

U.S. and Oklahoma Economic Outlook

Chad Wilkerson

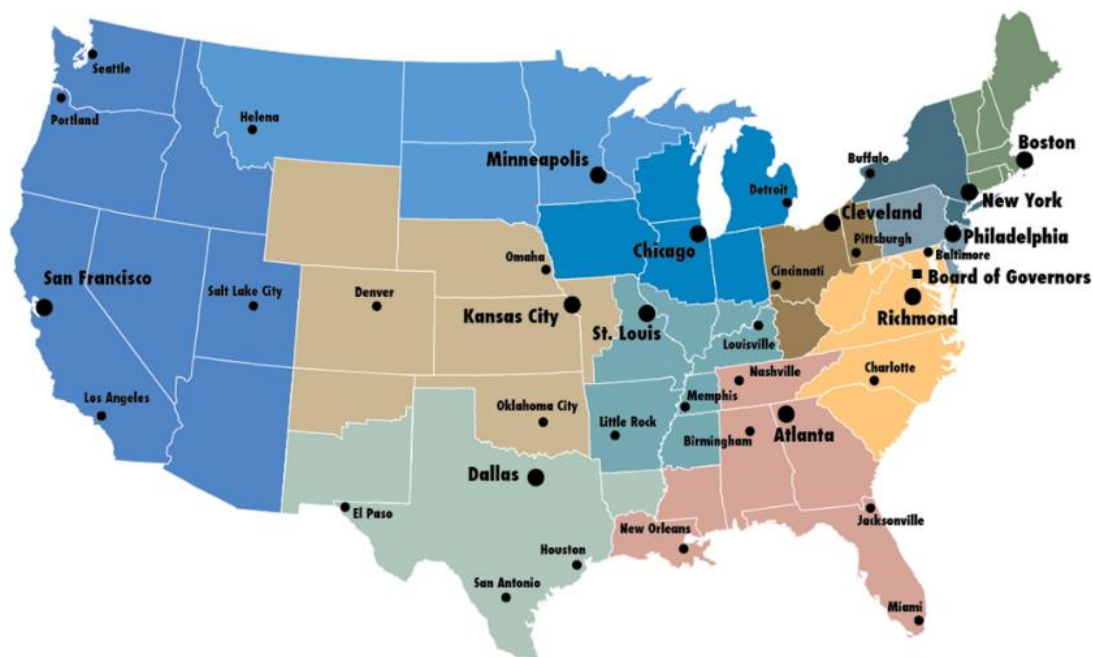
SVP & Oklahoma City Branch Executive



**BANKING &
SUPERVISION FORUM 2023**
FEDERAL RESERVE BANK OF KANSAS CITY

*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



5 primary responsibility areas:

- Monetary policy
- Financial system stability
- Bank supervision & regulation
- Payment system safety & efficiency
- Consumer protection & community development

3 primary entities:

- Board of Governors: 7 members appointed by U.S. President
- Federal Reserve Banks: 12 total; semi-independent
- Federal Open Market Committee: 19 members; 12 voting

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

- **2023 OKC Branch Board of Directors**

- **Katrina Washington (chair)**, Exec. Dir., Neighborhood Housing Services, OKC
- **Mark Burrage**, CEO, FirstBank, Atoka
- **Walt Duncan**, President, Duncan Oil Properties, OKC
- **Rhonda Hooper**, President & CEO, Jordan Advertising, OKC
- **Terry Salmon**, President, Computer System Designers, OKC
- **Brady Sidwell**, Principal, Sidwell Strategies, Enid
- **Dana Weber**, Chair & CEO, Webco Industries, Sand Springs



Oklahomans on Districtwide Fed Advisory Councils

- **Federal Advisory Council (FAC):**
 - **Jill Castilla**, CEO, Citizens Bank, Edmond
- **Economic Advisory Council (EAC):**
 - **Scott Case**, President, Case & Associates Properties, Tulsa
 - **Clay Gaspar**, COO, Devon Energy, Oklahoma City
 - **Rebecca Thompson**, CFO, AAON, Inc., Sand Springs
- **Community Development Advisory Council (CDAC):**
 - **Michelle Bish**, Executive Director, Northeast Workforce Development Board, Catoosa
 - **Quintin Hughes, Sr.**, Program Director, Northeast Oklahoma City Renaissance, Inc., Oklahoma City
 - **Cindy Logsdon**, Executive Director/CEO, Citizen Potawatomi Community Development Corp., Shawnee
- **Community Depository Inst. Advisory Council (CDIAC):**
 - **Alicia Wade**, President, Valliance Bank, Oklahoma City



Overview

- U.S. economic growth was solid in late 2022 and early 2023
- Inflation remains too high, despite coming down from 2022 peaks as the Fed has raised interest rates
- Higher interest rates have created challenges for banks
- Oklahoma's economy continues to recover, but jobs remain below pre-pandemic levels in some sectors, especially energy
- Oklahoma's population growth has outpaced the nation in recent years, driven by strong domestic in-migration

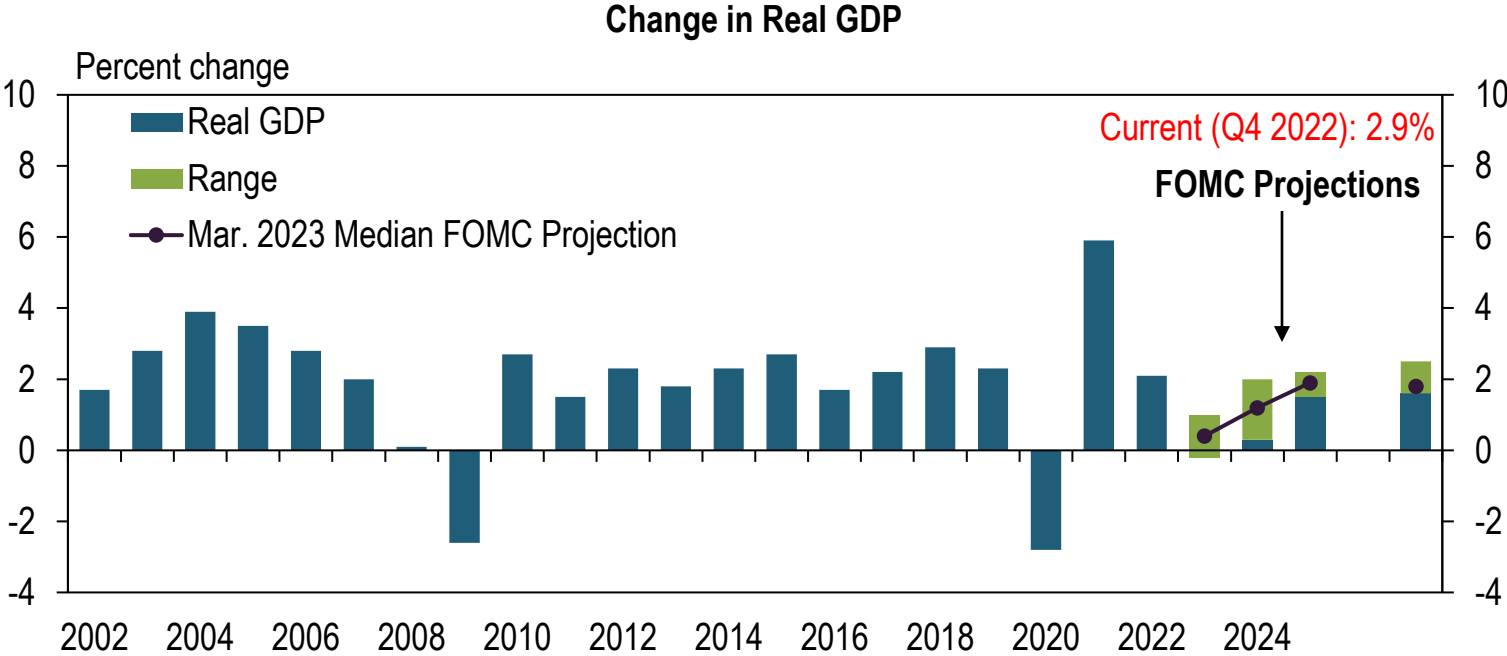


U.S. GDP and employment growth were solid in the second half of 2022, at or above pre-pandemic levels



Sources: BEA, BLS/Haver Analytics

GDP growth is expected to be somewhat sluggish in 2023 before rebounding to trend in 2024 and 2025



