

Supply Chain Issues Facing the Economy

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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.



The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

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- **Functions and purposes ~ 50 staff**
 - Research on U.S. and Oklahoma economies; energy sector and business survey focus
 - Examinations of Oklahoma financial institutions (~45 banks, ~175 holding cos.)
 - Risk analysis and IT development for bank exams; exam assistance for other Fed offices
 - Community development programming for low and moderate income groups, workforce focus
 - Economic education and public outreach programming
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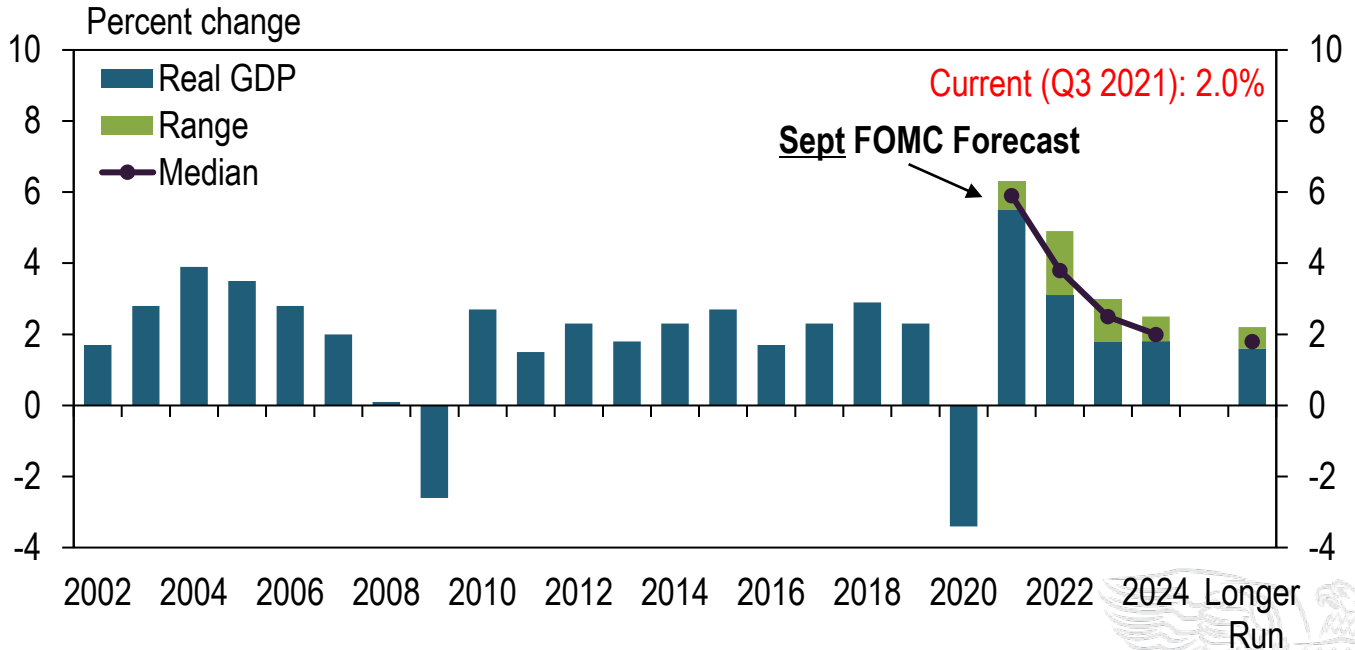
Overview

- The national, state, and local economies have continued to recover from the COVID-19 pandemic, with strong outlooks
- This is despite historic supply chain disruptions and labor shortages creating challenges for many businesses
- Most firms expect the supply chain disruptions to continue well into 2022, and in many cases until 2023
- The pressure has pushed up inflation, and with unemployment falling further the Fed has begun to taper its balance sheet



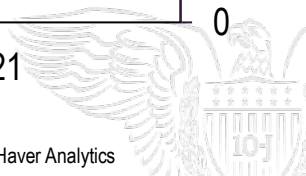
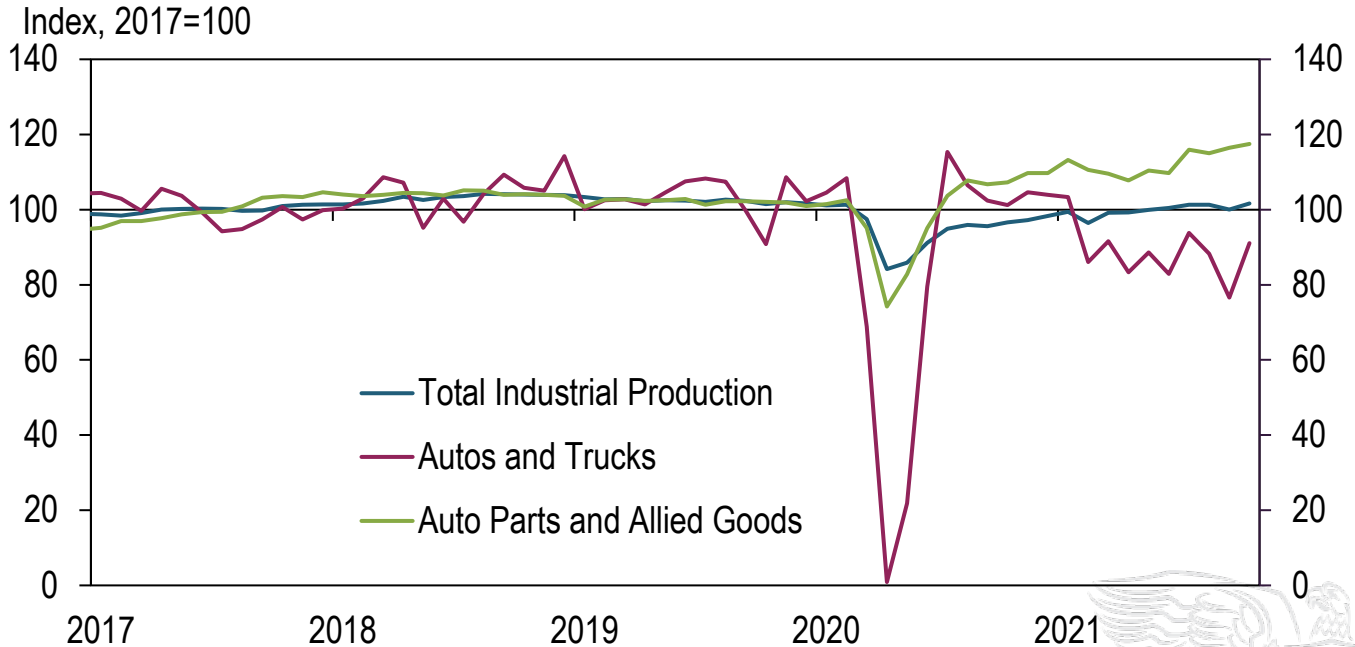
Nationally, the FOMC in November said: “Indicators of economic activity ... have continued to strengthen.”

