

- **Houston PMI Rises to Neutral** — The Houston Purchasing Managers Index, a short-term leading indicator of regional production, rose in September for the sixth consecutive month, returning to neutral after 10 months of negative readings that reached as low as 39.0 in March—the record in a series dating to January '95.

The PMI can range between zero and 100. Readings above 50 anticipate expansion in regional production over the next three or four months; readings below 50, contraction. September's reading of exactly 50.0 suggests that regional output at the end of '09 and the beginning of '10 will be about what it was as Q3/09 drew to a close.

All eight components of the Houston PMI registered improvement in September, with Sales and Purchases both returning to positive territory.

The weakest component was Employment, with 23 percent more responding firms reporting reductions than gains over the most recent month. National figures tell us that both manufacturing capacity utilization and labor utilization are at low levels, which means there's plenty of room to ramp up production and increase workers' hours before significant new hiring will be needed.

The nation's return to growth in real Gross Domestic Product in Q3/09 after four consecutive quarters of contraction offers evidence that the beginning of recovery is underway, even though the 3.5 percent clip isn't likely to be sustained in the current quarter or into next year. A rule of thumb holds that GDP growth begins to serve as a stimulus to Houston's economy when it exceeds 3 percent—a point IHS Global Insight doesn't expect to see before Q2/11. Nonetheless, the resumption of growth in GDP tells us that the national economic recovery that's needed for Houston to recover has begun.

- **Employment Continues to Slip** — The 10-county Houston-Sugar Land-Baytown Metropolitan Statistical Area sustained a net loss of 76,700 jobs, or 3.0 percent, from September '08 to September '09, according to the latest estimates from the Texas Workforce Commission. These figures represent an improvement from the revised 12-month net loss of 101,400 jobs, or 3.9 percent, in August.

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The improvement is more apparent than real. In the first eight months of '08, Houston was posting 12-month gains well in excess of 2 percent, although the increases gradually declined from 3.5 percent in January to a plateau of 2.4 percent in June, July and August. In September last year, the severe national recession struck Houston's job market hard, abruptly dropping the 12-month gain to just 1.3 percent. In raw numbers, the 12-month gain was cut from 60,900 jobs in August to 34,100 jobs in September. The magnitude of that August-to-September deterioration (26,800 jobs) very nearly matches this year's August-to-September improvement (24,700 jobs), meaning that what we're seeing now is largely an artifact of what happened *last* year rather than a suddenly less dire outlook for Houston.

How did Hurricane Ike affect the employment figures for last September? The short answer is that it didn't. The payroll employment estimates always pertain to the week containing the 12th day of the month. Ike made landfall on Saturday, September 13, *after* the period to which the data refer. Any "Ike effect" would have had to involve *anticipatory* layoffs for the entire week preceding landfall.

Houston's 3.0 percent over-the-year job loss for September isn't substantially different from the 2.8 percent statewide loss, but it's larger than the losses for the state's other three large metros—2.2 percent in Dallas-Fort Worth-Arlington, 1.1 percent in San Antonio and 0.7 percent in Austin-Round Rock. Houston's greater vulnerability to the impact of this recession reflects, in part, Houston's greater prominence in international trade. Wholesale trade employment shrank 11.5 percent over the year here, and the unpublished residual category within transportation and warehousing that includes warehousing and waterborne shipping declined 16.5 percent—losses, respectively, of 16,100 and 9,200 jobs, or a third of the overall loss.

If we depart from the typical examination of over-the-year change, looking instead at *change since the most recent peak*, we get a more salient picture of how this recession is affecting Houston. (Regrettably, we're constrained to use data that aren't seasonally adjusted.)

Payroll employment for the region peaked in August '08, and since then has fallen 4.9 percent, shedding 110,600 jobs. Individual industries, however, differ in the timing of their most recent peaks and the extent to which they've been affected. Key points:

- Within mining and logging, oil and gas exploration and production employment continues to eke out tiny gains, but oilfield services peaked last December, and has since contracted 12 percent (5,200 jobs). Because these two industries boast average annual pay well above \$100,000, they have a disproportionate impact on other industries that depend heavily on discretionary spending.

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- Construction, durable goods manufacturing and wholesale trade all have the most recent month as their most recent low, meaning they may have farther to fall. Construction peaked in April '08, and has declined 12 percent (24,700 jobs). Durable goods manufacturing peaked last November, and has slipped 10 percent (16,000 jobs). Wholesale trade peaked last December, and now is down 12 percent (16,800 jobs).
- The aggregate in which warehousing and water transportation are prominent peaked in December '07, fell 22 percent (12,600 jobs) by June '09, and since has posted a slight gain.
- Health care and social assistance, which is less susceptible to economic winds than other industries, is the only Houston industry in which the most recent month is the *high* point to date.
- In all other industries, the Houston region has seen job losses smaller than 10 percent since the recent peak. Educational services, which tends to be contra-cyclical, bottomed in July '08, and subsequently has grown 6 percent.

