

U.S. and Oklahoma Economic Outlook

Oklahoma Banking Association Emerging Leaders
August 17, 2018

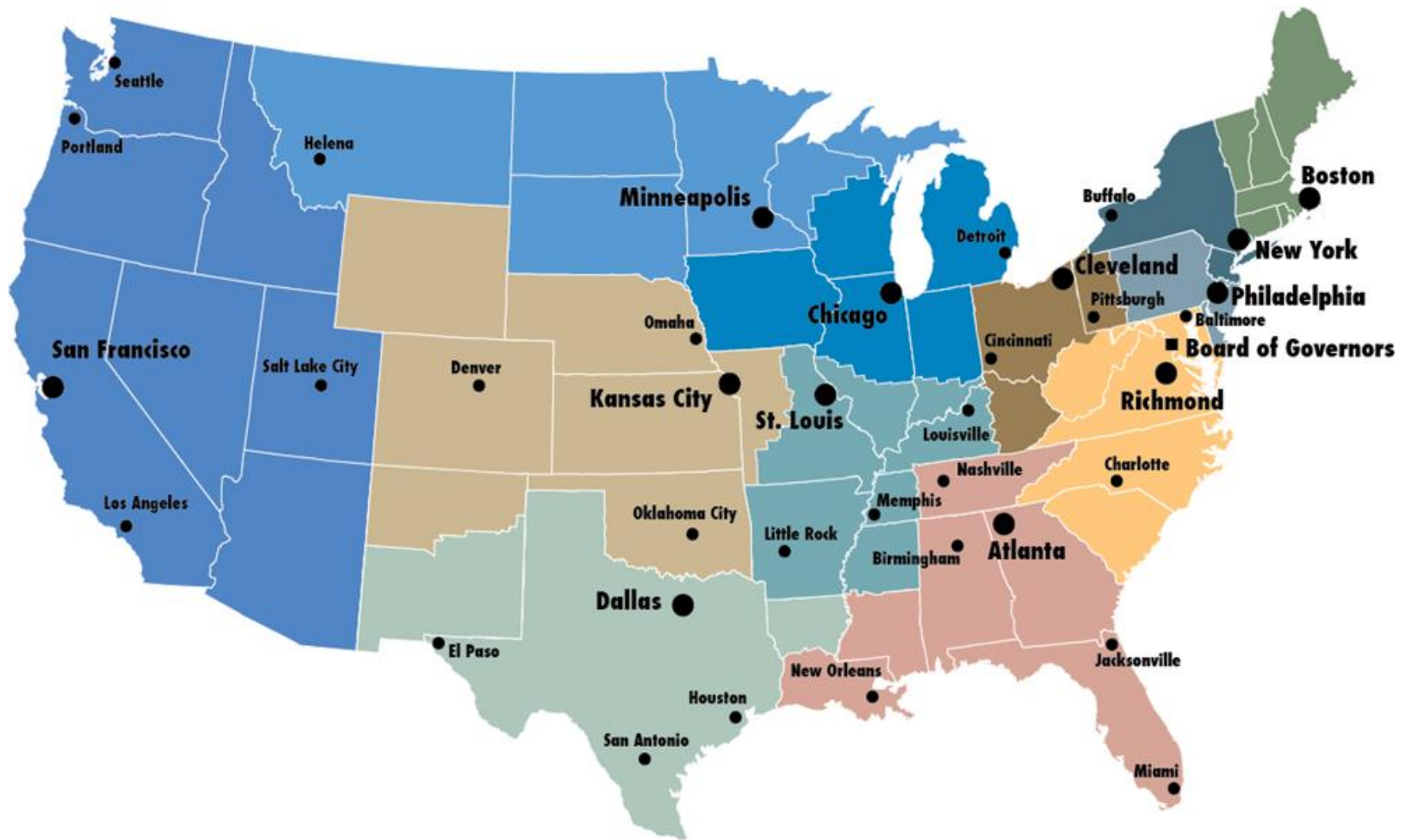
Chad Wilkerson

Oklahoma City Branch Executive and Economist

*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.



Structure & Functions of the Federal Reserve



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

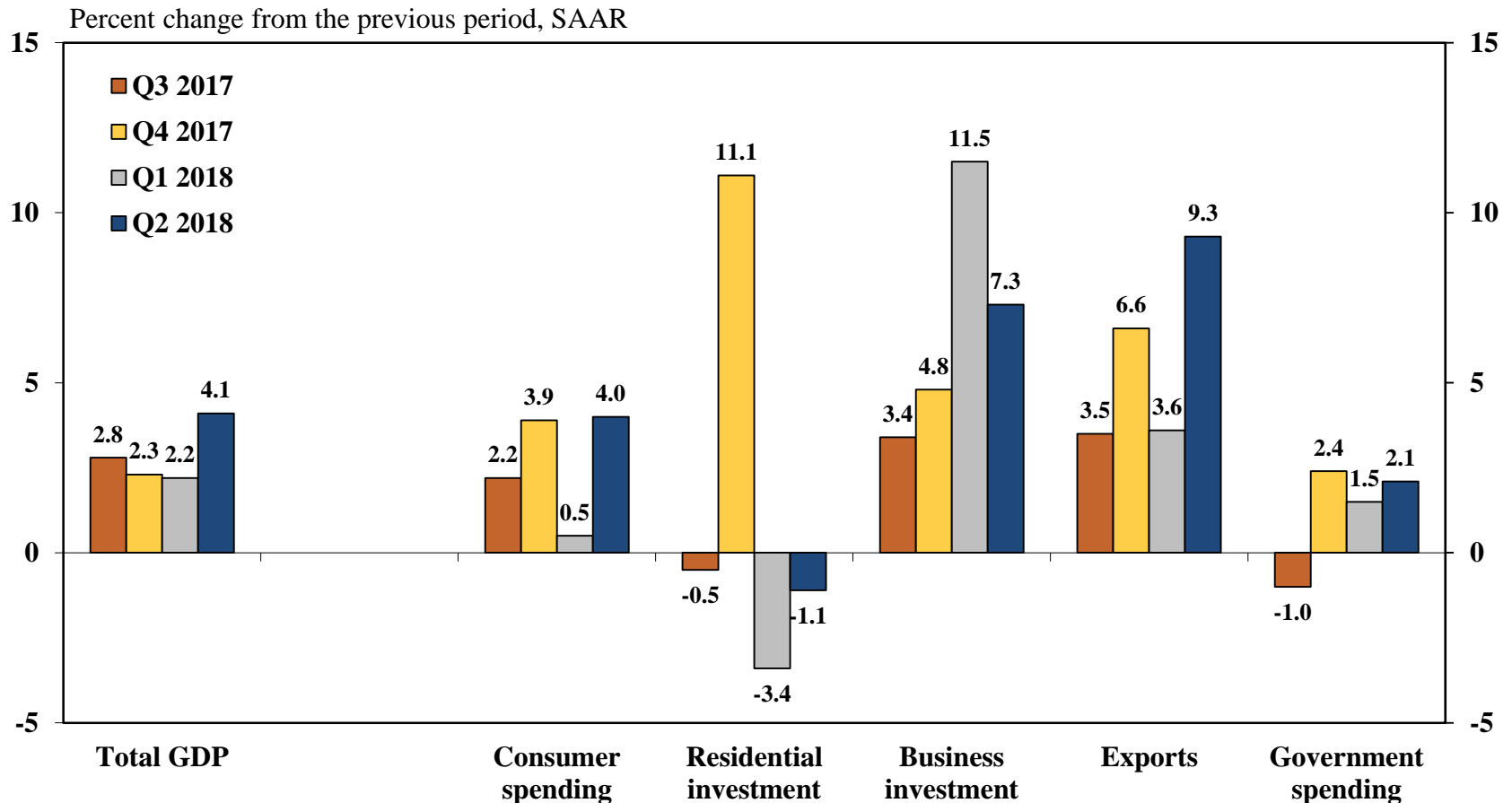
- **Functions and purposes ~ 45 staff**
 - Research on U.S. and Oklahoma economies; energy and manufacturing sectors
 - Economic and financial education outreach, including to low/moderate income
 - Examinations of Oklahoma financial institutions (~50 banks, ~175 holding cos.)
- **2018 OKC Fed Branch Board of Directors**
 - **Clint Abernathy (chair)**, Owner, Abernathy Farms, Inc., Altus
 - **Susan Chapman Plumb**, Board Chair & CEO, Bank of Cherokee County, Tahlequah
 - **Michael Coffman**, CEO (retired), Panhandle Oil & Gas, Inc., 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**, Vice-Chair & CEO, Webco Industries, Sand Springs
- **Oklahomans on Kansas City Fed head office Board**
 - **Rose Washington (chair)**, Exec. Director, Tulsa Econ. Dev. Corp., Tulsa
 - **Doug Stussi**, EVP & CFO, Love's Travel Stops & Country Stores, OKC

The U.S. Economy and Monetary Policy



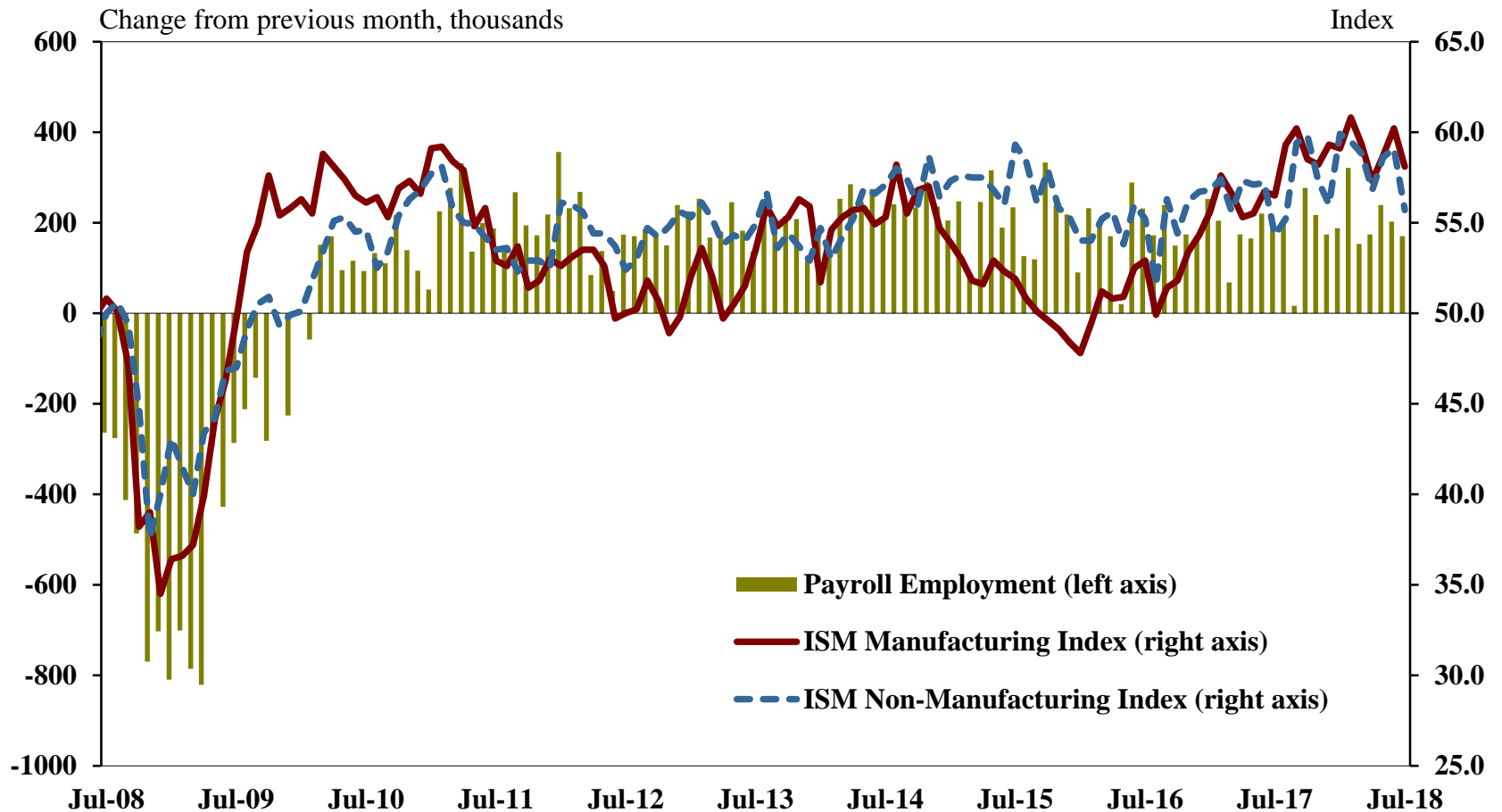
U.S. GDP growth was strong in Q2, following above-trend solid growth in previous quarters

