Oklahoma Economic Indicators
March 2011

Oklahoma Employment Security Commission
Economic Research and Analysis
http://oesc.ok.gov

OKLAHOMA
ECONOMIC INDICATORS

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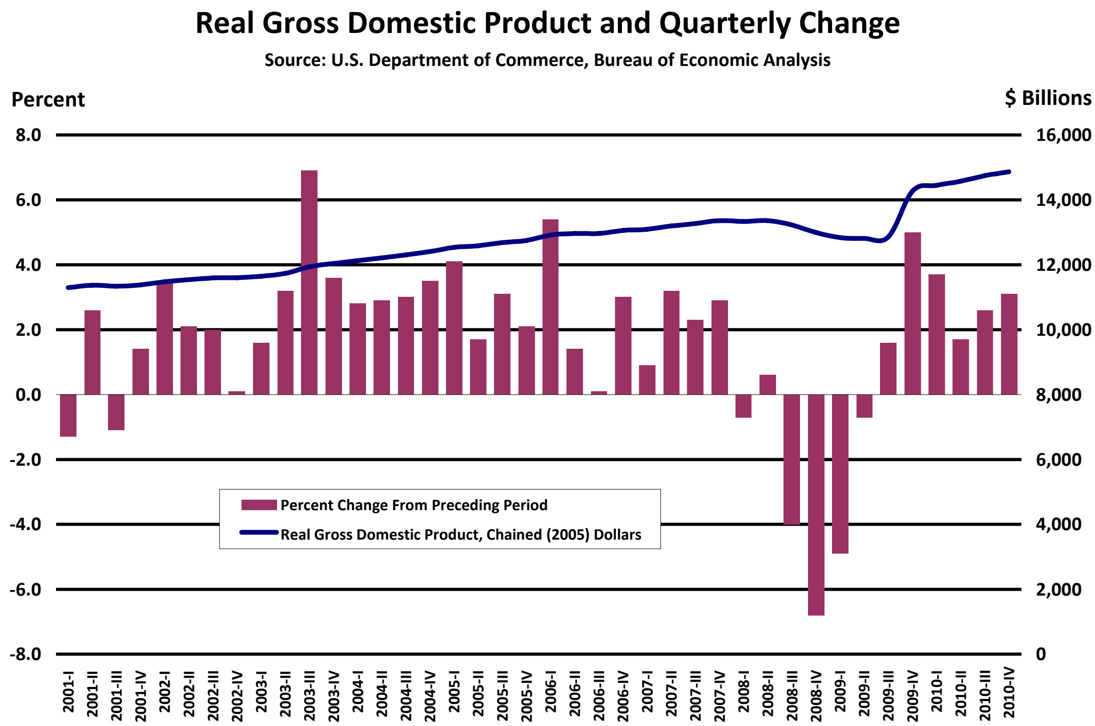


Gross Domestic Product (GDP)—the output of goods and services produced by labor and property located in the United States—is the broadest measure of economic activity. It is also the measure that is most indicative of whether the economy is in recession. In the post-World War II period, there has been 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 U.S. economy continued to pick up speed at the end of 2010, growing slightly more than previously thought thanks to strong exports and consumer spending. Real gross domestic product increased at an annual rate of 3.1 percent in the 4th quarter of 2010, according to the "third" estimate released by the Bureau of Economic Analysis (BEA). That represents an upward revision from the “second” estimate of 2.8 percent for the same period and the strongest performance since the start of last year, when the economy was growing at a 3.7 percent rate.

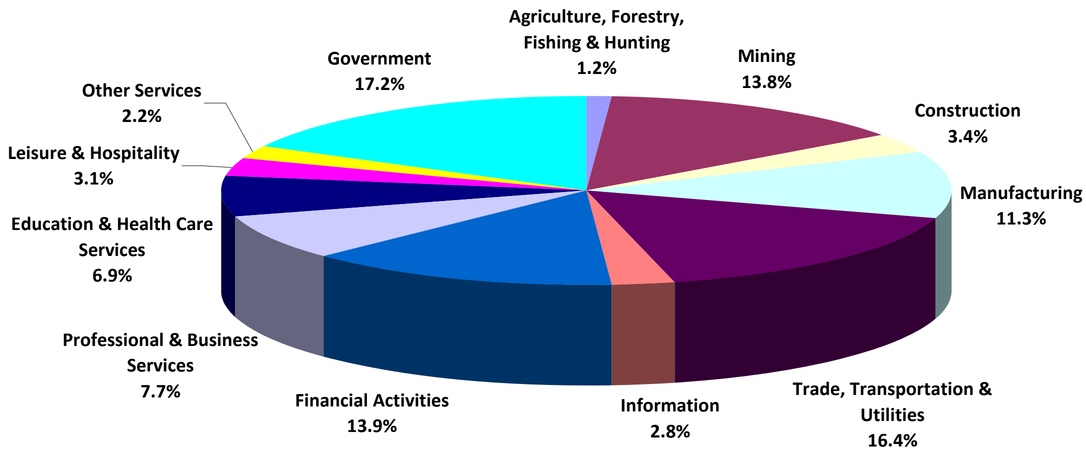
The upward revision in real GDP in the fourth quarter primarily reflected positive contributions from exports (up 8.6 percent), personal consumption expenditures (up 4 percent), and nonresidential fixed investment (up 7.7 percent), that were partly offset by negative contributions from private inventory investment and state and local government spending.

Last year, the economy grew 2.9 percent following a 2.6 percent drop in 2009—the biggest decline in more than six decades.

2009 Industry Share of Oklahoma's Economy

(by percentage of Gross Domestic Product)

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



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klahoma'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.

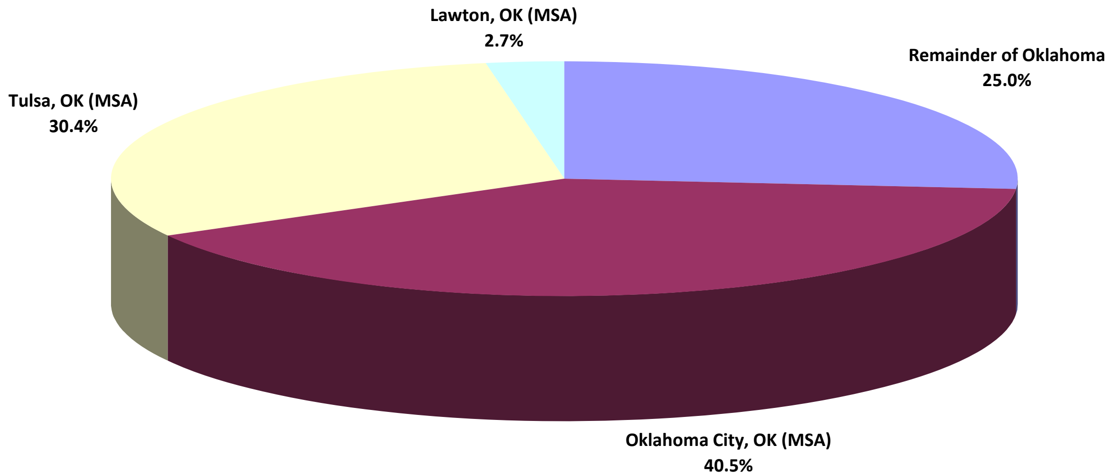
According to recently released data from the Bureau of Economic Analysis (BEA), real GDP declined in 38 states in 2009, led by national downturns in durable goods manufacturing and construction. However, Oklahoma experienced positive real GDP growth in 2009 due to real growth in mining resulting from sharp declines in prices for petroleum, natural gas, and other mining products. In 2009, Oklahoma had the fastest growth in real GDP among all states at 6.6 percent.

