

U.S. and Oklahoma Economic Outlook

Bartlesville Economic Update
June 22, 2018

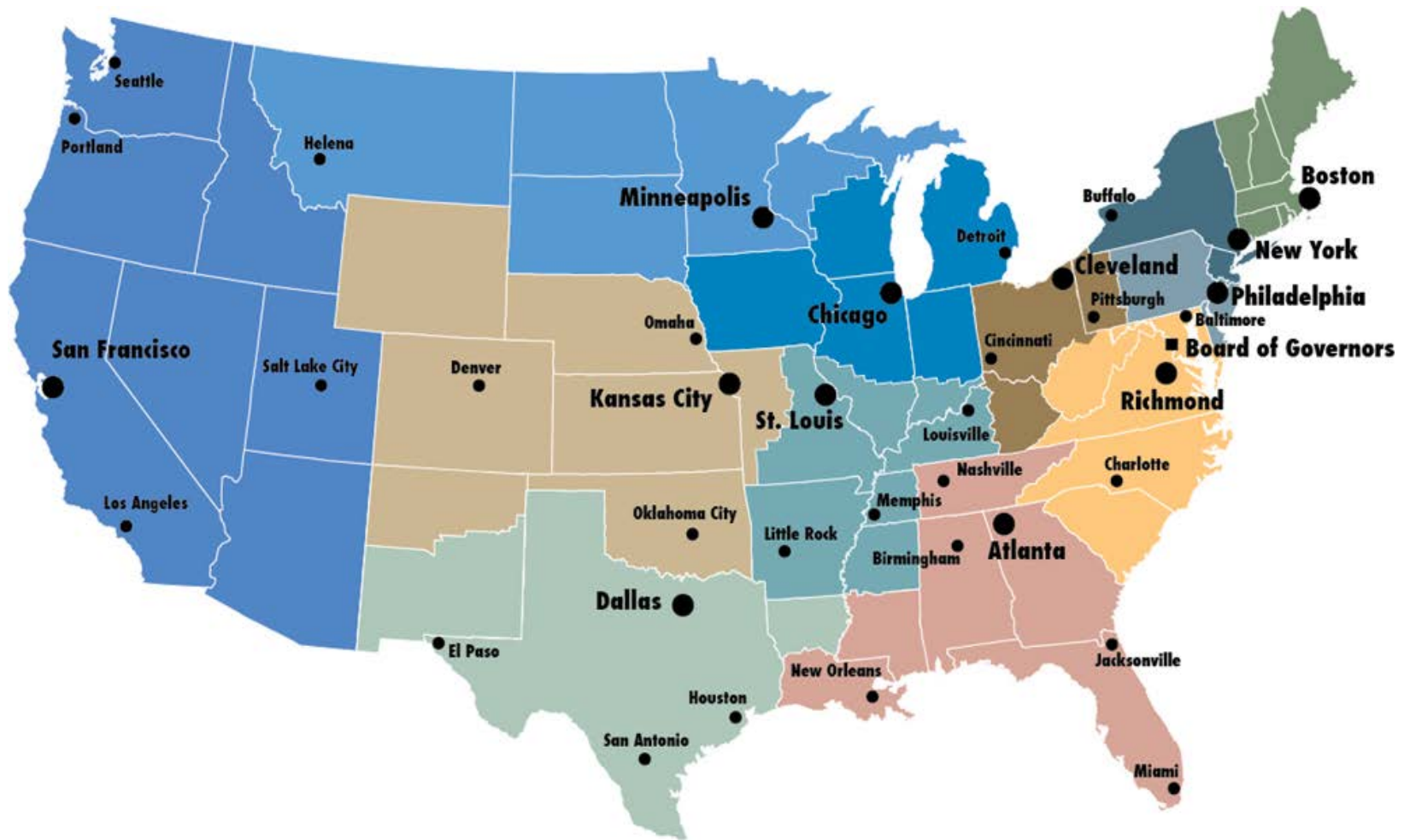
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Oklahoma City Branch Executive and Economist

*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

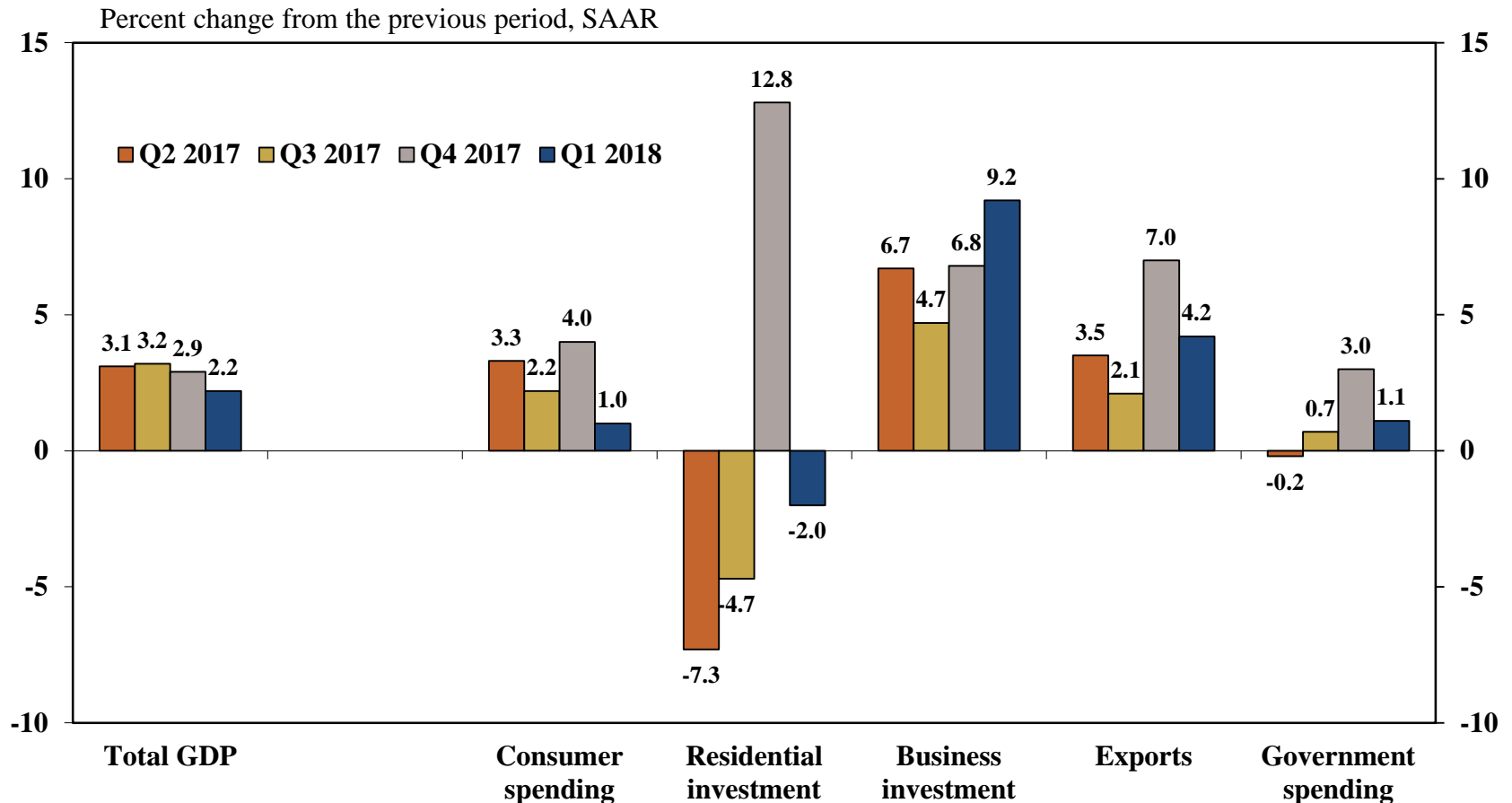
- **Functions and purposes – 45 staff**
 - Research on U.S. and Oklahoma economies; energy and manufacturing sectors
 - Economic and financial education outreach, including to low/moderate income
 - Examinations of Oklahoma financial institutions (~50 banks, ~175 holding cos.)
- **2018 OKC Fed Branch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



