

U.S. and Oklahoma Economic Outlook



United Way Agency Directors Meeting

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www.kansascityfed.org/oklahomacity



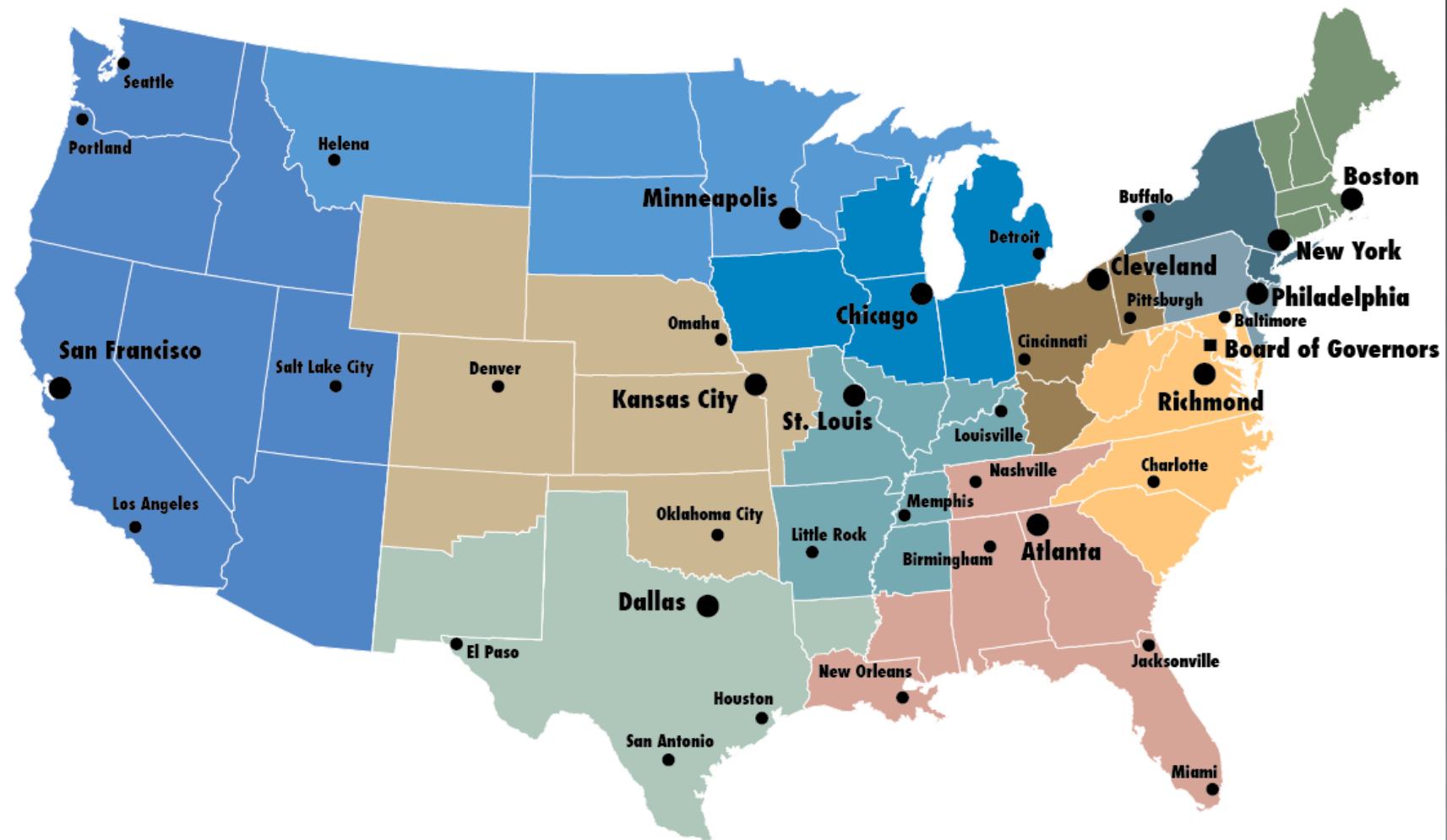
Structure and Functions of the Federal Reserve System

- **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 – approximately 40 staff**
 - Research on U.S. and Oklahoma economies
 - Economic, community, and financial education outreach
 - Examinations of Oklahoma financial institutions
- **2016 Branch Board of Directors**
 - **Pete Delaney (chair)**, Chairman (retired), 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 & Country Stores, OKC

