

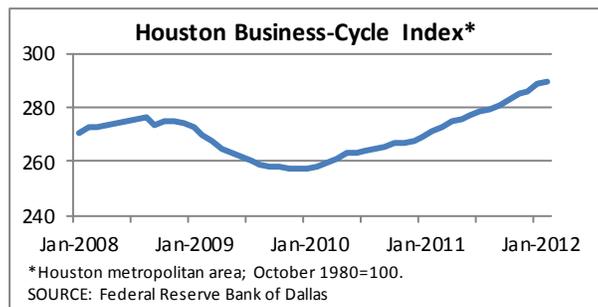
Houston Economic Update

April 2012



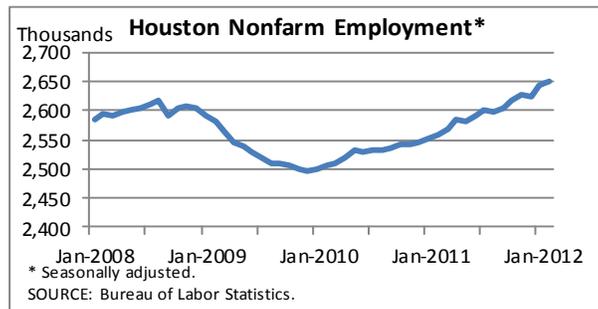
FEDERAL RESERVE BANK OF DALLAS, HOUSTON BRANCH

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 5.4 percent in February—significantly outpacing all other major metro areas in the state. Despite persistent worries from the international economy and the drag of sustained high oil prices on the nation, the outlook for Houston remains positive, with hydrocarbon industries and manufacturing leading the way and fueling the growth of Houston’s other industries and international trade.

Employment

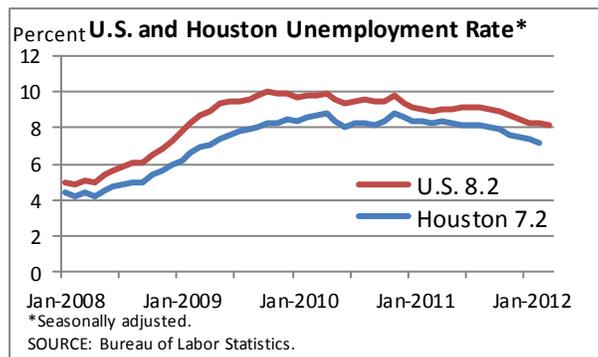


Nonfarm payroll employment grew at an annualized rate of 3.2 percent in February to more than 2.65 million jobs. That is slightly slower than the three-month average of 3.8 percent growth. Education and health services saw the largest one-month increase in February, adding 3,200 jobs. The manufacturing sector and trade, transportation and utilities followed close behind. The unemployment rate fell to 7.2 percent in February from a revised 7.4 percent in January. Hiring drove the decline as the size of the labor force fell an insignificant amount. The U.S. unemployment rate fell a tenth of a percent to 8.2 percent in March, and labor force participation was also down slightly from February. (All data seasonally adjusted.)

Employment Changes

- Construction & mining 4.7
- Prof. & business services 4.4
- Trade, transport, utilities 6.9
- Manufacturing 3.6
- Education & health services 7.6
- Leisure & hospitality 10.9
- Financial activities -1.2
- Government -1.6
- Other services 1.7
- 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.



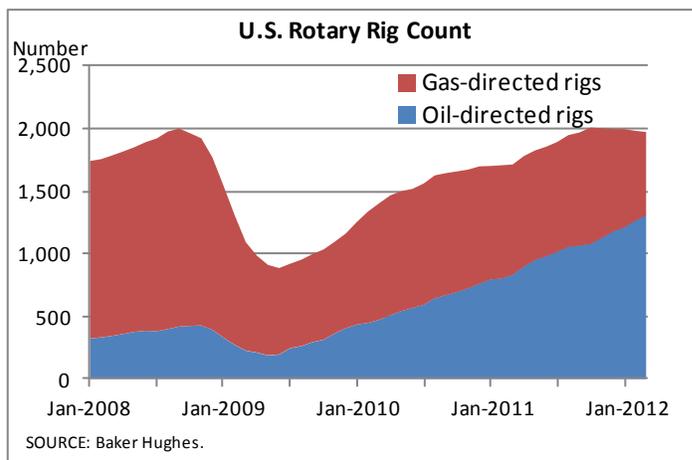
Manufacturing

Annualized manufacturing employment growth swung from a loss of more than 7 percent in January to a gain of 15 percent in February. Fabricated metal products dominated growth in that sector with an unadjusted 25 percent increase in February, accounting for nearly 60 percent of all manufacturing jobs added. Contacts point to manufactured products as a driving factor in recent increases in exports. The purchasing managers index (PMI) for Houston slid to 59.6 in February; the reading for the U.S. fell slightly to 52.4. The Houston PMI has a strong positive correlation to month- and quarter-ahead regional employment growth.



