OKLAHOMA
Economic Indicators

March 2013

OKLAHOMA ECONOMIC INDICATORS

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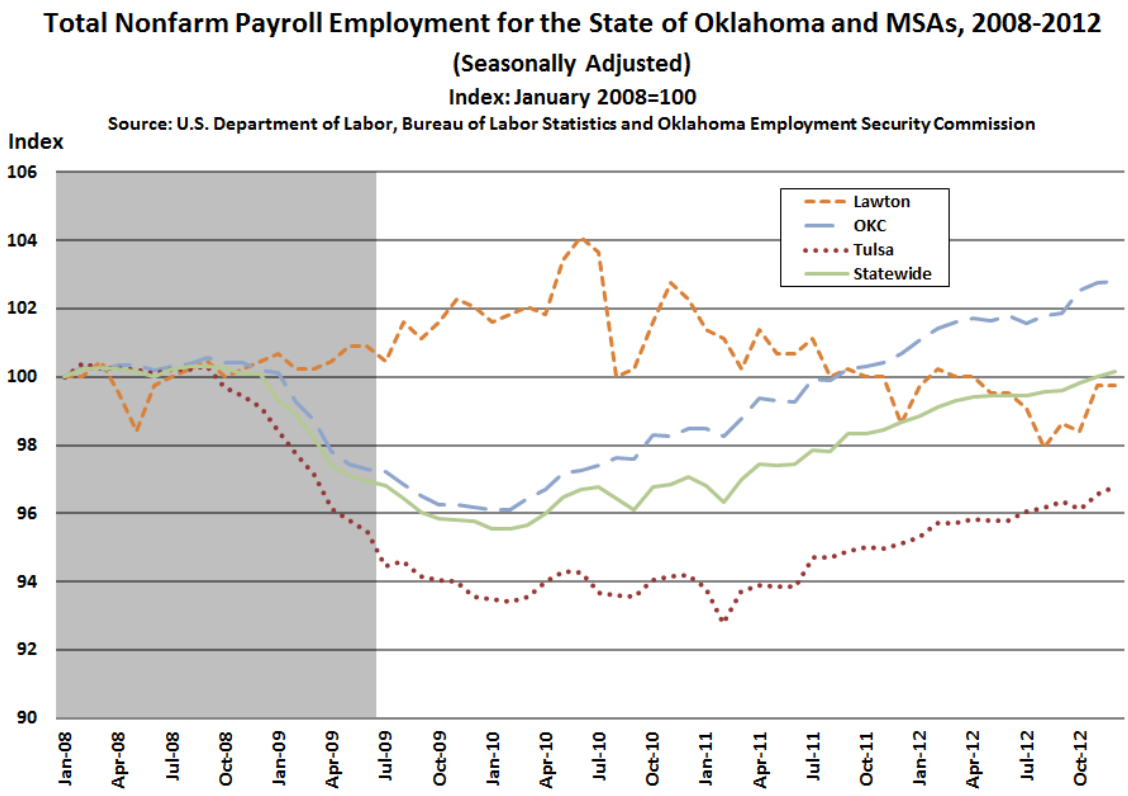
SPECIAL REPORT: Changes in Total Nonfarm Employment for Oklahoma and Metro Areas, 2008-2012



NOTE Shaded area represents National Bureau of Economic Research defined recession period.

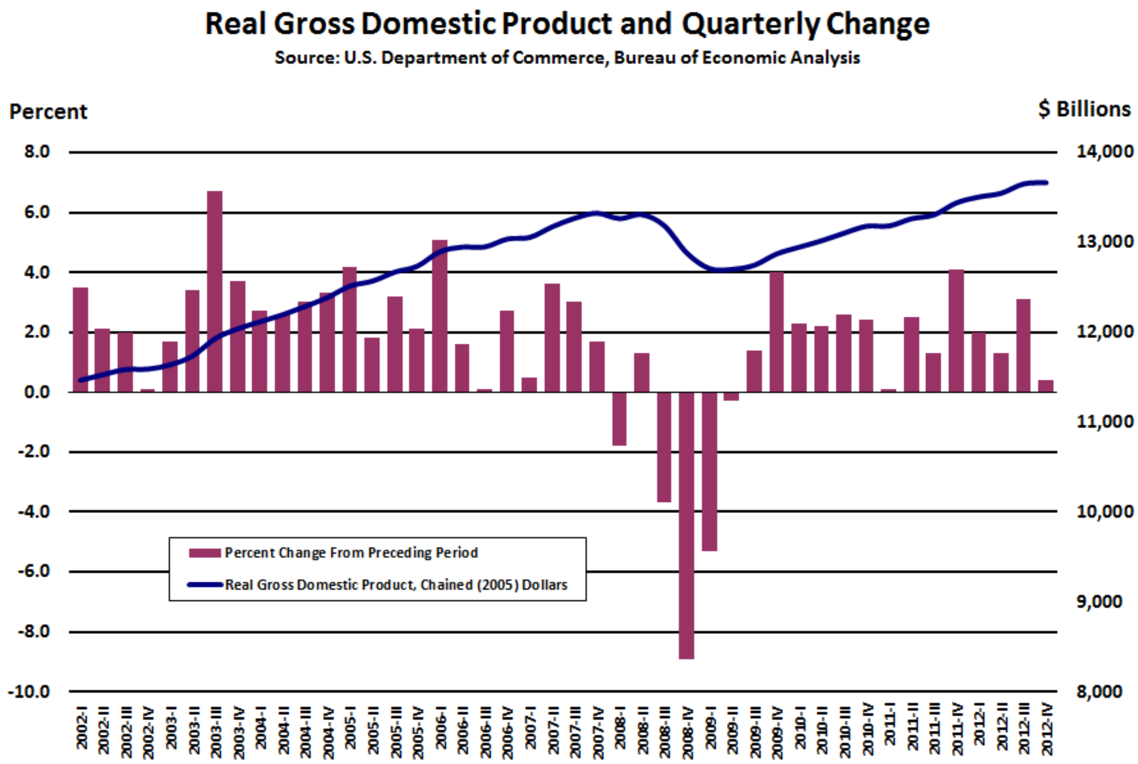
The Current Employment Statistics (CES) program is a monthly survey conducted by the Bureau of Labor Statistics providing employment, hours, and earnings estimates based on payroll records of business establishments. The CES monthly employment series are the first economic indicator of current economic trends each month and, together with the unemployment rate, are inputs to many gauges of the U.S. economy including: the overall health of the economy (employment); earnings trends and wage-push inflation (average hourly earnings); and short-term fluctuations in demand (average weekly hours). The CES employment series can also inform other areas of business, research, and policy such as public policy, economic research and planning, and industry studies.

To account for the size disparity between the State of Oklahoma and metropolitan statistical areas (MSA), the data have been indexed with January 2008 as the start value.

According to the National Bureau of Economic Research (NBER), the last recession began December 2007 and ended June 2009. Payroll employment for the state as well as for the Lawton MSA, Oklahoma City MSA, and Tulsa MSA experienced modest growth until September 2008. After September 2008, payroll employment began falling for the state, Oklahoma City, and Tulsa and Lawton's payroll employment began rising. By February 2010, payroll employment for the state had decreased by 4.76 percent. Similarly, Oklahoma City's payroll employment had decreased 4.44 percent. Tulsa had the greatest decrease of 6.90 percent. However, Lawton's payroll employment had increased by 1.37 percent. Lawton's payroll employment continued to rise until June 2010 after which it returned to January 2008 numbers.

In March 2010, payroll employment for the state of Oklahoma and for Oklahoma City and Tulsa began gradually increasing. By December 2012, the state increased payroll employment by 4.38 percent, almost but not quite making up for recessionary losses which began after September 2008. Oklahoma City fared better than the state by increasing payroll employment by 6.98 percent. Overall, Oklahoma City's gains exceeded recessionary losses and continued this trend in January 2013 with another increase in payroll employment bringing its percentage to 7.39 percent since March 2010.

Tulsa increased payroll employment at a slower pace than the state and Oklahoma City. Between March 2010 and December 2012, Lawton's payroll employment grew by 3.62 percent, making up only half the ground lost since September 2008. Lawton's payroll employment, on the other hand, eventually declined by 2 percent over this same period, ending 2012 where it began at the beginning of 2008.



Definition & Importance

Gross Domestic Product (GDP)—the output of goods and services produced by labor and property located in the United States—is the broadest measure of economic activity. It is also the measure that is most indicative of whether the economy is in recession. In the post-World War II period, there has been no recession in which GDP did not decrease in at least two quarters, (the exceptions being during the recessions of 1960-61 and 2001).

The Bureau of Economic Analysis (BEA), U.S. Department of Commerce releases GDP data on a quarterly basis, usually during the fourth week of the month. Data are for the prior quarter, so data released in April are for the 1st quarter. Each quarter's data are revised in each of the following two months after the initial release.

Background

There are four major components to GDP:

1. *Personal consumption expenditures:* Individuals purchase durable goods (such as furniture and cars), nondurable goods (such as clothing and food) and services (such as banking, education and transportation).

