Oklahoma Economic Indicators
February 2011

Oklahoma Employment Security Commission
Economic Research and Analysis
http://oesc.ok.gov

OKLAHOMA
ECONOMIC INDICATORS

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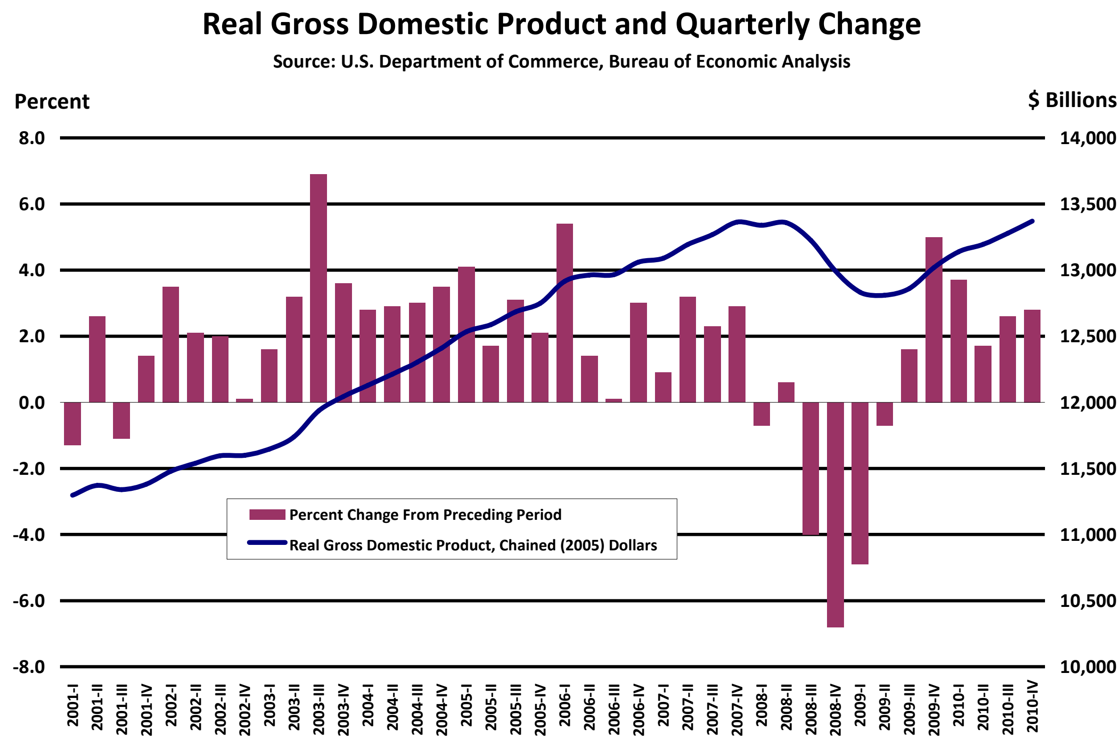


Gross Domestic Product (GDP)—the output of goods and services produced by labor and property located in the United States—is the broadest measure of economic activity. It is also the measure that is most indicative of whether the economy is in recession. In the post-World War II period, there has been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

Deeper spending cuts by state and local governments weighed down U.S. economic growth in the final three months of last year. Fourth quarter GDP growth was revised down to a 2.8 percent annualized growth from the advance estimate of 3.2 percent, according to the "second" estimate released by the Bureau of Economic Analysis (BEA).

The downward revision to the percent change in real GDP primarily reflected an upward revision to imports (less negative) and downward revisions to state and local government spending and to personal consumption expenditures that were partly offset by an upward revision to exports.

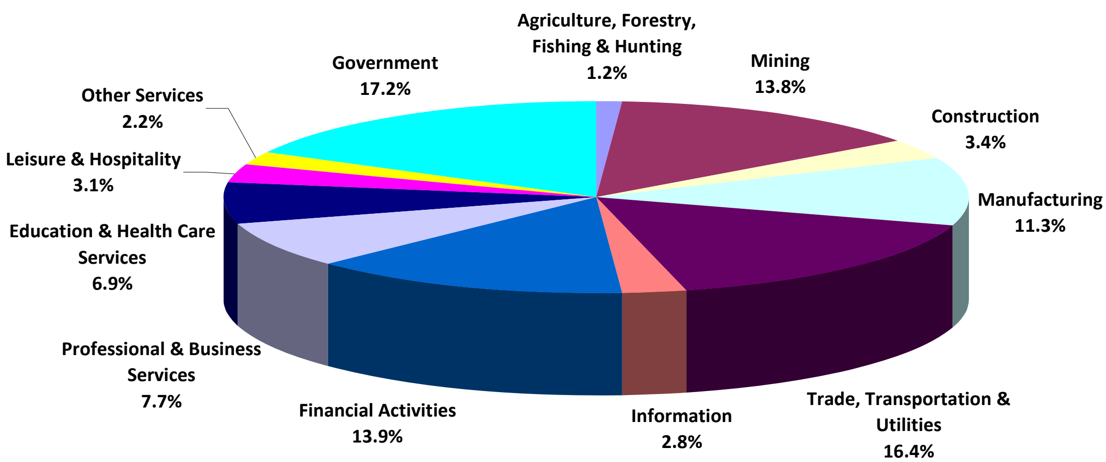
For all of 2010, the economy grew 2.8 percent, the most in five years, according to revised figures. That was down slightly from the 2.9 percent growth first estimated a month ago. However, it was an improvement from 2009 when the economy suffered its worst decline in more than 60 years.

Continuing moderate growth in the economy certainly explains currently sluggish growth in employment. However, more recent monthly data suggest that the recovery is continuing, although at a moderate pace. But rising oil prices and budget cuts by state and local government are creating headwinds.

