

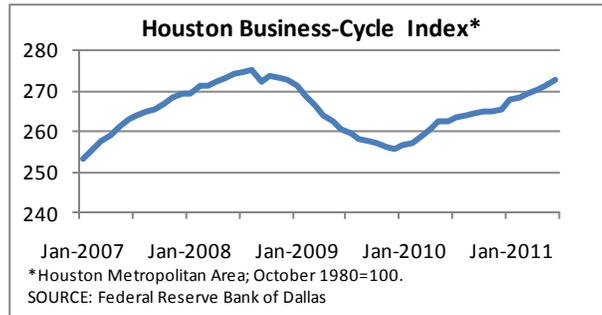
# Houston Economic Update

August 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 5.86 percent in June. This robust figure was paired with a downward revision of the previous two months of data. Though they have yet to substantially materialize, concerns are mounting as to the city's continuing ability to outperform the national economy into 2012. However, factors eroding the national and local outlooks are still considered to be transitory. Expectations for Houston remain positive for the coming months.

## Employment

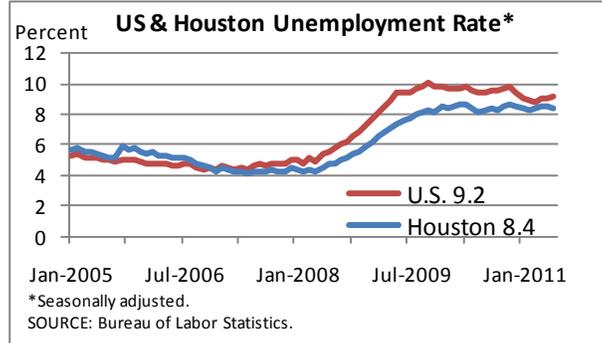


Nonfarm payroll employment grew at an annualized rate of 2.69 percent in June to nearly 2.58 million jobs. This brings the number of jobs added since the trough of Houston's business cycle in December 2009 to over 68 percent of those that were lost in the Great Recession. Through June, the average annualized monthly growth rate was 2.91 percent. If continued in the second half of 2011, Houston will have added more than 74,000 jobs this year. The unemployment rate improved slightly to 8.4 from a revised May rate of 8.5, while the U.S. worsened to 9.2 percent. The Gulf Coast Workforce Development Area initial claims for unemployment insurance ticked up over 8 percent in June but remains in a downward trend.

### Employment Changes

Construction & mining	6.0
Manufacturing	8.9
Trade, transport, utilities	1.8
Information	-6.7
Financial activities	-1.5
Prof. & business services	6.6
Education & health services	-3.2
Leisure & hospitality	5.2
Other	6.0
Government	-1.2

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.



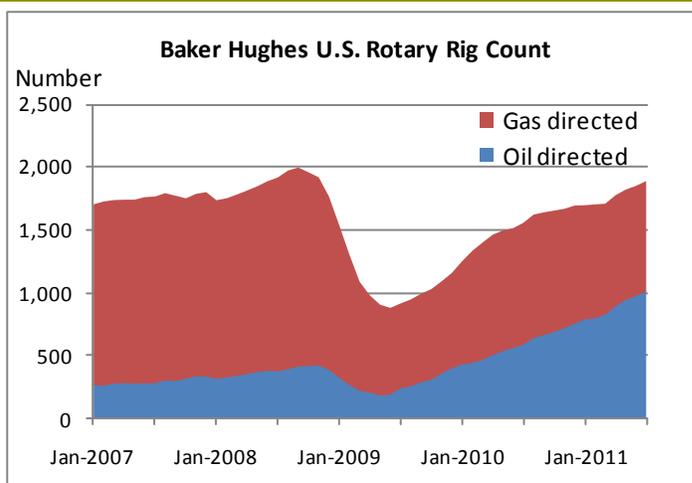
## Real Estate

Apartment occupancy was 88.3 percent in June, an increase from May, and 87.2 percent for the second quarter, an increase both quarter to quarter and year over year. Rental rates were positive, and construction activity has been on the rise for some time. In-migration and weakness in the single-family housing market may explain the increased demand. Office and retail vacancy rates fell in the second quarter, and net absorption was positive for both sectors. Construction activity was also growing for office space, but retail construction continues to decrease. Since the end of the tax credit, existing-home sales have continued to improve.



