

U.S. and Regional Economic Outlook

May 12, 2020 – Western U.S. Ditch Witch Dealers

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Vice President, Economist and Oklahoma City Branch Executive

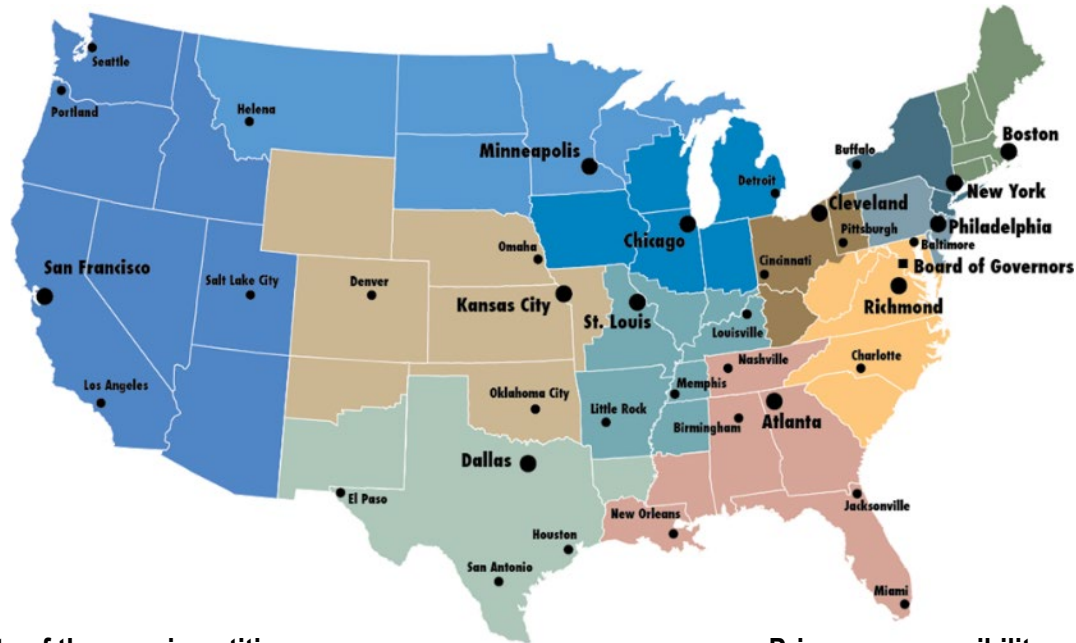


Outlook themes

- Economic activity has fallen sharply in the U.S. and Tenth District, due to the effects of temporary shutdowns and social distancing measures
- U.S. GDP and employment are expected to experience record declines in Q2 and recover only gradually, while District trends may vary slightly
- Global and domestic factors are expected to keep inflation persistently low in coming years
- The Fed has acted with unprecedented speed and scale to help support the economy and financial markets



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 Federal Reserve's Role in Monetary Policy

- **Dual Mandate from U.S. Congress:**

- 1) Maximum employment
- 2) Price stability

- **Federal Open Market Committee (FOMC):**

Board of Governors

- **Jerome H. Powell**, Chairman
- **Richard H. Clarida**, Vice Chairman
- **Randal K. Quarles**, Vice Chairman of Supervision
- **Lael Brainard**
- **Michelle W. Bowman**
- **Open**
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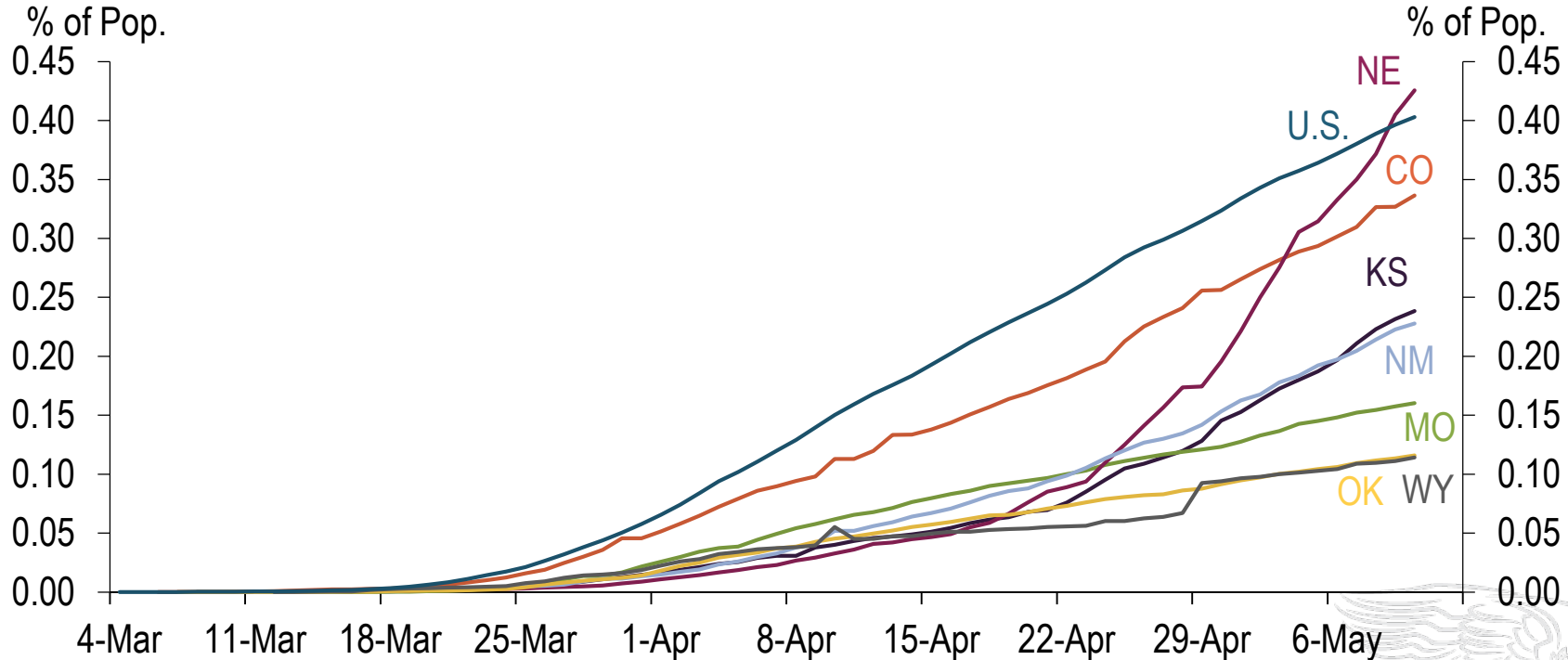


Reserve Bank Presidents

- **John C. Williams**, New York, Vice Chairman
- **Patrick T. Harker**, Philadelphia
- **Robert S. Kaplan**, Dallas
- **Neel Kashkari**, Minneapolis
- **Loretta J. Mester**, Cleveland
- **Thomas I. Barkin**, Richmond
- **Raphael W. Bostic**, Atlanta
- **Mary C. Daly**, San Francisco
- **Charles L. Evans**, Chicago
- **James Bullard**, St. Louis
- **Esther L. George**, Kansas City
- **Eric Rosengren**, Boston



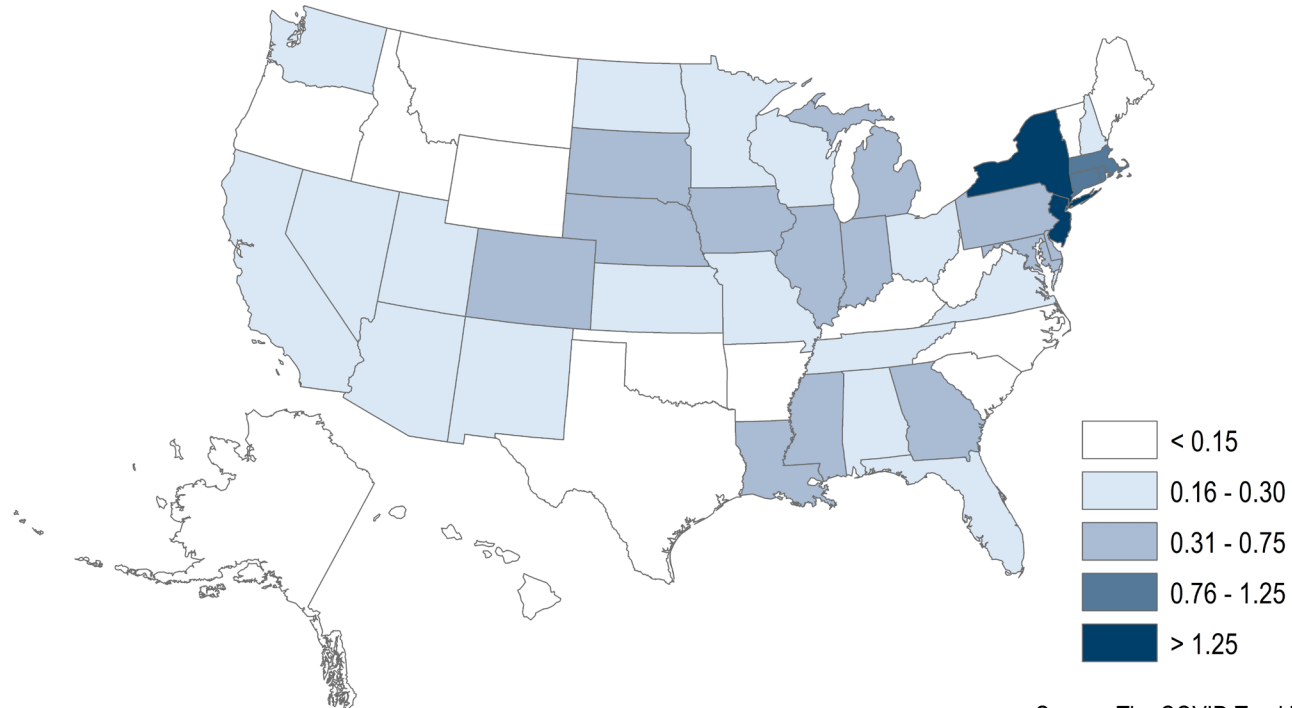
COVID-19 cases spread rapidly in the U.S. in March and April; less so in the District except near packing plants