2009 Industry Share of Oklahoma's Economy

(by percentage of Gross Domestic Product)

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



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

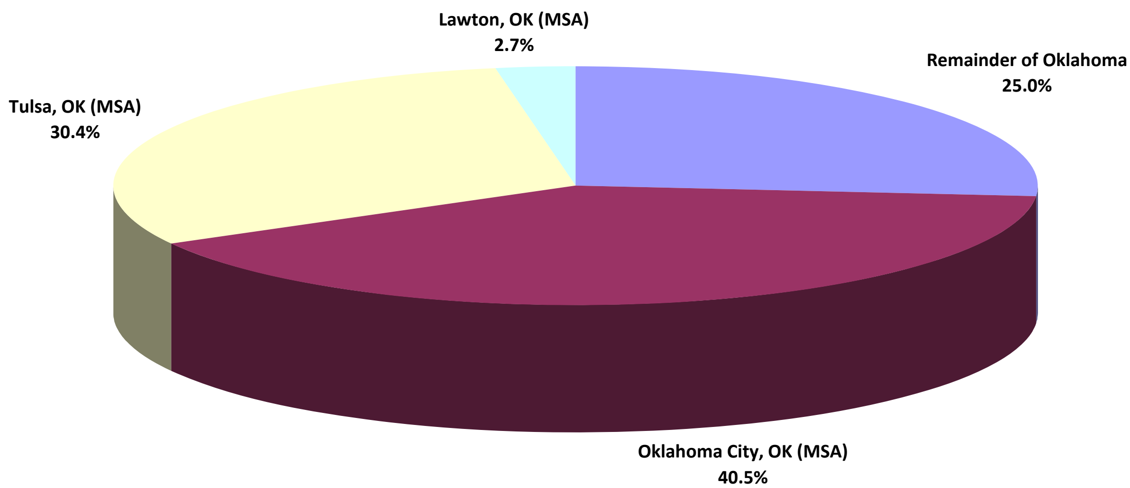
According to recently released data from the Bureau of Economic Analysis (BEA), real GDP declined in 38 states in 2009, led by national downturns in durable goods manufacturing and construction. However, Oklahoma experienced positive real GDP growth in 2009 due to real growth in mining resulting from sharp declines in prices for petroleum, natural gas, and other mining products. In 2009, Oklahoma had the fastest growth in real GDP among all states at 6.6 percent.

The largest contributor to growth in Oklahoma was mining, accounting for 7.23 percentage points of the total growth in real GDP. The second largest contributor was government which accounted for 0.56 percentage point of the total growth in real GDP. Since Mining's contribution was greater than the state growth rate and without this industry's input, Oklahoma GDP would have declined in 2009.

In 2009, government had the largest industry share in Oklahoma, accounting for 17.2 percent of total GDP. The second largest industry was the broad trade, transportation, and utilities industry accounting for 16.4 percent of Oklahoma GDP. Mining accounted for 13.8 percent of 2009 Oklahoma GDP.

Metropolitan Area Contribution to State Real Gross Domestic Product 2009

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



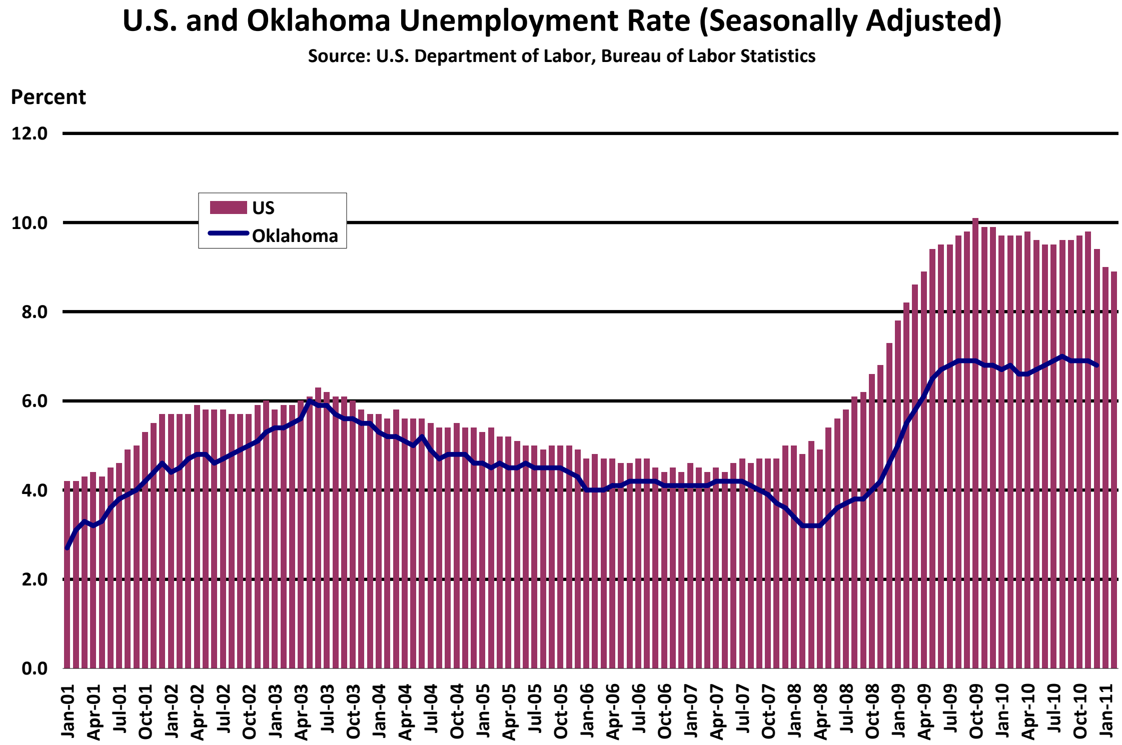
Metropolitan Statistical Areas (MSA) are the county-based definitions developed by the Office of Management and Budget for federal statistical purposes. A metropolitan area is defined as a geographic area consisting of a large population nucleus together with adjacent communities having a high degree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

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

Real U.S. GDP by metropolitan area declined 2.4 percent in 2009 after declining 0.4 percent in 2008, according to the Bureau of Economic Analysis (BEA). The economic decline was widespread as real GDP declined in 292 of 366 (or 80 percent) metropolitan statistical areas, led by national declines in durable-goods manufacturing, construction, and professional and business services.

In contrast to most industries, natural resources and mining was a strong positive contributor to growth in 2009. Growth accelerated in 70 metropolitan areas, most notably in areas where natural resources and mining industries are concentrated such as Casper, WY and Oklahoma City, OK where this industry contributed more than ten percentage points to growth.

In terms of growth in real GDP, Oklahoma City MSA ranked 3rd out of the 366 U.S. metropolitan areas growing by 14.5 percent to $59.5 billion in 2009. Tulsa MSA ranked 9th growing by 7.6 percent to $44.8 billion followed by Lawton MSA ranked at 17th growing by 4.8 percent to $4.0 billion.

