

Houston Economic Update

October 2011



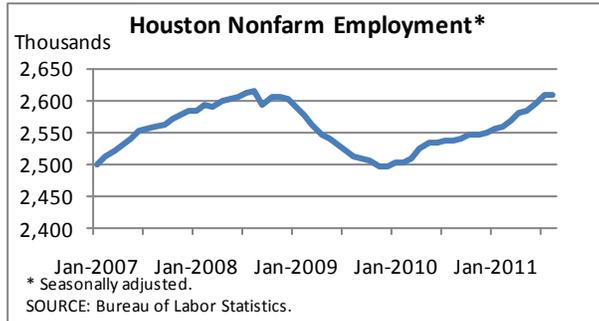
FEDERAL RESERVE BANK OF DALLAS, HOUSTON BRANCH

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 2.4 percent in August. This figure was accompanied by an upward revision of the July growth rate to 7 percent. Year to date, the average annualized monthly growth rate for 2011 is 5.3 percent. In spite of a troublingly weak national economy, the Houston region has produced continually robust growth by most aggregate metrics. The outlook for Houston remains positive.

Employment

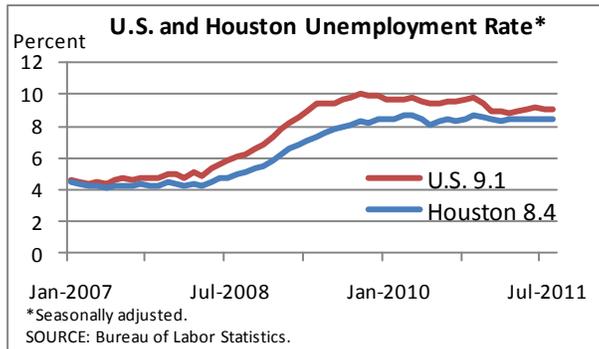


Nonfarm payroll employment grew at an annualized rate of 3.8 percent in August to more than 2.61 million jobs. Year to date, employment has grown 2.3 percent. This brings the number of jobs added since the trough of Houston's business cycle to 114,300—more than 94 percent of what was lost in the Great Recession. The unemployment rate improved slightly to 8.4 percent. Preliminary numbers indicate this was due in part to a slight drop in the labor force as opposed to growth in employment. The U.S. unemployment rate was 9.1 percent. The Gulf Coast Workforce Development Area's initial claims for unemployment insurance fell 1.3 percent in August and remains in a decelerating downward trend.

Employment Changes

- Trade, transport, utilities 0.0
- Construction & mining 13.3
- Prof. & business services 2.0
- Education & health services 5.3
- Manufacturing 7.1
- Financial activities 4.4
- Leisure & hospitality 4.0
- Government 0.9
- Other services 4.2
- Employment services -0.6
- Information -5.1

Figures are three-period-average annualized monthly growth rates sorted by descending industry share of total wages paid in the 1st quarter 2011. Data are from the Bureau of Labor Statistics, seasonally adjusted by the Federal Reserve Bank of Dallas.



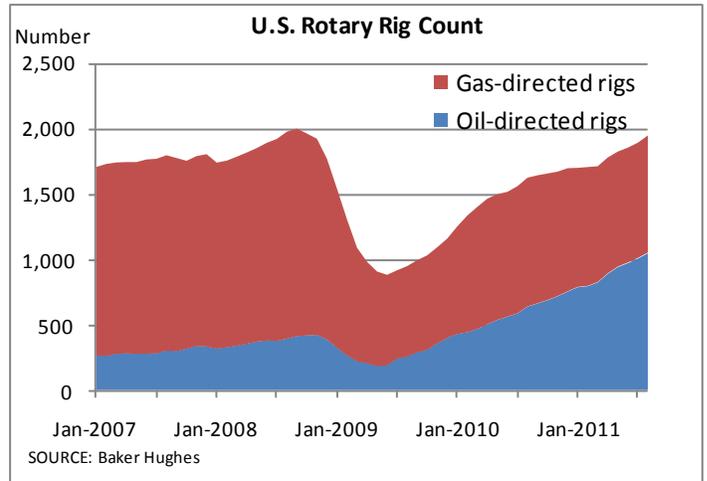
Manufacturing

The purchasing managers index (PMI) for Houston grew to 61.3 in August. The reading for the U.S. improved to 51.6 in September after retreating slightly in August. Manufacturing employment has averaged 7 percent annualized monthly growth this year, and intermediate products have been a significant component of recent import growth in the Houston-Galveston Customs District. The Houston PMI has a strong positive correlation to month- and quarter-ahead employment growth in the region. Nationally, manufacturing capacity utilization has returned to a rate near, but below, its long-run average.



