Oklahoma's Economic Indicators

Oklahoma Employment Security Commission

Economic Research and Analysis

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OKLAHOMA ECONOMIC INDICATORS

Oklahoma Employment Security Commission
Jon Brock, Executive Director

Economic Research and Analysis Division
Lynn Gray, Director & Chief Economist

Will Rogers Memorial Office Building
Labor Market Information Unit, 4th Floor N
P.O. Box 52003
Oklahoma City, OK 73152-2003
Phone: (405) 557-7172
Fax: (405) 525-0139
Email: lmi1@oesc.state.ok.us

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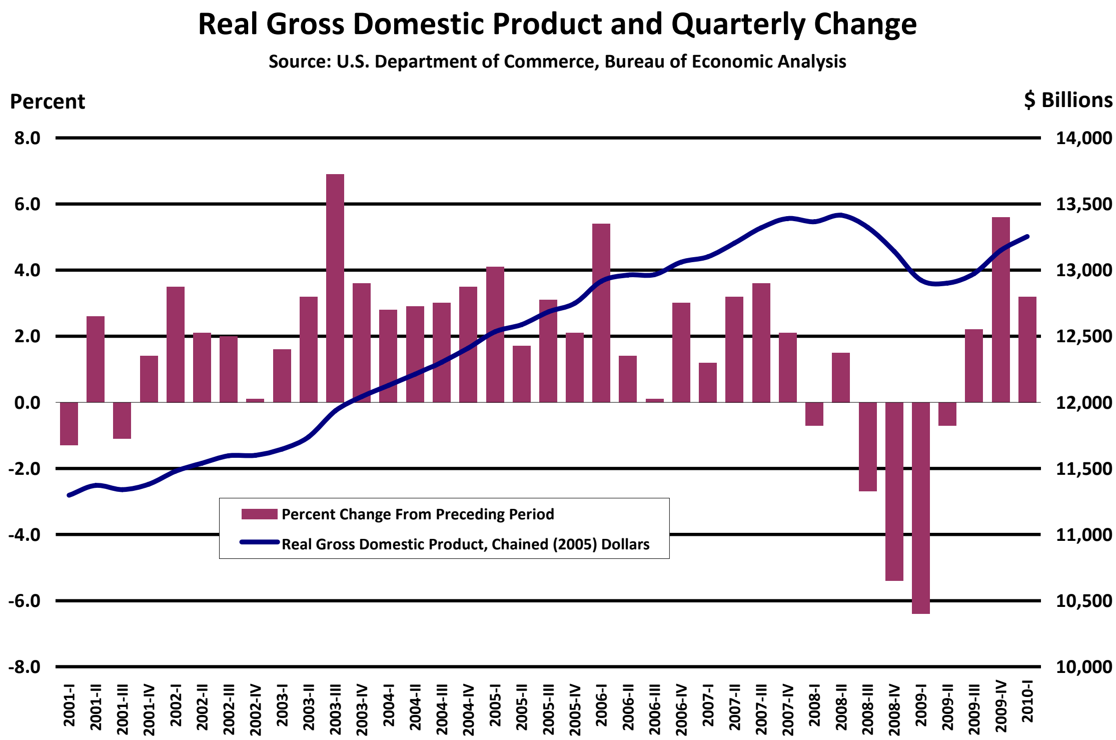


Gross Domestic Product (GDP)—the output of goods and services produced by labor and property located in the United States—is the broadest measure of economic activity. It is also the measure that is most indicative of whether the economy is in recession. In the post-World War II period, there has been no recession in which GDP did not decrease in at least two quarters, (the exceptions being during the recessions of 1960-61 and 2001.)

Economic output in the United States had been expanding each quarter since the 4th quarter of 2001. Beginning in the 2nd quarter of 2003, the national economy grew fairly consistently at an annual rate of around 3 to 4 percent, in real terms, with occasional quarters of slower growth through late 2006 and early 2007. The middle of 2007 found revived growth of nearly five percent, but GDP declined for the first time in two years in the 4th quarter of 2007. The first half of 2008 had slow to moderate growth in GDP, but has been followed by four consecutive quarterly declines.

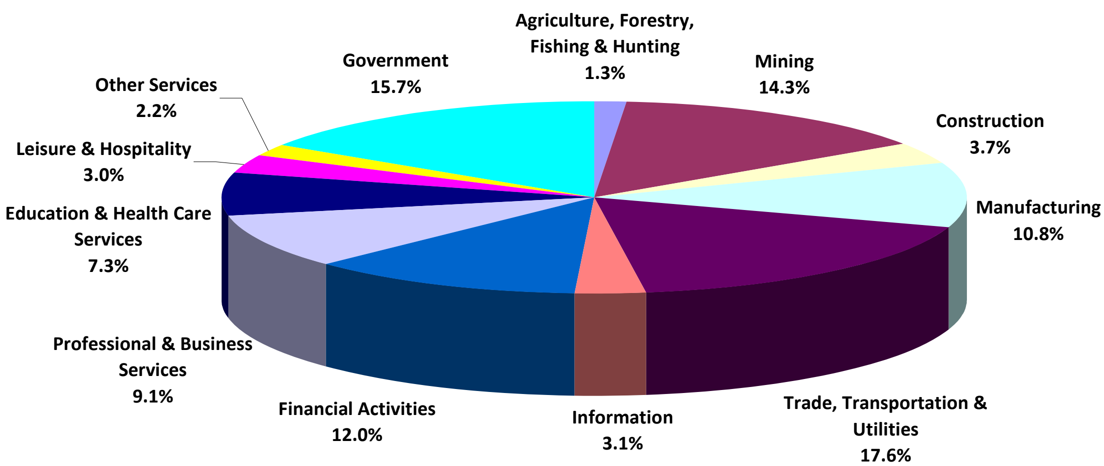
GDP contracted at a 6.4 percent annual rate in the 1st quarter of 2009 after a 5.4 percent rate of decline in the 4th quarter of 2008. The declines in these quarters were the largest since the early 1980s.

According to the "advance" estimate released by the Bureau of Economic Analysis, the U.S. economy grew at a brisk 3.2 percent in the 1st quarter of 2010. Growth was driven by businesses stocking up on goods for a strengthening consumer demand stoked by the lowest core inflation number in 51 years. The 3.2 percent increase in 1st quarter GDP marked a drop from a 5.6 percent surge at the end of 2009. But the 4th quarter GDP increase was largely due to a slowdown in inventory liquidation from earlier in 2009.

Industry Share of Oklahoma's Economy

(by percentage of Gross Domestic Product)

Source: U.S. Department of Commerce, Bureau of Economic Analysis



Oklahoma's economy typically follows a similar trend to that of the nation. State GDP data lags behind national data and is only available annually. As a result, it is not a good indicator of current economic conditions and does not fully reflect the recent changes in Oklahoma's economic climate. However, it is still valuable to understand the state's growth trend compared to the nation and what industries are the largest contributors to Oklahoma's economy.