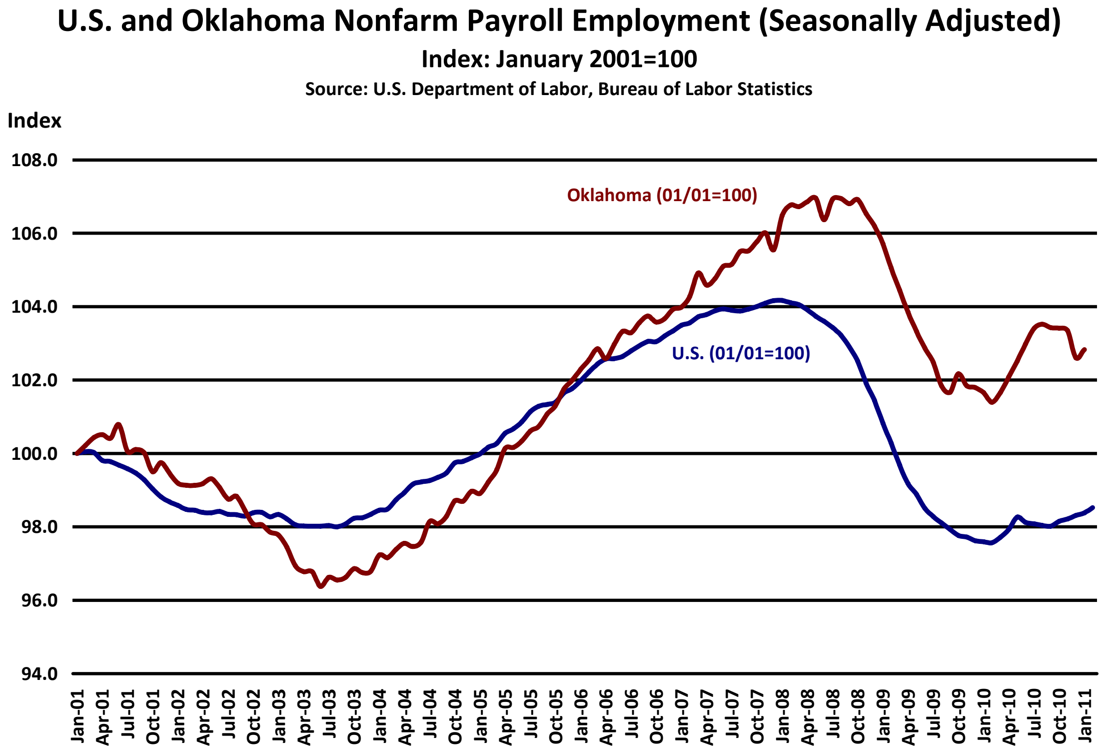


The unemployment rate measures the percentage of people who are without work and is calculated by dividing the estimated number of unemployed people in the state by the civilian labor force. The result expresses unemployment as a percentage of the labor force.

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. It reveals the degree to which labor resources are utilized in the economy.

At 8.9 percent, the U.S. unemployment rate changed little over the month but is down from 9.8 percent in November 2010, according to the Bureau of Labor Statistics (BLS). Of the 13.7 million unemployed in February, 43.9 percent had been jobless for 27 weeks or more, essentially the same as in the prior month. The unemployment rate had been at or above 9.0 percent since May 2009, the longest stretch at such an elevated level since the Second World War.

Oklahoma's seasonally adjusted unemployment rate dropped by 0.1 percentage point to 6.8 percent for the month in December 2010. This was the ninth-lowest, (tied with Kansas), unemployment rate among all states in December. Nearly half of Oklahoma's 77 counties saw their unemployment rates drop in December. Latimer County had the state's highest county unemployment rate at 10.7 percent while Beaver County again reported the state's lowest county unemployment rate at 3.4 percent.



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

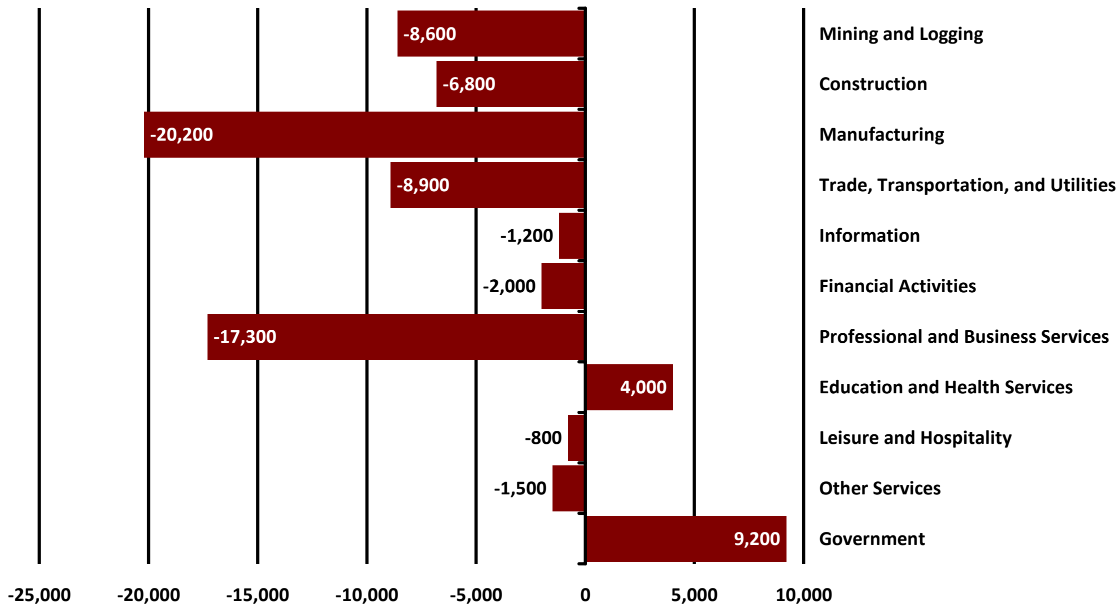
During the mature phase of an economic expansion, monthly payrolls gains of 150,000 or so are considered relatively healthy. In the early stages of recovery though, gains are expected to surpass 250,000 per month.

The U.S. job market rebounded in February, as employers hired at the fastest pace in almost a year. Overall payroll employment in February grew by 192,000, following a revised 63,000 rise in January and a 152,000 gain in December, according to the Bureau of Labor Statistics. Job gains occurred in manufacturing, construction, professional and business services, health care, and transportation and warehousing. Private employers added 222,000 jobs, partly offset by the loss of 30,000 government jobs. While a stronger pace of job creation was recorded for three months last spring, those numbers were artificially inflated by temporary Census hiring.

After stumbling in the last quarter of 2010, statewide total nonfarm employment picked up in January adding 3,400 jobs over the month. Strong employment gains in manufacturing, leisure & hospitality, professional & business services, and education & health services were somewhat offset by job losses in trade, transportation & utilities, construction, and other services. Over the year, statewide employment has grown 1.13 percent adding 17,100 jobs. The largest job gains were seen in manufacturing, professional & business services, mining & logging, leisure & hospitality, and education & health services. Job losses occurred in government, trade, transportation & utilities, and other services.

