

U.S. and Oklahoma Economic Outlook



OBA Banking School

June 6, 2016

Chad Wilkerson

Oklahoma City Branch Executive and Economist

Federal Reserve Bank of Kansas City

www.kansascityfed.org/oklahomacity



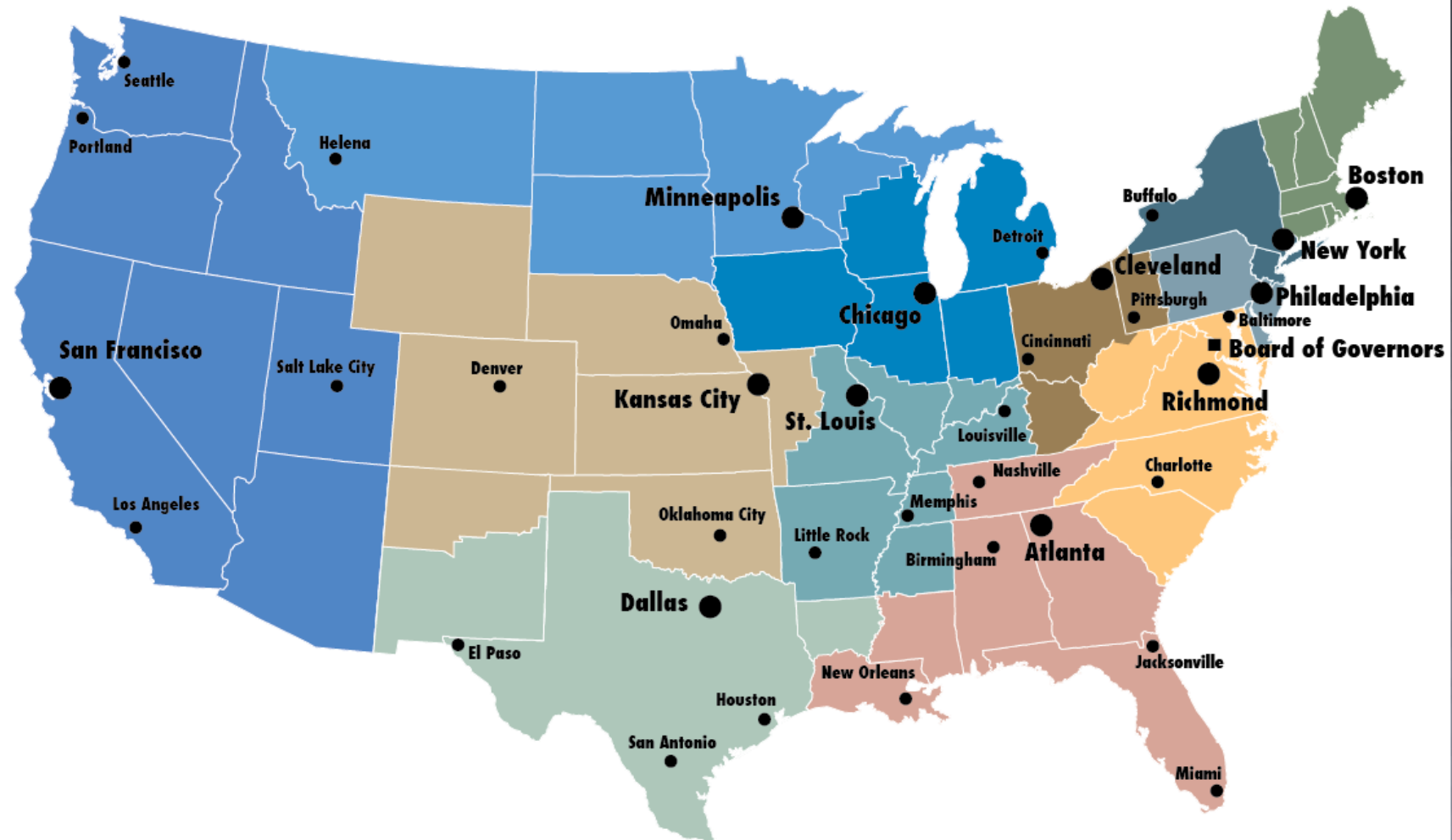
Structure and Functions of the Federal Reserve System

- **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)**, 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

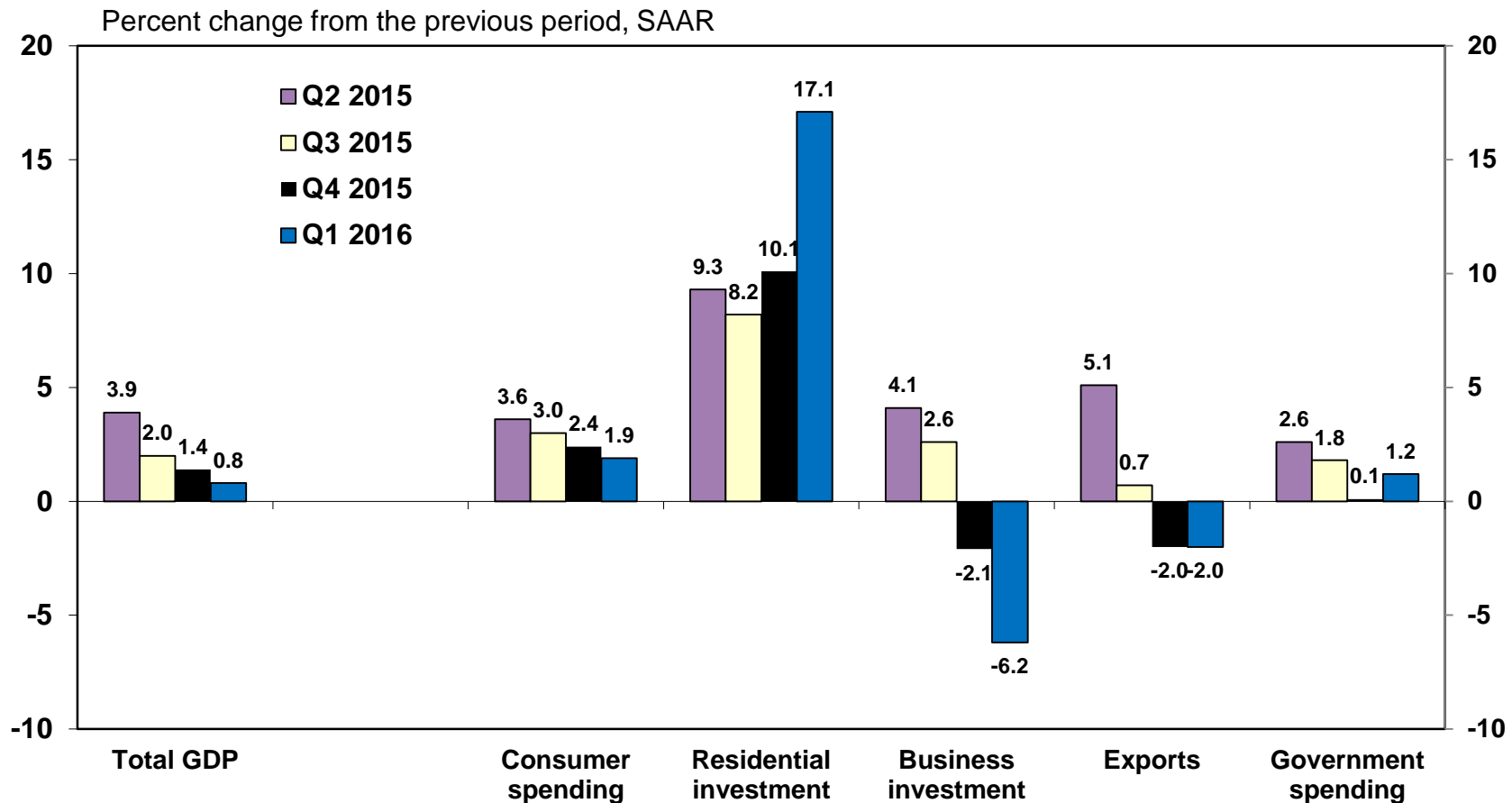


The U.S. Economy and Monetary Policy



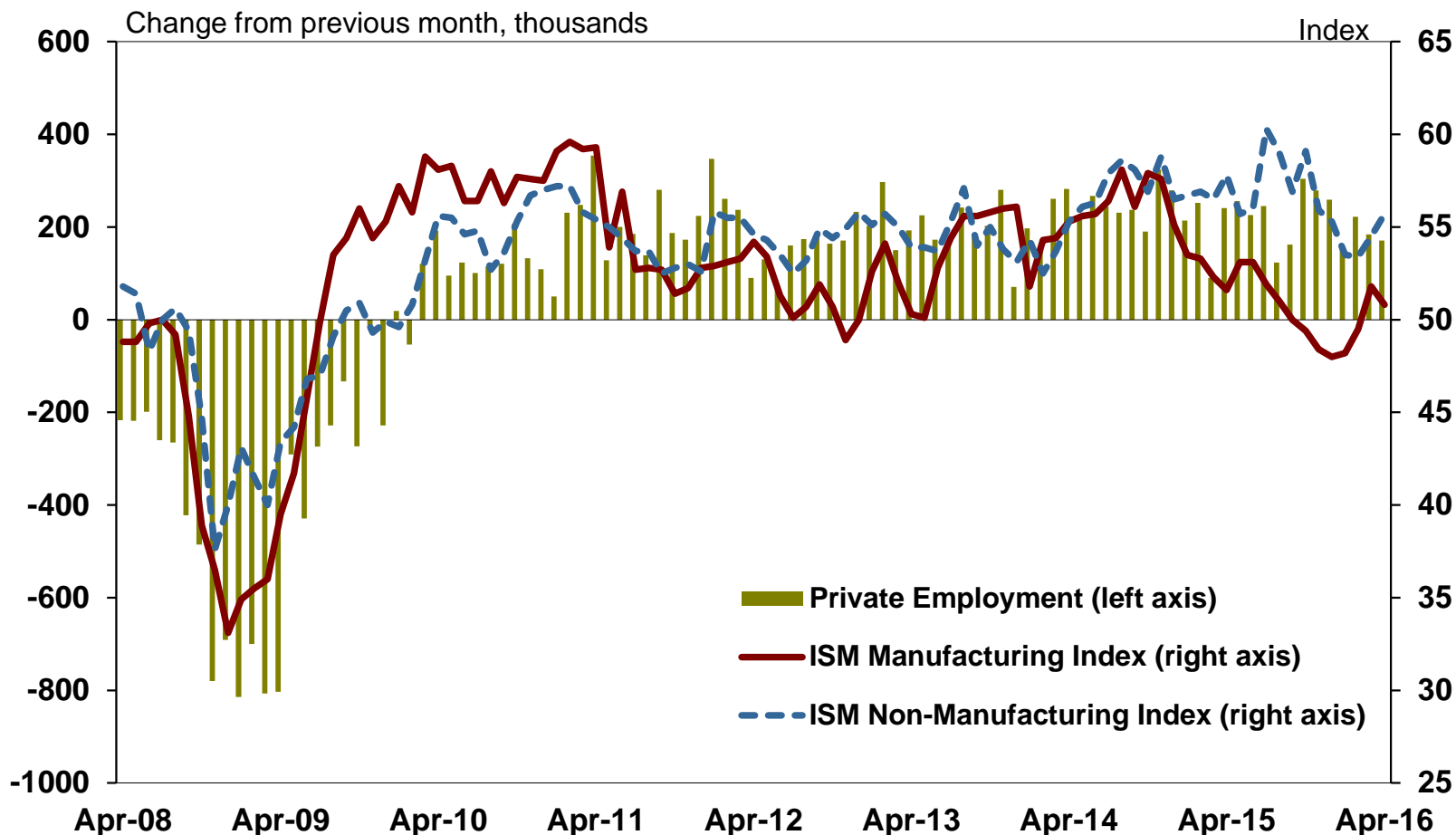
GDP slowed somewhat further in Q1, as business investment dropped

