

U.S. and Oklahoma Economic Outlook

True Sky Federal Credit Union

March 28, 2023

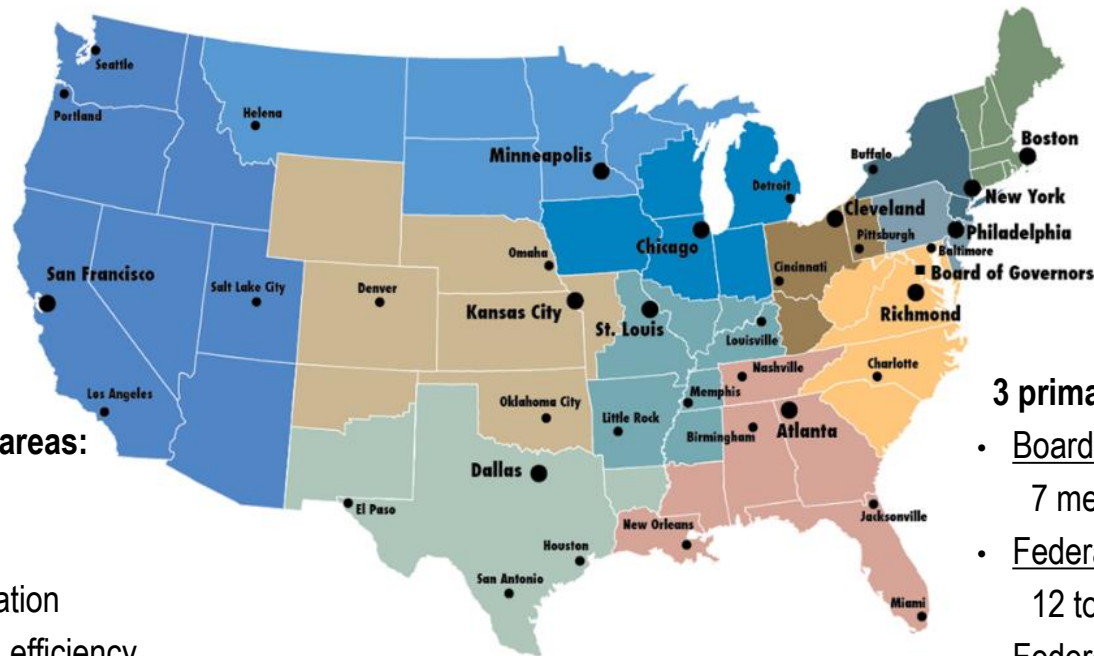


Chad Wilkerson
SVP & Oklahoma City Branch Executive

*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.



Structure & Functions of the Federal Reserve



5 primary responsibility areas:

- Monetary policy
- Financial system stability
- Bank supervision & regulation
- Payment system safety & efficiency
- Consumer protection & community development

3 primary entities:

- Board of Governors
7 members appointed by President
- Federal Reserve Banks
12 total; semi-independent
- Federal Open Market Committee
19 members; 12 voting



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

www.kansascityfed.org/oklahomacity

- **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/moderate income groups, workforce focus
- Economic education and public outreach programming

- **2023 OKC Branch Board of Directors**

- **Katrina Washington (chair)**, Exec. Dir., Neighborhood Housing Services, OKC
- **Mark Burrage**, CEO, FirstBank, Atoka
- **Walt Duncan**, President, Duncan Oil Properties, OKC
- **Rhonda Hooper**, President & CEO, Jordan Advertising, OKC
- **Terry Salmon**, President, Computer System Designers, OKC
- **Brady Sidwell**, Principal, Sidwell Strategies, Enid
- **Dana Weber**, Chair & CEO, Webco Industries, Sand Springs



Overview

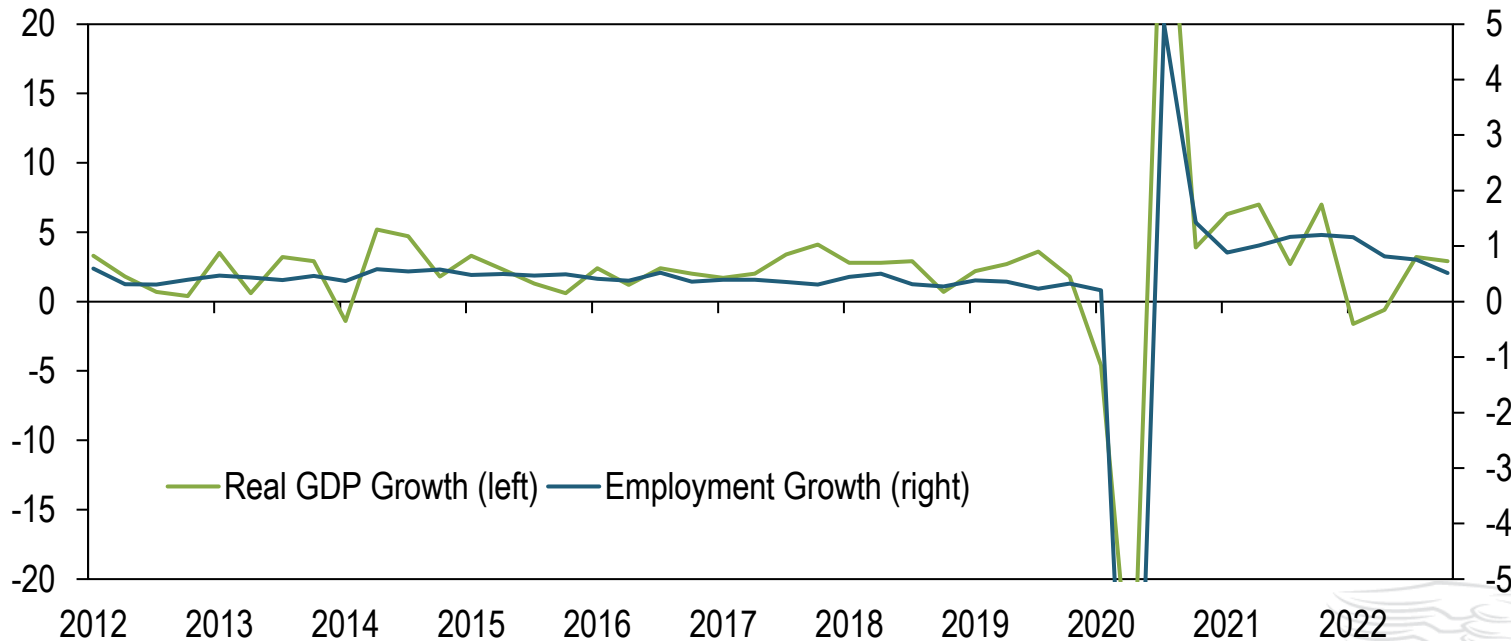
- U.S. economic growth was solid in late 2022 and early 2023
- Inflation remains too high, despite coming down from 2022 peaks as the Fed has raised interest rates
- Higher interest rates have created challenges for banks
- Oklahoma's economy continues to recover, but jobs remain below pre-pandemic levels in some sectors, especially energy
- Oklahoma's population growth has outpaced the nation in recent years, driven by strong domestic in-migration



U.S. GDP and employment growth were solid in the second half of 2022, at or above pre-pandemic levels

Quarterly U.S. Economic Growth

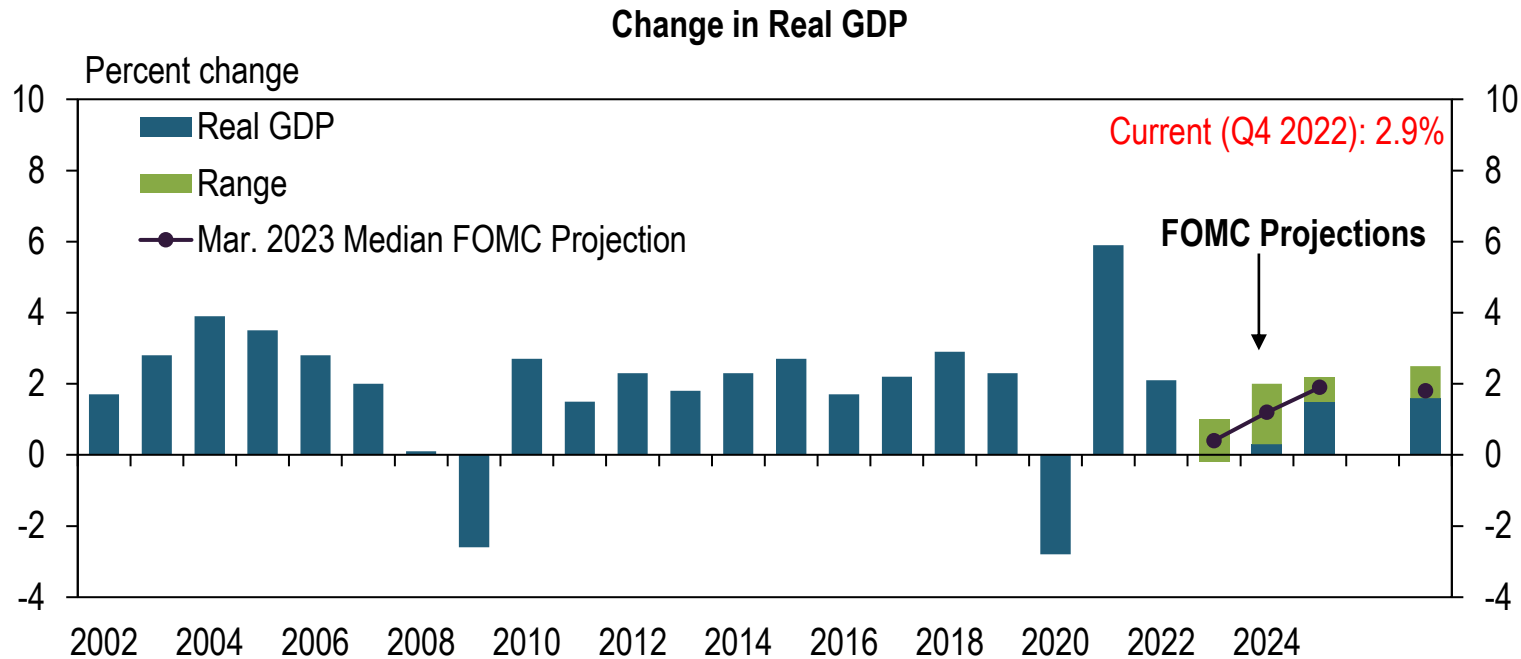
quarter/quarter annualized % chg.



