

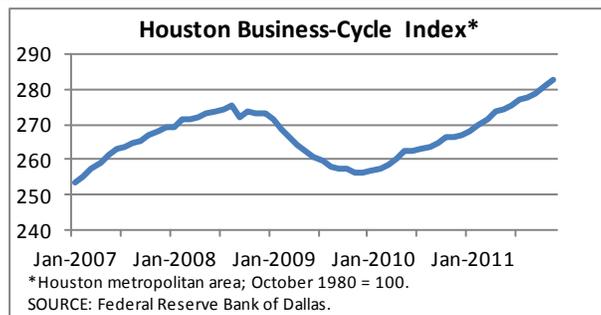
Houston Economic Update

January 2012



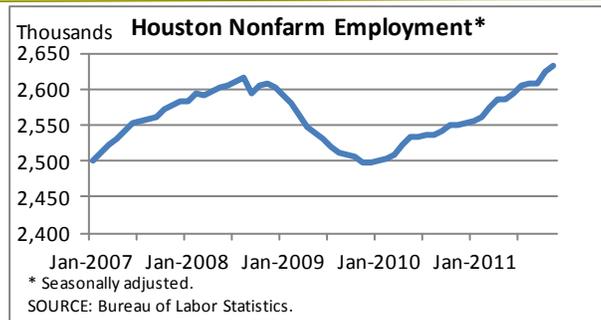
FEDERAL RESERVE BANK OF DALLAS, HOUSTON BRANCH

Houston Business Cycle



Economic activity in the Houston metropolitan area, as measured by the Federal Reserve Bank of Dallas business-cycle index, grew at an annualized rate of 7 percent in November. This figure was accompanied by an upward revision of the October growth rate from 9.6 to 9.8 percent. Energy, chemicals and trade have continually allowed the region to outperform the nation and even the state. Despite trouble from Europe and a slowly accelerating national recovery, Houston for the most part left the Great Recession behind in 2011, and its outlook remains positive.

Employment

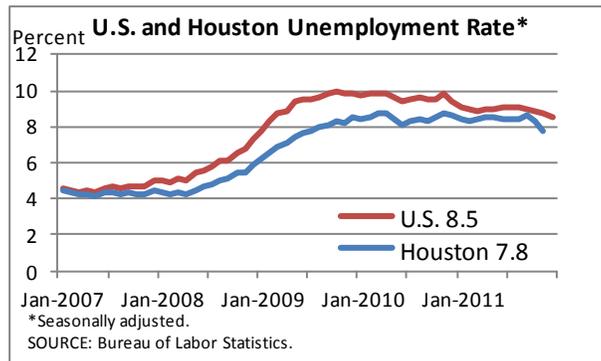


Nonfarm payroll employment grew at an annualized rate of 4 percent in November to 2.63 million jobs. Through November, payroll employment grew 3.1 percent. This brings the number of jobs added since the trough of Houston's business cycle to 136,000—more than 113 percent of what was lost in the recession. The unemployment rate fell to 7.8 percent in December. Preliminary figures indicate a drop in both the number of unemployed and the size of the labor force. The U.S. unemployment rate fell to 8.5 percent in January. The Gulf Coast Workforce Development Area's initial claims for unemployment insurance climbed 3.6 percent in October but remained in a decelerating downward trend.

Employment Changes

- Trade, transport, utilities 3.1
- Construction & mining -3.7
- Prof. & business services 8.2
- Education & health services 6.0
- Manufacturing 1.8
- Financial activities 5.3
- Leisure & hospitality 11.2
- Government -1.1
- Other services 11.5
- Information -3.8

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



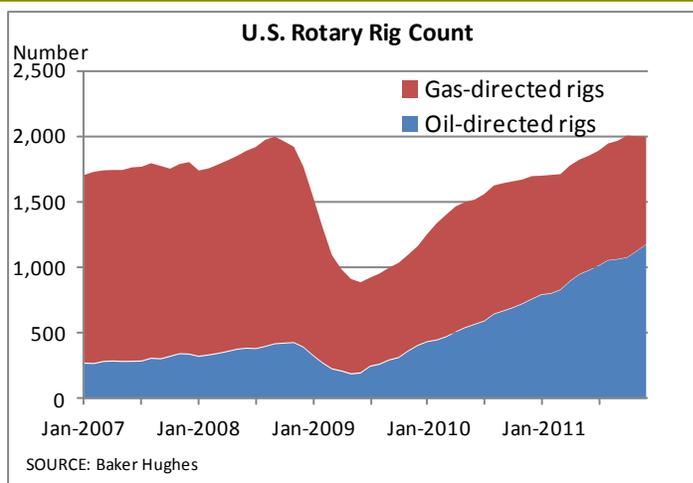
Manufacturing

The Houston purchasing managers index (PMI) has a strong positive correlation to month- and quarter-ahead employment growth in the region. Manufacturing employment averaged 5.2 percent annualized monthly growth through November. Machinery, fabricated metal products and mining machinery manufacturing have led that growth the past several months. The PMI for Houston grew to 61.6 in November. The November reading for the U.S. improved to 52.7, and the December reading was 53.9. Nationally, manufacturing capacity utilization has returned to a rate near, but below, its long-run average.