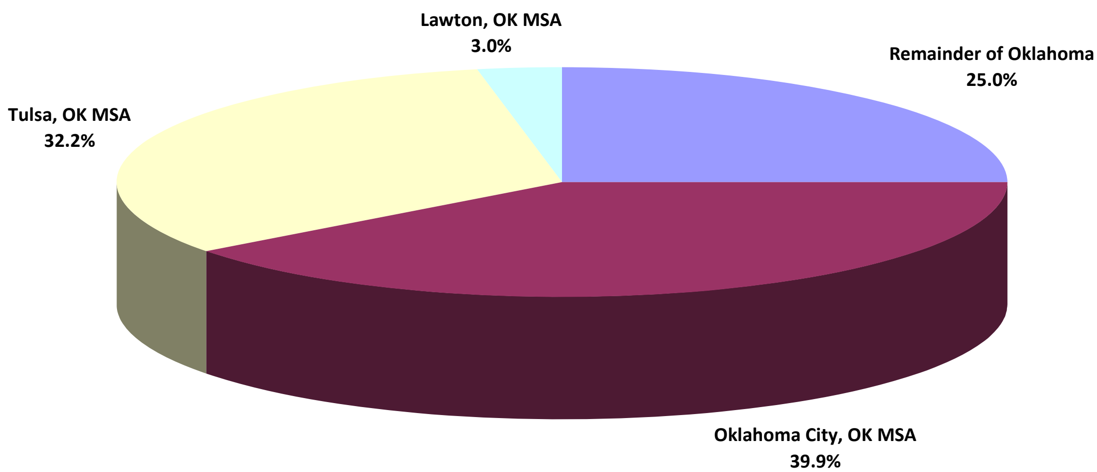
Oklahoma's GDP totaled $146.4 billion in 2008 according to advance estimates, an increase in real dollars of 2.7 percent from 2007. The U.S. growth rate for the same period was 1.1 percent. Nearly all industrial sectors contributed to the increase in Oklahoma's GDP with the only declining industry being agriculture, forestry, fishing, and hunting dipping 12.8 percent.

The broad trade, transportation and utilities sector makes up the largest portion of Oklahoma's economic output at 17.6 percent, followed by government (15.7 percent), mining (14.3 percent), and financial activities (12.0 percent).

Since 2003, trade, transportation and utilities, information, and professional and business services have had the largest gain in share of the state's economic makeup, while financial activities and government have had the largest declines in share.

Metropolitan Area Contribution to State Real Gross Domestic Product 2008

Source: U.S. Department of Commerce, Bureau of Economic Analysis

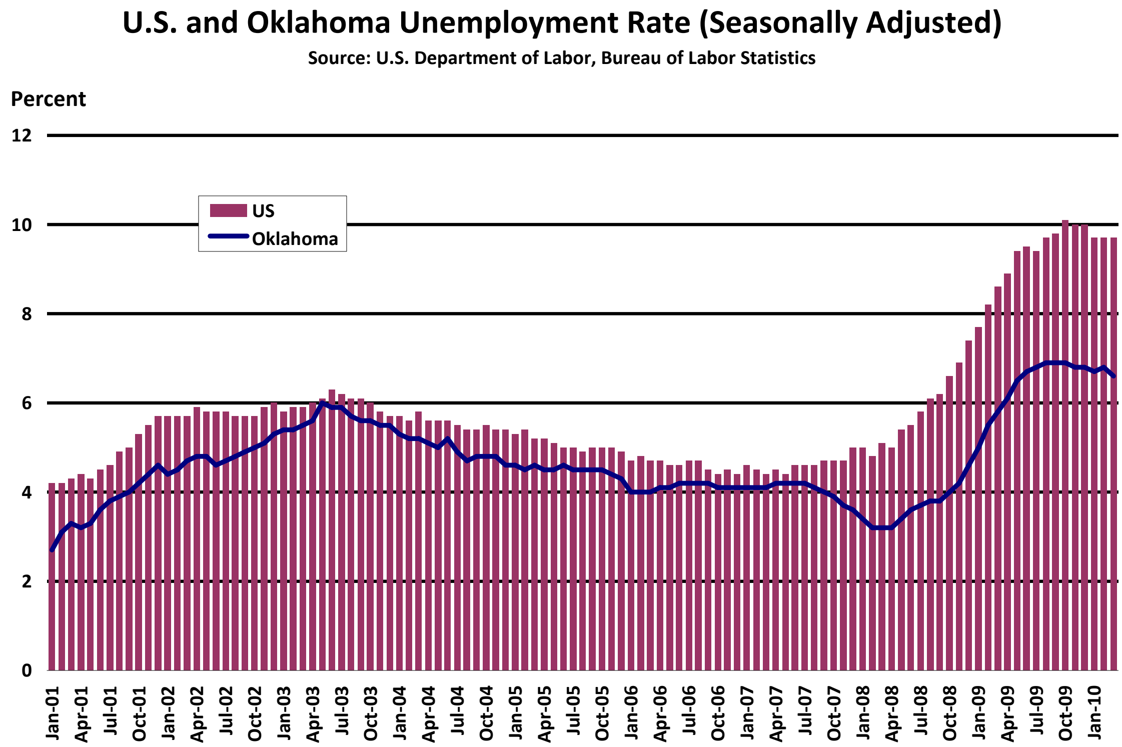


Metropolitan Statistical Areas (MSA) are the county-based definitions developed by the Office of Management and Budget for federal statistical purposes. A metropolitan area is defined as a geographic area consisting of a large population nucleus together with adjacent communities having a high degree of economic and social integration with the nucleus.

Nationally, metropolitan statistical areas represent approximately 90 percent of total GDP. In Oklahoma, the three MSAs of Oklahoma City, Tulsa and Lawton accounted for roughly 75 percent of the total state GDP in 2008.

Real GDP growth slowed in 220 of the nation's 366 metropolitan statistical areas (MSAs) in 2008 with downturns in construction, manufacturing, and finance and insurance restraining growth in many metropolitan areas. In contrast, growth accelerated in 146 metropolitan areas, most notably in areas where natural resources and mining industries are concentrated.

In terms of growth in real GDP, the Lawton, OK MSA ranked 45th out of all 366 U.S. metropolitan areas with a growth rate of 3.3 percent in 2008. The Oklahoma City MSA ranked 51st with a growth rate of 3.1 percent followed by the Tulsa MSA ranked at 177 with a growth rate of 1.0 percent.



The unemployment rate measures the percentage of people in the state who are without work and is calculated by dividing the estimated number of unemployed people in the state by the civilian labor force. The result expresses unemployment as a percentage of the labor force.

Nationally, the unemployment rate reached a high of 10.1 percent in October 2009. Since then, the unemployment rate has been trending downward to 10.0 percent in November and December.

In March, the number of unemployed persons was little changed at 15.0 million, and the unemployment rate remained at 9.7 percent—up from 8.6 percent a year earlier.

