

Oklahoma Economic Indicators November 2010



OKLAHOMA ECONOMIC INDICATORS

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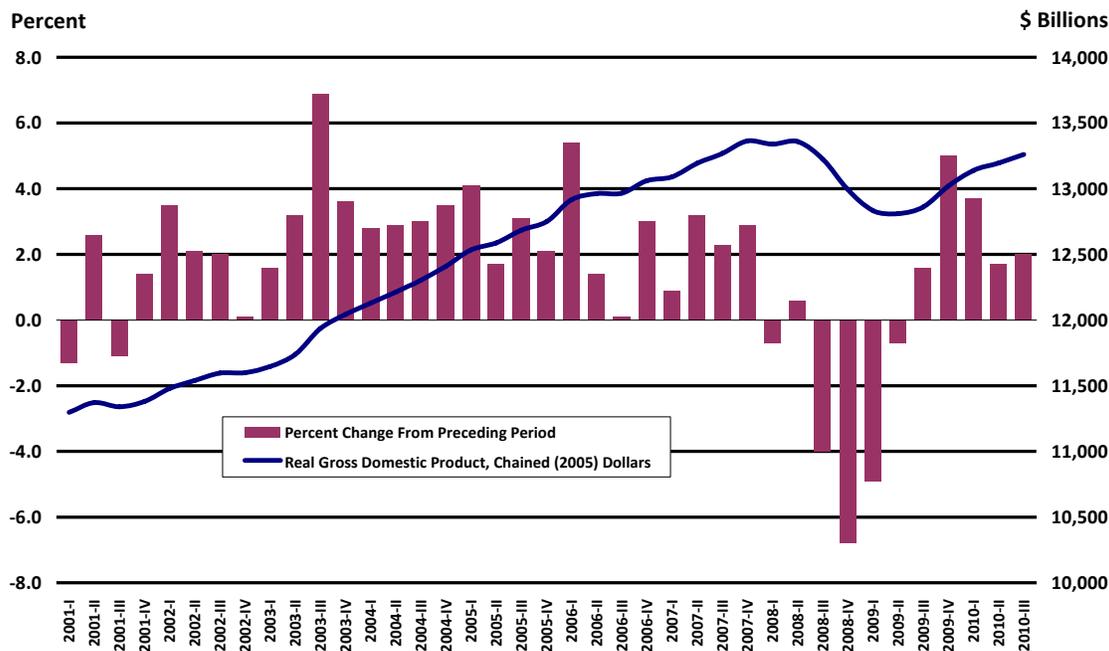
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Real Gross Domestic Product and Quarterly Change

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



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

The Business Cycle Dating Committee of the National Bureau of Economic Research determined that a trough in business activity occurred in the U.S. economy in June 2009. The trough marks the end of the recession that began in December 2007 and the beginning of an expansion. The recession lasted 18 months, which makes it the longest of any recession since World War II. Previously the longest postwar recessions were those of 1973-75 and 1981-82, both of which lasted 16 months.

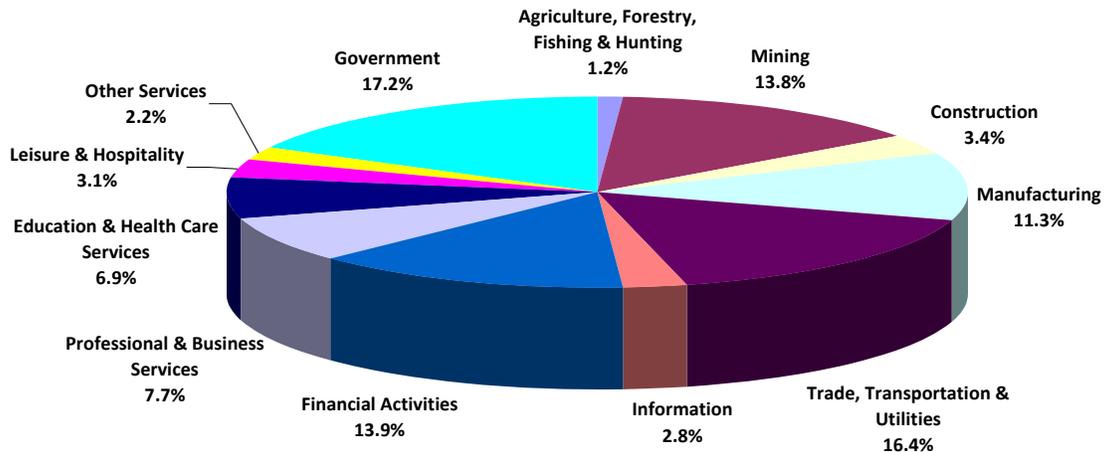
The U.S. economy expanded at a slightly faster pace in the third quarter as consumer spending inched up, but growth remains too weak to cut unemployment any time soon. Real gross domestic product increased at an annual rate of 2.0 percent in the third quarter of 2010, (that is, from the second quarter to the third quarter), according to the "advance" estimate released by the Bureau of Economic Analysis (BEA). In the second quarter, real GDP increased 1.7 percent.

Third quarter GDP growth was led by gains in inventory investment, consumer spending, equipment investment, and government purchases. On the negative side, housing investment fell back and net exports worsened on higher imports. Exports rose moderately.

