

Fed Making Progress on Inflation, Economy Resilient

Owasso has posted three consecutive years of expansion and continues to outperform both the state and Tulsa region in the post-pandemic period. The city faces considerable headwinds at the national level as Fed policy tightens further. The local economy has momentum in hiring, retail, and housing activity and is well positioned for slowing. The greatest downside risks are expected in 2024.



Outlook Summary:

- The U.S. economic expansion is slowing but continues at an accelerated pace despite Federal Reserve efforts to slow it.
- Oklahoma job growth now matches the U.S. after trailing during much of the recovery.
- Owasso has fully rebounded from the pandemic and is now adding jobs at a rapid pace.
- Owasso multifamily housing activity surged in 2022, retail growth remains elevated, and recent population estimates surprised to the upside.
- Federal Reserve interest rate increases will weigh on state and local economic activity, but a recession is not expected in 2023.
- Our expectation is for continued outperformance by Owasso relative to Tulsa and the state in 2023.

The Federal Reserve remains focused on inflation – possibly too focused – and is locked in a battle against a persistently strong U.S. labor market. The growing concern is that the Fed remains reluctant to embrace the progress made to date in reducing price pressures. Inflation measured by overall CPI eased considerably in the second half of 2022 and the first quarter of 2023 (Figure 1). CPI inflation averaged only 3.2% at an annual rate the last nine months (ended March 2023) after averaging 9.8% in the prior nine months.

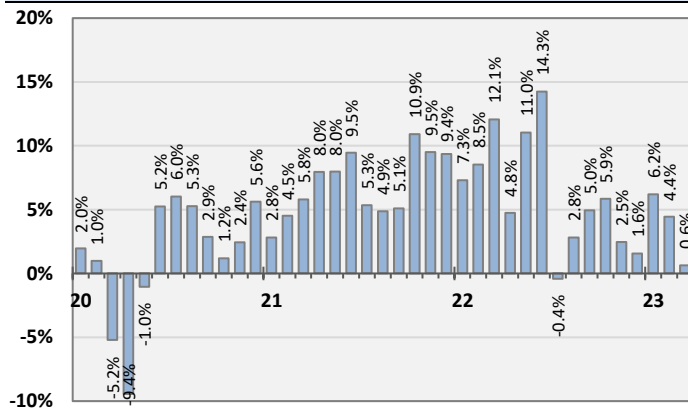
Most importantly, inflation is coming down much faster than overall economic activity is slowing. This greatly increases the Fed’s odds of engineering a soft landing in 2023. Inflation in the service-providing sectors is the last remaining concern and it appears to have peaked in the first quarter of 2023.

The Fed’s continued insistence that a prolonged fight is necessary to contain inflation remains the primary risk to growth going forward. The Fed and the data are seemingly at odds. The balance of the evidence to date suggests that inflation is responding to tighter interest rate policy and that much of the inflation surge in 2021 and 2022 appears mostly transitory after all. In our

view, the Fed is now over occupied with avoiding the potential mistake of a premature loosening in policy.

Figure 1: Consumer Price Index Inflation

All items, U.S. city average, all urban consumers
annualized monthly percent change



Source: Bureau of Labor Statistics and RegionTrack calculations

The U.S. job market is proving more resilient than expected. The Federal Reserve continues to place its policy focus almost solely on slowing the overheated job market but is making little progress. The economy continues to add jobs at an accelerated pace, posting a 2.7% gain in the most recent 12 months.

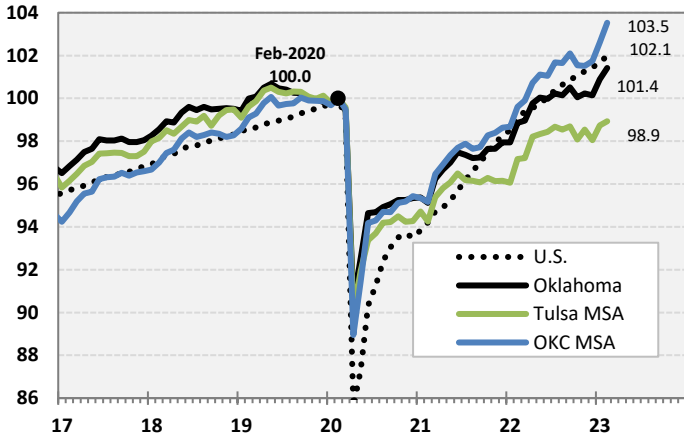
Our base case U.S. job outlook is for 1.3% growth in 2023 before slowing considerably in 2024 to only a 0.1% gain. Continued strength in hiring through 2023 is expected to encourage the Fed to extend tight monetary policy deeper into 2023 or 2024.

Some pullback is finally visible in consumer spending. The pace of growth in U.S. retail sales slowed the past few quarters along with inflation but remains well above historical growth rates. The large increase in cash balances among households during the pandemic continues to prop up spending, but the effects are steadily waning.

The level of retail activity remains about 15-17% above the long-run trend in place prior to the pandemic. This upward shift is roughly equal to the total increase in consumer prices in the period and is unlikely to return to the prior trend, even after inflation retreats.

Figure 2: Index of Non-Farm Wage & Salary Employment

Feb. 2020 = 100.0, data through Feb./Mar. 2023

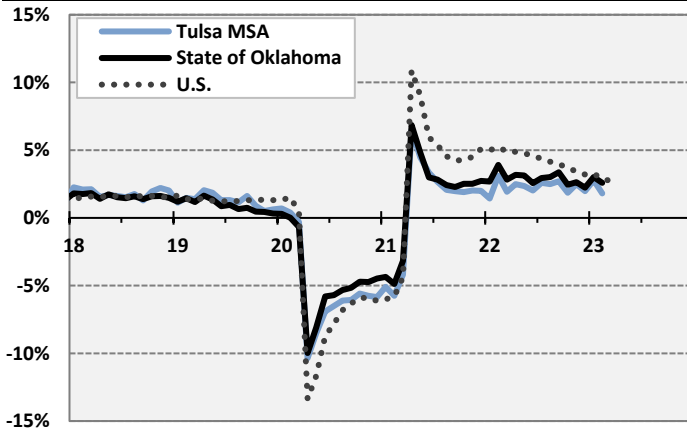


Source: Bureau of Labor Statistics and RegionTrack calculations

After trailing the U.S. throughout much of the pandemic, the Oklahoma economy has closed the persistent job growth gap relative to the nation. The 2.7% job gain in the state equals the national pace in the past 12 months through February (Figure 2). Both the state and the nation have reached full job recovery and pushed above the pre-pandemic level of hiring. The state and the nation have also returned to the long-run trend in place prior to the pandemic and appear on pace to push above the prior trend.

