

April 2017

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- According to the advance estimate of the Bureau of Economic Analysis, real GDP expanded by **0.7% quarter-over-quarter in Q1 2017.**
- **National industrial production increased by 0.5% mom in March marking the third consecutive monthly growth.**
- **The Texas economy continued to expand on the back of growth in manufacturing and service sector activities.**
- **The Texas rig count increased again in March reaching 411 which is almost two times higher than a year ago.**
- **There were employment gains at both national and Texas level in March.**
- **Consumer prices declined in monthly terms in March because of a significant decline in energy prices.**

## Executive Summary

The national economy continued to expand but at much slower pace compared to Q4 2016. According to the advance estimate of the Bureau of Economic Analysis, GDP growth slowed from 2.1% qoq in Q4 2016 to 0.7% qoq in Q1 2017.

The US industrial production grew for the third month in a row in March. Return of weather to its usual temperatures increased demand for heating. This, in turn, led to a significant growth in utilities output which became the major driver of industrial production growth. Mining was almost flat, while poor performance of durables production led to a decline in manufacturing output.

Consumer confidence remained strong despite some softening in April. As the Conference Board data shows, consumers were less optimistic about both present situation and future prospects. This led to the decline in the Consumer Confidence Index.

The Texas economy grew in March being driven by good performance of both manufacturing and service sectors. Both sectors reported accelerated growth in the reporting month. Energy sector also contributed to growth. The Texas rig count grew to the level almost two times higher than a year ago in March.

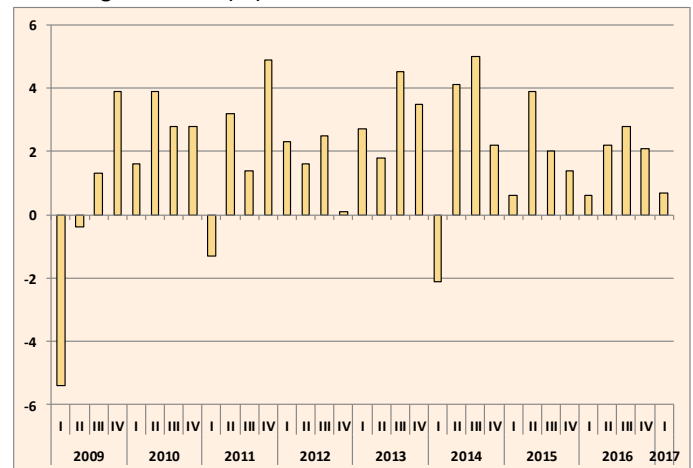
The national labor market conditions continued to improve, while Texas saw mixed developments in its labor market. National employment further moderately expanded and national unemployment declined. At the same time, Texas observed moderate increase in both employment and unemployment.

Consumer prices saw the first monthly decline over the last eight months in March. Energy prices remained as the main driver of consumer price dynamics. Their decline outweighed growth in food prices pushing the all items price index down by 0.3% mom. Both national and Texas housing markets observed growth which, however, was still limited by low inventory.

## Economic Growth

National GDP continued to grow in Q1 2017. The advance estimate of the Bureau of Economic Analysis shows that GDP increased at an annual rate of 0.7% qoq during the period. Nonresidential fixed investments, exports, residential fixed investments, and personal consumption expenditures contributed to GDP growth. However, those contributions were partially offset by declines in private inventory investment, state and local government spending, imports, and federal government spending. The deceleration in real GDP growth in the first quarter from 2.1% qoq observed in Q4 2016 was the result of decelerated growth in

