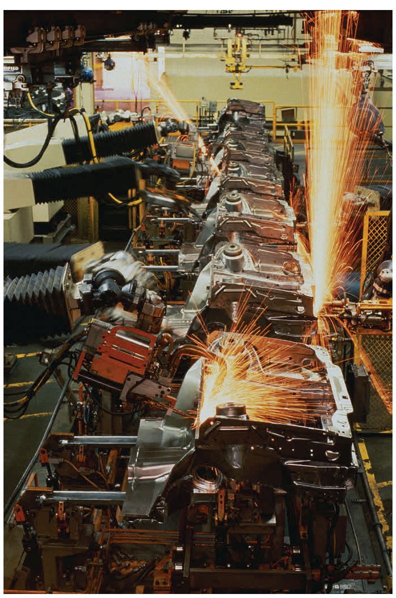

OKLAHOMA
Economic Indicators

February 2012

OKLAHOMA
ECONOMIC INDICATORS

Oklahoma Employment Security Commission
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February 2012

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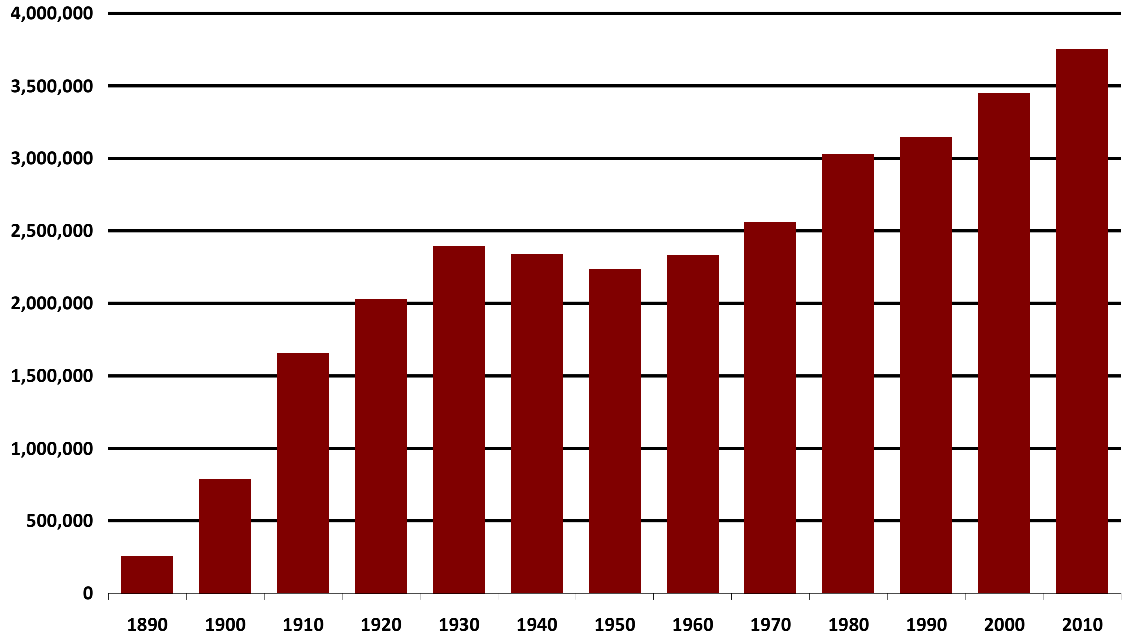
TABLE OF CONTENTS

Oklahoma Population: 1890 to 2010

Source: U.S. Department of Commerce, Bureau of the Census and Oklahoma State Data Center



The first census for Oklahoma began with the 1890 Oklahoma Territorial Census. Both the 1890 and 1900 census populations reported for Oklahoma included the population for Indian Territory. The population of Oklahoma Territory (O.T.), as legally established, was 398,331 in 1900 and 78,475 in 1890. The population of Indian Territory (I.T.), as legally established, was 392,060 in 1900 and 180,182 in 1890. The Census Bureau also conducted a special census of the Oklahoma and Indian territories on July 7, 1907. The population of the entire area was 1,414,177.

Oklahoma was admitted to the Union on November 16, 1907, as the 46th state. The first Census after statehood, conducted in 1910, counted 1,657,155 residents in Oklahoma. According to the most recent Census 2010, Oklahoma's population was 3,751,351—more than double the population we had 100 years ago.

From 1910 to 1930, the state's population grew rapidly from 1,657,155 in 1910 to 2,396,000 in 1930. Between 1910 and 1930 the share of state employment in mining (largely oil and gas) grew from 2 percent to 5 percent as a series of oil fields were opened.[1] However, with the onset of the Great Depression during the 1930s and the 'Dust Bowl' in Oklahoma, the state began to experience negative to stagnant population growth.

During the 1930 to 1940 period, Oklahoma lost 59,606 residents (-2.5 percent) due to the damage caused by the 'Dust Bowl'. Following the Great Depression, the years of World War II witnessed some of the most severe out-migration in the state's history. From 1940 to 1950, the state lost another 103,083 residents (-4.4 percent) as people left to acquire defense jobs, particularly on the West Coast.

The state's population growth regained momentum during the 1960s and 1970s as the economy diversified and expanded. During the 1970s many people migrated into Oklahoma, as the population grew 18.2 percent, rising to 3,025,290 residents by 1980. The oil price shocks of

[1] *Oklahoma Economy* by Dr. Larkin Warner, Professor Emeritus, Oklahoma State University and Oklahoma Historical Society, 2007.

1973-86 sharply increased the price of Oklahoma crude oil and resulted in rapid employment growth in the energy sector. However, the collapse of the energy prices by the mid-1980s led to substantial out-migration for the remainder of the decade and population growth rate of only 4 percent while the nation saw an increase of 9.8 percent.

Population growth picked up to a 9.7 percent rate in the 1990s but still lagged that of the nation which grew at a 13.1 percent rate. The expanding "New Economy" during this period was typified by rapid productivity growth driven by computer-based technology and improvements in telecommunications.

According to Census 2010, Oklahoma's population growth slowed to 8.7 percent during the first decade of the 21st century—an addition of 300,697 residents—reaching a level of 3,751,351, the 28th largest in the nation. Oklahoma's population growth rate for this period was also the 24th fastest among all other states. The nation's population growth rate was 9.7 percent between 2000 and 2010.

The Constitutional basis for conducting the decennial census of population is to reapportion the U.S. House of Representatives. The number of representatives or seats in the U.S. House of Representatives has remained relatively constant at 435 since 1911.[2] Oklahoma saw a high of nine congressional seats in 1930 but since that time, the number has been declining. Negative and slow population growth during 1930 to 1950 resulted in the state losing three congressional seats. Slower than average population growth during the decade of the 1990s caused Oklahoma to lose another seat bringing the total to five (see table below). That number of seats was maintained following Census 2010.

Census Population Trend: United States and Oklahoma, 1890 to 2010

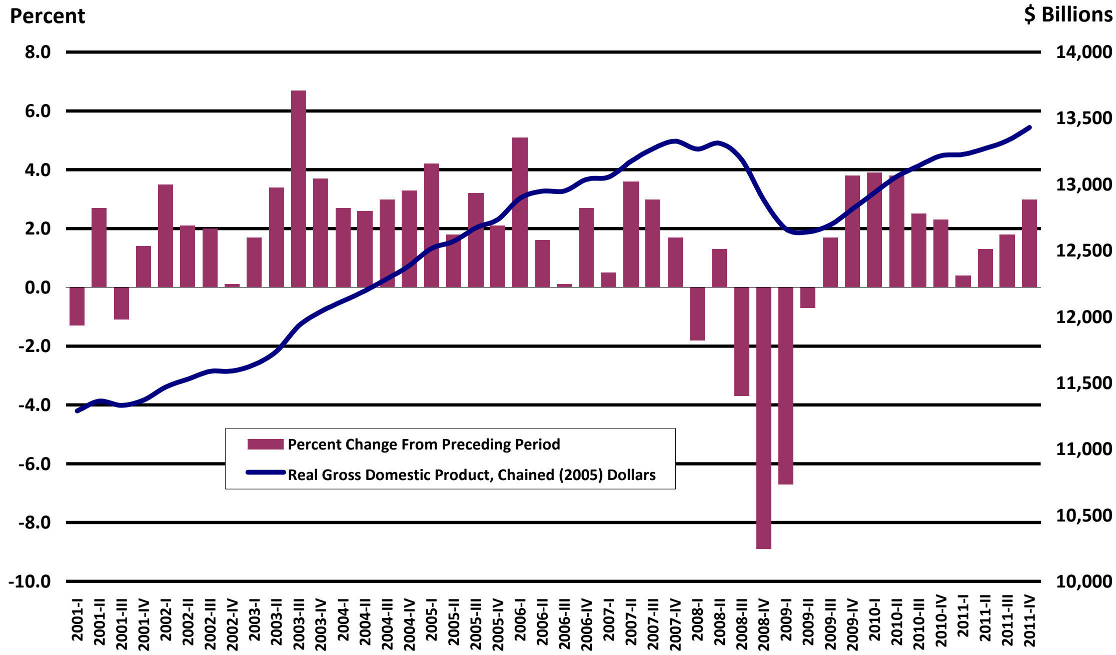
Year	United States Population	Oklahoma Population		Oklahoma Seats in Congress
		Number	Rank	
1890	62,979,766	258,657	N/A	N/A
1900	76,212,168	790,391	N/A	N/A
1910	92,228,496	1,657,155	23	8
1920	106,021,537	2,028,283	21	8
1930	123,202,624	2,396,040	21	9
1940	132,164,569	2,336,434	22	8
1950	151,325,798	2,233,351	25	6
1960	179,323,175	2,328,284	28	6
1970	203,302,031	2,559,229	28	6
1980	226,542,199	3,025,290	27	6
1990	248,718,302	3,145,585	29	6
2000	281,424,603	3,450,654	28	5
2010	308,745,538	3,751,351	28	5

