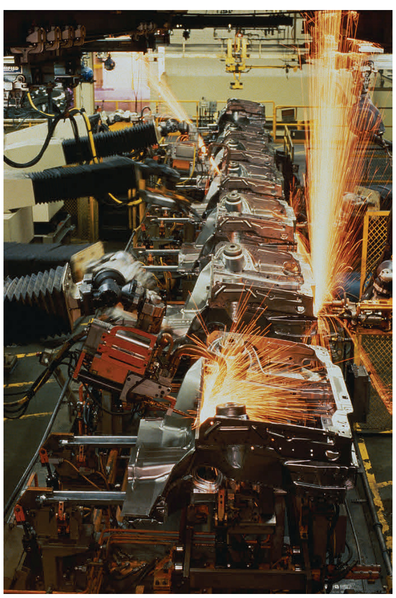

OKLAHOMA
Economic Indicators

January 2012

OKLAHOMA
ECONOMIC INDICATORS

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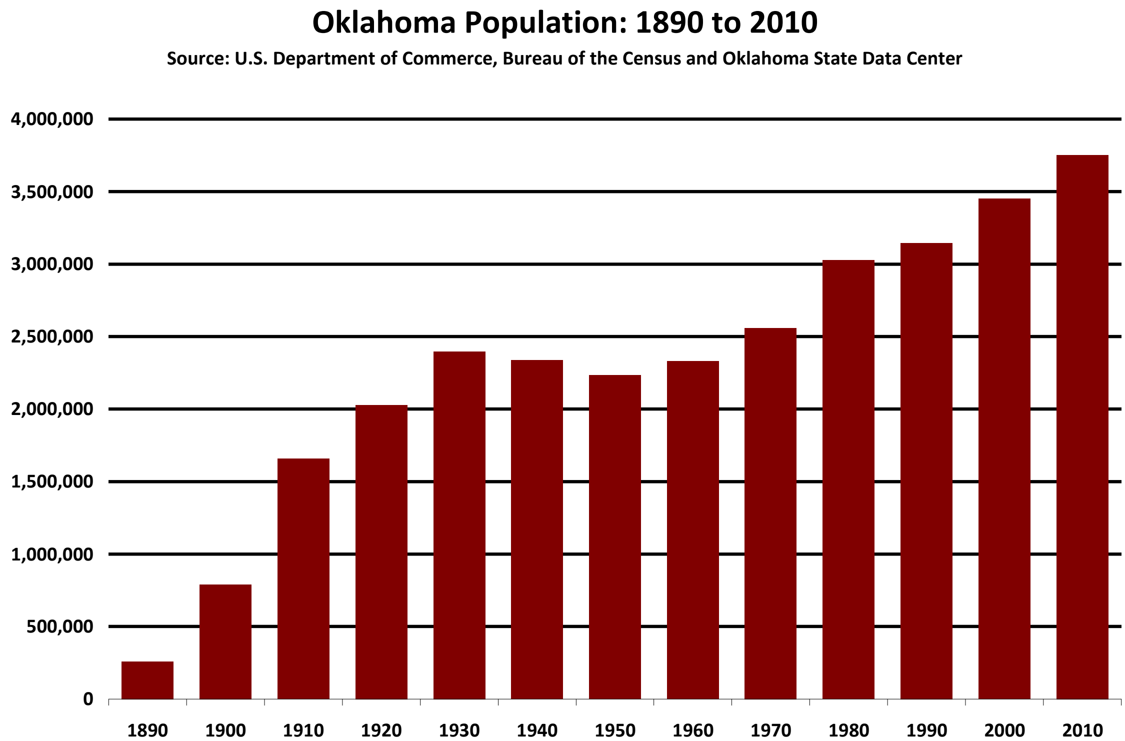


The first census for Oklahoma began with the 1890 Oklahoma Territorial Census. Both the 1890 and 1900 census populations reported for Oklahoma included the population for Indian Territory. The population of Oklahoma Territory (O.T.), as legally established, was 398,331 in 1900 and 78,475 in 1890. The 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

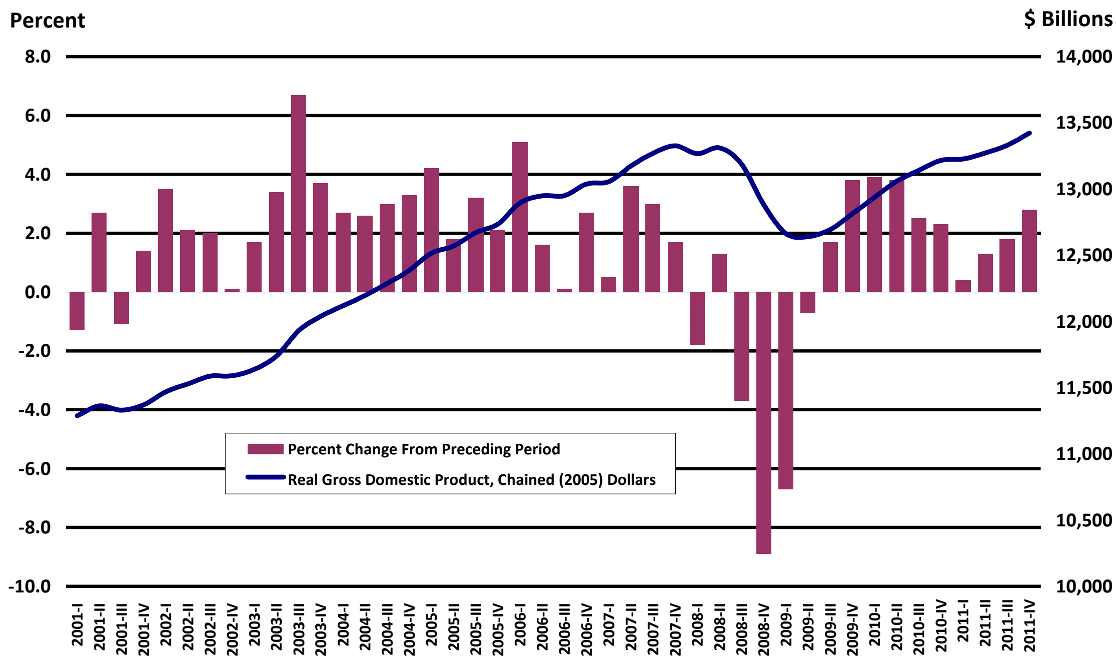
Year	United States Population	Oklahoma Population		Oklahoma Seats in Congress
		Number	Rank	
1890	62,979,766	258,657	N/A	N/A
1900	76,212,168	790,391	N/A	N/A
1910	92,228,496	1,657,155	23	8
1920	106,021,537	2,028,283	21	8
1930	123,202,624	2,396,040	21	9
1940	132,164,569	2,336,434	22	8
1950	151,325,798	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.

