



# OKLAHOMA'S COMEBACK

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## **MARK C. SNEAD, PH.D.**

Economist and President  
RegionTrack



## **RUSSELL R. EVANS, PH.D.**

Executive Director  
Steven C. Agee Economic  
Research and Policy Institute at  
Oklahoma City University



## **MARK C. SNEAD, PH.D.**

Economist and President



**REGIONTRACK**  
Regional Economic Forecasting and Analysis

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## **Russell R. Evans, Ph.D.**

Executive Director, Steven C. Agee Economic Research and Policy Institute

**Meinders School of Business**



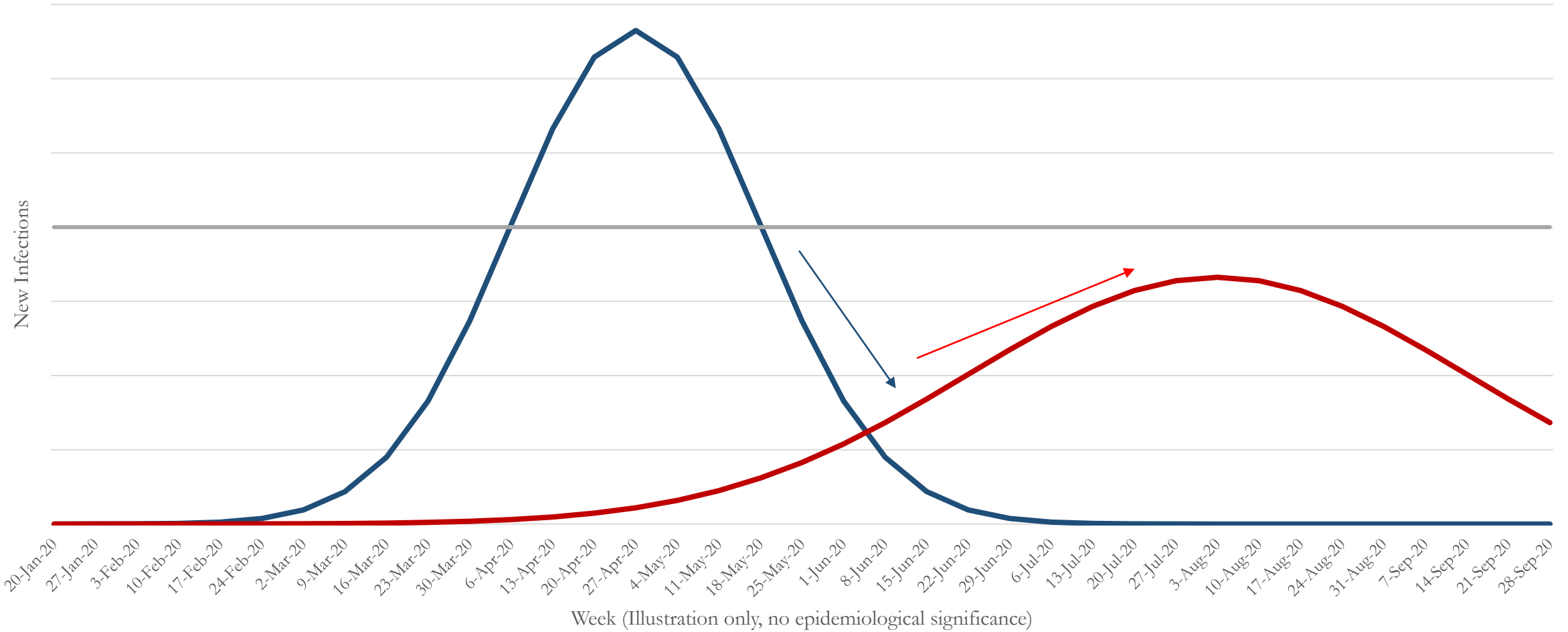
**Meinders School of Business ranks in the top 4.5% of Business Schools in the World.**

# Economic Perspective on Current Health Policy

- Interpreting health policy in the context of an economic forecast
- Developing your own outlook in uncertain times
- How bad will it get in Oklahoma?
- Challenges and strategies for a successful return to economic activity

