

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

*Virtual Economic Forum*

*July 15, 2020*

**Chad Wilkerson**  
*Oklahoma City Branch Executive & Economist*

\*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 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

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- **Patrick T. Harker**, Philadelphia
- **Robert S. Kaplan**, Dallas
- **Neel Kashkari**, Minneapolis
- **Loretta J. Mester**, Cleveland
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- **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](http://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!

## OKC BRANCH 100

- Our branch opened August 2, 1920, as the 3<sup>rd</sup> 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>



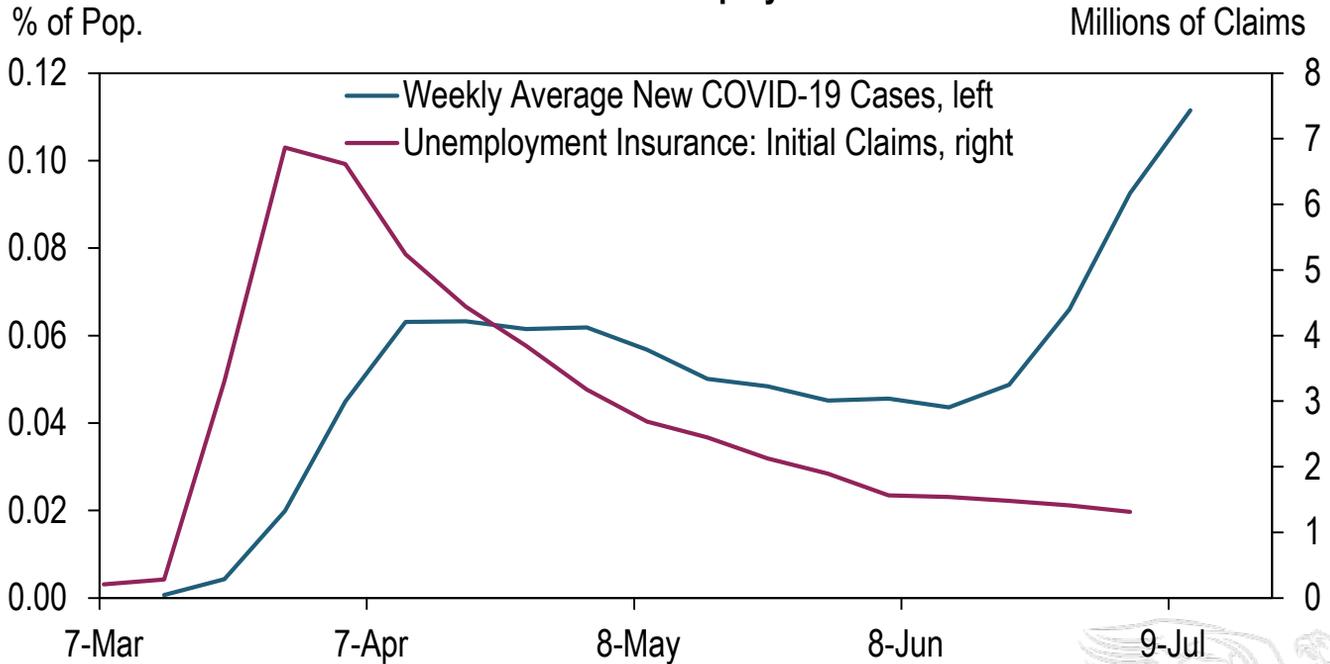
# U.S. and Oklahoma Economic Summary

- Since March, the spread of COVID-19 and the resulting caution and shutdowns have presented sizable challenges for the U.S. economy
- The Federal Reserve has acted swiftly and many indicators have begun to recover, but a recent surge in COVID cases has created uncertainty
- Oklahoma's economy was already slowing in late 2019 and early 2020, due largely to difficulties in the state's important energy sector
- COVID initially spread less quickly here, PPP takeup was strong, and some indicators were normalizing by June but have since pulled back
- The state's economic and energy sector outlooks continue to depend on how the virus evolves and affects consumer and business activity



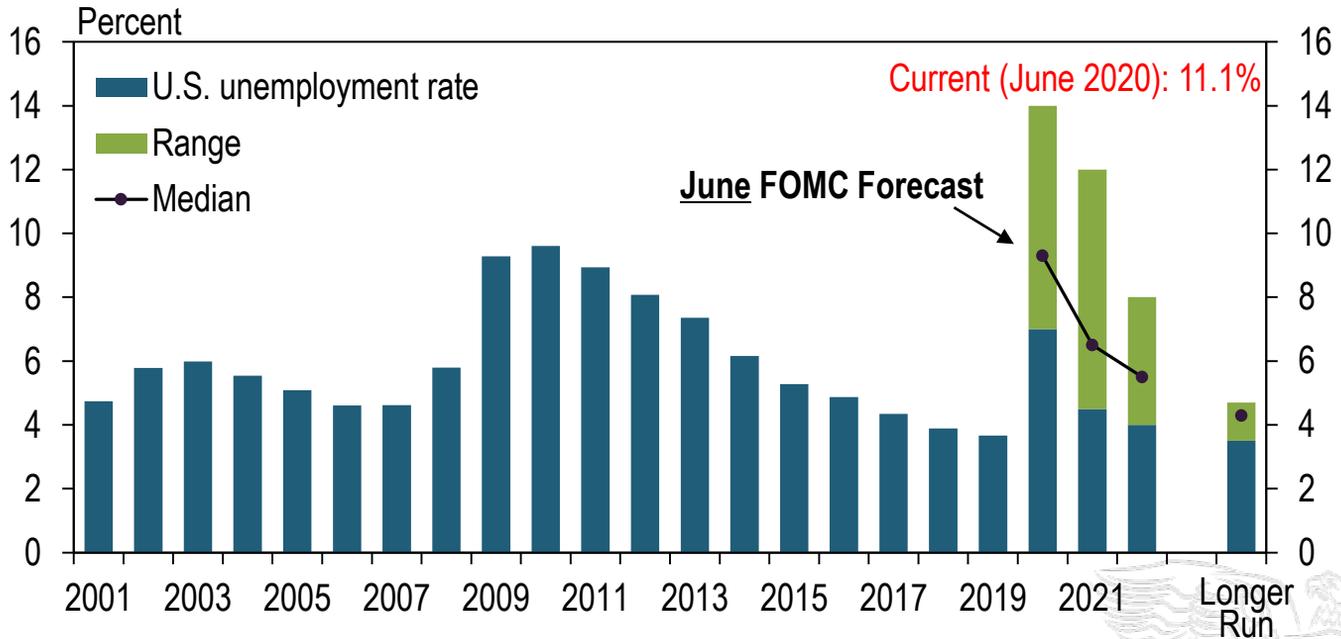
# As cases of COVID-19 began spreading and places shut down across the nation, unemployment claims surged

U.S. COVID-19 and Unemployment Claims



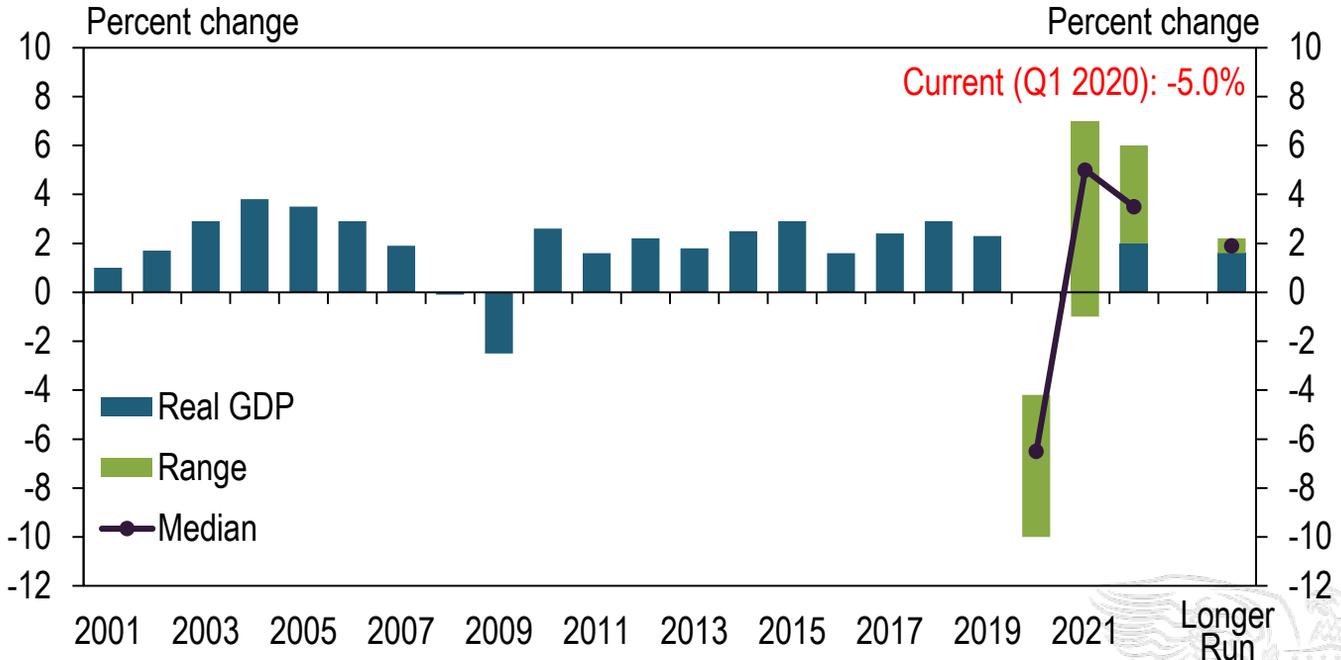
# June FOMC: “The virus and the measures taken to protect public health have induced...a surge in job losses.”

## U.S. Unemployment Rate



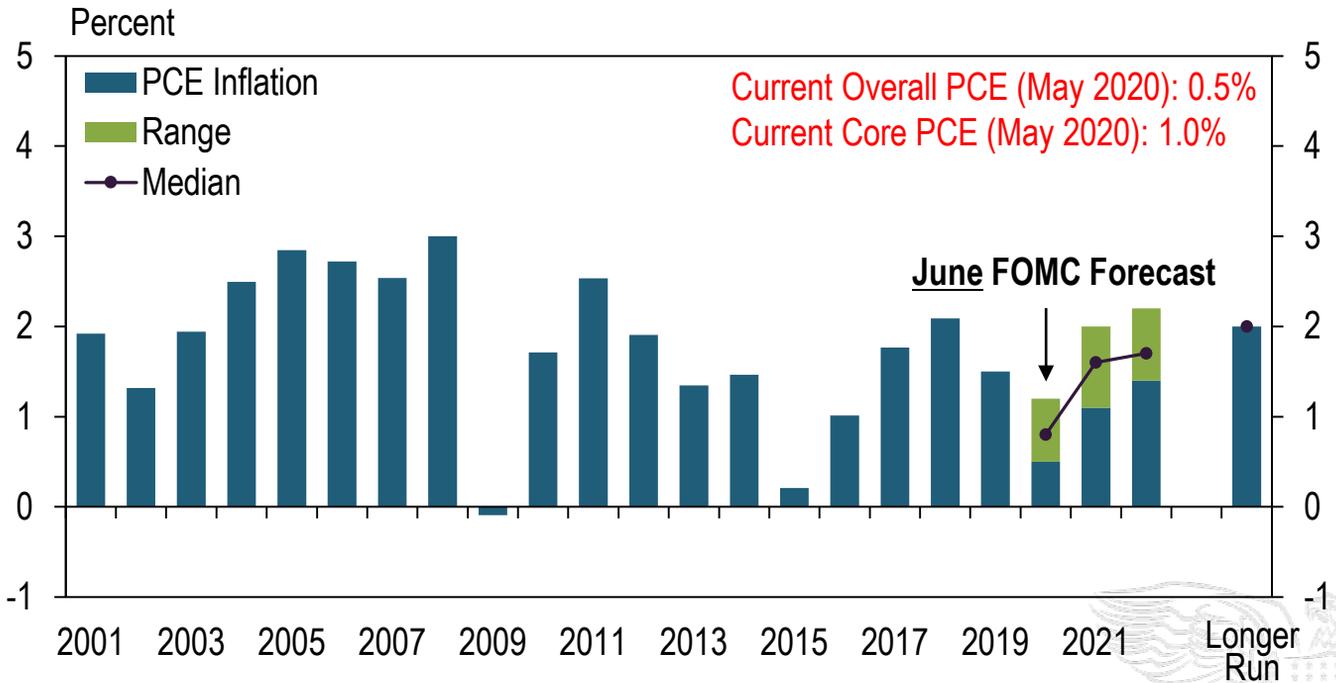
# June FOMC: “The ongoing public health crisis will weigh heavily on economic activity... in the near term.”

