Oklahoma’s Economic Indicators

Oklahoma Employment Security Commission

Economic Research and Analysis

http://oesc.ok.gov

OKLAHOMA ECONOMIC INDICATORS

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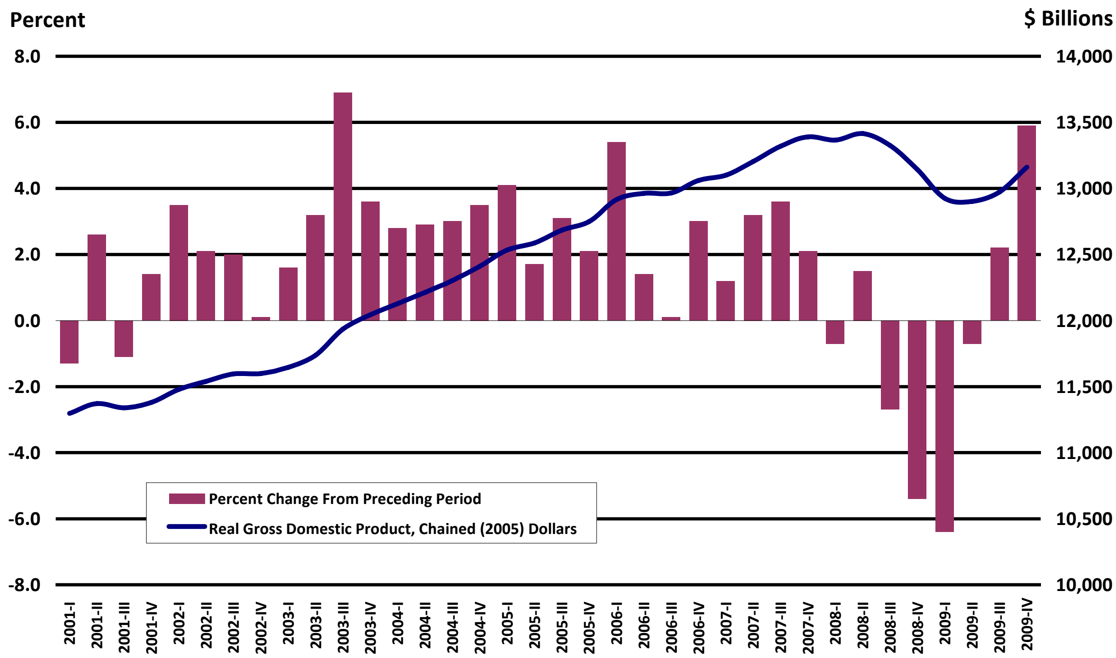
Real Gross Domestic Product and Quarterly Change

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.)

Economic output in the United States had been expanding each quarter since the 4th quarter of 2001. Beginning in the 2nd quarter of 2003, the national economy grew fairly consistently at an annual rate of around 3 to 4 percent, in real terms, with occasional quarters of slower growth through late 2006 and early 2007. The middle of 2007 found revived growth of nearly five percent, but GDP declined for the first time in two years in the 4th quarter of 2007. The first half of 2008 had slow to moderate growth in GDP, but has been followed by four consecutive quarterly declines.

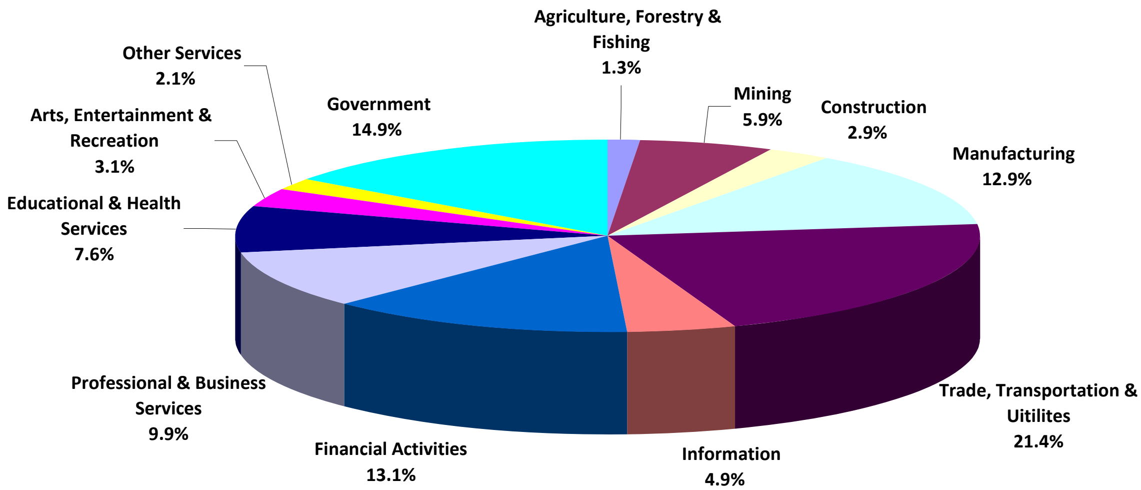
GDP contracted at a 6.4 percent annual rate in the 1st quarter of 2009 after a 5.4 percent rate of decline in the 4th quarter of 2008. The declines in these quarters were the largest since the early 1980s.

After growing by 2.2 percent in the 3rd quarter of 2009, U.S. real gross domestic product rose 5.9 percent at a seasonally adjusted annual rate in the fourth quarter, compared to an initial reading of 5.7 percent growth, the Commerce Department reported. Economic growth accelerated to the strongest pace in more than six years late last year, as revisions showed businesses slowed inventory reduction and boosted spending, while consumers spent less than first thought.

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.

