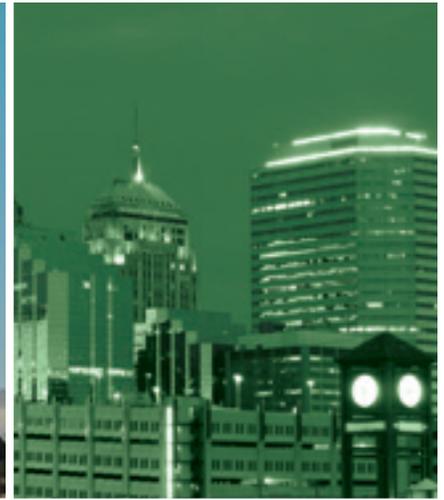


THE *Oklahoma* ECONOMIST

ECONOMIC INFORMATION *for* THE SOONER STATE



3RD QUARTER 2011

FEDERAL RESERVE BANK of KANSAS CITY

Update on Oklahoma's Economy

Economic activity in Oklahoma continues to grow solidly and outperform the nation in most areas. Employment in Oklahoma increased further in July, and recorded the quickest pace of growth since the recent recession began (Chart 1). Payroll employment was up 2.1 percent from a year ago, or more than 31,000 total jobs. Energy and manufacturing led all Oklahoma industries in job growth, adding nearly 15,000 employees combined from a year ago. The leisure and hospitality sector also posted solid growth – more than 5 percent versus last year – and the construction industry added a fair number of jobs this month. The only two industries that posted negative growth in July were the information sector and state and local governments, which has been the case for several months and is consistent with national trends.

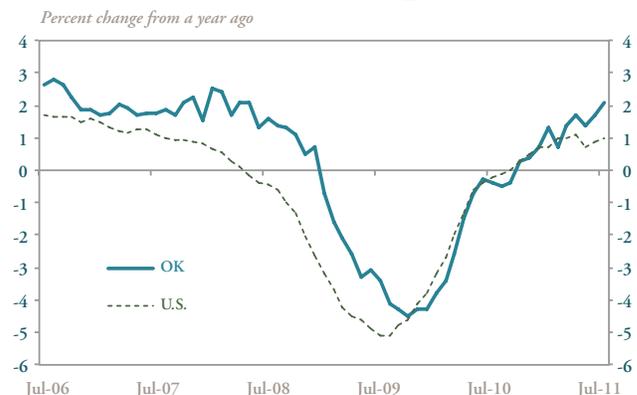
Oklahoma's unemployment rate remained fairly low, measuring 5.5 percent in July (Map 1). This makes the fourth straight month that the unemployment rate has been below 6 percent. Only four states recorded lower jobless rates in July, all of them with populations less than half the size of Oklahoma. However, it should be noted that part of the low unemployment rate is due to a decline in labor force participation (see Ask an Economist for more information). Across the nation, the highest unemployment rates continue to be in states hit hardest by the housing bust and in the



With unemployment down to 5.5 percent, has Oklahoma's job market fully recovered?

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



manufacturing belt of the upper Midwest. By contrast, many Plains states concentrated in energy and agriculture continue to post relatively low jobless rates.

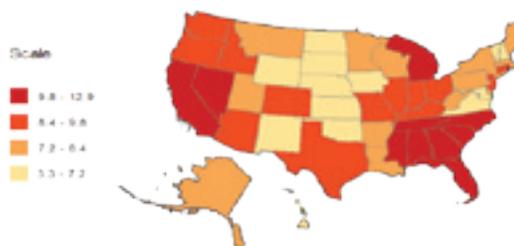
Recent manufacturing activity in the region has been somewhat volatile, as many respondents to the Kansas City Fed's monthly manufacturing survey have expressed concerns about economic growth prospects and the national debt situation. The Tenth District's composite factory index remained stable in August after slipping in July from relatively solid numbers in June (Chart 2). Production and shipments indexes both dropped into negative territory, while the employment index increased. Expectations fell slightly but remained mostly positive for the months heading forward, suggesting producers are still relatively confident in growth fundamentals. Price pressures continued their downward trend after stabilizing somewhat last month. Oklahoma's manufacturing activity improved in August, mostly due to the heavy concentration of energy-related manufacturing, which has outperformed other industries recently and accounts for some of the difference between the District and U.S. manufacturing conditions.

