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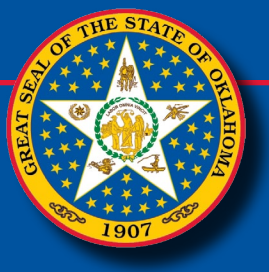

Oklahoma Economic Report™

State Treasurer Randy McDaniel

News and analysis of Oklahoma's economy • A publication of the State Treasurer's Office

Projections: Economic standstill in 2020

"Never spend your money before you've earned it," – Thomas Jefferson

While it is not yet collected or spent, state government officials must forecast estimated revenues well into the future. The use of economic projections is both a science and an art form.

When the myriad of charts, graphs, and data points are distilled, predicting revenue to be collected during the following year is an educated guess – a carefully crafted and considered effort – but an estimation nonetheless.

> ***"Economic projections are both a science and an art form."***

A formal process for state budget forecasting was ensconced in the Oklahoma Constitution following the oil bust of the 1980s. The total estimate of collections certified each year by the State Board of Equalization has been predominately accurate over the past 35 years.

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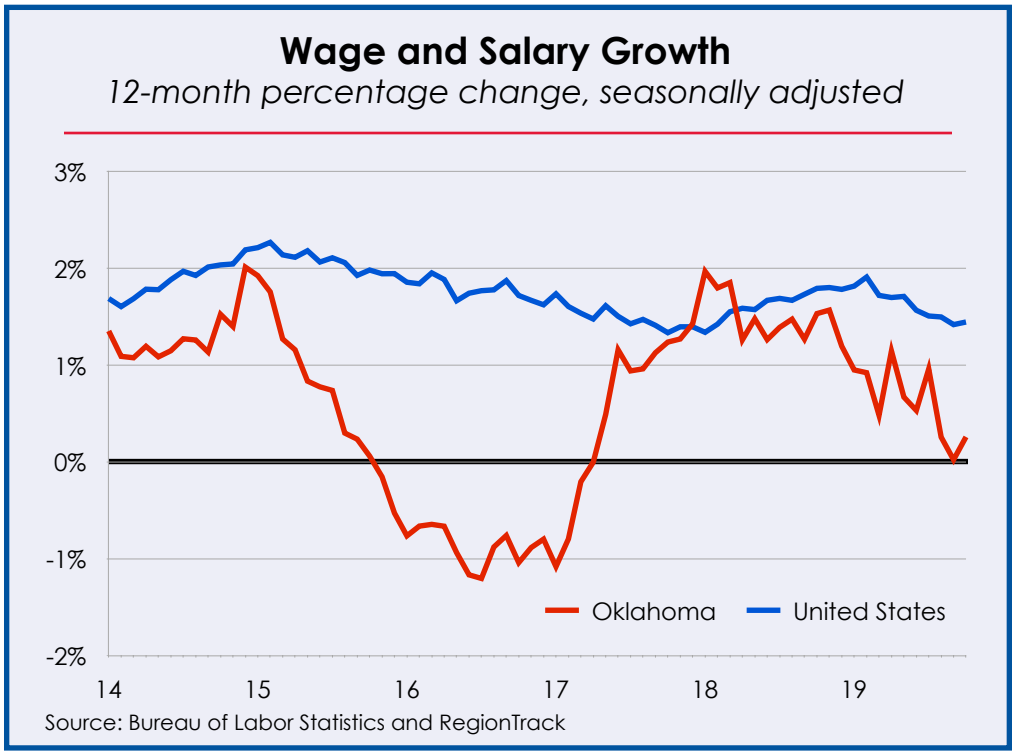
Tim Allen, Deputy Treasurer for Communications and Program Administration



Guest Commentary

By Greg Treat,
Senate President Pro Tempore

Perspective on the session: Clear-eyed focus on success

There's plenty of opportunities for Oklahoma's growth and success as we enter a new year and a new decade. One of the issues of great importance in 2020 is something not pending before the state Legislature.

The 2020 Census has a huge impact on Oklahoma and it's important we do all we can to get a full count. Obviously, federal funds are distributed based on the results of the census.

It is estimated every person not counted in the Census costs the state approximately $1,800 per year in lost federal funding. An undercount of just 2 percent could cost the state up to $1.8 billion over a decade. But census data also drives decisions of businesses looking to relocate or enter new markets.

