



Owasso, Oklahoma: 2013 Economic Outlook

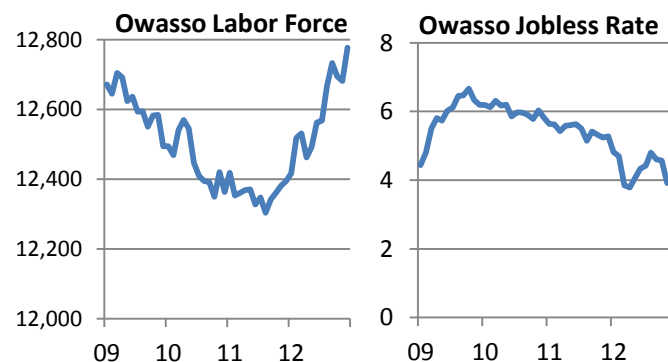
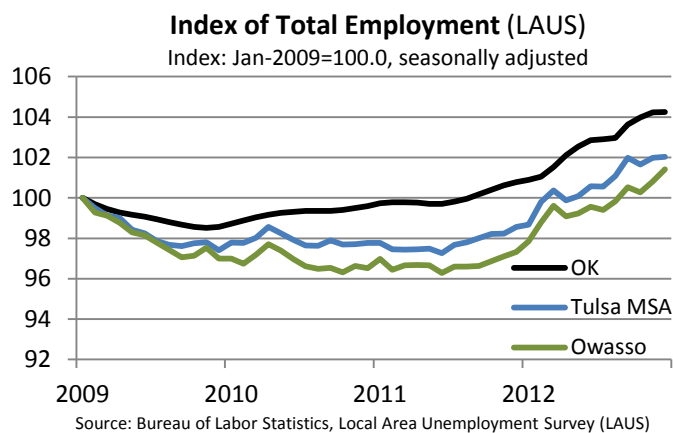
Owasso was hard-hit in the recent recession and has closely followed the sluggish rebound of the Tulsa area economy. The local recovery is now accelerating as the region moves toward its new long-run growth trend.

U.S.-like Recession for Owasso? The traditionally fast-growing Owasso economy was hit hard in the recent national recession. Local employment, income, and retail activity all contracted under weak regional, state, and national economic conditions. The Owasso economy contracted steadily in both 2009 and 2010 before finally bottoming in early 2011, more than a year after the state economy rebounded. Much like the nation, the heaviest job losses occurred in construction, manufacturing, financial services, and professional and business services.

The local economy now has roughly two full years of recovery behind it and is accelerating and adding jobs at a steady pace. Our estimates indicate that local private job growth increased from 1.4% in 2011 to 2.9% in 2012. Total private employment is expected to return to its pre-recession peak by early 2013. Overall, employment growth has been very rapid since mid-year 2011, slightly outpacing the state in the period. Growth in income and retail activity has similarly rebounded. The local unemployment rate is now around 4% after peaking near 7% at the height of the recession.

boost from energy and protracted weakness in key high-wage professional and business services were key factors behind the relative weakness in many counties in the northeast quadrant of the state. Central, southern, and western Oklahoma counties far outperformed Tulsa-area counties in the early stages of the recovery. As the Tulsa region finally accelerated in early 2011, the recovery began in earnest in Owasso as well.

Two-Stage Recession? Owasso's unique makeup as a heavy out-commuting suburb almost certainly contributed to the extended duration of the local recession. Job losses among local residents who work in the broader Tulsa metro economy initially slowed the region early in the recession but did not immediately tip it into recession. This was followed by a late downsizing in the local hiring base that extended into early 2011. In particular, the key manufacturing and construction sectors both languished into early 2011. Local labor force participation contracted sharply into 2011 as well. Overall, the characteristics of the Owasso recession were much more typical of the national slowdown as it unfolded in many fast-growth regions outside of Oklahoma.



