

# Oklahoma's Economic Indicators

## Indicators



**Oklahoma Employment Security Commission**

**Economic Research and Analysis**

<http://oesc.ok.gov>

# **OKLAHOMA ECONOMIC INDICATORS**

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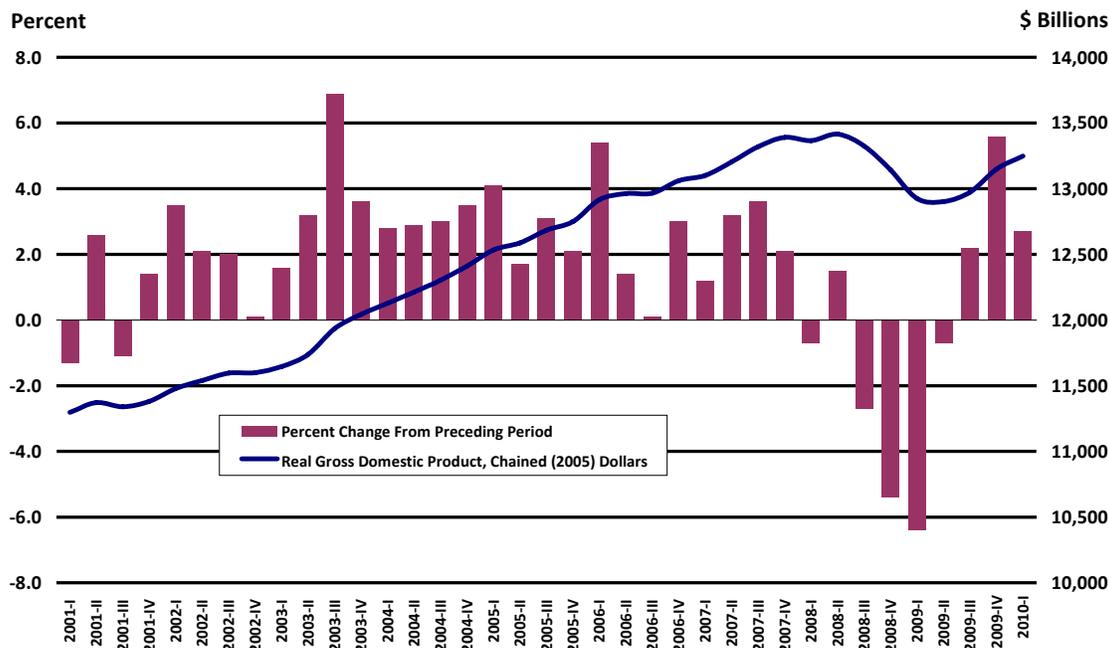
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## Real Gross Domestic Product and Quarterly Change

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



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.)

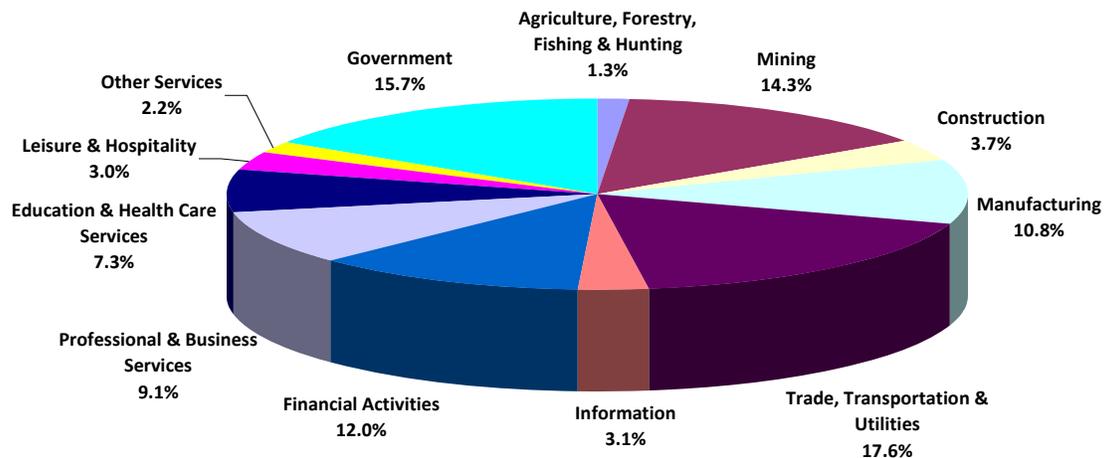
The recovery slowed significantly in the first quarter from the strong pace of 5.6 percent in the fourth quarter of last year and there is much uncertainty about forward momentum given the expiration of tax credits for housing purchases. According to the "third" estimate released by the Bureau of Economic Analysis, first quarter GDP was revised down to an annualized 2.7 pace from the prior estimate of 3.0 percent and initial estimate of 3.2 percent.

According to a recent report by the Bureau of Economic Analysis, GDP would have been, on average, 2.7 percent, or \$301.5 billion higher between 1998 and 2007 if research and development (R&D) spending was treated as investment in the U.S. national income and product accounts. R&D accounted for about 6.3 percent of average annual growth in real GDP—that is, GDP adjusted for inflation—between 1998 and 2007, and 6.6 percent between 2002 and 2007. To put the contribution of R&D in perspective, the business sector's investment in commercial and other types of structures accounted for just over 1.3 percent of average annual growth in real GDP between 1998 and 2007. Biotechnology and information, communication, and technology (ICT) industries accounted for four-fifths of the business sector's R&D contribution to GDP growth between 1998 and 2007.

