

Oklahoma Economic Outlook

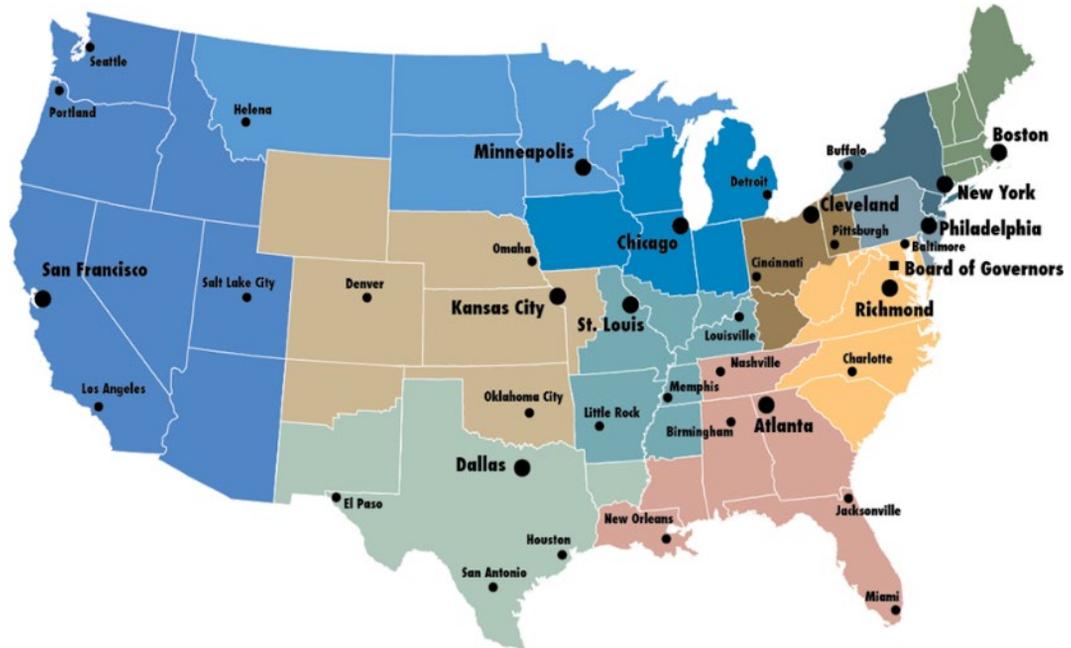
Oklahoma Banking Association's Intermediate Banking School
June 1, 2020

Chad Wilkerson
Vice President and 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



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



*Permanent voters in bold; 2020 rotating voters in red; 2021 rotating voters in blue



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

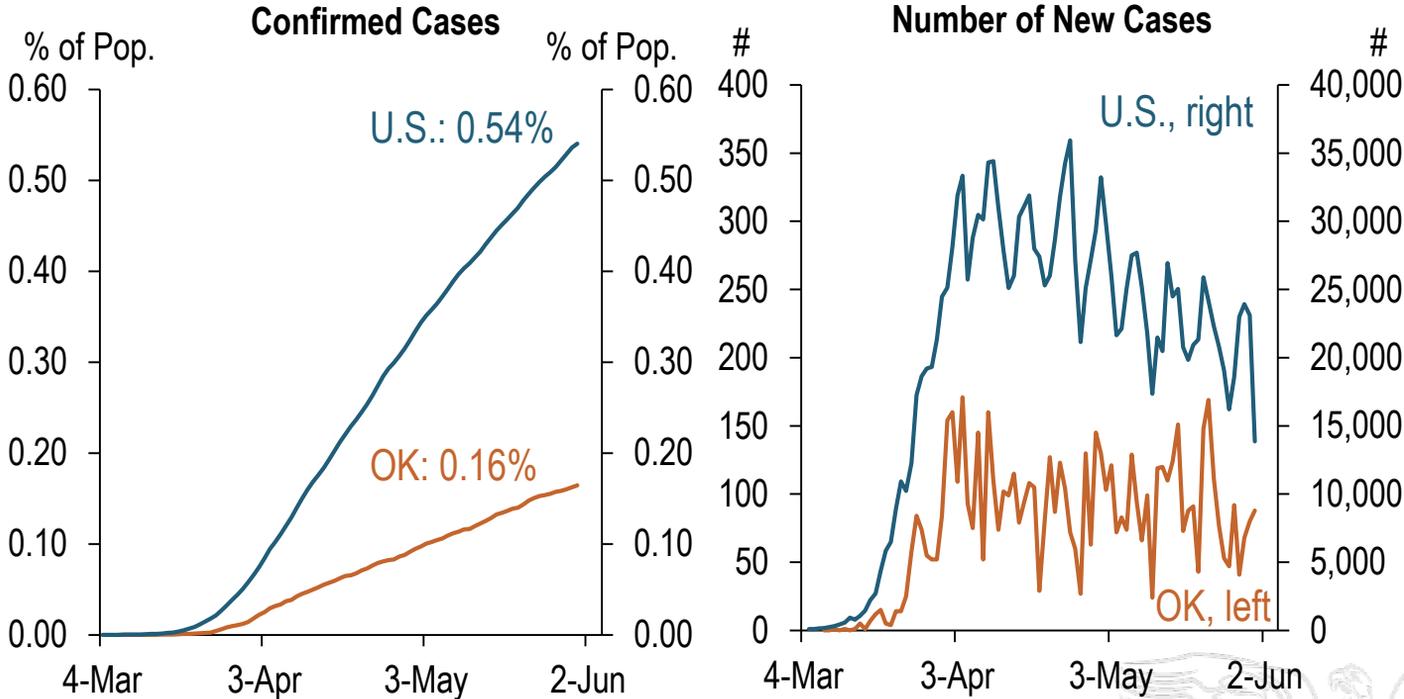


Overview

- Since March, COVID-19 and the collapse in oil prices have presented significant challenges for the state economy.
- In April, employment in leisure and hospitality and most other industries fell sharply. Tax collections decreased, and unemployment continued to surge. Rig counts dropped further in May and energy prices remain low.
- However, state economic activity is starting to pick back up and a strong national policy response should help during the storm.