2. *Investment:* Private housing purchases are classified as residential investment. Businesses invest in nonresidential structures, durable equipment and computer software. Inventories at all stages of production are counted as investment. Only inventory changes, not levels, are added to GDP.

3. *Net exports:* Equal the sum of exports less imports. Exports are the purchases by foreigners of goods and services produced in the United States. Imports represent domestic purchases of foreign-produced goods and services and are deducted from the calculation of GDP.

4. *Government:* Government purchases of goods and services are the compensation of government employees and purchases from businesses and abroad. Data show the portion attributed to consumption and investment. Government outlays for transfer payments or interest payments are not included in GDP.

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

Current Developments

The U.S. economy grew at a slightly faster but still weak rate at the end of last year. Real gross domestic product increased at an annual rate of 0.4 percent in the 4th quarter of 2012, according to the "third" estimate released by the Bureau of Economic Analysis (BEA). That was slightly better than the previous estimate of 0.1 percent but it was the weakest quarterly performance in almost two years and followed a much faster 3.1 percent pace in the 3rd quarter.

Steady hiring has kept consumers spending this year. Real personal consumption expenditures increased 1.8 percent in the 4th quarter, compared with an increase of 1.6 percent in the 3rd quarter. However, this was down from last month's estimate that consumer spending was growing by 2.1 percent. Durable goods spending increased 13.6 percent, compared with an increase of 8.9 percent. Nondurable goods spending increased 0.1 percent, compared with an increase of 1.2 percent. Services increased 0.6 percent, the same increase as in the 3rd quarter.

A slowdown in business inventories shaved 1.5 percentage points from growth in the 4th quarter. Private businesses increased inventories $13.3 billion in the 4th quarter, following an increase of $60.3 billion in the 3rd quarter. Real nonresidential fixed investment increased 13.2 percent in the 4th quarter, in contrast to a decrease of 1.8 percent in the 3rd. Nonresidential structures increased 16.7 percent—unchanged in the 3rd quarter. Equipment and software increased 11.8 percent, in contrast to a decrease of 2.6 percent in the previous quarter.

Further gains in the housing market continued to be a positive contributor to GDP growth in the 4th quarter. Real residential fixed investment increased 17.6 percent, compared with an increase of 13.5 percent in the 3rd quarter.

Stronger sales of U.S. exports also helped boost 4th quarter GDP. Real exports of goods and services decreased 2.8 percent in the 4th quarter (less than the previously estimated 3.9 percent). Real imports of goods and services decreased 4.2 percent, compared with a decrease of 0.6 percent in the previous quarter.

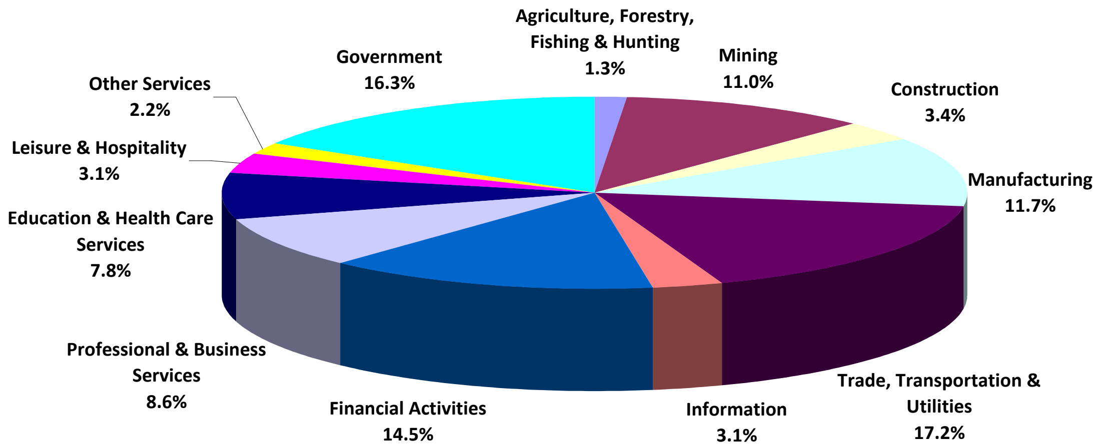
A decline in government spending also added a drag to 4th quarter GDP growth. Real federal government consumption expenditures and gross investment decreased 14.8 percent in the 4th quarter, in contrast to an increase of 9.5 percent in the 3rd quarter. National defense spending decreased 22.1 percent, in contrast to an increase of 12.9 percent previously. Nondefense spending increased 1.7 percent, compared with an increase of 3.0 percent. Real state and local government consumption expenditures and gross investment decreased 1.5 percent, in contrast to an increase of 0.3 percent in the 3rd quarter.

Although last quarter's GDP advance was among the weakest of the current recovery, the revision means the economy has grown for 14 consecutive quarters. For all of last year, the GDP advanced 2.2 percent, an improvement from the 1.8 percent gain in 2011.

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

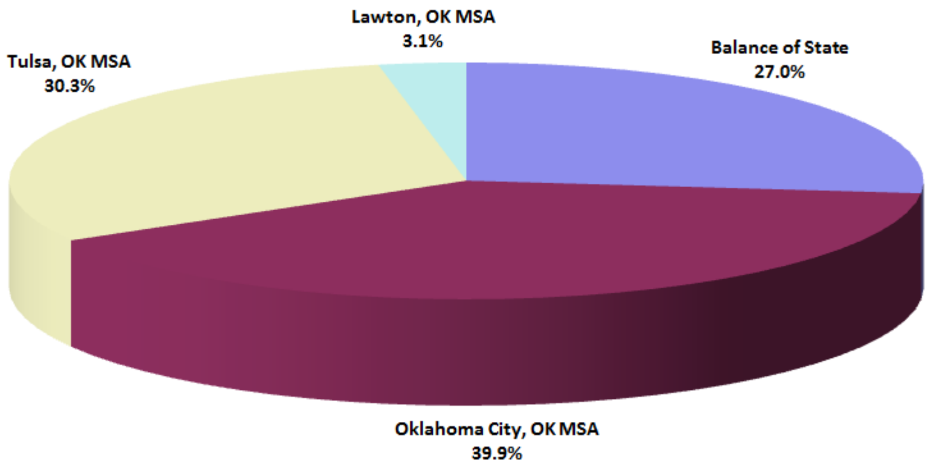
Oklahoma was among 43 states and the District of Columbia experiencing growth in real GDP in 2011, according to the advance estimate from the Bureau of Economic Analysis (BEA). Oklahoma's 2010 advance estimate was revised upward from 1.0 percent to 2.0 percent while the state's 2009 GDP was further revised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

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



Definition & Importance

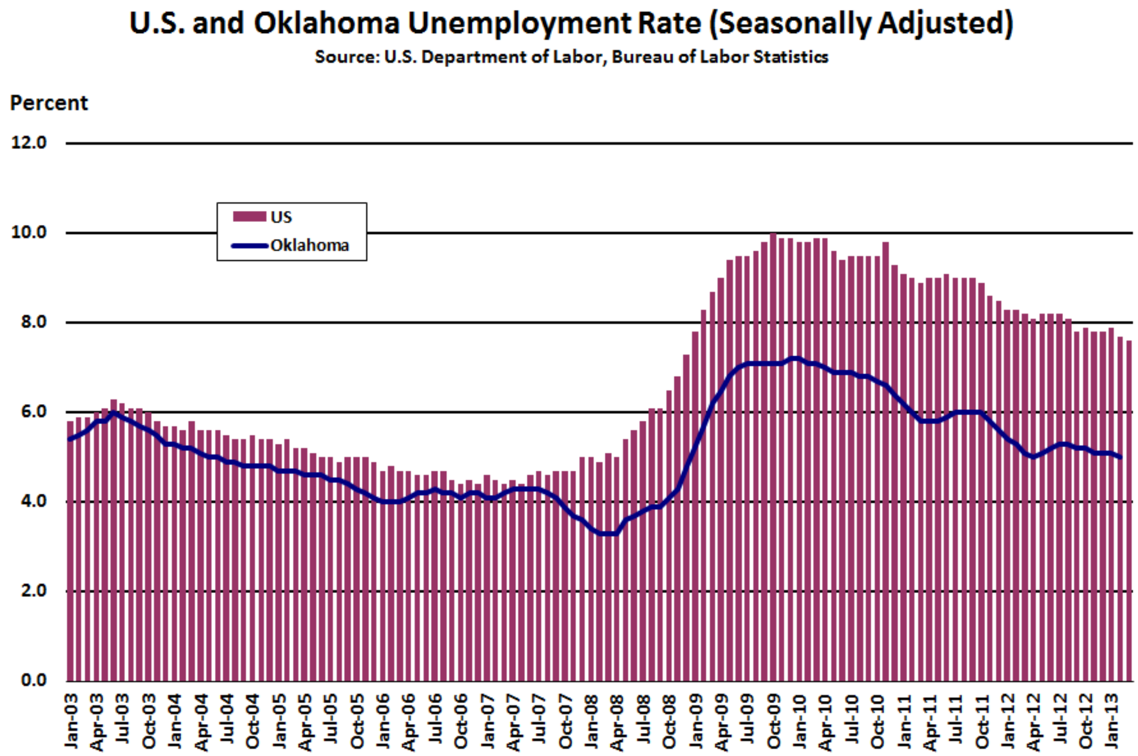
Metropolitan Statistical Areas (MSA) are the county-based definitions developed by the Office of Management and Budget for federal statistical purposes. A metropolitan area is defined as a geographic area consisting of a large population nucleus together with adjacent communities having a high degree 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 GDP increased in 242 of the nation's 366 metropolitan areas in 2011 led by growth in professional and business services, durable-goods manufacturing, and trade, according to the U.S. Bureau of Economic Analysis. Real GDP in metropolitan areas increased 1.6 percent in 2011 after increasing 3.1 percent in 2010.