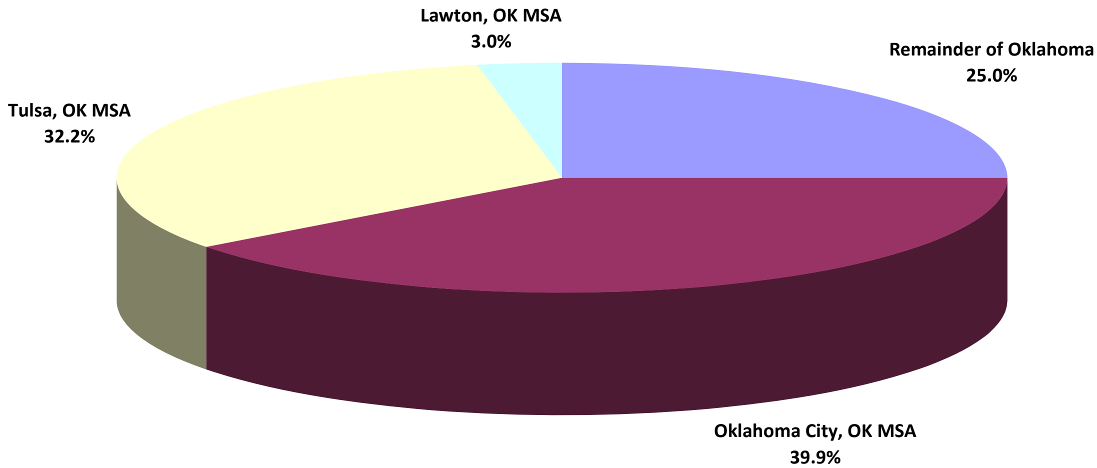
Oklahoma's GDP totaled nearly $107 billion in 2008 according to advance estimates, an increase in real dollars of 2.7 percent from 2007. The U.S. growth rate for the same period was 1.1 percent. Nearly all industrial sectors contributed to the increase in Oklahoma's GDP with the only declining sector being agriculture.

The broad trade, transportation and utilities sector makes up the largest portion of Oklahoma's economic output, followed by government, financial activities, and manufacturing.

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

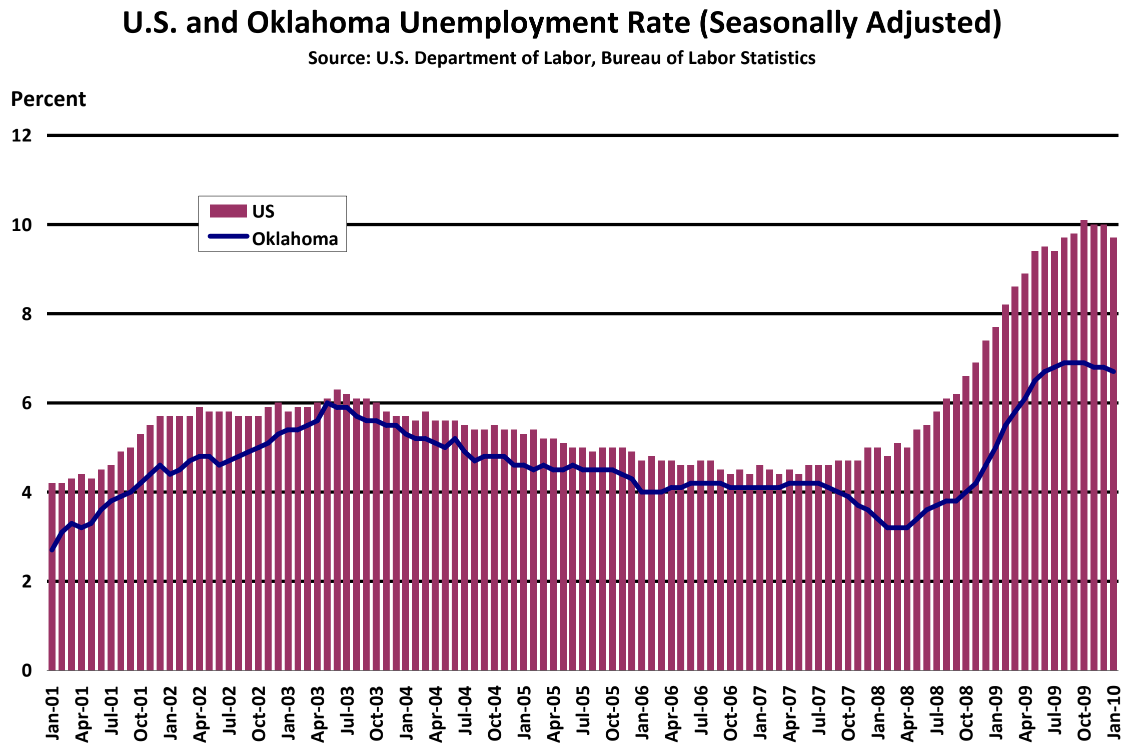


Metropolitan Statistical Areas (MSA) are the county-based definitions developed by the Office of Management and Budget for federal statistical purposes. A metropolitan area is defined as a geographic area consisting of a large population nucleus together with adjacent communities having a high degree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



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.

Nationally, the unemployment rate reached a high of 10.1 percent in October 2009. Since then, the unemployment rate has been trending downward to 10.0 percent in November and December. In February, the number of unemployed persons, at 14.9 million, was essentially unchanged from January, and the unemployment rate remained at 9.7 percent.

