

Houston Economic Outlook



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In context...



US: The latest indicators

<i>PRODUCTION</i>	
Real GDP growth (annually)	2.2 % Q4-2006
<i>EMPLOYMENT</i>	
Unemployment Rate (Mar)	4.4 %
Payroll Gains (Mar)	180,000 (Establishment Survey)
<i>PRICES</i>	
CPI (%yr over yr) Feb	2.4 %
PPI (%yr over yr) Feb	2.6 %
PCE (%yr over yr) Feb	2.3%
Core CPI (%yr over yr) Feb	2.7%
Core PPI (%yr over yr) Feb	1.8%
Core PCE (%yr over yr) Feb	2.4%

Survey of Professional Forecasters Outlook 2007

	GDP (annual rate)	Unemployment Rate (%)	Employment (monthly gain, thousands)	Non-Res Investment (% change)
2006 (actual)	3.4	4.6	135.1	7.4
2007 Q1	2.6	4.6	136.6	7.5
Q2	2.7	4.7	116.5	6.6
Q3	3.0	4.7	115.8	5.9
Q4	3.2	4.8	131.1	5.3
2008 Q1	3.1	4.8	130.2	5.0
2007 (annual)	2.8	4.7	135.1	5.6
2008 (annual)	3.0	4.8	131.2	5.0

Housing Bottoms Out in 2007

	Housing Starts (million, at annual rates)	Residential Fixed Investment (% change)	Total Consumption Expenditures (% change)
2006 (actual)	1.82	-4.2	3.2
2007 Q1	1.54	-10.2	3.2
Q2	1.55	-5.8	2.7
Q3	1.55	1.0	2.9
Q4	1.58	-1.0	2.8
2008 Q1	1.62	2.0	2.9
2007 (annual)	1.56	-10.3	3.2
2008 (annual)	1.65	1.5	2.8

Federal Reserve Bank of Philadelphia, *Survey of Professional Forecasters*

Inflation has spiked again

CPI, PPI & PCE turned down, now up

	CPI	PPI	PCE
August	3.9	3.7	3.2
September	2.1	0.8	1.9
October	1.3	-1.6	1.5
November	2.0	1.0	1.9
December	2.5	1.1	2.3
January 2007	2.1	0.2	2.0
February 2007	2.4	2.6	2.3

Year-over-year changes: %

... Imbalances and Uncertainties



... Imbalances and Uncertainties

1. Trade Deficit

- Decreasing value of dollar

2. Low Long-Term Interest Rates

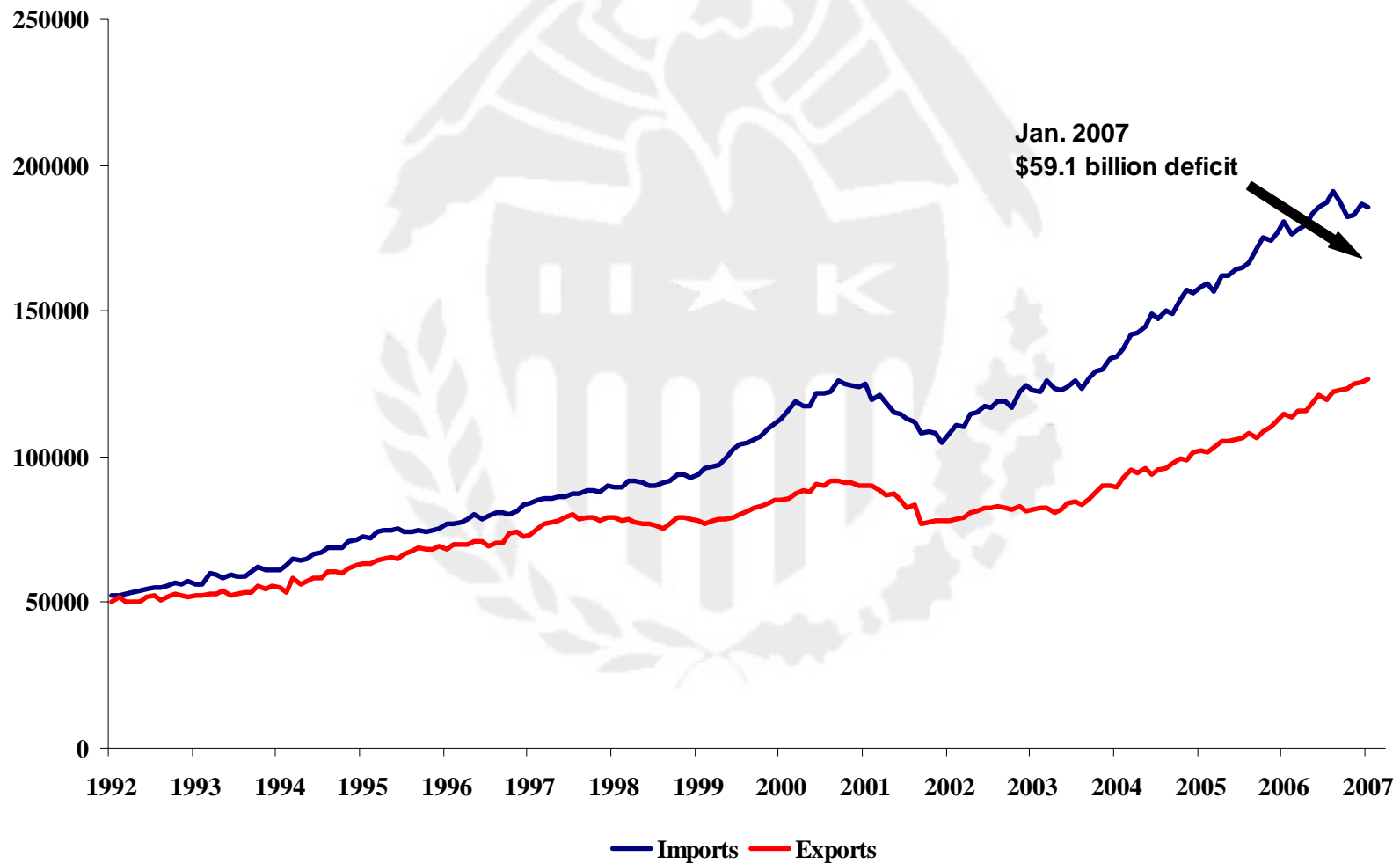
- Responsible for 'housing boom'

