U.S. and Oklahoma Economic Update

Farm Credit Loan Conference
July 18, 2013

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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
The U.S. Economy
Q1 GDP numbers have been revised down twice, though housing remains strong.

### Growth in Components of Real GDP, Q1 2013

<table>
<thead>
<tr>
<th>Component</th>
<th>1st Release</th>
<th>2nd Release</th>
<th>3rd Release</th>
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<tbody>
<tr>
<td>Total GDP</td>
<td>2.5</td>
<td>2.4</td>
<td>1.8</td>
</tr>
<tr>
<td>Consumer spending</td>
<td>3.2</td>
<td>3.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Residential investment</td>
<td>12.6</td>
<td>12.1</td>
<td>14.0</td>
</tr>
<tr>
<td>Business investment</td>
<td>2.1</td>
<td>2.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Exports</td>
<td>2.9</td>
<td>0.8</td>
<td>-4.1</td>
</tr>
<tr>
<td>Government spending</td>
<td>-1.1</td>
<td>-4.9</td>
<td>-4.8</td>
</tr>
</tbody>
</table>

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
Q2 data suggest slower growth, though 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 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
When to begin tapering the rate of increase of the Fed’s balance sheet is a hot topic.

Federal Reserve Balance Sheet

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

- Liabilities
  - Currency
  - Reserves
  - Other

Source: Federal Reserve Board
Mortgage and Treasury rates have jumped over the past 60 days

Interest Rates

Source: Wall Street Journal, Federal Reserve Board
The Oklahoma Economy
Employment in Oklahoma remains above pre-recession levels, driven by OKC

Level of Payroll Employment
Through May 2013

Index: Jan-08=100

Source: U.S. Bureau of Labor Statistics
Construction and hospitality have been the biggest boost to growth, while others lag.

**Metro Employment Growth by Industry**
*Year-to-Date Growth, Annualized*

![Bar chart showing employment growth by industry in OKC, Tulsa, and Non-Metro regions.]

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

Oklahoma Active Drilling Rig Count
Seasonally Adjusted

Number of rigs

Source: Baker Hughes
And unemployment remains below the national average in nearly all counties

County Unemployment Rates
May 2013

Source: OK Employment Security Commission
Drought conditions have eased somewhat in OK, but the western part still remains dry.
Crop prices have moderated somewhat, but still remain quite high

U.S. Crop Prices

Source: Commodity Research Bureau
Livestock owners continue to be squeezed by high feed costs

U.S. Livestock Prices and Breakeven Costs

Cattle Price
Cattle breakeven
Hog price
Hog breakeven
Ag loans are more current than any other type of loan at Oklahoma banks

Share of Loans 90+ days Past Due
Q1 2013

Source: FDIC
And ag loans are much more important to Oklahoma banks than they are in the nation.

Agriculture Loans as a Share of Total Loans
Q1 2013

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>Oklahoma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm Operating Loans</td>
<td>0.83</td>
<td>4.08</td>
</tr>
<tr>
<td>Farmland Loans</td>
<td>1.04</td>
<td>4.30</td>
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</table>

Source: FDIC
Regional farmland price growth has eased in some states but still remains elevated.

Tenth District Non-Irrigated Cropland Values
Percent Change, Year-over-year

Source: FRBKC Agricultural Credit Survey
Conclusions

• U.S. economic growth has remained fairly modest in 2013

• Oklahoma economic activity has leveled off lately but is still solid

• Ag conditions generally remain good, especially for crop producers