U.S. and Oklahoma Economic Outlook in the Midst of COVID-19 and Low Oil Prices

Chickasha Rotary Club
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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 Federal Reserve’s Role in Monetary Policy

- Dual Mandate from U.S. Congress:
  1) Maximum employment
  2) Price stability

- Federal Open Market Committee (FOMC):

  **Board of Governors**
  - Jerome H. Powell, Chairman
  - Richard H. Clarida, Vice Chairman
  - Randal K. Quarles, Vice Chairman of Supervision
  - Lael Brainard
  - Michelle W. Bowman
  - Open
  - Open

  **Reserve Bank Presidents**
  - John C. Williams, New York, Vice Chairman
  - Patrick T. Harker, Philadelphia
  - Robert S. Kaplan, Dallas
  - Neel Kashkari, Minneapolis
  - Loretta J. Mester, Cleveland
  - Thomas I. Barkin, Richmond
  - Raphael W. Bostic, Atlanta
  - Mary C. Daly, San Francisco
  - Charles L. Evans, Chicago
  - James Bullard, St. Louis
  - Esther L. George, Kansas City
  - Eric Rosengren, Boston

*Permanent voters in bold; 2020 rotating voters in red; 2021 rotating voters in blue*
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

- 2020 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
Our branch opened August 2, 1920, as the 3rd branch of the Kansas City Fed (Omaha 1917; Denver 1919), just 13 years after Oklahoma became a state.

Despite our newness as a state, an Oklahoman was one of the founders of the Fed in 1913—Senator Robert L. Owen, Chairman of the Banking Committee.

The branch’s functions have evolved along with the economy and financial system, but we remain Oklahoma’s connection to the nation’s central bank.

For more information about our centennial, go to: https://www.kansascityfed.org/oklhomacity/oklhomacitybranchcentennial
U.S. and Oklahoma Economic Summary

• Since March, the spread of COVID-19 and the resulting caution and shutdowns have presented sizable challenges for the U.S. economy.

• The Federal Reserve has acted swiftly and many indicators have begun to recover, but the summer surge in COVID cases added uncertainty.

• Oklahoma’s economy was already slowing in late 2019 and early 2020, due largely to difficulties in the state’s important energy sector.

• COVID initially spread less quickly here, PPP takeup was strong, and some indicators were normalizing by June but have since pulled back.

• The state’s economic and energy sector outlooks continue to depend on how the virus evolves and affects consumer and business activity.
June FOMC: “The virus and the measures taken to protect public health have induced...a surge in job losses.”

U.S. Unemployment Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S. Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>4.2%</td>
</tr>
<tr>
<td>2003</td>
<td>4.3%</td>
</tr>
<tr>
<td>2005</td>
<td>4.7%</td>
</tr>
<tr>
<td>2007</td>
<td>4.8%</td>
</tr>
<tr>
<td>2009</td>
<td>5.5%</td>
</tr>
<tr>
<td>2011</td>
<td>4.2%</td>
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<tr>
<td>2013</td>
<td>4.9%</td>
</tr>
<tr>
<td>2015</td>
<td>4.7%</td>
</tr>
<tr>
<td>2017</td>
<td>3.8%</td>
</tr>
<tr>
<td>2019</td>
<td>3.6%</td>
</tr>
<tr>
<td>2021</td>
<td>4.6%</td>
</tr>
<tr>
<td>2021 (Median)</td>
<td>4.6%</td>
</tr>
</tbody>
</table>

Current (July 2020): 10.2%

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

Sources: U.S. Bureau of Labor Statistics, FOMC
June FOMC: “The ongoing public health crisis will weigh heavily on economic activity... in the near term.”

Change in Real GDP

Current (Q2 2020): -32.9%

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

Sources: Bureau of Economic Analysis, FOMC
June FOMC: “Weaker demand and significantly lower oil prices are holding down consumer price inflation.”

