OKLAHOMA
Economic Indicators

March 2015

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ECONOMIC INDICATORS

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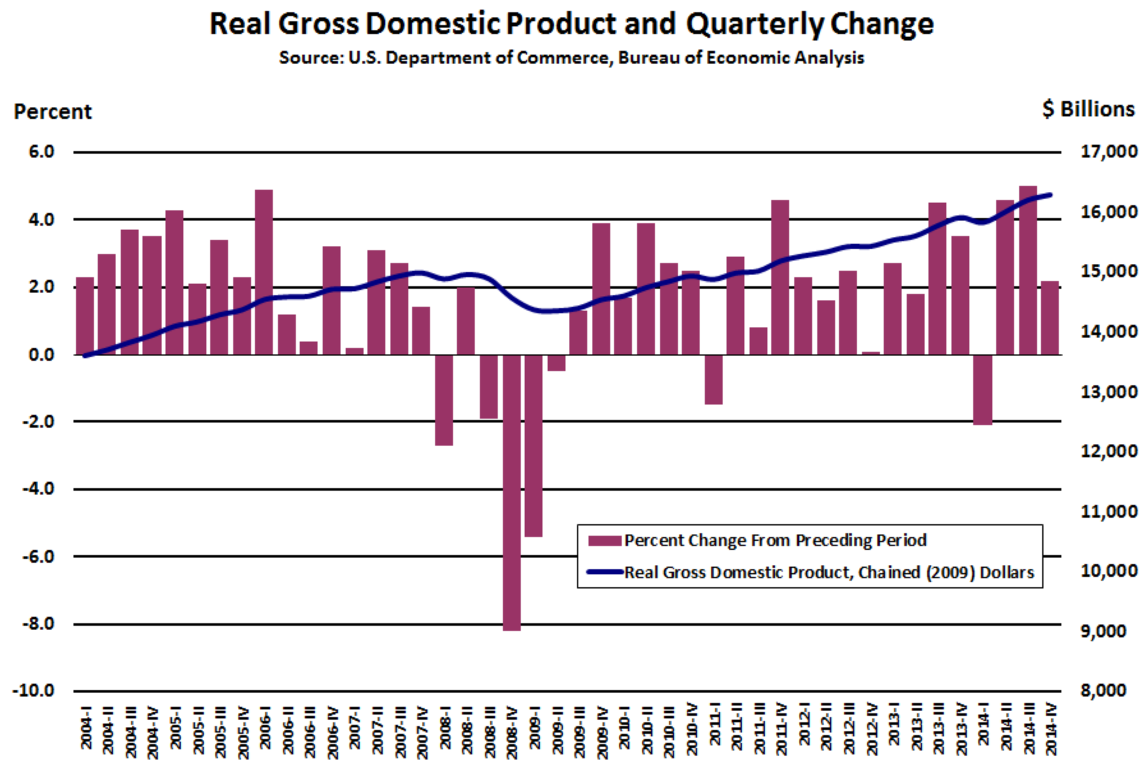
TABLE OF CONTENTS



Definition & Importance

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

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

Background

There are four major components to GDP:

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

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

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

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

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

Current Developments

U.S. economic growth slowed as 2014 came to a close. Real gross domestic product (GDP) increased at an annual rate of 2.2 percent in the 4th quarter of 2014, according to the "third" estimate released by the Bureau of Economic Analysis (BEA). In the 3rd quarter, real GDP increased 5.0 percent—the strongest growth in 11 years.

Consumer spending was raised to 4.4 percent in the 4th quarter from 4.2 percent, the biggest gain in consumer spending in eight years. Durable goods expenditures were revised up to 6.2 percent from the previously estimated 6.0 percent. Nondurable goods spending was revised up to 4.1 percent from the previous 3.8 percent estimate. Spending on services grew at a 4.3 percent pace, up from the earlier estimate of 4.1 percent and the fastest pace since the 2nd quarter of 2000. Spending on health-care services contributed 0.88 percentage point to 4th quarter GDP growth. Personal consumption expenditures added 2.98 percent to 4th quarter GDP growth.

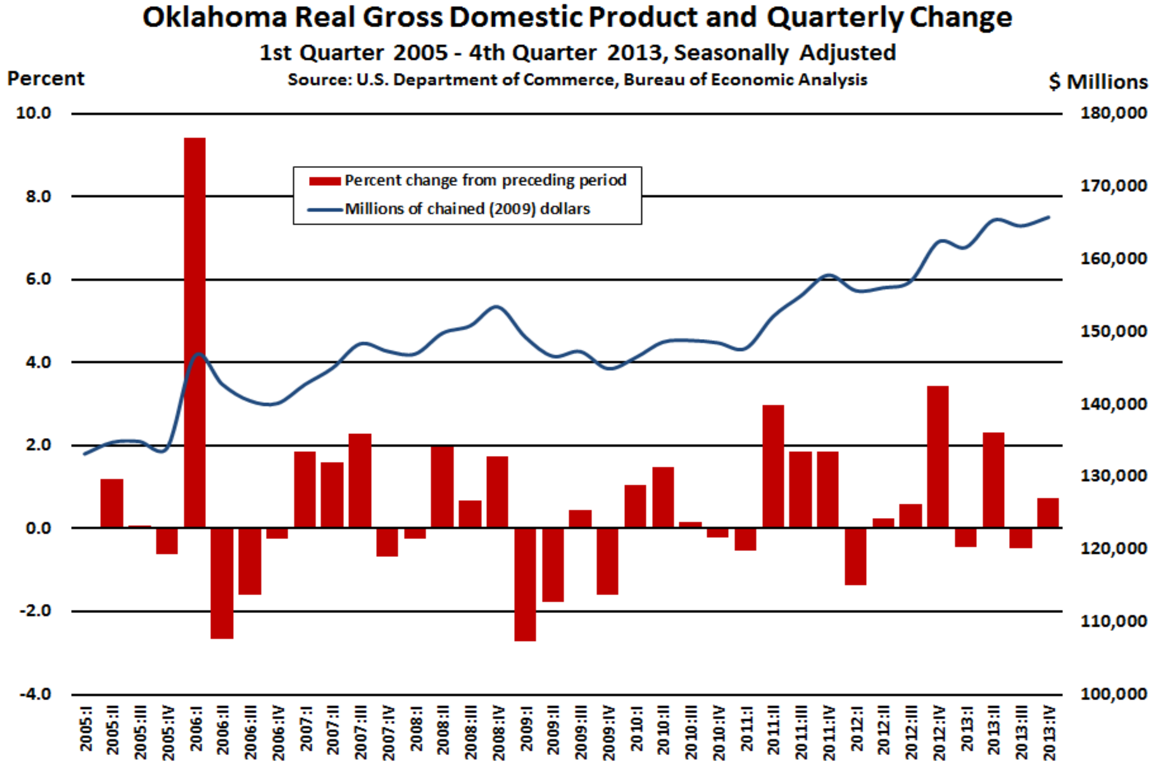
Business investment on equipment was revised to show it rising at a slower 0.6 percent rate, instead of the previously reported 0.9 percent pace, likely reflecting a strong dollar and lower crude oil prices, which have caused a drop in drilling and exploration activity.

Businesses accumulated $80 billion worth of inventory in the 4th quarter, less than the $88.4 billion previously estimated. As a result, inventories shaved 0.10 percentage point from GDP growth in the 4th quarter rather than adding 0.1 percentage point to output as previously thought. After-tax corporate profits declined $57.1 billion, the largest drop since 1st quarter 2011, after rising $52.4 billion in the 3rd quarter

Residential construction spending in the 4th quarter was revised up. Real residential fixed investment increased 3.8 percent, instead of the 3.4 percent pace previously reported.

Exports also rose 4.5 percent instead of 3.2 percent but import growth was also revised up to 10.4 percent from 10.1 percent. Foreign trade subtracted 1.03 percentage points from the 4th quarter GDP growth, down a little from an earlier estimate of a 1.15 percentage point drag. A stronger dollar makes U.S. exports more expensive and imports cheaper.

Government spending in the last three months of 2014 was slightly weaker than previously estimated. Real federal government consumption expenditures and gross investment decreased 7.3 percent in the 4th quarter, instead of 7.5 percent. National defense spending plunged 12.2 percent, compared to the 12.4 percent pace previously reported. Real state and local government consumption expenditures and gross investment increased 1.6 percent, rather than the 2.0 percent pace first thought. Government consumption expenditures and gross investment deducted 0.35 percentage point from GDP growth in the 4th quarter, instead of 0.32 first estimated.



Definition & Importance

The U.S. Bureau of Economic Analysis (BEA) recently released prototype statistics of quarterly gross domestic product (GDP) by state for 2005–2013. These new statistics provide a more complete picture of economic growth across states that can be used with other regional data to gain a better understanding of regional economies as they evolve from quarter to quarter. The new data provide a fuller description of the accelerations, decelerations, and turning points in economic growth at the state level, including key information about changes in the distribution of industrial infrastructure across states.

Current Developments

U.S. real GDP by state increased 1.8 percent in 2013. Growth in real GDP accelerated in the 2nd and 3rd quarter of the year after increasing at an annual rate of 1.1 percent in the 1st quarter. After reaching a high of 4.2 percent in the 3rd quarter, growth in real GDP decelerated to 2.8 percent in the 4th quarter. Real GDP grew steadily in 24 states through all four quarters in 2013. In the 4th quarter of 2013, real GDP increased in all states except Mississippi and Minnesota.