2009 Industry Share of Oklahoma's Economy

(by percentage of Gross Domestic Product)

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



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

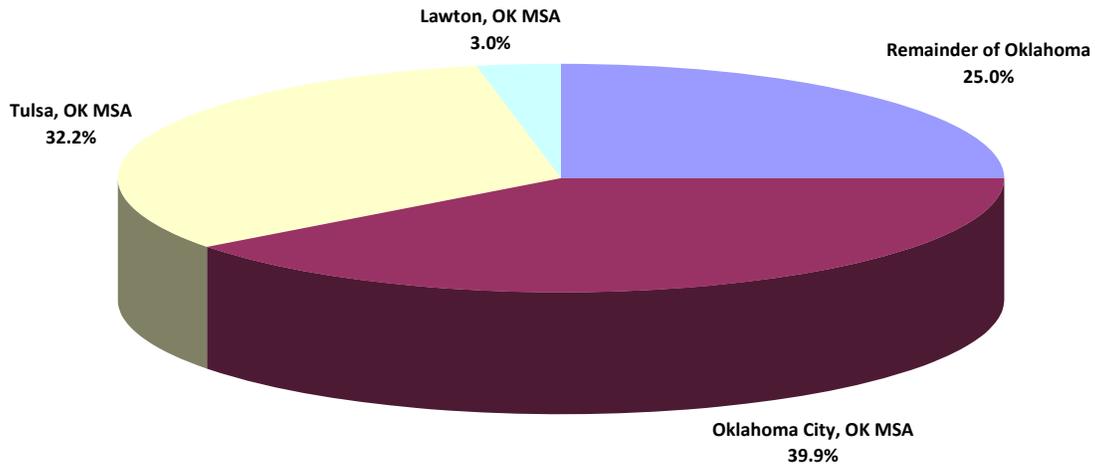
According to recently released data from the U.S. Bureau of Economic Analysis (BEA), real GDP declined in 38 states in 2009, led by national downturns in durable goods manufacturing and construction. Oklahoma experienced positive real GDP growth in 2009 due to real growth in mining resulting from sharp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

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

In 2009, the largest industry in Oklahoma was government, accounting for 17.2 percent of Oklahoma GDP and having 3.3 percent real growth. The second largest industry was mining, which accounted for 13.8 percent of Oklahoma GDP and had 65.4 percent real growth.

Metropolitan Area Contribution to State Real Gross Domestic Product 2008

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



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

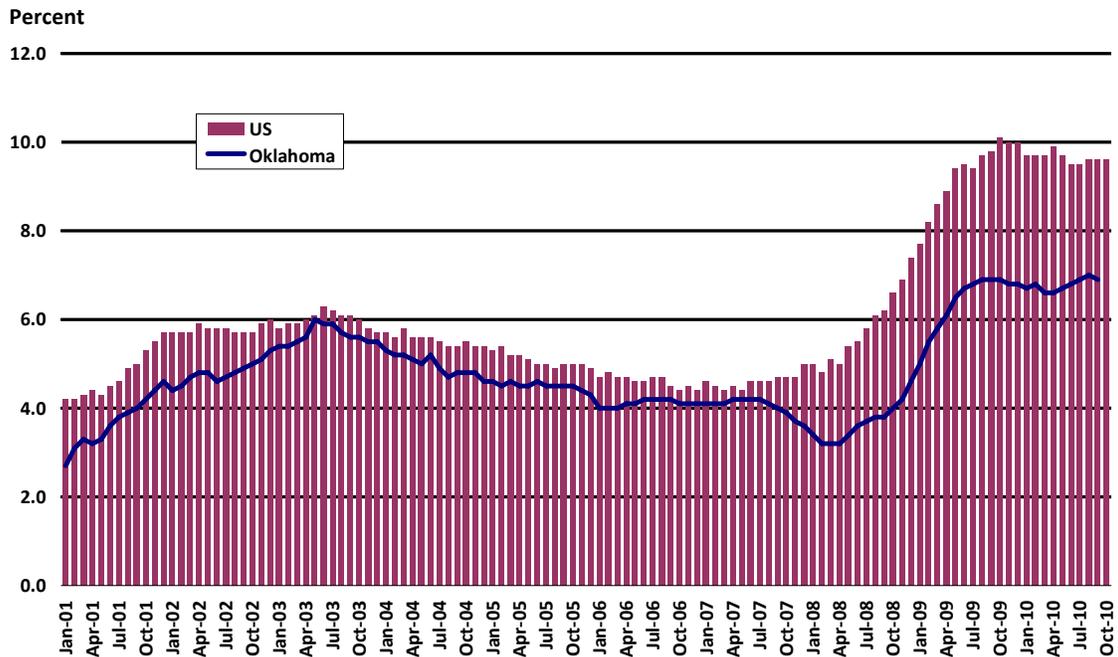
Nationally, metropolitan statistical areas represent approximately 90 percent of total GDP. In Oklahoma, the three MSAs of Oklahoma City, Tulsa and Lawton accounted for roughly 75 percent of total state GDP in 2008.

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

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

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

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



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

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

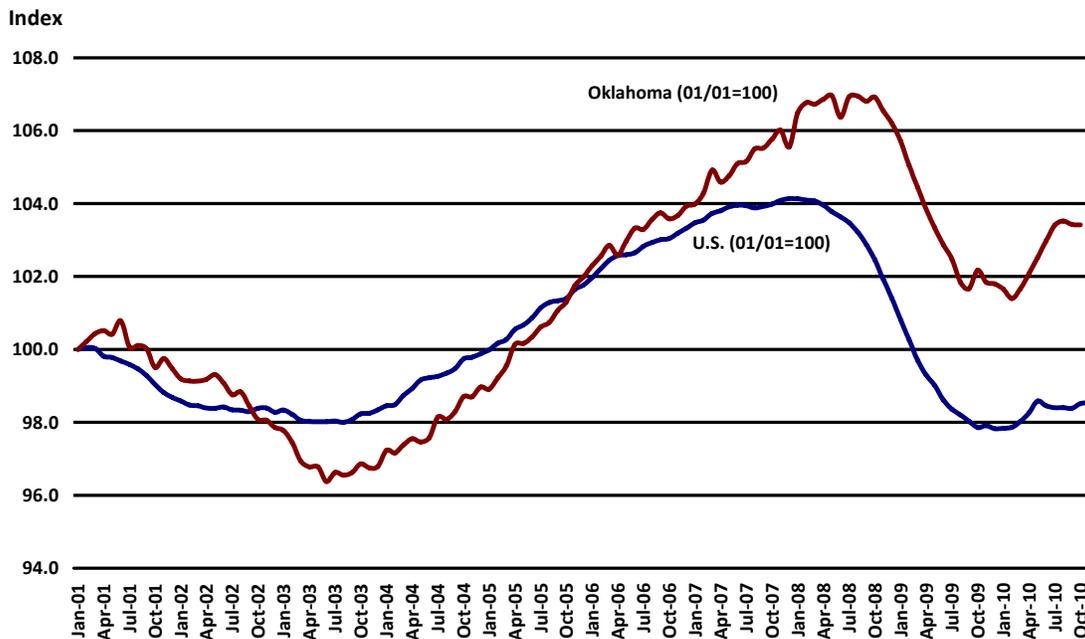
The U.S. unemployment rate edged up to 9.8 percent in November; it was 9.6 percent in each of the prior 3 months according to the . The number of long-term unemployed (those jobless for 27 weeks and over) was about unchanged over the month at 6.3 million. In November, 41.9 percent of unemployed persons had been jobless for 27 weeks or more.