Change in Real GDP



U.S. industrial production has slowly increased to pre-pandemic levels, although not in autos/trucks

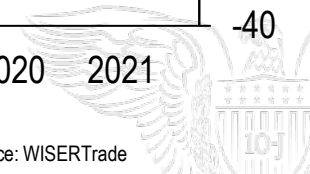
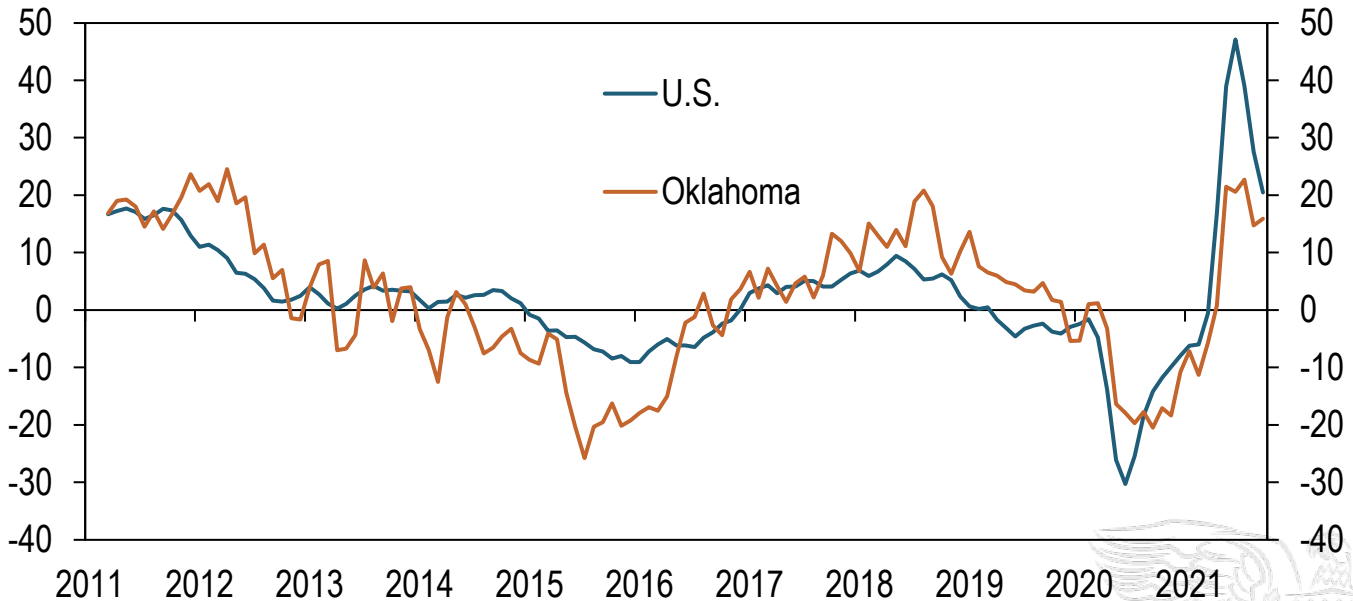
Industrial Production of Consumer Durables



Manufacturing exports have recovered solidly in both Oklahoma and the nation

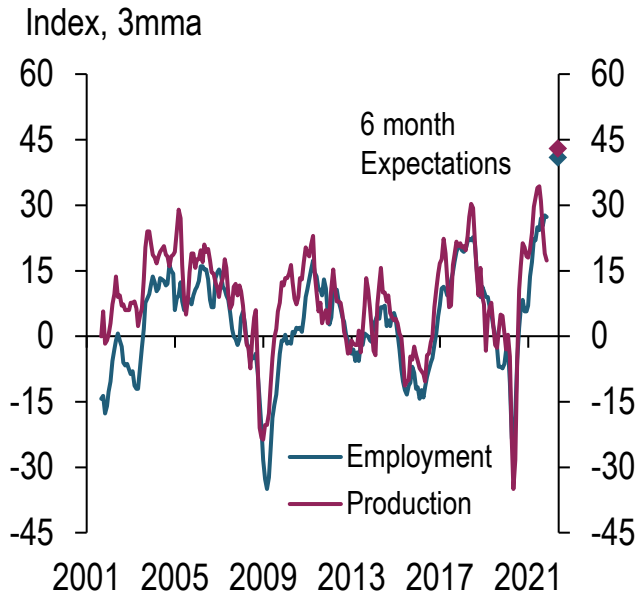
Total Manufacturing Exports

Percent change, year-over-year, 3mma

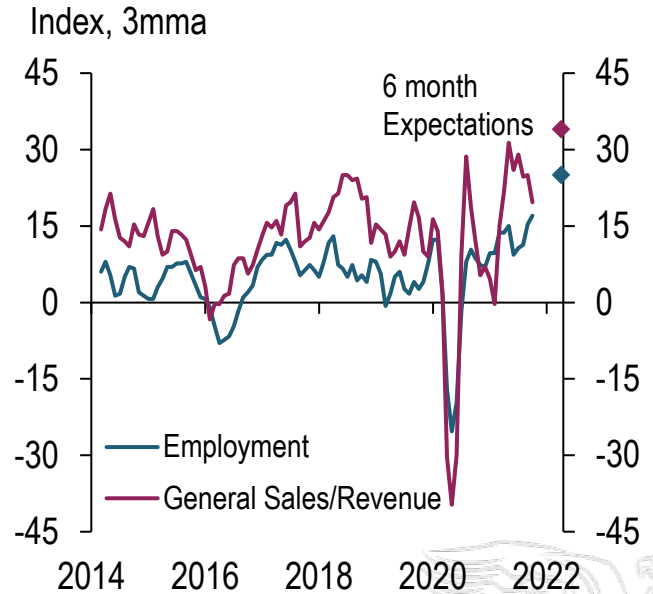


Regional manufacturing and services surveys show activity is rising solidly, with strong outlooks

