



WILLIAM S.
Spears School
OF BUSINESS

Center for Applied Economic Research

Economic Outlook 2019

Prepared by

Dan Rickman

and

Hongbo Wang

Center for Applied Economic Research
Spears School of Business
Oklahoma State University

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The rebound in oil and natural gas prices from their lows in early 2016 spurred growth in the energy sector and the Oklahoma economy more broadly. After falling below 60 in 2016, the number of drilling rigs in Oklahoma as reported by Baker Hughes rose to 148 in November of 2018. The recent drop in oil prices though has led the number of rigs to decline to 126 by the end of January 2019.

As shown in Figure 1, in its January 15th, 2019 report the U.S. Energy Information Administration (EIA) forecasts both natural gas and oil prices to decline in early 2019, recovering somewhat through the end of the year. The rebound in energy sector employment spurred by the price increases helped turn the overall Oklahoma economy around from the employment and output declines in 2016. Because of the time lag between changes in energy prices and energy sector employment, benefits of the rise in oil prices in 2018 will accrue through the first quarter of 2019. After which, the decline in energy prices in late 2018 and early 2019 will cause energy sector employment to decline. Along with slowing of the national economy, the reversal of growth in the energy sector will bring the Oklahoma economy to a standstill during the second half of 2019.

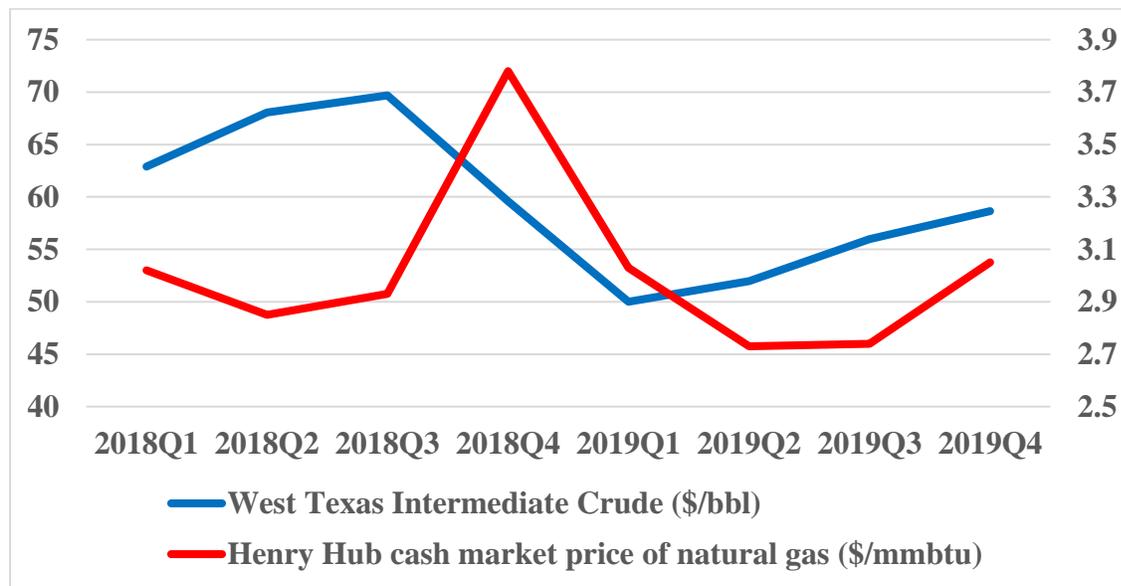


Figure 1: Oil and Natural Gas Prices (EIA forecast begins 2019Q1)

The level of total nonfarm Oklahoma employment in 2019 is expected to average 0.8 percent higher than the average level in 2018 (Figure 2). This follows the recent estimate that Oklahoma nonfarm employment averaged 1.8 percent higher in 2018 when compared to the 2017 level. Oklahoma’s forecasted growth in 2019 once again will lag U.S. employment growth, consistent with the experience during 2013-2017. In recent years, Oklahoma’s employment growth rate only exceeded that of the nation during 2018 in response to the increase in energy prices.

As a preview further into the future, employment in both the national economy and the Oklahoma economy are forecast to slow further in 2020. For the nation, this reflects a combination of the economy reaching full employment and aging of the labor force. Oklahoma’s employment growth is forecast to slow yet further because of the lower energy prices in 2019 that will continue to manifest themselves in the broader economy in 2020.