3. Energy prices

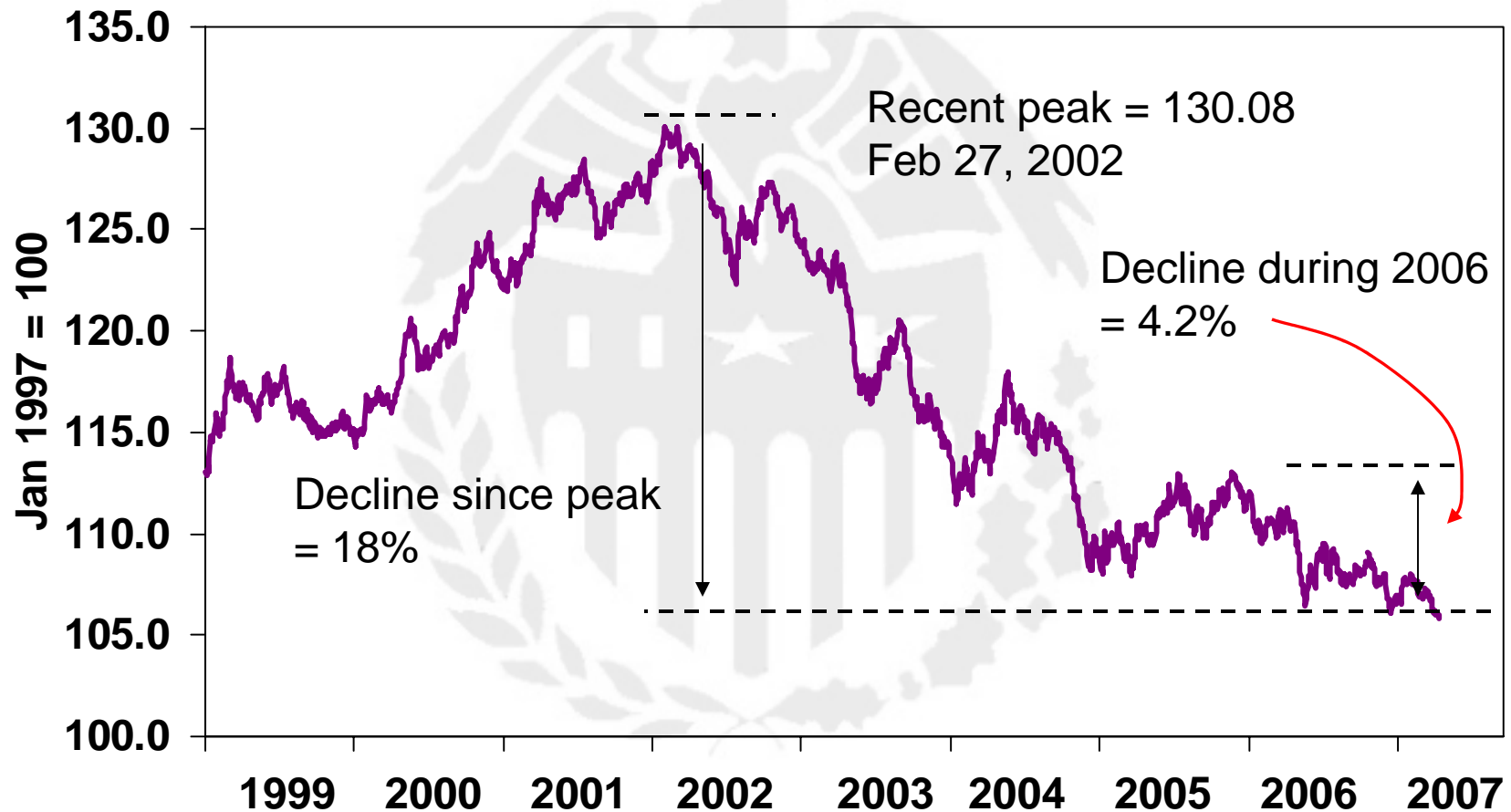
- Inflation

US Trade Deficit

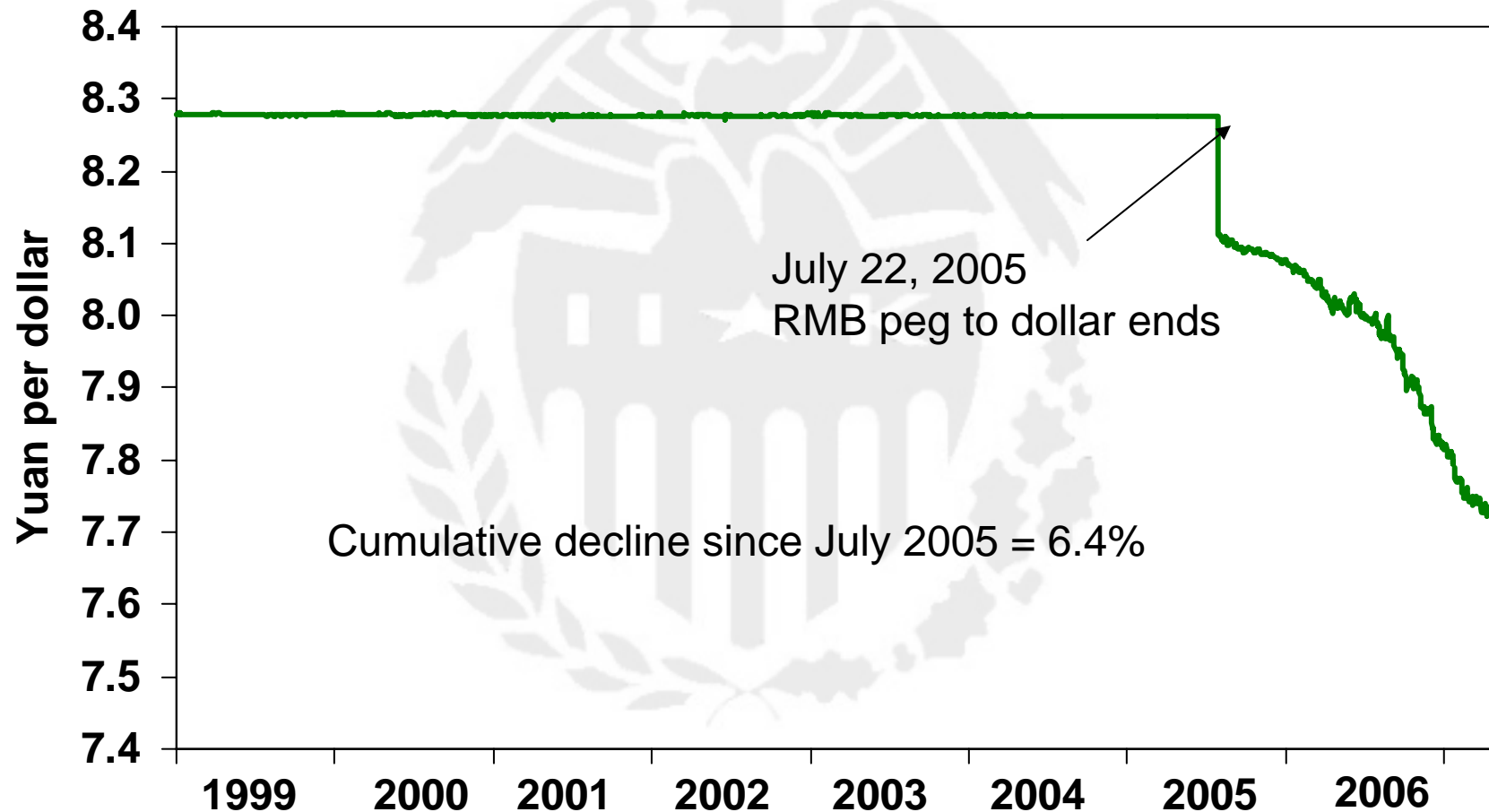
Thou, \$, SA



Dollar vs. broad basket of currencies

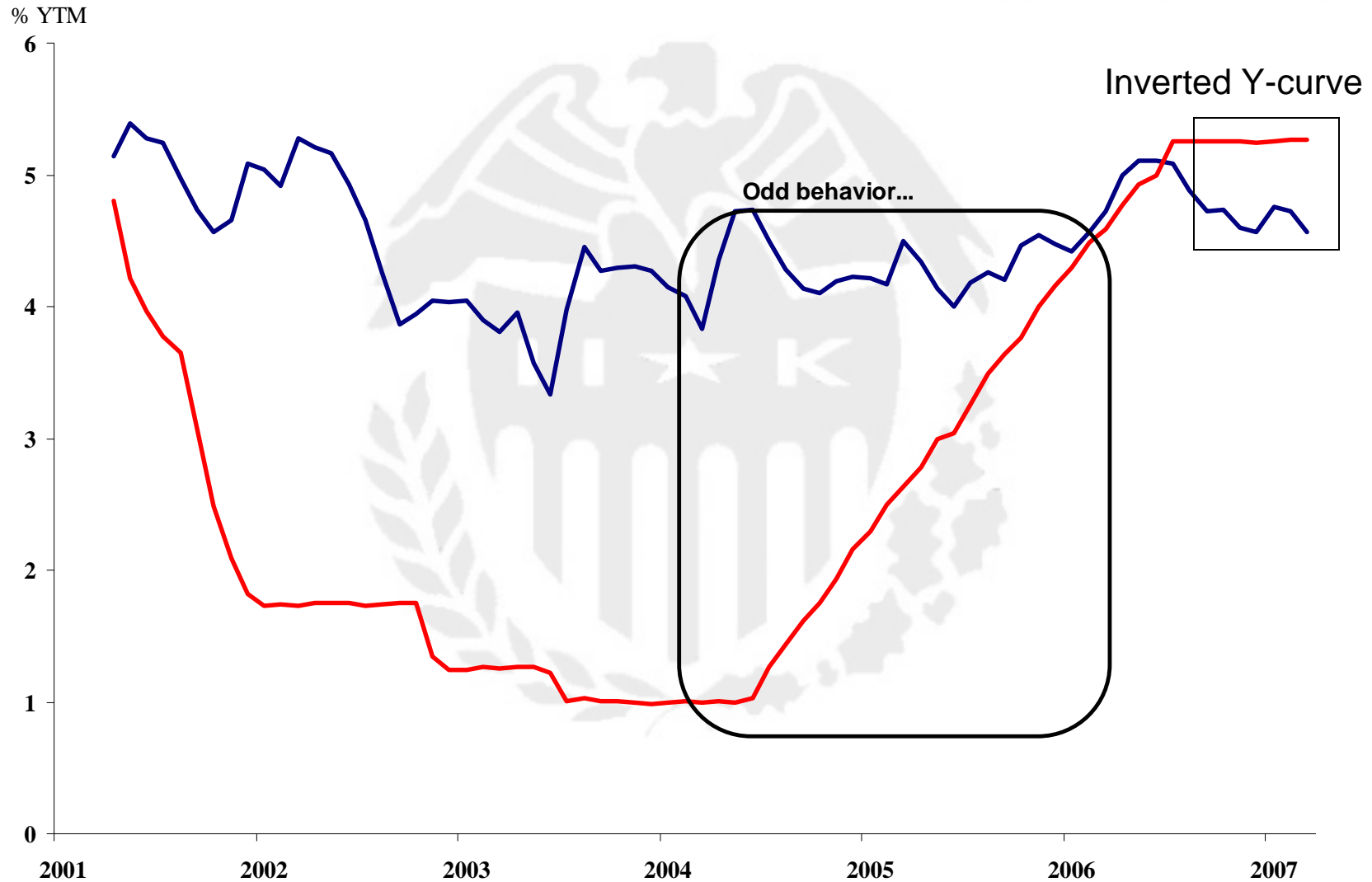


Dollar also weakening against the renminbi

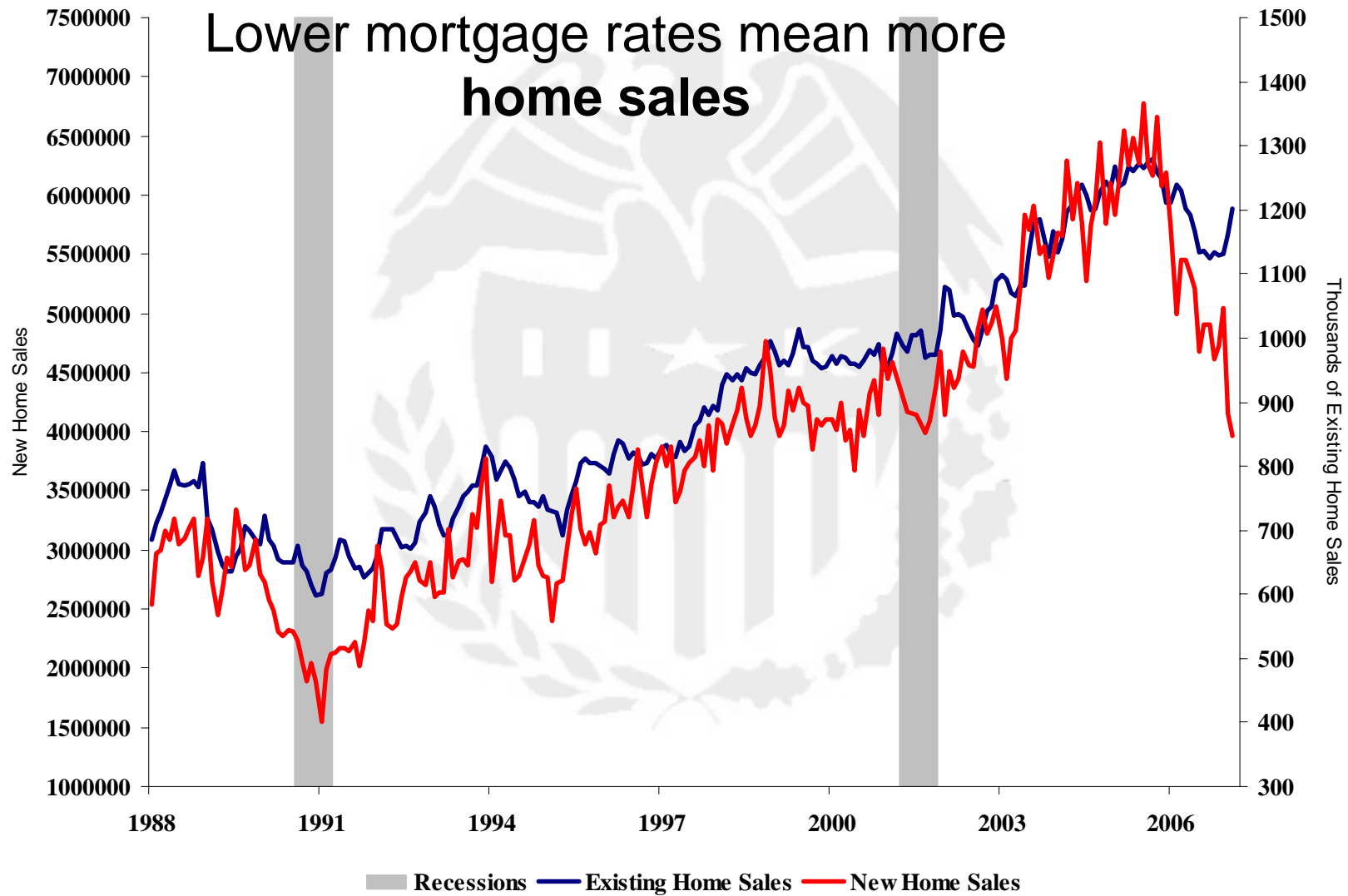


Low Long Term Interest Rates

10-Year Treasury vs. Effective FFR



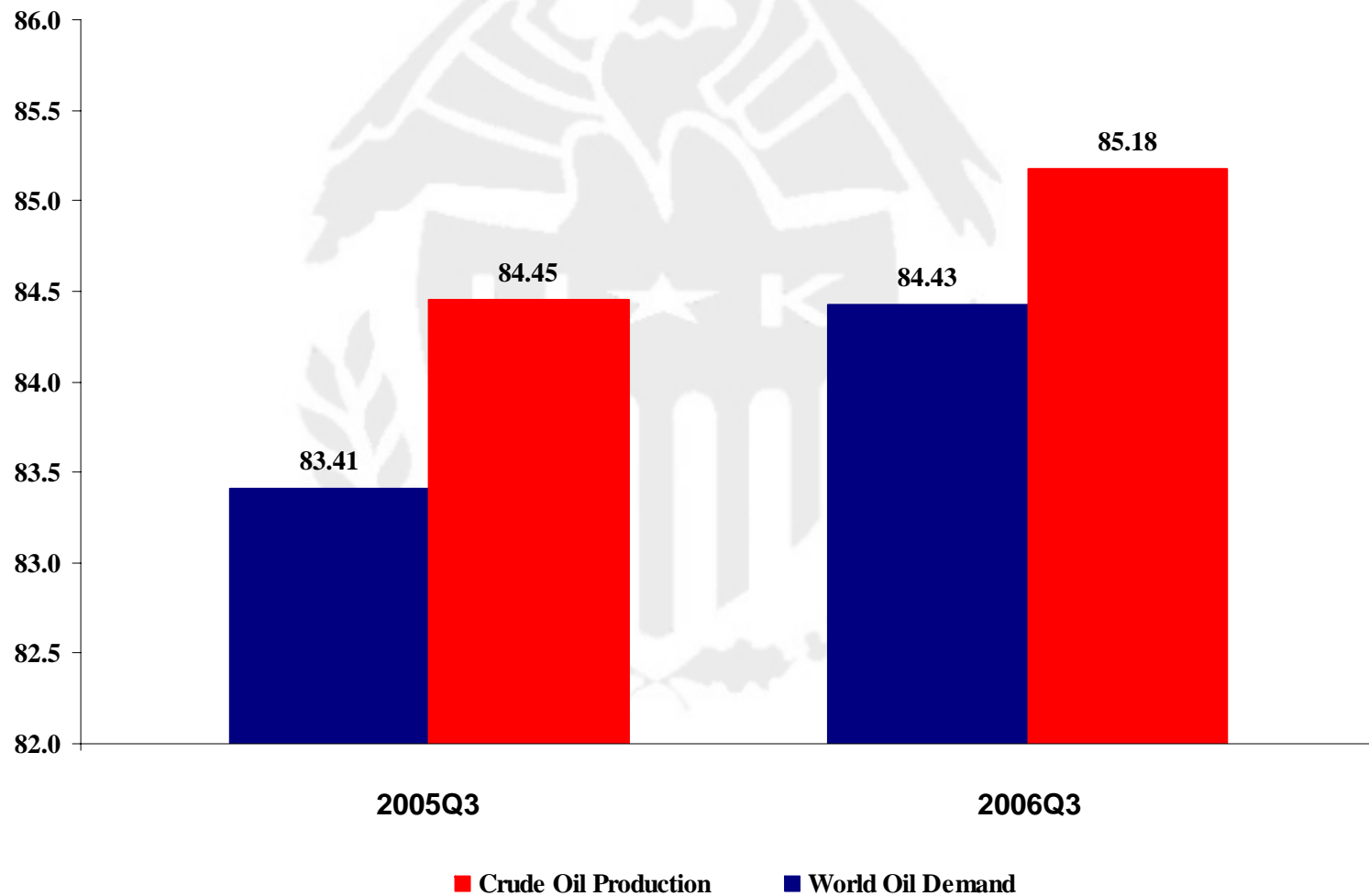
Housing Market



Energy Prices

