

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

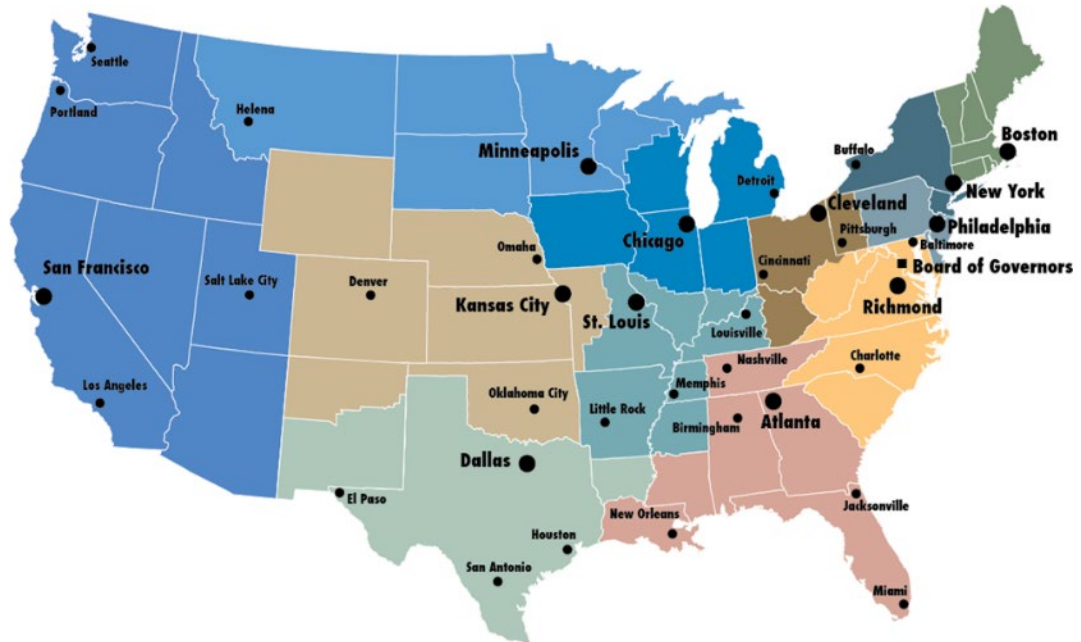
*Chickasha Rotary Club
August 20, 2020*

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.



Structure & Functions of the Federal Reserve



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!

OKC BRANCH 100

- 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>



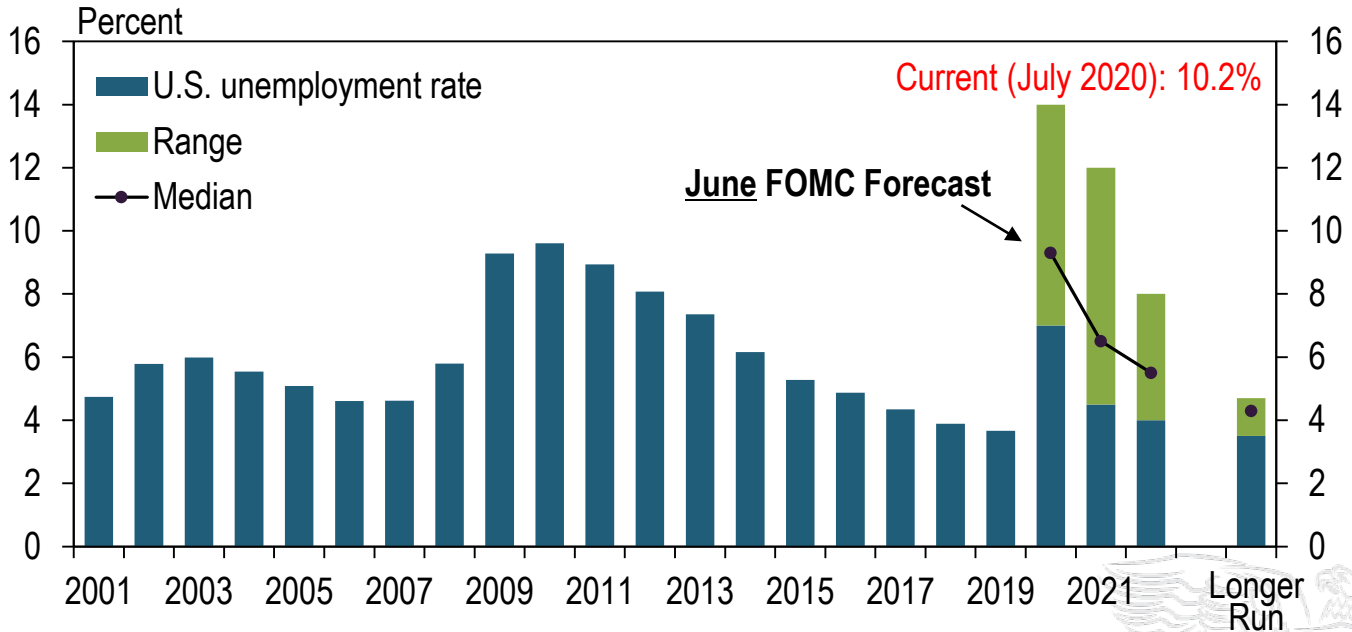
U.S. and Oklahoma Economic Summary

- 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 the summer surge in COVID cases added 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



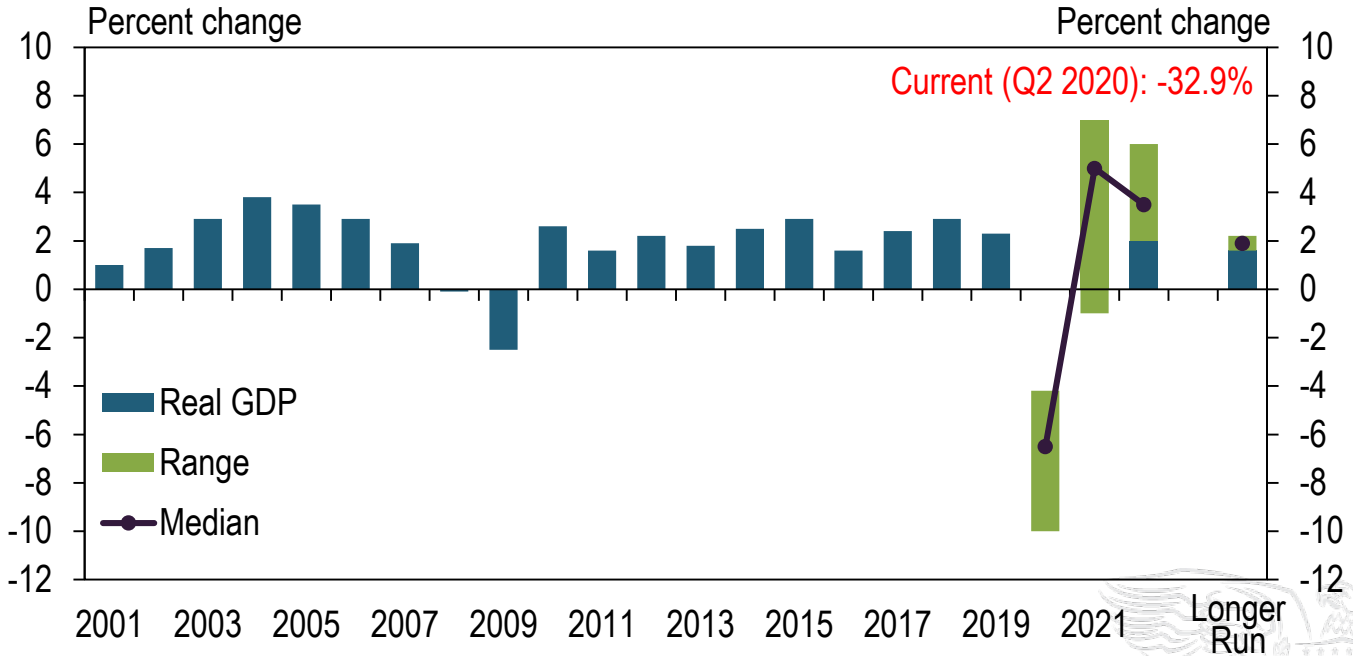
June FOMC: “The virus and the measures taken to protect public health have induced...a surge in job losses.”

