



OKLAHOMA Economic Indicators

October 2013

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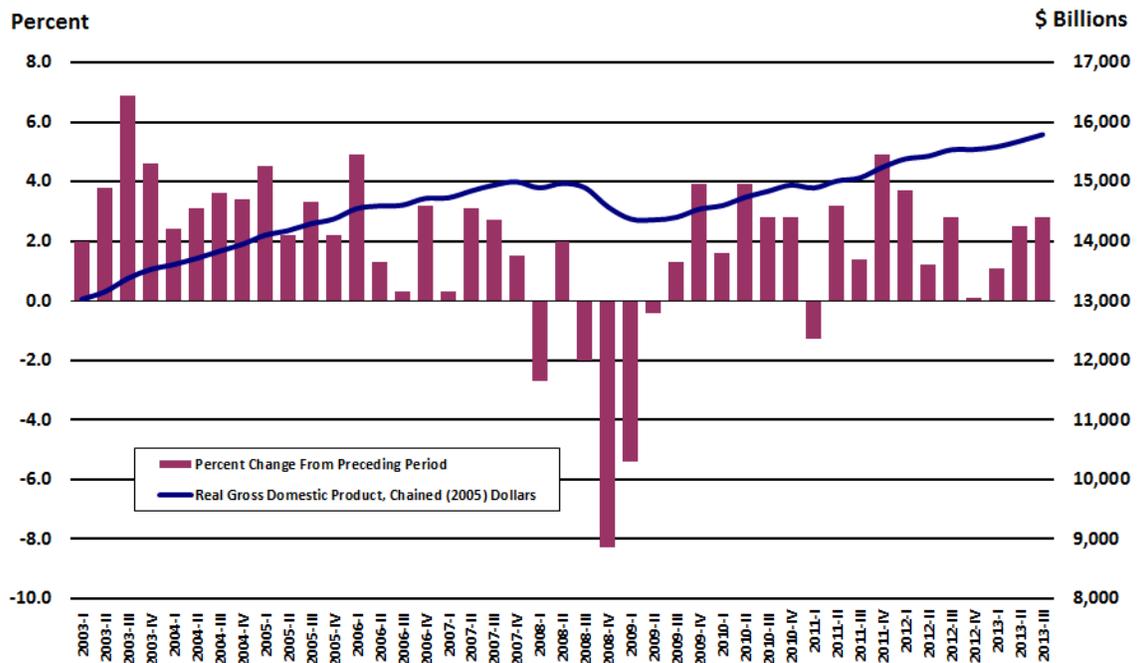
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Real Gross Domestic Product and Quarterly Change

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



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 picked up in 3rd quarter as businesses restocked shelves but was partially offset by weak consumer spending. Real gross domestic product increased at an annual rate of 2.8 percent in the 3rd quarter of 2013, according to the "advance" estimate released by the Bureau of Economic Analysis (BEA). In the 2nd quarter, real GDP increased 2.5 percent.

Consumers slowed their spending in the 3rd quarter. Overall spending weakened to a 1.5 percent annual rate, down from the 2nd quarter's 1.8 percent and the slowest pace since the 2nd quarter of 2011. While consumers stepped up spending on long-lasting items such as cars, they slowed spending on services.

Business spending on nonresidential equipment—a key measure of companies' willingness to invest—fell for only the second time since the recovery began more than four years ago. Real nonresidential fixed investment increased 1.6 percent in the 3rd quarter, compared with an increase of 4.7 percent in the 2nd quarter. The change in real private inventories contributed 0.8 percentage point to growth, double the amount from inventory building in the 2nd quarter. Excluding inventories, the economy grew at a 2.0 percent rate.

Housing investment remained healthy in the 3rd quarter with spending on residential construction increasing strongly. Real residential fixed investment increased 14.6 percent, compared with an increase of 14.2 percent in the previous quarter.

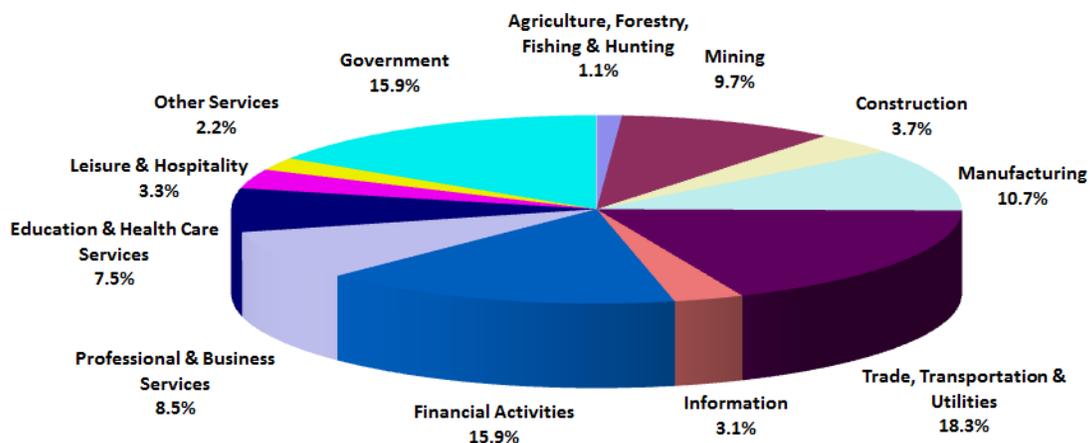
The economy got some support from a slowdown in import growth, which helped to limit the rise in the trade deficit but also underscored the weakness of domestic demand. Real imports of goods and services increased 1.9 percent in the 3rd quarter, compared with a 6.9 percent pace in the 2nd quarter. Real exports of goods and services increased 4.5 percent in the 3rd quarter, compared with an increase of 8.0 percent in the 2nd quarter. Trade added 0.31 percentage point to growth in the 3rd quarter.

Government spending grew for the first time in a year, even though federal spending continued to decline. Overall government activity grew at a slight 0.2 percent rate, reflecting a 1.5 percent rise in state and local government spending, the best showing since the spring of 2009. Federal government spending continued to drop, falling at a 1.7 percent rate in the 3rd quarter. National defense spending decreased 0.7 percent, compared with a decrease of 0.6 percent in the previous quarter.

The economy grew at a 1.8 percent rate in the first half of 2013, held back by a tightening in fiscal policy at the start of the year. Growth had been expected to gain speed in the 4th quarter as the drag from fiscal policy lifted. But the 16-day government shutdown in October is expected to weigh on growth over the final three months of the year.

2012 Industry Share of Oklahoma's Economy (by percentage of Gross Domestic Product)

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



Definition & Importance

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

Current Developments

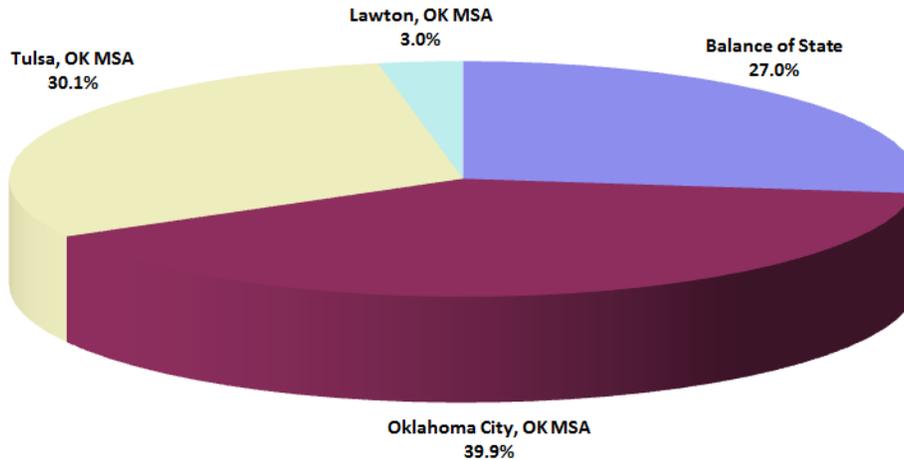
Oklahoma, along with 48 states and the District of Columbia, saw growth in real GDP in 2012, according to the advance estimate from the Bureau of Economic Analysis (BEA). Oklahoma's 2011 advance estimate was revised upward from 1.0 percent to 1.9 percent. Oklahoma's real GDP growth rate of 2.1 percent ranked it 23rd among all other states. In 2011, Oklahoma ranked 20th based on the revised 1.9 percent growth rate.

