

Houston Economic Update

May 2012



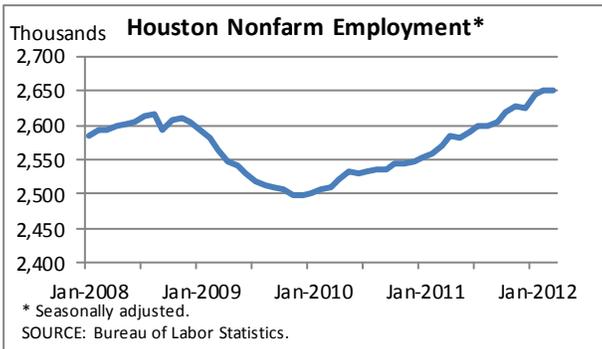
FEDERAL RESERVE BANK OF DALLAS, HOUSTON BRANCH

Houston Business Cycle



According to the Federal Reserve Bank of Dallas business-cycle index, economic activity in the Houston metropolitan area grew at an annualized rate of 4.6 percent in March. The global economy continues to decelerate, but emerging economies are expected to remain primary drivers of demand growth for energy and exports. Furthermore, local real estate markets, save for single family and retail, seem to be shedding the last shadows of the Great Recession. Given strengthening real estate, good energy prices and resilient international trade, the outlook for Houston remains positive.

Employment

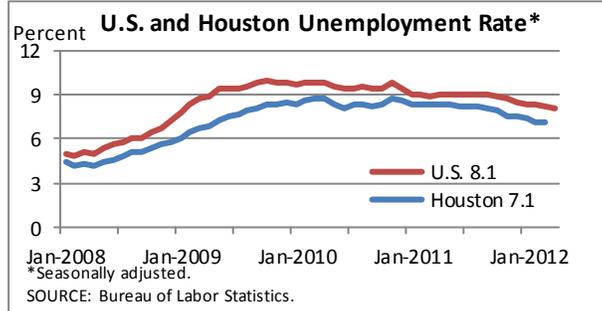


Seasonally adjusted nonfarm payroll employment growth declined to an annualized monthly rate of nearly zero in March, bringing the three-period-average rate down to 3.9 percent. The biggest one-month growth rate (16 percent) and most jobs added (3,400) were observed in the leisure and hospitality industry. The largest one-month decline (an 11.3 percent loss) was observed in financial activities. The greatest year-to-year employment growth in the first quarter came in health services. Despite a growing labor force, the Houston unemployment rate fell from 7.2 percent the prior month to 7.1 in March. With a decrease in labor force participation, the U.S. unemployment rate fell from 8.2 in March to 8.1 in April.

Employment Changes

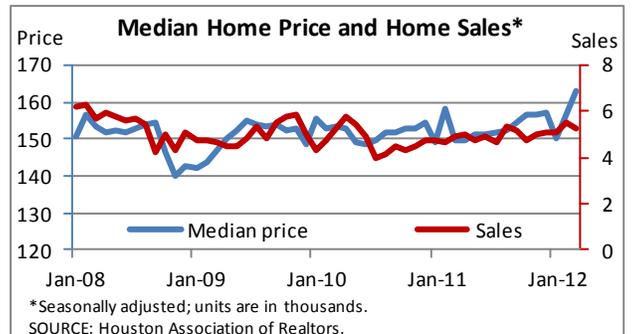
Construction & mining	3.7
Manufacturing	5.5
Prof. & business services	3.3
Trade, transportation, utilities	7.7
Leisure & hospitality	9.9
Other services	-0.4
Information	2.6
Financial activities	-5.2
Government	-3.0
Education & health services	6.5

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



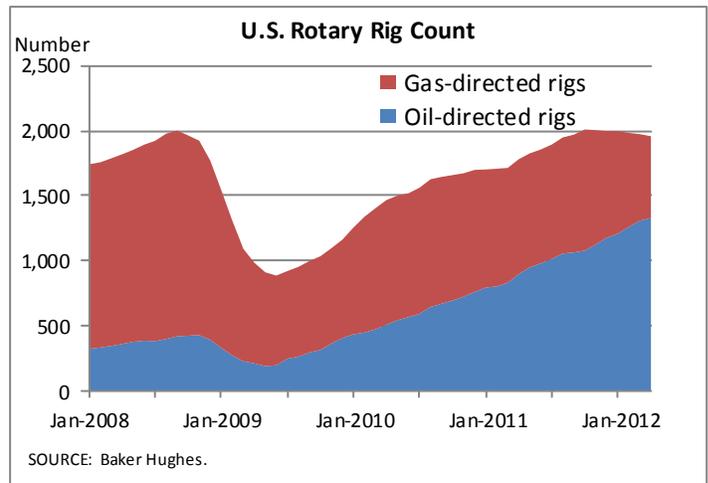
Real Estate

Seasonally adjusted home sales declined an average of 0.9 percent over the three months ending in April, but single-family housing starts and permits both seem to have entered positive trends. Apartment occupancy was 89 percent in March, and rental rates were up for all apartment classes over the last year and quarter. Year to year, industrial vacancy rates fell to 5.6 percent in the first quarter. Office lease rates continue to rise as vacancy rates fall. Financing is still a constraint in all real estate markets, but activity continues to improve. 2012 is expected to see the return of speculative projects to Houston.



