

Oklahoma Economic Update



Chickasha Economic Forum

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www.kansascityfed.org/oklahomacity



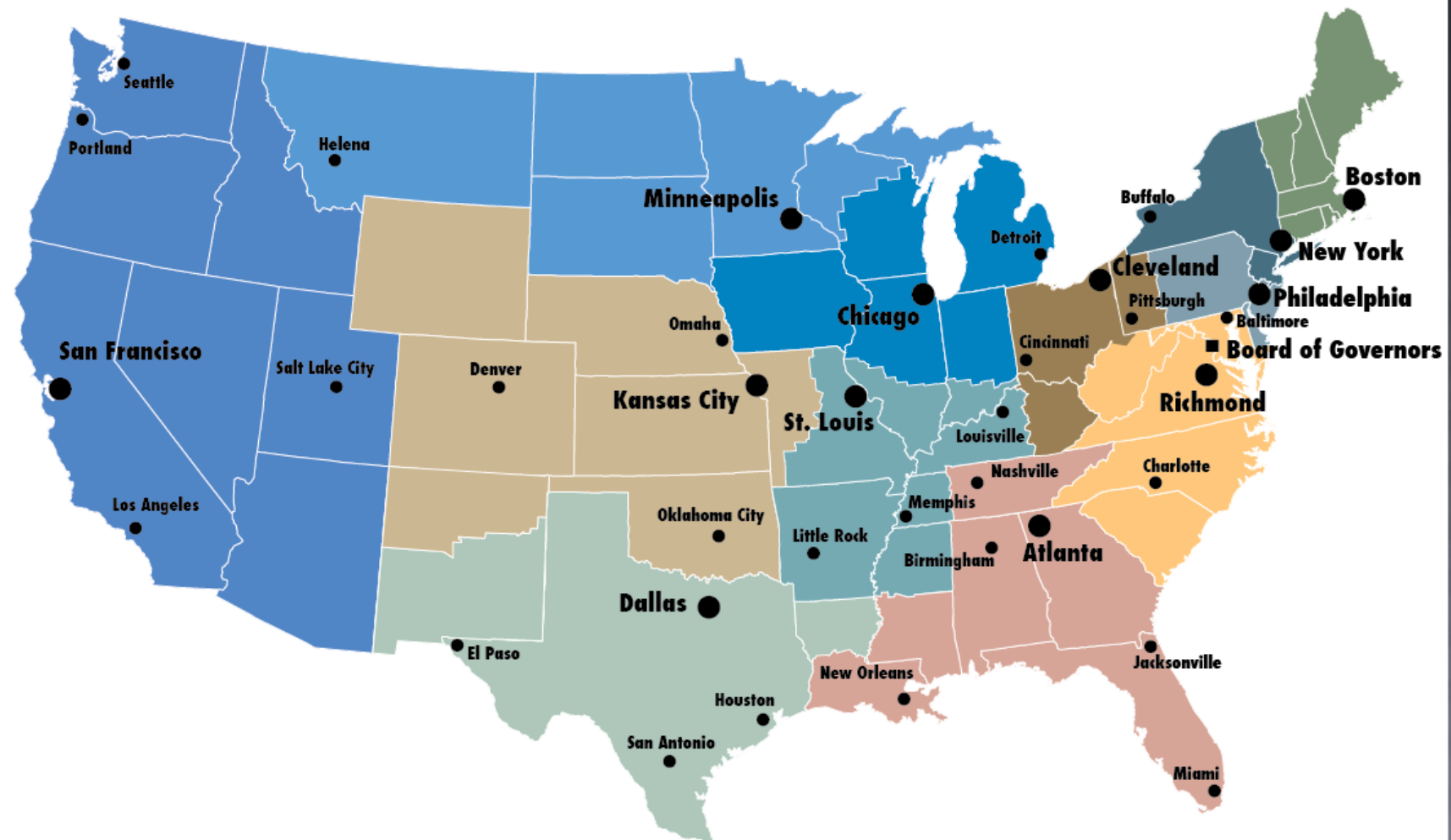
Structure and Functions of the Federal Reserve System

- **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 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)**, Retired Chairman, 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