Oklahoma had a real GDP of \$138.3 billion in 2012, up from \$135.5 billion the year before. U.S. real GDP by state grew 1.5 percent in 2011 after a 3.1 percent increase in 2010. Real GDP increased in all eight BEA regions in 2012, with growth accelerating in seven of eight regions. The Great Lakes region was the only region where growth decelerated relative to growth in 2011. The Southwest region, which includes Oklahoma, grew the fastest (4.1 percent), led by Texas with a 4.8 percent increase..

Durable-goods manufacturing was the largest contributor to U.S. real GDP by state growth in 2012, including Oklahoma, where it contributed 0.78 percentage points to overall growth. Other industries adding to 2012 GDP growth in Oklahoma were wholesale trade (0.37 percent); retail trade (0.33 percent); real estate, rental & leasing (0.32 percent); finance & insurance (0.25 percent); accommodation & food services (0.12 percent) and government (0.12 percent). Subtracting from state GDP growth were mining (-0.72 percent) and management of companies (-0.15 percent).

Metropolitan Area Contribution to State Real Gross Domestic Product 2012

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



Definition & Importance

Metropolitan Statistical Areas (MSAs) 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 73 percent of total state GDP in 2012.

Current Developments

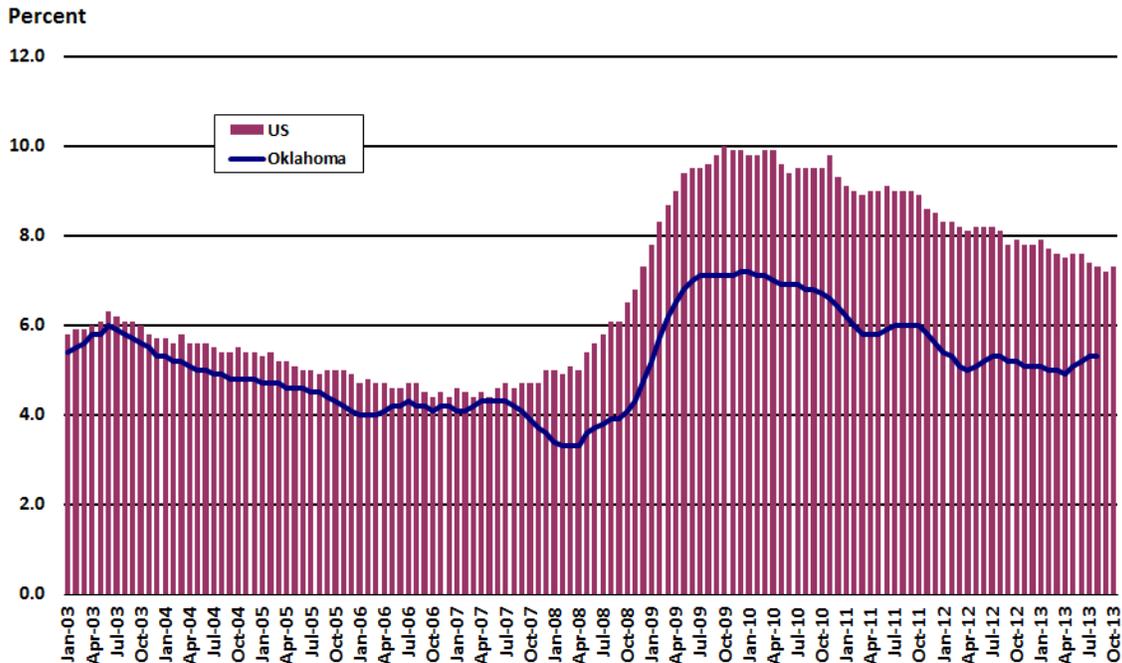
Real GDP increased in 305 of the nation's 381 metropolitan areas in 2012, led by growth in durable-goods manufacturing, trade, and financial activities, according to the U.S. Bureau of Economic Analysis (BEA). Real GDP in metropolitan areas increased 2.5 percent in 2012 after increasing 1.7 percent in 2011, according to BEA revised estimates.

In terms of growth in real GDP, two of the three Oklahoma metropolitan areas grew in 2012. Oklahoma City MSA grew by 2.2 percent to \$55.2 billion and ranked 152nd (out of 381 metro areas). Tulsa MSA grew at a rate of 0.3 percent to \$41.7 billion and ranked at 294th. Lawton MSA was the only state MSA to register negative growth in 2012, declining 2.0 percent to \$4.2 billion in 2012 and ranked 370th out of 381 U.S. metro areas.

Financial activities (+0.67 percent) and leisure & hospitality (+0.22 percent) were the largest contributors to GDP growth in Oklahoma City MSA in 2012. Durable-goods manufacturing (+1.12 percent) led GDP growth in the Tulsa MSA but was offset by declines in other sectors including financial activities (-0.27 percent), and professional & business services (-0.22 percent). GDP growth in the Lawton MSA was hampered by declines in financial activities (-1.17 percent), construction (-0.18 percent), leisure & hospitality (-0.16 percent), and government (-0.10 percent).

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

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



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

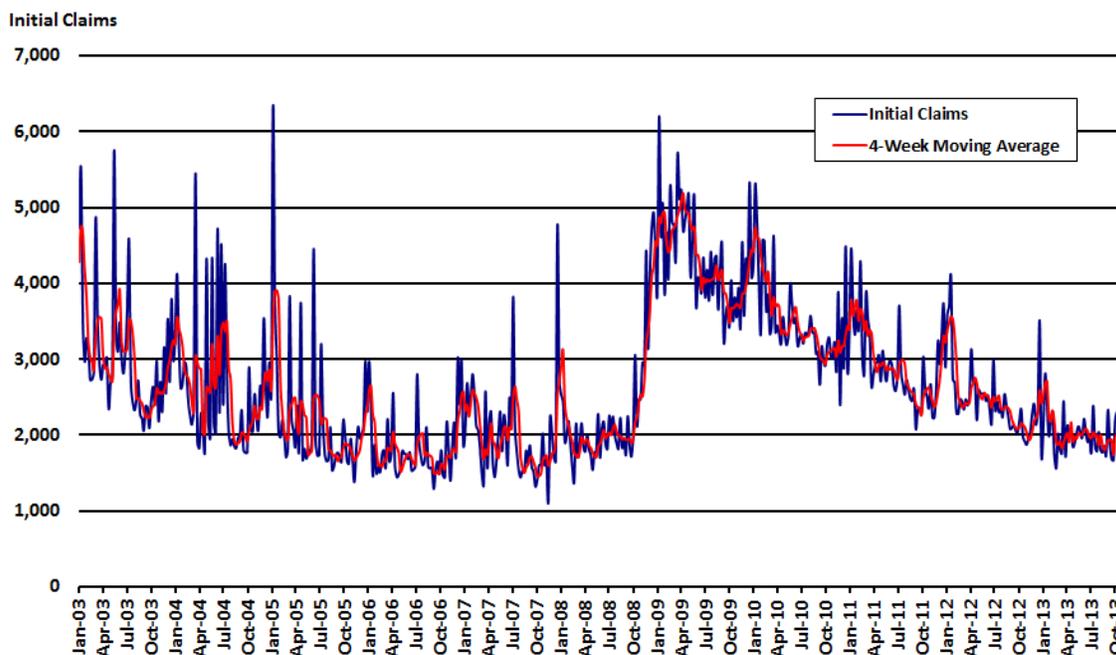
The nation's unemployment rate rose slightly in October, reflecting federal employees who were furloughed last month in a 16-day government shutdown. The unemployment rate edged up to 7.3 percent in October, according to the Bureau of Labor Statistics (BLS). Among the unemployed, however, the number who reported being on temporary layoff increased by 448,000. This figure includes furloughed federal employees who were classified as unemployed on temporary layoff under the definitions used in the household survey.