Change in Real GDP



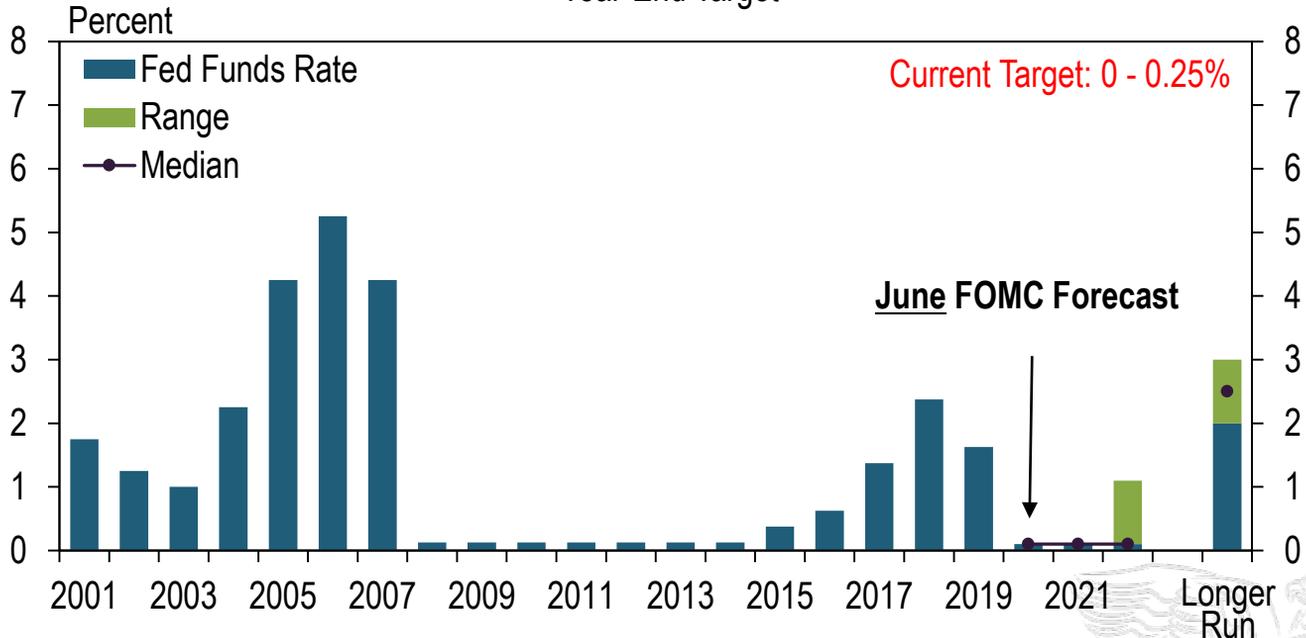
# June FOMC: “Weaker demand and significantly lower oil prices are holding down consumer price inflation.”

PCE Inflation Index



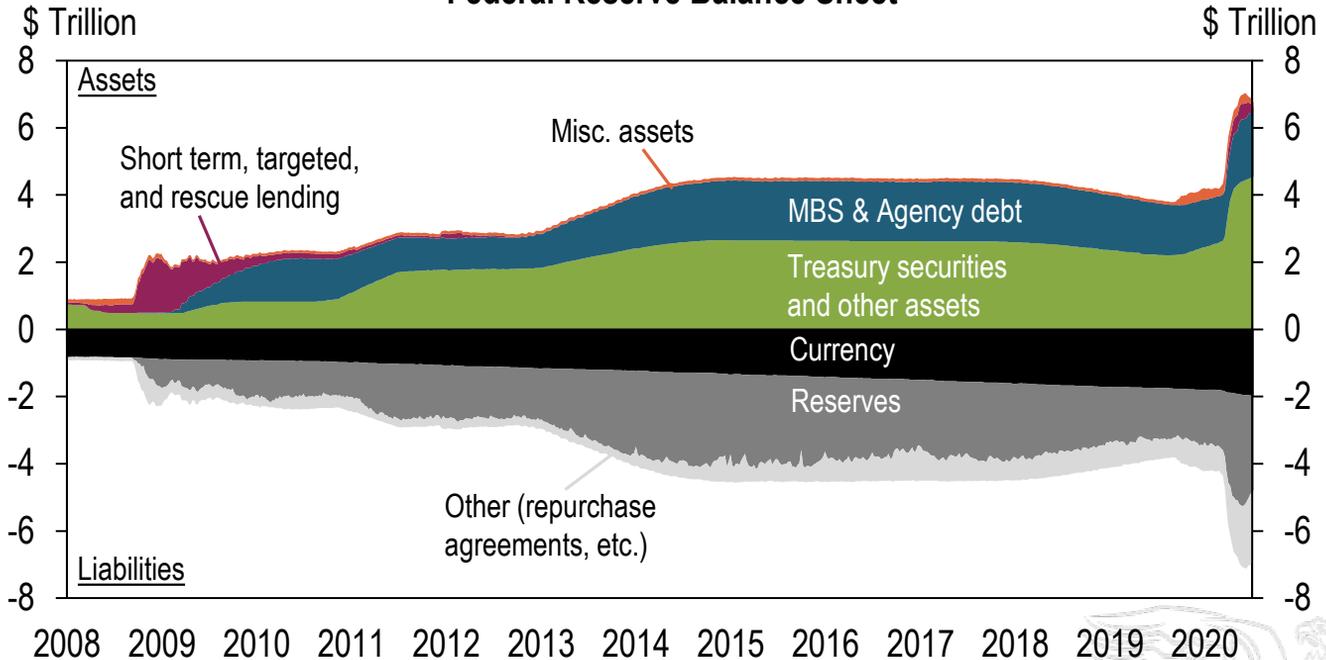
# June FOMC: “the [FOMC] decided to maintain this target range until...the economy has weathered recent events.”

Federal Funds Rate  
Year-End Target



# June FOMC: “To support the flow of credit to households and businesses...[the Fed] will increase its holdings.”

Federal Reserve Balance Sheet



# The Federal Reserve has acted swiftly and forcefully

## Monetary Policy:

- Cut policy rate to near zero
- Provided forward guidance

## Actions to Improve Market Functioning:

- Open Market Purchases
- Eased access to discount window
- Primary Dealer Credit Facility (PDCF)
- Money Market Mutual Fund Liquidity Facility (MMLF)
- Commercial Paper Funding Facility (CPFF)
- Expanded Foreign Central Bank Swap Lines

## Actions to Encourage Bank Lending:

- Dropped reserve requirements to zero
- Temporary adjustment to regulations

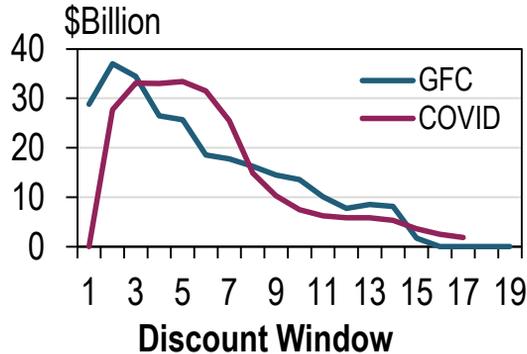
## Actions to Support the Flow of Credit:

- PPP Loan Facility (PPPLF)
- Term Asset-Backed Security Loan Facility (TALF)
- Corporate Credit Facilities (CCF)
- Municipal Liquidity Facility (MLF)
- Main Street Lending Facility

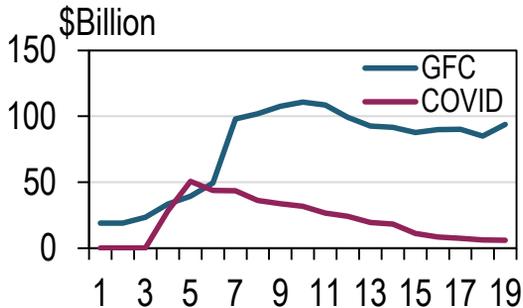
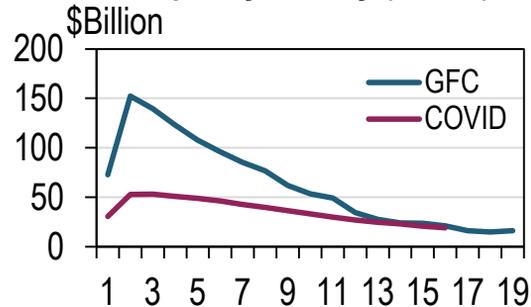


# The Fed has used some familiar tools from the Great Financial Crisis (GFC), with generally less take-up

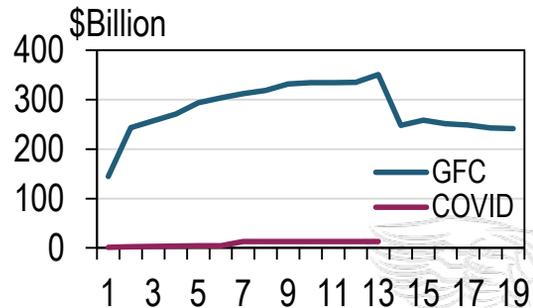
Primary Dealer Credit Facility (PDCF)



Money Market Mutual Fund Liquidity Facility (MMLF)

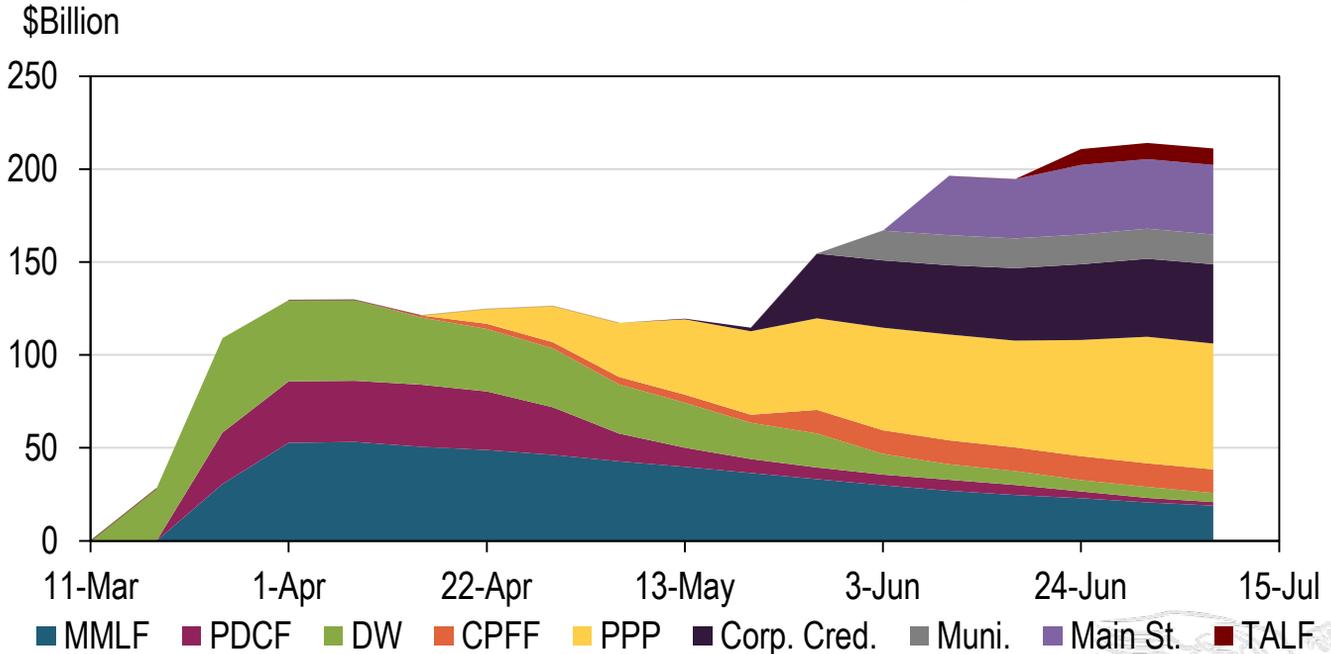


Commercial Paper Funding Facility (CPFF)



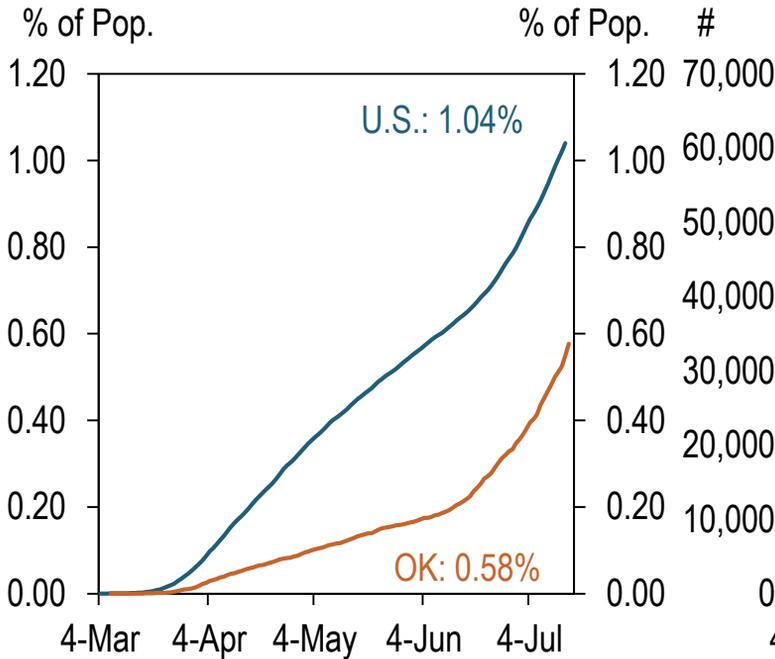
# And there is sizable capacity to accommodate new lending facilities unique to this crisis

