

Owasso Facing Structural & State Slowing in '19

Owasso's economy will face increased headwinds in 2019 as the state economy struggles against softness in oil and gas activity. The city is also experiencing a structural slowing in population & housing growth as it integrates into the metro area.



Outlook Summary:

- Weakening economic conditions statewide and in the Tulsa-area will weigh on local growth in Owasso in 2019
- Continued U.S. growth will provide offsetting support
- Recent data suggest sharply reduced hiring and labor force growth in Owasso in late 2018 and early 2019
- Retail sales rebounded in 2018 but should ease in 2019; use tax receipts continue to surge on online sales
- Core population growth in Owasso has likely slowed to 2.0-2.5% range; remains well above region and state
- Housing activity remains below historical gains due to slower local employment and population gains
- Deposits/lending reflect solid Owasso fundamentals

Recent data suggest that the state's economic expansion slowed sharply in late 2018 as the oil and gas industry responded to falling oil prices. A similar slowing is visible in most major oil and gas-dependent states and regions in the period. This weakness is expected to weigh on job growth in most areas of Oklahoma in 2019, including Owasso. The slowing will act as a continued drag on regions of the state that have not yet fully recovered from the oil and gas recession in 2015-16.

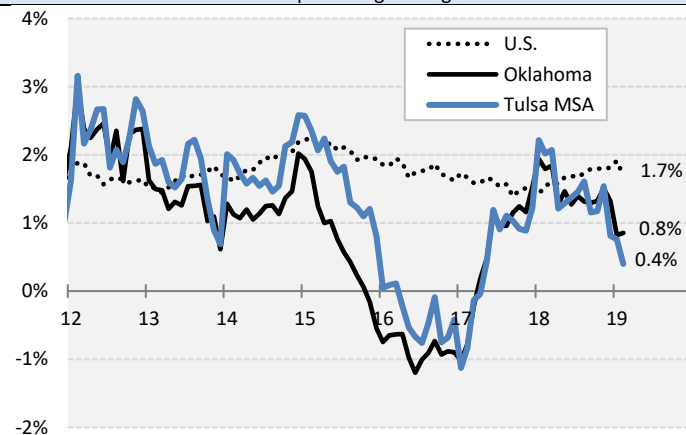
the Tulsa metro area similarly slowed to only 0.4% in the most recent 12 months of data.

In contrast, national job growth remains steady, with 12-month gains ranging from 1.5% to 2.0% since 2010. Uncertainty over federal fiscal and monetary policy has also eased in recent months. This suggests the economic softness across much of the state remains only regional at this point.

Regions with the highest concentration of residents holding high-wage jobs tied to oil and gas activity should be most affected in 2019. This includes much of the state of Oklahoma, the Tulsa metro area, and Owasso. Most regions of the state are expected to post large pullbacks in the rate of job growth in 2019 but are not expected to enter recession.

Our current outlook assumes crude oil and natural gas prices will rise throughout 2019 and eventually boost the pace of growth statewide throughout the year. Our state hiring outlook is for job growth to slow to 1.2% in 2019, well below the 1.8% gain posted in 2018 (Figure 2). The Tulsa metro area is expected to post a 1.0% gain, down from 1.5% in 2018. Tulsa County is expected to match the 1.0% gain at the metro level, slightly below the 1.3% gain posted in 2018.

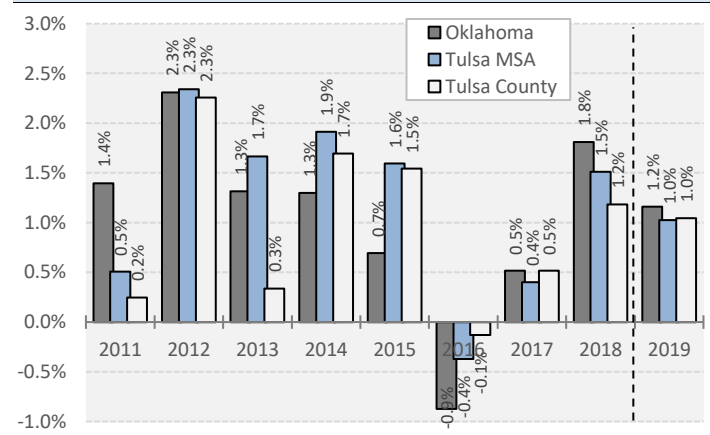
Figure 1: Oklahoma Area Wage & Salary Employment Growth
12-month percentage change