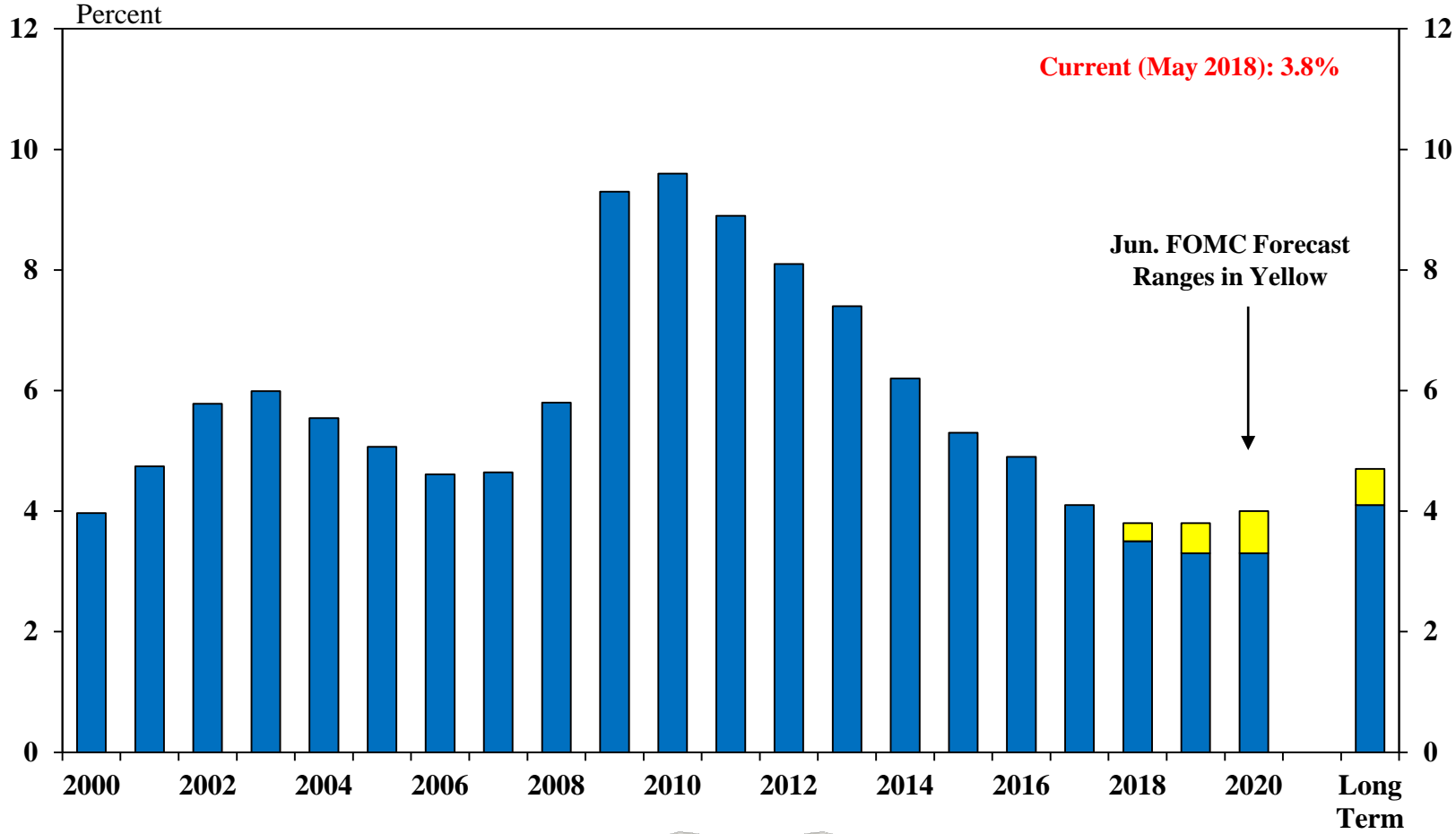
U.S. GDP growth slowed slightly in the first quarter, but still remained solid overall

Growth in Components of Real GDP



“The labor market has continued to strengthen...job gains have been strong and the unemployment rate has declined.”