# The Strategy of Health Policy

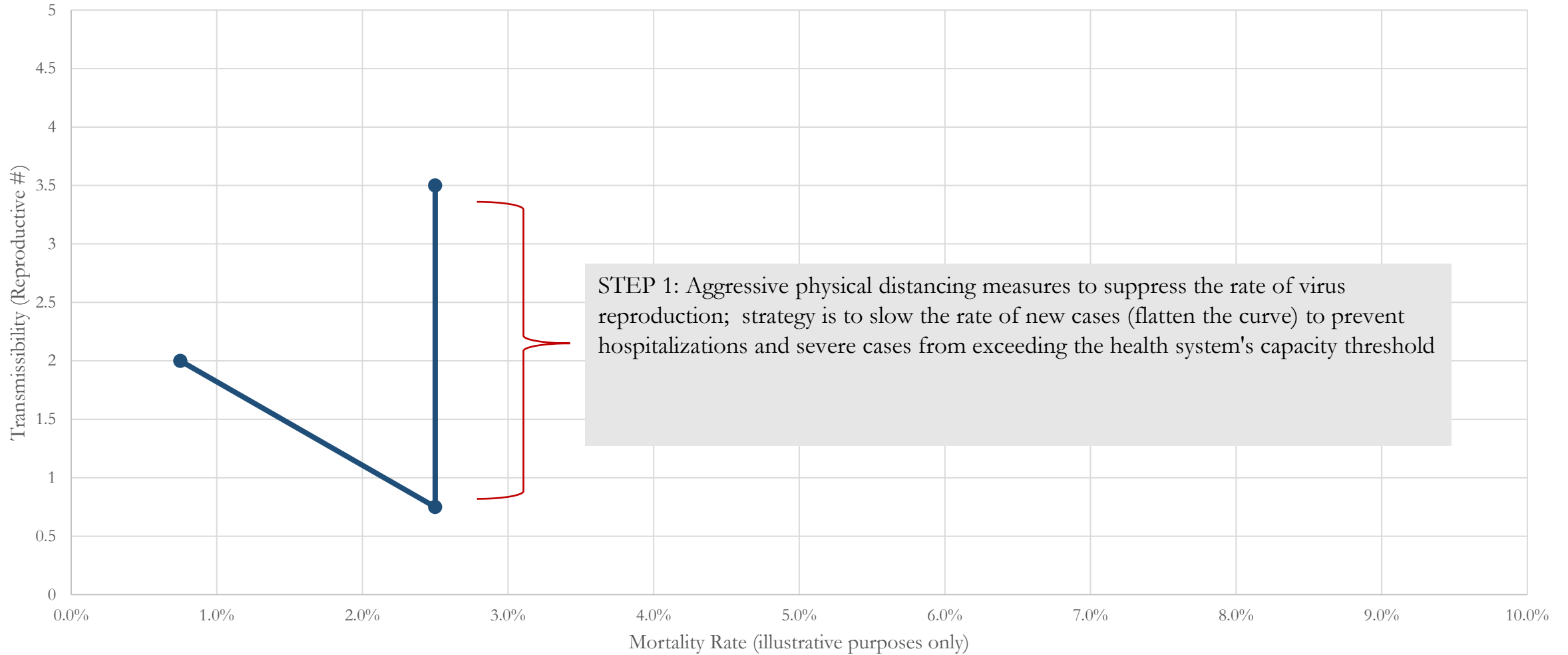
— Suppression — Containment — Threshold



Flattening the curve is a stage 1 strategy designed to stall the spread of the virus while developing the resources necessary to contain the eventual spread through the community.

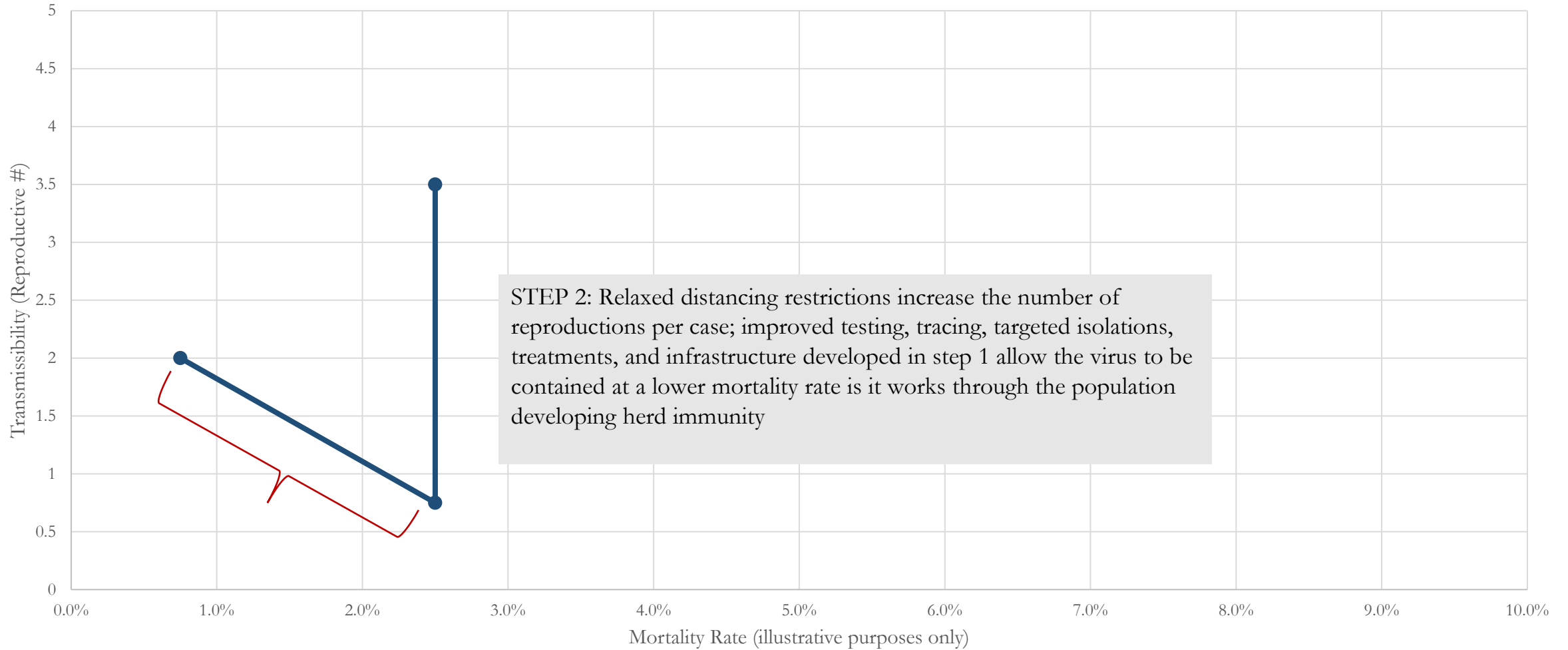


## The Steps of Policy Tactics



The key to step 1 is to reduce the reproductive number below 1 so that every positive case infects, on average, less than 1 additional person. A reproductive number below 1 will manifest as a downward trajectory in the number of new cases and (with a lag) the number of hospitalizations.

## The Steps of Policy Tactics



The key to step 2 is a health policy that allows the reproductive number to rise above 1 while lowering the mortality rate of the virus.

## Not all Step 2 Policies are Economically Equal

- From least to greatest economic cost
  - Immediate and widespread vaccination
  - Effective treatment strategy
  - Extensive testing, contact tracing, and targeted isolation
- Notice that this list is very probably ordered by most the least time necessary to implement

