

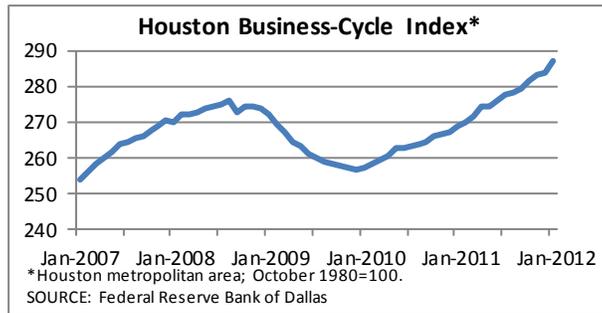
Houston Economic Update

March 2012



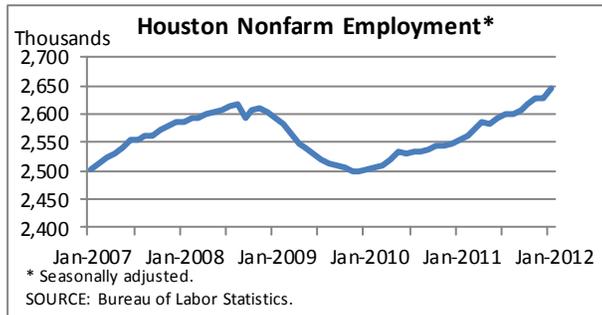
FEDERAL RESERVE BANK OF DALLAS, HOUSTON BRANCH

Houston Business Cycle



The annualized monthly growth in economic activity in the Houston metropolitan area was 12.3 percent in January, as measured by the Federal Reserve Bank of Dallas' business-cycle index. It was driven largely by out-sized increases in employment. Energy continues to lead the way for Houston as emerging economies drive global growth and the U.S. economy steadfastly slogs its way toward expansion. While debt woes in Europe and overheating in emerging economies remain sources of some worry, the outlook for Houston remains positive.

Employment

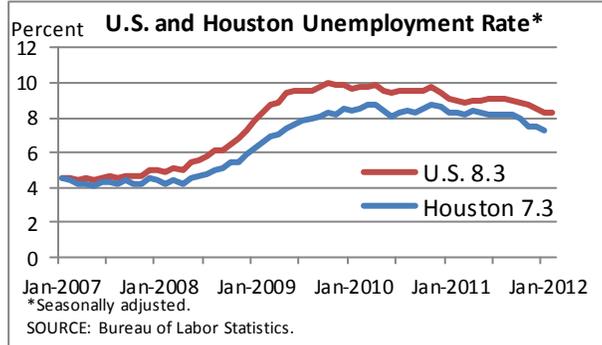


Total seasonally adjusted nonfarm payroll employment climbed to more than 2.64 million jobs in January, an annualized monthly growth rate of 8.5 percent. This remarkably high growth brought the three-month average rate up to 4 percent. The Houston unemployment rate fell to 7.3 percent in January from the previous month, which was revised down to 7.5 percent. The U.S. unemployment rate held at 8.3 percent in February. Although initial claims remain elevated above normal levels, both initial and continuing claims for unemployment insurance have been falling at a decelerating rate since the trough of Houston's business cycle in December 2009. Continuing claims have fallen 50 percent since its peak.

Employment Changes

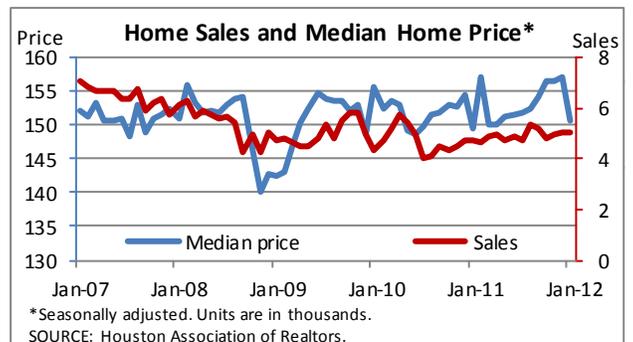
- Construction & mining 4.0
- Prof. & business services 8.1
- Trade, transport, utilities 5.6
- Manufacturing 1.6
- Education & health services 1.2
- Leisure & hospitality 10.9
- Financial activities 2.3
- Government -2.1
- Other services 5.0
- Information -2.6

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.



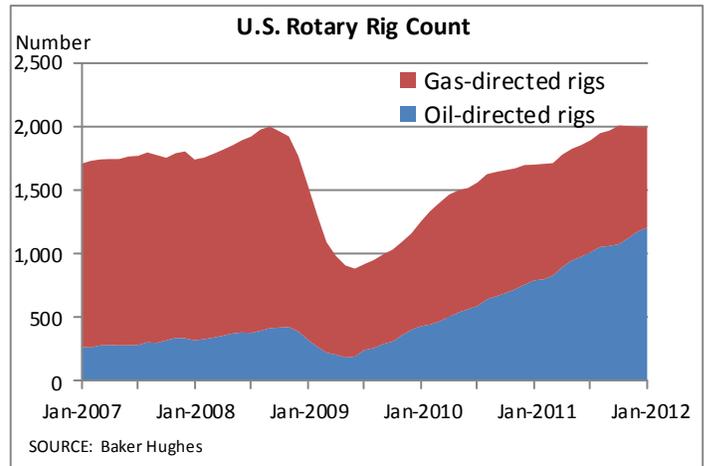
Real Estate

The seasonally adjusted three-month-average growth rate of home sales came to just under 2 percent in January, and the nominal median home price fell slightly to \$150,746. While existing-home sales in the Houston region declined year over year in January, nearly 20 percent of sales were foreclosures, according to the Houston Association of Realtors. New single-family starts and permits have yet to enter into a significant positive trend, but feedback from industry groups puts them on surer footing. Seasonally adjusted housing months-in-inventory declined to 6.2. January building contract values were down 7.6 percent year over year.



