



Oklahoma Economic Report™

News and analysis of Oklahoma's economy

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

Growing Oklahoma

Agriculture boosts state's economy

At statehood, agriculture was Oklahoma's leading industry. More than a hundred years later, agriculture remains a vital contributor to Oklahoma's economic success, ranking second only to the oil and gas industry in total economic impact.

The number of Oklahomans producing agricultural products has shrunk, yet the demands for food are ever increasing.

Historically, farm population has been calculated by dividing the number

of farms into the state's population, although this underestimates the number of those living and working on farms. In 1920, Oklahoma's farm population was 50 percent. By 1950, it had been cut in half to just 25 percent. Today, Oklahoma's farm population stands at just 2.5 percent, but helps feed a world population of more than 7.1 billion.

Remarkably, this sliver of Oklahoma's population accounts for more than five percent of all beef produced in America

and has made Oklahoma one of the nation's top producing states for wheat, pork, chicken and pecans.

A 2008 economic impact study by OSU's Division of Agricultural Sciences & Natural Resources showed that Oklahoma's agriculture industry contributed more than 188,000 direct jobs, generated \$28 billion in economic output, and created \$8.5 billion in value-added activity for a total annual

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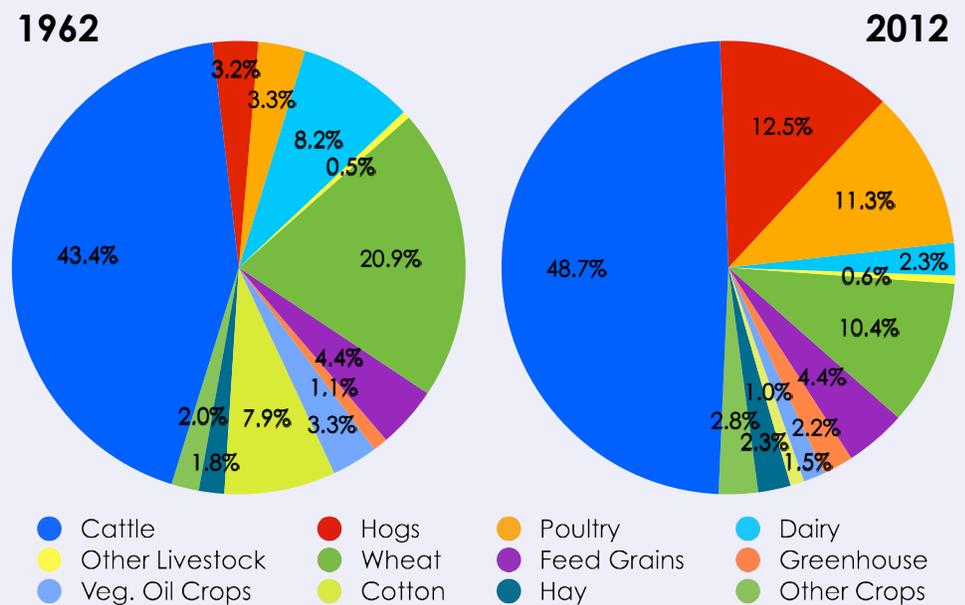
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Cash Receipts of Oklahoma Ag. Commodities



Source: U.S. Department of Agriculture



Congressman's Commentary

By U.S. Representative Frank Lucas,
Chair, House Agriculture Committee

Everyone has a stake in the farm bill

Our nation is fortunate to have a population of hard working men and women who produce for us an abundant food and fiber supply. This is accomplished despite adverse natural and economic conditions. For instance, Oklahoma has experienced consecutive years of record-breaking drought conditions.

Beyond the vagaries of weather, our farmers and ranchers have to cope with fluctuating input costs, market insecurities, and heavily subsidized foreign competitors. In the face of these challenges, our farmers and ranchers consistently deliver a stable and affordable food supply. The farm bill plays a major role in making this possible. This fact is often taken for granted, but more hinges on a successful farm bill than many people appreciate.