Source: Bureau of Labor Statistics and RegionTrack calculations

State job growth measured over the prior 12 months slowed from an average rate of approximately 1.5% in 2017 and most of 2018 to only 0.8% in the most recent data released in March (Figure 1). Job growth in

Figure 2: Wage & Salary Employment Growth & Outlook
year-over-year percent change

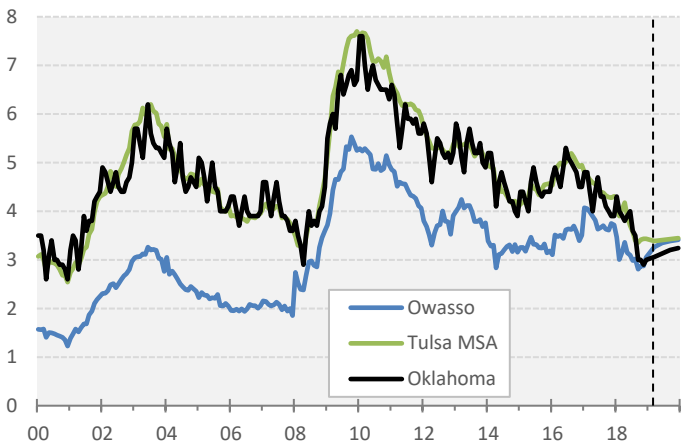


Source: Bureau of Labor Statistics and RegionTrack forecast

Unemployment rates across the state reversed their downward trend in late 2018. The state's jobless rate increased from 3.1% in late 2018 to 3.3% in early 2019 after falling on a near-monthly basis since mid-year 2016 (Figure 3). In the Tulsa metro area,

the seasonally adjusted jobless rate bounced from 3.1% in late 2018 to a reported 3.4% in January 2019. Owasso's seasonally adjusted unemployment rate (for local residents) similarly bounced from 2.8% in late 2018 to 3.2% in January 2019. We anticipate further upward pressure on Tulsa area jobless rates through at least the first half of 2019. Our current outlook is for the Owasso rate to approach 3.5% by year-end 2019. Our outlook for the Tulsa metro area is for a slowly rising jobless rate to near 3.5% by year-end 2018. The state jobless rate is projected to fall slightly below the Tulsa and Owasso rate by year-end 2019.

Figure 3. Oklahoma Area Unemployment Rates (%)



Source: Bureau of Labor Statistics and RegionTrack forecast

Of note, this the first time in recent decades that the Owasso unemployment rate should converge with both the Tulsa metro area and state rates. The historical 1-2% advantage held by Owasso over many years has slowly eroded as the city has expanded and developed a more Tulsa metro-like makeup. The deeper integration of the Owasso area into the Tulsa metro area will likely continue to produce local economic results that are more reflective of the broader Tulsa region over time.

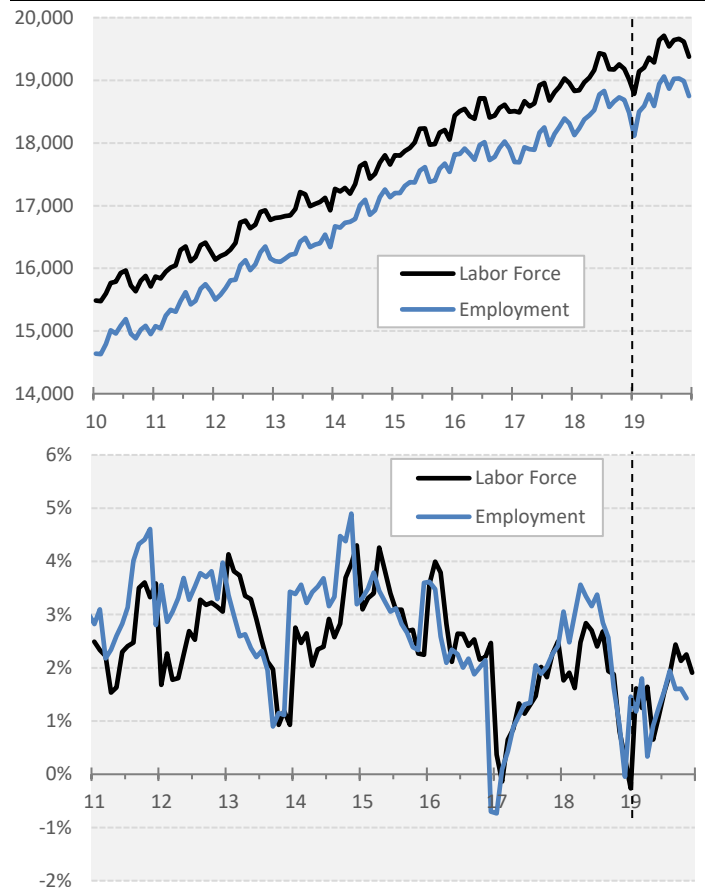
The key sign of recent economic weakness in Owasso in late 2018 is the reported sharp reversal in both total employment and labor force growth as reported in the Bureau of Labor Statistics unemployment rate series (LAUS series). Both employment and the labor force in Owasso accelerated rapidly to approximately 3% annual growth by mid-year 2018 before reversing course and quickly collapsing to zero growth by early 2019 (Figure 4).

