OKLAHOMA
Economic Indicators

February 2015

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ECONOMIC INDICATORS

Oklahoma Employment Security Commission
Richard McPherson, Executive Director

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

Prepared by
Monty Evans, Senior Economist

Will Rogers Memorial Office Building
Labor Market Information Unit, 4th Floor N
P.O. Box 52003
Oklahoma City, OK 73152-2003
Phone: (405) 557-5369
Fax: (405) 525-0139
Email: lmi1@oesc.state.ok.us

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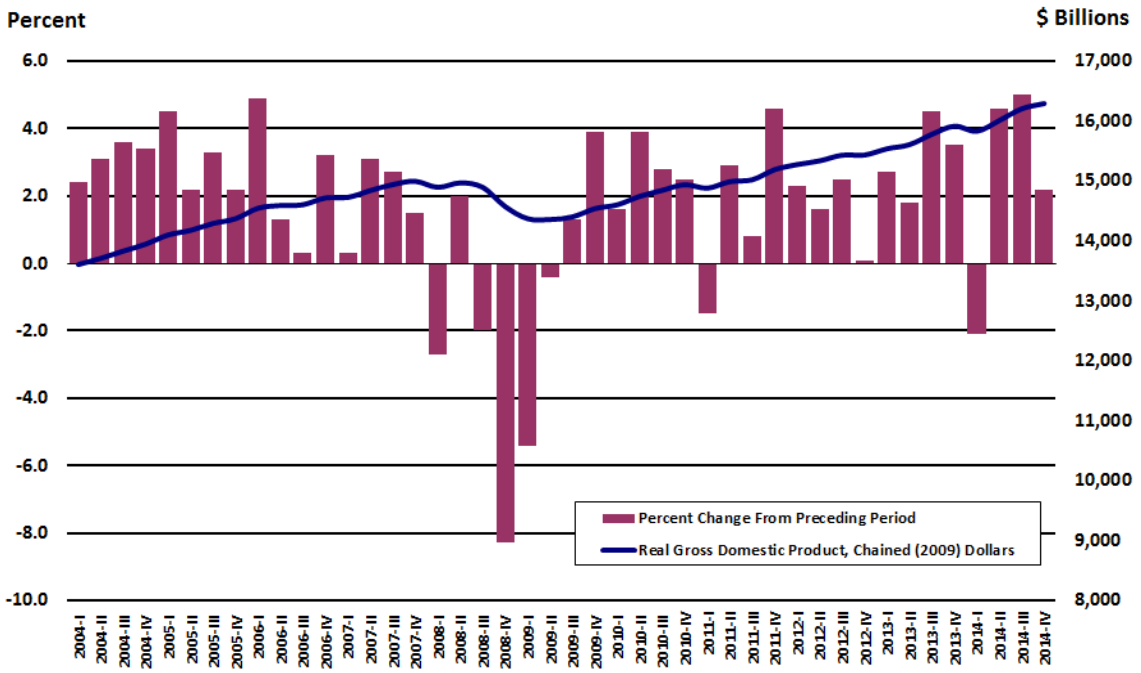
Real Gross Domestic Product and Quarterly Change

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

U.S. economic growth slowed more sharply in the 4th quarter than first estimated, mainly due to weaker business stockpiling and a larger trade deficit. Real gross domestic product (GDP) increased at an annual rate of 2.2 percent in the 4th quarter of 2014, according to the "second" estimate released by the Bureau of Economic Analysis (BEA). In the 3rd quarter, real GDP increased 5.0 percent—the strongest growth in 11 years.

Consumer spending was revised down by one-tenth of a percentage point to 4.2 percent in the 4th quarter, still the fastest pace since the 1st quarter of 2006. Durable goods expenditures were revised down to 6.0 percent from the previously estimated 7.4 percent. Nondurable goods spending was revised down to 3.8 percent from the previous 4.4 percent estimate. Spending on services was revised upward to 4.1 percent from the previously estimated 3.7 percent pace. Personal consumption expenditures added 2.87 percent to 4th quarter GDP growth.

Business spending on equipment was revised to show it rising at a 0.9 percent rate instead of the previously reported 1.9 percent contraction.

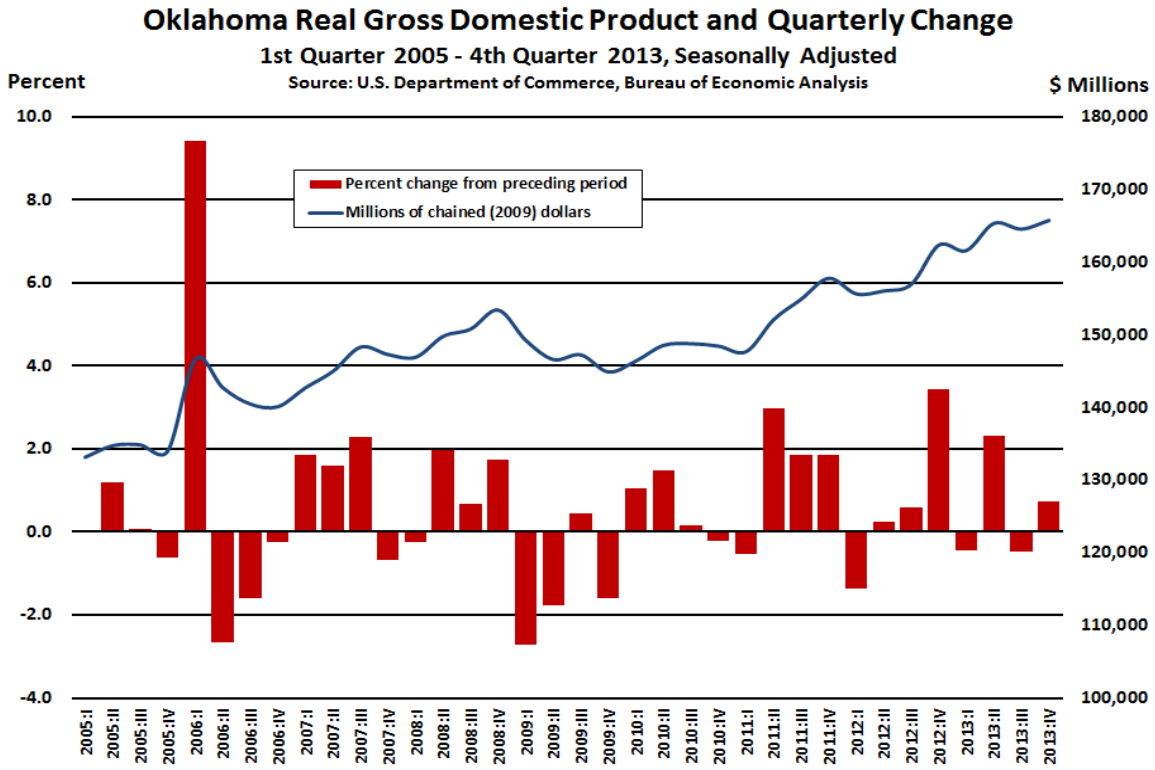
However, the downward 4th quarter GDP revision stemmed largely from inventory investment. Businesses accumulated $88.4 billion worth of inventory in the 4th quarter, far less than the $113.1 billion the government had estimated last month. That resulted in the GDP growth contribution from inventories being revised down to one-tenth of a percentage point from 0.8 percentage point previously.

Residential construction spending in the 4th quarter was revised down. Real residential fixed investment increased 3.4 percent, instead of 4.1 percent previously reported.

A rising trade deficit driven by strong domestic demand also weighed more heavily on growth, subtracting 1.2 percentage points from GDP growth rather than the 1.02 percent first estimated. This could also be a reflection of the rising value of the dollar, which makes imported products cheaper for U.S. consumers.

Government spending was not as weak as previously reported. Real federal government consumption expenditures and gross investment decreased 7.5 percent in the 4th quarter, in contrast to an increase of 9.9 percent in the 3rd quarter. National defense spending plunged 12.4 percent, compared to the 12.5 percent pace previously reported. Real state and local government consumption expenditures and gross investment increased 2.0 percent, rather than the 1.3 percent pace first thought. Government consumption expenditures and gross investment shaved 0.32 percentage point from GDP growth in the 4th quarter, instead of 0.4 first estimated.

For all of 2014, the economy grew at a 2.4 percent pace compared to 2.2 percent in 2013.



Definition & Importance

The U.S. Bureau of Economic Analysis (BEA) recently released prototype statistics of quarterly gross domestic product (GDP) by state for 2005–2013. These new statistics provide a more complete picture of economic growth across states that can be used with other regional data to gain a better understanding of regional economies as they evolve from quarter to quarter. The new data provide a fuller description of the accelerations, decelerations, and turning points in economic growth at the state level, including key information about changes in the distribution of industrial infrastructure across states.