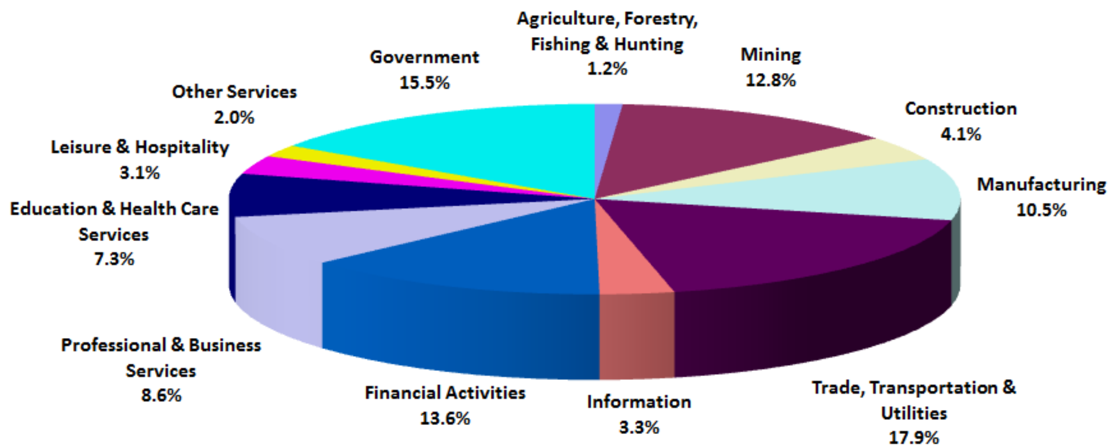
In 4th quarter 2013, Oklahoma's GDP was $165.7 billion in constant 2009 dollars, up from $164.5 billion in the 3rd quarter. The state's 4th quarter real GDP increased by $1.19 billion, or 2.9 percent, ranking Oklahoma 29th among all other states and the District of Columbia.

For all of 2013, Oklahoma's real GDP was at a level of $164.3 billion in constant 2009 dollars, growing at a rate of 4.2 percent from 2012. That was the fourth-highest annual GDP growth rate among all other states and the District of Columbia. North Dakota was first with a 9.7 percent growth rate followed by Wyoming at 7.6 percent and West Virginia at 5.1 percent.

Industry Share of Oklahoma's Economy, 4th Quarter 2013

(by percentage of Gross Domestic Product)

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



Fifteen Oklahoma industry sectors contributed to GDP growth in the 4th quarter of 2013, with six sectors subtracting from growth. The mining sector, which includes the oil and gas industry, was by far the largest contributor to Oklahoma's GDP growth in the 4th quarter, adding 2.39 percentage points to overall GDP growth, followed by non-durable goods manufacturing which contributed 0.94 percentage points. Agriculture, forestry, fishing and hunting was the biggest drag to state GDP growth subtracting 1.95 percentage points.

Mining was the most predominant contributor to growth in Alaska, Colorado, New Mexico, North Dakota, Oklahoma, West Virginia, and Wyoming. Mining contributed 8.62 percentage points to growth in North Dakota, 6.85 percentage points to growth in Wyoming, 4.85 percentage points to growth in West Virginia, and 2.39 points to growth in Oklahoma.

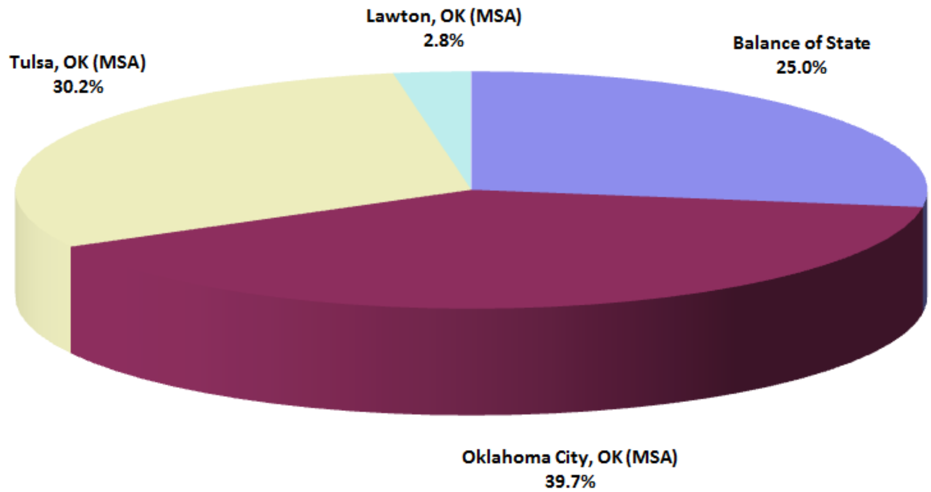
Nondurable-goods manufacturing was the largest contributor to U.S. real GDP by state growth in the 4th quarter of 2013. This industry increased 18.6 percent in the 4th quarter after moderate growth of 2.9 percent in the 3rd quarter. Nondurable-goods manufacturing was the leading contributor to growth in 31 states in the 4th quarter. In Oklahoma, non-durable goods manufacturing contributed 0.94 percent to real GDP growth in the 4th quarter of 2013 and was the second largest contributor to growth in that quarter.

The government sector declined 1.9 percent in the 4th quarter of 2013 and subtracted 0.24 percentage point from the growth in the nation. In Oklahoma, government subtracted 0.06 percentage point from growth in the 4th quarter.

Construction subtracted from growth in 47 states and the District of Columbia in the 4th quarter of 2013. This industry declined 5.9 percent and subtracted 0.22 percentage point from growth in the nation. In Oklahoma, construction subtracted 0.27 percentage point from real GDP in the 4th quarter.

Metropolitan Area Contribution to State Real Gross Domestic Product 2013

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



Definition & Importance

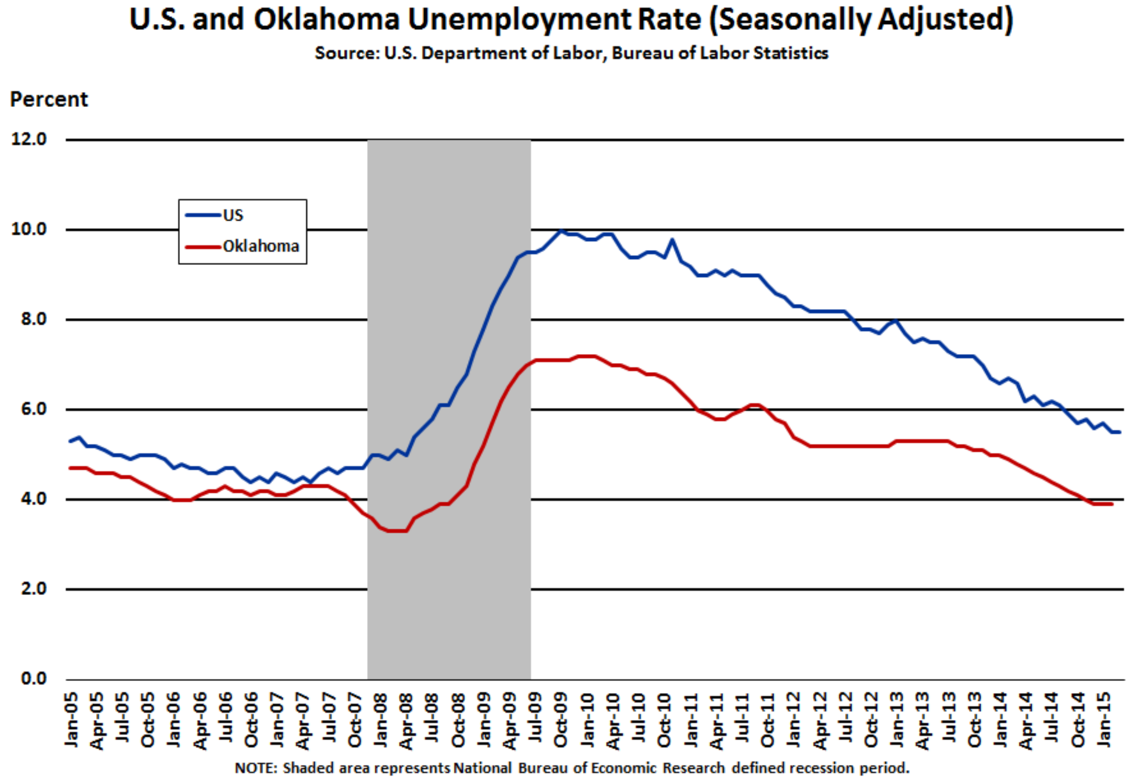
Metropolitan Statistical Areas (MSA) are the county-based definitions developed by the Office of Management and Budget for federal statistical purposes. A metropolitan area is defined as a geographic area consisting of a large population nucleus together with adjacent communities having a high degree 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 292 of the nation's 381 metropolitan areas in 2013, led by widespread growth in finance, insurance, real estate, rental, and leasing, nondurable-goods manufacturing and professional and business services, according to the U.S. Bureau of Economic Analysis (BEA). Natural resources and mining also spurred strong growth in several metropolitan areas. Collectively, real GDP for U.S. metropolitan areas increased 1.7 percent in 2013 after increasing 2.6 percent in 2012.

