

# Houston Economic Update

July 2011



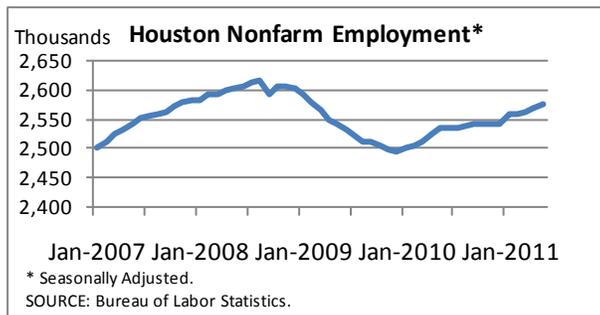
FEDERAL RESERVE BANK OF DALLAS, HOUSTON BRANCH

## Houston Business Cycle



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 5.57 percent in May. This robust figure was accompanied by an upward revision of the April growth rate to 7.3 percent. It is believed that transitory factors are responsible for recent softening of some local and national data, but robust employment numbers in Houston continue unabated. The outlook for Houston remains positive.

## Employment

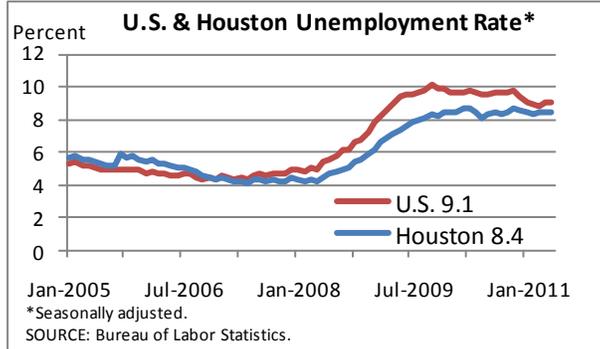


Nonfarm payroll employment grew at an annualized rate of more than 3.2 percent in May to more than 2.57 million jobs. This brings the number of jobs added since the trough of Houston's business cycle to more than 81,600. Year-to-date, the average annualized monthly growth rate was 3.3 percent. Should that pace continue in the second half of 2011, Houston will have added nearly 84,000 jobs this year. The unemployment rate improved slightly to 8.4 percent, while the U.S. clocked in at 9.1 percent. The Gulf Coast Workforce Development Area initial claims for unemployment insurance grew 2.8 percent in May but remains in a downward trend.

### Employment Changes

Construction & mining	4.3
Manufacturing	8.5
Trade, transport, utilities	2.9
Information	-6.6
Financial activities	-2.1
Prof. & business services	10.6
Education & health services	-0.9
Leisure & hospitality	-2.9
Other	3.8
Government	-0.4

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



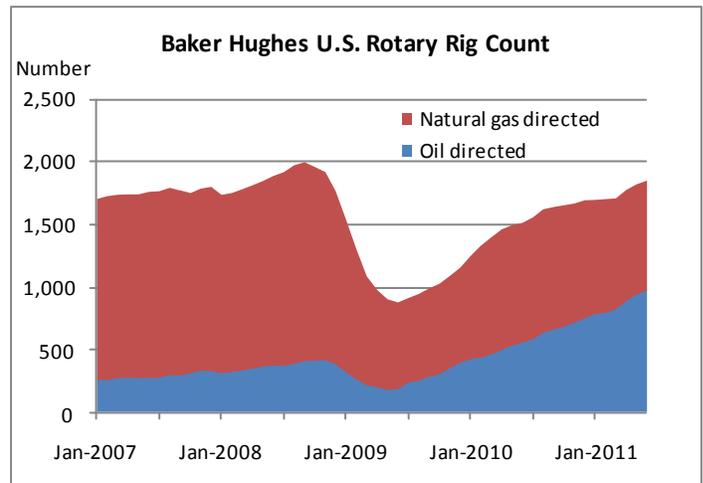
## Manufacturing

Growth in manufacturing activity remains positive though it seems to have decelerated from recent highs. Manufacturing employment, however, has been growing at better than 8 percent each month for the past three months on a seasonally adjusted basis. The composite Purchasing Managers Index reading at right is a consistent leading index of economic activity and can be interpreted as projecting positive economic growth in the coming months for the Houston region. Nationally, manufacturing has nearly returned to full capacity utilization rates.



