Oklahoma's Economic Indicators
September 2010

Oklahoma Employment Security Commission
Economic Research and Analysis
http://oesc.ok.gov

OKLAHOMA
ECONOMIC INDICATORS

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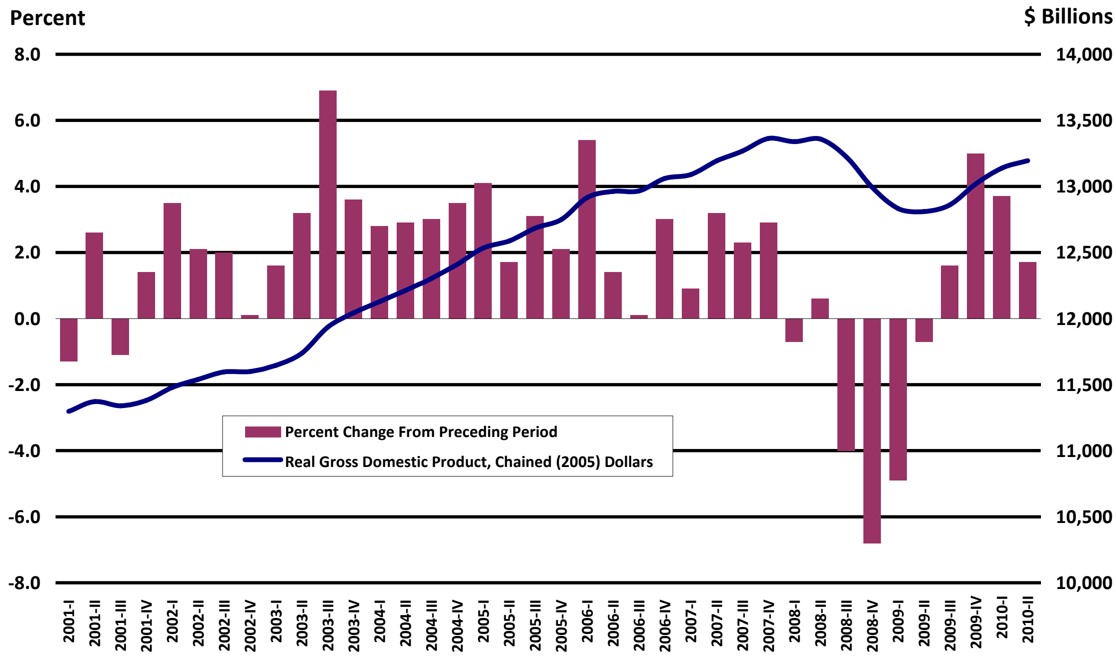
Real Gross Domestic Product and Quarterly Change

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



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

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

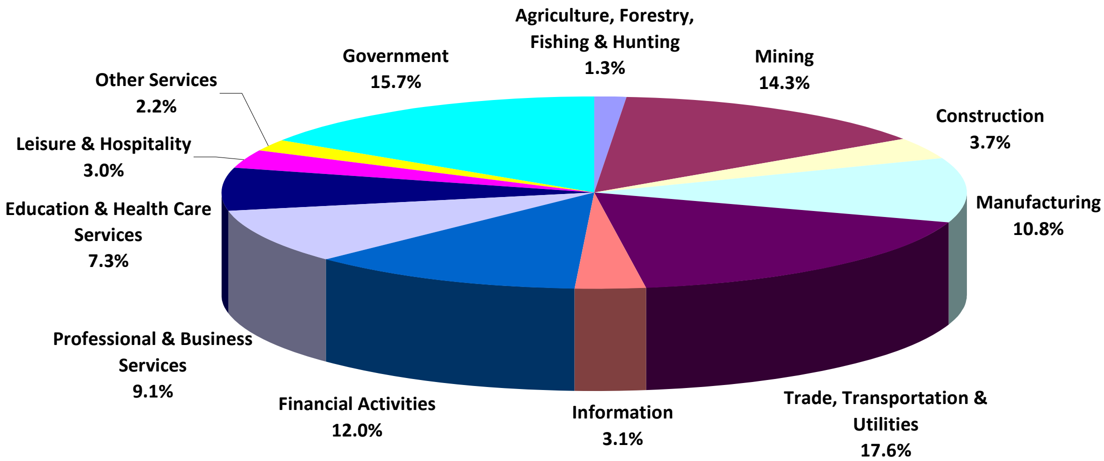
Real gross domestic product increased incrementally in the second quarter of 2010, (that is, from the first quarter to the second quarter), according to the "third" estimate released by the Bureau of Economic Analysis (BEA). Second quarter GDP growth was revised up to 1.7 percent annualized from 1.6 percent in the second revision. In the first quarter, real GDP increased 3.7 percent.

The BEA noted that the deceleration in real GDP in the second quarter primarily reflected a sharp acceleration in imports and a sharp deceleration in private inventory investment that were partly offset by an upturn in residential fixed investment, accelerations in nonresidential fixed investment and in federal government spending, and an upturn in state and local government spending.

Industry Share of Oklahoma's Economy

(by percentage of Gross Domestic Product)

