U.S. and Oklahoma Economic Update

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Evening at the Fed
November 12, 2014
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 rebounded strongly in Q2 and sustained solid growth in Q3

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 and employment has been strong lately.

**U.S. Private Payroll Employment and Business Indexes**

- Change from previous month, thousands
- Index

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

GDP forecasts for 2014-17 remain solid, 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
However, labor force participation and wages have not really turned around.
Inflation remains low and is expected to stay relatively subdued through 2017.
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 just above $4.5 trillion as QE ends.

Federal Reserve Balance Sheet

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

Sources: Federal Reserve Board
Trends in the Oklahoma Economy
Employment continues to rise in the state, especially in the Oklahoma City metro area.
Unemployment is low in most of the state, especially northwest and south central.

Oklahoma County Unemployment Rates
September 2014

U.S. = 5.9
OK = 4.7

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

Job Growth by Industry
September 2014

Source: Bureau of Labor Statistics
Oil drilling has picked back up in OK

Oklahoma Active Drilling Rig Count
Seasonally Adjusted

Source: Baker Hughes
But prices have fallen recently, close to many firms’ breakeven in some areas.
Oklahoma is one of the states most affected by oil price changes.

Estimated Employment Response to a 25 Percent Increase in Crude Oil Prices

Source: Brown & Yucel, Bureau of Economic Analysis, Wall Street Journal
Oklahoma’s economy has re-concentrated considerably into oil and gas

Oil and Gas Sector Share of Oklahoma Economic Activity
Jan-07 through Oct-14

Source: U.S. Bureau of Economic Analysis
All of Oklahoma is much more concentrated in energy employment than the nation.

Oil and Gas Sector Share of Employment
2013

<table>
<thead>
<tr>
<th>Region</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>0.6</td>
</tr>
<tr>
<td>OK</td>
<td>3.6</td>
</tr>
<tr>
<td>OKC</td>
<td>3.3</td>
</tr>
<tr>
<td>Tulsa</td>
<td>1.8</td>
</tr>
<tr>
<td>Rest of State</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Labor Statistics
Many counties in the region and state have had sizable “re-concentration” in oil and gas.
All of northwest Oklahoma, along with some other spots, is now especially concentrated
Summary

- U.S. economic growth was strong in Q3, and the outlook appears favorable
- Oklahoma’s economy also remains strong, especially in Oklahoma City
- Lower oil prices are a concern given the state’s “re-concentration” in energy
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:

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