

Owasso Recovering, Poised to Outperform in 2021

Federal stimulus and the ongoing rebound in the national economy will propel Owasso to growth throughout 2021. The city is projected to outperform both the state and Tulsa metro area economies this year. Strong retail activity and accelerated housing growth should continue. Concerns remain over the sustainability of growth in 2022.



Outlook Summary:

- The U.S. recovery now extends beyond one year but remains erratic & influenced by pandemic conditions.
- Federal stimulus remains a key support to the recovery.
- The state and Tulsa metro area trail the U.S. recovery.
- The Owasso job market has outpaced both the Tulsa metro and state in the slowdown.
- Owasso retail activity continues its strong trend.
- The local Owasso housing market accelerated in 2020.
- City population gains continue to outpace U.S. and OK.
- Concern remains over the sustainability of the recovery and the future pace of growth.

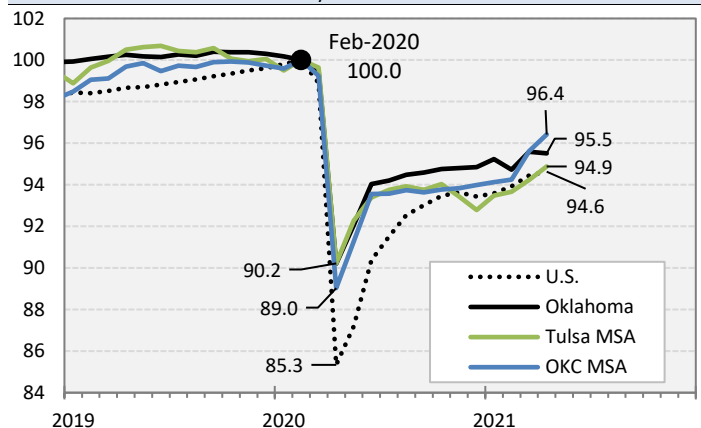
The U.S. economy bottomed quickly in early 2020 after a steep but brief recession. The recovery phase now extends beyond one year but has been uneven and tied closely to the path of the pandemic. Federal stimulus, unprecedented in both size and breadth, has fueled much of the ongoing recovery to date.

Hiring has rebounded in all 50 states, with the U.S. job base expanding by 10.9% from April 2020 to April 2021 (Figure 1). The national job recovery remains incomplete, however, with only about two-thirds of the 14.7% total job loss recovered.

The pandemic cycle in Oklahoma to date is different from the national path in two key respects. First, the downturn in the state was much less severe, with a total job loss of only about 10% in March and April of 2020 versus almost 15% nationally. This is owed largely to the fact that the state was already in a semi-recession leading up to the pandemic under pressure from the collapse in oil and gas activity. The state was shedding jobs and in a contraction phase as the pandemic hit.

Second, **Oklahoma has experienced a weaker recovery.** The state has recovered only about 50% of the jobs lost in the slowdown and trailed the national pace of job growth throughout most of the recovery period. In fact, Oklahoma's 5.9% job gain since April 2020 is the third smallest among the states, besting only energy producers Wyoming (4.7%) and New Mexico (4.2%). Most energy-producing states, including Texas (8.7%), have among the weakest job recoveries to date in percentage terms.

Figure 1: Index of Nonfarm Wage & Salary Employment
February 2020 = 100.0



Source: Bureau of Labor Statistics and RegionTrack calculations

The Tulsa metro area roughly matched the state job decline of 10% but has recovered slightly less than half the jobs lost, a slight underperformance relative to the state. The Tulsa MSA also trails the recovery in the Oklahoma City MSA, which posted a larger 11% job loss but has recovered about 60% of the loss to date.

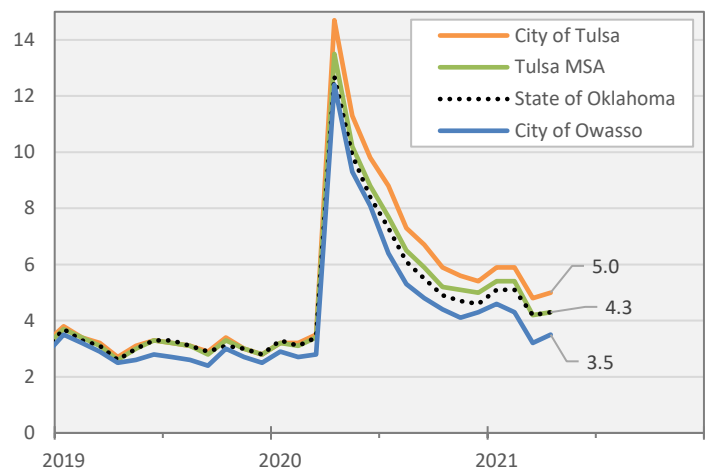
Unemployment rates across the state have already fallen back to near normal levels. The state's jobless rate dropped to 4.3% in April 2021, down from a peak of more than 12% in April 2020 (Figure 2). The state rate is currently 1.5 percentage points below the 5.8% rate reported at the national level.

Owasso's 3.5% unemployment rate is below the 4.3% rate reported for both the state and Tulsa metro area, and well below the peak 12.4% rate reported for the city in April 2020. It is important to note that Owasso's jobless rate reflects conditions for workers who live in the city, regardless of where they work, and does not necessarily reflect the health of the labor market for jobs located within Owasso.

It is also important to note that reported jobless rates in most areas of the country disguise much of the underlying gyrations that have occurred in the labor force since early 2020. Most regions have a far smaller labor force and a lower labor force participation rate. Although the current 3.5% unemployment rate in

Owasso suggests a return to mostly normal conditions, the current size of the city’s labor force is about 500 workers (2.5% decline) below its pre-pandemic level. It is also about 1,000 workers below the level expected in our forecast from one year ago. For perspective, 500 jobs represent a little more than one year of normal labor force growth for the city.