Growth in U.S. Real GDP and Its Components



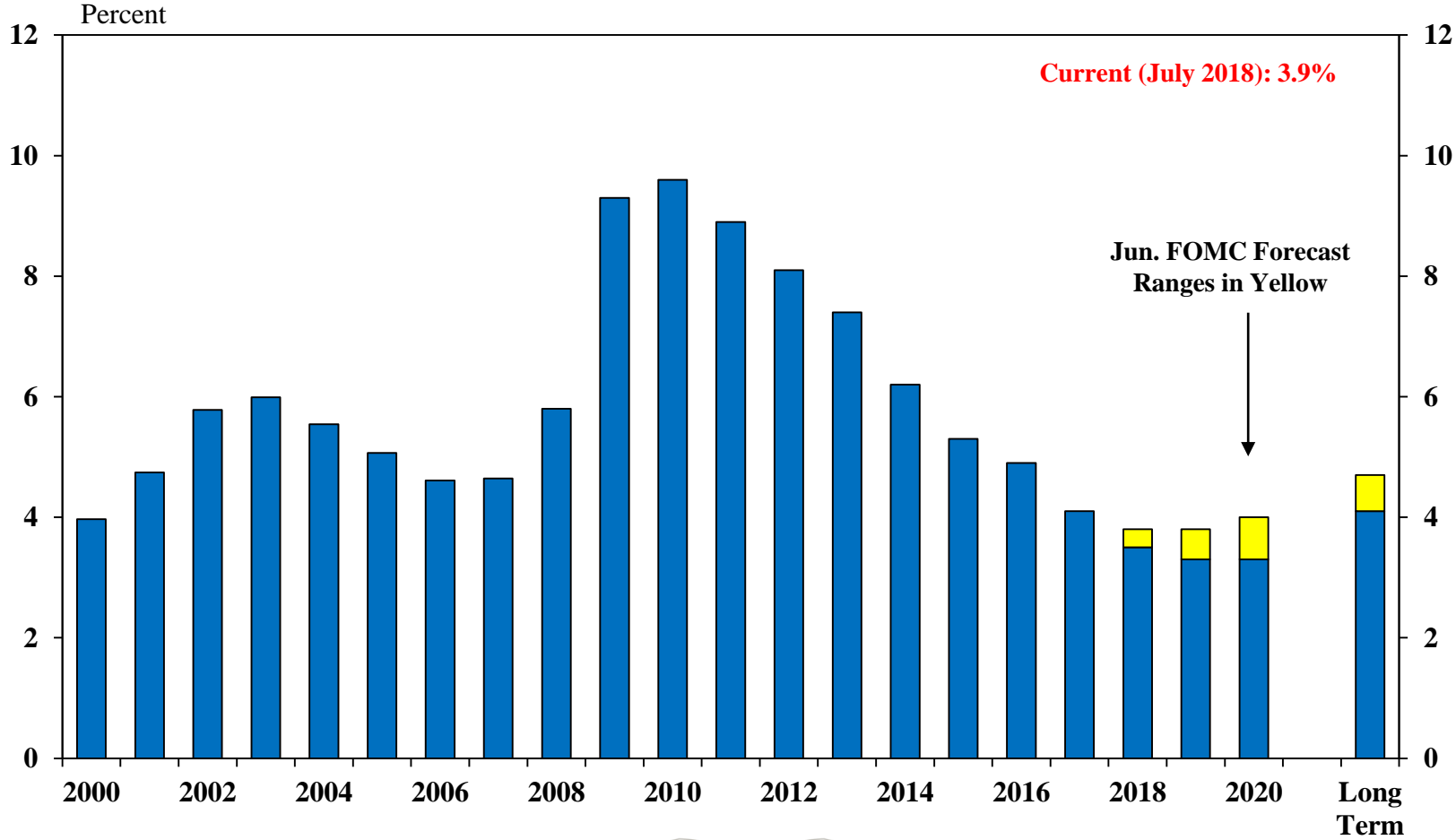
Monthly data on U.S. business activity and also show economic growth remains strong in mid-2018

U.S. Payroll Employment and Business Indexes



“The labor market has continued to strengthen...job gains have been strong and the unemployment rate has declined.”