1. GDP growth, % qoq at annual rates



Source: The U.S. Bureau of Economic Analysis

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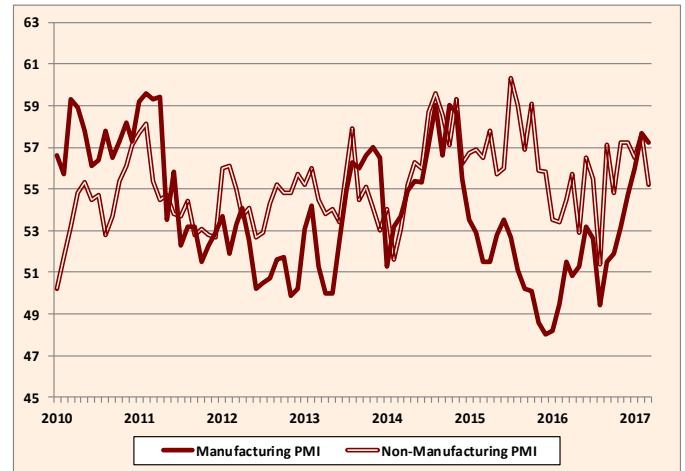
personal consumption expenditures accompanied by downturns in private inventory investment and in state and local government spending. Growth in exports and acceleration in both nonresidential and residential fixed investments were not significant enough to offset the mentioned negative impact.

The national industrial production continued to expand in March and the pace of growth accelerated. Total industrial production grew by 0.5% mom on the back of high growth in output of utilities, while manufacturing output contracted and mining output remained almost flat. The highest in the history of observations 8.6% mom growth in utilities was the result of heating demand returning to its seasonal norms after being suppressed by uncommonly warm weather at the end of winter. Continuing gains in oil and gas extraction, same as in drilling and support activities, more than offset large decrease in coal mining and nonmetallic mineral mining. Thus, total mining output inched up by 0.1% mom. Manufacturing output edged down by 0.4% mom, the first decline since August 2016. Such a sluggish performance was the result of a 0.8% mom decline in production of durables. Only computer and electronic products registered an increase of 1.0% mom in the reporting month. At the same time, production of motor vehicles and parts recorded the largest decline of 3.0% mom. Production of nondurables was the only segment reporting growth which was, however, not significant enough to compensate for declines in production of durables and other manufacturing. From the year-over-year perspective, total industrial output increased by 1.5% which was the result of expansion in all the sectors segments. Utilities posted the fastest growth of 4.6% yoy, while manufacturing reported the lowest growth at 0.8% yoy.

The US manufacturing further expanded but at slightly slower pace in March. The PMI index of the Institute for Supply Management edged down by 0.5 percentage points to 57.2%. It is being above 50% threshold for the seventh month in a row meaning that the sector's economic activity is expanding for seven months. Some important manufacturing activity measures contracted a bit in March which caused some slowing of sector growth. In particular, declines were reported for the new orders, production, inventories, customers' inventories, and imports indexes. Furthermore, both inventories indexes remained below the 50% threshold,

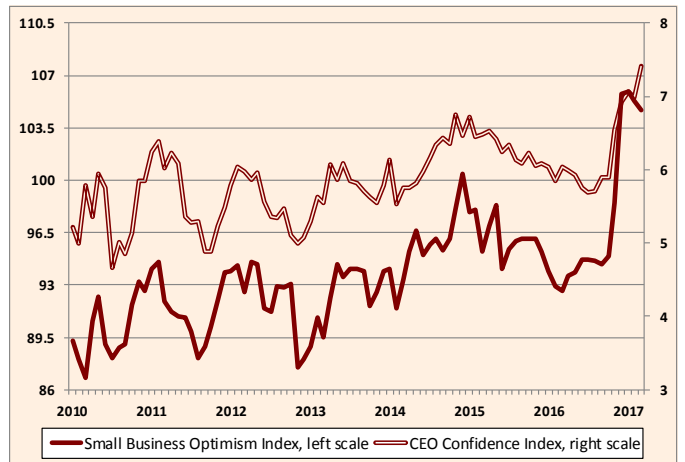
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## 2. PMI, indexes