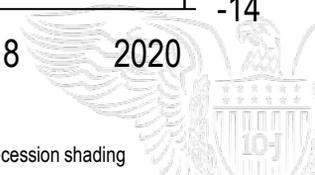
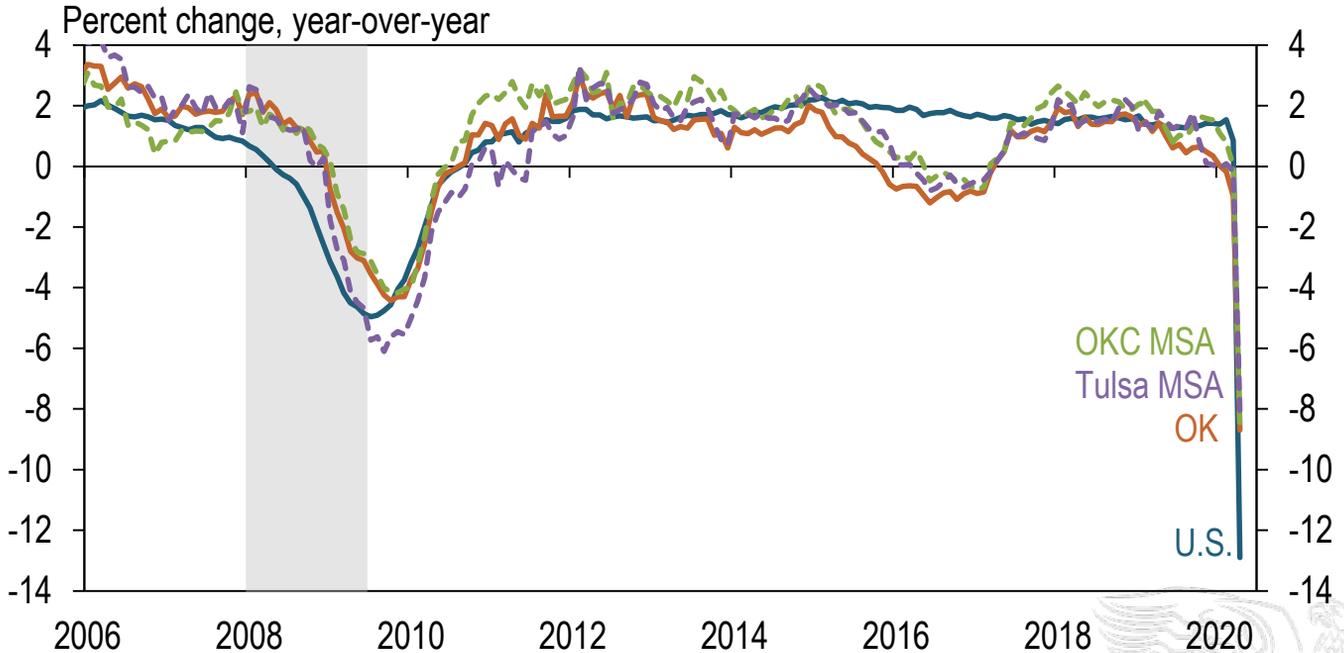


Since March, cases of COVID-19 spread rapidly across the nation, and cases in Oklahoma have risen

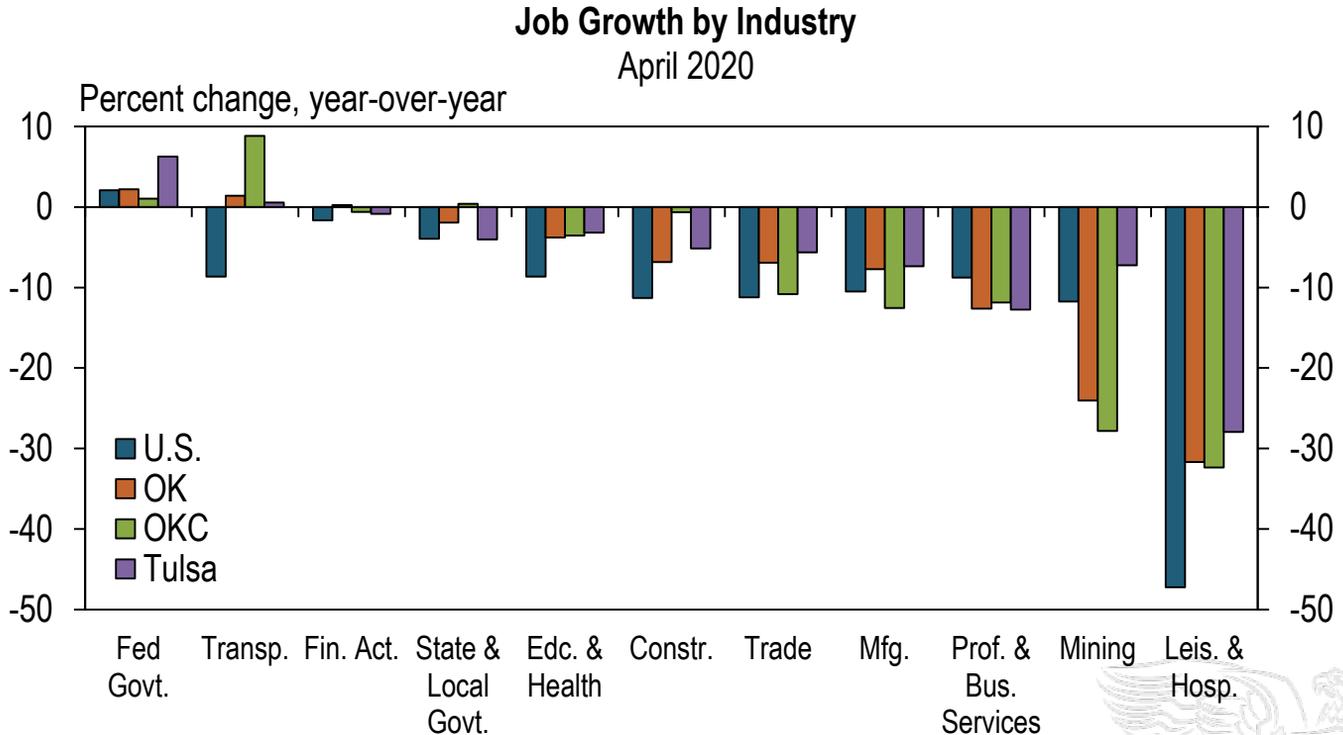


In Oklahoma, job growth fell by 8.7% in April, with similar sharp drops in OKC and Tulsa