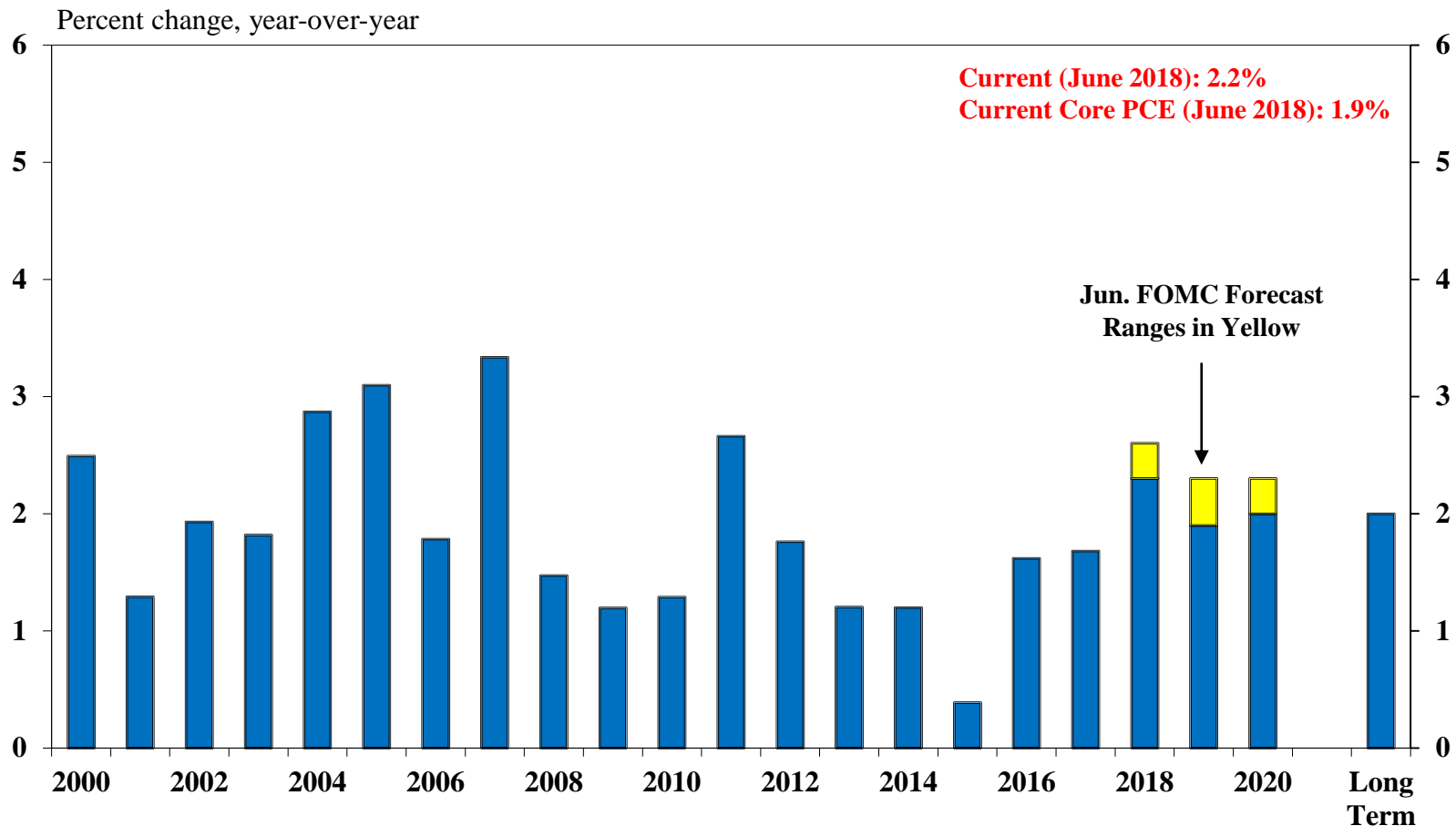
Unemployment Rate Seasonally Adjusted



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

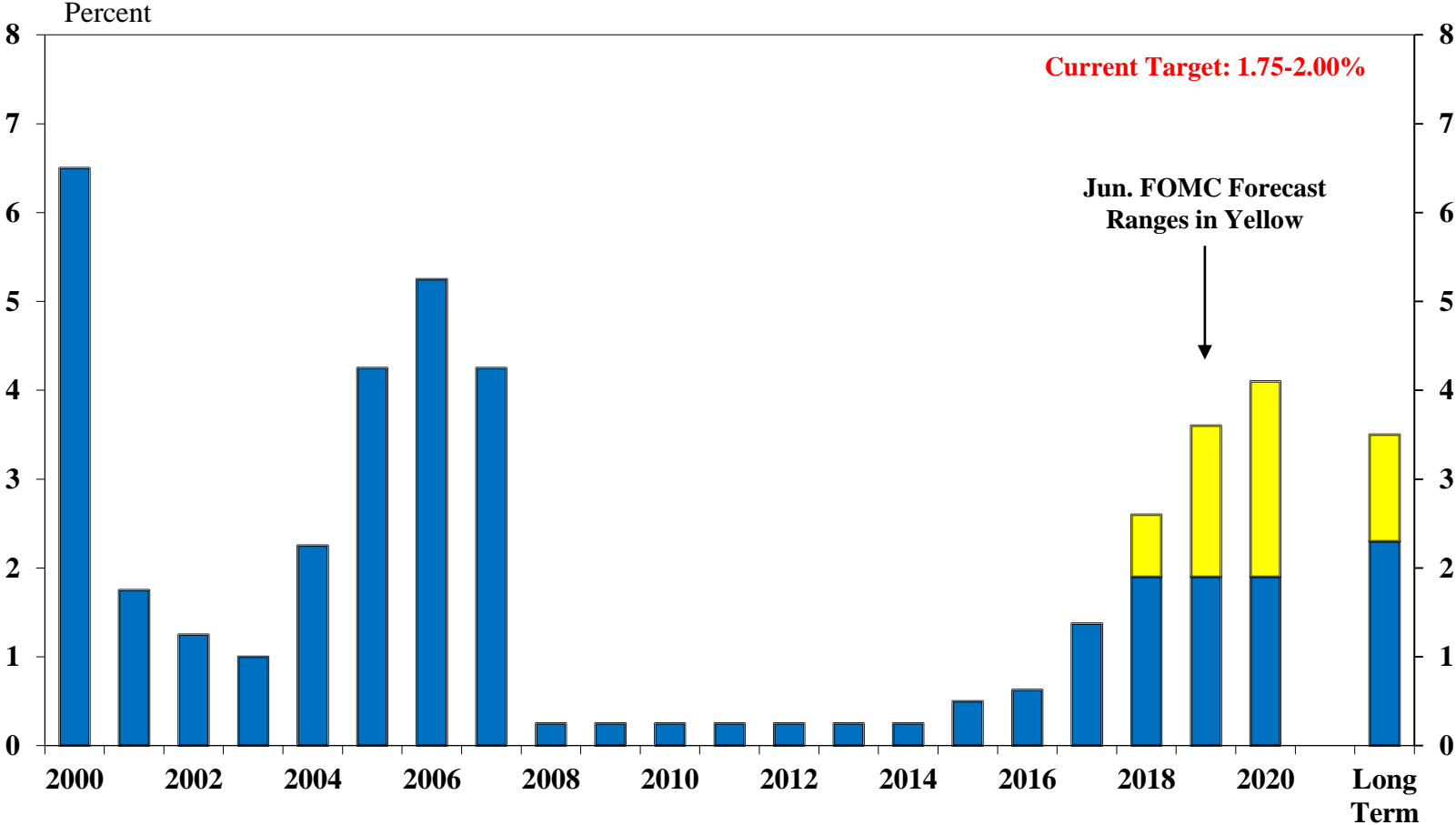
“On a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2 percent.”

PCE Inflation Index



“The [FOMC] expects that further gradual increases...for the federal funds rate will be consistent with sustained expansion...”