Sources: BEA, BLS/Haver Analytics

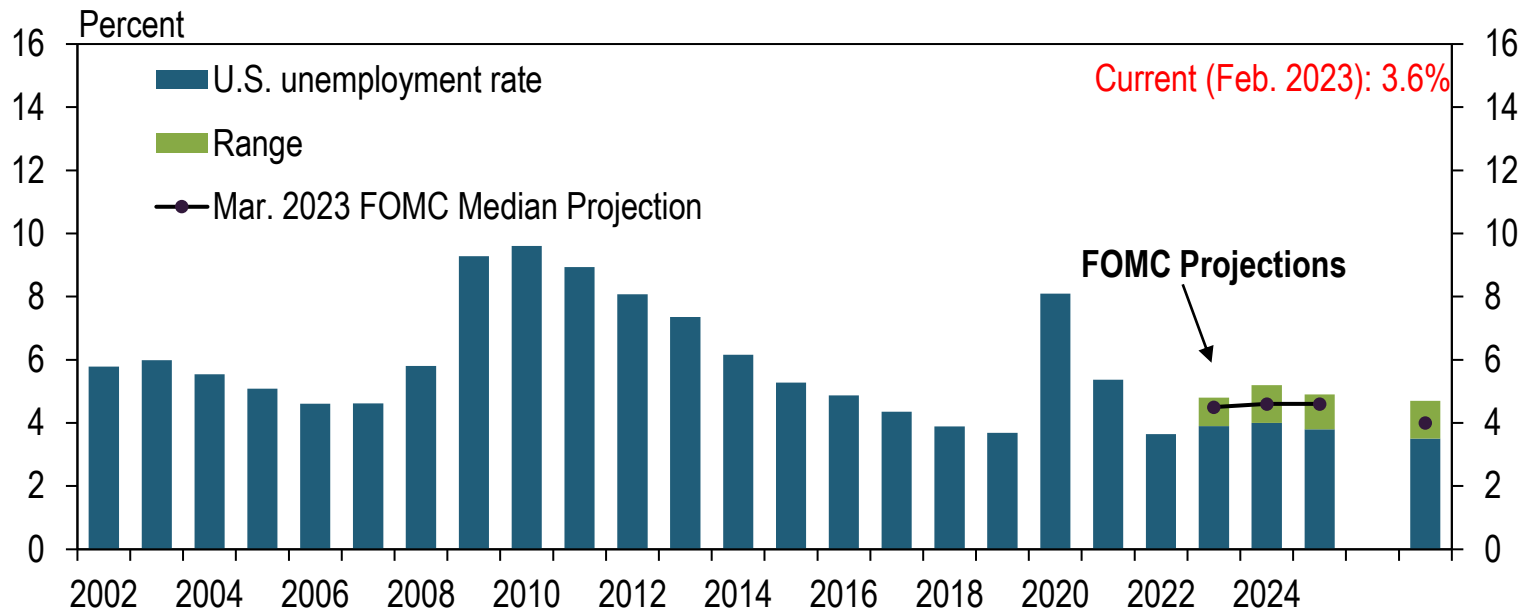


GDP growth is expected to be somewhat sluggish in 2023 before rebounding to trend in 2024 and 2025

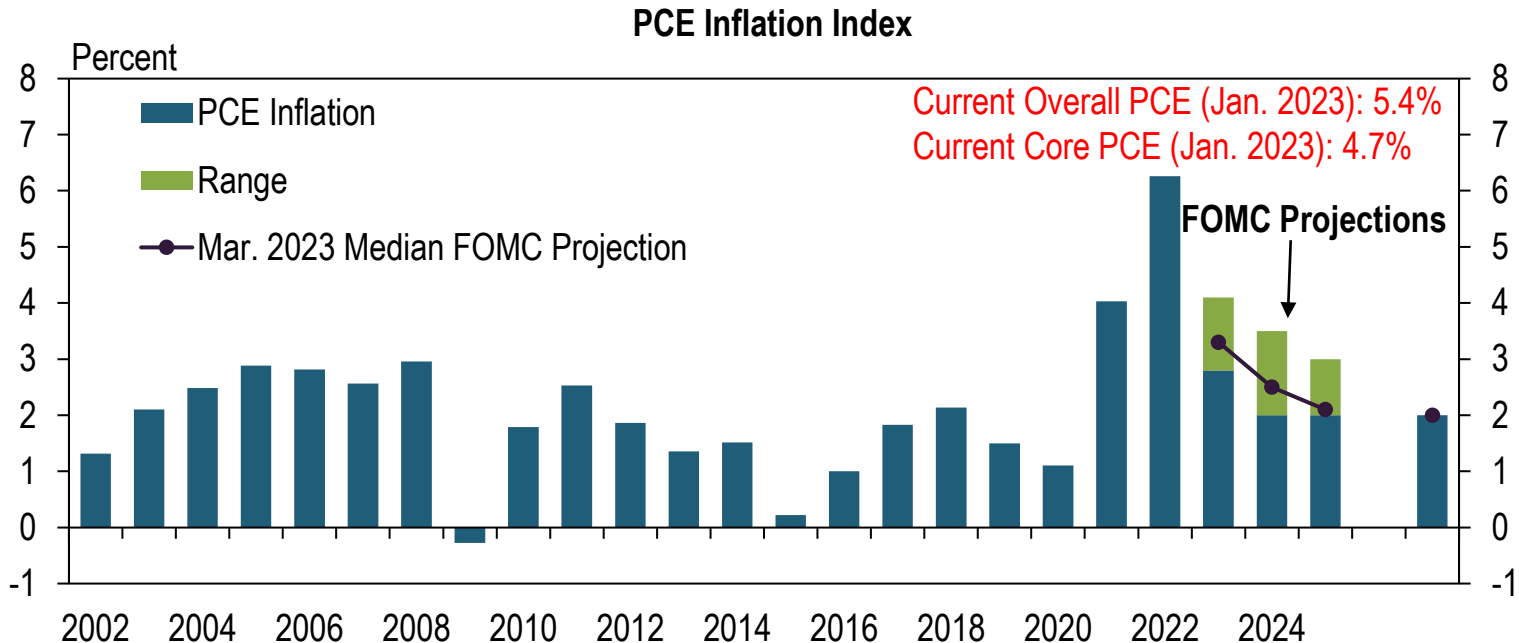


U.S. unemployment remains historically low and is projected to rise only slightly in coming years