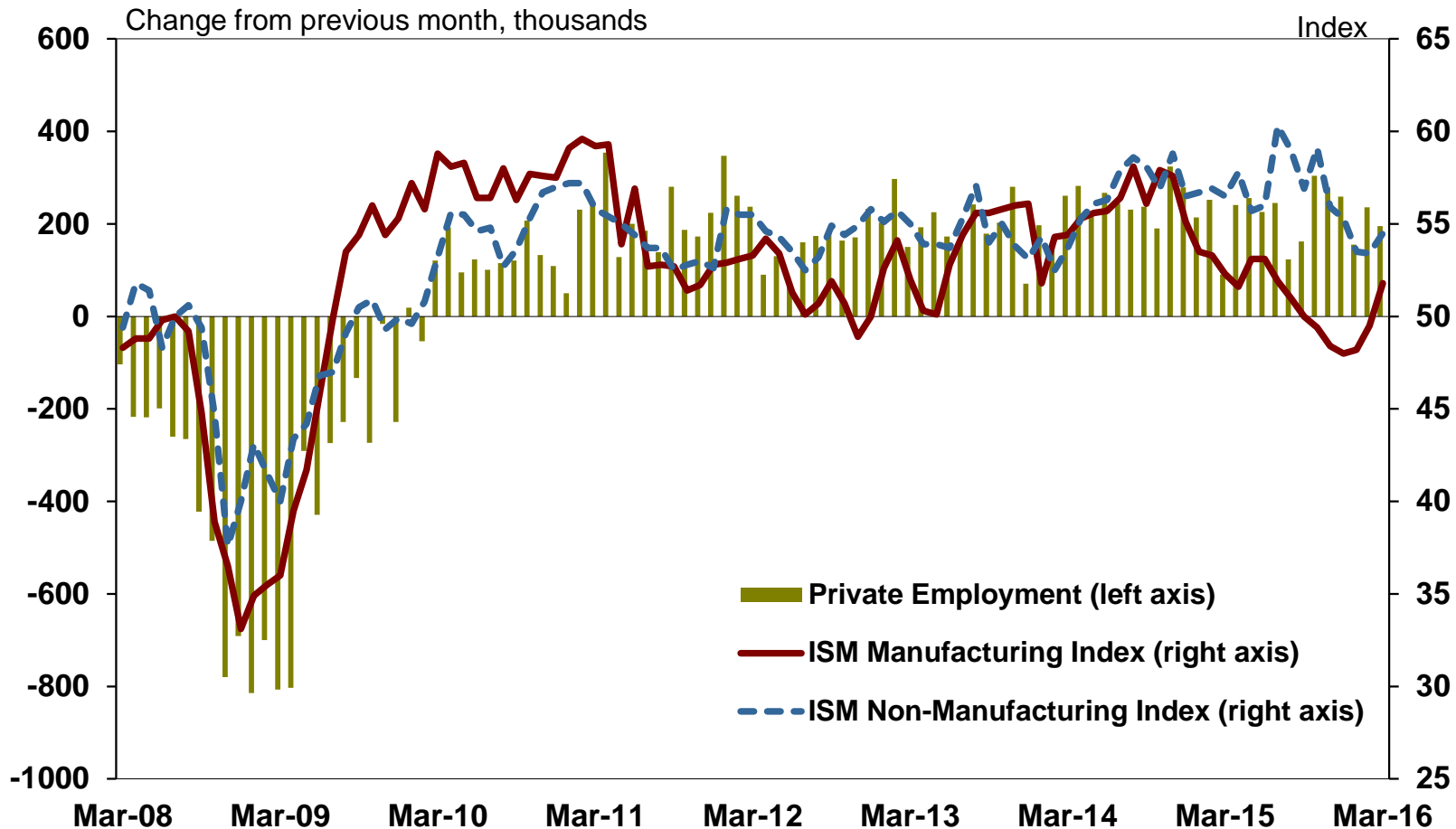


The U.S. Economy and Monetary Policy



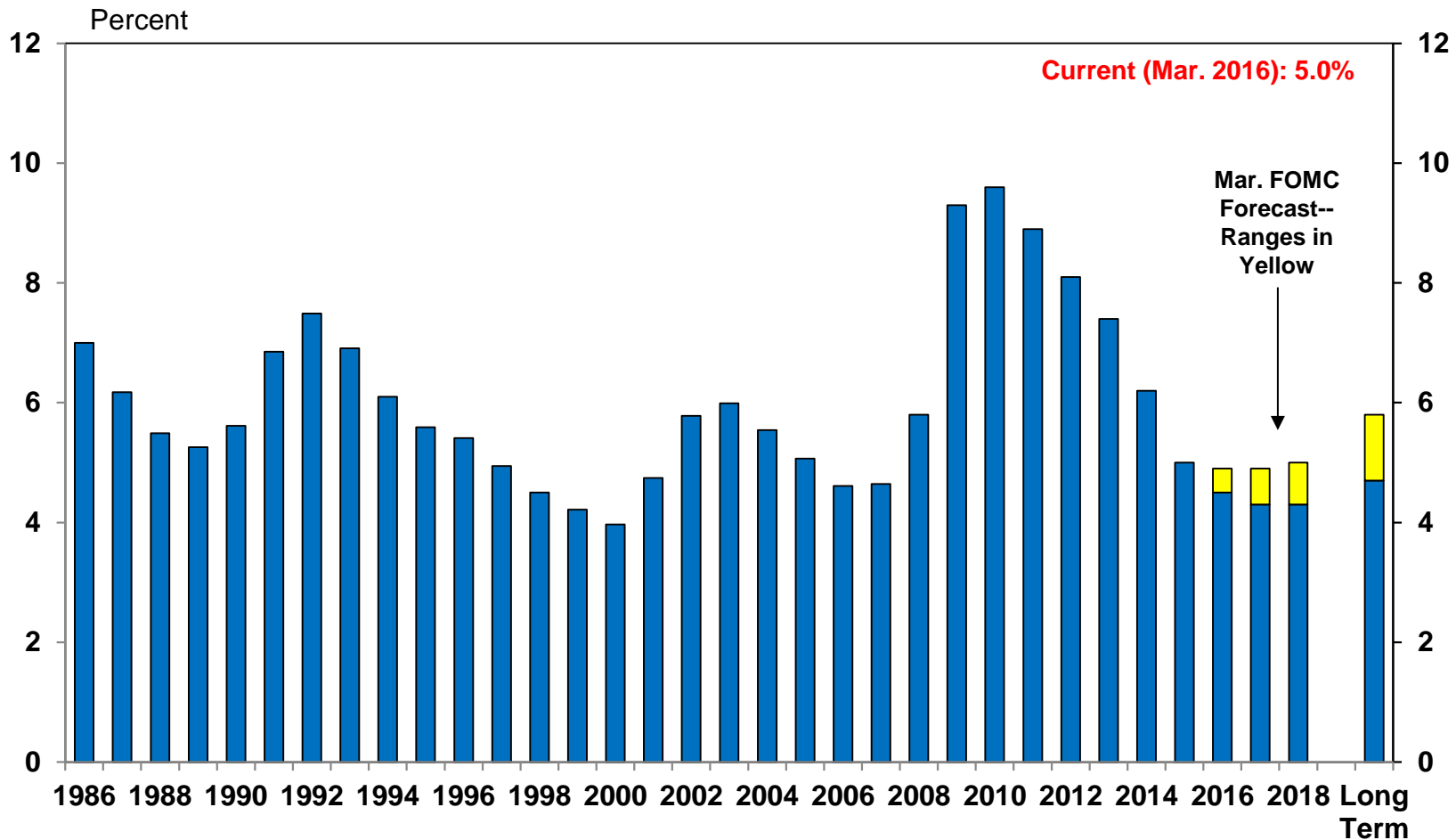
U.S. business activity has slowed slightly, but job growth remains solid

U.S. Private Payroll Employment and Business Indexes



U.S. unemployment is at long-term levels after falling considerably in recent years

