THE *Oklahoma* ECONOMIST

Economic Information *for* the Sooner State

1st Quarter 2011 | Federal Reserve Bank *of* Kansas City

Update on Oklahoma's Economy

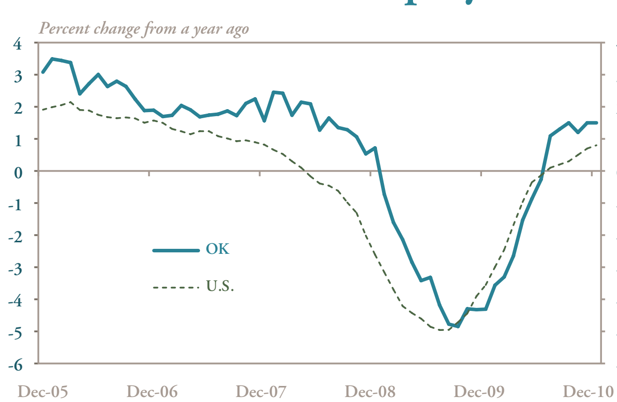
Economic activity in Oklahoma is recovering from the recent recession, though at a somewhat moderate pace. Strong energy and services activity is being offset to some degree by cutbacks in state and local government and continued sluggishness in housing, but business firms are increasingly planning to expand.

Total nonfarm employment in Oklahoma has outpaced the nation in recent months (Chart 1). In December 2010, payroll employment in Oklahoma was up 1.5 percent from a year ago, or over 22,000 total jobs. This compares with year-over-year job growth of 0.8 percent in the nation during the period. A good portion of recent job gains in the state has come from the energy sector, in which employment was nearly 22 percent higher than a year ago in December. Also contributing positively was the construction sector, which added a net 6,000 jobs in Oklahoma even as the sector continued to decline nationally. Several services industries, including education and health, also posted healthy job growth. In contrast, state and local governments lost 3.3 percent of total jobs, and the information sector also fell 1.9 percent from last December.

Various surveys of business firms suggest Oklahoma companies plan to continue to hire in 2011. For example, Manpower's latest employment outlook survey showed that a net 10 percent of Oklahoma firms plan to increase employment in early 2011. Hiring plans in the Kansas City Fed's monthly manufacturing survey have also picked up in recent months (for more on the manufacturing survey, see the "Spotlight On" section on page 3).

What is Oklahoma's Recession Path?
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

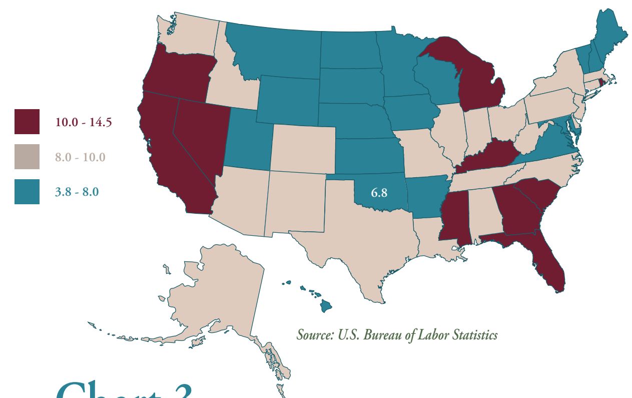
Oklahoma's unemployment rate remains elevated but is still considerably below the national average (Chart 2). The state has consistently ranked in the lowest third of states in terms of unemployment the past few years, a result of a shorter and milder recession compared to other regions (for more background on how Oklahoma typically performs relative to the nation during recessions and recoveries, see the "Ask an Economist" section on page 4). Recent declines in initial unemployment claims suggest further improvements may be on the way for the state's labor markets.

Oklahoma's important energy industry continued to expand through early 2011. The total number of rigs actively drilling for oil and gas in the state rose to 164 in January, up from 153 in December and more than double the activity of late 2009. Most of the recent increase in rigs has been for oil, due to favorable prices for that commodity (Chart 3). In addition to firms making a sizable shift from oil to gas drilling, the types of rigs used in Oklahoma have also changed dramatically in recent years. Specifically, horizontal drilling rigs have accounted for virtually all of the increase in the state's total rig count since 2009.

In contrast to energy, the housing industry remains sluggish in Oklahoma. Single-family permits are still near historically low levels, though they have risen marginally in recent months after dropping in late summer (Chart 4). Home prices have held up much better in Oklahoma than in the nation. In the fourth quarter of 2010, Oklahoma's home price index from the Federal Housing Finance Agency was still up 2 percent from three years ago, compared to a 10 percent decline in the nation as a whole. The state continues to have the lowest share of homes with negative equity of any state, at around 6 percent, compared to the national average of 23 percent. Foreclosures in the state have likewise remained more limited than in the nation.

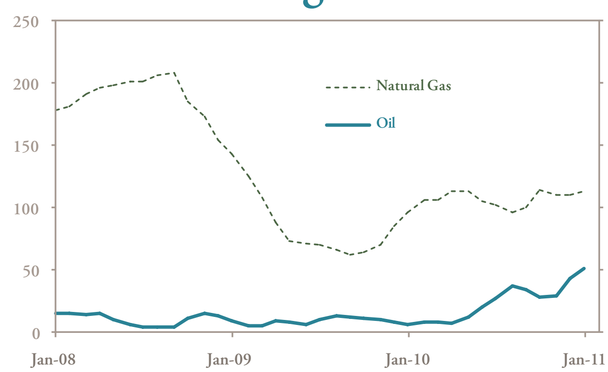
Update provided by Associate Economist Megan Williams at the Federal Reserve Bank of Kansas City, Oklahoma City Branch.