The Oklahoma Senate has set up its own committee to encourage census participation. Senate Democrats and Republicans have joined in the effort. A lot is riding on this census, and each of us needs to do our part to ensure a full count this census.

> ***"In the next session, expect to see more agencies come under the governance model established in 2019 that gives the governor and Legislature more oversight authority."***

In the next Legislative session, the Oklahoma Senate will capitalize on the successes of 2019 to keep our state's momentum heading in a positive direction.

It cannot be overstated the importance of establishing a financial oversight office that serves only the Legislature. Before the creation of the Legislative Office of Fiscal Transparency, the Legislature depended mostly on executive branch agencies for data on the outcomes of state programs. That's not the best model of accountability.

LOFT will provide the Legislature with more information that will guide our decision making as we set spending priorities and write the budget. For 2020, we'll make sure LOFT continues down a successful path and gets off the ground running.

In the next session, expect to see more agencies come under the governance model established in 2019 that gives the governor and Legislature more oversight authority. The Legislature's move to grant the governor more appointment authority of the directors of top agencies brings more accountability to the system. It also empowers whomever sits in the governor's office the chance to truly act as the state's "chief executive" and install a team to carry out his or her vision.

SEE TREAT PAGE 3

Treat

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Senate confirmation of agency heads and Senate and House appointees on governing boards serves as a proper check and balance.

We remain cautiously optimistic about the budget for 2020. Some economic factors bear close watching such as the prices of oil and gas; however, the performance of the service sector is a bright spot especially when considered with moves made in recent years to strengthen our position to weather the cyclical nature of commodities. We will continue to monitor economic conditions and plan accordingly as the Fiscal year 2021 budget comes into shape.

There are other high-profile issues such as pension COLAs, health care, and criminal justice reform. Senate Republicans plan to lead with clear-eyed focus on making decisions that keep Oklahoma's momentum moving toward our destination of becoming a Top 10 state.

Projections

FROM PAGE 1

The equalization board's preliminary estimate, made in December each year, is used by the governor to craft a proposed budget. The final estimate certified in February is used by the Legislature to write the budget. Appropriations are limited to 95 percent of the estimate to allow for variances in actual collections.

The infrequent times when estimates have been too high have occurred when downward inflections in economic activity were experienced during a fiscal year. Inflection points have proven to be extremely difficult to predict with any degree of certainty.

When official estimates have been too low – when revenue collections have exceeded 100 percent of the predictions – the Constitutional Reserve Fund (CRF), or rainy day fund, has received critical deposits. In fact, the only way the CRF receives new money is when predictions are conservative.

This year's budget

The equalization board met on December 20 and certified a preliminary estimate for FY-21. The estimate of $8.34 billion is virtually flat from the current FY-20. It is up by $9.4 million, or 0.1 percent.

The board is scheduled to meet again on February 18 to consider the final estimate for FY-21.

The economic outlook

In determining the amount of estimated revenue for the board to consider at its December meeting, a number of economic projections were taken into account. Among them is the Oklahoma Economic Outlook prepared by RegionTrack, headed by local economist Mark Snead.

The report credits monetary policy decisions that led to three rate cuts during 2019 as possibly forestalling a national recession. Trade uncertainty, Snead says, remains troubling, but he anticipates only minimal economic impact.

Data in the report clearly show the large influence of the oil and gas sector on the state's overall economy.

The headline of the report Snead prepared to assist the December estimate is entitled, "State Economy Stalls Along with Oil and Gas Slowdown."

In brief, Snead reports, "The state expansion lost further momentum in the second half of 2019. Under current energy price forecasts, our outlook calls for continued weak job growth through the first half of 2020 followed by a subdued recovery in 2021."

Snead credits the pullback in oil and

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Projections

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gas drilling activity, ongoing for the past year, as the primary dampener on overall job growth in the state. The chart on page 1 shows that while job growth has slowed nationally, the slowdown is more pronounced in Oklahoma.

The report states job losses in Oklahoma have thus far been confined to the energy and manufacturing sectors and have not spread into the service-providing sectors.

In his forecast, Snead anticipates oil and gas drilling activity will likely begin to recover during the first half of the current calendar year.