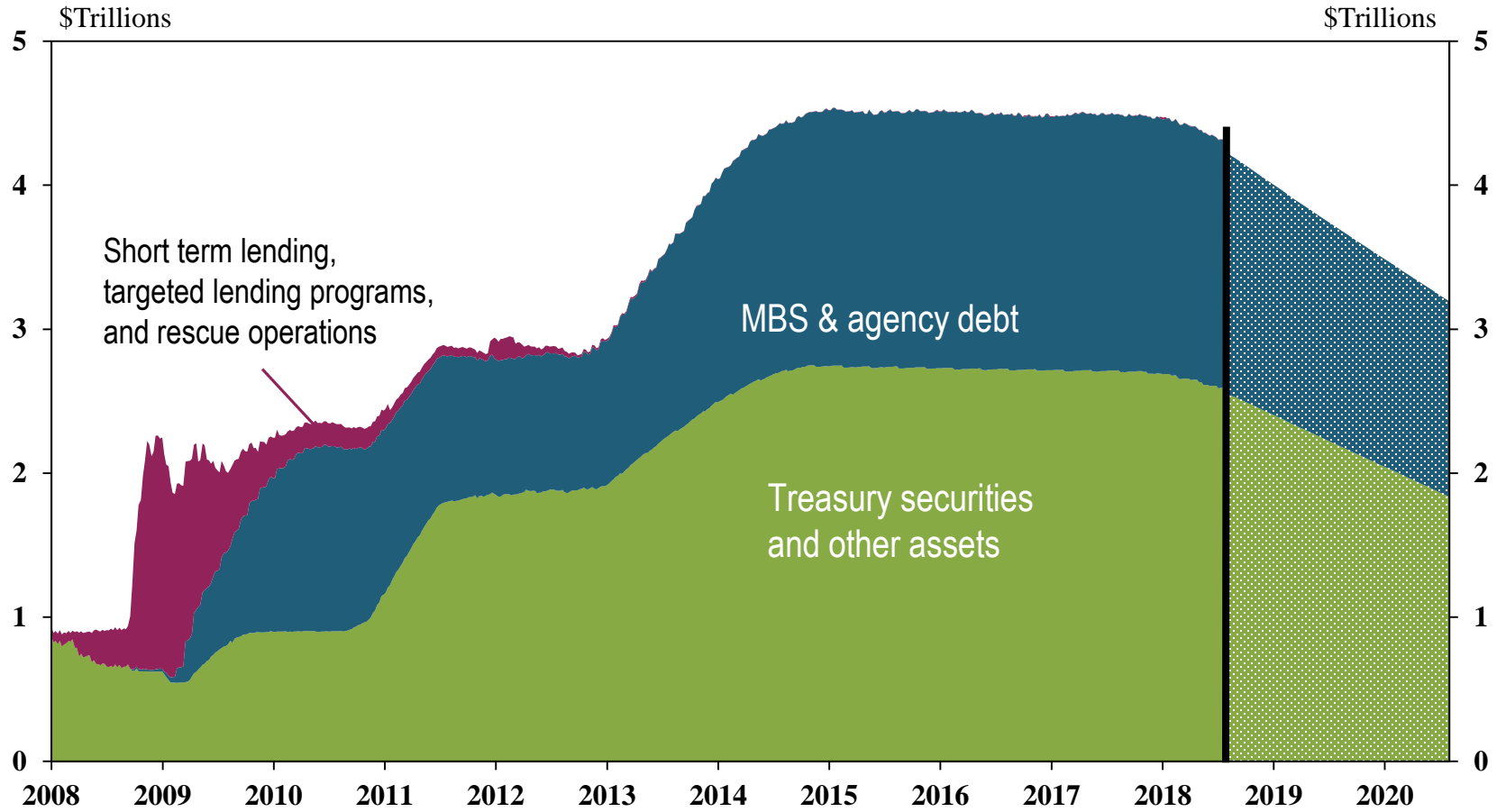
Federal Funds Rate Year-End Target



Sources: Federal Reserve Board, FOMC

The Fed has also begun to reduce its balance sheet

Federal Reserve Balance Sheet



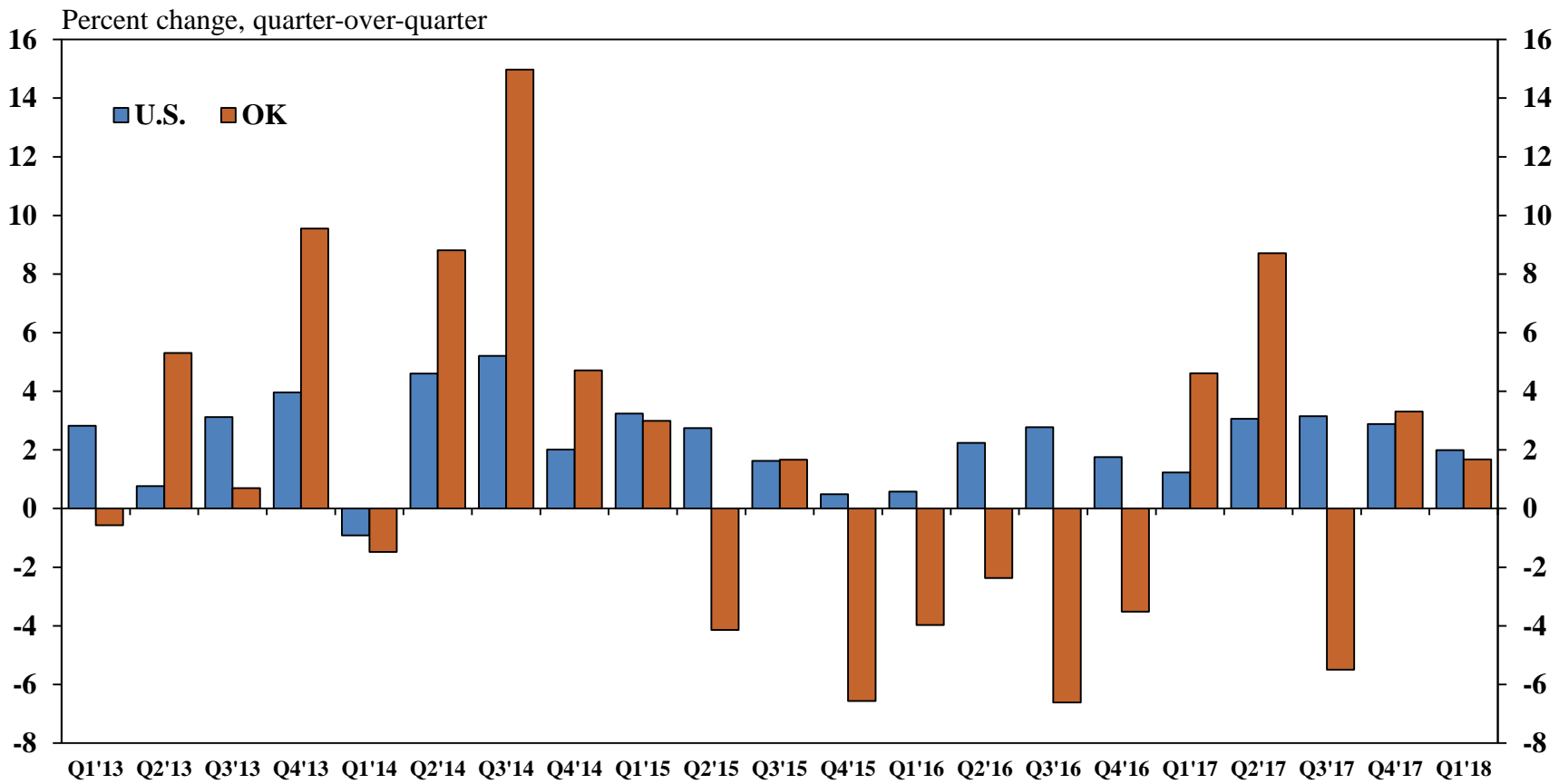
Source: Federal Reserve Board

Trends in the Oklahoma Economy



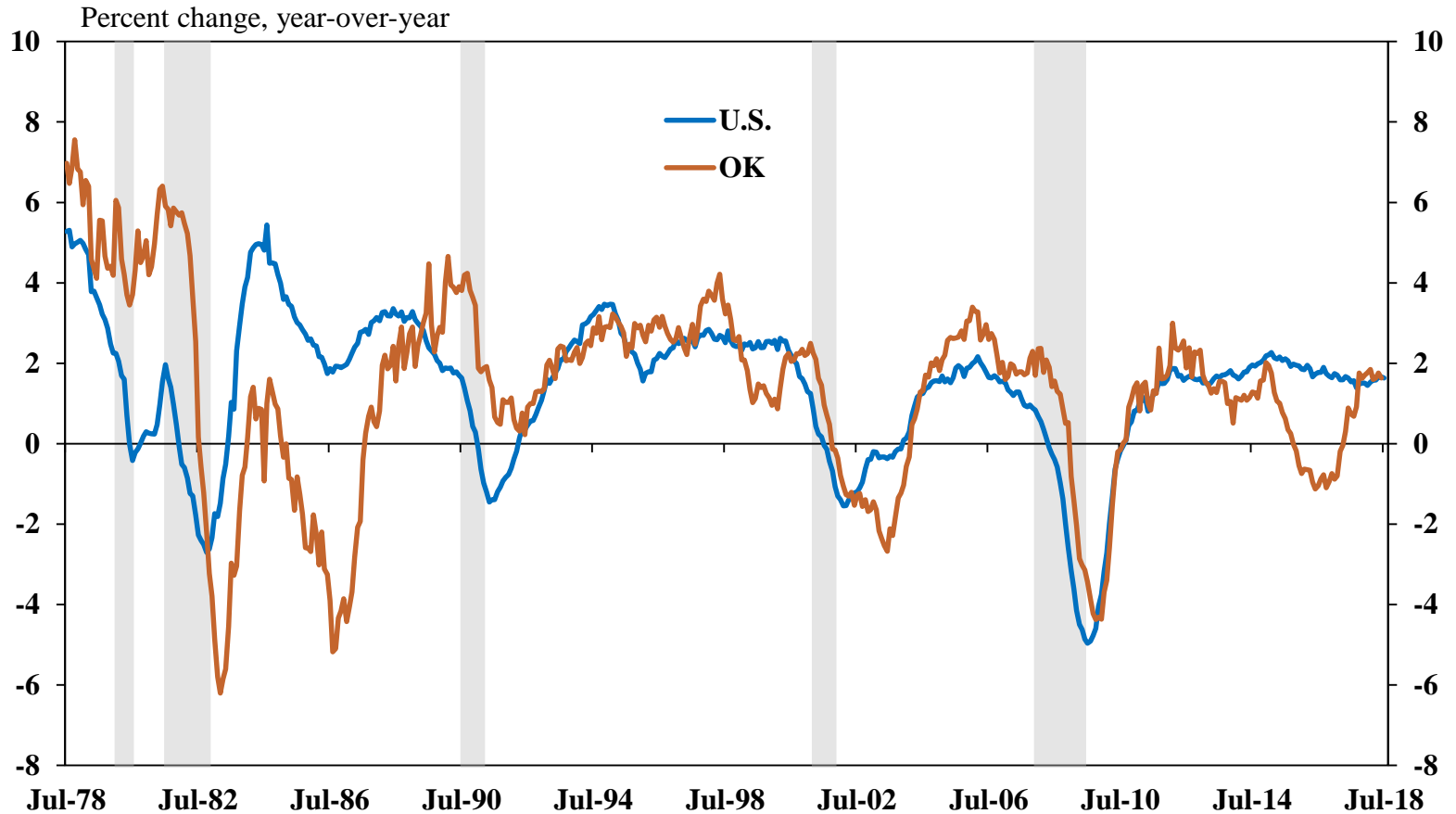
Oklahoma GDP dropped considerably in 2015-16, after oil prices fell, but has mostly grown solidly since

Real Gross Domestic Product



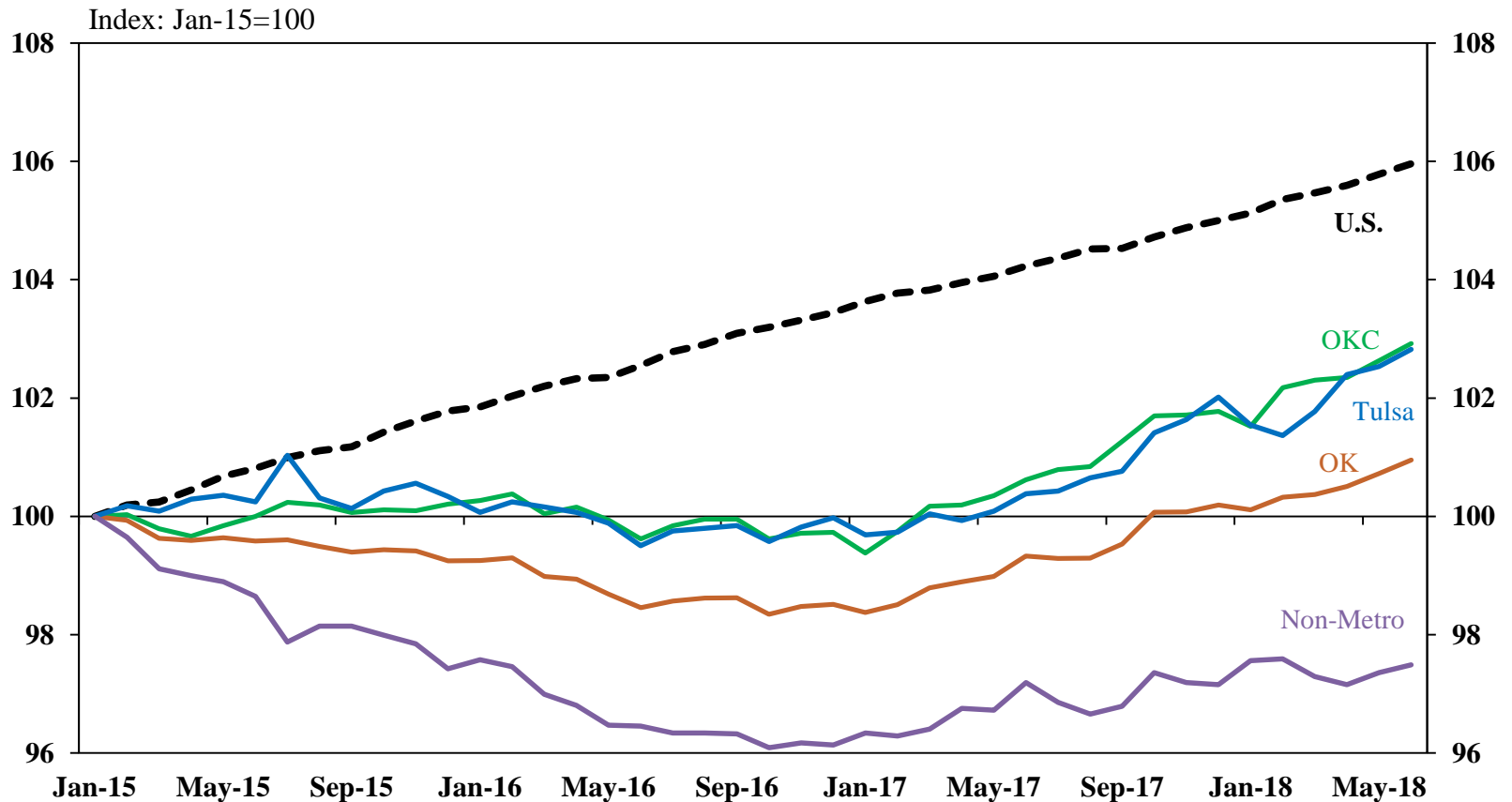
In 2018, state job growth has matched the nation after lagging in 2015-16 the most since the 1980s

Payroll Employment Growth



Employment levels are trending up in the metro areas, but non-metro is still below early 2015 levels

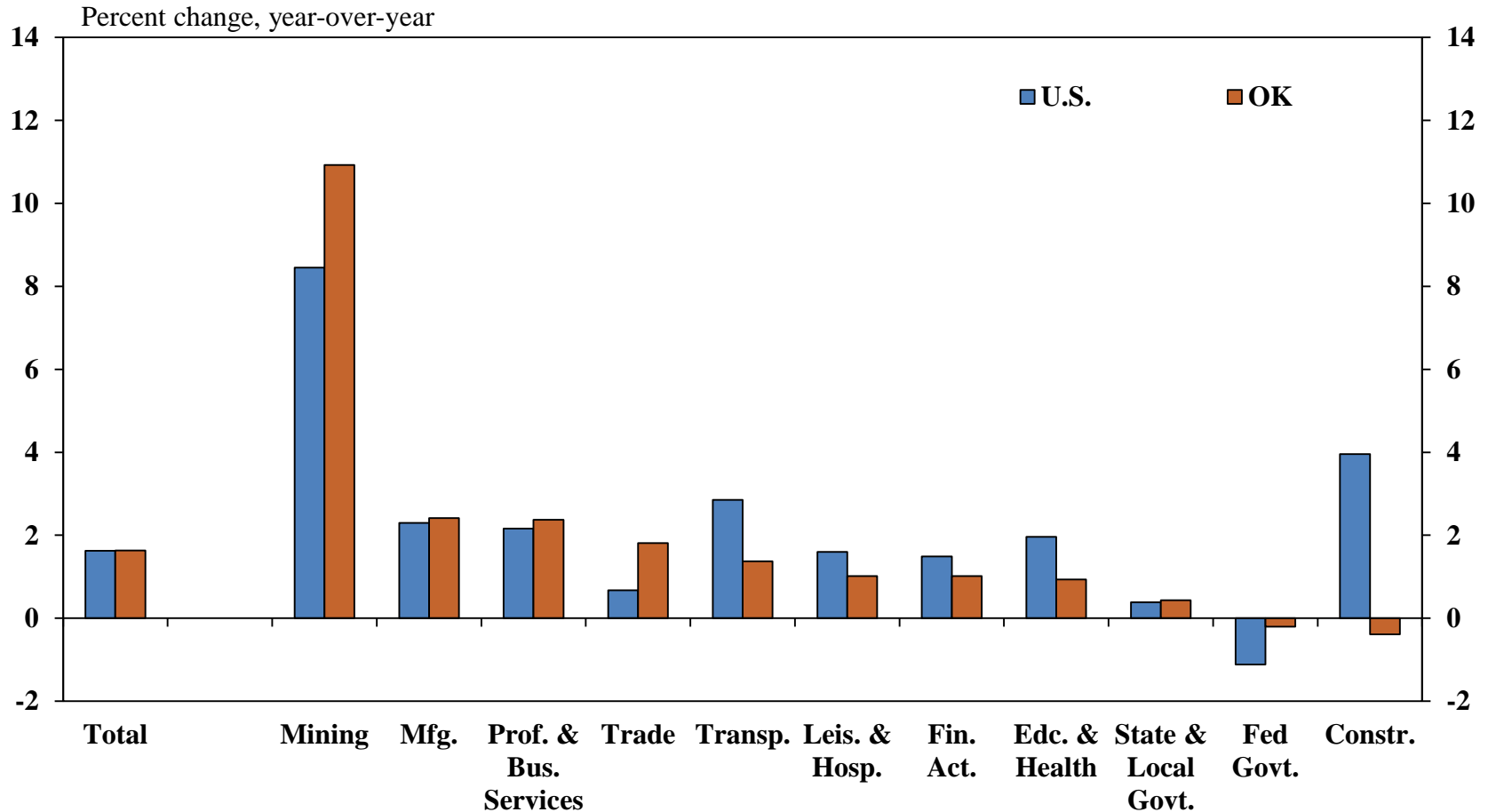
Level of Payroll Employment
Through June 2018