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



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

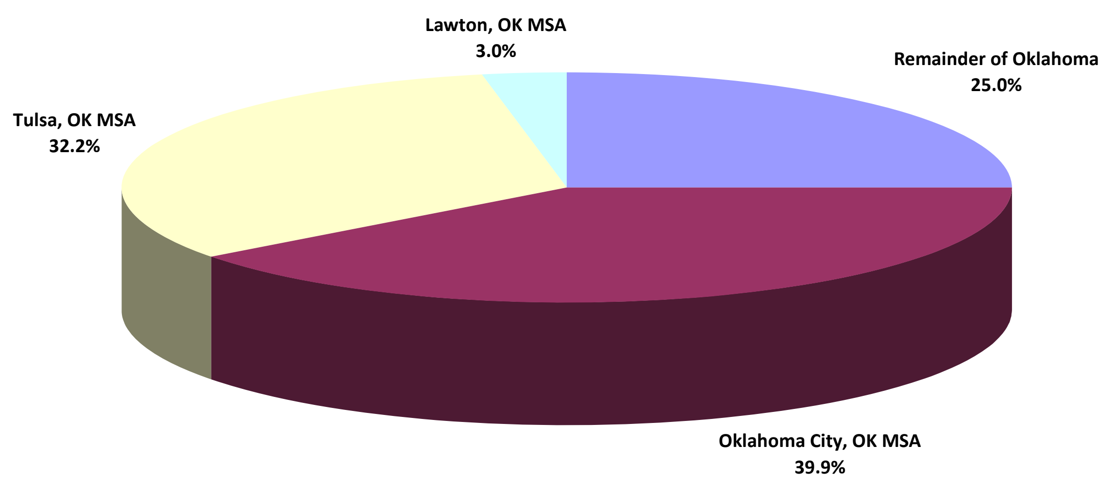
Oklahoma's GDP totaled $146.4 billion in 2008 according to advance estimates, an increase in real dollars of 2.7 percent from 2007. The U.S. growth rate for the same period was 1.1 percent. Nearly all industrial sectors contributed to the increase in Oklahoma's GDP with the only declining industry being agriculture, forestry, fishing, and hunting dipping 12.8 percent.

The broad trade, transportation and utilities sector makes up the largest portion of Oklahoma's economic output at 17.6 percent, followed by government (15.7 percent), mining (14.3 percent), and financial activities (12.0 percent).

Since 2003, trade, transportation and utilities, information, and professional and business services have had the largest gain in share of the state's economic makeup, while financial activities and government have had the largest declines in share.

Metropolitan Area Contribution to State Real Gross Domestic Product 2008

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



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

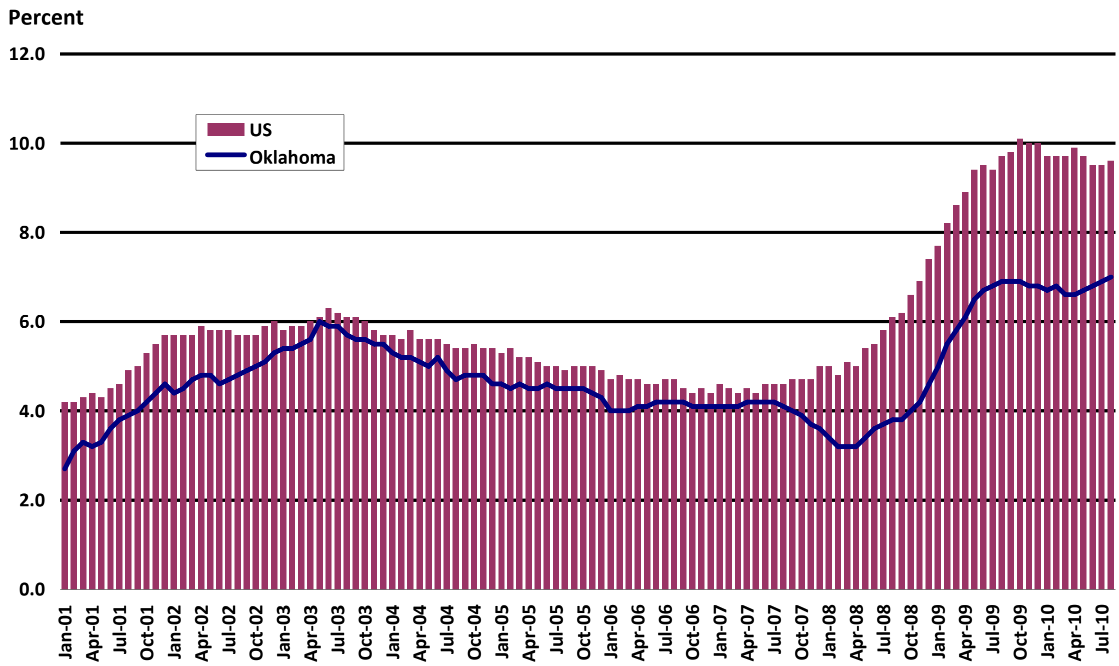
Nationally, metropolitan statistical areas represent approximately 90 percent of total GDP. In Oklahoma, the three MSAs of Oklahoma City, Tulsa and Lawton accounted for roughly 75 percent of total state GDP in 2008.

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

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

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

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



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

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

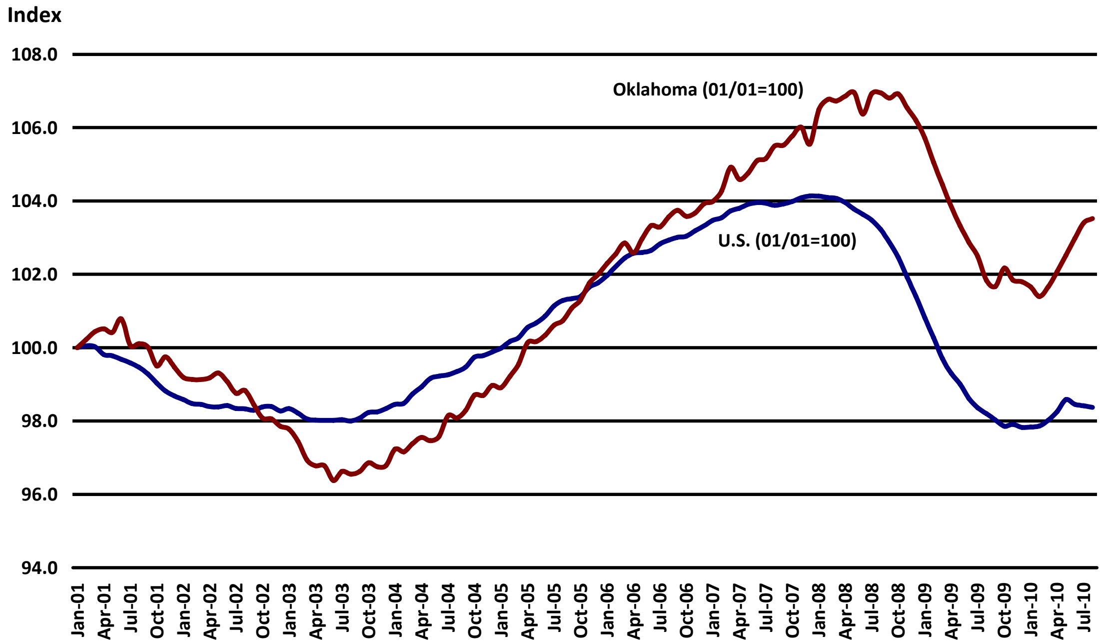
The unemployment rate was 9.6 percent in August, the U.S. Bureau of Labor Statistics reported. From May through August, the jobless rate remained in a range of 9.5 to 9.7 percent. The number of unemployed persons who had been jobless for 6 months or more declined to 6.2 million in August, or 42 percent of the unemployed.