Oklahoma's seasonally adjusted unemployment rate was unchanged at 6.9 percent for the month in October. The October 2010 seasonally adjusted unemployment rate for the state was also the same as that for October 2009. Oklahoma again had the ninth lowest jobless rate in the nation for October. Nevada again reported the highest unemployment rate among the states at 14.2 percent, while North Dakota continued to register the lowest jobless rate at 3.8 percent in September.

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

Index: January 2001=100

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



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

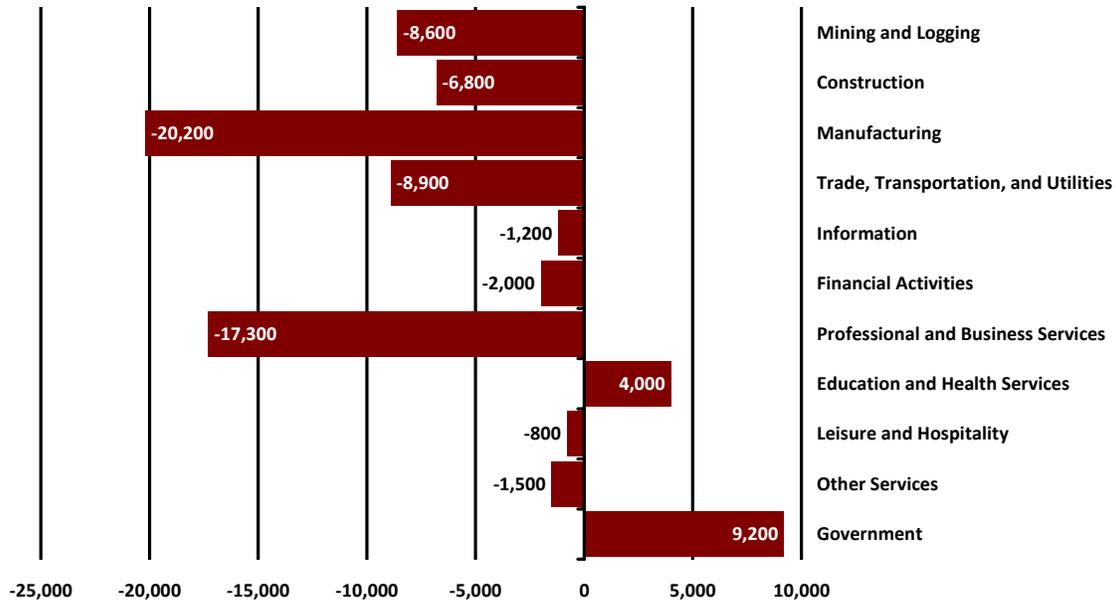
During the mature phase of an economic expansion, monthly payrolls gains of 150,000 or so are considered relatively healthy. In the early stages of recovery though, gains are expected to surpass 250,000 per month.

U.S. employment growth was unexpectedly soft in November. Nonfarm payroll employment only added 39,000 jobs in November, following a revised 172,000 boost in October and a 24,000 dip in September, according to the Bureau of Labor Statistics. Payroll employment has increased by an average of 86,000 per month since its recent low point in December 2009. In November, temporary help services and health care added jobs, while employment fell in retail trade.

Oklahoma's seasonally adjusted nonfarm employment was nearly unchanged at 1,543,300 in October after shedding 100 jobs from September. Over-the-month losses in trade, transportation & utilities (-1,500 jobs); financial activities (-1,000 jobs); leisure & hospitality (-800 jobs); and government (-1,700 jobs) were counterbalanced by job gains in other supersectors. Manufacturing, adding 900 jobs, posted the largest job gain for the month. State nonfarm employment expanded by 18,600 jobs (+1.2 percent) over the year. Seven of Oklahoma's 10 statewide supersectors reported over-the-year gains in October, led by educational & health services adding 8,400 jobs. Government once again posted the state's largest over-the-year decrease with a 9,000-job loss.