Unemployment Rate Seasonally Adjusted

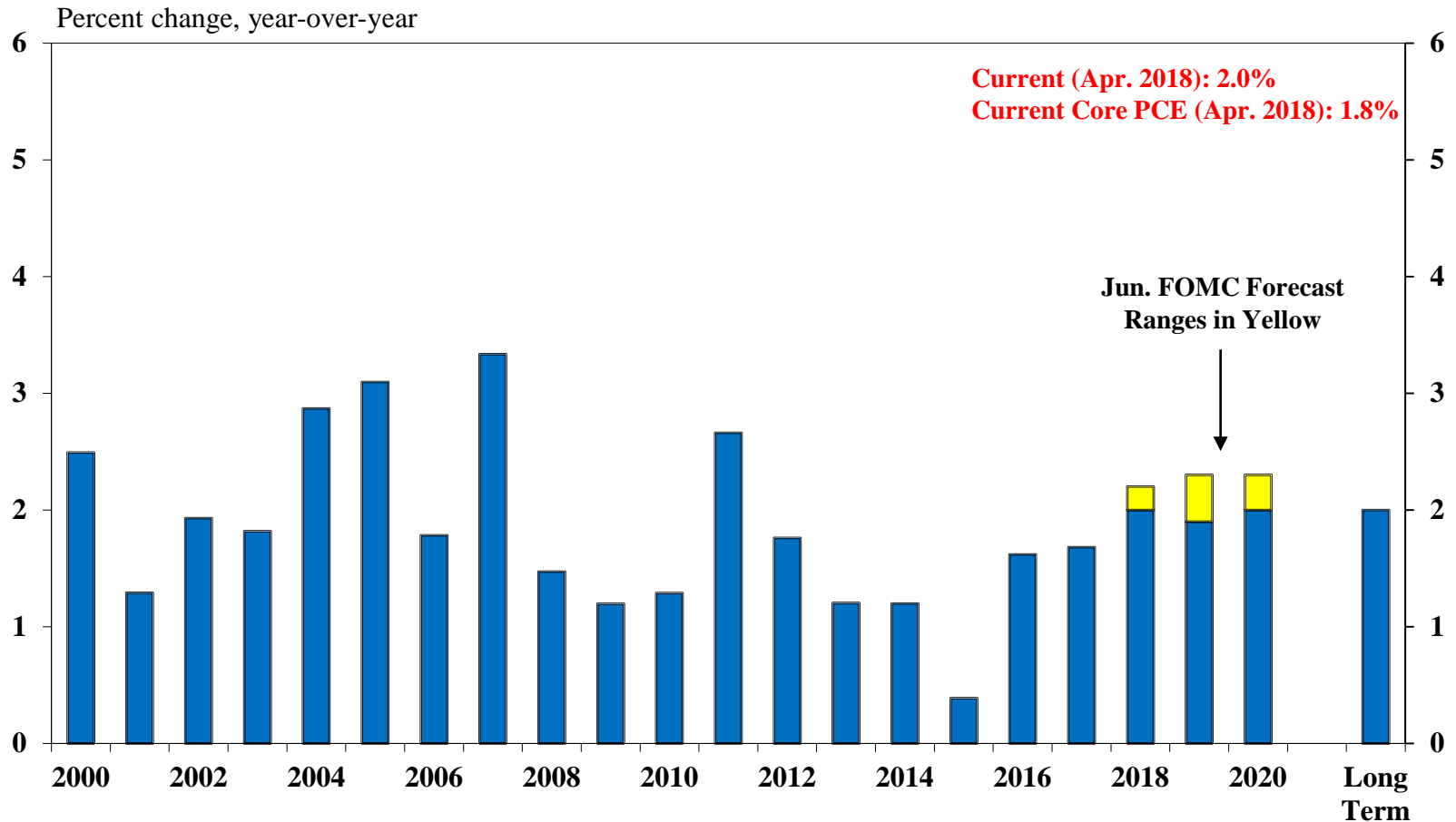


Sources: U.S. Bureau of Labor Statistics, FOMC



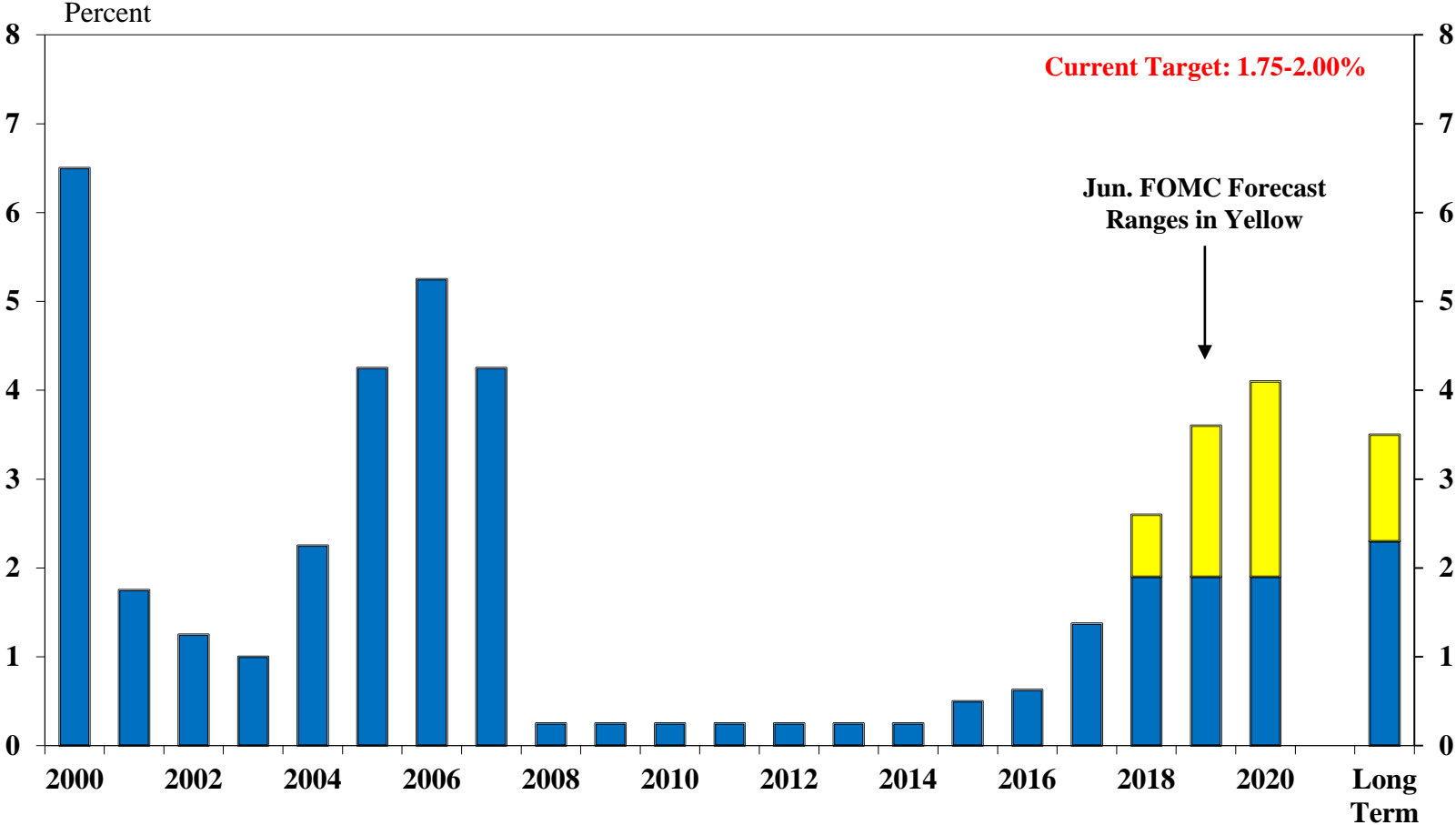
“On a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2 percent.”

PCE Inflation Index



“The [FOMC] expects that further gradual increases...for the federal funds rate will be consistent with sustained expansion...”

