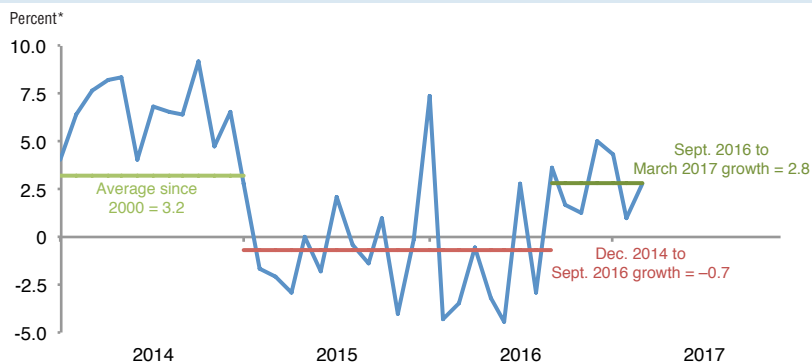


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Summary

Economic data were mostly positive for Houston in the first quarter of 2017. Labor market data were strong, international trade flows through the port expanded, the housing market firmed and the business-cycle index indicated a modest expansion. However, the office market is still softening, and job ads continue to send a contrary signal. Taken together, the data suggest a cautiously optimistic outlook for Houston.

Houston Business-Cycle Index



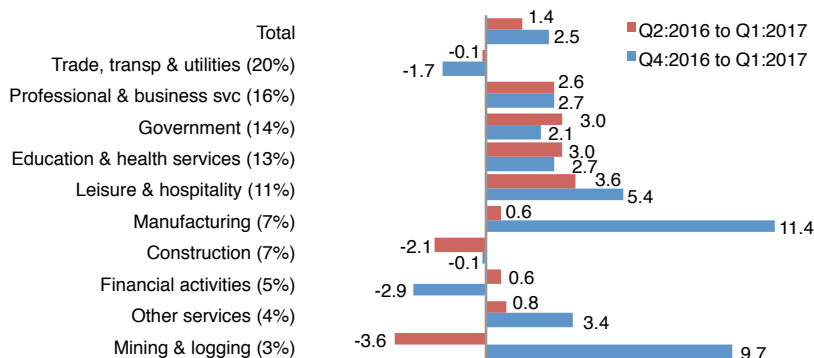
* Annualized month-over-month growth rate.

SOURCE: Dallas Fed.

▶ The **Houston Business-Cycle Index** has expanded at an annualized rate of 2.8 percent since turning more firmly positive in September 2016, logging seven consecutive months of gains. While still shy of its historical average growth rate of 3.2 percent, the index suggests that the metro economy is on firmer footing and will continue to grow.

Employment

Employment Growth



NOTES: Data show seasonally adjusted and annualized percentage growth by sector. Numbers in parentheses represent share of total employment and may not sum to 100 due to rounding.

SOURCES: Bureau of Labor Statistics; adjustments by the Dallas Fed.

▶ Total nonfarm employment in **Houston** grew an annualized 2.5 percent from fourth quarter 2016 to first quarter 2017. The largest job gains came from manufacturing (6,006), leisure and hospitality (4,159) and professional and business services (3,133). Job losses were concentrated in financial activities (1,136).

▶ In the three quarters since bottoming out in second quarter 2016, Houston jobs have grown at an annualized rate of 1.4 percent.

▶ Houston's unemployment rate was 5.6 percent in March, down from 5.7 in February and on par with the first-quarter average. The labor force grew at an annualized rate of 2.5 percent from December to March, up significantly from the second half of 2016, when it grew an annualized 0.6 percent. This put upward pressure on the local unemployment rate. The March unemployment rate was 4.5 percent for the U.S. and 5 percent in Texas.

Help-Wanted Advertising



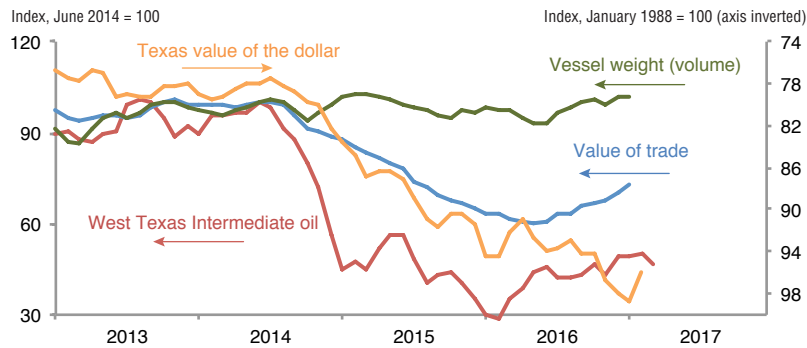
NOTES: Job ad data are statistically optimized weighted moving averages, shifted forward three months.

SOURCE: Conference Board data, accessed via Haver.

▶ The growth rate of total job ads in the Greater Houston area was still falling in March, and the growth rate of new job ads declined in February and March after briefly ticking up in December and January. These data continue to suggest that expectations for employment growth in the next few months should be tempered.

▶ Declines in job ads the past few months have been principally driven by professional and related occupations, but all occupational categories have logged reductions.

