



Oklahoma Economic Report™

News and analysis of Oklahoma's economy

A publication of the Office of the State Treasurer • Treasurer Ken Miller, Ph.D.

Data confirms Oklahoma recession

Oklahoma entered a recession more than a year ago, according to state gross domestic product (GDP) data released this month by the federal Bureau of Economic Analysis (BEA).

Recessions are commonly defined as two consecutive quarters of economic contraction, and the BEA report of June 14 shows Oklahoma experienced negative growth for three consecutive quarters beginning with second quarter of 2015 and continuing through the end of the calendar year.

Whether that trend continued into first

quarter of 2016 will be revealed on July 27, when the BEA is scheduled to release new figures on state GDP.

Knowledge of onset of this latest recession was delayed for one quarter because Oklahoma's third quarter GDP was preliminarily listed as growing by 0.1 percent. The third quarter number was revised downward to -0.6 percent in the latest release.

Near the bottom

Oklahoma's fourth quarter GDP change of -2.8 percent ranks 48th of the 50

states, above only Iowa, at -2.9 percent, and Wyoming, at -3.4 percent.

The fastest growing states during the same time period were Indiana, at 3 percent, Ohio, at 2.9 percent, and Colorado and Utah, both at 2.8 percent.

GDP increased in 41 states and the District of Columbia during the fourth quarter. Industries contributing to overall growth across the states were information, construction and professional, scientific and technical services.

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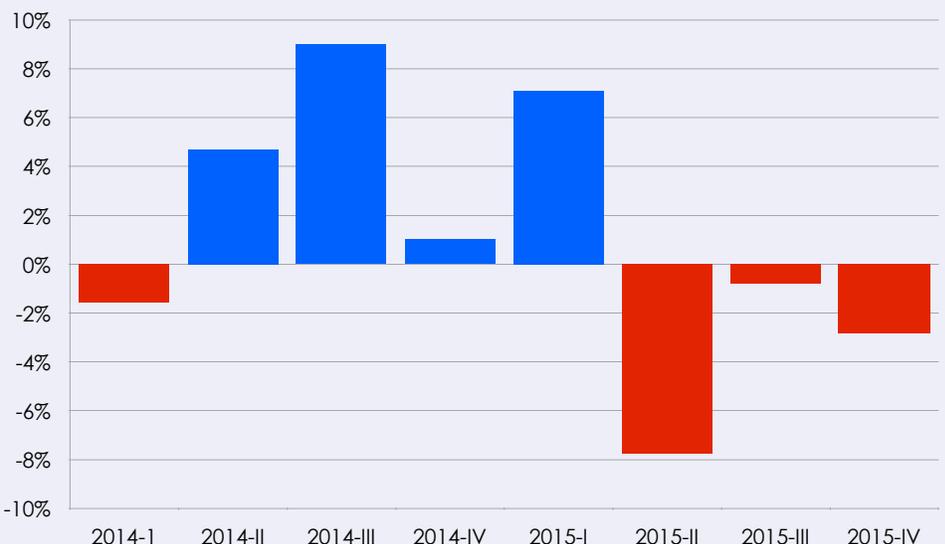
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Editor

Tim Allen, Deputy Treasurer for Communications and Program Administration

Oklahoma Quarterly GDP Growth/Contraction 2014-2015



Source: Bureau of Economic Analysis



Treasurer's Commentary

By Ken Miller, Ph.D.

Don't derail TSET

Well, that didn't take long. Just days following the failed rollout of a new chief executive officer by the Oklahoma Tobacco Settlement board of directors, a legislator penned an op-ed making the case for the Legislature to take control of the billion dollar endowment. I like and respect the legislator, but we disagree on this issue.

While legislative bodies have a reputation for seeking funds not under their authority, the state's current revenue problem makes this especially true no matter how short-sighted the takeover may be. Remember the recent idea to fund a teacher pay raise from the chronically-underfunded teacher's retirement system?

So, it is no surprise there are those in the Legislature looking for an excuse to raid the TSET fund. But, because of the constitutional protections, the only way that could happen would be for the board to lose the public trust.

Unfortunately, the salary debacle provided that opportunity, the candidate's exemplary qualifications notwithstanding.

In making his case, the legislator wrote, "We believe TSET

is misspending money, in a philosophical sense. Now that TSET is in the public spotlight for its proposal to pay someone \$250,000 to oversee the agency, we think it's time to call for increased legislative scrutiny."