State job gains the past year have been led by mining (oil & gas), and most sectors have added workers

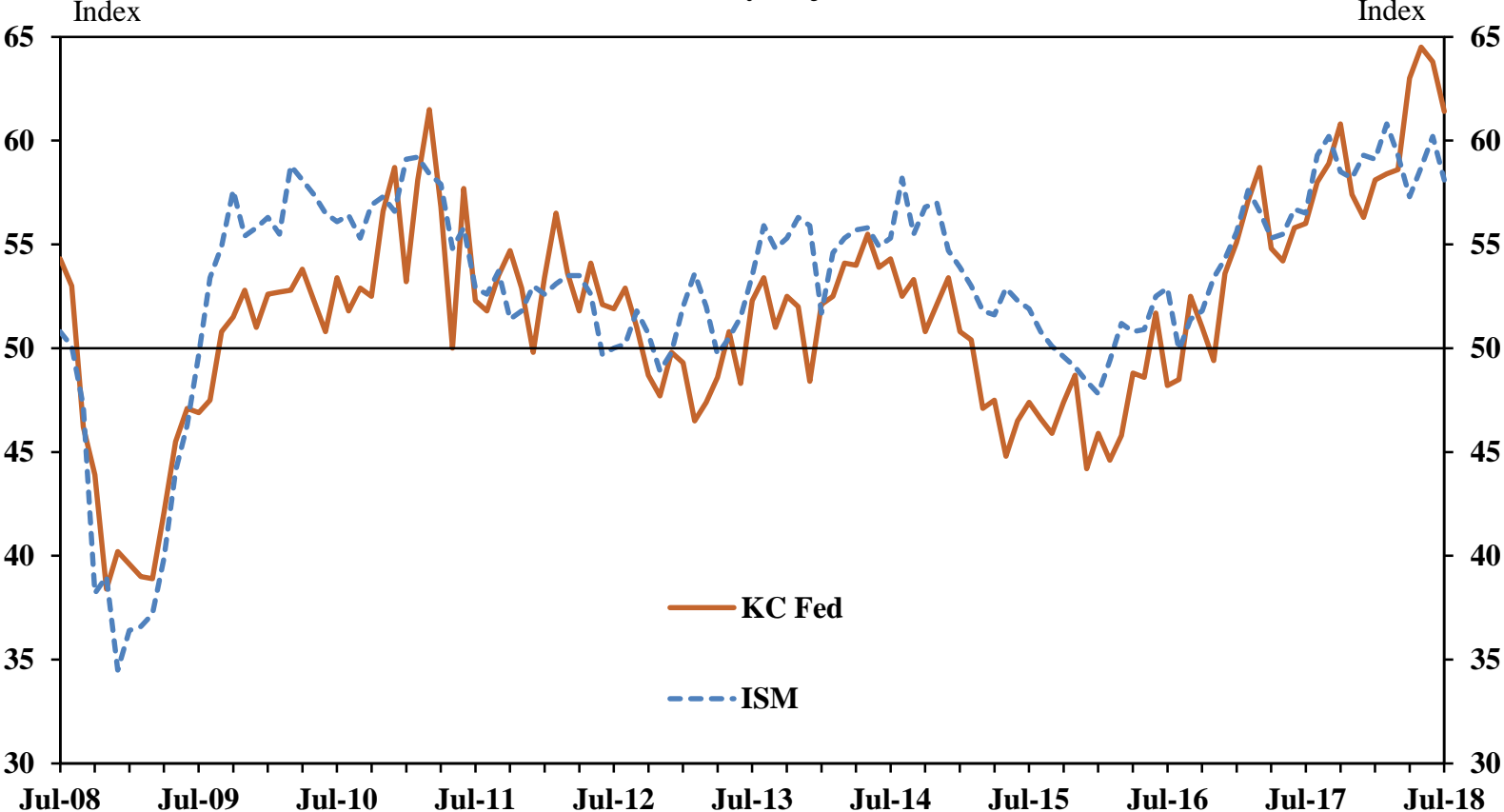
Oklahoma Job Growth by Industry

June 2018



Manufacturing activity in the Tenth Fed District has posted record highs in 2018, even with trade concerns

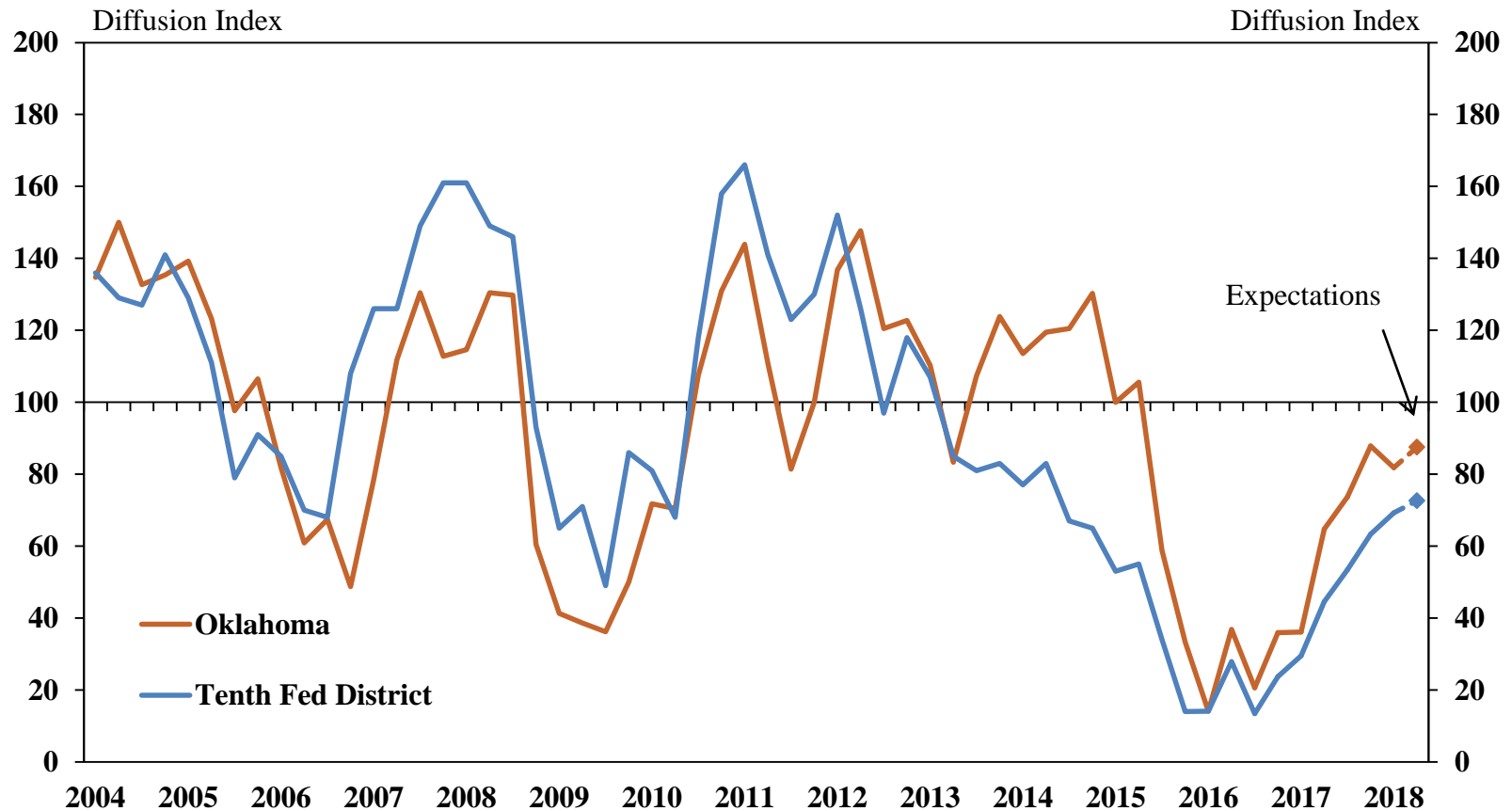
Monthly Manufacturing Composite Indexes Seasonally Adjusted



Source: Institute for Supply Management, FRBKC

The Oklahoma agriculture sector has shown some signs of stabilizing, with expectations up slightly

Farm Income Indexes

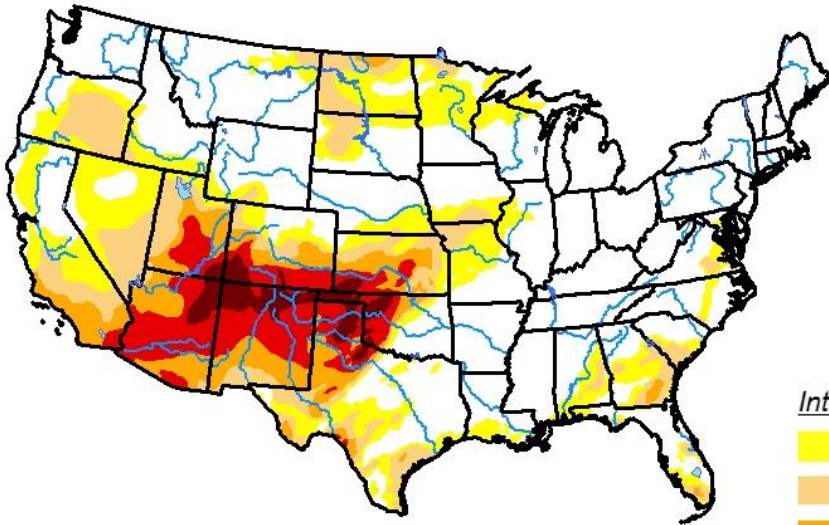


Extreme drought in western Oklahoma has also eased somewhat lately, but the state mostly remains dry

U.S. Drought Monitor

Continental U.S. (CONUS)

