

# THE *Oklahoma* ECONOMIST

ECONOMIC INFORMATION *for* THE SOONER STATE



1ST QUARTER 2013

FEDERAL RESERVE BANK of KANSAS CITY

## *Update on Oklahoma's Economy*

Economic growth in Oklahoma remained solid through the end of 2012. Oklahoma payroll employment was up 2.2 percent from a year ago in December, or more than 34,000 total jobs. This compares with 1.4 percent job growth in the nation during the same period. Oklahoma ranked seventh in total job growth for December, posting growth similar to other energy-driven states such as North Dakota and Texas (Map 1). In a change from previous periods, leisure and hospitality jobs grew at the fastest rate, and added 8,800 jobs since last year. Other growing industries – financial services, manufacturing, trade, and transportation – added more than 18,000 positions combined from a year ago. Job growth in the energy and government sectors was largely flat, while the information, education, and health sectors lost jobs over last year. All areas of the state posted positive employment growth overall, with Oklahoma City, Tulsa, and non-metro areas all posting modest gains.

In the past few months, the housing sector has also recently begun to rebound from historical lows reached during the recession. Home sales in Oklahoma picked up late last year, and inventories fell across the state. As a result of this, construction of new homes has generally increased throughout the state in recent months, although activity moderated slightly in January and still remains below pre-recession levels

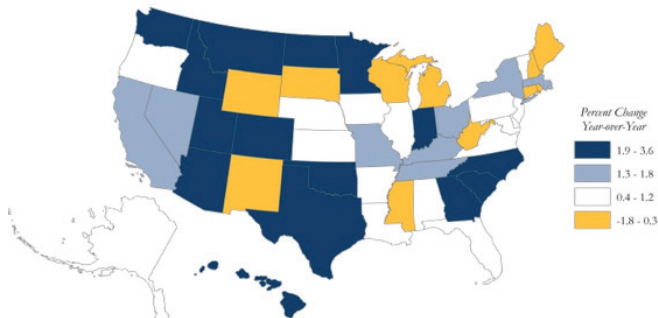


*How exposed to the fiscal cliff deal and possible sequestration spending cuts is the Oklahoma economy?*

BRANCH EXECUTIVE AND  
ECONOMIST CHAD WILKERSON  
ANSWERS THIS TIMELY QUESTION  
ON PAGE 4.

### Map 1 Payroll Employment Growth

PERCENT CHANGE, YEAR-OVER-YEAR  
DECEMBER 2012



Source: U.S. Bureau of Labor Statistics



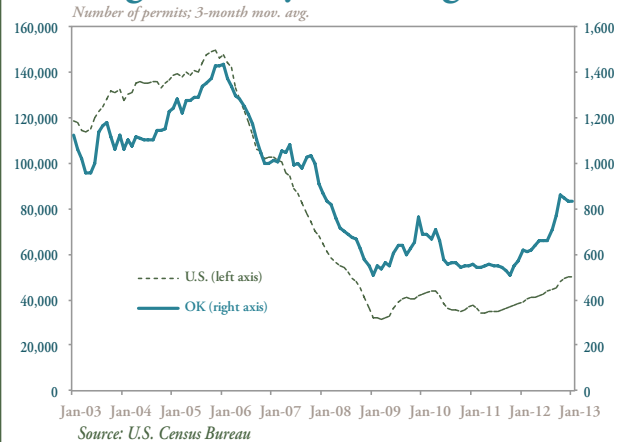
(Chart 1). Even with recent improvements, home permits in the nation as a whole are still nearly 50 percent lower than in January 2003. National home prices have improved but are still somewhat depressed, while Oklahoma has continued to maintain overall steady prices throughout the past few years.

Regional manufacturing activity, by contrast, fell moderately through February and remained below the pace of national manufacturing activity (Chart 2). Respondents to the Kansas City Fed's monthly manufacturing survey reported a continued decline in employment and new orders. Some contacts noted disruptions in shipments due to bad winter weather, and many firms expressed concern about possible direct and indirect impacts on orders should federal spending cuts occur with sequestration. Most factory price indexes recorded little change from the previous months. Oklahoma manufacturing activity declined into negative territory in February, although contacts were considerably more optimistic than the District as a whole. Manufacturing activity has slowed recently for several important industries in the state, including food, machinery and aircraft production.

