

# Houston Economic Update

February 2012



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 1.9 percent in December. While Europe continues to be of concern, emerging economies are expected to continue to drive global growth, albeit at a slower pace. Houston's connection to that global economy has been to be a buoy to local activity. The region continues to display signs that the shadows of recession have mostly faded away, and the road ahead remains bright.

## Employment

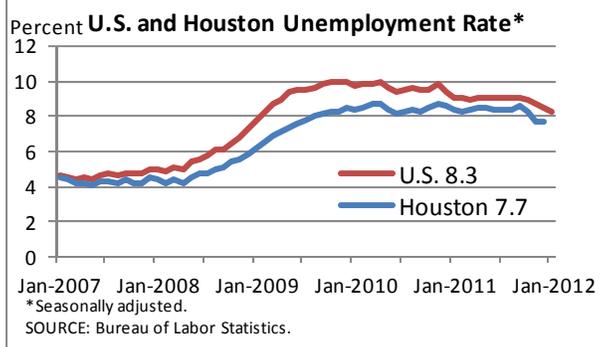


Seasonally adjusted nonfarm payroll employment declined at an annualized monthly rate of less than 1 percent in December, bringing the three-period-average growth rate down to 2.9 percent. The Houston unemployment rate was unchanged in December from the previous month, which was revised down to 7.7 percent, while the U.S. December unemployment rate of 8.5 percent fell to 8.3 in January. The Gulf Coast Workforce Development Area initial claims for unemployment insurance fell an average of 1.8 percent over the last three months and continues to indicate a leveling off of the general downward trend observed since the trough of the Houston's business cycle in December 2009.

### Employment Changes

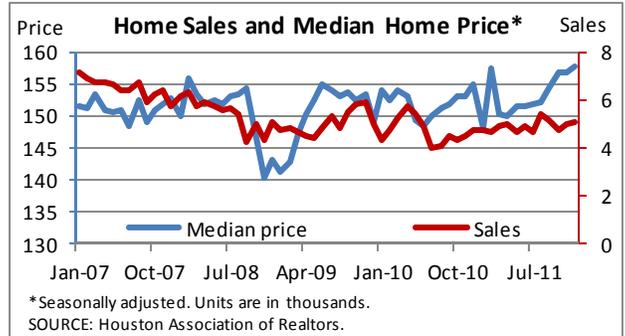
- Construction & mining -7.0
- Prof. & business services 6.2
- Trade, transport, utilities 1.4
- Manufacturing 2.8
- Education & health services 2.2
- Leisure & hospitality 10.3
- Financial activities 4.39
- Government 2.73
- Other services 10.24
- Information -6.4

Figures are three-period-average annualized monthly growth rates, ordered by descending industry percent contribution to real wage growth in third quarter 2011. Data are from the Bureau of Labor Statistics, seasonally adjusted by the Federal Reserve Bank of Dallas.



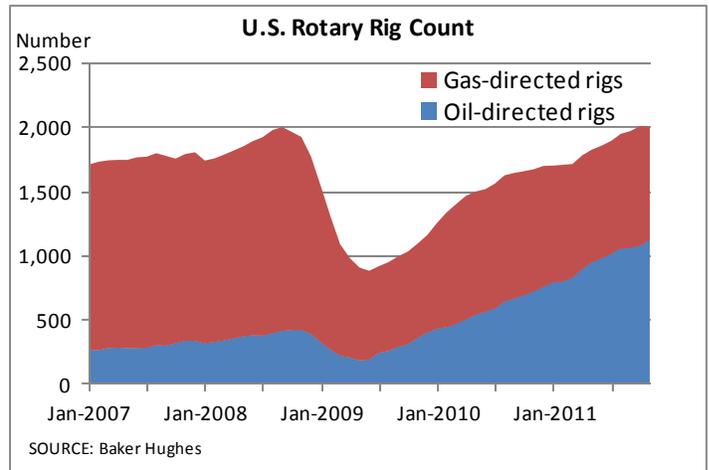
## Real Estate

Seasonally adjusted home sales have averaged a 0.5 percent monthly decline over the three months ending in December. However, seasonally adjusted single-family housing starts, and to a lesser extent, single-family permits seem to have entered a positive trend toward the end of the year. Apartment occupancy held near 88.3 percent in November, while rental rates were up slightly. Multifamily units under construction nearly quadrupled between year-end 2010 and 2011. Fourth quarter industrial vacancy rates declined both on a quarterly basis and year to year, and industrial units under construction more than quadrupled year to year.