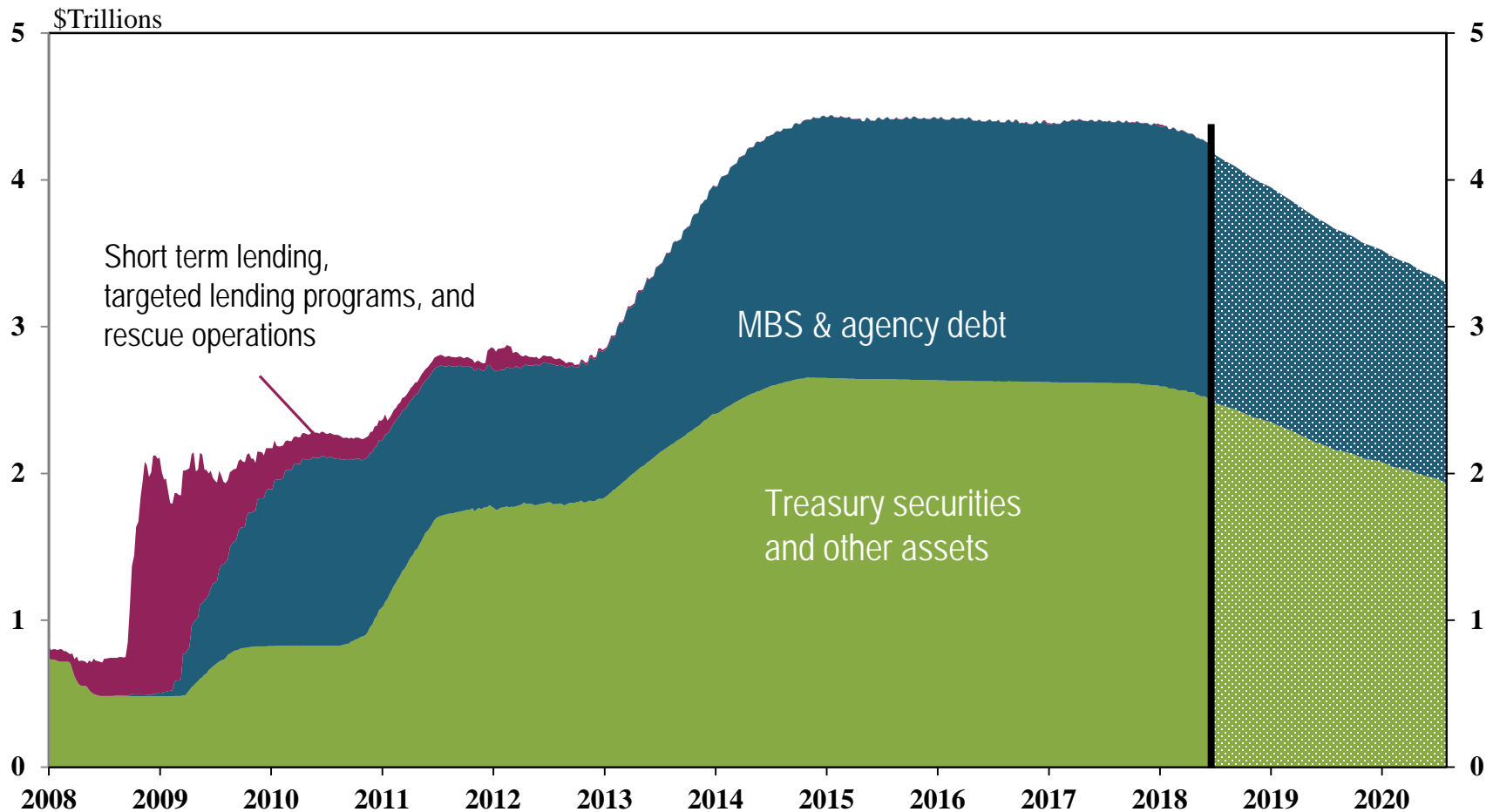
Federal Funds Rate Year-end target



Sources: Federal Reserve Board, FOMC

The Fed has also begun to reduce its balance sheet

Federal Reserve Balance Sheet

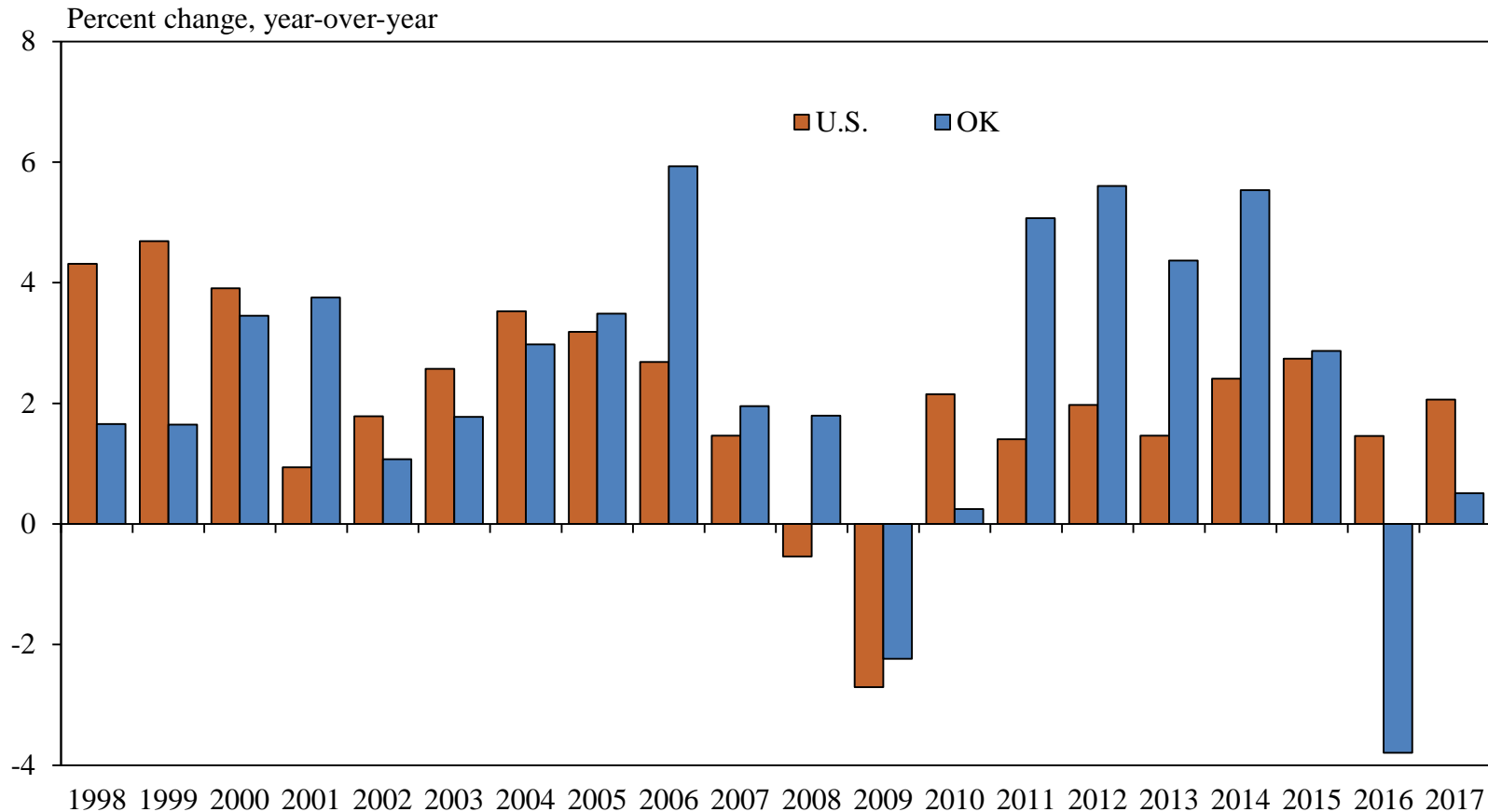


Trends in Oklahoma & Bartlesville Area Economies



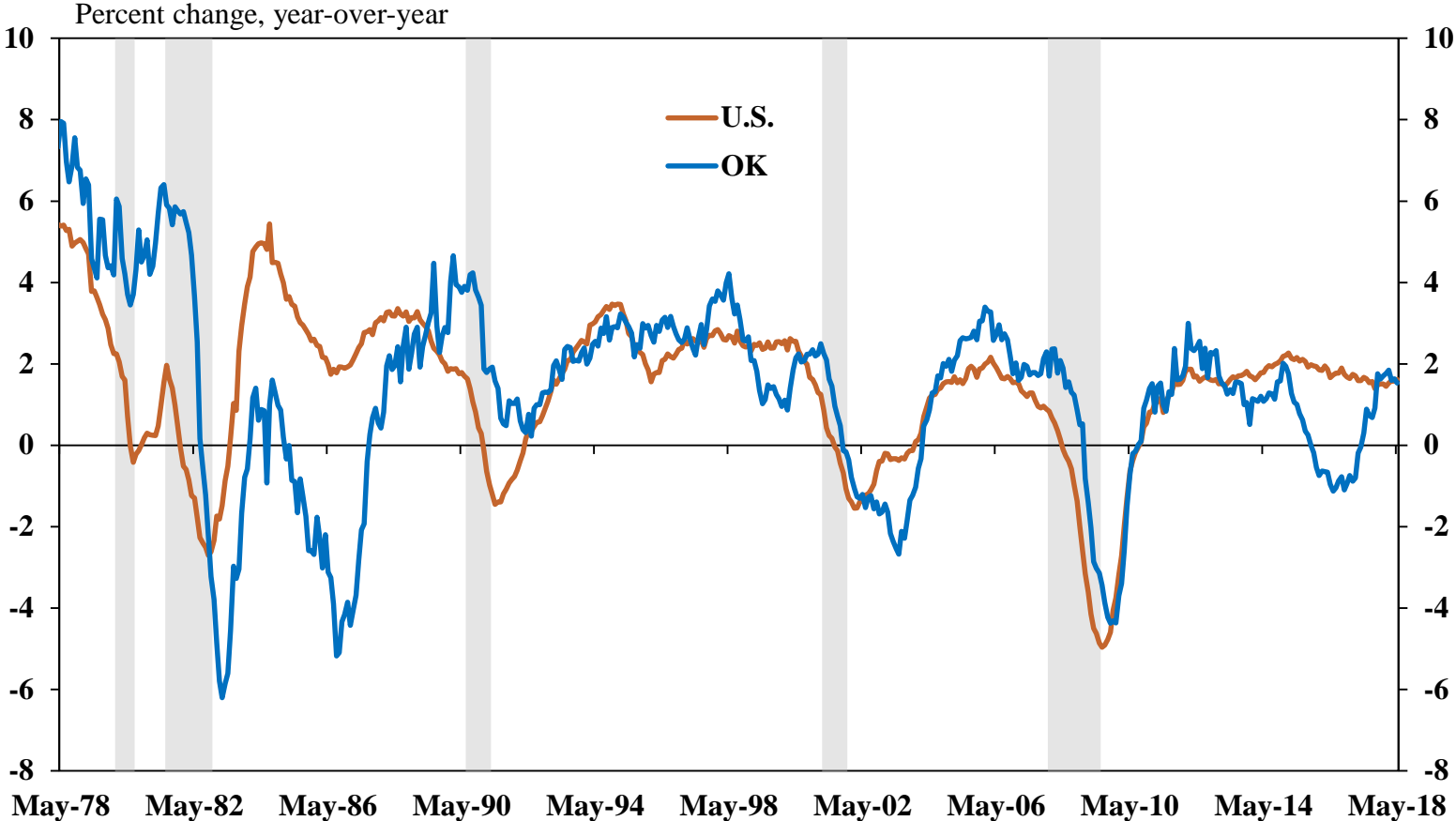
Oklahoma GDP dropped considerably in 2016, after oil prices fell, but began to rebound in 2017

Real Gross Domestic Product



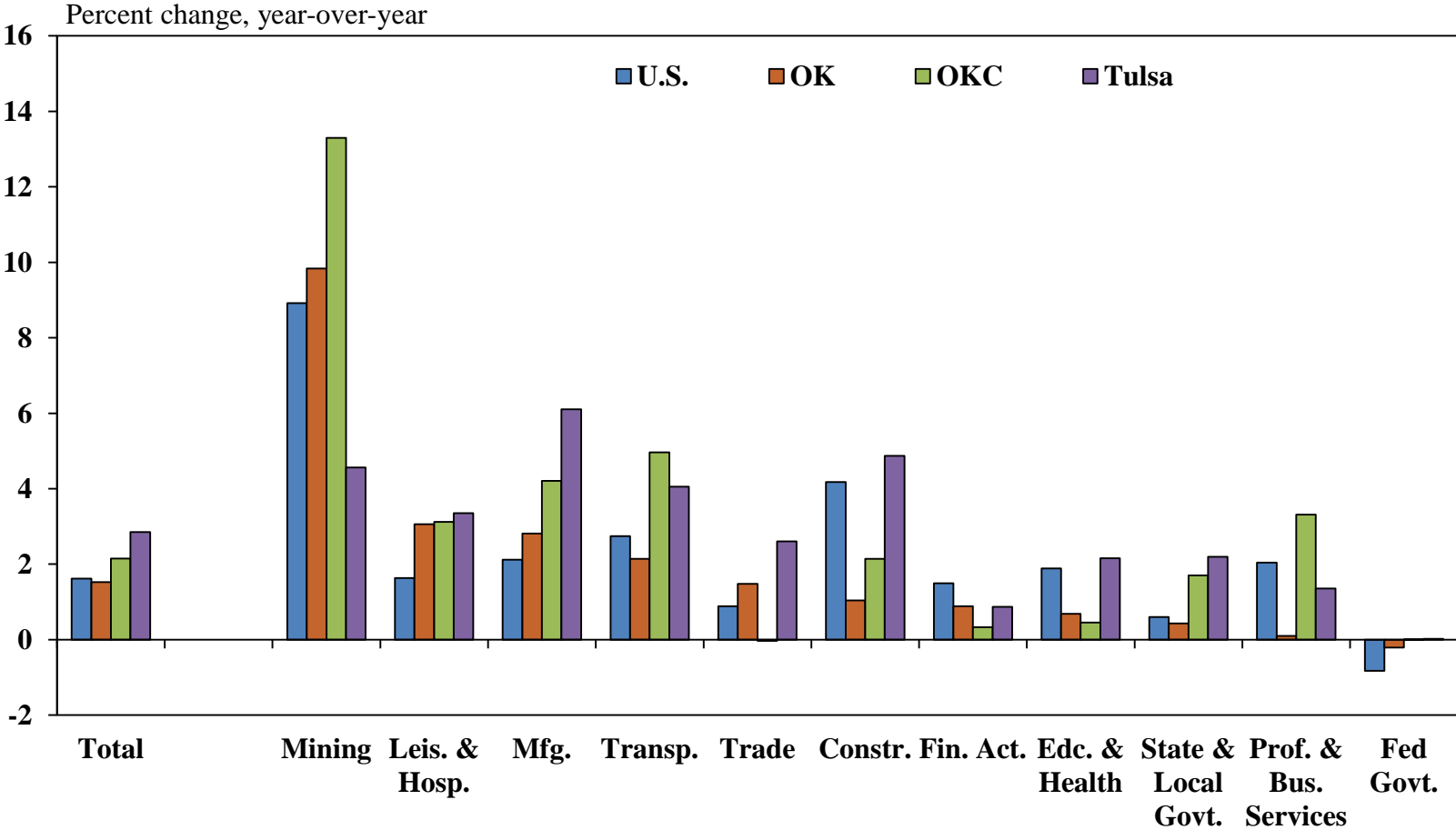
In early 2018, state job growth has matched the nation after lagging in 2015-16 the most since the 1980s

