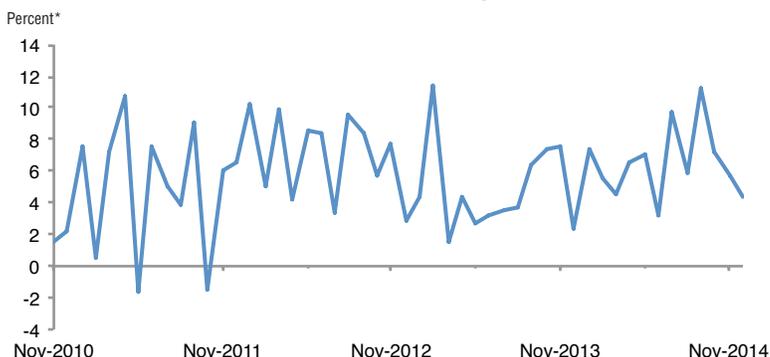


Economic Activity

Houston Business-Cycle Index

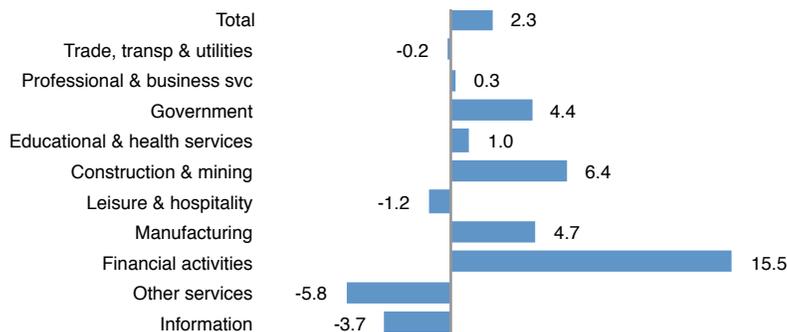


*Annualized month-over-month growth rate.

▶ The Houston Business-Cycle Index decelerated to 4.3 percent growth in December after rising a revised 5.8 and 7.2 percent in November and October. While slower than the preceding five months, December job growth was still higher than Houston's historical average. It takes about two to four months for swings in energy prices to affect Houston's aggregate employment, so the response to lower oil prices probably has not been observed yet. However, the construction boom in refining and petrochemicals, a healthy real estate market and the growing U.S. economy will buttress the region against volatility in energy prices. Thus, the Houston outlook, while substantially softer, remains positive.

Employment

December Employment Growth



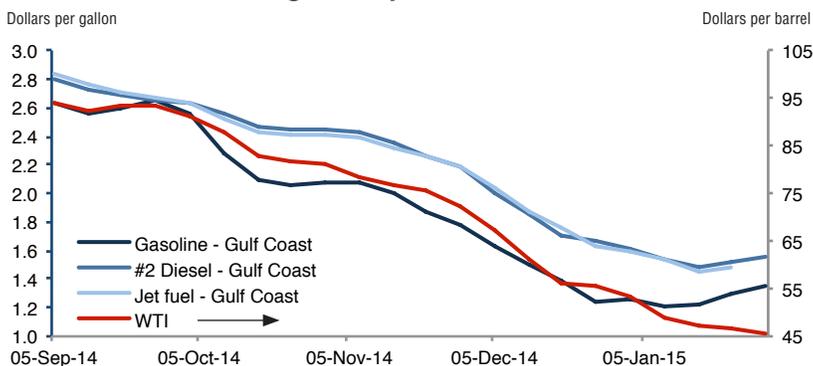
NOTES: Chart shows annualized monthly growth by employment supersector; data are seasonally adjusted and sorted by largest to smallest industry.

▶ Employment increased at an annualized rate of 2.3 percent from November to December. From December 2013 to December 2014, Houston jobs grew 3.5 percent; only six times in the last 24 years has Houston grown so much. In December, financial activities grew more than the other supersectors, registering its largest monthly increase of the year. Other services (such as vehicle maintenance and dry cleaning) led December job declines. The Houston-area unemployment rate fell four-tenths of a percent to 4.4 percent in December. The rate was 4.6 percent in Texas and 5.6 percent in the U.S.

