THE Oklahoma ECONOMIST
Economic Information *for* the Sooner State

2nd Quarter 2011 | Federal Reserve Bank *of* Kansas City

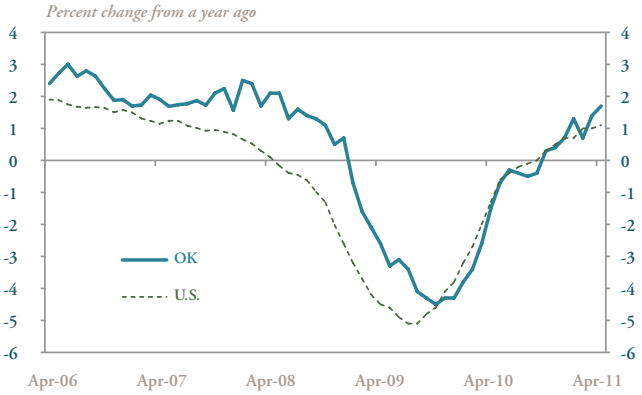
Update on Oklahoma's Economy

Economic activity in Oklahoma continues to recover and outperform the nation in most areas. Employment growth in Oklahoma increased slightly in April and recorded the quickest pace of growth since the recent recession began (Chart 1). Payroll employment was up 1.7 percent from a year ago, or more than 26,000 total jobs. Manufacturing and construction led all Oklahoma industries in job growth this month and have consistently outpaced the nation in recent months. Also contributing positively to Oklahoma employment was the energy sector, which added nearly 2,400 jobs over the past year. Nearly all other industries also showed positive growth in April, with the continued exception of the information and local government sectors.

Oklahoma's unemployment rate fell further in April to 5.6 percent. This is down from its peak of 7.3 percent in early 2010 and from 6.6 percent in January 2011. Only five states posted lower jobless rates in April, all of them with populations less than half the size of Oklahoma. Unemployment is relatively low in much of the state, although Tulsa maintains a bit higher rate due to a higher concentration in manufacturing, which was hit harder by the recession (Chart 2). Even so, Tulsa's rate has come down recently with stronger job growth. Oklahoma's weekly initial unemployment claims have fallen steadily since mid-April, with numbers in mid-May consistent

Has Oklahoma's economy diversified since the 1980s?
Branch Executive and Economist Chad Wilkerson answers this timely question about Oklahoma's economy on page 4.

Chart 1
Total Nonfarm Employment



Source: U.S. Bureau of Labor Statistics

with pre-recession trends.

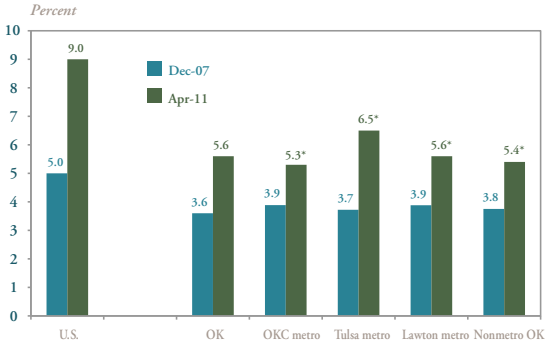
Similar to the nation, recent manufacturing activity has been quite expansionary in Oklahoma. Employment in the sector was up more than 7 percent from a year ago in the state, with strong growth posted in the sizeable aerospace, machinery and metals manufacturing industries. While data on production, orders and capital spending are not available for the state individually, factories from Oklahoma take part in the Kansas City Fed's monthly manufacturing survey. The composite index in the survey posted an all-time high in March and solid numbers in April before leveling off somewhat in May (Chart 3). Expectations for future activity remained strong, in May, however, and regional producers generally reported optimistic employment and capital spending plans. Price indexes remained elevated through May, but fewer firms planned to raise selling prices, and the pace of increase slowed for materials prices.

