

U.S. and Oklahoma Economic Outlook



Broken Arrow Chamber of Commerce

May 4, 2016

Chad Wilkerson

Vice President, Economist, and Oklahoma City Branch Executive

Federal Reserve Bank of Kansas City

www.kansascityfed.org/oklahomacity



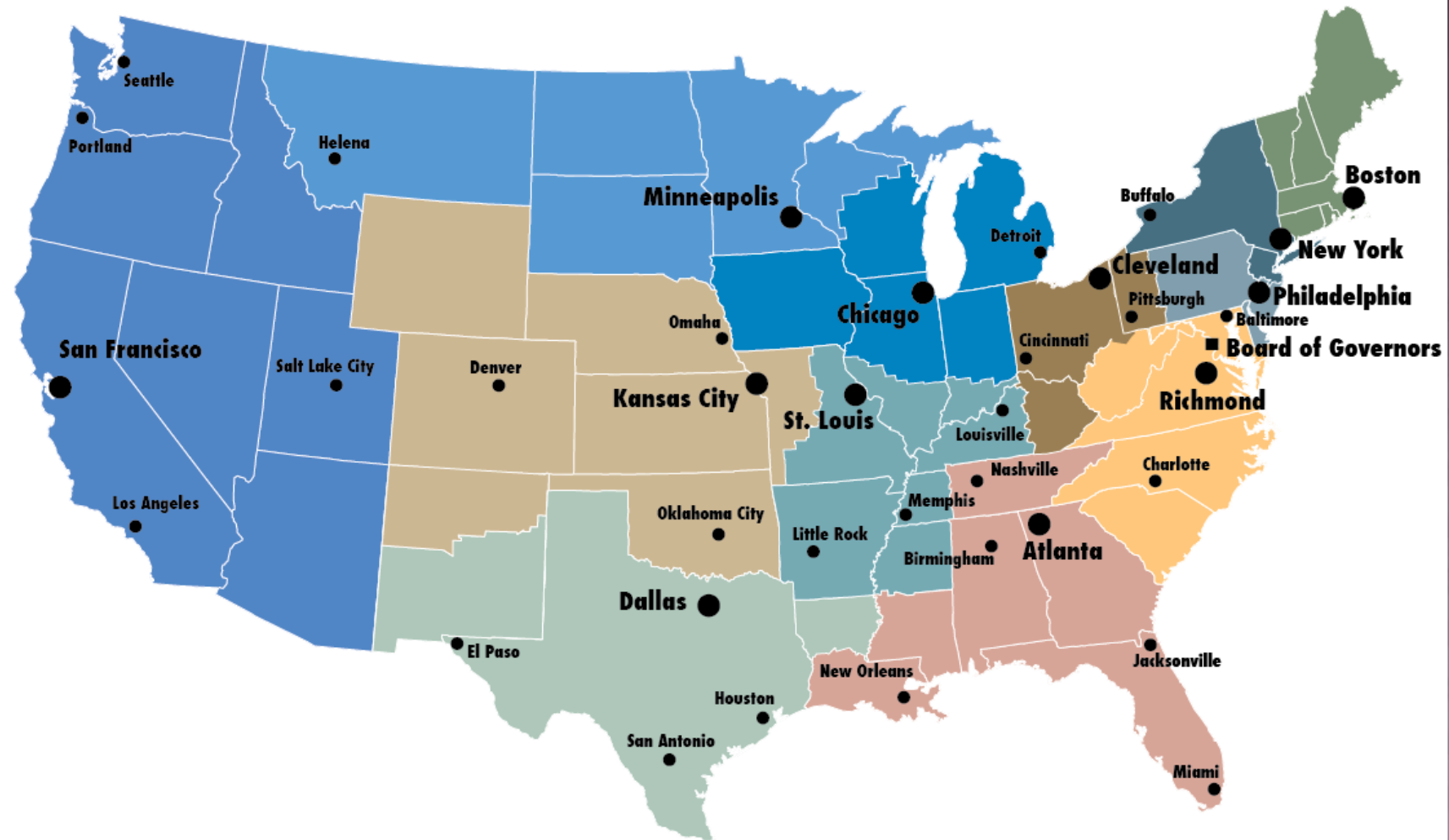
Structure and Functions of the Federal Reserve System

- **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)**, Chairman (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