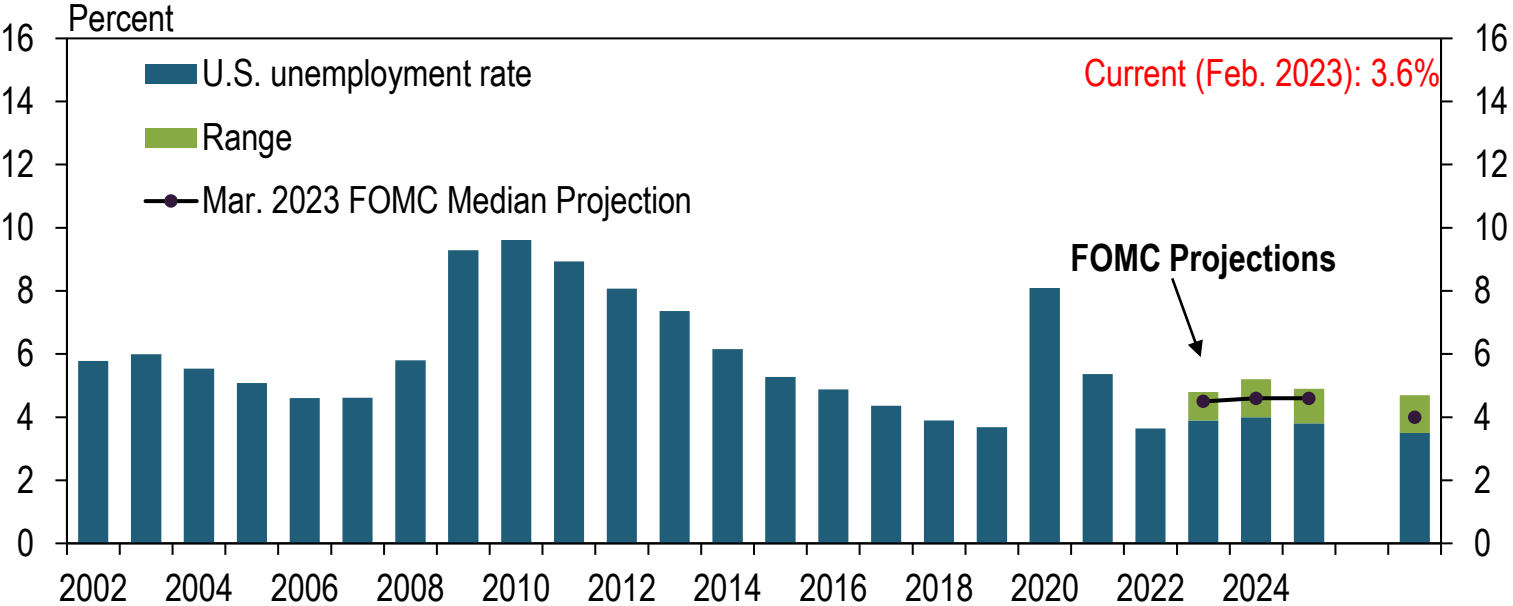
Note: Data and FOMC projections are for year-end.

Sources: Bureau of Economic Analysis, FOMC



U.S. unemployment remains historically low and is projected to rise only slightly in coming years

U.S. Unemployment Rate

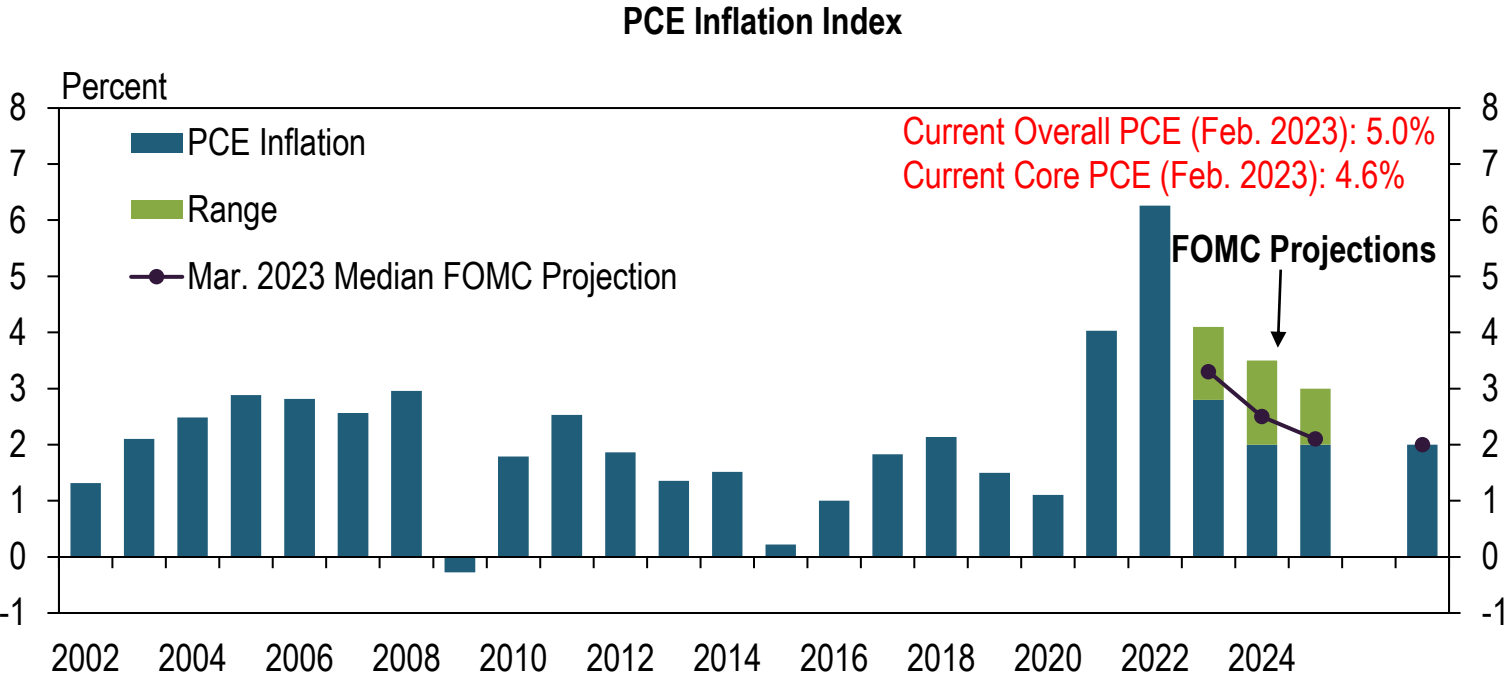


Note: Data and FOMC projections are for year-end.

Sources: U.S. Bureau of Labor Statistics, FOMC



Meanwhile, although inflation has come down from its 2022 peaks, it remains elevated on year-over-year basis

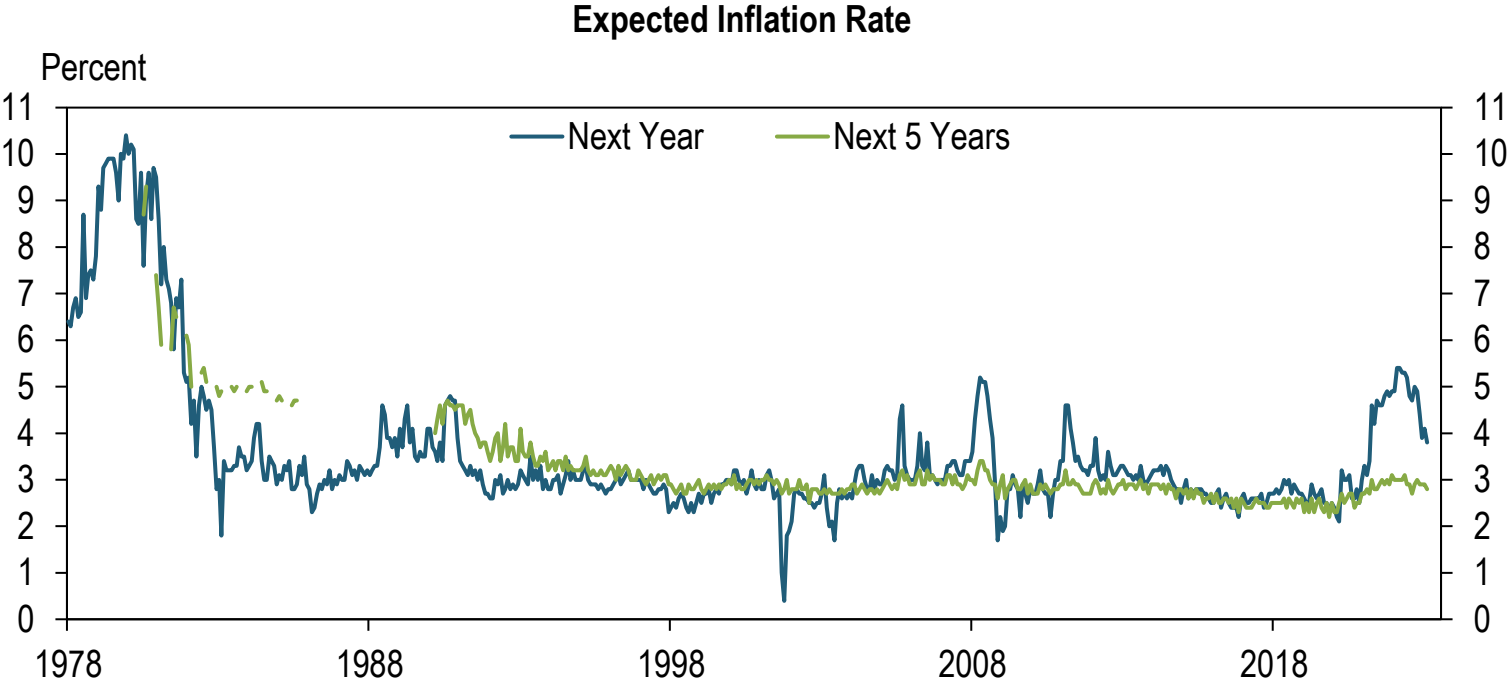


Note: Data and FOMC projections are for year-end.