Nonfarm Payroll Employment Growth

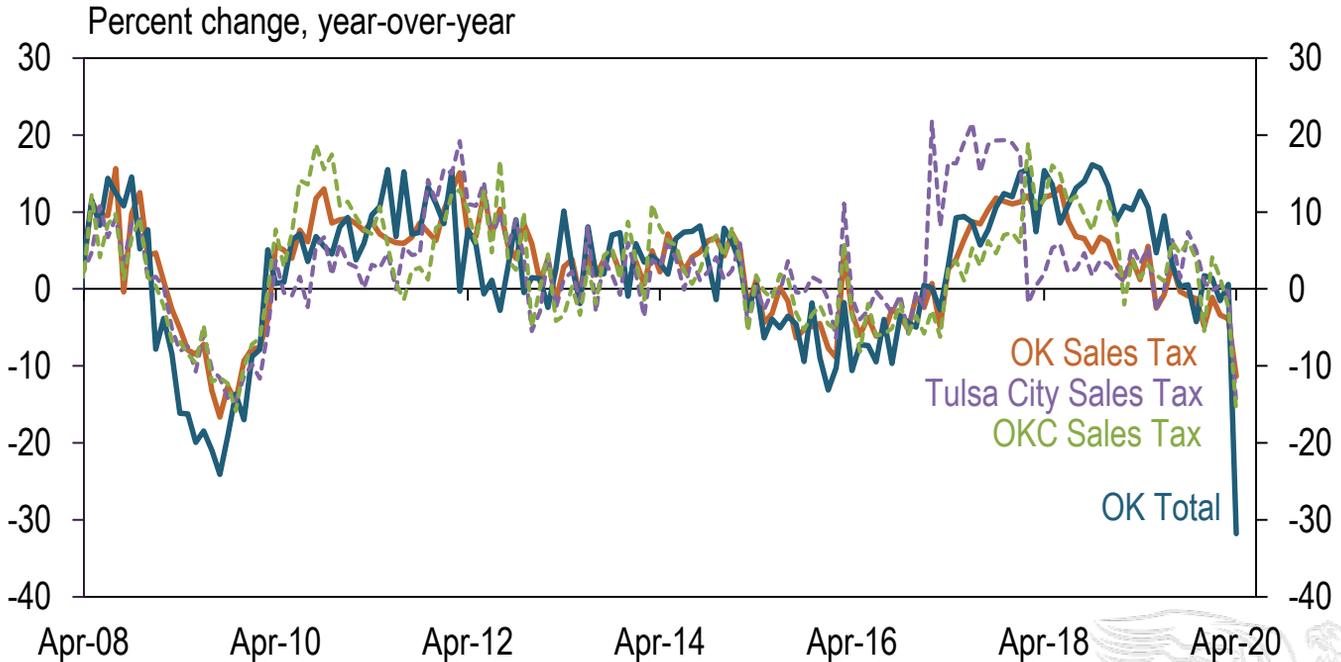


State and metro job losses were very steep in April in the leisure and hospitality sector, but less than the U.S.



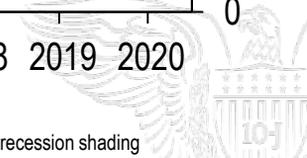
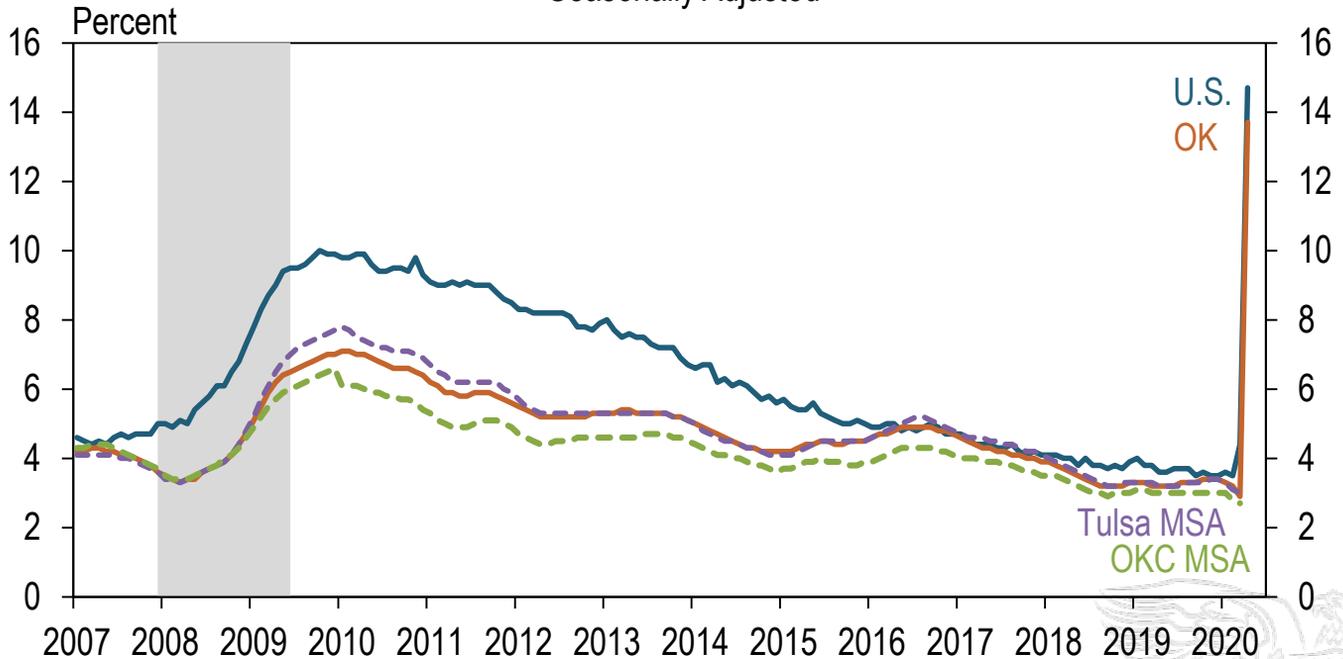
April tax receipts fell considerably compared with a year ago, in part because the April 15 due date was delayed

Oklahoma Monthly Tax Revenues



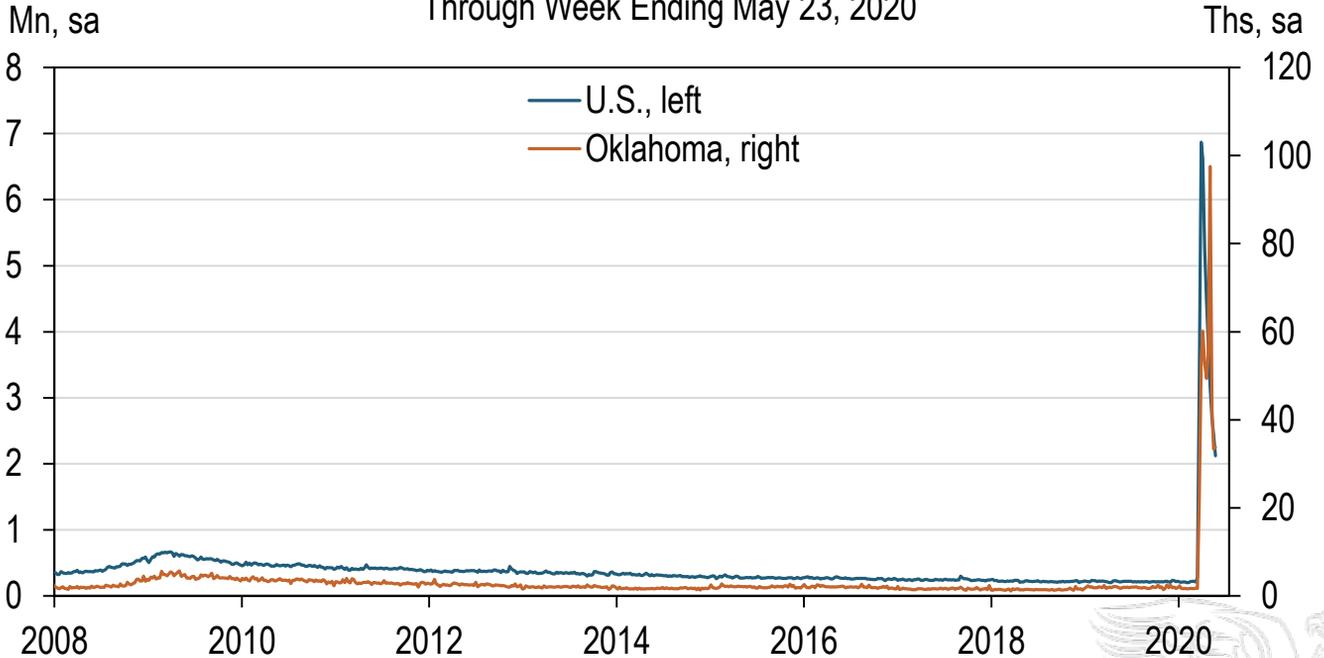
Oklahoma's unemployment rate jumped to 13.7% in April, slightly below the U.S. rate of 14.7%