World Crude Oil Supply & Demand

Million Barrels

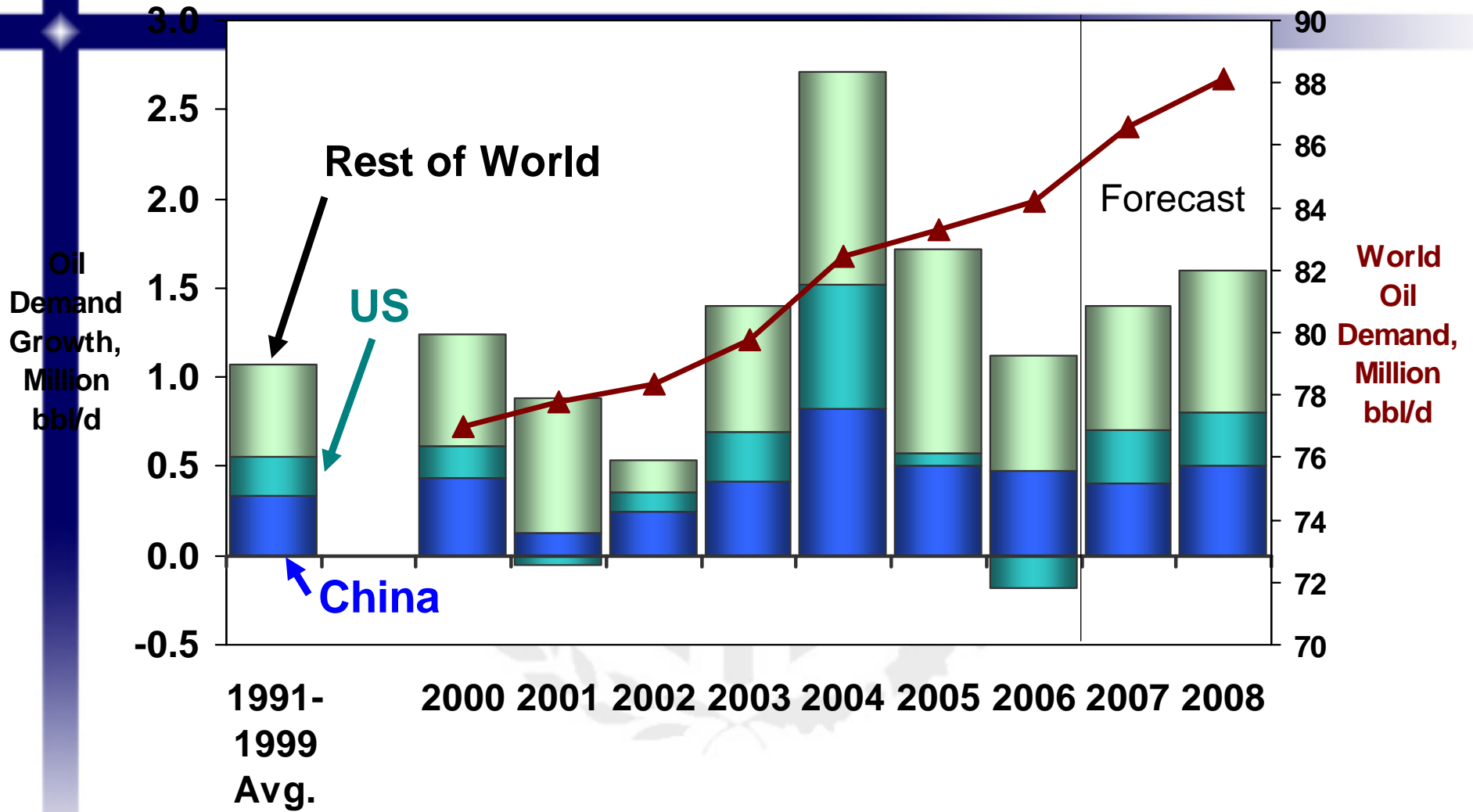


Growth in the Demand for Crude Oil (000 barrels/day)

		2006-2007
OECD	<i>North America</i>	400
	<i>Europe</i>	-100
	<i>Pacific</i>	-100
	...	
Non-OECD	<i>Former Soviet Union</i>	0
	<i>China</i>	400
	<i>Other</i>	800
	...	
World	<i>Total</i>	1,400

Data and estimates from the International Energy Agency

World Oil Consumption Growth





Houston

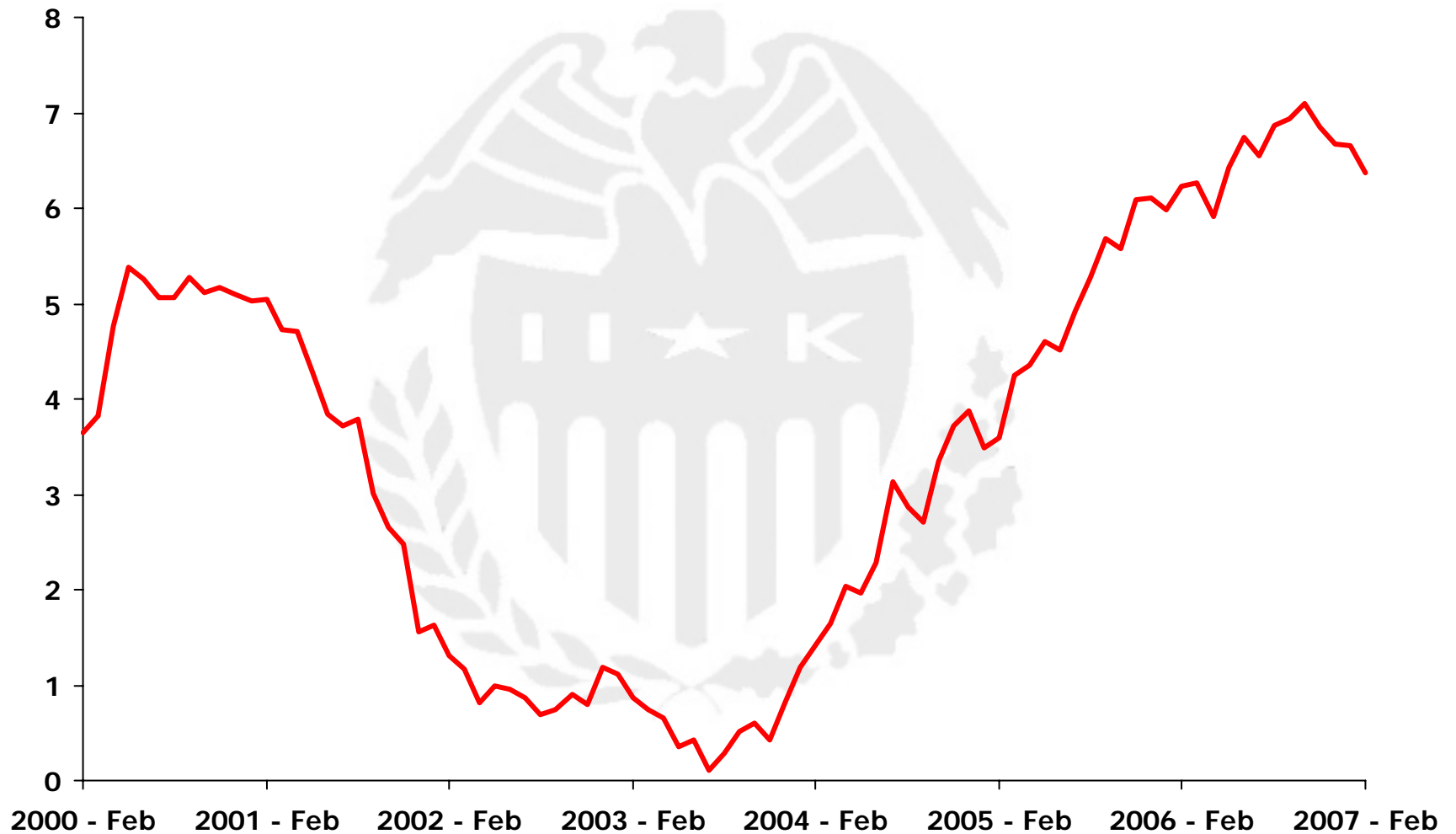