U.S. Unemployment Rate



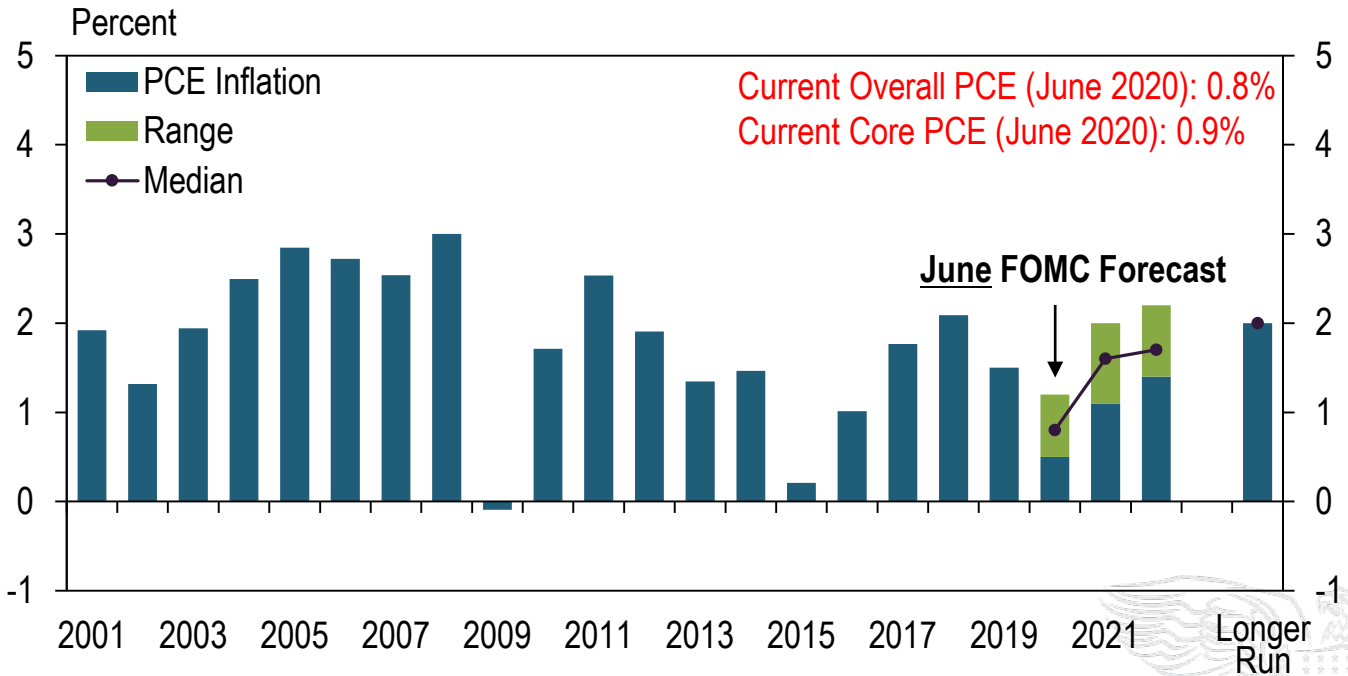
June FOMC: “The ongoing public health crisis will weigh heavily on economic activity... in the near term.”

Change in Real GDP



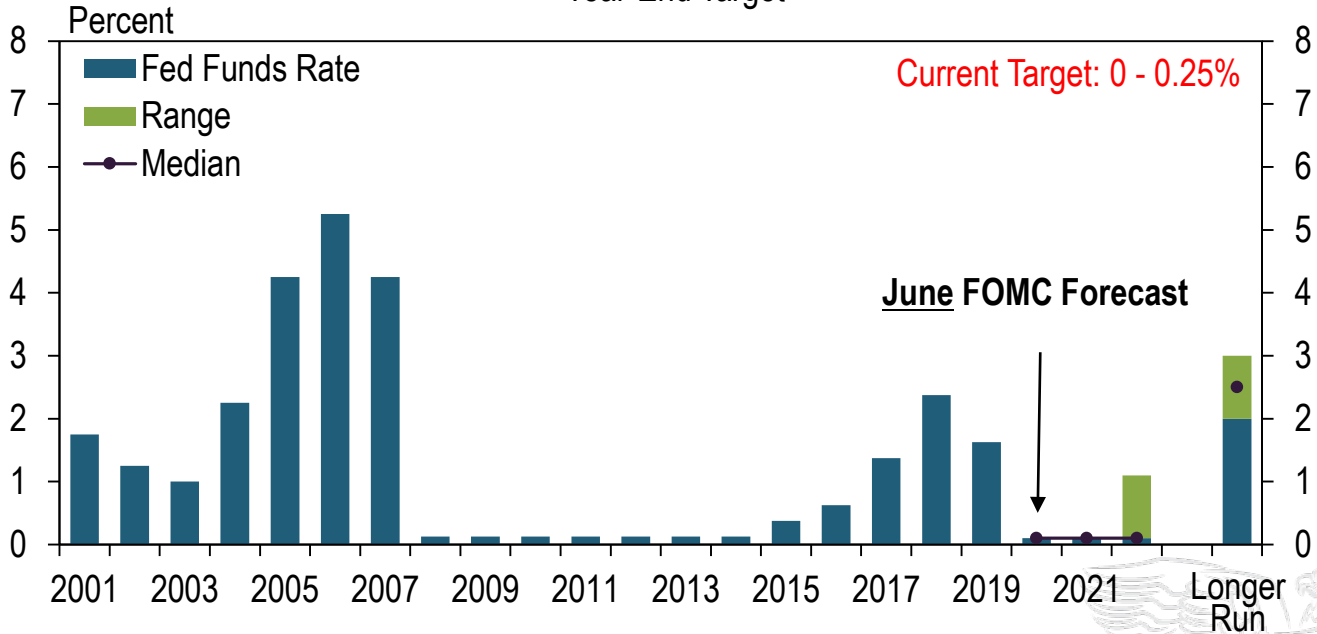
June FOMC: “Weaker demand and significantly lower oil prices are holding down consumer price inflation.”