Oklahoma's seasonally adjusted unemployment rate again rose by one-tenth of a percentage point to reach 7.0 percent in August. Oklahoma, along with Minnesota and Virginia had the tenth lowest jobless rate in the nation for August. Nevada again reported the highest unemployment rate among the states at 14.4 percent, (again setting a new series high), while North Dakota continued to register the lowest jobless rate at 3.7 percent in August. In Oklahoma, McCurtain County again reported Oklahoma's highest county unemployment rate of 11.2 percent while Beaver County held the state's lowest county rate again at 3.3 percent.

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

Index: January 2001=100

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



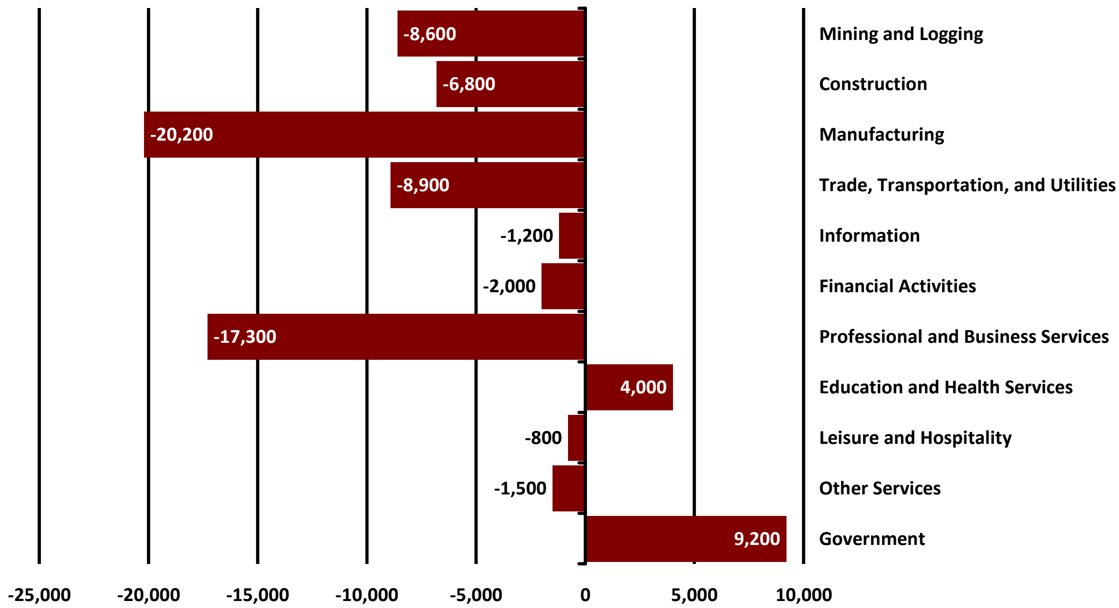
Nonfarm payroll employment measures the number of jobs in the state. The number of jobs and the industries that create those jobs are important indicators of a state's economic health. Payroll employment is one of the most current and reliable indicators of economic conditions and recessionary trends.

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

Overall U.S. payroll employment fell for the third straight month in August but there was a moderate gain in the private sector. Total nonfarm payroll employment in August slipped 54,000 after falling a revised 54,000 in July and contracting 175,000 in June, the Bureau of Labor Statistics reported. Government jobs dropped 121,000 after falling 161,000 in July, reflecting further layoffs of temporary Census workers. In contrast, private nonfarm employment continued to rise, gaining 67,000 in August, following a revised boost of 107,000 the month before.

In August, Oklahoma along with New Hampshire had the largest over-the-year percentage increase (+1.7 percent each), in nonfarm payroll employment. Oklahoma's seasonally adjusted nonfarm employment also added 1,700 jobs (+0.1 percent) over the month in August. Over-the-month growth was also reported in seven of Oklahoma's 10 statewide supersectors including Mining & Logging, Construction, Financial Activities, Professional & Business Services, Educational & Health Services, Leisure & Hospitality, and Other Services. Construction posted the largest job gain for the month adding 2,700 jobs. Government claimed the state's largest decrease for August with a 4,900-job loss, led by federal government declining by 3,000 jobs due to the departure of temporary Census employees.

Oklahoma Employment Change by Industry
2008 - 2009
Source: U.S. Department of Labor, Bureau of Labor Statistics