Oklahoma Employment Change by Industry
2008 - 2009

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



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

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

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

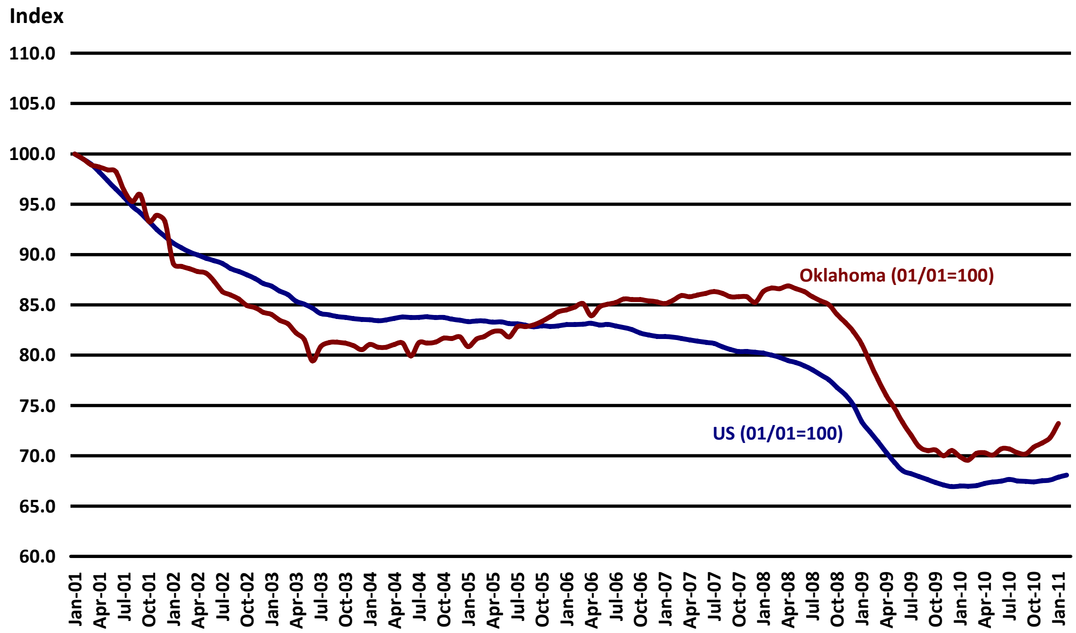
Government added 9,200 jobs with nearly all of the gains being at the local and federal levels. The bulk of job gains in local government can be attributed to tribal gaming and public school employment growth. Hiring for temporary Census 2010 workers accounted for much of the job gains in federal government.

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

U.S. and Oklahoma Manufacturing Employment (Seasonally Adjusted)

Index: January 2001 = 100

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

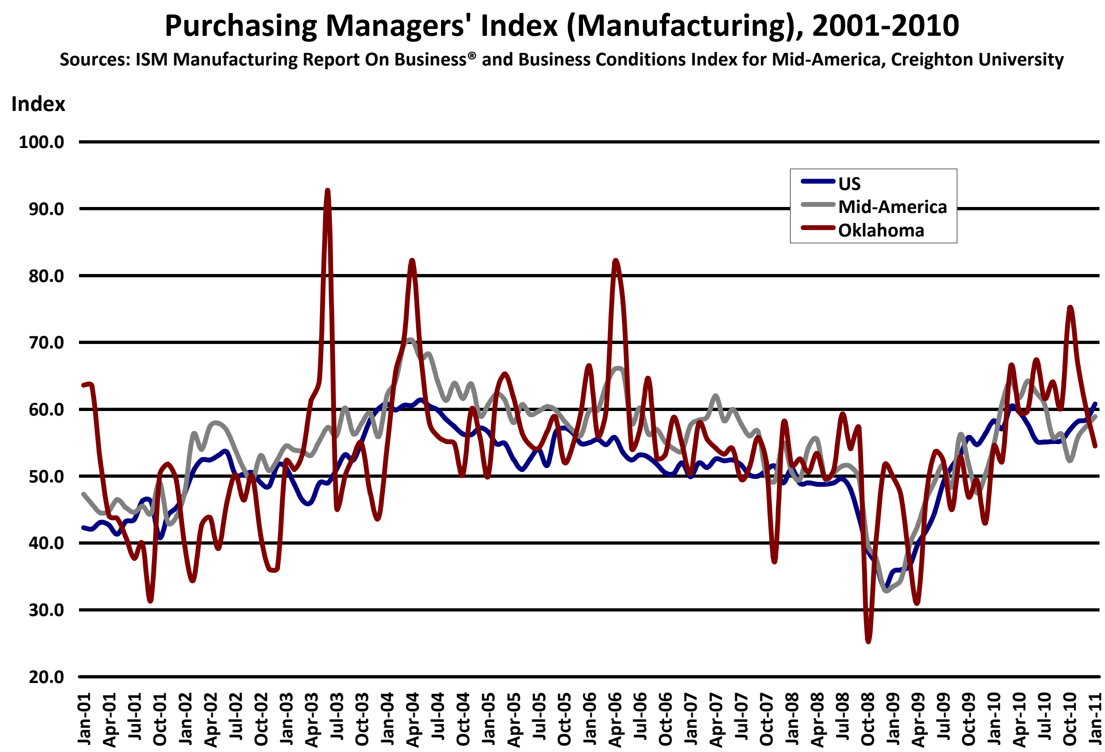


Manufacturing and production are still important parts of both the U.S. and Oklahoma economies and have been seriously adversely affected by the recession. In Oklahoma, manufacturing accounts for the largest share of private output in the state and one of the largest shares of employment. In addition,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

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

U.S. manufacturing employment continued to rise in February adding 33,000 jobs. Almost all of February's gain was in durable goods, most notably in fabricated metal products (+7,000) and machinery (+9,000). Since its most recent trough in December 2009, manufacturing has added 195,000 jobs with durable goods manufacturing adding 233,000 jobs during this period.

Oklahoma's manufacturing sector showed continued strength in January adding 200 jobs. Employment gains in durable goods manufacturing were led by transportation equipment manufacturing (+500). Non-durable goods manufacturing shed 200 jobs led by losses in food manufacturing (-100). Over the year, Oklahoma manufacturing employment has added 6,300 jobs growing by 5.2 percent. Almost all the employment growth came from durable goods manufacturing which added 6,200 jobs.