The current slowing is similar in magnitude to the pullback in early 2017 that is now visible in revised data released in March 2019.

Growth in the number of jobs located in Owasso has far outpaced the Tulsa metro area trend over the long term. In the 2011 to 2018 period, employment in Owasso increased at an annual average rate of 2.7% (Figure 4), more than double the 1.1% average gain for the Tulsa metro area. The labor force in Owasso expanded by 2.4% annually in the period, four-fold the 0.6% annual gain for the metro area.

Our expectation is that job growth in Owasso will rebound to an average of approximately 1.4% across all of 2019 and approach 2% by year-end. This will far outpace forecasted job gains at the metro and state levels in 2019.

Figure 4. Owasso Employment and Labor Force Growth
monthly level and percent change over prior 12 months

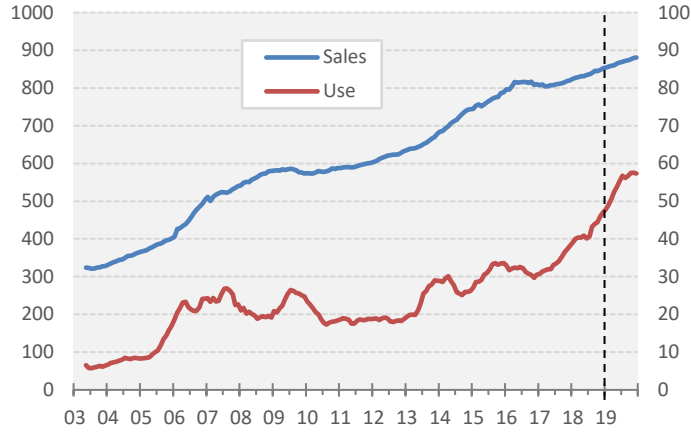


Source: Bureau of Labor Statistics (LAUS program) and RegionTrack calculations

The city's large retail sector posted a solid year of recovery in 2018 (Figure 5). On a monthly seasonally adjusted basis, city retail activity remains in a consistent rising trend that began in early 2017. Taxable retail sales posted a 4.0% year-over-year gain in 2018, sharply higher than the 1.2% gain in 2017 (Figure 6). The gain for 2018 was slightly below our forecast of 4.4% growth.

Figure 5. Owasso Sales & Use Tax Base

\$millions, 12-month rolling total

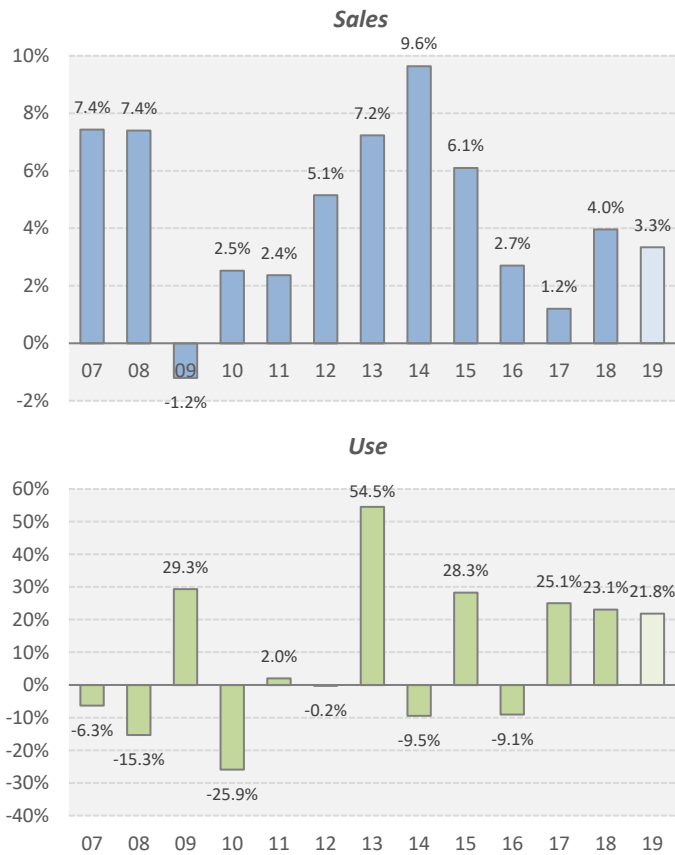


Source: Oklahoma Tax Commission and RegionTrack calculations

The ongoing surge in use tax revenue in Owasso continues to reflect enhanced collections of tax from online sales that began in the first half of 2017. Sales subject to use tax in Owasso posted another outsized gain of 23.1% in 2018, only slightly below the 25.1% gain in 2017.

