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Economic Outlook 2017: Summer Update

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With the rebound in energy prices, Oklahoma employment has bottomed out and once again has begun to grow. Total Oklahoma nonfarm employment declined from the second quarter of 2015 through the third quarter of 2016. This occurred despite steady U.S. annualized employment growth around two percent during the period. The number of energy drilling rigs in Oklahoma has more than doubled since reaching a low in the summer of 2016. Although further energy price increases are not forecast, the recovery in the energy sector will propel the Oklahoma economy forward the rest of 2017.

The July release of the IHS Global Insight, Inc. national forecast contains softening of the price of WTI crude oil for the rest of 2017 and a constant Henry Hub cash market price of natural gas (Figure 1). The dramatic rebound in energy drilling has slowed, though it has resulted in U.S. oil production nearing its mid-2015 record level. According to IHS Global Insight, the possibility of another OPEC breakdown is rising because of the difficulty in trimming global energy inventories, though it is still considered a low probability result.

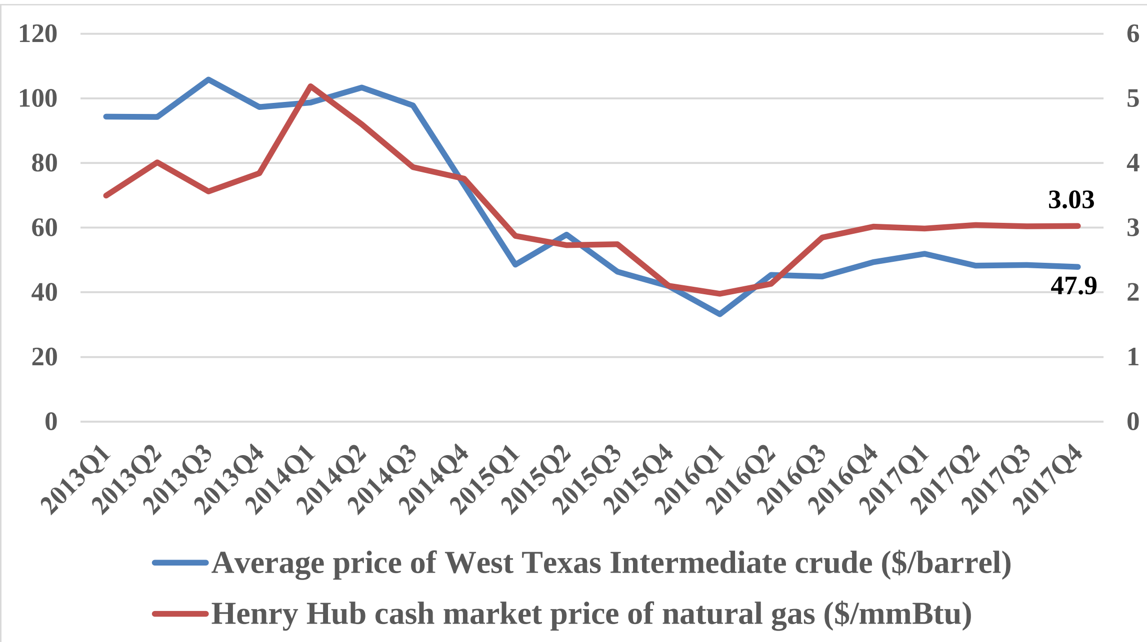

Figure 1: Oil and Natural Gas Prices (forecast begins 2017Q3)

As shown in Figure 2, employment in Oklahoma's mining sector generally follows the path of mining employment nationally. The swings in Oklahoma mining employment are greater than the nation's, likely in part because of national mining employment activity outside of oil and gas (e.g., coal mining) and a near absence of such activity in Oklahoma. Because mining sector employment responds with a time lag to changes in energy prices, national and Oklahoma employment in the sector is forecast to continue increasing the rest of 2017 in response to the earlier energy price increases. This would leave mining employment in the state at the end of 2017 nearly 25 percent below the peak level achieved in 2014, in which the peak is established by the negative growth rates beginning in 2015 in Figure 2.