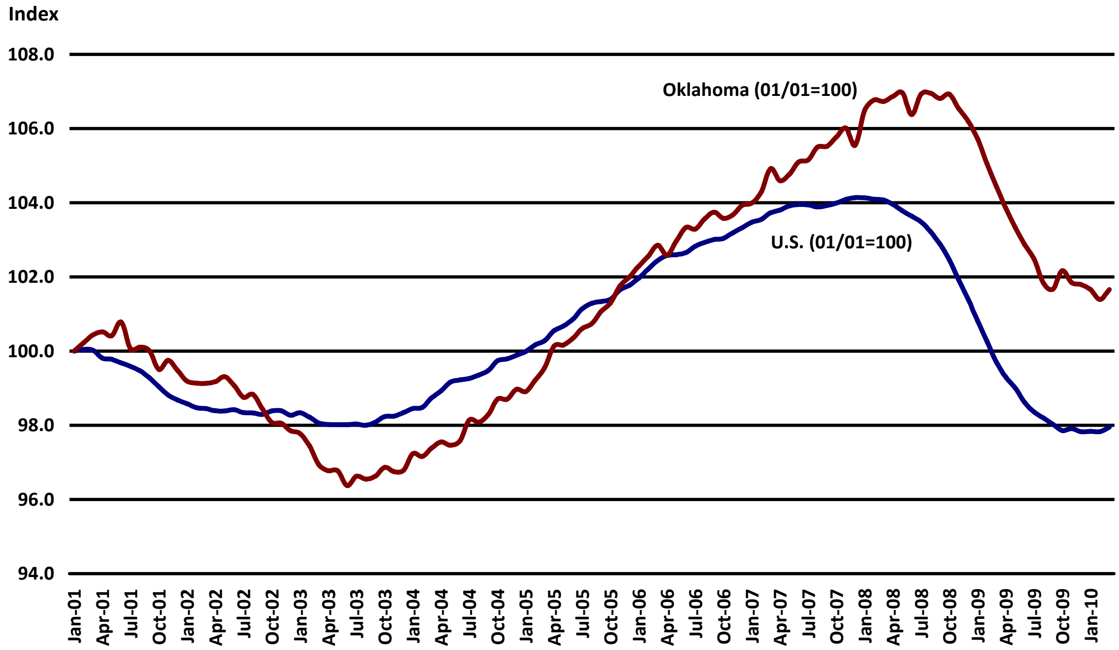
Michigan again recorded the highest unemployment rate among the states, 14.1 percent in March. The states with the next highest rates were Nevada, 13.4 percent; California and Rhode Island, 12.6 percent each; Florida, 12.3 percent; and South Carolina, 12.2 percent. North Dakota continued to register the lowest jobless rate, 4.0 percent in March, followed by South Dakota and Nebraska, 4.8 and 5.0 percent, respectively.

Statewide, unemployment rates have been easing over the past several months. Oklahoma's unemployment rate for March 2010 dropped to a seasonally adjusted 6.6 percent from February's 6.8 percent rate. This was the sixth lowest jobless rate in the nation for March.

U.S. and Oklahoma Nonfarm Payroll Employment (Seasonally Adjusted)

Index: January 2001=100

Source: U.S. Department of Labor, Bureau of Labor Statistics



Nonfarm payroll employment measures the number of jobs in the state. The number of jobs and the industries that create those jobs are important indicators of a state's economic health. Payroll employment is one of the most current and reliable indicators of economic conditions and recessionary trends.

Oklahoma nonfarm payroll employment growth began slowing in early 2008, peaked in October 2008, and has been almost steadily declining through 2009.

Since peaking in December 2007, U.S. employment has averaged decreases of about 350,000 jobs a month, while Oklahoma's average monthly decline has been about 4,700 a month. By comparison, during the 2001 recession U.S. employment losses averaged 200,000 a month.

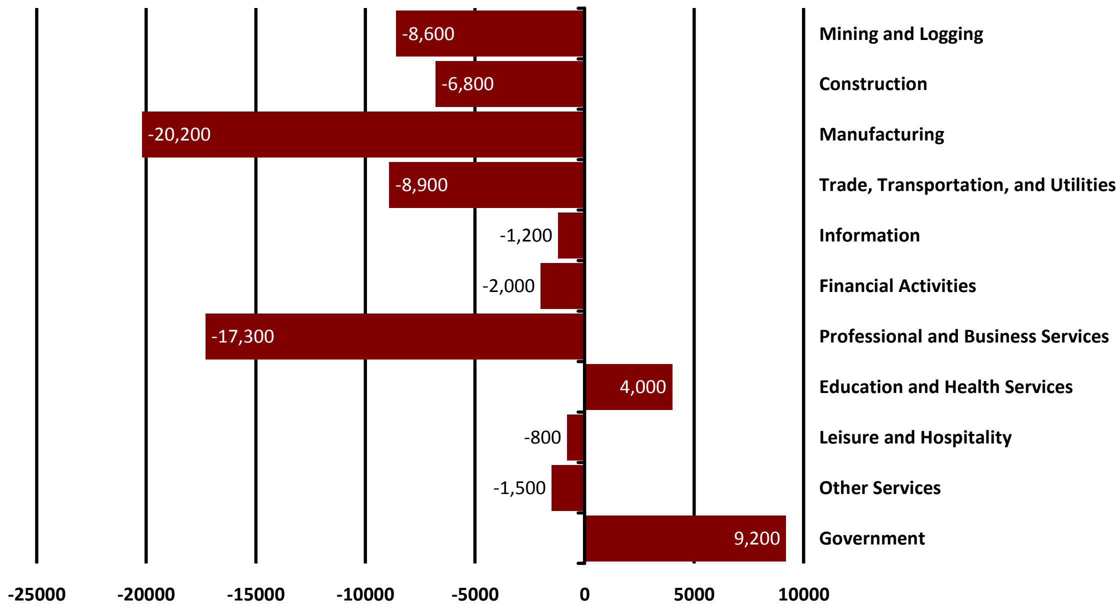
In March, U.S. nonfarm payroll employment rose by 162,000 as employers created jobs at the fastest pace in three years. Job growth continued in temporary help services and in health care. Federal government employment increased due to the hiring of temporary workers for Census 2010. Job losses continued in financial activities and in information.

March Oklahoma nonfarm payrolls grew by 0.3 percent from February adding 3,900 jobs. Only two of the 10 supersectors, (professional & business services and other services), reported over the month losses in March. Over the year, state nonfarm employment shed 41,600 jobs (-2.7 percent) with only educational & health services and government adding jobs.

Oklahoma Employment Change by Industry

2008 - 2009

Source: U.S. Department of Labor, Bureau of Labor Statistics



Employment growth by industry identifies the types of jobs being created in the state. Conversely, industries with a decreasing employment trend indicate those which are becoming less important in the state's economy. There may also be industries which behave more cyclically, growing during expansion and decreasing in times of economic slowdown or contraction. These changes are crucial in that they help to recognize the types of jobs being lost by individuals. Anticipating what will happen in recovery helps identify whether those jobs will return or what types of new jobs will be created. Consequently, key information for planning re-employment, retraining, and other workforce and economic development programs is contained within these data.

