U.S. and Oklahoma Economic Update

Enid Rotary
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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.
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
The U.S. Economy
Q1 GDP numbers have been revised down twice, though housing remains strong

Growth in Components of Real GDP, Q1 2013

Percent change from the previous period, SAAR

- Total GDP
- Consumer spending
- Residential investment
- Business investment
- Exports
- Government spending

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
Q2 data suggest slower growth, though 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 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

On interest rates, most FOMC participants expect little change until 2015.

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.
Mortgage and Treasury rates have jumped, in part due to Fed communications.
The Oklahoma Economy
GDP growth has rebounded after the recession, but has flattened out somewhat.
OK has a lower share of professional jobs, but much higher energy and government

Source: Bureau of Economic Analysis
Employment in Oklahoma remains above pre-recession levels, driven by OKC

Level of Payroll Employment

Through June 2013

Index: Jan-08=100

Source: U.S. Bureau of Labor Statistics
Energy has been the biggest drag to non-metro growth through the first six months.
Although down from 2008 peaks, energy remains a huge part of the state economy.
Rig counts have slipped somewhat but still remain relatively healthy
The official unemployment rate is now around 5 percent across most of Oklahoma.

Unemployment Rates
Not Seasonally Adjusted

<table>
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<tr>
<th>Region</th>
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<th>May-13</th>
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<tbody>
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<td>U.S.</td>
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<td>7.6</td>
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<tr>
<td>Oklahoma</td>
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<td>Tulsa</td>
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<tr>
<td>Rest of State</td>
<td>5.1</td>
<td>5.4</td>
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</table>

Source: U.S. Bureau of Labor Statistics
And nearly all counties remain below the U.S. unemployment rate

County Unemployment Rates
May 2013

Source: OK Employment Security Commission
But unemployment can be measured several ways, giving several views of labor markets.

### Alternative Measures of Labor Underutilization

Average, from 2012Q2 – 2013Q1

- Officially unemployed > 15 weeks: 4.4%
- Official unemployment rate: 7.9%
- Plus discouraged and marginally-attached: 9.4%
- Plus part-time involuntarily: 14.5%

Source: U.S. Bureau of Labor Statistics
Sequestration is also taking a bite out of growth in several parts of the state.

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

Source: U.S. Bureau of Labor Statistics
Drought conditions have eased somewhat in OK, but the western part still remains dry.
Problem loans are still elevated in OK, but much less so than in banks nationally.
Conclusions

• U.S. economic growth has been sluggish in 2013, and interest rates have risen

• Oklahoma economic activity has leveled off lately but remains solid