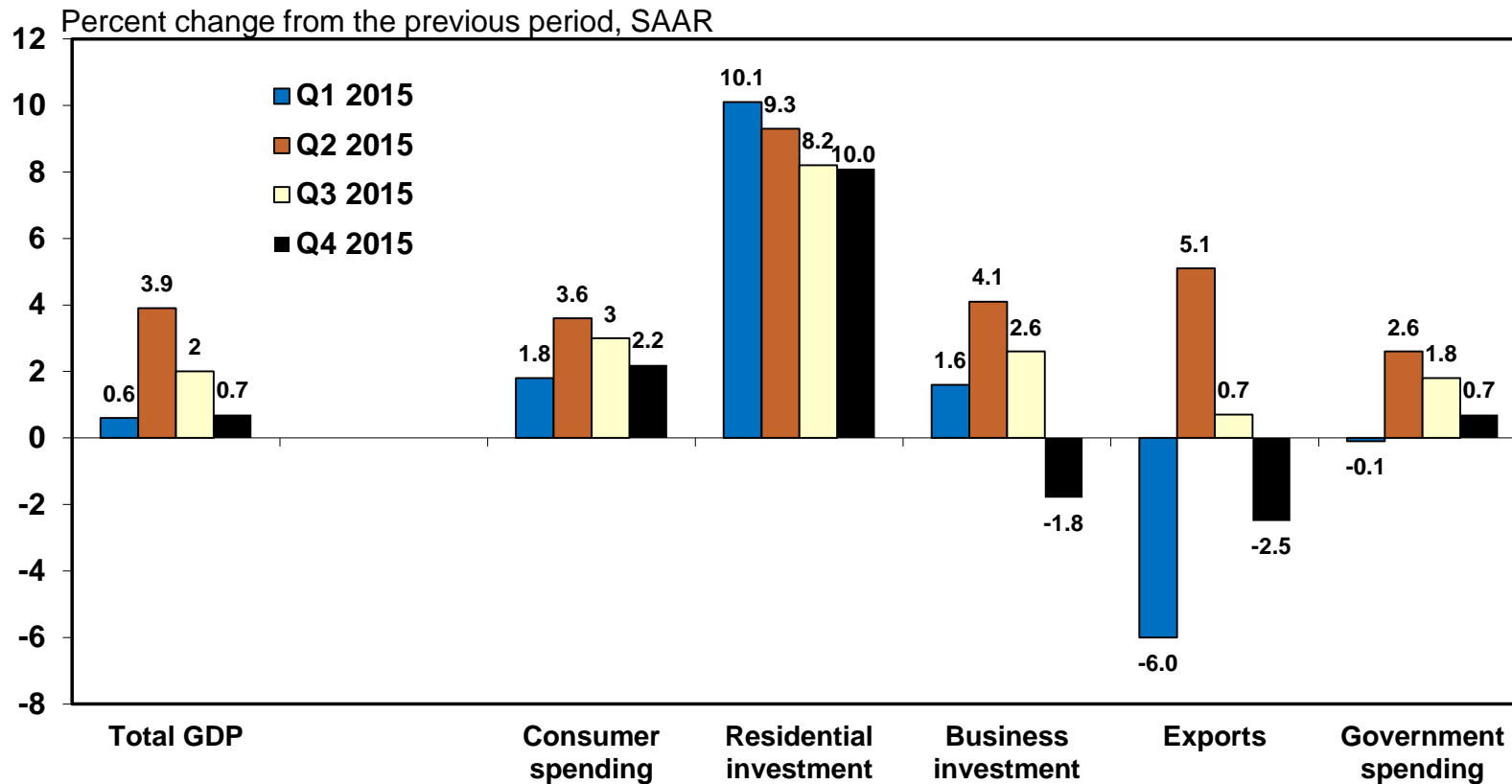


The U.S. Economy and Monetary Policy



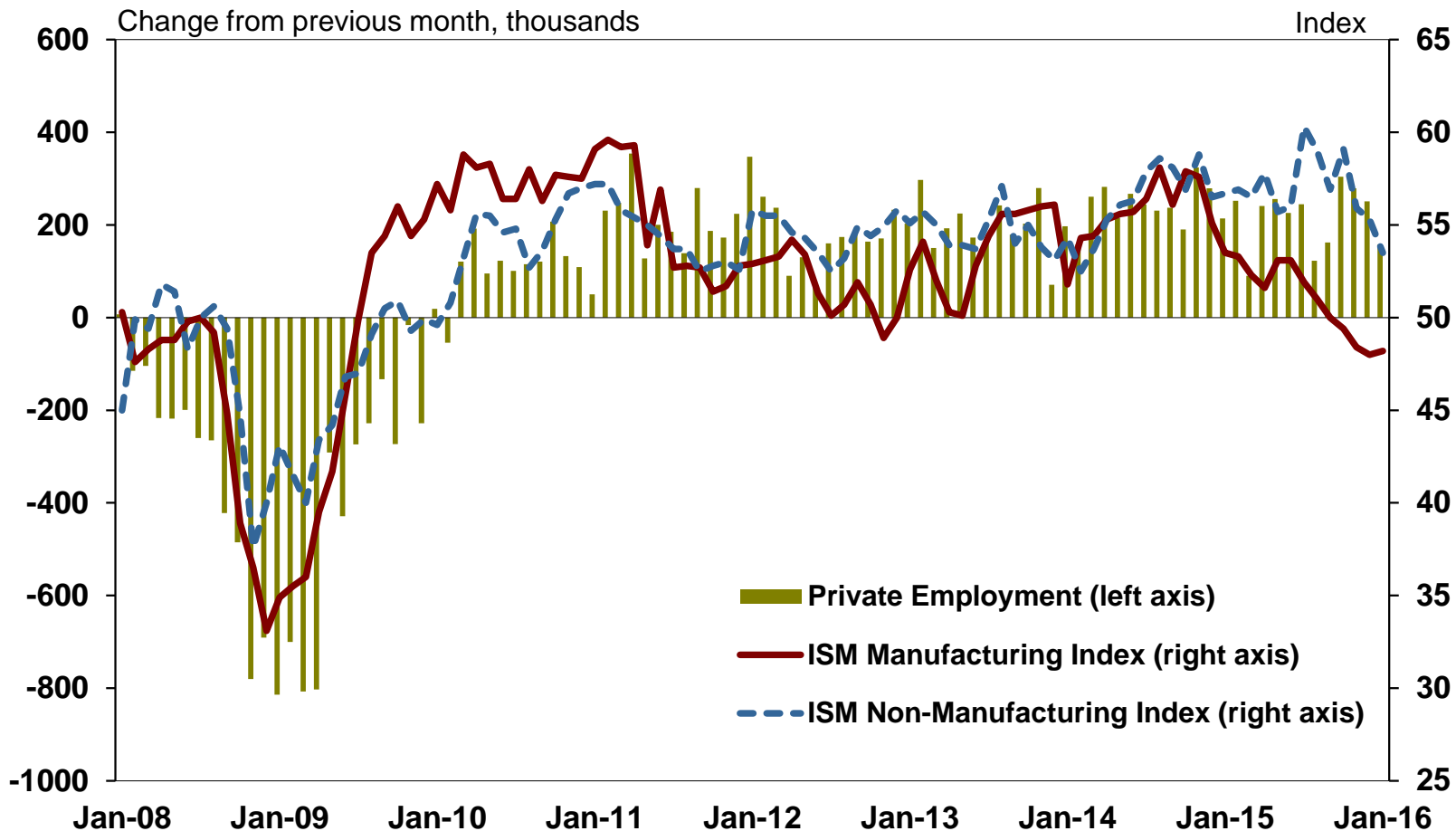
GDP slowed somewhat in Q4, due to business investments and exports

Growth in Components of Real GDP



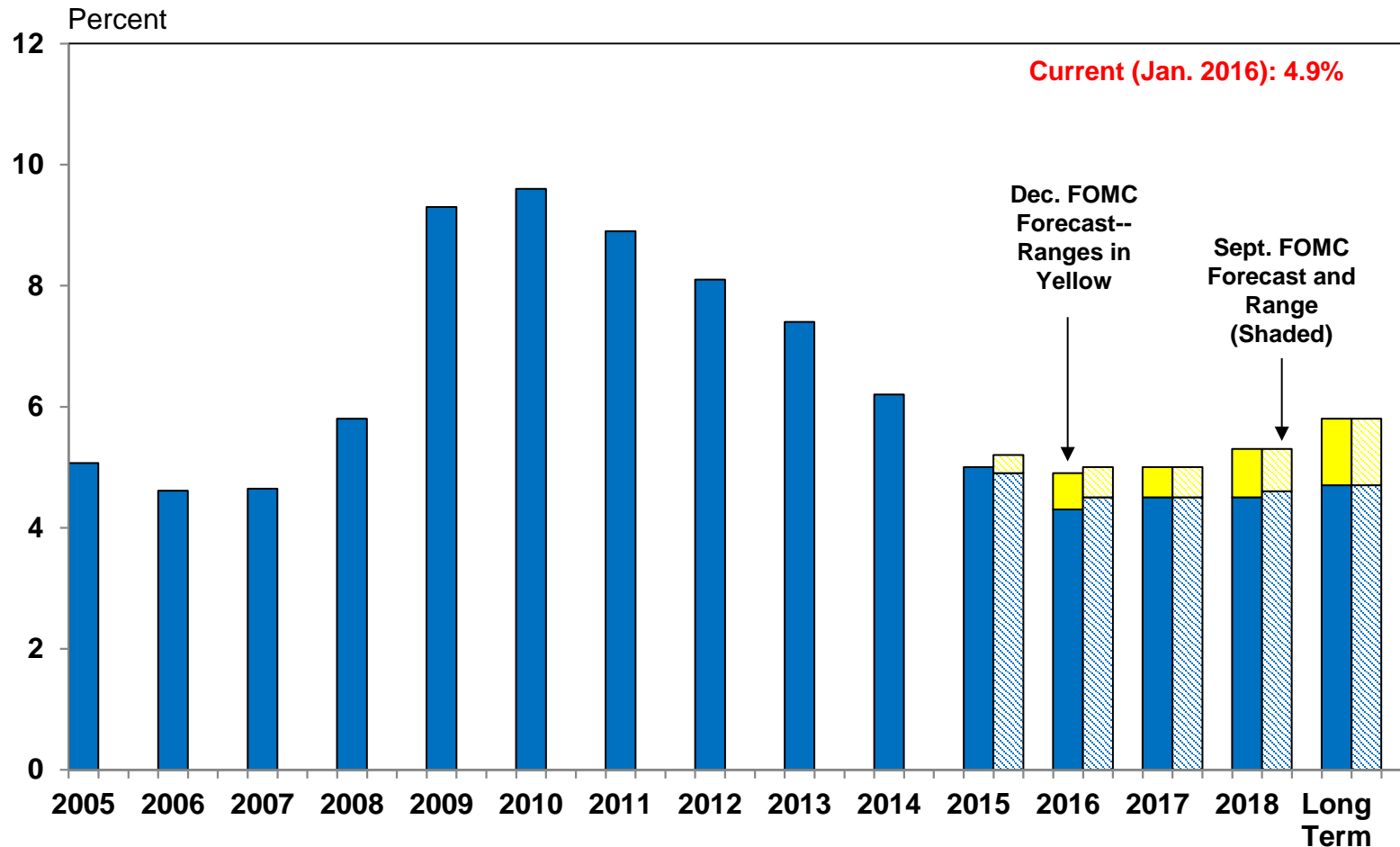
U.S. factory activity has slowed, but job growth and services remain solid

