

U.S. and Oklahoma Economic Outlook

*Central Oklahoma Manufacturing Association
May 15, 2018*

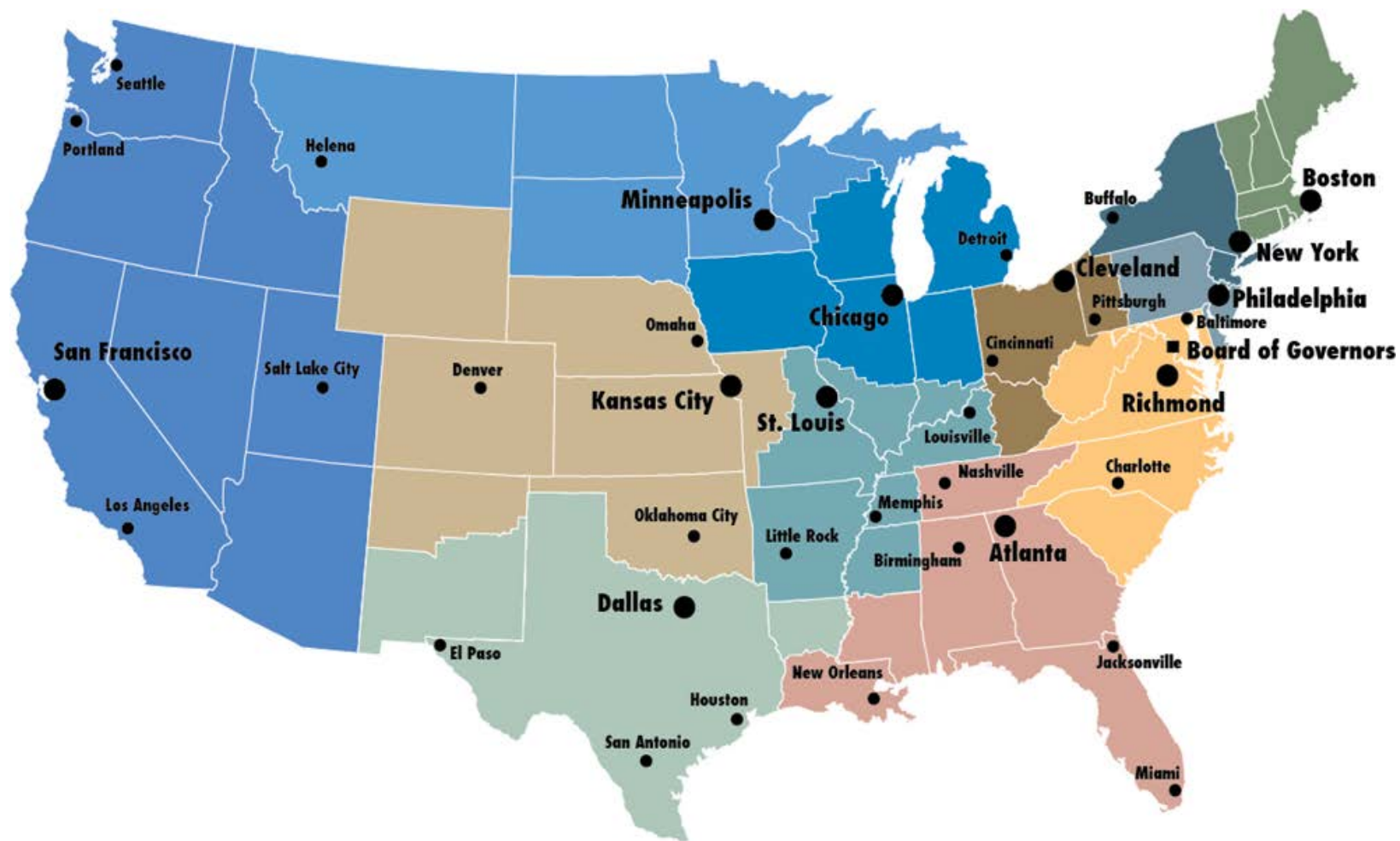
Chad Wilkerson

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

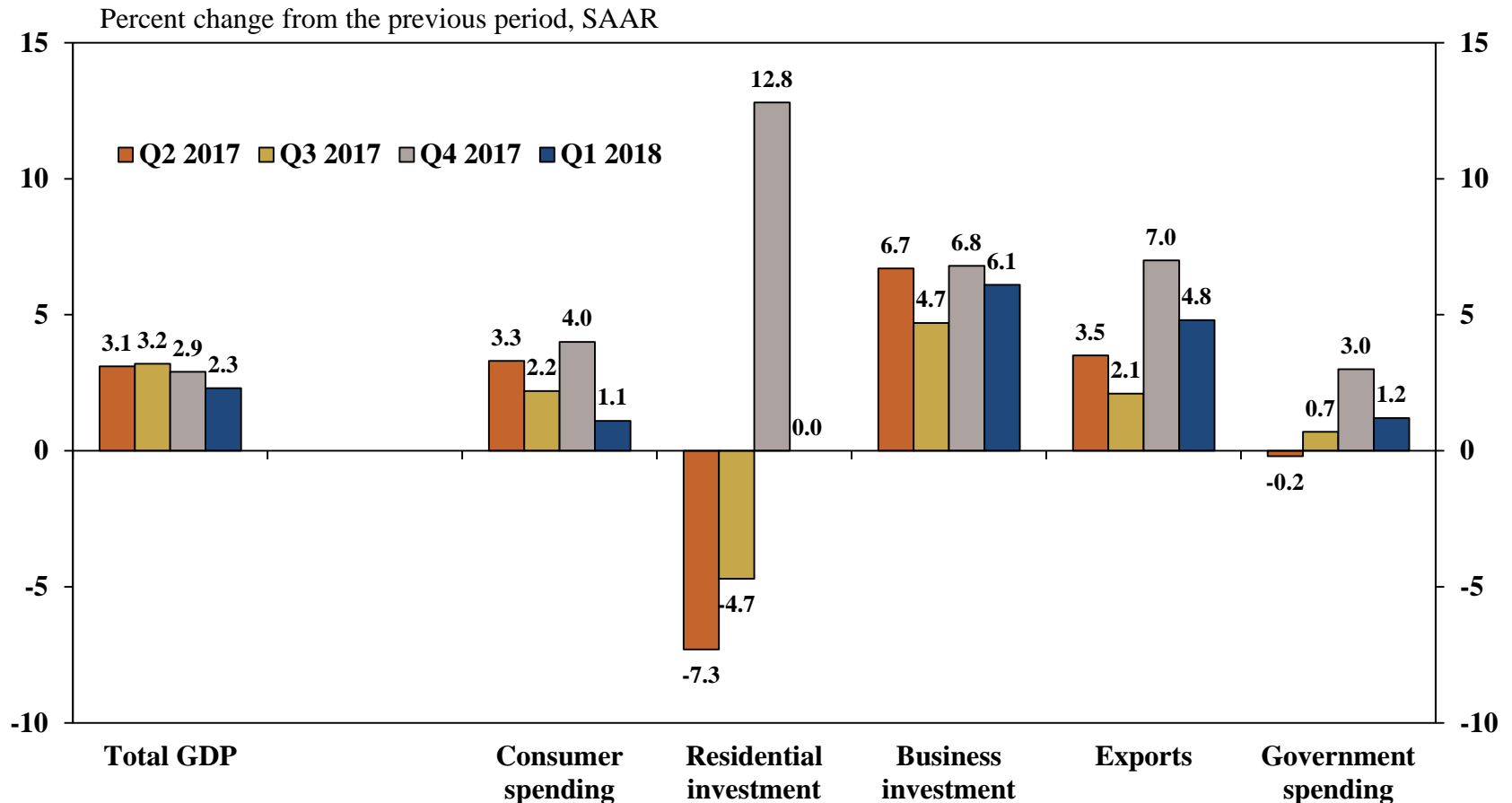
- **Functions and purposes – 45 staff**
 - Research on U.S. and Oklahoma economies; energy and manufacturing sectors
 - Economic and financial education outreach, including to low/moderate income
 - Examinations of Oklahoma financial institutions (~50 banks, ~175 holding cos.)
- **2018 OKC Fed Branch 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



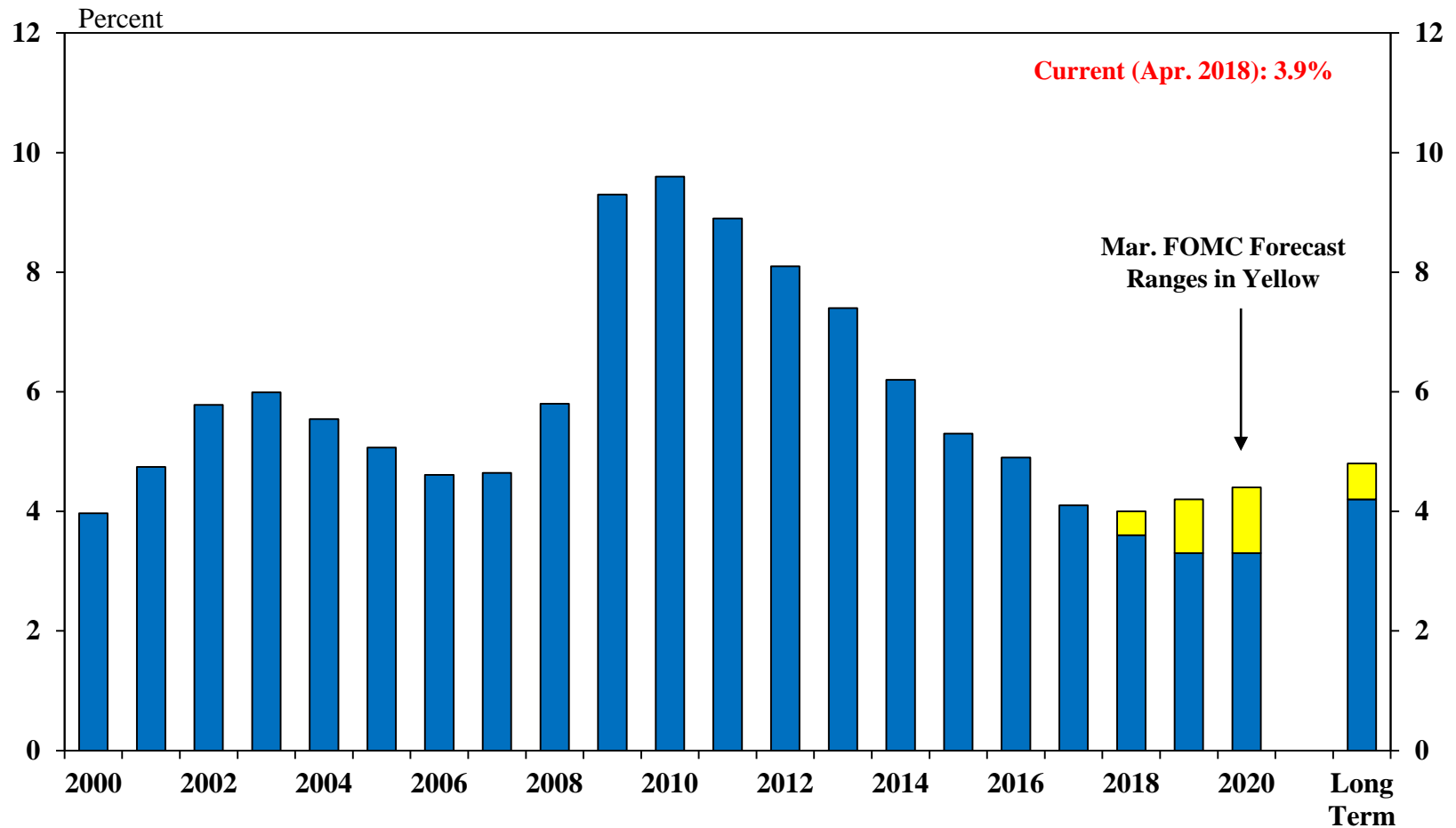
U.S. GDP growth slowed slightly in the first quarter, but still remained solid overall

