

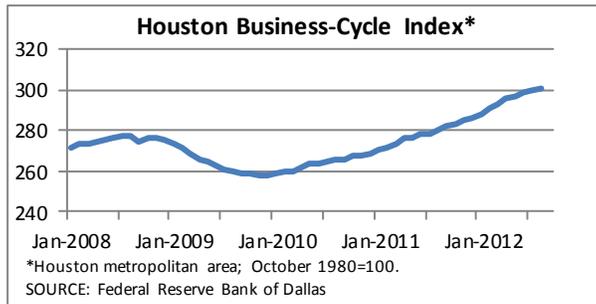
Houston Economic Update

October 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 5.47 percent in August, and July growth was revised up significantly from 1.5 percent to 4 percent. Houston's connection to the global economy does pose some risks as expected slowdowns materialize around the world, but trends in hydrocarbon industries and real estate continue to drive a diversity of economic activity in the region. Thus, the outlook for Houston remains guardedly positive.

Employment

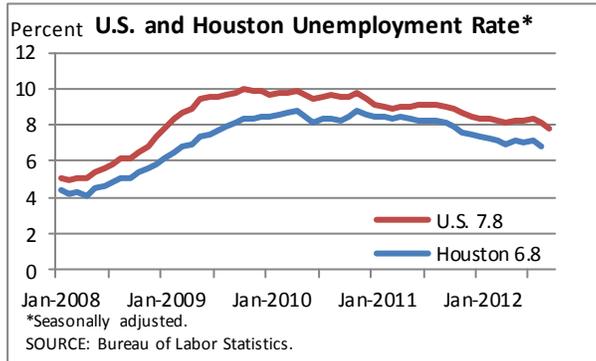


Consistent with the average over the past four months, nonfarm payroll employment grew at an annualized rate of 2.1 percent in August to nearly 2.69 million jobs. Based on both percentage and total number of jobs, construction and mining had the largest one-month gain with an annualized 13 percent jump, adding 3,100 jobs. Conversely, manufacturing reported the largest decline in both percentage and number. The seasonally adjusted unemployment rate fell from 7.1 percent in July to 6.8 percent in August on a slight drop in the number of employed and a fall in the labor force. The U.S. unemployment rate fell to 7.8 percent in September with no change in the labor force. Revisions to the prior two months were strongly positive.

Employment Changes

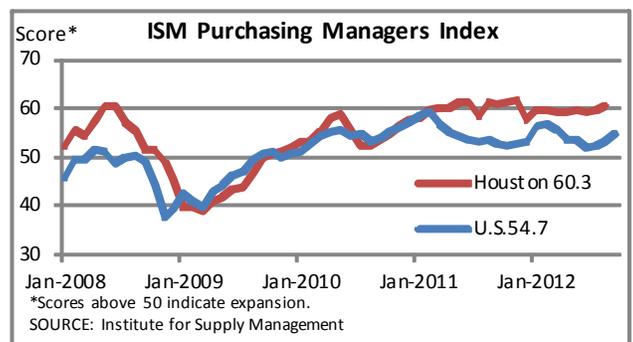
- Construction & mining 4.1
- Education & health services 1.2
- Financial activities 3.4
- Government -1.3
- Information -6.5
- Leisure & hospitality 4.8
- Manufacturing 3.6
- Other services 6.9
- Prof. & business services 2.3
- Trade, transportation, utilities 4.1

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.



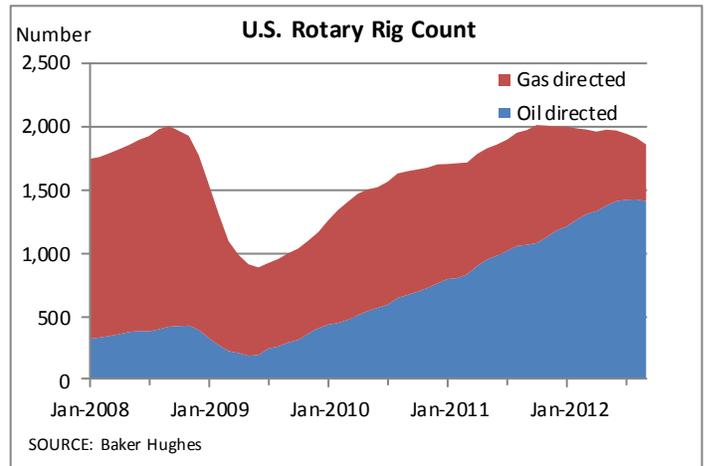
Manufacturing

Annualized manufacturing employment growth has faltered the past few months after averaging between 6 and 7 percent for most of the year. Unadjusted losses in August were evenly distributed across machinery and fabrication-related fields, which felt the brunt of the decline. Although manufacturing activity reportedly remained high, the skilled labor supply shortage in the region has been a significant constraint on local growth. The Houston Purchasing Managers Index rose to 60.3 in August; the September reading for the U.S. climbed to 54.7, with the manufacturing component rising back above 50 after three months below.