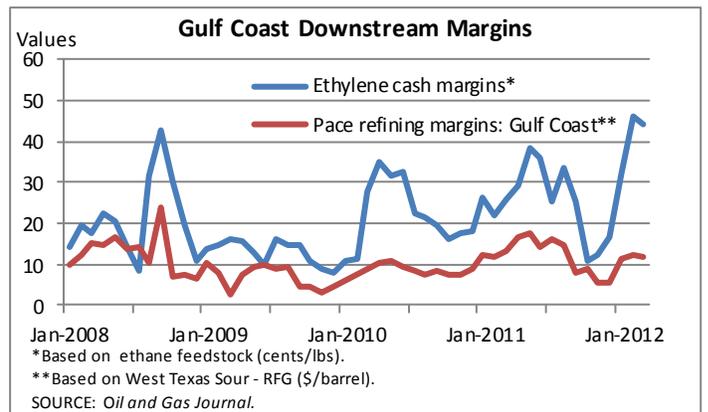
Upstream

The average daily price of West Texas Intermediate crude oil was \$106.19 a barrel in April, and the Henry Hub average spot price of natural gas was \$2.16. On an energy-equivalent basis, oil was 8.5 to 10.2 times the price of gas. Louisiana Sweet crude oil ended October at \$127.23. The average weekly U.S. rig count was 1,958 in April, and the number of active rigs in the Gulf of Mexico returned to pre-moratorium levels. Inventories of natural gas remain well above their five-year range, and inventories of crude are rising on more than seasonal movement. Competition in the liquids-rich Eagle Ford and Permian Basin is increasing as the low price of natural gas drives activity away from dry-gas plays. Across the industry, the short supply of skilled labor continues to mount and act as a constraint to growth.



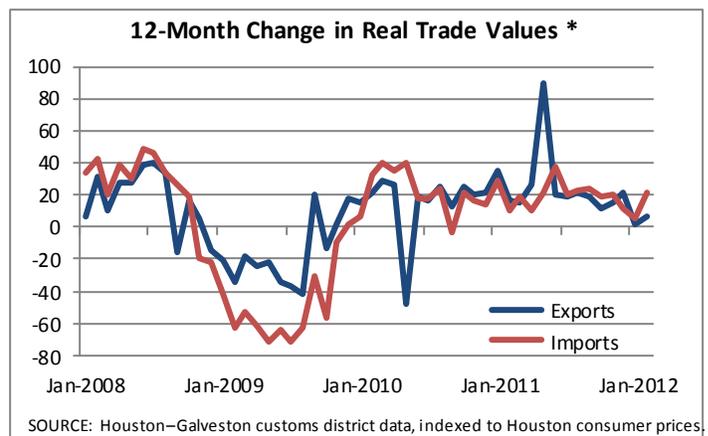
Downstream

The margins of refiners and petrochemical companies remain sound. U.S. regular gasoline prices rose in April to average \$3.90, despite seasonal factors and general declines in consumption. The price of diesel was down a penny to \$4.12 and resilient amid softening exports and increased domestic consumption. Gulf Coast gasoline and diesel prices were 20 cents and 10 cents lower, respectively. A slight bounce in feedstock costs complemented price declines for petrochemicals caused in part by softening exports and seasonal factors. The Gulf pipeline-delivered spot price index for ethylene, a primary petrochemical product precursor, fell to \$67.50. Polymer prices were flat to down.



Trade and Autos

The real value of imports and exports at the Houston–Galveston customs district maintained a solid positive year-over-year trend due in part to the high price and record export volumes of petroleum products. According to the Port of Houston Authority, oil exploration and production-related activities, chemicals and plastic resins continue to be key drivers of observed growth. Meanwhile, Houston auto sales registered their best month and quarter since 2008, with total sales rising 23 percent in March, according to InfoNation Inc. The average retail price of new vehicles fell slightly due to consumer substitutions to autos from trucks/SUVs, increased incentives and price pressures from improved Japanese inventories.



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

- Manufacturing as a whole was at 78.3 percent of capacity in March, comfortably above its 10-year average.
- Petroleum and coal products were at 86.3 percent in March, near their average.
- March chemicals were at 79.1 percent, nearly 5 percentage points above their 10-year average.
- The most recent plastics and resins figure (February 2012) was at 95 percent, nearly 7 percentage points above the 10-year average.