In terms of growth in real GDP, all Oklahoma metropolitan areas grew in 2011. Lawton MSA grew by 0.9 percent to $4.2 billion and ranked 169th (out of the 366 U.S. metropolitan areas). Oklahoma City MSA grew by 2.0 percent to $53.5 billion and ranked 97th. Tulsa MSA grew at a rate of 0.5 percent to $40.7 billion and ranked at 209th.



Definition & Importance

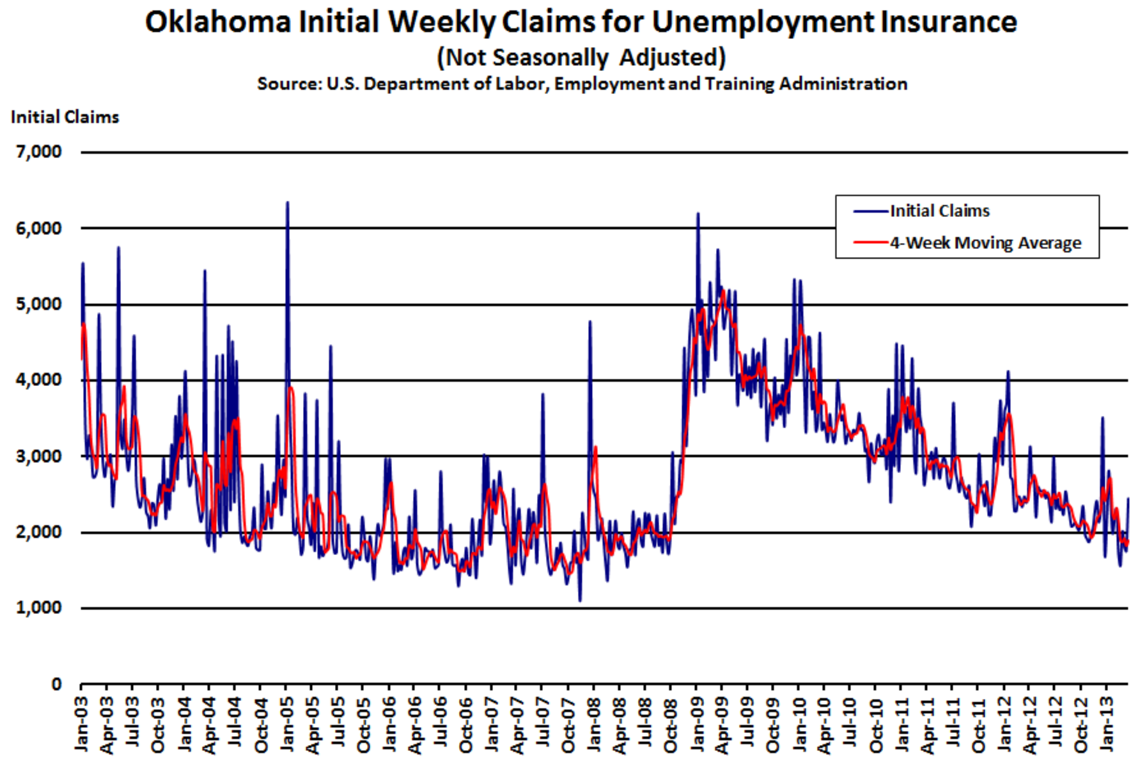
The Bureau of Labor Statistics Local Area Unemployment Statistics (LAUS) program produces monthly estimates of total employment and unemployment from a national survey of 60,000 households. The unemployment rate measures the percentage of people who are without work and is calculated by dividing the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

Although the unemployment rate dipped to a four-year low in March, it wasn't the result of more people getting jobs. The unemployment rate was 7.6 percent in March, the lowest level since the end of 2008, according to the Bureau of Labor Statistics (BLS). The civilian labor force declined by 496,000 over the month, and the labor force participation rate, which measures those employed as well as those looking for work as a portion of the population, decreased by 0.2 percentage point to 63.3 percent, a level last seen in mid-1979.

In February, Oklahoma’s seasonally adjusted unemployment rate edged down one-tenth of a percentage point to 5.0 percent—once again, the 6th lowest jobless rate in the nation. Since February 2012, the state’s seasonally adjusted unemployment rate has contracted by 0.3 percentage points.



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.

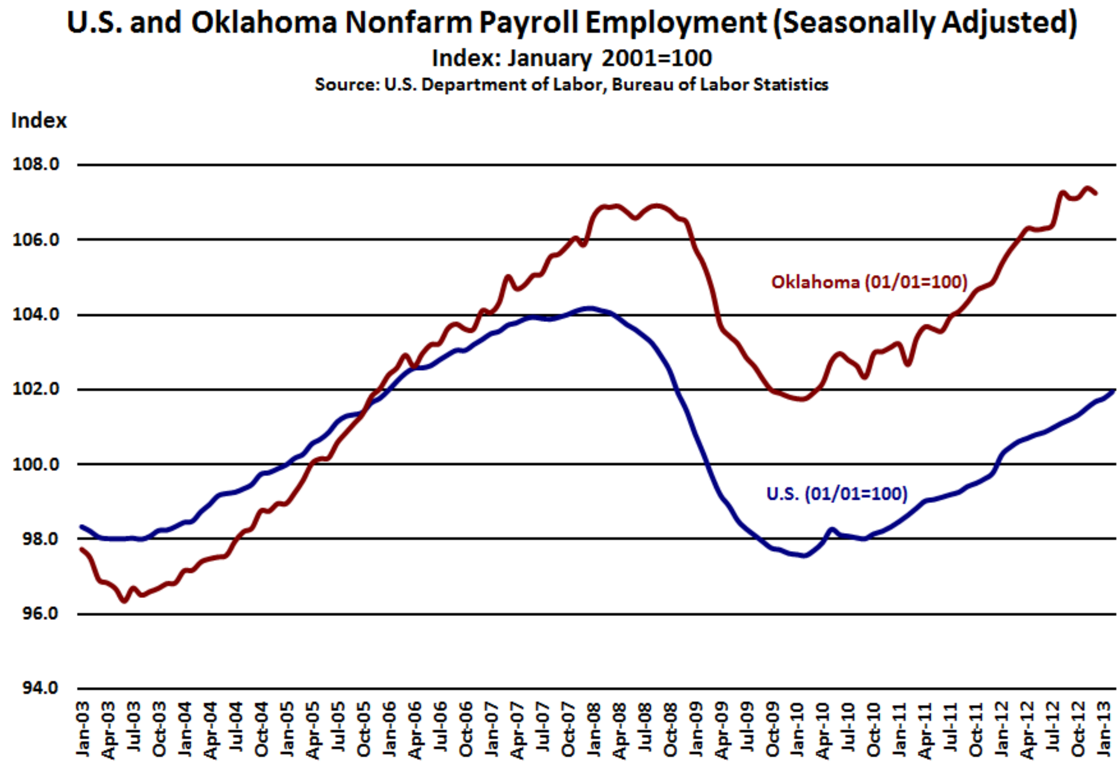
Initial claims are a leading indicator because they point to changes in labor market conditions. An increasing trend signals that layoffs are occurring. Conversely, a decreasing trend suggests an improving labor market. The four-week moving average of initial claims smoothes out weekly volatility and gives a better perspective on the underlying trend.

Current Developments

First-time jobless claims unexpectedly climbed to a four-month high in the last week of March, suggesting that the economic recovery might be heading into another spring slowdown. In the week ending March 30, the advance figure for seasonally adjusted initial claims was 385,000, an increase of 28,000 from the previous week's unrevised figure of 357,000, according to the U.S. Department of Labor. Initial jobless claims rose for the third straight week after dropping to a nearly four-year low of 334,000 in early March. The four-week moving average, which smooths out short-term spikes, was 354,250, an increase of 11,250 from the previous week's unrevised average of 343,000.

Although Oklahoma initial jobless claims picked up a bit in March, they remain on a long-term downward path. For the file week ending on March 23, unadjusted initial claims rose by 688 to 2,446. For the same file week ending, the less volatile initial claims four-week moving average increased by 221 to 2,007.

