OKLAHOMA Economic Indicators

December 2013

OKLAHOMA
ECONOMIC INDICATORS

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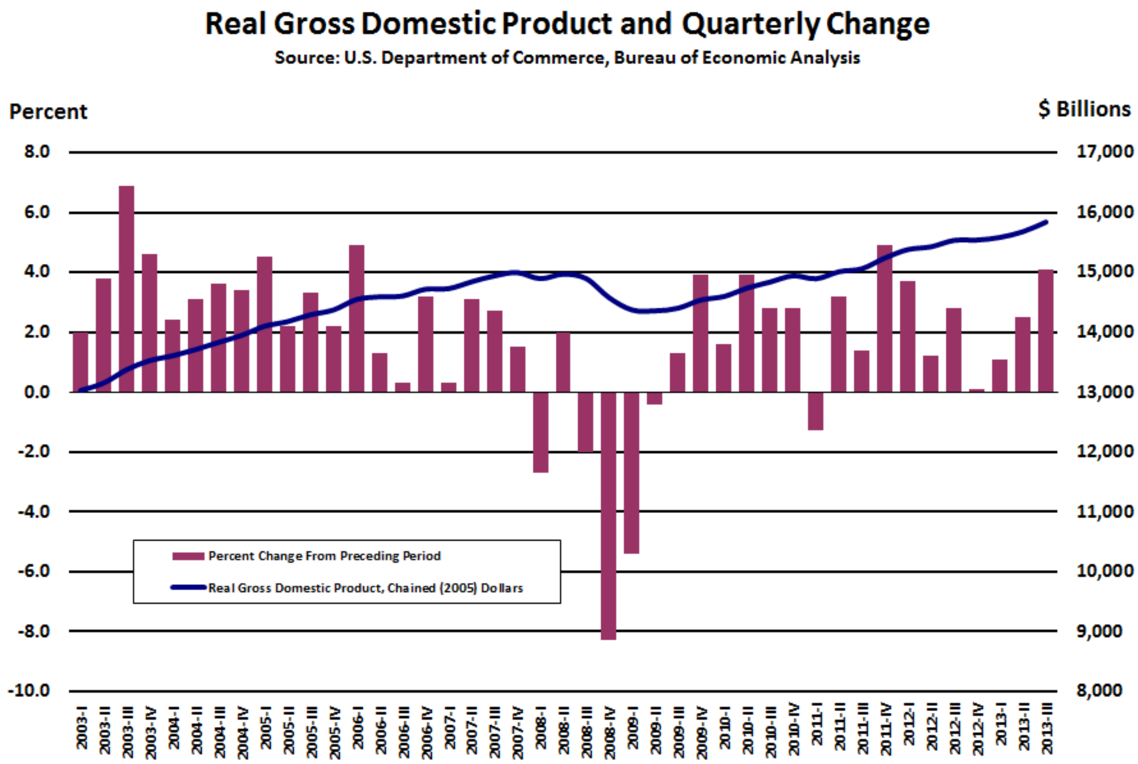


Definition & Importance

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.

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

Revised estimates show that between July and September, the U.S. economy grew at the fastest pace since the 4th quarter of 2011, with much of the upward revision coming from stronger than expected consumer spending. Real gross domestic product increased at an annual rate of 4.1 percent in the 3rd quarter of 2013, according to the "third" estimate released by the Bureau of Economic Analysis (BEA). In the 2nd quarter, real GDP increased 2.5 percent.

The higher GDP estimate was driven largely by a revision in personal consumption expenditures (PCE), which the BEA now says grew at a 2.0 percent annual rate in the summer instead of the previously estimated 1.4 percent rate. Consumer spending at retail businesses rose by the most in five months.

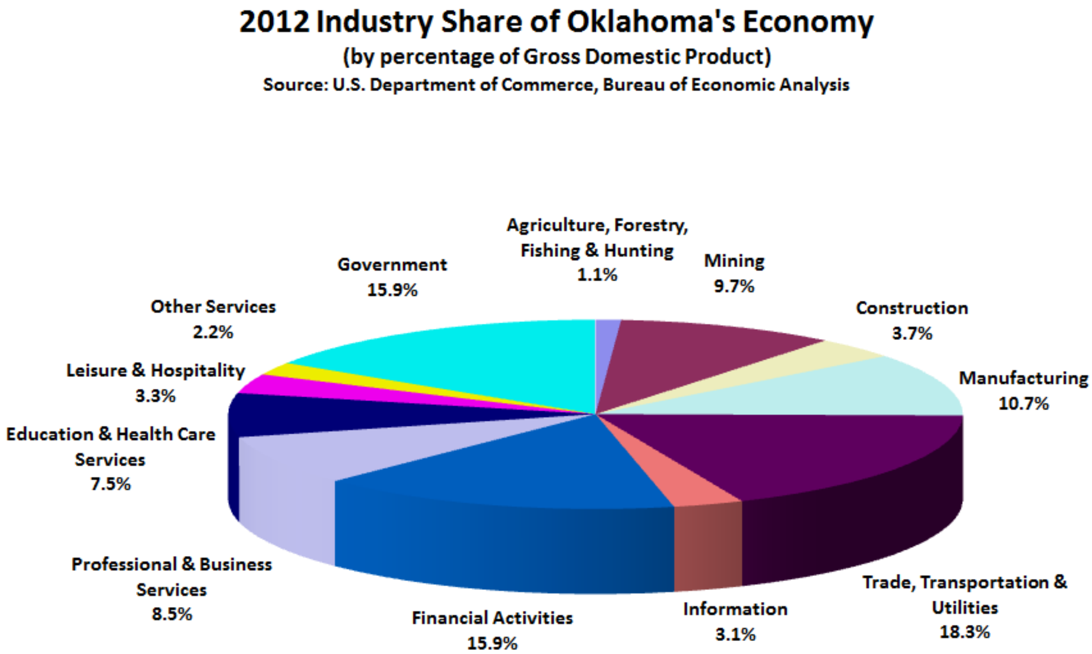
More than a third of the growth in 3rd-quarter GDP was due to businesses' restocking their shelves, rather than final purchases. Excluding inventories, the economy grew at a 2.5 percent rate in the 3rd quarter, up from 2.1 percent in the spring. Real nonresidential fixed investment, a measure of business spending, rose at a 4.8 percent annual rate last quarter instead of the earlier estimate of 3.5 percent. The revision was largely driven by a higher estimate of business spending on software.

Spending on housing construction lost some momentum in the 3rd quarter but still remained strong as higher interest rates took hold. Real residential fixed investment increased 10.3 percent, compared with an increase of 14.2 percent in the previous quarter.

Exports were slightly higher than previously thought, and imports were slightly lower, adding to gross domestic product growth during the summer. Real exports of goods and services increased 3.9 percent in the 3rd quarter, instead of 3.7 percent. Real imports of goods and services increased 2.4 percent in the 3rd quarter, instead of the previous estimate of 2.7 percent.

Federal expenditures fell this year under a package of broad-based spending reductions. Real federal government consumption expenditures and gross investment decreased 1.5 percent in the 3rd quarter, compared with a decrease of 1.6 percent in the 2nd quarter. National defense decreased 0.5 percent, while nondefense spending decreased 3.1 percent. Real state and local spending increased 1.7 percent last quarter, the strongest gain since 2009.

Congress gave final approval in December to legislation that reduces federal spending cuts and averts the risk of another government shutdown early next year. The easing of government spending cuts could also boost the economy going forward into 2014.



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, along with 48 states and the District of Columbia, saw growth in real GDP in 2012, according to the advance estimate from the Bureau of Economic Analysis (BEA). Oklahoma's real GDP growth rate of 2.1 percent ranked it 23rd among all other states.

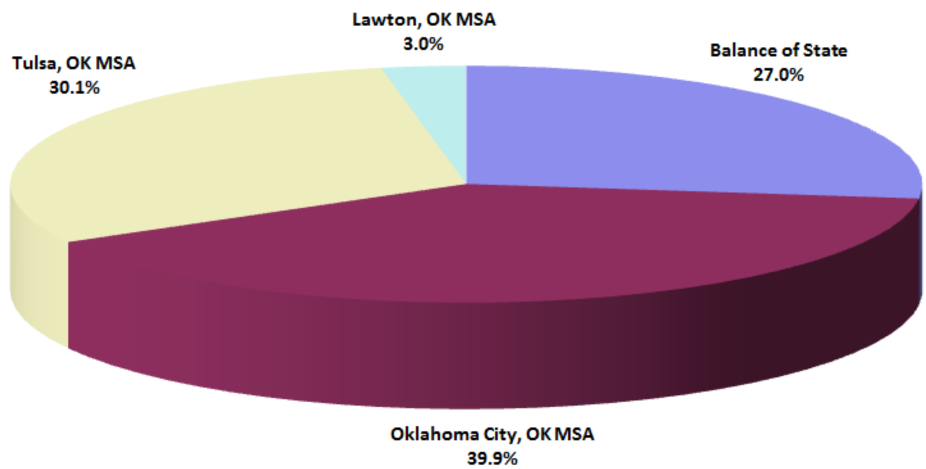
Oklahoma's 2011 advance estimate was revised upward from 1.0 percent to 1.9 percent. In 2011, Oklahoma ranked 20th based on the revised 1.9 percent growth rate.

