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Economic Outlook 2018

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Oil prices have significantly increased recently but the U.S. Energy Information Administration forecasts them to moderate somewhat during the rest of the year and early 2019 (Figure 1). Natural gas prices likewise spiked upwards at the beginning of 2018 and are forecast to decline during the middle of the year before significantly increasing again early 2019. The increase in energy prices spurred modest growth in energy sector employment in 2017 that is forecast to continue during 2018. OPEC has been fairly disciplined with their production quotas and U.S. producers have been cautious in ramping up drilling and production. Sustained higher oil prices though would tempt OPEC and U.S. producers to increase production. After falling below 60 in 2016, the number of drilling rigs in Oklahoma rose to over 130 last summer and has now fallen to 118 this month. The number of drilling rigs nationally slightly exceeds that of last summer.

In their February release, IHS Global Insight, Inc. forecasts U.S. gross domestic product growth to accelerate from 2.3 percent in 2017 to 2.7 percent in both 2018 and 2019. IHS Global Insight estimates that on balance the recently enacted and implemented tax cuts will boost GDP growth by less than one-tenth of a percent in 2018 and by slightly over two-tenths of a percent in 2019. The short-run increase comes from an estimated increase in consumption and nonresidential investment. This will boost employment growth and push the unemployment rate down further. The short-term increase in real GDP will be limited by the threat of rising inflation and higher interest rates.

The strong national economy and the rebound in energy sector employment spurred by the energy price increases will propel the Oklahoma economy upwards in 2018 and 2019. Figure 2 shows the forecasted robust growth of total nonfarm wage and salary employment in both Oklahoma and the nation in 2018 and 2019. Oklahoma's employment growth had lagged that of the nation since 2013 because of the flattening and then decline in energy sector employment (Figure 3). Because Oklahoma is one of the top energy producing states, the changing fortunes in the energy sector affects the overall Oklahoma economy more than the overall national economy. As shown in Figure 3, mining employment in Oklahoma fluctuates more than that of the nation in part because mining employment primarily reflects oil and gas activity in Oklahoma but reflects a broader spectrum of mining activity at the national level.

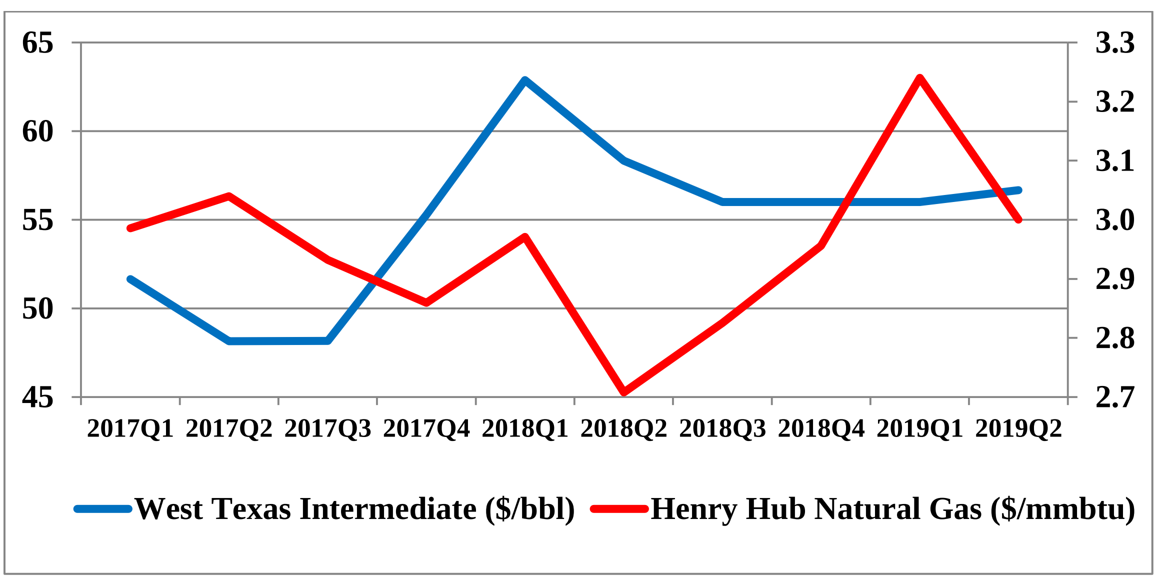

Figure 1: Oil and Natural Gas Prices (forecast begins 2018Q1)

