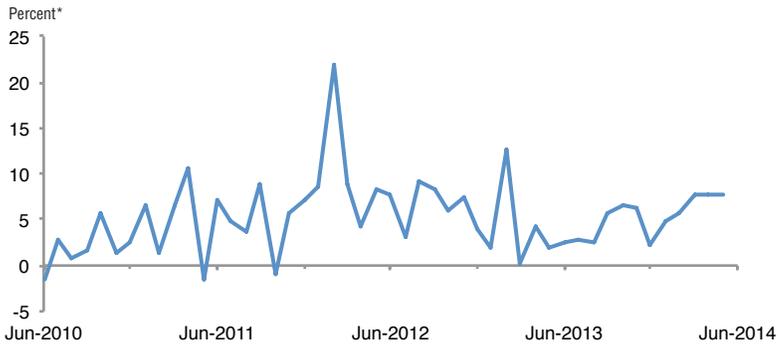


Economic Activity

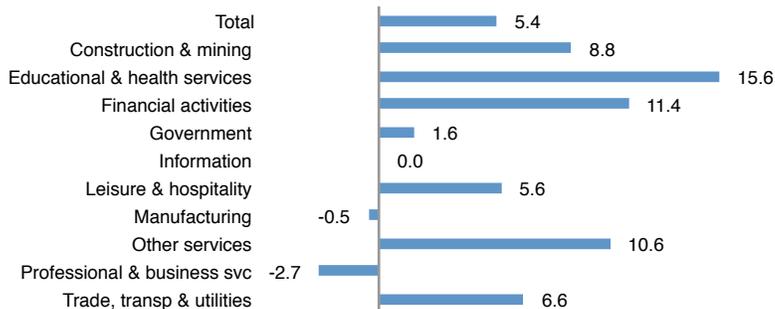
Houston Business-Cycle Index



► The Houston Business-Cycle Index was essentially unchanged in May, growing an annualized 7.8 percent after a robust 7.9 percent in April. The index recorded its fastest three-month growth rate since October 2012. The oil and gas industry posted solid job gains, and industry fundamentals remained healthy. Refining and plastics continued to perform well, and overall labor market conditions remained positive despite somewhat bleak first-quarter exports. Taken together, these indicators continue to imply strong economic conditions in Houston.

Employment

May Employment Growth



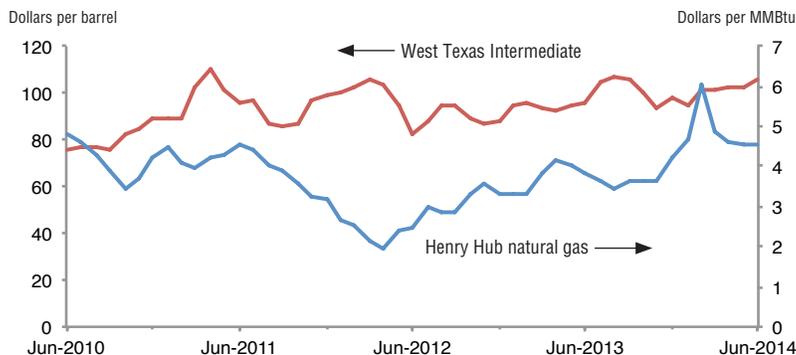
► Houston payroll employment grew at an annualized rate of 5.4 percent from April to May. Gains were particularly strong in educational and health services, financial activities and other services industries. The education and health category saw consecutive double-digit monthly growth (April and May) for the first time in a dataset dating back to January 1990. Professional and business services and manufacturing were the only industries that contracted. Over the three months ending in May, employment grew at an annualized rate of 5 percent.

► The Houston unemployment rate increased modestly to 5.1 percent in May due primarily to an increase in the labor force. The unemployment rate in May was 5.1 percent for Texas and 6.3 percent for the U.S.

► The number of new job advertisements and the inventory of total job advertisements online in Houston increased 13.3 and 4.8 percent, respectively, in June. While all occupational categories saw greater demand, the principal contributor to total labor demand growth was the professional and related category.