Source: U.S. Bureau of Census and Oklahoma State Data Center

[2] Congressional Apportionment by Kristin D. Burnett, *2010 Census Briefs,* U.S. Department of Commerce, Bureau of Census, November 2011.

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.

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

The economy grew at a slightly faster pace than first estimated in the final three months of last year, and Americans earned more income than previously reported. Real gross domestic product increased at an annual rate of 3.0 percent in the 4th quarter of 2011—the fastest pace since the spring of 2010, according to the "second" estimate released by the Bureau of Economic Analysis (BEA). The "second" estimate of the 4th-quarter increase in real GDP is 0.2 percentage point, or $7.5 billion, higher than the advance estimate issued last month.

The upward revision in real GDP primarily reflected an upward revision to nonresidential fixed investment, a downward revision to imports, and an upward revision to personal consumption expenditures (PCEs).

Most of the growth in the 4th quarter was driven by companies restocking their shelves. The change in real private inventories added 1.88 percentage points to the fourth-quarter change in real GDP.

Consumer spending rose 2.1 percent in the fourth quarter, powered by a jump in spending on autos and other durable goods.

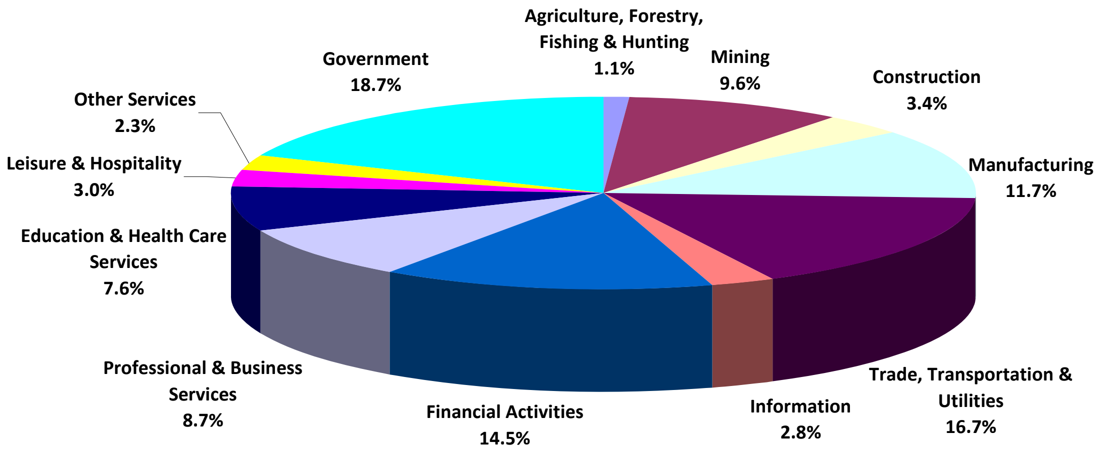
The economy was held back in the 4th quarter by a big drop in government defense spending. National defense decreased 12.1 percent in last three months of 2011, according to the BEA. Overall, real federal government consumption expenditures and gross investment decreased 6.9 percent in the 4th quarter. State and local government consumption expenditures and gross investment decreased 2.5 percent.

For all of 2011, real GDP increased 1.7 percent (that is, from the 2010 annual level to the 2011 annual level), compared with an increase of 3.0 percent in 2010. Real GDP increased 3.1 percent during 2010.

2010 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

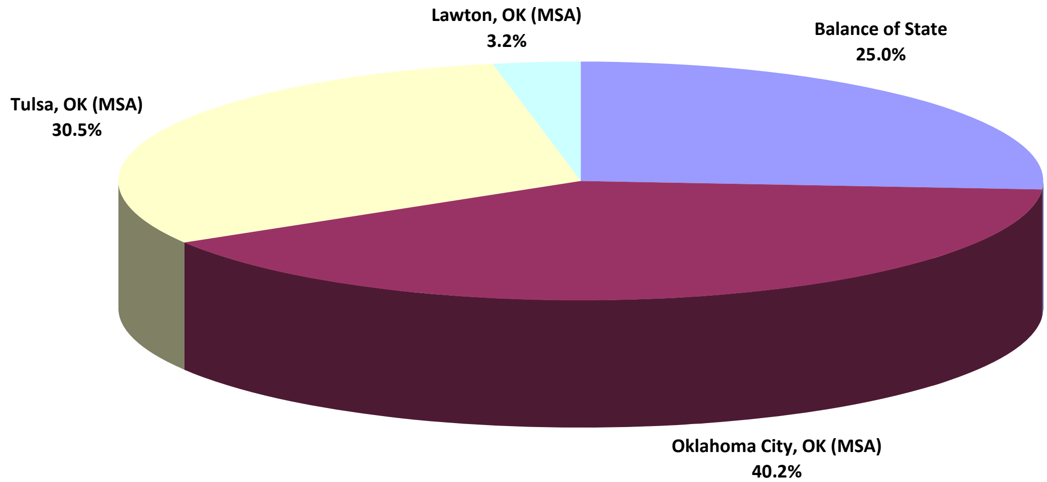
According to the advance estimate from the Bureau of Economic Analysis (BEA), Oklahoma was among 48 states and the District of Columbia experiencing growth in real GDP in 2010. However, Oklahoma's 2009 advance estimate was significantly revised downward primarily due to updated prices for natural gas.

The BEA's advance estimate for 2009 state GDP showed Oklahoma's real GDP had grown by 6.6 percent, leading the nation. The largest contributor to real GDP growth was mining, accounting for 7.23 percentage points of the total growth in real GDP. However, based on updated information, mining actually declined by 0.99 percent in 2009. That adjustment caused the state's GDP to fall to -1.0 percent, ranking Oklahoma 15th in GDP growth among states in 2009.

Oklahoma registered a real GDP of $133.5 billion in 2010, a 1.0 percent gain from the revised $132.1 billion in 2009; U.S. real GDP grew at 2.6 percent during the same period. Retail trade contributed to real GDP growth in every state in 2010 and was the leading contributor in Oklahoma, accounting for 0.42 percent of total growth. Durable goods manufacturing was the second-largest contributor to real GDP growth in Oklahoma accounting for 0.40 percentage point of the total growth. Government (0.25 percent) was the state's third-largest real GDP contributor with state and local government accounting for nearly 70 percent of total government real GDP.

Metropolitan Area Contribution to State Real Gross Domestic Product 2010

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.