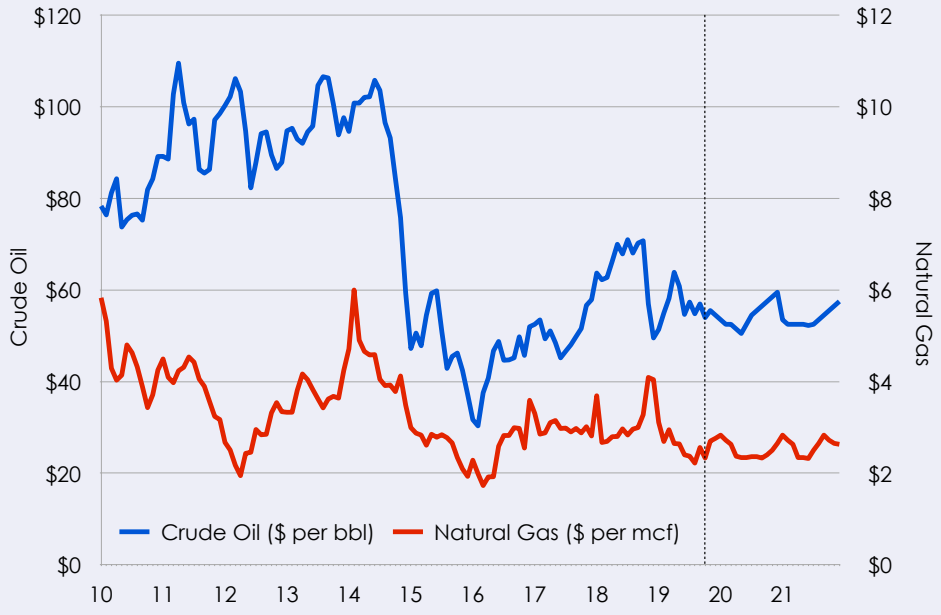
The report further states, "Despite the severity of the pullback, we do not believe the state rig count will fall substantially below 50 even if crude prices fall below $50 per barrel. It would simply extend the time frame over which drillers operate only about 50 or so rigs."

In the past 12 weeks, Baker Hughes reports state rig counts have ranged from 50 to 53, with all but four to six drilling for oil. West Texas Intermediate crude oil has hovered just below $60 per barrel.

The graph below shows oil and gas prices are expected to remain relatively flat. Snead predicts job growth will be virtually unchanged this year. Fortunately, he expects a slight rebound in 2021.

Crude Oil and Natural Gas Price Forecast

West Texas Intermediate Crude and Henry Hub natural gas



Source: U.S. Energy Information Administration (EIA) and RegionTrack

Spotlight on Financial Literacy

How financial literacy helps you in your daily life

The way we buy things nowadays has changed in the past years. If 50 years ago you could buy food or clothes only with cash, now you have a lot of other options. You can have multiple bank and credit cards to use when online shopping.

But having access to so many financial resources can be the cause of a lot of debts. Financial literacy is sometimes still a taboo topic and youngsters are not taught how to manage their finances. Therefore, they are kept away from key financial information and they need to learn by themselves.

Financial literacy is an important topic that should be openly discussed and that is highly important for a balanced life.

Financial literacy refers to the knowledge about how to manage your money. This includes information about how to earn and save money. Or, how to invest or pay taxes.

By knowing all these details, you would be able to make informed decisions about your future. Money may or may be not bring happiness, but they surely bring comfort and the possibility of choice.

Learn more at ValueWalk.

December Gross Receipts to the Treasury & General Revenue compared

December Gross Receipts to the Treasury totaled $1.16 billion, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received $631.8 million, or 54.3%, of the total.

The GRF received between 39.7% and 59% of monthly gross receipts during the past 12 months.

From December gross receipts, the GRF received:

- Individual income tax: 77.2%
- Corporate income tax: 58.9%
- Sales tax: 45.1%
- Use tax: 44%
- Gross production-Gas: 74.5%
- Gross production-Oil: 72.6%
- Motor vehicle tax: 4.7%
- Other sources: 43.1%

December GRF allocations were below the estimate by 1.4%.

December insurance premium taxes totaled $60.5 million, a decrease of $759,342, or 1.2%, from the prior year.

Tribal gaming fees generated $11.8 million during the month, down by $309,828, or 2.6%, from December 2018.

2019 Gross Receipts show slowing state economy

Oklahoma Gross Receipts to the Treasury for calendar year 2019 paint the picture of a sound, but slowing state economy, State Treasurer Randy McDaniel announced.

Gross receipts during all of 2019 are 5.7 percent more than during 2018. That growth rate is down from 13.2 percent in 2018 compared to 2017.