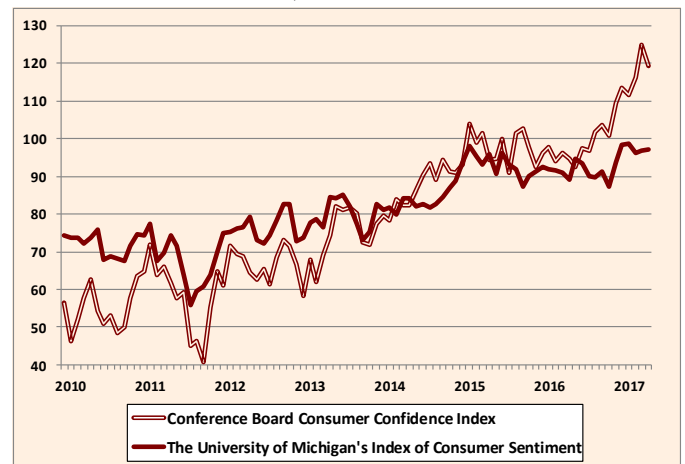
Source: Institute for Supply Management

## 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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meaning that inventories continued to shrink. Of the 18 manufacturing industries, 17 reported growth and 1 reported no change in March compared to February.

Similarly to the manufacturing sector, the US non-manufacturing sector continued to grow at slightly lower rate in March. The NMI index of the Institute for Supply Management dropped 2.4 percentage points to 55.2%. The decline was the result of negative developments in the production, new orders, employment, inventories, prices and backlog of orders indexes. However, despite the mentioned decreases, all the NMI components remained above the 50% threshold but inventories index which declined from 52.0% observed in February to 48.5%. Majority of non-manufacturing industries reported growth in March and only three industries reported contraction. Those were information industry, educational services, and professional scientific and technical services.

After some improvement in March, consumer confidence softened in April but remained at strong levels. The conference Board Consumer Confidence Index dropped 4.6 basis points to 120.3. This decline was the result of negative developments in assessment of both present situation and future prospects. In particular, the present situation index decreased from 143.9 to 140.6, while the expectations index saw a 5.6 basis point decline to 106.7. Consumers' appraisal of both current business conditions and, to a lesser extent, the labor market was less optimistic than in March. Similarly, they were less upbeat about the short-term outlook for business conditions, employment, and income prospects.

The Texas economy further expanded in March driven by solid gains in manufacturing and service sectors. Texas factory activity grew for the ninth consecutive month. Furthermore, growth of the production index by two basis points to 18.6 suggests acceleration of growth in the sector. Developments in other measures of both current manufacturing activity and expectations regarding future business conditions also indicated further improvement.

Texas service sector continued to grow in March but at slower pace. The key measure of the sector condition, the revenue index, rose by 1.1 basis points to 15.2. Similarly, the employment index inched up by 2 basis points to 8.1. At the same time, perceptions of broader economic conditions were slightly less optimistic posting some decline in the reporting month. Expectations regarding

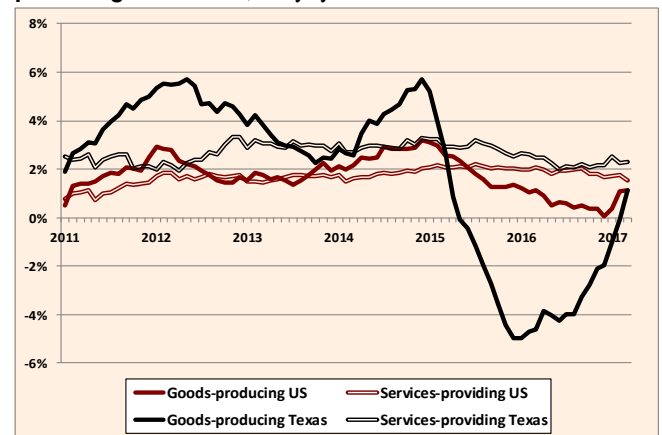
future business conditions also worsened a bit.

Consumer confidence strengthened in Texas same as in the US in general. At the same time, it remained stronger than on average in the whole country and improved faster. The Conference Board Consumer Confidence Index grew by 20.2 basis points to 147.8 from the level observed in February.

Texas exports outpaced the national total in growth in February. Texas exports rose 1.7% mom, while the US exports just 1.4% mom. In over-year terms, the difference is even larger as Texas exports increased by 7.9% and the US exports only by 1.0%.