The state's important energy industry continued its robust expansion. The total state rig count through mid-August was up to 187, a nearly 50 percent increase from a year ago (Chart 3). Most of the growth has been in oil rigs, although natural gas rigs still make up the large majority of the state's rig count. Employment in the energy industry has grown considerably the past six months, up more than 4 percent since January and 7 percent versus the previous year. Oil prices have moderated in recent months though remain at profitable levels, while natural gas prices have remained generally stable.

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

Map 1 Unemployment Rates by State

JULY 2011

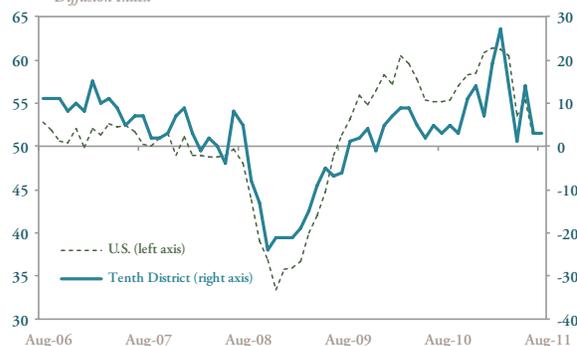


Source: U.S. Bureau of Labor Statistics

Chart 2 Manufacturing Composite Indexes

MONTH-OVER-MONTH

Diffusion Index

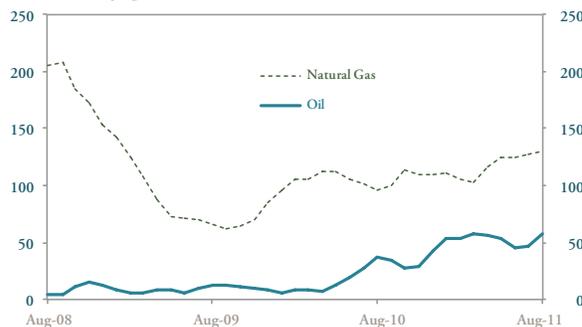


Note: Any value over zero indicates expansion for the District; any value over 50 indicates expansion for the U.S.

Sources: Institute of Supply Management, FRBKC Manufacturing Survey

Chart 3 Oklahoma Rig Count

Number of rigs



Source: Baker Hughes



Spotlight On... TENTH DISTRICT AGRICULTURAL CREDIT SURVEY

Each quarter, the Federal Reserve Bank of Kansas City conducts a survey of agricultural bankers that provides current indicators of the financial performance of Tenth District agriculture. The survey panel consists of about one-third (360) of the Tenth Federal Reserve District's agricultural banks selected according to geographic distribution and size. Agricultural banks are those with a greater percentage of agricultural loans in their loan portfolios than the national average of about 15 percent. Survey results summarize several indicators of farm financial conditions, including farmland values, interest rates on farm loans and credit supply and demand.

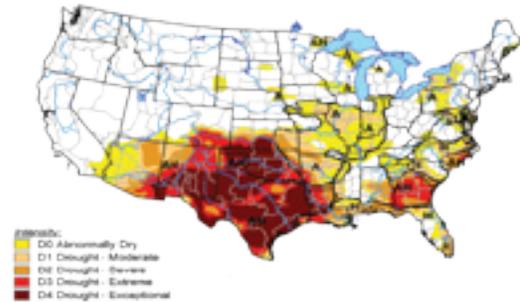
Maria Akers, associate economist and co-author of the survey report, explained the Bank has been gathering the information for a long time. "We have been collecting this data from District bankers since the farm crisis of the 1980's, which gives us a rich history of information for tracking agricultural trends," she said.