Figure 2: Oklahoma and Tulsa Area Unemployment Rates
percent, not seasonally adjusted



Source: Bureau of Labor Statistics

Following a lull in the recovery in the second half of 2020, the pace of economic activity accelerated in the second quarter of 2021, both nationally and in Oklahoma. This is traced largely to three factors: 1) the lifting of social distancing restrictions in most jurisdictions across the country, 2) rapid vaccine uptake and declining COVID cases, and 3) continued federal stimulus. Near term forecasts continue to improve, as these factors provide a strong backdrop for growth in the 2nd half of 2021.

We anticipate continued strong job growth at the national level through the end of 2021, reaching a 2.5-3.0% pace in the second half of the year. Our current forecast is for U.S. job growth to slow in 2022 but remain slightly elevated with 1.8-2.0% growth.

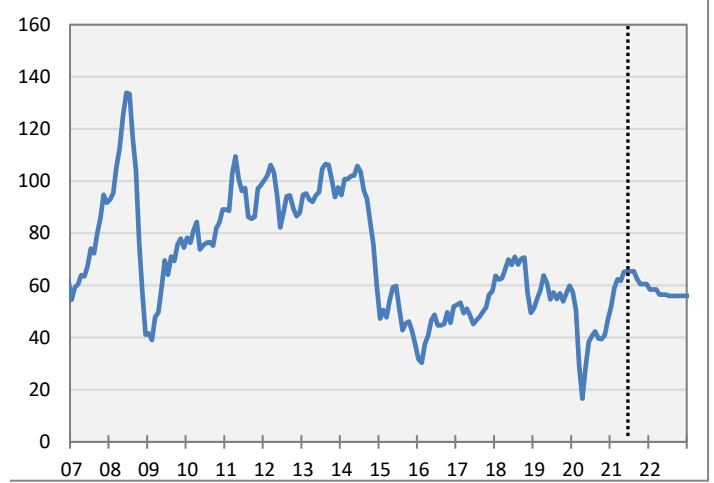
Our outlook for the Oklahoma economy calls for continued job growth at an above average pace of approximately 2.0% through the end of 2021 before slowing to a new trend job growth rate of about 1.5% in 2022. The state is expected to trail the nation in job growth throughout the second half of 2021 and throughout 2022. Our estimates suggest that the state will not return to its pre-contraction level of hiring until the second half of 2023.

The expected underperformance of the state relative to the nation is tied largely to the collapse in the state’s oil and gas sector. The weakness is being felt both in the Tulsa metro area and in Owasso. **The pullback in both the supply and demand for**

petroleum products during the pandemic dealt a severe blow to the state’s already weak oil and gas sector. Statewide hiring in the sector recently bottomed around 25,000 wage and salary workers, down from a recent peak of 65,000 in 2014 and the pre-COVID peak of 53,000 in early 2019. **Oklahoma oil and gas firms now employ the smallest number of workers in the modern era of oil and gas stretching back to at least the 1960s.**

Contraction in the oil and gas industry finally halted in the first half of 2021, but relatively little growth in global demand for petroleum products has ensued and OPEC+ supply is projected to rise. **Crude oil price forecasts remain bearish despite current prices for West Texas Intermediate exceeding \$70 per barrel (Figure 3).** Although oil prices have more than tripled from the lows posted in early 2020, U.S. Energy Information Administration forecasts suggest that oil prices will decline steadily throughout the second half of 2021, falling to only \$56 per barrel by the end of 2022. Falling energy prices would only extend the recovery time for the state relative to the nation. Once again, the path of crude oil prices remains a key factor in the path of the state economy going forward.

Figure 3. West Texas Intermediate Crude Oil Price
spot price per barrel, monthly average, EIA forecast