The state's important energy industry continued its robust expansion, with the total state rig count through mid-May at 181, up from 125 this time last year. While producers continue to drill heavily for oil, natural gas activity has rebounded somewhat with the recent slight uptick in prices (Chart 4). Oil prices still remain elevated, with futures prices consistently around $100 per barrel. Energy companies have increased their capital expenditures within Oklahoma, mainly for upstream projects towards drilling and exploration. Virtually all new drilling in the state over the past year has also been with horizontal rigs. The rig count for vertical and directional rigs is essentially unchanged.

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

Chart 2
Unemployment Rates

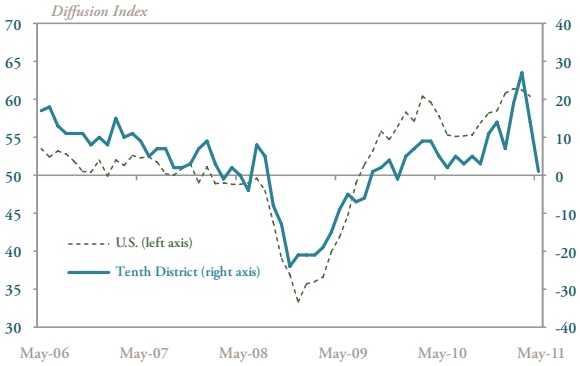
Seasonally Adjusted*



*Estimated by KCFRB; Metro and nonmetro rates are for March 2011
Source: U.S. Bureau of Labor Statistics

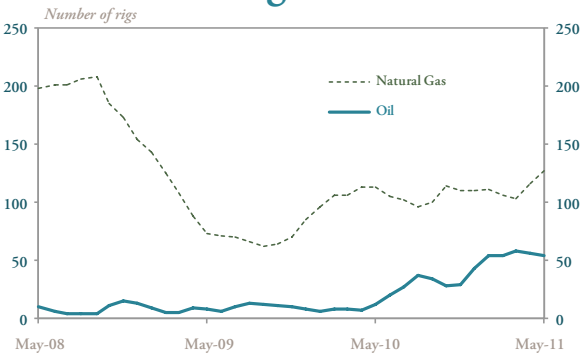
Chart 3
Manufacturing Composite Indexes

Month-over-Month



Note: Any value over zero indicates expansion for the District; any value over 50 indicates expansion for the U.S.
Source: FRBKC Manufacturing Survey, ISM

Chart 4
Oklahoma Rig Count



Source: Baker Hughes

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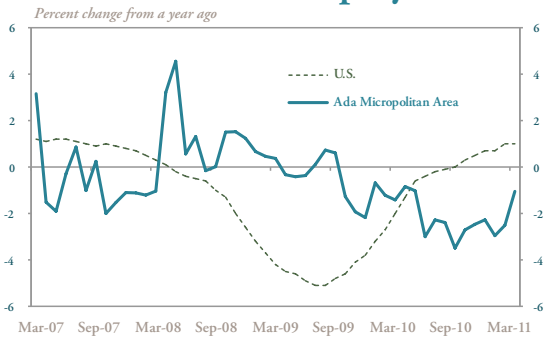
Spotlight On... Ada, Oklahoma

Located in southeastern Oklahoma, the town of Ada and surrounding Pontotoc County have weathered the recent recession fairly well and are in the early stages of recovery. The latest employment information available at the county level has been released through March 2011. The data show that while employment is still lower than a year ago, the trend has been mostly upward from the low reached in September 2010 (Chart 5). In terms of unemployment rates, Pontotoc County fell to a relatively low 4.4 percent in March 2011, below levels often considered to represent full employment (Chart 6). This makes Pontotoc County one of the few Oklahoma counties with a relatively low unemployment rate that is not concentrated in energy, which is the case in most of western Oklahoma.

