



Owasso, Oklahoma: 2014 Economic Outlook

Owasso's economic expansion accelerated in 2013 as the area moves back near its pre-recession growth pace. Hiring and income gains are propelling retail gains as housing stabilizes further. New development projects will have a major impact in 2014 and 2015.

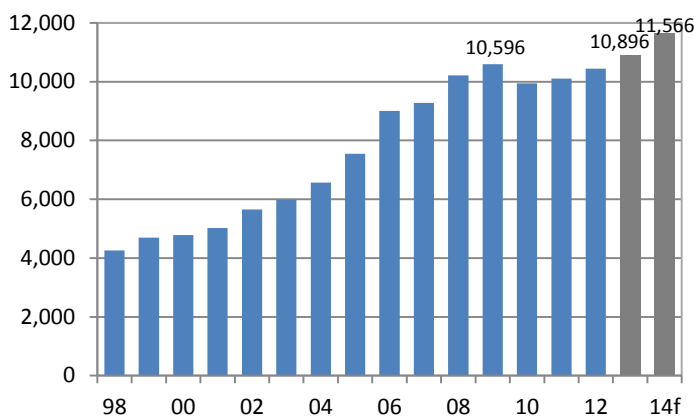
Outlook Summary:

- Owasso accelerates to near its pre-recession pace
- Retail trade activity surged in 2013
- Census population estimates revised upward
- Housing market stabilized but faces constraints
- Local hiring forecast for 2014 raised to a 6.2% gain
- Hiring strongest in construction, health care, & retail
- Distribution center could have large 2015 job impact

The Owasso Recovery is Solidly Underway. Local economic conditions accelerated further in 2013 as the region moved back toward historical growth rates. Most importantly, significant job growth returned to the region during 2013 (Figure 1), with an estimated gain of 4.4% (450 jobs). This is more than double the rate posted by both the state and the Tulsa metro area in the period and a full percentage point above our initial forecast of a 3.4% gain. Job growth for 2012 was revised upward slightly from 2.9% to 3.3% (340 jobs).

The formation of private business establishments accelerated as well to an estimated 1.6% in 2013, well above the 0.7% rate from 2012.

Figure 1. Owasso Private Wage & Salary Employment



Strong local job growth continues to produce large wage gains. Wage and salary earnings increased an estimated 7.3% for all of 2013, a second consecutive year of strong growth following a 7.7% gain in 2012. Local consumer spending surged in 2013 as total taxable sales increased 7.9% for the year, well above the 4.7% gain posted in 2012.

City population estimates continue to surprise to the upside and residential housing activity has maintained its steady upward trend since 2012.

Jointly, these broad economic measures provide a clear pattern of accelerating local economic activity.

The local job expansion is broad-based and services-heavy. Owasso is now seeing considerable hiring in most major industry sectors, with the largest number of new jobs in the major services sectors. Of the roughly 800 new jobs created in Owasso since 2011, more than 80% (650 jobs) are service-providing (Figure 2). This reflects balanced growth in the recovery that is roughly proportional to the current goods-services job mix in the area. Services now comprise 87.5% of local private sector jobs, up from 81% a decade ago.

Figure 2. Owasso Job Formation – Goods vs. Services



The greatest estimated job gains in the services sectors in 2013 (Table 1) are trade, transportation, and utilities (60 jobs); professional and business services (60 jobs); leisure and hospitality (40 jobs); education and health services (60 jobs); and other services (65 jobs). Most of these sectors extended gains underway since 2011 or 2012.

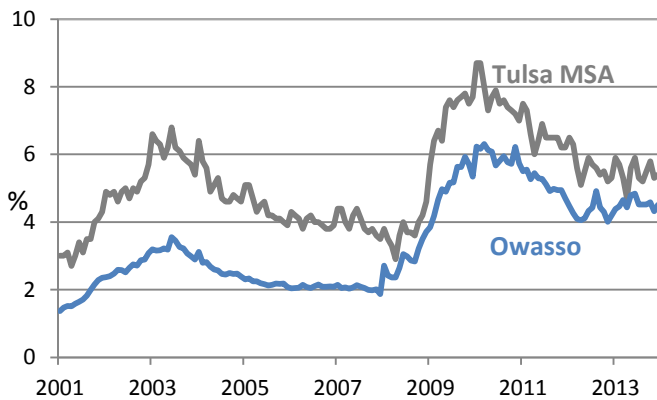
Hiring in the persistently weak financial services sector finally bottomed in 2013, posting its first job gain (35 jobs) in the recovery.