The largest contributor to growth in Oklahoma was mining, accounting for 7.23 percentage points of the total growth in real GDP. The second largest contributor was government which accounted for 0.56 percentage point of the total growth in real GDP. Since Mining's contribution was greater than the state growth rate and without this industry's input, Oklahoma GDP would have declined in 2009.

In 2009, government had the largest industry share in Oklahoma, accounting for 17.2 percent of total GDP. The second largest industry was the broad trade, transportation, and utilities industry accounting for 16.4 percent of Oklahoma GDP. Mining accounted for 13.8 percent of 2009 Oklahoma GDP.

Metropolitan Area Contribution to State Real Gross Domestic Product
2009

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



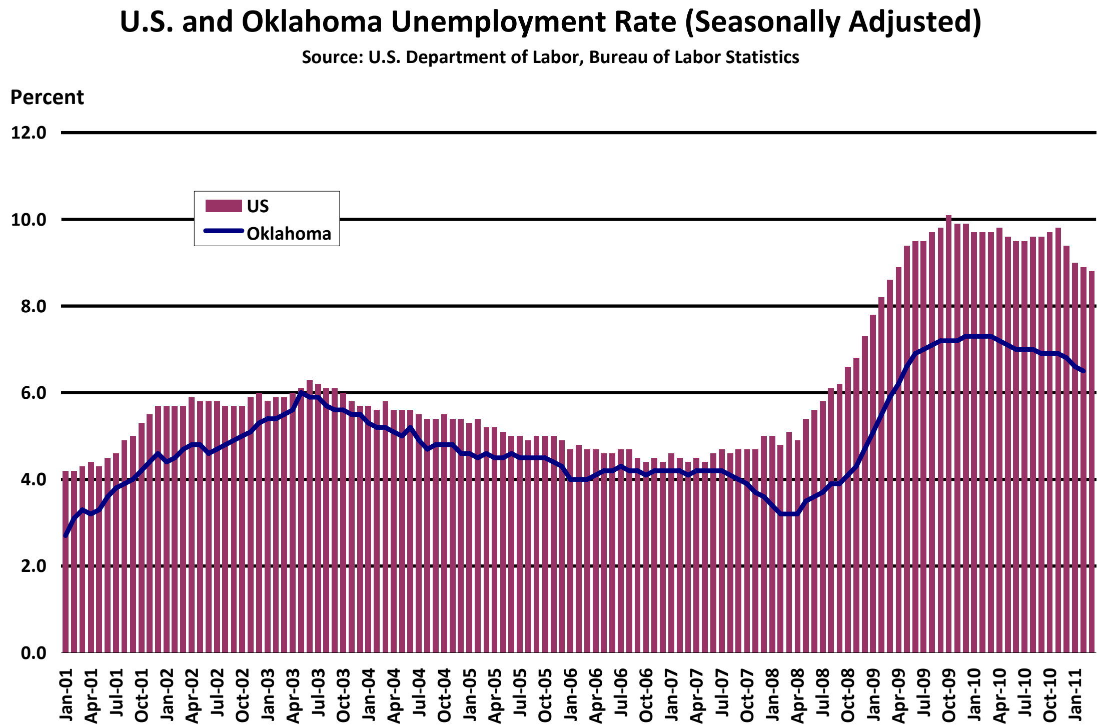
Metropolitan Statistical Areas (MSA) are the county-based definitions developed by the Office of Management and Budget for federal statistical purposes. A metropolitan area is defined as a geographic area consisting of a large population nucleus together with adjacent communities having a high degree 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 total state GDP in 2008.

Real U.S. GDP by metropolitan area declined 2.4 percent in 2009 after declining 0.4 percent in 2008, according to the Bureau of Economic Analysis (BEA). The economic decline was widespread as real GDP declined in 292 of 366 (or 80 percent) metropolitan statistical areas, led by national declines in durable-goods manufacturing, construction, and professional and business services.

In contrast to most industries, natural resources and mining was a strong positive contributor to growth in 2009. Growth accelerated in 70 metropolitan areas, most notably in areas where natural resources and mining industries are concentrated such as Casper, WY and Oklahoma City, OK where this industry contributed more than ten percentage points to growth.

In terms of growth in real GDP, Oklahoma City MSA ranked 3rd out of the 366 U.S. metropolitan areas growing by 14.5 percent to $59.5 billion in 2009. Tulsa MSA ranked 9th growing by 7.6 percent to $44.8 billion followed by Lawton MSA ranked at 17th growing by 4.8 percent to $4.0 billion.