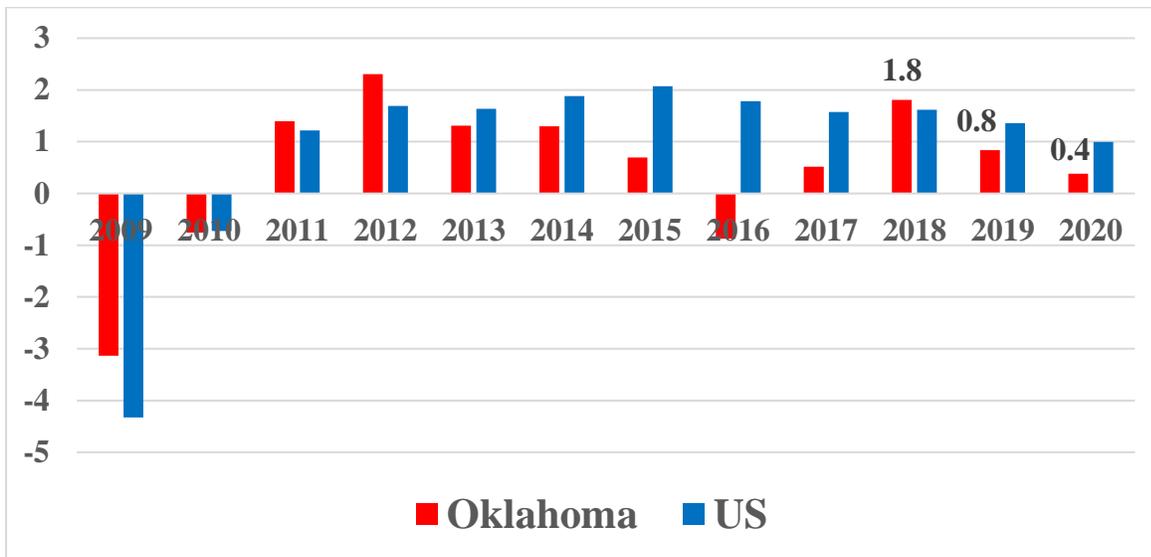


Figure 2: Annual Nonfarm Wage and Salary Employment Growth Rates (%)

Fastest employment growth in the state is forecast in 2019 for fabricated metals manufacturing, wholesale trade and nonelectrical machinery manufacturing (Figure 3). Despite their status as the fastest growing sectors over the year, the forecasts represent a slowdown from their energy price-induced growth of 2018. The largest percentage employment declines in 2019 are forecast for other nondurable goods manufacturing, the information sector and other durable goods manufacturing.

As shown in Table 1, the U.S. unemployment rate averaged 3.9 percent in 2018, and is forecast to average 3.6 percent in 2019 before inching up slightly to 3.7 percent in 2020. The nation had not experienced unemployment rates below four percent since the year 2000, just prior to the 2001 recession. Besides the strong national economy, the lower rates reflect the aging of the labor force and a higher share of young adults attending college. Oklahoma’s unemployment rate is estimated to have finished with an average of 3.6 percent for 2018 and is forecast to drop to 3.3 percent in 2019 and 2020.

After declining five percent in 2016, Oklahoma real gross domestic product is estimated to have increased slightly in 2017, led by the rebound in oil and gas production, and is forecast to grow over four percent during in 2018 and three percent in 2019, exceeding U.S. real GDP growth in both years. The slowing of U.S. GDP growth in the future is expected because of the attainment of full employment, slowing labor force growth and continued slow productivity growth. On the demand side, the spending effects of the tax cuts are expected to wane and the Federal Reserve will continue its course of normalizing interest rate levels. The slowdown is compounded in Oklahoma by the expected reversal in the energy sector.