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

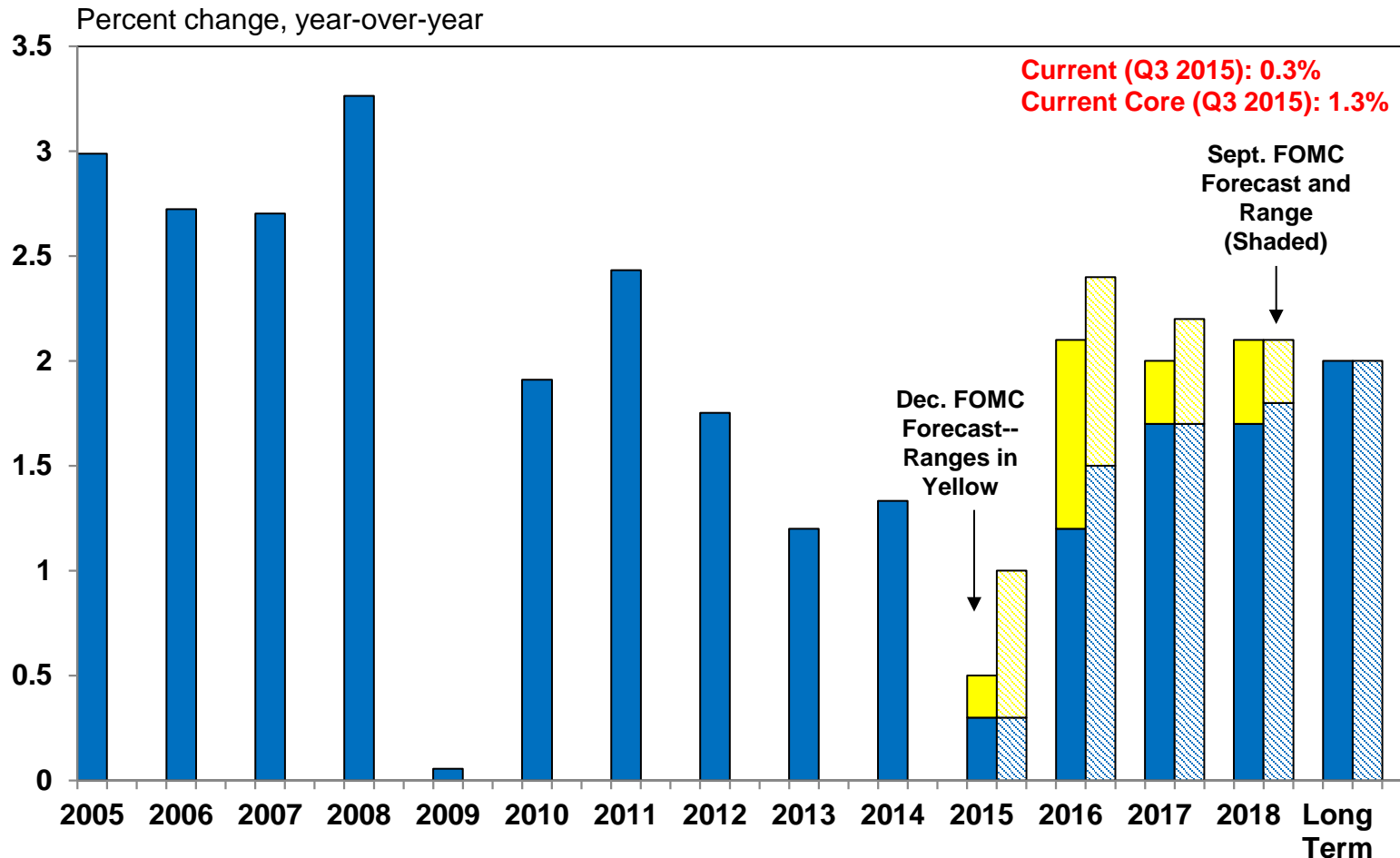


Sources: U.S. Bureau of Labor Statistics, FOMC



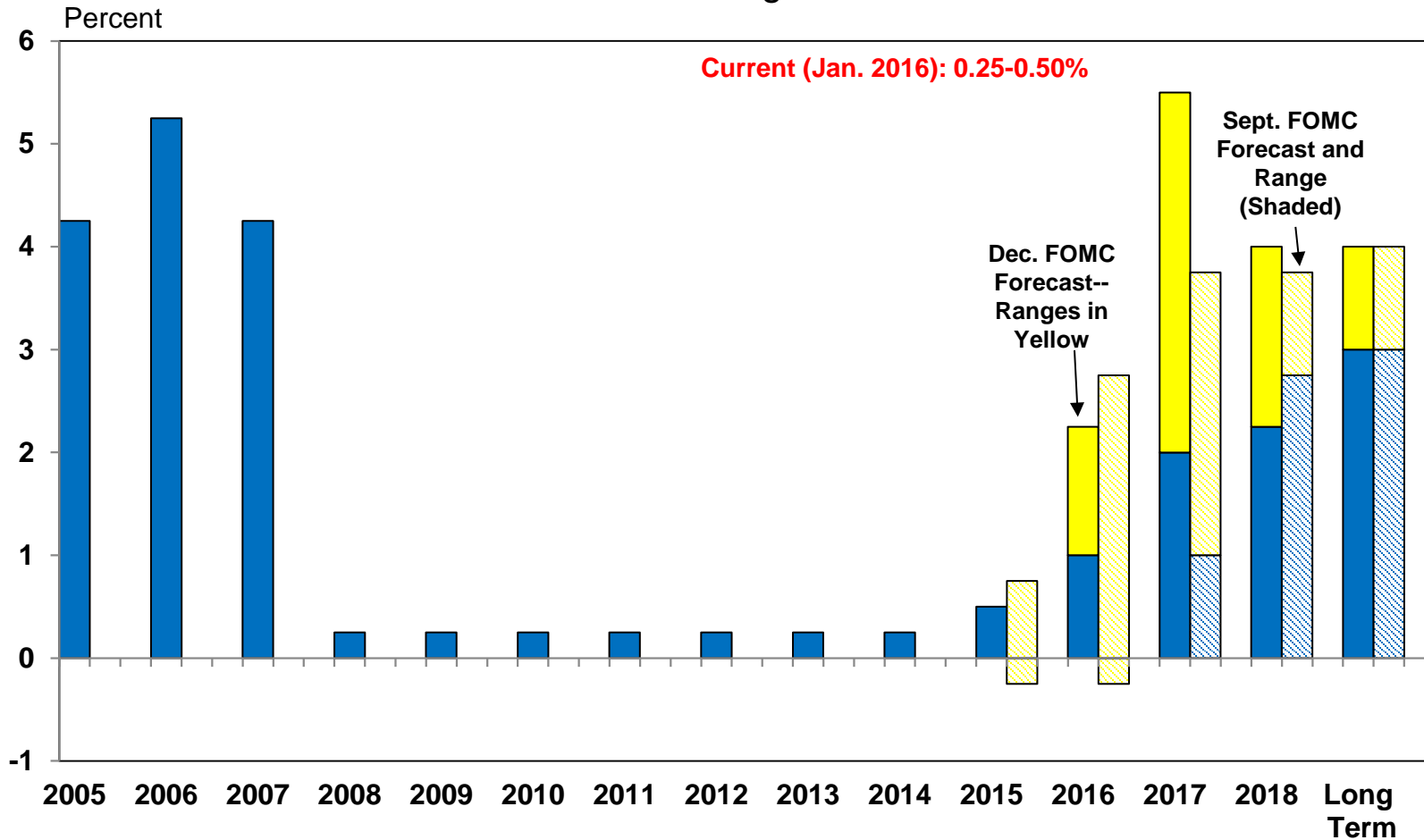
U.S. inflation is low but expected to return to close to target in 2016