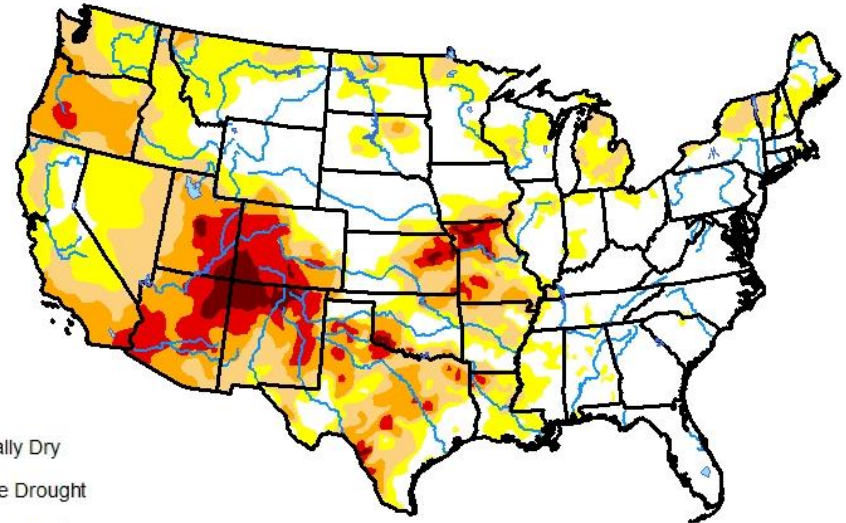
May 15, 2018



U.S. Drought Monitor

Continental U.S. (CONUS)

August 14, 2018



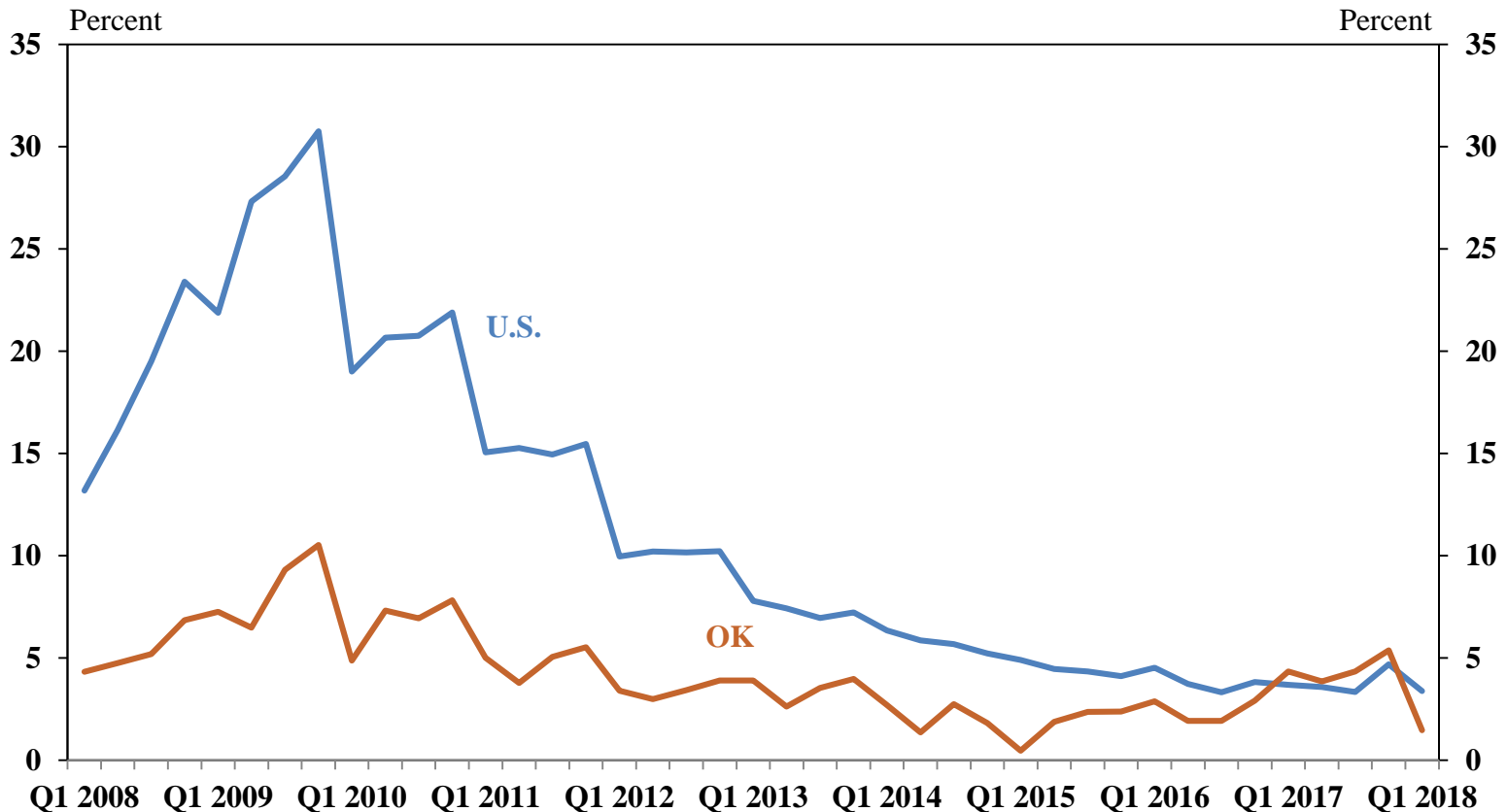
Intensity:



Source: U.S. Department of Agriculture

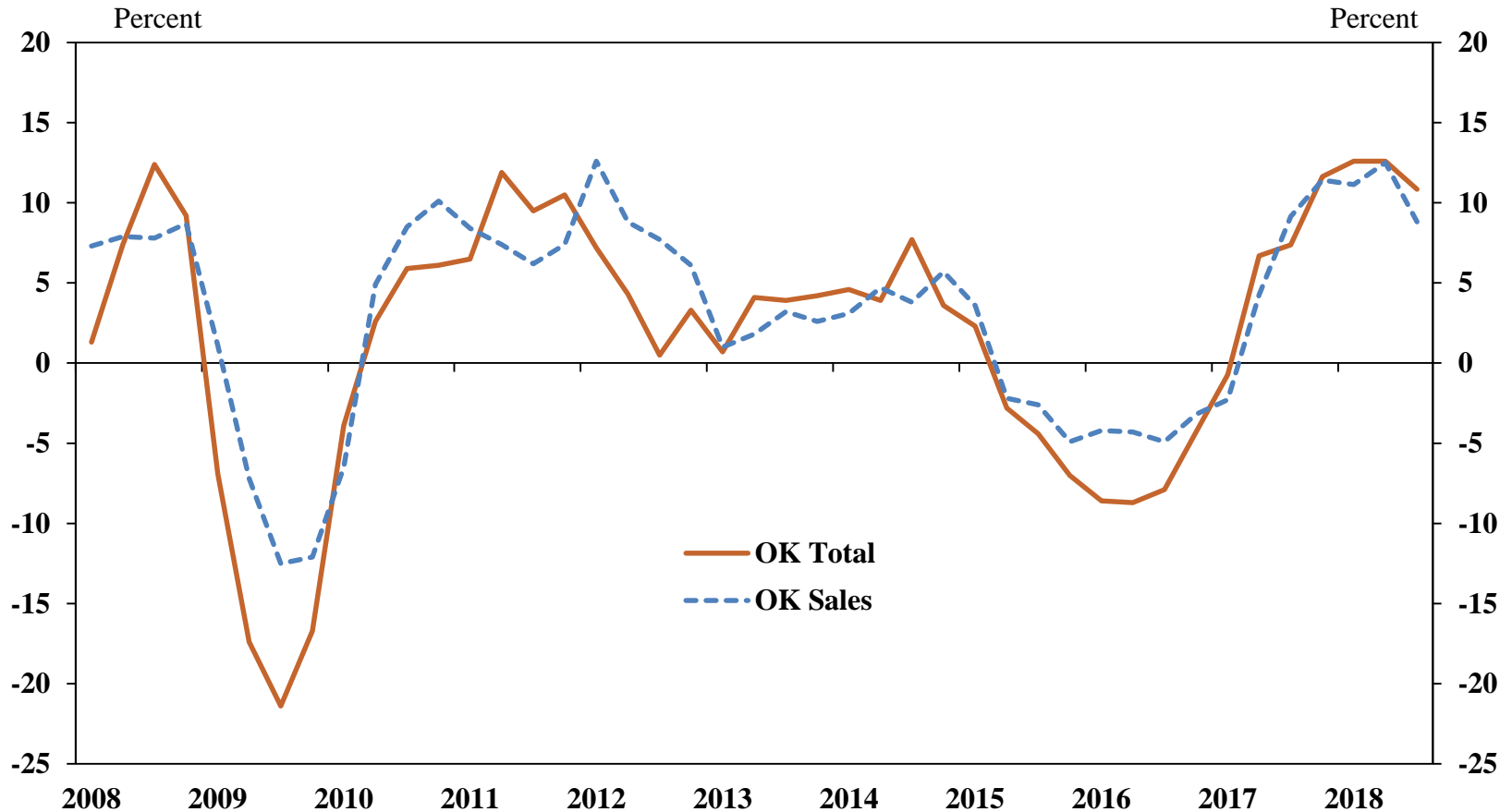
Banking conditions in Oklahoma remain very good despite the 2015-16 economic slowdown

Share of Banks Not Making a Profit
Commercial Banks



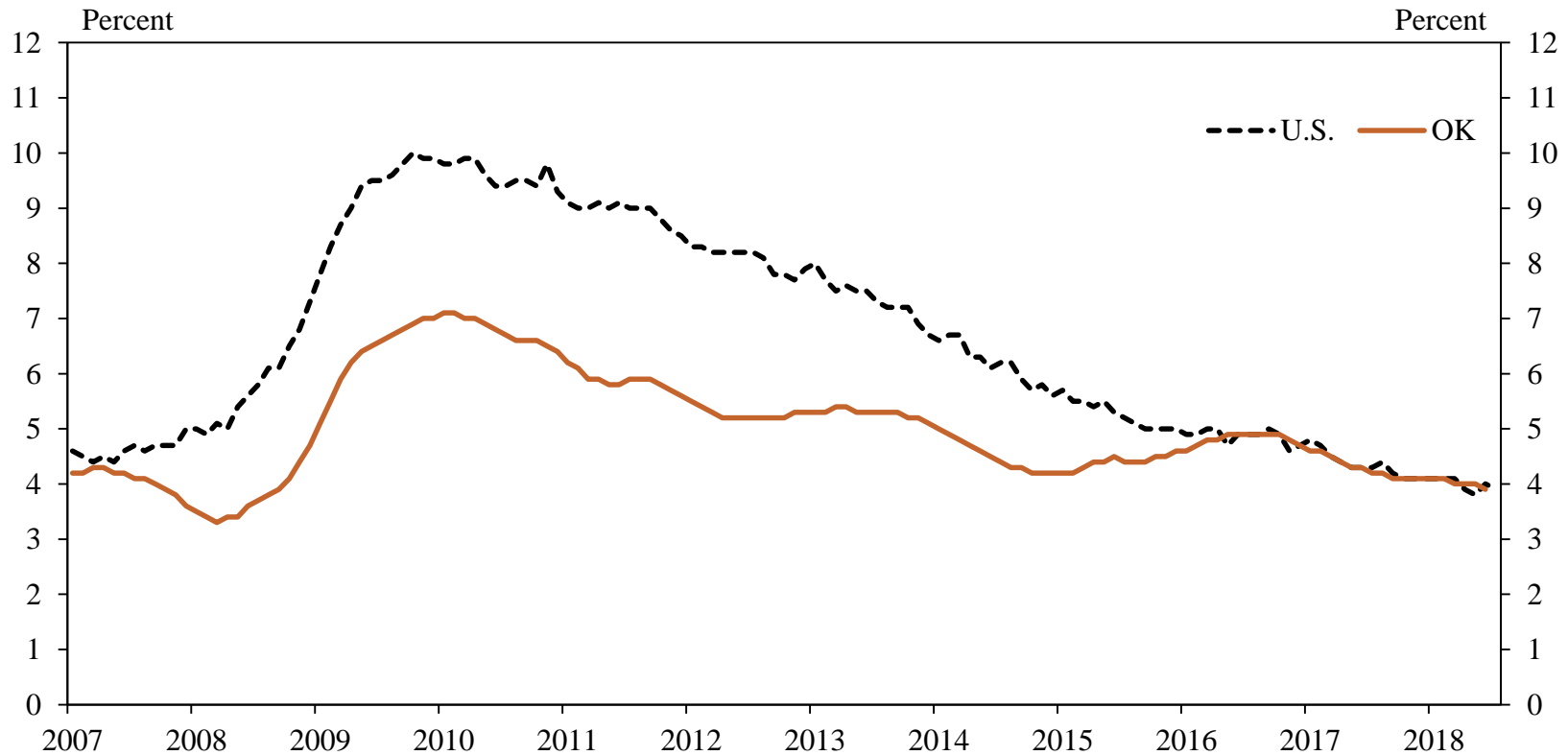
Tax revenues are also growing strongly, following revenue declines and budget cuts in recent years

