U.S. and Oklahoma Economic Update

Investor Relations Oklahoma
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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
And monthly data on U.S. business activity in July showed further growth.
GDP forecasts for 2014-16 remain solid, as the economy recovers further

Real Gross Domestic Product

Percent change, year-over-year

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 low and is expected to stay relatively subdued through 2016.

PCE Inflation Index

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 sits at nearly $4.5 trillion as the taper comes to an end.

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
Recent Trends in the Oklahoma Economy
Oklahoma outpaced the U.S. and all but three other states in 2013 GDP growth
Employment continues to rise and is back to or above pre-recession levels in the state.
Unemployment is low in most of the state, especially northwest and south central.

Oklahoma County Unemployment Rates
June 2014

Source: OK Employment Security Commission
In OKC, hospitality and constr. jobs are up, but federal, mfg., prof. jobs are down

Job Growth by Industry
July 2014

Percent change year-over-year

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.

**Oklahoma Active Drilling Rig Count**

Seasonally Adjusted

Source: Baker Hughes
Longer-Term Trends in the Oklahoma Economy
Oklahoma per capita income relative to the nation is approaching early 1980’s highs.
And for the first time, Oklahomans have as much stock market wealth as the nation.

Real Per Capita Stock Market Wealth, 1975-2013
Oklahoma vs. United States

Source: U.S. Bureau of Economic Analysis
The OK energy sector’s share of personal income is now as high as in the early 1980’s.

Energy Sector Share of Personal Income

Source: U.S. Bureau of Labor Statistics
Many counties in the state have experienced sizable “re-concentration” in oil and gas.
All of northwest Oklahoma, along with some other spots, is now especially concentrated...
Oil and gas states grow faster than the nation over time, but are more volatile.

Growth and Volatility of State Employment, 1963-2013

Source: U.S. Bureau of Labor Statistics
Energy’s rise in OK contrasts with US growth in education, health, and business services.
Since 2002, jobs requiring high school or less have done much better in Oklahoma City.

Annual Employment Growth by Education/Training Required for Jobs 2002 – 2012

<table>
<thead>
<tr>
<th>Category</th>
<th>U.S. Actual 2002-12</th>
<th>OKC Metro 2002-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total, All Occupations</td>
<td>0.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Less than high school</td>
<td>0.3</td>
<td>1.3</td>
</tr>
<tr>
<td>High school diploma</td>
<td>0.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Associate's degree or vocational award</td>
<td>0.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Bachelor's degree</td>
<td>0.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Graduate or professional degree</td>
<td>2.0</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
Energy-related jobs made up a sizable portion of fast-growing, low education OKC jobs

Examples of OKC metro jobs requiring high school education or less, that grew more than 100 percent from 2002-2012

<table>
<thead>
<tr>
<th>Job Description</th>
<th>Education required</th>
<th>Jobs Added</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roustabouts, Oil and Gas</td>
<td>Less than high school</td>
<td>900</td>
</tr>
<tr>
<td>Legal Secretaries</td>
<td>High school diploma or equivalent</td>
<td>800</td>
</tr>
<tr>
<td>Rotary Drill Operators, Oil and Gas</td>
<td>Less than high school</td>
<td>550</td>
</tr>
<tr>
<td>Derrick Operators, Oil and Gas</td>
<td>Less than high school</td>
<td>520</td>
</tr>
<tr>
<td>Electrical and Electronic Equipment Assemblers</td>
<td>High school diploma or equivalent</td>
<td>410</td>
</tr>
<tr>
<td>Surveying and Mapping Technicians</td>
<td>High school diploma or equivalent</td>
<td>250</td>
</tr>
<tr>
<td>Pipelayers</td>
<td>High school diploma or equivalent</td>
<td>240</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Labor Statistics
This has kept the middle of the pay scale from dropping as much as in the country.
Summary

- U.S. economic growth rebounded in Q2, and the outlook appears favorable

- Oklahoma’s economy continues to grow solidly, with low unemployment

- Oklahoma’s reliance on oil and gas is back to historic highs, presenting risks and benefits to the state and to OKC
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