McDaniel said the slowdown becomes more pronounced when viewed on a quarterly basis. Growth in collections during the first two quarters of 2019 reflected expansion of almost 10 percent. Third quarter growth fell to 4.2 percent, while fourth quarter receipts contracted by 0.5 percent when compared to the fourth quarter of 2018.

> ***"We are seeing both a direct and spillover effect on some tax collections due to suppressed energy prices."***

"Recent economic trends appear to be primarily related to low oil and gas prices," McDaniel said. "We are seeing both a direct and spillover

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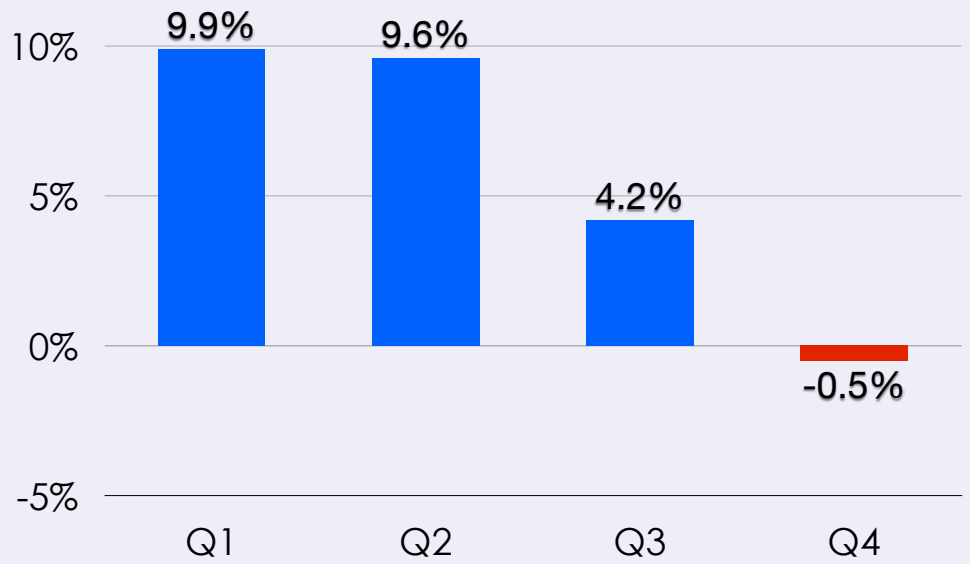
2019 Quarterly Growth Compared to Prior Year



Source: Oklahoma State Treasurer

Revenue

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effect on some tax collections due to suppressed energy prices."

Tax collections on oil and gas production have been significantly below the prior year for four consecutive months. Sales tax receipts have shown contraction for six of the past seven months. In December, use tax collections on out-of-state purchases dropped below those of the prior year for the first time in more than three years.

Tax records show the downturn in sales and use taxes are reflecting the spillover effect of reduced oil field activity due to a drop off in the buying of drilling equipment and related purchases. Drilling activity has plunged by more than 60 percent in the past year. Natural gas prices are down by almost 30 percent and oil prices are off by almost 25 percent since this time last year.

Business conditions

The Oklahoma Business Conditions Index for December rose slightly to 48.4 compared to 47.8 in November. Numbers less than 50 are considered below growth neutral. The index has been below 50 four times in the past five months, indicating expected economic slowing through the middle of 2020.

December collections

December gross collections total $1.16 billion, up by $19.7 million, or 1.7 percent, from December 2018.

Gross income tax collections, a combination of individual and corporate income taxes, generated $428 million, an increase of $77.7 million, or 22.2 percent, from the previous December.

Individual income tax collections for the month are $318.8 million, up by $25.3 million, or 8.6 percent, from the prior year. Corporate collections are $109.2 million, an increase of $52.4 million, or 92.3 percent. Wide monthly variances are not unusual for corporate income tax collections.

Combined sales and use tax collections, including remittances on behalf of cities and counties, total $468.5 million in December. That is $26.8 million, or 5.4 percent, less than December 2018.

Sales tax collections in December total $407.3 million, a drop of $20.9 million, or 4.9 percent from the same month of the prior year. Use tax receipts, collected on out-of-state purchases including online sales, generated $61.3 million, a decrease of $5.9 million, or 8.8 percent, over the year.

Gross production taxes on oil and natural gas generated $74.3 million in December, a decrease of $44.1 million, or 37.3 percent, from last December. Compared to November 2019 reports, gross production collections are down by $7.9 million, or 9.7 percent.