Growth in Components of Real GDP



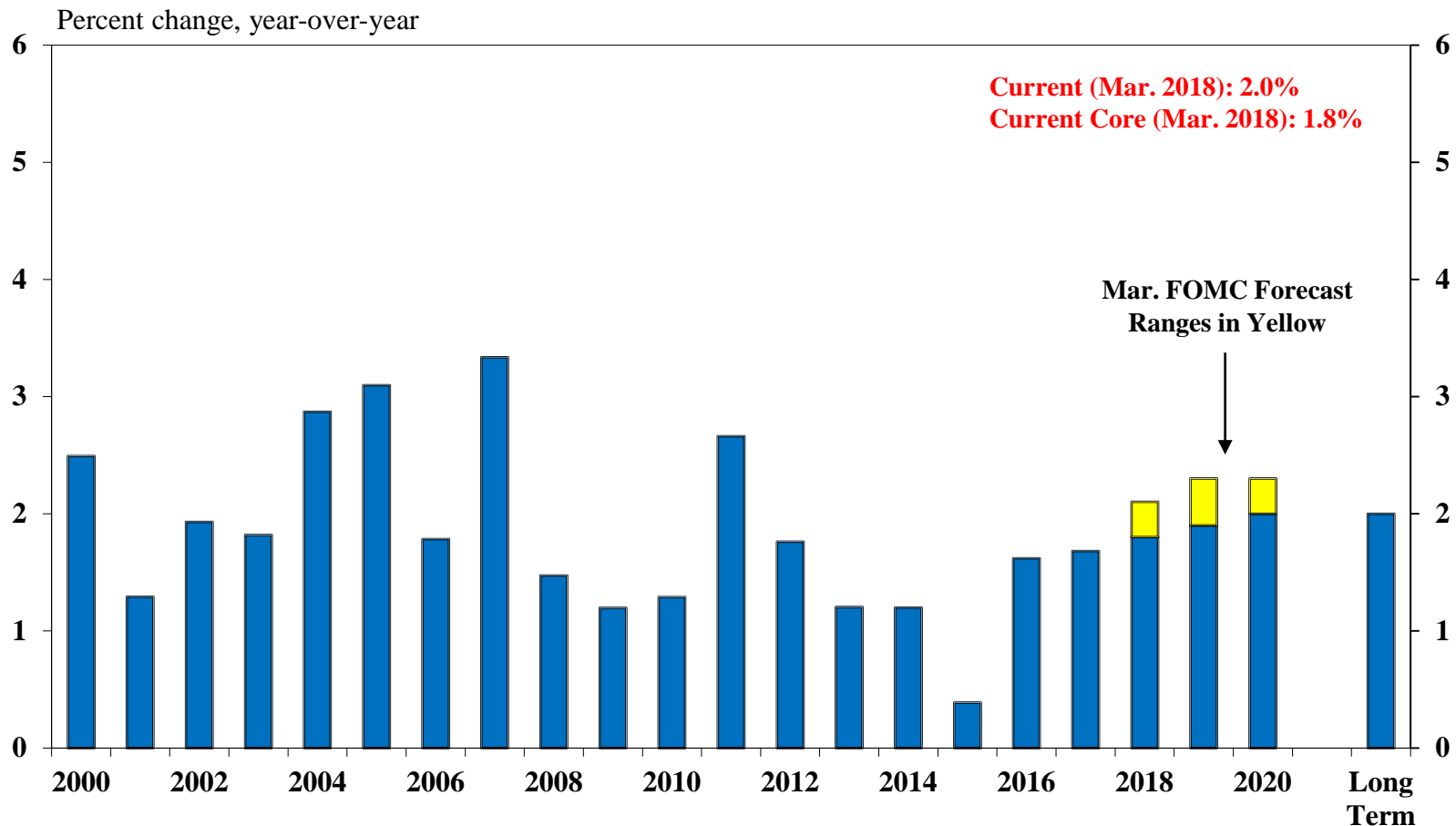
“The [FOMC] expects that, with further...adjustments...
in...policy...labor market conditions will remain strong”

Unemployment Rate Seasonally Adjusted



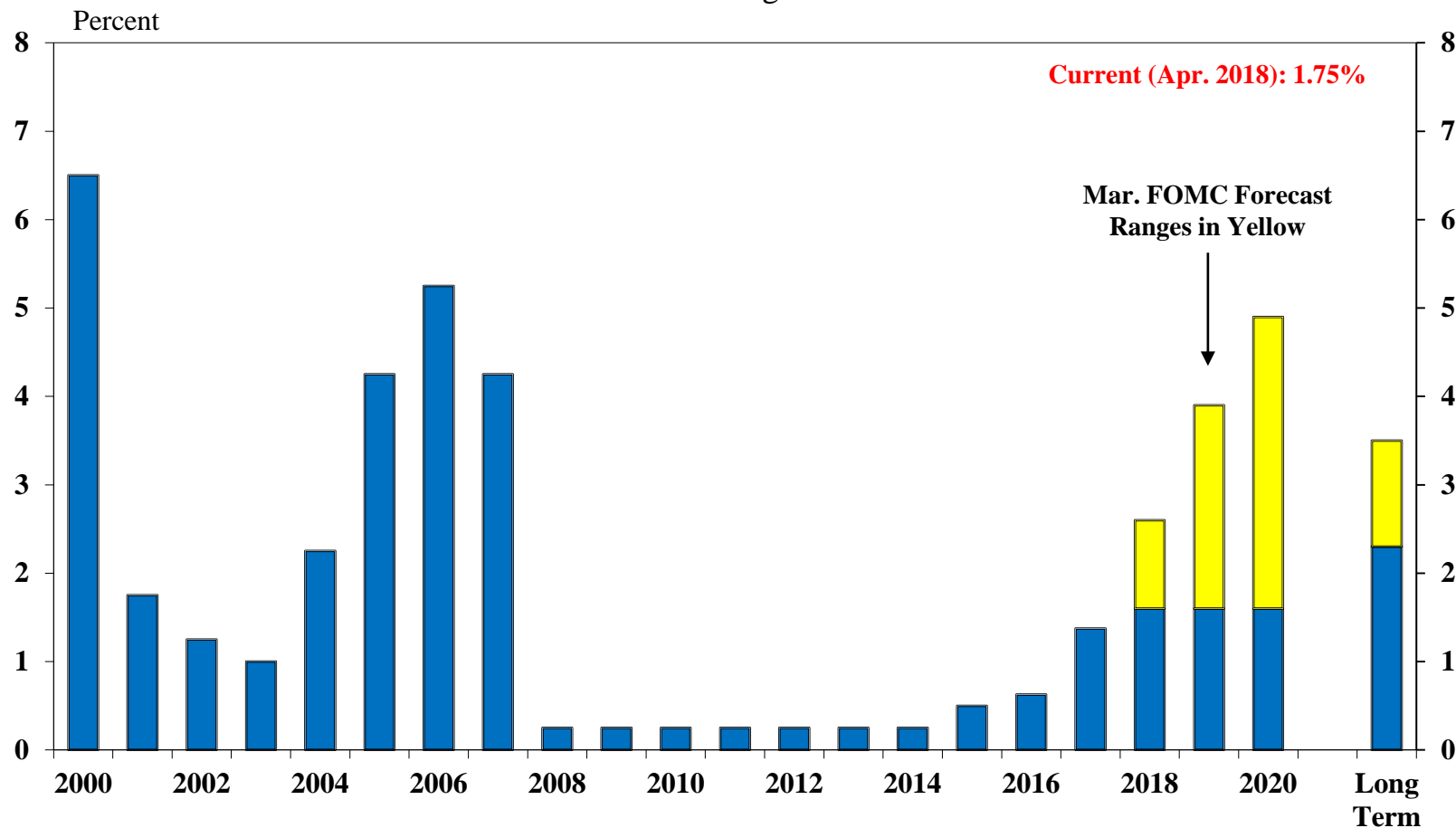
“Inflation on a 12-month basis is expected to run near the [FOMC’s] symmetric 2 percent objective over the medium term.”

PCE Inflation Index



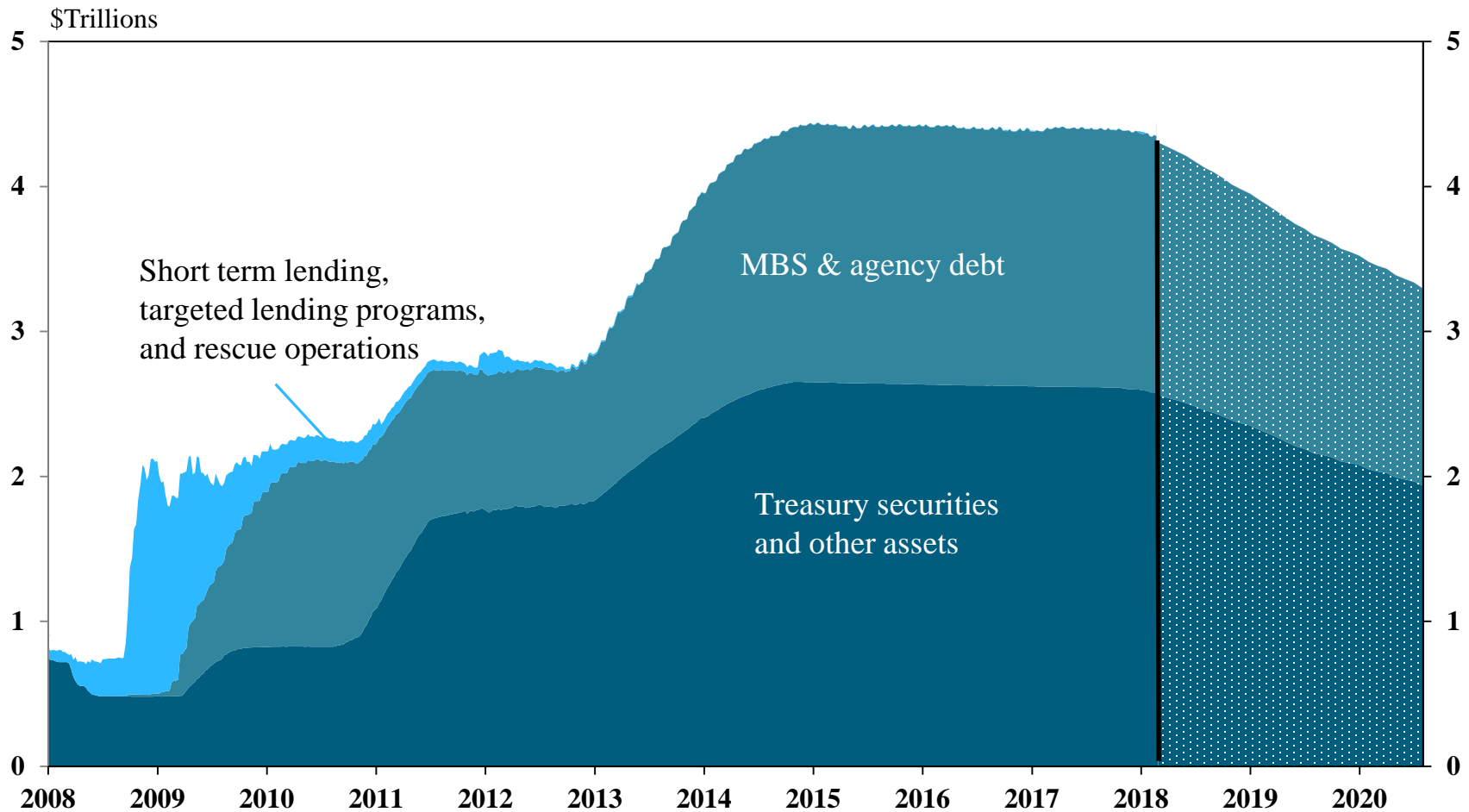
“The [FOMC] expects that economic conditions...will warrant further gradual increases in the federal funds rate.”