Unemployment Rate
Seasonally Adjusted

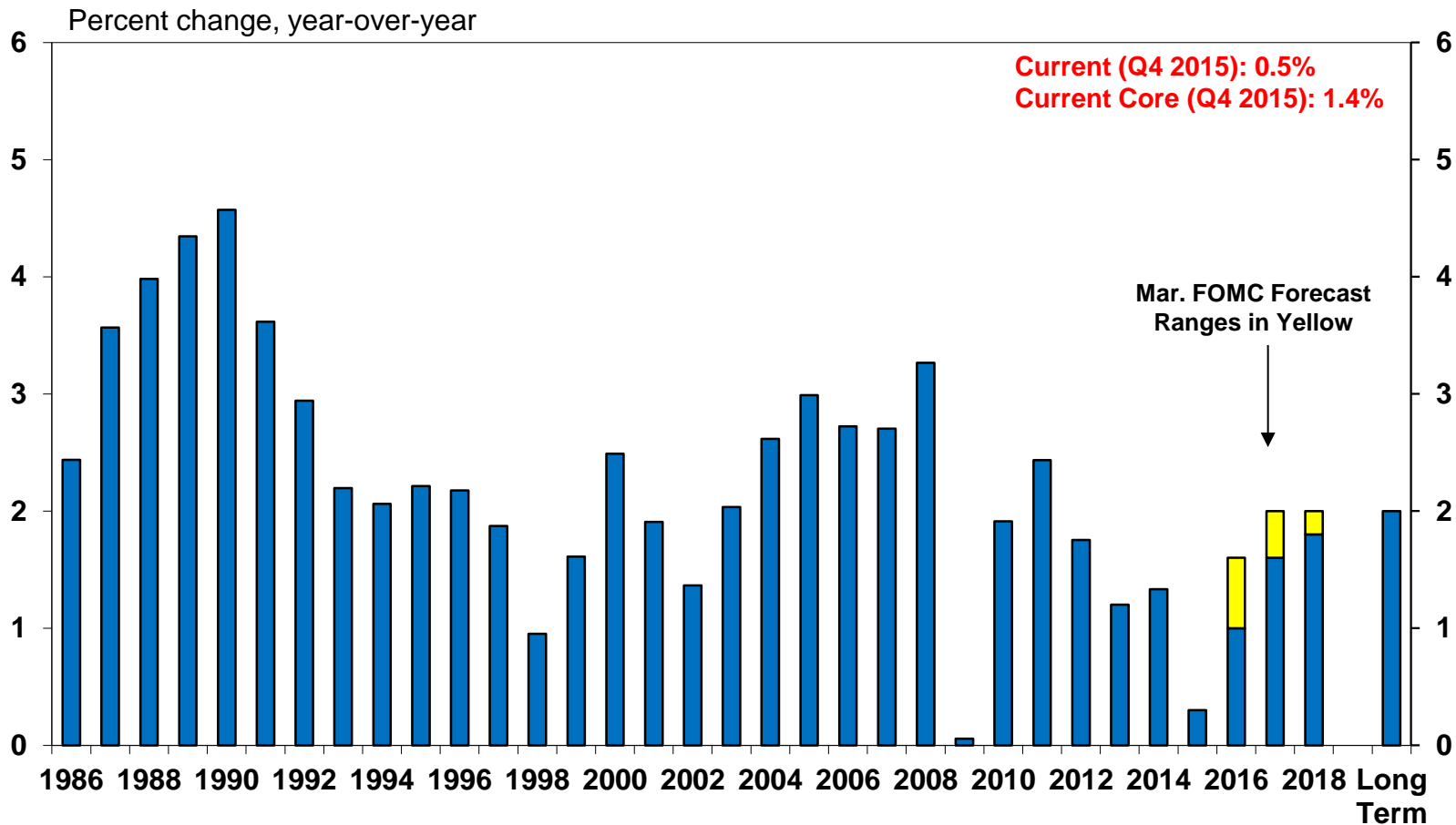


Sources: U.S. Bureau of Labor Statistics, FOMC



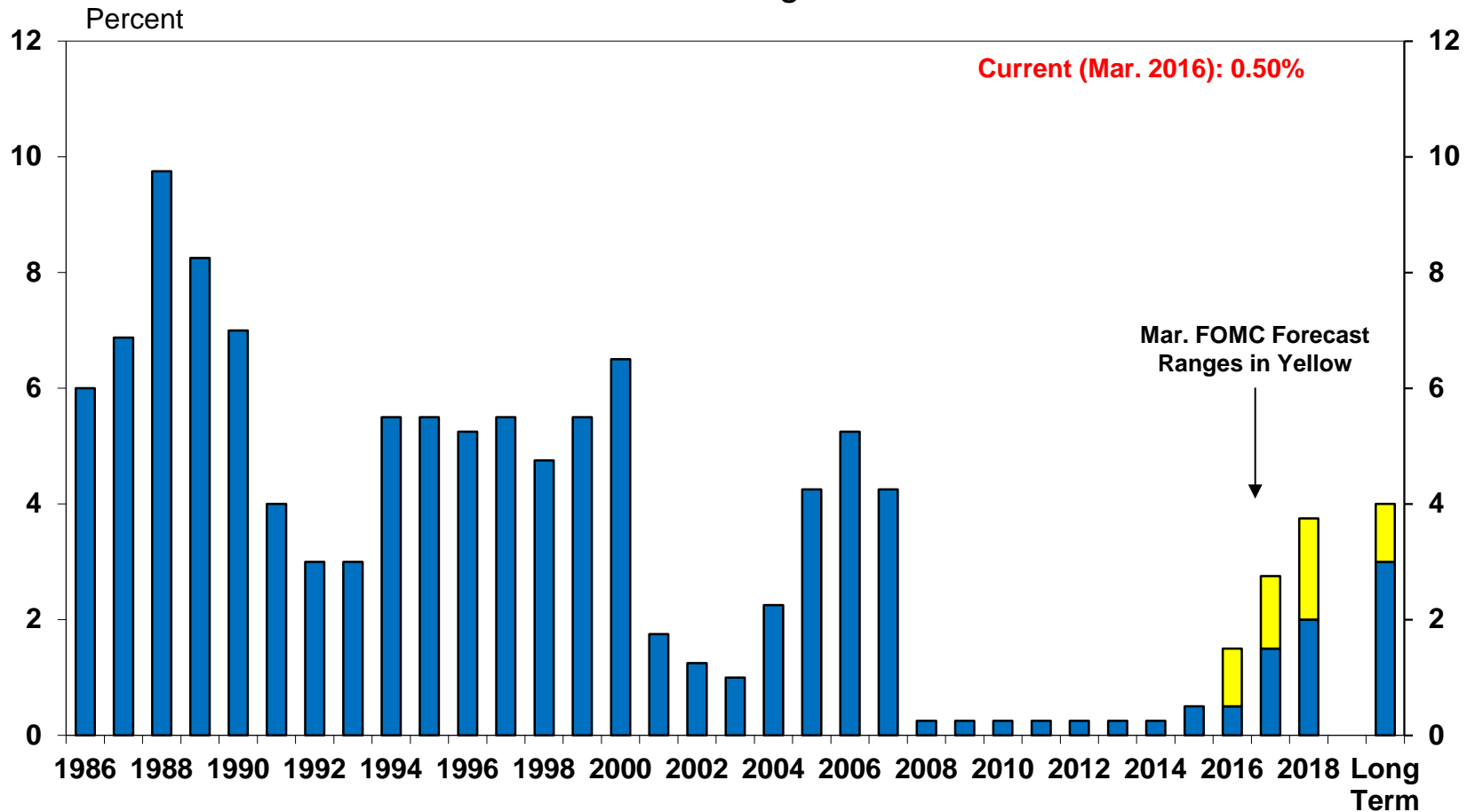
U.S. inflation is low but expected to return to close to target in 2016