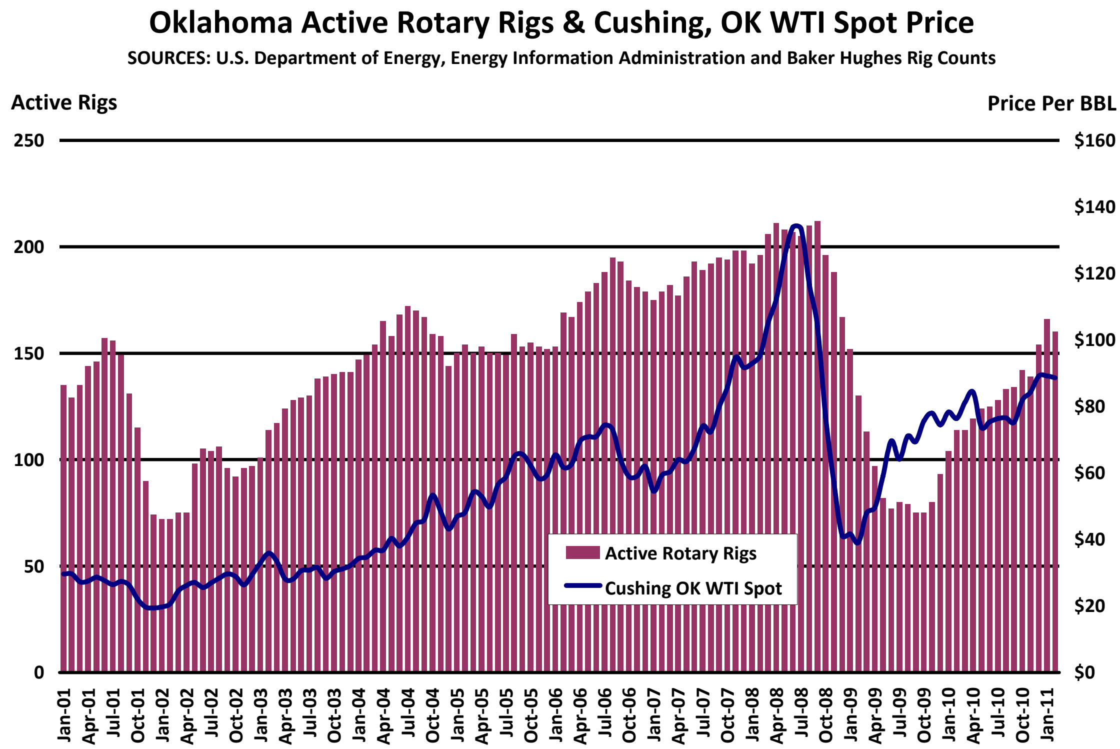
Economists consider the Institute for Supply Management's Purchasing Managers' Index (PMI) a key economic indicator. The Institute for Supply Management (ISM) surveys more than 300 manufacturing firms on employment, production, new orders, supplier deliveries, and inventories. The ISM manufacturing index 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.

Manufacturing activity in the U.S. turned in its best performance since May 2004 last month. Robust export demand, together with declining inventories, is sparking a surge in new orders that promises a fresh round of strong growth. February's PMI rose more than a 1/2 point to a 61.4 level, matching the highest reading of the last expansion, according to the latest Manufacturing ISM *Report On Business®*. The manufacturing sector has re-emerged as a center of the nation's strength and its economic recovery. However, the one factor that clouds this report is the ongoing spike in oil prices, threatening to increase already very high input prices.

The employment index, at 64.5 for a nearly three point monthly gain, is at its best level since the early 1970s. The recent surge in this index has accurately signaled underlying manufacturing payroll growth in the BLS's monthly employment report. Manufacturing employment has been a central strength of the jobs market.

The Business Conditions Index for the nine-state Mid-America region advanced for the fourth straight month in February. The index climbed to 63.2 from 58.9 in January. This is the 15th consecutive month that the index has risen above growth neutral. According to recent surveys of supply managers, the region will continue to expand at a very healthy pace for the first half of 2011, but with rising inflationary pressures at the wholesale level.

For the 14th straight month, Oklahoma's leading economic indicator remained above growth neutral. The Business Conditions Index from a monthly survey of supply managers climbed to 62.2 from 54.5 in January. Components of February's index were new orders at 57.1, production or sales at 54.8, delivery lead time at 89.4, inventories at 49.1, and employment at 60.5.



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.

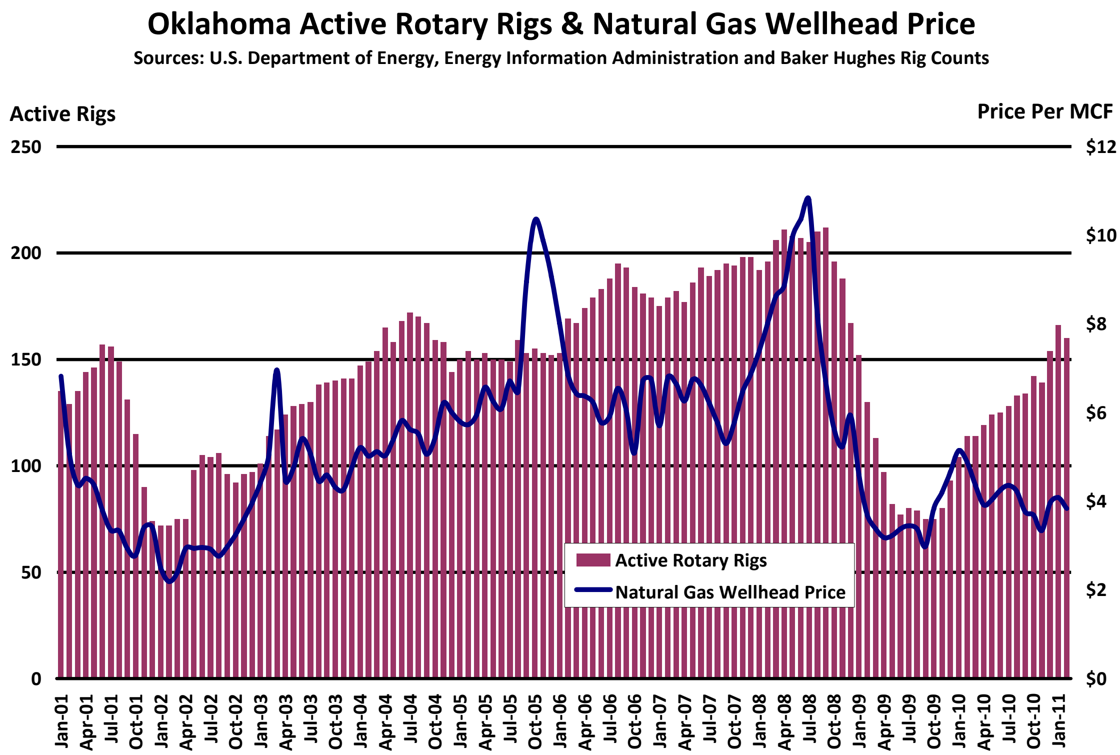
Oklahoma produces a substantial amount of oil, with annual production typically accounting for more than 3 percent of total U.S. production in recent years. Crude oil wells and gathering pipeline systems are concentrated in central Oklahoma. Two of the 100 largest oil fields in the United States are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

Unrest in the Middle East and North Africa has pushed oil prices higher this year, and recently those increases have begun to show up in the price of gasoline. The U.S. Energy Information Administration (EIA) reported that regular gasoline averaged $3.38 a gallon at the pump on the last day of February, up from $3.19 a week earlier. This was the second largest one-week increase since the EIA began tracking weekly retail gasoline price data in 1990. As it cuts into Americans' ability to buy other items, the increase in fuel costs could slow the economy.