Sound farm policy ensures that farmers and ranchers, who are credited with driving the nation's economic recovery, have access to the necessary risk management tools. It helps conserve and improve the quality of the soil, water, air, wetlands, and wildlife by encouraging market-based incentives instead of

using the heavy hand of regulations that stifle economic growth. It fosters trade promotion with agriculture almost single-handedly contributing to our nation's balance of trade. Healthy forests, cutting edge research, and rural community infrastructure, such as water and waste facilities, are all initiatives addressed in the farm bill. In essence, the farm bill affects everyone.

“... it is our responsibility to cut costs and improve agricultural programs so that we can once again live within our means.”

In July, the U.S. House of Representatives passed H.R. 2642, the Federal Agriculture Reform and Risk Management (FARRM) Act of 2013. This is a reform-minded, fiscally responsible bill that saves taxpayers nearly \$20 billion



by repealing, consolidating, and reforming countless programs.

Reducing government spending and reforming federal programs are never easy tasks. We faced difficult choices, but it is our responsibility to cut costs and improve agricultural programs so that we can once again live within our means.

The FARRM Act includes numerous reforms to the commodity title. It recognizes the diversity of agriculture across the country by providing farmers with policy options based on the crop they grow and the region where they grow it.

The FARRM Act also makes historic changes to the conservation title. Instead of the piecemeal approach to conservation programs, the FARRM Act consolidates the current 23 programs to 13 to eliminate duplicative goals and improve program delivery for our producers.

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Lucas

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And finally, the FARRM Act's multiple regulatory relief provisions make it the largest regulatory relief measure to be voted on this year.

As I work with my colleagues in Washington on these policies, what I bear in mind are my fellow citizens across the country and my neighbors in Oklahoma.

Whether you live in the heart of our

nation's cities, suburbs, or one of the rural communities in Oklahoma, we share a common interest in an abundant, safe, and affordable food supply. No matter where you live, you have a stake in the farm bill.

Agriculture

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economic impact of more than \$36 billion in agriculture and related businesses.

The agriculture industry also contributes to Oklahoma's economy through its spending to support farm operations and production.

In 2011, the industry spent \$6.2 billion on items like feed, livestock, seed, fertilizer, fuel and contract labor. Taxes paid on farm property and vehicles totaled \$191.8 million in 2011.

The State Department of Commerce recently identified Agriculture and Biosciences as one of Oklahoma's four key industry ecosystems, defined as wealth-generating industries that offer the highest return on investment for Oklahoma's residents.

The industries, chosen after evaluation of several factors, including sales revenue, export share and growth potential, are considered by Commerce to collectively provide the backbone of Oklahoma's economy.

From field to store

While Oklahoma's agricultural producers now generate more than \$7 billion a year in raw agricultural product, processing those materials into other products generates far more economic activity.

One example used by the Robert M. Kerr Food & Agricultural Products Center is the wheat used to make a typical loaf of bread. In this scenario, the wheat

makes up less than 9 percent of the bread's retail value; the majority of the final retail is made up of milling, baking and other activities that ultimately bring the loaf to a grocery shelf.

The state commerce department reports Oklahoma's food manufacturing industry accounts for almost two percent of all state employment and includes more than 610 companies. Agricultural-related manufacturing goes beyond creating food products though; Oklahoma's fertilizer industry has an average economic output of \$2 billion.

Oklahoma's Secretary of Agriculture Jim Reese said, unlike areas of the economy that exchange revenue for services, agriculture brings new revenue to the state.

"What is significant is that agriculture is creating \$7 billion worth of value from our natural resources," he said. "Every year there are new crops, new animals, new produce."

Oklahoma's agriculture industry contributes to more than just its home state; the products are exported around the world.

According to the state Department of Agriculture, in Oklahoma one out of every nine export dollars is derived

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Agriculture

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from an agricultural product. In 2010, the USDA reported Oklahoma accounted for \$115.8 million of U.S. agricultural products that were exported internationally.

Agritourism

Not included in the economic impact figures are the contributions of the agritourism industry, which is poised for continued growth.

Farms offering the public a chance to pick their own produce are just one example of where agriculture and tourism have intersected to create new economic opportunities, but perhaps the most growth opportunity is in Oklahoma's burgeoning wine industry.