Energy Prices

Crude and Natural Gas Spot Prices



► The average spot price of West Texas Intermediate (WTI) crude rose to \$105.79 in June, up \$3.68 from May. Daily averages were as high as \$107.95 on June 20 and as low as \$101.74 on May 15. Brent and Louisiana sweet crude prices also increased. The spread between WTI and Brent decreased \$1.32 per barrel to \$6.04, and the spread between WTI and Louisiana seems to have normalized to pre-shale-boom levels of about \$3.

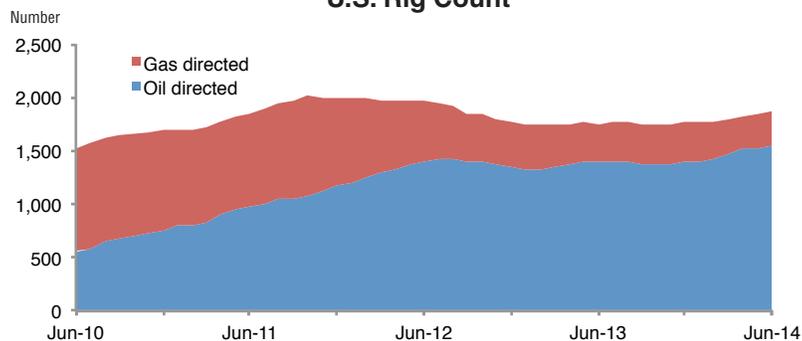
► The average natural gas price was essentially flat from May to June at \$4.57 per MMBtu. Natural gas liquids (NGL) prices were mixed. Ethane declined 1 cent per gallon over the same period, propane was flat and butane increased 3.5 cents per gallon.

► The Gulf Coast retail price rose less than a penny for a gallon of both regular gasoline and on-highway diesel in June to average \$3.45 and \$3.79, respectively.

NOTE: Chart shows annualized monthly percent growth by employment supersector; data are seasonally adjusted.

Oil and Gas Extraction

U.S. Rig Count

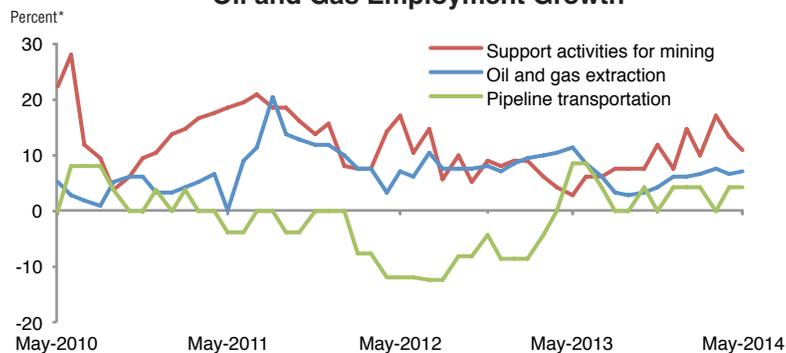


▶ The average weekly U.S. rig count climbed by 2 to 1,861 from May to June. Gas-directed rigs were down by 11, while oil-directed rigs were up by 15. Other rigs fell from 4 to 2. Offshore drilling was unchanged at 58 rigs.

▶ The Texas rig count was down by 2 in June despite a modest increase in the Permian Basin, which averaged 469 rigs. Horizontal drilling accounts nearly half of rigs in the Permian Basin. The average rig count in the Eagle Ford fell by 3 in June to 214.

▶ Houston energy extraction and oilfield services jobs have picked up in 2014. Over the three months ending in May, oil and gas extraction jobs grew at an annual rate of 7.2 percent, while support activities grew 11 percent and pipeline transportation jobs were up 4.5 percent. Overall, data suggest that energy-related employment continues to expand strongly in Houston this year, and industry product prices and fundamentals are contributing to a healthy outlook.