In a worldwide recession characterized by a credit crunch that affects nearly all industries and all regions, Houston's industry mix affords no shelter. Houston is made doubly vulnerable by its prominence in upstream energy and international trade, in both of which local recovery depends on economic gains and increased demand elsewhere. *The good news* is that Houston—unlike some other large metropolitan areas that must figure out how to restructure their economies to cope with new realities—need not reinvent how it does what it does. We know how to do energy. We know how to do trade. When demand revives, Houston's ready.

- **Office and Industrial Markets Weaken** — CBRE's Q3/09 reports on Houston commercial real estate markets show widespread signs of growing softness.

Sanford Criner, CBRE's executive vice president for global corporate services, suggested that office vacancies, which rose to 15.3 percent at the end of the quarter, will continue to rise until Houston regains its latest employment peak—possibly, he says, in the latter half of '11. (The vacancy rate is based solely on the 29.1 million square feet [msf] of direct space available. It doesn't include sublease space available, which has grown from 2.3 msf at the end of '07 to 4.4 msf at the end of Q3/09.) Houston has sustained negative net absorption of 1.7 msf of office space thus far this year, with 5.5 msf of new space to be completed by year-end and 2.5 msf slated for delivery over the coming two years. Quoted rates remain stable—\$24.16 overall and \$31.56 for Class A space—only because landlords are granting concessions to retain tenants.

The industrial market also shows signs of weakening. Vacancies inched upward to 7.2 percent in Q3/09 from 7.1 percent at midyear, but year-to-date net negative

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absorption grew to 667,800 sf even as more than 2.3 msf were completed. Another 2.36 msf remain under construction, but in the face of declining demand and tight credit, new projects are nearly at a standstill. Gross rental rates fell four cents over the quarter, to \$0.48/sf, but effective rates have fallen faster because concessions have grown in an effort to attract and retain tenants.

- **“Cash for Clunkers” Worked** — In the Houston metropolitan area, sales of new cars, trucks and SUVs in September totaled 23,367 units, up 13.1 percent from September '08, according to the latest *TexAuto Facts*, published by InfoNation, Inc. of Sugar Land. Reflecting the shift to more fuel-efficient vehicles intended in the “cash for clunkers” program, which expired in September, sales of new cars were up 24.3 percent, while sales of new trucks and SUVs rose only 4.0 percent. (Trucks and SUVs still accounted for 50.7 percent of unit sales in September. With the exception of June and July '08, when gasoline prices reached extraordinary heights, that's the smallest trucks-and-SUVs share of any month in the past 11 years.)

When we were dealing with Houston data through August, we were comparing an economy in recession this year with one that was still growing last year. In September '08, however, the national recession abruptly arrived in Houston, and several economic indicators—new motor vehicle sales among them—entered steep declines. Rejoicing at the apparently robust gain from September '08 to September '09 should be tempered with the realization that September '08 unit sales were *41 percent below* September '07. On the other hand, September '08 sales were also depressed by Hurricane Ike, which may have pushed sales of a few thousand vehicles into succeeding months.

“In spite of the increased sales in August and September 2009 resulting from the ‘cash for clunkers’ program, third quarter 2009 sales were the lowest in over a decade,” said InfoNation’s Steve McDowell. Even so, the federal incentive program “was a significant boost to local dealers,” he noted, estimating that it produced some 14,000 sales, only a few of which were “borrowed” from this autumn and winter.

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## Houston Economic Indicators