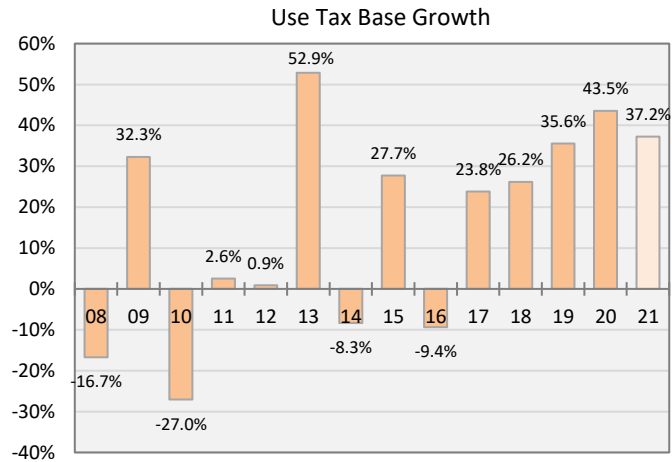
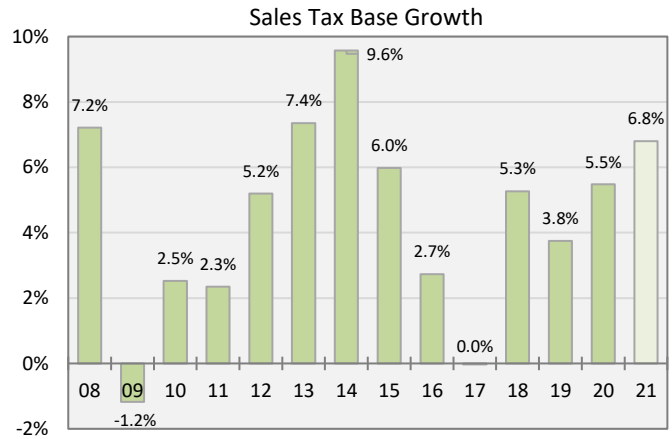
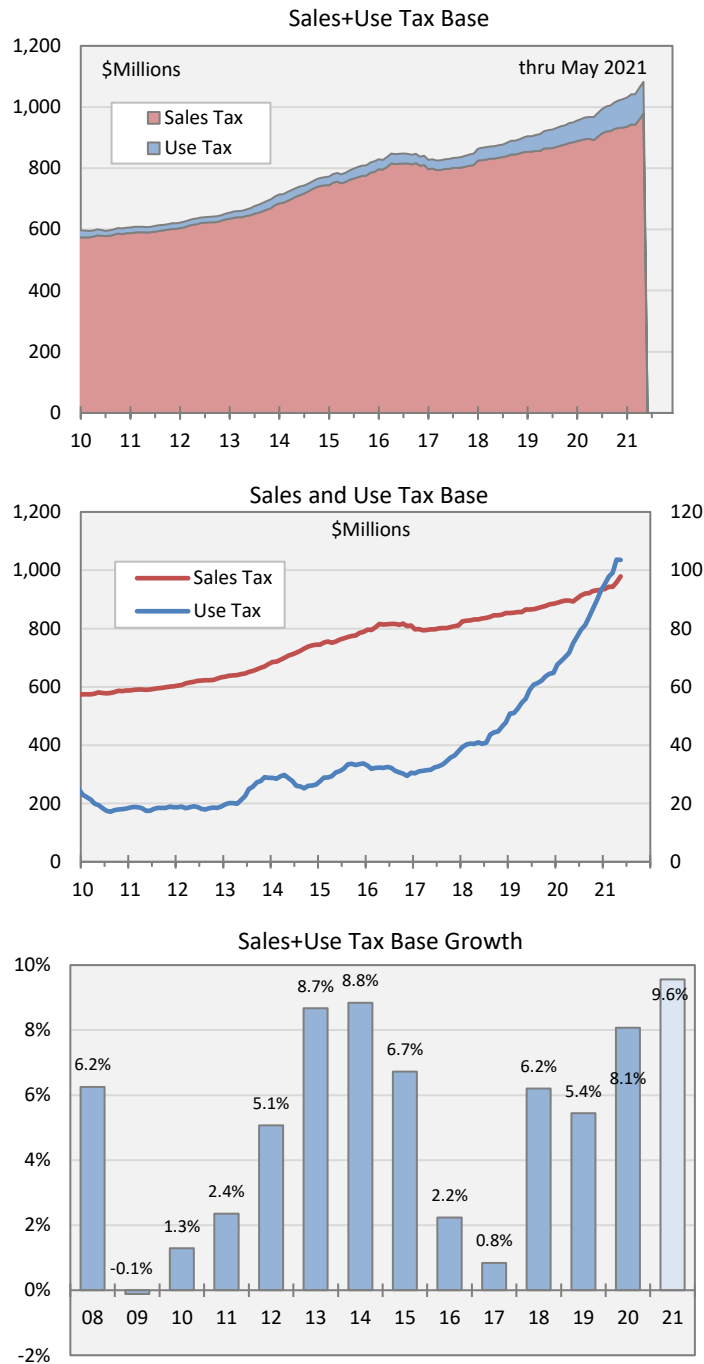


Source: U.S. Energy Information Administration (EIA)

A key positive element of the state recovery remains the surprising strength in tax collections throughout the pandemic. Extremely large federal stimulus artificially boosted most tax revenue streams, particularly income, motor vehicle, and sales/use taxes. Most states experienced only minor tax weakness in 2020 and many are working with sizeable surpluses in 2021. Without the federal stimulus, our internal model-based estimates suggest that the decline in state tax revenue in Oklahoma in 2020 would have been similar to the loss suffered in the 2007-2009 Great Recession.

Sales and use tax collections remain strong in Owasso as well. The city’s large retail sector carried tremendous momentum into the slowdown and has experienced little slowing to date. (Figure 4). Sales subject to both sales and use tax posted a combined 8.1% gain in calendar year 2020. This is comprised of a 5.5% gain in the sales tax base and a 43.5% gain in the smaller use tax base. Large use tax gains continue to be driven by growing remittances from online retailers, a trend which intensified during the pandemic.

Figure 4. Owasso Sales and Use Tax – Taxable Base
sales subject to sales and use tax, 12 month rolling total



Source: Oklahoma Tax Commission and RegionTrack forecasts

The city’s retail momentum has continued into 2021. Year-to-date through May 2021, the city’s combined sales and use tax base posted a 14.1% gain relative to the same five months in 2020, the 20th ranked performance among the state’s 30 largest city retail markets (Figure 5). This compares to a 13.1% gain for the city of Tulsa and a 12.7% gain at the state level through the first five months of 2021.

Owasso sales subject to sales and use tax increased 4.7% in the same period in 2020, which includes the height of the pandemic. More than half (18) of the 30 largest retail markets managed to post a gain in combined sales subject to sales and use tax in the first five months of 2020 during the pandemic.

Figure 5 details the widely varying year-to-date performance through May 2021 among Oklahoma’s 30 largest city retail markets. Cities in the northeast portion of the state that rank among the year-to-date leaders include Tahlequah (26.4%), Bixby (19.9%), Sapulpa (19.6%), and Muskogee (18.2%). Along with Owasso (14.1%), other cities in the Tulsa region that outperformed the city of Tulsa (13.1%) through May 2021 include Broken Arrow (15.4%), Claremore (14.4%), and

Sand Springs (13.7%). Most of the top 30 retail markets have posted sizeable gains so far in 2021. Chickasha (6.0%) and Enid (-1.5%) are the only two cities among the 30 largest city retail markets to far underperform the state year-to-date.

Owasso is expected to experience strong sales and use tax base growth in the remainder of 2021. Momentum from the first half of the year coupled with ongoing federal stimulus suggest strong growth for all of 2021. Our forecast is for a 9.6% gain in the combined sales and use tax base for all of 2021. The sales and use tax components are projected to rise 6.8% and 37.2%, respectively. Our expectation is that these gains will ease back toward historical growth rates in 2022 as stimulus is drained from the system and consumer spending returns to a more sustainable trend.