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

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

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

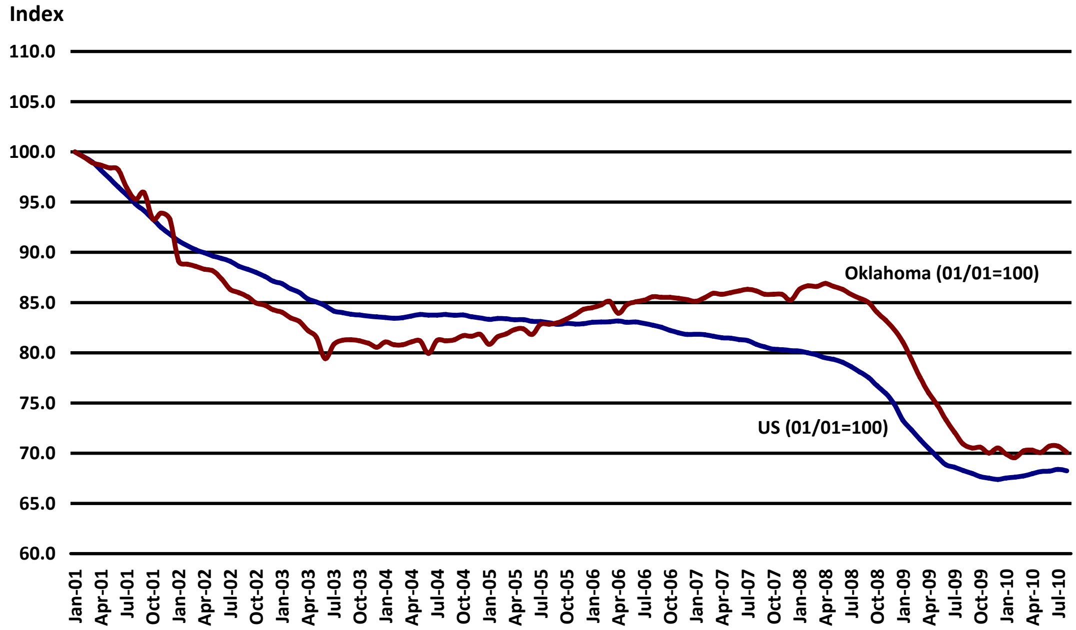
Government added 9,200 jobs with nearly all of the gains being at the local and federal levels. The bulk of job growth in local government can be attributed to tribal gaming and public school employment growth. Hiring for temporary Census 2010 workers accounted for much of the job gains in federal government.

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

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

Index: January 2001 = 100

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



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

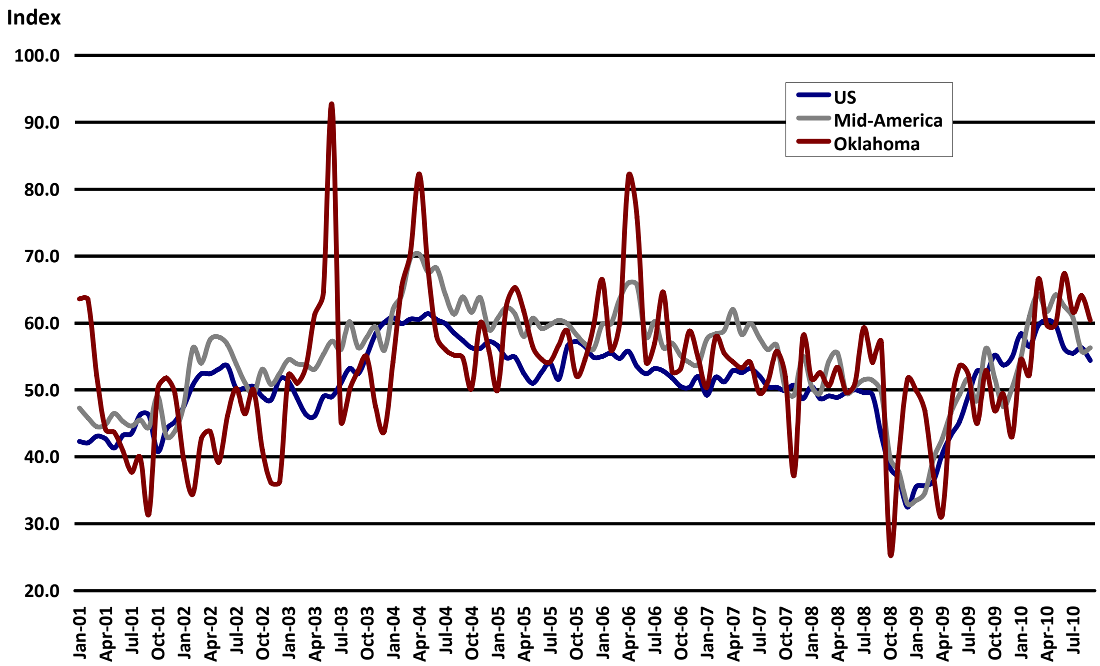
At one time, manufacturing made up 38 percent of the nation's employment. However, manufacturing employment in the United States has been declining since 1979, as productivity, technology gains, and the transfer of manufacturing to locations outside the United States have reduced the demand for traditional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

U.S. manufacturing employment fell by 27,000 over the month, mostly offsetting an increase in July. As with July's gain, most of August's decline occurred in motor vehicles and parts manufacturing, where a number of plants deviated from their normal retooling practice of shutting down in July and reopening in August. Over the 2-month span, employment was essentially unchanged in motor vehicles and parts.

Oklahoma manufacturing employment declined 0.9 percent (-1,100 jobs) in August with the bulk of the losses being in durable goods manufacturing. All of the durable goods manufacturing sectors showed either losses or flat growth with the exception of Transportation Equipment Manufacturing. Most of the gains in non-durable goods manufacturing came from Food Manufacturing. Manufacturing employment stood at a seasonally adjusted 122,900 in August.

Purchasing Managers' Index (Manufacturing), 2001-2010

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



Economists consider the Institute for Supply Management's Purchasing Managers' Index (PMI) a key economic indicator. The PMI measures such factors as new orders, production, supplier delivery times, backlogs, inventories, prices, employment, import orders and exports, The ISM manufacturing index is constructed so that any level at 50 or above signifies growth in the manufacturing sector. A level above 43 or so, but below 50, indicates that the U.S. economy is still growing even though the manufacturing sector is contracting. Any level below 43 indicates that the economy is in recession.

Manufacturing continued to grow in September, but at a slower rate as the PMI registered 54.4 percent, a decrease of 1.9 percentage points when compared to August's reading of 56.3 percent. according to the latest Manufacturing Institute For Supply Management *Report On Business®*. August represents the 14th consecutive month of growth in U.S. manufacturing.