A Service of the Greater Houston Partnership

	Month	MONTHLY DATA			YEAR-TO-DATE TOTAL OR AVERAGE*		
		Most Recent	Year Earlier	% Change	Most Recent	Year Earlier	% Change
<b>ENERGY</b>							
U.S. Active Rotary Rigs	Oct '09	1,050	1,976	-46.9	1,078 *	1,883 *	-42.7
Spot Crude Oil Price (\$/bbl, West Texas Intermediate)	Sep '09	68.79	104.62	-34.3	57.22 *	113.96 *	-49.8
Spot Natural Gas (\$/MMBtu, Henry Hub)	Sep '09	2.90	7.66	-62.1	3.76 *	9.65 *	-61.0
<b>UTILITIES AND PRODUCTION</b>							
Houston Purchasing Managers Index	Sep '09	50.0	51.5	-2.9	42.8 *	56.2 *	-23.8
Nonresidential Electric Current Sales (Mwh, CNP Service Area)	Sep '09	4,650,271	4,732,535	-1.7	37,601,938	39,393,604	-4.5
<b>CONSTRUCTION</b>							
<b>Total Building Contracts (\$, Houston MSA)</b>	<b>Sep '09</b>	<b>620,928,000</b>	<b>1,226,236,000</b>	<b>-49.4</b>	<b>6,464,783,000</b>	<b>11,303,655,000</b>	<b>-42.8</b>
Nonresidential	Sep '09	335,157,000	858,910,000	-61.0	2,921,651,000	5,865,652,000	-50.2
Residential	Sep '09	285,771,000	367,326,000	-22.2	3,543,132,000	5,438,003,000	-34.8
<b>Building Permits (\$, City of Houston)</b>	<b>Aug '09</b>	<b>256,430,568</b>	<b>284,812,478</b>	<b>-10.0</b>	<b>2,697,789,812</b>	<b>4,067,869,611</b>	<b>-33.7</b>
New Nonresidential	Aug '09	125,531,210	103,707,528	21.0	905,481,547	1,538,020,367	-41.1
Nonresidential Additions/Alterations/Conversions	Aug '09	68,309,559	90,576,431	-24.6	1,179,631,242	1,300,279,617	-9.3
New Residential	Aug '09	48,971,615	74,959,338	-34.7	451,062,757	1,051,304,558	-57.1
Residential Additions/Alterations/Conversions	Aug '09	13,618,184	15,569,181	-12.5	161,614,266	178,265,069	-9.3
<b>Multiple Listing Service (MLS) Activity</b>							
Closings	Sep '09	5,654	4,336	30.4	47,258	55,171	-14.3
Median Sales Price - SF Detached	Sep '09	156,200	155,920	0.2	151,516 *	153,749 *	-1.5
Active Listings	Sep '09	45,520	50,155	-9.2	45,486 *	52,359 *	-13.1
<b>EMPLOYMENT (Houston-Sugar Land-Baytown MSA)</b>							
<b>Nonfarm Payroll Employment</b>	<b>Sep '09</b>	<b>2,516,600</b>	<b>2,593,300</b>	<b>-3.0</b>	<b>2,546,000 *</b>	<b>2,597,000 *</b>	<b>-2.0</b>
Goods Producing (Natural Resources/Mining/Const/Mfg)	Sep '09	499,600	536,800	-6.9	513,300 *	534,400 *	-3.9
Service Providing	Sep '09	2,017,000	2,056,500	-1.9	2,032,700 *	2,062,600 *	-1.4
<b>Unemployment Rate (%) - Not Seasonally Adjusted</b>							
Houston-Sugar Land-Baytown MSA	Sep '09	8.5	5.1		7.3 *	4.6 *	
Texas	Sep '09	8.3	5.1		7.3 *	4.7 *	
U.S.	Sep '09	9.5	6.0		9.2 *	5.5 *	
<b>Unemployment Insurance Claims (Gulf Coast WDA)</b>							
Initial Claims	Sep '09	24,720	55,659	-55.6	26,306 *	18,687 *	40.8
Continuing Claims	Sep '09	138,267	86,554	59.7	132,890 *	72,482 *	83.3
<b>TRANSPORTATION</b>							
<b>Port of Houston Authority Shipments (Short Tons)</b>	<b>Sep '09</b>	<b>2,967,029</b>	<b>2,875,680</b>	<b>3.2</b>	<b>27,265,437</b>	<b>32,054,620</b>	<b>-14.9</b>
<b>Air Passengers (Houston Airport System)</b>	<b>Sep '09</b>	<b>3,619,815</b>	<b>3,045,785</b>	<b>18.8</b>	<b>36,406,619</b>	<b>38,662,043</b>	<b>-5.8</b>
Domestic Passengers	Sep '09	3,100,374	2,605,476	19.0	30,483,228	32,480,703	-6.1
International Passengers	Sep '09	519,441	440,309	18.0	5,923,391	6,181,340	-4.2
<b>Landings and Takeoffs</b>	<b>Sep '09</b>	<b>67,137</b>	<b>69,514</b>	<b>-3.4</b>	<b>663,537</b>	<b>711,935</b>	<b>-6.8</b>
<b>Air Freight (000 lb)</b>	<b>Sep '09</b>	<b>63,229</b>	<b>59,968</b>	<b>5.4</b>	<b>557,129</b>	<b>630,985</b>	<b>-11.7</b>
Enplaned	Sep '09	32,221	29,945	7.6	296,107	331,111	-10.6
Deplaned	Sep '09	31,008	30,023	3.3	261,022	299,874	-13.0
<b>CONSUMERS</b>							
<b>New Car and Truck Sales (Units, Houston MSA)</b>	<b>Sep '09</b>	<b>23,367</b>	<b>20,656</b>	<b>13.1</b>	<b>169,791</b>	<b>246,301</b>	<b>-31.1</b>
Cars	Sep '09	11,512	9,261	24.3	77,806	113,870	-31.7
Trucks, SUVs and Commercial	Sep '09	11,855	11,395	4.0	91,985	132,431	-30.5
<b>Total Retail Sales (\$000,000, Houston MSA, NAICS Basis)</b>	<b>1Q09</b>	<b>17,253</b>	<b>19,077</b>	<b>-9.6</b>	<b>17,253</b>	<b>19,077</b>	<b>-9.6</b>
<b>Consumer Price Index for All Urban Consumers ('82-'84=100)</b>							
Houston-Galveston-Brazoria CMSA	Sep '09	191.687	192.723	-0.5	190.061 *	190.263 *	-0.1
United States	Sep '09	215.969	218.783	-1.3	213.999 *	216.045 *	-0.9
<b>Hotel Performance (Harris County)</b>							
Occupancy (%)	Aug '09	54.1	62.7		62.1 *	69.5 *	
Average Room Rate (\$)	Aug '09	112.47	119.99	-6.3	123.94 *	132.77 *	-6.7
Revenue Per Available Room (\$)	Aug '09	60.85	75.23	-19.1	76.98 *	92.30 *	-16.6
<b>POSTINGS AND FORECLOSURES</b>							
Postings (Harris County)	Oct '09	4,198	2,790	50.5	33,245	27,634	20.3
Foreclosures (Harris County)	Oct '09	1,068	622	71.7	9,020	10,460	-13.8