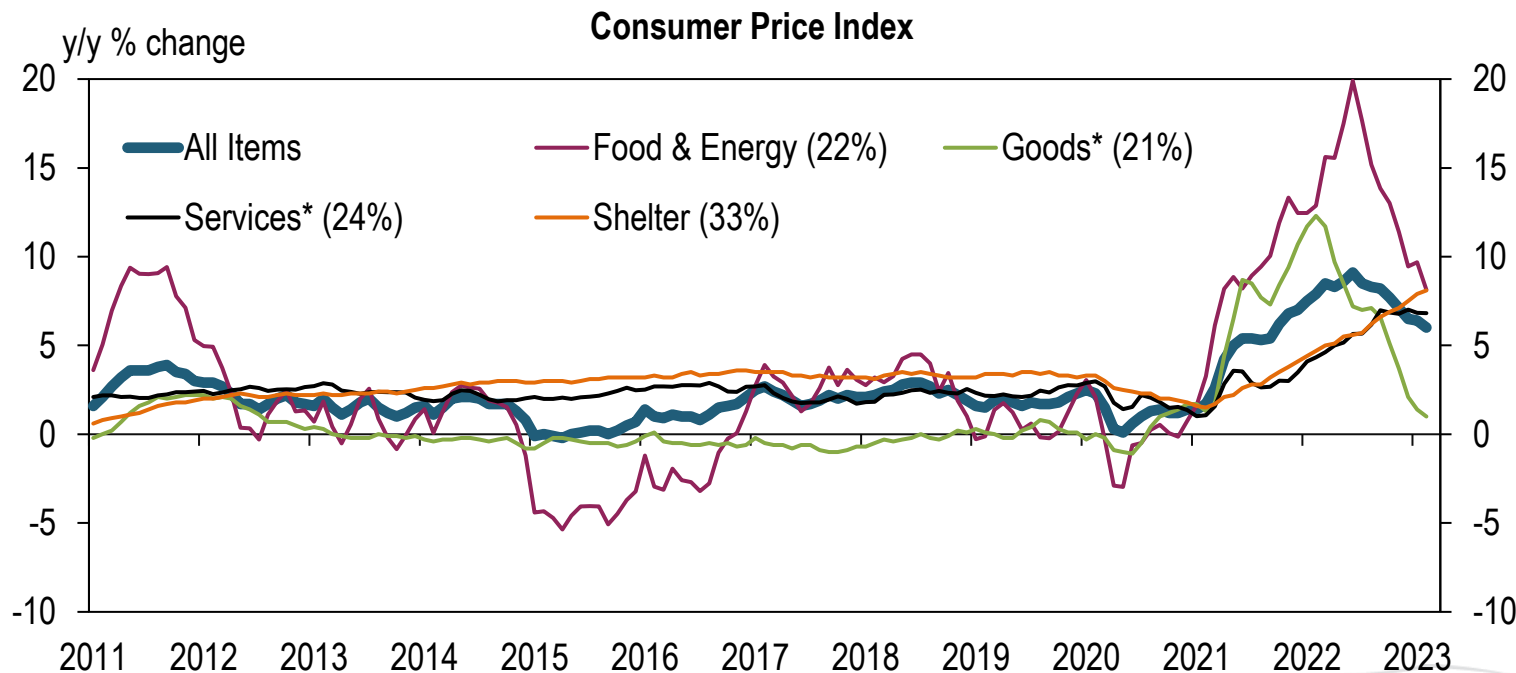
U.S. Unemployment Rate



Meanwhile, although inflation has come down from its 2022 peaks, it remains elevated on year-over-year basis



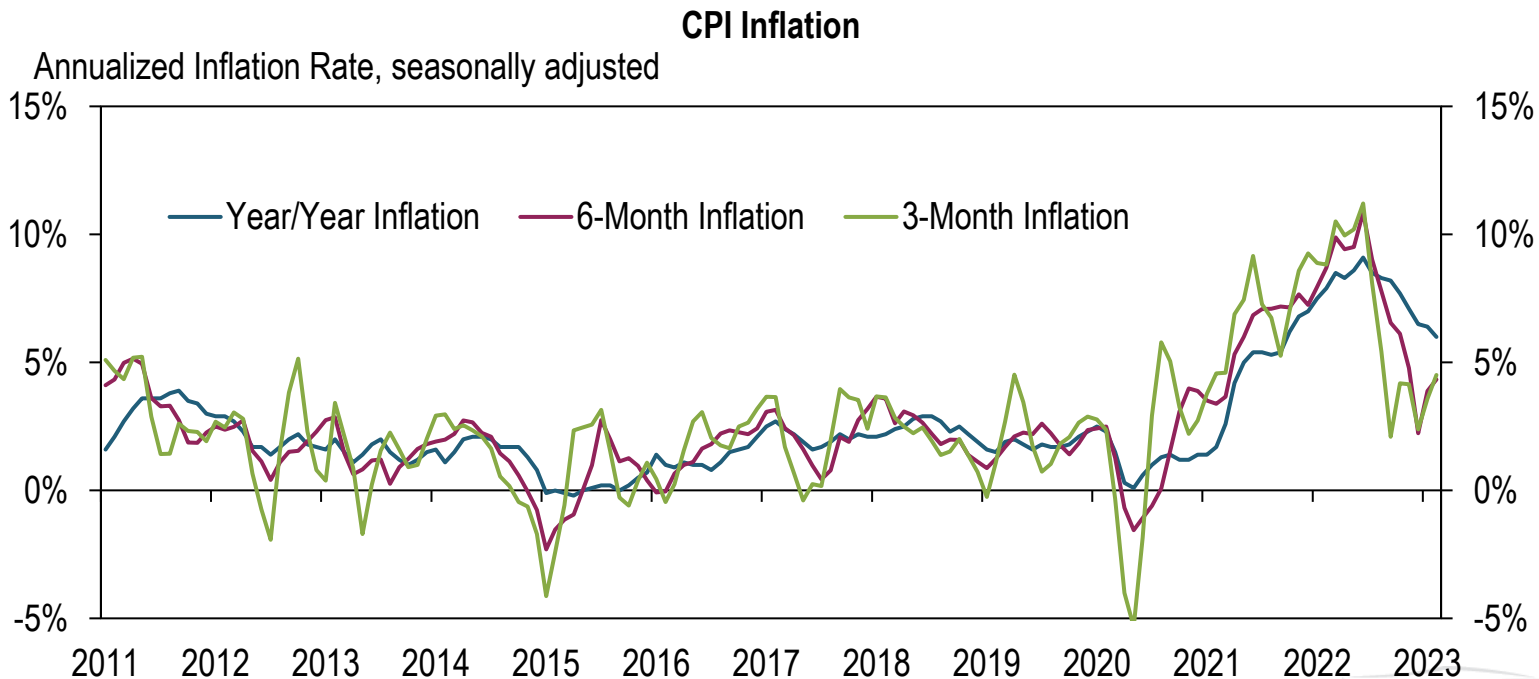
CPI inflation eased again in February to 6.0% as goods prices fell further, but services and shelter inflation remain high



*Goods excluding Food; Services excluding Energy.
 Note: Relative Importance as Share of CPI shown in parenthesis.

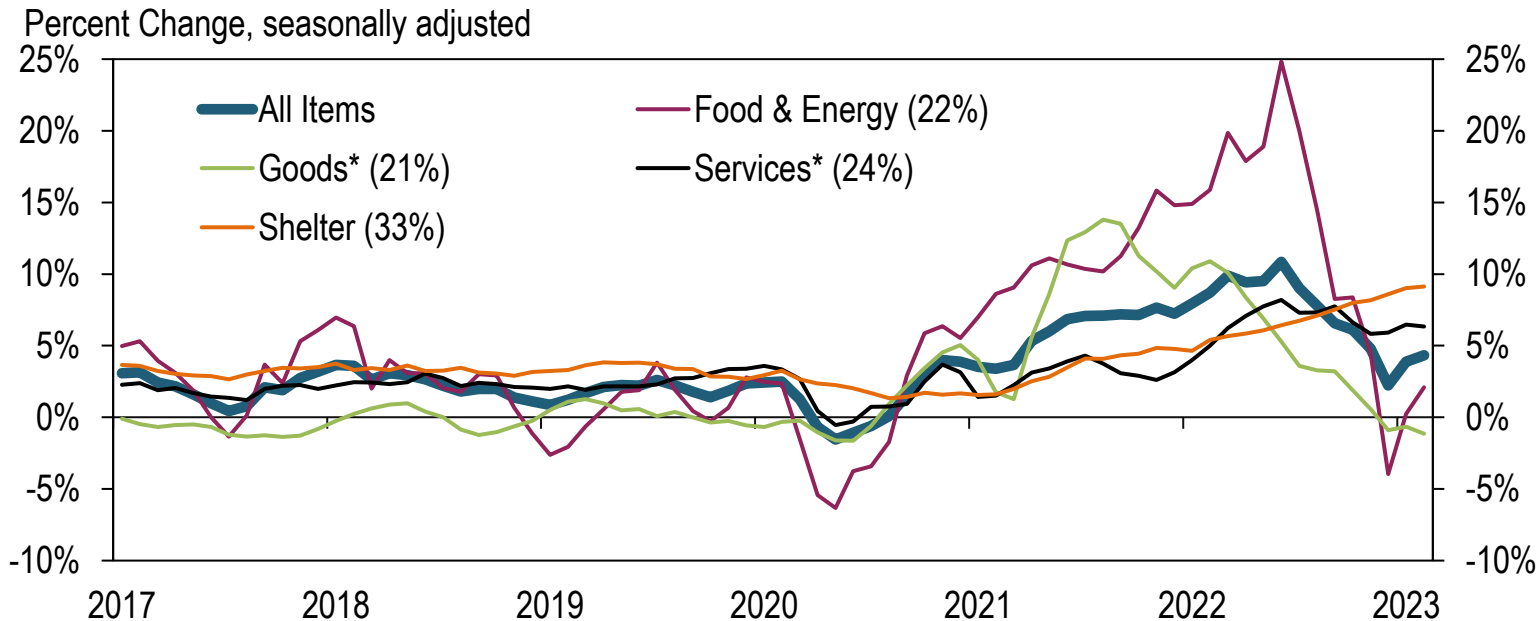


3- and 6-month inflation rates have come down by a larger amount, but also remain too high