Oklahoma Employment Change by Industry 2008 - 2009

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



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

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

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

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

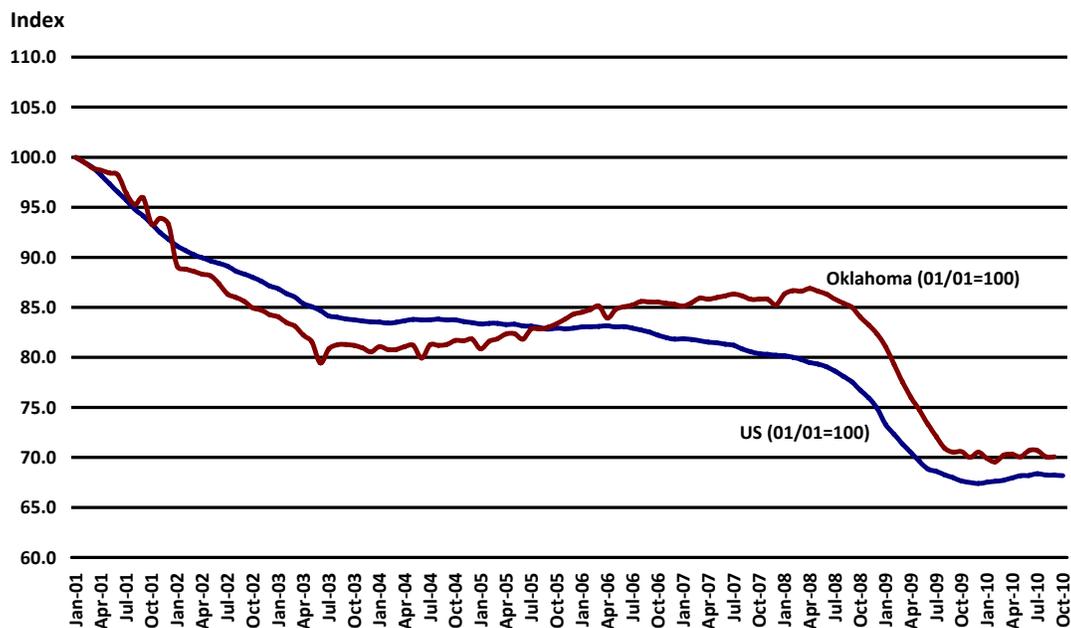
public school employment growth. Hiring for temporary Census 2010 workers accounted for much of the job gains in federal government.

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

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

Index: January 2001 = 100

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



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

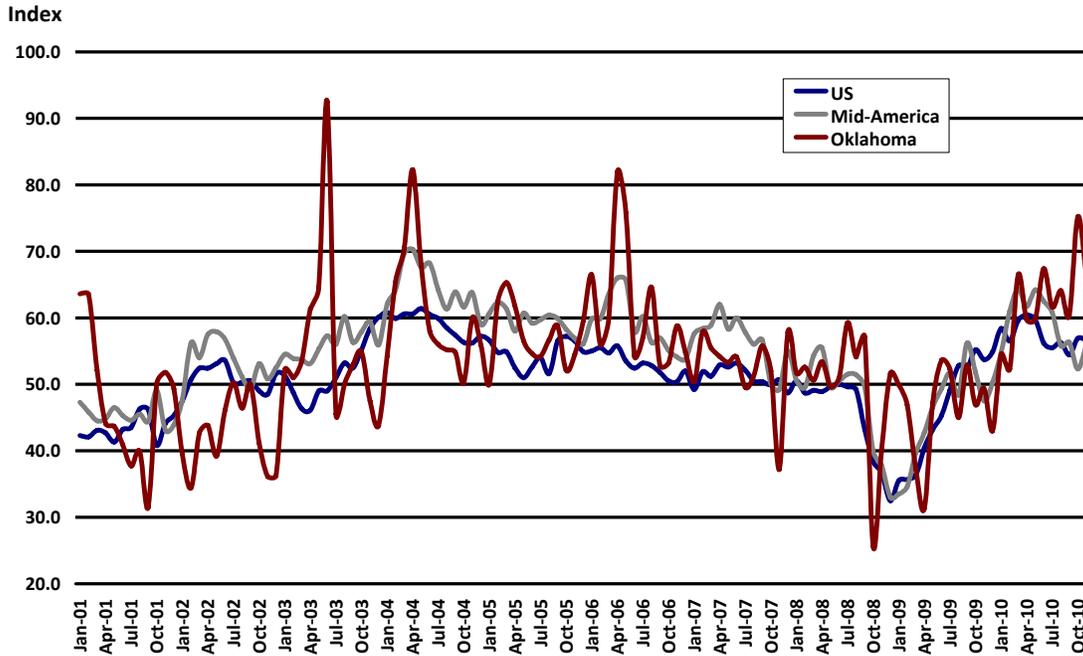
At one time, manufacturing made up 38 percent of the nation’s employment. However, manufacturing employment in the United States has been declining since 1979, as productivity, technology gains, and the transfer of manufacturing to locations outside the United States have reduced the demand for traditional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

U.S. manufacturing employment was little changed in November (-13,000). Following job growth earlier in 2010, factory employment has been relatively flat, on net, since May. The industry had added 148,000 jobs during the first 6 months of the year. Manufacturing sector productivity rose to a revised 0.6 percent in the third quarter of 2010, as output and hours grew 4.2 percent and 3.6 percent, respectively.

Oklahoma manufacturing employment rebounded in October, adding a seasonally adjusted 900 jobs. The bulk of October’s job gains were in durable goods manufacturing with machinery manufacturing posting the only over-the-month job loss. Non-durable goods manufacturing employment saw growth in food manufacturing and plastics and rubber products manufacturing. Manufacturing employment stood at a seasonally adjusted 124,000 in October.

Purchasing Managers' Index (Manufacturing), 2001-2010

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



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

Manufacturing continued to grow at a healthy pace, according to the ISM report for November. With the PMI at 56.6 percent, November's rate of growth is the second fastest in the last six months. This was the 16th consecutive month of expansion of economic activity in the manufacturing sector.

New orders came in at 56.6, indicating solid month-to-month growth that's only slightly slower than October's very strong growth of 58.9. The pace of production slowed noticeably but, at 55.0, is still strong although less strong than the prior month's 62.7. Other readings include a significant slowing in delivery times, strong evidence of activity in the supply chain. Backlogs continued to contract though inventories rose at a greater pace.