He contends "the board that oversees TSET's spending has too often used its monies for questionably defined positive health outcomes other than smoking cessation."

“The mission of TSET is too important to have it derailed by this misstep.”

All ironies aside, TSET was never intended to just combat smoking. In fact, its first constitutional directive is "clinical and basic research and treatment efforts to prevent and combat cancer and other tobacco-related diseases."

While many are familiar with the anti-smoking television campaign, few are familiar with the tens of millions spent on medical research and clinical trials at the Stephenson Cancer Center and the Oklahoma



Center for Adult Stem Cell Research. Fewer still are aware of the millions going toward the critical shortage of physicians in rural Oklahoma.

Each of these initiatives is vital to our citizens' quality of life, yet each point to areas where legislative funding has fallen short.

TSET doesn't have a perfect score on its spending decisions, but neither does the Legislature.

In his opinion piece, the legislator makes a contradictory argument by acknowledging "Oklahoma wisely established a trust, rather than use the money for state appropriations" but then suggests TSET money would be better spent on Medicaid, which relies on appropriations.

Granted, Oklahoma has a recurring revenue problem, but the Legislature had an opportunity last session to shore up Medicaid funding when it

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Commentary

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voted down the cigarette tax bill that would have done so. The measure would have also curtailed smoking.

As TSET’s history suggests, its spending priorities can evolve with input from the Legislature, but that doesn’t require a state question.

Though I disagree with this legislator’s suggestion to change the

state constitution, it does not excuse errors in judgment by the TSET board of directors.

It is beneficial that members of the board are not politicians. Yet they operate in the realm of politics where perception is reality.

I trust the board has now recognized this reality and will take the opportunity to put the executive search back on track, establish a

more reasonable public service salary in line with the agency’s size and responsibilities, and restore the public’s confidence in this critical program.

The mission of TSET is too important to have it derailed by this misstep.

Miller chairs the TSET Board of Investors, a separate panel that directs investment of the endowment.

Recession

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Energy downturn

Not surprisingly, low crude oil prices are the primary driver of the Oklahoma recession. Nationally, the mining and logging supersector, of which oil and gas are a part, shrank by 0.17 percent during the fourth quarter, but it stripped 2.5 percent from Oklahoma’s GDP during the same time period.

General indicators fail to point to any marked economic recovery at this point.

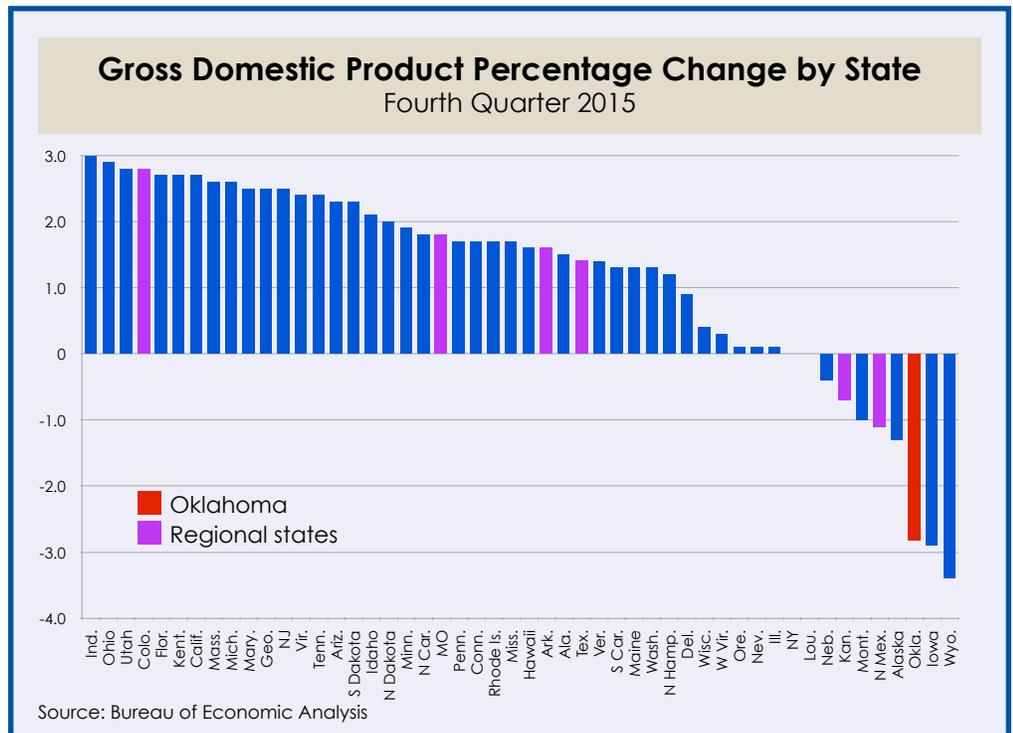
Benchmark West Texas Intermediate crude oil peaked at \$105.79 per barrel in June 2014, hit a trough of \$30.32 in February 2016, and ticked up slightly to an average of \$48.77 this month.

