

December 2011

- **The Texas jobless rate fell to 8.1% in November.**
- **Texas factory activity improved slightly in December.**
- **In November, existing home sales, both in Texas and nationwide, posted a fifth consecutive annual gain.**
- **In December, manufacturing in Houston grew for the 27<sup>th</sup> straight month.**

## Executive summary

2011 ended on an optimistic note thanks to generous liquidity support for European banks and a temporary extension of the payroll-tax cut and unemployment benefits in the U.S.. However, Eurozone debt woes continue to weigh on investor sentiment. The recent downgrade of several EU countries by Standard and Poor's, including France and Austria, implies that uncertainty over a solution to European debt problems is taking center stage in global financial markets. This uncertainty is compounded by increasing worries over slowing emerging market economies. China, for which Europe is a major export market, is of primary concern. Although a recent easing of Chinese inflation raised hopes of a more supportive monetary policy, it also serves as a reminder that the world's second biggest economy is starting to cool.

Although this weaker global economic outlook may dampen overseas demand for U.S. exports, the national economic recovery appears to have regained some momentum at the end of 2011 thanks to stronger domestic consumption. In particular, improving car sales and a recovery of the auto industry has helped underpin a nascent industrial turnaround. Meanwhile, increasing inventories and new orders of manufacturing goods are pointing to a robust outlook. In addition, consumer sentiment is gradually improving. This, coupled with more positive news from the labor market, helped deliver a relatively strong holiday shopping season and supported solid gains in retail sales. Finally, a slight resumption of credit growth is another positive sign of recovery that points to increasing demand and willingness to spend.

Similar to the nation as a whole, Texas factory activity improved slightly in December, despite manufacturing recovery stalling at the end of 2011. Indeed, the Texas economy, where manufacturing is more dependent on exports, may be starting to feel the impact of the European debt crisis and a stronger dollar. In fact, Texas non-oil exports have been recently growing slower on weaker overseas sales to Mexico and Asia. In addition, global semiconductor sales, already affected by the earthquake in Japan, have recently been hit by floods in Taiwan. This is exerting a toll on factory activity in Dallas and Austin, where the semiconductor industry represents

a significant piece of the metro economies. Meanwhile, the Houston metro continues to buck national and statewide trends, largely thanks to a booming energy industry. Furthermore, low natural gas prices boost the competitiveness of the Houston chemical industry, which provides nearly half of all chemical manufacturing jobs in Texas. Moving forward, we believe the energy sector, chemical industry and foreign trade will continue to add resilience to the Houston metro economy well into the future.

In November, the Texas jobless rate fell to 8.1%. An increasing workforce and a stable labor force participation rate suggests that Texas is creating jobs at a fast enough rate to absorb new workers entering the labor market. Indeed, the Texas private sector has been creating jobs at twice the national rate, with both private goods-producing and service-providing parts of the Texas economy adding new jobs faster than the same sectors nationwide. This points to a broad based labor-market recovery, which is helped but not driven exclusively by the energy sector. This means the Texas labor market is recovering much faster than the nation as a whole – the Lone Star state is just 0.2% short of their precrisis number of jobs. Meanwhile, there are still nearly 5% fewer private sector jobs in the U.S. than four years ago.

Improving employment conditions in mining, construction and manufacturing are a big part of the brighter jobs picture in Texas. Jobs recovery in local construction and manufacturing is in a more advanced stage versus the nation as a whole. In addition, Texas is experiencing a much broader jobs turnaround in its service-providing industries as well. For example, professional and business services, which provide about a fifth of all private sector service jobs in Texas, now employ 0.2% more workers than at the beginning of the recession; nationwide, this sector has regained just 54% of all jobs lost since 2007. A similar situation is observed in the leisure and hospitality sector. Job recovery in finance and trade, transportation and utilities is proceeding along the same lines. All told, Texas labor market trends imply that the regional economy is entering a self-sustaining mode, which should help the state continue to lead the nation in jobs.