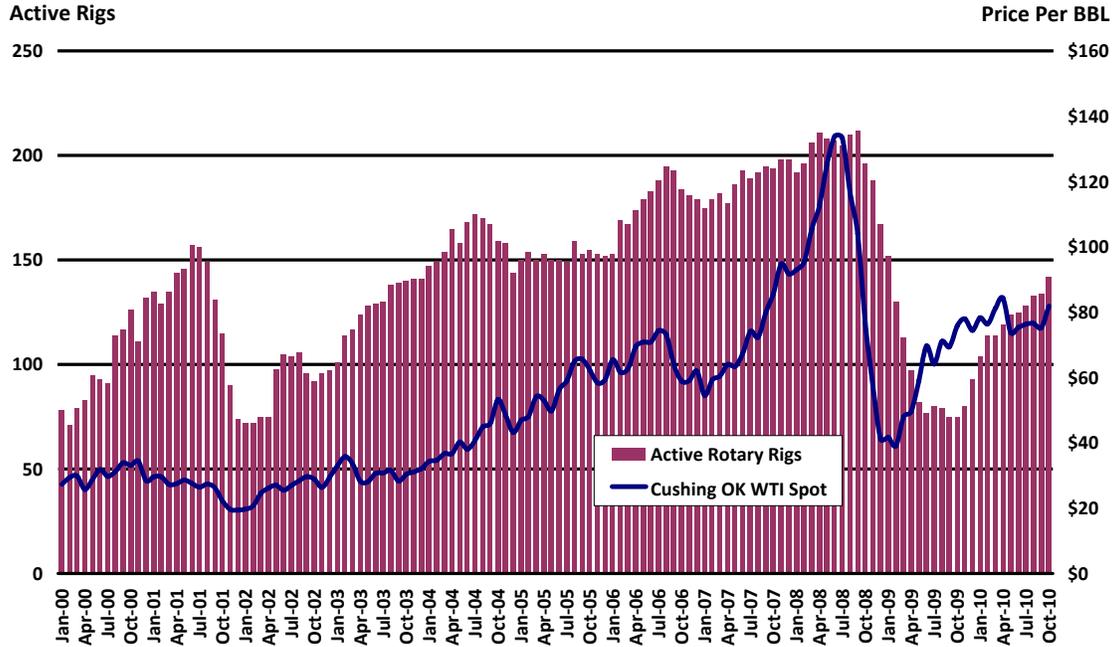
For only the second time since May of this year, the Business Conditions Index for the nine-state Mid-America region, (including Arkansas, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma and South Dakota), advanced. The index, a leading economic indicator which ranges between 0 and 100, expanded to 55.9 from October's 52.3. This is the 12th consecutive month that the index has risen above growth neutral. According to recent surveys of supply managers, the region will likely continue to grow, but at a slow to moderate pace.

Oklahoma's Business Conditions Index remained at a regional high of 66.3 although down from October's 75.2 reading. For the 11th straight month, Oklahoma's leading economic indicator from the monthly survey of supply managers remained above growth neutral. Components of November's overall reading were new orders at 71.5, production or sales at 68.1, delivery lead time at 75.1, inventories at 62.8 and employment at 54.1.

Creighton University Economics Professor Ernie Goss noted, "Nondurable manufacturers in Oklahoma, particularly food processors and energy-related firms, continue to experience healthy growth. On the other hand, durable goods manufacturers in the state experienced pullbacks in economic activity over the past several months."

Oklahoma Active Rotary Rigs & Cushing, OK WTI Spot Price

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



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

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

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

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

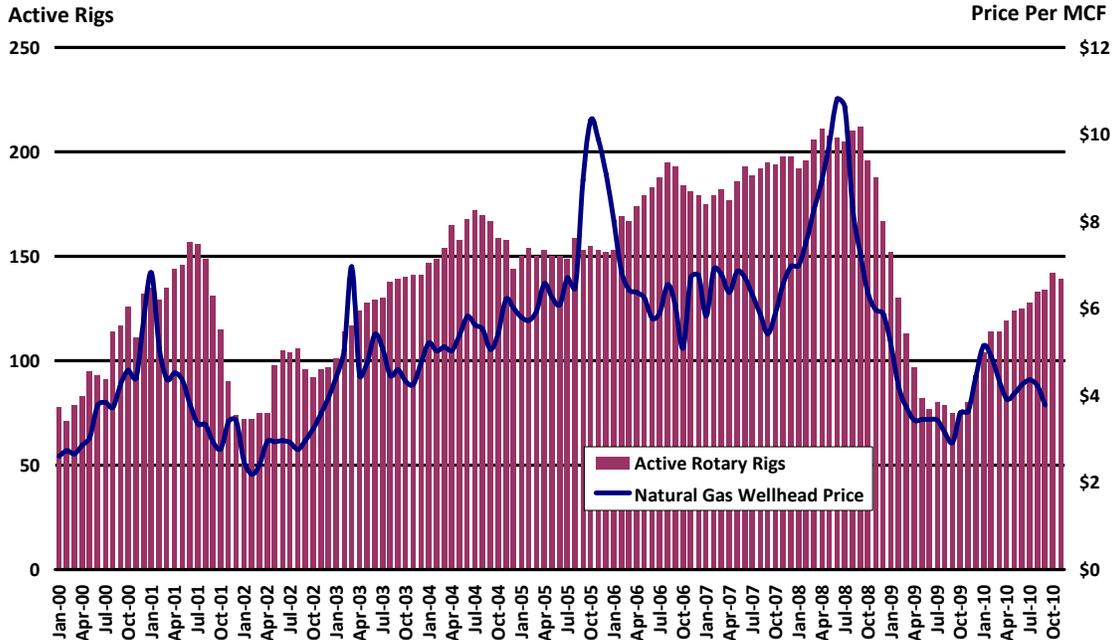
Proven reserves of U.S. oil (crude oil plus condensate) increased in 2009, rising 9 percent to 22.3 billion barrels, according to the U.S. Energy Information Administration (EIA). Texas showed the largest increase in reserve volume, while North Dakota had the second largest increase reflecting growth in the Bakken Shale. Unlike the situation for natural gas, where proved reserves grew robustly despite lower wellhead prices, the rise in proved reserves of crude oil was supported by a 37 percent increase in the crude oil prices used to estimate reserves.

Cushing, Oklahoma WTI spot prices continued to improve in November averaging \$84.25 per barrel, up from \$81.89 in October. The EIA expects the price of WTI crude oil to average about \$80 per barrel this winter, a \$2.50-per-barrel increase over last winter. The forecast for average WTI prices rises gradually to \$85 per barrel by the fourth quarter of 2011 as U.S. and global economic conditions improve.

