OKLAHOMA
Economic Indicators

November 2014

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ECONOMIC INDICATORS

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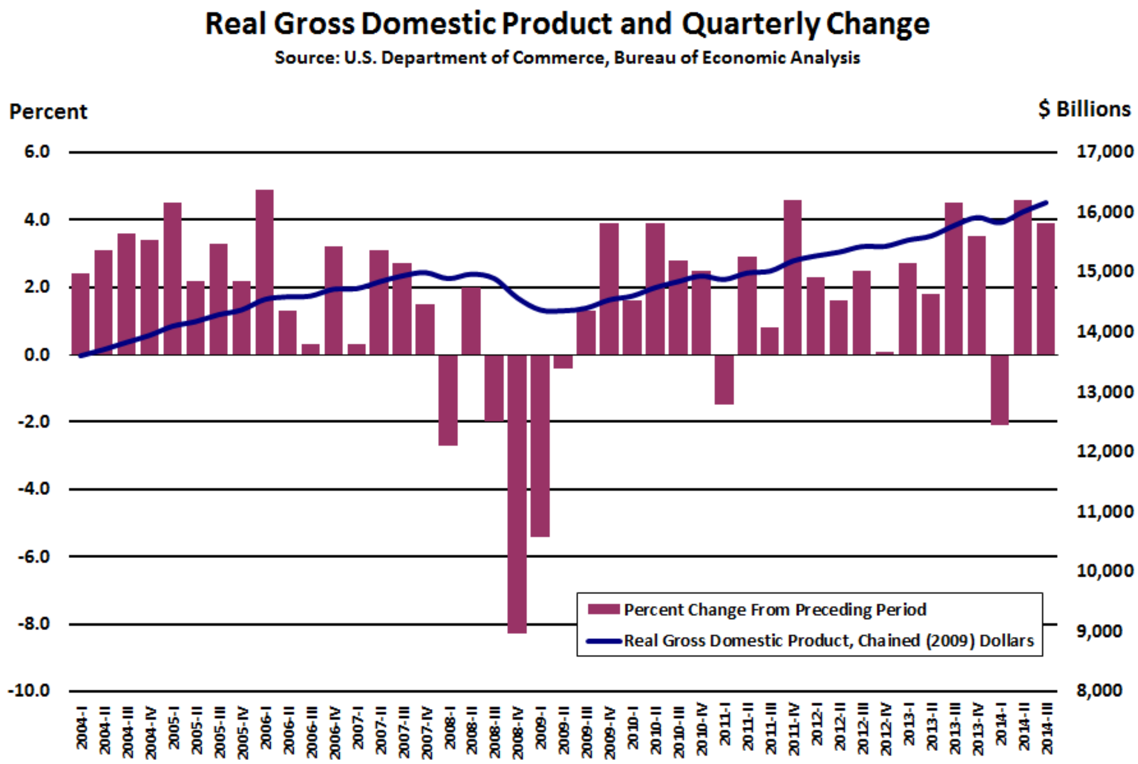


Definition & Importance

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 nation's economic output grew at a faster rate than first thought in the 3rd quarter, boosted by consumer spending and business investment. Real gross domestic product (GDP) increased at an annual rate of 3.9 percent in the 3rd quarter of 2014, according to the "second" estimate released by the Bureau of Economic Analysis (BEA). The rise in 3rd quarter output followed a 4.6 percent advance in the 2nd quarter, and marked the two strongest back-to-back quarters in more than a decade.

Consumer spending, which accounts for more than two-thirds of U.S. economic activity, was revised up to a 2.2 percent pace in the 3rd quarter from the 1.8 percent rate previously reported. Spending on durable goods increased 8.7 percent instead of the 7.2 percent rate in the "advance" estimate. Nondurable goods outlays increased 2.2 percent, compared to the 1.1 percent pace previously reported. Spending on services edged up 1.2 percent from the 1.1 percent estimated earlier.

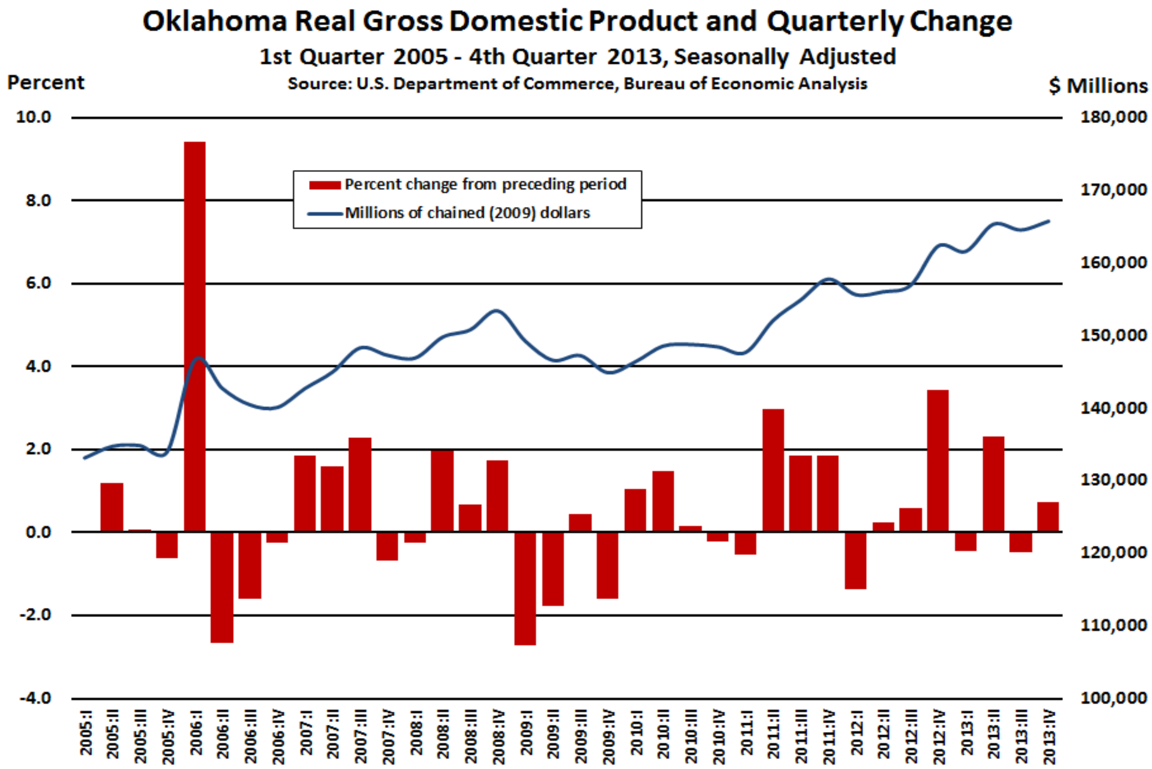
Business investment was raised to a 7.1 percent pace from a 5.5 percent rate, with a stronger pace of spending on equipment than previously thought accounting for most of the revision. Business spending on structures and intellectual products also slowed in the 3rd quarter.

Also, inventory investment was stronger in the 3rd quarter than initially reported. Private businesses increased inventories $79.1 billion in the 3rd quarter instead of the $62.8 billion reported earlier. The change in real private inventories only subtracted 0.12 percentage point from the 3rd-quarter change in real GDP rather than shaving 0.57 percentage point as previously thought.

Residential construction also grew at a faster pace in the 3rd quarter. Real residential fixed investment increased 2.7 percent instead of the 1.8 percent rate reported earlier.

While exports grew, the pace was slower than previously reported, resulting in trade contributing only 0.78 percentage point to GDP growth instead of 1.32 percentage points. Imports, which subtract from GDP, were revised up from -1.7 percent to -0.7 percent.

Government spending was also cut, as outlays at state and local governments were not as strong as previously reported. Real federal government consumption expenditures and gross investment increased to a slightly lower 9.9 percent while national defense spending remained at 16.0 percent. Real state and local government consumption expenditures and gross investment increased 0.8 percent, instead of the 1.3 percent rate previously reported.



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.

