

May 2015

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- **National GDP growth was revised downwards to -0.7% quarter over quarter (qoq).**
- **US exports increased by 1.0% mom for the second consecutive month in April, thanks to increased sales of capital goods.**
- **The decline in Texas exports decelerated from 8.4% qoq in Q4 2014 to 2.8% qoq.**
- **Rainfall had some negative impact on crops in Texas, but yields are expected to be above the average level.**
- **Total nonfarm employment increased at both the national and Texas level in April, while unemployment saw little changes.**
- **National energy prices returned to a decline, slowing down the overall consumer inflation in April.**

Executive Summary

Q1 economic performance of the US was worse than previously estimated, although the situation began to improve gradually in April. The Bureau of Economic analysis revised downwards its estimates for GDP growth in Q1 2015 based on more complete data. Industrial production posted another small decline in April. Mining and utilities, however, saw some improvement in performance. With improvement in the production sector, consumer confidence strengthened in April. After mixed performance in March, the construction sector posted good growth in both monthly and year-over-year terms. US exports continued to expand in April.

Downward revisions of all GDP components led to significant downward revision of overall GDP growth in Q1 2015. The GDP growth estimate decreased by 0.9 percentage points to a 0.7% qoq decline. Gross private domestic investment and foreign trade components sustained the most significant revision. At the same time, estimates for personal and government consumption expenditures saw just minor downward adjustments.

In April, national industrial production posted another small decline. Weaker performance in manufacturing (particularly in machinery production) more than offset the effect of positive developments in mining and utilities. Both mining and utilities posted declines but at a significantly decelerated rate compared to March. On the positive side, industrial production dynamics was still positive in year-over-year terms. Data of the Institute for Supply Management showed improvements in both manufacturing and non-manufacturing sectors, especially relative to the short-term outlook. This means that industrial production may start to recover from monthly declines in the upcoming months.

National consumer confidence improved in April on the back of more optimistic assessments of present business and labor market conditions. The number of respondents claiming that business conditions are bad declined. In addition, respondents in general were more positive about getting a new job. At the same time, consumers still have concerns about the short-term outlook. Therefore, the Conference Board Consumer Confidence Index increased to 95.4.

US construction returned to monthly growth in April, fueled by expansion of non-residential construction in both private and public sectors. Residential construction growth remained subdued, especially in the private sector.

Growth in sales of capital goods abroad ensured continuation of an upwards trend in US exports in April. Total exports increased by 1.0% mom for the second month in a row. The increase was fully attributed to growth in exports of goods. Exports of services remained almost unchanged during the reporting month.

The Texas economy saw further deceleration in growth in April. Manufacturing activity contracted for the second month in a row due to weaker demand. At the same time, the services sector continued to expand over the reporting month. Construction experienced mixed developments. Residential construction increased, while non-residential construction declined, which was reflected by the almost halved value of construction contracts in monthly terms. Recent rainfall had both positive and negative consequences for agriculture in Texas. On the one hand, moisture and pasture conditions significantly improved. On the other hand, rains were a problem for planting crops and damaged some wheat crop in some regions of Texas.

Labor market conditions improved at both the national and Texas level in April. Total US nonfarm employment increased faster than in March, but still slower than on average during the last 12 months. Service-providing industries once again outpaced goods-producing ones in terms of job creation. Mining remained as the industry that saw a decline

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in employment at the national level. Since the number of unemployed did not change significantly in the US during the reporting month, the unemployment rate also remained virtually unchanged. Texas total nonfarm employment returned to growth in April after one month of decline in March. Furthermore, its growth was faster than the national average. Similar to employment dynamics in the US in general, growth was ensured thanks to service-providing industries, while the sharpest decline in employment was registered in mining and logging. The unemployment rate sustained no changes and remained below the national average in Texas.