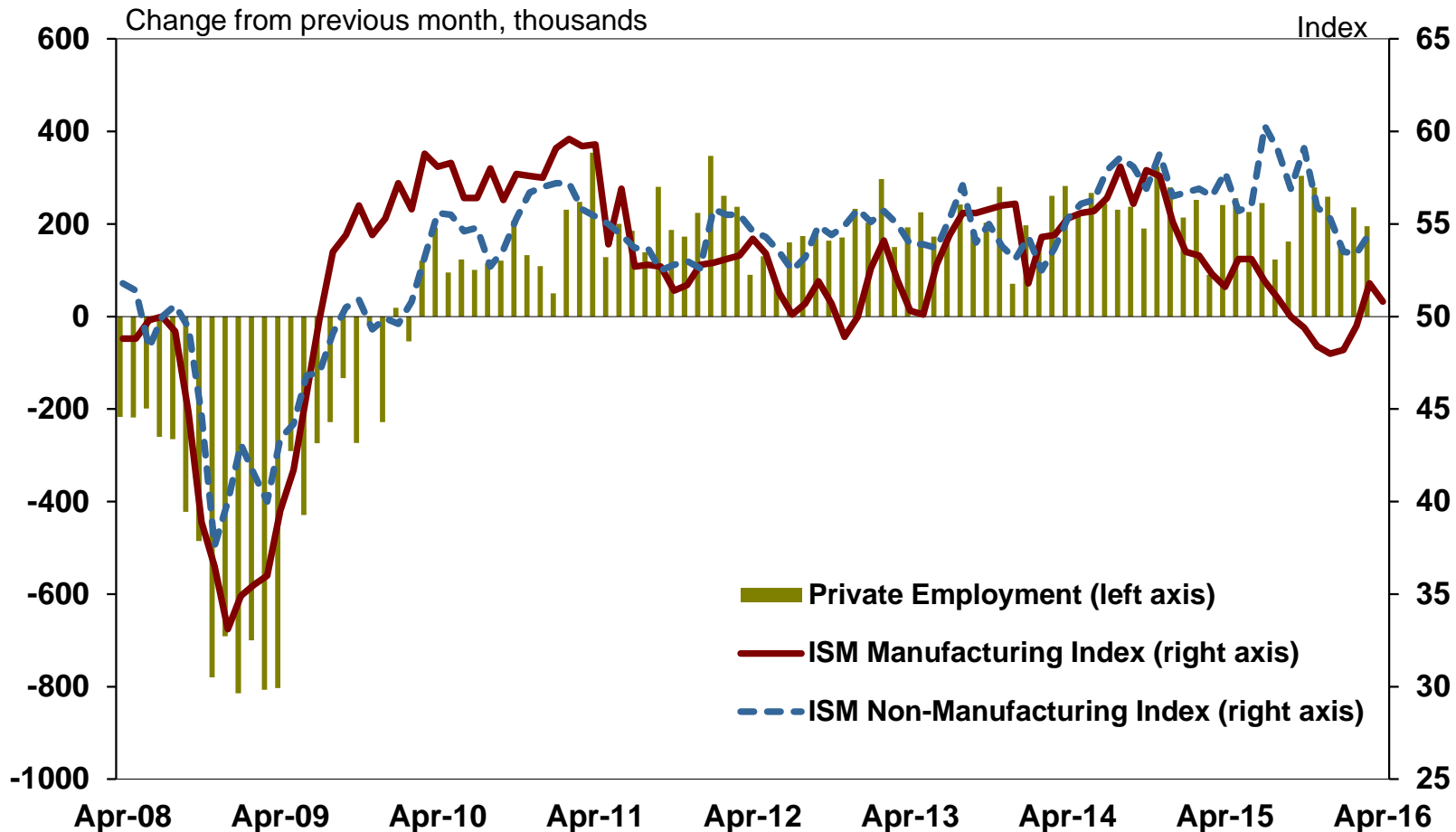


The U.S. Economy and Monetary Policy



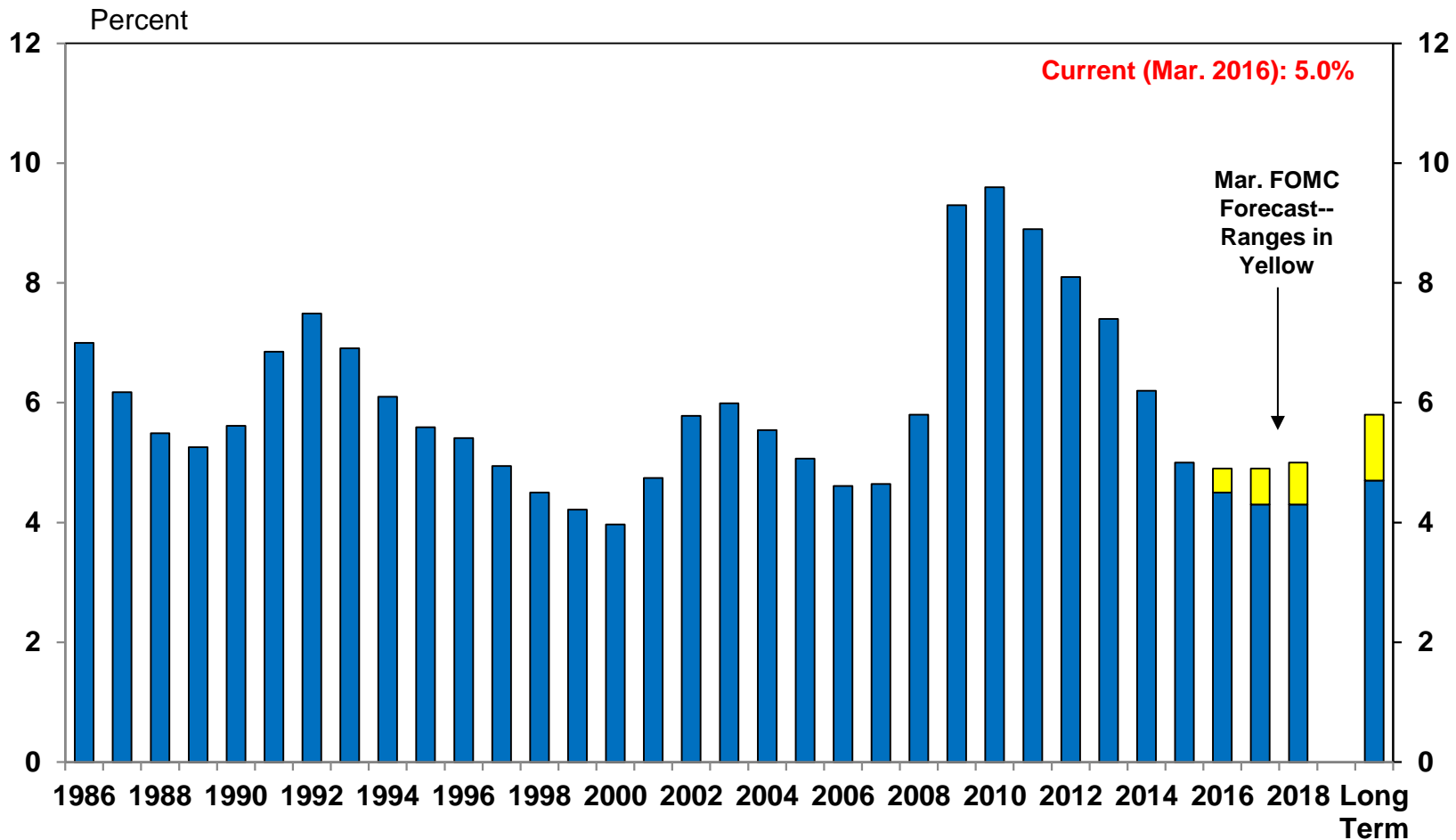
U.S. business activity has slowed slightly, but job growth remains solid