## Quick Commentary

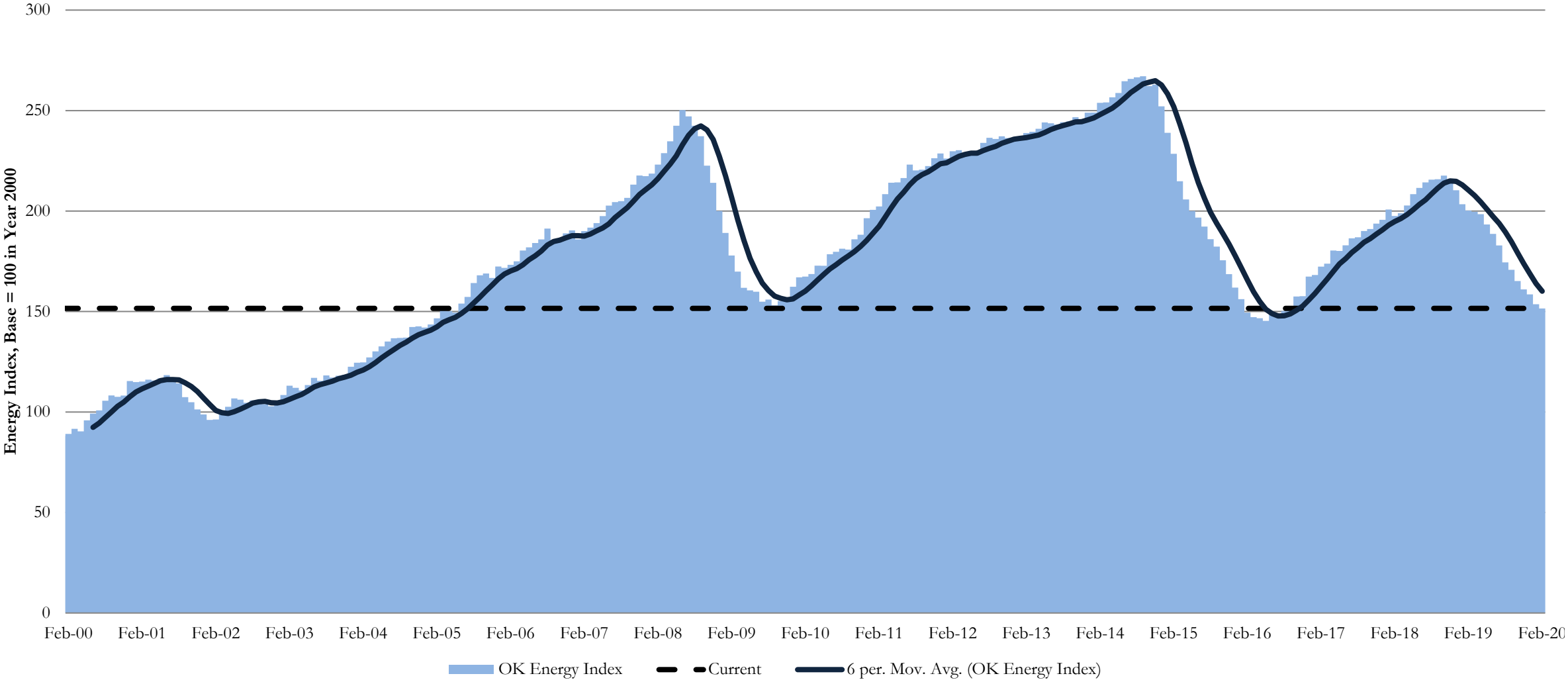
- It is a fallacy to think the tradeoff is between social costs (morbidity and mortality) and economic costs (unemployment, bankruptcies, etc.)
- Both will be present during a pandemic; the tradeoff is in the timing
- An aggressive early suppression strategy will frontload the economic costs and defer/minimize the social costs
- An aggressive early containment (herd immunity strategy) will frontload the social costs and defer/minimize the economic costs
- It is easier to frontload economic costs as long as the economic costs are unknown

## Developing Your Economic Outlook

- Establish your baseline expectation for health policy which implicitly sets your expectations for the timeline of economic costs
- My baseline expectations (the change daily!):
  - Gradual relaxing of the most severe restrictions through early summer; July and August are transition months to a new normal
  - Second quarter U.S. economic data will break all sorts of records previously believed to be unbreakable
  - Will not emerge in late summer to a fully vaccinated, restriction free economic reality; rather, we will emerge into an economic reality that, relative to 2019, looks like an ordinary recession



# Oklahoma Energy Index



Energy industry was already in contraction before the worst of the COVID restrictions collapsed energy demand.

# How Bad Will It Get in Oklahoma

Oil Price, Production and Oklahoma GDP					
Time Period	% Change in Price	% Change in Production	Share of GDP	Predicted GDP Change	Actual GDP Change
2008 Q3 to 2009 Q4	-44.2%	-6.1%	19.9%	-10.0%	-11.0%
	% Change in Price	% Change in Production	Share of GDP	Predicted GDP Change	Actual GDP Change
2014 Q3 to 2016 Q1	-63.8%	0.5%	18.0%	-11.4%	-11.1%

State GDP reflects the value of statewide production – it reflects both production and market prices. A simple estimate of the changing oil market on Oklahoma GDP can be expressed as:  $(\% \text{Change in Price} + \% \text{Change in Production}) * \text{Mining's share GDP}$

Before restrictions, Oklahoma was likely to experience a mild GDP contraction through 2019 and into 2020. Given current information, the energy industry alone will likely account for 8% to 11% reduction in Oklahoma GDP. Combined with other economic impacts, Oklahoma will also break its record for worst year-over-year performance in GDP (previously down -12.0% from 2008Q2 to 2009Q2).

## How Long Will Ordinary Recession Last?

- Again, tied to your longer-term expectations for health policy
  - My current baseline – by winter 2021 either effective treatment or vaccination is widely available, but cases, concerns, and social practices linger
- An economy is a system of flows
  - Purchases from businesses are a direct flow and income/tax payments are a return flow
  - Cannot disrupt direct flows without an almost mirrored impact on return flows
  - Lifting restrictions will gradually remove obstructions from direct economic flows which will allow return flows to stabilize fairly quickly
  - But it will likely take years (well into 2021 or 2022) for the level of flows to return to pre-pandemic levels

# What Will the New Normal Look Like?

- Newly developed social norms and behaviors will linger
  - Staggered work shifts, use of technology for in-house meetings, adjusted max occupancy
  - Closure of common work areas like conference rooms and break rooms
  - Shift to distancing-friendly recreation
  - Shift to more home production and other non-market transactions
  - Lower cost of using technology displaces some business air travel

# Developing Your Own Outlook

- Interpret health policy through the filter of its impact on the flows of economic activity across time
- Establish your baseline expectation for when policy shifts from stage 1 to stage 2
- Establish your baseline expectations for the economic flows under stage 2 alternatives (vaccinations vs. treatment vs. testing/tracing/isolation)
- Establish your baseline expectations for more permanent changes in behavior and their associated impacts on the flow of economic activity
- Adjust your expectations for industry-specific impacts
  - Without a robust return to air travel (both passenger and cargo) it will be difficult to support ongoing oil demand growth
  - Reduced occupancy allowances could allow restaurant sales to stabilize quickly, but at levels below the pre-restriction period
  - Hospitality commitments are often made well in advance of the date of consumption and could face a much longer road to recovery

