U.S. and Oklahoma Economic Update

Muskogee Rotary Club
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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
GDP increased in Q2, but still remains below trend growth

Growth in Components of Real GDP,
Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
July 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 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

Source: U.S. Bureau of Economic Analysis, FOMC

Note – Number of participants who project the initial increase will occur in the specified year in parenthesis
When to begin tapering the rate of increase of the Fed’s balance sheet is a hot topic.
Mortgage and Treasury rates have jumped since May but remain below early ’11 levels.

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 June 2013

Index: Jan-08=100

Source: U.S. Bureau of Labor Statistics
Energy has been the biggest drag to non-metro Oklahoma job growth this year

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

Oklahoma Active Drilling Rig Count
Seasonally Adjusted

- Oil
- Natural Gas

Source: Baker Hughes
And most counties remain below the U.S. jobless rate, including Muskogee Co.

County Unemployment Rates
June 2013

Source: OK Employment Security Commission
But unemployment can be measured several ways, giving several views of labor markets

Alternative Measures of Labor Underutilization
Average, from 2012Q2 – 2013Q1

- Officially unemployed > 15 weeks: 4.4%
- Official unemployment rate: 7.9%
- Plus discouraged and marginally-attached: 9.4%
- Plus part-time involuntarily: 14.5%

Source: U.S. Bureau of Labor Statistics
Job growth in Muskogee has been slightly lower recently, but better than a decade ago.
The local area’s most distinctive industries are federal government and manufacturing

Muskogee County and U.S. Employment Share by Industry
2012

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Employment</th>
<th>Location Quotient</th>
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<tbody>
<tr>
<td></td>
<td>Muskogee County</td>
<td>U.S.</td>
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<tr>
<td>Federal Government</td>
<td>9.5</td>
<td>2.2</td>
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<tr>
<td>Manufacturing</td>
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<td>9.4</td>
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<td>State &amp; Local Government</td>
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<tr>
<td>Construction</td>
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<td>4.4</td>
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<tr>
<td>Education &amp; Health</td>
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<td>15.3</td>
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<tr>
<td>Trade, Transportation &amp; Utilities</td>
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<td>19.9</td>
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<tr>
<td>Leisure &amp; Hospitality</td>
<td>8.4</td>
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<tr>
<td>Financial Activities</td>
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<tr>
<td>Information</td>
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<tr>
<td>Professional and Business Services</td>
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<td>14.1</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>0.6</td>
<td>1.6</td>
</tr>
</tbody>
</table>

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

Source: U.S. Bureau of Labor Statistics
Sequestration could be hurting several areas of the state, including Muskogee Co.

**Ratio of Federal Government Share of Employment in County vs. Nation**

2011

Source: U.S. Bureau of Labor Statistics
Regional factory activity has also been somewhat weak, but rebounded in July.

**Manufacturing PMI Indexes**

*Month-over-month*

Index

- **Kansas City Fed**
- **U.S.**

Source: KC FRB, ISM
Conclusions

• U.S. economic growth has been moderate in 2013, driven largely by fiscal policy and uncertainty.

• Oklahoma economic activity has leveled off lately, including in Muskogee but remains solid.
Questions?

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