The U.S. and Oklahoma Economies

City of Edmond Pension Board
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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 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.
2013 GDP projections fell only slightly after both the fiscal cliff deal and sequestration.

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.

Unemployment Rate
Seasonally Adjusted

Source: U.S. Bureau of Labor Statistics, FOMC
And for inflation to remain at or near its long-term target through 2015

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
Trends and Risks
Closer to Home
Employment in Oklahoma is above pre-recession levels, driven by Oklahoma City.

Level of Payroll Employment
Through March 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

Oklahoma Employment Growth by Industry

Percent change, year-over-year

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**  
**March 2013**

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

**Oklahoma Personal Earnings Share by Industry**  
2011

<table>
<thead>
<tr>
<th>Industry</th>
<th>U.S.</th>
<th>OK</th>
<th>LQ*</th>
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<tbody>
<tr>
<td><strong>Highly Concentrated Industries</strong></td>
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<td></td>
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<tr>
<td>Energy</td>
<td>1.1</td>
<td>8.2</td>
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<td>Proprietors</td>
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<td>14.4</td>
<td>1.36</td>
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<td>Federal Government</td>
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<td>4.2</td>
<td>1.34</td>
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<td>1.21</td>
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<td>Trade, Transportation, &amp; Utilities</td>
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<td>15.0</td>
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<td>Local Government</td>
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<td>1.06</td>
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<td>Construction</td>
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<td>Education &amp; Health Services</td>
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<tr>
<td>Professional &amp; Business Services</td>
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<td>1.6</td>
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</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.

- **Low Concentration Industries**
- **Highly Concentrated Industries**

Index: Jan-08=100

Source: Bureau of Labor Statistics, Bureau of Economic Analysis
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

[Bar chart showing federal spending as a percent of state GDP for different states, with a focus on Oklahoma's higher defense-related spending.]

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
Regional factory activity, including in Okla., has continued to ease.

Manufacturing Month-over-Month PMI Indexes
Seasonally Adjusted

Diffusion Index

Source: ISM, Federal Reserve Banks
In agriculture, crop prices have moderated somewhat, but still remain favorable.
Problem loans are still elevated in OK, but much less so than in banks nationally.
Summary

- U.S. economic growth remains fairly solid after the fiscal cliff deal and sequestration

- Oklahoma’s rate of growth has slowed due to largely to energy, and sequestration is a bigger risk; but conditions are still better than the nation
Questions?

For more information about the Oklahoma economy, subscribe to the quarterly Oklahoma Economist at:

www.kansascityfed.org/publications/research/oke