PCE Inflation Index



FOMC participants expect moderate increases in rates heading forward

Federal Funds Rate
Year-end target

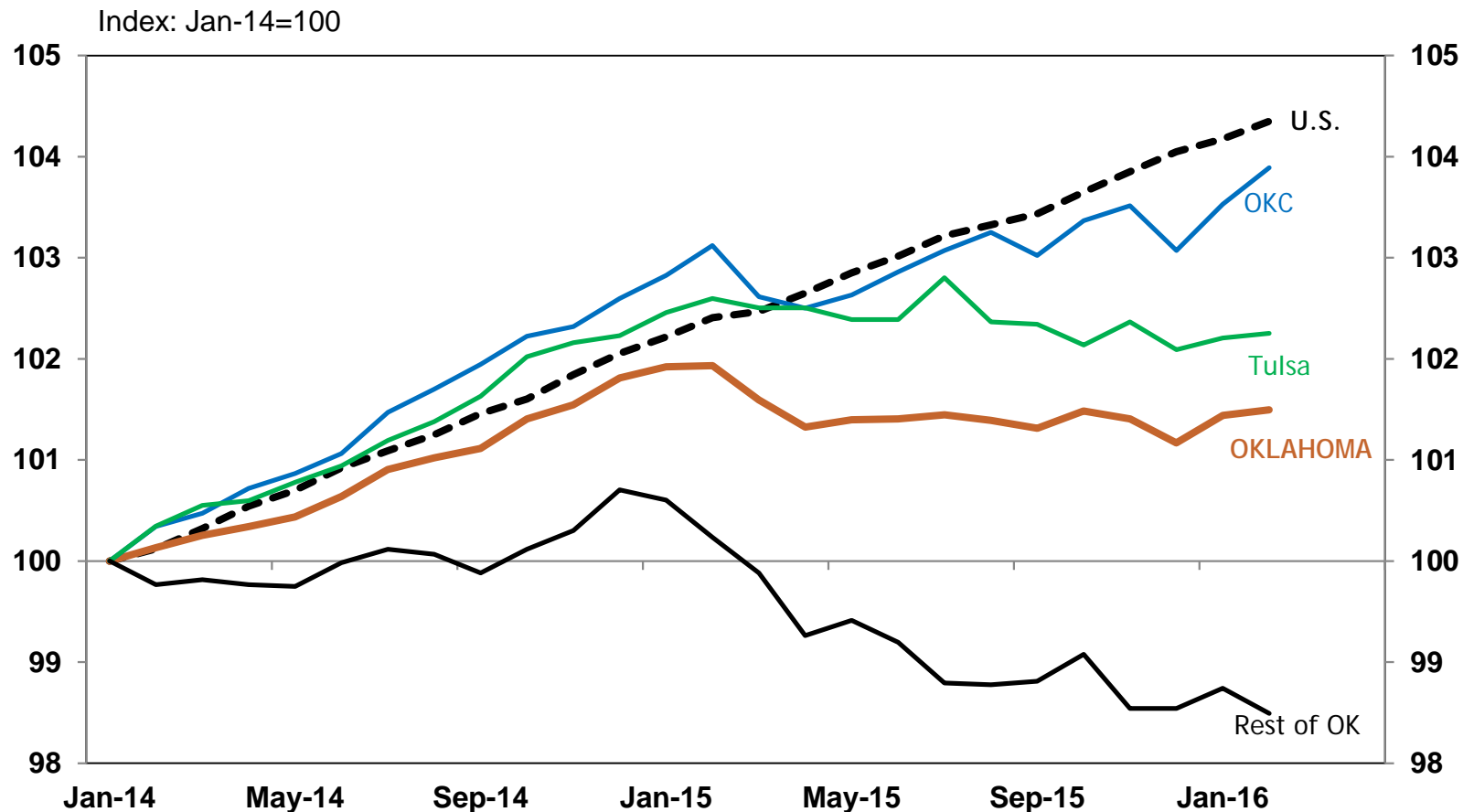


Trends in the Oklahoma Economy



Job trends have varied somewhat across Oklahoma the past couple of years

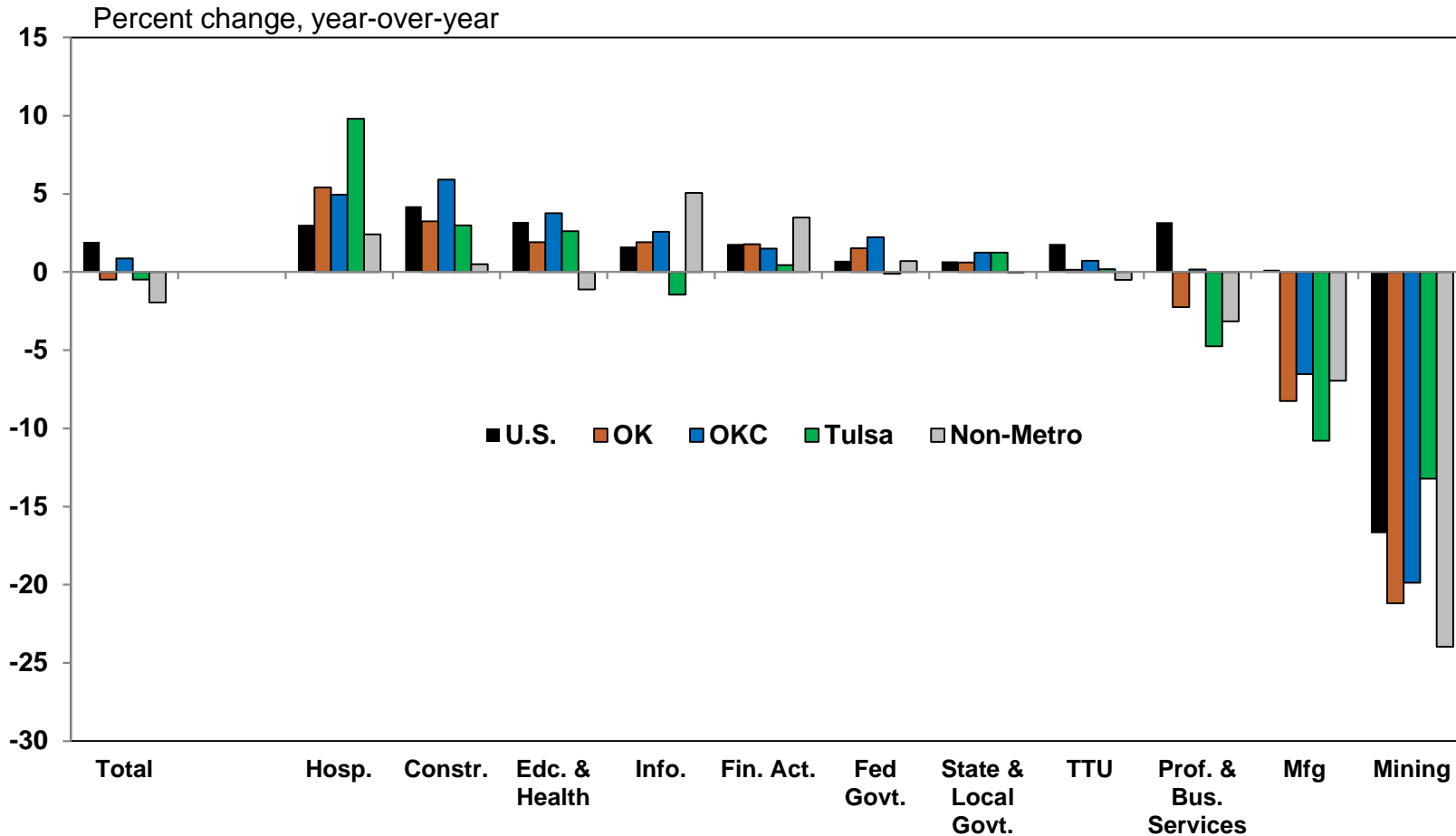
Level of Payroll Employment
Through February 2016



Energy jobs have plummeted, but spillover to other industries has been fairly limited