For the file week ending on March 23, Oklahoma continued jobless claims decreased by 198 to 20,461. Continued claims four-week moving average for the same file week dropped by 323 to 21,019.



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.

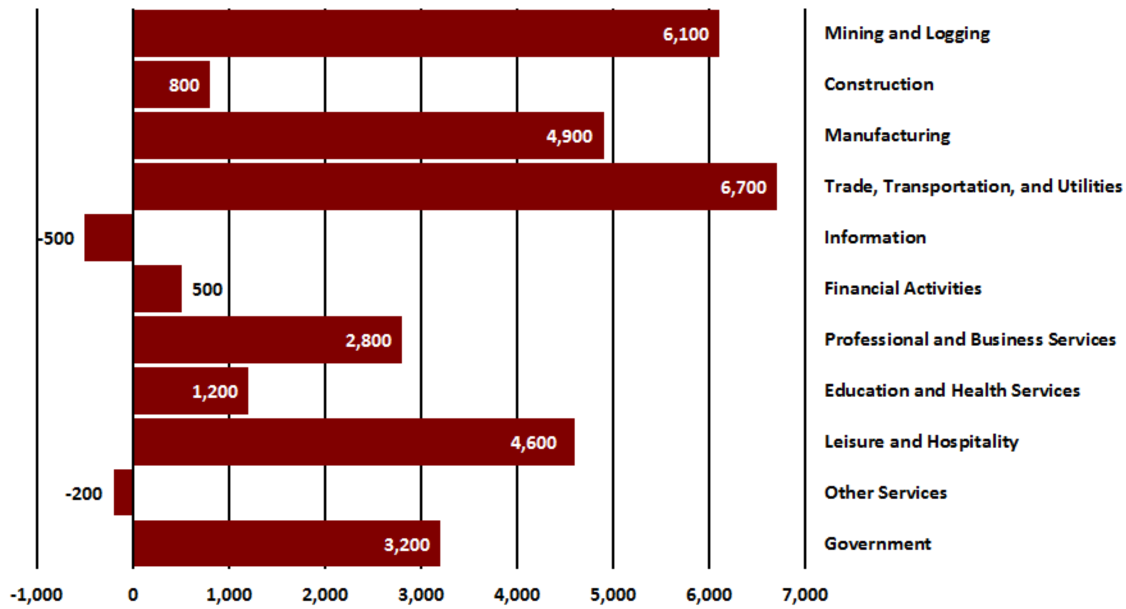
Current Developments

Hiring came to a halt in March with employers adding the fewest number of jobs in nine months, a sharp retreat after a period of strong hiring. Total nonfarm payroll employment edged up 88,000 in March in February, according to the Bureau of Labor Statistics (BLS). In March, employment increased in professional and business services (+51,000 jobs) and in health care (+23,000 jobs), while retail trade employment declined (-24,000 jobs).

Oklahoma's seasonally adjusted nonfarm employment added 7,800 jobs (-0.5 percent) in February 2013**.** In February, four out of 11 supersectors provided all of the job gains over the month, led by construction (+3,200 jobs), government (+2,300 jobs), and professional & business services (+2,200 jobs).

Six Oklahoma supersectors saw over-the-year expansion, with trade, transportation & utilities (+6,500 jobs) producing the largest addition followed by leisure & hospitality (+7,400 jobs).

Oklahoma Employment Change by Industry
2011 - 2012
Source: Current Employment Statistics (CES), U.S. Department of Labor, Bureau of Labor Statistics



Definition & Importance

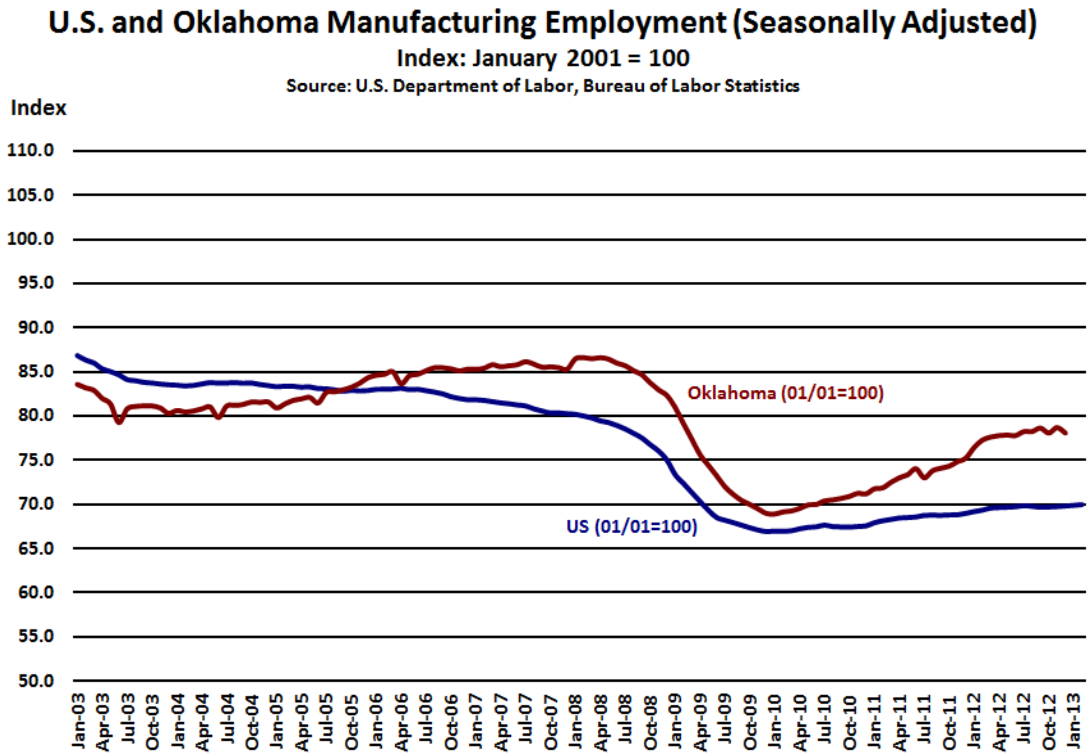
Employment growth by industry identifies the types of jobs being created in the state. Conversely, industries with a declining employment trend indicate those which are becoming less important in the state's economy. There may also be industries which behave more cyclically, growing during expansion 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 non-seasonally adjusted annual averages to compare year-over-year employment changes.

Current Developments

Nonfarm employment growth in Oklahoma picked up more momentum in 2012. Total nonfarm employment grew at a robust 1.9 percent growth rate in 2011, adding approximately 30,100 jobs.

Employment growth in 2012 was wide-ranging with nine out of the 11 statewide industry supersectors reporting job gains. The broad trade, transportation & utilities industry recorded the largest employment increase adding 6,700 jobs with nearly half the hiring in wholesale trade. Mining had another strong year of job growth adding 6,100 jobs and more than half of the growth coming from support activities for mining. Manufacturing added 4,900 jobs with all of the growth in durable goods. Leisure & hospitality added 4,600 jobs with most of the job gains being in accommodation & food services. Professional & business services employment grew by 2,800 driven by job gains in professional, scientific, and technical services and employment services. Government employment added 3,200 jobs with state and local government adding employment as federal government employment shed 700 jobs. Education & health services added 1,200 jobs with two-thirds of the employment gains in hospitals.

Over-the-year job losses were seen in financial activities (-500) and other services (-200).



