



OKLAHOMA Economic Indicators

July 2012

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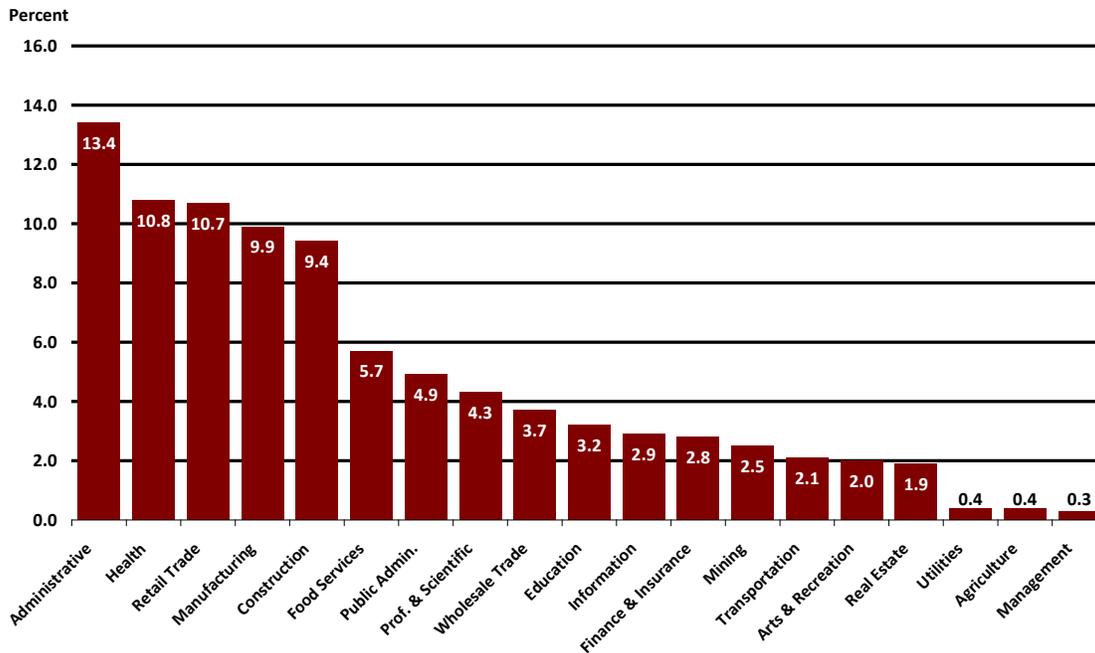
SPECIAL REPORT:

Oklahoma Unemployment Insurance Program Claimant Characteristics: 2011

Analyzing the characteristics of claimants to Oklahoma's unemployment insurance (UI) program is useful for determining trends in the general labor market. The data below is compiled from the 2011 annual average of continued claims (claims paid following an initial claim).

Oklahoma's Unemployment Insurance Claims by Industry: 2011

Source: Oklahoma Employment Security Commission, LAUS Program

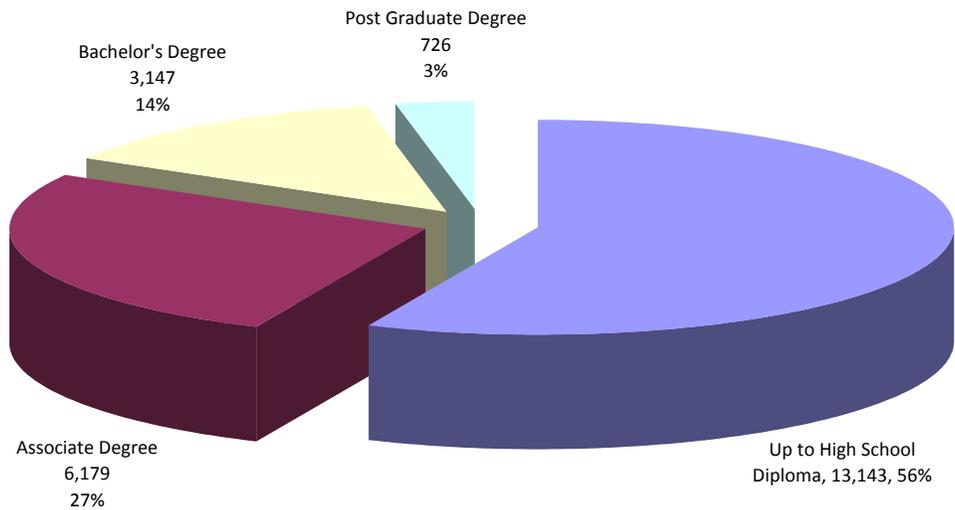


UI Claims by Industry

As the chart above indicates, the administrative sector had on average the most jobless claims in 2011, followed by the health care sector and the retail trade sector. The manufacturing and construction sectors rounded out the top five industries. These industry sectors are also some of the largest sectors in Oklahoma and reflect a proportional number of claims. Two industry sectors that had relatively lower numbers of claims compared to their overall size were education and public administration.

Oklahoma's Continued Claims by Educational Attainment: 2011

Source: Oklahoma Employment Security Commission, LAUS Program and U.S. Department of Labor, Bureau of Labor Statistics

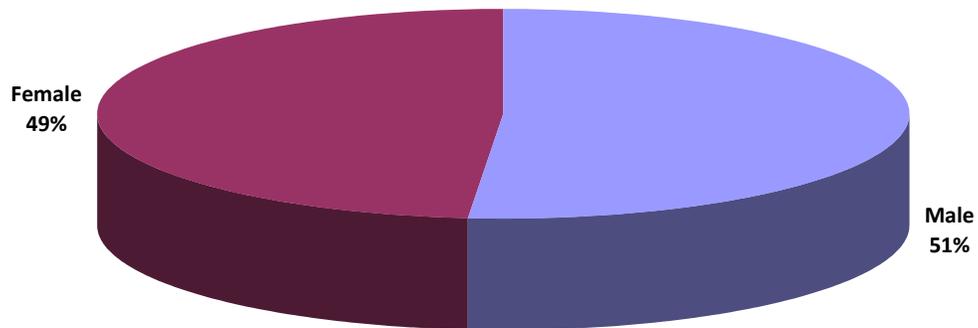


UI Claims by Educational Attainment

The above chart displays the monthly average level of educational attainment for UI claimants during the year 2011. Among all UI claimants, 56 percent acquired a high school diploma or less. Conversely those earning a bachelors degree accounted for only 14 percent of claims filed. These numbers, though, are not controlled for population. The Bureau of Labor Statistic's *2010 Geographic Profile of Employment and Unemployment* does estimate unemployment rates by educational attainment that are controlled for population. The estimated unemployment rate for those with less than a high school diploma is 12 percent versus 3.1 percent for those with a college degree. Combining these numbers bolsters the argument that those with higher levels of educational attainment are better able to weather economic downturns.

Oklahoma's Unemployment Insurance Claims by Gender: 2011

Source: Oklahoma Employment Security Commission, LAUS Program

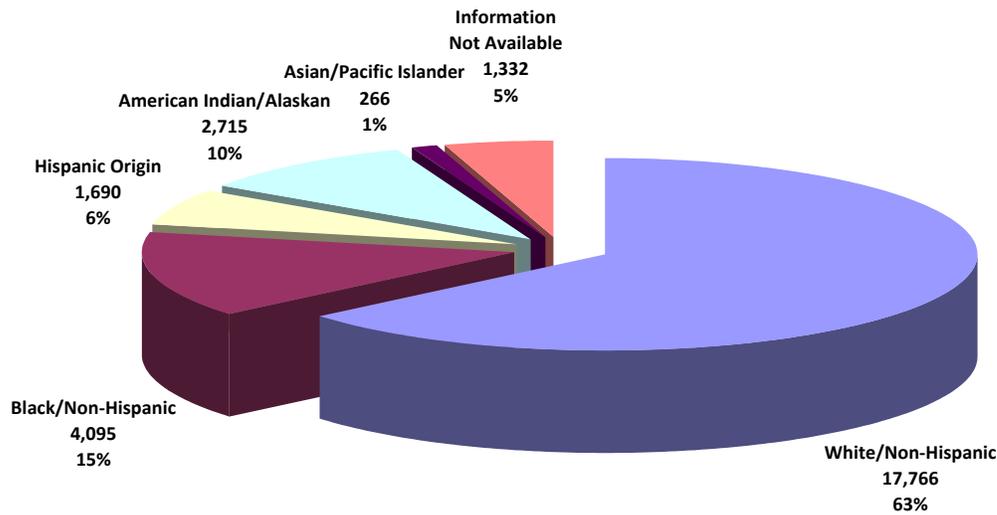


UI Claims by Gender

In Oklahoma males make up 54.3 percent of the labor force but were only responsible for 51.3 percent of UI claims. Females make up 45.7 percent of the labor force but, at 48.7 percent, were responsible for a disproportionately higher number of UI claims.

