

U.S. and Oklahoma Economic Outlook in the Midst of COVID-19 and Low Oil Prices

Economic Forum

October 20, 2020

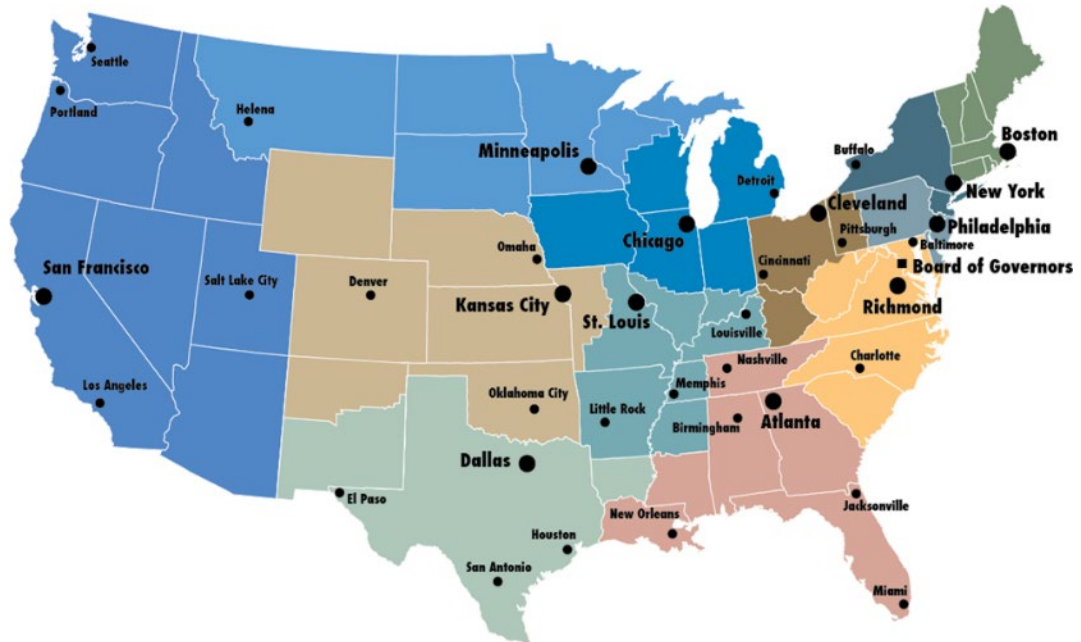
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*The views expressed herein are those of the presenter only and do not necessarily reflect the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

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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 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.)
 - 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
- **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



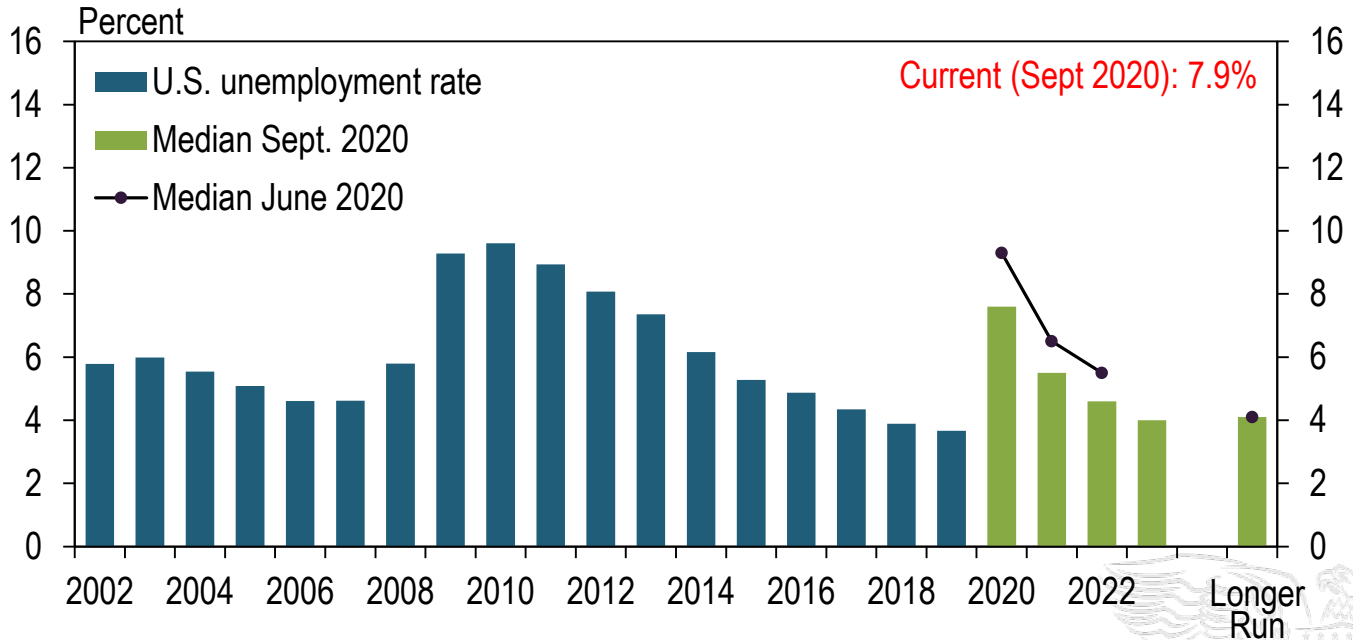
Overview

- The U.S. and Oklahoma economies were hit hard by COVID in the spring but saw fairly solid recovery by summer
- Unprecedented government and Fed support was taken in response to the pandemic, helping maintain incomes and stability
- Since our July 2020 Economic Forum, COVID cases and hospitalizations have been lower in the nation but higher in Oklahoma
- After initially recovering more quickly, job growth in Oklahoma has been slower than in the nation in recent months
- Future conditions in the U.S. and Oklahoma economies and in the energy sector will continue to depend on the path of the virus



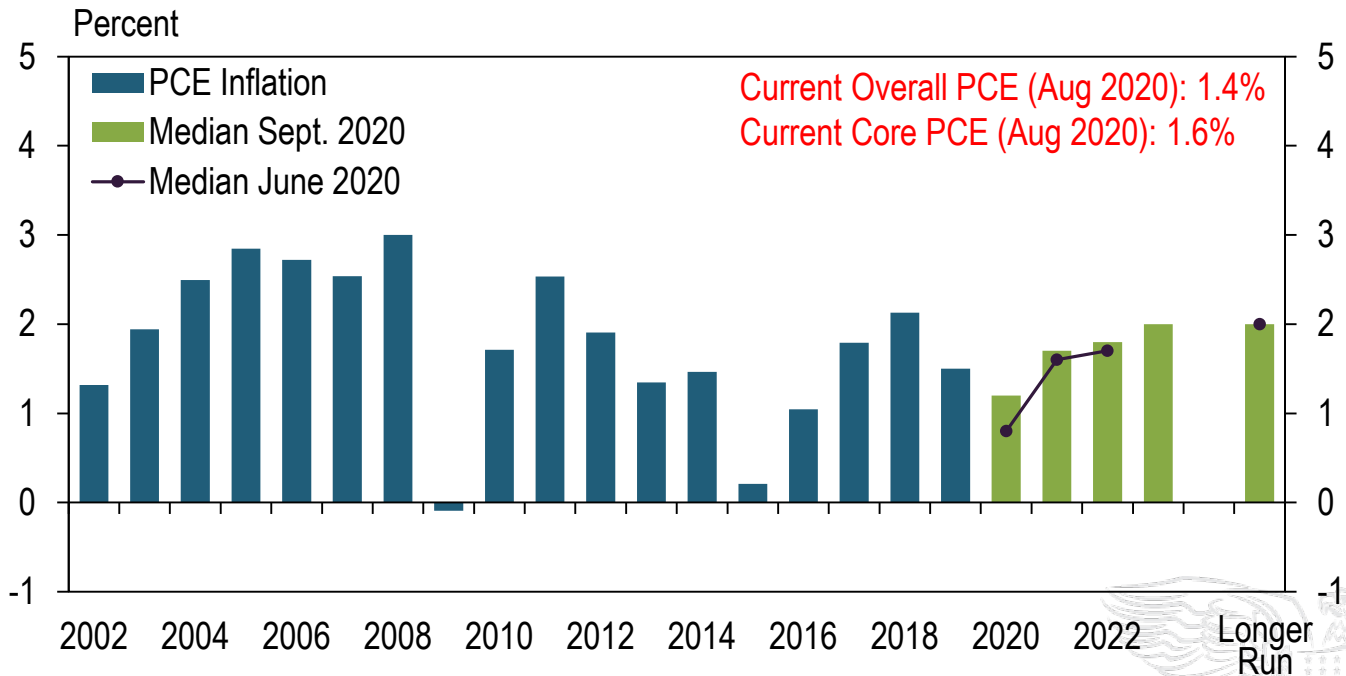
Sept FOMC: “Employment [has] picked up in recent months but remain[s] well below...the beginning of the year.”