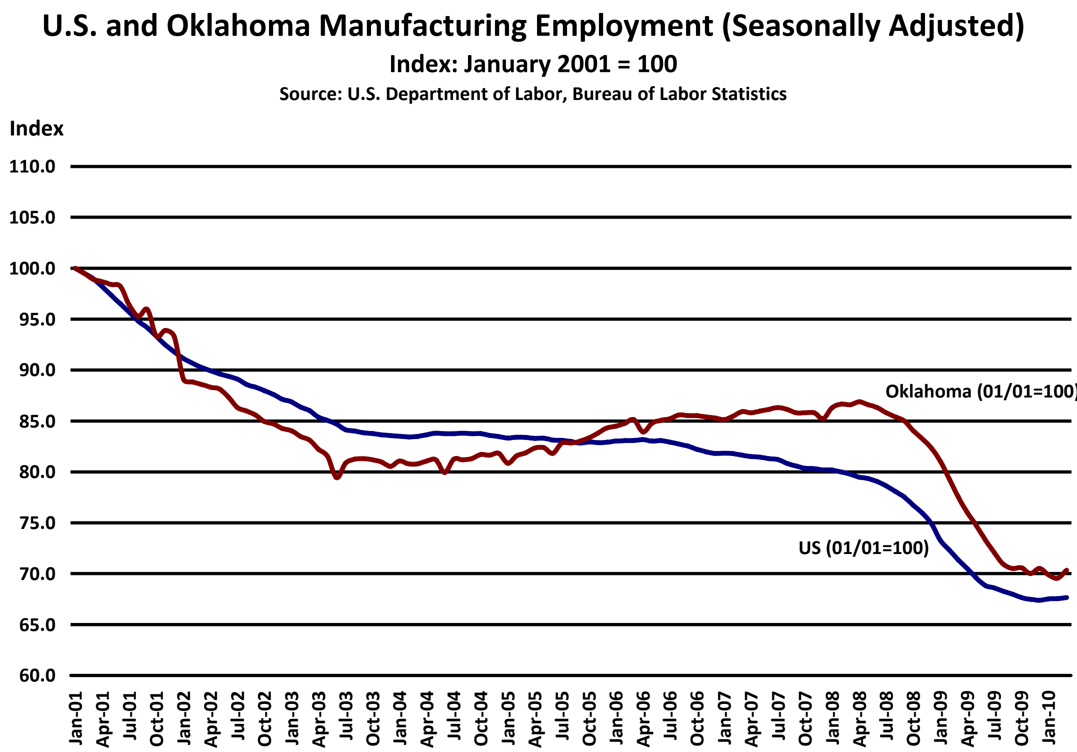
Job losses in Oklahoma have been widespread across most industrial sectors during the current recession. Comparing 2009 to 2008, only education and health services and government have seen employment growth. Manufacturing has been hardest hit, declining by 20,200 jobs with nearly all the job losses in the durable goods sector. Professional and business services followed shedding 17,300 jobs over the year, most of the job losses being in administrative and support and waste management and remediation services.

The broad trade, transportation and utilities industry lost 8,900 jobs over the year. The mining and logging industry dropped 8,600 jobs while construction employment fell by 6,800 jobs. Financial activities employment fell by 2,000 while employment in the information industry declined by 1,200 jobs.

Government added 9,200 jobs with nearly all of the gains being at the local and federal levels. The bulk of job growth in local government can be attributed to tribal gaming employment which had previously been counted in the leisure and hospitality industry.

Hiring for temporary Census 2010 workers accounted for much of the job gains in federal government.

Education and health services saw employment grow by 4,000 jobs from 2008 to 2009. The health care and social assistance sector makes up almost 90 percent of this industry and accounted for nearly all of job gains during the past year.

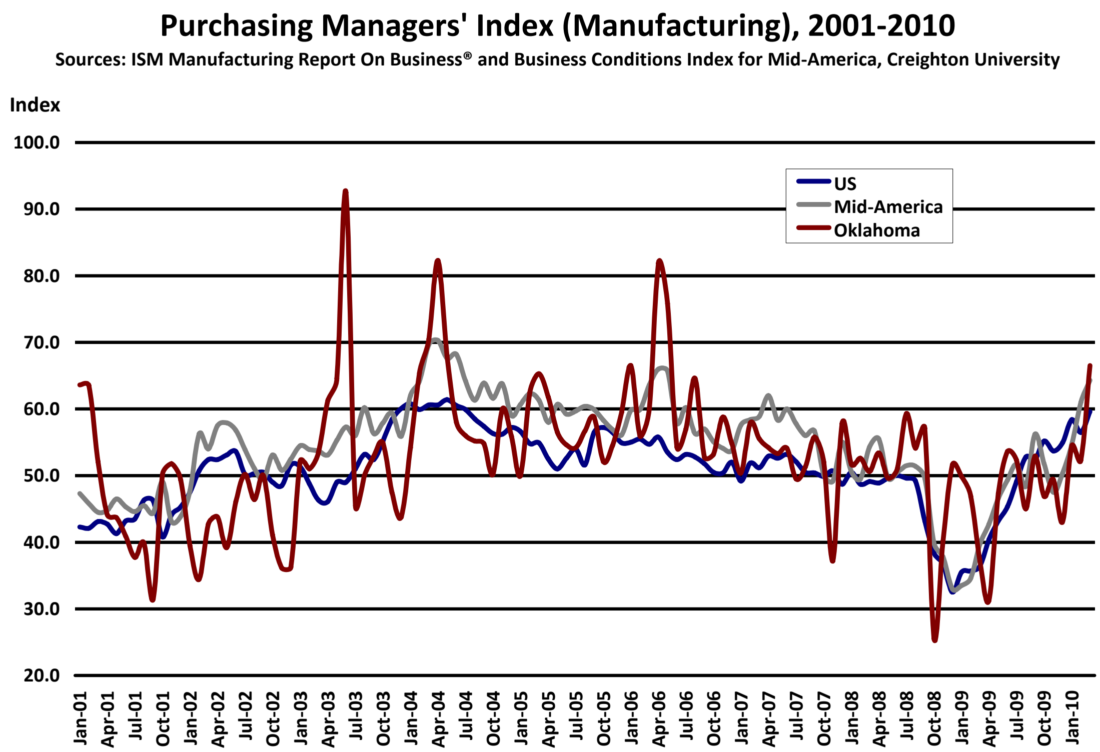


Manufacturing and production are still important parts of both the U.S. and Oklahoma economies and have been seriously adversely affected by the recession. In Oklahoma, manufacturing accounts for the largest share of private output in the state and one of the largest shares of employment. In addition, many manufacturing jobs are among the highest paying jobs in the state.

At one time, manufacturing made up 38 percent of the nation's employment. However, manufacturing employment in the United States has been declining since 1979, as productivity, technology gains, and the transfer of manufacturing to locations outside the United States have reduced the demand for traditional manufacturing employment. Furthermore, current shifts in the industry away from heavy sectors, such as automobiles and basic chemicals toward higher-tech products like computer chips are also accelerating manufacturing's long-term shrinkage.

U.S. manufacturing employment continued to trend up in March adding 17,000 jobs. The industry has added 45,000 jobs in the first 3 months of 2010. Over the month, job gains were concentrated in fabricated metal products and in machinery.