Oklahoma's Unemployment Insurance Claims by Race/Ethnicity: 2011

Source: Oklahoma Employment Security Commission, LAUS Program and U.S. Department of Commerce, Bureau of Census

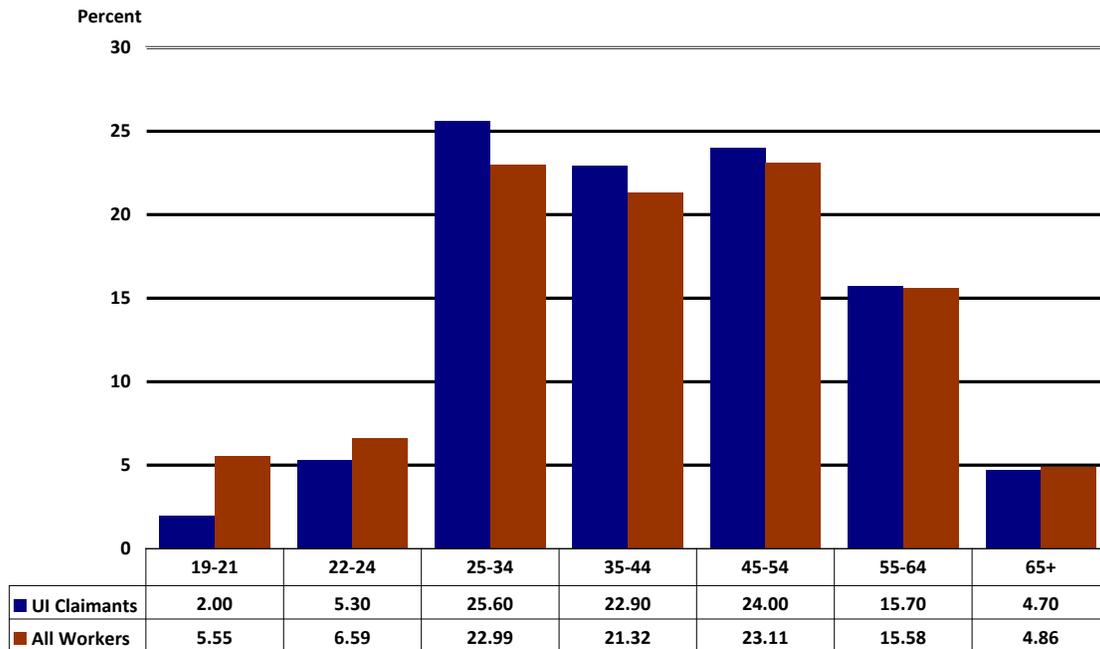


UI Claims by Race/Ethnicity

The above chart displays average monthly UI claims by race/ethnicity for 2011. The percent of claims that were filed by Asian/Pacific Islander, American Indian/Alaskan Native, and Hispanic Origin groups were proportional to their percent of the total population. The White/Non-Hispanic group, though, comprise 72.2 percent of the total population, but only filed 63 percent of the UI claims. Conversely, the Black/Non-Hispanic group comprise only 7.4 percent of the total population, but filed 15 percent of UI claims. This indicates that the Black/Non-Hispanic group is filing a disproportionately higher number of UI claims than the White/Non-Hispanic group, while the remainder of the race/ethnicity groups are filing claims proportional to their total population.

Oklahoma's Unemployment Insurance Claims by Age vs All Workers: 2011

Source: Oklahoma Employment Security Commission, LAUS Program and Bureau of Census, Local Employment Dynamics Program

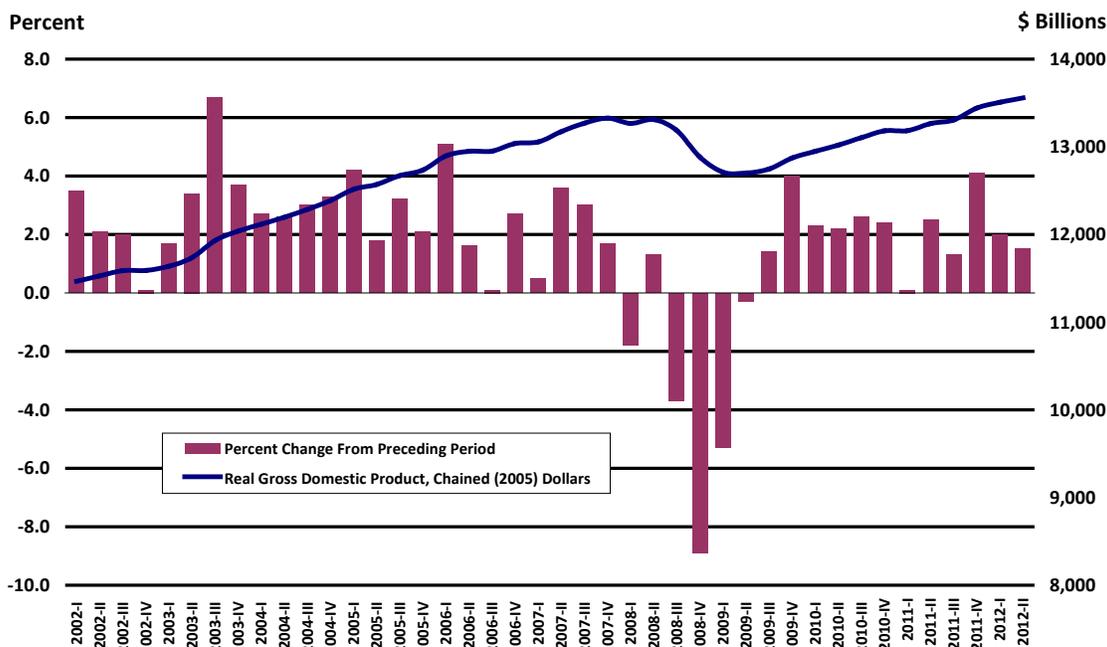


UI Claims by Age

The above chart displays the age distribution of all workers as well as the age distribution of UI claimants. The 25-34 year age group had a disproportionately higher number of claims than most other age groups. The 19-21 year age group would appear to have fared the best, but this number can be deceiving. In order to qualify for Oklahoma's UI program, an applicant must have earned a certain level of base period wages. This requirement may have a greater impact on the ability for the 19-21 age group to qualify for UI benefits than other age groups based on their earnings and industry employment.

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 pulled back further during the 2nd quarter as consumer spending slowed sharply. Real gross domestic product increased at an annual rate of 1.5 percent in the second quarter of 2012, according to the "advance" estimate released by the Bureau of Economic Analysis (BEA). This was a sharp slowing from the 1st quarter's 2.0 percent and the 4th quarter's 4.1 percent pace.

Cautious consumer spending played a large factor in the slowdown. Real personal consumption expenditures (PCE) increased 1.5 percent in the 2nd quarter, compared with an of 2.4 percent increase in the 1st quarter. By component, durable goods decreased 1.0 percent, in contrast to an 11.5 percent 1st quarter increase. Nondurable goods grew 1.5 percent, compared with 1.6 percent in the 1st quarter. Services increased 1.9 percent, compared with an increase of 1.3 percent.

Private investment was a bright spot in the report, growing by 8.5 percent and contributing about two-thirds of overall GDP growth this quarter. Real nonresidential fixed investment increased 5.3 percent in the 2nd quarter, following an increase of 7.5 percent in the 1st quarter. Investment in nonresidential structures increased 0.9 percent, compared with an increase of 12.9 percent. Improvement was seen in business equipment, up 7.2 percent compared with an increase of 5.4 percent in the previous quarter. Construction of houses continued to boost growth, though not as much as in the 1st quarter. Real residential fixed investment increased 9.7 percent, compared with 1st quarter's increase of 20.5 percent.

Real exports grew at a 5.3 percent rate, up from 4.4 percent in the 1st quarter, a sign that companies are making up for demand lost due to Europe's financial crisis and slightly slower growth in Asia. Real imports of goods and services increased 6.0 percent, compared with an increase of 3.1 percent in the 1st quarter.

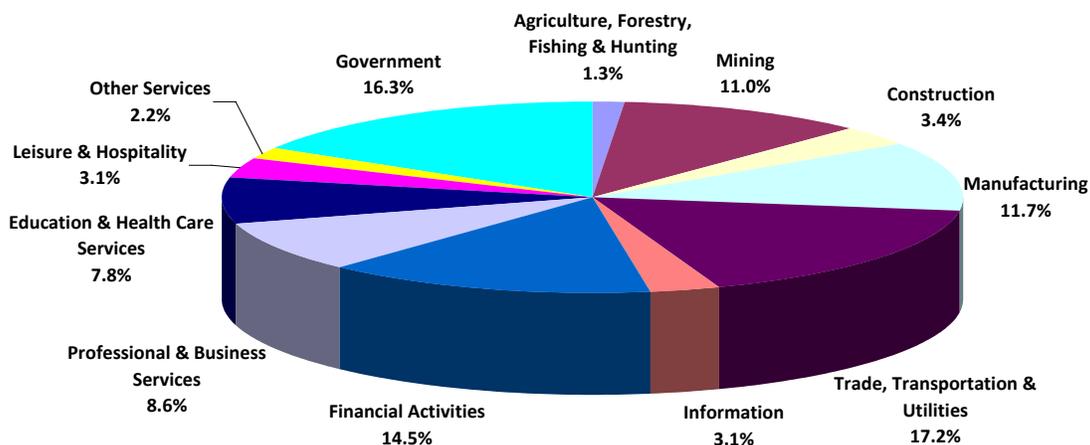
Government spending fell again in the second quarter, reflecting shrinking state and local government employment and purchases. Real federal government consumption expenditures and gross investment decreased 0.4 percent in the 2nd quarter, compared with a decrease of 4.2 percent in the 1st quarter. National defense spending decreased 0.4 percent, compared with a decrease of 7.1 percent in the previous quarter. Federal nondefense spending decreased 0.3 percent, in contrast to an increase of 1.8 percent. Real state and local government consumption expenditures and gross investment decreased 2.1 percent, compared with a decrease of 2.2 percent in the 1st quarter. State and local government spending activity has fallen for 11 straight quarters, starting from when federal aid to state and local governments under the 2009 American Recovery and Reinvestment Act began phasing out.

