WILLIAM S.
Spears School
OF BUSINESS

Center for Applied Economic Research

Economic Outlook: Fiscal Year 2021

Prepared by

Dan Rickman

and

Hongbo Wang

Center for Applied Economic Research
Spears School of Business
Oklahoma State University

November 25, 2019

272F College of Business, Stillwater, OK 74078

Oil prices rose throughout 2017 and into 2018 while natural gas prices remained fairly stable during the period. The improvement in oil prices spurred growth in energy sector employment and in the Oklahoma economy more broadly. After falling below 60 in 2016 in response to previous energy price declines, the number of oil and gas drilling rigs in Oklahoma as reported by Baker Hughes, Inc. increased to over 140 approximately one year ago. However, the subsequent declines in oil and gas prices have since brought the number of rigs operating in Oklahoma back down to levels not seen since the middle of 2016.

As shown in Figure 1, based on the November U.S. Energy Information Administration (EIA) forecasts through 2020 and futures prices for 2021, both natural gas and oil prices are expected to decline somewhat between now and the second quarter of 2021. While the rebound in the energy sector spurred by the previous price increases helped turn the overall Oklahoma economy around from the employment and output declines in 2016, the energy price declines are now adversely affecting the Oklahoma economy. The decline in oil prices that began in 2018 have already brought reductions in energy sector employment and contributed to stagnant employment growth overall in Oklahoma. Coupled with the slowing of the national economy, particularly in manufacturing, this is forecast to produce slow economic growth in Oklahoma throughout 2020 and 2021.

As shown in Figure 2, the only years that Oklahoma total nonfarm employment has grown faster than that of the nation since 2010 were in the energy boom years of 2011 and 2012. Oklahoma's employment growth fell below national growth in 2013 as energy sector employment growth stagnated. The decline in energy prices from their peaks in 2014 led to a recession in the state, with negative annual employment growth occurring in 2016. With the rebound in the energy sector Oklahoma total nonfarm employment nearly matched national growth in 2018. But once again, weakness in the energy sector is contributing to Oklahoma's employment growth lagging that of the nation, which is expected to continue through 2021.

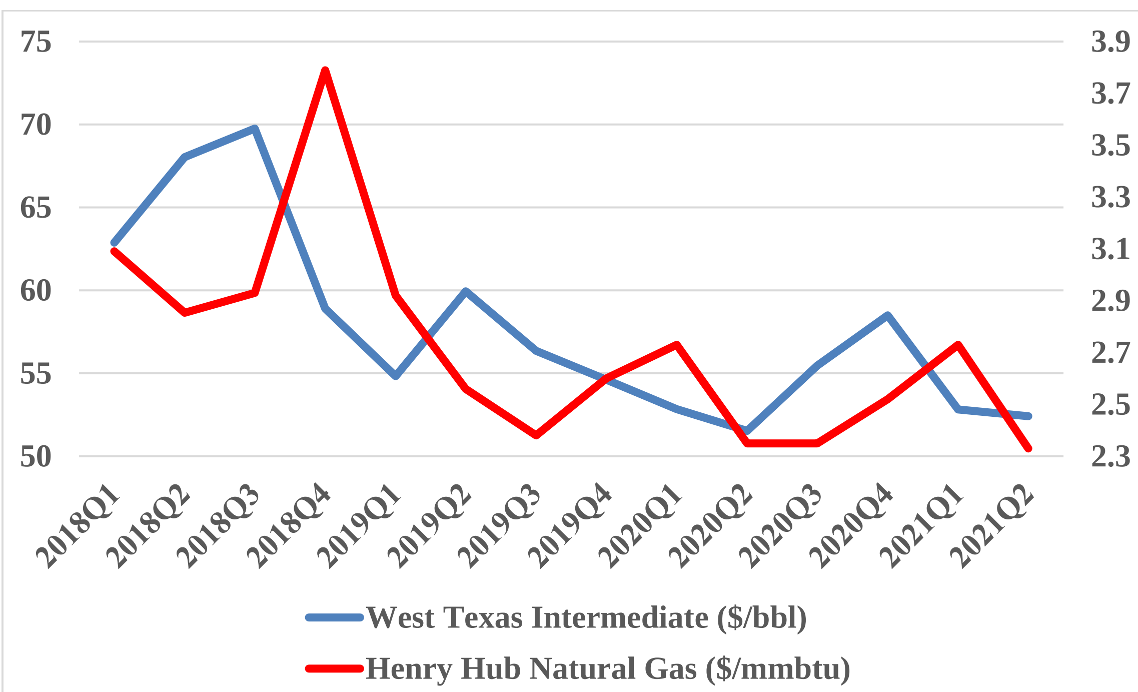

Figure 1: Oil and Natural Gas Prices (EIA forecast begins 2019Q4)