The State of our Local Economy

Houston: State of the Economy ...

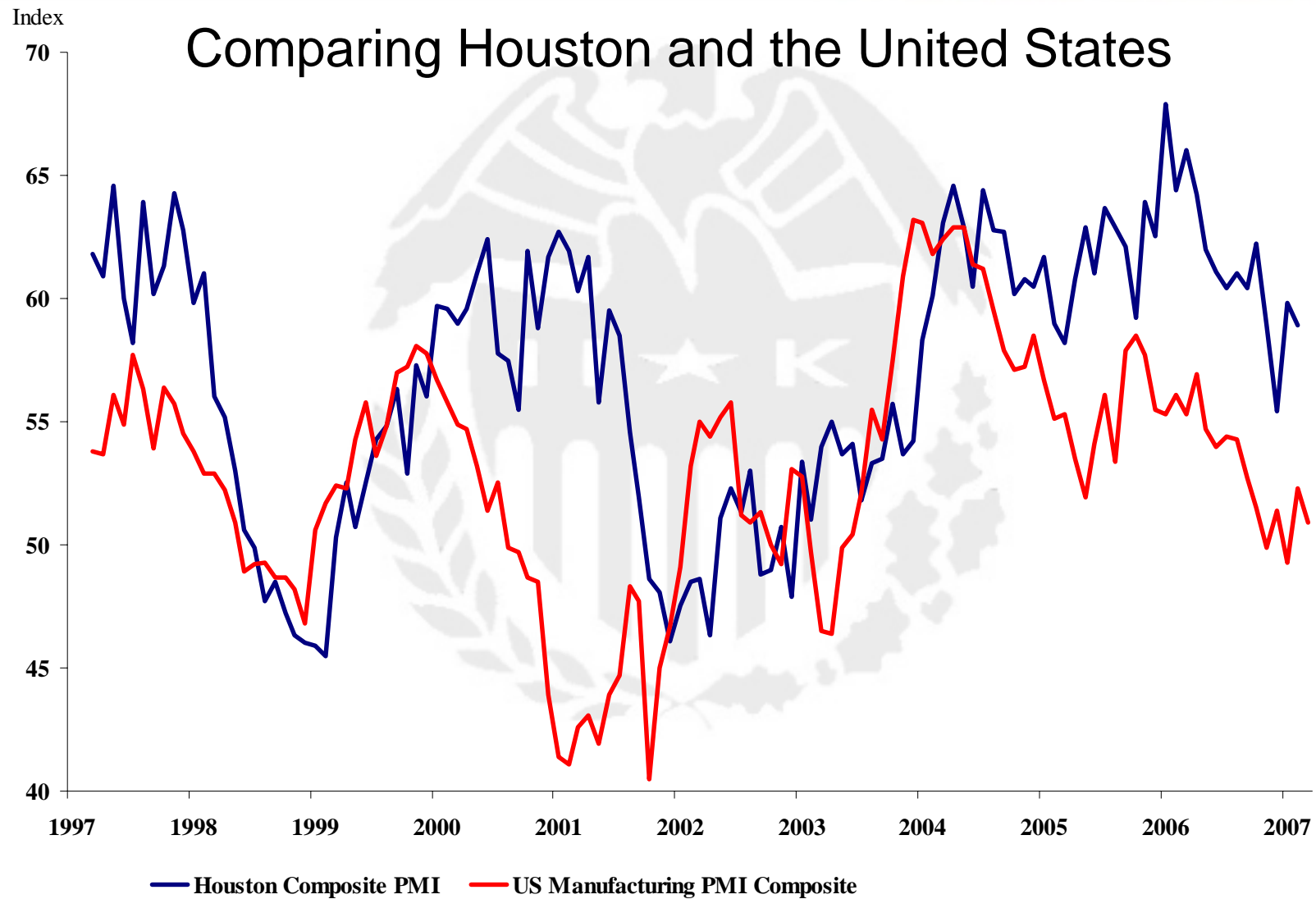
PRODUCTION		
Purchasing Managers Index ,	Feb-2007	58.9
U.S. Active Rotary Rigs (% yr over yr),	Mar-2007	12.7%
EMPLOYMENT / UNEMPLOYMENT		
Unemployment Rate ,	Feb-2007	4.6%
Payroll Gains (yr over yr increase),	Feb-2007	90,200
PRICES		
CPI (% yr over yr),	Feb-2007	1.5%
Core CPI (% yr over yr),	Feb-2007	1.5%
CPI - Energy (%yr over yr) ,	Feb-2007	2.0%