U.S. Unemployment Rate



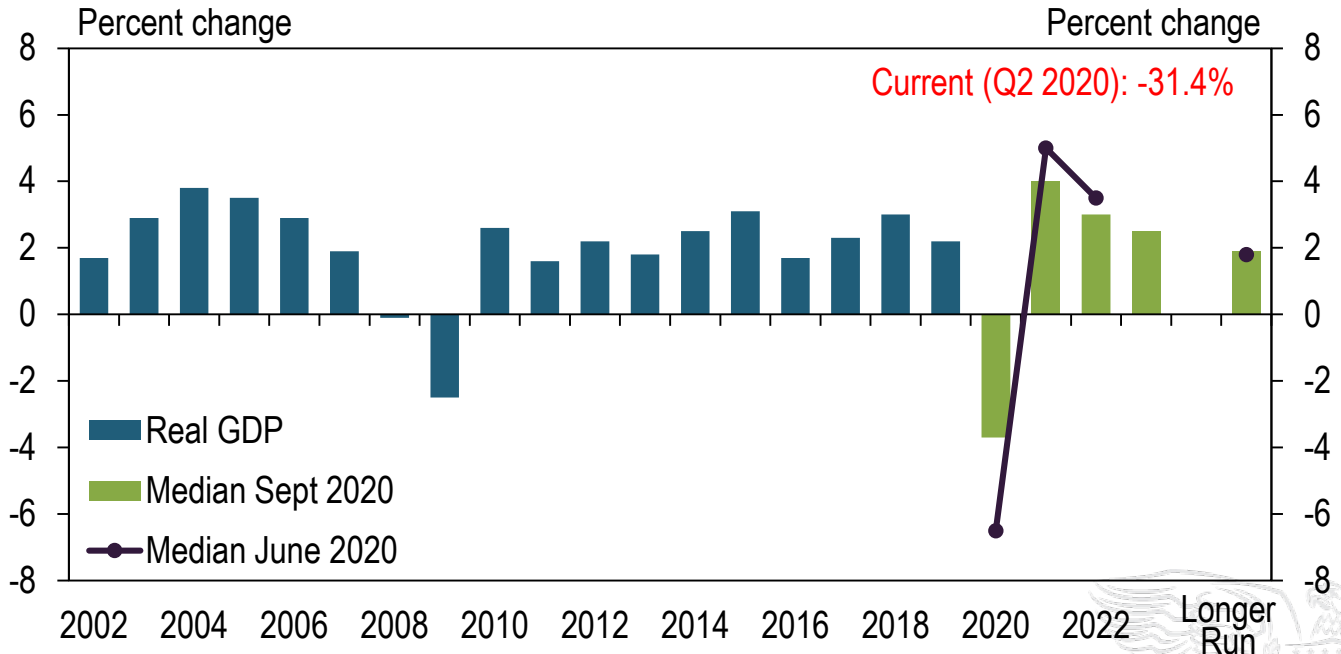
Sept FOMC: “Weaker demand and significantly lower oil prices are holding down consumer price inflation.”

PCE Inflation Index



Sept FOMC: “The path of the economy will depend significantly on the course of the virus.”

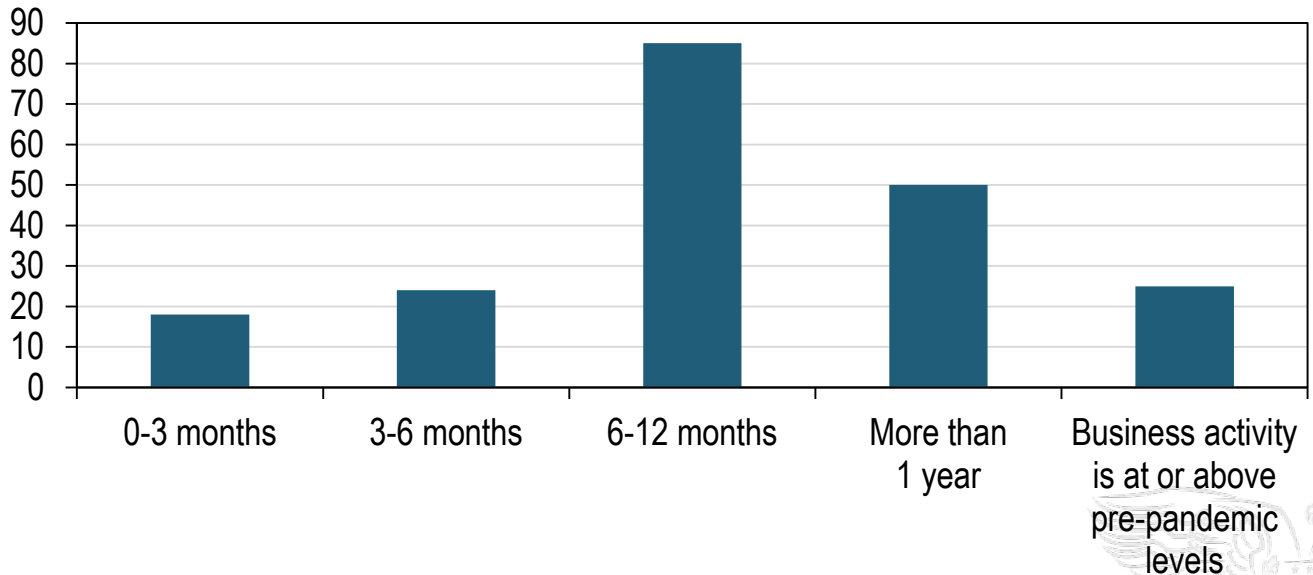
Change in Real GDP



Poll: 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?

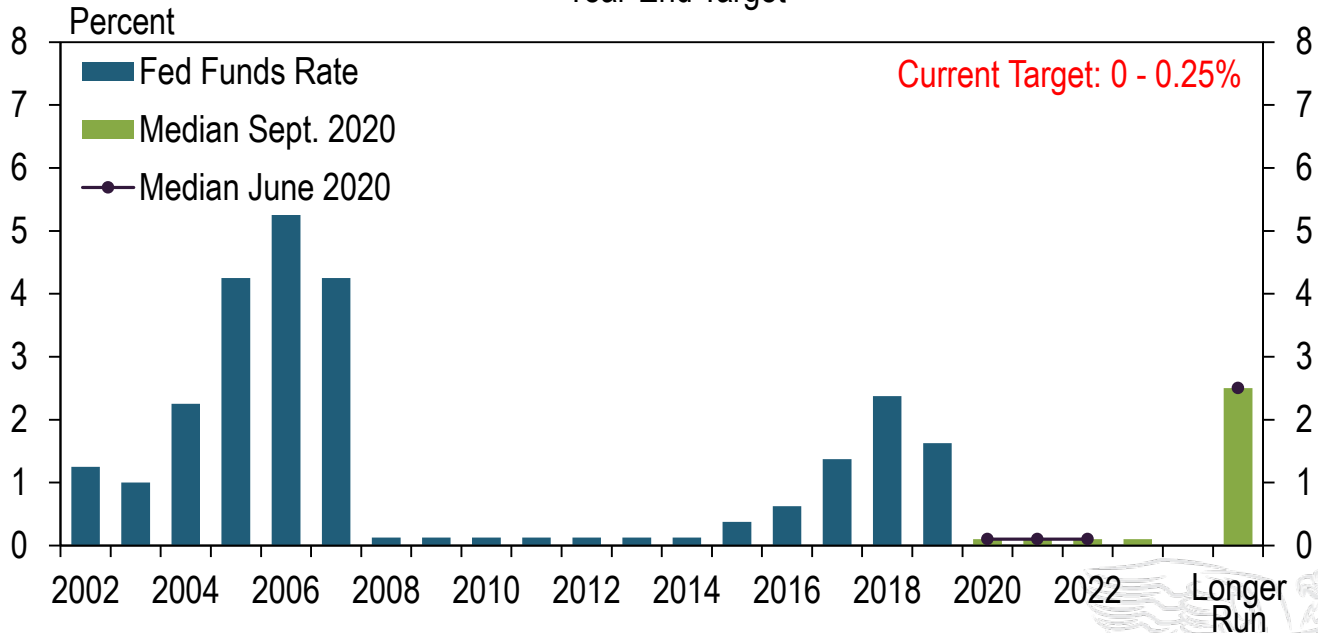
July 15, 2020 Economic Forum Poll Results

of Responses



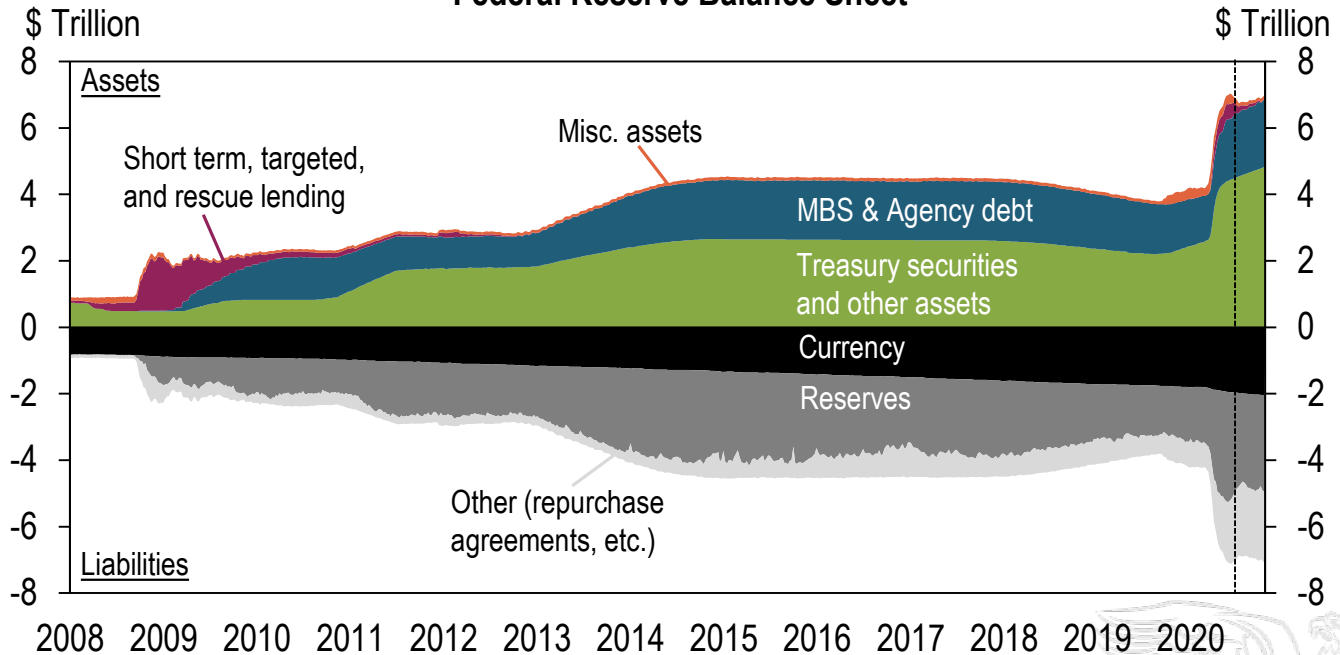
Sept FOMC: “the [FOMC] decided to...maintain this target range until...maximum empl. and inflation...is on track.”