Definition & Importance

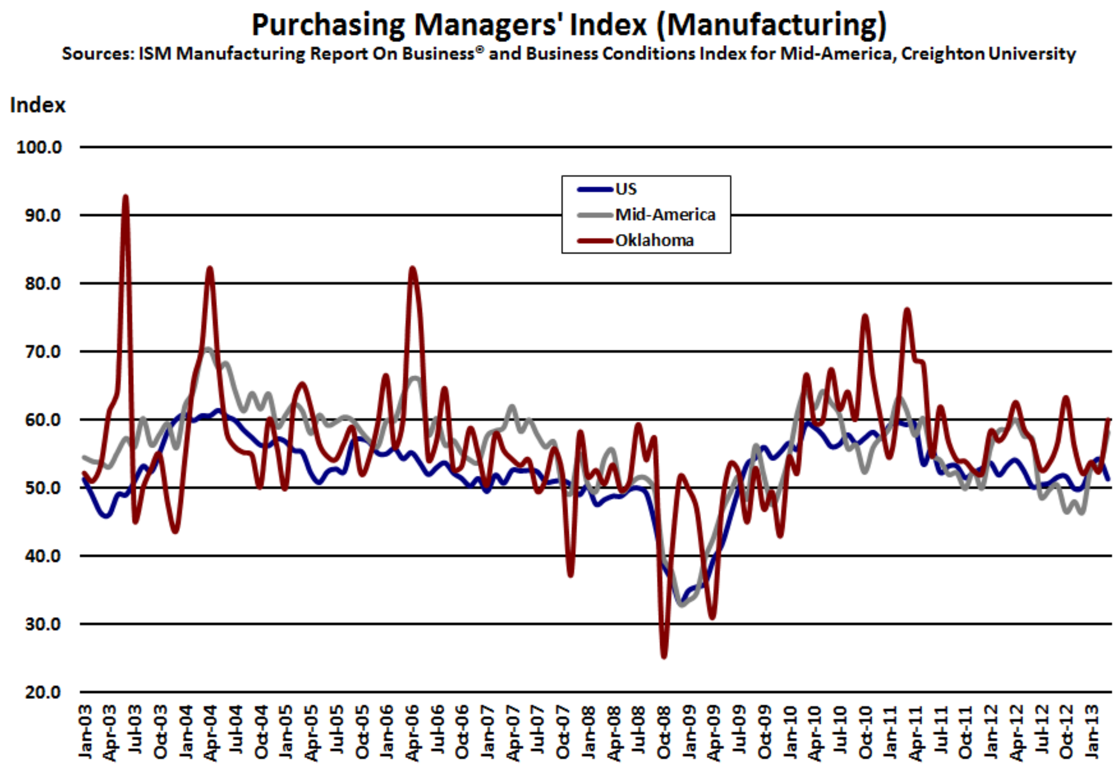
Manufacturing employment data is also produced by the Bureau of Labor Statistics' Current Employment Statistics (CES) program. Manufacturing and production are still important parts of both the U.S. and Oklahoma economies. During the 2007-09 recession, employment in manufacturing declined sharply. Although 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. In order to account for the size disparity between the U.S. and Oklahoma employment levels, we have indexed the data with January 2001 as the starting value.

Current Developments

Manufacturers added 14,000 additional workers in February according to the Bureau of Labor Statistics (BLS). Durable goods employment rose by 6,000 jobs, with 8,000 additional workers in nondurable goods industries. The largest gains were seen among fabricated metal products (up 6,400), wood products (+4,000 jobs), food manufacturing (+3,400 jobs), chemicals (+2,600 jobs), transportation equipment (+2,300 jobs), and plastics and rubber products (+1,900 jobs).

Oklahoma manufacturing employment lost ground in December shedding a seasonally adjusted 1,100 jobs (or 10.1 percent). Durable goods manufacturing employment fell by approximately 800 jobs in December while non-durable goods manufacturing lost 300 jobs.

Over-the-year, Oklahoma manufacturers have added a seasonally adjusted 5,000 factory jobs for a growth rate of 3.8 percent. All of the year-over-year job growth has been in durable goods manufacturing as no-durable goods manufacturers shed 500 jobs.



Definition & Importance

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

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

Current Developments

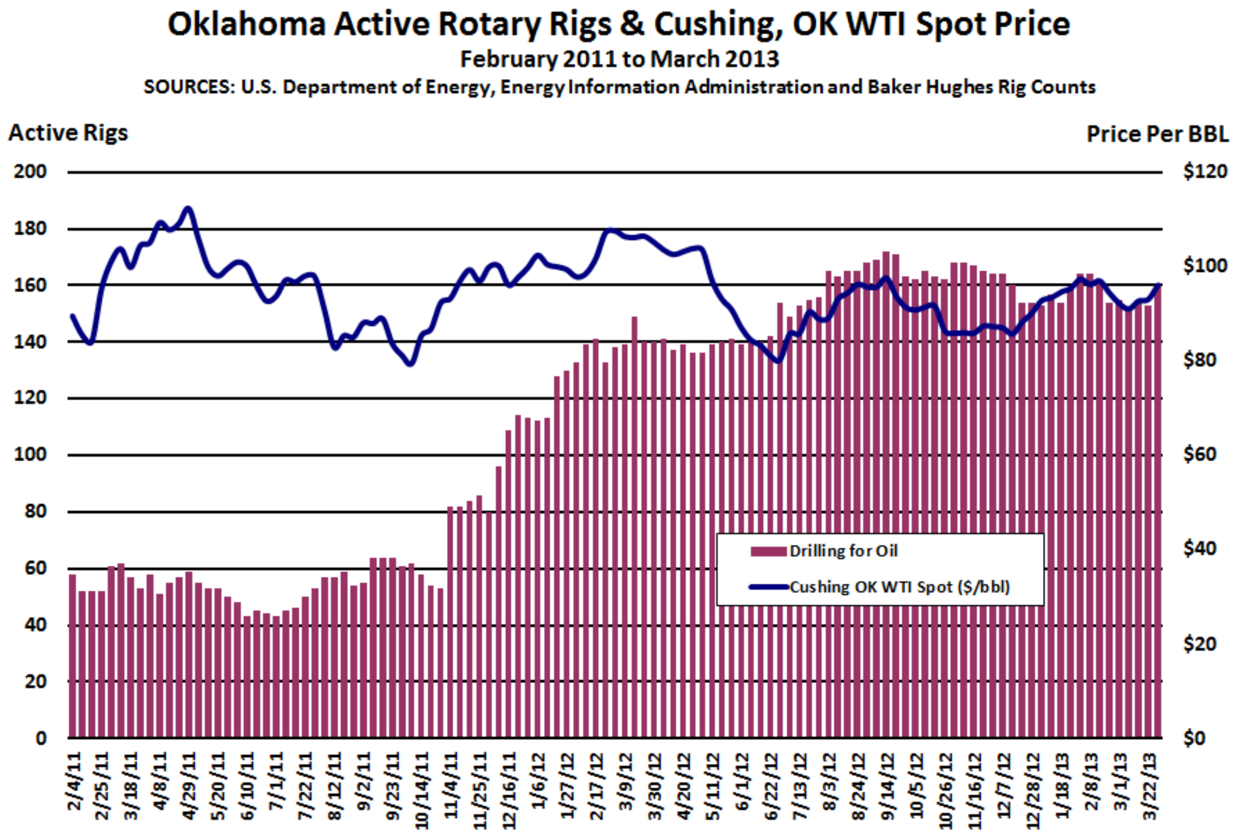
U.S. manufacturing activity continued to expand in March, but the rate of growth slowed, according to the latest ISM manufacturing report. The PMI™ registered 51.3 percent, a decrease of 2.9 percentage points from February's reading of 54.2 percent, indicating expansion in manufacturing for the fourth consecutive month, but at a slower rate, according to the latest Manufacturing ISM Report On Business®.

Both the New Orders and Production Indexes reflected growth in March compared to February, albeit at slower rates, registering 51.4 and 52.2 percent, respectively. The Employment Index registered 54.2, an increase of 1.6 percentage points compared to February's reading of 52.6 percent. The Prices Index decreased 7 percentage points to 54.5, and the list of commodities up in price reflected far fewer items than in February. In addition, the Backlog of Orders, Exports and Imports Indexes all grew in March.

The monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, bounced higher in March. The Business Conditions Index, which ranges between 0 and 100, climbed to 58.2 from February's tepid 53.1 reading, the biggest one month gain in more than a year, according to the Creighton Economic Forecasting Group. The index is pointing to improving economic growth for the region in the next three to six months.

Oklahoma's Business Conditions Index soared to 60.0 from 52.5 in February. Components of the March survey of supply managers in the state were new orders at 63.4, production or sales at 61.7, delivery lead time at 62.0, inventories at 57.3, and employment at 55.4.

"Business and manufacturing construction has bolstered the state's economy over the last several months. Additionally durable goods manufacturers, including agriculture equipment producers and metal manufacturers, reported very healthy growth and more than offset weakness among nondurable goods manufacturers such as food processors," said Dr. Ernie Goss, director of Creighton University's Economic Forecasting Group.



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

U.S. oil production has grown steadily since 2008, a change from the two decades of declines before 2008. This growth has been driven mainly by increased production from various tight (very low permeability) formations. Horizontal drilling combined with hydraulic fracturing have allowed exploration and production (E&P) companies to access commercial volumes of oil from rock formations that are less permeable than those found in conventional formations. The U.S. Energy Information Administration (EIA) expects that development of tight formations will lead to continuing significant increases in U.S. oil production in the coming years.

Three key basins with tight formations have been the largest contributors to U.S. oil production growth: the Permian Basin in West Texas and southeastern New Mexico; the Western Gulf Basin in southern Texas, which includes the Eagle Ford shale; and the Williston Basin, which extends over parts of North Dakota, South Dakota, and Montana and which includes the Bakken formation.

The shift of the U.S. drilling rig fleet away from dry natural gas to oil and wet natural gas suggests that the production of oil and other liquids will continue to climb, according to the EIA. Exploration and production companies are making significant capital investments in horizontal drilling rigs and deploying them to tight oil plays. Many existing rigs with horizontal-drilling capabilities are being redeployed from plays rich in dry natural gas to those that can produce crude oil and other liquids that have a significantly greater value under current market conditions. The total number of rigs drilling for oil increased 67 percent from an average of 801 in February 2011 to an average of 1,339 in March 2013, based on detailed weekly active rig count data provided by Baker Hughes Incorporated. The number of rigs drilling horizontal wells has grown to a weekly average of 63 percent in March 2013, compared to 57 percent in February 2011. Because horizontal drilling is often associated with tight formations, it is apparent that an increasing number of producers are targeting tight geology.