Houston Coincident Index

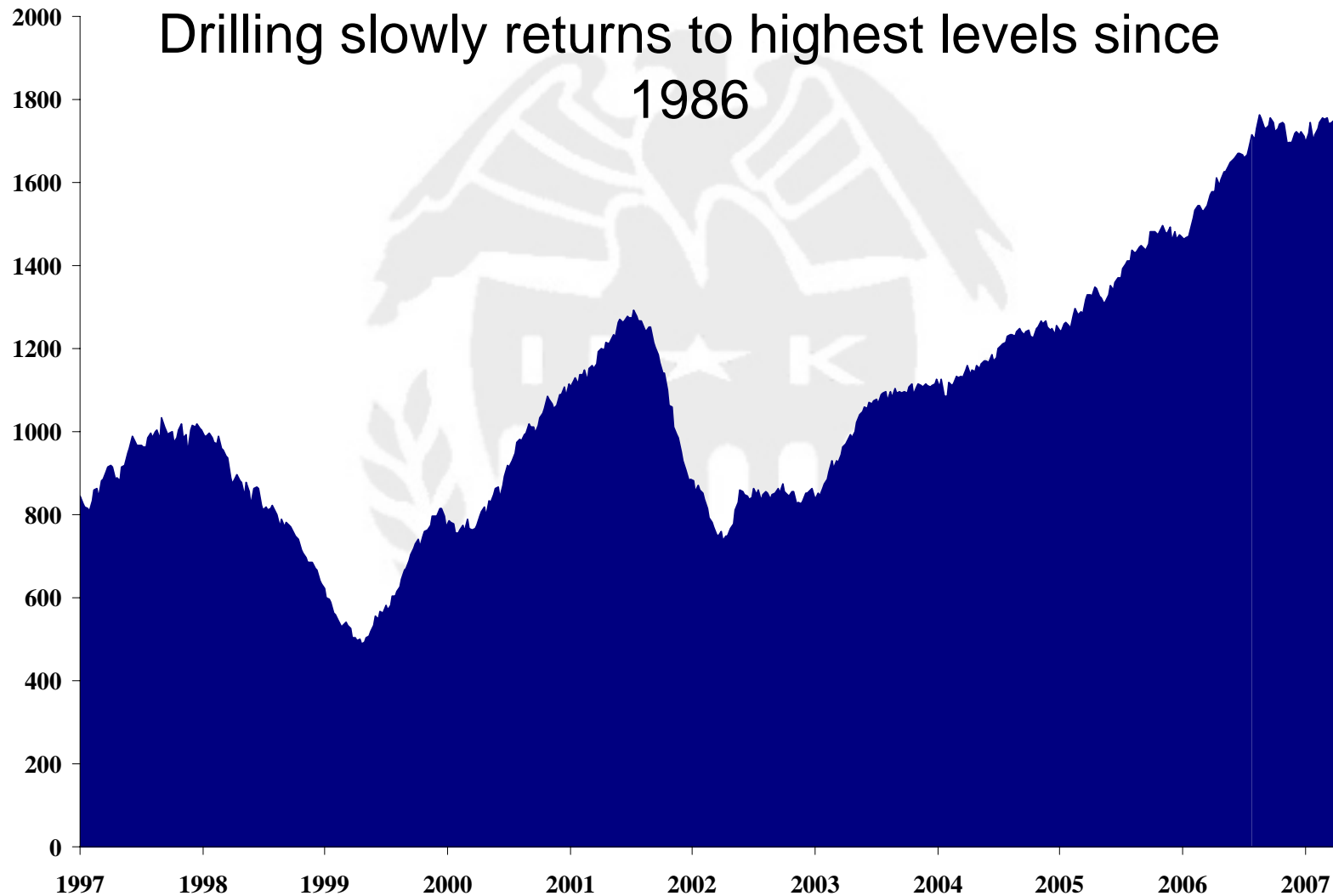
y/y percent growth



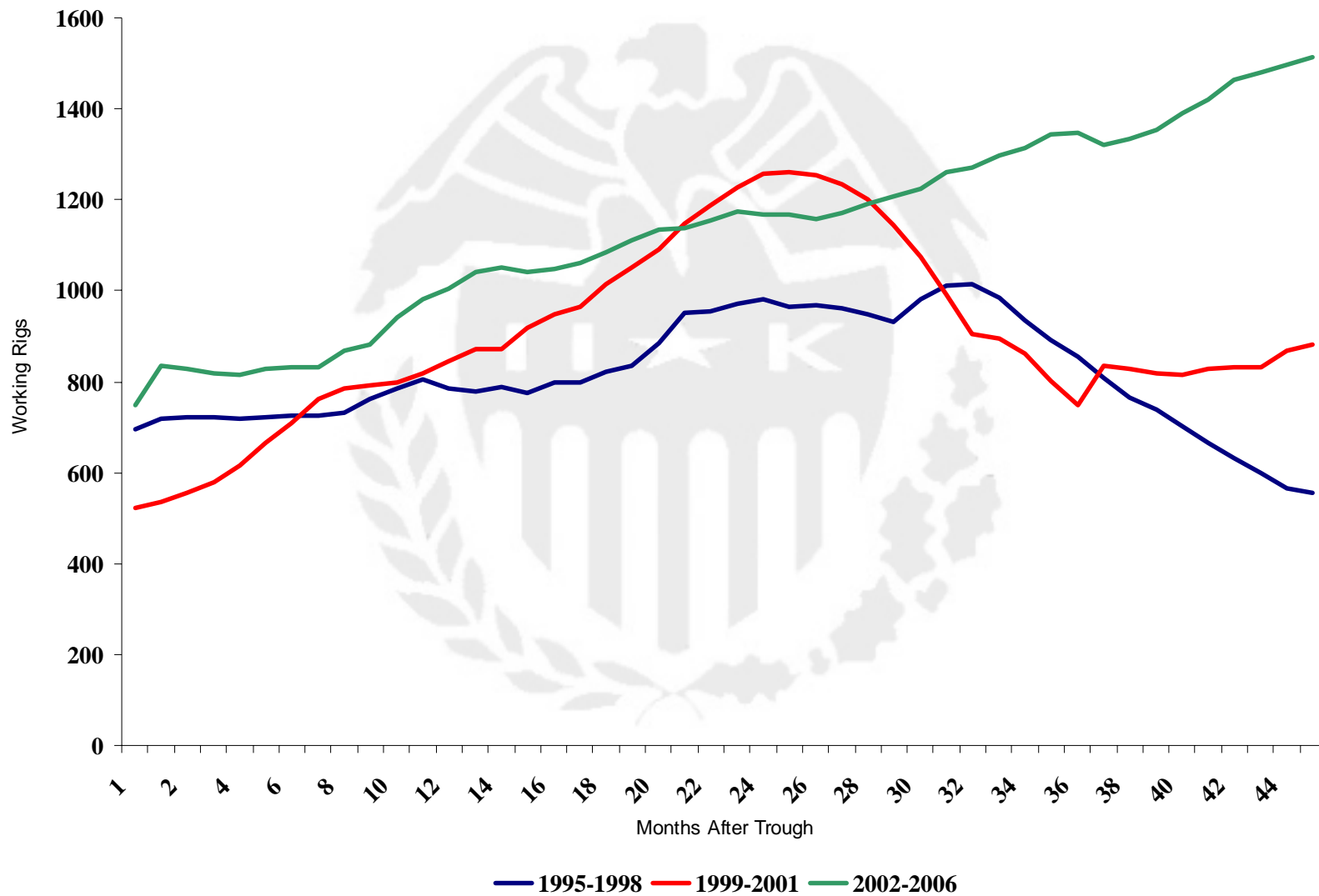
Purchasing Manager's Index



Baker Hughes Rig Count

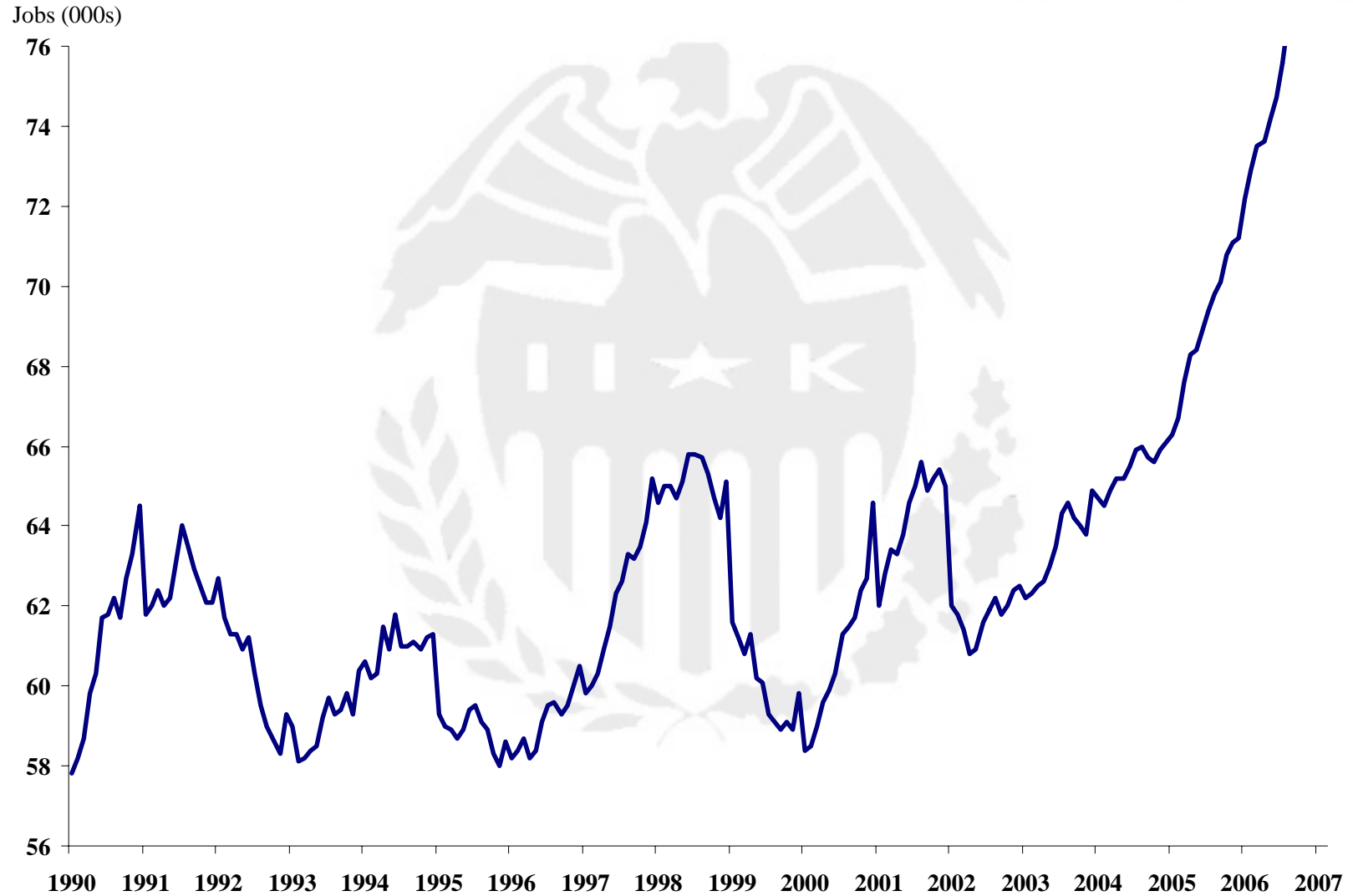