## Detailed Liquidity Facility Portfolio Holdings

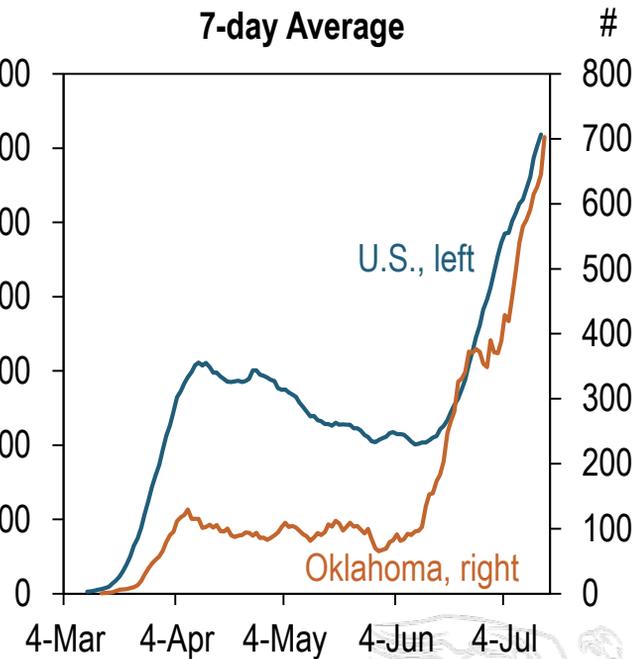


# COVID-19 initially spread much less in Oklahoma, but recently cases have surged in the state

**Confirmed Cases**



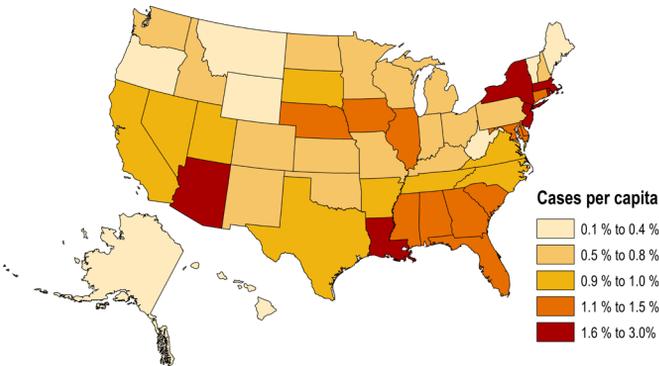
**Number of New Cases  
7-day Average**



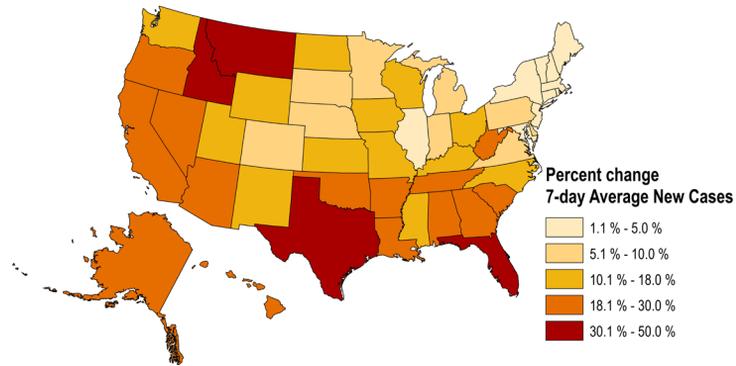
# Oklahoma's total cases remain in the lowest third of states, but recent case growth is in the top third

**Total Cases by State, through July 14, 2020**

**Increase of New Cases by State, Current 7-day Average**



**Oklahoma: 0.58%**

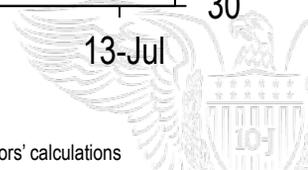
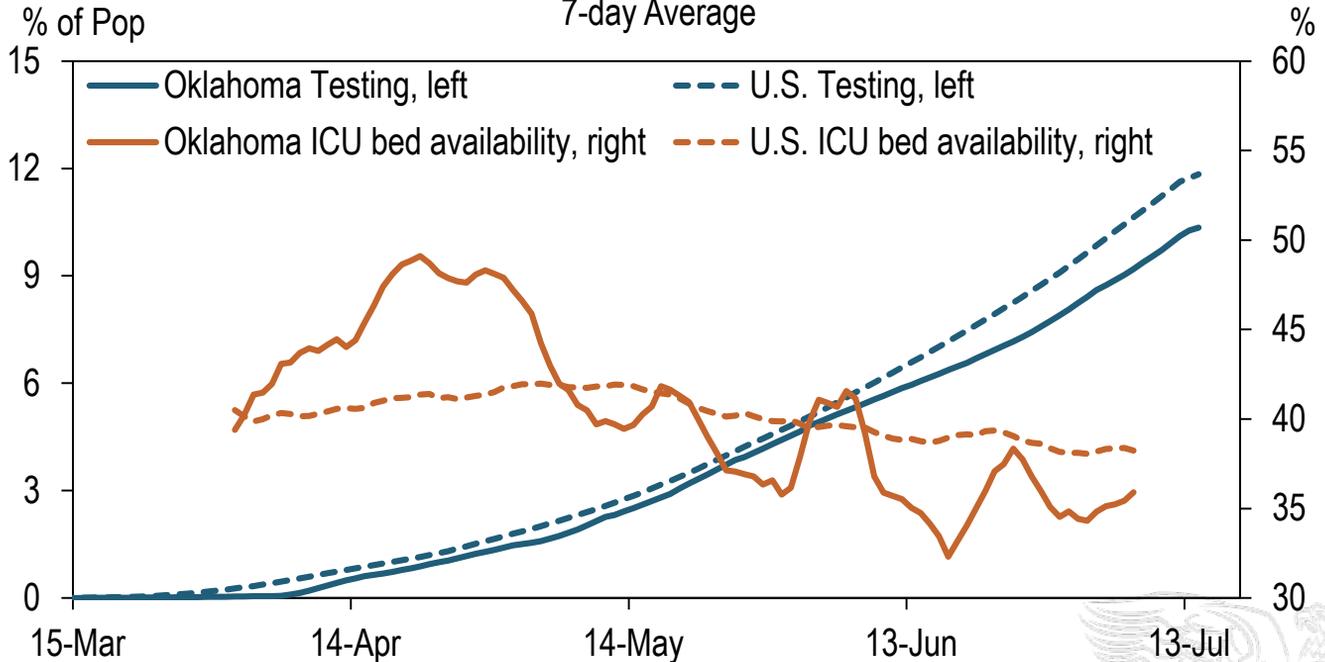


**Oklahoma: +26.7%**



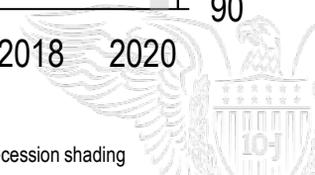
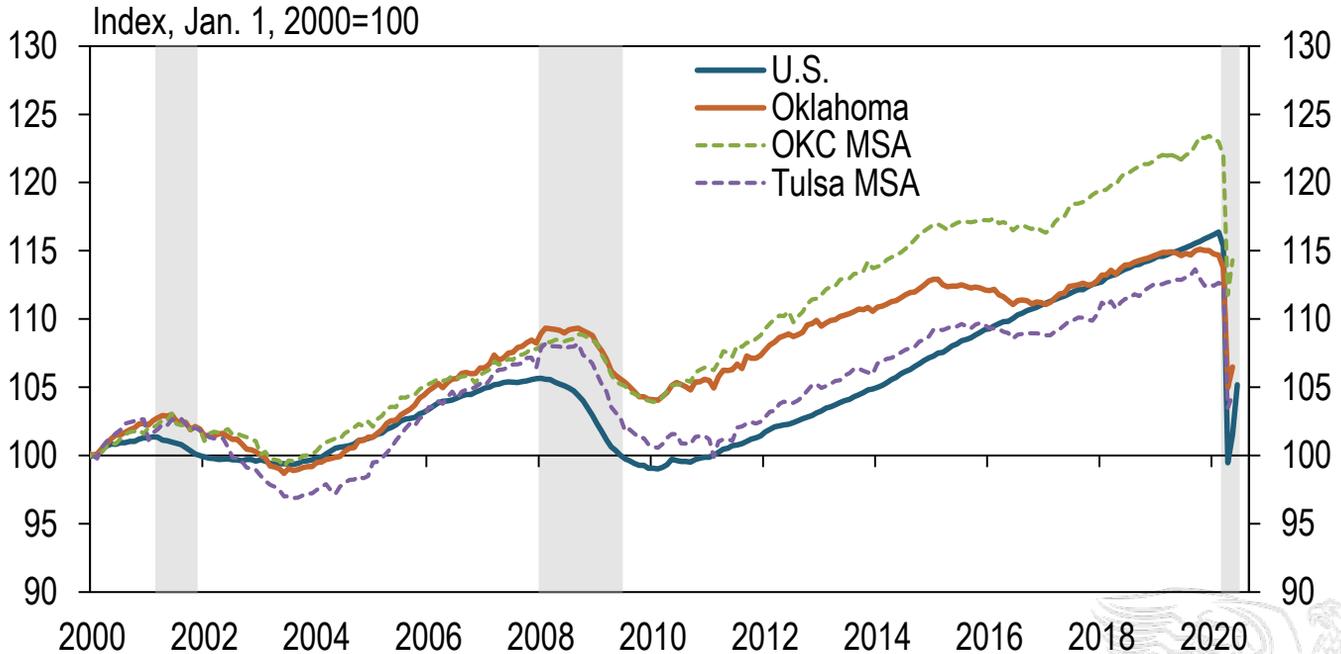
# COVID-19 testing has continued to lag the nation, and Oklahoma has slightly fewer ICU beds available

COVID Healthcare Metrics  
7-day Average



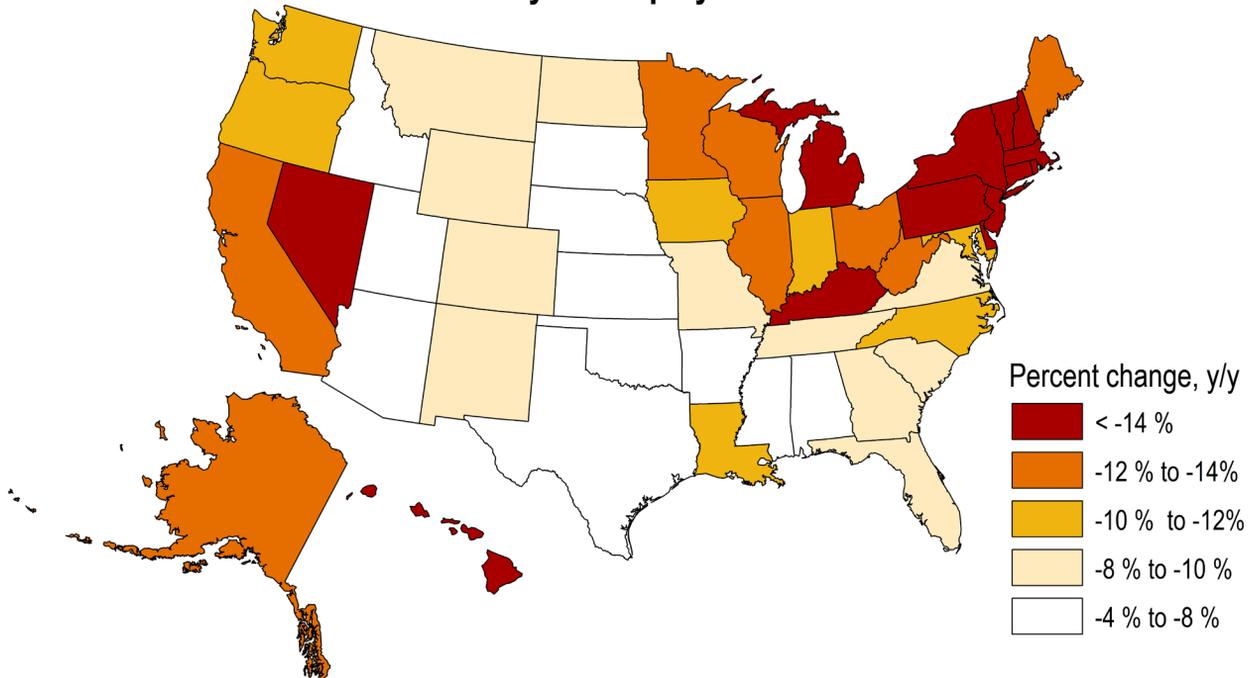
# 7+ years of U.S. and Oklahoma job growth were lost in March and April, but May showed slight gains