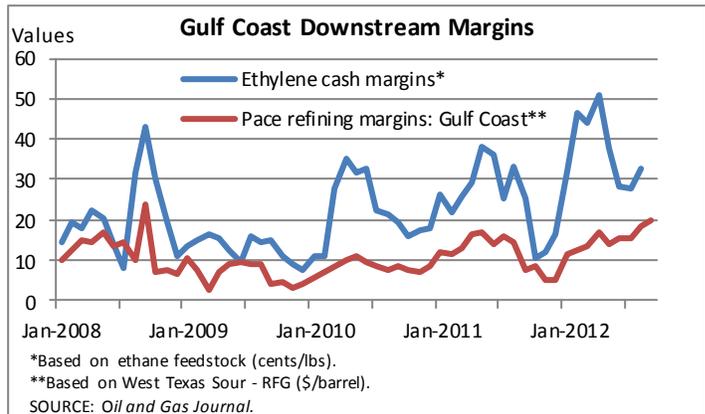
Oil & Gas

The average daily price of West Texas Intermediate fell to \$94.87 in September, and the Henry Hub average spot price of natural gas climbed to \$3.19, or one-fifth the energy equivalent price of oil. The September average U.S. rig count fell to 1,848. Although the total rig count fell, service firms continue to report strong activity levels. Firms are continuing to concentrate into oil-rich plays as prices for natural gas and natural gas liquids remain distressingly low. Oil now makes up over 76 percent of U.S. rig activity. Natural gas inventories continue to fall on decreased production and increased demand from electricity generation where firms are substituting away from coal, but both crude oil and gas inventories remain at the height of their five-year ranges.



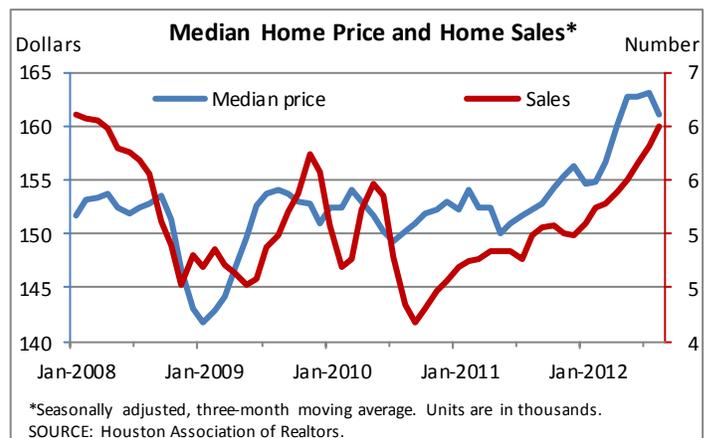
Refining & Petrochemicals

Refiner margins and utilization rates haven't both been this high since July 2006. Gasoline and diesel spot prices climbed in September to average \$3.03 and \$3.18 on the Gulf Coast, respectively, while consumption of gasoline and other refined petroleum products declined. Plastic contract prices were largely up in September ahead of plant outages and on higher feedstock costs for most categories except polypropylene. The Gulf Coast pipeline-delivered ethylene spot averaged \$58.25 in September, and margins are in very strong territory. Exports continue to play a strong role in both refining and petrochemical industries, particularly for diesel and PVC.



Real Estate

The growth rate of existing-home sales climbed to 5.6 percent in August. Both permits and starts remain in positive growth trends on a seasonally adjusted basis, and August had the highest number of each since mid-2008. Foreclosure sales have fallen to near prerecession shares of total sales, though the inventory of foreclosures is still large. August housing months-in-inventory fell to five months in Houston, seasonally adjusted. The cost of land has been increasing as the supply of available lots has dwindled, and there are reports of difficulty finding certain types of tradesmen. Commercial real estate remains strong. Trends in lease rates and occupancy for industrial, office and retail properties all remain in healthy territory.



Forecasts: Global expectations continue to erode; Texas still likely to outpace the U.S.

- The Federal Reserve Bank of Dallas forecast of employment growth in Texas this year was revised down to 2.4 percent.
- The Federal Reserve Board of Governors projections for real GDP growth had a central tendency of 1.7 to 2.0 percent for 2012 and 2.5 to 3.0 for 2013.
- August Blue Chip Economic Consensus Forecasts of 2012 growth were 7.8 percent for China, 3.8 percent for Mexico, 1.8 percent for Brazil and -0.5 percent for the euro zone.