Federal Funds Rate Year-End Target



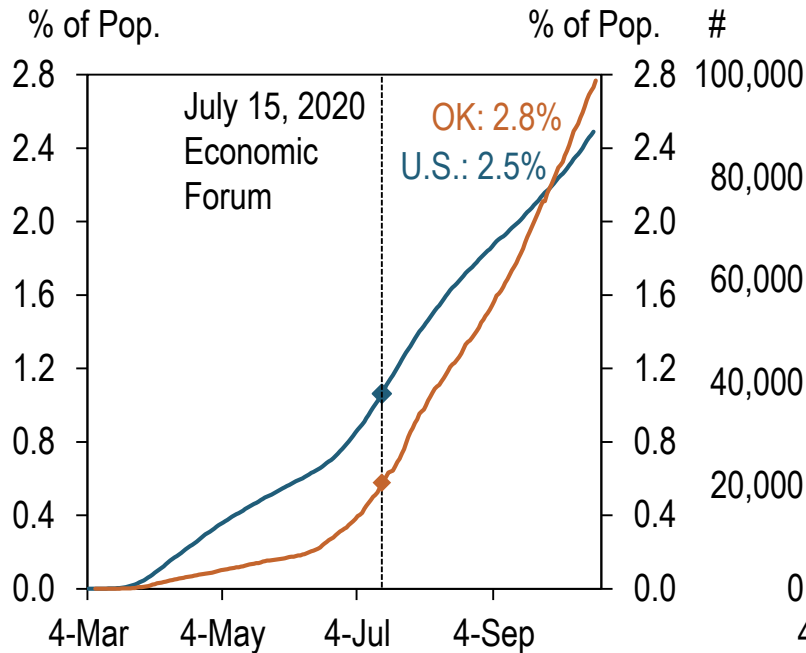
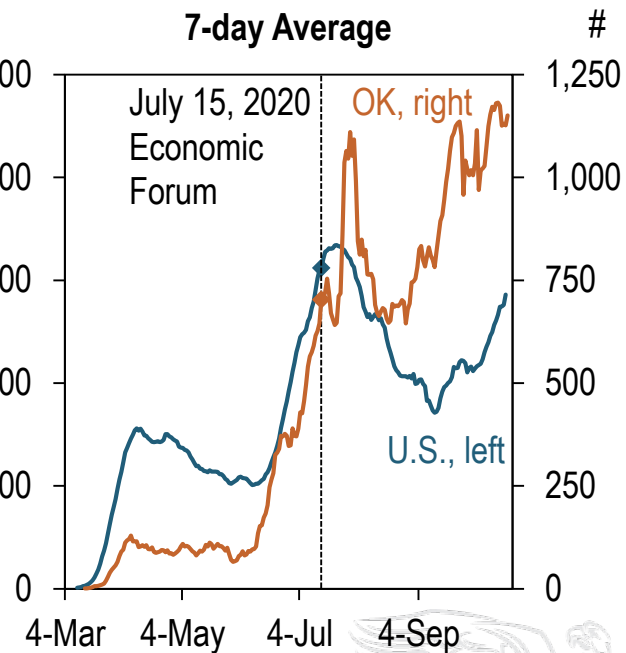
Sept FOMC: “The [Fed] will increase its holdings...to sustain...the flow of credit to households and businesses”

Federal Reserve Balance Sheet



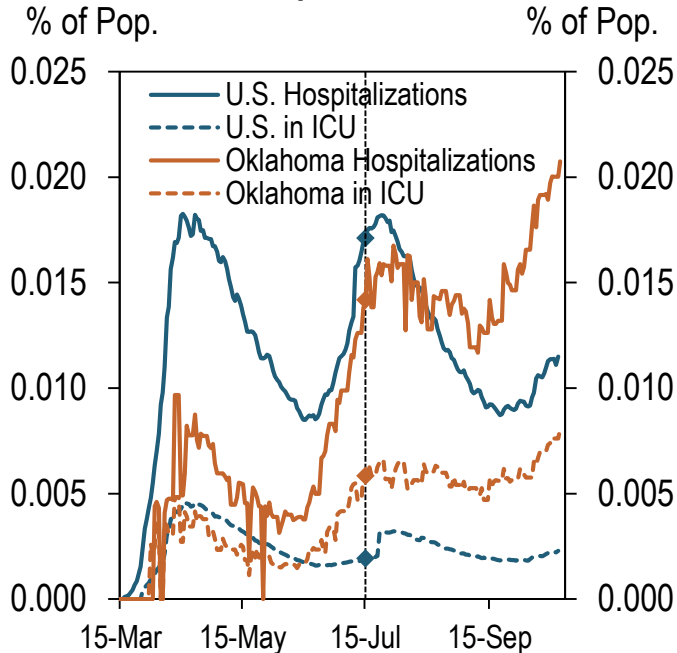
COVID-19 initially spread less in Oklahoma, but then new cases outpaced the U.S. and still remain higher

Confirmed Cases

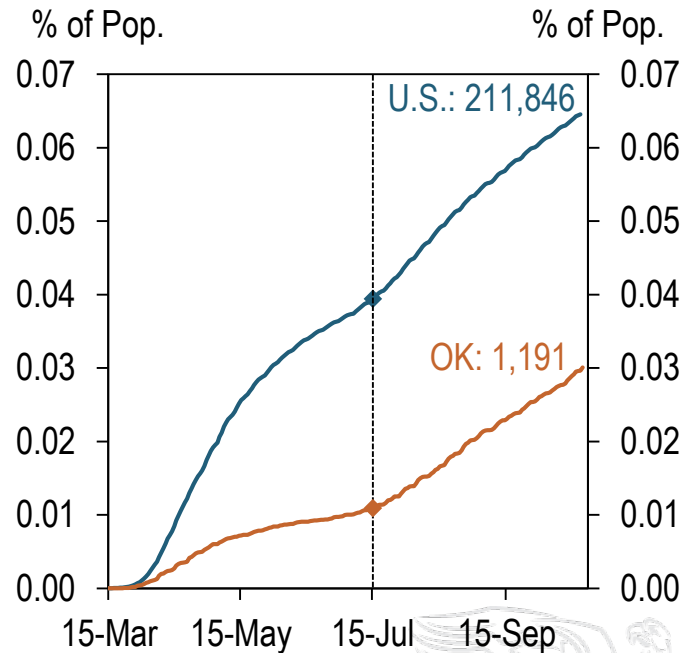
Number of New Cases
7-day Average

As a share of the population, COVID-19 hospitalizations and ICU patients are higher in OK, but deaths are lower

