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

Lawton Economic Forum
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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, community, and financial education outreach
  - Examinations of Oklahoma financial institutions

- **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., 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.
Monthly data on U.S. business activity and employment has been strong lately.
Unemployment continues to fall and could reach long-term levels by 2015

Unemployment Rate
Seasonally Adjusted

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 in Lawton has remained fairly stable since the recession.
Lawton’s highest growth industries in 2014 were transportation, energy & construction.

Job Growth by Industry
2014

Source: Bureau of Labor Statistics
Lawton is highly concentrated in government, trade, transportation, and hospitality jobs

### Share of Employment by Industry 2014

<table>
<thead>
<tr>
<th>Industry</th>
<th>U.S.</th>
<th>OK</th>
<th>OK LQ</th>
<th>Lawton</th>
<th>Lawton LQ</th>
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<tbody>
<tr>
<td>Fed. Govt.</td>
<td>2.0</td>
<td>2.8</td>
<td>1.4</td>
<td>9.4</td>
<td>4.8</td>
</tr>
<tr>
<td>State &amp; Local Govt.</td>
<td>13.8</td>
<td>18.1</td>
<td>1.3</td>
<td>23.4</td>
<td>1.7</td>
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<td>Hospitality</td>
<td>10.6</td>
<td>9.6</td>
<td>0.9</td>
<td>10.6</td>
<td>1.0</td>
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<tr>
<td>Mfg.</td>
<td>8.8</td>
<td>8.4</td>
<td>1.0</td>
<td>8.2</td>
<td>0.9</td>
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<td>Trade &amp; Transp.</td>
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<td>18.1</td>
<td>1.0</td>
<td>17.4</td>
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<td>Fin. Activities</td>
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<td>5.0</td>
<td>0.9</td>
<td>5.1</td>
<td>0.9</td>
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<tr>
<td>Mining &amp; Constr.</td>
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<td>8.3</td>
<td>1.6</td>
<td>4.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Edc. &amp; Health</td>
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<td>14.0</td>
<td>0.9</td>
<td>10.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Prof. &amp; Bus. Services</td>
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<td>10.9</td>
<td>0.8</td>
<td>8.1</td>
<td>0.6</td>
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<tr>
<td>Info.</td>
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<td>1.3</td>
<td>0.6</td>
<td>1.1</td>
<td>0.6</td>
</tr>
</tbody>
</table>

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

Oklahoma County Unemployment Rates
November 2014

U.S. = 5.6
OK = 4.2
Lawton = 4.9

Source: OK Employment Security Commission
Banking conditions remain healthy in Oklahoma and are improving nationwide.

**Share of Unprofitable Banks**
Commercial Banks

- **Percent**
- **Q3 2004** to **Q3 2014**

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

WTI Oil Prices

EIA February Forecast

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

Note: Q4 Energy Survey conducted Dec .16 - 31
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.

Weekly U.S. and OK Total Rig Counts
thru Feb 20, 2015

Source: Baker Hughes
Economic models suggest a negative impact in Oklahoma and several surrounding states.

Estimated Employment Effect from Lower Oil Prices
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
Energy employment is heavily concentrated in the south and western parts of Oklahoma.

Source: U.S. Census Bureau

Share of Energy Employment by County
2012

U.S. share = 0.63
Military employment has gone down in Lawton, both the total and as a share of total employment.
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