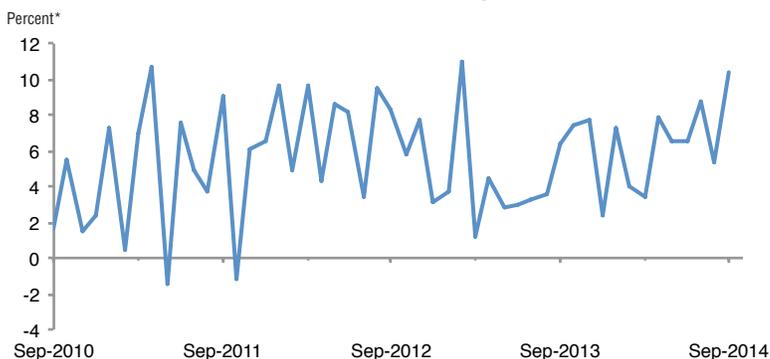


Economic Activity

Houston Business-Cycle Index

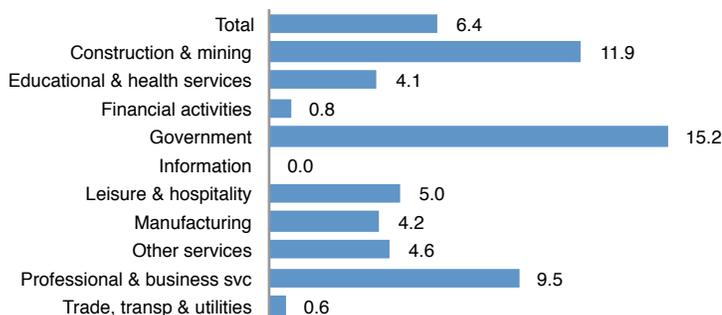


*Annualized month-over-month growth rate.

▶ The Houston Business-Cycle Index advanced at a blistering 10.4 percent in September after rising a revised 5.3 percent and 8.8 percent in August and July. Job growth was broad-based across industries, demonstrating particular strength in energy, construction and public education. With energy prices still at healthy levels for Houston industries, the construction boom underway for petrochemicals and a tailwind coming from the U.S. economy, the Houston outlook remains positive.

Employment

September Employment Growth



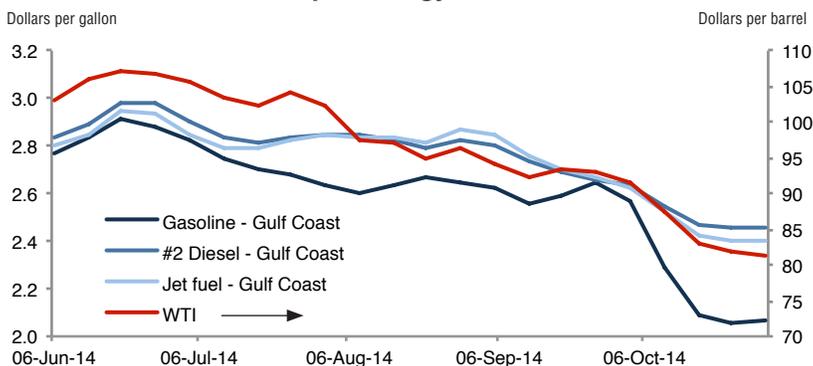
NOTES: Chart shows annualized monthly percent growth by employment supersector. Data are seasonally adjusted.

▶ Employment increased at an annualized rate of 6.4 percent in September after growing a revised 3.8 percent in August and 5.8 percent in July. Government grew the fastest, adding 4,800 jobs as public education employment ticked up in September. Construction and mining was the second-fastest category, adding 3,100 jobs. No category lost jobs in September. The Houston-area unemployment rate fell three-tenths of a percent to 5.0 in September. The rate was 5.2 percent in Texas and 5.9 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 rose 3.06 percent in October after falling 6.6 percent in September. The total number of job advertisements rose 1.5 percent from September to October and was down 1.4 percent this year.

Energy Prices

Spot Energy Prices

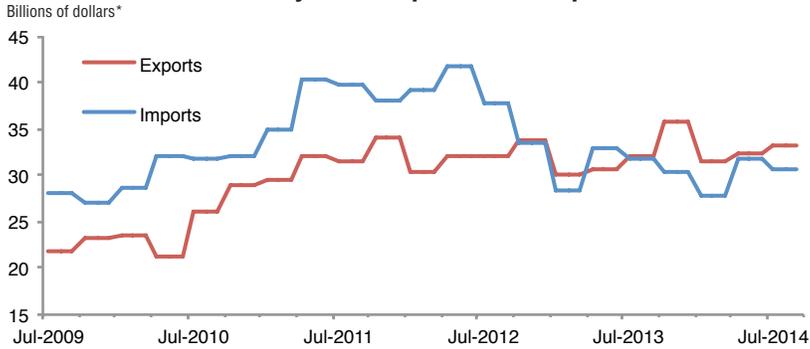


▶ The average spot price of Gulf Coast diesel and gasoline continued to fall in October, ending the month at \$2.45 and \$2, respectively. Following the decline in oil prices, October retail prices for motor fuel on the Gulf Coast reached their lowest levels since February 2011 for diesel and December 2010 for regular gasoline. The West Texas Intermediate (WTI) crude oil price declined steadily from \$107 at the end of June to \$81.30 at the end of October. The average difference between WTI and Brent crude fell \$1.10 to \$3.09 in October. Natural gas and natural gas liquids prices declined slightly from September to October as well.

▶ Saudi Arabia's support for lower oil prices pushed the price of WTI down into the high 70s as of this writing. Falling prices are a concern for Houston's outlook, but prices would need to trend lower for an extended period for adverse effects on domestic production activities to affect economic outcomes in the region.