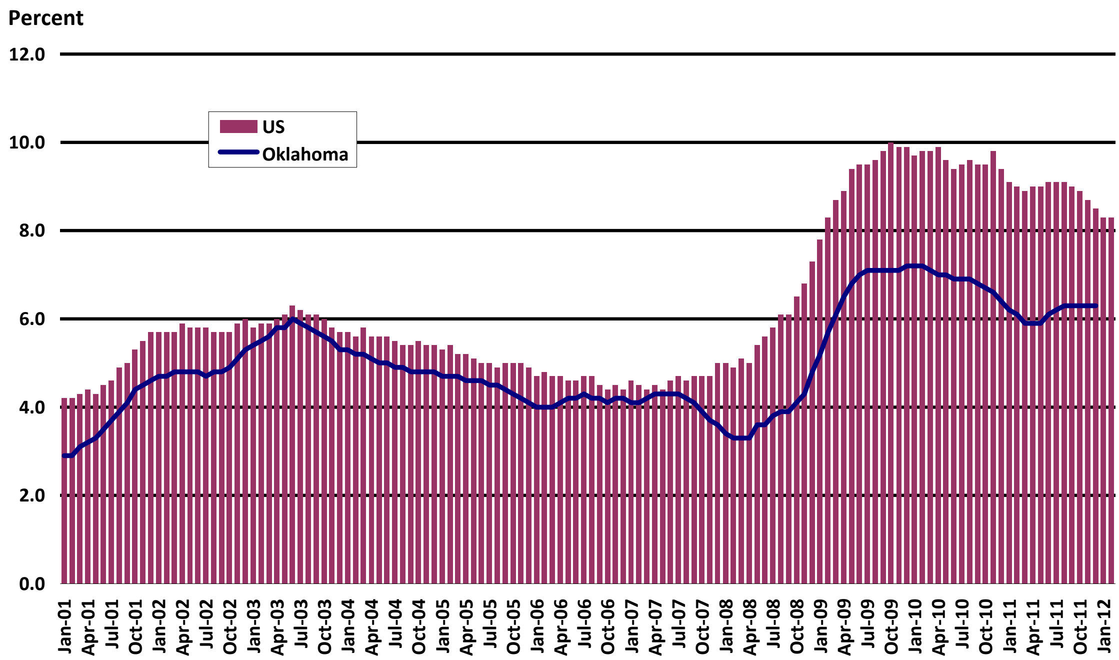
Current Developments

Real U.S. GDP by metropolitan area increased 2.5 percent in 2010 after declining 2.5 percent in 2009, according to new statistics released today by the U.S. Bureau of Economic Analysis (BEA). The economic growth was widespread as real GDP increased in 304 of 366 (83 percent) metropolitan areas, led by national growth in durable-goods manufacturing, trade, and financial activities.

In terms of growth in real GDP, Lawton MSA ranked 15th out of the 366 U.S. metropolitan areas growing by 6.9 percent to $4.21 billion in 2010. Oklahoma City MSA ranked 205th growing by 1.7 percent to $53.7 billion followed by Tulsa MSA ranked at 329th declining by -0.6 percent to $40.7 billion.

U.S. and Oklahoma Unemployment Rate (Seasonally Adjusted)

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



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.

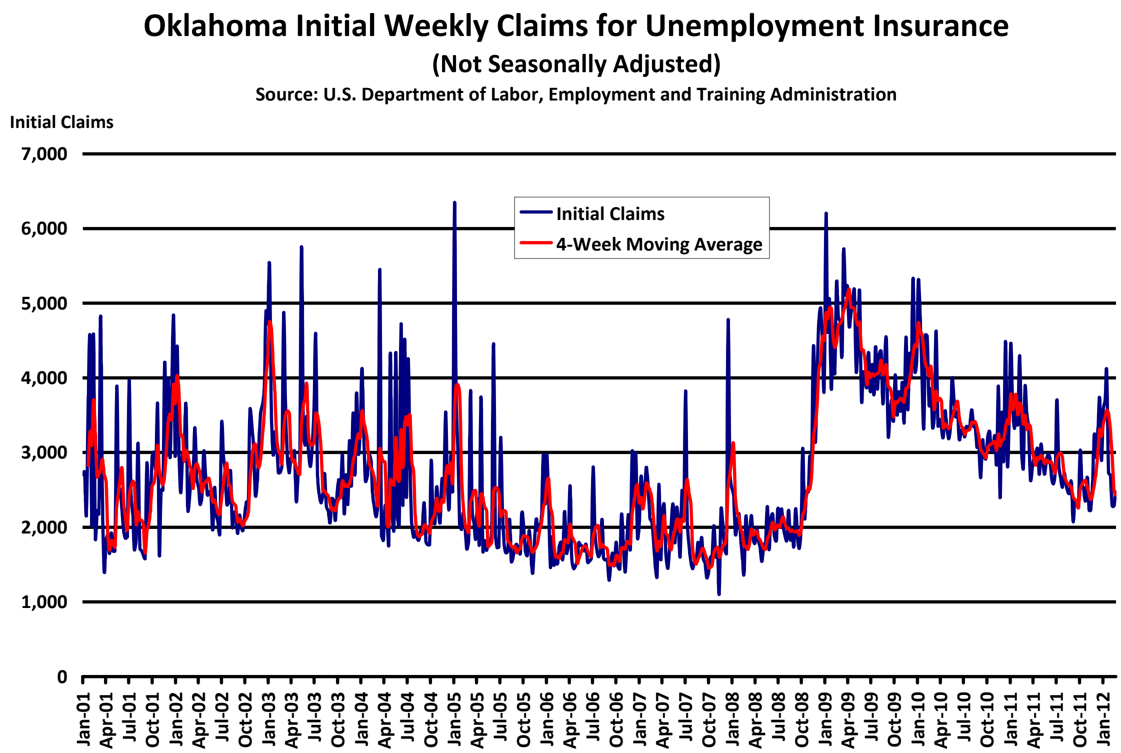
The unemployment rate is a lagging indicator of economic activity. During a recession, many people leave the labor force entirely, as a result the jobless rate may not increase as much as expected. This means that the jobless rate may continue to increase in the early stages of recovery because more 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 unemployment rate was unchanged in February, largely because more people streamed into the work force. The unemployment rate held at 8.3 percent in February, 0.8 percentage point below the August 2011 rate, according to the U.S. Bureau of Labor Statistics (BLS). Both the labor force and employment rose in February. The civilian labor force participation rate, at 63.9 percent, and the employment-population ratio, at 58.6 percent, edged up over the month.

Oklahoma saw a significant annual average unemployment rate change in 2011. The state's annual average jobless rate for 2011 was 6.2 percent, -0.7 percent below the 2010 annual average of 6.9 percent. Oklahoma's annual average unemployment rate was also the 8th lowest jobless rate (tied with Virginia) in the nation for 2011.

NOTE: January 2012 Regional and State Employment and Unemployment is scheduled to be released on Tuesday, March 13.



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

Slightly more people applied for U.S. unemployment benefits last week but the overall level stayed low enough to suggest the job market is strengthening. In the week ending March 3, the advance figure for seasonally adjusted initial claims was 362,000, an increase of 8,000 from the previous week's revised figure of 354,000, according to the U.S. Department of Labor (DOL). The less volatile 4-week moving average was 355,000, an increase of 250 from the previous week's revised average of 354,750. Jobless claims have fallen 12 percent since last October.

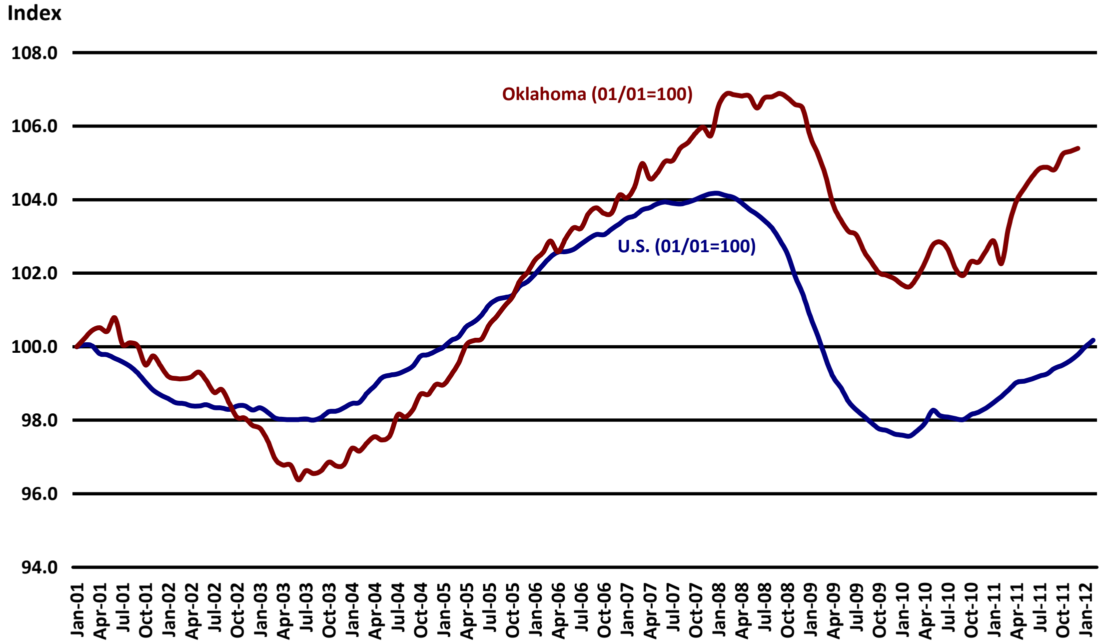
In Oklahoma, initial claims for unemployment ticked up during the last week of February. For the file week ending on February 25, initial claims were at 2,470, and increase of 186 from the previous week level of 2,284. For the same file week ending, the four-week moving average was 2,434, declining by 67 from the previous week’s 2,501. The four-week moving average has been falling since mid-January.