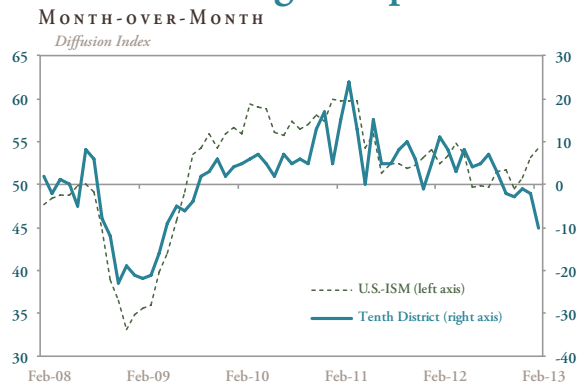
Activity in the energy industry improved slightly in recent weeks, after months of slowing production. The total state rig count through the end of February was 190, higher than levels from late last year, though down from the recent peak of 204 last February (Chart 3). Both oil and natural gas contributed to the recent increase in drilling. Oil prices have remained at favorable levels, and natural gas prices have begun to edge higher. In addition, natural gas liquids prices have rebounded from early summer lows and account for a portion of the increase in oil drilling.

*Update provided by Megan Williams, associate economist, at the Federal Reserve Bank of Kansas City, Oklahoma City Branch.*

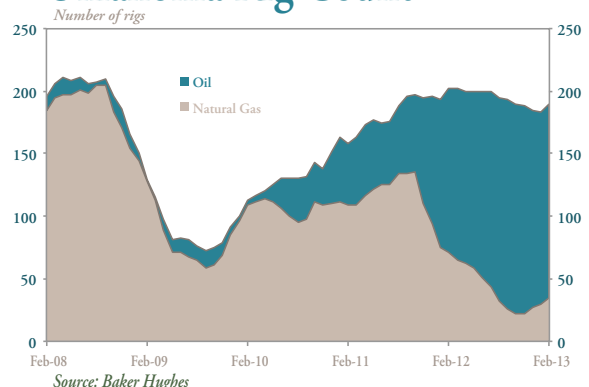
## Chart 1 Single-Family Housing Permits



## Chart 2 Manufacturing Composite Indexes



## Chart 3 Oklahoma Rig Count





## Spotlight On: NORTHWEST OKLAHOMA

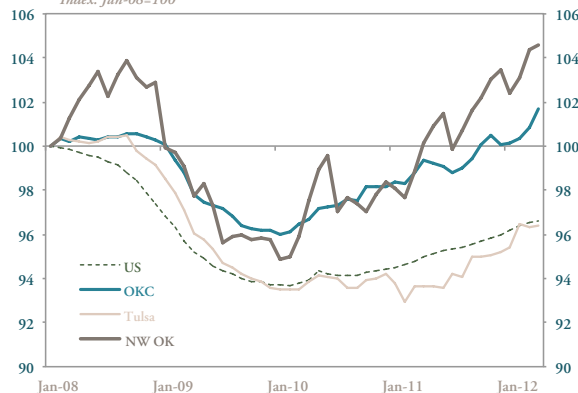
The Northwestern part of the state has experienced a boom in activity, largely due to increased energy activity. Specifically, the cities of Alva, Enid and Woodward have seen a rise in employment and overall business activity in the past year. In fact, employment levels have rebounded considerably through mid-2012, which is the latest data available at the county level (Chart 4). The counties of Garfield, Woods and Woodward combined to greatly outpace employment growth in both Oklahoma and the U.S., with overall jobs in Northwest Oklahoma nearly 5 percent higher than before the recession began in January 2008. Unemployment in the above counties was extremely low in December 2012 –Woodward at 2.7 percent, Woods at 3.0 percent and Garfield at 3.5 percent – with all of the surrounding counties also near or below 3.0 percent. Indeed, many energy firms have indicated difficulties finding qualified workers in those areas, and housing availability is also quite low.

In terms of industries, Northwest Oklahoma is heavily concentrated in energy, which accounts for approximately 10 percent of total jobs, versus only 1.5 percent in the nation (Table 1). Other industries more concentrated in the area include state and local government and construction, which is likely related to energy activity in the form of housing and associated new businesses. Another industry with a high level of employment in Northwest Oklahoma is manufacturing, which is a similar share to the nation. The main types of manufacturing in the area are fabricated metal, machinery and chemical manufacturing, which are all likely related to energy equipment and/or products. One bright spot related to the increased energy activity is a rise in average annual pay for local workers. Although average pay in Northwest Oklahoma still remains below that of the state and nation, the gap has narrowed considerably in the past few years. The average pay level in Northwest Oklahoma has moved from 33 percent below the average U.S. pay in 2001 to only 23