PCE Inflation Index



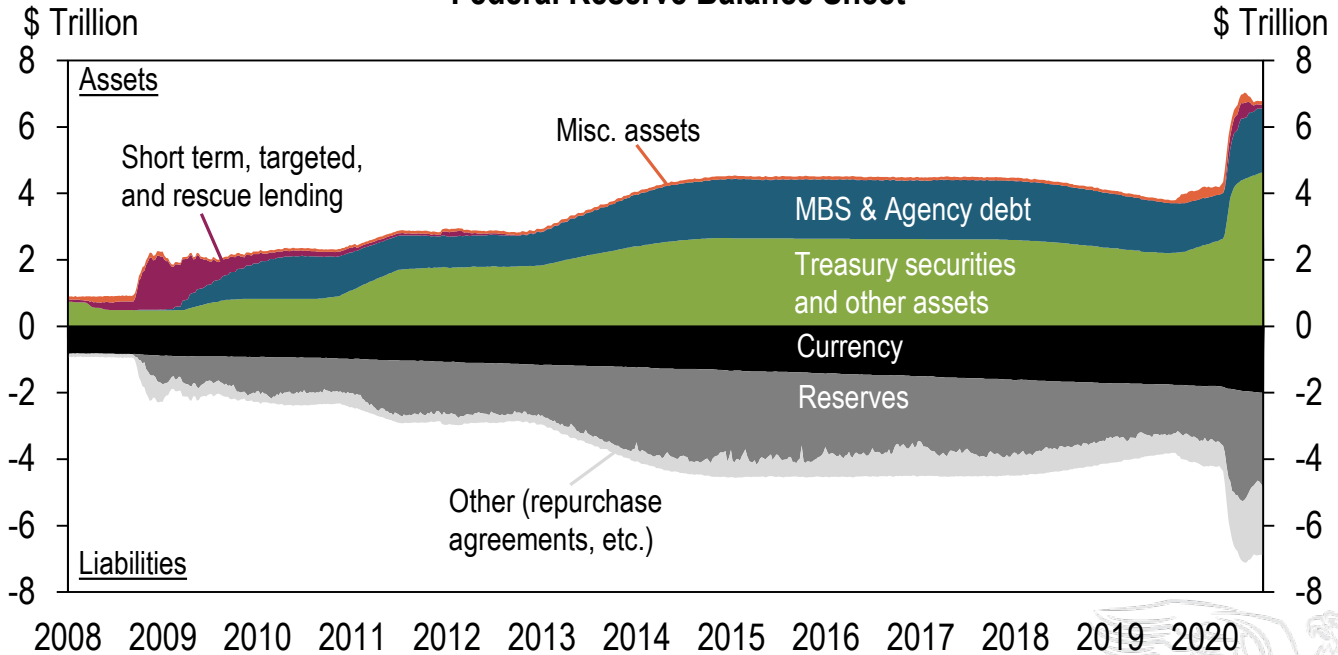
June FOMC: “the [FOMC] decided to maintain this target range until...the economy has weathered recent events.”

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

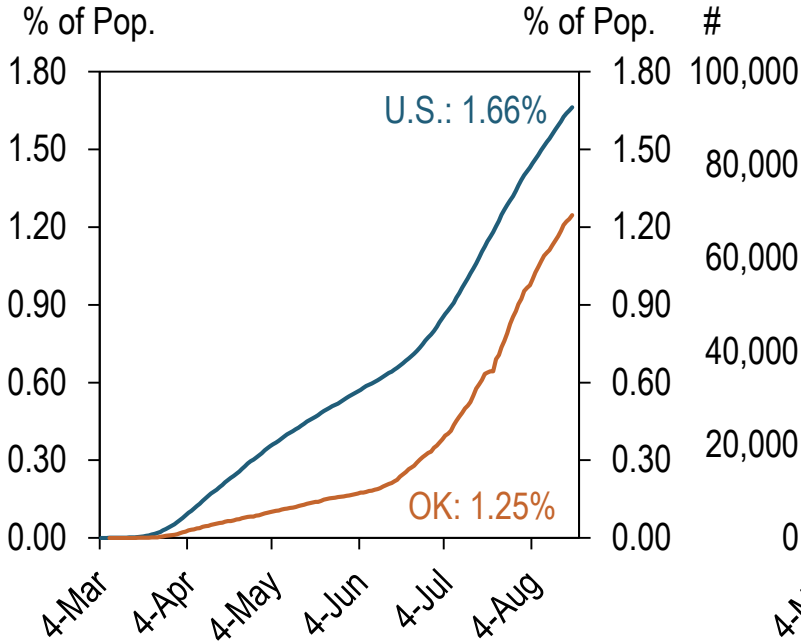
Actions to Support the Flow of Credit:

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

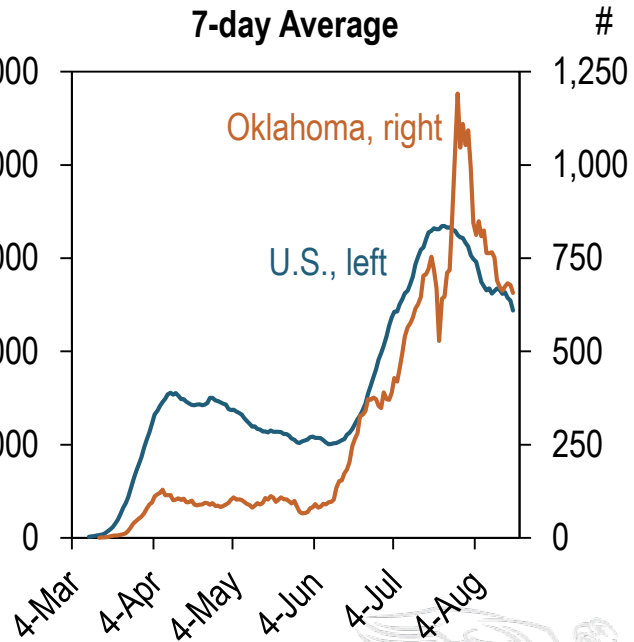


COVID-19 initially spread much less in Oklahoma, but then new cases outpaced the U.S., and still remain high

Confirmed Cases

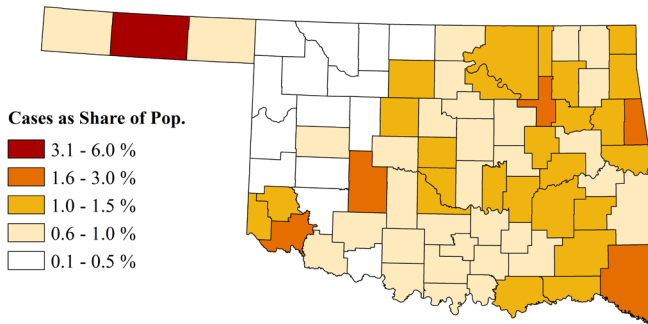


Number of New Cases
7-day Average

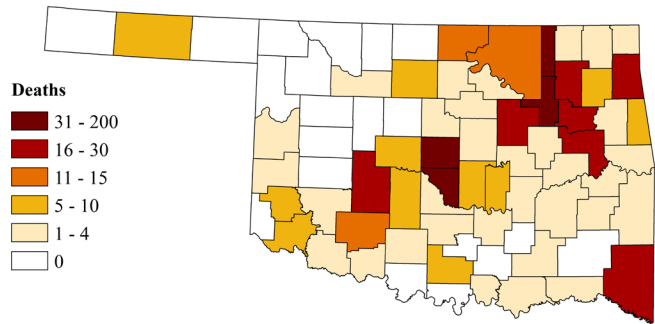


Through Aug. 18, the metros had the biggest outbreaks of cases, but rural counties have had casualties, too