WTI-Cushing spot prices averaged $92.94 per barrel for the month of March, the price was $2.37 lower than February's average of $95.31 per barrel. Compared to last year, the current price is $13.22 lower than the March 2012 average of $106.16 per barrel.

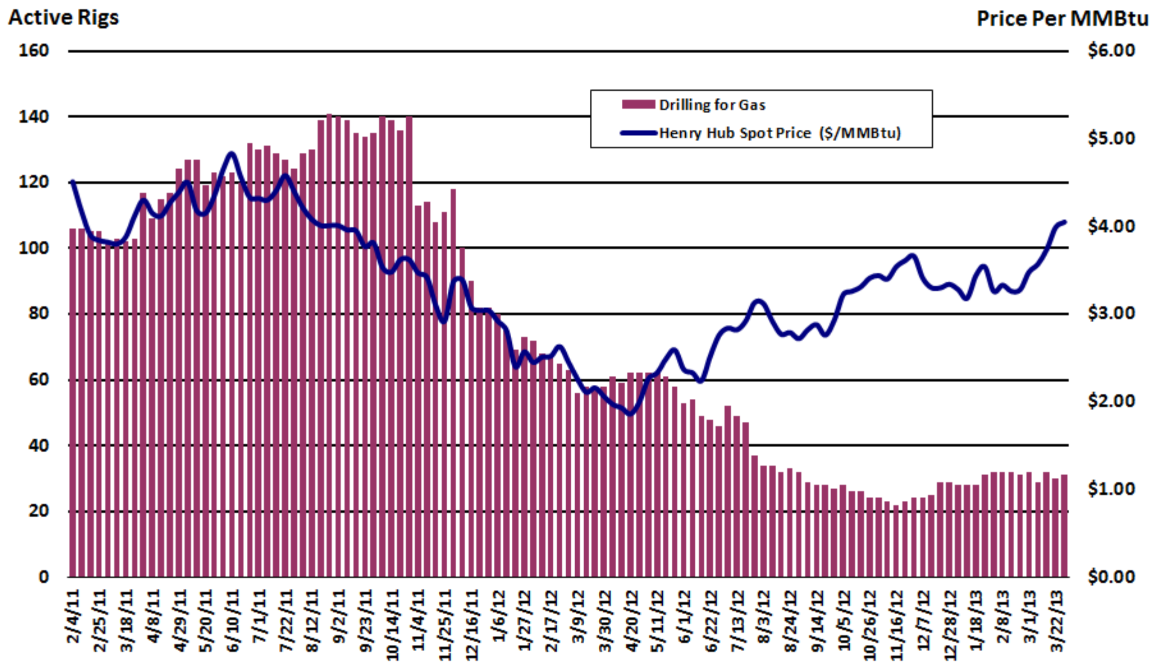
Oklahoma's overall rotary rig activity for March averaged 186, off seven rigs from February's 193 count. Over the year, March's active rotary rig count in Oklahoma fell by 14 rigs. Oil-directed active rotary rigs rose to a level of 160 for the week ended March 28, 2013, up seven rigs from the previous week and up 20 rigs from last year.

For the week ending March 28, 2013, there were 191 oil-directed active rotary rigs in Oklahoma, accounting for approximately 84 percent of total rig activity in the state.

Oklahoma Active Rotary Rigs & Henry Hub Natural Gas Spot Price

February 2011 to March 2013

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 or 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 prices. If inventories are high and rising in a period of strong demand, prices may not need to increase at all, or as much. However, 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.

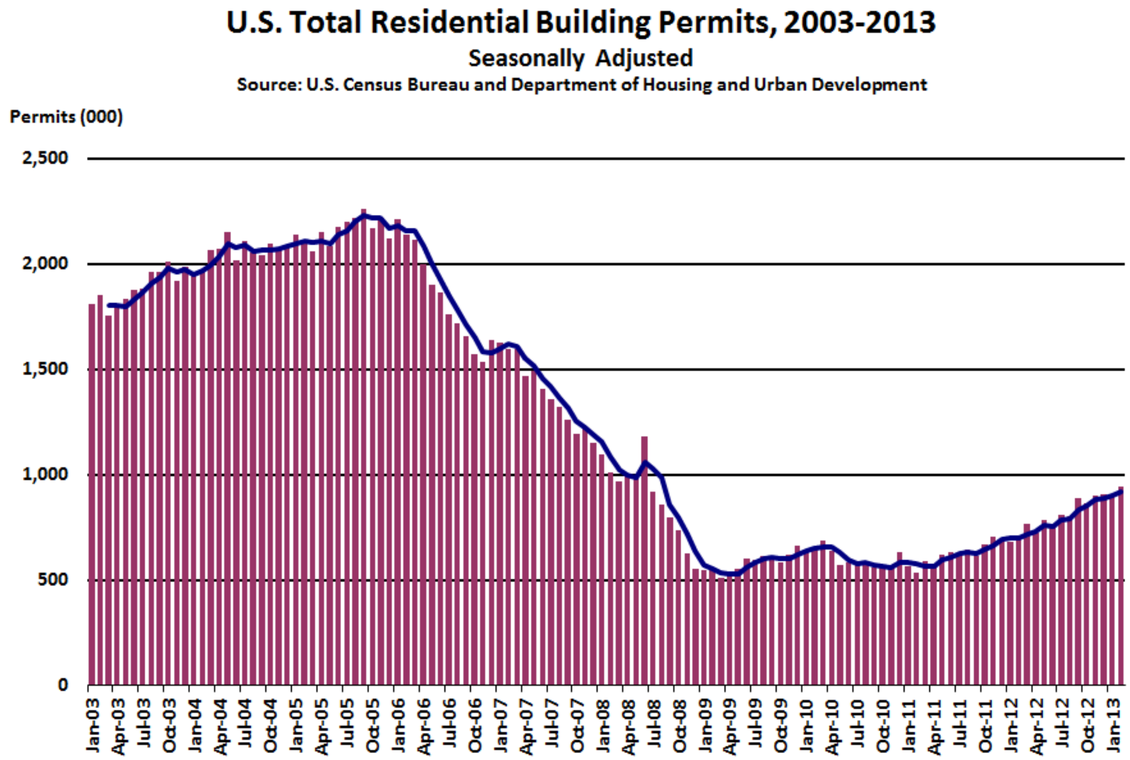
Current Developments

Colder-than-normal weather in many parts of the country is putting upward pressure on both spot and futures natural gas prices. Natural gas prices rose above $4 per million British thermal units (MMBtu) recently and prices are up 97 percent from a year ago. Last year, when natural gas was failing below $2, the lowest price in a decade, some analysts expected prices to go even lower because companies were producing so much that a supply glut resulted. Now, there is evidence that producers have finally started to pull back.

The U.S. natural gas rotary rig count was 389 as of March 28, according to data reported by Baker Hughes Incorporated. This represents a decline of 29 from the previous week, and natural gas rigs are at their lowest level since 1999. Oil rigs, on the other hand, increased by 30 to 1,354.

Henry Hub prices were at $4.05 per MMBtu during the week ending March 28, 2013, an increase of 6 cents from the previous week's $3.99 per MMBtu and 77 cents higher than $3.28 per MMBtu a month ago. The average Henry Hub natural gas spot price in March was $3.81 up 14 percent from the February average price of $3.33 per MMBtu and up $1.64 from $2.17 in March 2012.

According to data reported by Baker Hughes Incorporated, Oklahoma's natural gas rotary rig count was nearly unchanged at 31 active rigs for the week ended March 28, 2013. Over the year, Oklahoma's natural gas-directed rotary rig count has dropped by 27 from 58 rigs (for the week ended March 30, 2012).