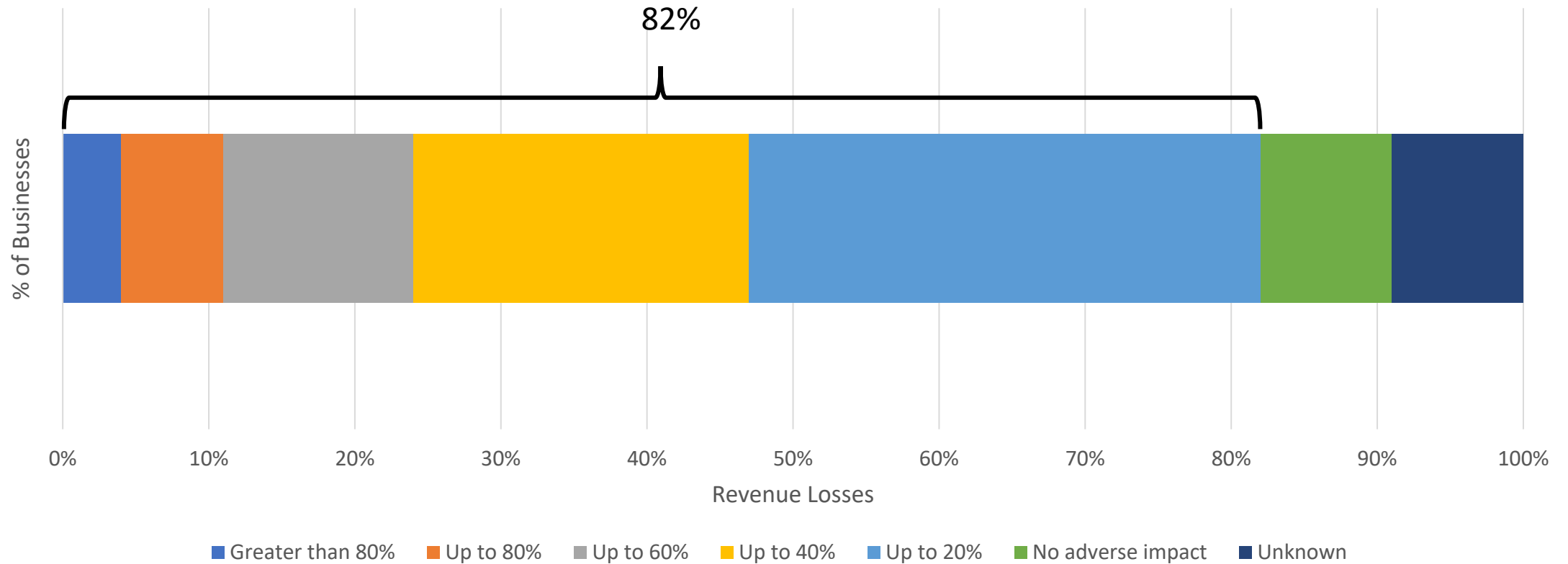


## Final Thoughts on Returning Economic Activity

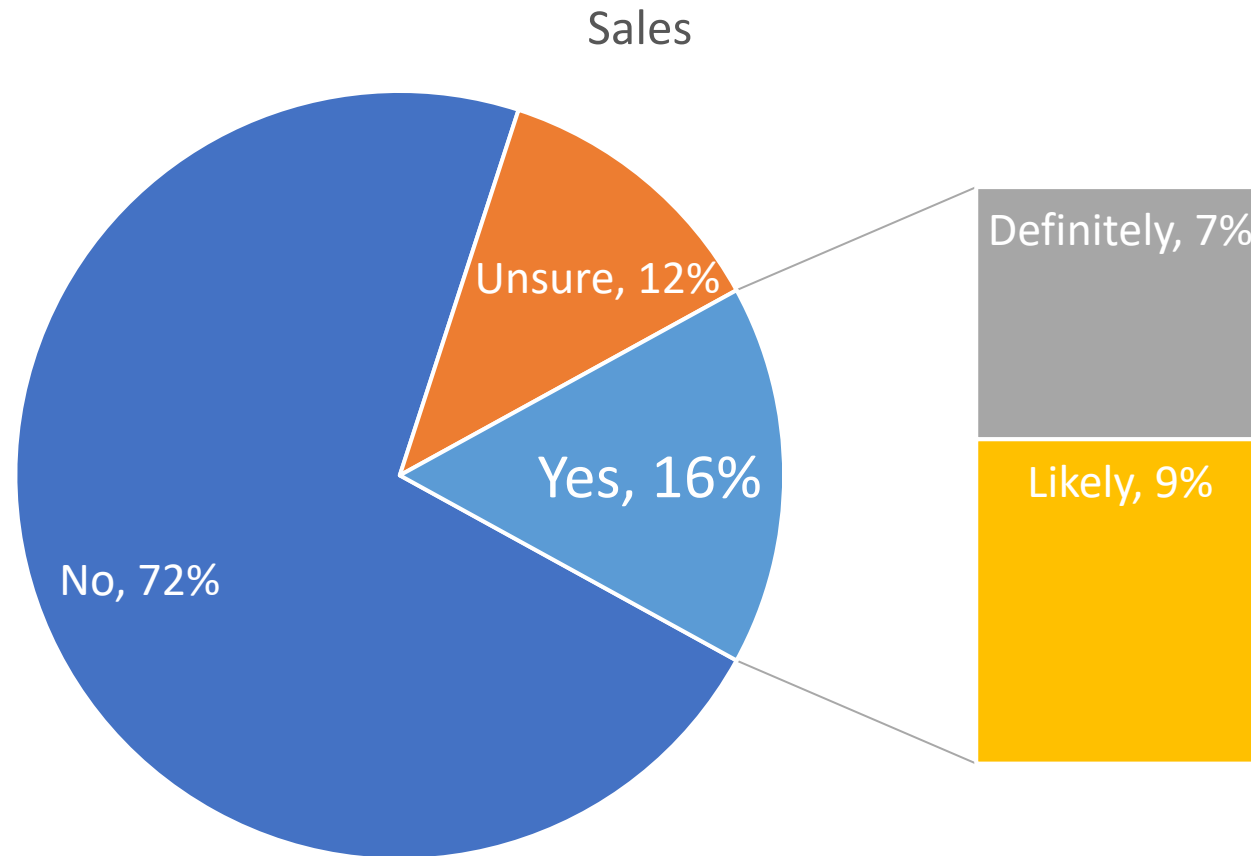
- Much of the policy to date is focused on restoring those lost return flows but with limited outlet for those dollars; if restrictions are gradually eased through the summer, policy probably sufficient only to allow conditions to quickly stabilize but far from sufficient to return full economic activity
- State and local governments will need federal support to replace their own lost return flows
- If policy is successful, it will hold more people attached to jobs than jobs needed when we stabilize; it will take significantly longer for the labor market to absorb all of the workers displaced from jobs by the restrictions
- State strategy and policies should focus on limiting the disruptions in time and quickly resolving disruptions that can't be contained
- Will be more successful to help businesses succeed in the new economic paradigm than to try to force economic conditions to conform with the old business paradigm

# 82% reported revenue decreases

What impact do you expect COVID-19 will have on your business' revenues?