Mining and logging supersector employment in Oklahoma has also fallen steeply, but has yet to follow the moderate upward trend of oil prices.

Federal Reserve Economic Data lists employment in the supersector peaking

at 64,500 in December 2014 and

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Recession

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steadily falling by 20,500 jobs to 44,000 in April 2016 – down by almost 32 percent.

After staying below the national unemployment rate for almost 13 years, figures from the Oklahoma Employment

Security Commission show the state’s jobless rate has risen to match the U.S. rate of 4.7 percent in May.

Several Oklahoma-based energy companies have filed for bankruptcy protection since the first of the year. Revenue projections for the state budget

for the fiscal year beginning July 1 anticipate continued subdued economic activity.

The BEA lists Oklahoma’s GDP for fourth quarter 2015 at \$176.8 billion, accounting for 1 percent of the total U.S. GDP.

Year-to-date FY-16 General Revenue trails estimate by 9.1%

Eleven months into the 2016 fiscal year, the Oklahoma General Revenue Fund (GRF) is trailing estimated collections by 9.1 percent, or \$471.1 million, according to the Office of Management and Enterprise Services (OMES).

The obvious driver of the downturn is lower-than expected oil and natural gas prices, which, in turn, have caused a spillover effect on other revenue

streams, primarily sales and motor vehicle taxes.

At the end of May, allocations to the GRF from taxes on the production of crude oil and natural gas are below the estimate by 67.8 percent, or \$185.9 million.

The largest monetary gap between allocations and the estimate is with the

sales tax, off by \$217.2 million, or 11.1 percent.

Motor vehicle collections are below the estimate through May by 13.3 percent, or \$28.6 million.

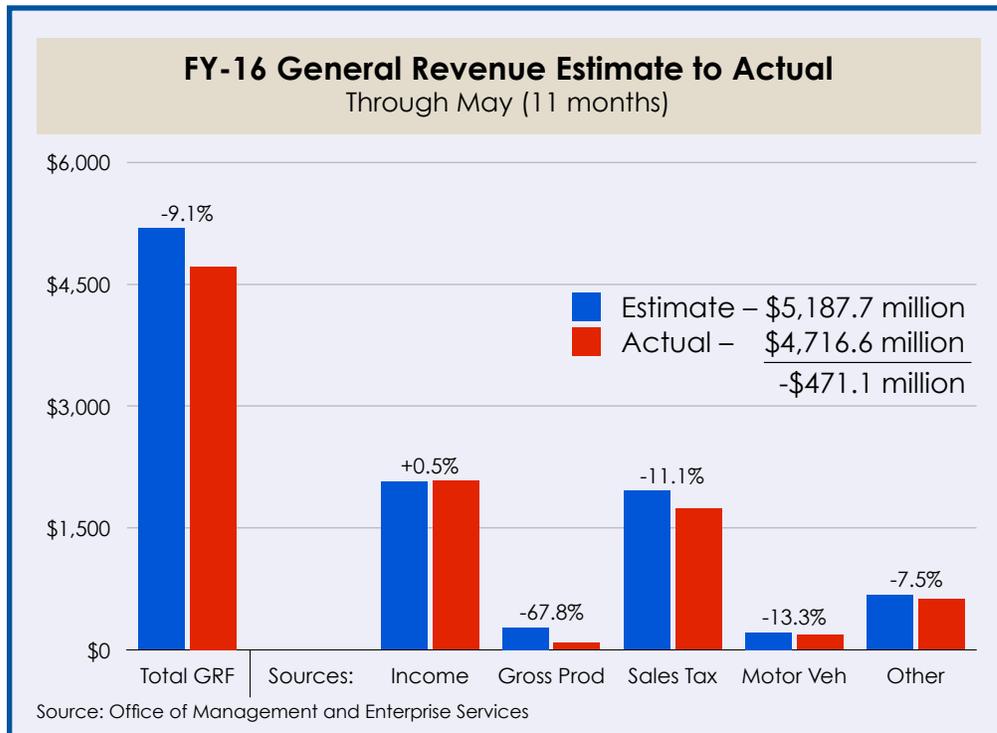
Only net income tax allocations, a combination of individual and corporate income taxes, are above the estimate by a slim \$11 million, or 0.5 percent.