Cases by County, Percent of Population

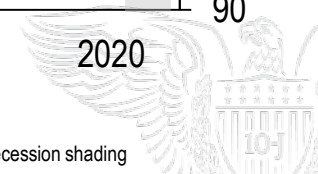
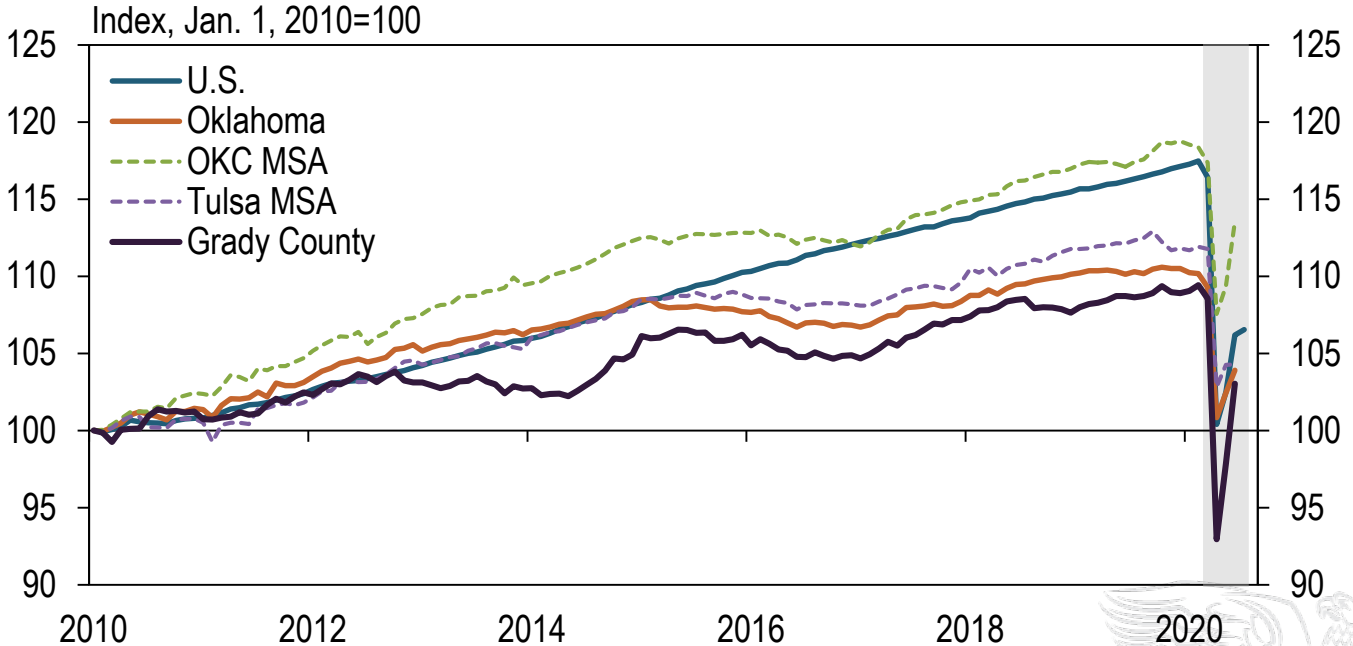


Deaths by County



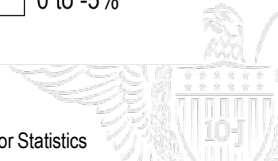
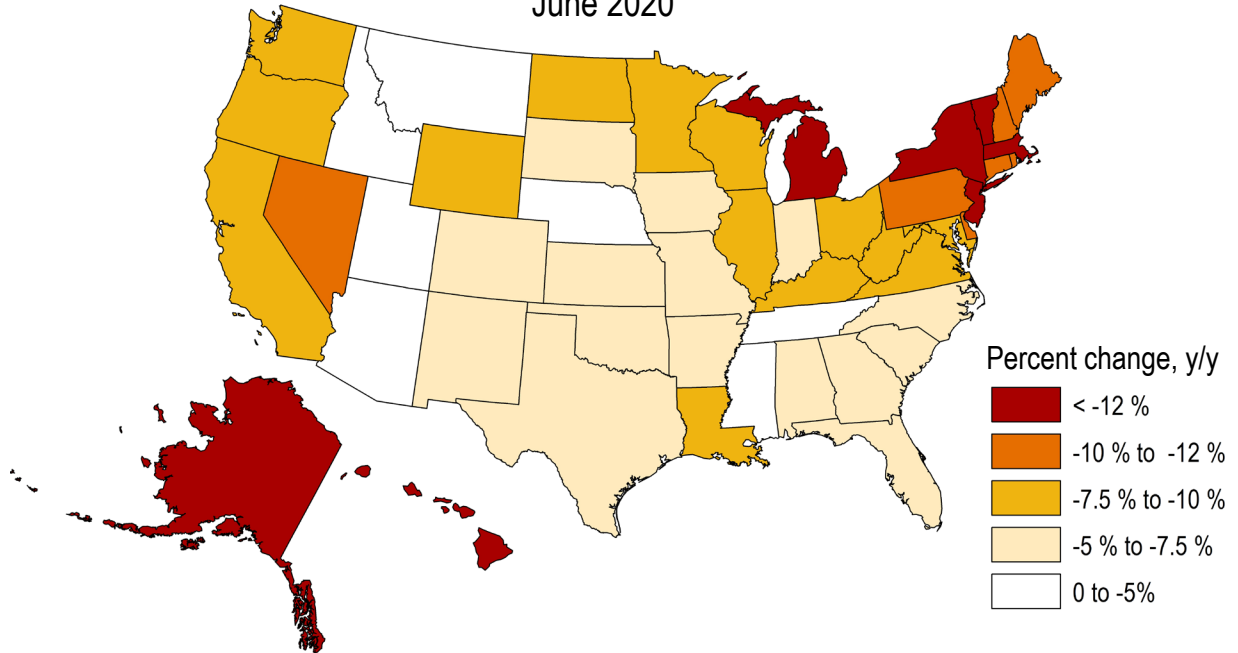
7+ years of U.S. and Oklahoma job growth were lost in March and April, but May and June showed some gains

Nonfarm Payroll Employment Growth



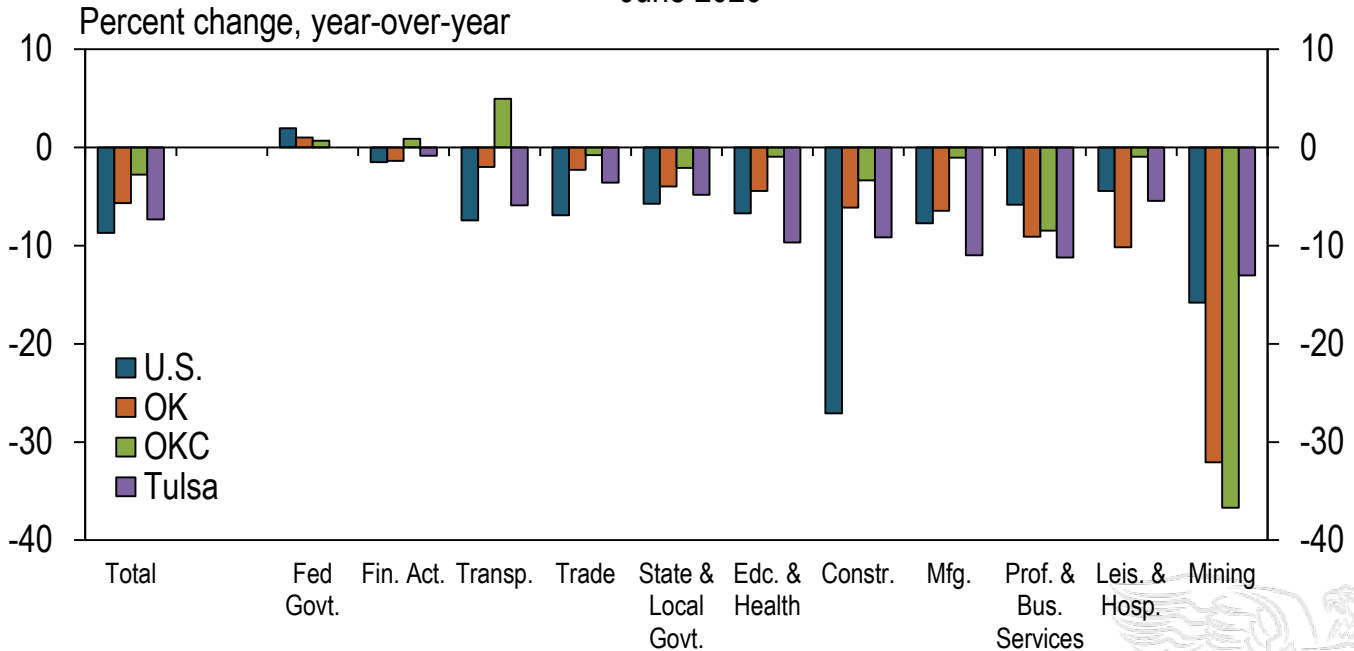
Oklahoma's year-over-year drop in employment wasn't as bad as some states, but still down more than 5.5%