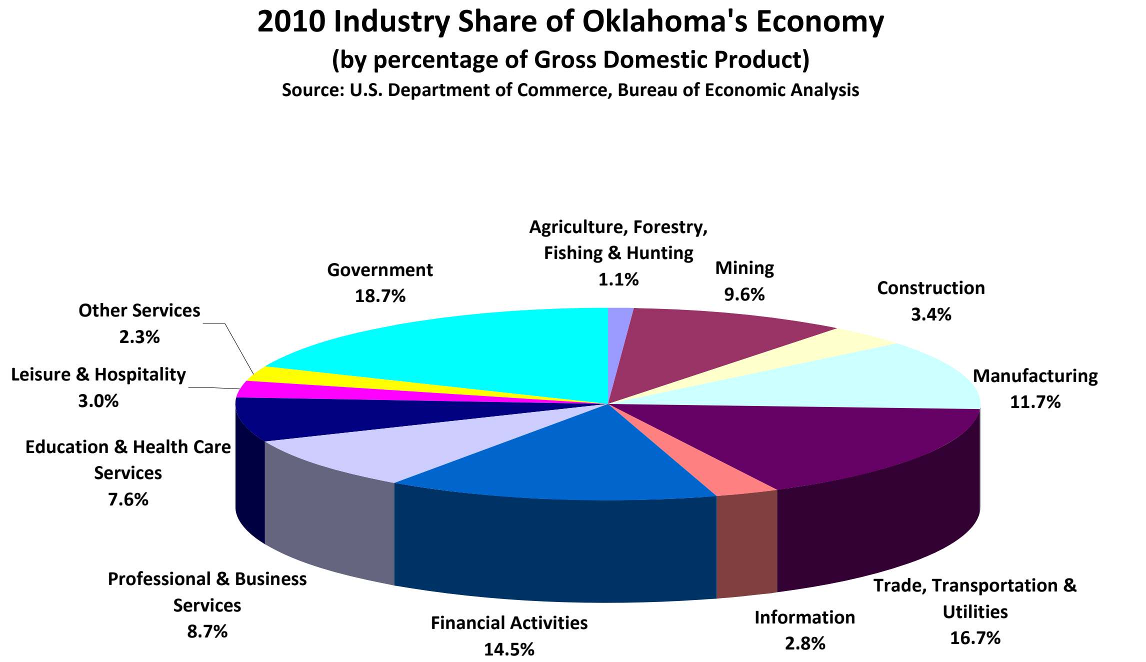
The four major categories of GDP—personal consumption expenditures, investment, net exports and government—all reveal important information about the economy and should be monitored separately. This allows one to determine the strengths and weaknesses of the economy.

Current Developments

The U.S. economy grew at its fastest pace in more than a year and a half in the last three months of 2011. Real gross domestic product increased at an annual rate of 2.8 percent in the 4th quarter of 2011 (that is, from 3rd quarter to 4th quarter), according to the "advance" estimate released by the Bureau of Economic Analysis (BEA). That is up from 1.8 percent growth in the 3rd quarter and 1.3 percent in the 2nd quarter and the fastest pace since the 2nd quarter of 2010.

Strength in the 4th quarter was largely in inventory investment which added 1.94 percentage points to GDP. Personal consumption expenditures (PCE), which accounts for more than two-thirds of demand in the economy, accelerated to 2.0 percent from 1.7 percent in the 3rd quarter. Residential fixed investment increased 10.9 percent, compared with an increase of 1.3 percent. Nonresidential fixed investment grew by 1.7 percent, compared to 15.7 percent in the 3rd quarter and 10.3 percent in the 2nd quarter. Exports rose 4.7 percent, the same pace as in the 3rd quarter.

Governments continued to cut spending. Government spending at all levels fell at an annual rate of 4.6 percent in the 4th quarter and 2.1 percent for the year—the biggest decline since 1971. Another drag was an acceleration in imports (4.4 percent), widening the trade deficit.



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

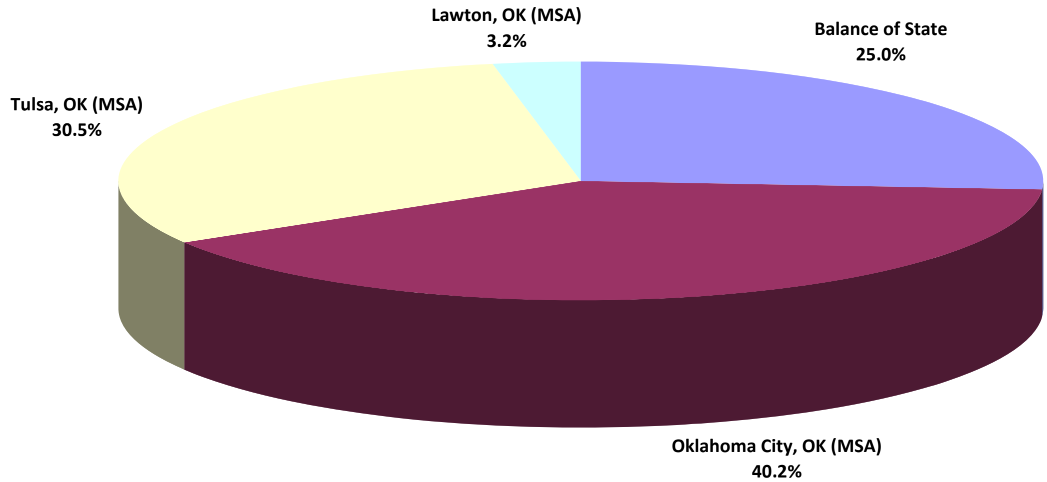
According to the advance estimate from the Bureau of Economic Analysis (BEA), Oklahoma was among 48 states and the District of Columbia experiencing growth in real GDP in 2010. However, Oklahoma's 2009 advance estimate was significantly revised downward primarily due to updated prices for natural gas.

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.