Growth in Components of Real GDP



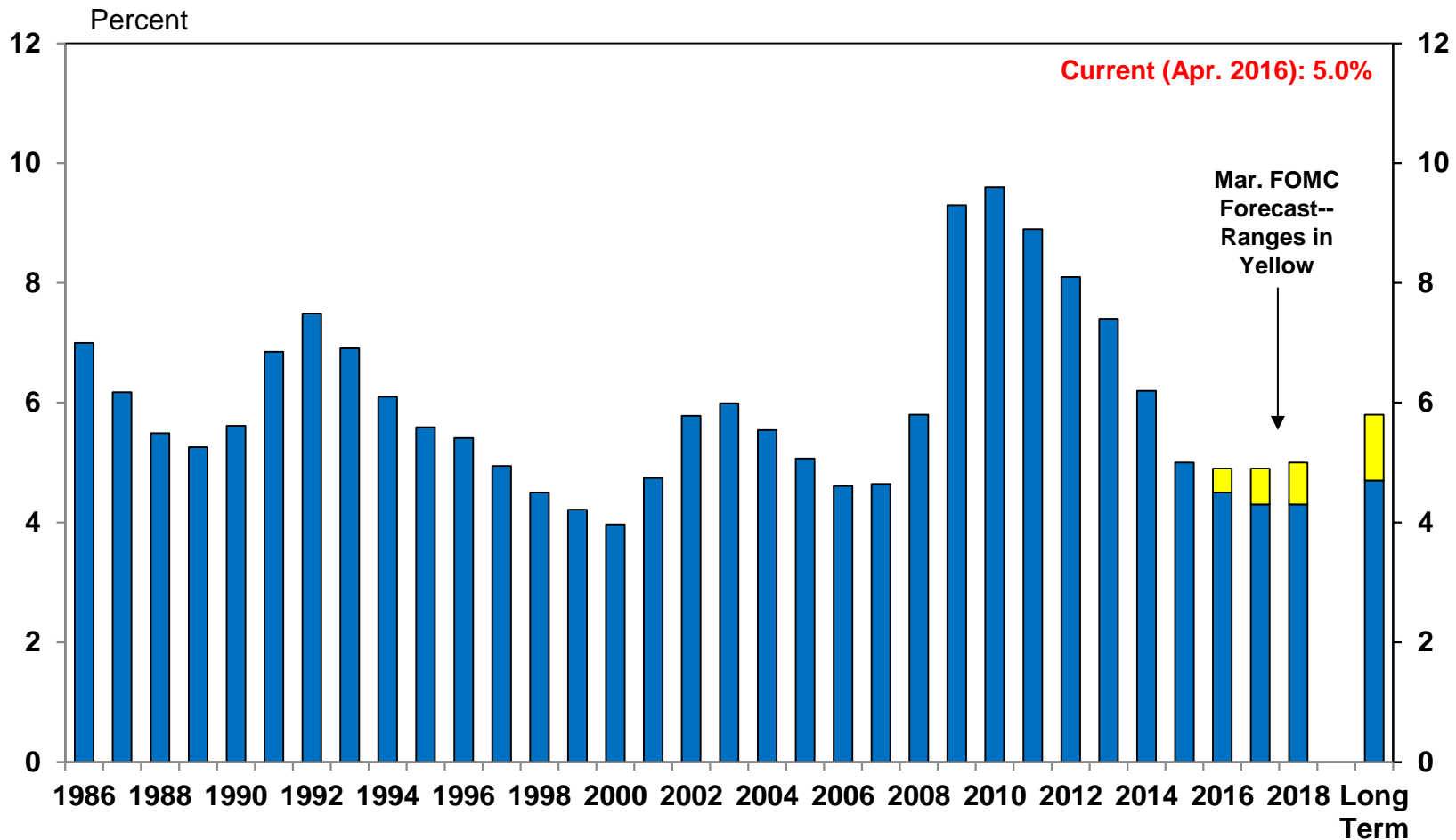
But U.S. business activity picked up slightly in March and April, with job growth solid