Figure 3: Growth in Nonfarm Wage & Salary Employment

12-month percent change



Source: Bureau of Labor Statistics and RegionTrack calculations

The Tulsa metro area economy is in full expansion mode but continues to trail the pace of job gains at the state and national levels. The Tulsa region posted a 1.8% job gain in the most recent 12 months, nearly a full percentage point below the state and nation (Figure 3).

Total hiring in the Tulsa metro area remains about 1% below the pre-pandemic level in the latest job data through February. Full job recovery in Tulsa is expected in mid- to late-2023.

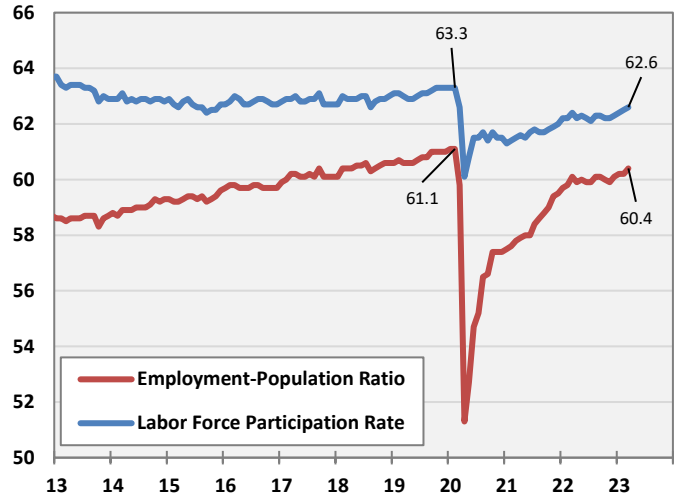
The OKC metro area remains relatively stronger and has already recovered all the jobs lost during the pandemic. The

OKC area is also pushing above its pre-pandemic growth trendline. The region posted a surprisingly strong 3.9% job gain in the most recent 12 months through February.

The U.S. labor force went through significant gyrations during Covid-19. The most noteworthy shift remains a decline in overall labor force attachment rates (Figure 4). Nationally, both the labor force participation rate and the employment share of population remain lower by 0.7% relative to pre-pandemic levels. Recovery remains steady but is now progressing slowly.

Figure 4: U.S. Labor Force Attachment Rates

percent



Source: Bureau of Labor Statistics

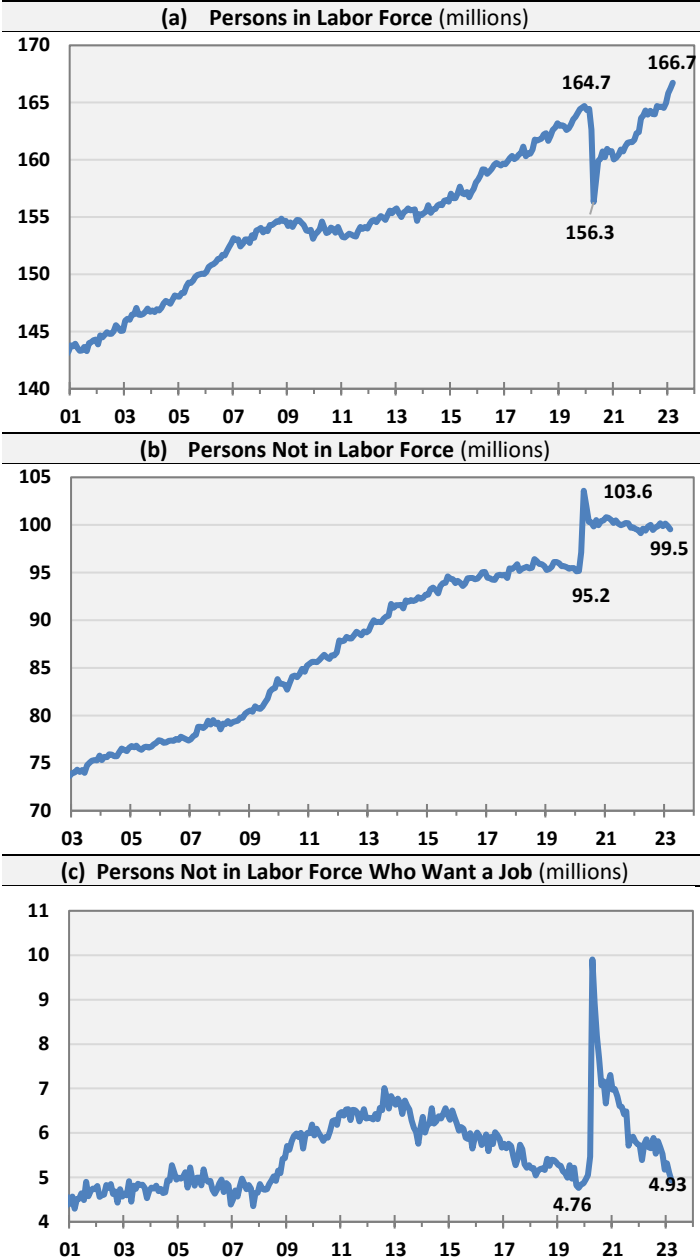
The total labor force collapsed during the pandemic but has returned to pre-pandemic levels and continues to grow at an accelerated pace (Figure 5a). It remains well below the trend that was in place prior to the pandemic.