Source: The COVID Tracking Project

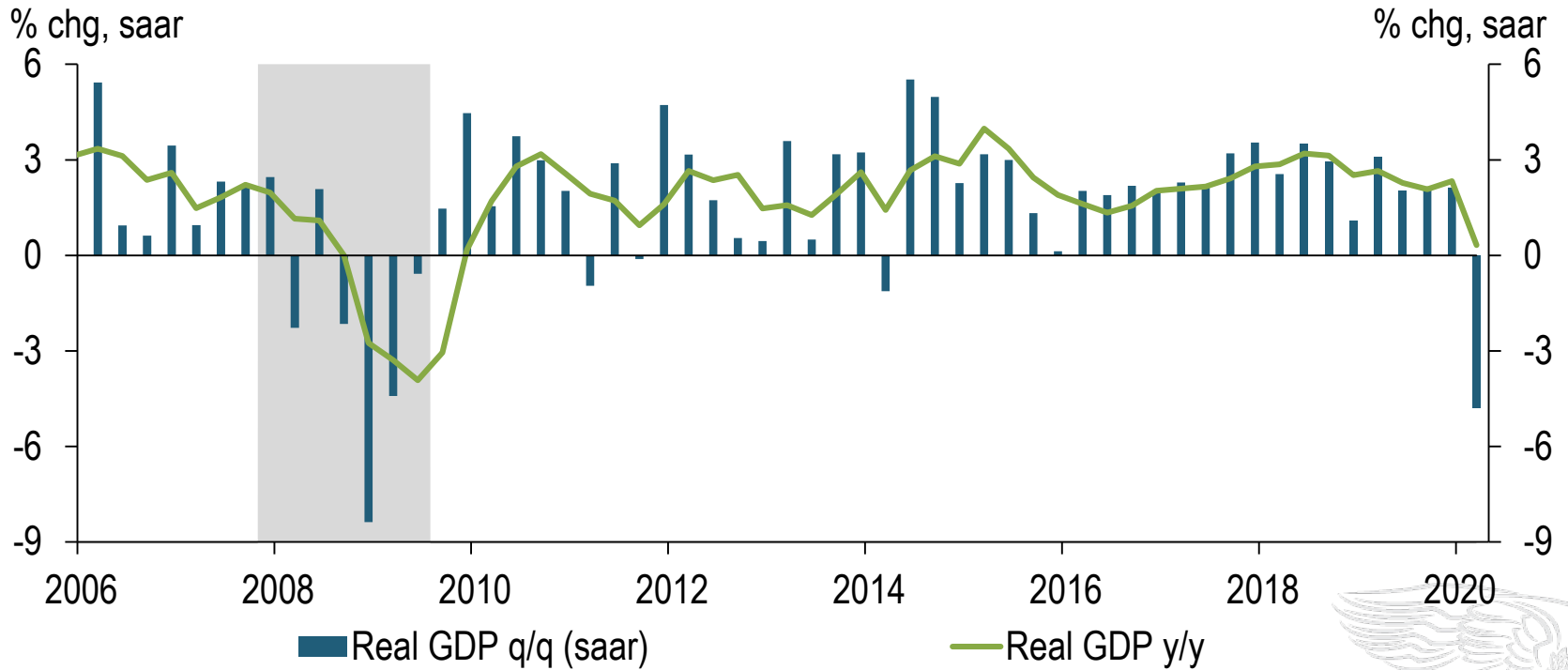


Positive cases of COVID-19 per capita appear low across most of the U.S., though with some testing variance

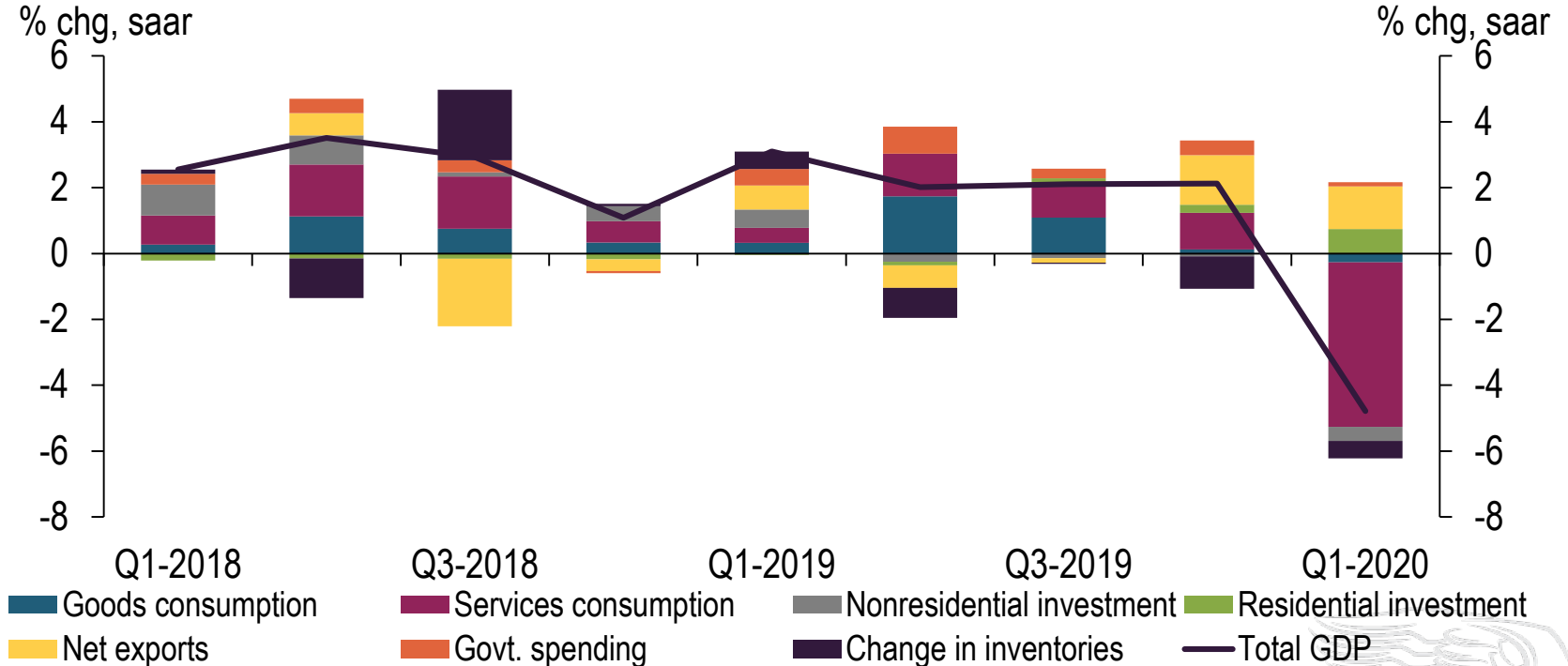


Source: The COVID Tracking Project

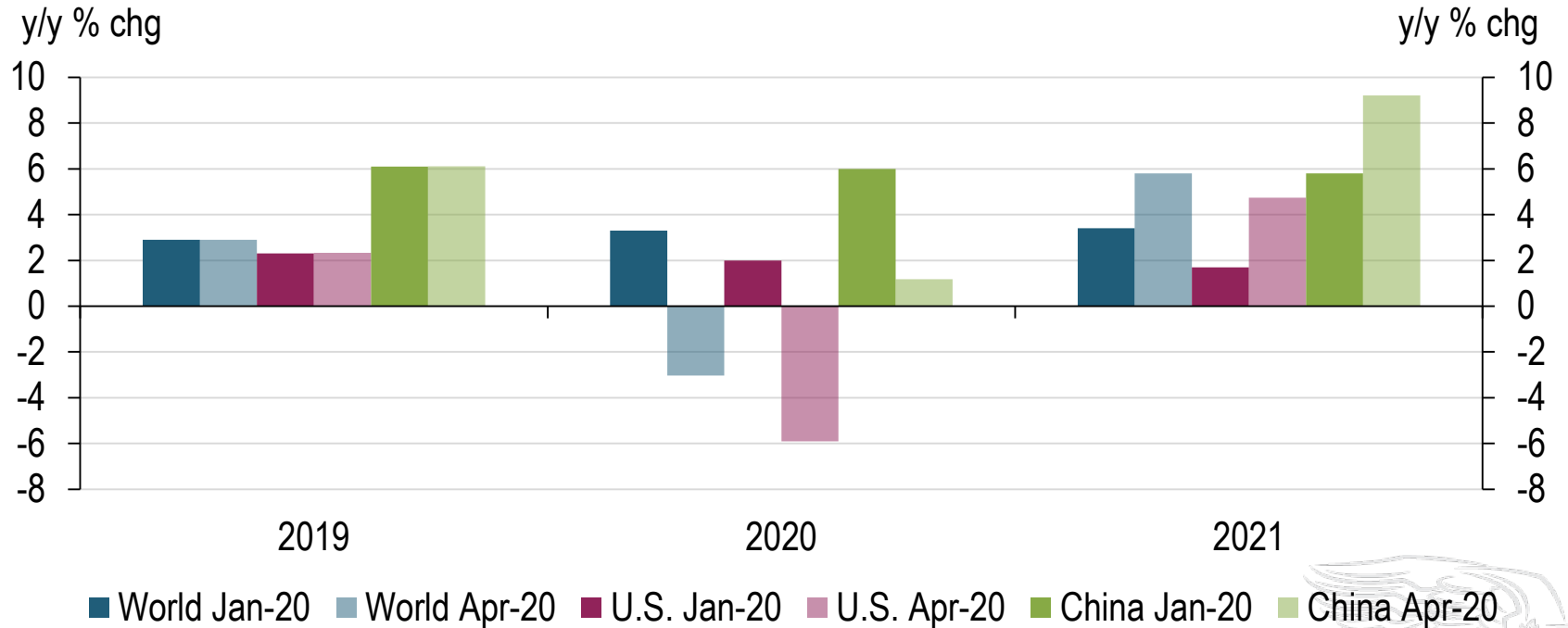
U.S. GDP decreased 4.8 percent in the first quarter of 2020, despite solid months in January and February