Continued claims for unemployment also dropped during the last week of February. For the file week ending on February 25, 2012, continued claims were at 24,066, a decrease of 76 from the previous week’s 24,142.

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

Index: January 2001=100

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



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.

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. job creation remained solid in February and was stronger in previous months than initially thought, completing three of the best months of hiring since the recession began. Total nonfarm payroll employment rose by 227,000 in February, according to the Bureau of Labor Statistics (BLS). Employers added 284,000 jobs in January—roughly 40,000 higher than the initial estimate--and job creation was also revised higher for December.

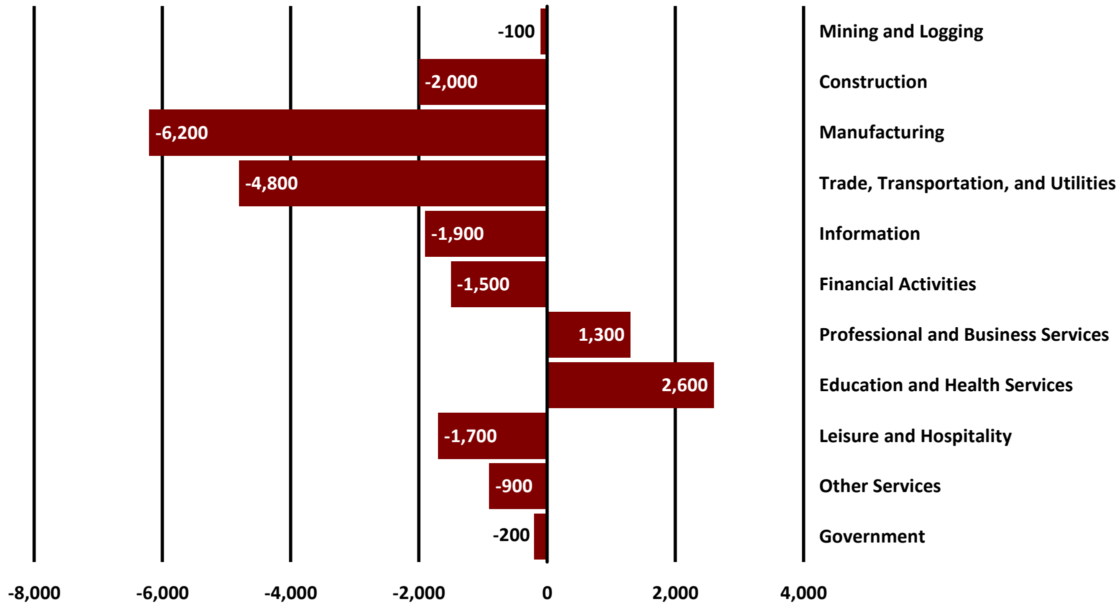
Last month's hiring was broad-based and in both high-paying and lower-paying industries. Private-sector employment grew by 233,000, with job gains in professional and business services, health care and social assistance, leisure and hospitality, manufacturing, and mining. Government employment was essentially unchanged in January and February. In 2011, government lost an average of 22,000 jobs per month.

NOTE: January 2012 Regional and State Employment and Unemployment is scheduled to be released on Tuesday, March 13.

Oklahoma Employment Change by Industry

2009 - 2010

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.

Current Developments

Job losses continued in 2010 albeit at a much slower pace than 2009 which, in terms of number of jobs lost (-50,800), was the worst year since record keeping began in 1939. Oklahoma total nonfarm employment shed 15,500 jobs in 2010 contracting 1.0 percent.

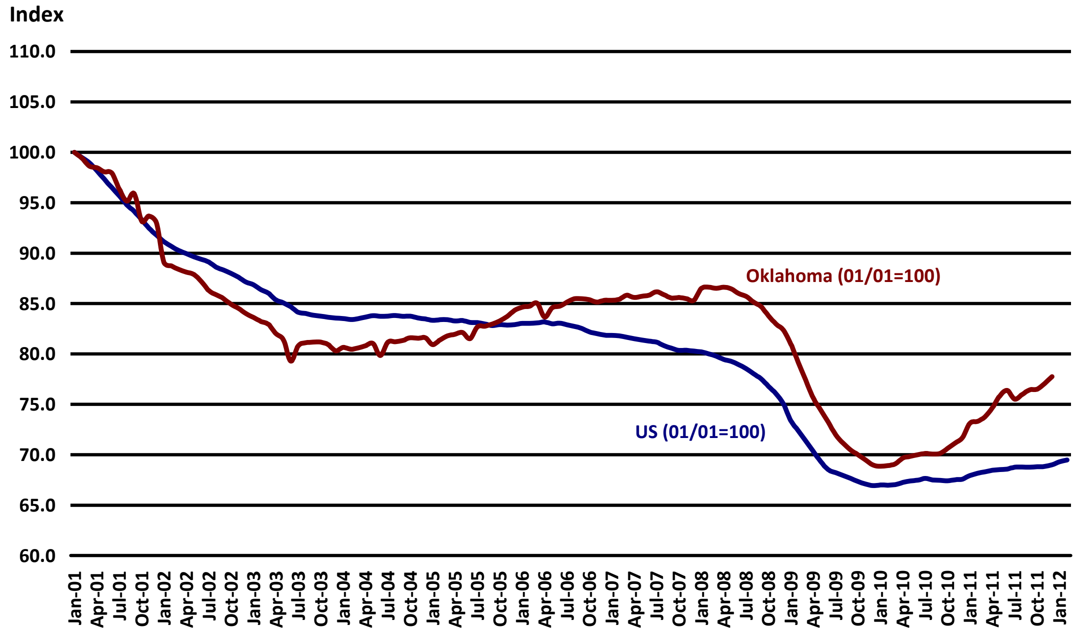
Job losses in 2010 were widespread among most industry groups with education and health services (+2,600) and professional and business services (+1,300) being the only sectors experiencing job growth. Nearly all employment growth in education and health services came from the ambulatory health care service and hospital sectors. Professional and business services growth was led by employment services.

Manufacturing suffered the largest employment decline shedding 6,200 jobs in 2010 after losing 20,500 in 2009. Durable goods manufacturing lost 5,400 jobs while non-durable goods manufacturing dropped by 900 jobs. The broad trade, transportation and utilities sector followed with an over-the-year loss of 4,800 jobs with losses in truck transportation, retail trade and wholesale trade. Construction lost 2,000 jobs in 2010 with the bulk of the job losses being in specialty trade contractors. Information sector employment fell by 1,900 jobs in 2010 with most of the job losses occurring in telecommunications. Leisure and hospitality employment fell by 1,700 with the majority of job losses in accommodation and food services.