Current Hospitalizations & ICU

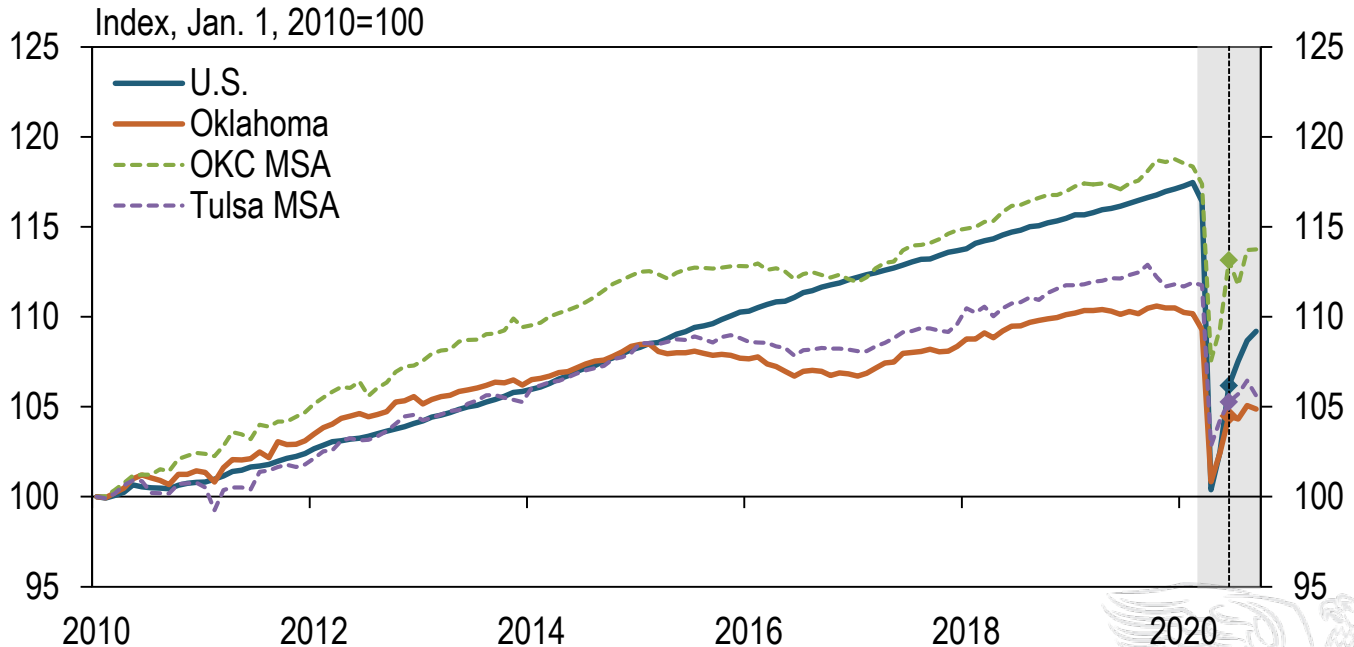


COVID-19 Deaths



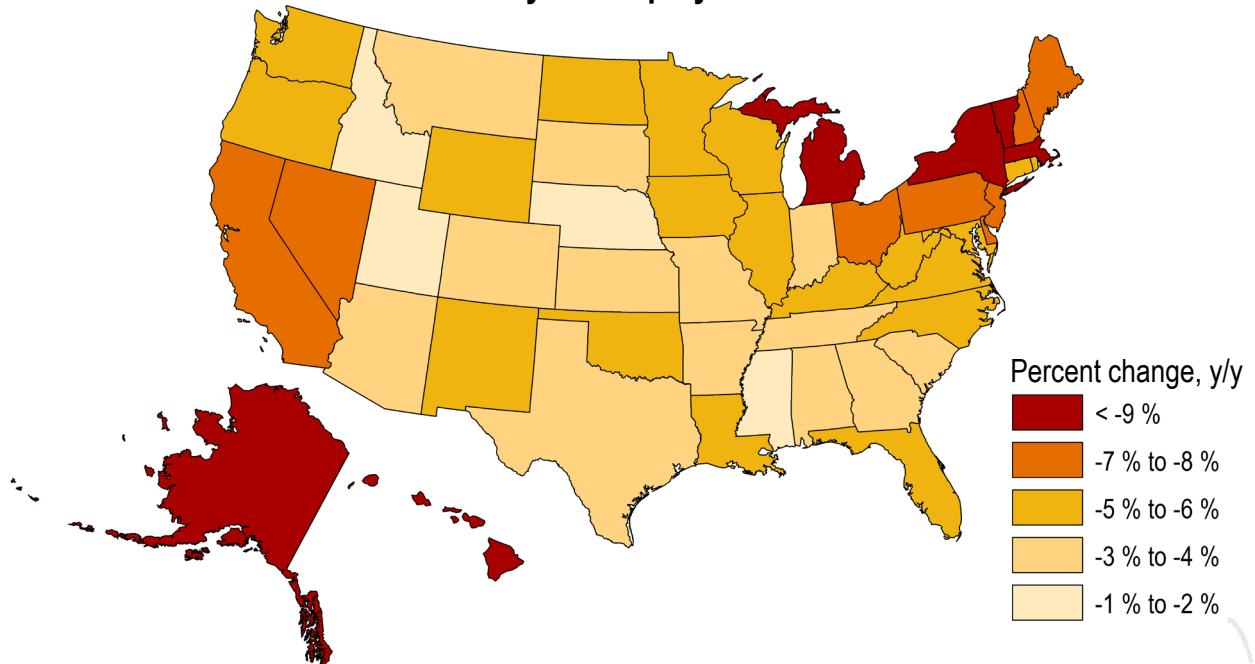
10 years of U.S. and Oklahoma job growth were lost in March/April, but there has been some recovery since

Nonfarm Payroll Employment Growth

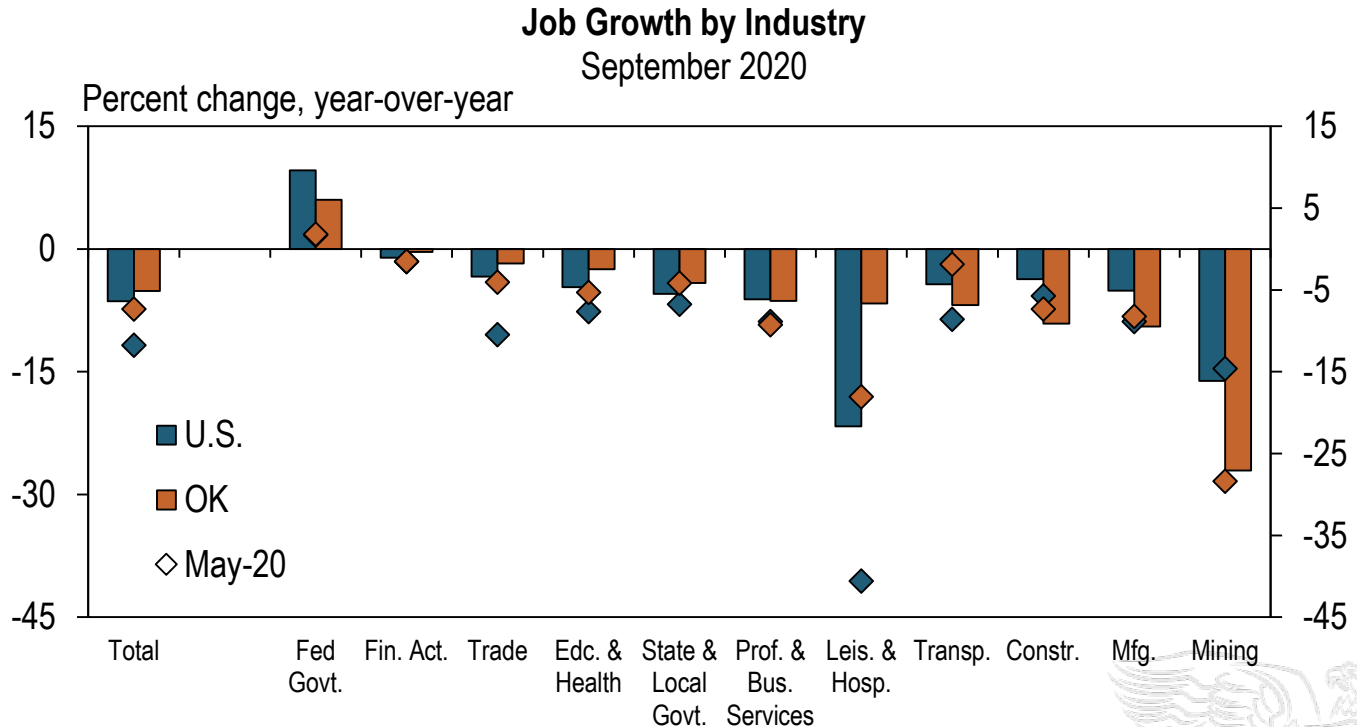


Oklahoma's year-over-year drop in employment was less than some areas in September, though still over 5%

Nonfarm Payroll Employment Growth

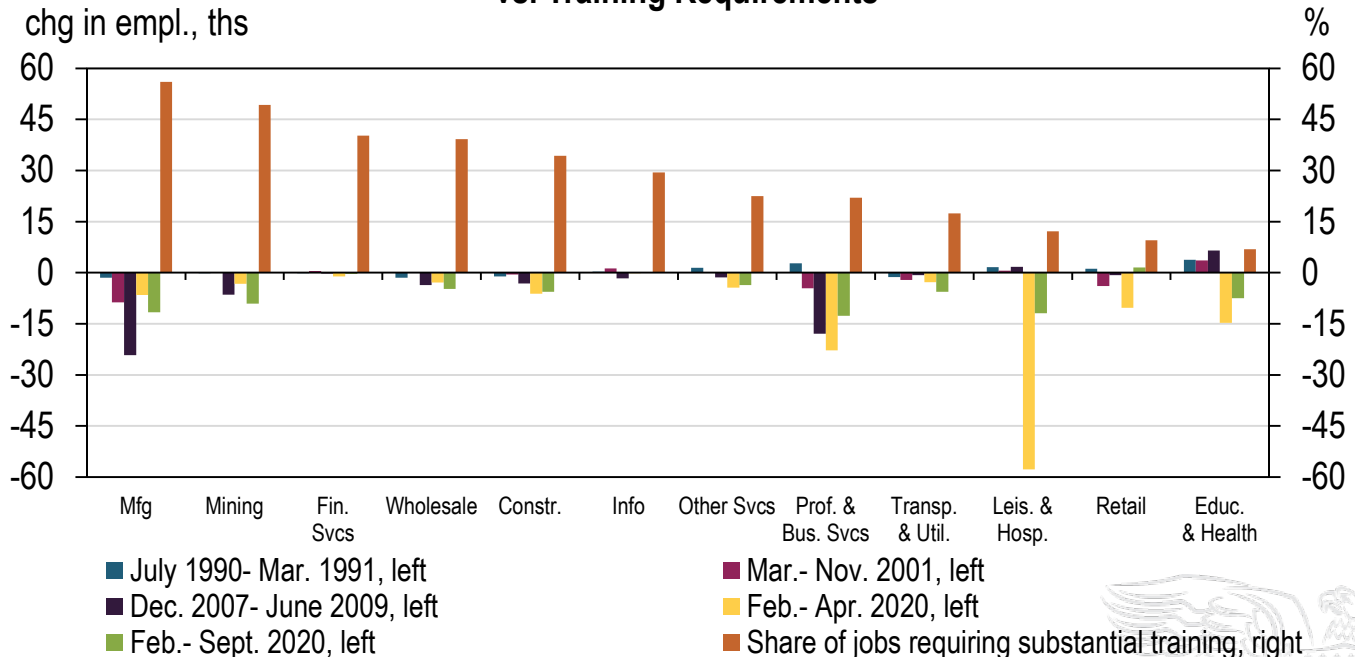


Oklahoma's jobs recovery has stalled in energy, manufacturing, construction, and transportation



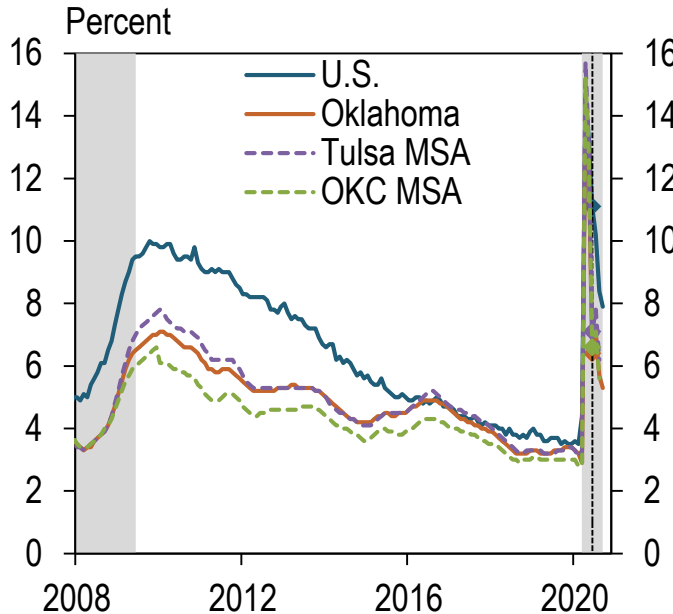
Job losses in previous recessions were concentrated in occupations with more on-the-job training requirements