As with many micropolitan areas, the majority of employment in Pontotoc County is in the local government, education, health and transportation/utilities industries (Chart 7). However, the county's local government category is more than double the size of the nation due to the Chickasaw Nation having its headquarters in Ada and employing a large number of workers in the area. Ada also has a great deal of education employment with the presence of East Central University, which has an annual enrollment of nearly 5,000 students. Likely due to the presence of these generally stable industries, employment in the area was less volatile during the recent recession and did not fall quite as far as the nation. Pontotoc County also has a sizable concentration of professional and business services employment, though less so than the nation, and is nearly equal to the nation in manufacturing concentration. Local industries that have experienced the most growth in the last five years have been state and local government, leisure and hospitality, and professional and business services, which have all grown 6 percent or more throughout the time period.

Chart 5
Total Nonfarm Employment

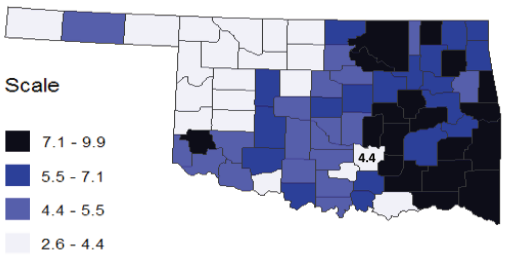
Percent change from a year ago



Source: U.S. Bureau of Labor Statistics

Chart 6
Oklahoma County Unemployment Rates

March 2011



Source: U.S. Bureau of Labor Statistics

Chart 7
Pontotoc County Employment Share and Growth by Industry

September 2010

Industry	% Total Employment Pontotoc County	% Total Employment U.S.
Government – State & Local	34.8	14.4
Education & Health Services	14.5	14.5
Trade, Transportation, & Utilities	14.5	18.9
Professional & Business Services	9.0	13.1
Manufacturing	8.0	9.0
Leisure & Hospitality	7.0	10.3
Financial Activities	4.5	5.7
Construction	2.8	4.4
Natural Resources & Mining	1.8	1.5
Government – Federal	1.1	2.2
Information	0.6	2.1

Source: U.S. Bureau of Labor Statistics

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Ask an Economist

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

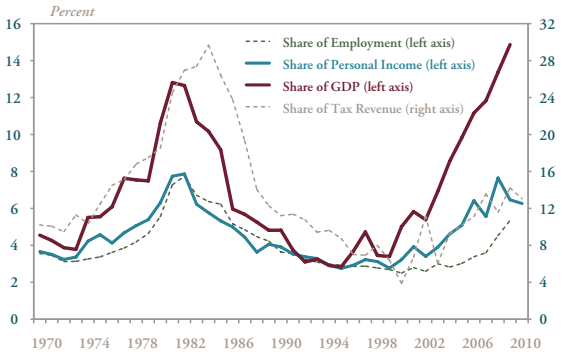
Has Oklahoma's economy diversified since the 1980s?

I think the answer is both yes and no. Oklahoma's most defining industry, of course, is oil and gas. It is probably the industry most people think of in terms of whether the state's economy has diversified. The energy sector's share of state economic activity on some measures, such as employment, is not as high now as in the early 1980s (Chart 8). Severance taxes' share of total state tax revenues is now only about half of what it was three decades ago. However, other measures, such as the energy sector's share of GDP or personal income, suggest the state has again become about as reliant on energy as it has ever been.

Looking more broadly across all industries, a metric called a diversification index can be used to show how similar a state's overall industrial structure is to the nation's industrial structure. Based on this measure, which analyzes shares of personal income in more than 80 detailed industries, the state's economy diversified considerably in the 1990s but has almost completely "undiversified" since.

Having high reliance on the energy sector can come with both benefits and costs. Generally speaking, energy-producing states have outperformed other states over long periods of time, and energy states have also outperformed most other states over the past few years. However, Oklahoma and other energy states were, of course, devastated by the collapse in energy prices in the 1980s, and the risk of such a collapse always hangs over energy states.

Chart 8
Oklahoma Energy Concentrations



Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau

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