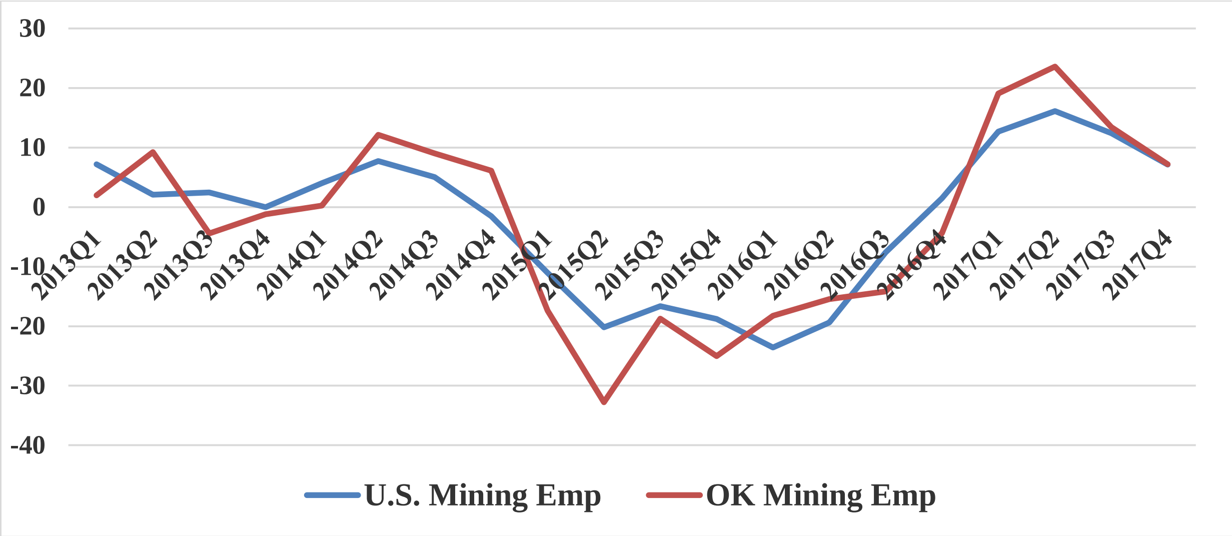

Figure 2: Oklahoma and U.S. Mining Employment Growth: Annualized %
(forecast begins 2017Q3)

After dragging the Oklahoma economy down for over a year, the boost to the Oklahoma economy from the revival of the energy sector will cause Oklahoma employment growth to return to approximately the national rate through the end of 2017 (Figure 3). As shown in Figure 4, changes in the difference between national employment growth and Oklahoma employment growth (right axis) closely follow changes in Oklahoma mining sector employment growth (left axis), illustrating the strong influence of the energy sector on swings in state economic performance in recent years.

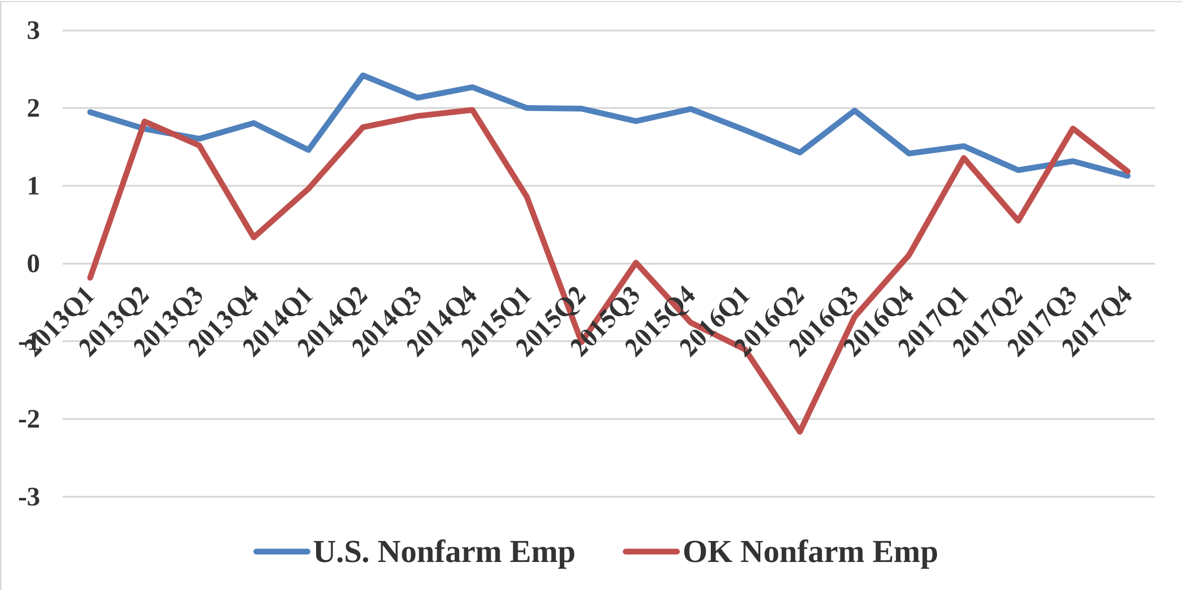

Figure 3: Quarterly Total Nonfarm Employment Growth Rates: Annualized %
(forecast begins 2017Q3)

