The U.S. and OKC Economies: Post-Fiscal Cliff, Pre-Sequestration

Commercial Real Estate Council
February 21, 2013

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Impacts of the Fiscal Cliff Deal
High-end tax rates increased with the deal but overall are similar to rates in early 2000s.
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

-2.1
-1.3
-1.2
-1.5
-3.9
-6.9

Source: Tax Foundation
The deal hits the Northeast and California much more than the rest of the country.

Share of Households with Income over $200,000
2011

Source: U.S. Census Bureau
The deal only moderately closed the federal deficit gap for the next decade.

Federal Government Outlays and Receipts as a Share of GDP
1930-2024

Source: Congressional Budget Office
Longer term federal spending increases are due largely to health care costs and net interest.
State of the U.S. Economy
GDP projections changed little after fiscal cliff deal; sequester would change outlook

Real GDP Projections

Percent change, quarter-over-quarter (SAAR)

- Blue Chip, Dec. 7, 2012
- Blue Chip, Jan. 7, 2013
- M.A. Baseline, Feb. 19, 2013
- M.A. Sequestration, Feb. 19, 2013

Sources: Blue Chip Economic Indicators, Macroeconomic Advisors
While U.S. GDP contracted in Q4, there were positive signs in spending and investment.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

- Total GDP: 1.3% (2012 Q2), 3.1% (2012 Q3), 2.2% (2012 Q4)
- Consumer spending: 1.5% (2012 Q2), 1.6% (2012 Q3), 15.3% (2012 Q4)
- Residential investment: 8.5% (2012 Q2), 5.3% (2012 Q3), 3.6% (2012 Q4)
- Business investment: 8.4% (2012 Q2), -1.8% (2012 Q3), 1.9% (2012 Q4)
- Exports: 5.3% (2012 Q2), -5.7% (2012 Q3), -0.7% (2012 Q4)
- Government spending: -6.6% (2012 Q2), -6.6% (2012 Q3), 3.9% (2012 Q4)

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
But investment in non-residential structures has been essentially flat since early 2012

Growth in Components of Real GDP
Non-Residential Structures

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
U.S. employment and business activity has been growing since early 2010

But unlike in Oklahoma, national employment remains well below pre-recession levels.
U.S. Monetary Policy
Federal Reserve Districts and Office Locations
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
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
The Fed’s balance sheet is at historically high levels and set to rise further.

Federal Reserve Balance Sheet

Assets
- Short term lending, targeted lending programs, and rescue operations
- MBS & agency debt
- Treasury securities

Liabilities
- Currency
- Reserves
- Other

Source: Federal Reserve Board
Trends and Risks in the Local Economy
Job trends have differed across Oklahoma, with the OKC metro now clearly leading.
But local job growth has slowed lately, driven largely by declines in energy jobs.
The state rig count has rebounded slightly in February after several months of easing.
But most energy states are expected to see slightly less activity this year than last.
Energy is the most defining industry in OKC, but the federal government is a clear 2nd

<table>
<thead>
<tr>
<th>Industry</th>
<th>OKC Employment Share</th>
<th>U.S. Employment Share</th>
<th>OKC Location Quotient</th>
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<tr>
<td>Energy</td>
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<td>Manufacturing</td>
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Source: U.S. Bureau of Labor Statistics
In CRE, OKC vacancy rates are lower than the U.S. for both office and retail

Office and Retail Vacancy Rates

Source: Torto-Wheaton Research
Summary

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

- Oklahoma City economic growth remains stronger but has slowed due to energy, and sequestration looms.
For more information about the Oklahoma economy, subscribe to the quarterly **Oklahoma Economist** at:

www.kansascityfed.org/publications/research/oke