

U.S. and Oklahoma Economic Update

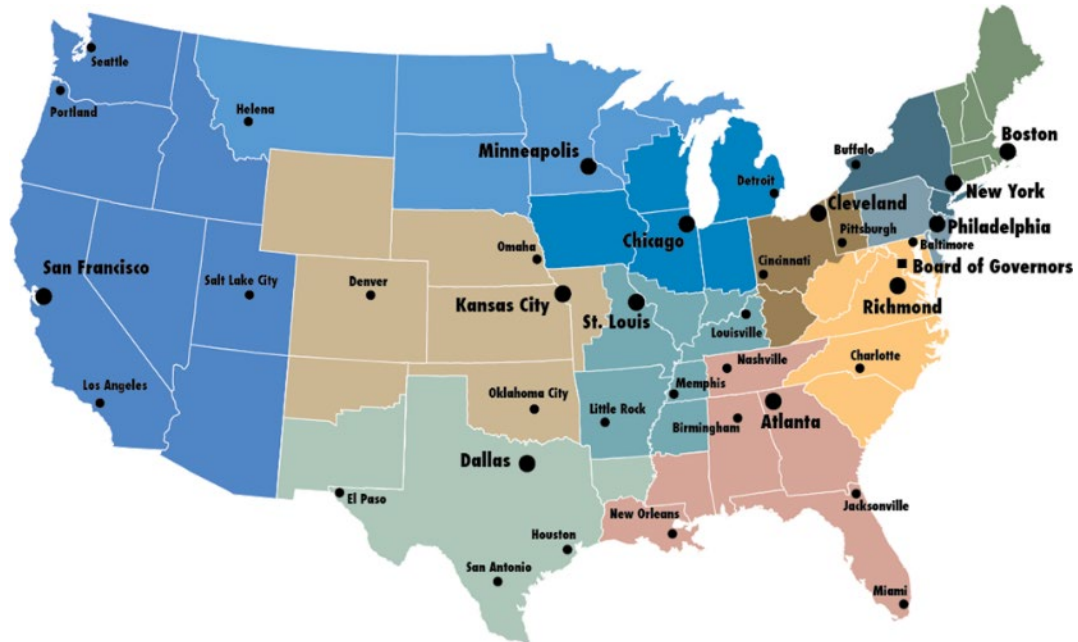
Commercial Real Estate Council
May 12, 2022

Chad Wilkerson
Vice President and Oklahoma City Branch Executive

*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 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/moderate income groups, workforce focus
 - Economic education and public outreach programming
- **2022 OKC Fed Branch Board of Directors**
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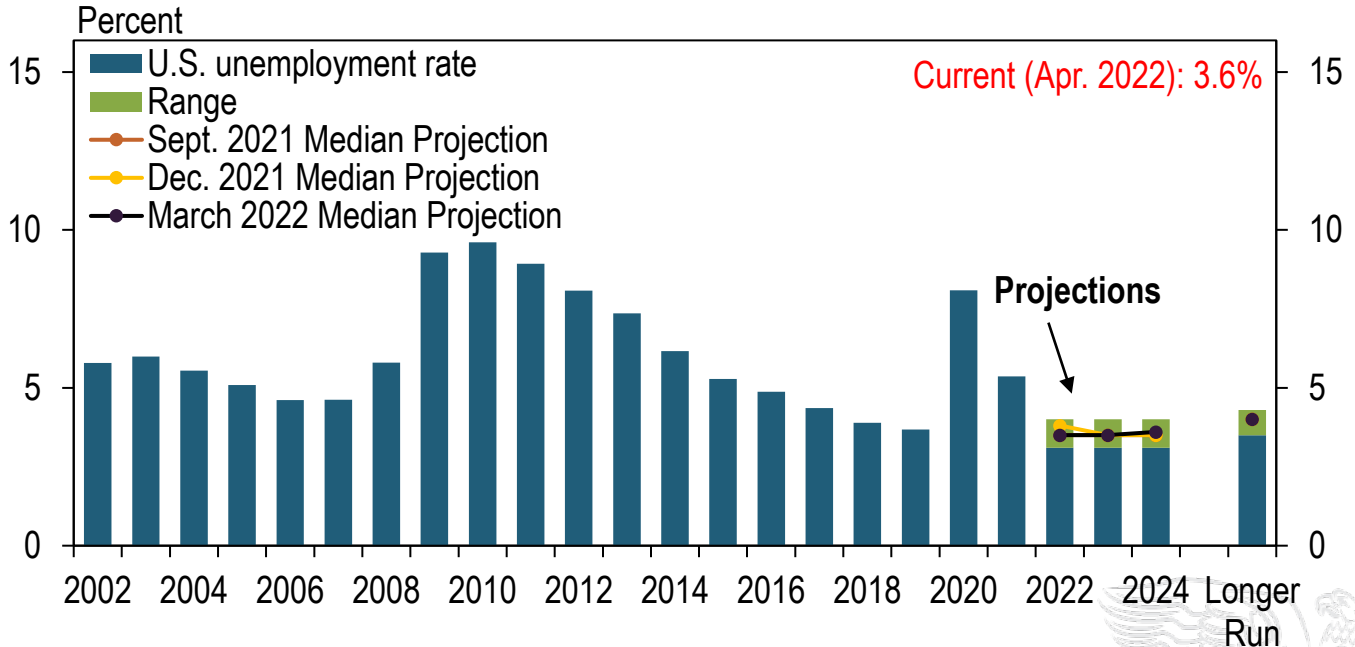
Overview

- The U.S. economy is solid, with low unemployment and strong demand in many sectors, but inflation is too high
- Several factors have boosted inflation over the past year, and several factors should help bring it back down
- Oklahoma's economy continues to recover, but jobs remain below pre-pandemic levels, especially in energy
- Oklahoma had record in-migration in 2021, helping offset record deaths and hopefully boosting the future workforce

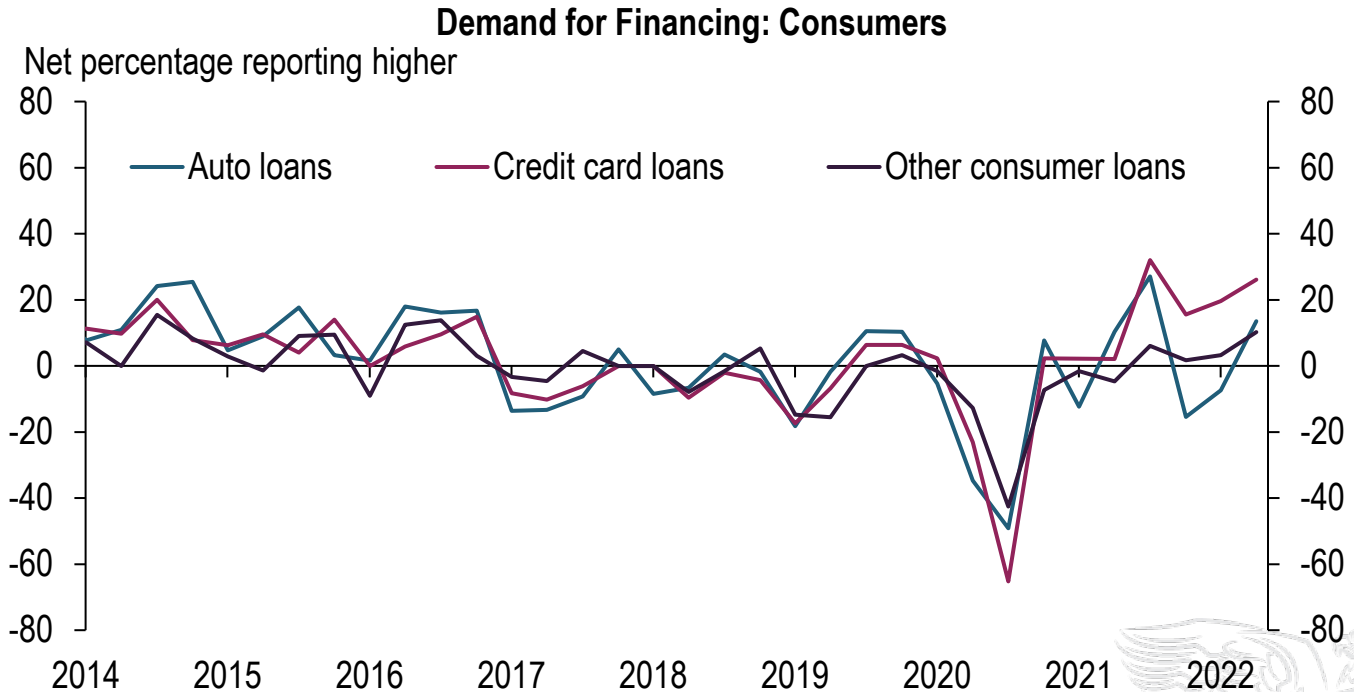


U.S. unemployment remains historically low and is projected to remain very low in coming years