Oklahoma manufacturing employment began to slowly decline during 2008 with the pace of job losses accelerating in 2009. Manufacturing employment surged in February 2010, adding 1,400 jobs with gains in transportation equipment, aerospace product and parts, food, paper, and plastics and rubber. However, year over year, manufacturing has shed 12,600 jobs from March 2009 to March 2010 for a 9.3 percent decline.



Economists consider the Institute for Supply Management's Purchasing Managers' Index (PMI) a key economic indicator. The PMI measures such factors as new orders, production, supplier delivery times, backlogs, inventories, prices, employment, import orders and exports, Typically, a score greater than 50 indicates an expansionary economy, while a score below 50 forecasts a sluggish economy for the next three to six months.

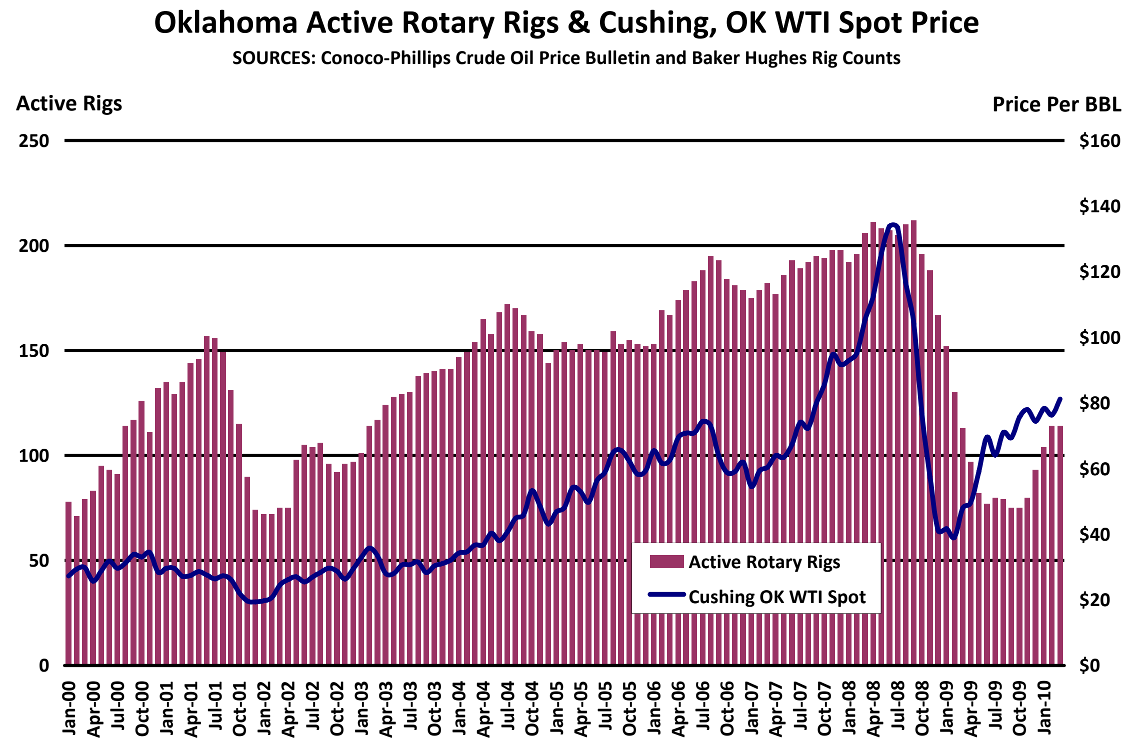
The PMI has been improving at the national level since bottoming out in late-2008 and early 2009. Economic activity in the manufacturing sector expanded in March for the eighth consecutive month albeit at a slower rate of growth than the previous month. Additionally, the March PMI indicated growth in the overall economy for the 11th consecutive month.

The Institute for Supply Management also noted that the past relationship between the PMI and the overall economy indicates that the average PMI for January through March (58.2 percent) corresponds to a 5.4 percent increase in real gross domestic product (GDP). Moreover, if the PMI for March is annualized, it corresponds to a 5.9 percent increase in real GDP annually.

The March Business Conditions Index for the Mid-America region climbed for a fourth straight month, pointing to a growing economy in the months ahead, according to the March Business Conditions survey of supply managers and business leaders in the nine-state region, (including Arkansas, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma and South Dakota). The index advanced to 64.3, its highest level since

May 2006, up from last month's 61.0. An index of 50.0 is considered growth neutral for the leading economic indicator.

For a third straight month, Oklahoma's leading economic indicator from the monthly survey of supply managers climbed above growth neutral. The Business Conditions Index soared to 66.5 from February's tepid 52.3 and January's 54.5. Components of March's overall reading were new orders at 67.4, production, or sales, at 68.3, delivery lead time at 72.2, inventories at 58.4, and employment at 66.4.



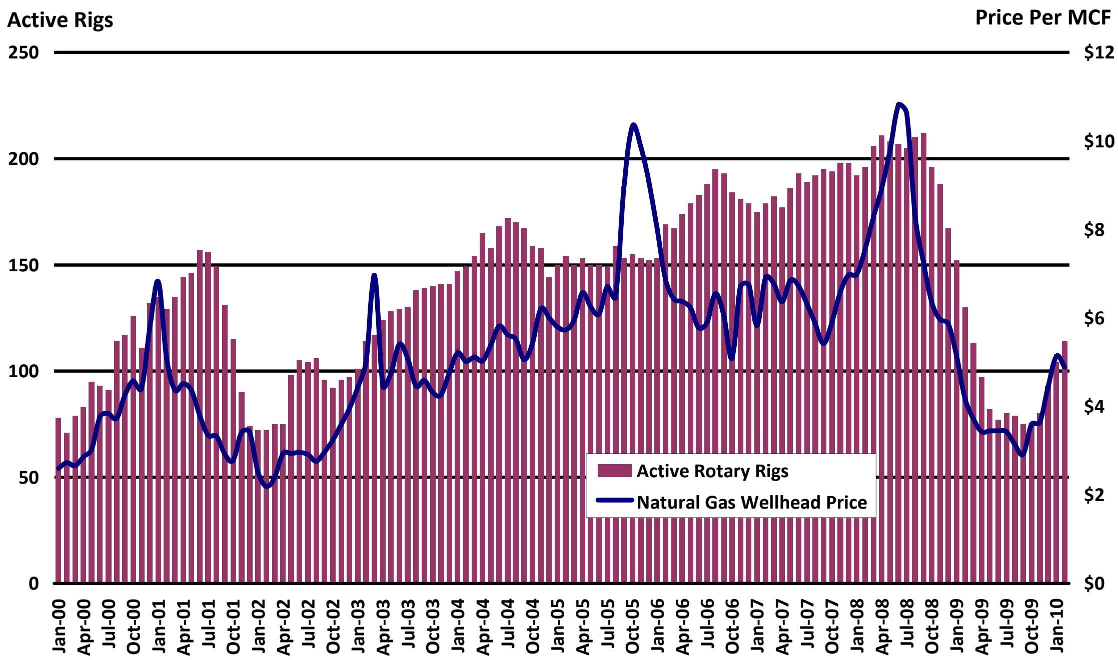
The Baker Hughes rig count is an important indicator for the energy industry and Oklahoma. Rig counts generally rise following increased oil and gas company development and exploration spending, which is influenced by the current and expected price of oil and natural gas (among other factors). Therefore, the rig count reflects the strength and stability of energy prices.