Federal Funds Rate Year-end target



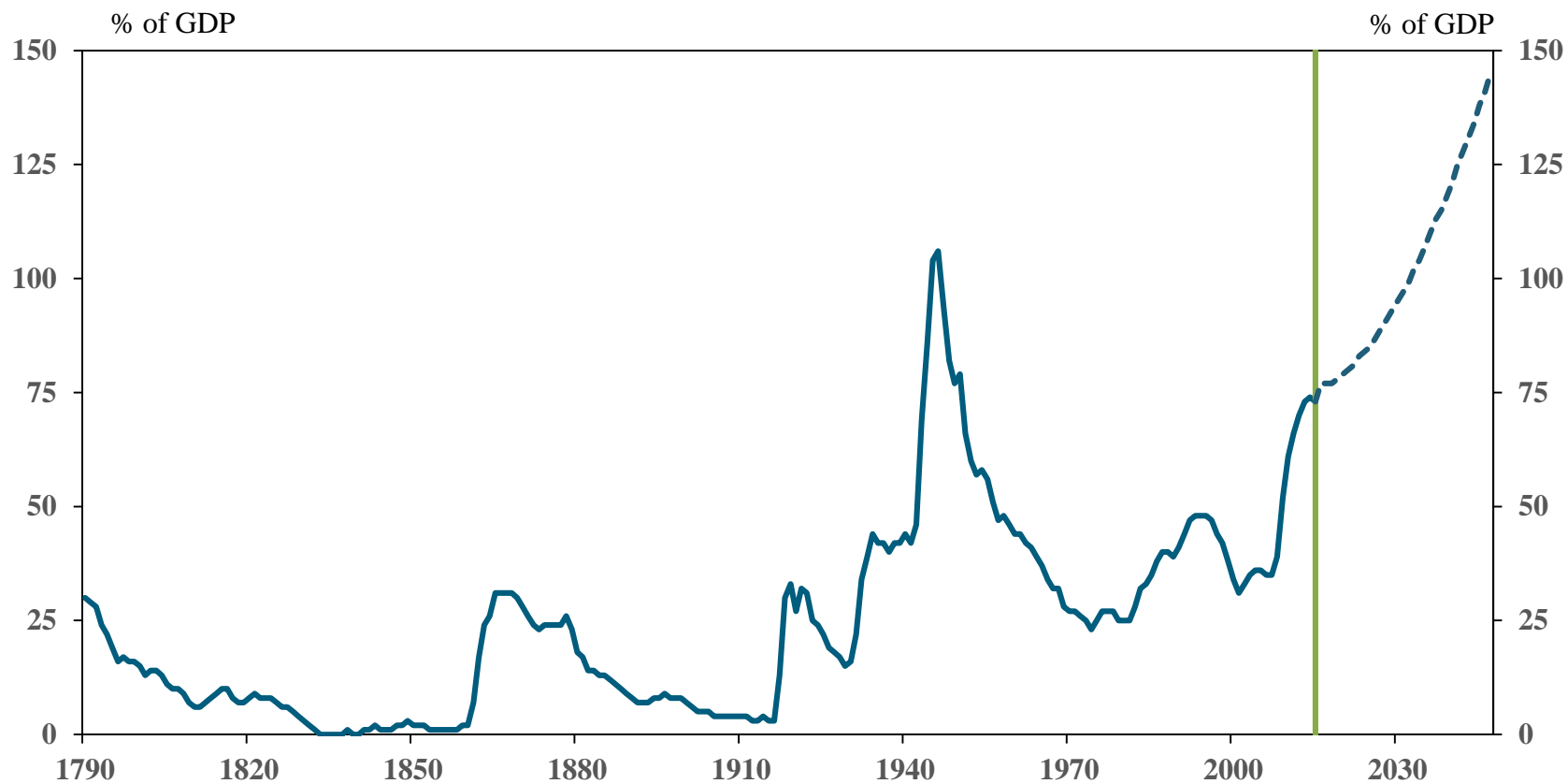
The Fed has also begun to reduce its balance sheet, and the normalization will be gradual

Federal Reserve Balance Sheet



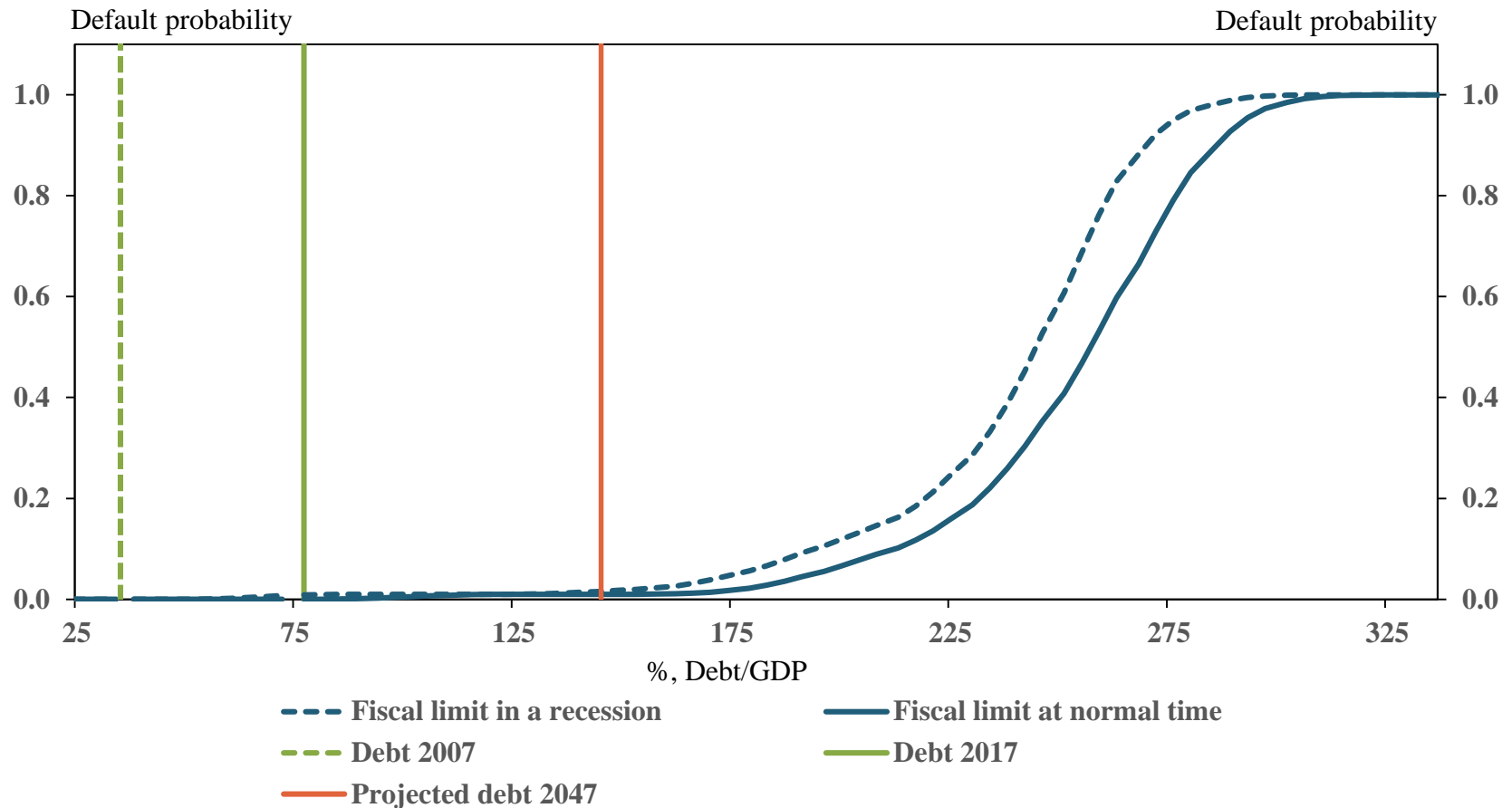
U.S. debt has been rising and is projected to rise further

U.S. Federal Debt Held by the Public



The risk of U.S. default still seems low, even in the longer run

Government Debt Projections – United States

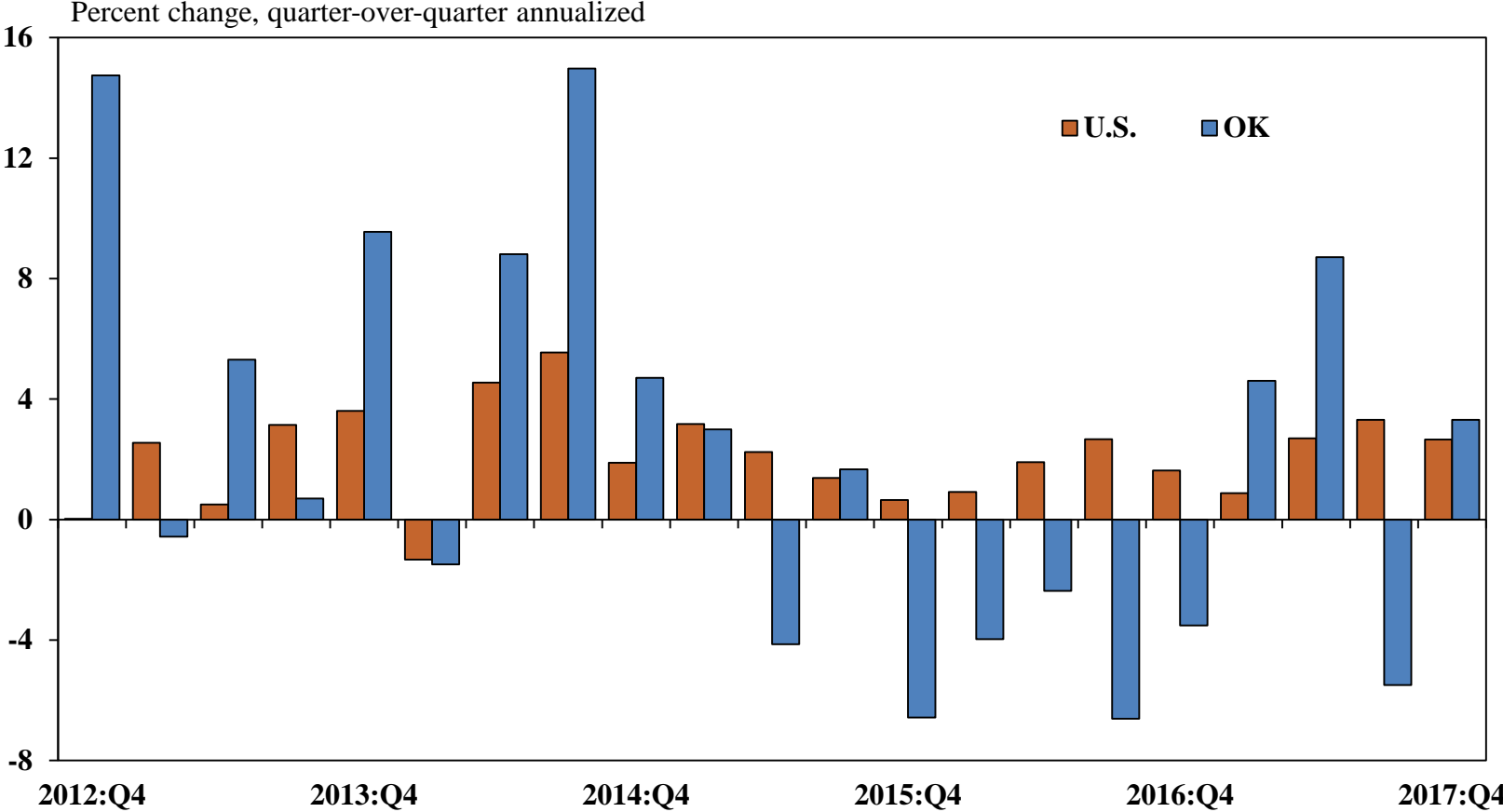


Trends in the Oklahoma Economy



OK GDP has recovered from its downturn of 2015-16, and overall grew similarly as the nation in 2017

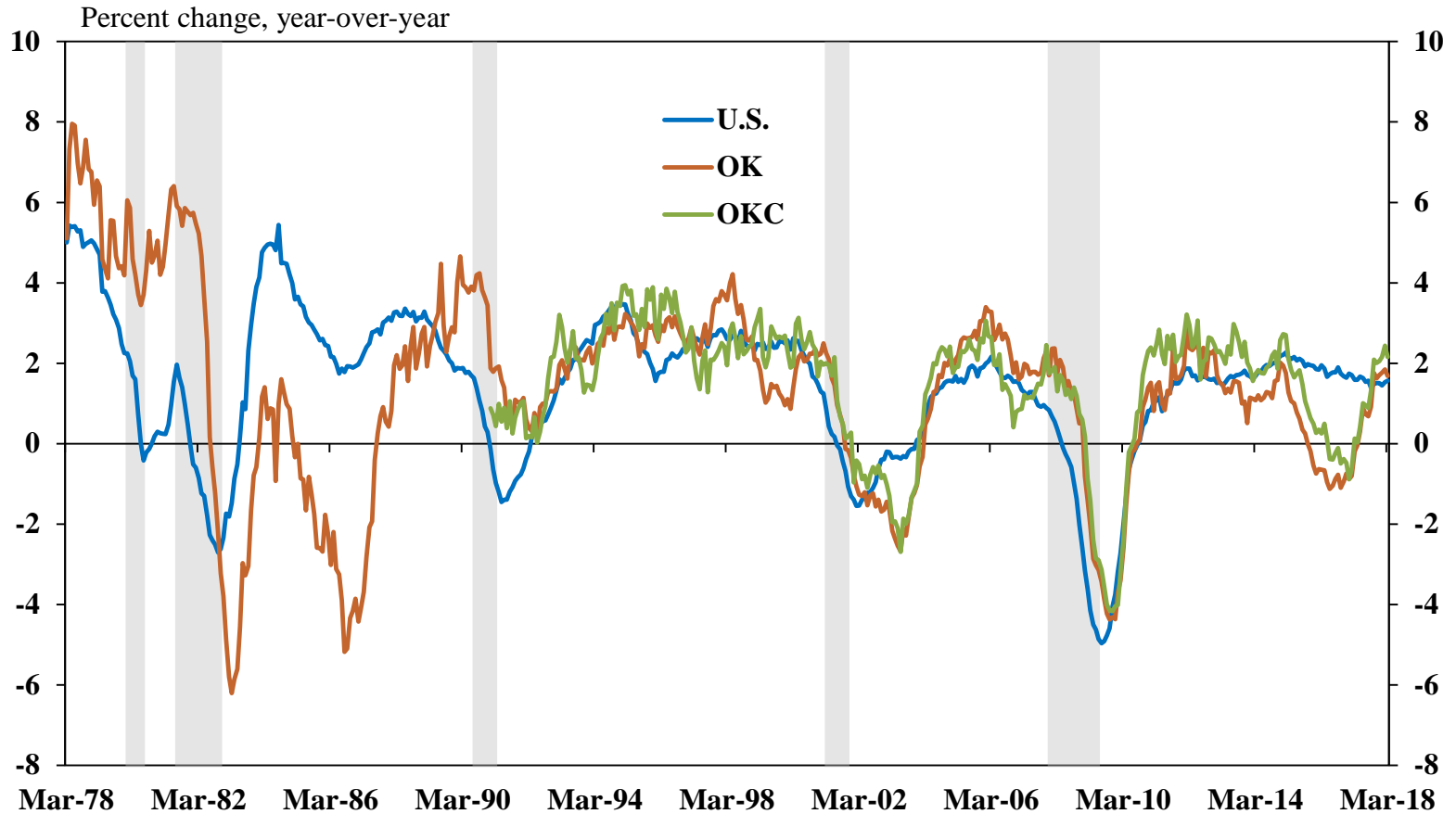
Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis