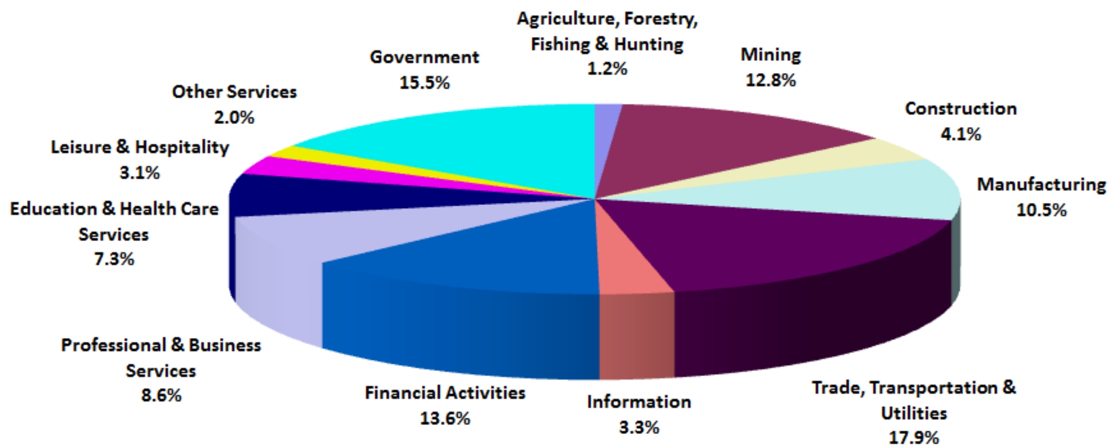
In 4th quarter 2013, Oklahoma's GDP was $165.7 billion in constant 2009 dollars, up from $164.5 billion in the 3rd quarter. The state's 4th quarter real GDP increased by $1.19 billion, or 2.9 percent, ranking Oklahoma 29th among all other states and the District of Columbia.

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 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.

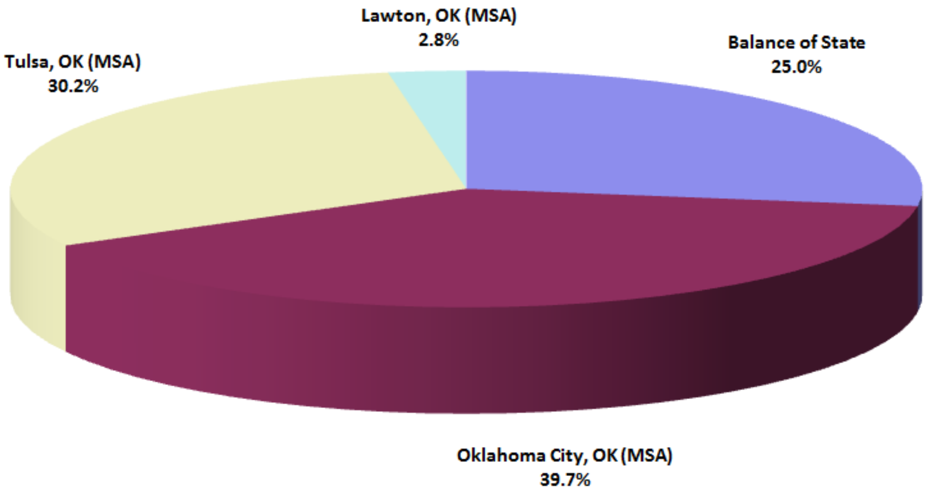
Nondurable-goods manufacturing was the largest contributor to U.S. real GDP by state growth in the 4th quarter of 2013. This industry increased 18.6 percent in the 4th quarter after moderate growth of 2.9 percent in the 3rd quarter. Nondurable-goods manufacturing was the leading contributor to growth 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

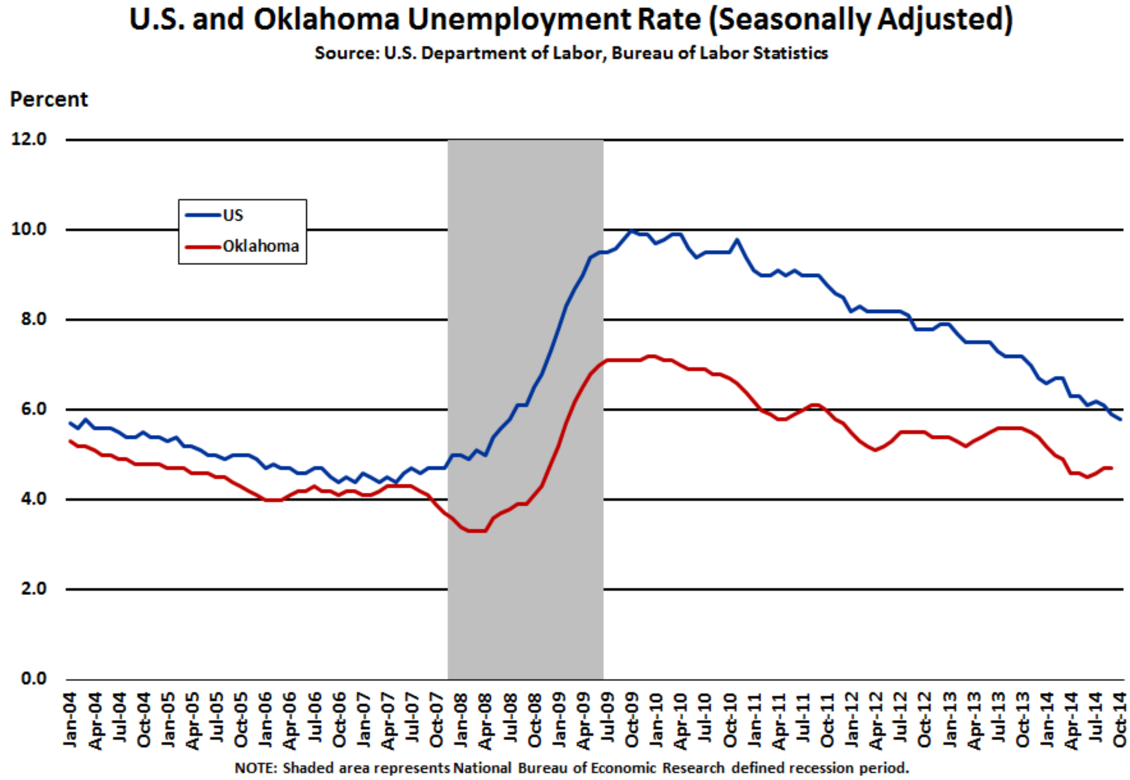
Metropolitan Statistical Areas (MSAs) are county-based definitions developed by the Office of Management and Budget for federal statistical purposes. A metropolitan area is defined as a geographic area consisting of a large population nucleus together with adjacent communities having a high degree of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

GDP by metropolitan area is the sub-state counterpart of the Nation's gross domestic product (GDP), the BEA's featured and most comprehensive measure of U.S. economic activity. GDP by metropolitan area is derived as the sum of the GDP originating in all the industries in the metropolitan area. Nationally, metropolitan statistical areas represent approximately 90 percent of total GDP. In Oklahoma, the three MSAs of Oklahoma City, Tulsa and Lawton accounted for over 70 percent of total state GDP in 2013.

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.

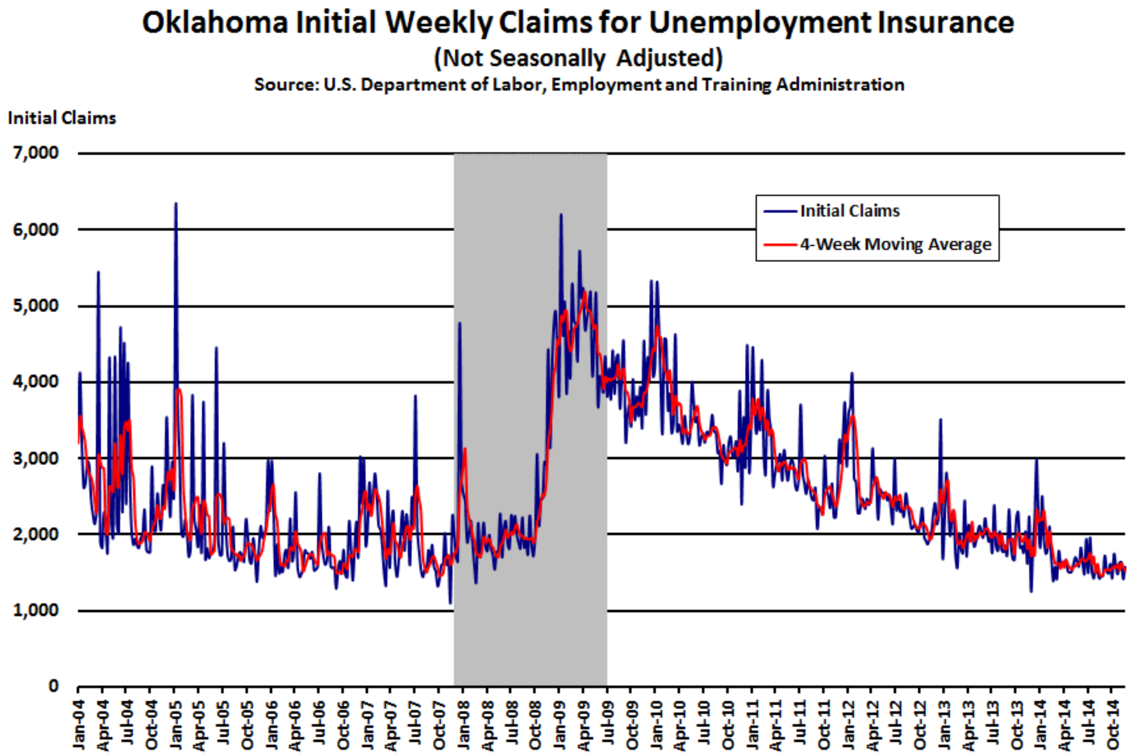
The unemployment rate is a lagging indicator of economic activity. During a recession many people leave the labor force entirely. As a result, the jobless rate may not increase as much as expected. This means that the jobless rate may continue to increase in the early stages of recovery because more 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

