

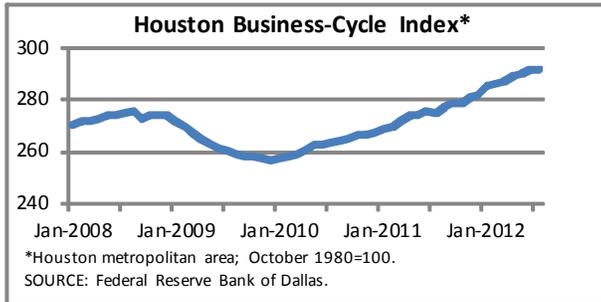
Houston Economic Update

September 2012



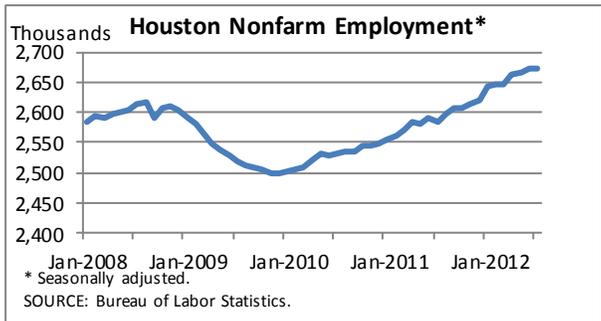
FEDERAL RESERVE BANK OF DALLAS, HOUSTON BRANCH

Houston Business Cycle

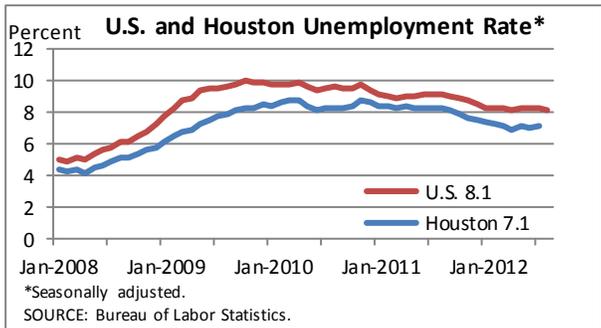


Annualized monthly economic growth slowed considerably to 1.5 percent in July, as measured by the Federal Reserve Bank of Dallas business-cycle index, following a significant upward revision of the prior two months to 2.9 and 6.4 percent. With healthy hydrocarbon industries and a broad-based improvement in real estate markets, Houston's economic fundamentals remain in growth territory, but downside risks weigh heavily. Regulatory uncertainty, the U.S. fiscal situation and stresses in the global economy continue to cloud the horizon. Therefore, the Houston outlook is guardedly positive.

Employment



Total seasonally adjusted nonfarm payroll employment climbed to more than 2.67 million jobs in July, an annualized monthly and three-month-average growth rate of 0.6 percent and 1.7 percent, respectively. Monthly and year-over-year employment growth rates have averaged 3.5 and 3.2 percent in 2012 so far. Oil and gas extraction, energy-related manufacturing, and food services and drinking places registered the strongest one-month unadjusted growth rates of 7 to 10 percent in July. The Houston unemployment rate inched back up a tenth of a percent to 7.1 percent in July with a slight increase in the local labor force, while the U.S. unemployment rate fell to 8.1 percent in August with a decline in the labor force.



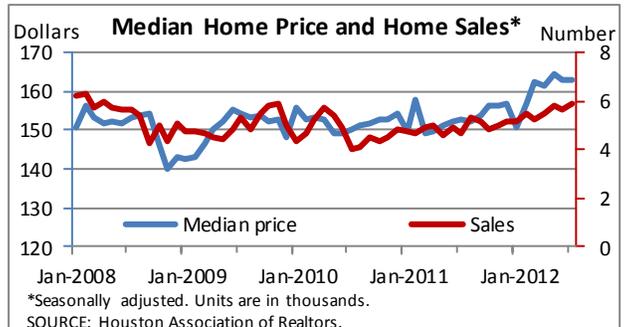
Employment Changes

Construction & mining	2.0
Education & health services	3.3
Financial activities	2.6
Government	-3.0
Information	-5.1
Leisure & hospitality	3.1
Manufacturing	2.2
Other services	8.5
Prof. & business services	-1.4
Trade, transportation, utilities	4.1

Figures are a three-month moving average of annualized monthly growth rates. Data are from the Bureau of Labor Statistics, seasonally adjusted by the Federal Reserve Bank of Dallas.

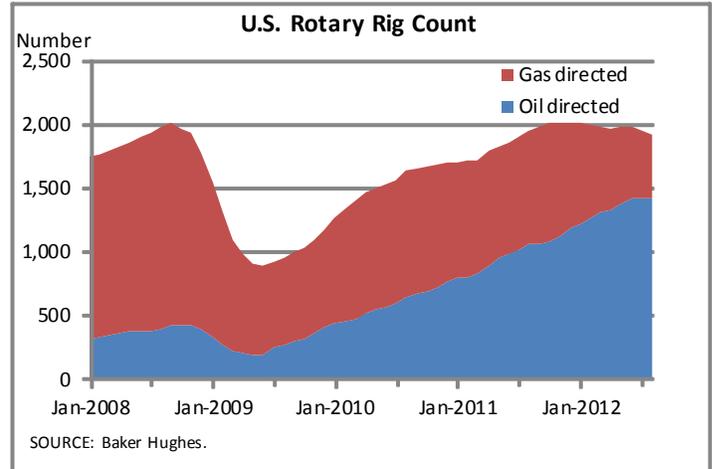
Real Estate

The seasonally adjusted, three-month moving-average growth rate of home sales was 2.5 percent in July, and the nominal median home price was essentially unchanged. June and July saw significant acceleration in sales of homes priced less than \$250,000, whereas growth had been dominated by higher-priced homes. New single-family starts and permits are still trending positive and may be accelerating. Seasonally adjusted housing months-in-inventory declined to 5.1, and the supply of developed lots continues to tighten. The foreclosure share of all property sales declined to 16.3 percent and year-over-year foreclosure sales were flat.