December 2011

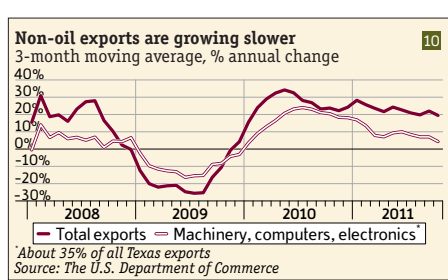
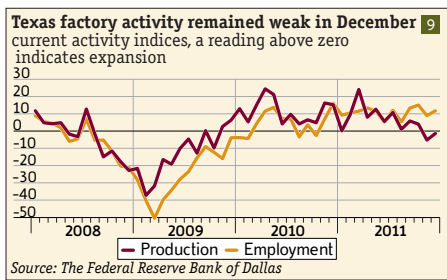
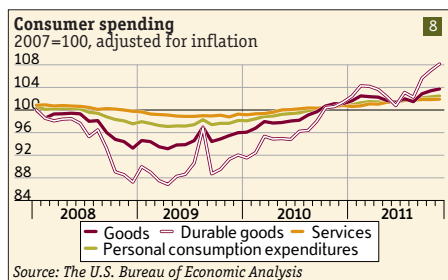
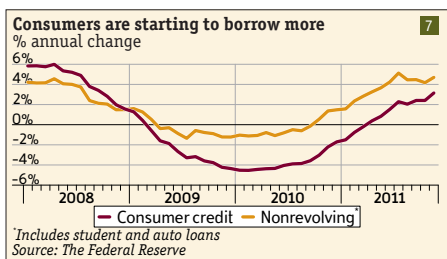
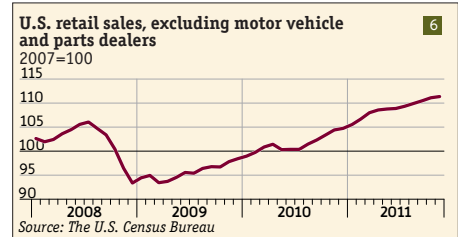
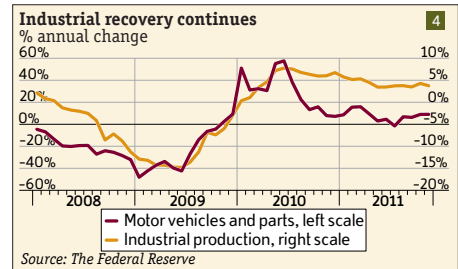
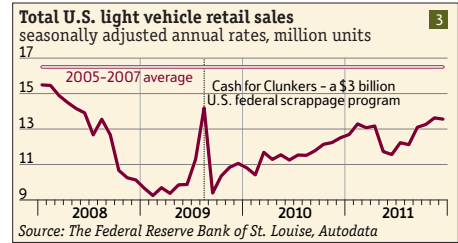
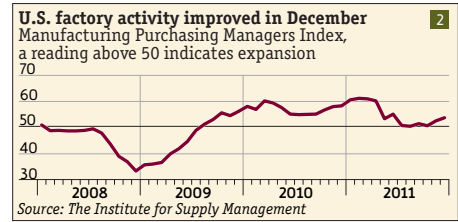
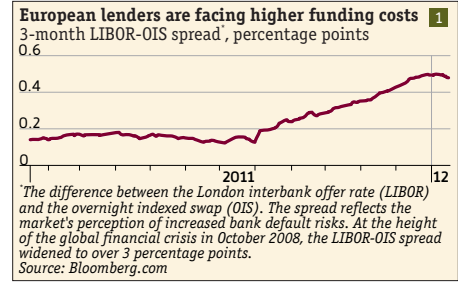
**Economic output**

2011 ended on a somewhat optimistic note thanks to a generous liquidity injection into the European banking system by the ECB and a temporary extension of the payroll-tax cut and unemployment benefits by the U.S. Congress. At the end of December, the European Central Bank provided a total of 489 billion (or roughly 5% of Eurozone GDP) in three-year loans to over 500 banks in a single liquidity operation. This should ease funding pressures on European lenders who are finding it hard and costly to refinance their expiring debts, as private investors worry about banks' solvency (see chart 1).