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

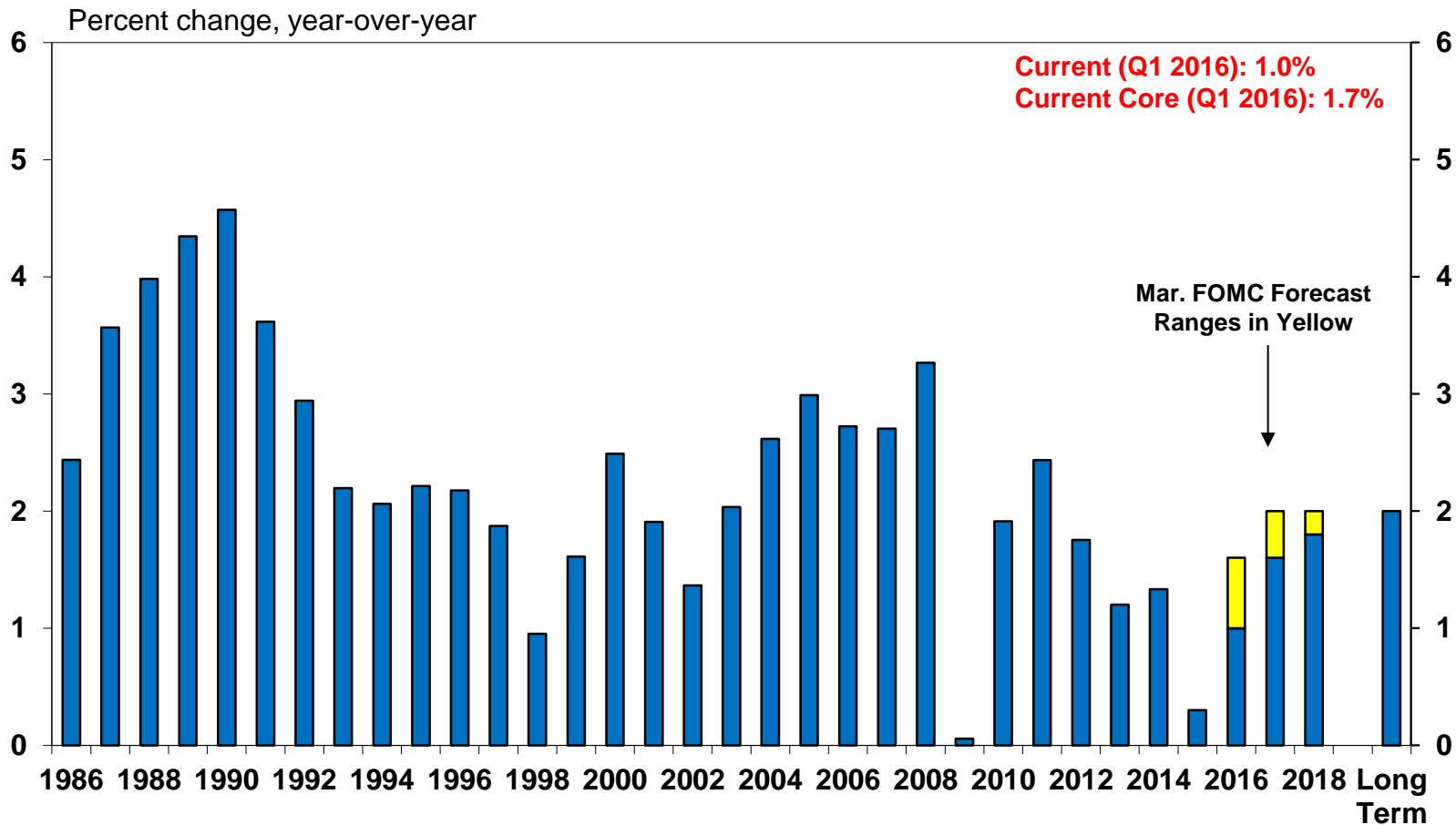


Sources: U.S. Bureau of Labor Statistics, FOMC

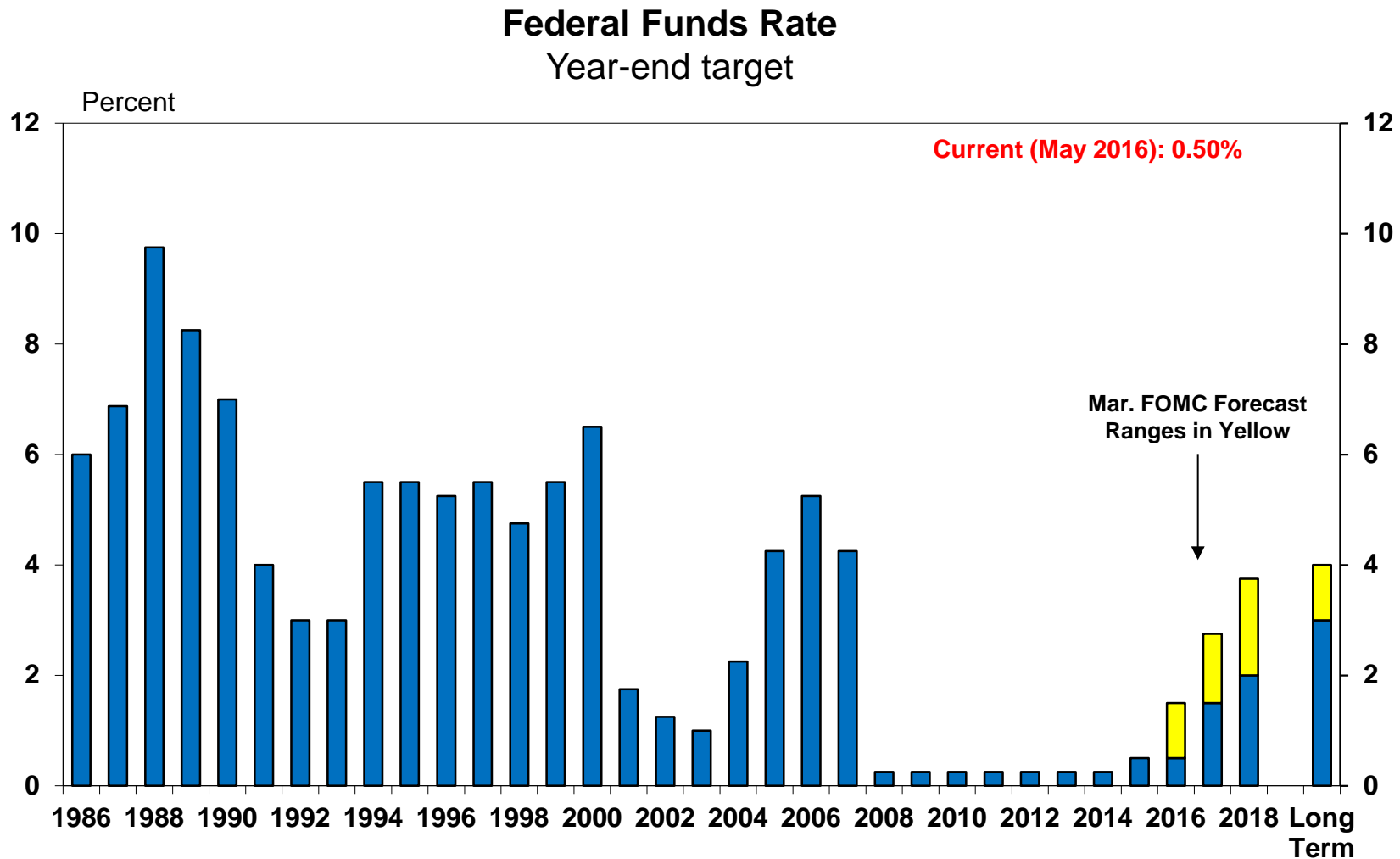


U.S. inflation is low but expected to return to close to target in 2016

PCE Inflation Index



FOMC participants expect moderate increases in rates heading forward