Other sources are below the estimate year-to-date by \$50.5 million, or 7.5 percent.

Revenue failure was declared by OMES at the midpoint of the fiscal year and across-the-board cuts to appropriated agencies have been reduced by an annual rate of 7 percent.

Most state agencies have been given additional reductions for the upcoming fiscal year of about 5 percent – for a total reduction of just less than 12 percent compared to the beginning of FY-16.

Notable exceptions to the 12 percent cuts are the State Regents for Higher Education, reduced by 16 percent, and the Legislative Service Bureau, increased by 184 percent.





Gross Receipts & General Revenue compared

May Gross Receipts to the Treasury totalled \$782.5 million, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received \$377.2 million, or 48.2%, of the total.

The GRF received between 29.7% and 53.6% of monthly gross receipts during the past 12 months.

From May gross receipts, the GRF received:

- Personal income tax: 57.3%
- Corporate income tax: None
- Sales tax: 44.4%
- Gross production-Gas: 53.7%
- Gross production-Oil: 5.3%
- Motor vehicle tax: 26.7%
- Other sources: 60.3%

May GRF allocations are below the estimate by \$58 million, or 13.3%. Fiscal year-to-date collections are less than the estimate by \$471.1 million, or 9.1%.

May insurance premium taxes totalled \$3.83 million, an increase of \$181,274, or 5%, from the prior year.

Tribal gaming fees generated \$11.24 million during the month, up by \$448,287, or 4.2%, from last May.

May Gross Receipts to the Treasury reach six-year low

(June 6, 2016) Oklahoma’s monthly Gross Receipts to the Treasury report indicates continued contraction in the state economy as collections are the lowest May total in six years, State Treasurer Ken Miller announced.

All major revenue streams – income, sales, gross production, and motor vehicle taxes – are lower than the prior year. The monthly bottom line has been less than the same month of the prior year for 13 consecutive months.

“As a general indicator of economic activity in Oklahoma, the May Gross Receipts to the Treasury report contains

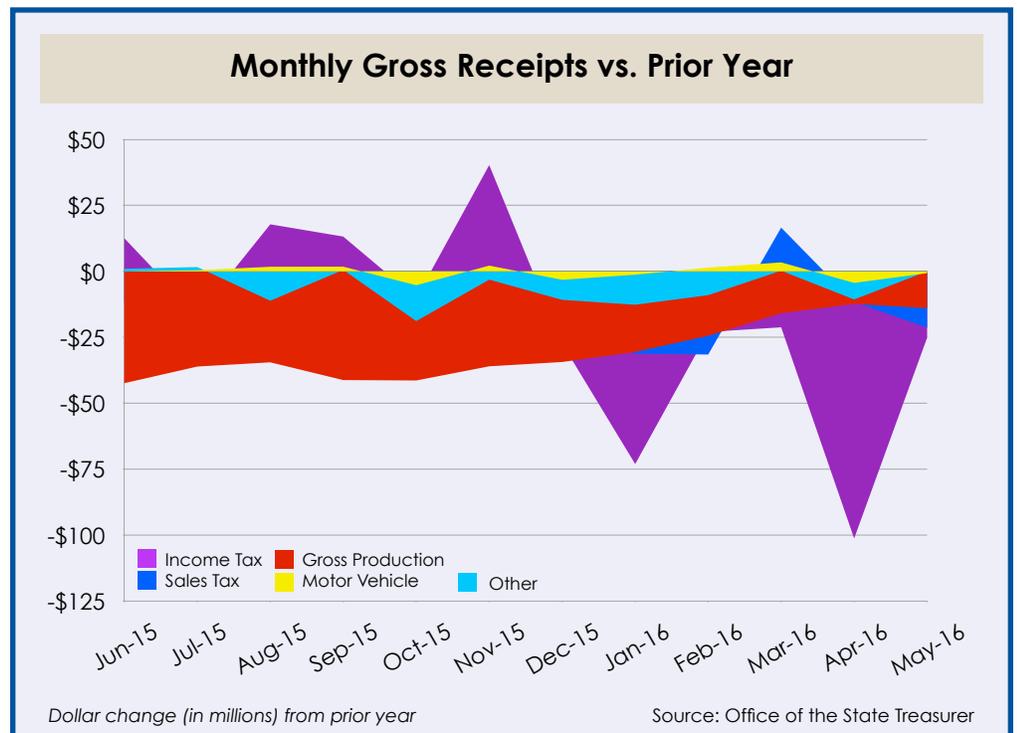
no surprises as the state deals with the ongoing spillover effects of the supply-driven energy industry downturn on income and consumption,” Miller said.