Sources: Bureau of Economic Analysis, FOMC



Longer-term inflation expectations remain anchored around their 20-year average

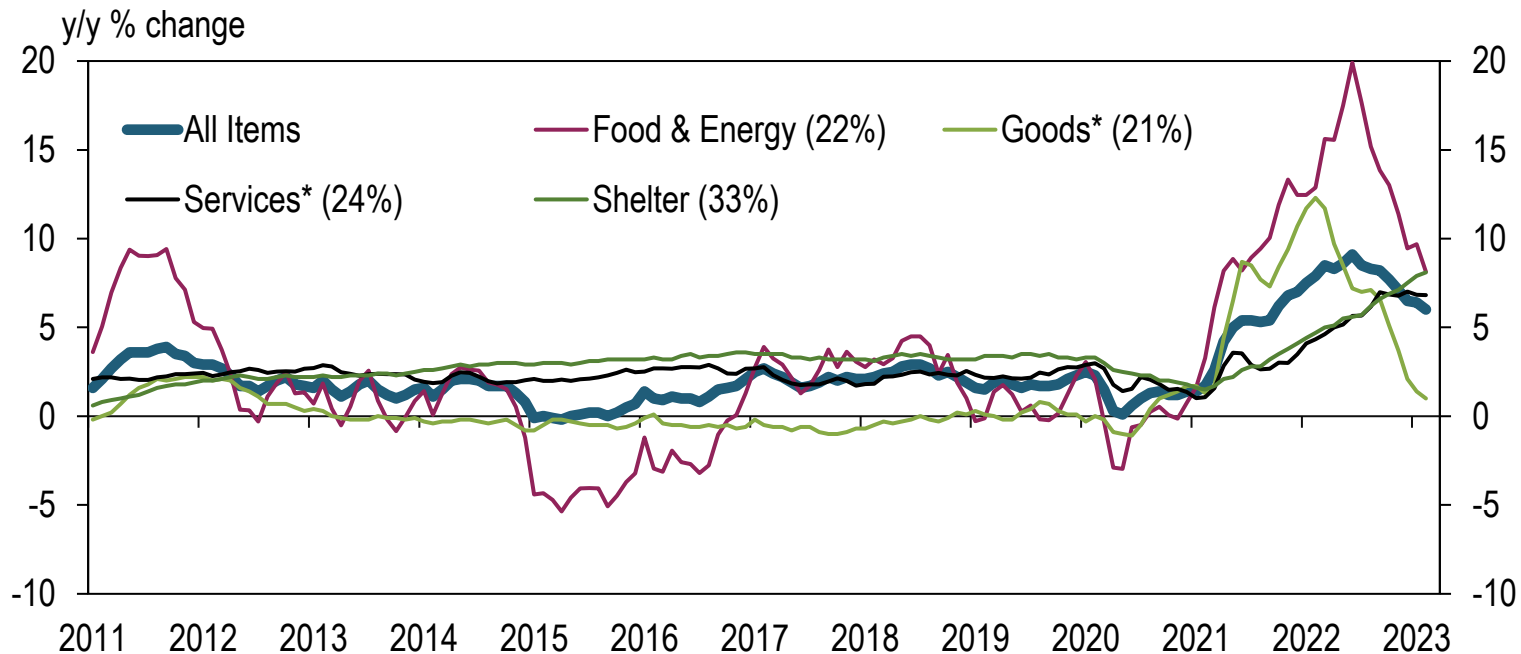


Source: University of Michigan/Haver Analytics



CPI inflation eased again in February to 6.0% as goods prices fell further, but services and shelter inflation remain high

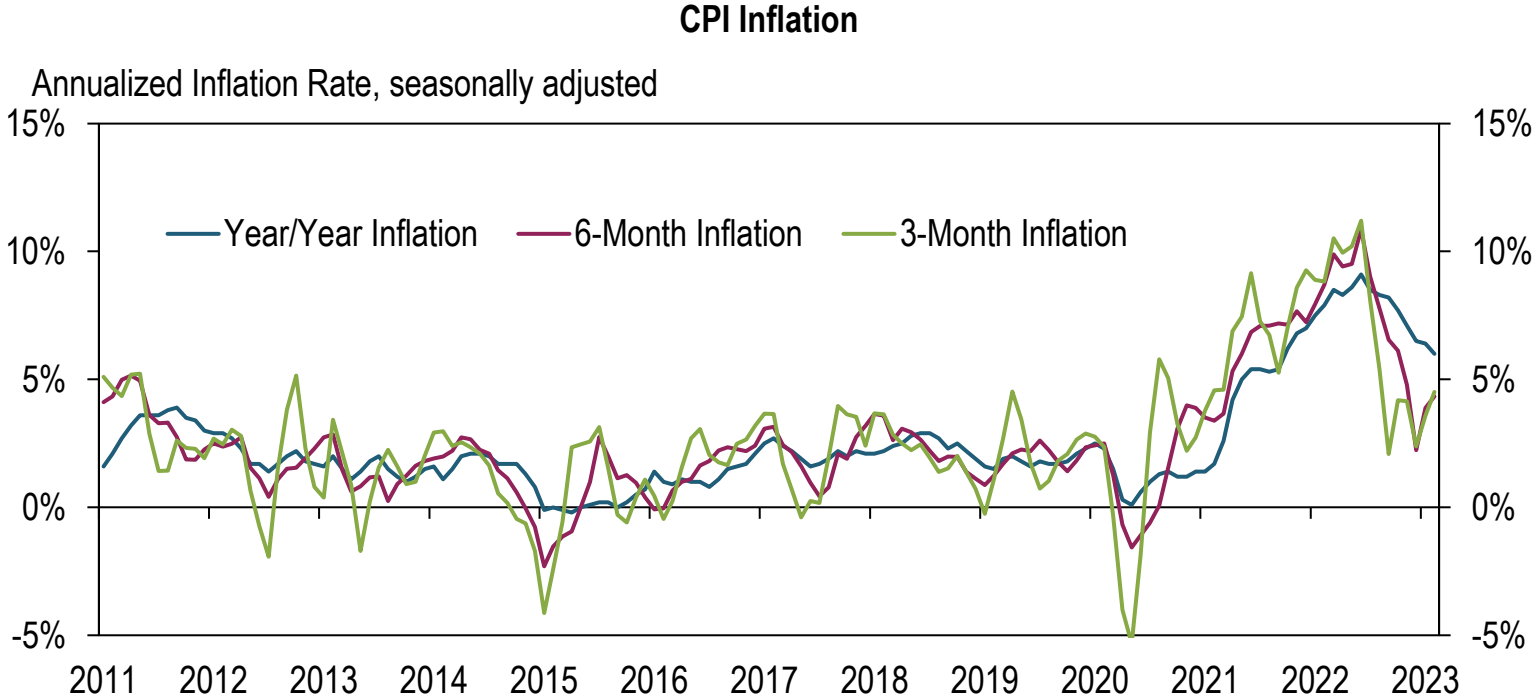
Consumer Price Index



*Goods excluding Food; Services excluding Energy.
Note: Relative Importance as Share of CPI shown in parenthesis.

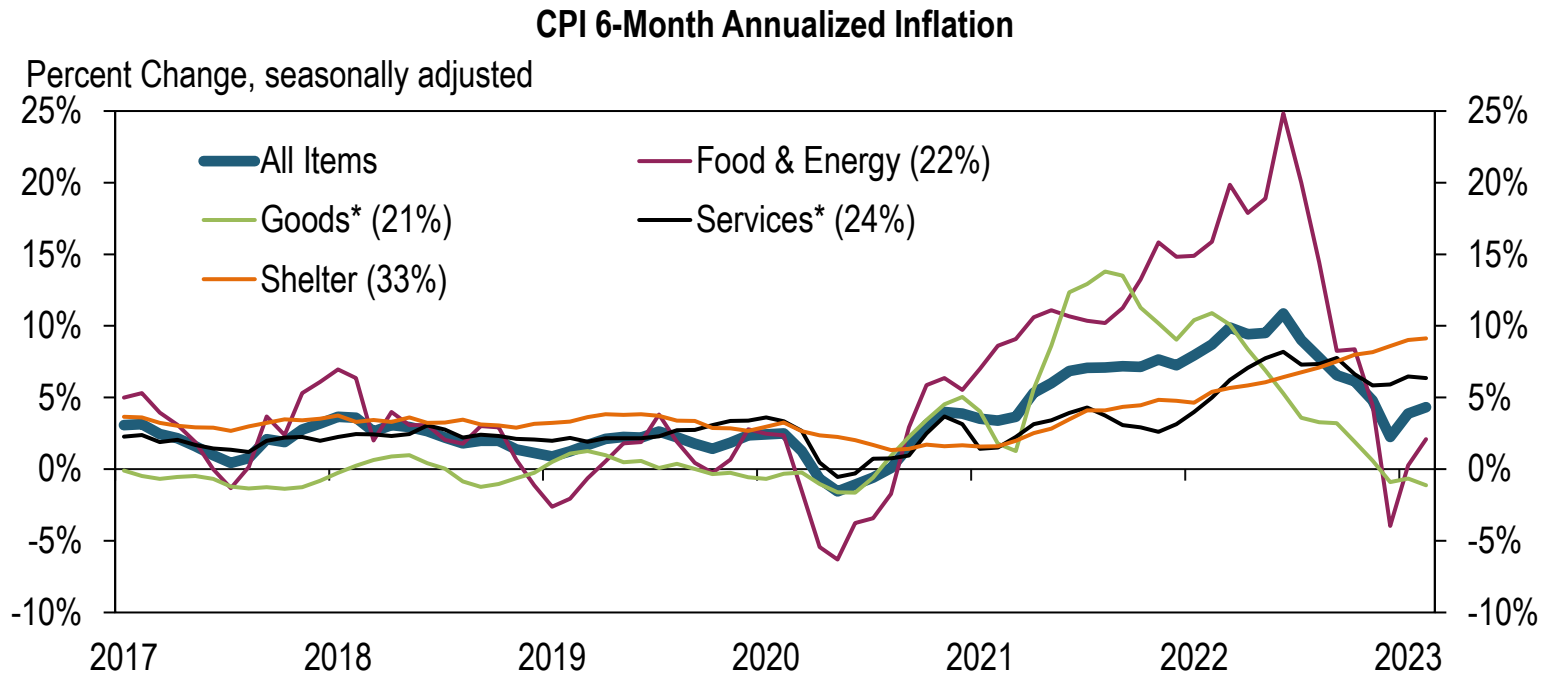
Sources: BLS/Haver Analytics

3- and 6-month inflation rates have come down by a larger amount, but also remain too high