All three Oklahoma metropolitan areas outpaced or equaled U.S. metropolitan area real GDP growth in 2013. Oklahoma City MSA grew by 3.9 percent to $65.2 billion and ranked 56th (out of 381 metro areas). Tulsa MSA grew at a rate of 3.5 percent to $49.6 billion and ranked at 68th. Lawton MSA grew 1.7 percent to $4.5 billion in 2013 and ranked 175th out of 381 U.S. metro areas.



Definition & Importance

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

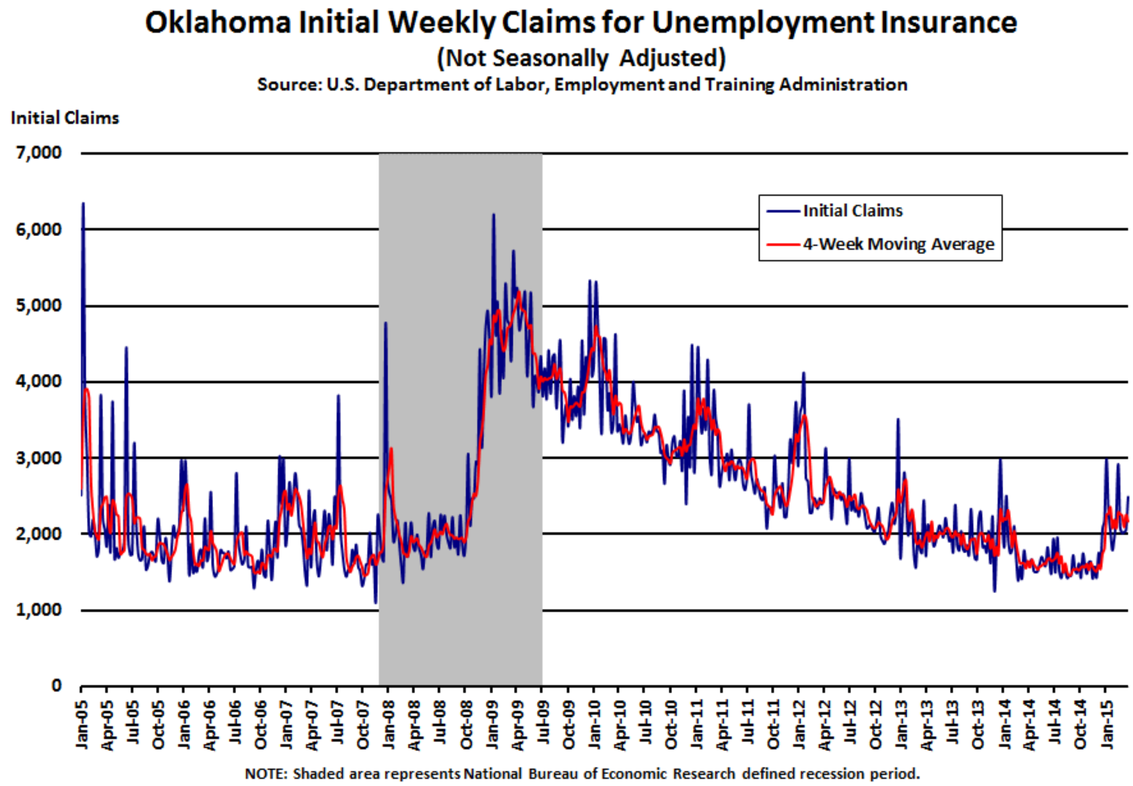
The unemployment rate is a lagging indicator of economic activity. During a recession many people leave the labor force entirely. As a result, the jobless rate may not increase as much as expected. This means that the jobless rate may continue to increase in the early stages of recovery because more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

Current Developments

The U.S. unemployment rate remained at a 6-1/2-year low in March but that was mostly due to discouraged workers dropping out of the labor force. The unemployment rate held at 5.5 percent in March, according to the Bureau of Labor Statistics (BLS). It appears that some discouraged workers are returning to the labor force. The labor force participation rate was little changed at 62.7 percent in March—tying the lowest such rate since 1978.

In February, Oklahoma’s seasonally adjusted unemployment rate was unchanged at 3.9 percent, ranking the 6th lowest unemployment rate among all states and tied with New Hampshire and Vermont.

Over the year, the state’s seasonally adjusted unemployment rate was down by 1.0 percentage point from 4.9 percent in February 2014. Kentucky and Rhode Island saw the largest drop in year-over-year change in jobless rates among states (-2.1 percentage points), while Louisiana had the largest over-the-year gain at 1.3 percentage points.



Definition & Importance

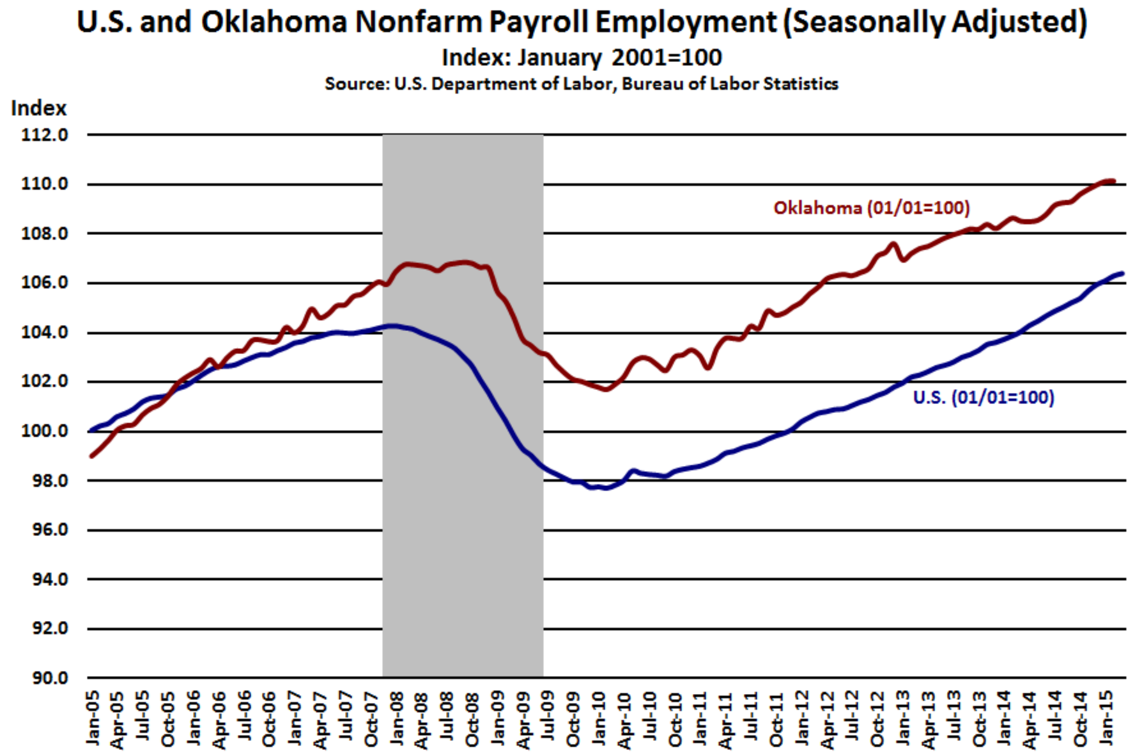
Initial unemployment claims are compiled weekly by the U.S. Department of Labor, Employment and Training Administration and show the number of individuals who filed for unemployment insurance benefits for the first time. This particular variable is useful because it gives a timely assessment of the overall 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

The number of people seeking U.S. unemployment benefits dropped significantly in the last week of March. In the week ending March 28, the advance figure for seasonally adjusted initial claims was 268,000, a decrease of 20,000 from the previous week's revised level of 288,000, according to figures released by the U.S. Labor Department (DOL). That put jobless claims near a 15-year low of 267,000 filings in late January. The less volatile 4-week moving average fell to 285,500, a decrease of 14,750 from the previous week's revised average of 300,250. Over the past 12 months, the moving average has fallen 11.7 percent.

Oklahoma initial jobless claims continued to move up in March, reflecting a slowdown in oil and gas activities. For the file week ending March 21, initial jobless claims were at a level of 2,491, or 429 more claims than the previous week. For the same file week ending, the four-week moving average was at 2,169, down 88 claims from the previous week’s level of 2,257. Over the month, initial claims were 400 more than 2,091 on February 21. Over the year, statewide initial jobless claims have increased by 861 from 1,630 for the file week ended March 22, 2014, while the less volatile 4-week moving average rose by 614 from 1,555 for the same file week.



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

Definition & Importance

Nonfarm payroll employment data is produced by the Current Employment Statistics (CES) program of the Bureau of Labor Statistics (BLS). The CES Survey is a monthly survey of approximately 140,000 nonfarm businesses and government agencies representing approximately 440,000 individual worksites. The CES program has provided estimates of employment, hours, and earnings data by industry for the nation as a whole, all States, and most major metropolitan areas since 1939. In order to account for the size disparity between of U.S. and Oklahoma employment levels, we have indexed the data with January 2001 as the start value.

