

THE JOURNAL RECORD

General News

Oklahoma: What recession?

November 19, 2008

OKLAHOMA CITY – Despite a national economy in recession, Oklahoma should experience solid growth in personal income, retail sales and home prices next year, Oklahoma State University economist Mark Snead said Tuesday.

Outside of a 0.1-percent drop in non-farm employment, the 2009 Oklahoma Economic Outlook by the OSU Spears School of Business projects positive results in nearly all economic measures, said Snead, director of OSU's Center for Applied Economic Research.

Oklahoma City should see somewhat better results than Tulsa, he said, while the rural sector could match both metropolitan areas.

"Our only problem is that we are in the United States," Snead said with a smile.

While Oklahoma remains an economic star, it is not alone. Although the nation is almost certainly in its deepest recession since the 1980s, almost half of the state economies still perform well, said Chad Wilkerson, a vice president and economist with the Federal Reserve Bank of Kansas City's Oklahoma City branch. That gulf reaches even into such problem areas as foreclosure rates, housing pricing and tightening credit.

"We are seeing as much regional variance as I can remember in all my years with the Fed," said Wilkerson, the first speaker at Tuesday's Oklahoma Economy Conference at the MetroTech Springlake campus. But with credit markets strained and only exports and government spending showing growth in the fourth quarter, Wilkerson expects more states to experience slowing commerce.

While Snead recognized such elements in the third and fourth quarter, using the word "ugly" several times to describe the national environment, he said Oklahoma still enjoyed a strong 2008. Early estimates in the OSU report project Oklahoma will finish this year with 1.1-percent non-farm employment growth, leading to 3.7-percent unemployment.

Personal income will rise 5.8 percent from 2007 results, with per capita personal income up 4.7 percent. That will bring the Sooner State to 91.9 percent of the U.S. per capita personal income, up 1.4 percentage points from 2007.

"This may be the single most important change to Oklahoma in the past five years," Snead said.

Taxable retail sales also remain strong, up 6.5 percent for the year, while the state housing price index should rise 4.1 percent.

With his conservative outlook of \$50 oil in 2009 and \$60 in 2010, Snead said the OSU report foresees declines in all activity next year. But the only negative results come with a projected 0.1-percent drop in employment, which would lift the unemployment rate to 4.9 percent. While he foresees that turning around in 2010, with 1.1-percent employment growth, Snead also projected the unemployment rate would rise to 5.2 percent.

Among the metro areas, the OSU report expects Oklahoma City to finish 2008 with 1.3-percent employment growth, 0.2 percent in 2009 and 1.2 percent in 2010. After ending this year with 0.4-percent job growth, Snead said Tulsa would experience a 0.2-percent drop next year, followed by 0.7-percent growth in 2010.

Snead said these results, all exceeding national expectations, reflect not only economic stability but also state population growth, with strong in-migration from California and other wounded economies. The OSU report projects 1.2-percent population growth this year to 3.6 million, followed by 0.9-percent growth in 2009 and 0.7 percent to close out the decade.

Other factors, although restrained, remain more positive.

Snead projected 3.1-percent state personal income growth in 2009 and 3.5 percent in 2010, with 2.4-percent per capita growth next year and 2.9 percent in 2010. That would bring Oklahoma to 94.2 percent of the U.S. per capita income rate.

Taxable retail sales would rise 3.8 percent next year and 3.2 percent in 2010, while the housing price index would climb 5.2 percent in 2009 and 6 percent the following year.

The reason for this continued growth, said Snead, points to why Oklahoma City and the Sooner State may indeed be "recession-proof," as Forbes magazine recently declared.

'Recession-proof'

That term made Phil Berkenbile grimace, having just returned from a California economic conference where they told of foreclosures hitting 1,000 homes a week, the former owners walking away from their clothes, photos, furniture, even dishes on the table.

"Recession-proof?" said Berkenbile, the director of the Oklahoma Department of Career and Technology Education. "I don't know if I can believe that, and I don't know if we can sit on our laurels and accept that either."

Snead said he understood that.

"It may be a bad choice of words, but it is not far off," he said.

As an energy state, Snead said the Oklahoma economy performs differently than more traditional markets, with an ability to avoid recessions that are energy-induced. That illustrates why Oklahoma continued to show job growth through the national recessions in the 1970s and '90s, while the 1980s oil bust devastated the Sooner State.

To grasp that energy cushion, Keener Oil and Gas President Dewey Bartlett Jr. pointed to one factor: the gross production tax. In 2007, that amounted to \$1.1 billion in state coffers, or roughly 20 percent of the state budget.

While that will decline with the fall of oil prices, making some expensive drilling projects unaffordable, Bartlett said the energy industry continues to create jobs.

"This is the entity that helps the state prosper," said Bartlett, chairman of the Oklahoma Energy Resources Board and the National Stripper Well Association. "This decline hopefully will stabilize where it is now."