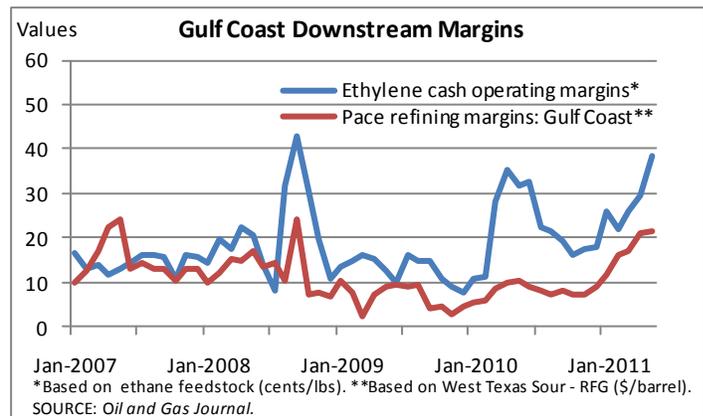
## Upstream

The average price of West Texas Intermediate (WTI) in June was \$96.75, and the Henry Hub average spot price of natural gas was \$4.60. In energy content, WTI was 4.4 times as expensive as natural gas. The average weekly U.S. rig count was 1,856 in June. Oil activity continued to displace gas as producers chased higher oil prices. Natural gas (methane) supplies from shale plays continue to grow in spite of low prices—a consequence of firms extracting the comparatively valuable gas liquids ethane, propane, butanes and pentanes for downstream industries like plastics and fuel-blending elements. Oil and gas producers and oil and gas services continue to be strong sources of employment growth in the Houston metropolitan area.



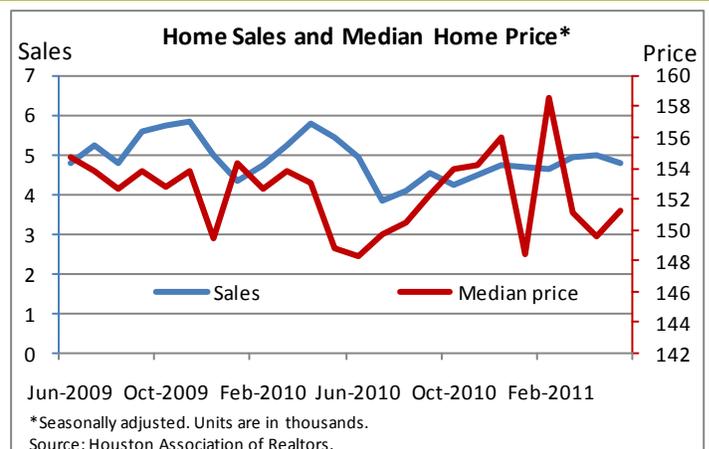
## Downstream

Despite softening economic data, the margins of refiners and petrochemical companies continue to be strong, due in part to a series of unplanned outages that kept prices above equilibrium. Gasoline consumption climbed in June, a result of both seasonal factors and some easing of the price. A growing middle class in developing countries is keeping demand for consumer plastics strong, and the need for infrastructure to serve them has picked up the slack from a weak domestic market for construction-grade plastics. Capacity utilization for plastics and resins returned to pre-recession levels in the second half of 2009, and all chemicals utilization is now above its long-run average.



## Real Estate

The three-period-average growth rate of seasonally adjusted monthly existing-home sales fell to 0.96 percent in May; the year-to-date average through April had been nearly 2 percent. That being said, median home prices managed to rebound slightly to \$151,220. New single-family home sales have yet to convincingly move into a positive growth trend on a seasonally adjusted basis. Issues affecting the single-family home market, as well as changes in financing rules and an influx of job-seekers to Houston, may be contributing to increased activity in multifamily construction. The supply of housing inventory climbed slightly to 8.1 months in Houston, and the industry remains a drag on the economy.



**Forecasts:** U.S. forecasts revised down for 2011. 1st and 2nd quarter headwinds are likely to be temporary. Strength in the developing world continues.

- Federal Reserve Bank of Dallas economists project annualized national GDP growth of between 3 and 4 percent for the second half of 2011.
- Economic forecasts of GDP recently released by the Federal Reserve Board along with the most recent FOMC minutes place growth for 2011 between 2.6 and 2.9 percent. 2012 forecasts place GDP growth between 3.3 and 3.7 percent.
- June Blue Chip Economic Consensus Forecasts of 2011 growth in Mexico, Brazil, China and the euro zone were 4.4 percent, 4.3 percent, 9.1 percent and 1.9 percent, respectively.