Unsurprisingly, the slowdown in services consumption was the biggest drag on GDP for Q1 2020



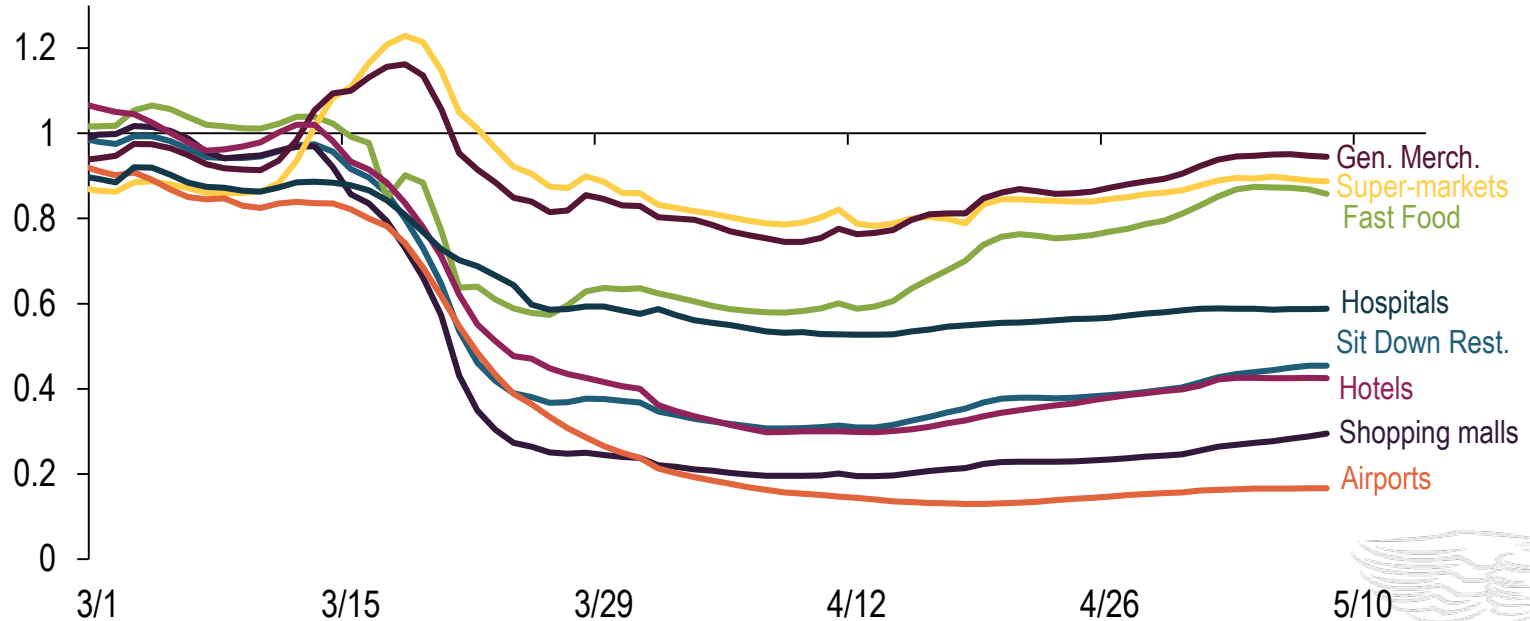
U.S. GDP is now expected to drop twice as much as world GDP this year, but China will also slow considerably



In April, “nonessential” consumer spending firms reported collapses in traffic

U.S. Foot Traffic Across Consumer Spending Segments

Index, 1/11/2020=1

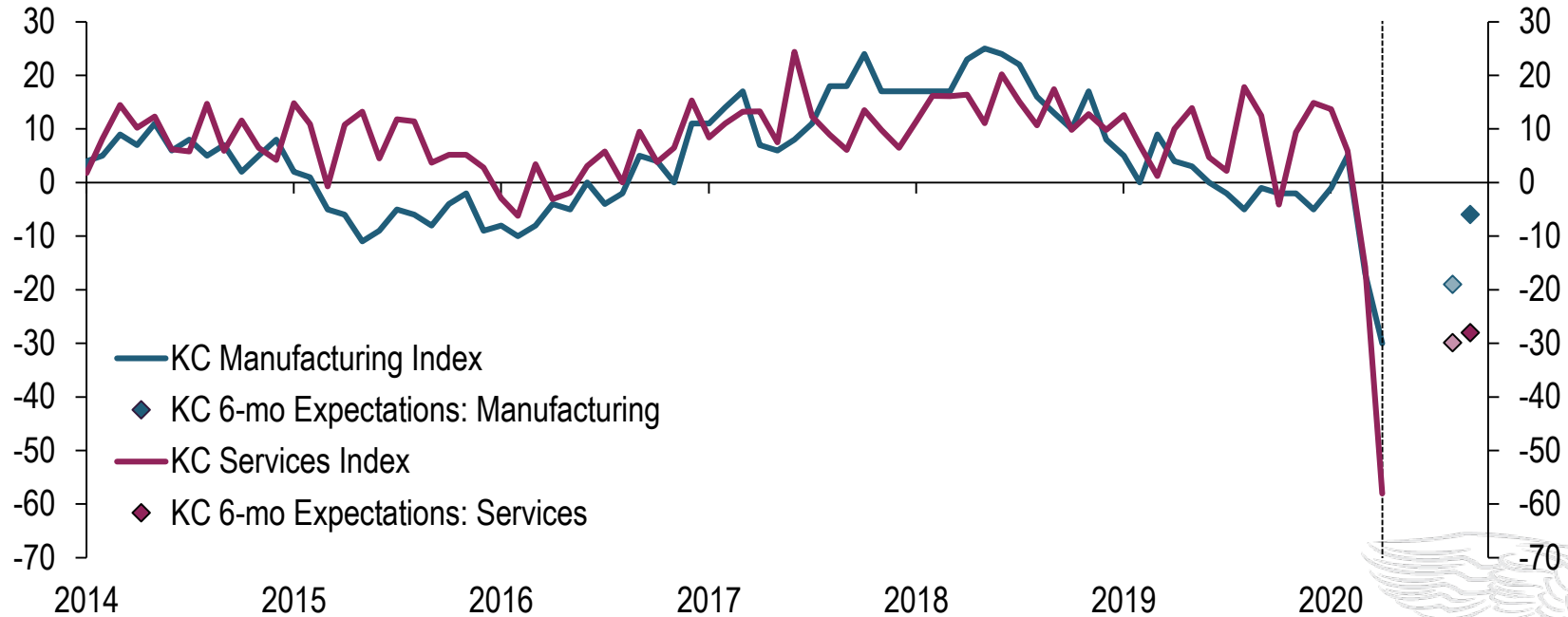


Source: SafeGraph

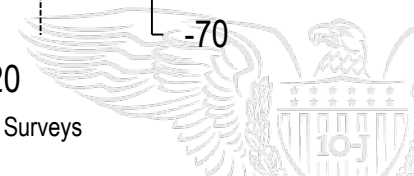


After record declines in April, District factories' pessimism lessened slightly, unlike services firms