Eurozone debt problems continue to threaten the overall health of the world economy. Indeed, although global factory activity strengthened in December, it was primarily driven by expansion in the U.S. (see chart 2), while production in the Eurozone, China and Japan remained on a downtrend.<sup>1</sup> Indeed, improving U.S. car sales are helping, although they remain well below pre-crisis levels (see chart 3); and a recovery of the auto industry, following a supply disruption last Spring, is barely sustaining industrial production (see chart 4). Increasing new orders of manufacturing goods, however, are pointing to a robust outlook (see chart 5).

In addition, consumer sentiment is gradually improving – in December, the Conference Board Consumer Confidence Index hit its highest level since April. This, coupled with more positive news from the labor market, helped deliver a stronger holiday shopping season and supported solid gains in retail sales (see chart 6). Resumption in consumer credit growth (see chart 7) is another positive sign of recovery as it points to increasing demand and a greater willingness to spend. Lastly, personal consumption expenditure – a broader measure of consumer demand – remains on an uptrend and is being driven by stronger consumer spending on durable goods (see chart 8).

Similar to the nation as a whole, Texas factory activity improved in December, although the current production index remained in negative territory, implying that the state's manufacturing recovery may have stalled in the last two months of 2011 (see chart 9). Concerns over the impact of the European debt crisis on the world economy and a stronger dollar may be starting to weigh on the Texas economy, where, unlike many other states, manufacturing is dependent on exports to a much greater extent. Indeed, Texas non-oil exports have been growing slower recently (see chart 10) on weaker overseas sales to Mexico and Canada (which account for 36% and 10%, respectively, of all non-oil exports

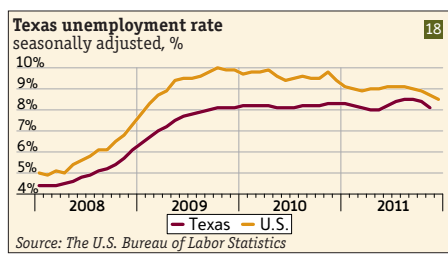
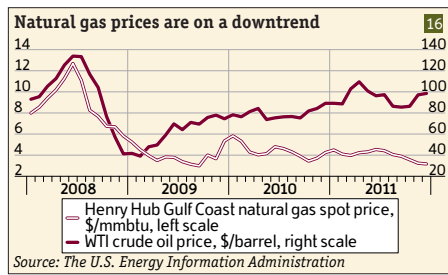
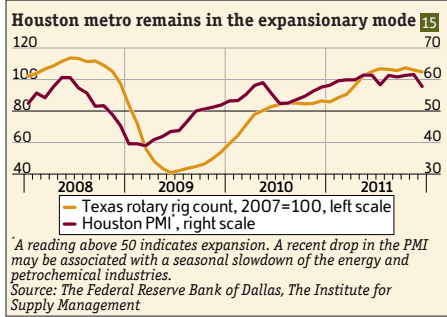
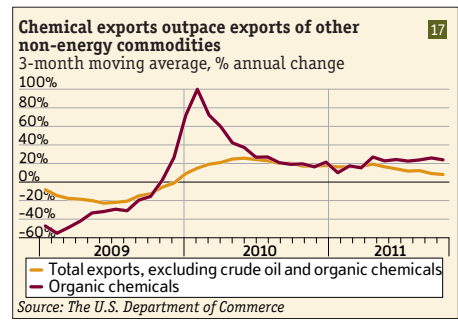
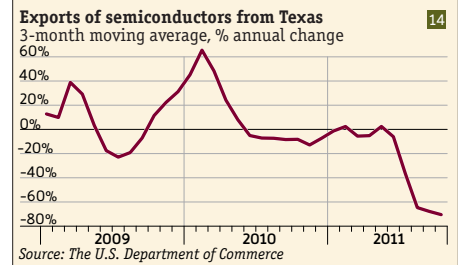
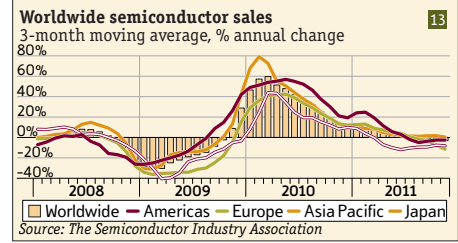