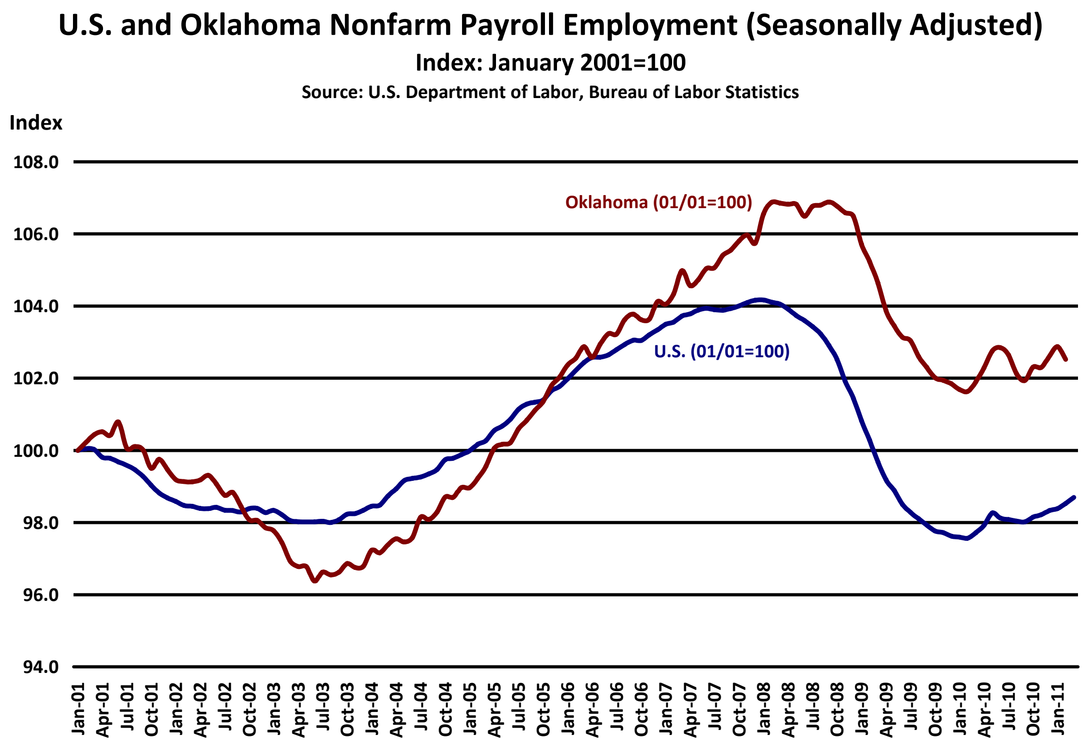


The unemployment rate measures the percentage of people who are without work and is calculated by dividing the estimated number of unemployed people in the state by the civilian labor force. The result expresses unemployment as a percentage of the labor force.

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 was little changed at 8.8 percent in March according to the Bureau of Labor Statistics (BLS). Nonetheless, the jobless rate has declined by one percentage point since November 2010. Over that period, unemployment declined by nearly 1.5 million, and employment rose by 1.4 million, leaving the labor force nearly unchanged on net (after accounting for the population adjustment in January).

Oklahoma’s seasonally adjusted unemployment rate dropped to 6.5 percent in February 2011, down by 0.1 percentage points from January and 0.8 percentage points from the 7.3 percent jobless rate a year ago. This was the tenth-lowest unemployment rate among all states in February. Nevada again had the highest unemployment rate at 13.6 percent while North Dakota had the lowest jobless rate at 3.7 percent in February.



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.

The U.S. economy continued to add jobs at a sustained pace in March as companies added workers at the fastest two-month pace since before the recession began. Nonfarm payrolls rose by 216,000 in March, with the private-sector adding 230,000 jobs, according to the Bureau of Labor Statistics (BEA). Job growth occurred in professional and business services, health care, leisure and hospitality, and mining. Manufacturing employment continued to trend up over the month. Since a recent low point in February 2010, nonfarm payroll employment has risen by 1.5 million. Private-sector employment rose by 1.8 million over the same period, an average of 138,000 per month.

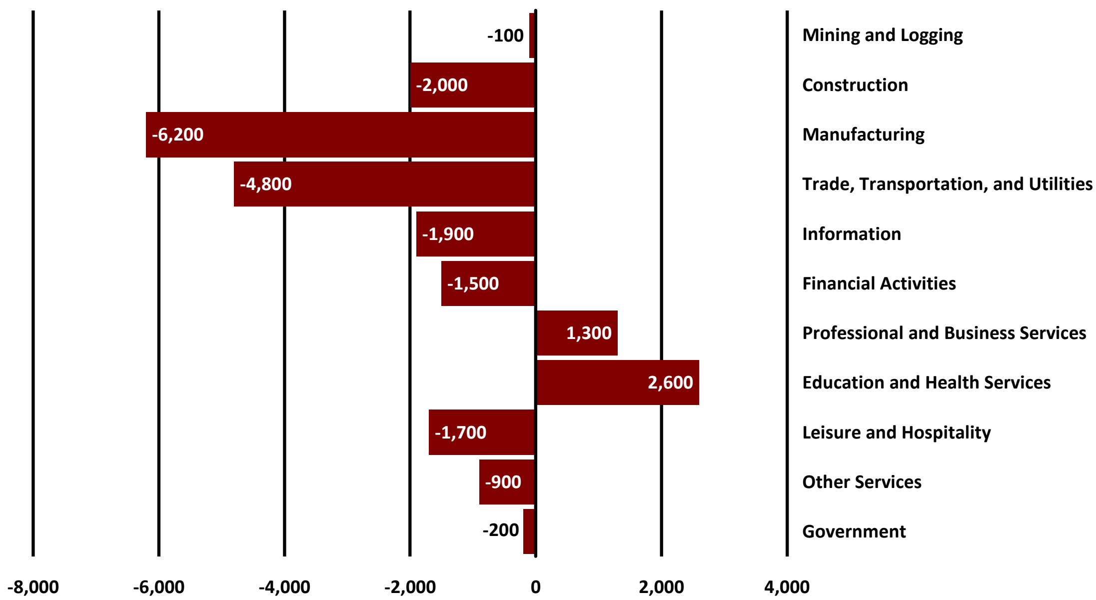
Oklahoma's seasonally adjusted nonfarm employment fell by 5,200 jobs in February. Large job losses were reported in a number of supersectors, including educational & health services (-3,100); leisure & hospitality (-2,500); and professional & business services (-2,400). The largest monthly gain came from trade, transportation & utilities (+2,500), with most of the over-the month job growth driven by retail trade (+2,200).

Over the year, state nonfarm employment grew by 13,300 jobs or 0.9 percent. Seven of Oklahoma's 10 statewide supersectors reported over-the-year gains in February, led by manufacturing adding 8,200 jobs. The largest over-the-year loss for February occurred in government which shed 6,000 jobs.