The key underlying component of the decline in labor force attachment is existing workers dropping out of the labor force during the pandemic and staying out. Figure 5b illustrates the upward shift during the pandemic in the number of persons of working age who are not in the labor force. Less than half of the 8.5 million workers who left during the pandemic have returned. This leaves a current net gap of about 4.3 million workers who dropped out of the labor force. The persistence in the trend suggests that the exit may be permanent for many.

Further evidence that these workers will stay out of the labor force is the return to pre-pandemic levels in the number of workers who are not in the labor force but want a job (Figure 5c). The number has dropped back to its pre-pandemic level below 5 million and is providing a reduced source of added workers to the labor force.

Figure 5: U.S. Labor Force Components

seasonally adjusted



Source: Bureau of Labor Statistics

The Owasso labor force is following a pattern similar to the nation, with the total labor force growing rapidly and reaching record highs. The number of unemployed workers is also back to pre-pandemic levels, with no signs of surplus unemployed workers in the region. The jobless rate in Owasso quickly returned to normal levels by late 2021 and has remained near or below 3% since early 2022.

However, much like the nation, the total labor force in Owasso is well below the trend that was in place prior to the pandemic. This indicates that workers left the local labor force and have remained out. It also suggests a reduction in overall local labor force attachment.

Despite Fed tightening, we anticipate continued strong job growth in Oklahoma and the Tulsa area through the end of 2023 and into 2024. Our base case forecast for the state calls for job growth of 1.4% in 2023 and 0.2% in 2024. This slightly exceeds the expected U.S. job gains of 1.3% in 2023 and 0.1% in 2024.

For the Tulsa metro area, our current outlook for 2023 is for a 1.1% year-over-year job gain followed by a 0.6% gain in 2024.

The 2024 job forecasts for the nation, state, and Tulsa carry a higher than usual degree of uncertainty given ongoing policy tightening by the Federal Reserve.

Tax collections have remained elevated in most Oklahoma cities since the onset of the recovery. Overall state tax revenue continues to grow at a more than 10% annual pace, though gains are down from a 15% pace only 12 months ago.

Increases in statewide sales and use tax receipts are slowing sharply as inflation slows and consumers ease back on purchases. Statewide retail sales growth rates have pulled back from about 15% annually nine months ago to only 7% through March. Use tax growth rates have slowed from about 17% annually one year ago to 12% currently.

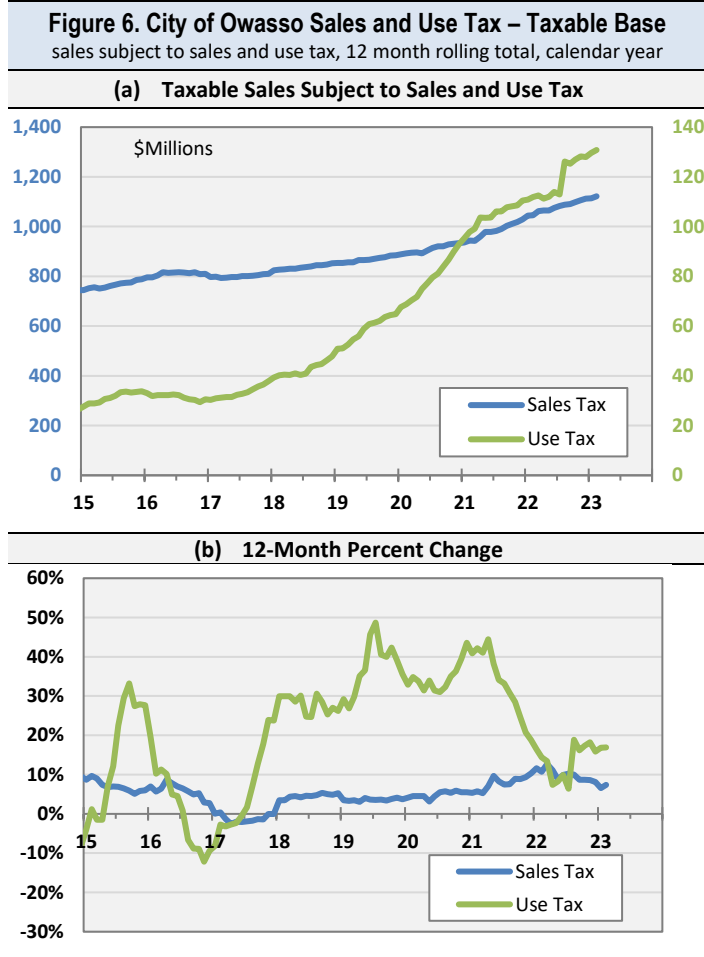
The level of retail activity in Owasso remains elevated relative to the pre-Covid period. (Figure 6). However, growth rates continue to ease along with most cities in the state. Transactions subject to both sales and use tax posted a combined 8.9% gain in calendar year 2022, down from 11.1% in 2021 but above the 8.1% gain in 2020. In the most recent twelve months through February, the sales tax base is up 7.4% and the use tax base is up 16.9%.

The total taxable base for sales and use tax in Owasso reached a record \$1.24 billion in 2022. The Owasso market added \$101 million in total taxable purchases in 2022, slightly less than the \$113 million added in 2021.

Only seven cities – Oklahoma City, Tulsa, Norman, Edmond, Broken Arrow, Lawton, and Moore – reported a larger base of transactions subject to sales and use tax in 2022. Owasso continues to have a far larger sales and use tax base relative to much larger cities including Midwest City (\$1.17 billion), Stillwater (\$1.10 billion), and Enid (\$1.03 billion).

Our Owasso retail outlook is for growth in the combined sales and use tax base to slow further to 5.1% in 2023. This reflects an expected 3.7% gain in the sales tax base and a 12.1% gain in the use tax base. These expected growth rates

are more typical of long-run trend growth in sales tax but well below peak historical growth rates in use tax.



Source: Oklahoma Tax Commission and RegionTrack forecasts for CY2022

Figure 7 compares the performance of Oklahoma’s 30 largest city retail markets in 2022. **Owasso’s 8.9% gain in combined sales and use tax ranked 16th among the state’s 30 largest markets.** This slightly trailed the 10.1% gain for the city of Tulsa and 10.5% gain at the state level in 2022.