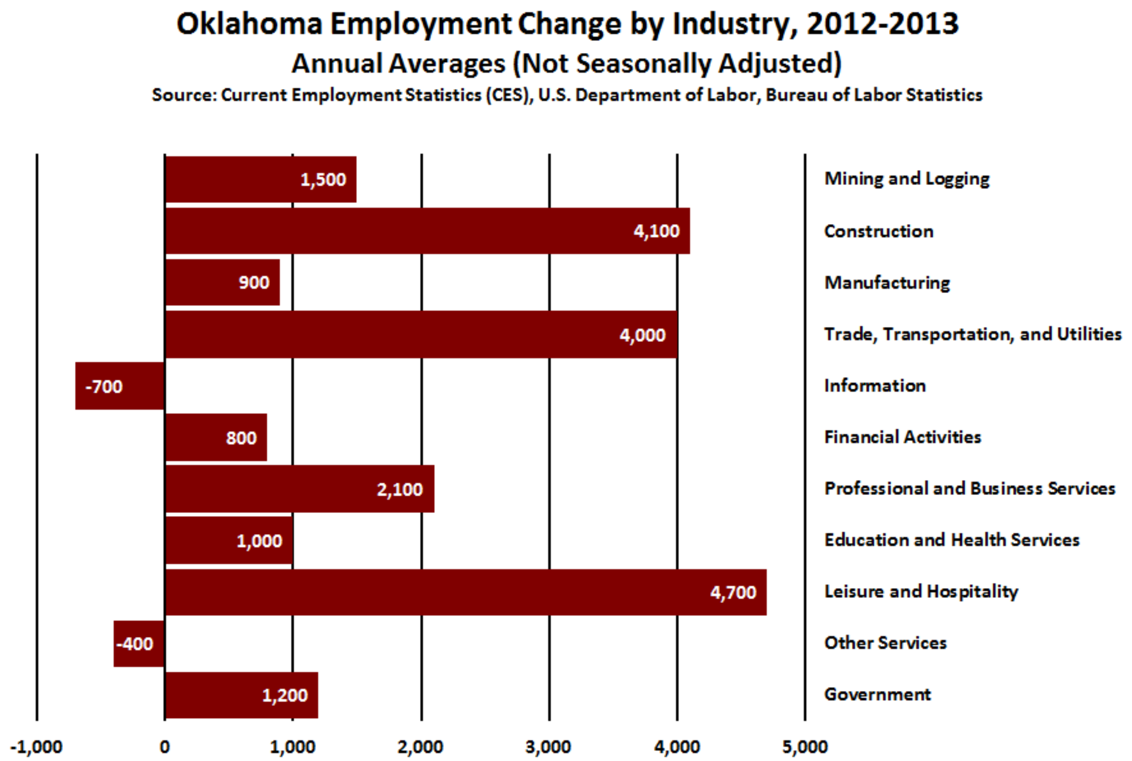
Payroll employment is one of the most current and reliable indicators of economic conditions and recessionary trends. Increases in nonfarm payrolls translate into earnings that workers will spend on goods and services in the economy. The greater the increases in employment, the faster the total economic growth.

Current Developments

U.S. employers added the fewest number of jobs in more than a year in March, snapping a streak of 12 straight months of job gains above 200,000. Nonfarm payroll employment increased 126,000 in March after rising 264,000 in February, according to the Bureau of Labor Statistics (BLS). In March, employment continued to trend up in professional and business services (+40,000), health care (+22,000), and retail trade (+26,000), while employment in mining declined (-11,000).

Oklahoma's seasonally adjusted nonfarm employment added 200 jobs (+0.0 percent) in February. Six of Oklahoma's 11 supersectors saw job growth in February, led by trade, transportation & utilities with an over-the-month gain of 1,600 jobs. Mining & logging (-2,400 jobs), dropped the most jobs over the month.

Over the year, Oklahoma total nonfarm employment gained 22,700 jobs (+1.4 percent) with all 11 supersectors adding jobs. Professional & business services (+9,200) posted the largest annual addition for February.



Definition & Importance

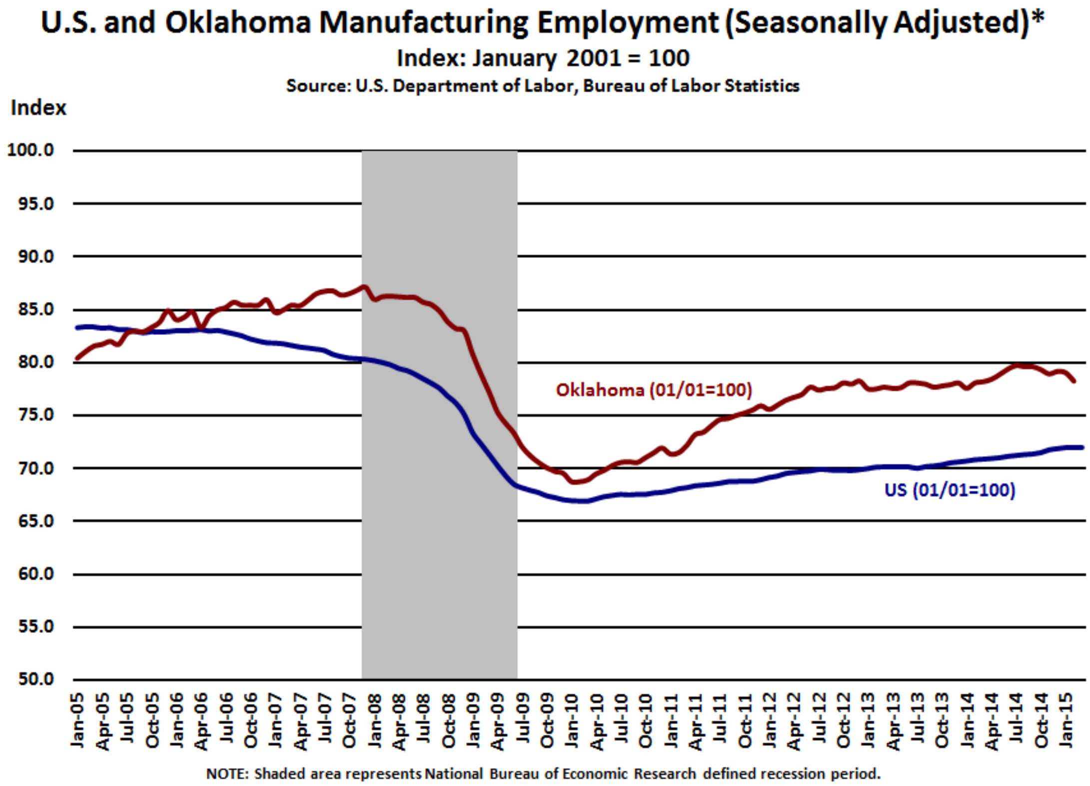
Employment growth by industry identifies the types of jobs being created in the state. Conversely, industries with a declining employment trend indicate those which are becoming less important in the state's economy. There may also be industries which behave more cyclically, growing during expansion 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 slowed a bit in 2013, adding 19,000 jobs for a 1.2 percent growth rate.

In 2013, nine out of Oklahoma's 11 statewide supersectors recorded job growth. Leisure & hospitality led all other supersectors adding 4,700 jobs with the bulk of hiring occurring in accommodations & food services. Construction employment added 4,100 jobs with almost all of the growth coming from heavy and civil engineering construction and specialty trade contractors. The broad trade, transportation & utilities group added 4,000 employees with most of the growth in wholesale trade. Professional and business services employment grew by 2,100 driven by job gains in administrative and support & waste management and remediation services and employment services. Mining & logging and manufacturing employment growth both slowed significantly from the previous year. Education & health services added 1,000 jobs with nearly all the job growth in ambulatory health care services.

Once again, over-the-year declines were seen in information (-700 jobs) and other services (-400 jobs).



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.

