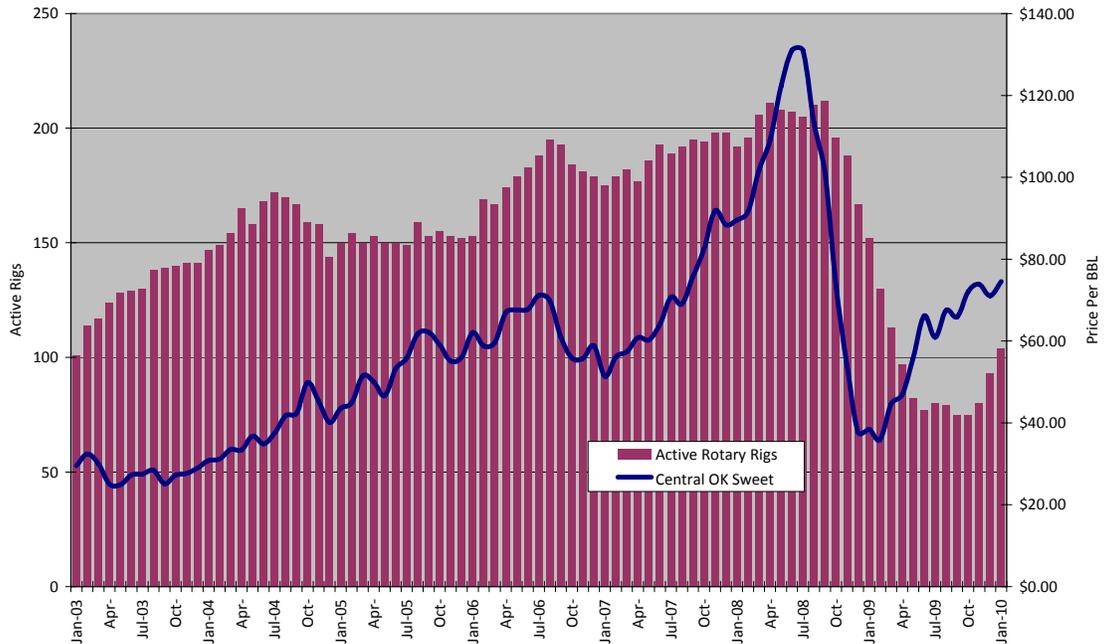


Oklahoma Active Rotary Rigs & Price of Central Oklahoma Sweet
 SOURCES: Conoco-Phillips Crude Oil Price Bulletin and Baker Hughes Rig Counts



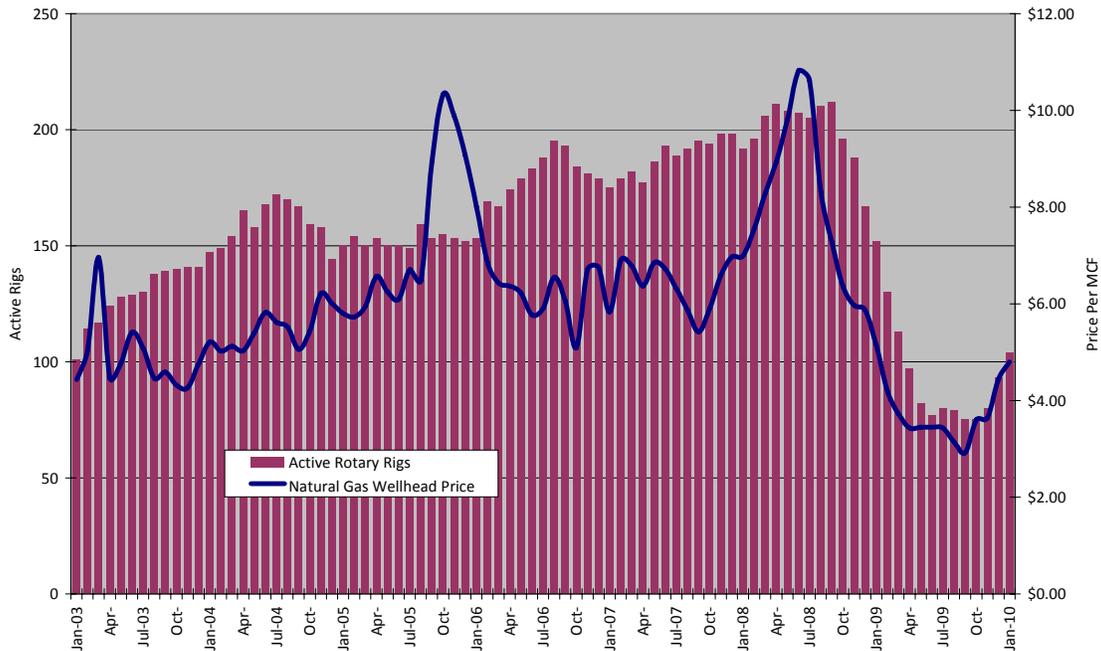
The Baker Hughes rig count is an important indicator for the energy industry and Oklahoma. Rig counts generally rise following increased oil and gas company development and exploration spending, which is influenced by the current and expected price of oil and natural gas (among other factors). Therefore,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

Oklahoma has a high concentration of corporate headquarters, regional offices and operations facilities of oil and gas firms as well as a more highly developed network of supporting firms in the manufacturing, transportation, legal and financial services sectors. As an export-oriented product, energy serves as a key economic base industry that serves non-local markets.

Energy production also generates significant purchases of goods and services from other sectors of the state’s economy. The value each worker adds to the product is also quite high in energy production, allowing workers to earn well above average wages in the state. Moreover, the industry generates royalty income for mineral rights owners and large amounts of tax revenue for state and local government. In short, rapid expansion or contraction in the oil and gas sector is felt by the state’s industry suppliers, households and state and local governments.

Oklahoma Active Rotary Rigs & Natural Gas Wellhead Price

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



Energy prices have played a pivotal role in the current economic cycle. Oil prices climbed steadily from approximately \$30 per barrel in 2003 to nearly \$140 in 2008, while natural gas prices climbed from around \$4 per mcf to above \$10 per mcf in the same period. Surging energy prices weighed heavily on the national economy but provided an offsetting boost to Oklahoma. Both crude oil and natural gas prices set all-time highs in the summer of 2008.

Since peaking in 2008, crude oil prices have dropped to below \$40 per barrel before recovering and stabilizing at around \$70 per barrel, while natural gas prices experienced a sharp and sustained drop to near \$3 per mcf. This reversal in energy prices underlies the weak performance of Oklahoma relative to other 'non-energy' states since early 2009.

The strength in oil prices is providing support to the industry and will partly offset continued low natural gas prices. However, an extended period of weakness in natural gas prices could be a substantial drag to economic recovery in Oklahoma.