The labor force participation rate fell by 0.4 percentage point to 62.8 percent over the month, falling to a 35-year low. But that figure was likely distorted by the shutdown, also.

Oklahoma's seasonally adjusted unemployment rate held steady at 5.3 percent in August 2013. Over the year, the state's seasonally adjusted unemployment rate mirrored the rate reported for August 2012.

Oklahoma Initial Weekly Claims for Unemployment Insurance (Not Seasonally Adjusted)

Source: U.S. Department of Labor, Employment and Training Administration



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

Initial jobless claims dropped for the fourth straight week after spiking because of the partial federal government shutdown. In the week ending November 2, the advance figure for seasonally adjusted initial claims was 336,000, a decrease of 9,000 from the previous week's revised figure of 345,000, according to the U.S. Department of Labor (DOL). The less volatile four-week moving average was 348,250, a decrease of 9,250 from the previous week's revised average of 357,500.

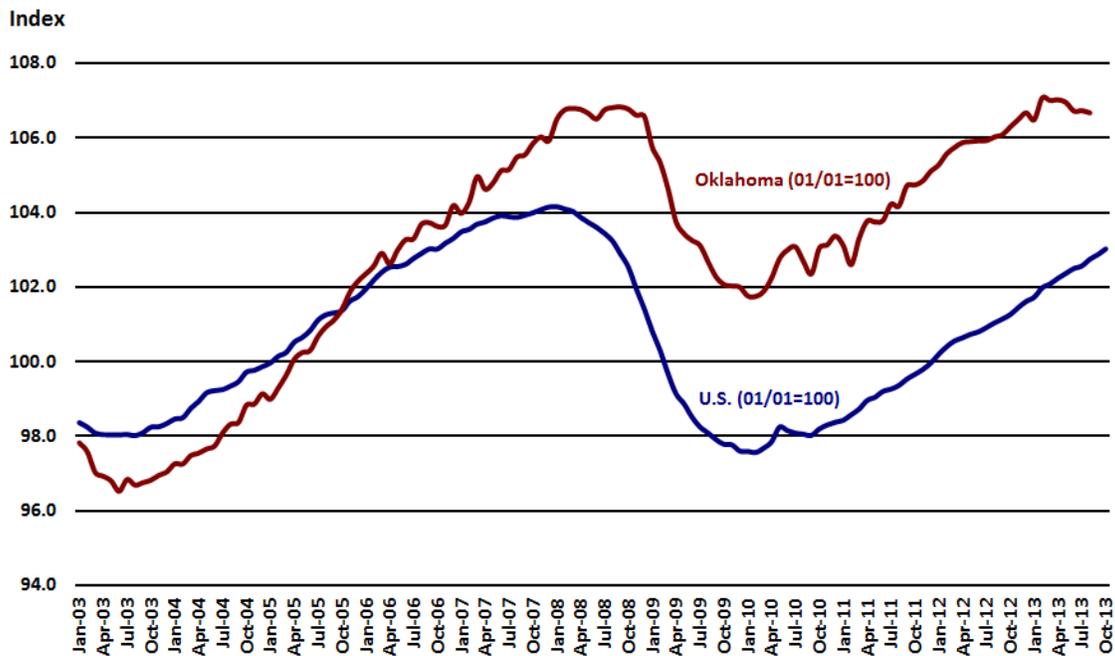
The furlough of about 800,000 federal workers on Oct. 1 caused claims to spike to 373,000 early last month before slowly coming down. Claims had averaged about 330,000 in late summer, the best levels since the Great Recession.

Oklahoma initial jobless claims appear to be finally returning to pre-recession levels. Initial claims for unemployment were at 1,852 for the file week ending October 26, up 24 from the previous week's 1,828 jobless claims and up 183 from a month ago. The less volatile four-week moving average was down 94 to 1,911 from 2,005 the previous week and up 168 from last month.

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

Index: January 2001=100

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



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

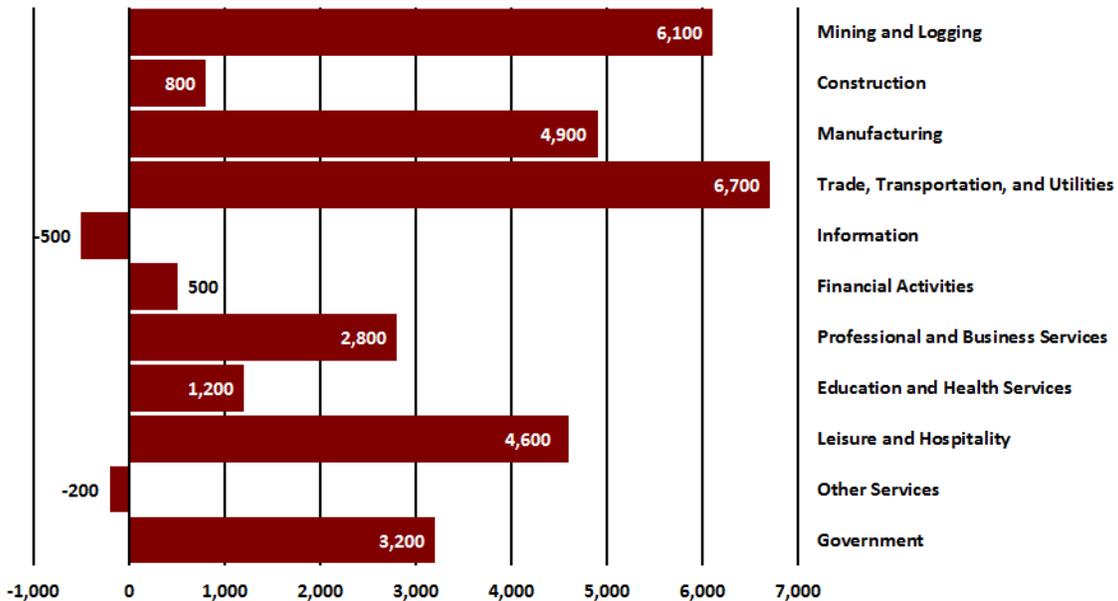
An unexpected surge of hiring caused job creation to accelerate in October, during a month in which the federal government was partially shut down for 16 days. Total nonfarm payroll employment rose by 204,000 in October, according to the Bureau of Labor Statistics (BLS). The prior two months were revised up by a total of 60,000. The September gain was revised to 163,000 from an initial estimate of 148,000, and the August payroll improvement was revised to 238,000 from 193,000.

Oklahoma seasonally adjusted nonfarm employment fell by 900 jobs (-0.1 percent) in August. Leisure & hospitality (+1,300 jobs) reported the largest monthly job gain for August. Construction (-3,000 jobs) dropped the most jobs of any supersector for the month.