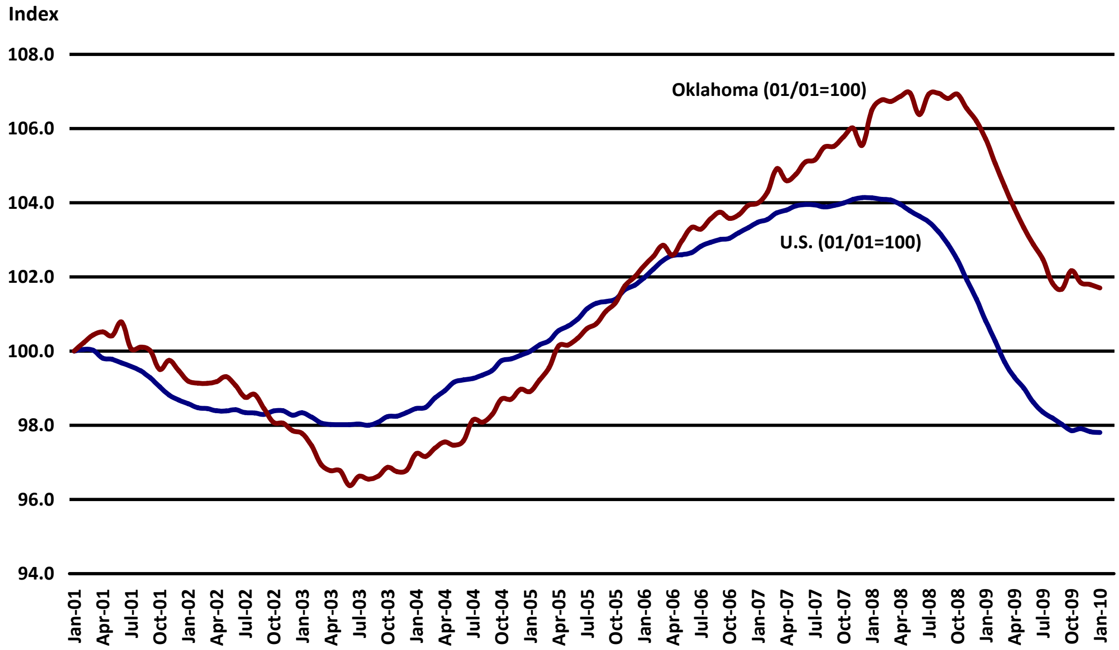
The U.S. Bureau of Labor Statistics recently reported that annual average unemployment rates rose in 2009 in all regions, divisions, and states. Michigan posted the highest unemployment rate for the fourth year in a row at 13.6 percent, followed by Nevada at 11.8 percent, and South Carolina at 11.7 percent. North Dakota registered the lowest jobless rate among the states at 4.3 percent, with Nebraska and South Dakota close behind at 4.6 and 4.8 percent, respectively. Oklahoma's annual average unemployment rate climbed from 3.7 percent in 2008 to 6.4 percent in 2009 for an over-the-year rate change of 2.7 percent.

Statewide, unemployment rates have been easing over the past several months. Oklahoma's unemployment rate for January 2010 stood at a seasonally adjusted 6.7 percent—down from November and December's 6.8 percent.

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.

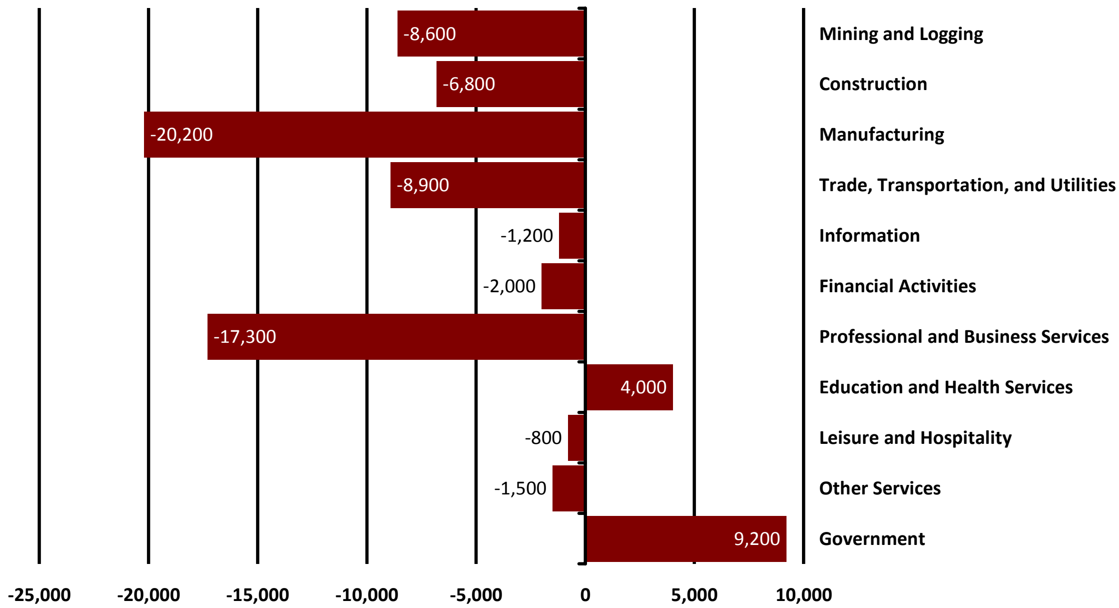
Oklahoma nonfarm payroll employment growth began slowing in early 2008, peaked in October 2008, and has been almost steadily declining through 2009.

Since peaking in December 2007, U.S. employment has averaged decreases of about 350,000 jobs a month, while Oklahoma's average monthly decline has been about 4,700 a month. By comparison, during the 2001 recession U.S. employment losses averaged 200,000 a month.

U.S. nonfarm payroll employment was little changed (-36,000) in February 2010. Employment fell in construction and information, while temporary help services added jobs. Over the past 12 months, employment has decreased by 2.5 percent or approximately 3.3 million jobs. Severe winter weather in parts of the country may have affected payroll employment and hours although precisely quantifying the extent of that impact is not possible.

January Oklahoma nonfarm payrolls contracted by 2.1 percent from December 2009 shedding 32,200 jobs. Over the year, Oklahoma nonfarm employment fell by 36,700 jobs, seasonally adjusted—a decline of 3.5 percent.

