

# U.S. and Oklahoma Economic Update



**Pension Trustee Education Conference**  
**September 29, 2016**

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**Federal Reserve Bank of Kansas City**  
**[www.kansascityfed.org/oklahomacity](http://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.





# 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 & CEO (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

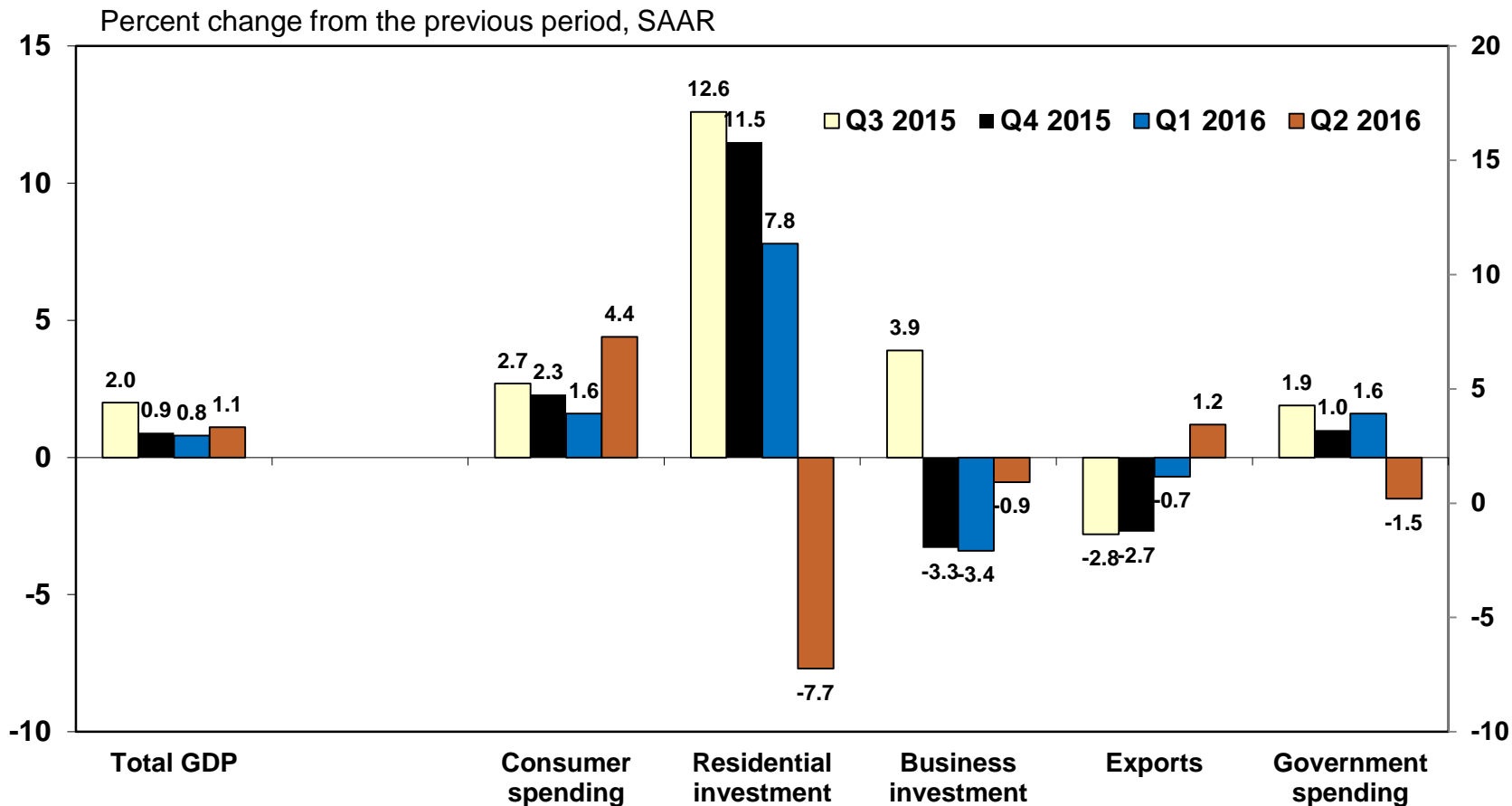


# **The U.S. Economy and Monetary Policy**



# GDP growth has been modest the past 3 quarters, with investment the main drag

## Growth in Components of Real GDP

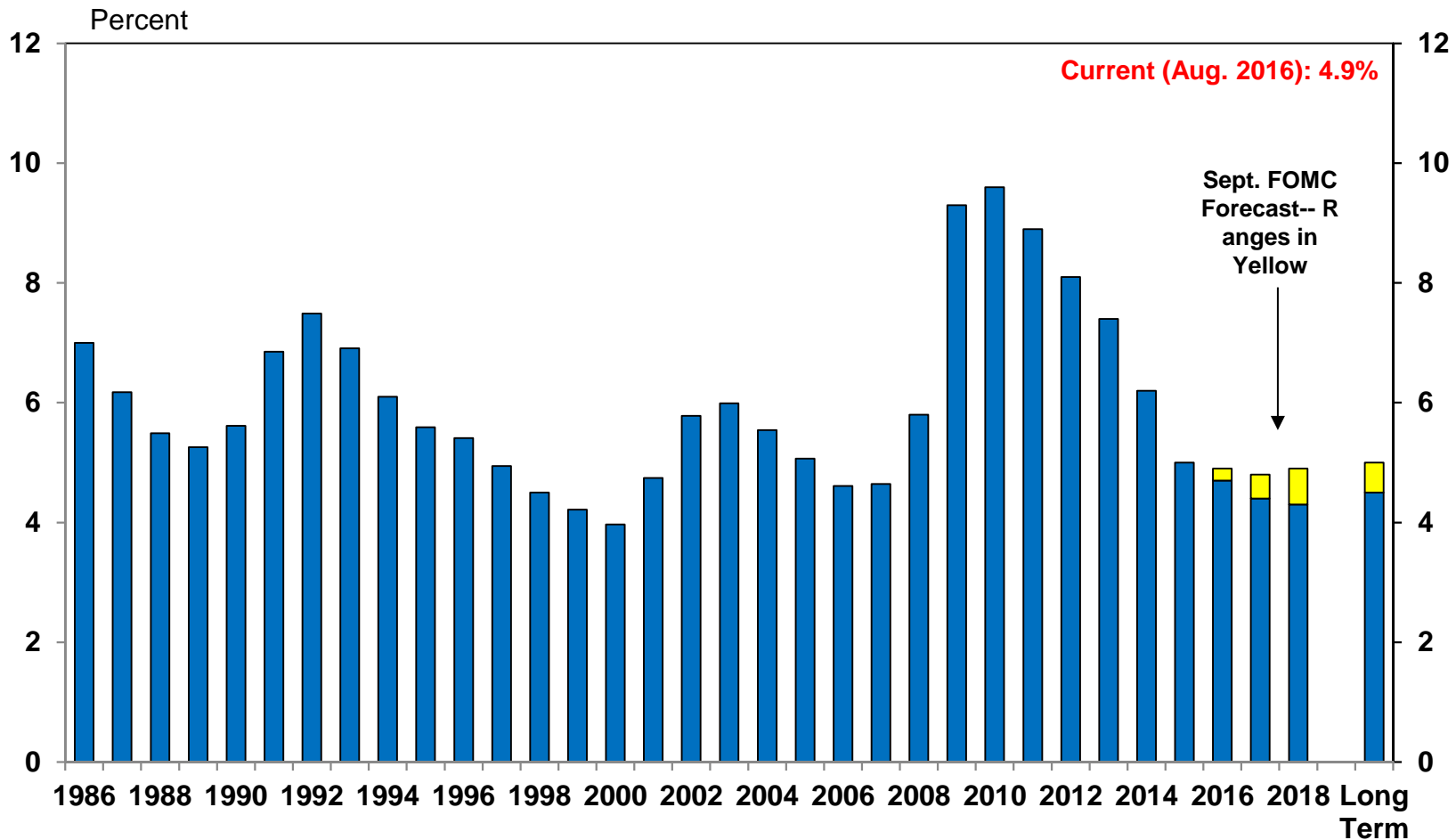


•Source: U.S. Bureau of Economic Analysis, Macroeconomic Advisors



