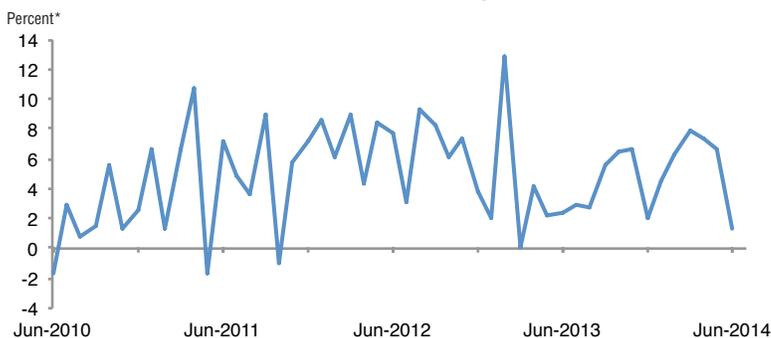


Economic Activity

Houston Business-Cycle Index

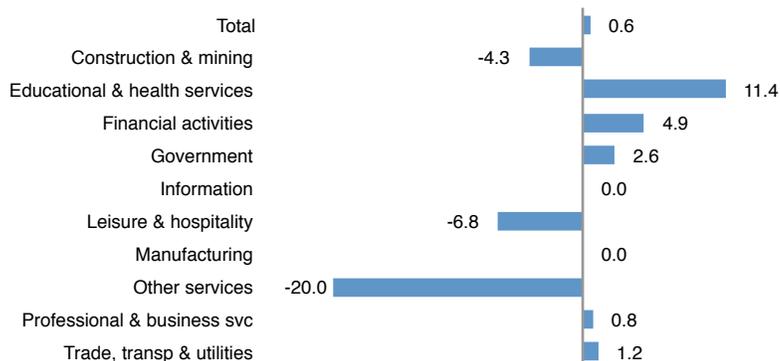


*Annualized month-over-month growth rate.

▶ The Houston Business-Cycle Index advanced an annualized 1.6 percent in June after rising 6.6 percent in May. This pullback was driven by a surprisingly steep fall in the number of jobs added in June relative to May. Housing and construction-related activity remains at healthy levels, though construction employment growth has tapered off. Total trade growth in the region improved on increased imports. Overall, the outlook for Houston remains positive, though not as robust as earlier indicators may have suggested.

Employment

June Employment Growth



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

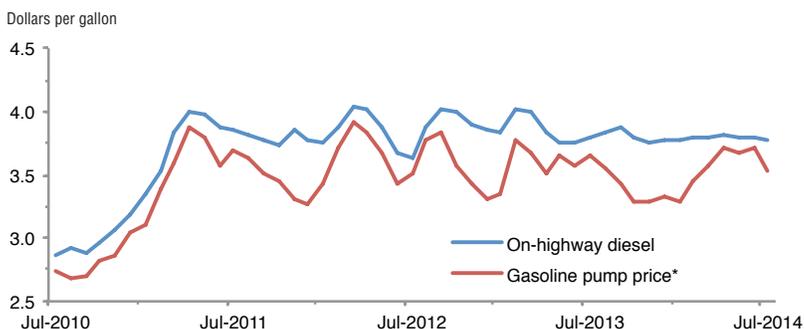
▶ June employment growth was a lethargic 0.6 percent. The education and health services industry grew the fastest. The sharpest decline was in other services, which includes sectors as varied as pet hotels and vehicle maintenance. It is of note that the most recent revision to Houston's employment numbers reduced the job growth rate in the first half of the year from an annualized 3.7 percent to 3.1 percent. For perspective, Houston job growth was 3.1 percent in 2013 and has averaged 2.1 percent since 1990.

▶ The Houston-area unemployment rate dropped from 5.1 percent in May to 5 percent in June, its lowest level since August 2008. This occurred while the labor force expanded slightly. The unemployment rate in Texas and the U.S. was 5.1 and 6.1 percent, respectively, in June.

▶ The Conference Board's Help Wanted OnLine Index for Houston indicated the number of new job advertisements in the area fell 7.2 percent in July after rising a revised 13.1 percent in June. Total job ads declined 1 percent in July after rising 4.8 percent in June. Services and construction and maintenance were the only occupations contributing to growth in total job listings, while the sales and office category saw the greatest decline.

Energy Prices

Gulf Coast Fuel Prices



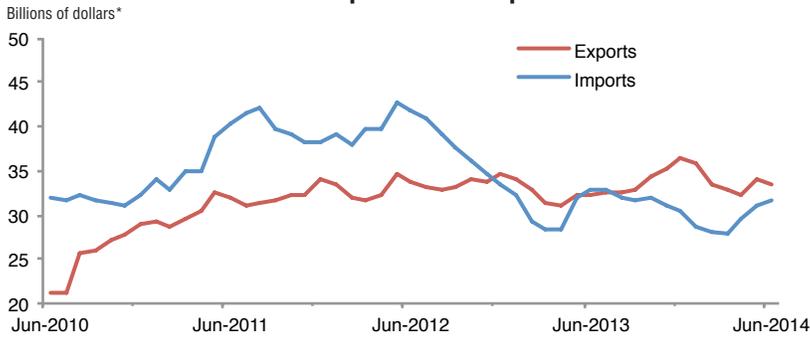
*Regular unleaded.