Figure 5. Sales/Use Tax Base - 30 Largest OK City Retail Markets

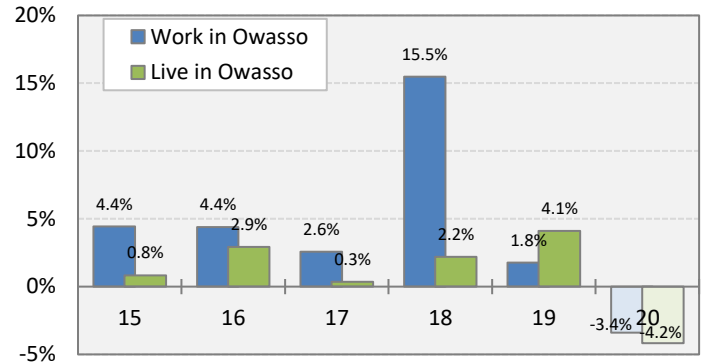
year-to-date through May 2021						
Rank	Region	% Change YTD		YTD Taxable Sales (millions)		
		2021	2020	2021	2020	2019
	State of Oklahoma	12.7%	-6.7%	\$28,004.5	\$24,857.9	\$26,657.2
1	Tahlequah	26.4%	1.6%	172.2	136.3	134.1
2	Shawnee	24.2%	-5.4%	332.6	267.8	283.0
3	Moore	20.1%	0.1%	479.2	399.0	398.6
4	Lawton	19.9%	-1.0%	602.6	502.5	507.5
5	Bixby	19.9%	4.3%	192.3	160.4	153.9
6	Sapulpa	19.6%	2.5%	185.5	155.1	151.4
7	Norman	19.5%	-2.2%	985.3	824.6	843.2
8	Durant	18.3%	7.1%	218.0	184.2	172.0
9	Muskogee	18.2%	-1.7%	333.9	282.5	287.5
10	Stillwater	17.9%	-2.2%	407.6	345.6	353.3
11	Duncan	16.8%	-11.3%	197.1	168.7	190.2
12	Ponca City	16.7%	4.8%	207.9	178.1	170.0
13	Altus	16.5%	3.6%	138.9	119.2	115.1
14	Midwest City	15.7%	2.5%	448.8	387.9	378.4
15	Ardmore	15.5%	0.0%	332.1	287.5	287.5
16	Broken Arrow	15.4%	5.0%	806.9	699.1	665.5
17	Mustang	15.0%	1.2%	152.2	132.3	130.8
18	Claremore	14.4%	8.5%	218.2	190.8	175.9
19	Ada	14.2%	0.8%	204.7	179.2	177.7
20	Owasso	14.1%	4.7%	454.6	398.5	380.8
21	Sand Springs	13.7%	8.1%	178.2	156.7	145.0
22	Oklahoma City	13.1%	-3.8%	5,979.6	5,289.0	5,496.3
23	Tulsa	13.1%	-5.2%	3,972.8	3,512.6	3,707.0
24	Edmond	13.1%	1.6%	990.2	875.2	861.9
25	Bartlesville	13.0%	-1.3%	259.7	229.9	232.9
26	Del City	12.9%	3.0%	136.4	120.9	117.4
27	Yukon	11.8%	-4.3%	280.3	250.7	261.9
28	McAlester	11.7%	-6.7%	197.6	176.9	189.7
29	Chickasha	6.0%	-7.0%	149.9	141.4	152.0
30	Enid	-1.5%	11.3%	412.8	419.2	376.5

Source: Oklahoma Tax Commission and RegionTrack calculations

While Owasso did not avoid job losses in the pandemic, the city's basic economic fundamentals remain quite strong relative to the broader Tulsa region. Our model-based estimates suggest a decline in 2020 employment of 3.4% for jobs located in Owasso and a decline of 4.2% for Owasso residents regardless of where they work (Figure 6). This outpaces the 5.4% decline posted in the Tulsa metro area for all of 2020.

The number of jobs located in the city also received a large upward revision in the data for both 2017 and 2018. Revised data indicate that the total number of jobs in the city increased by approximately 20% in the 2017 to 2019 period.

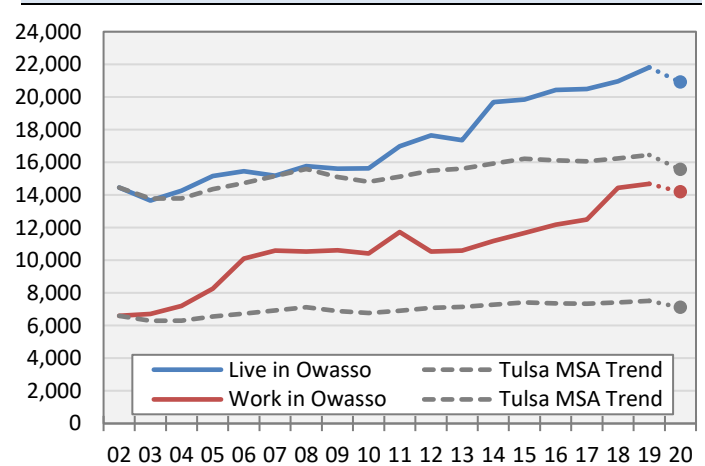
Figure 6. Owasso Wage & Salary Employment Growth
by place of residence and place of work, zip code 74055



Source: Census Bureau and RegionTrack forecast

Both the number of workers in Owasso and number of working Owasso residents continue to grow faster than employment in the Tulsa metro area (Figure 7). The gap has widened substantially the past decade. Based on our job forecast for 2020 and revised data, total jobs located in Owasso increased 36.2% from 2010 to 2020, while the number of workers living in Owasso increased 33.7%. For comparison, the Tulsa metro area posted only a 5.7% gain in the number of workers across the decade.