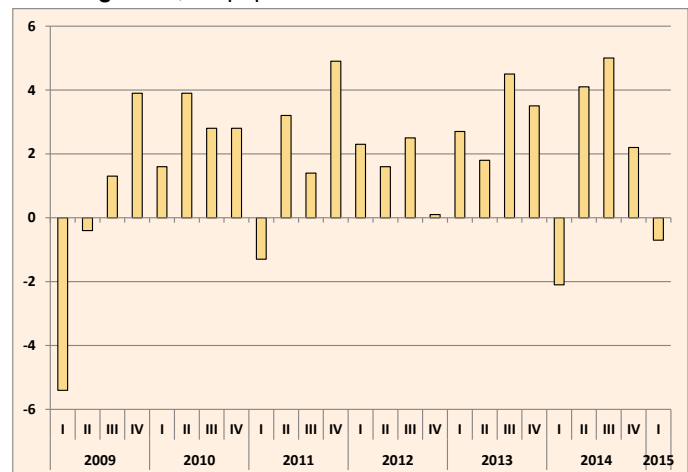
As energy prices returned to decline, total national consumer inflation posted just a minor increase in April. All the energy indexes posted declines except for the electricity index, which remained unchanged in monthly terms. Food prices remained flat in April. As for year-over-year dynamics of consumer prices, it was still heavily influenced by lower world oil prices, which caused a rapid decline in energy indexes. As a result, the all items index inched down by 0.2% yoy. Existing-home sales followed different patterns in the US in general and in Texas in April. National level sales declined, while sales in Texas posted an increase. Housing inventory increased in both the US and Texas, but growth was more pronounced at the national level. Furthermore, the level of unsold inventory in Texas remained significantly lower than the average in the US.

Economic Growth

Revised data showed an even more significant slowdown in economic growth in US in Q1 2015 than was reported previously. The second GDP estimate of the Bureau of Economic Analysis, based on more complete source data, reported a 0.7% qoq decline in GDP in Q1 2015. In other words, GDP growth decelerated by almost 3 percentage points from the level observed in Q4 2014. This was quite a significant revision from the 0.2% qoq increase reported in the advanced estimate and was the result of downwards revisions of growth in all GDP components. The smallest adjustment was observed for personal consumption expenditures at 0.1 percentage points to a 1.8% qoq increase. At the same time, growth of gross private domestic investment was revised downwards to 0.7% qoq from 2.0% qoq. The second GDP estimate showed a 7.6% qoq decline in exports, which is 0.4 percentage points faster compared to advanced estimates. Growth in imports was revised upwards from 1.8% qoq to 5.6% qoq, which also contributed to a decline in GDP. Finally, the decline in government consumption expenditures and gross investment was reported to be 0.2 percentage points faster at 1.1% qoq.

In April, US industrial production posted the same performance as in March. Total industrial production index inched down by 0.3% mom, which is exactly the same as the revised rate for March. Manufacturing posted slightly worse performance compared to the previous month. A small increase in the production of durables fully covered the decline in the output of nondurables. As a result, manufacturing in general posted zero growth compared to the revised increase of 0.3% mom in March. Several durable goods industries grew by more than 1% mom, including manufacturing of motor vehicles and parts and electrical equipment, appliances, and components. At the same time, machinery production fell by 0.9% mom. Nondurable goods industries saw relatively smaller output changes with the largest increase of 0.4% mom in printing and support activity and the sharpest decline of 0.6% mom in the food, beverage, and tobacco industry. Output of both mining and utilities continued to decline in monthly terms but at a decelerated pace in April. In particular, the decline in output of utilities moderated from 5.4% mom in March to 1.3% mom in April. Despite a continued monthly decline, the year-over-year dynamics of the industrial production index remained almost intact in April. The index posted a 1.9% yoy increase, driven by 2.3% yoy growth of manufacturing, which compensated for slower growth in both mining and utilities.

