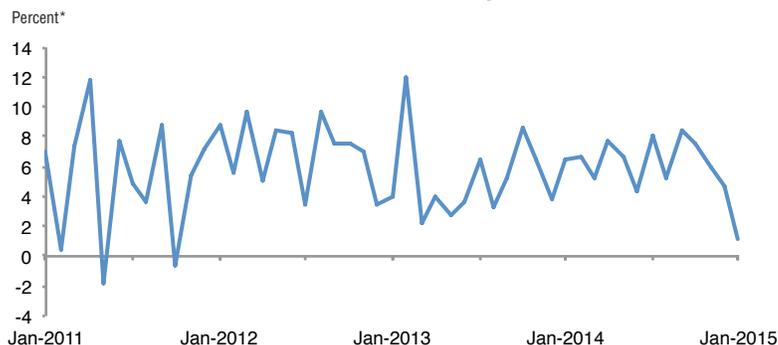


Economic Activity

Houston Business-Cycle Index

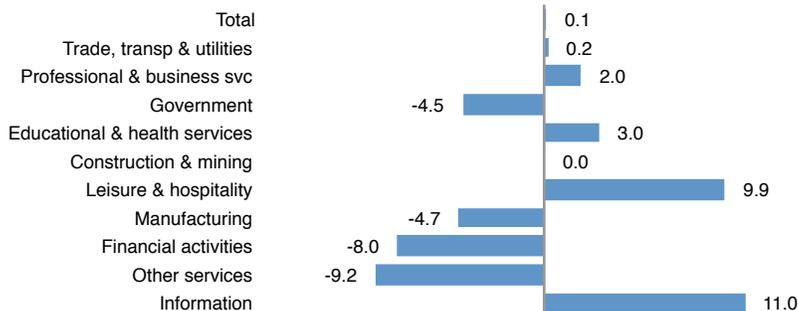


*Annualized month-over-month growth rate.

► The Houston Business-Cycle Index increased just 1.1 percent in January after climbing a revised 4.7 percent in December, marking the index's fourth consecutive month of deceleration and the weakest one-month growth since October 2011. The index implies a significant slowing in the Houston economy as 2015 began. Service sector employment growth slowed and manufacturing employment declined slightly. However, oil prices have leveled off, health-related industries are performing well and national economic indicators continue to improve. The outlook for Houston is slightly negative over the next few months, but data continue to suggest positive employment growth in 2015.

Employment

January Employment Growth



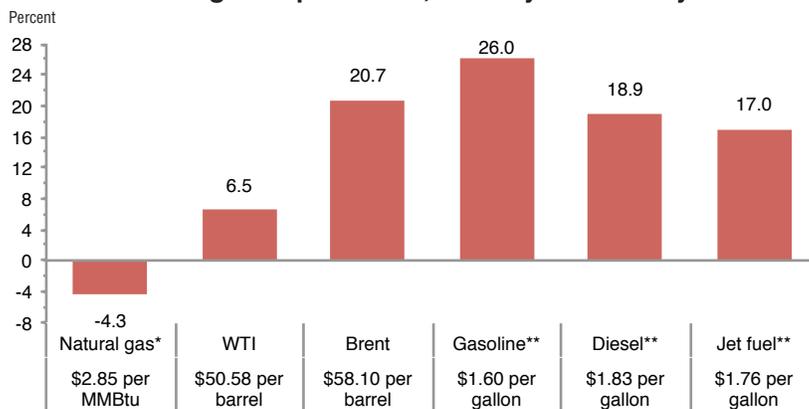
NOTES: Chart shows monthly percentage growth by employment supersector. Data are seasonally adjusted and annualized.

► Employment increased at an annualized rate of 0.1 percent in January after growth of 2.3 percent in December. The fastest-growing industries were information and leisure and hospitality. Other services, financial activities, manufacturing and government declined sharply, with government losing the largest numbers of jobs (1,400). The January decline in financial activities was concentrated in the real estate, rental and leasing sector. The Houston-area unemployment rate rose by one-tenth of a percent to 4.3 in January. The rate was 4.4 percent in Texas and 5.5 percent in the U.S.

► The number of new job advertisements in the area was unchanged in February after falling 1.9 percent in January. The total number of job advertisements fell 1 percent in February.

Energy Prices

Change in Spot Prices, January to February



*Henry Hub natural gas; price in million British thermal units.

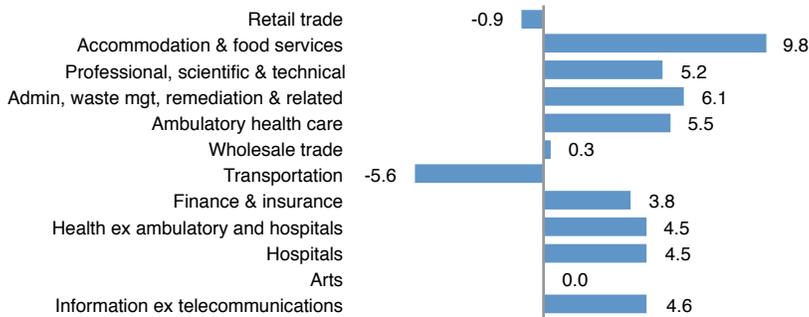
**Gulf Coast regional price.