Definition & Importance

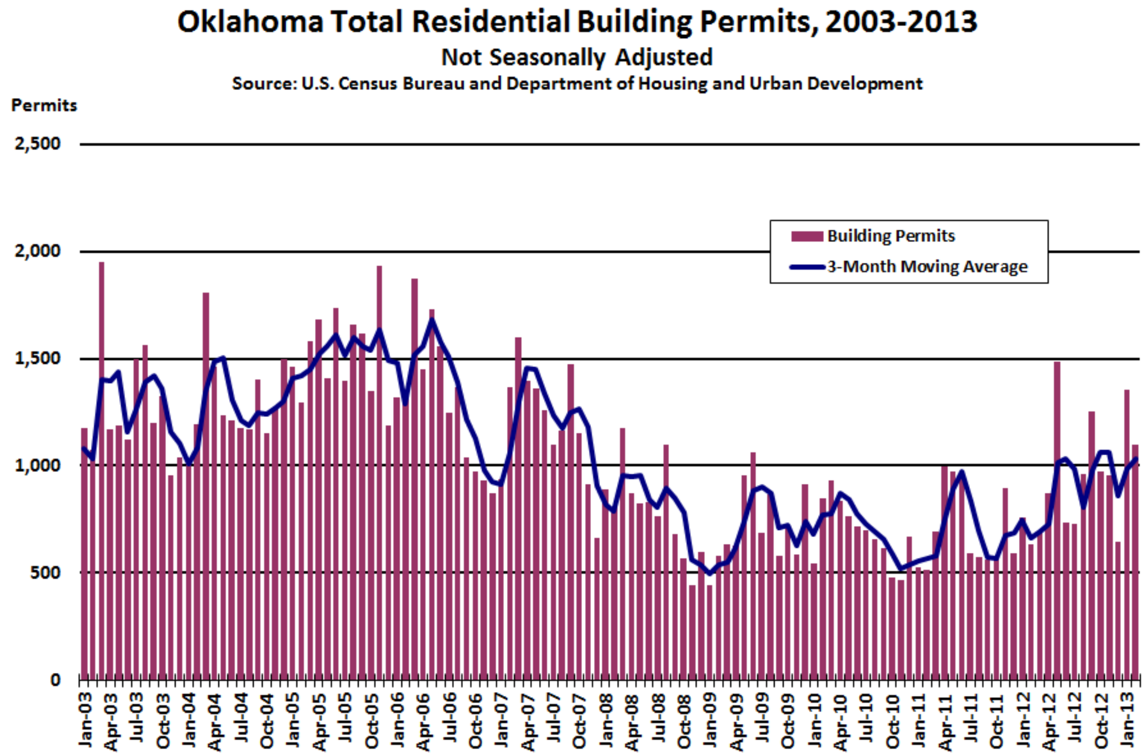
The U.S. Census Bureau and the Department of Housing and Urban Development jointly provide monthly national and regional data on the number of new housing units authorized by building permits; authorized, but not started; started; under construction; and completed. The data are for new, privately-owned 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 following 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

Construction of single-family homes in the U.S. rose to a nearly five-year high in February, the latest sign of an improving housing market. Privately-owned housing units authorized by building permits in February were at a seasonally adjusted annual rate of 946,000 or 4.6 percent above the revised January rate of 904,000 and 33.8 percent above the February 2012 estimate of 707,000, according to the U.S. Census Bureau and the Department of Housing and Urban Development. That's the highest residential permitting level since June 2008.

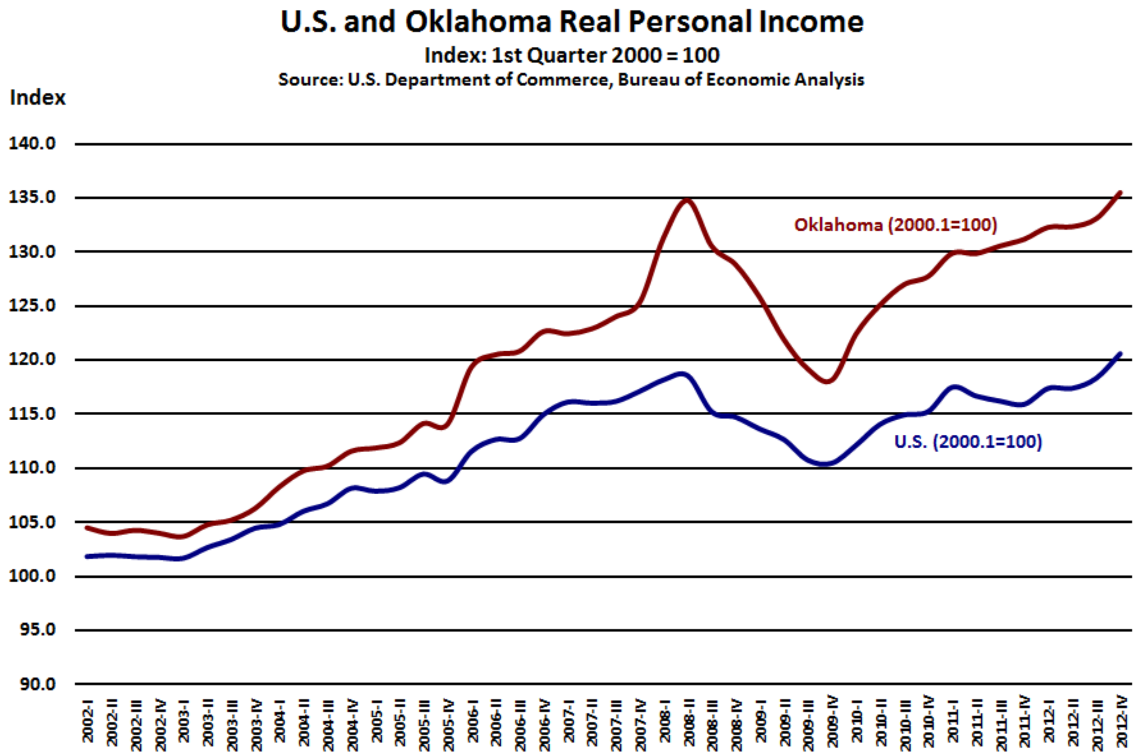
Analysts believe that improvements in the housing market will be one of the main drivers of the economy this year. Investments in residential projects and home improvements have contributed to overall economic growth for seven consecutive quarters.



Oklahoma homebuilders appear to be off to a very strong start in 2013. Total unadjusted residential building permits for February were down 18.7 percent from January, according to figures from the U.S. Census Bureau and the Department of Housing and Urban Development. Single-family permitting activity accounted for 68.2 percent of residential permitting activity in February while apartment permitting accounted for 26.0 percent.

Over the year, total unadjusted residential permitting was 73.7 percent higher than February 2012. Single-family permitting was up 30.8 percent while the more volatile multi-family component was more than triple the January 2012 level.

Year-to-date, Oklahoma residential permitting in 2013 is 76.6 percent greater than the first two months of 2012.



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

U.S. consumers stepped up spending in February by the most in five months as their income jumped. Personal income increased $143.2 billion, or 1.1 percent, and disposable personal income (DPI) increased $127.8 billion, or 1.1 percent, in February, according to the Bureau of Economic Analysis (BEA). Personal consumption expenditures (PCE) increased $77.2 billion, or 0.7 percent.

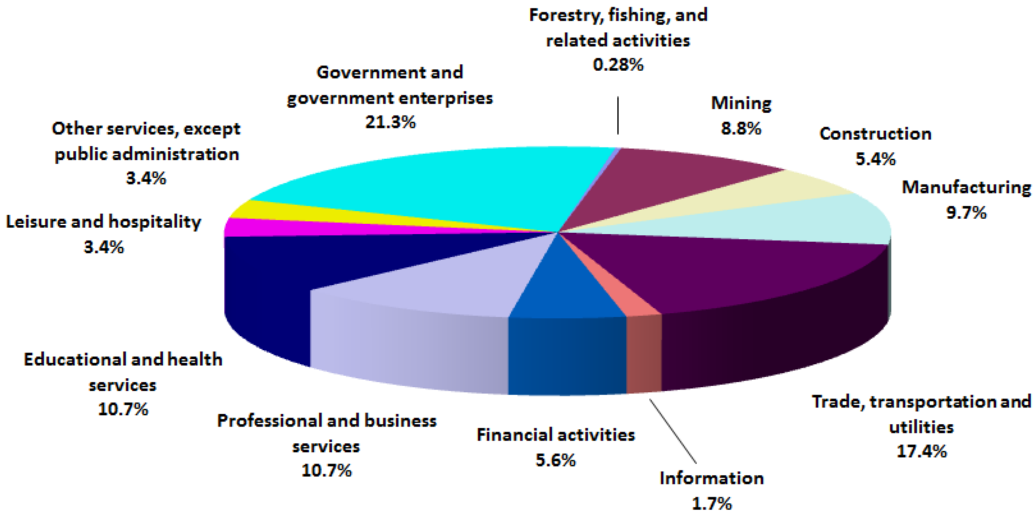
The private wages & salaries component gained $42.4 billion (+0.6 percent) after declining $42.7 billion (+0.6 percent) in January. The February and January levels of private wages and salaries were reduced by $15.0 billion (at an annual rate), reflecting the impact of accelerated bonuses in anticipation of changes to individual income tax rates.

The personal saving rate, (DPI minus personal outlays), increased to 2.6 percent from 2.2 percent in January, which was the lowest saving rate since August 2007.

Oklahoma Nonfarm Industry Contribution to Earnings

Fourth 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

The economic health of 44 U.S. states improved in the 4th quarter, the most in any period since 2006, as almost all benefited from growing employment and personal income. In the 4th quarter of 2012, average state personal income growth accelerated to 1.9 percent from 0.6 percent in the third quarter, the fastest pace since the 1st quarter of 2011, according to estimates by the U.S. Bureau of Economic Analysis (BEA). Growth in the 4th quarter ranged from 1.3 percent in West Virginia to 4.8 percent in South Dakota. The inflation rate was 0.4 percent in the fourth quarter of 2012, the same as in the third quarter.