Unemployment Rates
Seasonally Adjusted



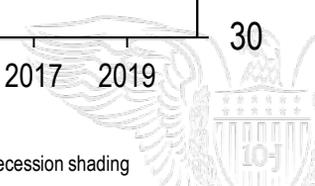
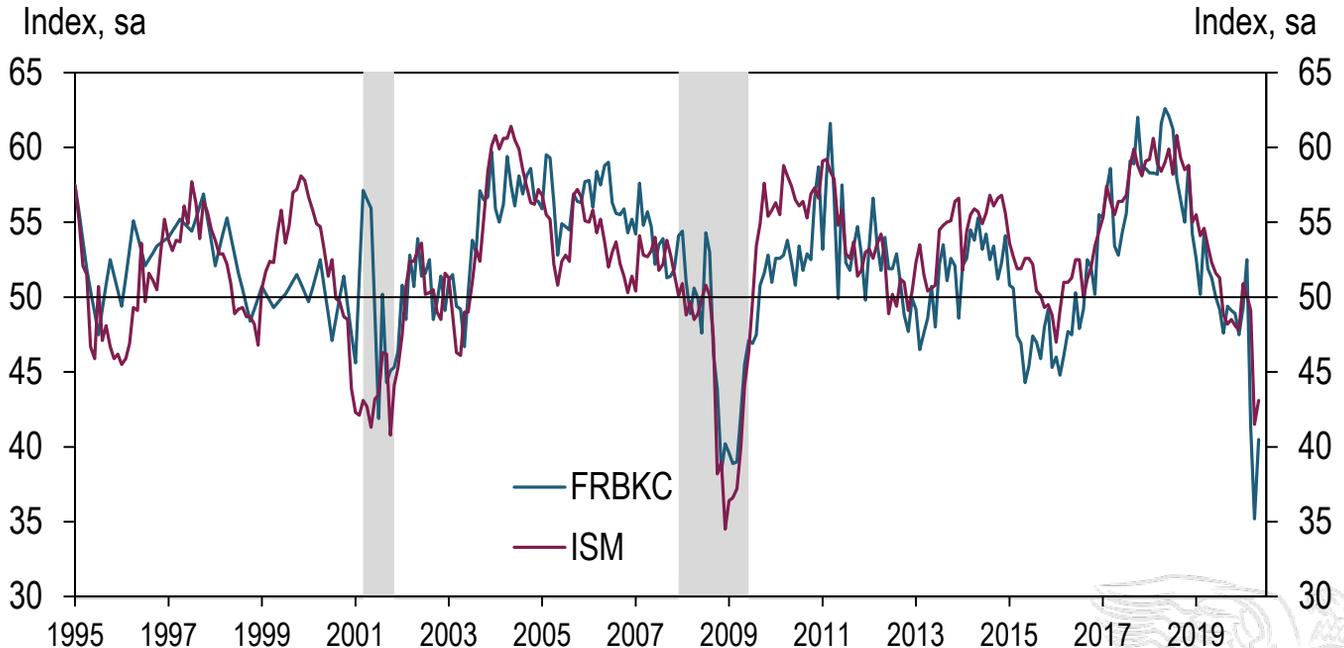
New state claims for unemployment insurance have come down some in May, but remain historically high

Weekly Initial UI Claims
Through Week Ending May 23, 2020



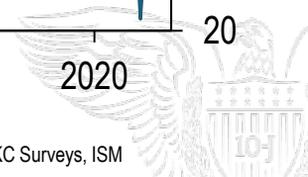
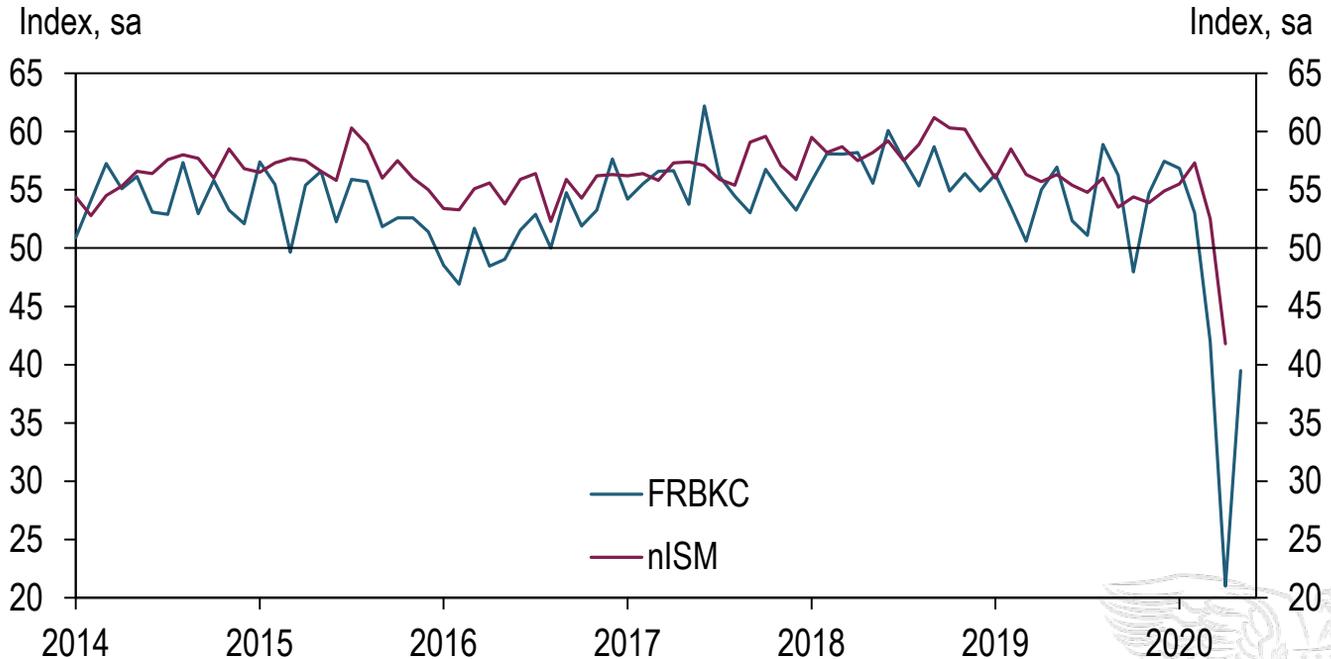
Regional factory activity continued to decline in May, but not as sharply compared to last month's record low