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### Sources

Rig Count	Baker Hughes Incorporated	Port Shipments	Port of Houston Authority
Spot WTI, Spot Natural Gas	U.S. Energy Information Agency	Aviation	Aviation Department, City of Houston
Houston Purchasing Managers Index	National Association of Purchasing Management – Houston, Inc.	Car and Truck Sales	<i>TexAuto Facts Report</i> , InfoNation, Inc., Sugar Land TX
Electricity	CenterPoint Energy	Retail Sales	Texas Comptroller's Office
Building Construction Contracts	McGraw-Hill Construction	Consumer Price Index	U.S. Bureau of Labor Statistics
City of Houston Building Permits	Building Permit Department, City of Houston	Hotels	PKF Consulting/Hospitality Asset Advisors International
MLS Data	Houston Association of Realtors®	Postings, Foreclosures	Foreclosure Information & Listing Service
Employment, Unemployment	Texas Workforce Commission		

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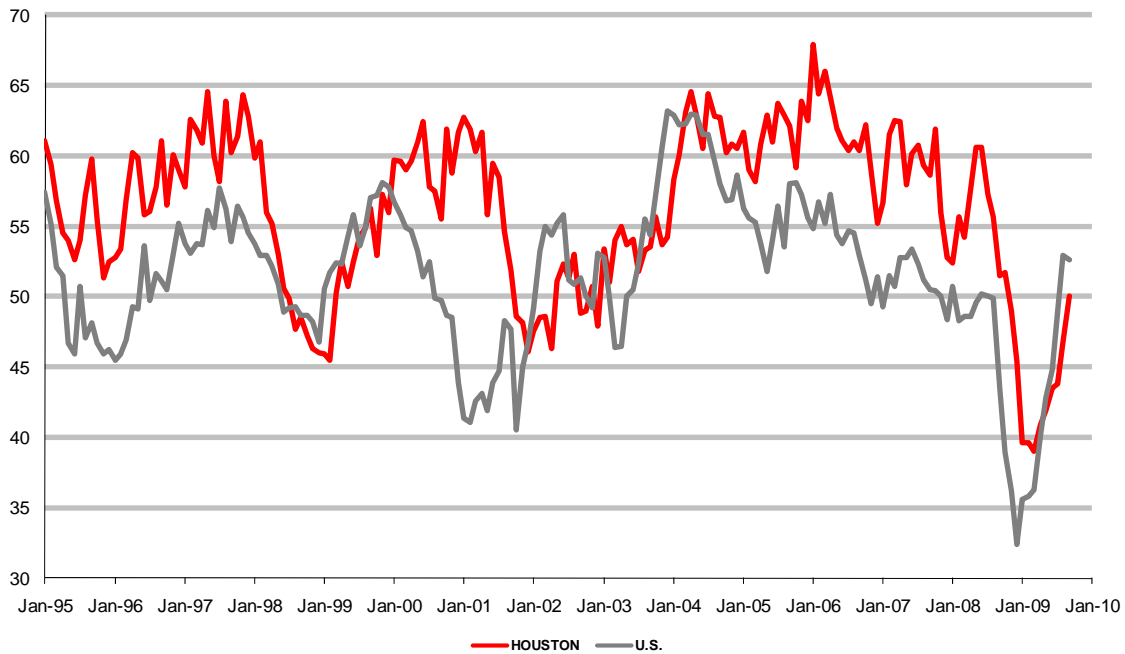
## HOUSTON MSA NONFARM PAYROLL EMPLOYMENT (000)