Oklahoma has a high concentration of corporate headquarters, regional offices and operations facilities of oil and gas firms as well as a more highly developed network of supporting firms in the manufacturing, transportation, legal and financial services sectors. As an export-oriented product, energy serves as a key economic base industry that serves non-local markets.

Energy production also generates significant purchases of goods and services from other sectors of the state's economy. The value each worker adds to the product is also quite high in energy production, allowing workers to earn well above average wages in the state. Moreover, the industry generates royalty income for mineral rights owners and large amounts of tax revenue for state and local government. In short, rapid expansion or contraction in the oil and gas sector is felt by the state's industry suppliers, households and state and local governments.

Oklahoma Active Rotary Rigs & Natural Gas Wellhead Price

Sources: U.S. Department of Energy, Energy Information Administration and Baker Hughes Rig Counts

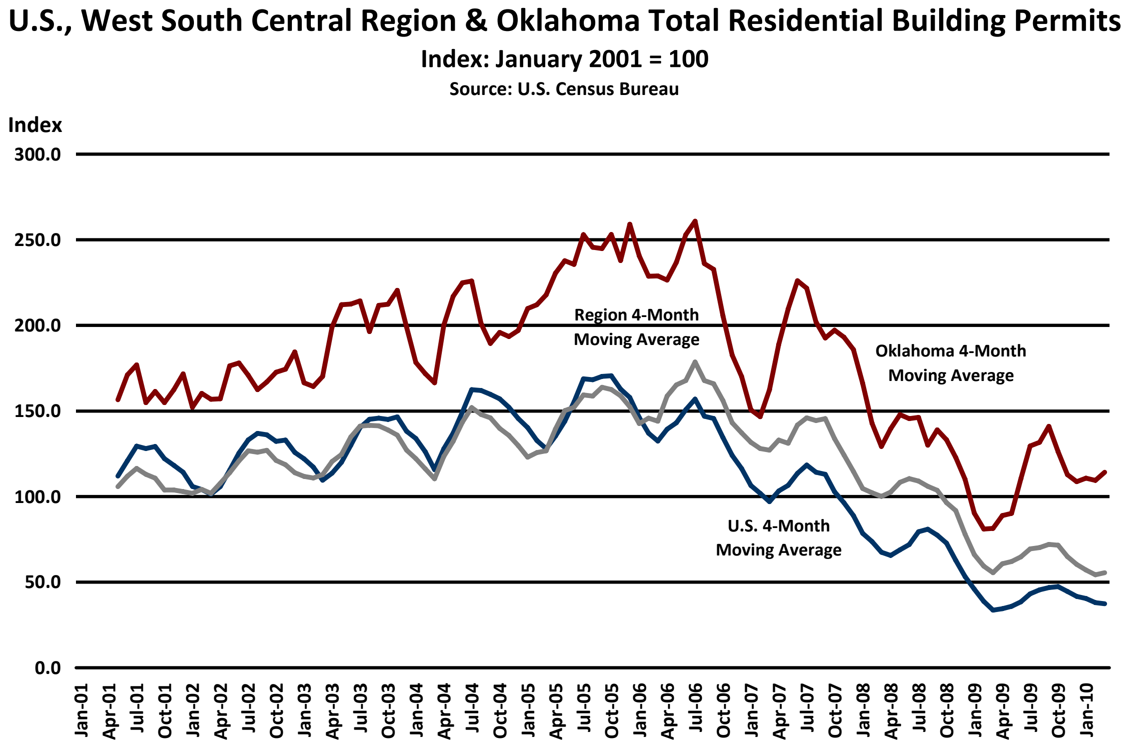


Energy prices have played a pivotal role in the current economic cycle. Oil prices climbed steadily from approximately $30 per barrel in 2003 to nearly $140 in 2008, while natural gas prices climbed from around $4 per mcf to above $10 per mcf in the same period. Surging energy prices weighed heavily on the national economy but provided an offsetting boost to Oklahoma. Both crude oil and natural gas prices set all-time highs in the summer of 2008.

Since peaking in 2008, crude oil prices had dropped to below $40 per barrel before recovering and stabilizing at around $70 per barrel, while natural gas prices experienced a sharp and sustained drop to near $3 per mcf. This reversal in energy prices underlies the weak performance of Oklahoma relative to other 'non-energy' states since early 2009.

The strength in oil prices is providing support to the industry and will partly offset continued low natural gas prices. However, an extended period of weakness in natural gas prices could be a substantial drag to economic recovery in Oklahoma.

March Oklahoma rotary rig activity remained unchanged from the previous month at 114. The Cushing, Oklahoma West Texas Intermediate Spot Price rose by $4.81 to $81.20 per barrel in March while the Natural Gas Wellhead Price fell slightly to $4.36 per mcf.



This indicator measures the number of permits issued for housing units (single-family home or apartment) authorized for construction. Because permits precede construction, they are considered a leading indicator for the residential construction industry and the overall economy. Most of the construction begins the same month the permit is issued. The remainder usually begins construction during the next three months.

Housing contributes to GDP in two basic ways: through private residential investment and consumption spending on housing services. According to the National Home Builders Association, residential investment has historically averaged roughly 5 percent of GDP while housing services have averaged between 12 and 13 percent, for a combined 17 to 18 percent of GDP.

In the past two years, home builders have lost half their share of the U.S. housing market, mainly because of competition from cheap foreclosed houses. In 2009, only 7.9 percent of homes sold were newly constructed—down from the average of 16 percent over the past two decades.

The bottom for U.S. single-family construction was reached in January 2009 when starts hit a seasonally adjusted annual rate of 353,000, their slowest pace since reliable records started being kept in 1959. With the extension and expansion of the home buyers' tax credit, builders are anticipating improved demand.