Manufacturing Composite Index



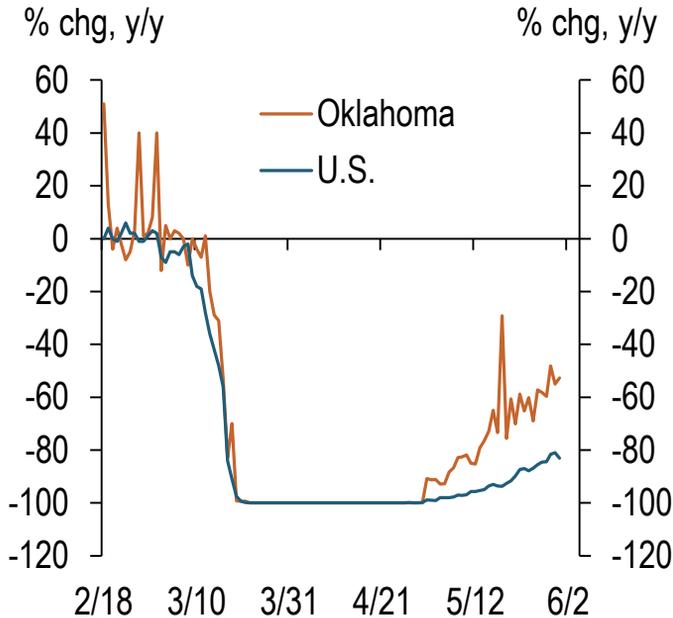
District services activity also decreased at a slower pace in May

Services Composite Index

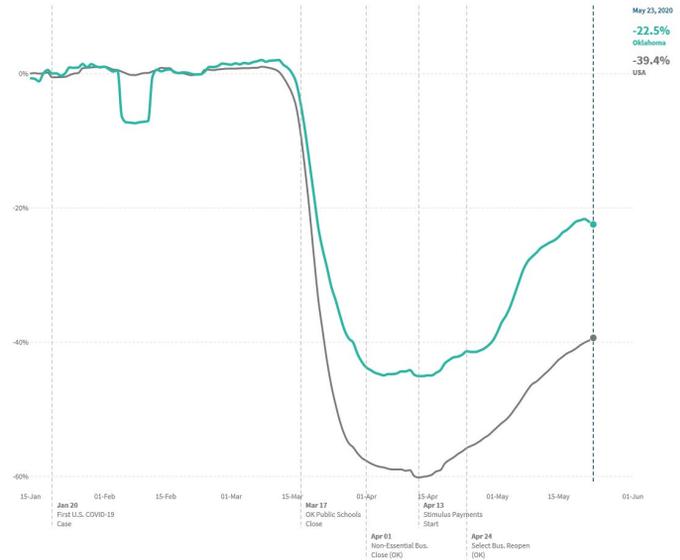


Traffic at restaurants has started to pick back up, as has employment at small businesses in Oklahoma