Source: Bureau of Labor Statistics/Haver Analytics

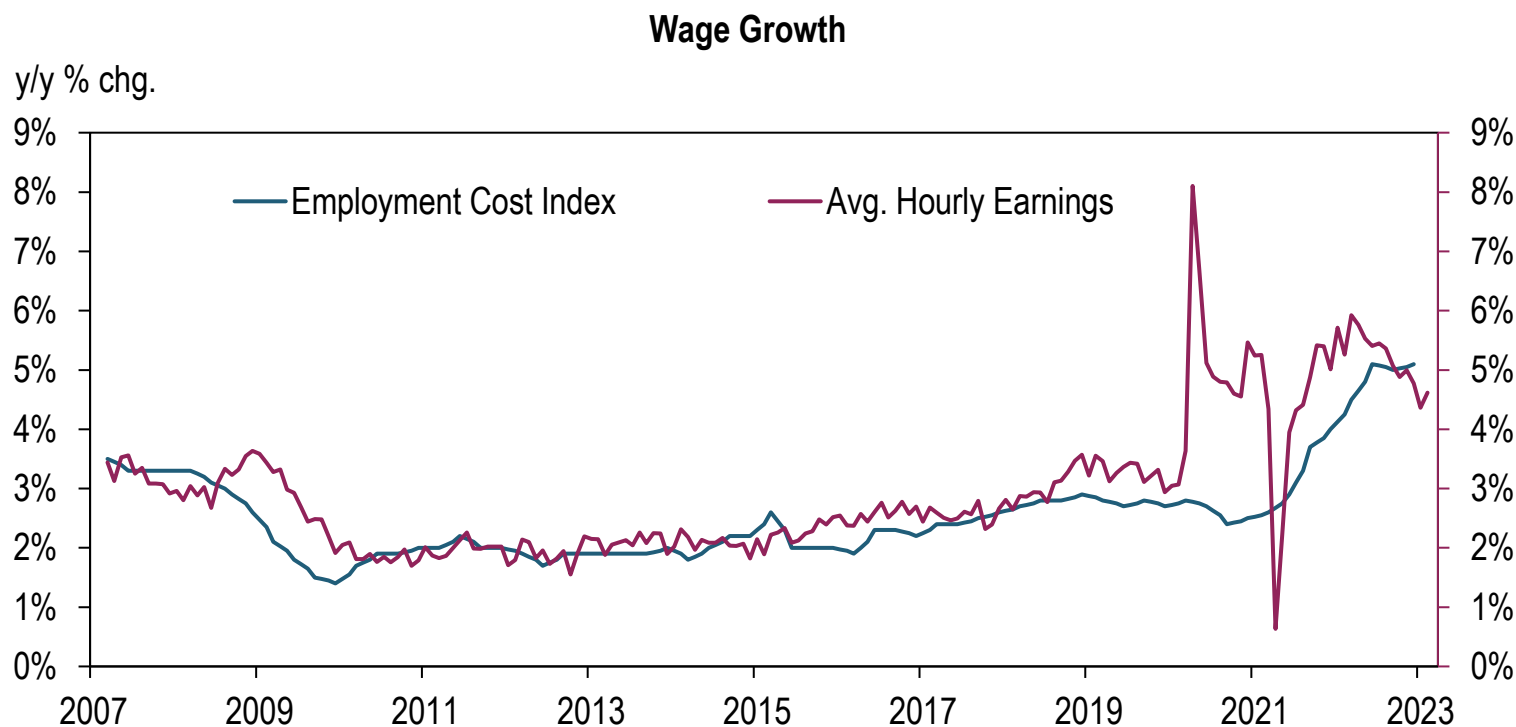
Over the past 6 months, shelter and services inflation have been the main drivers, and are stubbornly high



*Goods excluding Food; Services excluding Energy.
 Note: Relative Importance as Share of CPI shown in parenthesis.

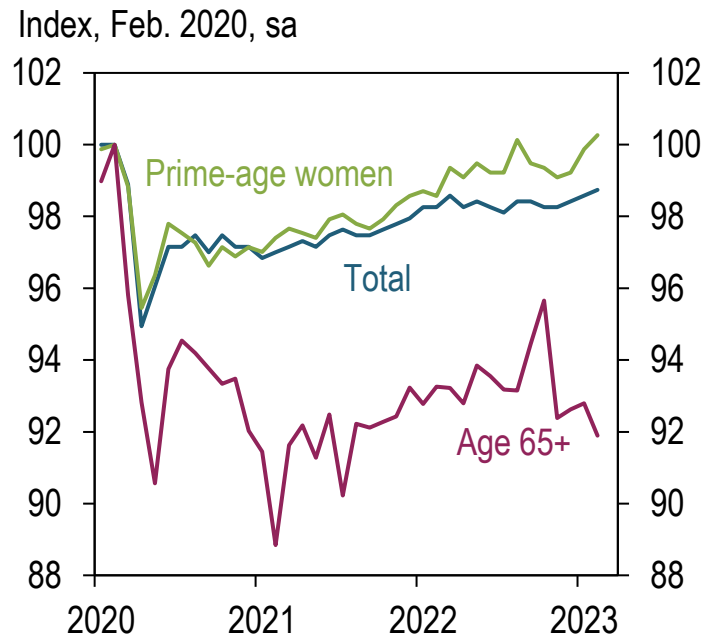
Sources: BLS/Haver Analytics

Wage growth is a key factor keeping services inflation high, but has come down from highs in recent months

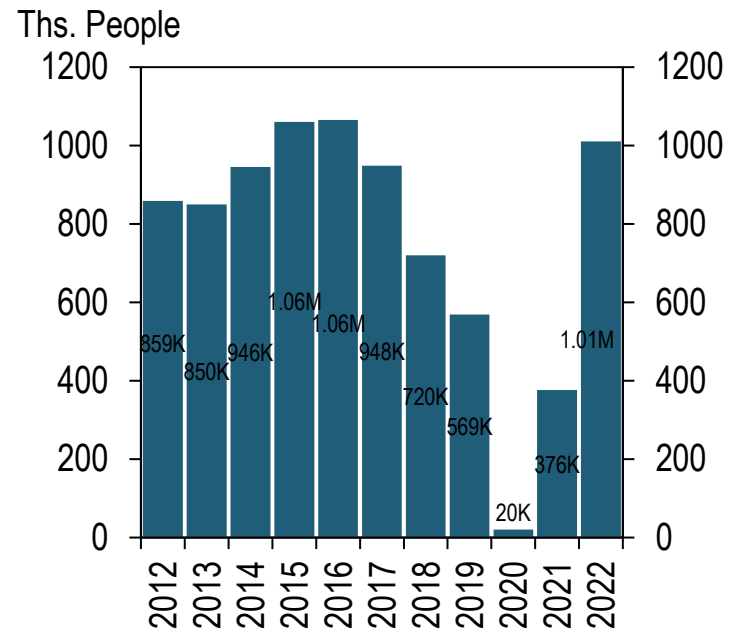


Labor force participation still lags due to older workers, while immigration rebounded after several low years

U.S. Labor Force Participation Rate

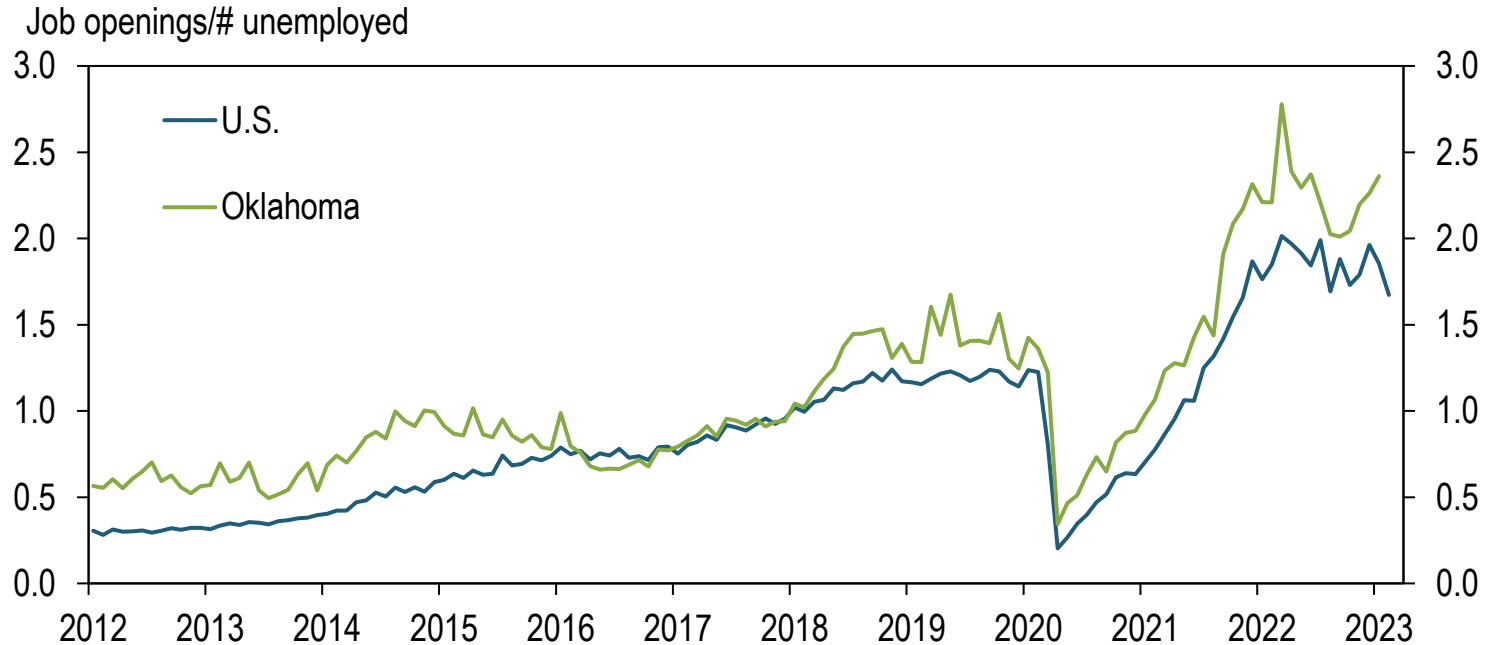


Net International Migration to the U.S.