Close ties to U.S. and Tulsa Hamper Recovery. Owasso's recovery closely tracked the Tulsa area and was more national-like in composition than most areas of the state. While most areas of Oklahoma accelerated rapidly beginning in early 2010, the hiring rebound in both Owasso and the broader Tulsa region began at least a full year after the state. A much smaller

Employment growth has rebounded. Owasso has since benefitted from a hiring rebound in manufacturing and several of the key services sectors. The local manufacturing sector suffered roughly half of the total job losses in the downturn. More than half of the manufacturing jobs lost have since been recovered, but factory employment remain below peak levels. Hiring in the hard-hit construction and professional and business

services sectors has shown only limited improvement. Conversely, health care, trade, transportation, and financial services held up well in the recession and continue to add jobs at a steady pace. Trade and transportation jobs account for 30% of local employment, and continued strength in these sectors continues to pace the overall local economy. Hiring in the large but mostly low-wage leisure and hospitality sector has rebounded but remains below pre-recession levels. Now that local job growth has resumed, the broader question for Owasso is the ultimate strength of the rebound and the new long-term growth trend the region settles into over the next 12 to 24 months.

Owasso is Not Immune to Potential Economic Instability at the National Level. Another slowdown at the national level remains the greatest direct risk to the Owasso and Oklahoma recoveries. Tremendous uncertainty remains over the sustainability of the ongoing U.S. expansion. The Federal Reserve undoubtedly will continue to supply significant stimulus given its recent shift in policy focus to the unemployment rate, concerns over the Federal budget, and ongoing risks from Europe.

Potential spillover from Europe and a potential budget impasse in the U.S. remain the dominant risk factors in the near term. At this point, both are acting to sustain the high level of consumer and business anxiety plaguing the country since 2008. Reaching a budget agreement prior to January 1, 2013 was not the critical factor for Congress. But a credible first quarter 2013 plan for intermediate-term deficit reduction without creating chaos in the short-run is what financial markets and the business community are pleading for. The rollout of the Affordable Care Act begins in late 2013 and will only add to the uncertainty surrounding the Federal budget, as well as the general level of uncertainty for the rest of us.

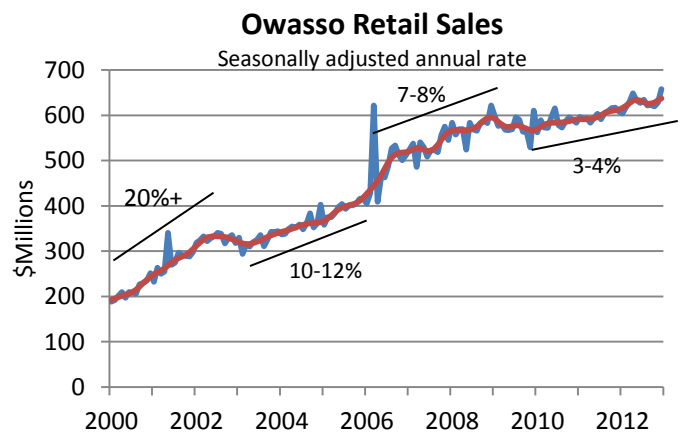
Despite the fragile nature of the recovery, there is clear improvement in the domestic economy, particularly in the labor market. This bodes well for continued economic expansion in 2013 at the state and local levels. Visible progress has been made in eliminating a number of factors holding back economic growth. The banking system has mostly worked through capital and loan loss issues, with residential loans the only remaining issue at large banks. Housing has slowly moved off the table as an economy-wide risk factor as home prices show clear signs of stabilizing in most regions and sales volumes have picked up. Consumer spending is solid though unspectacular with only occasional soft patches in the retail sales data. Commercial real estate has stabilized and presents only limited risk to banks relative to residential real estate. The greatest near-term concern is the clear pullback in business

investment since late 2012 and some slowing in the energy and manufacturing expansions.

On balance, the fundamentals suggest continued growth going forward, albeit disappointingly slow growth. Our baseline U.S. forecast assumes a slight acceleration of GDP growth to 2.5% in 2013 and further acceleration to 2.9% in 2014. Nonfarm payroll gains nationally are expected to accelerate a bit from 1.5% this year to 1.6% and 1.7%, respectively, in 2013 and 2014. The recovery is also becoming increasingly widespread. Even the housing-bust states of Arizona, California, Florida, and Nevada are steadily adding jobs.

Strong Momentum Statewide and in Tulsa Aids Local Growth in 2013. Our hiring outlook also calls for the strong rebound underway statewide and in Tulsa to carry over into 2013. A near repeat of 2012 is expected, with Oklahoma job growth outpacing the U.S. once again. The gap between state and nation should narrow as the U.S. recovery matures and state job growth slows slightly from 2.5% in 2012 to 2.3% in 2013. The rebound in the Tulsa metro area since early 2011 has been impressive. Wage and salary job growth reached 2.6% percent in 2012 and is expected to slow only slightly to 2.2% in 2013. These factors will provide much-needed fuel to the ongoing recovery in Owasso.