The economy grew a little better than previously thought in the January-March quarter. The latest 2.0 percent estimate was revised up from 1.9 percent.

2011 Industry Share of Oklahoma's Economy

(by percentage of Gross Domestic Product)

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



Definition & Importance

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

Current Developments

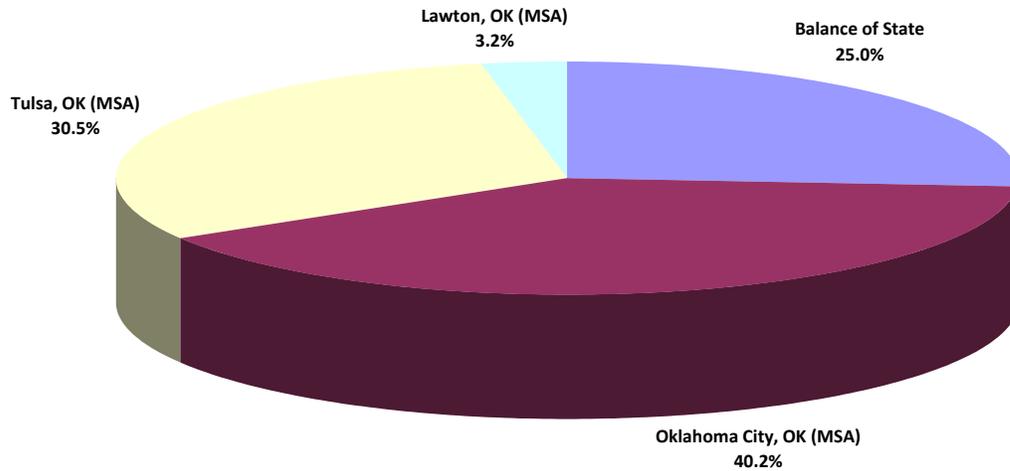
Oklahoma was among 43 states and the District of Columbia experiencing growth in real GDP in 2011, according to the advance estimate from the Bureau of Economic Analysis (BEA). Oklahoma's 2010 advance estimate was revised upward from 1.0 percent to 2.0 percent while the state's 2009 GDP was further revised downward reflecting depressed energy prices during that period.

Oklahoma registered a real GDP of \$134.2 billion in 2011, a 1.0 percent gain from the revised \$132.8 billion in 2010. U.S. real GDP by state grew 1.5 percent in 2011 after a 3.1 percent increase in 2010. Real GDP increased in all eight BEA regions in 2011, although growth slowed in most regions. The Southwest region, which includes Oklahoma, grew the fastest at 2.7 percent, led by Texas with a 3.3 percent increase.

Durable-goods manufacturing was the leading contributor to real GDP growth in 26 states including Oklahoma, where it contributed 0.54 percentage points to overall growth. Other industries adding to 2011 GDP growth in Oklahoma were, wholesale trade (0.29 percent); health care & social assistance (0.26 percent); mining (0.24 percent); and professional, scientific & business services (0.20 percent). Subtracting from Oklahoma GDP growth were agriculture, forestry, fishing & hunting (-0.26 percent); utilities (-0.19 percent); real estate, rental & leasing (-0.17 percent); government (-0.13 percent); and nondurable goods manufacturing (-0.11 percent).

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.

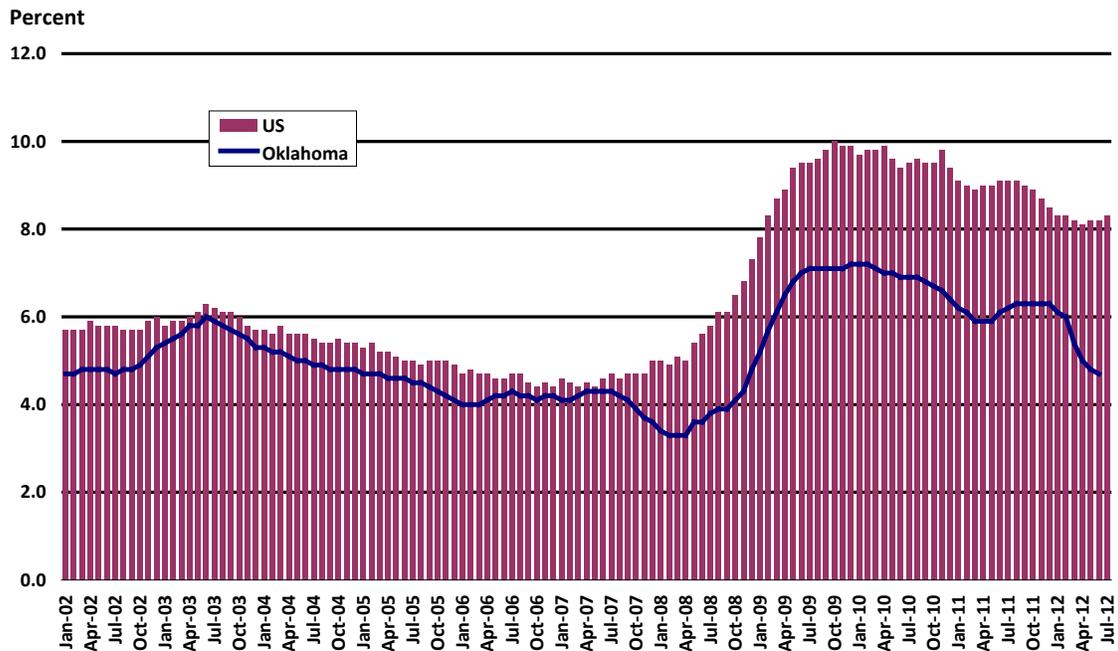
Current Developments

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

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

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

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



Definition & Importance

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

The unemployment rate is a lagging indicator of economic activity. During a recession, many people leave the labor force entirely, as a result the jobless rate may not increase as much as expected. This means that the jobless rate may continue to increase in the early stages of recovery because more people are returning to the labor force as they believe they will be able to find work. The civilian unemployment rate tends towards greater stability than payroll employment on a monthly basis and reveals the degree to which labor resources are utilized in the economy.

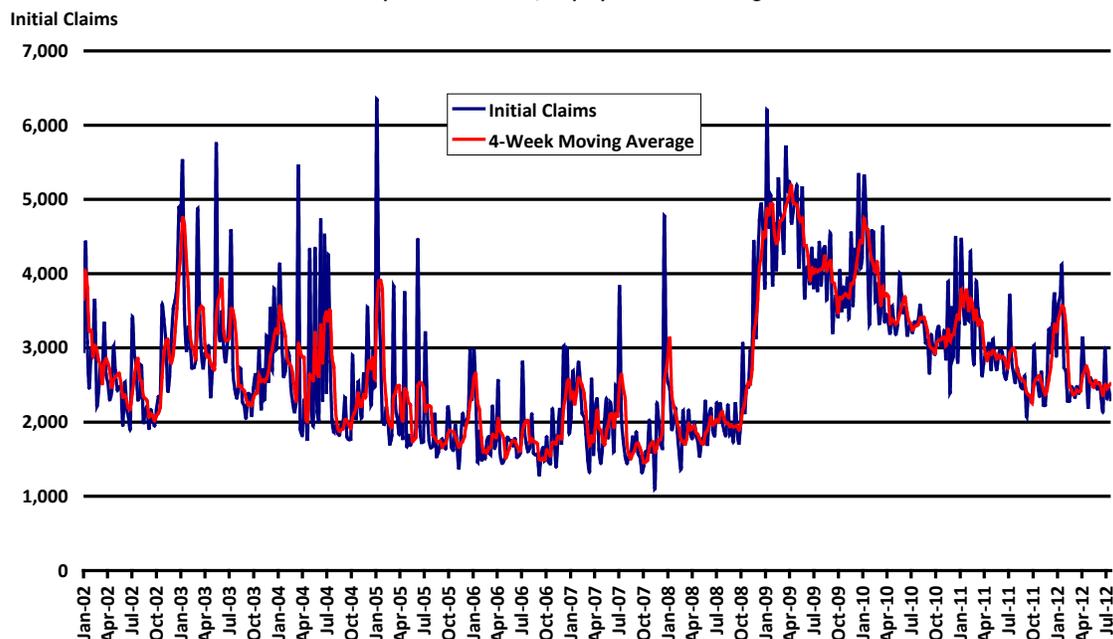
Current Developments

The unemployment rate ticked up one-tenth of a percent in July to 8.3 percent, according to the Bureau of Labor Statistics (BLS). In July, more people said they were unemployed, while the size of the labor force shrank even more.