New orders are decelerating, and perhaps abruptly, while inventories climb and hiring slows. The PMI new orders index fell two full points to 51.1 to indicate only mild month-to-month growth. Inventories, which had already been going up, spiked up more than four points to 55.6. This will raise concern that a significant part of the inventory build is more and more unwanted. Employment, which had been very strong, fell nearly four points to 56.5.

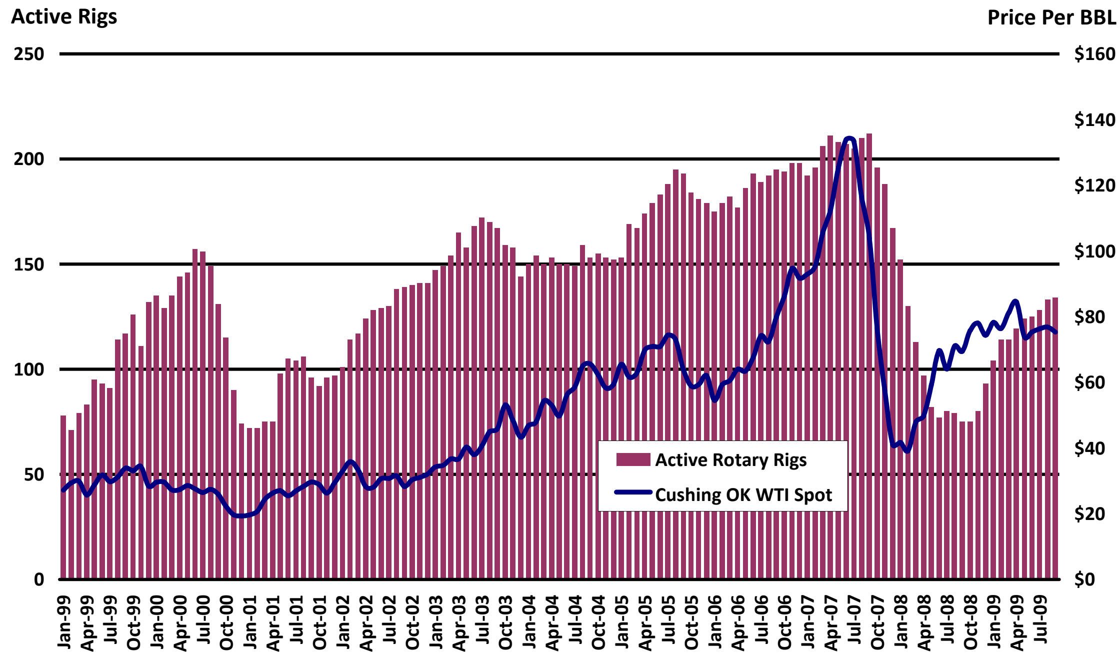
According to the September survey of supply managers in the nine-state region, (including Arkansas, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma and South Dakota), the region will experience improving economic conditions in the months ahead with little likelihood of a double dip recession. The September Business Conditions Index for the Mid-America region climbed for the first time since May of this year. The index, a leading economic indicator which ranges between 0 and

100, rose to 56.3 from 55.8 for August and 60.8 for July. This was the tenth straight month that the index has risen above growth neutral.

For a ninth straight month, Oklahoma's leading economic indicator from the monthly survey of supply managers remained above growth neutral. The Business Conditions Index slipped to a still healthy 60.4 from 64.1 in August. Components of September's overall reading were new orders at 70.0, production or sales at 62.2, delivery lead time at 76.3, inventories at 51.2, and employment at 42.3.

Oklahoma Active Rotary Rigs & Cushing, OK WTI Spot Price

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



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

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

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

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

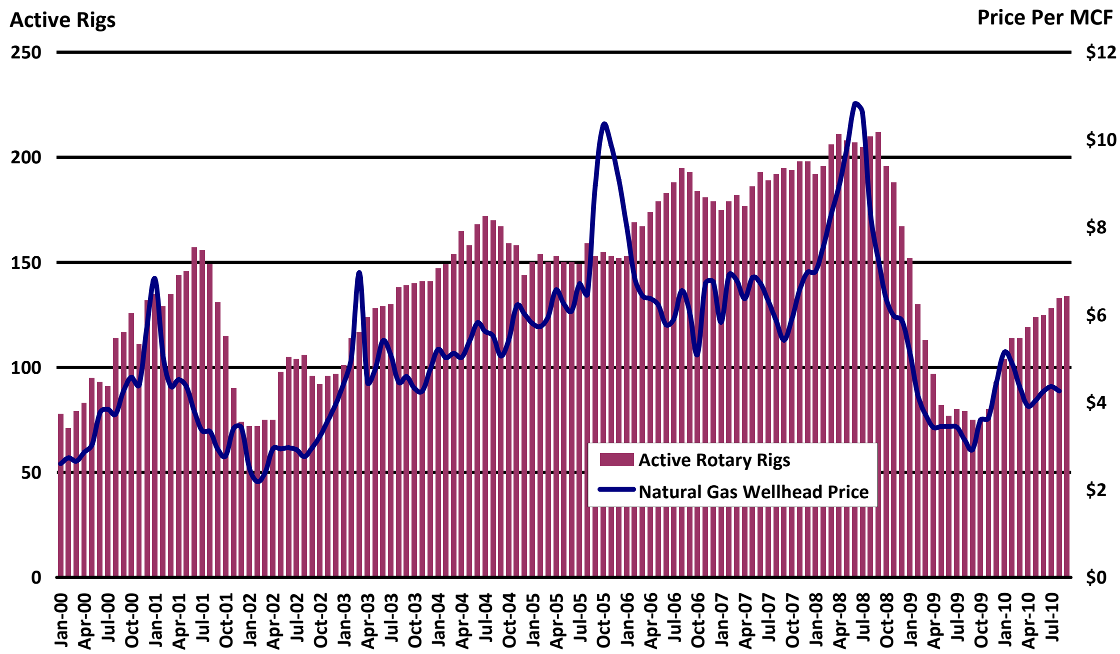
Global crude oil markets have been generally uneventful throughout 2010, with ample supply and a slow demand recovery in the United States and Europe (relative to more robust activity in China and other Asian countries) dampening price pressures. Exceptionally high stock levels in the United States have contributed to relatively calm market conditions this summer. U.S. commercial crude oil inventories stand at their highest level for August in nearly 20 years, and total U.S. petroleum commercial stocks (including crude oil and products) are the highest since January 1983.