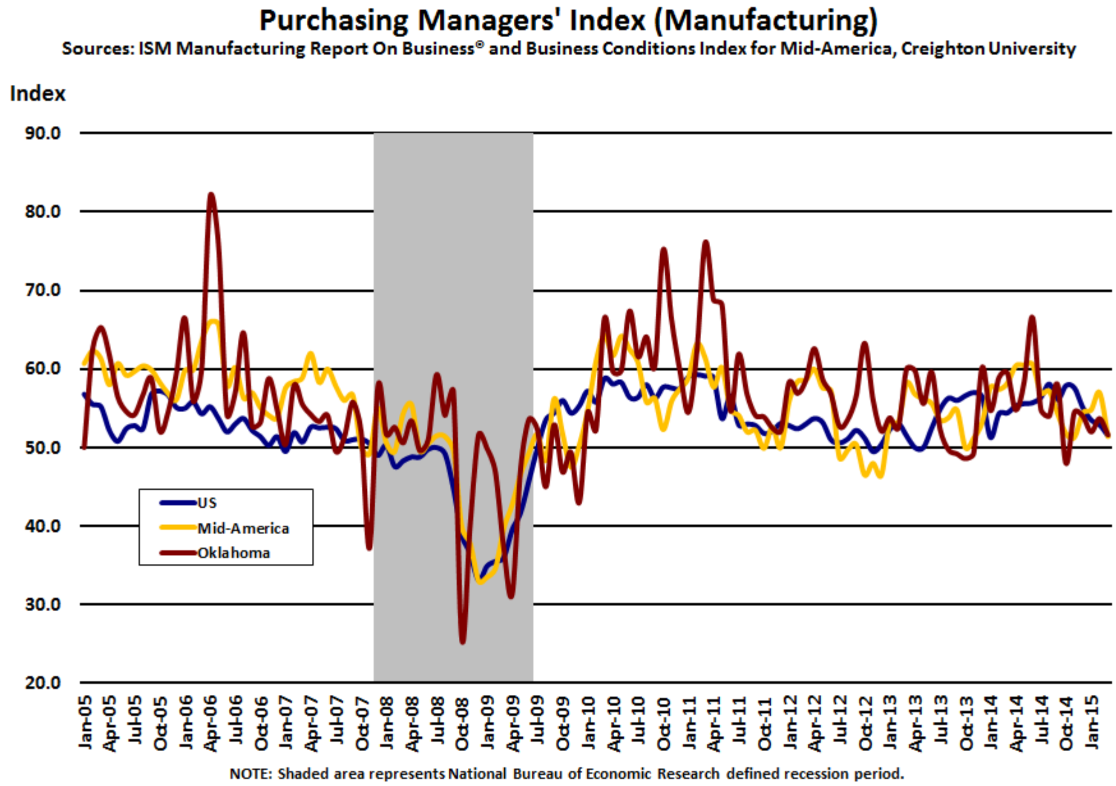
Current Developments

U.S. factory payroll growth was sluggish in March, held back by harsh winter weather, a strong dollar and weak global demand. Manufacturing employment edged down 1,000 in March, according to the Bureau of Labor Statistics (BLS). Lower oil prices have led energy companies to halt orders for pipelines and equipment, hurting manufacturers. Meanwhile, the strengthening dollar has made American-made goods costlier abroad.

Oklahoma manufacturing employment fell by a non-seasonally adjusted -1,400 jobs (-1.4 percent) in February. Durable goods manufacturing accounted for most of the job losses in February.

Over the year, Oklahoma manufacturing employment has added a non-seasonally adjusted 300 jobs for a 0.2 percent growth rate. Over-the-year gains in durable goods employment (+1,000 jobs), were blunted by losses in non-durable goods manufacturing (-700 jobs).

**As of January 2013, due to employment stability in the Manufacturing and Information supersectors, the BLS has determined that they do not need to be adjusted for seasonal factors at this time.*



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. factory activity expanded in March at the weakest pace since January 2014, as new orders grew more slowly and hiring was more or less flat. The March PMI® registered 51.5 percent, a decrease of 1.4 percentage points from February's reading of 52.9 percent, indicating growth in manufacturing for the 27th consecutive month, according to the latest Manufacturing ISM Report On Business®. It was the fifth straight drop and the lowest reading since January 2014.

A strong dollar and weak overseas demand are providing headwinds for U.S. exports. New orders fell 0.7 point to 51.8 for its lowest reading since April 2013. New export orders are in contraction for a third straight month, down 1.0 point to 47.5 for their lowest reading since November 2012.

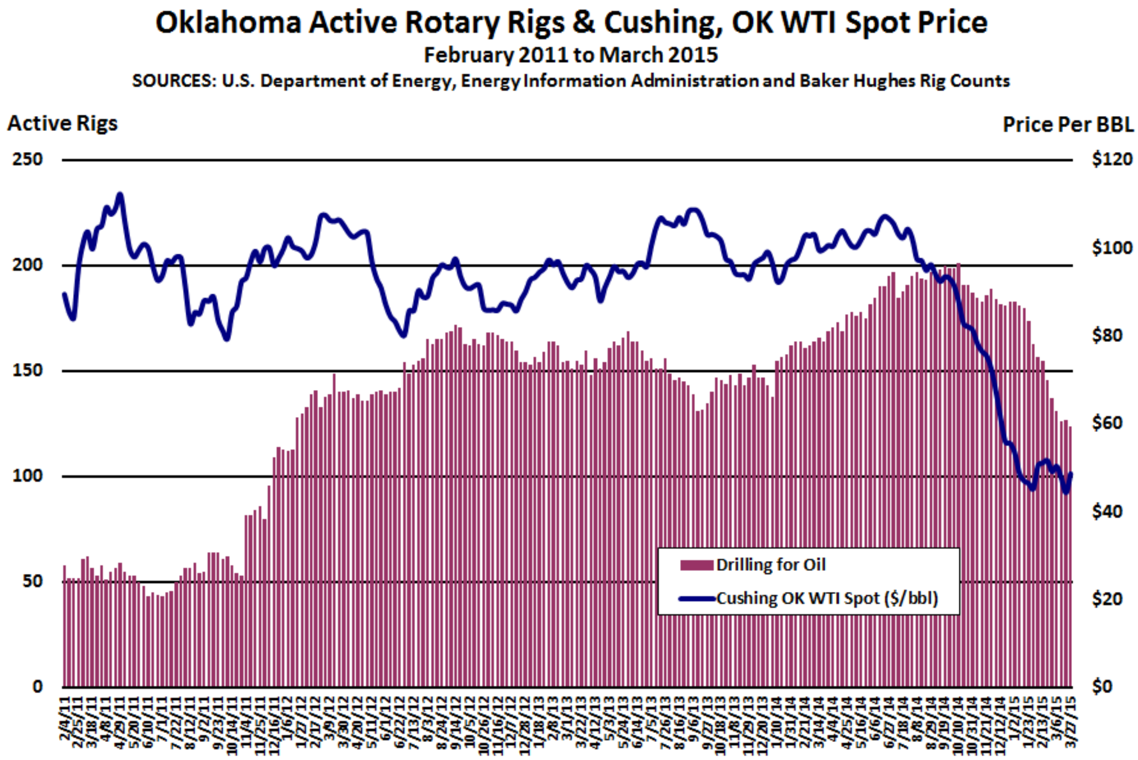
There was no net hiring during March with the Employment Index at 50.0—the lowest reading since May 2013. Prices paid, at 39.0, remains in contraction for a fifth straight month.

The Mid-America Business Conditions Index for March, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, fell from February's reading. The Business Conditions Index, which ranges between 0 and 100, sank to 51.4 from February's 57.0 reading, according to the Creighton Economic Forecasting Group. The regional index, much like the national reading, is pointing to positive, but slow growth for the first half of 2015.

"Nondurable manufacturing firms, including food processors and ethanol producers, reported sales, production and employment have weakened over the past several months. On the other hand, while our surveys are detecting weaker growth for firms tied to oil production, the surveys have yet to record substantial negative outcomes for North Dakota and Oklahoma, two states with sizable oil industry investment," said Ernie Goss, Ph.D., director of Creighton University's Economic Forecasting Group.

The Business Conditions Index for Oklahoma sank for March, but still signals positive but slow growth in the next three to six months. The index for March decreased to 51.6 from 53.7 in February. Components of the February survey of supply managers were new orders at 60.5, production or sales at 42.0, delivery lead time at 53.5, inventories at 47.9, and employment at 52.7.

"Oklahoma's dependence on international trade and exports is substantially less than that of the nation and region. Furthermore, the state's export growth since 2009 has significantly lagged that of the U.S. and the region which means the rising value of the U.S. dollar, represents less of an economic challenge for Oklahoma than for the region and nation. The state's chief trading partner is Canada and its number one exported product is machinery," said Goss.



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. crude oil production increased during 2014 by 1.2 million barrels per day (bbl/d) to 8.7 million bbl/d, the largest volume increase since recordkeeping began in 1900, according to the U.S. Energy Information Administration (EIA). On a percentage basis, output in 2014 increased by 16.2 percent, the highest growth rate since 1940. Most of the increase during 2014 came from tight oil plays in North Dakota, Texas, and New Mexico where hydraulic fracturing and horizontal drilling were used to produce oil from shale formations.

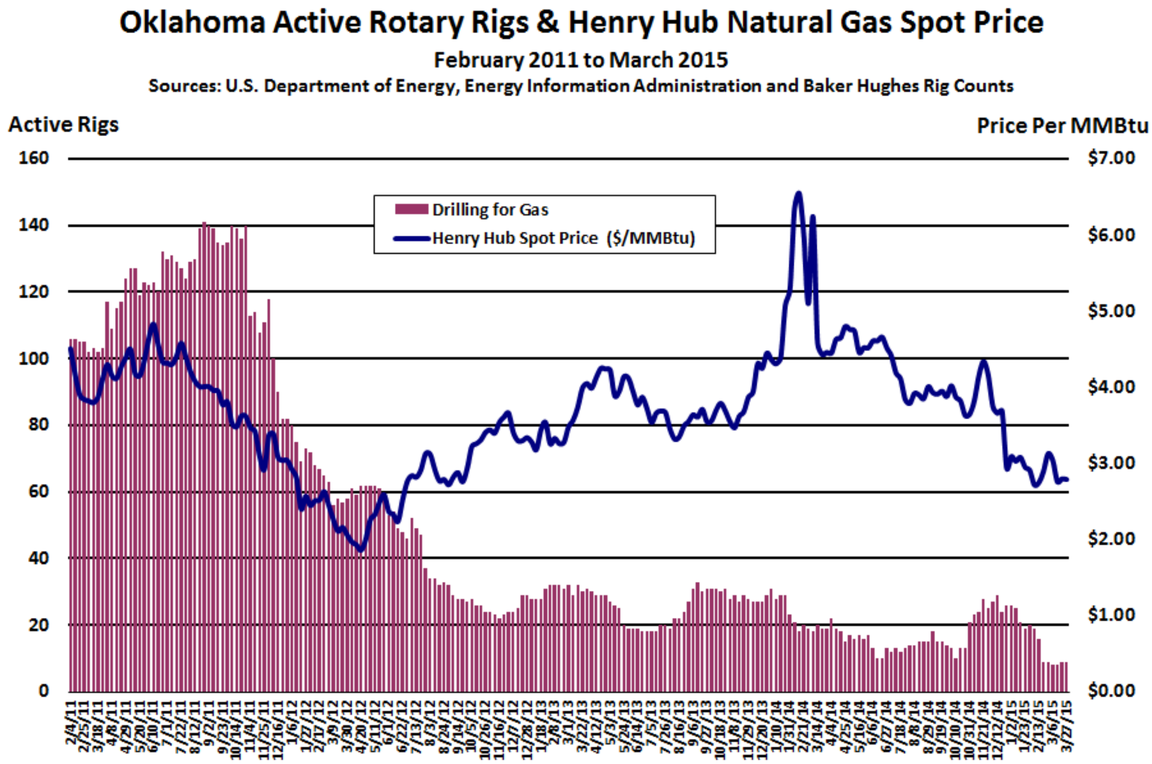
Oklahoma's crude production in February was at 11,179,000 barrels, 79,000 barrels (or 6.0 percent) less than January's level of 11,250,000 barrels. For 2014, Oklahoma's crude production was 127,730,000 barrels, 13,548,000 barrels or 11.9 percent more than the 114,182,000 barrels produced in 2013 and the highest annual crude production level since 1988.