Composite Index, >0 = increasing, sa

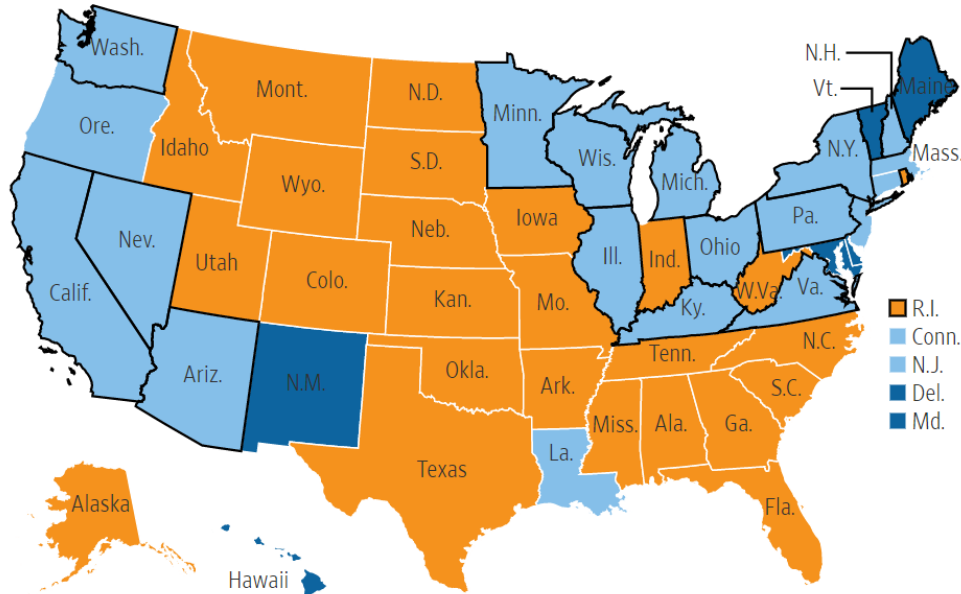


Sources: FRBKC Surveys

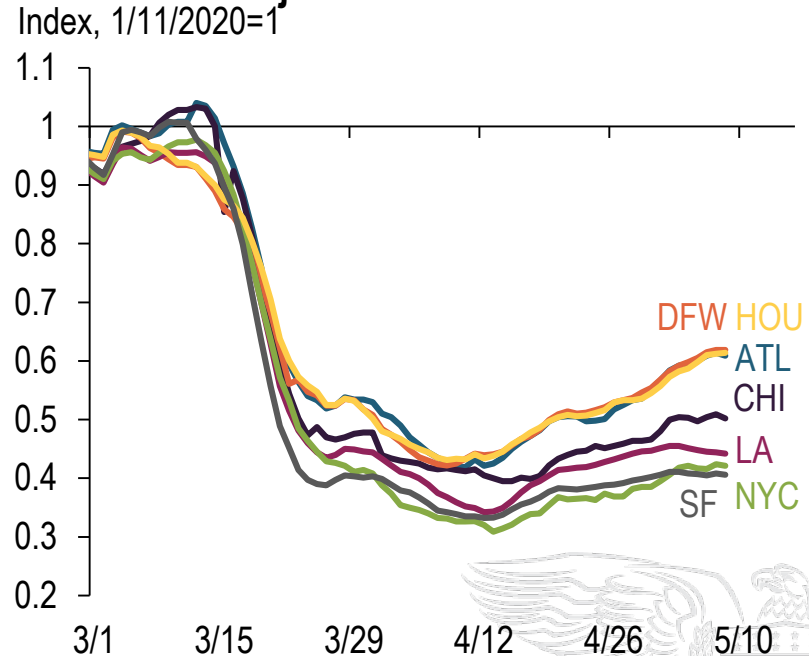


As of May 8, many states had lifted restrictions, but foot traffic was still down markedly

- Comprehensive restrictions on business and travel
- Some restrictions
- Lifted many restrictions, or never enacted major restrictions
- Plans announced to lift restrictions

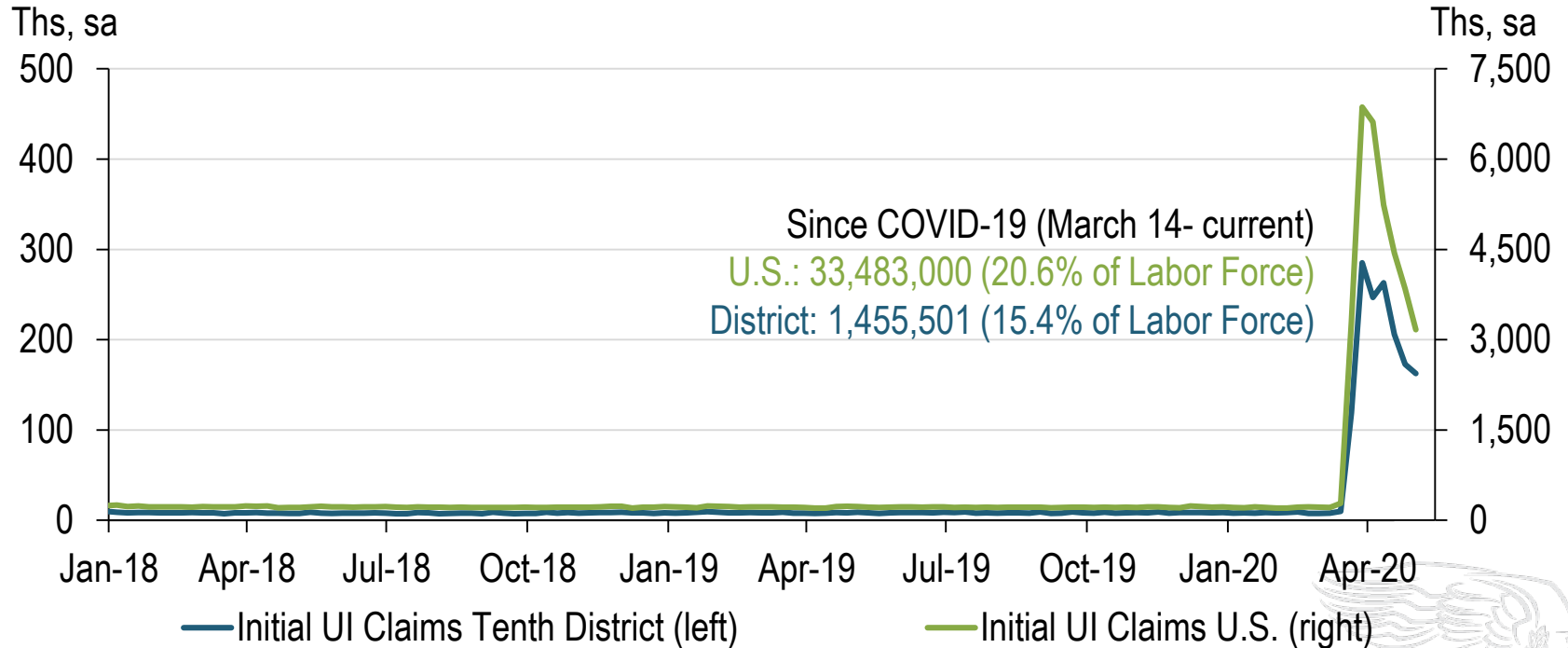


Consumer Spending Foot Traffic Across Major U.S. Metros



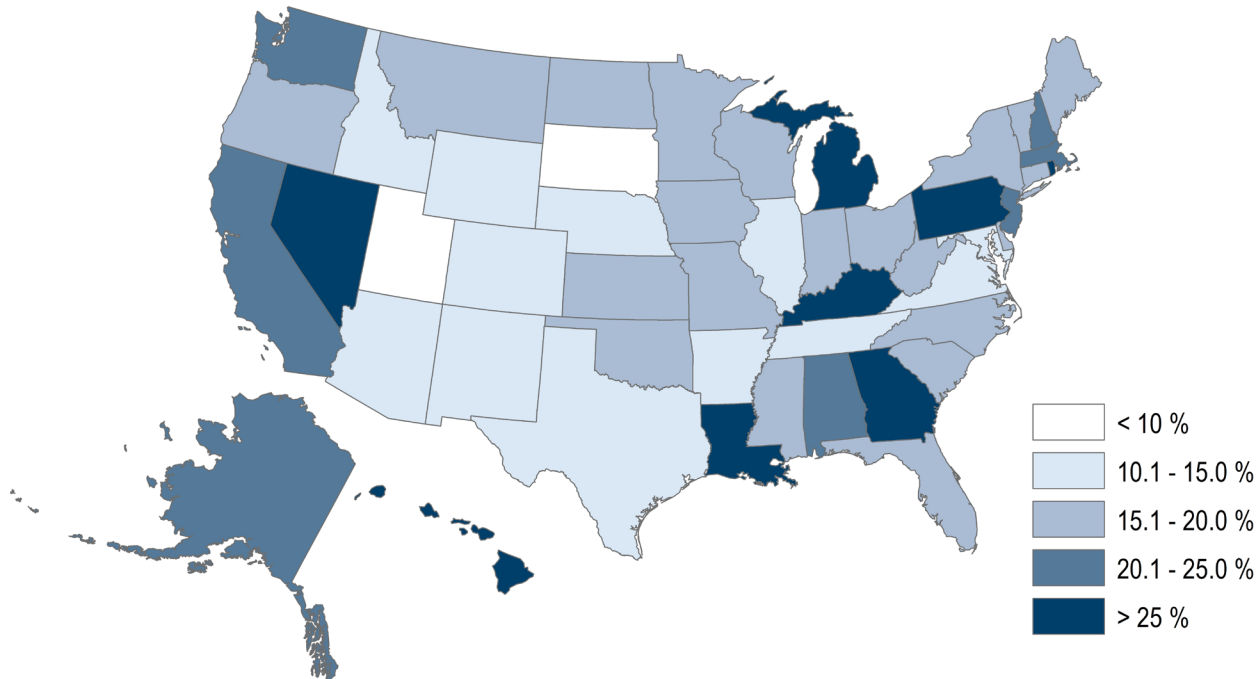
Sources: WSJ, state governments, SafeGraph

The latest jobless claims numbers are lower than in March, but still extremely and historically high