Cushing, Oklahoma WTI spot prices averaged $75.31 per barrel in September, down slightly from $76.82 in August. The Energy Information Administration (EIA) projects that the WTI spot price will average $79 per barrel over the second half of 2010 and $83 per barrel in 2011.

Oklahoma rotary rig activity rose to 134 in September, an increase of 1 active rig over August's count of 133 and 59 more than the September 2009 count of 75 rigs.

Oklahoma Active Rotary Rigs & Natural Gas Wellhead Price

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

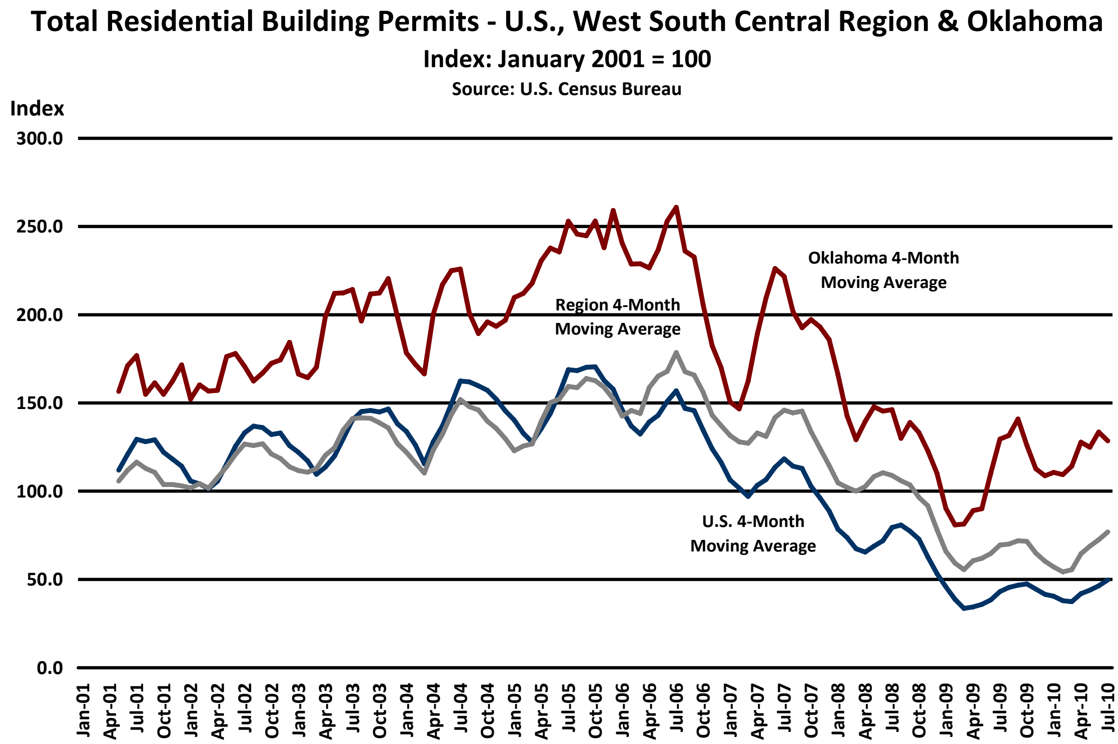


Oklahoma is one of the top natural gas producers in the United States with production typically accounting for almost one-tenth of the U.S. total. More than a dozen of the 100 largest natural gas fields in the country are found in Oklahoma and proven reserves of conventional natural gas have been increasing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

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

Natural gas prices in 2009 fell to their lowest level in 7 years. The wellhead price averaged $3.71 per thousand cubic feet (Mcf) during 2009, compared with $7.96 per Mcf in 2008, according to the U.S. Energy Information Administration (EIA). Factors that contributed to the decline in prices were the weakened economy, reduced heating demand due to a somewhat warmer-than-normal winter weather, as well as higher than usual production and storage levels. For the first 7 months of 2010, average natural gas wellhead prices were at $4.42 compared to $3.83 for the same time period in 2009.

Natural gas spot prices at most market locations in the lower 48 States decreased between 5 and 10 percent during the last week of September. That week coincided with the first week of fall, a season in which demand is typically lower given the lack of extreme weather conditions across the country.



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

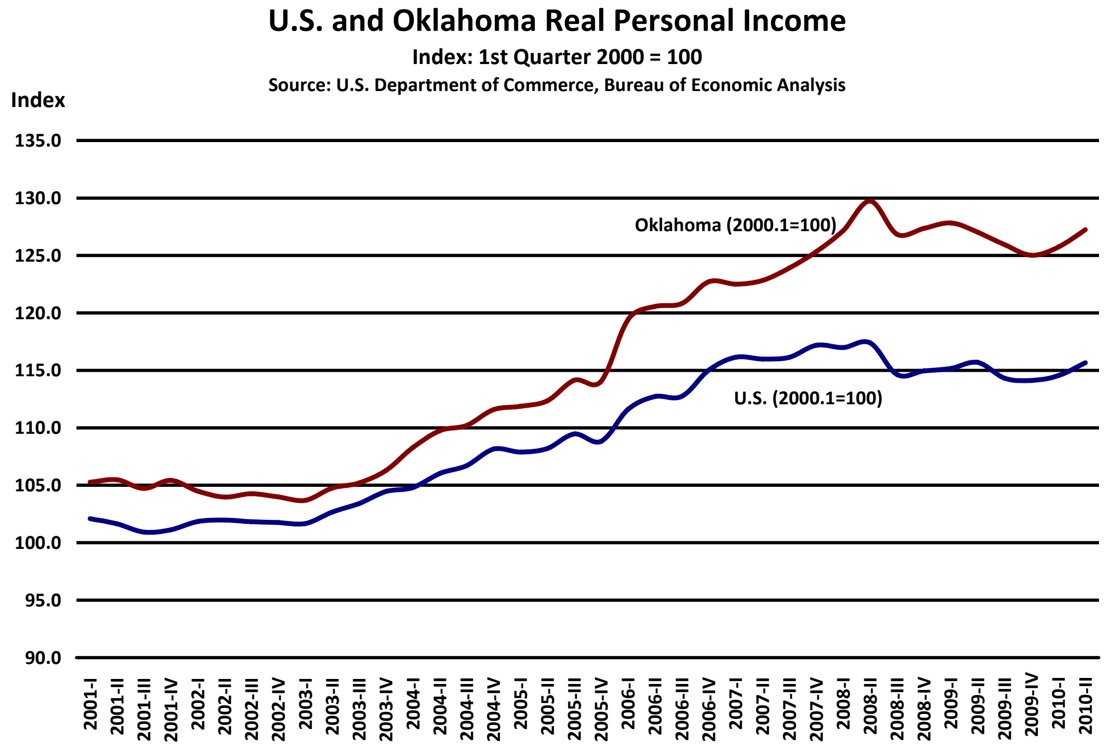
Housing contributes to GDP in two basic ways: through private residential investment and consumption spending on housing services. According to the National Home Builders Association, residential investment has historically averaged roughly 5 percent of GDP while housing services have averaged between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