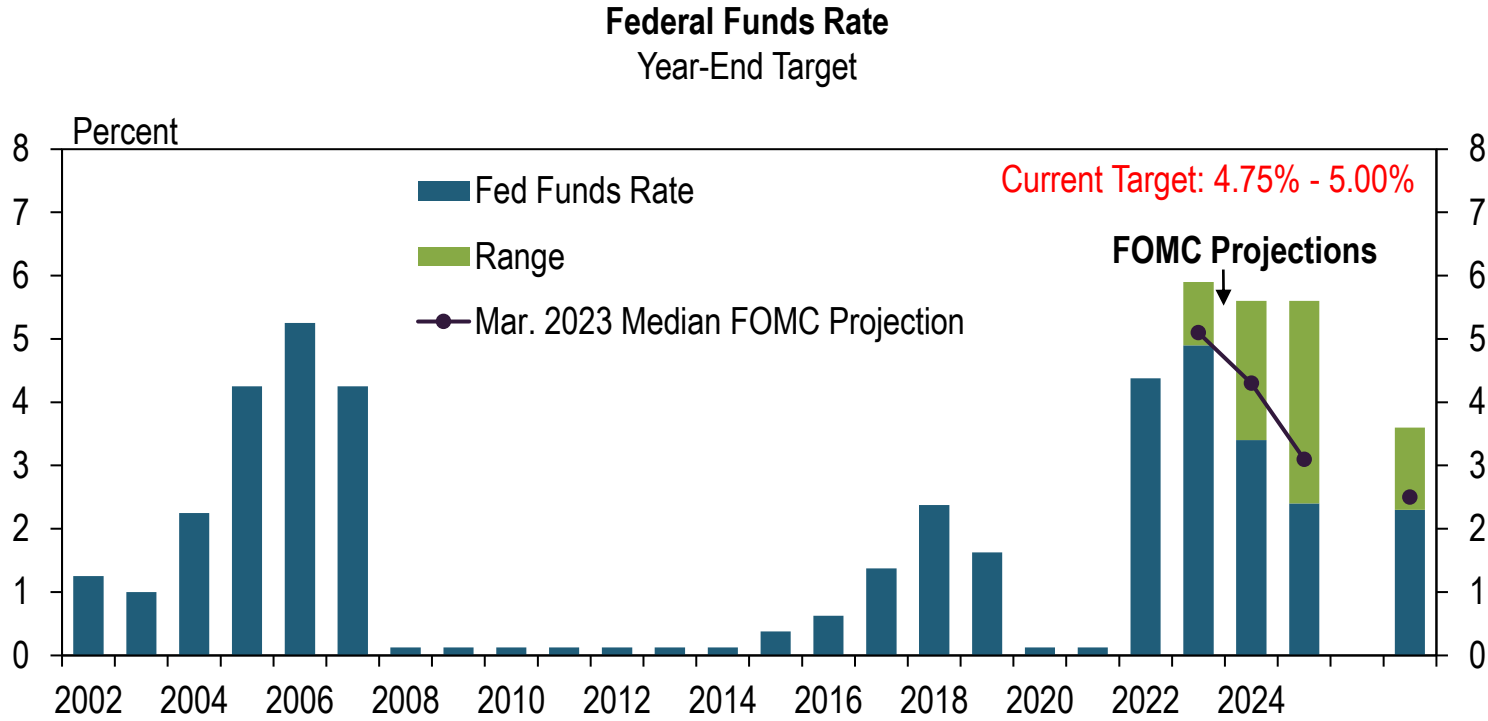
Job openings still greatly exceed unemployed workers, keeping wage pressures from easing much

Job Openings/Unemployment Ratios



Source: Bureau of Labor Statistics

The Fed raised the federal funds rate by 25 basis points again this month, and the latest FOMC projections are shown

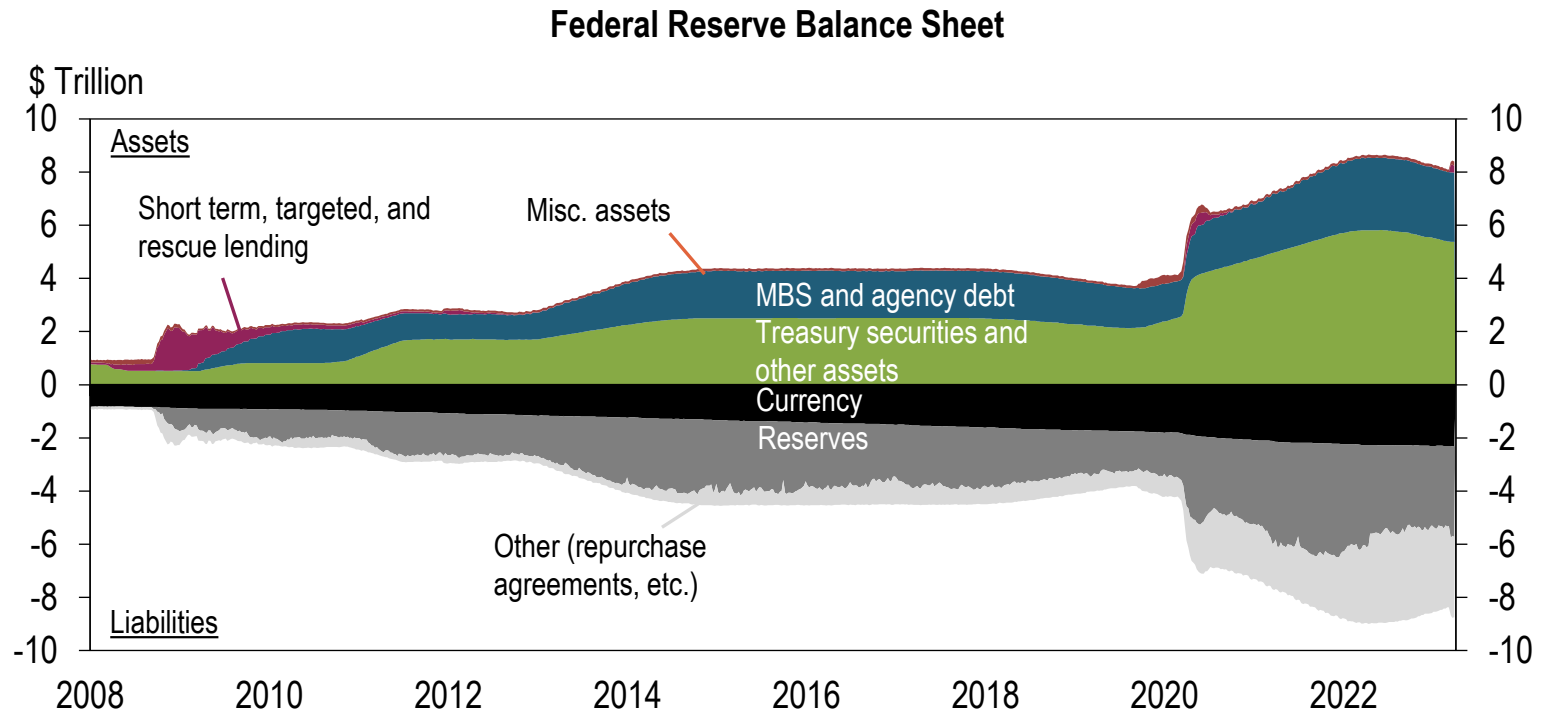


Note: Data and FOMC projections are for year-end.

Sources: Bureau of Economic Analysis, FOMC



The Fed has also begun to reduce its balance sheet of securities, further tightening policy



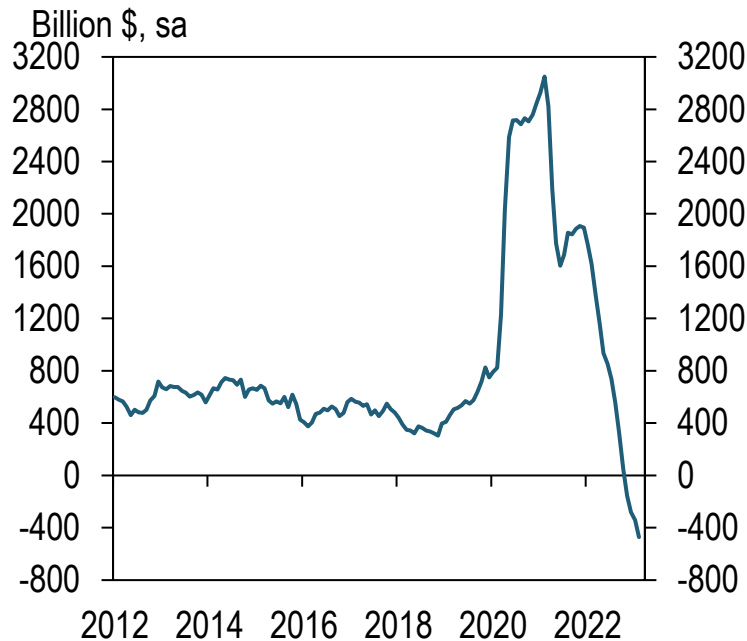
What Sparked the Banking Turmoil in 2023?

