U.S. and Oklahoma Economic Outlook

Risk Management Association

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Vice President and Oklahoma City Branch Executive

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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

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

- 2021 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

- As the pandemic has eased, state, regional, and national economies have continued to recover, with strong outlooks.

- This is despite rising prices and labor shortages creating challenges and disruptions for many businesses.

- While labor is tight, Oklahoma jobs are still down from pre-pandemic levels, especially in energy.

- The Fed continues to monitor economic conditions for asset purchases and interest rate decisions.
COVID-19 cases, hospitalizations, and death rates have come down considerably in the U.S. and Oklahoma.

**Number of New COVID Cases & Hospitalizations**

- U.S. Cases
- OK Cases
- U.S. Hospitalizations
- OK Hospitalizations

**Current COVID-19 Deaths**

- U.S. deaths
- Oklahoma deaths

Note: All series shown as 7-day moving average.

Sources: Dept. Human Services, Johns Hopkins, Our World in Data
Our vaccination rate still lags markedly, leaving us at greater risk, but workplace foot traffic is finally rising.
Consumer spending and sales tax receipts have held up through Oct. with online purchases and stimulus.

Note: Spending shown as 7-day moving average.

Sources: Affinity/Track the Recovery, Oklahoma Treasury, Authors’ calculations
Surveys show that business activity in Oklahoma’s region is also rising solidly, with strong outlooks.

**KC Fed Manufacturing Survey**

- Index, 3mma
- Employment
- Production

**KC Fed Services Survey**

- Index, 3mma
- Employment
- General Sales/Revenue

6 month Expectations

Source: FRBKC Surveys
Nov FOMC: “Indicators of economic activity … have continued to strengthen.”

Change in Real GDP

Percent change

- Real GDP
- Range
- Median

Current (Q3 2021): 2.0%

Sept FOMC Forecast

Note: Data and FOMC projections are for year-end.

Sources: Bureau of Economic Analysis, FOMC
This is despite input and output prices continuing to increase at record high rates in the region.

Source: FRBKC Surveys
Manufacturers have been reporting the longest supplier delivery times in our survey’s history.

Manufacturing Supplier Delivery Indexes

Index (higher number indicates longer delivery time)

Sources: FRBKC Manufacturing Survey and Institute for Supply Management (ISM)
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)"

- Delaying projects or pushing back work
- Diversifying suppliers
- Raising prices
- Increasing inventories
- Turning away business
- Making capital or technological investments
- Other

Source: FRBKC Surveys
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?"

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

Current Overall PCE (Sept 2021): 4.4%
Current Core PCE (Sept 2021): 3.6%

Source: Bureau of Economic Analysis, FOMC
After leveling around 5.0-5.5% over the summer, year-over-year CPI growth rose to 6.2% in October.

*Goods excluding Food; Services excluding Energy.

Note: Relative Importance as Share of CPI shown in parenthesis.

Sources: BLS/Haver Analytics
Oil and natural gas prices have risen considerably, and are highly profitable for most regional firms.
As a result, energy activity is rising and expectations are solid, but employment gains have been modest.

Energy Survey

Index, quarter/quarter

Drilling & Business Activity
Profits
Employees

Sources: EIA/Haver Analytics, FRBKC Surveys
As in the U.S., overall employment in Oklahoma remains below pre-COVID levels, especially in energy.

Job Growth by Industry
September 2021

Percent change from Jan. 2020
Still, firms in our services survey report labor shortages and wage pressures have risen to record highs.

Services Survey Labor Shortages and Wage Pressures

- Are any types of workers in short supply?
- Are you having to raise wages more than normal?

Source: FRBKC Services Survey
Unemployment in the nation has steadily come down, and is below pre-COVID levels in Oklahoma’s metros

Sources: U.S. Bureau of Labor Statistics, NBER recession shading
Labor force participation is also near pre-pandemic levels in Oklahoma, although it has eased recently.
The median FOMC is for unemployment to be at or below longer run levels in coming years

U.S. Unemployment Rate

Percent

- U.S. unemployment rate
- Range
- Median

Current (Oct 2021): 4.6%

Sept FOMC Forecast

Note: Data and FOMC projections are for year-end.

Sources: U.S. Bureau of Labor Statistics, FOMC
Housing prices have surged in the U.S. and Oklahoma, with strong demand, tight supply, and low rates.

**FHFA Housing Price Indexes**

- **% chg, y/y**
- **U.S.**
- **Oklahoma**
- **OKC Metro**
- **Tulsa Metro**

Sources: FHFAHaver Analytics, NBER recession shading
Mortgage rates remain historically low, but growth in building has slowed

Mortgage Rates

Percent

<table>
<thead>
<tr>
<th>Year</th>
<th>30-year fixed rate</th>
<th>15-year fixed rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>7.0%</td>
<td>6.5%</td>
</tr>
<tr>
<td>2010</td>
<td>5.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>2014</td>
<td>4.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2018</td>
<td>3.5%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

New Housing Permits

Percent change, year-over-year, 3mma

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.</th>
<th>Oklahoma</th>
</tr>
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<tbody>
<tr>
<td>2018</td>
<td></td>
<td></td>
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<tr>
<td>2019</td>
<td></td>
<td></td>
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<tr>
<td>2020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td></td>
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</tbody>
</table>

Sources: Freddie Mac, Zillow/Haver Analytics
Nov FOMC: “The [FOMC] decided to... maintain this target until... maximum empl. and inflation... on track.”

Federal Funds Rate
Year-End Target

Note: Data and FOMC projections are for year-end.

Sources: Bureau of Economic Analysis, FOMC
Nov FOMC: “The [FOMC] decided to begin reducing the monthly pace of its net asset purchases... this month”
Summary

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• This is despite rising prices and labor shortages creating challenges and disruptions for many businesses.

• While labor is tight, Oklahoma jobs are still down from pre-pandemic levels, especially in energy.

• The Fed continues to monitor economic conditions for asset purchases and interest rate decisions.
Questions?

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