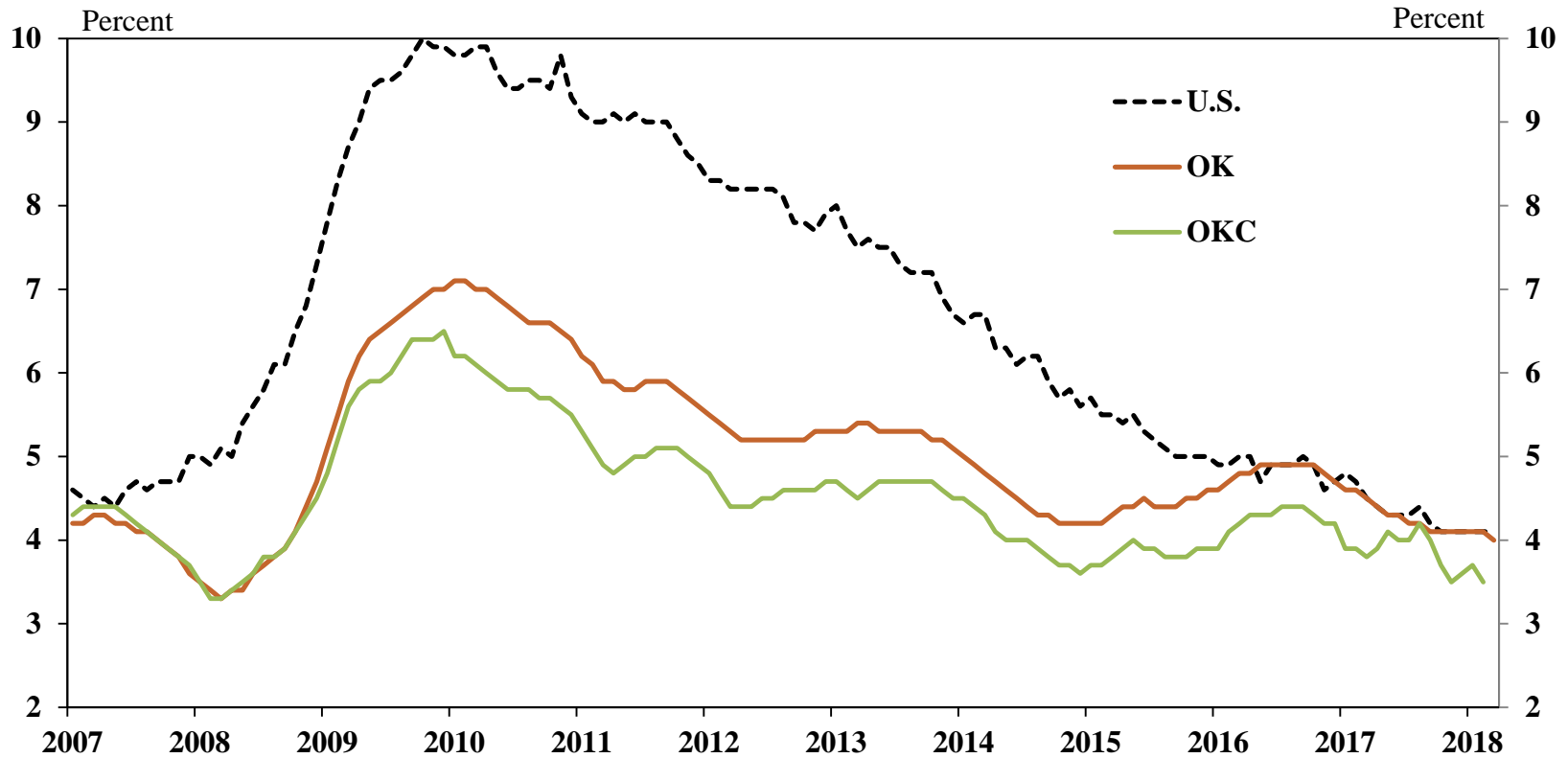
Employment is now growing faster than the nation after lagging the most since the '80s in 2015-16

Payroll Employment Growth



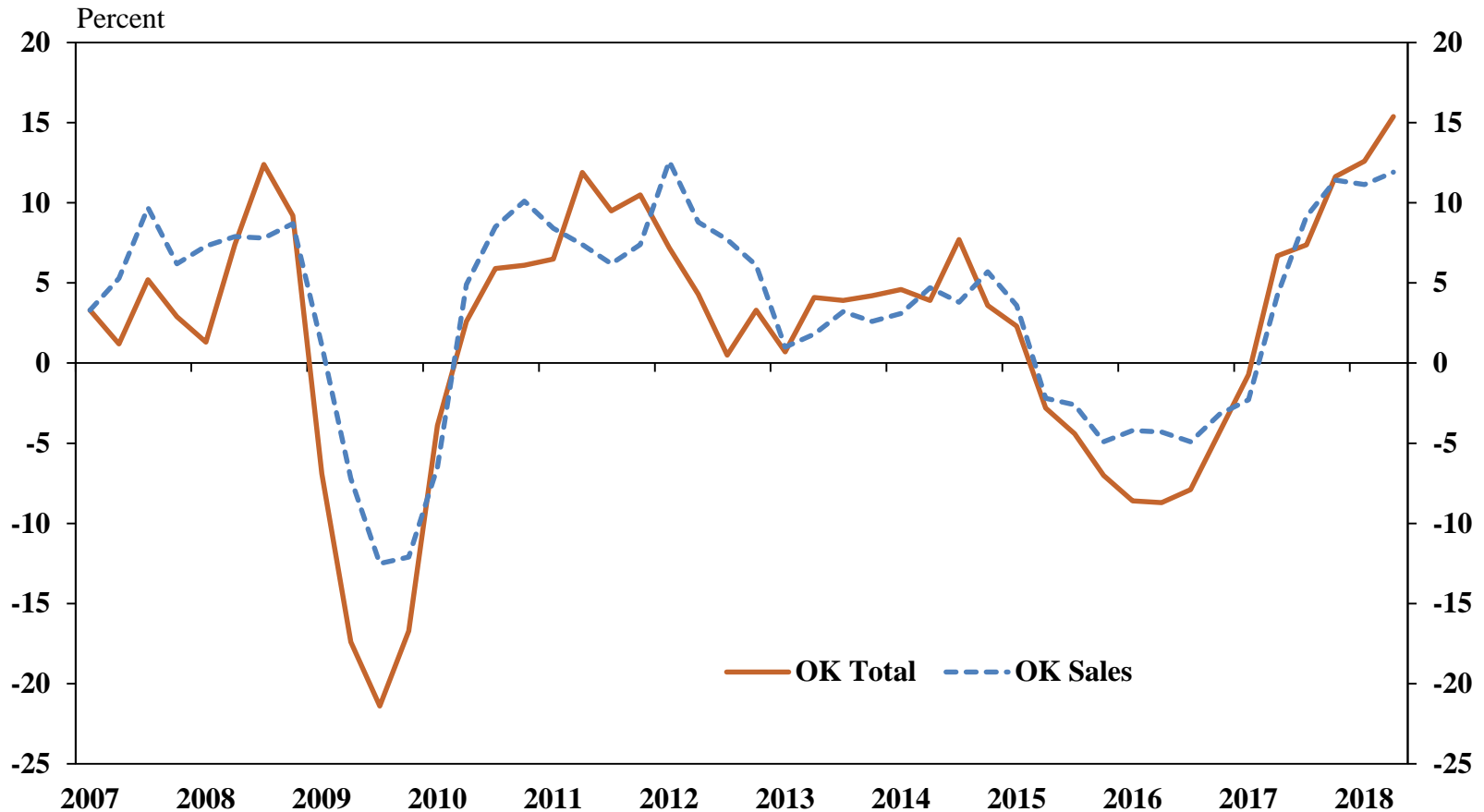
Unemployment has come down across the state and is well below the national average in the OKC metro

Unemployment rates
Seasonally Adjusted



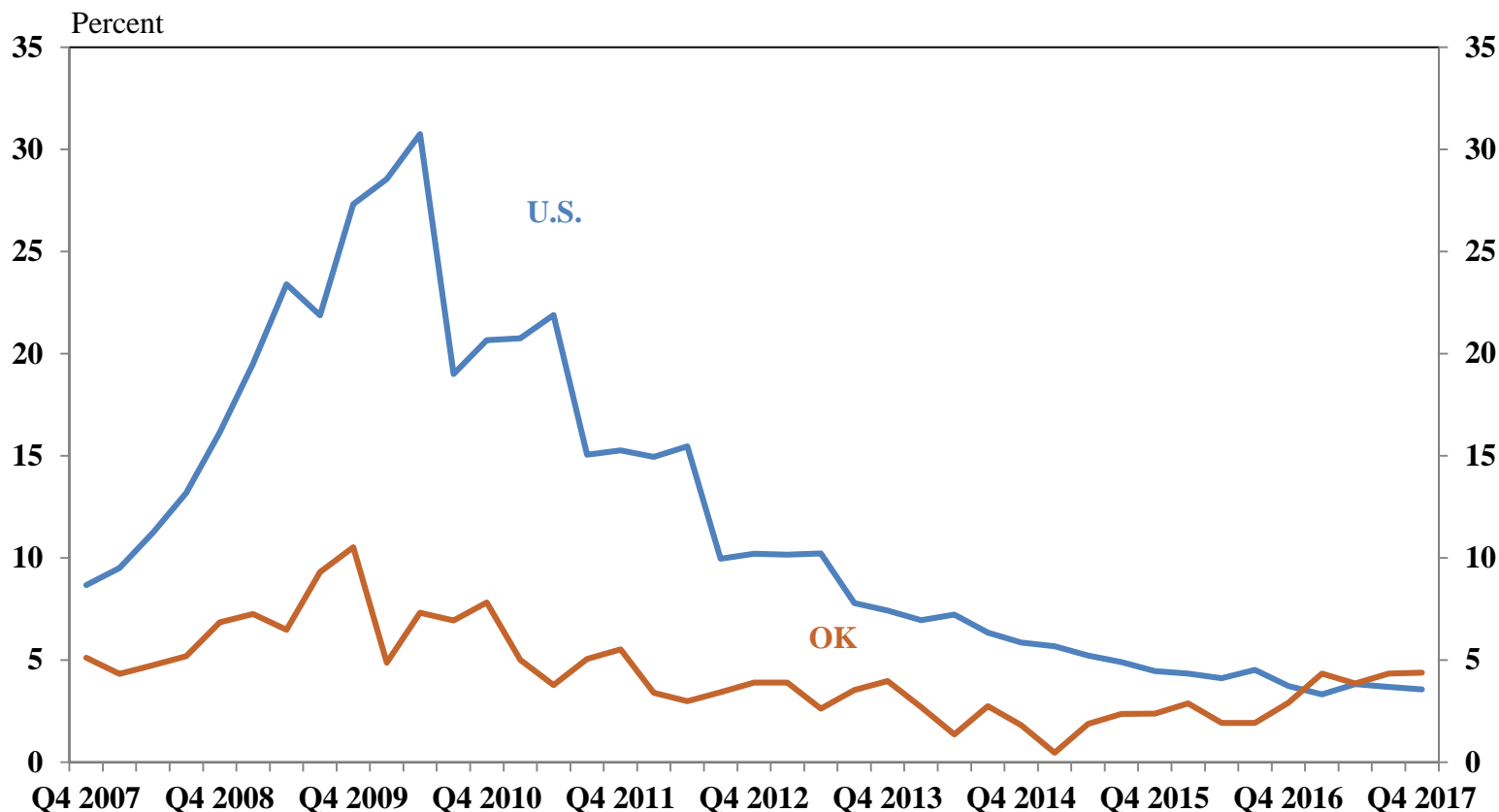
Tax revenues are also growing strongly, after several years that remain challenges for the Legislature

