U.S. and Oklahoma Economic Outlook

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*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 remained solid in Q4, with strong consumer and business spending.

### Growth in Components of Real GDP

<table>
<thead>
<tr>
<th>Component</th>
<th>Q1 2017</th>
<th>Q2 2017</th>
<th>Q3 2017</th>
<th>Q4 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GDP</td>
<td>1.2</td>
<td>3.1</td>
<td>3.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Consumer spending</td>
<td>1.9</td>
<td>3.3</td>
<td>2.2</td>
<td>4.0</td>
</tr>
<tr>
<td>Residential investment</td>
<td>-7.3</td>
<td>-4.7</td>
<td>7.2</td>
<td>6.7</td>
</tr>
<tr>
<td>Business investment</td>
<td>11.1</td>
<td>12.8</td>
<td>6.8</td>
<td>-0.2</td>
</tr>
<tr>
<td>Exports</td>
<td>3.5</td>
<td>2.1</td>
<td>-5</td>
<td>3.0</td>
</tr>
<tr>
<td>Government spending</td>
<td>-0.6</td>
<td>-0.2</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Economic Analysis
Monthly data on business activity and employment show U.S. growth remained strong into 2018

U.S. Payroll Employment and Business Indexes

“The [FOMC] expects that, with further…adjustments…in…policy…labor market conditions will remain strong”
“Inflation on a 12-month basis is expected to move up in coming months and stabilize around the [FOMC’s] 2 percent objective.”
“The [FOMC] expects that economic conditions…will warrant further gradual increases in the federal funds rate.”

Fedraal Funds Rate
Year-end target

Sources: Federal Reserve Board, FOMC
The Fed has also begun to reduce its balance sheet, and the normalization will be gradual.

Federal Reserve Balance Sheet

Source: Federal Reserve Board
Trends in the Oklahoma & Tulsa Area Economies
OK GDP has recovered from its downturn of 2015-16, and by mid-2017 was keeping pace with the nation.
For jobs, 2015-16 was the largest divergence between U.S. & OK since the ‘80s, but the gap has closed.
Tax revenues have also improved following two tough years that remain challenges for the Legislature.

Oklahoma State Tax Revenues
Q1-18 through February

Source: OK Tax Commission
Employment levels are trending up in the metro areas, but non-metro is still below early 2015 levels.
Unemployment in the Tulsa area is now back down to national and state levels, after rising above in 2016-17.
In housing, average home price growth across the state remains below the nation, but still positive.

FHFA Home Price Index
Seasonally Adjusted

Percent change, year-over-year

Source: FHFA
Office vacancy rates in the Tulsa metro still remain above the U.S., but have generally stabilized.
Banking conditions in Oklahoma also remain very good despite the 2015-16 economic slowdown.
Employment growth in the Tulsa metro over the past year is fairly broad-based across industries.

Oklahoma Job Growth by Industry
Feb-18

Source: Bureau of Labor Statistics
The Oklahoma agriculture sector has shown some signs of stabilizing, with expectations improving.
OK farmland values improved in Q4, and are more favorable than other parts of the District.

Tenth District Farmland Values
Percent Change, Year-over-year

Q2 2017  Q3 2017  Q4 2017

Source: FRBKC Agricultural Credit Survey
Regional factory activity has continued to improve in recent months, with optimism high.

Manufacturing Composite Indexes,
Seasonally Adjusted

Source: ISM, FRBKC
The oil and gas sector remains especially sizable in the state, even after dropping in recent years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil and Gas Sector Share of GDP*</th>
</tr>
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<tbody>
<tr>
<td>1997</td>
<td>2%</td>
</tr>
<tr>
<td>1998</td>
<td>4%</td>
</tr>
<tr>
<td>1999</td>
<td>6%</td>
</tr>
<tr>
<td>2000</td>
<td>8%</td>
</tr>
<tr>
<td>2001</td>
<td>10%</td>
</tr>
<tr>
<td>2002</td>
<td>12%</td>
</tr>
<tr>
<td>2003</td>
<td>14%</td>
</tr>
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<td>2004</td>
<td>16%</td>
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<td>2005</td>
<td>18%</td>
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<td>2006</td>
<td>20%</td>
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<td>2007</td>
<td>22%</td>
</tr>
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<td>2008</td>
<td>24%</td>
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<td>26%</td>
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<td>2010</td>
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<td>2012</td>
<td>32%</td>
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<td>2013</td>
<td>34%</td>
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<tr>
<td>2014</td>
<td>36%</td>
</tr>
<tr>
<td>2015</td>
<td>38%</td>
</tr>
<tr>
<td>2016*</td>
<td>40%</td>
</tr>
<tr>
<td>2017</td>
<td>42%</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Economic Analysis; author’s calculations

*Oil & Gas Sector = NAICS 211 + NAICS 213; 2016-17 estimates based on size of overall Mining sector

Q1-Q3*
Oil prices returned to profitable levels in 2017 for most firms, helping to boost activity.
Rig counts have increased since the downturn and remain at favorable levels

Weekly Oil Rig Counts

Source: Baker Hughes
Summary

- The U.S. economy continues to grow, and the Fed has been raising interest rates.

- The Oklahoma economy has been hurt by low commodity prices, but now is growing solidly.

- In the Tulsa area, unemployment has come down after rising in 2015-16, as key local industries did better in 2017.
Questions?

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