Oklahoma State Tax Revenues
Q3-18 through July



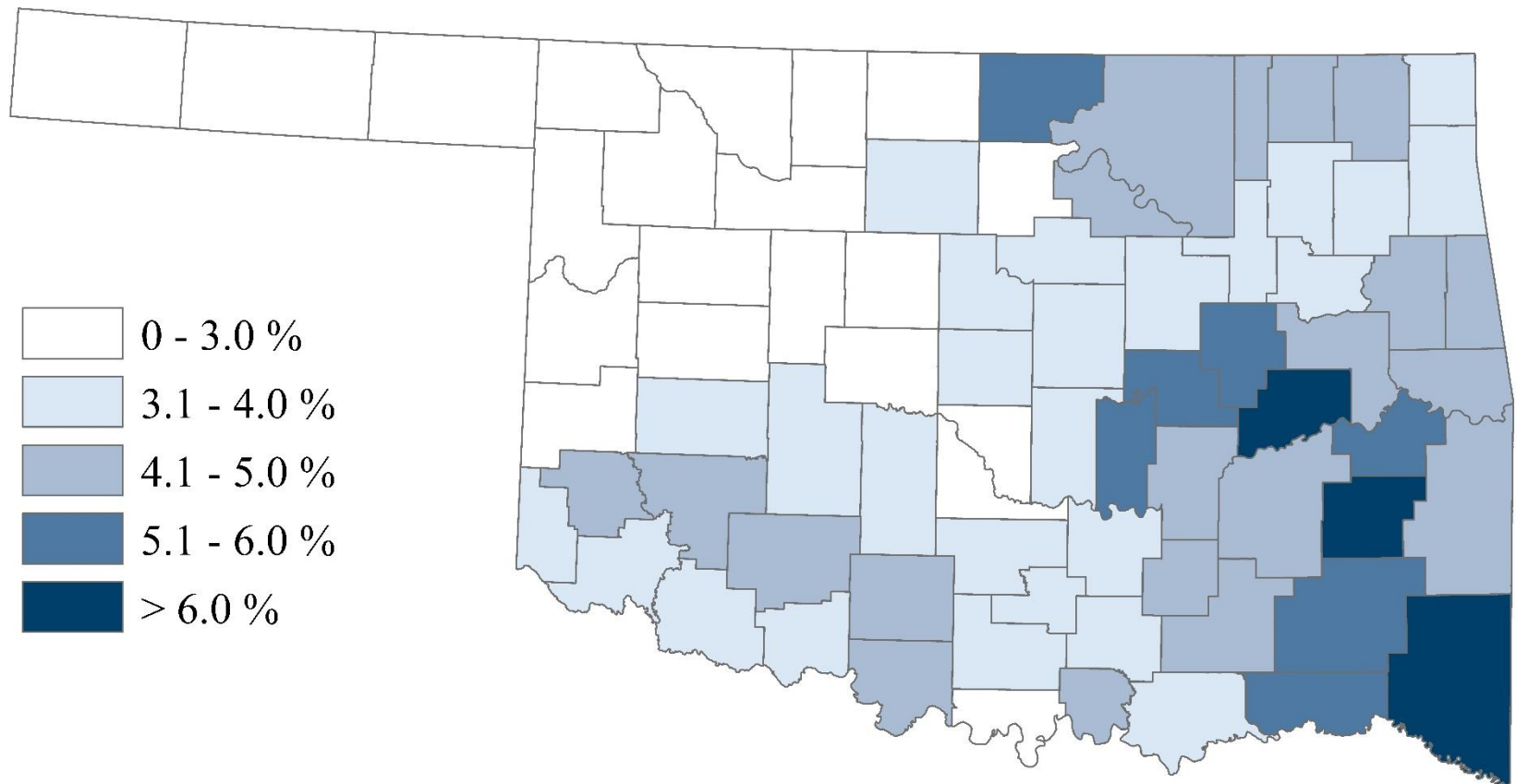
After rising in 2015-16, Oklahoma has matched the U.S. unemployment rate the past 2 years

Unemployment rates
Seasonally Adjusted



Unemployment is low across most of the state but remains somewhat higher in southeast OK

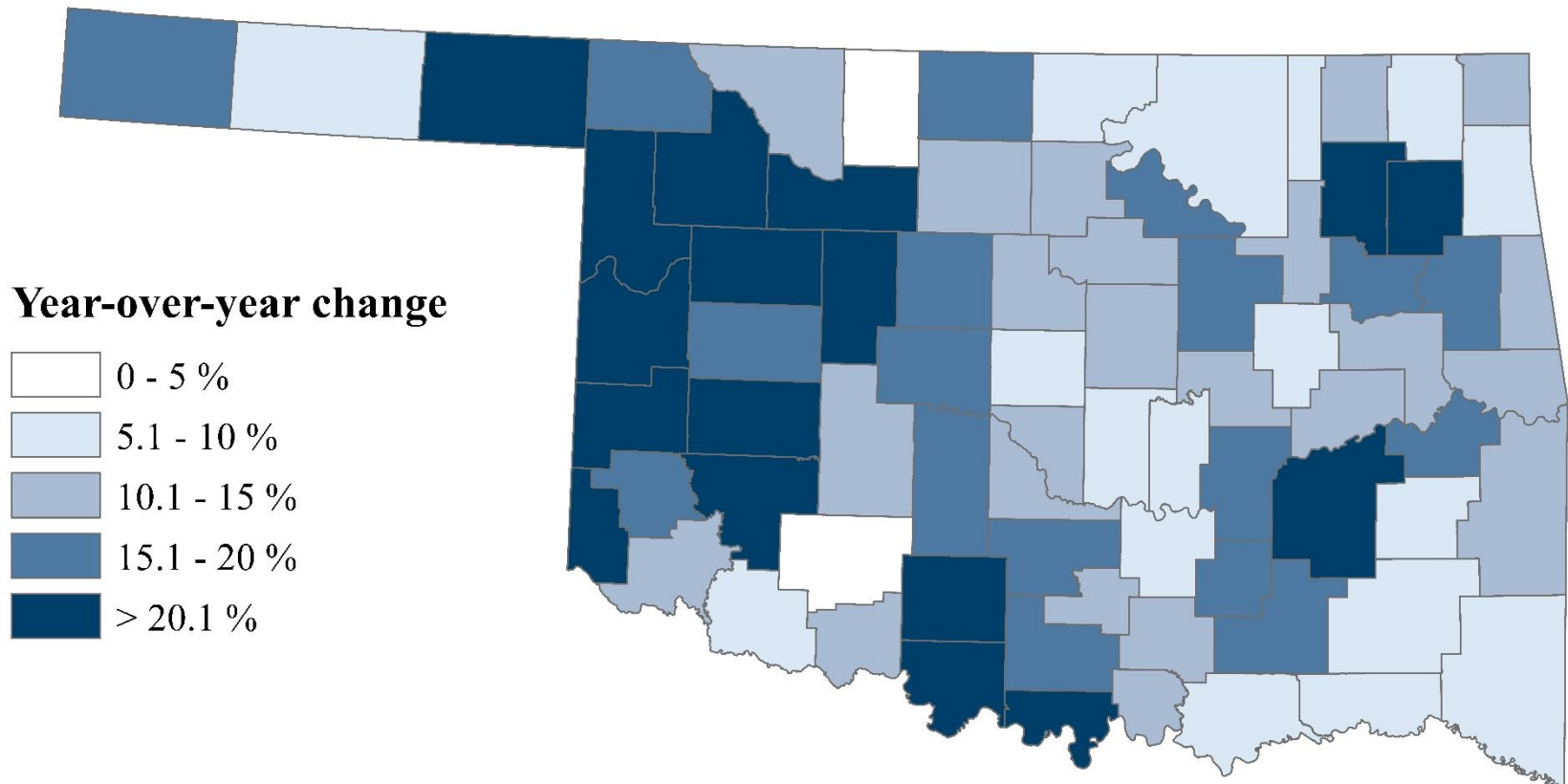
June 2017 Unemployment Rates



Employment has risen in every county over the past year, but especially in western Oklahoma

