

U.S. & Oklahoma Economic Outlook

RMA

December 20-21, 2016

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www.kansascityfed.org/oklahomacity



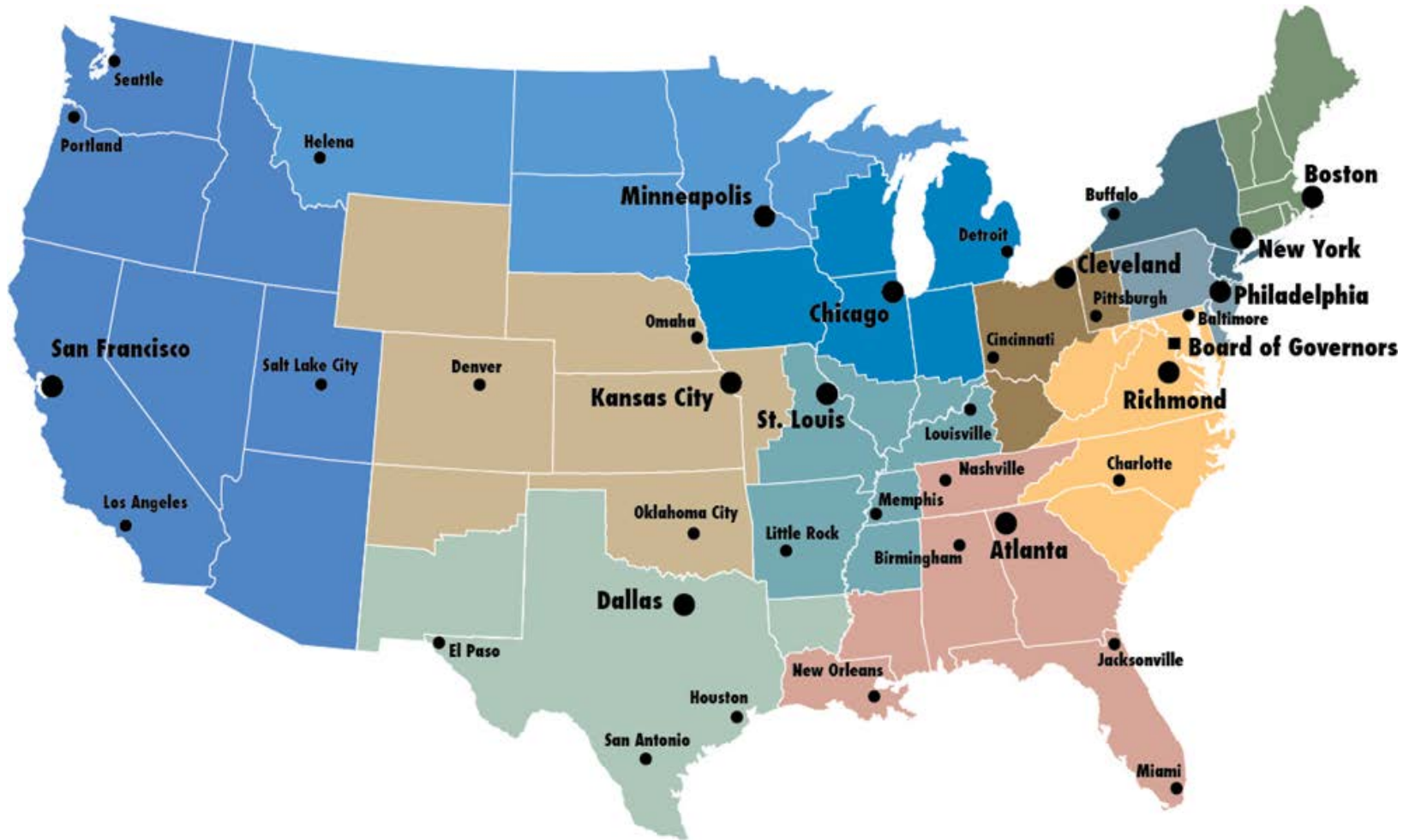
Structure and Functions of the Federal Reserve System

- **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 45 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
 - **Susan Chapman Plumb**, COO, Bank of Cherokee County, Tahlequah *(new in 2017)*
 - **Katrina Washington**, Owner/Broker, Stratos Realty, OKC *(new in 2017)*