## Industry Share of Oklahoma's Economy

(by percentage of Gross Domestic Product)

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



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

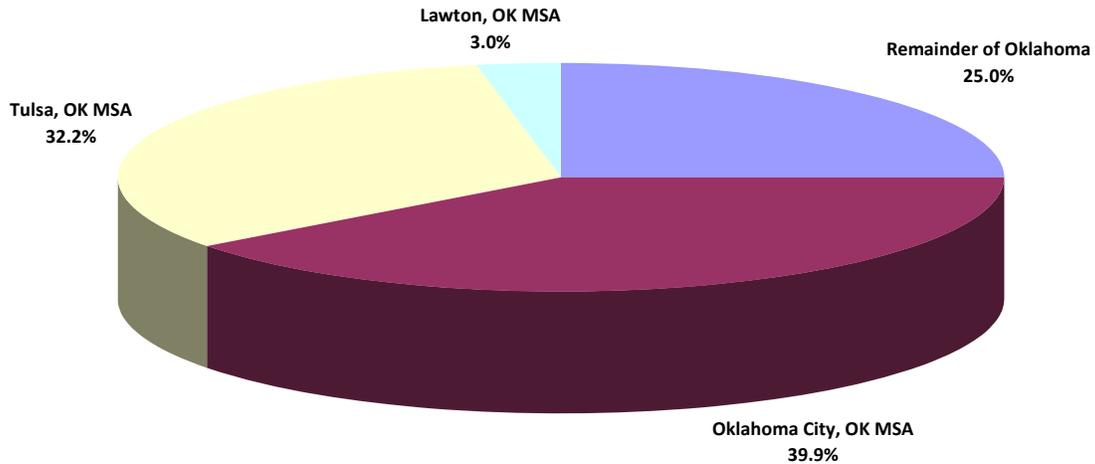
Oklahoma's GDP totaled \$146.4 billion in 2008 according to advance estimates, an increase in real dollars of 2.7 percent from 2007. The U.S. growth rate for the same period was 1.1 percent. Nearly all industrial sectors contributed to the increase in Oklahoma's GDP with the only declining industry being agriculture, forestry, fishing, and hunting dipping 12.8 percent.

The broad trade, transportation and utilities sector makes up the largest portion of Oklahoma's economic output at 17.6 percent, followed by government (15.7 percent), mining (14.3 percent), and financial activities (12.0 percent).

Since 2003, trade, transportation and utilities, information, and professional and business services have had the largest gain in share of the state's economic makeup, while financial activities and government have had the largest declines in share.

## Metropolitan Area Contribution to State Real Gross Domestic Product 2008

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



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

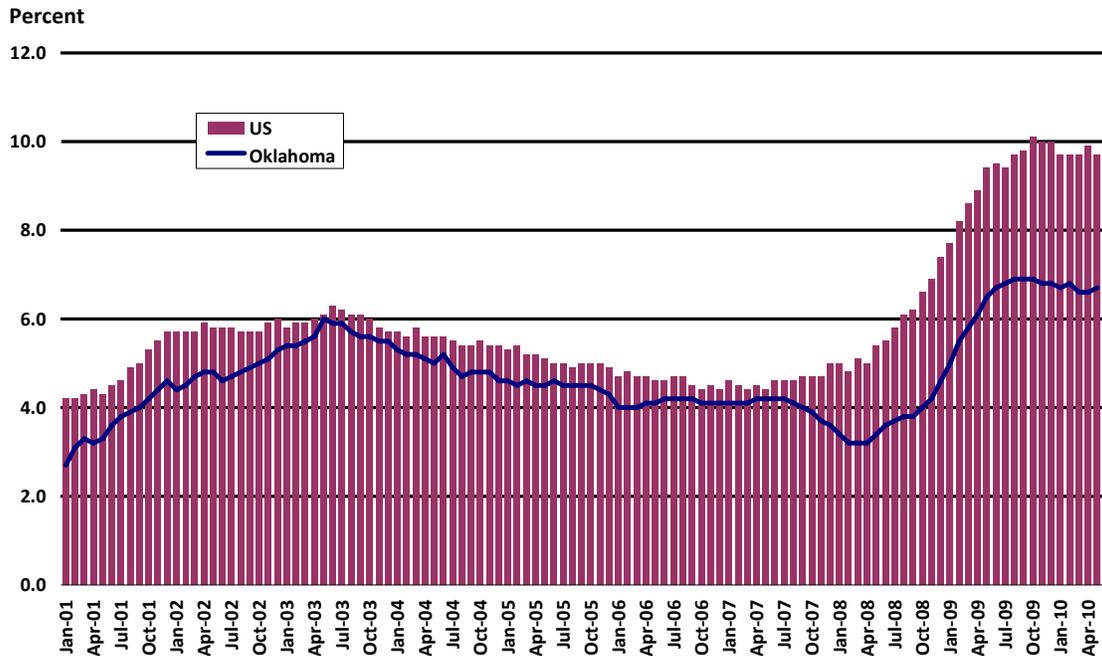
Nationally, metropolitan statistical areas represent approximately 90 percent of total GDP. In Oklahoma, the three MSAs of Oklahoma City, Tulsa and Lawton accounted for roughly 75 percent of the total state GDP in 2008.

Real GDP growth slowed in 220 of the nation's 366 metropolitan statistical areas (MSAs) in 2008 with downturns in construction, manufacturing, and finance and insurance restraining growth in many metropolitan areas. In contrast, growth accelerated in 146 metropolitan areas, most notably in areas where natural resources and mining industries are concentrated.

In terms of growth in real GDP, the Lawton, OK MSA ranked 45th out of all 366 U.S. metropolitan areas with a growth rate of 3.3 percent in 2008. The Oklahoma City MSA ranked 51st with a growth rate of 3.1 percent followed by the Tulsa MSA ranked at 177 with a growth rate of 1.0 percent.