Oklahoma Employment Change by Industry
2008 - 2009
Source: U.S. Department of Labor, Bureau of Labor Statistics



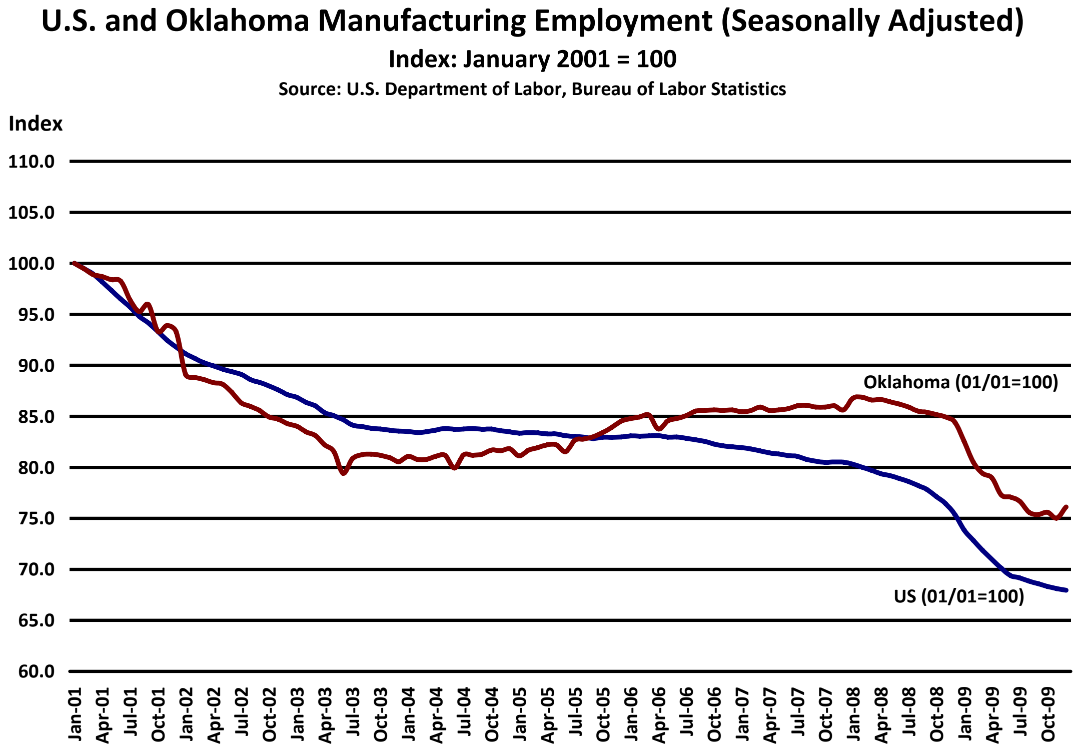
Employment growth by industry identifies the types of jobs being created in the state. Conversely, industries with a decreasing employment trend indicate those which are becoming less important in the state's economy. There may also be industries which behave more cyclically, growing during expansion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

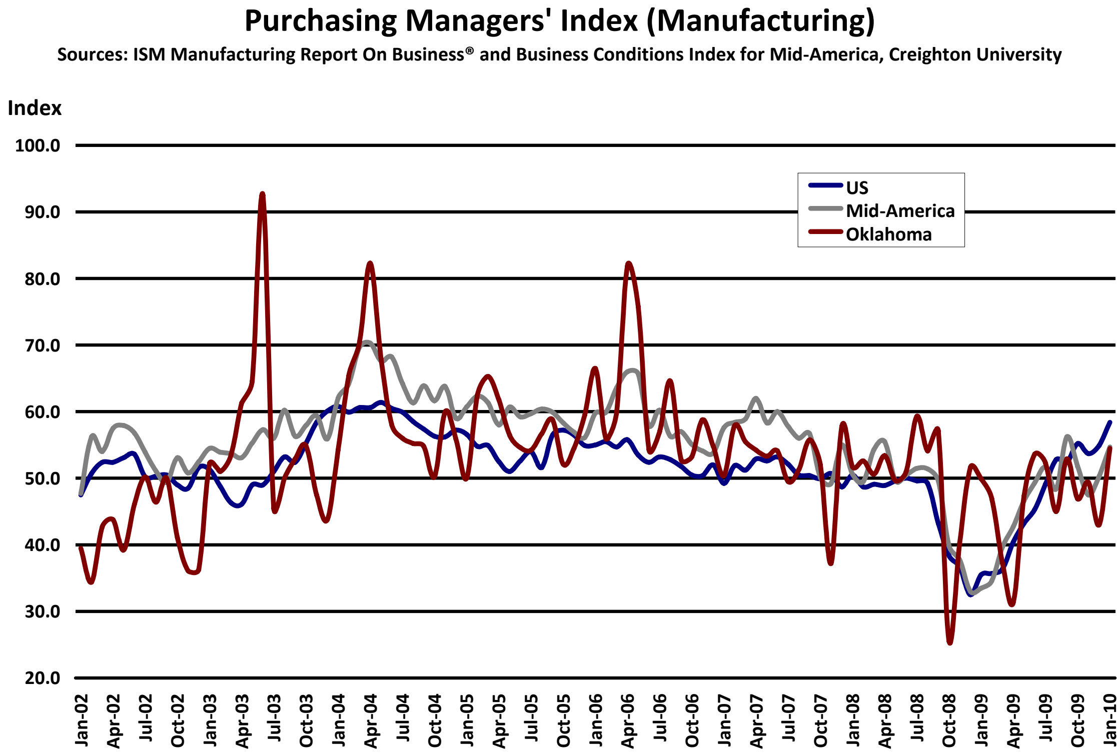


Manufacturing and production are still important parts of both the U.S. and Oklahoma economies and have been seriously adversely affected by the recession. In Oklahoma, manufacturing accounts for the largest share of private output in the state and one of the largest shares of employment. In addition,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

Employment in manufacturing was essentially unchanged in February. The industry has gradually stabilized in recent months. However, nearly 2.2 million manufacturing jobs have been lost since the recession began in December 2007.

Oklahoma manufacturing employment began to slowly decline during 2008 with the pace of job losses accelerating in 2009. Manufacturing employment picked up slightly in December 2009 but those gains were offset by losses in January. Over the year, manufacturing has shed 19,400 jobs from January 2009 to January 2010 for a 13.6 percent decline.



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, Typically, a score greater than 50 indicates an expansionary economy, while a score below 50 forecasts a sluggish economy for the next three to six months.

The PMI has been improving at the national level since bottoming out in late 2008 and early 2009. Economic activity in the manufacturing sector expanded in February for the seventh consecutive month albeit at a slower rate of growth than the previous month. Additionally, the February PMI indicated growth for the 10th consecutive month in the overall economy.