PCE Inflation Index



Most FOMC participants have projected rate increases this year

Federal Funds Rate Year-end target

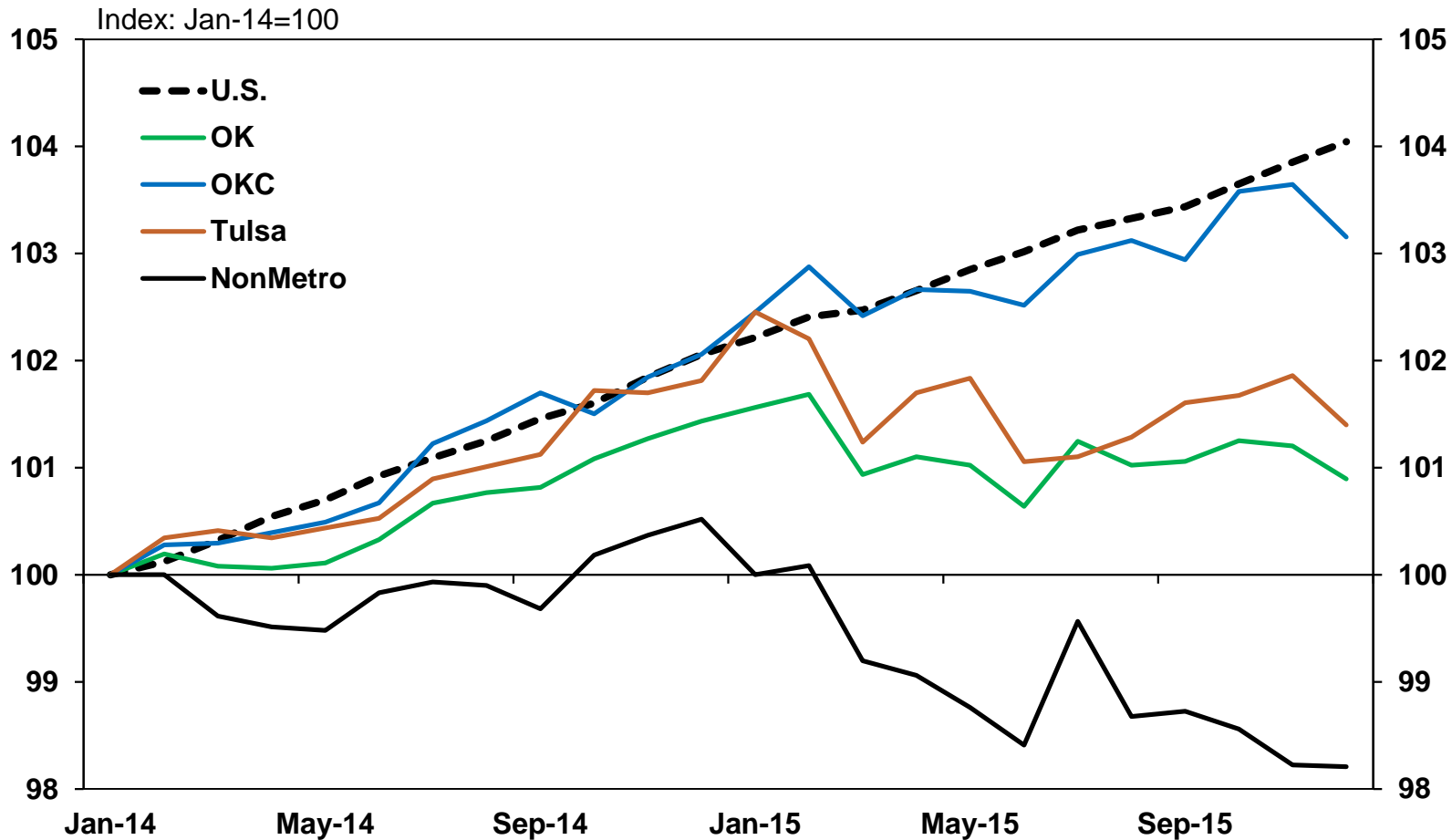


Trends in the Oklahoma Economy



Oklahoma employment has fallen from a year ago, especially in non-metro areas

Level of Payroll Employment
Through December 2015



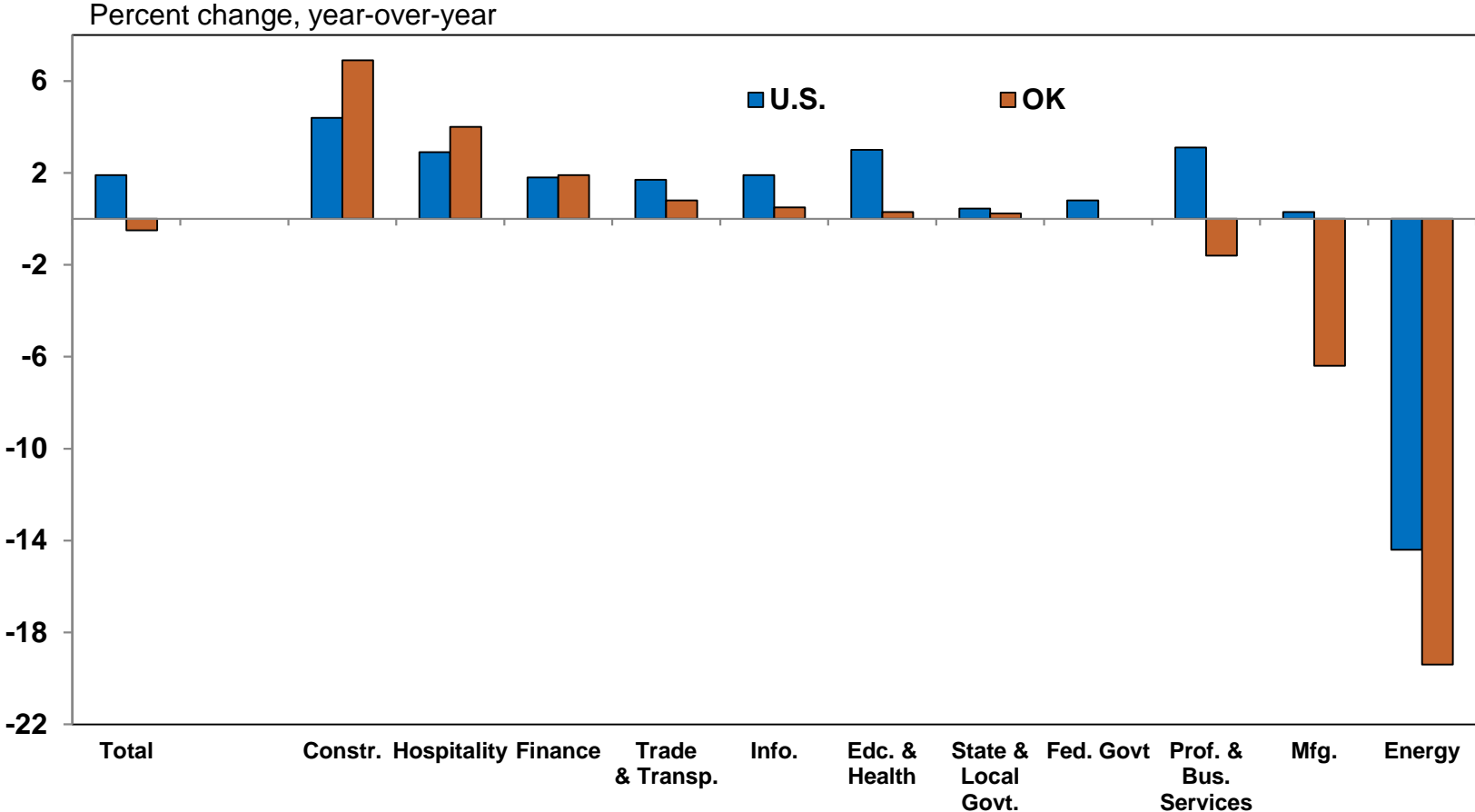
Source: U.S. Bureau of Labor Statistics



Energy jobs have fallen sharply the past year, pulling down overall state employment

Job Growth by Industry

Dec-15

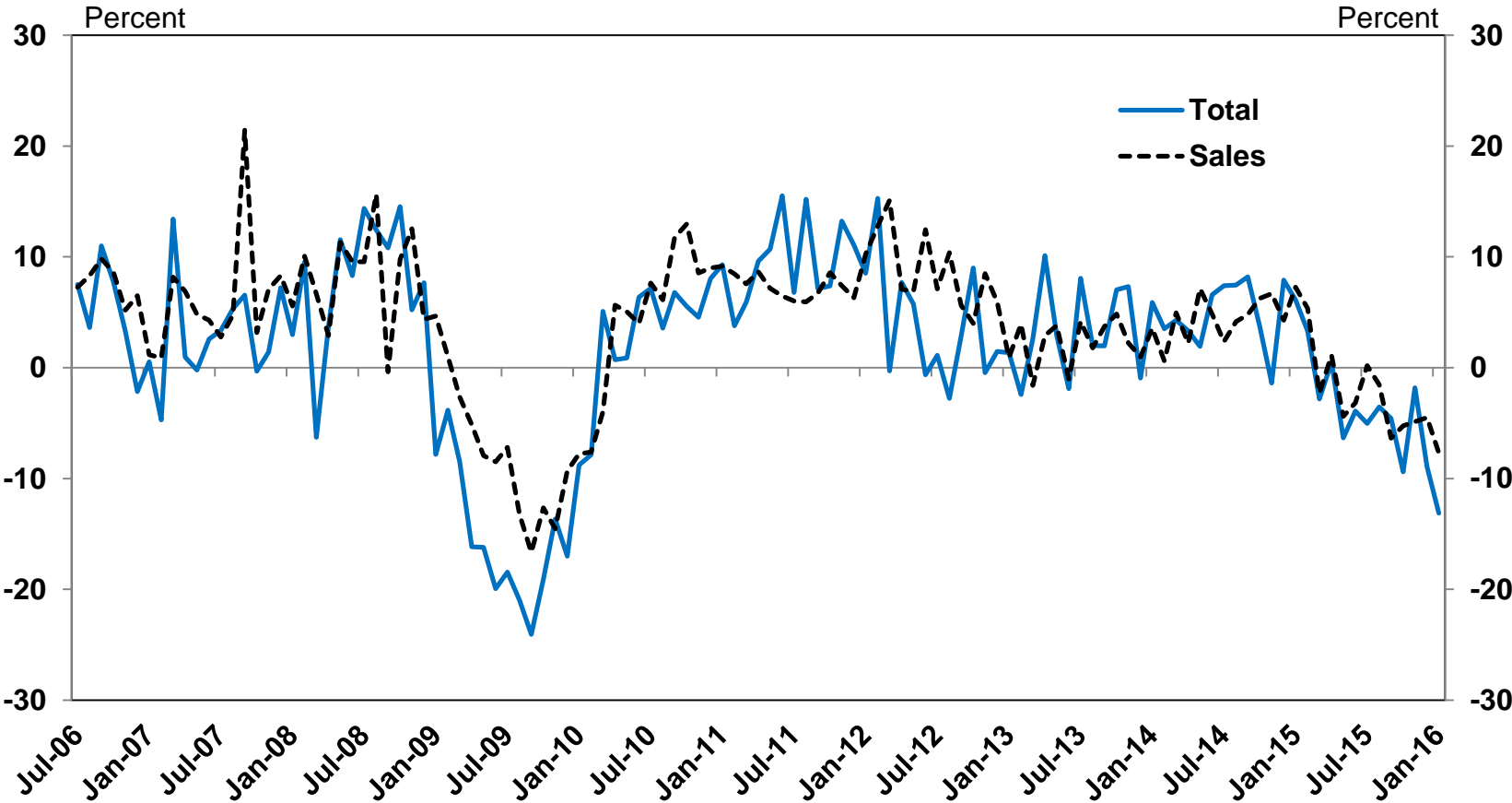


Source: Bureau of Labor Statistics



State tax receipts continue to fall, and in January had the worst decline since late '09