In 2012, the state Department of Agriculture hired an independent firm to determine the economic impact

of Oklahoma's wine industry. Frank, Rimerman and Co. LLP estimated the state's 64 wineries and more than 80 commercial grape growers contributed \$98.5 million to the economy, \$13 million of which came from wine-related tourist expenditures.

Future challenges

The world's population is expected to reach 9 billion by 2050, with 96 percent of the anticipated growth coming from outside of the United States. As the two most populous countries, China and India, become more urbanized and experience elevated income levels, consumption of meat, milk and eggs are expected to rise.

In 2009, Americans consumed 1,013 calories of meat per day, barely more than the 1,010 calories of meat consumption in 1961. In comparison, China consumed just 56 calories of

meat per day in 1961, but in 2009 that consumption had increased to 694 calories per day.

As the world's population expands, and the demand for safe, quality food with it, the greatest challenge facing the agriculture industry is how to meet those needs while contending with the volatility and unpredictability of variables like weather, availability of water, pests and invasive species, energy costs and government regulations.

Agriculture's challenges will most likely be met through increased use of technology. Already, better technology and data collection is helping to produce more efficient farming practices.

Smart phones and tablets are now used in the field, with specialized apps for managing agricultural factors. Currently under development in Ohio is a laser-guided pesticide sprayer system. And, the bioscience industry is continually working to help protect livestock from disease and produce crops that are more resistant to drought and pests, have greater nutritional value and higher yield.

In its report on Oklahoma's key business ecosystems, the state Department of Commerce said modern "AgBioscience" represents the state's most promising area for advancement.

Among the Oklahoma institutions the report deemed at the forefront of bioscientific research are the Samuel Roberts Noble Foundation and research facilities at the state's two largest public universities.

The report notes that momentum of the bioscience industry is being driven

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Oklahoma Agriculture Facts

- Oklahoma ranks **4th in the nation** for total number of farms (85,500)
- Oklahoma is **8th in the nation** for total number of acres in agricultural use (34.7 million)
- **Eighty (80) percent** of the state's land area is used for agriculture
- The agriculture industry directly contributes more than **188,000 jobs** to Oklahoma's economy
- Oklahoma's agriculture industry creates an annual economic impact of more than **\$36.5 billion**
- In Oklahoma, **one out of every nine** export dollars is a result of an agricultural product

Sources: Oklahoma Department of Agriculture, U.S. Department of Agriculture, National Agricultural Statistics Service



Agriculture

FROM PAGE 4

by the partnership between clinical researchers, academic institutions and the public and private sector.

Though the amount of land and people involved in Oklahoma’s agricultural production has declined tremendously over the past century, the industry’s output has risen and will continue to do

so as technology advances. While this demographic may be small in number, its impact is immense as it provides a critical food supply to the people of this state and to those across the globe.

Total gross production tax collections climb

Oklahoma’s total severance tax collections have exceeded prior year collections for four consecutive months, gross receipts to the treasury reports show. The numbers stand in contrast to allocations to the state’s General Revenue Fund because they include all payments from the gross production tax before repayments and allocations to other funds are made.

After dipping below collections from the same month of the prior year for 17 months in a row, the percentages turned positive in May 2013 and grew steadily

during the subsequent three months.

Analysis of the total extraction tax collections shows the receipts closely track price fluctuations as reported by the U.S. Energy Information Administration.

Since March 2011, the majority of gross production revenue paid to the state treasury has come from crude oil extraction. In fact, in only two months – March and October 2011 – did more than half of the collections derive from natural gas production remittances.