Over the past 6 months, shelter and services inflation have been the main drivers, and are stubbornly high

CPI 6-Month Annualized Inflation



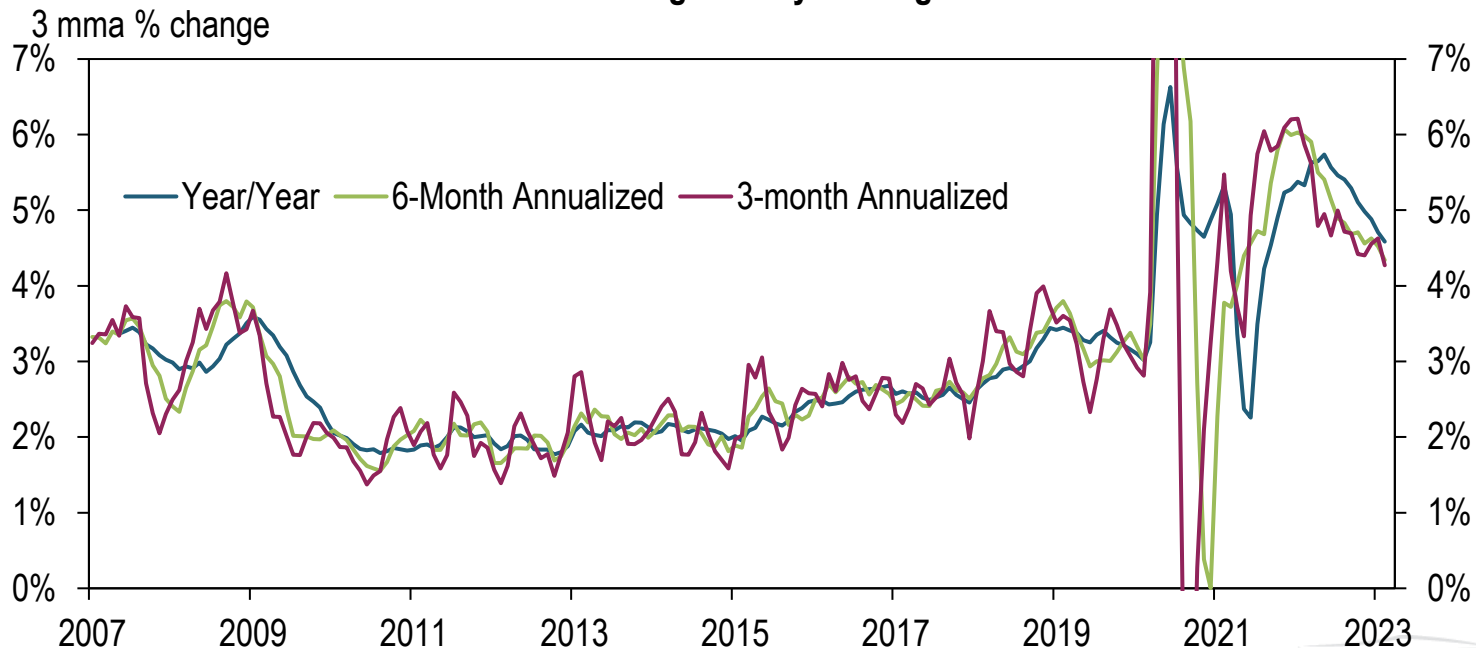
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Sources: BLS/Haver Analytics



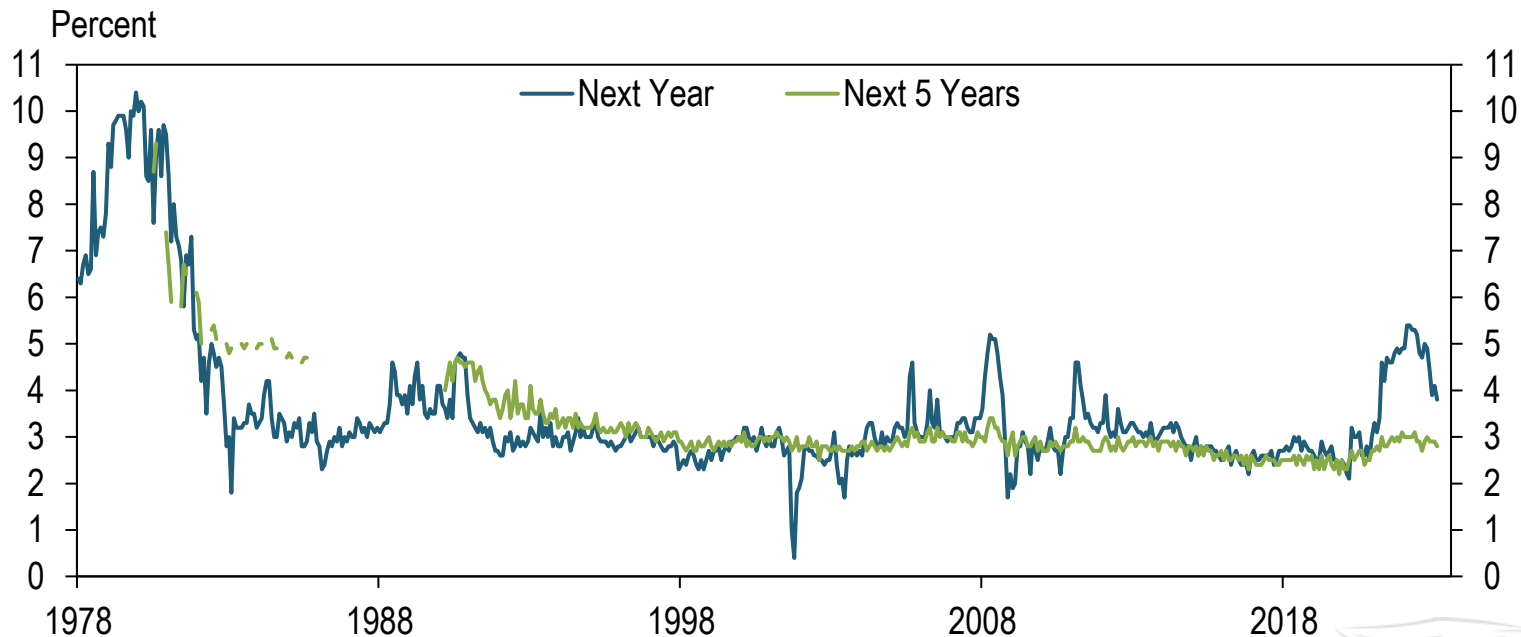
Wage growth is a key factor keeping services inflation high, but it has come down in recent months

U.S. Nominal Average Hourly Earnings Growth



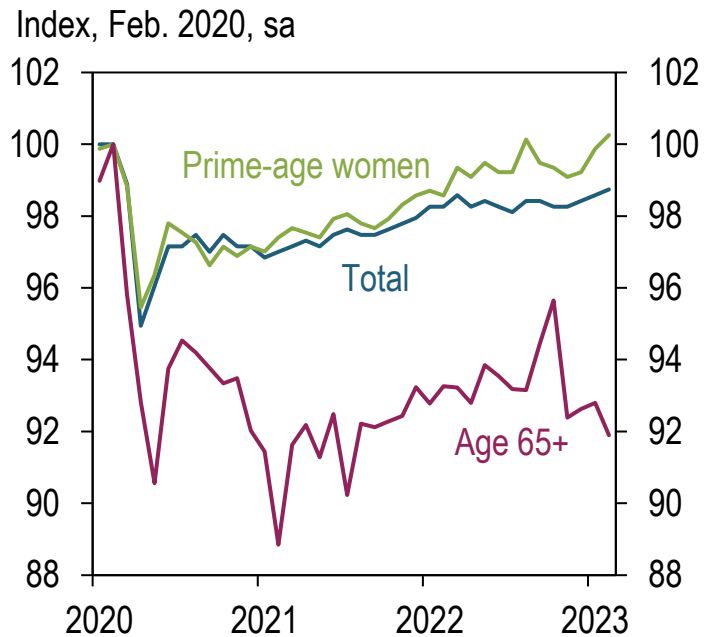
Longer-term inflation expectations remain anchored around their 20-year average

Expected Inflation Rate

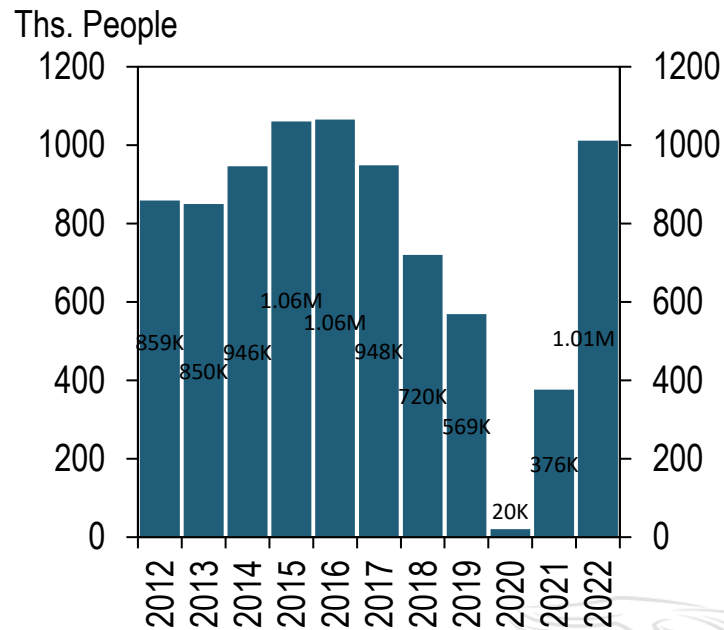


Labor force participation still lags due to older workers, while immigration rebounded after several low years