Oklahoma's rotary rig activity fell slightly to 139 in November, a decline of 3 active rigs from October's count of 142 but 59 more than the November 2009 count of 80 rigs.

Oklahoma Active Rotary Rigs & Natural Gas Wellhead Price

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



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

Most natural gas in Oklahoma is consumed by the electricity generation and industrial sectors. About three-fifths of Oklahoma households use natural gas as their primary energy source for home heating. Nevertheless, only about one-third of Oklahoma's natural gas output is consumed within the state. The remaining supply is sent via pipeline to neighboring states, the majority to Kansas, including the natural gas trading hubs in Texas and Kansas.

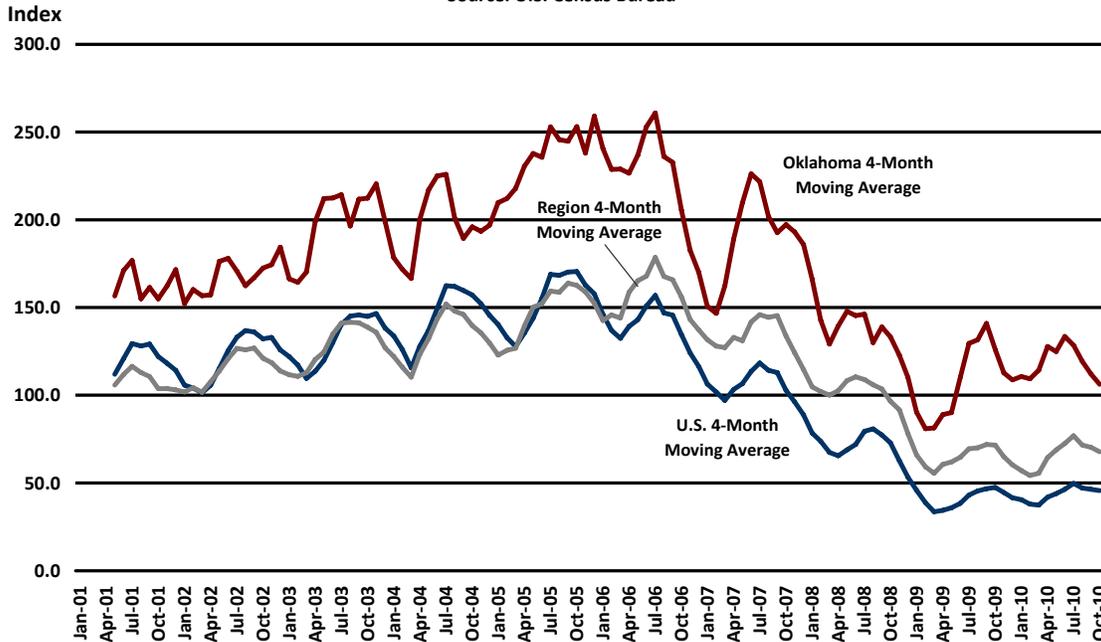
Natural gas prices in 2009 fell to their lowest level in 7 years. The wellhead price averaged \$3.71 per thousand cubic feet (Mcf) during 2009, compared with \$7.96 per Mcf in 2008, according to the U.S. Energy Information Administration (EIA). Factors that contributed to the decline in prices were the weakened economy, reduced heating demand due to a somewhat warmer-than-normal winter weather, as well as higher than usual production and storage levels. For the first 9 months of 2010, average natural gas wellhead prices were at \$4.33 compared to \$3.65 for the same time period in 2009.

U.S. natural gas proved reserves, estimated as "wet" gas which includes natural gas plant liquids, increased by 11 percent in 2009 to 284 trillion cubic feet (Tcf), the highest level since 1971, according to the EIA. These increases occurred despite a decline in natural gas prices relative to those used in assessing reserves at the end of 2008. The EIA also noted that Louisiana, Arkansas, Texas, Oklahoma, and Pennsylvania were the leading states in adding new proved reserves of shale gas during 2009.

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

Index: January 2001 = 100

Source: U.S. Census Bureau



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

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

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

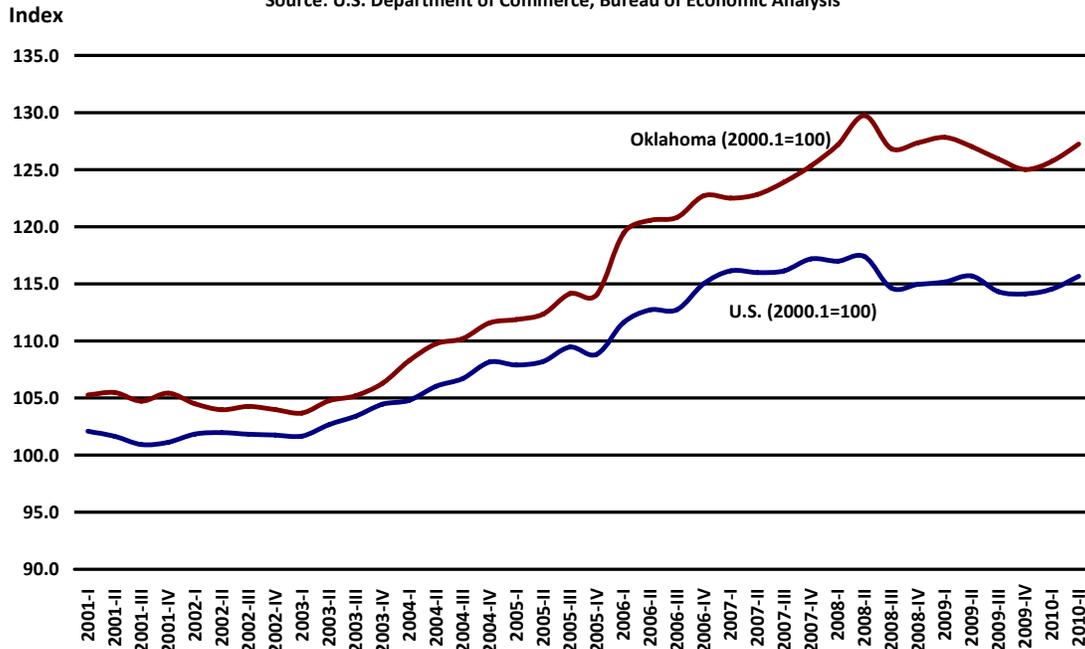
Nationally, October residential permitting activity was positive but remains soft. According to the U.S. Census Bureau and the Department of Housing and Urban Development, privately-owned housing units authorized by building permits in October were at a seasonally adjusted annual rate of 550,000. This is 0.5 percent above the revised September rate of 547,000, but is 4.5 percent below the October 2009 estimate of 576,000. The rebound was led by the single family component which was up 0.5 percent while multifamily permits eased 0.7 percent.