Leisure & hospitality also provided the month's largest over-the-year gain (+8,400 jobs). Mining & logging (-5,000 jobs) and other services (-3,400 jobs) again accounted for most of the year-to-year job losses.

Oklahoma Employment Change by Industry 2011 - 2012

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



Definition & Importance

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

Current Developments

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

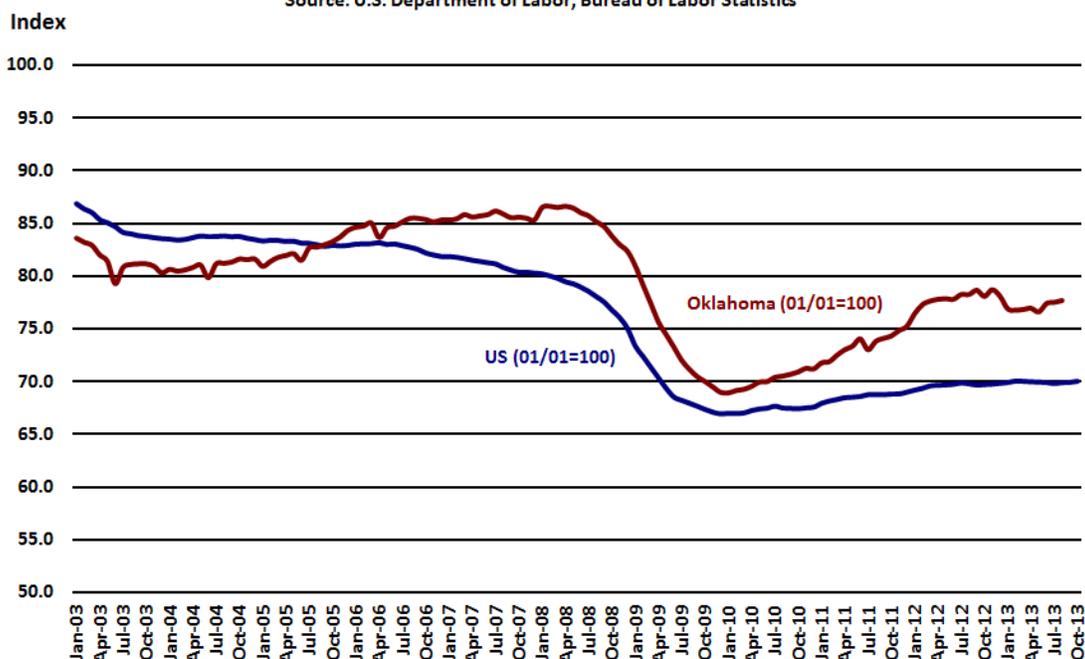
Employment growth in 2012 was wide-ranging with nine out of the 11 statewide industry supersectors reporting job gains. The broad trade, transportation & utilities industry recorded the largest employment increase adding 6,700 jobs with nearly half the hiring in wholesale trade. Mining had another strong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

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

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

Index: January 2001 = 100

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



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 employment improved in October. Manufacturing added 19,000 jobs in October, according to the Bureau of Labor Statistics (BLS). Job growth occurred in motor vehicles and parts (+6,000), wood products (+3,000), and furniture and related products (+3,000). However, on net, manufacturing employment has changed little since February 2013.

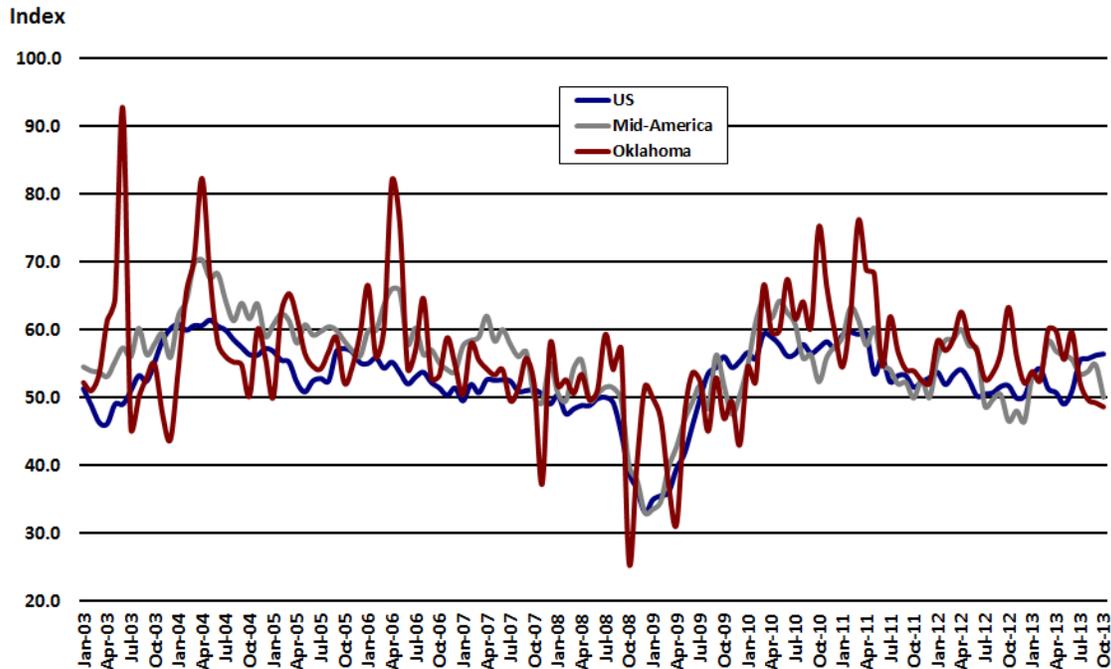
Manufacturing job growth in Oklahoma edged up in August to a non-seasonally adjusted 300 jobs (-0.2 percent). Durable goods manufacturing employment accounted for all of the job gains in August.

Over the year, Oklahoma manufacturing employment has added a non-seasonally adjusted 900 jobs for a 0.7 percent growth rate. Durable goods manufacturing employment added 1,600 jobs (1.7 percent) but was partially offset by non-durable goods which shed 700 jobs (-1.7 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.*

Purchasing Managers' Index (Manufacturing)

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



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

The U.S. manufacturing sector expanded at its fastest pace in more than two years in October, showing U.S. factories were a source of strength for the economy at the start of the 4th quarter. The PMI™ climbed to 56.4 percent, the highest since April 2011, from 56.2 percent in September, according to the latest Manufacturing ISM Report On Business®. The PMI™ has increased progressively each month since June, with October's reading reflecting the highest PMI™ in 2013.

The New Orders Index, which is the report's leading indicator, was a standout at 60.6 percent. Both the New Orders and Production Indexes have registered above 60 percent for three consecutive months. New export orders, at 57.0 percent, indicate strength in foreign demand. Backlog orders are over 50 for the first time since April, at 51.5 percent.

ISM's Employment Index did show some weakness as it slipped to 53.2 percent after hitting a 15-month high of 55.4 percent in September.

After rising for two straight months, the monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, tumbled to its lowest level since 2012. The Business Conditions Index, which ranges between 0 and 100, fell to growth neutral 50.0 from 54.8 in September, according to the Creighton Economic Forecasting Group. Almost one-fourth of the businesses surveyed reported negative impacts from the government shutdown.

