U.S. and Oklahoma Economic Update

Risk Management Association
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Vice President and Oklahoma City Branch Executive

*The views expressed herein are those of the presenter only and do not necessarily reflect the views of the Federal Reserve Bank of Kansas City or 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

**Primary responsibility areas:**

- Monetary policy
- Bank regulation
- Financial services
The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

• Functions and purposes ~ 50 staff
  • Research on U.S. and Oklahoma economies; energy sector and business survey focus
  • Examinations of Oklahoma financial institutions (~45 banks, ~175 holding cos.)
  • Community development programming for low and moderate income groups, workforce focus
  • Economic education and public outreach programming

• 2019 OKC Fed Branch Board of Directors
  • Clint Abernathy (chair), Owner, Abernathy Farms, Inc., Altus
  • Susan Chapman Plumb, Chair & CEO, Bank of Cherokee County, Tahlequah
  • Walt Duncan, President, Duncan Oil Properties, Oklahoma City
  • Tina Patel, Co-Owner & CFO, Promise Hotels, Tulsa
  • Chris Turner, President & CFO, First State Bank, Oklahoma City
  • Katrina Washington, Owner/Broker, Stratos Realty, Oklahoma City
  • Dana Weber, Chair & CEO, Webco Industries, Sand Springs
The Federal Reserve’s Role in Monetary Policy

• Dual Mandate from U.S. Congress:
  1) Maximum employment
  2) Price stability

• Federal Open Market Committee (FOMC):
  - Board of Governors
    • Jerome H. Powell, Chairman
    • Richard H. Clarida, Vice Chairman
    • Randal K. Quarles, Vice Chairman of Supervision
    • Lael Brainard
    • Michelle W. Bowman
    • Open
    • Open

  - Reserve Bank Presidents
    • John C. Williams, New York, Vice Chairman
    • James Bullard, St. Louis
    • Charles L. Evans, Chicago
    • Esther L. George, Kansas City
    • Eric Rosengren, Boston
    • Patrick T. Harker, Philadelphia
    • Robert S. Kaplan, Dallas
    • Neel Kashkari, Minneapolis
    • Loretta J. Mester, Cleveland
    • Thomas I. Barkin, Richmond
    • Raphael W. Bostic, Atlanta
    • Mary C. Daly, San Francisco

*Permanent voters in bold; 2019 rotating voters in red; 2020 rotating voters in blue
U.S. Economic Outlook and Monetary Policy
Oct. FOMC: “Economic activity has been rising at a moderate rate...household spending has been...strong”

**Contributions to Percent Change in Real GDP**

Percent change from the previous period, SAAR

- **Q4 2018**: 1.1, 2.0, 1.9, 1.1, -1.0, -3.0, -4.7
- **Q1 2019**: 3.1, 2.9, 2.9, 1.4, 1.5, 0.7, 1.2
- **Q2 2019**: 4.6, 5.1, 4.4, 4.8, 4.1, 0.0, 0.0
- **Q3 2019**: 4.8, 4.1, 3.5, 2.9, 1.2, 0.0, -0.4

Source: U.S. Bureau of Economic Analysis
Oct. FOMC: “The labor market remains strong… business fixed investment and exports remain weak.”

U.S. Payroll Employment and Business Indexes

Change from previous month, thousands

Index

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

Sources: Institute for Supply Management, Bureau of Labor Statistics
Oct. FOMC: “The unemployment rate has remained low.”

U.S. Unemployment Rate

Current (Oct. 2019): 3.6%

Sources: U.S. Bureau of Labor Statistics, FOMC
Oct. FOMC: “Overall inflation and inflation for items other than food and energy are running below 2%.”

Sources: U.S. Bureau of Labor Statistics, FOMC
Oct. FOMC: “In light of... global developments... muted inflation... the [FOMC] decided to lower the... rate.”

Federal Funds Rate
Year-End Target

Current Target: 1.50-1.75%

Sept FOMC Forecast

Sources: U.S. Bureau of Labor Statistics, FOMC
“In light of... increases in... reserve liabilities, the [FOMC] directs the Desk... to maintain... ample reserve balances.”

Source: Federal Reserve Board
Oklahoma Economic Outlook
The pace of Oklahoma job growth has slowed in 2019

Nonfarm Payroll Employment Growth

Percent change, year-over-year

Sources: U.S. Bureau of Labor Statistics, NBER recession shading
Indeed, new claims for unemployment insurance this year have returned to nearly 2015-16 levels.
State sales tax growth picked back up slightly in the metros in Q3, but October state receipts were down.

Oklahoma and Metro Sales Tax Revenues

Percent change, year-over-year

Note: Q4 2019 state tax data is shown through October 2019.

Source: OK Tax Commission
The slower state job growth has been driven mainly by job losses in energy and related sectors.
Oklahoma’s rig count has dropped this year, and regional energy firms expect further slowing ahead.
Oklahoma’s percentage drop in rigs is easily the largest among the top 8 oil- and gas-producing states.

![Graph showing October 2019 Rig Count Change from a Year Ago.](chart)

- Texas: -120%
- New Mexico: -100%
- Louisiana: -80%
- North Dakota: -60%
- Oklahoma: -58%
- Wyoming: -40%
- Pennsylvania: -20%
- Colorado: 0%

Source: Baker Hughes/Haver Analytics
Volatile and marginally profitable oil prices, plus low natural gas prices, have contributed to slower activity.