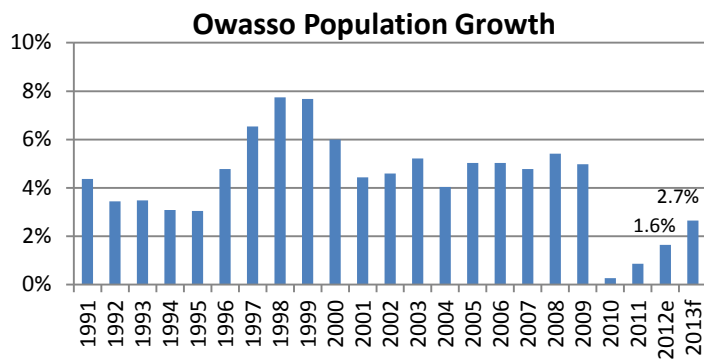
Seeking a New Long-Run Trend. Owasso's rebound is well underway but is moving at a rate well below historical norms. Our estimates suggest that private job growth in the city reached 2.9% in 2012. This is an impressive performance relative to the state and nation but is less than half the 8.5% annual private job growth recorded the fifteen years prior to the recession.



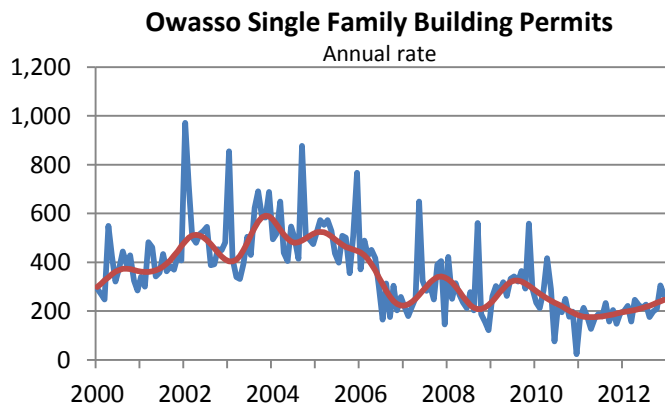
Retail purchases have similarly rebounded at a growth rate of 3-4% since early 2010. This is roughly half the growth rate prior to the slowdown and one-third the rate experienced in the years coming out of the 2001 recession. It is much too early in the recovery cycle to determine whether this simply reflects an extended recovery process

or whether a meaningful shift in the growth fundamentals of the area economy has taken place.

Shift in Growth Fundamentals? Population and construction activity confirm at least a short-run shift in the fundamentals underlying the often hectic pace of expansion the past two decades. The key fundamental for any fast-growing region is population growth, and Census estimates suggest that Owasso downshifted from core annual population gains of near 5% to less than 1% in both 2010 and 2011. Our model-based estimates suggest population gains returned to 1.6% in 2012 and should return to 2.7% in 2013. Beyond 2013, our estimates suggest a return to at least 2.5-3.5% population growth in the near term.



Construction activity, particularly housing, similarly reflects the recovery underway in the region. Single-family housing bottomed in early 2011 and is now trending upward in step with population growth. Multifamily residential construction also remains underway locally and is another indication that the rebound has more room to run.



Current Momentum Carries Owasso into 2013. Our local hiring outlook reflects a continued recovery at the national level and calls for the current acceleration in the Owasso economy to carry over into 2013. A slightly faster version of 2012 is the expected outlook for this year. Private sector wage and

salary job growth is expected to reach 3.4% (about 350 new jobs) in 2013, slightly faster than the 2.9% pace (about 300 new jobs) estimated for all of 2012. The area should outperform both the Tulsa area and the state in job formation this year.

Most of the job gains are expected to be driven by continued expansion in manufacturing, trade, transportation, health care, and leisure and hospitality. Continued strong recovery in the broader Tulsa metro area and greater job opportunities for out-commuting residents will help pull the local jobless rate slightly lower in 2013, to below 4%.

More rapid overall job growth will remain unlikely until the consolidation underway in the local construction and professional and business services sectors is fully completed. Housing construction has already returned to an uptrend though not at a rate that would produce a surge in hiring in 2013. Growth in professional and business services jobs remains subdued across the broader Tulsa region and will weigh on potential job gains this year.

Retail sales are expected to be driven by continued income gains and are expected to rise 4.4% in 2013, a solid rise but a clear slowing from historical growth rates. This estimate does not reflect potential gains from additional local big-box retail sales coming online this year.