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

Index: January 2001 = 100

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



Definition & Importance

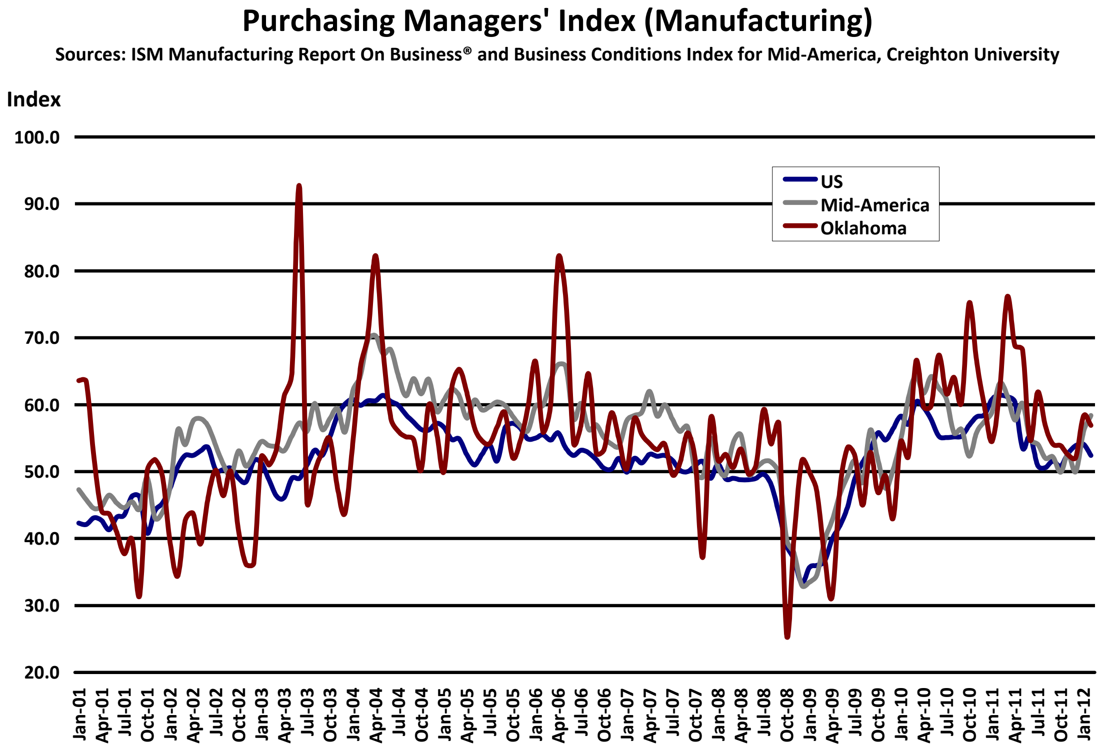
Manufacturing employment data is also produced by the Bureau of Labor Statistics' Current Employment Statistics (CES) program. Manufacturing and production are still important parts of both the U.S. and Oklahoma economies. During the 2007-09 recession, employment in manufacturing declined sharply. Although 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.

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.

Current Developments

Manufacturing posted another month of healthy job growth in February. Manufacturing employment rose by 31,000 in February after an upwardly revised 52,000 jump in January, according to the Bureau of Labor Statistics (BLS). All of the job gains occurred in durable goods manufacturing, with job gains in fabricated metal products (+11,000), transportation equipment (+8,000), machinery (+5,000), and furniture and related products (+3,000). Durable goods manufacturing has added 444,000 jobs since a recent trough in January 2010.

NOTE: January 2012 Regional and State Employment and Unemployment is scheduled to be released on Tuesday, March 13.



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

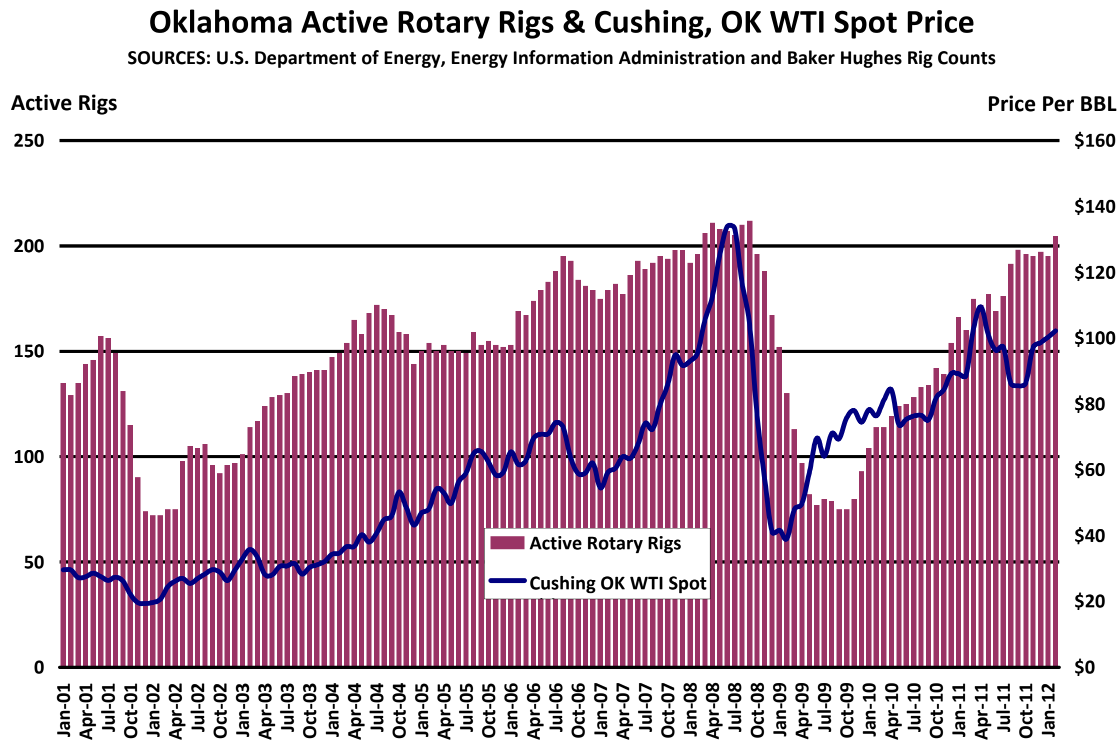
Manufacturing activity grew more slowly in February as factories received fewer new orders and paid higher prices for raw materials. The PMI registered 52.4 percent, a decrease of 1.7 percentage points from January's reading of 54.1 percent but still indicating expansion in the manufacturing sector for the 31st consecutive month, according to the Institute for Supply Management (ISM). February's reading was the lowest since November.

New orders increased, but at a far slower pace than the month before. Production and employment also grew more slowly. Prices of raw materials increased for the second consecutive month, with the Prices Index registering 61.5 percent. Exports increased sharply, a sign that Europe's debt crisis has not yet dampened overseas sales by U.S. factories as many had feared.

Manufacturers were a big source of hiring in 2011. The sector accounts for only about 9 percent of total payrolls but added 13 percent of the new jobs last year.

For a second straight month, the Mid-America region's leading economic indicator rose to a healthy level and net new hiring was strong, according to the Creighton Economic Forecasting Group. The February index climbed to 58.4 from 55.9 in January. The Creighton Economic Forecasting Group also noted that over the last several months, readings from the surveys indicate that this healthy growth has now spread to most industries, except for construction, across the region.

The Business Conditions Index for Oklahoma fell to a still healthy 56.9 from January's 58.3. Components of the leading economic indicator for February were new orders at 53.3, production or sales at 53.8, delivery lead time at 69.2, inventories at 53.5, and employment at 55.6.



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 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.