Oklahoma Recession Job Losses vs. Training Requirements

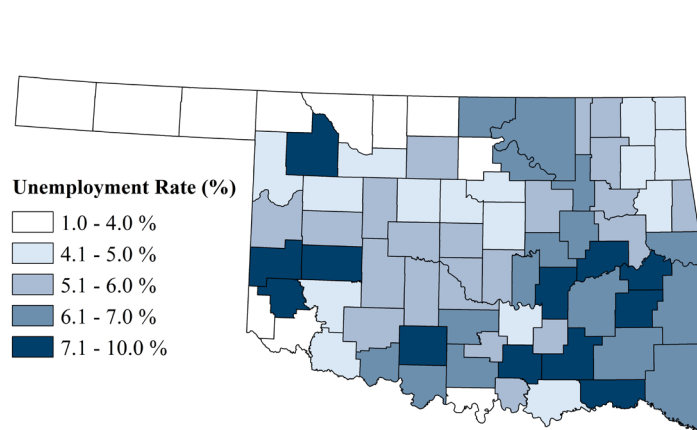


OK unemployment decreased to 5.3% in September, lower than the U.S. rate of 7.9%

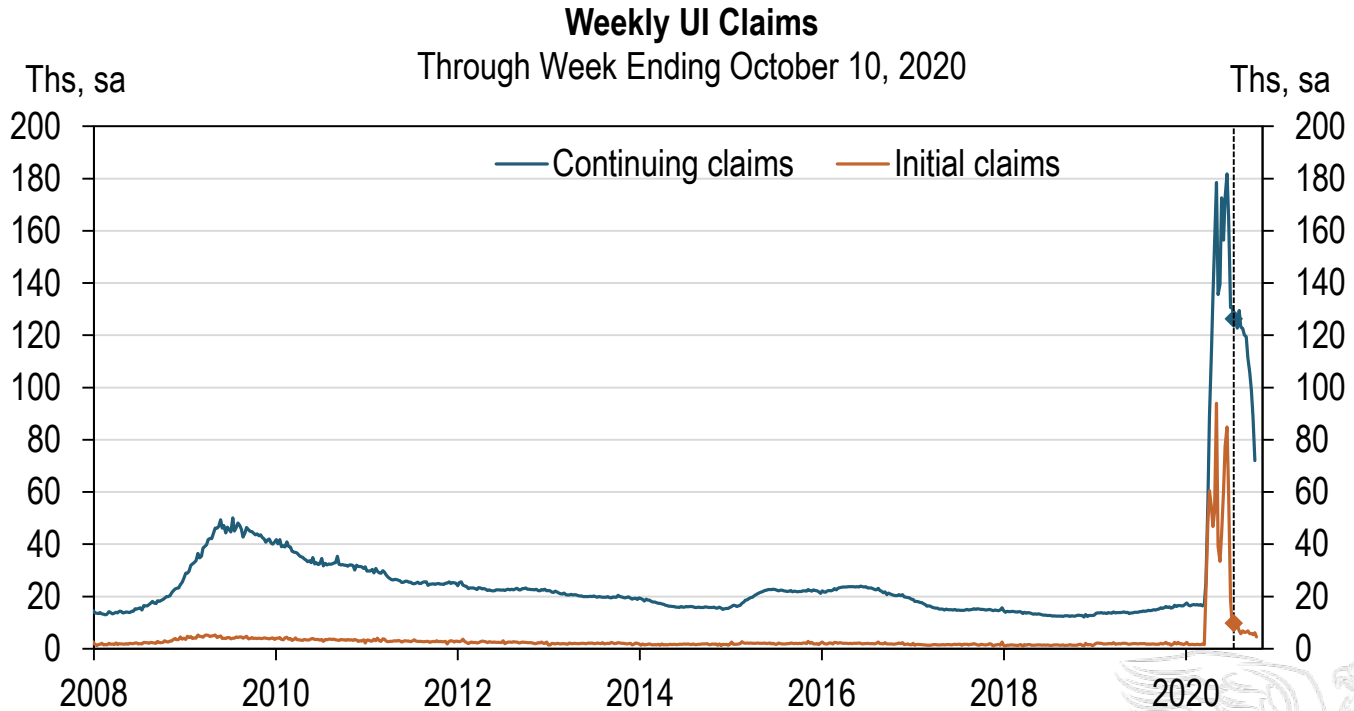
Unemployment Rates Seasonally Adjusted



County Unemployment Rates Seasonally Adjusted



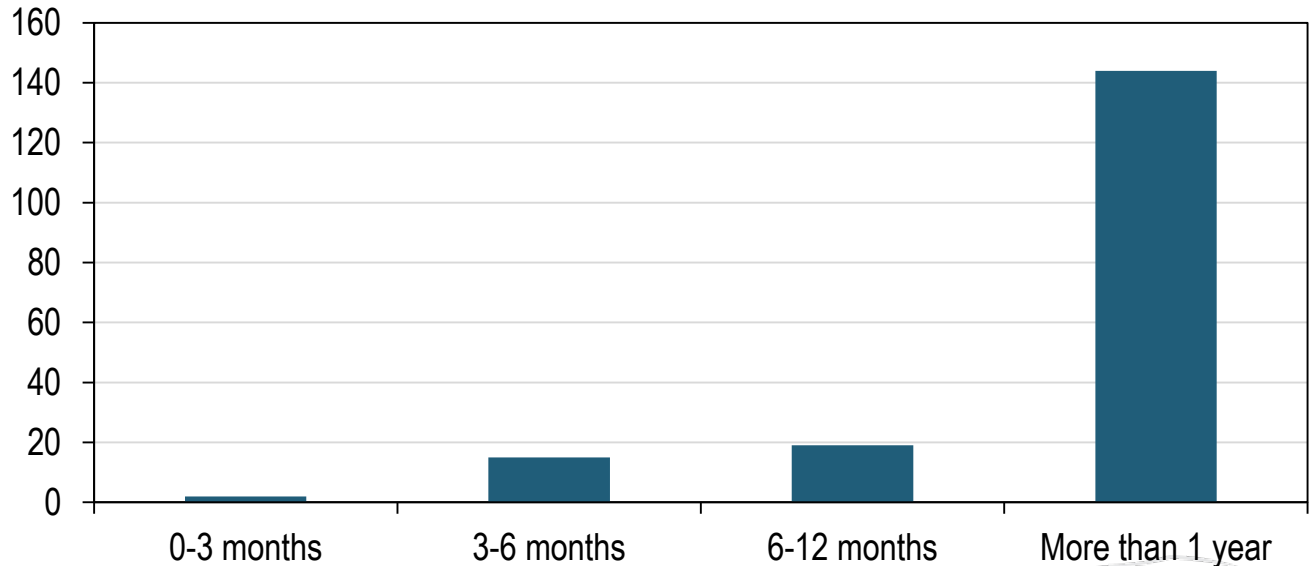
New and continuing state UI claims have continued to come down since June but remain historically high



Poll: If current revenues were to continue how long could your firm survive?

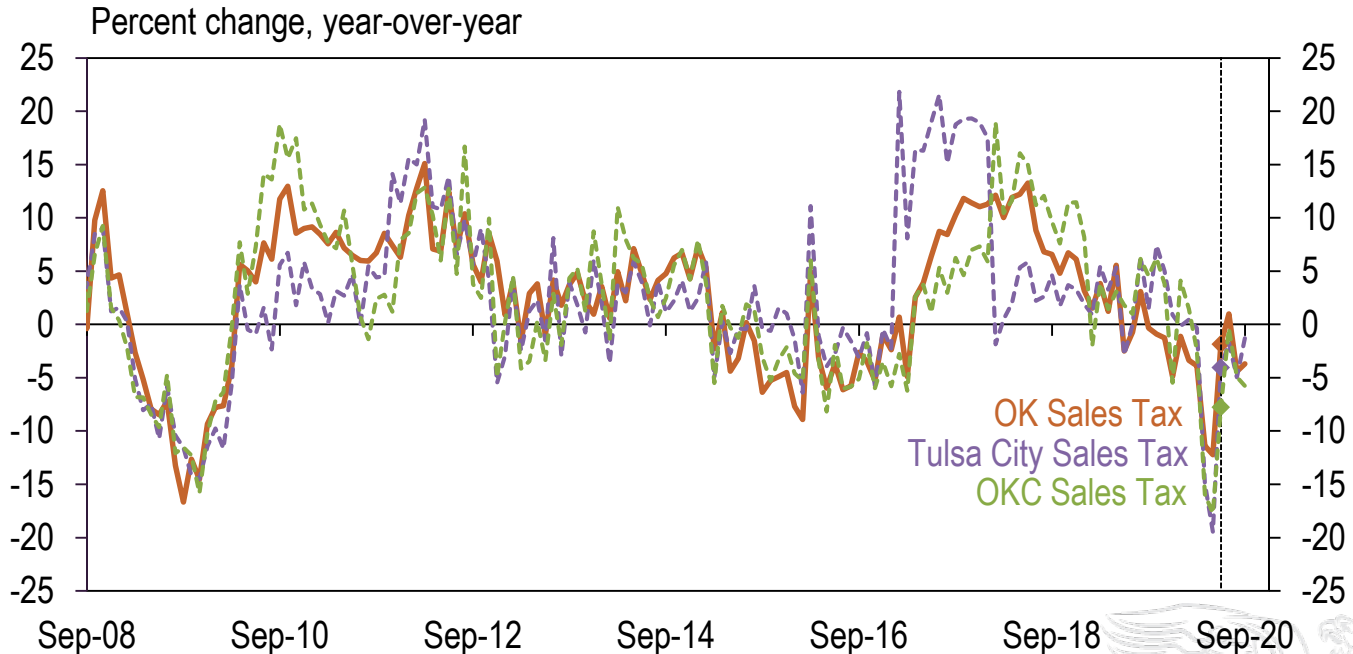
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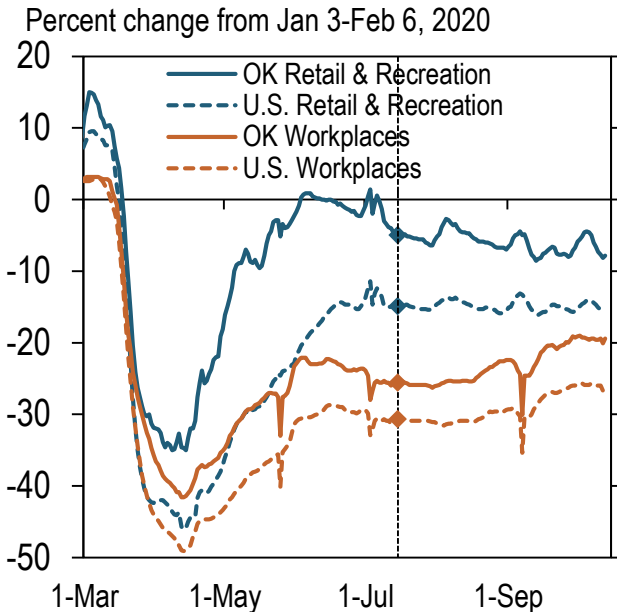
State and city sales tax receipts were lower again in September after rebounding some over the summer