State Tax Receipts
Through Jan-16

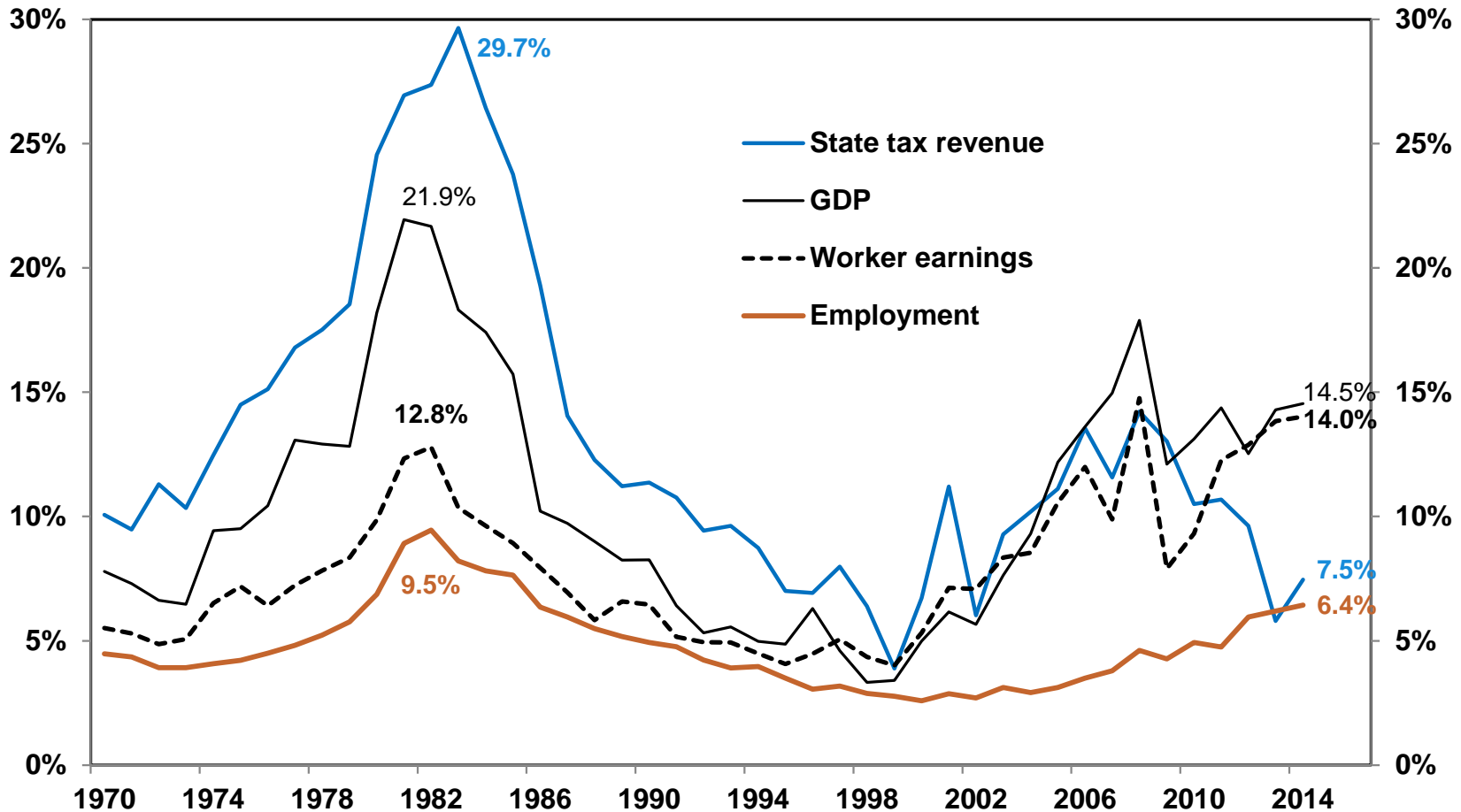


Source: OK Tax Commission



The energy sector is not as large as in the 1980s on some measures, but is on others