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

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



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

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

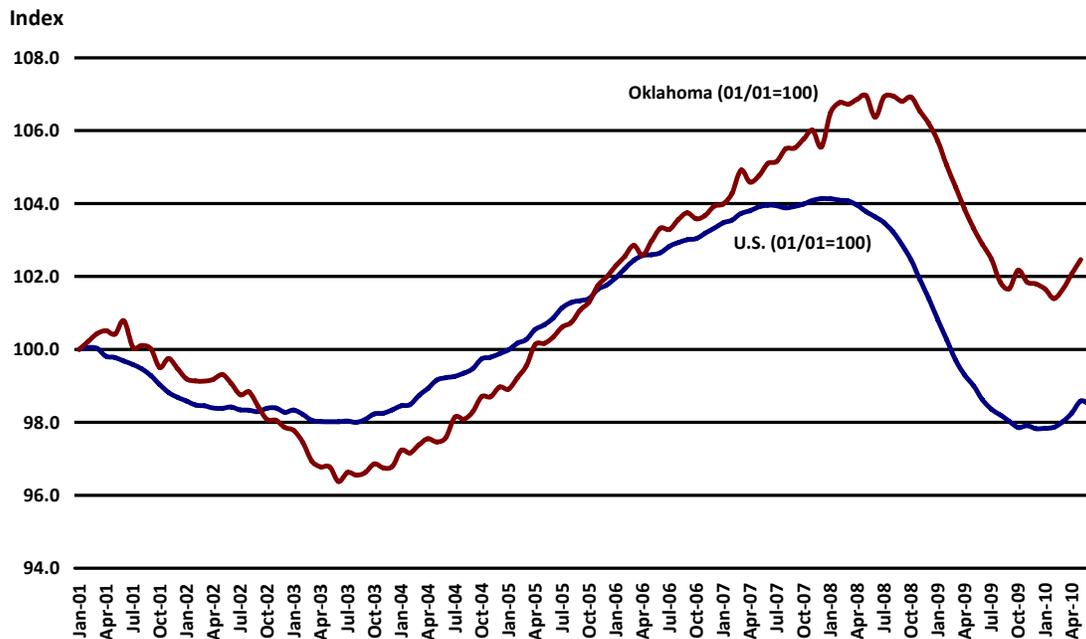
The U.S. unemployment rate dropped from 9.7 percent to 9.5 percent in June, the lowest level since July 2009. The drop in June's unemployment rate is largely due to a sharp drop in the labor force as 652,000 people gave up on their job searches and left the labor force—those people are not counted as unemployed.

Oklahoma's unemployment rate edged up from April to a seasonally adjusted rate of 6.7 percent. This was the eighth lowest jobless rate in the nation for May. Nevada had the highest unemployment rate at 14.0 percent while North Dakota had the lowest rate at 3.6 percent in May.

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

Index: January 2001=100

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



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

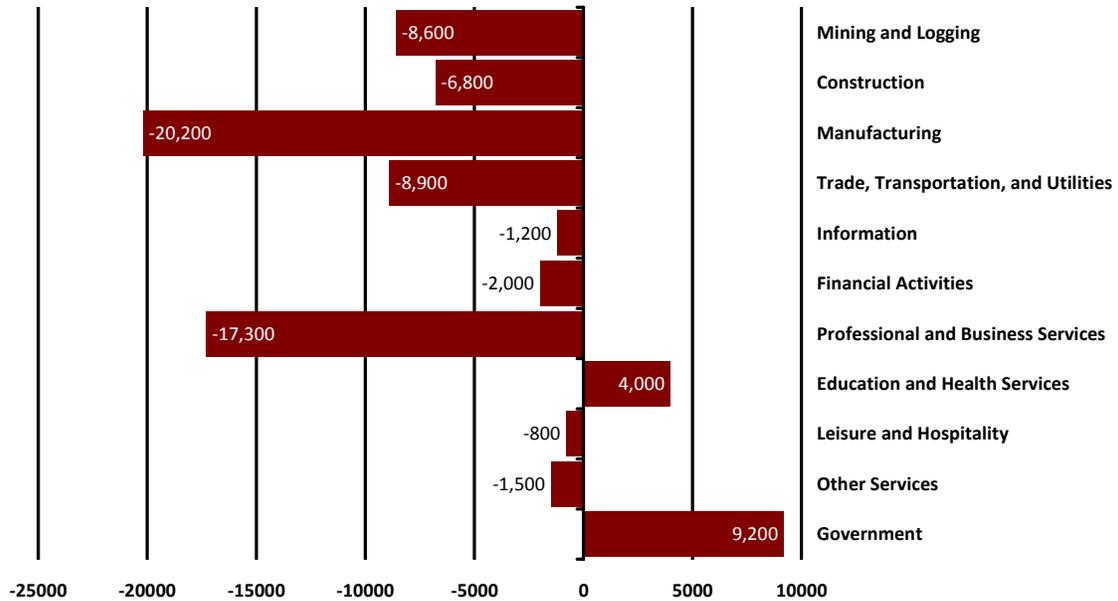
During the mature phase of an economic expansion, monthly payrolls gains of 150,000 or so are considered relatively healthy. In the early stages of recovery though, gains are expected to surpass 250,000 per month.

Employers cut 125,000 jobs in June, the most since October, as 225,000 government workers that were hired for Census 2010 in recent months lost their temporary jobs, The private sector added a net total of 83,000 workers, suggesting businesses are still slow to hire amid a weak economic recovery. Private sector employment has risen by 593,000 so far in 2010, but in June was 7.9 million below its prerecession level.

May Oklahoma nonfarm payrolls grew at a slightly slower rate than April registering a seasonally adjusted 0.38 percent increase and adding 5,800 jobs. Private sector job growth in May was led by mining (up 1,200), financial activities (up 900) and arts, entertainment and recreation (up 400). Government added 4,300 jobs with all the gains coming from Census hiring by the federal government. Over the year, state nonfarm employment shed 12,900 jobs (-0.84 percent) with job losses in manufacturing (down 8,200), trade, transportation & utilities (down 6,100), other services (down 4,600), leisure & hospitality (down 2,900) and mining (down 1,400). This was an improvement from -1.55 percent year over year job loss the previous month.

## Oklahoma Employment Change by Industry 2008 - 2009

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



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

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

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

Government added 9,200 jobs with nearly all of the gains being at the local and federal levels. The bulk of job growth in local government can be attributed to tribal gaming