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

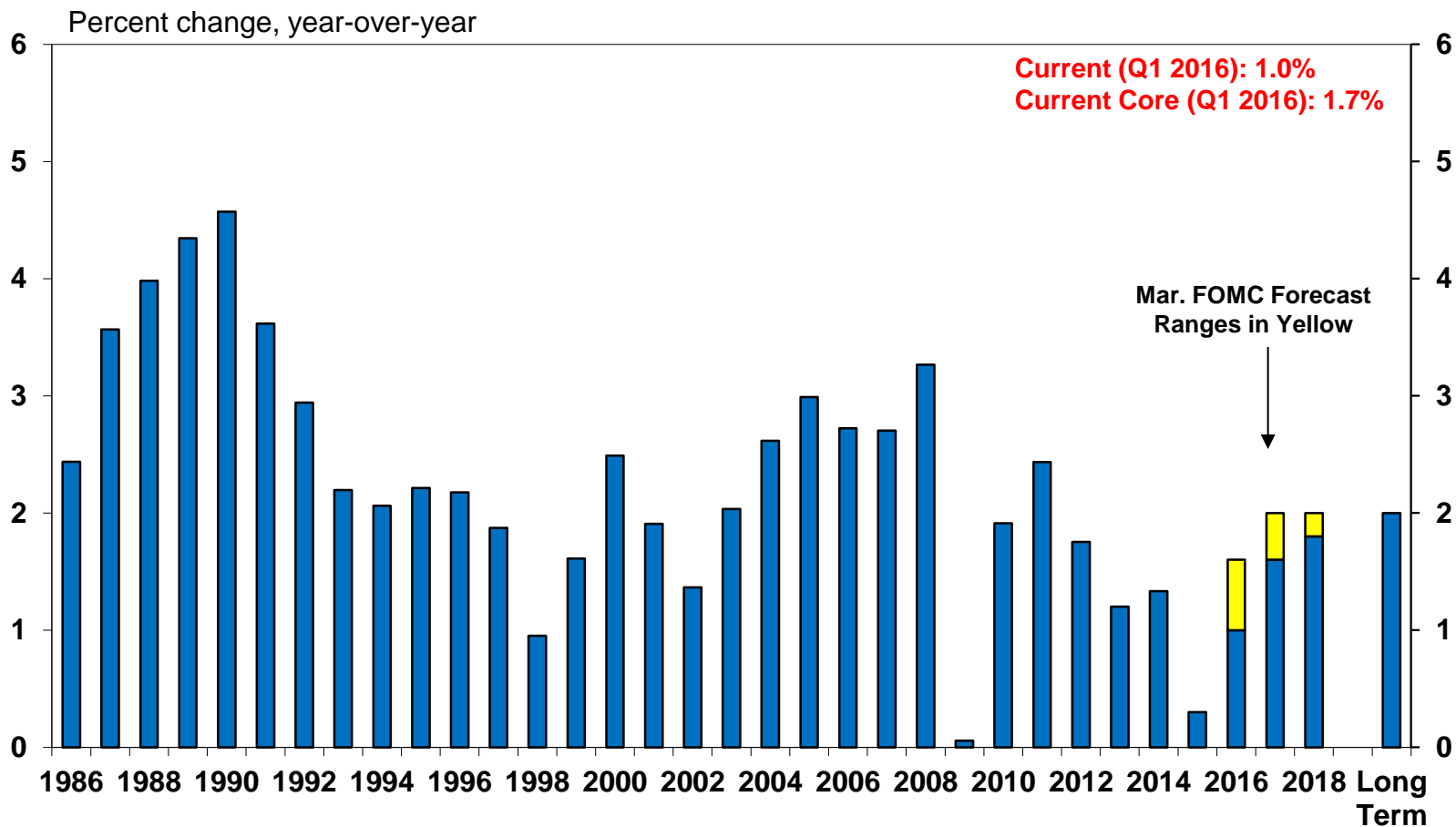


Sources: U.S. Bureau of Labor Statistics, FOMC



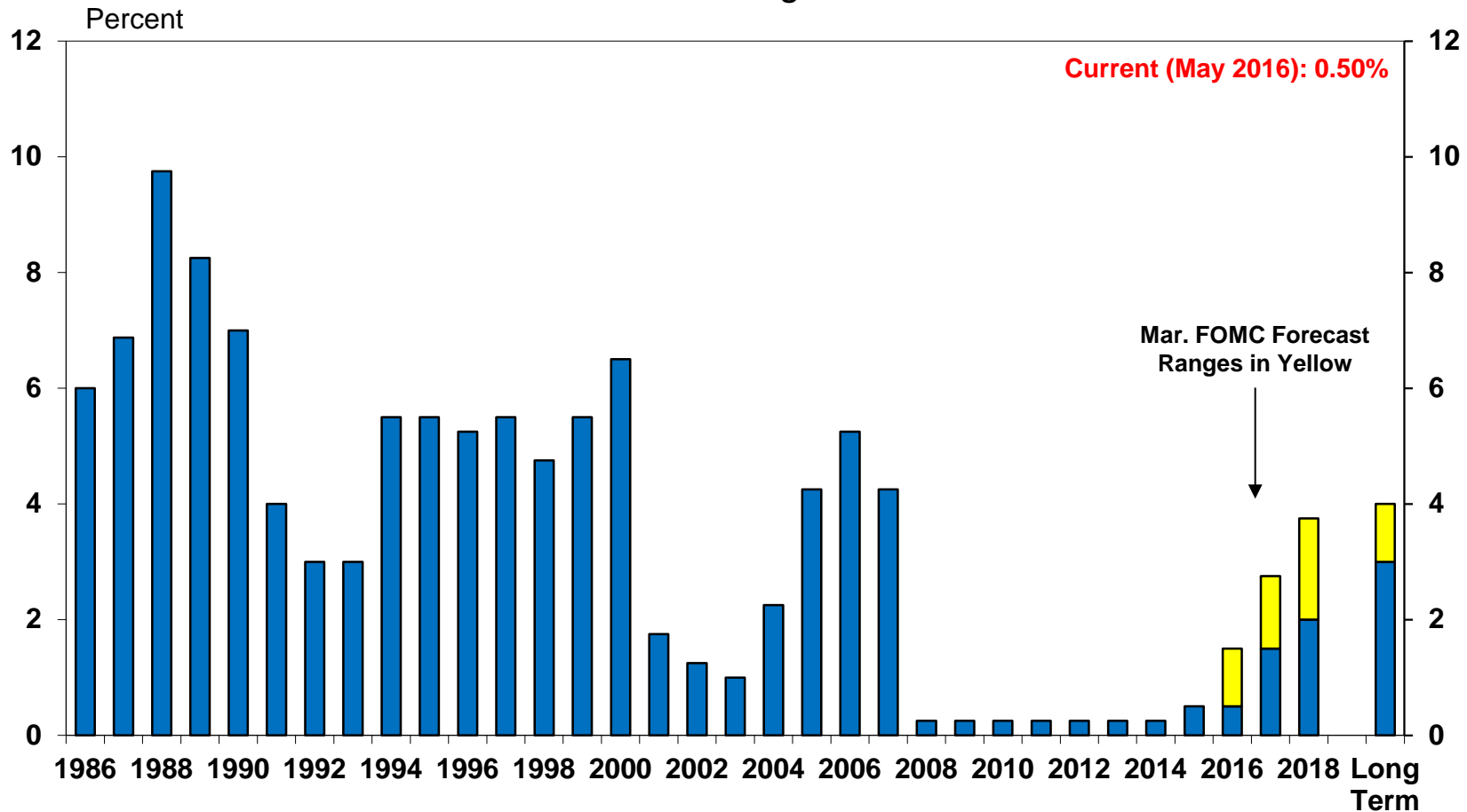
U.S. inflation is low but expected to return to close to target in 2016

PCE Inflation Index



FOMC participants expect moderate increases in rates heading forward

Federal Funds Rate
Year-end target

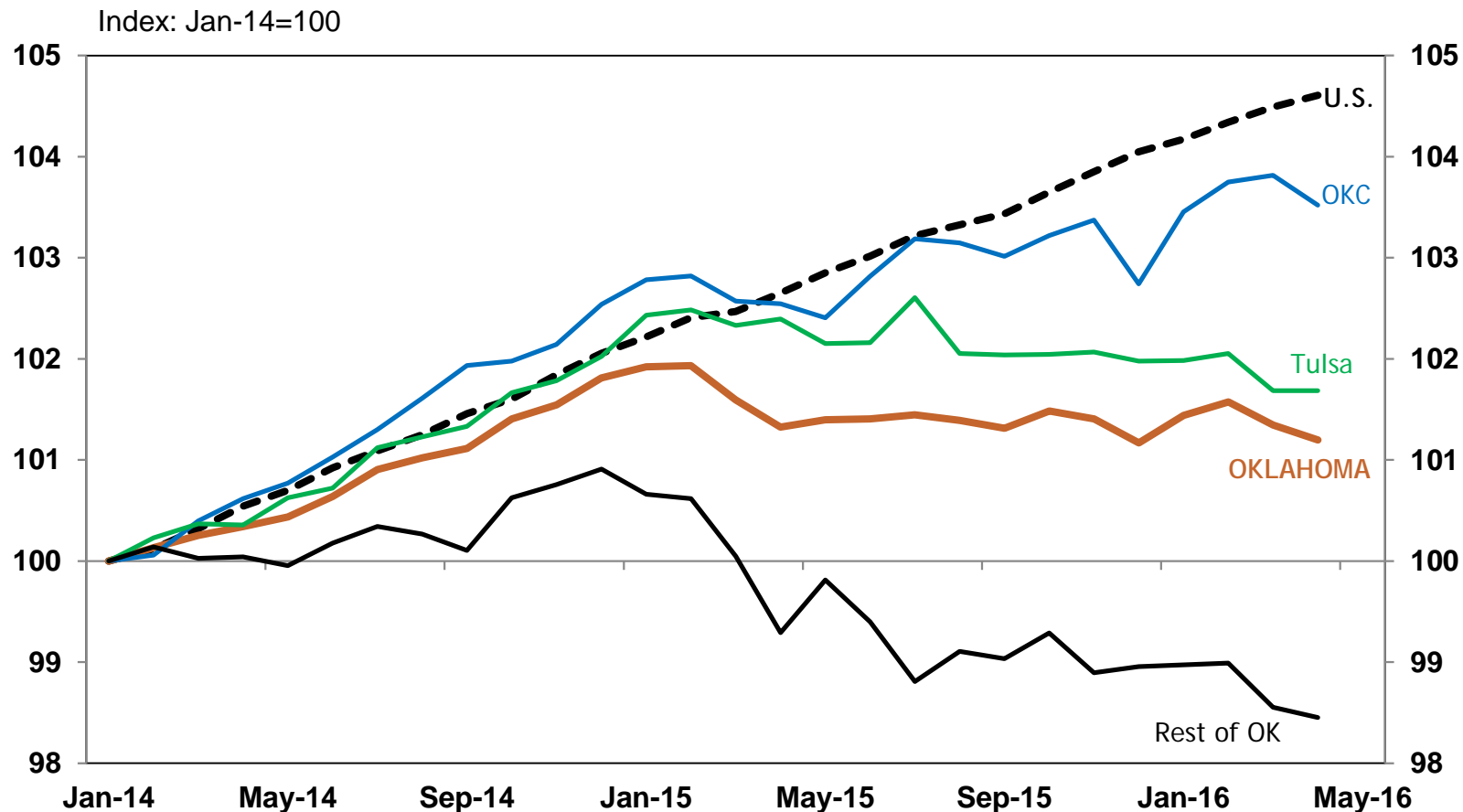


Trends in the Oklahoma Economy



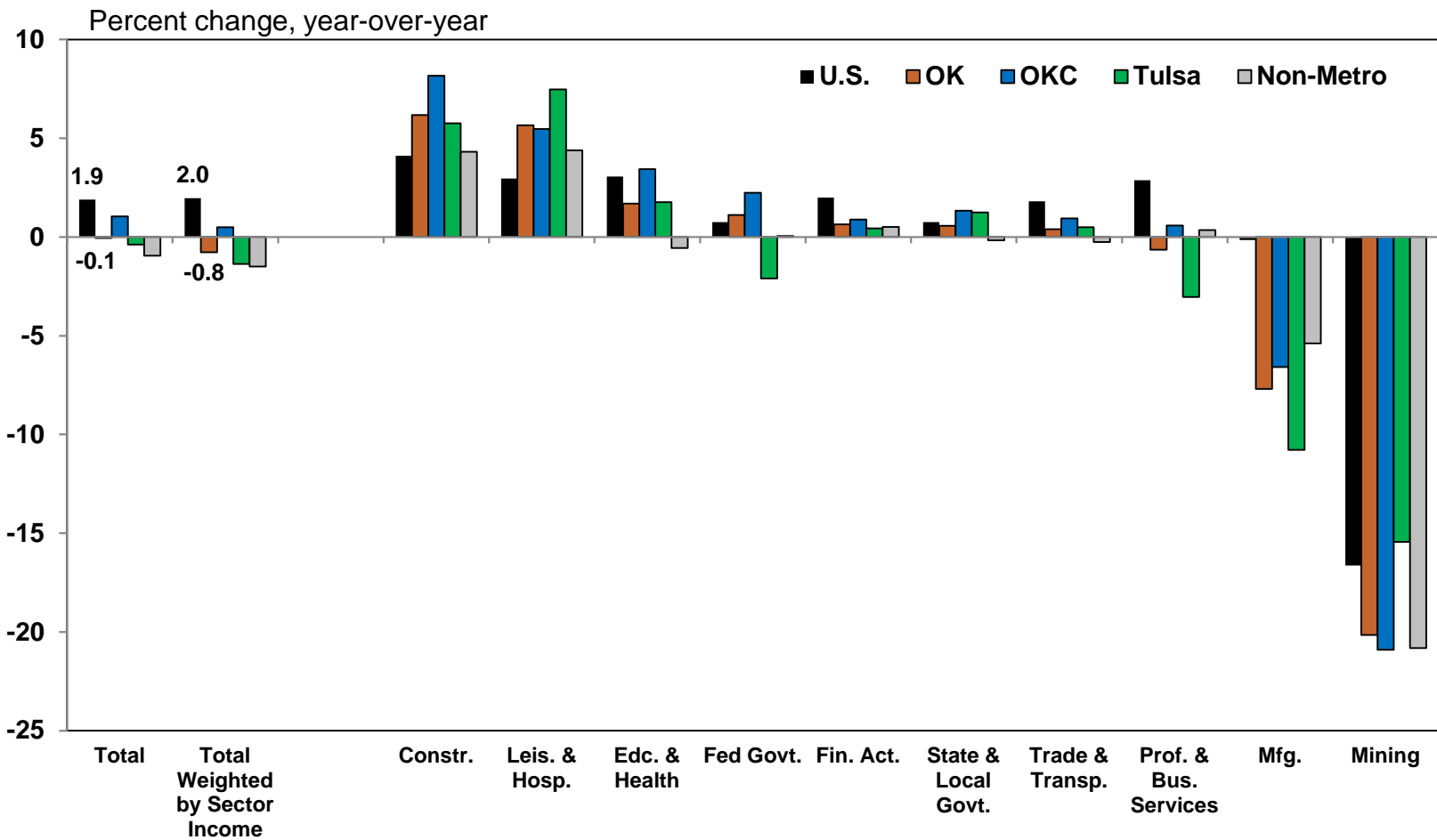
Job trends have varied somewhat across Oklahoma the past couple of years