U.S. Labor Force Participation Rate

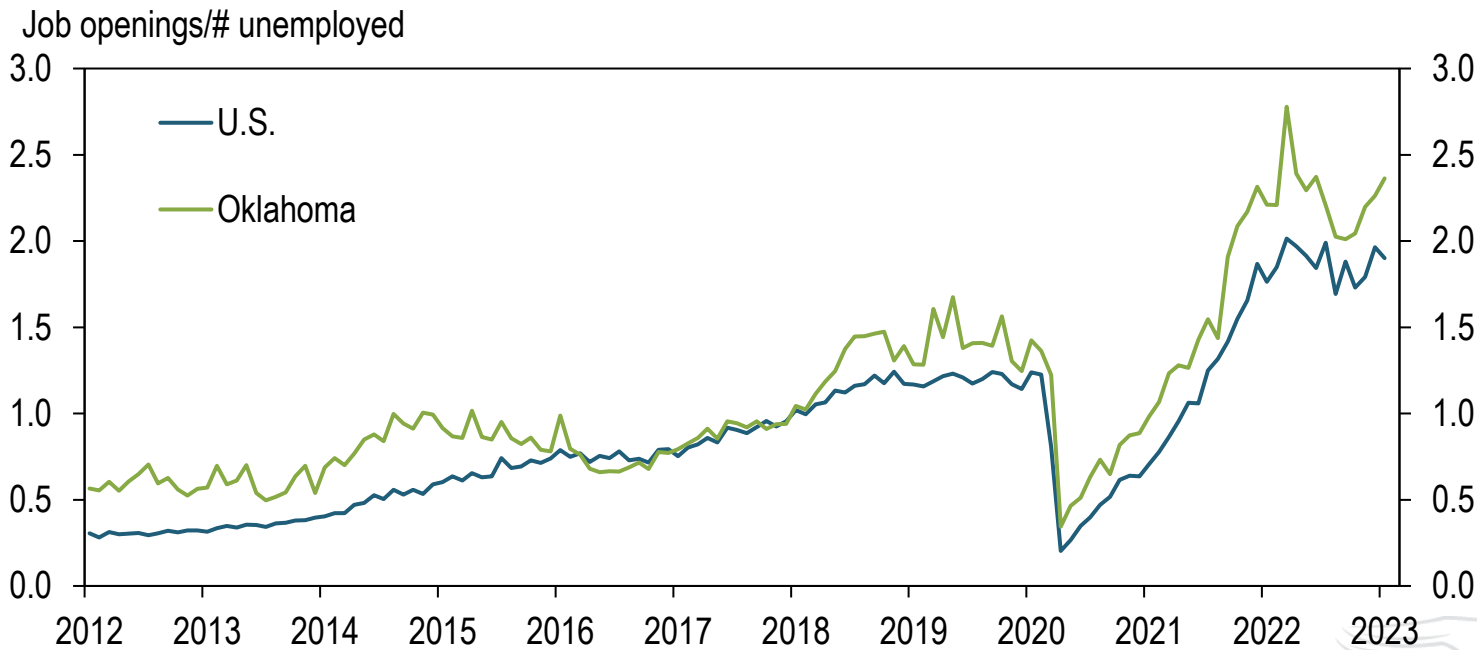


Net International Migration to the U.S.

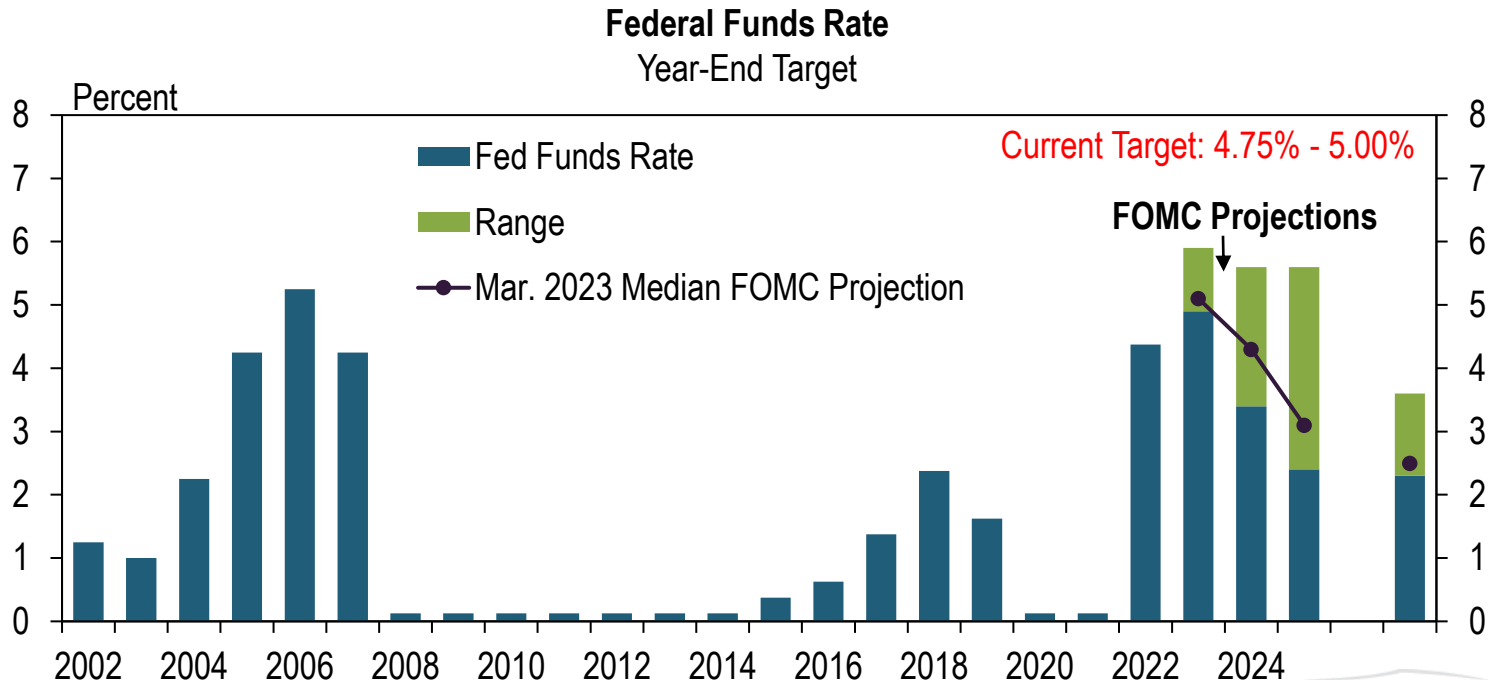


Job openings still greatly exceed unemployed workers, keeping wage pressures from easing much