	Sep '09	Aug '09	Sep '08	Change from		% Change from	
				Aug '09	Sep '08	Aug '09	Sep '08
<b>Total Nonfarm Payroll Jobs</b>	<b>2,516.6</b>	<b>2,510.4</b>	<b>2,593.3</b>	<b>6.2</b>	<b>-76.7</b>	<b>0.2</b>	<b>-3.0</b>
<b>Total Private</b>	<b>2,155.8</b>	<b>2,168.2</b>	<b>2,233.7</b>	<b>-12.4</b>	<b>-77.9</b>	<b>-0.6</b>	<b>-3.5</b>
<b>Goods Producing</b>	<b>499.6</b>	<b>500.6</b>	<b>536.8</b>	<b>-1.0</b>	<b>-37.2</b>	<b>-0.2</b>	<b>-6.9</b>
<b>Service Providing</b>	<b>2,017.0</b>	<b>2,009.8</b>	<b>2,056.5</b>	<b>7.2</b>	<b>-39.5</b>	<b>0.4</b>	<b>-1.9</b>
<b>Private Service Providing</b>	<b>1,656.2</b>	<b>1,667.6</b>	<b>1,696.9</b>	<b>-11.4</b>	<b>-40.7</b>	<b>-0.7</b>	<b>-2.4</b>
<b>Mining and Logging</b>	<b>90.1</b>	<b>90.0</b>	<b>91.7</b>	<b>0.1</b>	<b>-1.6</b>	<b>0.1</b>	<b>-1.7</b>
Oil & Gas Extraction	49.7	49.8	47.3	-0.1	2.4	-0.2	5.1
Support Activities for Mining	39.1	39.1	43.3	0.0	-4.2	0.0	-9.7
<b>Construction</b>	<b>183.4</b>	<b>183.6</b>	<b>202.8</b>	<b>-0.2</b>	<b>-19.4</b>	<b>-0.1</b>	<b>-9.6</b>
<b>Manufacturing</b>	<b>226.1</b>	<b>227.0</b>	<b>242.3</b>	<b>-0.9</b>	<b>-16.2</b>	<b>-0.4</b>	<b>-6.7</b>
Durable Goods Manufacturing	144.4	145.8	159.2	-1.4	-14.8	-1.0	-9.3
Nondurable Goods Manufacturing	81.7	81.2	83.1	0.5	-1.4	0.6	-1.7
<b>Wholesale Trade</b>	<b>123.7</b>	<b>125.8</b>	<b>139.8</b>	<b>-2.1</b>	<b>-16.1</b>	<b>-1.7</b>	<b>-11.5</b>
<b>Retail Trade</b>	<b>257.0</b>	<b>259.1</b>	<b>263.4</b>	<b>-2.1</b>	<b>-6.4</b>	<b>-0.8</b>	<b>-2.4</b>
<b>Transportation, Warehousing and Utilities</b>	<b>117.5</b>	<b>119.2</b>	<b>127.0</b>	<b>-1.7</b>	<b>-9.5</b>	<b>-1.4</b>	<b>-7.5</b>
Utilities	15.8	16.1	16.0	-0.3	-0.2	-1.9	-1.3
Air Transportation	25.8	25.9	25.8	-0.1	0.0	-0.4	0.0
Truck Transportation	20.7	20.8	20.8	-0.1	-0.1	-0.5	-0.5
Pipeline Transportation	8.6	8.6	8.6	0.0	0.0	0.0	0.0
TWU Balance	46.6	47.8	55.8	-1.2	-9.2	-2.5	-16.5
<b>Information</b>	<b>34.4</b>	<b>34.5</b>	<b>35.9</b>	<b>-0.1</b>	<b>-1.5</b>	<b>-0.3</b>	<b>-4.2</b>
Telecommunications	18.0	18.0	18.5	0.0	-0.5	0.0	-2.7
<b>Finance &amp; Insurance</b>	<b>88.6</b>	<b>88.4</b>	<b>90.2</b>	<b>0.2</b>	<b>-1.6</b>	<b>0.2</b>	<b>-1.8</b>
<b>Real Estate &amp; Rental and Leasing</b>	<b>53.2</b>	<b>53.3</b>	<b>52.9</b>	<b>-0.1</b>	<b>0.3</b>	<b>-0.2</b>	<b>0.6</b>
<b>Professional &amp; Business Services</b>	<b>365.0</b>	<b>367.0</b>	<b>380.5</b>	<b>-2.0</b>	<b>-15.5</b>	<b>-0.5</b>	<b>-4.1</b>
Professional, Scientific & Technical Services	178.2	178.6	183.9	-0.4	-5.7	-0.2	-3.1
Legal Services	23.7	23.9	23.5	-0.2	0.2	-0.8	0.9
Accounting, Tax Preparation, Bookkeeping	17.0	16.9	17.2	0.1	-0.2	0.6	-1.2
Architectural, Engineering & Related Services	61.2	61.5	66.4	-0.3	-5.2	-0.5	-7.8
Computer Systems Design & Related Services	26.0	25.9	25.1	0.1	0.9	0.4	3.6
Admin & Support/Waste Mgt & Remediation	176.8	179.1	178.7	-2.3	-1.9	-1.3	-1.1
Administrative & Support Services	167.9	170.0	169.8	-2.1	-1.9	-1.2	-1.1
Employment Services	63.9	65.8	66.9	-1.9	-3.0	-2.9	-4.5
<b>Educational Services</b>	<b>41.9</b>	<b>41.1</b>	<b>40.7</b>	<b>0.8</b>	<b>1.2</b>	<b>1.9</b>	<b>2.9</b>
<b>Health Care &amp; Social Assistance</b>	<b>252.4</b>	<b>252.1</b>	<b>246.5</b>	<b>0.3</b>	<b>5.9</b>	<b>0.1</b>	<b>2.4</b>
<b>Arts, Entertainment &amp; Recreation</b>	<b>27.9</b>	<b>29.9</b>	<b>26.5</b>	<b>-2.0</b>	<b>1.4</b>	<b>-6.7</b>	<b>5.3</b>
<b>Accommodation &amp; Food Services</b>	<b>205.7</b>	<b>207.9</b>	<b>202.8</b>	<b>-2.2</b>	<b>2.9</b>	<b>-1.1</b>	<b>1.4</b>
<b>Other Services</b>	<b>88.9</b>	<b>89.3</b>	<b>90.7</b>	<b>-0.4</b>	<b>-1.8</b>	<b>-0.4</b>	<b>-2.0</b>
<b>Government</b>	<b>360.8</b>	<b>342.2</b>	<b>359.6</b>	<b>18.6</b>	<b>1.2</b>	<b>5.4</b>	<b>0.3</b>
Federal Government	29.0	29.1	29.1	-0.1	-0.1	-0.3	-0.3
State Government	72.1	70.2	71.6	1.9	0.5	2.7	0.7
State Government Educational Services	39.8	38.7	38.6	1.1	1.2	2.8	3.1
Local Government	259.7	242.9	258.9	16.8	0.8	6.9	0.3
Local Government Educational Services	173.7	159.2	176.5	14.5	-2.8	9.1	-1.6