NOTE: Dollar figures represent February average prices.

► Spot prices of oil and Gulf Coast fuels rose across the board in February as global energy prices bounced up in late January. Brent crude oil grew by substantially more than West Texas Intermediate (WTI) crude oil, expanding the average monthly spread between the two to \$7.33, its highest monthly average since May 2014. Natural gas saw its lowest price since August 2012, averaging \$2.85 per million British thermal units. Natural gas liquids prices (not shown) increased slightly from January to February.

Services

Services Employment Growth



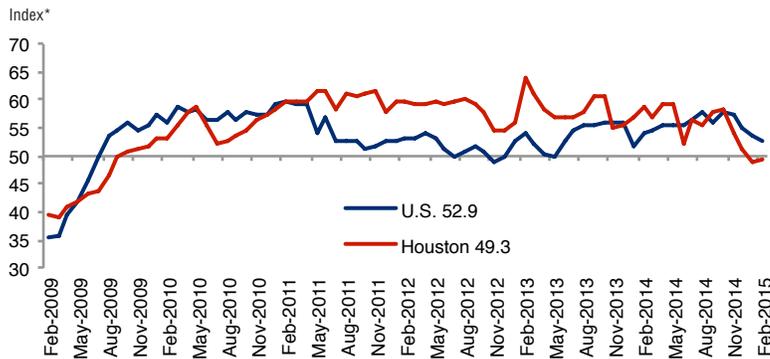
NOTES: Data show the annualized and seasonally adjusted three-month change ending in January. Sorted from largest to smallest industries.

▶ The fastest-growing service sector for the three months ending in January was accommodation and food services, which added 6,400 jobs. Only two service sectors contracted over that period. Transportation was the loss leader, losing 1,900 jobs. Retail lost 700 jobs, with clothing and clothing accessory stores registering the bulk of the decline. In January, health care sectors as a group added 3,800 jobs, recording their strongest one-month growth rate (16.11 percent) since March 1999 and the strongest 12-month growth rate (4.6 percent) since May 2010.

▶ Among the broad occupational categories within the Help Wanted OnLine Index for Houston, management, business and financial, and sales and office advertisements were the largest contributors to the decline in total job advertisements in February. Professional occupations saw fewer job advertisements as well. This would imply slower employment growth in these categories over the next quarter.

Manufacturing

Purchasing Managers Index



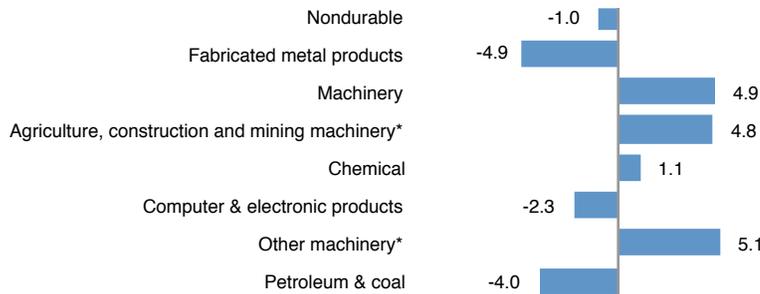
* Composite index values >50 indicate expansion.

▶ The Houston Purchasing Managers Index (PMI) ticked up to 49.3 in February after three consecutive months of declines. The index has now been in contractionary territory for two consecutive months for the first time since mid-2009. All of the components in the index declined, but the changes were most pronounced in employment. The U.S. PMI softened in the beginning of the year as well, falling to 53.5 in January and 52.9 in February. December production of plastic resins, a large part of what is manufactured on the Texas Gulf Coast, declined 3 percent year to year in the U.S., while total chemical production increased slightly.

▶ Manufacturing in Houston lost a modest 300 jobs over the past three months, marking the first three-month contraction since June 2010 and the sharpest decline since January 2010. The fabricated metal products sector experienced the bulk of those losses, but the smaller sectors of computer and electronic products and petroleum and coal also declined. The declines were counterbalanced by gains in machinery jobs, particularly in agriculture, construction and mining machinery.

▶ Recently revised data indicate that manufacturing added 6,100 jobs last year, December to December. That translates into a growth rate of 2.4 percent in 2014 after growing 2 percent in 2013. These are healthy numbers, but less than half of what was seen in 2011 and 2012.

Manufacturing Employment Growth



* Subsector of machinery.

NOTES: Data show the annualized and seasonally adjusted three-month change ending in January. Sorted from largest to smallest industries.

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; **services:** Bureau of Labor Statistics; **manufacturing:** Institute for Supply Management, American Chemistry Council, Bureau of Labor Statistics and Federal Reserve Bank of Dallas.

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