The goods-producing sectors surged early in the recovery but stalled in 2013. After a sharp 10.3% gain in 2012, the goods-producing sectors added few net new jobs in 2013. The rebound in manufacturing leveled off considerably in 2013, with factories adding only an estimated 25 new jobs. Local factory employment remains 15% below pre-recession levels and now represents only 7.7% of the local workforce, down steadily from a peak share of nearly 12% in 2006.

The mining and construction sectors saw no measurable job growth in 2013. The oil and gas industry continues to have little presence in the area. Construction hiring has not put in a clear bottom yet and remains about 20% below 2007 levels. The expected groundbreaking on the Macy's distribution facility in the first half of 2014 will likely reverse the weak hiring trend in construction and push it well above pre-recession levels.

Is the flat unemployment rate suggesting weakness in local job formation? Owasso's unemployment rate has hovered around 4.5% the past 24 months and remains more than double the 2% rate enjoyed prior to the recession (Figure 3). The number of local unemployed workers also ticked up in 2013 from about 550 to 600 workers. The Tulsa metro area has followed a similar pattern in the recovery with a jobless rate hovering around 5.25% since early 2012, well above its 4% trend rate going into the recession.

Figure 3. Owasso & Tulsa MSA Unemployment Rate

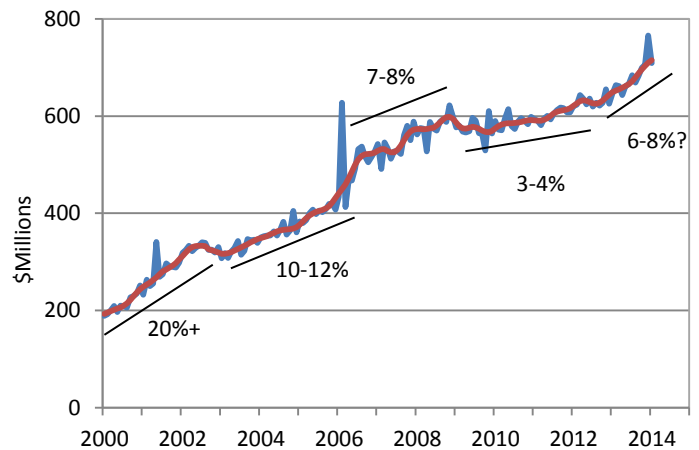


While the lack of progress on reducing the rate may signal some concern, the components of the local unemployment rate suggest a bit more positive story. Although the number of local workers unemployed bounced upward in 2013, the Owasso labor force has expanded by 7% (900 workers) since early 2010. This labor force gain is considerably higher than the 1.5% gain nationally since early 2010 and more than twice the 3% gain for the Tulsa metro area in the period. This added local labor supply is very positive for local employers but has contributed substantially to the upward pressure on the local jobless rate.

The sideways move in the local jobless rate also reflects conditions both in Owasso and the broader Tulsa metro area. The unemployment rate survey is based on a worker's place of residence rather than place of work. For a city such as Owasso where almost 85% of residents travel outside the city to work, the sluggish unemployment rate is more reflective of conditions in the broader Tulsa labor market than locally in Owasso. Any local unemployment conditions that may be affecting the rate are likely traced to extended softness in local manufacturing and construction hiring relative to pre-recession levels.

Surge in Local Retail Activity in 2013. Owasso's retail surge is being driven by both a continued cyclical rebound and the presence of new retailers. Local retail activity began a clear cyclical recovery in 2012, posting a 4.7% gain in taxable sales (Figure 4). Retail activity accelerated further in 2013 under both a strengthening local economy and new store openings. Owasso taxable retail sales expanded 7.9% for all of 2013, the fastest annual gain since the 7.7% gain posted in 2007.

Figure 4. Owasso Sales Tax Base and Growth Rates
Sales at a seasonally adjusted annual rate, with X-12 trend



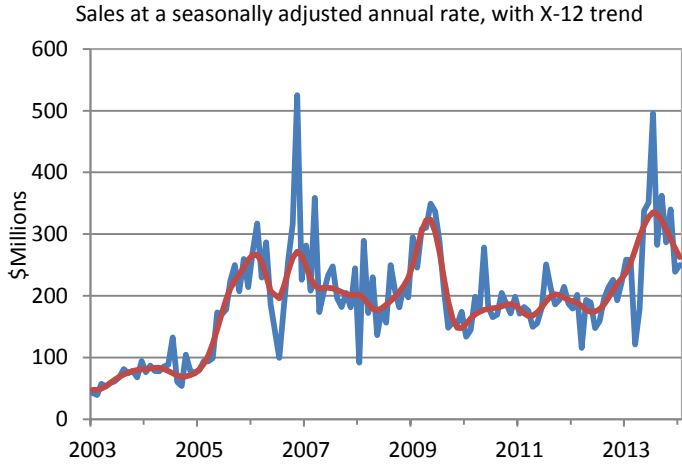
Over the past 18 months, retail sales in the region have moved upward at a trend pace of roughly 6-8%. This is similar to the gains produced in the 2006 to 2008 period just prior to the recession and nearly double the rate in the early stages of the recovery in the 2009 to 2011 period. The opening of the local Sam's Club provided an additional boost to retail activity in the fourth quarter of 2013 that will likely sustain the overall pace of retail gains well into 2014.