SOURCE: Texas Workforce Commission

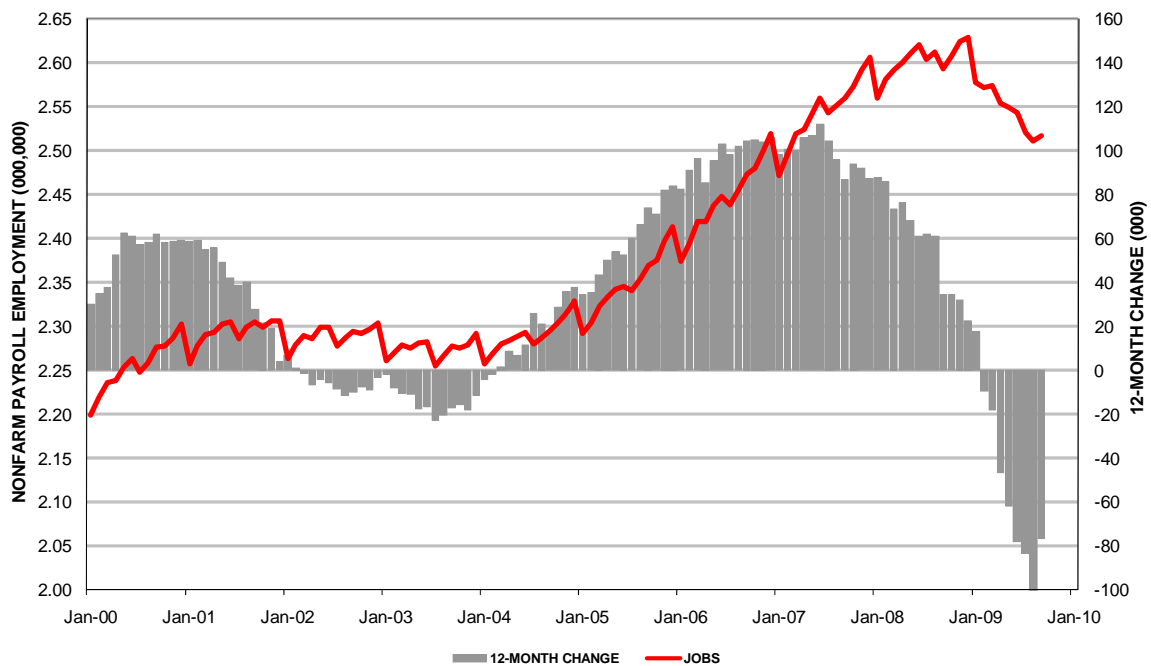
# HOUSTON—THE ECONOMY AT A GLANCE

## PURCHASING MANAGERS INDEX HOUSTON & U.S. 1995-2010



Sources: Institute for Supply Management; National Association of Purchasing Management-Houston  
 Note: Houston and U.S. indexes are conceptually similar but not identical.