Last Three Drilling Expansions



Oil Extraction Jobs in Houston

1990 to Present

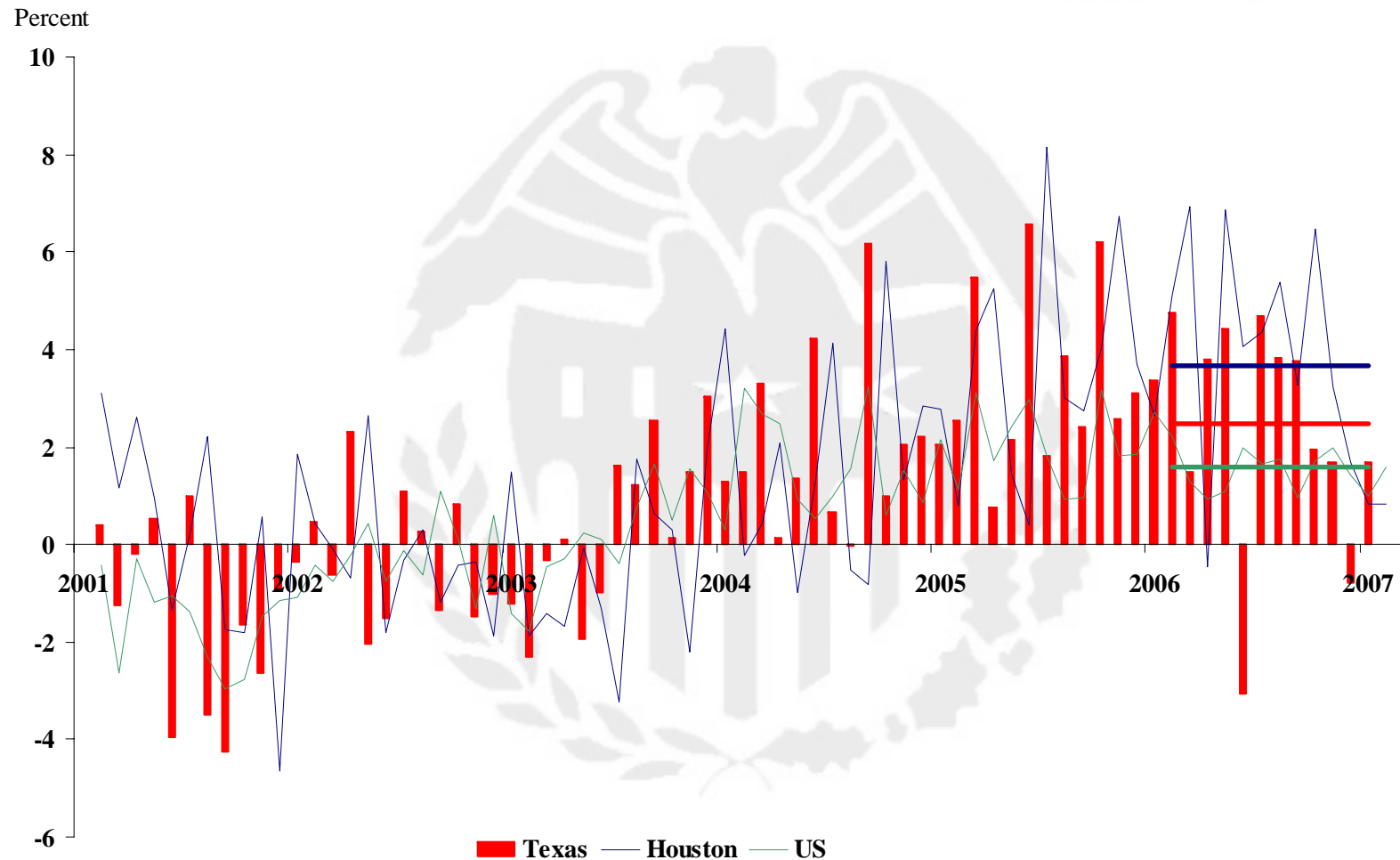


U.S. job growth has caught up with Houston's in recent months

(Growth at Annual Rates)