Nonfarm Payroll Employment Growth
June 2020



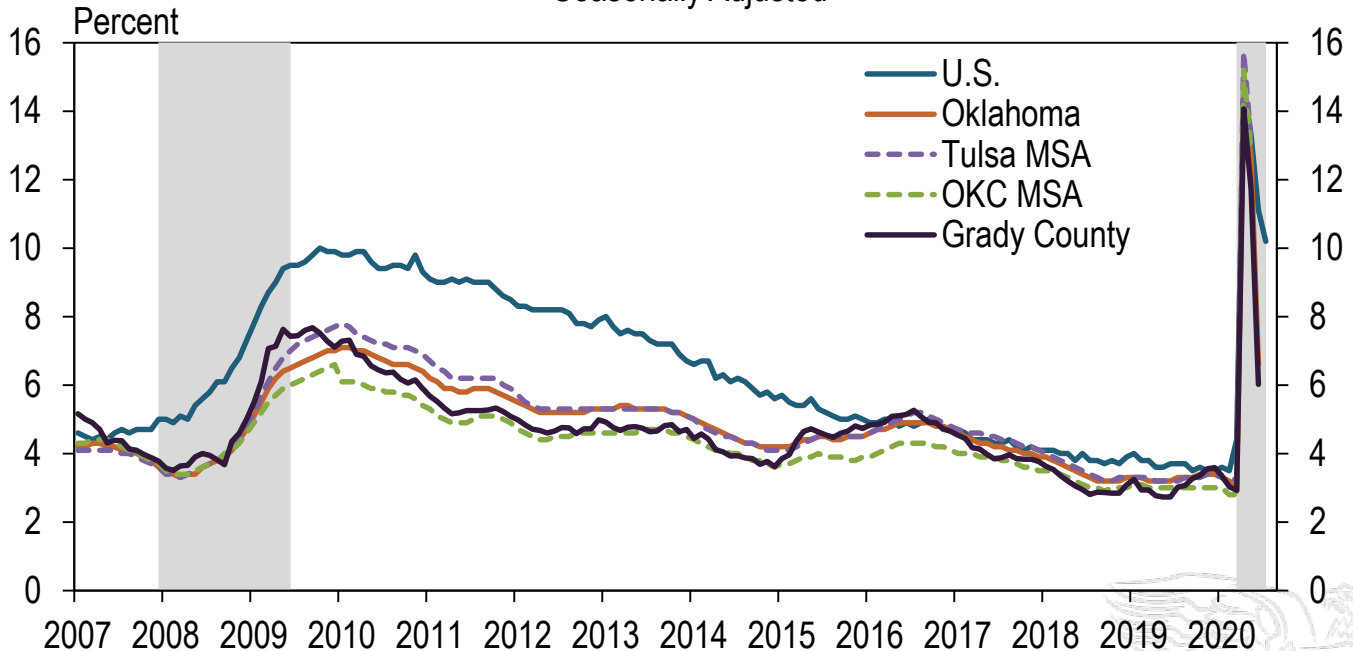
Oklahoma mining job losses far outweighed those in the U.S. in June, but construction cuts were less

Job Growth by Industry
June 2020



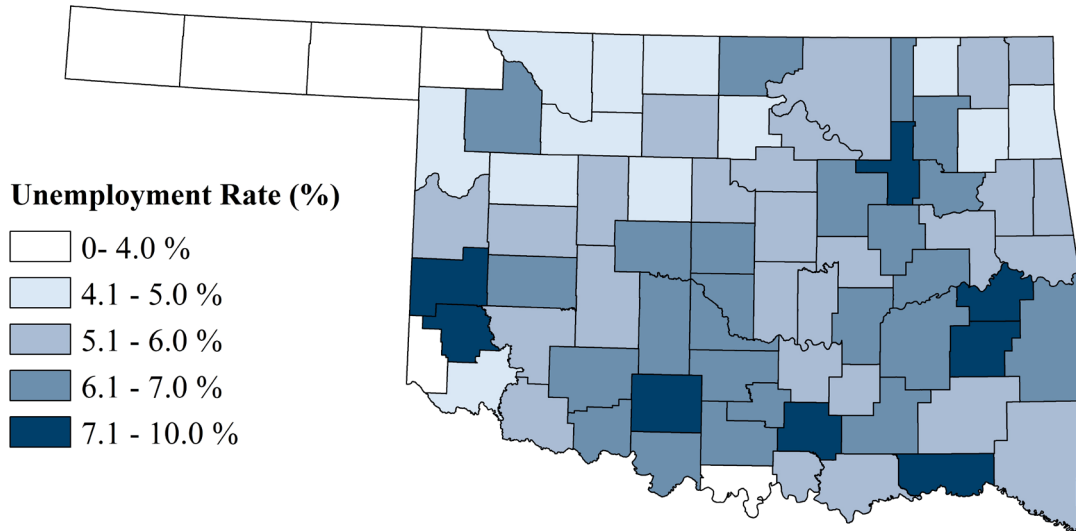
OK unemployment dropped to 6.6% and Grady County fell to 6% in June, while the U.S. rate was 10.2% in July