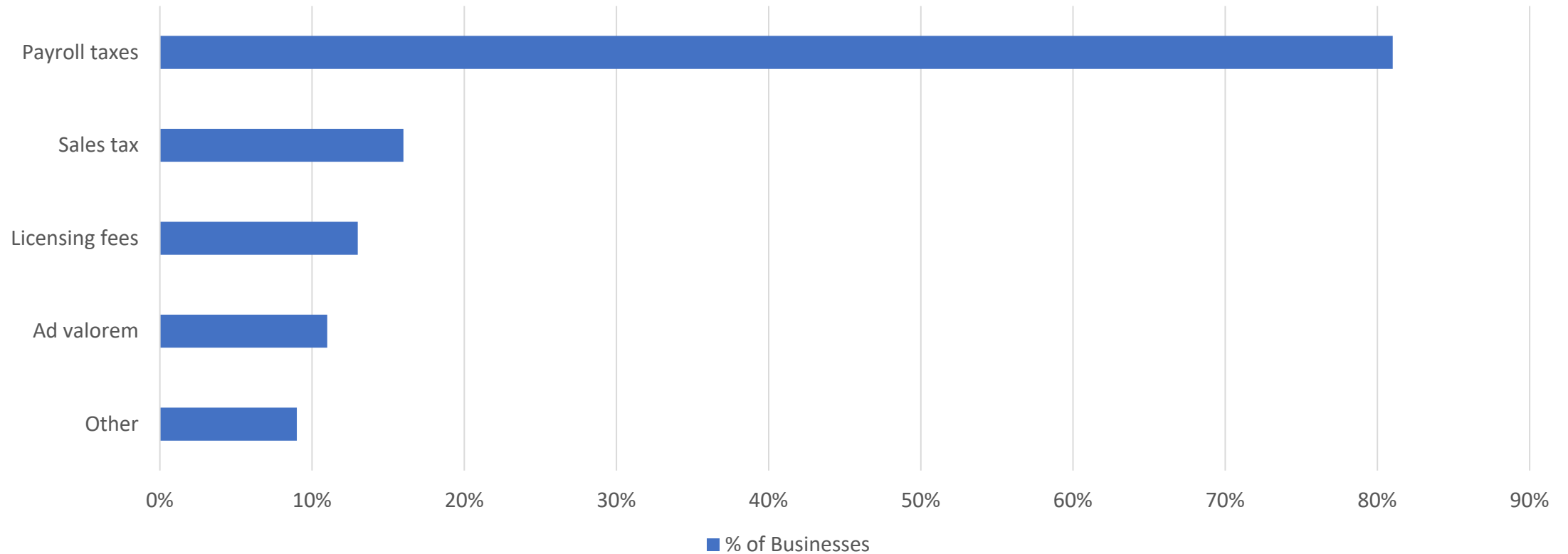


# Nearly 1 of 5 will have trouble paying taxes & fees

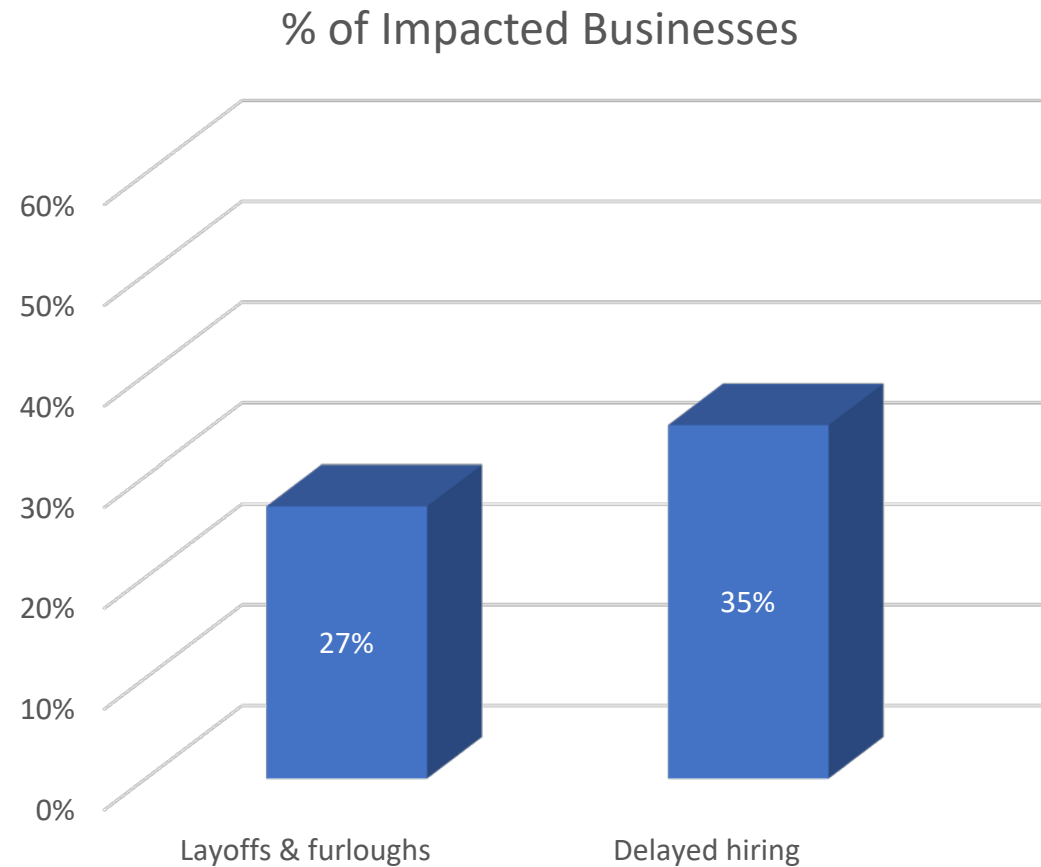


# Payroll tax deferral would help the most businesses

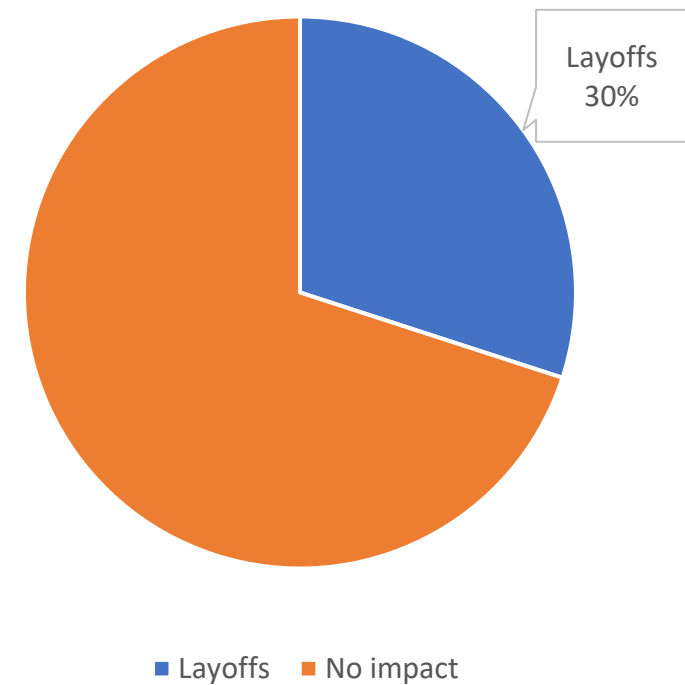
Which taxes or fees would be most helpful to defer?