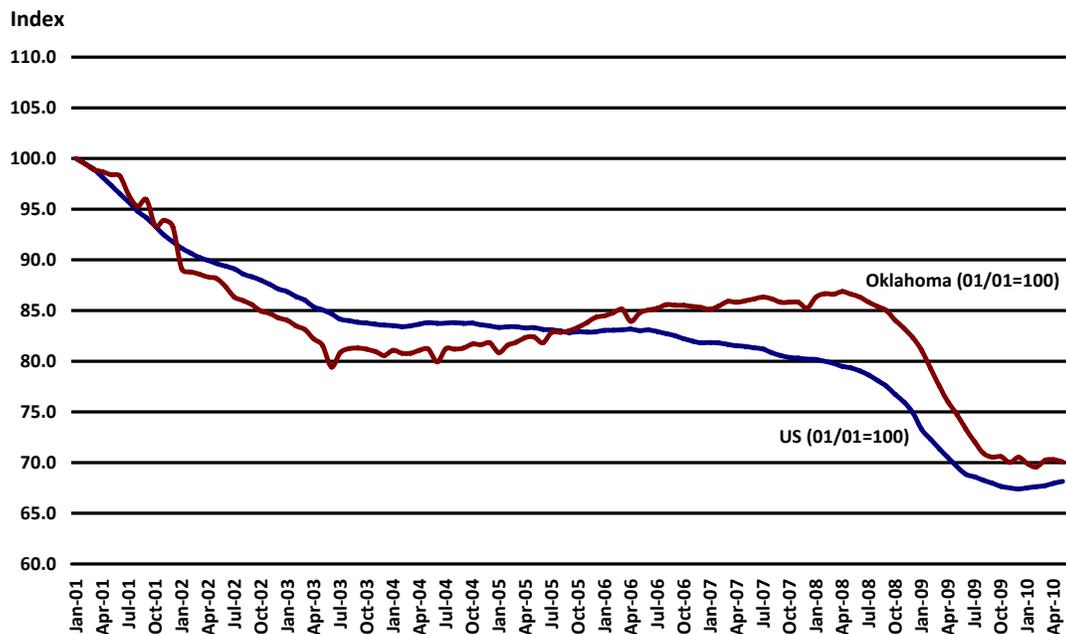
and public school employment. Hiring for temporary Census 2010 workers accounted for much of the job gains in federal government.

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

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

Index: January 2001 = 100

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



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

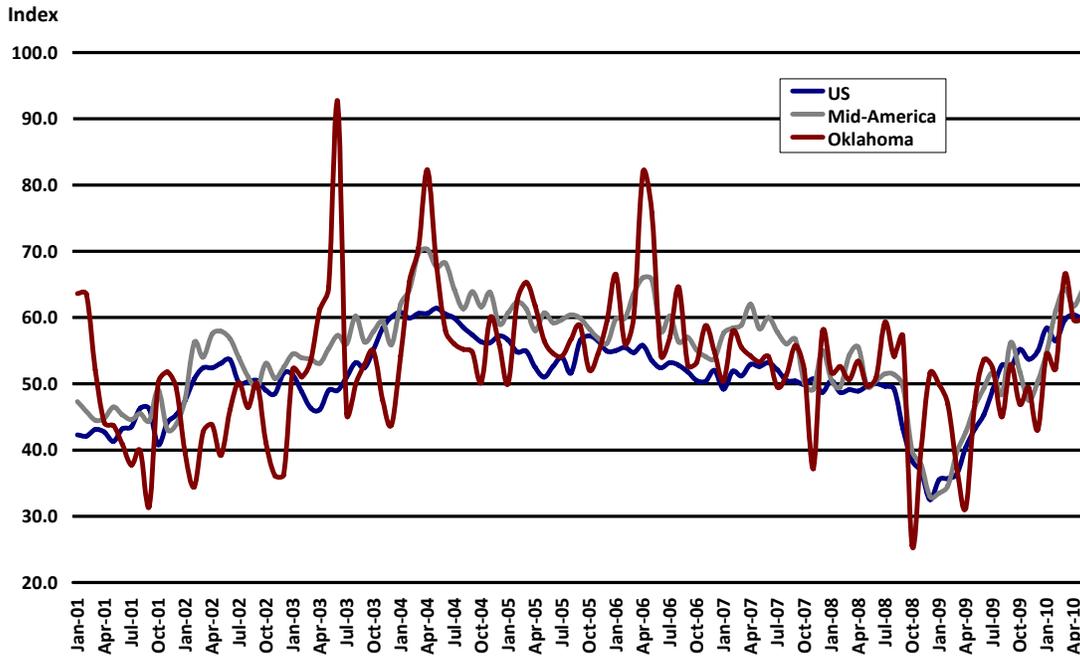
At one time, manufacturing made up 38 percent of the nation's employment. However, manufacturing employment in the United States has been declining since 1979, as productivity, technology gains, and the transfer of manufacturing to locations outside the United States have reduced the demand for traditional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

U.S. manufacturing employment increased by 9,000 in June according to the U.S. Bureau of Labor Statistics. Factory employment has risen by 126,000 over the past five months. Within manufacturing, both fabricated metals and machinery added jobs in May. Separately, the Federal Reserve reported that industrial production in May surged 1.2 percent, following a 0.7 percent boost the month before. Capacity utilization continued its upward trend, reaching the 74.7 percent mark.

Oklahoma manufacturing employment began to slowly decline during 2008 with the pace of job losses accelerating in 2009. After three consecutive months of growth, manufacturing employment declined in May, shedding 400 jobs over the previous month. Job losses were mixed, durable goods manufacturing lost 700 jobs while non-durable goods manufacturing gained 500 jobs.

## Purchasing Managers' Index (Manufacturing), 2001-2010

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



Economists consider the Institute for Supply Management's Purchasing Managers' Index (PMI) a key economic indicator. The PMI measures such factors as new orders, production, supplier delivery times, backlogs, inventories, prices, employment, import orders and exports. The ISM manufacturing index is constructed so that any level at 50 or above signifies growth in the manufacturing sector. A level above 42 or so, but below 50, indicates that the U.S. economy is still growing even though the manufacturing sector is contracting. Any level below 42 indicates that the economy is in recession.

The acceleration in manufacturing cooled but only slightly in June, according to the Institute for Supply Management's composite index which slowed to 56.2 from May's very strong 59.7. The slowdown was led by a more than 7 point decline in new orders to a 58.5 reading that nevertheless indicates a strong month-to-month gain, only a smaller gain than in May.