▶ The Conference Board's Help Wanted OnLine Index for Houston indicated the number of new job ads in the area fell 1.9 percent in January after falling a revised 4.3 percent in December. The total number of job ads rose 3.8 percent in January after falling a revised 0.5 percent in December.

Energy Prices

Regional Spot Fuel Prices

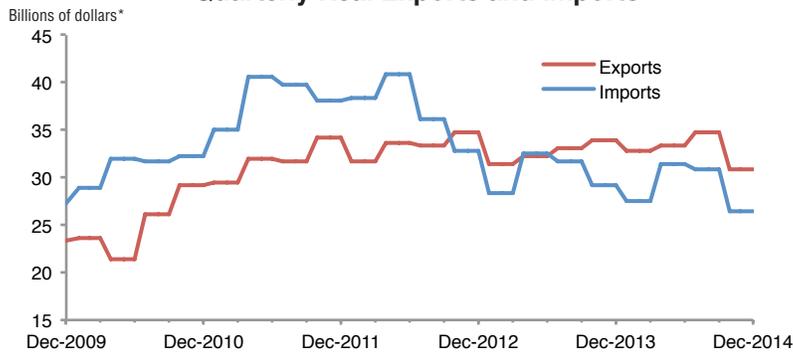


▶ The weekly spot price of Gulf Coast fuels fell in December and January, before a small end-of-month bounce brought gasoline and diesel up to \$1.35 and \$1.56 per gallon. January retail prices for motor fuel on the Gulf Coast reached their lowest levels since September 2010 for diesel and since February 2009 for regular gasoline. Inventories of both gasoline and diesel fuels in the region were higher relative to their five-year average for January.

▶ The West Texas Intermediate (WTI) crude oil price declined steadily from October 2014 through the end of January 2015. WTI ended the month near \$45. The average difference between WTI and Brent crude fell \$2.37 to \$0.56 in January amid increased volatility. The average price of natural gas fell from \$3.84 per MMBtu in December to \$3 in January. Butane, propane and ethane prices also declined.

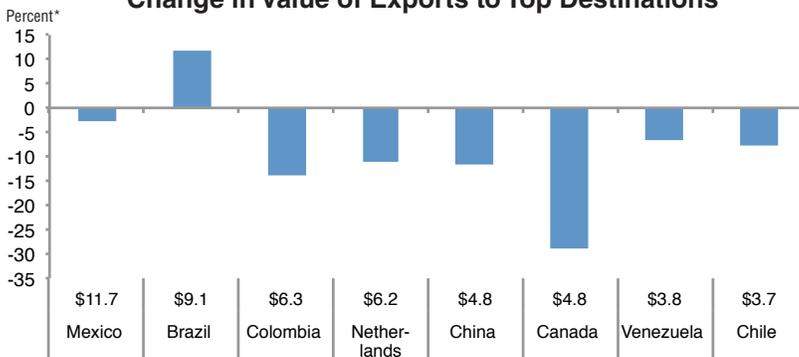
International Trade

Quarterly Real Exports and Imports



*Values adjusted to current dollars using Houston consumer price index.

Change in Value of Exports to Top Destinations



*Change in real exports for three months ending in November versus the three months ending in August.

NOTES: Values in legend are the 2014 year-to-date nominal value of exports to each country in billions of dollars.

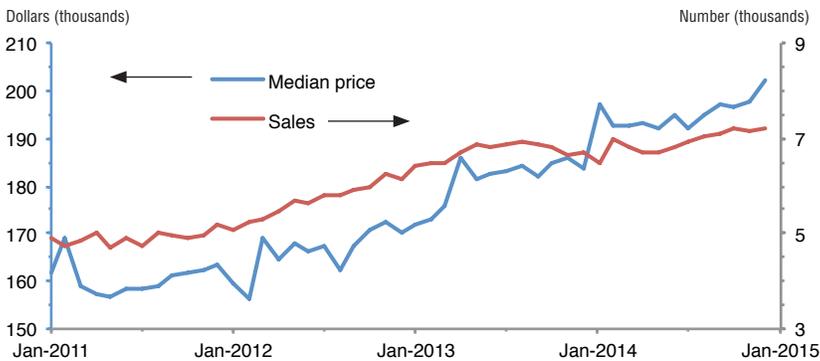
▶ A strong dollar and lower oil and refined-product prices took a toll on the value of exports in the last months of the year. The real value of imports coming through the Houston–Galveston customs district fell 14.1 percent from the third quarter to the fourth quarter. Exports fell 10.6 percent over that time. The total value of trade moving through the district fell 12.2 percent. For the year, 2014 saw a decline in imports of 4.5 percent and an increase in exports of 1 percent when compared with 2013.