1. GDP growth, % qoq at annual rates



Source: The U.S. Bureau of Economic Analysis

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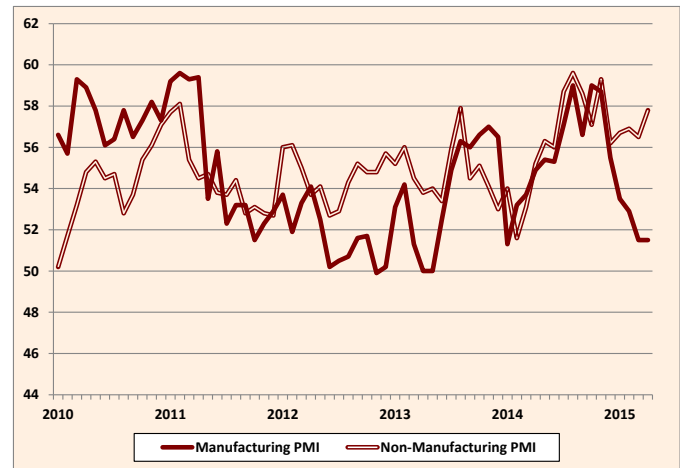
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In April, the Institute for Supply Management (ISM) reported some positive developments in both US manufacturing and non-manufacturing sectors. According to the ISM data, the decline in the PMI index has stopped. The index remained 1.5 percentage points above 50%, meaning that the manufacturing sector posted a marginal increase during the reported month. In particular, 15 out of 18 manufacturing industries reported growth in April. At the same time, the new orders index grew by 1.7 percentage points to 53.5%, promising faster growth of the manufacturing sector in May. The non-manufacturing sector posted even better performance, observing almost identical growth in the NMI index and new orders index (1.3 and 1.4 percentage points respectively). 14 non-manufacturing industries reported growth thanks to improvements in the economic climate and prevailing stability in business conditions.

Consumer confidence also moderately improved at the national level in May. The Conference Board Consumer Confidence Index edged up by 1.1 basis points to 95.4 on the back of improved assessment of current-day conditions. In particular, the share of respondents claiming that business conditions are good remained almost unchanged at 25.2%, while the share of those claiming that business conditions are bad dropped by 1.8 percentage points to 17.4%. Assessment of current-day labor market conditions posted mixed developments, but positive changes still prevailed. The share of those stating jobs are plentiful grew by 1.7 percentage points to 20.7%, while the share of those thinking jobs are hard to get added 1.4 percentage points to 27.3%. At the same time, consumers remain cautious about the short-term outlook.

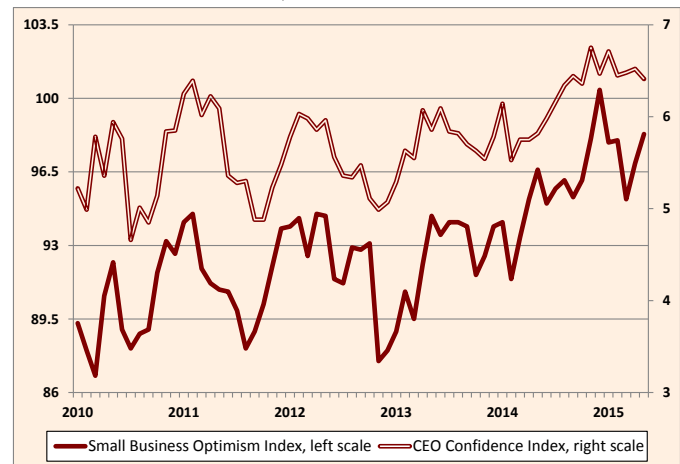
Unlike in March, national construction saw increases in terms of both value of construction works and building permits. Value of construction put in place posted 2.2% mom growth after a decline in March. This growth was ensured by expansion in both residential and nonresidential construction. However, growth in the residential segment of construction was much lower than that in the nonresidential segment (0.6% mom against 3.2% mom, respectively). Construction works grew faster in the public sector than in the private sector. The 3.3% mom increase was the result of identical increases in residential and