Sales subject to the local use tax similarly surged in Owasso beginning in 2012 and accelerated further in 2013 (Figure 5). Transactions subject to the use tax topped \$350 million for all of 2013, an all-time high and more than 50% above the 2012 level.

Combined, local taxable transactions subject to both sales and use tax crossed the \$1 billion threshold in 2013.

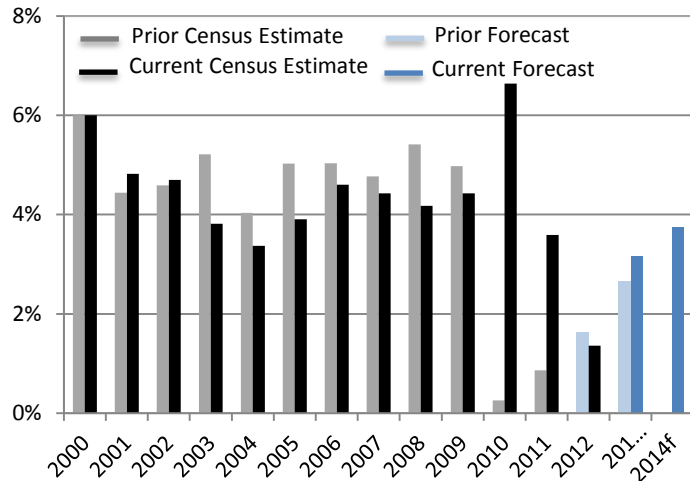
Though not included in our current forecast, there is strong potential for local use tax collections to surge once again in 2014 as the new distribution center project progresses.

Figure 5. Owasso Use Tax Base



Upward Revisions to Census Estimates. Census population estimates remain subject to very large revisions in fast growth regions. Initial Census estimates suggested that Owasso downshifted from core annual population gains of near 5% to less than 1% in both 2010 and 2011. Recent revisions (*Figure 6*) suggest that population growth was much stronger in both 2010 and 2011, but that population growth slowed to only 1.4% in 2012.

Figure 6. Owasso Population Revisions and Forecasts

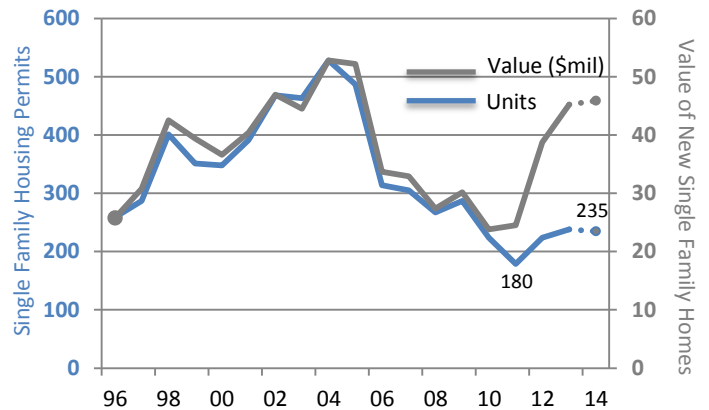


We anticipate that the current 2010 and 2011 estimates will be revised further in future Census releases and will remain well below 4%. The severity of the local job decline during the recession and the modest rebound in local housing construction suggest that some meaningful slowing in population growth did occur in the 2010-2012 period. Our current model-based estimates suggest that population growth declined to 1.6% in 2012 but is forecasted to rebound to 3.2% in 2013. Beyond 2013, our near term

population growth estimates suggest a return to at least the 3.0-3.5% range.

Housing Market Has Stabilized. Single-family housing construction is on a steady growth path but activity remains well below pre-recession levels. Local housing activity bottomed in late 2011 and has since managed small, steady gains in permitted construction activity. Housing permits increased from a low of 180 single-family units in 2011 to 224 units in 2012 and 238 units in 2013 (*Figure 7*). Permits currently remain about 50% below the 500 permits approved annually in the 2004-2005 period.

