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Economic Outlook 2018: Summer Update

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The recovery of the energy sector has breathed new life into the Oklahoma economy. After declining for almost two years, Oklahoma total nonfarm employment began growing in 2017 and reached a new high by the end of the year. The rebound in oil prices led to increased drilling and oil sector employment. At the same time, the U.S. economy has continued to produce robust employment growth, though it has slowed slightly as the economy approaches full employment. Energy prices are forecast to remain stable the remainder of 2018, while U.S. employment is expected to continue its current pace of growth.

The July release of the IHS Global Insight, Inc. national forecast includes an expectation of fairly stable levels of energy prices for the rest of 2018 (Figure 1). Accompanying the recent increase in oil prices was a dramatic rebound in energy drilling. As shown in Figure 2, the number of drilling rigs has increased from a low below 60 to approximately an average of 136 during the second quarter of 2018. Worldwide oil supply has been limited by pipeline bottlenecks in the Permian Basin and political instability in Libya and Venezuela. But increased supply by OPEC and Russia will keep oil prices from continuing to increase. Demand for oil is expected to moderate in the U.S. but continue to grow in China and India.

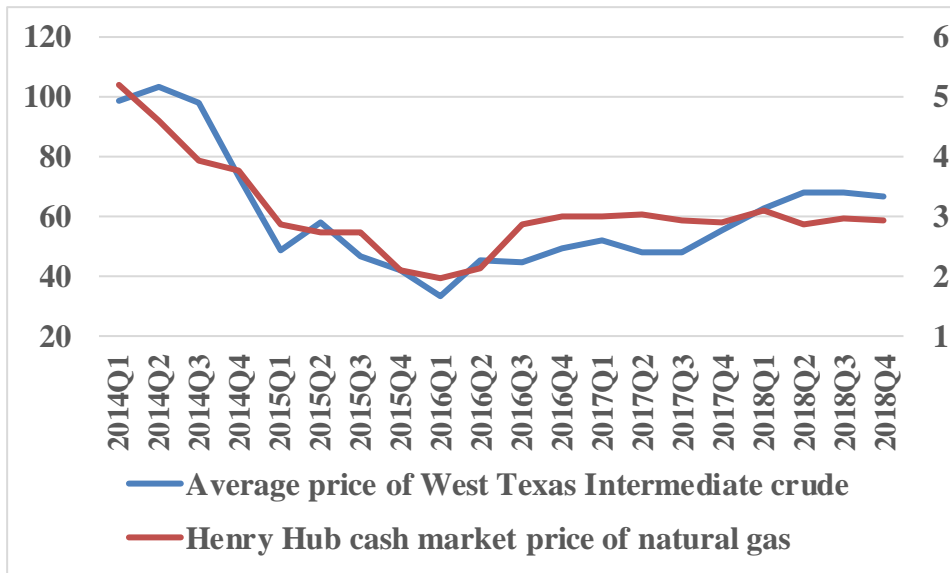


Figure 1: Oil and Natural Gas Prices (forecast begins 2018Q3)

As shown in Figure 3, employment in Oklahoma’s mining sector generally follows the path of mining employment nationally. The swings in Oklahoma mining employment are greater than the nation’s, likely in part because of national mining employment activity outside of the oil and gas sector (e.g., coal mining) and a near absence of such activity in Oklahoma. Because mining sector employment responds with a time lag to changes in energy prices, national and Oklahoma employment in the sector is forecast to continue increasing the rest of 2018 in response to previous oil price increases.