Oklahoma's June seasonally adjusted unemployment rate dropped by 0.1 percentage point from May to 4.7 percent. Latimer County claimed Oklahoma's highest county unemployment rate of 8.9 percent while Dewey County provided the state's lowest county rate at 2.6 percent for June. Among the state's metropolitan areas, Oklahoma City once again had the lowest unemployment rate in the state and among all large metro areas, (one million or more population), at 5.0 percent. Tulsa MSA had a jobless rate of 5.7 percent in June while Lawton MSA reported a rate of 6.8 percent.

Oklahoma Initial Weekly Claims for Unemployment Insurance (Not Seasonally Adjusted)

Source: U.S. Department of Labor, Employment and Training Administration



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 people seeking U.S. unemployment benefits rose last week, in what is the smallest change after three weeks of severe volatility tied to the seasonal adjustment for summer auto retooling. In the week ending July 28 the advance figure for seasonally adjusted initial claims was 365,000, an increase of 8,000 from the previous week's revised figure of 357,000, according to the U.S. Department of Labor (DOL). The less volatile 4-week moving average fell for the sixth straight week to 365,500, the lowest level since March 31.

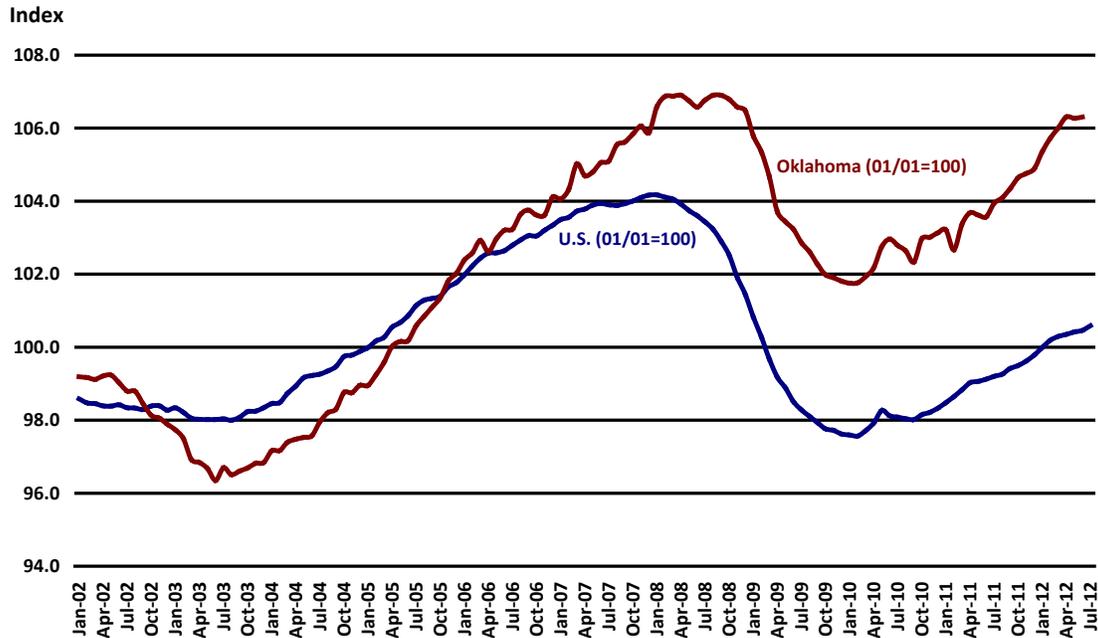
Oklahoma's initial jobless claims continued on a downward trend in July. For the file week ending July 21, initial claims were at 2,302, dropping by 148 from previous month. For the same file week ending, the four-week moving average was 2,518, down 155 from June.

Continued claims for unemployment edged up in June. For the file week ending July 21, continued claims were at 23,896, up 838 from last month.

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. 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

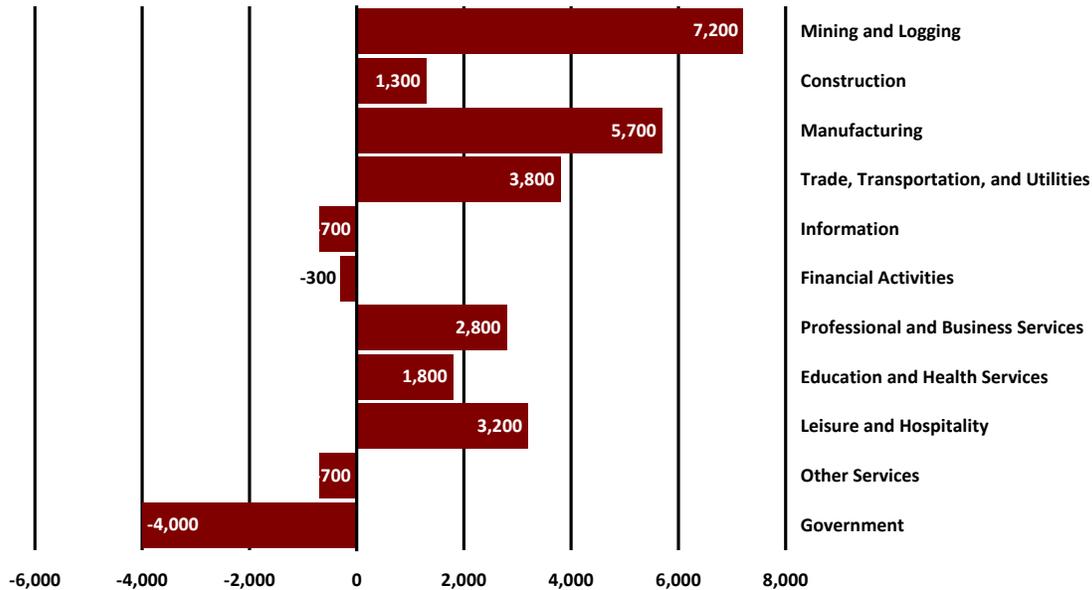
U.S. employers stepped up hiring in July, an encouraging sign after three months of sluggish hiring. Total nonfarm payroll employment rose by 163,000 in July, according to the Bureau of Labor Statistics (BLS). Private companies accounted for all of the growth in July payrolls, adding 172,000 jobs during the month. Governments, meanwhile, shed 9,000 positions. The federal work force shrank by 2,000. In July, employment rose in professional and business services (+49,000), food services and drinking places (+29,000), and manufacturing (+25,000).

Oklahoma's seasonally adjusted nonfarm employment grew by 500 jobs in June with four of Oklahoma's 11 statewide supersectors expanding, led by a 1,400-job gain in leisure & hospitality. Government provided June's largest job loss by shedding 900 jobs over the month.

Oklahoma Employment Change by Industry

2010 - 2011

Source: Current Employment Statistics (CES), U.S. Department of Labor, Bureau of Labor Statistics



Definition & Importance

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

Current Developments

After back-to-back years of job losses, nonfarm employment in Oklahoma turned around in 2011. Nonfarm employment grew at a healthy 1.3 percent growth rate in 2011, adding approximately 20,000 jobs.

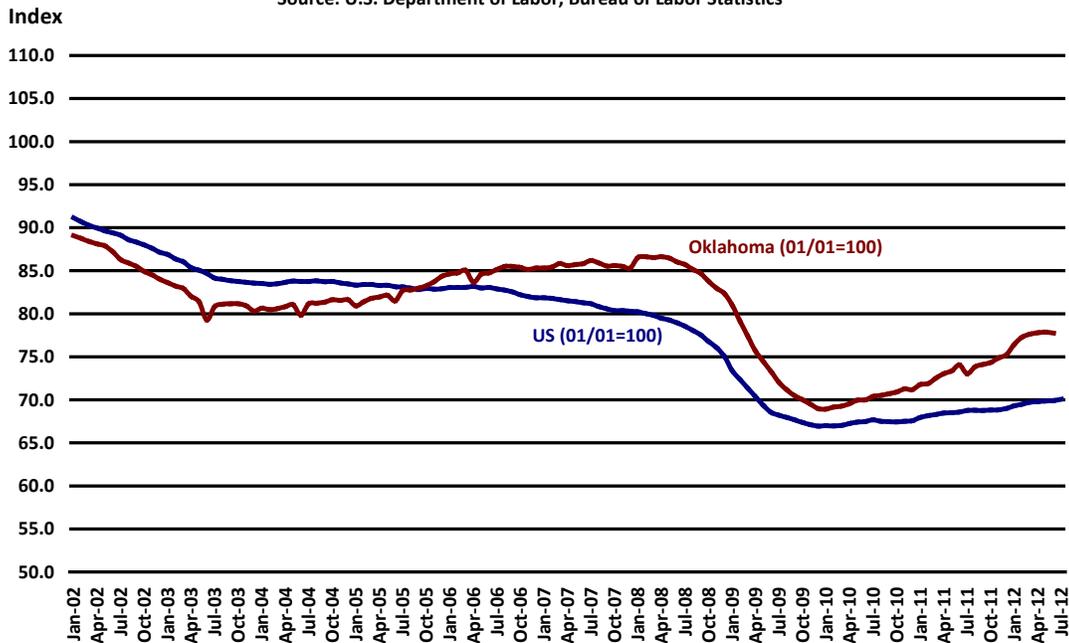
Job gains were registered in seven out of Oklahoma's 11 statewide supersectors. Mining & logging saw the largest employment increase adding 7,200 jobs with the bulk of hiring occurring in support activities for mining. Manufacturing followed with an addition of 5,700 jobs and almost all of the growth coming from durable goods manufacturing. The broad trade, transportation & utilities group added 3,800 employees with most of the growth in wholesale trade. Leisure & hospitality added 3,200 jobs with nearly all of the job gains being in accommodation and food services. Professional and business services employment grew by 2,800 driven by job gains in administrative and support & waste management and remediation services and employment services. Education & health services added 1,800 jobs with nearly all the job growth in ambulatory health care services.

