U.S. and Oklahoma Economic Update: Oil Price Worries

Greater Oklahoma City Partnership
February 2, 2015

Chad Wilkerson
Vice President, Economist, and Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City
www.kansascityfed.org/oklahomacity
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

- **2015 board of directors**
  - **Pete Delaney (chair)**, Chairman & CEO, OGE Energy Corp., Oklahoma City
  - **Clint Abernathy**, Owner, Abernathy Farms, Inc., Altus
  - **Michael Coffman**, CEO, Panhandle Oil & Gas, Inc., Oklahoma City
  - **Chuck Hall**, Chairman & CEO, Exchange Bank & Trust, Perry
  - **Jane Haskin**, President & CEO, First Bethany Bank & Trust, Bethany
  - **Tina Patel**, Co-Owner & CFO, Promise Hotels, Tulsa
  - **Doug Stussi**, EVP & CFO, Love’s Travel Stops, Oklahoma City
The U.S. Economy and Monetary Policy
GDP growth was very strong in mid-2014, and solid growth was sustained in Q4.

Growth in Components of Real GDP

Percent change from the previous period, SAAR

Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors
GDP forecasts for 2015-17 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
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

Note – Number of participants who project the initial increase will occur in the specified year in parenthesis

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

Level of Payroll Employment
Through December 2014

Index: Jan-08=100

Source: U.S. Bureau of Labor Statistics
Most industries grew in December, especially construction, manufacturing, and health.

Job Growth by Industry
December 2014

Source: Bureau of Labor Statistics
Unemployment is well below the national average in most of the state.
Banking conditions remain healthy in Oklahoma and are improving nationwide.

Share of Unprofitable Banks
Commercial Banks

Source: FDIC
Oil prices are down more than 50 percent, and only expected to rise marginally in 2015

WTI Oil Prices

Q4 Energy Survey respondents expected price by year-end 2015 to average $70 (red)
Q3 average breakeven $79 (black)

Note: Q4 Energy Survey conducted Dec. 16 - 31

Source: EIA, Reuters, FRBKC Energy Survey
The Q4 KC Fed energy survey showed sharp declines in drilling plans and credit access.

Energy Drilling Activity and Credit Access
Year-over-year

Many regional energy firms noted much lower capital spending plans for 2015.

Q4 Energy Survey Expected Change to 2015 Capital Spending

Q4 Energy Survey Expected Change to 2015 Employment

Rigs started falling in late 2014, and the decline has accelerated in January.
Economic models suggest a negative impact in Oklahoma and several surrounding states

Estimated Employment Effect from Lower Oil Prices

Past instances of large oil price declines have hurt Oklahoma when the sector is large.

Oklahoma Employment and Real Sales Tax Receipts Change
in years following a >30% real oil price decline, 1980-present

Sources: Bureau of Economic Analysis; Census Bureau
Summary

- U.S. economic growth has been strong, and the outlook appears favorable

- Oklahoma’s economy has also been strong, especially in Oklahoma City

- But lower oil prices are a concern given the state’s high concentration in energy