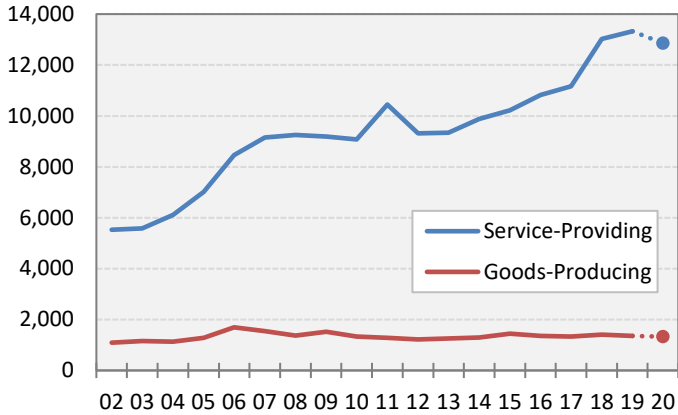
Figure 7. Owasso Wage & Salary Employment vs Tulsa MSA
by place of residence and place of work, zip code 74055



Source: Census Bureau and RegionTrack forecast

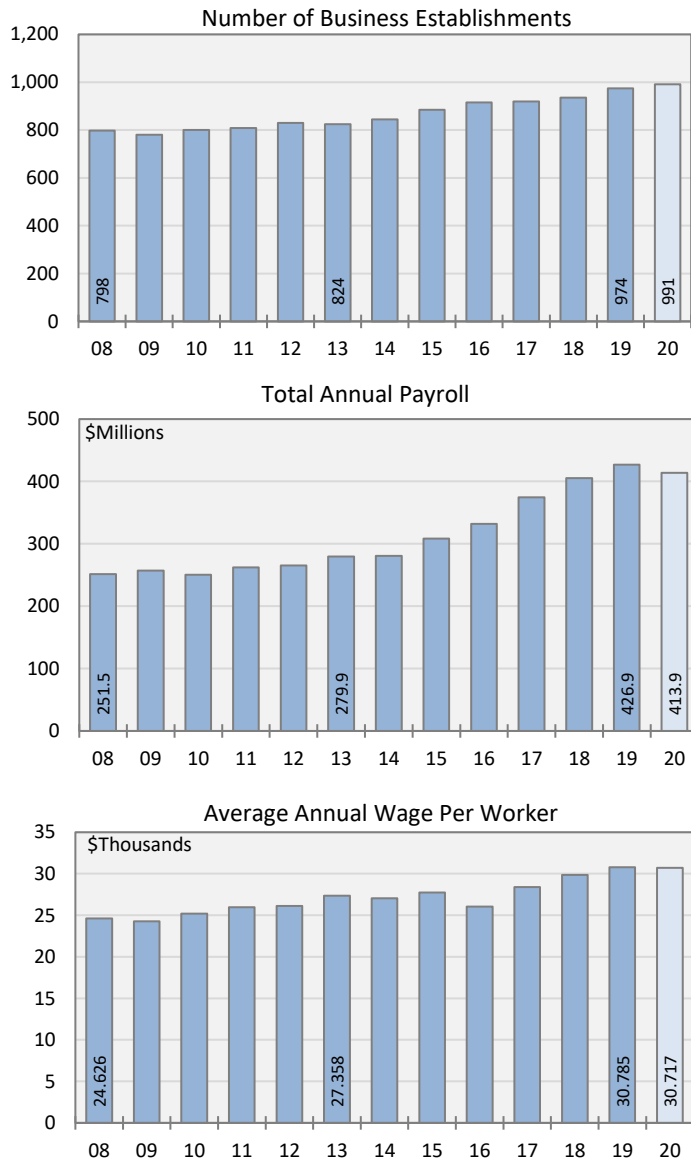
Nearly all local job losses among Owasso residents in 2020 were on the services side (Figure 8), with an estimated decline of 570 jobs. Goods producing jobs in Owasso posted a small decline of about 30 jobs. Approximately 3,800 new services jobs have been created in the city the past decade. In contrast, the number of goods-producing jobs has remained flat at just more than 1,300 in 2020.