Many oil and gas-dependent cities across the state rebounded with strong gains in 2022. Oklahoma City (12.4%), the state’s key oil and gas hub, ranked 7th among the top 30 city retail markets. Other smaller oil and gas hubs with a strong retail performance in 2022 include El Reno (20.1%), Chickasha (13.1%), Mustang (12.6%), and Duncan (11.3%).

Figure 8 provides a comparative view of recent retail performance for the ten reporting cities located within Tulsa County. Five cities posted tax base growth exceeding Tulsa in 2022 – Jenks (17.9%), Bixby (16.2%), Collinsville (16.0%), Sperry (14.0%), and Broken Arrow (11.3%). Owasso (8.9%) roughly matched Glenpool (9.1%) and Skiatook (8.2%) but trailed the city of Tulsa by a little more than one percentage

point. The weakest performing city market in Tulsa County in 2022 was Sand Springs (4.6%).

Figure 7. Sales & Use Tax Base - 30 Largest OK City Retail Markets

Calendar Year Total						
Rank	Region	% Change		Taxable Sales and Use Tax Base		
		2022-21	2021-20	2022	2021	2020
	Statewide	10.5%	14.8%	\$78,453.3	\$70,972.2	\$61,839.9
1	El Reno	20.1%	10.3%	368.0	306.4	277.7
2	Jenks*	17.9%	14.8%	383.6	325.3	283.5
3	Bixby*	16.2%	18.6%	578.0	497.4	419.5
4	Chickasha	13.1%	12.1%	422.1	373.3	333.2
5	Mustang	12.6%	11.6%	424.6	377.0	337.7
6	Yukon	12.6%	10.9%	804.7	714.5	644.1
7	Oklahoma City	12.4%	16.3%	17,301.8	15,386.4	13,234.7
8	McAlester	12.2%	9.3%	541.4	482.7	441.8
9	Duncan	11.3%	12.3%	533.1	479.1	426.8
10	Broken Arrow*	11.3%	13.9%	2,299.5	2,066.9	1,814.8
11	Moore	10.9%	19.2%	1,369.6	1,234.7	1,035.9
12	Edmond	10.1%	10.9%	2,756.6	2,504.0	2,257.3
13	Tulsa*	10.1%	14.0%	11,120.5	10,104.6	8,867.1
14	Muskogee	9.4%	12.1%	881.8	806.2	719.2
15	Sapulpa*	9.2%	13.9%	493.9	452.4	397.3
16	Owasso	8.9%	11.1%	1,240.8	1,139.8	1,026.2
17	Norman	8.1%	21.8%	2,811.3	2,600.6	2,135.0
18	Shawnee	7.3%	14.4%	866.2	807.3	705.8
19	Stillwater	7.1%	17.8%	1,103.3	1,030.2	874.7
20	Ardmore	7.1%	14.6%	887.9	829.1	723.3
21	Midwest City	7.0%	10.0%	1,166.0	1,089.2	990.2
22	Ada	6.6%	11.4%	532.8	500.0	448.8
23	Durant	6.3%	13.0%	569.2	535.3	473.9
24	Claremore*	6.2%	10.7%	568.5	535.3	483.5
25	Lawton	4.6%	13.9%	1,551.6	1,482.9	1,301.7
26	Sand Springs*	4.6%	9.5%	453.9	434.1	396.5
27	Enid	4.3%	0.4%	1,032.3	989.6	985.3
28	Bartlesville	4.1%	13.6%	673.9	647.1	569.7
29	Ponca City	2.9%	9.0%	508.7	494.6	453.8
30	Tahlequah	1.2%	16.5%	428.9	423.7	363.7

Source: Oklahoma Tax Commission and RegionTrack calculations. *Tulsa metro area cities.

Figure 8. Sales & Use Tax Base – City Retail Markets in Tulsa Co.

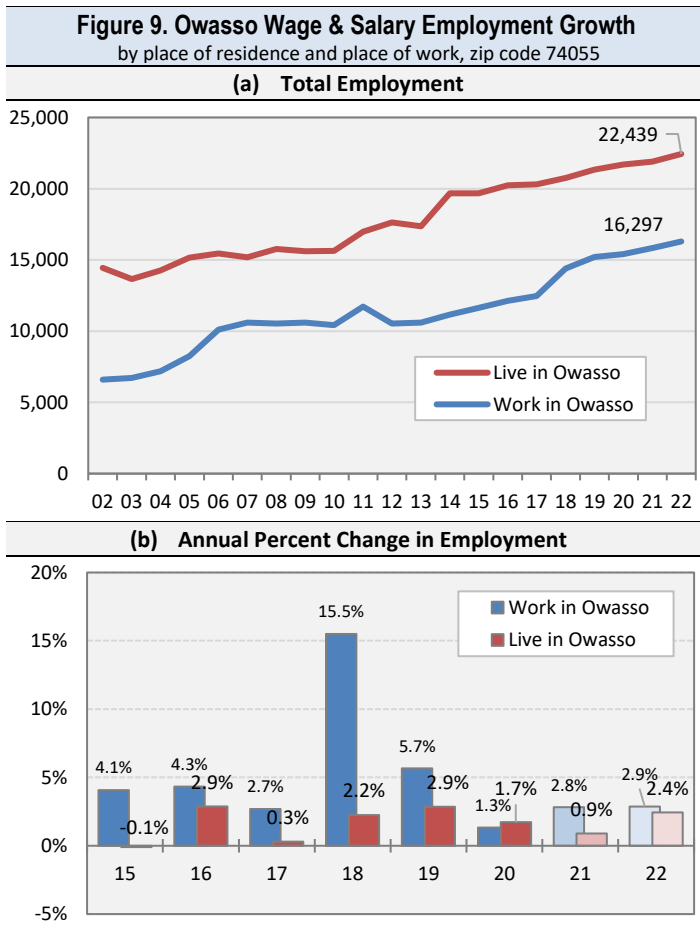
Calendar year total						
Rank	Region	% Change YTD		YTD Taxable Sales (millions)		
		2022	2021	2022	2021	2020
	Statewide	10.5%	14.8%	\$78,453.3	\$70,972.2	\$61,839.9
	Tulsa County	10.3%	13.8%	16,652.4	15,090.9	13,264.0
1	Jenks	17.9%	14.8%	383.6	325.3	283.5
2	Bixby	16.2%	18.6%	578.0	497.4	419.5
3	Collinsville	16.0%	15.6%	108.3	93.4	80.8
4	Sperry	14.0%	11.3%	16.7	14.6	13.1
5	Broken Arrow	11.3%	13.9%	2,299.5	2,066.9	1,814.8
6	Tulsa	10.1%	14.0%	11,120.5	10,104.6	8,867.1
7	Glenpool	9.1%	17.8%	290.8	266.6	226.3
8	Owasso	8.9%	11.1%	1,240.8	1,139.8	1,026.2
9	Skiatook	8.2%	8.7%	160.3	148.1	136.2
10	Sand Springs	4.6%	9.5%	453.9	434.1	396.5

