

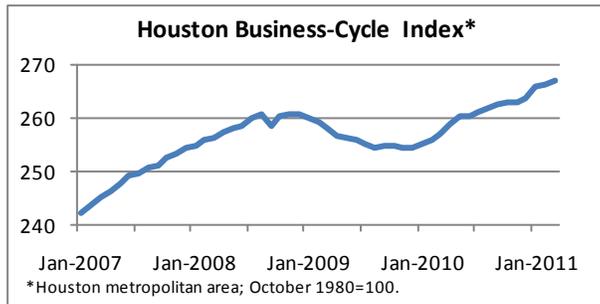
Houston Economic Update

June 2011



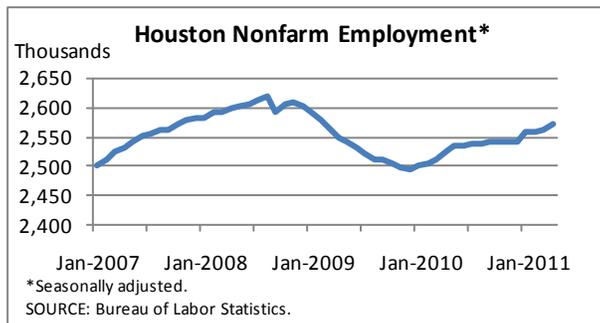
FEDERAL RESERVE BANK OF DALLAS, HOUSTON BRANCH

Houston Business Cycle



Economic activity in the Houston metropolitan area accelerated to an annualized rate of 6.6 percent in April—owing in part to robust performances in both the upstream and downstream hydrocarbon industries—according to the business-cycle index produced by the Federal Reserve Bank of Dallas. While high energy prices are a boon to the region, concerns are mounting that fuel and food prices will be a drag on growth for both the region and nation the remainder of the year. The outlook for Houston remains positive for 2011.

Employment

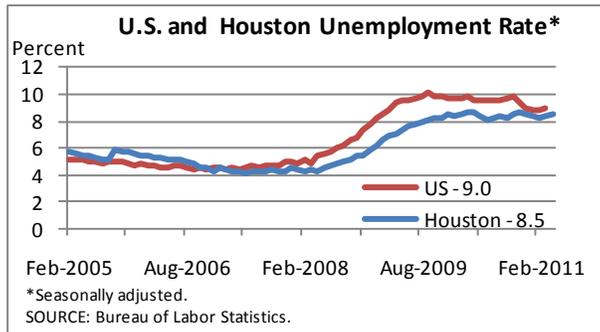


Nonfarm payroll employment grew at an annualized rate of more than 4.8 percent in April to more than 2.57 million jobs. This brings the number of jobs added since the trough of Houston's business cycle to more than 74,000, more than half of what was lost through the Great Recession. The unemployment rate is unimproved at 8.5 percent, due in part to a growing labor force. The national rate grew slightly to 9.1 percent. In spite of recent volatility, the Gulf Coast Workforce Development Area's March initial claims for unemployment insurance, an important leading indicator, continued the downward trend that began in June 2009.

Employment Changes

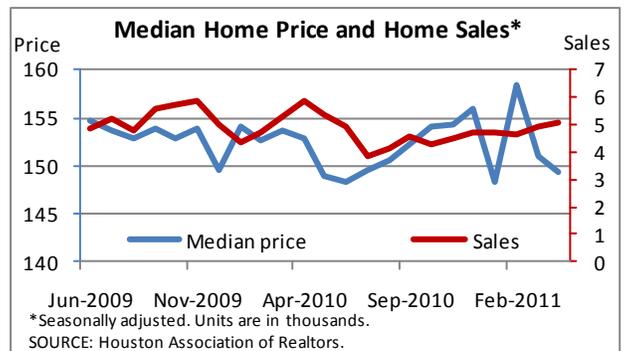
- Construction & mining 0.6
- Manufacturing 5.6
- Trade, transport, utilities 3.9
- Information -10.5
- Financial activities -1.2
- Prof. & business services 4.0
- Education & health services 1.8
- Leisure & hospitality 1.8
- Other 5.5
- Government -1.8

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.



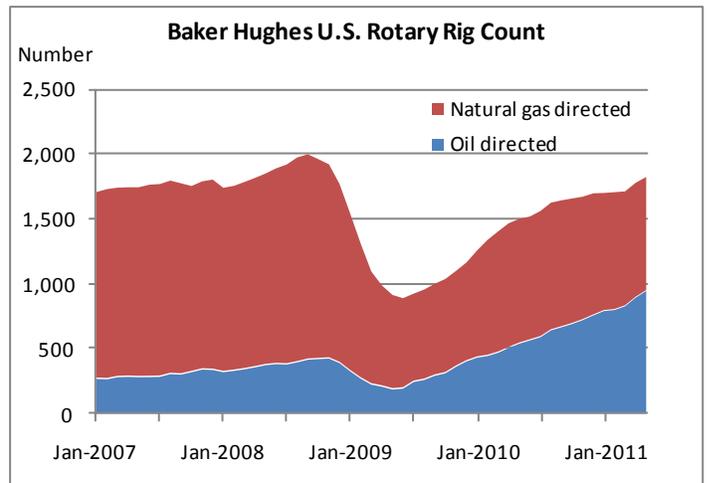
Real Estate

Area home sales are muted but remain positive, growing 1.6 percent in April, while the median home price continued sliding, to \$148,600. New single-family starts and permits continue to move sideways, and foreclosure numbers dropped by nearly 25 percent. The supply of housing inventory remained at eight months. Office and industrial vacancy rates were down for the quarter and year over year, and multifamily lease rates were up. On the whole, the local real estate market remains lethargic as supplies tighten, loan issues are sorted out and loan demand slowly thaws. It is still not expected to grow significantly before 2012.