Figure 8. Owasso Local Employment – Goods vs. Services



Source: Census Bureau and RegionTrack forecast

Figure 9. Owasso (Zip 74055) Business Establishments & Payroll

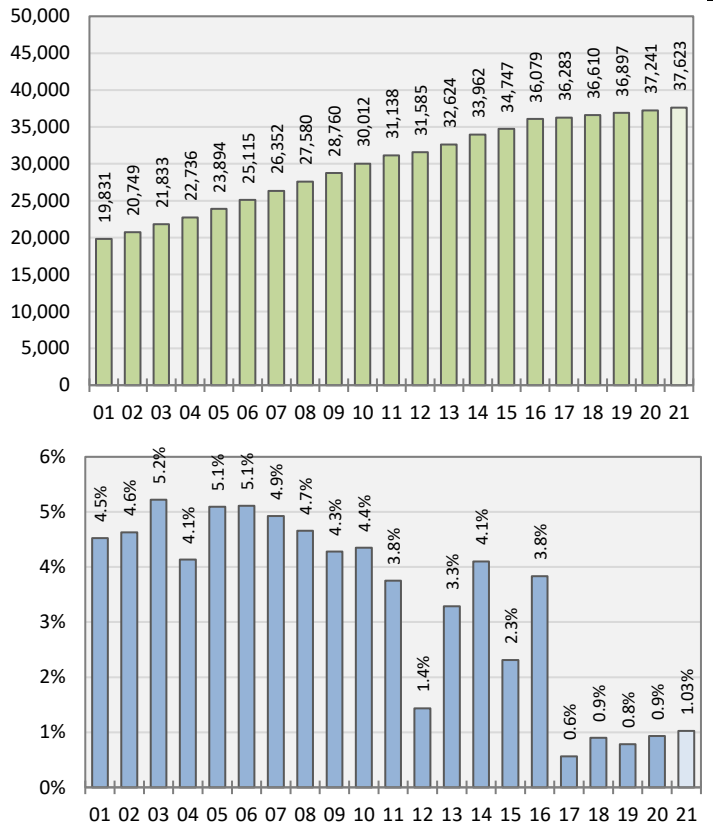


Source: Census Bureau and RegionTrack forecasts

A surge in new business establishments took place during the pandemic at both the national and state levels beginning in mid-year 2020. Our model-based estimates suggest that the total number of business establishments within the city of Owasso increased in 2020 during the pandemic but that total payroll at these firms pulled back along with employment. **An estimated 19 new business establishments were created in 2020, pushing the total to 991. Establishments operating within Owasso had a total annual payroll of \$414 million in 2020,** down 4.0% from 2019 (Figure 9). The average annual wage per worker also softened slightly in 2020 to \$30,717, a decline of 0.2%. We anticipate a rebound in total payroll along with employment in 2021.

Soft population estimates across the U.S. continue to receive considerable attention and raise concern for local economic growth prospects. U.S. population growth slowed rather steeply the past four years, averaging only 0.5% in the period. For 2020, the Census Bureau reported that U.S. growth fell to a modern era low of 0.4%. The state of Oklahoma has similarly experienced weak population growth of only 0.3% the past four years. Much of the state's weakness is attributed to the dismantling of the state's oil and gas industry and outmigration of unemployed oil and gas workers.

Figure 10. Population Growth - City of Owasso

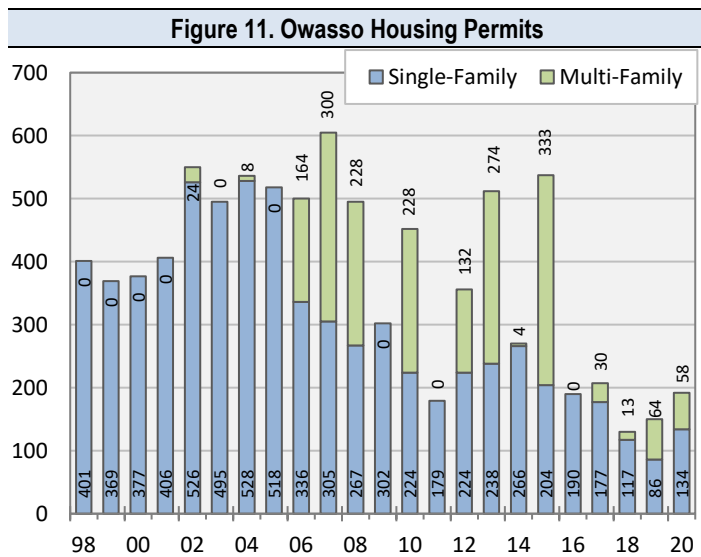


Source: Census Bureau and RegionTrack forecast

Owasso has experienced a similar slowing in population growth but continues to outpace both the state and nation. The latest Census population estimates for 2020 suggest a gain of 0.9% for the city (344 new residents), up slightly from a 0.8% gain in 2019 (Figure 10). Growth the past four years averaged 0.8%, while the city added more than 1,100 new residents.

Our model-based estimate for 2021 suggests that Owasso population growth will increase slightly to 1.0% (Figure 10). This is driven primarily by a slight increase in growth at the state level. We are still working with sample-based population estimates in the 2010 to 2020 period, and count-based estimates from the 2020 Census will be needed to determine whether the city’s core population growth rate is truly 1.0% or less. Nevertheless, the city’s growth rate the past four years remains roughly double the 0.3% gain at the state level, the 0.4% gain for the Tulsa metro area, and the 0.5% annual gain at the national level.

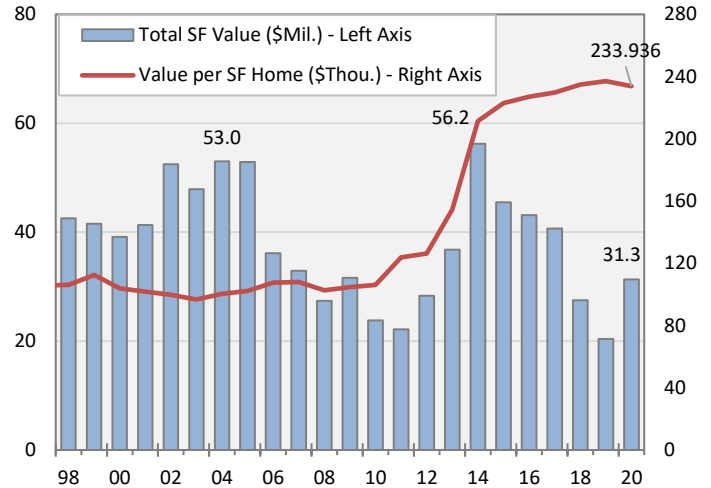
Much like retail spending, housing market activity across the country accelerated sharply in response to the pandemic. Builders in Owasso shifted into high gear as well, with housing development in Owasso poised to post its best year since 2015. Permits for single-family housing development in Owasso totaled 73 units in the first four months of 2021. The year-to-date count is well ahead of the annualized pace of 134 single-family units permitted in all of 2020 and nearly equal to the 86 total units permitted in all of 2019 (Figure 11).



Source: Census Bureau

The average single family home permit reported in the first four months of 2021 averaged \$237,233, roughly matching recent averages (Figure 12). A block of 49 homes permitted in April 2021 averaged \$239,244 in value.

