The U.S. and Oklahoma Economies

Executive Director’s Forum
May 30, 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

[Map of Federal Reserve districts and office locations across the United States]
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
Trends and Risks in the U.S. Economy
U.S. GDP growth picked up in Q1, with positive signs from consumers and exports

<table>
<thead>
<tr>
<th>Component</th>
<th>2012 Q3</th>
<th>2012 Q4</th>
<th>2013 Q1</th>
<th>2013 Q1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GDP</td>
<td>3.1</td>
<td>1.6</td>
<td>17.6</td>
<td>-4.1</td>
</tr>
<tr>
<td>Consumer spending</td>
<td>0.4</td>
<td>1.6</td>
<td>3.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Residential investment</td>
<td>1.8</td>
<td>13.5</td>
<td>12.6</td>
<td>3.2</td>
</tr>
<tr>
<td>Business investment</td>
<td>-1.8</td>
<td>13.2</td>
<td>2.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Exports</td>
<td>-2.8</td>
<td>-2.8</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Government spending</td>
<td>3.9</td>
<td>3.9</td>
<td>-7.0</td>
<td>-4.1</td>
</tr>
</tbody>
</table>

Growth in Components of Real GDP

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

U.S. Private Payroll Employment and Business Indexes

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

Mar. FOMC Forecast Ranges in Yellow

Long Term
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
Closer to Home
Employment in Oklahoma is above pre-recession levels, driven by Oklahoma City.

Level of Payroll Employment
Through April 2013

Index: Jan-08=100

Source: U.S. Bureau of Labor Statistics
But the pace of state job growth has slowed lately, especially in energy-related sectors.
Non-metro parts of the state have borne the brunt of energy-related cutbacks to date.
The majority of counties in Oklahoma remain below the national unemployment rate.

**County Unemployment Rates**

March 2013

Source: OK Employment Security Commission
County unemployment in Oklahoma appears to be correlated with drilling activity.
OK is much more concentrated in energy and federal government than the nation.

### Oklahoma Personal Earnings Share by Industry

#### 2011

<table>
<thead>
<tr>
<th>Industry</th>
<th>U.S.</th>
<th>OK</th>
<th>LQ*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Highly Concentrated Industries</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>1.1</td>
<td>8.2</td>
<td>7.38</td>
</tr>
<tr>
<td>Proprietors</td>
<td>10.7</td>
<td>14.4</td>
<td>1.36</td>
</tr>
<tr>
<td>Federal Government</td>
<td>3.2</td>
<td>4.2</td>
<td>1.34</td>
</tr>
<tr>
<td>State Government</td>
<td>3.1</td>
<td>3.7</td>
<td>1.21</td>
</tr>
<tr>
<td>Trade, Transportation, &amp; Utilities</td>
<td>14.0</td>
<td>15.0</td>
<td>1.07</td>
</tr>
<tr>
<td>Local Government</td>
<td>8.1</td>
<td>8.6</td>
<td>1.06</td>
</tr>
<tr>
<td>Construction</td>
<td>4.8</td>
<td>4.7</td>
<td>0.97</td>
</tr>
<tr>
<td>Other Services</td>
<td>3.3</td>
<td>3.1</td>
<td>0.92</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9.1</td>
<td>8.3</td>
<td>0.91</td>
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<tr>
<td>Education &amp; Health Services</td>
<td>11.6</td>
<td>9.7</td>
<td>0.84</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>3.8</td>
<td>3.0</td>
<td>0.78</td>
</tr>
<tr>
<td>Farming</td>
<td>1.0</td>
<td>0.8</td>
<td>0.77</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>14.8</td>
<td>9.6</td>
<td>0.65</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>8.5</td>
<td>5.1</td>
<td>0.60</td>
</tr>
<tr>
<td>Information</td>
<td>3.0</td>
<td>1.6</td>
<td>0.54</td>
</tr>
<tr>
<td><strong>Low Concentration Industries</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Location Quotient

Source: Bureau of Labor Statistics, Bureau of Economic Analysis
Our key industries held up quite well the past few years, but have leveled off recently.
Oklahoma 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

- **National Avg.**
- **NM**
- **MO**
- **CO**
- **KS**
- **OK**
- **WY**
- **NE**

Source: Wells Fargo Securities, Pew Center
The state’s exposure to federal spending cuts is concentrated in a few areas.
In agriculture, crop prices have moderated somewhat, but still remain favorable.

U.S. Crop Prices

Source: Commodity Research Bureau
Problem loans are still elevated in OK, but much less so than in banks nationally.
Like ‘99, the recent tornado could provide a boost to construction in coming months.
Employment in the greater Oklahoma City metro showed only modest impact in ‘99.
A better comparison for Moore specifically may be Joplin following its 2011 tornado.
Summary

- U.S. economic growth remains moderate after the fiscal cliff deal and ahead of most federal cuts.

- Oklahoma’s rate of growth has slowed due to 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