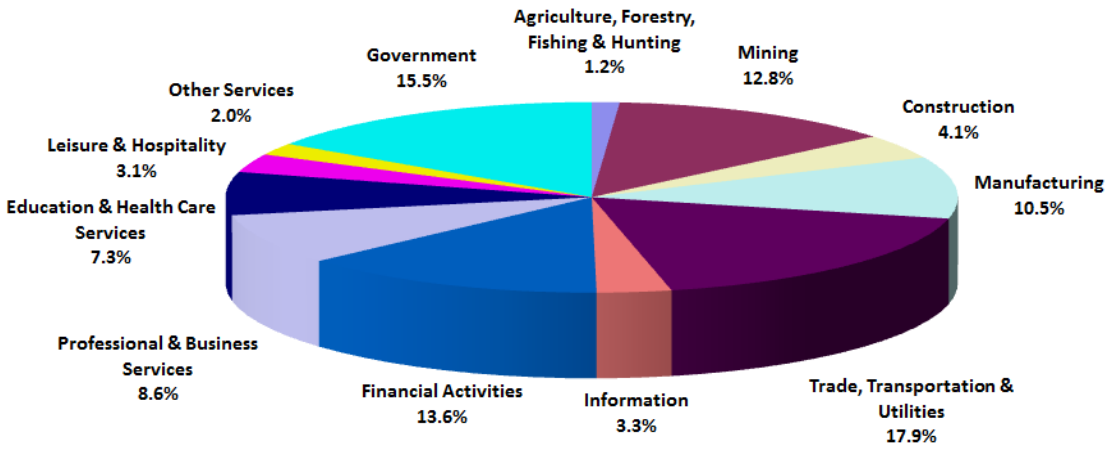
Current Developments

U.S. real GDP by state increased 1.8 percent in 2013. Growth in real GDP accelerated in the 2nd and 3rd quarter of the year after increasing at an annual rate of 1.1 percent in the 1st quarter. After reaching a high of 4.2 percent in the 3rd quarter, growth in real GDP decelerated to 2.8 percent in the 4th quarter. Real GDP grew steadily in 24 states through all four quarters in 2013. In the 4th quarter of 2013, real GDP increased in all states except Mississippi and Minnesota.

In 4th quarter 2013, Oklahoma's GDP was $165.7 billion in constant 2009 dollars, up from $164.5 billion in the 3rd quarter. The state's 4th quarter real GDP increased by $1.19 billion, or 2.9 percent, ranking Oklahoma 29th among all other states and the District of Columbia.

For all of 2013, Oklahoma's real GDP was at a level of $164.3 billion in constant 2009 dollars, growing at a rate of 4.2 percent from 2012. That was the fourth-highest annual GDP growth rate among all other states and the District of Columbia. North Dakota was first with a 9.7 percent growth rate followed by Wyoming at 7.6 percent and West Virginia at 5.1 percent.

Industry Share of Oklahoma's Economy, 4th Quarter 2013
(by percentage of Gross Domestic Product)
Source: U.S. Department of Commerce, Bureau of Economic Analysis



Fifteen Oklahoma industry sectors contributed to GDP growth in the 4th quarter of 2013, with six sectors subtracting from growth. The mining sector, which includes the oil and gas industry, was by far the largest contributor to Oklahoma's GDP growth in the 4th quarter, adding 2.39 percentage points to overall GDP growth, followed by non-durable goods manufacturing which contributed 0.94 percentage points. Agriculture, forestry, fishing and hunting was the biggest drag to state GDP growth subtracting 1.95 percentage points.

Mining was the most predominant contributor to growth in Alaska, Colorado, New Mexico, North Dakota, Oklahoma, West Virginia, and Wyoming. Mining contributed 8.62 percentage points to growth in North Dakota, 6.85 percentage points to growth in Wyoming, 4.85 percentage points to growth in West Virginia, and 2.39 points to growth in Oklahoma.

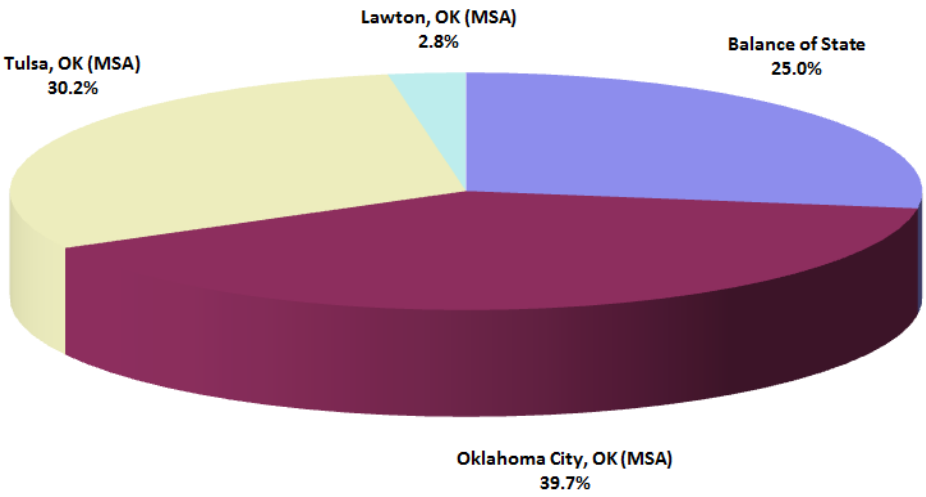
Nondurable-goods manufacturing was the largest contributor to U.S. real GDP by state growth in the 4th quarter of 2013. This industry increased 18.6 percent in the 4th quarter after moderate growth of 2.9 percent in the 3rd quarter. Nondurable-goods manufacturing was the leading contributor to growth in 31 states in the 4th quarter. In Oklahoma, non-durable goods manufacturing contributed 0.94 percent to real GDP growth in the 4th quarter of 2013 and was the second largest contributor to growth in that quarter.

The government sector declined 1.9 percent in the 4th quarter of 2013 and subtracted 0.24 percentage point from the growth in the nation. In Oklahoma, government subtracted 0.06 percentage point from growth in the 4th quarter.

Construction subtracted from growth in 47 states and the District of Columbia in the 4th quarter of 2013. This industry declined 5.9 percent and subtracted 0.22 percentage point from growth in the nation. In Oklahoma, construction subtracted 0.27 percentage point from real GDP in the 4th quarter.

Metropolitan Area Contribution to State Real Gross Domestic Product 2013

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



Definition & Importance

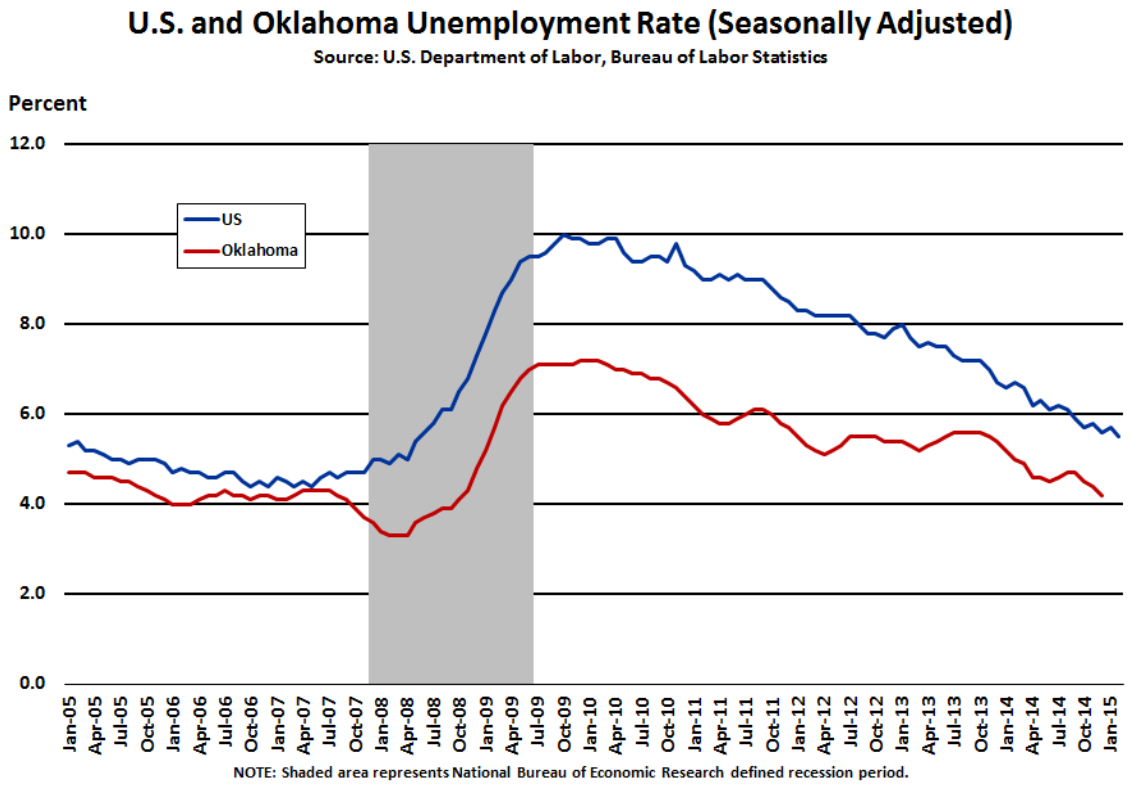
Metropolitan Statistical Areas (MSA) are the county-based definitions developed by the Office of Management and Budget for federal statistical purposes. A metropolitan area is defined as a geographic area consisting of a large population nucleus together with adjacent communities having a high degree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

Nationally, metropolitan statistical areas represent approximately 90 percent of total GDP. In Oklahoma, the three MSAs of Oklahoma City, Tulsa and Lawton accounted for roughly 75 percent of total state GDP in 2010.