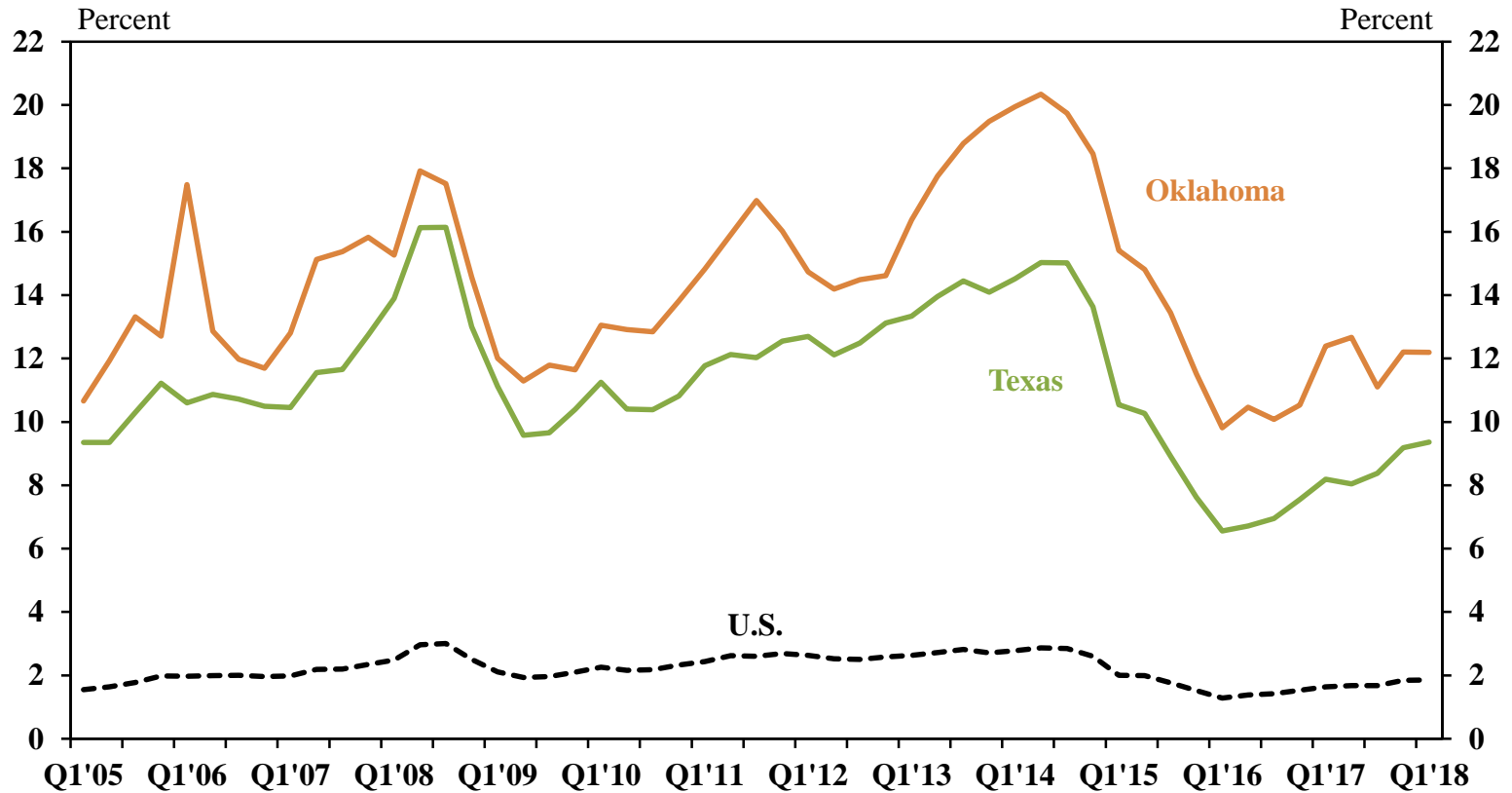
Employment Growth

June 2017 – June 2018



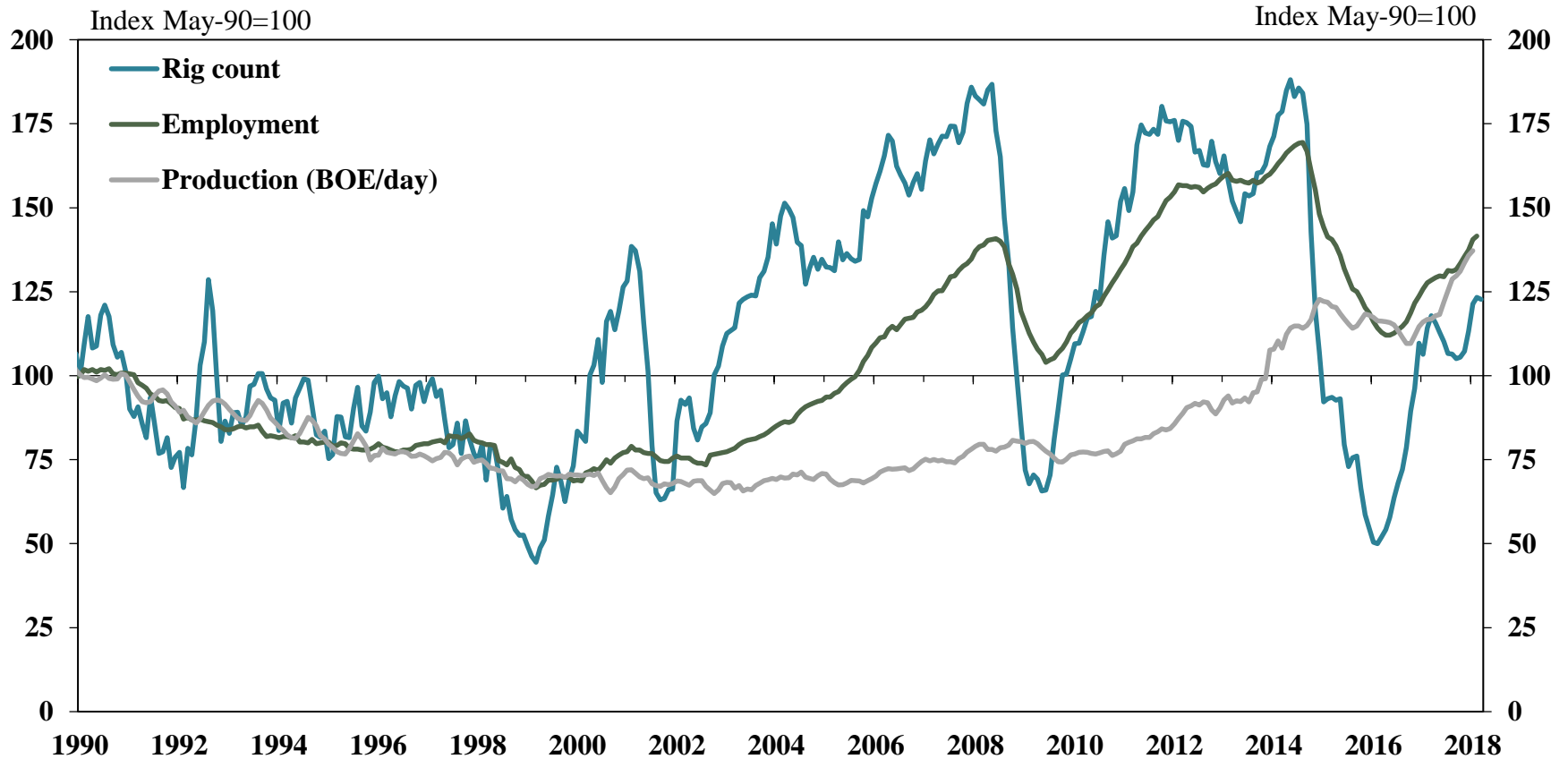
Energy remains a large share of Oklahoma GDP, though it is well below its 2014 share

Mining Sector Share of GDP
Seasonally Adjusted



Oil and gas production is at a record high, but with considerably fewer rigs and workers than in the past

Oklahoma Oil & Gas Rig Count, Employment, and Production



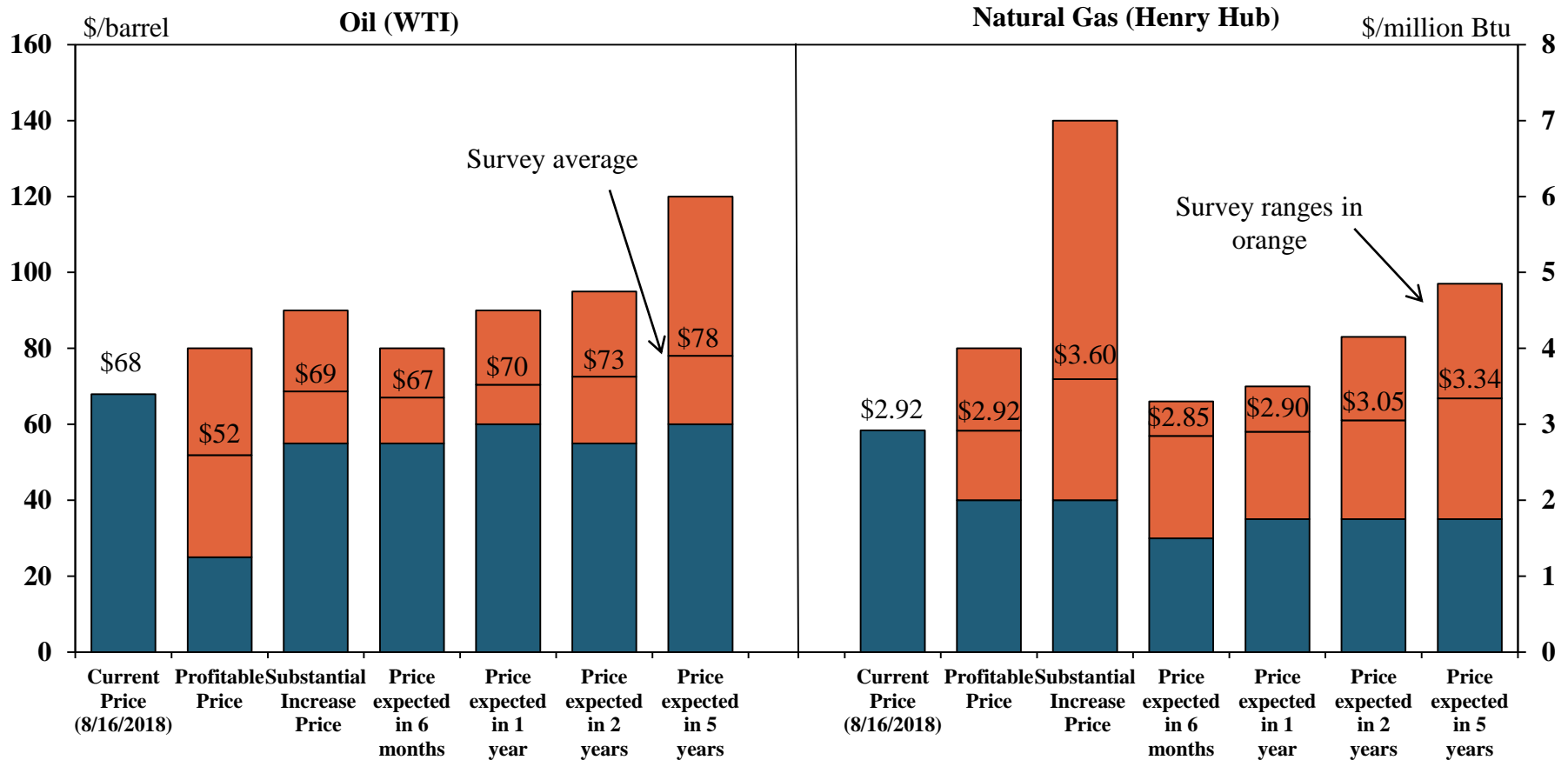
Note: Employment is for total mining and logging, which in Oklahoma is almost completely oil and gas related. Production is shown as a 3-month moving average.



Source: Baker Hughes, EIA/Haver Analytics

Most firms can profitably drill for oil in the areas they are active, and natural gas prices work for some firms

Energy Survey Oil & Gas Prices



Summary

- The U.S. economy continues to grow despite headwinds, and the Fed has been raising rates.
- The state and local economies were hurt by low commodity prices, but now are growing solidly.
- Strong productivity growth in the oil and gas sector could potentially limit future job growth.



Questions?

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