

# U.S. and Oklahoma Economic Conditions

*May 12, 2020 – Central Oklahoma Manufacturers Association*

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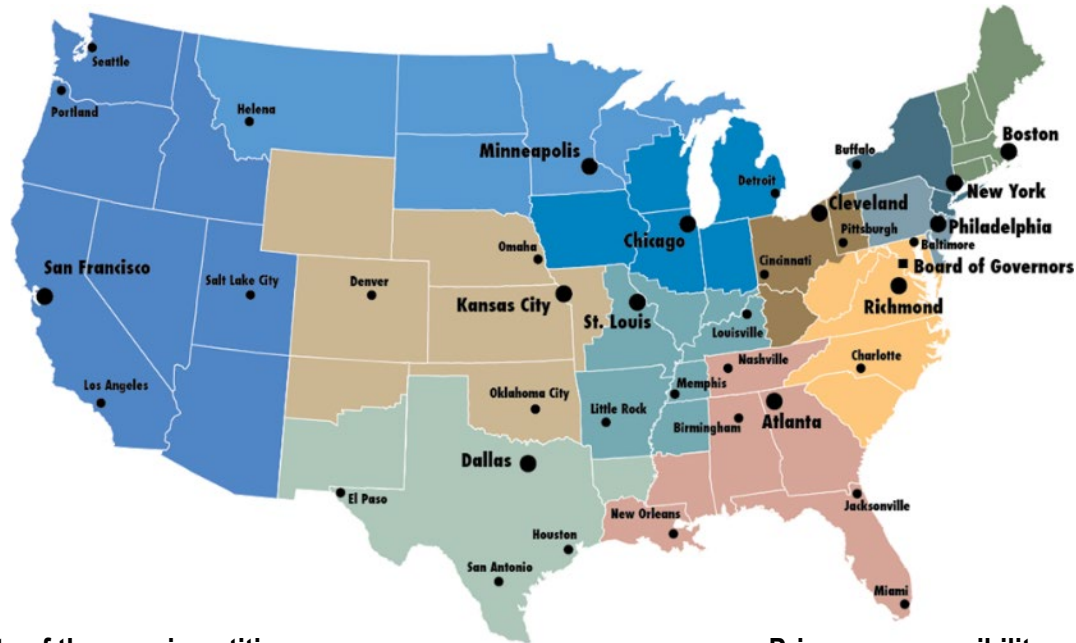


# Outlook themes

- Economic activity has fallen sharply in the U.S. and Oklahoma, 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 Oklahoma 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**
- **Open**




### 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

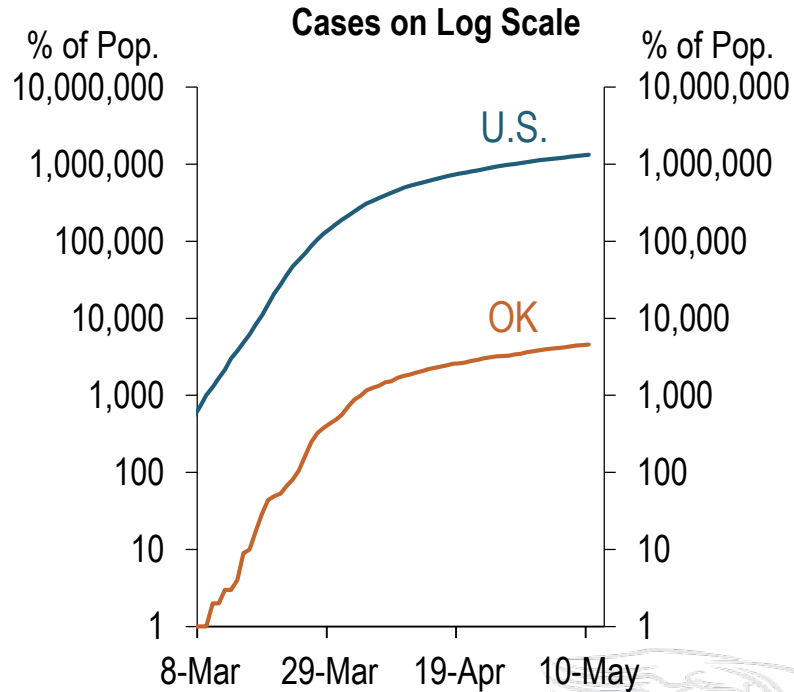
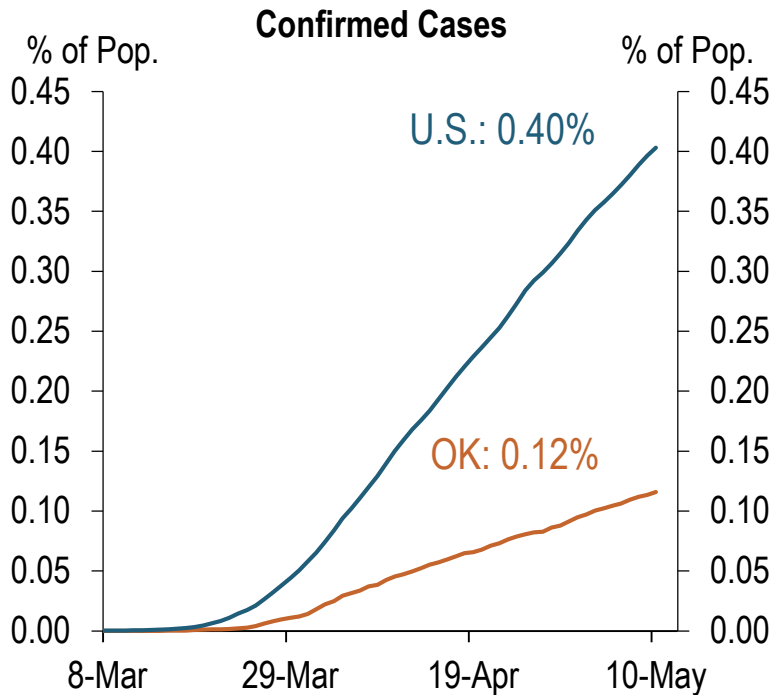


# The Oklahoma City Branch of the Federal Reserve Bank of Kansas City

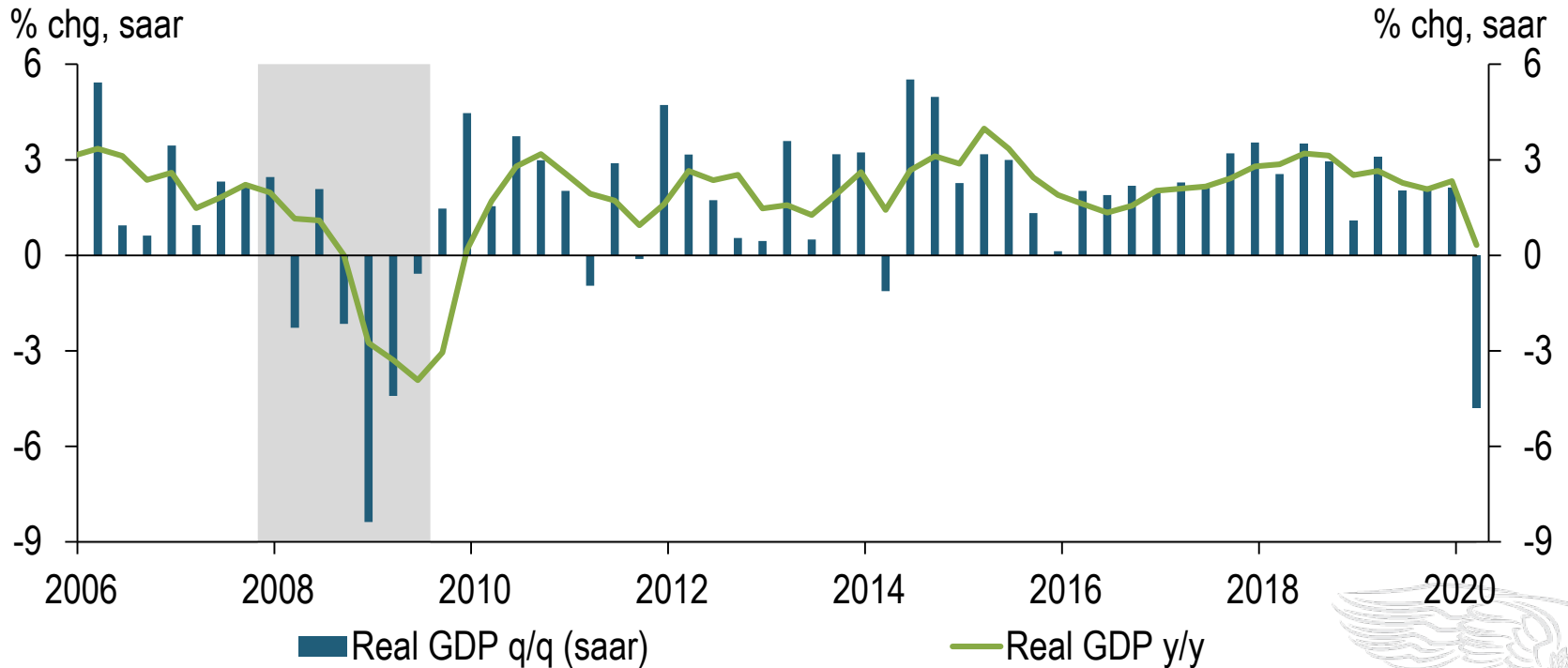
- **2020 Is Our Centennial! OKC BRANCH 100** 
- **Functions and purposes ~ 50 staff**
  - Research on U.S. and Oklahoma economies; energy sector and business survey focus
  - Examinations of Oklahoma financial institutions (~45 banks, ~175 holding cos.)
  - Community development programming for low and moderate income groups, workforce focus
  - Economic education and public outreach programming
- **2020 OKC Fed Branch Board of Directors**
  - **Tina Patel (chair)**, Co-Owner & CFO, Promise Hotels, Tulsa
  - **Walt Duncan**, President, Duncan Oil Properties, Oklahoma City
  - **Susan Plumb**, Chair & CEO, Bank of Cherokee County, Tahlequah
  - **Brady Sidwell**, Principal, Sidwell Strategies, Enid
  - **Chris Turner**, President & CFO, First State Bank, Oklahoma City
  - **Katrina Washington**, Owner/Broker, Stratos Realty, Oklahoma City
  - **Dana Weber**, Chair & CEO, Webco Industries, Sand Springs