A surge of hiring has pushed the U.S. unemployment rate to its lowest level since July 2008. In October, the unemployment rate edged down to 5.8 percent, according to the Bureau of Labor Statistics (BLS). Over the year, the unemployment rate and the number of unemployed persons have declined by 0.8 percentage point and 1.2 million, respectively.

In October, Oklahoma's seasonally adjusted unemployment rate was 4.5 percent, a drop of two-tenths of a percentage point from September. That jobless rate was the 12th-lowest among all states in October, tied with Iowa and Montana. Over the year, Oklahoma's seasonally adjusted unemployment rate fell by 1.1 percentage points.

In September, unemployment rates dropped over the month in 57 of Oklahoma's 77 counties. Latimer County had the state's highest county unemployment rate of 7.5 percent. Ellis County posted the state's lowest county unemployment rate of 2.4 percent.



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

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.

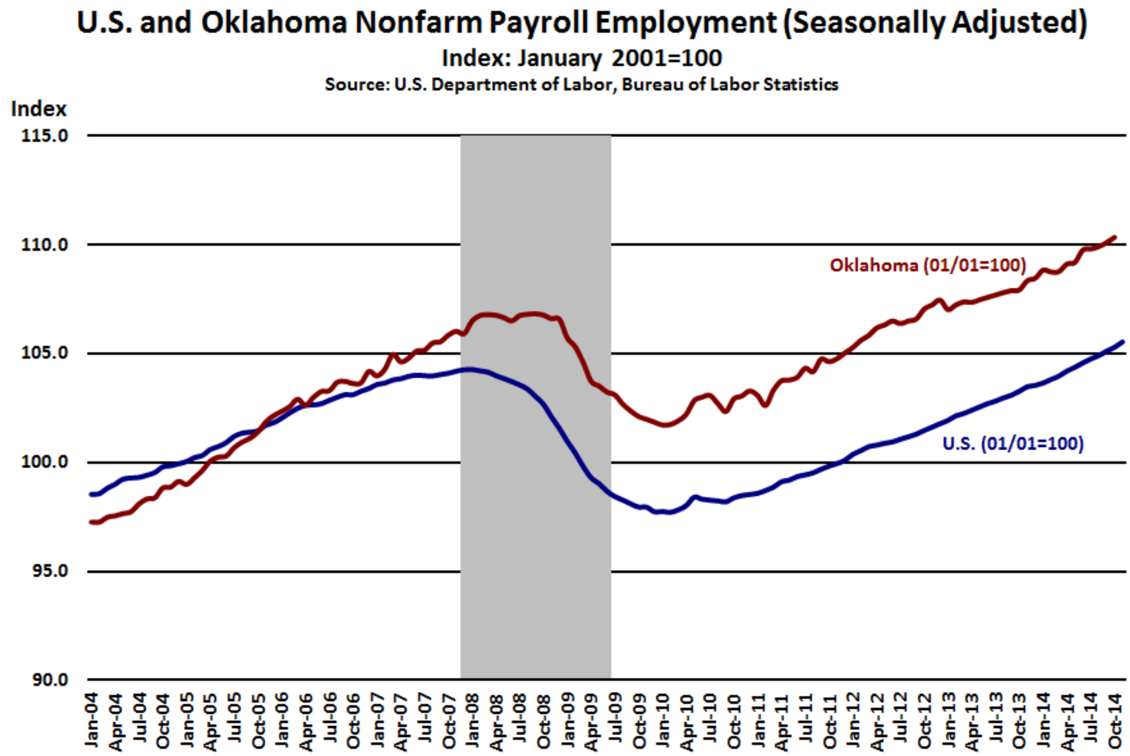
Initial claims are a leading indicator because they point to changes in labor market conditions. An increasing trend signals that layoffs are occurring. Conversely, a decreasing trend suggests an improving labor market. The four-week moving average of initial claims smoothes out weekly volatility and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

Current Developments

The number of Americans filing new claims for unemployment benefits fell in the last week of November, reversing the prior week’s increase that pushed claims above 300,000 for the first time in three months. In the week ending November 29, the advance figure for seasonally adjusted initial claims was 297,000, a decrease of 17,000 from the previous week's revised level, according to figures released by the U.S. Labor Department (DOL). The less volatile 4-week moving average was 299,000, an increase of 4,750 from the previous week's revised average.

Oklahoma initial jobless claims moved up a bit in November. For the file week ending November 15, initial jobless claims were at a level of 1,577 or 161 claims more than the previous week. For the same file week ending, the four-week moving average was at 1,528, down 41 claims from the previous week’s level of 1,570.

Over the year, statewide initial claims have fallen by 657 from 2,234 to 1,577 while the less volatile 4-week moving average dropped by 409 from 1,937 to 1,528.



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 largest number of workers in nearly three years in November and wage gains picked up. Total nonfarm payroll employment increased by 321,000 in November, according to the Bureau of Labor Statistics (BLS). Job gains were widespread, led by growth in professional and business services, retail trade, health care, and manufacturing.

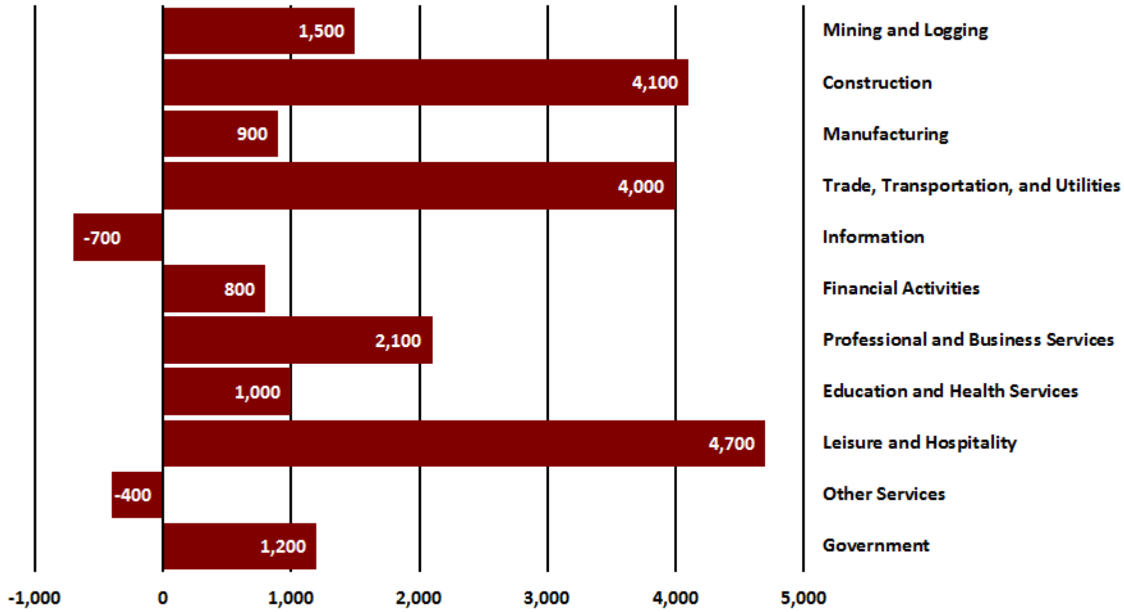
In October, Oklahoma's seasonally adjusted nonfarm employment added 3,600 jobs (+0.2 percent). Six of Oklahoma's 11 supersectors saw job growth in October, as mining & logging (+1,600 jobs) posted the largest monthly gain. Leisure & hospitality claimed the largest over-the-month job loss, shedding 2,100 jobs.