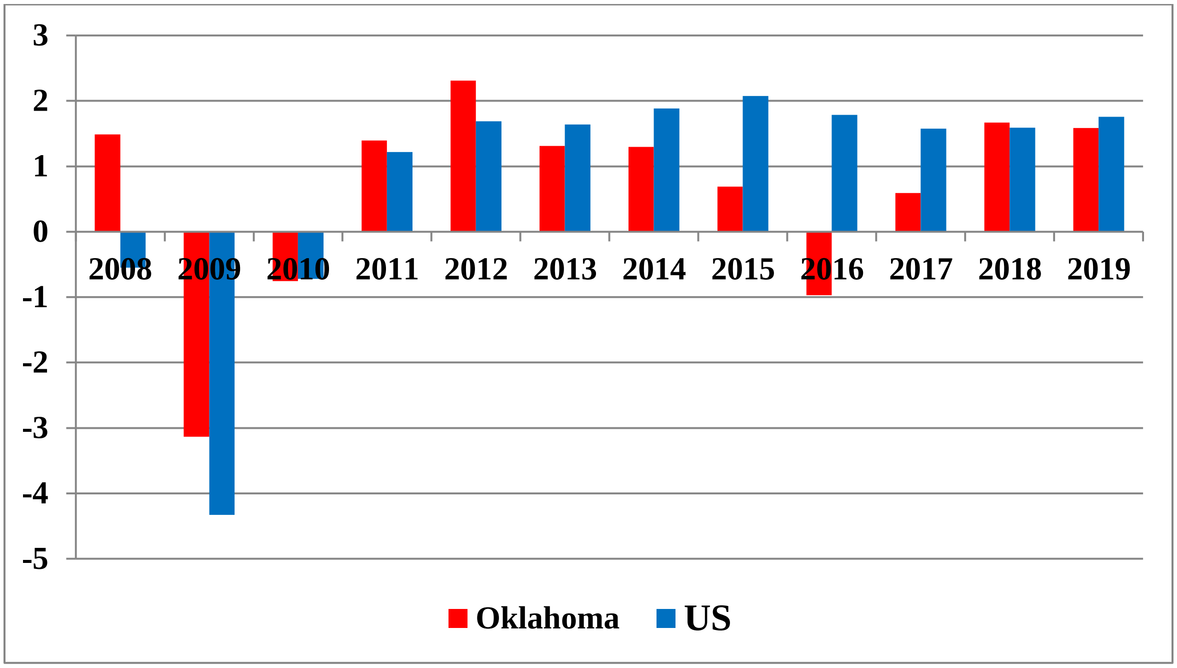

Figure 2: Annual Nonfarm Wage and Salary Employment Growth Rates (%)

