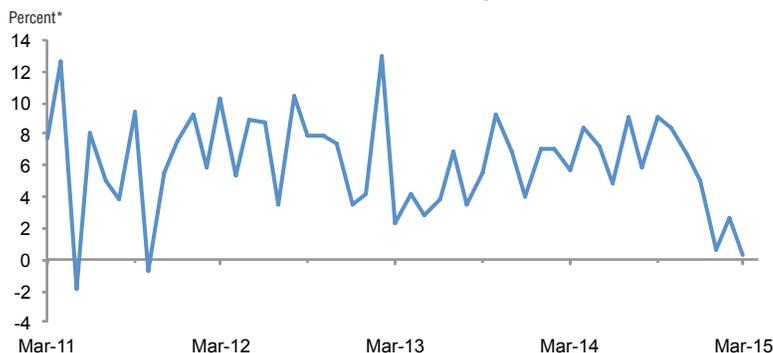


Economic Activity

Houston Business-Cycle Index

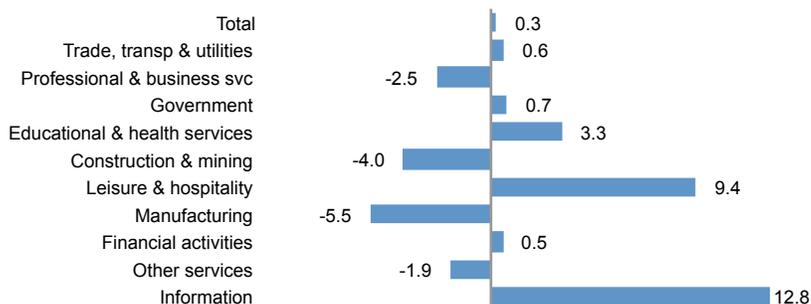


*Annualized month-over-month growth rate.

► The Houston Business Cycle Index has decelerated in five of the past six months. In March, the index slowed to a growth rate 0.3 percent after rising 2.6 percent in February. Employment growth flirted with zero in March, and measures of construction and real estate also weakened sharply. The value of goods moving through the region's ports suffered under the weight of a strong dollar and falling energy prices. On balance, the Houston outlook continues to erode in the near term.

Employment

Employment Growth (December 2014–March 2015)



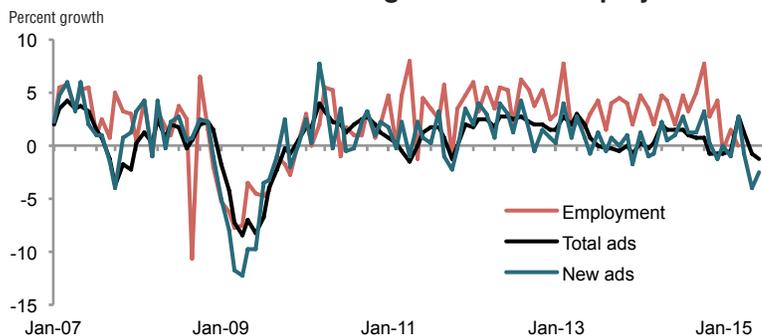
NOTES: Chart shows annualized three-month percent growth by employment supersector. Data are seasonally adjusted and sorted from largest industry to smallest industry.

► Annualized employment growth over the first three months of 2015 was 0.3 percent, the weakest three-month change since January 2010. Declines in manufacturing, construction and mining, and professional and business services have largely been counterbalanced by growth in leisure and hospitality and education and health. While information services grew aggressively in early 2015, it accounts for only 1.1 percent of total employment.

► The Houston-area unemployment rate was flat at 4.2 percent in March. The labor force contracted by 34,300, or an annualized 3.1 percent, over the four months ending in March. It was the biggest-magnitude four-month drop since April 2000. The unemployment rate was 4.2 percent in Texas and 5.5 percent in the U.S.

Help Wanted Online

Job Ads Are a Leading Indicator of Employment

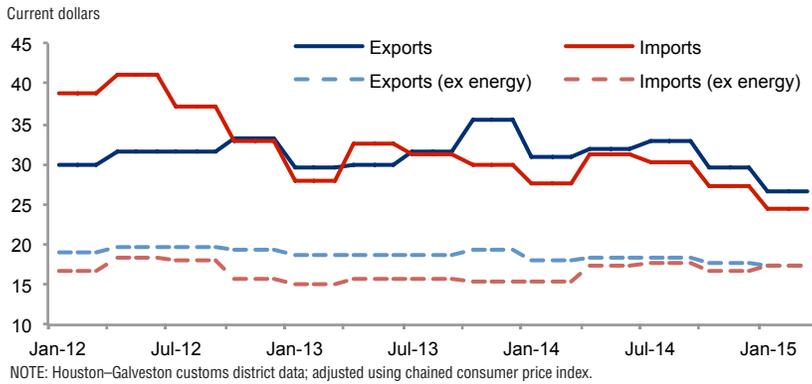


NOTE: Total and new ads are weighted moving averages, shifted forward two months.

► Smoothing out volatility, four-month weighted moving-averages of new and total job advertisements in Houston declined in March and April. New job ads fell 2.5 percent in April after moving down 3.9 percent in March. The declines were the steepest since the last recession. Total job ads fell 1.3 percent in April after sliding a revised 0.7 percent in March. In both months, total professional and related occupations saw the sharpest decline. Job ads are most predictive of employment two to four months into the future, and recent data suggest weaker monthly employment growth ahead. Job ads in the chart are shifted two months forward to reflect this.