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

**Unemployment Rate**  
Seasonally Adjusted

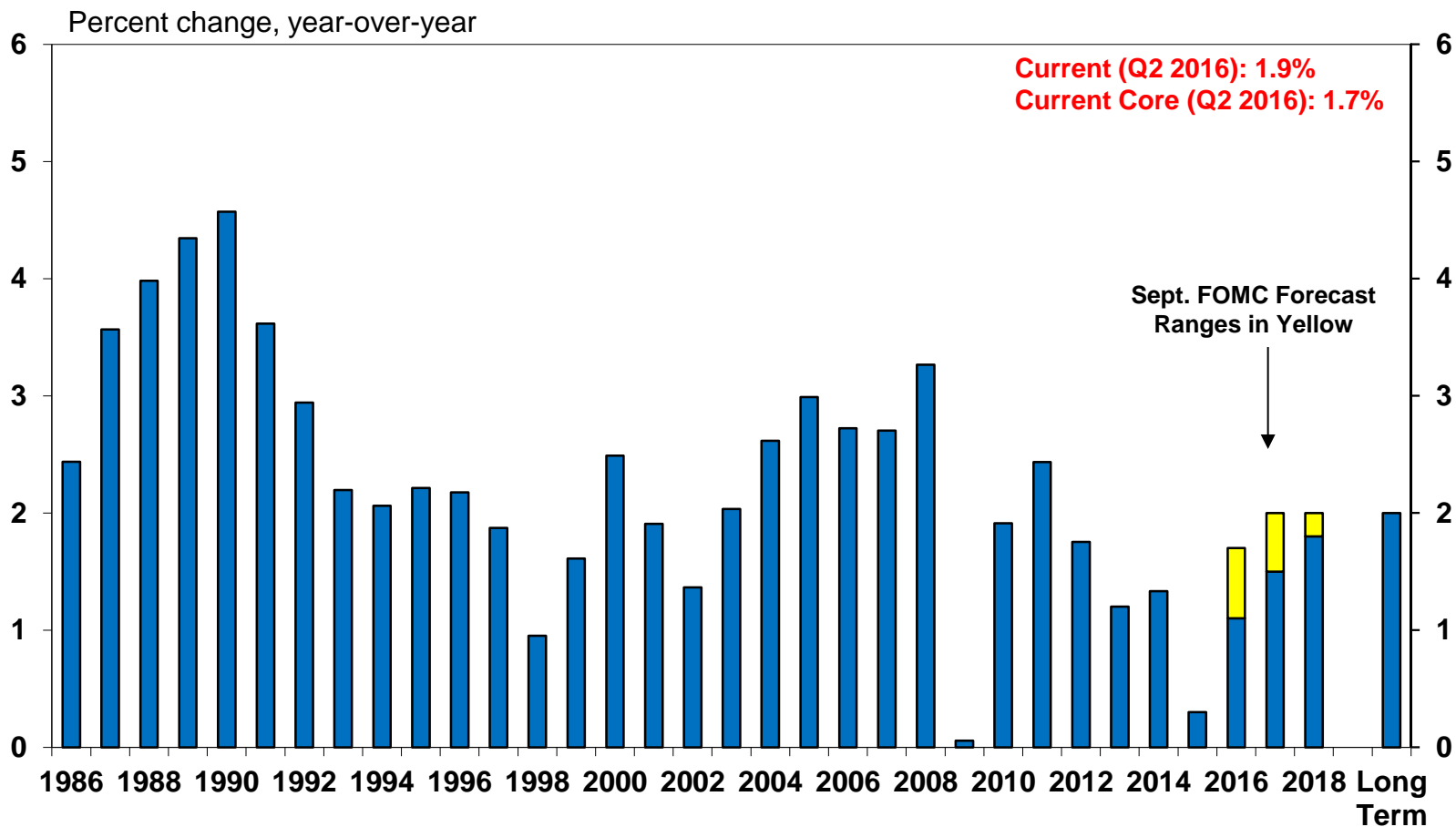


Sources: U.S. Bureau of Labor Statistics, FOMC



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

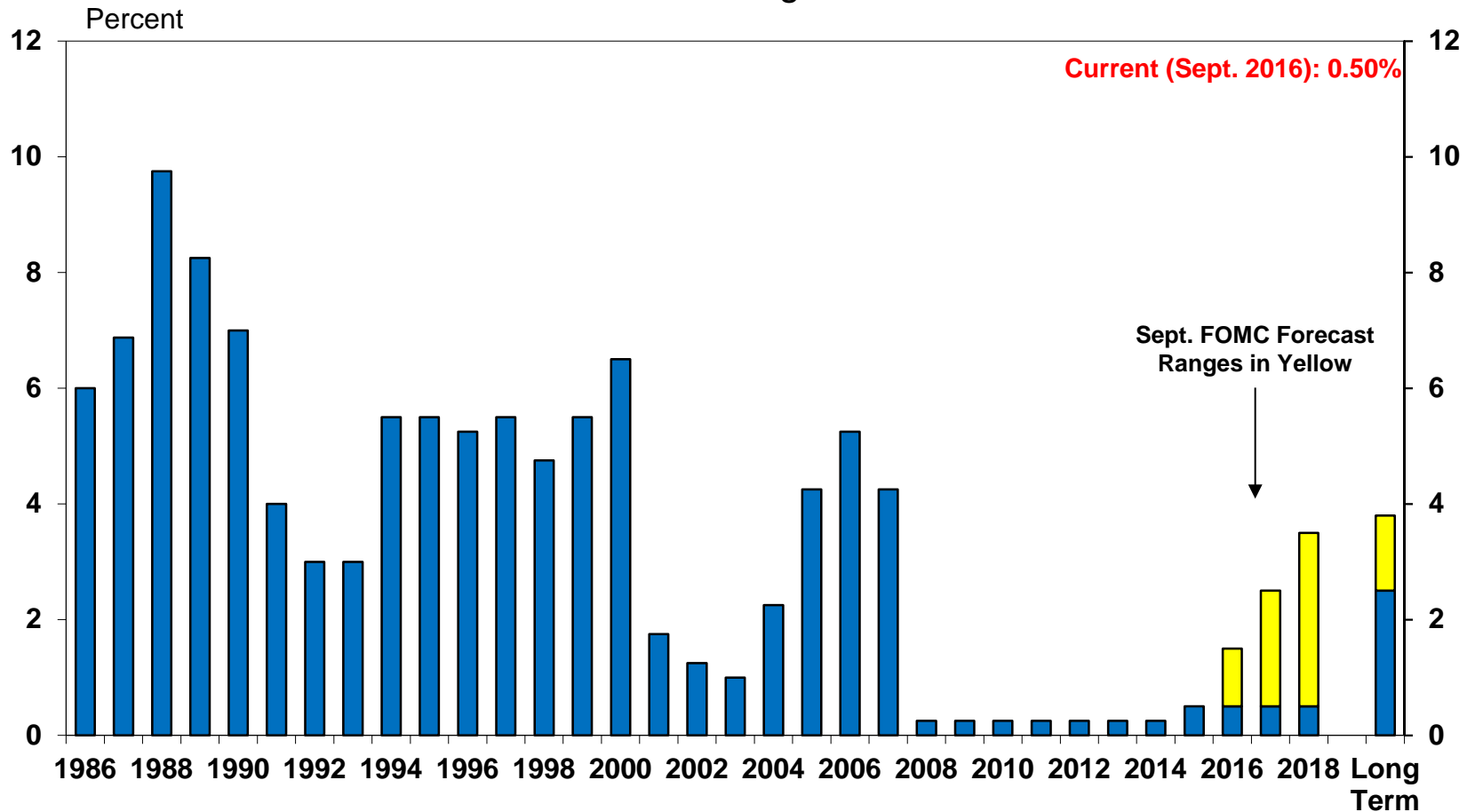
## PCE Inflation Index





# FOMC participants expect moderate increases in interest rates heading forward

Federal Funds Rate  
Year-end target



# From FOMC Statement – Sept. 21, 2016

- *The Committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives. The stance of monetary policy remains accommodative, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation.*
- *The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.*