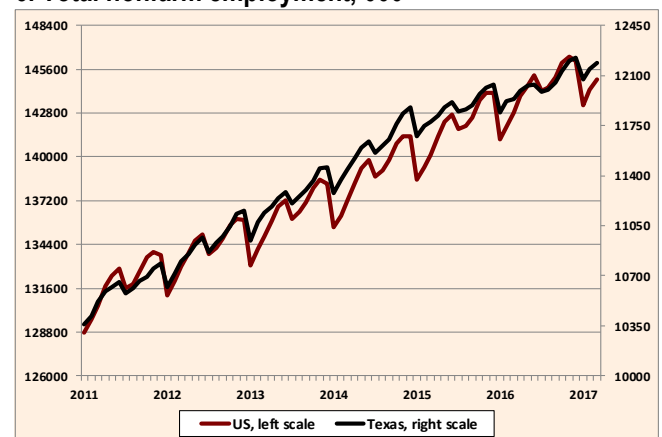
The Texas rig count continued to grow in March. It grew by 5.7% mom to 411. With this increase it almost

### 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

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doubles the March 2016 level of 218.

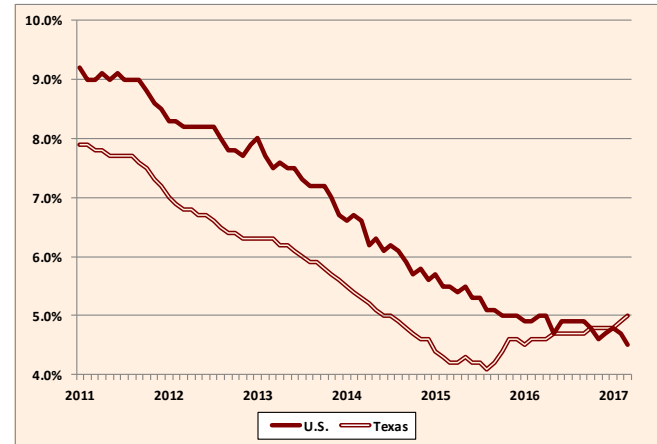
## Employment

The national labor market conditions further improved in March. Employment further expanded, though its growth significantly decelerated as compared to the previous months of the year. Similarly, the unemployment also saw some positive developments. Total nonfarm payroll employment expanded by 79,000 (0.1% mom). Professional and business services sector was the major contributor to employment growth 57,000 (0.2% mom). Significant employment growth was also reported for health care 14,300 (0.1% mom) and mining 10,500 (1.7% mom). Employment gains in financial services and construction were less significant. Retail trade reported the most significant contraction in employment at 27,400 (0.2% mom). Other sectors, including such important ones as manufacturing, wholesale trade, and government, showed little or no change in March. The over-year growth of total nonfarm employment totaled 1.5%. The number of unemployed dropped 326,000 or 4.3% to 7.2 million. As a result, the unemployment level lowered by 0.2 percentage points to 4.5%.

Unlike the national labor market conditions, those in Texas sustained both positive and negative developments in March. The Texas employment continued to expand moderately but the same was true also for unemployment. Total nonfarm employment grew by 12,100 (0.1% mom). Same as in the US in general, professional and business services observed the most significant increase in employment (10,300 or 0.6% mom). Construction and mining followed (5,900 or 0.8% mom and 3,100 or 1.4% mom respectively). At the same time, leisure and hospitality and retail trade observed the most significant contractions in employment (12,500 or 0.9% mom and 3,500 or 0.3% mom respectively). The over-year growth of total nonfarm employment 2.1% which still exceeded the employment growth at the national level. The number of unemployed continued to grow (by 2.3% mom to 677,495) pushing the unemployment rate upwards. Thus, the unemployment level inched up by 0.1 percentage point to 5.0% and continued to exceed the national unemployment rate.