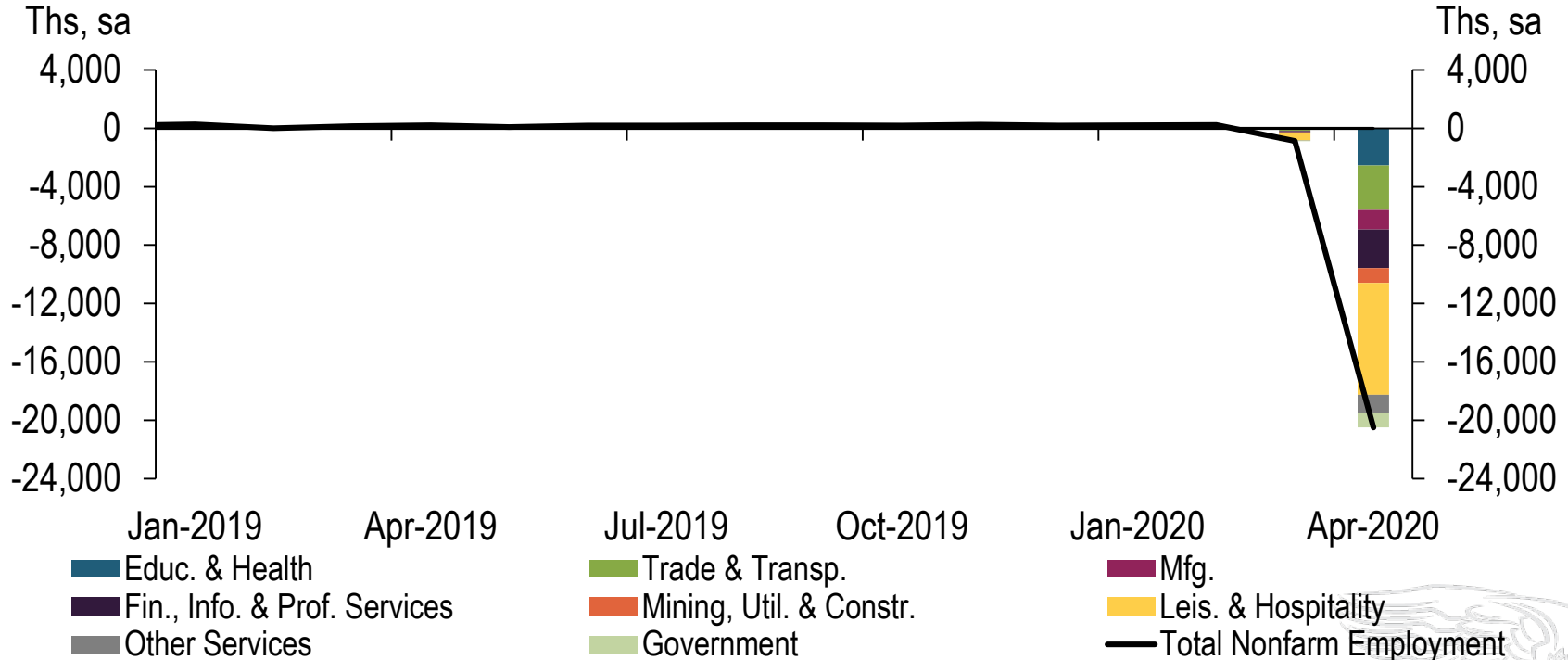


The share of the labor force that has filed claims has varied by state

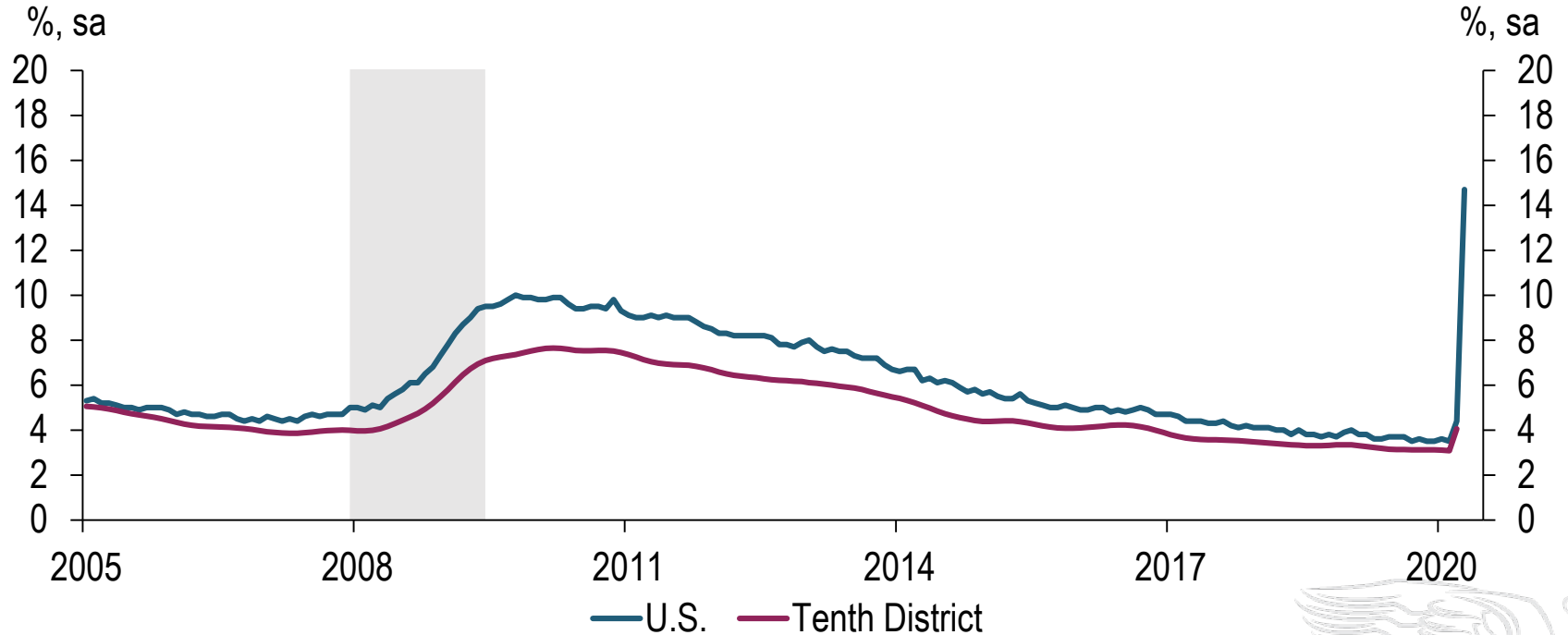
Initial UI claims filed March 14- May 2 as Share of State Labor Force



Every sector in the U.S. lost jobs in April, but especially leisure and hospitality



The U.S. unemployment rate increased to 14.7% in April, the highest level since WWII