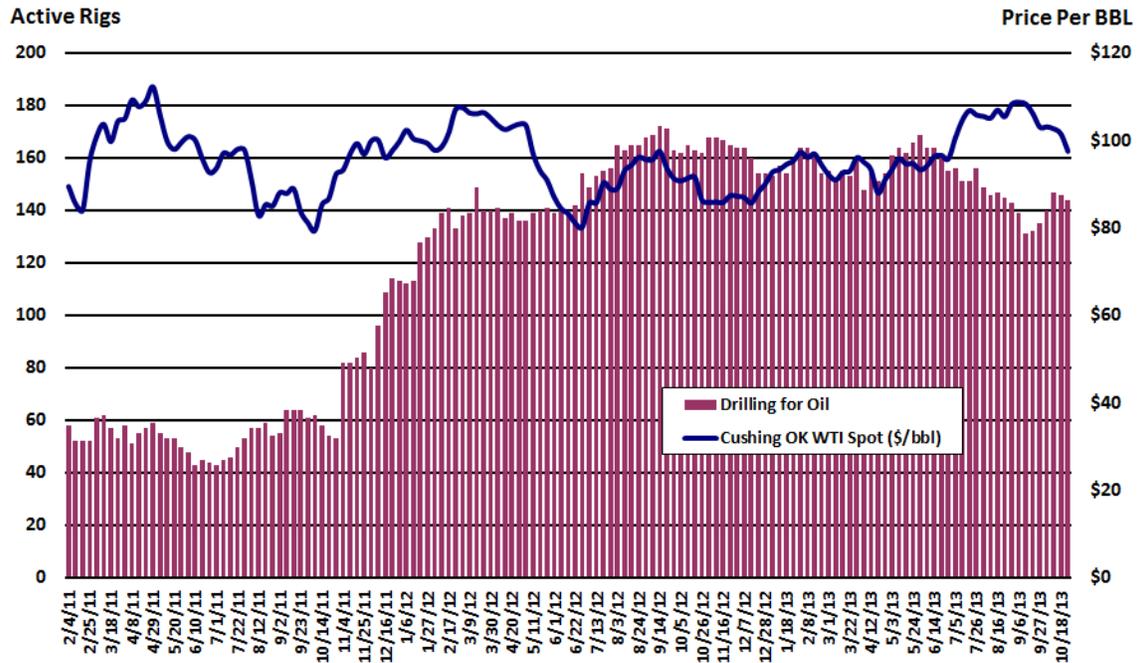
The Business Conditions Index for Oklahoma dipped below growth neutral for October to 48.6, the lowest reading in four years, from 49.2 in September. Components of the October survey of supply managers in the state were new orders at 51.6, production or sales at 46.1, delivery lead time at 47.7, inventories at 48.8, and employment at 48.7.

“Nondurable goods firms and companies linked to energy are experiencing pullbacks in economic activity. On the other hand, metal producers in the state continue to expand at a solid pace,” said Dr. Ernie Goss, director of Creighton University’s Economic Forecasting Group.

Oklahoma Active Rotary Rigs & Cushing, OK WTI Spot Price

February 2011 to October 2013

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



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

According to a recent Reuters news article, Oklahoma is emerging as the next big shale oil play, with production growing faster than in any other U.S. state apart from Texas and North Dakota.

Oil output in the state has doubled since the start of 2010, from 160,000 to 320,000 barrels per day. Also, thanks in big part to shale, the state's oil output in May, June and July hit the highest level since January 1990. Since February, crude production in Oklahoma has grown by almost 30 percent.

Conventional crude output had been declining since the mid-1980s owing to falling pressure in the oilfields and lack of investment. But since 2005, output has started to rise again, as investment, drilling and workovers have risen in response to increased oil prices.

More recently, the increase in output has accelerated, as exploration and production firms begin to drill into the enormous Woodford shale formation that lies underneath large parts of the state. According to the U.S. Energy Information Administration (EIA), there are three highly prospective shale plays in the state: the Ardmore, Arkoma and Cana basins, all of which contain parts of the Woodford formation.

Baker Hughes rig counts show there were 32 rigs drilling for oil in the Ardmore and Cana basins in the last week of October, up from just six at the same point in 2011.

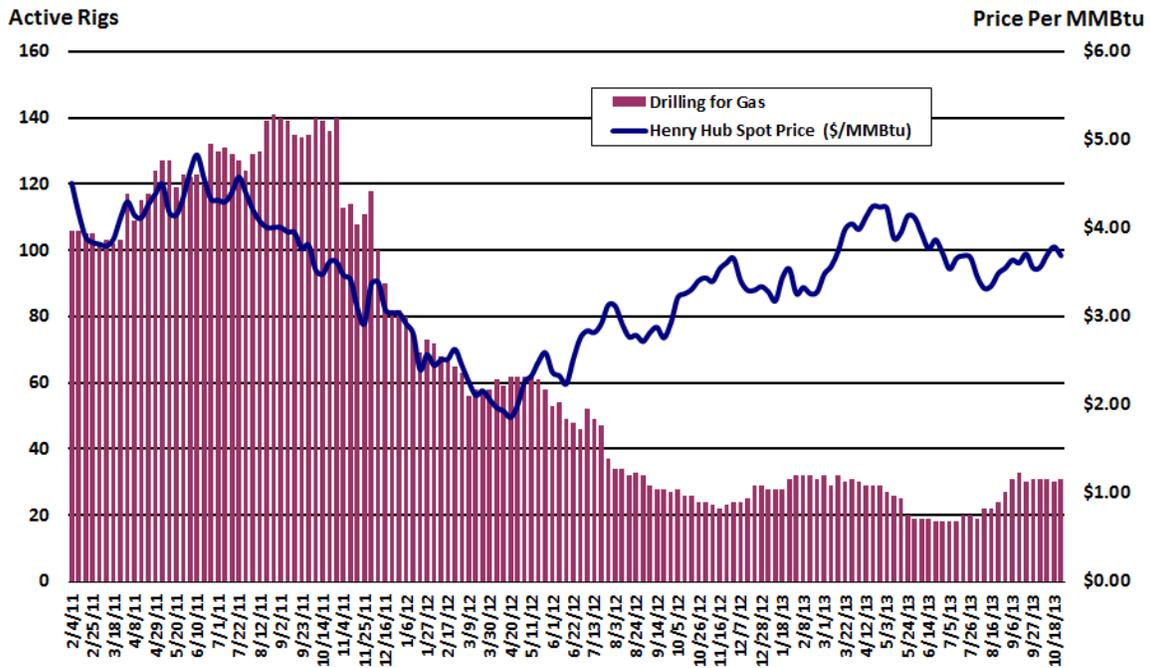
After climbing above \$108 in September amid the instability in Egypt and the civil war in Syria, WTI-Cushing spot prices fell almost 6 percent in October due to ample supplies and muted demand. After starting the month at \$102.09 per barrel, WTI-Cushing spot prices dropped to a four-month low of \$96.29 by the end of October. The monthly average WTI-Cushing spot price for October was \$100.54. That is \$5.80 less than the September average of \$106.29 per barrel and \$11.05 more than the October 2012 average price of \$89.49.

Oklahoma's overall rotary rig activity gained ground in October, adding nine rigs for a monthly average of 175. Over the year, October's active rotary rig count in Oklahoma was 14 rigs less than 189 in October 2012. Oil-directed active rotary rigs grew to a level of 144, (for the week ended October 25, 2013), accounting for approximately 82 percent of total rig activity in the state.

Oklahoma Active Rotary Rigs & Henry Hub Natural Gas Spot Price

February 2011 to October 2013

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



Definition & Importance

The U.S. Energy Information Administration (EIA) provides weekly information on natural gas stocks in underground storage for the U.S., and three regions of the country. The level of inventories helps determine prices for natural gas products. Natural gas product prices are determined by supply and demand—like any other good or service. During periods of strong economic growth, one would expect demand to be robust. If inventories are low, this will lead to increases in natural gas prices. If inventories are high and rising in a period of strong demand, prices may not need to increase at all, or as much. However, during a period of sluggish economic activity, demand for natural gas may not be as strong. If inventories are rising, this may push down oil prices.