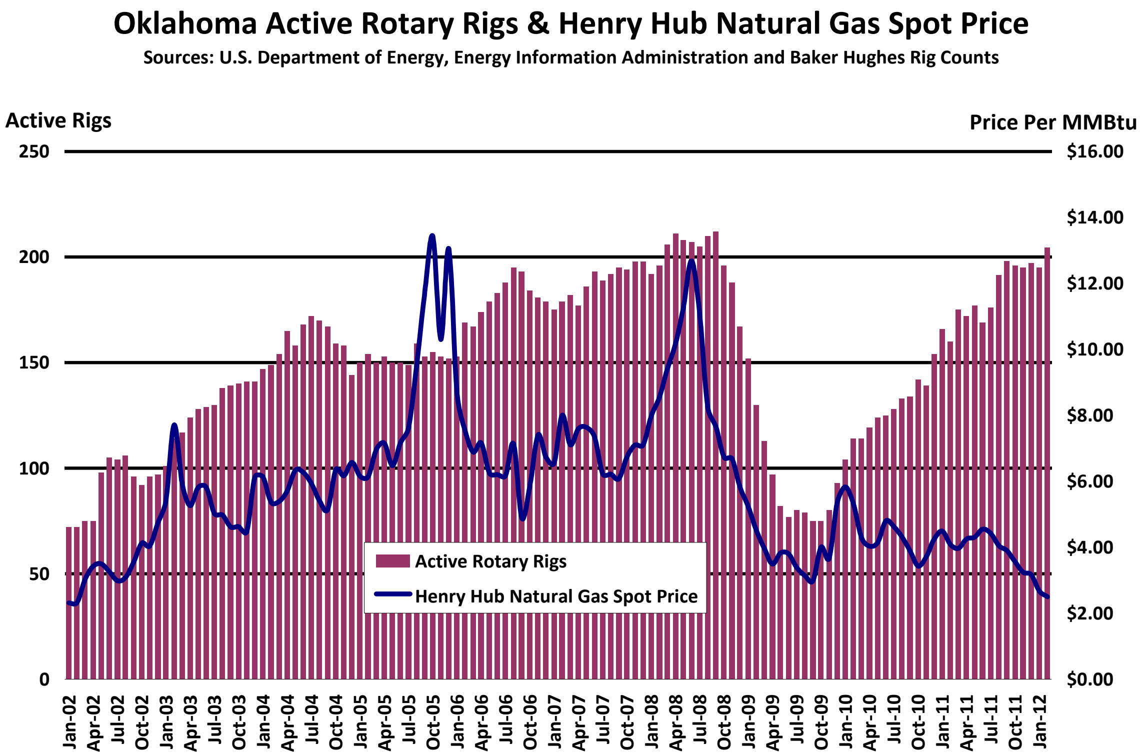
Current Developments

Pump prices have generally been rising over the past two months, particularly in recent weeks. Gasoline has tracked oil prices, which have risen over 9 percent in February. Oil prices have remained stubbornly high because of tensions tied to Iran's nuclear program. Also, refineries have begun switching to costlier summer blends of fuel, adding about 10 cents to a gallon of gas.

The U.S. average retail price of regular gasoline jumped 13 cents to $3.72 per gallon in the last week of February, about 34 cents per gallon higher than last year at this time. Prices were up across all regions, with the largest increase coming on the West Coast, according to the U.S. Energy Information Agency (EIA). In Oklahoma, the average retail price for a gallon of regular has risen from approximately $3.18 on February 1 to $3.45 on February 29, an increase of about 27 cents over the month.

Meanwhile, Cushing, OK WTI crude oil spot prices rose to $102.20 per barrel in February, up $1.93 from January's average of $100.27 per barrel.

Oklahoma's rotary rig activity jumped to 205 in February, ten more than January's count of 195. Over the year, Oklahoma's active rotary rig count has grown by 45 rigs from February 2011.



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

Record warm weather this winter has resulted in natural gas working inventories that continue to set new record seasonal highs, with February 2012 ending at an estimated 2.44 trillion cubic feet (Tcf), about 41 percent above the same time last year, according to the U.S. Energy Information Administration. The EIA's revised average 2012 Henry Hub natural gas spot price forecast is $3.17 per million British thermal units (MMBtu), a decline of about $0.83 per MMBtu from the 2011 average spot price. EIA expects that Henry Hub spot prices will average $3.96 per MMBtu in 2013.

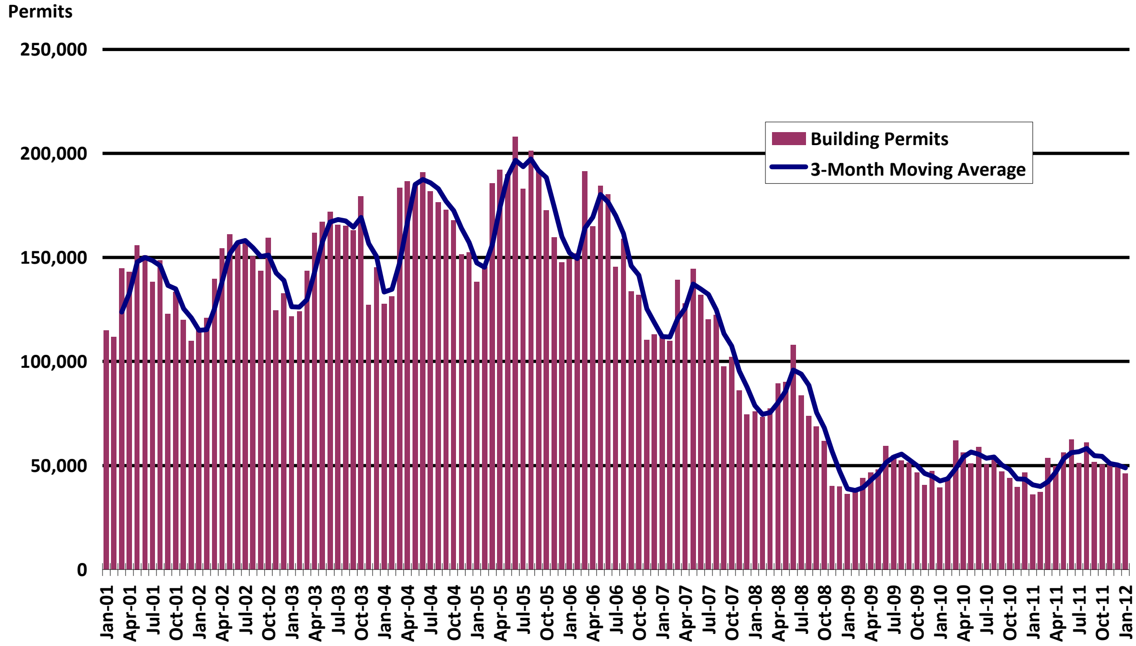
The return of warmer than normal temperatures was likely the catalyst that caused natural gas prices to resume their multi-week downtrend. The monthly average Henry Hub Spot natural gas price hit a ten-year low in February at $2.50 per MMBtu, and down $0.17 from January's price of $2.67 per MMBtu.

The U.S. natural gas rotary rig count, as reported March 2, 2012 by Baker Hughes Incorporated, continued to fall, dropping by 19 rigs over the previous week to 691 active units. Meanwhile, oil-directed rigs added 28 rigs to 1,293 units. Over the year, oil-directed rigs have gained 492 while gas-directed rigs have declined by 208, reflecting both strengthening oil prices and falling natural gas prices over the year. Although natural gas rigs now stand at a ten–year low, production has continued to rise.

U.S. Total Residential Building Permits, 2001-2012

Not Seasonally Adjusted

Source: U.S. Census Bureau and Department of Housing and Urban Development



Definition & Importance

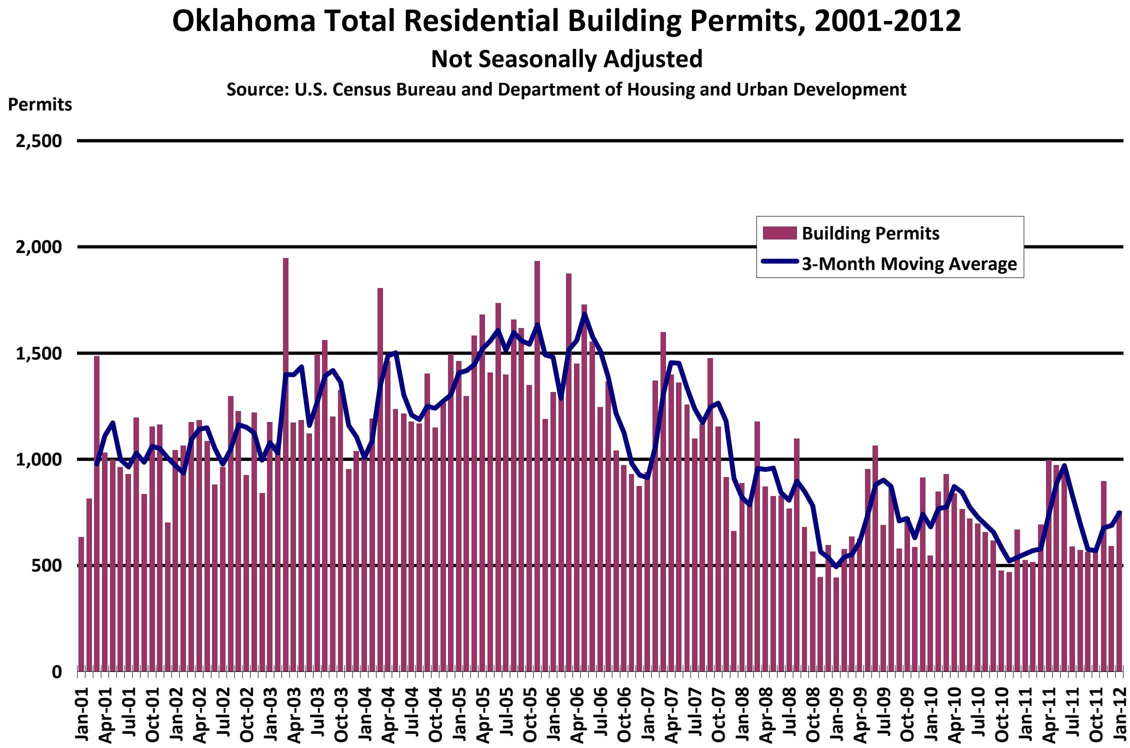
The U.S. Census Bureau and the Department of Housing and Urban Development jointly provide monthly national and regional data on the number of new housing units authorized by building permits; authorized, but not started; started; under construction; and completed. The data are for new, privately-owned 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 next 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