Oklahoma had a real GDP of $138.3 billion in 2012, up from $135.5 billion the year before. 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 2012, with growth accelerating in seven of eight regions. The Great Lakes region was the only region where growth decelerated relative to growth in 2011. The Southwest region, which includes Oklahoma, grew the fastest (4.1 percent), led by Texas with a 4.8 percent increase..

Durable–goods manufacturing was the largest contributor to U.S. real GDP by state growth in 2012, including Oklahoma, where it contributed 0.78 percentage points to overall growth. Other industries adding to 2012 GDP growth in Oklahoma were wholesale trade (0.37 percent); retail trade (0.33 percent); real estate, rental & leasing (0.32 percent); finance & insurance (0.25 percent); accommodation & food services (0.12 percent) and government (0.12 percent). Subtracting from state GDP growth were mining (-0.72 percent) and management of companies (-0.15 percent).

Metropolitan Area Contribution to State Real Gross Domestic Product 2012

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



Definition & Importance

Metropolitan Statistical Areas (MSAs) 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.

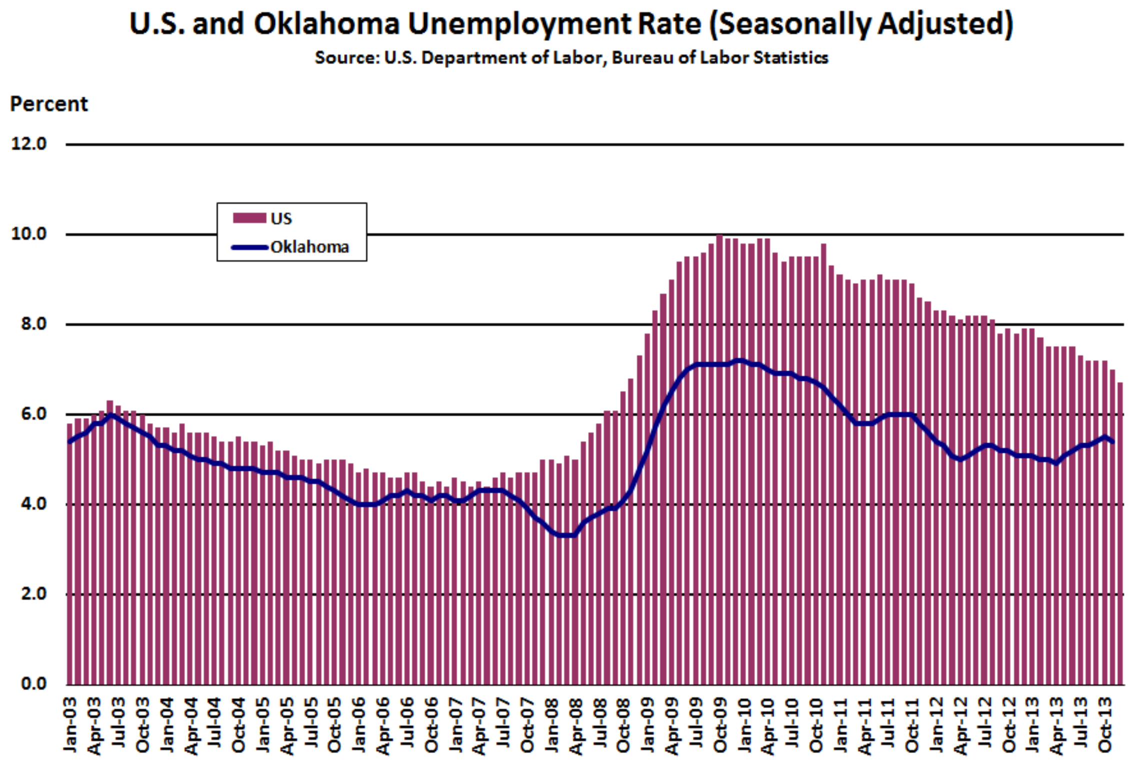
Nationally, metropolitan statistical areas represent approximately 90 percent of total GDP. In Oklahoma, the three MSAs of Oklahoma City, Tulsa and Lawton accounted for roughly 73 percent of total state GDP in 2012.

Current Developments

Real GDP increased in 305 of the nation's 381 metropolitan areas in 2012, led by growth in durable-goods manufacturing, trade, and financial activities, according to the U.S. Bureau of Economic Analysis (BEA). Real GDP in metropolitan areas increased 2.5 percent in 2012 after increasing 1.7 percent in 2011, according to BEA revised estimates.

In terms of growth in real GDP, two of the three Oklahoma metropolitan areas grew in 2012. Oklahoma City MSA grew by 2.2 percent to $55.2 billion and ranked 152nd (out of 381 metro areas). Tulsa MSA grew at a rate of 0.3 percent to $41.7 billion and ranked at 294th. Lawton MSA was the only state MSA to register negative growth in2012, declining 2.0 percent to $4.2 billion in 2012 and ranked 370th out of 381 U.S. metro areas.

Financial activities (+0.67 percent) and leisure & hospitality (+0.22 percent) were the largest contributors to GDP growth in Oklahoma City MSA in 2012. Durable-goods manufacturing (+1.12 percent) led GDP growth in the Tulsa MSA but was offset by declines in other sectors including financial activities (-0.27 percent), and professional & business services (-0.22 percent). GDP growth in the Lawton MSA was hampered by declines in financial activities (-1.17 percent), construction (-0.18 percent), leisure & hospitality (-0.16 percent), and government (-0.10 percent).



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.

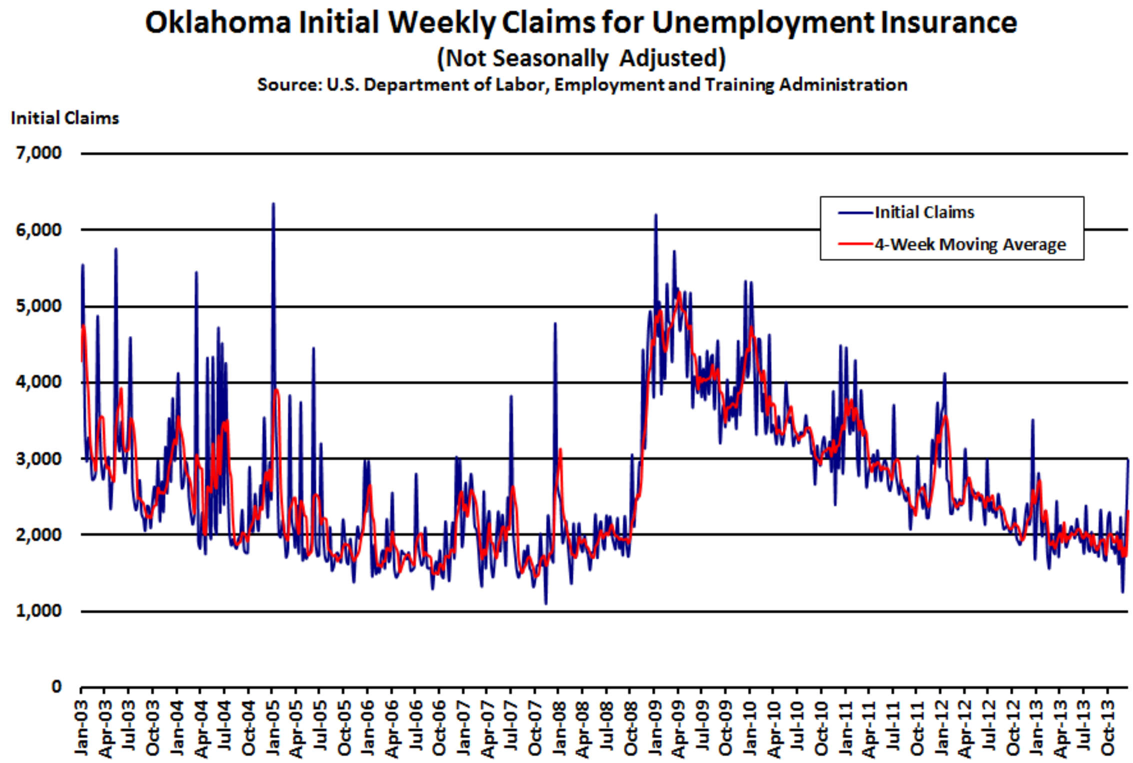
The unemployment rate is a lagging indicator of economic activity. During a recession many people leave the labor force entirely. As a result, the jobless rate may not increase as much as expected. This means that the jobless rate may continue to increase in the early stages of recovery because more 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 U.S. unemployment rate fell its lowest level since October 2008, but the drop occurred mostly because many Americans stopped looking for jobs. The unemployment rate declined from 7.0 percent to 6.7 percent in December, according to the Bureau of Labor Statistics (BLS). The civilian labor force participation rate declined to 62.8 percent in December, a nearly 36-year low, offsetting a change of the same magnitude in November.

