

THE *Oklahoma* ECONOMIST

ECONOMIC INFORMATION *for* THE SOONER STATE



3RD QUARTER 2012

FEDERAL RESERVE BANK of KANSAS CITY

Update on Oklahoma's Economy

Economic growth in Oklahoma continued to outpace the nation into the summer months of 2012. Oklahoma payroll employment was up 2.4 percent from July 2011, or more than 37,000 total jobs. This compares with 1.4 percent job growth in the nation during the same period. Oklahoma is nearly back to pre-recession employment levels, with just a slight drag from the Tulsa area due to the magnitude of job loss in that area during the recession (Chart 1). Manufacturing and energy continued to lead Oklahoma's growth in total jobs—combined, these industries accounted for more than 14,000 more jobs than a year ago and 4,000 since January. Trade, transportation and utility firms also posted solid job gains over 2011. Construction employment continued to decline from 2011 although at a slightly lower rate, due in part to the winding down of several large commercial projects in Oklahoma City. Employment in most other Oklahoma industries was generally stable.

Oklahoma's unemployment rate has declined sharply since the beginning of 2012, falling from 6.1 percent in January to 4.9 percent in July. This rate ranks fourth-lowest in the nation (Chart 2). The only states with lower rates have less than half the population of Oklahoma—North Dakota, Nebraska and South Dakota. Across the state, Tulsa's unemployment rate has dropped markedly from 6.8

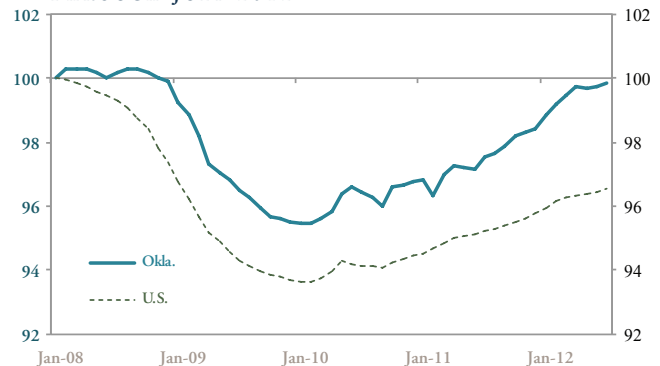


How is the economic and financial turmoil in Europe affecting Oklahoma's economy?

BRANCH EXECUTIVE AND
ECONOMIST CHAD WILKERSON
ANSWERS THIS TIMELY QUESTION
ABOUT OKLAHOMA'S ECONOMY
ON PAGE 4.

Chart 1 Level of Payroll Employment

THROUGH JULY 2012



Source: U.S. Bureau of Labor Statistics



percent at the beginning of 2012 to 5.3 percent in July. Tulsa continues to post solid gains in manufacturing jobs the past few months, making up for the considerable loss during the recession. Oklahoma City's unemployment rate in July was 4.5 percent and many non-metro areas of the state also posted very low unemployment figures. Several contacts in western and northwestern Oklahoma reported difficulties finding qualified workers, mainly due to high levels of energy activity.

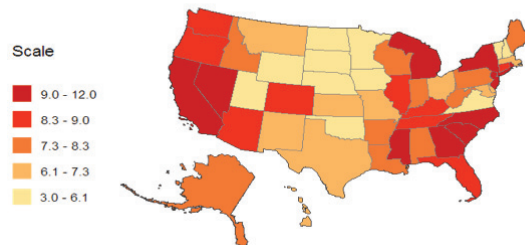
Regional manufacturing growth improved moderately in August, and was slightly higher than national manufacturing activity (Chart 3). Respondents to the Kansas City Fed's monthly manufacturing survey reported increases in the production, shipments, new orders and order backlog indexes. They also showed more optimism heading forward, with notable increases in the future production and shipments indexes. However, several respondents said the ongoing drought has negatively affected their business, mainly through higher input costs and slower sales for agriculture-related products. Prices indexes were relatively stable, although the share of producers planning to raise prices increased further. Oklahoma manufacturing activity rose moderately in August, with a sizeable rebound in future expectations. Oklahoma is heavily concentrated in machinery and equipment manufacturing, largely related to oil and gas equipment.

Activity in the state's important energy industry continued at a solid pace in the late summer months. The total state rig count through mid-August was 198, which is little changed from June and July (Chart 4). Oil drilling remained strong and continued to replace the decline in natural gas exploration, although the rig count has remained fairly flat throughout the year. Oil prices have risen slightly and remain at profitable levels, while natural gas prices still remain below the level most producers cite as profitable.

Update provided by Megan Williams, Associate Economist, at the Federal Reserve Bank of Kansas City, Oklahoma City Branch.

Chart 2 Unemployment Rates by State

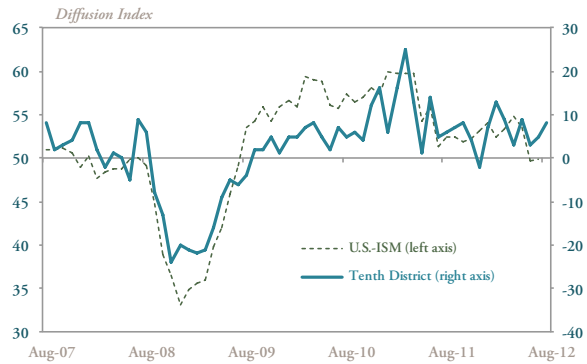
JULY 2012, SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Chart 3 Manufacturing Composite Indexes

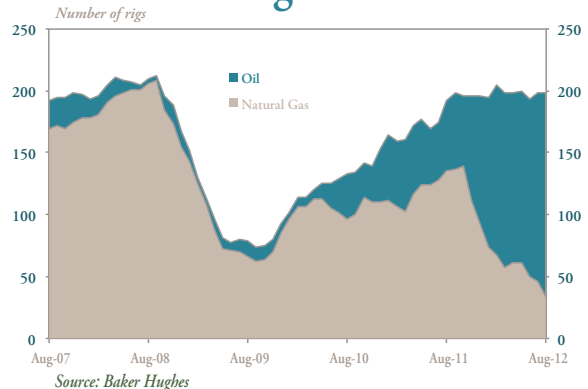
MONTH-OVER-MONTH



Note: Any value higher than zero indicates expansion for the District; any value more than 50 indicates expansion for the United States.