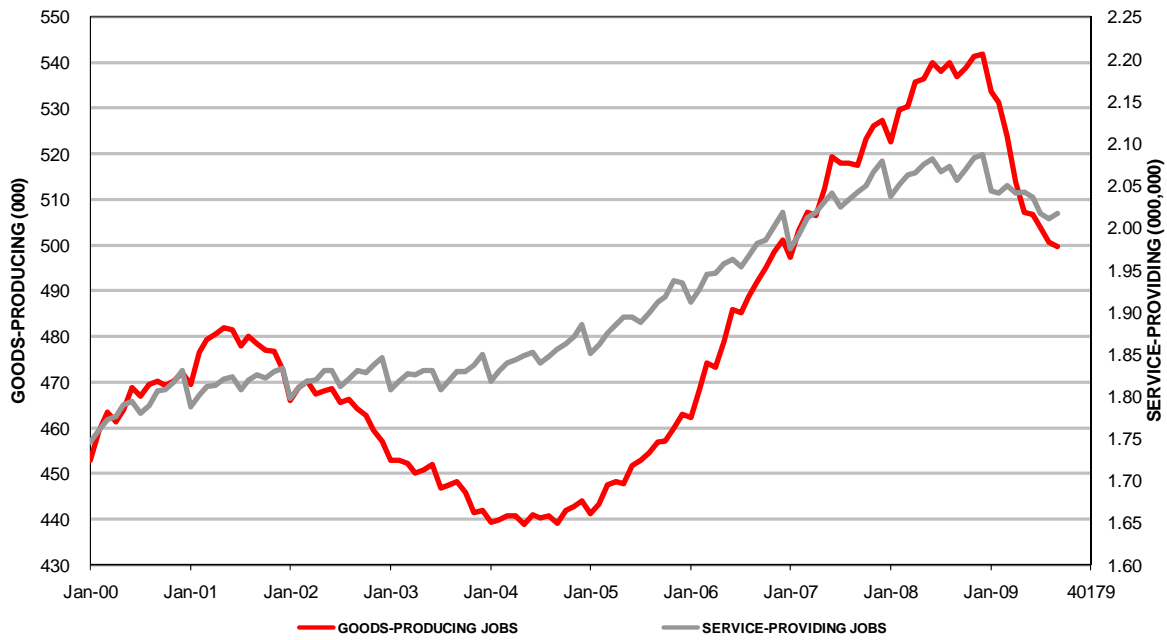
## HOUSTON MSA EMPLOYMENT 2000-2010



Source: Texas Workforce Commission

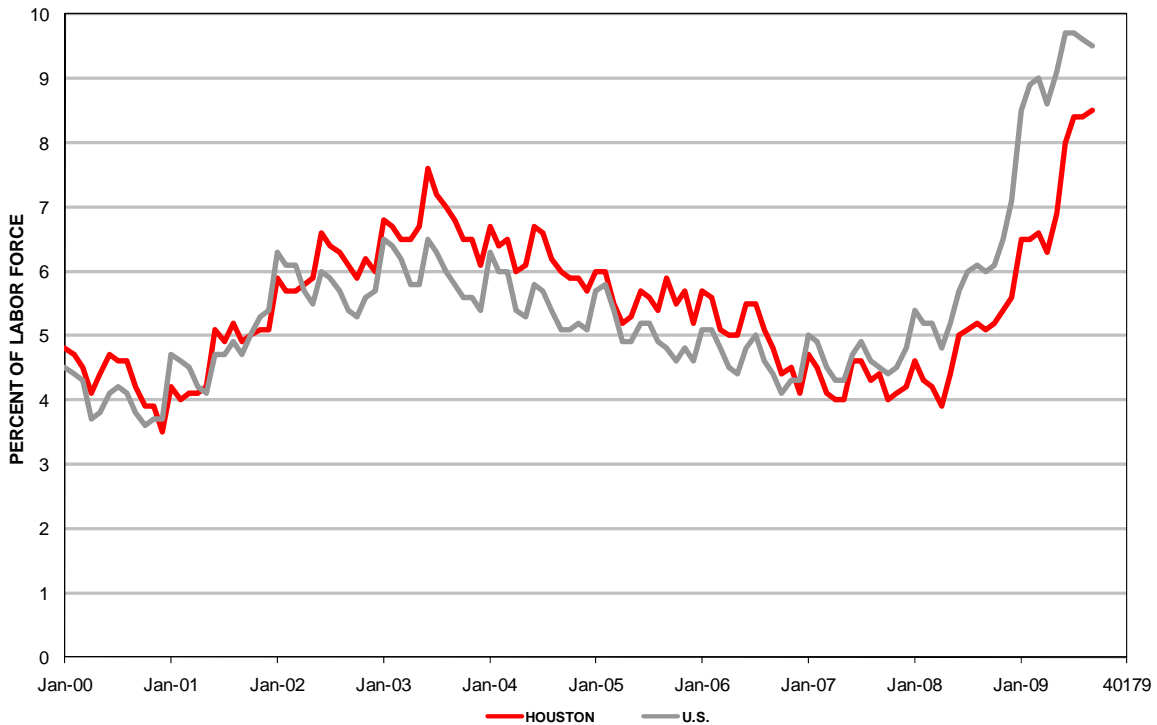
# HOUSTON—THE ECONOMY AT A GLANCE

## GOODS-PRODUCING AND SERVICE-PROVIDING EMPLOYMENT HOUSTON MSA 2000-2010



Source: Texas Workforce Commission

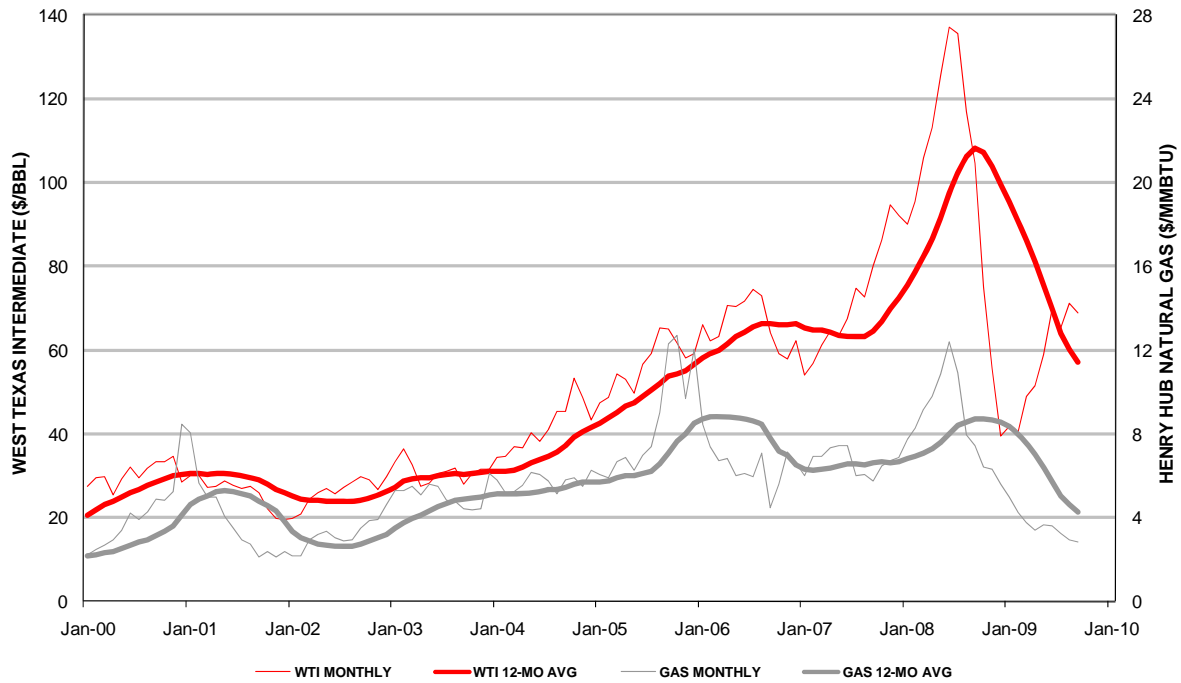