Oklahoma State Tax Revenues
Q2-18 through April



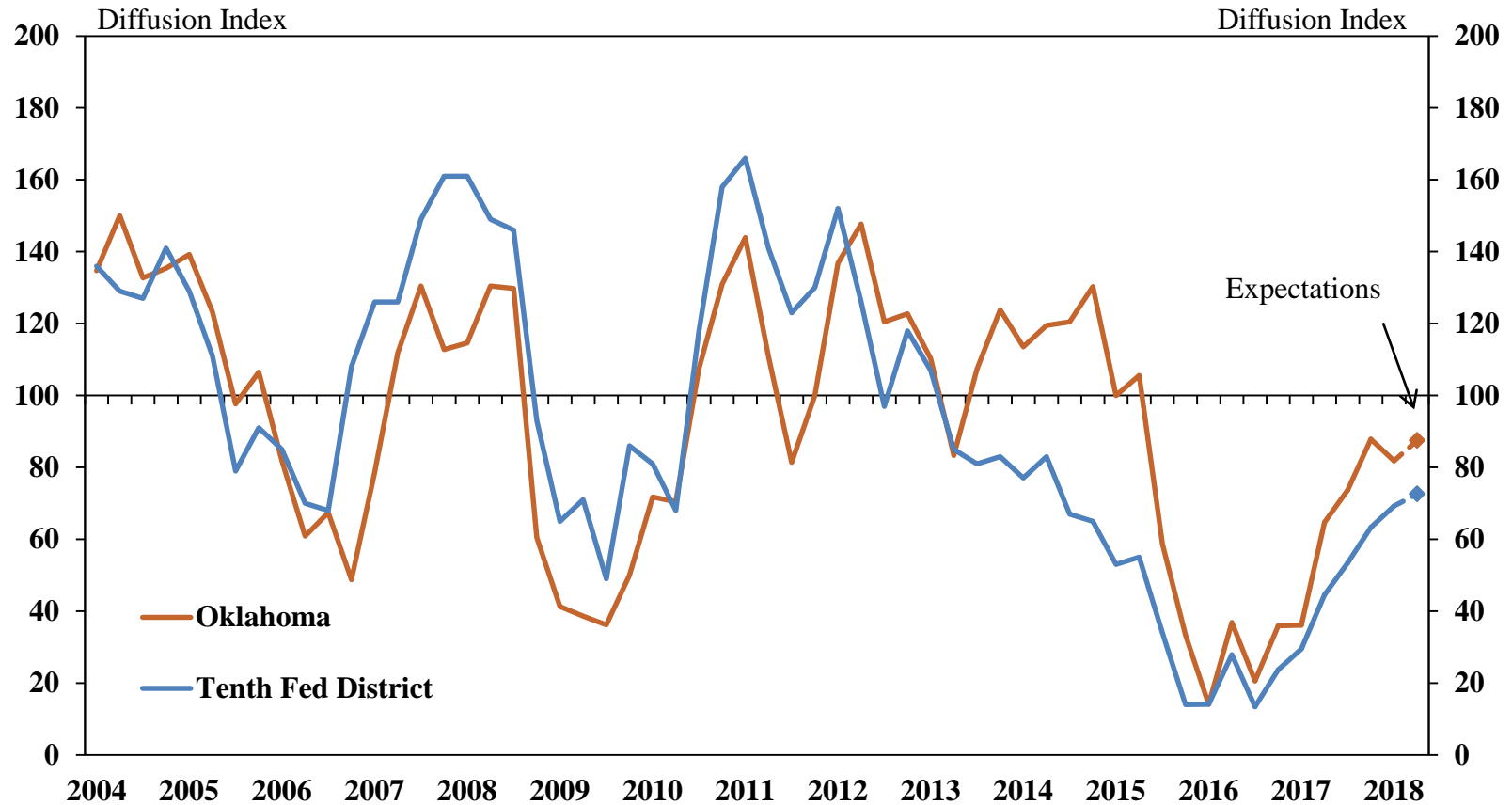
Banking conditions in Oklahoma also remain very good despite the 2015-16 economic slowdown

Share of Banks Not Making a Profit
Commercial Banks



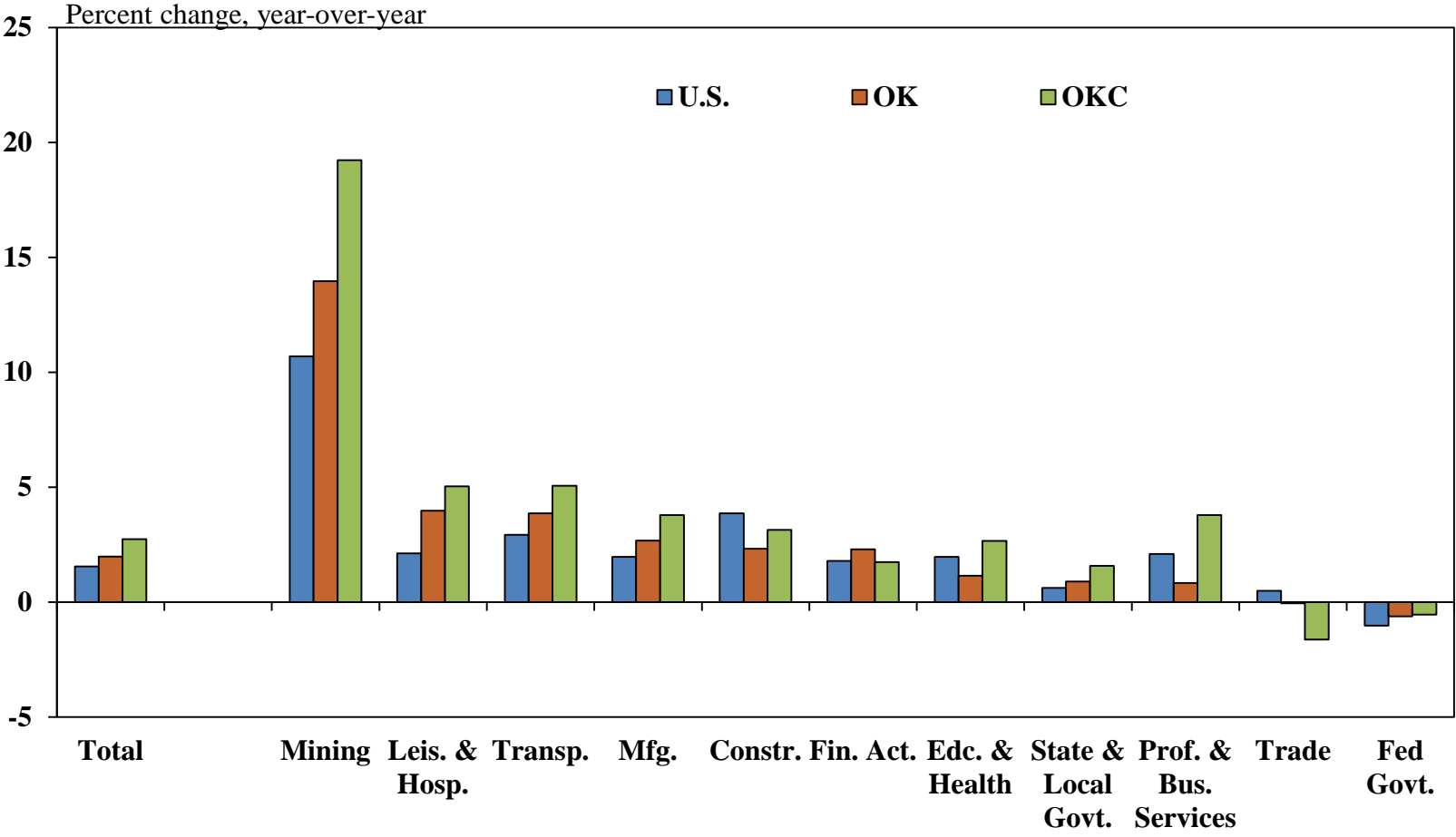
The Oklahoma agriculture sector has shown some signs of stabilizing, with expectations up slightly

Farm Income Indexes



Job gains have so far been led by growth in the mining sector, but manufacturing has also had solid gains