Current Developments

Real GDP increased in 292 of the nation's 381 metropolitan areas in 2013, led by widespread growth in finance, insurance, real estate, rental, and leasing, nondurable-goods manufacturing and professional and business services, according to the U.S. Bureau of Economic Analysis (BEA). Natural resources and mining also spurred strong growth in several metropolitan areas. Collectively, real GDP for U.S. metropolitan areas increased 1.7 percent in 2013 after increasing 2.6 percent in 2012.

All three Oklahoma metropolitan areas outpaced or equaled U.S. metropolitan area real GDP growth in 2013. Oklahoma City MSA grew by 3.9 percent to $65.2 billion and ranked 56th (out of 381 metro areas). Tulsa MSA grew at a rate of 3.5 percent to $49.6 billion and ranked at 68th. Lawton MSA grew 1.7 percent to $4.5 billion in 2013 and ranked 175th out of 381 U.S. metro areas.



Definition & Importance

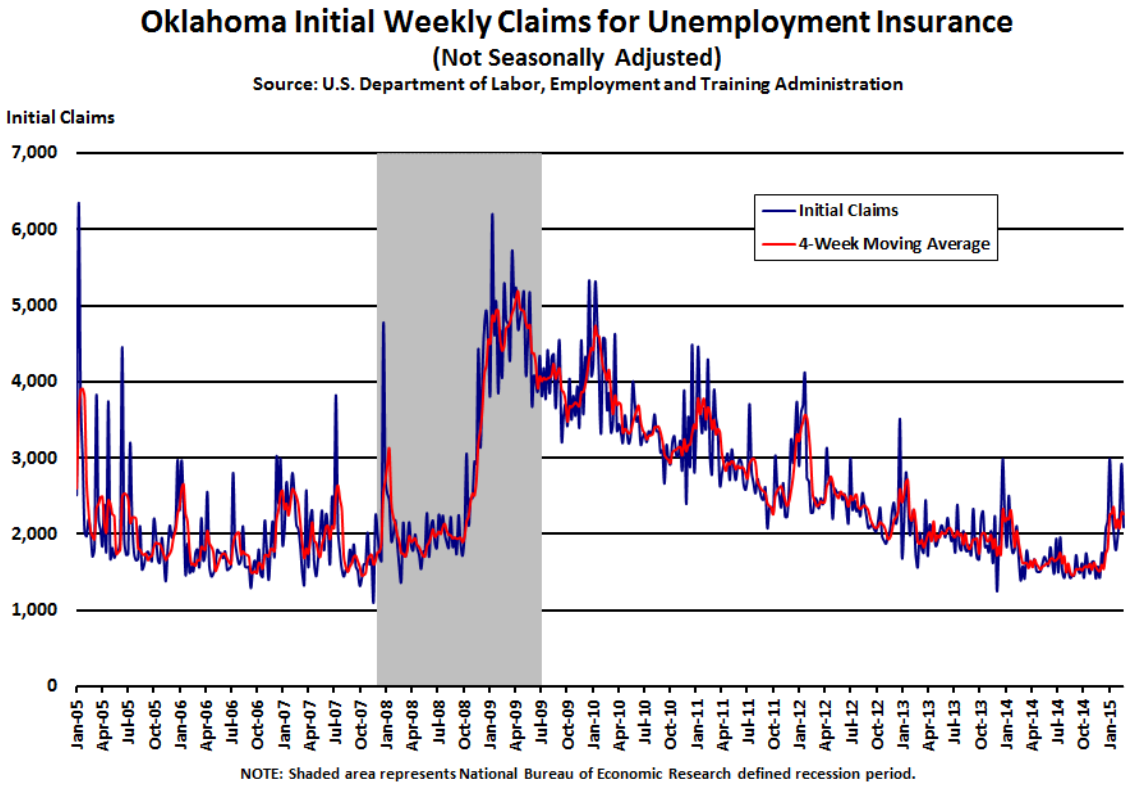
The Bureau of Labor Statistics Local Area Unemployment Statistics (LAUS) program produces monthly estimates of total employment and unemployment from a national survey of 60,000 households. The unemployment rate measures the percentage of people who are without work and is calculated by dividing the 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 dropped to a seven-year low in February but that was mainly due to discouraged workers dropping out of the labor force. The unemployment rate edged down to 5.5 percent in February, according to the Bureau of Labor Statistics (BLS). It appears that some discouraged workers are returning to the labor force. The labor force participation rate was little changed at 62.8 percent in February—a 37-year low.

In 2014, annual average unemployment rates declined in all 50 states and the District of Columbia—the first year since 1984 in which all states and the District had over-the-year rate declines, according to the BLS. Oklahoma's annual average unemployment rate fell to 4.5 percent in 2014, down from 5.3 percent in 2013. North Dakota had the lowest annual average unemployment rate (2.8 percent) in 2014. Nebraska (3.3 percent) and South Dakota (3.4 percent) had the next lowest jobless rates. Mississippi and Nevada had the highest jobless rates (7.8 percent each) among the states, followed by Rhode Island (7.7 percent).



Definition & Importance

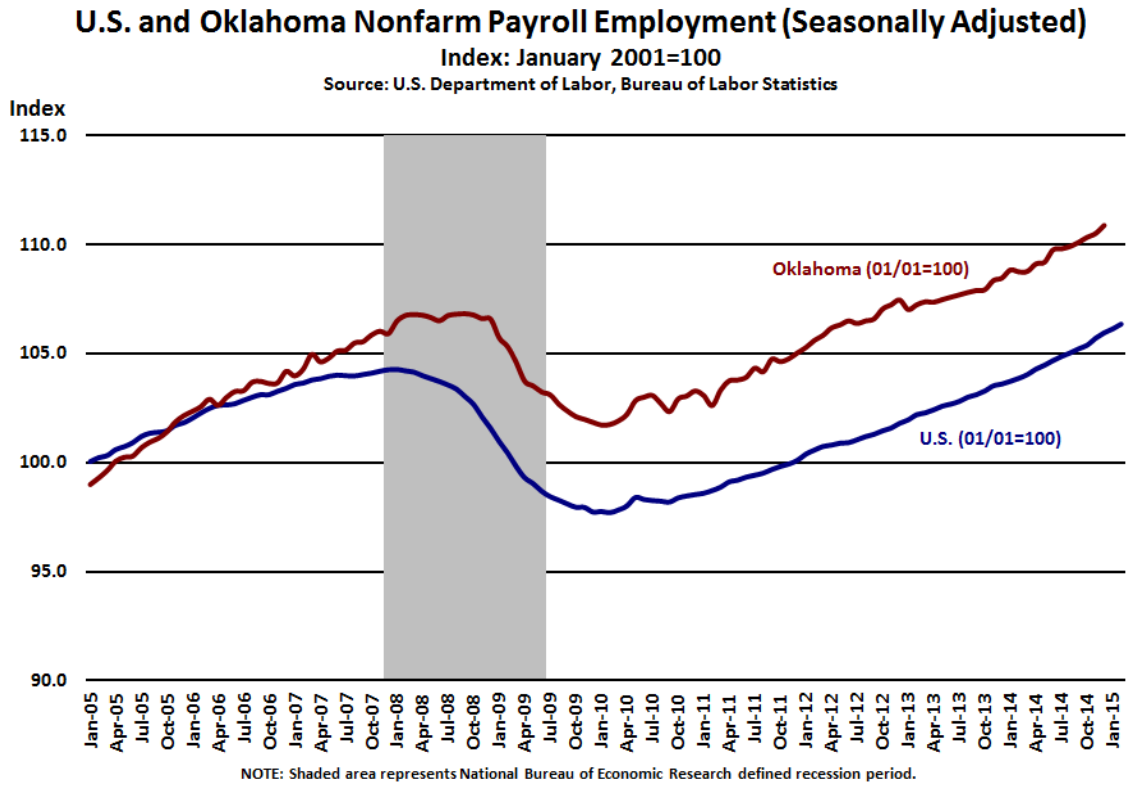
Initial unemployment claims are compiled weekly by the U.S. Department of Labor, Employment and Training Administration and show the number of individuals who filed for unemployment insurance benefits for the first time. This particular variable is useful because it gives a timely assessment of the overall 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 rose in the last week of February to the highest level since last May, but the trend remained consistent with stable hiring. In the week ending February 28, the advance figure for seasonally adjusted initial claims was 320,000, an increase of 7,000 from the previous week's unrevised level of 313,000, according to figures released by the U.S. Labor Department (DOL). The less volatile 4-week moving average was 304,750, an increase of 10,250 from the previous week's unrevised average of 294,500 and a six-week high. However, the four-week average of initial claims is nearly 10 percent lower than it was a year ago.

Initial jobless claims in Oklahoma moved up in February. For the file week ending February 21, initial jobless claims were at a level of 2,091, 830 claims fewer than the previous week. For the same file week ending, the four-week moving average was at 2,263, down 27 claims from the previous week's level of 2,289. Over the month, initial claims were 300 more than 1,791 on file week ended January 24. Over the year, statewide initial jobless claims have increased by 701 from 1,390 for the file week ended February 22, 2014, while the less volatile 4-week moving average rose by 526 from 1,737 for the same file week.