PCE Inflation Index

Current Overall PCE (June 2020): 0.8%
Current Core PCE (June 2020): 0.9%

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

Sources: Bureau of Economic Analysis, FOMC
June FOMC: “the [FOMC] decided to maintain this target range until…the economy has weathered recent events.”

Federal Funds Rate
Year-End Target

Percent

- Fed Funds Rate
- Range
- Median

Current Target: 0 - 0.25%

June FOMC Forecast

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

Sources: Bureau of Economic Analysis, FOMC
June FOMC: “To support the flow of credit to households and businesses...[the Fed] will increase its holdings.”

Federal Reserve Balance Sheet

Source: Federal Reserve Board
The Federal Reserve has acted swiftly and forcefully

**Monetary Policy:**
- Cut policy rate to near zero
- Provided forward guidance

**Actions to Improve Market Functioning:**
- Open Market Purchases
- Eased access to discount window
- Primary Dealer Credit Facility (PDCF)
- Money Market Mutual Fund Liquidity Facility (MMLF)
- Commercial Paper Funding Facility (CPFF)
- Expanded Foreign Central Bank Swap Lines

**Actions to Encourage Bank Lending:**
- Dropped reserve requirements to zero
- Temporary adjustment to regulations

**Actions to Support the Flow of Credit:**
- PPP Loan Facility (PPPLF)
- Term Asset-Backed Security Loan Facility (TALF)
- Corporate Credit Facilities (CCF)
- Municipal Liquidity Facility (MLF)
- Main Street Lending Facility
COVID-19 initially spread much less in Oklahoma, but then new cases outpaced the U.S., and still remain high.

Sources: The COVID Tracking Project, Authors' calculations
Through Aug. 18, the metros had the biggest outbreaks of cases, but rural counties have had casualties, too.
7+ years of U.S. and Oklahoma job growth were lost in March and April, but May and June showed some gains.

Nonfarm Payroll Employment Growth

Index, Jan. 1, 2010=100

Sources: U.S. Bureau of Labor Statistics, NBER recession shading
Oklahoma’s year-over-year drop in employment wasn’t as bad as some states, but still down more than 5.5%
Oklahoma mining job losses far outweighed those in the U.S. in June, but construction cuts were less.
OK unemployment dropped to 6.6% and Grady County fell to 6% in June, while the U.S. rate was 10.2% in July.
In June, unemployment remained elevated across most of the state compared to pre-COVID.
New and continuing state UI claims were very high through mid-June, but declined some in July & August.
Foot traffic at Oklahoma businesses rose steadily through mid-June, but has evened out in July & August.

Sources: Google Mobility Data, Track the Recovery, Authors’ calculations
Consumer spending in some segments has closely resembled the nation, and exceeded it in others.

Oklahoma vs. U.S. Consumer Spending

Sources: Affinity Solutions, Track the Recovery, Authors’ calculations
Agricultural commodity prices remain lower than at the beginning of the year, especially for livestock.

Sources: CME, WSJ, Haver Analytics
Agricultural incomes in the state continued to decline through Q2 2020, but land values have held up.

Oklahoma Farm Income and Farmland Values

Diffusion Index

Expectations

Percent change, year-over-year

Farm Income, left

Farmland Value, right

Sources: FRBKC Ag Credit Survey
Oil prices have rebounded somewhat, but remain below profitable drilling levels for most regional firms.
Rig counts in energy states have decreased dramatically, nowhere moreso than Oklahoma.
The KC Fed’s quarterly energy survey, released July 10, showed another sharp drop, but expected stabilization.

![Kansas City Fed Energy Indexes](source: FRBKC Energy Survey)
Conclusions

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- COVID initially spread less quickly here, PPP takeup was strong, and some indicators were normalizing by June but have since pulled back.
- The state’s economic and energy sector outlooks continue to depend on how the virus evolves and affects consumer and business activity.
Questions?

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Oklahoma’s economy

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