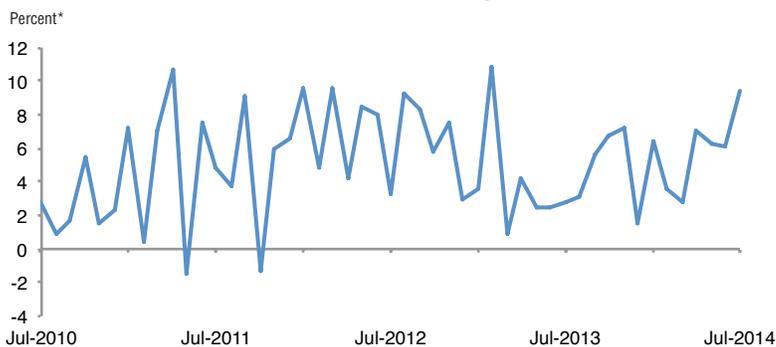


Economic Activity

Houston Business-Cycle Index

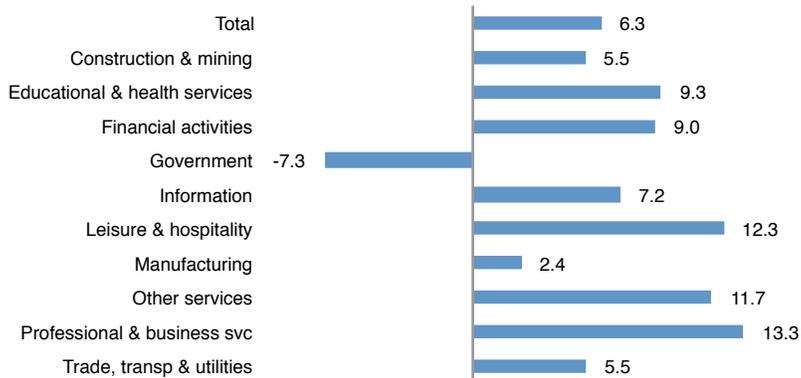


*Annualized month-over-month growth rate.

▶ The Houston Business-Cycle Index increased at a blistering 9.5 percent in July after climbing a revised 6.2 percent in June. This would imply that economic conditions strengthened markedly as Houston entered the third quarter. Indicators for manufacturing activity improved. Service industries are posting near-record gains. Energy prices did ease, but taken in the context of positive national indicators, recent data suggest that the Houston economy has maintained its momentum, if not accelerated, into the second half of the year.

Employment

July Employment Growth



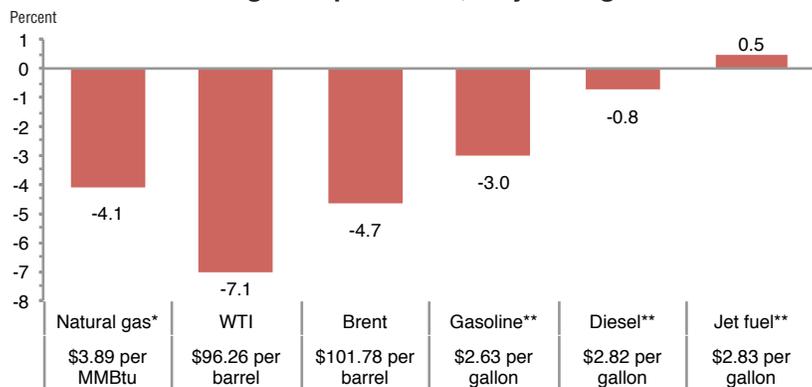
NOTES: Chart shows monthly percentage growth by employment supersector. Data are seasonally adjusted and annualized.

▶ Employment increased at an annualized rate of 6.3 percent in July. June employment growth was revised up from 0.6 to 3.6 percent. In July, professional and business services, with 5,000 jobs, and leisure and hospitality, with 2,900, posted the fastest growth rates. Government was the only category to lose jobs (2,300). The Houston-area unemployment rate climbed a tenth of a percent to 5.1 in July on a rise in the labor force. The rate was 5.1 percent in Texas and 6.2 percent in the U.S.

▶ 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 13.3 percent in June. The total number of job advertisements fell 1 percent from June to July but is up 6.2 percent so far this year.

Energy Prices

Change in Spot Prices, July to August



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

**Gulf Coast regional price.

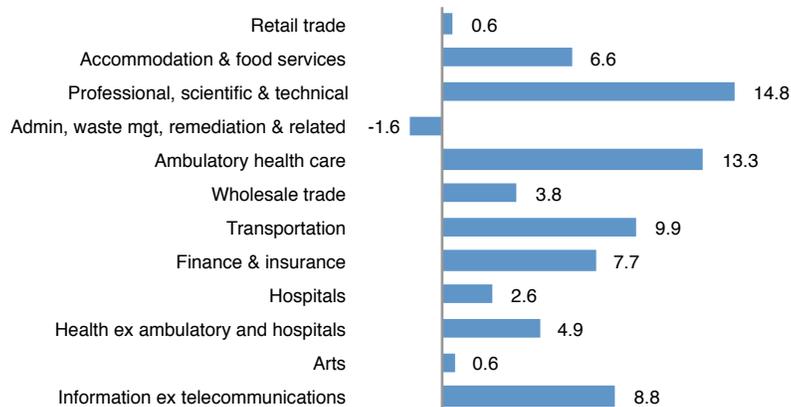
NOTE: Dollar figures represent August average prices.