<sup>1</sup>Source: JPMorgan Global Manufacturing PMI

December 2011

from Texas) and Asia, which represents over 20% of all non-oil exports (see chart 11). In particular, slowing industrial activity in Mexico and a weaker Mexican peso appears to be exerting a toll on exports from Texas (see chart 12). In addition, global semiconductor sales, already under pressure from the negative impact of the earthquake in Japan and a slowing global economy, have been hit by the recent floods in Taiwan (see chart 13). As a result, weaker exports of semiconductors from Texas (see chart 14) may be exerting a toll on factory activity in Dallas and Austin, where the semiconductor industry represents a larger share of those metro economies compared to Texas in general and Houston in particular.<sup>2</sup>

The Houston metro continues to buck national as well as statewide trends. The metro manufacturing sector has been expanding for the past 27 months (see chart 15), largely thanks to a booming energy industry. Indeed, last year, the number of active rotary rigs was 27% higher in Texas than in 2010, while in November 2011, Texas well permit applications jumped by 41% versus the same month a year ago. In addition, the large potential for oil and gas drilling at the Eagle Ford Shale Formation, which holds about 25 billion barrels of recoverable oil and gas reserves<sup>3</sup>, should keep Texas energy companies busy for years to come. Meanwhile, the Houston chemical industry is benefiting from falling natural gas prices (see chart 16). The chemical industry in Houston, which provides nearly half of all chemical manufacturing jobs in Texas, plays a much bigger role in the metro economy versus the state as a whole – about 16% of all manufacturing jobs in Houston are in the chemical industry versus just 8.5% statewide. Yet unlike Europe and Asia, whose chemical industries rely mostly on petroleum-based feedstock, U.S. producers of chemicals use mostly natural gas. Thus, more competitive fuel costs are supporting business activity in the local chemical industry – for example, exports of organic chemicals from Texas (the fourth largest export of Texas, accounting for 10% of all non-energy shipments abroad) has recently been increasing much faster compared to the state's exports of other non-energy commodities (see chart 17). Moving forward, we believe the energy sector, chemical industry and foreign trade will continue to add resilience to the Houston metro economy for years to come.



## Employment

A stronger economy is contributing to the relatively strong employment situation in Texas – in November, the state's jobless rate fell to 8.1% (see chart 18). In addition, if nationwide the labor force barely grew over the last year, while the national labor force participation rate fell to the lowest level in a decade, the Texas workforce increased by about 1.4% and the state's labor force participation rate stayed relatively unchanged during the

<sup>2</sup>According to the U.S. Census Bureau, manufacturers of semiconductors and electronic components accounted for just 0.4% of the total jobs in Texas at the end of 2010. However, over 80% of such jobs were located in Austin and Dallas, where semiconductors and electronic components manufacturing provided 1.6% and 0.9% of all jobs, respectively. In comparison, the sector employed just 0.1% of all workers in the greater Houston metro.