Oklahoma's seasonally adjusted unemployment rate eased down to 5.4 percent in November from a 5.5 percent reading in October. Over the year, the state's seasonally adjusted unemployment rate was 0.3 percentage point higher than November 2012.

In November, the unemployment rates for 76 of the state's 77 counties dropped over the month. Latimer County posted the state's highest rate of 9.3 percent while Roger Mills County provided Oklahoma's lowest county jobless rate of 2.6 percent. The only county that didn't report a rate improvement was Ellis County, which remained unchanged in November.



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 benefits for the first time. This particular variable is useful because it gives a timely assessment of the overall economy.

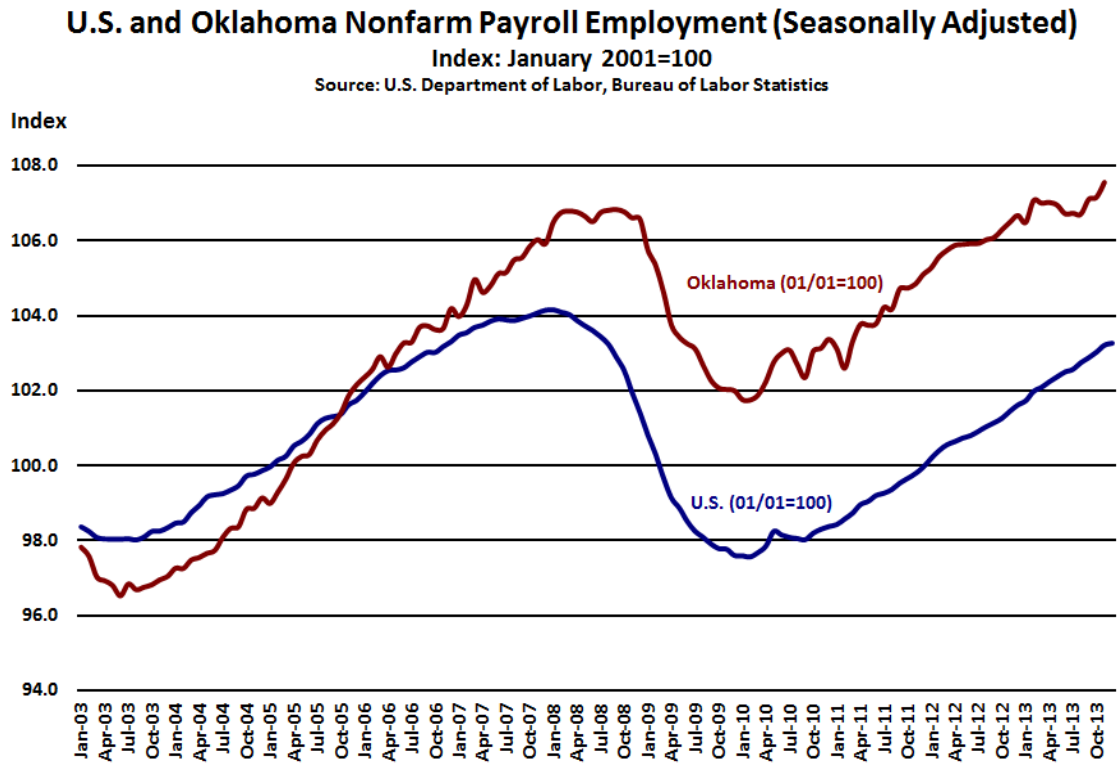
Initial claims are a leading indicator because they point to changes in labor market conditions. An increasing trend signals that layoffs are occurring. Conversely, a decreasing trend suggests an improving labor market. The four-week moving average of initial claims smoothes out weekly volatility and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

Current Developments

The number of Americans seeking unemployment benefits dipped in the last week of December, a sign that layoffs are low and hiring will likely remain steady. In the week ending December 28, the advance figure for seasonally adjusted initial claims was 339,000, a decrease of 2,000 from the previous week's revised figure of 341,000. The less volatile four-week moving average was 357,250, an increase of 8,500 from the previous week's revised average of 348,750.

The moving average has been driven up in recent weeks by spikes that reflected seasonal volatility around the Thanksgiving and Christmas holidays. Seasonal hiring by retailers and other businesses and for temporary layoffs of school employees during the holidays adds even more volatility to the weekly figures.

Oklahoma initial jobless claims spiked up in December. Initial claims for unemployment were at a level of 2,985 for the file week ending December 21, that’s the highest level of weekly jobless claims in a year. The less volatile four-week moving average was up 585 to 2,319 from 1,734 the previous week and up 382 from last month.



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.

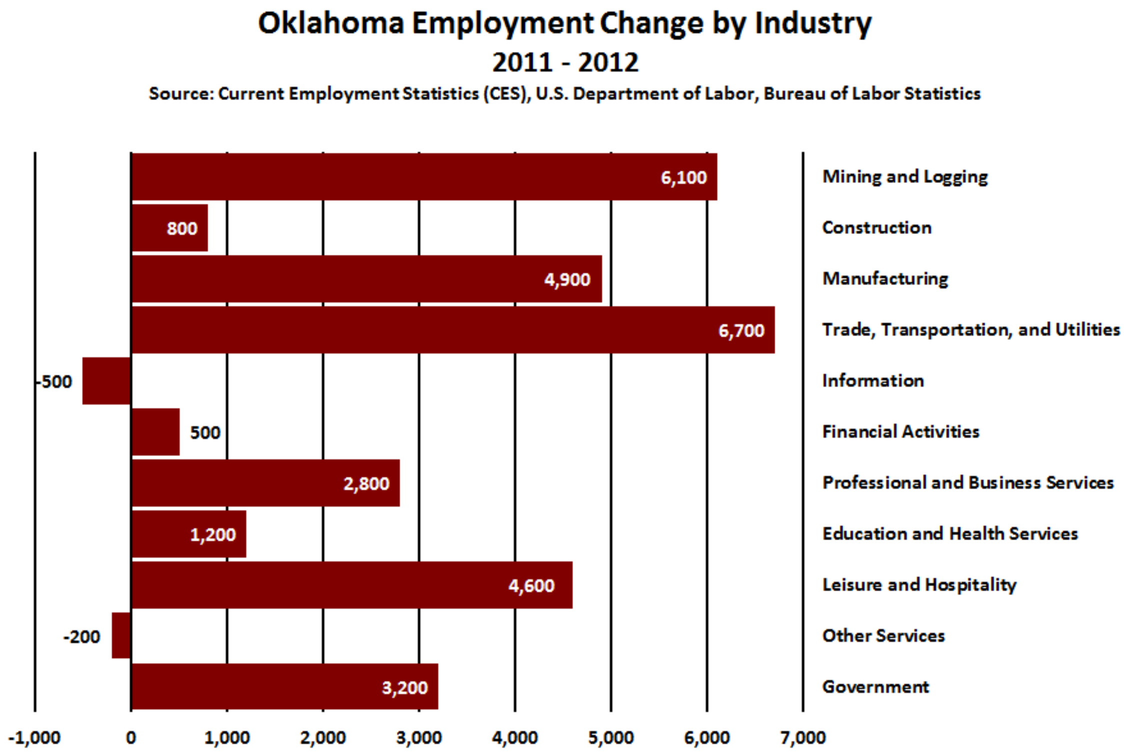
Payroll employment is one of the most current and reliable indicators of economic conditions and recessionary trends. Increases in nonfarm payrolls translate into earnings that workers will spend on goods and services in the economy. The greater the increases in employment, the faster the total economic growth.

