The U.S. and Oklahoma Economies

OBA Intermediate Banking School
June 3, 2013

Chad Wilkerson
Vice President, Economist, and Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City
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
Trends and Risks in the U.S. Economy
U.S. GDP growth picked up in Q1, with positive signs from consumers and exports

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
And U.S. employment and business activity has grown fairly solidly in early 2013.
In its latest projections, the FOMC expected unemployment to gradually improve.

Source: U.S. Bureau of Labor Statistics, FOMC
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.
Trends and Risks
Closer to Home
Employment in Oklahoma is above pre-recession levels, driven by Oklahoma City.
But the pace of state job growth has slowed lately, especially in energy-related sectors.

Oklahoma Employment Growth by Industry

Source: Bureau of Labor Statistics
Non-metro parts of the state have borne the brunt of energy-related cutbacks to date.

Metro Employment Growth by Industry
April 2013

Percent change, year-over-year

Source: Bureau of Labor Statistics
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

<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>
</tr>
<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>
</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.
And Oklahoma’s federal spending is more defense-related

Federal Spending as a Percent of State GDP
2010

Source: Wells Fargo Securities, Pew Center
The state’s exposure to federal spending cuts is concentrated in a few areas

Ratio of Federal Government Share of Employment in County vs. Nation
2011

Source: U.S. Bureau of Labor Statistics
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.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
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.

Source: U.S. Bureau of Labor Statistics
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 energy, and sequestration is a bigger risk
For more information about the Oklahoma economy, subscribe to the quarterly **Oklahoma Economist** at:

[www.kansascityfed.org/publications/research/oke](http://www.kansascityfed.org/publications/research/oke)