OKLAHOMA
Economic Indicators

April 2013

OKLAHOMA ECONOMIC INDICATORS

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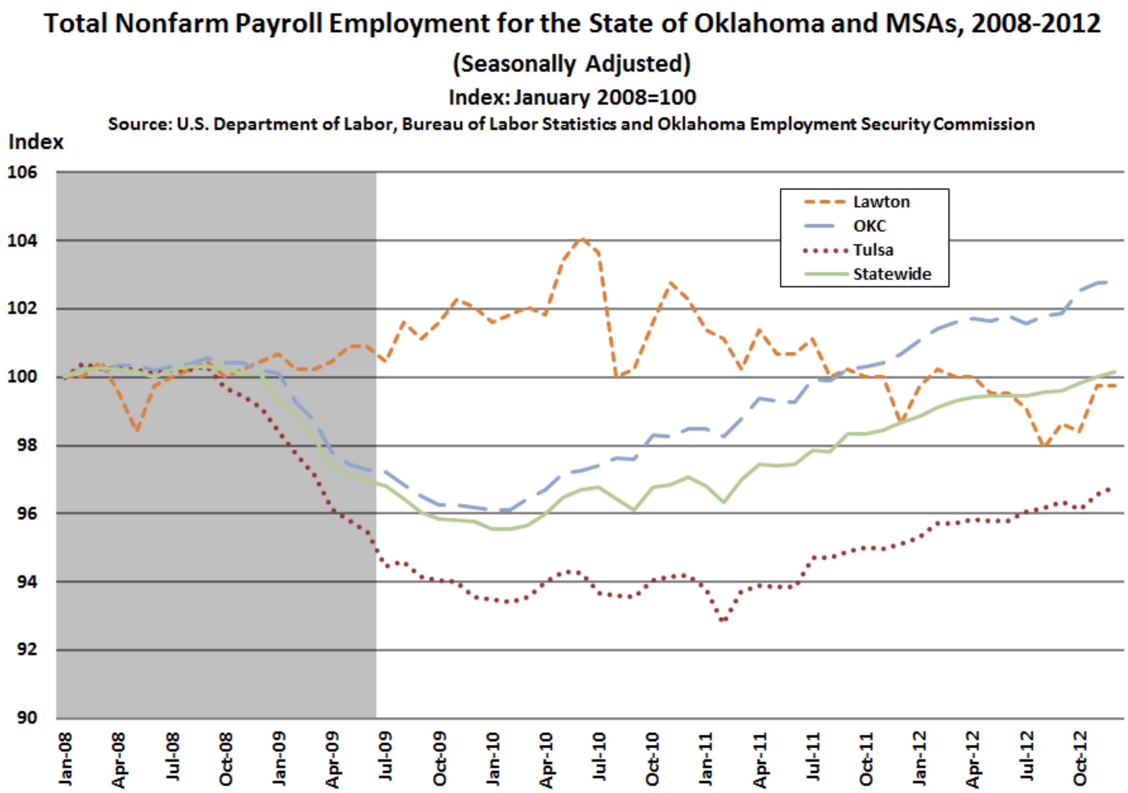
SPECIAL REPORT: Changes in Total Nonfarm Employment for Oklahoma and Metro Areas, 2008-2012



NOTE Shaded area represents National Bureau of Economic Research defined recession period.

The Current Employment Statistics (CES) program is a monthly survey conducted by the Bureau of Labor Statistics providing employment, hours, and earnings estimates based on payroll records of business establishments. The CES monthly employment series are the first economic indicator of current economic trends each month and, together with the unemployment rate, are inputs to many gauges of the U.S. economy including: the overall health of the economy (employment); earnings trends and wage-push inflation (average hourly earnings); and short-term fluctuations in demand (average weekly hours). The CES employment series can also inform other areas of business, research, and policy such as public policy, economic research and planning, and industry studies.

To account for the size disparity between the State of Oklahoma and metropolitan statistical areas (MSA), the data have been indexed with January 2008 as the start value.

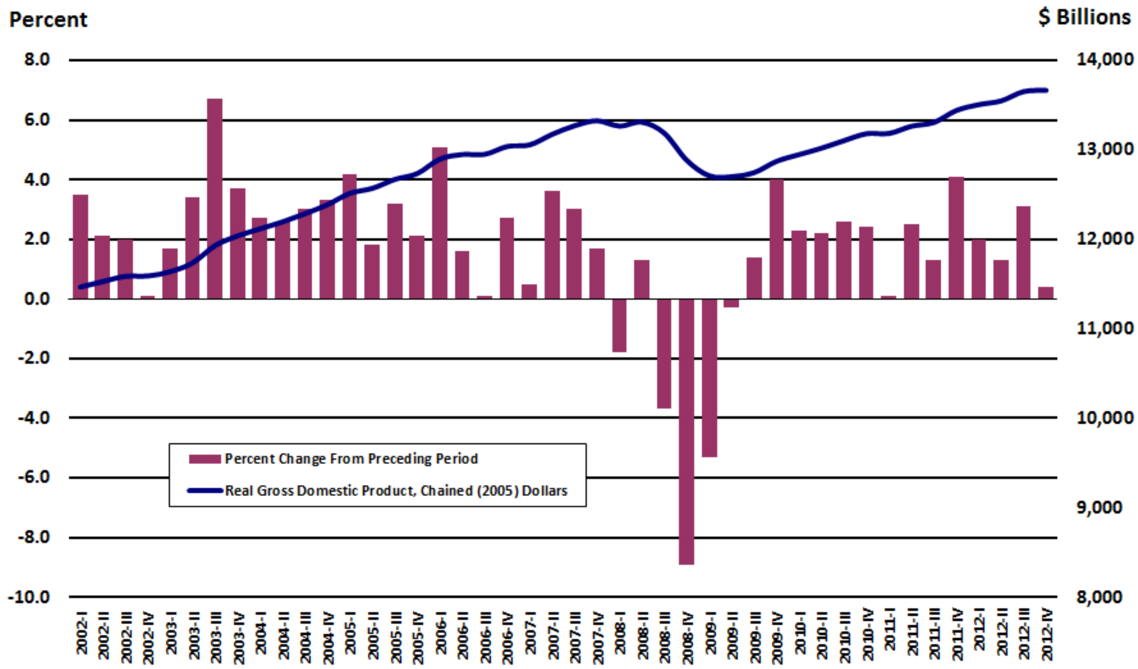
According to the National Bureau of Economic Research (NBER), the last recession began December 2007 and ended June 2009. Payroll employment for the state as well as for the Lawton MSA, Oklahoma City MSA, and Tulsa MSA experienced modest growth until September 2008. After September 2008, payroll employment began falling for the state, Oklahoma City, and Tulsa and Lawton's payroll employment began rising. By February 2010, payroll employment for the state had decreased by 4.76 percent. Similarly, Oklahoma City's payroll employment had decreased 4.44 percent. Tulsa had the greatest decrease of 6.90 percent. However, Lawton's payroll employment had increased by 1.37 percent. Lawton's payroll employment continued to rise until June 2010 after which it returned to January 2008 numbers.

In March 2010, payroll employment for the state of Oklahoma and for Oklahoma City and Tulsa began gradually increasing. By December 2012, the state increased payroll employment by 4.38 percent, almost but not quite making up for recessionary losses which began after September 2008. Oklahoma City fared better than the state by increasing payroll employment by 6.98 percent. Overall, Oklahoma City's gains exceeded recessionary losses and continued this trend in January 2013 with another increase in payroll employment bringing its percentage to 7.39 percent since March 2010.

Tulsa increased payroll employment at a slower pace than the state and Oklahoma City. Between March 2010 and December 2012, Lawton's payroll employment grew by 3.62 percent, making up only half the ground lost since September 2008. Lawton's payroll employment, on the other hand, eventually declined by 2 percent over this same period, ending 2012 where it began at the beginning of 2008.

Real Gross Domestic Product and Quarterly Change

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



Definition & Importance

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).

The Bureau of Economic Analysis (BEA), U.S. Department of Commerce releases GDP data on a quarterly basis, usually during the fourth week of the month. Data are for the prior quarter, so data released in April are for the 1st quarter. Each quarter's data are revised in each of the following two months after the initial release. Each revision is based on more complete economic data.

Background

There are four major components to GDP:

1. *Personal consumption expenditures:* Individuals purchase durable goods (such as furniture and cars), nondurable goods (such as clothing and food) and services (such as banking, education and transportation).

2. *Investment:* Private housing purchases are classified as residential investment. Businesses invest in nonresidential structures, durable equipment and computer software. Inventories at all stages of production are counted as investment. Only inventory changes, not levels, are added to GDP.

3. *Net exports:* Equal the sum of exports less imports. Exports are the purchases by foreigners of goods and services produced in the United States. Imports represent domestic purchases of foreign-produced goods and services and are deducted from the calculation of GDP.

4. *Government:* Government purchases of goods and services are the compensation of government employees and purchases from businesses and abroad. Data show the portion

attributed to consumption and investment. Government outlays for transfer payments or interest payments are not included in GDP.

The four major categories of GDP—personal consumption expenditures, investment, net exports and government—all reveal important information about the economy and should be monitored separately. This allows one to determine the strengths and weaknesses of the economy.

Current Developments

After nearly stalling late last year, the US economy picked up in the 1st quarter, driven by the strongest consumer spending in two years. Real gross domestic product increased at an annual rate of 2.5 percent in the 1st quarter of 2013, according to the "advance" estimate released by the Bureau of Economic Analysis (BEA). In the 4th quarter, real GDP increased 0.4 percent.

Consumers stepped up spending at an annual rate of 3.2 percent in the January-March quarter—the biggest jump since the end of 2010. That compares with a 1.8 percent rate in the previous quarter. Spending on durable goods increased 8.1 percent while non-durable goods spending was up 1.0 percent, (compared to a 0.1 percent rate in the 4th quarter). Services increased 3.1 percent, compared with an increase of 0.6 percent in 4th quarter.