U.S. Unemployment Rate

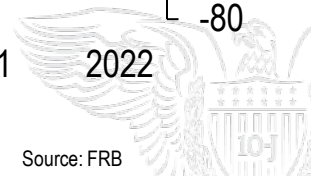
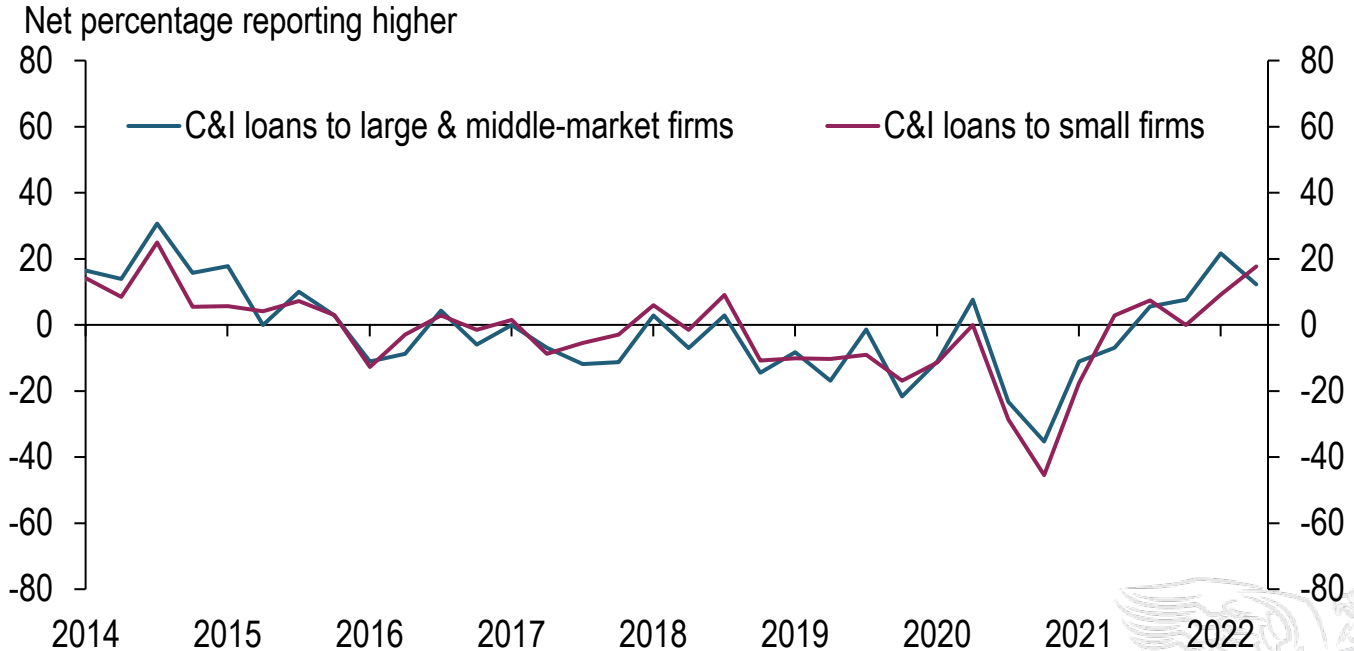


Demand for consumer credit remained high through Q1 2022



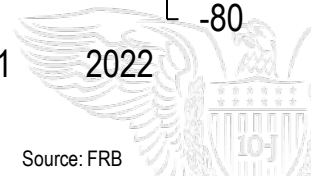
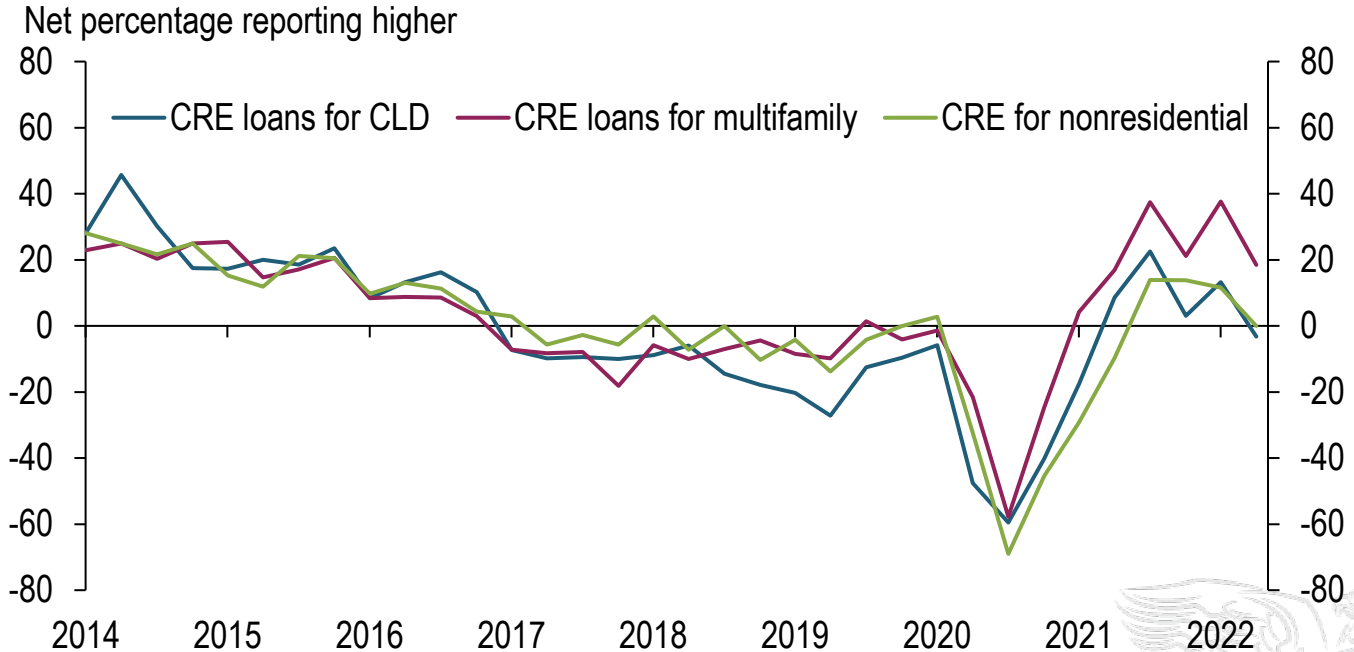
Business financing also remained in high demand

Demand for Financing: Business



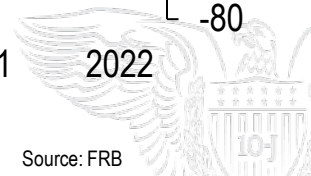
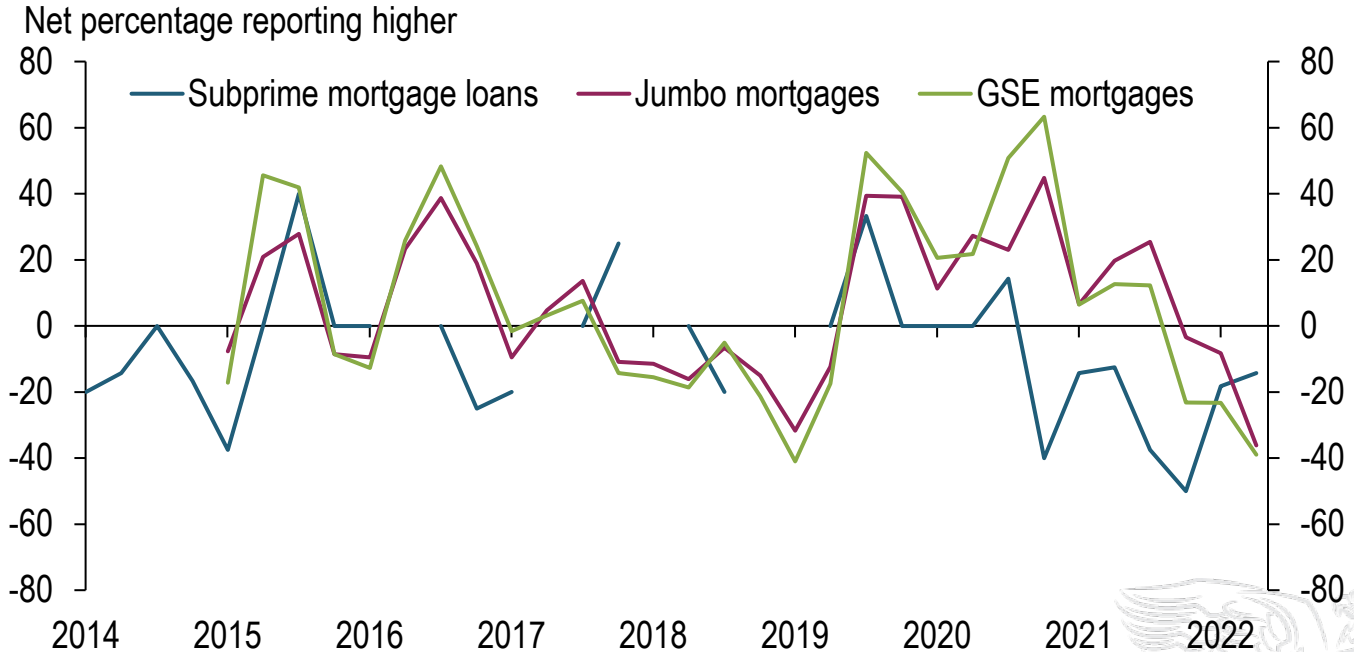
The pace of growth in demand for commercial real estate financing slowed some in Q1 2022