KC Fed Manufacturing Survey

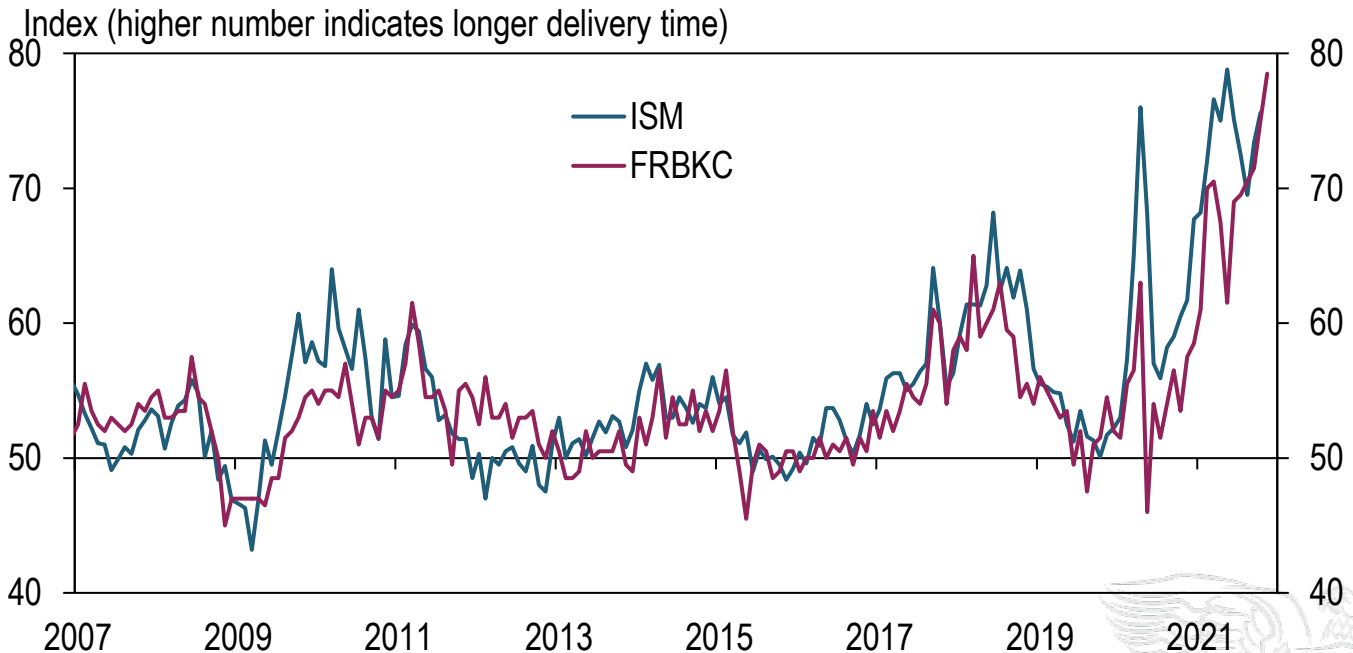


KC Fed Services Survey



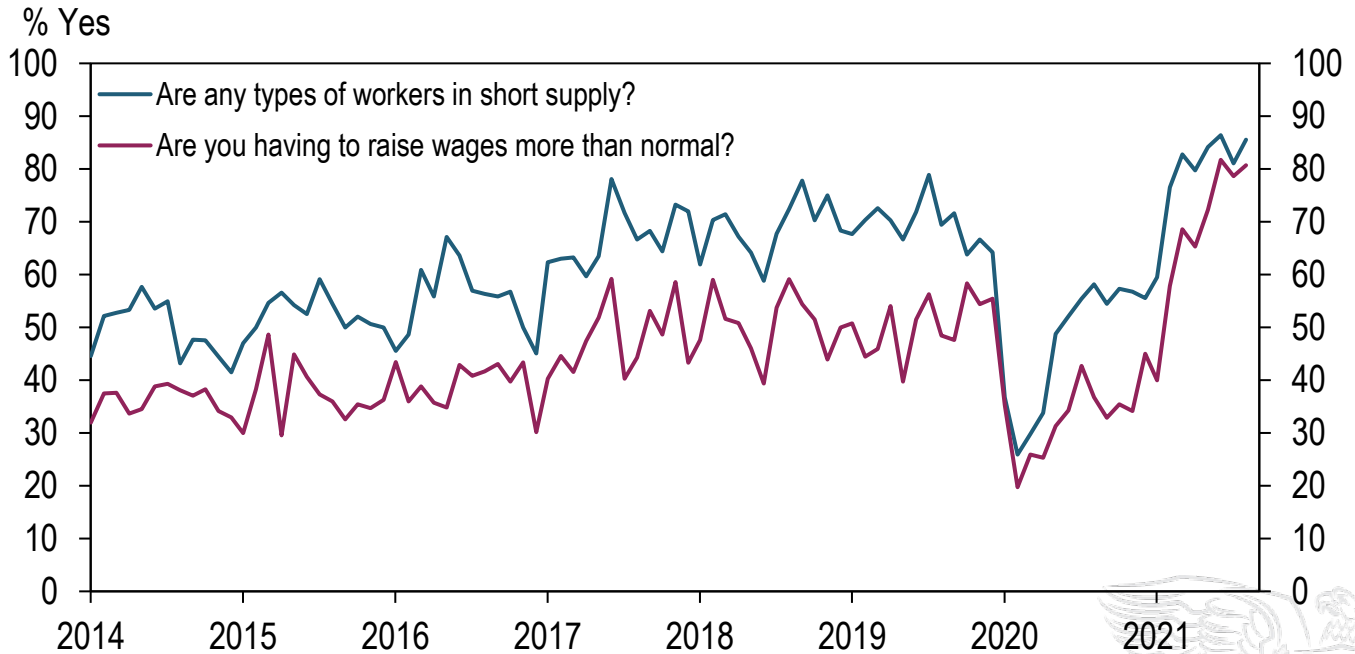
This is despite manufacturers reporting the longest supplier delivery times in the KC Fed's survey history

Manufacturing Supplier Delivery Indexes



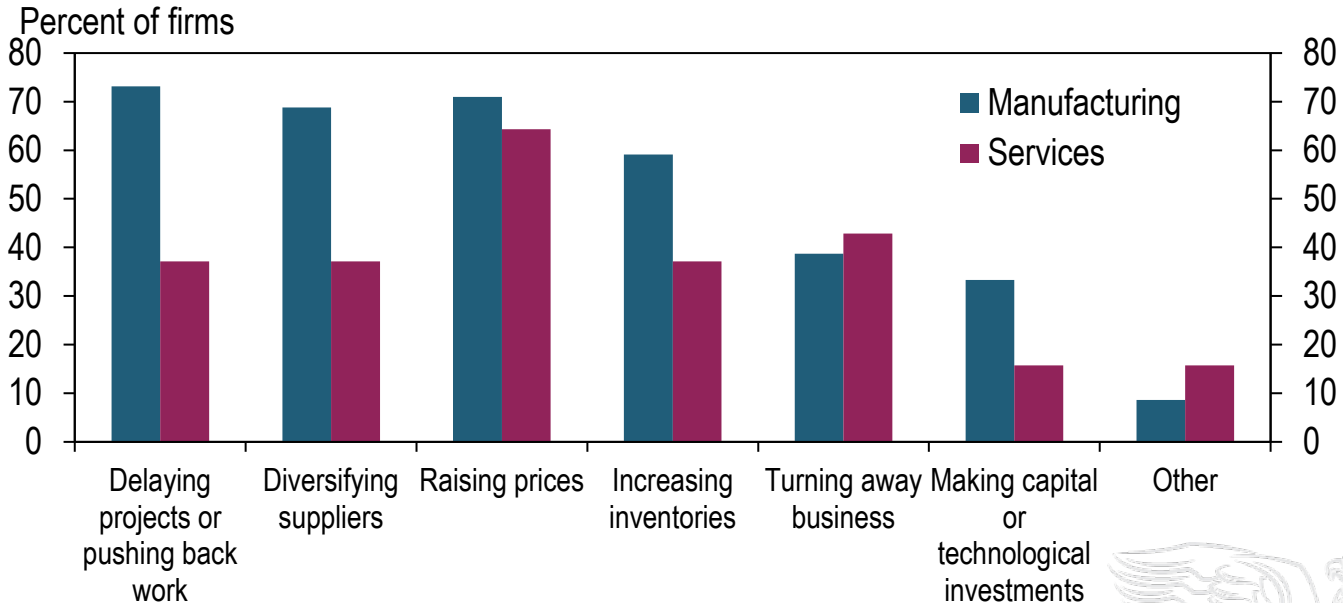
And services firms reporting the most labor shortages and wage pressures in the KC Fed's survey history

Services Survey Labor Shortages and Wage Pressures



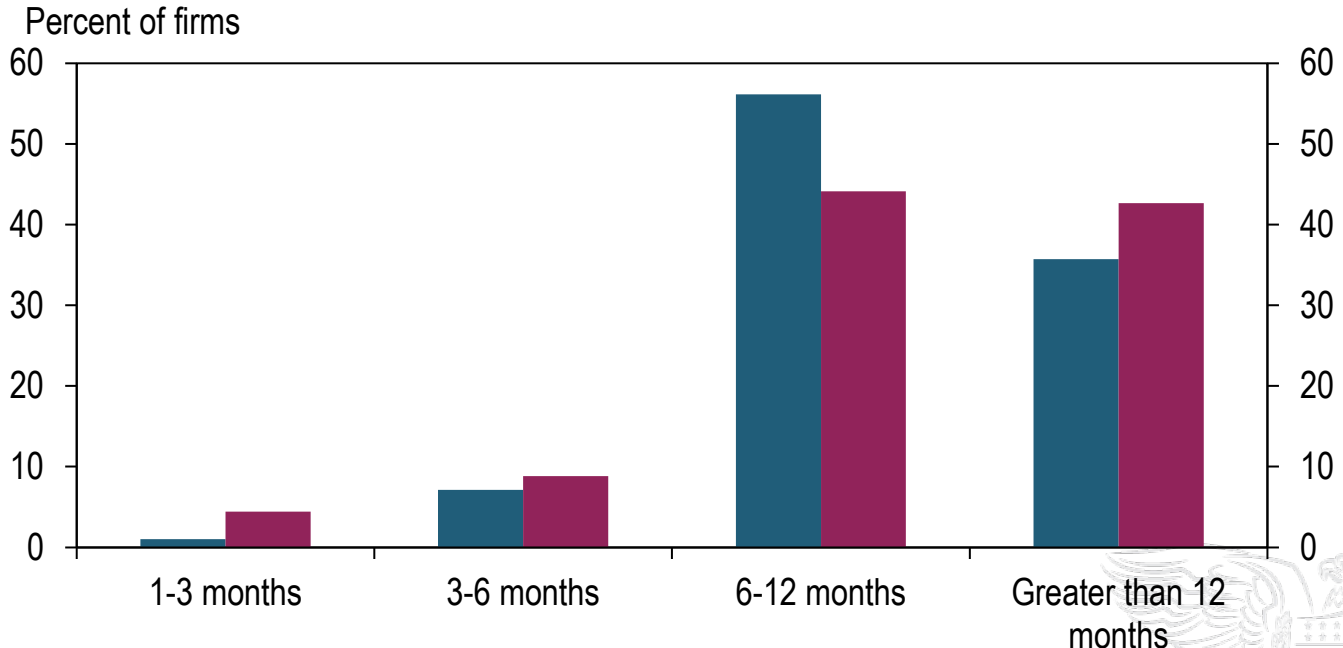
Many firms have delayed projects, diversified suppliers, and raised prices as a result of supply chain issues