The Henry Hub in Erath, Louisiana is a key benchmark location for natural gas pricing throughout the United States. The Henry Hub is the largest centralized point for natural gas spot and futures trading in the United States. The New York Mercantile Exchange (NYMEX) uses the Henry Hub as the point of delivery for its natural gas futures contract. Henry Hub “spot gas” represents natural gas sales contracted for *next day* delivery and title transfer at the Henry Hub. The settlement prices at the Henry Hub are used as benchmarks for the entire North American natural gas market. Approximately 49 percent of U.S. wellhead production either occurs near the Henry Hub or passes close to the Henry Hub as it moves to downstream consumption markets.

Background

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

Most natural gas in Oklahoma is consumed by the electricity generation and industrial sectors. About three-fifths of Oklahoma households use natural gas as their primary energy source for home heating. Nevertheless, only about one-third of Oklahoma’s natural gas output is

consumed within the state. The remaining supply is sent via pipeline to neighboring states, the majority to Kansas, including the natural gas trading hubs in Texas and Kansas.

Current Developments

The United States and Canada are the only major producers of commercially viable natural gas from shale formations in the world, even though about a dozen other countries have conducted exploratory test wells, according to a joint study by the U.S. Energy Information Administration (EIA) and Advanced Resources International (ARI) released in June. China is the only nation outside of North America that has registered commercially viable production of shale gas, although the volumes contribute less than 1 percent of the total natural gas production in that country. In comparison, shale gas as a share of total natural gas production in 2012 was 39 percent in the United States and 15 percent in Canada.

The Henry Hub natural gas spot price held steady in October starting the month at \$3.57 per million British thermal units (MMBtu) and ending at \$3.56 per MMBtu for a monthly average of \$3.68. That was 6 cents above the September average of \$3.62 per MMBtu.

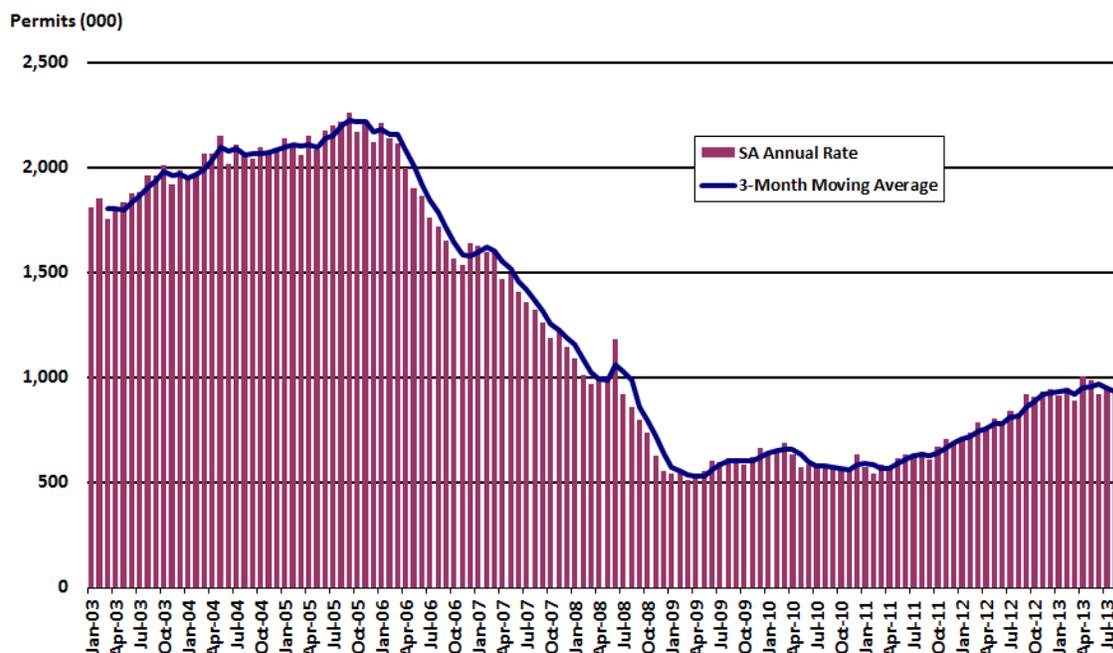
According to data reported by Baker Hughes, Oklahoma's natural gas rotary rig count little changed in October. For the week ended October 25, the state natural gas-directed drilling rig count stood at 31 and accounted for about 18 percent of total drilling activity. Over the year, Oklahoma's natural gas-directed rotary rig count was up by 7 from 24 rigs reported for the week ended October 26, 2012.

Nationally, the Baker Hughes U.S. natural gas rotary rig count totaled 376 active units as of Friday, October 25, a decrease of four rigs from the previous week. The oil rig count increased by four to 1,357 in the same time period.

U.S. Total Residential Building Permits, 2003-2013

Seasonally Adjusted

Source: U.S. Census Bureau and Department of Housing and Urban Development



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

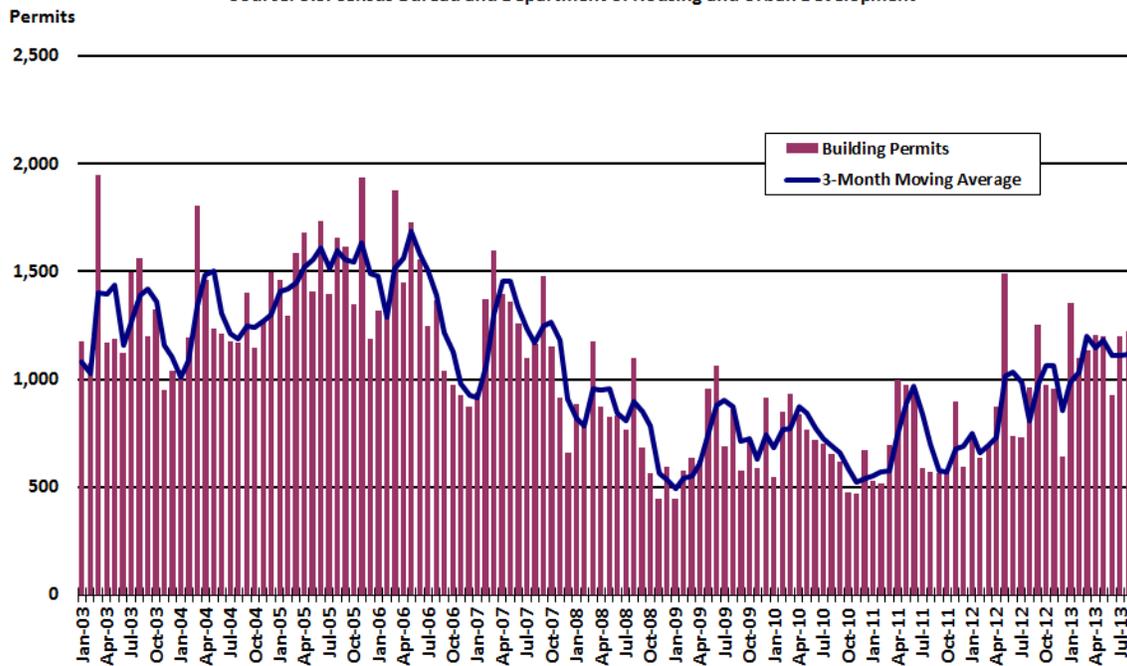
The U.S. Census Bureau announced revisions to its release calendar for the 2013 economic indicators that have been delayed because of the recent lapse in federal funding.