After hitting a 17-year low in April, oil and natural gas gross production collections rose slightly over the month, reflecting a modest rebound in crude oil prices.

However, May gross production tax payments are lower than payments of a year ago by almost 37 percent. This month’s receipts are based on oil prices in March, when the spot price of West Texas Intermediate crude oil was \$37.55 per barrel.

“The report contains no surprises as the state deals with the ongoing energy industry downturn.”

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Revenue

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Monthly gross income tax collections, a combination of individual and corporate income tax payments, are down more than 9 percent,

Sales tax collections are off by 6 percent and motor vehicle tax collections dipped by 1.2 percent.

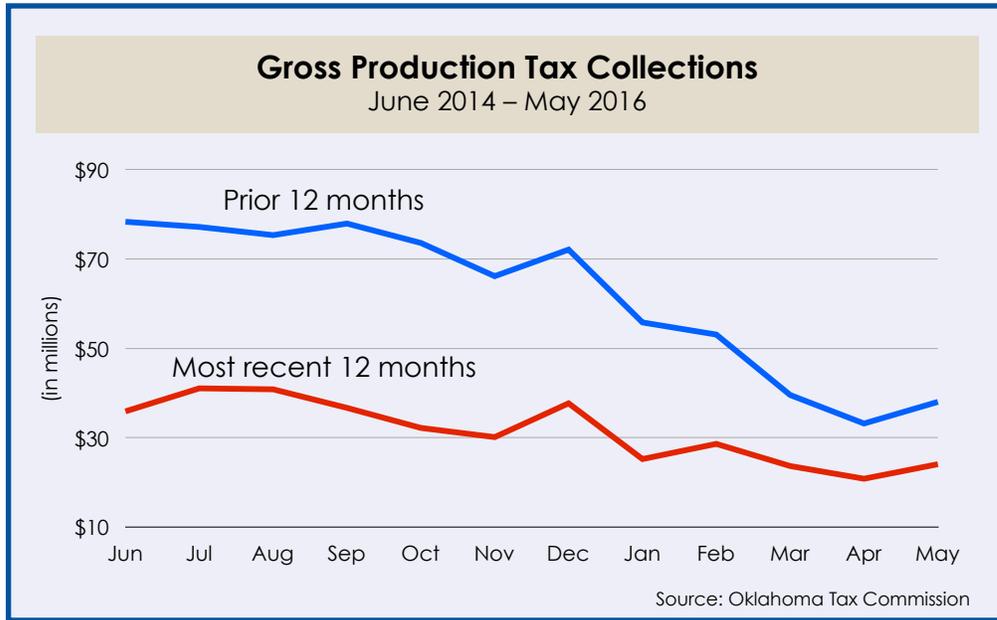
For a ninth consecutive month, 12-month Gross Receipts to the Treasury are lower than the prior 12-month period.

For the period ending in May, the 12-month total is down by almost 7 percent.

About Gross Receipts to the Treasury

Since March 2011, the Treasurer's Office has issued the monthly Gross Receipts to the Treasury report, which provides a timely and broad view of the state's macro economy.

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



State jobless rate rises to U.S. rate for first time since 2003

For the first time in almost 13 years, Oklahoma's seasonally-adjusted unemployment rate was the same as the national rate in May, when the state jobless rate rose to 4.7 percent, up by two-tenths of a percentage point from April, according to the Oklahoma Employment Security Commission (OESC).

The last time the two rates were the same was September 2003, when both were set at 5.7 percent. The monthly Oklahoma rate had been less than the national rate during the intervening time.

The number of Oklahomans employed shrank by 9,937 from April, while the

number of those without jobs increased by 2,625 during the month. Compared to May 2015, state employment increased

by 15,958, while unemployment jumped by 6,962 over the year. In May 2015, the state jobless rate was set at 4.4 percent.