Current Developments

U.S. job growth slowed sharply in December, ending 2013 on a surprisingly weak note, but colder-than-usual weather may have been part of the reason. Total nonfarm payroll employment edged up 74,000 jobs in December, the weakest month of hiring in three years, according to the Bureau of Labor Statistics (BLS). In 2013, job growth averaged 182,000 per month, about the same as in 2012 (+183,000 per month). In December, job gains occurred in retail trade (+55,000 jobs), and wholesale trade (+15,000 jobs), while employment declined in weather-sensitive construction sector (-16,000 jobs), information (-12,000 jobs).

November was the third straight month that Oklahoma has posted an increase in seasonally adjusted nonfarm employment, adding 6,000 jobs (+0.4 percent). All supersectors reported job gains in November, led by government (+1,500 jobs) and leisure & hospitality (+1,300 jobs).

Professional & business services (+5,600 jobs) and leisure & hospitality (+5,400 jobs) provided the largest over-the-year gains for the month. Mining & logging (-3,400 jobs) was the only supersector to record an annual job loss for November.



Definition & Importance

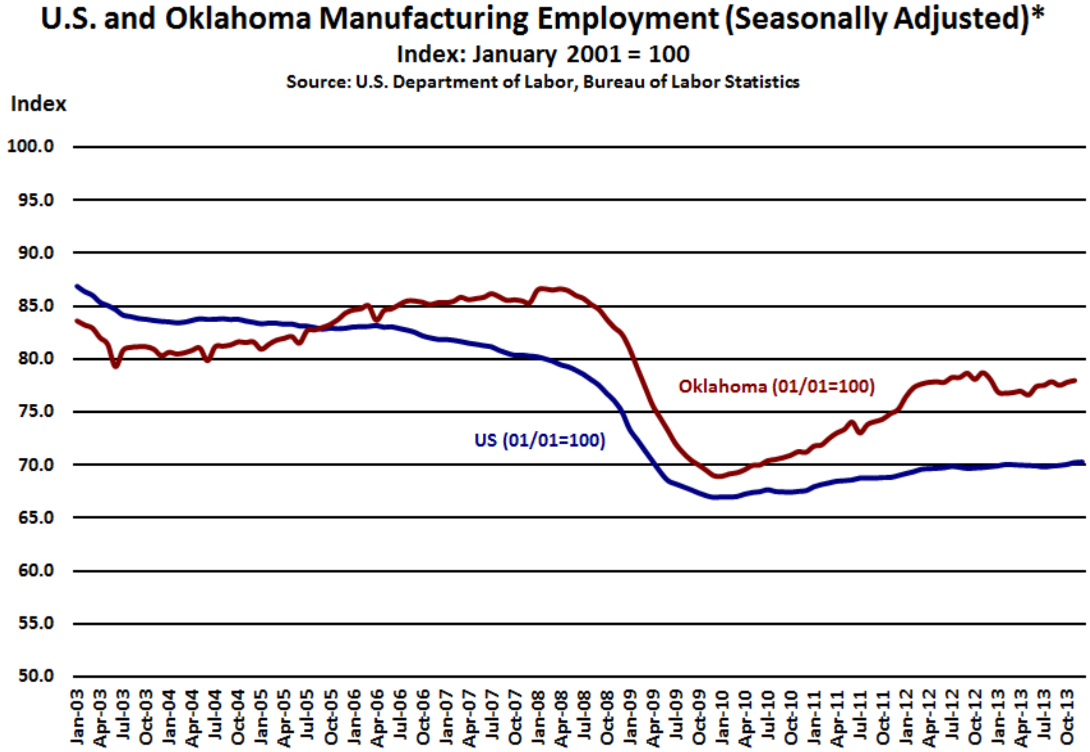
Employment growth by industry identifies the types of jobs being created in the state. Conversely, industries with a declining employment trend indicate those which are becoming less important in the state's economy. There may also be industries which behave more cyclically, growing during expansion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

Current Developments

Nonfarm employment growth in Oklahoma picked up more momentum in 2012. Total 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.

Over-the-year job losses were seen 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.

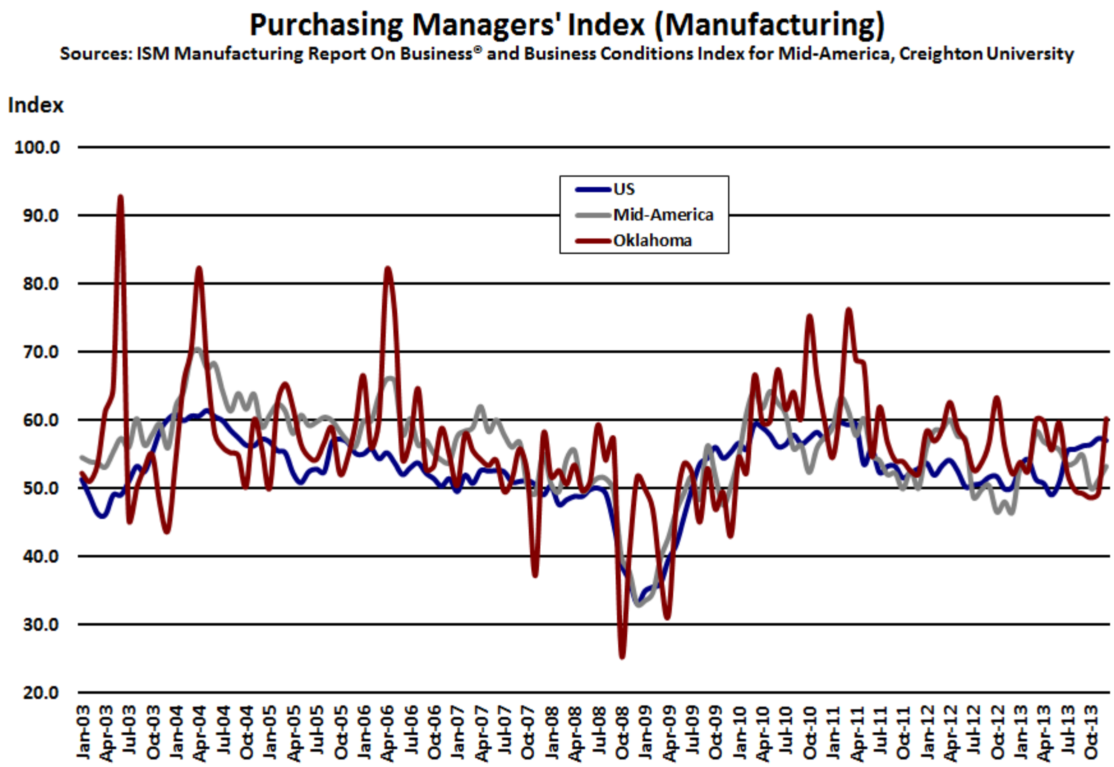
Current Developments

U.S. manufacturers added jobs in December but well below the stronger hiring gains seen in the previous two months. Manufacturing employment continued to trend up in December adding 9,000 jobs, according to the Bureau of Labor Statistics (BLS). Employment rose in primary metals (+4,000 jobs) and petroleum and coal products (+2,000 jobs), while electronic instruments (-4,000 jobs) lost jobs. Manufacturing added 77,000 jobs in 2013, compared with an increase of 154,000 jobs in 2012.

Manufacturing employment in Oklahoma grew slightly in November adding a non-seasonally adjusted 300 jobs (-0.1 percent). Durable goods manufacturing employment accounted for two-thirds of the job gains in November with non-durable goods manufacturing adding one third.

Over the year, Oklahoma manufacturing employment has added a non-seasonally adjusted 1,300 jobs for a 1.0 percent growth rate. Durable goods manufacturing employment added 1,100 jobs (1.2 percent) led by gains in machinery manufacturing (+900 jobs). Non-durable goods added 200 jobs (0.5 percent) over the year..

**As of January 2013, due to employment stability in the Manufacturing and Information supersectors, the BLS has determined that they do not need to be adjusted for seasonal factors at this time.*



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

The nation's manufacturing sector rose solidly in December as factories stepped up hiring and received more orders. The PMI™ registered 57 percent, the second highest reading for the year, just 0.3 a percentage point below November's reading of 57.3 percent, according to the latest Manufacturing ISM Report On Business®. The manufacturing index had increased for six straight months through November.