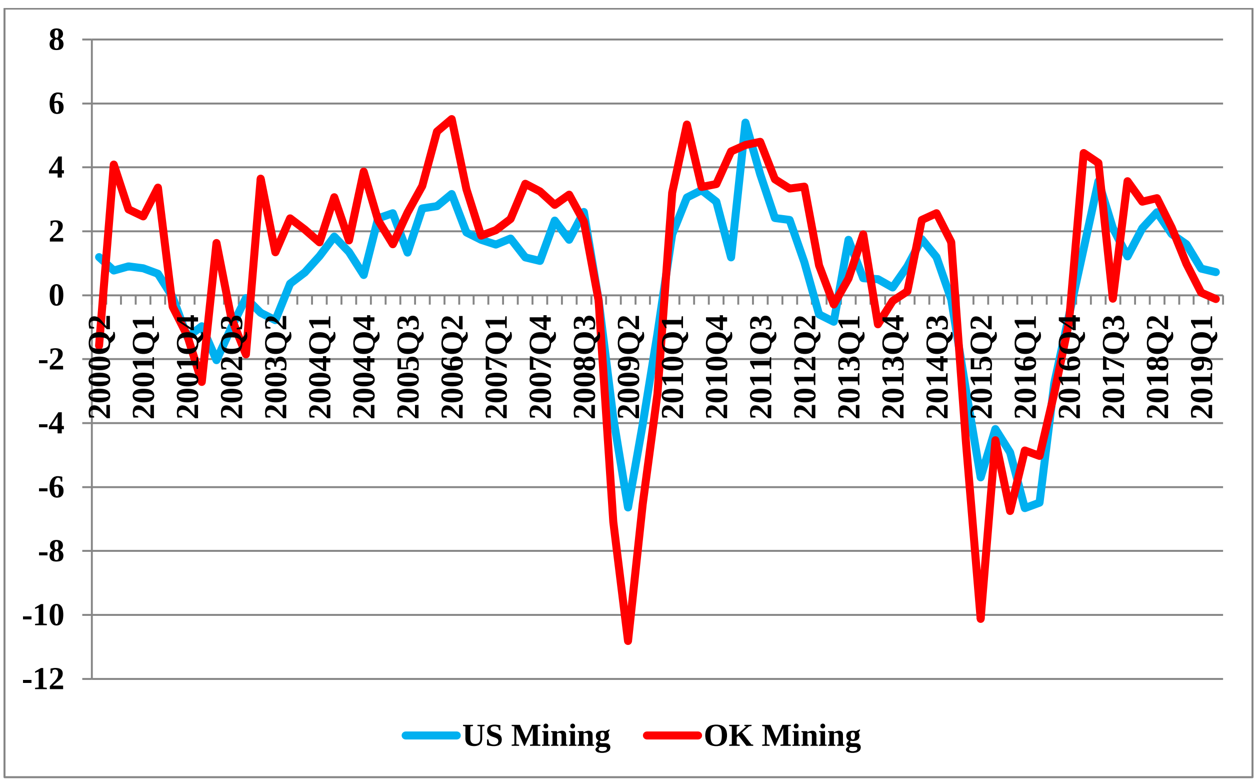

Figure 3: Oklahoma and U.S. Mining Employment Growth (%)

Table 1 shows the forecasts of employment, real GDP and per capita income growth, as well as unemployment, for both Oklahoma and the nation. While employment growth has hit a peak nationally as the unemployment rate approaches the natural or full employment rate, Oklahoma employment growth is forecast to accelerate with the rebound in the energy sector. Unemployment in both the nation and the state is forecast to finish 2019 below four percent. Real GDP and personal income growth also are forecast to rebound in the state during 2018 and 2019, rising above the corresponding national rates of growth.

Forecasts for 2019 reflect the phenomenon of the U.S. economy reaching potential GDP at the natural rate of unemployment. Post-2019 employment growth will slow nationally and in the state as the unemployment rates in both stabilize at the 2019 rates. Real GDP growth will slow nationally, dropping to two percent and below after 2019.

Risks to the Oklahoma forecast include a lack of discipline in OPEC maintaining oil production quotas before they expire in 2018 and greater than expected domestic energy supply responses to the recent increases in energy prices. Monetary policy also has entered a tightening phase as the U.S. economy nears full employment and fears of inflation reignite. Geopolitical uncertainly, particularly with North Korea, also looms over the forecast.

Table 1. Oklahoma and National Forecasts of Key Variables

	2015	2016	2017	2018	2019
Oklahoma Nonfarm Emp. Growth	0.7%	-1.0%	0.6%	1.7%	1.6%
U.S. Nonfarm Emp. Growth	2.1%	1.8%	1.6%	1.6%	1.8%
Oklahoma Unemployment Rate	4.4%	4.9%	4.3%	3.9%	3.7%
U.S. Unemployment Rate	5.3%	4.9%	4.3%	4.0%	3.6%
Oklahoma Real GDP Growth	2.4%	-3.1%	3.9%	3.8%	3.5%
U.S. Real GDP Growth	2.9%	1.5%	2.3%	2.7%	2.7%
Oklahoma Personal Income Growth	-2.0%	-2.5%	2.0%	5.0%	5.8%
U.S. Personal Income Growth	5.0%	2.4%	3.1%	4.2%	5.3%