## UNEMPLOYMENT RATE HOUSTON & U.S. 2000-2010



Source: Texas Workforce Commission

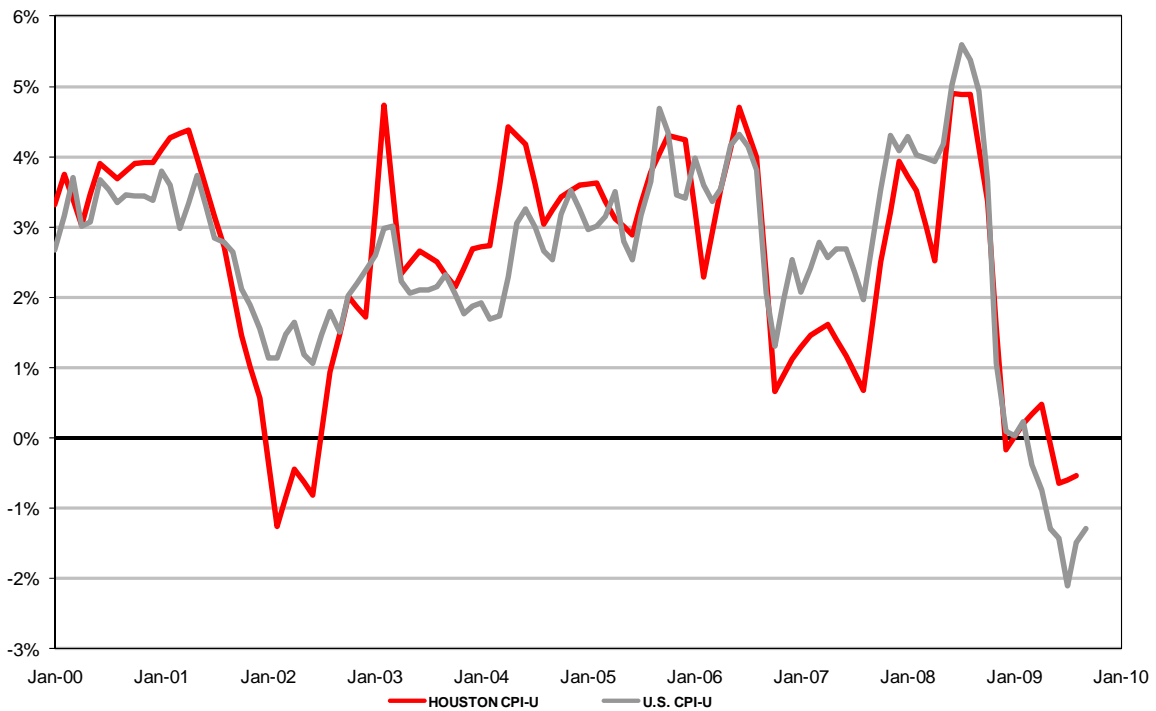
# HOUSTON—THE ECONOMY AT A GLANCE

## SPOT MARKET ENERGY PRICES 2000 - 2010



Source: U.S. Energy Information Administration

## INFLATION: 12-MONTH CHANGE 2000-2010



Source: U.S. Bureau of Labor Statistics