By far, the largest job losses were seen in government which shed approximately 4,000 jobs with almost all of the losses coming from local government.

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

Index: January 2001 = 100

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



Definition & Importance

Manufacturing employment data is also produced by the Bureau of Labor Statistics' Current Employment Statistics (CES) program. Manufacturing and production are still important parts of both the U.S. and Oklahoma economies. During the 2007-09 recession, employment in manufacturing declined sharply. Although manufacturing plunged in 2008 and early 2009 along with the rest of the economy, it is on the rebound today while other key economic sectors, such as construction, still suffer. In Oklahoma, manufacturing accounts for one of the largest shares of private output and employment in the state. In addition, many manufacturing jobs are among the highest paying jobs in the state.

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

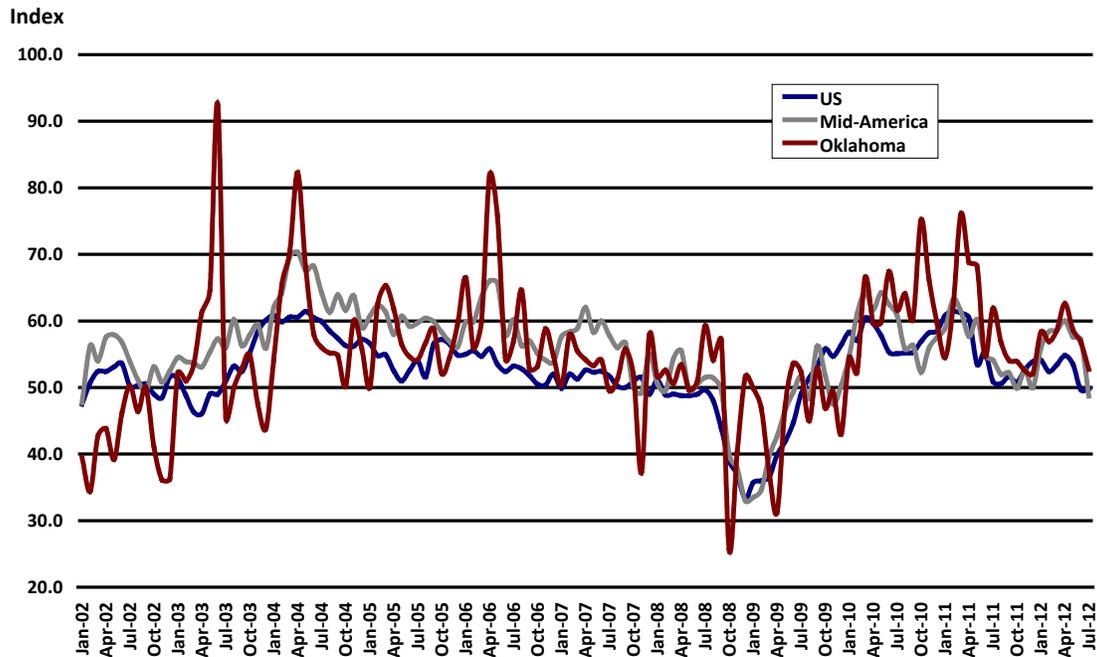
Current Developments

The pace of factory hiring has tailed off noticeably since the start of the year. Manufacturing employment rose 25,000 in July, according to the Bureau of Labor Statistics (BLS). Nearly all of the increase was in durable goods manufacturing. Within durable goods, the motor vehicles and parts industry had fewer seasonal layoffs than is typical for July, contributing to a seasonally adjusted employment increase of 13,000. Employment continued to trend up in fabricated metal products (+5,000).

Statewide manufacturing employment was nearly unchanged in June shedding 200 jobs (-0.1 percent). Over the year, manufacturing has added 6,500 jobs for a 5.0 percent growth rate. Nearly all the over-the-year employment growth was in durable goods led by fabricated metal products (+2,800), machinery (+1,800), and transportation equipment manufacturing (+1,200).

Purchasing Managers' Index (Manufacturing)

Sources: ISM Manufacturing Report On Business® and Business Conditions Index for Mid-America, Creighton University



Definition & Importance

Economists consider the Institute for Supply Management's Purchasing Managers' Index (PMI) a key economic indicator. The Institute for Supply Management (ISM) surveys more than 300 manufacturing firms on employment, production, new orders, supplier deliveries, and inventories. The ISM manufacturing index is constructed so that any level at 50 or above signifies growth in the manufacturing sector. A level above 43 or so, but below 50, indicates that the U.S. economy is still growing even though the manufacturing sector is contracting. Any level below 43 indicates that the economy is in recession.

For the region, since 1994, the Creighton Economic Forecasting Group at Creighton University has conducted a monthly survey of supply managers in nine states (including Arkansas, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma and South Dakota), to produce leading economic indicators for the Mid-America economy using the same methodology as the national survey by the ISM.

Current Developments

The US manufacturing sector continued to show weakness in July as factory activity shrank for second straight month. The PMI registered 49.8 percent, an increase of 0.1 percentage point from June's reading of 49.7 percent, indicating contraction in the manufacturing sector for the second consecutive month, following 34 consecutive months of expansion, according to the Institute for Supply Management (ISM).

Details of the July report suggest more sluggishness with new orders at 48.0, up slightly from June's 47.8 but still showing monthly contraction. Export orders are an increasing negative, at 46.5 for a 1 point drop from June, reflecting weakness in both Europe and Asia. Manufacturers, lacking new orders, are working down their backlogs which are very low at 43.0 for a 1.5 point monthly decline.

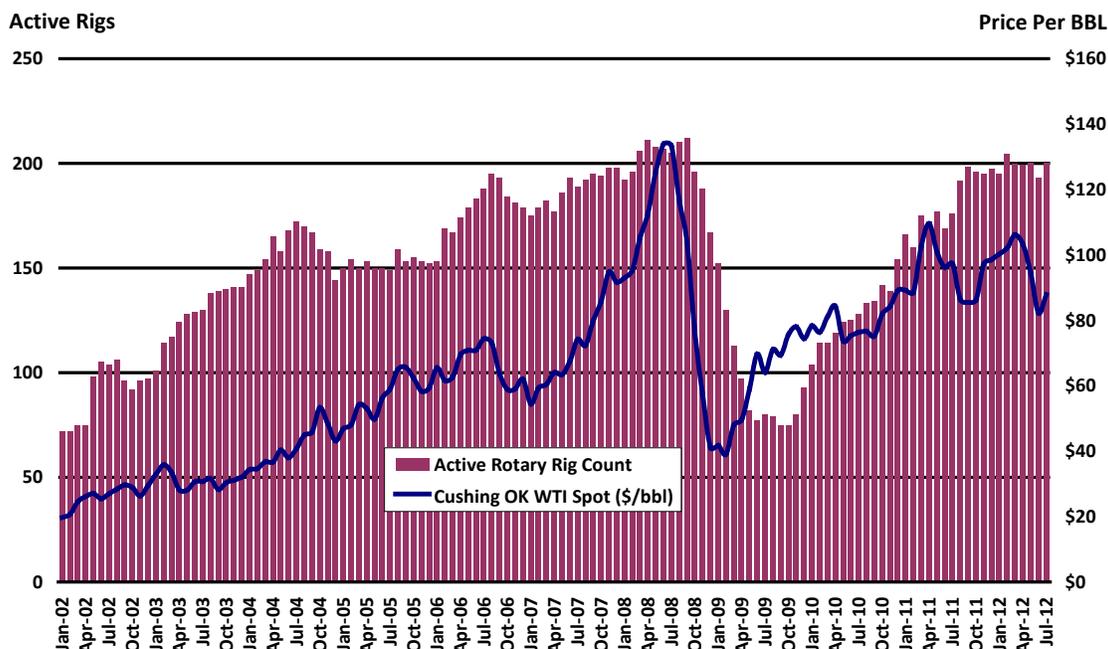
The Production Index and Employment Index are both still growing, registering 51.3 percent and 52 percent respectively, but this won't go on for long if new orders don't start coming in.