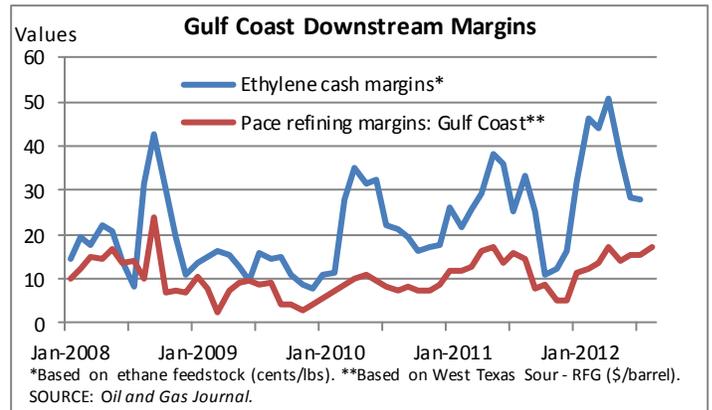
Oil & Gas

The average weekly U.S. rig count fell to 1,894 in August, and 75 percent of those rigs are now seeking oil. Natural gas liquids (NGLs) are seeing market dynamics similar to those that crushed natural gas prices, resulting in a pullback in drilling for NGLs. Activity will likely remain high as assets are transferred to areas that have heavier liquids, such as Eagle Ford, the Permian Basin and the Bakken. The average daily spot prices of Henry Hub natural gas and West Texas Intermediate (WTI) crude in August were both up at \$2.85 and \$93.92, respectively. In energy content, WTI was 5.7 times as expensive as gas. Hurricane Isaac had little impact on prices, with high inventories of crude and natural gas and robust production from shale, but flooding from Isaac has had an effect on refineries.



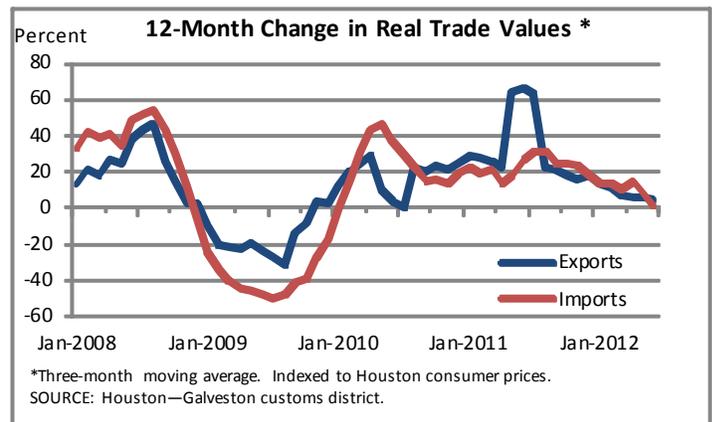
Refining & Petrochemicals

Flooding shut down refining capacity on the Gulf Coast at the end of August, and a few facilities will have to undergo repairs. Added to relatively tight inventories, spot gasoline prices were pushed up. Refined product consumption climbed last month, in part on seasonality, but remained well below levels in recent years. The August Gulf Coast average daily diesel and gasoline spot prices climbed to \$3.13 and \$2.95, respectively. Gulf Coast refineries continued running at over 90 percent of capacity in July, and refiner margins climbed to their highest level in four years. Polymer spot prices were flat to up in August compared with July, and ethylene prices climbed steadily.



International Trade and Autos

The most recent Houston–Galveston customs data put the June moving-average growth rate of total trade values at 2.6 percent. Container volumes seem to be trending flat on weakening global demand. Refined petroleum products continue to drive both values and tonnage of exports at the port, with over 2 million barrels per day leaving. Declines in steel imports may be a further sign of softening in oil and gas industries. The return of Japanese car inventories boosted lower-priced car sales this summer. Houston area year-to-date vehicle sales increased 34 percent, more than double the national sales growth. The average vehicle price climbed slightly on higher truck sales.



Inflation Measures: Inflation rates remain tepid

- The Houston consumer price index, less food and energy, increased an annualized 1.8 percent in June.
- The Dallas Federal Reserve's Trimmed Mean personal consumption expenditures (PCE) index for the U.S. grew at an annualized rate of 0.9 percent in July. The six-month Trimmed Mean PCE was 1.5 percent, and the 12-month reading was 1.8 percent.
- Blue Chip consensus forecasts of U.S. Consumer Price Index inflation for 2012 increased to 0.8 percent in August, and forecasts for 2013 were down at 1.9 percent.