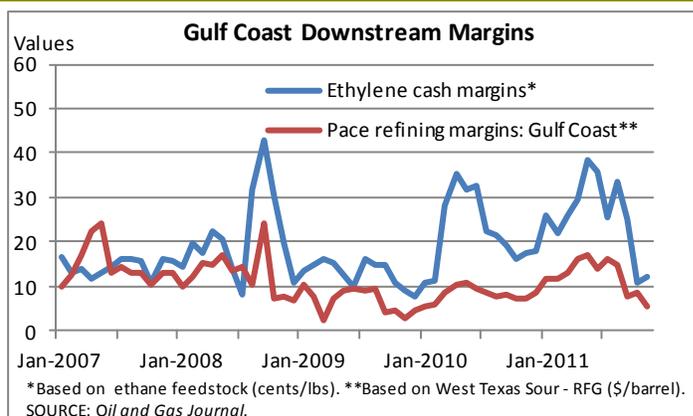
Upstream

The average daily price of West Texas Intermediate in December increased to \$98.57, in part on continued elevated inventories in Cushing, Okla. Brent and Louisiana Sweet both declined slightly in price. The Henry Hub average spot price of natural gas was \$3.16, making WTI nearly 5.4 times as expensive as gas on an energy-equivalent basis. The December weekly U.S. rig count peaked at 2,019 but ended the month at 2,007. Oil now makes up nearly 60 percent of U.S. rig activity. Natural gas (methane) associated with the extraction of oil and gas-liquids from both traditional and shale plays continues to swell inventories in spite of low prices. Oil and gas producers and oil and gas services will likely continue to be strong sources of employment growth in the Houston metropolitan area.



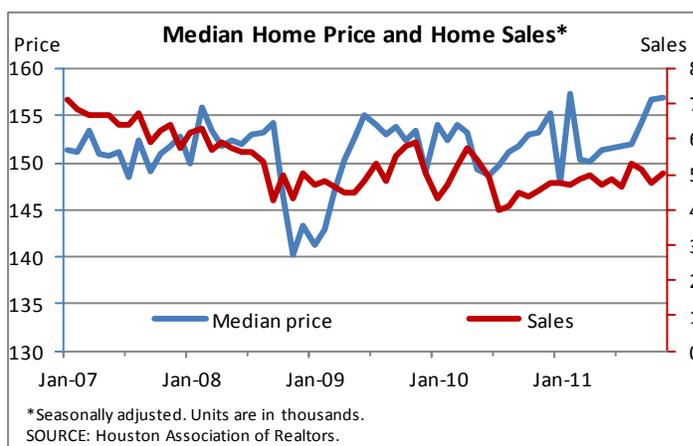
Downstream

The margins of refiners and petrochemical companies remained near their long-run averages in November after recent declines, due in part to favorable export markets. Gasoline and diesel prices in December averaged \$3.33 and \$3.86, respectively. U.S. consumption of gasoline and other refined petroleum products remained weak. Weekly exports of refined petroleum products held near November's record high of 2,558 thousand barrels per day. The Gulf pipeline-delivered spot price index for ethylene, a main precursor of petrochemical products, closed December up at \$53.50. The chemicals industrial capacity utilization rate continues to oscillate near its long-run average.



Real Estate

The growth rate of monthly existing-home sales, averaged over the last three months and seasonally adjusted, declined 2 percent in November. New single-family home sales and housing starts still haven't convincingly shown a positive growth trend on a seasonally adjusted basis, and seasonally adjusted permits for new private housing declined in November, possibly breaking a nascent upward trend. Uncertainty in the single-family home market may be contributing to continued strong activity in multifamily construction and persistently high multifamily occupancy rates. The supply of housing inventory fell to 6.5 months in Houston. The real estate industry remains a drag on the region, but the outlook is improved for the year ahead.



Forecasts: U.S. economy expected to improve slightly in 2012. Emerging economies to continue outperforming the developed world.

- The Federal Reserve Bank of Dallas forecasts employment growth in Texas to end 2011 at 2 percent. The same is expected for 2012.
- December Blue Chip Economic Consensus Forecasts of 2011 growth were 9.1 percent for China, 3.6 percent for Mexico, 3.3 percent for Brazil and 1.6 percent for the euro zone.
- While there are some expectations for acceleration—for example, in the U.S., Brazil and Japan (a nation whose growth in 2011 suffered due to the earthquake and tsunami)—multiple forecasters report a likely slowdown for most of the world in 2012.