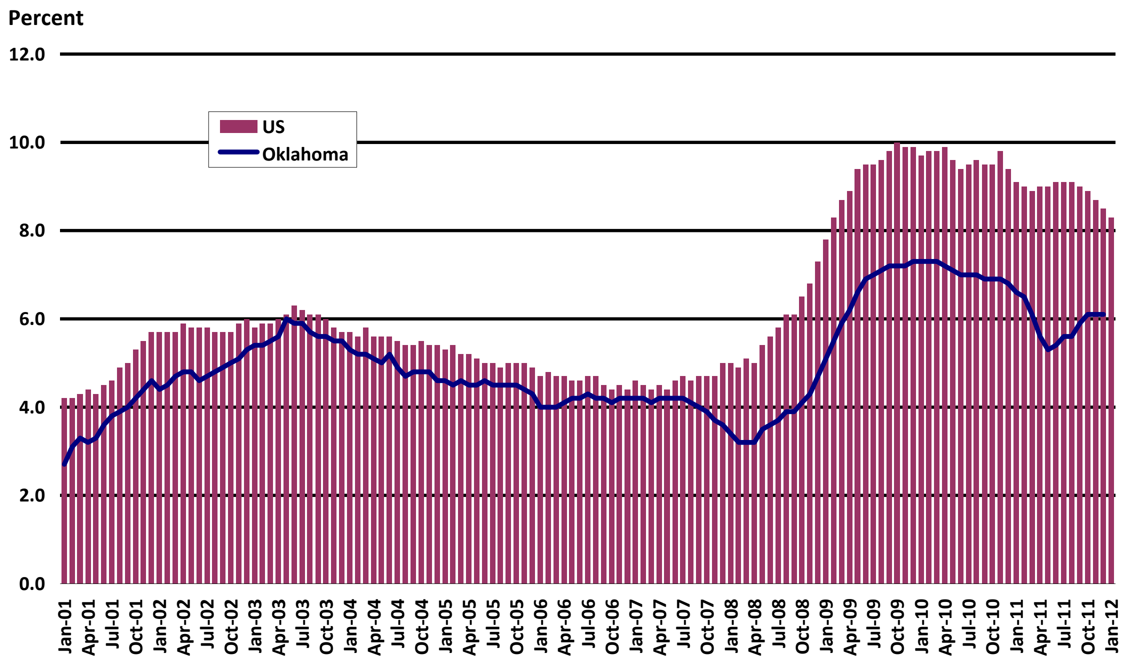
Current Developments

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

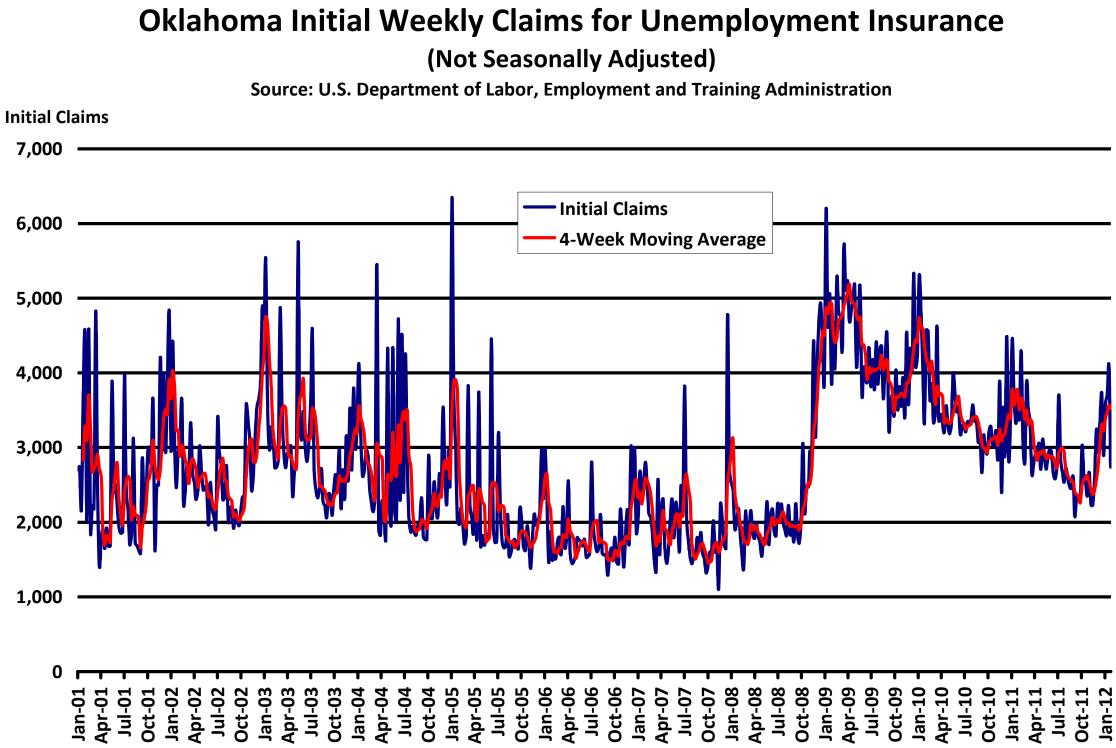
The Bureau of Labor Statistics Local Area Unemployment Statistics (LAUS) program produces monthly estimates of total employment and unemployment from a national survey of 60,000 households. The unemployment rate measures the percentage of people who are without work and is calculated by dividing the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

Robust employment gains in the past few months have helped push the unemployment rate to its lowest level in nearly three years. The unemployment rate dropped to 8.3 percent, from December's 8.5 percent, according to the U.S. Bureau of Labor Statistics (BLS). This is was the fifth consecutive monthly decline—the jobless rate has fallen by 0.8 point since August.

Oklahoma's seasonally adjusted unemployment rate was unchanged at 6.1 percent in December—the 10th lowest jobless rate among all states for the month. Over the year, Oklahoma's seasonally adjusted unemployment rate has declined by 0.7 percentage points. Latimer County ended the year with Oklahoma's highest county unemployment rate at 10.5 percent. Roger Mills County again had Oklahoma's lowest county rate in December at 2.7 percent. For December, 57 of Oklahoma's 77 counties reported jobless rate increases.



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

Nationally, the number of people seeking unemployment aid fell in the last week of January, a sign that companies are cutting fewer jobs and likely stepping up hiring. In the week ending January 28, the advance figure for seasonally adjusted initial claims was 367,000, a decrease of 12,000 from the previous week's revised figure of 379,000, according to the U.S. Department of Labor (DOL). The four-week moving average was 375,750, a decrease of 2,000 from the previous week's revised average of 377,750. When applications consistently drop below 375,000, they generally signal that hiring is strong enough to reduce the unemployment rate.

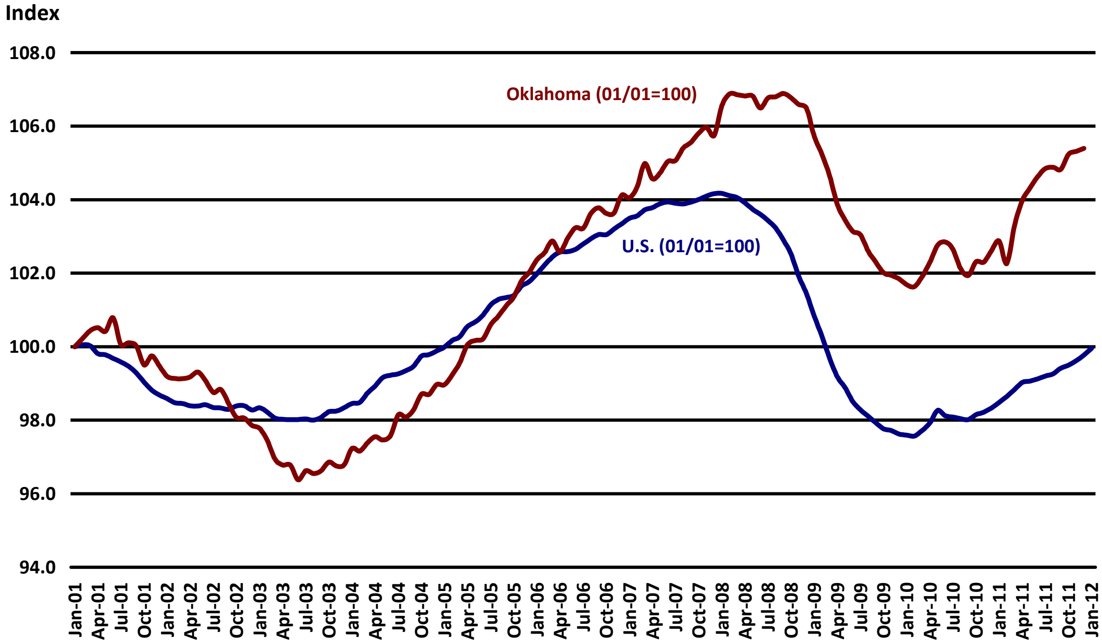
In Oklahoma, initial claims for unemployment fell sharply during the last week of January. For the file week ending on January 28, initial claims dropped by 1,353 from the previous week. For the same file week ending, the less volatile initial claims four-week moving average declined by 39.

Continued claims for unemployment also dropped during the last week of January. For the file week ending on January 28, 2012, continued claims fell by 1,645 from 26,735 to 25,090.

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.