Oklahoma Employment Change by Industry

2009 - 2010

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



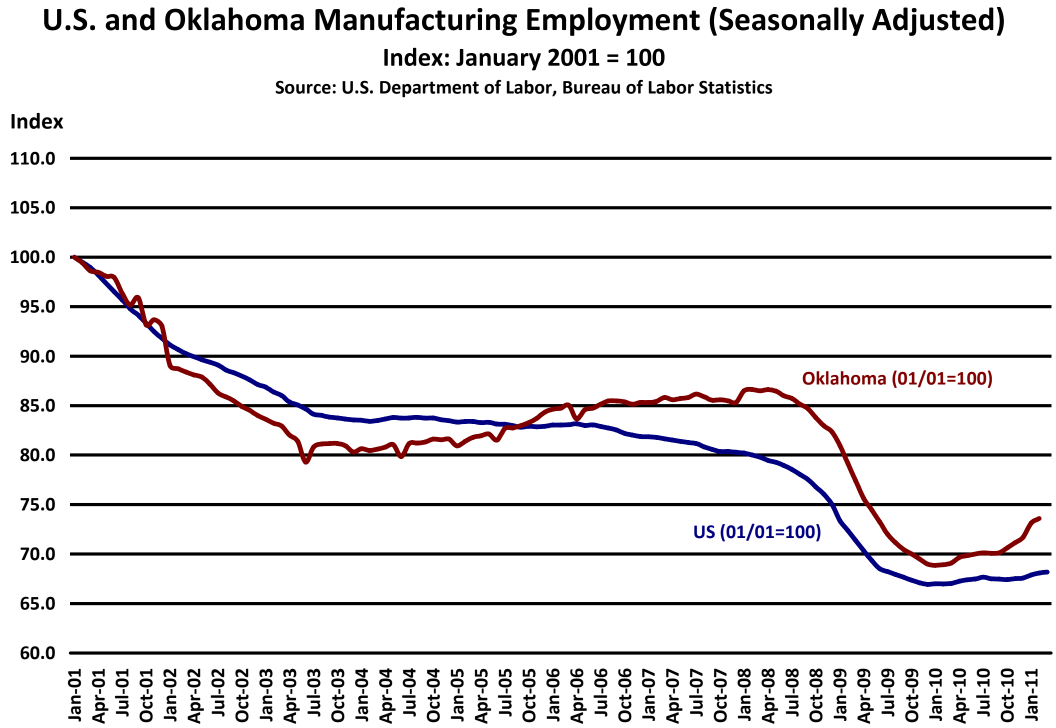
Employment growth by industry identifies the types of jobs being created in the state. Conversely, industries with a decreasing employment trend indicate those which are becoming less important in the state's economy. There may also be industries which behave more cyclically, growing during expansion 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 continued in 2010 albeit at a much slower pace than 2009 which, in terms of number of jobs lost (-50,800), was the worst year since record keeping began in 1939. Oklahoma total nonfarm employment shed 15,500 jobs in 2010 contracting 1.0 percent.

Job losses in 2010 were fairly widespread among most industry groups with education and health services (+2,600) and professional and business services (+1,300) being the only sectors experiencing job growth in 2010. Nearly all employment growth in education and health services came from the ambulatory health care service and hospital sectors. Professional and business services growth was led by employment services.

As in 2009, manufacturing suffered the largest employment losses in 2010 dropping 6,200 jobs after losing 20,500 in 2009. Durable goods manufacturing lost 5,400 jobs while non-durable goods manufacturing declined by 900 jobs. The broad trade, transportation and utilities sector followed with an over-the-year loss of 4,800 jobs. Leading the losses in this sector were truck transportation, retail trade and wholesale trade. Construction lost 2,000 jobs in 2010 with the bulk of the job losses being in specialty trade contractors.

The information sector employment fell by 1,900 jobs in 2010 with most of the job losses occurring in telecommunications and reflecting further consolidation in that industry. Leisure and hospitality employment fell by 1,700 with the majority of job losses in accommodation and food services. Other services employment dropped by 900 jobs, government lost 200 jobs and mining and logging edged down 100 jobs.

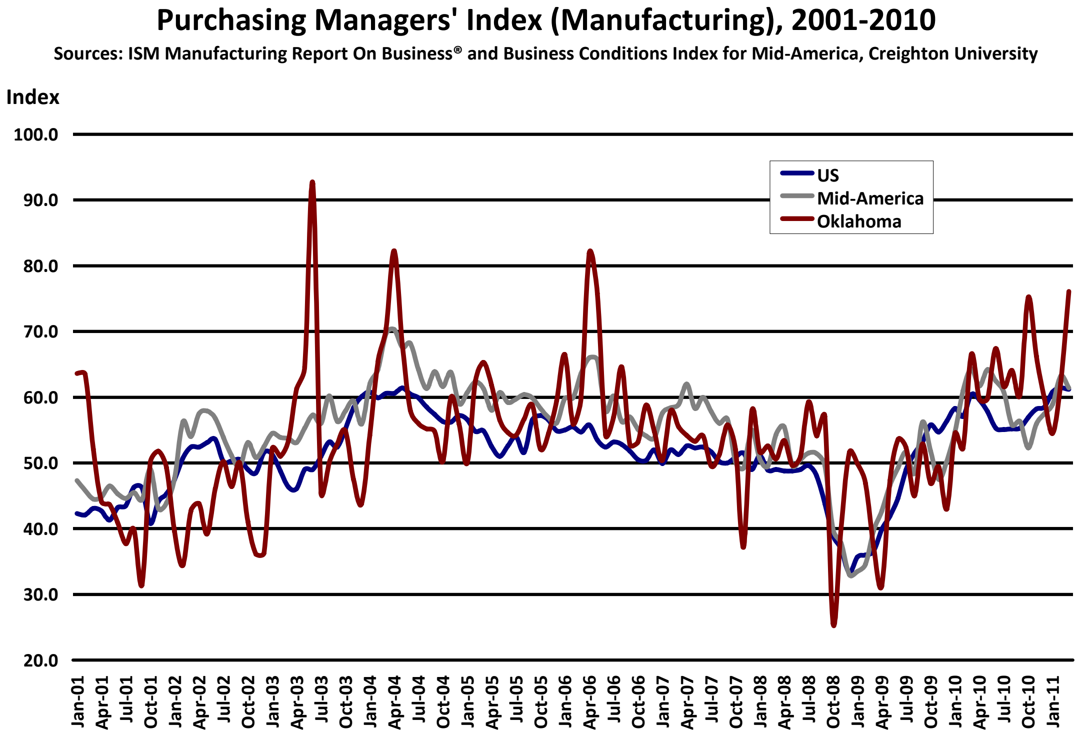


Manufacturing and production are still important parts of both the U.S. and Oklahoma economies and have been seriously adversely affected by the recession. In Oklahoma, manufacturing accounts for the largest share of private output in the state and one of the largest shares of employment. In addition, 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 continued to trend up in March adding 17,000 jobs. Factory job gains continued to be concentrated in durable goods, with over-the-month increases in fabricated metal products (+8,000) and machinery (+5,000).

The Oklahoma manufacturing sector showed continued strength in February adding 800 jobs. Manufacturing employment gains in February were in durable goods manufacturing with non-durable goods manufacturing remaining flat. Over the year, Oklahoma manufacturing employment has added 8,200 jobs growing by 6.8 percent. Almost all the employment growth came from durable goods manufacturing which added 6,700 jobs.