## Nonfarm Payroll Employment Growth



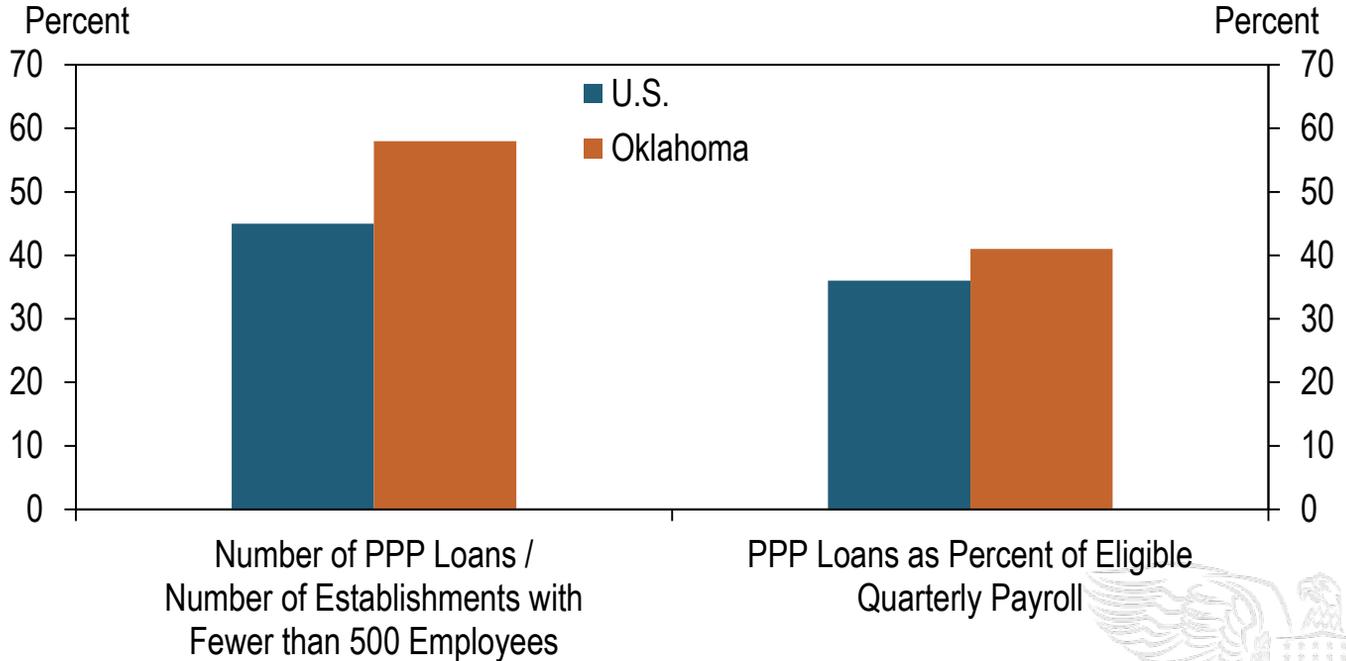
# Oklahoma's year-over-year drop in employment was less than in most places thru May, though still over 7%

Nonfarm Payroll Employment Growth



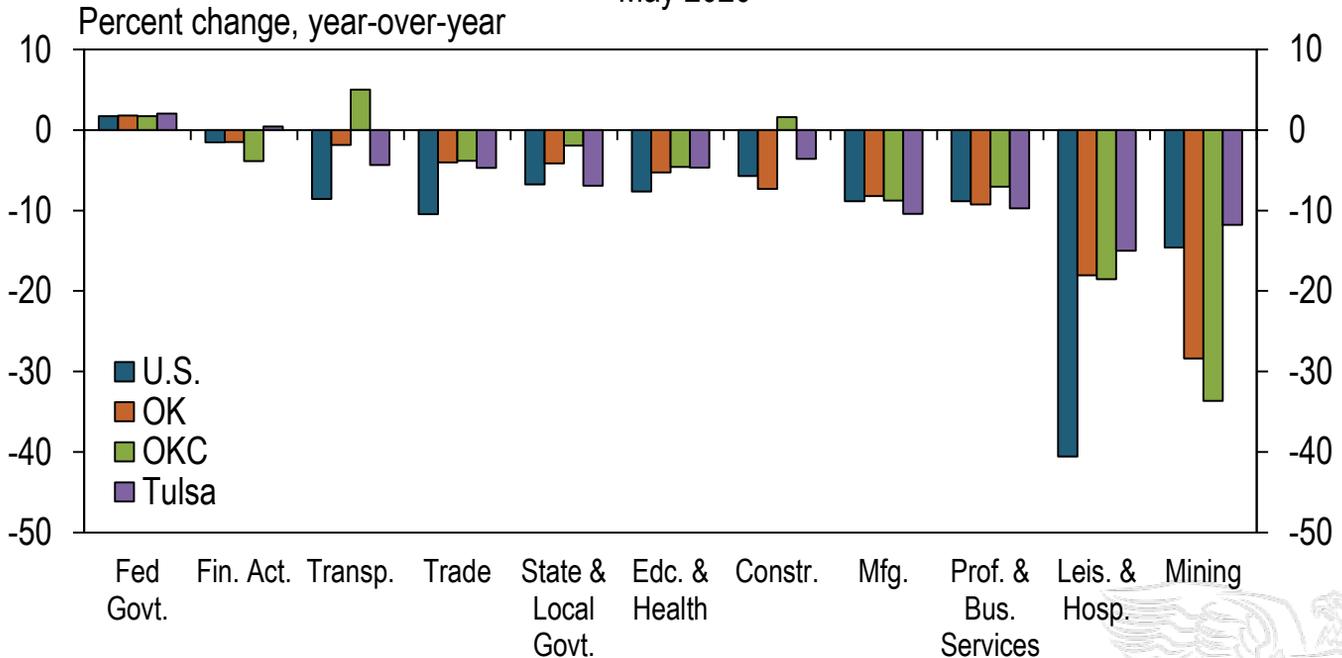
# Oklahoma has been well represented in PPP uptake, with more loans going to smaller businesses for payroll

U.S. vs. Oklahoma PPP Loans



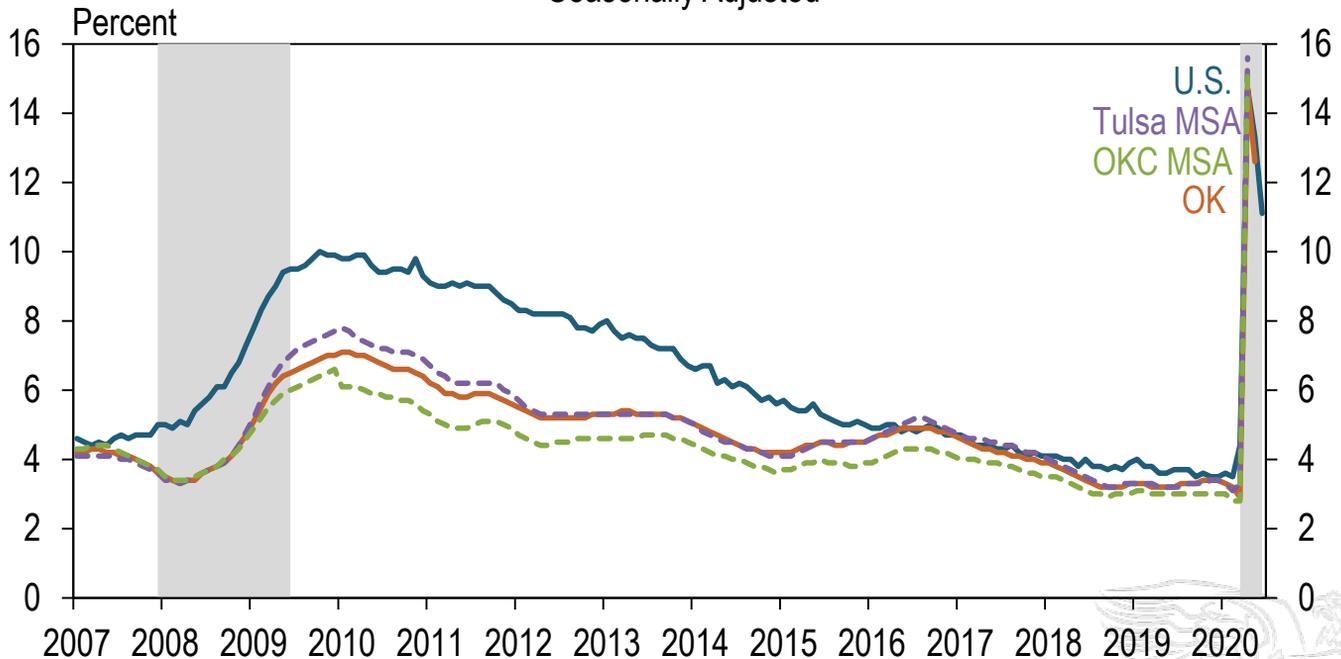
# Oklahoma hospitality (and most other) job losses were less than in the U.S., but energy cuts were bigger