Level of Payroll Employment
Through April 2016



Okla. employment has held up relatively well, but this includes a shift to lower-paying jobs

Job Growth by Industry
Apr-16

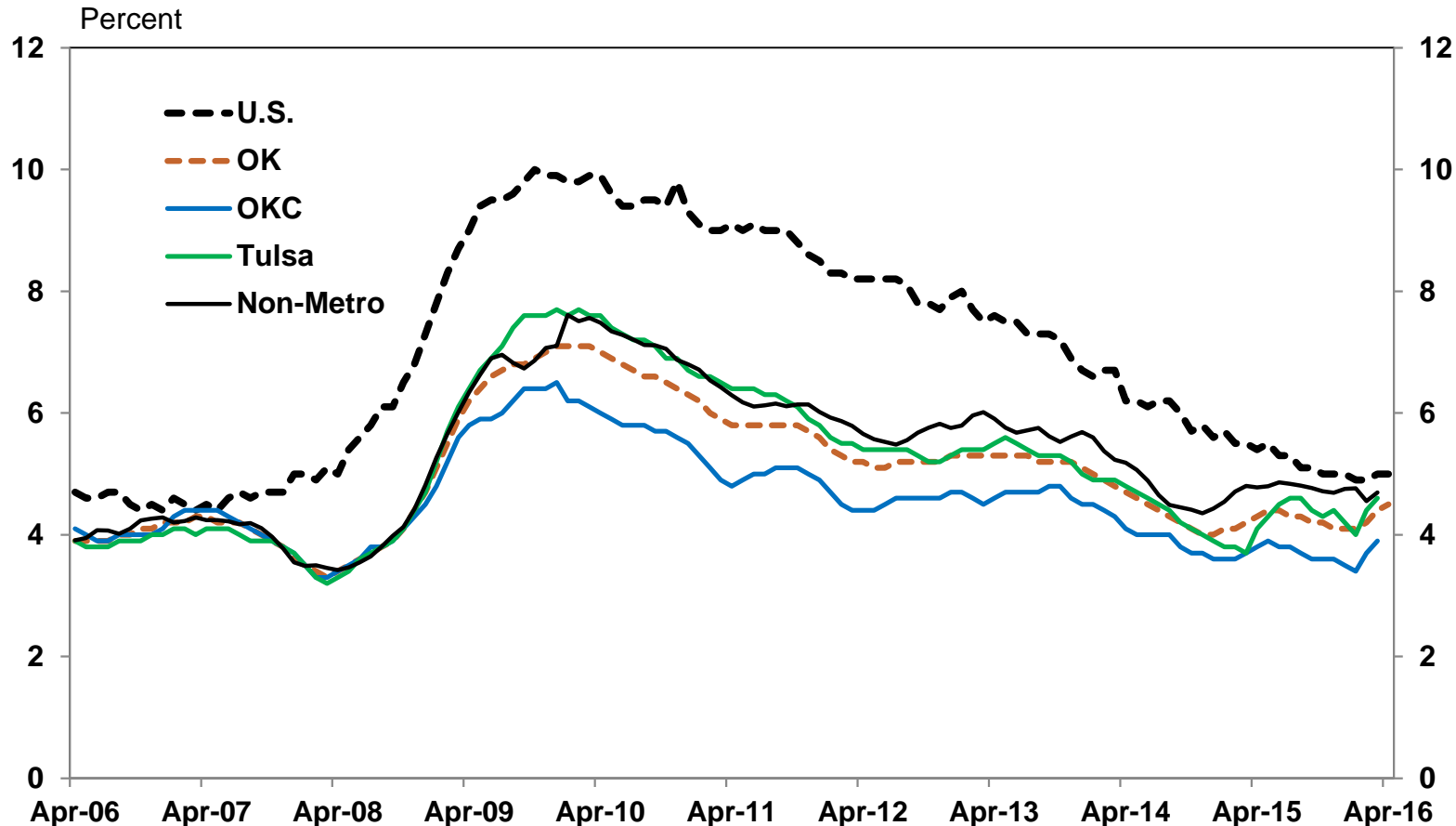


Source: Bureau of Labor Statistics



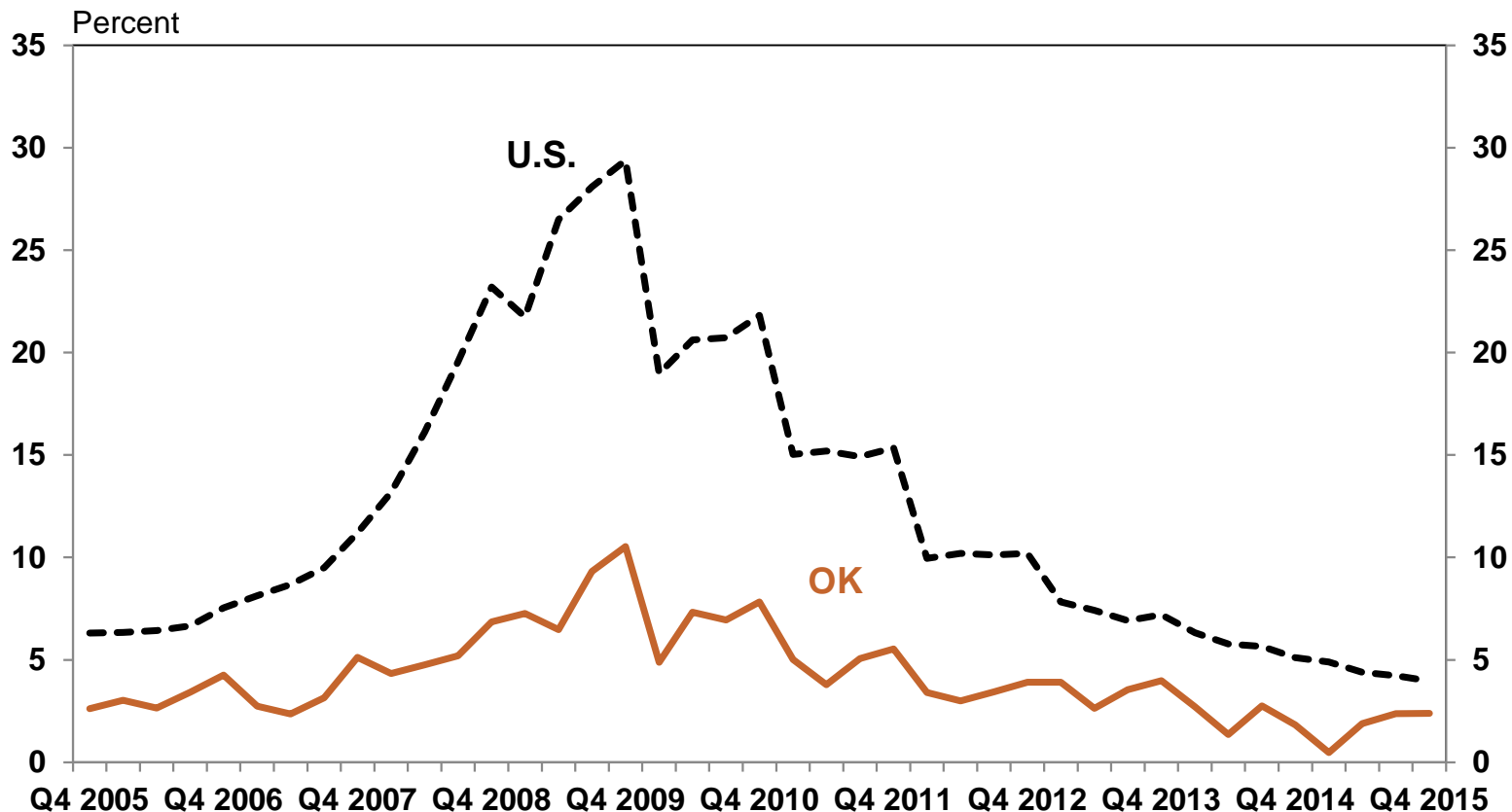
Still, with many workers finding jobs in other industries, unemployment remains low