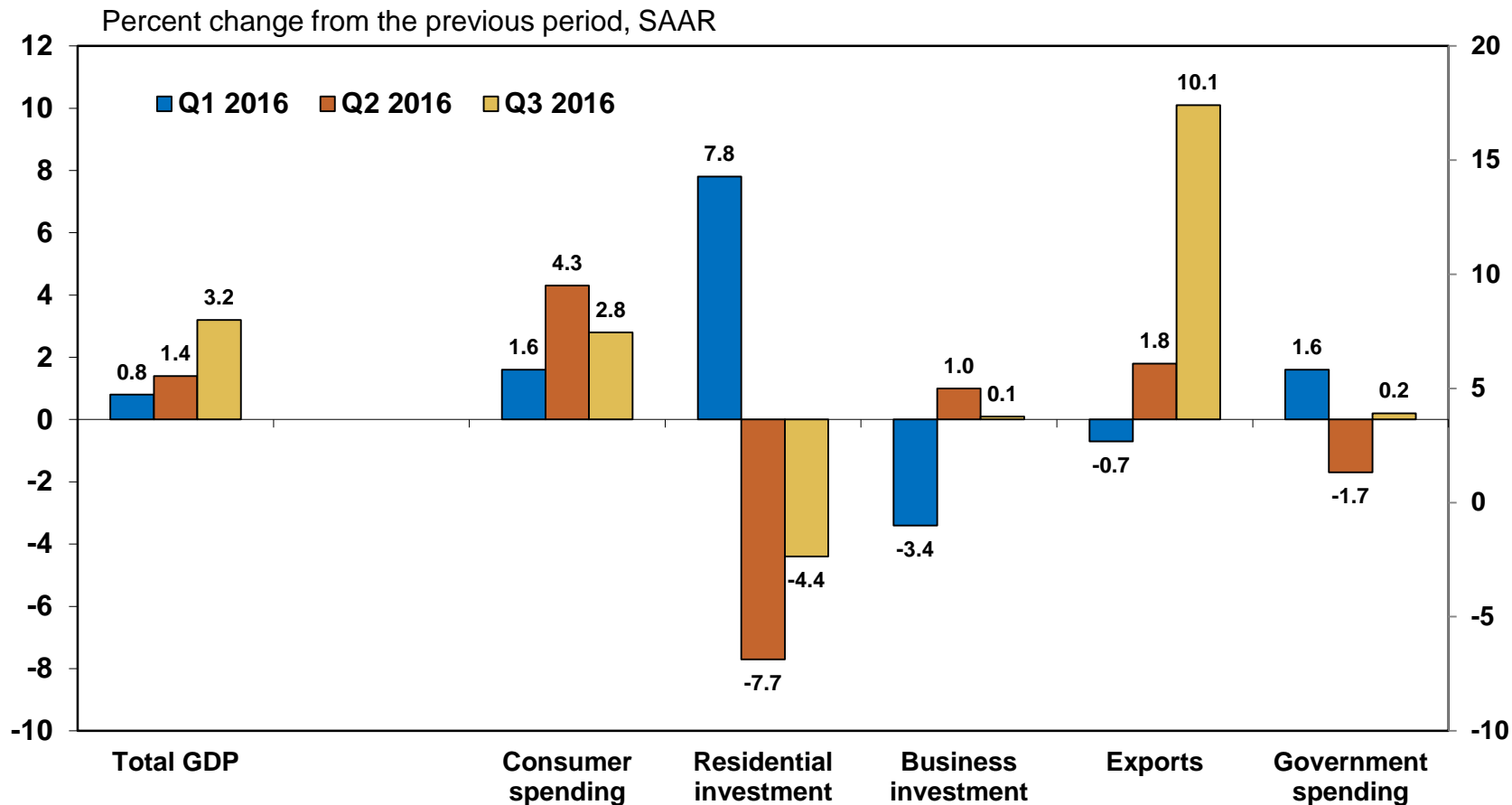


The U.S. Economy and Monetary Policy



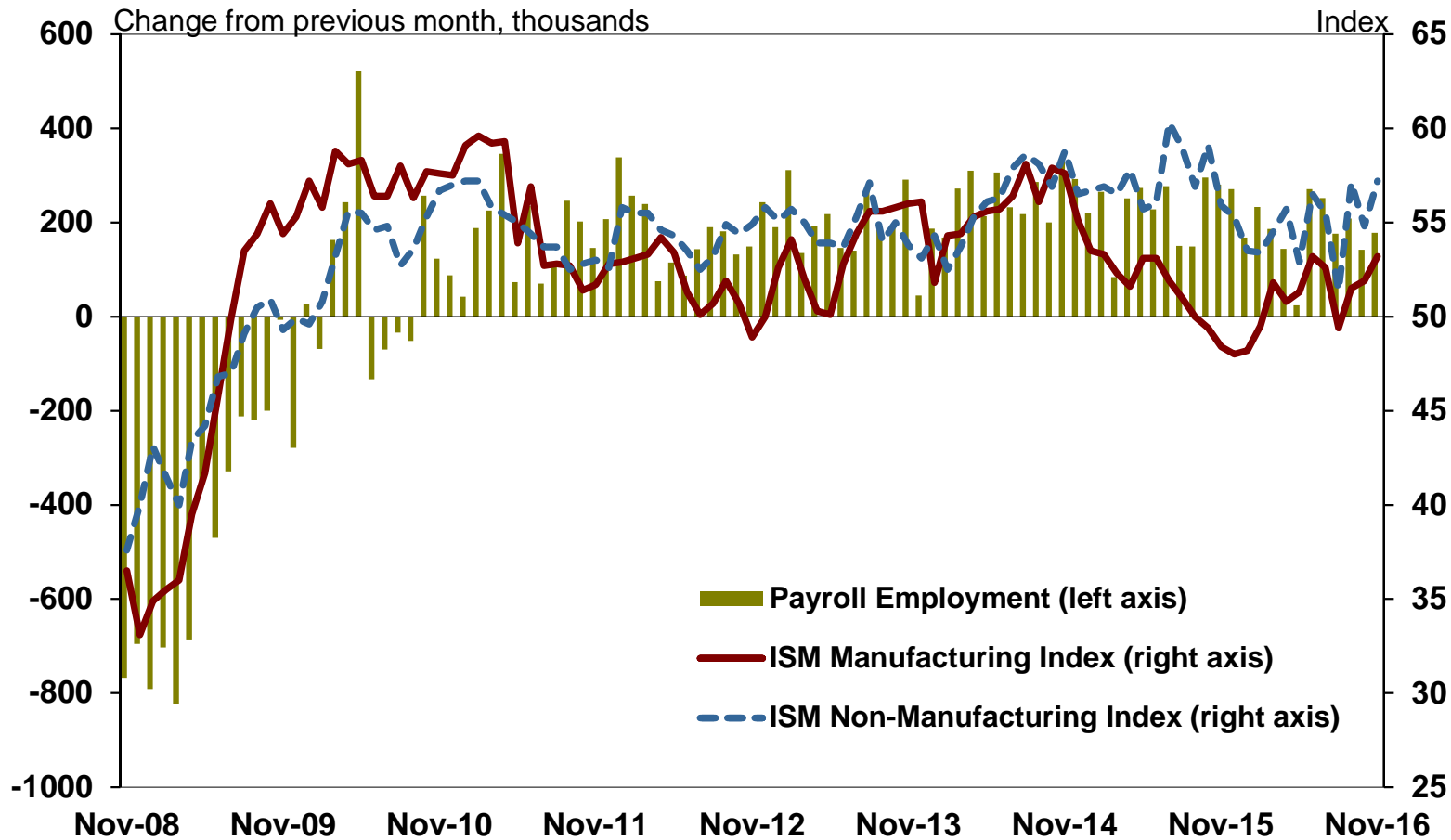
GDP growth picked up in the 3rd quarter after sluggish growth in previous quarters

Growth in Components of Real GDP



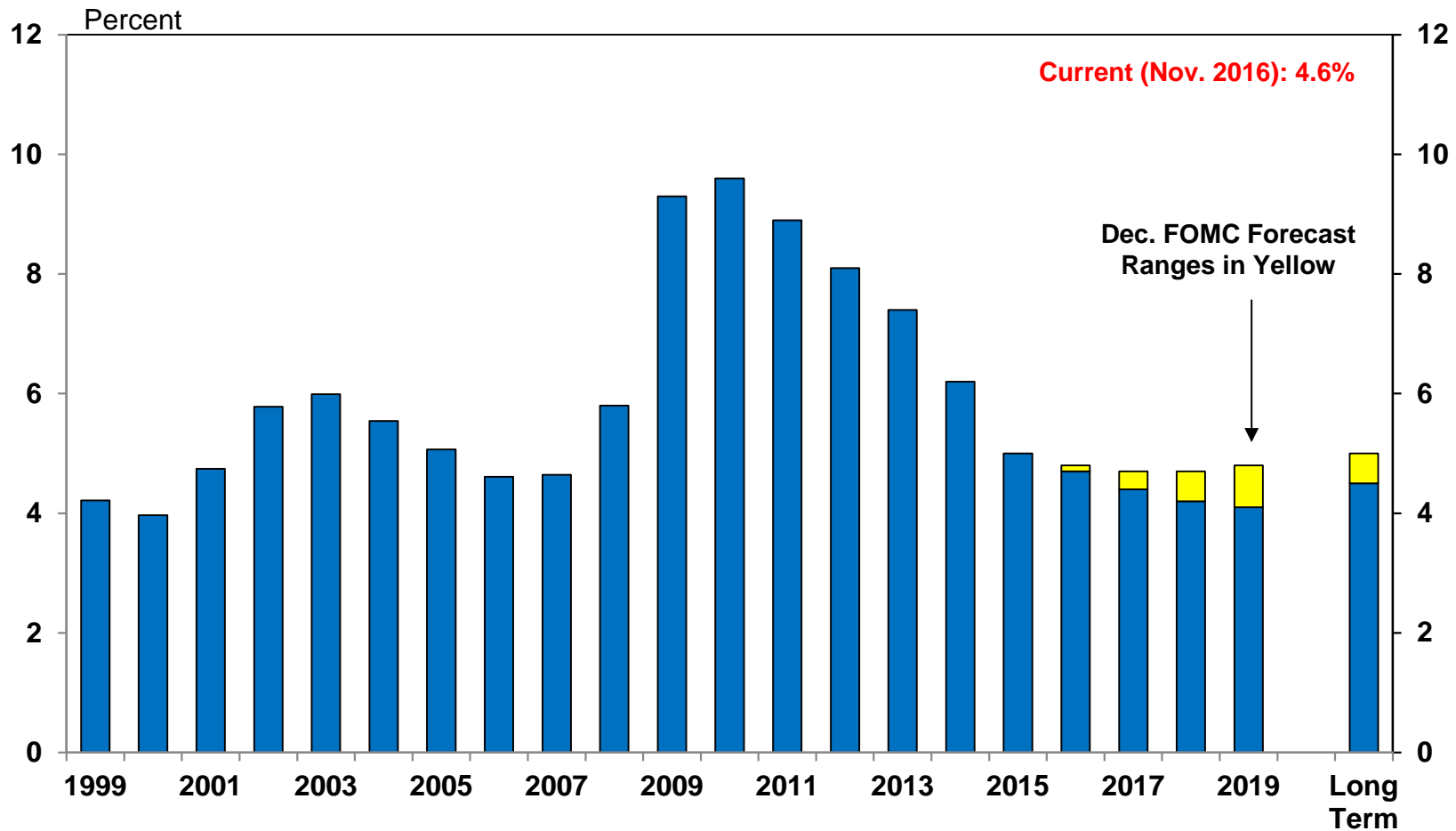
Fourth quarter data has so far shown continued solid U.S. economic expansion