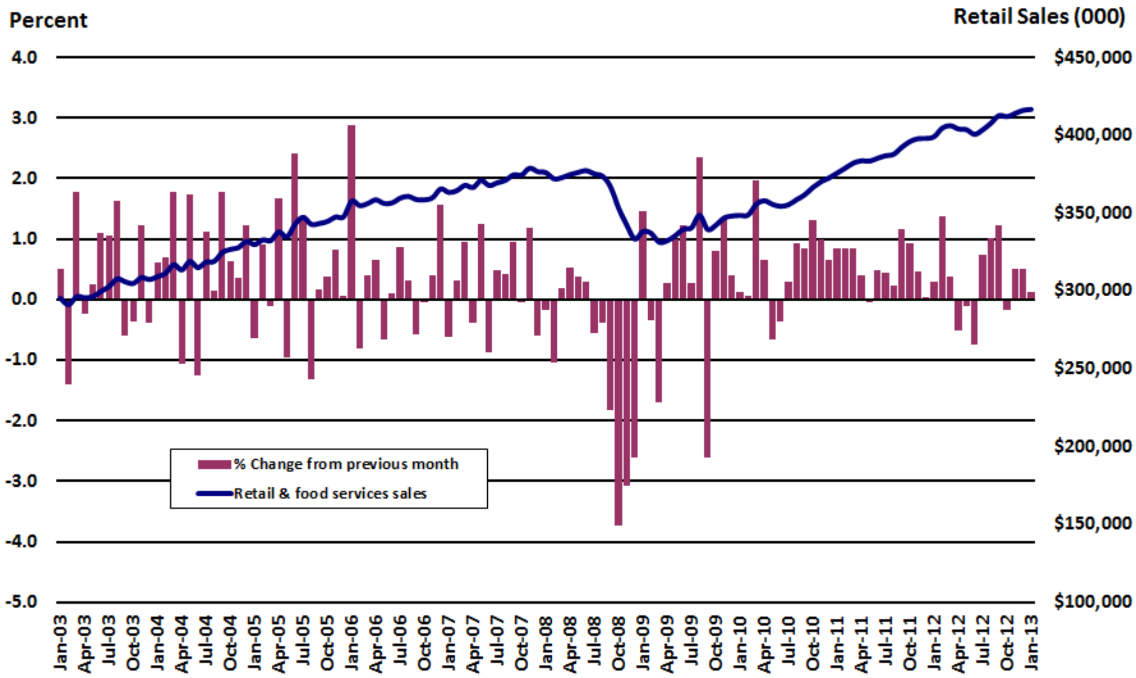
Oklahoma's 4th quarter personal income climbed 1.8 percent to $151.4 billion from $148.7 billion in the 3rd quarter, and ranked 28th out of all the states. Dividends, interest, and rent contributed 1.0 percentage points to 4th quarter personal income while earnings contributed 0.7 percentage points.

In Oklahoma, farm earnings contributed 0.13 percentage points ($107 million) to personal income while wholesale trade added 0.10 percentage points ($147 million). Finance & insurance earnings added 0.09 percentage points ($132 million) and administrative & waste management services added another 0.08 percentage points ($115 million). Construction earnings added 0.07 percentage points ($109 million) as did state & local government ($106 million).

Subtracting from Oklahoma 4th quarter earnings were mining, deduction 0.11 percentage points (-$161 million) and other services (except public administration) subtracting 0.03 percentage points (-$44 million).

U.S. Retail Sales (Adjusted for Seasonal, Holiday, and Trading-Day Differences)

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



Definition & Importance

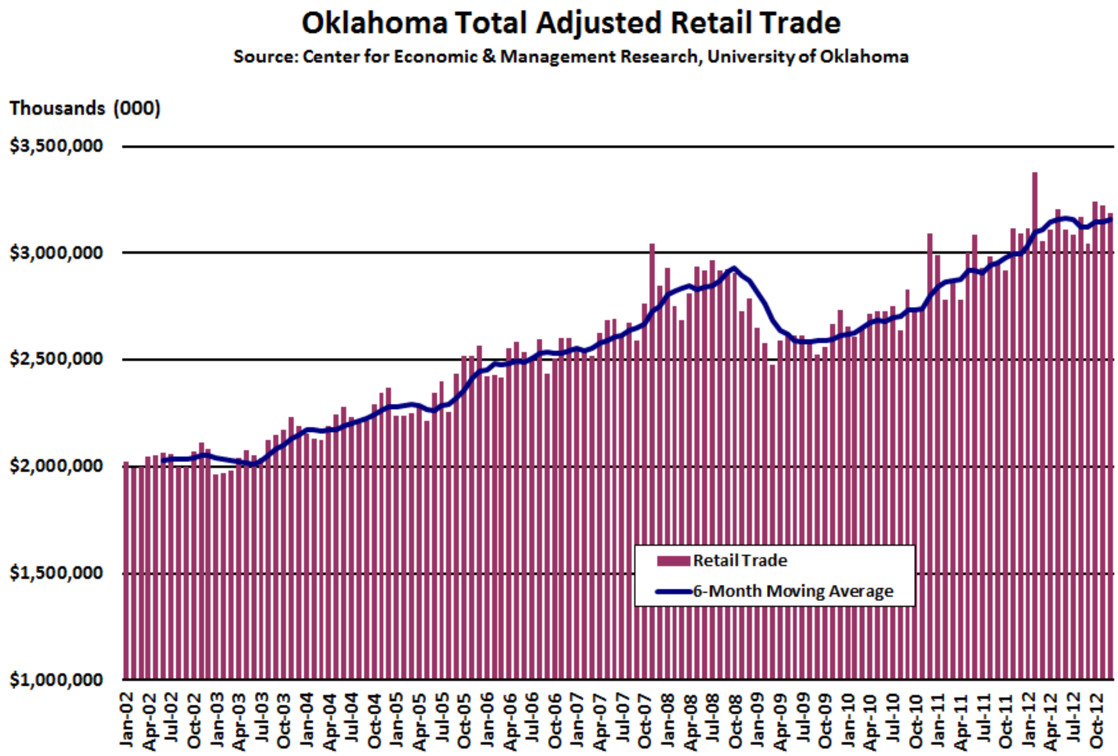
Retail sales measure the total receipts at stores that sell merchandise and related services to final consumers. Sales are by retail and food services stores. Data are collected from the Monthly Retail Trade Survey conducted by the U.S. Bureau of the Census. Essentially, retail sales cover the durables and nondurables portions of consumer spending. Consumer spending accounts for roughly two-thirds of the U.S. GDP and is therefore essential to Oklahoma's economy. Retail sales account for around one-half of consumer spending and economic recovery calls for consumption growth.

Current Developments

US consumers spent at the fastest pace in five months in February led by a surge in pump prices. Advance estimates of U.S. retail and food services sales for January, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $421.4 billion, an increase of 1.1 percent from the previous month and 4.6 percent above February 2012, according to the U.S. Census Bureau. Total sales for the December 2012 through February 2013 period were up 4.5 percent from the same period a year ago.

About half the jump reflected higher gas prices, but even excluding gas purchases, retail sales rose 0.6 percent. On higher prices, gasoline sales spiked a monthly 5.0 percent in February, following a 0.7 percent increase the prior month. Motor vehicle sales rebounded a sizeable 1.1 percent, following a 0.3 percent dip in January

Core retail sales, which exclude gas, autos and building supply store sales, rose 0.4 percent in February compared with January. Core subcomponent strength was widely scattered with increases seen in building materials & garden equipment (+1.1 percent), food & beverage stores (+0.8 percent), clothing & apparel (+0.2 percent), general merchandise (+0.5 percent), miscellaneous store retailers (+1.8 percent), and nonstore retailers (+1.6 percent).



Definition & Importance

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

Current Developments

It appears most Oklahoma consumers took advantage of early store promotions and did most of their holiday shopping early. Total adjusted retail sales for December 2012 were at a level of $3,186,471,105, down 1.2 percent following strong sales levels in October and November.

Durable goods sales advanced 1.3 percent in December with the largest gains seen in electronics & music stores (+3.5 percent), miscellaneous durable goods (+2.3 percent), and lumber & hardware (+1.1 percent). Gains were also seen in auto accessories & repair (+0.2 percent) and furniture (+0.1 percent). Declining sales were seen in used merchandise (-5.3 percent). Over the year, durable goods sales were 8.3 percent more than December 2011.

Total nondurable goods sales fell almost 2.0 percent in December with the largest decline in estimated gasoline sales (-8.0 percent) and miscellaneous non-durable goods (-5.6 percent). Other declines in non-durable goods were in drug sales (-1.2 percent). Advancing were liquor sales (+1.8 percent), apparel (+0.6 percent), general merchandise (+0.6 percent), and food (+0.4 percent). Eating & drinking sales (1.9 percent) were flat in December. Compared to December 2011, non-durable goods sales improved 1.5 percent.