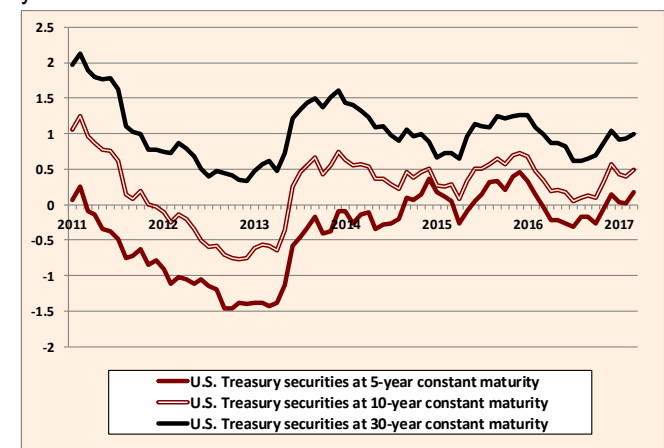
The Texas metros saw some positive changes in the labor market conditions in March. Most of the metros observed moderate increase in employment in monthly terms which, however, had little effect on the over-year dynamics of state's employment. At the same time, the number of metros observing over-year growth in employment was significantly larger than that of metros observing decline in employment. On the other hand, the situation with unemployment did not change much as 21 metros observed increases in the number of unemployed in over-year terms. Amarillo reported the lowest unemployment rate of 3.5%, while McAllen-Edinburg-Mission was still the highest unemployment rate metro (8.5%).

## 7. Jobless rate, %



Source: Bureau of Labor Statistics

## 8. Borrowing rates (quoted on investment basis), % per year inflation indexed



Source: Federal Reserve System

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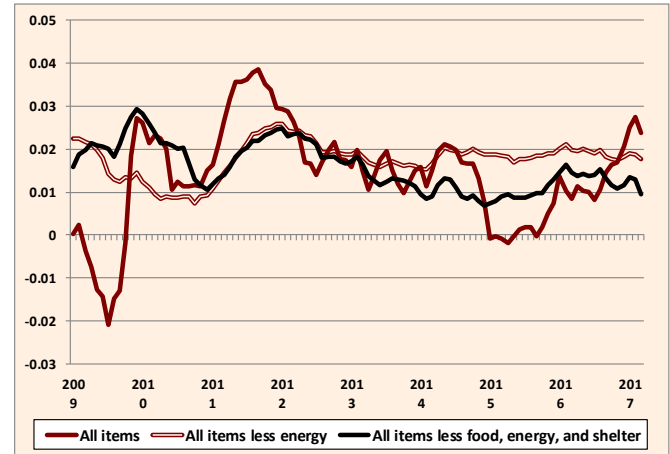
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## Monetary Policy and Asset Prices

In March, consumer prices declined in monthly terms for the first time after seven months of growth. The all items index inched down by 0.3% mom as a 3.2% mom decline in energy index more than compensated for a 0.3% mom growth in food index. The all items less food and energy index remained almost flat. Continued decline in gasoline prices was the major reason for decline in the energy index. The decline in gasoline prices more than doubled compared to February reaching 6.2% mom. Despite some deceleration, the over-year level of consumer inflation remained within the target band of above 2 percent equaling 2.4%. This growth was driven by increases all the major indexes, though growth rates differed significantly among those indexes. The food index posted the lowest growth of 0.5% yoy. All items less food and energy index expanded by 2.0% yoy on the back of growth in prices of services less energy services. Energy prices remained the major factor of the total consumer price growth despite significant deceleration in their growth in March (the energy index growth decreased from 15.2% yoy to 10.9% yoy).

### 9. CPI, % yoy change



Source: Bureau of Labor Statistics

The housing market improved in US in general and in Texas in March. The national housing market expanded again in March. The seasonally adjusted annual rate of existing-home sales totaled 5.71 million. Compared to March of the previous year, existing-home sales increased by 5.9% which is the fastest over-year growth since February 2007. Growth could be even higher, if not for limited supply in the market. The increase in the median existing-home price once again outpaced growth of sales themselves reaching 6.8% yoy to USD 236,400. Although total housing inventory grew by 5.8% mom to 1.83 million existing homes available for sale, it still was 6.6% lower as compared to the inventory in March 2016. As for unsold inventory, it remained unchanged at 3.8-month supply at the current pace of sales. Actual existing-home sales also increased at a significant 7.1% yoy in Texas in March. Their level of 29,382 was the highest since August 2016. Growth of the median existing-home price of 8.9%5 yoy once again was larger in Texas as compared to the national level. At the same time, unsold inventory continued to improve moderately reaching 3.5-month supply at the current sales pace.

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