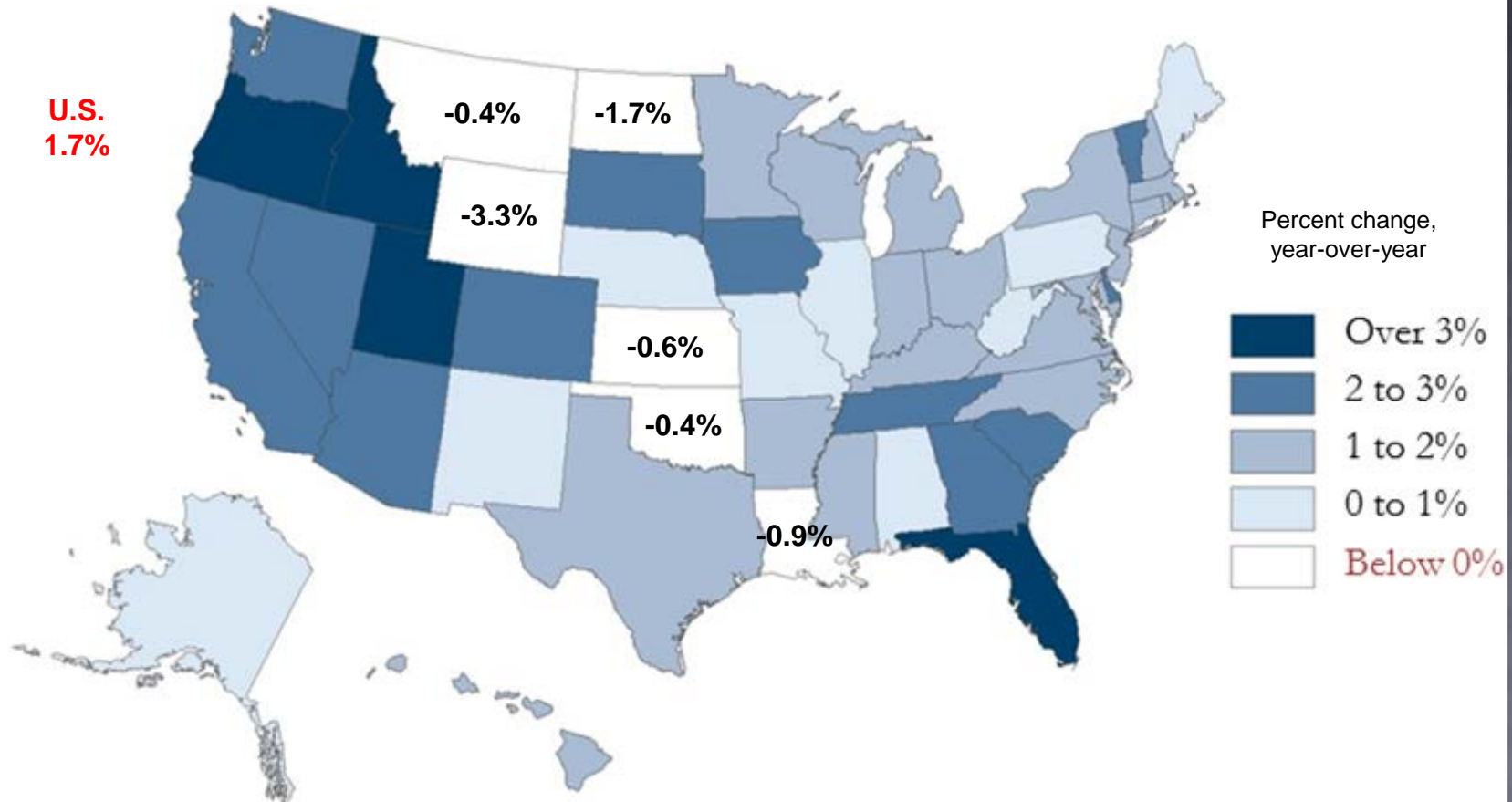
# Trends in the Oklahoma Economy



# Growth has diverged across the nation, with 6 states in or near recession, incl. Oklahoma

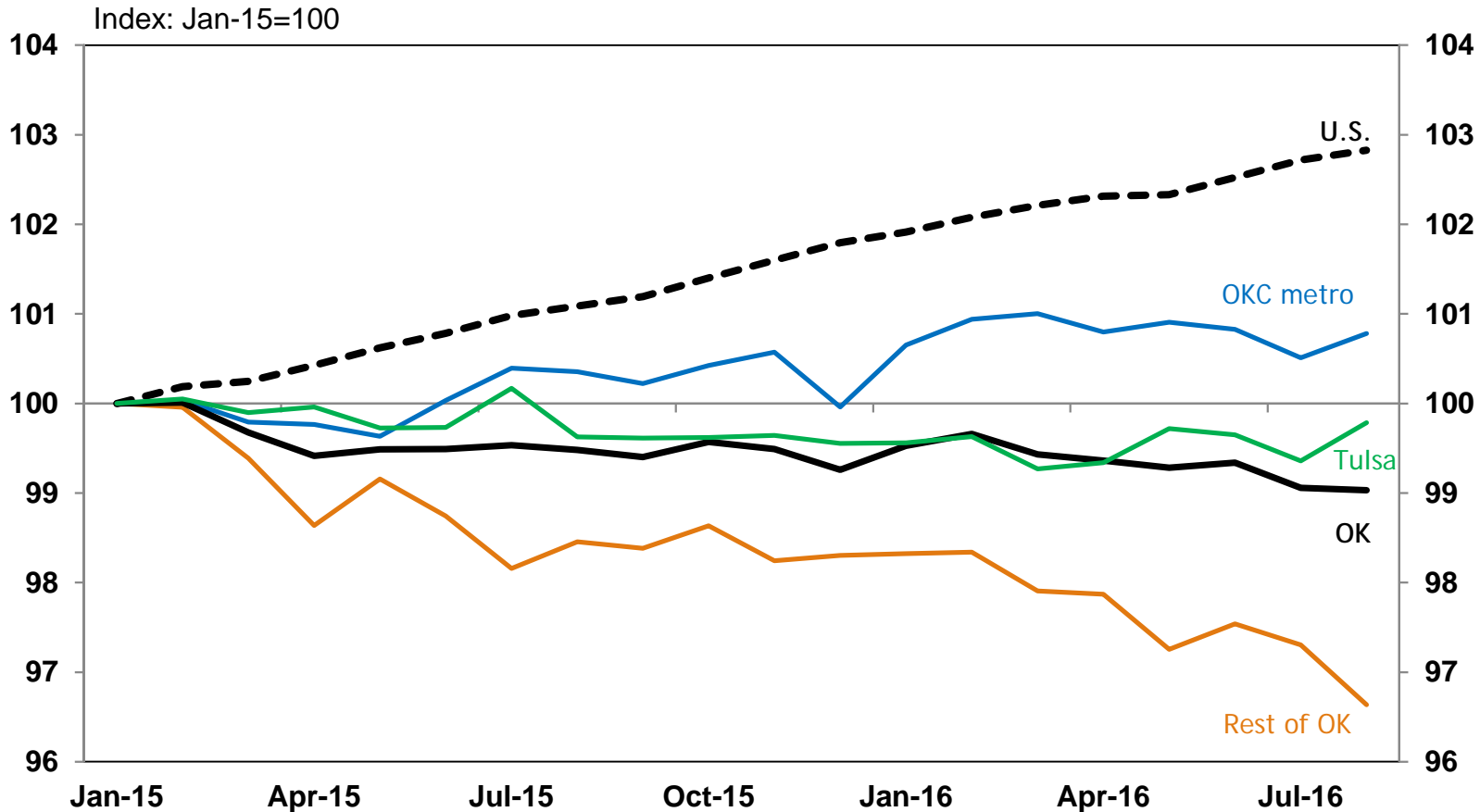
**Total Nonfarm Employment Growth**  
August 2016

**U.S.**  
**1.7%**



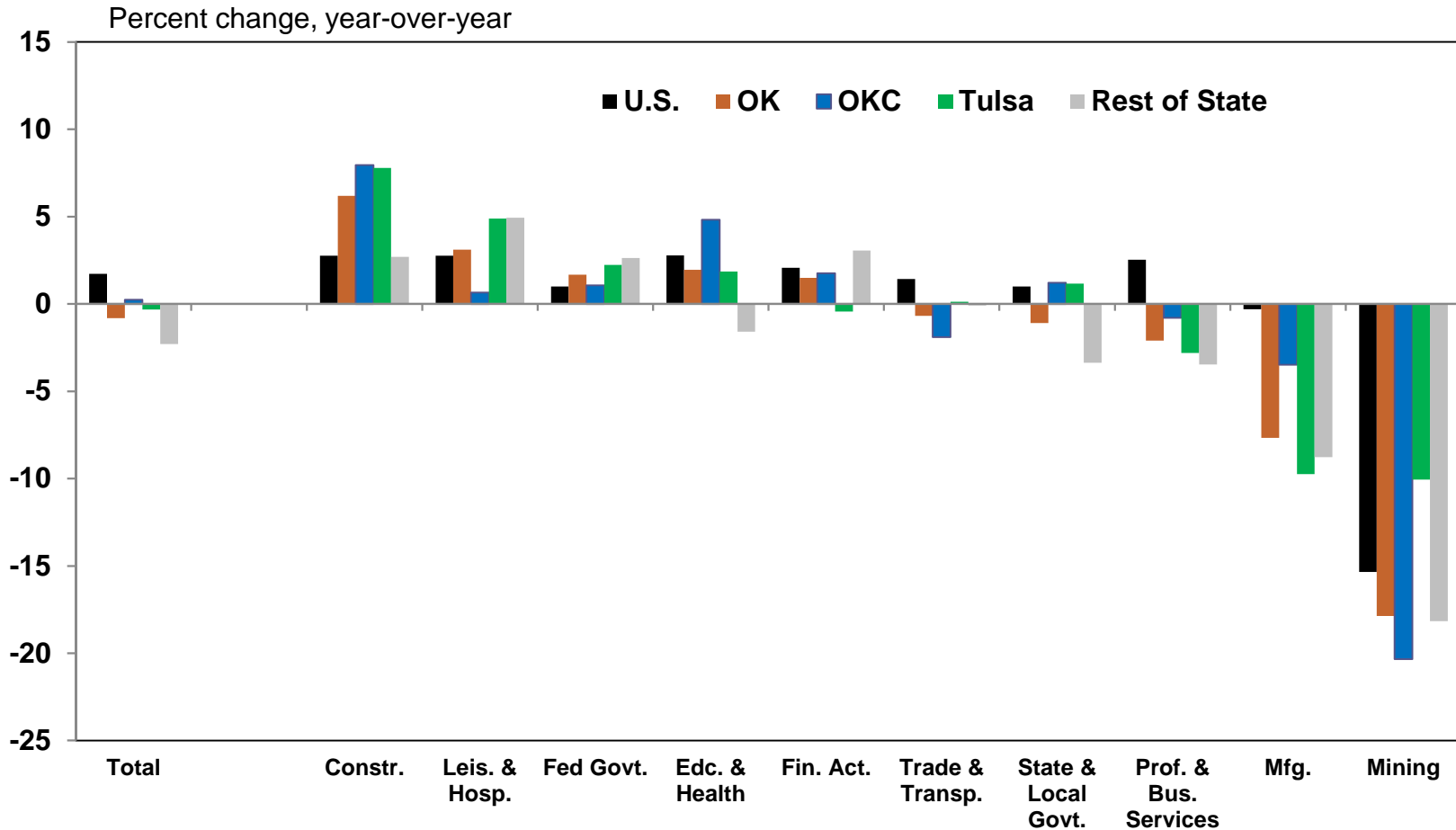
# Employment growth has also diverged across OK but lags the nation throughout