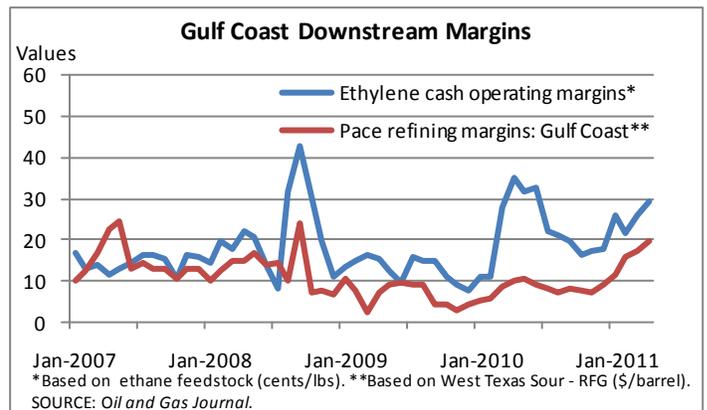
Upstream

The average price of West Texas Intermediate (WTI) in May was \$110, and the Henry Hub average spot price of natural gas was \$4.29. In energy content, WTI was 4.4 times as expensive as natural gas. The average weekly rig count was 1,835 in May; an increase of 5 percent is forecast for the year. Oil activity continued to displace gas as producers chased higher oil prices, but hydraulic fracturing in the liquids-rich Eagle Ford continues to grow. Since the lifting of the drilling moratorium that followed the Macondo deepwater incident, only one of the 14 deepwater leases approved has been for a new project. However, interest in the Gulf is still bringing jobs back from abroad. Mining and support for mining activity continue to be strong sources of employment growth in Houston.



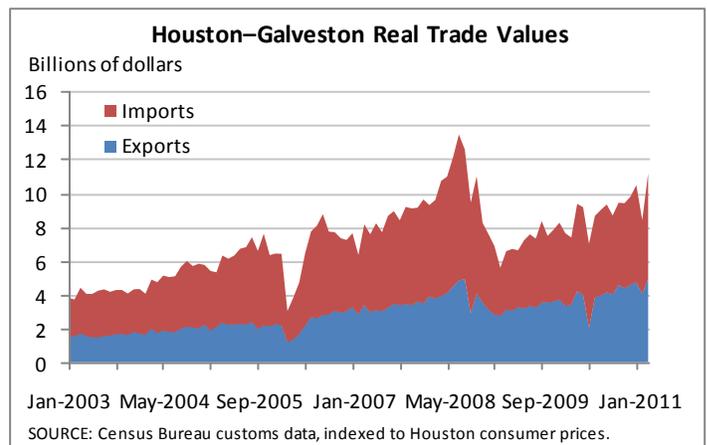
Downstream

Resilient consumer demand, a strong international market for distillates and low feedstock costs (natural gas) have been very good for the margins of refiners and petrochemical companies. Growth in the developing world kept the price of plastics strong in the face of a bleak domestic construction sector and a slow U.S. recovery. Thus, petrochemicals have been a source of growth for exports from the Port of Houston and the Gulf Coast at large, especially to Mexico, Brazil and China. However, the switch to gas feedstock for ethylene is causing supply concerns for by-products from the processing of heavier oil-based feedstock, pushing prices up in markets such as car tire rubber.



Trade and Autos

Favorable export conditions for chemicals, high commodity prices, population growth and the region's general economic resilience during the recession drove the three-month-average, year-over-year growth in real trade values above 20 percent in March. This is a continuation of the strong pace that began in early 2010. According to InfoNation Inc., total year-to-date auto sales were up 8.1 percent in April compared with 2010, and nonfleet year-to-date sales were up 13.1 percent. Budget cuts are expected to mute sales to local governments, and there are supply-chain issues following events in Fukushima, Japan. The truck/SUV share of total sales dropped due in part to high gasoline prices.



Inflation Measures: Signs point to an uptick in near-term inflation, and longer-term indicators remain moderate.

- The Houston consumer price index less food and energy increased at an annual rate of nearly 1.8 percent in April.
- 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 April. The six-month trimmed mean PCE was 1.7 percent, and the 12-month reading was 1.3 percent.
- Blue Chip consensus forecasts of U.S. Consumer Price Index inflation for 2011 and 2012 were revised upward again in May to 3 percent and 2.2 percent, respectively.