Unemployment Rates
Seasonally Adjusted

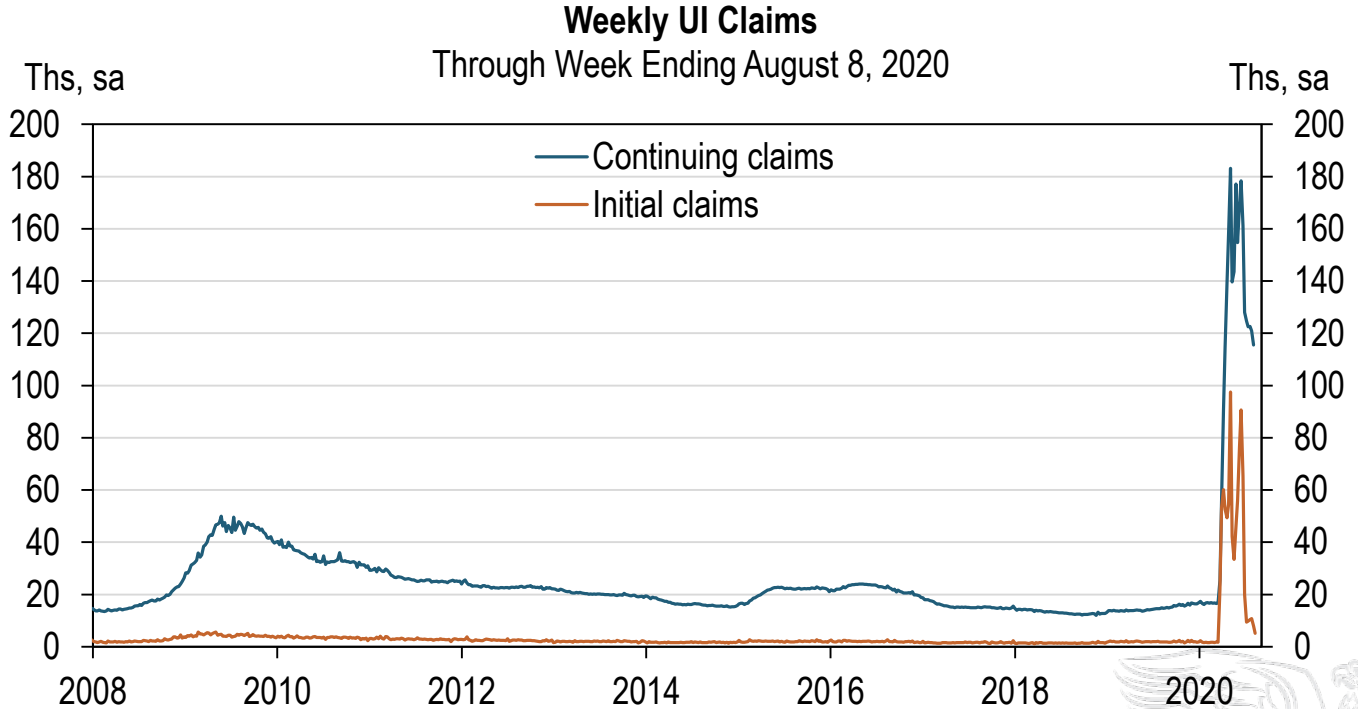


In June, unemployment remained elevated across most of the state compared to pre-COVID

County Unemployment Rates Seasonally Adjusted

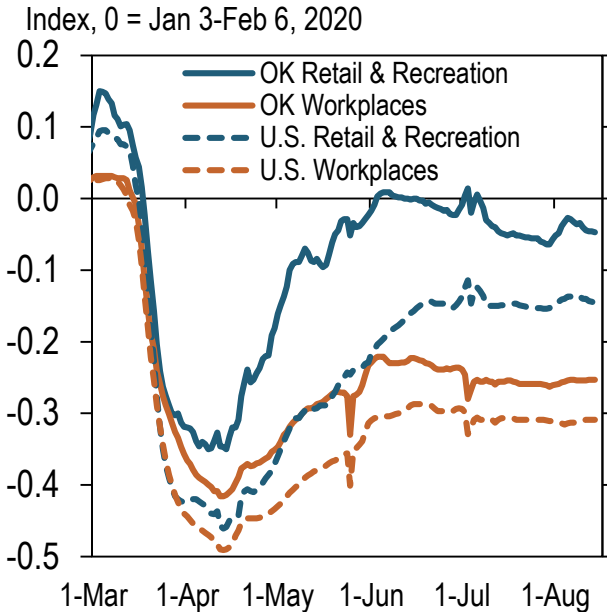


New and continuing state UI claims were very high through mid-June, but declined some in July & August

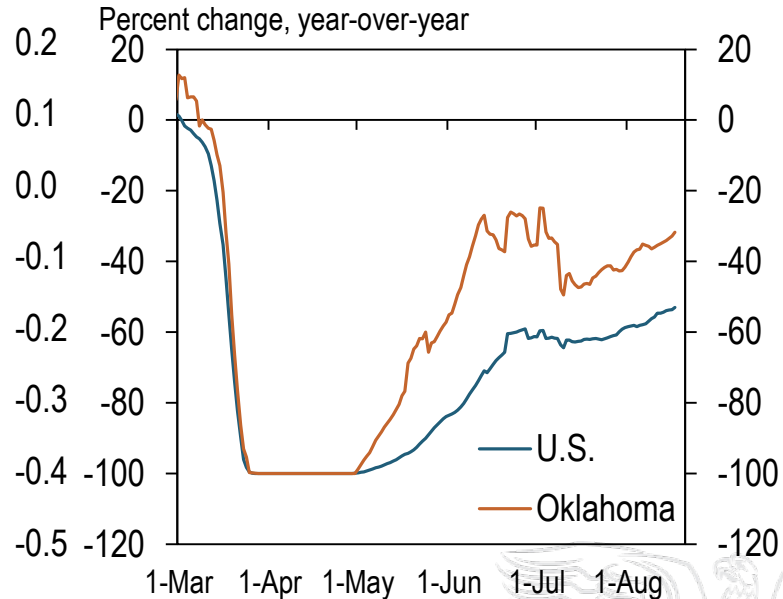


Foot traffic at Oklahoma businesses rose steadily through mid-June, but has evened out in July & August

Google Mobility Data

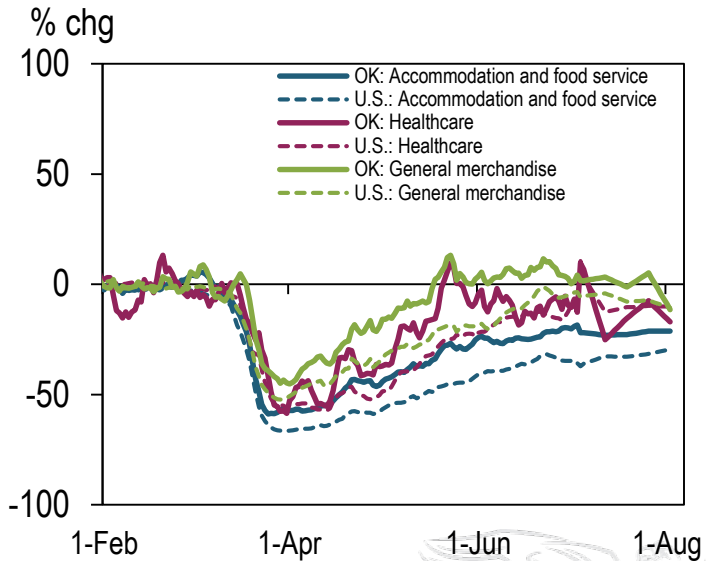
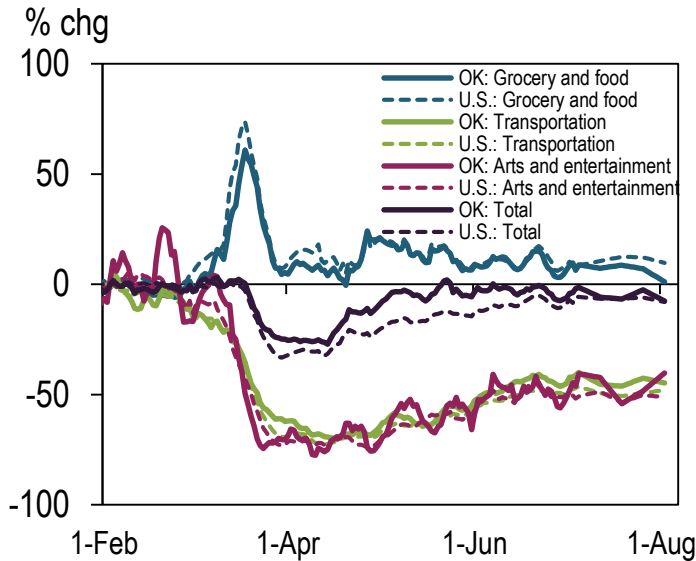