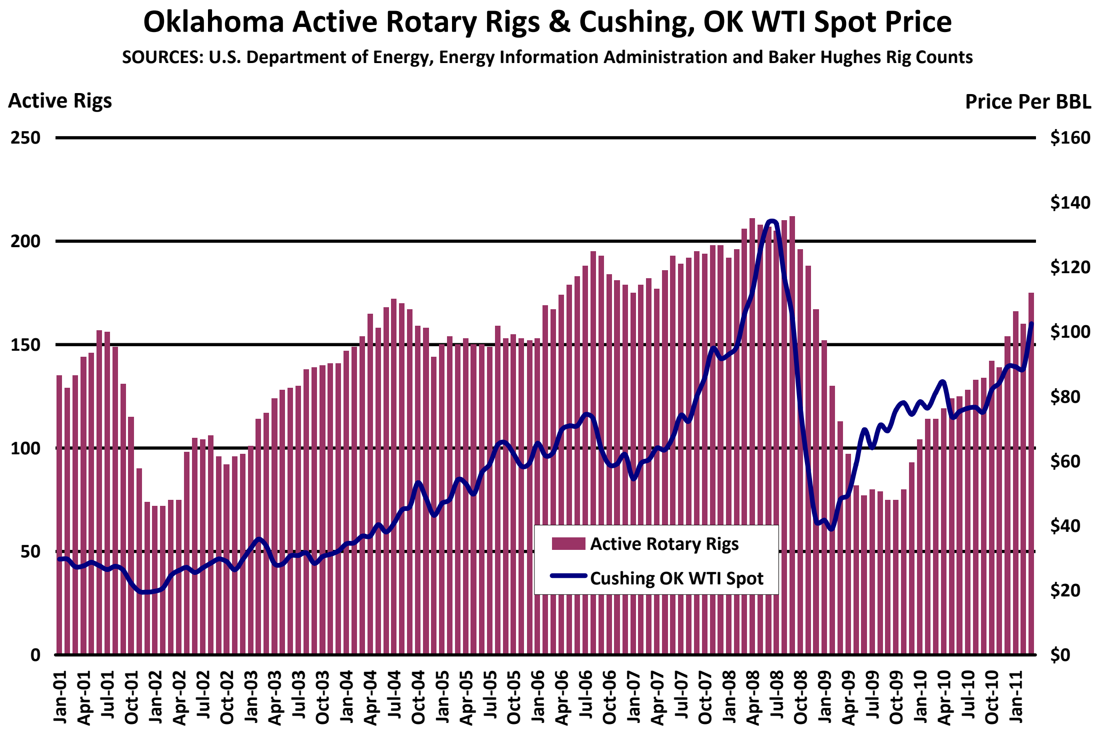
Economists consider the Institute for Supply Management's Purchasing Managers' Index (PMI) a key economic indicator. The Institute for Supply Management (ISM) surveys more than 300 manufacturing firms on employment, production, new orders, supplier deliveries, and inventories. The ISM manufacturing index 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.

New orders, export orders and backlog orders slowed during March in an otherwise solid ISM manufacturing report. Manufacturing continued its rapid growth in March as the PMI registered 61.2 percent, a decrease of 0.2 percentage point when compared to February's reading of 61.4 percent, according to the latest Manufacturing ISM *Report On Business®*. The PMI has registered above 60 percent for the past three consecutive months.

The ISM report noted that while manufacturers are benefiting from strength in new orders and production, there is significant concern with regard to commodity prices. Input prices remain severely elevated but are not likely to be distorting the ISM's data which are based on volume, not dollar totals. On the impact of the Japanese situation, the ISM says it's still too early to see any impact which it suspects will ultimately be centered in technology and autos.

For the first time since October of last year, the Business Conditions Index, a leading economic indicator for the nine-state Mid-America region, declined but remained in a range pointing to healthy economic growth for next three to six months. The index slipped to 61.4 from 63.2 in February. This is the 16th consecutive month that the index has been above growth neutral. However, inflation remains a concern going into to the coming months.

For the 15th straight month, Oklahoma's leading economic indicator remained above growth neutral. The Business Conditions Index from the monthly survey of supply managers jumped to 76.1 from February's 62.2. Components of the March index were new orders at 78.5, production or sales at 77.4, delivery lead time at 94.7, inventories at 74.6, and employment at 55.3.



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.

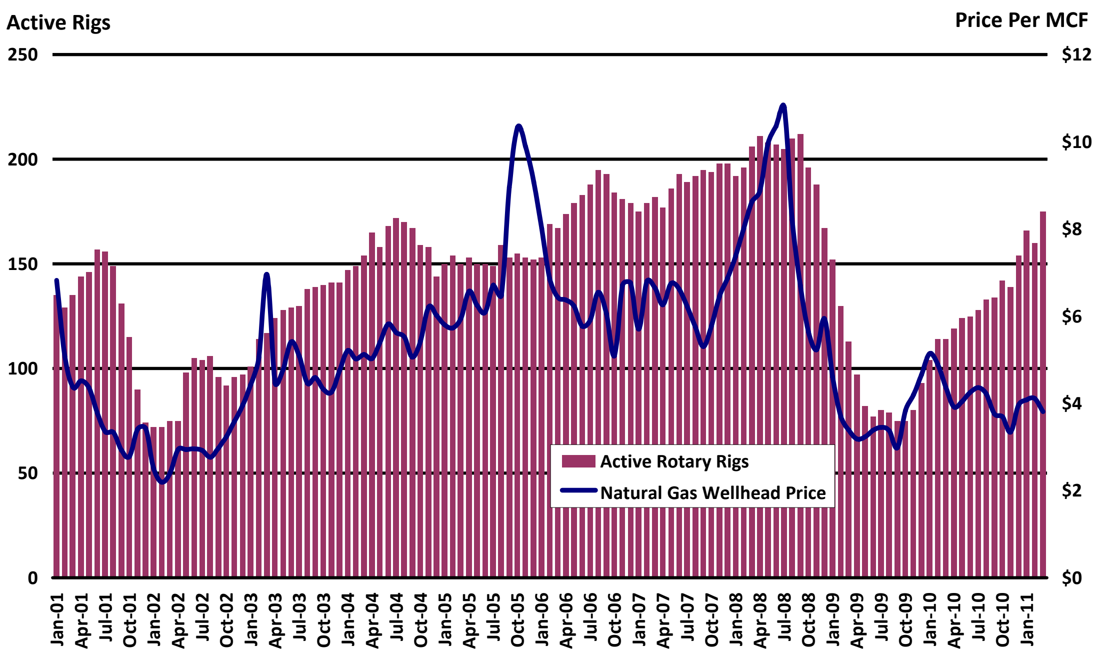
An oil glut at Cushing is costing Oklahoma oil producers and the state millions in revenue. The glut is not a function of temporary supply and demand interruptions, but rather a longer-lasting infrastructure problem. Cushing the delivery point for the benchmark West Texas Intermediate futures contract, which has sold for well below the European Brent benchmark, in part because swelling shipments of Canadian oil into the hub have pushed storage levels to record highs. Canada is the biggest exporter of oil to the U.S. and is sending so much oil to the U.S. that our pipelines and storage facilities can't handle it. The bottleneck, according to Reuters, is being caused by a shortage of pipelines from Cushing to move the oil to the Gulf coast for refining. In addition, Cushing does not have enough storage tanks handle the oil.