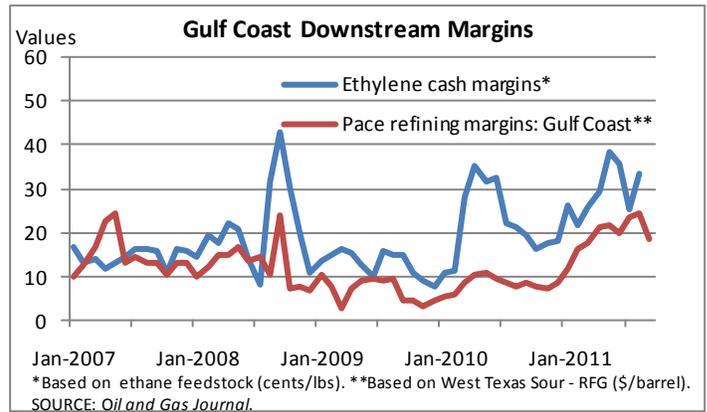
Upstream

The average daily price of West Texas Intermediate in September was nearly \$85.61, and in August the Henry Hub average spot price of natural gas was \$3.89. The August average weekly U.S. rig count was 1,978. Growth in oil-directed rigs has cooled down the last few months along with the price of oil, while gas-directed activity has been ramping up. 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, butane and pentane 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.



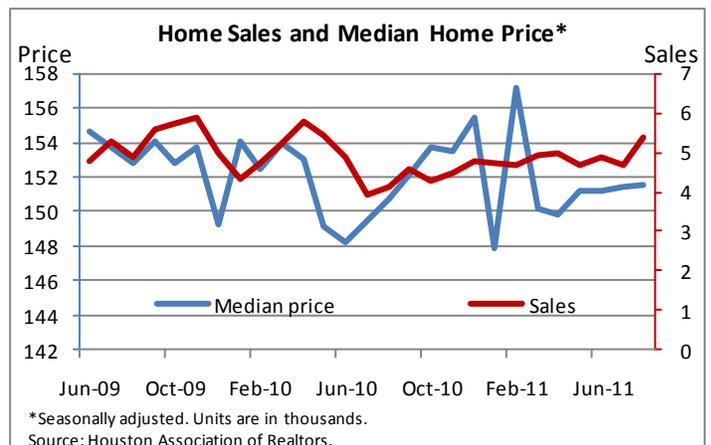
Downstream

The margins of refiners and petrochemical companies continue to be strong due in part to a series of unplanned outages and resilient global demand. Gasoline and diesel prices in September averaged \$3.67 and \$3.84, respectively. U.S. consumption of gasoline declined, due in part to seasonal influences. The last three weeks saw a new high in U.S. finished petroleum product exports of 2,479 thousand barrels per day. The Gulf pipeline-delivered spot price index for ethylene, a main precursor for petrochemical products, fell \$13.40 to close September at \$50. The “chemicals” industrial capacity utilization rate continues to oscillate near its long-run average.



Real Estate

The three-period-average growth rate of seasonally adjusted monthly existing-home sales climbed to 4.5 percent in August; year-to-date growth in sales through August was 1 percent. New single-family home sales, housing starts and new private housing permits have yet to convincingly show a positive growth trend on a seasonally adjusted basis. Uncertainty in the single-family home market, as well as financing issues and an influx of job seekers to Houston, may be contributing to increased activity in multifamily construction and persistently high multifamily occupancy rates. The supply of housing inventory fell to 6.9 months in Houston. On the whole, the real estate industry remains a drag on the economy.



Forecasts: U.S. forecasts revised down for 2011. Emerging economies continue to outperform the U.S. and Europe.

- The Federal Reserve Bank of Dallas currently forecasts employment growth in Texas to be between 2 and 3 percent for 2011.
- Expectations are for GDP growth to be slower than forecasts released by the Federal Reserve Board in June. Those numbers placed growth for 2011 between 2.6 and 2.9 percent and growth for 2012 between 3.3 and 3.7 percent.
- September Blue Chip Economic Consensus Forecasts of 2011 growth were 9.1 percent for China, 3.9 percent for Mexico, 3.8 percent for Brazil and 1.7 percent for the euro zone.