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

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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
2020 is the Oklahoma City Branch’s Centennial!

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/oklahomacity/oklahomacitybranchcentennial
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 a recent surge in COVID cases has created 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.
As cases of COVID-19 began spreading and places shut down across the nation, unemployment claims surged. 

U.S. COVID-19 and Unemployment Claims

% of Pop.  

- Weekly Average New COVID-19 Cases, left
- Unemployment Insurance: Initial Claims, right

Millions of Claims

7-Mar   7-Apr   8-May   8-Jun   9-Jul

Sources: The COVID Tracking Project, U.S. Department of Labor, Haver Analytics
June FOMC: “The virus and the measures taken to protect public health have induced...a surge in job losses.”

U.S. Unemployment Rate

Current (June 2020): 11.1%

June FOMC Forecast

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

Note: Data and FOMC projections are for year-end.
June FOMC: “Weaker demand and significantly lower oil prices are holding down consumer price inflation.”

PCE Inflation Index

Current Overall PCE (May 2020): 0.5%
Current Core PCE (May 2020): 1.0%

June FOMC Forecast

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.”

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.”
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
The Fed has used some familiar tools from the Great Financial Crisis (GFC), with generally less take-up

**Primary Dealer Credit Facility (PDCF)**

- $Billion
- GFC
- COVID

**Money Market Mutual Fund Liquidity Facility (MMLF)**

- $Billion
- GFC
- COVID

**Discount Window**

- $Billion
- GFC
- COVID

**Commercial Paper Funding Facility (CPFF)**

- $Billion
- GFC
- COVID

Source: Federal Reserve Board, H.4.1
And there is sizable capacity to accommodate new lending facilities unique to this crisis

Detailed Liquidity Facility Portfolio Holdings

$Billion

11-Mar 1-Apr 22-Apr 13-May 3-Jun 24-Jun 15-Jul

MMLF  PDCF  DW  CPFF  PPP  Corp. Cred.  Muni.  Main St.  TALF

Sources: Federal Reserve Board, H.4.1
COVID-19 initially spread much less in Oklahoma, but recently cases have surged in the state.
Oklahoma’s total cases remain in the lowest third of states, but recent case growth is in the top third.

Total Cases by State, through July 14, 2020

Increase of New Cases by State, Current 7-day Average

Oklahoma: 0.58%

Oklahoma: +26.7%

Sources: The COVID Tracking Project, Authors’ calculations
COVID-19 testing has continued to lag the nation, and Oklahoma has slightly fewer ICU beds available.
7+ years of U.S. and Oklahoma job growth were lost in March and April, but May showed slight gains

Nonfarm Payroll Employment Growth

Index, Jan. 1, 2000=100

Sources: U.S. Bureau of Labor Statistics, NBER recession shading
Oklahoma’s year-over-year drop in employment was less than in most places thru May, though still over 7%
Oklahoma has been well represented in PPP uptake, with more loans going to smaller businesses for payroll.

U.S. vs. Oklahoma PPP Loans

Number of PPP Loans / Number of Establishments with Fewer than 500 Employees

PPP Loans as Percent of Eligible Quarterly Payroll

Sources: Census Bureau, Small Business Association
Oklahoma hospitality (and most other) job losses were less than in the U.S., but energy cuts were bigger.
Oklahoma’s unemployment eased slightly in May after a record high in April, similar to the U.S., but is very high.
New and continuing state UI claims were elevated through mid-June, but have declined some in July.
Fewer Oklahoma households are expecting a loss of job income now, but many households face challenges.
State and city sales tax receipts rebounded in June after dropping sharply in April and May.

Oklahoma Monthly Tax Revenues

Percent change, year-over-year

Source: OK Tax Commission
Regional factory and services activity also grew slightly in June, after sharp drops in previous months.
Foot traffic at Oklahoma businesses rose steadily through mid-June, but has slowed a bit lately.

Change in Weekly Foot Traffic to Business Establishments

Index = 100 (week of March 8)

Note: Retail includes NAICS 44 and 45. Leisure includes NAICS 72. Office includes NAICS 51,52,54,55,56,92. Manufacturing includes NAICS 31,32,33.

Source: Safegraph, Authors’ calculations
Traffic at Oklahoma restaurants has also pulled back some in July after rising quickly in May and June.

Seated Diners at Restaurants
7-day Average

Source: OpenTable
Consumer spending in some segments has closely resembled the nation, and exceeded it in others.
Through May, housing prices in Oklahoma continued to rise, and even strengthened compared with recent years.

Sources: Zillow/Haver Analytics
Energy city office markets were already struggling before COVID, and vacancies rose everywhere in Q2.
Agricultural commodity prices remain lower than at the beginning of the year, especially for livestock.
Agricultural incomes in the state have continued to decline, but land values have held up

Oklahoma Farm Income and Farmland Values

Farm Income, left
Farmland Value, right
Expectations

Sources: FRBKC Ag Credit Survey
Banking conditions in Oklahoma remained solid through March, similar to in the nation.

Share of Banks Not Making a Profit
Commercial Banks

- U.S.
- Oklahoma

Source: FDIC
Oklahoma’s main difference from the nation in terms of industrial structure is its very sizable energy sector.

Industry Share of GDP, 2019

Percent of total GDP

- U.S.
- Oklahoma

Source: Bureau of Economic Analysis
Oil prices have rebounded somewhat, but remain below profitable drilling levels for most regional firms.
World oil demand plummeted in April and May, followed by a historic drop in oil production

Sources: Energy Information Association Short-Term Energy Outlook, authors' calculations.
Rig counts in energy states have decreased dramatically, nowhere more so than Oklahoma.
The KC Fed’s quarterly energy survey, released July 10, showed another sharp drop, but expected stabilization
Most firms reported they could survive on current revenue levels for more than a year, but 32% could not.

FRBKC Q2 2020 Energy Special Question: If current revenues were to continue, how long could your firm survive?

Source: FRBKC Energy Survey
According to the Census Bureau, energy firms have weaker outlooks but similar PPP takeup as other firms.
Conclusions

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• 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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