The U.S. and Oklahoma Economies

Chickasha Rotary Club
March 14, 2013

Megan Williams
Associate Economist, Oklahoma City Branch
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. employment and business activity increased further in February

U.S. Private Payroll Employment and Business Indexes

Change from previous month, thousands

Index

Feb-08 Feb-09 Feb-10 Feb-11 Feb-12 Feb-13

Private Employment (left axis)
ISM Manufacturing Index (right axis)
ISM Non-Manufacturing Index (right axis)

U.S. employment continues to rise but unlike OK remains well below pre-recession levels.
High-end tax rates rose with the cliff deal but overall are similar to rates in early 2000s.
Nearly everyone’s after-tax 2013 income will be affected, but high incomes the most.

Average Impact on 2013 After-Tax Income from Fiscal Cliff Deal

Source: Tax Foundation
The deal hits the Northeast and California much more than the rest of the country.

Share of Households with Income over $200,000
2011

Source: U.S. Census Bureau
The deal only moderately closed the federal deficit gap for the next decade.

Federal Government Outlays and Receipts as a Share of GDP
1930-2024

Source: Congressional Budget Office
Longer term federal spending increases are due largely to health care costs and net interest.

Federal Spending Components as a Share of GDP
2000-2042

Source: Congressional Budget Office

Source: Congressional Budget Office
2013 GDP projections changed little after cliff deal; sequester would affect ‘13 outlook

Real GDP Projections

Percent change, quarter-over-quarter (SAAR)

Sources: Blue Chip Economic Indicators, Macroeconomic Advisors
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.
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
Job trends have differed across Oklahoma, with the OKC metro now clearly leading.
Unemployment is below national levels in Grady County and nearly all of Oklahoma

County Unemployment Rates
December 2012
But state job growth has slowed lately, with declines in energy, health, and manuf.

Source: Bureau of Labor Statistics
Most energy states are expected to see slightly less exploration this year than last.

**Forecasted Change in Number of Wells Completed, 2013 vs. 2012**
Top 10 oil and gas producing states

Source: Oil and Gas Journal, January 7, 2013
Energy is highly concentrated in Grady Co. but also construction, mfg., and local govt.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Employment</th>
<th>Location Quotient</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Grady County</td>
<td>U.S.</td>
</tr>
<tr>
<td>Trade, Transportation, &amp; Utilities</td>
<td>21.1</td>
<td>19.9</td>
</tr>
<tr>
<td>State &amp; Local Government</td>
<td>20.8</td>
<td>14.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>13.4</td>
<td>9.4</td>
</tr>
<tr>
<td>Education &amp; Health Services</td>
<td>10.2</td>
<td>15.2</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>9.2</td>
<td>10.7</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>7.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Construction</td>
<td>6.5</td>
<td>4.4</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>5.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>4.6</td>
<td>13.9</td>
</tr>
<tr>
<td>Federal Government</td>
<td>0.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Information</td>
<td>0.6</td>
<td>2.1</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
Oklahoma has a bigger exposure to sequestration than the nation

Federal Spending as a Percent of State GDP
2010
Regional factory activity, including in Okla., has also eased ahead of sequestration

Manufacturing Month-over-Month PMI Indexes
Seasonally Adjusted

Source: ISM, Federal Reserve Banks
In contrast, home construction has increased, driven by higher sales and lower inventories.
And problem loans are nearly back to normal in Oklahoma, unlike the nation.
Summary

- U.S. economic growth remains moderate after the fiscal cliff, but long-term debt issues are unresolved.

- Oklahoma economic activity remains stronger but has slowed due largely to energy, and fiscal policy could have a negative impact.
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)