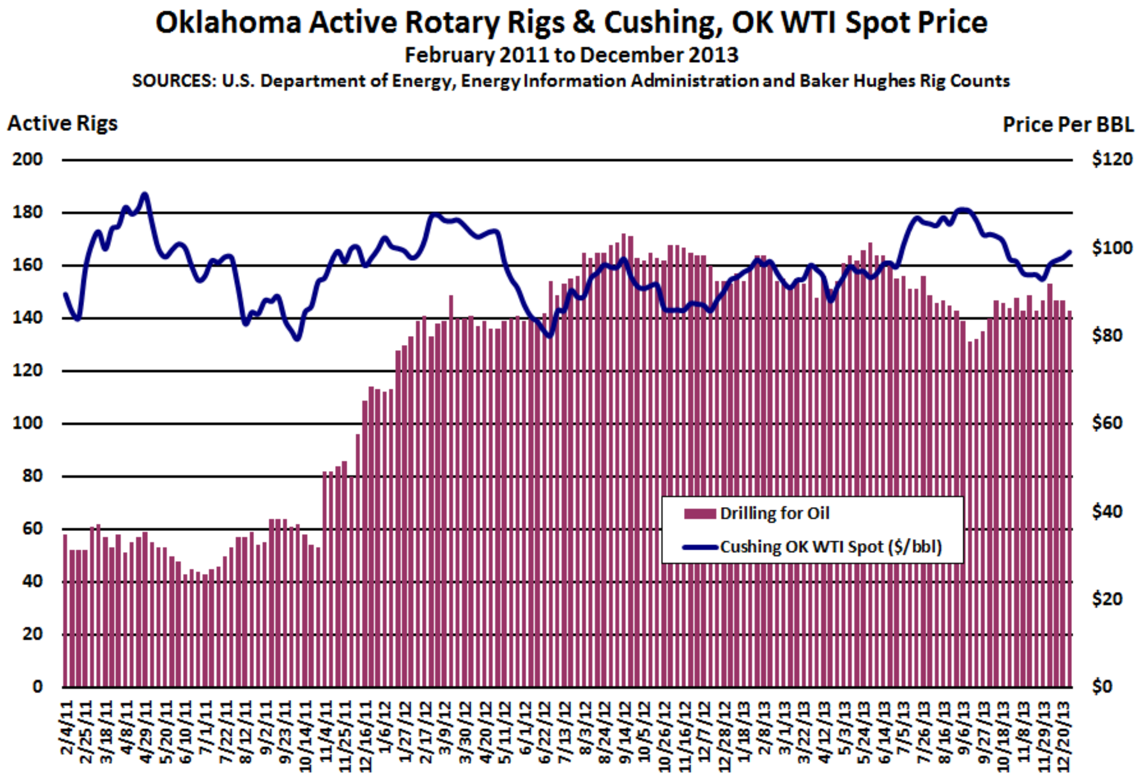
ISM's New Orders Index rose 0.6 for a fifth straight plus 60 reading at 64.2, the best rate of monthly growth since April 2010. December's employment reading increased 0.4 percentage point to 56.9 percent, its highest level since June 2011. Production and a measure of manufacturers' stockpiles fell.

Americans are buying more cars and homes, both of which fuel factory output. Many homebuyers also purchase furniture, appliances and electronics.

For a second straight month, the Mid-America Business Conditions Index, a leading economic indicator for the nine-state region, increased. The Business Conditions Index, which ranges between 0 and 100, rose to a tepid 53.2 from November's 51.2, according to the Creighton Economic Forecasting Group.

After slipping below growth neutral in the 3rd quarter of 2013, Oklahoma's Business Conditions Index is once again moving higher. The overall index jumped to 60.2 from 49.3 in November. Components of the December survey of supply managers in the state were new orders at 50.4, production or sales at 74.0, delivery lead time at 49.4, inventories at 74.7, and employment at 52.7.

"Expansions for business services firms and durable goods manufacturers, including metal producers, more than offset pullbacks for nondurable goods producers such as food processers. According to recent survey results, growth for the first half of 2014 will be healthy for Oklahoma," said Dr. Ernie Goss, director of Creighton University's Economic Forecasting Group.



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. When drilling rigs are active they consume products and services produced by the oil service industry. The active rig count acts as a leading indicator of demand for products used in drilling, completing, producing and processing hydrocarbons.

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 the 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

Oklahoma's active rotary rig count has been declining since mid-2012, falling from 200 at the end of August 2012 to 172 by the end of December 2013. At the same time, Oklahoma oil & gas production has been steadily rising to levels not seen since early 1990.

Recently, Baker Hughes began compiling a quarterly census of the number of new onshore oil and gas wells in the US. The index provides key U.S. onshore well count data to the oil and gas industry. "As new technologies and methodologies are introduced to the unconventional market, there is a continual evolution of drilling efficiencies, which can be difficult to measure. The Baker Hughes Well Count provides a greater understanding of key market forces, capturing the number of wells that were spud in each major U.S. basin," Baker Hughes noted on their website.

The major basins within Oklahoma are the Ardmore Woodford, Arkoma Woodford, and the Cana Woodford. Two other major basins that extend into Oklahoma include the Mississippian, in the northwestern and north central portions of the state, and the Granite Wash in the panhandle, northwestern and southwestern Oklahoma.

Using Baker Hughes well count data combined with rig counts helps to understand how 'drilling efficiencies' are affecting oil & gas exploration and production activities in Oklahoma.

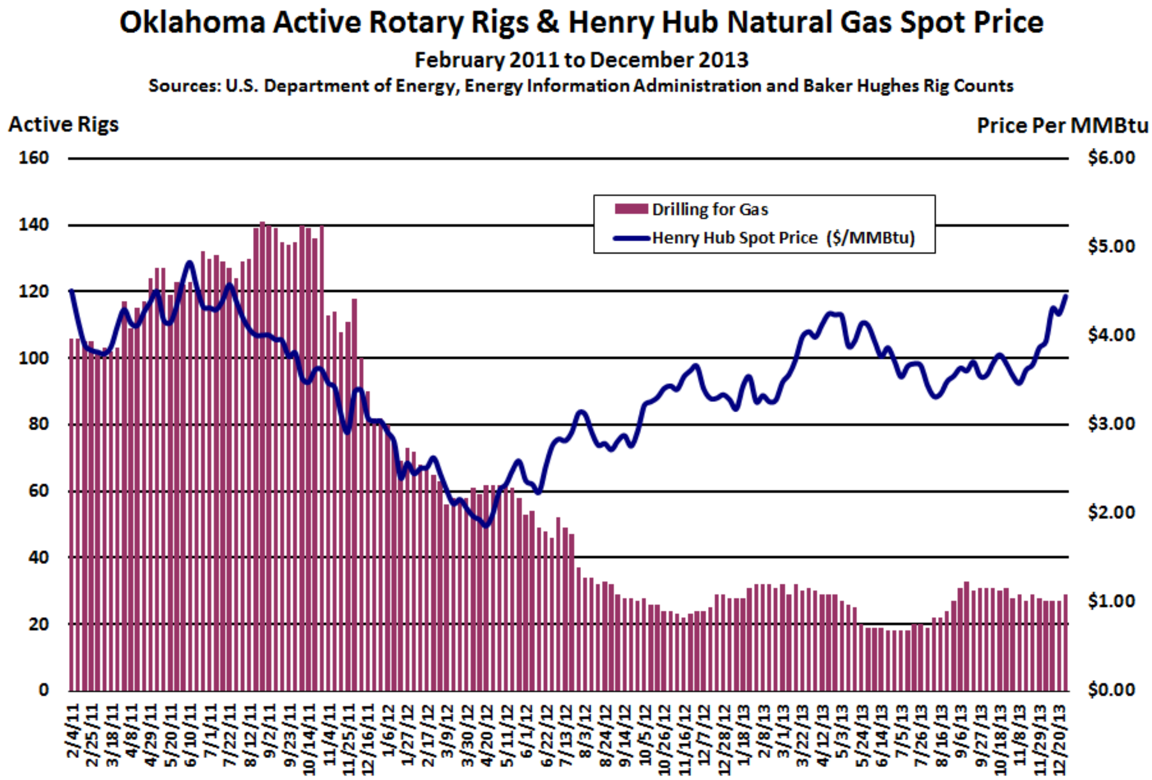
Activity in the Ardmore Woodford basin has heated up over the past couple of years, doubling the number of wells from 32 in the 1st quarter of 2012 to 65 in the 3rd quarter of 2013. At the same time, the rig count for that basin has only increased by 6 rigs to develop twice as many wells. 'Drilling efficiency', the ratio of wells per rig, increased from 4.00 in 1st quarter 2012 to 4.64 in 3rd quarter 2013.

Well counts per quarter are declining for the Arkoma & Cana basins (as are the rig counts) but drilling efficiency has dramatically increased, nearly doubling from 1st quarter 2012 to 3rd quarter 2013. In the Granite Wash basin, the well count has increased from 160 in the 1st quarter of 2012 to 174 in the 3rd quarter of 2013 while the rig count has declined from 86 to 70 during the same time period. The drilling efficiency ratio increased from 1.85 1st quarter 2012 to 2.49 in 3rd quarter 2013.