U.S. Payroll Employment and Business Indexes



“The [FOMC] indicated that...the labor market has continued to strengthen”

Unemployment Rate Seasonally Adjusted

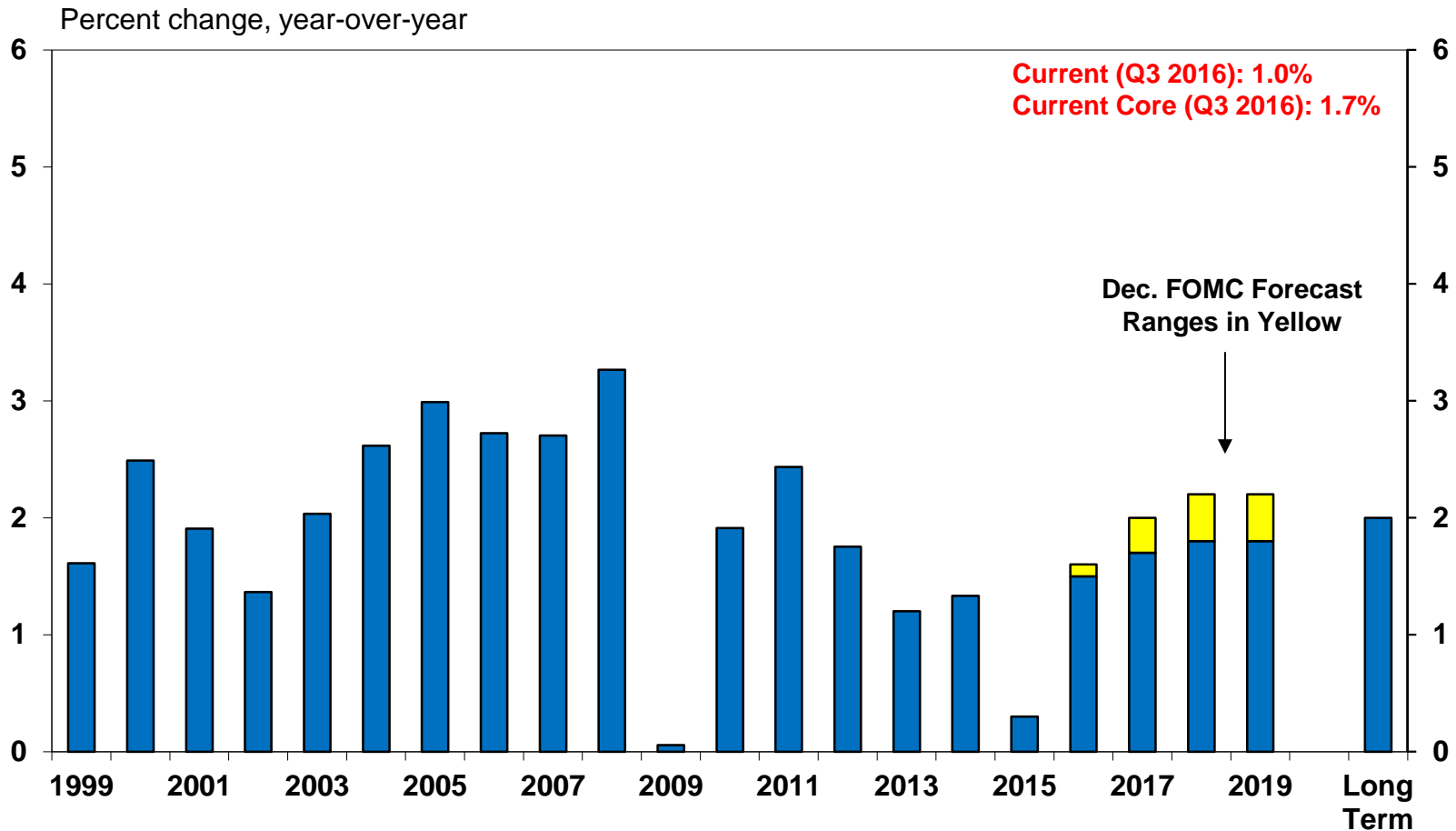


Sources: U.S. Bureau of Labor Statistics, FOMC



“Inflation has increased...but is still below the Committee’s 2 percent longer-run objective”

