The U.S., Oklahoma, and Manufacturing Economies

Central Oklahoma Manufacturers Association
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Federal Reserve Bank of Kansas City
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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
  - 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
  - Charles 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 slowed considerably in the first quarter, largely due to weather.
Monthly data picked up in April for both business activity and employment

U.S. Private Payroll Employment and Business Indexes

GDP forecasts for 2014-16 remain solid, as the economy recovers further.

Source: U.S. Bureau of Economic Analysis, FOMC
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.

Sources: U.S. Bureau of Labor Statistics, FOMC
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 growing slightly slower in 2014 than in 2013.
The Oklahoma Economy
Okla. employment is above pre-recession levels, with some differences across the state.
Unemployment rates remain low throughout most of the state

Oklahoma County Unemployment Rates
March 2014

Source: OK Employment Security Commission
Since last year, job growth by industry has varied, with manufacturing fairly positive.
Rig counts have edged higher the last few months, driven by oil.
And oil and gas production in the state has continued to increase

Oklahoma Oil and Gas Production

Source: EIA
Regional Manufacturing Trends
Manufacturing activity has trended higher lately, in part due to weather improvements.
Expectations among regional plant managers have also increased.

Tenth Fed District Manufacturing Expectations
Six-month ahead, Seasonally Adjusted

- Employment
- Production
- Capital Spending

Source: FRB Kansas City
For most of the past decade, Oklahoma factory jobs have grown faster than the U.S.

Manufacturing Employment
Percent change, year-over-year

Source: U.S. Bureau of Labor Statistics
Manufacturing’s share of employment in Oklahoma is now more similar to the nation.
Machinery, metals, petroleum, and mineral manufacturing make the state most unique

Oklahoma Manufacturing Employment by Industry
2012

<table>
<thead>
<tr>
<th>Industry</th>
<th>Location Quotient</th>
<th>Percent of Total Employment</th>
<th>Annual Growth, 2002-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery</td>
<td>2.4</td>
<td>21.9</td>
<td>2.7</td>
</tr>
<tr>
<td>Petroleum &amp; coal products</td>
<td>1.8</td>
<td>1.7</td>
<td>-2.1</td>
</tr>
<tr>
<td>Nonmetallic mineral products</td>
<td>1.7</td>
<td>5.1</td>
<td>-1.2</td>
</tr>
<tr>
<td>Fabricated metal products</td>
<td>1.6</td>
<td>18.7</td>
<td>-0.3</td>
</tr>
<tr>
<td>Plastics &amp; rubber products</td>
<td>1.4</td>
<td>7.3</td>
<td>-2.7</td>
</tr>
<tr>
<td>Beverage &amp; tobacco products</td>
<td>1.2</td>
<td>1.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Primary metal products</td>
<td>1.0</td>
<td>3.4</td>
<td>2.5</td>
</tr>
<tr>
<td>Food</td>
<td>0.9</td>
<td>11.2</td>
<td>-2.4</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>0.8</td>
<td>9.7</td>
<td>-3.0</td>
</tr>
<tr>
<td>Elec. equip., appliance, &amp; components</td>
<td>0.7</td>
<td>2.2</td>
<td>-0.7</td>
</tr>
<tr>
<td>Paper</td>
<td>0.6</td>
<td>2.1</td>
<td>-2.1</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>0.6</td>
<td>2.7</td>
<td>-3.0</td>
</tr>
<tr>
<td>Printing &amp; related support activities</td>
<td>0.5</td>
<td>1.9</td>
<td>-6.3</td>
</tr>
<tr>
<td>Furniture &amp; related products</td>
<td>0.5</td>
<td>1.4</td>
<td>-4.5</td>
</tr>
<tr>
<td>Wood products</td>
<td>0.4</td>
<td>1.3</td>
<td>-7.4</td>
</tr>
<tr>
<td>Computer &amp; electronic products</td>
<td>0.4</td>
<td>3.7</td>
<td>-2.3</td>
</tr>
<tr>
<td>Chemical</td>
<td>0.4</td>
<td>2.5</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Note - Location quotient is the division of local employment share by national employment share
Production workers’ wages have increased in recent months in Oklahoma.

Source: U.S. Bureau of Labor Statistics
Summary

- U.S. economic growth slowed in Q1, but the outlook appears favorable for both economic growth and inflation.
- Oklahoma’s economy continues to grow solidly, with unemployment in most of the state below the U.S. rate.
- Manufacturing is now nearly as important in Oklahoma as the nation, and wages have risen recently.
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