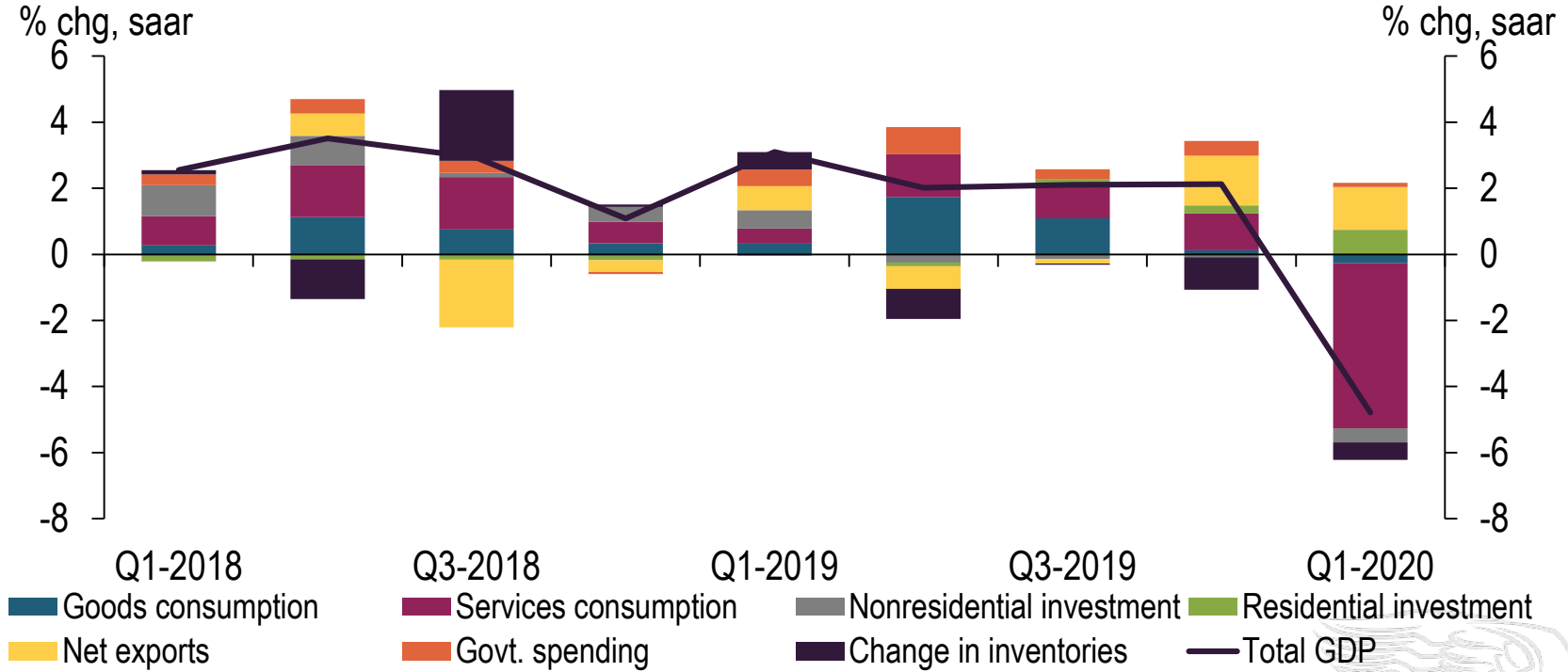
# In early 2020, cases of COVID-19 spread rapidly across the nation, and cases in Oklahoma have risen



# 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

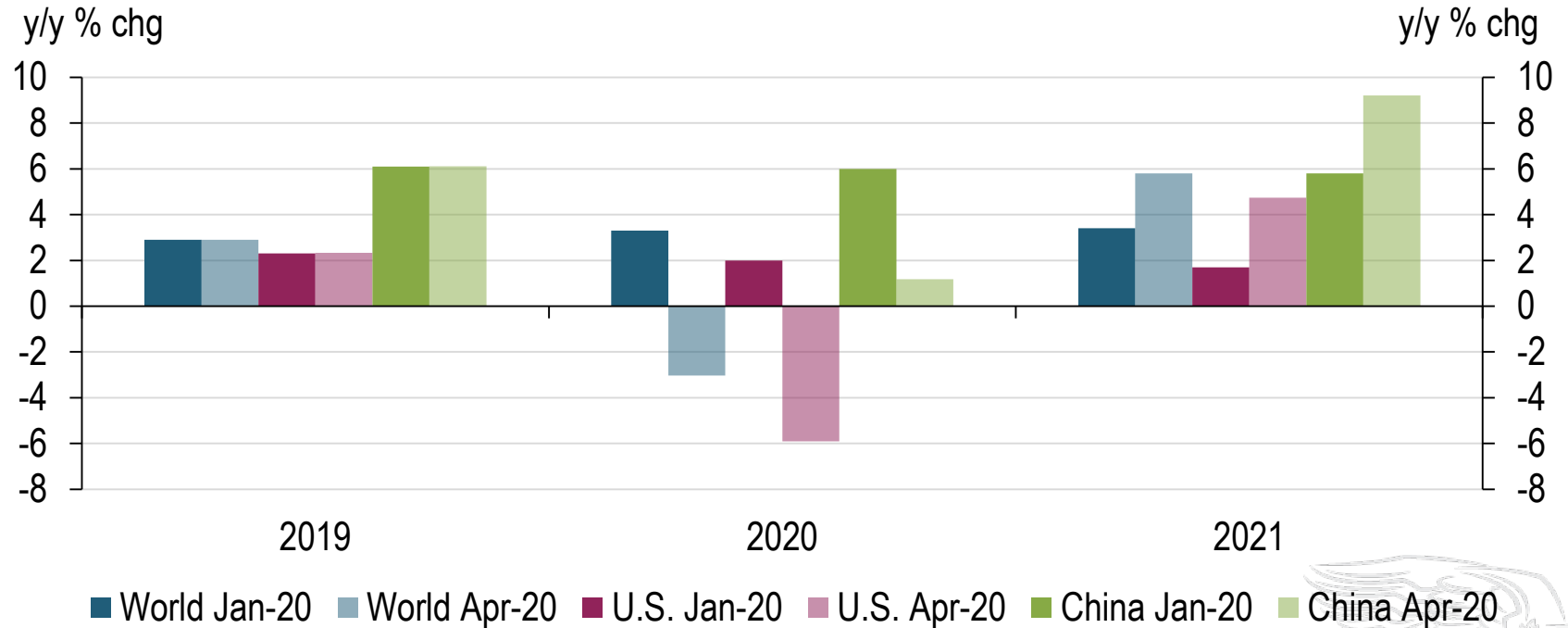


Source: BEA





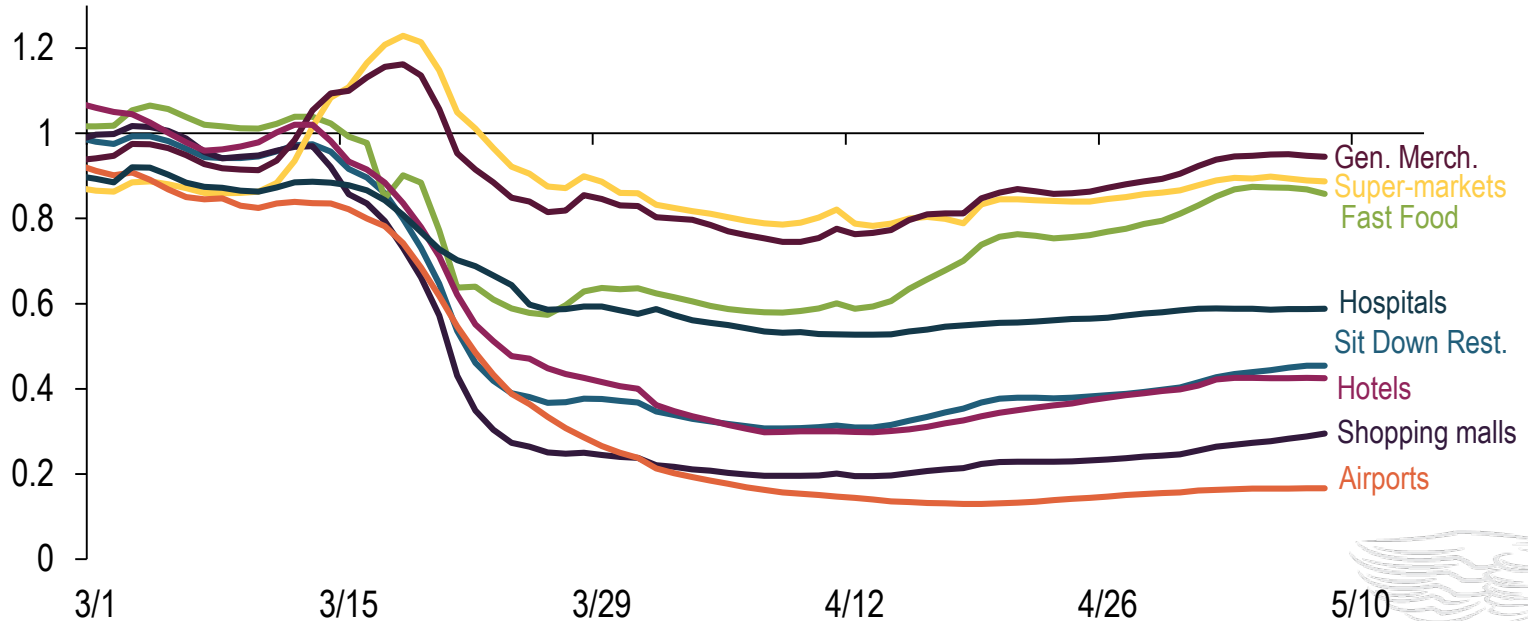
# U.S. GDP is now expected to drop twice as much as world GDP this year, but China will also slow considerably