Oklahoma Monthly Tax Revenues

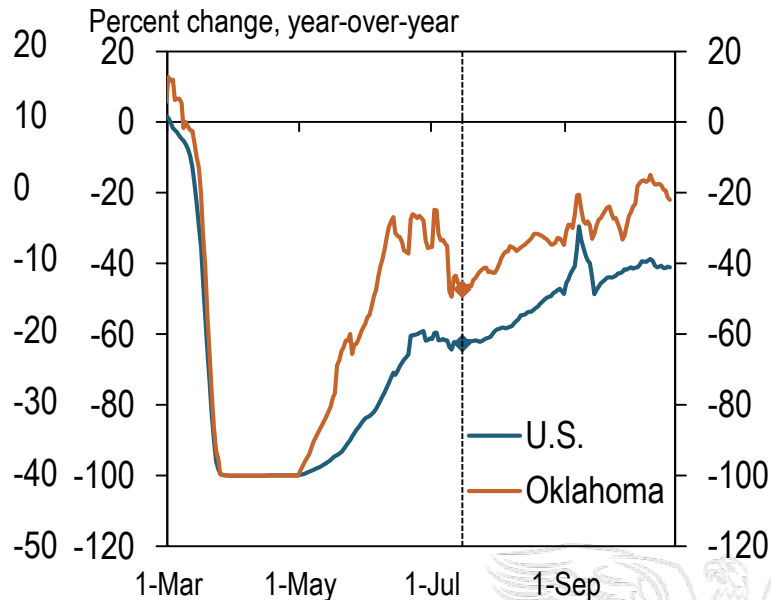


Foot traffic at Oklahoma businesses rose steadily through mid-June, but remains below pre-COVID levels

Google Mobility Data



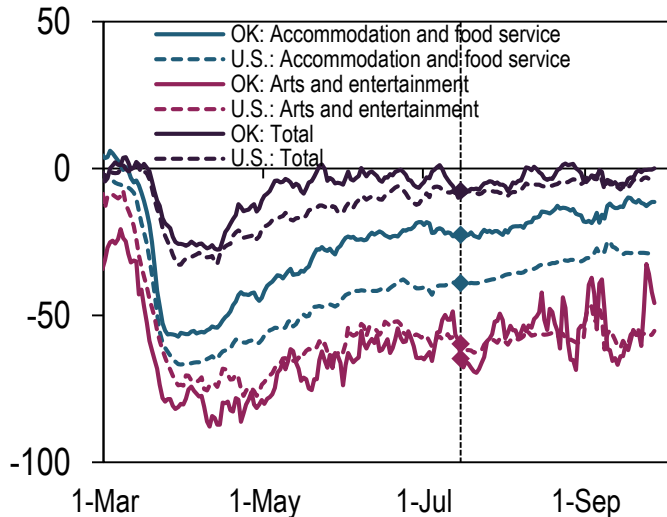
Seated Diners at Restaurants 7-day Average



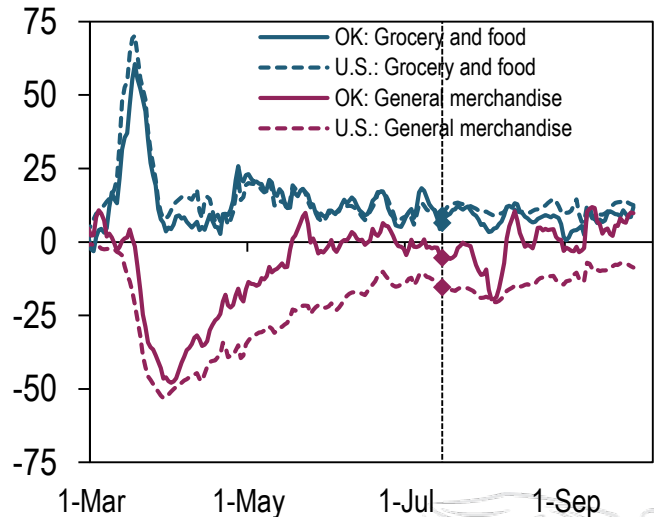
Consumer spending has remained around pre-COVID levels despite less hospitality & entertainment spending

Oklahoma vs. U.S. Consumer Spending

Percent change, from Jan. 2020

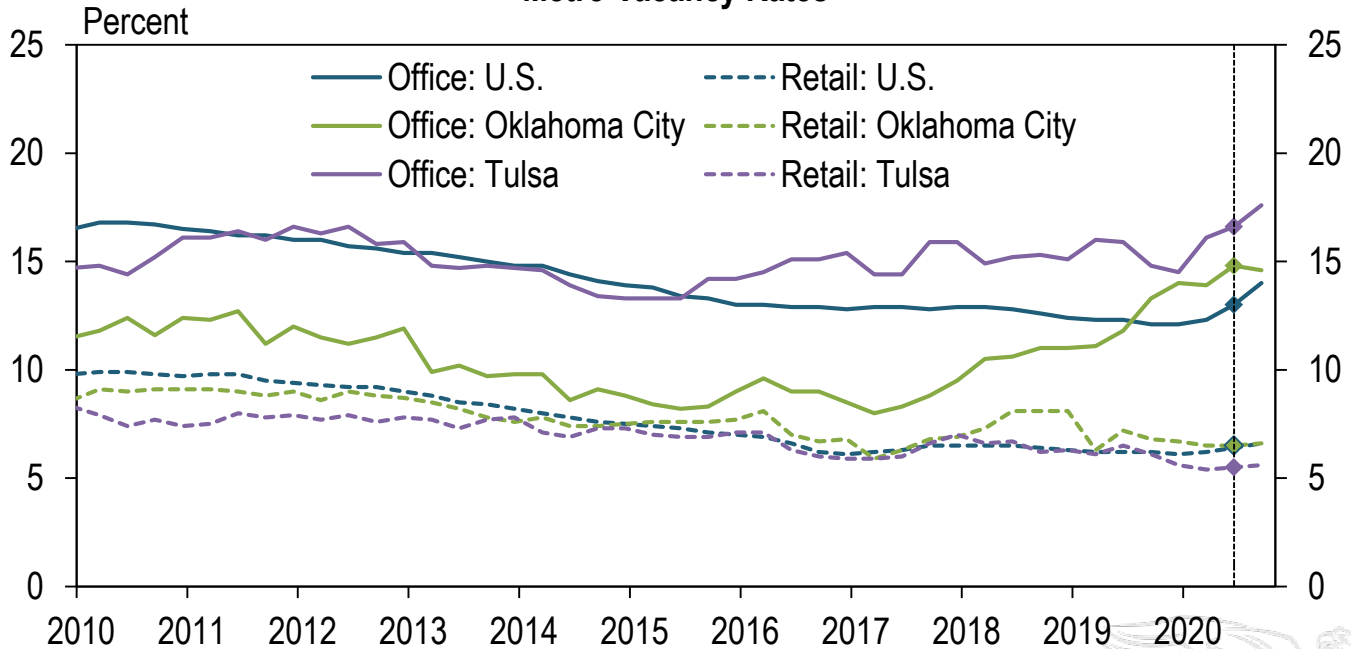


Percent change, from Jan. 2020



Energy city office markets were already struggling before COVID, but retail vacancy was still low in Q3

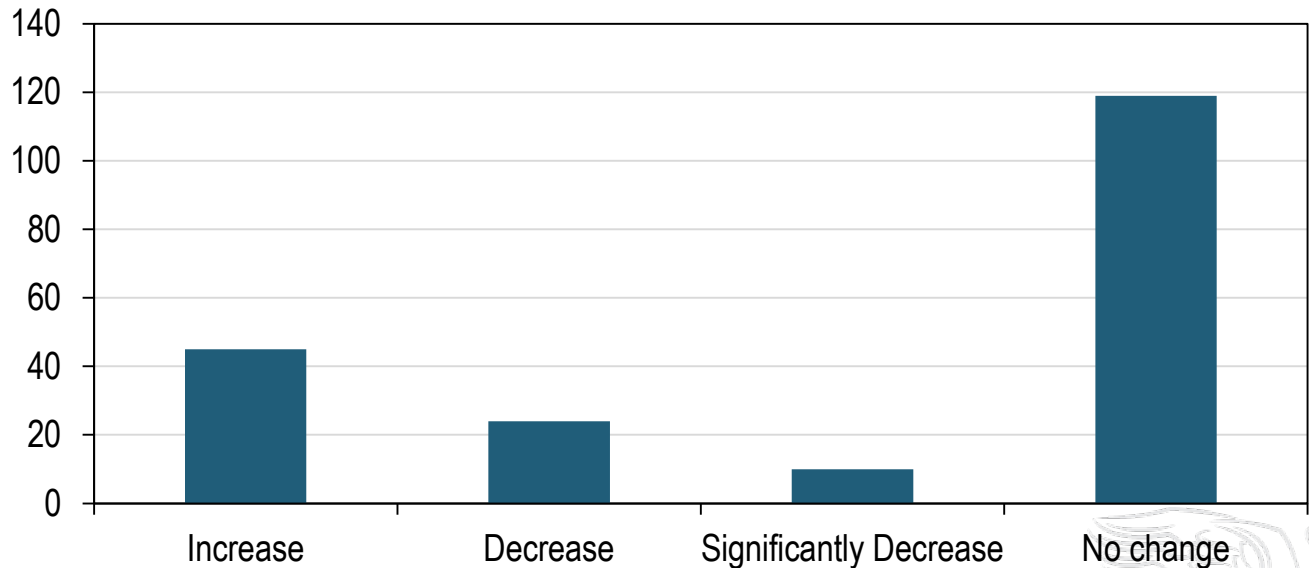
Metro Vacancy Rates



Poll: Over the medium term (1-2 years), how do you anticipate your firm's need for physical infrastructure (e.g., real estate, office space, etc.) will change?

