According to the business-cycle index produced by the Federal Reserve Bank of Dallas, economic activity in the Houston metropolitan area grew at an annualized rate of 6.33 percent in July, slightly above the average for the first half of 2011. While uncertainty and a litany of issues have eaten away at the pace of recovery and expectations for growth in the nation this year, Houston has continually outperformed the U.S. However, the city is not immune to many of those same negative influences, and expectations continue to wear. The outlook for Houston remains positive in 2011, regardless.

Nonfarm payroll employment grew at an annualized rate of more than 4 percent in July to nearly 2.61 million jobs. This brings the number of jobs added since the trough of Houston’s business cycle to over 110,800—more than 90 percent of what was lost through the Great Recession. The unemployment rate held at its summer average when it rose to 8.5 percent, due in part to a growing labor force. The national rate fell slightly to 9.1 percent in July and held at 9.1 in August amid zero estimated employment growth. The Gulf Coast Workforce Development Area’s initial claims for unemployment insurance, an important leading indicator, continued a downward trend that began in mid-2009, declining 6 percent in July.

The three-period-average monthly growth rate of home sales declined to nearly 3 percent in July after eight months of positive readings, seasonally adjusted. The median home price has averaged nearly $151,000 since May. Neither new single-family starts nor permitting has improved much, but year-to-date foreclosures dropped by nearly 24 percent. The seasonally adjusted housing months in inventory declined to 7.3 months. Office vacancy rates were down for the quarter, as were asking rates. Multifamily occupancy continued to climb, as did rental rates. The local real estate market continues to tighten, though many issues remain.

Figures are a three-period-average annualized monthly growth rate, based on data from the Bureau of Labor Statistics, seasonally adjusted by the Federal Reserve Bank of Dallas.

*Seasonally adjusted. Units are in thousands. SOURCE: Houston Association of Realtors.
**Upstream**

The average daily price of West Texas Intermediate (WTI) in August was $86.22, and the Henry Hub average spot price of natural gas was $4.05. In energy content, WTI was 3.79 times as expensive as natural gas. The average weekly rig count was 1,957 in August, a monthly increase of 2.9 percent. Increases in oil-directed activity continued to outpace those in natural gas, though by a smaller margin than earlier in the year, rising to 54 percent of all rig activity. Approval of rig permits in the Gulf of Mexico continues to be slow. Land-based plays using horizontal drilling are leading growth in oil activity, while growth in natural gas is being driven by shale plays such as the liquids-rich Eagle Ford. Mining and support for mining activity continue to be strong sources of employment growth in Houston.

**Downstream**

Gasoline and diesel prices declined to $3.68 and $3.84, respectively, in August. However, consumption rose and the refiner’s acquisition cost of crude dropped, helping to keep margins strong. Resin and plastics markets returned to near-normal after much volatility. Feedstock prices are stable to down. Polyethylene prices bottomed out in July and August, and polypropylene prices calmed after sharp increases drove some customers to substitute products. For chlorine, caustic and most other resins, domestic demand is good, but demand for resins tied to construction like PVC remains weak. Inventories are up for a number of products as protection against price volatility and hurricane season.

**Trade and Autos**

Recent customs data place the three-month-average, year-over-year growth in the real value of total trade above 31 percent in June. By that same metric, exports grew at nearly double the rate of imports. According to InfoNation Inc., total year-to-date auto sales were up 6.6 percent through July compared with 2010, putting sales levels on par with cash-for-clunkers. The average new vehicle price remains high near $32,000, due in part to low dealer incentives and issues softening demand for lower priced new cars. Supply-chain issues related to Japan continue to improve ahead of expectations. The Truck/SUV share of total sales edged down to 57.2 percent.

**Inflation Measures** Although some indicators continue to inch upward, inflation expectations are still modest.

- The Houston consumer price index, less food and energy, was flat in June after two months of slowing growth.
- The Dallas Federal Reserve’s Trimmed Mean personal consumption expenditures (PCE) index for the U.S. grew to an annualized rate of 2.4 percent in July. The six-month Trimmed Mean PCE was 2 percent, and the 12-month reading was 1.6 percent.
- Blue Chip consensus forecasts of U.S. Consumer Price Index inflation for 2011 were revised upward in August to 3.1 percent, and 2012 forecasts were revised down to 2.1 percent.