2. PMI, indexes



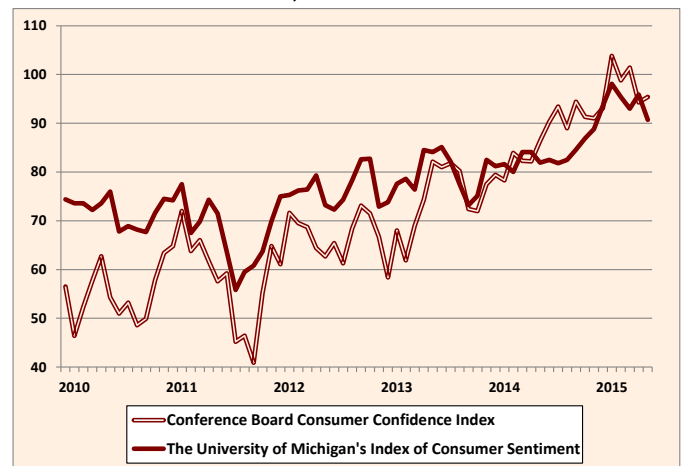
Source: Institute for Supply Management

3. Business confidence, indexes



Source: Chief Executive, National Federation of Independent Business

4. Consumer confidence, indexes



Source: Conference Board, The University of Michigan

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nonresidential construction segments. At the same time, private construction grew by 1.8% mom as residential construction grew five times slower than nonresidential (0.6% mom against 3.1% mom). Thanks to the mentioned monthly developments, the year-over-year growth of construction accelerated by 0.9 percentage points to 4.1% yoy. In particular, growth in the nonresidential segment accelerated to 6.2% yoy, while growth in the residential segment continued to decelerate and reached 0.6% yoy due to sluggish performance in the private sector. Building permits saw increases in both number and valuation in April. However, since the number of building permits for construction of multi-unit houses grew faster than the number of single-unit houses in monthly terms, total valuation of building permits grew a bit slower than the number of permits. In particular, the total number of building permits posted a 14.8% mom increase, while the valuation of those permits grew by 13.7% mom. In year-over-year terms, the situation was the opposite – valuation of building permits grew faster at 11.2%, while the number of permits saw a 5.8% increase.

US exports further increased on the back of capital goods in April. Total exports grew by 1.0% mom for the second consecutive month to USD 189.9 billion. The mentioned growth in total exports was ensured by exports of goods as the increase in exports of services was less than USD 0.1 billion. Capital goods grew by USD 2.1 billion on a Census basis. In particular, an additional USD 1.0 billion of exports were generated thanks to sales of civilian aircraft, growth in sales of telecommunications equipment added USD 0.6 billion, while growth in exports of other industrial machines generated an additional USD 0.3 billion. The net balance of payments adjustments decreased by USD 0.2 billion, meaning that exports of goods in general expanded by USD 1.9 billion to USD 129.0 billion. Exports of services totaled USD 60.9 billion in April.

The Texas economy expanded at a modest pace in April. Demand for manufacturing goods was flat to down in April, which was reflected by the negative reading of the production index constructed by the Dallas Fed to assess Texas manufacturing conditions. Being equal to -4.7, the index posted the second consecutive negative monthly reading. Other measures of current manufacturing activity also reflected continued contraction in April. On the negative side was weakening of future expectations in relation to manufacturing activity. On the positive side was further increase in Texas service sector activity in April. The revenue index posted an almost 4 basis point increase to its highest level this year at 14.6. Improvements were also observed in other important measures of service sector activity. Specifically, respondents were more optimistic regarding future business conditions. The index of future general business activity more than doubled to 6.2. Consumer confidence strengthened in May. In particular, the Conference Board Consumer Confidence Index grew to 130.5, 7.5 basis points more than in April and 3.4 points more than in March. Construction saw mixed developments in April. Construction works in the residential sector increased as the number of building permits posted increases in both single- and multi-family segments (by 6.8% mom and 24.4% mom, respectively). At the same time, non-residential construction posted further decline. The value of construction contracts almost halved to USD 1.3 billion compared to March. In year-over-year terms, the decline is even more significant at 77.7%. The Texas foreign trade situation improved as data for Q1 2015 showed a 2.8% qoq decline in exports. This was, however, an improvement over the 8.4% qoq decline in Q4 2014. At the same time, first-quarter exports were 7.2 lower than a year ago. The largest increase was observed in exports to China (20.2% yoy), while the sharpest decline was observed in exports to Canada (14.9% yoy). Exports to Mexico remained relatively flat. The rig count declined from 492 in March to 422 in April, which is a 52.3% yoy decrease. Recent rainfall across much of the state greatly improved soil moisture and pasture conditions. At the same time, extremely wet field conditions in South Texas prevented some producers from planting crops by the insurance deadline. Heavy storms in North Texas damaged some of the wheat crop. Nevertheless, above-average yields are expected. Cattle producers continued to benefit from historically high prices and strong demand.