# Nearly 1 in 3 businesses have had to layoff/furlough employees

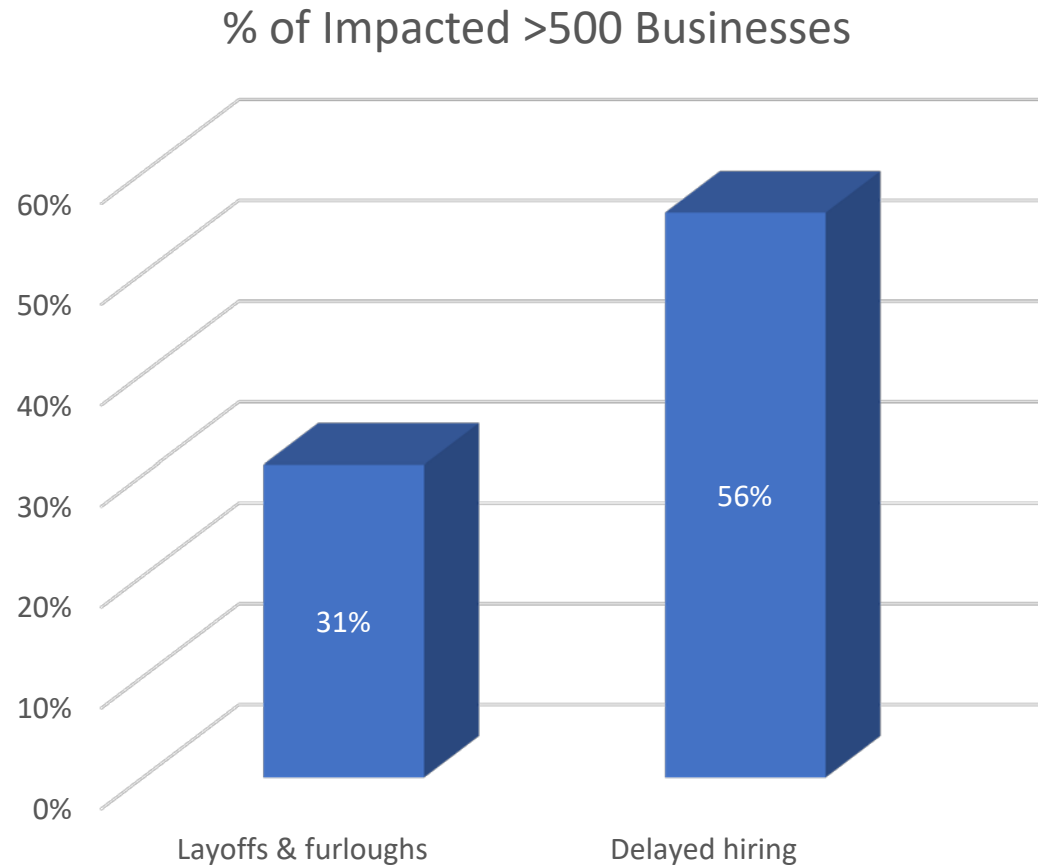


% of Workforce Impacted in Businesses with Layoffs

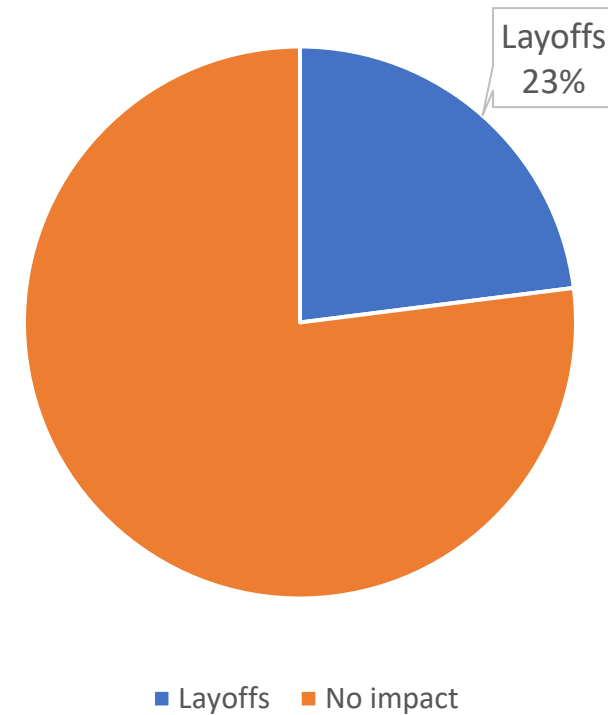




# Very large businesses were particularly impacted