WTI-Cushing climbed to a high of $97.10 per barrel on February 28, 2011—the highest traded daily price since October 1, 2008. On average, the WTI crude oil spot price slipped to $88.58 per barrel in February—dropping $0.41 per barrel from the previous month. Over the year, the WTI crude oil spot price was $12.19 (or 16 percent) higher than February 2010.

Oklahoma’s rotary rig activity fell back to 160 in February, a loss of 6 active rigs from January’s count of 166 and 46 more than the February 2010 count of 114 rigs.



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.

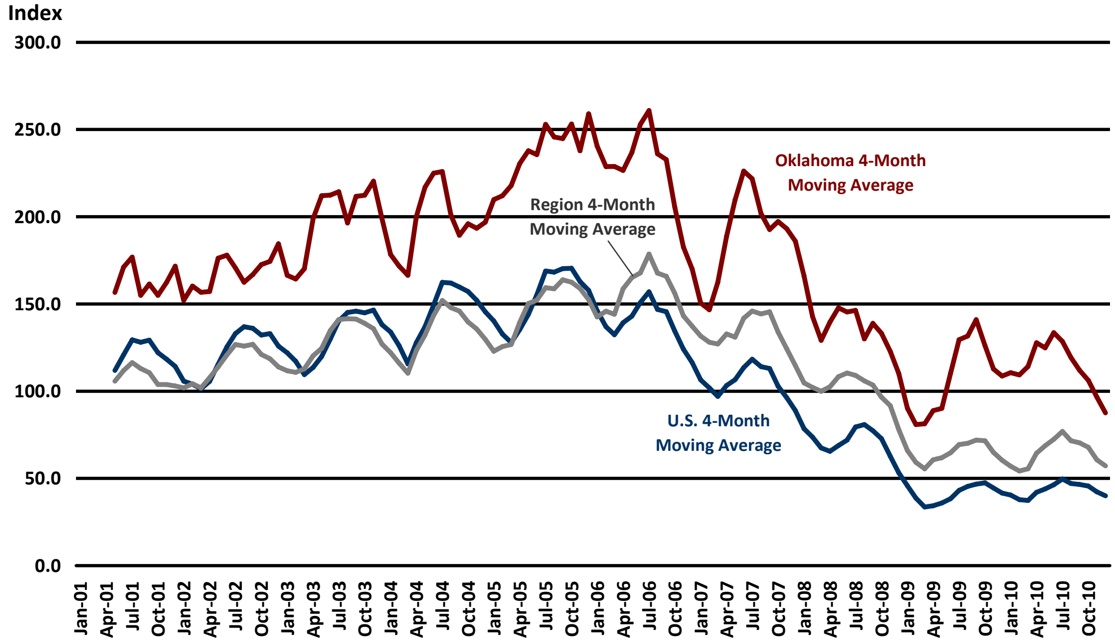
According to the latest U.S. Energy Information Administration (EIA) data for monthly natural gas production, showed an increase in the lower-48 states' production for November 2010, reversing October's decline. Modest declines are expected to resume and continue through 2011, however, because of a falling drilling rig count in response to lower prices. The large price difference between petroleum liquids and natural gas on an energy-equivalent basis contributes to an expected shift towards drilling for liquids rather than for dry gas.

Colder-than-normal weather east of the Rocky Mountains in January contributed to a larger-than-expected draw on inventories. However, EIA expects near-record high inventories to continue through most of 2011. Falling production and greater consumption contribute to lower inventories in the second half of 2012.

Total Residential Building Permits - U.S., West South Central Region & Oklahoma

Index: January 2001 = 100

Source: U.S. Census Bureau



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

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

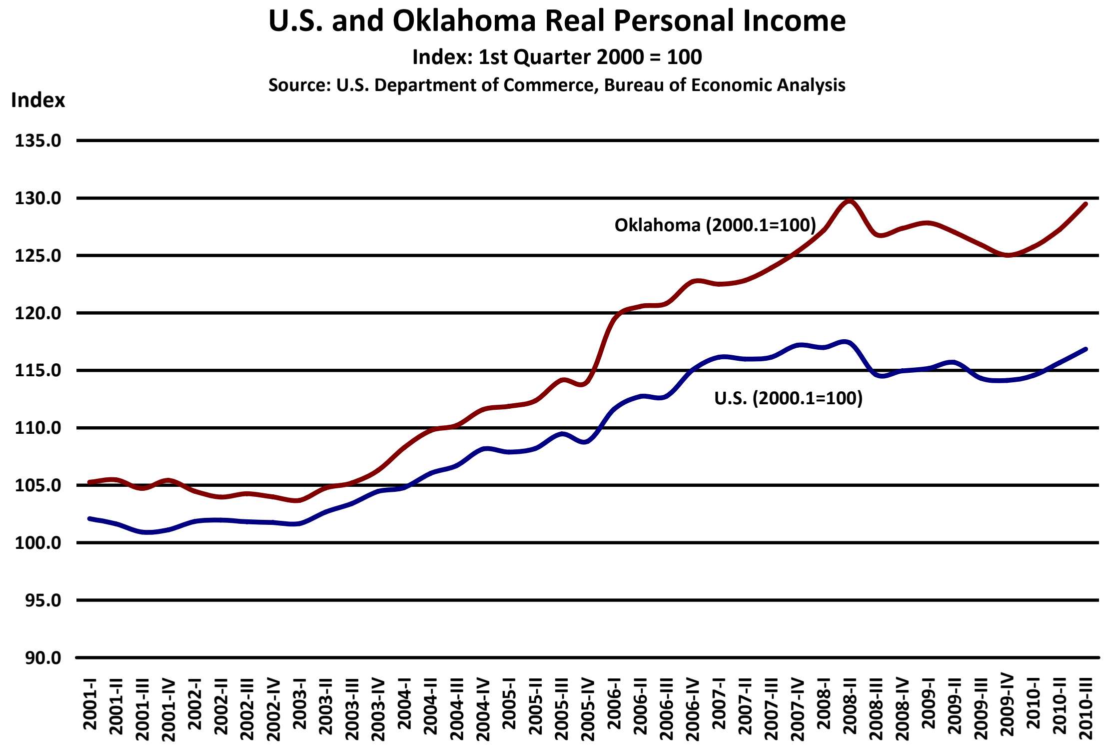
Due to the different magnitudes of permitting activity nationally, regionally and statewide, the data illustrated in the above chart have been indexed with January 2001 as the base. Monthly figures are also often volatile; housing starts fluctuate more than many indicators. It takes several months for total housing starts to establish a trend. Consequently, we have depicted total starts relative to a four-month moving average.