Growth was also helped by businesses, responding to a 4th-quarter drawdown by rebuilding their stockpiles. Inventory investment jumped to $50.3 billion in the 1st quarter from $13.3 billion in the previous quarter. The change in real private inventories added 1.03 percentage points to the 1st-quarter change in real GDP after subtracting 1.52 percentage points from the 4th-quarter change. Nonresidential fixed investment advanced but also at a softer rate, 2.1 percent versus the 4th quarter's 13.2 percent.

Housing remains a bright spot of the recovery, boosting growth for the past two years. Residential investment gained 12.6 percent, though at a slower pace than 17.6 percent the quarter before.

Slowing global growth is showing up as the 1st quarter net export gap widened to $400.8 billion from $384.7 billion. Real imports grew 5.4 percent while real exports increased only 2.9 percent, creating a drag on growth.

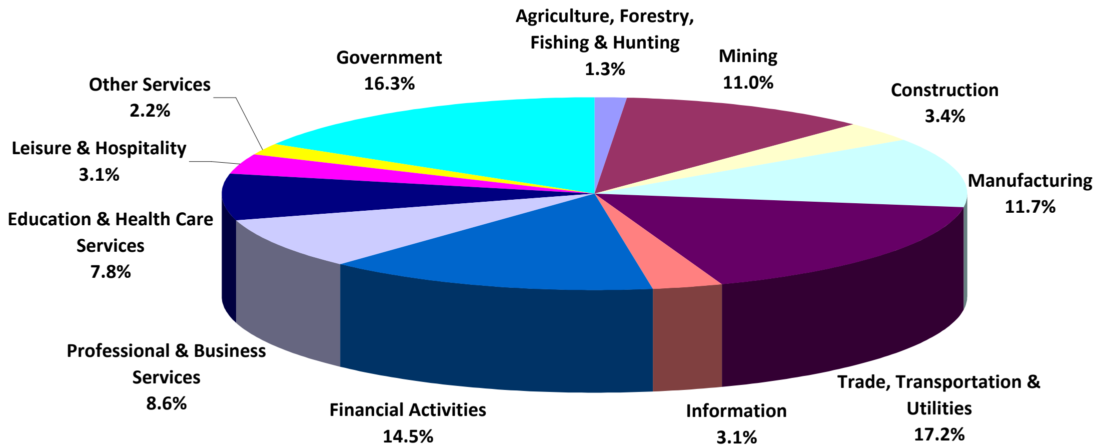
The main drag on 1st quarter GDP growth was a cutback in government spending. State and local spending fell a little, but the big hit came from a drop in federal spending, mostly on defense. That's largely because of the spending cuts known as the "sequester," which went into effect March 1. Real federal government consumption expenditures and gross investment decreased 8.4 percent in the 1st quarter, compared with a decrease of 14.8 percent in the 4th quarter. National defense spending decreased 11.5 percent, compared with a decrease of 22.1 percent the quarter before. Nondefense decreased 2.0 percent, in contrast to an increase of 1.7 percent. Real state and local government consumption expenditures and gross investment decreased 1.2 percent in the 1st quarter, compared with a decrease of 1.5 percent previously.

In 2012, durable-goods manufacturing, finance and insurance, and wholesale trade were the leading contributors to U.S. economic growth, according to advance statistics on the breakout of real gross domestic product (GDP) by industry from the BEA. Overall, 19 of 22 industry groups contributed to the 2.2 percent increase in real GDP. In 2011, GDP advanced at a rate of 1.8 percent.

2011 Industry Share of Oklahoma's Economy

(by percentage of Gross Domestic Product)

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



Definition & Importance

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.

Current Developments

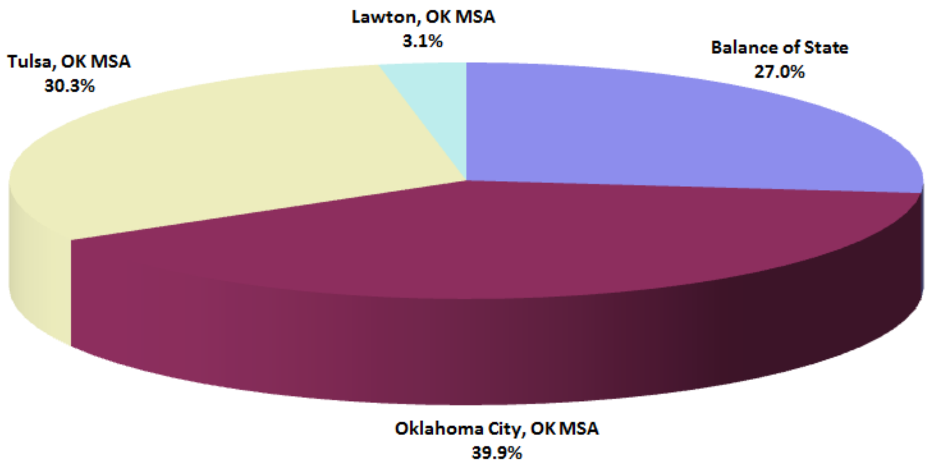
Oklahoma was among 43 states and the District of Columbia experiencing growth in real GDP in 2011, according to the advance estimate from the Bureau of Economic Analysis (BEA). Oklahoma's 2010 advance estimate was revised upward from 1.0 percent to 2.0 percent while the state's 2009 GDP was further revised downward reflecting depressed energy prices during that period.

Oklahoma registered a real GDP of $134.2 billion in 2011, a 1.0 percent gain from the revised $132.8 billion in 2010. U.S. real GDP by state grew 1.5 percent in 2011 after a 3.1 percent increase in 2010. Real GDP increased in all eight BEA regions in 2011, although growth slowed in most regions. The Far West (2.1 percent) was the only region where growth accelerated. The Southwest region, which includes Oklahoma, grew the fastest at 2.7 percent and was led by Texas with a 3.3 percent increase.

Durable-goods manufacturing was the leading contributor to real GDP growth in 26 states including Oklahoma, where it contributed 0.54 percentage points to overall growth. Other industries adding to 2011 GDP growth in Oklahoma were wholesale trade (0.29 percent); health care & social assistance (0.26 percent); mining (0.24 percent); and professional, scientific & business services (0.20 percent). Subtracting from Oklahoma GDP growth were agriculture, forestry, fishing & hunting (-0.26 percent); utilities (-0.19 percent); real estate, rental & leasing (-0.17 percent); government (-0.13 percent); and nondurable goods manufacturing (-0.11 percent).

Metropolitan Area Contribution to State Real Gross Domestic Product 2011

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



Definition & Importance

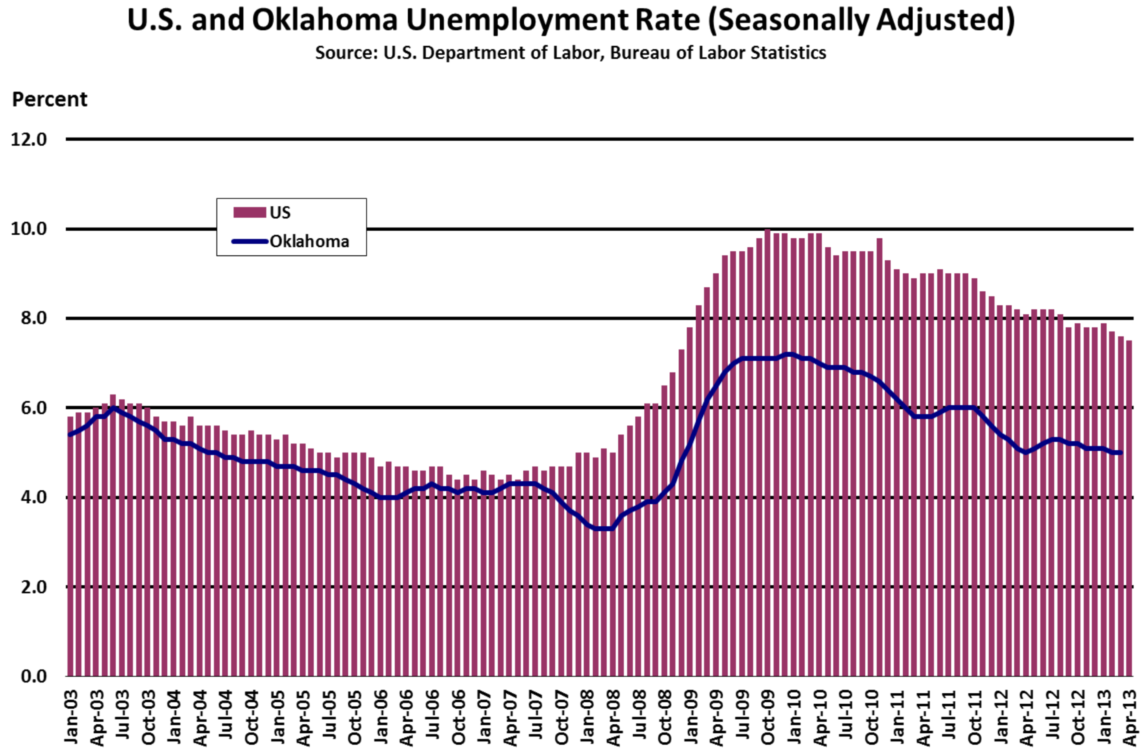
Metropolitan Statistical Areas (MSA) are the county-based definitions developed by the Office of Management and Budget for federal statistical purposes. A metropolitan area is defined as a geographic area consisting of a large population nucleus together with adjacent communities having a high degree 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 total state GDP in 2010.

Current Developments

Real GDP increased in 242 of the nation’s 366 metropolitan areas in 2011 led by growth in professional and business services, durable-goods manufacturing, and trade, according to the U.S. Bureau of Economic Analysis. Real GDP in metropolitan areas increased 1.6 percent in 2011 after increasing 3.1 percent in 2010.