WTI-Cushing crude oil spot prices surged to $102.65 per barrel in March from $88.58 in February, according to the EIA. WTI-Cushing and other crude oil spot prices have risen about $15 per barrel since mid-February partly in response to the disruption of crude oil exports from Libya. Continuing unrest in Libya as well as other North African and Middle Eastern countries has led to the highest crude oil prices since 2008. As a result, EIA has raised its forecast for the average cost of crude oil to refiners to $105 per barrel in 2011, $14 higher than in the previous forecast. However, EIA has raised its 2011 forecast for WTI by only $9 per barrel to $102 per barrel because of the projected continued price discount for this type of crude compared with other crudes.

Oklahoma’s rotary rig activity grew to 175 in March, a gain of 15 active rigs from February’s count of 160 and 61 more than the March 2010 count of 114 rigs.

Oklahoma Active Rotary Rigs & Natural Gas Wellhead Price

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

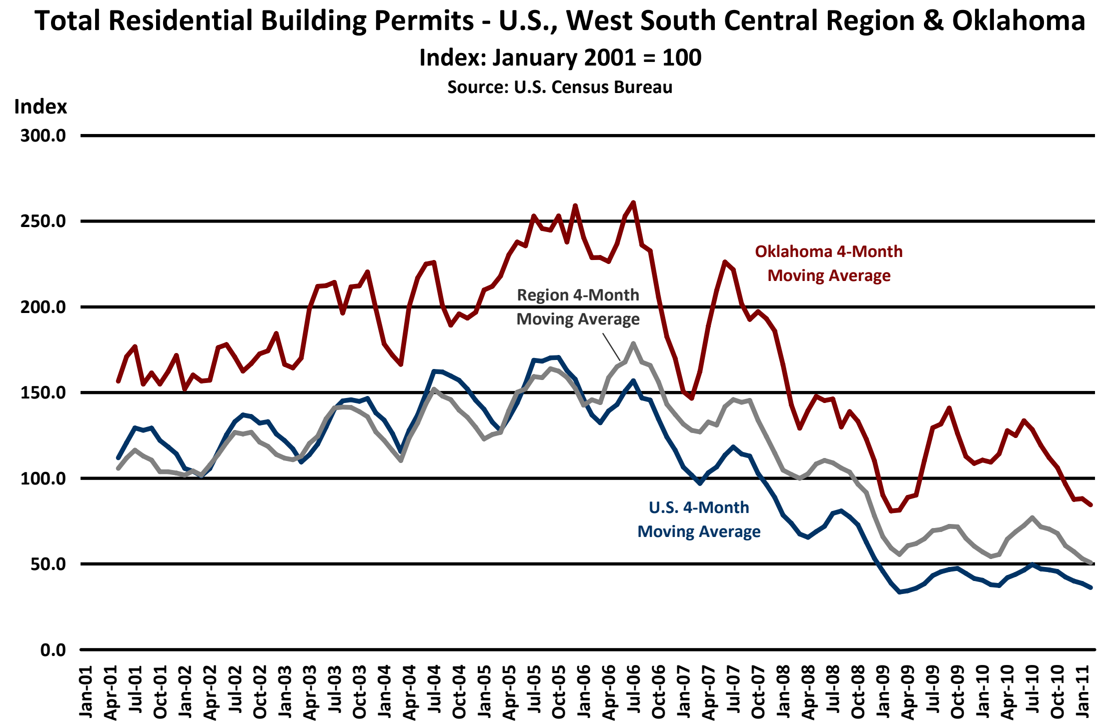


Oklahoma is one of the top natural gas producers in the United States with production typically accounting for almost one-tenth of the U.S. total. More than a dozen of the 100 largest natural gas fields in the country are found in Oklahoma and proven reserves of conventional natural gas have been increasing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

In 2010, U.S. shale gas production reached 4.87 Tcf (23 percent of total U.S. natural gas production), compared with 0.39 Tcf in 2000, according to the U.S. Energy Information Administration (EIA). This shows both the rapid growth and absolute importance of the shale gas resource to the United States. Rising production from shale gas resources has been credited with both lower natural gas prices and declining dependence on imported natural gas. As is often the case with resource development, shale gas production also has raised local environmental concerns, largely centering on the amount of water used in the fracturing process and the need to handle, recycle, and treat fracturing fluids in a manner that addresses the risk of spills that can potentially affect water quality.

Cooler-than-normal temperatures helped to briefly lift natural gas cash market prices at nearly all domestic pricing points during the week ending March 30, after which general price declines continued. Uncertainty over future natural gas prices is slightly lower this year compared with last year at this time. Natural gas futures for May 2011 delivery (for the 5-day period ending March 3) averaged $3.98 per MMBtu.



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.

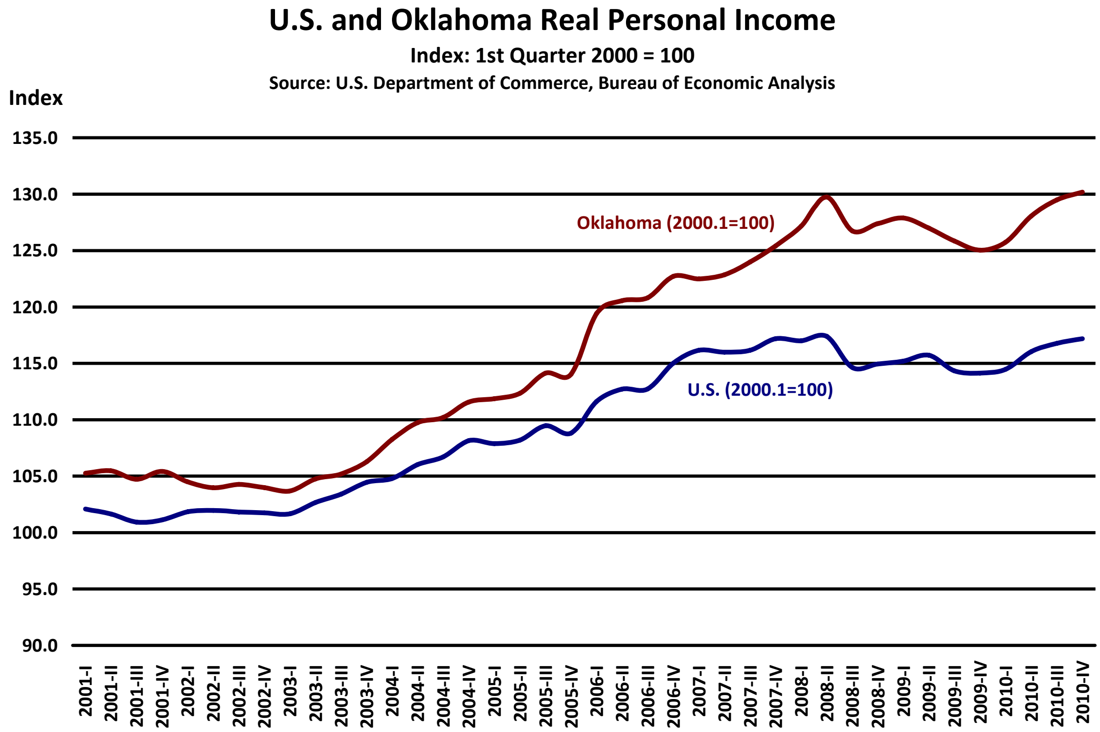
Housing contributes to GDP in two basic ways: through private residential investment and consumption spending on housing services. According to the National Home Builders Association, residential investment has historically averaged roughly 5 percent of GDP while housing services have averaged between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