Job Growth by Industry  
May 2020

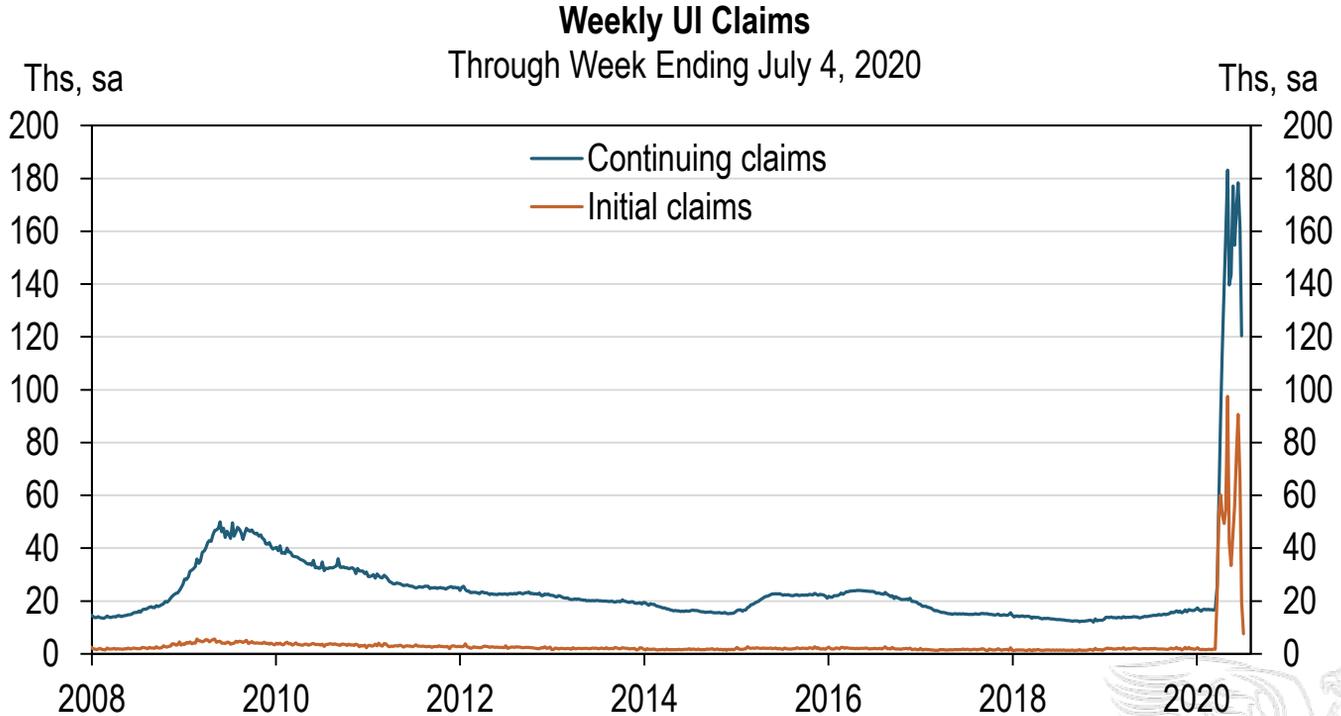


# Oklahoma's unemployment eased slightly in May after a record high in April, similar to the U.S., but is very high

Unemployment Rates  
Seasonally Adjusted

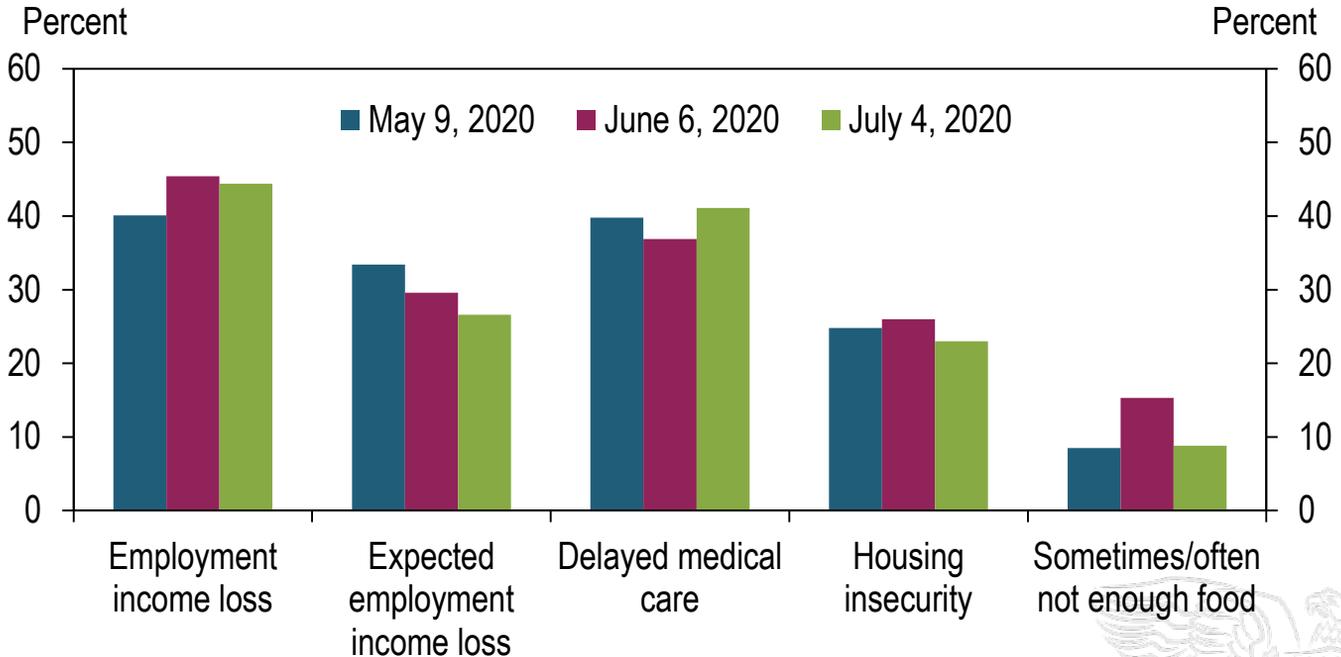


# New and continuing state UI claims were elevated through mid-June, but have declined some in July



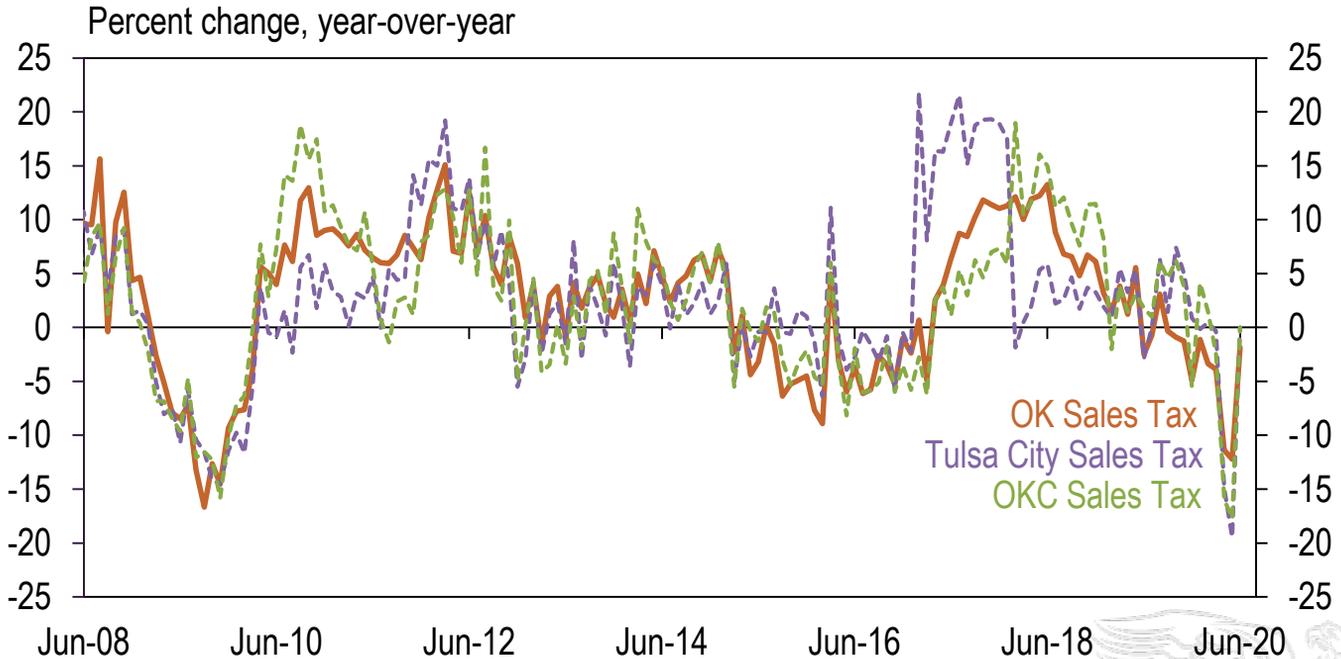
# Fewer Oklahoma households are expecting a loss of job income now, but many households face challenges

Oklahoma Household Pulse Survey



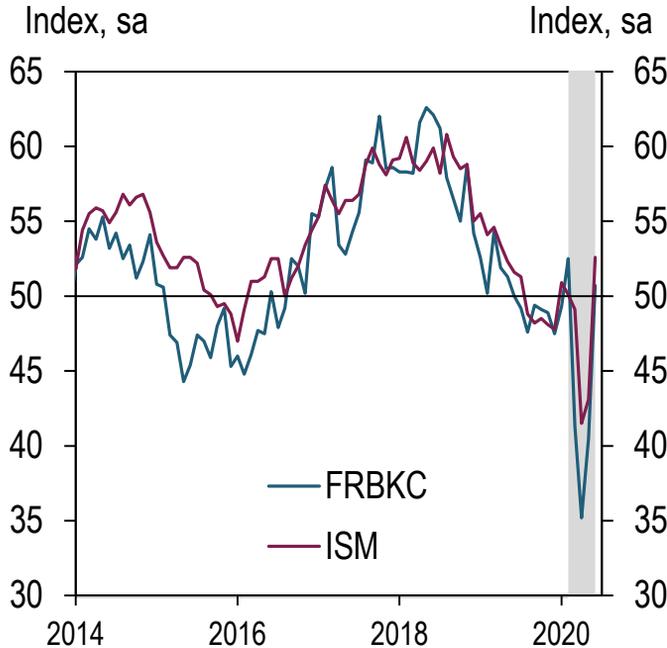
# State and city sales tax receipts rebounded in June after dropping sharply in April and May

## Oklahoma Monthly Tax Revenues

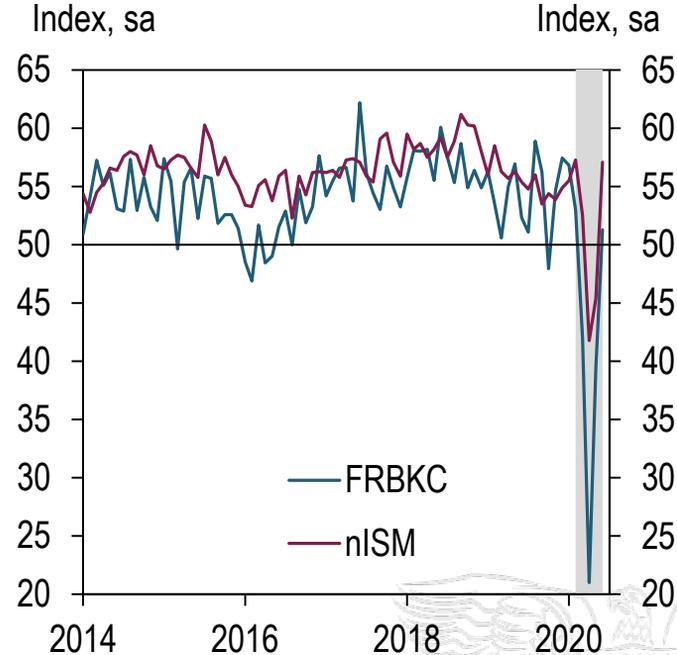


# Regional factory and services activity also grew slightly in June, after sharp drops in previous months

## Manufacturing

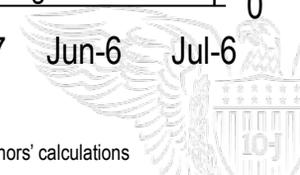
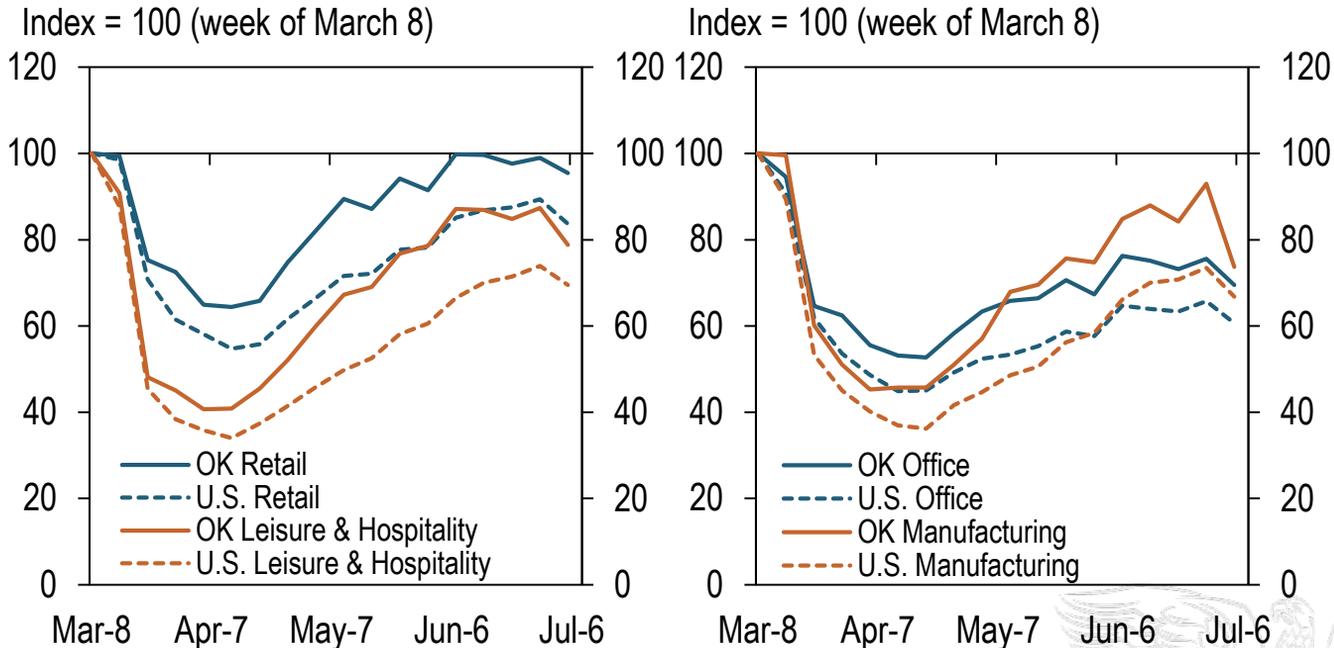


## Services

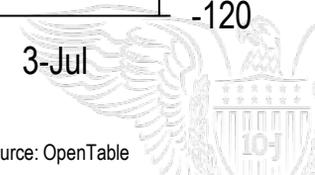
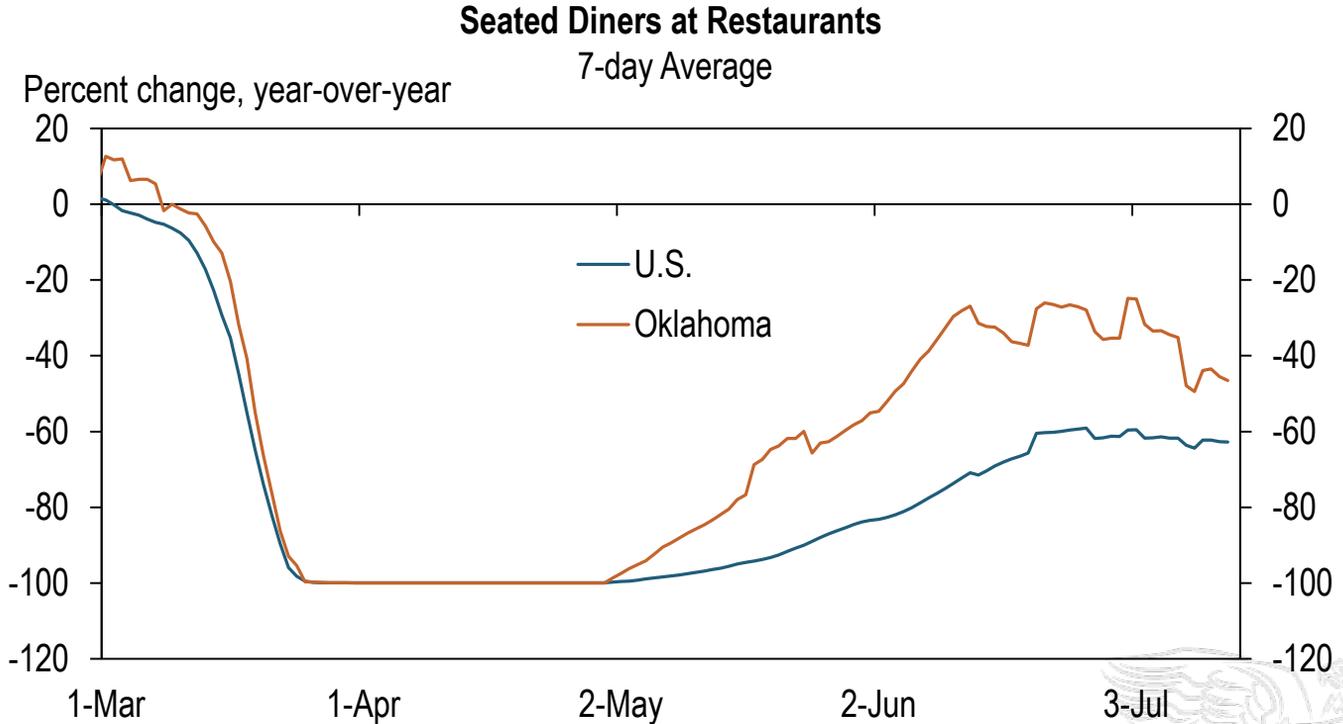