▶ Gulf Coast on-highway diesel prices were essentially unchanged at \$3.78 per gallon in July. The retail price of gasoline declined 16.5 cents to \$3.54 per gallon. The Gulf Coast refinery utilization rate increased to 94.7 percent in July from 87.5 percent in June. Natural gas liquids prices fell slightly from June to July, following natural gas prices.

▶ The Henry Hub natural gas spot price averaged \$4.05 in July, an 11.7 percent drop from June, as inventories built more quickly than expected. The average monthly price of Brent and West Texas Intermediate oil fell 4.6 and 2.1 percent, respectively, to \$106.75 and \$103.59 in July. Increased production in Libya and declining fears of production disruptions in Iraq contributed to the price drops.

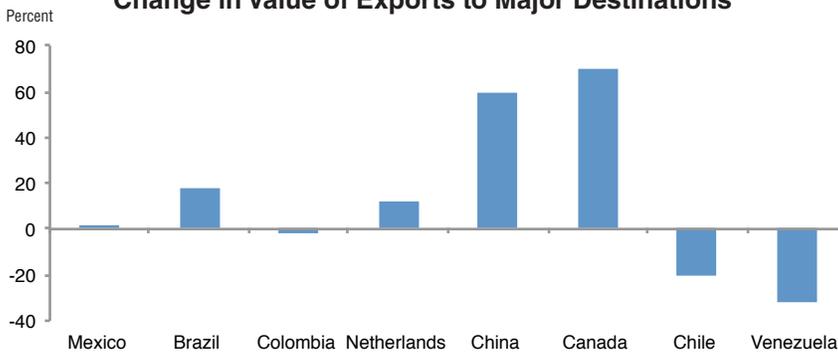
International Trade

Real Exports and Imports



*Values adjusted to current dollars using Houston consumer price index.
NOTE: Data expressed as a three-month moving sum to smooth volatility.

Change in Value of Exports to Major Destinations



NOTES: Growth is the first half of 2014 vs. the same period in 2013. Countries are in descending order by the total value of 2014 exports.

▶ The combined real value of imports and exports coming through the Houston–Galveston customs district increased 7.2 percent from the first to second quarter of 2014. This was driven predominantly by an increase in imports, which grew 13.7 percent over that period, whereas exports grew 1.6 percent.

▶ While organic chemicals, articles of iron and steel, and many other categories contributed to total import growth, oil and petroleum products was the largest contributor, accounting for 5.8 percent of growth. The largest contributor to total export growth was organic chemicals, accounting for 1.4 percent of growth. Electrical machinery, sound and television equipment and related parts was the largest detractor from exports, subtracting 0.8 percent.

▶ Looking at the first half of 2014, even with recent increases, imports were down 3 percent compared with the same period in 2013, and exports were up 4.2 percent. Excluding four dispersed negative months, exports have exceeded imports since November 2012, making this the longest consistently positive period of net exports going back as far as 1989.

▶ Among the top export destinations from the Houston–Galveston customs district, Canada and China were the fastest growing in the first half of 2014 compared with the same period a year prior. Exports to Mexico, the largest export destination, were up 1.1 percent. Exports to Venezuela, Chile and Colombia declined.

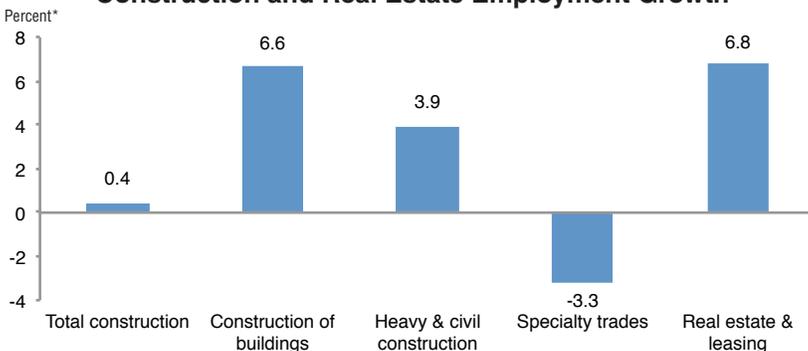
Construction and Real Estate

Median Home Price and Home Sales



*Seasonally adjusted, three-month moving average.

Construction and Real Estate Employment Growth



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

▶ Existing-home sales and prices both ticked up 1.1 percent from May to June, though this year both seem to be trending sideways. Seasonally adjusted, 6,721 homes were sold in June and the median price was \$195,179. Housing inventory was at 2.8 months in both May and June. Tight supplies of homes for sale and lots to build on continue to put upward pressure on the prices of single-family and multifamily housing.

▶ Permits and starts for single-family units accelerated year over year in June, but the growth rate this year generally has been slower than in 2013. It is unclear whether the deceleration is being driven by constrained supplies or slackening demand. Employment in real estate and leasing and in building construction had a healthy second quarter, while specialty trade contractors such as carpenters and electricians saw declines. Industry contacts continue to indicate that shortages of skilled construction workers are putting upward pressure on wages and construction costs.

▶ According to CBRE, Houston's office and industrial real estate markets had vacancy rates of 12 percent and 5.4 percent, respectively, and net absorption of 1.6 and 1.7 million square feet in the second quarter. Both categories saw prices per square foot rise both year over year and quarter over quarter. There is 2.7 million square feet of retail space under construction in Houston.

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 Agency and *Oil and Gas Journal*; trade: Census Bureau and Wisetrade; home sales and prices: Houston Association of Realtors; construction: Bureau of Labor Statistics.

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