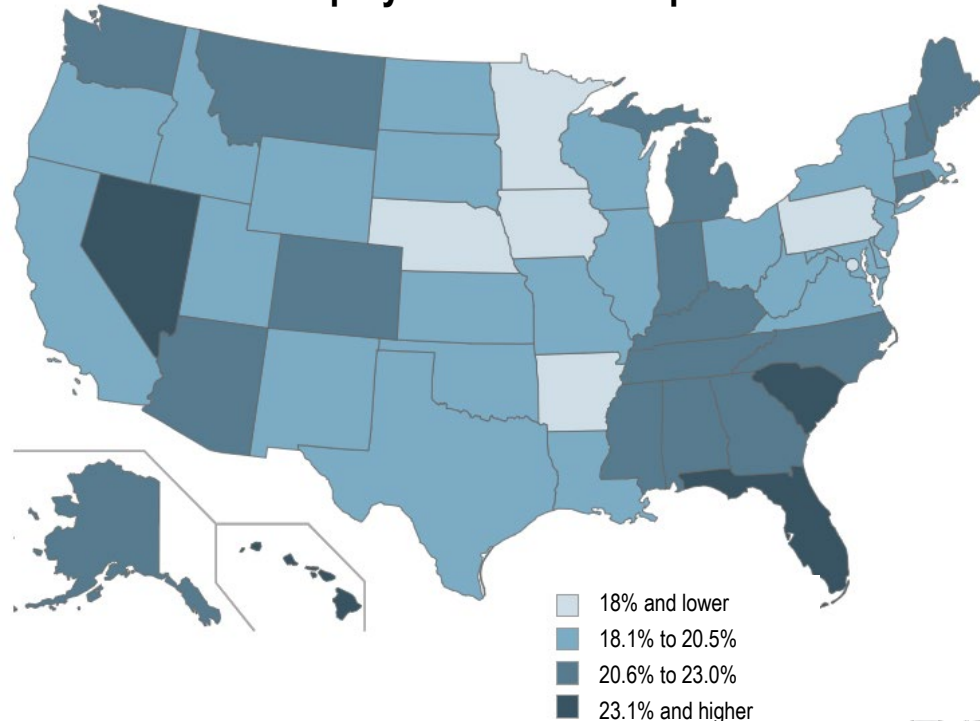


Most Tenth District states have fewer workers in sectors hit hardest by COVID-19

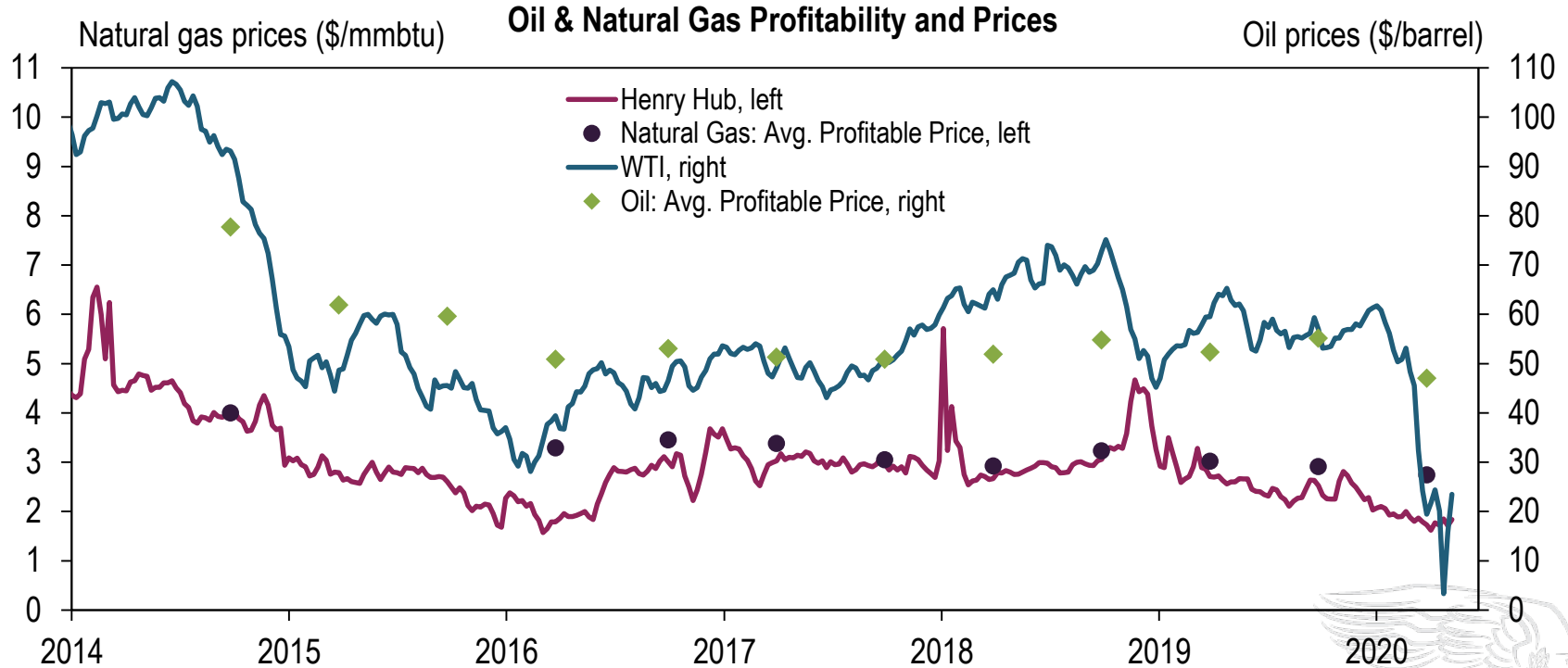
Share of Employment in Most Exposed Sectors

Sectors:

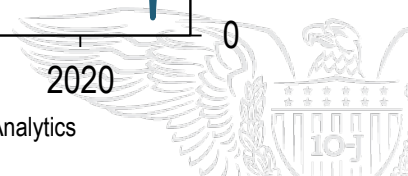
- Restaurants and Bars
- Travel and Transportation
- Entertainment (e.g., casinos and amusement parks)
- Personal Services (e.g., dentists, daycare providers, barbers)
- Other Sensitive Retail (e.g., department stores and car dealers)
- Sensitive Manufacturing (e.g., aircraft and car manufacturing)



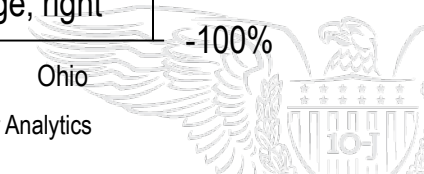
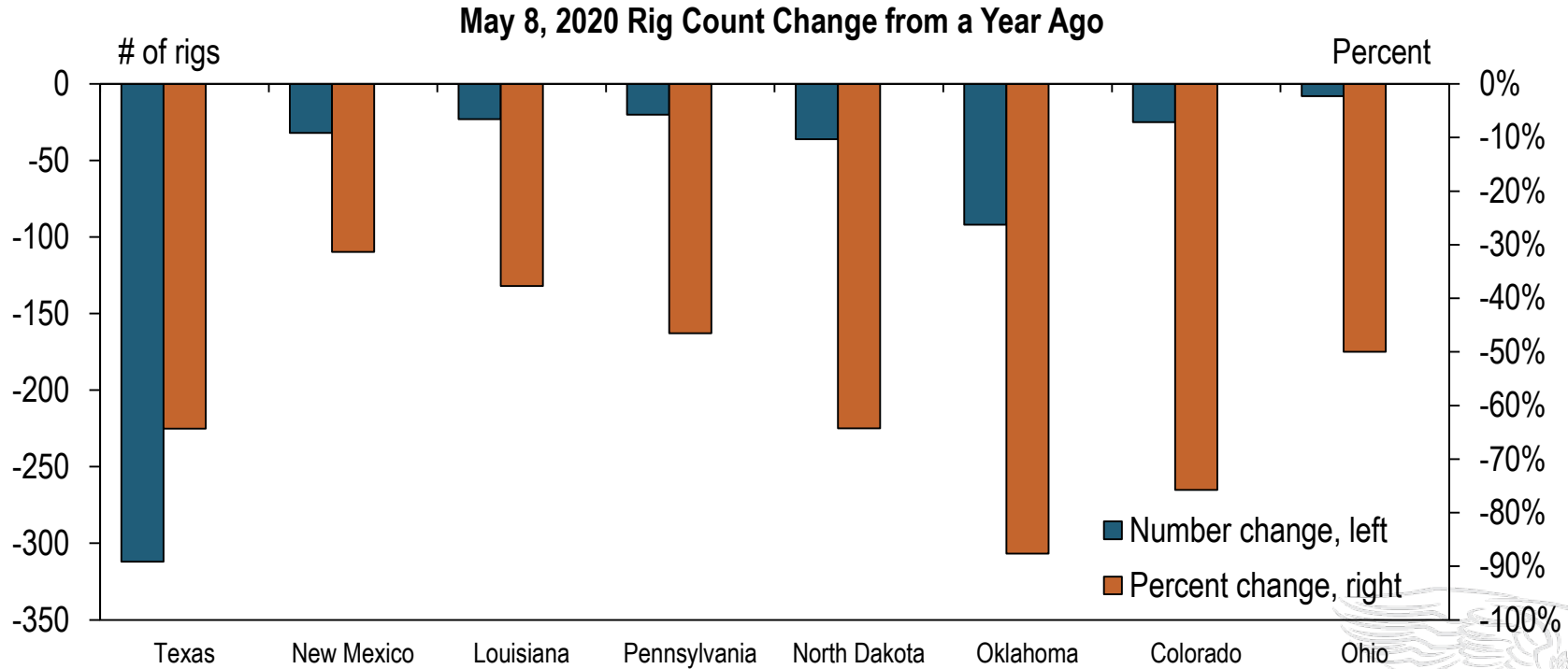
Even with the planned OPEC+ supply cuts, energy prices remain extremely problematic



Sources: Energy Information Administration, FRBKC Energy Survey, Haver Analytics

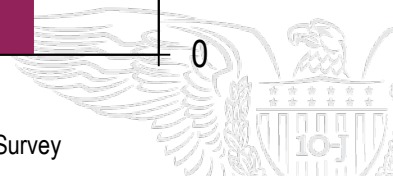
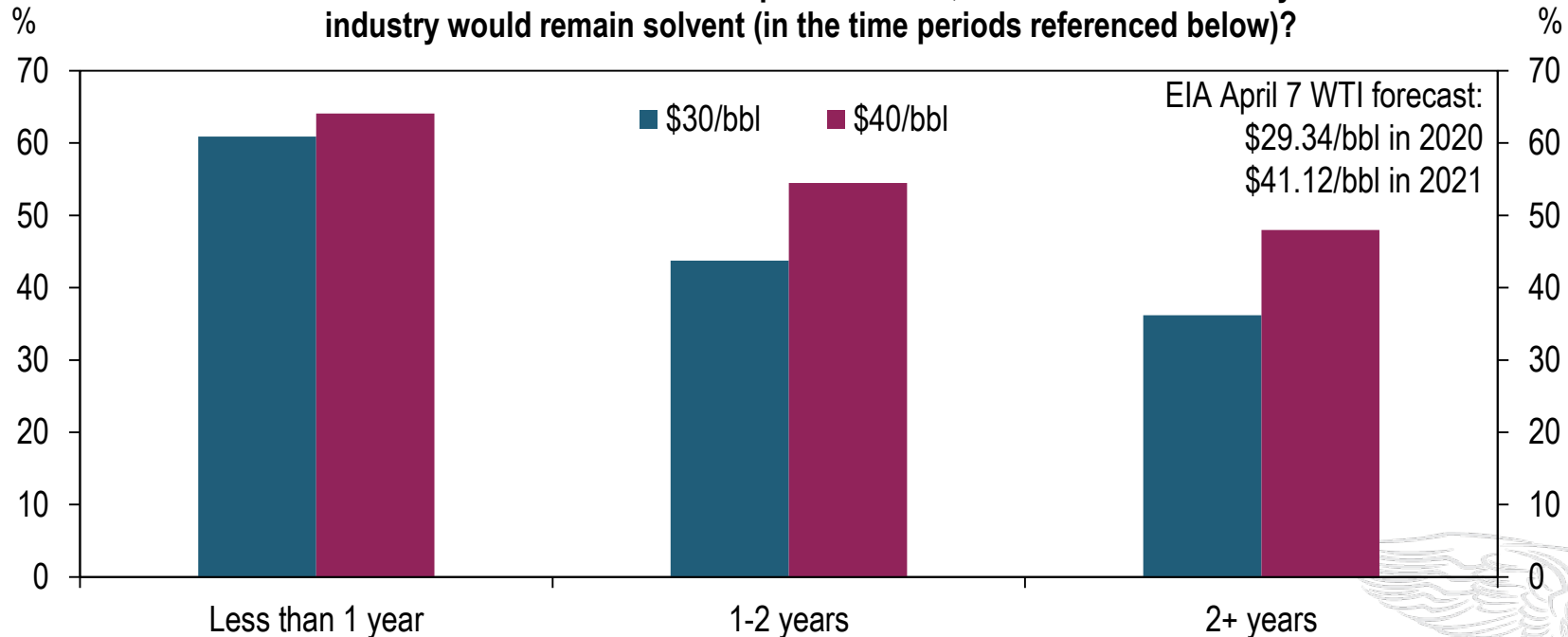


