U.S. and Regional Economic Outlook

May 12, 2020 – Western U.S. Ditch Witch Dealers

Chad Wilkerson
Vice President, Economist and Oklahoma City Branch Executive
Outlook themes

- Economic activity has fallen sharply in the U.S. and Tenth District, 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 District 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*
COVID-19 cases spread rapidly in the U.S. in March and April; less so in the District except near packing plants

Source: The COVID Tracking Project
Positive cases of COVID-19 per capita appear low across most of the U.S., though with some testing variance
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

Index, 1/11/2020=1
After record declines in April, District factories’ pessimism lessened slightly, unlike services firms.
As of May 8, many states had lifted restrictions, but foot traffic was still down markedly.

Consumer Spending Foot Traffic Across Major U.S. Metros

Index, 1/11/2020=1

Sources: WSJ, state governments, SafeGraph
The latest jobless claims numbers are lower than in March, but still extremely and historically high.

Since COVID-19 (March 14- current)
- U.S.: 33,483,000 (20.6% of Labor Force)
- District: 1,455,501 (15.4% of Labor Force)

Sources: Department of Labor, NBER, Haver Analytics
The share of the labor force that has filed claims has varied by state

Initial UI claims filed March 14- May 2 as Share of State Labor Force

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

Even with the planned OPEC+ supply cuts, energy prices remain extremely problematic

Sources: Energy Information Administration, FRBKC Energy Survey, Haver Analytics
The drop in rigs has varied some by region, but is down sharply across all top 8 oil- and gas-producing states.
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

Index (Jan 1, 2020=100)

Jan-20  Feb-20  Mar-20  Apr-20  May-20

Corn  Soybeans  Live Cattle  Hogs  Wheat  Ethanol

Sources: CME, WSJ, Haver Analytics
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.

Figure 1: Select Yields

- **10Y Treasury**
- **A2P2 Commercial Paper**
- **General Muni.**
- **AAA Corporate**
- **BBB Corporate**
- **HY Corporate**

Sources: Bloomberg/Haver Analytics.
Firms reported wide usage of emergency financial measures to help cover coronavirus-related shortfalls in April

Figure 2: April 15-20 FRBKC Survey Special Question: Emergency Financial Measures Taken

- Obtained a temporary reprieve on loan or rent payments
- Drawn down cash reserves
- Dipped into savings/personal funds
- Made increased use of a credit line or taken out a new loan
- SBA EIDL program
- SBA PPP program
- No actions
- Other

Source: FRBKC Surveys
Summary

- Economic activity has fallen sharply in the U.S. and Tenth District, 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 District 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