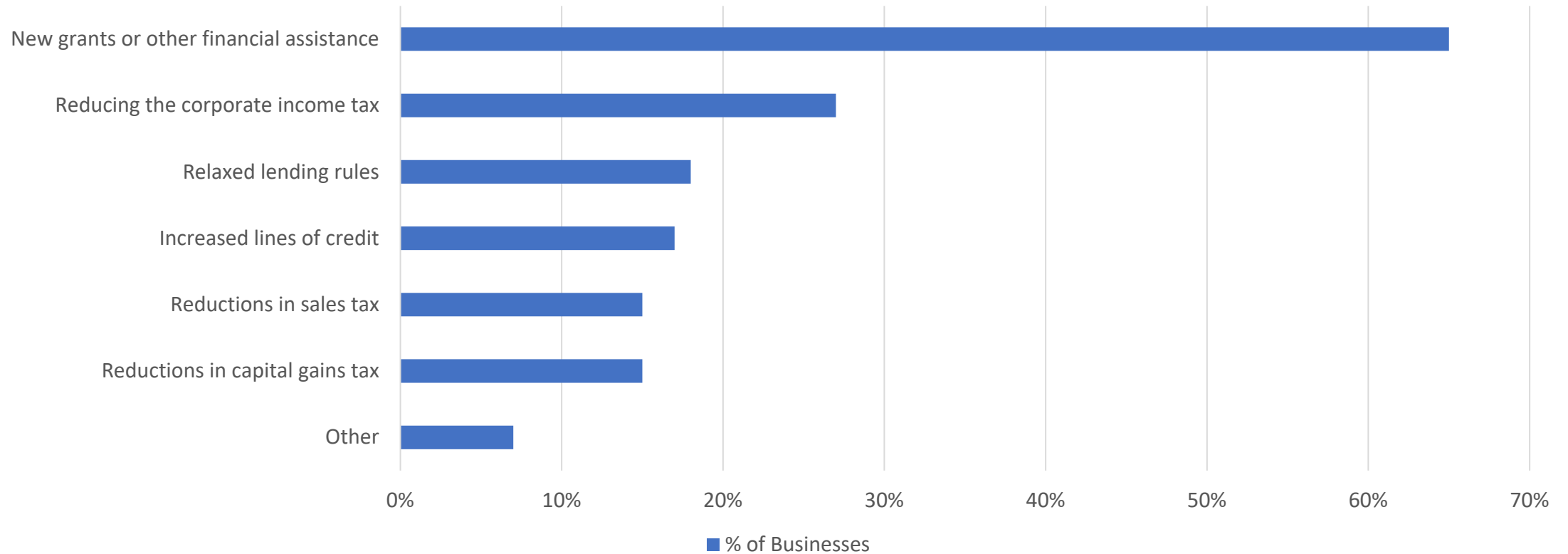


% of Workforce Impacted in >500 Businesses with Layoffs



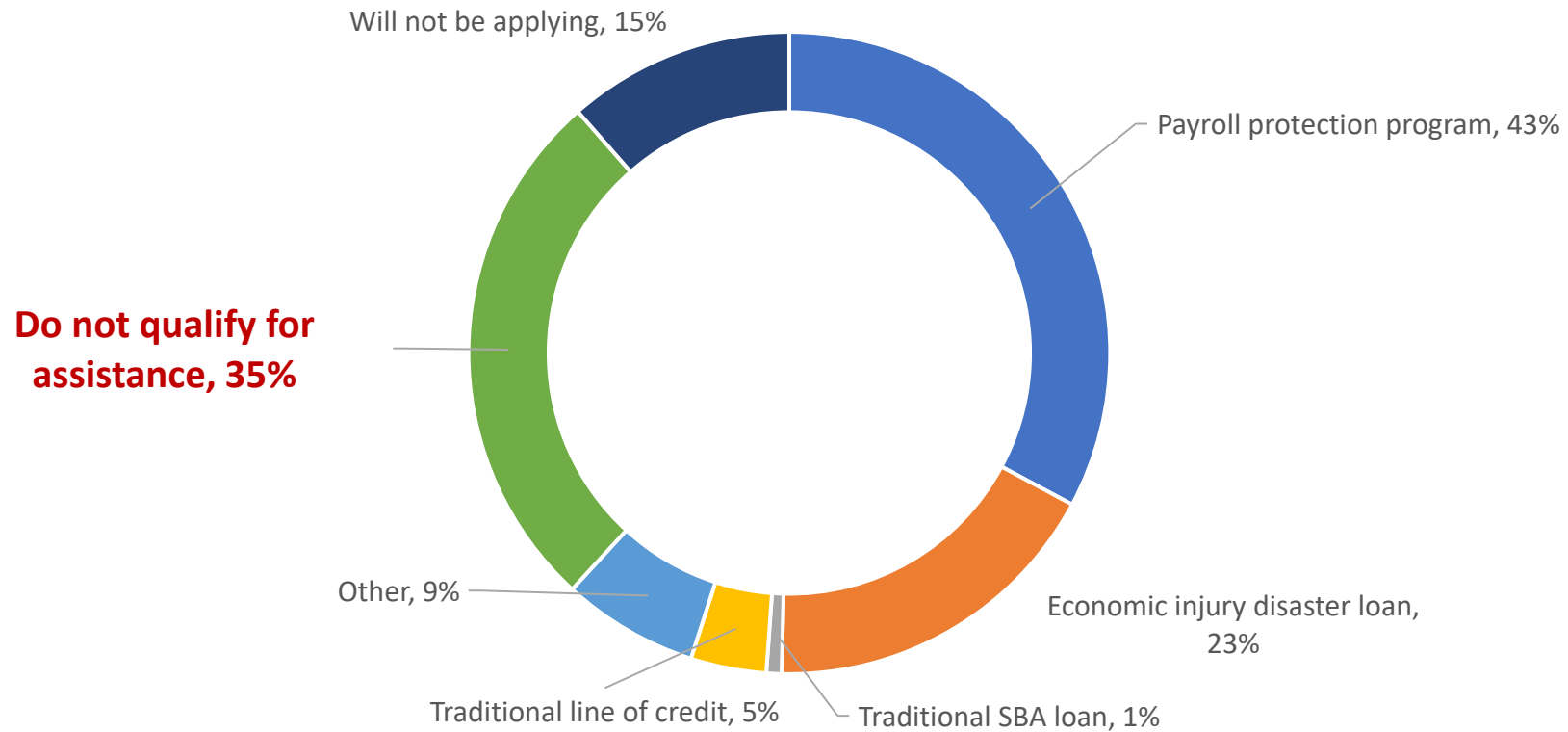
# Businesses say they need more financial assistance

What tools would give your business greater access to capital?