Figure 7. Owasso Single Family Housing Permits



As in many housing markets around the country, Owasso-area builders have worked to offset the weak rebound in unit growth with higher average home values (*Figure 7*). The average permit value for a single family home in Owasso climbed from \$105,000 between 2008 and 2010 to \$190,000 per home in 2013. Hence the total value of homes constructed locally is only 10% below the peak of \$50 million reached in 2004-2005, despite a 50% decline in volume. This has helped minimize the spillover impact from the slowing in construction.

Our Outlook Calls for Owasso to Accelerate Back to near its Pre-Recession Growth Pace. Our local hiring outlook reflects a continued recovery at the national and state levels and further acceleration in the Owasso economy in 2014. A slightly faster version of 2013 is the expected outlook for 2014.

Our hiring forecast is for 6.2% job growth (670 jobs) in the local area in 2014. From a longer-term perspective, our 2014 forecast is only slightly below the 8.5% annual private job growth recorded the fifteen years prior to the recession.

The local unemployment rate is expected to resume falling given a more rapid pace of job formation locally and continued strengthening of the recovery in the broader Tulsa region. The local jobless rate should move toward 4% by the end of 2014.

Locally earned wage and salary income will be boosted by the expected job gain to 10.1% in 2014. Retail sales should continue to benefit from the strong momentum in place and recent additions to the local merchant mix and expand by 8.5% next year.

Strongest Job Gains in Health Care, Construction, and Trade. The overall job outlook is heavily influenced by two factors: 1) the expected construction impact of the new distribution center and 2) the ongoing expansion nationally and statewide in health care. Our forecast assumes a net increase of 225 construction workers on an annual basis in 2014, with most of the job gains back-loaded in the second half of the year. This represents roughly one-third of the expected job gains locally. The health services sector is expected to add 160 new jobs in 2014, consistent with the trend in place in most areas across the state.

The recovery should remain broad-based next year. Other services sectors expected to produce strong job gains include trade and transportation (90 jobs); professional and business services (60 jobs); and leisure and hospitality (40 jobs).

Financial services should continue its late recovery and add 40 new jobs in 2014. The manufacturing sector is expected to repeat its performance from 2013, posting only about 20 new jobs in 2014. Hiring in the local mining sector is expected to remain flat.

In housing, we anticipate approximately flat single-family construction volume (235 units) in 2014 relative to 2013, and a slight increase in the total value of single family home construction to \$46 million. During 2014, the local housing correction should be complete as population growth once again resumes its place as the dominant driver of local housing activity.

Owasso Growth Will Likely Accelerate Considerably into 2015. Our local hiring outlook does not fully reflect the potential impact of the new Macy's distribution center. Considerable construction impacts will stretch from the second half of 2014 into the second half of 2015. The large employment base expected at the facility will draw a full- and part-time labor force both locally and from across the Tulsa region. This has the potential to push the local job growth rate well into the double digits in 2015 as the facility is staffed. Owasso is also the logical place for many of the permanent staff to establish a residence. While the facility will likely add some demand to new housing construction in 2015, it will likely put the greatest pressure on existing single family and multi-family housing. The added presence of

construction workers, and eventually commuting workers, should also have a visible impact on several retail sales sectors beginning in 2014.