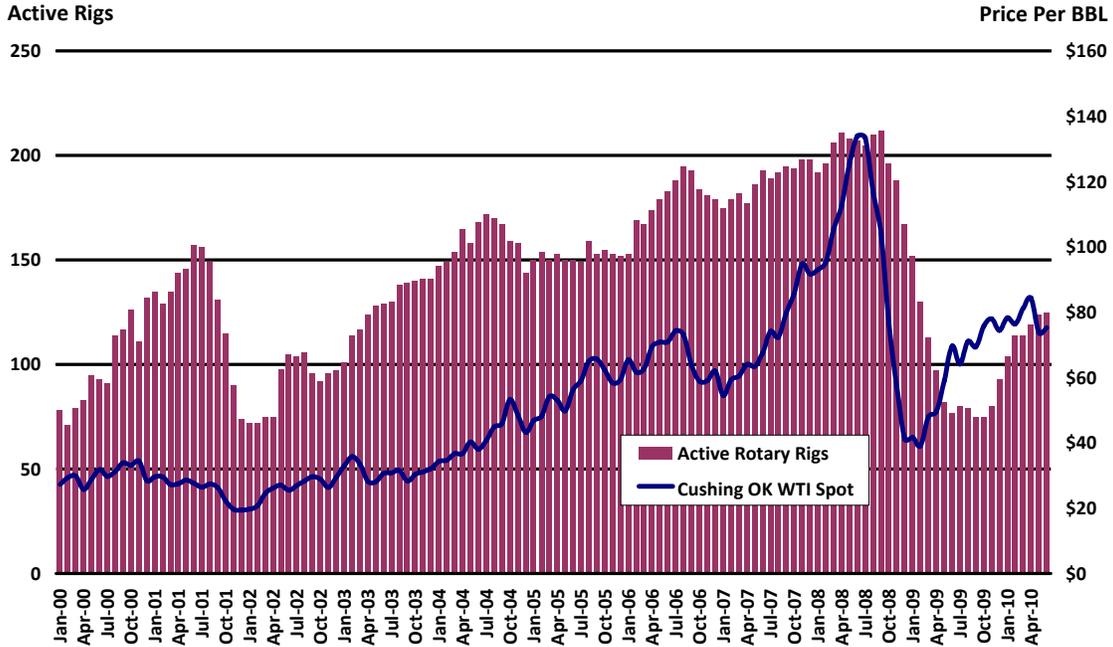
A PMI in excess of 42 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the PMI indicates growth for the 13th consecutive month in the overall economy, as well as expansion in the manufacturing sector for the 10th consecutive month.

The Business Conditions Index for the Mid-America region dipped slightly to a still healthy level, pointing to an expanding regional economy in the months ahead, according to the June Business Conditions survey of supply managers in the nine-state region, (including Arkansas, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma and South Dakota). The index slipped to 62.5 from 64.2 in May. An index of 50.0 is considered growth neutral for the leading economic indicator. This was the seventh straight month that the index has risen above growth neutral, signaling a healthy economic recovery for the regional economy in the months ahead.

For a fifth straight month, Oklahoma's leading economic indicator from the monthly survey of supply managers climbed above growth neutral in May. The Business Conditions Index edged up to 59.8 from April's strong 59.7. Components of May's overall reading were new orders at 66.9, production, or sales, at 55.8, delivery lead time at 86.8, inventories at 45.9, and employment at 43.9.

## Oklahoma Active Rotary Rigs & Cushing, OK WTI Spot Price

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



The Baker Hughes rig count is an important indicator for the energy industry and Oklahoma. Rig counts generally rise following increased oil and gas company development and exploration spending, which is influenced by the current and expected price of oil and natural gas (among other factors). Therefore, the rig count reflects the strength and stability of energy prices.

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

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

The city of Cushing, in central Oklahoma, is a major crude oil trading hub connecting Gulf Coast producers to Midwest refining markets. In addition to Oklahoma crude oil, the Cushing hub receives supply from several major pipelines that originate in Texas. Traditionally, the Cushing Hub has pushed Gulf Coast and Mid-Continent crude oil supply north to Midwest refining markets. For this reason, Cushing is the designated delivery point for NYMEX crude oil futures contracts. Crude oil supplies from Cushing that are not delivered to the Midwest are fed to Oklahoma's five refineries, which have a combined distillation capacity of over 500 thousand barrels per day—roughly 3 percent of the total U.S. refining capacity.

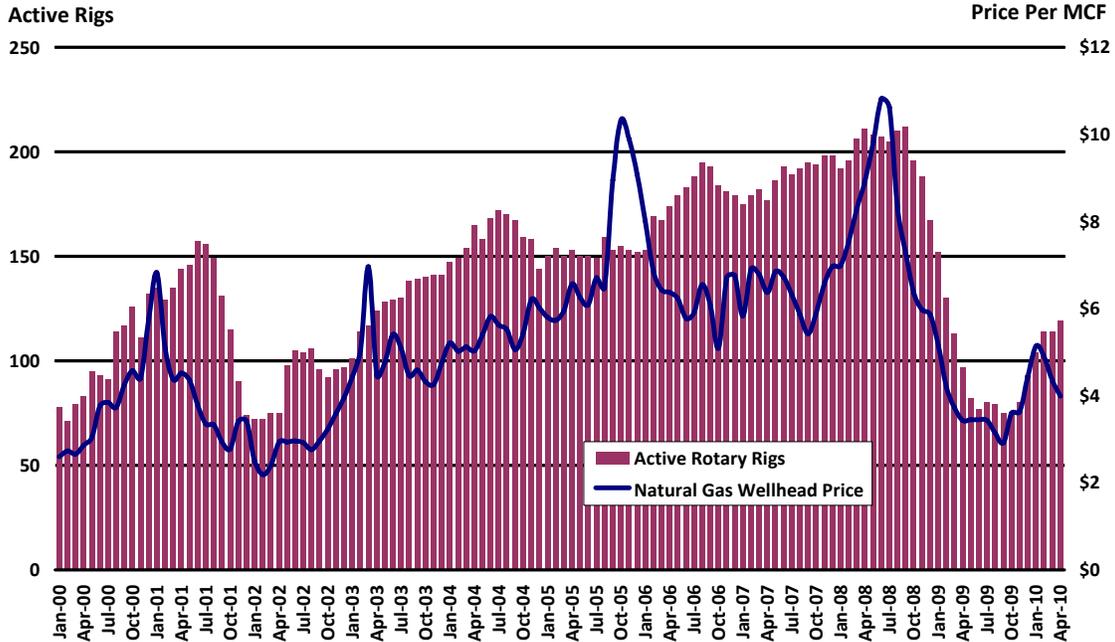
Energy prices have played a pivotal role in the current economic cycle. Surging energy prices weighed heavily on the national economy while providing an offsetting boost to Oklahoma. Even with the recession underway in early 2008, world demand seemed slow to respond, and oil prices rose to a peak of over \$130 in July 2008 before tumbling. By late 2008, crude oil prices fell back to around \$40 per barrel, but OPEC cuts and continued demand strength in developing countries caused prices to rebound somewhat. So far for 2010, crude oil prices have stabilized in the range of \$70 to \$80 per barrel.