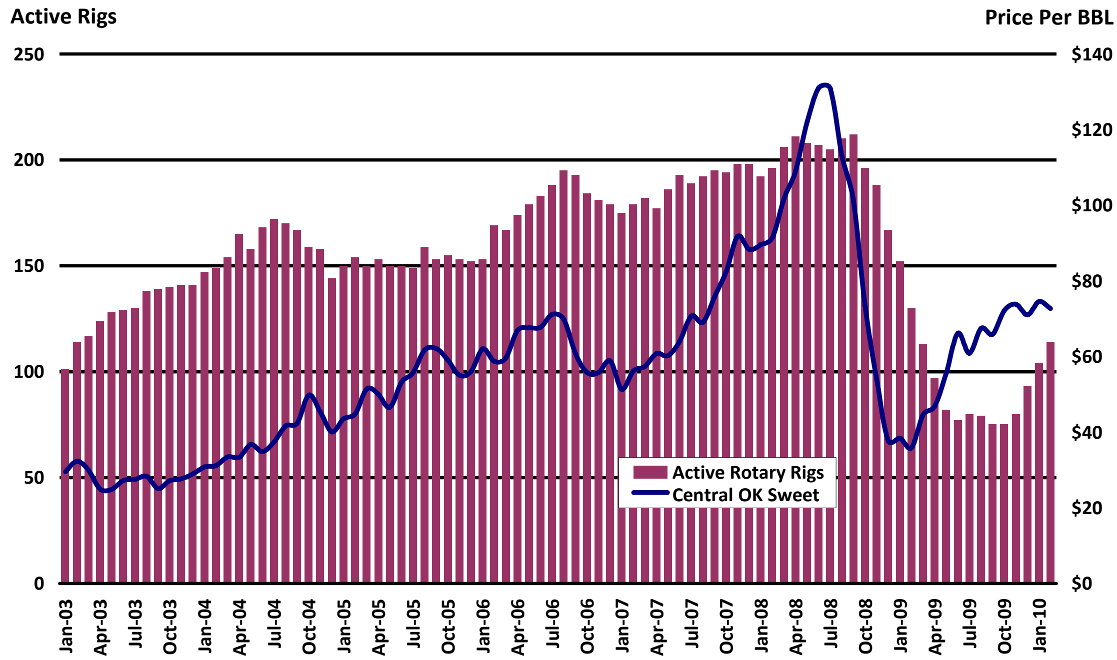
The Institute for Supply Management also noted that the past relationship between the PMI and the overall economy indicates that the average PMI for January and February (57.5 percent) corresponds to a 5.2 percent increase in real gross domestic product (GDP). Moreover, if the PMI for February is annualized, it corresponds to a 4.9 percent increase in real GDP annually

The February Business Conditions Index for the Mid-America region, a leading indicator from a survey of supply managers in a nine-state area (including Arkansas, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma and South Dakota), rose for the third straight month. The February index expanded to 61.0—the highest level in almost three years—up from 54.7 in January and 50.3 in December.

Although Oklahoma's PMI declined to 52.3 from January's 54.5, Oklahoma's index remained above growth neutral for the second straight month according to the monthly Mid-American Business Conditions Index. Components of February's index were new orders at 49.9, production or sales at 62.2, delivery lead time at 63.2, inventories at 47.8, and employment at 38.2.

Oklahoma Active Rotary Rigs & Price of Central Oklahoma Sweet

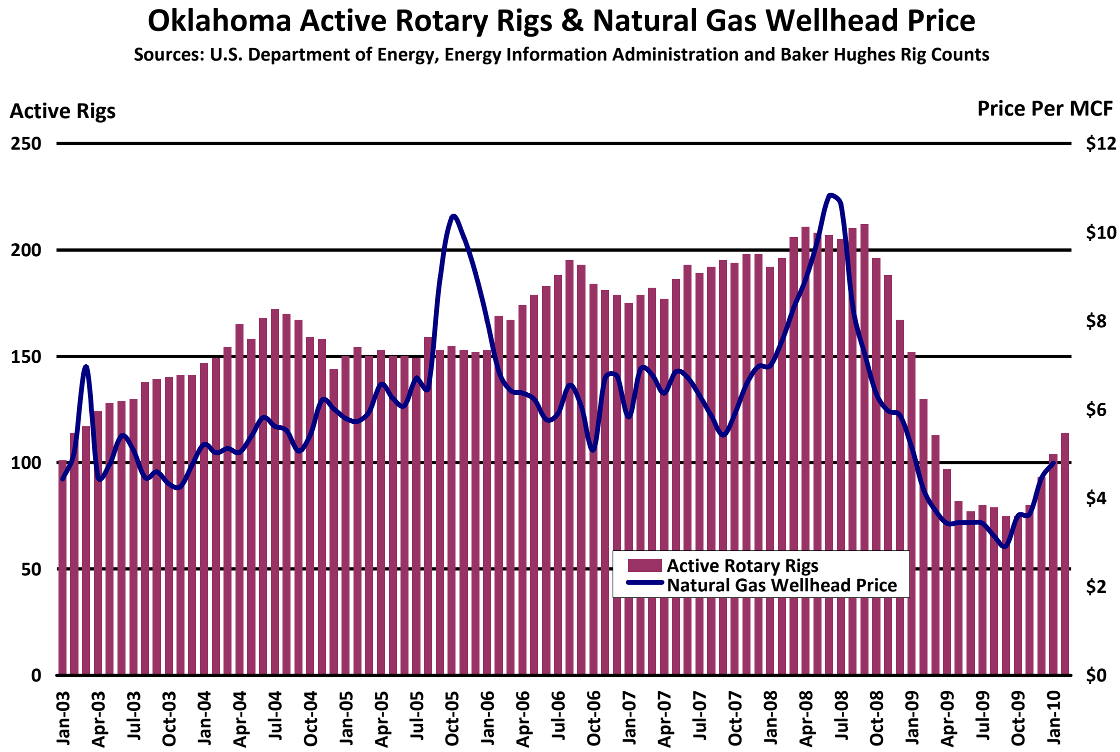
SOURCES: Conoco-Phillips Crude Oil Price Bulletin and Baker Hughes Rig Counts



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.