In terms of growth in real GDP, all Oklahoma metropolitan areas grew in 2011. Lawton MSA grew by 0.9 percent to $4.2 billion in 2011 and ranked 169th out of the 366 U.S. metropolitan areas. Oklahoma City MSA grew by 2.0 percent to $53.5 billion and ranked 97th. Tulsa MSA grew at a rate of 0.5 percent to $40.7 billion and ranked at 209th.



Definition & Importance

The Bureau of Labor Statistics Local Area Unemployment Statistics (LAUS) program produces monthly estimates of total employment and unemployment from a national survey of 60,000 households. The unemployment rate measures the percentage of people who are without work and is calculated by dividing the estimated number of unemployed people by the civilian labor force. The result expresses unemployment as a percentage of the labor force.

The unemployment rate is a lagging indicator of economic activity. During a recession, many people leave the labor force entirely; as a result the jobless rate may not increase as much as expected. This means that the jobless rate may continue to increase in the early stages of recovery because more people are returning to the labor force as they believe they will be able to find work. The civilian unemployment rate tends towards greater stability than payroll employment on a monthly basis and reveals the degree to which labor resources are utilized in the economy.

Current Developments

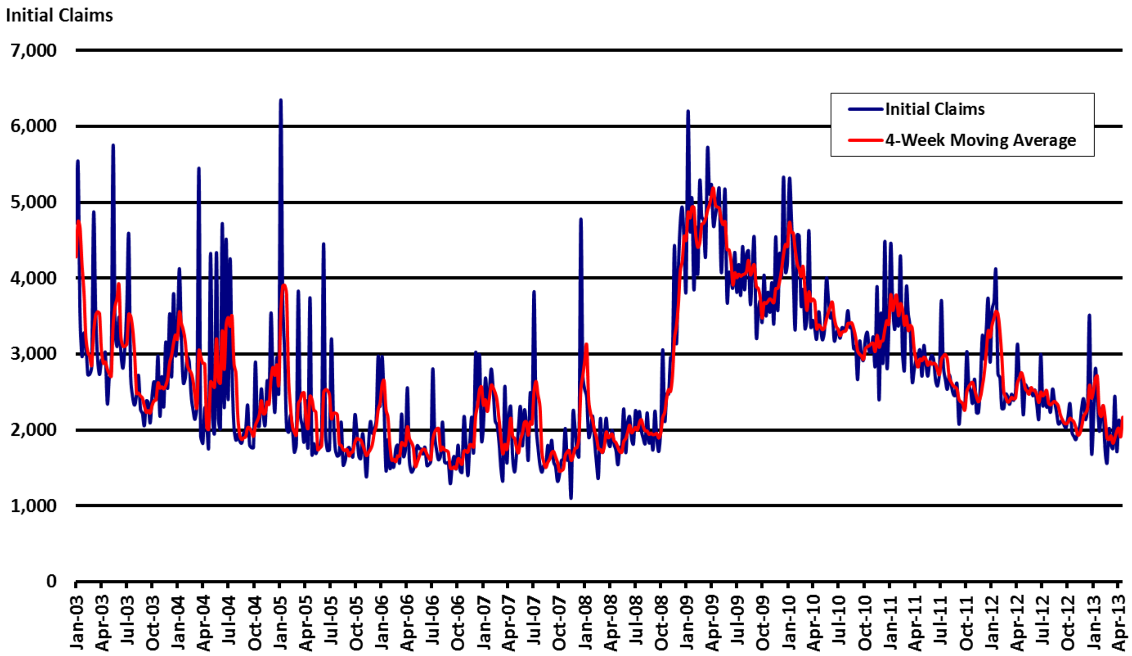
The job growth in April drove down the unemployment rate to a four-year low, sending a reassuring sign that the U.S. job market is improving. The unemployment rate, at 7.5 percent, changed little in April, according to the Bureau of Labor Statistics (BLS). However, the unemployment rate has fallen 0.4 percentage point since the start of the year, though it remains high.

In March, Oklahoma's seasonally adjusted unemployment rate remained unchanged at 5.0 percent—once again, the 6th lowest jobless rate in the nation. Since March 2012, the state's seasonally adjusted unemployment rate has contracted by 0.1 percentage point.

Oklahoma Initial Weekly Claims for Unemployment Insurance

(Not Seasonally Adjusted)

Source: U.S. Department of Labor, Employment and Training Administration



Definition & Importance

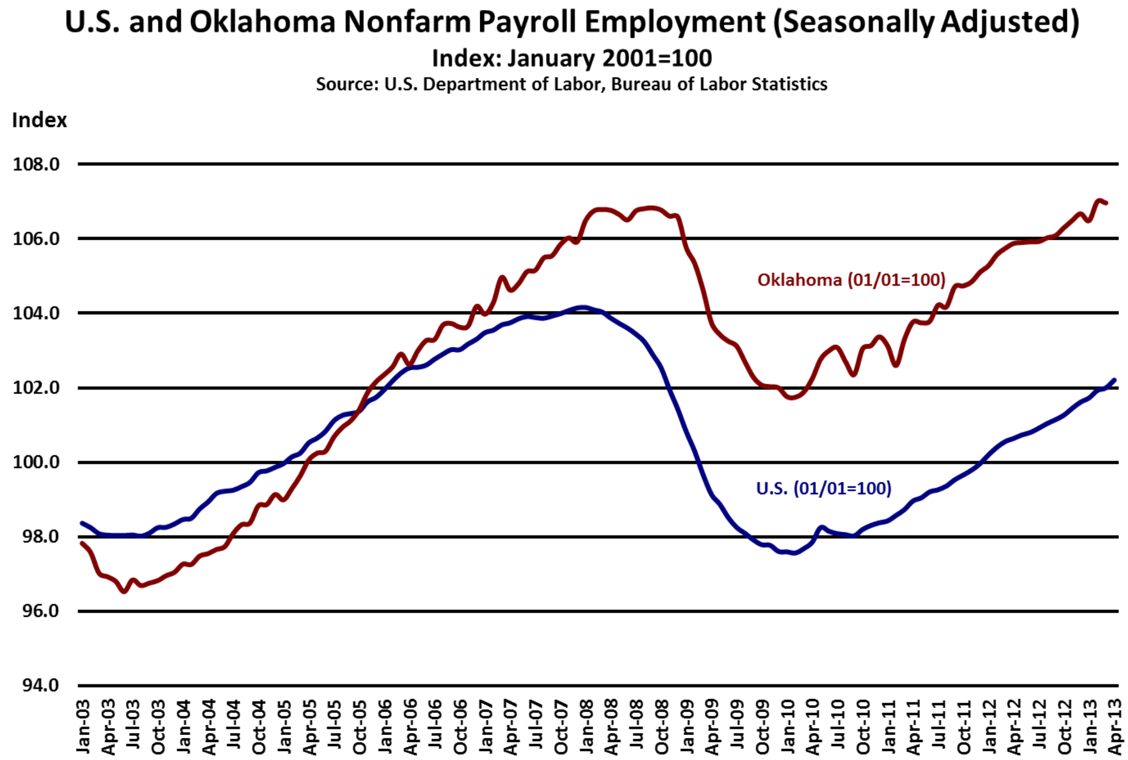
Initial unemployment claims are compiled weekly by the U.S. Department of Labor, Employment and Training Administration and show the number of individuals who filed for unemployment insurance (UI) benefits for the first time. This particular variable is useful because it gives a timely assessment of the overall economy.

Initial claims are a leading indicator because they point to changes in labor market conditions. An increasing trend signals that layoffs are occurring. Conversely, a decreasing trend suggests an improving labor market. The four-week moving average of initial claims smooths out weekly volatility and gives a better perspective on the underlying trend.

Current Developments

U.S. initial jobless claims unemployment claims fell to a five-year low in the last week of April. In the week ending April 27, the advance figure for seasonally adjusted initial claims was 324,000, a decrease of 18,000 from the previous week's revised figure of 342,000, according to the U.S Department of Labor (DOL). The less volatile four-week moving average was 342,250, a decrease of 16,000 from the previous week's revised average of 358,250.

Although Oklahoma initial jobless claims picked up a bit in March, they remain on a long-term downward path. For the file week ending April 20, initial jobless claims were 2,061, slightly higher than the 2,043 jobless claims the week before. For the week ending April 20, the less volatile initial claims four-week moving average increased by 258 to 2,168.



Definition & Importance

Nonfarm payroll employment data is produced by the Current Employment Statistics (CES) program of the Bureau of Labor Statistics (BLS). The CES Survey is a monthly survey of approximately 140,000 nonfarm businesses and government agencies representing approximately 440,000 individual worksites. The CES program has provided estimates of employment, hours, and earnings data by industry for the nation as a whole, all States, and most major metropolitan areas since 1939. In order to account for the size disparity between of U.S. and Oklahoma employment levels, we have indexed the data with January 2001 as the start value.

Payroll employment is one of the most current and reliable indicators of economic conditions and recessionary trends. Increases in nonfarm payrolls translate into earnings that workers will spend on goods and services in the economy—the greater the increases in employment, the faster the total economic growth. When the economy is in the mature phase of an expansion, rapid increases in employment cause fears of inflationary pressures if rapid demand for goods and services can't be met by current production.

