Treasury securities
- MBS & agency debt
- Targeted lending programs
- Short term lending
- Rescue operations

Liabilities
- Currency
- Reserves
- Other

Source: Federal Reserve Board
The Oklahoma Economy
The fiscal cliff deal will hurt Oklahoma much less than the Northeast or California.

Share of Households with Income over $200,000
2011

[Map showing the share of households with income over $200,000 by state, with Oklahoma having 2.4% and other states shaded differently to indicate different income ranges.

Source: U.S. Census Bureau]
But the debt ceiling/sequestration outcome could hurt Oklahoma as much as the nation.
Employment has leveled off a bit in Oklahoma recently, but remains solid.
The recent leveling has largely occurred in non-metro areas, and to some degree Tulsa.
Energy has been the main source of recent slowing, as most sectors have added jobs.

Oklahoma Employment Growth by Industry

Percent change, quarter-to-quarter, annualized

*Compared to Q3 2012

Source: Bureau of Labor Statistics
Unemployment is below national levels in all but 3 (southeast) Oklahoma counties

County Unemployment Rates
November 2012

Source: OK Employment Security Commission
The state rig count continues to ease from summer highs.

Oklahoma Active Drilling Rig Count
Seasonally Adjusted

Number of rigs

Source: Baker Hughes
Natural gas and NGL prices have rebounded slightly in recent months.

* Average of Butane and Propane

Source: Bloomberg Energy Services, Oil and Gas Weekly
But most states are expected to see further modest reductions in energy activity.

**Forecasted Change in Number of Wells Completed, 2013 vs. 2012**

Top 10 oil and gas producing states

<table>
<thead>
<tr>
<th>State</th>
<th>Percent Change</th>
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<tr>
<td>US</td>
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<tr>
<td>ND</td>
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<td>PA</td>
<td>-3.6</td>
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**Source:** Oil and Gas Journal, January 7, 2013
Regional manufacturing activity has also fallen for the past three months.
Factory expectations have also eased, and future hiring plans are now negative.

Source: ISM, Federal Reserve Banks
Summary

- U.S. economic growth remains moderate after the fiscal cliff, but long-term debt issues are unresolved.

- Oklahoma economic activity remains stronger but has slowed due largely to energy, and the debt ceiling looms.
Questions?

For more information about the Oklahoma economy, subscribe to the quarterly Oklahoma Economist at:
www.kansascityfed.org/publications/research/oke