PCE Inflation Index

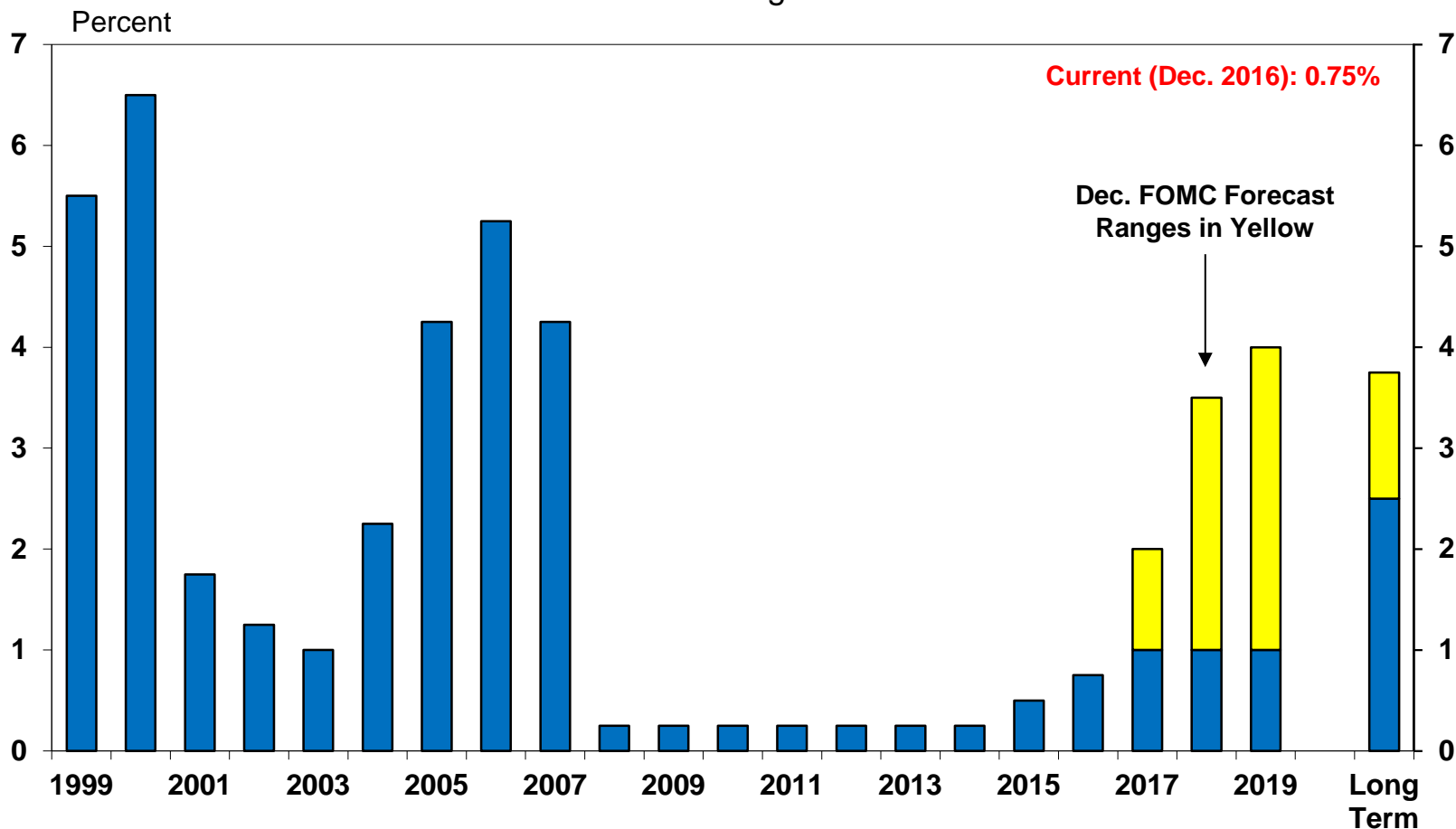


Sources: U.S. Bureau of Labor Statistics, FOMC



“The Committee expects...only gradual increases in the federal funds rate”

Federal Funds Rate Year-end target

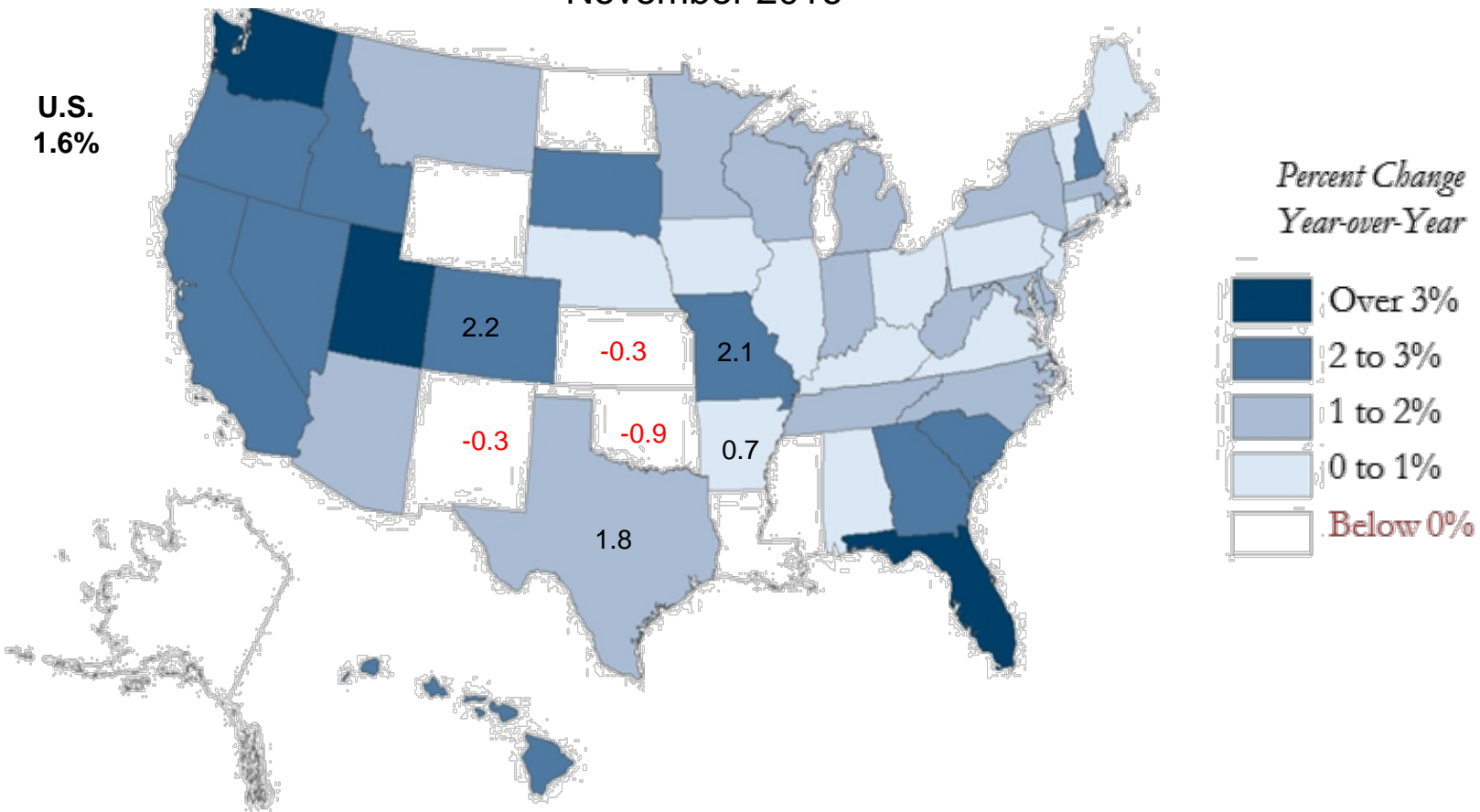


Trends in the Oklahoma Economy



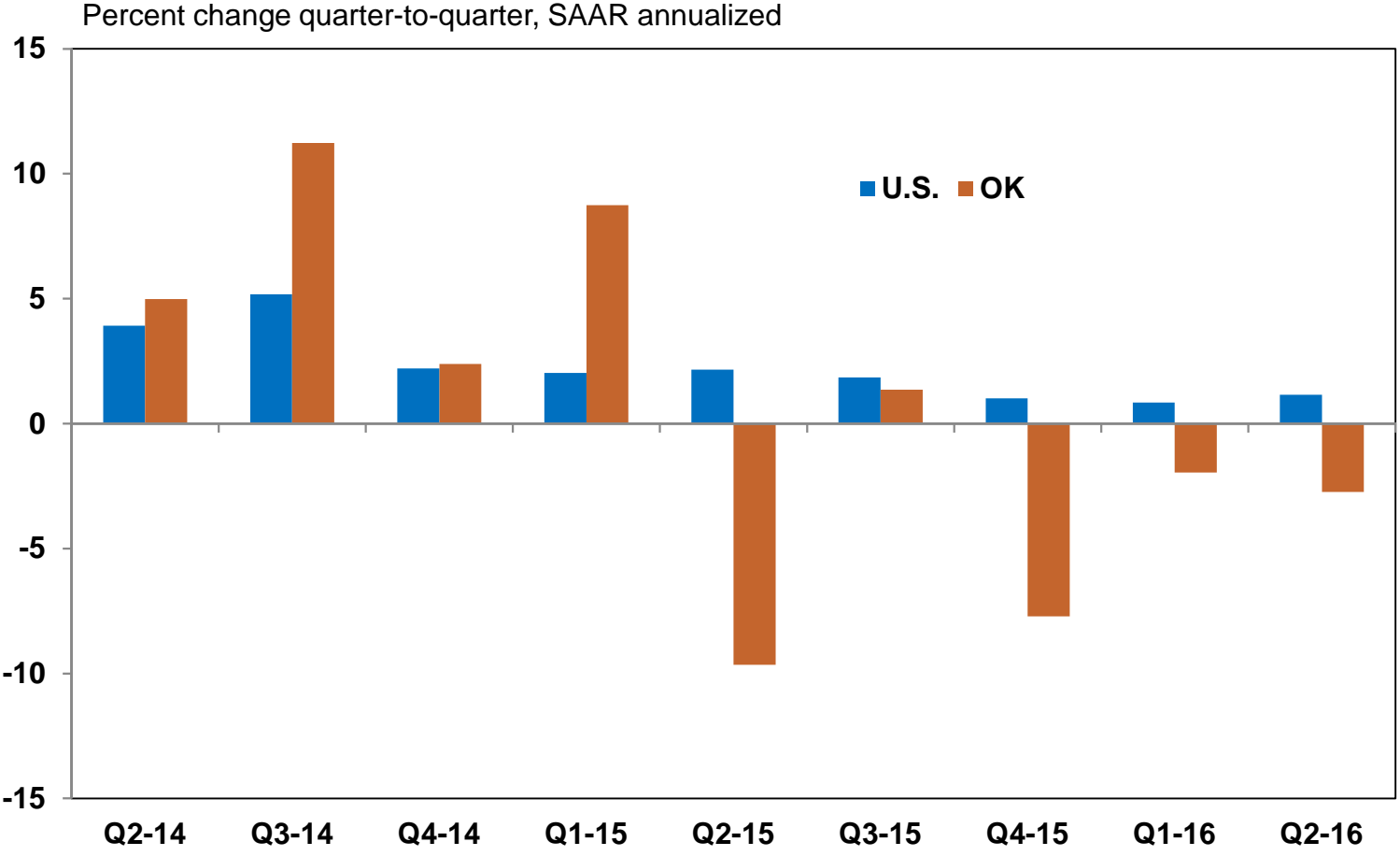
Job growth in the U.S. has diverged, with Oklahoma in a jobs recession

