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

Economic Forum
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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.
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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 Oklahoma City Branch of the Federal Reserve Bank of Kansas City

- 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

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  - Walt Duncan, President, Duncan Oil Properties, Oklahoma City
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  - Chris Turner, President & CFO, First State Bank, Oklahoma City
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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 our July 2020 Economic Forum, 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
Sept FOMC: “Employment [has] picked up in recent months but remain[s] well below…the beginning of the year.”

U.S. Unemployment Rate

- U.S. unemployment rate
- Median Sept. 2020
- Median June 2020

Current (Sept 2020): 7.9%

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.”

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

Sources: Bureau of Economic Analysis, FOMC
Sept FOMC: “The path of the economy will depend significantly on the course of the virus.”

Change in Real GDP

Percent change

Current (Q2 2020): -31.4%

Percent change

Real GDP
Median Sept 2020
Median June 2020

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.”

Federal Funds Rate
Year-End Target

Percent

Fed Funds Rate
Median Sept. 2020
Median June 2020

Current Target: 0 - 0.25%

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

Sources: Bureau of Economic Analysis, FOMC
Sept FOMC: “The [Fed] will increase its holdings…to sustain…the flow of credit to households and businesses”
COVID-19 initially spread less in Oklahoma, but then new cases outpaced the U.S. and still remain higher.

![Graphs showing confirmed cases and number of new cases over time in Oklahoma compared to the U.S.]

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.

Sources: The COVID Tracking Project, Authors’ calculations
10 years of U.S. and Oklahoma job growth were lost in March/April, but there has been some recovery since

Sources: U.S. Bureau of Labor Statistics, NBER recession shading
Oklahoma’s year-over-year drop in employment was less than some areas in September, though still over 5%
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
OK unemployment decreased to 5.3% in September, lower than the U.S. rate of 7.9%
New and continuing state UI claims have continued to come down since June but remain historically high.
State and city sales tax receipts were lower again in September after rebounding some over the summer.

Oklahoma Monthly Tax Revenues

Percent change, year-over-year

Source: OK Tax Commission
Foot traffic at Oklahoma businesses rose steadily through mid-June, but remains below pre-COVID levels.
Consumer spending has remained around pre-COVID levels despite less hospitality & entertainment spending.

Oklahoma vs. U.S. Consumer Spending

Percent change, from Jan. 2020

Sources: Affinity Solutions, Track the Recovery, Authors’ calculations
Through August, housing prices and new building permits in OK continued to rise faster than the U.S.
But a higher share of Oklahomans are having difficulty paying household expenses and are at risk of eviction.

Household Pulse Survey
Pandemic Impact, Oct. 3, 2020

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<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>Oklahoma</th>
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<tbody>
<tr>
<td>Housing Insecurity</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>Likelihood of Eviction or Foreclosure</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>Difficulty Paying for Usual Household Expenses</td>
<td>30%</td>
<td>40%</td>
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Source: U.S. Census Bureau
State ag incomes remained depressed through the summer, but grain prices have rebounded considerably.
Energy prices have been stable since summer but still below profitable levels according to most firms

Oil & Natural Gas Profitability and Prices

- Henry Hub Natural Gas Price, left
- Natural Gas: Avg. Profitable Price, left
- WTI Oil Price, right
- Oil: Avg. Profitable Price, right

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.

FRBKC Q3 2020 Energy Special Question: When does your firm expect global oil demand to return to pre-COVID levels?

Source: FRBKC Energy Survey
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Questions?

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