Job Growth by Industry

Feb-16

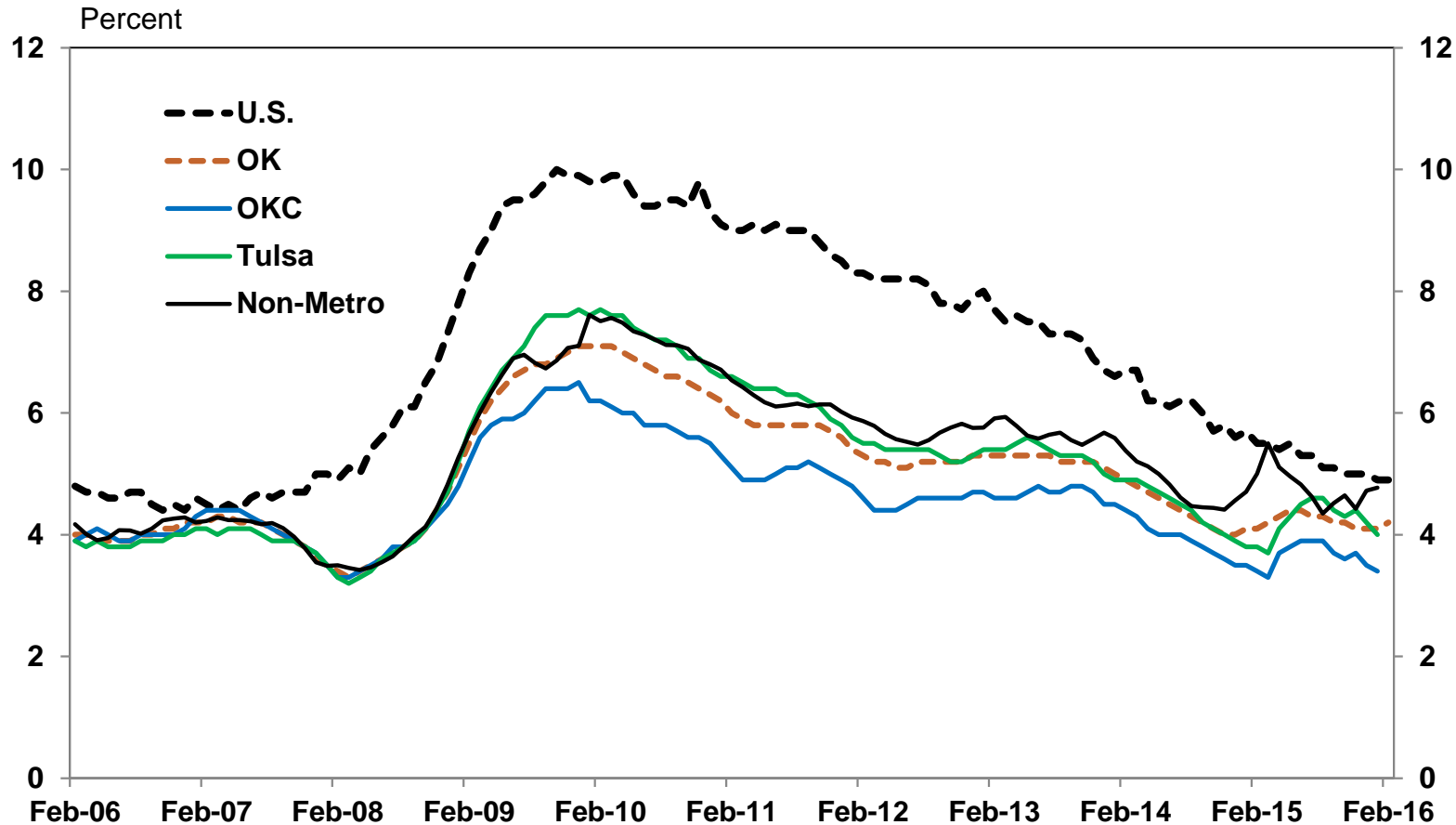


Source: Bureau of Labor Statistics



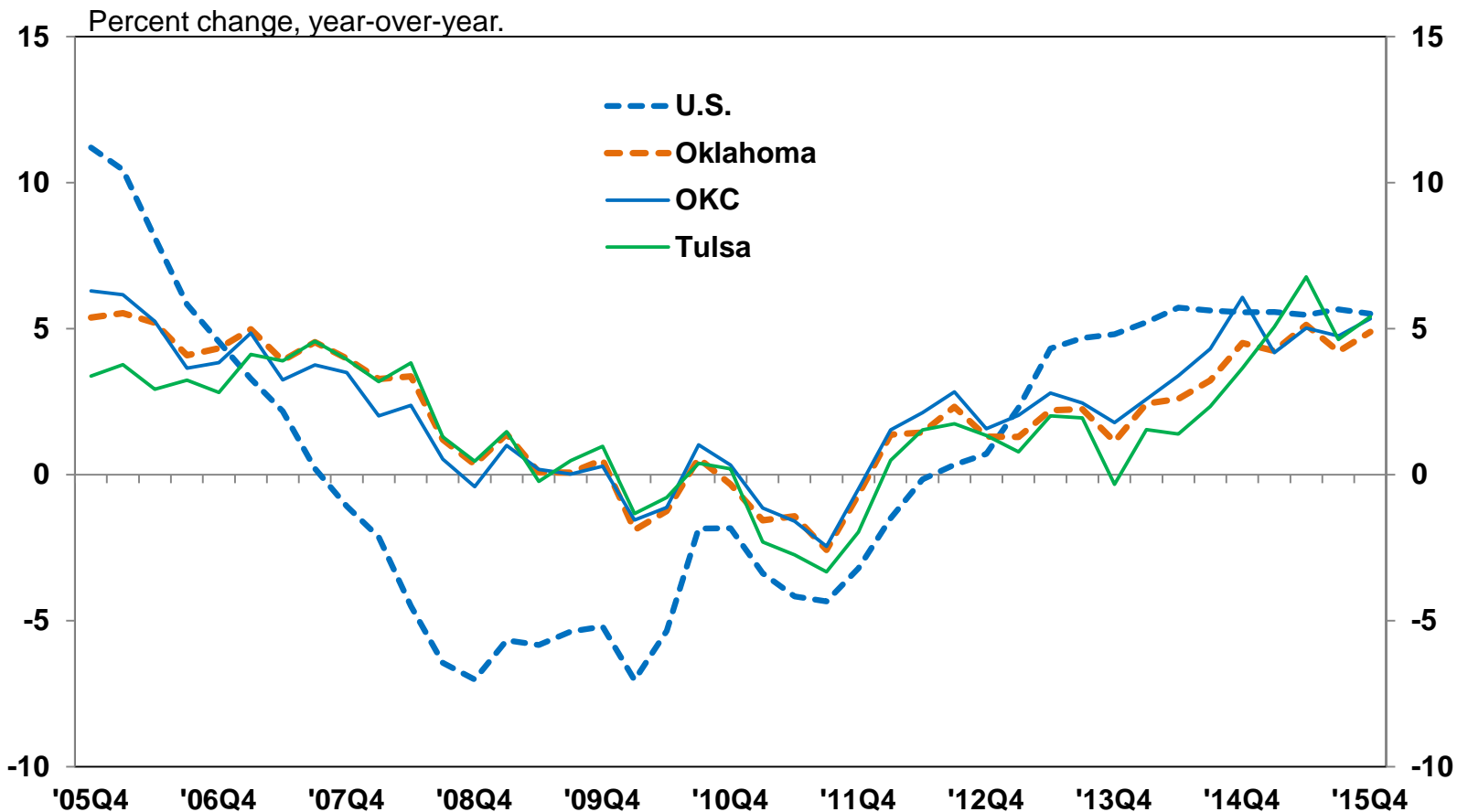
With many workers finding jobs in other industries, unemployment still remains low