Unemployment Rate Seasonally Adjusted



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

Share of Banks Not Making a Profit Commercial Banks

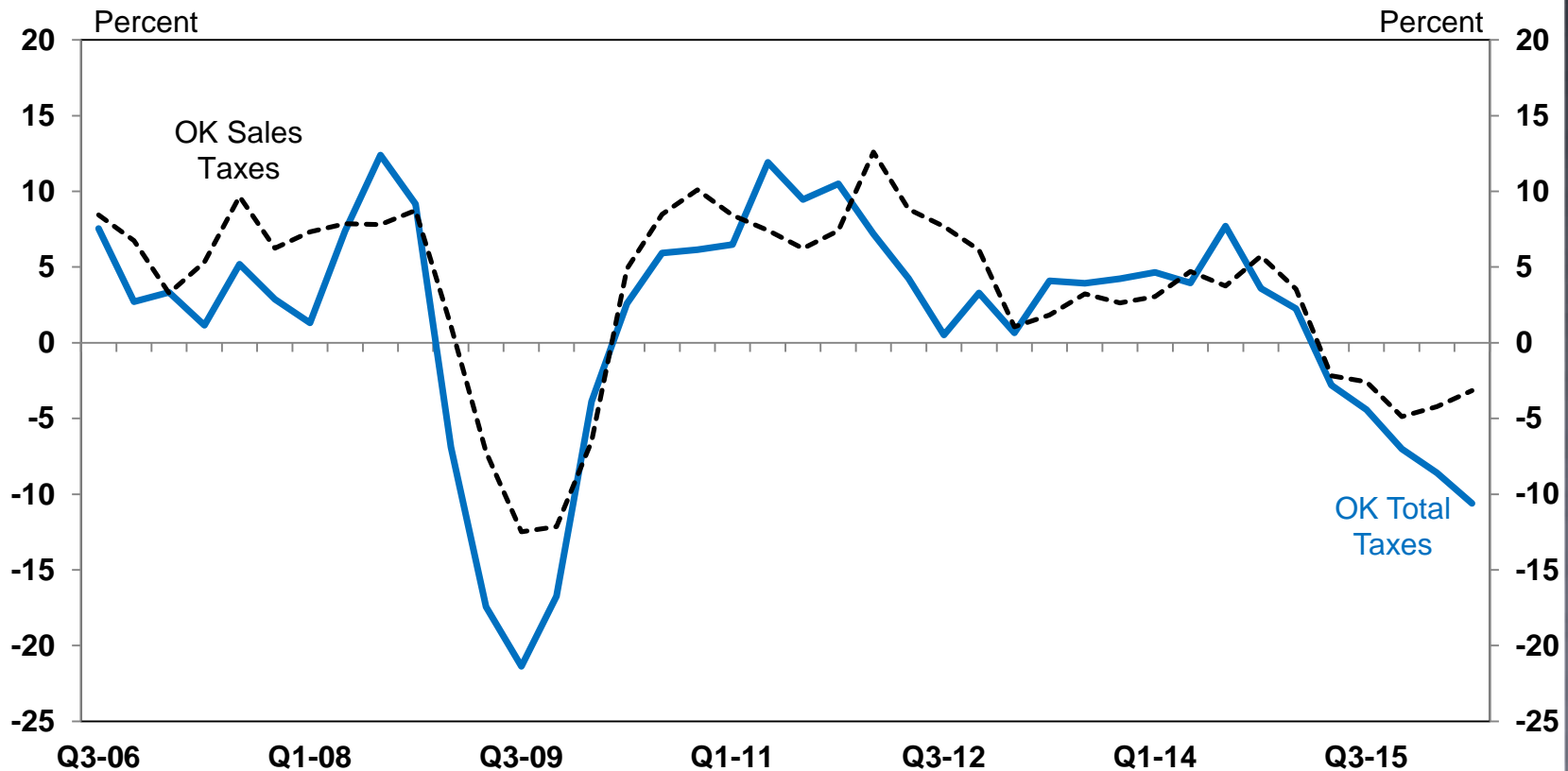


Source: FDIC



But declining tax receipts are creating difficulties for government budgets

State Tax Receipts
Through Q2-16*



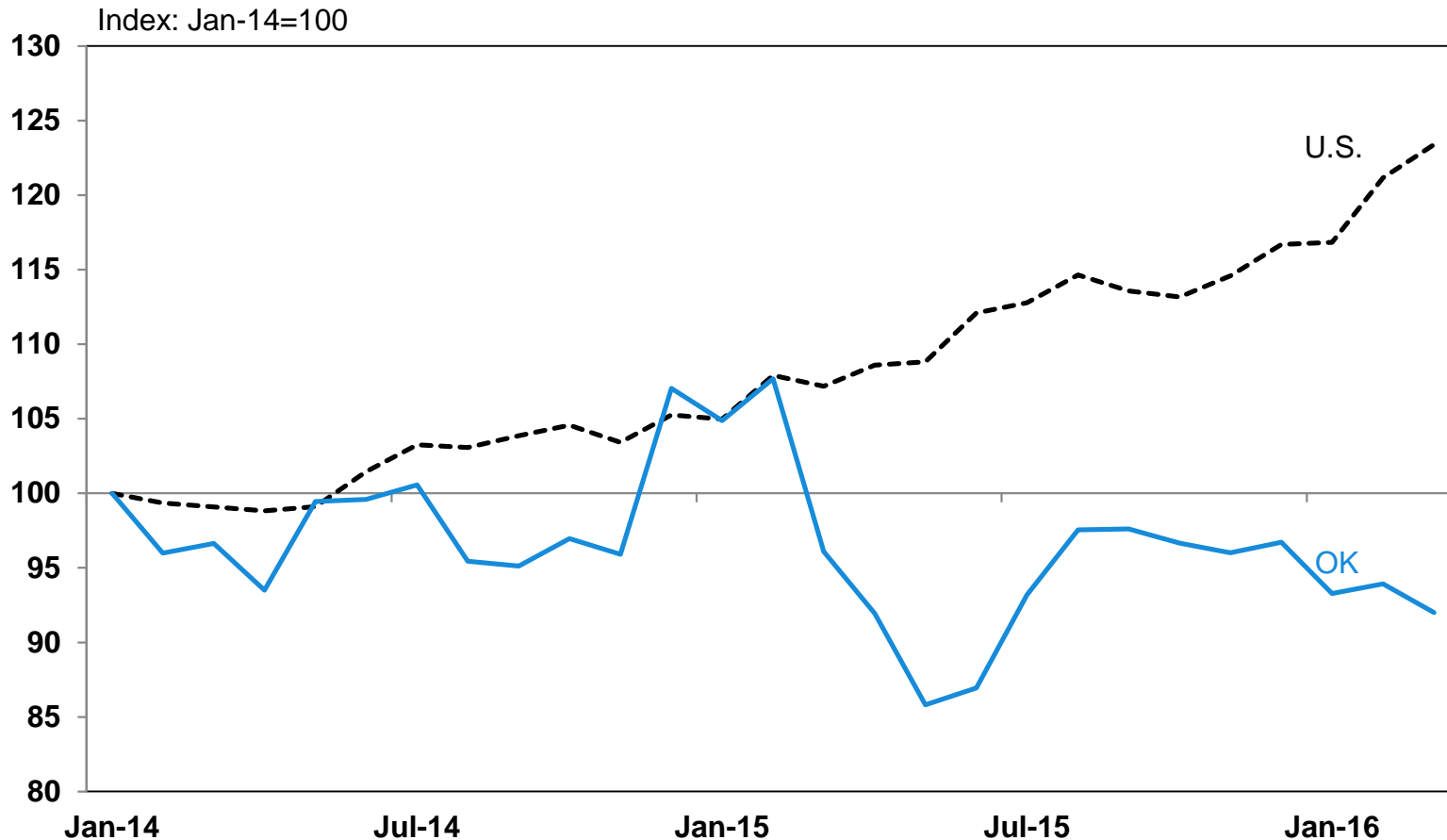
*Note: Q2-16 through April 2016

Source: OK Tax Commission



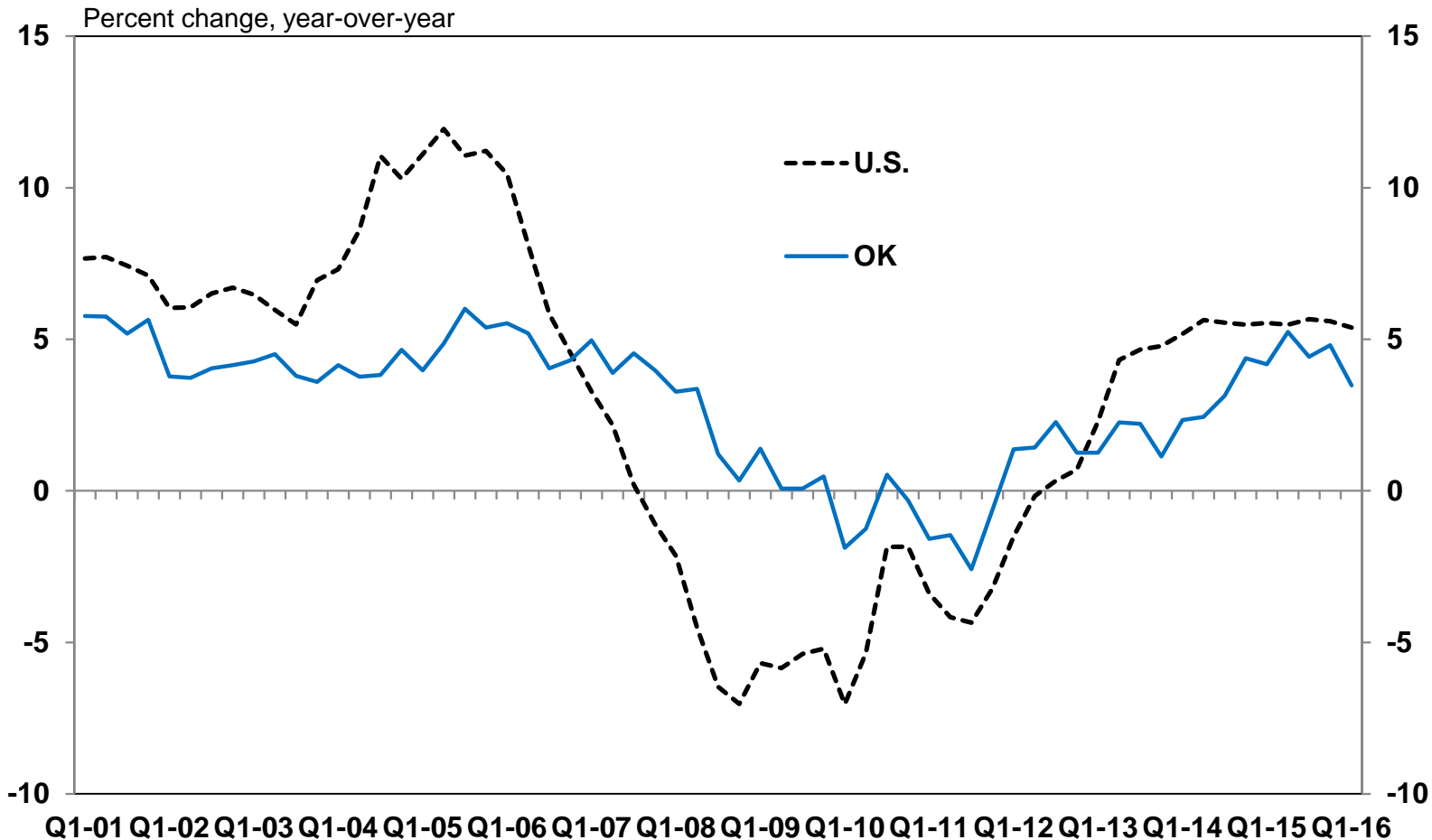
Unlike the U.S. new home construction has eased as the economy has slowed

Single-Family Housing Permits
3-month moving average, through Mar-16



Home price growth in the state slowed in the first quarter but remained fairly solid