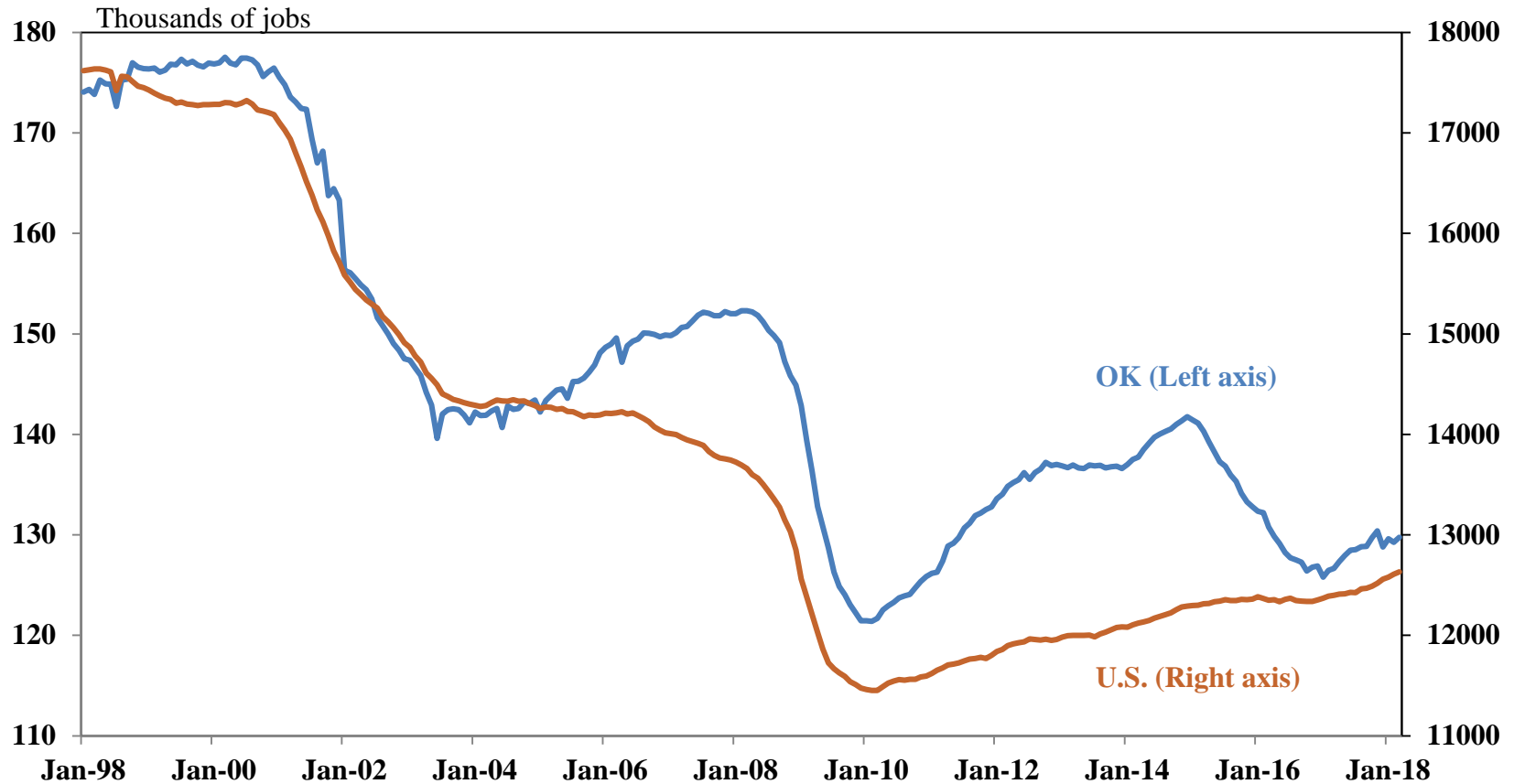
Oklahoma Job Growth by Industry
Mar-18



Source: Bureau of Labor Statistics

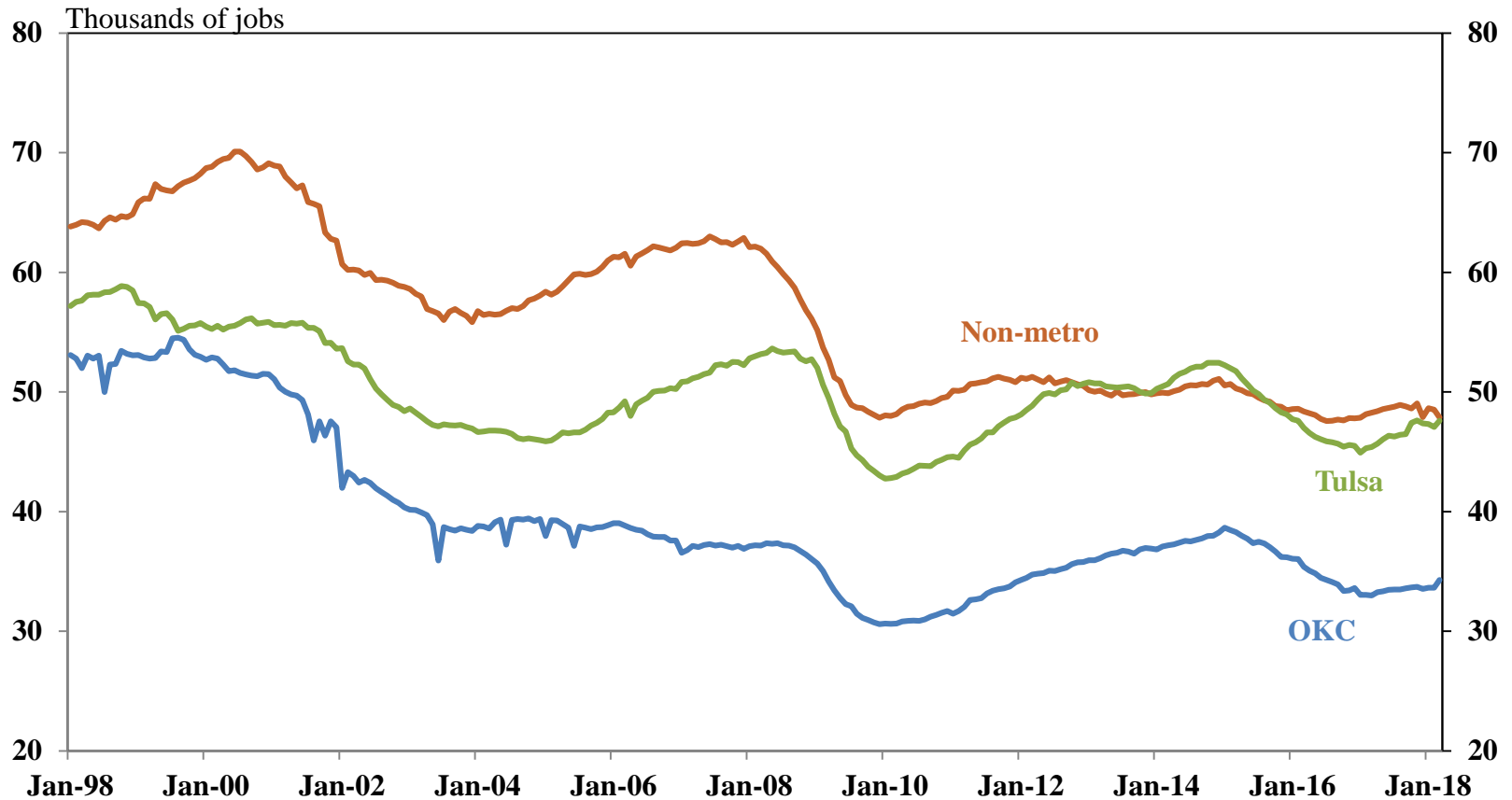
Manufacturing jobs in the state have increased slightly the past few months following a decline

Manufacturing Employment, Seasonally Adjusted



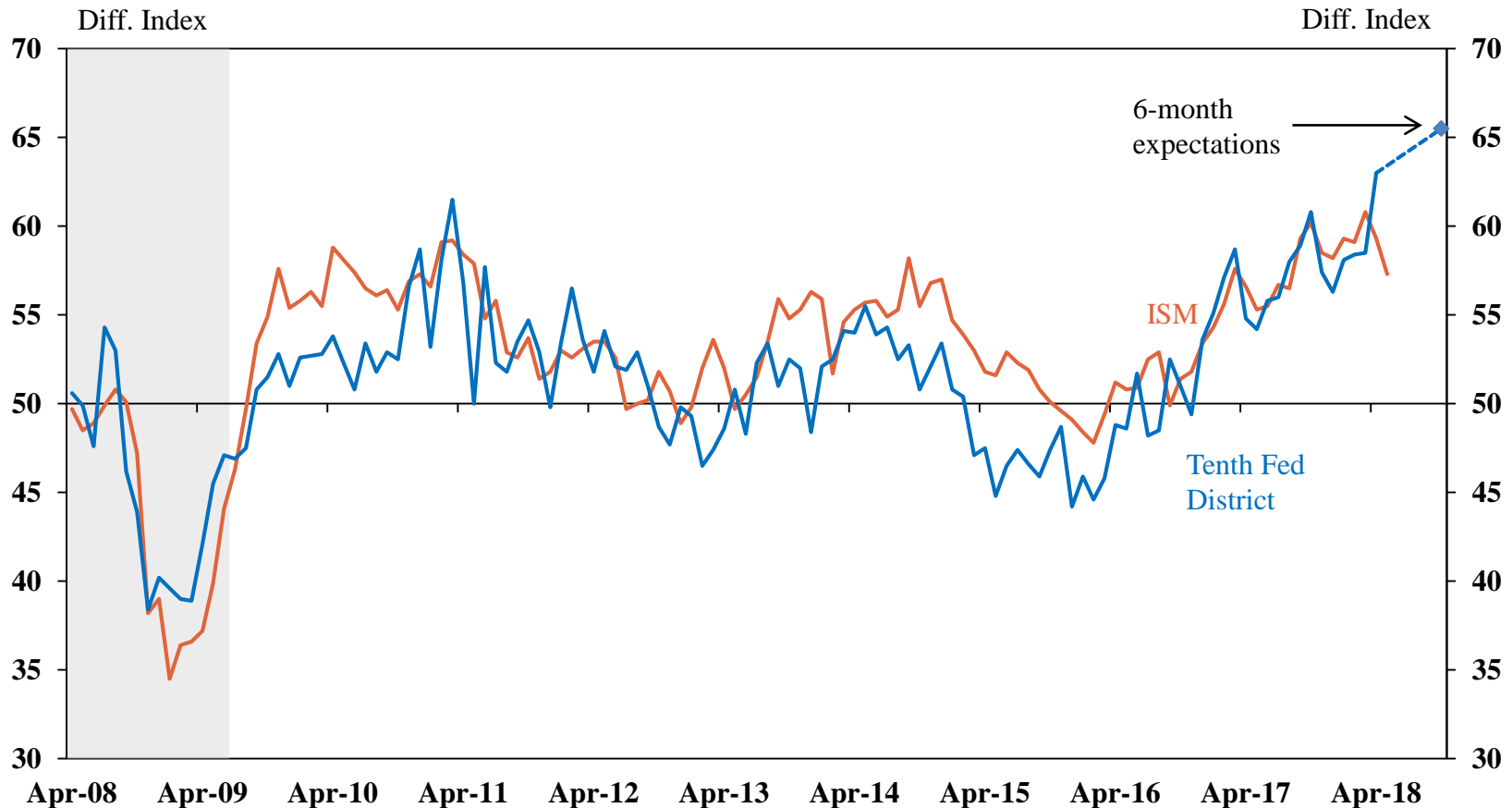
Most of the increases have been in metro areas, with non-metro relatively flat over the past decade

Oklahoma Manufacturing Employment by Metro Area,
Through March 2018, Seasonally Adjusted



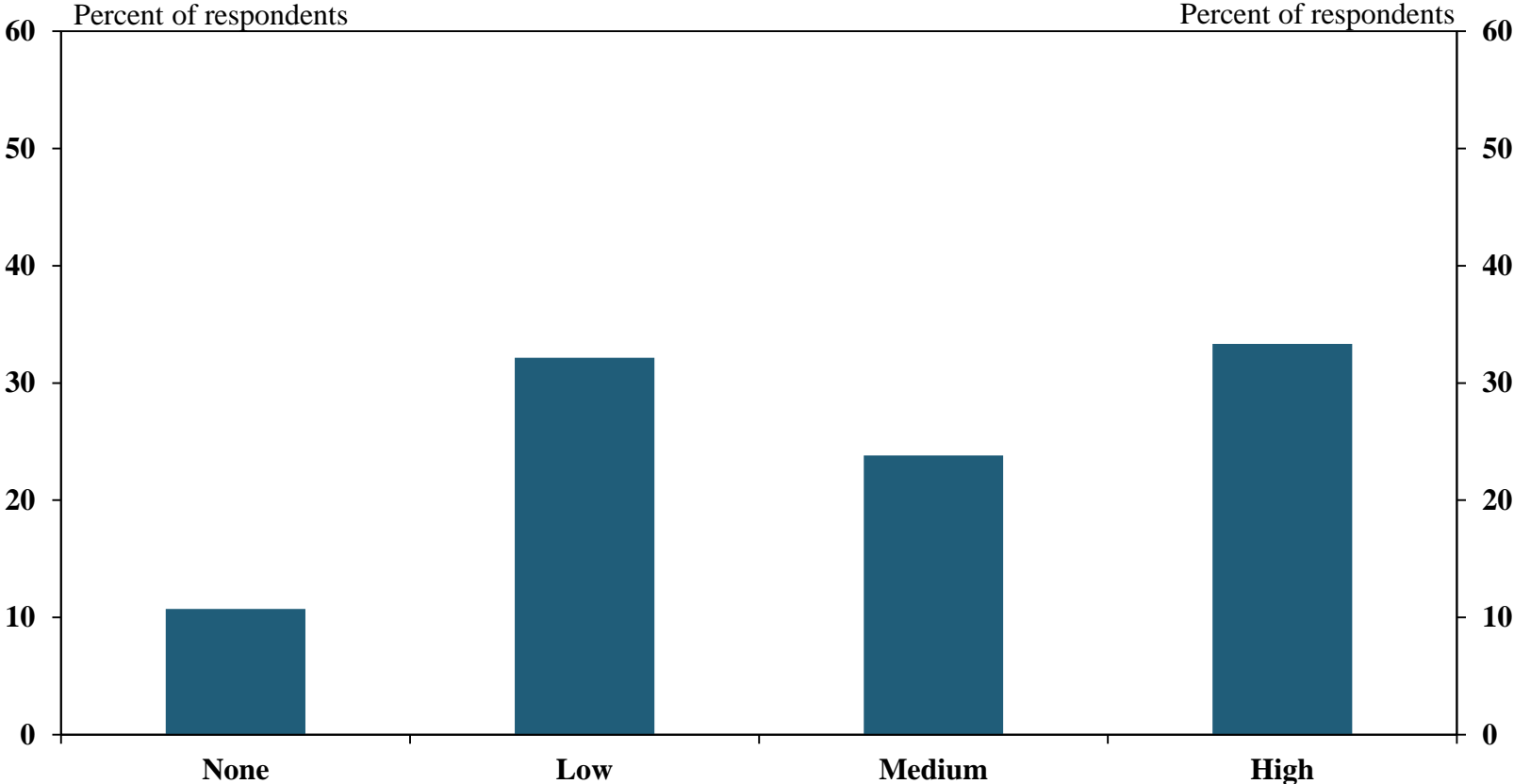
Despite trade fears, regional factory activity has continued to rise strongly in recent months

Manufacturing Composite Indexes, Seasonally Adjusted



Manufacturers anticipated some effects from proposed tariffs, but most expected the severity to be low/medium

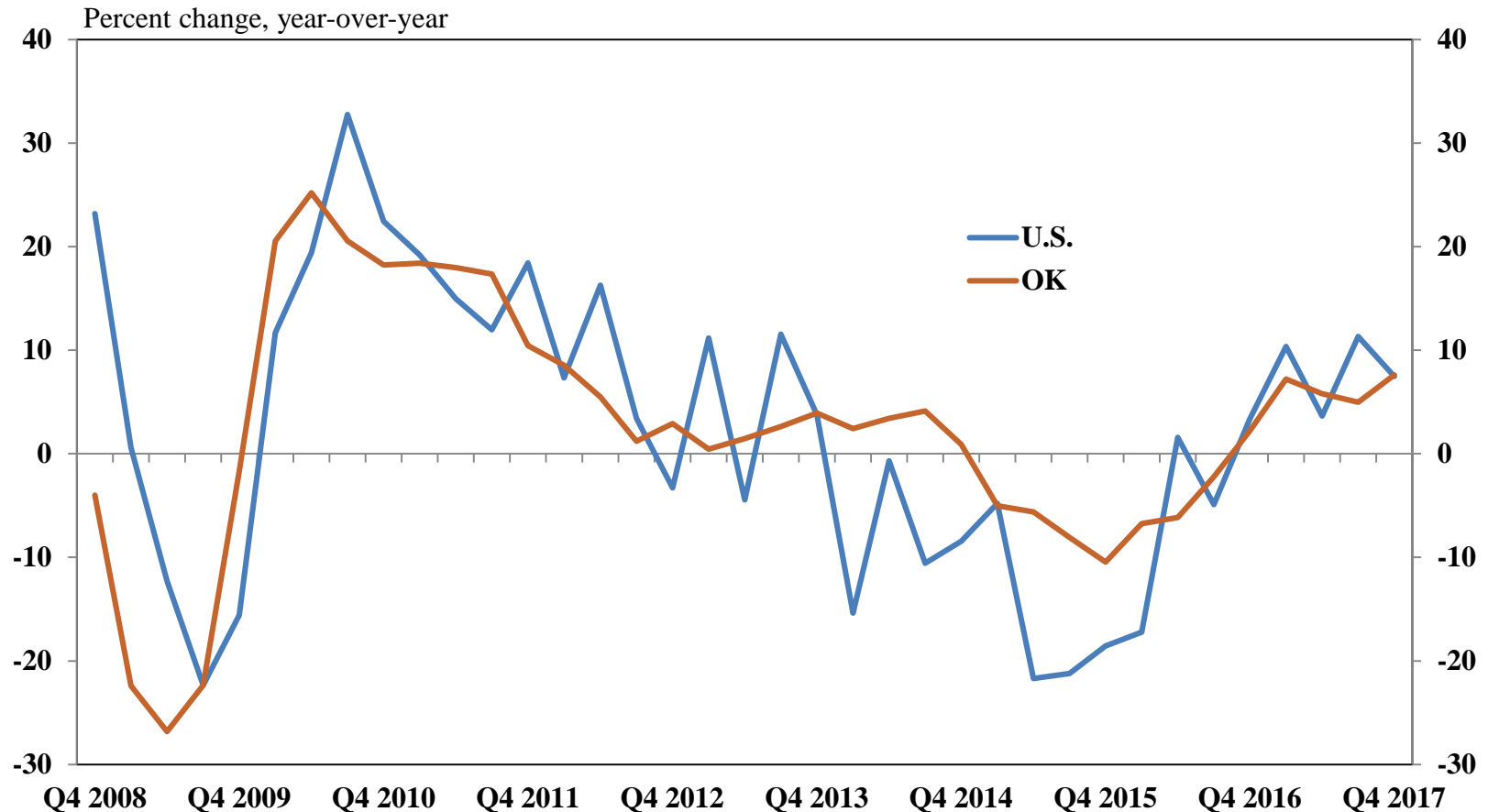
Manufacturers' Anticipated Effect of Steel/Aluminum Tariffs