Unemployment Rate Seasonally Adjusted



And Oklahoma home prices have continued to grow, similar to the nation

FHFA Home Prices Seasonally adjusted

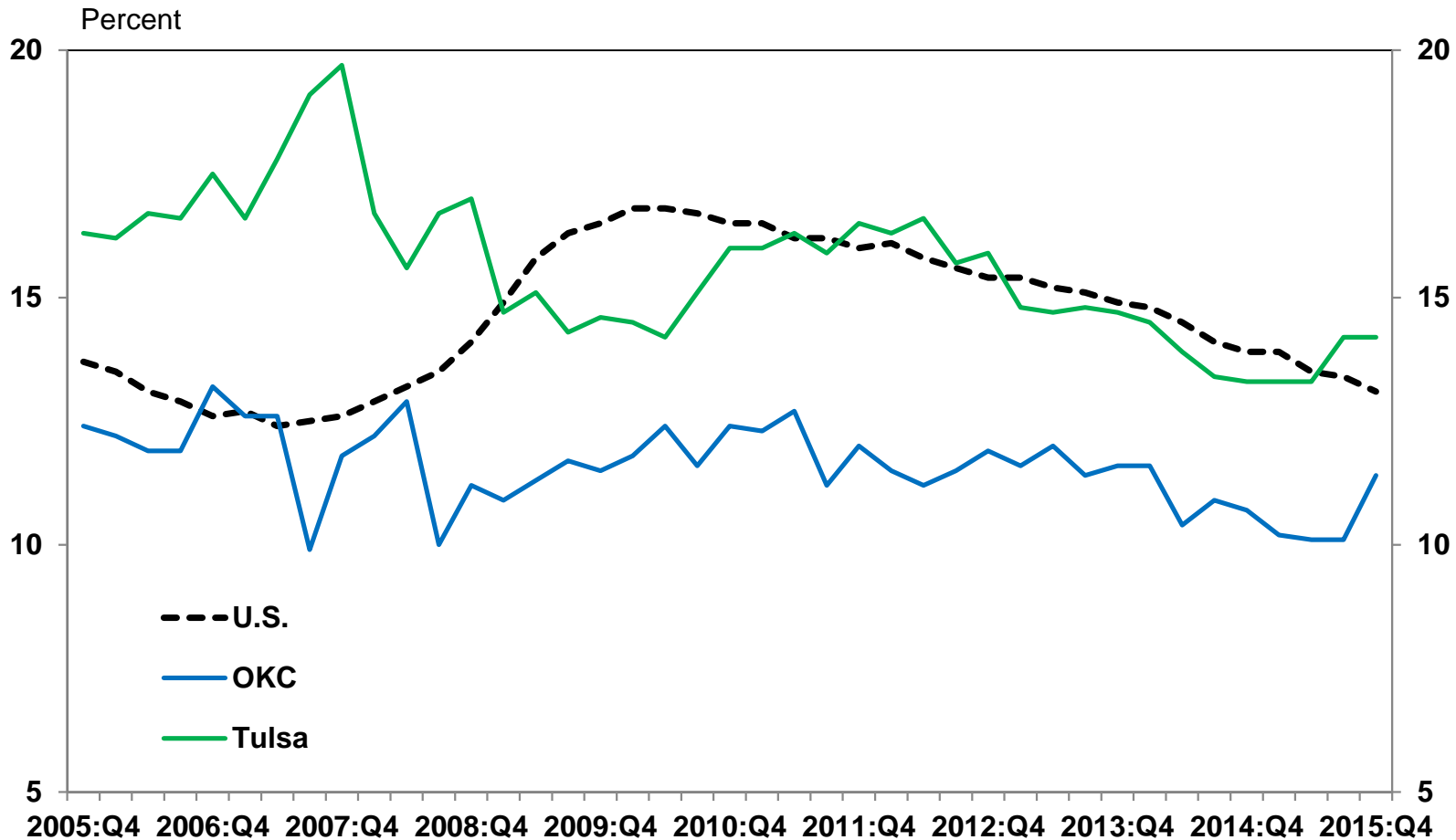


Source: FHFA



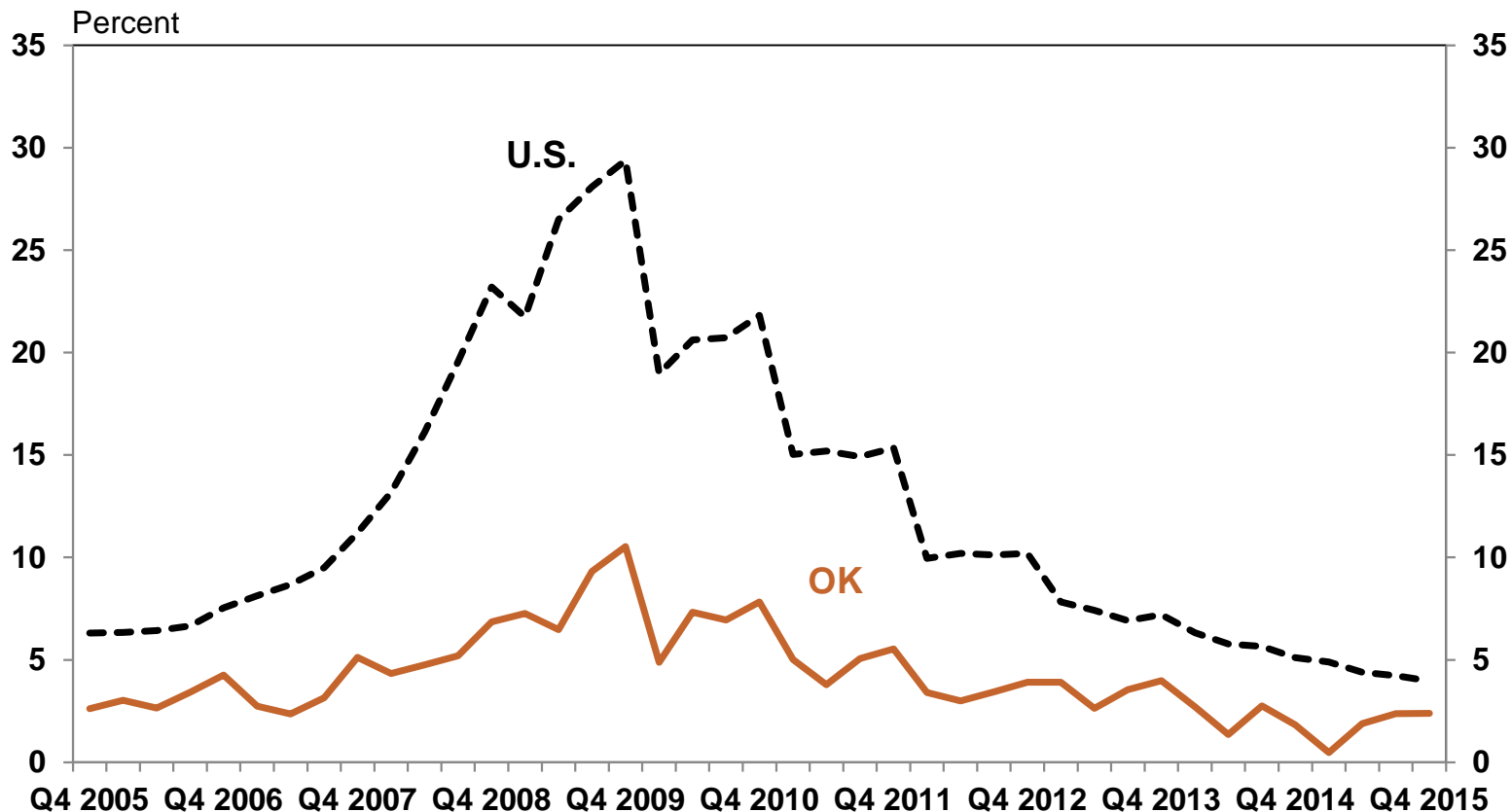
Office vacancies have risen only slightly in Oklahoma's two largest metros

Office Vacancy Rates



In related news, banking conditions in the state have remained good

Share of Banks Not Making a Profit Commercial Banks

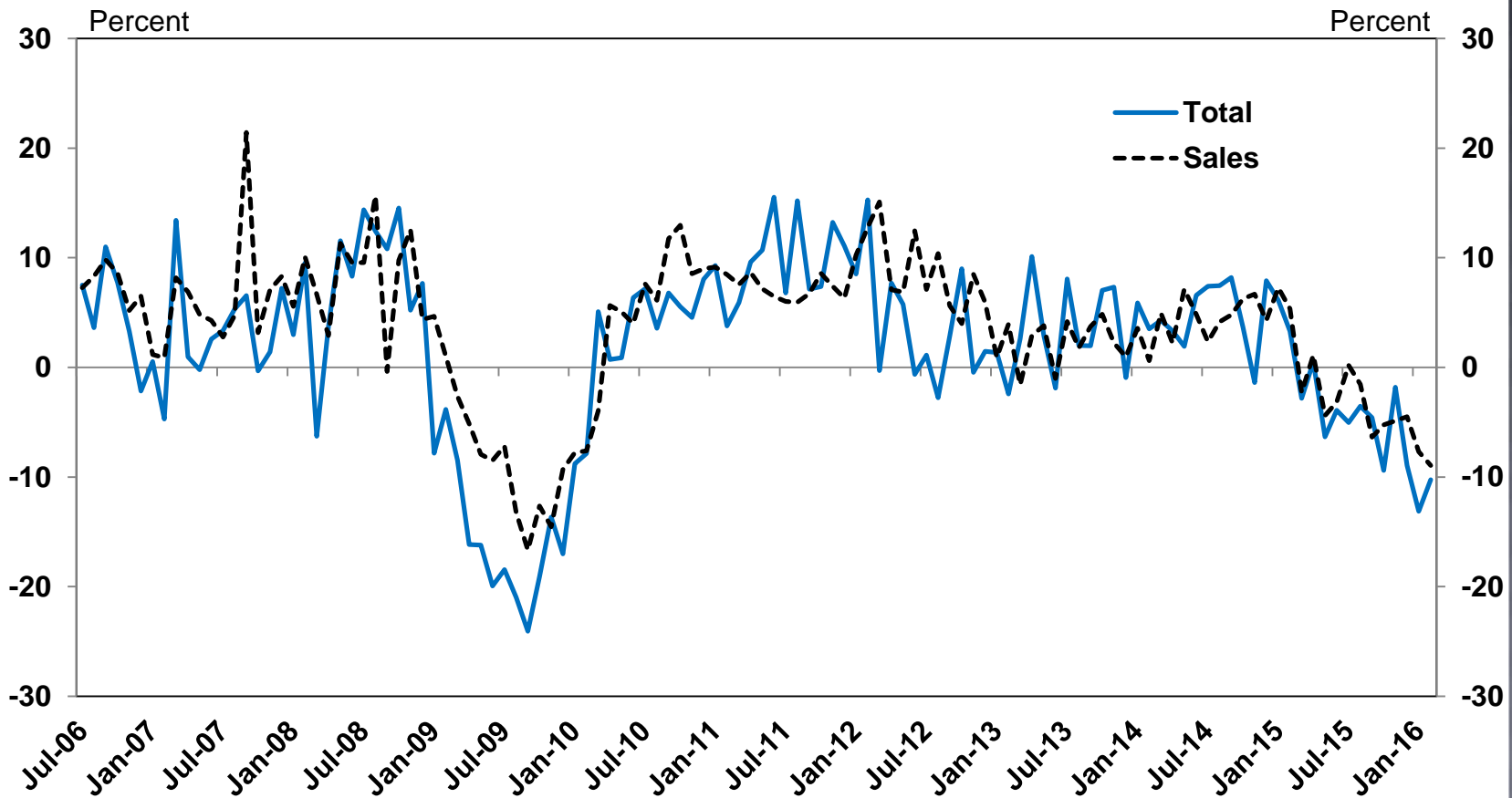


Source: FDIC



But state tax receipts continue to fall, creating difficulties for the state budget

State Tax Receipts
Through Feb-16



Source: OK Tax Commission



And Oklahoma is highly concentrated in energy, where the outlook will be key

Oklahoma Personal Income Share by Industry State - 2014, Metro/Non-Metro - 2012

Industry	OK Location Quotient	OK % of Total Income	OKC Location Quotient	OKC % of Total Income	Tulsa Location Quotient	Tulsa % of Total Income	Non-Metro Location Quotient	Non-Metro % of Total Income
Mining	8.1	14.8	8.3	14.4	7.8	13.6	7.2	12.5
Farming	1.8	2.0	0.3	0.3	0.3	0.3	4.9	4.9
Federal Government	1.3	5.8	1.8	8.6	0.4	1.8	1.7	8.2
Construction	1.1	6.4	1.0	5.7	1.3	7.3	1.0	5.8
Trade, Transp. & Utilities	1.1	16.1	1.0	14.6	1.2	18.8	1.0	15.0
State & Local Government	1.0	13.0	0.9	12.1	0.6	7.7	1.4	19.6
Manufacturing	0.9	9.4	0.7	6.8	1.3	13.3	1.0	9.9
Education & Health	0.8	10.7	0.9	11.7	0.9	11.5	0.7	9.4
Leisure & Hospitality	0.8	3.5	0.9	4.1	0.7	3.0	0.7	3.0
Prof. & Business Services	0.6	10.8	0.7	12.6	0.8	13.1	0.4	6.7
Financial Activities	0.6	6.0	0.8	7.3	0.8	7.3	0.4	4.2
Information	0.5	1.6	0.5	1.8	0.7	2.3	0.3	0.9