▶ Spot prices of Gulf Coast diesel declined 0.8 percent from July to August, while gasoline fell 3 percent. The price of jet fuel rose 0.5 percent. The West Texas Intermediate (WTI) crude oil price dipped, averaging \$96.26 last month. Natural gas liquids prices declined slightly from July to August, largely following natural gas. Henry Hub natural gas fell 4.1 percent to average \$3.89 per million British thermal units in August.

▶ Oil prices dropped on robust supplies. WTI was down relative to Brent crude oil, pushing their price gap wider. The average difference between WTI and Brent crude rose from \$3.16 in July to \$5.51 in August.

Services

Services Employment Growth



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

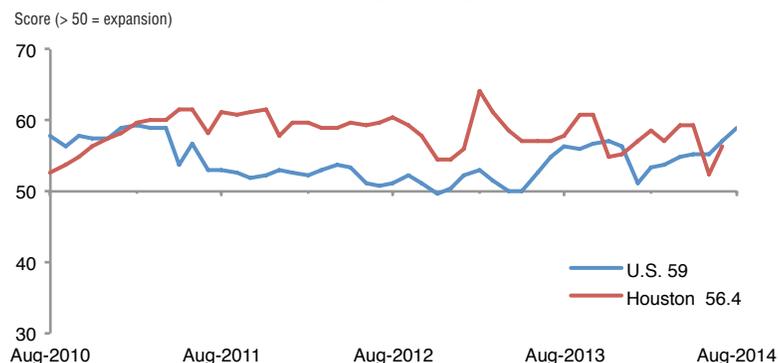
▶ The fastest-growing services industry for the three months ending in July was professional, scientific and technical, which gained 8,000 jobs—3,000 attributable to architectural and engineering firms. Ambulatory health care saw an increase of 4,700 jobs. Administrative, waste management, remediation and related contracted by 800 jobs.

▶ Services industries added 29,900 jobs from April to July (an annualized rate of 5.2 percent). The sector will add a record-setting 109,000 jobs to Houston employment by year-end if it maintains the pace it held from December to July. The sector has added 95,000 jobs over the past 12 months, already the strongest one-year period on record.

▶ Among the occupational groupings within the Help Wanted OnLine Index for Houston, professional and related; management, business and financial; and sales and office were the largest contributors to a decline in total job advertisements in both July and August. This may imply less hiring for these types of occupations and their closely related industries over the next few months.

Manufacturing

Purchasing Managers Index

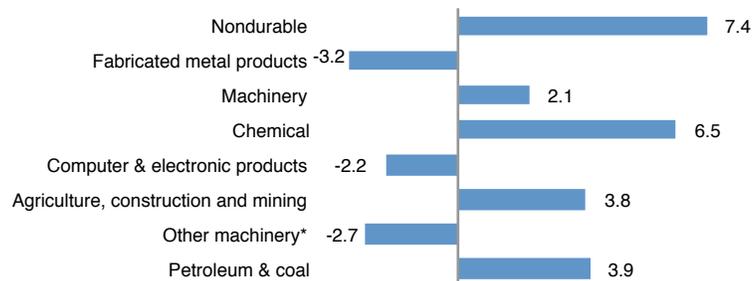


▶ The Houston Purchasing Managers Index (PMI) ticked up to 56.4 in July from 52.4 in June, its lowest postrecession reading since July 2010. The July improvement was dominated by sales, though production and prices both increased. U.S. PMI improved in July and August, rising to 57.1 and 59, respectively. The latter is the highest U.S. reading since March 2011. U.S. chemical production grew each month from April through July and is up compared with the same period in 2013. However, data from the American Chemistry Council indicate that the Gulf Coast saw modest declines in year-over-year production in June and July.

▶ Nondurable and chemical products manufacturing had the fastest employment growth rates over the three months ending in July, equating to 600 and 1,500 jobs, respectively. Fabricated metal products saw the biggest percentage decline (a loss of 500 jobs), followed by other machinery (a loss of 100). Chemical manufacturing has added more jobs in the past 12 months than in any 12-month period since June 1991. At the pace it's running this year, chemical manufacturing is on track to grow by 1,900 jobs in 2014—the fastest pace since 1990.

▶ The manufacturing sector as a whole has added 2,100 jobs the past 12 months, an increase far removed from its peak of more than 17,000 jobs in mid-2012.

Manufacturing Employment Growth



* Subsector of machinery.

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

SOURCES: **Business-cycle index:** Federal Reserve Bank of Dallas; **employment:** Bureau of Labor Statistics (BLS) and Dallas Fed; **energy prices:** U.S. Energy Information Administration; **services:** BLS; **manufacturing:** Institute for Supply Management, American Chemistry Council, BLS and Dallas Fed.

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