Seated Diners at Restaurants
7-day Average



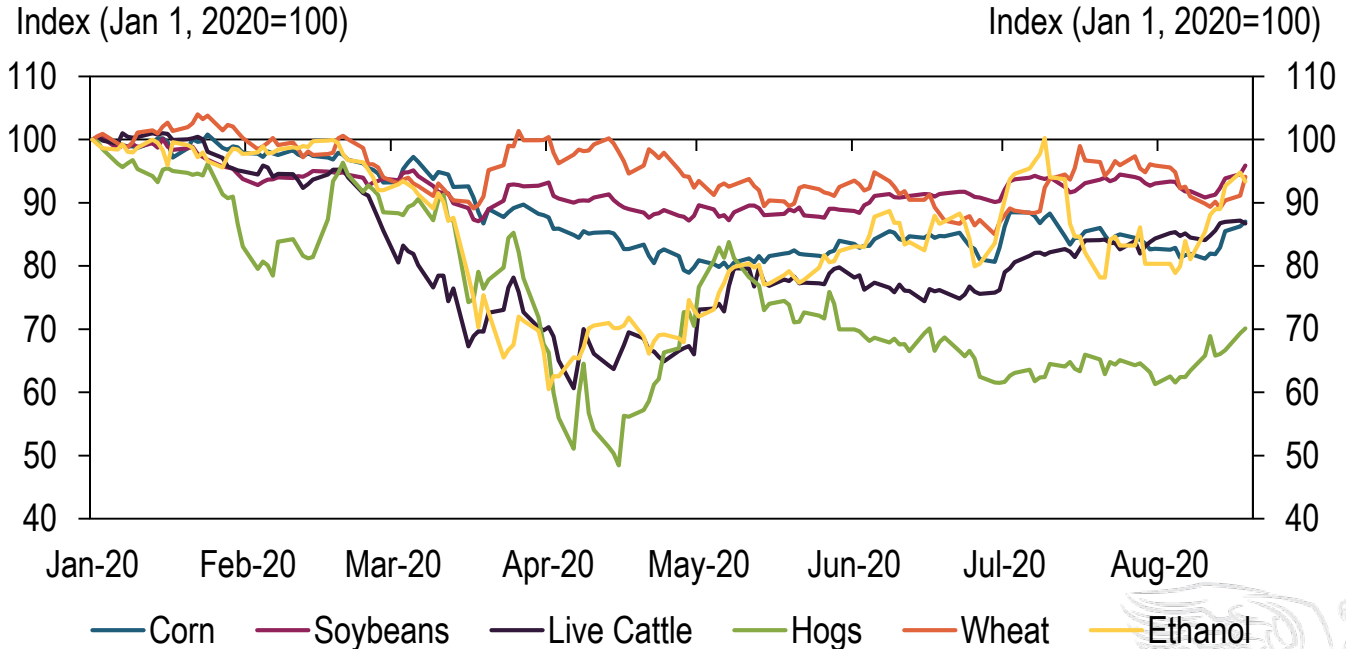
Consumer spending in some segments has closely resembled the nation, and exceeded it in others

Oklahoma vs. U.S. Consumer Spending



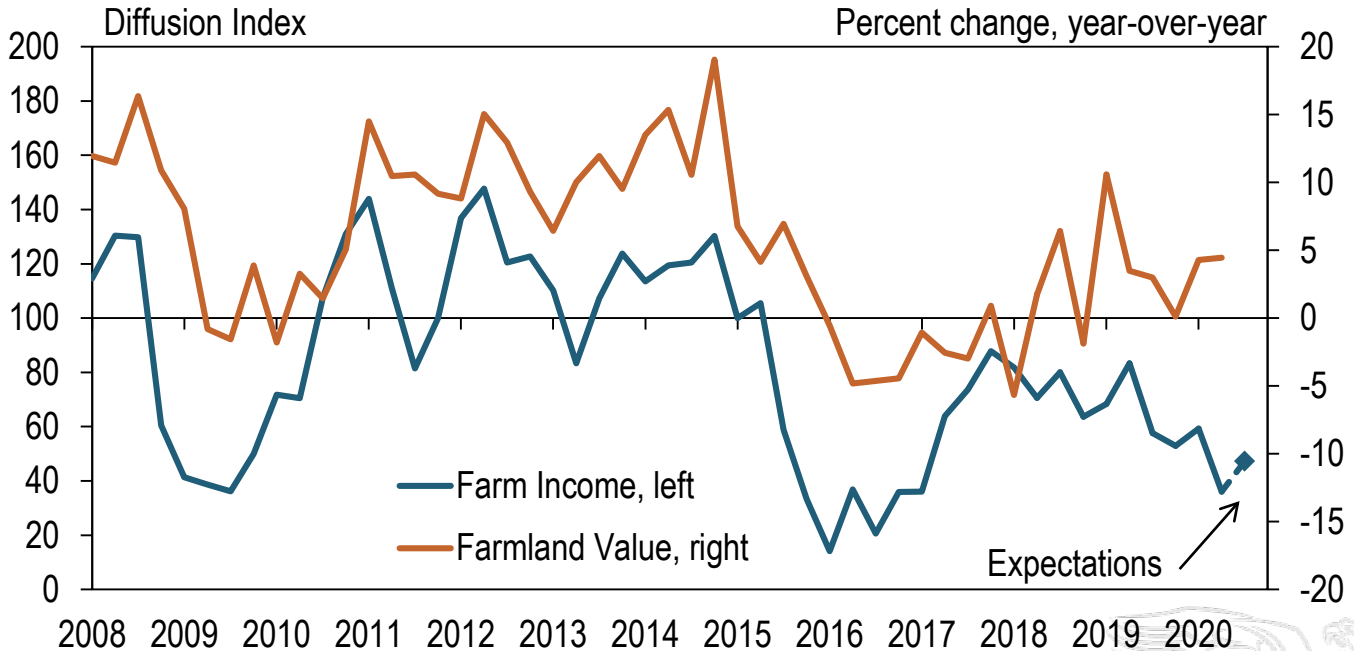
Agricultural commodity prices remain lower than at the beginning of the year, especially for livestock

Commodity Prices



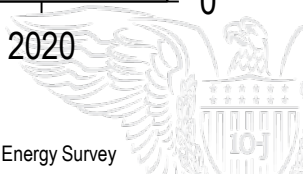
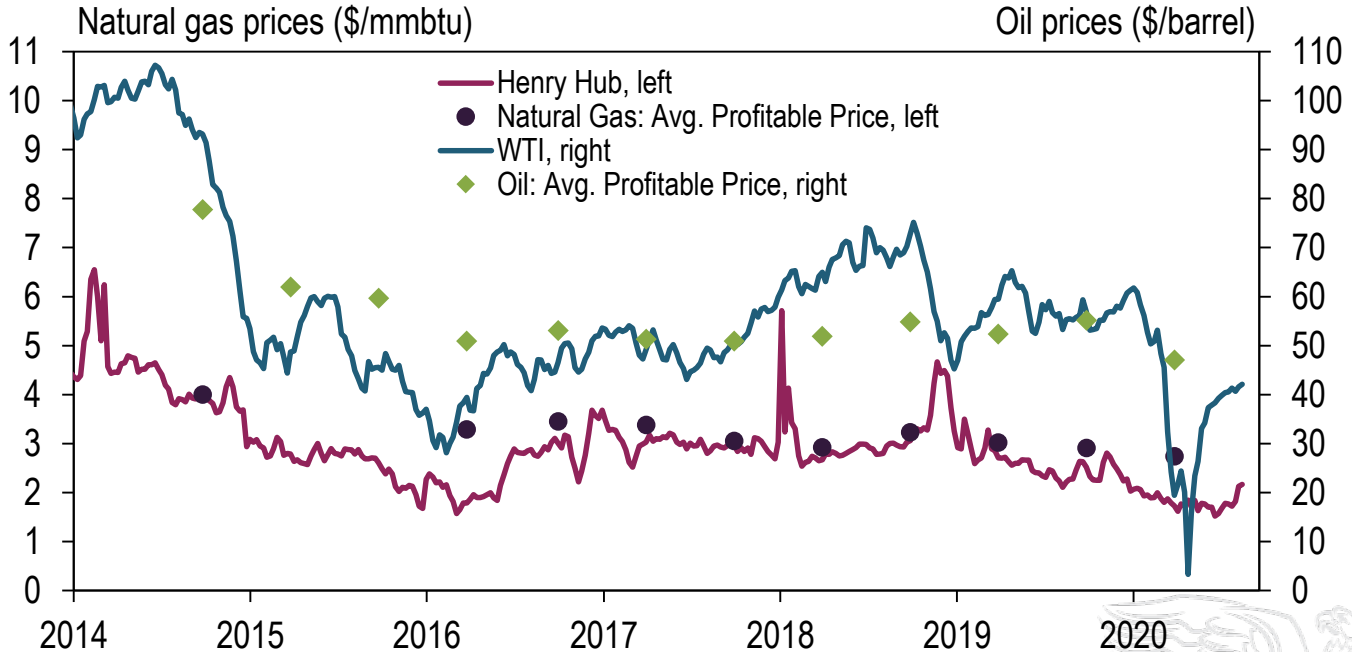
Agricultural incomes in the state continued to decline through Q2 2020, but land values have held up