Source: FRBKC

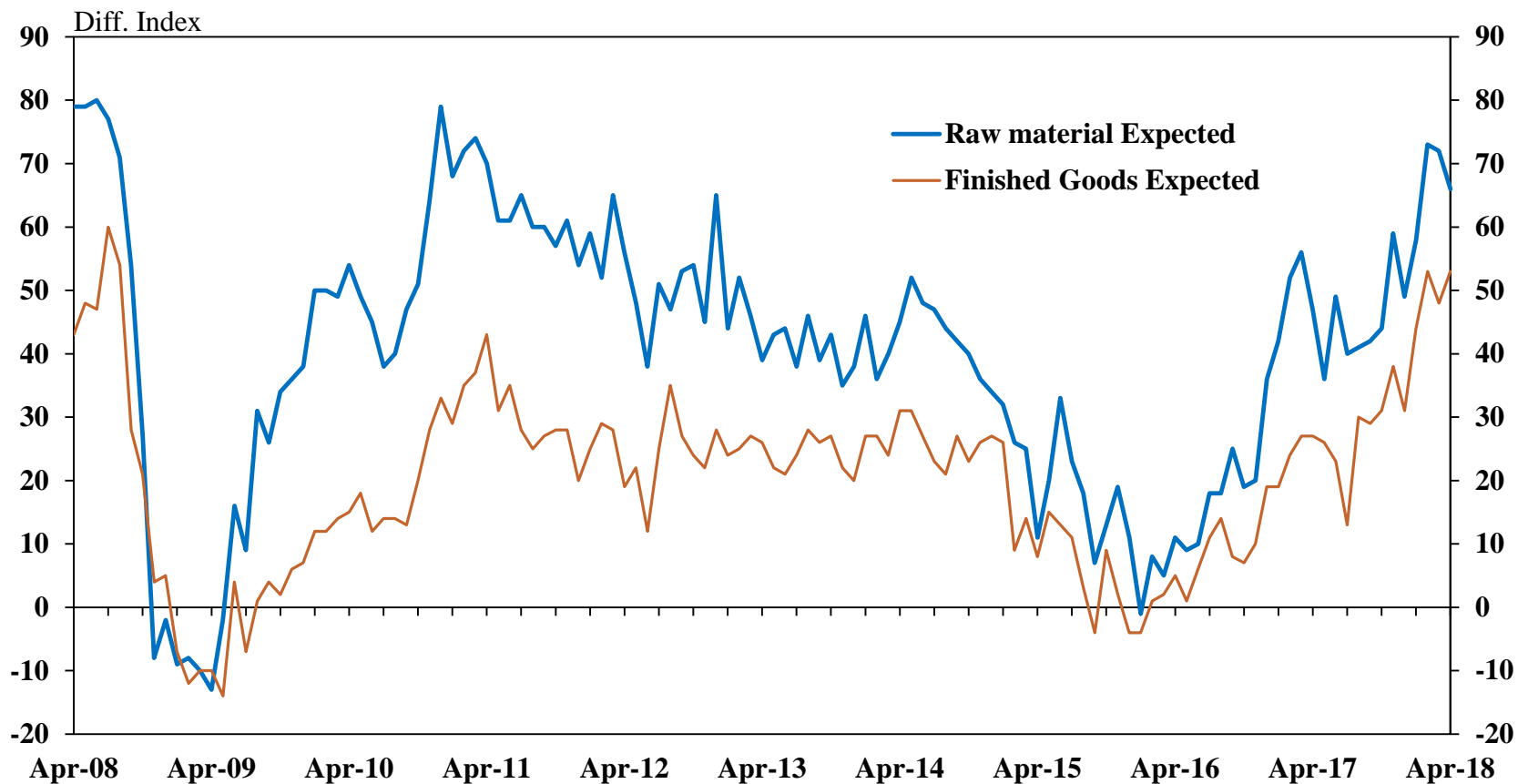
In other positive news, exports remained favorable in both Oklahoma and the U.S. last year

Total Export Value



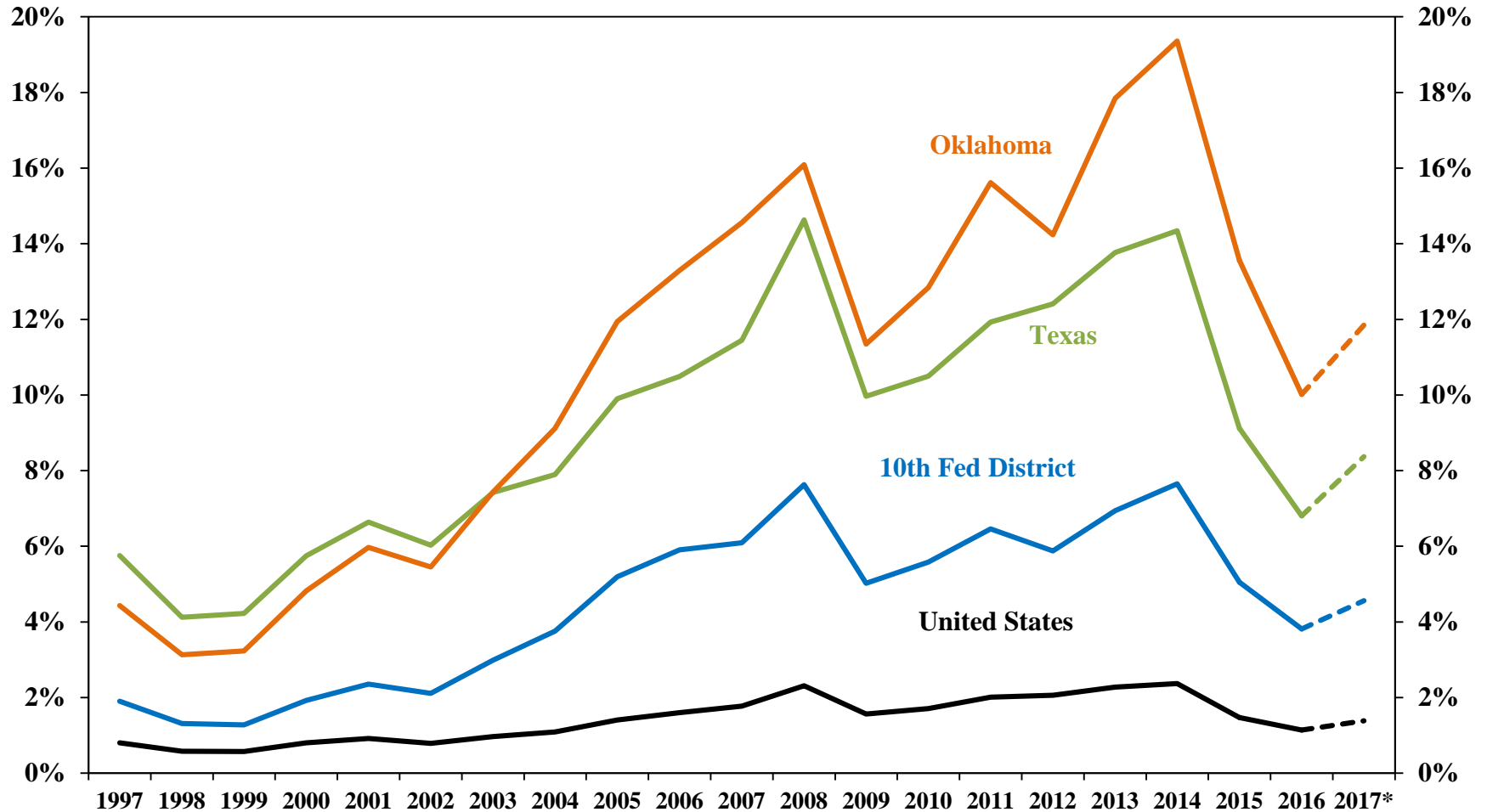
Manufacturing prices remain elevated, with a marked increase in selling prices recently

Manufacturing Price Expectations, Six-months ahead, Seasonally Adjusted



The oil and gas sector remains especially sizable in the state, even after dropping in recent years

Oil and Gas Sector Share of GDP*
1997-2017

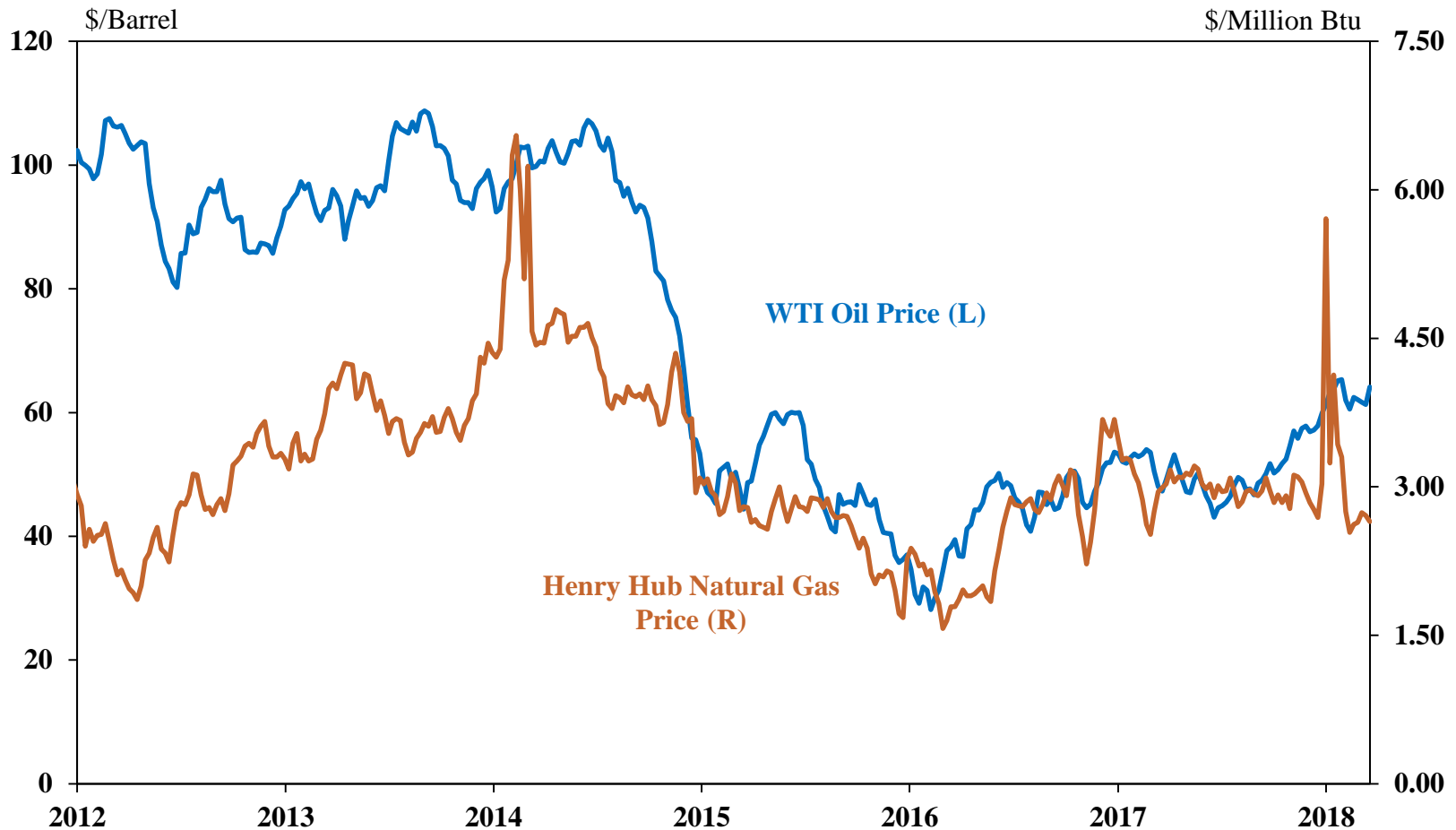


*Oil & Gas Sector = NAICS 211 + NAICS 213;
2017 estimates based on size of overall Mining sector