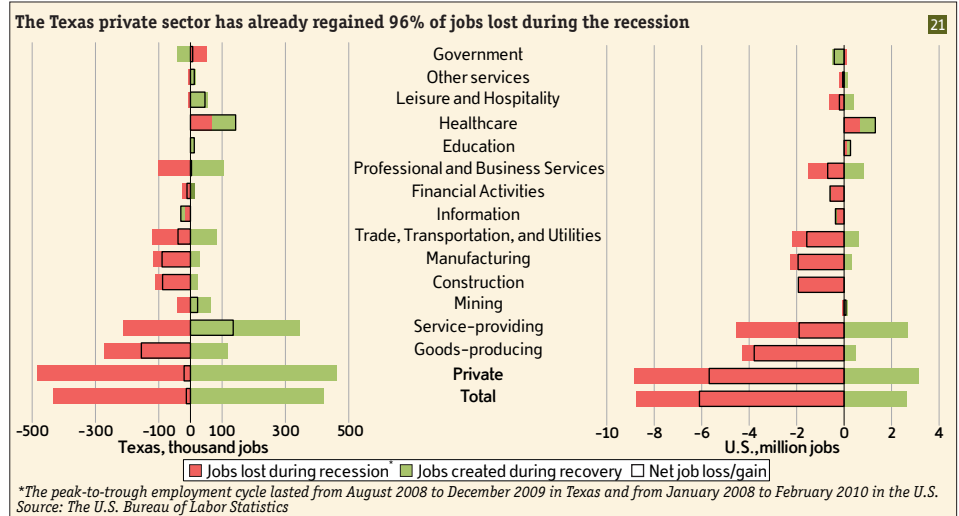
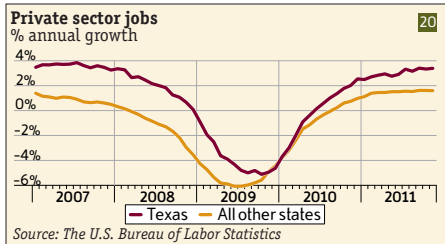
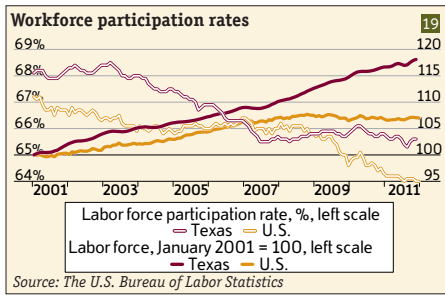
<sup>3</sup>Source: The U.S. Energy Information Administration

Headquarters  
123 N. Post Oak Ln., Suite 410  
Houston, TX 77024 USA  
Tel: +1 (713) 6213111 Fax: +1 (713) 6214666  
Email: sbleyzer@sigmableyzer.com

Where Opportunities Emerge

Copyright © SigmaBleyzer, 2011.  
All rights reserved.

December 2011



recession (see chart 19). This points to healthier labor market conditions in Texas, as the falling jobless rate implies that the state is creating jobs at a rate that is fast enough to absorb new workers entering the labor market.

The Texas private sector has been creating jobs at twice the rate of the nation as whole (see chart 20). In November, Texas had 3.4% more private sector jobs versus a growth of just 1.6% in all other states. Equally important, both private goods-producing and service-providing parts of the Texas economy are adding new jobs faster than the same sectors nationwide. This points to a broad based labor-market recovery, which is helped (but not driven exclusively) by the mining sector. As a result, the Texas labor market is recovering much faster than the nation as a whole – the Lone Star state is about 20,000 private sector jobs (or 0.2%) short of the precrisis employment level. Meanwhile, there are still nearly 6 million fewer private sector jobs (or 5%) in the U.S. compared to the beginning of the recession (see chart 21).

The chart above shows that in November 2010, goods-producing sectors of the Texas economy had just 8.5% fewer jobs than at the start of the economic downturn versus a loss of over 17% of goods-producing jobs nationwide. Stronger employment conditions in Texas mining, construction and manufacturing are supporting this trend. In particular, Texas has about 10% more jobs in mining than at the beginning of the crisis – a growth rate that is roughly on par with the national trend. Meanwhile, job recovery in Texas construction and manufacturing is in a more advanced stage versus the nation as a whole. Thus, manufacturing and construction in Texas have already recovered about 20% and 25%, respectively, of all jobs lost during the 2007 recession (compared to just 0.5% and 14.5% nationwide). As a result, there are only 13% and 9.6% fewer construction and manufacturing jobs in Texas than at the start of the 2007 economic downturn, compared to 26% and 14% fewer jobs in the U.S. in these sectors.