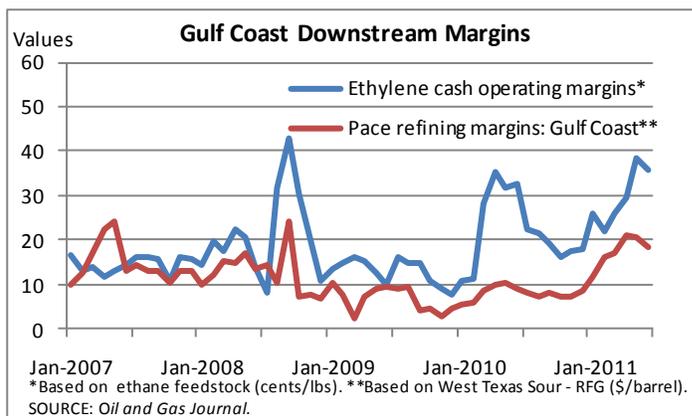
## Upstream

The average price of West Texas Intermediate (WTI) crude oil was \$97.20 a barrel in July, and the Henry Hub average spot price of natural gas was \$4.40. On an energy equivalent basis, oil was 3.8 times the price of gas. The average weekly U.S. rig count was 1,904 in July. Oil activity continued climbing as producers chased higher prices. Eagle Ford and other shale regions remained a strong source of activity for the region as they are comparatively rich in the 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.



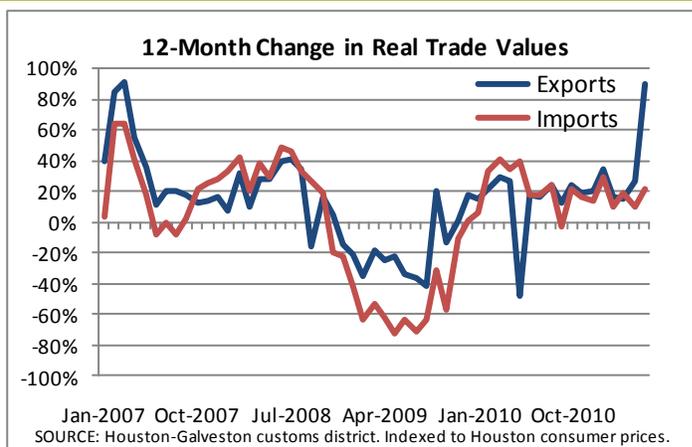
## Downstream

The margins of refiners and petrochemical companies remained healthy despite slight decreases in June and July due in part to capacity fluctuations from unplanned outages and a recent easing of prices. Despite seasonal pressures and a drop in price, gasoline consumption declined in July. Thermoplastics also saw prices edge down in July. Exports to the developing world, particularly Latin America, have been an important market for downstream industries since the recession. Asia has been a major importer of plastic resins, but U.S. exporters noted a drop in demand that has been offset by growth from Brazil and other South and Central American countries in recent months.



## Trade and Autos

The real value of imports and exports in the Houston-Galveston customs district continued to grow relative to last year and month to month in the most recent data from May. Plastic resins and oil exploration and production-related activities are driving the observed growth, according to the Port of Houston Authority. According to information from InfoNation Inc., retail auto sales disappointed in June, breaking a steady positive trend. The average price of new vehicles sold in Houston remains above \$30,000, due in part to substitution to used-car purchases and soft consumer demand at the low end. Japanese supply chain issues are improving ahead of schedule as it recovers from the disaster in Fukushima.



### Capacity Utilization: Capacity utilization returned to normal operating ranges for a number of industries in June.

- Manufacturing as a whole is at 74.8 percent, which is below its long-run average of 77.8.
- Petroleum and coal products are at 84.9 percent, below the average of 88.2.
- Chemicals are operating just above their long-run average at 77.8 percent of capacity.
- The most recent plastics and resins figure is above its long-run average at 91.2 percent capacity utilization.