North American crude oil is pouring into the country's main trading hub at Cushing, Oklahoma while oil prices remain on the decline. After increasing for 15 consecutive weeks, crude oil storage at Cushing reached 54.4 million barrels on March 13, according to EIA's *Weekly Petroleum Status Report*. Although this volume is the highest on record, it's not the highest percent of storage utilization, as working storage capacity at Cushing has also increased over time. Although inventory levels at Cushing are at a record high, storage utilization (inventories as a percent of working storage capacity) are not at record levels. Capacity utilization at Cushing is currently 77 percent. However, utilization reached 91 percent in March 2011.

West Texas Intermediate (WTI-Cushing) spot prices drifted down in March and remain at about half of the level seen just six months ago. The WTI-Cushing spot price stood at $48.68 per barrel for the week ending March 27, 2015. That's $4.29 above the previous week's price but $51.98, or 51.6 percent below a year ago.

The number of U.S. oil rigs fell by 11 last week to 802 according to data from oil driller Baker Hughes—the lowest oil rig count in four years. The biggest declines this week came from North Dakota, which saw 6 rigs shut down, and Texas, which saw 5 rigs shut down.

In March, Oklahoma's active rotary rig count tumbled to its lowest level since July 2010. The number of active rigs in the state stood a 133 for the week ending March 27. For that week ending, 124 were oil-directed and nine were natural gas-directed.



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.

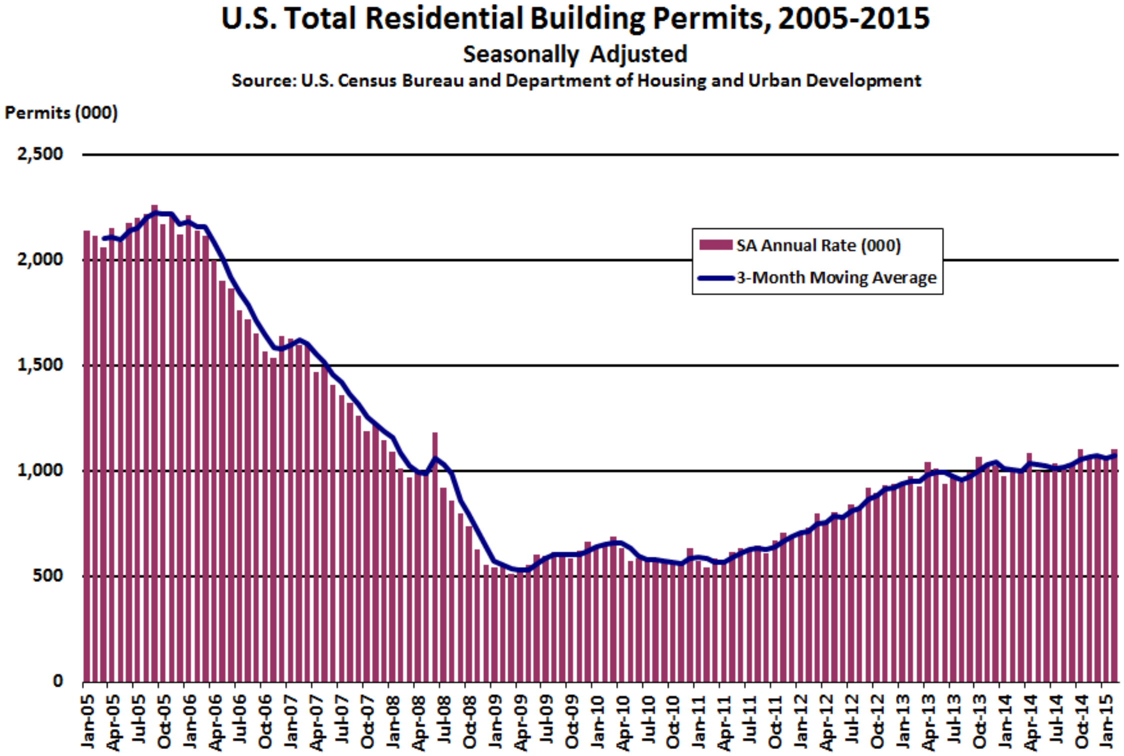
Current Developments

Despite declining rig counts, the U.S. energy Information Administration (EIA) forecasts continued growth in natural gas production over the next two years. In the past, the number of gas-oriented drilling rigs in a particular region was a common metric for estimating the production of natural gas. However, over the last several years, natural gas production has steadily increased, while the number of active rigs characterized as targeting natural gas has fallen dramatically.

The EIA lists several reasons that have contributed to the breakdown of traditional methods of estimating natural gas production based principally on rig counts. First, with the development of shale resources, there is an increased integration of oil and gas production, and natural gas is often produced from rigs that are targeting oil. Additionally, there have been increases in drilling efficiency, or the number of wells drilled per rig each month.

Natural gas prices moved downward at most market locations through March with more seasonal temperatures. The Henry Hub spot price posted a 25-cent (8.2 percent) decline from $3.04/MMBtu for the week ending March 6, to $2.79/MMBtu for the week ending March 27.

The Baker Hughes rotary rig count for natural gas in Oklahoma gained a rig in March. For the week ending March 27, Oklahoma’s natural gas-directed drilling rig count was at a level of nine active rigs, the same rig count as the previous week but one more from the week ending March 6, and representing only six percent of total statewide drilling activity. Over the year, Oklahoma’s natural gas-directed rotary rig count was down ten rigs from the 19 rigs reported for the week ended March 28, 2014.



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.

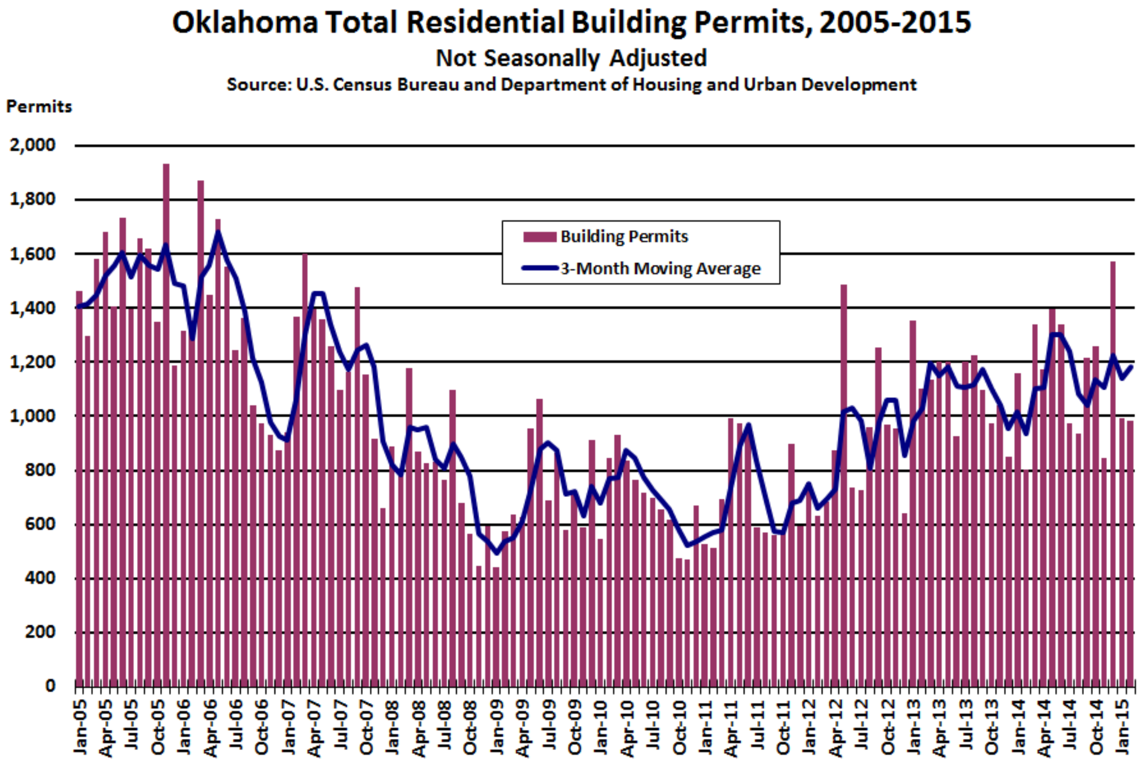
While home construction represents a small portion of the housing market, it has an outsize impact on the economy. Each home built creates an average of three jobs for a year and about $90,000 in taxes, according to the National Association of Home Builders. Overall, homebuilding fell to its lowest levels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

Current Developments

Harsh winter weather didn’t deter residential permitting activity in February but it did cause construction activity to fall sharply. Privately-owned housing units authorized by building permits in February were at a seasonally adjusted annual rate of 1,092,000, or 3.0 percent above the revised January rate of 1,060,000 and 7.7 percent above the February 2014 estimate of 1,014,000, according to the U.S. Census Bureau and the Department of Housing and Urban Development. This was the fastest pace of permitting activity since October.