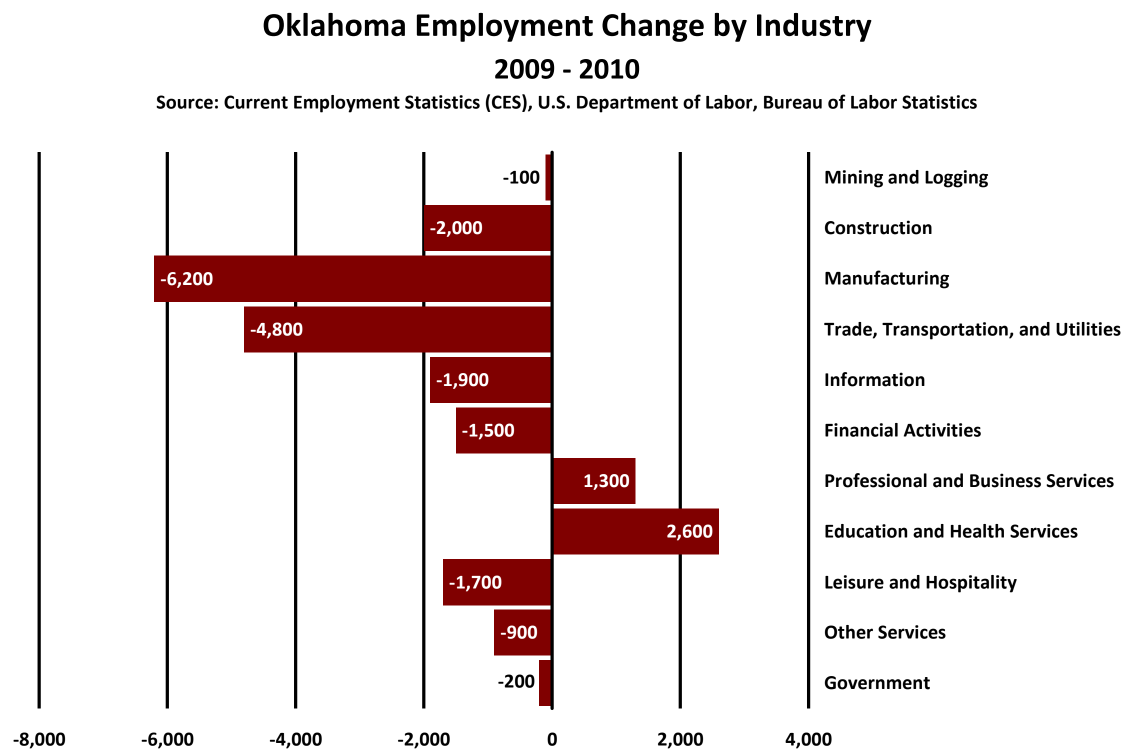
Payroll employment is one of the most current and reliable indicators of economic conditions and recessionary trends. Increases in nonfarm payrolls translate into earnings that workers will spend on goods and services in the economy. The greater the increases in employment, the faster the total economic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

The economy's momentum at the end of 2011 carried into the new year as the U.S. labor market grew in January at its most robust pace since last spring. Nonfarm payrolls jumped 243,000 in January, according to the Bureau of Labor Statistics (BLS). Job gains were broadly spread across the private sector with business & professional services (+70,000), manufacturing (+50,000), leisure & hospitality (+44,000), and health services (+31,000) posting strong gains.

The public sector continued to shrink as government employment slipped 14,000, following a 7,000 decline in December.

Oklahoma’s seasonally adjusted nonfarm employment added 1,200 jobs (0.1 percent) in December. While only four of the state’s 11 supersectors reported job gains, they more than made up for losses posted in the remaining sectors. The largest job gains occurred in government (+2,200), manufacturing (+1,200), mining & logging (+1,000), and trade, transportation & utilities, (+700).



Definition & Importance

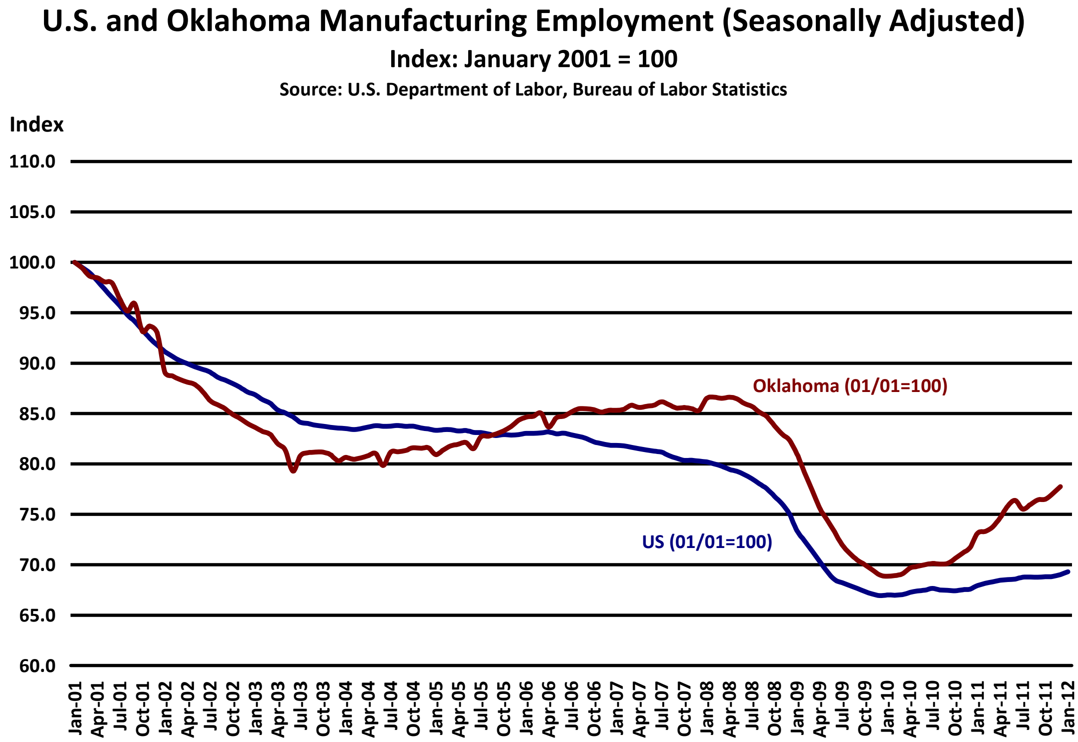
Employment growth by industry identifies the types of jobs being created in the state. Conversely, industries with a declining employment trend indicate those which are becoming less important in the state's economy. There may also be industries which behave more cyclically, growing during expansion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