Figure 6. Owasso Sales and Use Tax Base Growth

sales subject to sales and use tax, percent change, year-over-year



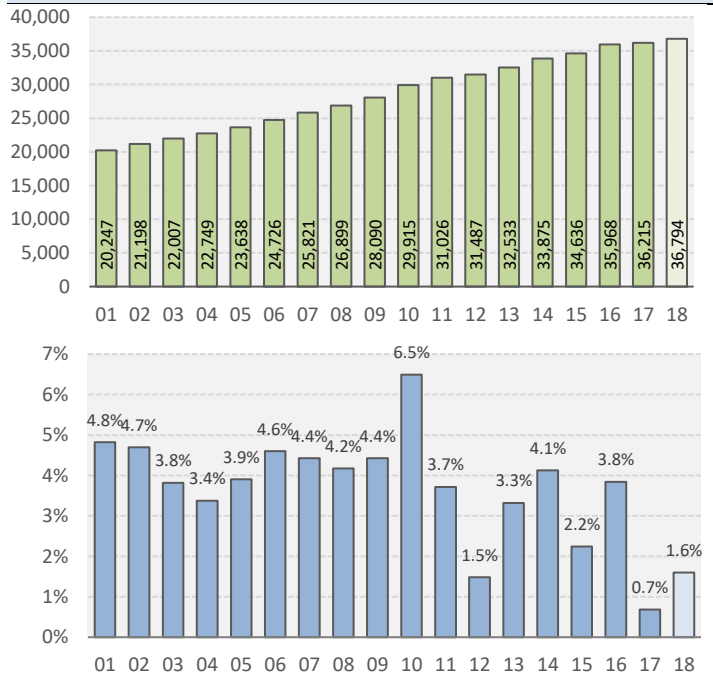
Source: Oklahoma Tax Commission and RegionTrack forecasts

Our current model-based outlook suggests Owasso taxable retail sales growth will slow slightly to 3.3% in 2019 (Figure 6). The reduced pace largely reflects the expected slowing in economic conditions in 2019 relative to 2018 for both the city of Owasso and the broader Tulsa region.

For use tax, our outlook calls for another robust gain of 21.8% in 2019, but a second consecutive year of slightly slower growth. Additional merchants continue to be added to the state tax collection program for online sales. The expected life of the ongoing one-time use tax gains is dependent upon the pace at which all merchants nationally eventually participate in the state's online sales tax program. Once saturation is reached, growth rates will quickly return to those more typical of historical use tax activity.

The recent Census estimate for 2017 population in Owasso was relatively weak and consistent with recent downward revisions of employment and labor force data in the city in 2017 discussed earlier. The latest Census estimate suggests a gain of only 0.7% in 2017, the smallest reported percentage gain in decades in the city (Figure 7). The weakness follows an upwardly revised estimate of 3.8% in 2016. Across 2016 and 2017, population growth averaged approximately 2.2% annually. This average is only about a half percentage point below the 2.8% average posted across the 2011 to 2017 period since the most recent 2010 Census count was completed.

Figure 7. Population Growth - City of Owasso



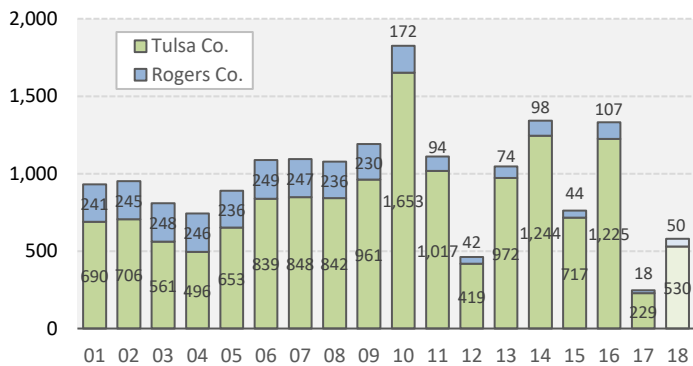
Source: Census Bureau and RegionTrack estimates

While Census population counts in small regions are subject to substantial uncertainty in year-to-year surveys, the average rate posted since 2011 and the weakness in 2017 suggest that the core population growth rate in the city is now within the 2.0-2.5% range.

