U.S. and Oklahoma Economic Outlook

Credit Union Real Estate Network
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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.
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

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• **Functions and purposes ~ 50 staff**
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  - 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

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Overview

- U.S. economic growth has slowed in 2023 but remains positive, and unemployment remains very low
- Inflation remains too high, despite coming down from 2022 peaks
- The Fed has raised the overnight interest rate to over 5%
- 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 slow in 2024 before rebounding to near trend in 2025 and 2026

Change in Real GDP

Percent change

-4
-2
0
2
4
6
8
10


Real GDP
Range
Sep. 2023 Median FOMC Projection

Current (Q2 2023): 2.1%
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 moderately in coming years.

U.S. Unemployment Rate

Current (Sep. 2023): 3.8%

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

Sources: U.S. Bureau of Labor Statistics, FOMC
Although inflation has come down from 2022 peaks and is expected to fall further, it remains elevated.

Current Overall PCE (Aug. 2023): 3.5%
Current Core PCE (Aug. 2023): 3.9%

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, but consumers expect high inflation next year.
CPI inflation stayed at 3.7% in September, with shelter and services inflation still high and food prices rising.

*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.

### Employment Cost Index

<table>
<thead>
<tr>
<th>Year/Year</th>
<th>6-Month Annualized</th>
<th>Quarter/Quarter Annualized</th>
</tr>
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<tbody>
<tr>
<td>Year</td>
<td>Year/Year</td>
<td>6-Month Annualized</td>
</tr>
<tr>
<td>2006</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>2008</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>2010</td>
<td>3%</td>
<td>2%</td>
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<tr>
<td>2012</td>
<td>2%</td>
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<tr>
<td>2014</td>
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<td>2018</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>2020</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>2022</td>
<td>3%</td>
<td>4%</td>
</tr>
</tbody>
</table>
The Fed held the federal funds rate steady in September, and the latest projections are shown.

Fed Funds Rate Year-End Target

Current Target: 5.25% - 5.5%

Sources: Bureau of Economic Analysis, FOMC
Job openings still greatly exceed unemployed workers, but have fallen slightly at the national level, helping ease wage pressures.
Labor force participation still lags, mostly due to older workers, while immigration rebounded last year after several low years.
Most Oklahoma sectors added jobs over the past year, but job growth varies widely relative to pre-pandemic levels.

Sources: U.S. Bureau of Labor Statistics/Haver Analytics
The Oklahoma housing market eased with higher interest rates, but home prices have held up and permits have risen.
Much higher mortgage rates and home prices than a few years ago have greatly increased housing costs, but Oklahoma is still relatively affordable.
Home prices in parts of rural Oklahoma have grown the most, but remain more affordable than the metros.

Typical Home Value Growth by County

Mortgage Payment to Income Ratio

Notes: Median income for 2022 and 2023 is projected. 2023 data are from Q1. The mortgage payment assumes a 30-year mortgage with a 20% down payment and additional annual costs and taxes equaling 3% of the current home value.

Sources: Zillow, Freddie Mac, Census Bureau, BLS/Haver Analytics, authors’ calculations.
Many homebuyers purchased homes above their list prices as supply waned during the pandemic.
Office vacancy rates in Oklahoma have not risen like they have in the nation, and dropped in Tulsa in Q3.

Office Vacancy Rates

Source: CBRE-EA
OK consumer spending continues to rise at a slower pace, while regional factory production has stagnated.
Energy activity declined further in Q3, but firms’ sentiment for the future has improved in light of increased commodity prices.

Energy Survey Indexes

- Drilling/Business Activity
- Profits
- Employment

U.S. Energy Prices

- WTI Crude Oil Price (left)
- Oil: Avg. Profitable Price (left)
- Natural Gas Price (right)
- Gas: Avg. Profitable Price (right)

Sources: EIA, FRBKC Energy Survey
Oklahoma farm income increased in Q2 2023 and was expected to rise further, as drought conditions improved in the panhandle.

Sources: FRBKC Ag Credit Survey, UNL/NOAA/CPC
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

Net Domestic Migration, left
Net International Migration, left
Natural Increase, left
Population, right

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.

Note: Vintage 2020 population estimates through 2020.

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

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