Sources: Institute of Supply Management, FRBKC Manufacturing Survey

Chart 4 Oklahoma Rig Count



Source: Baker Hughes

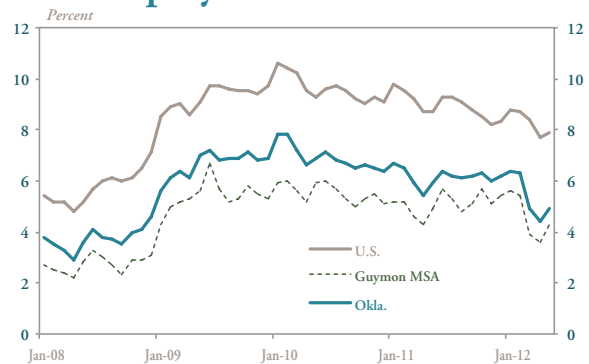


Spotlight On ... GUYMON

Located in the Oklahoma panhandle, the city of Guymon, Okla., and surrounding Texas County shares borders with both Kansas and Texas. As a city, Guymon has seen a 26.7 percent population increase between 1990 and 2010. Employment data for the Guymon Micropolitan Statistical Area (MSA) is available through May 2012. The data show that while Guymon historically has maintained low unemployment rates, the area has not seen a return to pre-recession employment levels (Chart 5). Even so, the unemployment rate in Texas County is roughly half the national average and lower than the state as a whole.

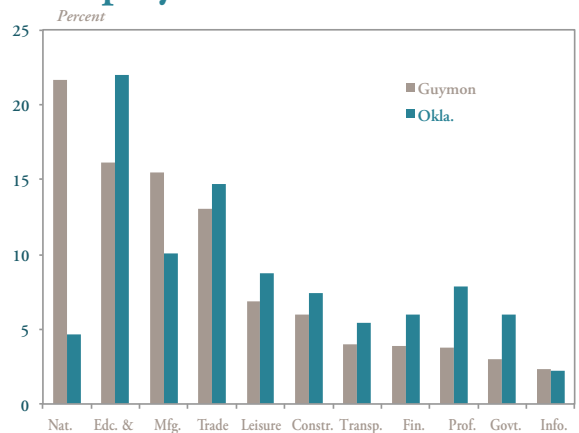
A majority of Texas County residents are employed by three sector categories (Chart 6). The energy industry employs the most workers in the area at 21.7 percent, followed by education and health care at just more than 16 percent. The education sector includes Oklahoma Panhandle State University, which has a current enrollment of roughly 1,200 students. Many of its graduates are first generation college students, and the university's mission is "to provide higher education primarily for people of the Oklahoma Panhandle." The third primary driver of the Guymon economy is manufacturing, which employs approximately 15.5 percent of people in Texas County. The concentration is mainly driven by Seaboard Foods, a large pork processor in Guymon. Seaboard's pork manufacturing plant opened in 1995 and has operated at full capacity since 1997. According to the company's website, more than 5 million hogs are processed annually by about 2,000 production employees at the Guymon plant. Seaboard Foods also owns High Plains Bioenergy in Guymon. Between 2008 and 2012, this renewable energy subsidiary has produced more than 60 million gallons of biodiesel. Agriculture also remains an important industry in the region, and farming conditions have deteriorated recently as the

Chart 5 Unemployment Rates



Source: U.S. Bureau of Labor Statistics

Chart 6 Industry Share of Total Employment, 2006-2010



Source: U.S. Census Bureau, American Community Survey

drought has worsened. For recent information about drought impacts in rural America, see the Kansas City Fed's bimonthly *Main Street Economist* publication.



Ask an Economist

Chad Wilkerson, Oklahoma City Branch executive and economist, answers a question from a recent public speech.

How is the economic and financial turmoil in Europe affecting Oklahoma's economy?

The turmoil and recent weakening of economic conditions in Europe has increased overall uncertainty, thus likely dampening economic activity. We see that from the qualitative surveys of businesses that the Kansas City Fed conducts—and this is true even if the business does not trade with Europe directly. However, there has also been a direct impact. Oklahoma's manufacturing exports to Europe were below year-ago levels in both the first and second quarters of 2012, even as the state's exports to the rest of the world held up pretty well (Chart 7).

But Oklahoma's overall trade exposure to Europe—not just for manufactured goods, but also for agricultural goods and for services—is relatively small, and less than half the exposure to Europe that the United States has as a whole. In 2010, the last year for which full data are available (or able to be estimated) for all types of exports, Oklahoma exports to Europe accounted for about 1.5 percent of the state's gross domestic product (GDP), compared to 3.4 percent of GDP for the nation as a whole (Chart 8). So, for example, if exports to Europe were to fall by 30 percent—as they did during the financial crisis in 2008-09 the direct impact on Oklahoma would be a decline in GDP of about half a percent. But actual declines in Oklahoma's exports to Europe in 2012 have been relatively minimal to date.

Chart 7 Oklahoma Manufacturing Exports

Q2 2008 - Q2 2012



Chart 8 Exports as a Share of GDP, 2010

