U.S. and Oklahoma Economic Update

Beef Industry 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.
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
  - Charles Hall, Chairman & CEO, Exchange Bank & Trust Co., Perry
The U.S. Economy and Monetary Policy
GDP growth was relatively strong in the second half of 2013

Growth in Components of Real GDP

Percent change from the previous period, SAAR

<table>
<thead>
<tr>
<th>Component</th>
<th>Q2 2013</th>
<th>Q3 2013</th>
<th>Q4 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GDP</td>
<td>2.5</td>
<td>4.1</td>
<td>2.6</td>
</tr>
<tr>
<td>Consumer spending</td>
<td>1.8</td>
<td>2.0</td>
<td>3.3</td>
</tr>
<tr>
<td>Residential investment</td>
<td>-7.9</td>
<td>14.2</td>
<td>10.3</td>
</tr>
<tr>
<td>Business investment</td>
<td>4.7</td>
<td>4.8</td>
<td>5.7</td>
</tr>
<tr>
<td>Exports</td>
<td>8.0</td>
<td>3.9</td>
<td>9.5</td>
</tr>
<tr>
<td>Government spending</td>
<td>0.4</td>
<td>-0.4</td>
<td>-5.2</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
Monthly data show 2014 started out a bit slower, due in part to weather.

U.S. Private Payroll Employment and Business Indexes

Change from previous month, thousands

Index

-1000 -800 -600 -400 -200 0 200 400 600
Mar-09 Mar-10 Mar-11 Mar-12 Mar-13 Mar-14

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

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

Real Gross Domestic Product

Percent change, year-over-year

Mar. FOMC Forecast
Ranges in Yellow

Long Term

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.

PCE Inflation Index

Percent change, year-over-year

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 now set to grow slightly slower in 2014 than in 2013.

Federal Reserve Balance Sheet

$Trillions

Sources: Federal Reserve Board
The Oklahoma Economy
OK employment is above pre-recession levels, with some differences across the state.

Level of Payroll Employment
Through February 2014

Index: Jan-08=100

Source: U.S. Bureau of Labor Statistics
Since last year, federal jobs fell across the state, but some other sectors grew strongly.
Unemployment rates remain low throughout most of the state.

Oklahoma County Unemployment Rates
January 2014

Source: OK Employment Security Commission
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
Manufacturing activity has trended higher lately, likely due to weather improvements.
Drought conditions persist in much of western Oklahoma.

Source: USDA
Cattle inventory has dropped more in OK than elsewhere, but may have bottomed.
Housing construction remained solid in 2013 despite slightly higher rates

Single-Family Housing Permits
Seasonally adjusted

Number of permits, 3-month moving avg.

Source: U.S. Census Bureau
Home prices are now well-above pre-bust levels, unlike the nation

Home Price Index
Purchase-Only

Source: FHFA
Banking conditions in the state remain better than in the nation

Noncurrent Loans as a Share of Total Loans
Commercial Banks

Source: FDIC
Summary

• U.S. economic growth has been solid with low inflation, and the outlook appears favorable for 2014

• Oklahoma’s economy also continues to grow, and conditions remain better than the nation
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