

THE *Oklahoma* ECONOMIST

ECONOMIC INFORMATION *for* THE SOONER STATE



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FEDERAL RESERVE BANK of KANSAS CITY

Update on Oklahoma's Economy

Economic growth in Oklahoma continued to outpace the nation through spring 2012. Oklahoma payroll employment was up 2.2 percent from a year ago in April, or more than 34,000 total jobs. This compares with 1.3 percent job growth in the nation during the same period (Chart 1). Manufacturing and energy continued to lead Oklahoma's growth in total jobs—combined, nearly 14,000 more jobs than a year ago—and professional service firms also grew solidly. Construction employment has declined from levels posted last year, perhaps 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 the year, falling from 6.1 percent in January to 5.0 percent in April. This rate ranks fifth-lowest in the nation (Map 1). The only states with lower rates have less than half the population of Oklahoma—North Dakota, Nebraska, South Dakota and Vermont. In addition, the state is approaching its pre-recession unemployment rate of 3.4 percent, whereas the national unemployment rate remains quite elevated even with improvements in recent months. Across the state, Tulsa's unemployment rate of 5.5 percent in April (the latest data available) continues to be slightly higher than most of the rest of the state, although it still remains



Are Oklahoma home prices at more or less risk of decline than in the nation?

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



fairly close to levels often considered to be full employment (see page 3, Spotlight On, for more information on Tulsa). Oklahoma City's unemployment rate in April was 4.8 percent and non-metro areas of the state also posted generally low unemployment figures. More companies responding to Federal Reserve surveys have reported difficulties finding available workers.

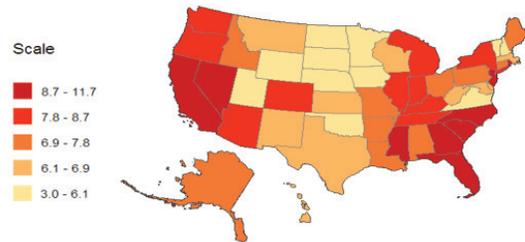
Regional manufacturing growth increased in May, and factory activity remained well above year-ago levels (Chart 2). Respondents to the Kansas City Fed's monthly manufacturing survey reported that production, new orders and shipments indexes increased, but the employment index eased slightly. They also reported solid expectations heading forward, with the future production index posting its highest level in more than a year. Manufacturing price pressures generally moderated in May. Oklahoma manufacturing activity was also positive, with a sizeable increase in expectations for future production. Oklahoma is heavily concentrated in machinery and equipment manufacturing, largely related to oil and gas exploration.

Activity in the state's important energy industry continued at a solid pace in recent months. The total state rig count through mid-May was 200, just short of the peak reached in September 2008 (Chart 3). Oil drilling remained strong and replaced much of the decline in natural gas exploration, although the total rig count has remained fairly flat throughout the year. Oil prices have remained at profitable levels, and while natural gas prices have risen slightly from their historical lows, they 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.

Map 1 Unemployment Rates by State

APRIL 2012, SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Chart 2 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 U.S.

Sources: Institute of Supply Management, FRBKC Manufacturing Survey

Chart 3 Oklahoma Rig Count



Source: Baker Hughes

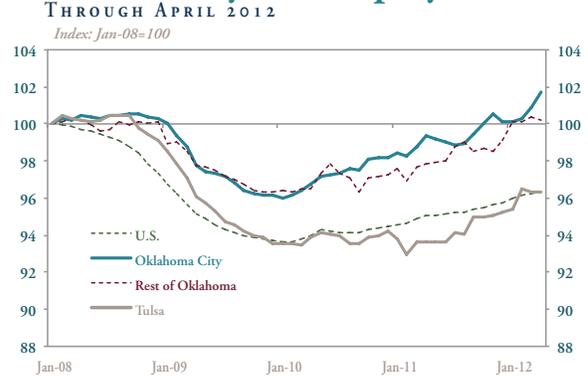


Spotlight On ... TULSA

The economy in the Tulsa metropolitan area continues to recover from the recent recession. Tulsa-area employment has risen solidly since mid-2011, although it still remains more than 3 percent below pre-recession levels (Chart 4). Tulsa has continued to lag somewhat behind Oklahoma City and other areas of the state after experiencing a much deeper recession. One potential reason is Tulsa's much larger concentration in manufacturing, which was hit harder during the recession. Tulsa's share of manufacturing, which is approximately 12 percent of total jobs, was more than 3 percent higher than the nation's share in April 2012 (Table 1). Tulsa has a sizable concentration of aircraft, fabricated metal and various types of machinery manufacturing. Looking at other industries, Tulsa has a slightly higher share of trade, transportation and utility employment than the nation, as well as more construction and energy jobs. Government jobs, both local and federal, made up a smaller share of employment in Tulsa than in the nation, with most other industries fairly similar to the national share.