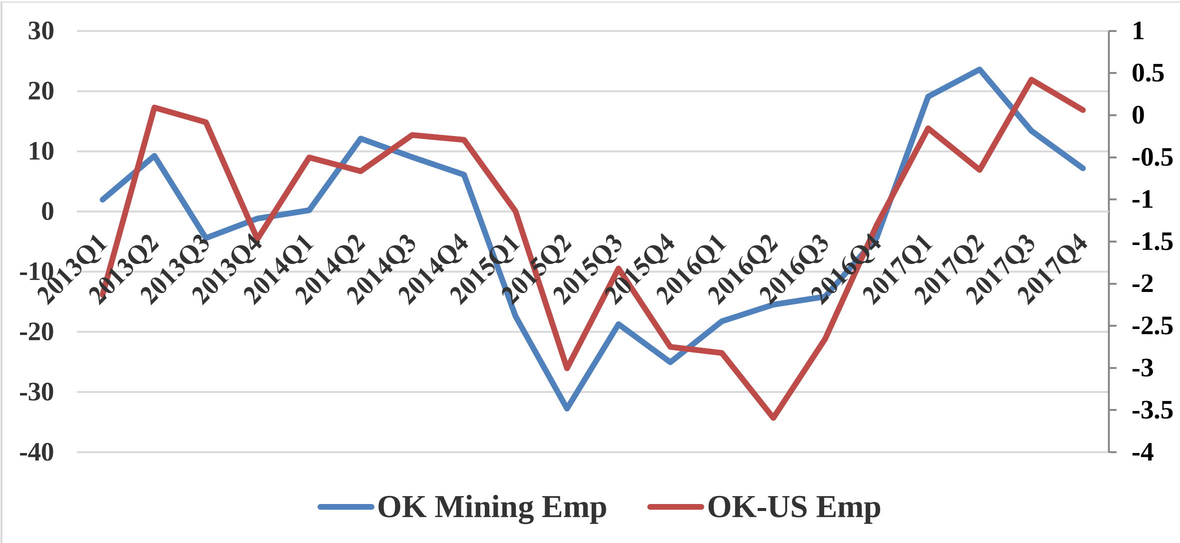

Figure 4: Annualized (%) Quarterly Growth Rates (forecast begins 2017Q3)

The average annual level of Oklahoma total nonfarm employment then is forecast to rebound from a decline of nearly one percent in 2016 to about one-half a percent growth in 2017 (Table 1). The decline in 2016 is more than double what initial government estimates had suggested. Yet, the growth rate from the fourth quarter of 2016 to the fourth quarter of 2017 is 1.2 percent. The lower average annual rate is because the declines in 2016 put early 2017 employment levels below early 2016 levels, reducing the relative average level in 2017. The Oklahoma annual employment growth rates fall below the corresponding U.S. growth rates of 1.76 and 1.44 percent. U.S. unemployment is forecast to average 4.39 percent during 2017, which would allow the FED to further raise short-term interest rates. Rather than decline, Oklahoma unemployment rose in 2016, but is forecast to decline to an average of 4.1 percent in 2017 with the rebound in employment growth.

Table 1. Oklahoma and National Employment Growth and Unemployment

	2014	2015	2016	2017
Oklahoma Nonfarm Emp. Growth	1.30%	0.69%	-0.97%	0.53%
U.S. Nonfarm Emp. Growth	1.88%	2.07%	1.76%	1.44%
Oklahoma Unemployment Rate	4.49%	4.38%	4.87%	4.1%
U.S. Unemployment Rate	6.17%	5.26%	4.85%	4.39%

Risks to the forecast include political and fiscal turmoil in Washington, D.C. and unforeseen geopolitical events. Continued difficulties in reducing excess energy inventories because of increased U.S. energy production and a breakdown of OPEC could cause energy prices to return to their recent lows and cause the recent increase in Oklahoma energy drilling activity to be reversed.