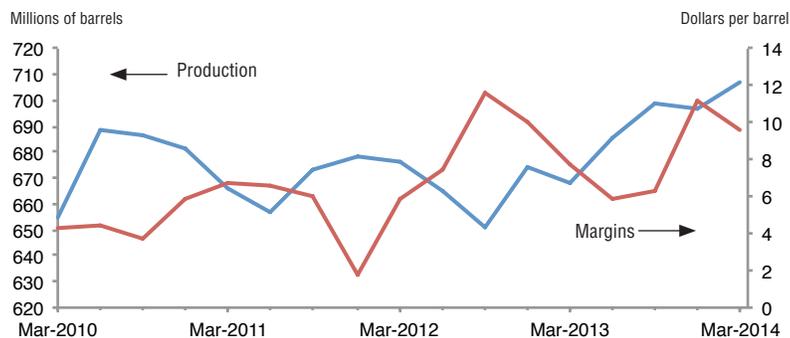
Oil and Gas Employment Growth



* Annualized and seasonally adjusted.

Refining and Petrochemicals

Gulf Coast Refineries

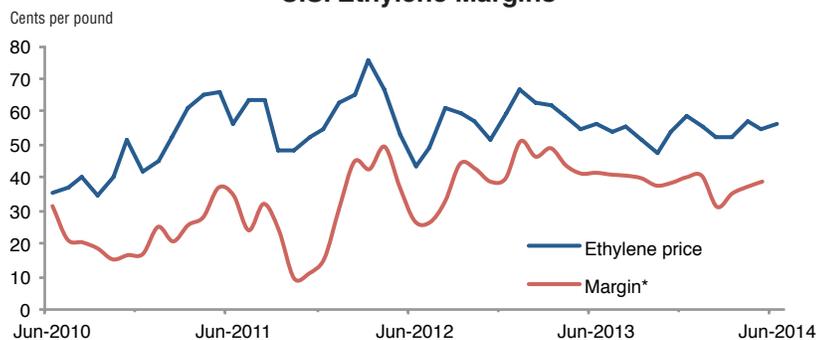


NOTE: Data are seasonally adjusted and aggregated to quarterly.

▶ Seasonally adjusted Gulf Coast refinery production increased 2.5 percentage points from the fourth quarter 2013 to first quarter 2014—the most recent data available. Seasonally adjusted refiner margins softened in the first quarter but rose in the first two months of the second quarter. Gulf Coast refinery operating rates peaked in April before declining in May and June to 90.4 and 87.5 percent, respectively.

▶ Gulf Coast gasoline and diesel inventories dropped from March to April. Gasoline inventory remains at the top of its five-year range, while diesel has fallen below the middle of its five-year range. Imports of petroleum products softened from May to June, led by distillate fuels and other oils. U.S. exports of petroleum products were up, led by diesel fuel.

U.S. Ethylene Margins



*Based on Gulf Coast ethane feed stock prices.

▶ Ethylene plant margins rose for the third consecutive month in May to 38.8 cents per pound (based on ethane). The price of ethylene was 54.65 cents per pound in May and 56 cents in June. Total U.S. chemical production grew year over year in May, and Gulf Coast production grew as well, according to the American Chemistry Council. NGL prices softened in aggregate, lowering costs for chemical firms. The real value of exports of plastics and rubber products, petroleum and coal products, and chemicals was down (2 percent, 7.3 percent and 3.6 percent, respectively) from fourth quarter 2013 to first quarter 2014, as were exports of most manufactured goods in the U.S.

SOURCES: Business-cycle index: Federal Reserve Bank of Dallas; employment: Bureau of Labor Statistics, Dallas Fed and The Conference Board; energy prices: U.S. Energy Information Administration; rig count: Baker-Hughes; oil and gas employment growth: Bureau of Labor Statistics; Gulf Coast refineries: Muse, Stancil and Co.; ethylene margins: Muse, Stancil and Co. and Bloomberg.

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