The drop in rigs has varied some by region, but is down sharply across all top 8 oil- and gas-producing states

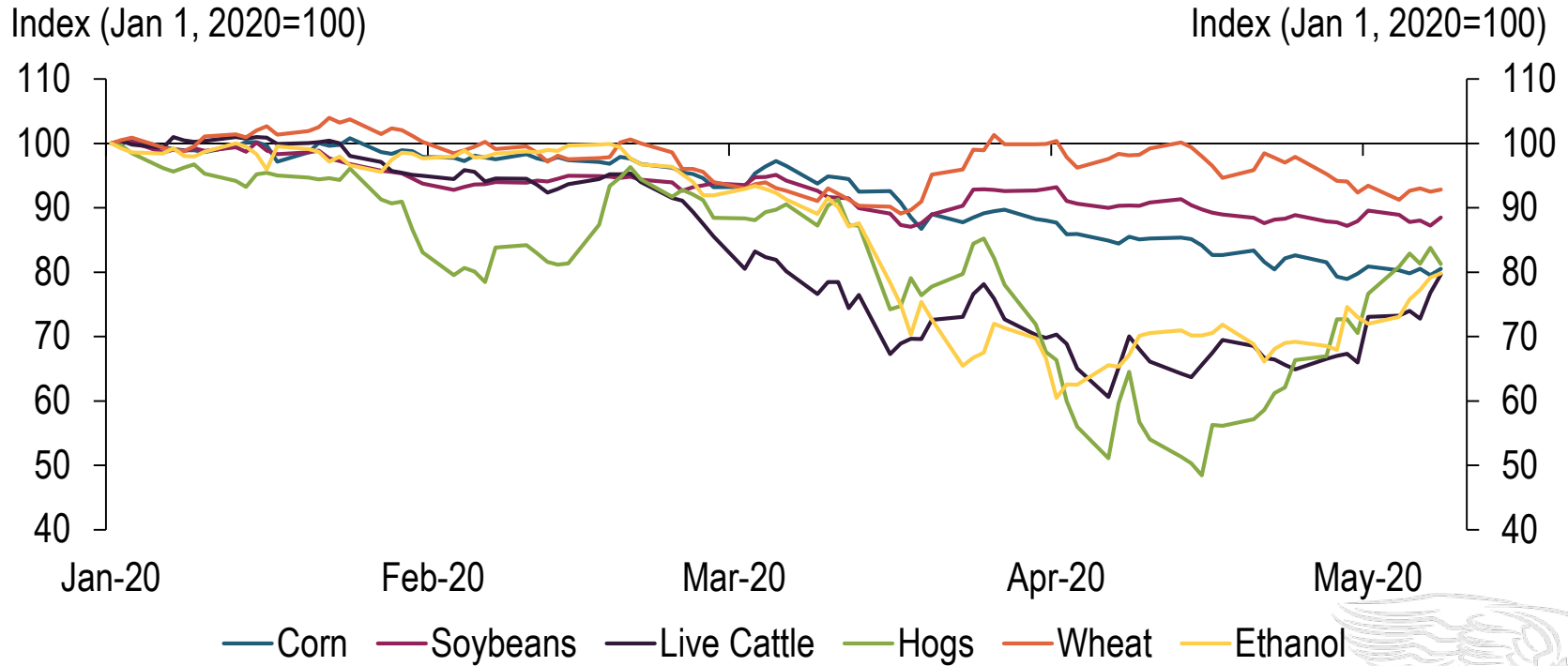


Energy firms expect solvency issues to grow considerably if prices stay low very long

FRBKC Q1 2020 Energy Special Question: If the WTI price of oil were to stay at \$30/bbl or \$40/bbl for an extended period of time, what share of firms in your industry would remain solvent (in the time periods referenced below)?