Definition & Importance

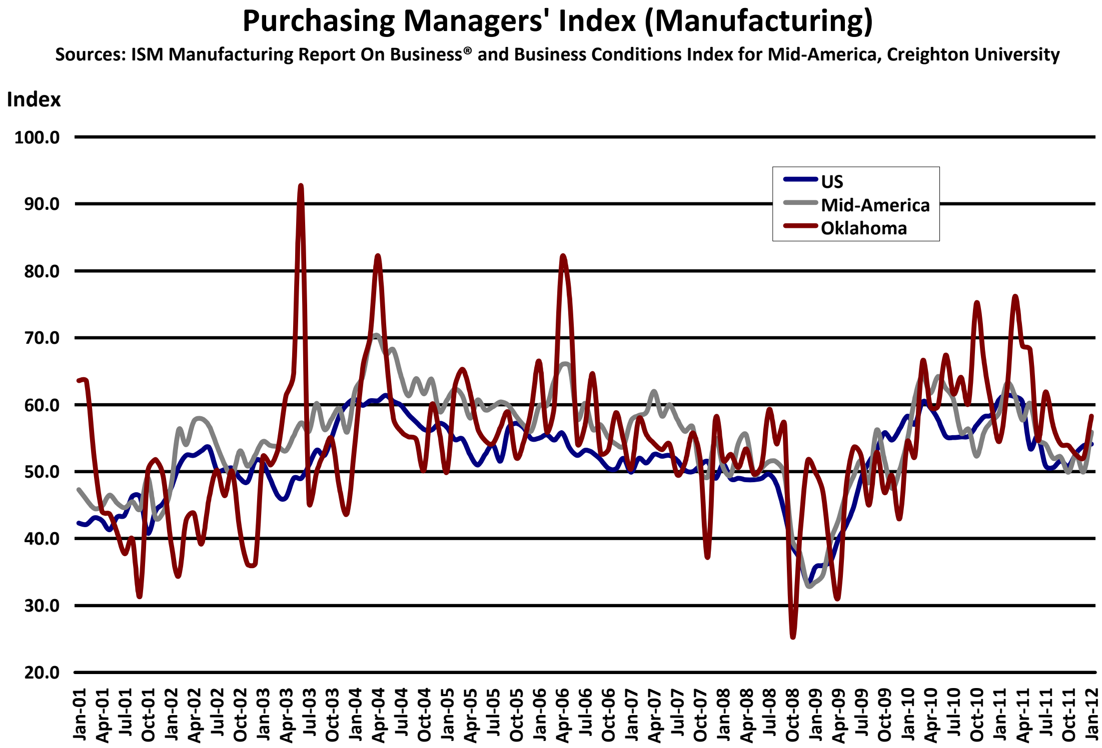
Manufacturing employment data is also produced by the Bureau of Labor Statistics' Current Employment Statistics (CES) program. Manufacturing and production are still important parts of both the U.S. and Oklahoma economies. During the 2007-09 recession, employment in manufacturing declined sharply. Although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

U.S. manufacturing employment surged by 50,000 jobs in January, according to the Bureau of Labor Statistics (BLS). Nearly all of the increase occurred in durable goods manufacturing, with job growth in fabricated metal products (+11,000), machinery (+11,000), and motor vehicles and parts (+8,000). Durable goods manufacturing has added 418,000 jobs over the past 2 years.

Oklahoma manufacturing employment finished the year on a strong note, adding a seasonally-adjusted 1,200 jobs for a 0.9 percent growth rate. Once again, durable goods manufacturing led all of the statewide manufacturing job gains in December with contributions from fabricated metal products, machinery manufacturing, and transportation equipment. Over the year, manufacturing employment has added 10,600 jobs for an 8.4 percent gain.



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.

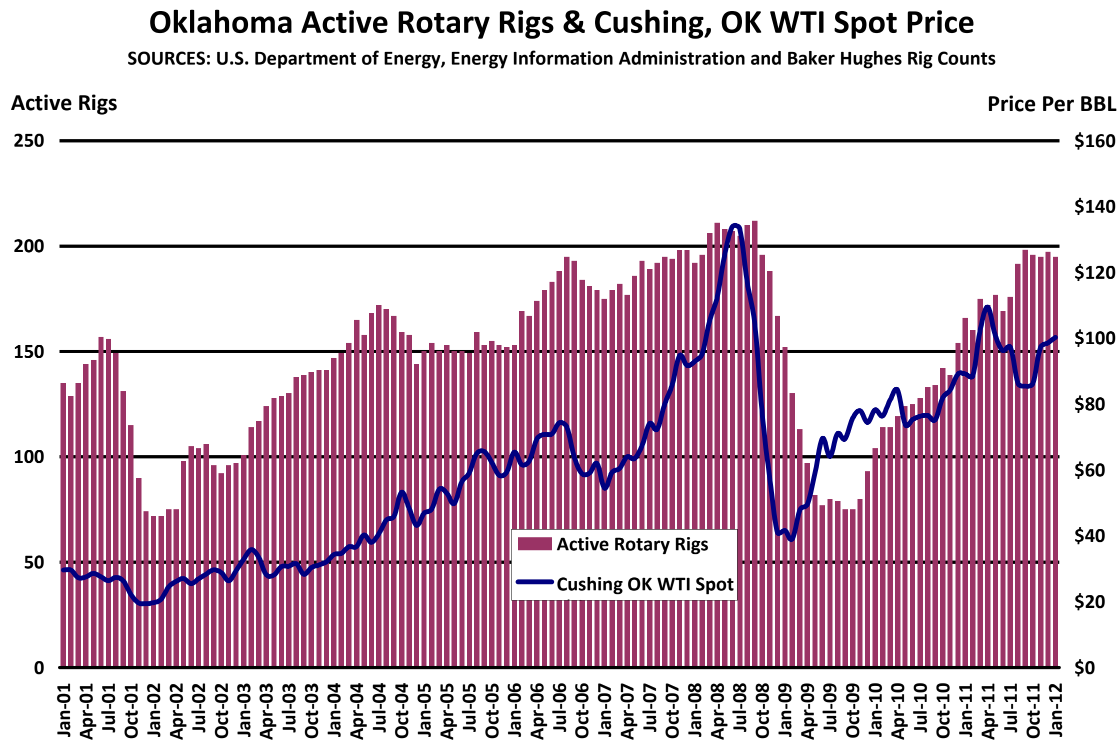
Current Developments

U.S. factories grew in January at the fastest pace in seven months, boosted by a rise in new orders. The PMI registered 54.1 percent, an increase of 1 percentage point from December's seasonally adjusted reading of 53.1 percent, indicating expansion in the manufacturing sector for the 30th consecutive month, according to the Institute for Supply Management (ISM).

A key highlight of the report was both new orders and order backlogs rose to nine-month highs. The new orders index rose nearly 3 points to 57.6 while backlog orders increased 4.5 points to show a build at 52.5. Increasing order backlogs suggest manufacturers are lacking the capacity to meet demand, suggesting more growth in production and employment in the near future.

The monthly Business Conditions Index for the nine-state, Mid-America region took its biggest jump since October 2009, according to the Creighton Economic Forecasting Group. The index rose to 55.9 from December's 50.0 and November's 52.6. The Creighton Economic Forecasting Group also noted that over the last several months, readings from the surveys point to an advancing economy but with several risks factors that could derail the expansion.

Consistent with current labor market readings, Oklahoma's Business Conditions Index jumped to 58.3 from 52.1 in December. Components of the leading economic indicator for January were new orders at 52.6, production or sales at 54.1, delivery lead time at 77.4, inventories at 55.7, and employment at 53.0.