After slumping in January, Oklahoma residential permitting activity had been picking up this spring, peaking in March to meet the demand sparked by federal homebuyer tax credits. However, housing permitting activity began to decline in April and this trend has continued through the year with October permitting activity down 22.9 per cent from September. Single family permitting was down 23.1 percent and multi family permitting fell 19.1 percent from September. For the first ten months of 2010, Oklahoma residential permitting was down slightly (-0.87 percent) compared to the first ten months of 2009.

U.S. and Oklahoma Real Personal Income

Index: 1st Quarter 2000 = 100

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



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

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

The consumer made a moderately strong comeback in October in both income and spending. Personal income increased \$57.6 billion, or 0.5 percent, and disposable personal income (DPI) increased \$48.3 billion, or 0.4 percent, in October, according to the Bureau of Economic Analysis (BEA). In September, personal income decreased \$2.8 billion, or less than 0.1 percent, DPI decreased \$8.6 billion, or 0.1 percent.

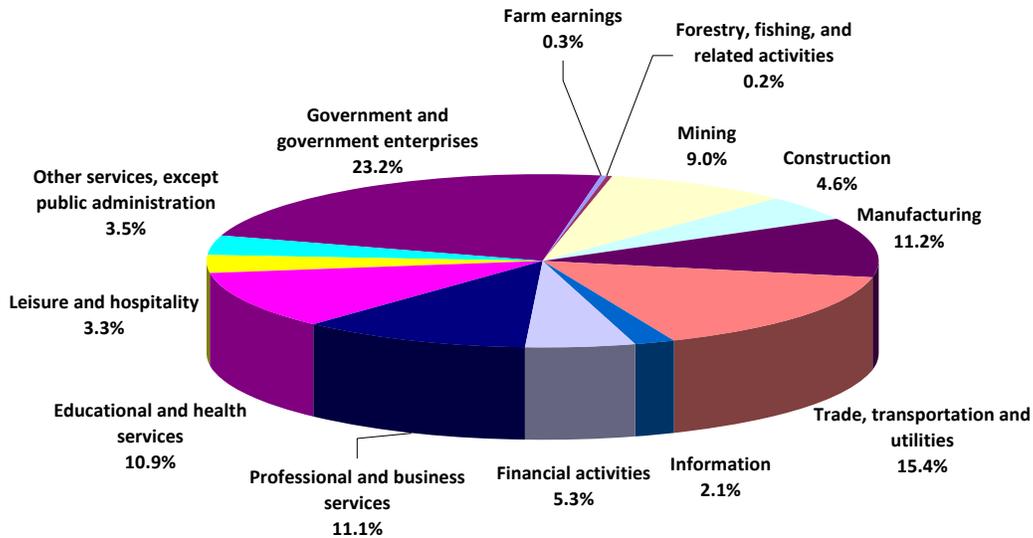
Household spending also showed strength. Personal consumption expenditures (PCE) increased \$44.0 billion, or 0.4 percent. In September, PCE increased \$26.9 billion, or 0.3 percent, based on revised estimates. For the latest month, strength in PCE was led by a 1.9 percent monthly spike in durables. Nondurables advanced 0.8 percent while services edged up 0.1 percent.

The price index for PCE increased 0.2 percent in October, following a 0.1 percent uptick in September. The core rate was flat for the second month in row.

Oklahoma Industry Contribution to Earnings

Second Quarter 2010

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



State personal income growth averaged 1.0 percent in the second quarter of 2010 up slightly from 0.9 percent in the first quarter, according to estimates released today by the U.S. Bureau of Economic Analysis. Growth rates ranged from 2.0 percent in North Dakota to 0.3 percent in Nevada. There was no change in the national price index for personal consumption expenditures in the second quarter; inflation was 0.5 percent in the first quarter.

Personal income in 27 states has now climbed above the current-dollar level reached before the recession. Excluding transfer receipts (such as unemployment compensation and social security retirement benefits), however, personal income in only two states—Alaska and Maryland—has returned to that level.