It is also helpful to examine the slowing Owasso population trend in context with slowing statewide and Tulsa area population gains. State population growth slowed from 0.8% in 2015 to only 0.4% in 2016 under pressure from the recent oil and gas recession. For 2017, the initial estimate for the state of 0.3% population growth was revised downward to only 0.1%. The recently reported state gain for 2018 of only 0.3% suggests a structural downshift in statewide population growth that is tied to restructuring of the state's oil and gas sector. The latest Census estimates for the Tulsa metro area suggest a similar slowing from 1.1% in 2015 to 0.7% in 2016 and 0.3% in 2017. For comparison, Tulsa County population growth slowed from 1.4% in 2015 to 0.8% in 2016 and 0.2% in 2017.

Our model-based estimate for 2018 suggests that Owasso population growth rebounded to 1.6% (580 new residents) but remains below the city's new core long-run growth rate (Figure 8). Nonetheless, the projected gain for Owasso remains well above the latest Census estimate for the state of 0.3% in 2018. Owasso's population gains are projected to remain mostly confined to Tulsa County (530 new residents), with only limited gains in Rogers (50 new residents).

Figure 8. City of Owasso Population Change by County



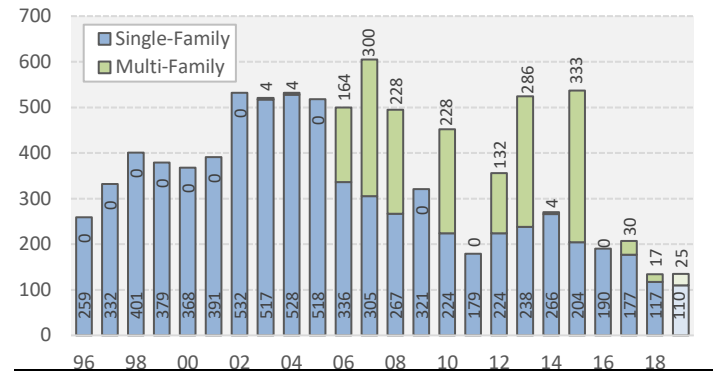
Source: Census Bureau and RegionTrack estimates

Our estimates for Owasso population growth in 2018 suggest a high likelihood that a structural downshift in population growth has taken place both statewide and in Owasso. The downshift in Owasso is traced to both a slowing in population growth statewide and the continued maturation of the city as it is more fully integrated into the Tulsa metro area economy. Much like the behavior of the Owasso unemployment rate is

becoming more Tulsa-like, local population growth will continue to do so as well going forward.

The Owasso housing market reflects recent trends in Owasso area population. Permits for single-family housing development remained below 200 units for the third straight year in 2018 (Figure 9). Multi-family development also remained subdued in 2018 for a third consecutive year following nearly a decade of substantial growth.

Figure 9. Owasso Housing Permits

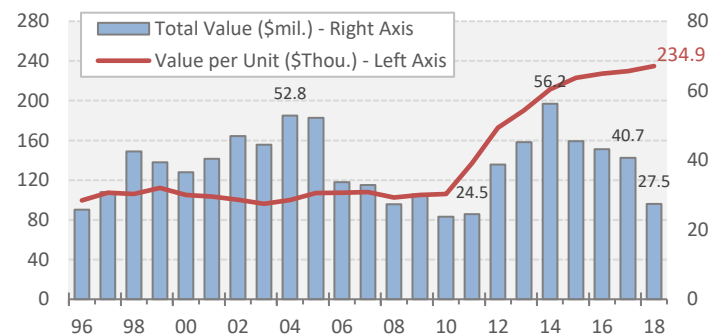


Source: Census Bureau and RegionTrack forecasts

Our model-based estimates suggest a near repeat of 2018 housing development in 2019, with permits for 135 units expected in 2019. Our outlook also calls for only 25 multi-family units) in 2019. Softening employment and population growth are the key factors underlying the housing outlook for 2019.

The average reported permitted construction value of new single-family homes in Owasso continues to level off. The average single-family permit reached a record \$234,900 in 2018 (Figure 10). Permit value for the average new home increased only 1.9% in 2016, 1.1% in 2017, and 2.2% in 2018. These gains are reflective of inflation and suggest little change in the real price point of a new home in Owasso since about 2015. Any rise in the average permit value for new single-family homes is expected to remain relatively modest again in 2019.