The most recent data from the second quarter indicated that severe drought conditions in the southern Plains (which includes Oklahoma) prompted herd liquidations and restrained farmland value gains (Map 2). Even with recent moderate rainfall, the area still remains extremely dry with below-average soil moisture levels. However, land lease revenues from energy exploration were expected to support farmland values in some drought-stricken areas. Although Oklahoma cropland price growth slowed in the second quarter, farmland values were still up more than 10 percent from the previous year (Chart 4). High commodity prices and favorable growing conditions

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Map 2 U.S. Drought Conditions

AUGUST 2011



Source: USDA

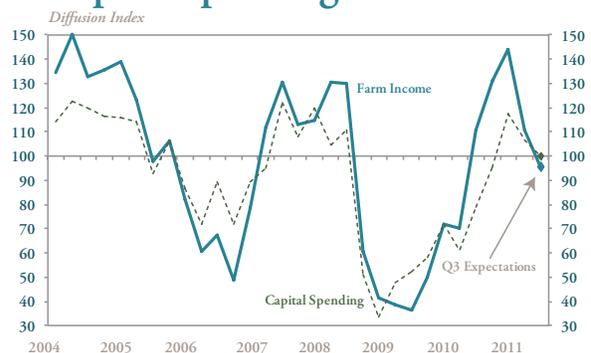
Chart 4 Year-over-Year Growth in Non-Irrigated Cropland Prices



Note: Percent changes are calculated using responses from only those banks reporting in both the past and current quarter.

Source: FRBKC Agricultural Credit Survey

Chart 5 Oklahoma Farm Income and Capital Spending



Source: FRBKC Agricultural Credit Survey



Continued from page 3

have driven values even higher in the central Plains states of Nebraska, Kansas and Missouri. The severe drought conditions in Oklahoma lowered wheat yields, hastened herd liquidations and increased cattle feeding costs, resulting in dampened farm

income (Chart 5). With shorter profit margins, bankers in the survey noted less capital spending on machinery and equipment. Although farm incomes declined from recent peaks, farm loan portfolios remained strong, with few nonperforming loans and low delinquency rates.

Ask an Economist

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

With unemployment down to 5.5 percent, has Oklahoma's job market fully recovered?

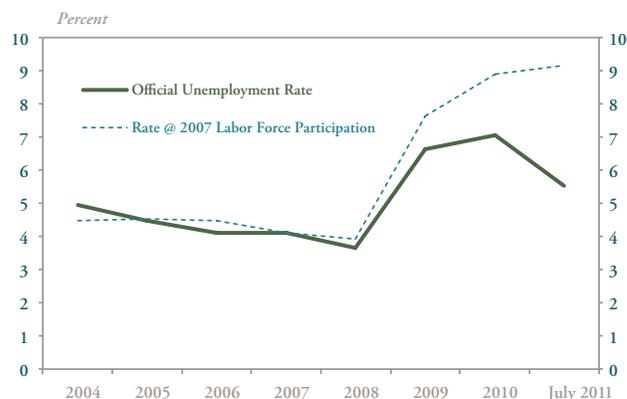
Oklahoma's current unemployment rate of 5.5 percent, down from a peak of 7.3 percent and well below the national rate of 9.1 percent, does indeed approach some economists' estimates of "full employment" or the "natural rate of unemployment." The Congressional Budget Office (CBO) defines this natural rate as "the rate of unemployment arising from all sources except fluctuations in aggregate demand." These sources include the normal job turnover in an economy when workers are moving between jobs, but also structural sources such as skills mismatches or institutional factors like minimum wage laws. In its long-term budget projections, recent CBO estimates have put the natural rate for the U.S. between 5.0 and 5.3 percent, just under Oklahoma's current statewide level.

Most of the reduction in Oklahoma's unemployment rate since the recession ended has been due to declines in the state's labor force, as workers who were previously looking for jobs

(and thus counted as unemployed in official statistics) stopped looking. Indeed, if the same share of the working age population was currently seeking jobs as were in 2007, unemployment in Oklahoma would currently measure about 9 percent (Chart 6). So the extent to which Oklahoma's job market can be said to have recovered depends perhaps upon how content the labor force dropouts of recent years are with their current situation. Some such individuals may have dropped out in order to retire, to return to school, or to return to a one-earner family, which in some cases may have been desirable. But others may have become discouraged and given up looking for work until economic prospects become brighter.

Chart 6 Oklahoma Unemployment

2004 - PRESENT



Sources: U.S. Bureau of Labor Statistics, author calculations