Level of Payroll Employment  
Through August 2016



# Higher-paying jobs have done worse than lower-paying jobs across Oklahoma lately

**Job Growth by Industry**  
Aug-16

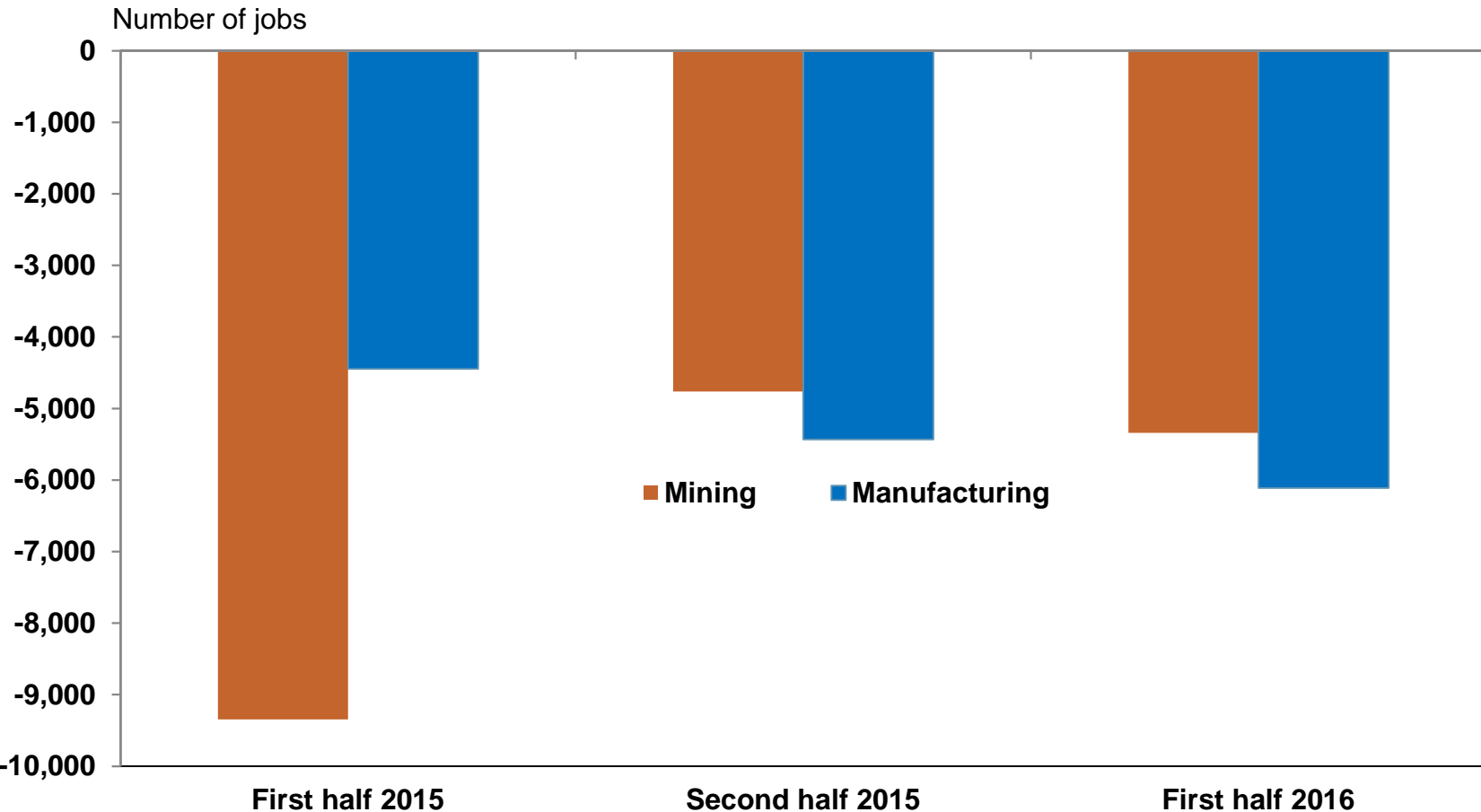


Source: Bureau of Labor Statistics



# Since mid-2015, Oklahoma's factory sector has lost more jobs than the energy sector

## Oklahoma Employment Change

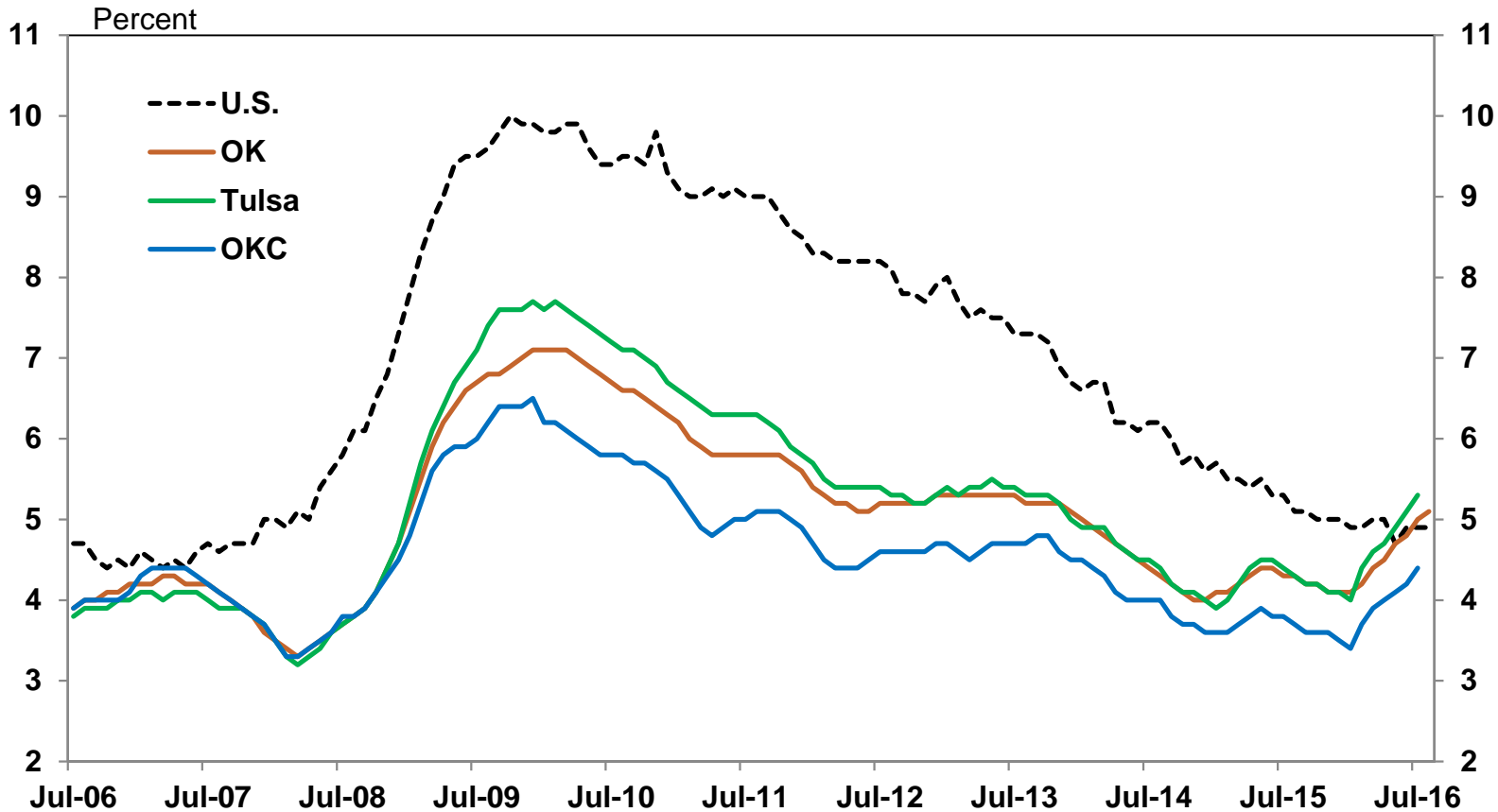