OKLAHOMA	Unemp. rate*	Labor force*	Employment*	Unemployment*
May '16	4.7%	1,864,292	1,776,537	87,755
April '16	4.5%	1,871,604	1,786,474	85,130
Mar '16	4.4%	1,870,152	1,788,383	81,769
Feb '16	4.2%	1,862,135	1,784,329	77,806
Jan '16	4.1%	1,853,975	1,778,448	75,527
Dec '15	4.1%	1,847,602	1,771,229	76,373
May '15	4.4%	1,841,372	1,760,579	80,793

* Data adjusted for seasonal factors

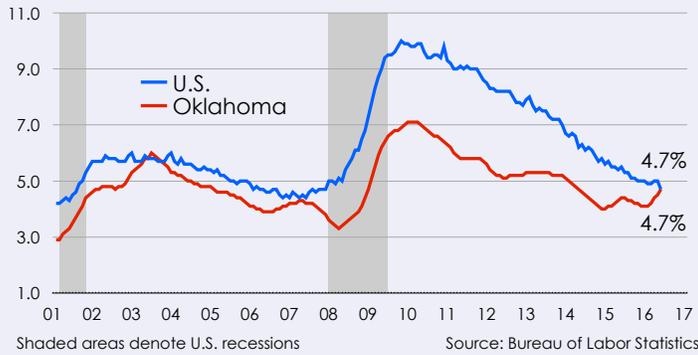
Source: OESC



Economic Indicators

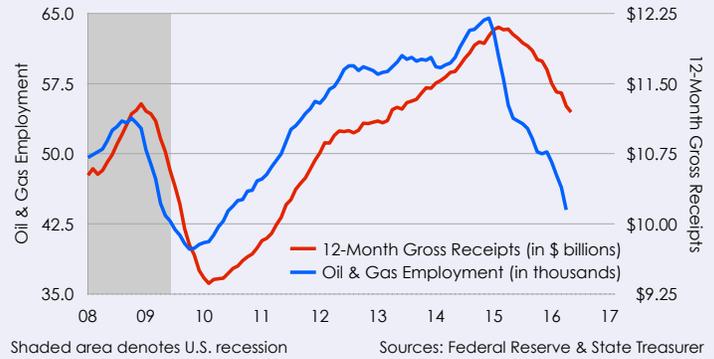
Unemployment Rate

January 2001 – May 2016



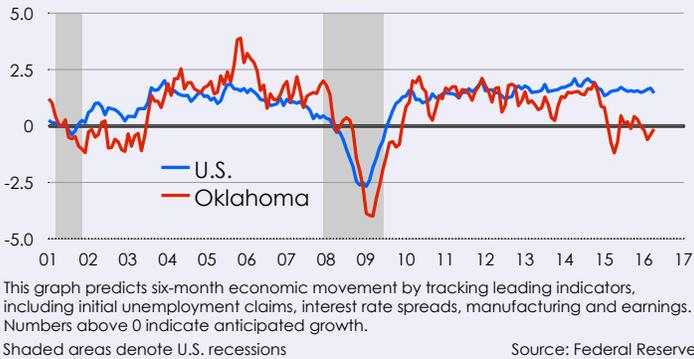
Gross Receipts vs. Oil & Gas Employment

January 2008 – May 2016



Leading Economic Index

January 2001 – April 2016



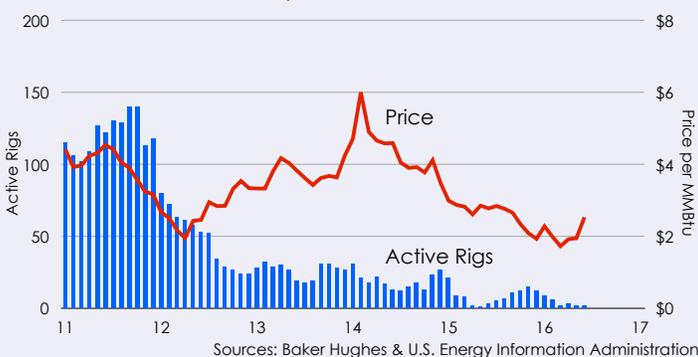
Oklahoma Stock Index

Top capitalized companies
January 2009 – June 2016



Oklahoma Natural Gas Prices & Active Rigs

January 2011 – June 2016



Oklahoma Oil Prices & Active Rigs

January 2011 – June 2016