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

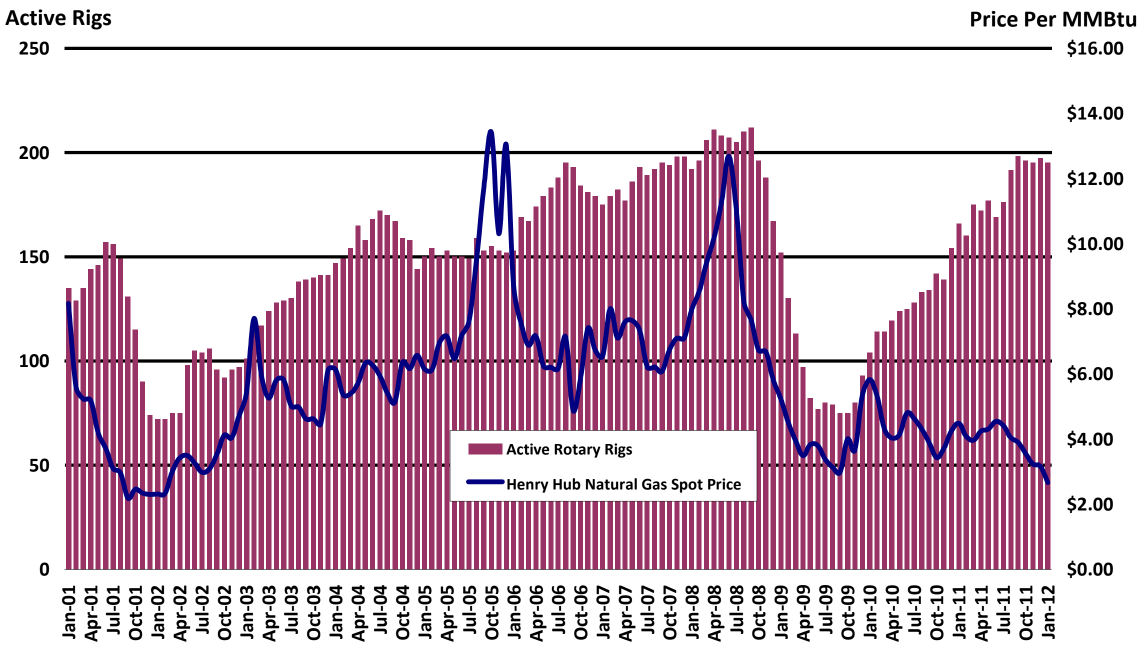
The U.S. Energy Information Administration (EIA) expects the price of West Texas Intermediate (WTI) crude oil to average about $100 per barrel in 2012, almost $6 per barrel higher than the average price last year. Based on recent futures and options data, the market believes there is about a one-in-fifteen chance that the average WTI price in June 2012 will exceed $125 per barrel, and about a one-in-fifty chance that it would exceed $140 per barrel. For 2013, EIA expects WTI prices to continue to rise, reaching $106 per barrel in the fourth quarter of next year. EIA's forecast assumes that U.S. real gross domestic product (GDP) grows by 2.0 percent in 2012 and 2.4 percent in 2013, while world real GDP (weighted by oil consumption) grows by 2.9 percent and 3.7 percent in 2012 and 2013, respectively.

Cushing, OK WTI crude oil spot prices averaged $100.27 per barrel in January, up $1.71 from $98.53 per barrel in December.

Oklahoma's rotary rig activity stood at 195 in January, down two rigs from December's count of 197. Over the year, Oklahoma's active rotary rig count has grown by 29 rigs from January 2011.

Oklahoma Active Rotary Rigs & Henry Hub Natural Gas Spot Prices

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



Definition & Importance

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

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

Background

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

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

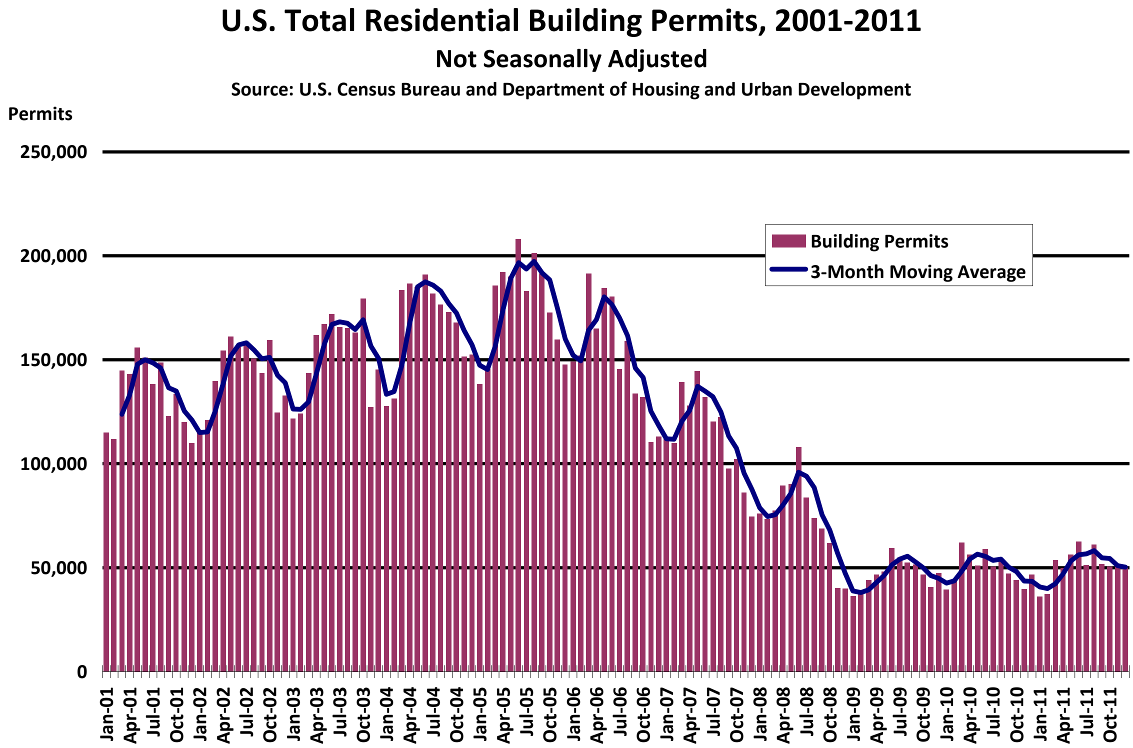
Current Developments

According to the U.S. Energy Information Administration (EIA), natural gas working inventories continue to set new record seasonal highs and ended January 2012 at an estimated 2.86 trillion cubic feet (Tcf), or about 24 percent above the same time last year. EIA's average 2012 Henry Hub natural gas spot price forecast is $3.35 per million British thermal units (MMBtu), a decline of about $0.65 per MMBtu from the 2011 average spot price. EIA expects that Henry Hub spot prices will average $4.07 per MMBtu in 2013.

In order to stem a glut of natural gas that has pushed prices down in the last year, Chesapeake Energy, the nation's second-largest producer, announced it will drastically cut natural gas drilling and production in 2012. Three key factors pushing natural gas prices lower are: 1) growing domestic production, 2) high natural gas storage levels, and 3) warmer-than-average weather across most of the country (and the corresponding decreased natural gas demand for heating).

The U.S. natural gas rotary rig count, as reported February 3, 2012 by Baker Hughes Incorporated, dropped by 32 rigs over the previous week to 745 active units. Meanwhile, oil-directed rigs added 20 rigs to 1,245 units. Over the year, oil-directed rigs have gained 427 while gas-directed rigs have declined by 166, reflecting strengthening oil prices over the year (and weaker natural gas prices). Although natural gas drilling rigs have fallen year over year (and declined substantially from record highs in 2008), production has continued to rise.

The monthly average Henry Hub Spot natural gas price was at $2.67 per MMBtu in January 2012, down $0.50 from December's price of $3.17 per MMBtu. In 2011, Henry Hub natural gas spot prices fell by about 9 percent.



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.