FHFA Home Price Index
Seasonally Adjusted

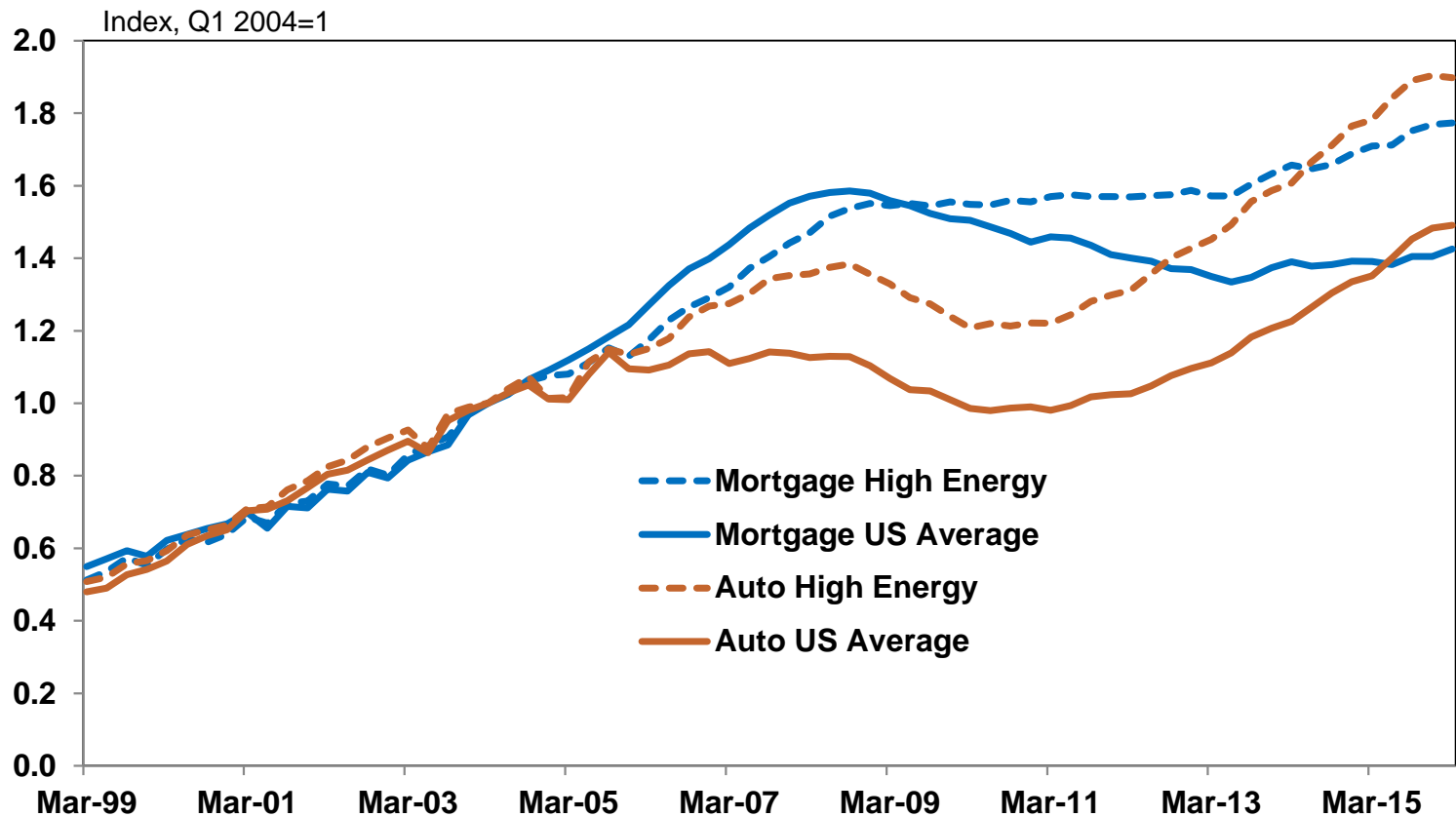


Source: FHFA



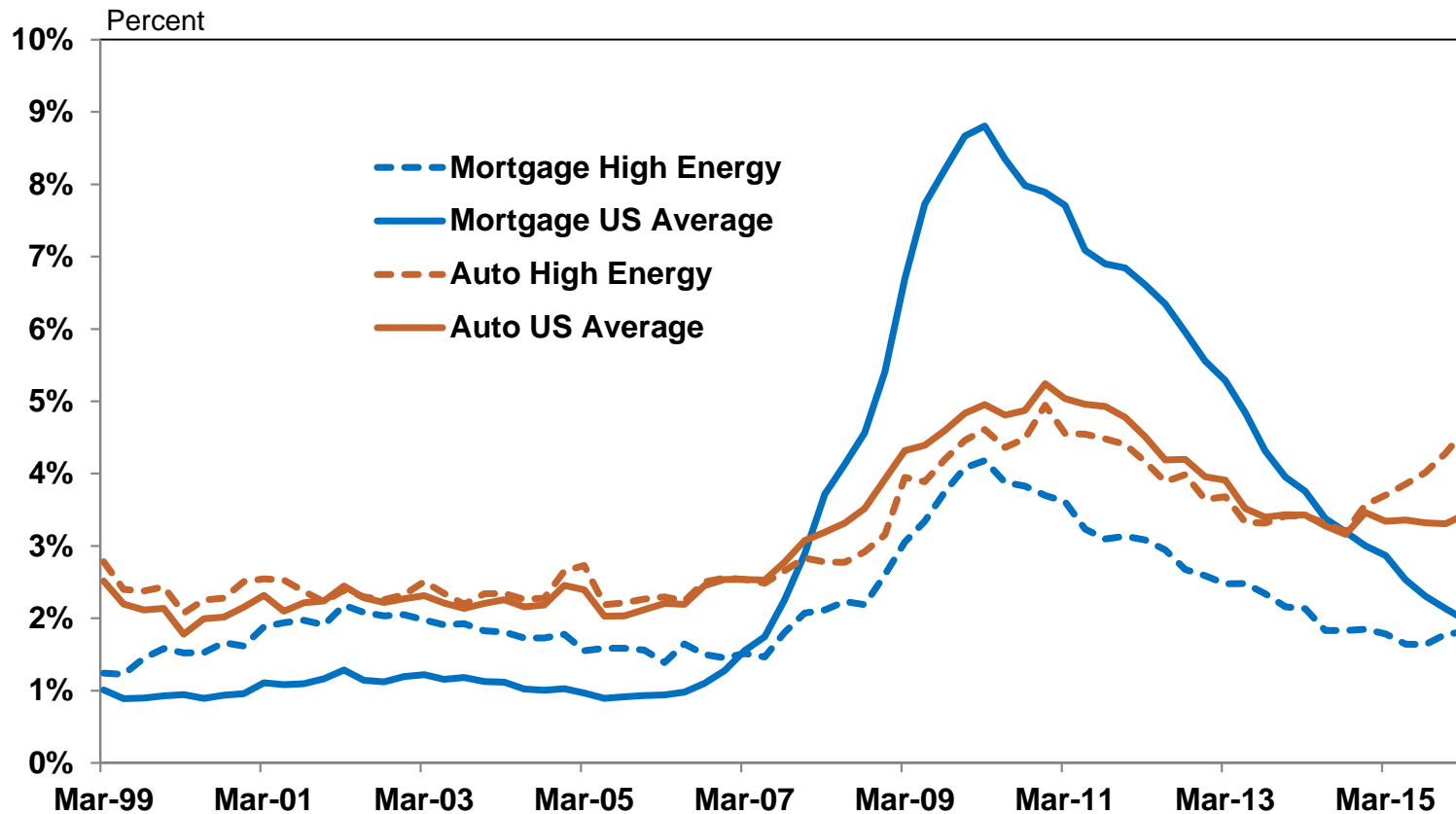
Loan balances have risen in U.S. energy counties versus the rest of the nation

Loan Balances



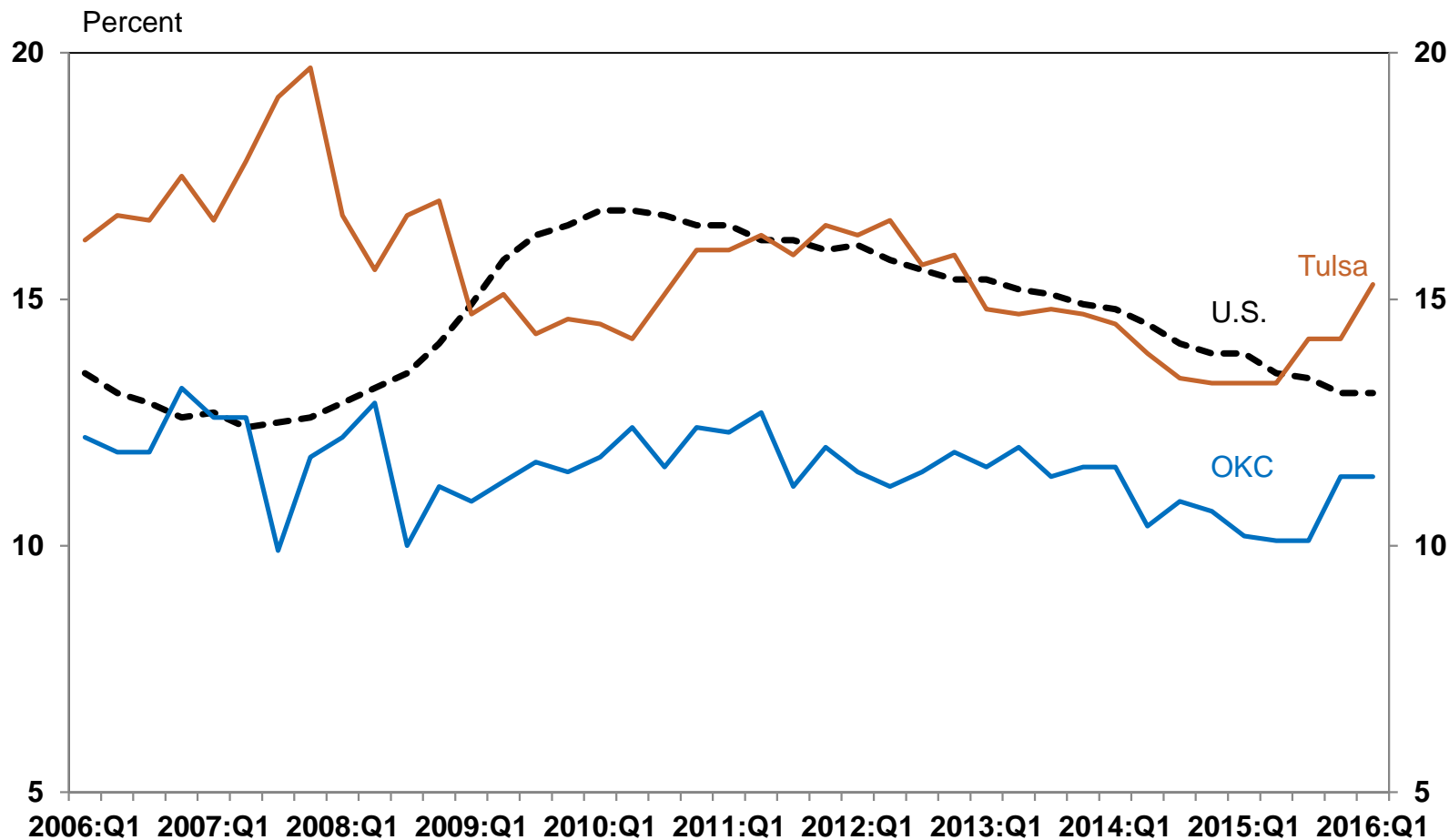
Delinquencies have also risen in energy counties, especially on auto loans