Current Developments

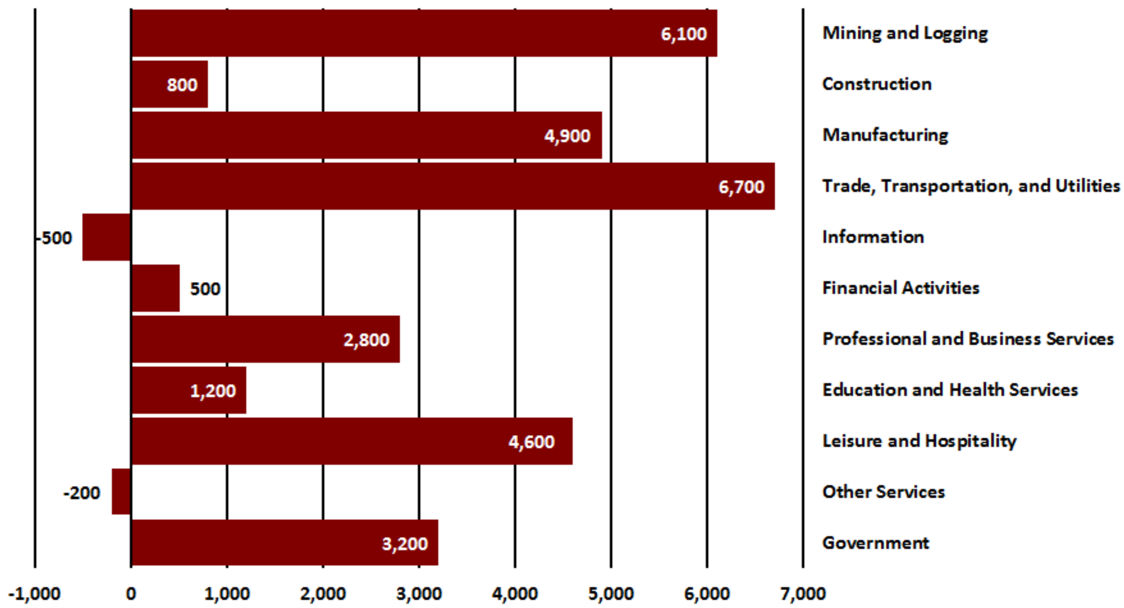
U.S. employers maintained a steady hiring pace in April. Total nonfarm payroll employment increased by 165,000 in April, according to the Bureau of Labor Statistics (BLS). Private companies added 176,000 jobs, accounting for all of April's gains. The BLS also revised up its estimate of job gains in February and March by a combined 114,000. It now says employers added 332,000 jobs in February and 138,000 in March.

Oklahoma's seasonally adjusted nonfarm employment lost 1,600 jobs (-0.10 percent) in March 2013**.** In March, six out of 11 supersectors provided all of the job gains over the month, led by leisure and hospitality (+1,400 jobs), construction (+1,200 jobs), and leisure and hospitality (+1,400 jobs). Government added 900 jobs. Seven Oklahoma supersectors saw over-the-year expansion, with trade, leisure and hospitality (+8,400 jobs) producing the largest addition followed by trade, transportation and utilities (+4,200 jobs).

Oklahoma Employment Change by Industry

2011 - 2012

Source: Current Employment Statistics (CES), U.S. Department of Labor, Bureau of Labor Statistics



Definition & Importance

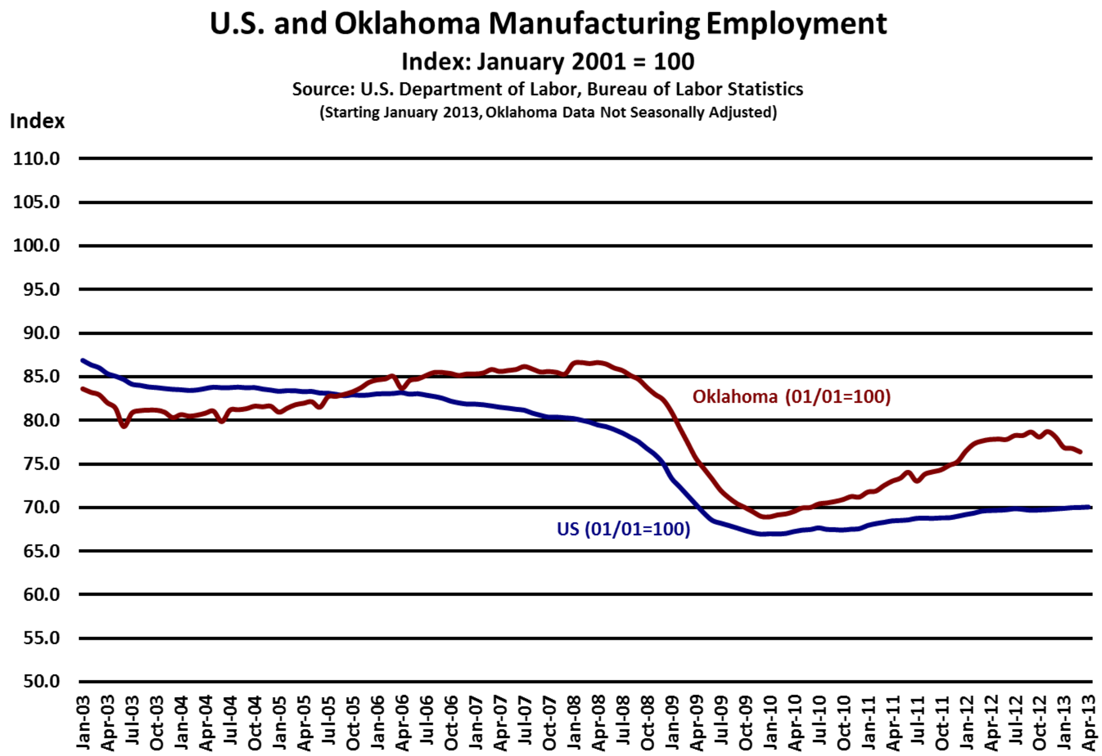
Employment growth by industry identifies the types of jobs being created in the state. Conversely, industries with a declining employment trend indicate those which are becoming less important in the state's economy. There may also be industries which behave more cyclically, growing during expansion 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. For this analysis, we are using CES annual averages to compare year-over-year employment changes.

Current Developments

Nonfarm employment growth in Oklahoma picked up more momentum in 2012. Nonfarm employment grew at a robust 1.9 percent growth rate in 2011, adding approximately 30,100 jobs.

Employment growth in 2012 was wide-ranging with nine out of the 11 statewide industry supersectors reporting job gains. The broad trade, transportation & utilities industry recorded the largest employment increase adding 6,700 jobs with nearly half the hiring in wholesale trade. Mining had another strong year of job growth adding 6,100 jobs and more than half of the growth coming from support activities for mining. Manufacturing added 4,900 jobs with all of the growth in durable goods. Leisure & hospitality added 4,600 jobs with most of the job gains being in accommodation & food services. Professional & business services employment grew by 2,800 driven by job gains in professional, scientific, and technical services and employment services. Government employment added 3,200 jobs with state and local government adding employment as federal government employment shed 700 jobs. Education & health services added 1,200 jobs with two-thirds of the employment gains in hospitals.

Job losses were in financial activities (-500) and other services (-200).



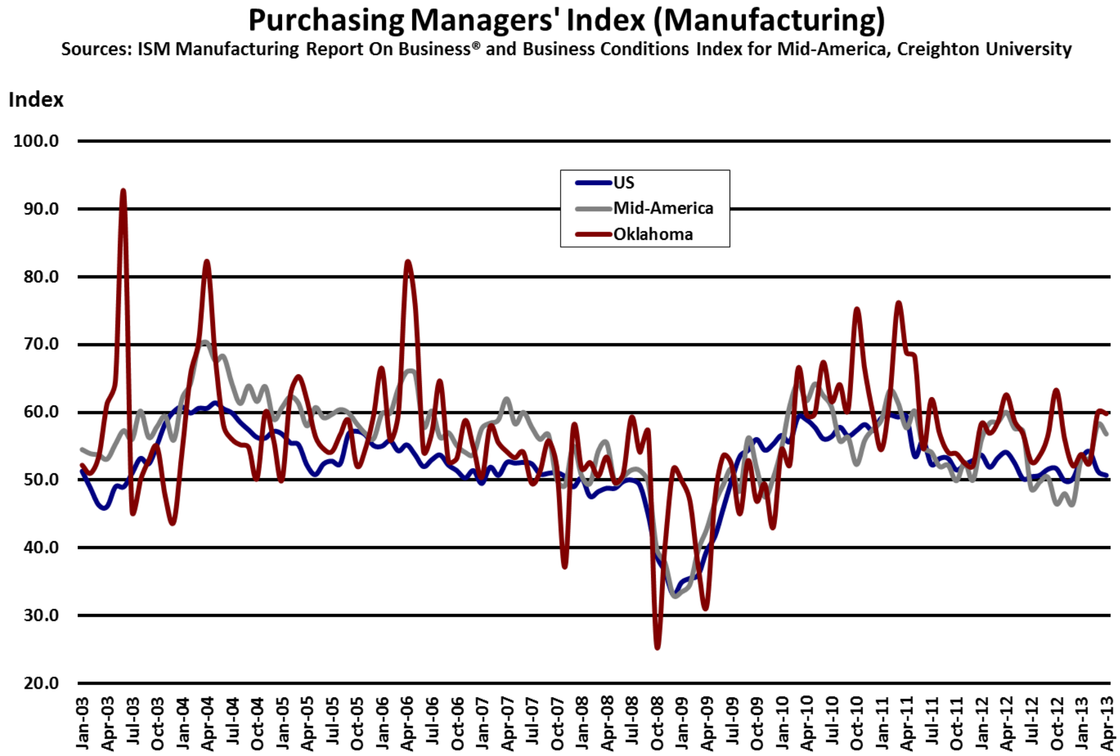
Definition & Importance

Manufacturing employment data is also produced by the Bureau of Labor Statistics' Current Employment Statistics (CES) program. Manufacturing and production are still important parts of both the U.S. and Oklahoma economies. During the 2007-09 recession, employment in manufacturing declined sharply. Although manufacturing plunged in 2008 and early 2009 along with the rest of the economy, it is on the rebound today while other key economic sectors, such as construction, still suffer. In Oklahoma, manufacturing accounts for one of the largest shares of private output and employment in the state. In addition, many manufacturing jobs are among the highest paying jobs in the state. In order to account for the size disparity between the U.S. and Oklahoma employment levels, we have indexed the data with January 2001 as the starting value.