Housing starts, originally scheduled for release October 17, have been postponed due to the government shutdown. The September housing starts report will be released on November 26.

Oklahoma Total Residential Building Permits, 2003-2013

Not Seasonally Adjusted

Source: U.S. Census Bureau and Department of Housing and Urban Development



Applications for single-family residential homes once again drove overall permitting activity in August. Total unadjusted residential building permits for August rose 2.2 percent from July, according to figures from the U.S. Census Bureau and the Department of Housing and Urban Development. Single-family permitting accounted for 80.2 percent of residential permitting activity in August while multi-family accounted for 18.8 percent. Over the year, total unadjusted residential permitting was 27.7 percent over August 2012. That's 77 more single-family permits than August 2012, and 220 more multi-family units.

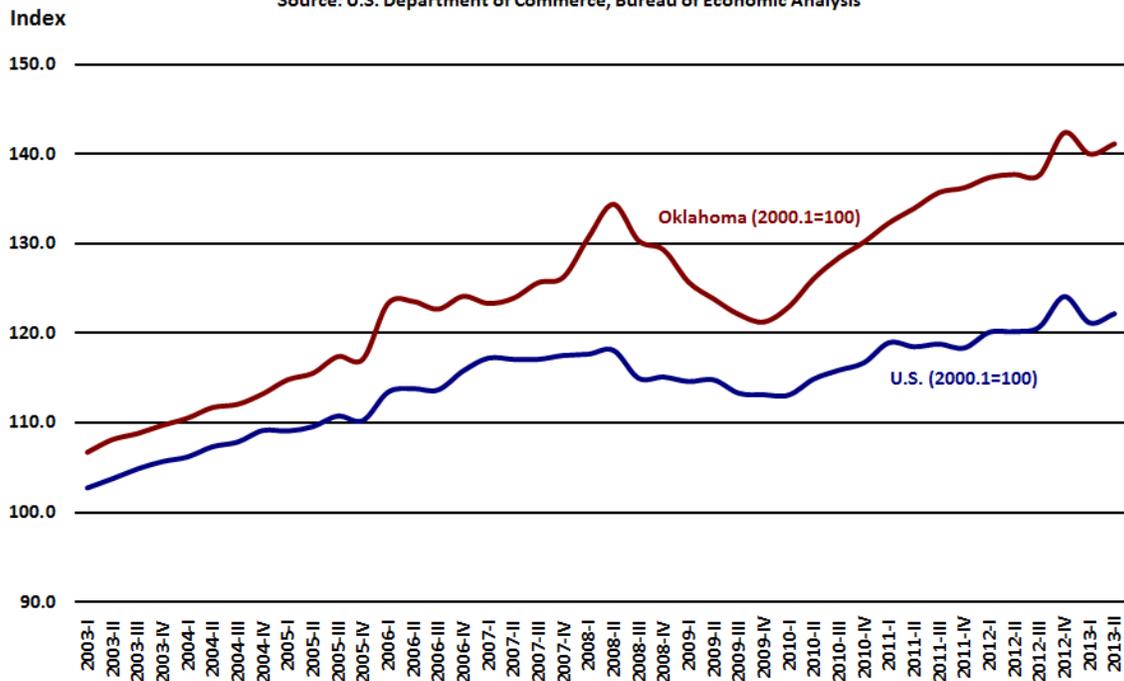
Year-to-date, Oklahoma residential permitting activity in 2013 was 36.3 percent greater than the first eight months of 2012. That pace is also the highest level of residential permitting in Oklahoma in the past five years.

Officials in Moore say the city has issued a record number of building permits since the May 20 tornado that devastated the community. The city has issued 218 storm rebuilding permits since the tornado struck. The Federal Emergency Management Agency (FEMA) estimated that 1,300 homes were destroyed by the EF5 tornado that also killed two dozen people. Additionally, in the May 28 through June 2 severe storms, more than 538 homes and businesses were impacted in Canadian and Oklahoma counties alone, including 52 destroyed, 193 with major damage, and 159 with minor damage. Oklahoma Insurance Department officials estimate up to \$2 billion in damage may have occurred in the affected areas.

U.S. and Oklahoma Real Personal Income

Index: 1st Quarter 2000 = 100

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



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

Americans' income jumped more than expected in September, although overall consumer spending slowed a bit as consumers shifted more money into savings at the end of the 3rd quarter. Personal income increased \$67.4 billion, or 0.5 percent, and disposable personal income (DPI) increased \$64.8 billion, or 0.5 percent, in September, according to the Bureau of Economic Analysis (BEA). It was the second-straight month of growth at that rate, which has been the best pace since February. Personal consumption expenditures (PCE) increased \$24.7 billion, or 0.2 percent, down from the 0.3 percent rate in August.

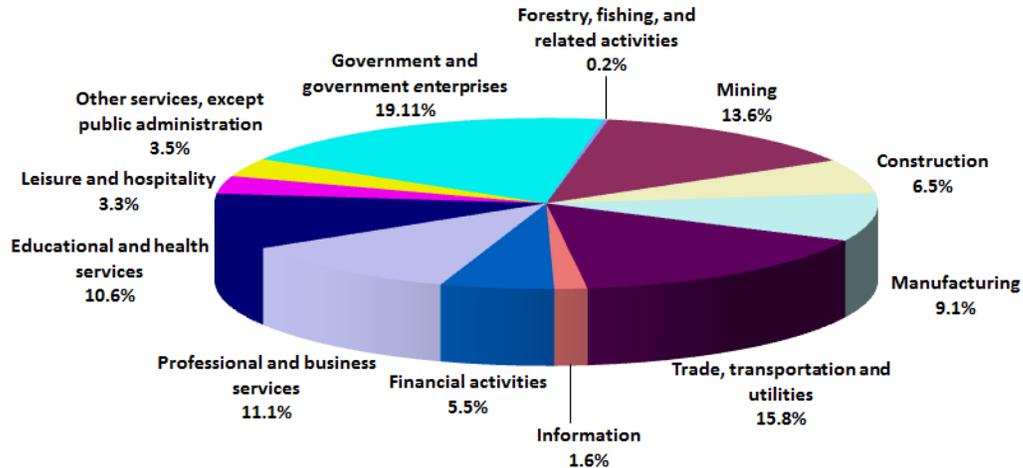
It was the second solid gain for personal income, up 0.5 percent for a second straight month. Growth in wages and salaries did slow by 0.1 but still came in at 0.4 percent.

Americans saved more money in September. The personal savings rate rose to 4.9 percent in September, from 4.7 percent the previous month. It was the highest rate of the year, though still historically low.

Oklahoma Nonfarm Industry Contribution to Earnings

Second Quarter 2013

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



Definition & Importance

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

Current Developments

State personal incomes grew 1.0 percent on average in the 2nd quarter of 2013 after falling 1.3 percent in the 1st quarter, according to the most recent estimates by the U.S. Bureau of Economic Analysis (BEA). Personal income growth ranged from 1.5 percent in Florida and Arizona to -0.7 percent in Nebraska.