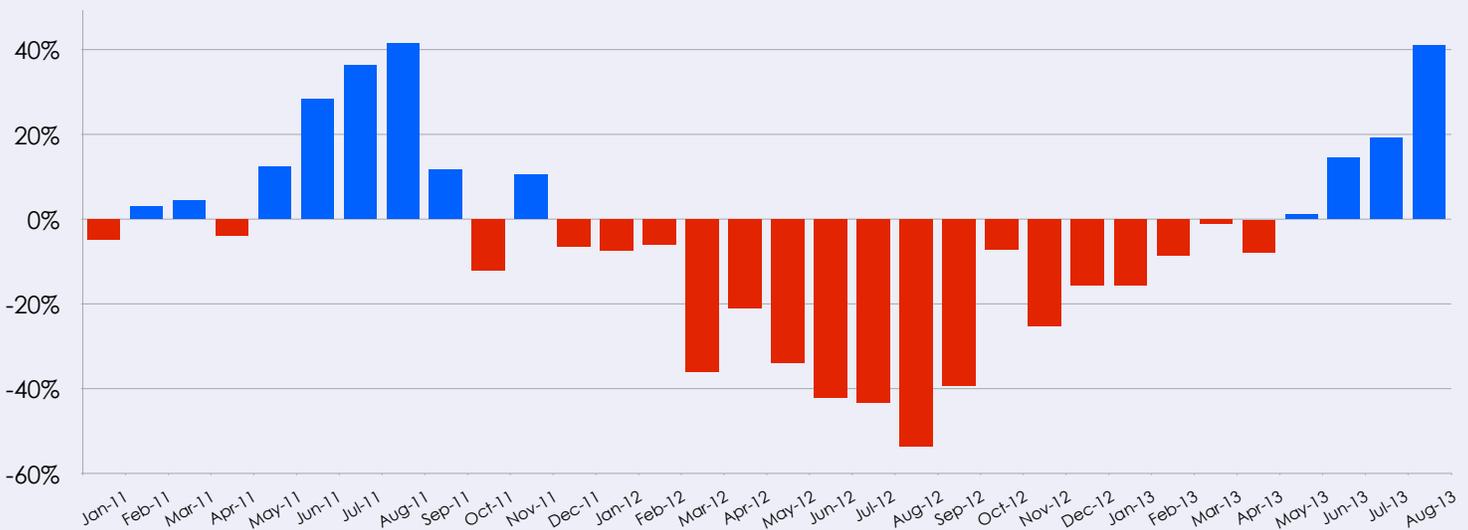
In the past 30 months, oil has provided, on average, 63 cents for each dollar paid in gross production taxes.

The percentage contributed from natural gas production has ranged from a high of 51.2 percent in October 2001 to a low of 26.2 percent in June 2012. The trough came when natural gas prices were at their lowest levels in several years.

In the most recent four months, oil production has provided double the revenue generated by natural gas production.

Total Gross Production Tax Collections

Percentage change from prior year



Source: Office of the State Treasurer



Gross receipts & General Revenue compared

The Treasurer's September 4 gross receipts to the treasury report and the Office of Management and Enterprise Services' September 10 General Revenue Fund (GRF) report contain several differences.

August gross receipts totaled \$836 million, while the GRF received \$347.6 million or 41.6 percent of the total.

The GRF received between 32.2 percent to 57.3 percent of gross collections during the past 12 months.

From August gross receipts, the GRF received:

- Personal income tax: 48.1%
- Corporate income tax: 0%
- Sales tax: 44.9%
- Gross production-Gas: 36.6%
- Gross production-Oil: 0%
- Motor vehicle tax: 25.7%
- Other sources: 46%

August GRF allocations missed the estimate by \$73.4 million or 17.4 percent. In July, collections topped the estimate by \$14.3 million or 3.6 percent.

For the month, insurance premium taxes totaled \$3.6 million.

Tribal gaming fees generated \$10.6 million during August.

Oil and gas collections boost August revenue

Due to a substantial increase in oil and gas gross production taxes in August, monthly revenue collections were pushed into positive territory compared to August of last year, State Treasurer Ken Miller announced as he released the monthly gross receipts to the treasury report.

exceed the prior year's numbers by more than 40 percent, Miller said.

“Oklahoma's economy, powered by the energy industry, continued to grow in August.”