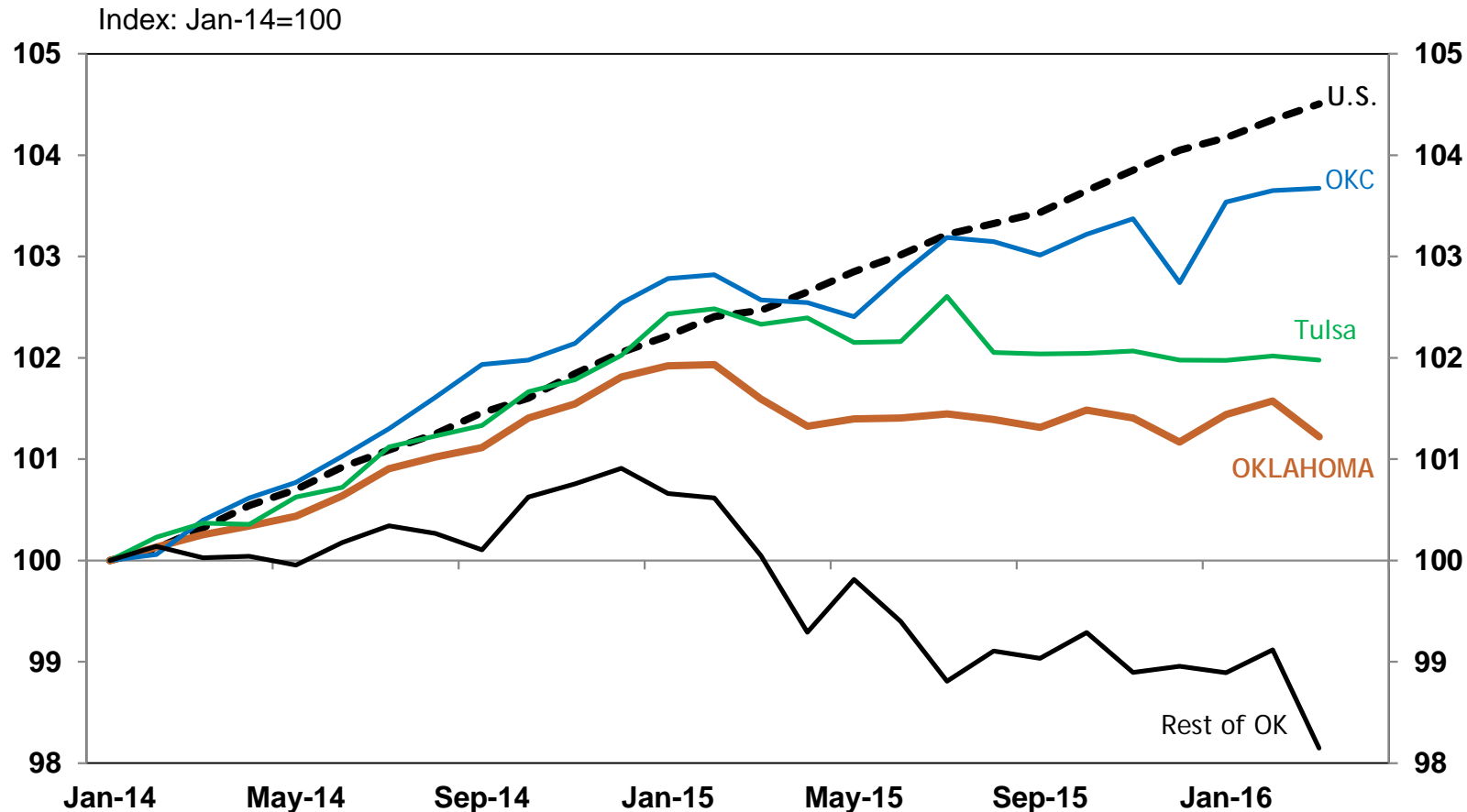


Trends in the Oklahoma Economy



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

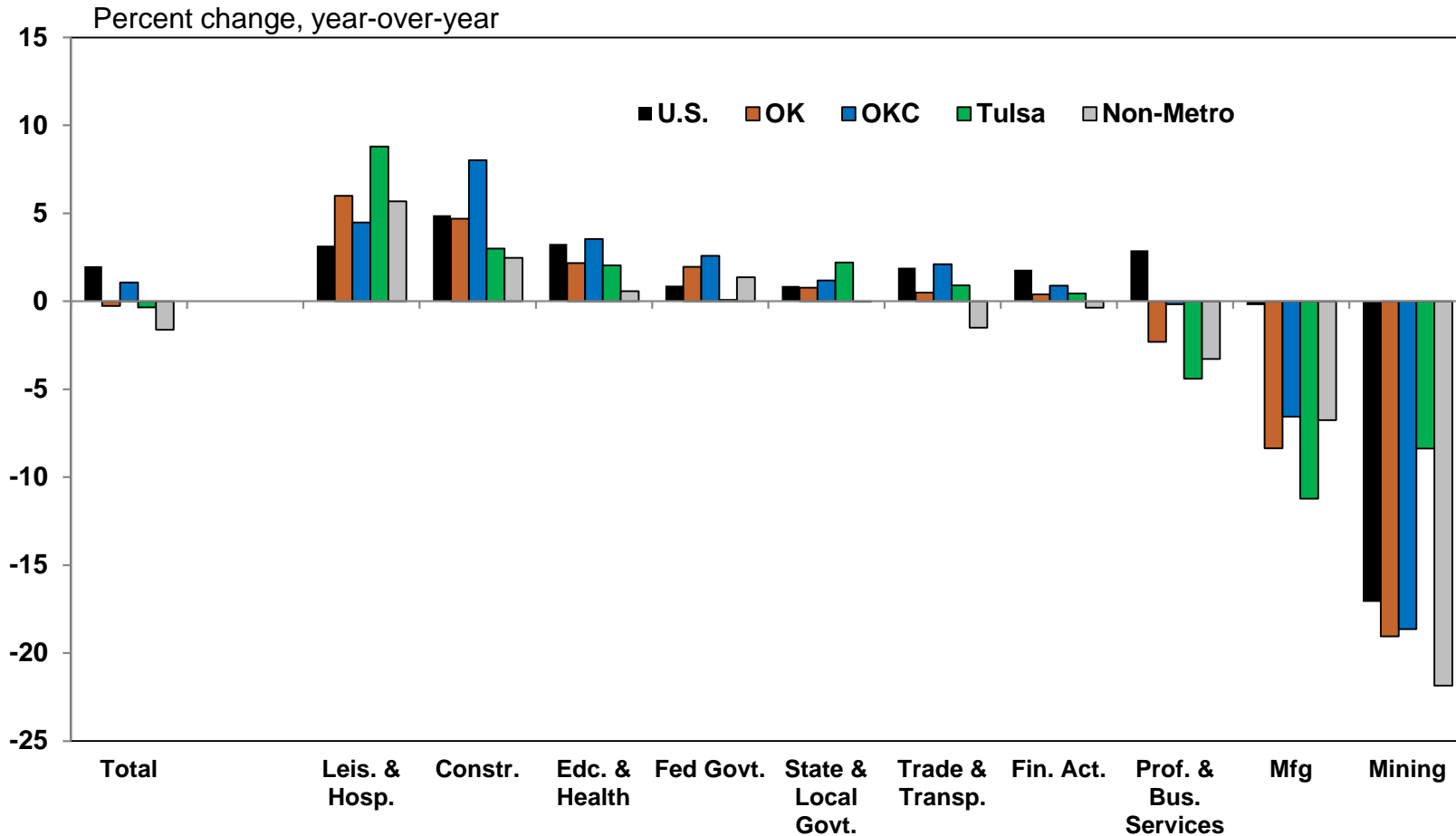
Level of Payroll Employment
Through March 2016



Energy jobs have plummeted, but spillover to other industries has been relatively limited