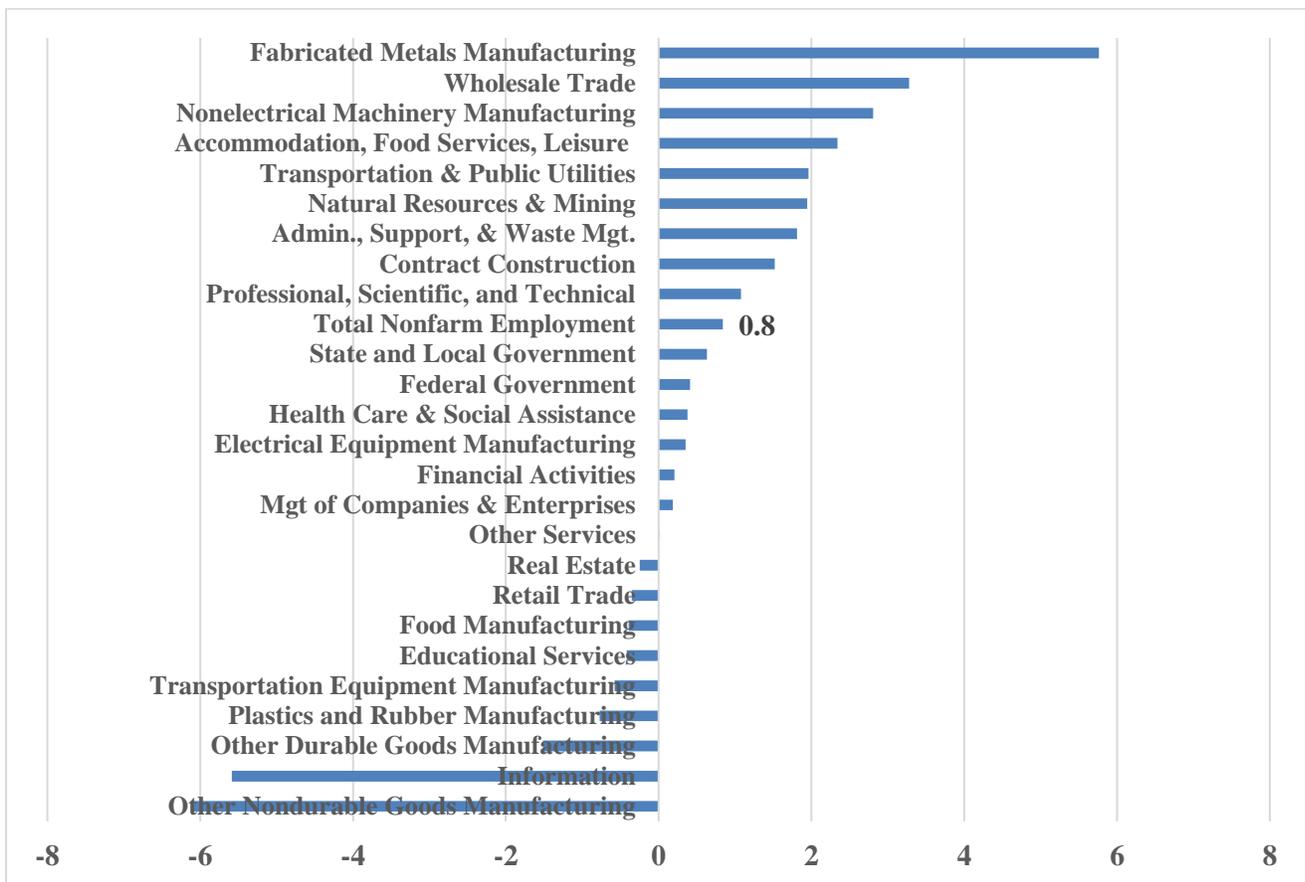


Figure 3: 2019 Oklahoma Employment Growth (%)

Risks to the forecast for Oklahoma include further unexpected drops in oil prices. The effects on the Oklahoma and U.S. economy of the federal government shutdown are not yet fully known. Another federal government shutdown and a trade war with China would threaten the current expansion which would be the nation’s longest in history if it continues past July 2019. There likewise continues to be considerable uncertainty regarding worldwide growth with the slowing of growth in China and uncertainty surrounding Brexit and the European Union.

Table 1. Oklahoma and National Employment Growth and Unemployment

	2016	2017	2018	2019	2020
Oklahoma Nonfarm Emp. Growth	-0.9%	0.5%	1.8%	0.8%	0.4%
U.S. Nonfarm Emp. Growth	1.8%	1.6%	1.6%	1.4%	1.0%
Oklahoma Unemployment Rate	4.8%	4.3%	3.6%	3.3%	3.3%
U.S. Unemployment Rate	4.9%	4.4%	3.9%	3.6%	3.7%
Oklahoma Real GDP Growth	-5.0%	0.8%	4.4%	3.0%	2.5%
U.S. Real GDP Growth	1.6%	2.2%	2.9%	2.5%	2.0%