Supply Chain Issues Facing the Economy

Supply Chain Issues Forum, Cameron University
November 18, 2021

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.
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

- The national, state, and local economies have continued to recover from the COVID-19 pandemic, with strong outlooks.
- This is despite historic supply chain disruptions and labor shortages creating challenges for many businesses.
- Most firms expect the supply chain disruptions to continue well into 2022, and in many cases until 2023.
- The pressure has pushed up inflation, and with unemployment falling further the Fed has begun to taper its balance sheet.
Nationally, the FOMC in November said: “Indicators of economic activity ... have continued to strengthen.”

Change in Real GDP

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

Sources: Bureau of Economic Analysis, FOMC
U.S. industrial production has slowly increased to pre-pandemic levels, although not in autos/trucks

Industrial Production of Consumer Durables

Index, 2017=100

Sources: Federal Reserve Board/Haver Analytics
Manufacturing exports have recovered solidly in both Oklahoma and the nation.
Regional manufacturing and services surveys show activity is rising solidly, with strong outlooks.
This is despite manufacturers reporting the longest supplier delivery times in the KC Fed’s survey history.

Manufacturing Supplier Delivery Indexes

Index (higher number indicates longer delivery time)

Sources: FRBKC Manufacturing Survey and Institute for Supply Management (ISM)
And services firms reporting the most labor shortages and wage pressures in the KC Fed’s survey history.

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
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?"

Source: FRBKC Surveys
Demand for goods has greatly outstripped services demand since the pandemic recovery began.
Comments from firms:

- “COVID variants affect overseas (Asian) suppliers at different times than the U.S., in many cases extending delivery disruptions. This ripple effect on product movement will take time to recover from.”

- “U.S. logistics infrastructure including the ports, rail, and freight were in poor shape prior to the pandemic. COVID just highlights that some major reform/improvement is required. Product delivery problems are currently masking a much larger, long-term problem of workforce shortage.”

- “We are hopeful that things will… straighten out in 6 to 12 months but given the lack of planned output by some of our key suppliers, believe that demand will continue to well up, outstripping supply well into 2023.”

- “We currently see both increasing demand and supply chain bottlenecks occurring. Meeting increased demand will make it exceedingly hard to clear the bottlenecks.”

- “It will take longer than we think to get everything back to normal… I am guessing 2 years.”

- “Making rapid design changes to use available products.”

- “Higher input cost are passed on the customers whenever possible.”
Both input and output prices continuing to increase at record high rates in the region

Source: FRBKC Surveys
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%

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

Sources: 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.
Nationally, wages have increased at a faster rate in 2021, while benefits cost increases have been stable.
Manufacturing has seen some upward pressure in wages, but not as much as retail or hospitality.
The median FOMC is for unemployment to be at or below longer run levels in coming years

U.S. Unemployment Rate

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
Unemployment in the Nation has steadily come down, and is below pre-COVID levels in Lawton.

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.
As in the U.S., overall employment in Oklahoma remains down in manufacturing, and especially energy

Job Growth by Industry
September 2021

Percent change from Jan. 2020

U.S.
OK

Sources: U.S. Bureau of Labor Statistics/Haver Analytics
Employment has recovered considerably, but remains below pre-COVID levels locally and nationally.
Nov FOMC: “The [FOMC] decided to... maintain this target until... maximum empl. and inflation... on track.”

Federal Funds Rate
Year-End Target

Current Target: 0 - 0.25%

Sept FOMC Forecast

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

• The national, state, and local economies have continued to recover from the COVID-19 pandemic, with strong outlooks.

• This is despite historic supply chain disruptions and labor shortages creating challenges for many businesses.

• Most firms expect the supply chain disruptions to continue well into 2022, and in many cases until 2023.

• The pressure has pushed up inflation, and with unemployment falling the Fed has begun to taper its balance sheet.
Questions?

RECEIVE REGULAR UPDATES ABOUT Oklahoma’s economy

For more analysis of the Oklahoma economy, regional manufacturing conditions and regional energy conditions, subscribe to receive e-mail alerts from the KANSAS CITY FED.

Visit kansascityfed.org/ealert to subscribe!