U.S. and Oklahoma Economic Outlook

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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
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
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

The Oklahoma City Branch of the Federal Reserve Bank of Kansas City
www.kansascityfed.org/oklahomacity
Oklahomans on Districtwide Fed Advisory Councils

- **Federal Advisory Council (FAC):**
  - Jill Castilla, CEO, Citizens Bank, Edmond

- **Economic Advisory Council (EAC):**
  - Scott Case, President, Case & Associates Properties, Tulsa
  - Clay Gaspar, COO, Devon Energy, Oklahoma City
  - Rebecca Thompson, CFO, AAON, Inc., Sand Springs

- **Community Development Advisory Council (CDAC):**
  - Michelle Bish, Executive Director, Northeast Workforce Development Board, Catoosa
  - Quintin Hughes, Sr., Program Director, Northeast Oklahoma City Renaissance, Inc., Oklahoma City
  - Cindy Logsdon, Executive Director/CEO, Citizen Potawatomi Community Development Corp., Shawnee

- **Community Depository Inst. Advisory Council (CDIAC):**
  - Alicia Wade, President, Valliance Bank, Oklahoma City
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 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
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
- Mar. 2023 Median FOMC Projection

Current (Q4 2022): 2.9%

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.

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.

**PCE Inflation Index**

- Current Overall PCE (Feb. 2023): 5.0%
- Current Core PCE (Feb. 2023): 4.6%

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.
CPI inflation eased again in February to 6.0% as goods prices fell further, but services and shelter inflation remain high.

*Goods excluding Food; Services excluding Energy.  
Note: Relative Importance as Share of CPI shown in parenthesis.  
Sources: BLS/Haver Analytics
3- and 6-month inflation rates have come down by a larger amount, but also remain too high.
Over the past 6 months, shelter and services inflation have been the main drivers, and are stubbornly high.

CPI 6-Month Annualized Inflation

Percent Change, seasonally adjusted

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


-10%

*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.
Labor force participation still lags due to older workers, while immigration rebounded after several low years.

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

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

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 major 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

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

Oklahoma Housing Market Indicators

Percent

3 mma yr/yr % chg.

2019 2020 2021 2022 2023

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

**Farm Income**

[Graph showing Farm Income index from 2013 to 2023 for Oklahoma and the Tenth District.]

**Effects of Drought & Interest Rates on Financial Conditions of Farm Borrowers**

[Bar chart showing the percentage of respondents' experiences with 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.

Oklahoma Population Changes by Component, 2001-2022

Ths. of people

Percent change, year-over-year


Source: U.S. Census Bureau
Many people moved to OK from CA and TX, mostly to the metros but to many other parts of the state, too

Net Domestic Migration to Oklahoma 2020 and 2021

Oklahoma Net Domestic Migration

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.

2019-22 County Population Change

2019-22 Net Domestic Migration by County

2019-22 Natural County Population Increase

2019-22 Net International Migration by County

Source: U.S. Census Bureau
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Questions?

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