- Following the pandemic, bank deposits soared due to stimulus payments and quantitative easing
- Most banks purchased low-risk, longer maturity securities, which declined in value as interest rates rose
- In early March, banks servicing the tech and crypto industries experienced rapid deposit outflows
- As tech focused banks collapsed, depositors reviewed their own banks' financials
- A major risk: small bank deposits moving to “too big to fail” large banks
- Failed banks were placed into FDIC receivership
- The Federal Reserve offers loans collateralized by credit-risk-free securities
- Treasury has brokered regional bank support via deposits from large banks

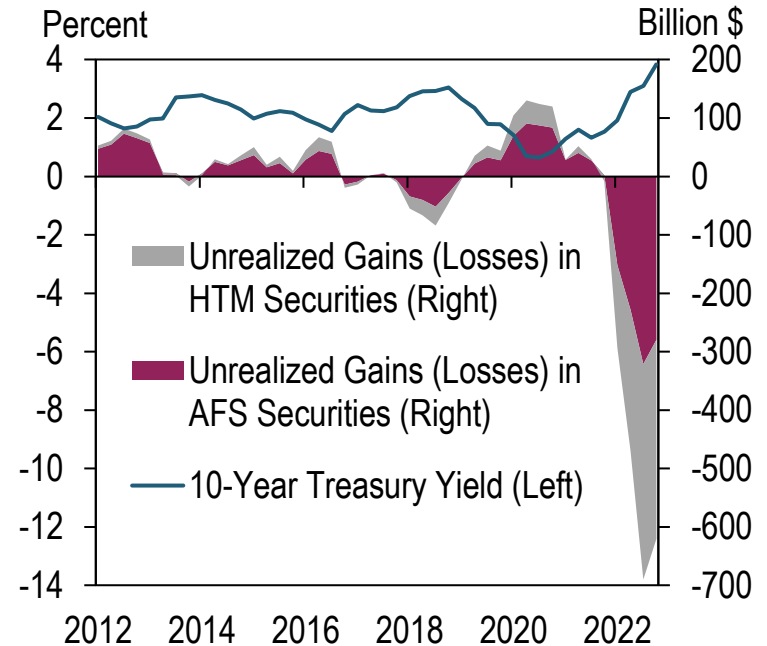


Following the pandemic, deposit flows reversed and unrealized losses grew as interest rates increased

Year/Year Change in Commercial Bank Deposits

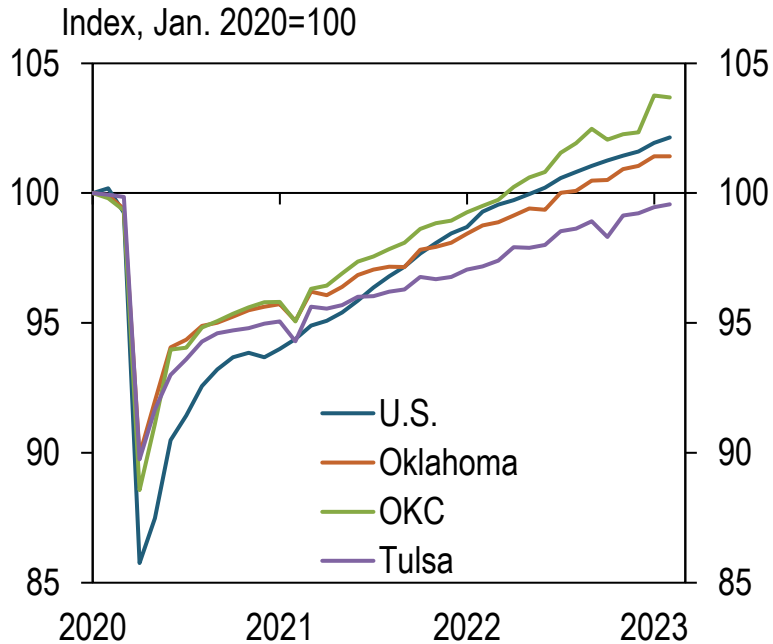


Interest Rates and Unrealized Gains (Losses)

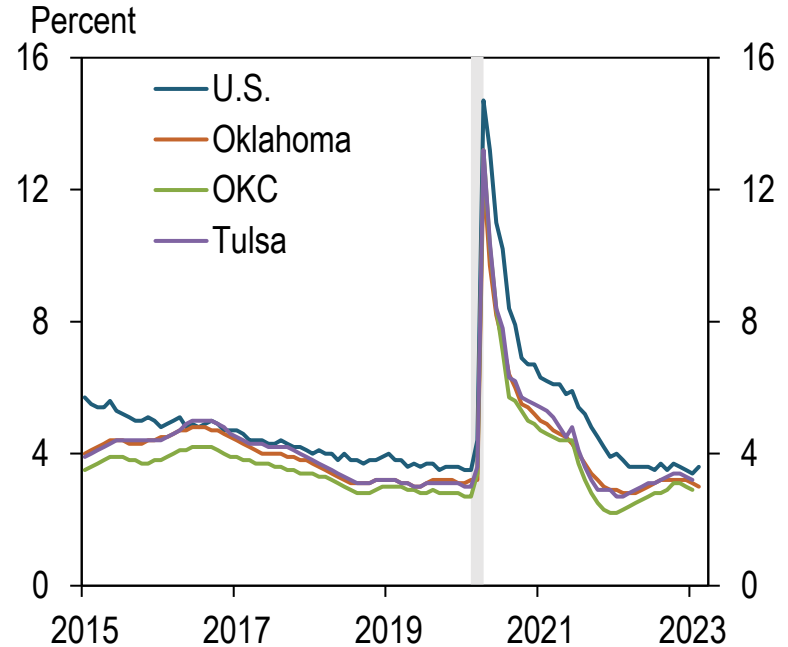


Jobs in Oklahoma are back to pre-COVID levels and rose further in January, while unemployment stays low

Non-Farm Payroll Employment



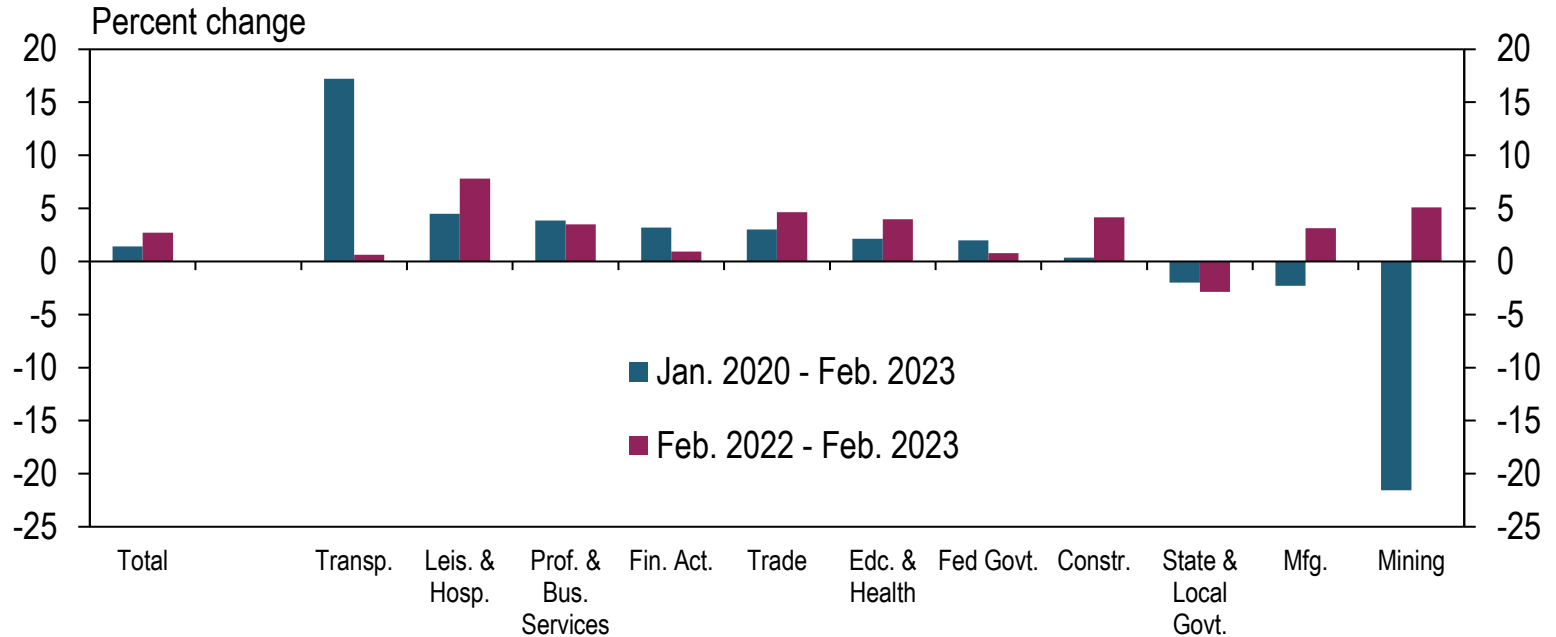
Unemployment Rate



Source: U.S. Bureau of Labor Statistics

Energy and manufacturing jobs in OK are still below pre-pandemic but up during the past year