Employment

In April, the national labor market saw more pronounced progress in terms of job creation compared to March. Total nonfarm employment expanded much faster, while both the number of unemployed and the unemployment rate remained virtually unchanged. The number of employed rose by 223,000 (or by 0.2% mom) in April, which is almost three times more than in March (revised downwards to 85,000). 81.6% of new jobs were created by service-providing industries in the private sector, while the public sector created 4.5% of total new jobs during the reporting month. The highest contributions to new employment were made by professional and business services

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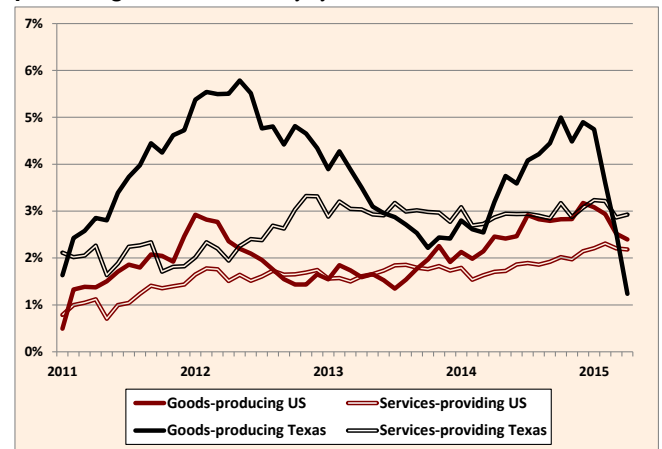
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(62,000), health care, and construction (45,000 each). Employment also increased in transportation and warehousing (15,000) in April. On the other hand, mining observed further decline in employment. In April, the number of employed in the sector fell by 15,000 due to job losses in support activities for mining (10,000) and in oil and gas extraction (3,000). From the beginning of the year, employment in the sector declined by 49,000 with most of the losses concentrated in support activities for mining. Despite some positive monthly changes in employment, its year-over-year growth slightly decelerated, inching down by 0.1 percentage points to 2.2% yoy. The unemployment rate remained essentially unchanged at 5.4% in monthly terms, since the number of unemployed did not change significantly (declined by 0.3% mom to 8.549 billion). In year-over-year terms, the decline in the number of unemployed decelerated by 5.3 percentage points to 12.3% yoy. Compared to the same month last year, the unemployment rate was 0.8 percentage points lower in April 2015.