Loan Delinquencies Greater than 90 days



Office vacancies in Oklahoma's 2 big metros are beginning to rise but remain modest

Office Vacancy Rates



The outlook for the energy and agriculture sectors remain key across the state

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

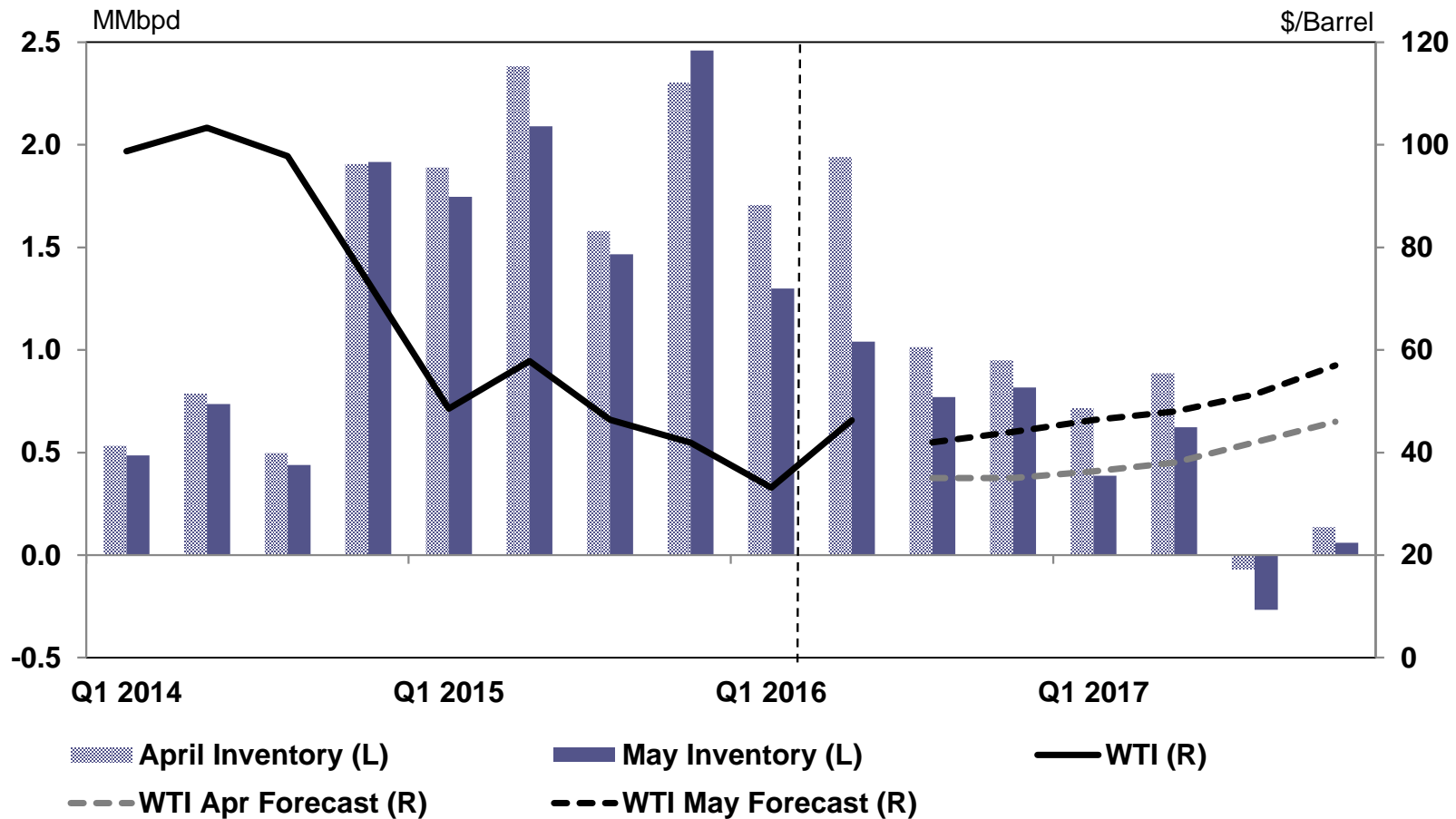


The Outlook for Oklahoma's Energy and Agriculture Sectors



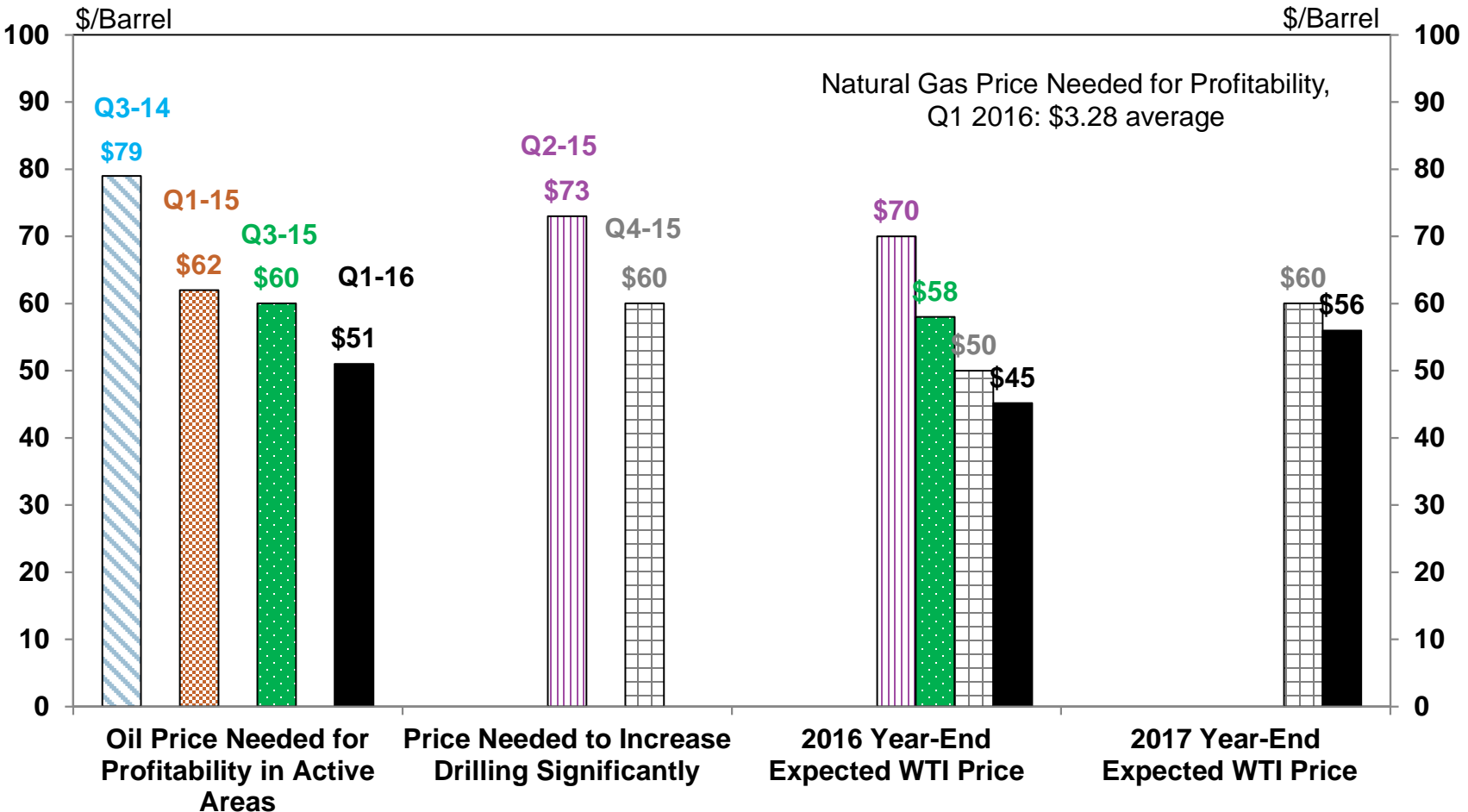
Oil inventories have improved quicker than expected, helping boost oil prices recently

Change in Global Oil Inventories vs Oil Prices



Current oil prices are only slightly below profitable levels, but well below expansionary