![Graph showing oil and natural gas profitability and prices](image)

Sources: EIA, Federal Reserve Bank of Kansas City Energy Survey
Banking conditions in Oklahoma remain very good

Share of Banks Not Making a Profit
Commercial Banks

Percent

U.S.

OK

Source: FDIC
Despite slower job growth and rising UI claims this year, unemployment remains low across the state.
Looking at longer-term trends, more people have been leaving Oklahoma than moving into the state.
Large metro migration improved slightly in 2018, while outflows from western Oklahoma have been sizeable.
Highly educated Oklahomans of all age groups have been leaving the state, especially for the DFW area.

Oklahoma Net Domestic Migration of Those with a Bachelor’s Degree or More by Age

States Gaining the Most Oklahomans with a Bachelor’s or More on Net

Note: Metro area timeseries data was harmonized in IPUMS using the 2013 OMB delineations. Metro level data not available prior to 2005.

Sources: U.S. Census Bureau ACS 1-year sample Public Use Microdata, IPUMS-USA, authors’ calculations.
Consequence: Educational attainment is growing less
Silver lining?: People keep coming, just more have left

Educational Attainment as the Share of
Population Over 25 with a Bachelor's or More

Oklahoma Domestic Migration Flows of
Those with a Bachelor's or More

Sources: U.S. Census Bureau ACS 5-year estimates, ACS 1-year sample
Public Use Microdata, IPUMS-USA, authors' calculations.
While Oklahoma job growth has lagged the nation, some industries in the state have outpaced the U.S.

**Oklahoma Job Growth vs. U.S., 2013-2018**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Industries Adding the Most Jobs</th>
<th>OK Empl. Change</th>
<th>OK Empl. % Change</th>
<th>U.S. Empl. % Change</th>
<th>Location Quotient 2013</th>
<th>Location Quotient 2018</th>
<th>Avg. Wage 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Warehousing and storage</td>
<td>8,148</td>
<td>153%</td>
<td>61%</td>
<td>0.7</td>
<td>1.1</td>
<td>$34,694</td>
</tr>
<tr>
<td>2</td>
<td>Aerospace product and parts manufacturing</td>
<td>6,314</td>
<td>94%</td>
<td>1%</td>
<td>1.2</td>
<td>2.4</td>
<td>$88,464</td>
</tr>
<tr>
<td>3</td>
<td>Gambling industries*</td>
<td>3,729</td>
<td>21%</td>
<td>-13%</td>
<td>11.1</td>
<td>16.4</td>
<td>$36,163</td>
</tr>
<tr>
<td>4</td>
<td>Executive, legislative and general government*</td>
<td>3,439</td>
<td>12%</td>
<td>3%</td>
<td>0.9</td>
<td>1.1</td>
<td>$40,084</td>
</tr>
<tr>
<td>5</td>
<td>Outpatient care centers</td>
<td>3,074</td>
<td>48%</td>
<td>37%</td>
<td>0.8</td>
<td>0.9</td>
<td>$51,703</td>
</tr>
<tr>
<td>6</td>
<td>Management of companies and enterprises</td>
<td>2,647</td>
<td>16%</td>
<td>13%</td>
<td>0.7</td>
<td>0.7</td>
<td>$83,511</td>
</tr>
<tr>
<td>7</td>
<td>Other amusement and recreation industries</td>
<td>2,324</td>
<td>25%</td>
<td>18%</td>
<td>0.7</td>
<td>0.8</td>
<td>$16,771</td>
</tr>
<tr>
<td>8</td>
<td>Computer systems design and related services</td>
<td>2,018</td>
<td>27%</td>
<td>25%</td>
<td>0.4</td>
<td>0.4</td>
<td>$75,516</td>
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<tr>
<td>9</td>
<td>Accounting and bookkeeping services</td>
<td>2,011</td>
<td>15%</td>
<td>8%</td>
<td>1.2</td>
<td>1.4</td>
<td>$61,444</td>
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<tr>
<td>10</td>
<td>Offices of other health practitioners</td>
<td>2,008</td>
<td>26%</td>
<td>23%</td>
<td>0.9</td>
<td>1.0</td>
<td>$40,019</td>
</tr>
</tbody>
</table>

* Local Government Sector

Note: Only includes industries with data disclosed for both 2013 and 2018 that grew faster than the nation. A sizeable portion of the growth in aerospace product and parts manufacturing (NAICS 3364) jobs in Oklahoma in recent years appears to be due to the reclassification of several thousand jobs in air transportation (NAICS 481) to that sector.

Sources: Bureau of Labor Statistics QCEW data and authors' calculations
Summary

• The national economy continues to grow, with low unemployment, but business investment has slowed

• Oklahoma’s economy has slowed in 2019, as lower oil and gas prices hurt, but unemployment remains very low

• A longer-term trend worth watching is the state’s switch in net domestic migration flows in recent years, as more highly educated Oklahomans have been moving out

• At the same time, some industries in the state have continued to thrive, many of which pay good wages
Questions?

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