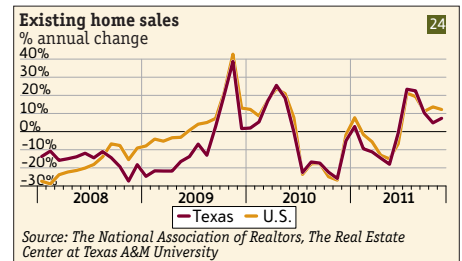
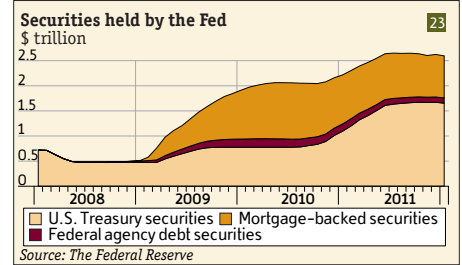
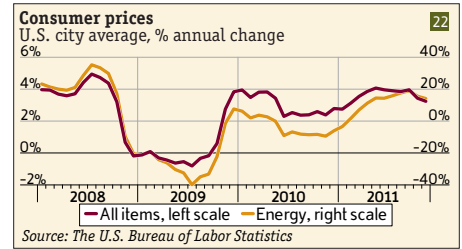
Texas service-providing industries have already regained all jobs and employ 2% more workers than at the peak of the previous business cycle (versus 2% fewer service-providing jobs nationwide). Although education and healthcare continue to drive job creation both in Texas and the U.S., Texas is experiencing a much broader jobs turnaround in its service-providing industries. For example, professional and business services, which provide about a fifth of all private sector service jobs in Texas, now employ 0.2% more workers than at the beginning of recession; nationwide, this sector has regained just 54% of all jobs lost since 2007. A similar situation is observed in the leisure and hospitality industry, which employs 15% of all private sector service-providing workers in Texas. Nationwide, this sector has recovered only two thirds of all recession-hit jobs, while there are nearly 5% more leisure and hospitality jobs in Texas than at the beginning of the crisis. The jobs recovery in finance and trade, transportation and utilities (which employ 9% and 30%, respectively, of all service-providing workers in the Texas private sector) follow a similar pattern. The Texas financial sector has already regained 57% of all recession-hit jobs (versus just 6% nationwide) and the state’s trade, transportation and utilities industries recouped 68% of all jobs lost (versus only 54% nationwide). All told, trends in the Texas labor market testify to continued resilience within the local economy. Indeed, being a large, diverse and export-oriented economy, Texas was less exposed to the housing and credit bubbles and, thus, saw smaller job losses in such occupations as finance, trade and construction. As a result, a gentler jobs and housing downturn, and an earlier start to the recovery, has helped push Texas’ economic rebound into a self-sustaining mode, ensuring bigger and more sustainable job gains. This should help Texas lead the nation in 2012 and beyond.

December 2011

## Monetary Policy and Asset Prices

Thanks to lower energy prices, consumer inflation decelerated to its lowest level since April as prices grew by 3.4% in November (see chart 22). This easing of inflationary pressures allows the Federal Reserve to continue with its accommodative monetary policy. In particular, the Fed security holdings remained more or less stable since the second half of 2011 (see chart 23) following the end of the second round of quantitative easing (QE), during which the Fed bought about \$600 billion of Treasury securities (the first round of QE involved purchases of mortgage based securities). In September 2011, instead of buying more securities, the Federal Reserve decided to extend the maturity of its Treasury holdings by replacing \$400 billion of bonds with a maturity of three years or less with long-dated Treasuries to keep long-term interest rates low.

Indeed, mortgage interest rates remain at record low levels. According to Freddie Mac, the national average rate for a 30-year fixed-rate mortgage stood at 3.99% in November, down from 4.3% a year ago. Low rates as well as more affordable home prices are starting to support a turnaround in the housing market – November saw the fifth straight annual gain of home sales both in Texas and nationwide (see chart 24). In addition, homes are still more affordable in large Texas metros (see chart 25, last column), with both prices and sales moving in the same direction. Falling prices and increasing sales nationwide point to the fact that home sales continue to be driven by properties sold at deep discounts. The National Association of Realtors estimates that such purchases accounted for about 29% of all existing home sales in November. Although increasing home sales help clear the housing market, falling prices are exerting a big toll on homeowners and threaten to push even more properties into the distressed segment of the market. Indeed, the U.S. home market still remains vulnerable to further price corrections - according to CoreLogic, over 22% of all U.S. mortgage holders owe more to the bank than the value of their homes (or roughly the same proportion as a year ago). However, the share of mortgages with negative equity fell to just 9.5% in Texas from 11.2% in the third quarter of 2010, which is another sign of a stronger local economy.