Source: Bureau of Labor Statistics



# Unemployment across the state has ticked up this year, including in the 2 big metros

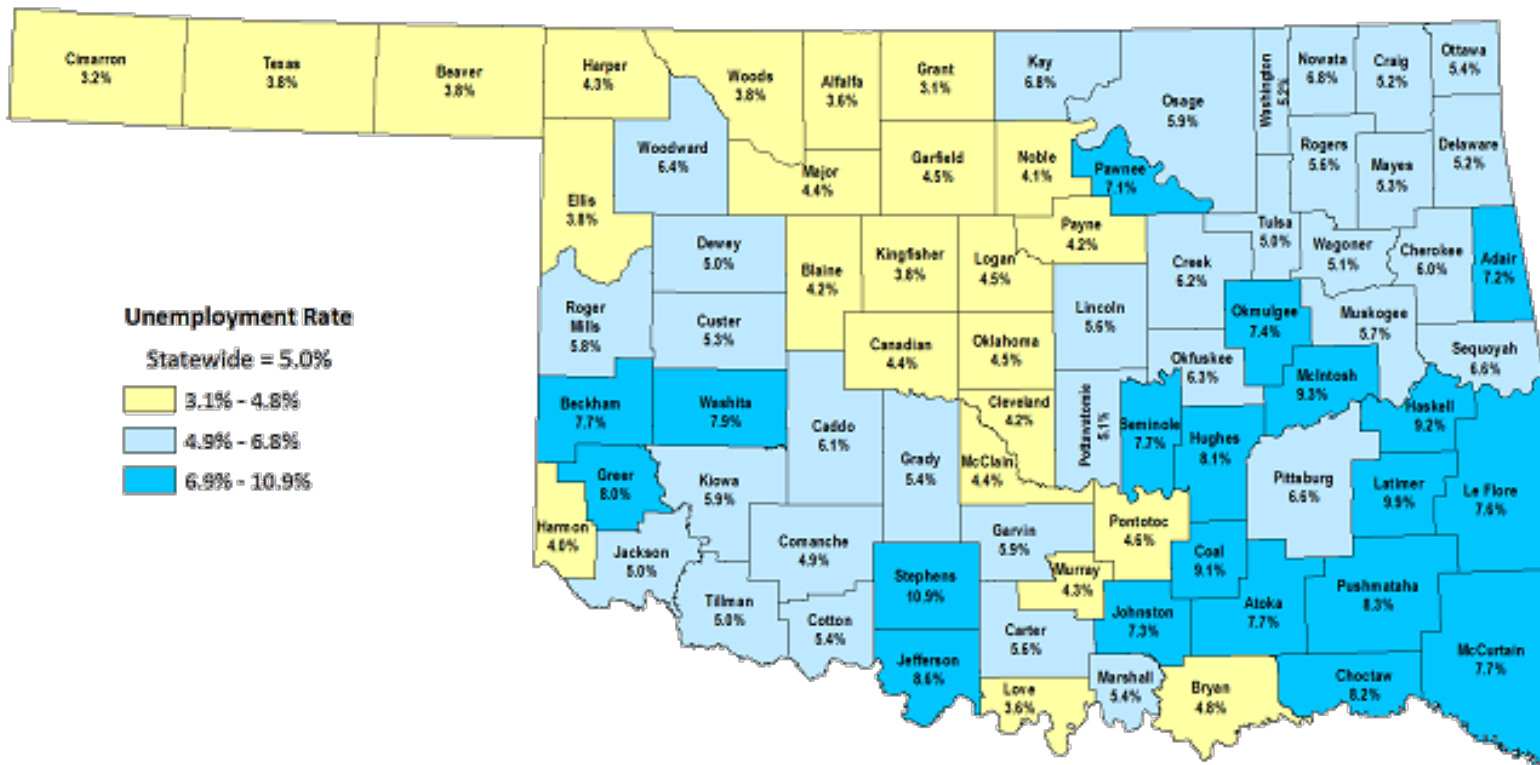
**Unemployment Rates**  
Seasonally Adjusted





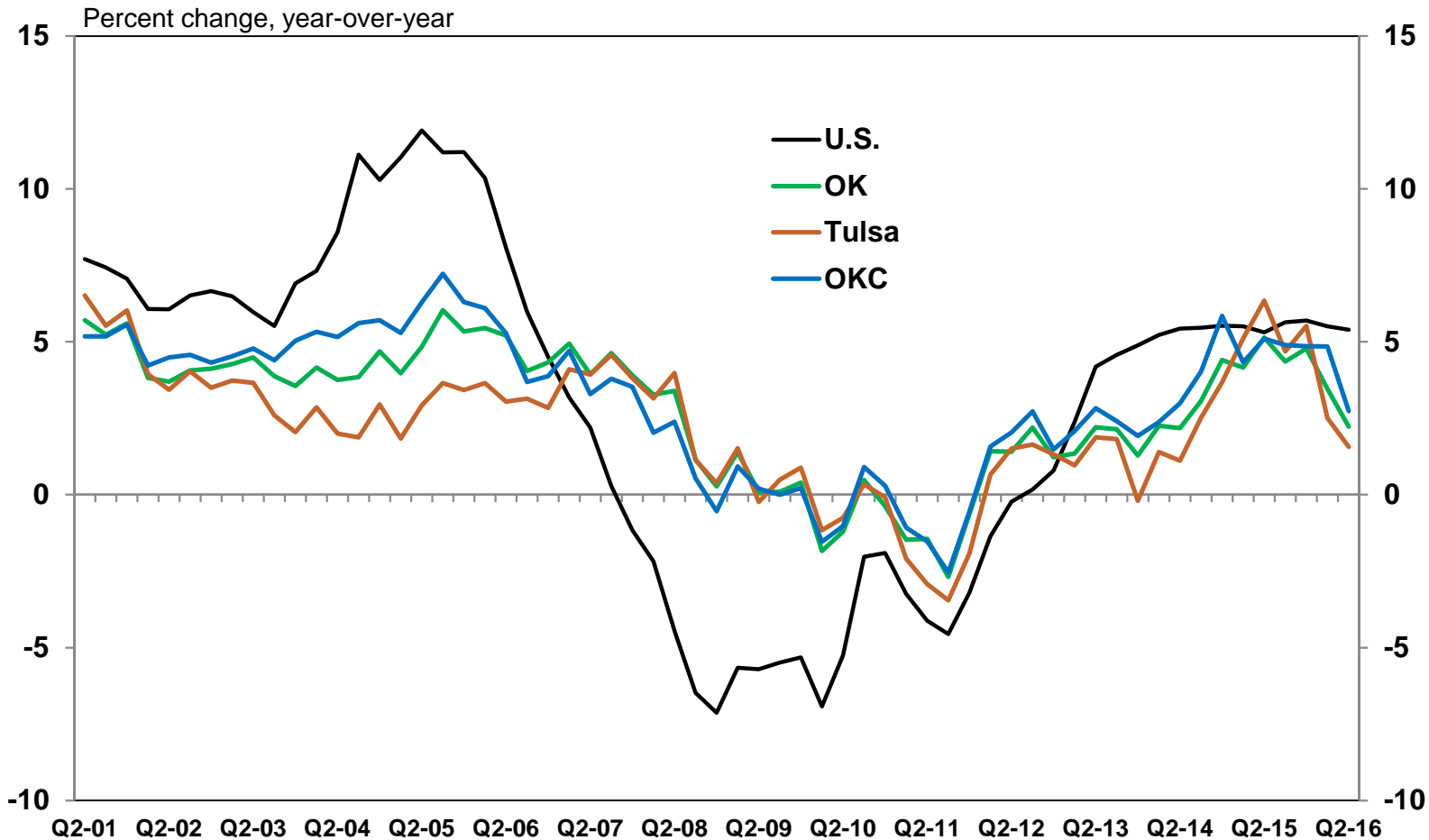
# Unemployment is below the national rate in some parts of Oklahoma but above in most