Demand for Financing: Commercial Real Estate



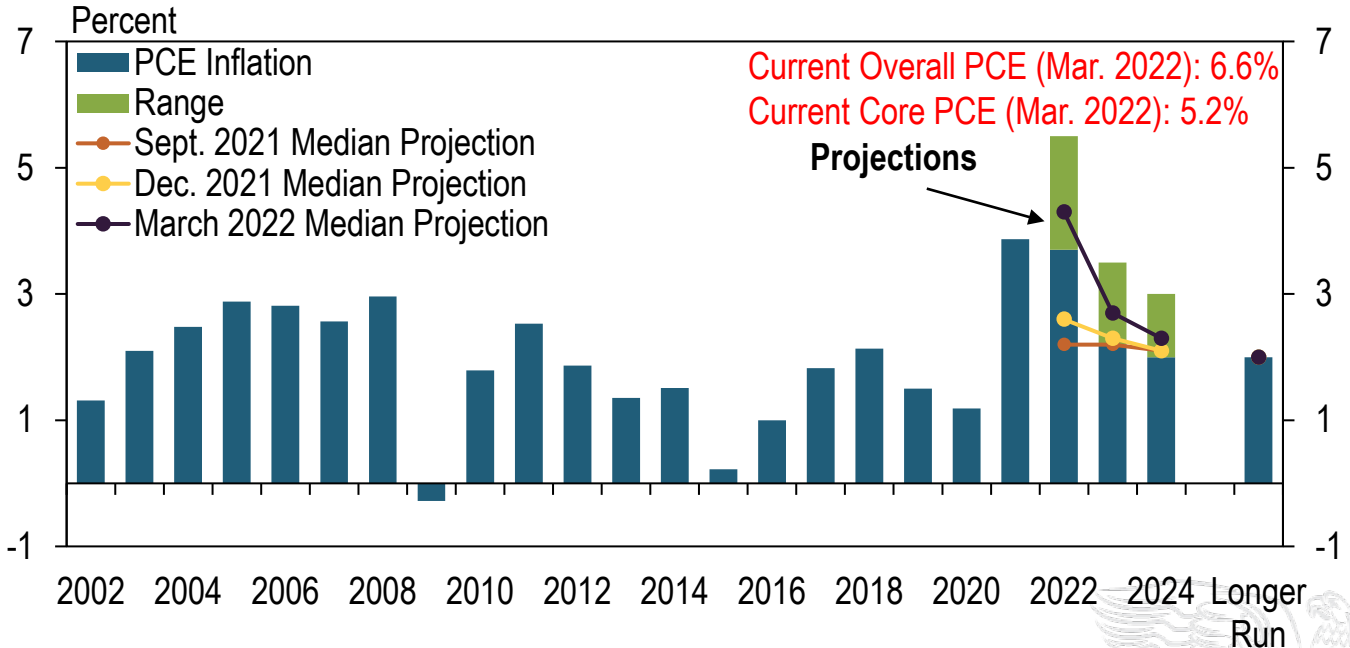
Demand for residential real estate loans fell

Demand for Financing: Residential Real Estate



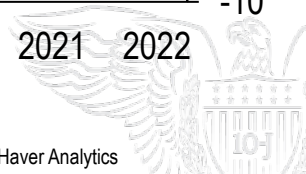
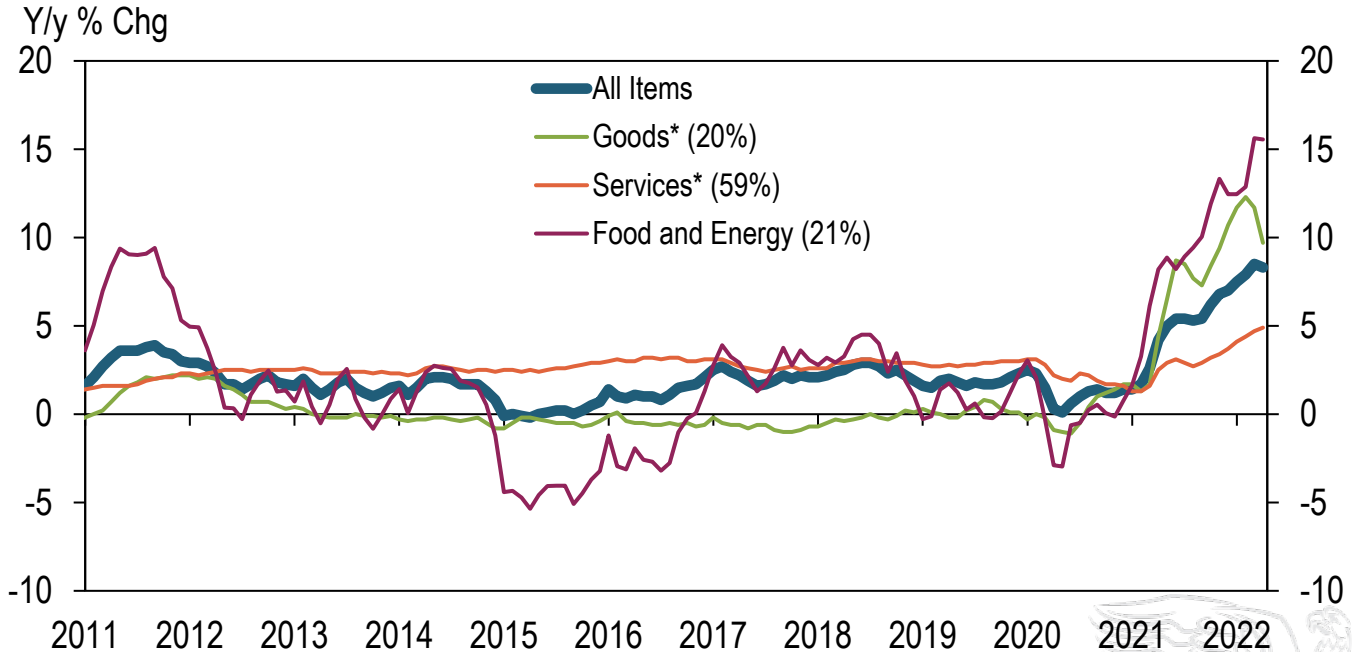
High inflation is expected to ease heading forward

PCE Inflation Index



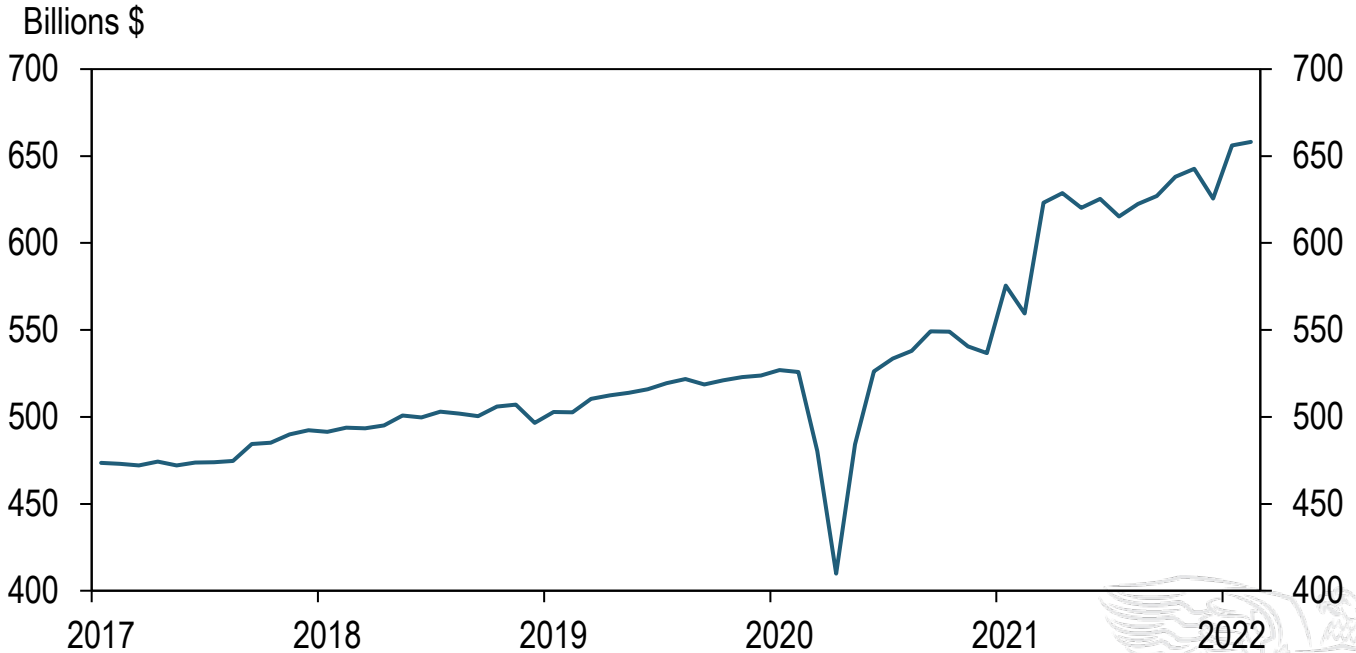
CPI inflation finally edged down in April, to 8.3%