Nationally, housing construction was mixed in January and remained at a very soft level. Starts advanced while permits fell back. Privately-owned housing units authorized by building permits in January were at a seasonally adjusted annual rate of 562,000, according to the Census Bureau. This is 10.4 percent below the revised December rate of 627,000 and is 10.7 percent below the January 2010 estimate of 629,000.

The latest decline was led by the multifamily component which was down a monthly 22.4 percent while single-family permits slipped 4.8 percent.

January’s data suggests two things: first, strength is in the multifamily component as homebuilders are still very cautious about the single-family sector with inventory overhang still high, and second, seasonal factors are large during winter months and it is difficult to actually sort out the marginal changes.

Although single family residential permitting grew by over 14 percent in January overall Oklahoma residential permitting activity declined by 21.4 percent in January due to a 78.4 percent decline in multi-family permits. Over the year, residential permitting slipped 3.5 percent, January single family permitting was 7.8 percent above January 2010 while multi-family permitting was 54.7 percent below January 2010.



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

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

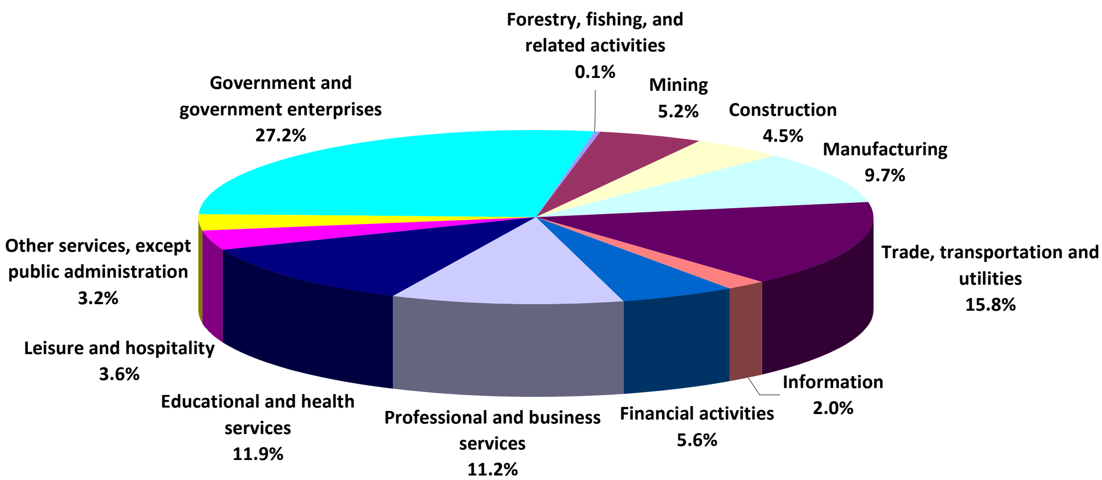
Income growth jumped in January but spending slowed considerably. Personal income increased $133.2 billion, or 1.0 percent, and disposable personal income (DPI) increased $78.3 billion, or 0.7 percent, in January, according to the Bureau of Economic Analysis (BEA). In December, personal income increased $56.6 billion, or 0.4 percent, DPI increased $48.5 billion, or 0.4 percent, and PCE increased $56.5 billion, or 0.5 percent, based on revised estimates. Year on year, personal income for January was up 4.6 percent, compared to 3.8 percent in December. PCEs growth improved to 4.0 percent from 3.9 percent in December.

As in December, consumer spending for January was led by auto sales and higher gasoline prices. Personal consumption expenditures (PCE) increased a modest 0.2 percent, following a 0.5 percent advance in December.

Oklahoma Industry Contribution to Earnings

Third Quarter 2010

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



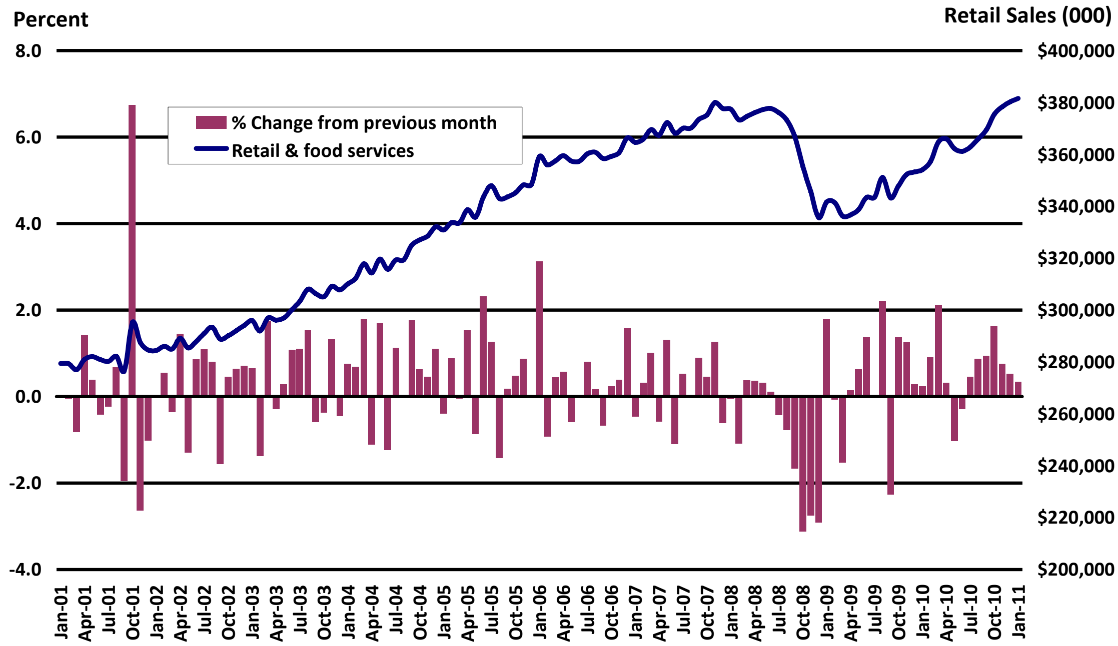
State personal income growth slowed to an average 0.7 percent in the third quarter of 2010 down from 1.4 percent in the second quarter, according to estimates released today by the U.S. Bureau of Economic Analysis (BEA). The slowdown was spread widely across the country with growth decelerating in 41 states, unchanged in three, and accelerating in six states. The national price index for personal consumption expenditures increased 0.3 percent in the third quarter after remaining unchanged in the second quarter.