Source: Oklahoma Tax Commission and RegionTrack calculations

The Owasso area economy continues to mature relative to the outsized historical growth rates posted in the region in the 1990s and 2000s. However, the city’s basic economic fundamentals remain strong and should continue to produce job growth exceeding both the state and broader Tulsa region going forward.

Our model-based employment estimates suggest that total employment located in Owasso reached a record level in 2022 at approximately 16,300 jobs (Figure 9a). The city added an estimated 435 new jobs in 2021 and 455 in 2022. Almost 5,800 net new jobs were created in the city in the decade since 2012.

Jobs held by residents of Owasso similarly posted another record high in 2022 at 22,440 jobs. The city added 200 new jobs in 2021 and 535 in 2022. Almost 4,800 additional jobs were held by Owasso residents in the decade since 2012.

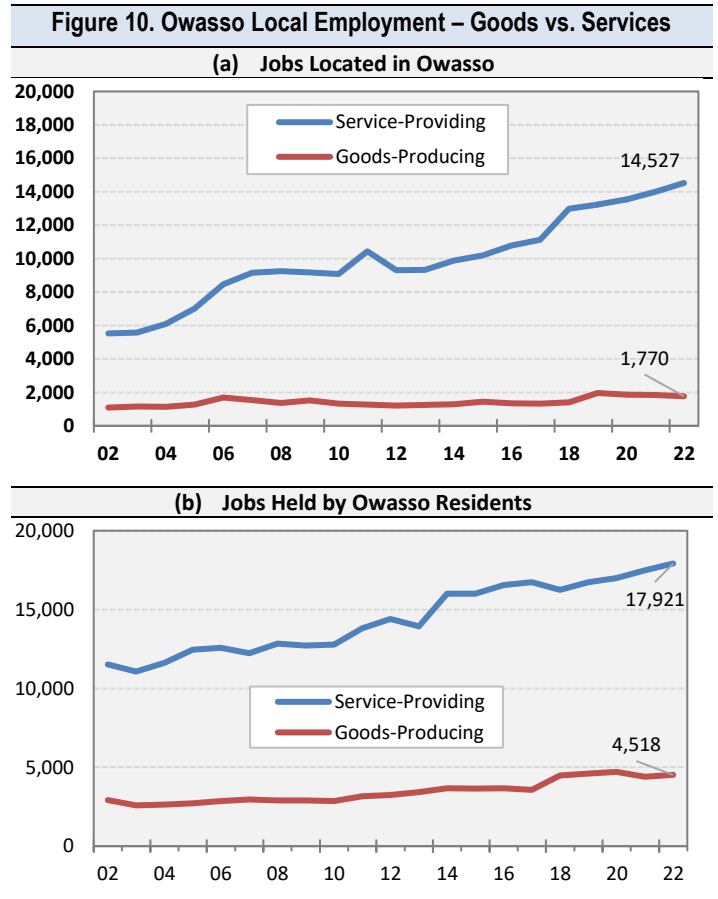


Source: Census Bureau and RegionTrack model estimates in 2021 and 2022

The number of jobs located in Owasso continues to expand faster than the number of jobs held by Owasso residents. Jobs located in Owasso increased by an estimated 2.8% in 2021 and 2.9% in 2022 (Figure 9b). For Owasso residents regardless of where they work, job growth slowed more sharply during the pandemic to only

0.9% in 2021 before rebounding to 2.4% for 2022. The hiring gain for Owasso residents matches the 0.9% gain in the full Tulsa metro area for all of 2021 and slightly exceeds the 2.3% metro-wide gain posted in 2022.

Most jobs (90%) located in the city of Owasso remain on the services side, with an estimated 14,530 total service sector jobs in 2022 (Figure 10a). More than 5,200 new services jobs were created in the decade since 2012. The city also continues to maintain a relatively steady number of goods-producing jobs, which currently number approximately 1,770 in 2022. The city has added about 550 net new goods sector jobs in the decade since 2012.



Source: Census Bureau and RegionTrack model estimates in 2021 and 2022

Jobs held by Owasso residents regardless of where the job is located are also primarily on the services side. Service sector jobs held by Owasso residents totaled approximately 17,900 in 2022, 80% of the total (Figure 10b). About 3,500 new services jobs have been created for Owasso residents in the decade since 2012.

Relatively more growth has occurred in the number of goods-producing jobs held by Owasso residents. Residents now hold more than 4,500 goods-producing jobs, a gain of more than 1,300 in the decade since 2012.