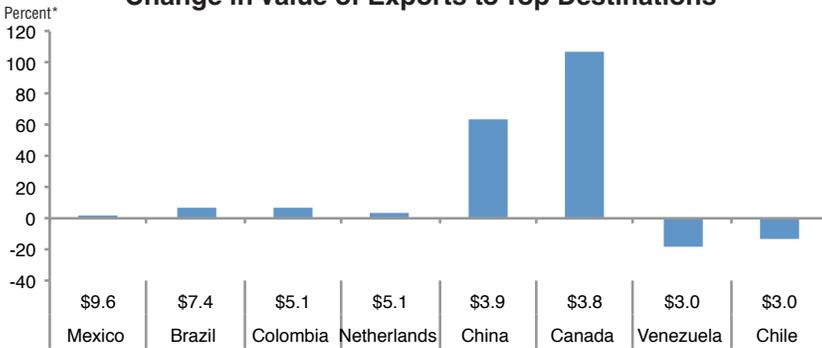
International Trade

Quarterly Real Exports and Imports



*Values adjusted to current dollars using Houston consumer price index.

Change in Value of Exports to Top Destinations



*Growth rate is the first three quarters of 2014 versus the same period in 2013.

NOTES: Values in legend are the 2014 year-to-date value of exports to each country in billions of dollars.

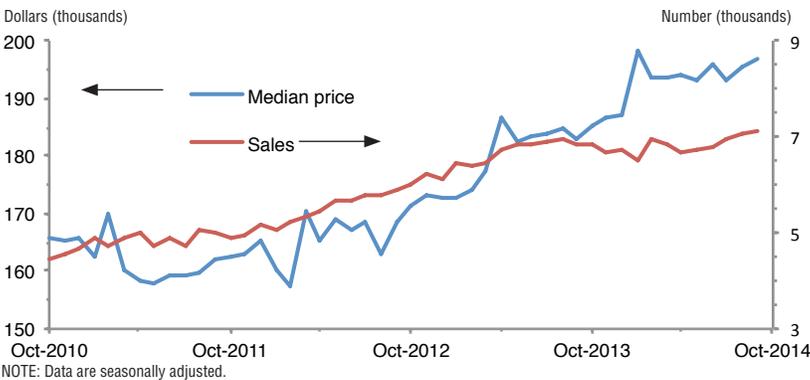
▶ The real value of imports coming through the Houston–Galveston customs district fell 3.3 percent from the second quarter to the third. Exports grew 4.1 percent over that time. The value of imports and exports moving through the customs district combined to grow 0.5 percent. Year to date, imports declined 3.6 percent when compared with the same period in 2013, while exports grew 4.9 percent.

▶ Iron and steel contributed the most to import values, adding 0.5 percentage points to total import growth between the second and third quarters of 2014. However, that growth was swamped by a decline in imports of oil and related products, which subtracted 4.4 percentage points, and organic chemicals, which subtracted 1.2 percentage points from the total. Similarly, the largest contributor to export growth was oil and related products, which added 3.4 percentage points to exports, and organic chemicals, which added 0.5 percentage points.

▶ Among the top export destinations from the Houston–Galveston customs district, Canada and China were the fastest growing in the first three quarters of 2014 compared with the same period a year prior. Exports to Mexico, the largest export destination, were up 1.3 percent. Exports to Venezuela and Chile declined.

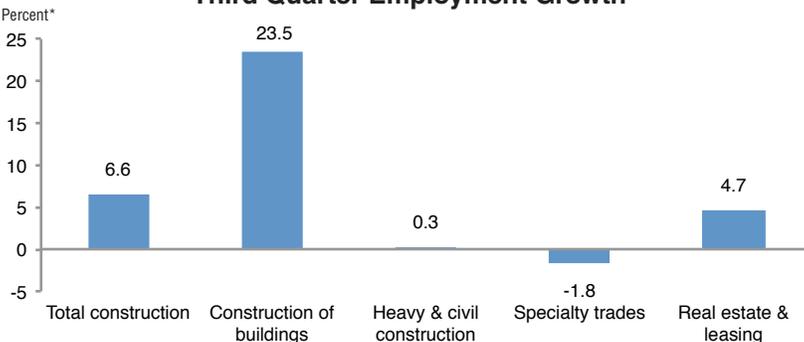
Construction and Real Estate

Median Home Price and Home Sales



NOTE: Data are seasonally adjusted.

Third Quarter Employment Growth



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

▶ Existing-home sales and prices ticked up 1.2 percent and 0.6 percent from August to September. Seasonally adjusted, 7,131 homes were sold in September, the highest single month since December 2006. The median price was \$196,668. Inventories have tightened again to 1.2 months of supply. Permits and starts for housing units grew from the second to third quarter, with year-over-year growth rising. 2014 has been a better year than 2013 for permits, while growth in housing starts has been more subdued. This is due in part to the ongoing shortage of lots to build on.

▶ Employment in real estate and leasing and in building construction had a mixed third quarter. Specialty trade contractors such as carpenters and electricians saw declines, but employment in construction of buildings (for example, housing and industrial buildings) soared. Commercial real estate construction continues to move ahead at a very healthy pace, with large petrochemical projects credited for the third-quarter surge.

▶ According to CBRE, Houston's office and industrial real estate markets had vacancy rates of 11.9 percent and 7.9 percent, respectively, and net absorption of 0.8 and 4.1 million square feet in the third quarter. Both categories again saw prices per square foot rise both year over year and quarter over quarter. More office space is on pace to be absorbed in 2014 than in any year since 2006.

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 and *Oil and Gas Journal*; **trade:** Census Bureau, Wisertrade and International Trade Commission; **home sales and prices:** Houston Association of Realtors and CBRE; **construction:** Bureau of Labor Statistics.

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