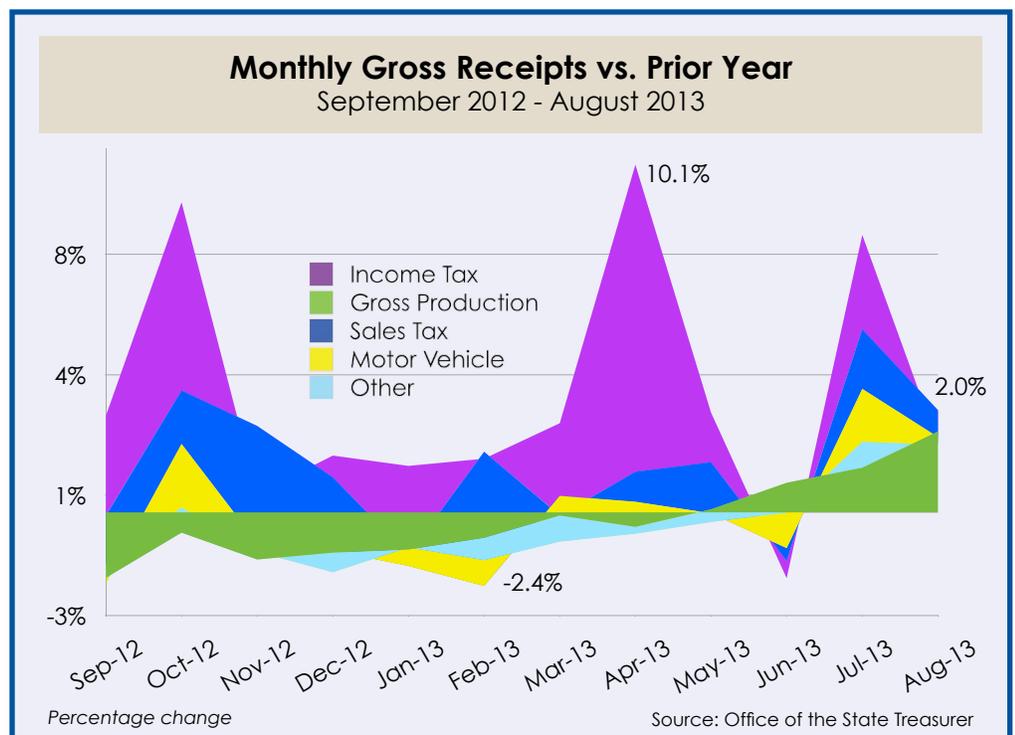
Twelve-month collections continue to climb, up more than 3 percent from the prior 12 months. That number now stands at more than \$11.31 billion, growing by \$16.5 million from the previous record set last month. Last

After spending most of a year in negative territory, gross production tax collections have exceeded prior month collections for four consecutive months. In August, gross production receipts

month's 12-month collections broke a record that had stood for 55 months.

“Oklahoma's economy, powered by the

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August state jobless rate holds steady at 5.3 percent

Oklahoma’s seasonally-adjusted unemployment rate was listed at 5.3 percent in August by the Oklahoma Employment Security Commission, unchanged from the July rate. The U.S. jobless rate was set at 7.3 percent in August.

Reports show state employment shrank by 3,740 jobs during the month, while the jobless number rose by 40. However, the labor force also decreased by 3,690.

One year ago, the unemployment rate was identical at 5.3 percent, however the number of people with jobs increased by 4,080 over the year.

State Unemployment Report				
OKLAHOMA	Unemp. rate*	Labor force*	Employment*	Unemployment*
Aug '13	5.3%	1,807,660	1,711,950	95,710
Jul '13	5.3%	1,811,350	1,715,690	95,670
Jun '13	5.2%	1,816,420	1,721,310	95,110
May '13	5.1%	1,818,040	1,726,140	91,900
Apr '13	4.9%	1,812,950	1,724,070	88,870
Mar '13	5.0%	1,814,740	1,723,940	90,790
Aug '12	5.3%	1,803,870	1,707,870	95,990

* Data adjusted for seasonal factors Source: OESC

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energy industry, continued to grow in August,” Miller said. “At the same time, sales tax collections also climbed, but at

a more modest pace than we’ve seen on average in the past year.”