Total Nonfarm Employment Growth
November 2016



Oklahoma GDP has fallen in the past three quarters, and in four out of the last five

Real GDP Growth

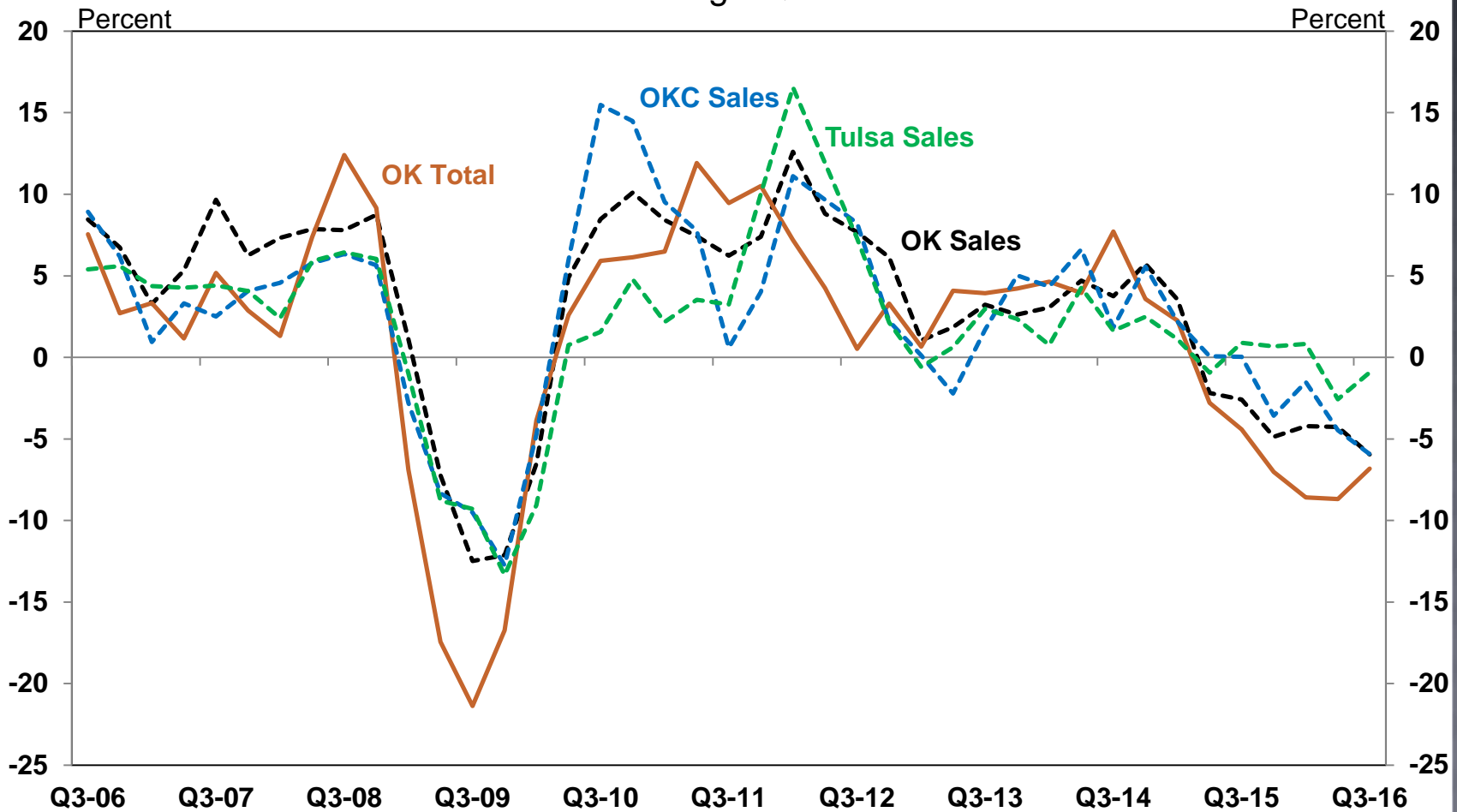


Source: U.S. Bureau of Economic Analysis



Sales and city sales tax receipts also fell further in Q3

Tax Receipts
Through Q3-16*



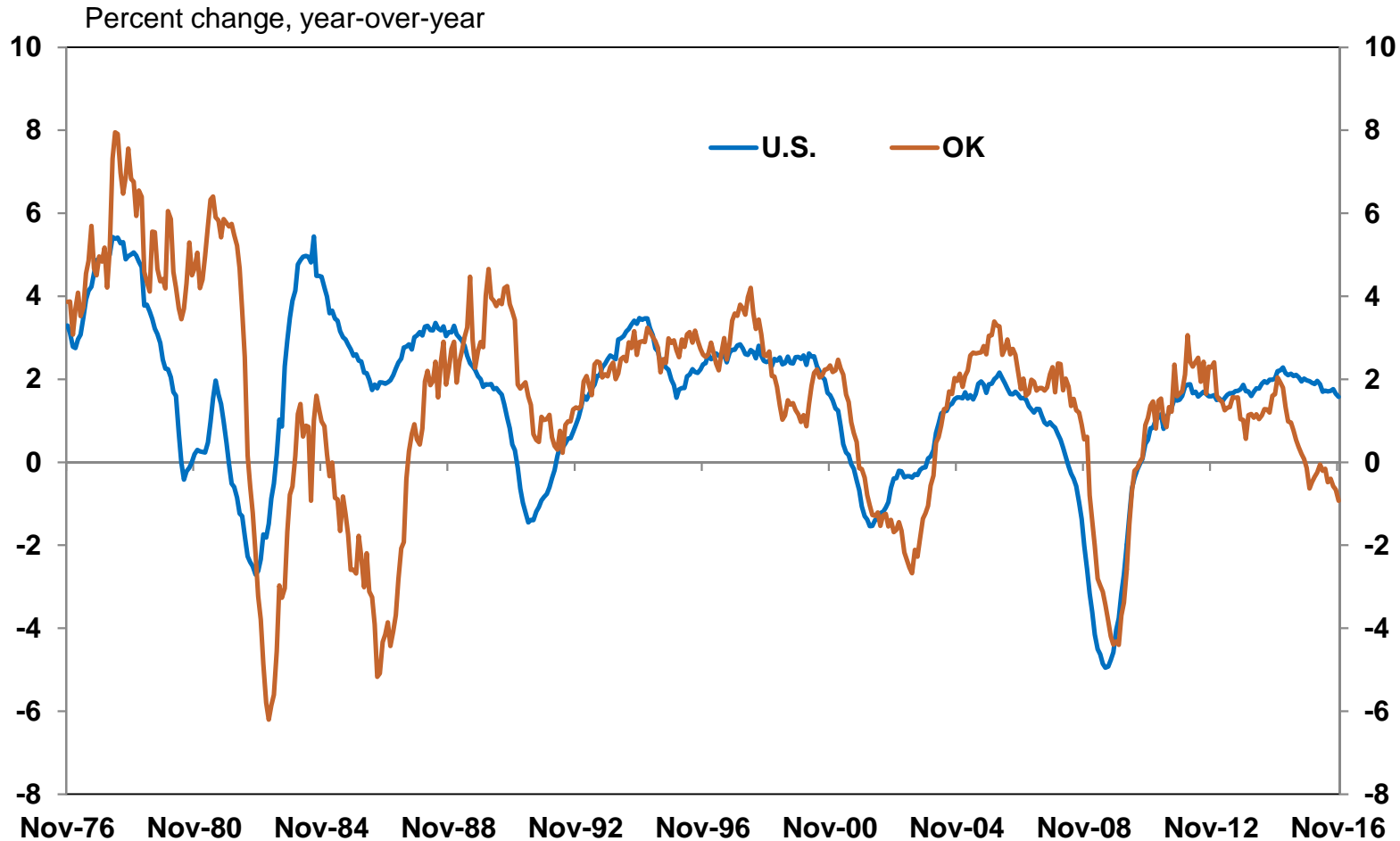
*Q3-16 through August 2016

Source: OK Tax Commission



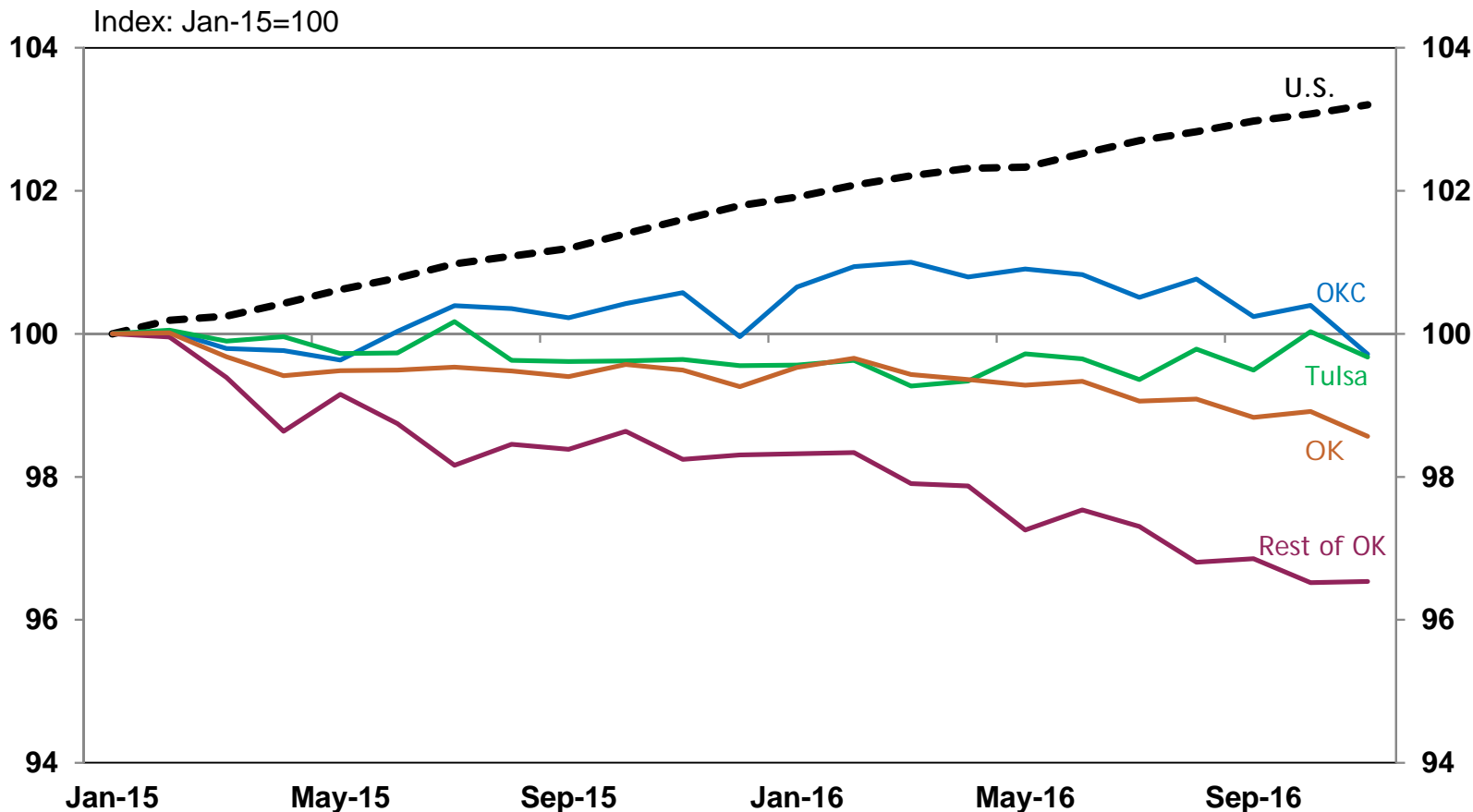
This is the largest divergence in Oklahoma and national job growth since the 1980s

Payroll Employment Growth



The metro areas have held up better than non-metro parts of the state

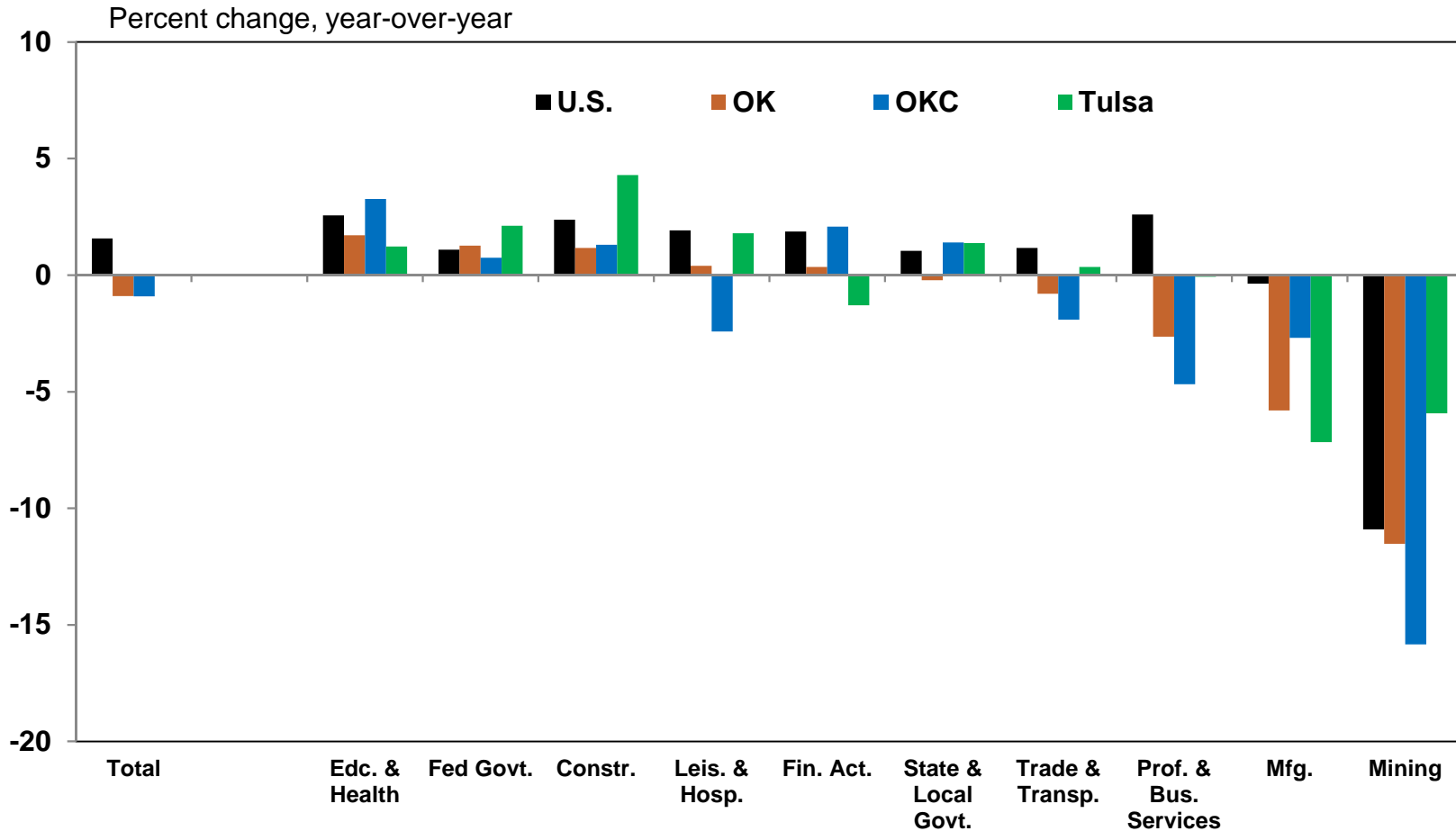
Level of Payroll Employment
Through November 2016



Spillover has occurred from energy, but there are still several industries growing