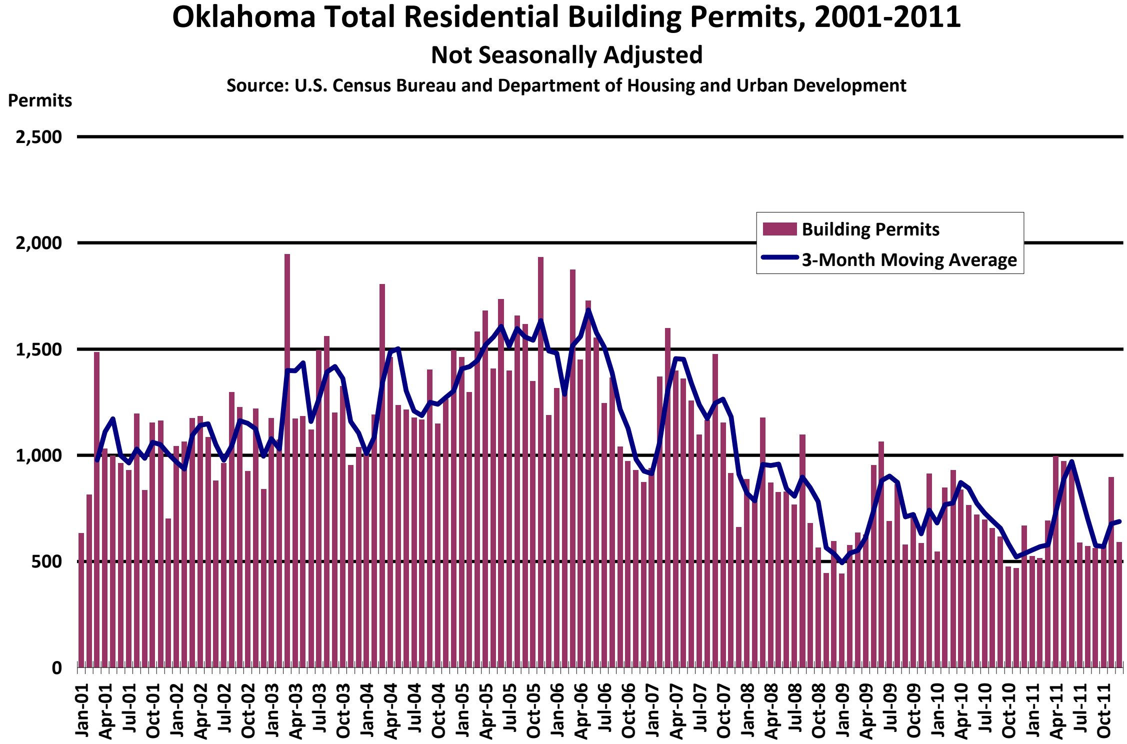
While home construction represents a small portion of the housing market, it has an outsize impact on the economy. Each home built creates an average of three jobs for a year and about $90,000 in taxes, according to the National Association of Home Builders. Overall, homebuilding fell to its lowest levels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

Current Developments

Housing permits held steady in December as homebuilders remain modestly optimistic. Privately-owned housing units authorized by building permits in December were at a seasonally adjusted annual rate of 679,000 or 0.1 percent below the revised November rate of 680,000, but 7.8 percent above the December 2010 estimate of 630,000 according to the U.S. Census Bureau and the Department of Housing and Urban Development. November permits were up 5.6 percent over October and 20.7 percent above November 2010.

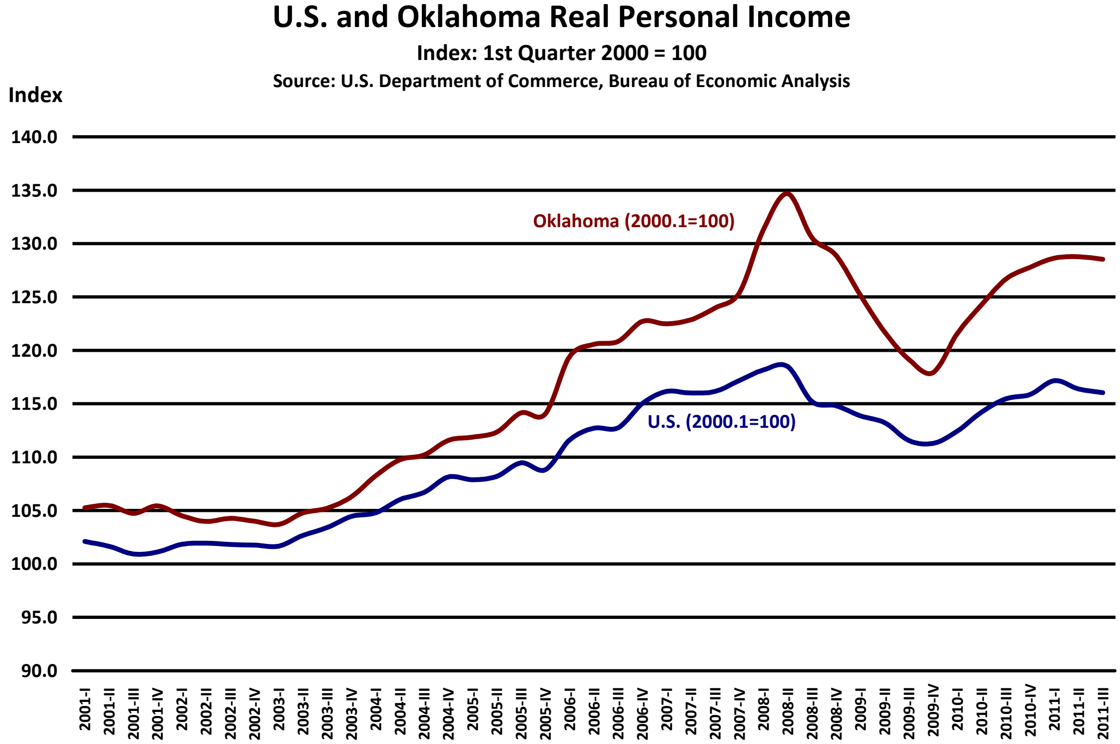
The December ease in permits was led by a 3.7 percent decrease in multifamily permits after a 13 percent boost the month before. Single-family permits rose 1.8 percent, following a 1.9 percent increase in November.

An estimated 611,900 housing units were authorized by building permits in 2011. This is 1.2 percent above the 2010 figure of 604,600.



Following very strong permitting activity in November, Oklahoma total residential permitting was off 34 percent in December. Single-family permitting was down 10.4 percent while multi-family permitting was off 75.7 percent from November.

For 2011, total residential permitting activity in Oklahoma was 2.5 percent greater than 2010 due to a resurgence in multi-family permitting. Multi-family permitting for all of 2011 was nearly 70 percent above 2010. However, single-family permitting for 2011 was down about 8 percent compared to 2010 totals.



Definition & Importance

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

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

Current Developments

Americans' income rose in December by 0.5 percent, the most in nine months, and a hopeful sign for the economy after a year of weak wage gains. Personal income increased $61.3 billion, or 0.5 percent, and disposable personal income (DPI) increased $47.1 billion, or 0.4 percent, in December, according to the Bureau of Economic Analysis (BEA). But consumers didn't spend any more last month than they had in November. Personal consumption expenditures (PCE) decreased $2.0 billion, or less than 0.1 percent in December.

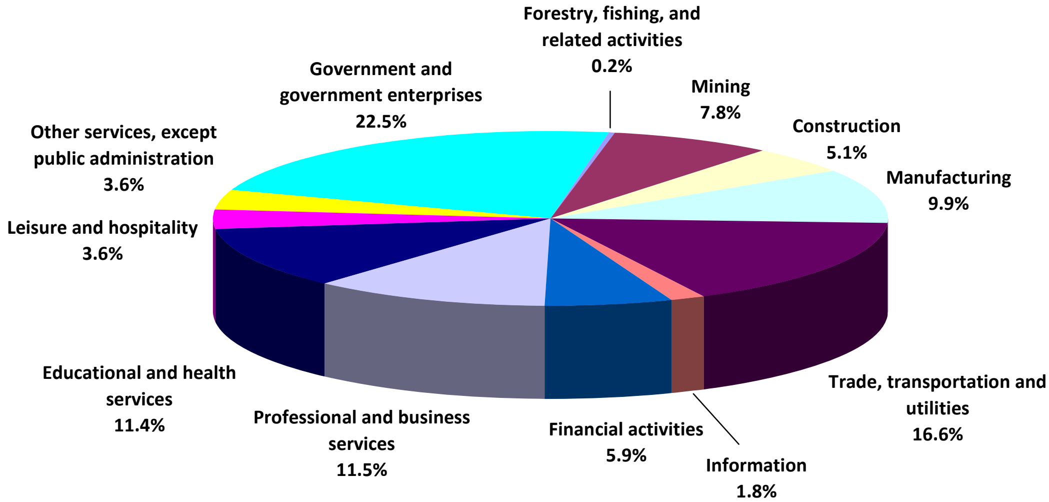
Americans ended up spending less and saving more of their additional income. The personal saving rate—personal saving as a percentage of disposable income—was 4.0 percent in December, compared with 3.5 percent rate in November.