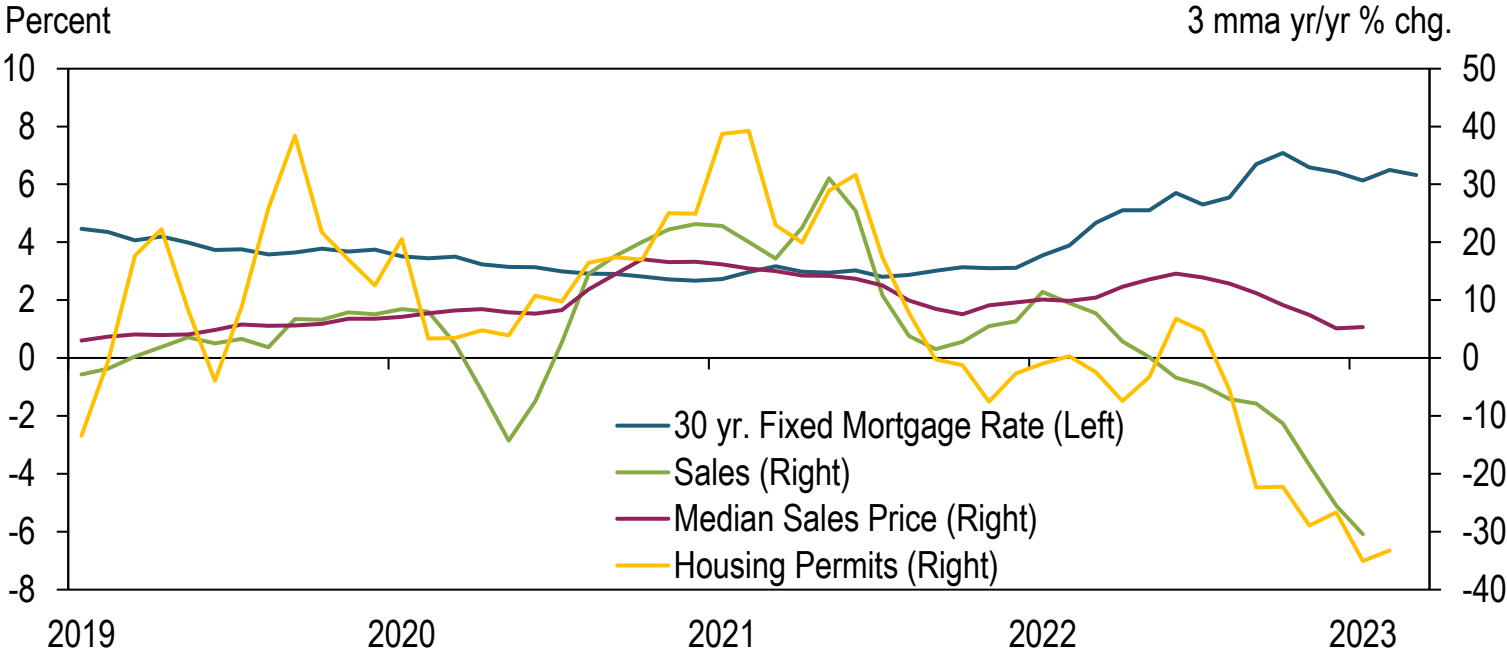
Oklahoma Job Growth by Industry



Sources: U.S. Bureau of Labor Statistics/Haver Analytics

The Oklahoma housing market has eased with rising interest rates

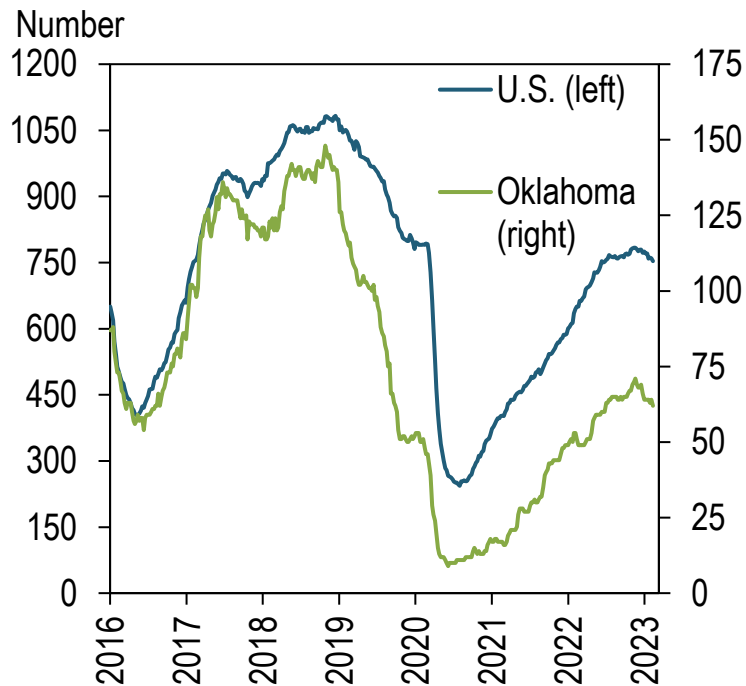
Oklahoma Housing Market Indicators



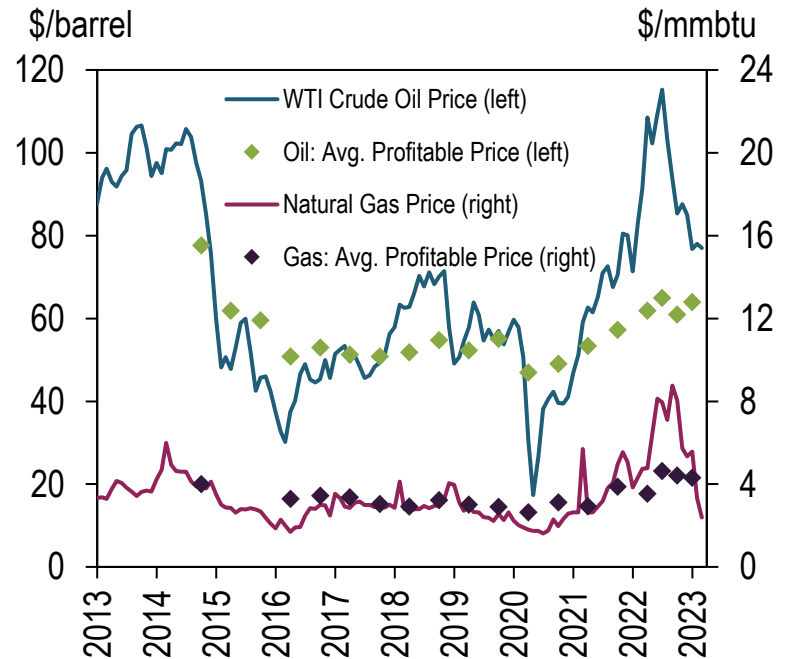
Sources: Freddie Mac, Redfin, U.S. Census Bureau

Drilling rig counts have begun to edge down in Oklahoma and the nation with lower profitability

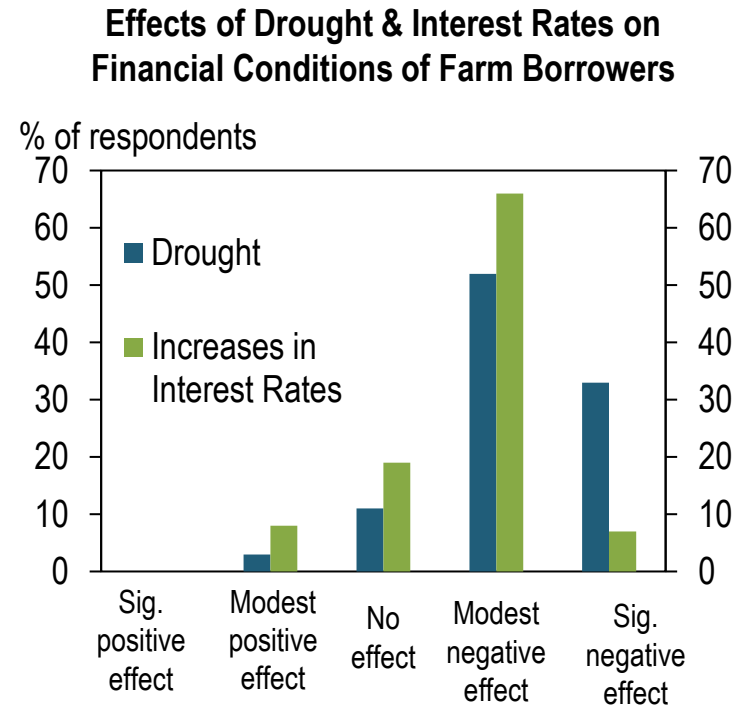
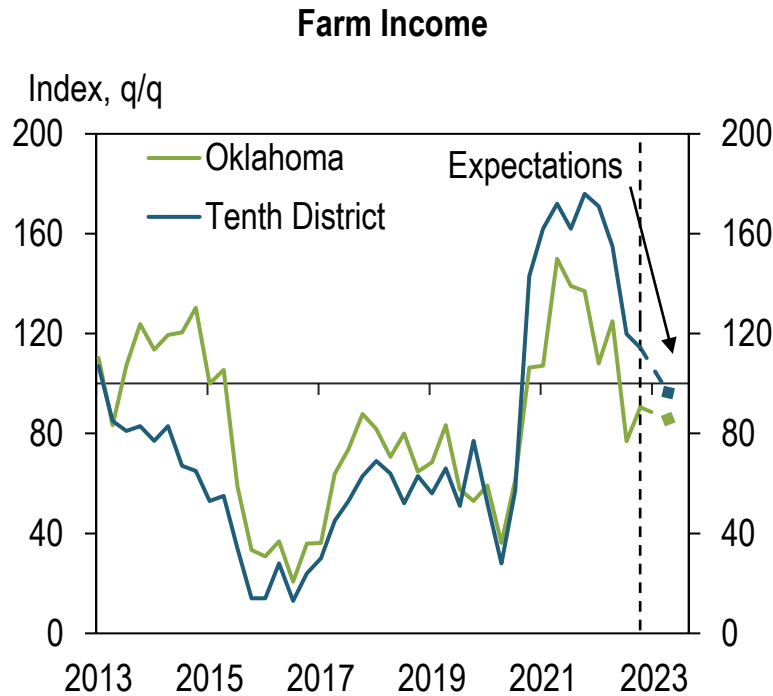
Rig Counts



