U.S. and Oklahoma Economic Update

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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
  • 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
  • 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
  • Chuck Hall, Chairman & CEO, Exchange Bank & Trust, Perry
  • Jane Haskin, President & CEO, First Bethany Bank & Trust, Bethany
The U.S. Economy and Monetary Policy
GDP growth rebounded considerably in the second quarter, across all sectors.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
Monthly data on U.S. business activity in July and August has been generally strong.

U.S. Private Payroll Employment and Business Indexes

GDP forecasts for 2014-17 remain solid, as the economy recovers further.
Unemployment continues to fall and could reach long-term levels by 2015
Inflation remains low and is expected to stay relatively subdued through 2017

PCE Inflation Index

Percent change, year-over-year

Sources: U.S. Bureau of Labor Statistics, FOMC
However, neither labor force participation nor wages have shown upward movement.
Most FOMC participants project the first federal funds rate increase in 2015

Federal Funds Rate
Year-end target

Percent


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 now sits at nearly $4.5 trillion as plans for exit are underway.

Federal Reserve Balance Sheet

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

- **Liabilities**
  - Currency
  - Reserves
  - Other

Sources: Federal Reserve Board
“In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions since the inception of the current asset purchase program, the Committee decided to make a further measured reduction in the pace of its asset purchases.”

“If incoming information broadly supports the Committee’s expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee will end its current program of asset purchases at its next meeting.”

“The Committee continues to anticipate…that it likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee’s 2 percent longer-run goal.”
Recent Trends in the Oklahoma Economy
Employment continues to rise in the state, especially in the Oklahoma City metro area.

Level of Payroll Employment
Through August 2014

Index: Jan-08=100

Source: U.S. Bureau of Labor Statistics
Unemployment is low in most of the state, especially northwest and south central.

Oklahoma County Unemployment Rates
July 2014

Source: OK Employment Security Commission
Most industries grew in August, especially construction and hospitality in OKC.

Job Growth by Industry
August 2014

Source: Bureau of Labor Statistics
Overall, lower-paying jobs in OKC are now growing faster, but trends are still healthy.
Oil drilling has picked back up in OK, suggesting energy jobs may rise further.
Summary

- U.S. economic growth rebounded in Q2, and the outlook appears favorable.
- Some aspects of U.S. monetary policy may be nearing an inflection point.
- The Oklahoma City metro area in particular continues to expand strongly.
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