Oklahoma also draws strength from resurgent rural economies, said Snead.

David Myers, executive director of the Ponca City Development Authority, told how his city diversified in the face of ConocoPhillips restructuring, creating 2,400 net jobs over the last five years while increasing its per-capita income almost 50 percent.

Lyle Roggow, president of the Duncan Area Economic Development Foundation, revealed a similar effort after his community watched Halliburton reduce its presence. By attracting and working with businesses, the Stephens County seat has charted 80-percent per-capita income growth since 1990, with average hourly wages up 33 percent since 2001. Roggow expects five new Duncan employers to add almost 200 jobs over the next five years.

"It is amazing what is happening outside the metro areas," said Snead.

Oklahoma also enjoys underlying strength in its Indian nations, many of which provide not only millions in government support but successful businesses outside their iconic casino operations.

Former U.S. Rep. Brad Carson, now chief executive of the Cherokee Nation Businesses, said the tribal governments represent one of the most powerful economic tools Oklahoma has. The Cherokees alone generate a government payroll of \$110 million a year while paying \$500 million in essential services. Through their casinos, manufacturing operations and other businesses, the Cherokees generate another \$120 million payroll.

Based on a prior OSU study, Carson estimated the Cherokees contribute \$1.5 billion to the northeastern Oklahoma economy through both direct and indirect spending – which would represent 1 percent of the state gross domestic product.

"Throw that in with the Chickasaw, the Choctaw and the other tribes, and you possibly have about 5 percent to 10 percent of the state GDP," he said.

'Our big risk year'

Snead said Oklahoma entered 2008 with great momentum, having charted "phenomenal" retail sales growth, a healthy banking sector, strong in-migration and positive state taxation policies. That, coupled with Washington's rapid action this spring to boost the economy, gave Oklahoma a hedge over the nation's initial financial market problems.

While this fall's rapid plunge in oil and natural gas prices raised moderate concern, Snead said the state's real economic challenges came with October's short- and long-term corporate debt market tightening.

That factor, coupled with energy volatility, made his forecasting task most difficult. With the pace of change, Snead expects OSU may need to revise its outlook more frequently, making the 2010 picture less reliable.

"Everything changed in the past 90 days," he said. "We aren't finished. We will lose many more banks. Many may be consolidated."

Wilkerson said the nation's economic turnaround could start as the overbuilt housing sector levels out in 2009. Inflationary pressures also have eased as energy futures plunged over the last quarter. But Wilkerson still could not offer a positive national outlook in the face of continuing foreclosures and weakening exports, with the nation's financial stress the wild card.

The OSU report mirrored this. While it projected the national recession would turn around in the second quarter of 2009, job losses would continue through the fourth quarter, leading to a 1.5-percent employment decline for the year.

Besides \$50-a-barrel oil, the OSU report also based its estimates on natural gas prices of \$6.50 per thousand cubic feet. That points to the survival point for Oklahoma's energy economy, said Snead.

In the OSU outlook's most pessimistic estimates, Snead said \$35 oil would lead to negative job growth and a languishing state economy by 2010, with roughly 13,000 fewer jobs.

"We're suggesting '09 is not our big risk year," said Snead. "2010 is our risk year."

Forecasting energy volatility

OKLAHOMA CITY – "We don't forecast oil prices," said Oklahoma State University economist Mark Snead. "It is way too dangerous."

That challenge rose in several presentations Tuesday during the OSU Spears School of Business "Oklahoma's Economy" conference at the MetroTech Springlake Campus. It became a running joke after Snead introduced Kim Anderson, suggesting the OSU agricultural economist could forecast oil prices as well as he did wheat and cattle.

Anderson, who forecast declining value in 2009 state agricultural sector net income, livestock production and crop production, simply asked Keener Oil and Gas President Dewey Bartlett Jr. what the current oil price was, then endorsed that.

But after describing the problems in foretelling oil commodities, Snead unveiled the Oklahoma Energy Forecasting Model, forged by the OSU Spears School of Business with the Oklahoma Energy Resources Board and Oklahoma Gas and Electric Co.

The model projects the impact of energy prices as they rise and fall, said Snead, director of the OSU Center for Applied Economic Research. That allows OSU forecasters to chart the overall net impact of energy commodities, from the fuel mix to the dollar expenditures.

With the model, OSU projected declining energy expenditures and costs in Oklahoma through 2010, although consumption will continue gradual growth.

Charting energy expenditures, the model found Oklahomans spent \$17.4 billion on fuel in 2008, with final residential expenditures at \$3 billion, industrial use at \$3.69 billion, commercial uses at \$2.07 billion, and transportation spending at \$8.6 billion. This broke down by \$34.7 million in coal, \$4 billion in retail electricity, \$2.57 billion in natural gas, \$10.7 billion in petroleum, and \$37.4 million in other fuels.

Snead considers the model the most sophisticated one in use.

– Kirby Lee Davis

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