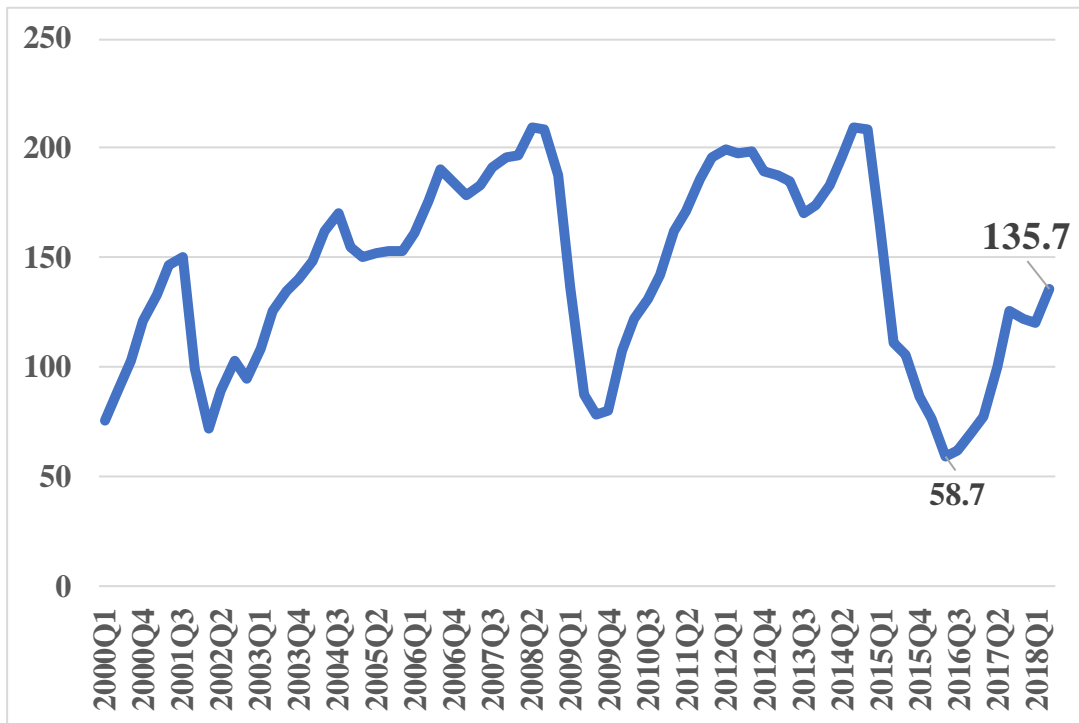


Figure 2: Quarterly Oklahoma Rotary Rig Count (Baker Hughes): 2000:1-2018:2

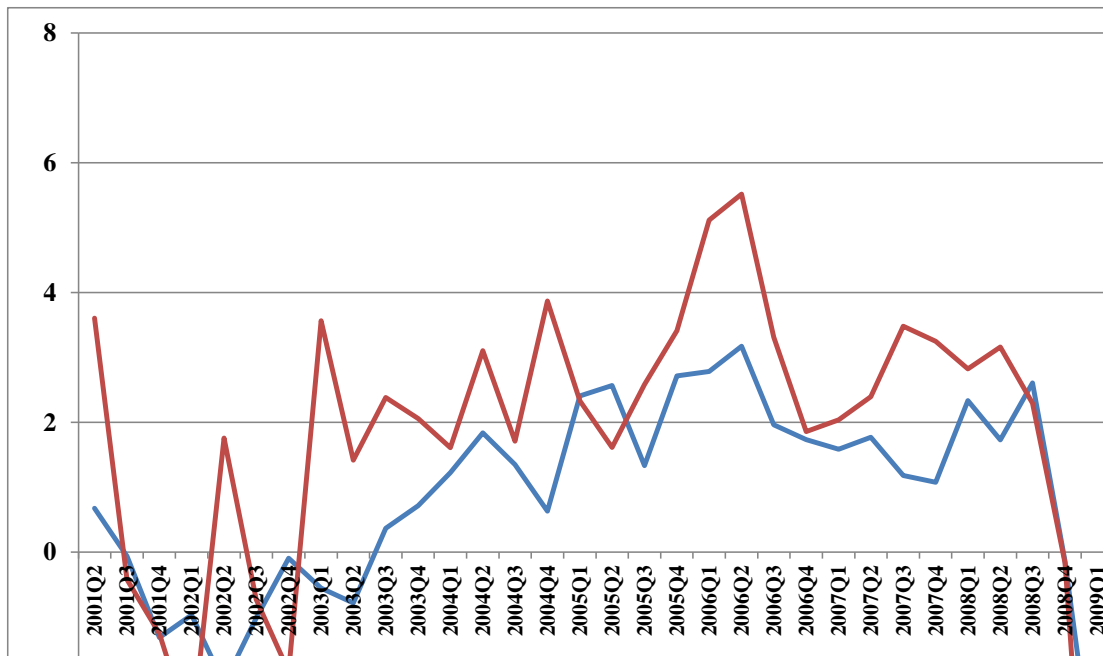


Figure 3: Oklahoma and U.S. Mining Employment Growth: Quarterly % Change (forecast begins 2018Q3)

After dragging the Oklahoma economy down for nearly two years, the boost to the Oklahoma economy from the revival of the energy sector will cause Oklahoma employment growth to return to above the national rate through the most of 2018 (Figure 4). As shown in Figure 4, Oklahoma's total nonfarm employment growth rate fell below the nation's during the collapse of