Miller said gross production collections have rebounded primarily due to the

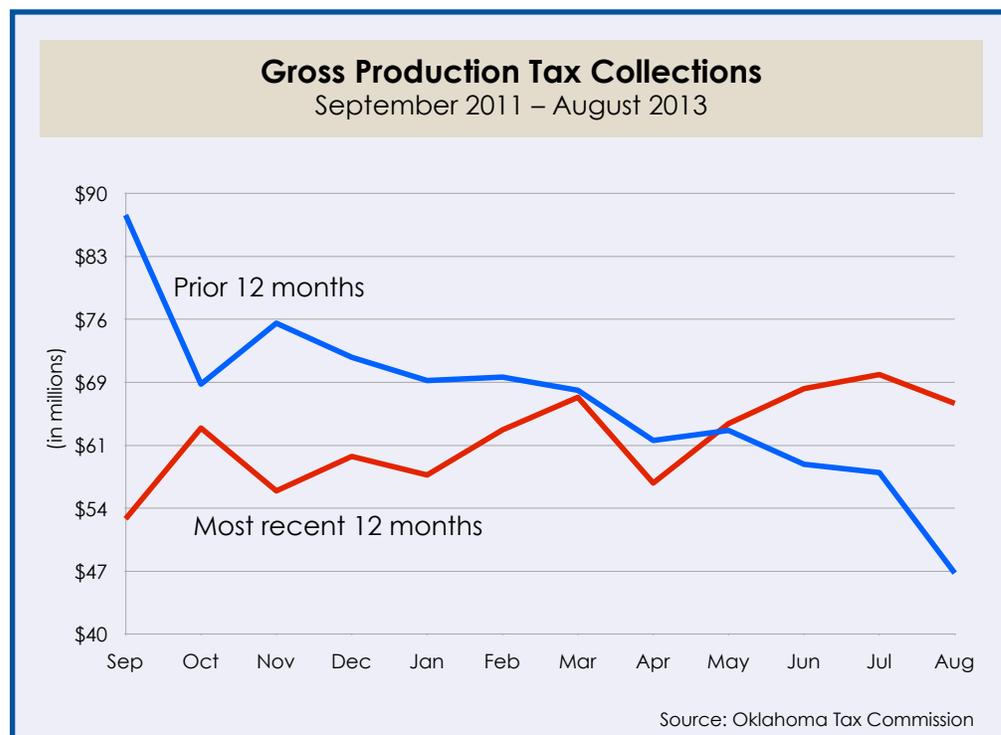
improved price environment compared to a year ago, when prices were near record lows. Reports show that as prices have risen, so have production volume and total collections.

During August, income tax collections dipped below prior year collections by 3.4 percent. However, income tax collections showed a large increase during July, topping prior year collections that month by almost 10 percent.

Other measures

Oklahoma’s Business Conditions Index in August dropped below growth neutral in August to 49.7 from July’s 52.3. The index was impacted by a reduction of jobs in oil and gas and related industries.

Oklahoma’s jobless rate, after rising for three consecutive months, held steady in August at 5.3 percent. That compares to a national unemployment rate of 7.3 percent for the same time period.