Job Growth by Industry

Nov-16

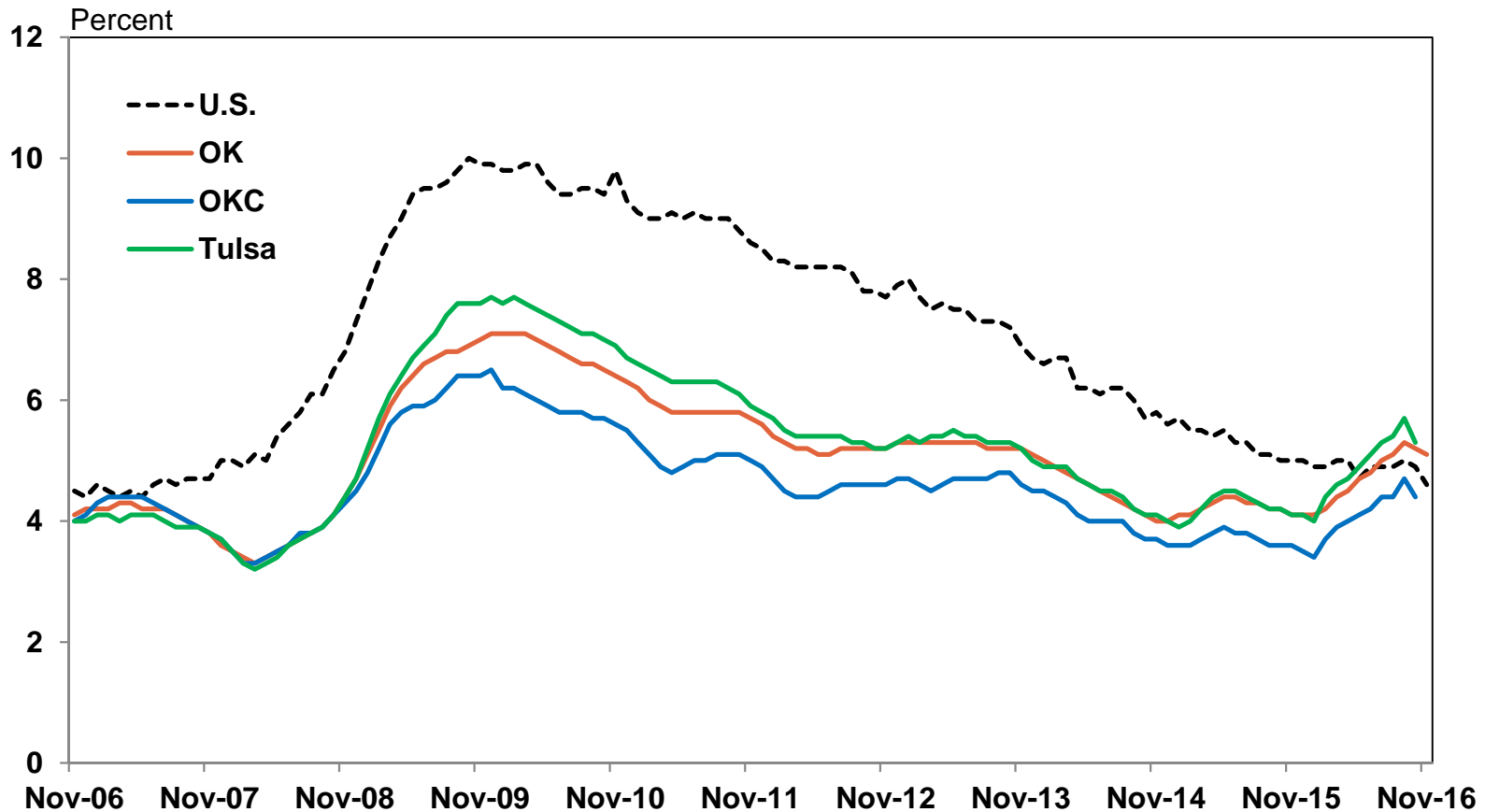


Source: Bureau of Labor Statistics



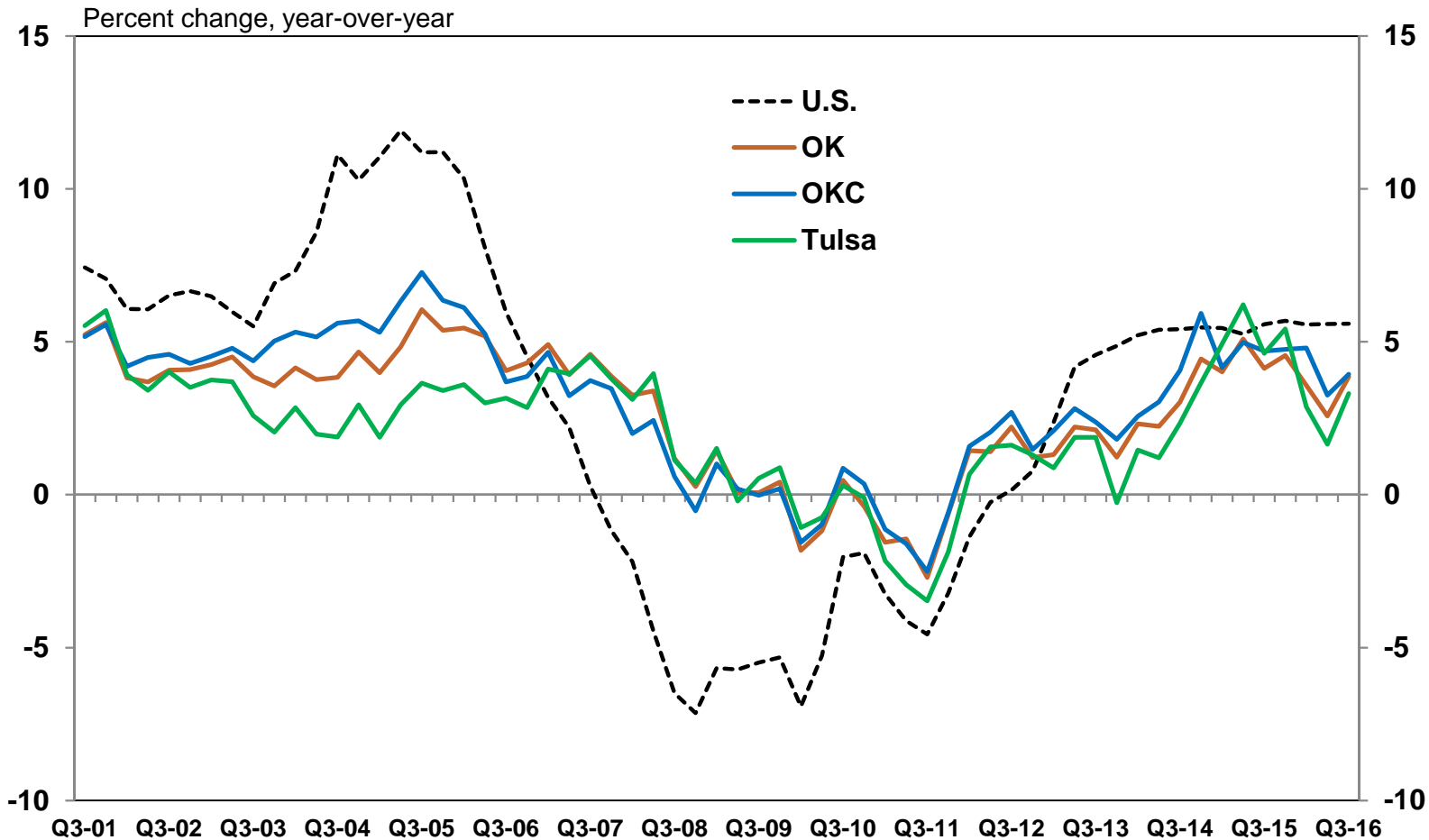
Unemployment has ticked up this year, but just to slightly above the national rate

Unemployment Rates
Seasonally Adjusted



Home price growth in Oklahoma has slowed, but remains moderately positive

FHFA Home Price Index
Seasonally Adjusted

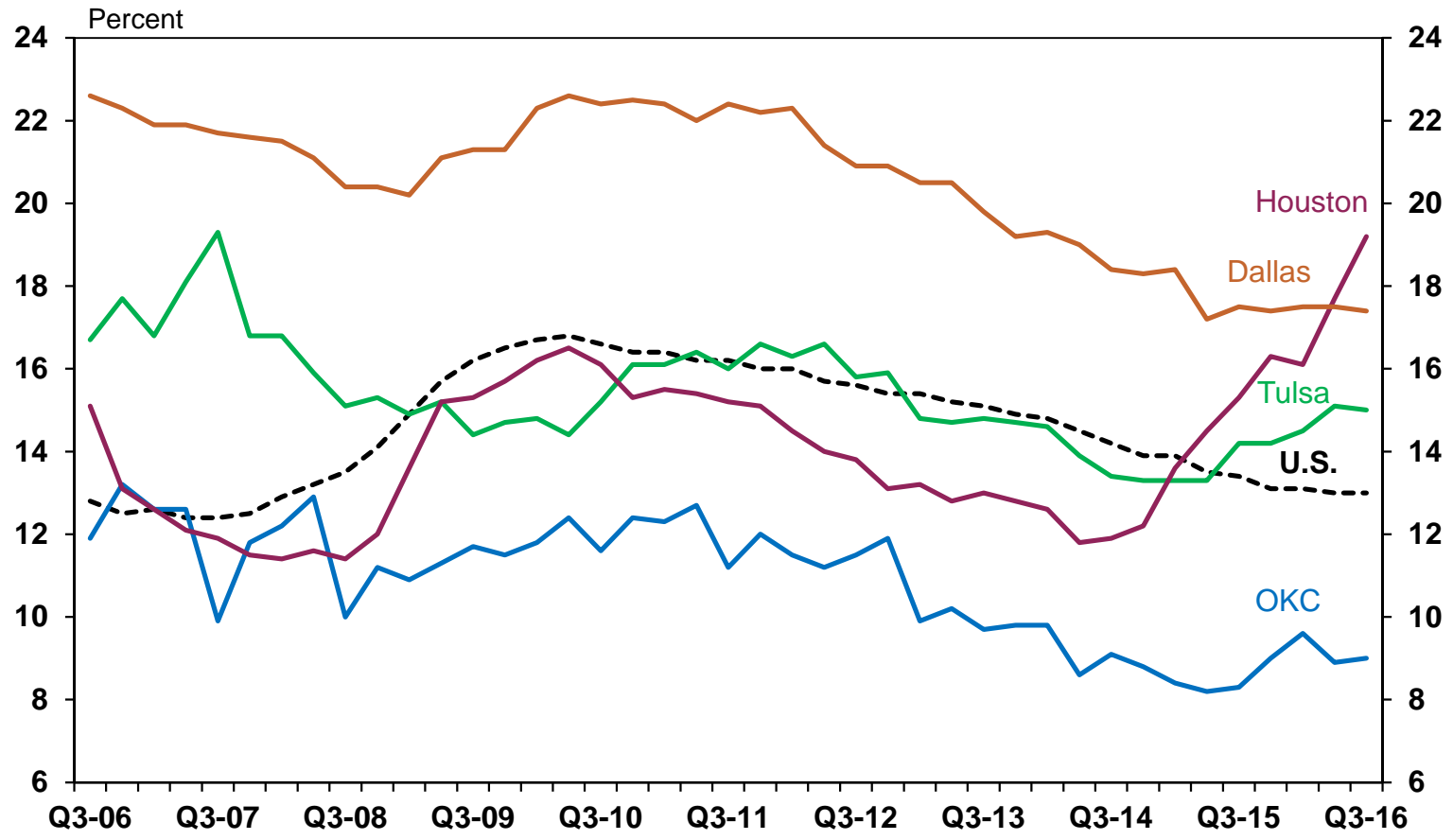


Source: FHFA



Office vacancy rates have risen slightly in the two metros, but much less than Houston

