Oklahoma Economy: Falling Oil but Still Solid Ag Conditions

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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

• Location – Leadership Square South, 3rd floor

• Functions – 40 staff
  • Research on U.S. and Oklahoma economies
  • Examinations of Oklahoma financial institutions
  • Economic, community, and financial education outreach

• 2015 Board of Directors
  • Pete Delaney (chair), Chairman & CEO, OGE Energy Corp., OKC
  • Clint Abernathy, Owner, Abernathy Farms, Inc., Altus
  • Michael Coffman, CEO, Panhandle Oil & Gas, Inc., OKC
  • 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 & Country Stores, OKC
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
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

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

Unemployment continues to fall and is approaching long-term levels

**Unemployment Rate**
Seasonally Adjusted

Current (Feb. 2015): 5.5%

Mar. FOMC Forecast Ranges in Yellow

Sources: U.S. Bureau of Labor Statistics, FOMC
Inflation remains low and is expected to stay relatively subdued through 2017

PCE Inflation Index

Percent change, year-over-year

Current (Dec. 2014): 0.7%

Mar. FOMC Forecast Ranges in Yellow

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

Current (Mar. 2015): 0 - 0.25%

Note – Number of participants who project the initial increase will occur in the specified year in parenthesis.
Trends in the Oklahoma Economy
Overall employment was revised down slightly in Oklahoma, opposite the U.S.
Professional services, energy, and construction added the most jobs from last year.

Oklahoma Job Growth by Industry

- Percent change year-over-year

Source: Bureau of Labor Statistics
Unemployment is well below the national average in most of the state, including OKC.

Unemployment Rates
December 2014

U.S. = 5.6%
OK = 3.9%
OKC = 3.8%

Source: OK Employment Security Commission
Banking conditions remain healthy in Oklahoma and are improving nationwide.
Oil prices have fallen, and there have been six prior oil price declines similar in scope.

Real Oil Price Declines of >30% and >$20
1980-present

Note: Gray bars indicate NBER-defined recession

Source: Bloomberg
Large oil price declines in the past have hurt OK’s economy when energy was large.

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

- Mining share of OK jobs
- Mining share of OK worker earnings
- 1-year OK mining jobs change
- 1-year OK real sales and recr. tax receipts
- 1-year total OK jobs change
- 3-year total OK jobs change

Sources: Bureau of Economic Analysis; Census Bureau
Oil prices are only expected to rise marginally in 2015

WTI Oil Prices

Q4 KC Fed Energy Survey respondents expected price by year-end 2015: $70 (red)
Survey respondents average breakeven price in Q3 2014 survey: $79 (black)

Source: EIA, Reuters, FRBKC Energy Survey
Oklahoma Agricultural Conditions
Oklahoma farm income has diverged from the rest of the region.
Wheat is down less than corn, and cattle prices remain strong.
Ranchers have experienced a record year for profits.
Growth in ranchland values has been strong across the region

Tenth District Ranchland Values
Percent Change, Year-over-year

Percent
Growth in farmland values is strong in Oklahoma but has slowed elsewhere

Tenth District Non-Irrigated Cropland Values
Percent Change, Year-over-year

Source: FRBKC Agricultural Credit Survey
Drought conditions have worsened in southwest Oklahoma

U.S. Drought Monitor
February 2015

U.S. Drought Monitor
February 2014

Source: USDA
Summary

• U.S. economic growth has been strong, with low inflation, and the outlook for coming years appears favorable.

• Oklahoma’s economy has also been strong, but lower oil prices are a concern given the state’s concentration in energy.

• Ag conditions in the state remain solid with strong cattle prices.
• For detailed information on Oklahoma’s economy, go to the FRBKC Databooks page on our website: https://www.kansascityfed.org/research/indicatorsdata/regionaldatabook/index.cfm

• For more information on specific Oklahoma economic topics, read the latest edition of the Oklahoma Economist: https://www.kansascityfed.org/publications/research/oke/index.cfm#issue