## July 2016 Unemployment Rates



# Home price growth in Oklahoma has slowed from its solid pace of recent years

FHFA Home Price Index  
Seasonally Adjusted

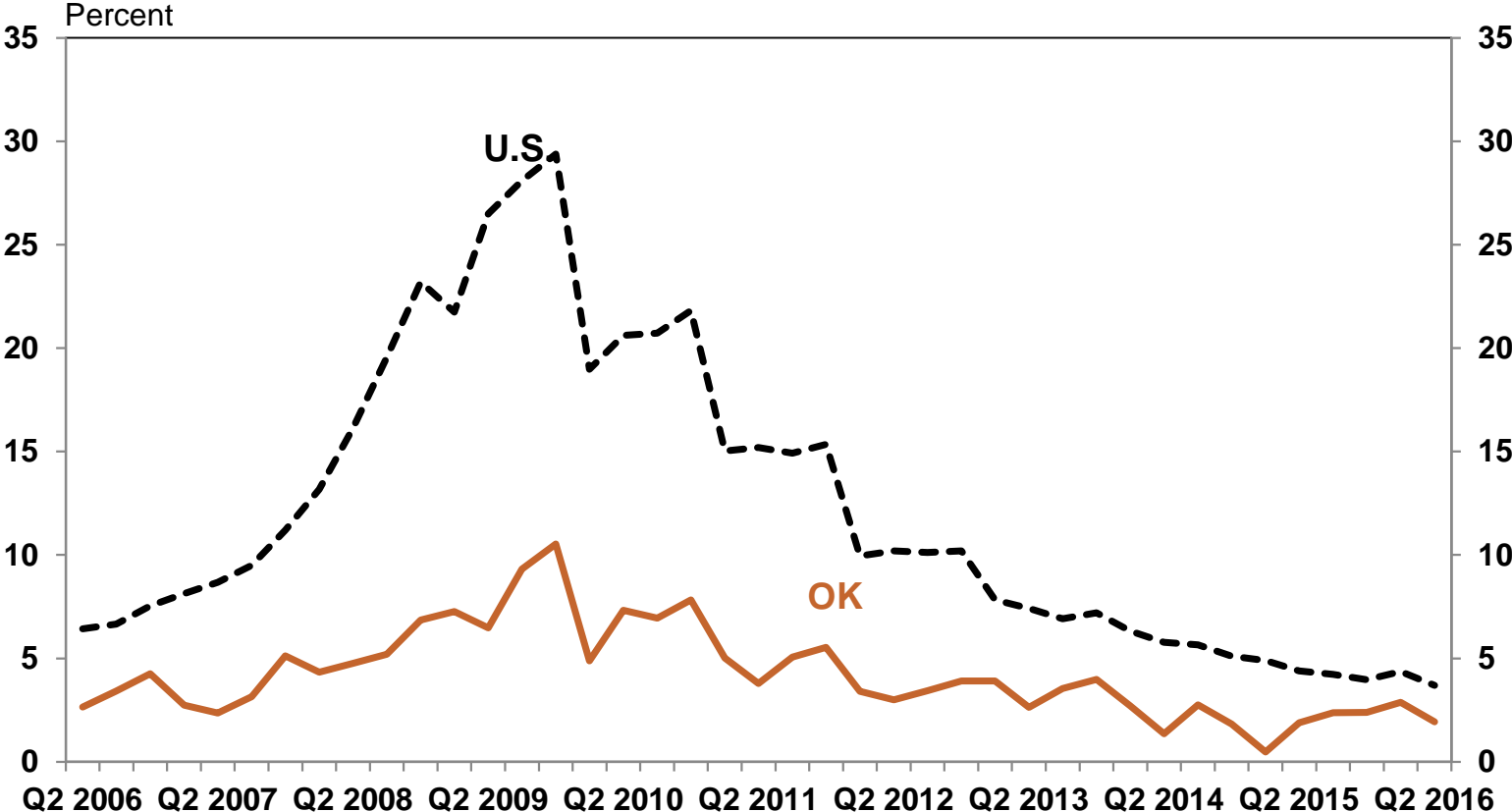


Source: FHFA



# Nearly all banks in Oklahoma remain profitable through mid-2016

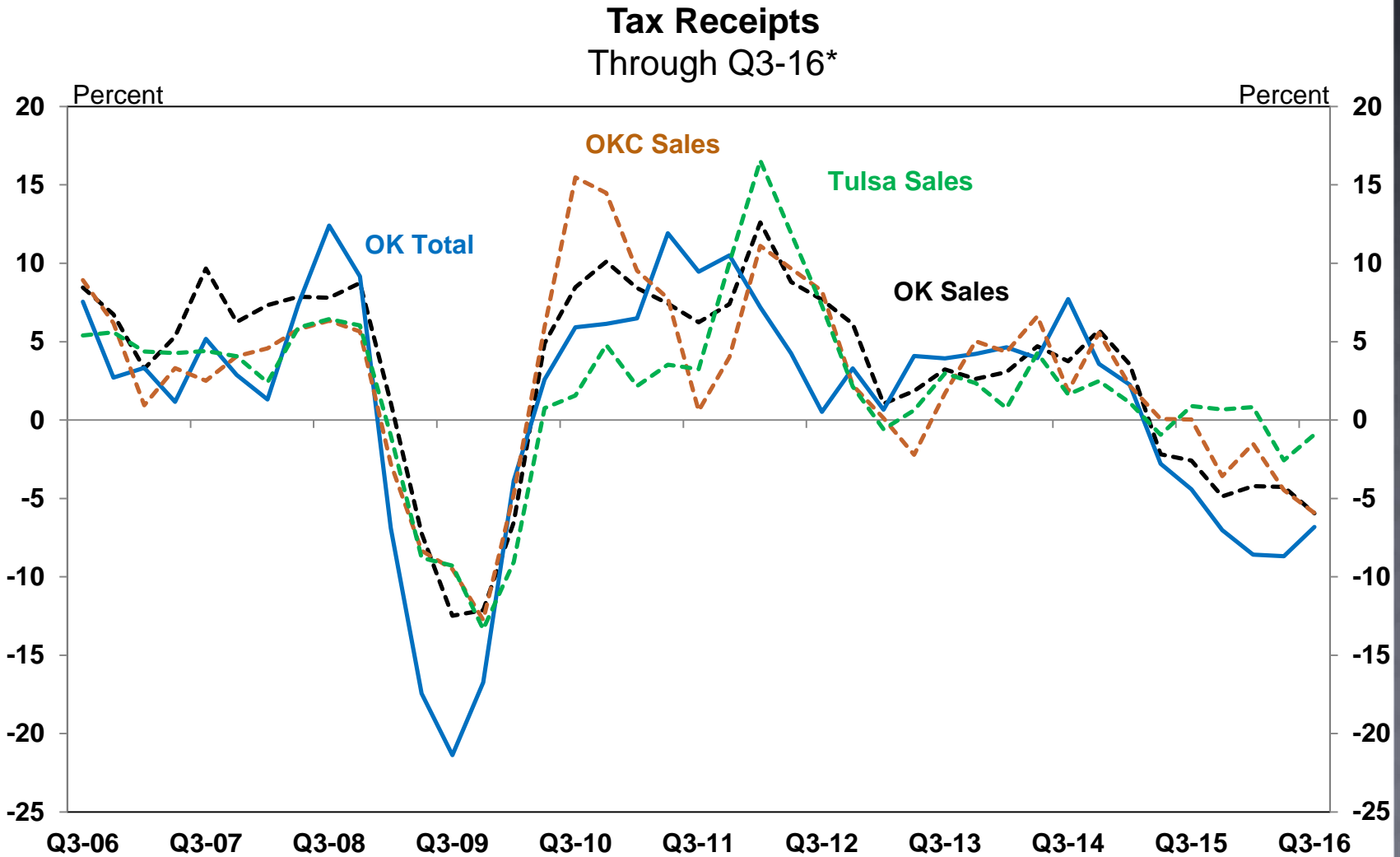
## Share of Banks Not Making a Profit Commercial Banks