Over the year, Oklahoma total nonfarm employment gained 36,600 jobs (+2.2 percent). Education & health services led the job growth, adding 8,900 jobs (+3.9 percent).

Oklahoma Employment Change by Industry, 2012-2013

Annual Averages (Not Seasonally Adjusted)

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



Definition & Importance

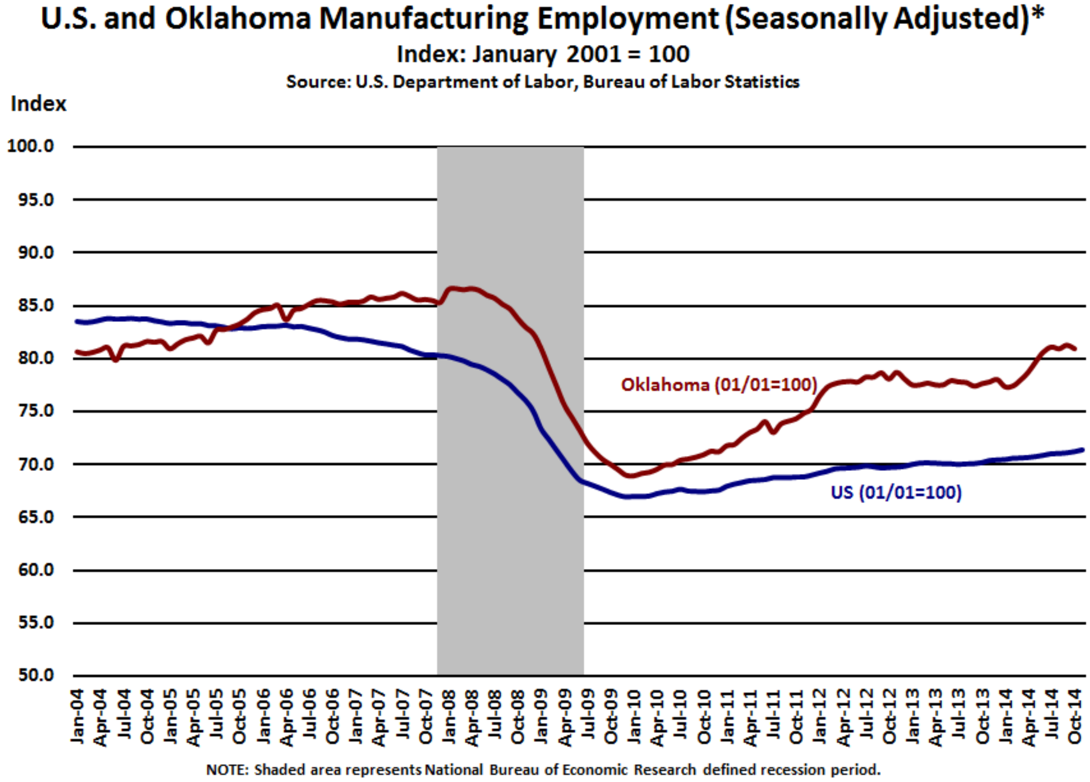
Employment growth by industry identifies the types of jobs being created in the state. Conversely, industries with a declining employment trend indicate those which are becoming less important in the state's economy. There may also be industries which behave more cyclically, growing during expansion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

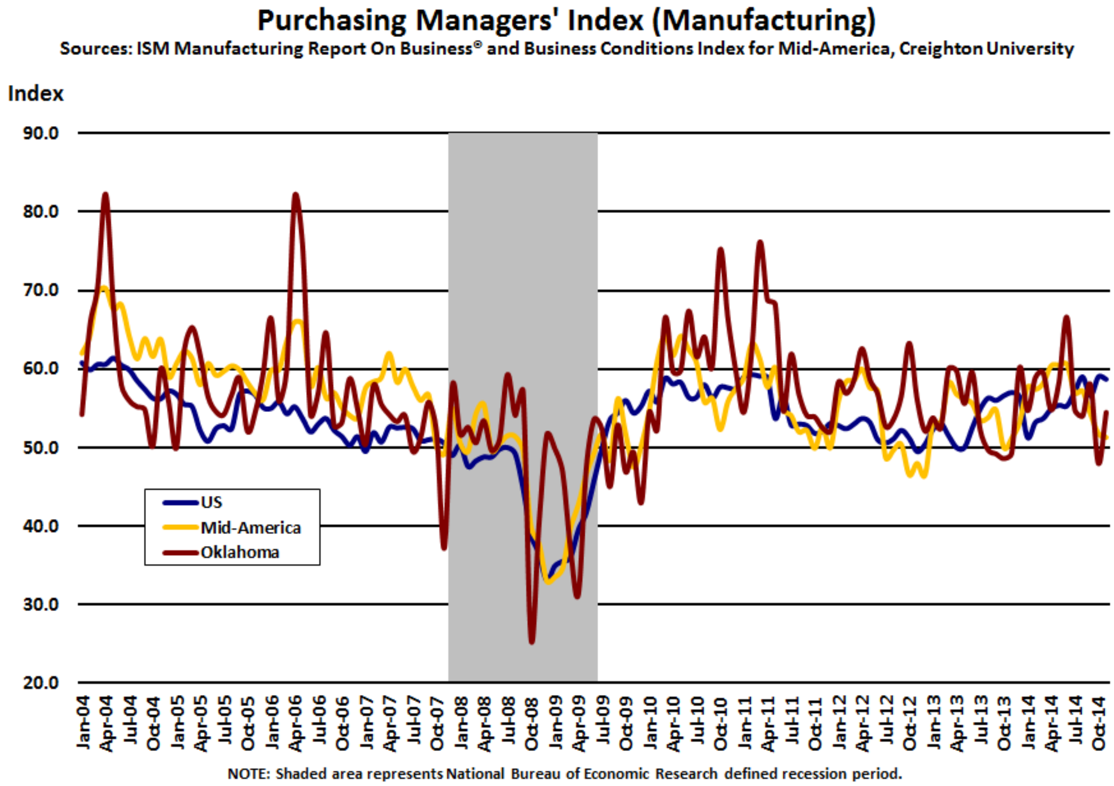
Current Developments

Robust growth in new orders and output seen in other indicators are beginning to translate into healthier hiring figures for U.S. manufacturers. Manufacturers added 28,000 net new workers in November, extending the revised increase of 20,000 in October, according to the Bureau of Labor Statistics (BLS). Durable goods manufacturers accounted for 17,000 of the increase in November while employment in nondurable goods increased by 11,000. Over the year, manufacturing has added 171,000 jobs, largely in durable goods.

In October, Oklahoma manufacturing employment shed a non-seasonally adjusted 600 jobs (-0.4 percent), with non-durable goods manufacturing accounting for most of the job losses (-500 jobs).

Over the year, Oklahoma manufacturing employment has added a non-seasonally adjusted 5,800 jobs for a 4.3 percent growth rate. Durable goods led the job gains, adding a non-seasonally adjusted 5,300 jobs (5.6 percent), while non-durable goods manufacturing added a non-seasonally adjusted 500 jobs (1.2 percent).

**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 eased in November, but still held near the strongest pace in three years. The November PMI® was little changed at 58.7, the second-strongest level since April 2011, compared with 59 in October, according to the latest Manufacturing ISM Report On Business®. Of the 18 manufacturing industries surveyed, 14 are reported growth in November.

The new orders index climbed to 66 from 65.8 in October, averaging 64.6 over the past four months, the highest for a similar period since early 2004.