Job Growth by Industry

Mar-16

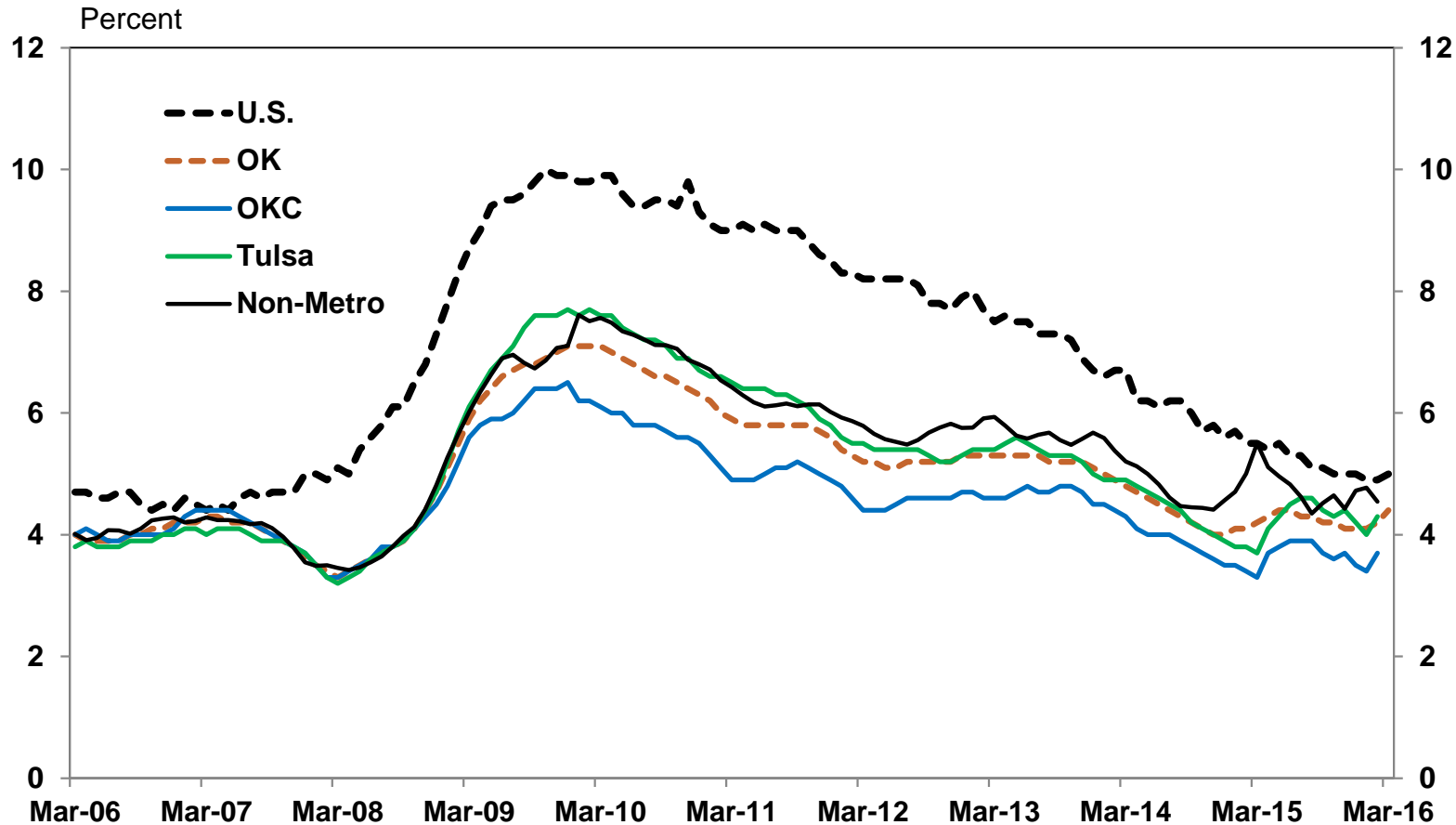


Source: Bureau of Labor Statistics



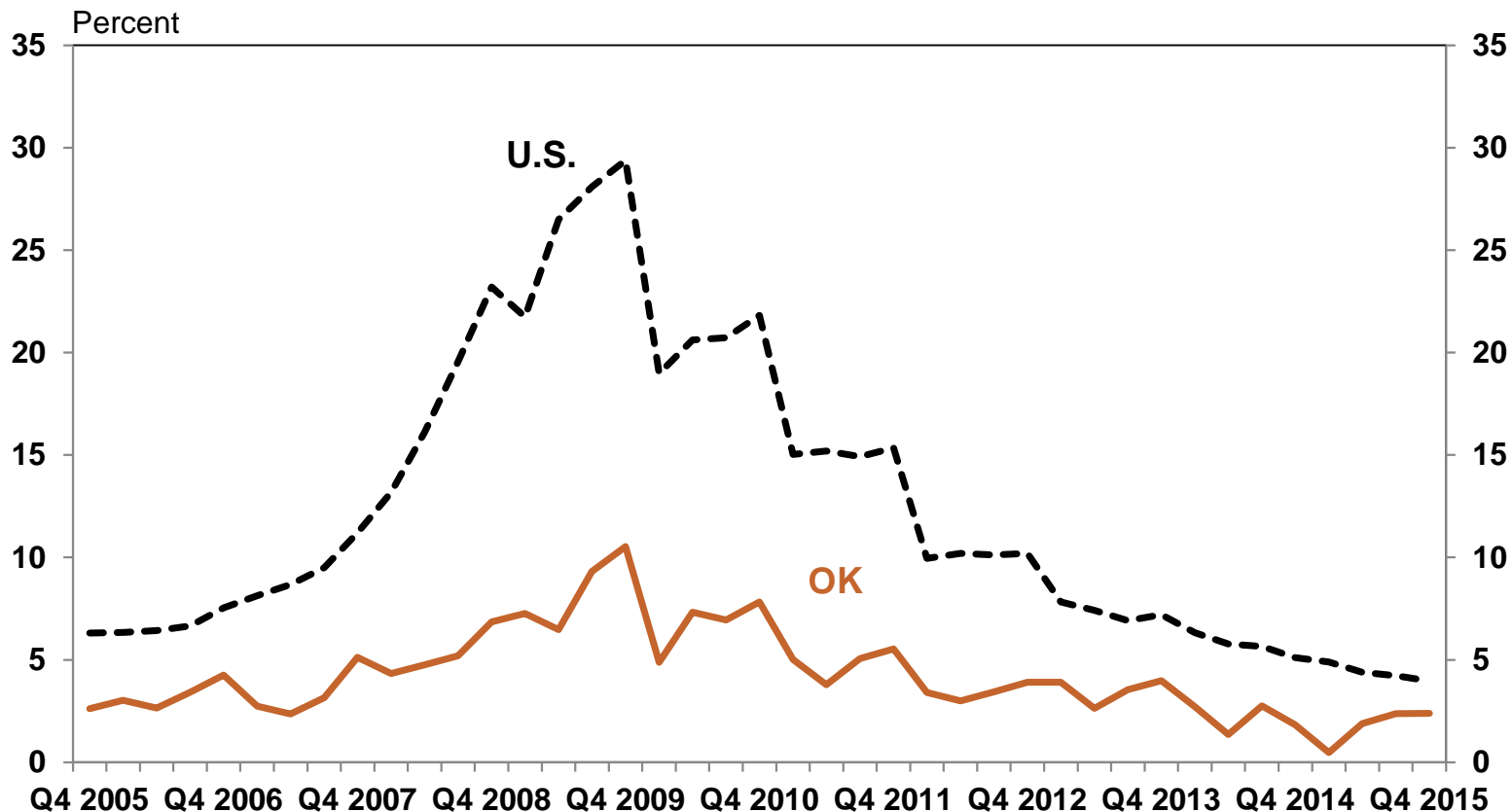
With many workers finding jobs in other industries, unemployment still remains low