Privately-owned housing units authorized by building permits in August were at a seasonally adjusted annual rate of 569,000 the Census Bureau reported. This is 1.8 percent above the revised July rate of 559,000, but is 6.7 percent below the August 2009 estimate of 610,000.

Housing starts showed unexpected strength in August with even the single-family component increasing. Housing starts in jumped 10.5 percent after rising a modest 0.4 percent in July. The August annualized pace of 0.598 million units is actually up 2.2 percent from August 2009. The gain in August was led by a 32.2 percent surge in multifamily starts, following a 36.0 percent increase in July. The single-family component rebounded 4.3 percent after dipping 6.7 percent in July. This low level of starts is good news for the housing market longer term, since there are too many housing units already, but bad news for the economy and employment short term.

Due to the different magnitudes of permitting activity nationally, regionally and statewide, the data illustrated in the previous chart have been indexed with January 2001 as the base.

After slumping in January, Oklahoma residential permitting activity had been picking up this spring, peaking in March to meet the demand sparked by federal homebuyer tax credits. However, housing permitting activity began to decline in April, falling 9.2 percent from March. This trend has continued through the summer with August permitting down 6 per cent from July.



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

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

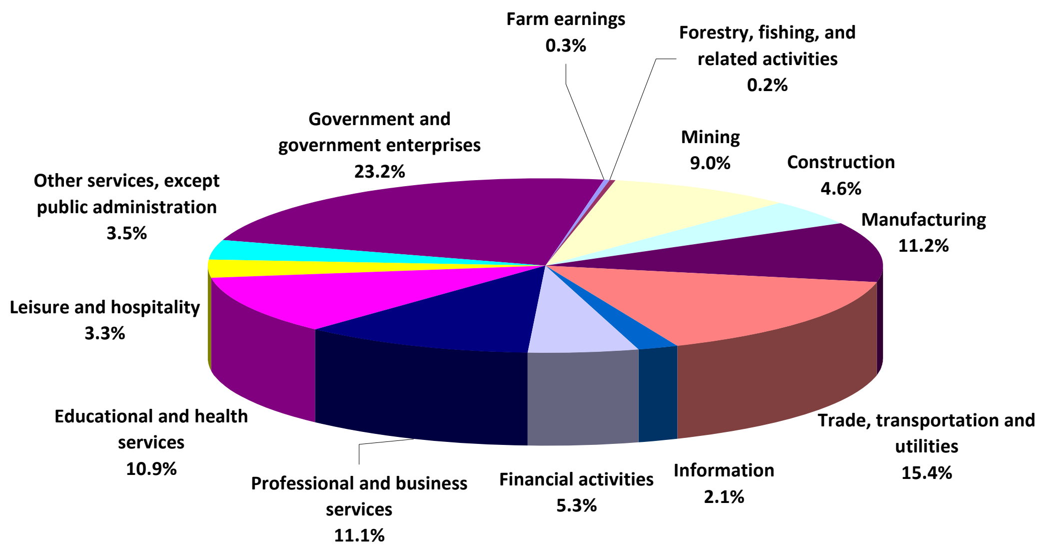
Despite sluggish job growth, the combination of modest growth in average hourly earnings, private employment, and steady or firming weekly hours is gradually boosting wages and salaries at least in the private sector. Personal income in August advanced a healthy 0.5 percent, following a 0.2 percent rise the month before, according to the Bureau of Economic Analysis (BEA).

Unfortunately, a notable part of the latest increase in personal income reflected the effects of unemployment compensation legislation, which boosted special unemployment insurance benefits by $20.6 billion at an annual rate in August, after reducing benefits by $17.1 billion in July. Still, there was moderate strength in the wages and salaries component which posted a 0.3 percent boost after increasing 0.4 percent in July. Private industry wages and salaries rose a sharp 0.5 percent, matching the July gain.