Note - Location quotient is the division of local share by national share

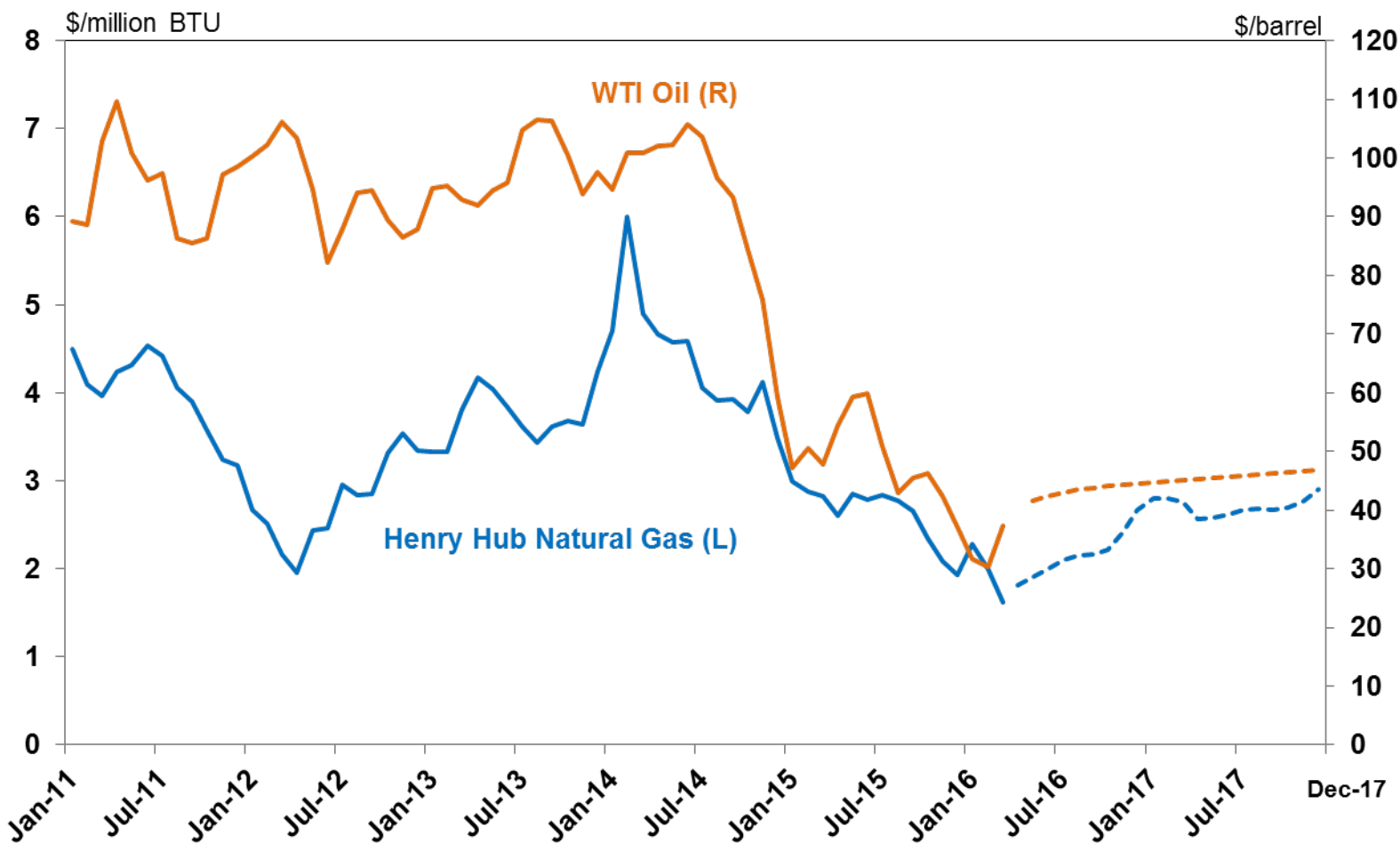


The Outlook for Oklahoma Energy



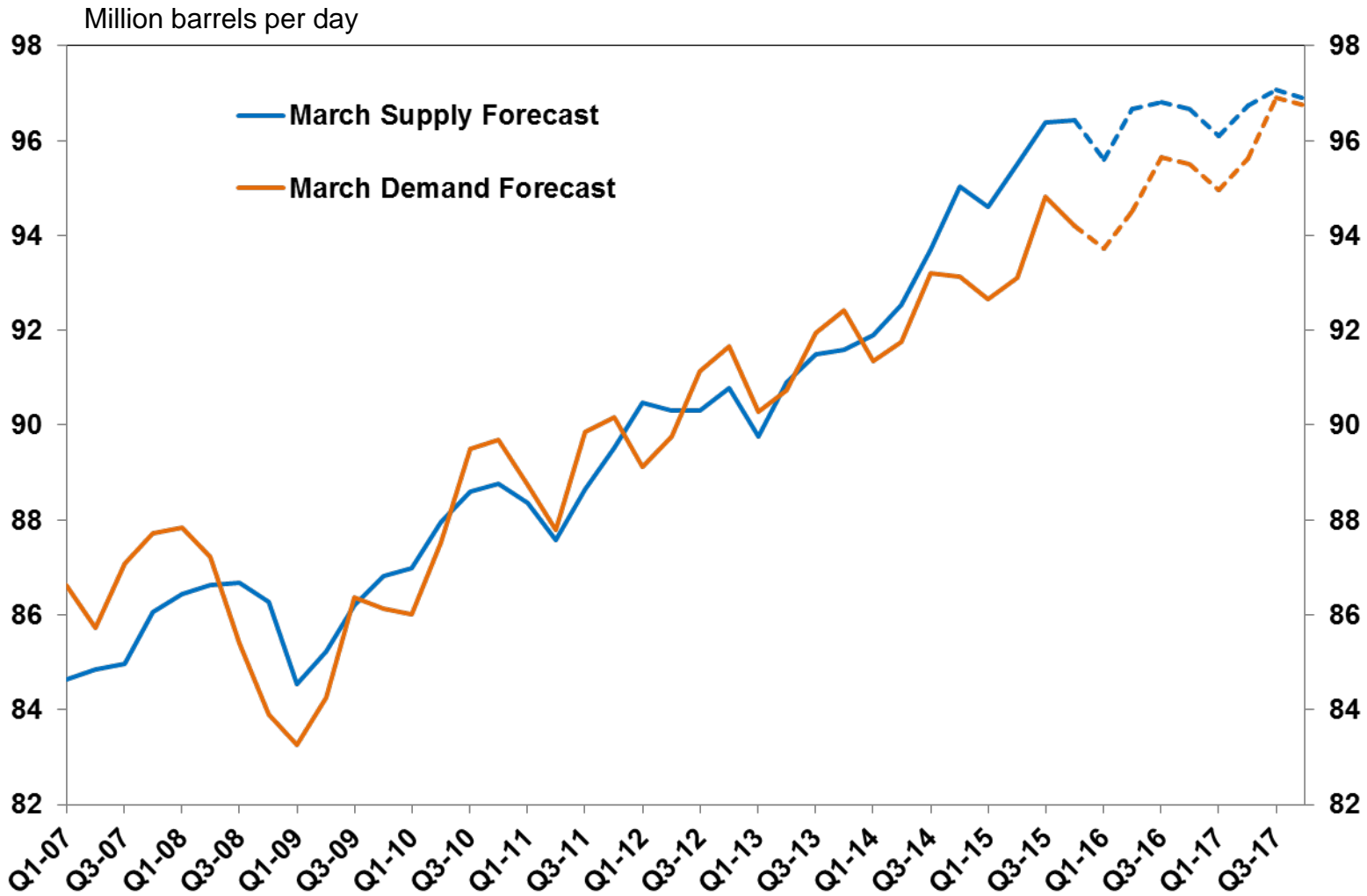
Oil has risen back to \$40 lately but remains low, and natural gas prices continue to sink