Job Openings/Unemployment Ratios

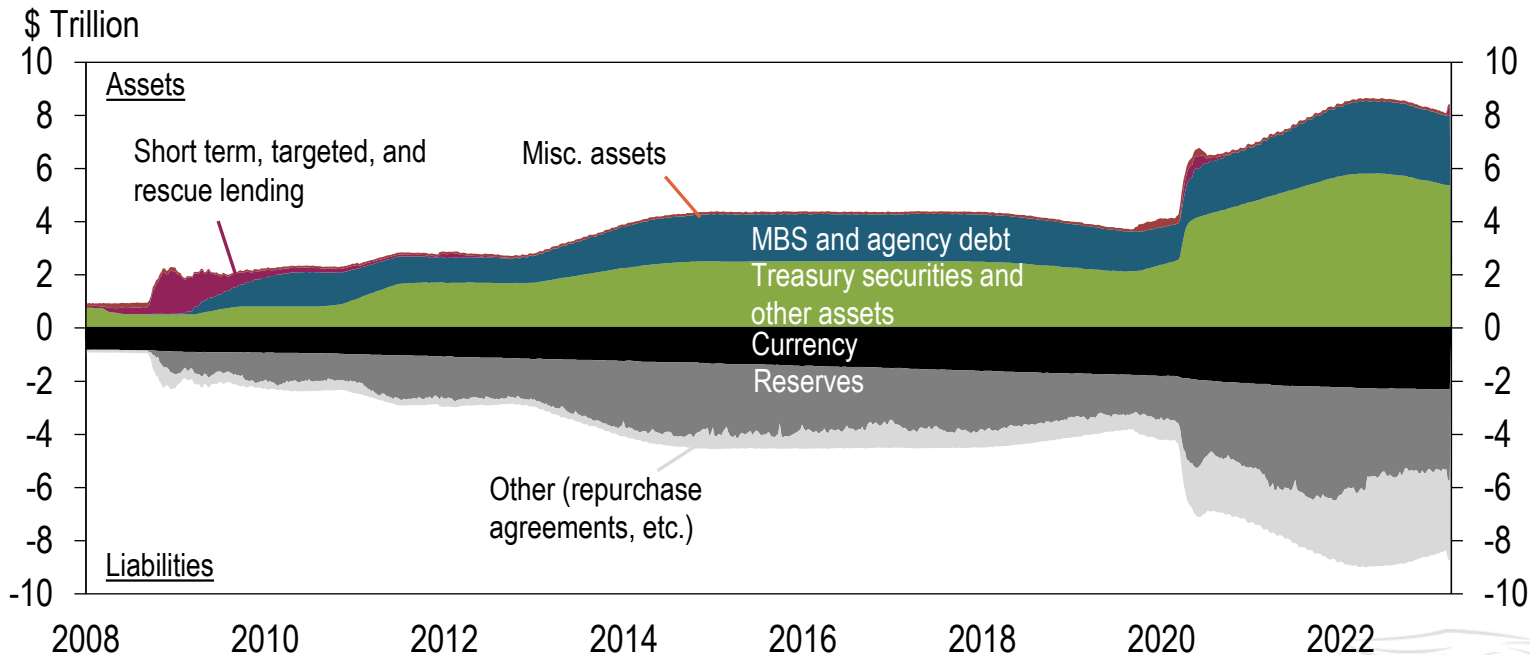


The Fed raised the federal funds rate by 25 basis points again this month, and the latest FOMC projections are shown



The Fed has also begun to reduce its balance sheet of securities, further tightening policy

Federal Reserve Balance Sheet



What Sparked the Banking Turmoil in 2023?

- In early March, banks servicing the tech and crypto industries experienced rapid deposit outflows
 - Some banks had trouble meeting depositor demands
 - Low securities valuations made sales untenable
 - Realized losses would erode the capital base
- As tech focused banks collapsed, depositors reviewed their own banks' financials
 - Many banks held underwater securities funded with uninsured deposits
 - Fear increased that the banking system would face a widespread run
- A major risk: small bank deposits moving to “too big to fail” large banks
 - Mid-sized banks face a “crisis of confidence”
- Banks with uninsured or rate sensitive deposits are still at risk



The Pandemic Uniquely Challenged Banks

- The fiscal response sent trillions of dollars to businesses and households
 - Expanded unemployment insurance
 - Stimulus Checks
 - Paycheck Protection Program
- Federal Reserve embarked on QE to address market functioning and recovery
- Bank deposits soared as a result
 - Many were uninsured or otherwise high-risk, “hot money” deposits
- Bank loan demand sank due to economic concerns initially and later excess savings
- Banks were left looking for investments
 - Most purchased low-risk, longer maturity securities (Treasuries and Agency MBS)
- Banks ended up exposed to interest rate risk on their assets and liabilities



Sharp Monetary Policy Shifts Affected Banks

- A robust economic recovery combined with supply constraints
 - Pushed general prices levels up quickly as the pandemic faded
- The Fed responded by rapidly raising interest rates throughout 2022
 - Four straight 75 bps increases
 - 450 bps of total Fed Funds target increases
- Banks' securities portfolios declined in value as rates rose
 - By year-end 2022, unrealized losses on securities reached more than \$600 billion
- Depositors sought higher yielding alternatives
 - Deposits slowly trickled out of the banking sector throughout 2022
 - Banks increased borrowed funds to support their asset base
 - And avoid realized securities losses

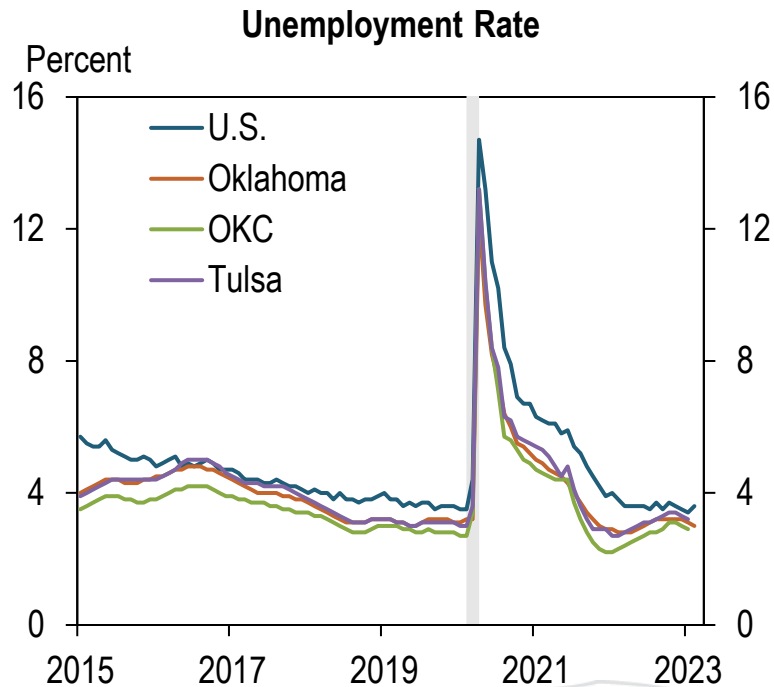
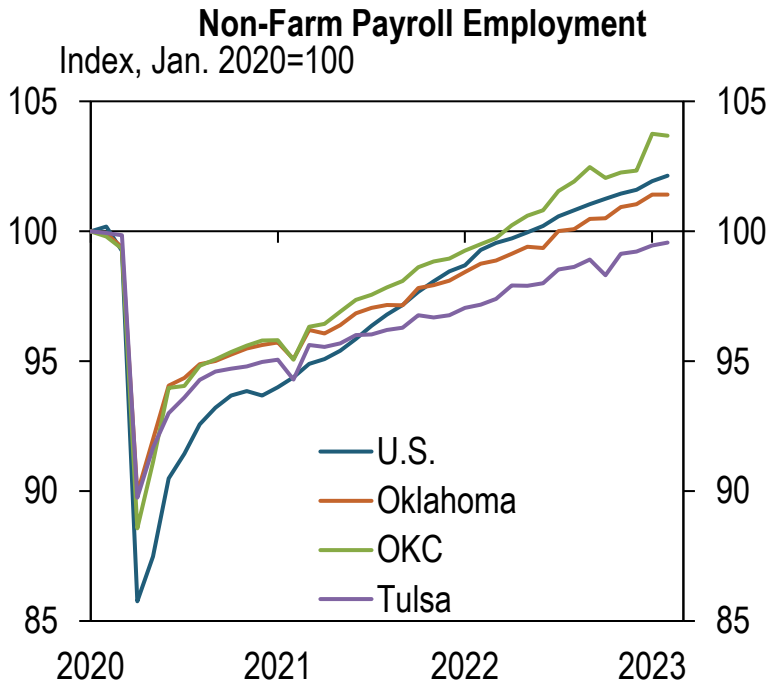


How Have Regulators Responded?

- Failed banks were placed into FDIC receivership
 - Some were declared systemic to protect uninsured depositors
 - Intention: boost system confidence by signaling other uninsured depositors were protected
- The Federal Reserve offers loans collateralized by credit-risk-free securities
 - The BTFP effectively removes duration risk from banks for one year
 - Loans are undercollateralized at par value; Fed losses are covered by a Treasury backstop
 - The discount window is open and active as well
- Treasury has brokered regional bank support via deposits from large banks
 - Continues to explore broader deposit insurance coverage
- International regulators have brokered sales of troubled, systemic institutions