Oklahoma has a high concentration of corporate headquarters, regional offices and operations facilities of oil and gas firms as well as a more highly developed network of supporting firms in the manufacturing, transportation, legal and financial services sectors. As an export-oriented product, energy serves as a key economic base industry that serves non-local markets.

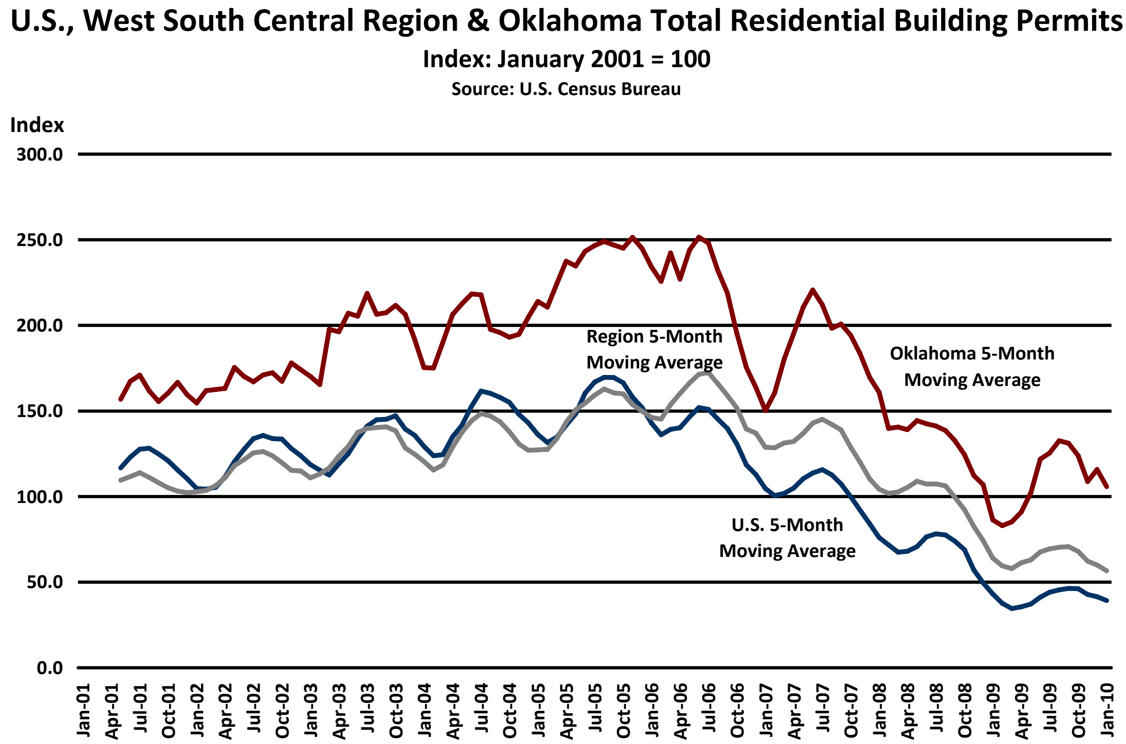
Energy production also generates significant purchases of goods and services from other sectors of the state's economy. The value each worker adds to the product is also quite high in energy production, allowing workers to earn well above average wages in the state. Moreover, the industry generates royalty income for mineral rights owners and large amounts of tax revenue for state and local government. In short, rapid expansion or contraction in the oil and gas sector is felt by the state's industry suppliers, households and state and local governments.



Energy prices have played a pivotal role in the current economic cycle. Oil prices climbed steadily from approximately $30 per barrel in 2003 to nearly $140 in 2008, while natural gas prices climbed from around $4 per mcf to above $10 per mcf in the same period. Surging energy prices weighed heavily on the national economy but provided an offsetting boost to Oklahoma. Both crude oil and natural gas prices set all-time highs in the summer of 2008.

Since peaking in 2008, crude oil prices had dropped to below $40 per barrel before recovering and stabilizing at around $70 per barrel, while natural gas prices experienced a sharp and sustained drop to near $3 per mcf. This reversal in energy prices underlies the weak performance of Oklahoma relative to other 'non-energy' states since early 2009.

The strength in oil prices is providing support to the industry and will partly offset continued low natural gas prices. However, an extended period of weakness in natural gas prices could be a substantial drag to economic recovery in Oklahoma.



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.

