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

Central Oklahoma Chapter of the Financial Planning Association
November 10, 2020

Megan Williams
Associate Economist and Manager

*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):

<table>
<thead>
<tr>
<th>Board of Governors</th>
<th>Reserve Bank Presidents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerome H. Powell, Chairman</td>
<td>John C. Williams, New York, Vice Chairman</td>
</tr>
<tr>
<td>Richard H. Clarida, Vice Chairman</td>
<td>Patrick T. Harker, Philadelphia</td>
</tr>
<tr>
<td>Randal K. Quarles, Vice Chairman of Supervision</td>
<td>Robert S. Kaplan, Dallas</td>
</tr>
<tr>
<td>Lael Brainard</td>
<td>Neel Kashkari, Minneapolis</td>
</tr>
<tr>
<td>Michelle W. Bowman</td>
<td>Loretta J. Mester, Cleveland</td>
</tr>
<tr>
<td>Open</td>
<td>Thomas I. Barkin, Richmond</td>
</tr>
<tr>
<td>Open</td>
<td>Raphael W. Bostic, Atlanta</td>
</tr>
<tr>
<td>Open</td>
<td>Mary C. Daly, San Francisco</td>
</tr>
<tr>
<td></td>
<td>Charles L. Evans, Chicago</td>
</tr>
<tr>
<td></td>
<td>James Bullard, St. Louis</td>
</tr>
<tr>
<td></td>
<td>Esther L. George, Kansas City</td>
</tr>
<tr>
<td></td>
<td>Eric Rosengren, Boston</td>
</tr>
</tbody>
</table>

*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

- 2020 is our Centennial

- 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
Overview

- The U.S. and Oklahoma economies were hit hard by COVID in the spring but saw fairly solid recovery by summer

- Unprecedented government and Fed support was taken in response to the pandemic, helping maintain incomes and stability

- Since the summer, COVID cases and hospitalizations have been lower in the nation but higher in Oklahoma

- After initially recovering more quickly, job growth in Oklahoma has been slower than in the nation in recent months

- Future conditions in the U.S. and Oklahoma economies and in the energy sector will continue to depend on the path of the virus
Nov FOMC: “The ongoing public health crisis will continue to weigh on... employment... in the near term”

U.S. Unemployment Rate

- Current (Oct 2020): 6.9%
- Sept FOMC Forecast

Note: Data and FOMC projections are for year-end. Sources: U.S. Bureau of Labor Statistics, FOMC
Nov FOMC: “Weaker demand and earlier declines in oil prices have been holding down consumer price inflation.”

Current Overall PCE (Aug 2020): 1.4%
Current Core PCE (Aug 2020): 1.6%

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

Sources: Bureau of Economic Analysis, FOMC
Nov FOMC: “Economic activity… continued to recover but remain[s] well below… the beginning of the year.”

Change in Real GDP

Percent change

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>-10.1%</td>
</tr>
<tr>
<td>2004</td>
<td>-8.0%</td>
</tr>
<tr>
<td>2006</td>
<td>-6.9%</td>
</tr>
<tr>
<td>2008</td>
<td>-5.0%</td>
</tr>
<tr>
<td>2010</td>
<td>-3.8%</td>
</tr>
<tr>
<td>2012</td>
<td>-2.8%</td>
</tr>
<tr>
<td>2014</td>
<td>-1.8%</td>
</tr>
<tr>
<td>2016</td>
<td>-0.8%</td>
</tr>
<tr>
<td>2018</td>
<td>-1.0%</td>
</tr>
<tr>
<td>2020</td>
<td>33.1%</td>
</tr>
</tbody>
</table>

Note: Data and FOMC projections are for year-end. Sources: Bureau of Economic Analysis, FOMC
COVID-19 initially spread less in Oklahoma, but then new cases outpaced the U.S. and still remain higher

### Confirmed Cases

- **OK**: 3.5%
- **U.S.**: 3.0%

### Number of New Cases

#### 7-day Average

- **OK**, right
- **U.S.**, left

Sources: The COVID Tracking Project, Authors’ calculations
As a share of the population, COVID-19 hospitalizations and ICU patients are higher in OK, but deaths are lower.
10 years of U.S. and Oklahoma job growth were lost in March/April, but there has been some recovery since

Nonfarm Payroll Employment Growth

Sources: U.S. Bureau of Labor Statistics, NBER recession shading
Oklahoma’s jobs recovery has stalled in energy, manufacturing, construction, and transportation.
Job losses in previous recessions were concentrated in occupations with more on-the-job training requirements.

Oklahoma Recession Job Losses vs. Training Requirements

Sources: U.S. Bureau of Labor Statistics/Haver Analytics
Oklahoma unemployment decreased to 5.3% in September, while the U.S. rate was 6.9% in October.
State and city sales tax receipts were lower again in October after rebounding some over the summer.
Foot traffic at Oklahoma businesses rose steadily through mid-June, but remains below pre-COVID levels.

Google Mobility Data

- OK Retail & Recreation
- U.S. Retail & Recreation
- OK Workplaces
- U.S. Workplaces

Seated Diners at Restaurants

7-day Average

Percent change from Jan 3-Feb 6, 2020

Percent change, year-over-year

Sources: Google Mobility Data, Open Table, Track the Recovery, Authors’ calculations
Consumer spending has remained around pre-COVID levels despite less hospitality & entertainment spending.

Oklahoma vs. U.S. Consumer Spending

Sources: Affinity Solutions, Track the Recovery, Authors’ calculations
Energy city office markets were already struggling before COVID, but retail vacancy was still low in Q3

Metro Vacancy Rates

- Office: U.S.
- Retail: U.S.
- Office: Oklahoma City
- Retail: Oklahoma City
- Office: Tulsa
- Retail: Tulsa

Source: CBRE
Through September, housing prices and new building permits in OK continued to rise faster than the U.S.
Still, about a third of Oklahomans are having difficulty paying household expenses and are at risk of eviction.
Through Q2, mortgage delinquencies also increased, though more in the U.S. overall than Oklahoma.

Sources: Mortgage Bankers Association/Haver Analytics
State ag incomes remained depressed through the summer, but grain prices have rebounded considerably.

Oklahoma Farm Income and Farmland Values

Commodity Prices

Sources: CME/Haver Analytics, FRBKC Ag Credit Survey, WSJ
Energy prices have been stable since summer but still below profitable levels according to most firms

**Oil & Natural Gas Profitability and Prices**

- **Natural gas prices ($/mmbtu)**
- **Oil prices ($/barrel)**

---

Sources: EIA, FRBKC Energy Survey
The KC Fed’s quarterly energy survey, released Oct 9, showed stabilization in activity but not in jobs.
A quarter of firms expect global oil demand to rebound by next summer, but 60% expect it to take a few years.
Summary

- The U.S. and Oklahoma economies were hit hard by COVID in the spring but saw fairly solid recovery by summer.

- Unprecedented government and Fed support was taken in response to the pandemic, helping maintain incomes and stability.

- Since the summer, COVID cases and hospitalizations have been lower in the nation but higher in Oklahoma.

- After initially recovering more quickly, job growth in Oklahoma has been slower than in the nation in recent months.

- Future conditions in the U.S. and Oklahoma economies and in the energy sector will continue to depend on the path of the virus.
Questions?

RECEIVE REGULAR UPDATES ABOUT
Oklahoma’s economy

For more analysis of the Oklahoma economy, regional manufacturing conditions and regional energy conditions, subscribe to receive e-mail alerts from the KANSAS CITY FED.

Visit kansascityfed.org/ealert to subscribe!