Single-family authorizations in February were at a rate of 620,000, or 6.2 percent below the revised January figure of 661,000. However, authorizations of units in buildings with five units or more were at a rate of 445,000, or 19.9 percent above January’s revised figure of 371,000.

Bitter winter weather in the Northeast and Midwest likely caused housing starts to tumble in February. Housing starts fell a monthly 17.0 percent, the lowest starts level since January 2014, with a 0.897 million-unit annualized pace.

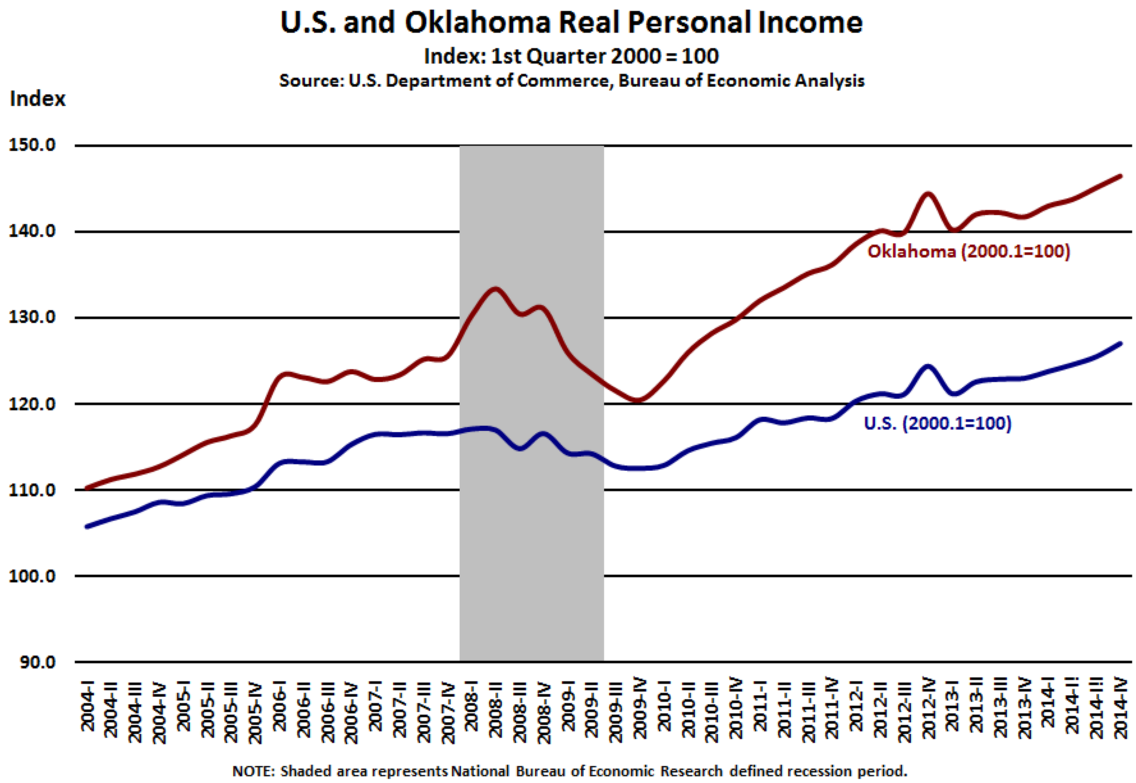


Applications for residential construction in Oklahoma edged down in February, held back by apartment permitting. Total residential building permitting for February was at an unadjusted level of 984 units, 11 units less than January's level of 995, according to figures from the U.S. Census Bureau and the Department of Housing and Urban Development.

Single-family permitting accounted for 82.1 percent of total residential permitting activity in February while multi-family permitting added only 16.7 percent. Applications for single-family homes were at a non-seasonally adjusted level of 808, or 4.1 percent more than January's level of 776 permits. Multi-family permitting fell to a non-seasonally adjusted level of 164 permits, 43 less than January's level of 207 permits.

Over the year, total residential permitting was 181 permits, or 22.5 percent, less than February 2014. Single-family permits were down 62 permits, or 8.35 percent, less than a year ago, while the more volatile multi-family permitting was 153 more than the January 2014 level of 11 permits.

In 2014, total unadjusted residential building permitting was at a level of 14,024 or 12.7 percent greater than the 2013 total of 12,464 and the highest annual total since 2007. Multi-family permits were 1,127, or 51.8 percent more than 2013, while single-family permits were 447, or 4.1 percent less than 2013.



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.

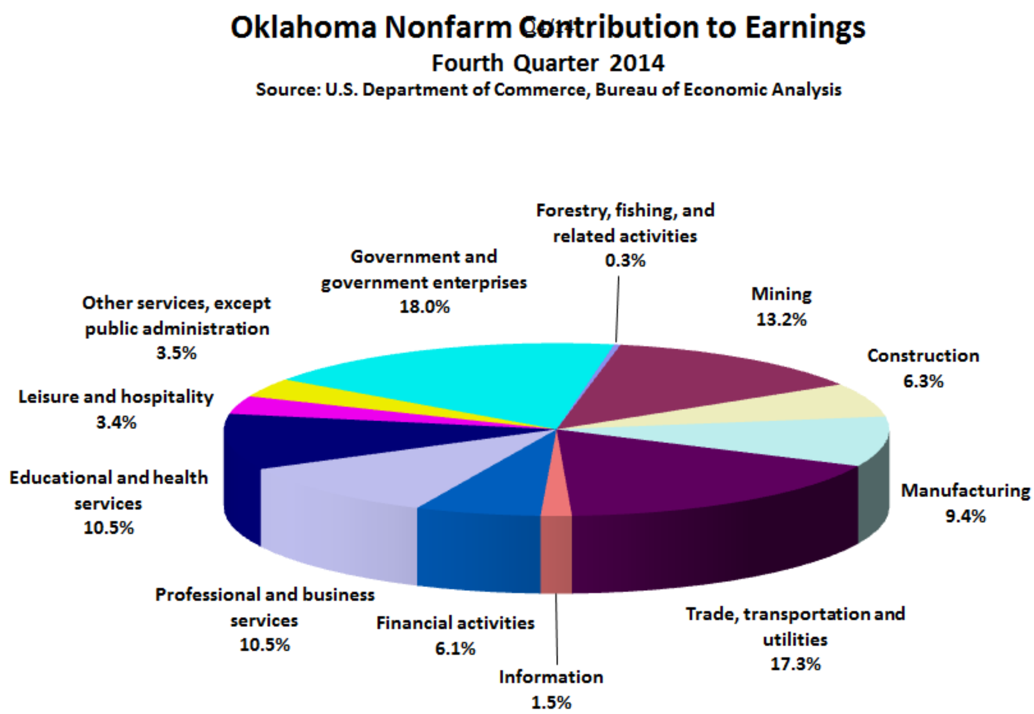
To show the vastly different levels of total personal income for the U.S. and Oklahoma on the same chart, these data have been converted to index numbers. This chart shows a comparison of Oklahoma and U.S. growth in real personal income with 1st quarter 2000 as the base year.

Current Developments

Personal income rose by a moderately healthy amount for the second consecutive month in February and spending was slightly higher than the previous month. Personal income increased $58.6 billion, or 0.4 percent, and disposable personal income (DPI) increased $54.2 billion, or 0.4 percent, in February, according to the Bureau of Economic Analysis (BEA). Consumer spending edged up 0.1 percent following declines in both January and December. In January, personal income increased $61.8 billion, or 0.4 percent, DPI increased $61.5 billion, or 0.5 percent, and PCE decreased $28.5 billion, or 0.2 percent, based on revised estimates.

Durable goods purchases, including automobiles, decreased 1.1 percent after adjusting for inflation, the worst performance since December 2013. Spending on non-durable goods, which includes gasoline, was little changed. Services spending rose 0.1 percent after adjusting for inflation, the smallest gain since July.

With income growing faster than spending, the personal saving rate jumped to 5.8 percent of disposable income in February—the highest level since December 2012.



Definition & Importance

Quarterly estimates of state personal income are seasonally adjusted at annual rates by the Bureau of Economic Analysis (BEA). Quarterly personal income estimates are revised on a regular schedule to reflect more complete than the data that were available when the estimates were initially prepared and to incorporate updated seasonal factors.