October 2021 Survey SQ: "If your firm is facing supply chain disruptions and shortages, how is your firm managing those challenges? (check all that apply)"



Most firms expect supply chain issues to persist for at least the next six months

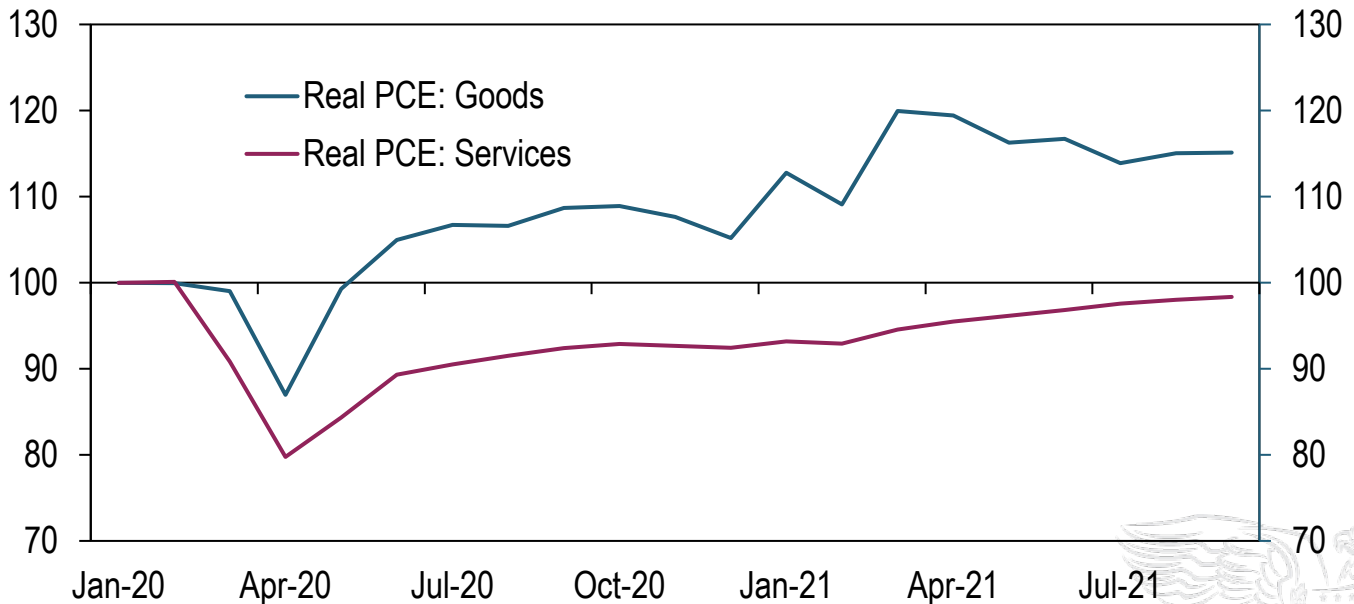
October 2021 Survey SQ: "If your firm has been affected by rising materials prices and lack of availability/delivery times, how long do you expect this to persist?"



Demand for goods has greatly outstripped services demand since the pandemic recovery began

Real Personal Consumption Expenditures (PCE)

Index, Jan. 2020=100



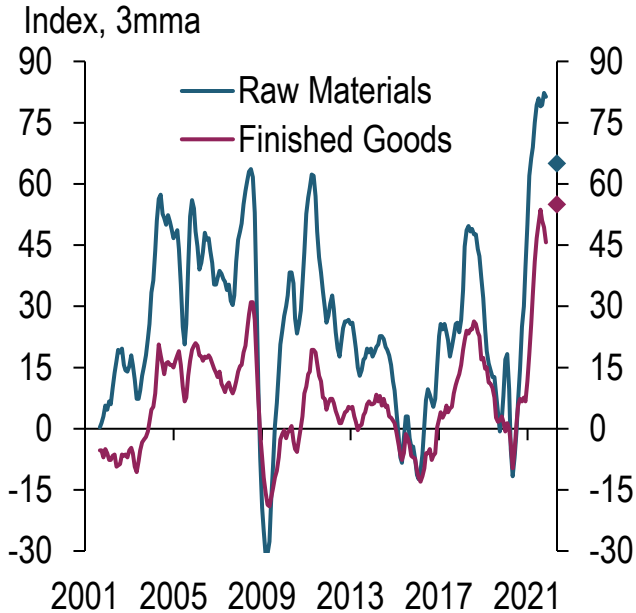
Comments from firms:

- “COVID variants affect overseas (Asian) suppliers at different times than the U.S., in many cases extending delivery disruptions. This ripple effect on product movement will take time to recover from.”
- “U.S. logistics infrastructure including the ports, rail, and freight were in poor shape prior to the pandemic. COVID just highlights that some major reform/improvement is required. Product delivery problems are currently masking a much larger, long-term problem of workforce shortage.”
- “We are hopeful that things will... straighten out in 6 to 12 months but given the lack of planned output by some of our key suppliers, believe that demand will continue to well up, outstripping supply well into 2023.”
- “We currently see both increasing demand and supply chain bottlenecks occurring. Meeting increased demand will make it exceedingly hard to clear the bottlenecks.”
- “It will take longer than we think to get everything back to normal... I am guessing 2 years.”
- “Making rapid design changes to use available products.”
- “Higher input cost are passed on the customers whenever possible.”

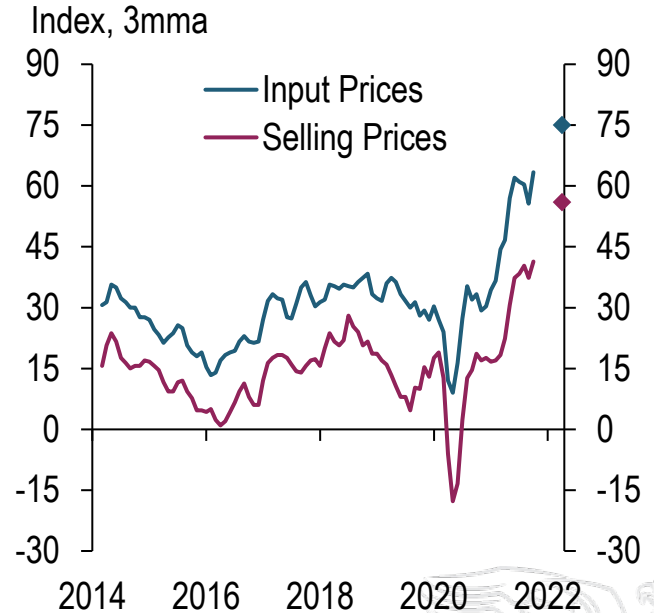


Both input and output prices continuing to increase at record high rates in the region