Metro Office Vacancy Rates

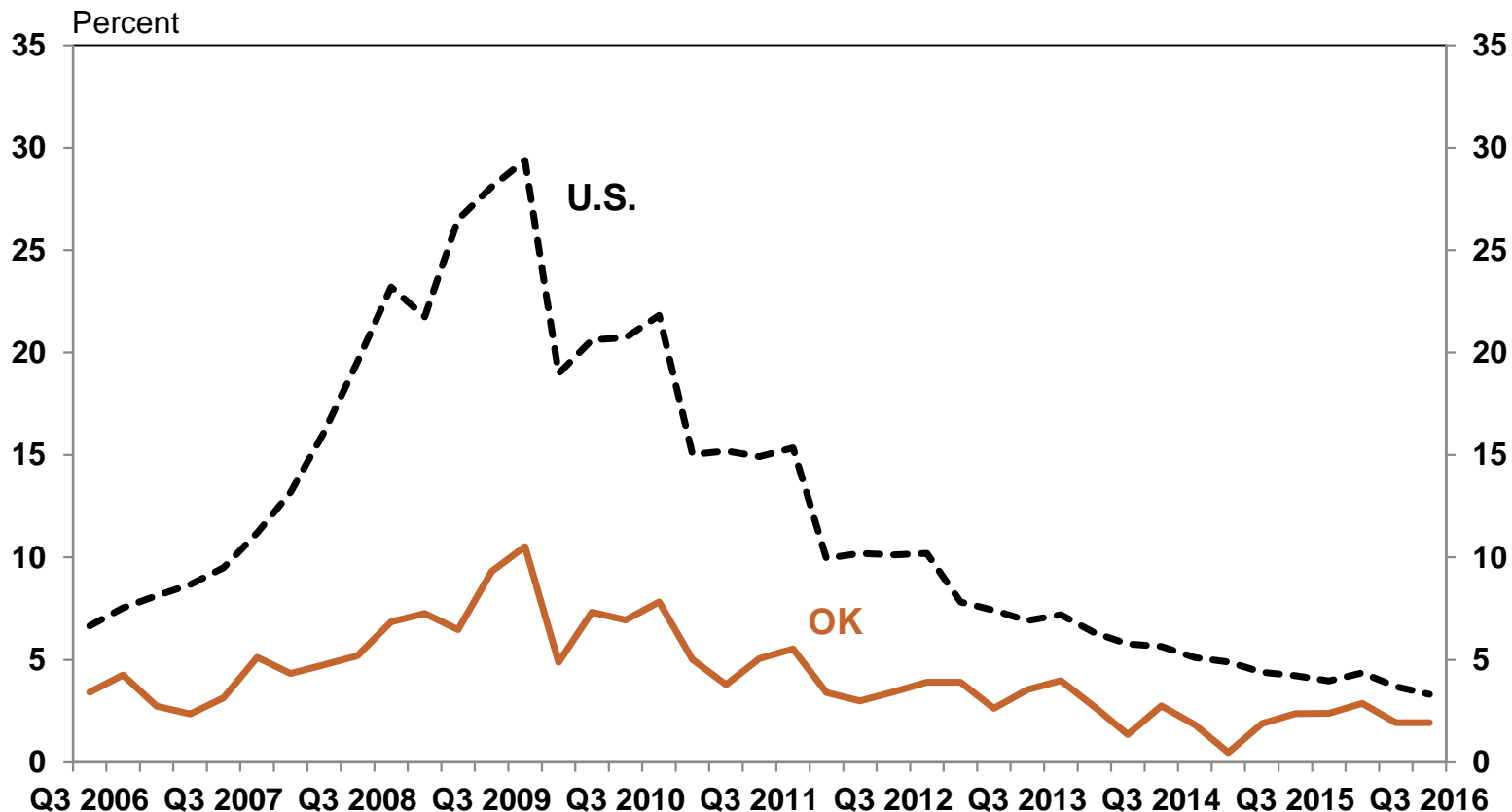


Source: CBRE



And nearly all banks in Oklahoma remain profitable through mid-2016

Share of Banks Not Making a Profit
Commercial Banks

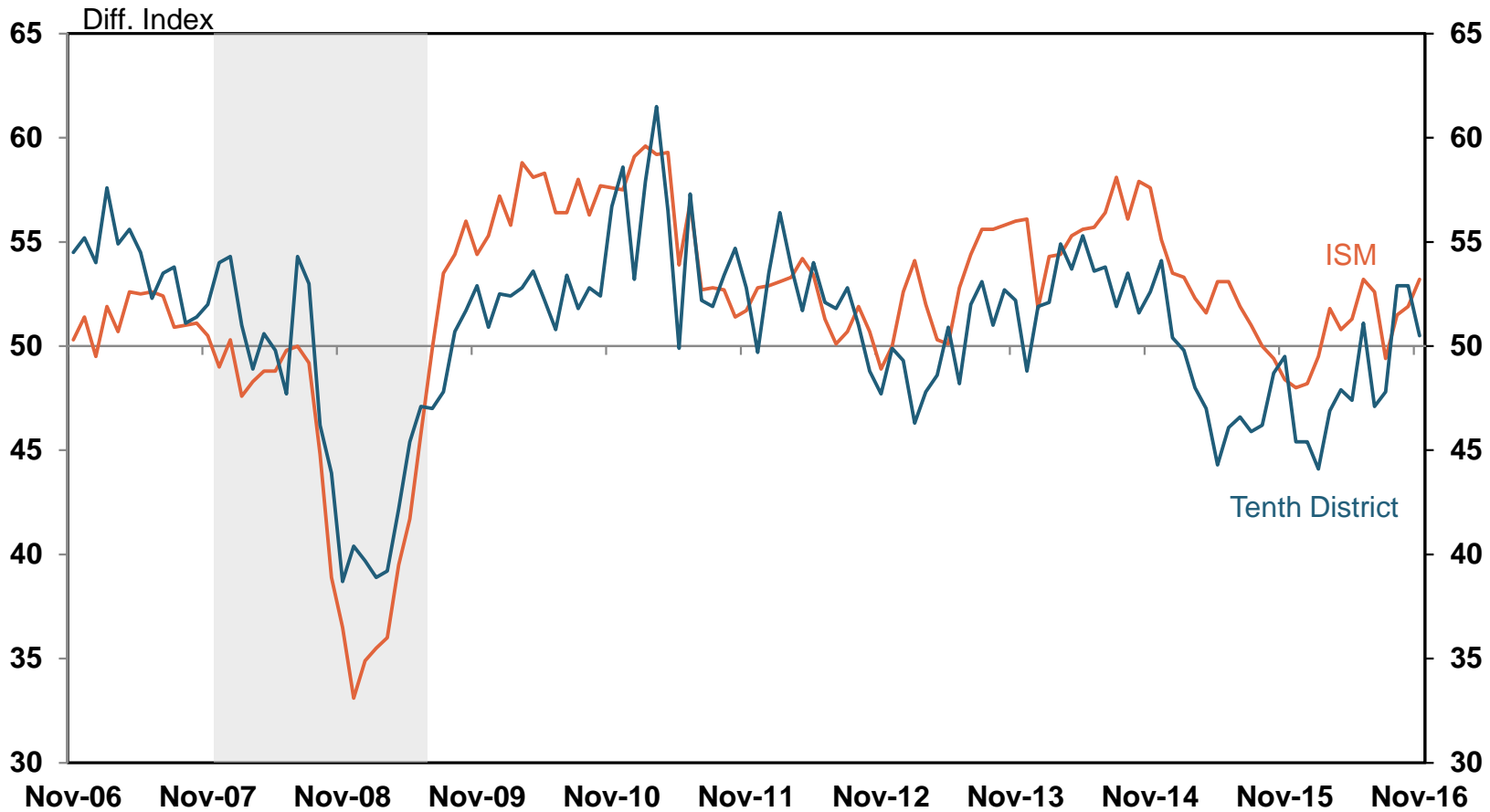


Source: FDIC



One of the struggling regional industries— manufacturing—has improved

**Manufacturing Composite Indexes,
Seasonally Adjusted**

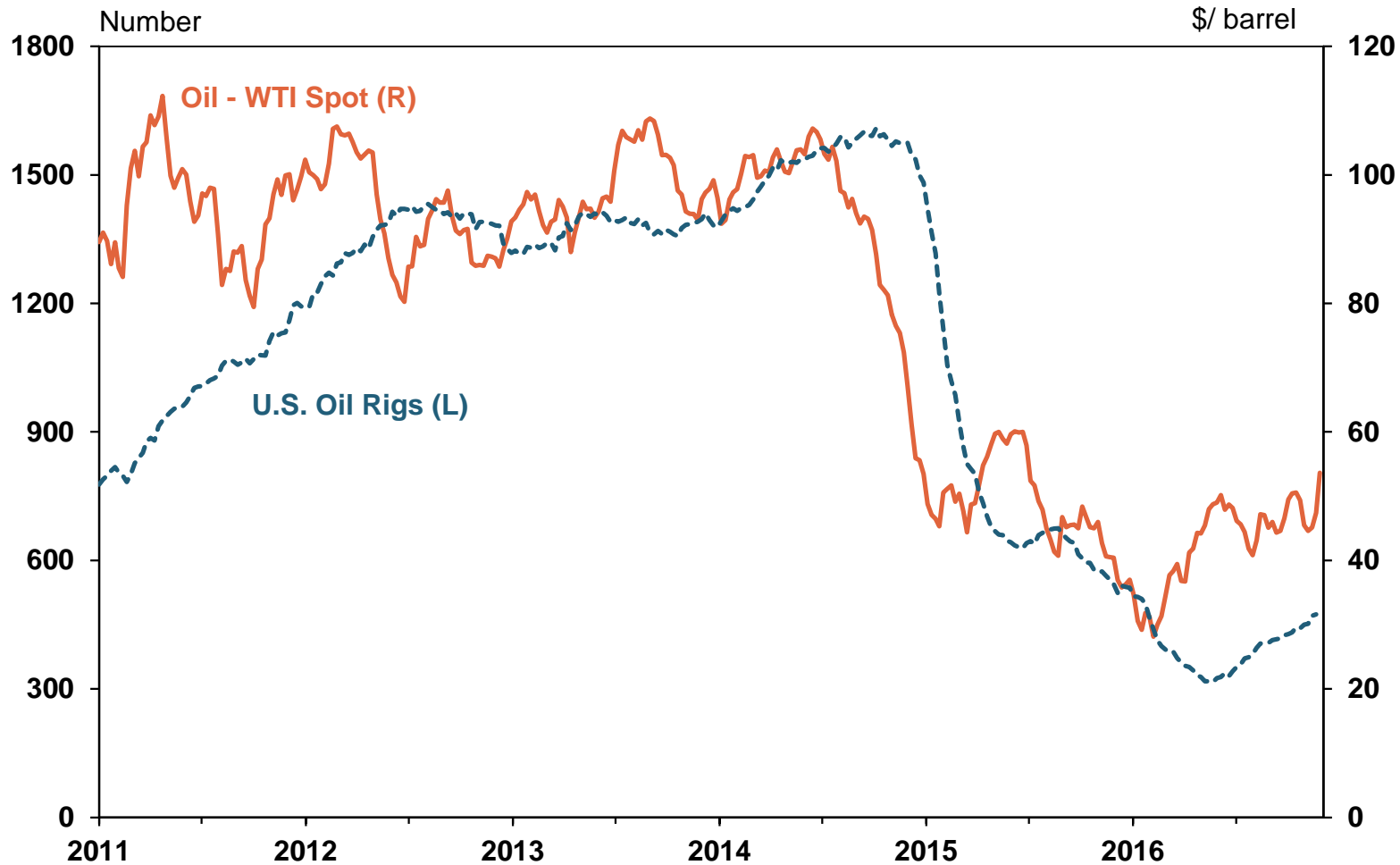


Source: ISM, FRBKC



Oil prices' recent rise to \$50/barrel has boosted drilling, and OPEC's action helps

Oil Spot Prices and Rig Counts