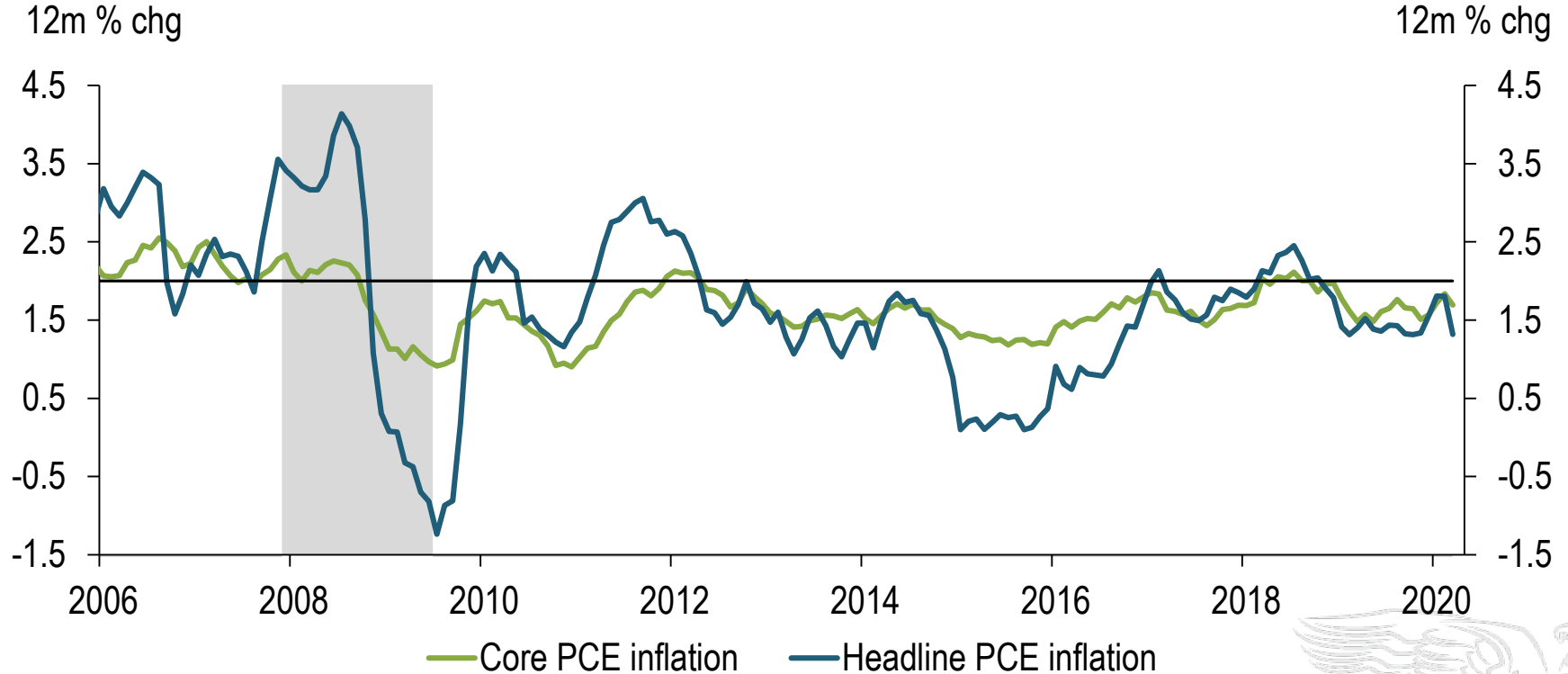


Agricultural commodity prices are also problematic for the sector and our region

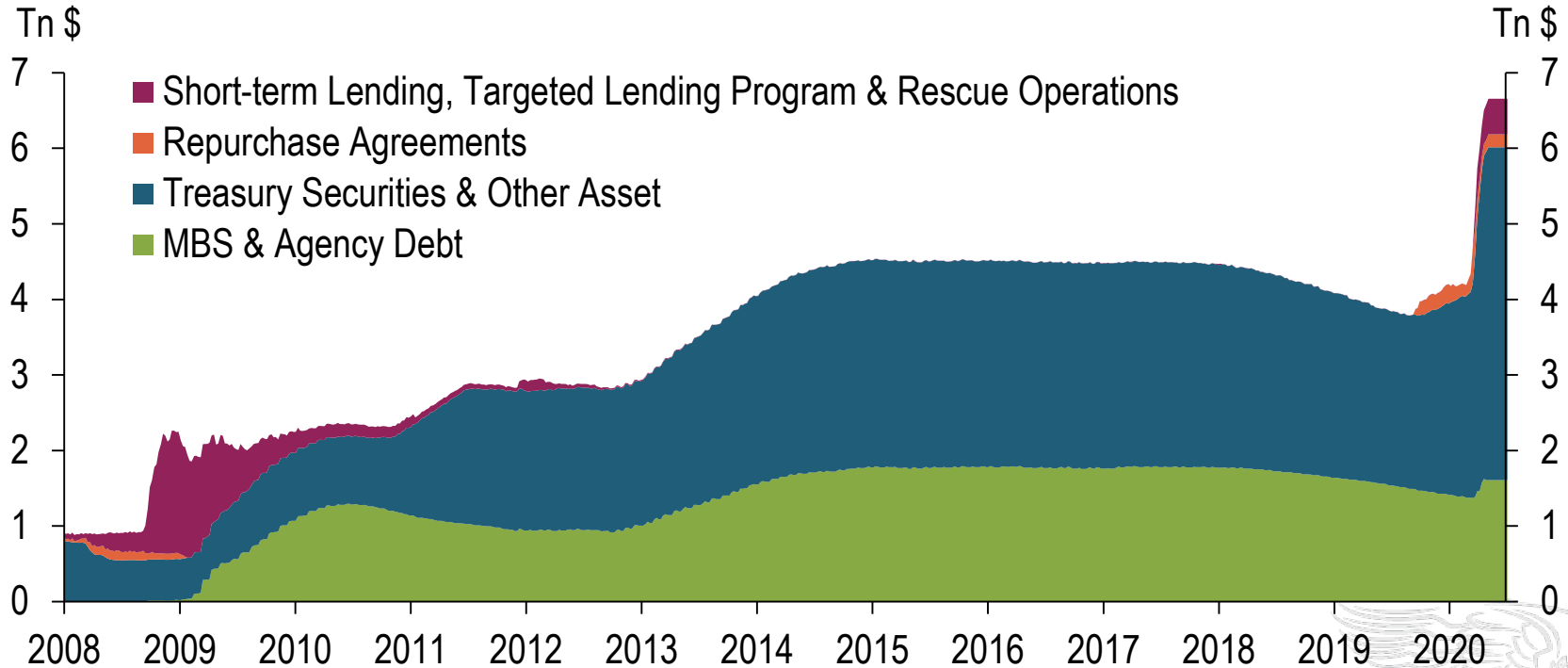


Sources: CME, WSJ, Haver Analytics

Inflation is likely to remain subdued in the near term

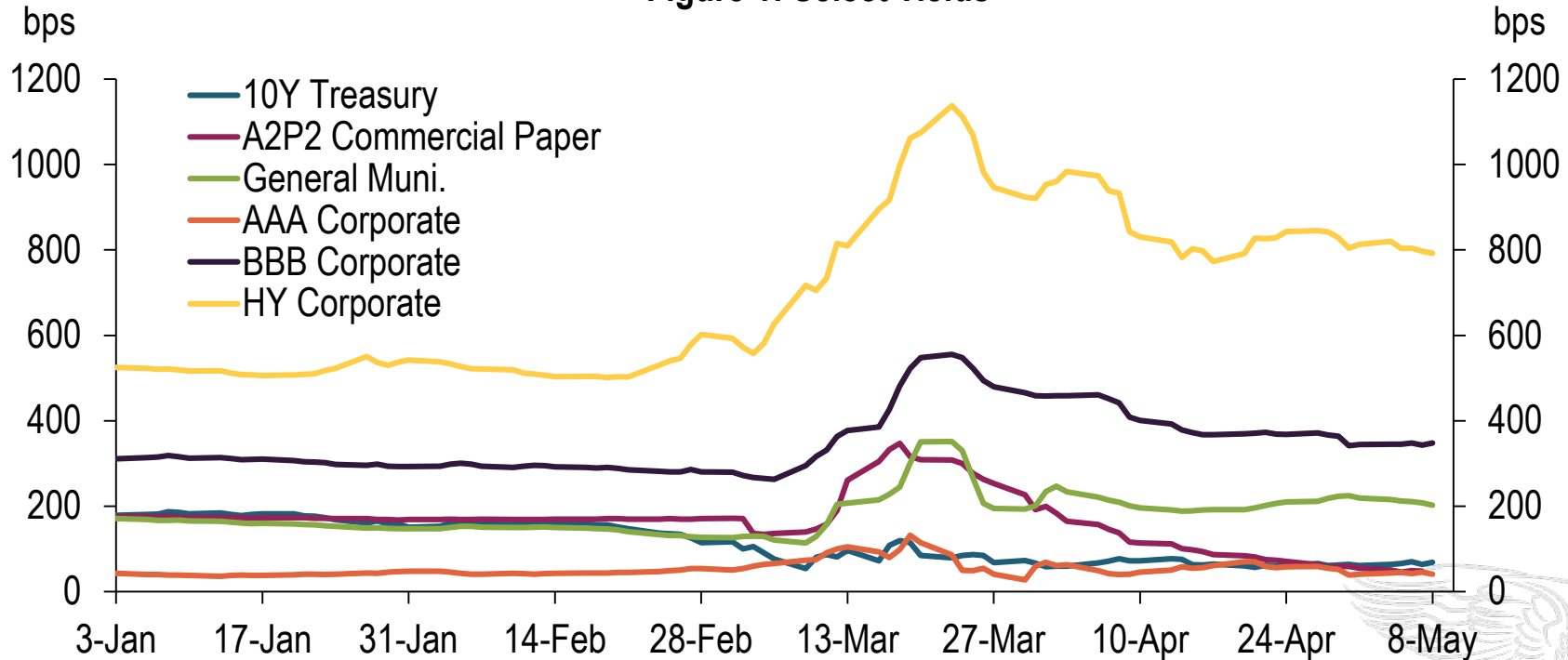


The interventions of the Federal Reserve have caused its balance sheet to grow above \$6.7 trillion



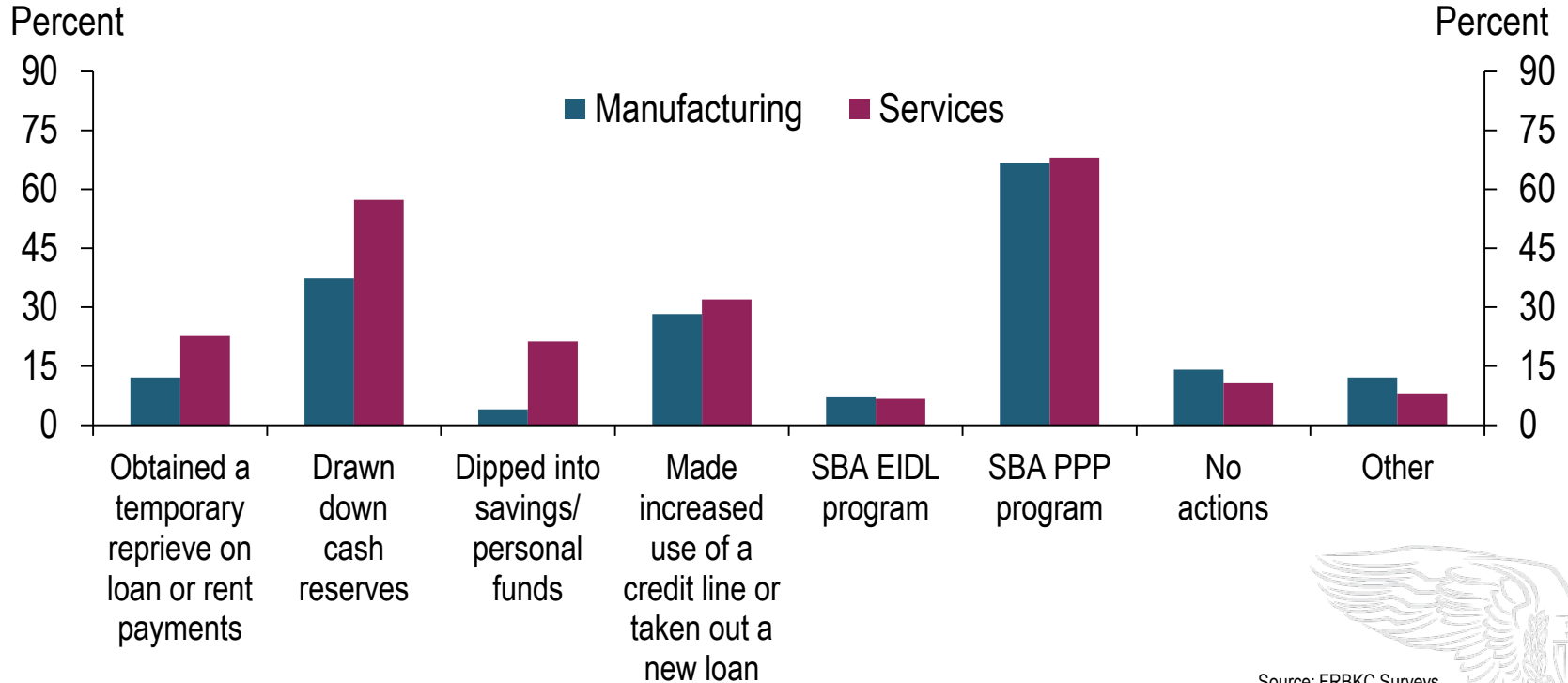
Since March, commercial yields and overall financial conditions have generally improved

Figure 1: Select Yields



Firms reported wide usage of emergency financial measures to help cover coronavirus-related shortfalls in April

Figure 2: April 15-20 FRBKC Survey Special Question: Emergency Financial Measures Taken



Source: FRBKC Surveys

Summary

- Economic activity has fallen sharply in the U.S. and Tenth District, due to the effects of temporary shutdowns and social distancing measures
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