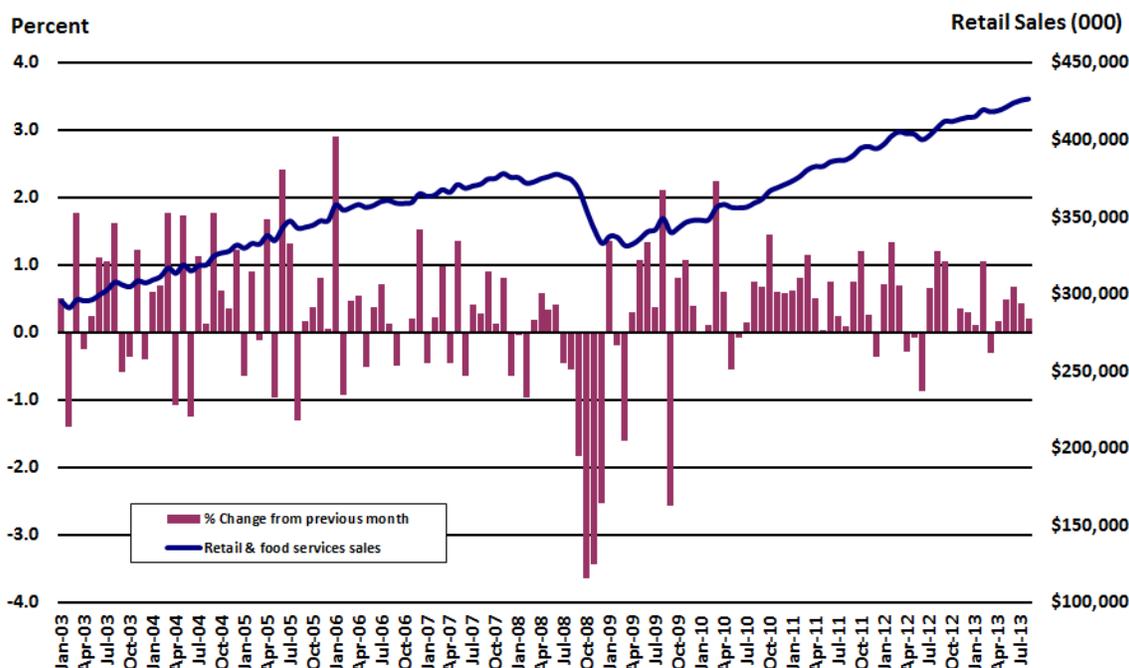
The BEA also noted that 1st-quarter declines in state personal income mainly reflected the effects of special factors, such as the expiration of the “payroll tax holiday” and the acceleration of bonuses and personal dividends to the 4th quarter of 2012 in anticipation of changes in individual tax rates. 2nd-quarter growth completely offset the 1st-quarter personal income decline in 20 states and the District of Columbia.

After dipping in the 1st quarter for the first time in 11 consecutive quarters of growth, personal income in Oklahoma grew at a seasonally adjusted 0.9 percent pace in the 2nd quarter of 2013. Oklahoma's personal income totaled \$159.6 billion in the 2nd quarter, up from \$158.1 billion in the 1st quarter. That ranked Oklahoma 26th (out of 50 states) for income growth in the 2nd quarter, slightly below the national average of 1.0 percent.

Private nonfarm earnings for the nation grew 1.0 percent in the 2nd quarter, matching the average for the last four years. In Oklahoma, private nonfarm earnings growth was above the national average at 1.2 percent with construction and mining making the largest contributions to growth in the 2nd quarter.

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

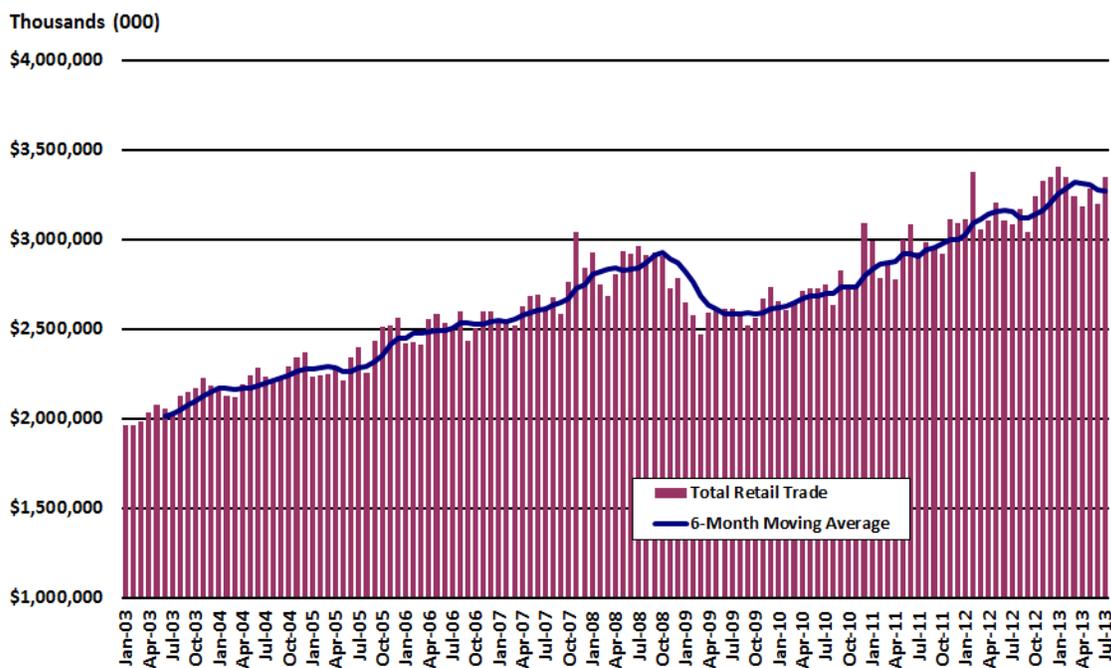
U.S. retail sales dipped in September as a sharp drop in auto sales offset gains in other areas. Advance estimates of U.S. retail and food services sales for September, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$425.9 billion, a decrease of 0.1 percent from the previous month, but 3.2 percent above September 2012, according to the U.S. Census Bureau. Total sales for the July through September 2013 period were up 4.5 percent from the same period a year ago. The July to August 2013 percent change was unrevised from +0.2 percent.

Auto sales fell 2.2 percent in September, the largest decline since October 2012. However, automakers noted that the drop occurred largely because the sales calendar pulled Labor Day weekend activity into August, suggesting the drop was likely temporary.

The less volatile "core" retail sales, excluding autos, gas and building supplies, rose 0.5 percent in September, up from 0.2 percent in August. Within the core, gains were led by food & beverage stores (+0.9 percent), food services & drinking places (+0.9 percent), and electronics & appliance stores (+0.7 percent). On the downside were miscellaneous store retailers (-1.2 percent), and clothing & accessory stores (-0.5 percent).

Oklahoma Total Adjusted Retail Trade

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



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

Statewide retail trade jumped in July as Oklahomans ate out more and spent more on auto accessories & repairs and building materials. Total adjusted retail sales for July 2013 were at a level of \$3.35 billion—a 4.8 percent increase from June and 8.6 percent greater than June 2012. For the first three months of 2013, total adjusted retail trade was 4.4 percent more than the same period in 2012.

Durable goods sales improved 0.6 percent in July with the largest increase seen in auto accessories & repair (+3.0 percent), followed by lumber & hardware (+1.5 percent), and furniture (+0.3 percent). Declining sales were seen in miscellaneous durable goods (-3.3 percent), and used merchandise (-1.7 percent). Over the year, durable goods sales were 15.2 percent more than July 2012.

Total nondurable goods sales grew 6.3 percent in July with the largest monthly gain in estimated gasoline sales (+37.1 percent). Eating & drinking sales were also strong in July (-3.7 percent). Declining sales were seen in apparel (-1.9 percent); food (-1.4 percent); liquor (-1.0 percent); general merchandise (-0.9 percent); and drugs (-0.2 percent). Over the year, non-durable goods sales advanced 6.6 percent.