Current Developments

U.S. manufacturing employment continues to be weak in April reinforcing fears of a deceleration in the economy. Cutbacks to federal spending appear to have hit manufacturers of electronics equipment, particularly in the area of defense aircraft. In April durable goods industries added 1,000 employees on net and nondurables lost 1,000 jobs. The largest gains were seen among machinery (+3,600), transportation equipment (+3,000), fabricated metal products (+2,500), miscellaneous nondurable goods manufacturing (+2,500), motor vehicles and parts (+2,400), and fabricated metal products (+1,000). The largest losses were seen in printing and related support activities (-3,100) and apparel (-2,900).

Oklahoma manufacturing employment in March shed 700 jobs. Durable goods manufacturing employment fell by approximately 100 jobs in March while non-durable goods manufacturing fell by 800 jobs. Over-the-year, Oklahoma manufacturers have added 100 factory jobs for a growth rate of 0.07 percent. All of the year-over-year job growth has been in durable goods manufacturing as non-durable goods manufacturers shed 1,700 jobs.



Definition & Importance

Economists consider the Institute for Supply Management's Purchasing Managers' Index (PMI™) a key economic indicator. The Institute for Supply Management (ISM) surveys more than 300 manufacturing firms on employment, production, new orders, supplier deliveries, and inventories. The ISM manufacturing index is constructed so that any level at 50 or above signifies growth in the manufacturing sector. A level above 43 or so, but below 50, indicates that the U.S. economy is still growing even though the manufacturing sector is contracting. Any level below 43 indicates that the economy is in recession.

For the region, since 1994, the Creighton Economic Forecasting Group at Creighton University has conducted a monthly survey of supply managers in nine states (including Arkansas, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma and South Dakota), to produce leading economic indicators for the Mid-America economy using the same methodology as the national survey by the ISM.

Current Developments

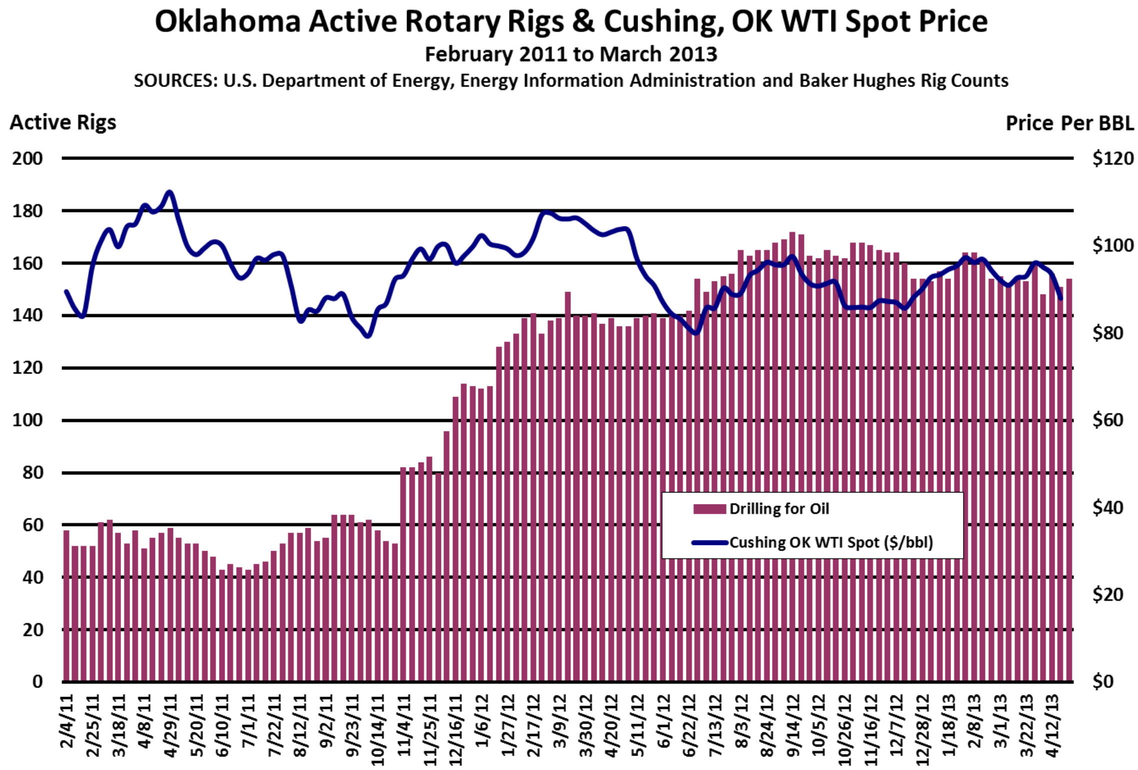
According to the ISM Report on Business, the PMI™ registered 50.7 percent, a decrease of 0.6 percentage point from March's reading of 51.3 percent, indicating expansion in manufacturing for the fifth consecutive month, but at the lowest rate of the year.

The New Orders Index increased in April by 0.9 percentage point to 52.3 percent, and the Production Index increased by 1.3 percentage points to 53.5 percent. The Employment Index registered 50.2 percent, a decrease of 4 percentage points compared to March's reading of 54.2 percent. The Prices Index registered 50 percent, decreasing 4.5 percentage points from March, indicating that overall raw materials prices remained unchanged from last month

The monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, dipped for the month. The index continues to point to improving economic growth for the region in the next three to six months, declined to a solid 56.8 from March's even healthier 58.2..

Oklahoma's Business Conditions Index remained almost unchanged, to 59.8 from 60 in March. Components of the April survey of supply managers in the state were new orders at 56.7, production or sales at 57.9, delivery lead time at 48.7, employment at 57.3 , and inventories at 78.7. Inventories are up from 57.3 in March.

"Durable goods producers in the region continue to outperform nondurable goods manufacturers. Durable goods manufacturers reported strong growth in new orders from both domestic and international buyers. Despite this healthy growth, inflationary pressures at the wholesale level remain restrained," said Ernie Goss, Ph.D., director of Creighton University's Economic Forecasting Group. "Companies in the region are increasing the pace of new hiring. For the entire region, I expect the employment to rise to pre-recession levels this summer. At this point in time, the region's employment level is off less than one-half of a percentage point from pre-recession levels," noted Dr. Goss.



Definition & Importance

Crude oil is an important commodity in the global market. Prices fluctuate depending on supply and demand conditions in the world. Since oil is such an important part of the economy, it can also help determine the direction of inflation. In the U.S. consumer prices have moderated whenever oil prices have fallen, but have accelerated when oil prices have risen. The U.S. Energy Information Administration (EIA) provides weekly information on petroleum inventories in the U.S., whether produced here or abroad.

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.

West Texas Intermediate (WTI-Cushing) is a light crude oil produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams and which is traded in the domestic spot market at Cushing, Oklahoma.

Background

Oklahoma produces a substantial amount of oil, with annual production typically accounting for more than 3 percent of total U.S. production in recent years. Crude oil wells and gathering pipeline systems are concentrated in central Oklahoma. Two of the 100 largest oil fields in the United States are found in Oklahoma.

The city of Cushing, in central Oklahoma, is a major crude oil trading hub connecting Gulf Coast producers to Midwest refining markets. In addition to Oklahoma crude oil, the Cushing hub receives supply from several major pipelines that originate in Texas. Traditionally, the Cushing Hub has pushed Gulf Coast and Mid-Continent crude oil supply north to Midwest refining markets. However, production from those regions is in decline, and an underused crude oil pipeline system has been reversed to deliver rapidly expanding heavy crude oil supply produced in Alberta, Canada to Cushing, where it can access Gulf Coast refining markets. For this reason, Cushing is the designated delivery point for New York Mercantile Exchange (NYMEX) crude oil futures contracts. Crude oil supplies from Cushing that are not delivered to the Midwest are fed to Oklahoma's five refineries, which have a combined distillation capacity of over 500 thousand barrels per day—roughly 3 percent of the total U.S. refining capacity.

Current Developments

U.S. oil production has grown steadily since 2008, a change from the two decades of declines before 2008. This growth has been driven mainly by increased production from various tight (very low permeability) formations. Horizontal drilling combined with hydraulic fracturing have allowed exploration and production (E&P) companies to access commercial volumes of oil from rock formations that are less permeable than those found in conventional formations. The U.S. Energy Information Administration (EIA) expects that development of tight formations will lead to continuing significant increases in U.S. oil production in the coming years.

Three key basins with tight formations have been the largest contributors to U.S. oil production growth: the Permian Basin in West Texas and southeastern New Mexico; the Western Gulf Basin in southern Texas, which includes the Eagle Ford shale; and the Williston Basin, which extends over parts of North Dakota, South Dakota, and Montana and which includes the Bakken formation.

The shift of the U.S. drilling rig fleet away from dry natural gas to oil and wet natural gas suggests that the production of oil and other liquids will continue to climb, according to the EIA. Exploration and production companies are making significant capital investments in horizontal drilling rigs and deploying them to tight oil plays. Many existing rigs with horizontal-drilling capabilities are being redeployed from plays rich in dry natural gas to those that can produce crude oil and other liquids that have a significantly greater value under current market conditions. The total number of rigs drilling for oil increased 72 percent from an average of 801 in February 2011 to an average of 1,374 in April 2013, based on detailed weekly active rig count data provided by Baker Hughes Incorporated. The number of rigs drilling horizontal wells has rose to a weekly average of 62 percent in April 2013, compared to 57 percent in February 2011. Because horizontal drilling is often associated with tight formations, it is apparent that an increasing number of producers are targeting tight geology.

WTI-Cushing spot prices averaged $1.86 per barrel for the month of April. The price was $1.15 lower than March's average of $93.00 per barrel. Compared to last year, the current price is $11.39 lower than the April 2012 average of $103.25 per barrel.

