U.S. and Oklahoma Economic Update

Oklahoma Society of CPAs
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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 U.S. Economy
GDP was revised upward in the 2\textsuperscript{nd} quarter, mostly due to inventory adjustments

Growth in Components of Real GDP,

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
Recent 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 2016

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

Liabilities
- Reserves
- Other

Source: Federal Reserve Board
The Oklahoma Economy
Employment in Oklahoma is just above pre-recession levels, but has eased lately.
Oklahoma remains most highly concentrated in energy and government

Oklahoma and U.S. Employment Share by Industry
2012

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OK</td>
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<tr>
<td>Natural Resources &amp; Mining</td>
<td>4.5</td>
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<tr>
<td>Federal Government</td>
<td>3.2</td>
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<tr>
<td>State &amp; Local Government</td>
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<tr>
<td>Construction</td>
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<tr>
<td>Trade, Transportation &amp; Utilities</td>
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<tr>
<td>Manufacturing</td>
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<tr>
<td>Leisure &amp; Hospitality</td>
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<tr>
<td>Financial Activities</td>
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<tr>
<td>Education &amp; Health</td>
<td>13.3</td>
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<tr>
<td>Professional and Business Services</td>
<td>11.8</td>
</tr>
<tr>
<td>Information</td>
<td>1.5</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
A drop in energy jobs has hurt the state this year, but other industries have held up

Employment Growth by Industry
August 2013

Percent change year-over-year

<table>
<thead>
<tr>
<th>Industry</th>
<th>U.S.</th>
<th>OK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1.7</td>
<td>0.5</td>
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<tr>
<td>Hospitality</td>
<td>3.0</td>
<td>5.4</td>
</tr>
<tr>
<td>Prof. &amp; Bus. Services</td>
<td>3.4</td>
<td>1.8</td>
</tr>
<tr>
<td>Trade &amp; Transp.</td>
<td>2.0</td>
<td>1.6</td>
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<tr>
<td>Mfg.</td>
<td>0.7</td>
<td>0.1</td>
</tr>
<tr>
<td>State &amp; Local Govt.</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Fed. Govt</td>
<td>0.2</td>
<td>-0.1</td>
</tr>
<tr>
<td>Educ. &amp; Health</td>
<td>0.1</td>
<td>2.6</td>
</tr>
<tr>
<td>Finance</td>
<td>1.4</td>
<td>1.9</td>
</tr>
<tr>
<td>Constr.</td>
<td>2.8</td>
<td>1.4</td>
</tr>
<tr>
<td>Energy</td>
<td>3.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
Looking at job growth by county, there is considerable variation across the state.

Household Employment Growth by County
Percent change, Aug-12 to Aug-13

- 2.0 to 6.0
- 0.0 to 2.0
- -2.0 to 0.0
- -11.3 to -2.0

Source: Bureau of Labor Statistics
But unemployment in most counties remains well below the U.S. rate.
Rig counts have slipped somewhat but still remain relatively high

Oklahoma Active Drilling Rig Count

Number of rigs

Source: Baker Hughes
And oil and gas production in the state has continued to increase

Oklahoma Oil and Gas Production

Source: EIA
Federal spending cuts could hurt some parts of Oklahoma much more than others

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

Source: U.S. Bureau of Labor Statistics
Drought conditions have improved since last year, helping some areas of the state.
Residential construction has continued to increase, despite higher mortgage rates.

Single-Family Housing Permits
Seasonally adjusted

Source: U.S. Census Bureau
As in the nation, regional manufacturing activity improved in recent months.
And banking conditions in the state remain better than in the nation as a whole.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

U.S.
OK

Source: FDIC
Summary

• The Oklahoma economy has slowed in 2013, especially in non-metro areas due to energy, but remains solid overall.

• Conditions across the state are varied somewhat, but most areas remain in better condition than the nation.
Questions and Links

For more information about the Oklahoma City Branch of the Federal Reserve Bank of Kansas City, visit our website at:
http://www.kansascityfed.org/oklahomacity/

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