State crude oil production, at 10,008,000 barrels, ranked Oklahoma 5th among all states in October 2013 and was the highest level of production since January 1990.

WTI-Cushing spot prices improved in December after dropping 2 percent during the previous month. The monthly average WTI-Cushing spot price for December was $97.63 compared to the November average of $93.86. Over the year, WTI-Cushing average monthly spot prices were 11.1 percent more than December 2012.

Oklahoma's overall rotary rig activity declined in December, subtracting five rigs for the month to a level of 175. Over the year, December's active rotary rig count in Oklahoma was 15 rigs less than 190 in November 2012. Oil-directed active rotary rigs slipped to a level of 143, (for the week ended December 27, 2013), and represented approximately 83 percent of total rig activity in the state.



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 or 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 prices. If inventories are high and rising in a period of strong demand, prices may not need to increase at all, or as much. However, 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

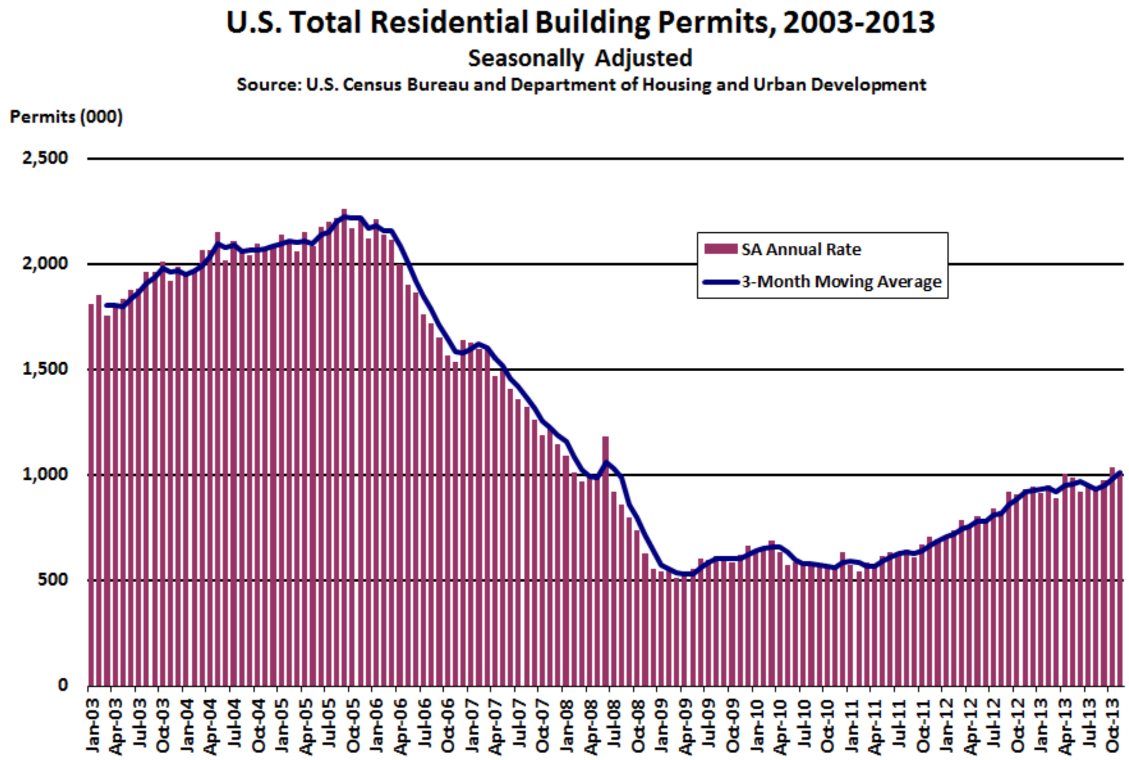
Natural gas exports are forecast to increase as domestic supplies increase and it becomes attractive to liquefy the natural gas for export, according to the *2014 Annual Energy Outlook* recently released from the U.S. Energy Information Administration (EIA). The United States becomes a net exporter of LNG in 2016, and it becomes an overall net exporter of natural gas in 2018, two years earlier than previously thought.

In 2011, Oklahoma natural gas marketed production ranked 4th among all states at 1,888,870 million cubic feet, according to the EIA.

Following several weeks of weather-driven increases, the Henry Hub natural gas spot price increased 16.5 percent in December settling at $4.31/MMBtu by month end.

According to data reported by Baker Hughes, Oklahoma's natural gas rotary rig count edged up in December. For the week ended December 27, the state natural gas-directed drilling rig count was at 29, accounting for about 17 percent of total drilling activity. Over the year, Oklahoma's natural gas-directed rotary rig count was unchanged from 29 rigs reported for the week ended December 28, 2012.

The Baker Hughes U.S. natural gas rotary rig count for December slipped by 1 rig to 374 active units. Meanwhile, oil-directed rigs fell by 15 to 1,382 active units for the month.



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.

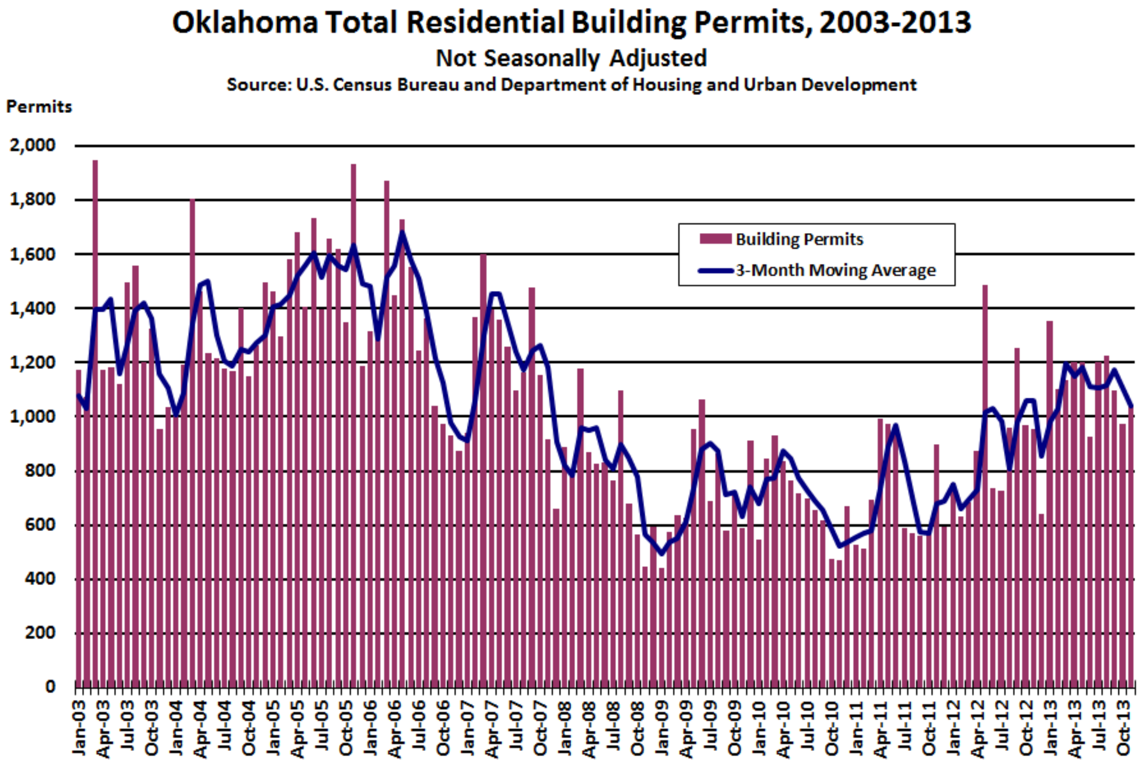
While home construction represents a small portion of the housing market, it has an outsize impact on the economy. Each home built creates an average of three jobs for a year and about $90,000 in taxes, according to the National Association of Home Builders. Overall, homebuilding fell to its lowest levels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

Current Developments

Permits for future construction slipped in November, pulled down by a decline in apartments, but homebuilders began construction on houses at the fastest pace in more than five years. Privately-owned housing units authorized by building permits in November slipped to a seasonally adjusted annual rate of 1,007,000, or 3.1 percent below the revised October rate of 1,039,000, but is 7.9 percent above the November 2012 estimate of 933,000 according to the U.S. Census Bureau and the Department of Housing and Urban Development. Permits increased 5.2 percent in September.