Consumer Price Index



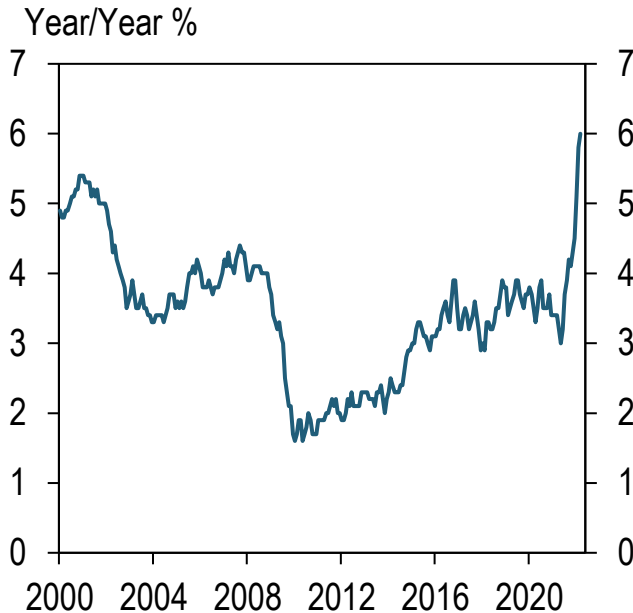
Why is inflation high? Demand has been strong

Retail Sales and Food Services

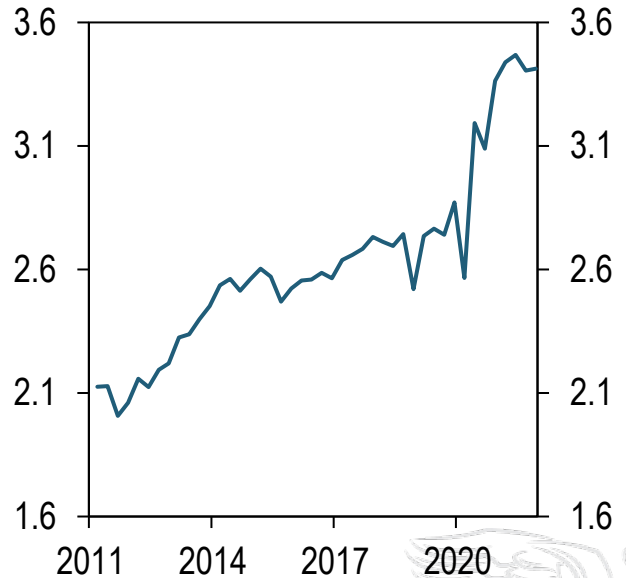


Demand has been supported by a strong labor market, rising wages, and healthy household balance sheets

Wage Growth

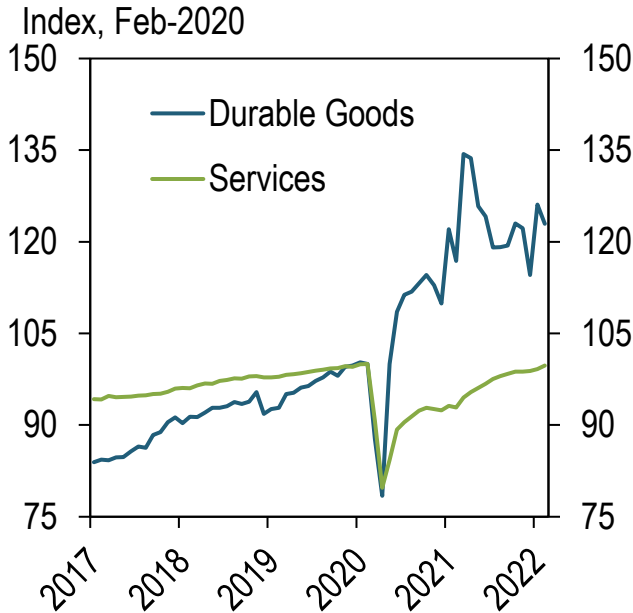


Household Net Worth/GDP

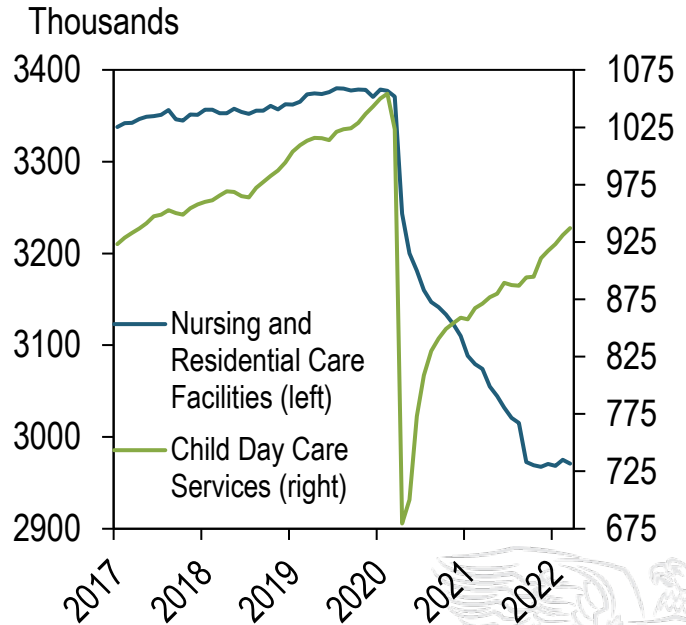


Why is inflation high? Supply is constrained by a shift in consumption and disruptions to labor supply

Consumption

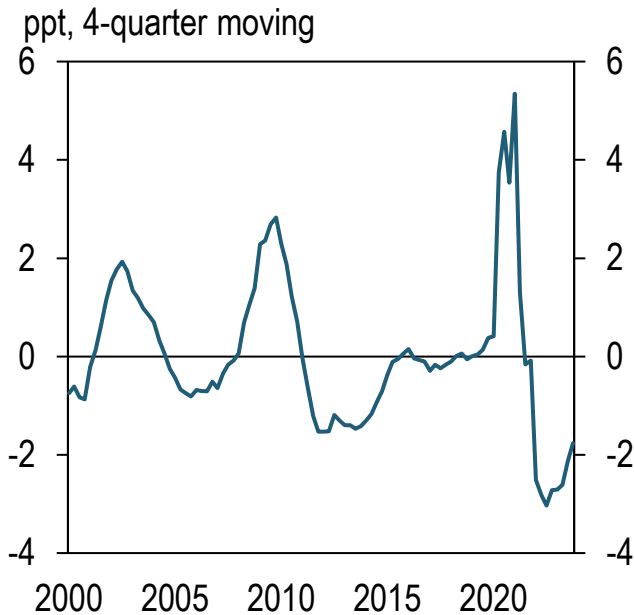


Employment

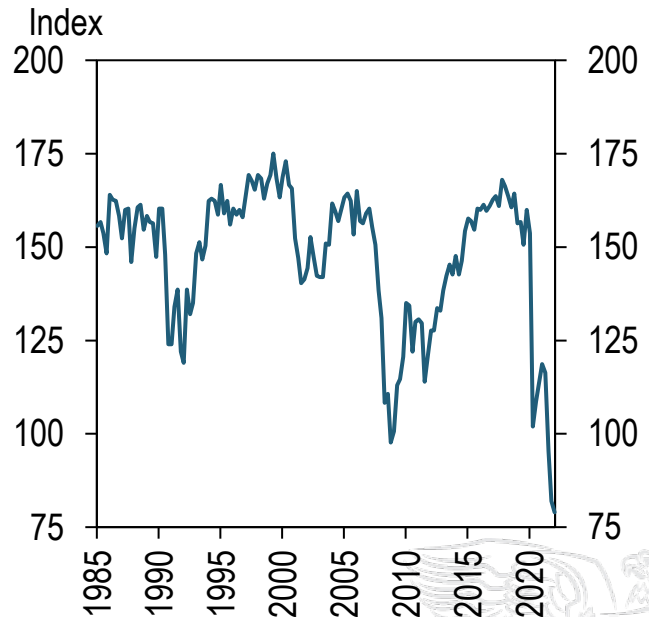


Where is inflation going? Demand easing as stimulus fades and consumers react to higher prices