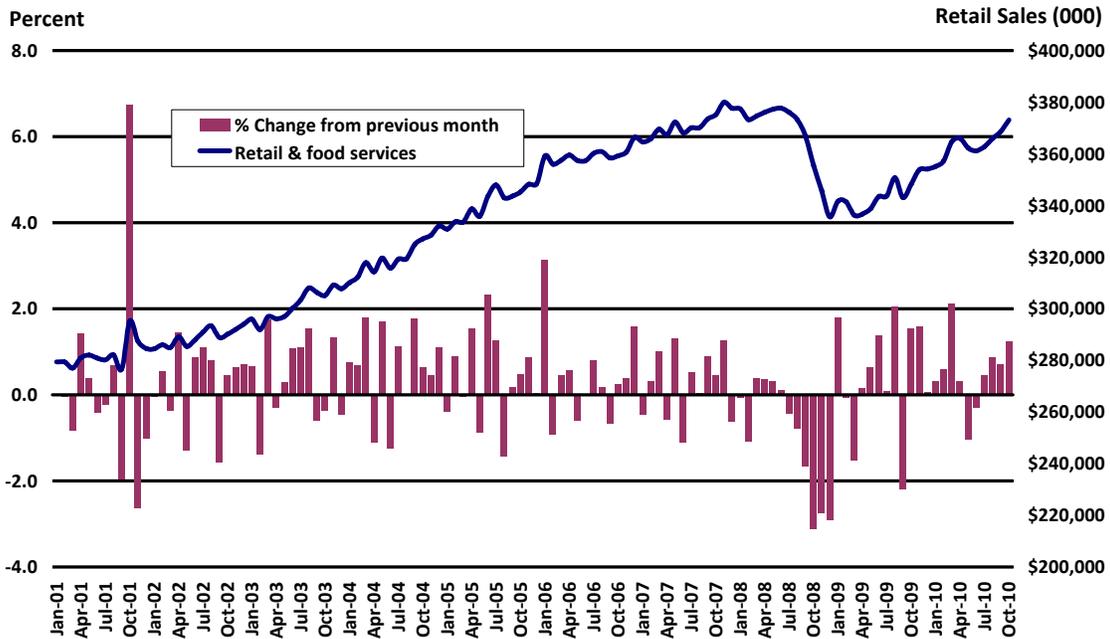
Oklahoma personal income continued to improve in 2nd quarter 2010, growing by 1.2 percent. Oklahoma had the 9th fastest growth rate among states during the 2nd quarter.

In 26 states health care made the largest contribution of any industry to nonfarm earnings growth in the second quarter. In eight states—Texas, Oklahoma, Louisiana, Wyoming, Alaska, North Dakota, Montana, and West Virginia—the mining industry (including oil and gas extraction) made the largest contribution to nonfarm earnings growth.

Earnings in the mining industry was the largest contributor to personal income growth in Oklahoma, accounting for approximately 26 percent of all second quarter personal income growth.

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

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



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

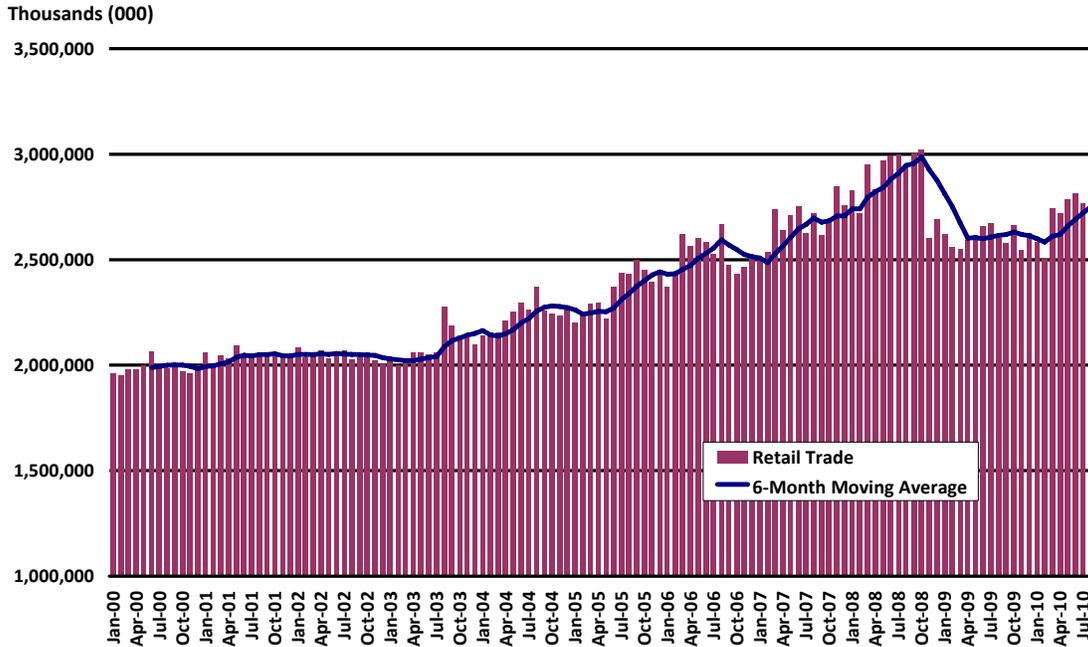
National retail sales data are prone to fluctuations but provide an important view on changes in consumer spending. There have been considerable swings in retail trade since the end of 2001, but retail sales have generally been increasing since 2003. By 2007, the credit crunch was well underway and starting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

As previously noted, the consumer sector continued to strengthen in October with sales topping most analysts' expectations. The Census Bureau announced that U.S. retail and food services sales for October, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$373.1 billion, an increase of 1.2 percent from the previous month, and 7.3 percent above October 2009.

October gains were led by motor vehicles and parts, jumping 5.0 percent. And apparently, even though housing is sluggish, households are fixing up homes as building materials and garden equipment posted a 1.9 percent boost. Gains were also seen in food and beverage, gasoline stations, clothing, sporting goods and hobby, general merchandise, nonstore retailers, and food services and drinking places. Declines were seen in furniture, electronics, health and personal care stores, and in miscellaneous store retailers.

Oklahoma Total Adjusted Retail Trade

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



Retail sales in Oklahoma have been steadily improving during 2010 after a difficult year in 2009. August retail sales were up \$79.9 million or 3.1 percent from August 2009 but down 3 percent from July. For the year, Oklahoma retail sales are up \$733.8 million or 3.5 percent over the first eight months of 2009. Total adjusted retail sales for 2009 were off \$3.34 billion from 2008—a decline of nearly 9.7 percent.

Monthly gains were seen in all durable goods categories in August with the strongest sales increases in miscellaneous durable goods, lumber and hardware, and electronics and music stores. Non-durable goods sales showed the largest gains in miscellaneous non-durables, general merchandise stores, and food. However, the gains in non-durable goods sales were more than offset by a steep decline in estimated gasoline sales reflecting a sharp drop in retail gasoline prices in August.