Payroll Employment Growth



State job gains the past year have been led by mining (oil & gas), but all private sectors have added workers

Oklahoma Job Growth by Industry
May-18



Source: Bureau of Labor Statistics

Mining is obviously a key industry in Bartlesville relative to the U.S. and even to OK as a whole

Personal Income Share by Industry, 2016

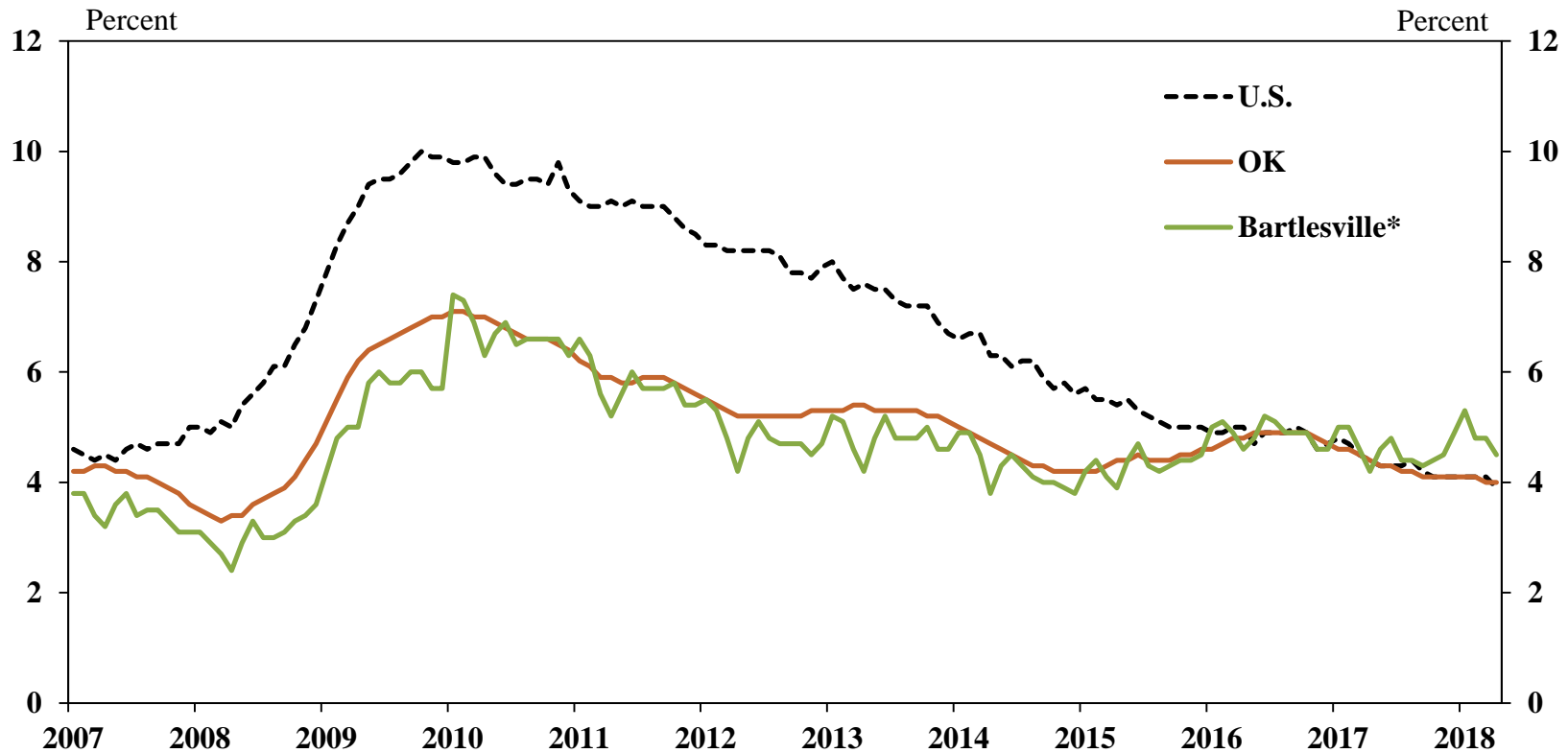
| Industry | Percent of Total Income | | | Location Quotient | |
|----------------------------------|-------------------------|------|--------------|-------------------|--------------|
| | U.S. | OK | Bartlesville | OK | Bartlesville |
| Mining | 1.1 | 6.6 | 35.3 | 5.8 | 31.1 |
| Transportation & Utilities | 4.4 | 10.7 | N/A | 2.4 | N/A |
| Education & Health | 12.9 | 11.5 | 10.1 | 0.9 | 0.8 |
| Agriculture | 0.6 | 1.0 | 0.4 | 1.6 | 0.7 |
| Manufacturing | 9.4 | 8.2 | 6.6 | 0.9 | 0.7 |
| Construction | 6.0 | 6.4 | 3.9 | 1.1 | 0.6 |
| Trade | 10.9 | 10.2 | 6.6 | 0.9 | 0.6 |
| Leisure & Hospitality | 4.6 | 3.8 | 2.8 | 0.8 | 0.6 |
| State & Local Government | 12.6 | 13.8 | 7.0 | 1.1 | 0.6 |
| Financial Activities | 6.6 | 3.6 | 3.6 | 0.5 | 0.5 |
| Professional & Business Services | 22.8 | 14.4 | 8.4 | 0.6 | 0.4 |
| Federal Government | 4.0 | 5.9 | 0.8 | 1.5 | 0.2 |

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



With energy sector strains in 2015-16, state and area unemployment rose somewhat but has since fallen