Mining Sector Share of Oklahoma Economic Activity

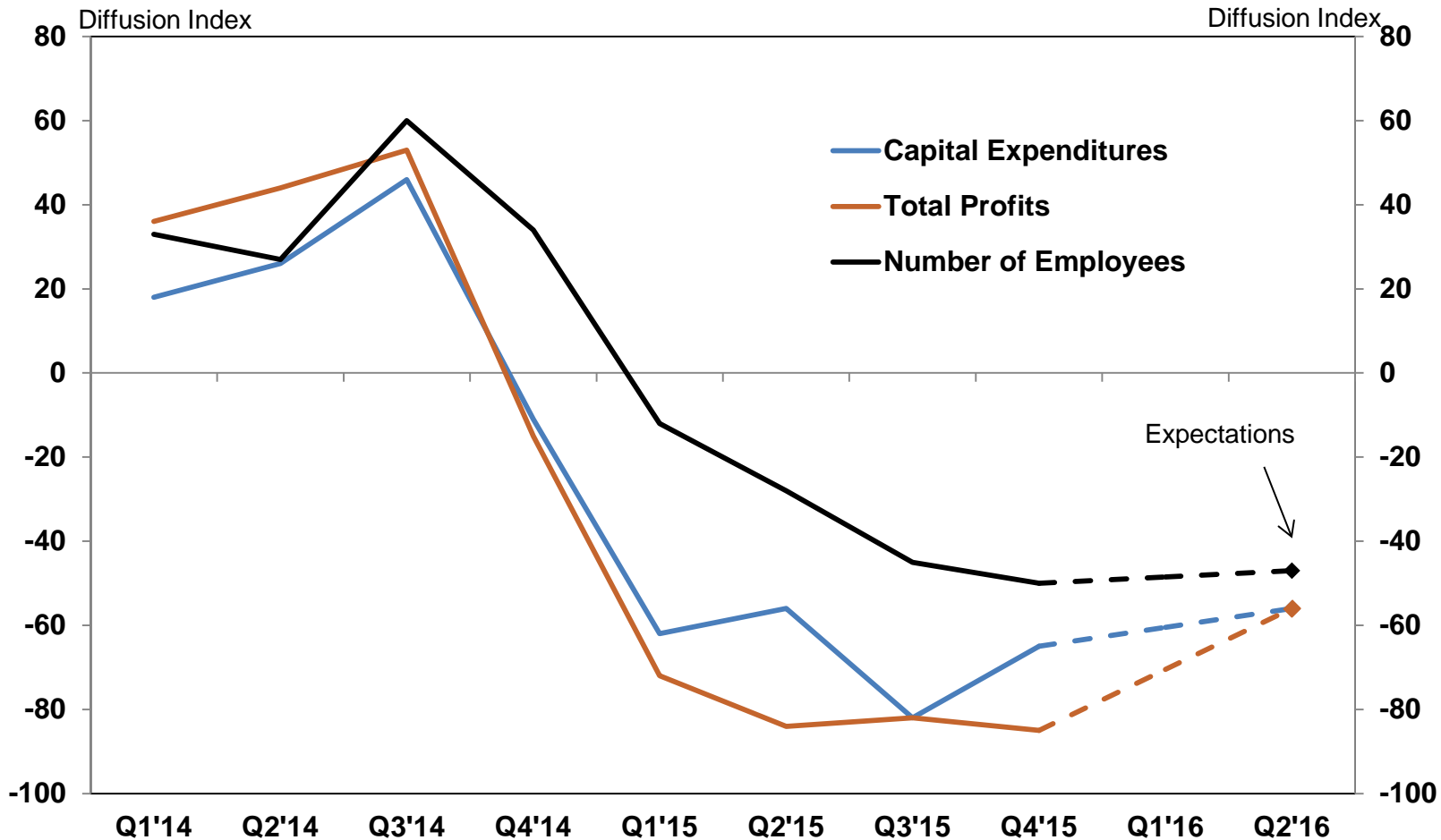


Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis



The KC Fed's Q4 energy survey showed further declines, with more expected

Year-Over-Year Energy Survey Indexes

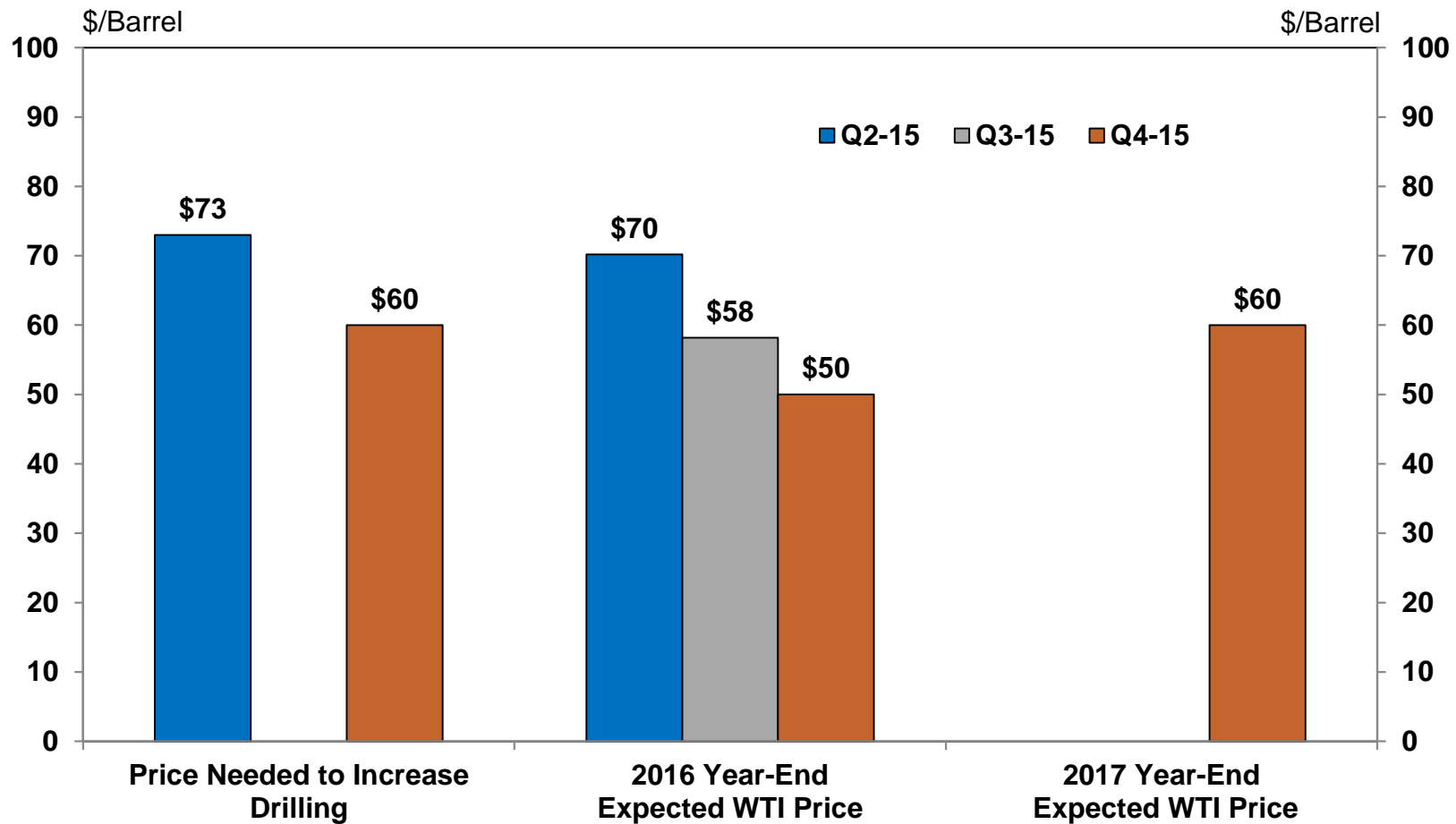


Source: FRBKC Energy Survey



Firms' average price needed to increase drilling is above levels expected through most of 2017

Firms' Price Needed to Increase Drilling and Future Price Expectations Q4 KC Fed Energy Survey