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

U.S. Foot Traffic Across Consumer Spending Segments

Index, 1/11/2020=1



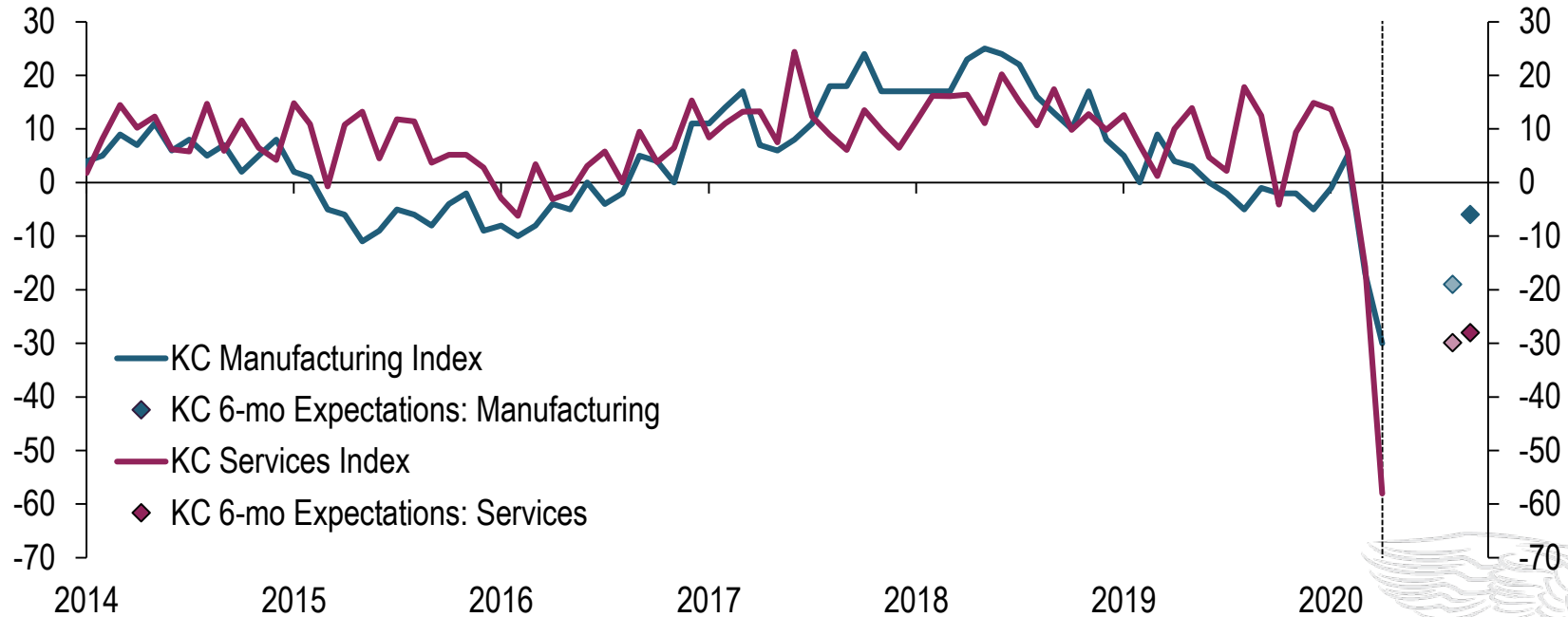
Source: SafeGraph



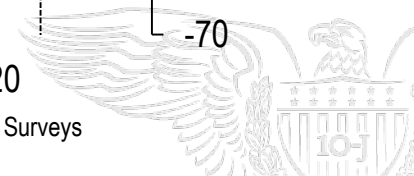


# After record declines in April, District factories' pessimism lessened slightly, unlike services firms

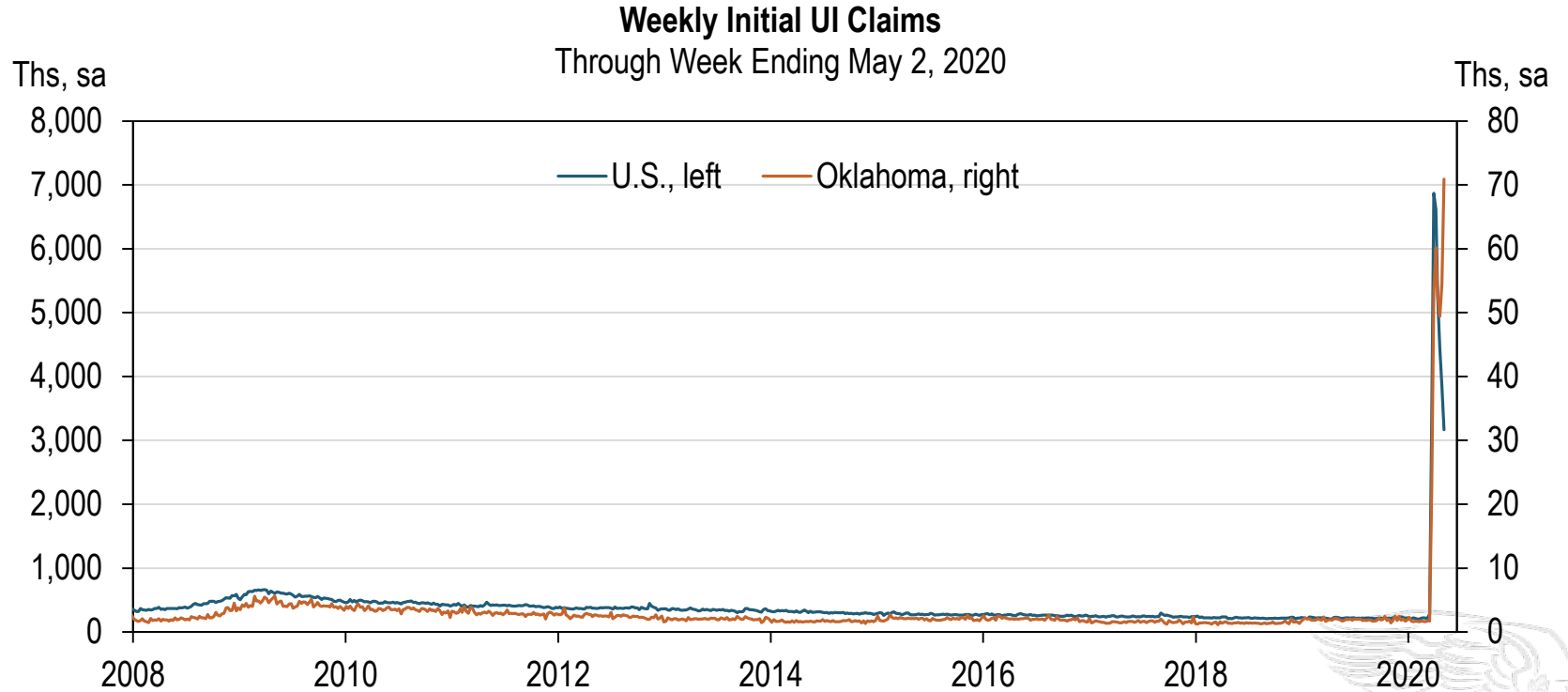
Composite Index, >0 = increasing, sa



Sources: FRBKC Surveys



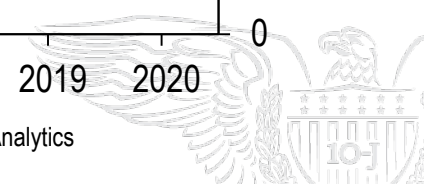
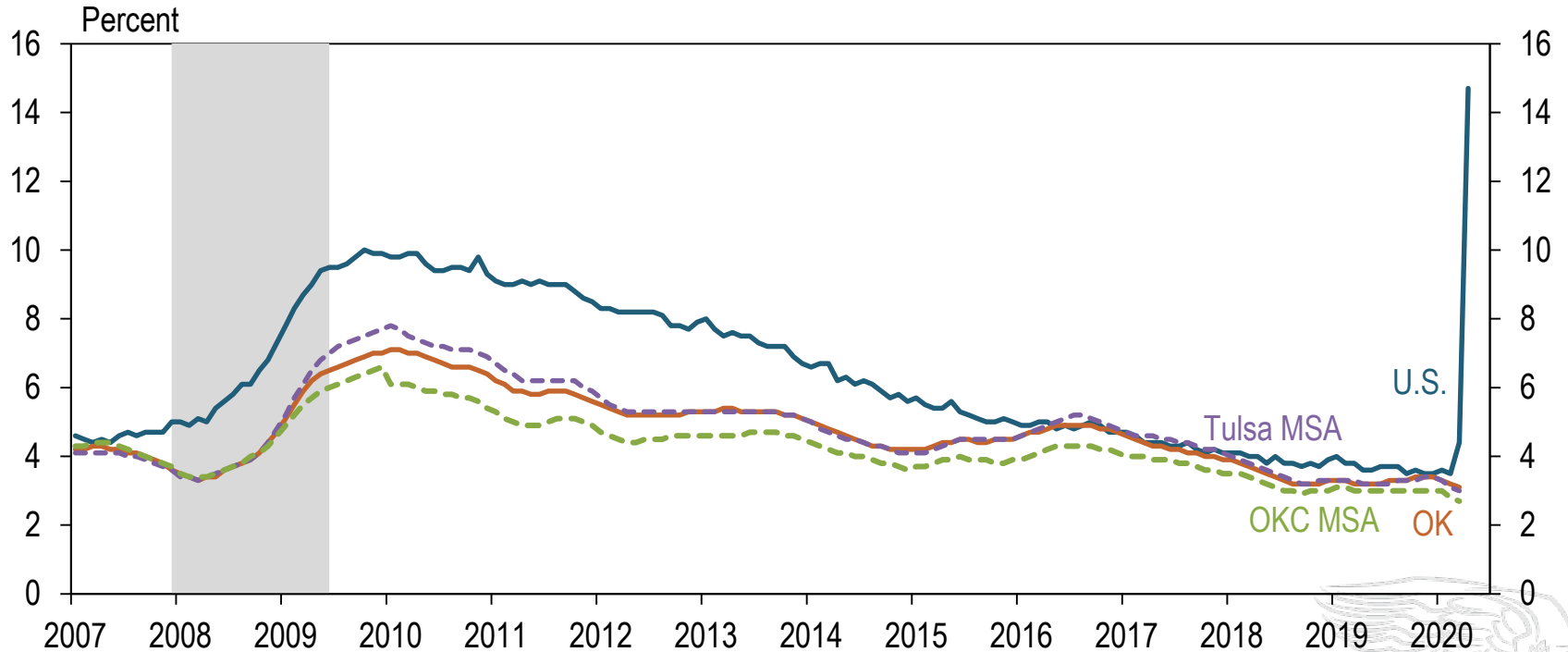
# New claims for unemployment insurance remained historically high