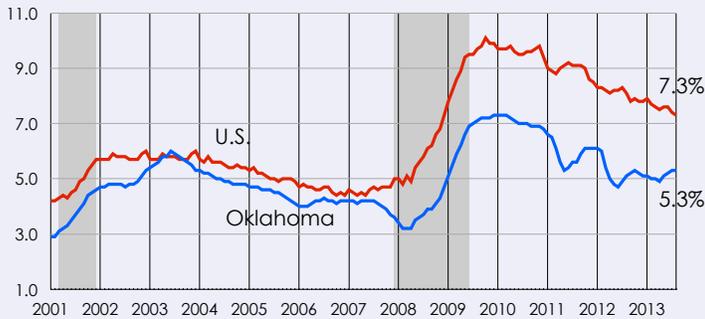




Economic Indicators

Unemployment Rate

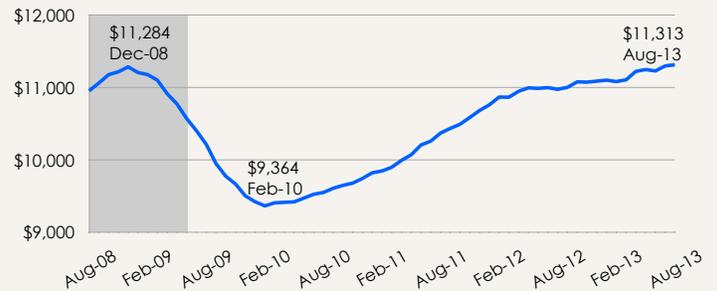
January 2001 – August 2013



Shaded areas denote U.S. recessions Source: Bureau of Labor Statistics

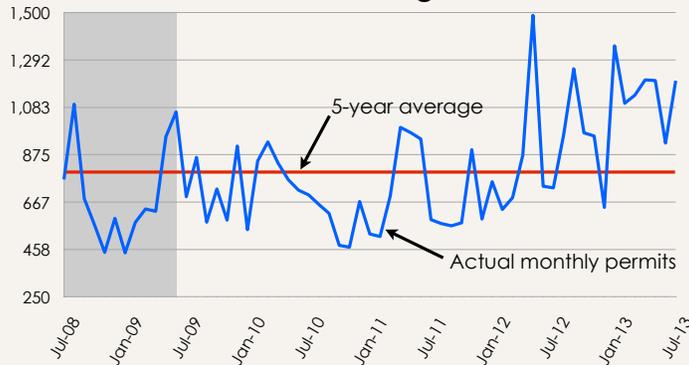
Oklahoma 12-Month Gross Receipts

August 2008 - August 2013
(in millions)



Shaded area denotes U.S. recession Source: Office of the State Treasurer

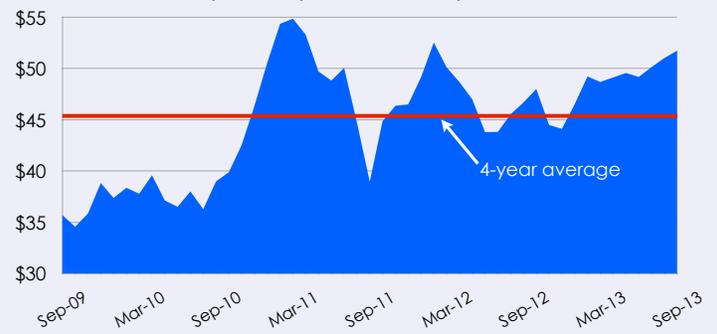
Oklahoma Building Permits



Shaded area denotes U.S. recession Source: U.S. Census Bureau

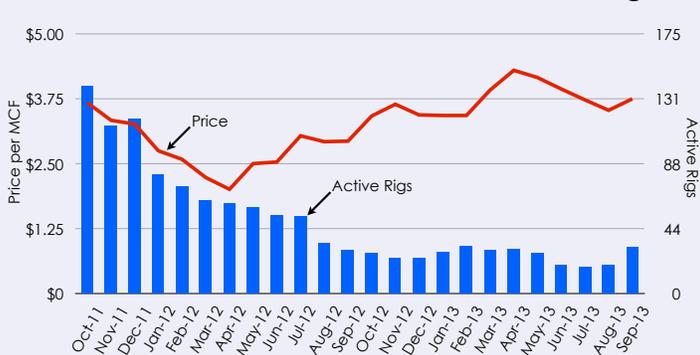
Oklahoma Stock Index

Top 25 capitalized companies



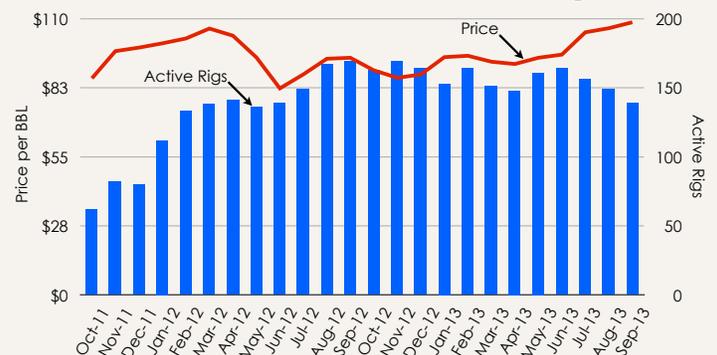
Source: Office of the State Treasurer

Oklahoma Natural Gas Prices & Active Rigs



Sources: Baker Hughes & U.S. Energy Information Administration

Oklahoma Oil Prices & Active Rigs



Sources: Baker Hughes & U.S. Energy Information Administration