▶ Over the three months ending in November, contributions to import growth were broad-based compared with the three months ending in August. Contributions to the decline in imports were concentrated in oil and related products, machinery, iron and steel, and articles of iron and steel. Excluding oil and related products, imports declined 6.1 percent. Over that same period, contributions to the declines in exports were concentrated in oil and related products, organic chemicals and plastics. The largest contributor to export growth was electrical machinery. Excluding oil and related products, exports declined 4.9 percent.

▶ Among the top export destinations from the Houston–Galveston customs district in 2014, only exports to Brazil increased for the three-month period September to November compared with the prior three months. The biggest decline was in the value of exports to Canada.

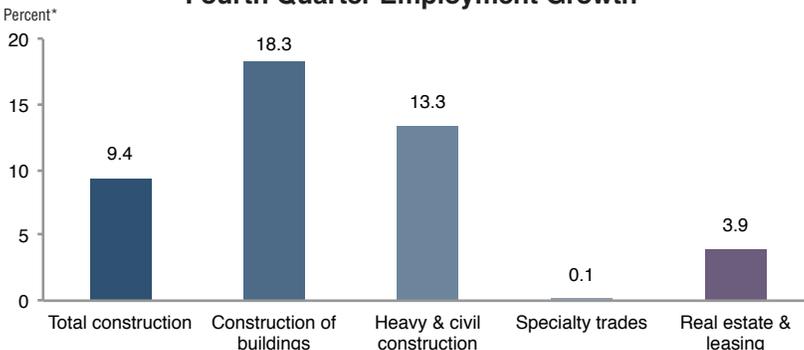
Construction and Real Estate

Median Home Price and Home Sales



NOTE: Data are seasonally adjusted.

Fourth Quarter Employment Growth



*Annualized quarter-over-quarter growth rate; seasonally adjusted.

▶ Seasonally adjusted existing-home sales ticked up 1 percent and prices rose 2.1 percent from November to December. A near record 7,195 homes were sold in December, close to levels in early 2005 and 2013. The December median price was \$202,111. Inventories remain very tight at 2.7 months. Housing starts increased from the third to the fourth quarter, while permits for new private housing declined. Year-over-year growth rates for both were near pre-housing-boom norms.

▶ Construction and real estate employment had a healthy fourth quarter. 2014 was the strongest year on record for job growth in the construction of buildings subsector (such as residential and industrial buildings). Heavy and civil construction (pipelines, utilities, roads, etc.) also had a strong fourth quarter. Real estate and leasing employment held near 4 percent annualized growth in the fourth quarter, thanks to a December jump.

▶ Houston's office and industrial real estate markets had vacancy rates of 12.2 percent and 7.3 percent, respectively, and net absorption of 0.32 and 4.45 million square feet in the fourth quarter. In fact, the two categories of commercial real estate saw total absorption in 2014 higher than any year except 2006 and 2005, respectively. Both categories saw prices per square foot rise year over year and quarter over quarter.

SOURCES: **Business-cycle index:** Federal Reserve Bank of Dallas; **employment:** Bureau of Labor Statistics and Federal Reserve Bank of Dallas; **energy prices:** U.S. Energy Information Administration; **trade:** Census Bureau, Wisertrade and International Trade Commission; **home prices and sales:** Houston Association of Realtors; **construction:** Bureau of Labor Statistics and Federal Reserve Bank of Dallas.

CONTACT: For questions or information, contact Jesse Thompson at jesse.thompson@dal.frb.org. Federal Reserve Bank of Dallas, Houston Branch, 1801 Allen Parkway, Houston, TX 77019.