The drop reflected a decline in apartment permitting, which can be volatile. Permits for single-family homes rose 2.1 percent from October.

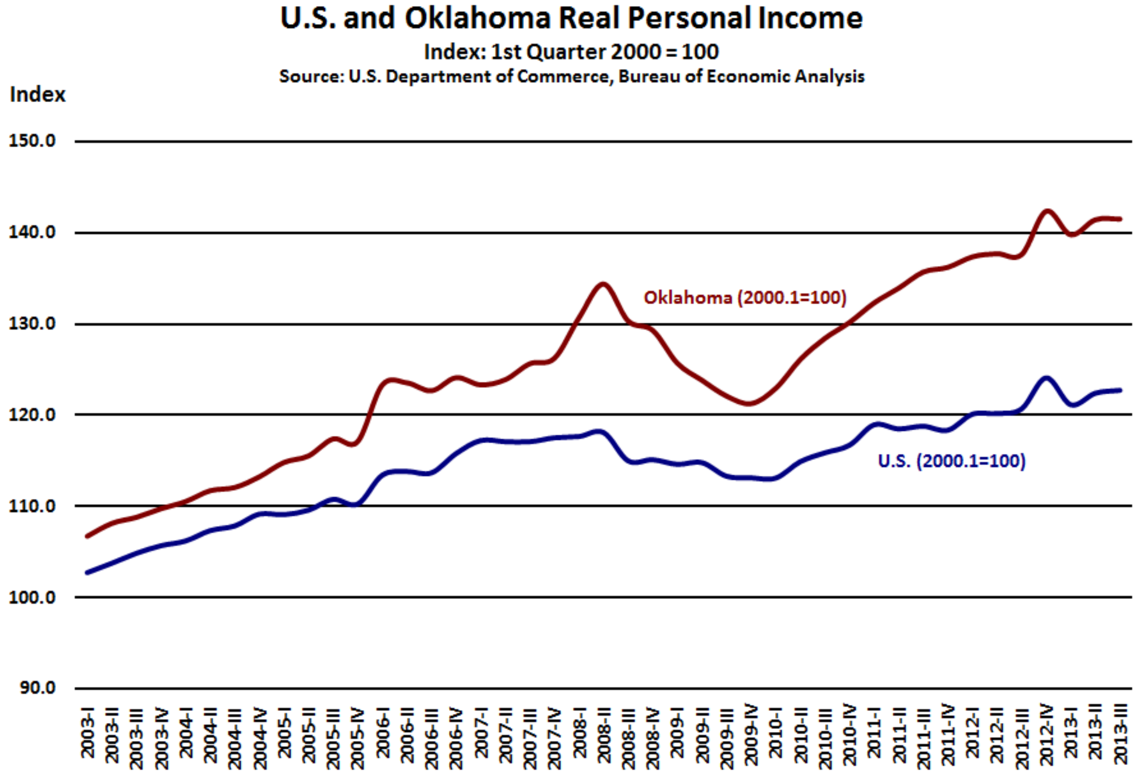
The National Association of Home Builders/Wells Fargo builder sentiment index climbed to 58 in December. That's up from 54 in November and matched an eight-year high reached in August. Readings above 50 indicate more builders view sales conditions as good, rather than poor.



Residential permitting activity in Oklahoma picked up in November helped by a surge in apartments. Total unadjusted residential building permits for November was up 6.7 percent from October, according to figures from the U.S. Census Bureau and the Department of Housing and Urban Development. Single-family permitting accounted for 73.6 percent of residential permitting activity in November while multi-family permitting was nearly 25 percent. Over the year, total unadjusted residential permitting was up 8.8 percent from November 2012.

Year-to-date, Oklahoma residential permitting activity in 2013 was 24.1 percent more than the first 11 months of 2012. The 2013 pace in residential permitting is also the highest level of residential permitting in Oklahoma since 2007.

Part of the reason for the surge in residential building permits in Oklahoma in 2013 was due to rebuilding after the deadly May 20 tornado that devastated communities in central Oklahoma. Officials in Moore, Oklahoma say the city has issued a record 612 single-family building permits during the first 11 months of 2013—394 more permits than were issued during the same time period the previous year. The Federal Emergency Management Agency (FEMA) estimated that 1,300 homes were destroyed by the EF5 tornado that also killed two dozen people. Additionally, in the May 28 through June 2 severe storms, more than 538 homes and businesses were impacted in Canadian and Oklahoma counties alone, including 52 destroyed, 193 with major damage, and 159 with minor damage. Oklahoma Insurance Department officials estimate up to $2 billion in damage may have occurred in the affected areas.



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. This chart shows a comparison of Oklahoma and U.S. growth in real personal income with 1st quarter 2000 as the base year.

Current Developments

Americans stepped up their spending in November by the most in five months but modest income growth could limit future gains. Personal income rebounded $30.1 billion, or 0.2 percent, and disposable personal income (DPI) increased $16.2 billion or 0.1 percent in November, according to the Bureau of Economic Analysis (BEA). Personal consumption expenditures (PCE) increased $63.0 billion, or 0.5 percent. In October, personal income decreased $11.7 billion, or 0.1 percent, DPI decreased $25.6 billion, or 0.2 percent, and PCE increased $44.2 billion, or 0.4 percent, based on revised estimates.

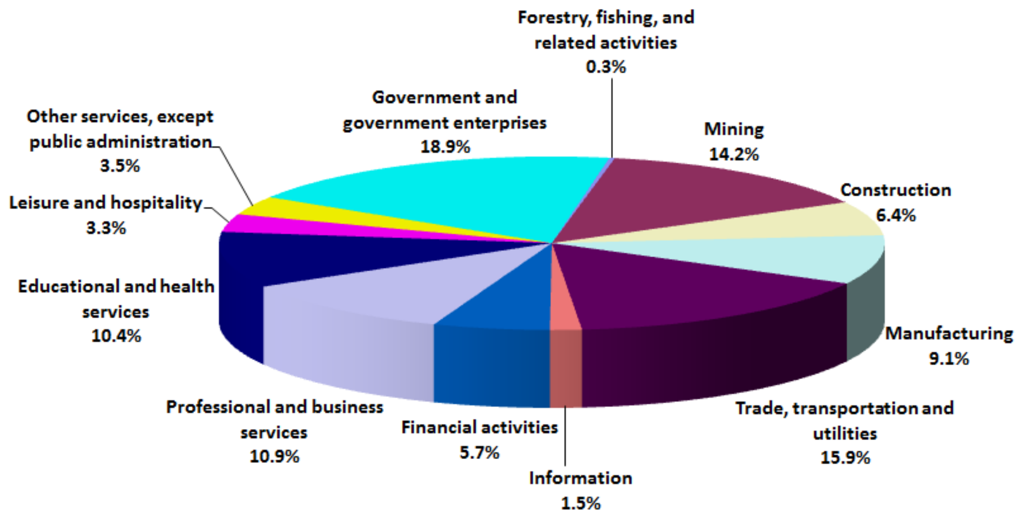
Spending in November was driven by a jump in spending on long-lasting durable goods such as autos, up 1.9 percent, following a 1.0 percent increase in October. Nondurables declined 0.4 percent after a 0.4 percent decrease in October, with lower gasoline prices likely playing a role. Services jumped 0.6 in November, following a 0.3 percent rise the prior month.

With spending outpacing income growth, the saving rate— the percentage of disposable income that households are setting aside for saving—fell to a nine-month low of 4.2 percent.

Oklahoma Nonfarm Industry Contribution to Earnings

Third Quarter 2013

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 information than the data that were available when the estimates were initially prepared and to incorporate updated seasonal factors.