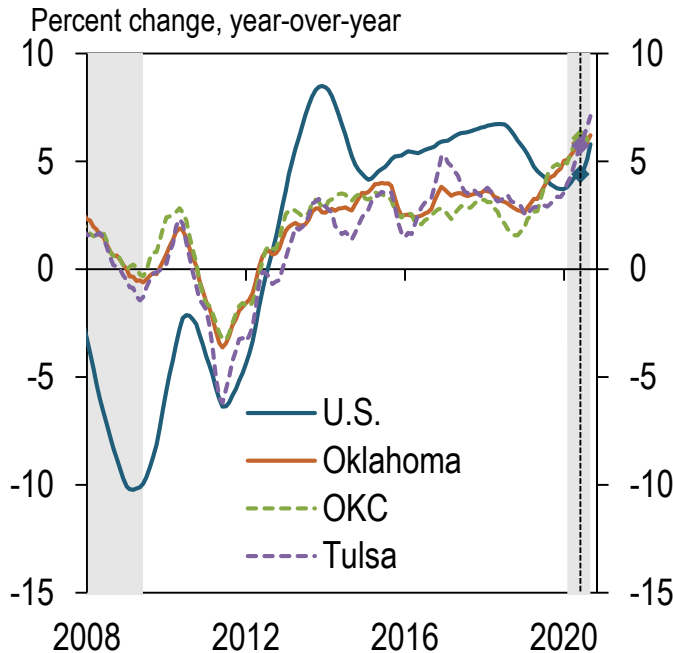
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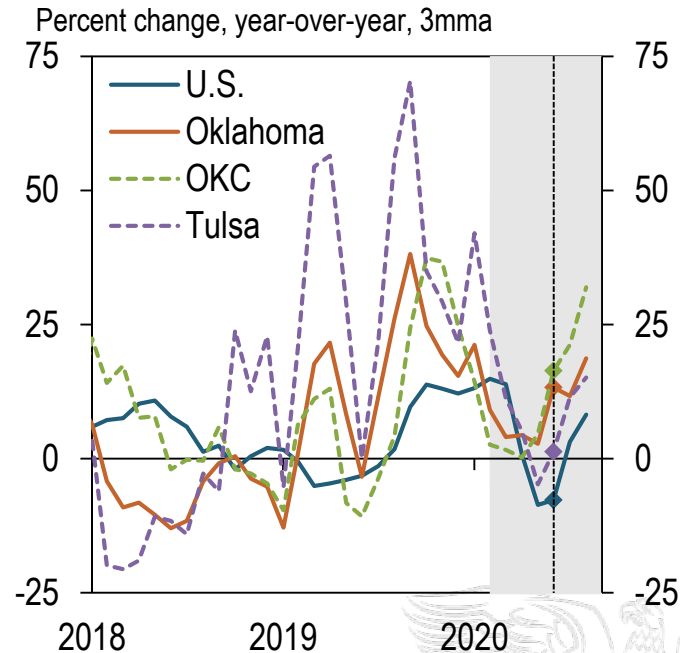


Through August, housing prices and new building permits in OK continued to rise faster than the U.S.

Housing Price Index

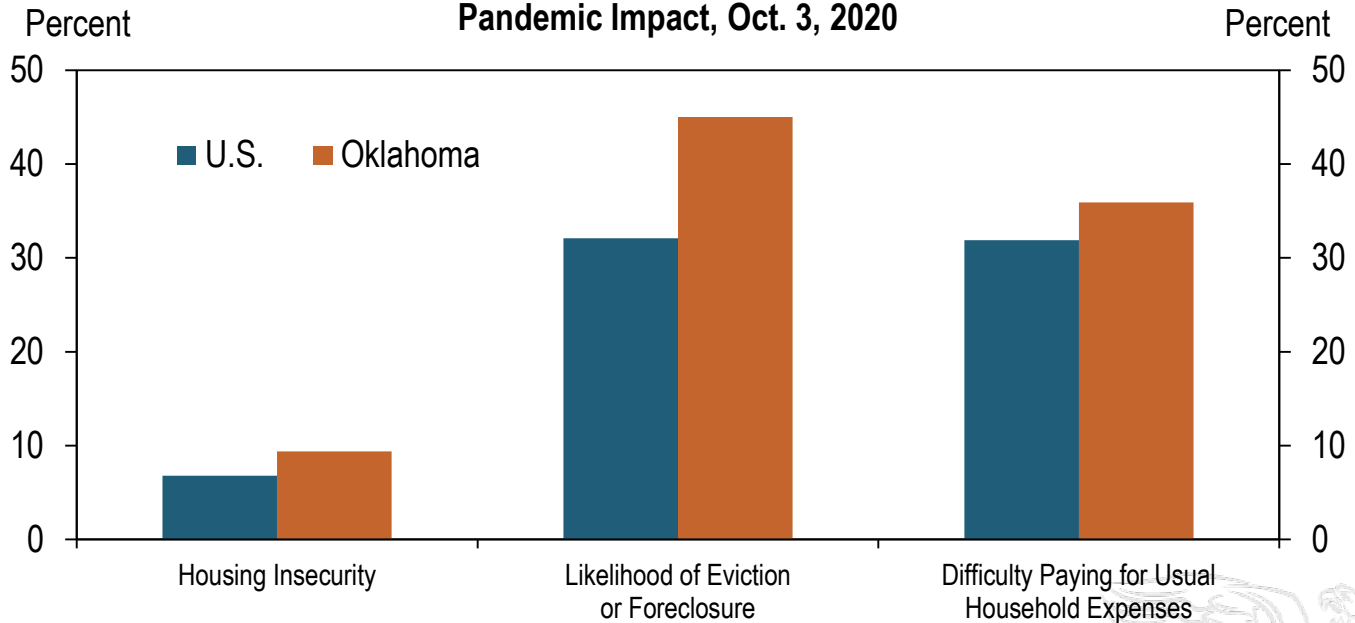


New Housing Permits



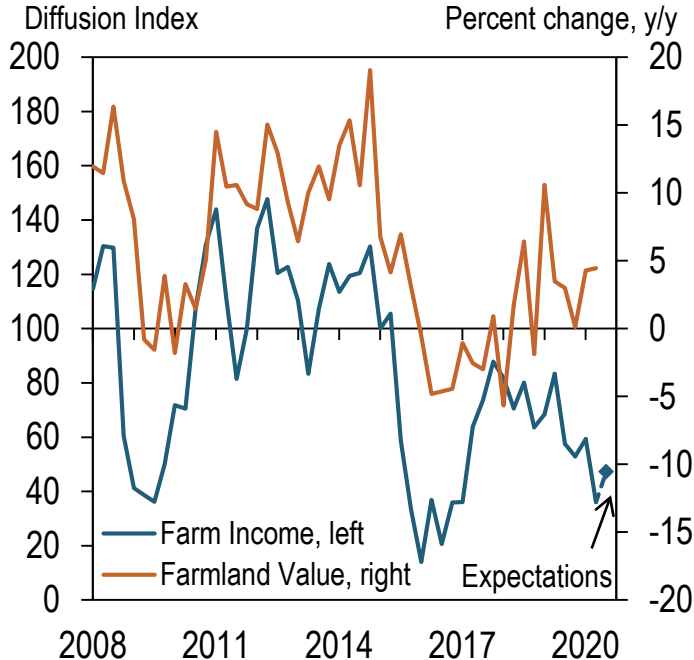
But a higher share of Oklahomans are having difficulty paying household expenses and are at risk of eviction

Household Pulse Survey
Pandemic Impact, Oct. 3, 2020

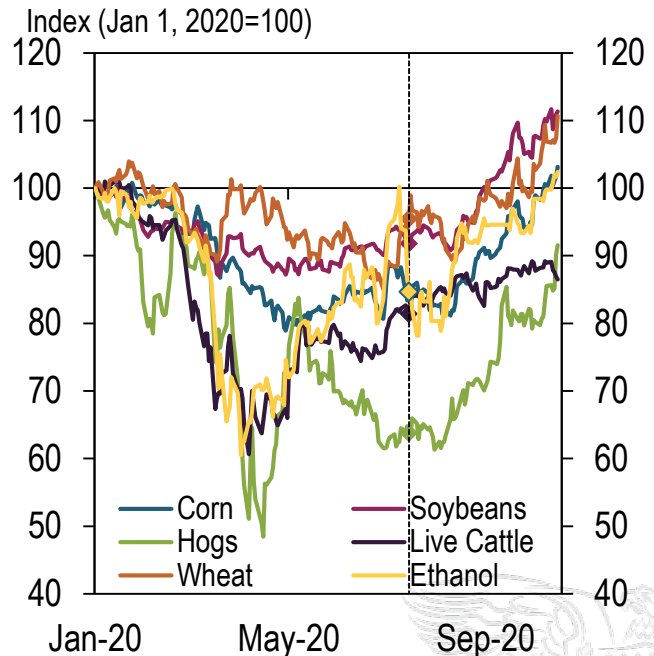


State ag incomes remained depressed through the summer, but grain prices have rebounded considerably