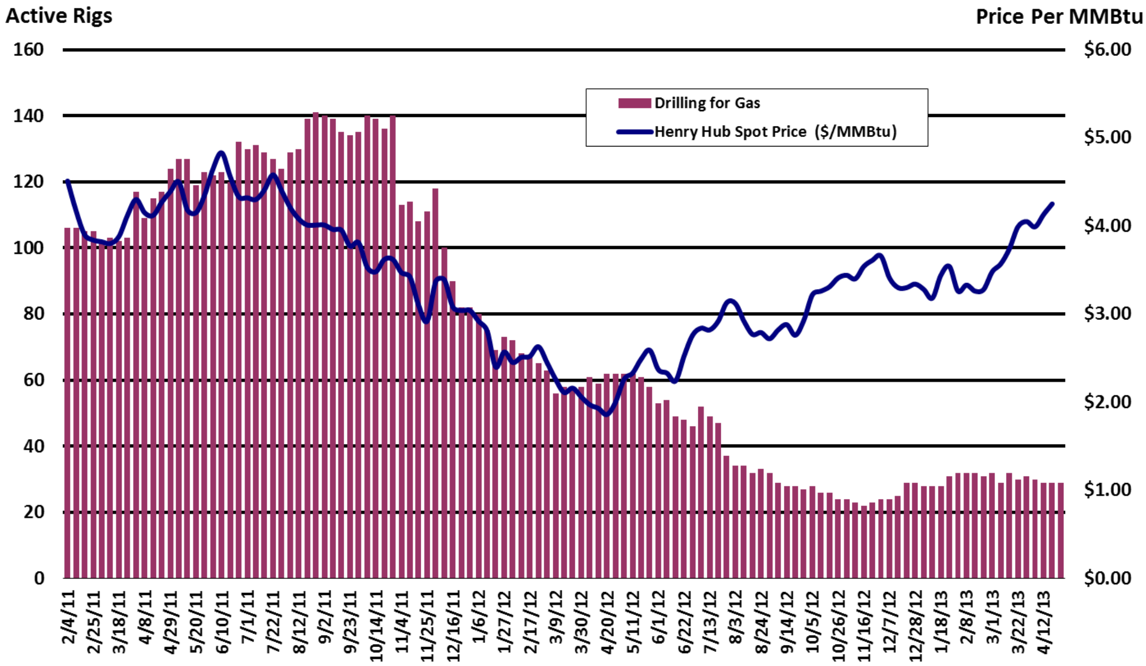
Oklahoma's overall rotary rig activity for April averaged 182, down four from March's rig count. Over the year, April's active rotary rig count in Oklahoma fell by 18 rigs. There were 154 oil-directed active rotary rigs for the week ending April 28, 2013, up three rigs from the previous week and up 18 rigs from last year.

For the week ending April 28, 2013, there were 154 oil-directed active rotary rigs in Oklahoma, accounting for approximately 84 percent of total rig activity in the state.

Oklahoma Active Rotary Rigs & Henry Hub Natural Gas Spot Price

February 2011 to March 2013

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



Definition & Importance

The U.S. Energy Information Administration (EIA) provides weekly information on natural gas stocks in underground storage for the U.S., and three regions of the country. The level of inventories helps determine prices for natural gas products. Natural gas product prices are determined by supply and demand—like any other good and service. During periods of strong economic growth, one would expect demand to be robust. If inventories are low, this will lead to increases in natural gas. If inventories are high and rising in a period of strong demand, prices may not need to increase at all, or as much. During a period of sluggish economic activity, demand for natural gas may not be as strong. If inventories are rising, this may push down oil prices.

The Henry Hub in Erath, Louisiana is a key benchmark location for natural gas pricing throughout the United States. The Henry Hub is the largest centralized point for natural gas spot and futures trading in the United States. The New York Mercantile Exchange (NYMEX) uses the Henry Hub as the point of delivery for its natural gas futures contract. Henry Hub "spot gas" represents natural gas sales contracted for *next day* delivery and title transfer at the Henry Hub. The settlement prices at the Henry Hub are used as benchmarks for the entire North American natural gas market. Approximately 49 percent of U.S. wellhead production either occurs near the Henry Hub or passes close to the Henry Hub as it moves to downstream consumption markets.

Background

Oklahoma is one of the top natural gas producers in the United States with production typically accounting for almost one-tenth of the U.S. total. More than a dozen of the 100 largest natural gas fields in the country are found in Oklahoma and proven reserves of conventional natural gas have been increasing in recent years.

Most natural gas in Oklahoma is consumed by the electricity generation and industrial sectors. About three-fifths of Oklahoma households use natural gas as their primary energy source for home heating. Nevertheless, only about one-third of Oklahoma's natural gas output is consumed within the state. The remaining supply is sent via pipeline to neighboring states, the majority to Kansas, including the natural gas trading hubs in Texas and Kansas.

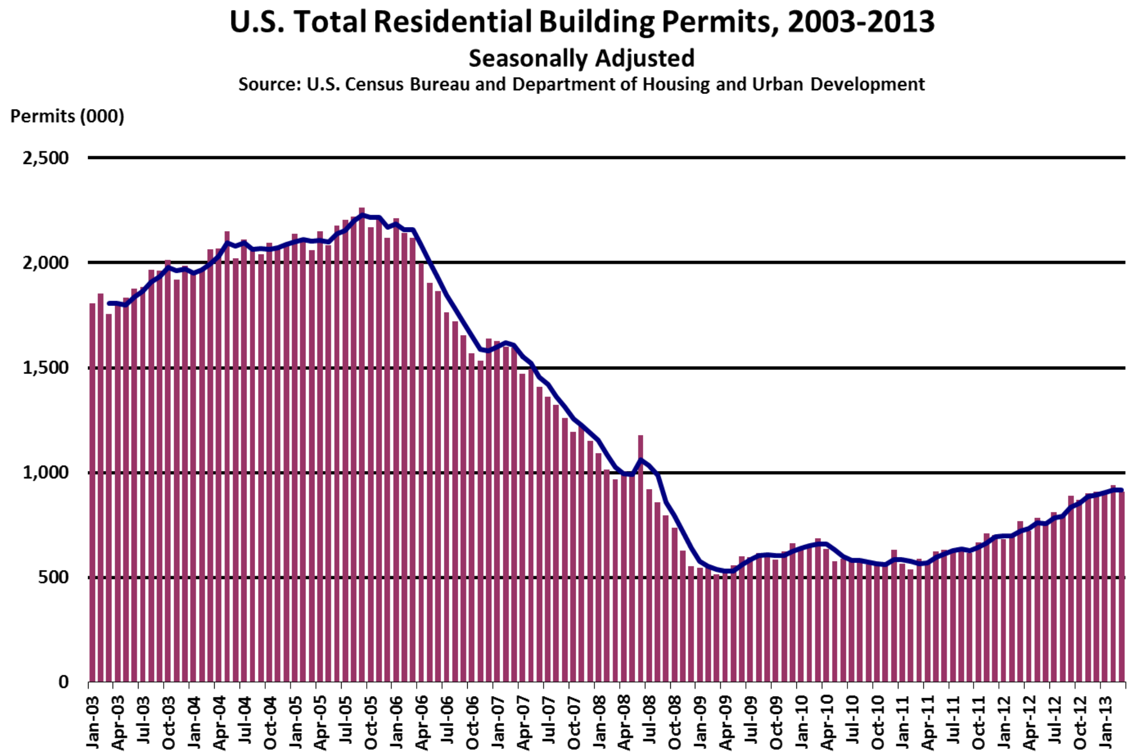
Current Developments

Colder-than-normal weather in many parts of the country is putting upward pressure on both spot and futures natural gas prices. Natural gas prices rose above $4 per million British thermal units (MMBtu) recently and prices are up 97 percent from a year ago. Last year, when natural gas was falling below $2, the lowest price in a decade, some analysts expected prices to go even lower because companies were producing so much that a supply glut resulted. Now, there is evidence that producers have finally started to pull back.

The U.S. natural gas rotary rig count was 366 as of April 28, according to data reported by Baker Hughes Incorporated. This represents a decline of 13 from the previous week, and natural gas rigs are at their lowest level since 1999. Oil rigs, on the other hand, increased by 10 to 1,381.

Henry Hub prices were at $4.24 per MMBtu during the week ending April 28, 2013, a decrease of 1 cent from the previous week's $4.25 per MMBtu and 19 cents higher than $4.05 per MMBtu a month ago. Natural gas average spot price in April was $4.15 up 10 percent from the March average price of $3.77 per MMBtu and up $2.21 from $1.94 in April 2012.

According to data reported by Baker Hughes Incorporated, Oklahoma's natural gas rotary rig count decreased by two at 29 active rigs for the week ended April 28, 2013. Over the year, Oklahoma's natural gas-directed rotary rig count has dropped by 33 from 62 rigs (for the week ended April 27, 2012).



Definition & Importance

The U.S. Census Bureau and the Department of Housing and Urban Development jointly provide monthly national and regional data on the number of new housing units authorized by building permits; authorized, but not started; started; under construction; and completed. The data are for new, privately-owned housing units (single and multifamily), excluding "HUD-code" manufactured homes. 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 following three months; therefore we also use a three-month moving average.