Figure 12. Owasso Single-Family (SF) Housing Permit Values

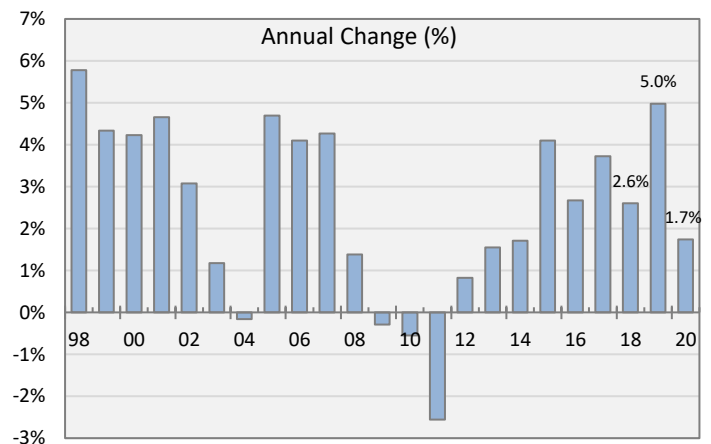


Source: Census Bureau and RegionTrack calculations

Multi-family development in Owasso has also accelerated. The city permitted a 58-unit multi-family development at the end of 2020 and another 22-unit development in March of 2021.

Housing prices are showing remarkable strength in most housing markets across the country and in Oklahoma. The most recent FHFA historical housing price data for the primary Owasso zip code (74055) indicates a 1.7% gain in 2020 following an upwardly revised 5.0% gain in 2019 (Figure 13). State-level estimates suggest that the Owasso estimate for 2020 will likely be revised upward in future data. Prices at the state level accelerated rapidly beginning in the 3rd quarter of 2020 and have posted average annualized gains of approximately 7% through the 1st quarter of 2021. We anticipate these price increases will continue throughout 2021 before easing in 2022. A price gain of 5-9% is expected for the state for all of 2021 and provides a reasonable expectation for Owasso.

Figure 13. FHFA Housing Price Index – Zip Code 74055



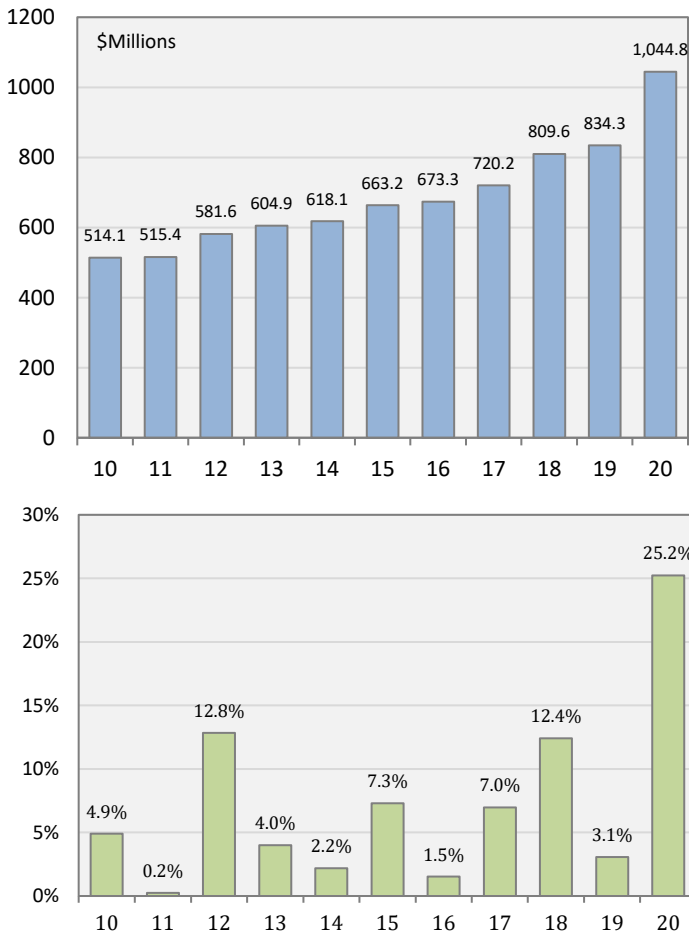
Source: FHFA Housing Price Indexes

Bank demand deposit growth soared at Owasso banks in 2020, just as it did in many regions of the country. The surge in local demand deposits is tied to the pandemic and driven by federal stimulus payments made to both households and businesses.

Demand deposits held by Owasso bank branches increased 25.2% in 2020 versus a 3.1% gain in 2019 (Figure 14). Local bank branches in Owasso now hold more than \$1 billion in demand deposits, the first time the city has exceeded the billion-dollar level.

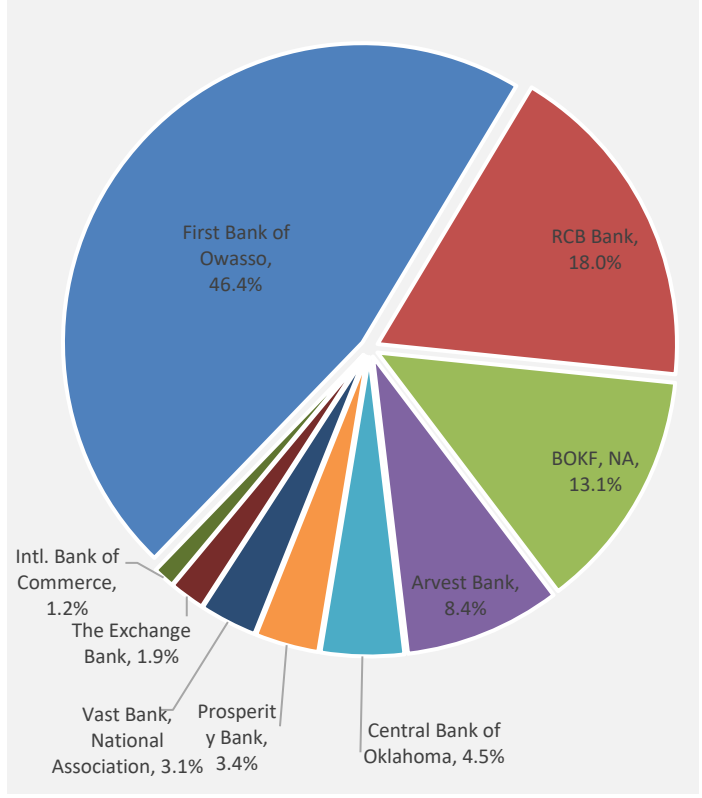
Nine banking institutions, large and small, continue to operate branches in Owasso (Figure 15). Deposits are highly concentrated, with three institutions holding more than 75% of deposits in the city. First Bank of Owasso remains the largest institution by deposits, with a 46.4% share, up slightly from 45.9% in 2019. RCB Bank (18.0% share) and Bank of Oklahoma (13.1% share) jointly account for more than 30% of local bank deposits. A group of six smaller institutions account for the remaining city bank deposits in 2020.