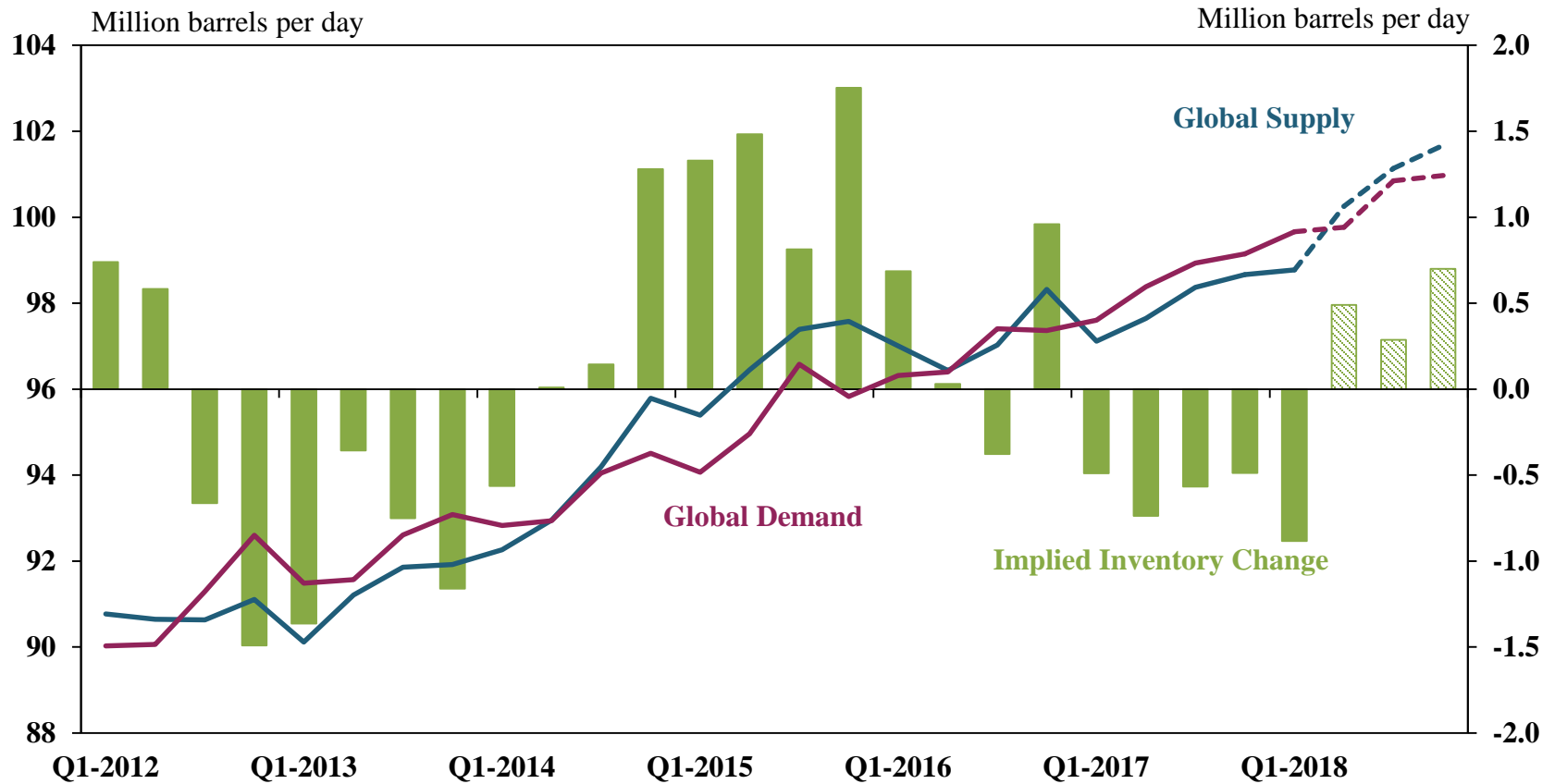
Oil prices have continued to rise since mid-2017, while natural gas prices have mostly trended down

WTI vs. Henry Hub Spot Prices



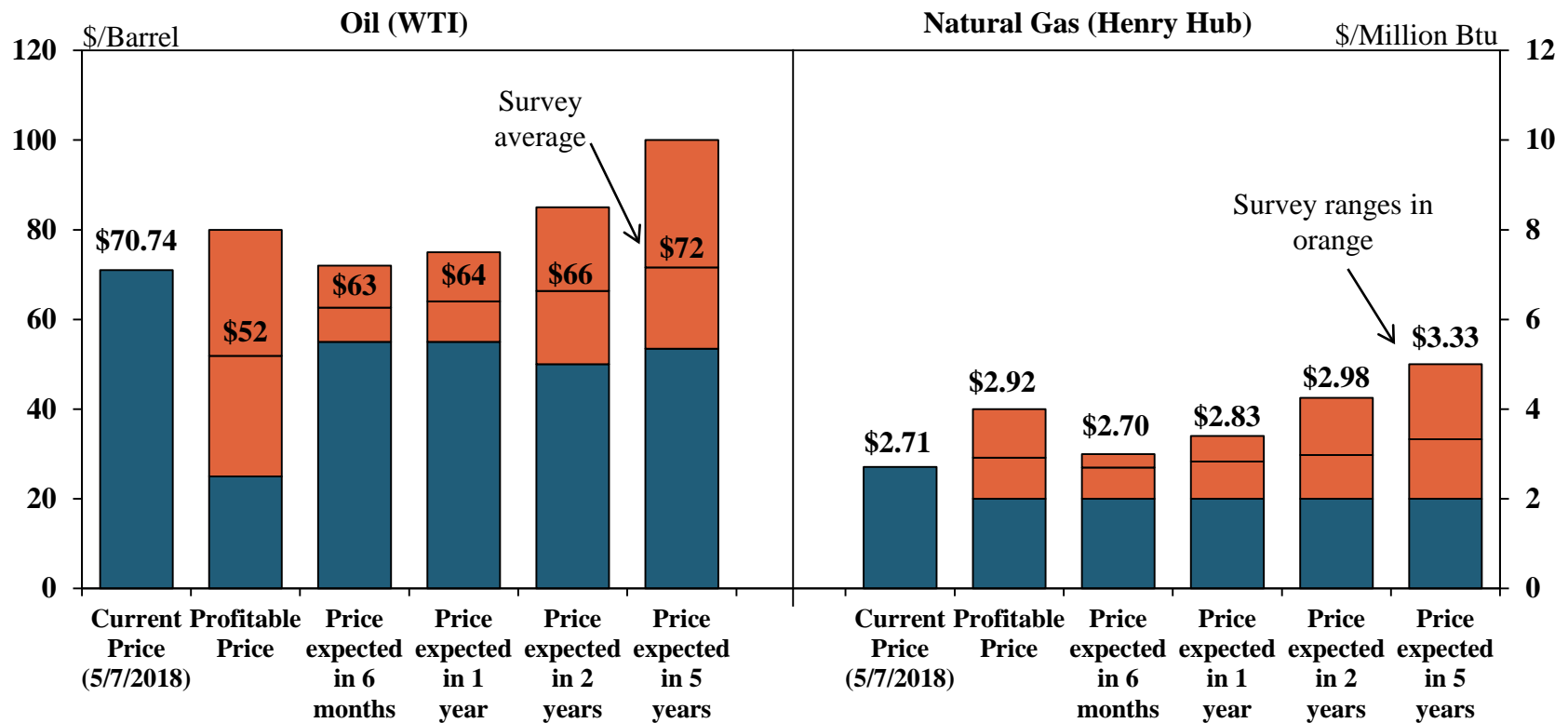
World oil demand has now exceeded supply for five straight quarters, pushing down global oil inventories

Global Supply and Demand



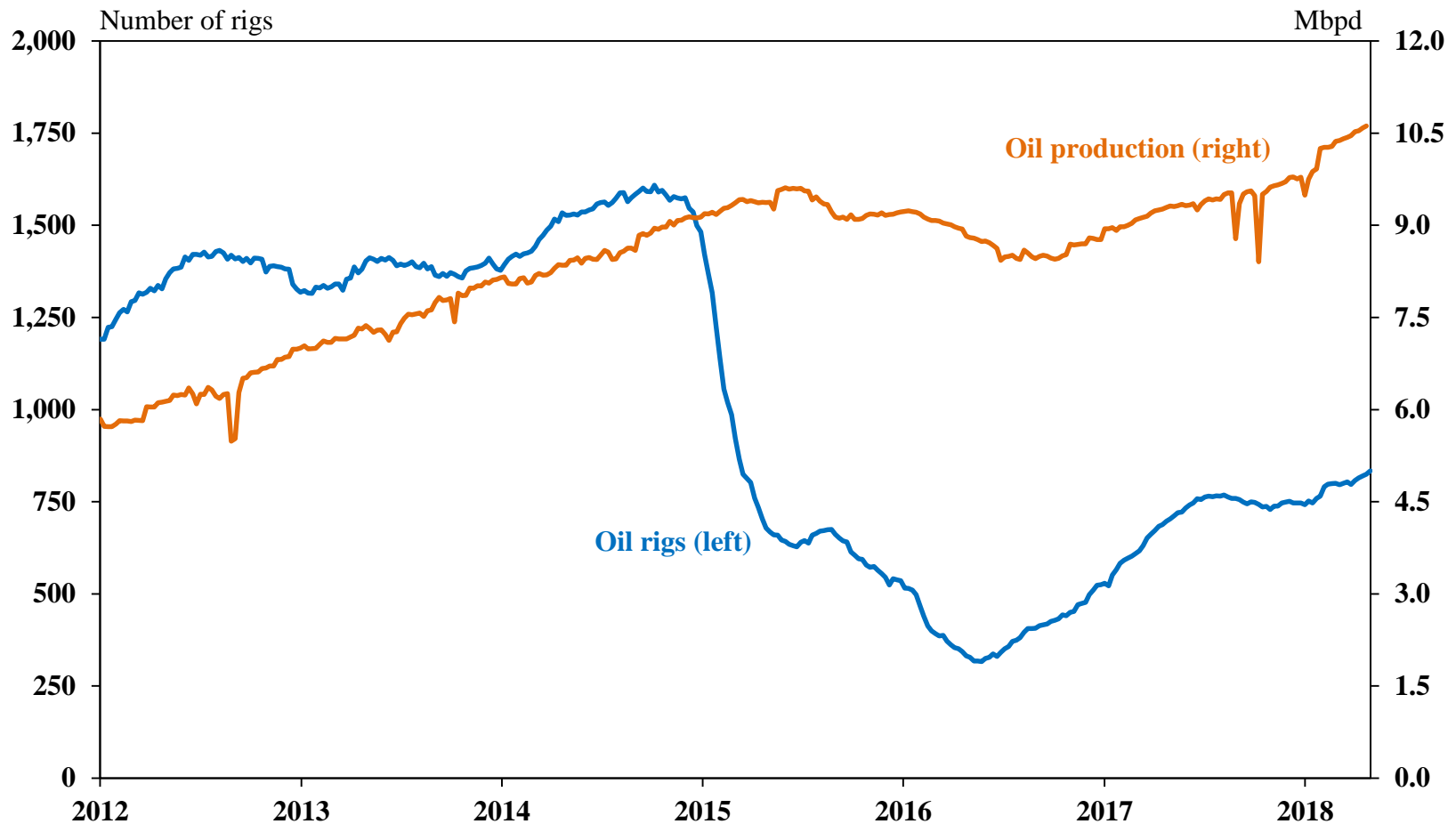
Most firms can profitably drill for oil in the areas they are active, while natural gas may be another story

Energy Survey Oil & Gas Prices



But it takes a lot fewer rigs—and workers—to produce lots of oil than it did just a few years ago

U.S. Oil Rig Count vs. Oil Production



Summary

- The U.S. economy continues to grow, and the Fed has been raising interest rates.
- The Oklahoma economy was hurt by low oil and gas prices, but now is growing solidly.
- Strong productivity growth in the oil and gas sector could potentially limit future job growth



Questions?

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