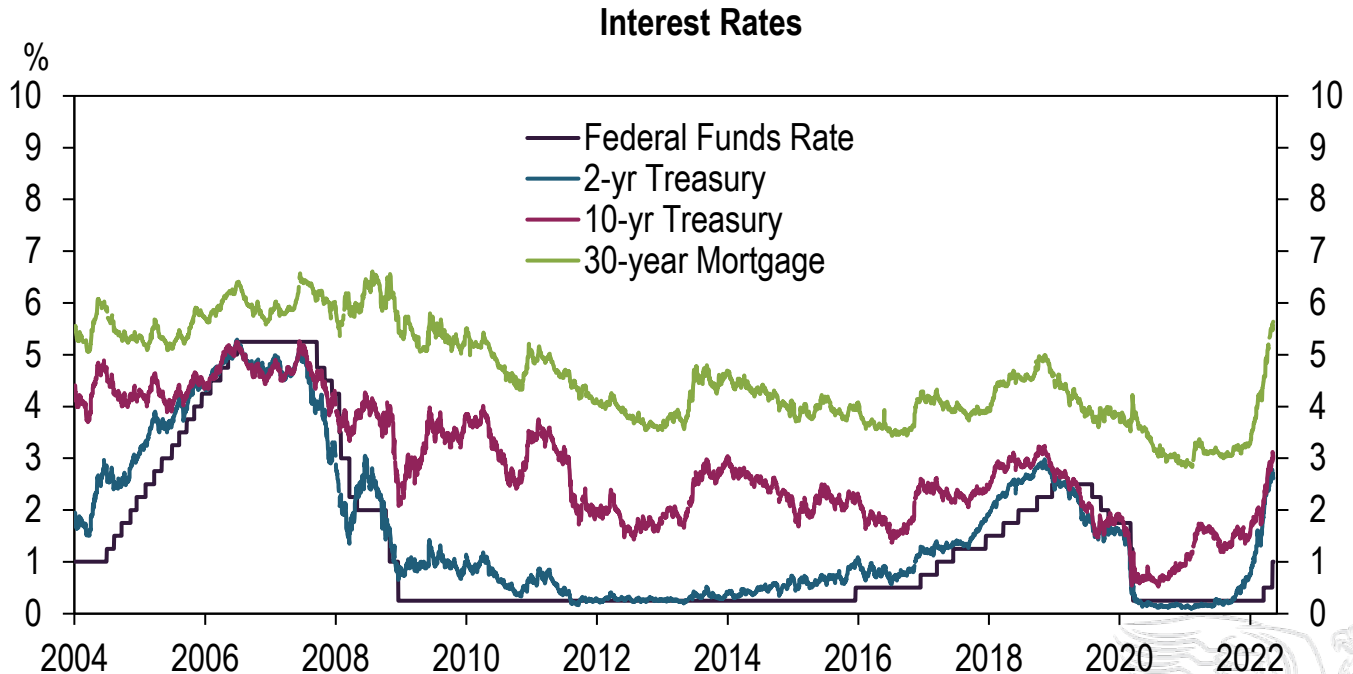
Fiscal Policy Contribution to Real GDP Growth



Buying Conditions for Large Household Goods

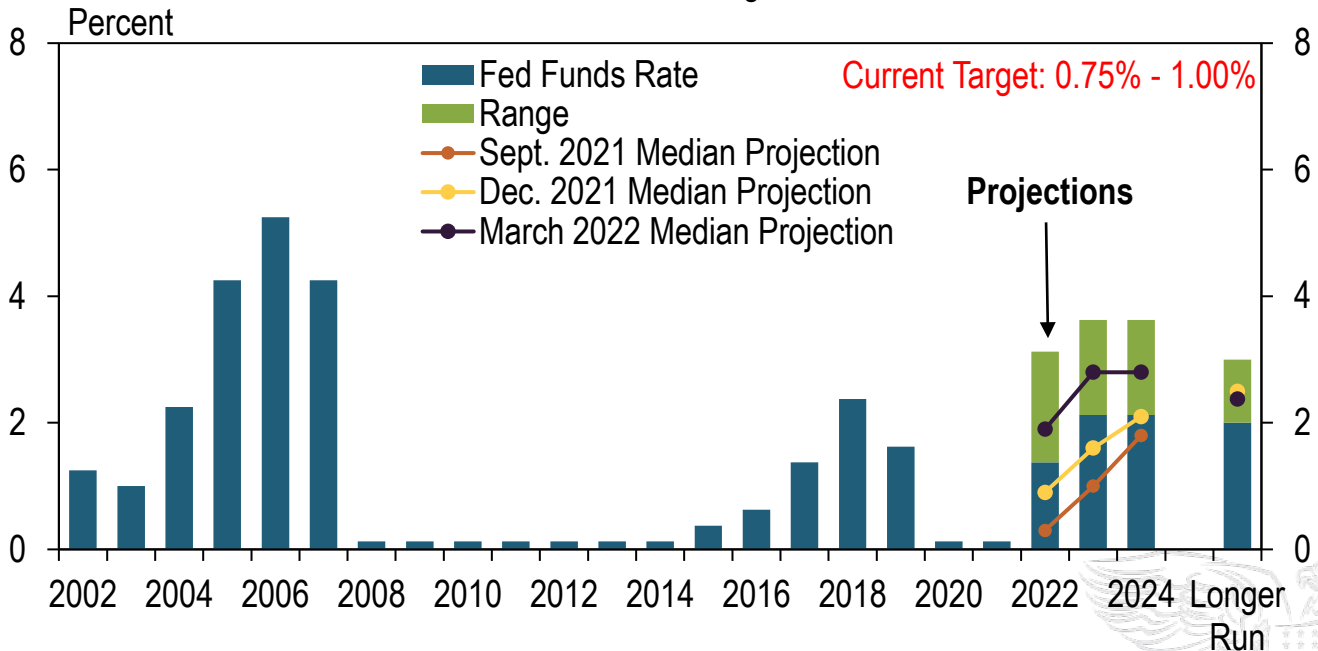


Interest rates have increased this year, with 30-year mortgage rates now at the highest level since 2010



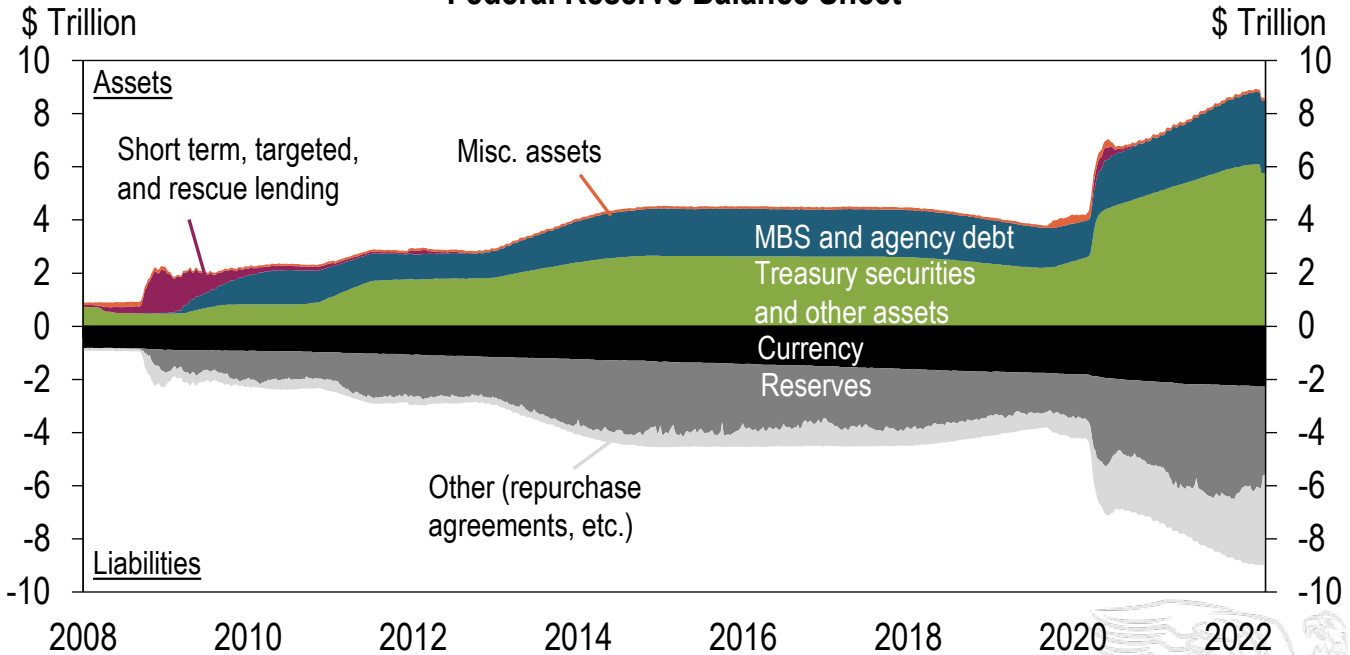
The Fed raised the federal funds rate 50 bp in May, with more rate increases expected in 2022 and 2023

Federal Funds Rate
Year-End Target



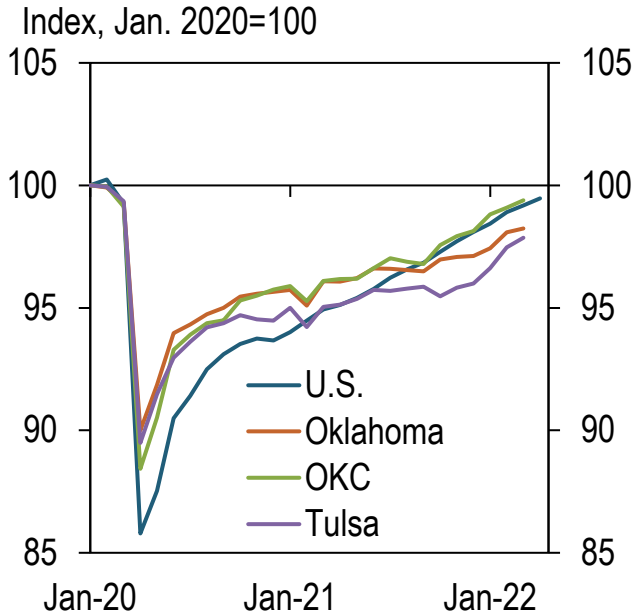
The Fed also plans to reduce its balance sheet of longer-term securities holdings