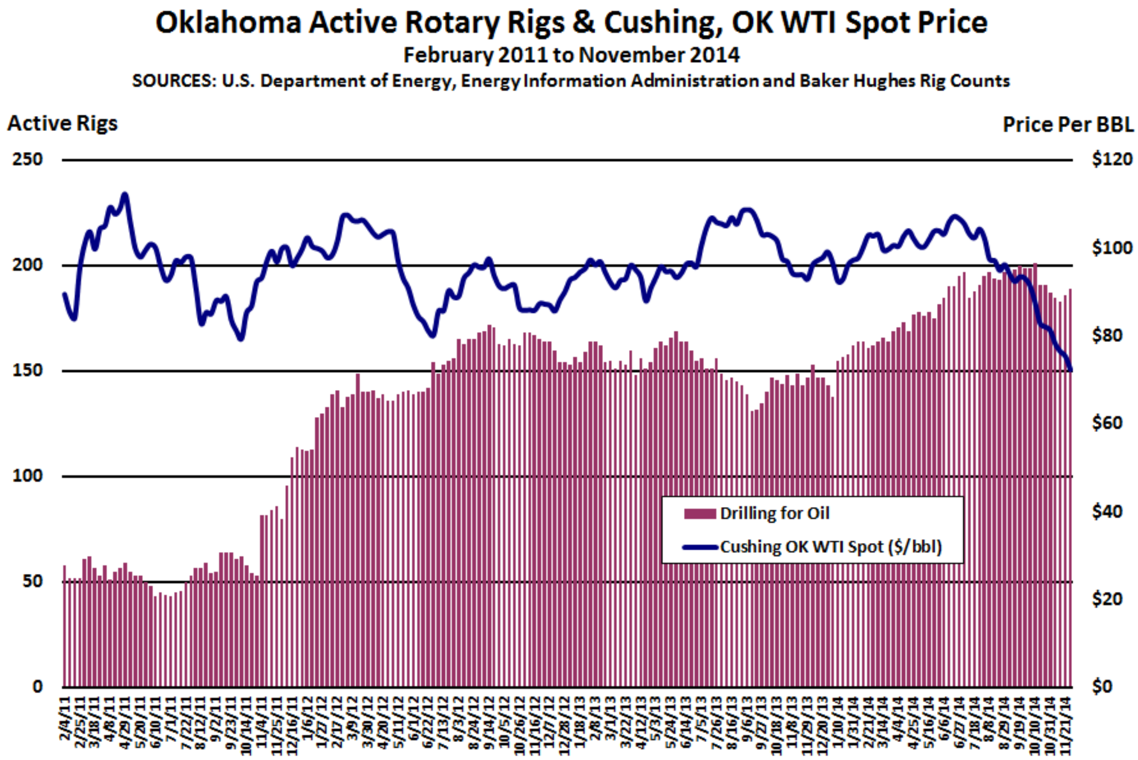
The November ISM index also showed factories are struggling to keep up with demand as the index of orders waiting to be filled rose to the highest level since April. ISM's supplier deliveries measure increased to the highest level since February, indicating factories were experiencing more delays in getting materials.

The Mid-America Business Conditions Index for September, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, dipped slightly from October's modest level. The Business Conditions Index, which ranges between 0 and 100, declined to 51.3 from October's 51.8 reading, according to the Creighton Economic Forecasting Group After rising to its highest level in more than three years in June, the overall reading has hovered in a range pointing to positive, but slower, growth for the overall regional economy over the next three to six months.

"A stronger U.S. dollar, plentiful supplies and weak global demand have pushed agriculture and energy prices lower. While I still expect positive growth, it will be down from the same period for 2013. North Dakota and Oklahoma are experiencing the negative influence of sharply lower energy prices while the remaining seven states are experiencing the negative impacts of much weaker crop prices. Growth in urban areas of the region will outstrip that of non-urban areas of the region in the months ahead," noted Ernie Goss, Ph.D., director of Creighton University's Economic Forecasting Group.

After falling below growth neutral in October, the Business Conditions Index for Oklahoma climbed above that threshold for November, but still signaling a somewhat slower growth in the next three to six months. The index for November jumped to 54.5 from October's 48.0. Components of the November survey of supply managers in the state were new orders at 66.3, production or sales at 63.3, delivery lead time at 38.7, inventories at 55.5, and employment at 48.5.

"During the national recession, December 2007 to June 2009, Oklahoma lost more than 21,000, or approximately one-fifth, of its manufacturing jobs. Since the recovery began in July 2009 the state has regained more than 16,000, or approximately 76 percent, of the lost manufacturing jobs. Our surveys of businesses in Oklahoma indicate the state's manufacturing employment will return to pre-recession levels in the second half of 2015," 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

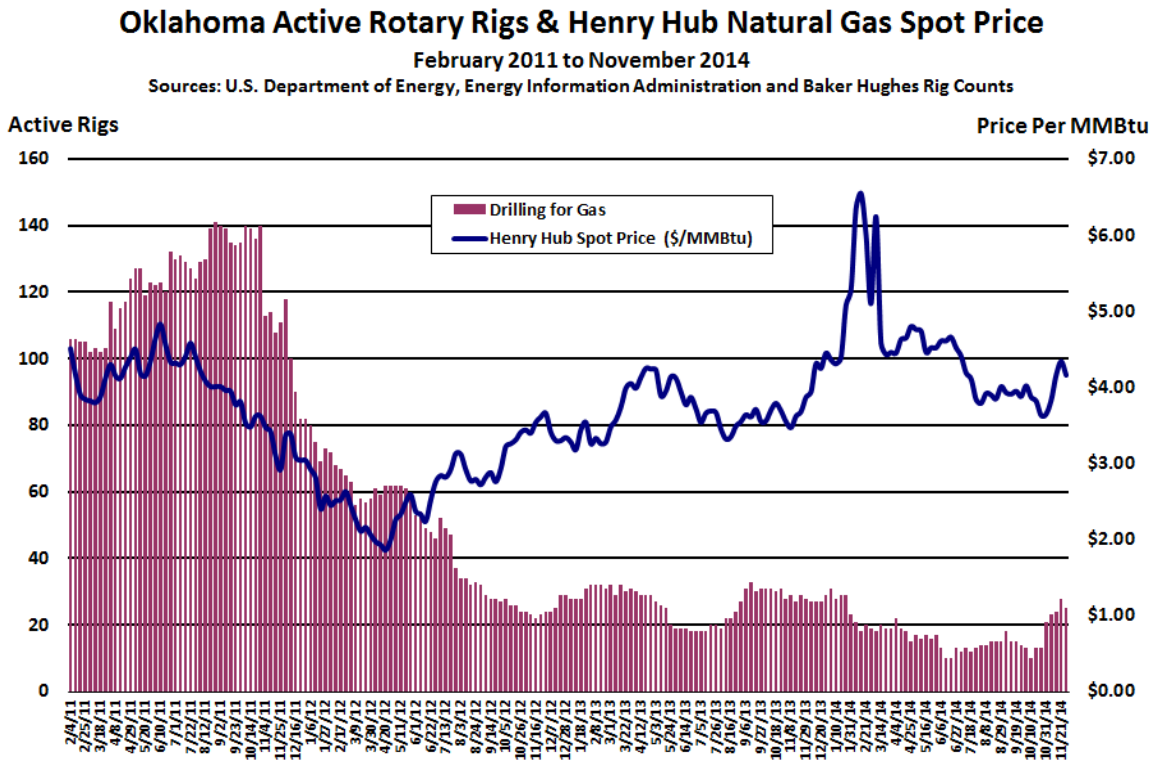
U.S. crude oil and lease condensate proved reserves rose for the fifth consecutive year in 2013, increasing by 9 percent from the 2012 level to 36.5 billion barrels, according to the *U.S. Crude Oil and Natural Gas Proved Reserves, 2013* report released recently by the U.S. Energy Information Administration (EIA). U.S. crude oil and lease condensate proved reserves surpassed 36 billion barrels for the first time since 1975.

North Dakota had the largest increase (1.9 billion barrels, 51 percent) in oil reserves among individual states in 2013. Texas remains by far the leading state in total proved oil reserves—its reserves increased from 11.1 billion barrels in 2012 to 12 billion barrels in 2013 (an 8 percent increase), according to the EIA report. Oklahoma's crude reserves increased by 189 million barrels (or 12.9 percent) from 2012 to 2013 with total reserves estimated at more than 1.4 billion barrels.

Oklahoma's crude production in September was at 10,445,000 barrels, down 193,000 barrels from August's level of 10,638,000 barrels. For the first nine months of 2014, Oklahoma crude production was 94,792,000 barrels, well ahead of 84,122,000 barrels for the same timeframe in 2013.

WTI-Cushing price plunged 10 percent following the Organization of Petroleum Exporting Countries decided to keep its production targets steady. WTI-Cushing spot prices, which averaged $105.79 in June, have tumbled more than 30 percent to an average of $75.79 in November, finishing the month at $65.94 per barrel.