International Trade

Excluding Energy Paints Different Picture

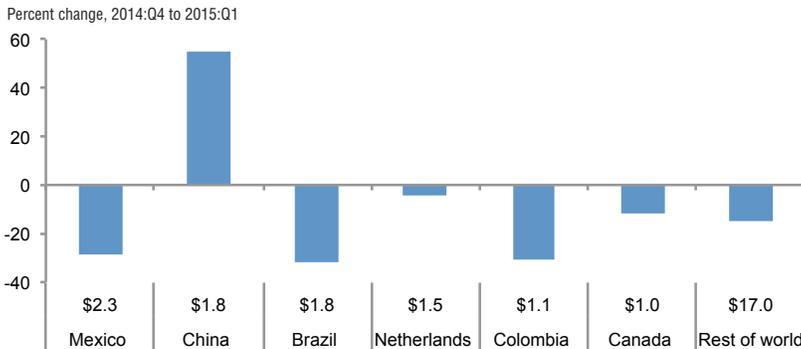


▶ The real value of both imports and exports coming through the Houston–Galveston customs district fell 10.1 percent from the fourth quarter to the first. The bulk of the decline was attributable to the fall in energy prices, though a drop in distillate exports and the rising value of the dollar also pulled down the total. Excluding energy, total trade rose 0.3 percent as a 3.2 percent increase in import values was offset by a 2.4 percent decline in exports.

▶ Energy makes up 29 percent and 35 percent of the value of Houston imports and exports, respectively. Excluding energy, the biggest contributors to the rise in imports were categories pertaining to iron, steel, aluminum and articles of all three. Some of that increase was likely due to strikes at West Coast ports earlier in the year. Quarterly export values (ex energy) were down primarily because of a decline in the value of organic chemicals, which are exchange rate sensitive, but assorted machinery-related export categories were also down substantially.

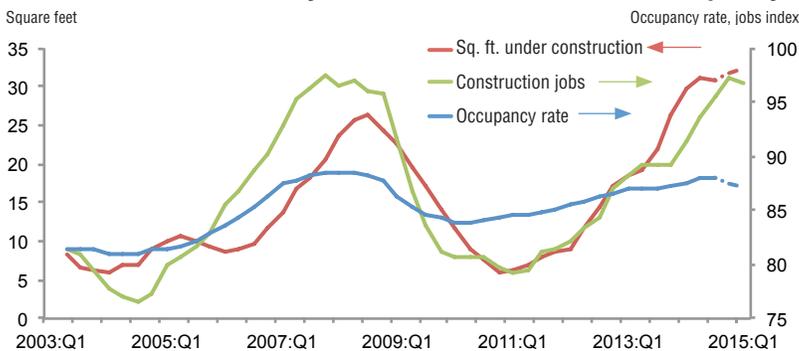
▶ Among the top six export destinations from the Houston–Galveston customs district in the first quarter, only China was up from the fourth quarter. Those six destinations accounted for over one-third of the value of first-quarter exports. The drop in the value of energy featured prominently in exports to Brazil, but exports to Mexico fell because of declines in categories related to machinery and organic chemicals. The value of exports to China was up due mostly to cereals.

Change in Value of Real Exports to Top Destinations



Construction and Real Estate

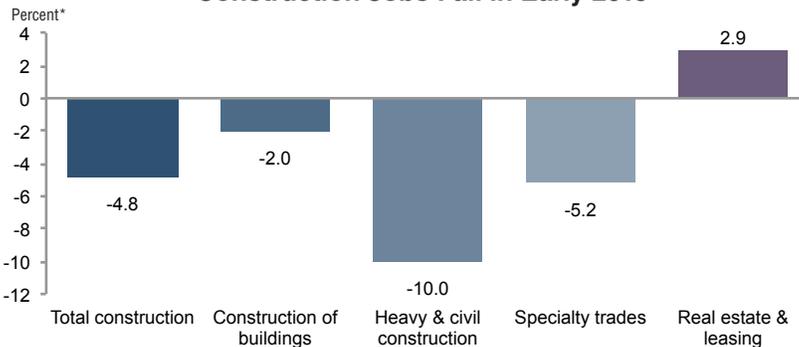
Construction Activity and Jobs Tend to Follow Occupancy



▶ Direct and sublet office vacancies rose in the first quarter, pulling down the occupancy rate. The amount of space under construction tends to follow. Office space under construction totaled 15.4 million square feet in the first quarter, up 2.5 percent from the fourth quarter, but recent occupancy declines suggest that office construction might slow in the near future.

▶ Construction employment contracted at an annual rate of 4.8 percent from December to March. The timing of project deliveries and starts may be a contributing factor, but many commercial construction projects are reportedly on hold at least until U.S. oil and gas markets are on firmer footing. Among subsectors, heavy and civil construction turned in the largest percent decline (10 percent), while specialty trade contractors had the largest absolute decline (1,400 jobs). Real estate and leasing employment grew an annualized 3 percent in the first quarter after fourth-quarter growth was revised down from 4 percent to 3.

Construction Jobs Fall in Early 2015



▶ The number of existing homes sold (adjusted for seasonality and population) had turned down from October to February but ticked up in March, meandering down a sideways path that began in 2013. Median home prices fell slightly in February and March but remain high relative to last year. Very tight home inventories of 2.9 months and a pullback in building activity should buffer home price declines in the future. Single-family housing permits fell roughly 28 percent from the fourth quarter to the first. Housing starts declined as well.

SOURCES: **Business-cycle index:** Federal Reserve Bank of Dallas; **employment:** Bureau of Labor Statistics (BLS) and Dallas Fed; **help wanted:** Conference Board and author's calculations; **international trade:** International Trade Commission; **construction and real estate:** CBRE; author's adjustments; BLS and Dallas Fed.

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