Seated Diners at Restaurants

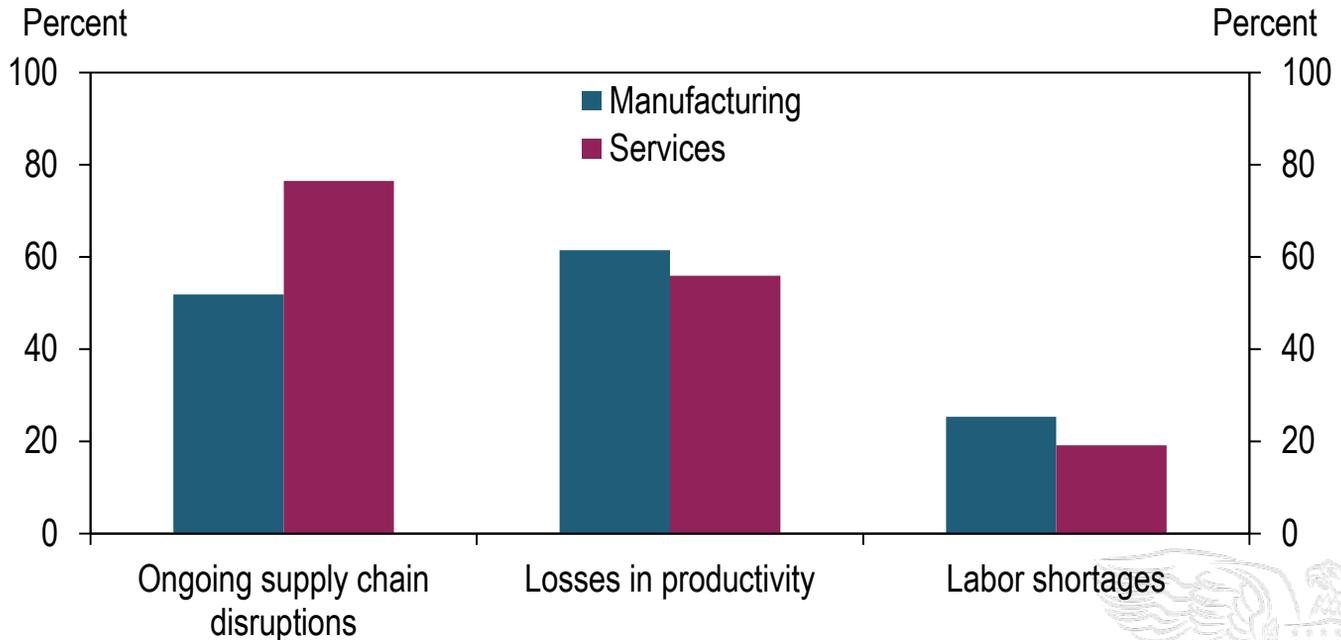


Percent Change in Hourly Employees in Small Businesses



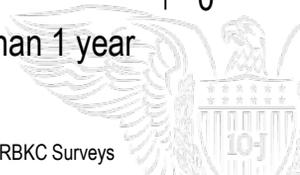
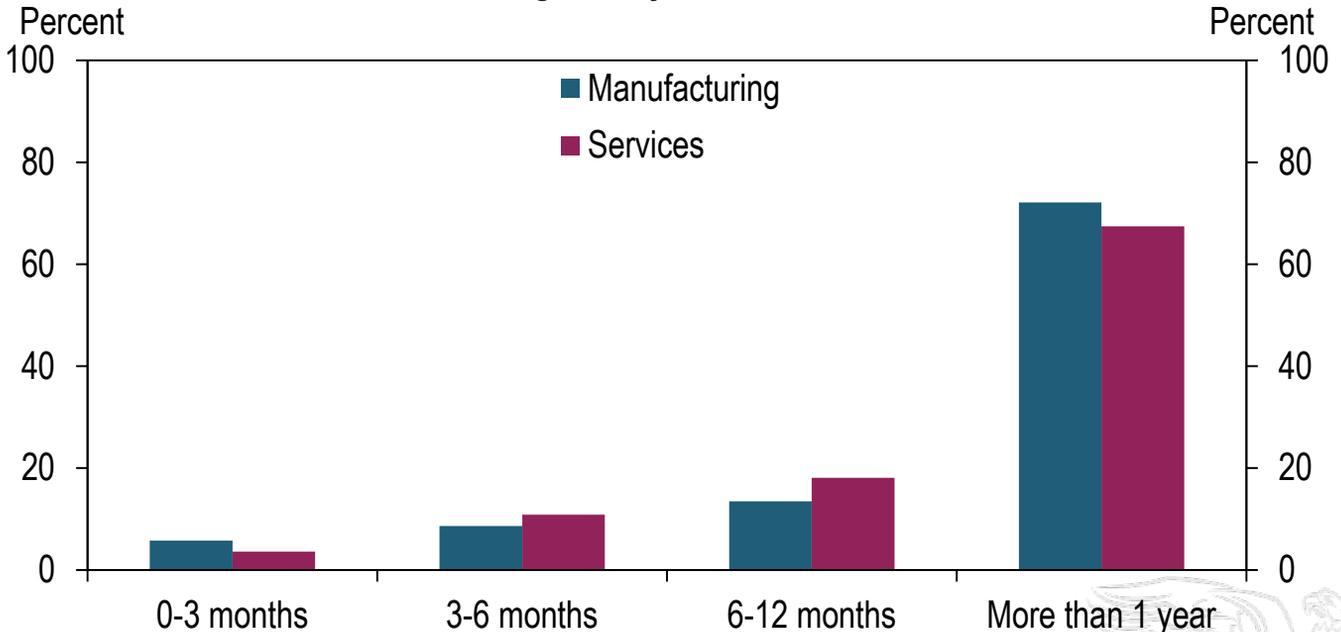
Most firms have experienced ongoing supply chain disruptions and losses in productivity

FRBKC May Survey Special Question: Is your firm experiencing any of the following as a result of the COVID-19 pandemic (please check all that apply)?



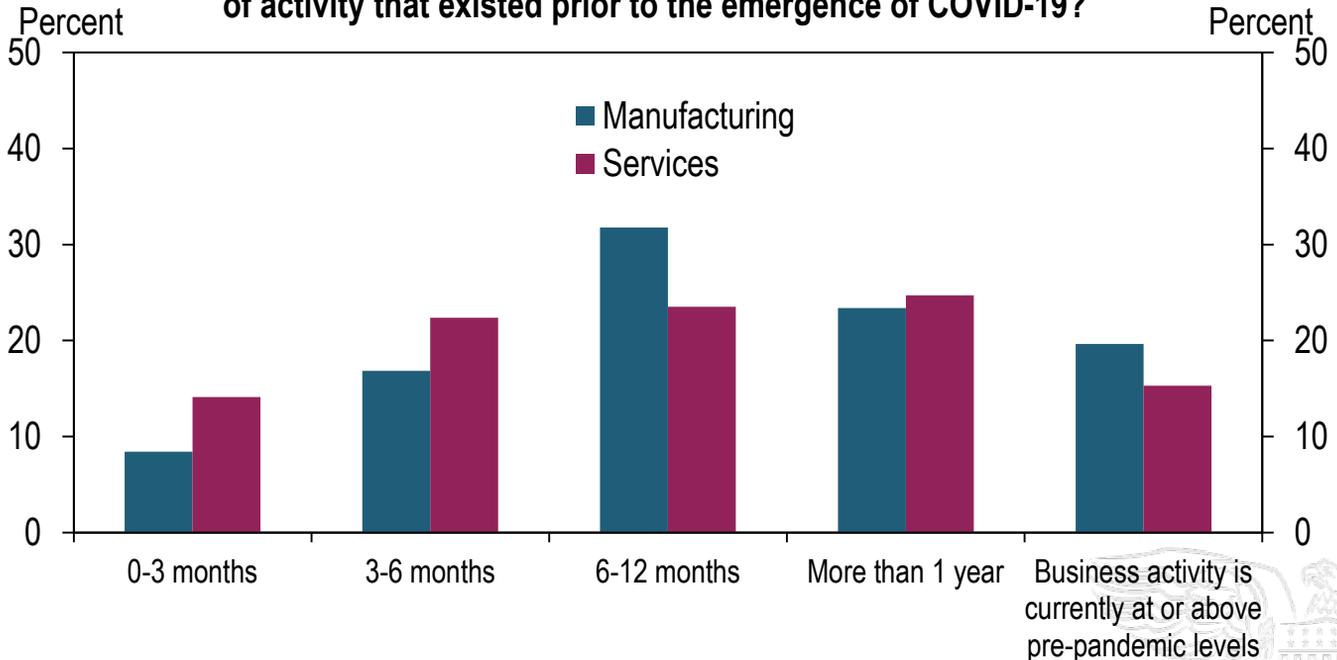
More than 2/3rds of firms indicated they could survive on current revenue levels for over a year

FRBKC May Survey Special Question: If current revenues were to continue, how long could your firm survive?