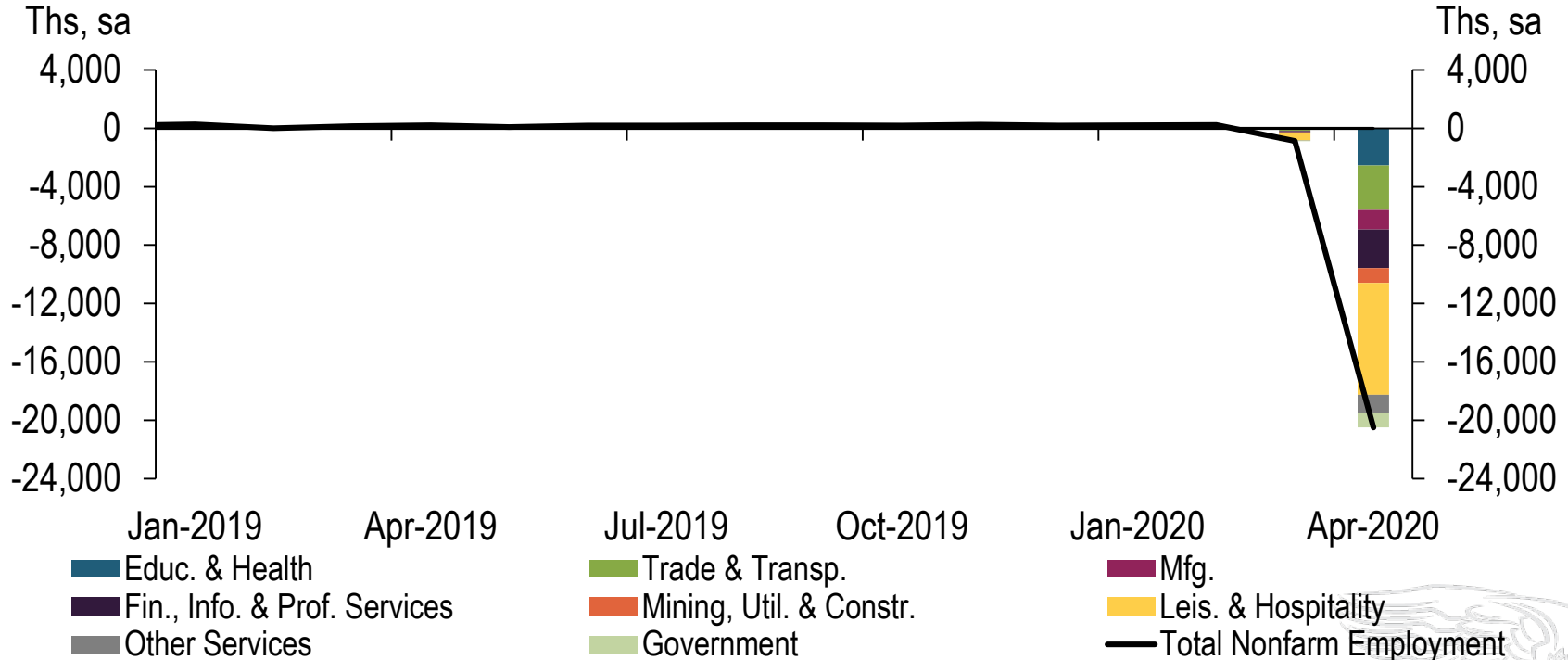
Source: U.S. Department of Labor



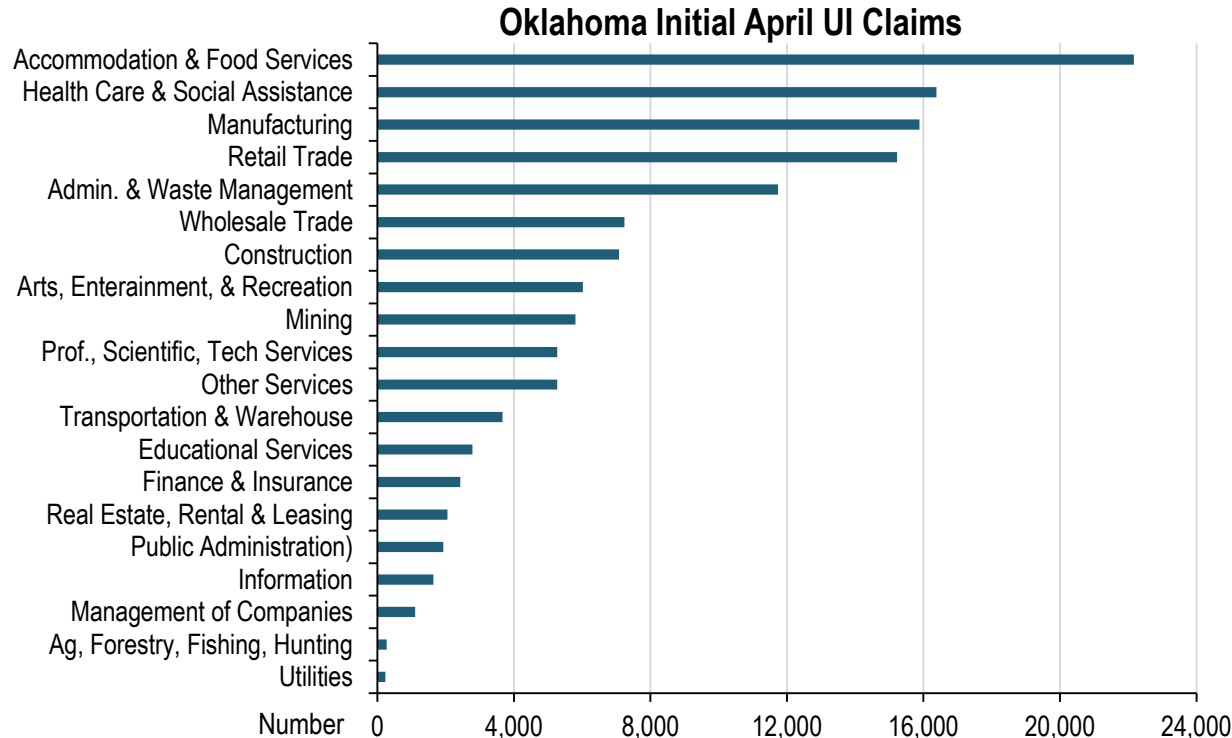
# The U.S. unemployment rate increased to 14.7% in April, the highest level since WWII



