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Oklahoma Economic Forecast Brief 2016

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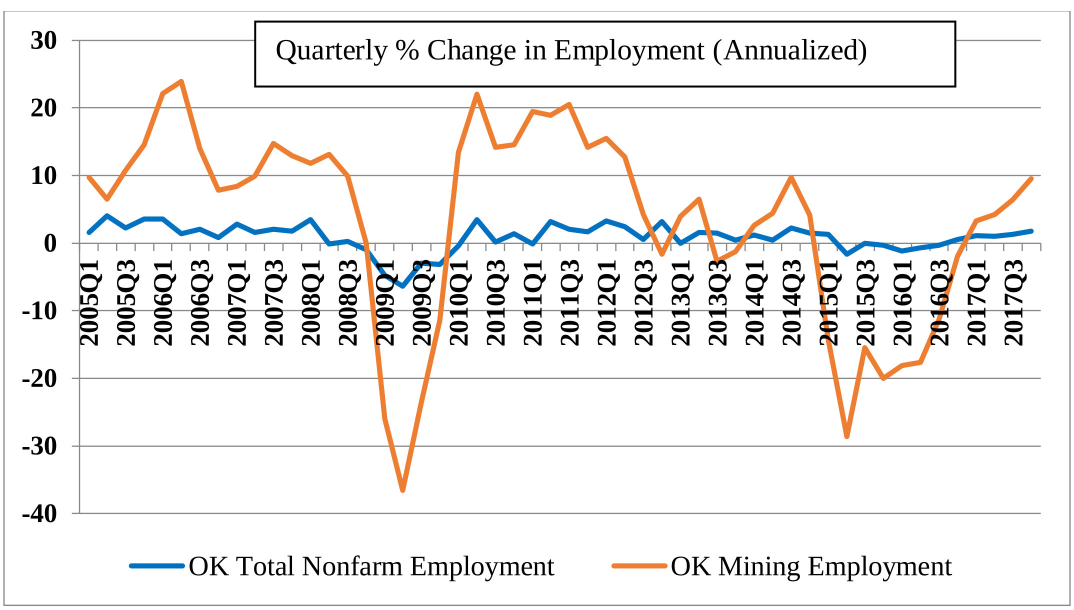
February 6, 2016

The dramatic drop in oil prices caused Oklahoma employment to decline over the last three quarters of 2015. This leaves total nonfarm employment in Oklahoma 0.2 percent lower in the fourth quarter of 2015 compared to that in 2014. Accompanying the heavy job losses in the energy sector were significant net employment losses in Fabricated Metal Product Manufacturing, Machinery Manufacturing, Other Durable Goods Manufacturing, Transportation and Utilities, and Wholesale Trade. These sectors all have economic links to the energy sector and manufacturing also has been hurt by the strong U.S. dollar.

Over the same period, U.S. total nonfarm employment increased nearly two percent. Economic performance was uneven across the nation though, with other energy-based states also negatively impacted by the drop in oil prices. Strong growth nationally helped propel growth in some Oklahoma sectors to offset energy-related job losses. Construction, Educational Services, Transportation Equipment Manufacturing, Retail Trade, and Leisure and Hospitality Services all registered significant net employment gains in Oklahoma during 2015.

Oil prices are not forecast to begin moving upwards until after the middle of 2016. Because of a time lag between movements in energy prices and energy sector employment, the recovery in oil prices will not cause mining employment to increase until the beginning of 2017. As shown in the figure below, mining employment is much more volatile than overall employment growth in Oklahoma.

Strong growth in mining employment is associated with stronger total employment growth during the middle of the last decade. Both declined during the Great Recession and then rose during the first years following the recession. Moderation of mining employment growth slowed the state economy during 2013 and 2014. The dramatic fall in mining employment dragged state employment growth into negative territory during 2015. Because of growth in the national economy and the paring of employment losses in the mining sector, total employment growth in the state is forecast to move into positive territory during the last quarter of 2016, becoming more positive in 2017 as employment once again increases in the mining sector.



	2014	2015	2016	2017
Total Nonfarm Employment (%Δ)	1.1	0.6	-0.6	0.8
Real Personal Income (%Δ)	3.0	2.3	-1.0	2.3
Unemployment Rate (%)	4.5	4.2	4.6	4.6
Population (%Δ)	0.7	0.8	0.4	0.5
U.S. Nonfarm Emp (%Δ): (IHS Global Insight)	1.9	2.1	1.7	1.3
U.S GDP (%Δ): (IHS Global Insight Inc.)	2.4	2.4	2.7	2.9
U.S. CPI (%Δ): IHS Global Insight Inc.	1.6	0.0	1.8	2.4

As shown in the table above, average annual Oklahoma nonfarm employment then is forecast to be 0.6 percent lower in 2016 relative to 2015. This compares to a projected gain of 1.7 percent nationally by IHS Global Insight, Inc. Accompanying the forecast decline in employment in the state, is a projected decline in real personal income of one percent. Inflation, measured by the percent change in the consumer price index (CPI) is forecast to increase to 1.8 percent in 2016, following no change in the index during 2015. The Oklahoma unemployment rate is forecast to increase in 2016, while population growth is forecast to slow.

The expected recovery in the energy sector and continued growth nationally is forecast to cause total nonfarm employment and real personal income growth to turn positive in 2017. But at 0.8 percent, Oklahoma's employment growth is forecast to continue to fall below that of the nation. U.S. employment growth is forecast to slow in 2017 because the national economy will have neared full employment and labor force growth is slowing. Oklahoma population growth will remain subdued because of a time lag between migration and employment. The balance of population and employment growth will leave the unemployment rate roughly unchanged in 2017.

There are considerable risks to the forecast. On the downside, oil prices may remain lower for a more extended period than is currently forecast, delaying the expected recovery in energy sector employment. Economic growth in China and other countries may slow more than expected, further adversely affecting exports.