Federal Reserve Balance Sheet

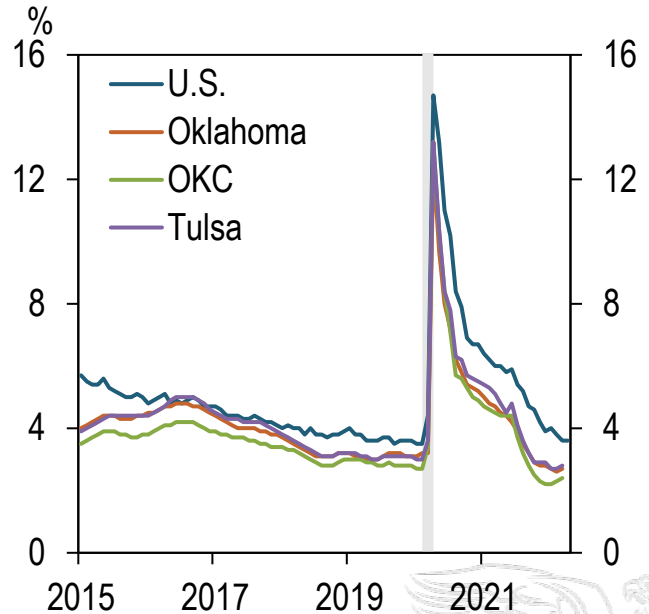


Oklahoma jobs are growing but still below pre-COVID levels, despite record low unemployment in the state

Non-Farm Payroll Employment

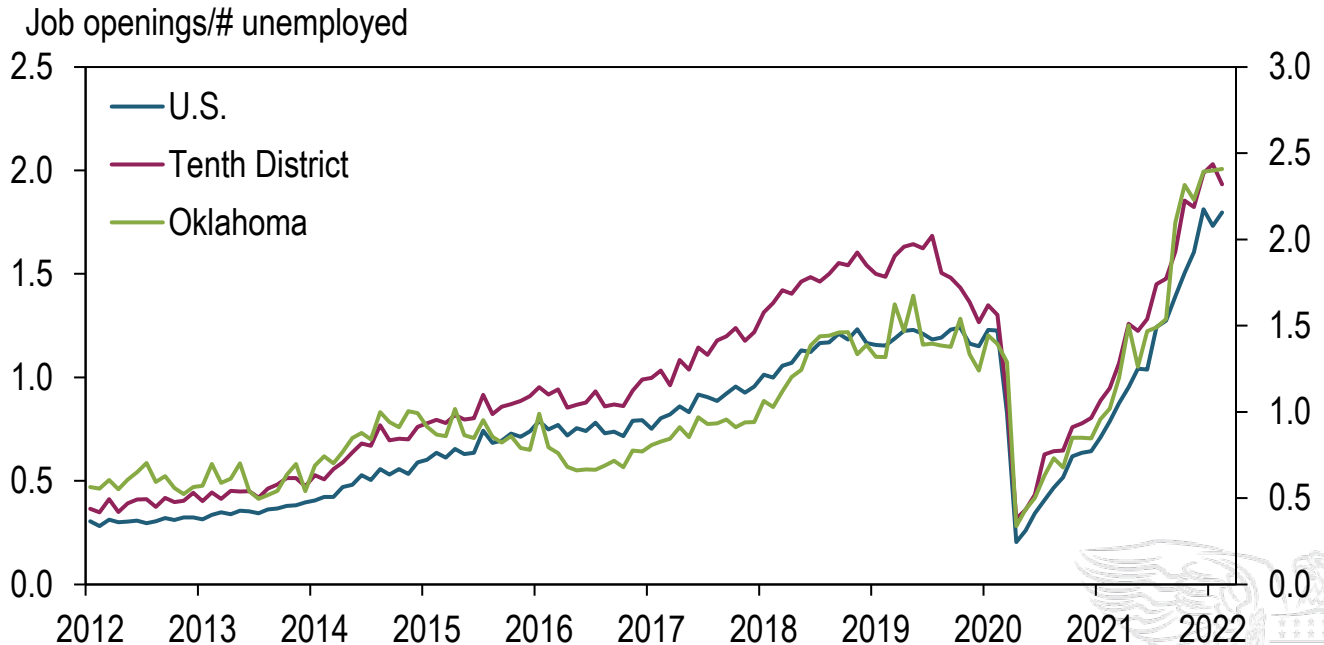


Unemployment Rate



The number of job openings greatly exceeds the number of unemployed workers

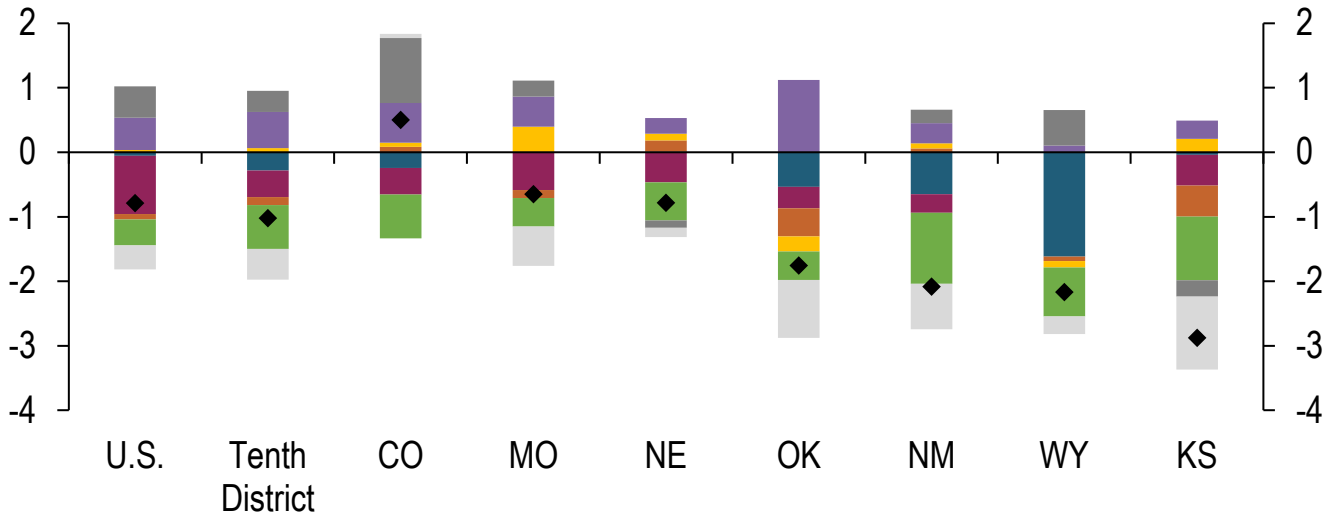
Job Openings/Unemployment Ratios



The jobs recovery gap is largest in the mining (energy) sector in Oklahoma

10J Employment by Industry Compared to Pre-Pandemic

% chg, Jan. 2020 - March 2022

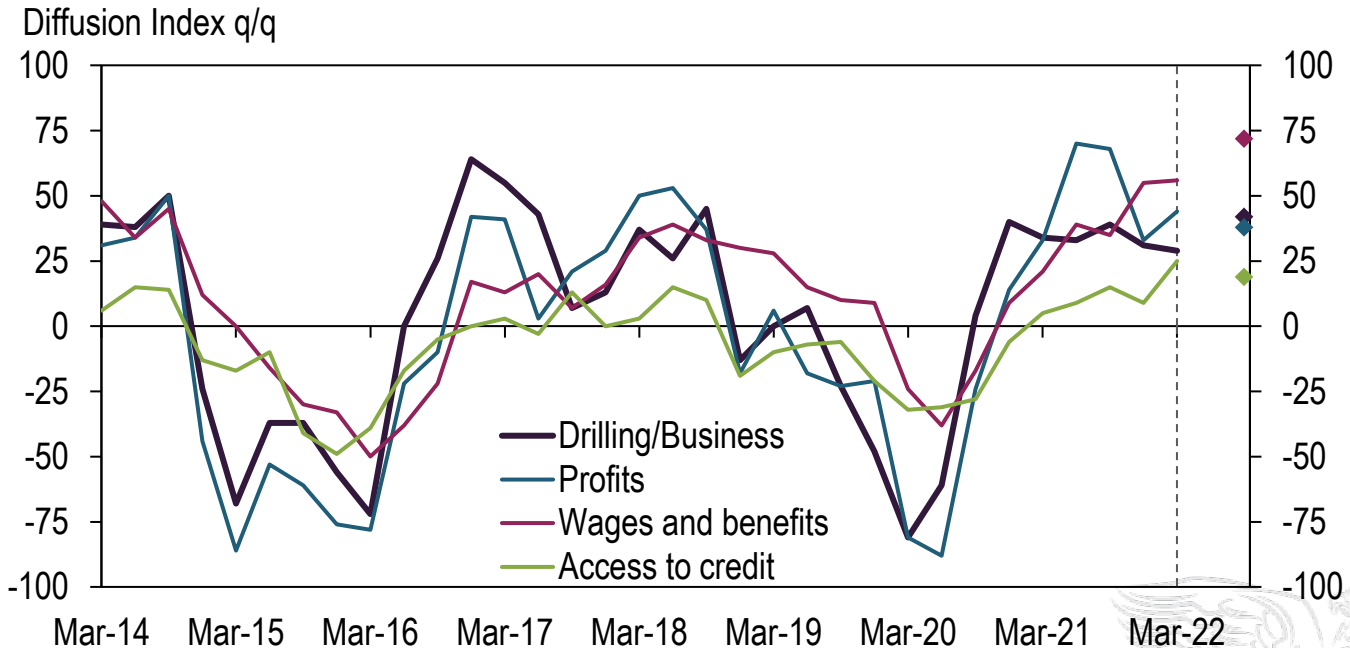


- Mining
- Leis. & Hosp.
- Mfg
- Constr.
- Trade & Transp.
- Govt.
- Prof. Bus. Svcs
- Other
- ◆ Total