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



# Most new jobless claims in Oklahoma in April were filed by workers in the hospitality & food industry



Sources: U.S. Department of Labor



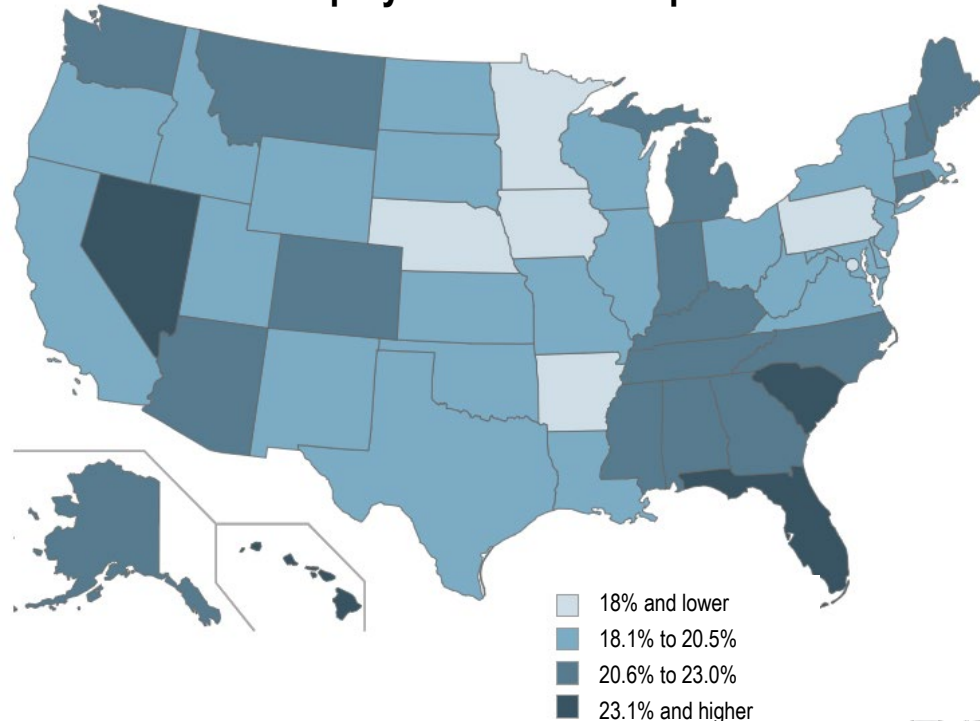


# Most Tenth District states have fewer workers in sectors hit hardest by COVID-19

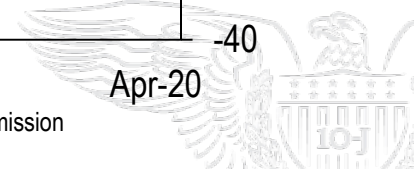
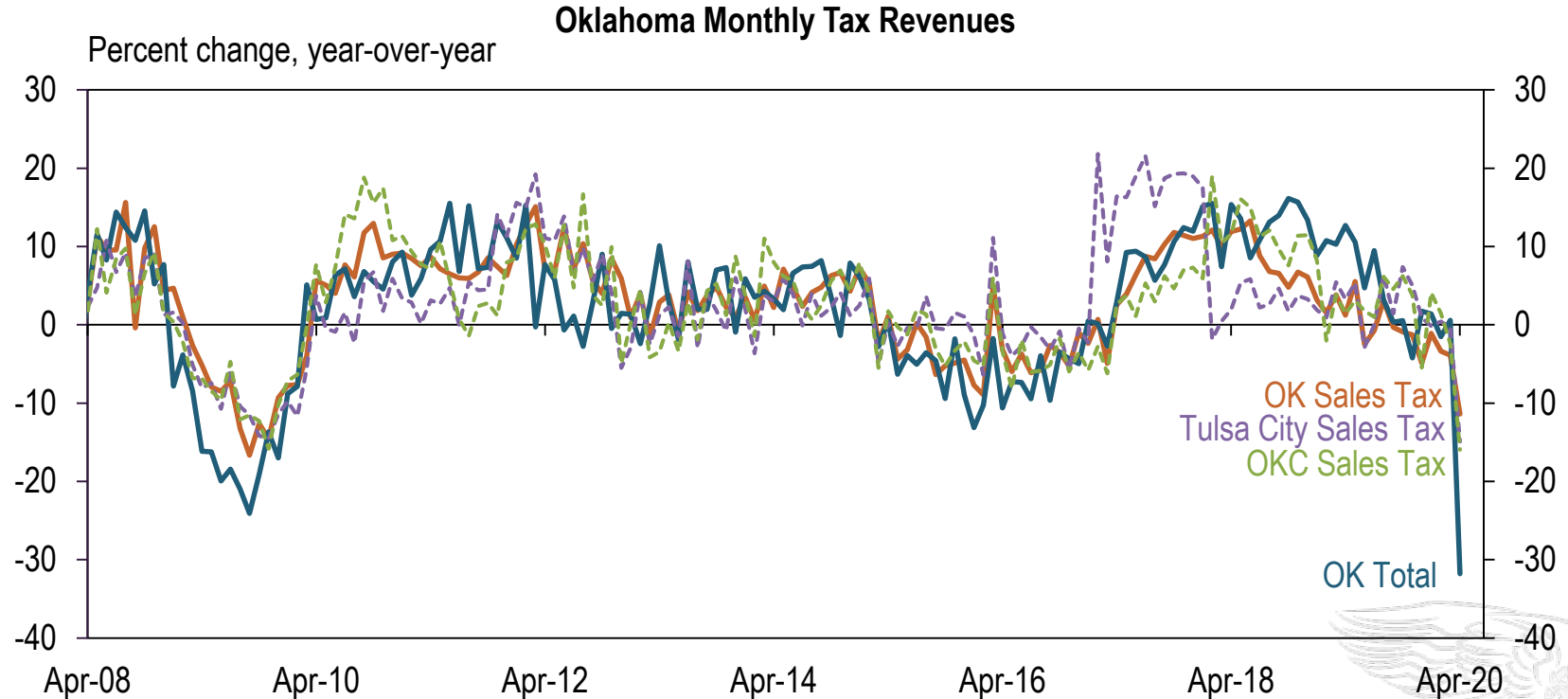
## Share of Employment in Most Exposed Sectors

