U.S. and Oklahoma Economic Update

Homebuyer Education Conference
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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 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

-1000 -800 -600 -400 -200 0 200 400 600


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.

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

Unemployment Rate
Seasonally Adjusted

Sept. FOMC Forecast Ranges in Yellow

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

PCE Inflation Index

Percent change, year-over-year

Sources: U.S. Bureau of Labor Statistics, FOMC

Sept. FOMC Forecast Ranges in Yellow
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 now sits just above $4.5 trillion as QE ends.

Federal Reserve Balance Sheet

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

Liabilities
- Reserves
- Other

Sources: Federal Reserve Board
Trends in the Oklahoma Economy
Employment continues to rise in the state, especially in the Oklahoma City metro area.

Level of Payroll Employment
Through September 2014

Source: U.S. Bureau of Labor Statistics
Most industries grew in August, especially construction and hospitality in OKC

Job Growth by Industry
September 2014

Source: Bureau of Labor Statistics
Oklahoma per capita income relative to the nation is approaching early 1980’s highs

Oklahoma Per Capita Income
as a percent of national average

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

Oklahoma Active Drilling Rig Count
Seasonally Adjusted

Number of rigs

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.
Oklahoma housing permits remain stronger than in the nation, and stabilized recently.

**Single-Family Housing Permits**
Seasonally adjusted

Number of permits, 3-month moving avg.

[Graph showing single-family housing permits over time, with Oklahoma (right axis) and U.S. (left axis) trends highlighted.]

Source: U.S. Census Bureau
OK home prices haven’t grown as much, but started from a higher level after the recession. 

Home Price Index, Purchase-Only 
2014 Q2

Source: FHFA
As a result, OKC and Tulsa home prices now match other regional cities.
Overall problem loans have decreased both in the nation and Oklahoma.

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
Summary

• U.S. economic growth was strong in Q3, and the outlook appears favorable.

• Oklahoma’s economy also remains strong, especially in Oklahoma City, but lower oil prices are a concern given the state’s high concentration in energy.