International Trade

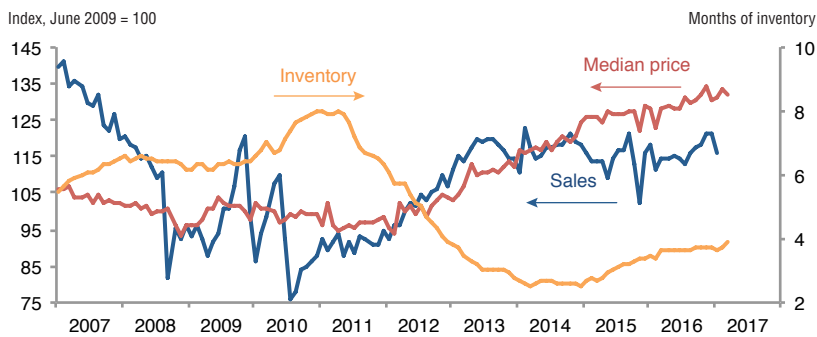


NOTE: Data displayed are centered three-month moving averages, seasonally adjusted where appropriate.
SOURCES: Census Bureau; Dallas Fed; Energy Information Agency.

► The volume and nominal value of imports and exports moving through the Houston–Galveston customs district trended up over the three months ending in January. Higher oil and related product prices provided some lift to both import and export values, but trade measured by weight was driven principally by rising exports. The Texas trade-weighted value of the dollar continues to rise (axis in chart is inverted), working against export growth.

Real Estate and Construction

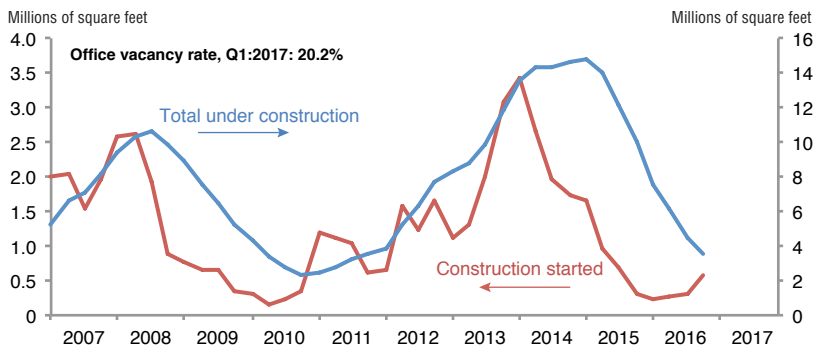
Median Home Price, Home Sales and Inventories



NOTES: Home sales are population-adjusted. Data are seasonally adjusted.
SOURCE: Houston Association of Realtors.

► Demand for existing homes remains healthy despite a drop in the number of homes sold in February (7,076). Per-capita sales remain near the levels they've been since 2013 but are higher year over year. The supply of homes on the market ticked up to 3.9 months in March. Historically, below six months of inventory is reflective of a tight market. With demand up year over year and inventories remaining tight, home prices are still drifting up. The median price of a home sold in March was \$227,420, up \$6,500 year over year.

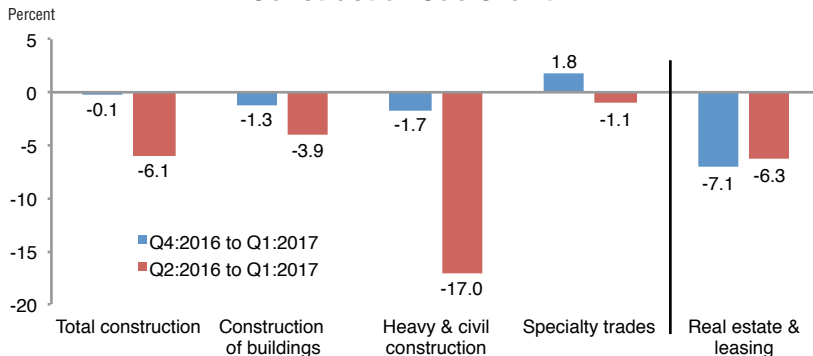
Office Market Indicators



NOTE: Data are centered three-quarter moving averages.
SOURCE: CBRE-EA.

► The office construction cycle may be nearing its bottom. The total square feet of office space under construction fell to its lowest level since 2011 at 3.5 million on a moving-average basis in fourth quarter 2016. Construction of a half-million square feet of space was started at that time, the third quarterly gain since the end of 2015. The pickup in starts came from pockets within the area; persistent increases in office vacancy rates (20.2 percent in first quarter 2017) are likely to restrain a broader expansion of office construction activity.

Construction Job Growth



NOTE: Real estate and leasing is not a subsector of construction.
SOURCES: Bureau of Labor Statistics; adjustments by the Dallas Fed.

► Construction job losses leveled off between fourth quarter 2016 and first quarter 2017 as growth in specialty trades (e.g., plumbers and electricians) offset losses in other sectors. Losses were heaviest in heavy and civil construction—including highways and engineering projects such as petrochemical plants—which has lost 2,934 jobs since second quarter 2016.

NOTE: Data may not match previously published numbers due to revisions.

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