Energy Spot and Futures Prices



World oil supply and demand are expected to be out of balance until late 2017

Global Oil Supply and Demand

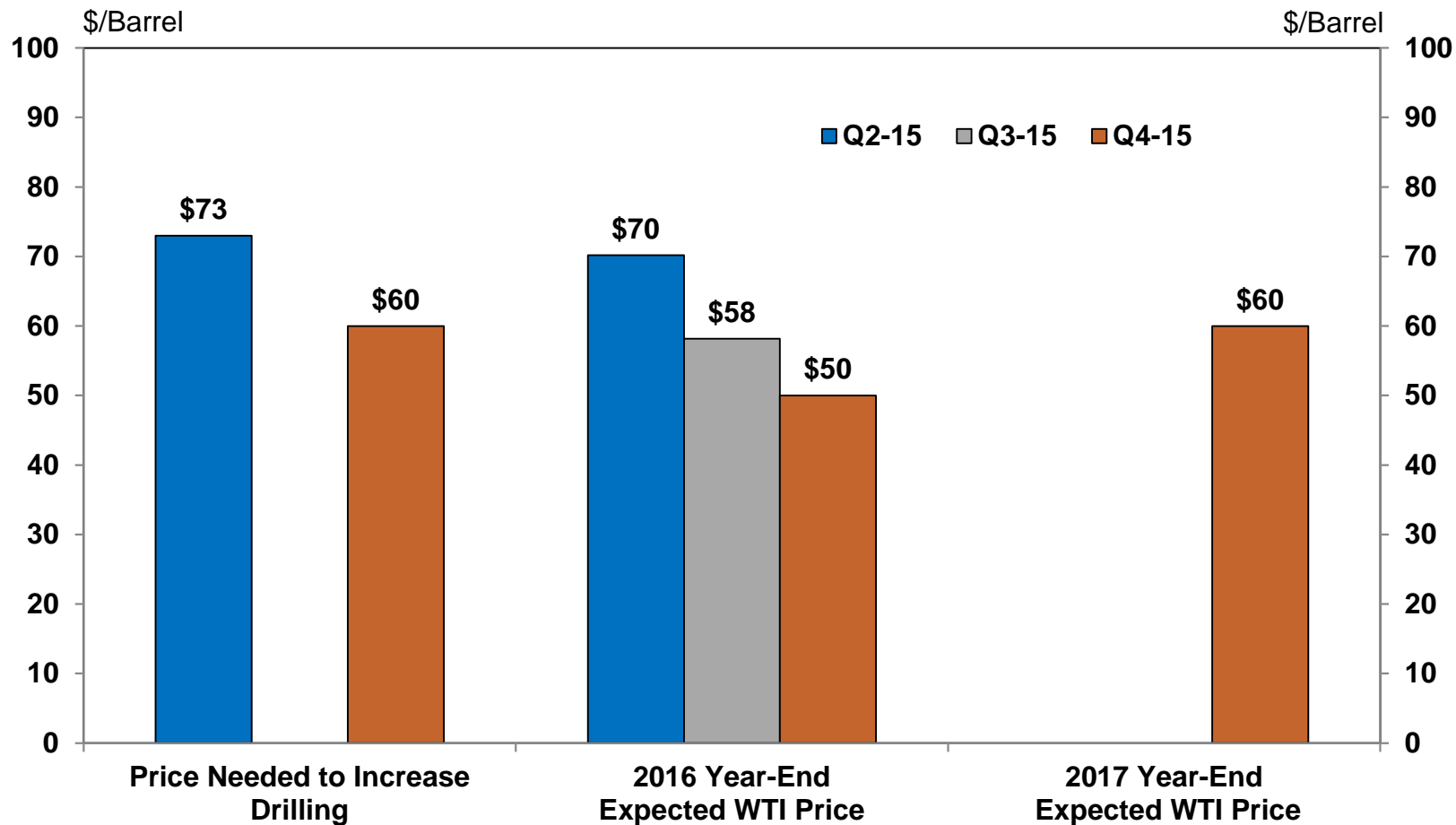


Source: EIA



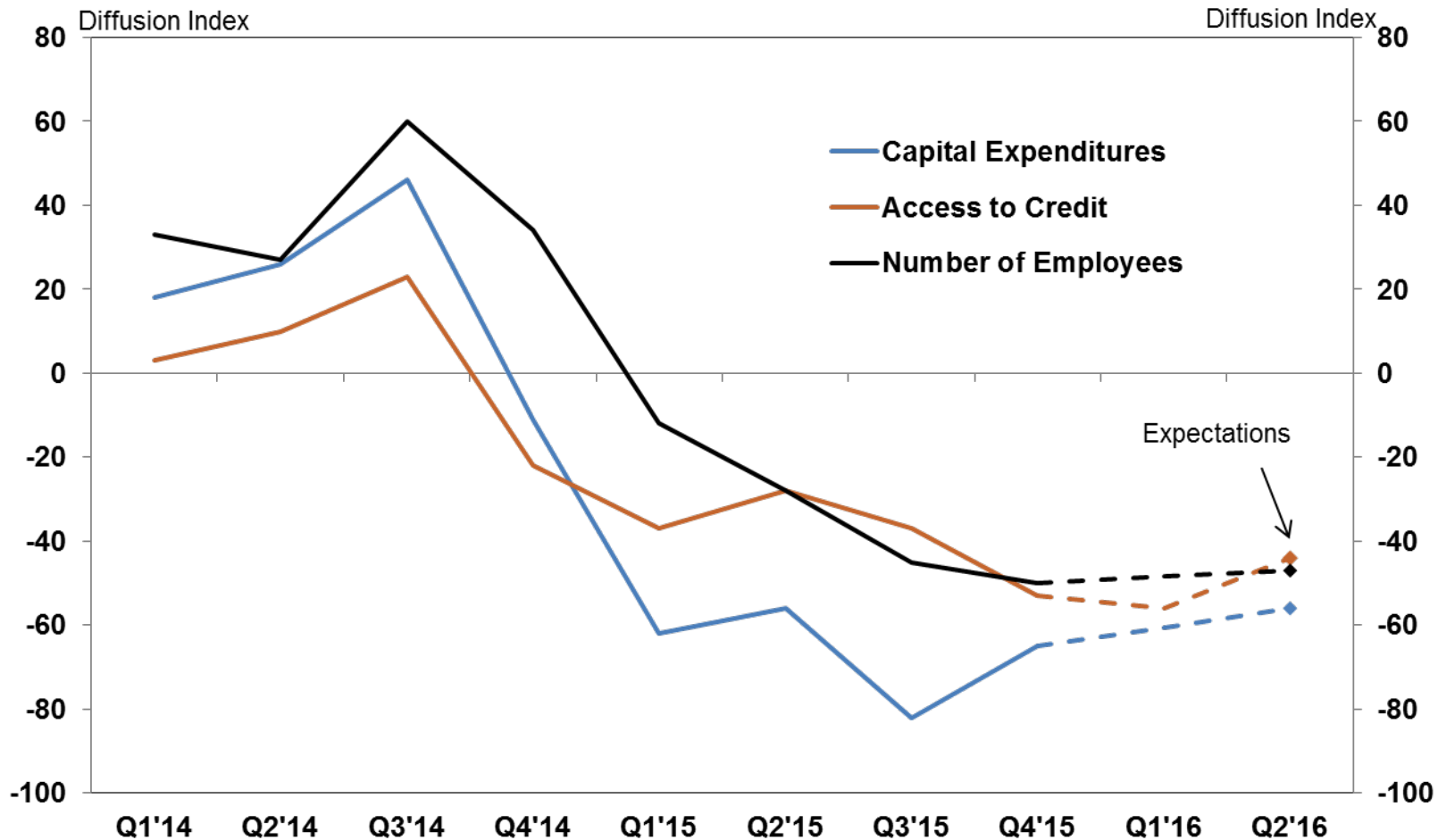
Firms' average price needed to increase drilling remains well above current prices

Firms' Price Needed to Increase Drilling and Future Price Expectations
Q4 KC Fed Energy Survey



The KC Fed's Q4 energy survey showed further declines, with more expected

Year-Over-Year Energy Survey Indexes



Source: FRBKC Energy Survey



Summary

- The U.S. economy continues to grow, and the Fed has begun to raise interest rates
- Oklahoma employment and tax revenues continue to suffer from the oil downturn
- But unemployment remains low, and there has been little spillover to real estate so far
- The latest KC Fed energy surveys suggest more difficulties ahead for that sector