Unemployment rates
Seasonally Adjusted

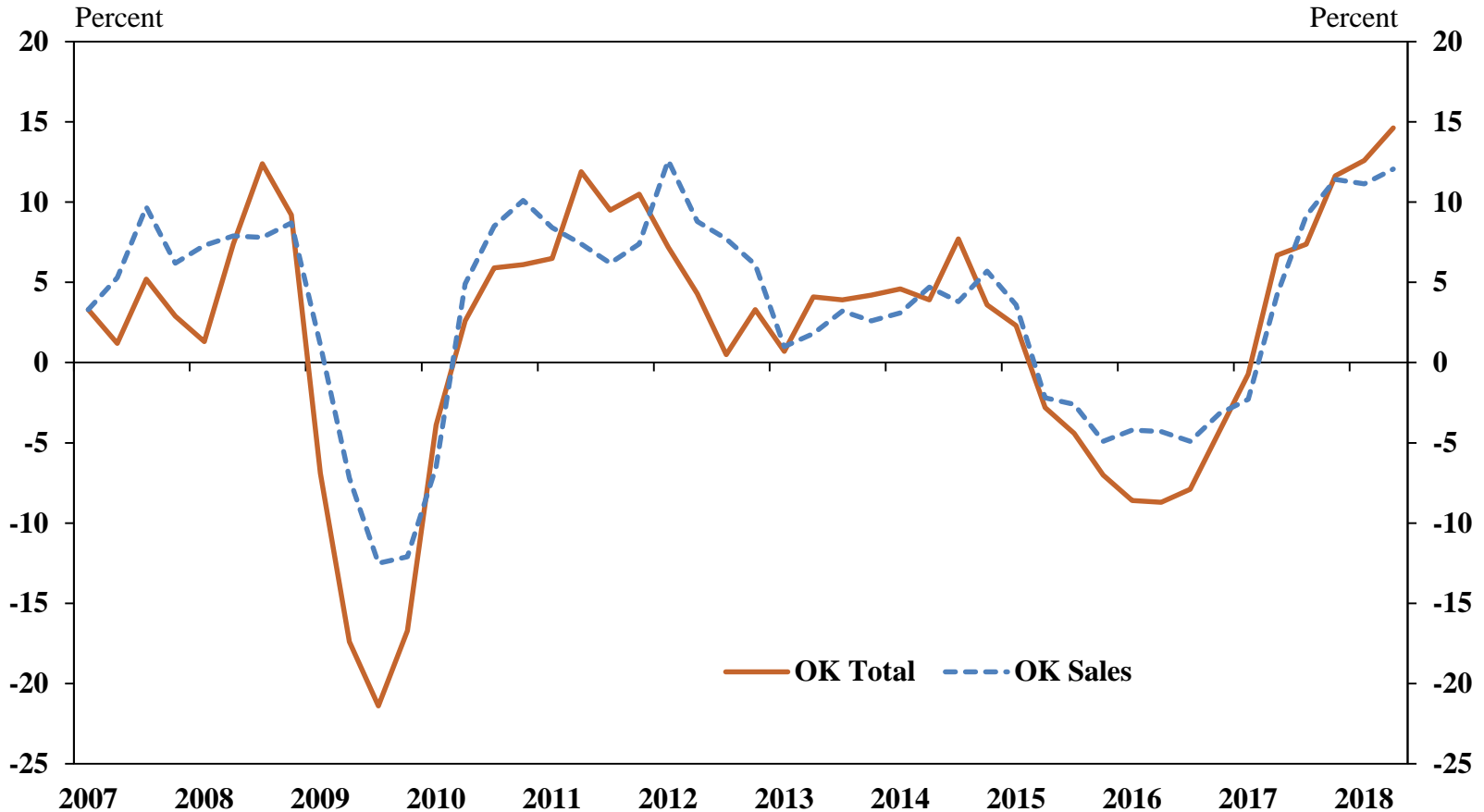


*Micropolitan area, not seasonally adjusted



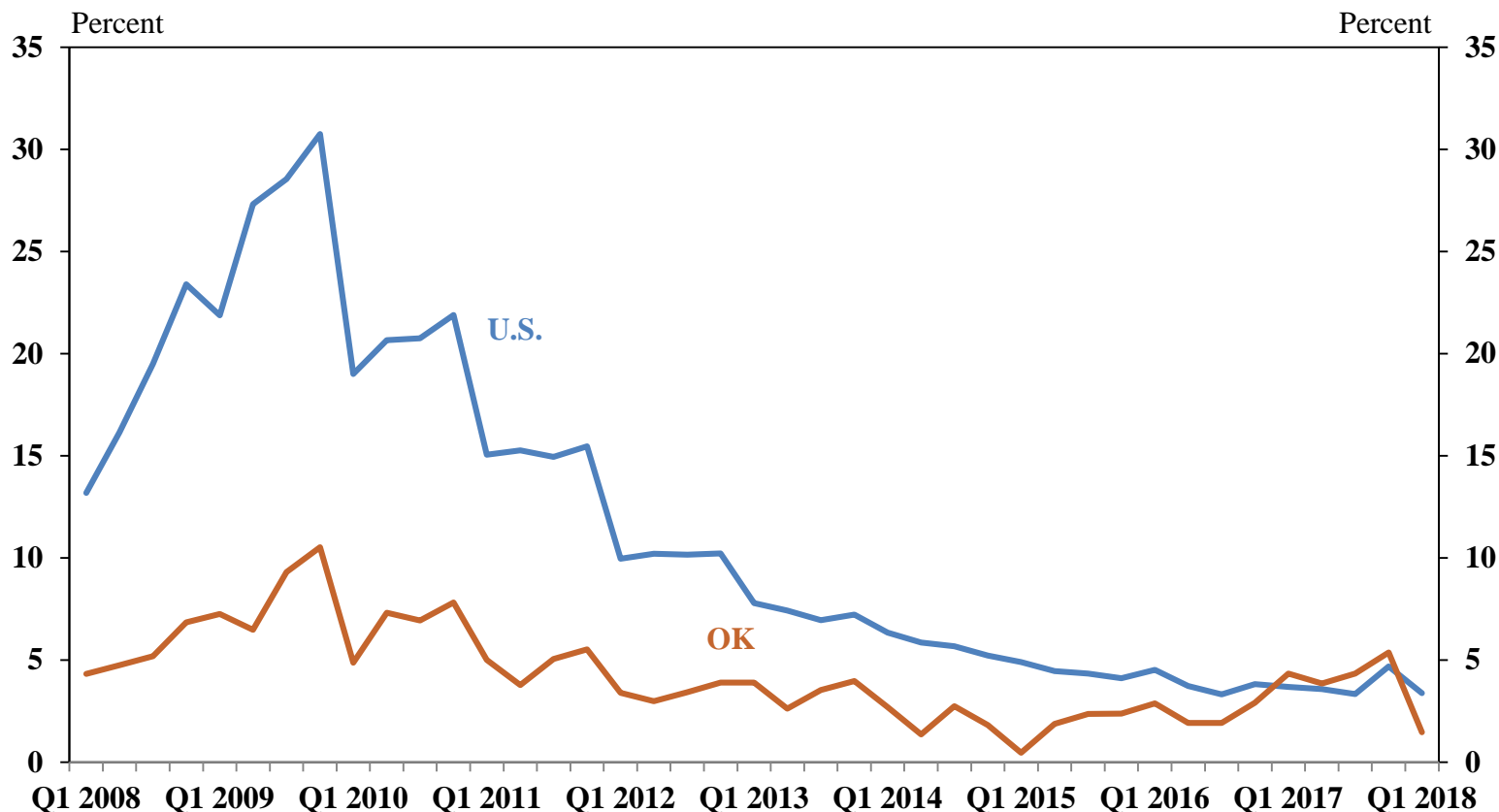
State tax revenues are growing strongly, after several years that remain challenges for the Legislature

Oklahoma State Tax Revenues
Q2-18 through May



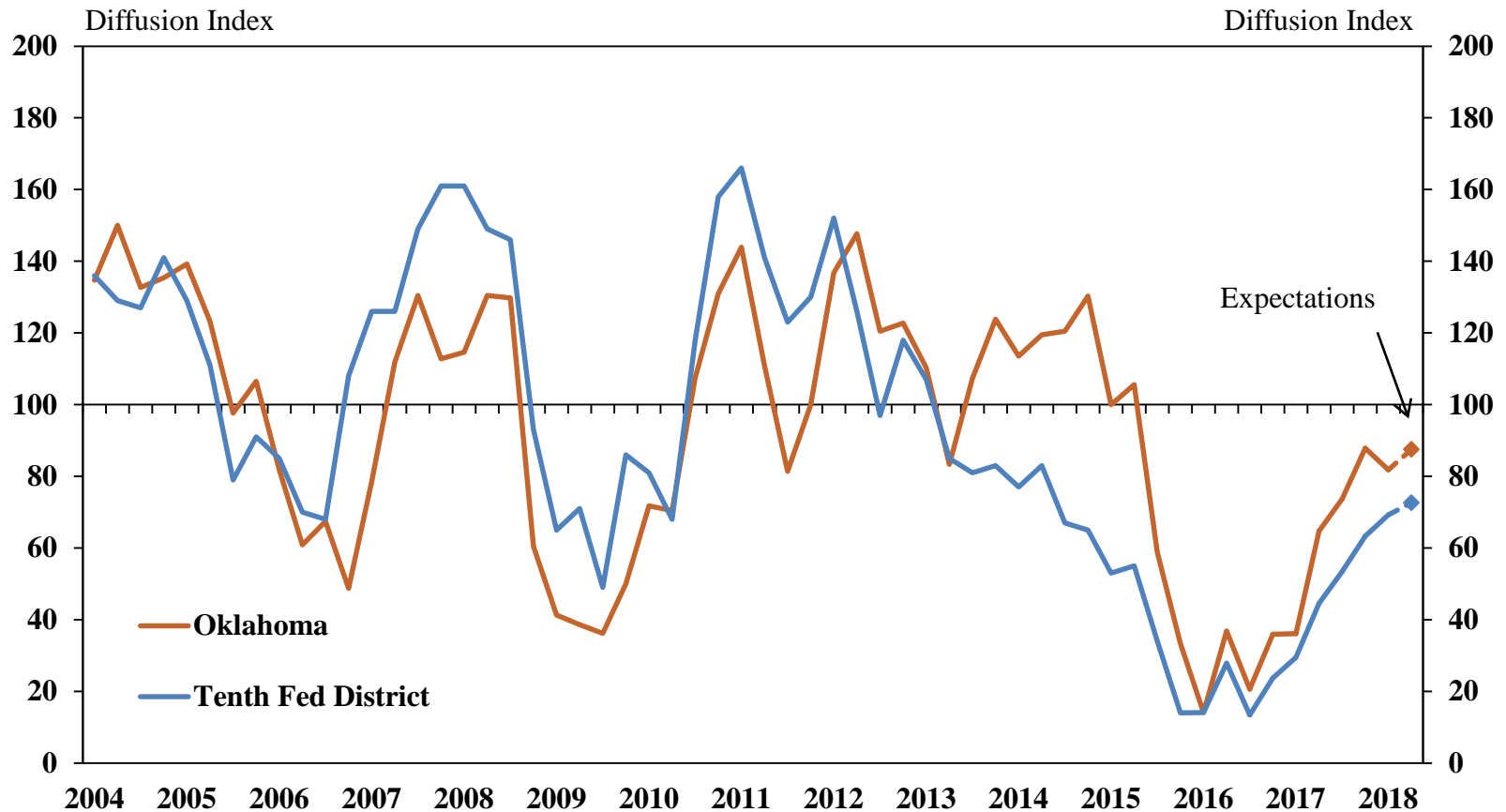
Banking conditions in Oklahoma also remain very good despite the 2015-16 economic slowdown