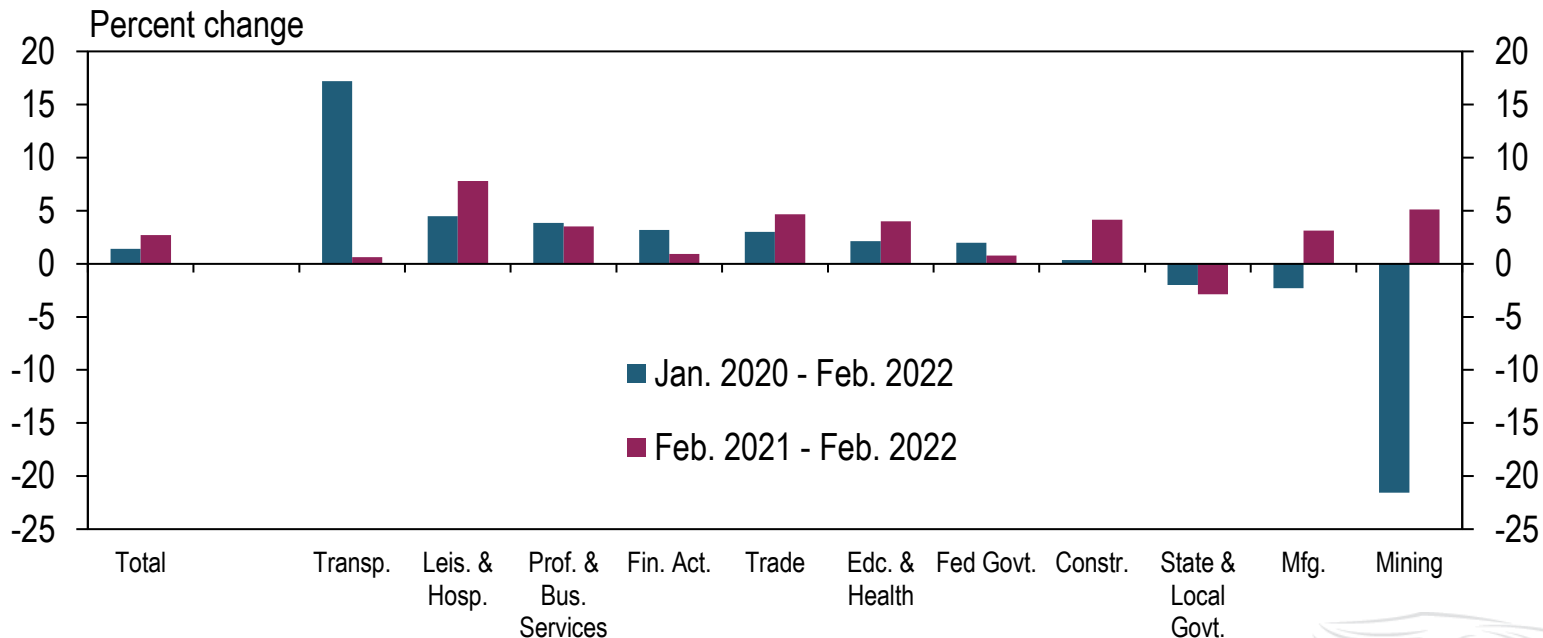


Jobs in Oklahoma are back to pre-COVID levels and rose further in January, while unemployment stays low



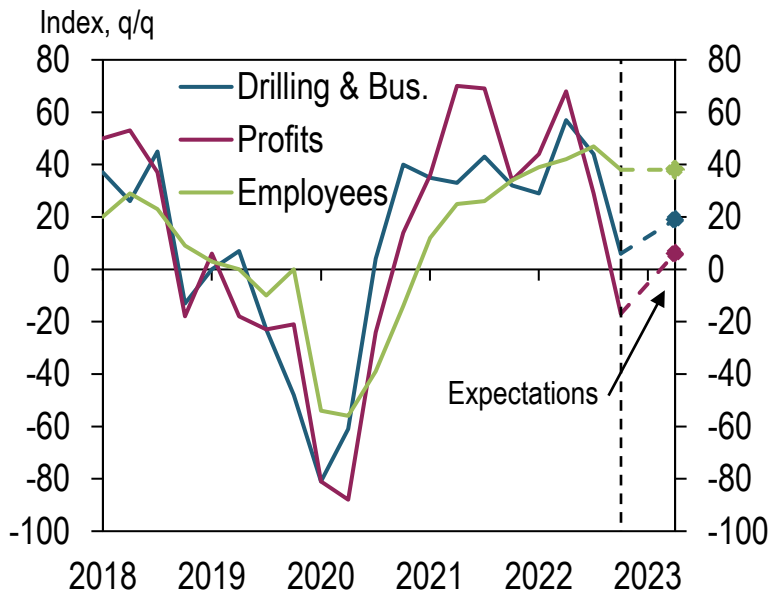
Energy and manufacturing jobs in OK are still below pre-pandemic but up during the past year

Oklahoma Job Growth by Industry

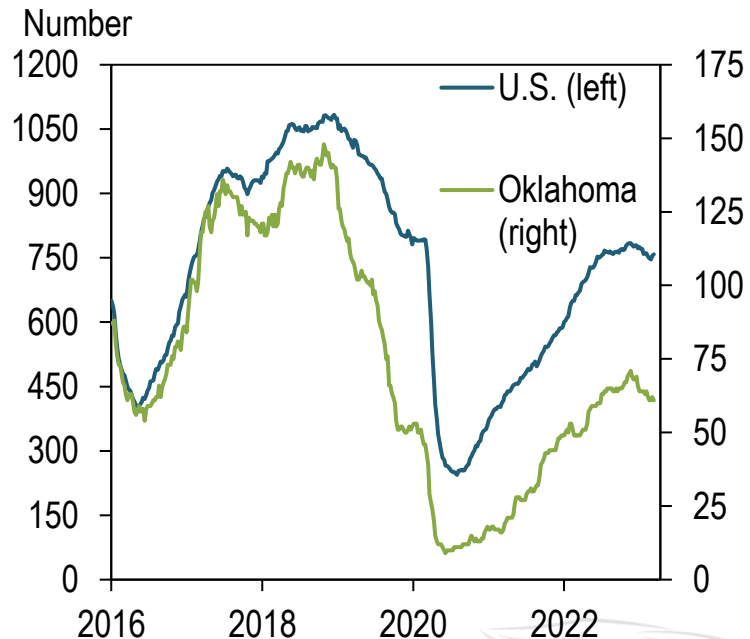


Energy activity begun to edge down in Oklahoma and the nation in Q4 with lower profitability