Manufacturing Survey

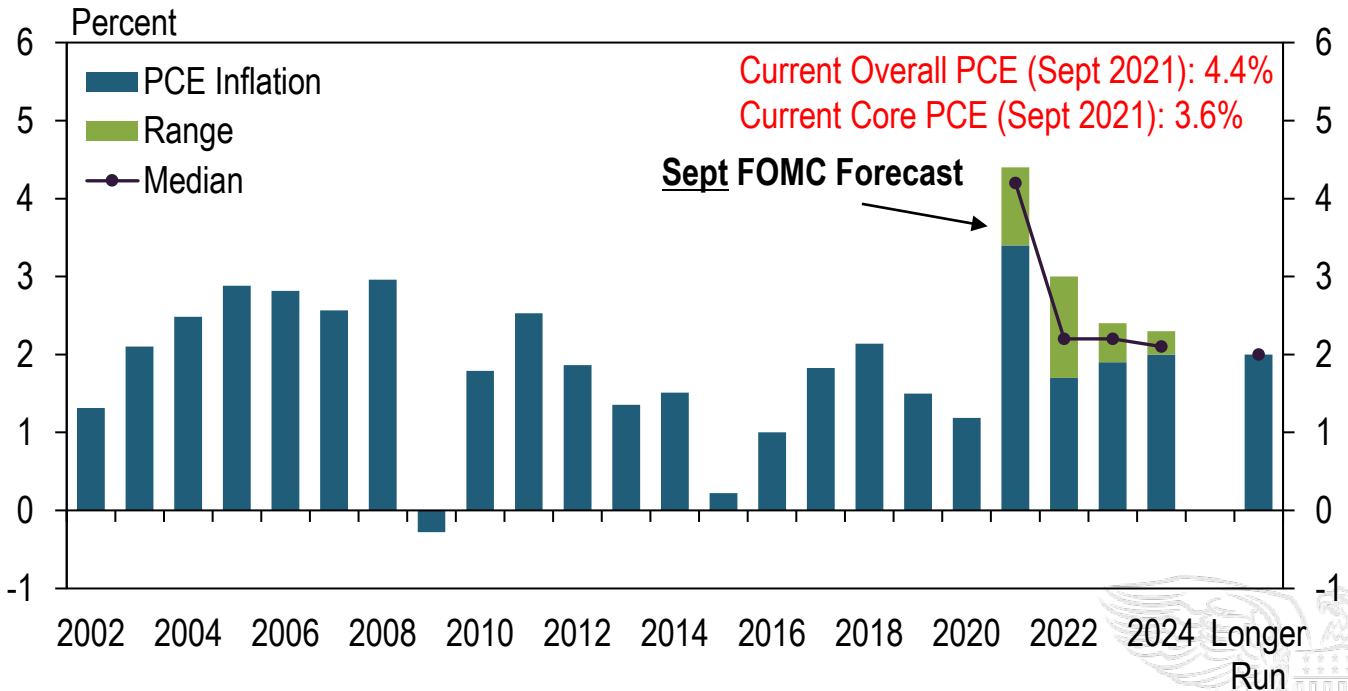


Services Survey



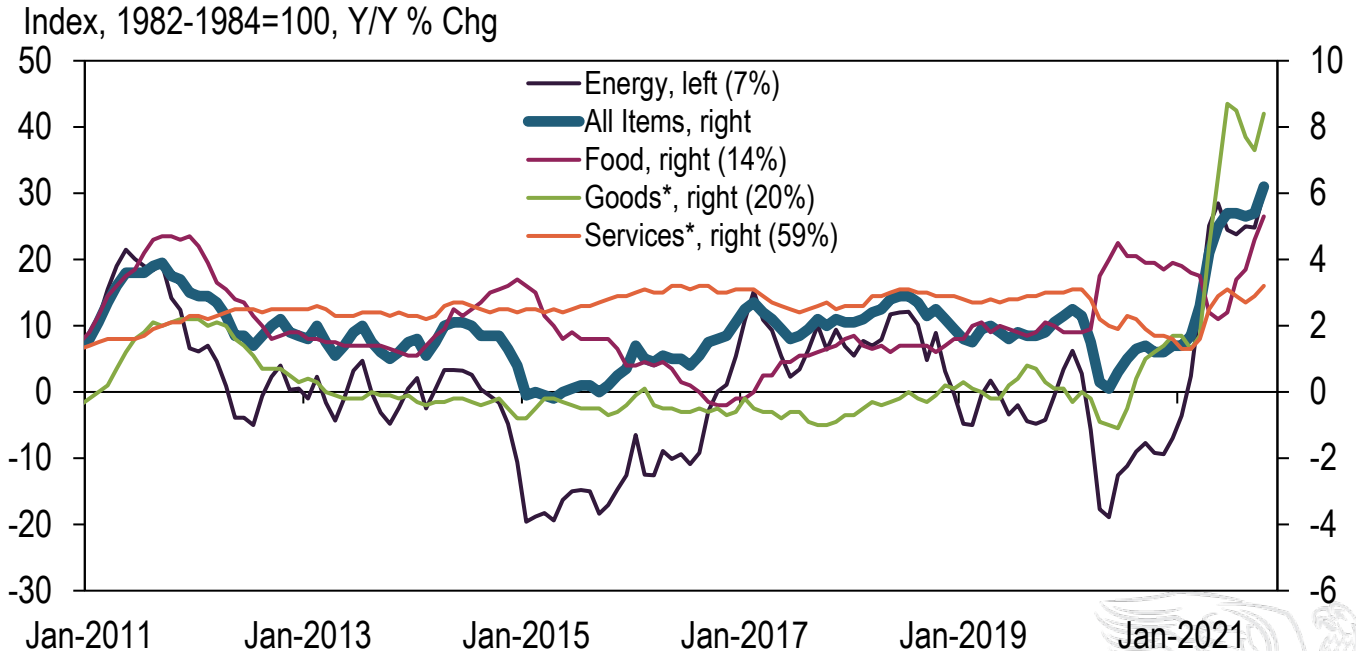
Nov FOMC: “Supply and demand imbalances... have contributed to sizable price increases in some sectors.”

PCE Inflation Index



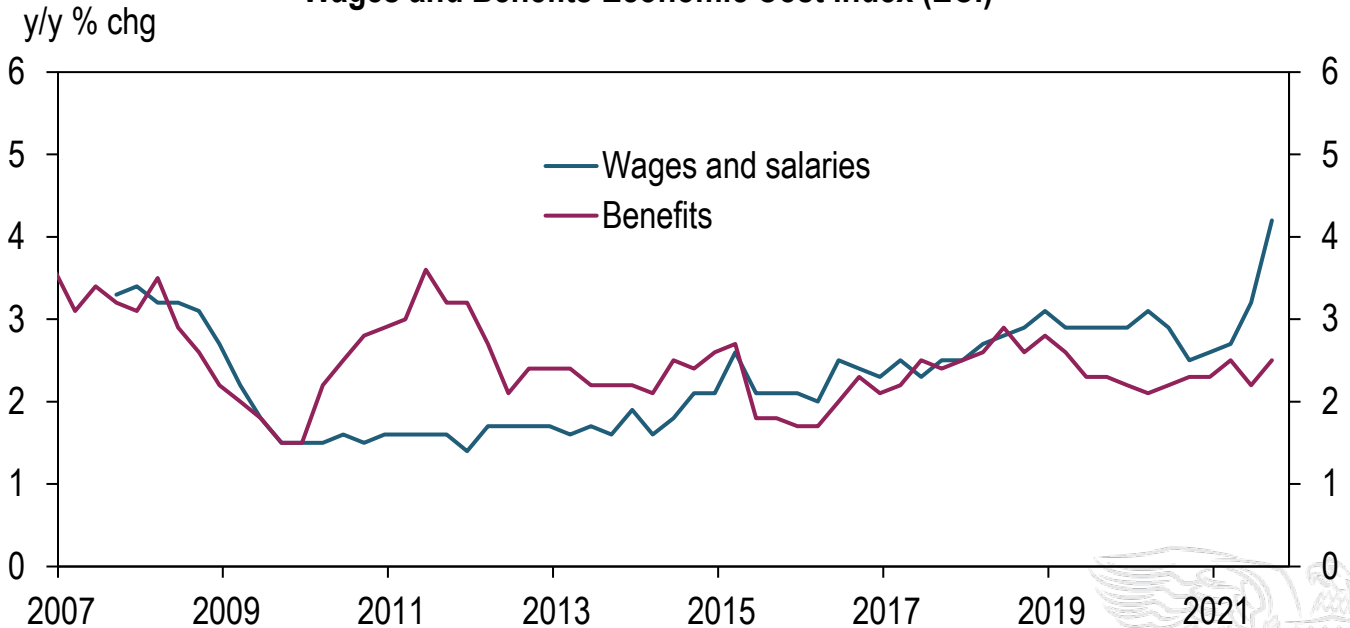
After leveling around 5.0-5.5% over the summer, year-over-year CPI growth rose to 6.2% in October