After peaks in April and the first days of May, crude oil prices dropped sharply in May, with uncertainty over the pace and extent of recovery, particularly given European debt issues and Chinese money policy tightening, reportedly contributing to the decline. Also, WTI prices fell further than most other crudes because of record high inventories in Cushing but those inventory builds have slowed during June. Cushing, Oklahoma WTI spot prices averaged \$75.28 per barrel in June, up from \$73.74 in May. The Energy Information Administration (EIA) projects Cushing WTI crude oil spot prices will average \$79 per barrel this year and \$83 per barrel in 2011.

June 2010 Oklahoma rotary rig activity rose to 125—an increase of one active rig over May.

## Oklahoma Active Rotary Rigs & Natural Gas Wellhead Price

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



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.

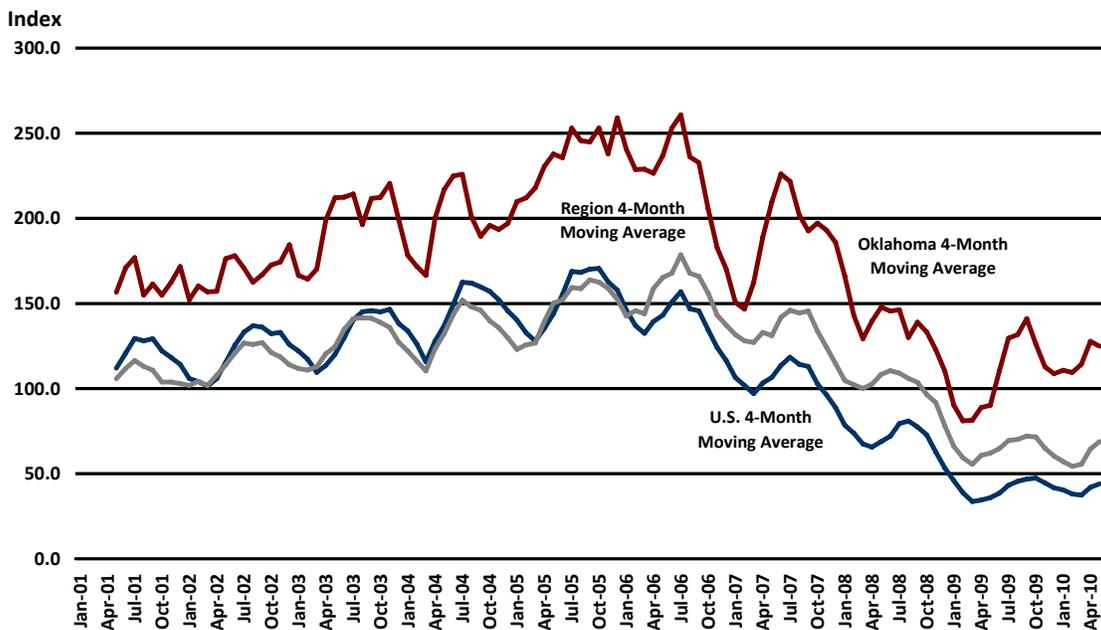
Since peaking in 2008, natural gas prices experienced a sharp and sustained drop to near \$3 per mcf but have somewhat improved recently. This reversal in energy prices underlies the weak performance of Oklahoma relative to other ‘non-energy’ states since early 2009. June wellhead prices slipped to \$3.87 per mcf—down 5 cents from \$3.92 in May.

Sustained low natural gas prices this summer are expected to contribute to a decline in natural gas drilling activity over the next several months. As a result, the current 2011 Energy Information Administration (EIA) forecast of higher prices comes as production begins to decline later this year and next. Natural gas wellhead prices are forecast to reach \$4.39 per mcf by fourth quarter 2010 and \$5.17 per mcf by fourth quarter 2011.

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

Index: January 2001 = 100

Source: U.S. Census Bureau



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

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

In the past two years, home builders have lost half their share of the U.S. housing market, mainly because of competition from cheap foreclosed houses. In 2009, only 7.9 percent of homes sold were newly constructed—down from the average of 16 percent over the past two decades.

The bottom for U.S. single-family construction was reached in January 2009 when starts hit a seasonally adjusted annual rate of 353,000—the slowest pace since reliable records started being kept in 1959.

Homebuilders are playing it cautiously after the close of the special tax credits program. Privately-owned housing units authorized by building permits in May were at a seasonally adjusted annual rate of 574,000. This is 5.9 percent below the revised April rate of 610,000, but is 4.4 percent above the May 2009 estimate of 550,000.

Due to the different magnitudes of permitting activity nationally, regionally and statewide, the data illustrated in the previous chart have been indexed with January 2001 as the base. Generally, residential permitting peaked in mid-2006 in all geographic areas and has been declining since that time. The sharpest slide occurred in September 2008 with permitting falling by 37.9 percent in Oklahoma and 22.3 percent in the West South Central region (including Arkansas, Louisiana, Oklahoma and Texas).

Oklahoma residential permitting activity reached its lowest level in January 2009. Since that time, state permitting activity has shown incremental monthly improvements up to mid-year but has moved mostly sideways for the rest of 2009.