In terms of growth, manufacturing has posted the highest year-over-year employment growth in Tulsa, although from a fairly deep trough, and activity in the energy and tourism sectors has also increased. However, American Airlines, Tulsa's largest private employer, recently filed for bankruptcy protection, and the impact on local jobs remains uncertain. Employment in the financial sector has also eased somewhat, and the telecom industry continued to post job losses. Unemployment has come down in the metro area, although Tulsa's rate remains slightly elevated compared to other areas in Oklahoma (Chart 5). Still, Tulsa's unemployment rate has decreased more than a percent from a year ago, and still remains much lower than in the nation.

Chart 4 Level of Payroll Employment THROUGH APRIL 2012



Source: U.S. Bureau of Labor Statistics

Table 1 Tulsa MSA and U.S. Employment Share by Industry

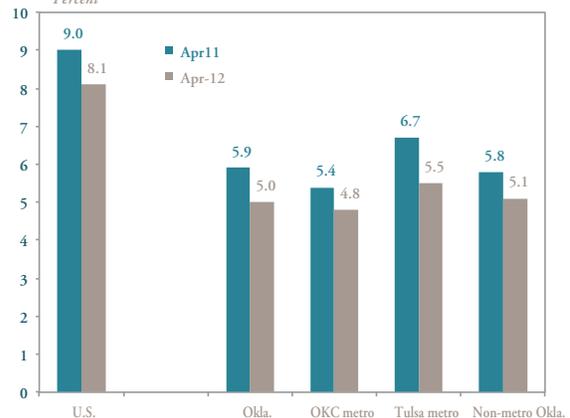
APRIL 2012

Industry	% Total Employment U.S.	% Total Employment Tulsa MSA	Tulsa YOY Employment Growth
Trade, Transportation and Utilities	18.8	19.3	0.0%
Education and Health Services	15.4	14.8	2.1%
Professional and Bus Services	13.4	13.3	3.1%
Government—State and Local	14.7	12.4	2.0%
Manufacturing	8.9	12.3	12.8%
Leisure and Hospitality	10.2	9.0	2.2%
Financial Activities	5.8	5.2	-1.8%
Construction	4.1	4.8	2.5%
Natural Resources and Mining	0.6	1.9	6.8%
Information	2.0	1.9	-3.7%
Government—Federal	2.1	1.1	0.0%

Source: U.S. Bureau of Labor Statistics

Chart 5 Unemployment Rates

SEASONALLY ADJUSTED
Percent



Source: U.S. Bureau of Labor Statistics



Ask an Economist

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

Are Oklahoma home prices at more or less risk of decline than in the nation?

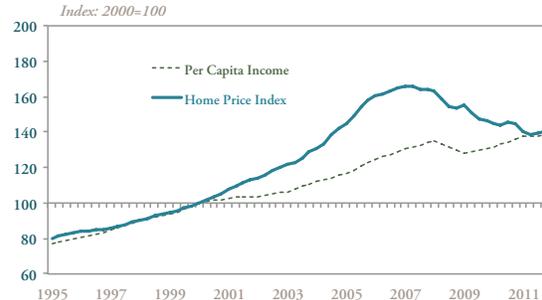
Throughout the past five years, U.S. home prices have plummeted, falling as much as 30 percent by some measures, and by more than 15 percent according to the Federal Housing Finance Agency (FHFA), which also has home price data for individual states. By contrast, Oklahoma home prices have held up much better. Home prices in the state were actually slightly higher at the end of 2011 than they were at the time of the U.S. home price peak in early 2007. But will this better performance last?

A number of “fundamentals” can help determine the price of local housing over time, including especially the local supply and demand of homes at any point in time. The cost of renting versus owning a home can also play a role, as can the availability of housing finance and the foreclosure process of an area. In the longer run, however, home prices tend to grow at about the same pace as family or per capita incomes. Nationally, home price growth greatly exceeded per capita income growth in the first half of the 2000s (Chart 6). In Oklahoma, however, home prices continued to grow at about the same pace as incomes, helping prevent a “bubble” in prices (Chart 7). By the end of 2011, national home prices had fallen enough in recent years that they were essentially back in line with per capita growth since 2000.

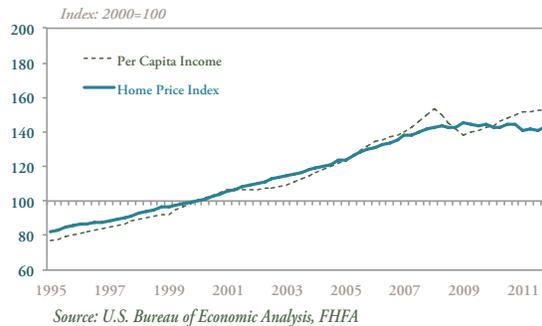
In Oklahoma, home prices have now actually grown less than incomes in the early 2000s in recent years. So while other factors could contribute to fluctuations in local home prices, Oklahoma seems at less risk of future home price declines than the nation, based just on these income fundamentals.

Charts 6 and 7 Home Prices and Per Capita Income Levels

U. S.



OKLAHOMA



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