Oklahoma's average rotary rig count was at a level of 211 in November, three more than October's average of 208 rigs. Over the year, the active rotary rig count in Oklahoma was 31 more than 180 in November 2013. Oil-directed active rotary rigs advanced to a level of 189, (for the week ended November 28, 2014), representing approximately 88 percent of total rig activity in the state.



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

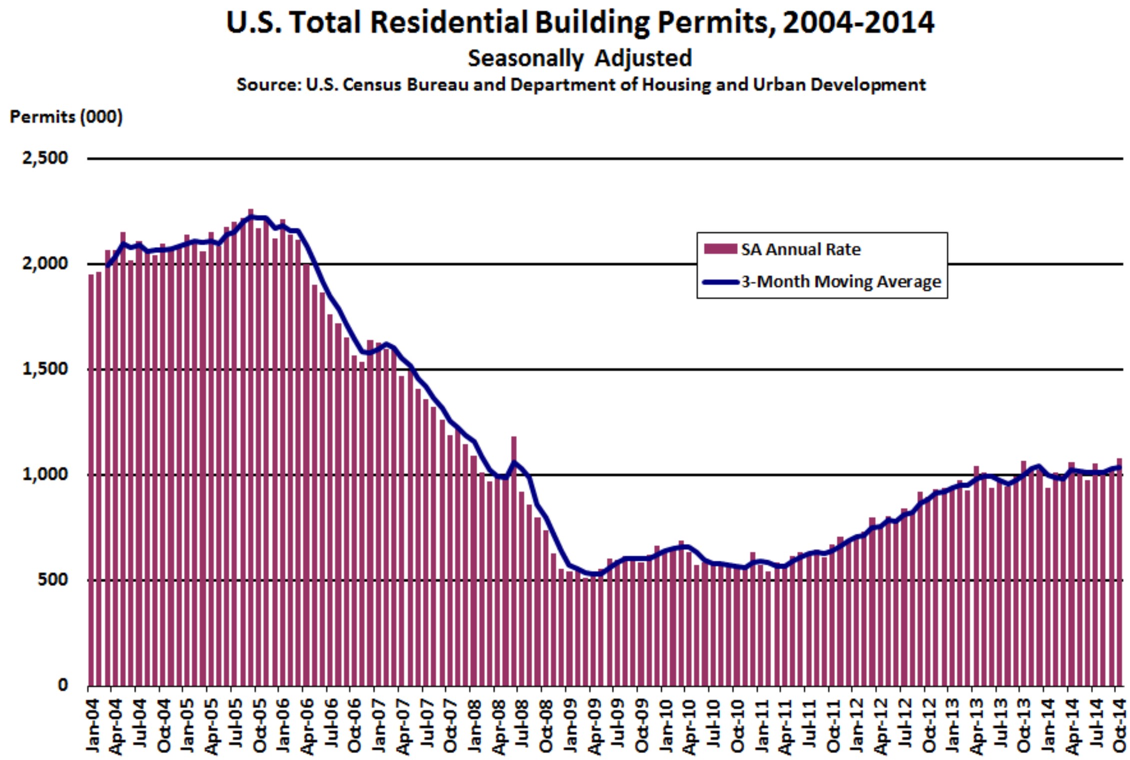
U.S. natural gas proved reserves increased 10 percent in 2013, more than replacing the 7 percent decline in proved reserves seen in 2012, and raising the U.S. total to a record level of 354 trillion cubic feet (Tcf), according to the EIA's U.S. Crude Oil and Natural Gas Proved Reserves, 2013 report.

Pennsylvania and West Virginia reported the largest net increases in natural gas proved reserves in 2013, driven by continued development of the Marcellus shale play, the largest U.S. shale gas play based on proved reserves. Combined, these two states added 21.8 Tcf of natural gas proved reserves in 2013 (13.5 Tcf in Pennsylvania and 8.3 Tcf in West Virginia) and were 70 percent of the net increase in proved natural gas reserves in 2013. Texas added the third highest volume of natural gas proved reserves (4.4 Tcf), followed by Wyoming (2.9 Tcf); Arkansas and North Dakota each added over 2 Tcf. Oklahoma's volume of proved natural gas reserves increased by 0.19 Tcf in 2013

Henry Hub spot prices made a comeback in November, climbing from $3.82 per million British thermal unit (MMBtu) at the first of the month to $4.30/MMBtu on November 28.

The Baker Hughes rotary rig count for natural gas in Oklahoma increased again in November. For the week ended November 28, the state natural gas-directed drilling rig count was at a level of 25 active rigs, or 12 percent of total statewide drilling activity. Over the year, Oklahoma's natural gas-directed rotary rig count was down three rigs from the 28 rigs reported for the week ended November 29, 2013.

The total U.S. rotary rig count for the week ending November 28 declined by 12 units to 1,917 rigs, according to data from Baker Hughes Inc. The natural gas rig count decreased by 11 units to 344, while oil rigs fell by 2 units to 1,572, and 1 rig categorized as miscellaneous was added.



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.

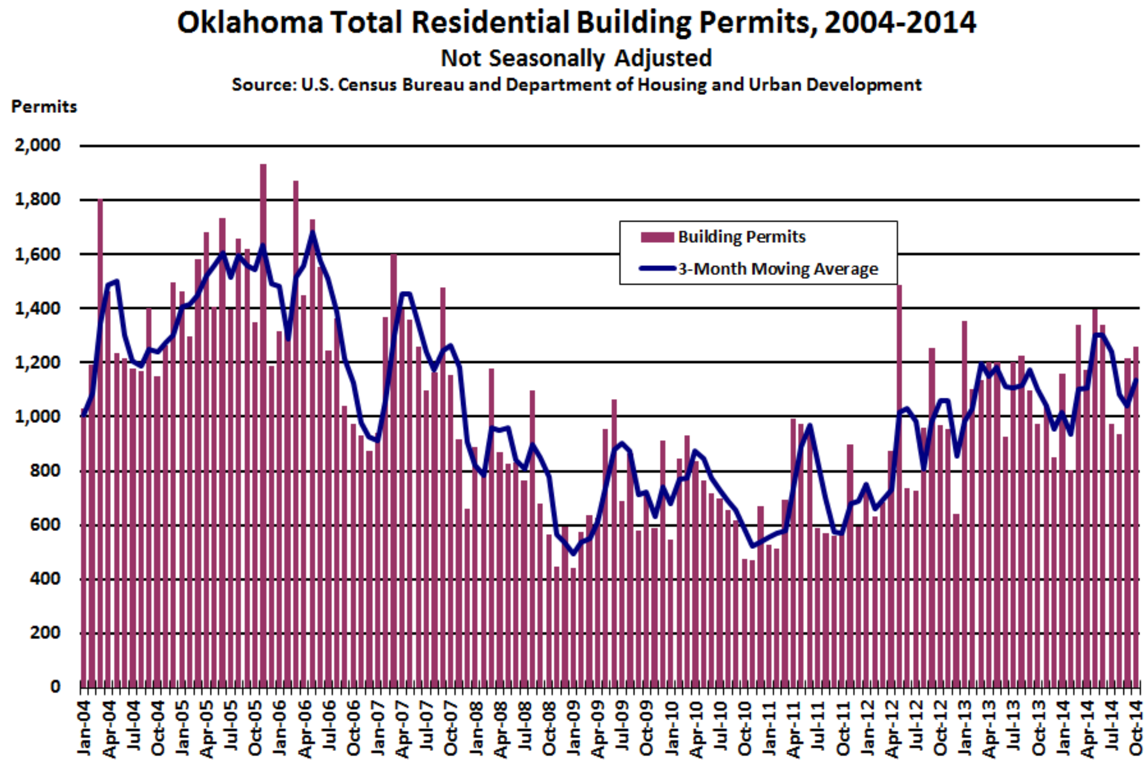
While home construction represents a small portion of the housing market, it has an outsize impact on the economy. Each home built creates an average of three jobs for a year and about $90,000 in taxes, according to the National Association of Home Builders. Overall, homebuilding fell to its lowest levels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

Current Developments

Applications for building permits showed momentum in October, jumping to a nearly 6-1/2-year high. Privately-owned housing units authorized by building permits in October were at a seasonally adjusted annual rate of 1,080,000, 4.8 percent above the revised September rate of 1,031,000 and 1.2 percent above the October 2013 estimate of 1,067,000, according to the U.S. Census Bureau and the Department of Housing and Urban Development.