Unemployment Rate
Seasonally Adjusted



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

Share of Banks Not Making a Profit
Commercial Banks

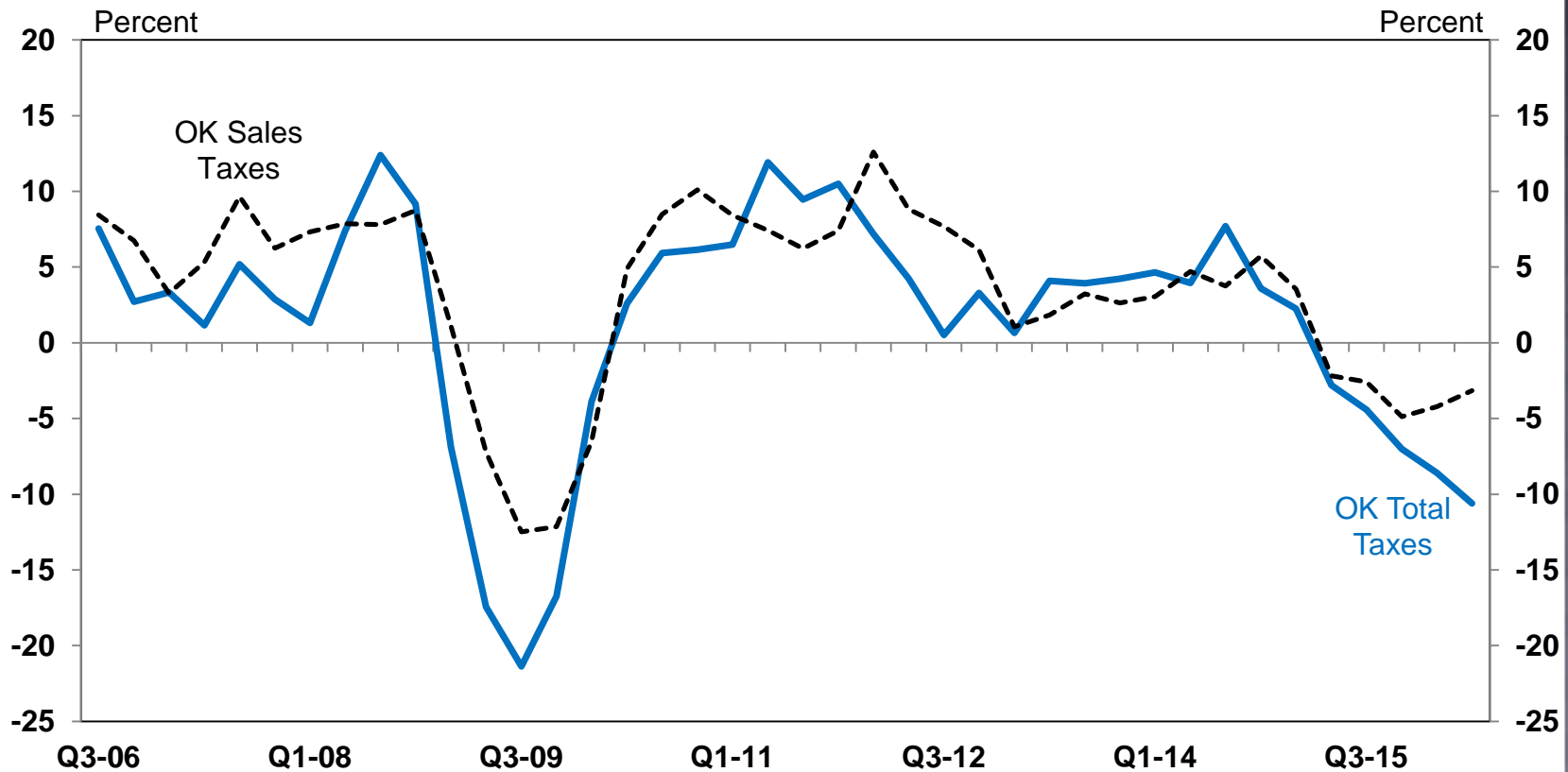


Source: FDIC



But declining tax receipts are creating difficulties for government budgets

State Tax Receipts
Through Q2-16*



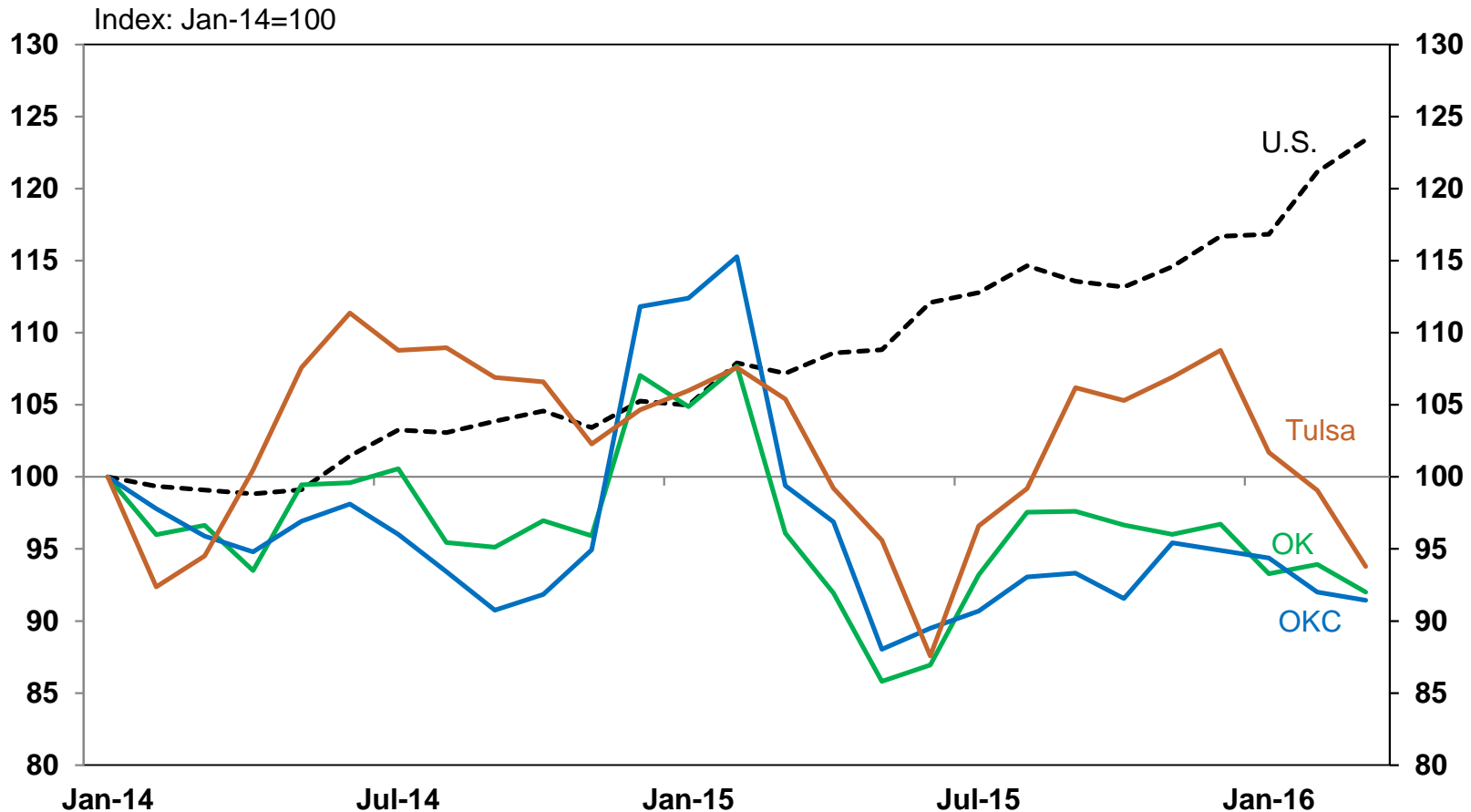
*Note: Q2-16 through April 2016

Source: OK Tax Commission



New home construction plans have leveled off as the economy has slowed

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

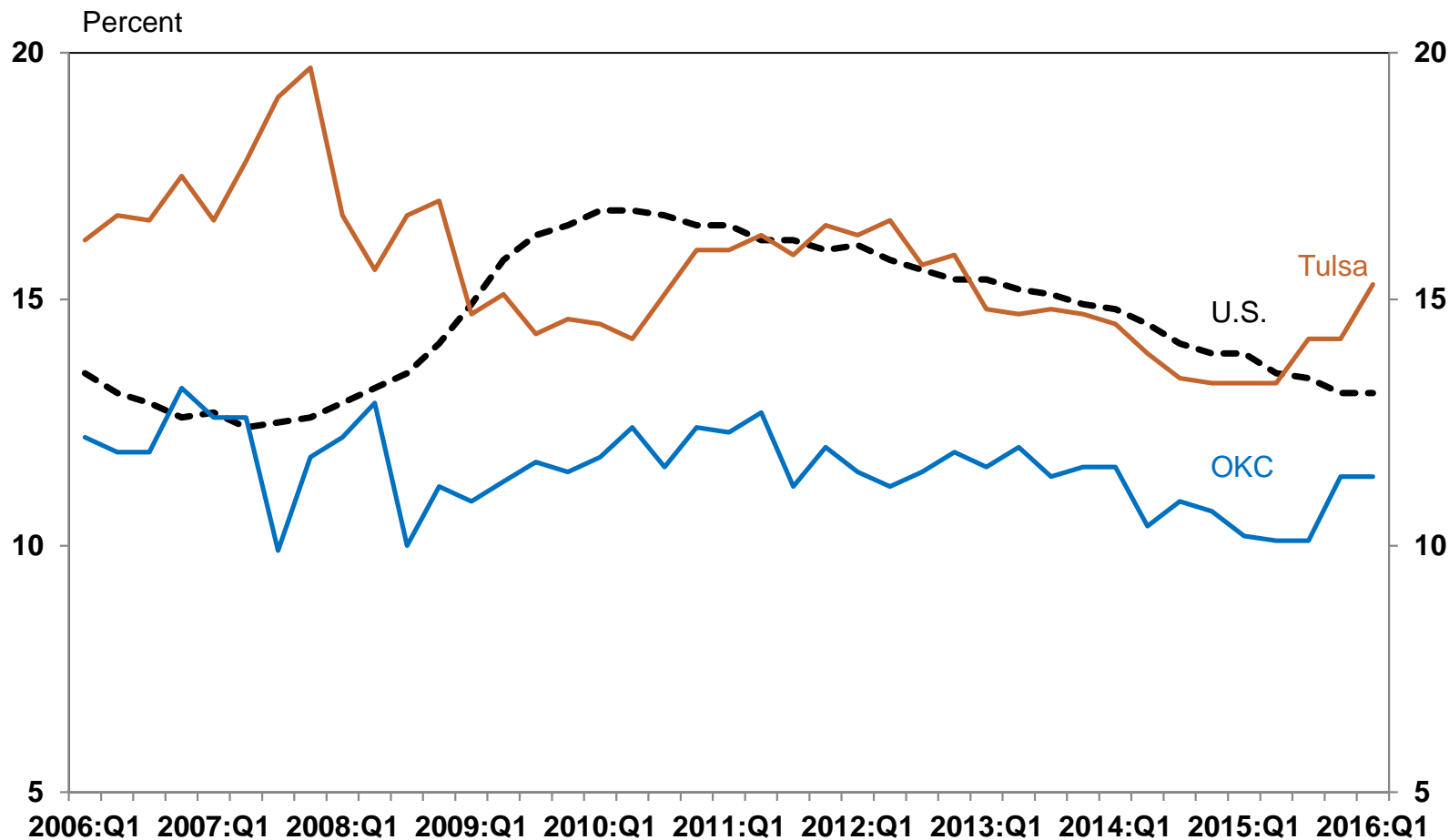


Source: U.S. Census Bureau



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

Office Vacancy Rates



Source: TWR



The outlook for the energy sector remains 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