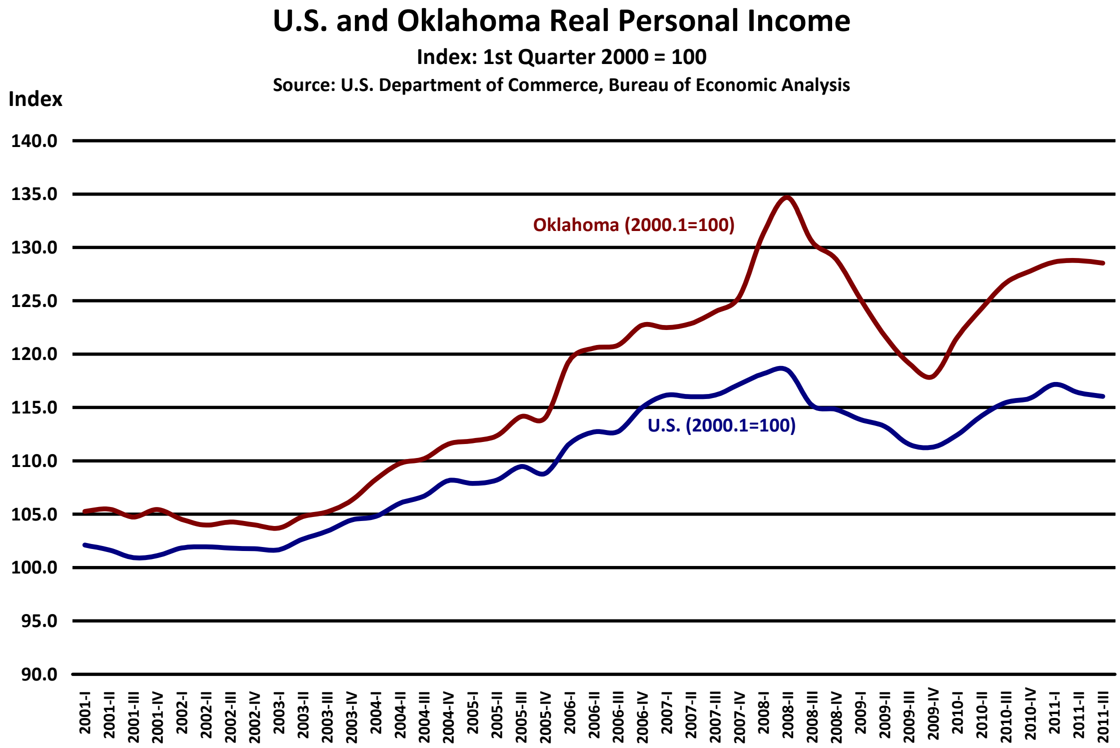
A rise in residential building permits in January suggests builders are growing more confident that more buyers are ready to come off the sidelines. Privately-owned housing units authorized by building permits in January were at a seasonally adjusted annual rate of 676,000 or 0.7 percent above the revised December rate of 671,000 and 19.0 percent above the January 2011 estimate of 568,000, according to the U.S. Census Bureau and the Department of Housing and Urban Development.

Homebuilders appear to be growing more optimistic about the housing market. The National Association of Home Builders/Wells Fargo reported that its builder sentiment index rose for a fifth straight month in February to 29, up from 25 in January. The index has climbed 15 points since September and is now at its highest level since May 2007.



Residential construction conditions also appear to be improving in Oklahoma's two largest metro areas. The Tulsa and Oklahoma City metro markets were recently added to the list of improving housing markets for January, according to the National Association of Home Builders. Tulsa and Oklahoma City were identified as metropolitan areas that have shown improvement from their respective troughs in housing permits, employment and house prices for at least six consecutive months. The NAHB/First American Improving Markets Index (IMI) tracks housing markets throughout the country that are showing signs of improving economic health. The index measures three sets of independent monthly data to get a mark on the top improving Metropolitan Statistical Areas. The three indicators that are analyzed are employment growth from the Bureau of Labor Statistics, house price appreciation from Freddie Mac, and single-family housing permit growth from the U.S. Census Bureau. NAHB uses the latest available data from these sources to generate a list of improving markets. A metropolitan area must see improvement in all three areas for at least six months following their respective troughs before being included on the improving markets list.

Record warm weather in January helped drive up residential permitting activity in Oklahoma. Total unadjusted residential building permits were up 27.7 percent in January (over December). Single-family permits were up 31.9 percent while multi-family permitting grew by 52.1 percent. January's total residential permitting was also 43.7 percent more than January 2011.



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

Personal income growth slowed but remained healthy in January while spending improved a little. Personal income increased $37.4 billion, or 0.3 percent in January, according to the Bureau of Economic Analysis (BEA). However, after paying taxes and adjusting for inflation, incomes actually dipped in January. Disposable personal income (DPI) increased $14.1 billion, or 0.1 percent.

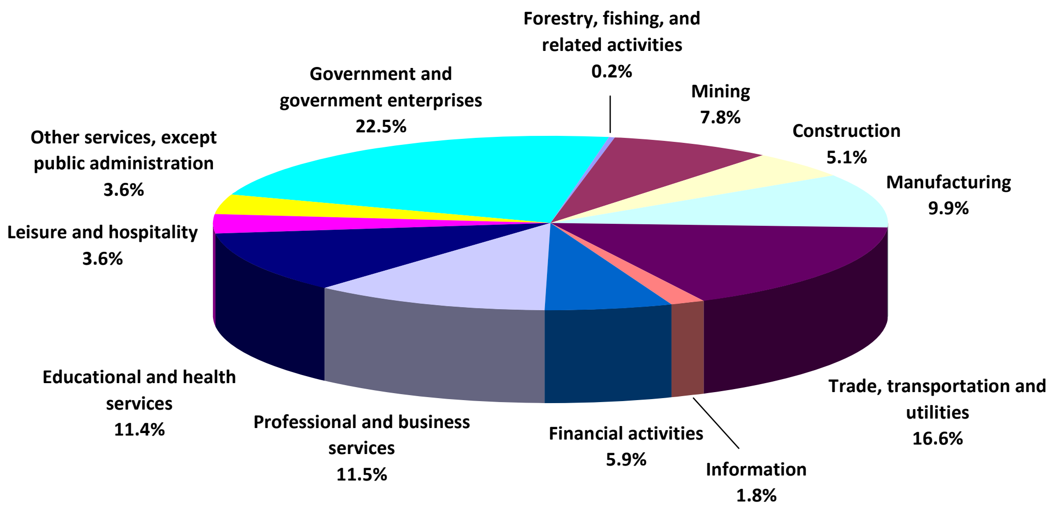
Personal consumption expenditures (PCE) increased $23.2 billion, or 0.2 percent but after adjusting for inflation, spending was flat for the third straight month. Durable goods spending advanced 0.9 percent after a 0.5 percent increase in December. Nondurables, lifted by higher gasoline prices, increased 0.4 percent, following a 0.8 percent drop in December. Services held back overall spending with no change in January after a 0.2 percent rise the month before. Weakness was likely related to soft utilities tied to mild winter weather.

Incomes were much higher in the second half of 2011 than previously estimated. Still, even with the revision, after-tax incomes adjusted for inflation rose only 1.3 percent in 2011, compared with an increase of 1.8 percent in 2010. Except for the recession year of 2009, when incomes fell, that's the smallest annual growth in incomes since 1991 (0.8 percent).

Oklahoma Nonfarm Industry Contribution to Earnings

Third Quarter 2011

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

State personal income growth slowed to 0.1 percent, on average, in the 3rd quarter of 2011, according to estimates by the U.S. Bureau of Economic Analysis (BEA). Growth rates among states ranged from -0.4 percent in West Virginia to 0.6 percent in Washington State. Personal income fell or was unchanged in twenty states and grew 0.2 percent in the other thirty.