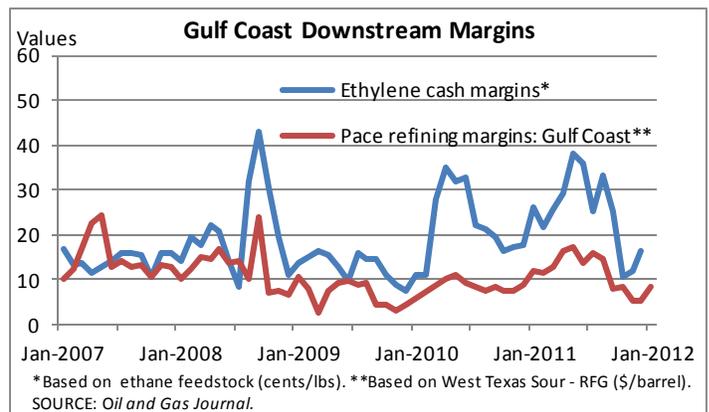
## Upstream

The average daily price of West Texas Intermediate (WTI) crude oil was \$100.24 a barrel in January, and the Henry Hub average spot price of natural gas was \$2.67. On an energy-equivalent basis, oil was 6.5 times the price of gas. Louisiana Light Sweet crude oil ended October at \$110.63. The average weekly U.S. rig count was 2,003 in January. Oil activity is still displacing gas as producers chase higher prices. Eagle Ford and other shale regions remain major sources of activity as they are comparatively rich in the valuable oils and gas liquids used for such industries as petrochemicals and as fuel-blending elements. While oil and gas extraction and services continue to be a good source of job and wage growth for Houston, skill shortages across the industry spectrum continue to be an issue.



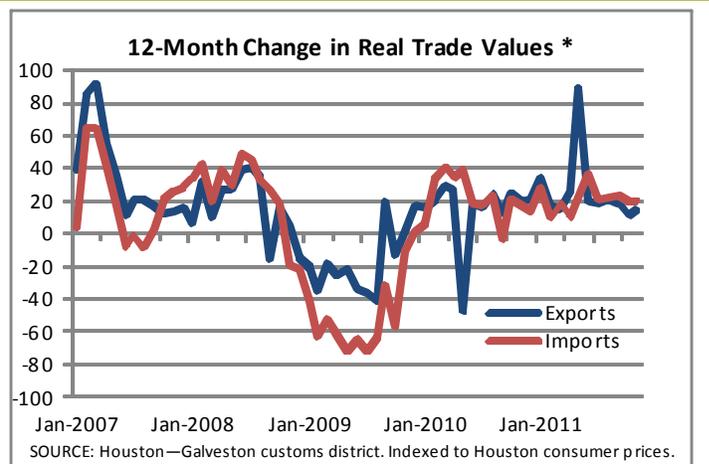
## Downstream

The margins of refiners and petrochemical companies remain in healthy territory. Gasoline prices rose in January to average \$3.44 despite seasonal factors contributing to declines in consumption. The price of diesel declined slightly to \$3.83 but has been resilient due to a sound export market for distillates. January saw a new high in U.S. petroleum product exports of 2,884 thousand barrels per day. Lower feedstock costs offset price declines for petrochemicals caused in part by weakness in domestic markets, softening exports and seasonal factors. The Gulf pipeline-delivered spot price index for ethylene, a primary petrochemical product precursor, rose 10.7 percent in January to \$59.25.



## Trade and Autos

The real value of imports and exports at the Houston–Galveston customs district maintained a solid positive year-over-year trend. According to the Port of Houston Authority, oil exploration and production-related activities, refined petroleum products and plastic resins continue to be key drivers of the observed growth. According to information from InfoNation Inc., Houston auto sales surpassed expectations in December, rising a dramatic 25 percent over November and 8.6 percent year over year for the strongest one-month performance since 2007. The average retail price of new vehicles sold set a new high of \$33,429. With truck/SUV sales leading the way, December saw the highest sales numbers since 2007.



**Capacity Utilization:** Seasonally adjusted capacity utilization rates for regionally important industries remain in solid territory.

- Manufacturing as a whole was at 76.4 percent of capacity in December, below its long-run average of 77.8.
- Petroleum and coal products were at 89 percent in December, above the average of 88.2.
- September chemicals were operating 0.5 percentage points above their long-run average at 78.1 percent of capacity.
- At 88.2 percent, the most recent plastics and resins figure (September 2011) was just shy of its long-run average.