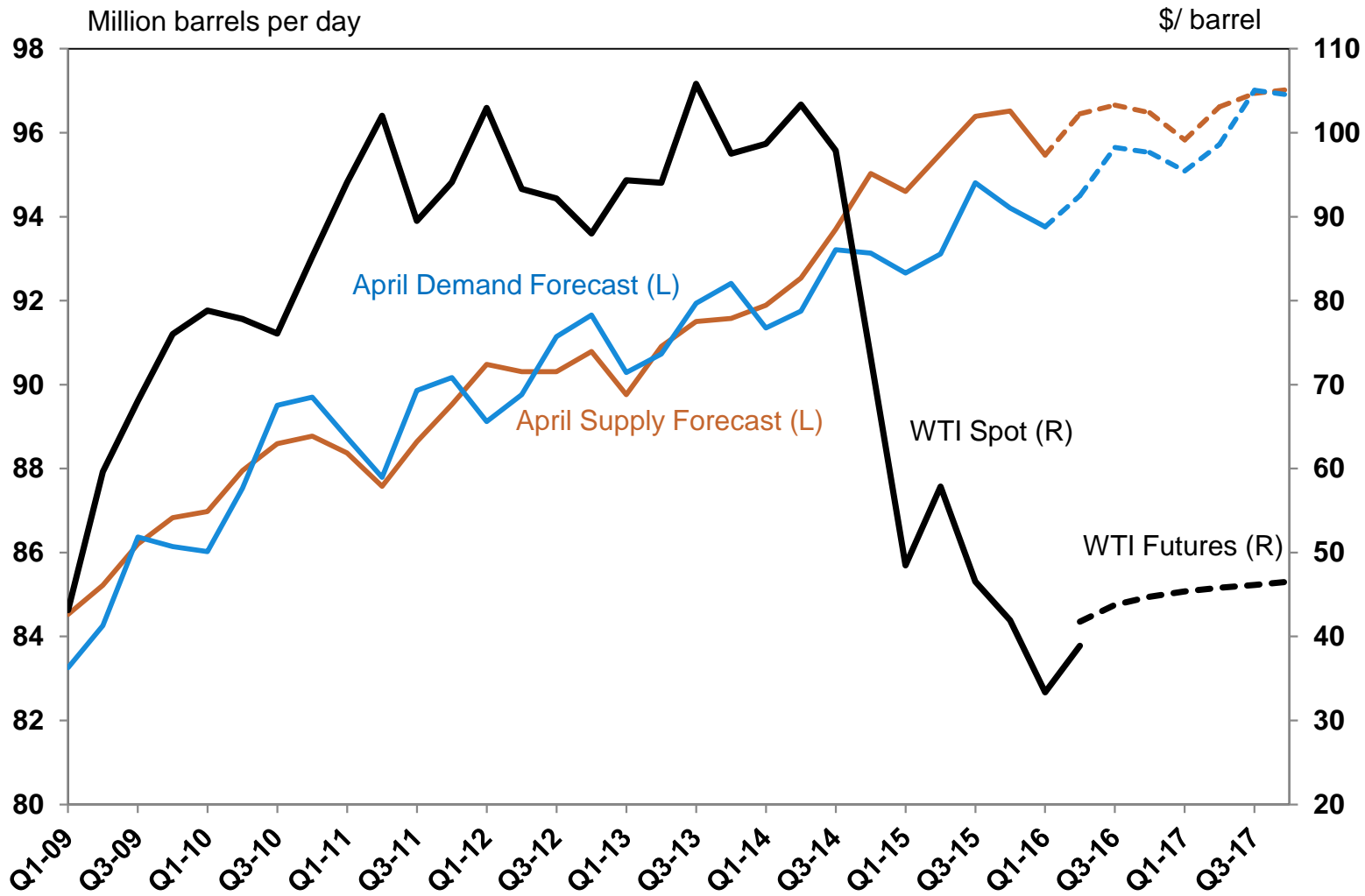


The Outlook for the Energy Sector



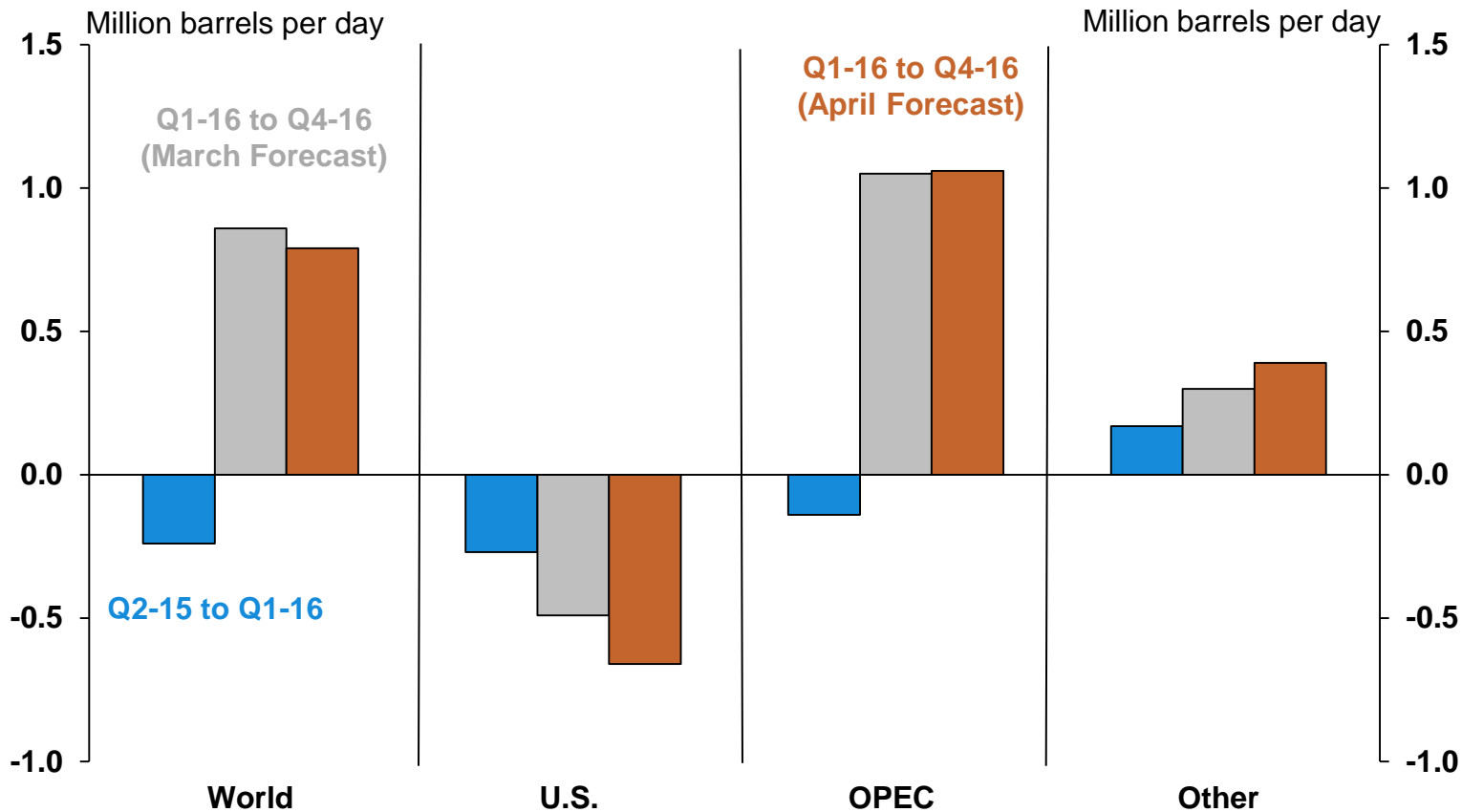
World oil supply and demand are expected to remain out of balance for some time

