

## More growth forecast for Okla. economy in 2012

by Tim Talley

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OKLAHOMA CITY – Oklahoma's economy showed signs of recovery in 2011, with encouraging growth in oil and natural gas production, the aerospace industry and manufacturing.

But the prospect of ongoing political turmoil in Washington, D.C., and a significant financial crisis in Europe bring uncertainty to the state's economic outlook for 2012.

"There are a lot of things that are kind of beyond our control," said Mickey Hepner, an economist and dean of the College of Business at the University of Central Oklahoma in Edmond. "We're riding the waves of the economic ocean. What happens in Athens and Rome still affects what happens in Oklahoma."

The state will enter the new year riding a wave of economic optimism. It has one of the nation's lowest unemployment rates and among the fastest growth rates for jobs – both signs of economic strength, according to a report by the U.S. Chamber of Commerce and the National Chamber Foundation.

The state's unemployment rate in November was 6.1 percent, 2.5 percentage points below the national rate of 8.6 percent. And Oklahoma is the fourth-fastest-growing state for jobs for 2011, adding jobs at a rate three-and-a-half times the national rate since January, according to the U.S. Chamber report.

"Those are the kinds of things that are encouraging," said Oklahoma Commerce Secretary Dave Lopez. "I am very optimistic as to Oklahoma's economy and strength continuing."

Oklahoma is one of the nation's leading energy producers, and about a quarter of the state's jobs are directly or indirectly tied to oil and gas production, Hepner said. Business leaders said they expect Oklahoma's energy sector to continue to expand in 2012.

Oklahoma-based independent energy companies, including Devon, Chesapeake Energy, SandRidge and Continental Resources, are expected to expand their operations and workforce during the coming year, said Roy Williams, president and CEO of the Greater Oklahoma City Chamber.

"We see continued hiring. That in turn shows up in retail sales," Williams said. More economic activity leads to higher tax revenue to state and local governments, allowing leaders to address quality-of-life issues such as roads, schools and recreational facilities, he said.

Oklahoma lost manufacturing jobs over the past decade due to downturns in the national economy, but economic activity generated by manufacturing still supports 11 percent of jobs in all industries statewide, according to the U.S. Chamber report. In the 12-month period ending in July, manufacturing job growth in Oklahoma was second only to Alaska's manufacturing sector. Oklahoma's 8.1-percent growth rate for manufacturing jobs during the period is more than five times the national rate.

"We are seeing a lot of growth in manufacturing. A lot of that is being fueled by energy," said Fred Morgan, president and chief executive officer of The State Chamber of Oklahoma. Expansion of oil and gas development fuels higher demand for pipes, pumps, valves and other manufactured equipment, he said.

"It's been the fastest growing sector in Oklahoma," said Lopez, adding that growth in the state's aerospace industry also created new manufacturing jobs.

Two major aircraft maintenance depots employ thousands of workers in the state, including the American Airlines maintenance facility in Tulsa and the aircraft maintenance, repair and overhaul facility at Tinker Air Force Base in Oklahoma City. Aerospace and defense-related work now account for one-tenth of Oklahoma's economy, Lopez said.

Government and the military account for 23 percent of all jobs in the state. A report released by the Department of Commerce found that the state's military installations employ more than 69,000 military and civilian personnel and contractors and that military activity generates 7 percent of the state's gross state product.

All that economic growth, however, has created a shortage of qualified workers, business leaders said.

"One thing we're hearing over and over again, especially in manufacturing, is it's hard to find skilled labor in this market. That's becoming a real challenge," Morgan said.

State leaders need to focus on improving public education and increasing the number of college graduates in the state, he said. Technology centers operated by the CareerTech system are working with private sector employers to build training programs that will serve their needs.

Lopez said out-of-state employers are showing "strong interest" in operating in Oklahoma next year in part because it has a low cost of doing business. Oklahoma has the third-lowest cost of living in the nation, a factor that ranked Oklahoma eighth in the nation in the number of out-of-state residents moving into the state in 2009, the U.S. Chamber reported.

Since 2005, the state has attracted new residents from neighboring states as well as California. There were net losses of Oklahomans moving to Texas in the late 1990s and early 2000s, but the flow has slowed recently and reversed in 2009.

Economic gains also helped Oklahoma reach a No. 6 ranking in the rate of per capita income growth. Per capita personal income in the state last year was \$35,396, 34th in the nation, according to the federal Bureau of Economic Analysis.

Despite the momentum, regulatory, political and global economic factors threaten to slow the pace of the state's economic growth in 2012.

Williams expressed concern about proposed federal cutbacks that could affect military installations and the Federal Aviation Administration's Mike Monroney Aeronautical Center in Oklahoma City. Army and Air Force officials recently announced they will trim the number of civilian positions.

"The big looming thing out there is what Washington is going to do," Williams said.

Plans by the Environmental Protection Agency to formulate new regulations on wastewater generated from an oil and gas drilling technique called hydraulic fracturing could dramatically slow activity in the state's oil patch, Morgan said.

"I think it would be devastating. That would hurt the entire economy," he said.

Hydraulic fracturing, or fracking, has been common in Oklahoma for decades. In the process, wastewater is pumped underground into geological formations through disposal wells that are permitted and regulated by government agencies. However, problems have arisen in other states that don't have similar underground formations suitable for injection.

Hepner also said uncertainty caused by political disagreements in Washington and the debt crisis in Europe could have global repercussions for Oklahoma's economy.

In August, Congress ended a months-long stalemate over raising the federal debt ceiling that had threatened to lead to the federal government's default. The episode prompted credit rating agency Standard & Poor's to downgrade U.S. debt for the first time since assigning the nation's AAA rating in 1917.

"That crushed consumer confidence and really slowed the economy down," Hepner said. More political wrangling could further shock the economy he said.

In addition, nations like Greece and Italy are struggling to avoid bankruptcy while banks in Europe face the prospect of a significant financial crisis in 2012.

"That can spill over to financial institutions here. How exposed are they?" Hepner said.

In spite of the threats, business leaders said they remain optimistic that Oklahoma's economy will weather a global economic storm.

"We're fairly optimistic," Williams said. "By and large I think we're extremely fortunate to be where we are."

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