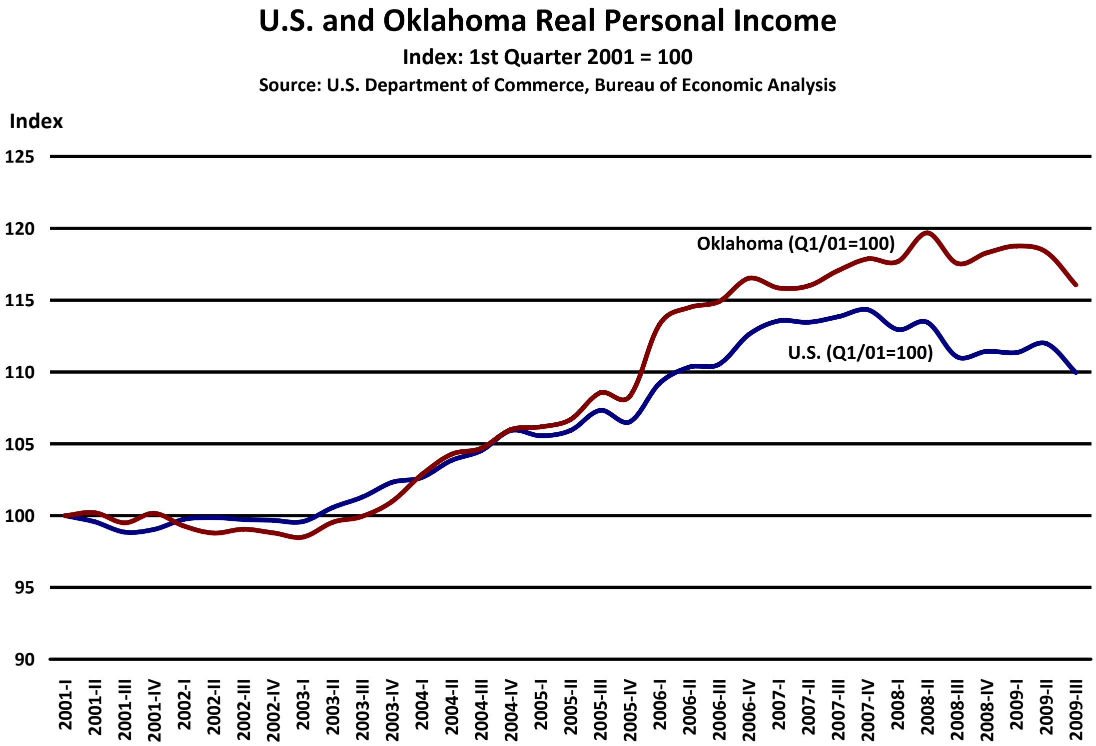
The bottom for U.S. single-family construction was reached in January 2009 when starts hit a seasonally adjusted annual rate of 353,000, their slowest pace since reliable records started being kept in 1959. With the extension and expansion of the home buyers' tax credit, builders are anticipating improved demand.

Privately-owned housing units authorized by building permits in February were at a seasonally adjusted annual rate of 612,000. This was 1.6 percent below the revised January rate of 622,000, but 11.3 percent above the February 2009 estimate.

The massive snow storms along the Eastern seaboard as well as continued wet weather throughout the South in February most likely impacted housing starts. Privately-owned housing starts were up in the West and Midwest, and down in the Northeast and South (which includes Virginia and the Washington D.C. area).

Due to the different magnitudes of permitting activity nationally, regionally and statewide, the data 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. January 2010 permitting activity slumped by 40.3 percent from December 2009 but was 23.0 percent above January 2009.



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.

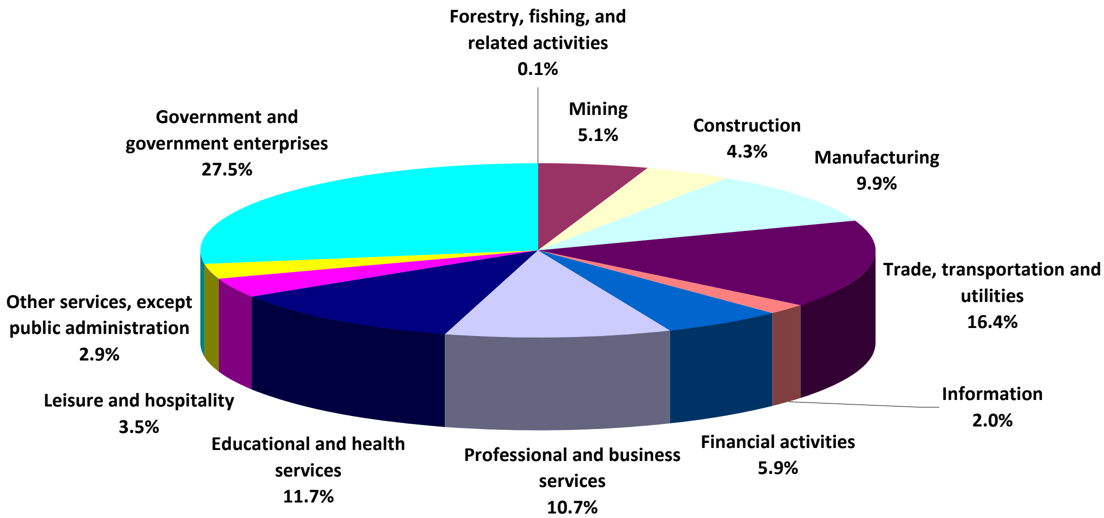
Nationally, personal income declined for the first three quarters of 2008, followed by a spike in the 2nd quarter of 2008, and subsequent drop in the 3rd quarter of 2009. Almost all of the 'spike' in the 2nd quarter was accounted for by cash rebates that taxpayers received from the federal government in the spring under the Economic Stimulus Act of 2008 rather than an underlying improvement in the economic picture.

Personal income increased $11.4 billion, or 0.1 percent, and disposable personal income (DPI) decreased $47.6 billion, or 0.4 percent, in January, according to the Bureau of Economic Analysis. The decrease in DPI reflected an increase in federal nonwithheld income taxes. Personal consumption expenditures (PCE) increased $52.4 billion, or 0.5 percent.