Consumer Price Index

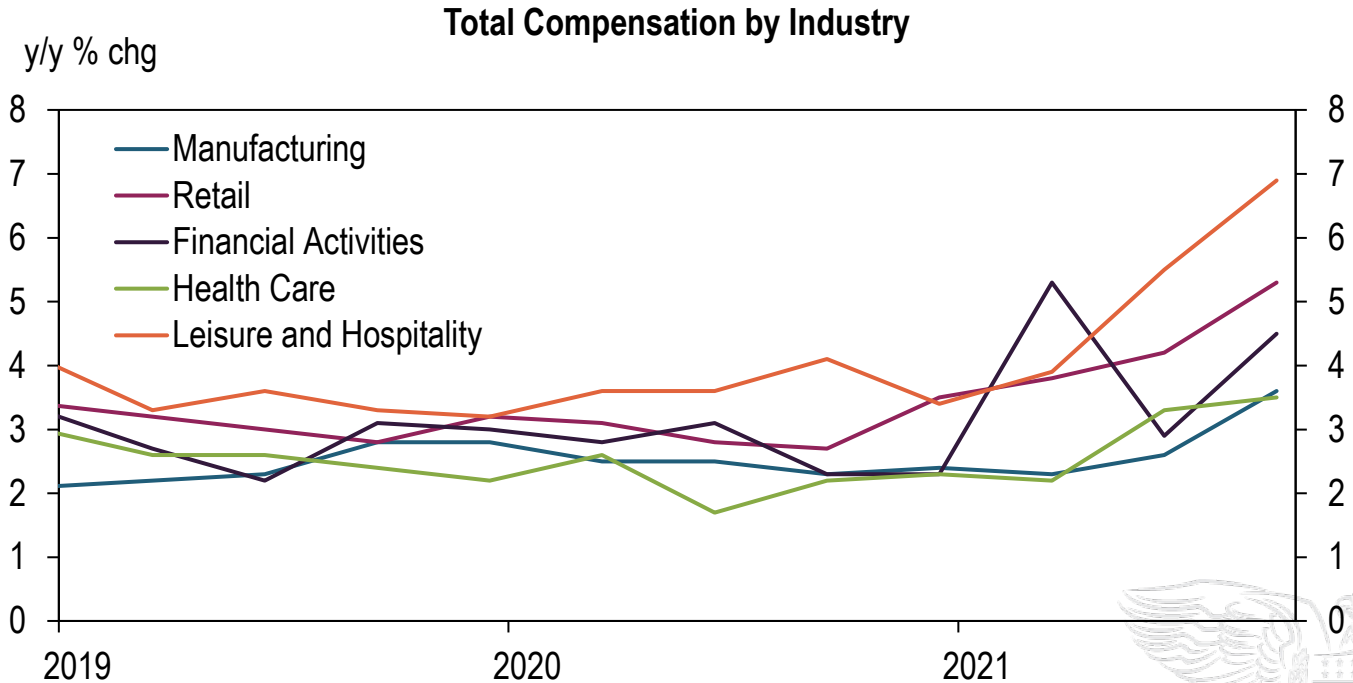


Nationally, wages have increased at a faster rate in 2021, while benefits cost increases have been stable

Wages and Benefits Economic Cost Index (ECI)

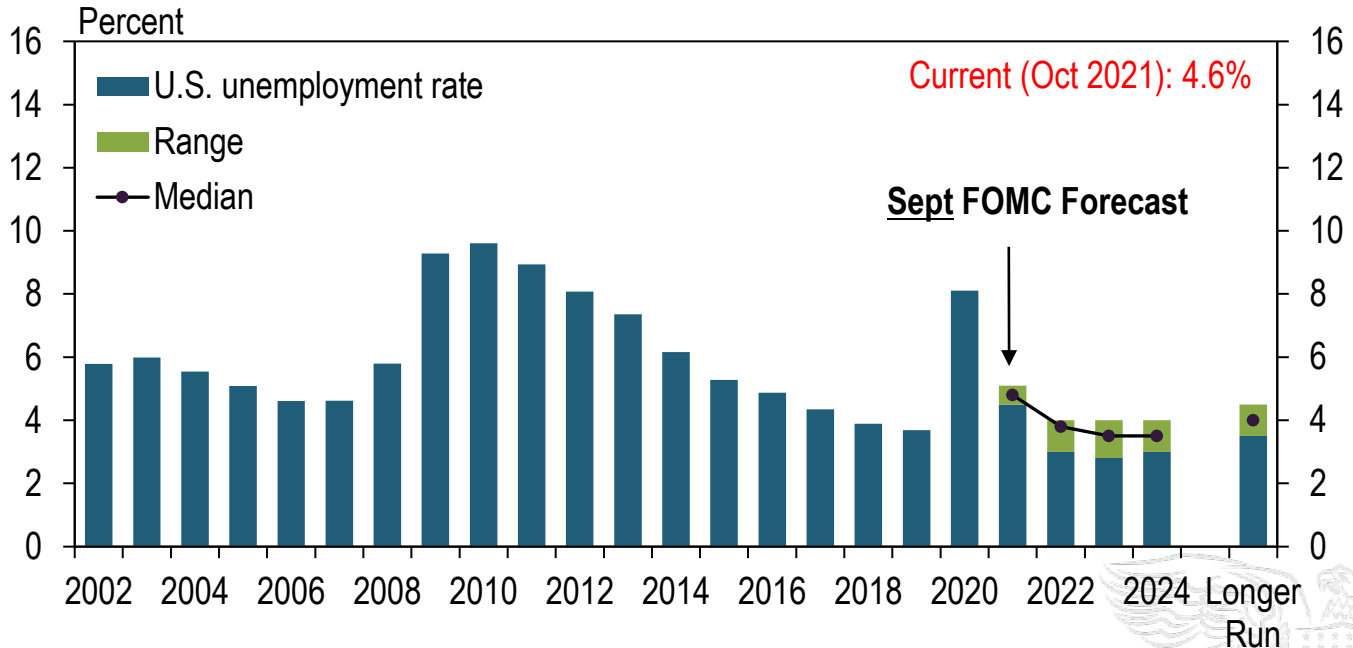


Manufacturing has seen some upward pressure in wages, but not as much as retail or hospitality



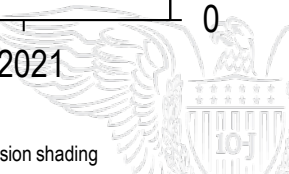
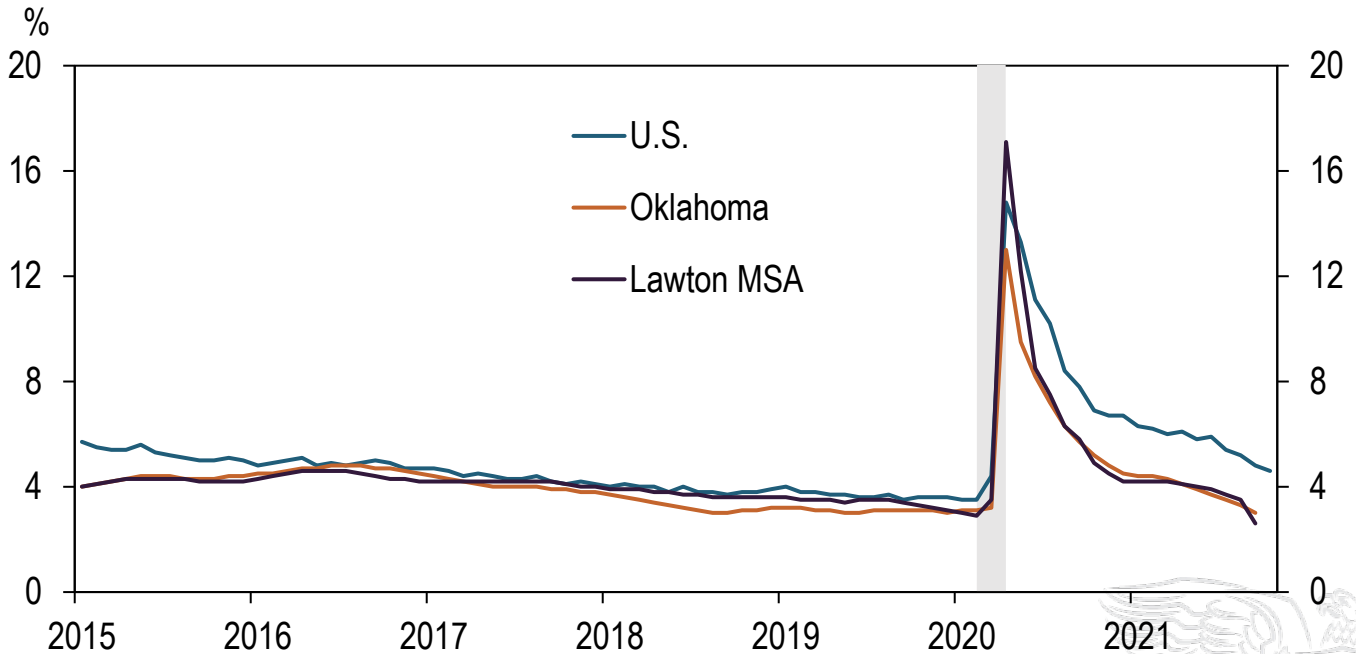
The median FOMC is for unemployment to be at or below longer run levels in coming years