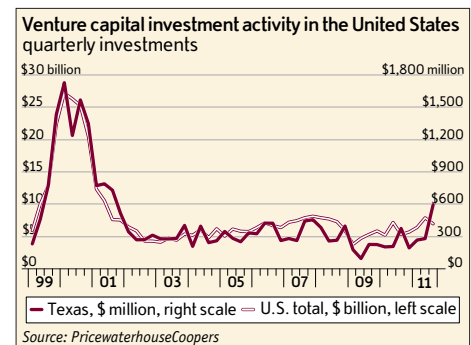
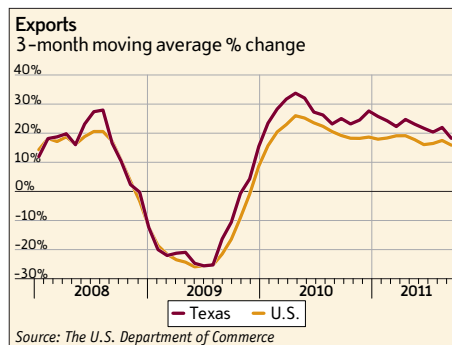
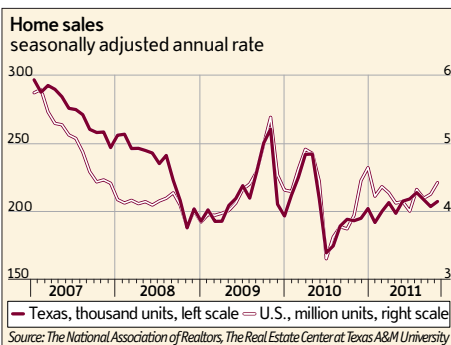
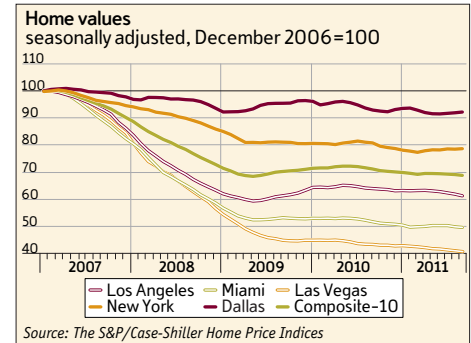
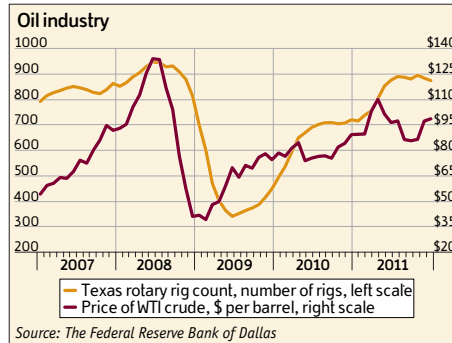
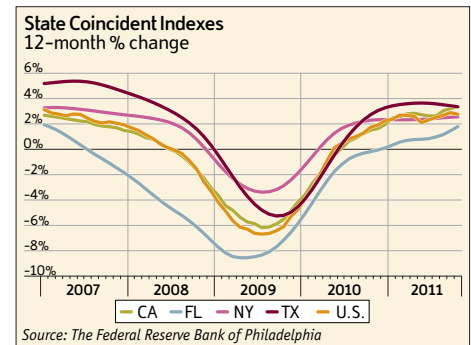
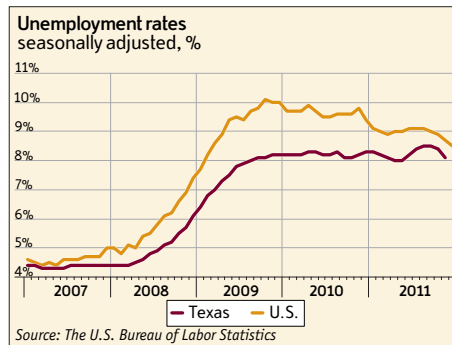
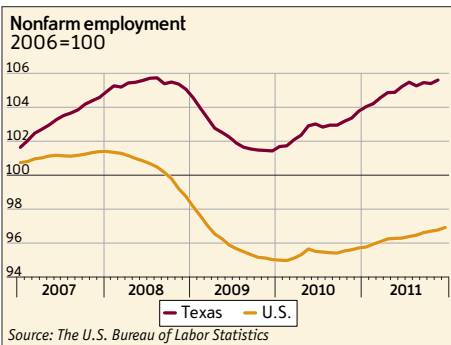
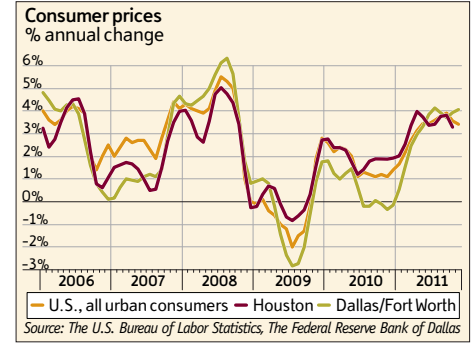
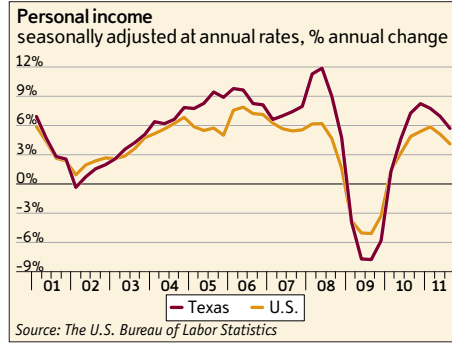
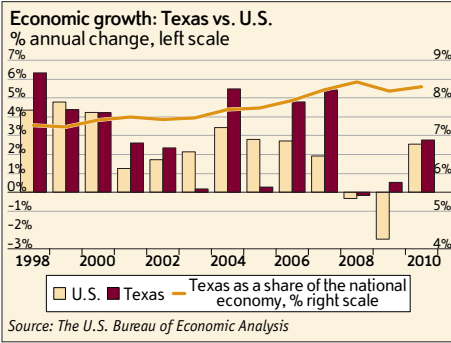