Motor vehicle taxes produced $70 million, up by $8.6 million, or 14 percent, from the same month of 2018.

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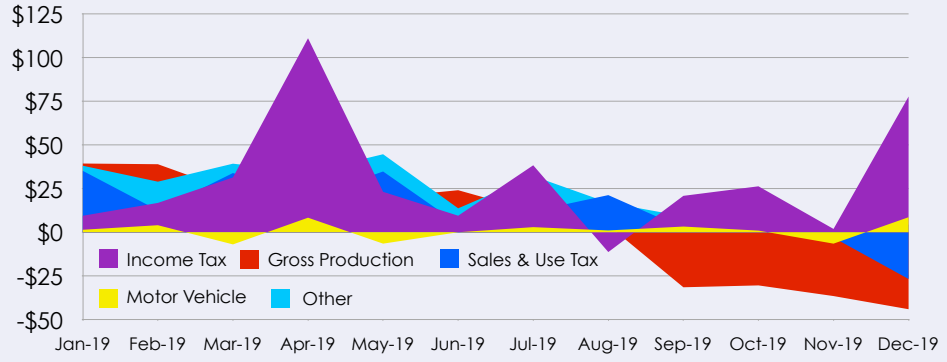
Monthly Gross Receipts vs. Prior Year



(In $ millions)	December-18	December-19	Variance From Prior Year	
Total Income Tax	**350.4**	**428.0**	**77.7**	**22.2%**
Individual	*293.6*	*318.8*	*25.3*	*8.6%*
Corporate	*56.8*	*109.2*	*52.4*	*92.3%*
Sales & Use Tax (1)	**495.4**	**468.5**	**(26.8)**	**-5.4%**
Sales Tax	*428.2*	*407.3*	*(20.9)*	*-4.9%*
Use Tax	*67.2*	*61.3*	*(5.9)*	*-8.8%*
Gross Production	**118.4**	**74.3**	**(44.1)**	**-37.3%**
Motor Vehicle	**61.4**	**70.0**	**8.6**	**14.0%**
Other Sources (2)	**119.5**	**123.8**	**4.3**	**3.6%**
TOTAL REVENUE	**1,144.9**	**1,164.6**	**19.7**	**1.7%**

Dollar change (in millions) from prior year

Source: Office of the State Treasurer

Revenue

FROM PAGE 6

Other collections composed of some 60 different sources including taxes on fuel, tobacco, medical marijuana, and alcoholic beverages, produced $123.8 million during the month. That is $4.3 million, or 3.6 percent, more than last December.

Calendar year 2019 collections

Gross revenue totals $13.71 billion from calendar year 2019. That is $743.9 million, or 5.7 percent, above collections from calendar year 2018.

Gross income taxes generated $4.75 billion for the year, reflecting an increase of $354.7 million, or 8.1 percent, from the prior year.

Individual income tax collections total $4.18 billion, up by $281 million, or 7.2 percent, from the prior year. Corporate collections are $573.5 million for the period, an increase of $73.7 million, or 14.8 percent, over the previous calendar year.

Combined sales and use taxes for the year generated $5.58 billion, an increase of $149.6 million, or 2.8 percent, from the prior year.

Gross sales tax receipts total $4.87 billion, up by $27.3 million, or 0.6 percent, during the year. Use tax collections generated $715 million, an increase of $122.2 million, or 20.6 percent, over the previous year.

Oil and gas gross production tax collections brought in $1.03 billion during the calendar year, up by $38 million, or 3.8 percent, from the previous year.

Motor vehicle collections total $794.5 million for the year. This is an increase of $10.2 million, or 1.3 percent, from the trailing year.

Other sources generated $1.56 billion, up by $191.4 million, or 14 percent, from the previous year.

About Gross Receipts to the Treasury

The Office of the State Treasurer developed the monthly Gross Receipts to the Treasury report in order to provide a timely and broad view of the state's economy.

It is released in conjunction with the General Revenue Fund report from the Office of Management and Enterprise Services, which provides information to state agencies for budgetary planning purposes.

The General Revenue Fund, the state's main operating account, receives less than half of the state's gross receipts with the remainder paid in rebates and refunds, remitted to cities and counties, and apportioned to other state funds.