U.S. Energy Prices

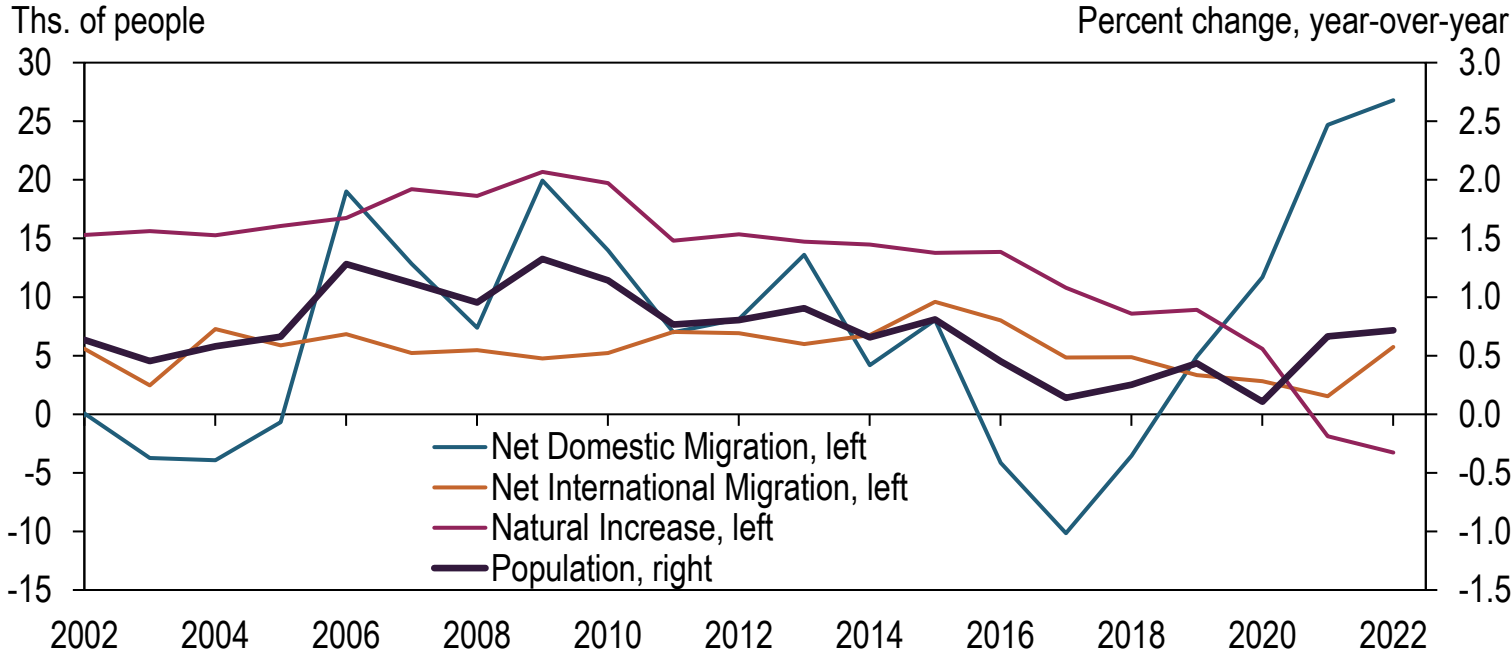


Oklahoma farm income continued to decline in Q4 2022, partially due to drought and increases in interest rates



Oklahoma's population grew in 2021 & 2022, despite a historic increase in deaths, due to massive in-migration

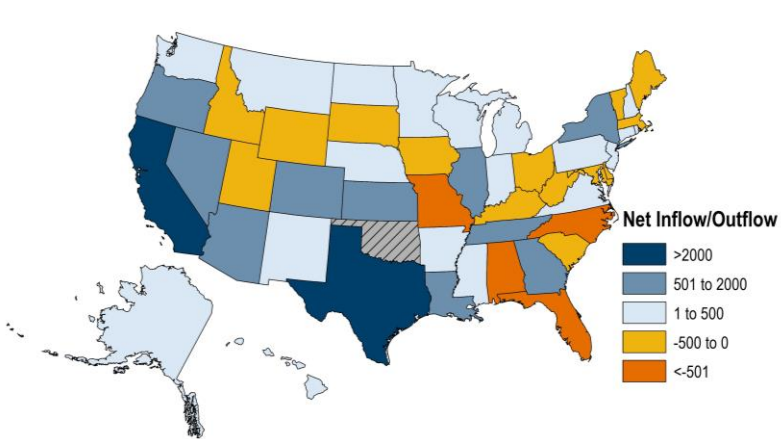
Oklahoma Population Changes by Component, 2001-2022



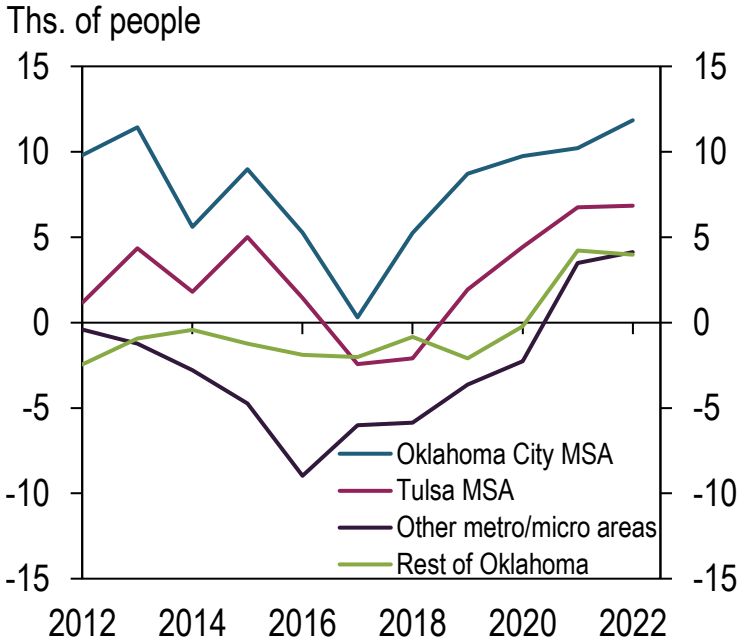
Source: U.S. Census Bureau

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

Net Domestic Migration to Oklahoma
2020 and 2021



Oklahoma Net Domestic Migration

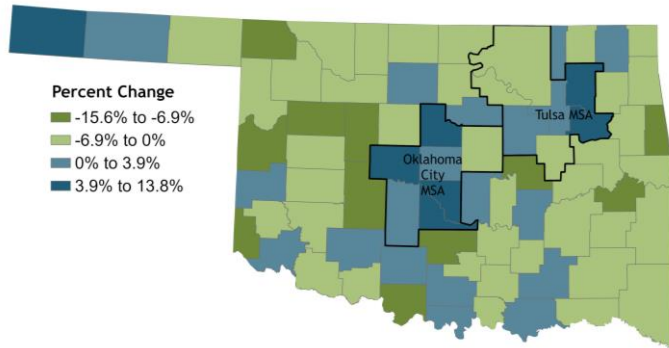


Note: Vintage 2020 population estimates through 2020.

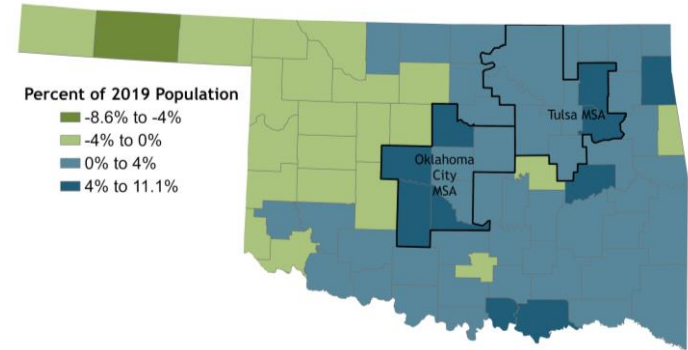
Sources: FRBNY CCP/Equifax, U.S. Census Bureau

OKC, Tulsa, panhandle, and border counties have seen largest population increases; largely driven by domestic migration

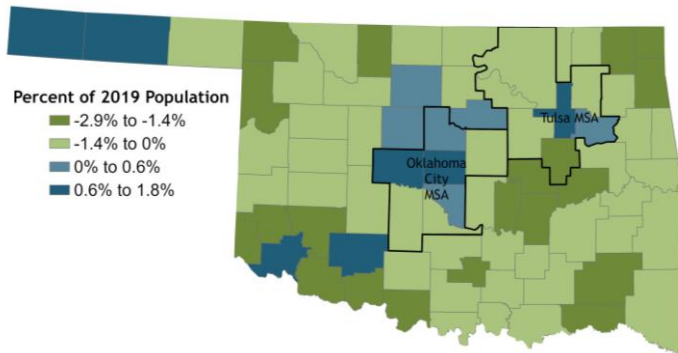
2019-22 County Population Change



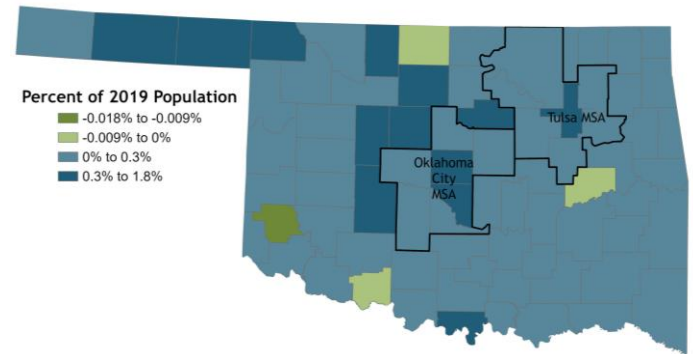
2019-22 Net Domestic Migration by County



2019-22 Natural County Population Increase



2019-22 Net International Migration by County



Summary

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Questions?

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