In short, the recovery in Owasso is well underway, with the region again growing faster than the state and the nation. The city has posted consecutive years of improved economic performance in 2011 and 2012 and is poised for further acceleration in 2013. Nevertheless, the pace of growth in economic activity remains well below historical norms for the local economy. Determining the region's new long-run growth trend will likely have to wait until 2014 as more data arrives and the local recovery matures further.

March 15, 2013

Economic Indicators – Owasso, Oklahoma

Indicator	2007	2008	2009	2010	2011	2012e	2013f
Private Wage & Salary Employment	9,274	10,213	10,596	9,944	10,086	10,380	10,737
<i>% Change</i>	3.0%	10.1%	3.8%	-6.2%	1.4%	2.9%	3.4%
Mining	82	83	88	84	91	94	95
	2.8%	2.0%	6.0%	-4.7%	8.1%	3.3%	1.1%
Construction	499	478	431	396	388	397	393
	19.3%	-4.1%	-10.0%	-8.1%	-2.0%	2.3%	-1.1%
Manufacturing	994	927	957	684	746	802	859
	-2.7%	-6.7%	3.2%	-28.5%	9.0%	7.5%	7.1%
Trade, Transportation, and Utilities	2,735	2,855	2,846	3,094	3,022	3,144	3,249
	-6.3%	4.4%	-0.3%	8.7%	-2.3%	4.0%	3.3%
Information	85	98	126	112	120	128	136
	30.3%	15.8%	28.4%	-11.2%	7.3%	6.8%	6.4%
Financial Activities	639	651	678	605	644	656	681
	26.1%	1.8%	4.1%	-10.8%	6.5%	1.9%	3.8%
Professional and Business Services	763	862	962	756	777	784	801
	-21.4%	13.0%	11.6%	-21.4%	2.8%	0.9%	2.2%
Educational & Health Services	1,230	1,498	1,750	1,658	1,674	1,690	1,744
	27.3%	21.8%	16.8%	-5.3%	1.0%	1.0%	3.2%
Leisure & Hospitality	1,614	2,131	2,134	1,909	1,923	1,957	2,025
	10.1%	32.0%	0.1%	-10.5%	0.7%	1.8%	3.5%
Other Services	633	629	624	646	701	728	754
	6.7%	-0.7%	-0.7%	3.5%	8.5%	3.8%	3.7%
Employment (LAUS)	12,038	11,901	11,855	11,699	11,687	12,045	12,358
	-0.5%	-1.1%	-0.4%	-1.3%	-0.1%	3.1%	2.6%
Labor Force	12,481	12,382	12,615	12,450	12,361	12,592	12,819
	-0.5%	-0.8%	1.9%	-1.3%	-0.7%	1.9%	1.8%
Unemployment	424	416	741	750	674	547	496
	-2.1%	-1.9%	78.4%	1.2%	-10.2%	-18.9%	-9.3%
Unemployment Rate	3.4%	3.4%	5.9%	6.0%	5.5%	4.3%	3.9%
	-1.6%	-1.1%	75.1%	2.6%	-9.6%	-20.4%	-10.9%
Taxable Retail Sales (\$Mil)	540.98	580.01	573.20	587.67	601.45	624.30	651.48
	7.7%	7.2%	-1.2%	2.5%	2.3%	3.8%	4.4%
Wage & Salary Earnings (\$Mil)	220.4	251.5	257.3	250.5	262.4	271.6	289.0
	5.2%	14.1%	2.3%	-2.6%	4.7%	3.5%	6.4%
Population	26,677	28,122	29,522	29,599	29,854	30,344	31,148
	4.8%	5.4%	5.0%	0.3%	0.9%	1.6%	2.7%
Business Establishments	765	798	781	801	814	825	835
	11.0%	4.3%	-2.1%	2.6%	1.6%	1.4%	1.2%
Single Family Home Permits (Units, annual rate)	301	267	327	215	180	220	235
	-6.8%	-11.3%	22.5%	-34.3%	-16.3%	22.2%	6.8%
Single Family Home Permits Value (\$Mil)	32.9	27.4	33.8	24.3	24.4	37.6	39.2
	-8.9%	-16.8%	23.4%	-28.0%	0.5%	54.0%	4.2%
^e Estimate ^f Forecast	2007	2008	2009	2010	2011	2012e	2013f