Due to the different magnitudes of permitting activity nationally, regionally and statewide, the data illustrated in the above chart have been indexed with January 2001 as the base. Monthly figures are also often volatile; housing starts fluctuate more than many indicators. It takes several months for total housing starts to establish a trend. Consequently, we have depicted total starts relative to a four-month moving average.

There has been little news to cheer about in the housing sector of late, including the most recent data. Privately-owned housing units authorized by building permits in February were at a seasonally adjusted annual rate of 517,000. This is 8.2 percent below the revised January rate of 563,000 and is 20.5 percent below the February 2010 estimate of 650,000, according to the Census Bureau.

Oklahoma residential permitting activity declined by 2.1 percent in February. Single family permitting slipped 3.2 percent while multi-family permitting grew by 29.2 percent. Year to date, residential permitting has fallen 25.2 percent compared to the first two months of 2010, single family permitting is down 4.7 percent and multi-family permitting declined by 81.5 percent.

The bottom line is that housing demand is still soft and inventories of single-family houses are still high.



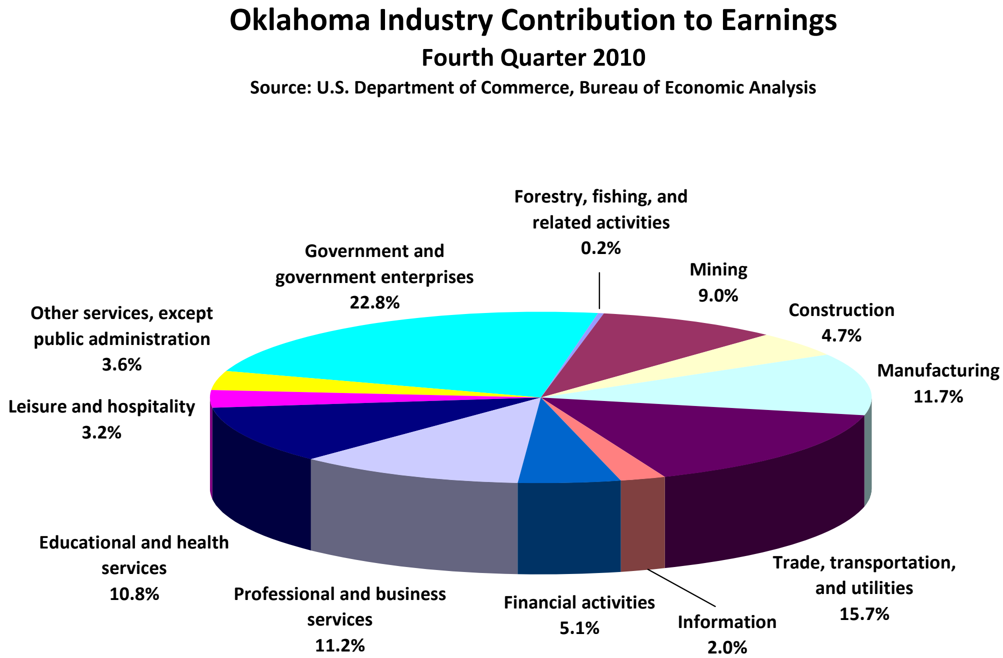
Personal income is a broad measure of economic activity and one for which relatively current data are available. Personal income includes earnings; property income such as dividends, interest, and rent; and transfer payments, such as retirement, unemployment insurance, and various other benefit payments. 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 1st quarter 2001 as the base year.

Consumers continued to spend in February although a large part the spending was on autos and gasoline. Personal income increased $38.1 billion, or 0.3 percent, and disposable personal income (DPI) increased $36.0 billion, or 0.3 percent in February, according to the Bureau of Economic Analysis (BEA). In January, personal income increased $147.4 billion, or 1.2 percent, DPI increased $92.0 billion.

Consumer spending in February was again led by auto sales and higher gasoline prices. Personal consumption expenditures jumped 0.7 percent, following a 0.3 percent rise in January.

Other than concerns about inflation eroding spending power, the consumer sector appears to be doing fine. Income and spending numbers have been a little volatile lately but over the last two months both have been relatively strong.



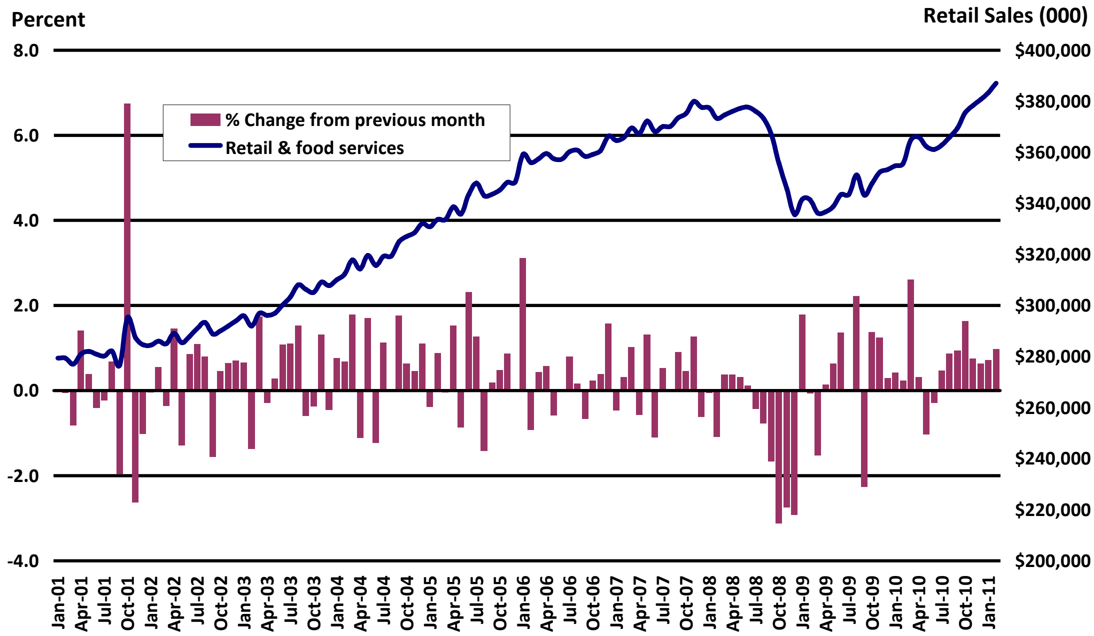
State personal income rose an average 3.0 percent in 2010 after falling 1.7 percent in 2009, according to recently released estimates by the Bureau of Economic Analysis (BEA). State personal income growth ranged from a low of 0.3 percent in Nevada to a high of 4.2 percent in New Mexico. Inflation, as measured by the national price index for personal consumption expenditures, increased to 1.7 percent in 2010 from 0.2 percent in 2009.