Drought conditions across a nine-state region along with worsening global and national economic conditions pushed the Mid-America monthly Business Conditions Index below growth neutral for the first time since 2009. The Mid-America region's leading economic indicator fell to 48.7 from 57.2 in June—the biggest decline since the recession in November 2008, according to the Creighton Economic Forecasting Group.

The Business Conditions Index for Oklahoma slid from 56.8 in June to 52.7 in July. Components of the leading economic indicator for the July survey of supply managers in the state were new orders at 56.6, production or sales at 51.5, delivery lead time at 53.2, inventories at 50.1, and employment at 52.3.

Oklahoma Active Rotary Rigs & Cushing, OK WTI Spot Price

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



Definition & Importance

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

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

West Texas Intermediate (WTI-Cushing) is a light crude oil produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams and which is traded in the domestic spot market at Cushing, Oklahoma.

Background

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

The city of Cushing, in central Oklahoma, is a major crude oil trading hub connecting Gulf Coast producers to Midwest refining markets. In addition to Oklahoma crude oil, the Cushing hub receives supply from several major pipelines that originate in Texas. Traditionally, the Cushing Hub has pushed Gulf Coast and Mid-Continent crude oil supply north to Midwest refining markets. However, production from those regions is in decline, and an underused crude oil pipeline system has been reversed to deliver rapidly expanding heavy crude oil supply produced in Alberta, Canada to Cushing, where it can access Gulf Coast refining markets. For this reason, Cushing is the designated delivery point for the New York Mercantile Exchange (NYMEX) crude

oil futures contracts. Crude oil supplies from Cushing that are not delivered to the Midwest are fed to Oklahoma's five refineries, which have a combined distillation capacity of over 500 thousand barrels per day—roughly 3 percent of the total U.S. refining capacity.

Current Developments

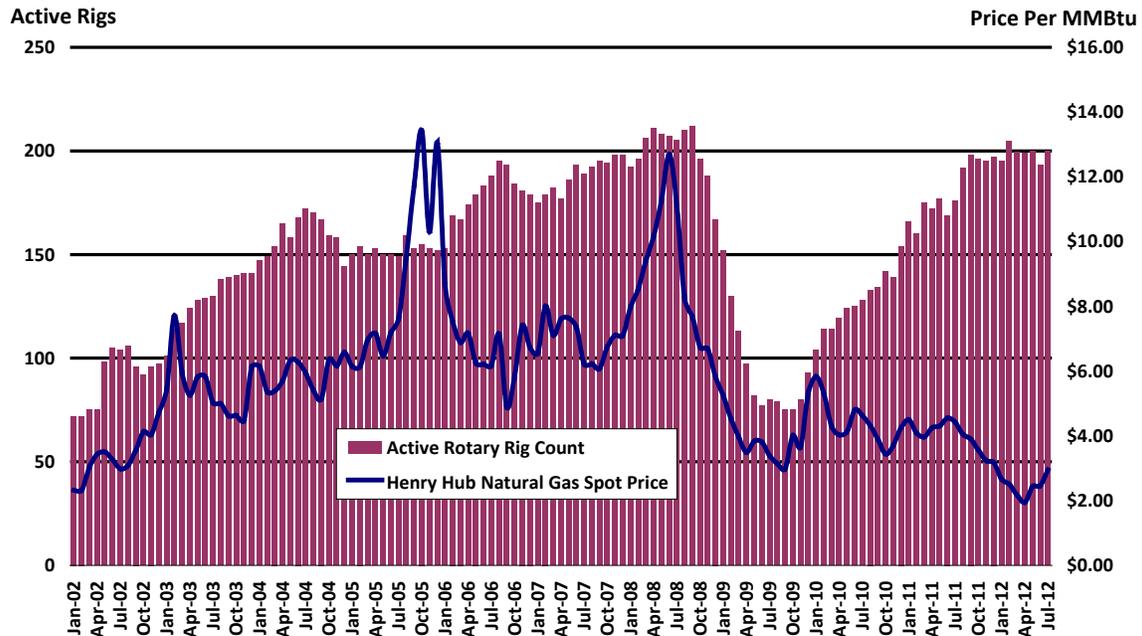
Oklahoma ranked 5th among all other states in crude oil production with 6,862,000 barrels (bbls) and accounted for 3.7 percent of U.S. production in 2011, according to the most recent *State Energy Profiles* from the U.S. Energy Information Administration (EIA). Texas was 1st (53,097,000 bbls or 28.9 percent), followed by North Dakota (18,281,000 bbls or 9.9 percent); Alaska (16,572,000 bbls or 9.0 percent); and California (15,681,000 bbls or 8.5 percent).

Crude oil prices improved in July after falling in June to the lowest monthly average since October 2010. Cushing, Oklahoma West Texas Intermediate (WTI) spot prices averaged \$87.90 per barrel, up \$5.60 (+6.8 percent) from June's average of \$82.30 per barrel.

Oklahoma's rotary rig activity averaged 200 in July, that is seven more active rigs than the previous month. Over the year, Oklahoma's active rotary rig count has grown by 24 rigs.

Oklahoma Active Rotary Rigs & Henry Hub Natural Gas Spot Price

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

Natural gas consumed for power generation (power burn) this summer has been at historically high levels, partly because of a much warmer-than-normal July according to the U.S. Energy Information Administration (EIA). In particular, the Southeast has shown large year-over-year increases in power burn. Southeast power burn peaked this summer at 12.5 billion cubic feet (Bcf) per day on July 26, according to BENTEK Energy LLC (Bentek) data. According to NOAA, temperatures over much of the United States are forecasted to be above normal in the next weeks, which may result in a rebound of natural gas demand for power generation.

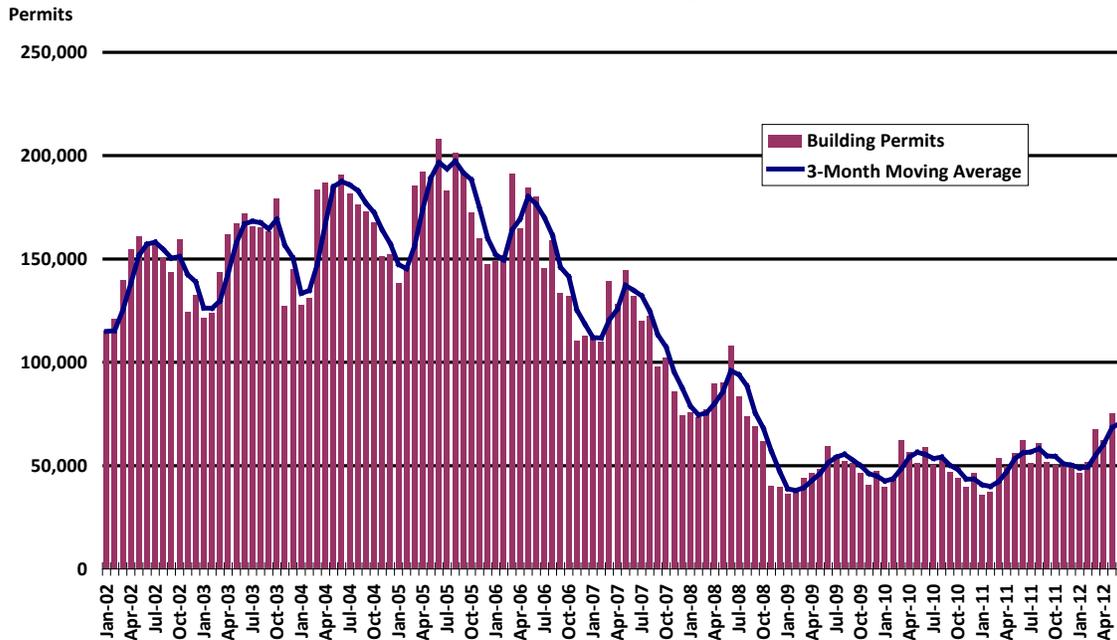
Henry Hub natural gas spot prices crossed the \$3 per MMBtu threshold for the first time in 2012 in late July. Spot prices have generally risen since the end of April, and particularly from mid-June to the present, as demand for natural gas for power generation increased to meet air-conditioning needs. The Henry Hub price averaged \$2.95 per MMBtu in July, an improvement of \$0.49 from June's \$2.46 per MMBtu price.

In Oklahoma, gas-directed rotary rig activity was at 37 (19 percent) for the week ending July 27 while oil-directed rigs were at 155 (81 percent).

U.S. Total Residential Building Permits, 2002-2012

Not Seasonally Adjusted

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



Definition & Importance

The U.S. Census Bureau and the Department of Housing and Urban Development jointly provide monthly national and regional data on the number of new housing units authorized by building permits; authorized, but not started; started; under construction; and completed. The data are for new, privately-owned housing units (single and multifamily), excluding "HUD-code" manufactured homes. Because permits precede construction, they are considered a leading indicator for the residential construction industry and the overall economy. Most of the construction begins the same month the permit is issued. The remainder usually begins construction during the next three months, therefore we also use a three-month moving average.