Learn more

Visit: http://go.usa.gov/xptD3

Oklahoma jobless rate rises in November

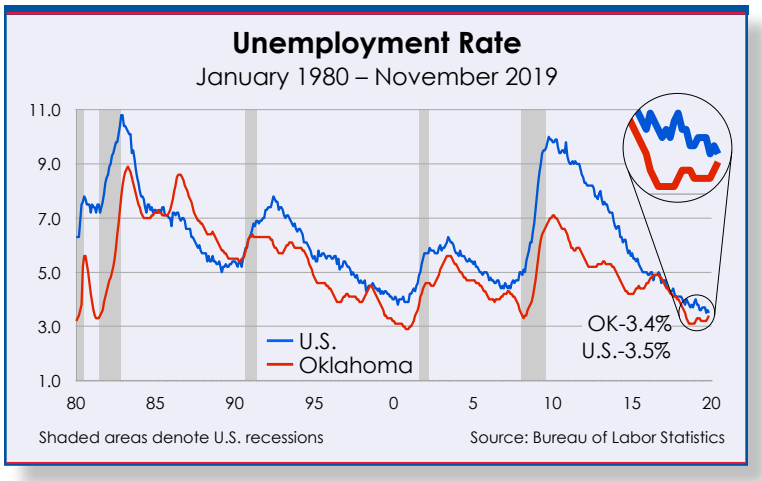
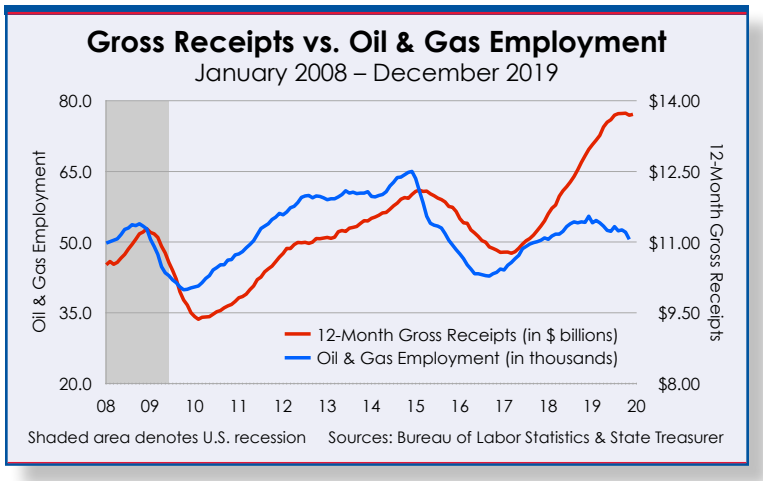
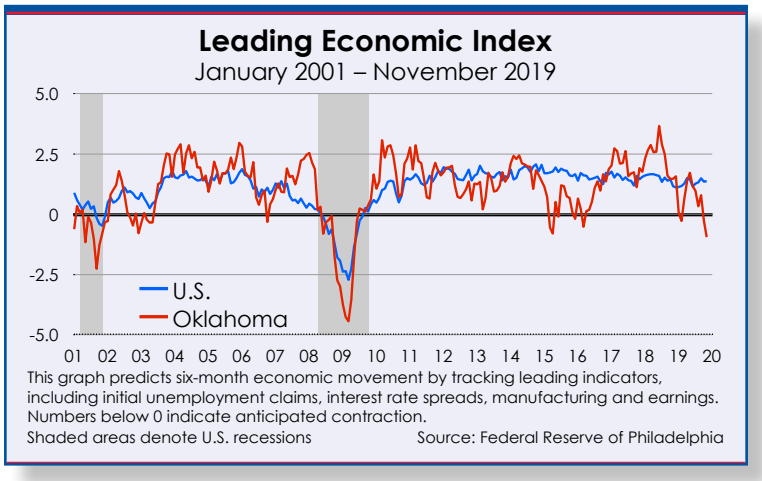
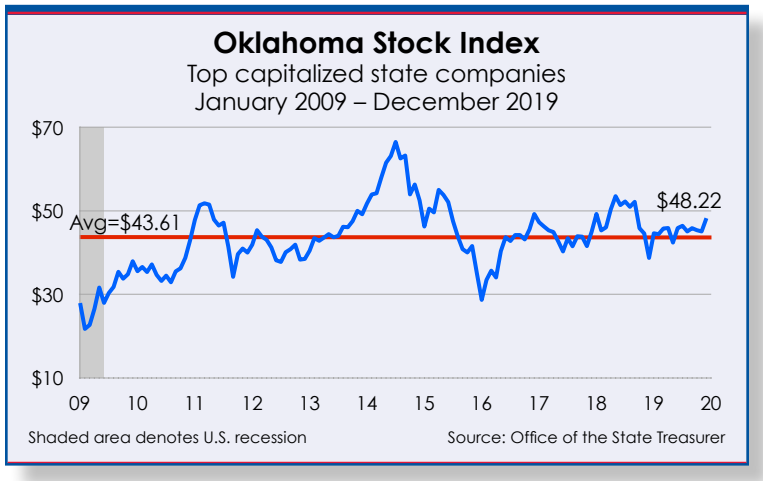
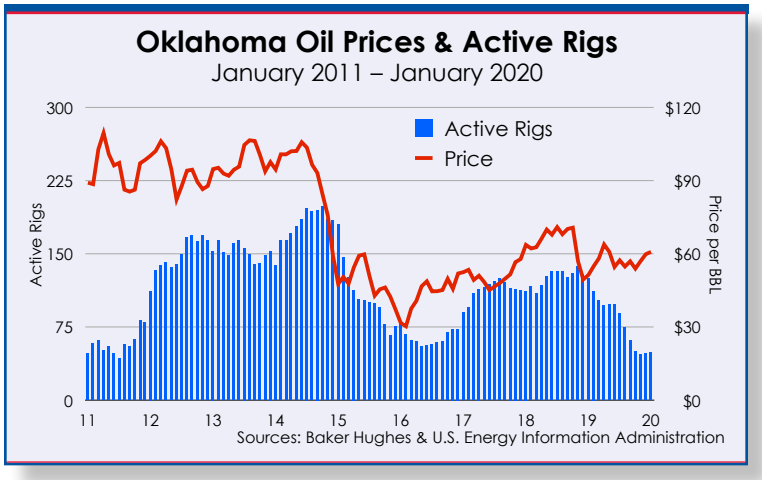
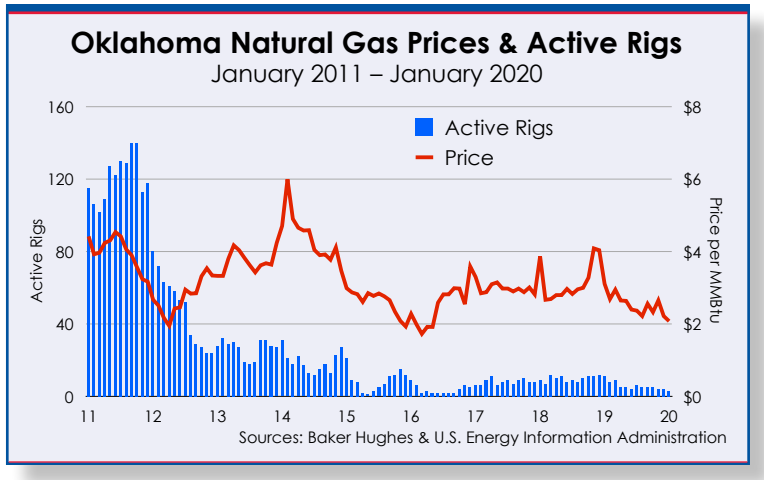
Oklahoma Unemployment Report
November 2019

November 2019	Unemp. rate*	Labor force*	Employment*	Unemployment*
Oklahoma	**3.4%**	**1,851,204**	**1,788,591**	**62,613**
United States	3.5%	164,404,000	158,593,000	5,811,000
OKLAHOMA Oct '19	3.3%	1,853,492	1,792,698	60,794
Sept '19	3.2%	1,850,818	1,791,227	59,591
Aug '19	3.2%	1,845,520	1,786,542	58,978
July '19	3.2%	1,838,330	1,779,808	58,522
June '19	3.2%	1,831,640	1,773,363	58,277
Nov '18	3.1%	1,836,984	1,779,700	57,284

* Data adjusted for seasonal factors

Source: OESC

The seasonally adjusted jobless rate for Oklahoma increased to 3.4 percent in November, one-tenth of a percentage point above October's rate. The U.S. unemployment rate dropped to 3.5 percent in November, down from 3.6 percent in October, according to figures released by the Oklahoma Employment Security Commission.

Since November 2018, the Oklahoma jobless rate has risen by three-tens of a percentage point and the number of those listed as unemployed has risen by 5,329.

Economic Indicators