Figure 10. Owasso Single-Family Housing Permit Values



Source: Census Bureau and RegionTrack calculations

The total value of local single-family housing construction declined substantially in 2018 as a result of the decline in construction volume (*Figure 10*). New single-family home permits totaled approximately \$28 million in value in 2018, roughly half the recent peak valuation of \$56 million in 2014. We anticipate total values to remain roughly flat in 2019 relative to 2018 based primarily on flat volume.

A key measure of the underlying strength of the Owasso real estate market is property valuation growth. The Owasso area continues to post strong gains in recent years and outperform the broader Tulsa County market.

Figure 11 illustrates annual growth in the total assessed value of real property in the Owasso school district the past decade. Total valuations in Owasso increased every year the past decade and are up a cumulative 42.9% (3.6% annually) the past decade from 2008 to 2018. Valuation growth accelerated in the most recent five years from 2013 to 2018, gaining a cumulative 28.5% (5.1% annually) in the period.

Figure 11. Owasso Total Ad Valorem Tax Assessments
fiscal year



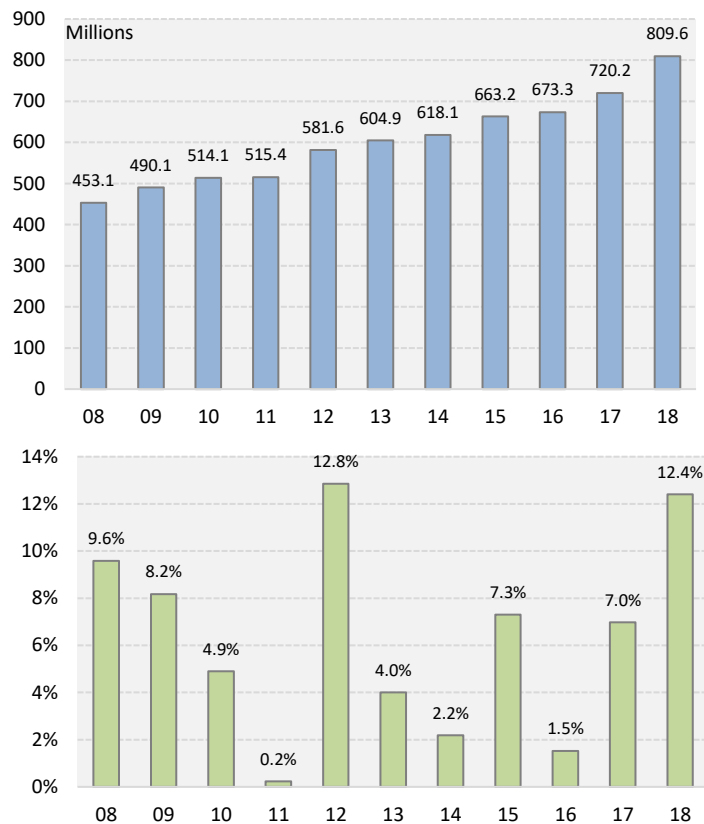
Source: Tulsa County Assessor and RegionTrack calculations

Notes: Total net assessments are for the Owasso School District. Total net assessments are calculated as the sum of net personal property, real property, and public services property minus homestead exemptions.

Gains in property assessments in Owasso are far higher than the average across all school districts in Tulsa County. Total valuations across the county increased only 32.5% (2.9% annually) in the decade from 2008 to 2018. In the most recent five years from 2013 to 2018, total gains countywide

reached only 19.8% (3.7% annually). Along with relatively stronger gains in property valuations, Owasso remains one of the lowest property tax areas among the major municipalities in Tulsa County.