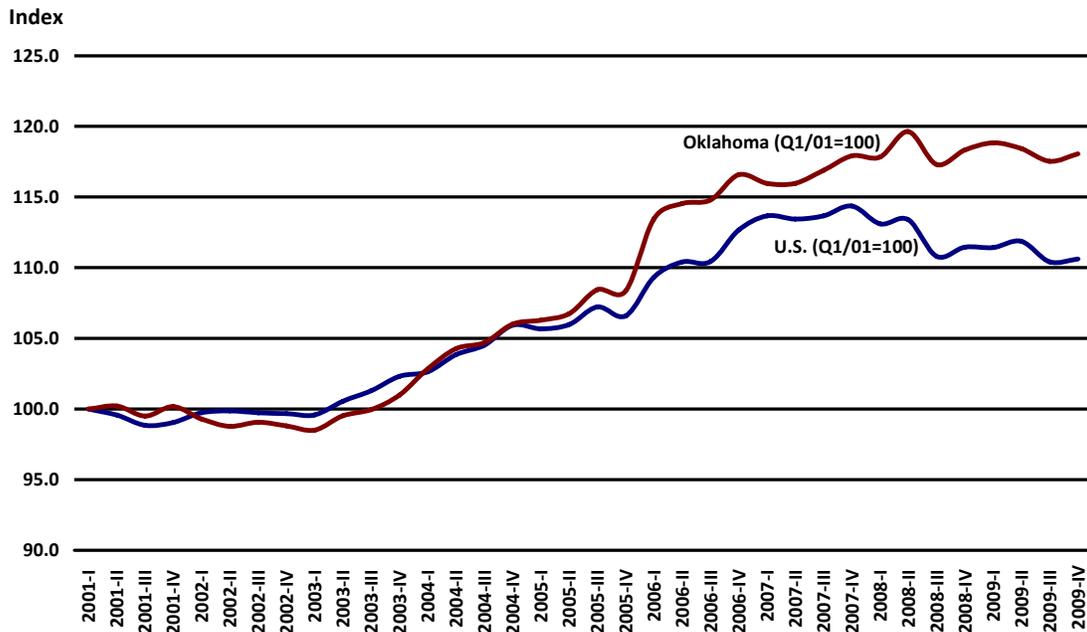
After slumping in January, Oklahoma residential permitting activity had been picking up this spring, peaking in March to meet the demand sparked by federal homebuyer tax credits. However, as the tax credits expired in April, housing permitting activity began to decline, falling 9.2 percent from March. This trend continued in May with Oklahoma residential permitting sliding 9.4 percent from April.

By region, the drop in May starts was led by a 21.3 percent plunge in the South Census region with the Northeast declining 6.3 percent. The West and Midwest posted gains of 10.8 percent and 4.9 percent, respectively. The West South Central region, which includes Arkansas, Louisiana, Oklahoma and Texas, posted similar declines sinking 13.0 percent in April and 8.6 percent in May.

## U.S. and Oklahoma Real Personal Income

Index: 1st Quarter 2001 = 100

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



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

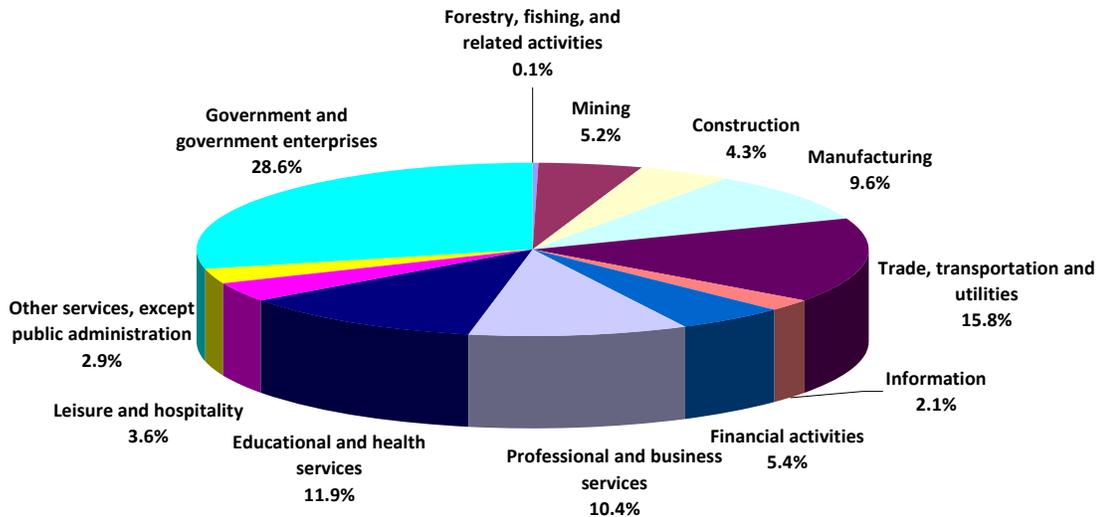
To show the hugely different levels of total personal income for the U.S. and Oklahoma on the same chart, these data have been converted to index numbers. This chart shows a comparison of Oklahoma and U.S. growth in real personal income with the 1st quarter 2001 as the base year.

Gains in wages and salaries helped lift U.S. personal income in May. Personal income increased \$53.7 billion, or 0.4 percent, and disposable personal income (DPI) increased \$49.0 billion, or 0.4 percent, in May, according to the Bureau of Economic Analysis. Personal consumption expenditures (PCE) increased \$24.4 billion, or 0.2 percent. In April, personal income increased \$59.4 billion, or 0.5 percent, DPI increased \$63.7 billion, or 0.6 percent, and PCE increased \$1.4 billion, or less than 0.1 percent, based on revised estimates.

Personal saving as a percentage of disposable personal income was 4.0 percent in May, compared with 3.8 percent in April, its highest level since September and well above the average 1.7 percent rate that prevailed in the year before the recession hit.

## Oklahoma Personal Income Compensation by Industry First Quarter 2010

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



After peaking in the second quarter 2008, Oklahoma personal income levels declined for three consecutive quarters before rebounding in third quarter 2009. Oklahoma personal income continued to improve in first quarter 2010, growing by 0.9 percent and ranking 28th among all states.