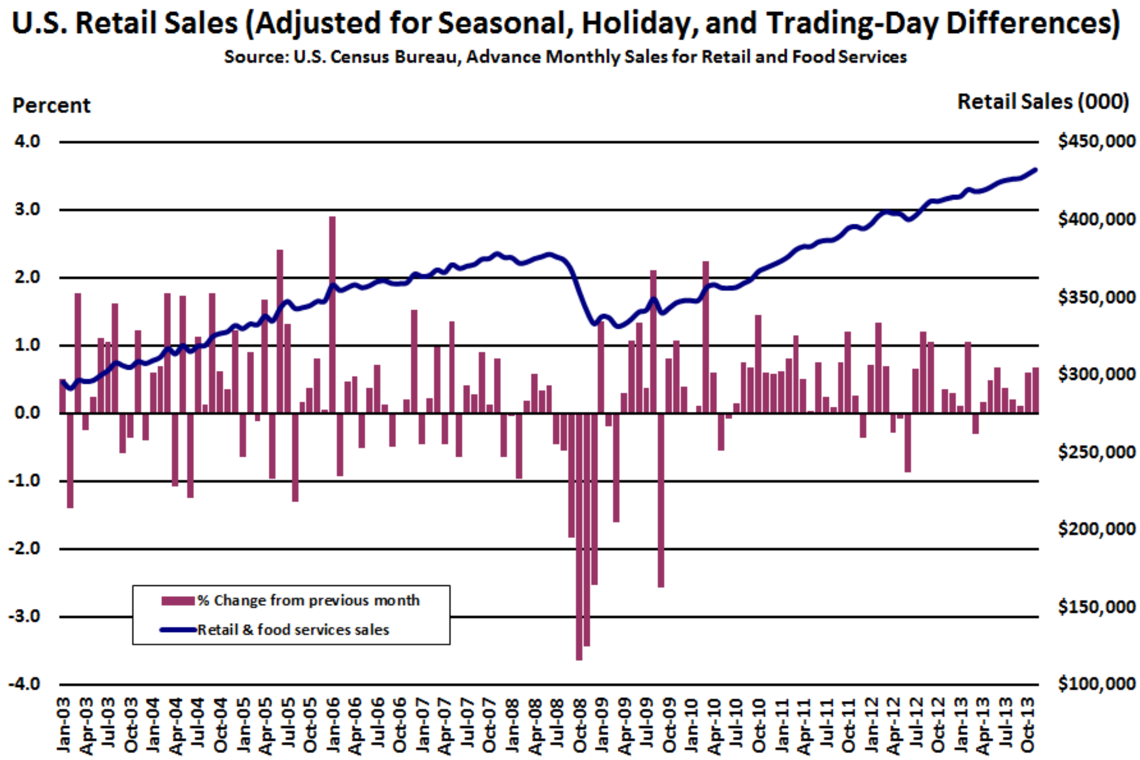
Current Developments

State personal income growth slowed slightly to 1.1 percent in the 3rd quarter of 2013, from 1.2 percent in the 2nd quarter, according to estimates by the U.S. Bureau of Economic Analysis (BEA). Growth slowed in 25 states, (including Oklahoma), accelerated in 22, and was unchanged in 3 states and the District of Columbia. Growth across states ranged from 0.4 percent in New Mexico to 1.9 percent in Mississippi.

The BEA noted that slightly more than half of the personal income increase in Mississippi—$1.0 billion—was a current transfer receipt representing a settlement for a class-action suit that alleged racial discrimination by the U.S. Department of Agriculture in its evaluation of farm loan applicants between 1981 and 1996.

Oklahoma's personal income growth slowed in the 3rd quarter of 2013, lagging behind the national average. Personal income totaled $161.3 billion in the 3rd quarter, up 0.8 percent from $159.9 billion in the 2nd quarter. That ranked Oklahoma 36th (out of 50 states and the District of Columbia) for income growth in the 3rd quarter and below the national rate of 1.1 percent.

Net earnings for the nation grew 0.7 percent in the 3rd quarter, while Oklahoma's net earnings grew 0.4 percent. Mining (0.17 percent), and farm earnings (0.15 percent), were the largest contributors to earnings growth in Oklahoma during the 3rd quarter, while civilian federal government (-0.11 percent), provided the biggest drag to earnings growth.



Definition & Importance

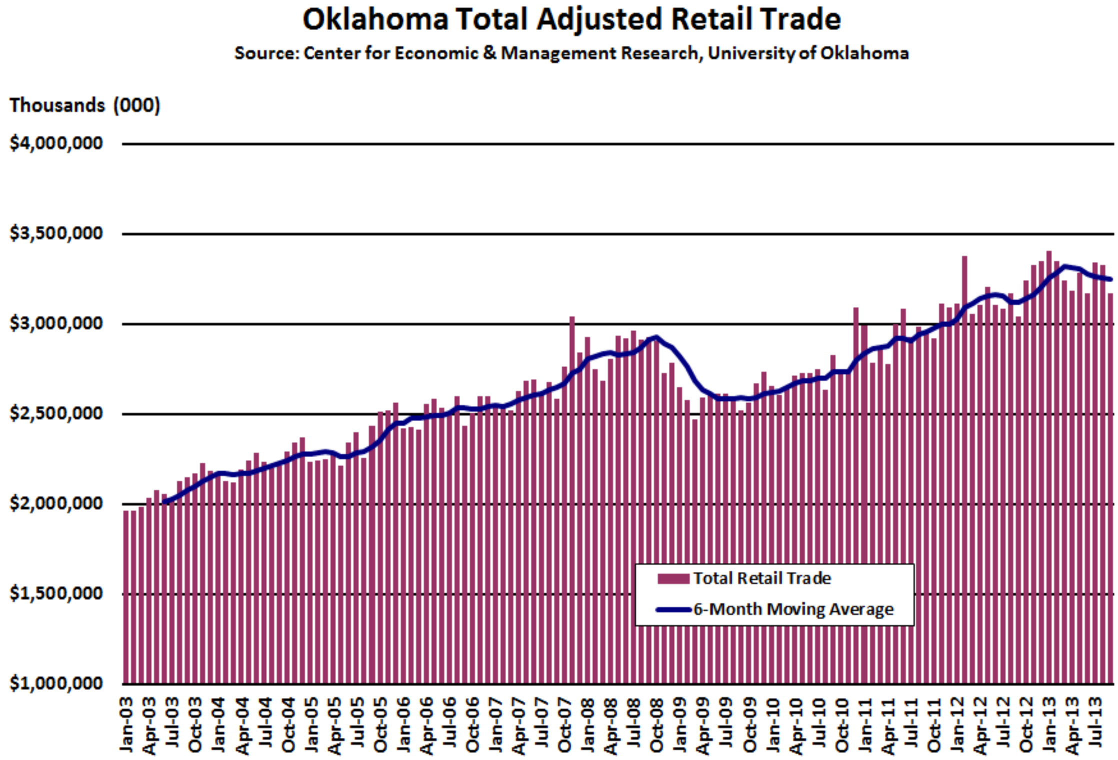
Retail sales measure the total receipts at stores that sell merchandise and related services to final consumers. Sales are by retail and food services stores. Data are collected from the Monthly Retail Trade Survey conducted by the U.S. Bureau of the Census. Essentially, retail sales cover the durables 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 rose solidly in November, climbing the most in five months, a sign consumer spending is emerging from a 3rd-quarter lull. Advance estimates of U.S. retail and food services sales for November, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $432.3 billion, an increase of 0.7 percent from the previous month, and 4.7 percent above November 2012, according to the U.S. Census Bureau. Total sales for the September through November 2013 period were up 4.1 percent from the same period a year ago. The September to October 2013 percent change was revised from +0.4 percent to +0.6 percent.

Automobile sales were a big part of the November boost, gaining 1.8 percent after a 1.1 percent increase in October. Excluding autos, sales increased 0.4 percent after advancing 0.5 percent in October. However, gasoline prices pulled down on this measure. Gas station sales dropped 1.1 percent in November, following a 0.4 percent decrease the month before. November sales excluding receipts at gas stations climbed the most since September 2012.

The less volatile "core" retail sales, excluding autos, gas and building supplies rose 0.5 percent after gaining 0.7 percent in October. November's core sales gain was consistent with consumer spending rising at an annualized rate of at least 3.5 percent in the 4th quarter, a big jump from 3rd quarter's 1.4 percent pace.



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

Oklahoma retail trade slumped in September largely on falling gasoline prices. Total adjusted retail sales for September 2013 were at a level of $3.17 billion—a 4.7 percent decline from August but 4.2 percent greater than September 2012. For the first nine months of 2013, total adjusted retail trade was 4.3 percent more that the same period in 2012.

Durable goods sales edged up 0.3 percent in September with the largest increase seen in lumber & hardware (+4.1 percent); followed by auto accessories & repair (+2.6 percent). Falling sales were seen in miscellaneous durable goods (-7.3 percent); electronics & music stores (-4.7 percent); and used merchandise (-2.3 percent); and furniture (-0.2 percent). Over the year, durable goods sales were 15.3 percent more than September 2012.

Total nondurable goods sales fell 6.4 percent in September with the largest monthly decline in estimated gasoline sales (-25.9 percent). Average statewide gasoline prices dropped from $3.52 per gallon at the beginning of August to $3.19 by the end of September for a 10.3 percent decline. Eating & drinking sales were also strong in July (-3.7 percent). Declining sales were seen in apparel (-1.9 percent); food (-1.4 percent); liquor (-1.0 percent): general merchandise (-0.9 percent); and drugs (-0.2 percent). Over the year, non-durable goods sales advanced 6.6 percent.