Source: FDIC



# But tax revenues are down at the state and city levels, pressuring some organizations



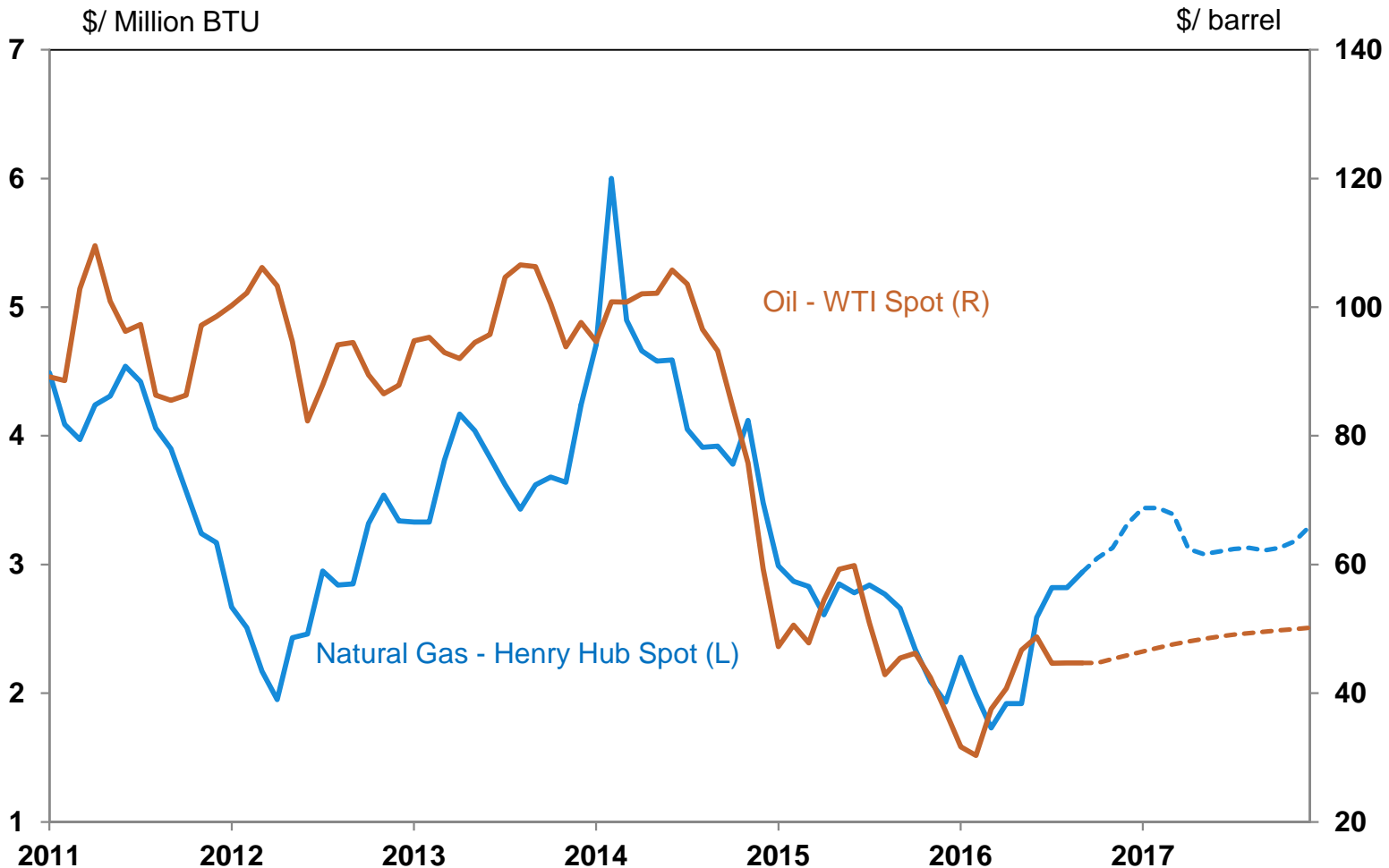
\*Q3-16 through August 2016

Source: OK Tax Commission



# Oil prices remain below \$50/barrel, while natural gas prices have improved a bit

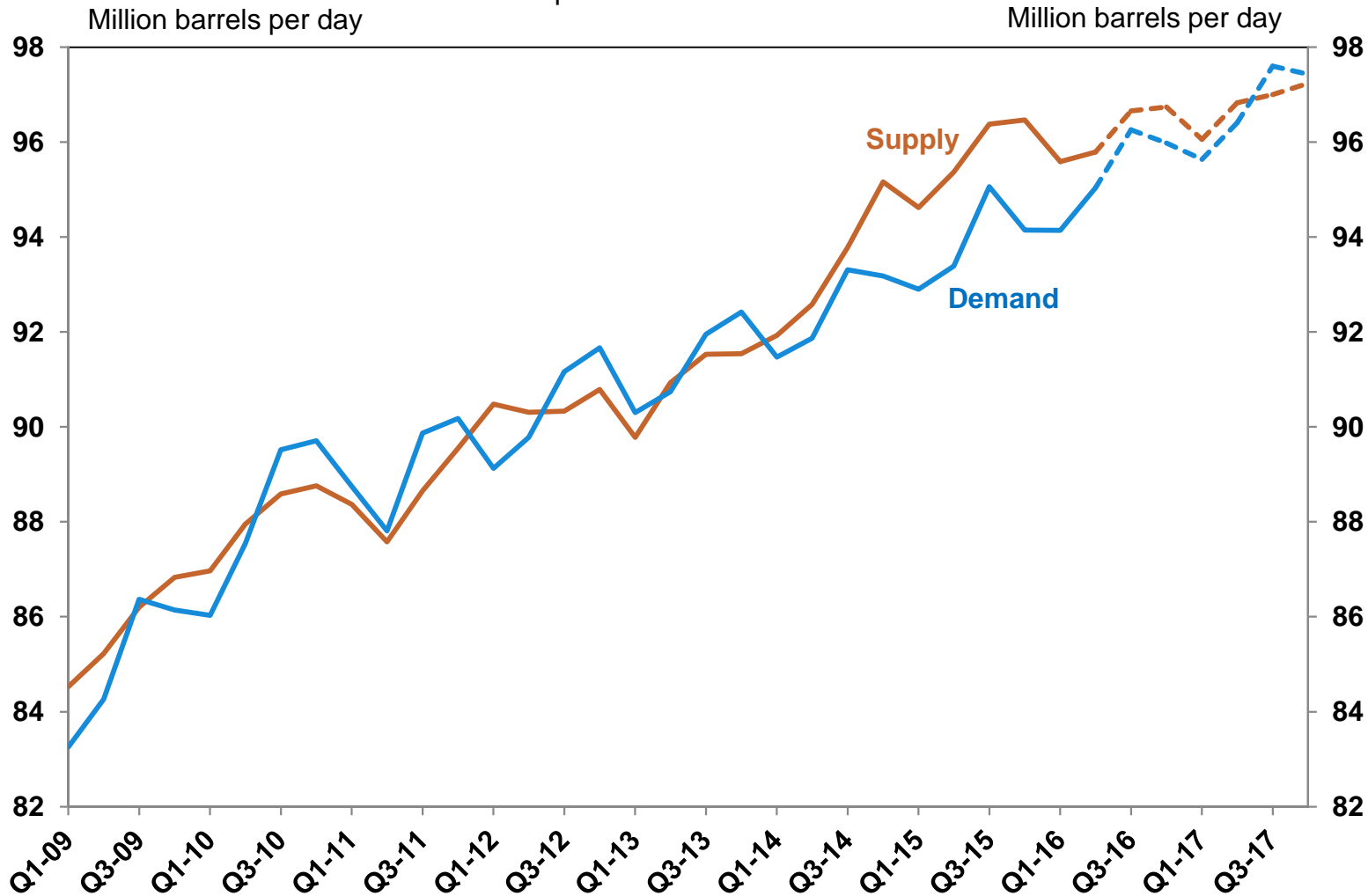
## Oil and Natural Gas Spot Prices



# World oil supply and demand are expected to remain out of balance a while longer

## Global Oil Supply and Demand

September 2016 Forecast

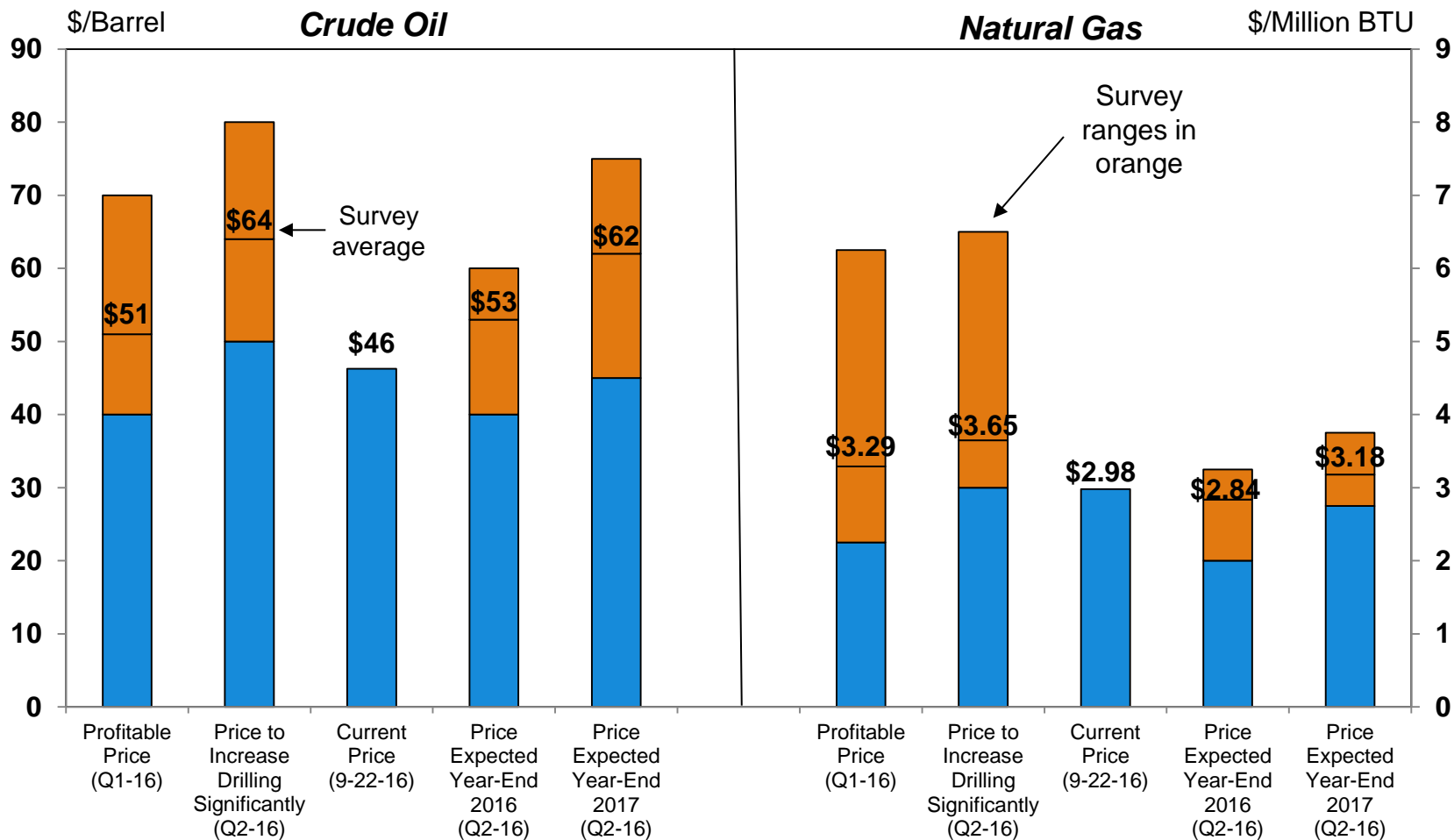


Source: EIA



# Firms say energy prices need to be higher for much increased activity to occur

Kansas City Fed Energy Survey Special Questions  
2016

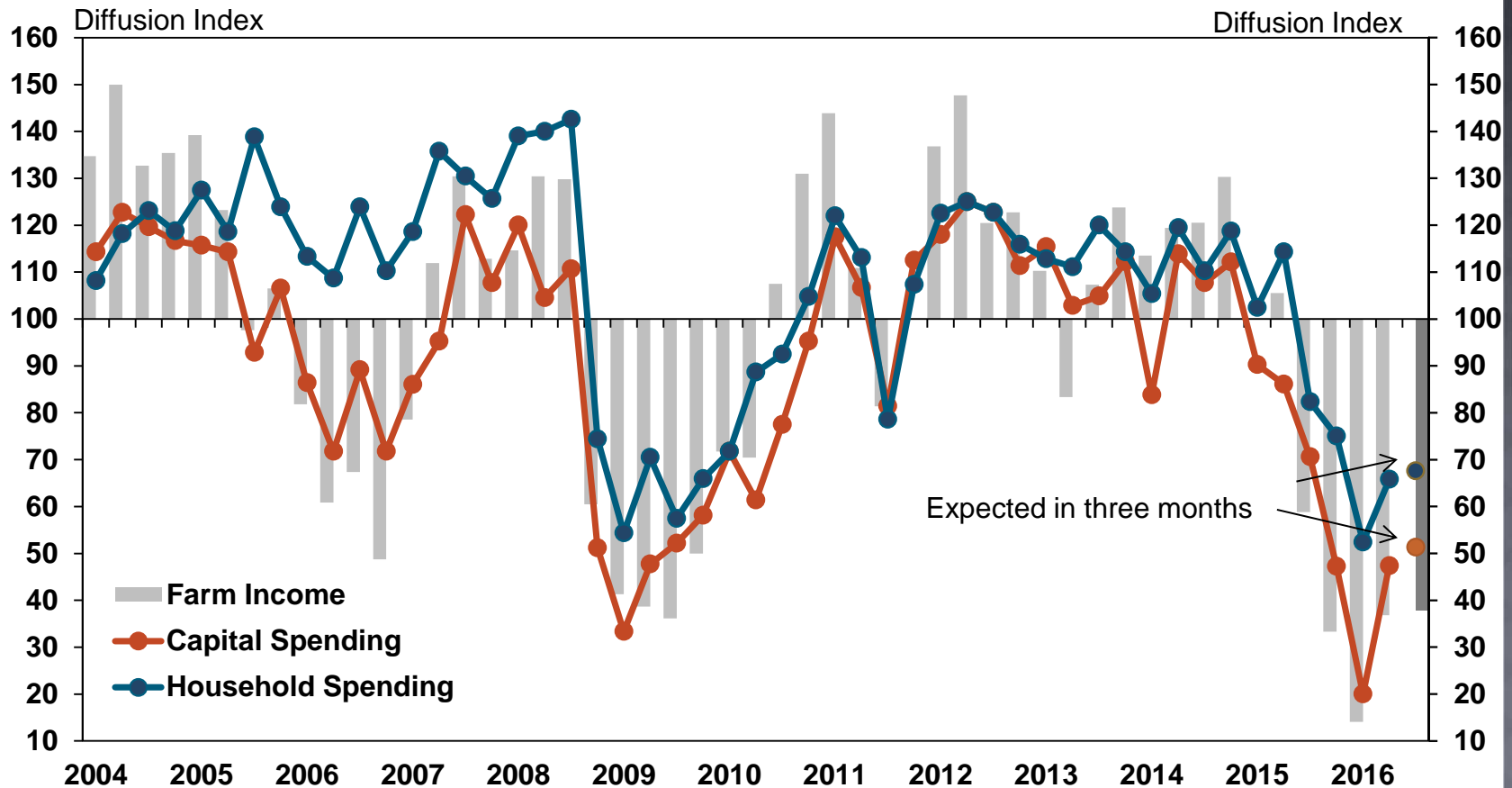


Source: FRBKC Energy Survey, Reuters



# Oklahoma farm income and spending fell sharply in Q1 2016 but steadied a bit in Q2

## Oklahoma Farm Income



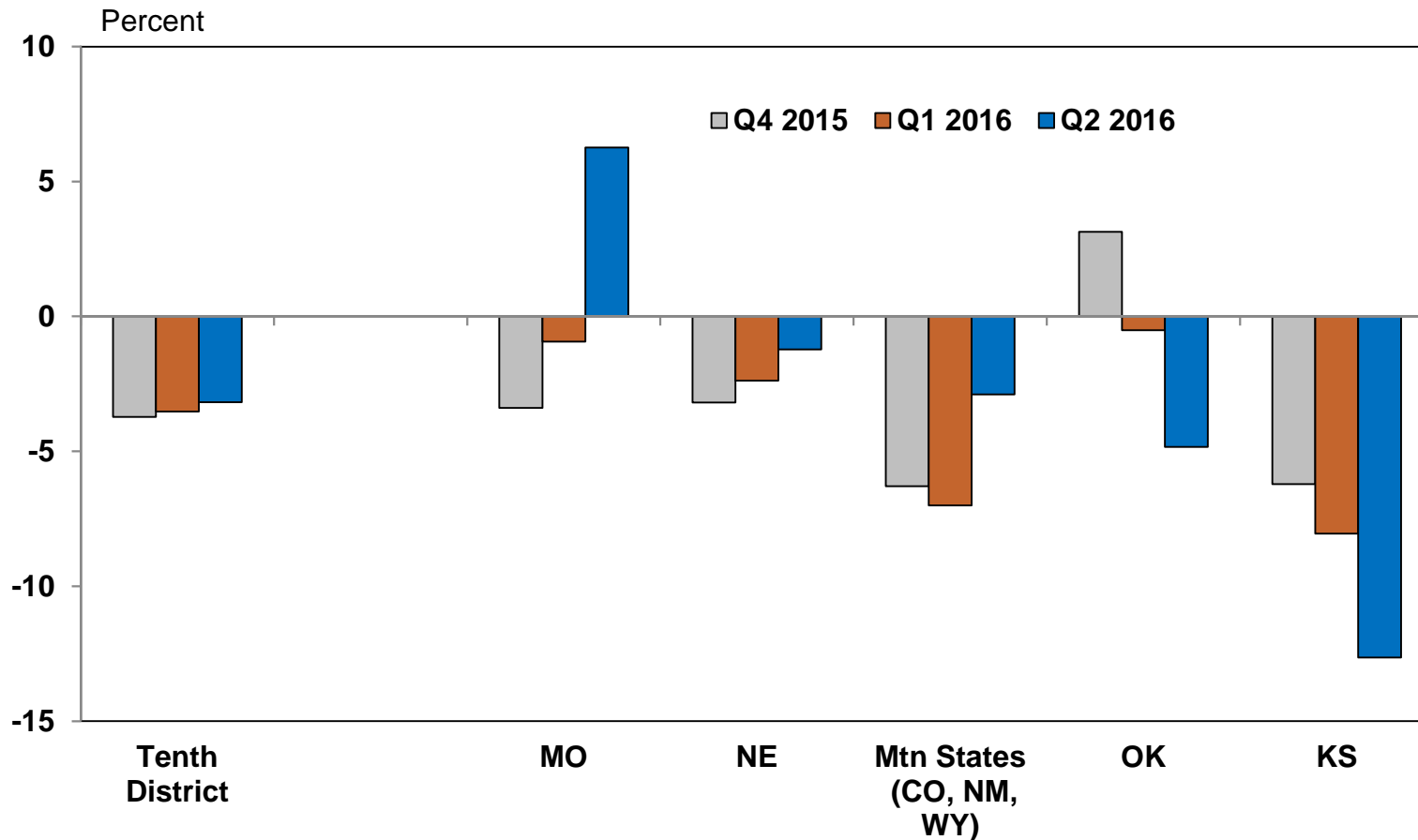
Source: Federal Reserve Bank of Kansas City, Survey of Ag Credit Conditions





# However, farmland values fell in Q2 after holding up better than the region last year

**Tenth District Farmland Values**  
Percent Change, Year-over-year



# Summary

- The U.S. economy continues to grow, and the Fed is discussing raising interest rates
- Oklahoma's economy has been hurt by low commodity prices, as well as spillover to some other related industries
- However, conditions in real estate, banking, and labor markets have held on fairly well



# Questions?

For regular updates and analysis of the Oklahoma economy, subscribe to our quarterly **Oklahoma Economist** publication at:

[www.kansascityfed.org/publications/research/oke/](http://www.kansascityfed.org/publications/research/oke/)

For more analysis on regional manufacturing conditions, subscribe to our monthly **Manufacturing Survey** at:

<https://www.kansascityfed.org/research/indicatorsdata/mfg>

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