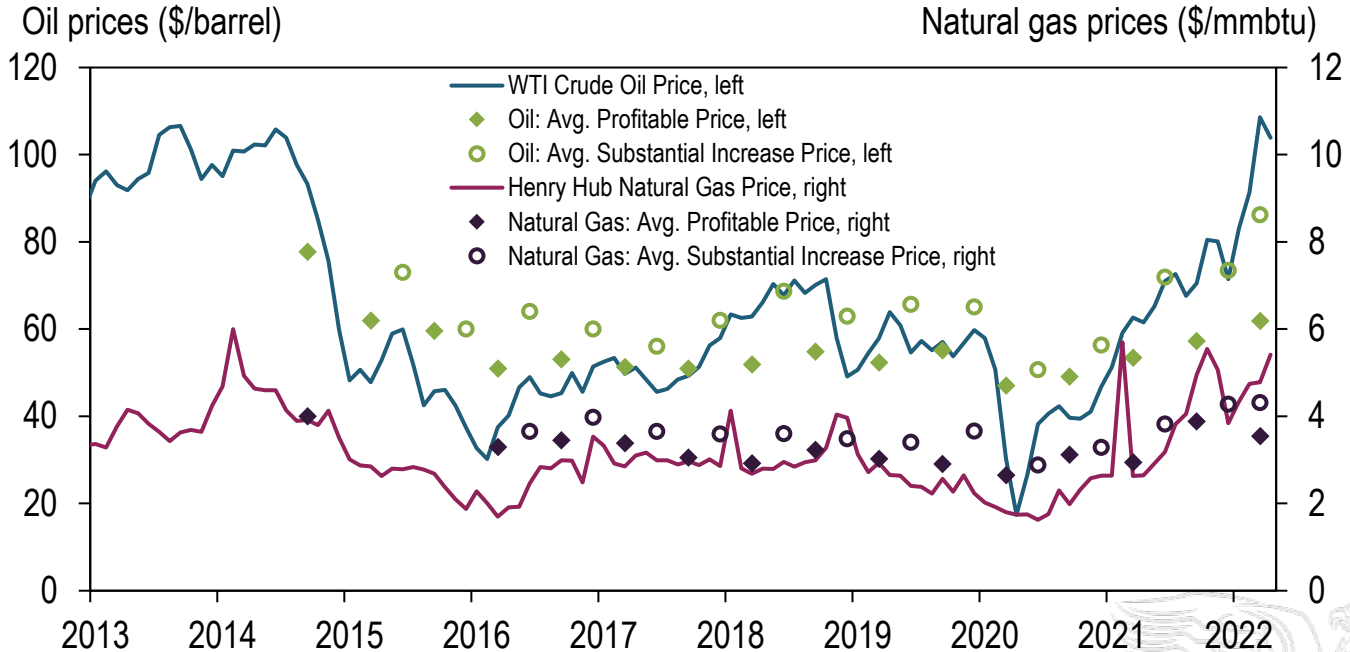
Energy activity has continued to increase moderately, along with higher profits and costs

Energy Survey Indexes



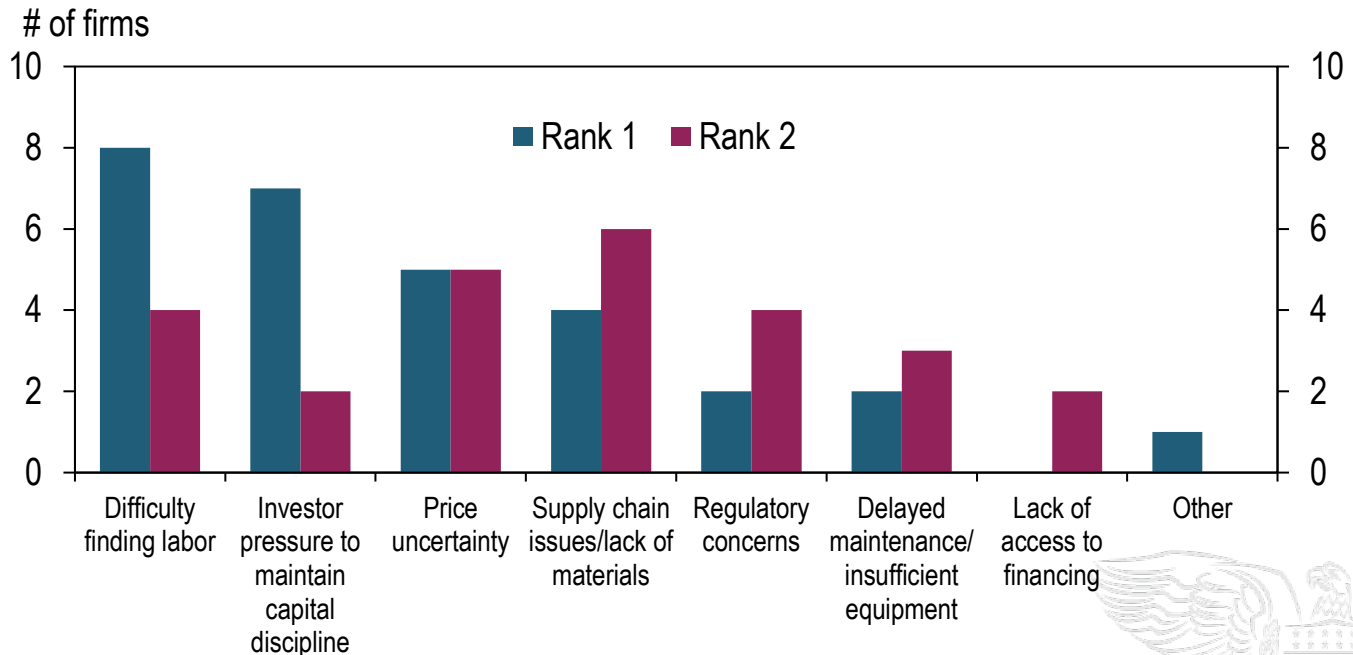
Oil and natural gas prices have risen considerably, and remain highly profitable for most regional firms

Energy Prices



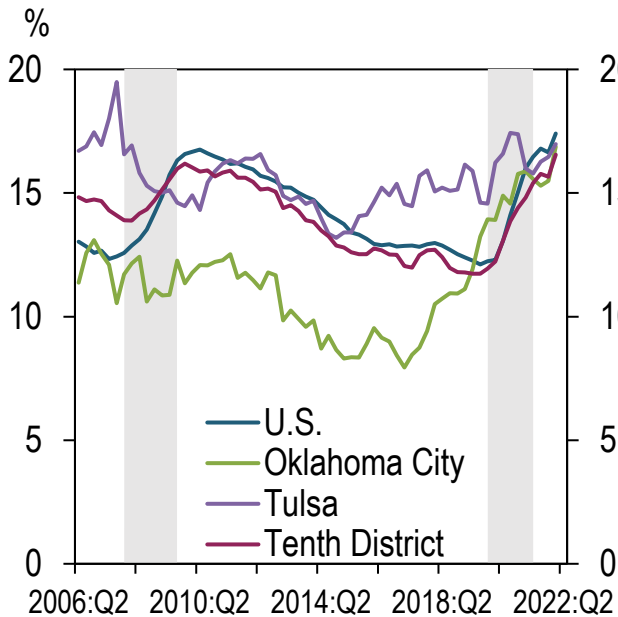
But regional energy production is restrained by labor and more fiscal discipline for public companies

Q1 2022 Energy Survey Special Question: “Which of the following are the top reasons restraining growth for your firm despite high oil prices? (rank)”