Figure 12. Owasso Bank Deposits and Growth
\$millions, annual average deposits



Source: FDIC and RegionTrack calculations

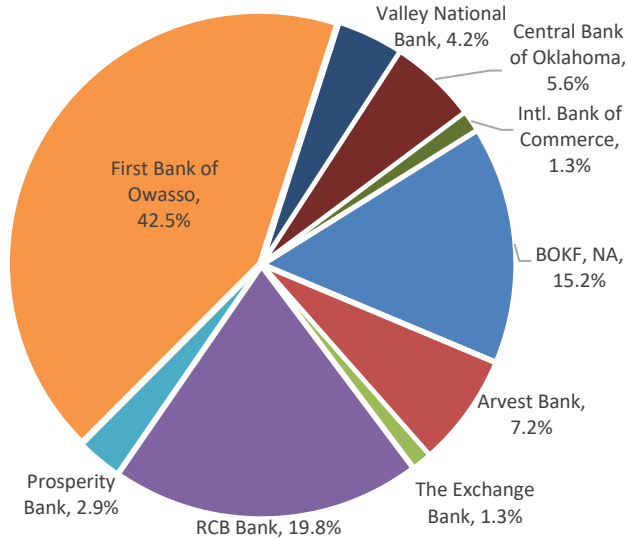
The local Owasso banking sector continues to post strong deposit growth. Deposits held by Owasso bank branches increased 12.4% in 2018, far faster than the 7% gain posted in 2017 and the largest annual gain since 2012 (*Figure 12*). Local bank branches in Owasso now hold \$810 million in deposits, a near doubling over the past decade.

Local bank deposit growth remains a reliable indicator of the overall economic health of a local region. Hence, the presence of a vibrant set of local financial institutions remains a critical factor in Owasso's future growth. Nine banking institutions, large and small, continue to operate branches in Owasso with considerable continuity over time (*Figure 13*). Local banking activity in Owasso continues to have a strong community banking presence along with larger Oklahoma-based and regional institutions.

First Bank of Owasso remains the largest institution by deposits, with a 42.5% share. RCB Bank (19.8% share) and Bank of Oklahoma (15.2% share) jointly accounted for an

additional 35% of local bank deposits. A group of six smaller institutions accounted for approximately one-fourth of all city bank deposits in 2018.

Figure 13. Share of Owasso Bank Deposits by Institution
percent of total local deposits



Source: FDIC and RegionTrack calculations

Small business lending is increasingly a key component of economic development at the local level, particularly for small businesses operating in a region. In addition to the city's vibrant banking sector, another indicator of both credit availability for local firms and the vibrancy of the small business sector locally is the amount of loans approved by the Small Business Administration (SBA).

SBA loans, both 7(a) and 504, received by city-based firms continues to rank Owasso among the state's top cities (Figure 14). Total SBA lending to local firms of \$20 million in the 5-year period from 2014 to 2018 places Owasso 8th among all cities across the state. Owasso similarly ranks 8th among Oklahoma cities in the 2009 to 2013 period with a total of \$16.5 million in SBA loans received by local firms. Owasso firms have received an average of 1.6% of total SBA lending statewide the past decade, despite averaging less than 1% of statewide population in the period.

Among Tulsa-area communities, only much-larger Tulsa and Broken Arrow are home to larger shares of statewide SBA lending. The top 10 SBA cities are nearly all among the largest statewide as measured by population. The only other city in the top 10 comparable in size to Owasso is Shawnee, with roughly equivalent population and lending amounts.

Figure 14. SBA Lending Trends – Top 30 OK Cities
ranked by 2014-2018 share of state SBA lending

Region/City	2009-2013	Share	2014-2018	Share
State of Oklahoma	\$937,592,135	100.0%	\$1,315,052,054	100.0%
Tulsa	218,386,076	23.3%	271,191,688	20.6%
Oklahoma City	162,527,431	17.3%	219,784,470	16.7%
Edmond	42,570,395	4.5%	65,287,300	5.0%
Broken Arrow	44,271,600	4.7%	52,221,000	4.0%
Norman	18,369,013	2.0%	24,549,041	1.9%
Stillwater	18,079,400	1.9%	22,579,500	1.7%
Shawnee	13,526,100	1.4%	20,881,300	1.6%
Owasso	16,446,047	1.8%	19,961,600	1.5%
Lawton	14,927,039	1.6%	17,907,300	1.4%
Enid	4,056,004	0.4%	17,830,600	1.4%
Duncan	4,503,034	0.5%	17,124,500	1.3%
Sapulpa	15,433,550	1.6%	16,724,000	1.3%
Bixby	7,442,800	0.8%	16,573,789	1.3%
Yukon	5,825,700	0.6%	16,201,800	1.2%
Claremore	16,945,700	1.8%	15,372,700	1.2%
Muskogee	15,120,200	1.6%	14,400,400	1.1%
Moore	8,885,600	0.9%	12,492,500	0.9%
Woodward	6,801,100	0.7%	12,138,600	0.9%
Bartlesville	3,981,700	0.4%	11,370,400	0.9%
Wilburton	0	0.0%	9,711,700	0.7%
Elk City	14,305,200	1.5%	8,792,800	0.7%
Collinsville	1,158,500	0.1%	8,772,000	0.7%
Perry	0	0.0%	8,126,500	0.6%
McAlester	7,904,000	0.8%	7,860,100	0.6%
Okemah	834,100	0.1%	7,718,700	0.6%
Chickasha	3,111,400	0.3%	7,597,810	0.6%
Ardmore	7,931,400	0.8%	7,586,800	0.6%
Jenks	6,629,600	0.7%	7,586,000	0.6%
Vinita	1,002,000	0.1%	7,443,900	0.6%
Weatherford	4,142,900	0.4%	7,072,600	0.5%