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

Current Developments

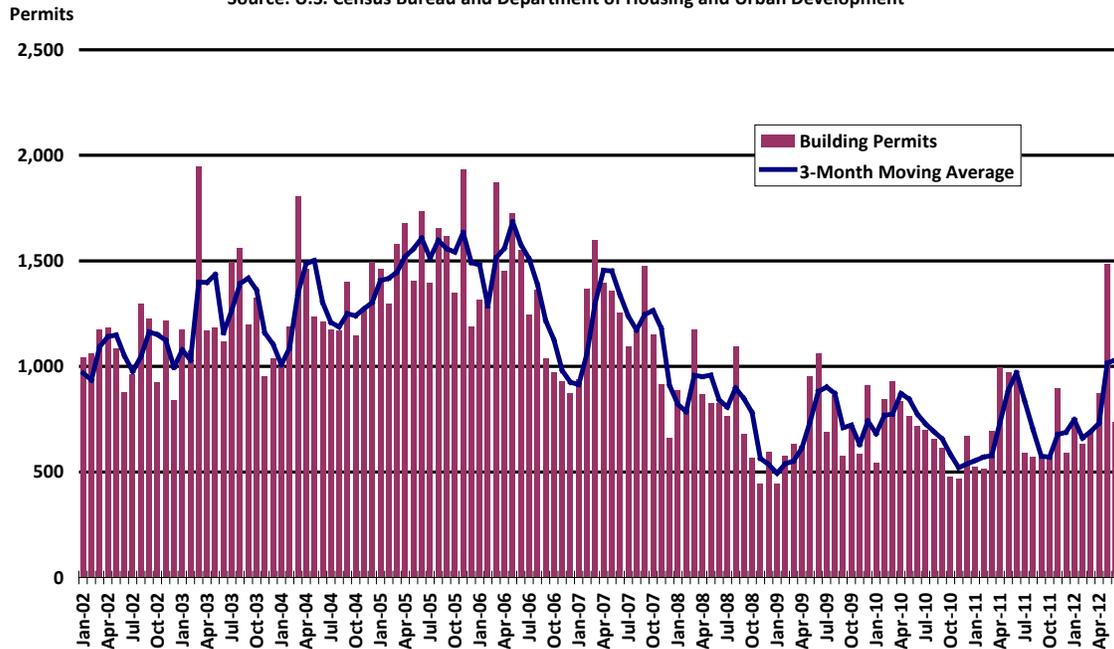
Although permits for single-family homes edged up to the highest level since March 2010, permits to build apartments declined in June, pulling down overall monthly permitting activity. Privately-owned housing units authorized by building permits in June were at a seasonally adjusted annual rate of 755,000 or 3.7 percent below the revised May rate of 784,000, but 19.3 percent above the June 2011 estimate of 633,000, according to the U.S. Census Bureau and the Department of Housing and Urban Development. May's total permitting activity was the most since September 2008.

Builder confidence has jumped since last fall in part because more people are expressing interest in buying a home. The Housing Market Index (HMI), a measure of home builder confidence in the market for newly built, single-family homes, registered the largest one-month gain recorded by the index in nearly a decade and its highest point since March of 2007, according to the National Association of Home Builders.

Oklahoma Total Residential Building Permits, 2002-2012

Not Seasonally Adjusted

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



Oklahoma residential permitting activity cooled of in June following a surge in apartment permitting that pushed May's permits to a five-year high. Total unadjusted residential building permits slid 50.5 percent in June due to a steep drop in multi-family permits, according to figures from the U.S. Census Bureau and the Department of Housing and Urban Development. In May, multi-family permitting activity accounted for 51.5 percent of total permitting as builders requested 767 permits—the most in nearly a decade. June multi-family permitting dropped 91.4 percent. Single-family permitting edged down 3.8 percent in June.

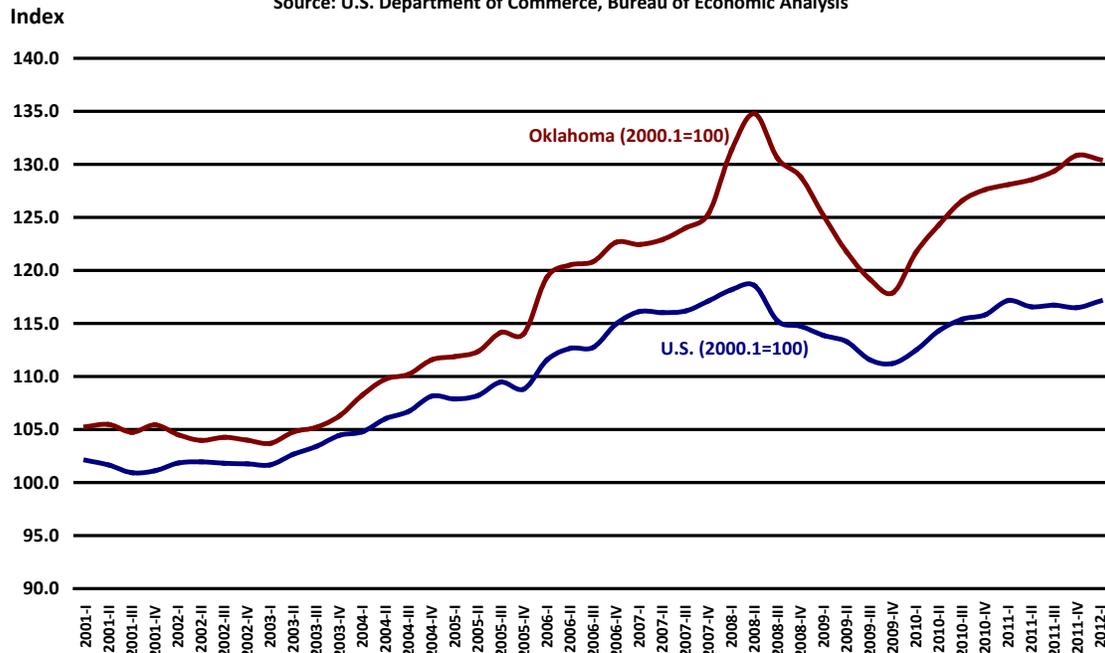
Over the year, total residential permitting was down 22.0 from June 2011. Single-family permitting was up 8.7 percent while the more volatile multi-family component was down 83.8 percent.

Residential permitting activity in 2012 continues to outpace the previous year and continues to be the strongest since 2008. Year to date, total residential permitting activity was 11.3 percent above the first six months of 2011. Single-family permitting was 18.0 percent greater while multi-family activity was down 2.8 percent during the same time period.

U.S. and Oklahoma Real Personal Income

Index: 1st Quarter 2000 = 100

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



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

Although personal income grew at the fastest pace in three months, Americans spent no more in June than they did in May. Personal income increased \$61.8 billion, or 0.5 percent, and disposable personal income (DPI) increased \$52.4 billion, or 0.4 percent, in June, according to the Bureau of Economic Analysis (BEA). Personal consumption expenditures (PCE) decreased \$1.3 billion, or less than 0.1 percent. In May, personal income increased \$39.0 billion, or 0.3 percent, and PCE decreased \$13.3 billion, or 0.1 percent, based on revised estimates.

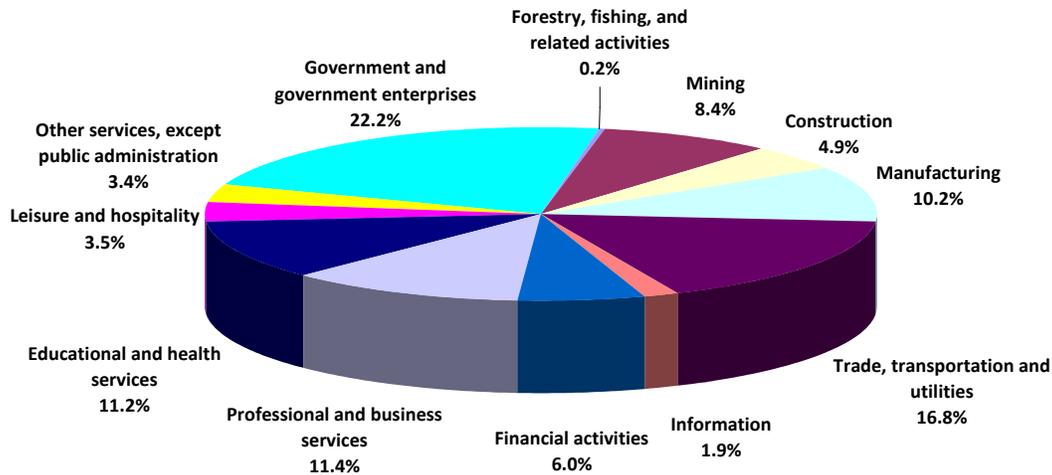
Slower growth in consumer spending this spring was the main reason the economy grew at an annual pace of just 1.5 percent in the April-June quarter. In June, consumers spent slightly more on services but they cut back on autos and other long-lasting manufactured goods. Durable goods declined 0.1 percent after a 0.4 percent decrease in May. Nondurables, hit by lower gasoline prices, fell 0.6 percent in June. Services spending rose 0.2 percent, matching the May pace.