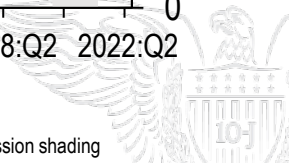
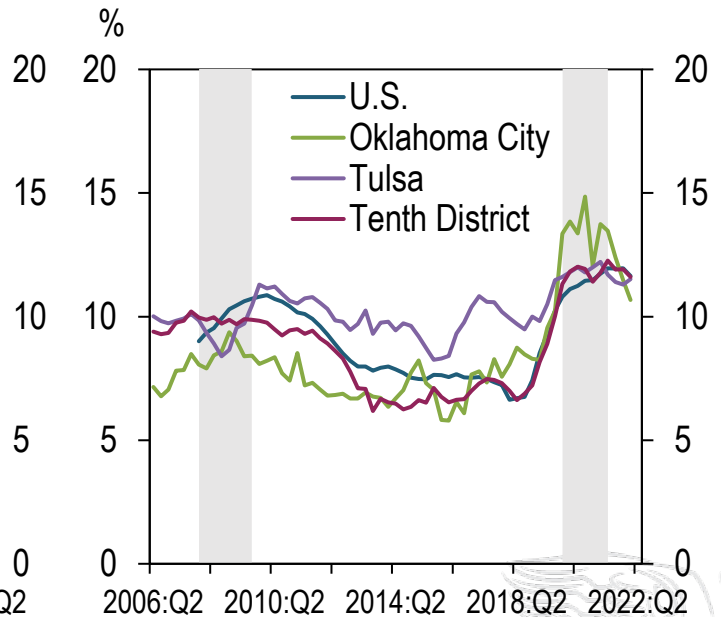


Oklahoma City and Tulsa office and industrial vacancy rates are slightly below the national average

Office Vacancy Rates

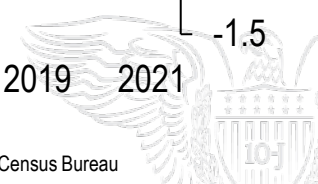
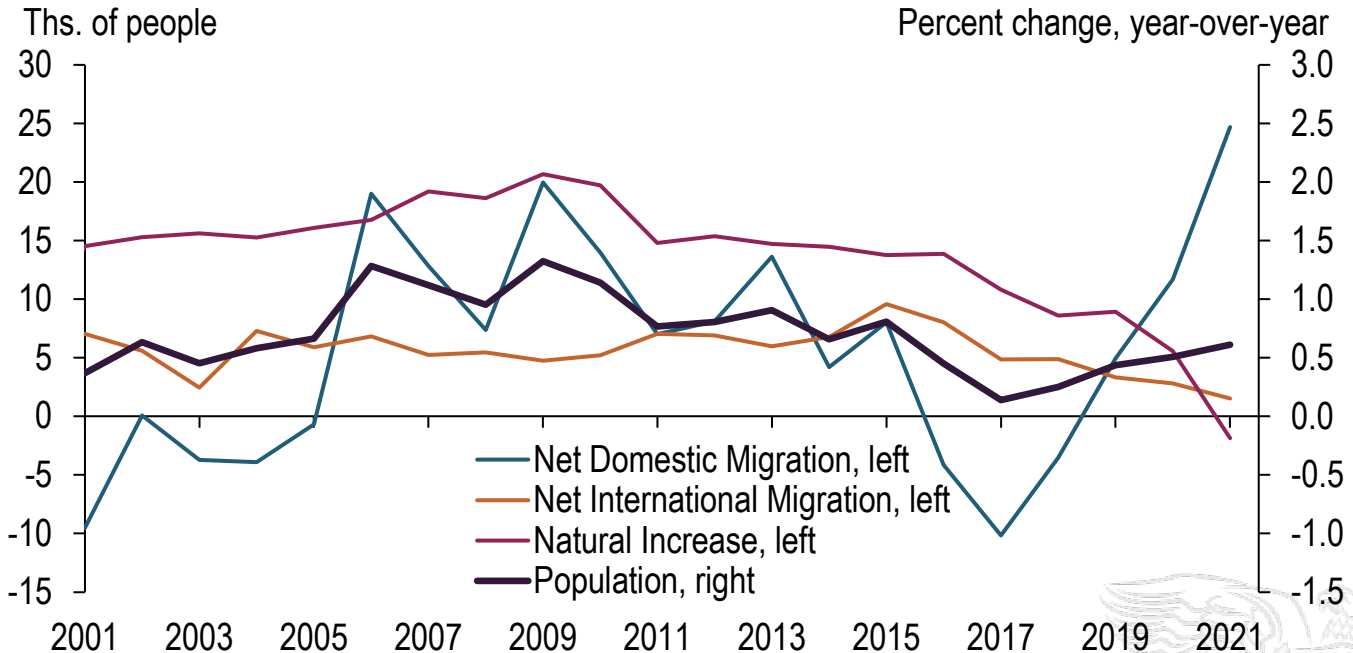


Industrial Vacancy Rates



Oklahoma's population grew in 2021, despite a historic increase in deaths, due to massive in-migration

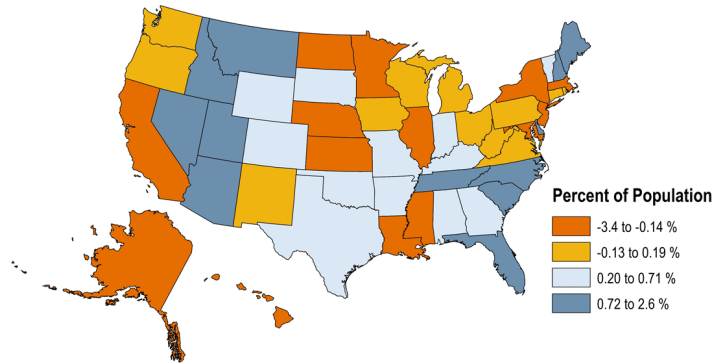
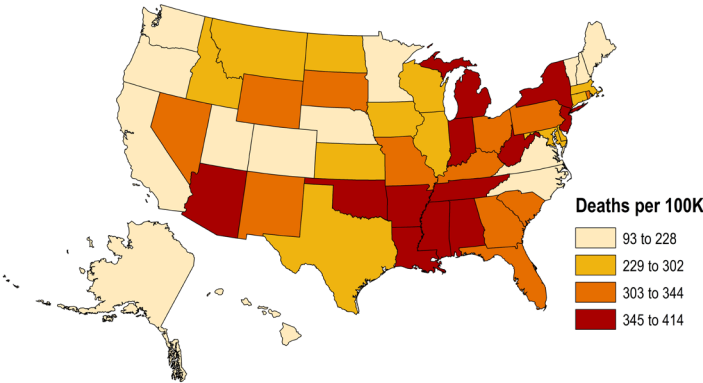
Oklahoma Population Changes by Component, 2001-2021



Oklahoma ranked highly in both COVID deaths per capita and net domestic in-migration in 2020 and 2021

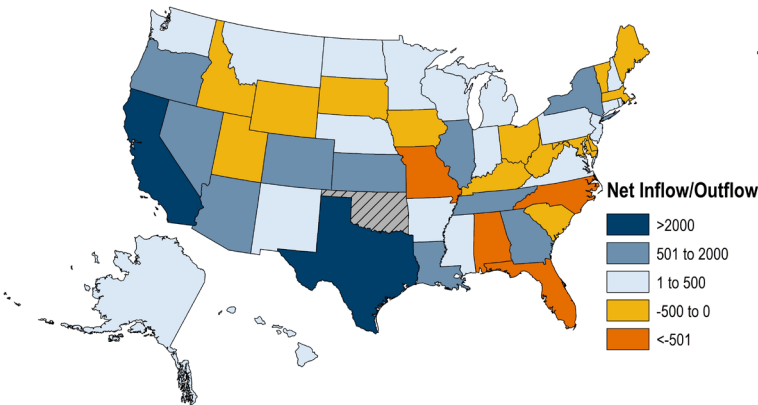
COVID-19 Death Rate
Jan. 2020 - March 2022

Net Domestic Migration
2020 - 2021

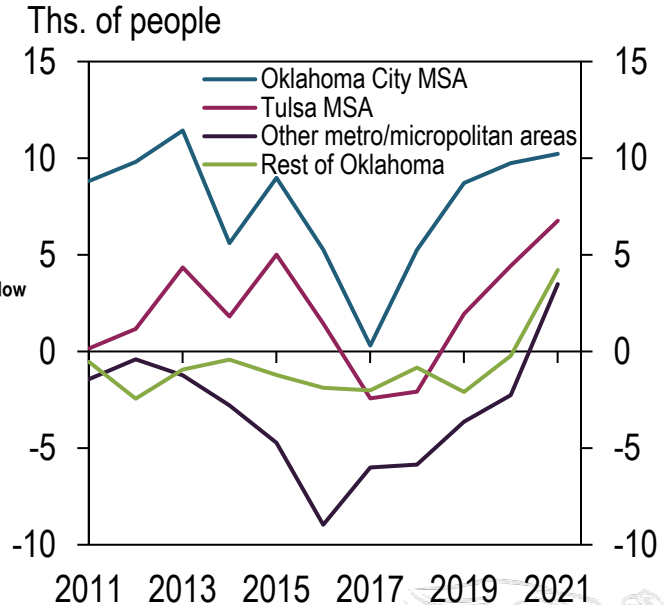


Many people moved to OK from CA and TX, mostly to the metros but some other parts of the state, too

Net Domestic Migration to Oklahoma
2020 and 2021



Oklahoma Net Domestic Migration



Summary

- The U.S. economy is solid, with low unemployment and strong demand in many sectors, but inflation is too high
- Several factors have boosted inflation over the past year, and several factors should help bring it back down
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Questions?

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