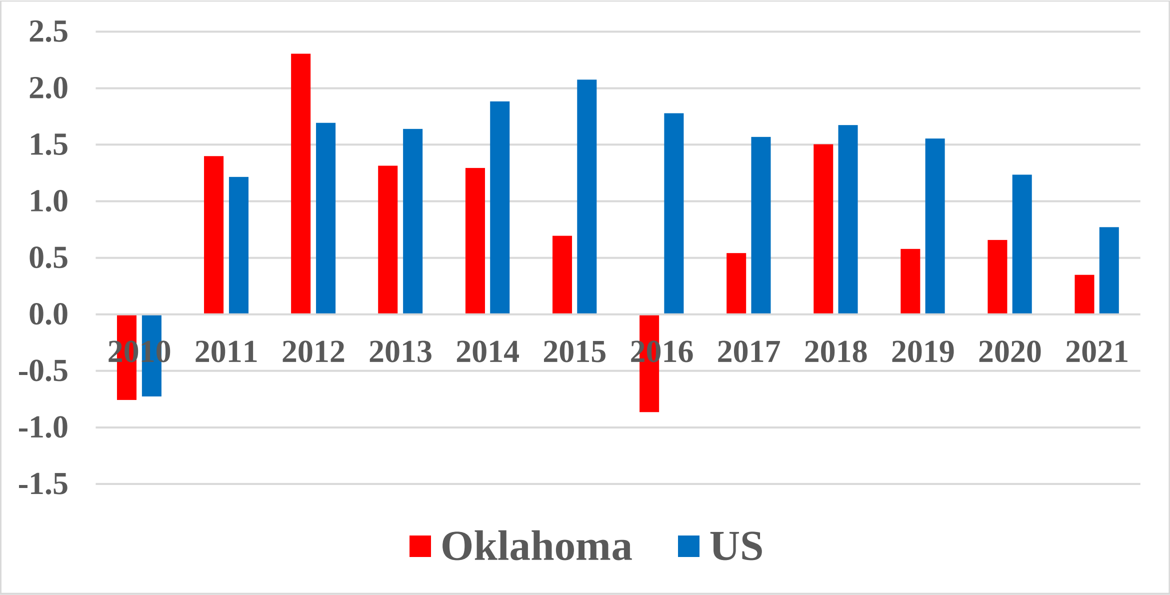

Figure 2: Annual Nonfarm Wage and Salary Employment Growth Rates (%) (Quarterly-based forecasts begin 2019Q4)

As shown in Figure 3, fastest annual employment growth from 2019 to 2021 is forecast for Heavy and Civil Engineering Construction, followed by Administration, Support, Waste Management and Remediation Services, both exceeding four percent per year. The next fastest forecasted employment growth rates, all exceeding one percent per year, are for Transportation and Warehousing Services, Wholesale Trade, Construction of Buildings, Accommodation and Foods Services, Specialty Trade Contractors Construction, and Professional, Scientific and Technical Services. Employment declines for 2019-2020 of over one-percent per year are forecast for the manufacturing sectors (except Aerospace Manufacturing), Publishing Industries, Telecommunications, Educational Services, Other Information Services, Natural Resources and Mining (the energy sector) and Utilities.

As shown in Table 1 (and Figure 2), the U.S. economy experienced robust employment growth since 2012 that only began to slow recently as the labor market moved towards full employment. Oklahoma's employment growth in contrast only exceeded or neared the nation's during expansions of the energy sector. For the nation, the slowing of employment growth reflects a combination of the economy reaching full employment, aging of the labor force and the waning of the temporary boost provided by the federal tax cuts. Oklahoma's employment growth is forecast to slow yet further because of the lower energy prices that will continue to manifest themselves in the economy through 2021 and because of slower national growth. The slowing of Oklahoma's employment growth will cause Oklahoma's unemployment rate to rise to approximately 3.8 percent in 2021. Oklahoma's personal income growth exceeded U.S. personal income growth in 2018. Personal income growth in the state has fallen below national growth in 2019 and is forecast to falter further over the next two years.