Share of Banks Not Making a Profit
Commercial Banks



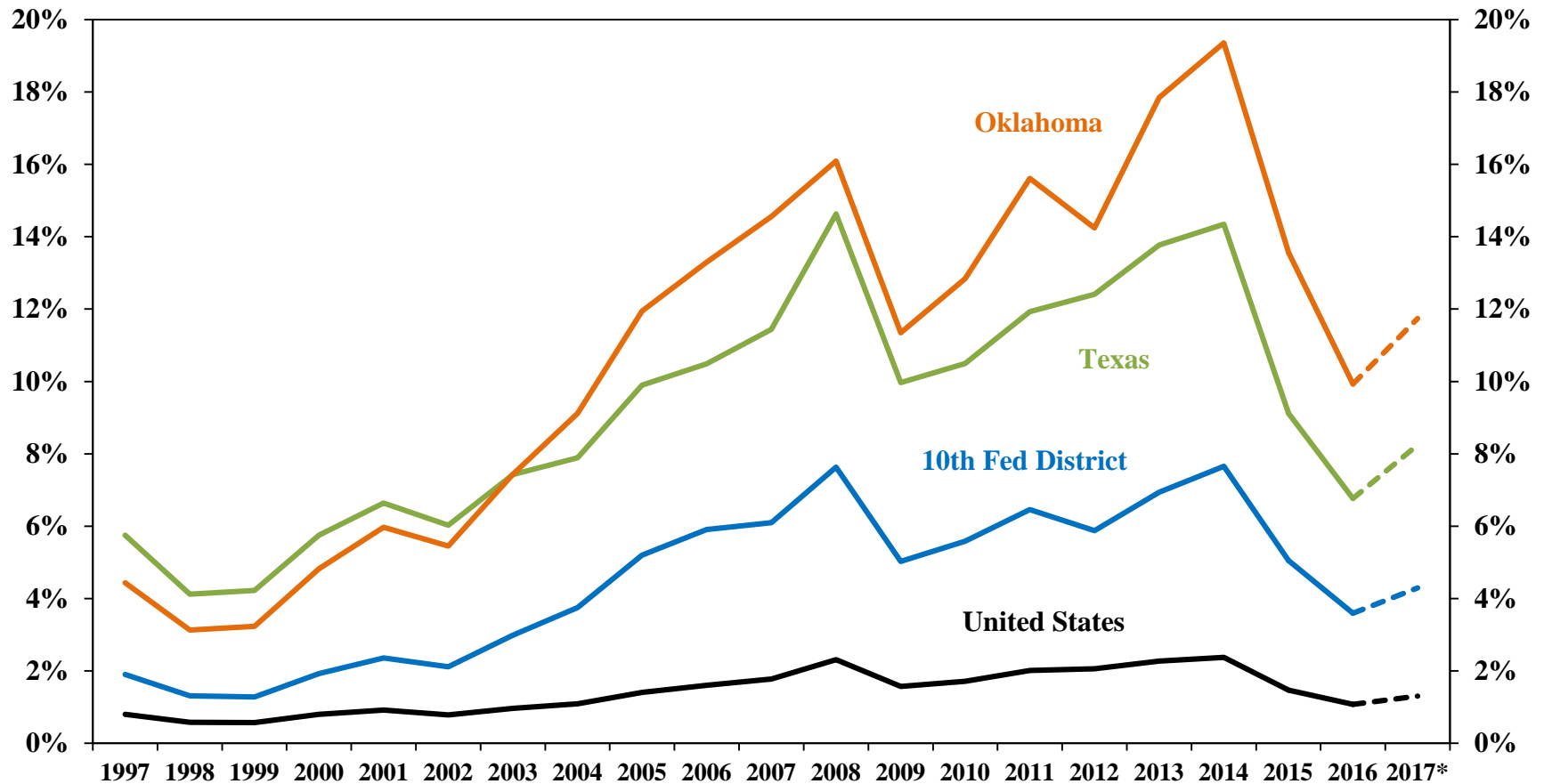
The Oklahoma agriculture sector has shown some signs of stabilizing, with expectations up slightly

Farm Income Indexes



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

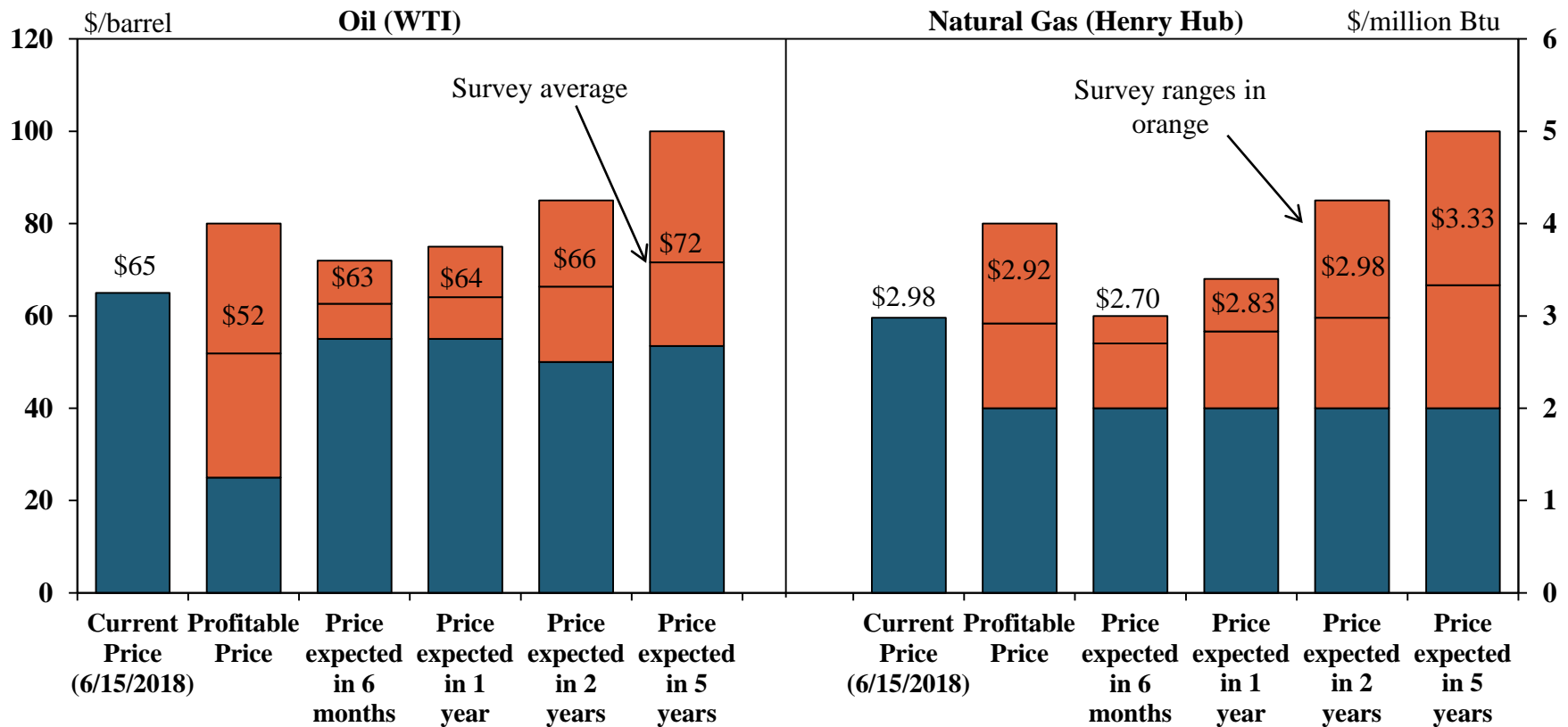


*Oil & Gas Sector = NAICS 211 + NAICS 213;
2017 estimates based on size of overall Mining sector