Definition & Importance

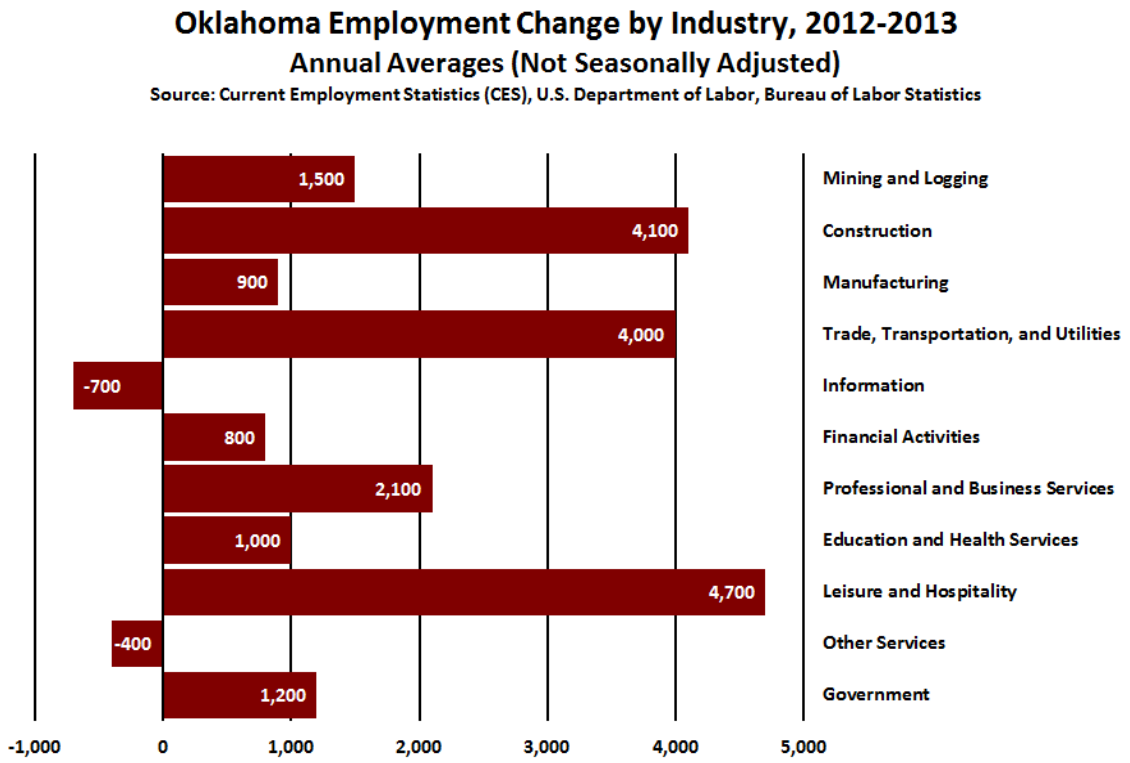
Nonfarm payroll employment data is produced by the Current Employment Statistics (CES) program of the Bureau of Labor Statistics (BLS). The CES Survey is a monthly survey of approximately 140,000 nonfarm businesses and government agencies representing approximately 440,000 individual worksites. The CES 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. employers hired at a solid rate again in February. Nonfarm payroll employment increased by 295,000 in February after rising 239,000 in January, according to the Bureau of Labor Statistics (BLS). Overall, private payrolls increased 288,000 last month, with construction employment rising 29,000. Manufacturing payrolls were up 8,000 and government employment jumped 7,000.

Oklahoma ended 2014 with strong job gains. Seasonally adjusted nonfarm employment for Oklahoma added 5,700 jobs (+0.3 percent) in December. Six of Oklahoma's 11 supersectors saw job growth in December, led by business & professional services with an over-the-month gain of 2,000 jobs. Construction (+1,200 jobs), educational & health services (+1,100 jobs) and government (+1,100 jobs) also posted substantial gains for the month. Over the year, Oklahoma total nonfarm employment gained 36,700 jobs (+2.2 percent). Education & health services expanded the most over the year adding 7,900 jobs (+3.5 percent).



Definition & Importance

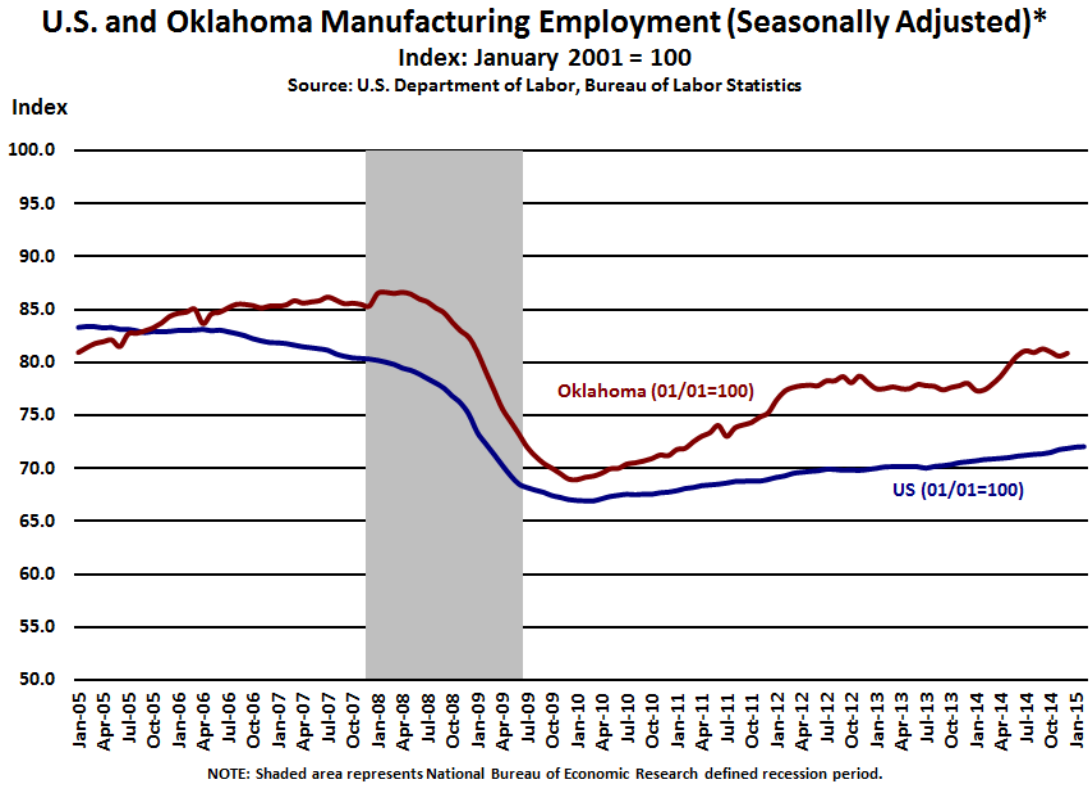
Employment growth by industry identifies the types of jobs being created in the state. Conversely, industries with a declining employment trend indicate those which are becoming less important in the state's economy. There may also be industries which behave more cyclically, growing during expansion 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 slowed a bit in 2013, adding 19,000 jobs for a 1.2 percent growth rate.

In 2013, nine out of Oklahoma's 11 statewide supersectors recorded job growth. Leisure & hospitality led all other supersectors adding 4,700 jobs with the bulk of hiring occurring in accommodations & food services. Construction employment added 4,100 jobs with almost all of the growth coming from heavy and civil engineering construction and specialty trade contractors. The broad trade, transportation & utilities group added 4,000 employees with most of the growth in wholesale trade. Professional and business services employment grew by 2,100 driven by job gains in administrative and support & waste management and remediation services and employment services. Mining & logging and manufacturing employment growth both slowed significantly from the previous year. Education & health services added 1,000 jobs with nearly all the job growth in ambulatory health care services.

Once again, over-the-year declines were seen in information (-700 jobs) and other services (-400 jobs).



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.