Global Oil Supply and Demand



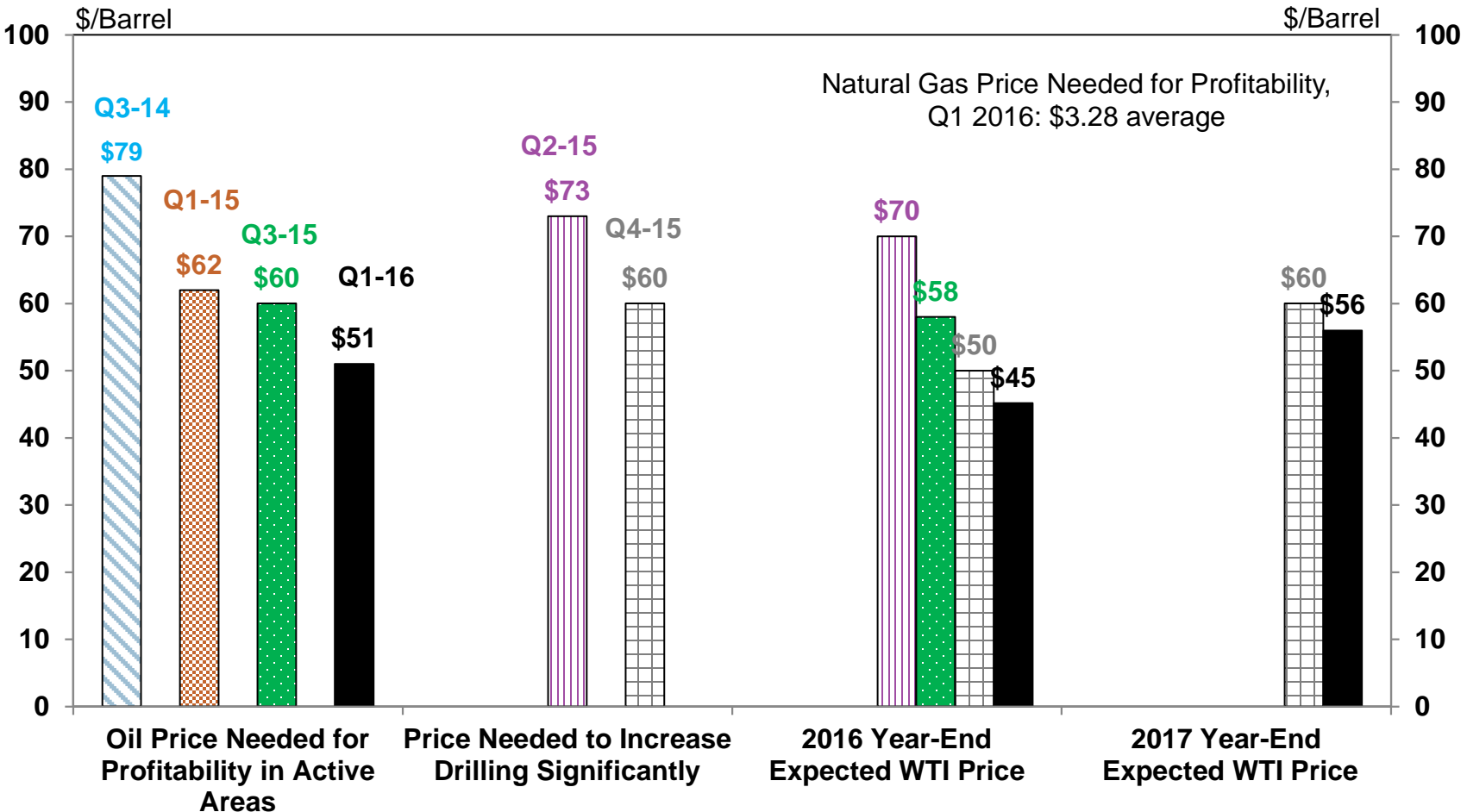
Increasing declines in U.S. production help, but uncertainty in OPEC does not

Change in World Oil Supply
Since U.S. Peak and Forecast



According to firms, profitable prices for oil (and natural gas) are above current prices

KC Fed Energy Survey Special Questions
Q3 2014 to Q1 2016

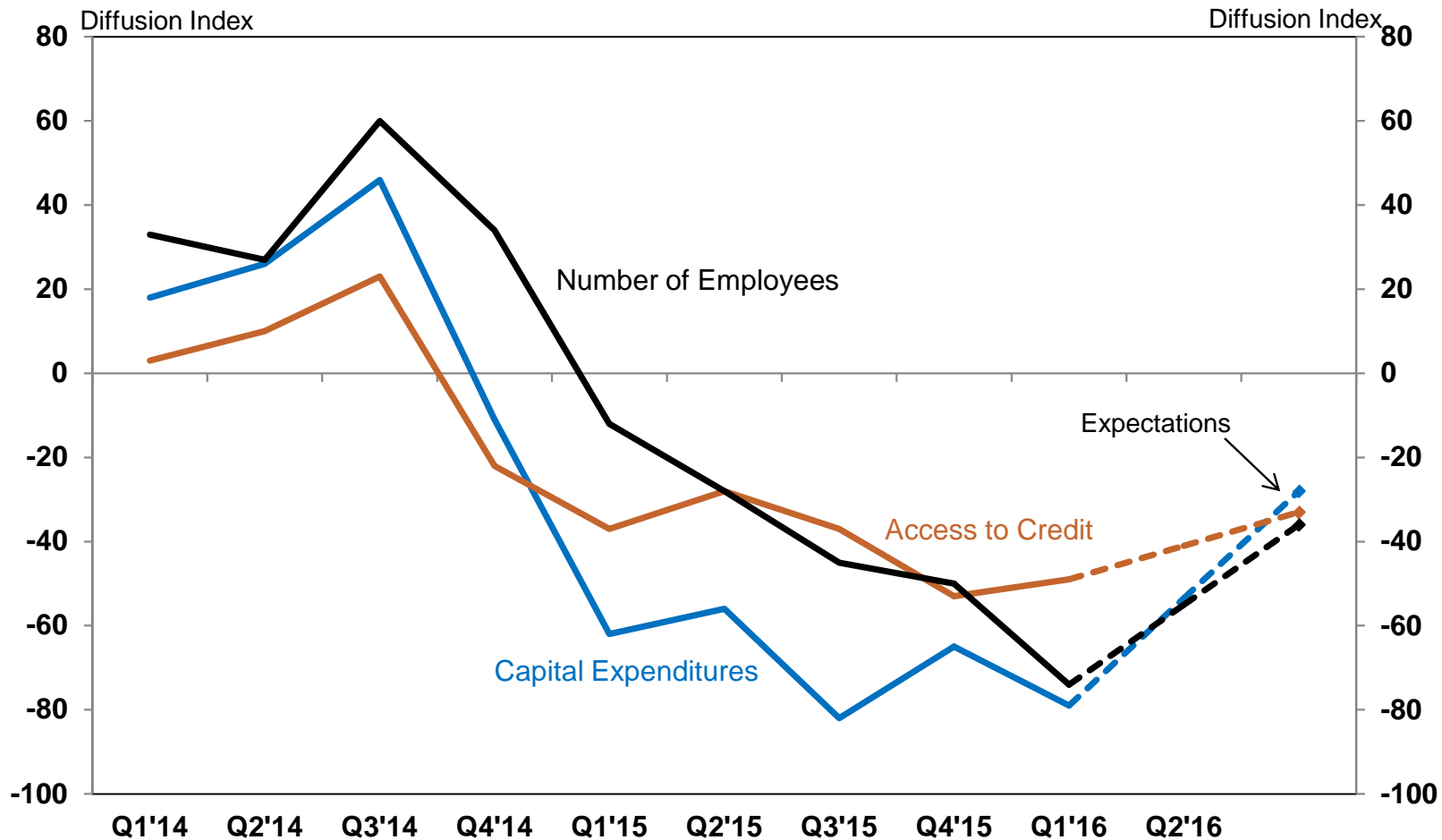


Source: FRBKC Energy Survey



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

Year-Over-Year Energy Survey Indexes



Source: FRBKC Energy Survey



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 there has been fairly limited spillover so far
- The energy sector remains oversupplied, and thus may be a drag for some time