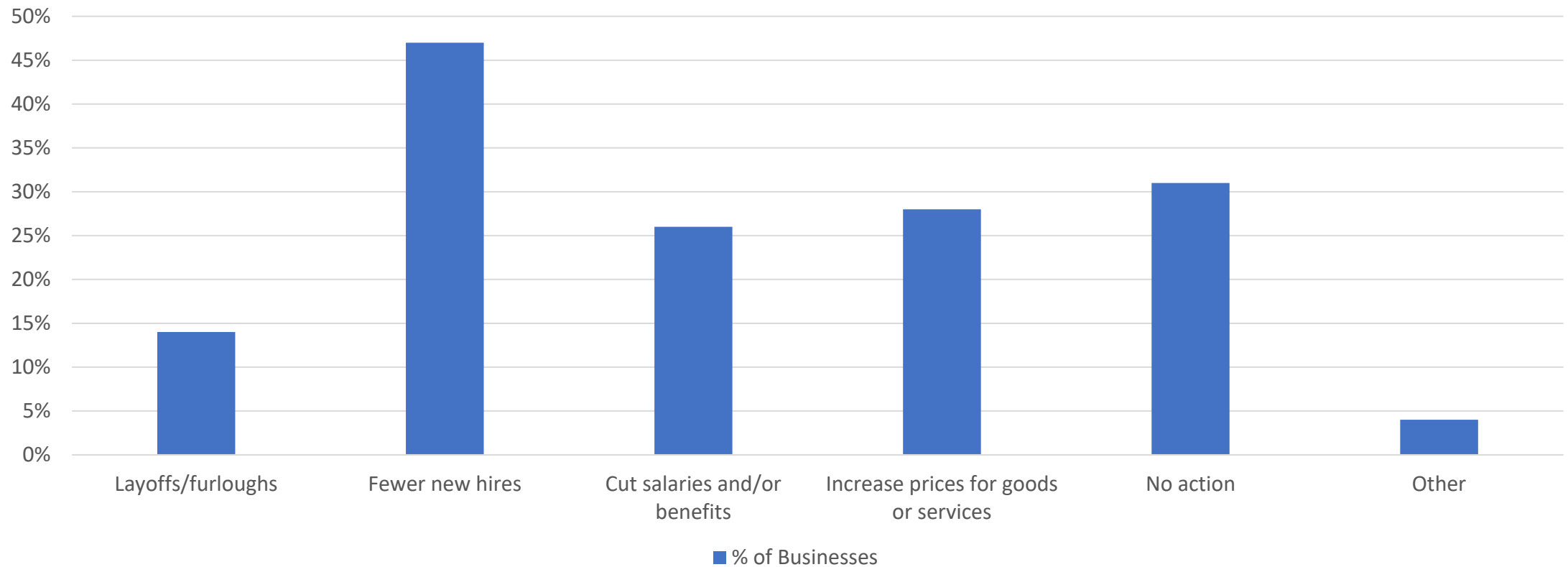
...but 35% said they did not qualify for assistance

Will your business apply for assistance?



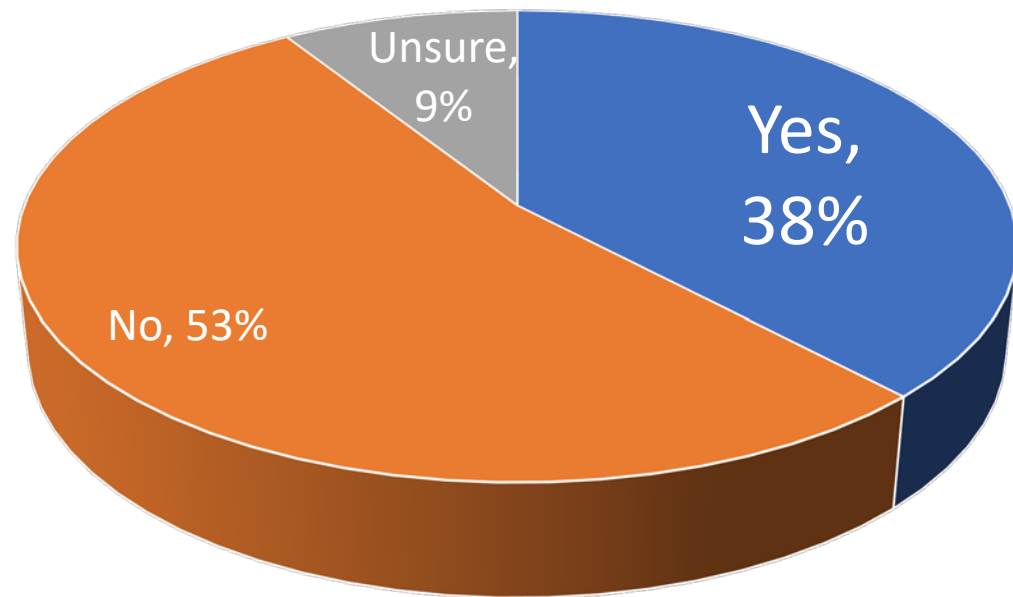
# 69% of businesses would have to take action if unemployment costs increased

If unemployment insurance rates increased, what actions would your business take?

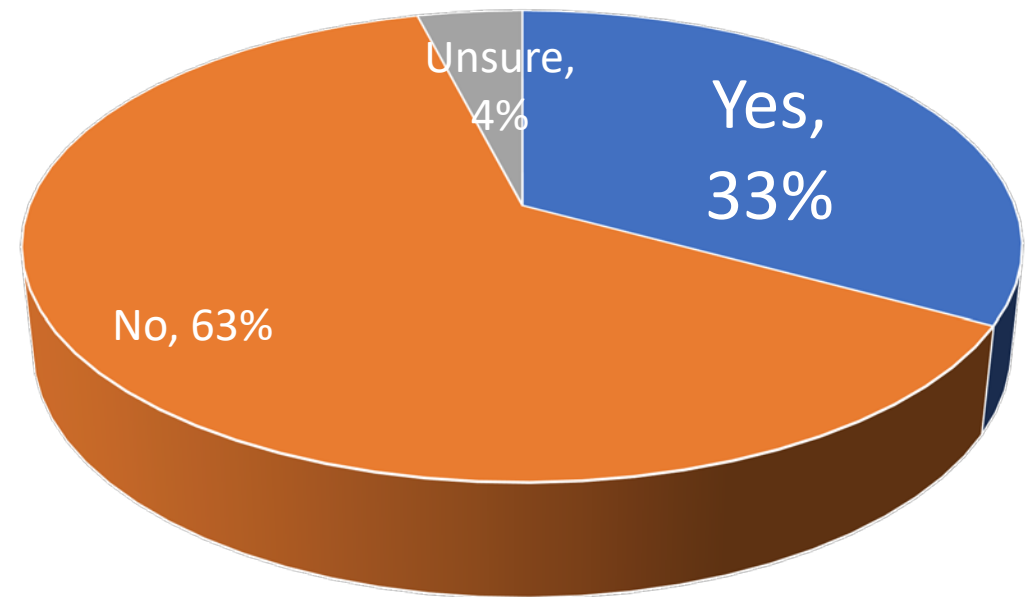


# Over 1/3 of businesses are concerned about workers comp claims and lawsuits

Is your business concerned about potential COVID-19 workers' compensation claims?



Is your business concerned about potential COVID-19 lawsuits?



# QUESTIONS?

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