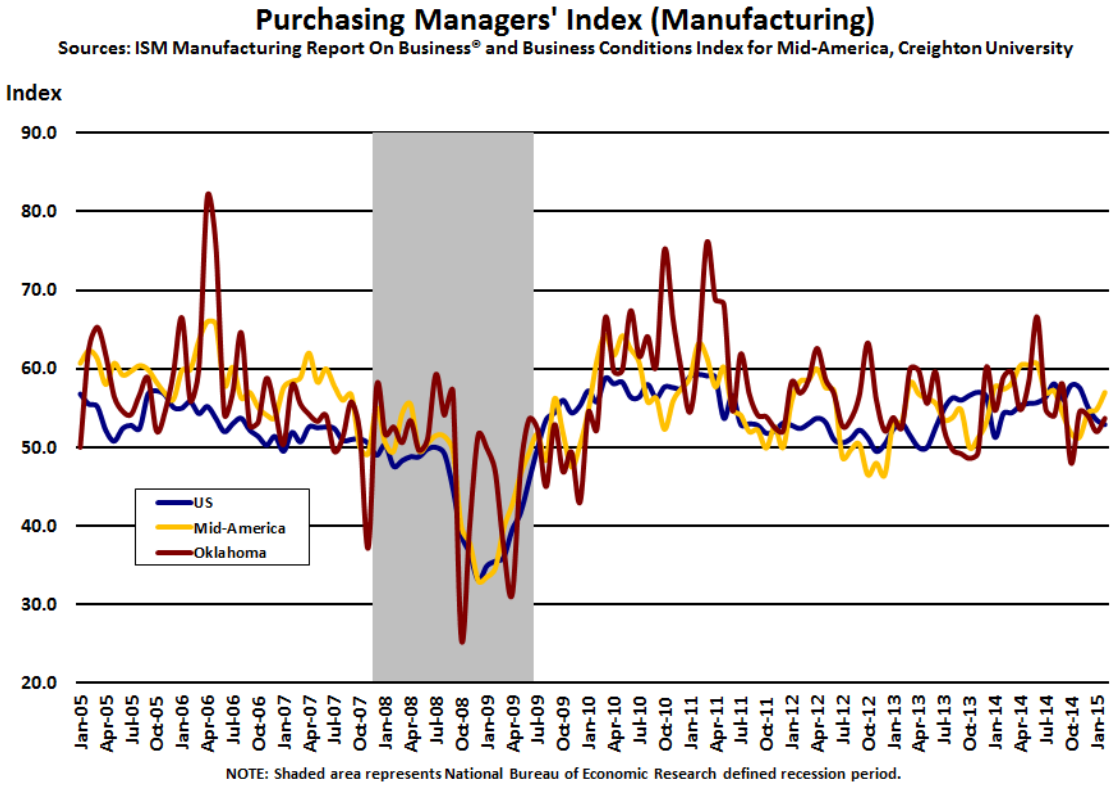
Current Developments

U.S. factories hired at a slower pace in February but at a rate consistent with softer demand, weakness in export markets, and a stronger dollar. Manufacturing employment increased by 8,000 in January, according to the Bureau of Labor Statistics (BLS). Within nondurable manufacturing, employment in petroleum and coal products fell by 6,000, largely due to the West Coast ports slowdown and reduced energy prices dampening activity.

Oklahoma manufacturing employment added a non-seasonally adjusted 500 jobs (0.4 percent) in December. Non-durable goods manufacturing accounted for most of the job gains in December.

Over the year, Oklahoma manufacturing employment has added a non-seasonally adjusted 5.000 jobs for a 3.7 percent growth rate. Durable goods led the job gains, adding a non-seasonally adjusted 4,700 jobs (4.9 percent), while non-durable goods manufacturing gained a non-seasonally adjusted 300 jobs (0.7 percent).

**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

U.S. manufacturing activity expanded in February at the weakest pace in a year, as new orders, hiring and production all grew more slowly. The February PMI® registered 52.9 percent, a decrease of 0.6 percentage point from January's reading of 53.5 percent, indicating growth in manufacturing for the 26th consecutive month, according to the latest Manufacturing ISM Report On Business®. It was the fourth straight drop and the lowest reading since January 2014 when the polar vortex was putting a freeze on activity.

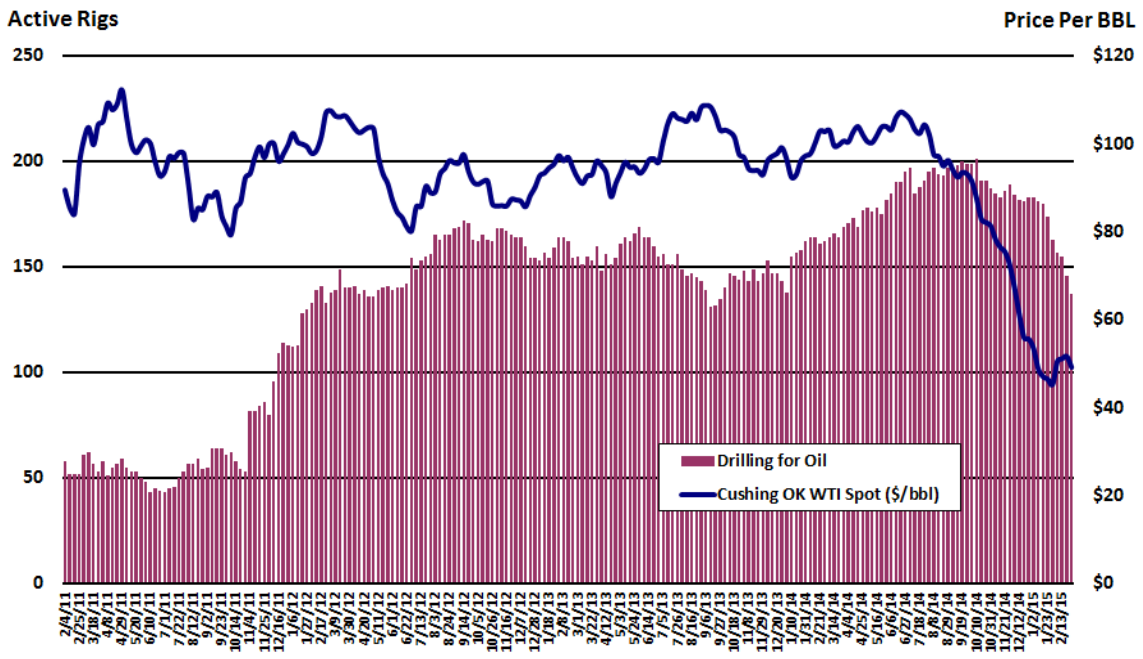
New orders Index slowed 0.4 to 52.5 which is the slowest rate of growth since May 2013 while production slowed 2.8 points to 53.7 which is the slowest rate of growth since February last year. The Employment Index slowed 2.7 points to 51.4 for its slowest growth rate since June 2013. Inventories of raw materials registered 52.5 percent, an increase of 1.5 percentage points above the January reading of 51.0 percent. The Prices Index registered 35.0 percent, the same percentage as in January, indicating lower raw materials prices for the fourth consecutive month.

The Mid-America Business Conditions Index for February, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, increased from January's reading. The Business Conditions Index, which ranges between 0 and 100, rose to 57.0 from January's 54.8 reading, according to the Creighton Economic Forecasting Group. Indices over the past several months are pointing to positive economic gains over the next three to six months for the region.

"However, areas of the region linked closely to the energy sector, including ethanol, are experiencing pullbacks in economic activity," said Ernie Goss, Ph.D., director of Creighton University's Economic Forecasting Group.

The Business Conditions Index for Oklahoma increased slightly for February and signals positive but slow growth in the next three to six months. The index for February rose to 53.7 from 52.0 in January. Components of the February survey of supply managers were new orders at 58.3, production or sales at 55.1, delivery lead time at 42.9, inventories at 62.1, and employment at 50.4.

"Durable goods manufacturers in the state are adding jobs at a healthy pace. However, even with recent gains, compared to pre-recession levels, the state's heavy manufacturing sector has lost almost 5,000 jobs. Average weekly wages for all Oklahoma workers, according to the BLS, have grown by 1.7 percent over the past year," said Goss.



Definition & Importance

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

The Baker Hughes rig count is an important indicator for the energy industry and Oklahoma. 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

As U.S. oil production continues to rise, there is so much crude that storage capacity is quickly being exhausted, a development that could drive oil and gasoline prices even lower in the coming months, according to a report from the U.S. Energy Information Administration (EIA). Crude oil inventory data for the week ending February 20 show that total utilization of crude oil storage capacity in the United States stands at approximately 60 percent, compared with 48 percent at the same time last year.

Capacity is about 67 percent full in Cushing, Oklahoma (the delivery point for West Texas Intermediate futures contracts), compared with 50 percent at this point last year. Working capacity in Cushing alone is about 71 million barrels, or more than half of all Midwest (as defined by Petroleum Administration for Defense District 2) working capacity and about 14 percent of the national total.

