U.S. and Oklahoma Economic Outlook

OKC CFO Roundtable
April 6, 2023
Structure & Functions of the Federal Reserve

5 primary responsibility areas:
- Monetary policy
- Financial system stability
- Bank supervision & regulation
- Payment system safety & efficiency
- Consumer protection & community development

3 primary entities:
- **Board of Governors**: 7 members appointed by U.S. President
- **Federal Reserve Banks**: 12 total; semi-independent
- **Federal Open Market Committee**: 19 members; 12 voting
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/moderate income groups, workforce focus
  - Economic education and public outreach programming

- **2023 OKC Branch Board of Directors**
  - *Katrina Washington (chair)*, Exec. Dir., Neighborhood Housing Services, OKC
  - *Mark Burrage*, CEO, FirstBank, Atoka
  - *Walt Duncan*, President, Duncan Oil Properties, OKC
  - *Rhonda Hooper*, President & CEO, Jordan Advertising, OKC
  - *Terry Salmon*, President, Computer System Designers, OKC
  - *Brady Sidwell*, Principal, Sidwell Strategies, Enid
  - *Dana Weber*, Chair & CEO, Webco Industries, Sand Springs
Overview

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

• Inflation remains too high, despite coming down from 2022 peaks as the Fed has raised interest rates

• Higher interest rates have created some challenges for banks

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

• Oklahoma’s population growth has outpaced the nation in recent years, driven by strong domestic in-migration
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
Mar. 2023 Median FOMC Projection

Current (Q4 2022): 2.9%

FOMC Projections

Sources: Bureau of Economic Analysis, FOMC

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

**U.S. Unemployment Rate**

- **Current (Feb. 2023): 3.6%**
- **FOMC Projections**

**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
Longer-term inflation expectations remain anchored around their 20-year average

Expected Inflation Rate

Source: University of Michigan/Haver Analytics
CPI inflation eased again in February to 6.0% as goods prices fell further, but services and shelter inflation remain high.
Wage growth is a key factor keeping services inflation high, but has come down from highs in recent months.

Note: Employment Cost Index data are interpolated between quarters.

Sources: BLS/Haver Analytics
Labor force participation still lags due to older workers, while immigration rebounded after several low years.

**U.S. Labor Force Participation Rate**

- **Total**
- **Prime-age women**
- **Age 65+**

**Net International Migration to the U.S.**

- **Ths. People**

Source: BLS, Census Bureau/Haver Analytics
Job openings still greatly exceed unemployed workers, keeping wage pressures from easing much.

Job Openings/Unemployment Ratios

Source: Bureau of Labor Statistics
The Fed raised the federal funds rate by 25 basis points again this month, and the latest FOMC projections are shown.

Federal Funds Rate
Year-End Target

Percent

Current Target: 4.75% - 5.00%

FOMC Projections

Mar. 2023 Median FOMC Projection

Fed Funds Rate
Range

Note: Data and FOMC projections are for year-end.
Sources: Bureau of Economic Analysis, FOMC
The Fed has also begun to reduce its balance sheet of securities, further tightening policy.
What Sparked the Banking Turmoil in 2023?

- Following the pandemic, bank deposits soared due to stimulus payments and quantitative easing
- Most banks purchased low-risk, longer maturity securities, which declined in value as interest rates rose
- In early March, banks servicing the tech and crypto industries experienced rapid deposit outflows
- As tech focused banks collapsed, depositors reviewed their own banks’ financials
- A risk: small bank deposits moving to “too big to fail” large banks
- Failed banks were placed into FDIC receivership
- The Federal Reserve offers loans collateralized by credit-risk-free securities
- Treasury has brokered regional bank support via deposits from large banks
Following the pandemic, deposit flows reversed and unrealized losses grew as interest rates increased.
Jobs in Oklahoma are back to pre-COVID levels and rose further in January, while unemployment stays low.
Energy and manufacturing jobs in OK are still below pre-pandemic but up during the past year

Oklahoma Job Growth by Industry

Percent change

-25 -20 -15 -10 -5 0 5 10 15 20


Jan. 2020 - Feb. 2023
Feb. 2022 - Feb. 2023

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

Sources: Freddie Mac, Redfin, U.S. Census Bureau
Drilling rig counts have begun to edge down in Oklahoma and the nation with lower profitability.

Source: Baker Hughes, EIA/Haver Analytics, FRBKC Surveys
Oklahoma farm income continued to decline in Q4 2022, partially due to drought and increases in interest rates.

Source: FRBKC Ag Credit Survey
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
OKC, Tulsa, panhandle, and border counties have seen largest population increases; largely driven by domestic migration.
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Questions?

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