Oklahoma Industry Contribution to Earnings

Second Quarter 2010

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



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

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

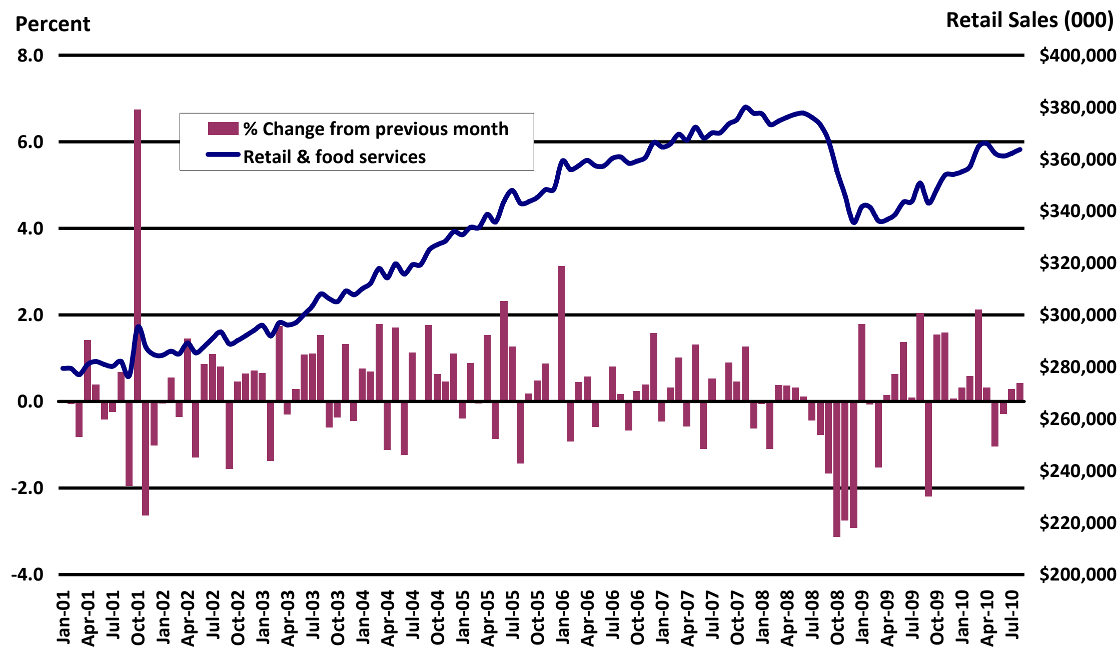
Oklahoma personal income continued to improve in 2nd quarter 2010, growing by 1.2 percent. Oklahoma had the 9th fastest growth rate among states during the 2nd quarter.

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

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

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

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



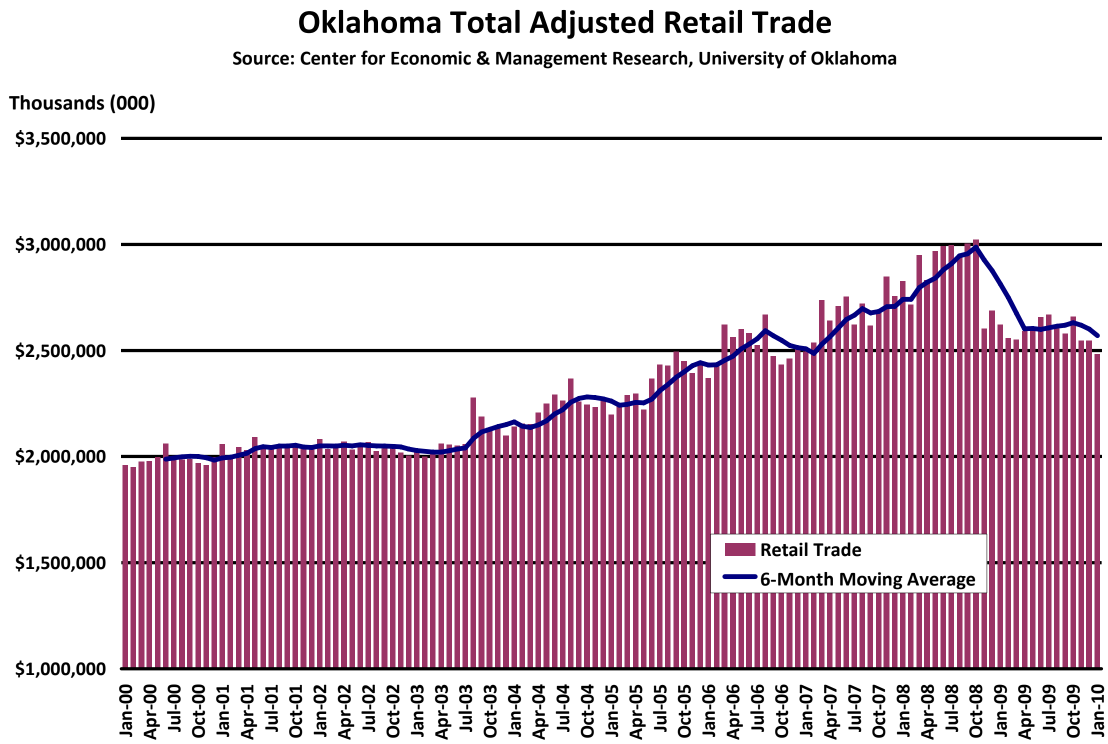
Consumer spending accounts for two-thirds of the U.S. economy and is therefore essential to Oklahoma's economy. Retail sales account for around one-half of consumer spending and economic recovery calls for consumption growth

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

U.S. retail sales rose for a second consecutive month in August as shoppers flocked to back-to-school sales and took advantage of tax-free shopping promotions in more than a dozen states. U.S. retail sales rose a better-than-expected 0.4 percent in August, the Commerce Department reported. However, for those wondering if this boost was related to back to school spending, the numbers are seasonally adjusted and largely take that factor into account.

August's rise in retail sales was driven largely by purchases of clothing, gasoline and groceries. Sales of autos and parts slipped 0.7% percent. Excluding autos, all other retail sales rose 0.6%, after rising 0.1% in July.

Retail sales have suffered during the recession as consumers worried about a tough job market have been reluctant to open their wallets. This latest report adds ammunition to the argument that there will be no double dip recession. A consumer sector that is posting moderate gains in spending will likely support continued modest growth in the recovery.



Retail sales in Oklahoma peaked in August 2008 and have been generally declining since that time. Total adjusted retail sales for 2009 were off $3.34 billion from 2008, a decline of nearly 9.7 percent. However, retail sales have been improving in 2010, March retail sales were up $225.8 million or 9.1 percent from February and $167.9 million or 6.6 percent compared to March 2009. For the year, Oklahoma retail sales are up $63.9 million or 2.5 percent over the first three months of 2009.