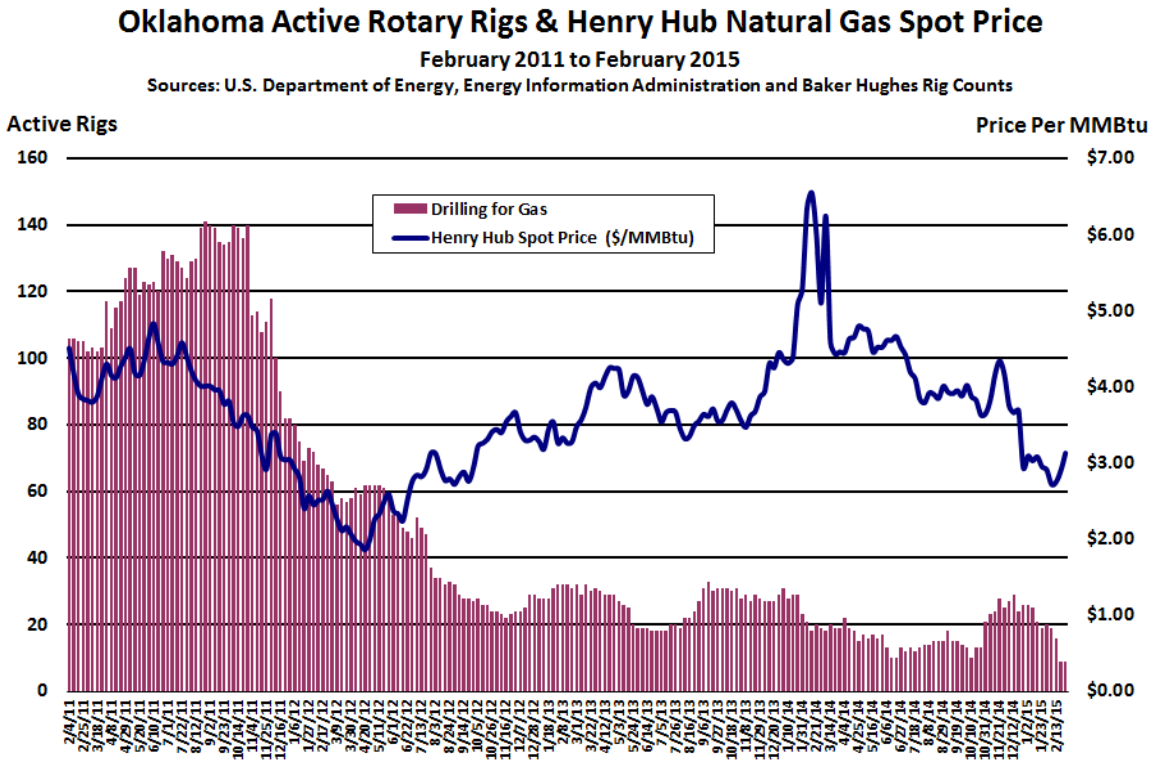
Oklahoma's crude production in December was at 10,869,000 barrels, 620,000 barrels (or 6.0 percent) more than November's level of 10,249,000 barrels. For 2014, Oklahoma's crude production was 126,340,000 barrels, 11,978.000 barrels or 10.5 percent more than the 114,363,000 barrels produced in 2013 and the highest annual crude production level since 1988.

West Texas Intermediate (WTI-Cushing) spot prices stabilized somewhat in February but still remain at about half of the level seen just six months ago. The WTI-Cushing spot price stood at $49.16 per barrel on February 27, 2015, $2.53 below the previous week's price but $53.61, or 52.2 percent below a year ago.

Oilfield services company Baker Hughes Inc. reported the number of rigs exploring for oil and natural gas in the U.S. fell by 43 to 1,267 for the week ending February 27. Of the major oil- and gas-producing states, North Dakota's count fell by 11, Oklahoma lost nine, Louisiana seven, Texas six, New Mexico four, Colorado three and Wyoming two. West Virginia, Ohio and Kansas dropped one each. Alaska increased by five.

Since OPEC's announcement in November 2014 to maintain its current production levels, Oklahoma's active rotary rig count has tumbled by 68 rigs, or 31.8 percent, as of the week ending February 27. For that week ending, there were 146 active rigs in the state exploring for oil and gas, 137 were oil-directed and nine were natural gas-directed.

Nationally, the mining sector saw an acceleration in job losses in February, with payrolls posting their biggest decline since August 2009. It was hurt by a loss of 1,100 jobs tied to oil and gas extraction, which has taken a hit from lower crude oil prices



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

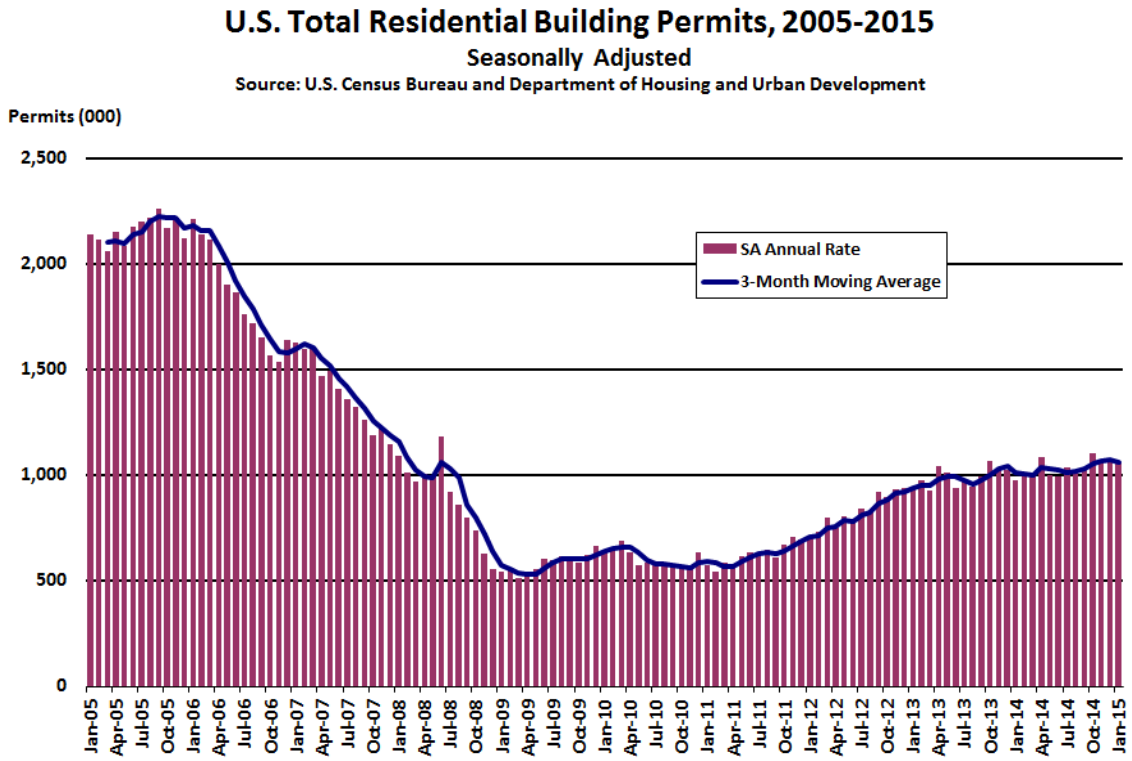
Since the start of the year, record cold temperatures and significant snowfall have occurred in the eastern half of the country. This is in contrast to the western half of the nation where daily temperatures have often been above average. Seven states, (California, Idaho, Nevada, Oregon, Utah, Washington, and Wyoming), have reported average temperatures for the month of January in the top 10 warmest on record.

Nationally, natural gas consumption from January 1 through February 20 was 2 percent higher this year compared to last year, with 6 of the top 20 U.S. natural gas consumption-days occurring during that period, according to data from Bentek Energy.

The differences in consumption have also been reflected in natural gas storage activity since January 1. Since the start of the year, the East region has pulled 5 percent more gas from storage than the five-year average withdrawals. Conversely, the West region has withdrawn 7 percent less gas over that period compared to its five-year average.

Natural gas prices increased at most market locations through February, as much of the country continued to experience cold temperatures. The Henry Hub spot price posted a 41-cent (15.1 percent) gain from $2.72/MMBtu for the week ending February 6, to $3.13/MMBtu for the week ending February 27.

The Baker Hughes rotary rig count for natural gas in Oklahoma continued to fall in February. For the week ending February 27, Oklahoma's natural gas-directed drilling rig count was at a level of nine active rigs, down from 19 rigs reported for the week ending February 6, and representing only six percent of total statewide drilling activity. Over the year, Oklahoma's natural gas-directed rotary rig count was down ten rigs from the 19 rigs reported for the week ended February 28, 2014.



Definition & Importance

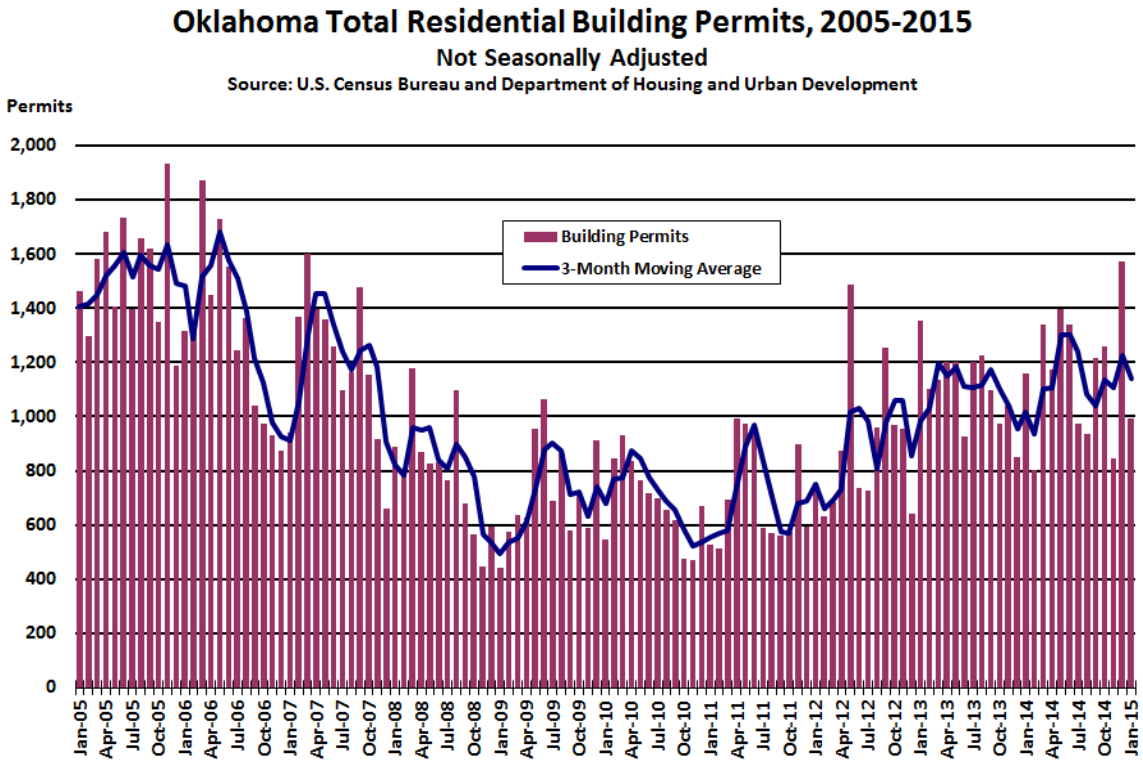
The U.S. Census Bureau and the Department of Housing and Urban Development jointly provide monthly national and regional data on the number of new housing units authorized by building permits; authorized, but not started; started; under construction; and completed. The data are for new, privately-owned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