March 14, 2013

Table 1. Economic Indicators - City of Owasso, Oklahoma

Seasonally adjusted, annual rate

Sector	2006	2007	2008	2009	2010	2011	2012	2013e	2014f
Private Wage & Salary Employment	9,008	9,274	10,213	10,596	9,944	10,104	10,441	10,896	11,566
<i>% Change</i>	19.4%	3.0%	10.1%	3.8%	-6.2%	1.6%	3.3%	4.4%	6.2%
Goods-Producing Employment	1,519	1,574	1,489	1,476	1,164	1,220	1,345	1,367	1,619
	26.8%	3.7%	-5.4%	-0.9%	-21.1%	4.8%	10.3%	1.6%	18.4%
Mining	80	82	83	88	84	87	94	95	103
	7.0%	2.8%	2.0%	6.0%	-4.7%	3.8%	7.6%	1.1%	8.4%
Construction	418	499	478	431	396	421	406	403	625
	11.9%	19.3%	-4.1%	-10.0%	-8.1%	6.4%	-3.6%	-0.8%	55.0%
Manufacturing	1,021	994	927	957	684	711	845	869	891
	36.1%	-2.7%	-6.7%	3.2%	-28.5%	3.9%	18.8%	2.8%	2.5%
Service-Providing Employment	7,489	7,700	8,724	9,120	8,780	8,884	9,095	9,529	9,947
	18.0%	2.8%	13.3%	4.5%	-3.7%	1.2%	2.4%	4.8%	4.4%
Trade, Transportation, and Utilities	2,920	2,735	2,855	2,846	3,094	2,969	3,029	3,091	3,181
	28.6%	-6.3%	4.4%	-0.3%	8.7%	-4.0%	2.0%	2.0%	2.9%
Information	65	85	98	126	112	128	130	139	147
	6.1%	30.3%	15.8%	28.4%	-11.2%	14.1%	2.2%	6.4%	6.1%
Financial Activities	507	639	651	678	605	654	648	686	723
	4.2%	26.1%	1.8%	4.1%	-10.8%	8.1%	-0.9%	5.9%	5.4%
Professional and Business Services	971	763	862	962	756	766	844	903	961
	7.5%	-21.4%	13.0%	11.6%	-21.4%	1.4%	10.2%	7.0%	6.4%
Educational & Health Services	966	1,230	1,498	1,750	1,658	1,505	1,545	1,606	1,765
	9.2%	27.3%	21.8%	16.8%	-5.3%	-9.2%	2.6%	3.9%	9.9%
Leisure & Hospitality	1,466	1,614	2,131	2,134	1,909	2,216	2,227	2,367	2,408
	21.3%	10.1%	32.0%	0.1%	-10.5%	16.1%	0.5%	6.3%	1.7%
Other Services	594	633	629	624	646	646	672	737	762
	11.3%	6.7%	-0.7%	-0.7%	3.5%	0.0%	4.1%	9.6%	3.4%
Employment (LAUS)	12,099	12,038	11,901	11,855	11,749	12,117	12,352	12,568	13,077
	0.5%	-0.5%	-1.1%	-0.4%	-0.9%	3.1%	1.9%	1.7%	4.0%
Labor Force (LAUS)	12,548	12,481	12,382	12,615	12,499	12,776	12,909	13,168	13,659
	0.4%	-0.5%	-0.8%	1.9%	-0.9%	2.2%	1.0%	2.0%	3.7%
Unemployment (LAUS)	433	424	416	741	749	658	555	599	582
	-5.6%	-2.1%	-1.9%	78.4%	1.0%	-12.1%	-15.7%	7.9%	-2.8%
Unemployment Rate (LAUS)	3.5%	3.4%	3.4%	5.9%	6.0%	5.2%	4.3%	4.5%	4.3%
	-5.3%	-1.6%	-1.1%	75.1%	2.6%	-13.7%	-17.3%	5.8%	-6.3%
Sales Tax Base (\$Mil)	502.2	541.0	580.0	573.2	587.7	601.5	629.6	679.2	736.9
	25.1%	7.7%	7.2%	-1.2%	2.5%	2.3%	4.7%	7.9%	8.5%
Use Tax Base (\$Mil)	289.6	271.7	230.3	297.7	221.0	225.8	223.6	351.0	305.1
	41.9%	-6.2%	-15.2%	29.3%	-25.8%	2.2%	-1.0%	57.0%	-13.1%
Wage & Salary Earnings (\$Mil)	209.6	220.4	251.5	257.3	250.5	262.3	282.4	303.0	333.6
	17.9%	5.2%	14.1%	2.3%	-2.6%	4.7%	7.7%	7.3%	10.1%
Population	24,726	25,821	26,899	28,090	29,954	31,030	31,453	32,444	33,657
	4.4%	4.4%	4.2%	4.4%	6.6%	3.6%	1.4%	3.2%	3.7%
Business Establishments	689	765	798	781	801	809	815	828	835
	2.2%	11.0%	4.3%	-2.1%	2.6%	1.0%	0.7%	1.6%	0.8%
Single Family Home Permits (Units, annual rate)	323	301	267	327	215	180	224	238	235
	-37.7%	-6.8%	-11.3%	22.5%	-34.3%	-16.3%	24.4%	6.3%	-1.3%
Single Family Home Permits Value (\$Mil)	36.1	32.9	27.4	33.8	24.3	24.5	38.7	45.2	45.9
	-34.5%	-8.9%	-16.8%	23.4%	-28.0%	0.7%	58.0%	16.8%	1.5%
New Single Family Home Average Value (\$Thou)	111.8	109.4	102.6	103.3	113.1	136.1	172.8	189.9	195.3
	-34.5%	-8.9%	-16.8%	23.4%	9.5%	20.3%	26.9%	9.9%	2.8%
^e Estimate ^f Forecast	2006	2007	2008	2009	2010	2011	2012	2013e	2014f