# Foot traffic at Oklahoma businesses rose steadily through mid-June, but has slowed a bit lately

## Change in Weekly Foot Traffic to Business Establishments

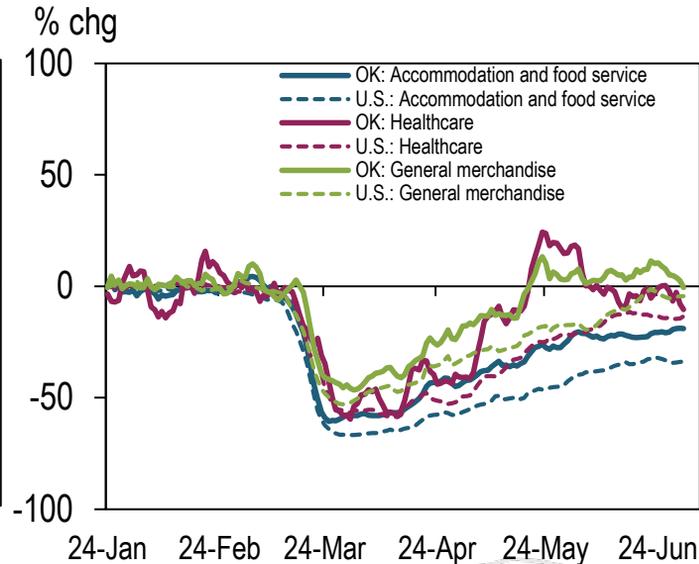
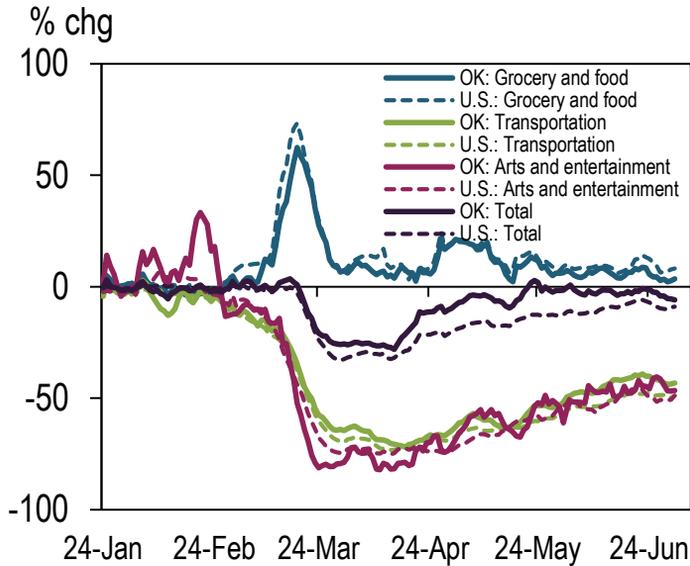


# Traffic at Oklahoma restaurants has also pulled back some in July after rising quickly in May and June



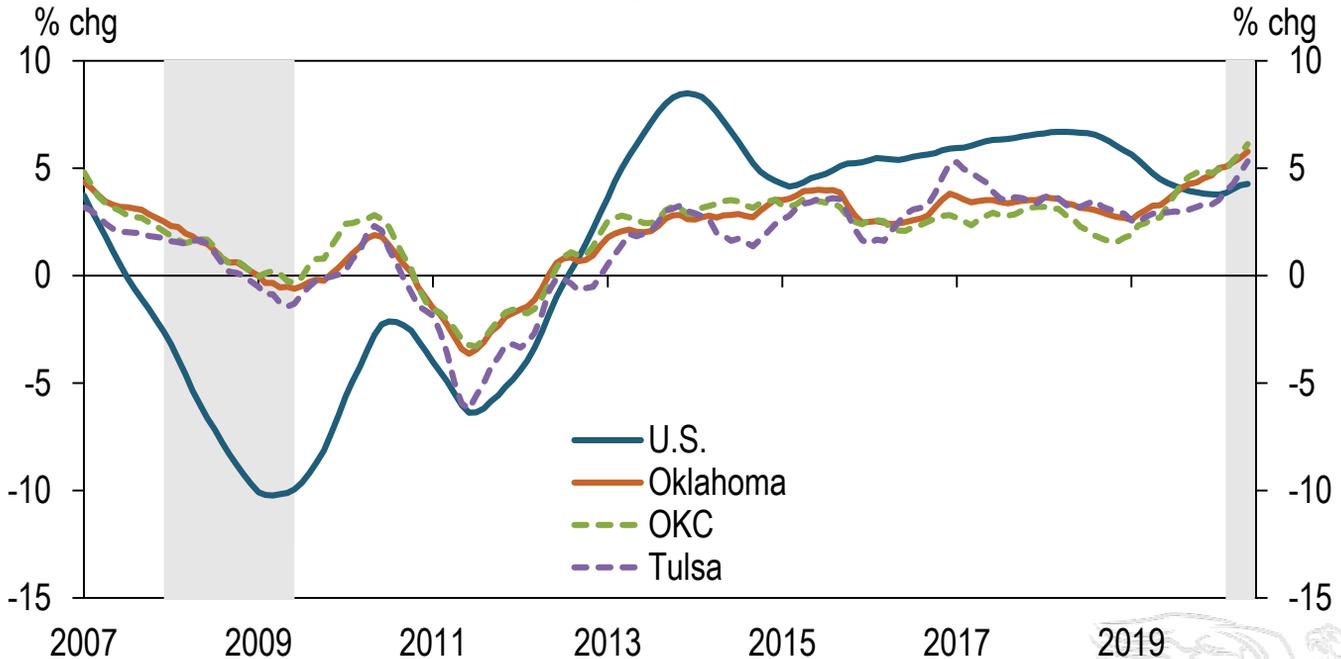
# Consumer spending in some segments has closely resembled the nation, and exceeded it in others

## Oklahoma vs. U.S. Consumer Spending



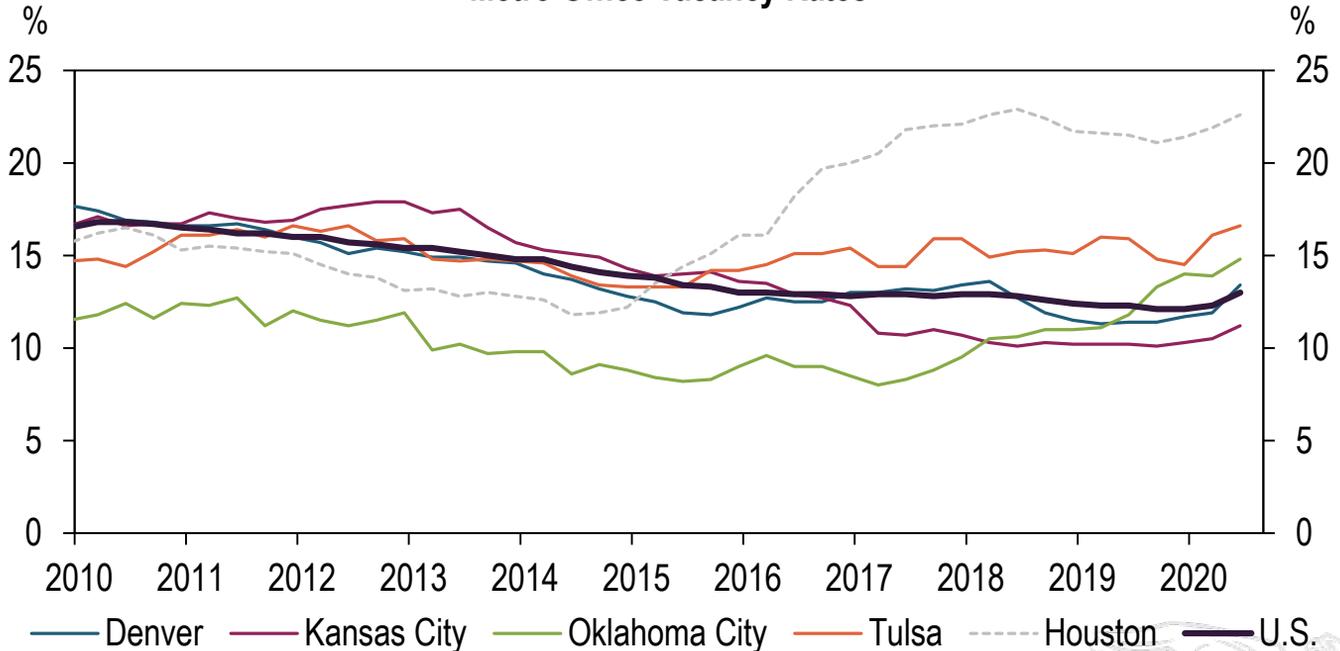
# Through May, housing prices in Oklahoma continued to rise, and even strengthened compared with recent years

Housing Price Index



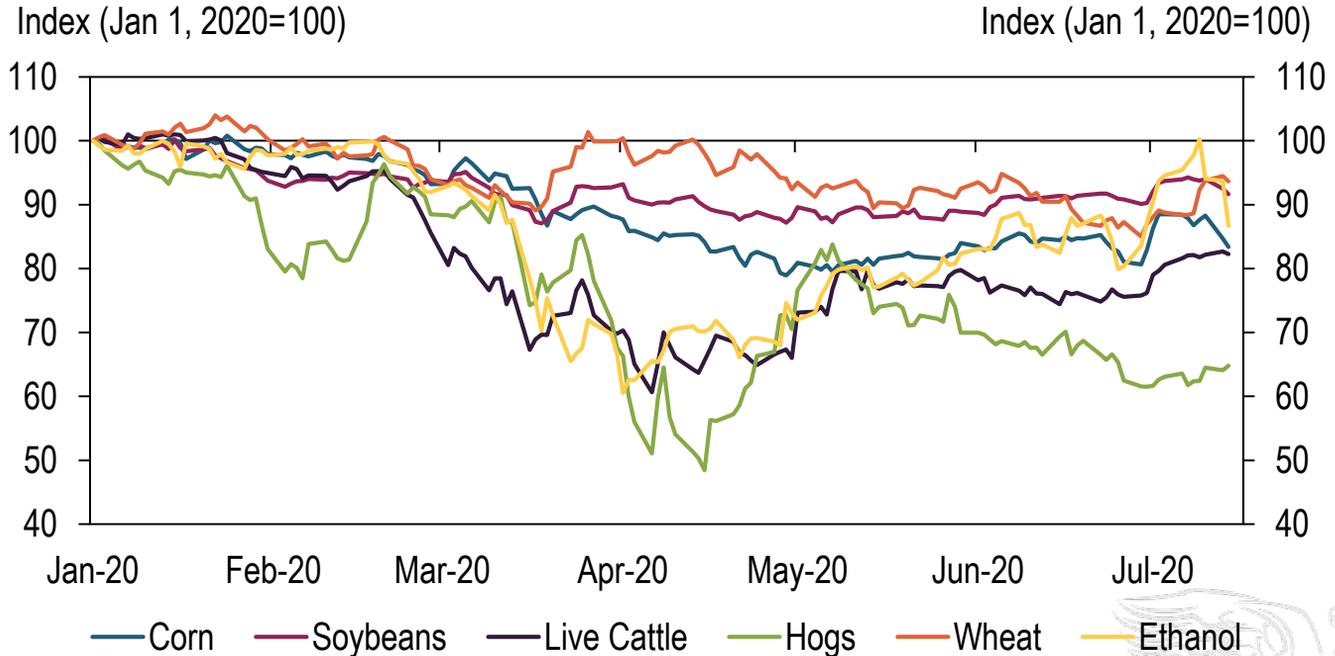
# Energy city office markets were already struggling before COVID, and vacancies rose everywhere in Q2