While recent spending has slowed to catch up with income, the income gain in December is encouraging to future gains in consumer spending. Also, durables spending is likely to be supported by the Fed's pledge to keep rates low until late 2014. Favorable auto financing is likely to encourage an increase in auto demand.

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.

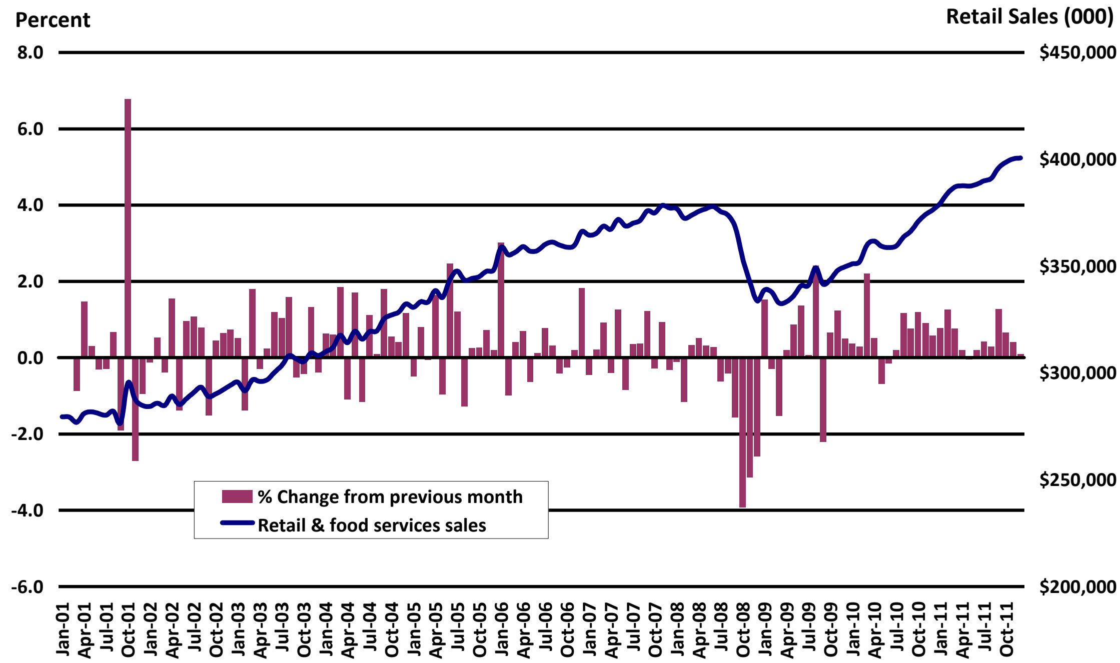
Earnings grew 0.4 percent in the 3rd quarter. Earnings fell or remained unchanged in 7 of the 24 industries that BEA tracks on a quarterly basis. The information industry had the largest earnings decline at -2.4 percent, reflecting a two-week strike by telecommunications workers in August and job losses 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

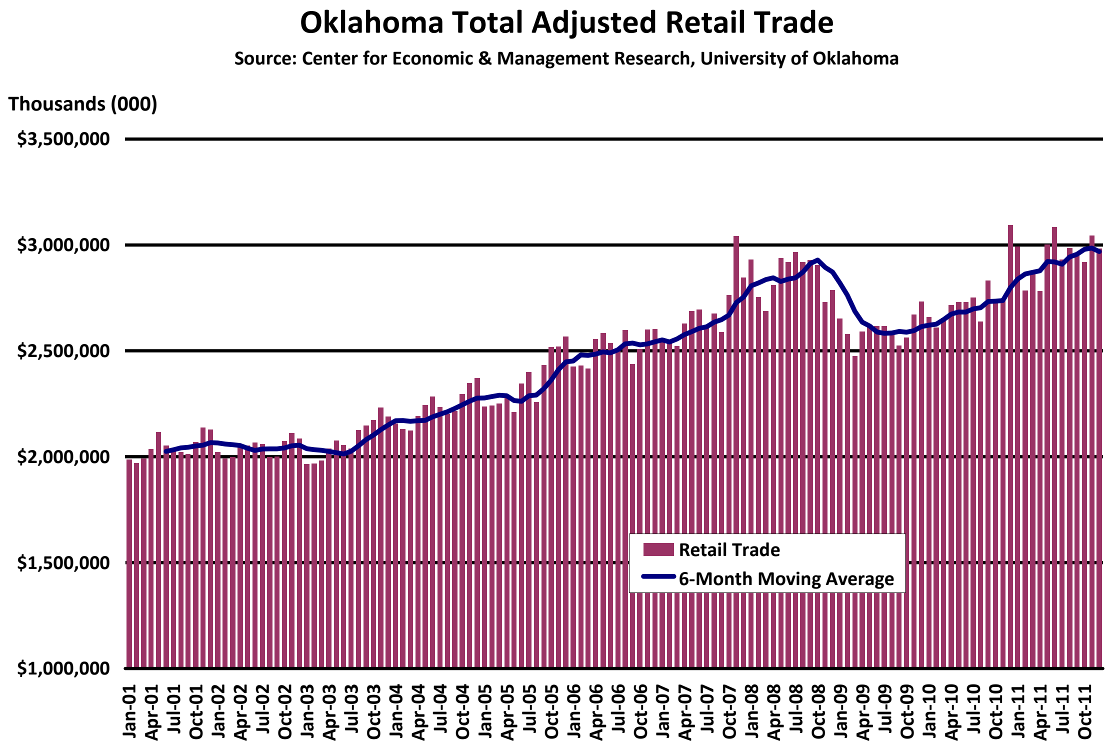
Retail sales measure the total receipts at stores that sell merchandise and related services to final consumers. Sales are by retail and food services stores. Data are collected from the Monthly Retail Trade Survey conducted by the U.S. Bureau of the Census. Essentially, retail sales cover the durables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

Retail sales barely rose in December, but the gain was enough to lift sales to a record level for 2011. Advance estimates of U.S. retail and food services sales for December, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $400.6 billion, an increase of 0.1 percent from the previous month and 6.5 percent above December 2010, according to the U.S. Census Bureau. It was the second straight month that sales have topped $400 billion.

Part of the slowing was due to upward revisions to November (0.4 percent from 0.2 percent) and October (0.7 percent from 0.6 percent). Sales excluding autos and gasoline in December were led by building materials, clothing, and food services & drinking places. Weakness was led by a drop in electronics & appliance stores. Gasoline sales dropped 1.6 percent after a 0.9 percent increase in November.

For all of 2011, retail sales totaled a record $4.7 trillion, a gain of 7.7 percent over 2010 and the largest percentage increase since 1999.



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).