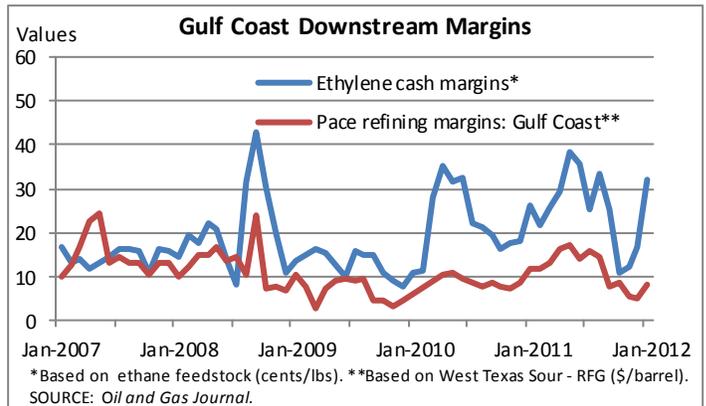
Upstream

The average weekly U.S. rig count was 1,990 in February, and horizontal wells now represent 59 percent of all rig activity in North America. The complexity of new technologies has amplified the positive relationship between revenues and rigs, possibly redefining the present as the halcyon days of oil and gas services. Land-based oil plays continue to drive the observed growth in total activity. Jobs associated with oil and gas extraction remain a disproportionate source of growth for the region. The average daily price of West Texas Intermediate (WTI) in February was \$102.25, and the Henry Hub average spot price of natural gas was \$2.51. In energy content, WTI was nearly seven times as expensive as natural gas, while Brent and Louisiana Light were over eight times as expensive.



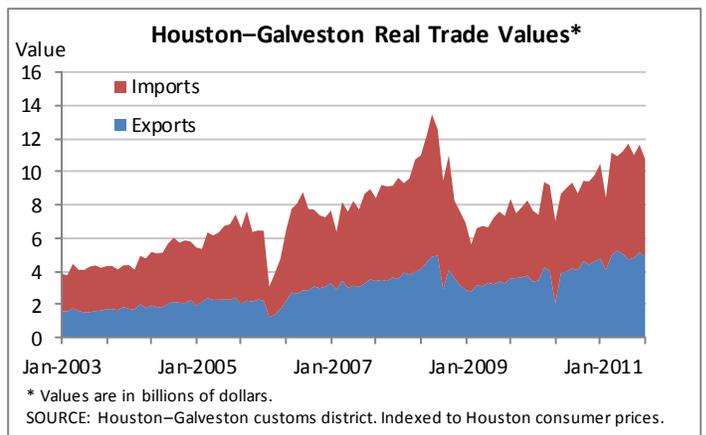
Downstream

A barometer for U.S. competitiveness in global petrochemical markets is a ratio of the prices of feedstock derived from oil vs. natural gas. That ratio has climbed to levels not seen in over a decade. Plant outages for a number of products led to higher output prices. When coupled with near-record low natural gas prices, the margins of ethylene plant operators soared. Domestic gasoline demand continued to soften more than seasonality would suggest, while global demand for distillates remained robust. In February, U.S. petroleum product exports reached a record high of over 3.1 million barrels per day, while Gulf Coast prices of diesel and gasoline averaged \$3.82 and \$3.45, respectively.



Trade and Autos

The most recent customs data placed three-month-average, year-over-year growth in the real value of total trade at 16.5 percent in December. Growth in trade values appears to have slowed, in part due to softening international markets. Container volumes seemed to be trending flat. Chemicals and oil-related products continue to drive trade, with finished petroleum products holding near historic highs. Up 32 percent in January, year-over-year retail auto sales had their best month since June 2008, led by truck/SUV sales. Continued luxury purchases and trim-level upgrades pushed the average new-vehicle price to a near-record \$33,699. U.S. sales grew 11.4 percent.



Inflation Measures: Inflation expectations remain modest.

- Growth in the Houston consumer price index, less food and energy, decelerated significantly in December.
- The Dallas Federal Reserve's Trimmed Mean personal consumption expenditures (PCE) index for the U.S. grew at an annualized rate of 1.5 percent in January. The six-month Trimmed Mean PCE was 1.8 percent, and the 12-month reading was 1.9 percent.
- February Blue Chip consensus forecasts of U.S. Consumer Price Index inflation for 2012 fell to 2.1 percent, and forecasts for 2013 were unchanged at 2.1 percent.