Metro Office Vacancy Rates



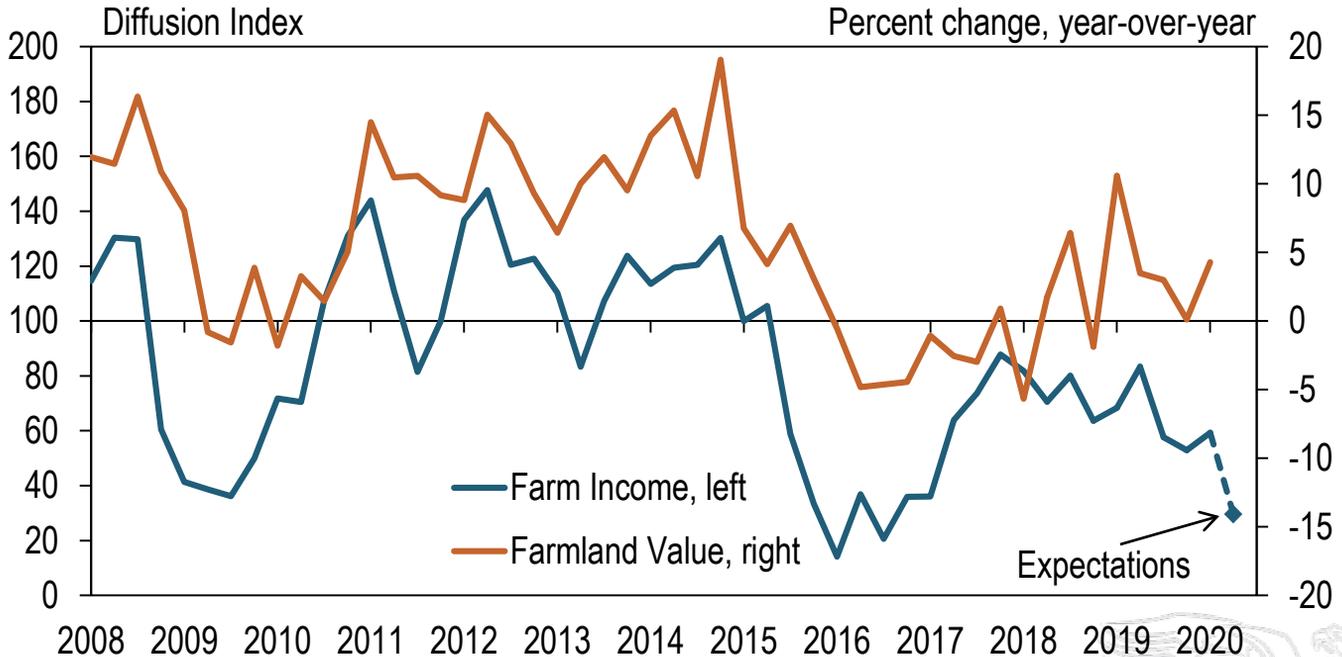
# Agricultural commodity prices remain lower than at the beginning of the year, especially for livestock

Commodity Prices



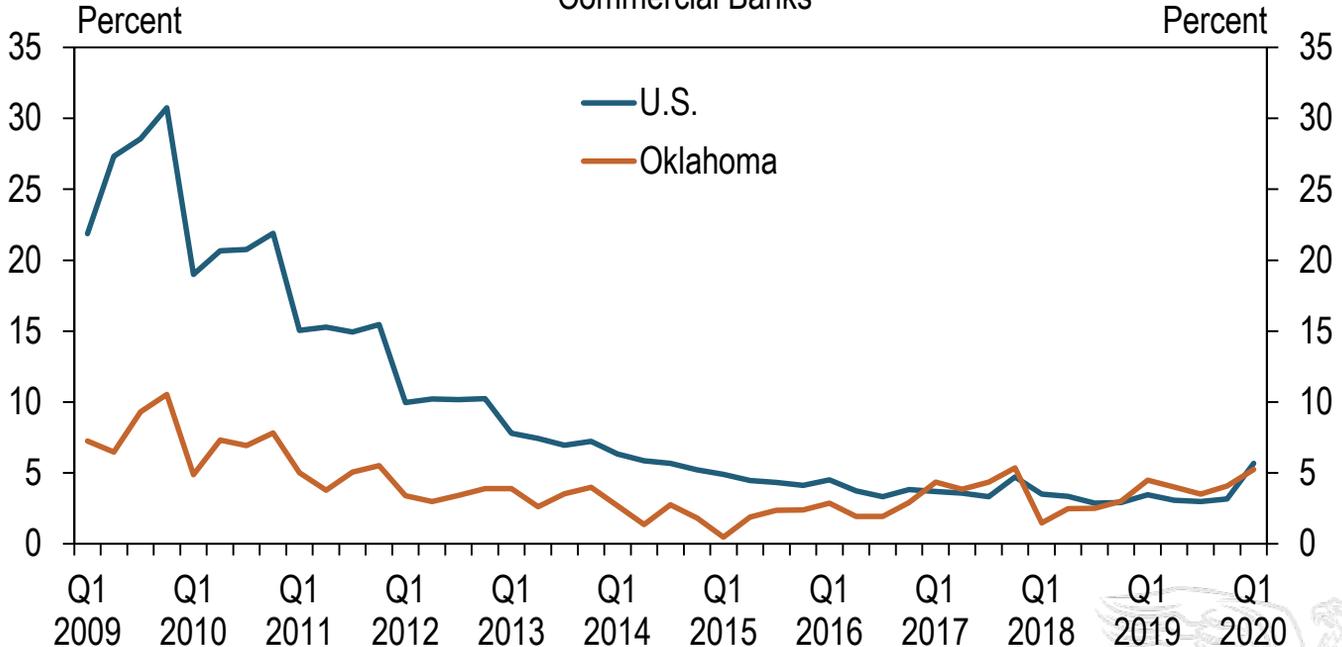
# Agricultural incomes in the state have continued to decline, but land values have held up

## Oklahoma Farm Income and Farmland Values



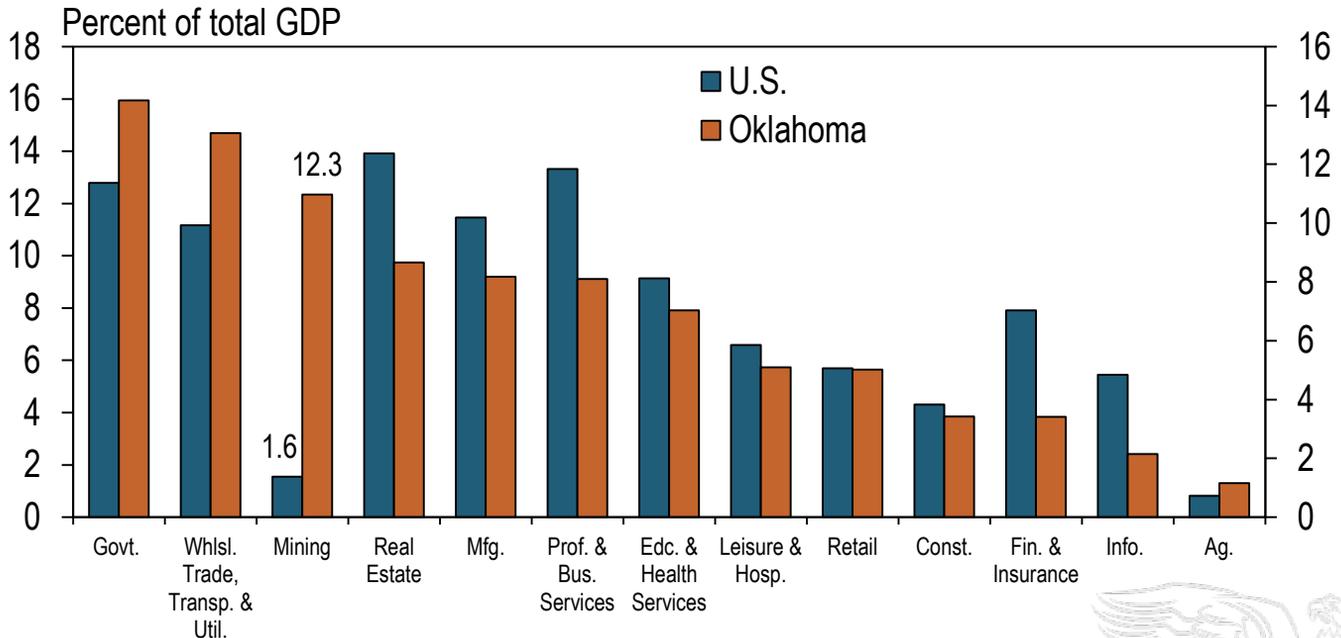
# Banking conditions in Oklahoma remained solid through March, similar to in the nation

Share of Banks Not Making a Profit  
Commercial Banks



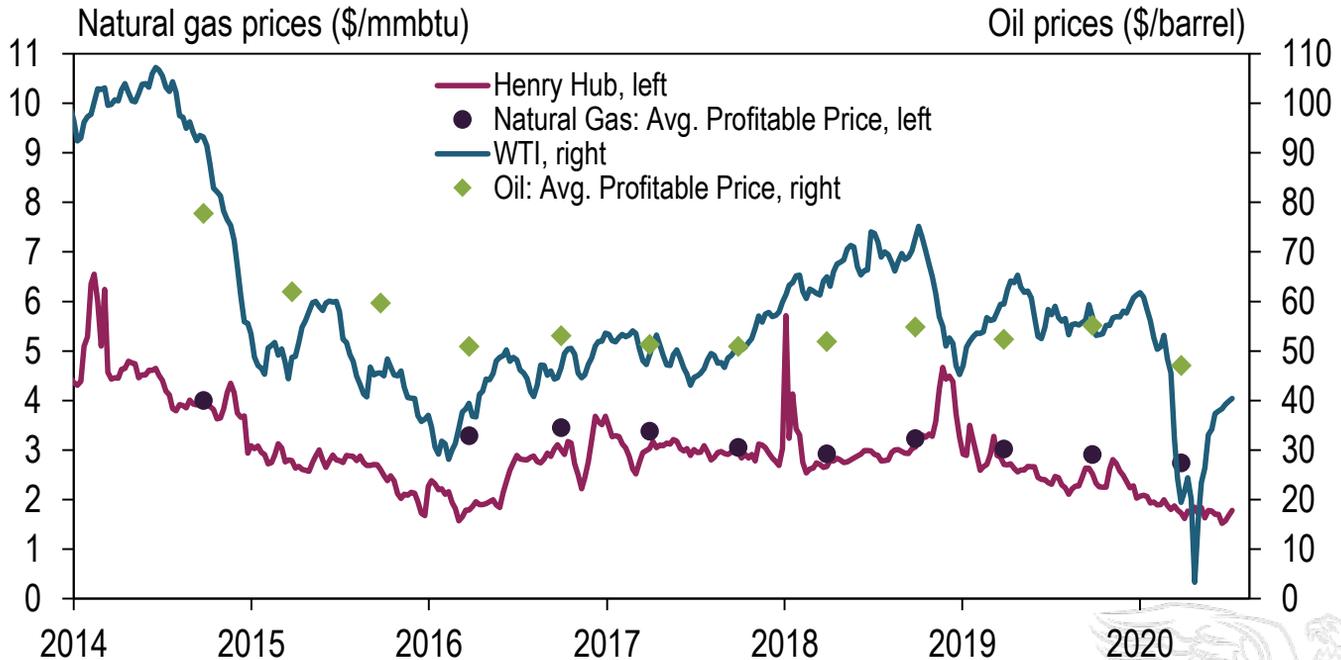
# Oklahoma's main difference from the nation in terms of industrial structure is its very sizable energy sector

Industry Share of GDP, 2019

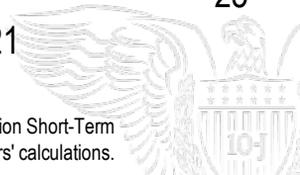
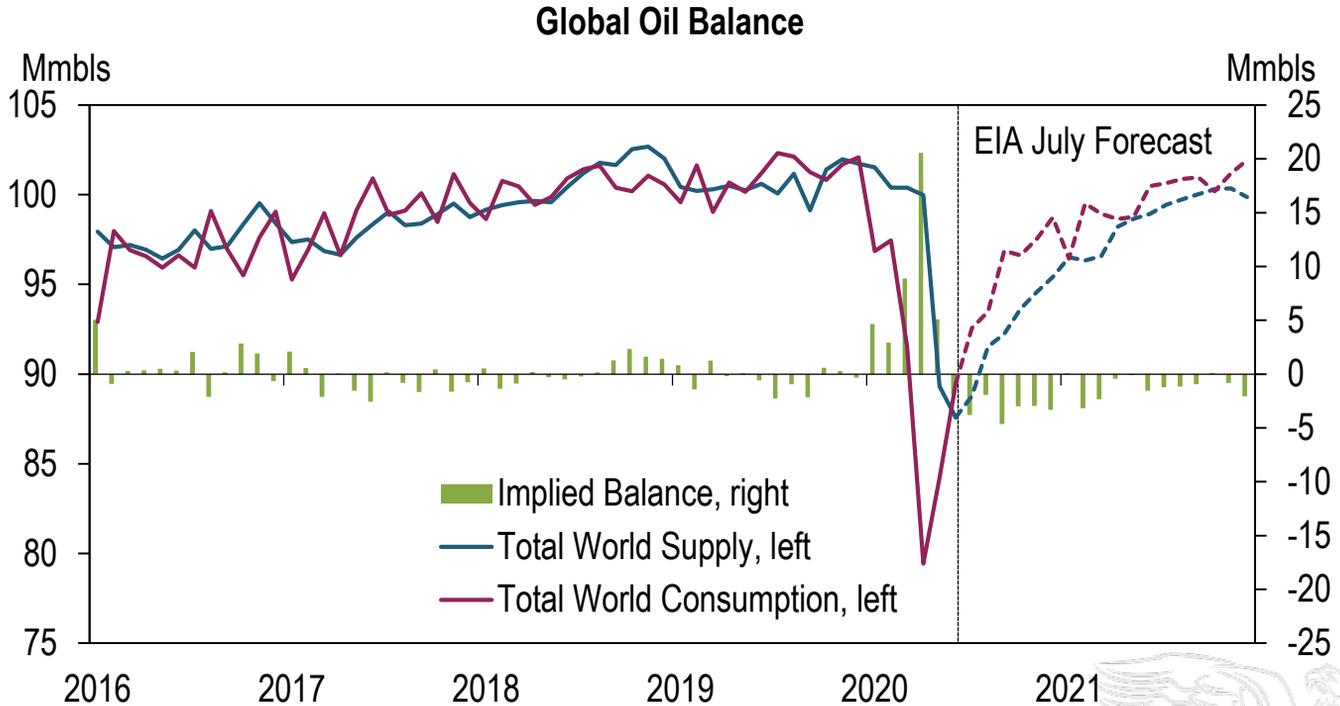