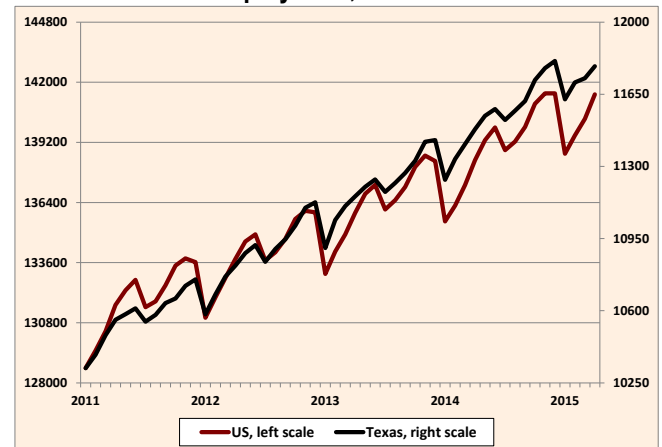
In April, Texas labor market conditions slightly improved compared to March. Employment returned to growth, while unemployment further declined although the decline significantly moderated. New jobs were added in 7 of 11 major industries and in public institutions. Declines were observed in all goods producing industries and in financial activities. The leaders in job creation were the leisure and hospitality industry (6,900 positions), information (3,400), and other services (2,800). The information industry observed the highest monthly gain in employment over the last 14 years. Mining and logging saw the sharpest decline in employment at 8,300 positions or almost three times more than in March. Furthermore, because of monthly declines, mining and logging and manufacturing observed employment drops also in year-over-year terms (by 1,300 and 5,400 positions, or 0.4% yoy and 0.6% yoy respectively). Total nonagricultural employment increased by 287,000 in April. In relative terms, Texas employment posted 2.5% yoy growth, which was still above the national level mentioned above. Seasonally adjusted unemployment declined by less than 1,000 positions during the reporting month, leaving the unemployment rate unchanged at 4.2%. Similarly to the situation with employment growth, the unemployment rate in Texas was also lower than the

5. Jobs growth in private goods-producing and service providing industries, % yoy



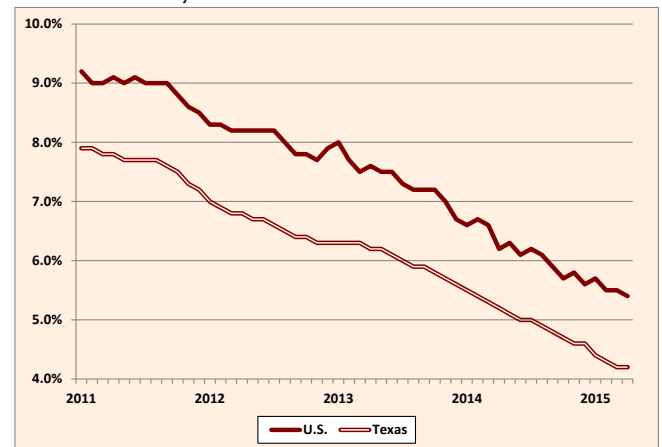
Source: Bureau of Labor Statistics

6. Total nonfarm employment, 000



Source: Bureau of Labor Statistics

7. Jobless rate, %



Source: Bureau of Labor Statistics

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rate at the national level.

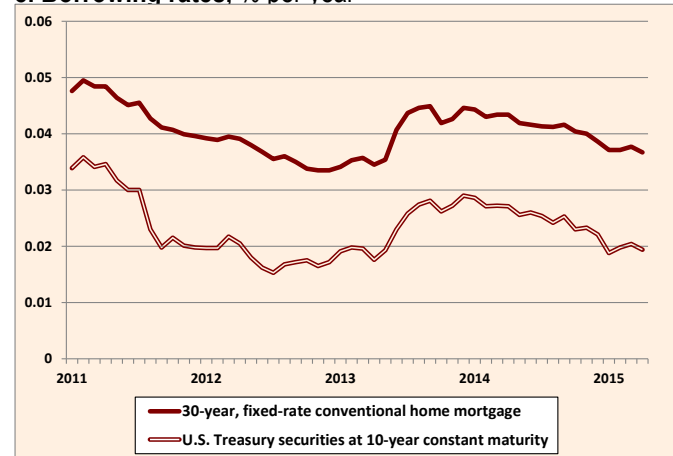
In April, labor market conditions improved in the metropolitan areas in Texas compared to March. A decline in employment was registered in 11 out of 25 metros, while there were 18 such metros in March. 12 metros observed growth in employment with the highest rate of increase in Austin-Round Rock at 0.9% mom. However, there were also metros observing negative developments in employment (for example, Brownsville-Harlingen) or insignificant positive changes (Killeen-Temple, Waco, and Abilene) in monthly terms. As a result, the group of metros observing decline in year-over-year terms expanded from 4 to 8 metros. Situation with unemployment also improved as only one metro (Longview) posted an increase and two other metros (Midland and Odessa) saw no changes in the number of employed. All the other metros saw monthly declines in the number of unemployed. At the same time, Midland and Odessa were the only metros observing an increase in the number of unemployed in year-over-year terms in April. Midland observed the highest year-over-year growth in employment and the lowest unemployment rate among Texas metros.