Figure 14. Owasso Bank Deposits and Growth
annual average deposits, June 30 total



Source: FDIC and RegionTrack calculations

Figure 15. Share of Owasso Bank Deposits by Institution - 2020
percent of total local deposits, June 30 total



Source: FDIC and RegionTrack calculations

Deposit growth is not expected to show meaningful growth in the second half of 2021 and into 2022 as households and businesses begin to draw down these accumulated balances.

The overall fundamentals in place suggest that 2021 will be a year of strong growth in the Owasso economy, with the city outperforming the broader regions. However, looking into 2022 and beyond, concern remains that the U.S. economy could experience a steep slowing in 2022 relative to 2021.

Key factors that could constrain growth in 2022 include the removal of federal stimulus, a waning economic boost from vaccines, and the return of consumer spending to a more sustainable pace. And although the Federal Reserve has pledged extended accommodation through monetary policy, their pledge is closely tied to the unfolding of data, particularly rising inflation. Other concerns include the reluctance of laid off workers to return to the labor force and its effect on total labor supply. Finally, most areas of Oklahoma will also struggle with uncertainty and potential long-run downsizing in the oil and gas industry.

2021 Owasso, OK Outlook Summary

Owasso's economy is now in full recovery mode from the pandemic-induced recession in early 2020. The city did not avoid the slowdown but fared better than the nation, state, and Tulsa metro area.

Unemployment rates across the state have reportedly fallen back to near normal levels. Owasso's 3.5% unemployment rate is below the 4.3% rate reported for both the state and Tulsa metro area, and well below the peak 12.4% rate reported for the city in April 2020. However, the current size of the city's labor force is about 500 workers (2.5% decline) less than its pre-pandemic level and about 1,000 workers below the level expected in our forecast from one year ago.

The pace of economic activity accelerated in the second quarter of 2021, both nationally and in Oklahoma. We anticipate continued strong job growth at the national level through the end of 2021, reaching a 2.5-3.0% pace in the second half of the year. Our current forecast is for U.S. job growth to slow in 2022 but remain slightly elevated with 1.8-2.0% growth. Our outlook for the Oklahoma economy calls for continued job growth at an above average pace of approximately 2.0% through the end of 2021 before slowing to a new trend job growth rate of about 1.5% in 2022.

The expected underperformance of the state relative to the nation is tied largely to the collapse in the state's oil and gas sector. The weakness is being felt both in the Tulsa metro area and in Owasso. The state's oil and gas firms now employ the smallest number of workers in the modern era of oil and gas activity.

A key positive element of the state recovery remains the surprising strength in tax collections throughout the pandemic. Owasso's sales subject to both sales and use tax posted a combined 8.1% gain in calendar year 2020. Year-to-date through May 2021, the city's combined sales and use tax base posted a 14.1% gain. Our forecast is for a 9.6% gain in the combined sales and use tax base for all of 2021.

While Owasso did not avoid job losses in the pandemic, the city's basic economic fundamentals remain quite strong relative to the broader Tulsa region. Our model-based estimates suggest a decline in 2020 employment of 3.4% for jobs located in Owasso and a decline of 4.2% for Owasso residents regardless of where they work. This

outpaces the 5.4% decline posted in the Tulsa metro area for all of 2020. Nearly all local job losses in 2020 during the pandemic were on the services side. In 2020, an estimated 19 new business establishments were created, pushing the total to 991. Establishments operating within Owasso had a total annual payroll of \$414 million in 2020, down 4.0% from 2019. The average annual wage per worker also softened slightly in 2020 to \$30,717, a decline of 0.2%. We anticipate a rebound in total payroll along with employment in 2021.

Soft population estimates across the U.S. continue to receive considerable attention and raise concern for local economic growth prospects. U.S. population growth slowed rather steeply the past four years, averaging only 0.5% in the period. **The latest Census population estimates for Owasso in 2020 suggest a gain of 0.9% (344 new residents), up slightly from a 0.8% gain in 2019.** Growth the past four years averaged 0.8%, with the city adding more than 1,100 new residents.

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Bank demand deposit growth soared at Owasso banks in 2020, just as it did in many regions of the country. Demand deposits held by Owasso bank branches increased 25.2% in 2020, a sharp acceleration from the 3.1% gain posted in 2019. Local bank branches in Owasso now hold more than \$1 billion in household and business demand deposits, the first time the city's banking sector has exceeded the billion-dollar level.

Concerns remain over the sustainability of the recovery and the potential for slowing in 2022. The reversal of federal stimulus remains the primary risk factor. However, even if conditions slow markedly in 2022, our forecasts suggest Owasso is likely to outpace both the state and Tulsa region. Most areas of Oklahoma will also struggle with potential long-run downsizing in the oil and gas industry.

Released June 24, 2021