### 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)

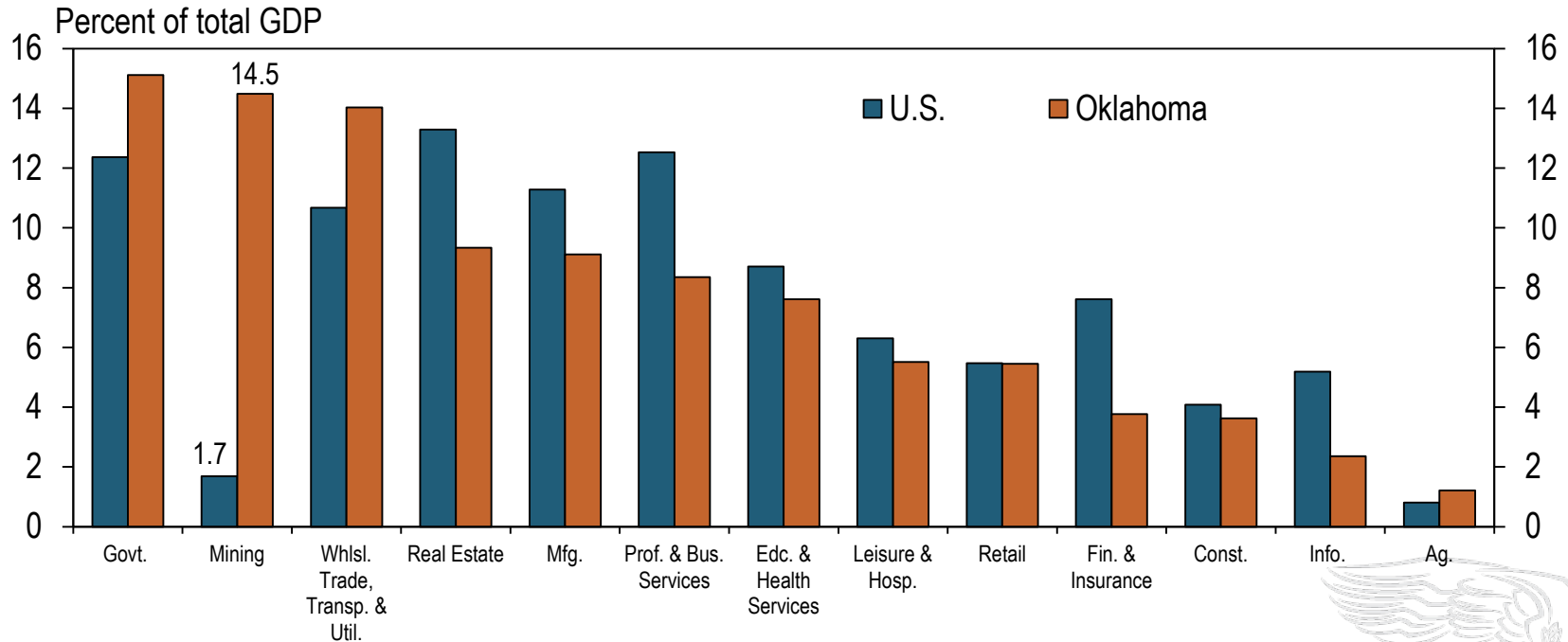


# April tax receipts fell considerably compared with a year ago, in part because the April 15 due date was delayed

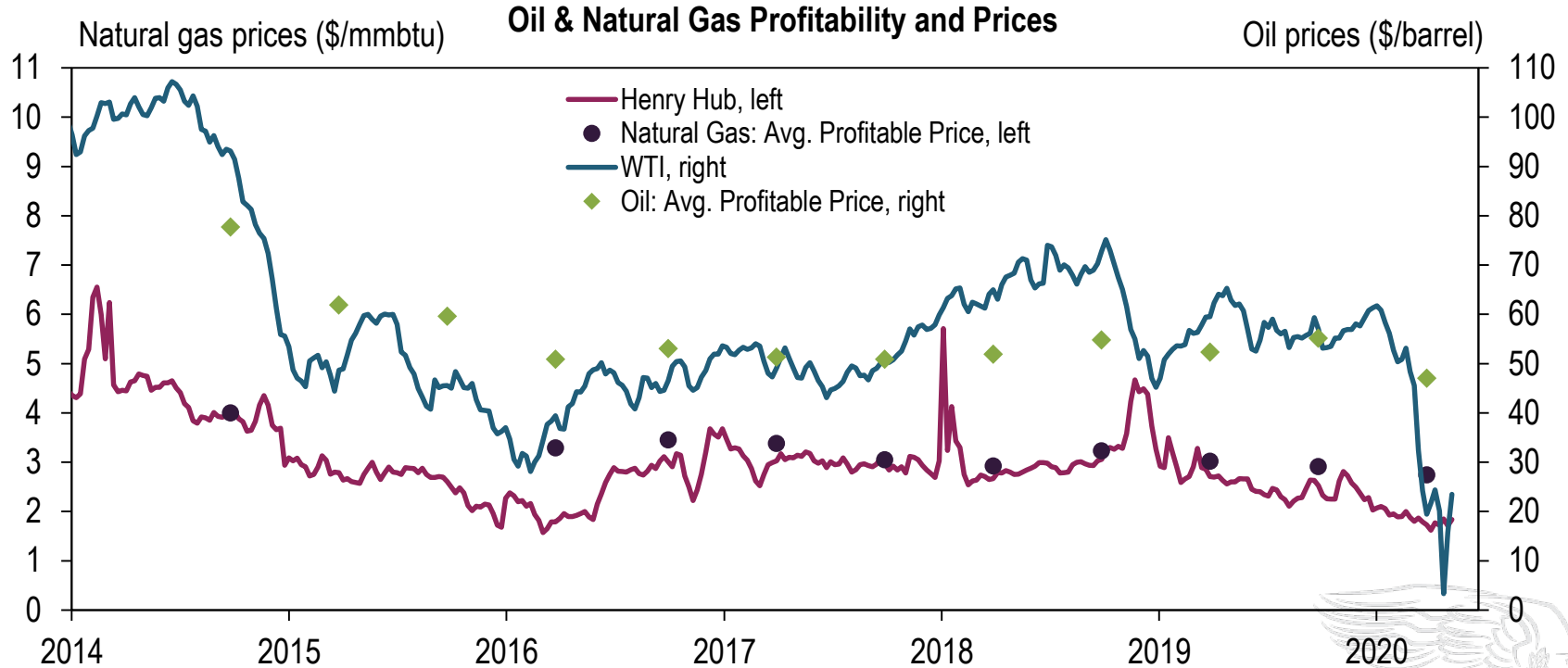


# Oklahoma's main difference from the nation in terms of industrial structure is its very sizable energy sector

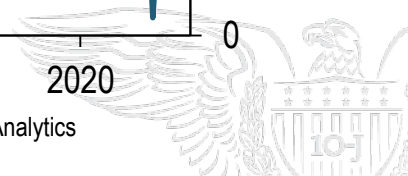
Industry Share of GDP, 2018



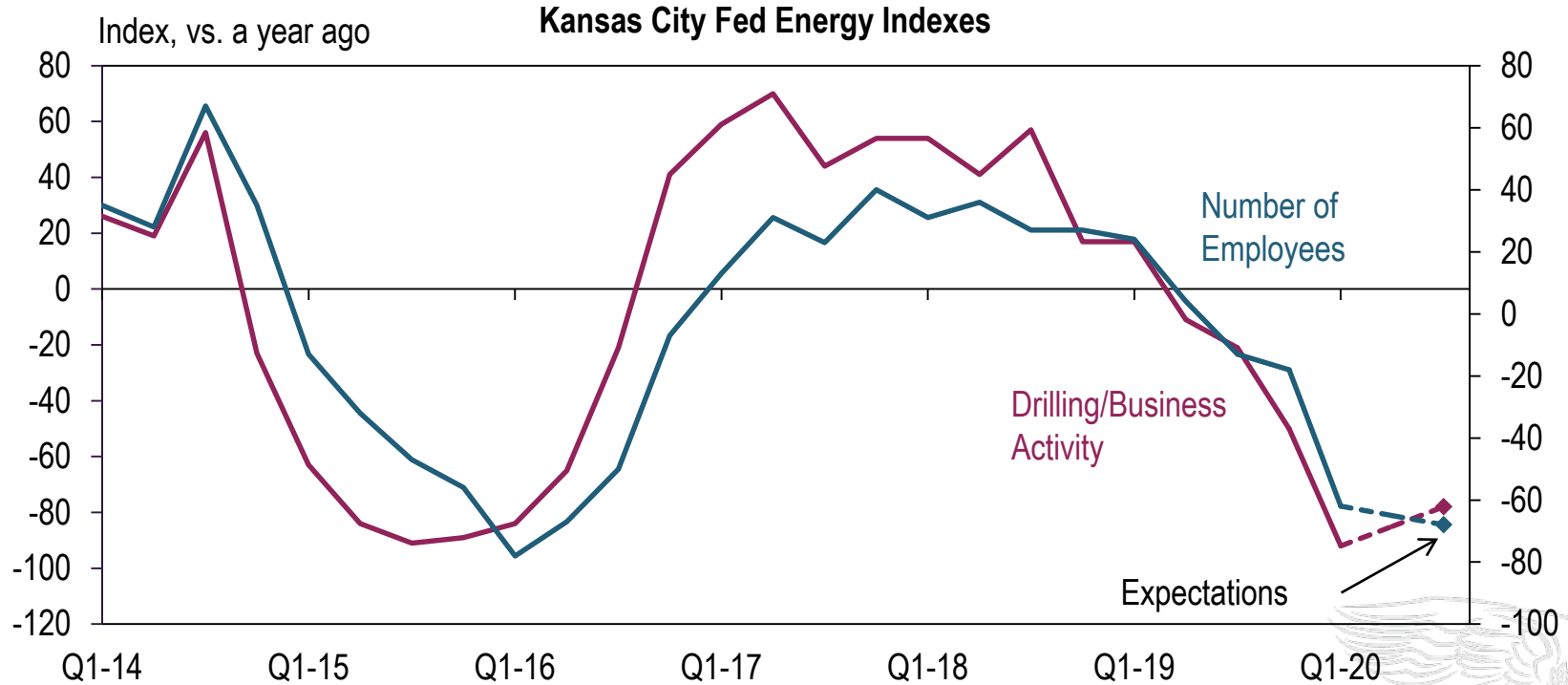
# Even with the planned OPEC+ supply cuts, energy prices remain extremely problematic



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



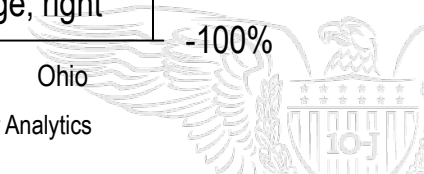
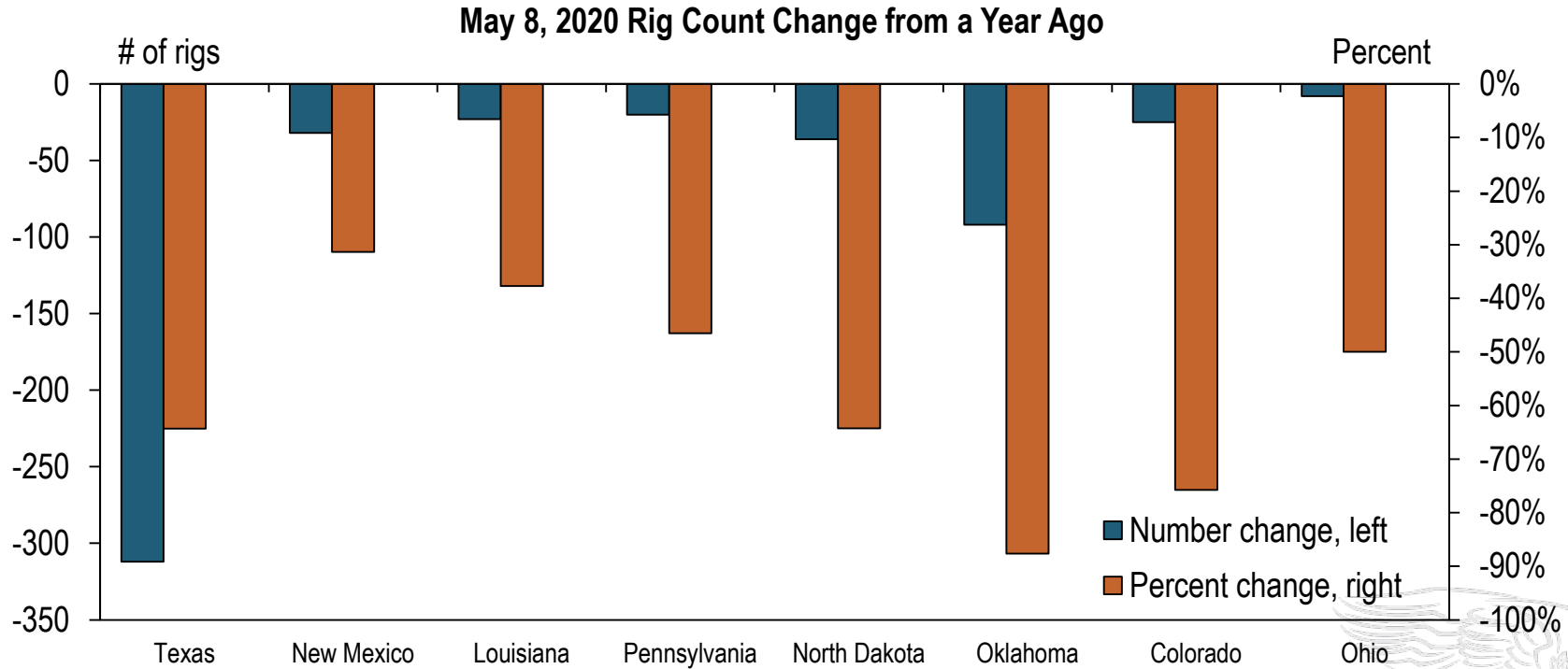
# In late March, regional energy firms expected drilling activity to keep declining, with more job cuts