Source: U.S. Small Business Administration and RegionTrack calculations

Notes: Includes both 7(a) and 504 loans

2019 Owasso Outlook Summary

The Owasso area economy is expected to face significant headwinds at the state and metro levels in 2019. The state's oil and gas industry is contracting once again in response to low crude oil prices and will weigh on economic growth in most regions of the state in 2019. However, the U.S. expansion remains intact and should provide a supportive backdrop.

Falling jobless rates across the state reversed course in late 2018. In the Tulsa metro area, the seasonally adjusted jobless rate bounced from 3.1% in late 2018 to a reported 3.4% in January 2019. Owasso's seasonally adjusted unemployment rate (for local residents) similarly bounced from 2.8% in late 2018 to 3.2% in January 2019. Our current outlook is for the Owasso rate to approach 3.5% by year-end 2019.

Both employment and labor force growth slowed sharply in Owasso in late 2018. After accelerating rapidly to approximately 3% annual growth by mid-year 2018, growth in both employment and the labor force in Owasso reversed course and quickly collapsed to zero by early 2019. Our expectation is that Owasso job growth will rebound to an average of approximately 1.4% in 2019 and approach 2% by year-end. Owasso should outpace forecasted job gains at the metro and state levels in 2019.

Jobs growth in Owasso has far outpaced the Tulsa metro area trend since 2011. In the 2011 to 2018 period, employment in Owasso increased at an average annual rate of 2.7%, more than double the 1.1% average gain for the Tulsa metro area. The labor force in Owasso expanded by 2.4% annually in the period, four-fold the 0.6% annual gain for the metro area.

On a monthly seasonally adjusted basis, city retail activity remains in a consistent rising trend that began in early 2017. Taxable retail sales posted a 4.0% year-over-year gain in 2018, sharply higher than the 1.2% gain in 2017 and only slightly below our previous forecast of 4.4% growth. The ongoing surge in use tax revenue in Owasso continues to reflect enhanced collections of tax from online sales that began in the first half of 2017. Sales subject to use tax in Owasso posted another outsized gain of 23.1% in 2018, only slightly below the 25.1% gain in 2017.

Our current outlook suggests Owasso taxable retail sales growth will slow slightly to 3.3% in 2019. The reduced pace largely reflects the expected slowing in

economic conditions in 2019 relative to 2018 for both the city of Owasso and the broader Tulsa region. For use tax, our outlook calls for another robust gain of 21.8% in 2019, but a second consecutive year of slightly slower growth.

The latest Census population estimates suggest a gain of only 0.7% in Owasso in 2017, the smallest reported percentage gain in decades in the city. Across 2016 and 2017, population growth averaged approximately 2.2% annually. This average is only about a half percentage point below the 2.8% average posted across the 2011 to 2017 period since the most recent 2010 Census count was completed. The average rate reported since 2011 and the weakness in 2017 suggest that the core population growth rate in the city is now likely in the 2.0-2.5% range. The downshift in Owasso is traced to both a statewide slowing in population growth and the continued maturation of the city. However, Owasso continues to far exceed population gains statewide and in the metro area.

The Owasso housing market reflects recent trends in Owasso area employment and population. Permits for single-family housing development remained below 200 units for the third straight year in 2018. Multi-family development also remained subdued in 2018 for a third consecutive year following nearly a decade of substantial growth.

Growth in property valuations in Owasso remains strong. Total valuations in the Owasso school district increased every year the past decade and are up a cumulative 42.9% (3.6% annually) the past decade from 2008 to 2018. Valuation growth accelerated in the most recent five years from 2013 to 2018, gaining a cumulative 28.5% (5.1% annually) in the period. Gains in property assessments in Owasso are far higher than the average across all school districts in Tulsa County. Owasso also remains one of the lowest property tax areas among the major municipalities in Tulsa County.

Deposits at Owasso bank branches expanded 12.4% in 2018. Local bank deposit growth remains a reliable indicator of the overall economic health of a local region. Nine banking institutions, large and small, currently operate branches in Owasso with considerable continuity over time. SBA lending to Owasso-based businesses remained strong in 2018 and ranks among the top 10 cities statewide the past decade.

Released March 28, 2019