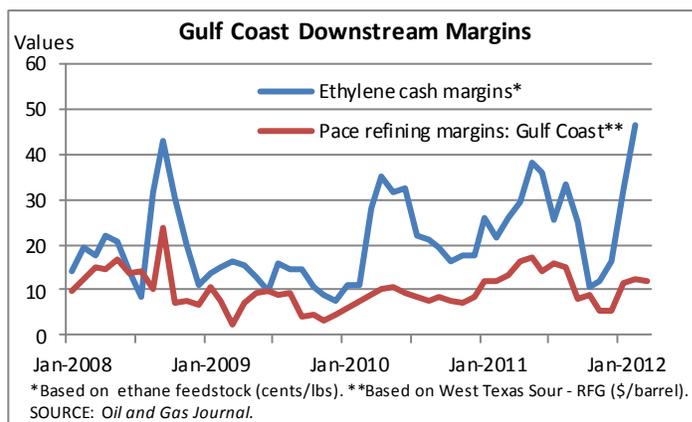
Upstream

The average daily price of West Texas Intermediate and Louisiana Sweet crude in March increased to \$106.19 and \$127.23, respectively. The Henry Hub average spot price of natural gas sank to \$2.16, making oil seven to eight times as expensive as gas on an energy-equivalent basis. The March weekly U.S. rig count averaged 1,979, ending the month down on reduced gas rig activity. Oil now makes up nearly two-thirds of U.S. rig activity. Natural gas (methane) associated with the extraction of oil and gas-liquids (ethane, propane, butane) is adding to inventories despite low prices. The relocation of human and physical assets away from gas to oil-directed activity is causing temporary strains on service firms. But activity in the liquids-rich Permian and nearby Eagle Ford basins continues to grow.



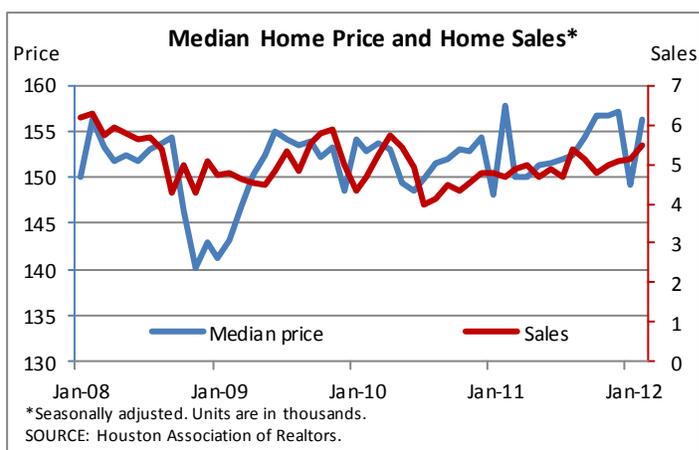
Downstream

Refiner margins remain in healthy territory thanks to export markets. U.S. average gasoline and diesel prices in March averaged \$3.90 and \$4.13, respectively, with Gulf Coast prices about 20 cents and 10 cents lower. U.S. consumption of gasoline and other refined petroleum products remained weak. Weekly exports of petroleum products fell to 2.7 million barrels per day from record highs in early March of 3.1 million. The Gulf pipeline-delivered spot price for ethylene closed up in March at \$68.50, driven by capacity outages. With ethane feedstock prices at 10-year lows, margins have been way up. Delivered polymer prices were slightly positive to down on the Gulf Coast through March.



Real Estate

The growth rate of existing-home sales, averaged over the last three months and seasonally adjusted, climbed to an annualized 3.1 percent in February. New single-family housing starts and permits are showing positive growth trends on a seasonally adjusted basis, further diminishing the caution applied to optimism among contacts. However, aberrant winter weather may be distorting those numbers. Foreclosure sales remain a disconcertingly high proportion of total sales, based on Houston Association of Realtors data. Housing inventory fell below 6.1 months in Houston, a healthy number historically. Changes in rents and occupancy for industrial, office and retail properties were all in positive territory last quarter.



Forecasts: Expectations for the U.S. improve slightly, while forecasts of international growth continue to erode.

- The Federal Reserve Bank of Dallas forecast of employment growth in Texas this year was revised up to nearly 3 percent.
- Despite positive revisions and good news in first quarter 2012, the U.S. is still expected to grow at the slow pace seen in 2011 before accelerating in the second half of the year to a fourth-quarter growth rate of 2.6 percent.
- March's Blue Chip Economic Consensus Forecasts of 2012 growth were 8.2 percent for China, 3.3 percent for Mexico, 3.2 percent for Brazil and -0.4 percent for the euro zone.