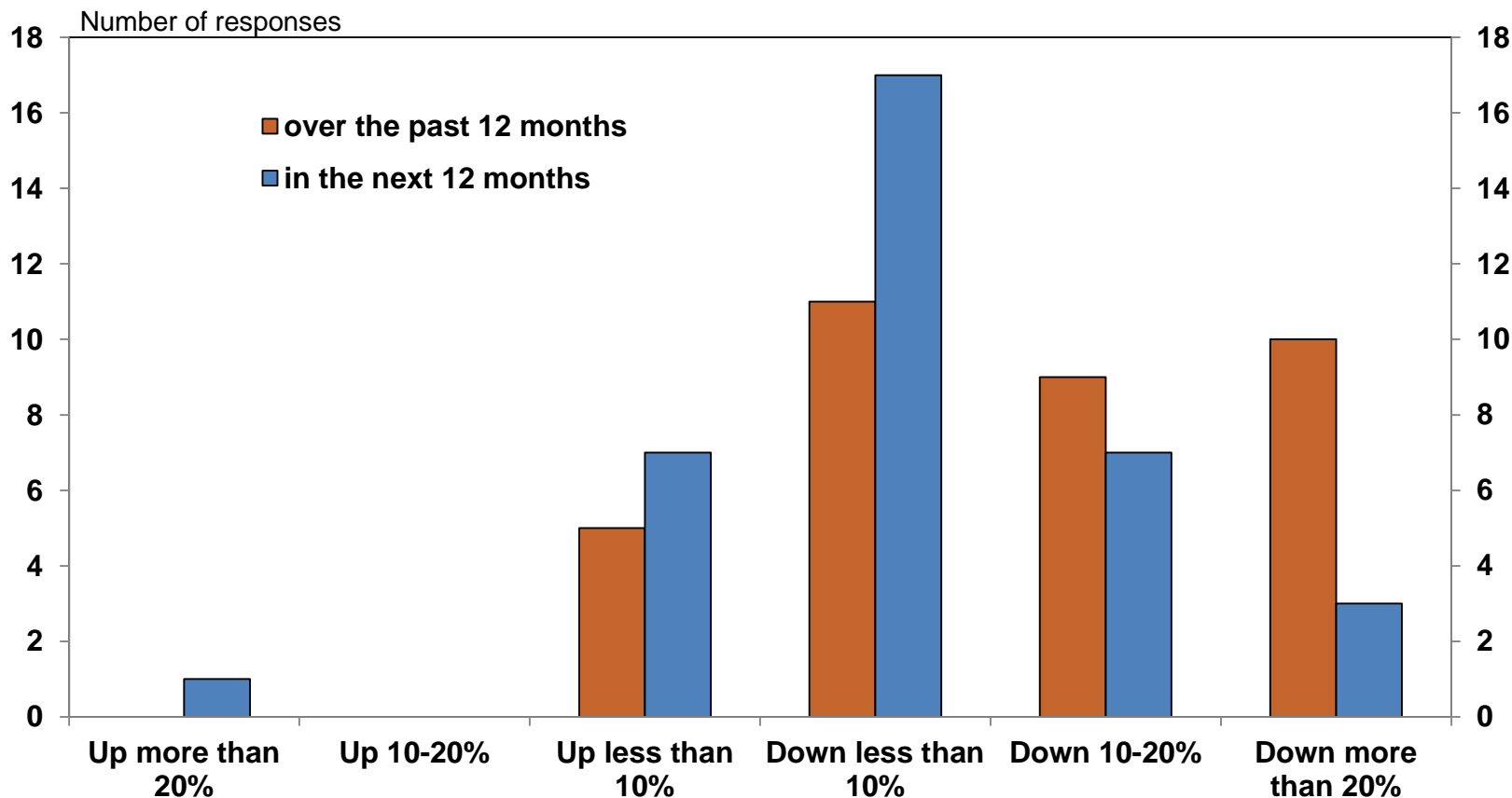


Source: FRBKC Energy Survey



Most energy firms have decreased employment and are planning further cuts

Total Employment Change by Energy Firms
Q4 KC Fed Energy Survey

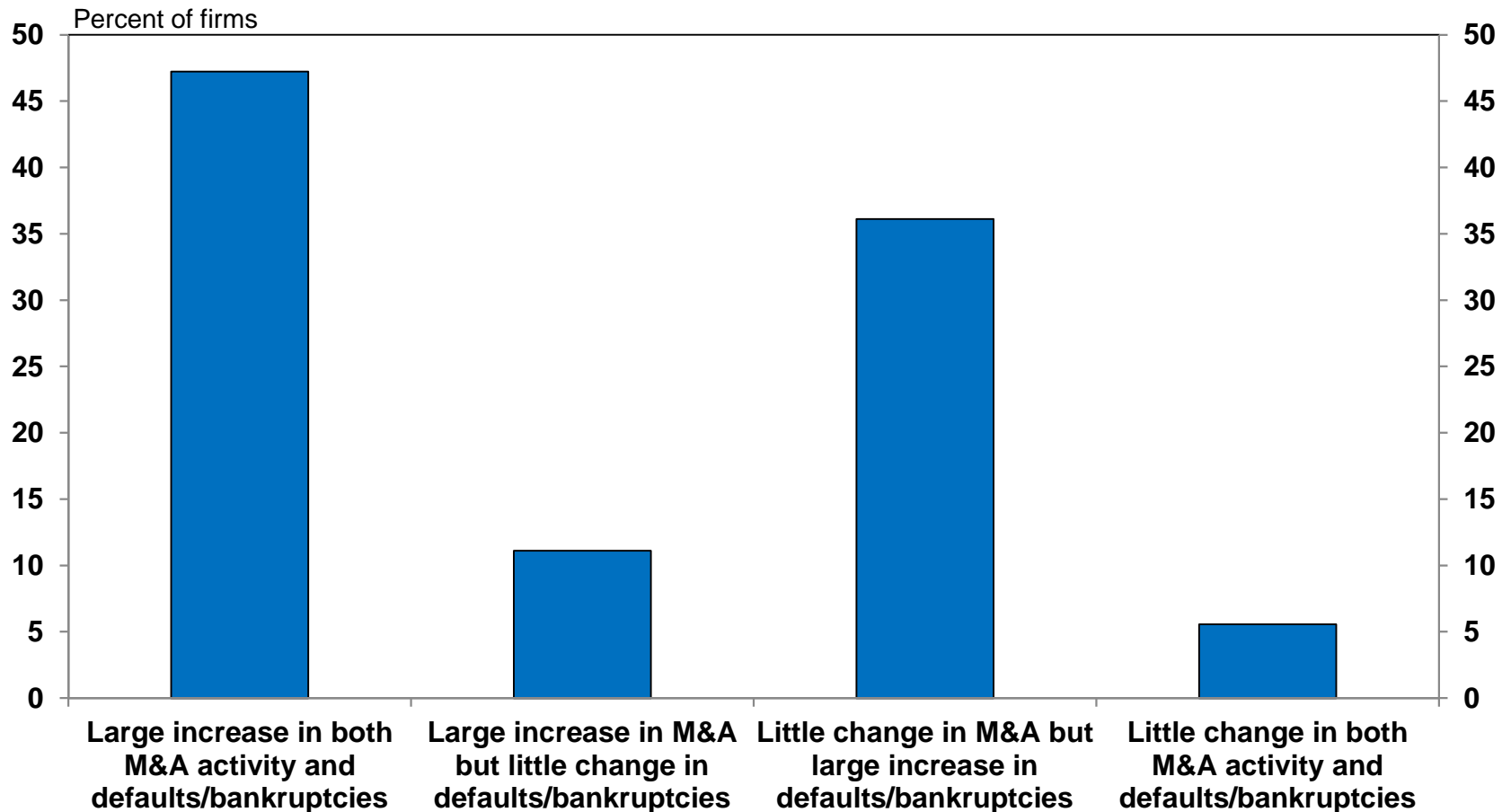


Source: FRBKC Energy Survey



Most firms are also expecting increased mergers, defaults, and bankruptcies

Q4 Energy Survey Firm Expectations for 2016

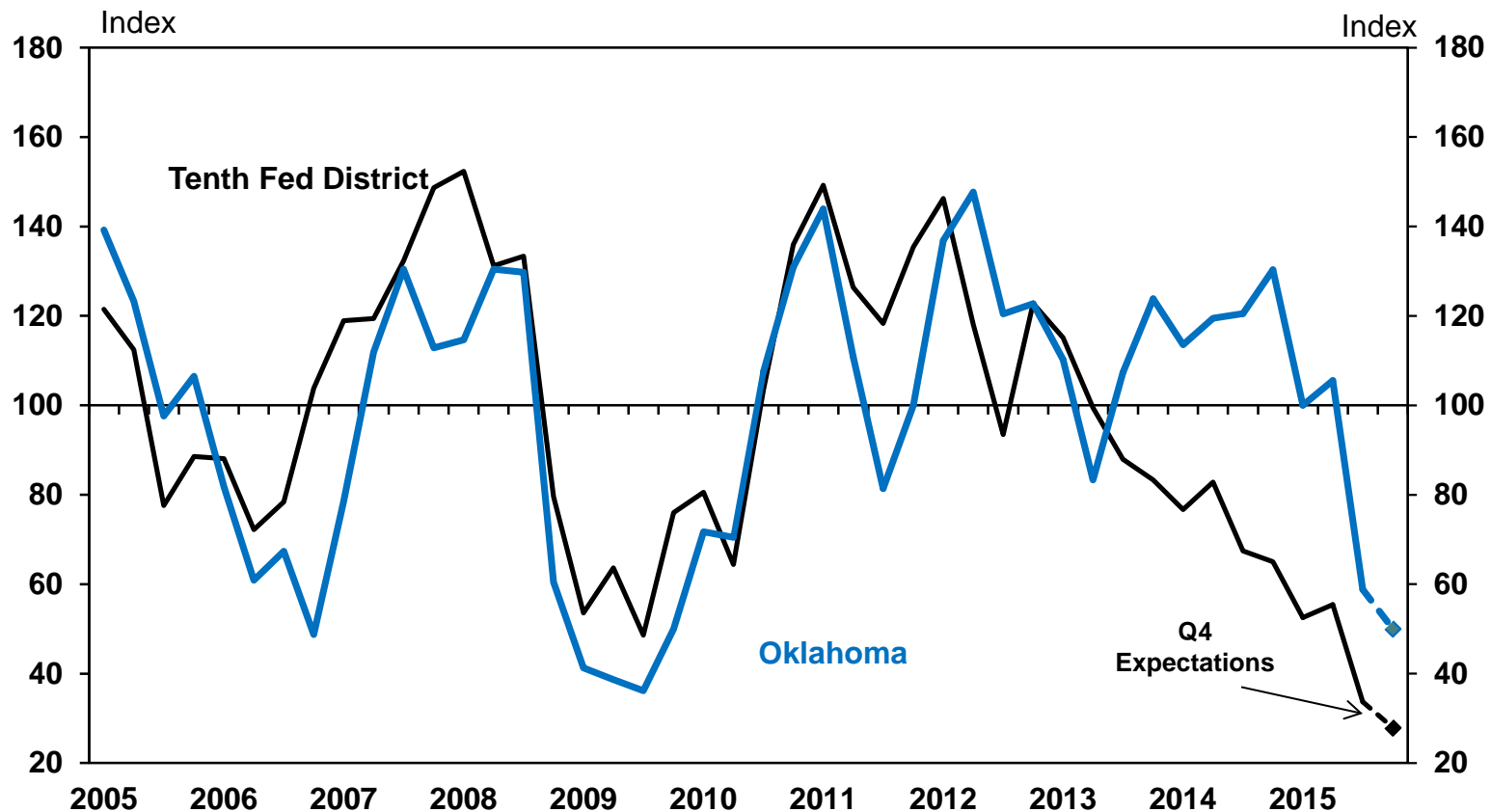


Source: FRBKC Energy Survey



Oklahoma farm income has now also dropped after holding up in first half 2015

Farm Income Indexes



Source: KCFRB Ag Credit Survey



Energy and Ag are even more important in Grady County than in the state as a whole

Grady County Personal Income Share by Industry 2014

Industry	Percent of Total Income		Grady Co Location Quotient	OK Location Quotient
	Grady Co	U.S.		
Mining	17.1	1.8	9.5	8.0
Farming	7.3	1.1	6.6	1.8
Construction	12.5	5.8	2.1	1.1
Trade, Transportation & Utilities	20.9	15.8	1.3	1.1
State & Local Government	16.3	13.2	1.2	1.0
Manufacturing	10.3	10.0	1.0	0.9
Leisure & Hospitality	3.1	4.5	0.7	0.8
Financial Activities	5.9	9.5	0.6	0.6
Federal Government	1.6	4.3	0.4	1.3
Professional and Business Services	4.6	17.3	0.3	0.6
Information	0.5	3.5	0.1	0.4
Education & Health*	0.0	13.1	n/a	0.8