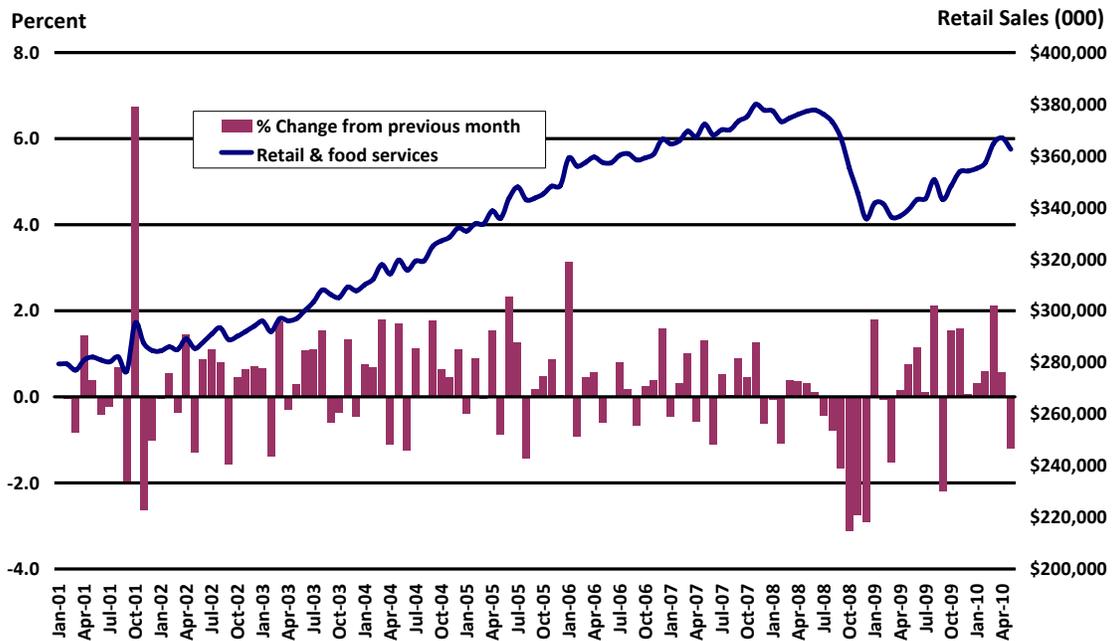
For comparison, U.S. state personal income growth also averaged 0.9 percent in the first quarter of 2010 and ranged from a low -2.0 percent in North Dakota to a high 1.6 percent in Mississippi. Inflation, as measured by the national price index for personal consumption expenditures, declined to 0.4 percent in the first quarter from 0.6 percent in the fourth quarter.

The industry making the largest contribution to first quarter personal income growth both nationally and statewide was health care. Mining and government also contributed to statewide personal income growth but were offset by declines in the leisure and hospitality and financial activities sectors.

According to the U.S. Bureau of Economic Analysis, personal income declined an average 1.7 percent in 2009 for all states. For 2009, Oklahoma saw its personal income fall to \$130 billion from \$131.1 billion in 2008—for a decline of 0.8 percent—ranking it 16th in the nation. Income in almost all Oklahoma industries declined in 2009 with some of the largest losses occurring in the mining industry, reflecting weak energy prices, and in manufacturing.

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

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



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

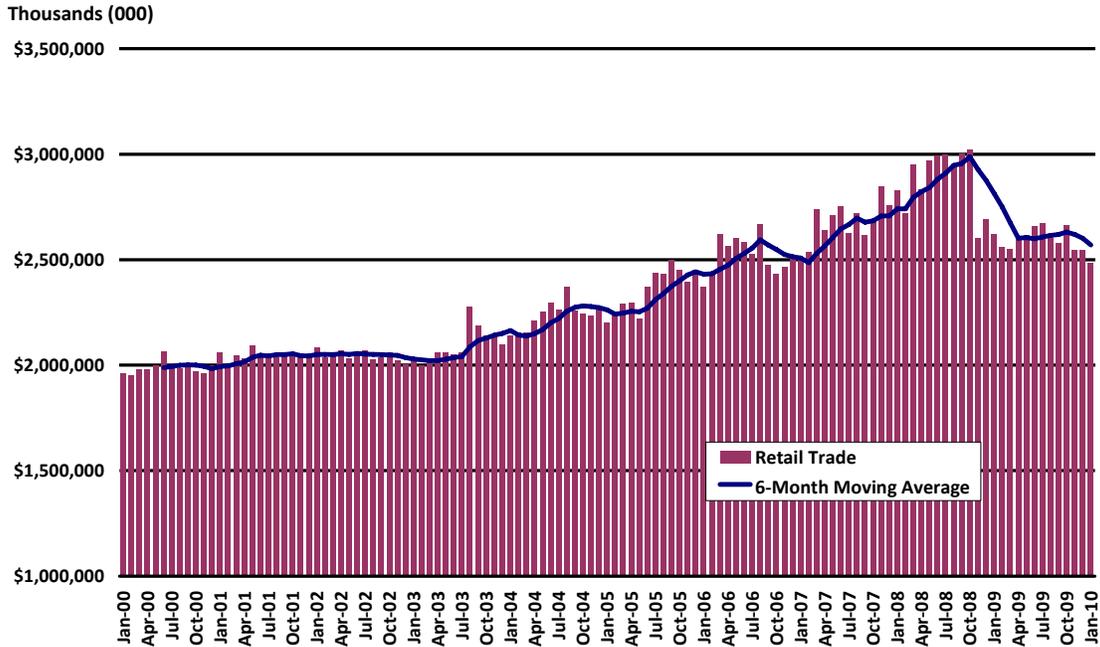
National retail sales data are prone to fluctuations but provide an important view on changes in consumer spending. There have been considerable swings in retail trade since the end of 2001, but retail sales have generally been increasing since 2003. By 2007, the credit crunch was well underway and starting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

Nearly half of the improvement in 3rd quarter 2009 GDP growth was due to consumer purchases of motor vehicles and residential investment, both of which were spurred by temporary government programs such as “Cash for Clunkers” and homebuyer tax credits, the latter of which expired at the end of April 2010.

The Census Bureau reported that advance estimates of U.S. retail and food services sales for May, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$362.5 billion, a decrease of 1.2 percent from the previous month, but 6.9 percent above May 2009. Total sales for the March through May 2010 period were up 8.1 percent from the same period a year ago. Weakness was mainly in building materials & garden supplies. Excluding autos, building materials, and gasoline, retail sales edged up 0.1 percent in May after decreasing 0.2 percent in April.

## Oklahoma Total Adjusted Retail Trade

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



Inflation remains subdued, the Consumer Price Index for all items less food and energy increased 0.1 percent in May, posting a monthly increase for only the second time this year. Contributing to the May rise were increases in a number of indexes including shelter, used cars and trucks, tobacco, apparel, and medical care. The index has increased 0.9 percent over the last 12 months.

Retail sales in Oklahoma peaked in August 2008 and have been generally declining since that time. Total adjusted retail sales for 2009 were off \$3.34 billion from 2008—a decline of nearly 9.7 percent. However, retail sales have been improving in 2010, March retail sales were up \$225.8 million or 9.1 percent from February and \$167.9 million or 6.6 percent compared to March 2009. For the year, Oklahoma retail sales are up \$63.9 million or 2.5 percent over the first three months of 2009.