Chart 2
Unemployment Rates, December 2010



Source: U.S. Bureau of Labor Statistics

Chart 3
Oklahoma Rig Count



Source: Baker Hughes

Chart 4
Single-Family Housing Permits

Source: U.S. Census Bureau

Spotlight On...
Manufacturing Survey

Manufacturing is an important industry in Oklahoma. It comprises approximately 11 percent of total state GDP, a similar share as in the nation as a whole. Sizable manufacturing sectors in Oklahoma include machinery and metal manufacturing, much of it related to the energy sector, as well as chemicals, aircraft and food manufacturing.

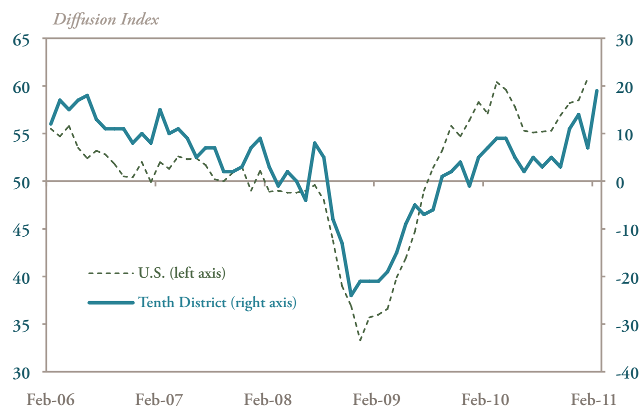
The Federal Reserve Bank of Kansas City conducts a survey of manufacturers in its region each month. Respondents report on activity versus the previous month and previous year, and also what they expect to happen in the next six months. Diffusion indexes are calculated by subtracting the percentage of respondents reporting increases minus those reporting decreases. The survey is released the last Thursday of each month, and is available on the Kansas City Fed's website.

Survey results show that factory activity in the Tenth District has begun to pick up in recent months and has been in expansion territory (composite index above 0) for over a year (Chart 5). The same is true of factories based specifically in Oklahoma. Recent factory growth in the region has been slightly lower than in the nation (where a composite index over 50 indicates expansion), in part due to having less of a recent downturn from which to recover. Survey respondents anticipate that production will expand solidly over the next six months and plan to increase capital spending in order to facilitate expansion.

Price indexes in the survey have risen from lows reached during the recession, particularly raw materials prices. Indeed, by early 2011, as many firms were reporting materials price increases as in the previous peak in 2008. Producers are generally expecting these materials price increases to continue and expect to increasingly be able to pass them through to finished goods prices (Chart 6).

Chart 5
Manufacturing Composite Indexes

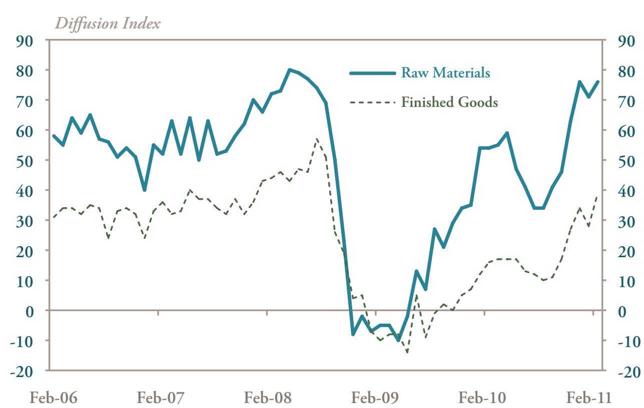
MONTH-OVER-MONTH



Source: ISM, FRBKC Manufacturing Survey

Chart 6
Tenth District Manufacturing Price Indexes

EXPECTED IN SIX MONTHS



Source: FRBKC Manufacturing Survey

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1st Quarter 2011

Federal Reserve Bank *of* Kansas City - Tenth District

Ask an Economist

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

"Doesn't Oklahoma typically lag going into and coming out of recessions?"

It is true that Oklahoma typically enters recessions later than the nation. Indeed, Oklahoma has entered at least one quarter late to every U.S. recession in the postwar period, including the most recent one. The main reason is energy prices, which have historically risen prior to U.S. recessions. With Oklahoma's high reliance on the energy sector, higher energy prices in the early stages of a national recession have generally been a net positive for the state, boosting state employment even as employment begins to fall nationally. Once energy prices fall, Oklahoma has historically entered recessions.

However, it is not true that Oklahoma typically lags the nation coming out of recessions. Indeed, on average, Oklahoma has historically exited recessions at about the same time as the nation. This is likely due in part to the policy response to national recessions. For example, there is typically a monetary policy response—the Fed lowers interest rates. There is also often a fiscal policy response, and such stimulus typically is distributed on a more or less per capita basis. Each of these responses thus tends to help most states and regions to similar degrees, generally resulting in less variation in states coming out of recessions than going in.

I think what has led to a perception of the state lagging out of recessions is the experience of the early 1980s. Instead of Oklahoma coming out at a similar time as the nation, it lagged for several years. Energy prices continued to fall coming out of recession rather than their typical rise. The only other time the state lagged in exiting a U.S. recession was in 2001, when industries such as telecommunications and aircraft—into which Oklahoma had diversified after its experience in the 1980s—were especially hard hit and slow to recover.

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