Industry Contribution to Oklahoma Personal Income

Third Quarter 2009

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

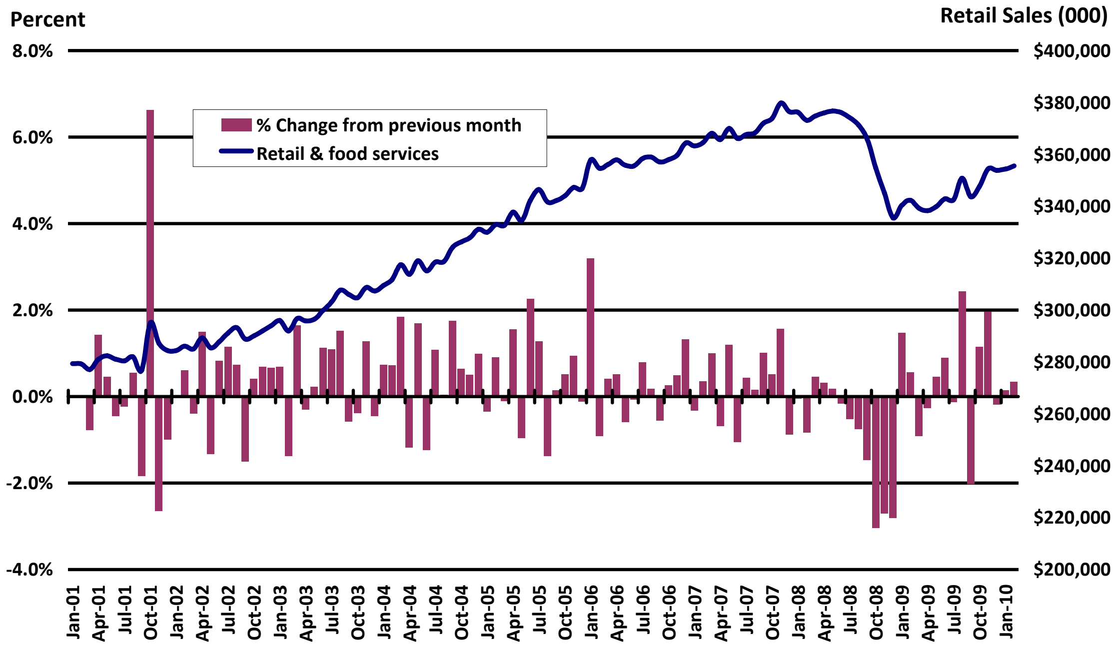


After peaking in the 2nd quarter 2008, Oklahoma personal income levels declined for three consecutive quarters. Oklahoma personal income rebounded in 3rd quarter 2009 growing by $238 million, or 0.2 percent. For comparison, U.S. state personal income growth averaged 0.3 percent in the third quarter of 2009. Personal income growth rates ranged from 0.9 percent in Alaska to -0.4 percent in Louisiana.

Both nationally and statewide, the industries making the largest contributions to third-quarter earnings growth were finance and health care. Smaller contributions of the other private service-producing industries were offset by declines in goods-producing industries. Although mining, construction, and manufacturing continued to decline in the third quarter, they subtracted less from third-quarter earnings growth than from second quarter growth.

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

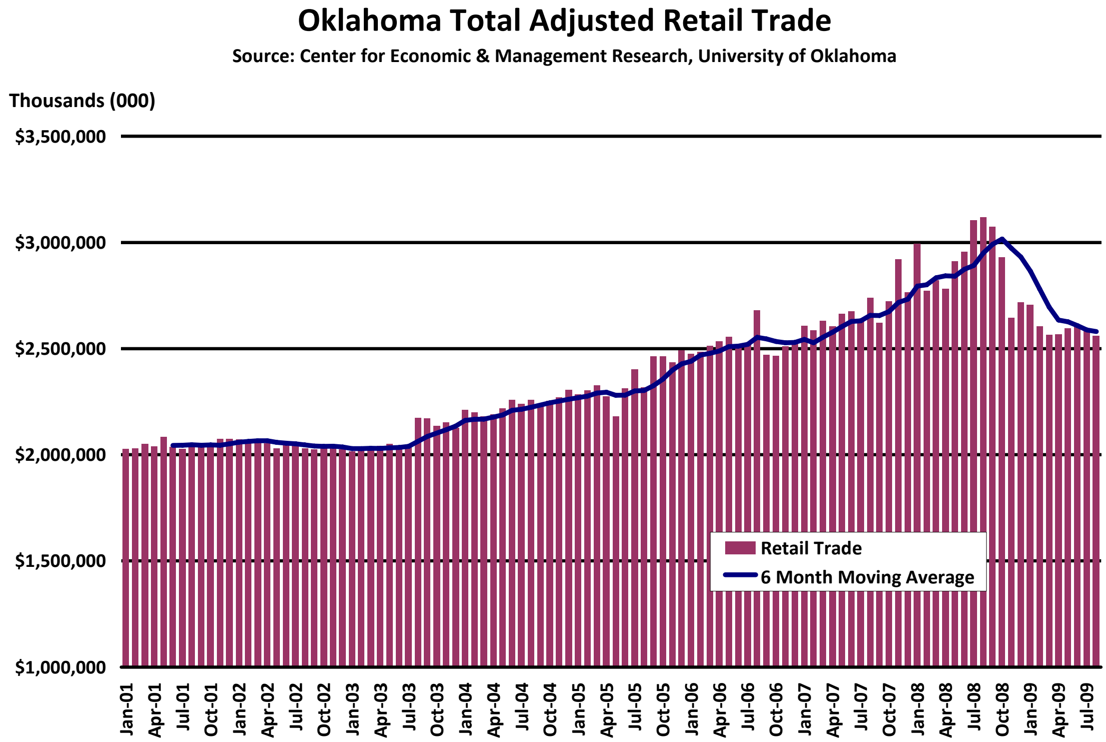


Consumer spending accounts for two-thirds of the U.S. economy, and is likewise, essential to Oklahoma's economy. Retail sales account for around one-half of consumer spending and economic recovery calls for consumption growth

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. Retail sales turned flat around the end of 2007 and began to fall from the middle of 2008 through the end of the year. So far in 2009, retail sales have been fluctuating, but generally flat.

Nearly half of the improvement in 3rd quarter 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 have been extended through April 2010.

U.S. retail sales posted an unexpected gain in February despite falling automobile demand amid trouble at Toyota and fierce blizzards that crippled the East Coast for days. Retail sales rose 0.3 percent in February from the previous month, the Commerce Department reported. Excluding the car sector, all other retail sales rose 0.8 percent. With the Super Bowl early in the month, sales at electronic store also soared.



U.S. consumers are shedding debt at the fastest rate in more than six decades. Total U.S. household debt, including mortgages and credit-card balances, fell 1.7 percent in 2009 to $13.5 trillion, the Federal Reserve reported recently—the first annual drop since records began in 1945. The debt amounts to $43,874 per U.S. resident.

Retail sales in Oklahoma peaked in August 2008 and have been generally declining since that time. Year over year retail sales for August 2009 were off $557.5 million—a decline of nearly 18 percent. For the first eight months of 2009, Oklahoma retail sales were down $2.7 billion—a decrease of 11.4 percent compared to the same period in 2008.