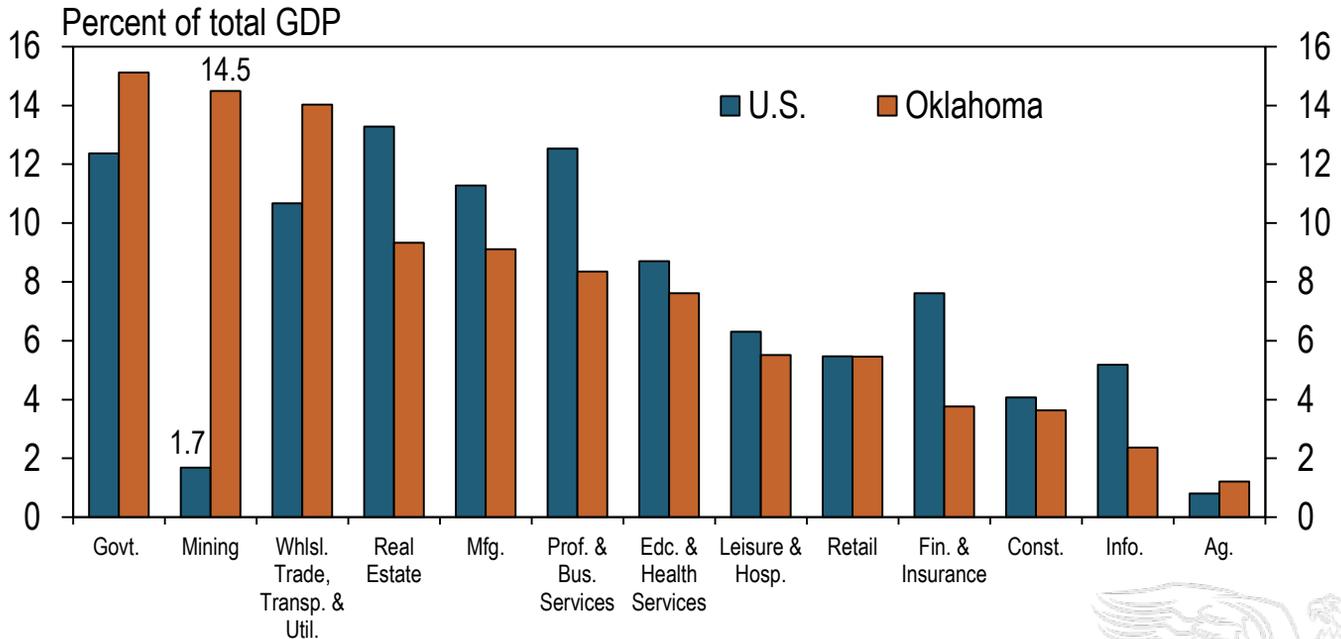
Most firms expect business activity to rebound within a year once restrictions are lifted, and some have already

FRBKC May Survey Special Question: Once restrictions are lifted, how much time do you anticipate will be necessary for business activity at your firm to return to the level of activity that existed prior to the emergence of COVID-19?



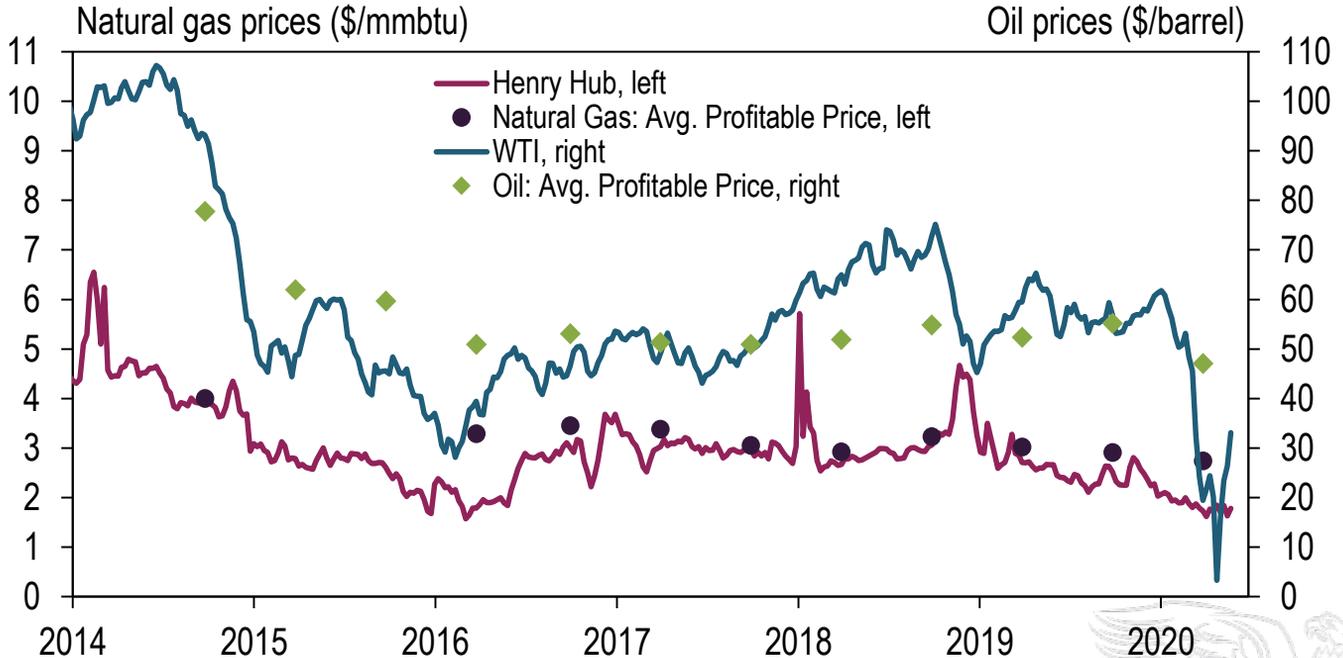
Oklahoma's main difference from the nation in terms of industrial structure is its very sizable energy sector

Industry Share of GDP, 2018



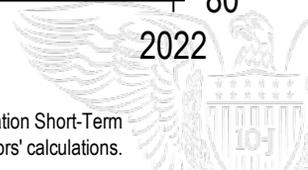
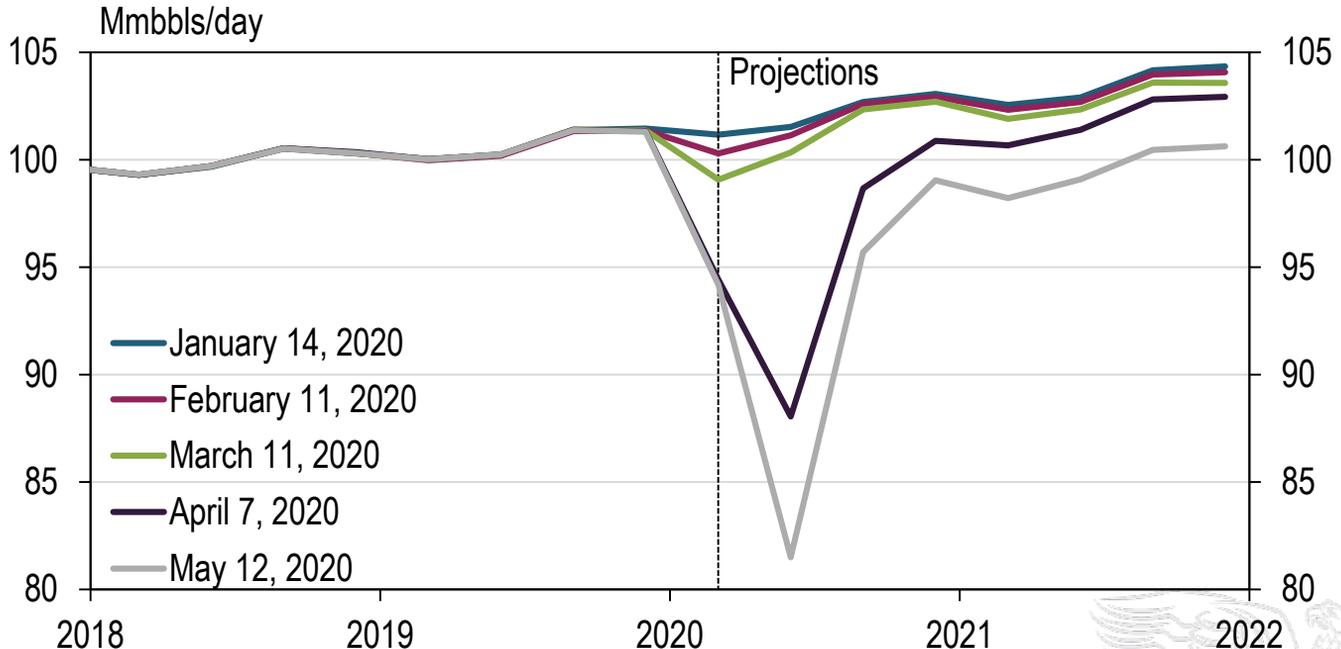
Energy prices have rebounded somewhat, but remain below profitable levels for most regional firms