Permits for single-family homes rose 1.4 percent to a 640,000-unit pace. Permits for multi-family housing surged 10 percent to a 440,000-unit pace.

U.S. homebuilders' confidence rebounded in November as both sales expectations and buyer traffic improved. The National Association of Home Builders/Wells Fargo Housing Market Index (HMI) rose to 58 in November, up from 54 in October.

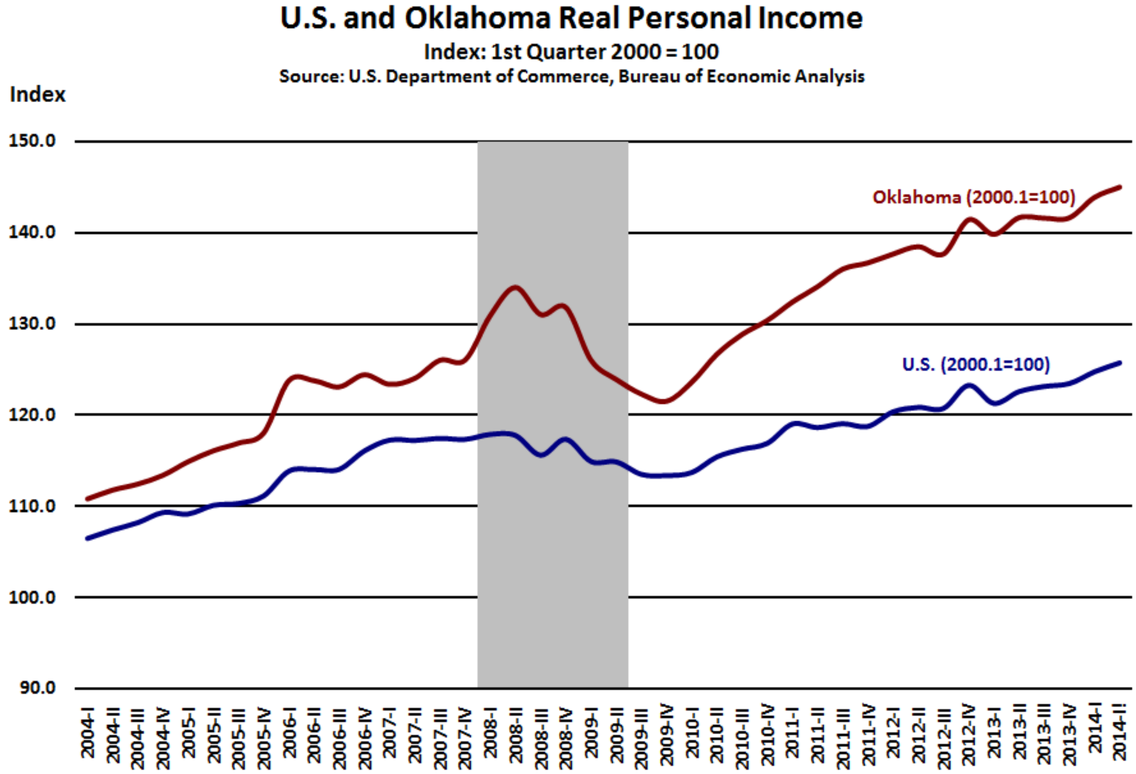


Oklahoma residential permitting activity continued at a brisk pace in October. Total residential building permitting for October was at an unadjusted level of 1,260 permits, or 3.8 percent more than the previous month, according to figures from the U.S. Census Bureau and the Department of Housing and Urban Development.

Apartment permitting held steady in October with 26.4 percent of the month's activity being in multi-family. Single-family permitting added another 72.5 percent. Permits for single-family homes were at a non-seasonally adjusted level of 913 or 8.0 percent more than September's level of 845 permits. Applications for apartments rose to a non-seasonally adjusted level of 333 permits, two more than September's level of only 331 permits.

Over the year, total unadjusted residential permitting in October was an unadjusted 284 permits or 29.1percent more than October 2013. Single-family permits were up 68 permits or 8.0 percent more than a year ago, while the more volatile multi-family permitting was 286 more than the October 2013 level of 47 permits.

For the first nine months of 2014, total unadjusted residential building permitting was at a level of 11,603 or 180 permits (1.6 percent) more than the same period a year ago.



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.

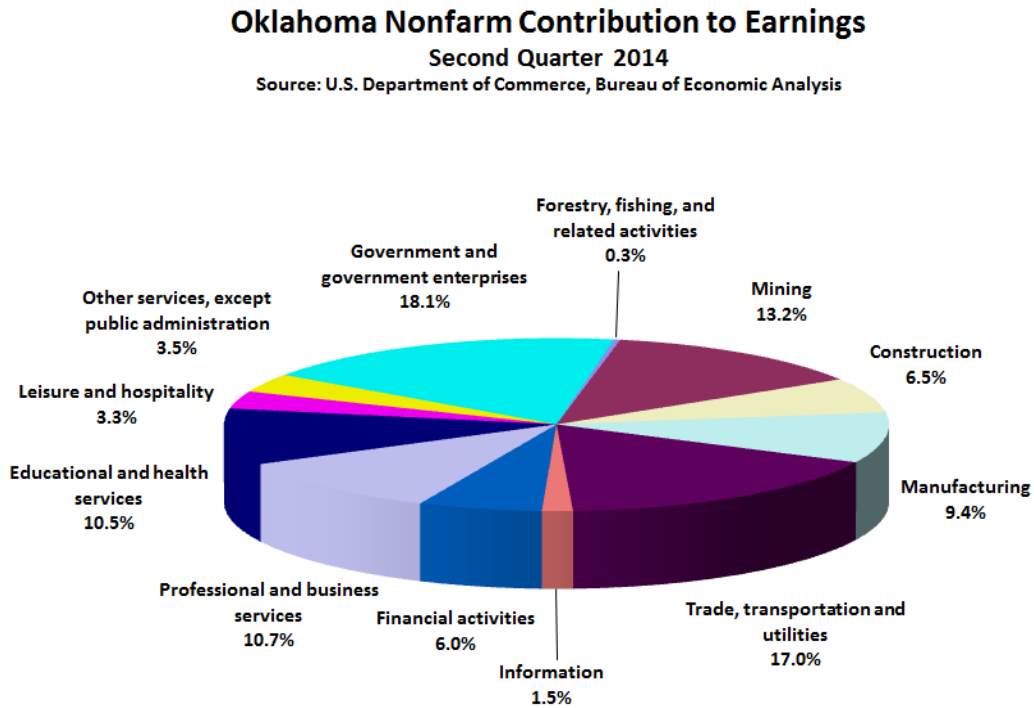
To show the vastly different levels of total personal income for the U.S. and Oklahoma on the same chart, these data have been converted to index numbers. This chart shows a comparison of Oklahoma and U.S. growth in real personal income with 1st quarter 2000 as the base year.

Current Developments

U.S. consumer spending rebounded in October while personal income rose a modest pace. Personal income increased $32.9 billion, or 0.2 percent, and disposable personal income (DPI) increased $23.4 billion, or 0.2 percent, in October, according to the Bureau of Economic Analysis (BEA). Personal consumption expenditures (PCE) increased $27.3 billion, or 0.2 percent. In September, personal income increased $24.6 billion, or 0.2 percent, DPI increased $17.2 billion, or 0.1 percent, and PCE increased $4.1 billion, or less than 0.1 percent, based on revised estimates.

Strength was in services which rose 0.3 percent, matching the September pace. Nondurables rebounded 0.2 percent in October after decreasing 0.3 percent the prior month. Durables dipped 0.2 percent after falling 1.1 percent in September.

The small gains in spending and income left the saving rate unchanged at 5 percent of after-tax income.



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.