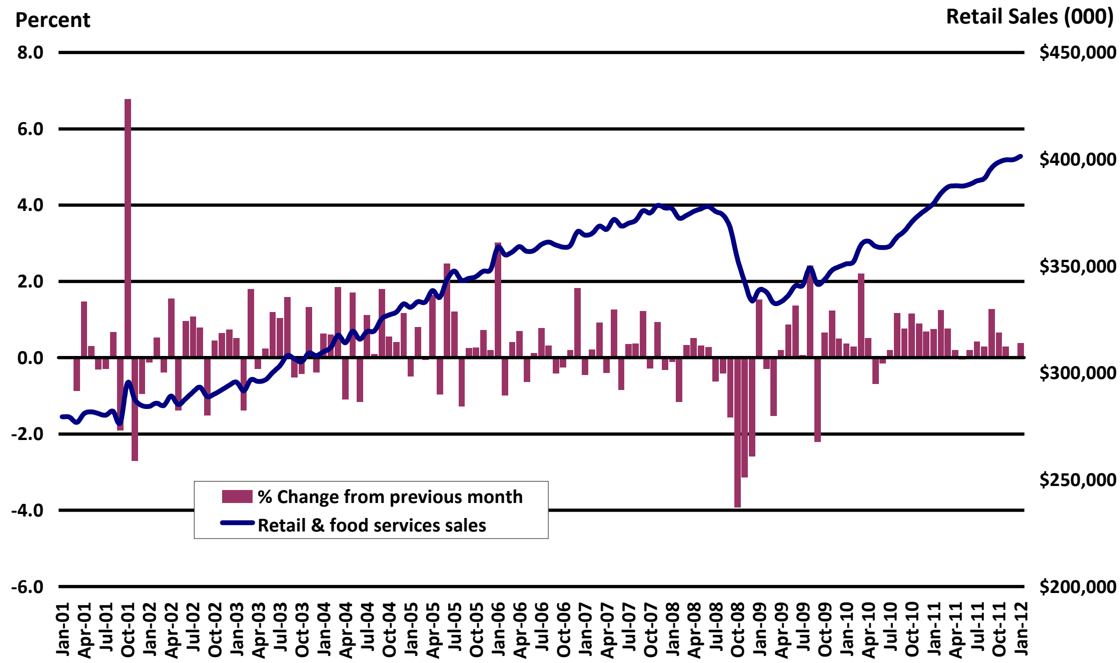
Earnings grew 0.4 percent in the 3rd quarter. Earnings fell or remained unchanged in 7 of the 24 industries that BEA tracks on a quarterly basis. The information industry had the largest earnings decline at -2.4 percent, reflecting a two-week strike by telecommunications workers in August and job losses in other information industries. State and local government earnings also fell in most states with the largest decline in Minnesota (-2.9 percent) where state government was shut down for 20 days in July and led to the layoff of nearly 60 percent of the state’s workforce. State and local government earnings rose in four states including Oklahoma California, New York, and Mississippi. Earnings grew 1.5 percent in the administrative services industry (which includes temporary help firms) and 1.4 percent in health care and educational services.

Personal income growth also slowed in Oklahoma in the 3rd quarter. The state's personal income rose to $141.5 billion (or 0.2 percent), up from a revised $141.2 billion in the 2nd quarter, according to the BEA. That was a significant slowdown from the 2nd quarter rate of 1.6 percent but still enough to rank Oklahoma ninth among all states in income growth.

Health care & social assistance was the largest industry contributor to state earnings adding $148 million in the 3rd quarter, followed by professional, scientific & technical services ($98 million), and mining ($92 million).

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



Definition & Importance

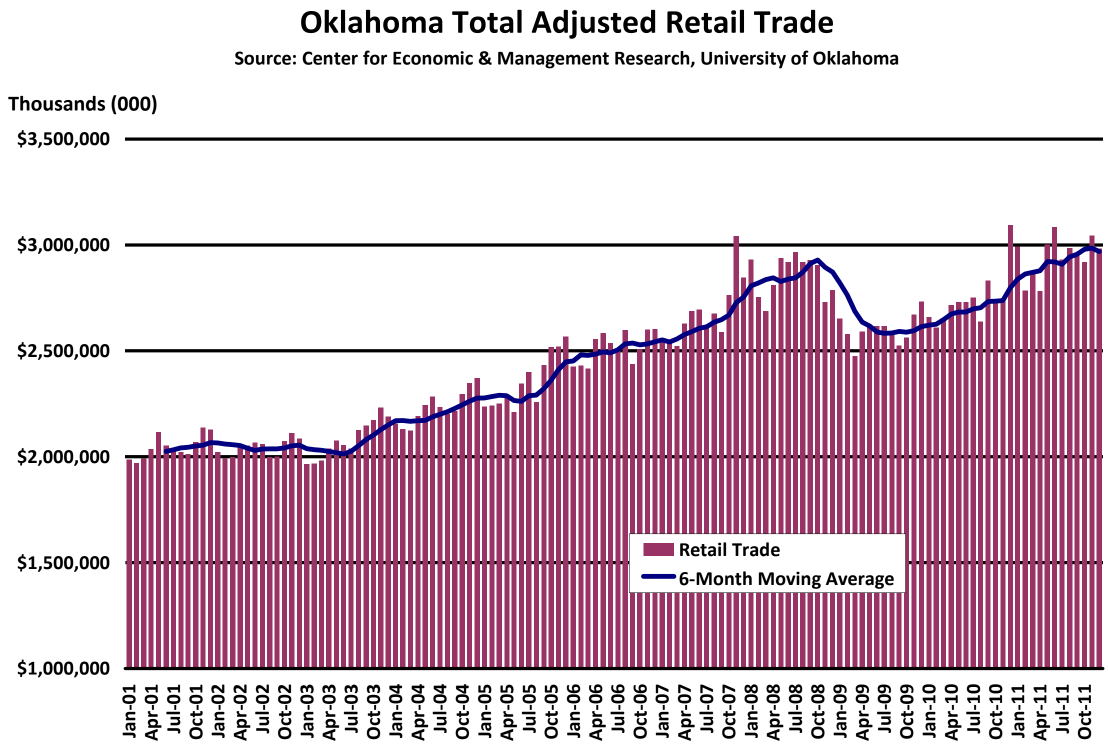
Retail sales measure the total receipts at stores that sell merchandise and related services to final consumers. Sales are by retail and food services stores. Data are collected from the Monthly Retail Trade Survey conducted by the U.S. Bureau of the Census. Essentially, retail sales cover the durables 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

Consumers rebounded from a weak holiday season and stepped up spending on retail goods in January. Advance estimates of U.S. retail and food services sales for January, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $401.4 billion, an increase of 0.4 percent from the previous month and 5.8 percent above January 2011, according to the U.S. Census Bureau. Total sales for the November 2011 through January 2012 period were up 6.3 percent from the same period a year ago.

Weakness in January retail sales was largely in the motor vehicle & parts dealers component which dropped 1.1 percent, following a 2.5 percent jump in December. This heavily conflicts with unit new motor vehicle sales which rose for the month, suggesting dealers offered discounts in order to boost sales. Excluding autos, retail sales surged 0.7 percent in January after decreasing 0.5 percent in December (originally down 0.2 percent). Gasoline sales increased 1.4 percent after a 2.6 percent drop in December

Sales excluding autos and gasoline in January rebounded 0.6 percent, following a 0.2 percent dip in December.



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 that many Oklahomans did their holiday shopping a month earlier this year in order to take advantage of store discounts. Total adjusted retail sales for December was at a level of $2,982,932,393 which was almost 2 percent below November's sales figure of $3,042,473,790 and 3.6 percent below December 2010. For the year, Oklahoma total adjusted retail sales was at $35,330,382,990, that is 7.3 percent above the 2010 sales level of $32,885,394,745.

By category, December durable goods sales were 1.3 percent above November's sales. All durable goods categories posted sales gains, miscellaneous durable goods (+3.1 percent), auto accessories & repair (+1.6 percent), electronics & music stores (+0.8 percent), furniture (+0.6 percent), lumber & hardware (+0.5), and used merchandise (+0.4 percent).

December nondurable goods sales were off 2.9 percent from November with the largest drop in gasoline sales (-14.7 percent). Apparel sales were up 2.1 percent in December along with liquor (+1.8 percent), general merchandise (+1.1 percent), miscellaneous non-durables (+0.7 percent), food (+0.7 percent), and eating & drinking (+0.4 percent).