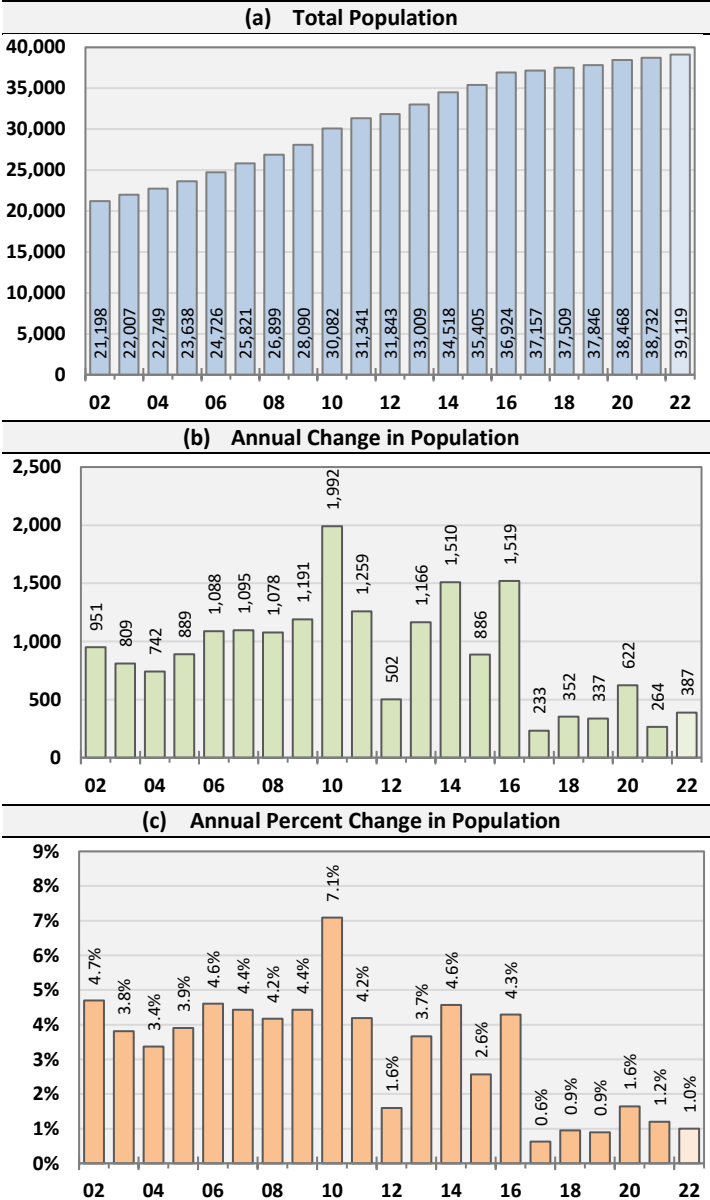
Population gains in the city of Owasso continue at a moderate pace relative to historical gains. In the most recent Census estimate release for 2021, city population reached 38,732 (Figure 11). Our current model-based estimate of total city population in 2022 is 39,119.

The city has averaged annual population growth of 1.1% since 2017, the point at which local population growth slowed from its long-run trend. From 1990 to 2016, the city posted an outsized average annual population gain of 4.5%. The city posted a total gain of 6.0% in the 2017 to 2022 period.

The latest revisions to Census population estimates suggest that Owasso has now added approximately 2,200 new residents since 2017, an average of 366 per year.

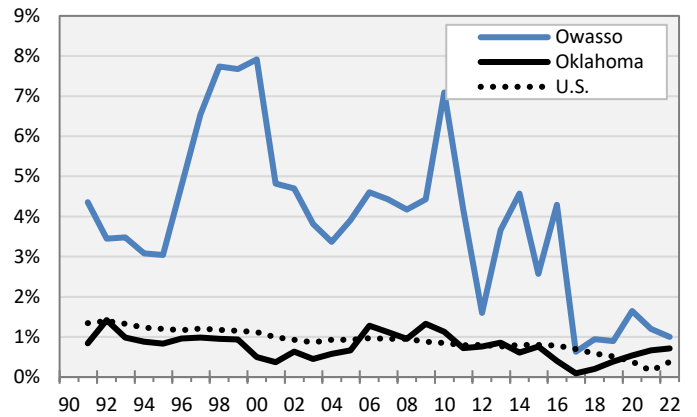
The downshift in city population growth beginning in 2017 reflects sharply slowing population growth at both the state and national levels in the period (Figure 12). Nevertheless, Owasso’s average annual gain of 1.1% in the 2017 to 2022 period is more than double the average annual gain of 0.5% nationally and 0.4% statewide.

Figure 11. Total Population and Annual Growth - City of Owasso



Source: Census Bureau and RegionTrack estimates

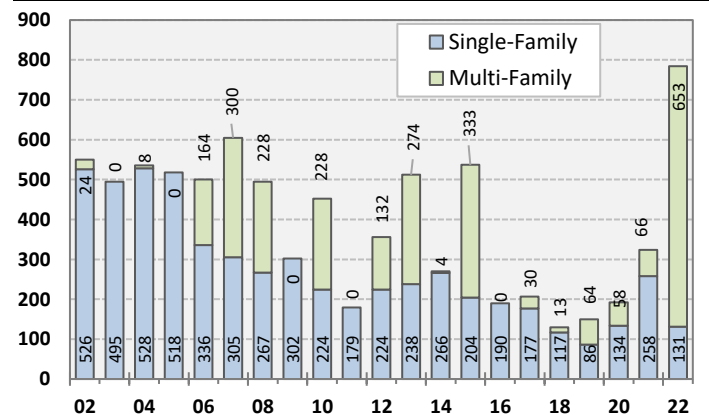
Figure 12. Population Growth



Source: Census Bureau and RegionTrack calculations

The Owasso housing market switched from strong single-family construction in 2021 to record multi-family growth in 2022. Permits for new single-family housing development in Owasso pulled back from a robust 258 units in 2021 to 131 units in 2022 (Figure 13). However, the multifamily side produced a record 653 building permits. The 784 total housing permits in 2022 represent the highest count in the city since 1996 when Census records begin.