Oklahoma Farm Income and Farmland Values



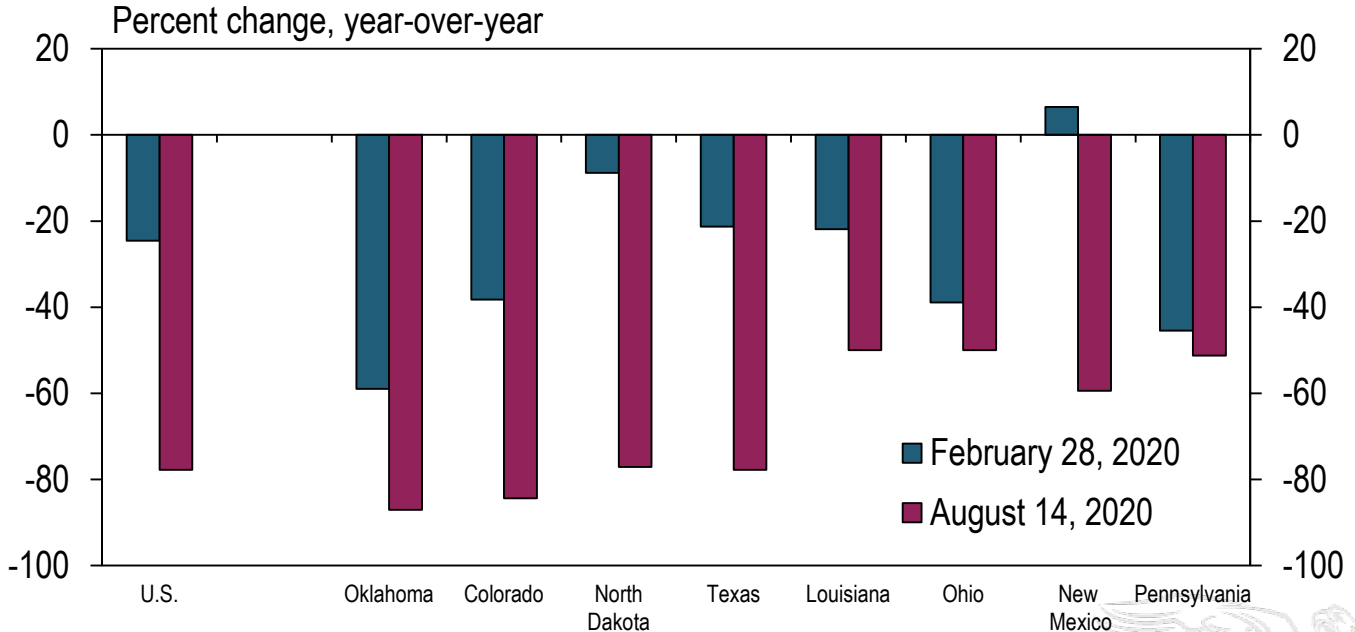
Oil prices have rebounded somewhat, but remain below profitable drilling levels for most regional firms

Oil & Natural Gas Profitability and Prices



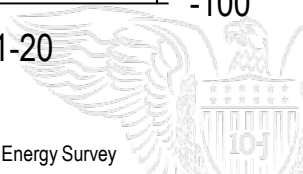
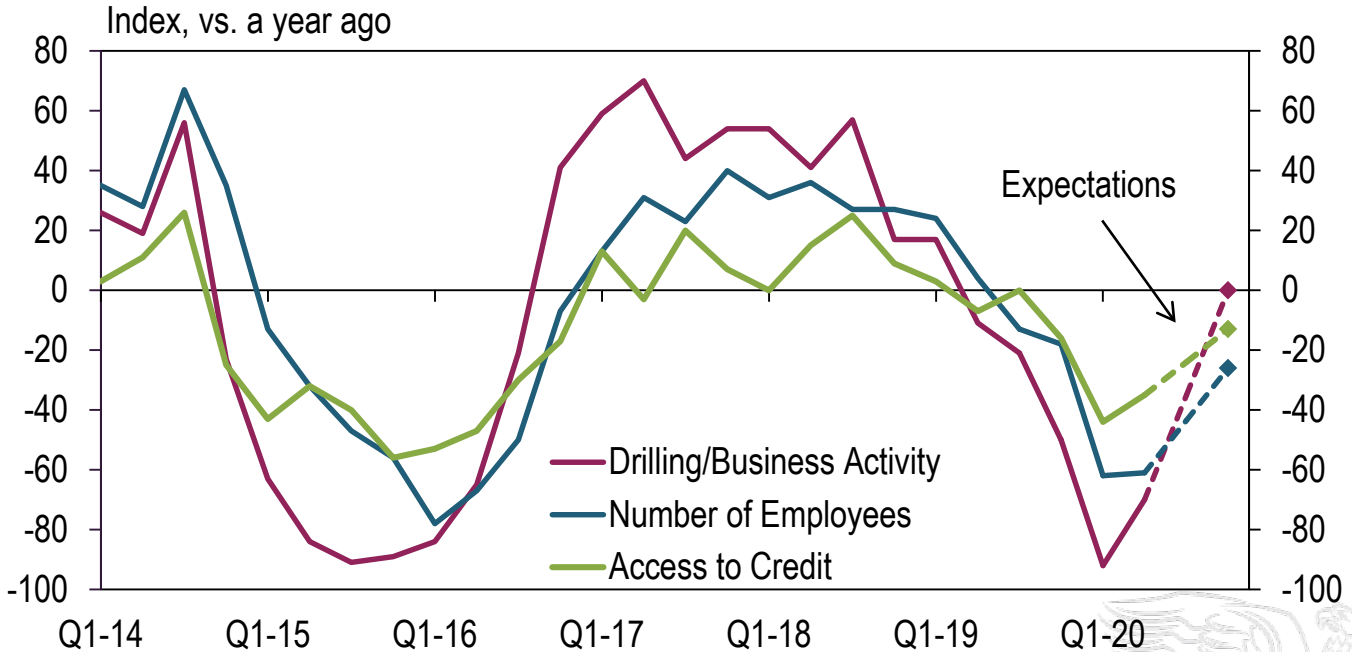
Rig counts in energy states have decreased dramatically, nowhere moreso than Oklahoma

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



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 the summer surge in COVID cases added 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
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Questions?

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