All three major sources of personal income grew more slowly in the third quarter. Growth of the net earnings of workers slowed to 0.8 percent from 1.5 percent in the second quarter. Property income (dividends, interest and rent) fell 0.4 percent after rising 0.4 percent, while the growth of transfer receipts (such as social security benefits received by retirees and benefits received by the unemployed) slowed to 1.3 percent in the third quarter from 1.8 percent in the second. The slowdown in earnings growth reflects the net effect of declines in some industries, such as construction, real estate, and government and weak growth in other industries such as finance. Earnings growth in farming and mining was relatively strong, but in most states these are small industries.

Oklahoma personal income continued to improve in 3rd quarter 2010, growing by 1.0 percent. Oklahoma had the 7th fastest growth rate among states during the 3rd quarter. Net earnings grew by 1.3 percent after advancing 1.2 percent in the 2nd quarter. The largest contributors to 3rd quarter earnings growth were mining (0.13 percent); health care and social assistance (0.10 percent); and professional and technical services (0.10 percent). Government earnings provided the biggest drag, falling -0.11 percent from 2nd quarter 2010.

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

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

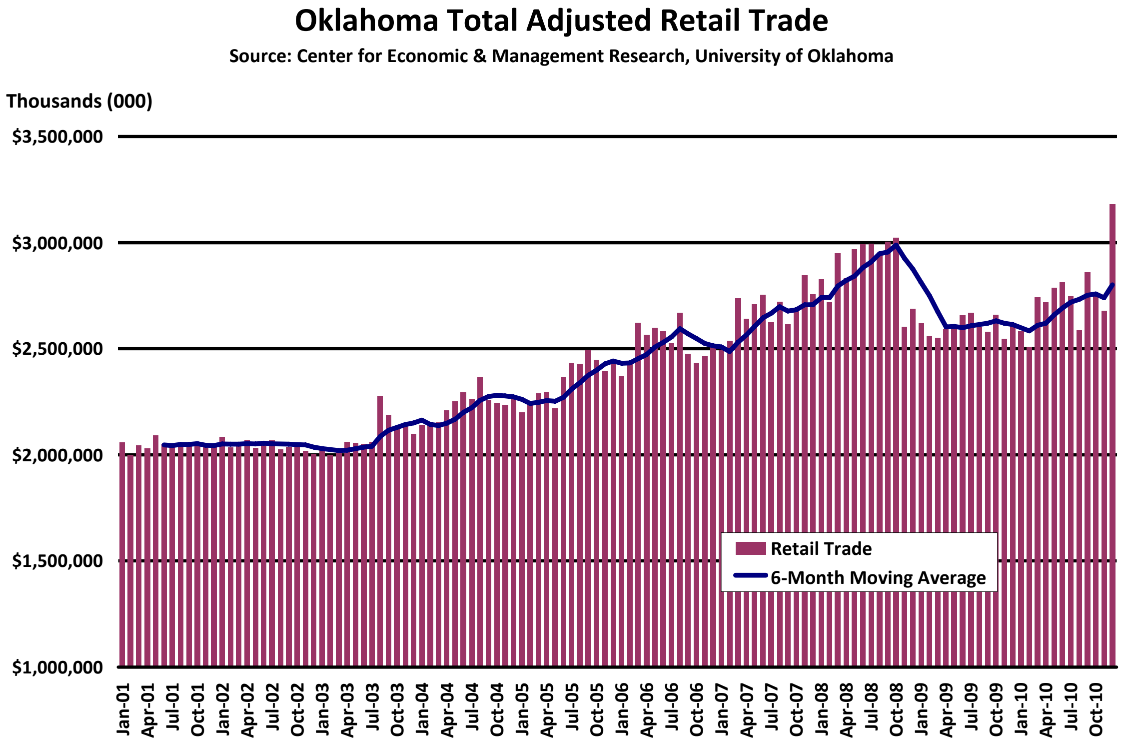


Consumer spending accounts for two-thirds of the U.S. economy and is therefore essential to Oklahoma's economy. Retail sales account for around one-half of consumer spending and economic recovery calls for consumption growth

National retail sales data are prone to fluctuations but provide an important view on changes in consumer spending. There have been considerable swings in retail trade since the end of 2001, but retail sales have generally been increasing since 2003. By 2007, the credit crunch was well underway and starting to undermine growth in consumer spending. Later in 2008 and 2009, the rise in unemployment and loss of income during the recession also cut into retail sales.

U.S. consumer spending cooled off at the start of 2011 despite tax cuts meant to spur an economy fighting high joblessness. U.S. retail and food service sales for January reached $381.6 billion, an increase of 0.3 percent from the previous month, and 7.8 percent above January 2010, according to the U.S. Census Bureau.

The latest sales gain was led by a 1.4 percent increase in gasoline sales (largely due to higher gasoline prices), with food & beverage stores up 1.3 percent and nonstore retailers up 1.2 percent. Other notable increases include a 0.8 percent advance for general merchandise (which includes department stores) and a 0.5 percent boost for motor vehicles and parts. The weakest components were building materials & garden equipment, down 2.9 percent, and sporting goods, hobby, book & music stores, down 1.3 percent. Food services & drinking places sales fell 0.7 percent.



Statewide retail sales surged in December as Oklahoma consumers opened their wallets for the Christmas shopping season but much of the holiday spending may have occurred earlier. December total adjusted retail trade was up $503.5 million or 18.8 percent from November and 21.3 percent over December 2009, according to OU's Center for Economic and Management Research. For the year, Oklahoma retail sales were up $1.68 billion or 5.4 percent over 2009.

Monthly gains in December were broad based and led by non-durable goods sales advancing 24.8 percent. Estimated gasoline sales led non-durable goods sales rising 171 percent and reflect a nearly 10 percent increase in pump prices during December. In other non-durable goods categories food sales grew by 2.7 percent, while eating & drinking establishment sales advanced 1.8 percent. Durable goods sales grew by over 2 percent over November with gains seen in lumber & hardware (4.3 percent), auto accessories & repair (2.1 percent), and miscellaneous durables (0.4 percent). Declines in non-durable goods sales were seen in drugs (-3.1 percent), general merchandise (-2.5 percent), apparel (-2.0 percent), and liquor (-1.0 percent). Durable goods sales saw losses in used merchandise (-2.2 percent), and electronics & music stores (-0.6 percent).

Retail trade data also suggests that Oklahomans may have taken advantage of early discounting offered by retailers and front loaded much of their Christmas shopping in October. General merchandise sales were up by 10.3 percent and apparel sales grew by 16.3 percent in October.