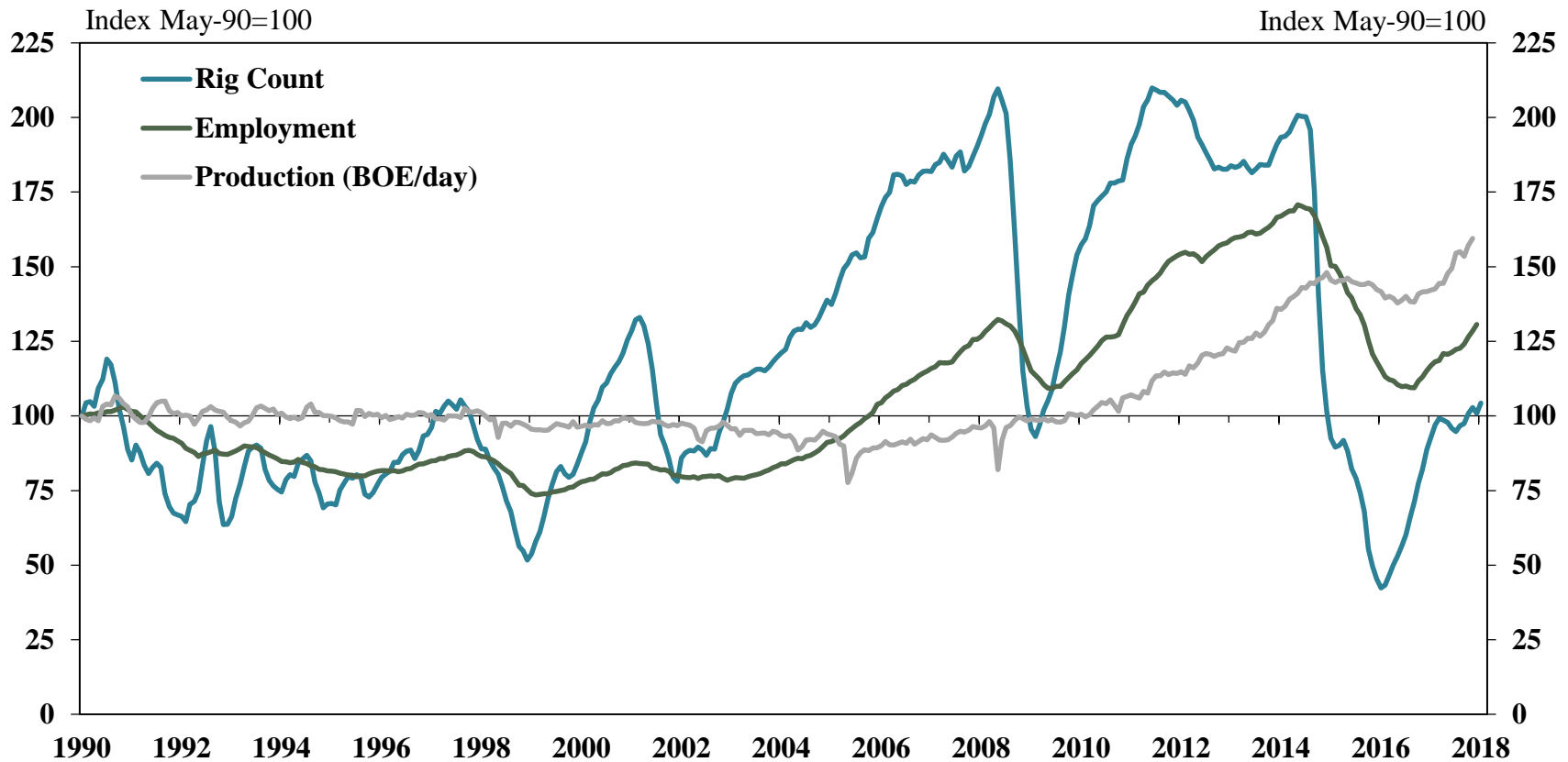
Most firms can now profitably drill for oil in the areas they are active, and natural gas prices can often work

Energy Survey Oil & Gas Prices



But it takes a lot fewer rigs—and people—to produce oil and gas than it did just a few years ago

U.S. Oil & Gas Rig Count, Employment, and Production



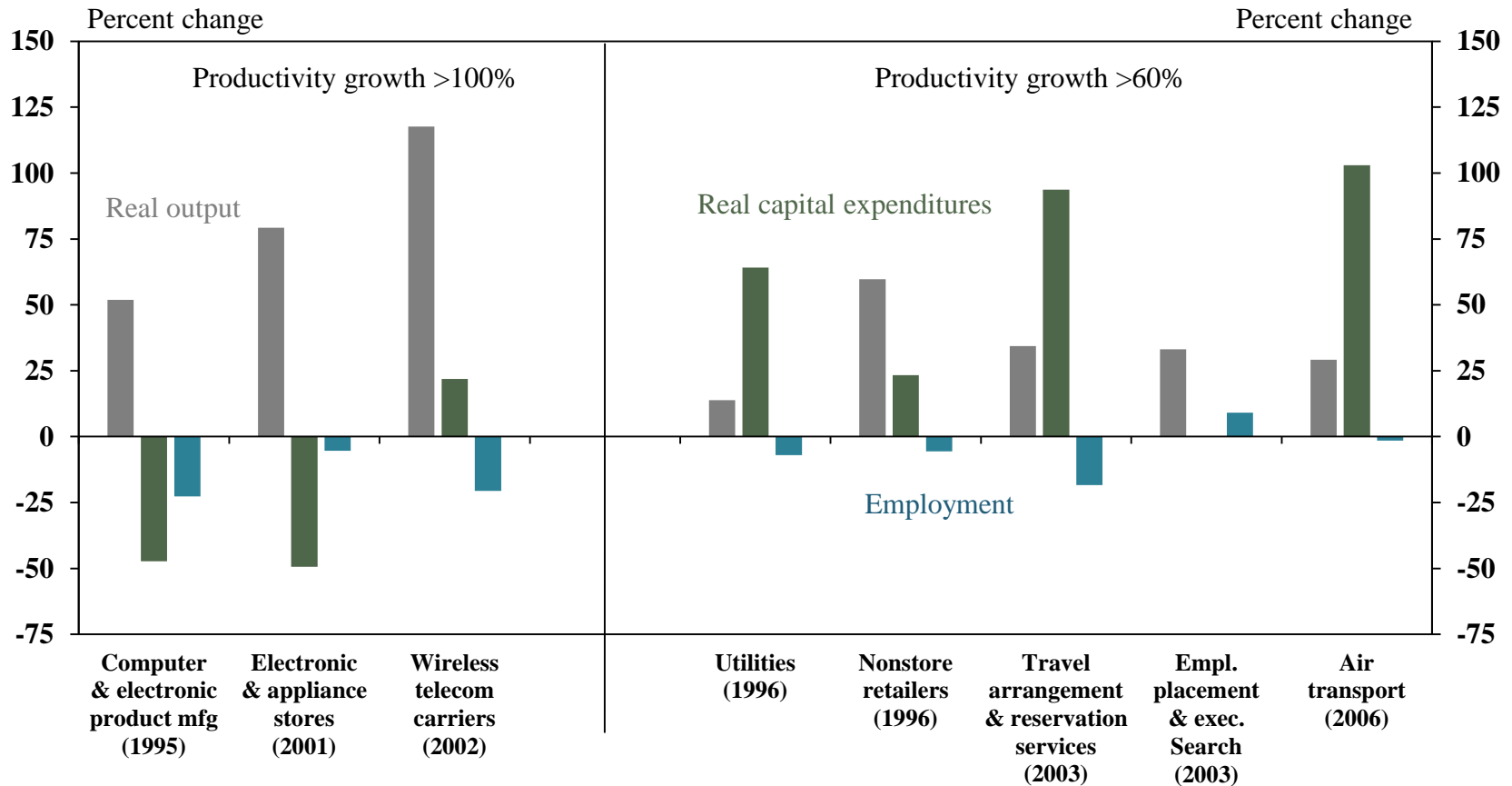
Note: Employment is for NAICS 211, 213111, and 213112.
Production is shown as a 3-month moving average.



Source: EIA, Baker Hughes

Most other industries with similar productivity surges saw drops in employment in the following decade

Change in Output, Investment, and Employment
Ten years after productivity surge



Sources: U.S. Census Bureau, Bureau of Economic Analysis, Bureau of Labor Statistics, Haver Analytics, Author's calculations

Summary

- The U.S. economy continues to grow, and the Fed has been raising interest rates.
- The Oklahoma and Bartlesville economies were hurt by low oil and gas prices, but now are doing well.
- Strong productivity growth in the oil and gas sector could potentially limit future job growth



Questions?

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