

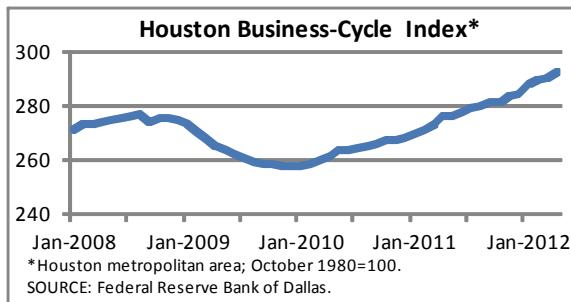
# Houston Economic Update

June 2012



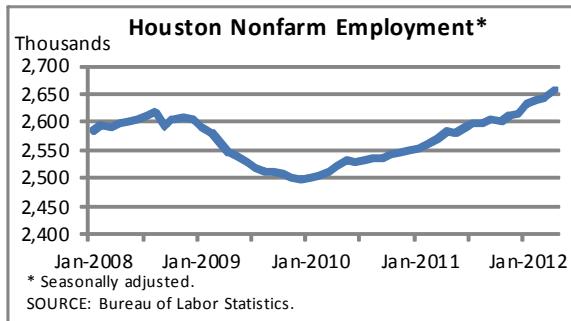
FEDERAL RESERVE BANK OF DALLAS, HOUSTON BRANCH

## Houston Business Cycle

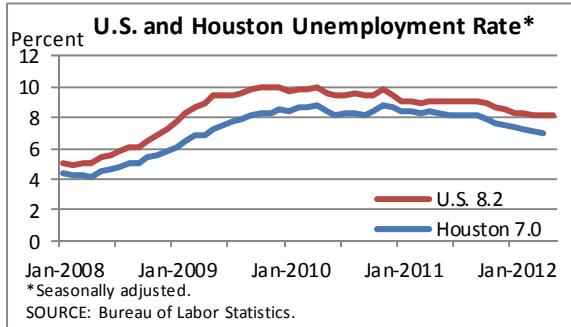


Annualized monthly economic growth in the Houston metropolitan area was 9.9 percent in April, as measured by the Federal Reserve Bank of Dallas' business-cycle index. With world oil prices comfortably above \$80 and low natural gas prices, hydrocarbon industries are keeping Houston economic activity in high gear with big spillovers into manufacturing. While a global slowdown is eroding the growth rate of trade, and transnational fiscal and regulatory uncertainty continues to cloud expectations, it seems Houston has moved past recovery and into expansion.

## Employment



Total seasonally adjusted nonfarm payroll employment climbed to nearly 2.66 million in April, an annualized monthly and three-month-average growth rate of 6.2 percent and 3.3 percent, respectively. Both monthly and year-over-year employment growth rates have averaged about 3 percent for the last six months. Mining and manufacturing fields continued to register the strongest growth, particularly fabricated metal products and support activities for mining subsectors, which saw year-over-year growth of 9.1 percent and 9.9 percent, respectively. The Houston unemployment rate fell from the previous month to 7 percent in April, and the U.S. unemployment rate rose to 8.2 percent in May.



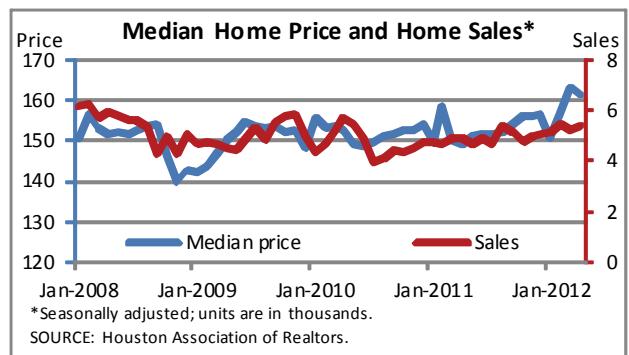
## Employment Changes

Construction & mining	8.6
Manufacturing	9.4
Prof. & business services	0.1
Trade, transportation, utilities	2.2
Leisure & hospitality	6.6
Other services	1.3
Information	2.6
Financial activities	2.0
Government	-1.9
Education & health services	4.9

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

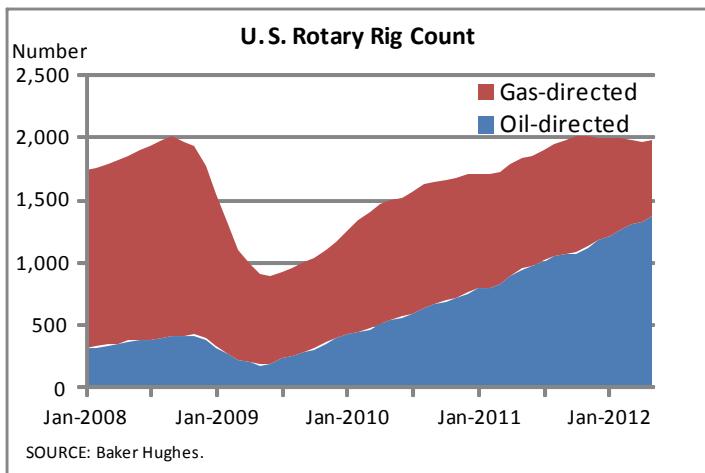
## Real Estate

The seasonally adjusted, three-month-average growth rate of home sales was 1.9 percent in April, and the nominal median home price fell slightly to \$160,964. Though recently volatile, new single-family starts and permits are still trending positive. Seasonally adjusted housing months-in-inventory declined to 5.7, and the supply of lots tightened considerably. April year-to-date residential contract values were up 37 percent; nonresidential contracts were down 14 percent but are expected to increase through the rest of 2012. Foreclosure sales fell to 18.8 percent of all property sales in April, only two-thirds of the January level.