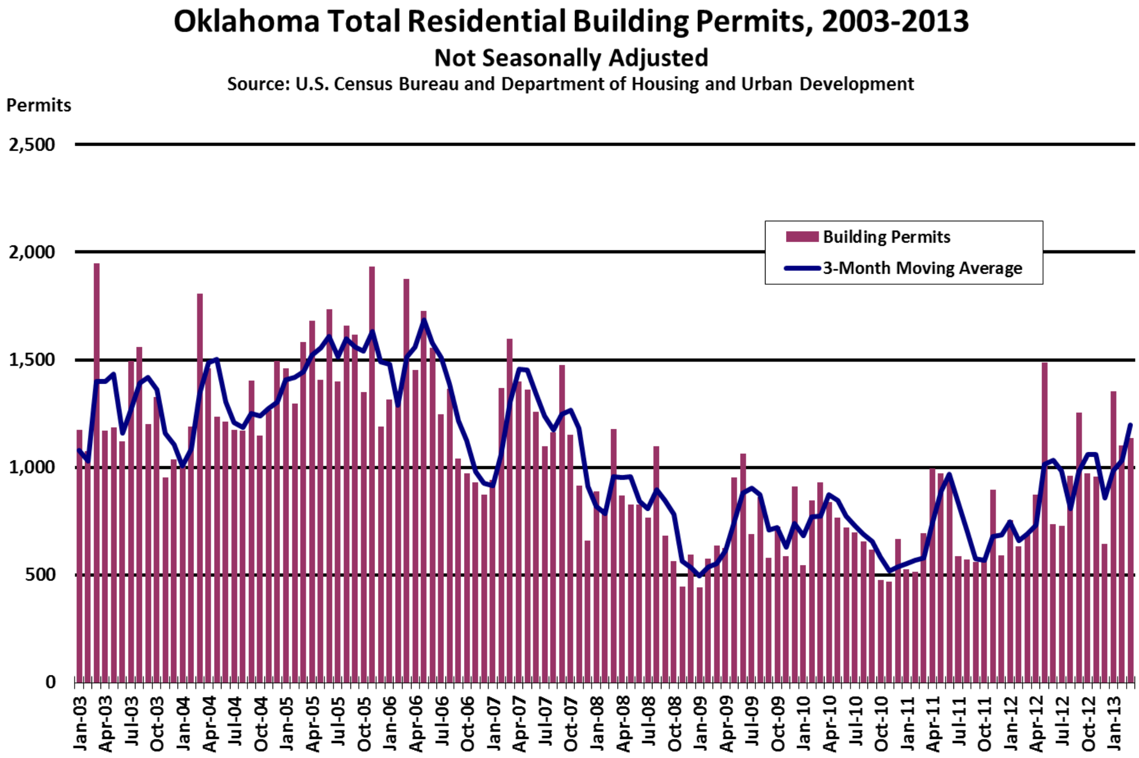
While home construction represents a small portion of the housing market, it has an outsize impact on the economy. Each home built creates an average of three jobs for a year and about $90,000 in taxes, according to the National Association of Home Builders. Overall, homebuilding fell to its lowest levels in 50 years in 2009, when builders began work on just 554,000 homes.

Current Developments

New-home construction in the U.S. climbed in March to the highest level in almost five years, driven by a surge in multifamily building. Privately-owned housing units authorized by building permits in March were at a seasonally adjusted annual rate of 902,000 or 3.9 percent below the revised February rate of 939,000, but 17.3 percent above the March 2012 estimate of 769,000, according to the U.S. Census Bureau and the Department of Housing and Urban Development.

But work began on fewer single-family homes in March and permit levels pulled back. Single-family home construction, which represents nearly two-thirds of the market, fell 4.8 percent to a seasonally adjusted 619,000. Volatile apartment construction jumped 31.1 percent to a seasonally adjusted rate of 392,000.

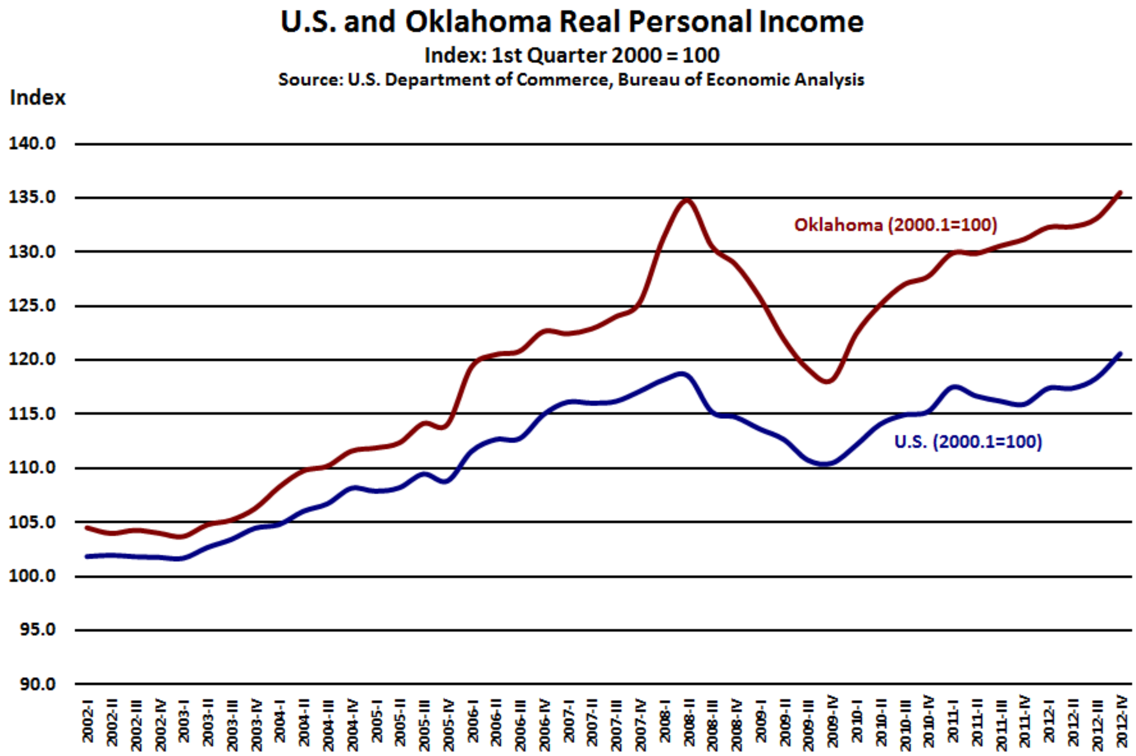
Applications for building permits in March were likely slowed by colder-than-normal weather in the Northeast.



Oklahoma homebuilding permits continue to rise in 2013. Total unadjusted residential building permits for March were up 3.3 percent from February, according to figures from the U.S. Census Bureau and the Department of Housing and Urban Development. Single-family permitting activity accounted for 86.8 percent of residential permitting activity in March while apartment permitting accounted for 11 percent.

Over the year, total unadjusted residential permitting was 65.7 percent higher than March 2012. Single-family permitting was up 56.2 percent while the more volatile multi-family component was 250 percent higher than the March 2012 level.

Year-to-date, Oklahoma residential permitting in 2013 is 73 percent greater than the first three months of 2012.



Definition & Importance

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 vastly different levels of total personal income for the U.S. and Oklahoma on the same chart, these data have been converted to index numbers. The chart above shows a comparison of Oklahoma and U.S. growth in real personal income with 1st quarter 2000 as the base year.

Current Developments

Personal income increased $30.9 billion, or 0.2 percent, and disposable personal income (DP) increased $20.7 billion, or 0.2 percent, in March, according to the Bureau of Economic Analysis. Personal consumption expenditures (PCE) increased $21.0 billion, or -.2 percent. In February, personal income had increased $151.2 billion, or 1.1 percent, DPI increased $134.0 billion, or 1.1 percent, and PCE increased $81.6 billion, or 0.7 percent, based on revised estimates.

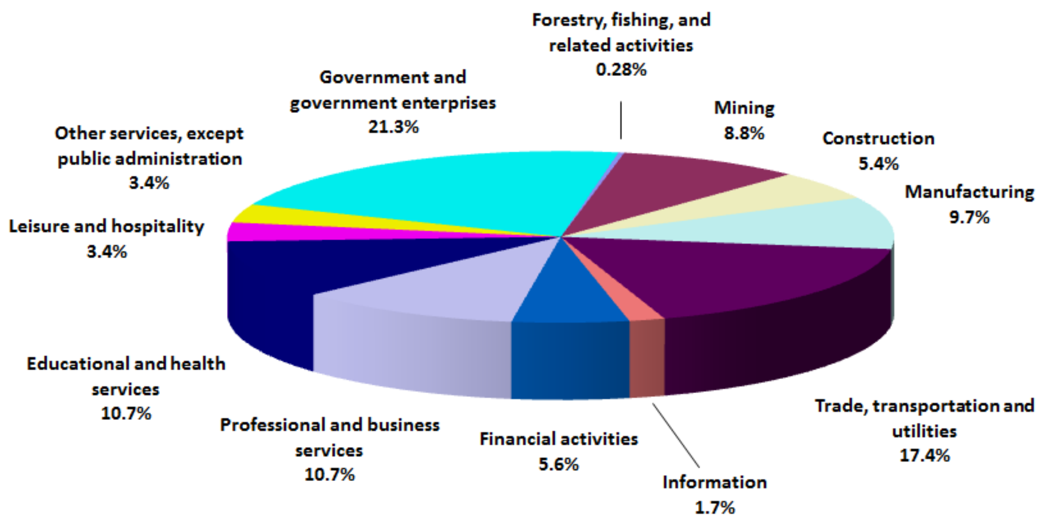
The private wages and salaries component increased $14.9 billion in March, compared with an increase of $44.6 billion in February. The March, February, and January levels of private wages and salaries were reduced by $15.0 billion (at an annual rate), reflecting the impact of accelerated bonuses in November and in December of 2012 in anticipation of changes to individual income tax rates.

The saving rate in March was 2.7 percent, the same as in February.

Oklahoma Nonfarm Industry Contribution to Earnings

Fourth Quarter 2012

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



Definition & Importance

Quarterly estimates of state personal income are seasonally adjusted at annual rates by the Bureau of Economic Analysis (BEA). Quarterly personal income estimates are revised on a regular schedule to reflect more complete than the data that were available when the estimates were initially prepared and to incorporate updated seasonal factors.