It appears that the extra money in June paychecks went straight to savings. The savings rate rose to 4.4 percent in June, the highest level in a year.

Oklahoma Nonfarm Industry Share of Earnings

First Quarter 2012

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 accelerated to 0.8 percent in the 1st quarter of 2012, from 0.4 percent in the 4th quarter of 2011, according to estimates by the U.S. Bureau of Economic Analysis (BEA). Personal income rose in 47 of the 50 states, fell in Kansas and Mississippi, and was unchanged in Oklahoma. The percent change across states ranged from 2.3 percent in North Dakota to -0.3 percent in Mississippi.

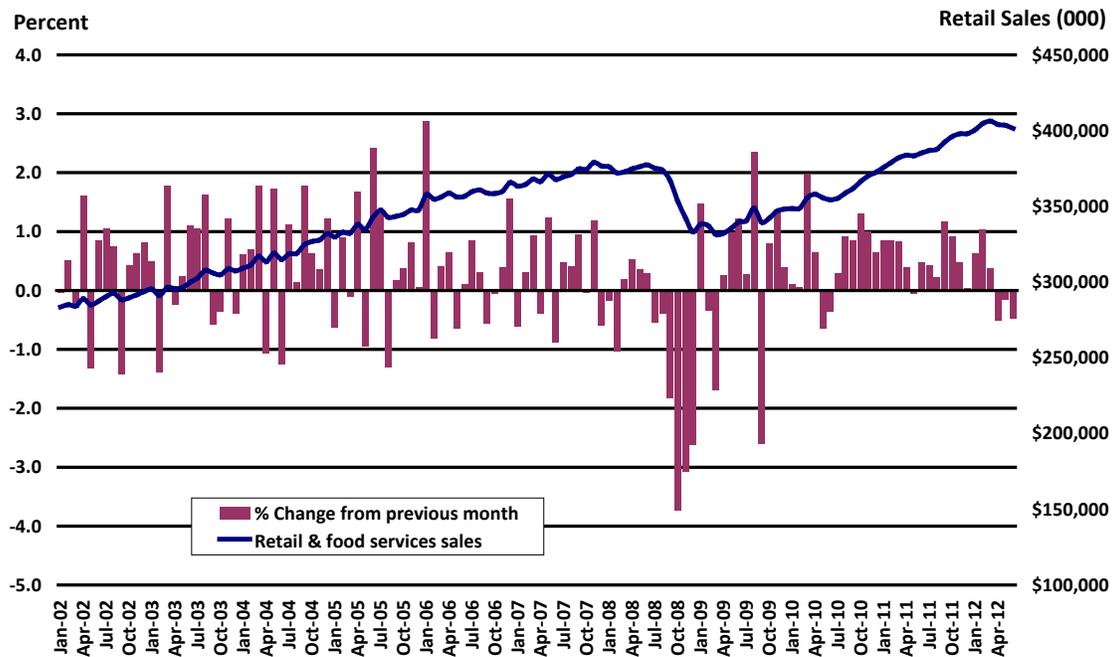
Nationwide, earnings grew 0.8 percent in 1st quarter 2012, after growing 0.5 percent in the 4th quarter. In Oklahoma, 1st quarter net earnings fell 0.6 percent from the previous quarter and subtracted 0.4 percent from overall personal income. That decline in earnings can mostly be attributed to large bonuses paid in the management of companies & enterprises sector in the 4th quarter causing a 35.3 percent drop in 1st quarter earnings for that sector.

Earnings declined in 12 of 24 Oklahoma industries with the largest percentage decline, 36.2 percent, in farm earnings and largest dollar decline, \$936 million, in management of companies & enterprises.

Industries reporting earnings growth were led by durable goods manufacturing which grew by 4.4 percent, substantially higher than the national average of 1.4 percent. Earnings growth was also reported in finance & insurance (3.0 percent); wholesale trade (2.9 percent); administrative and waste management services (2.7 percent); educational services (2.2 percent); accommodation & food services (2.0 percent); retail trade (1.7 percent); and health care and social assistance (1.3 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

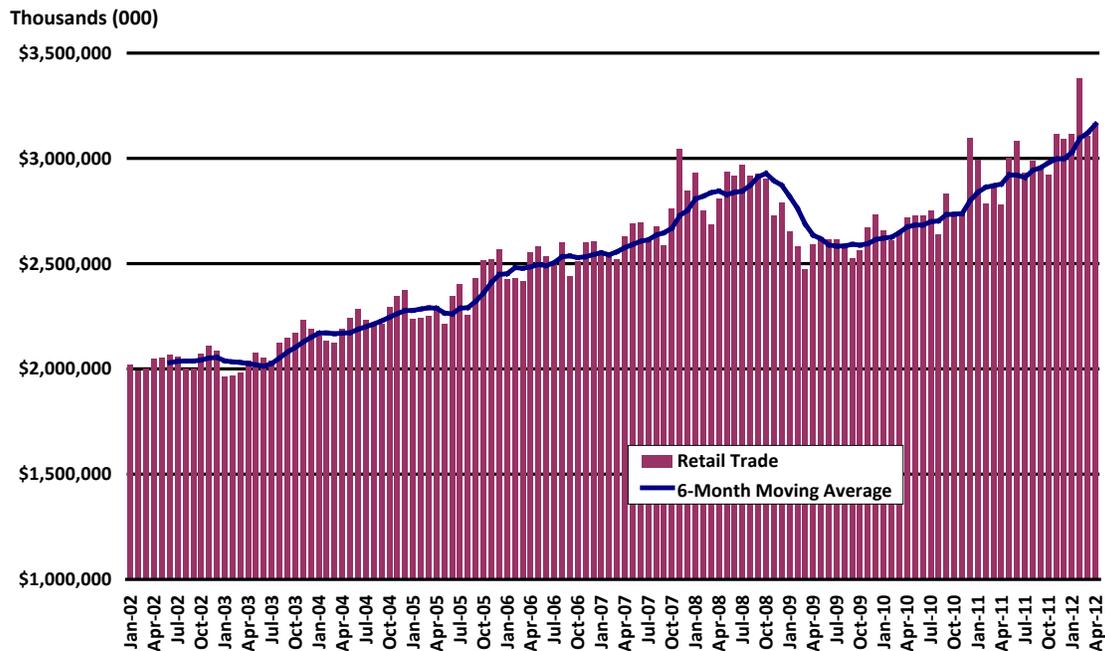
Retail sales in June were much softer than expected as consumers reined in their spending for the third straight month. Advance estimates of U.S. retail and food services sales for June, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$401.5 billion, a decrease of 0.5 percent from the previous month, but 3.8 percent above June 2011, according to the U.S. Census Bureau. Total sales for the April through June 2012 period were up 4.7 percent from the same period a year ago. The April to May 2012 percent change was unrevised from -0.2 percent.

Motor vehicle sales dropped 0.6 percent, following a 0.8 boost in May. Excluding motor vehicles, retail sales decreased 0.4 percent after declining 0.4 percent in May. Gasoline sales were a big factor, dropping 1.8 percent, following a 2.0 percent fall in May.

Outside of autos and gasoline, weakness was led by building materials & garden equipment (down 1.6 percent) and sporting goods & hobby (down 1.6 percent). Also declining were furniture & home furnishings, electronics & appliance stores, health & personal care, general merchandise, and food services & drinking places. The few categories showing gains were led by miscellaneous store retailers and nonstore retailers (which includes Internet sales), both up 0.5 percent.

Oklahoma Total Adjusted Retail Trade

Source: Center for Economic & Management Research, University of Oklahoma



Definition & Importance

The Center for Economic and Management Research (CEMR) Price College of Business, at the University of Oklahoma produces the Oklahoma Monthly Retail Sales Series containing monthly estimates of retail sales for Oklahoma, the Oklahoma City, Tulsa and Lawton Metropolitan Statistical Areas and 48 selected cities in Oklahoma. The series is based on sales tax collection data provided by the Business Tax Division, Oklahoma Tax Commission (OTC). In order to take out monthly volatility, we have used a six-month moving average.

Current Developments

Oklahoma continued to see healthy monthly retail sales gains in the first four months of 2012. Total adjusted retail sales for April was at a level of \$ 3,166,433,622 or 1.9 percent above the previous month's sales figure of \$3,107,233,820 and 13.9 percent over April 2011.

Durable goods sales advanced 0.56 percent in April led by electronics & music stores (+3.9 percent), miscellaneous durable goods (+3.6 percent), used merchandise (+3.1 percent). and furniture (+1.7 percent). Declining sales were seen in lumber & hardware (-2.8 percent) and auto accessories & repair (+1.6 percent).

Total nondurable goods sales gained 2.3 percent in April with the largest increase seen in gasoline sales (+5.9 percent). Rising gasoline prices in February also contributed to an 8.5 percent spike in overall retail trade for that month. Miscellaneous non-durable sales were up 4.1 percent in April along with apparel sales (3.8 percent), drugs (+2.5 percent), liquor (+2.3 percent), general merchandise (+1.8 percent), and eating & drinking (+0.2 percent). The only non-durable decline was in food sales (-0.4 percent).