Oil & Natural Gas Profitability and Prices



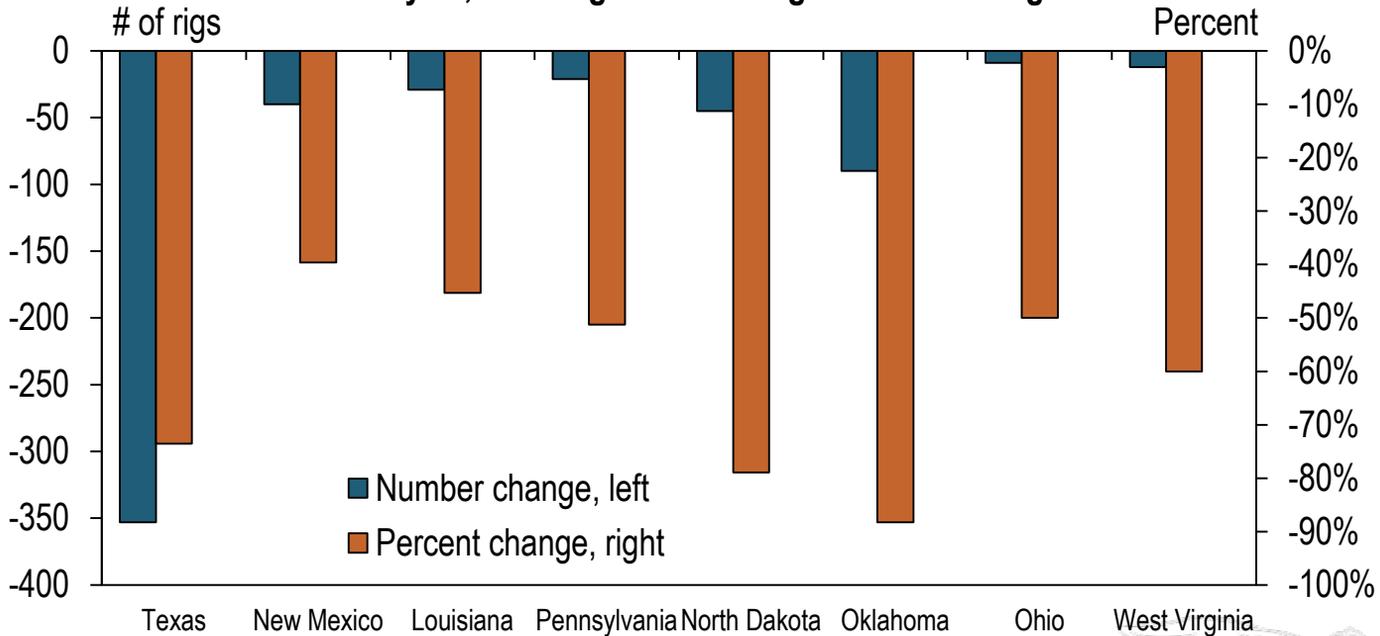
Forecasts for world oil demand have weakened dramatically, following the coronavirus outbreak

World Petroleum Demand Forecasts



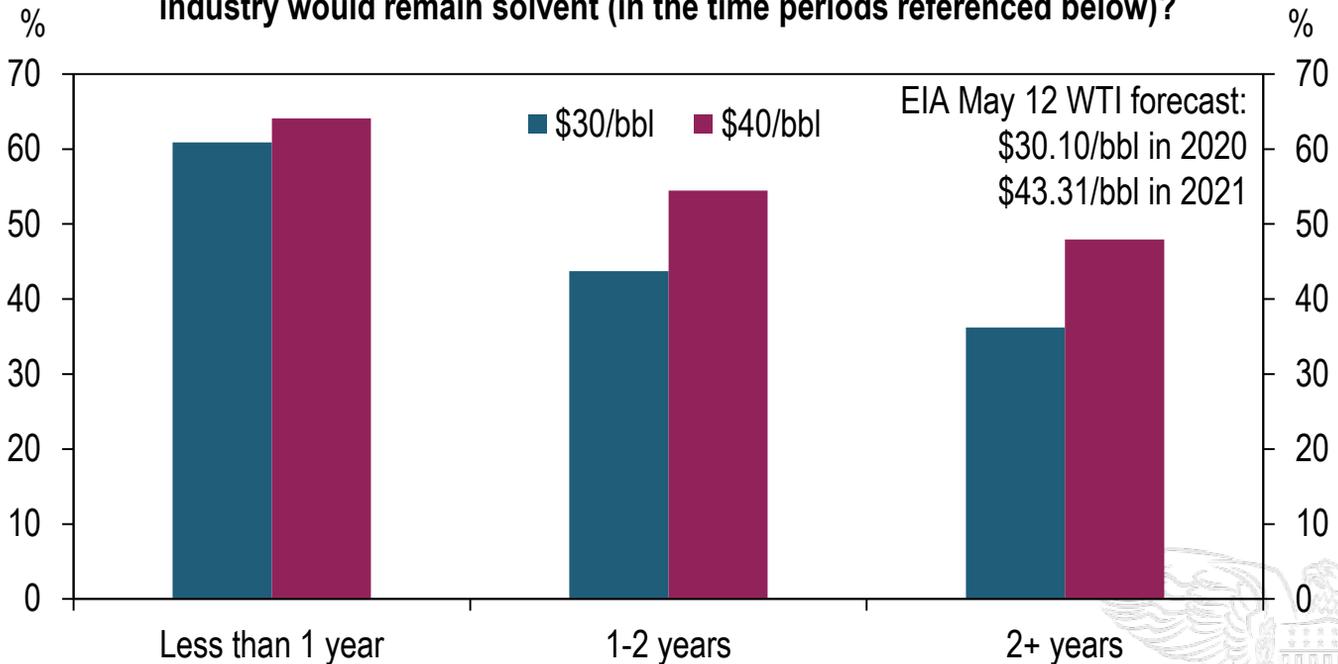
Rig counts in Oklahoma and other energy states have decreased dramatically as firms started well shut-ins

May 29, 2020 Rig Count Change from a Year Ago



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)?



Summary

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Questions?

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