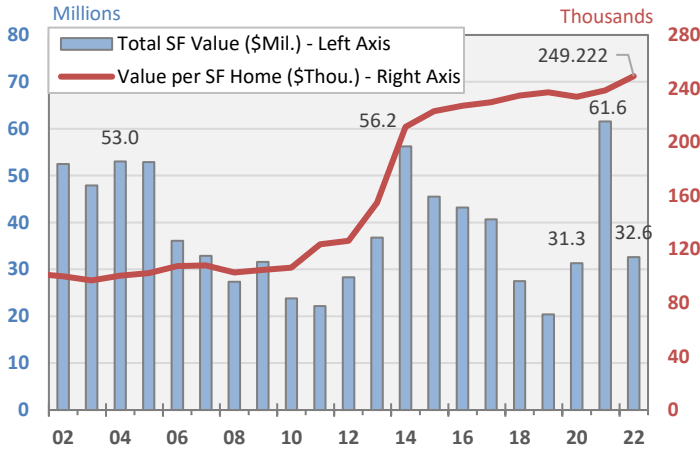
Figure 13. Owasso Residential Building Permits



Source: Census Bureau and RegionTrack calculations

The total permitted value of new single-family housing pulled back to \$32.6 million in 2022, roughly half the record total posted in 2021 (Figure 14). The average value of a single-family home permit jumped to \$249,222 in 2022, up 4.4% from \$238,675 in 2021.

Figure 14. Owasso Single-Family (SF) Housing Permit Values

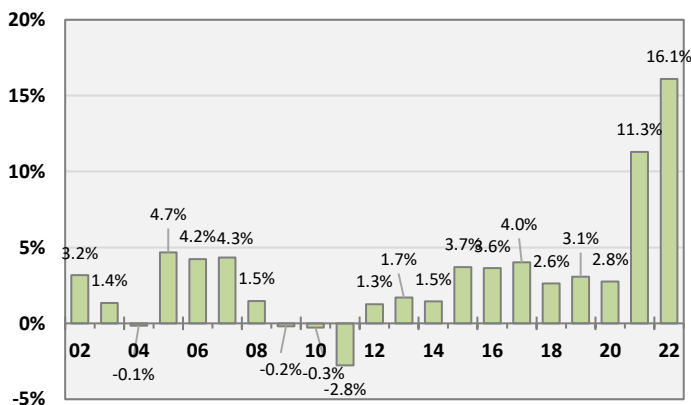


Source: Census Bureau and RegionTrack calculations

The housing price surge in Owasso accelerated further in 2022. The FHFA developmental historical housing price index for the primary Owasso zip code (74055) indicates a 16.1% gain in 2022 following a 11.2% price gain in 2021 (Figure 15). **The sharp gains of the past two years combined for a cumulative 29.2% gain in Owasso home prices.**

Housing prices similarly surged in most areas of the state in 2021 and 2022. For comparison, prices at the state level increased 11.6% in 2021 and 18.2% in 2022. Prices in the Tulsa metro area posted average annualized gains of 12.6% in 2021 and 18.0% in 2022.

Figure 15. FHFA Housing Price Index – Zip Code 74055



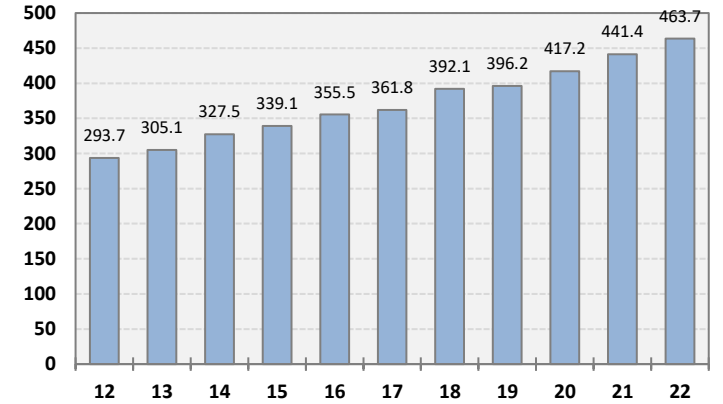
Source: FHFA Housing Price Indexes and RegionTrack calculations

The Owasso area continues to post strong gains in taxable property valuations. Net assessments, however, have not matched the strong housing price gains posted in 2021 and 2022. Figure 16 illustrates annual growth in the total net assessed value of real property in the Owasso school district in the most recent decade. Annual net assessed property in the Owasso district reached a record \$463.7 million in tax year 2022. This represents a solid 5.0% gain over 2021 but a slight pullback

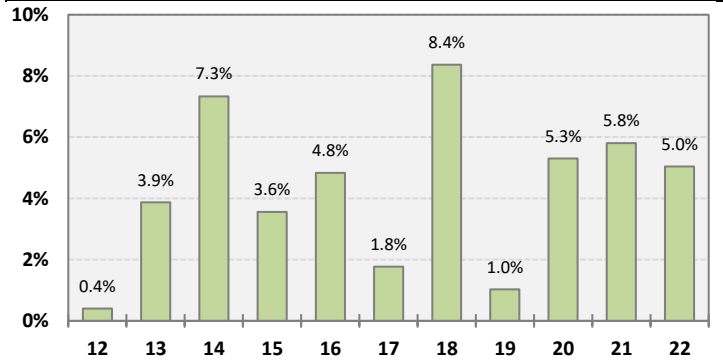
from the 5.8% gain posted in 2021. Total valuations in Owasso have increased steadily the past decade and are up a cumulative 58% (4.7% annually) from 2012 to 2022.

Figure 16. Owasso Total Net Ad Valorem Tax Assessments
fiscal year

(a) Total Net Assessment (\$millions)



(b) Annual Percent Change in Total Net Assessment



Source: Tulsa County Assessor and RegionTrack calculations

Notes: Total net assessments are for the Owasso School District. Total net assessments are calculated as the sum of net personal property, real property, and public services property minus homestead exemptions.

The 5.8% gain in Owasso in 2022 slightly trailed the 6.3% gain countywide. However, in the decade from 2012 to 2022, total valuations across the county increased only 44% (3.7% annually) versus 58% in Owasso.

Demand deposit growth remained strong at Owasso-based bank branches in 2022. As in most areas of the country, federal stimulus payments made to both households and businesses produced a surge in demand deposits at banking institutions. This increase in cash balances along with reduced debt loads greatly improved the liquidity of the U.S. household and business sectors following the pandemic.