U.S. Unemployment Rate



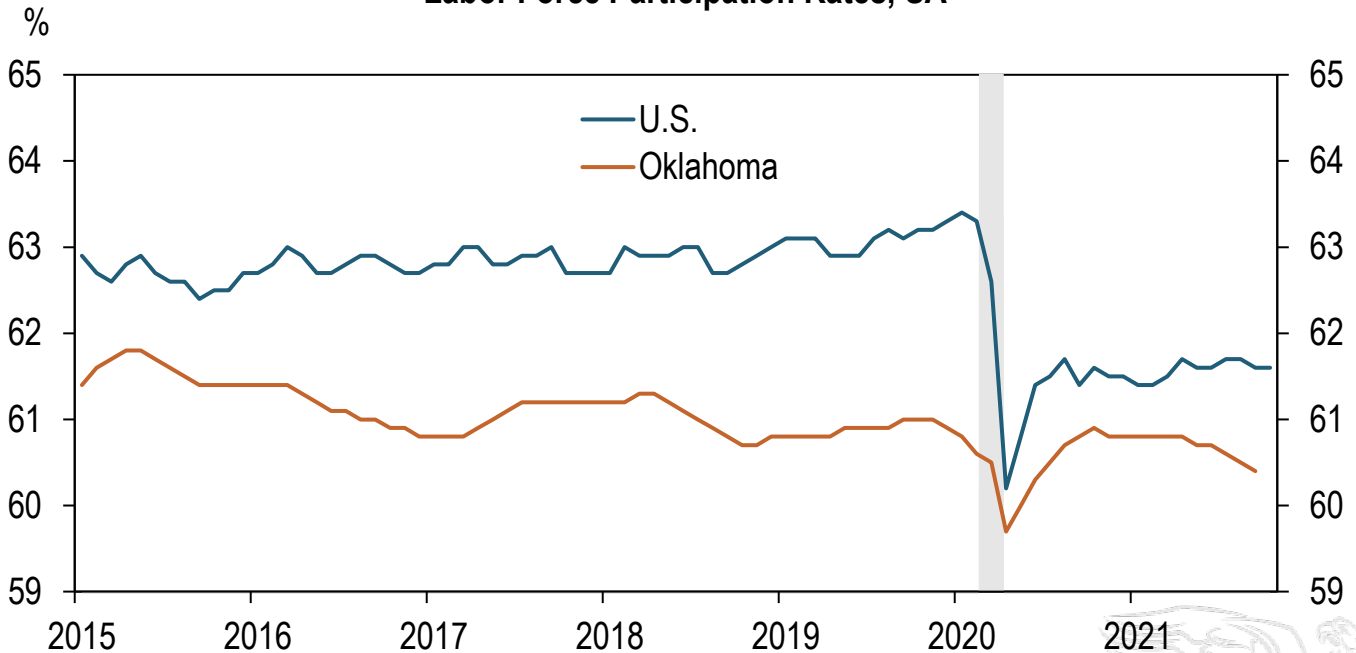
Unemployment in the Nation has steadily come down, and is below pre-COVID levels in Lawton

Unemployment Rate



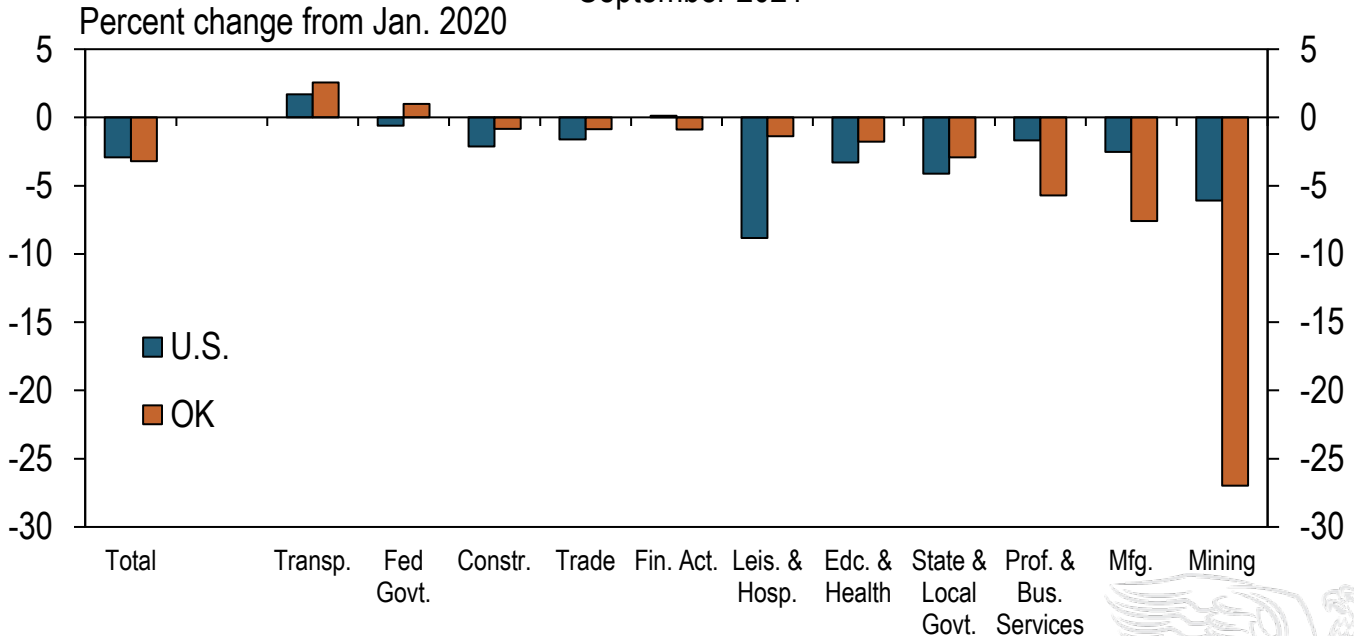
Labor force participation is also near pre-pandemic levels in Oklahoma, although it has eased recently

