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

The Downtown Club of Oklahoma City
February 17, 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.
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
Unemployment continues to fall and is approaching long-term levels

Unemployment Rate
Seasonally Adjusted

Current (Jan. 2015): 5.7%

Dec. 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

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 (Feb. 2015): 0 - 0.25%

Sources: Federal Reserve Board, FOMC

Note – Number of participants who project the initial increase will occur in the specified year in parenthesis
Trends in the Oklahoma Economy
Employment continued to rise in Oklahoma in 2014, especially in the OKC metro area.

Level of Payroll Employment
Through December 2014

Source: U.S. Bureau of Labor Statistics
Locally, the fastest recent job growth has been in construction, finance, and hospitality.

**Job Growth by Industry**

**December 2014**

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 = 4.2%
- OKC = 3.8%

Source: OK Employment Security Commission
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

Note: Q4 Energy Survey conducted Dec. 16 - 31

Source: EIA, Reuters, FRBKC Energy Survey
Rigs started falling in late 2014, and the decline has accelerated in 2015.

Weekly U.S. and OK Total Rig Counts
thru Feb 13, 2015

Source: Baker Hughes
Many regional energy firms have noted much lower spending and hiring plans for 2015.

Economic models suggest a negative impact in Oklahoma and several surrounding states.
Large oil price declines in the past have hurt OK’s economy when energy was large.
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, especially in Oklahoma City

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