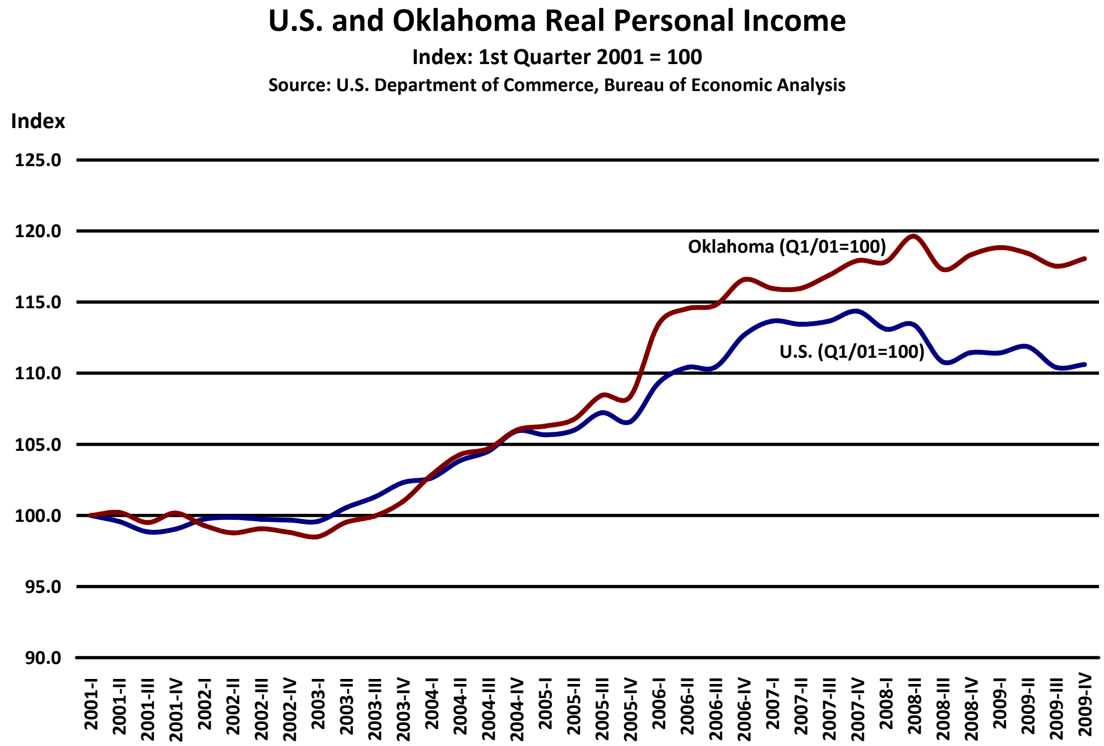
Privately-owned housing units authorized by building permits in March were at a seasonally adjusted annual rate of 685,000. This is 7.5 percent above the revised

February rate of 637,000 and is 34.1 percent above the March 2009 estimate of 511,000.

Due to the different magnitudes of permitting activity nationally, regionally and statewide, the data illustrated in the previous chart have been indexed with January 2001 as the base. Generally, residential permitting peaked in mid-2006 in all geographic areas and has been declining since that time. The sharpest slide occurred in September 2008 with permitting falling by 37.9 percent in Oklahoma and 22.3 percent in the West South Central region (including Arkansas, Louisiana, Oklahoma and Texas).

Oklahoma residential permitting activity reached its lowest level in January 2009. Since that time, state permitting activity has shown incremental monthly improvements up to mid-year but has moved mostly sideways for the rest of 2009.

After slumping in January, Oklahoma residential permitting activity has been picking up in 2010, growing by 9.9 percent in March and 46.4 percent above March 2009.



Personal income is a broad measure of economic activity and one for which relatively current data are available. Personal income includes earnings; property income such as dividends, interest, and rent; and transfer payments, such as retirement, unemployment insurance, and various other benefit payments. It is a measure of income that is available for spending and is seen as an indicator of the economic well-being of the residents of a state. Earnings and wages make up the largest portion of personal income.

To show the hugely different levels of total personal income for the U.S. and Oklahoma on the same chart, these data have been converted to index numbers. This chart shows a comparison of Oklahoma and U.S. growth in real personal income with the 1st quarter 2001 as the base year.

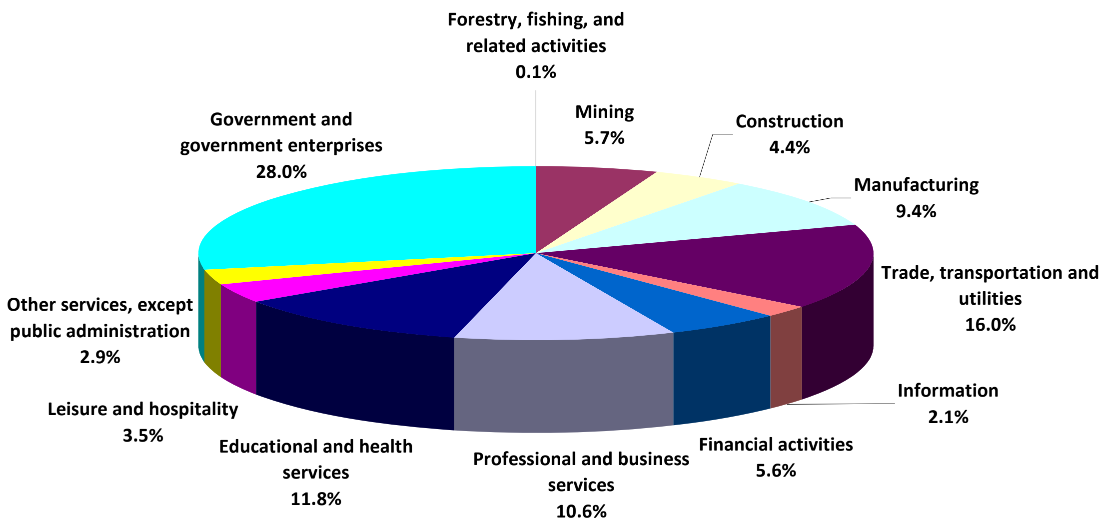
Nationally, personal income declined for the first three quarters of 2008, followed by a spike in the 2nd quarter of 2009, and subsequent drop in the 3rd quarter of 2009. Almost all of the 'spike' in the 2nd quarter was accounted for by cash rebates that taxpayers received from the federal government in the spring under the Economic Stimulus Act of 2008 rather than an underlying improvement in the economic picture.

U.S. consumer spending rose twice as fast as income in March as saving dropped to its lowest level in 18 months and inflationary pressures remain subdued. Personal income increased $36.0 billion, or 0.3 percent, and disposable personal income (DPI) increased $32.3 billion, or 0.3 percent, in March, according to the Bureau of Economic Analysis. The core price index for personal consumption expenditures, which excludes food and energy prices because of their volatility, advanced 0.1 percent in March.

Oklahoma Personal Income Compensation by Industry

Fourth Quarter 2009

Source: U.S. Department of Commerce, Bureau of Economic Analysis



After peaking in the 2nd quarter 2008, Oklahoma personal income levels declined for three consecutive quarters before rebounding in 3rd quarter 2009. Oklahoma personal income continued to improve in the 4th quarter, growing by 1.2 percent and ranking 7th among all states. For comparison, U.S. state personal income growth averaged 0.9 percent in the fourth quarter of 2009 and ranged from a low 0.3 percent in Wyoming to a high 2.2 percent in South Dakota.