### Chart 4 Level of Payroll Employment

THROUGH JUNE 2012

Index: Jan-08=100



Source: U.S. Bureau of Labor Statistics

### Table 1 Northwest Oklahoma and U.S. Employment Share by Industry, 2011

Industry	Percent of Total Employment		Location Quotient
	OK	U.S.	
Natural Resources & Mining	10.0	1.5	6.67
Construction	4.9	4.4	1.11
Trade, Transportation, & Utilities	21.4	19.9	1.08
State & Local Government	15.3	14.7	1.04
Manufacturing	9.3	9.4	0.99
Education & Health	13.2	15.2	0.87
Leisure & Hospitality	9.2	10.7	0.86
Financial Activities	4.5	5.9	0.76
Federal Government	1.7	2.3	0.74
Professional and Business Services	9.5	13.9	0.68
Information	1.1	2.1	0.52

Note - Location quotient is the division of local employment share by national employment share  
Source: U.S. Bureau of Labor Statistics

percent in 2011. Similarly, the area's average pay level is now only 7 percent below the average state pay level, versus nearly 14 percent 10 years ago. The future seems bright for Northwest Oklahoma, although as always, the risk of lower energy prices could impact growth and further development in the area.



## Ask an Economist

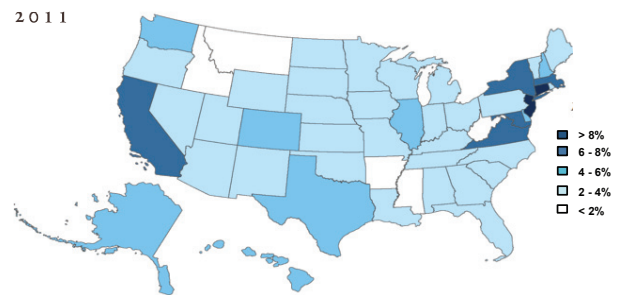
*Chad Wilkerson, Oklahoma City Branch executive and economist, answers a question raised recently at a public event.*

### *How exposed to the fiscal cliff deal and possible sequestration spending cuts is the Oklahoma economy?*

On January 2, 2013, the American Taxpayer Relief Act was signed, enacting several changes to U.S. fiscal policy. Most significantly, several tax rates were allowed to rise for high income households, including on personal income, capital gains, dividends, and estates, and the payroll tax was allowed to rise back to pre-2011 levels. These tax changes will have the effect of reducing incomes for most U.S. households in 2013 from what they otherwise would have been. But the largest impact will be on high-income households. Looking across the country, households with incomes above \$200,000 are concentrated in just a few states, mostly in the northeast part of the country. By contrast, in Oklahoma and most of the central part of the country, these households make up a much smaller share of the population, meaning the relative impact of the “fiscal cliff” deal should be less here (Map 2).

One aspect of the “fiscal cliff” not resolved at the beginning of the year was a number of automatic federal spending cuts, or “sequestration.” These were set to take effect on March 1, 2013. Unlike the tax changes, which will likely affect Oklahoma less on average than the nation, the spending cuts arising from sequestration may affect Oklahoma as much as the rest of the country. This is because federal spending makes up a similar share of the state's economy as in the country as a whole (Chart 5).

## Map 2 Share of Households with Income over \$200,000

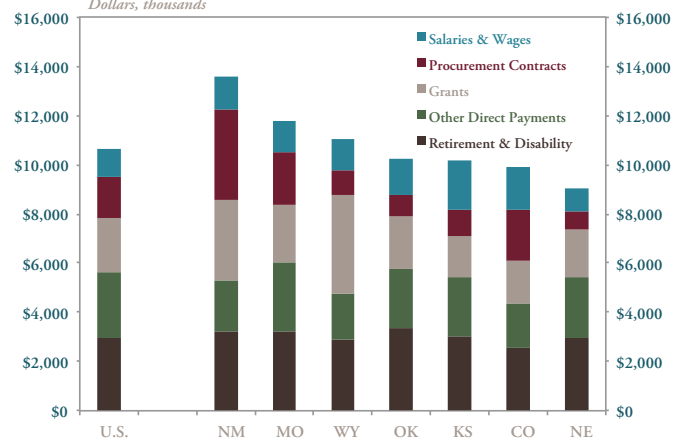


Source: OK Employment Security Commission

## Chart 5 Federal Expenditures Per Capita,

FISCAL YEAR 2010

Dollars, thousands



Source: U.S. Census Bureau, Consolidated Federal Funds Report