U.S. and Oklahoma Economic Update

Grove Rotary Club
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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
  • Research on U.S. and Oklahoma economies
  • Economic and financial education outreach
  • Examinations of Oklahoma financial institutions

• 2014 board of directors
  • Jim Dunn (chair), Chairman, Mill Creek Lumber & Supply, Tulsa
  • Clint Abernathy, Owner, Abernathy Farms, Inc., Altus
  • 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
  • Charles Hall, Chairman & CEO, Exchange Bank & Trust Co., Perry
The U.S. Economy
GDP was strong in the second half of 2013, although partly due to growing inventories.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
Monthly data show similar strength in Q4, but a bit of a bumpy start to 2014

GDP forecasts for 2014-16 remain strong, as the economy recovers further.
Unemployment continues to fall and could reach long-term levels by 2015.

Sources: U.S. Bureau of Labor Statistics, FOMC
Inflation remains relatively low and is expected to stay subdued through 2016.
Most FOMC participants project the first federal funds rate increase in 2015

Federal Funds Rate
Year-end target

Note – Number of participants who project the initial increase will occur in the specified year in parenthesis

Sources: Federal Reserve Board, FOMC
The Fed’s balance sheet is now set to grow slightly slower in 2014 than in 2013.

Federal Reserve Balance Sheet

Sources: Federal Reserve Board
The Oklahoma Economy
OK employment is above pre-recession levels, with some differences across the state.

Level of Payroll Employment
Through December 2013

Index: Jan-08=100

Source: U.S. Bureau of Labor Statistics
In 2013, federal jobs fell across the state, but professional and service jobs rose.

Oklahoma Job Growth by Industry
Dec-13

Percent change year-over-year
But unemployment rates remain low through much of the state, including Delaware Co.
Rig counts have edged higher the last few months, driven by oil.

Oklahoma Active Drilling Rig Count
Seasonally Adjusted

Source: Baker Hughes
And oil and gas production in the state has continued to increase
Drought conditions have improved somewhat, helping some areas of the state

U.S. Drought Monitor, February 2014
Housing construction continued to improve in 2013 despite slightly higher rates

Single-Family Housing Permits
Seasonally adjusted

Number of permits, 3-month moving avg.

Source: U.S. Census Bureau
And home prices rose further and are now well-above pre-bust levels, unlike the nation
Banking conditions in the state remain better than in the but stalled a bit in 2013

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
Employment in Delaware County was up and down in 2013, but didn’t fall in 2009

Household Employment Growth

The local area’s most distinctive industries are local govt., constr., education and hospitality

Delaware County and U.S. Employment Share by Industry 2012

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Total Employment</th>
<th>Location Quotient</th>
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<tbody>
<tr>
<td></td>
<td>Delaware County</td>
<td>U.S.</td>
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<td>State &amp; Local Government</td>
<td>30.9</td>
<td>14.4</td>
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<tr>
<td>Construction</td>
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<td>Education &amp; Health</td>
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<td>Leisure &amp; Hospitality</td>
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<td>Manufacturing</td>
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<td>Trade, Transportation &amp; Utilities</td>
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<td>19.9</td>
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<td>Financial Activities</td>
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<tr>
<td>Federal Government</td>
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<td>Information</td>
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<td>Natural Resources &amp; Mining</td>
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<tr>
<td>Professional and Business Services</td>
<td>3.4</td>
<td>14.1</td>
</tr>
</tbody>
</table>

Note - Location quotient is the division of local employment share by national employment share.
Summary

- Recent U.S. growth has been solid with low inflation, and the outlook appears favorable for 2014.

- Oklahoma’s economy also continues to grow, although some non-metro areas saw some slowing in 2013.
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