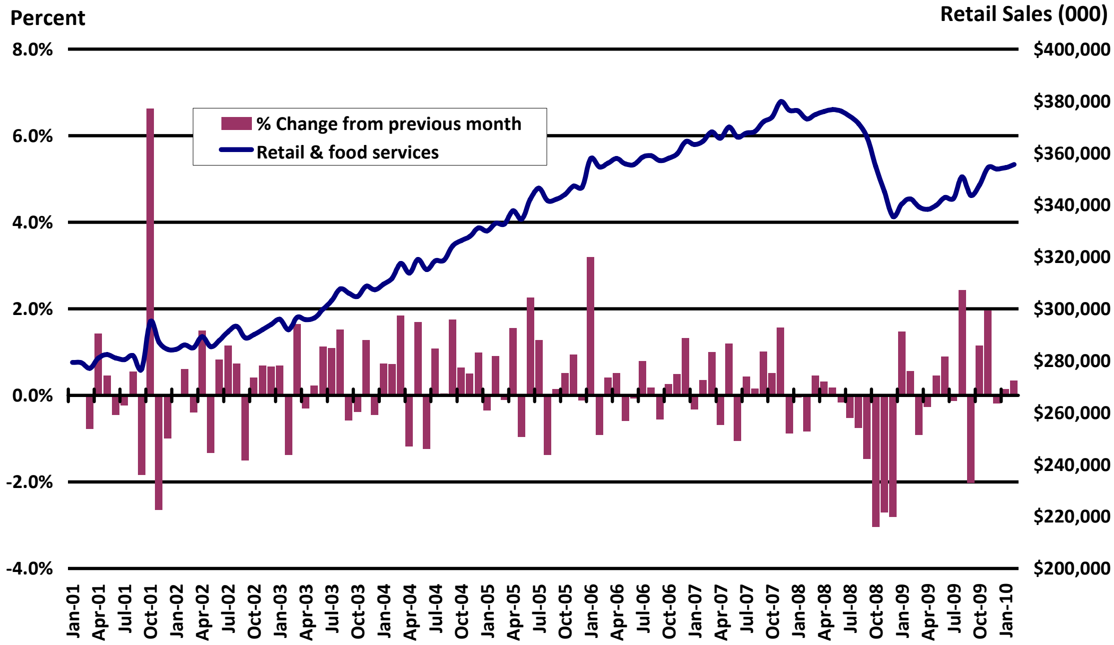
The industry making the largest contribution to 4th quarter personal income growth nationally and statewide was health care. Construction and government also contributed to statewide personal income growth but were offset by declines in forestry, fishing and related activities and mining.

According to the U.S. Bureau of Economic Analysis, personal income declined an average 1.7 percent in 2009 for all states. For 2009, Oklahoma saw its personal income fall to $130 billion from $131.1 billion in 2008—for a decline of 0.8 percent—ranking it 16th in the nation. Income in almost all Oklahoma industries declined in 2009 with some of the largest losses occurring in the mining industry, reflecting weak energy prices, and in manufacturing.

Annual percentage changes in state personal income ranged from -4.8 percent in Nevada to 2.1 percent in West Virginia (one of six states with a personal income gain in 2009). Inflation, as measured by the national price index for personal consumption expenditures, fell to 0.2 percent in 2009 down from 3.3 percent in 2008.

U.S. Retail Sales (Adjusted for seasonal, holiday, and trading-day differences)

Source: U.S. Census Bureau, Advance Monthly Sales for Retail and Food Services

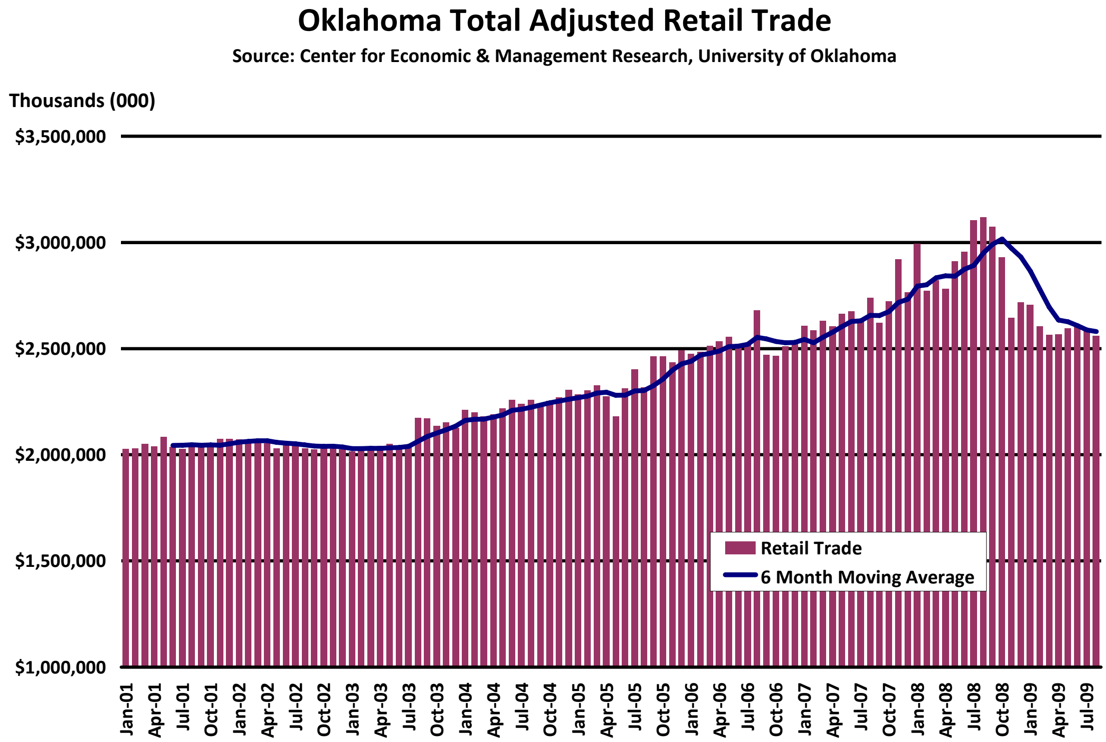


Consumer spending accounts for two-thirds of the U.S. economy, and is likewise, essential to Oklahoma's economy. Retail sales account for around one-half of consumer spending and economic recovery calls for consumption growth

National retail sales data are prone to fluctuations but provide an important view on changes in consumer spending. There have been considerable swings in retail trade since the end of 2001, but retail sales have generally been increasing since 2003. Retail sales turned flat around the end of 2007 and began to fall from the middle of 2008 through the end of the year. So far in 2009, retail sales have been fluctuating, but generally flat.

Nearly half of the improvement in 3rd quarter GDP growth was due to consumer purchases of motor vehicles and residential investment, both of which were spurred by temporary government programs such as "Cash for Clunkers" and homebuyer tax credits, the latter of which have been extended through April 2010.

Retail sales surged 1.6 percent in March, giving a strong sign consumers are growing more confident the economy is improving. Robust car sales drove much of the increase in retail sales. Yet excluding the automotive sector, other retailers were strong as well, rising 0.6 percent. The Commerce Department also reported that retail sales from February were adjusted upward to a 0.5 percent increase from a previously reported 0.3 percent rise, even though major snowstorms blanketed many cities in the Northeast during that time.



The jump in retail sales came amid subdued inflation. Consumer prices rose 2.3 percent compared with a year ago, while prices excluding volatile food and energy were 1.1 percent higher on the year, which was the smallest annual increase since January 2004.

Retail sales in Oklahoma peaked in August 2008 and have been generally declining since that time. Total adjusted retail sales for 2009 were off $3.34 billion from 2008—a decline of nearly 9.7 percent. January 2010 Oklahoma retail sales were down $2.7 billion—a decrease of 11.4 percent compared to January 2009.