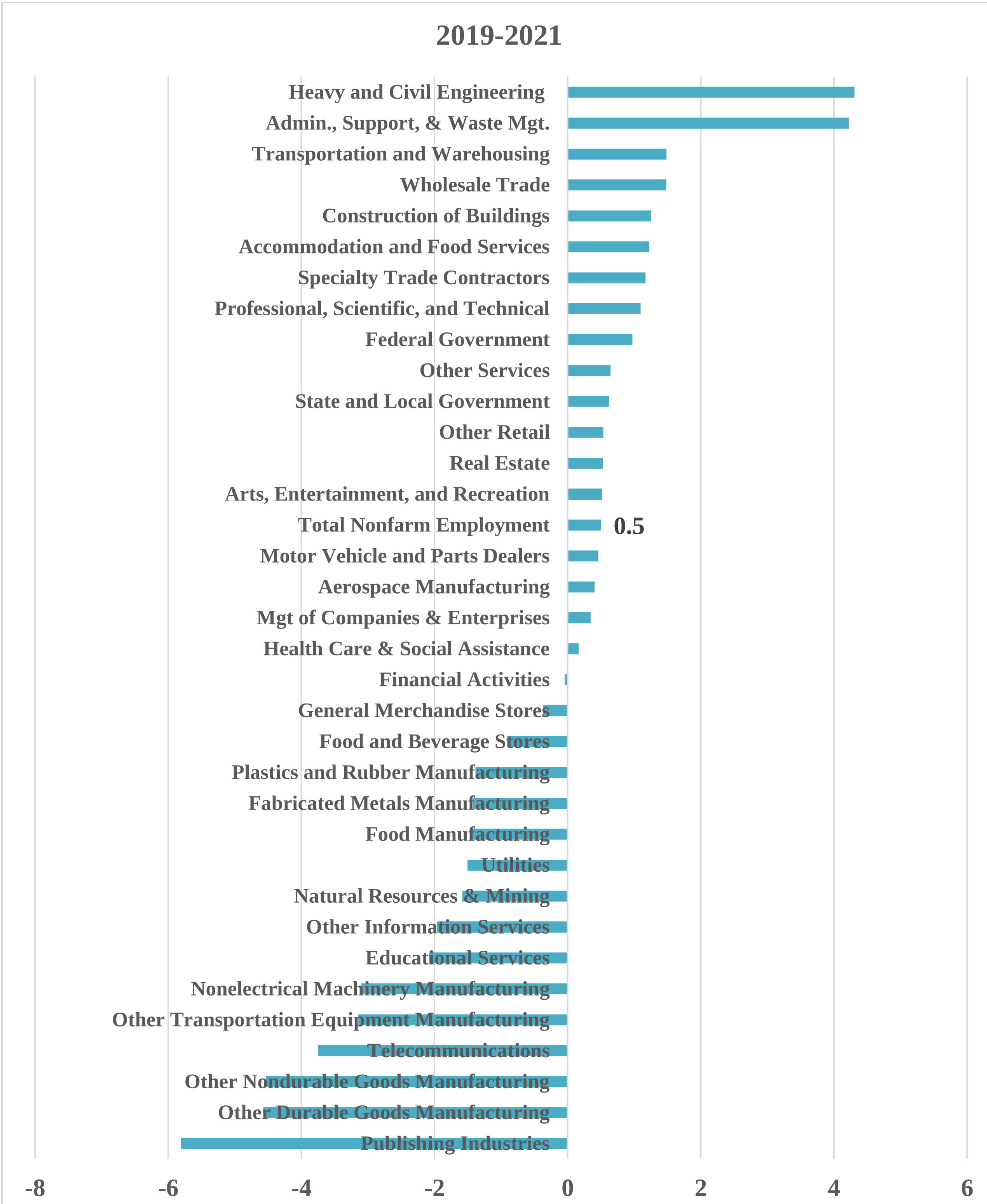

Figure 3: 2019-2021 Oklahoma Employment Growth (Annualized %)

Table 1. Oklahoma and U.S. Economic Indicators (%)

	2017	2018	2019	2020	2021
Oklahoma Nonfarm Emp. Growth	0.54	1.50	0.58	0.66	0.35
U.S. Nonfarm Emp. Growth	1.57	1.67	1.56	1.23	0.77
Oklahoma Unemployment Rate	4.24	3.39	3.38	3.70	3.79
U.S. Unemployment Rate	4.35	3.89	3.67	3.43	3.52
Oklahoma Personal Income Growth	4.37	6.24	4.48	1.93	2.30
U.S. Personal Income Growth	4.70	5.57	4.77	3.86	4.11
U.S. Inflation Rate (CPI)	2.14	2.44	1.81	1.94	1.78

Consistent with the modest steeping of the yield curve, IHS Global Insight, Inc. (IHS) notes recent diminishment of several risk factors for the national economy. Risks to continued growth though remain. Trade tensions between the U.S. and China could escalate. Chances remain for a no-deal Brexit. These along with other possible developments have the potential to damage consumer and business confidence in the economy.

In its pessimistic scenario, to which IHS assigns a 35 percent probability, real GDP grows at 0.3 percent in 2020 and 0.1 percent in 2021, with a recession spanning the fourth quarter of 2020 to the second quarter of 2021. Consumption growth dramatically slows while business investment declines in both 2020 and 2021. The average West Texas Intermediate oil price declines from approximately 55 dollars a barrel during the fourth quarter of 2019 to 39 dollars a barrel the second quarter of 2021. The FED funds rate is reduced to the zero bound by the first quarter of 2021 in the scenario, while no change in the current path of fiscal policy is assumed.

The pessimistic scenario for the U.S. economy produces a much more pessimistic forecast for the Oklahoma economy because of both lower national growth and larger declines in oil and natural gas prices. Forecasts for total nonfarm employment growth in the state would be 0.35 and -1.45 percent in 2020 and 2021 under the pessimistic scenario for the U.S. economy. Corresponding annual personal income growth forecasts for Oklahoma likewise would be reduced to 1.14 and -1.54 percent. The unemployment rate would rise to 4.77 percent by 2021. Although IHS sees this scenario as less likely, should a recession occur there would be fewer policy tools to counteract it given the current low interest rates and high federal debt level.