Source: FRBKC Energy Survey

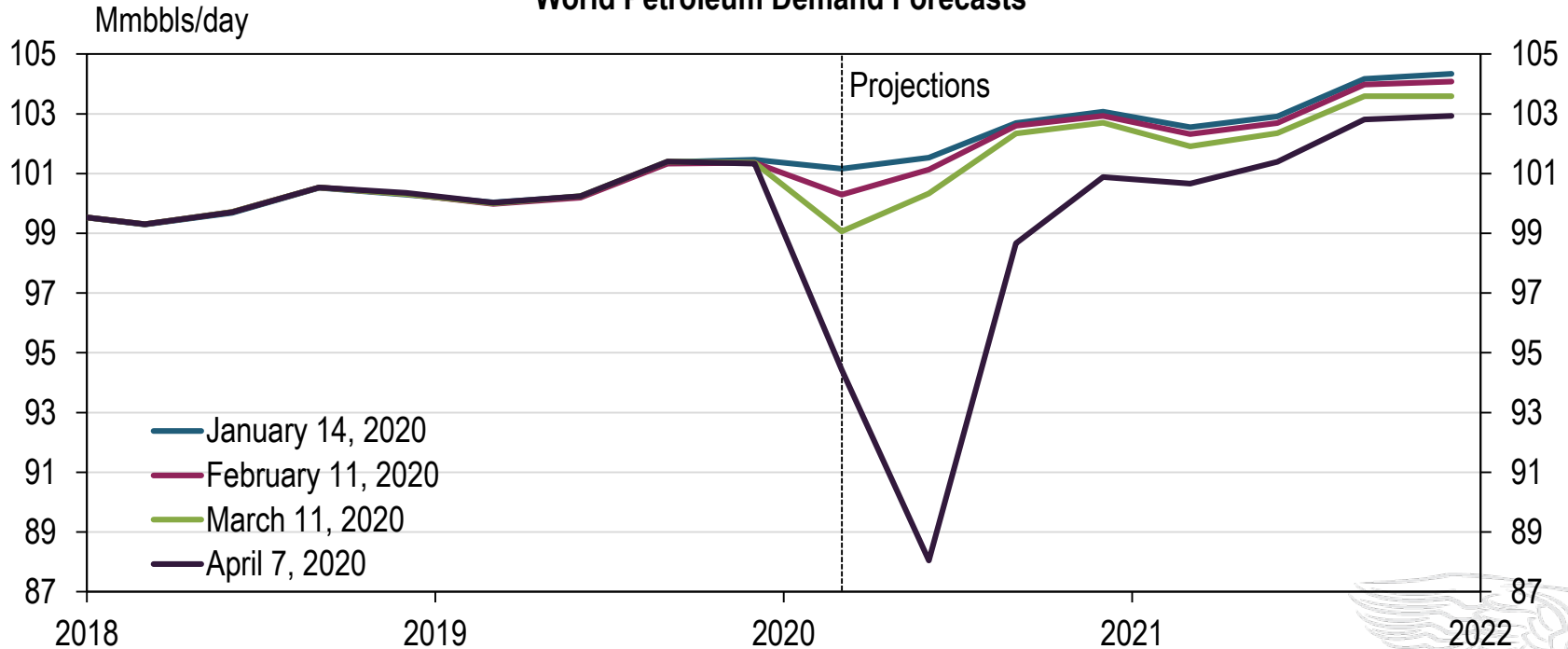


# The drop in rigs has varied some by region, but is down sharply across all top 8 oil- and gas-producing states

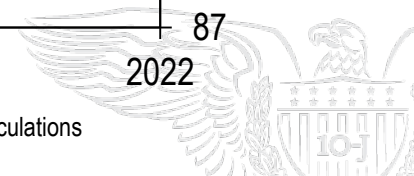


# Forecasts for world oil demand have weakened dramatically, following the coronavirus outbreak

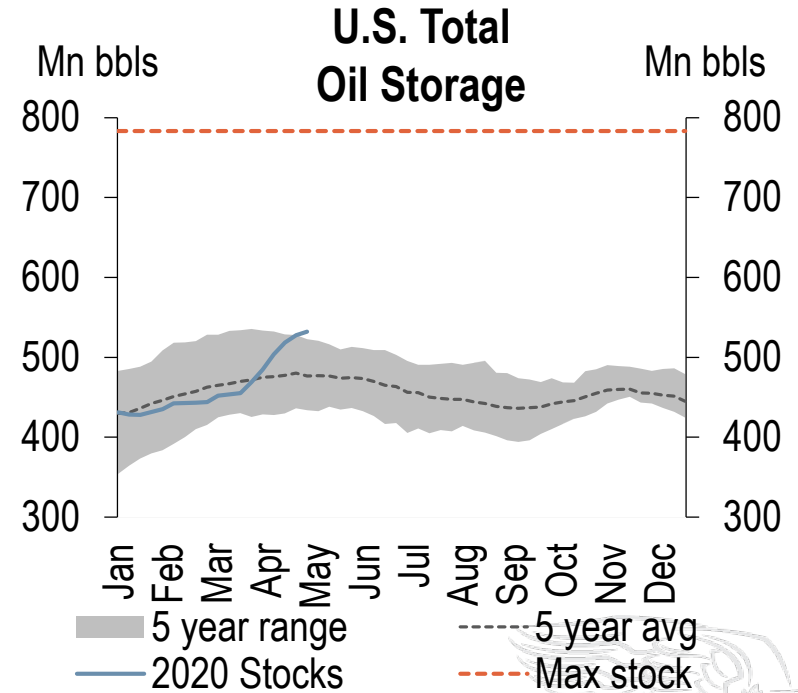
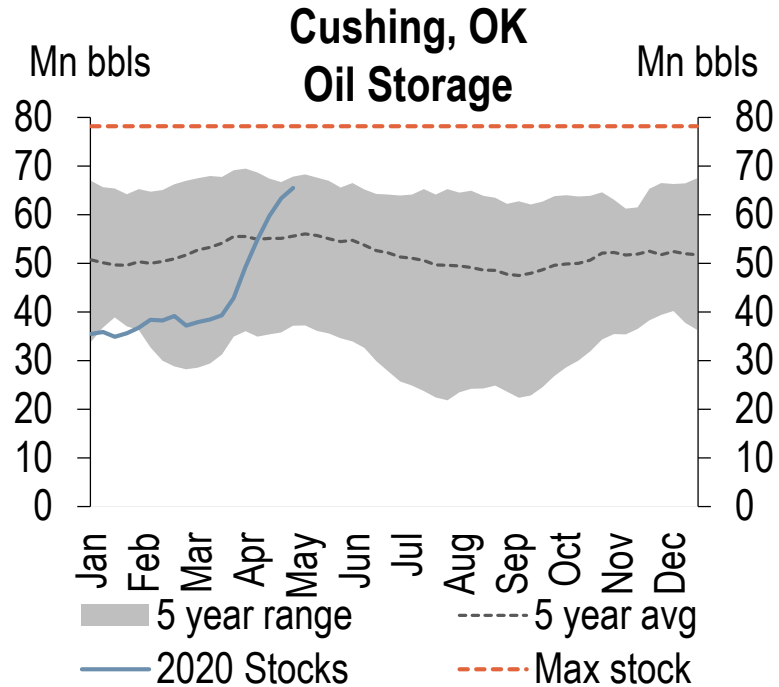
World Petroleum Demand Forecasts



Sources: Energy Information Administration Short-Term Energy Outlook, authors' calculations



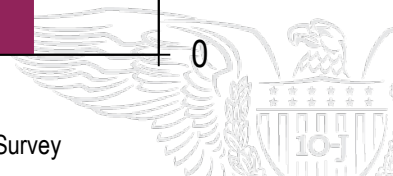
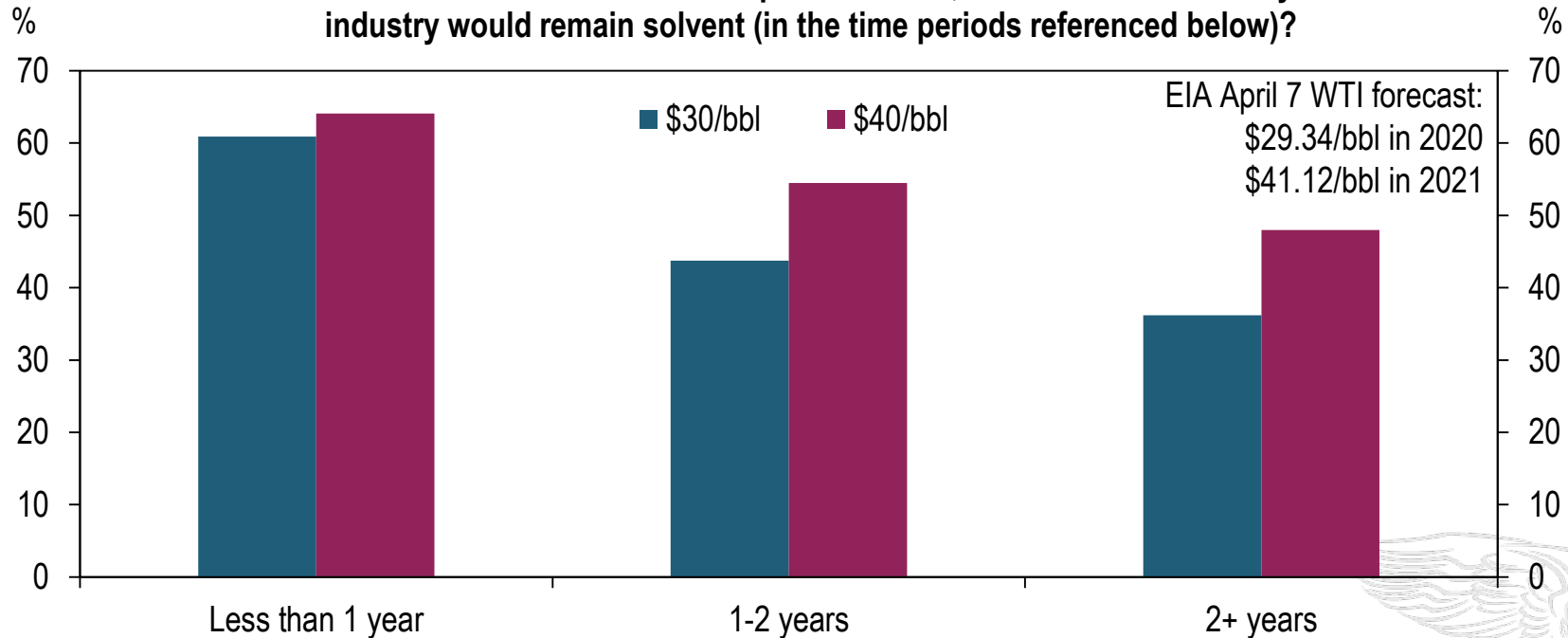
# Oil tanks at Cushing have filled quickly but total U.S. storage capacity remains adequate



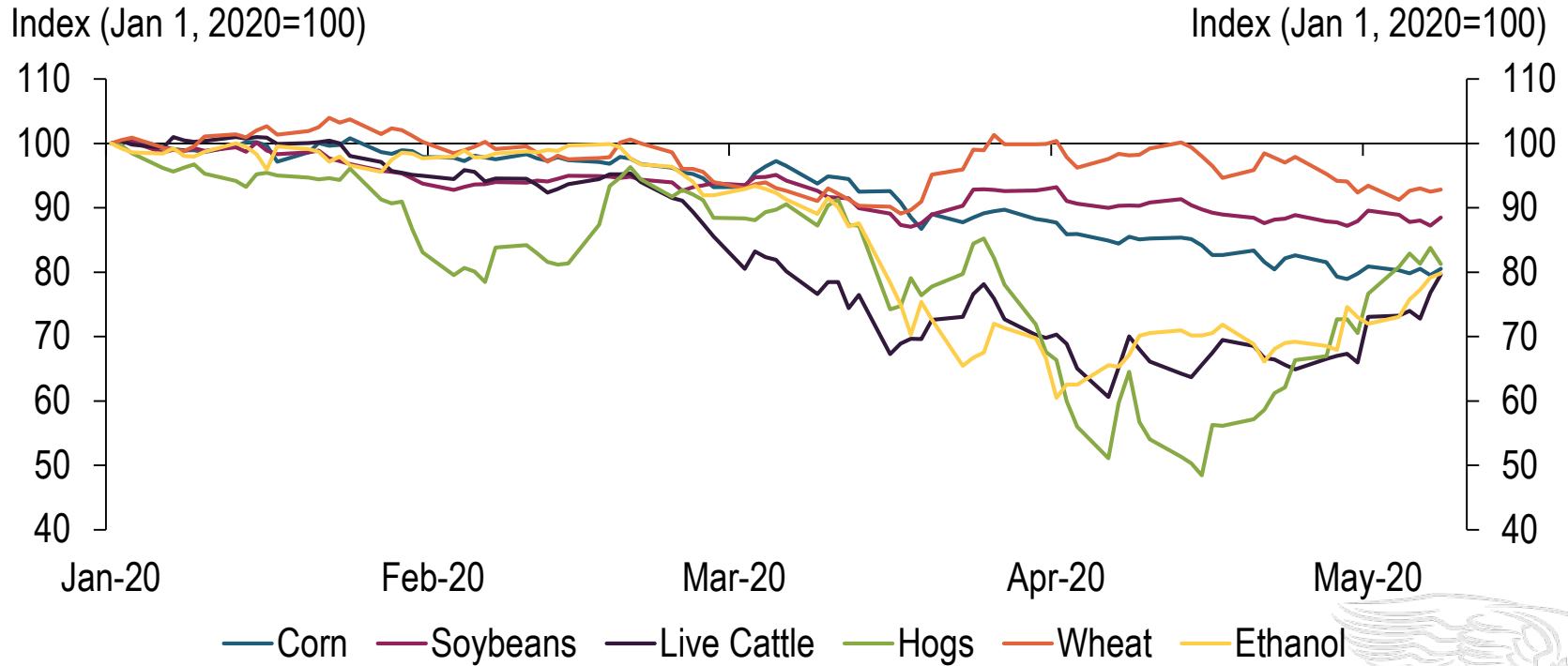


# Energy firms expect solvency issues to grow considerably if prices stay low very long

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)?