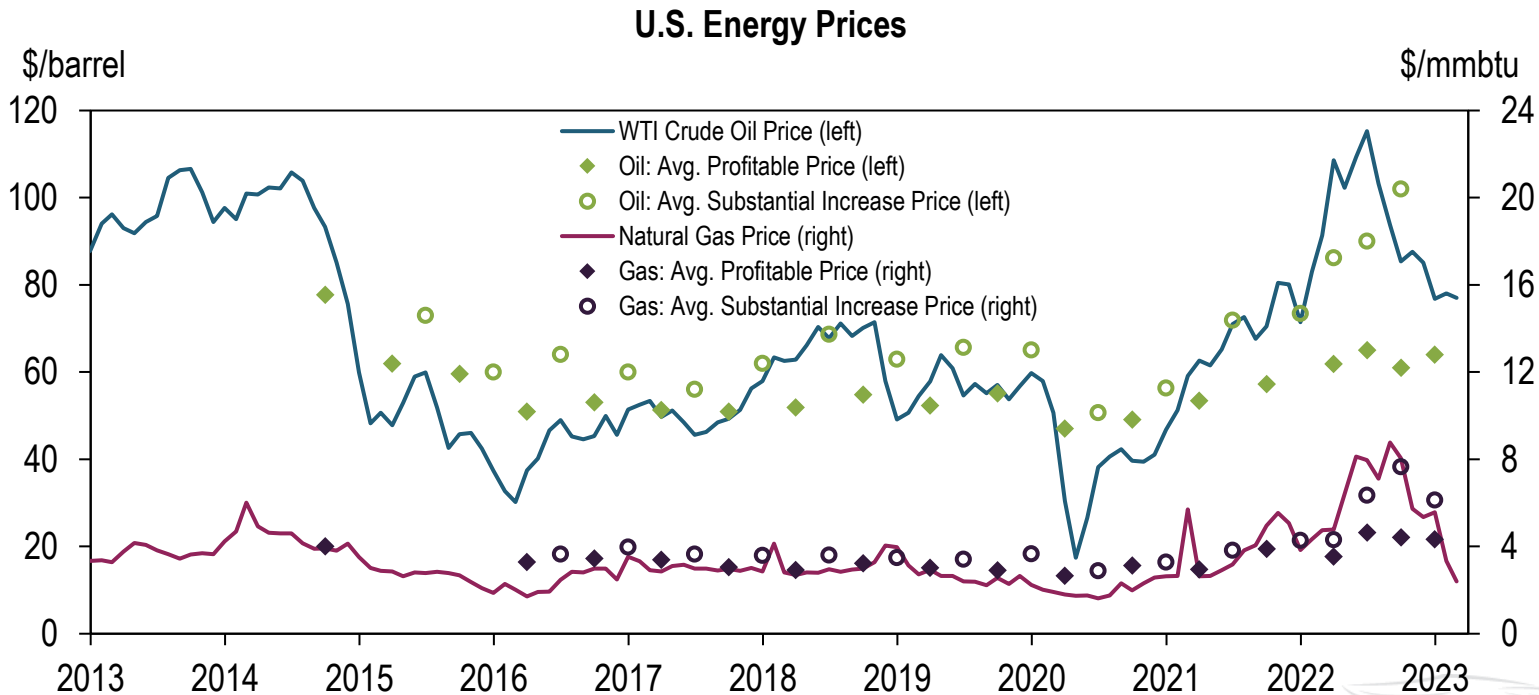
Energy Survey Indexes



Rig Counts

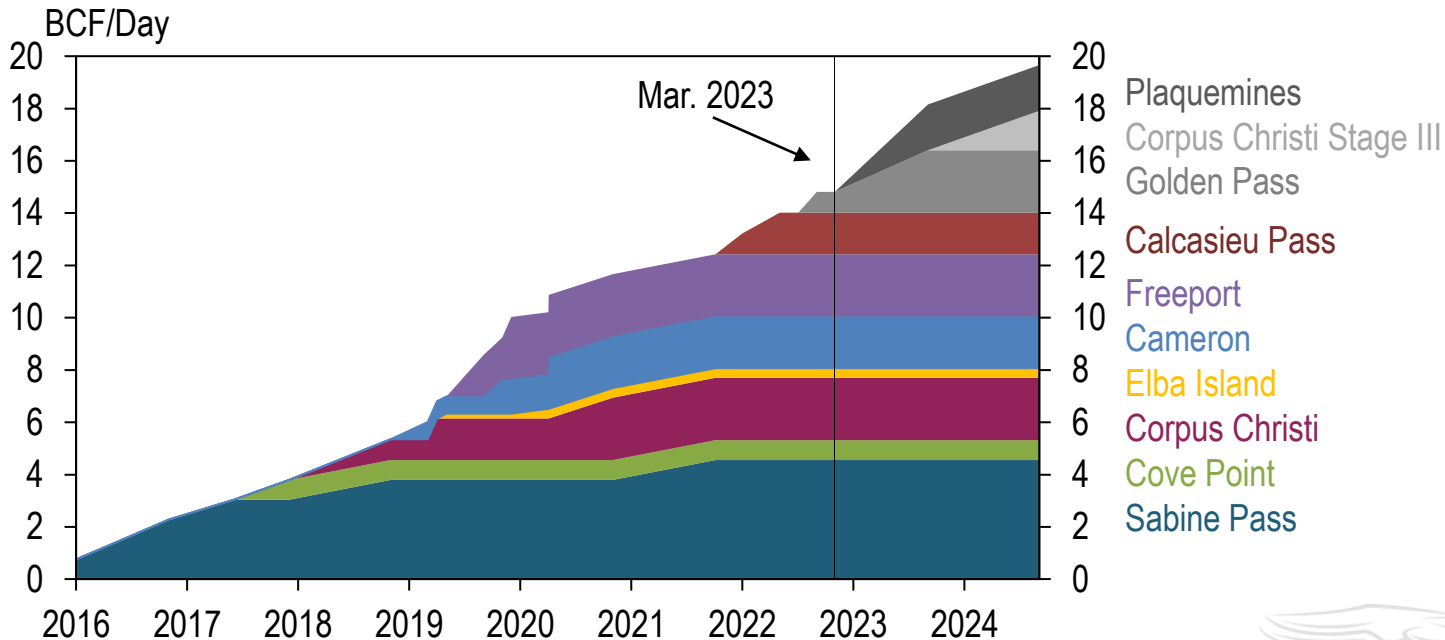


Oil & gas profitability fell in Q4 2022 for the first time in two years



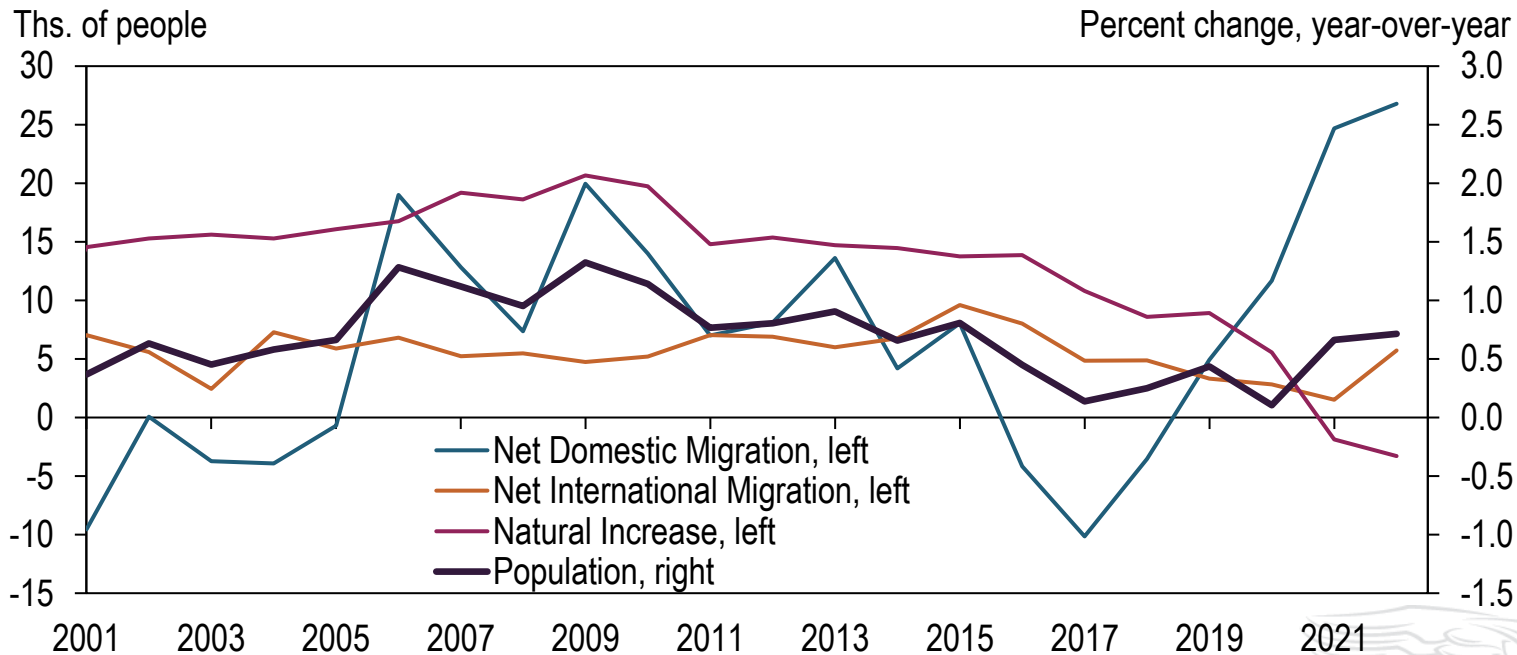
U.S. liquified natural gas export capacity is set to increase with international demand in coming years

U.S. LNG Export Capacity by Project



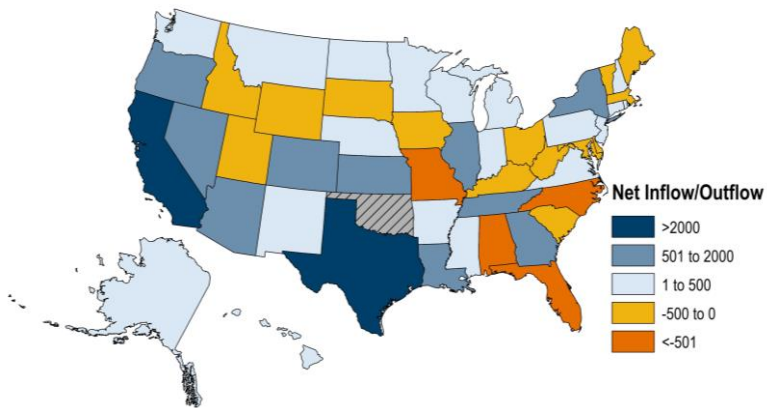
Oklahoma's population grew in 2021 & 2022, despite a historic increase in deaths, due to massive in-migration

Oklahoma Population Changes by Component, 2001-2022

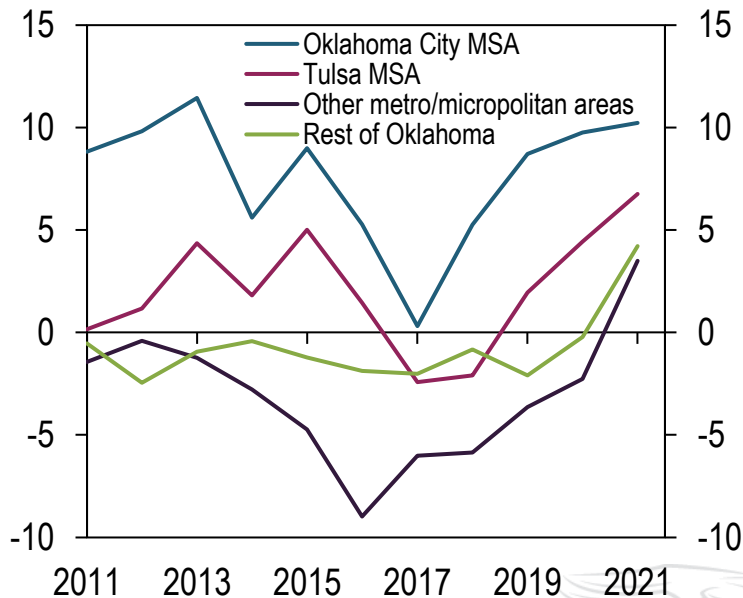


Many people moved to OK from CA and TX, mostly to the metros but to many other parts of the state, too

**Net Domestic Migration to Oklahoma
2020 and 2021**



Oklahoma Net Domestic Migration
Ths. of people



Summary

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Questions?

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