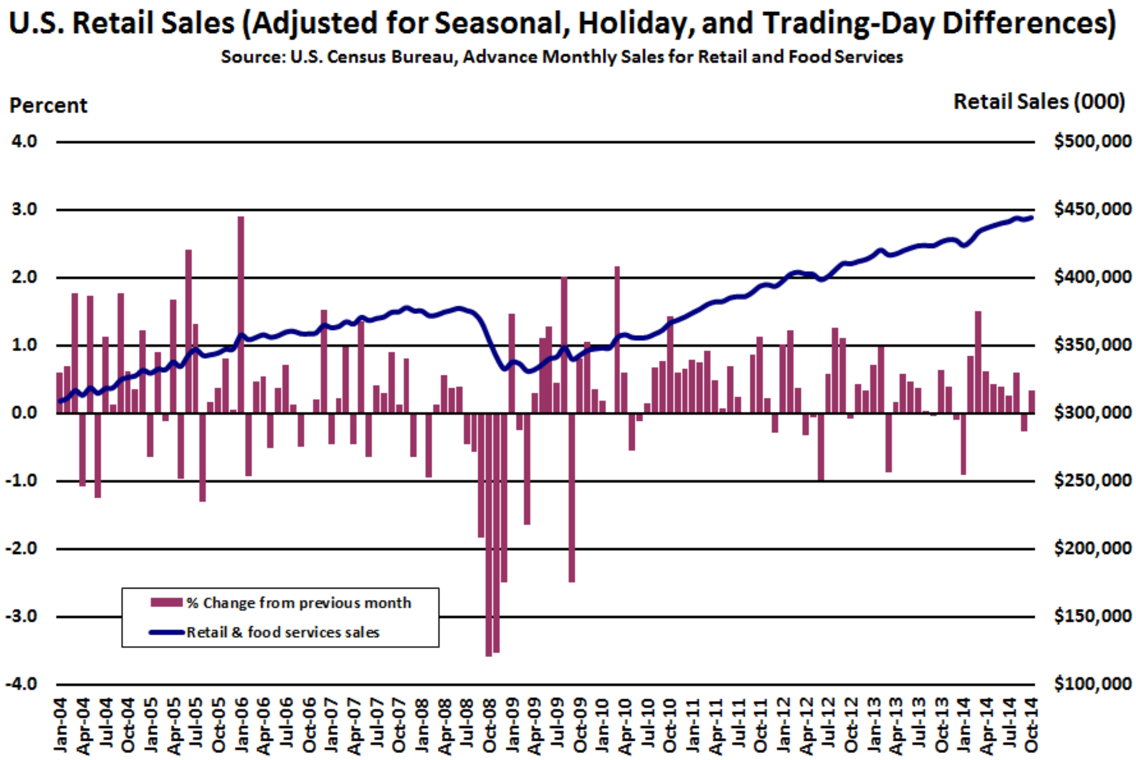
Current Developments

State personal income growth accelerated to 1.5 percent in the 2nd quarter of 2014 from 1.2 percent in the 1st quarter, according to estimates by the U.S. Bureau of Economic Analysis (BEA). Personal income growth ranged from 2.7 percent in North Dakota and Nebraska to 1.1 percent in New York and Alaska, with growth accelerating in 36 states including Oklahoma.

Personal income growth in Oklahoma ranked 26th among all states and the District of Columbia growing at a seasonally adjusted rate of 1.5 percent (from the previous quarter) at a level of $167.1 billion.

Overall, earnings grew $149.0 billion in the 2nd quarter, slightly less than the $156.2 growth in the 1st quarter. In Oklahoma, earnings grew $1,594 billion or 1.5 percent.

Durable goods manufacturing contributed the most to nonfarm earnings growth in 15 states. Of these, Oklahoma had the largest percentage increase, 4.1 percent, while the U.S grew 2.0 percent.



Definition & Importance

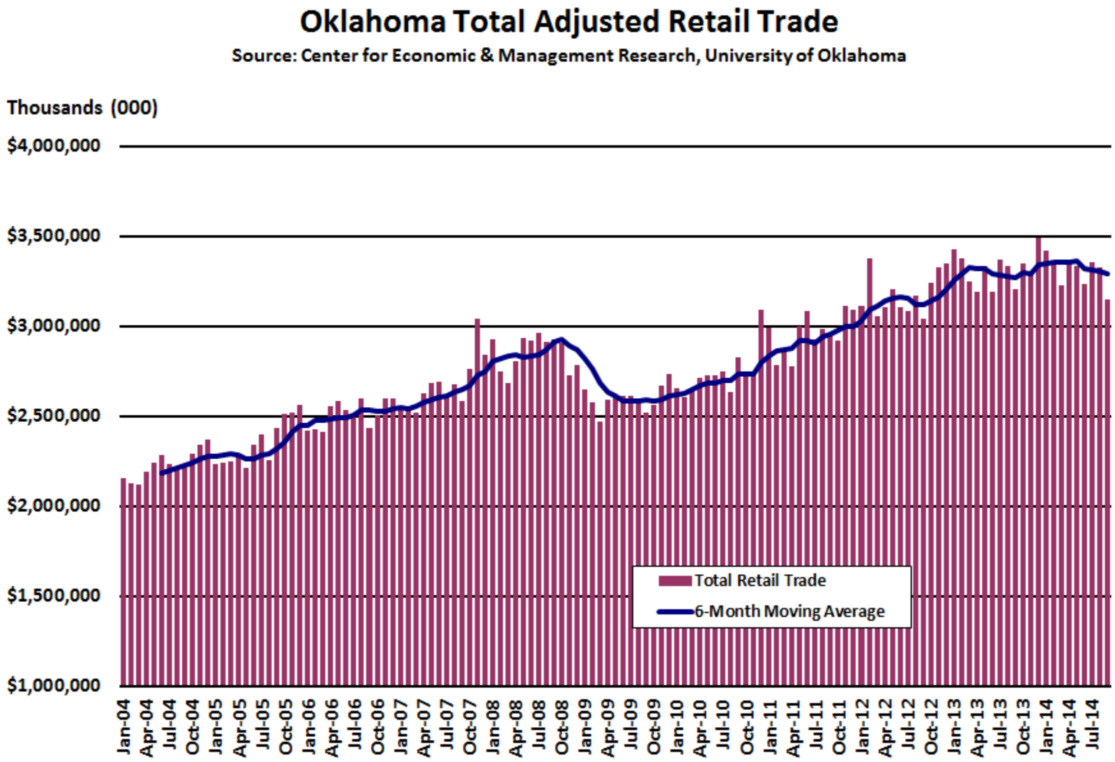
Retail sales measure the total receipts at stores that sell merchandise and related services to final consumers. Sales are by retail and food services stores. Data are collected from the Monthly Retail Trade Survey conducted by the U.S. Bureau of the Census. Essentially, retail sales cover the durables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

Retail sales rebounded modestly in October as consumers benefitted from lower pump prices and an improving job market. Advance estimates of 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 $444.5 billion, an increase of 0.3 percent from the previous month, and 4.1 percent above October 2013, according to the U.S. Census Bureau. Total sales for the August through October 2014 period were up 4.5 percent from the same period a year ago. The August to September 2014 percent change was unrevised from -0.3 percent.

Auto sales made a partial rebound of 0.5 percent following a 1.2 percent drop in September and jump of 1.8 percent in August. Gasoline station sales fell 1.5 percent in October after declining 0.8 percent the prior month. Excluding both autos and gasoline, sales jumped 0.6 percent in October after a 0.1 percent rise the month before. The median market forecast was for 0.5 percent.

The less volatile "core" sales, which strip out automobiles, gasoline, building materials and food services, and correspond most closely with the consumer spending component of gross domestic product, climbed 0.5 percent in October after being little changed the prior month. Within the core, moderate strength was seen in nonstore retailers, sporting goods & hobbies, and miscellaneous store retailers. Electronics & appliance stores declined, along with department stores.



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

Oklahoma retail spending slipped in September, held back by lower pump prices. Total adjusted retail sales for September was at a level of $3.24 billion, down 3.0 percent from May but 1.5 percent greater than June 2013. Year to date, total adjusted retail trade was 0.3 percent more than the first nine months of 2013.

Durable goods sales were down 0.6 percent in September with declines in miscellaneous durable goods (-4.0 percent); electronics & music store sales (-1.1 percent); used merchandise (-1.0 percent); and furniture (-0.9 percent). The only durable goods categories to see gains was auto accessories & repair (+1.3 percent), and lumber & hardware (+0.2 percent).

Total nondurable goods sales fell 7.0 percent in September with the largest monthly loss in the volatile estimated gasoline sales (-29.8 percent). Spending on apparel also fell in September (-2.8 percent), followed by general merchandise store sales (-2.2 percent), liquor (-1.5 percent); and drugs (-0.4 percent). Advancing in September were miscellaneous non-durables (+1.3 percent); and eating & drinking (+0.9 percent). Food sales were flat in September. Over the year, non-durable goods sales were up 0.9 percent.