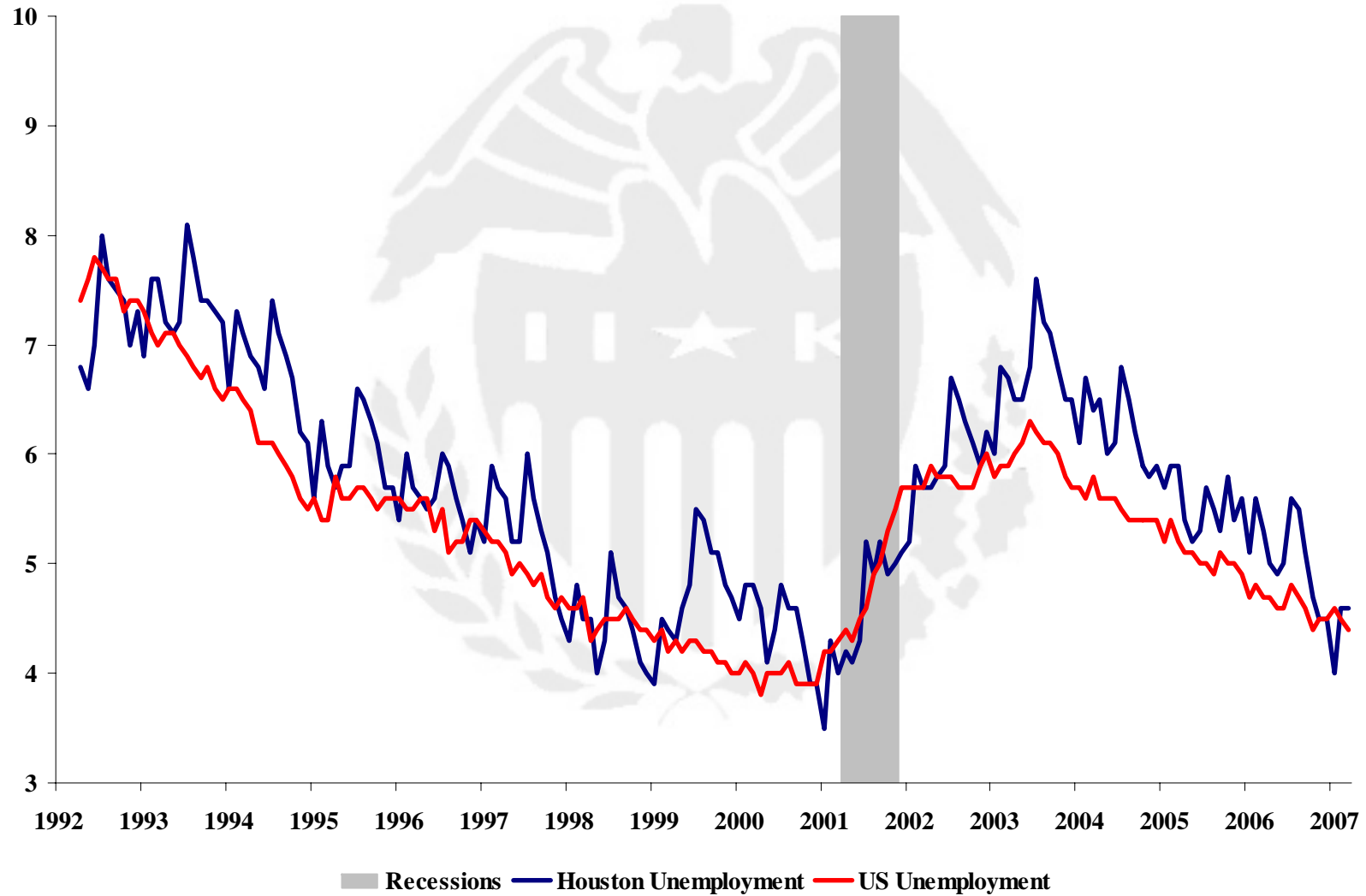
	U.S.	Houston
1-Month (Feb.)	1.0	0.8
3-Month	1.5	1.1
6-Month	1.5	2.7
12-Month	1.5	3.6

Payroll Employment Growth



Houston Unemployment Rate

Rate (%), SA



Cost of Living Index: Q4-2006

The Council for Community and Economic Research (ACCRA) estimates:

- The **Cost of Living Index** Living costs for professional or executive household in Houston are the lowest among 23 metro areas over 2 million population:
 - 22% below the average of the group
 - 11% below the National Average

Cost of Living

Houston had the lowest cost of living among the 16 cities with the most six-figure job listings.

Source: CNN-Money, July



... Imbalances and Uncertainties

Effects on Houston

Trade Deficit:

More Port Activity for Houston

Increased Port of Houston activity has diversified the city's labor market

- Wal-Mart Distribution Center (Chambers County)
 - 20-28 percent of total Wal-Mart's containers through Houston
 - About 20 percent of the company's total imports
- The Bayport Expansion Project (20 years)
 - The container terminal will have a capacity of 1.4 million containers (200 percent increase)
- Shipments for the Port of Houston Authority increased 6.8 percent YTD (through Feb. 2007)

... Imbalances and Uncertainties

Effect on Houston: **Interest Rates**

- Low long term rates can potentially lead to a housing bubble
- Median Sales Price (Existing, Single Family)
 - US: To **\$219,300** in 06Q4 from \$225,300 last year
 - Houston: To **\$148,600** in 06Q4 from \$146,300 last year
- Housing Bubble?

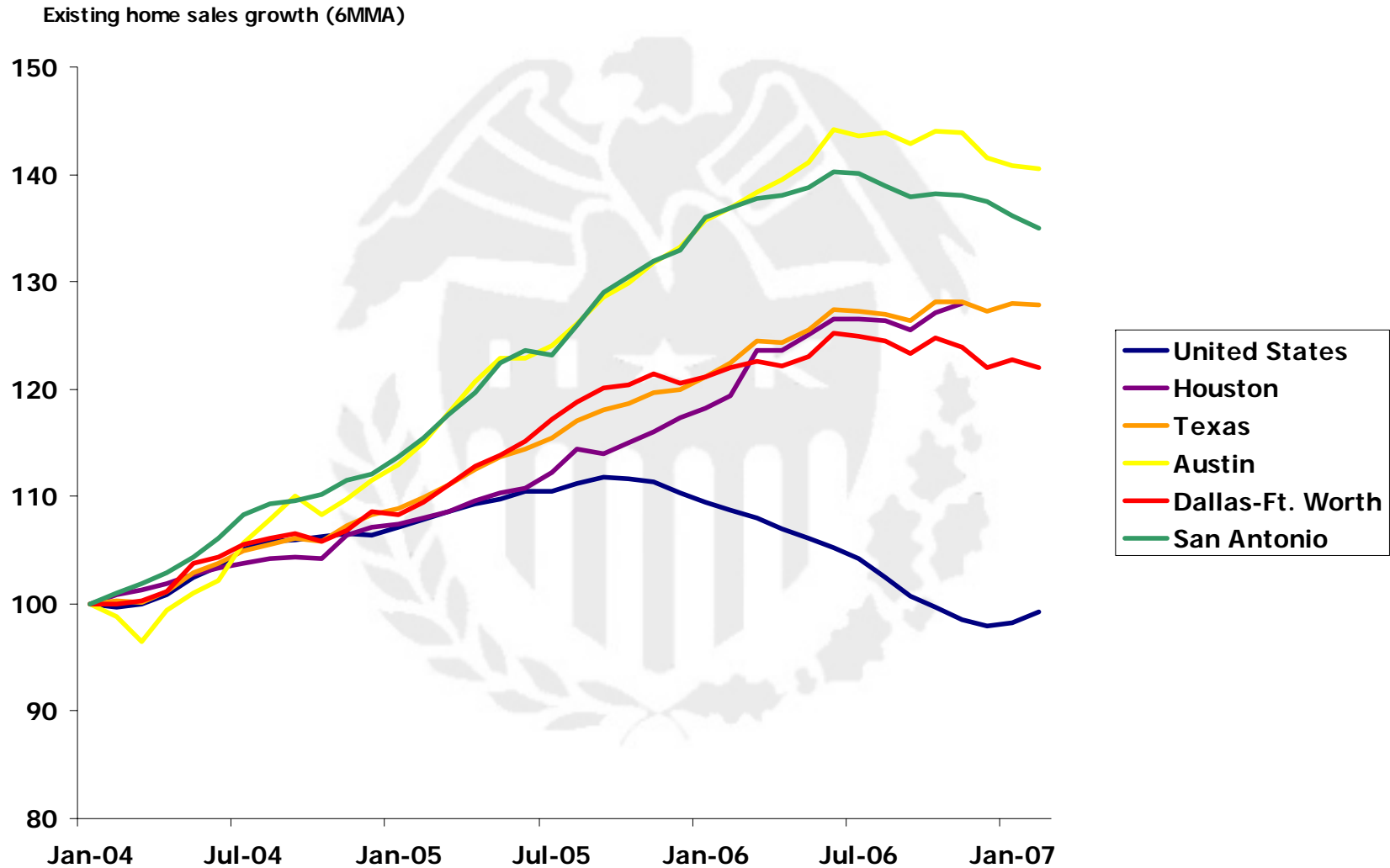
Non Residential Construction: Still growing in Houston...

A. *Non Residential:*

Positive impact of the Wal-Mart distribution center and the Baytown expansion project. Spreading of urban boundaries. Other ongoing projects, such as the Memorial Hermann Medical Plaza in the Texas Medical Center, are also contributing to growth.

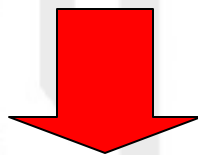
B. *Residential:* While stronger than the rest of the nation, residential construction is expected to grow at a slower rate even if interest rates go down.

Houston has some of the strongest housing demand in the country...