Earnings in 14 industries nationwide, including manufacturing and finance, grew last year but remained below the peaks of 2008 or earlier. Construction and real estate continued to decline, according to the BEA. Two industries, construction and real estate, continued to decline in 2010. The 4.8 percent decline in construction brought earnings in that industry to its lowest level since 2001 and the 2.3 percent decline in real estate brought its earnings to the lowest level since 2000. Health care increased its share of earnings to 11.2 percent in 2010 up from 11.0 percent in the previous year. Health care overtook manufacturing as the largest private industry in 2009 as it continued to expand through the recession while manufacturing earnings declined.

Oklahoma's personal income grew by 3.4 percent in 2010 ranking it the 15th fastest growth rate among states. Total earnings grew by 1.8 percent after falling 3.8 percent in 2009. The largest contributors to 2010 earnings growth were health care and social assistance (0.29 percent); retail trade (0.21 percent); and military (0.20 percent). Utilities, wholesale trade, information, and financial activities earnings presented the largest drags to 2010 earnings 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

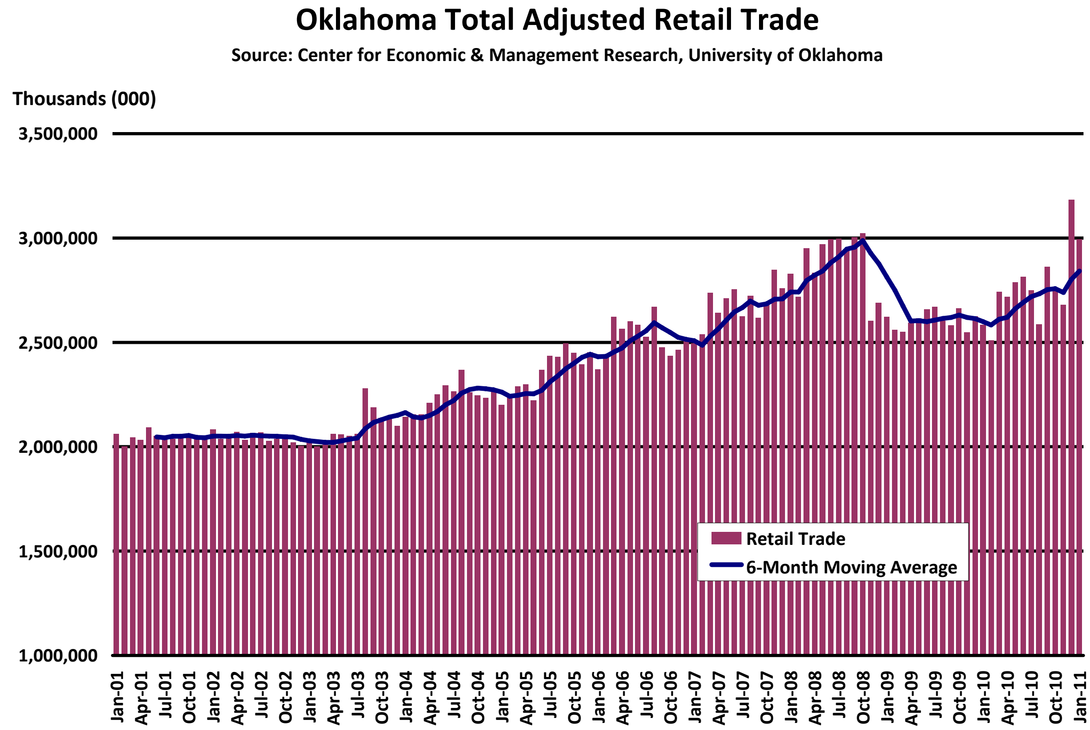


Consumer spending accounts for two-thirds of the U.S. economy and is therefore essential to Oklahoma's economy. Retail sales account for around one-half of consumer spending and economic recovery calls for consumption growth

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.

Retail sales jumped to the fastest rate in four months in February as consumers stepped up spending after the January snowstorms. Advance estimates of U.S. retail and food services sales for February, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $387.1 billion, an increase of 1.0 percent from the previous month, and 8.9 percent above February 2010, according to the Census Bureau. Although a notable part of this increase was price related on higher gasoline prices.

The February boost in sales was led by a 2.3 percent jump in sales of motor vehicles & parts with gasoline sales up 1.4 percent. Nearly all other major components were quite robust. Other notably strong components were sporting goods, hobby, book & music stores, up 1.3 percent, and food services & drinking places, up 1.2 percent. Excluding motor vehicles, sales were up a year-ago 6.0 percent, compared to 6.4 percent in January. Despite price effects, the latest retail sales numbers reflect a strong showing by the consumer.



Retail sales in Oklahoma cooled off in January following a robust Christmas shopping season. January total adjusted retail trade was down $187.8 million or 5.9 percent from December but 15.9 percent over January 2010, according to OU's Center for Economic and Management Research.

Monthly losses in January were led by non-durable goods sales slipping 7.8 percent from December. Estimated gasoline saw the largest decline falling 29.1 percent following a sharp spike in pump prices in December. Other declines in non-durable goods sales were seen in eating and drinking (-14.0 percent) and food (-9.2 percent). Gains in other non-durable goods categories included miscellaneous non-durable goods sales (16.1 percent), apparel sales (38.9 percent), drugs sales (13.7 percent), general merchandise store sales (11.4 percent), and liquor sales (10.6 percent).

Durable goods sales grew by 0.7 percent over December with gains seen in miscellaneous durables (10.9 percent), used merchandise (9.0 percent), electronics & music stores (6.1 percent), furniture (5.7 percent), and auto accessories & repair (1.5 percent). The only durable goods category showing losses was lumber & hardware (-7.5 percent).