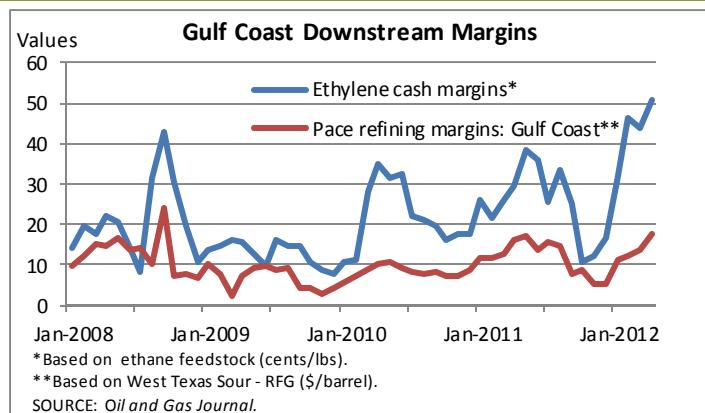
## Upstream

The average weekly U.S. rig count fell to 1,977 in May; 70 percent of rigs are now seeking oil. Historically low natural gas prices continue to force the cancellation and mothballing of gas-directed exploration. Gulf of Mexico rig counts are back to pre-oil-spill levels, but land-based oil plays continue to drive the activity, particularly in the liquids-rich Eagle Ford, the Permian Basin and the Bakken. Dry-gas shale plays like the Barnett and Haynesville are going dormant because many operations cannot be justified at current natural gas prices. The average daily price of West Texas Intermediate (WTI) crude in May fell to \$95.04, and the Henry Hub average spot price of natural gas was \$2.44. In energy content, oil was 6.7 to 7.8 times as expensive as gas.



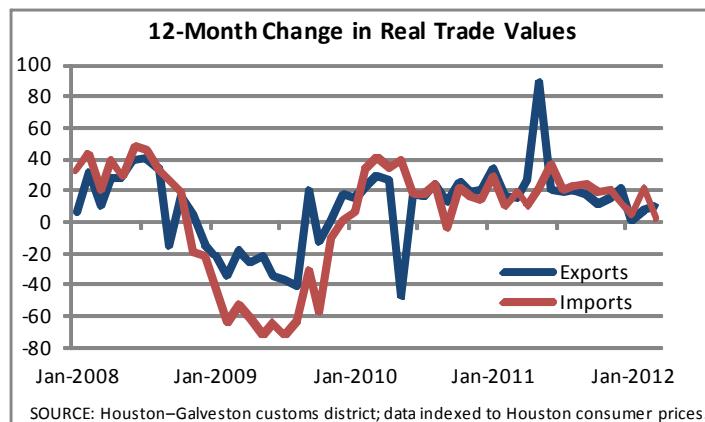
## Downstream

Supply constraints caused by plant maintenance put upward pressure on ethylene prices this spring, pushing prices up further downstream. While that capacity comes back online, declining international demand and a strengthening dollar have made export markets more challenging. Thus, from early April to the end of May, Gulf Coast ethylene, polyethylene and polypropylene average spot prices were down as much as 25 percent. Gasoline consumption climbed in May but remained well below levels in recent years. Gulf Coast average diesel and gasoline prices fell to \$2.96 and \$2.79, respectively, in May. Fuel price declines were offset by falling oil prices, boosting refiner margins.



## Trade and Autos

The most recent Houston–Galveston customs data placed three-month-average, year-over-year growth in the real value of total trade at 8.2 percent in March. Container volumes seem to be trending flat on weakening global demand and the increased value of the dollar. Chemicals and oil-related products continue to drive both values and tonnage at the port, with finished petroleum products holding near historic highs at 2.1 million barrels per day. April year-over-year auto sales increased 35.2 percent, and commercial heavy-truck sales more than doubled. Entry- and mid-range-priced vehicles increased in share of sales for the first time since the recession.



### Inflation Measures: Inflation expectations remain modest.

- The Houston consumer price index, less food and energy, contracted 0.35 percent in April.
- The Dallas Federal Reserve's Trimmed Mean personal consumption expenditures (PCE) index for the U.S. grew at an annualized rate of 2 percent in March. The six-month Trimmed Mean PCE was 1.8 percent, and the 12-month reading was 1.9 percent.
- Blue Chip consensus forecasts of U.S. Consumer Price Index inflation for 2012 inched up the last several months to 2.4 percent in May, and forecasts for 2013 were up at 2.2 percent.