Fundamental differences contribute to Houston's housing advantage

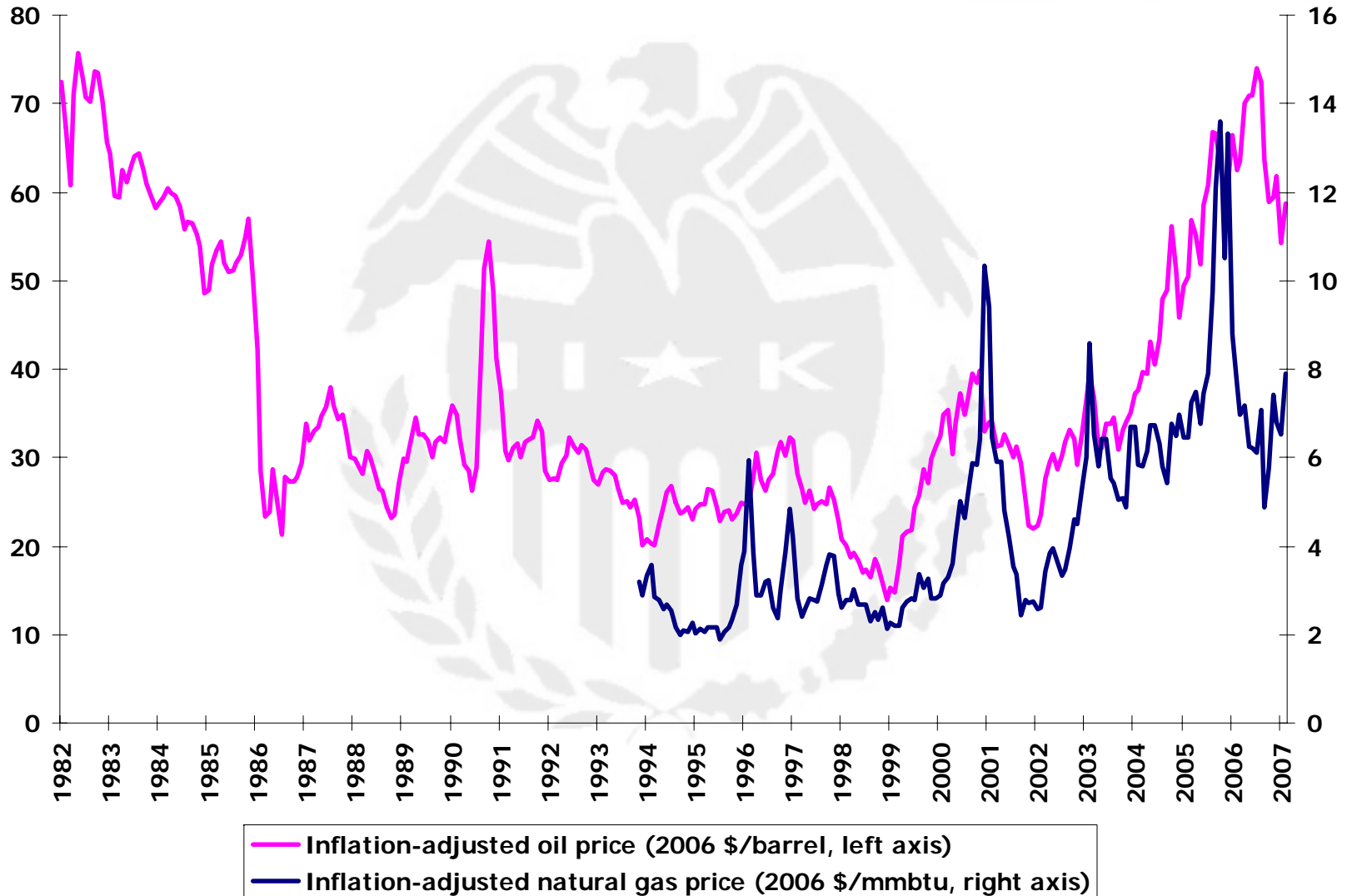
- Less speculation and regulation than on coasts
- Lower percentage of “exotic” mortgages (ARMs, zero percent down, etc.)
- Tied to energy market (more so on high end)



Houston's housing market has prospered while most of the country's has suffered

Energy Prices:

Have decreased, but remain at historically high levels



Energy Prices: relatively flat in 2007

	2004	2005	2006	2007
WTI Crude (\$/bbl)	\$41.44	\$56.49	\$66.02	\$63.90
Gasoline (\$/gal)	\$1.85	\$2.27	\$2.58	\$2.55
Natural Gas (\$/mcf)	\$5.68	\$8.35	\$6.94	\$7.83

Energy Information Administration, Short-term Energy Forecast, April 2007

May stay high short-term, especially if OPEC does not increase production

- EIA estimates that OPEC has followed through on about half (600,000 b/d) of the targeted amount from the October and February cuts
- After a meeting last month, OPEC representatives said they had no intention of increasing production in light of recent high energy prices
 - However, member discipline has been weak in the past, especially with elevated prices

Record Profits for Oil Companies in 2006...

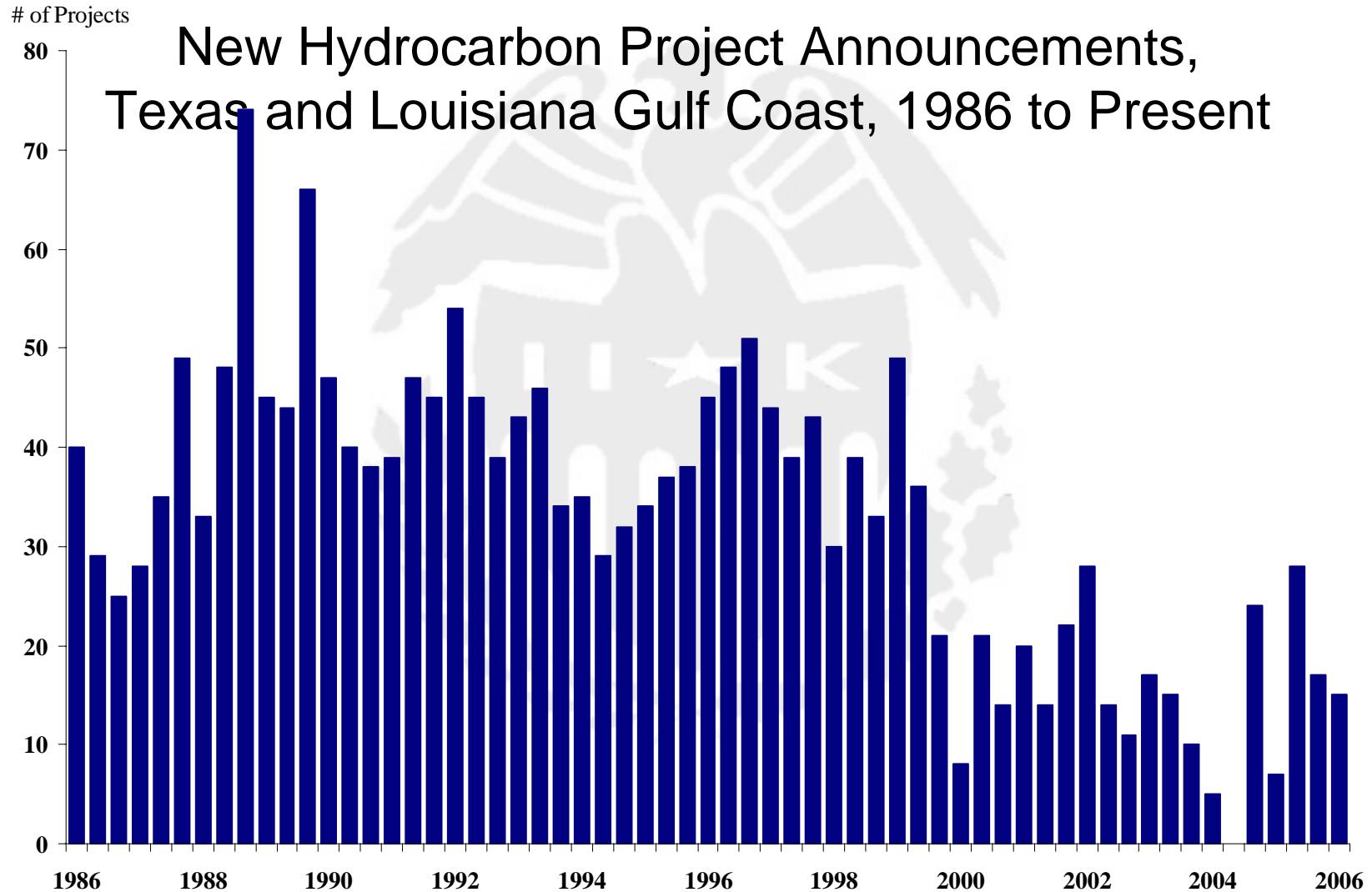
- BP 22.3 billion
- ChevronTexaco 17.1 billion
- ConocoPhillips 15.6 billion
- ExxonMobil 39.5 billion
- Shell 25.4 billion
- Halliburton 2.3 billion

Harris County: Home for Millionaires

- Sixth on list of millionaire counties
- 96,593 millionaire households

Source: TNS Financial Services

Hydrocarbon Projects



Regional Ethylene Capacity Additions

1987 to 1999	Region	2000-2012
31%	<i>North America</i>	6%
9%	<i>Middle East</i>	43%
36%	<i>Asia</i>	31%
15%	<i>West Europe</i>	6%

So, Where are We?

- **U.S. Economy**
 - Slower growth for 2007.
 - Continued correction of the housing market
 - The economy may finally reach its “Goldilocks” stage of moderate growth and moderate inflation
- **Houston Economy**
 - Healthy and growing. A moderation in growth expected for 2007.
 - Positively affected by energy markets, Port activity, and construction sector.
 - Playing an important role in making the US the strongest economy in the world.

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