Labor Force Participation Rates, SA



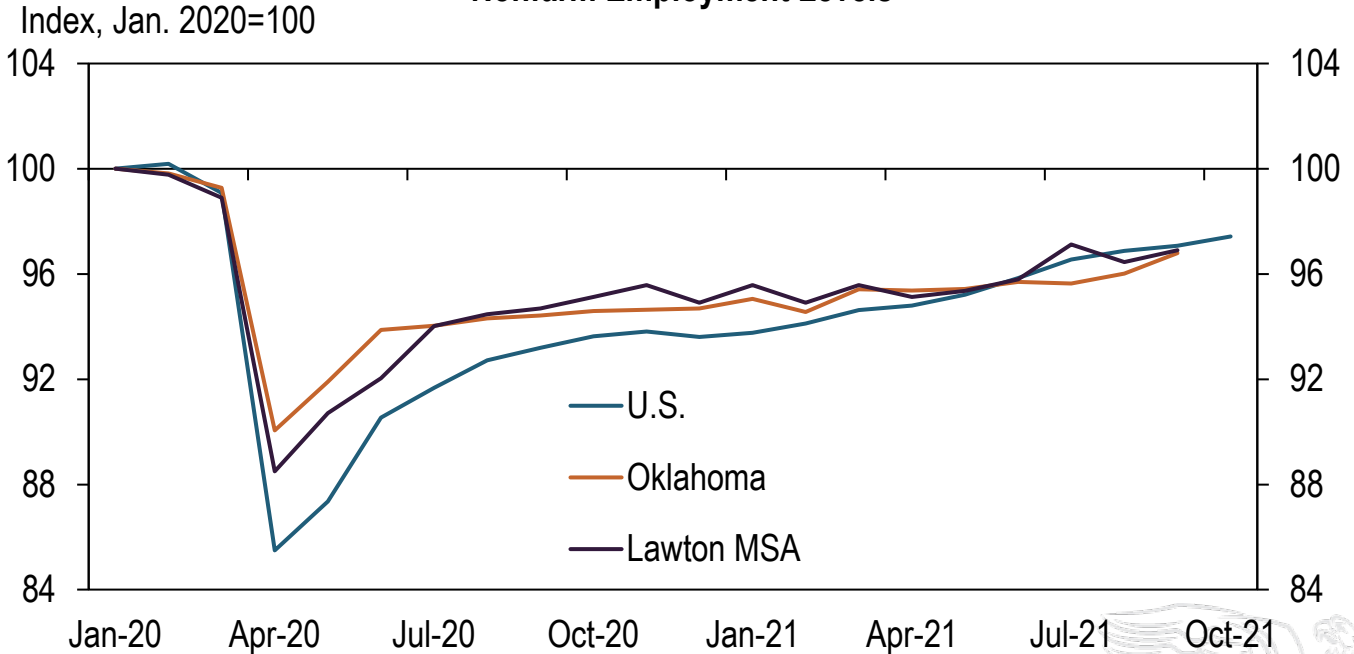
As in the U.S., overall employment in Oklahoma remains down in manufacturing, and especially energy

Job Growth by Industry
September 2021



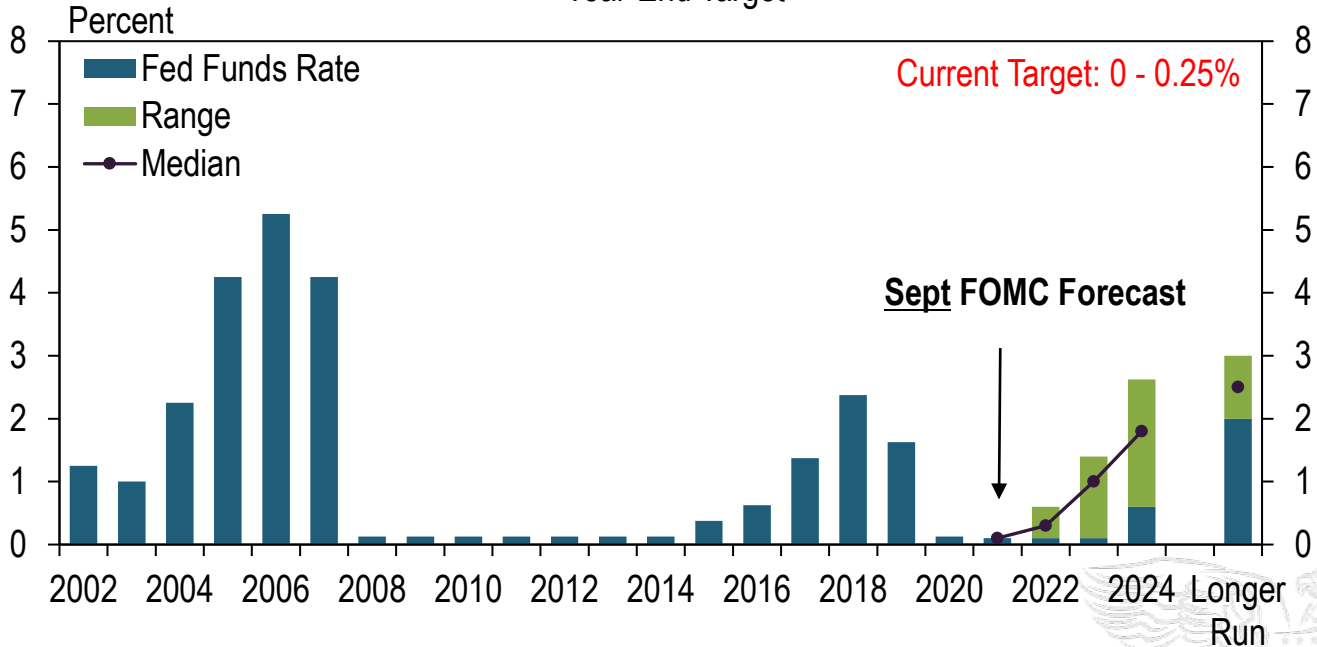
Employment has recovered considerably, but remains below pre-COVID levels locally and nationally

Nonfarm Employment Levels



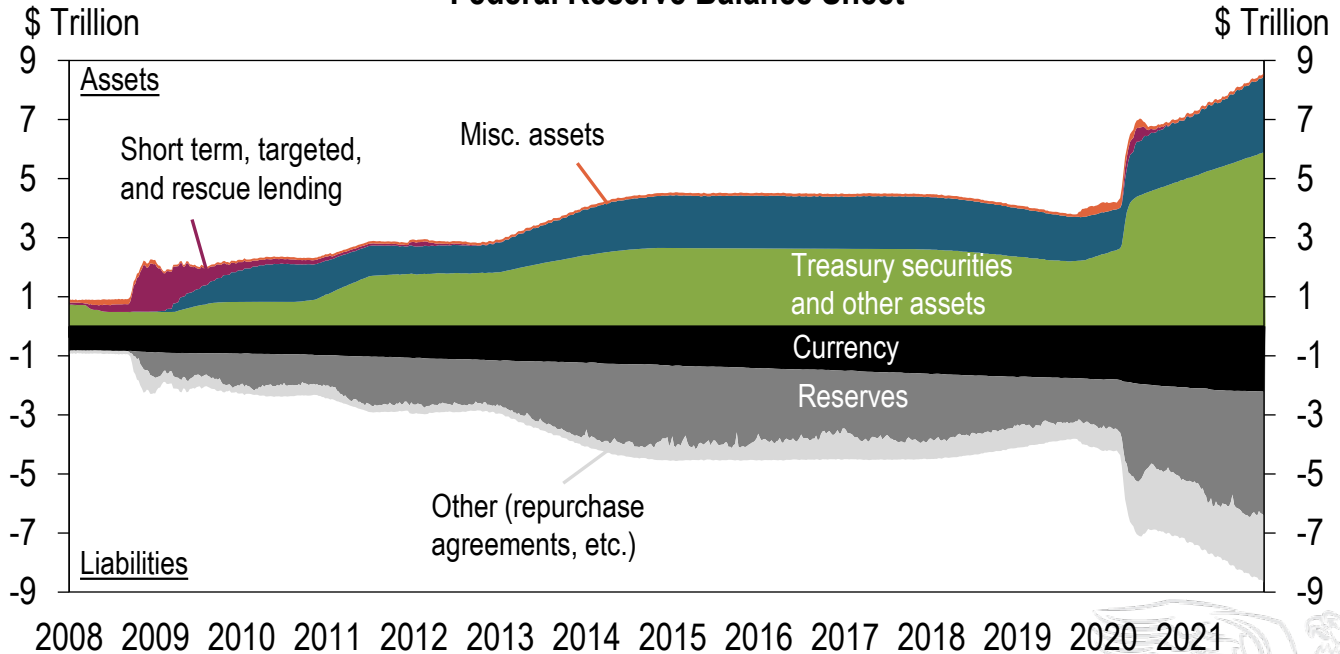
Nov FOMC: “The [FOMC] decided to... maintain this target until... maximum empl. and inflation... on track.”

Federal Funds Rate
Year-End Target



Nov FOMC: “The [FOMC] decided to begin reducing the monthly pace of its net asset purchases... this month”

Federal Reserve Balance Sheet



Summary

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