Both permits for future home construction and housing starts dipped in January, as demand for single-family homes cooled from a 6 1/2-year high. Privately-owned housing units authorized by building permits in January were at a seasonally adjusted annual rate of 1,053,000, or 0.7 percent below the revised December rate of 1,060,000, but 8.1 percent above the January 2014 estimate of 974,000, according to the U.S. Census Bureau and the Department of Housing and Urban Development.

Single-family permitting in January was at a rate of 654,000, or 3.1 percent below the revised December figure of 675,000. Authorizations for apartments were at a rate of 372,000 in January.

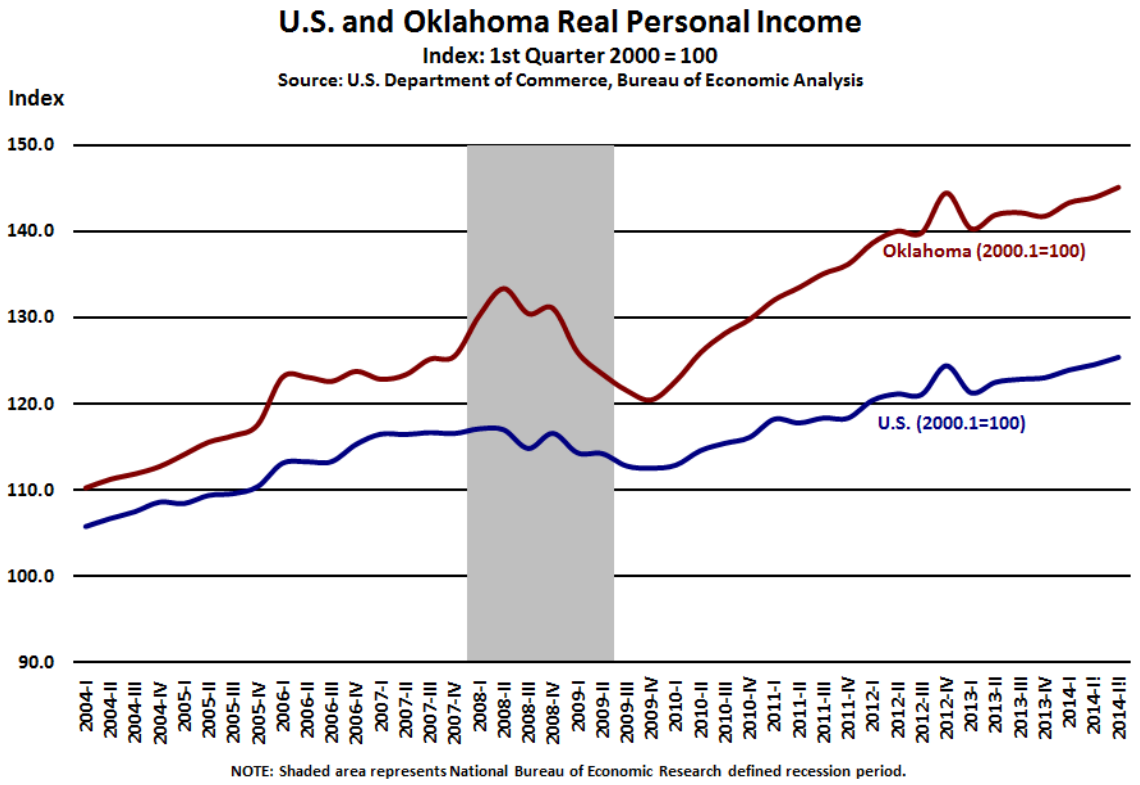


Oklahoma residential permitting activity plunged in January, pulled down by a big drop in volatile apartment applications. Total residential building permitting for January was at an unadjusted level of 995 units, 579 fewer than the seven-year high reached in December, according to figures from the U.S. Census Bureau and the Department of Housing and Urban Development.

Single-family permitting accounted for 78.0 percent of total residential permitting activity in January while multi-family permitting added only 20.8 percent. Applications for single-family homes were at a non-seasonally adjusted level of 776, or 14.6 percent less than December's level of 909 permits. Multi-family permitting slumped to a non-seasonally adjusted level of 207 permits, 454 less than December's level of 661 permits.

Over the year, total residential permitting was at a non-seasonally adjusted 164 permits, or 14.2 percent, less than January 2014. Single-family permits were down 75 permits, or 37.5 percent, less than a year ago, while the more volatile multi-family permitting was 99 less than the January 2014 level of 306 permits.

In 2014, total unadjusted residential building permitting was at a level of 14,024 or 12.7 percent greater than the 2013 total of 12,464 and the highest annual total since 2007. Multi-family permits were 1,127, or 51.8 percent more than 2013, while single-family permits were 447, or 4.1 percent less than 2013.



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

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 grew in January, reflecting strong job gains during the month. Personal income increased $50.8 billion, or 0.3 percent, and disposable personal income (DPI) increased $52.6 billion, or 0.4 percent, in January, according to the Bureau of Economic Analysis (BEA). However, Consumer spending fell for a second consecutive month in January, likely due to lower pump prices. Personal consumption expenditures (PCE) decreased $18.9 billion, or 0.2 percent. In December, personal income increased $45.3 billion, or 0.3 percent, DPI increased $37.3 billion, or 0.3 percent, and PCE decreased $35.7 billion, or 0.3 percent, based on revised estimates.

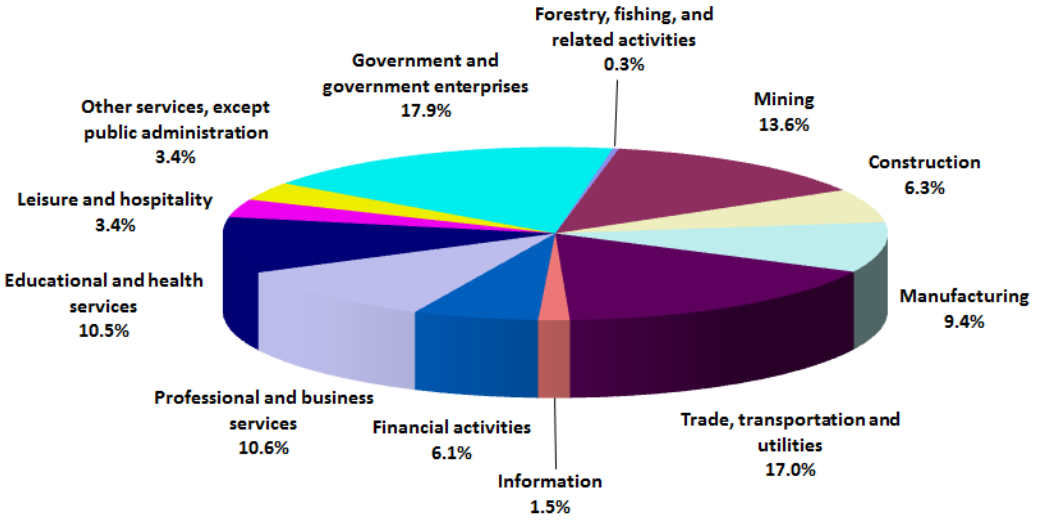
Durable goods spending slipped 0.1 percent, following a 1.4 percent drop in December, due to sluggish auto sales. Spending on nondurables plunged 2.2 percent in January after decreasing 1.4 percent the month before, with lower gasoline prices pulling this component down. Services advanced 0.5 percent after a 0.2 percent gain in December.

It appears that households are using the extra income from cheap gasoline for savings. The personal saving rate—personal saving as a percentage of disposable personal income—was 5.5 percent in January, compared with 5.0 percent in December.

