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

Moore 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
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
Overview

• The U.S. and Oklahoma economies have been hit hard by COVID and Oklahoma’s economy was already slowing in early 2020, due to difficulties in the energy sector.

• The government and Fed response was sizable and quick, but full recovery will likely depend on the path of the virus.

• COVID initially spread less quickly in Oklahoma, PPP takeup was strong, and some indicators were normalizing by June. But some sectors continue to see weaker activity.
Sept FOMC: “Economic activity and employment have picked up...but remain...below...the beginning of the year.”

U.S. Unemployment Rate

Current (Aug 2020): 8.4%

Sept FOMC Forecast

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

Sources: U.S. Bureau of Labor Statistics, FOMC
Sept FOMC: “Weaker demand and significantly lower oil prices are holding down consumer price inflation.”

PCE Inflation Index

Percent

-1 0 1 2 3 4 5

PCE Inflation
Range
Median

Current Overall PCE (July 2020): 1.0%
Current Core PCE (July 2020): 1.3%

Sept FOMC Forecast

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

Sources: Bureau of Economic Analysis, FOMC
Sept FOMC: “the [FOMC] decided to...maintain this target range until...maximum empl. and inflation...is on track.”
Sept FOMC: “The [Fed] will increase its holdings…to sustain...the flow of credit to households and businesses”

Federal Reserve Balance Sheet

Source: Federal Reserve Board
COVID-19 initially spread much less in Oklahoma, but then new cases outpaced the U.S.

<table>
<thead>
<tr>
<th>Date</th>
<th>Confirmed Cases % of Pop.</th>
<th>Number of New Cases 7-day Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-Mar</td>
<td>U.S.: 2.2%</td>
<td>OK: 2.2%</td>
</tr>
<tr>
<td>4-May</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4-Jul</td>
<td></td>
<td></td>
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<tr>
<td>4-Sep</td>
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</tbody>
</table>

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.
Oklahoma mining job losses far outweighed those in the U.S. in August, but hospitality job cuts were less...
OK unemployment decreased to 5.7% in August, lower than the U.S. rate of 8.4%

Note: MSA and county rates are for July 2020.

Sources: U.S. Bureau of Labor Statistics/Haver Analytics, NBER recession shading
Through the end of June, Oklahoma PPP takeup was very strong across a variety of industries.
Foot traffic at Oklahoma businesses rose steadily through mid-June, but evened out in July & August

Sources: Google Mobility Data, Open Table, Track the Recovery, Authors’ calculations
Oil prices have rebounded somewhat, but remain below profitable drilling levels for most regional firms.
Rig counts in energy states have decreased dramatically across the U.S.

Active Drilling Rig Count, Top 8 Oil- and Gas-Producing States

Percent change, year-over-year

Source: Baker Hughes/Haver Analytics
Energy city office markets were already struggling before COVID, but retail vacancy was still low in Q2.
Residential real estate activity and prices have been a relative positive in an otherwise difficult period.

**Housing Price Index**

- Percent change, year-over-year

**New Housing Permits**

- Percent change, year-over-year, 3mma

Sources: Zillow/Haver Analytics
Through Q2, mortgage delinquencies also increased, though more in the U.S. overall than Oklahoma.
Summary

- The U.S. and Oklahoma economies have been hit hard by COVID and Oklahoma’s economy was already slowing in early 2020, due to difficulties in the energy sector.

- The government and Fed response was sizable and quick, but full recovery will likely depend on the path of the virus.

- COVID initially spread less quickly in Oklahoma, PPP take-up was strong, and some indicators were normalizing by June. But some sectors continue to see weaker activity.
Questions?

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