Oklahoma Farm Income and Farmland Values

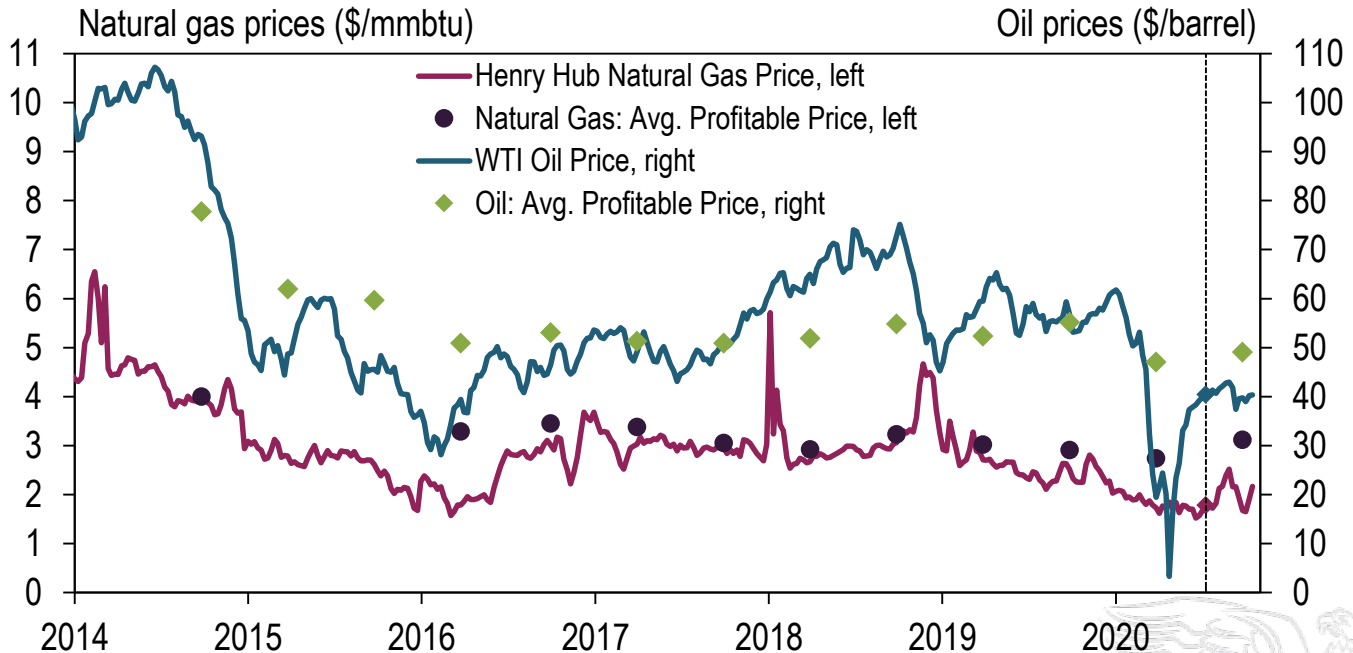


Commodity Prices



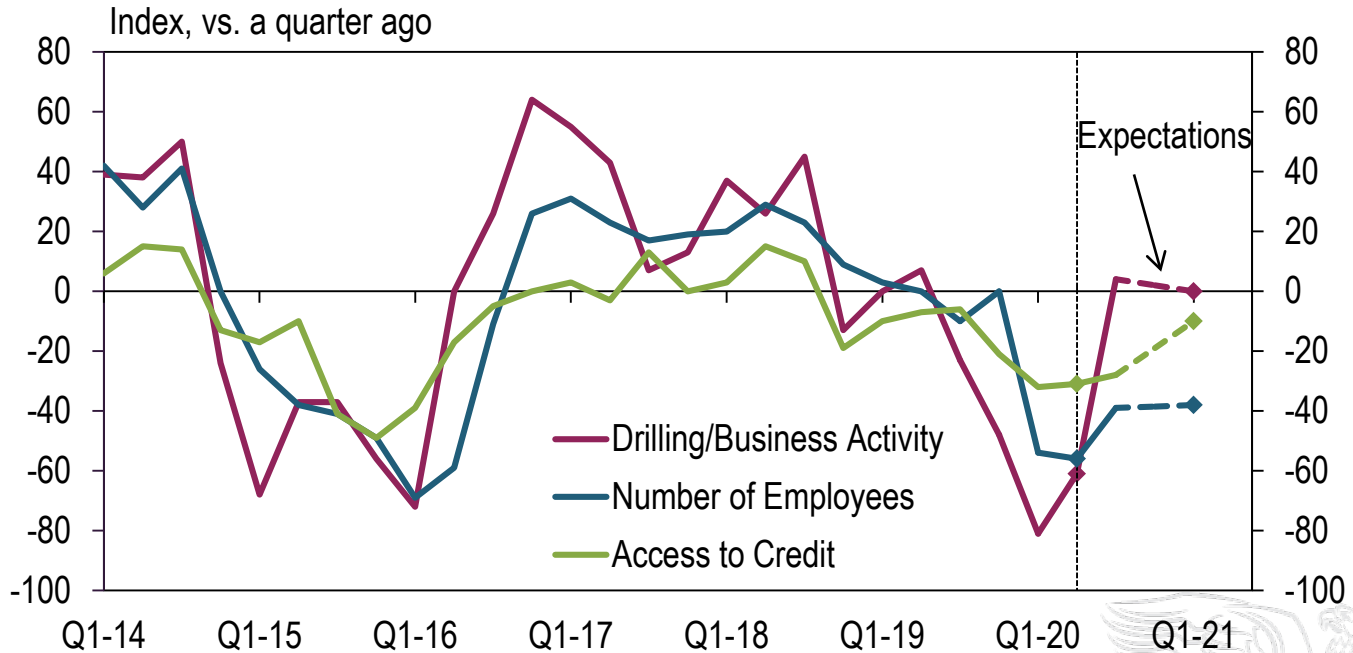
Energy prices have been stable since summer but still below profitable levels according to most firms

Oil & Natural Gas Profitability and Prices



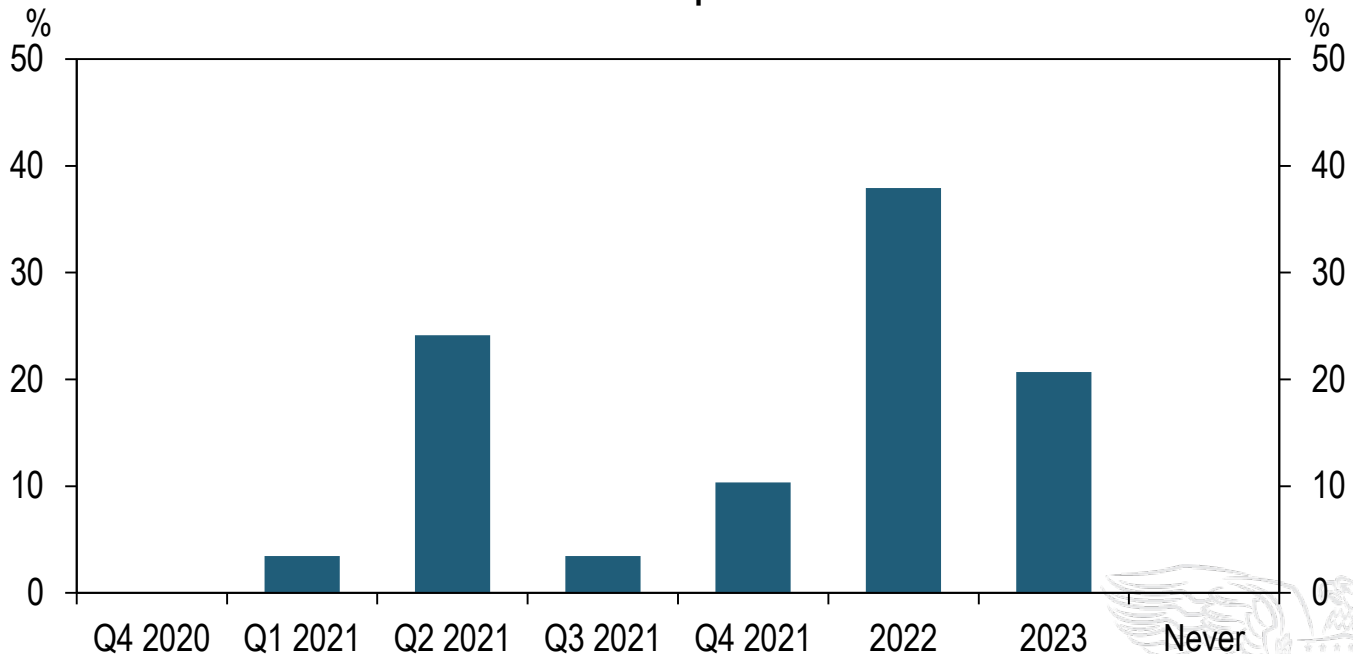
The KC Fed's quarterly energy survey, released Oct 9, showed stabilization in activity but not in jobs

Kansas City Fed Energy Indexes



A quarter of firms expect global oil demand to rebound by next summer, but 60% expect it to take a few years

FRBKC Q3 2020 Energy Special Question: When does your firm expect global oil demand to return to pre-COVID levels?



New Poll Question: What longer-term changes do you expect for your business after risks from the pandemic dissipate?

- **Increase in Labor Force**
- **Decrease in Labor Force**
- **Permanent changes in scheduling**
- **Continual Health Screening for Workforce**
- **Implementation of permanent work from home policies (for at least some staff)**
- **Diversify suppliers**
- **Increased Need for physical space**
- **Decrease Need for physical space**
- **Move towards on-line**
- **Reduced Travel**



Summary

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Questions?

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