Outlook themes

- Economic activity has fallen sharply in the U.S. and Oklahoma, due to the effects of temporary shutdowns and social distancing measures.

- U.S. GDP and employment are expected to experience record declines in Q2 and recover only gradually, while Oklahoma trends may vary slightly.

- Global and domestic factors are expected to keep inflation persistently low in coming years.

- The Fed has acted with unprecedented speed and scale to help support the economy and financial markets.
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

- **2020 Is Our Centennial!**
  - **OKC BRANCH 100**

- **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.)
  - 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
In early 2020, cases of COVID-19 spread rapidly across the nation, and cases in Oklahoma have risen.

Sources: The COVID Tracking Project
U.S. GDP decreased 4.8 percent in the first quarter of 2020, despite solid months in January and February.
Unsurprisingly, the slowdown in services consumption was the biggest drag on GDP for Q1 2020.
U.S. GDP is now expected to drop twice as much as world GDP this year, but China will also slow considerably.
In April, “nonessential” consumer spending firms reported collapses in traffic

U.S. Foot Traffic Across Consumer Spending Segments

Source: SafeGraph
As of May 8, many states had lifted restrictions, but foot traffic was still down markedly.

Sources: WSJ, state governments, SafeGraph
After record declines in April, District factories’ pessimism lessened slightly, unlike services firms
New claims for unemployment insurance remained historically high

Weekly Initial UI Claims
Through Week Ending May 2, 2020

Source: U.S. Department of Labor
The U.S. unemployment rate increased to 14.7% in April, the highest level since WWII.
Every sector in the U.S. lost jobs in April, but especially leisure and hospitality

Sources: BLS, Haver Analytics
Notes: Some industries are not listed
Most new jobless claims in Oklahoma in April were filed by workers in the hospitality & food industry.

Sources: U.S. Department of Labor
Most Tenth District states have fewer workers in sectors hit hardest by COVID-19

Sectors:
- Restaurants and Bars
- Travel and Transportation
- Entertainment (e.g., casinos and amusement parks)
- Personal Services (e.g., dentists, daycare providers, barbers)
- Other Sensitive Retail (e.g., department stores and car dealers)
- Sensitive Manufacturing (e.g., aircraft and car manufacturing)

Share of Employment in Most Exposed Sectors

April tax receipts fell considerably compared with a year ago, in part because the April 15 due date was delayed.

Source: OK Tax Commission
Oklahoma’s main difference from the nation in terms of industrial structure is its very sizable energy sector.
Even with the planned OPEC+ supply cuts, energy prices remain extremely problematic

Sources: Energy Information Administration, FRBKC Energy Survey, Haver Analytics
In late March, regional energy firms expected drilling activity to keep declining, with more job cuts.
The drop in rigs has varied some by region, but is down sharply across all top 8 oil- and gas-producing states.

May 8, 2020 Rig Count Change from a Year Ago

Source: Baker Hughes/Haver Analytics
Forecasts for world oil demand have weakened dramatically, following the coronavirus outbreak

Sources: Energy Information Administration Short-Term Energy Outlook, authors' calculations
Oil tanks at Cushing have filled quickly but total U.S. storage capacity remains adequate

Sources: Energy Information Administration, Federal Reserve Bank of Kansas City, Haver Analytics
Energy firms expect solvency issues to grow considerably if prices stay low very long

FRBKC Q1 2020 Energy Special Question: If the WTI price of oil were to stay at $30/bbl or $40/bbl for an extended period of time, what share of firms in your industry would remain solvent (in the time periods referenced below)?

EIA April 7 WTI forecast:
- $29.34/bbl in 2020
- $41.12/bbl in 2021

Source: FRBKC Energy Survey
Agricultural commodity prices are also problematic for the sector and our region.
Inflation is likely to remain subdued in the near term

Sources: BEA, NBER, Haver Analytics
The interventions of the Federal Reserve have caused its balance sheet to grow above $6.7 trillion.
Since March, commercial yields and overall financial conditions have generally improved.
Summary

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- Global and domestic factors are expected to keep inflation persistently low in coming years

- The Fed has acted with unprecedented speed and scale to help support the economy and financial markets