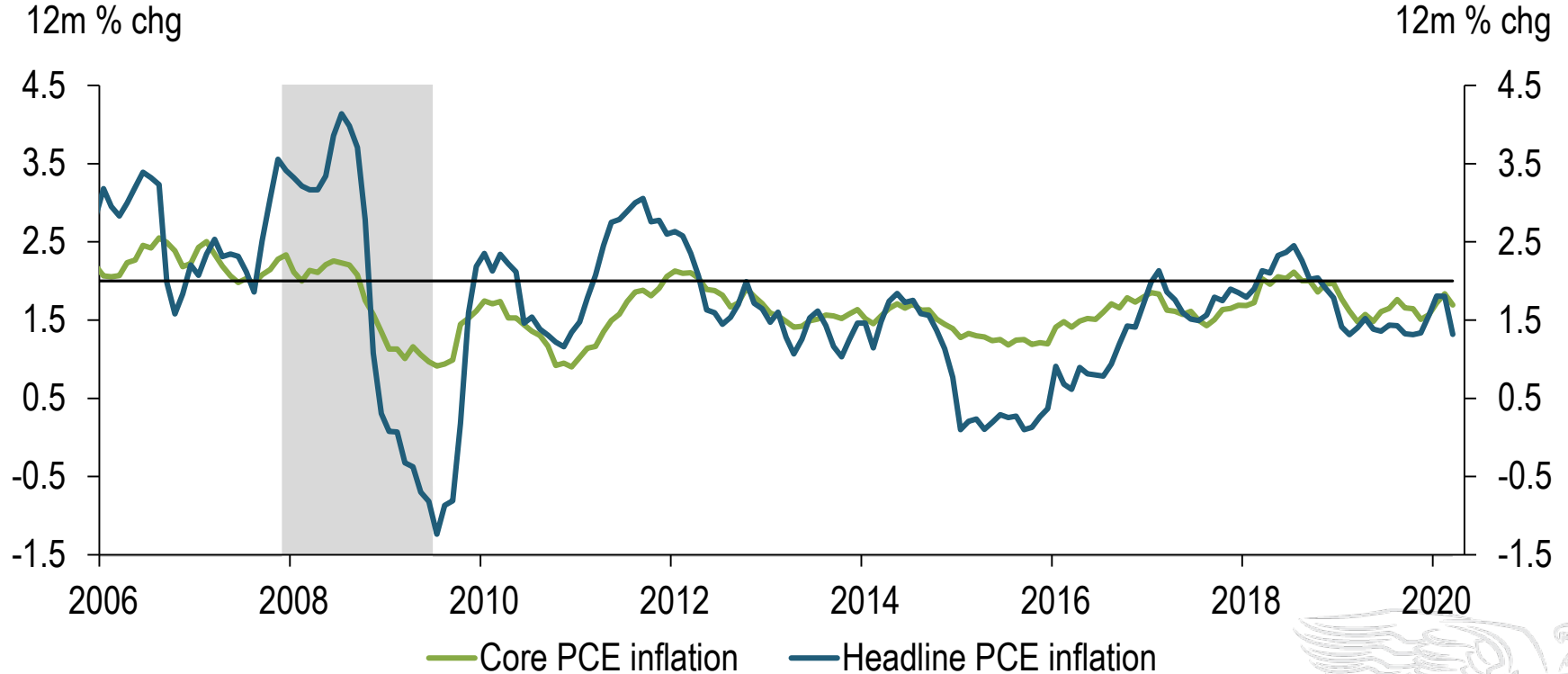


# Agricultural commodity prices are also problematic for the sector and our region

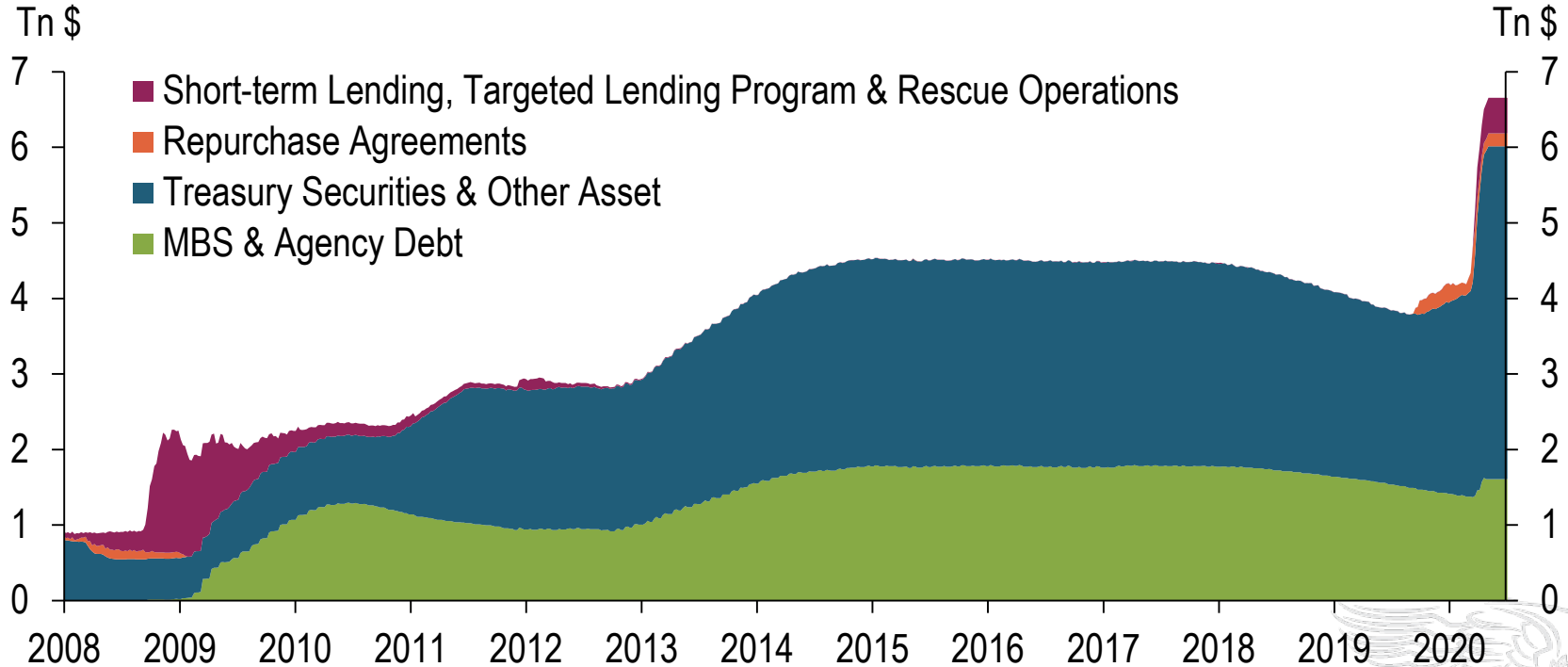


Sources: CME, WSJ, Haver Analytics

# Inflation is likely to remain subdued in the near term

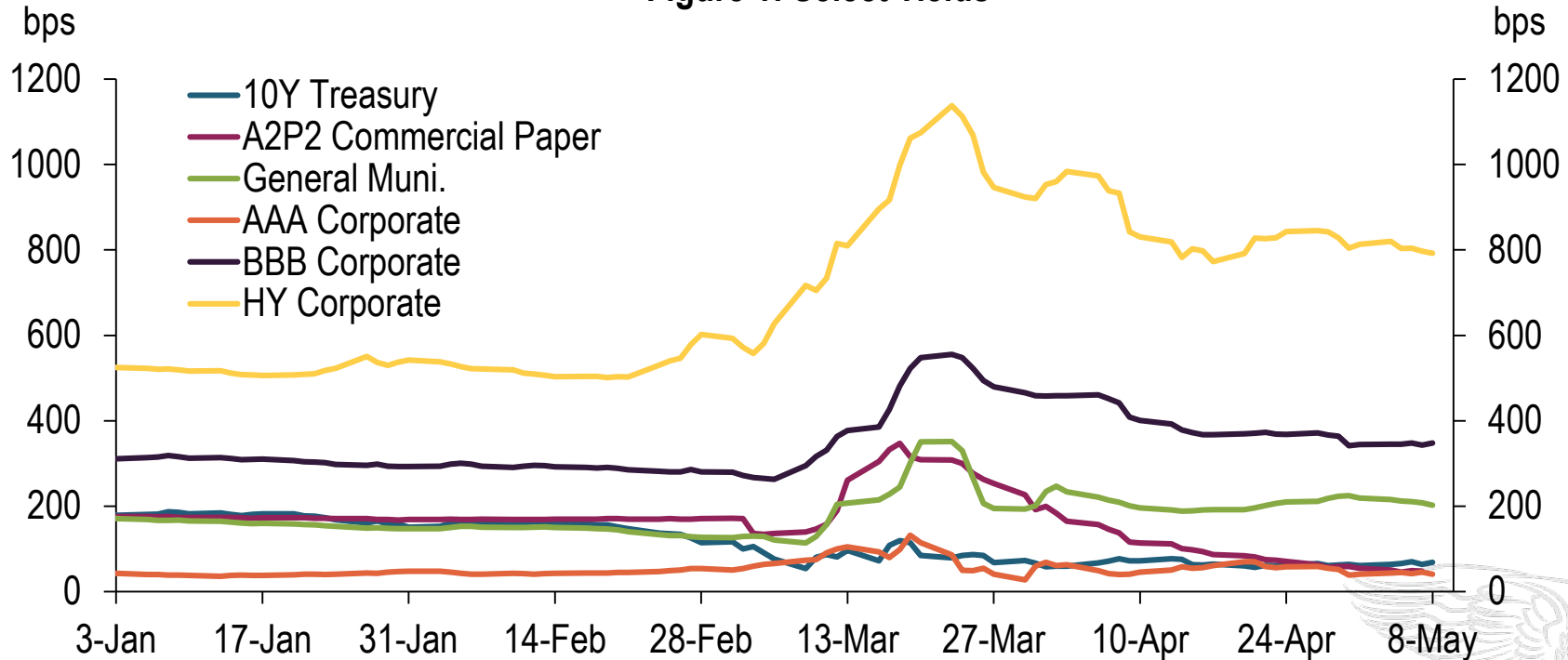


# The interventions of the Federal Reserve have caused its balance sheet to grow above \$6.7 trillion



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

Figure 1: Select Yields



# Summary

- Economic activity has fallen sharply in the U.S. and Oklahoma, 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 Oklahoma trends may vary slightly
- Global and domestic factors are expected to keep inflation persistently low in coming years
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