**Home sales and prices in big U.S. metros**  
% annual change, November 2011 vs. November 2010

	Price	Sales	Median price, U.S. average =100	
			Nov 2011	Nov 2010
Atlanta	-16.1%	20.9%	63%	55%
Baltimore	-2.0%	10.4%	140%	143%
Boston	-3.9%	13.8%	205%	206%
Cincinnati	0.7%	13.6%	71%	74%
Dallas-Fort Worth	0.3%	14.4%	83%	87%
Houston	1.0%	12.1%	89%	94%
Indianapolis	-5.6%	12.9%	75%	73%
Kansas City	1.1%	0.1%	77%	81%
Miami-Ft. Lauderdale	-12.9%	5.7%	119%	108%
Minneapolis-St. Paul	-10.5%	19.4%	98%	91%
New Orleans	-8.5%	45.5%	93%	89%
New York	-7.1%	2.8%	230%	222%
Philadelphia	-4.3%	12.2%	125%	125%
Phoenix	-3.1%	8.0%	78%	79%
Portland	-3.9%	22.4%	136%	136%
San Antonio	3.6%	1.5%	84%	91%
San Diego	-7.5%	14.1%	226%	217%
St. Louis	-10.9%	9.9%	74%	68%
Washington, DC	-4.2%	-1.6%	197%	196%
U.S.	-4.0%	11.0%	\$170,900	\$164,100

Source: The National Association of Realtors

December 2011



**Headquarters**  
123 N. Post Oak Ln., Suite 410  
Houston, TX 77024 USA  
Tel: +1 (713) 6213111 Fax: +1 (713) 6214666  
Email: sbleyzer@sigmableyzer.com

*Where Opportunities Emerge*

Copyright © SigmaBleyzer, 2011.  
All rights reserved.