Monetary Policy and Asset Prices

Consumer inflation remained almost flat in April. According to the Bureau of Labor Statistics, the all items CPI for all urban consumers inched up by 0.1% mom during the reporting month. Deceleration in growth of consumer prices was mainly attributed to the decline in the energy index by 1.3% mom. The decline was the result of lower prices for both energy commodities and energy services. In particular, indexes for gasoline, fuel oil, and natural gas declined (by 1.7% mom, 8.4% mom, and 2.6% mom respectively), while prices of electricity remained unchanged. At the same time, the food index was equal to zero in April, as the decline in the food at home index fully offset growth in the food away from home index. In contrast, the all items less food and energy index posted its largest increase in almost two and a half years at 0.3% mom. Most notable increases were observed in indexes for medical care services (0.9% mom), used cars and trucks (0.6% mom), and shelter (0.3% mom). At the same time, the apparel index posted a 0.3% mom decline in April. In year-over-year terms, consumer prices continued to decline gradually as the all items index inched down by 0.2%. The food and all items less food and energy indexes posted similar growth (2.0% yoy and 1.8% yoy respectively) but sharp decline in the energy index at 19.4% yoy more than offset those increases.

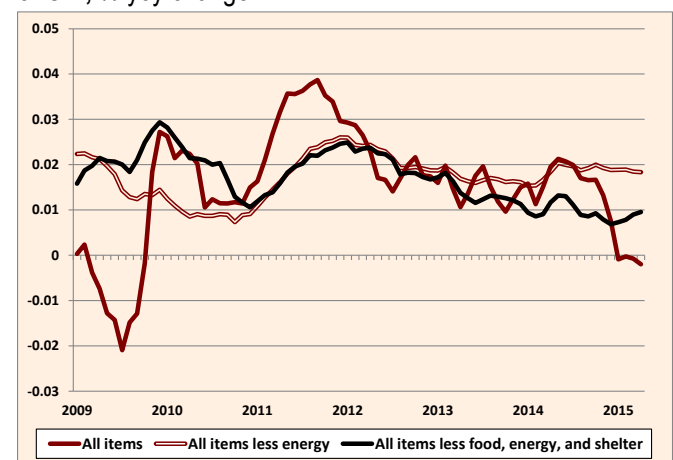
The housing sector experienced mixed developments at the national level, but continued to gradually improve in Texas in April. Total existing-home sales declined by 3.3% mom to the seasonally adjusted annual rate of 5.04 million. This slowed the year-over-year growth in sales to 6.1% from 10.4% observed in March. At the same time, housing inventory continued to grow in April. In

8. Borrowing rates, % per year



Source: Federal Reserve System

9. CPI, % yoy change



Source: Bureau of Labor Statistics

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particular, total housing inventory posted a 10.0% mom to 2.21 million (which is just 0.9% lower than last April). Unsold inventory improved significantly, increasing from 4.6 months of supply at the current sales pace in March to 5.3 months. The median existing-home price continued to increase, reaching USD 219,400 (an 8.9% yoy increase). In contrast to the US in general, existing-home sales in Texas posted increases in both monthly and year-over-year terms in April. At the same time, the annual increase in housing sales was larger at the national level. In particular, actual existing-home sales grew by 3.4% mom in Texas, while the year-over-year growth was equal to just 2.3%. Texas saw a further gradual increase in housing inventory to a 3.3-month supply, which is still significantly below the national average. As for the median existing-home price, it also further increased in Texas in April. However, the growth rate was almost 3.5 times slower than the US average and, naturally, the price remained below the national average as in the previous month.

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