

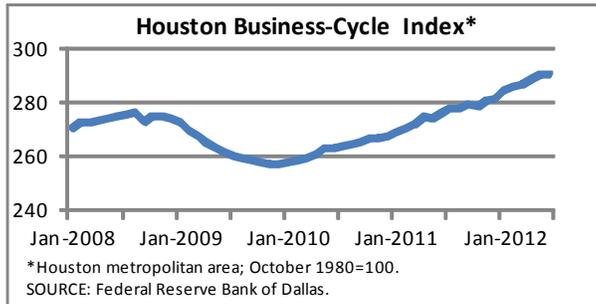
Houston Economic Update

August 2012



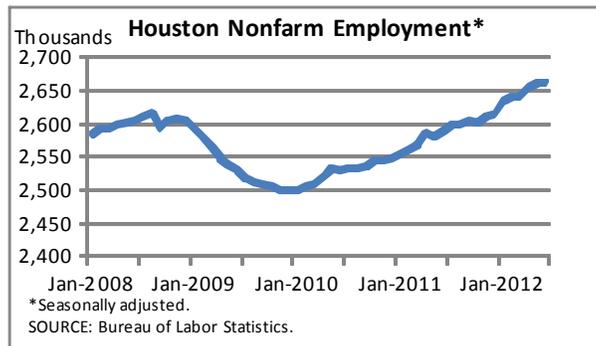
FEDERAL RESERVE BANK OF DALLAS, HOUSTON BRANCH

Houston Business Cycle



The Federal Reserve Bank of Dallas business-cycle index indicates economic activity in the Houston metropolitan area grew at an annualized rate of 2.8 percent in June. Estimates of weak employment growth for June may be weighing on the index, but key area industries continue to perform well despite eroding national and international expectations. Real estate markets are improving and seeing strong activity levels, energy prices are mostly in healthy territory and retail indicators are looking strong. Thus, the outlook for Houston in the coming months remains positive.

Employment

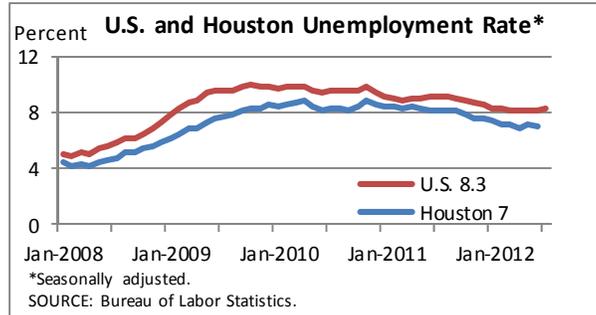


Seasonally adjusted nonfarm payroll employment was essentially unchanged in June, bringing the three-period-average rate down to 3.02 percent. With construction—particularly heavy and civil construction—adding to mining’s persistent strength, that category saw the highest growth rate (17.8 percent) and number of jobs added (4,100) in June. Government and financial activities had the largest one-month decline, each with 3,000 jobs lost (9.9 percent and 15.6 percent, respectively). With a steadily growing labor force, the seasonally adjusted Houston unemployment rate fell from 7.1 percent in May to 7 in June. The U.S. unemployment rate rose to 8.3 percent from 8.2 in July with no significant change in the labor force.

Employment Changes

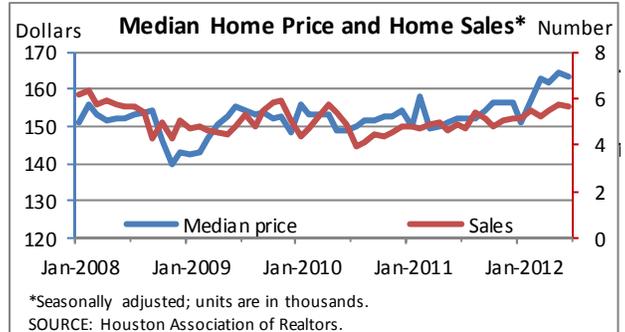
Prof. & business services	-2.5
Construction & mining	16.6
Trade, transportation, utilities	3.2
Manufacturing	2.4
Education & health services	1.9
Leisure & hospitality	6.2
Other services	7.6
Financial activities	5.6
Information	-5.1
Government	-4.0

Figures are three-period-average annualized monthly growth rates, ordered by descending industry contribution to first quarter 2012 year-to-year real wage growth. Data are from the Bureau of Labor Statistics, seasonally adjusted by the Federal Reserve Bank of Dallas.