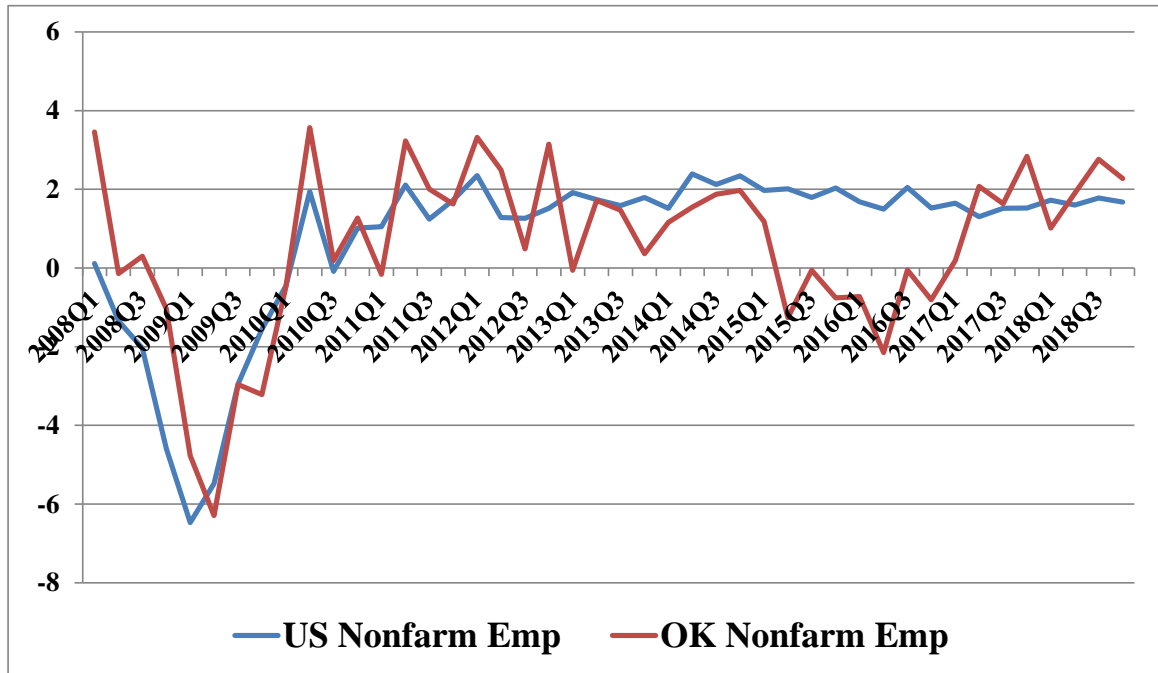


Figure 4: Quarterly Total Nonfarm Employment Growth Rates: Annualized % (forecast begins 2018Q3)

energy prices and the decline in mining (oil and gas) employment, only reversing course when the oil and gas sector recovered.

The average annual level of Oklahoma total nonfarm employment in 2018 then is forecast to increase nearly two percent above the average annual level in 2017 (Table 1). This would be the strongest annual growth in employment since 2012. The forecasted growth for Oklahoma also exceeds the forecast of 1.62 percent employment growth for the nation in 2018. After turning positive in 2017, Oklahoma personal income growth is forecast to finish 2018 slightly above 4 percent, approximately matching national personal income growth. The unemployment rate is forecast to average about 3.8 percent in both Oklahoma and the nation during 2018. The growth in the labor force likewise is forecast to be robust throughout 2018 in both the state and nation.

Table 1. Oklahoma and National Employment Growth and Unemployment

	2015	2016	2017	2018 ^a
Oklahoma Nonfarm Emp. Growth	0.70%	-0.87%	0.52%	1.96%
U.S. Nonfarm Emp. Growth	2.07%	1.78%	1.58%	1.62%
Oklahoma Personal Income Growth	-1.95%	-2.49%	1.89%	4.09%
U.S. Personal Income Growth	4.96%	2.42%	3.14%	4.15%
Oklahoma Unemployment Rate	4.41%	4.82%	4.29%	3.80%
U.S. Unemployment Rate	5.27%	4.87%	4.35%	3.77%
Oklahoma Labor Force Growth	1.90%	-0.05%	0.26%	1.62%
U.S. Labor Force Growth	0.78%	1.31%	0.70%	1.02%

^a Second half of 2018 based on forecasts

Risks to the forecast include slowing national economic growth from a loss of confidence and over supply of oil. IHS Global Insight, Inc. assigns a twenty percent chance of a national recession. At 109 months, the current economic expansion is the second largest on record. A loss of confidence would lead to slowing of spending in both the household and business sectors of the economy. Increased supply of oil by OPEC and in the Permian Basin could depress oil prices, particularly if U.S. demand softens. While lower oil prices provide a boost to the national economy, as witnessed recently, they greatly harm the Oklahoma economy.