KC Fed Energy Survey Special Questions
Q3 2014 to Q1 2016

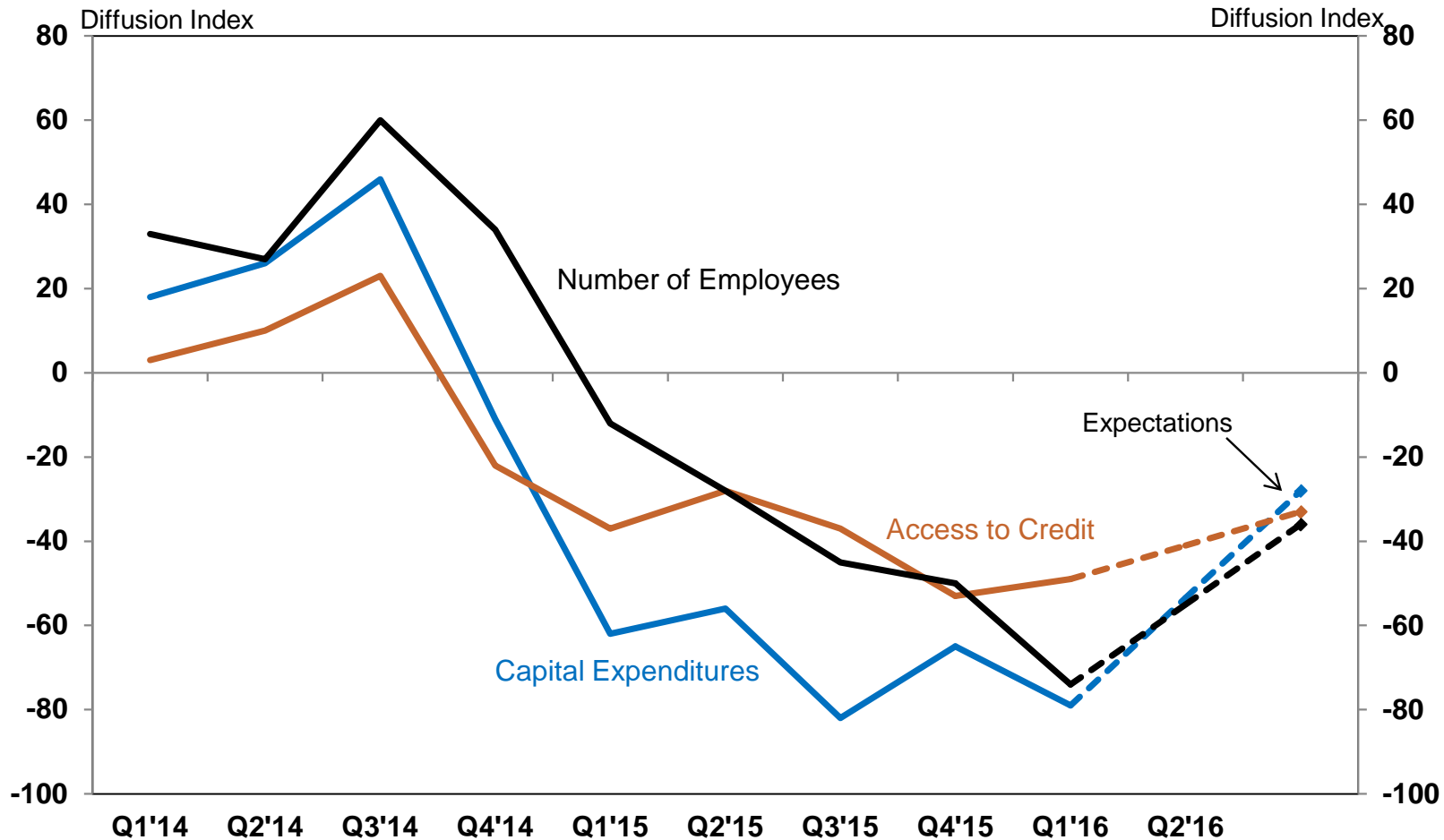


Source: FRBKC Energy Survey



The KC Fed's Q1 energy survey showed further declines, with more expected

Year-Over-Year Energy Survey Indexes

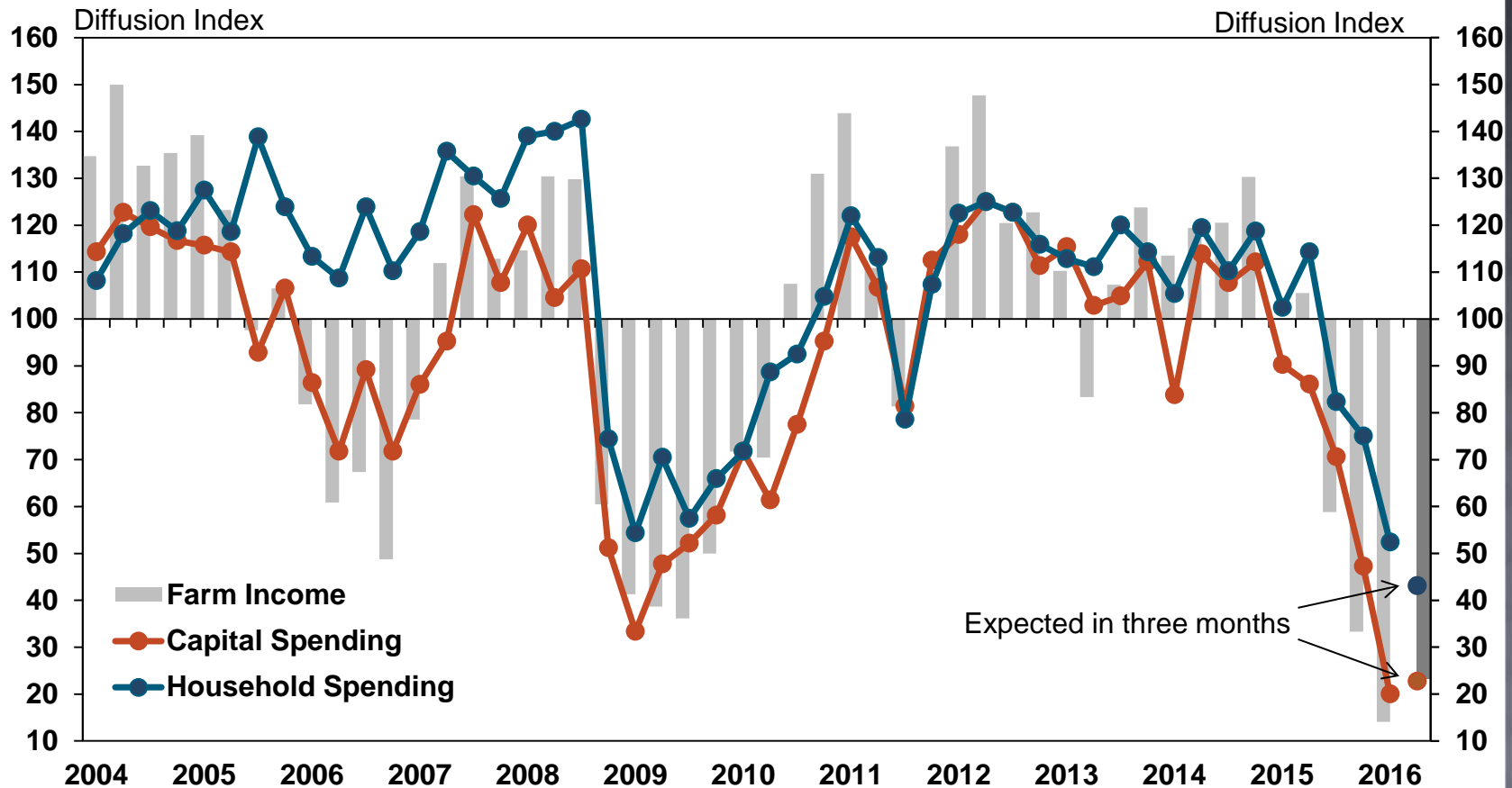


Source: FRBKC Energy Survey



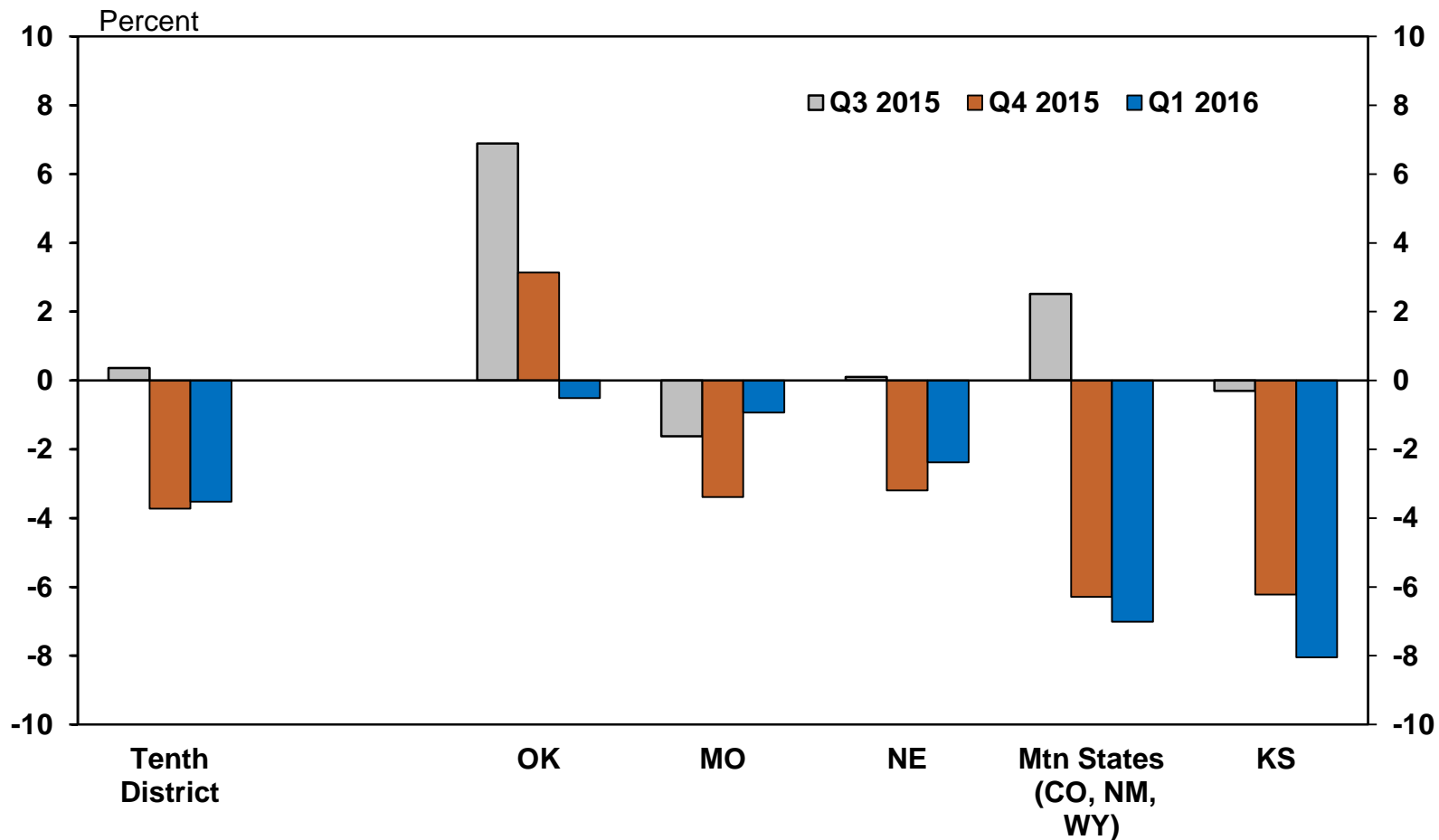
Our ag credit survey also shows drops in Oklahoma farm income and spending

Oklahoma Farm Income



Still, farmland values have held up better in Oklahoma than in the rest of our region

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



Source: FRBKC Agricultural Credit 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 real estate conditions have only softened slightly
- The latest KC Fed energy and agriculture surveys suggest more sluggishness ahead



Questions and Links

For more information about the Oklahoma City Branch of the Federal Reserve Bank of Kansas City, visit our website at:

<http://www.kansascityfed.org/oklahomacity/>

For more information about the Oklahoma economy, subscribe to the quarterly **Oklahoma Economist** at:

www.kansascityfed.org/publications/research/oke