# Oil prices have rebounded somewhat, but remain below profitable drilling levels for most regional firms

## Oil & Natural Gas Profitability and Prices

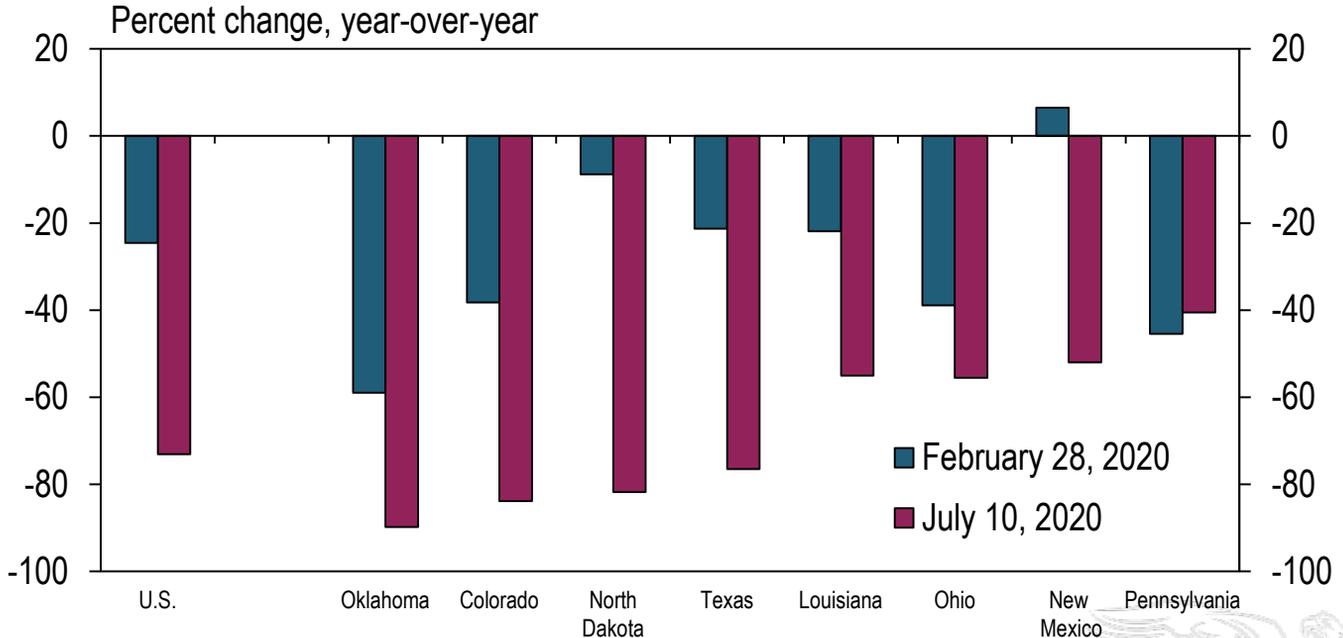


# World oil demand plummeted in April and May, followed by a historic drop in oil production



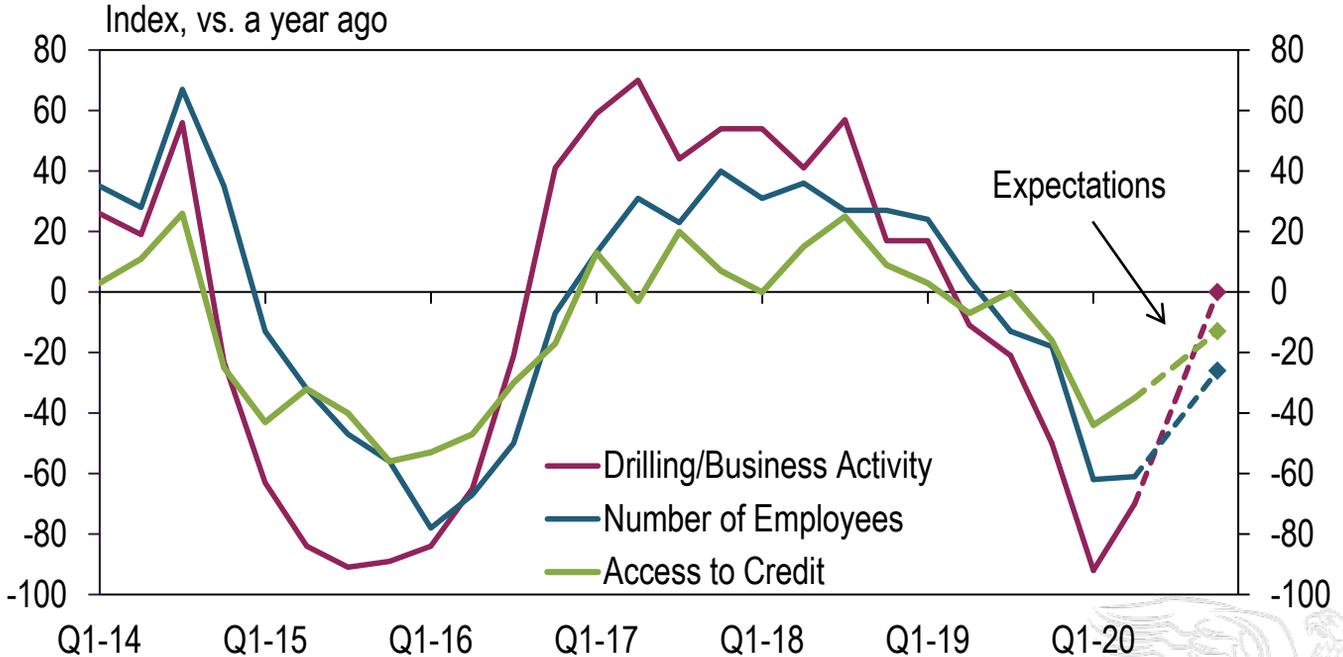
# Rig counts in energy states have decreased dramatically, nowhere moreso than Oklahoma

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



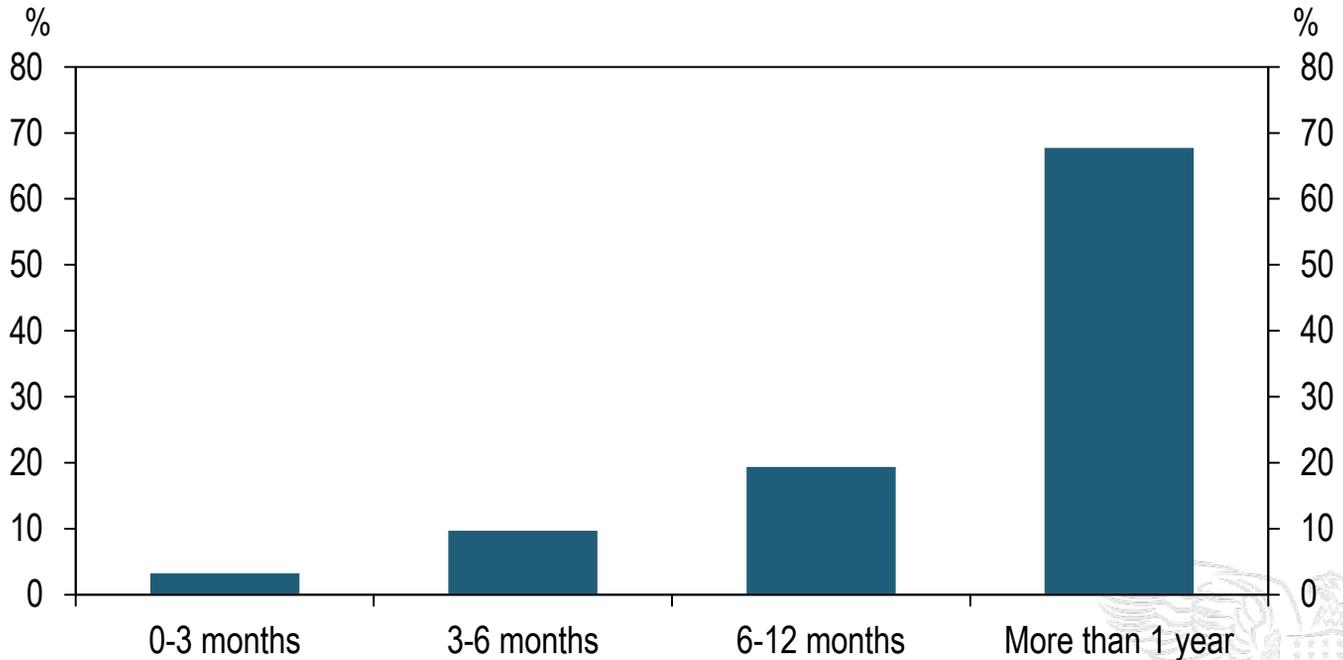
# The KC Fed's quarterly energy survey, released July 10, showed another sharp drop, but expected stabilization

Kansas City Fed Energy Indexes



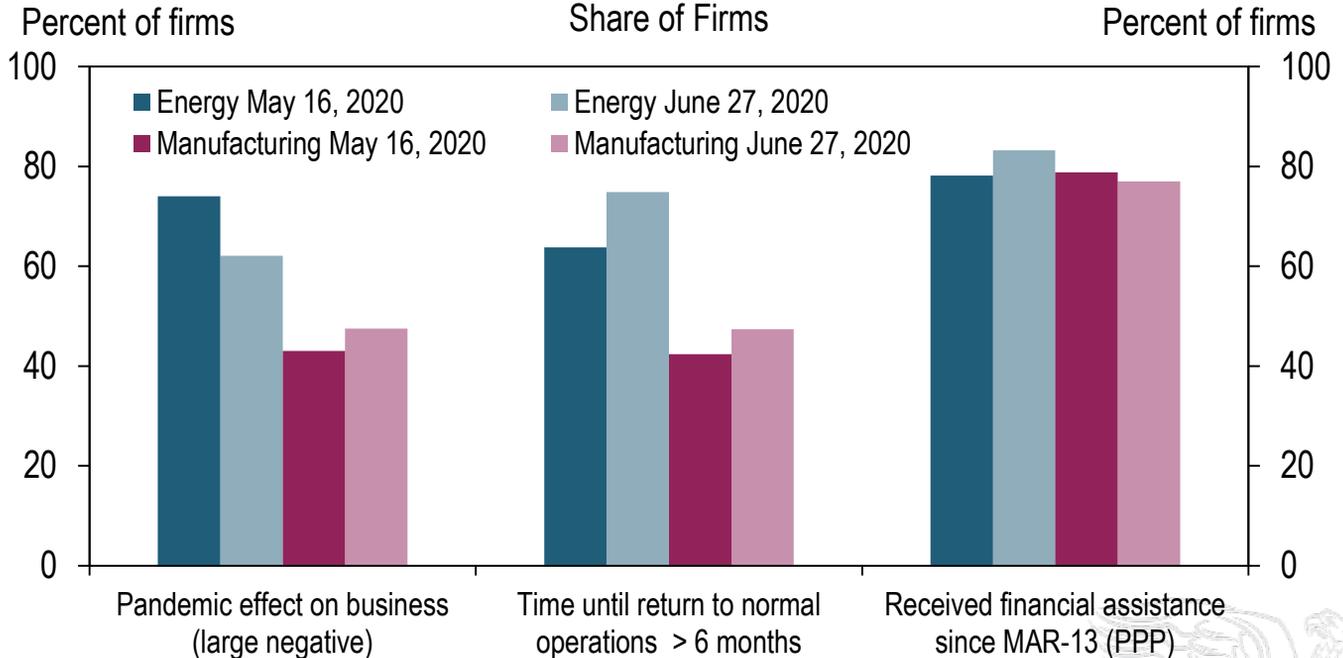
# Most firms reported they could survive on current revenue levels for more than a year, but 32% could not

FRBKC Q2 2020 Energy Special Question: If current revenues were to continue, how long could your firm survive?



# According to the Census Bureau, energy firms have weaker outlooks but similar PPP takeup as other firms

Pulse Business Survey



# Conclusions

- Since March, the spread of COVID-19 and the resulting caution and shutdowns have presented sizable challenges for the U.S. economy
- The Federal Reserve has acted swiftly and many indicators have begun to recover, but a recent surge in COVID cases has created uncertainty
- Oklahoma's economy was already slowing in late 2019 and early 2020, due largely to difficulties in the state's important energy sector
- COVID initially spread less quickly here, PPP takeup was strong, and some indicators were normalizing by June but have since pulled back
- The state's economic and energy sector outlooks continue to depend on how the virus evolves and affects consumer and business activity



# Questions?

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