Oklahoma Nonfarm Contribution to Earnings

Third Quarter 2014

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 averaged 1.0 percent in the 3rd quarter of 2014, down from 1.2 percent in the 2nd quarter, according to estimates by the U.S. Bureau of Economic Analysis (BEA). Growth in personal income—the sum of net earnings by place of residence, property income, and personal current transfer receipts—slowed in 38 states and in the District of Columbia. The percent change across states ranged from -0.2 percent in South Dakota (the only state with a decline) to 1.4 percent in Texas. Inflation, as measured by the national price index for personal consumption expenditures, slowed to 0.3 percent in the third quarter from 0.6 percent in the second quarter.

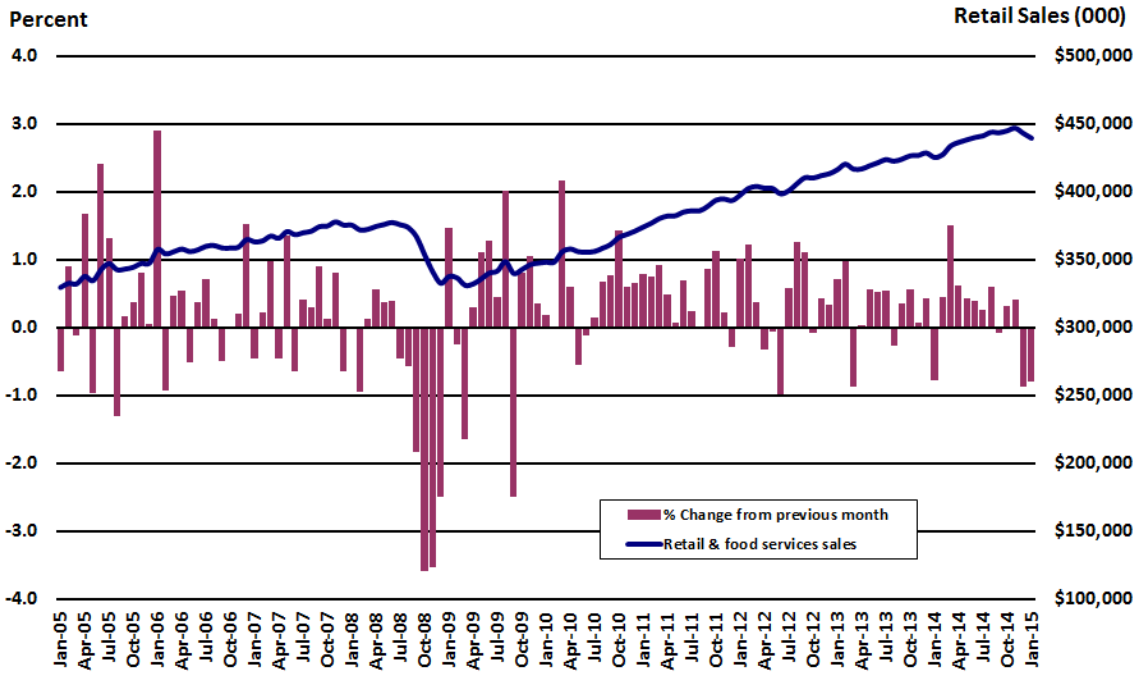
In Alaska, North Dakota, Oklahoma, Texas, and Wyoming, the mining industry (which includes oil and gas extraction) contributed the most to 3rd-quarter earnings growth, according to the BEA. North Dakota, Oklahoma, and Texas have been the 3 fastest growing states, as measured by percent growth of earnings, since the recession troughed in the second quarter of 2009.

In the 3rd quarter of 2014, Oklahoma's personal income increased $1.84 billion, or 1.1 percent, and ranked tenth in the nation for personal income growth. Earnings grew $1.29 billion in the 3rd quarter at a rate of 1.2 percent.

Mining, by far, added the most to nonfarm earnings growth in Oklahoma, accounting for a quarter of total earnings and growing at a rate of 2.6 percent in the 3rd quarter. Durable goods manufacturing contributed another 10 percent, followed by health care and social assistance adding 9 percent.

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

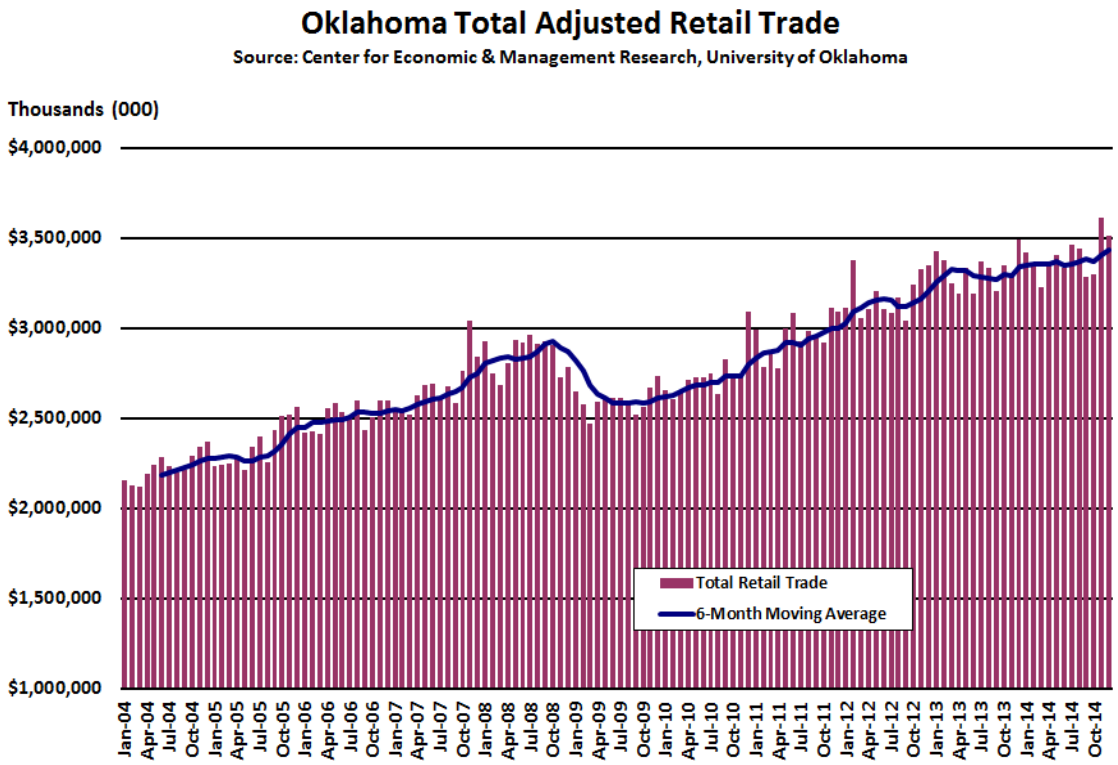
Retail sales measure the total receipts at stores that sell merchandise and related services to final consumers. Sales are by retail and food services stores. Data are collected from the Monthly Retail Trade Survey conducted by the U.S. Bureau of the Census. Essentially, retail sales cover the durables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

U.S. consumer spending fell sharply in January as lower pump prices continued to tug down on retail sales and auto sales slowed. 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 $439.8 billion, a decrease of 0.8 percent from the previous month, but up 3.3 percent above January 2014, according to the U.S. Census Bureau. Total sales for the November 2014 through January 2015 period were up 3.8 percent from the same period a year ago. The November to December 2014 percent change was unrevised from -0.9 percent.

Auto sales declined 0.5 percent after a drop of 0.8 percent in December. Falling gasoline prices undercut sales at service stations, where receipts plunged 9.3 percent, the biggest drop since December 2008. Excluding spending on automobiles and gasoline, sales rose 0.2 percent after no change in December.

The less volatile "core" sales, which strip out automobiles, gasoline, building materials and food services, edged up 0.1 percent in January, held back by a 0.7 percent drop in furniture and home furnishings sales. Receipts at clothing stores fell 0.8 percent, while sales at sporting goods stores were down 2.6 percent, their biggest drop in a year. Receipts at online stores rose 0.5 percent, while sales at electronics and appliance stores gained 0.3 percent.



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

Oklahomans took advantage of early holiday shopping deals offered on 'Black Friday' and lower pump prices. After surging 9.7 percent in November, retail sales slipped -2.8 percent in December. Total adjusted retail sales for December was at a level of $3.52 billion, down from November's level of $3.62 billion. For 2014, total adjusted retail trade was at a level of $40.7 billion, 2.2 percent more than $39.8 billion in 2013.

Total durable goods sales climbed 1.1 percent in December with gains in miscellaneous durable goods (3.2 percent); furniture (2.0 percent); electronics & music store sales (1.3 percent); used merchandise (0.8 percent); and auto accessories & repair (0.8 percent). Lumber & hardware sales were flat in December. Over the year, durable goods sales were grew 7.2 percent.

Nondurable goods sales dropped 4.1 percent in December with the largest monthly loss again in the volatile estimated gasoline sales (-19.7 percent). Spending on drugs also fell in December (-0.2 percent). Spending picked up in apparel (2.3 percent); general merchandise store sales (2.2 percent); liquor (1.6 percent); miscellaneous non-durables (0.5 percent); food (0.3 percent); and eating & drinking (0.2 percent). Over the year, non-durable goods sales were off 1.4 percent.