U.S. and Oklahoma Economic Outlook

Commercial Real Estate Council
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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.
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

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

- 2023 OKC Branch Board of Directors
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Overview

• U.S. economic growth was solid in late 2022 and early 2023

• Inflation has eased but remains too high, with continued high wage gains in a tight labor market now a key contributor

• Oklahoma’s economy continues to recover, but jobs remain below pre-pandemic levels in some sectors, especially energy

• Oklahoma energy activity expanded solidly in 2022, but profitability has been squeezed and begun to affect growth
U.S. GDP and employment growth were solid in the second half of 2022, at or above pre-pandemic levels.

Quarterly U.S. Economic Growth

Quarter/quarter annualized % chg.

Sources: BEA, BLS/Haver Analytics
GDP growth is expected to be somewhat sluggish in 2023 before rebounding to trend in 2024 and 2025.

Change in Real GDP

Percent change
- Real GDP
- Range
- Dec. 2022 Median FOMC Projection
- Current (Q4 2022): 2.9%
- FOMC Projections

Note: Data and FOMC projections are for year-end.
Sources: Bureau of Economic Analysis, FOMC
U.S. unemployment remains historically low and is projected to rise only slightly in coming years

U.S. Unemployment Rate

Current (Jan. 2023): 3.4%

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

Sources: U.S. Bureau of Labor Statistics, FOMC
Meanwhile, although inflation has come down from its 2022 peaks, it remains elevated on year-over-year basis.

Note: Data and FOMC projections are for year-end. 
Sources: Bureau of Economic Analysis, FOMC
CPI inflation eased again in December to 6.5% as goods and energy inflation fell

*Goods excluding Food; Services excluding Energy.
Note: Relative Importance as Share of CPI shown in parenthesis.
Sources: BLS/Haver Analytics
Three- and six-month inflation rates ended 2022 near 2%

Source: Bureau of Labor Statistics/Haver Analytics
Services inflation, a key indicator, began to fall in the second half of 2022

**CPI 6-Month Annualized Inflation**

Percent Change, seasonally adjusted

- **All Items**
- **Food & Energy (22%)**
- **Goods* (21%)**
- **Services* (24%)**
- **Shelter (33%)**

*Goods excluding Food; Services excluding Energy.

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

Sources: BLS/Haver Analytics
Wage growth is a key factor keeping services inflation high, but has come down from highs in recent months.

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**Employment Cost Index**

- Percent Change

- Year/Year
- 6-Month Annualized
- Quarter/Quarter Annualized

Sources: BLS/Haver Analytics
Longer-term inflation expectations remain anchored around their 20-year average

Expected Inflation Rate

Source: University of Michigan/Haver Analytics
Job openings still greatly exceed unemployed workers, keeping wage pressures from easing much.
Labor force participation still lags due to older workers, while immigration rebounded after several low years.

U.S. Labor Force Participation Rate

Index, Feb. 2020, sa

Net International Migration to the U.S.

Ths. People

Source: BLS, Census Bureau/Haver Analytics
The Fed raised the federal funds rate by 25 basis points in January, to a target of 4.5-4.75%

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

Sources: Bureau of Economic Analysis, FOMC
The Fed has also been reducing its balance sheet of securities, further tightening policy.
Jobs in Oklahoma are back to pre-COVID levels and rose further in December, while unemployment stayed low.
Energy, manufacturing, and construction jobs in OK are still below pre-pandemic but up during the past year

Oklahoma Job Growth by Industry

Sources: U.S. Bureau of Labor Statistics/Haver Analytics
The Oklahoma housing market has eased with higher mortgage rates

Oklahoma Housing Market Indicators

- 30 yr. Fixed Mortgage Rate (Left)
- Sales (Right)
- Median Sales Price (Right)

Sources: Freddie Mac, Redfin
New housing construction began to decline in 2022 in the U.S. and Oklahoma

Total Building Permits for Privately Owned Housing

Source: U.S. Census Bureau/Haver Analytics
Office vacancy rates differ across the two large metros in terms of downtown vs suburban trends

Office Vacancy Rates

- U.S. Total
- Downtown OKC
- Downtown Tulsa
- Suburban OKC
- Suburban Tulsa

Source: CBRE-EA
Energy activity cooled slightly in Q4, with profitability falling for the first time in two years.
Drilling rig counts have begun to edge down in Oklahoma and the nation with lower profitability

Source: Baker Hughes/Haver Analytics
Oklahoma’s population grew in 2021 & 2022, despite a historic increase in deaths, due to massive in-migration.
Many people moved to OK from CA and TX, mostly to the metros but to many other parts of the state, too.

Note: Vintage 2020 population estimates through 2020.

Sources: FRBNY CCP/Equifax, U.S. Census Bureau
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Questions?

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