Current Developments

State personal income grew 1.0 percent on average in the 4th quarter of 2014, the same average growth rate as in the 3rd quarter, according to estimates by the U.S. Bureau of Economic Analysis (BEA). The acceleration in personal income growth in Florida, Texas, and 30 other states was offset by a slowdown in 15 states, including California and New York. Growth rates ranged from 0.6 percent in Louisiana to 1.5 percent in Texas. The national price index for personal consumption expenditures fell 0.1 percent in the 4th quarter after rising 0.3 percent in the 3rd quarter.

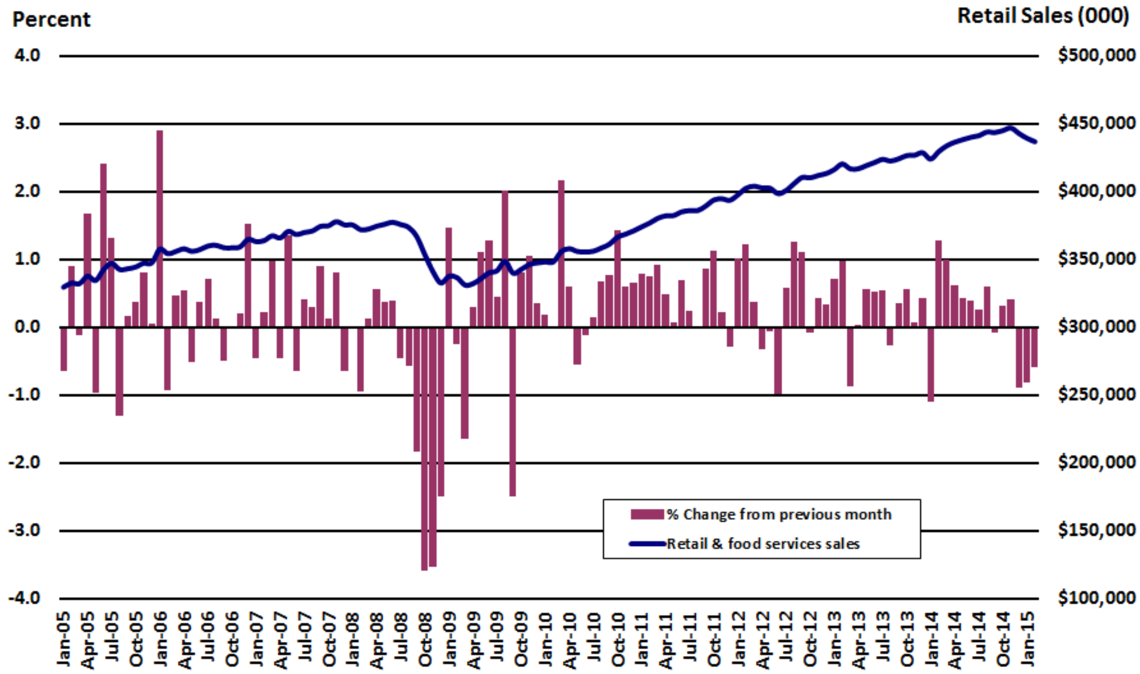
Oklahoma's personal income growth slowed in the 4th quarter to 0.7 percent, following a 1.2 percent pace in the previous quarter, and ranking 48th in the nation. Total state personal income was at a level of $169.7 billion in the 4th quarter of 2014. Earnings grew $874.0 million in the 4th quarter to a level of $121.0 million for a growth rate of 0.7 percent.

The slowdown in Oklahoma's 4th state personal income can be partly attributed to the utilities sector which dropped $470.1 million or 18 percent due to large bonuses paid in the 3rd quarter. Forestry, fishing, and related activities and farm earnings combined to contribute more than 10 percent to 4th quarter earnings.

Oklahoma's total personal income growth accelerated to 3.8 percent in 2014, from 2.0 percent in 2013, and ranked 27th among all states for income growth, according to the BEA. Total personal income was at a level of $167.3 billion for 2014. Oklahoma per capita personal income was $43,138 in 2014, based on an estimated 3.88 million residents.

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

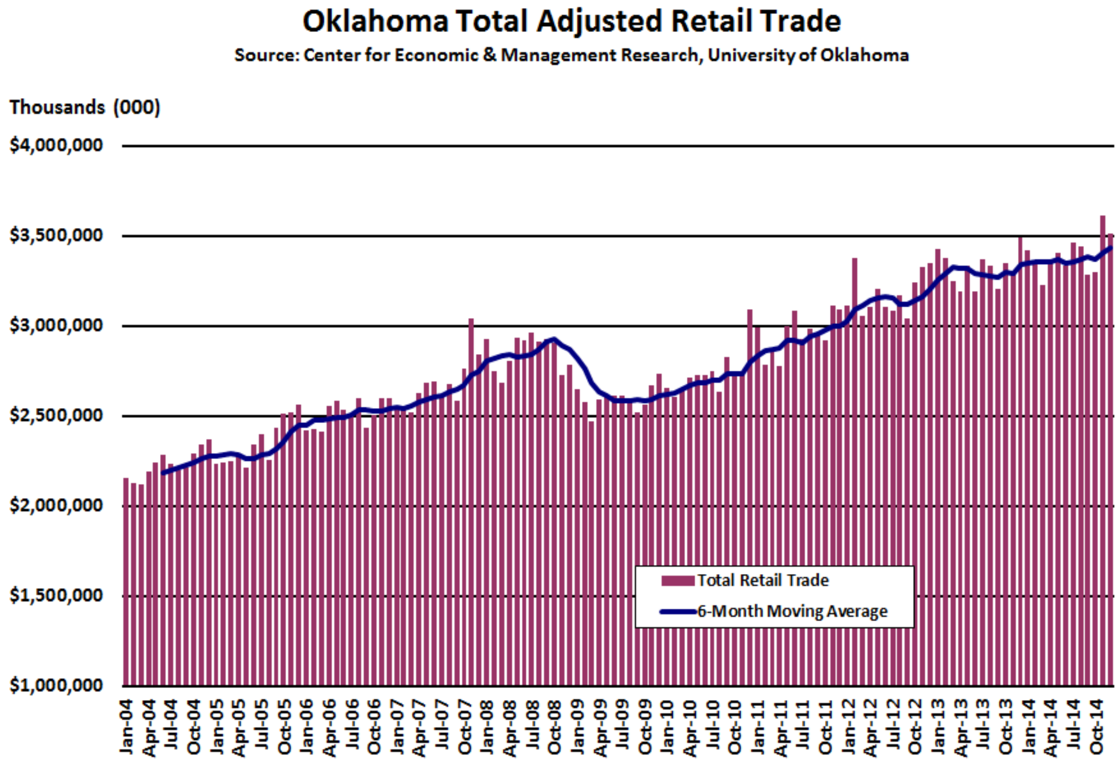
Retail sales measure the total receipts at stores that sell merchandise and related services to final consumers. Sales are by retail and food services stores. Data are collected from the Monthly Retail Trade Survey conducted by the U.S. Bureau of the Census. Essentially, retail sales cover the durables 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

U.S. retail sales fell for a third straight month in February, likely due to severe winter weather keeping consumers from shopping. 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 $437.0 billion, a decrease of 0.6 percent from the previous month, but up 1.7 percent above February 2014, according to the U.S. Census Bureau. Total sales for the December 2014 through February 2015 period were up 2.9 percent from the same period a year ago. The December 2014 to January 2015 percent change was unrevised from -0.8 percent.

Auto sales dropped by the most in more than a year in February, falling 2.5 percent, after a 0.5 percent rise in January. A recent rise in gasoline prices lifted receipts at service stations, where sales rose 1.5 percent, the first increase since May. Excluding spending on automobiles and gasoline, retail sales fell 0.2 percent after slipping 0.1 percent in January.

The less volatile "core" sales, which strip out automobiles, gasoline, building materials and food services, were unchanged after a 0.1 percent decline in January. Receipts at online stores rose 2.2 percent. Sales at sporting goods and hobby shops increased 2.3 percent. There were declines in furniture (-0.1 percent), and electronic & appliances sales (--1.2 percent). Sales at clothing stores were flat in February.



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

Oklahomans took advantage of early holiday shopping deals offered on 'Black Friday' and lower pump prices. After surging 9.7 percent in November, retail sales slipped -2.8 percent in December. Total adjusted retail sales for December was at a level of $3.52 billion, down from November's level of $3.62 billion. For 2014, total adjusted retail trade was at a level of $40.7 billion, 2.2 percent more than $39.8 billion in 2013.

Total durable goods sales climbed 1.1 percent in December with gains in miscellaneous durable goods (3.2 percent); furniture (2.0 percent); electronics & music store sales (1.3 percent); used merchandise (0.8 percent); and auto accessories & repair (0.8 percent). Lumber & hardware sales were flat in December. Over the year, durable goods sales were grew 7.2 percent.

Nondurable goods sales dropped 4.1 percent in December with the largest monthly loss again in the volatile estimated gasoline sales (-19.7 percent). Spending on drugs also fell in December (-0.2 percent). Spending picked up in apparel (2.3 percent); general merchandise store sales (2.2 percent); liquor (1.6 percent); miscellaneous non-durables (0.5 percent); food (0.3 percent); and eating & drinking (0.2 percent). Over the year, non-durable goods sales were off 1.4 percent.