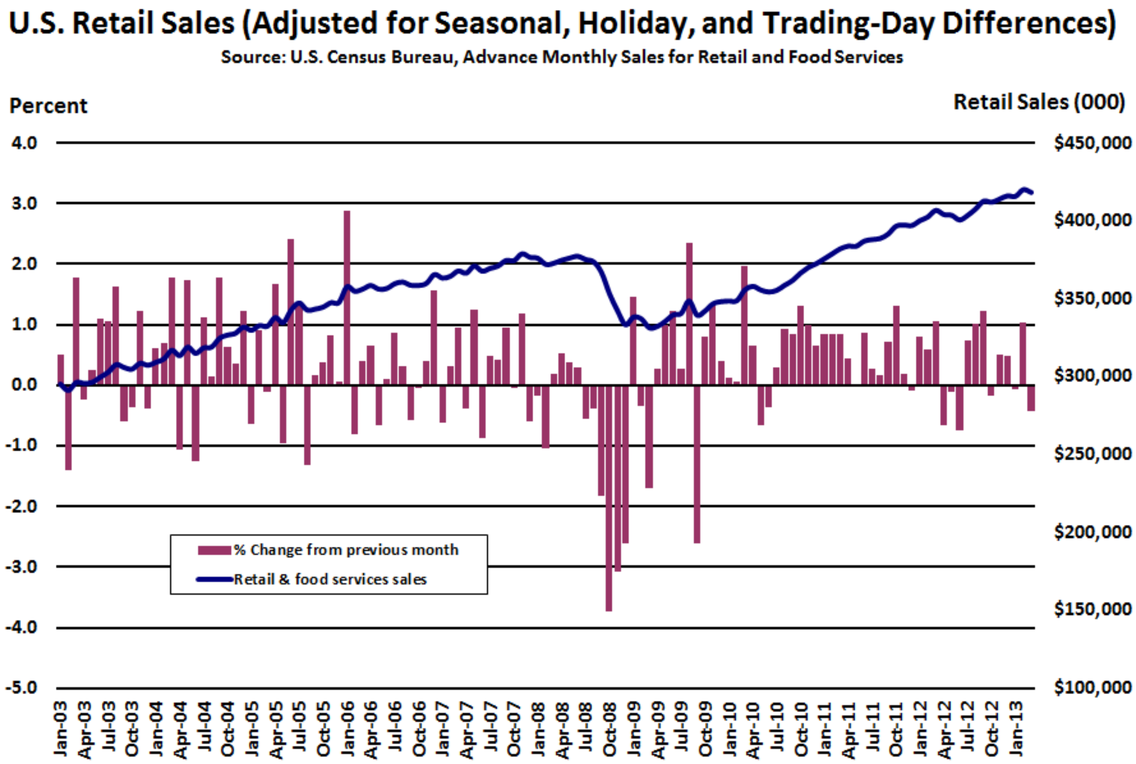
Current Developments

The economic health of 44 U.S. states improved in the 4th quarter, the most in any period since 2006, as almost all benefited from growing employment and personal income. In the 4th quarter of 2012, average state personal income growth accelerated to 1.9 percent from 0.6 percent in the third quarter, the fastest pace since the 1st quarter of 2011, according to estimates by the U.S. Bureau of Economic Analysis (BEA). Growth in the 4th quarter ranged from 1.3 percent in West Virginia to 4.8 percent in South Dakota. The inflation rate was 0.4 percent in the fourth quarter of 2012, the same as in the third quarter.

Oklahoma's 4th quarter personal income climbed 1.8 percent to $151.4 billion from $148.7 billion in the 3rd quarter, and ranked 28th out of all the states. Dividends, interest, and rent contributed 1.0 percentage points to 4th quarter personal income while earnings contributed 0.7 percentage points.

In Oklahoma, farm earnings contributed 0.13 percentage points ($107 million) to personal income while wholesale trade added 0.10 percentage points ($147 million). Finance & insurance earnings added 0.09 percentage points ($132 million) and administrative & waste management services added another 0.08 percentage points ($115 million). Construction earnings added 0.07 percentage points ($109 million) as did state & local government ($106 million).

Subtracting from Oklahoma 4th quarter earnings were mining, deduction 0.11 percentage points (-$161 million) and other services (except public administration) subtracting 0.03 percentage points (-$44 million).



Definition & Importance

Retail sales measure the total receipts at stores that sell merchandise and related services to final consumers. Sales are by retail and food services stores. Data are collected from the Monthly Retail Trade Survey conducted by the U.S. Bureau of the Census. Essentially, retail sales cover the durables and nondurables portions of consumer spending. Consumer spending accounts for roughly two-thirds of the U.S. GDP and is therefore essential to Oklahoma's economy. Retail sales account for around one-half of consumer spending and economic recovery calls for consumption growth.

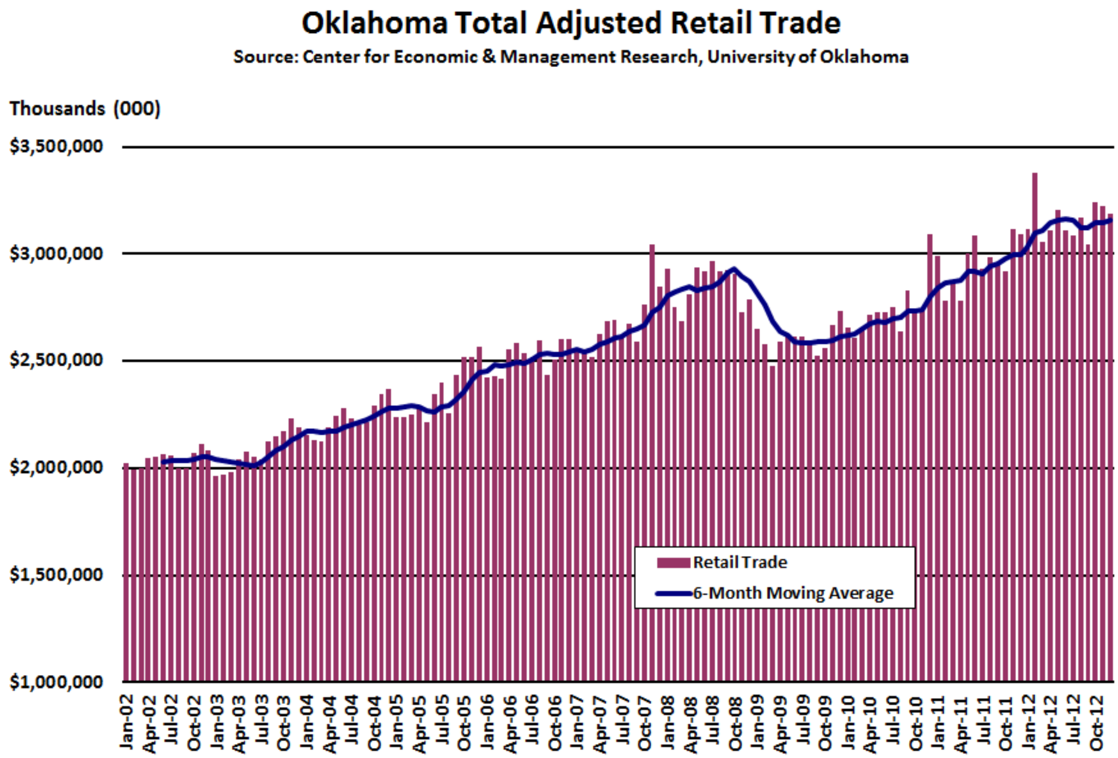
Current Developments

U.S. retail sales fell by the most in nine months in March following a surge in February, suggesting higher taxes and weak hiring have made consumers more cautious about spending. Advance estimates of U.S. retail and food services sales for March, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $418.3 billion, a decrease of 0.4 percent from the previous month, but 2.8 percent above March 2012, according to the U.S. Census Bureau. Total sales for the January through March 2013 period were up 3.7 percent from the same period a year ago. The January to February 2013 percent change was revised downward from +1.1 percent to +1.0 percent.

Consumers cut back across a broad range of categories. Sales at auto dealers dropped 0.6 percent. Gas station sales dropped 2.2 percent, partly reflecting lower prices. The retail sales figures aren't adjusted for price changes.

Excluding autos, gas and building materials, core sales dropped 0.2 percent in March, following a gain of 0.3 percent in January. Department stores, grocery stores, electronics retailers and sporting goods stores all reported lower sales.

Higher payroll taxes appear to be finally kicking in—cutting into consumer spending. However, uncharacteristically cold weather in March likely dampened sales in a number of subcomponents, including clothing & accessories; building materials & garden equipment; and general merchandise.



Definition & Importance

The Center for Economic and Management Research (CEMR) Price College of Business, at the University of Oklahoma produces the Oklahoma Monthly Retail Sales Series containing monthly estimates of retail sales for Oklahoma, the Oklahoma City, Tulsa and Lawton Metropolitan Statistical Areas and 48 selected cities in Oklahoma. The series is based on sales tax collection data provided by the Business Tax Division, Oklahoma Tax Commission (OTC). In order to take out monthly volatility, we have used a six-month moving average.

Current Developments

It appears most Oklahoma consumers took advantage of early store promotions and did most of their holiday shopping early. Total adjusted retail sales for December 2012 were at a level of $3,186,471,105, down 1.2 percent following strong sales levels in October and November.

Durable goods sales advanced 1.3 percent in December with the largest gains seen in electronics & music stores (+3.5 percent), miscellaneous durable goods (+2.3 percent), and lumber & hardware (+1.1 percent). Gains were also seen in auto accessories & repair (+0.2 percent) and furniture (+0.1 percent). Declining sales were seen in used merchandise (-5.3 percent). Over the year, durable goods sales were 8.3 percent more than December 2011.

Total nondurable goods sales fell almost 2.0 percent in December with the largest decline in estimated gasoline sales (-8.0 percent) and miscellaneous non-durable goods (-5.6 percent). Other declines in non-durable goods were in drug sales (-1.2 percent). Advancing were liquor sales (+1.8 percent), apparel (+0.6 percent), general merchandise (+0.6 percent), and food (+0.4 percent). Eating & drinking sales (1.9 percent) were flat in December. Compared to December 2011, non-durable goods sales improved 1.5 percent.