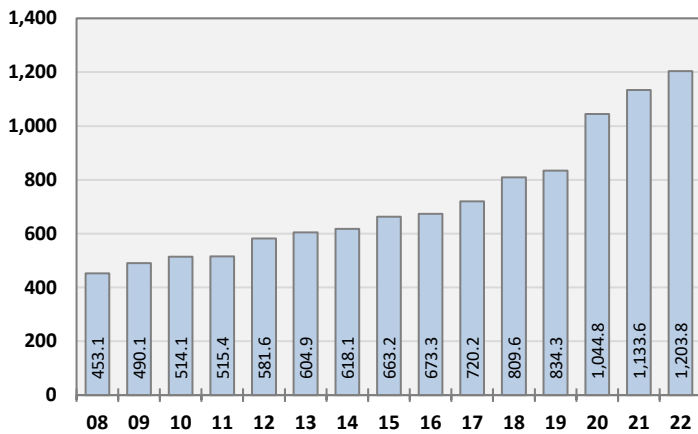
The growth in demand deposits held by Owasso bank branches increased 6.2% in 2022 but slowed from the 8.5% gain in 2021 and remained well below the peak 25.2% gain posted in 2020 at the height of the pandemic (Figure 17). Local bank branches in Owasso now hold more than \$1.2 billion in demand deposits, more

than doubling in the past decade. Total local bank deposits increased \$70.2 million from 2021 to 2022. Deposits are also up by nearly half (44%) relative to the pre-pandemic level in 2019.

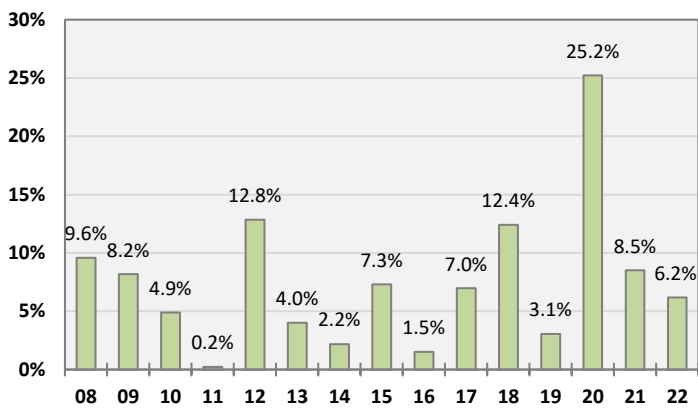
Figure 17. Owasso Bank Deposits and Growth

annual average deposits, June 30 total

(a) Total Bank Deposits (\$millions)



(b) Annual Percent Change in Bank Deposits



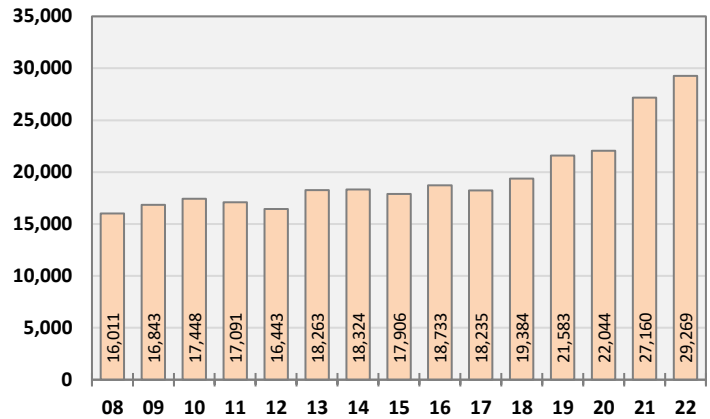
Source: FDIC and RegionTrack calculations

To gauge the effects of the pandemic on bank deposits, we convert total deposits to a per capita basis in Figure 18. This adjustment also accounts for changes in deposits due to rising population in the city over time. Local demand deposits continue to show a significant gain in the 2021 and 2022 period. Deposits per capita bounced from only 21,583 in 2019 to 29,269 in 2022, a 35.6% gain. The per capita gain, however, trails the unadjusted 44% gain in total deposits, suggesting some of the strong growth since 2019 is due to population gains in the region.

We anticipate continued slowing in the rate of deposit growth in 2023 as households and businesses continue to draw down stimulus-related bank balances to support increased spending. Nationally, total demand deposits have peaked in recent months but have not fallen and remain roughly three times higher than pre-pandemic levels. These excess bank deposits will continue to prop up purchases by households and businesses in 2023 and beyond.

Figure 18. Owasso Bank Deposits Per Capita

annual average deposits, June 30 total



Source: FDIC and RegionTrack calculations

Nine banking institutions, large and small, continue to operate branches in Owasso (Figure 19).

Deposits are highly concentrated in four institutions, all with demand deposits of more than \$100 million each. The four largest banks combined hold nearly 90% of total deposits in the city.

First Bank of Owasso (\$558 million) remained the largest institution by deposits, with a 46.4% share, up slightly from 45.6% in 2021. RCB Bank (17.5% share) and Bank of Oklahoma (13.8% share) jointly accounted for more than 31% of local bank deposits. Arvest Bank moved above the 10% market threshold in 2022. The five remaining smaller institutions accounted for the remaining 12.1% of city bank deposits in 2022. Nearly all the overall deposit growth in 2022 occurred at the four largest banking institutions.

Figure 19. Owasso Bank Demand Deposits by Institution - 2022

percent of total local deposits, June 30 total, zip code 74055

Bank	Demand Deposits (Millions)	Share of Total Deposits
First Bank of Owasso	\$558.2	46.4%
RCB Bank	210.6	17.5%
BOKF, NA	165.8	13.8%
Arvest Bank	122.6	10.2%
The Central Trust Bank	48.2	4.0%
Prosperity Bank	31.9	2.6%
Armstrong Bank	27.6	2.3%
The Exchange Bank	24.2	2.0%
Intl. Bank of Commerce	14.6	1.2%
Owasso Total	\$1,203.8	100.0%

Source: FDIC and RegionTrack calculations

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