Note - Location quotient is the division of local share by national share

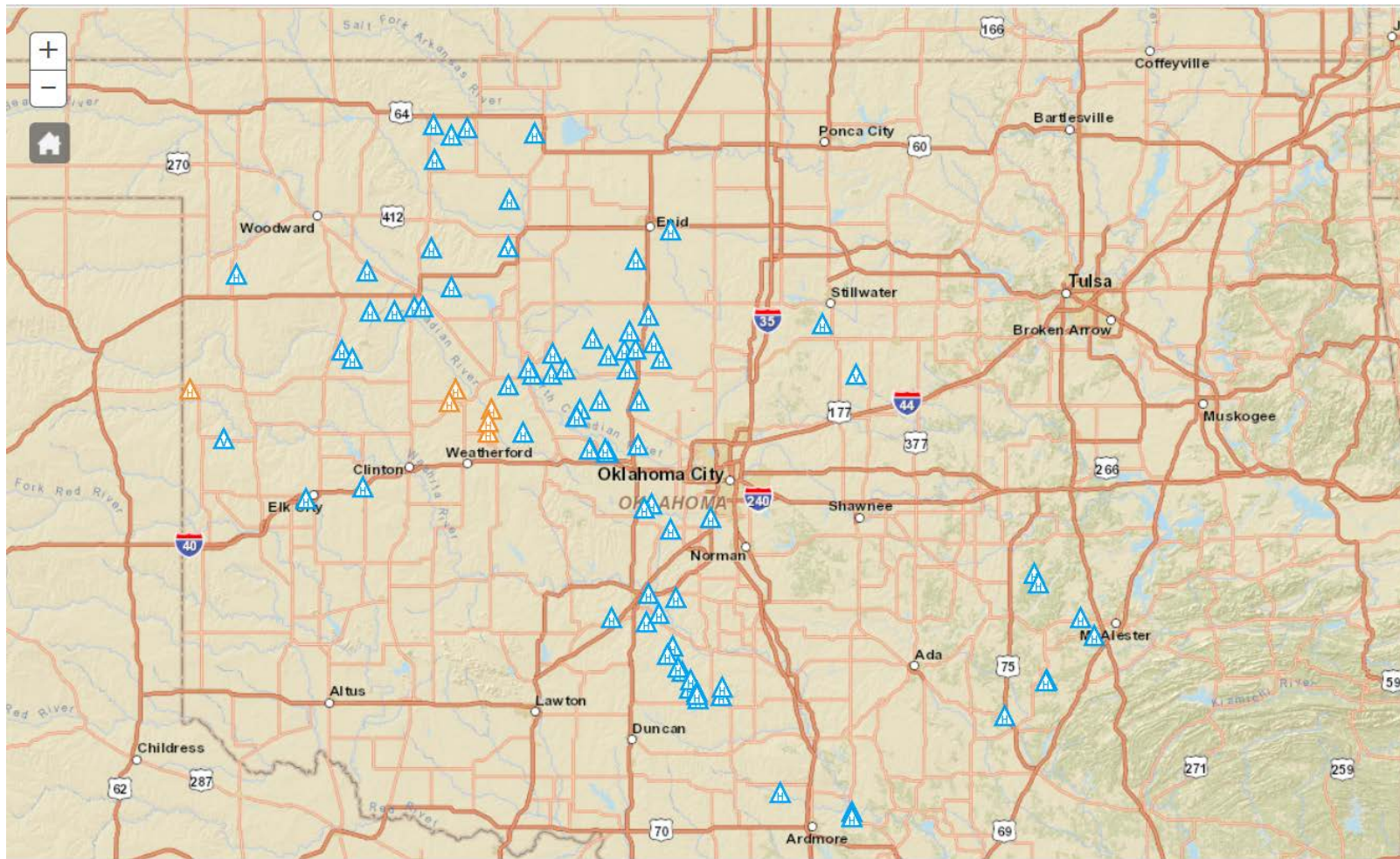
*Not disclosed for Grady County



But Grady County is one of the few spots in the state still seeing rig activity

Oil and Natural Gas Rigs

As-of February 1, 2016

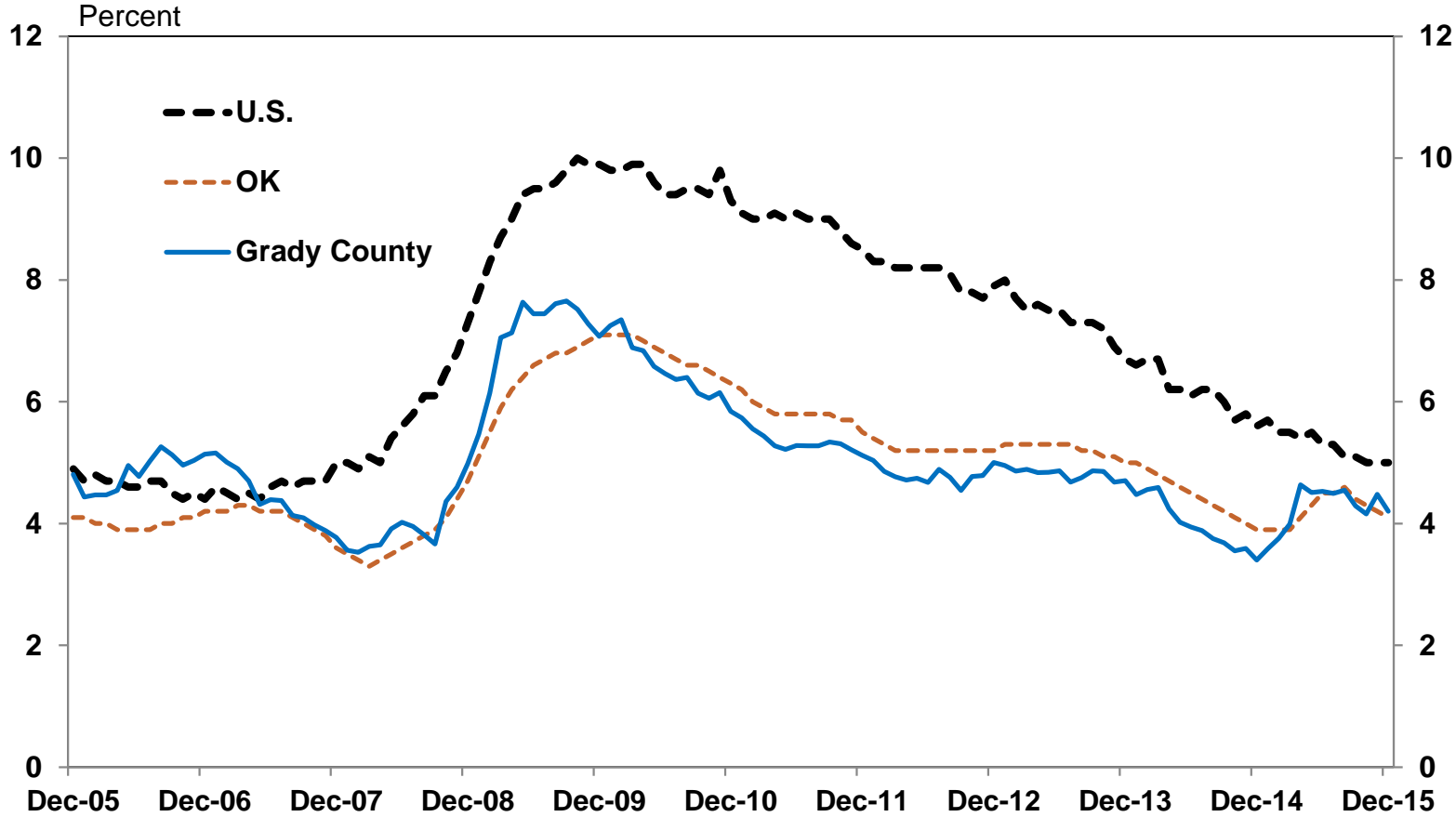


Source: Baker Hughes



And Grady Co. unemployment remains below the U.S. rate, similar to the state as a whole

Unemployment Rate Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics



Summary

- Oklahoma employment and tax revenues continue to suffer from the oil downturn, and ag-related industries are also now declining
- The latest KC Fed energy survey showed another decline in the sector in Q4, with expectations of more difficulties ahead
- Grady County has high concentrations in energy and agriculture, but some drilling continues and unemployment remains low