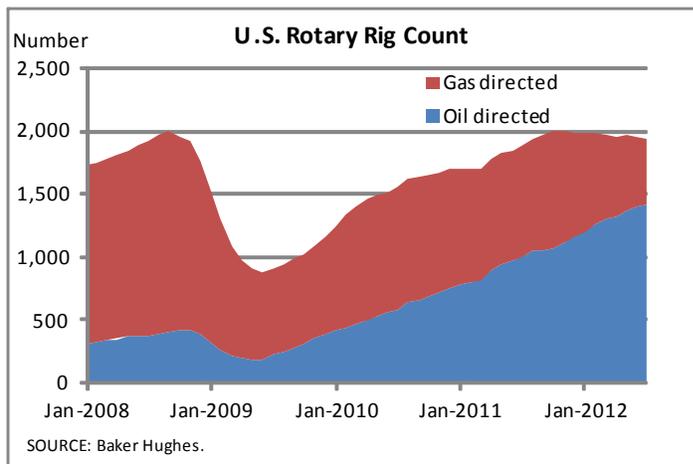
Real Estate

Seasonally adjusted home sales declined an average of 2.46 percent over the three months ending in June. Single-family housing permits and starts were down in June, but trends remain flat to positive. Multifamily occupancy was 89.4 percent in the second quarter, and lease rates were up for all apartment classes over the last year and quarter. Industrial vacancy rates fell to 5.3 percent in the second quarter, a decline both year to year and from the first quarter, and CBRE cites 4.5 million square feet under construction. Office space continues to outperform, with lease rates up and vacancy rates down from the first quarter to 13.9 percent.



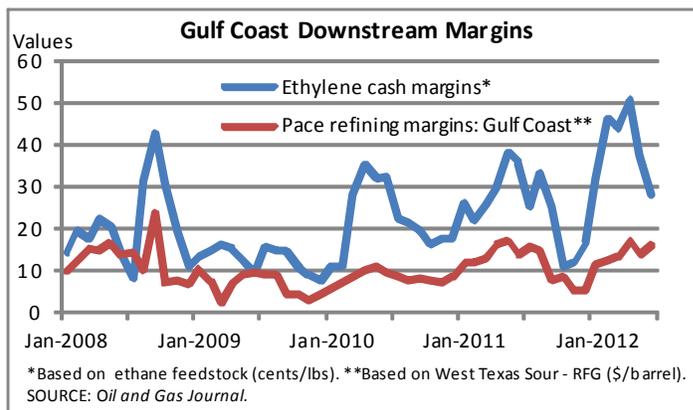
Upstream

The average daily prices of West Texas Intermediate and Brent crude oil were \$87.93 and \$102.79 a barrel in July, respectively, and the Henry Hub average spot price of natural gas was \$2.96. On an energy-equivalent basis, oil was 5 to 6 times the price of gas. The July average weekly U.S. rig count was 1,944, and the number of active rigs in the Gulf of Mexico increased slightly to 48. Weekly rig totals have been flat to down despite increasing oil activity due to continued declines in gas rigs brought on by very low prices. Those rig declines and substitution to natural gas from coal in electricity generation are putting upward pressure on natural gas prices. Inventories of natural gas continued to climb in July, and both crude oil and natural gas storage remain above their five-year ranges.



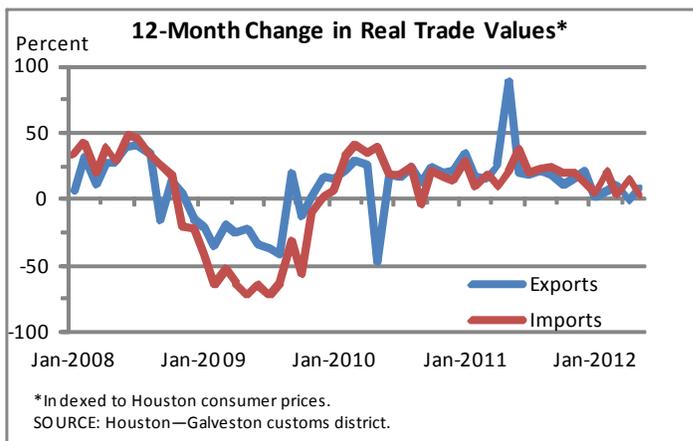
Downstream

The June margins of refiners remained above historical averages. Gulf Coast conventional gasoline and diesel prices both rose in July to average \$2.65 and \$2.88, respectively, recovering most of June's price declines. Exports of refined products softened but remained high at 2.8 million barrels per day. Petrochemical firms are benefiting from NGL prices (ethane, propane, butane) that fell sharply over the past three months. The Gulf pipeline-delivered spot price for ethylene, a central plastics building block, climbed throughout July to \$48.50. Polymer spot prices were up over July levels as well. Domestic resins production was down slightly in June relative to a year prior.



Trade and Autos

The real value of imports and exports at the Houston–Galveston customs district maintained a solid positive year-over-year trend through June due in part to the high price and export volumes of petroleum products. Oil exploration and production-related products like steel pipe, chemicals and plastic resins continue to be key drivers of observed growth. Meanwhile, Houston total auto sales registered their best second quarter since 2007, and June 2012 sales were nearly 88 percent higher year to year, according to InfoNation Inc. The average retail price of new vehicles fell slightly despite a rise in the truck/SUV share of sales due in part to increased purchases of cars under \$30,000, a market that had seen significant substitution to used cars.



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

- Manufacturing as a whole was strong at 78.2 percent of capacity in June, but the manufacturing Purchasing Managers Index is signaling a slowdown.
- Petroleum and coal products were at 86 percent in June, a pickup from the previous two months.
- Chemicals, plastic products and rubber, and plastic materials and resins all saw some declines in May, but the former two categories increased to 77 and 78.3 percent, respectively, in June.
- The American Chemistry Council reported a slowdown in U.S. chemical production, and global chemical capacity utilization is on a downward trend, ending June at 85.4 percent.