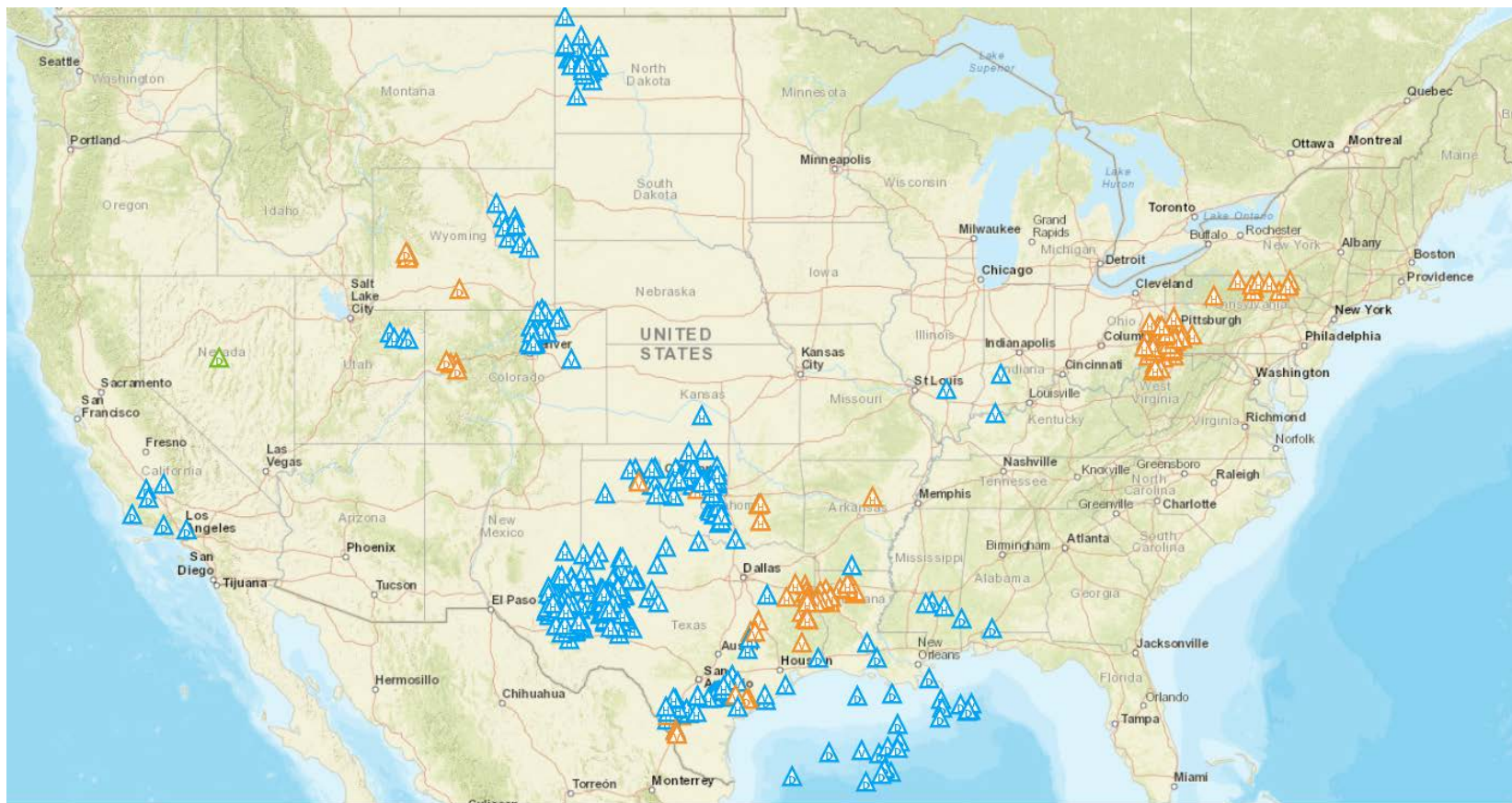


Source: EIA, Reuters



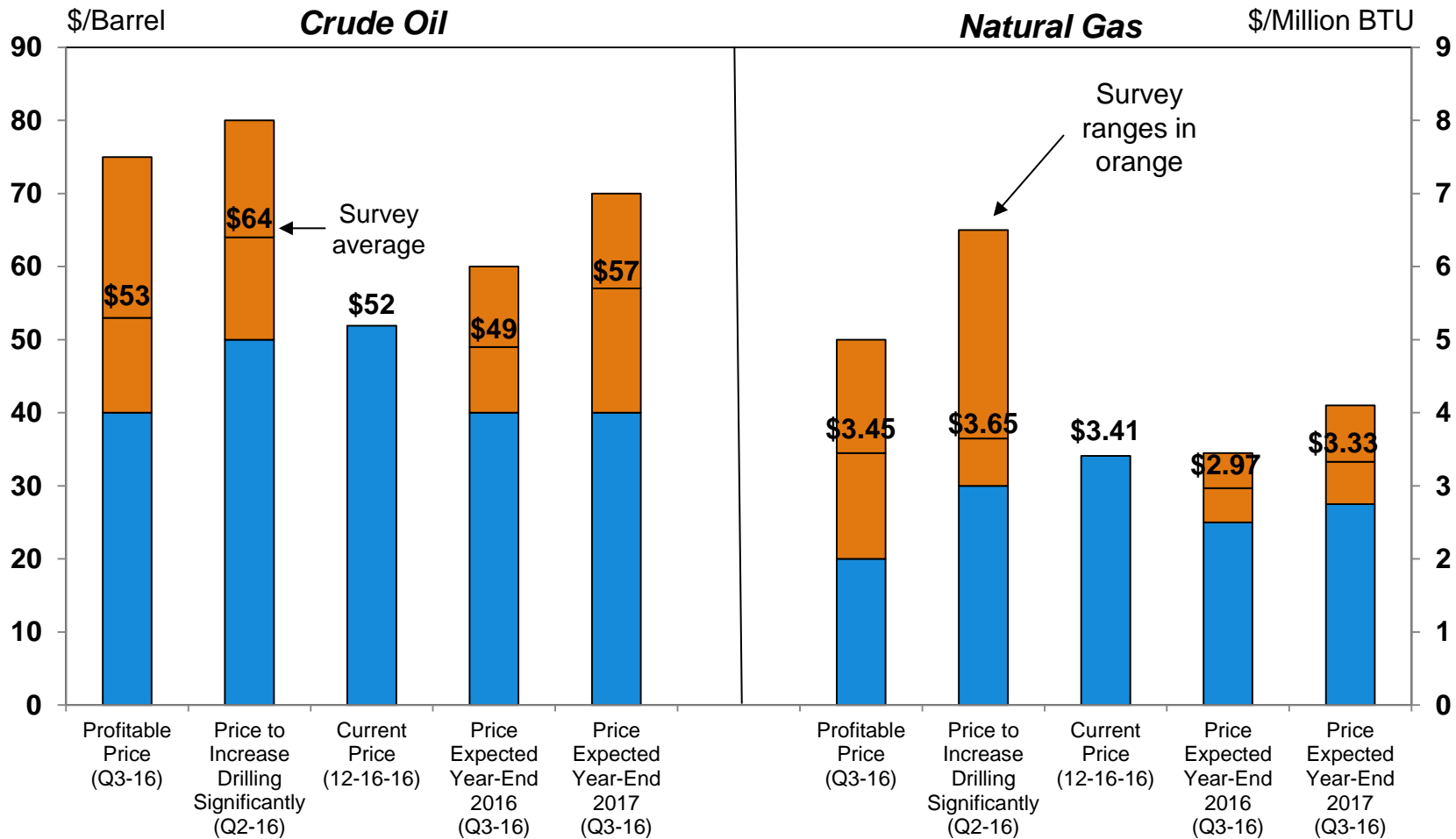
The most active areas now are in west Texas (Permian) and northwest Oklahoma (STACK)

**Current Drilling Rig Locations,
As-of December 16, 2016**



But firms say energy prices need to be a bit higher for a sizable increase in activity

Kansas City Fed Energy Survey Special Questions
2016



Source: FRBKC Energy Survey, Reuters



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, and there is some cautious optimism



Questions?

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