The Economist Who Loved Me

On Behalf of

CFMA Houston Annual Economic Update

By: Anirban Basu
Sage Policy Group, Inc.

March 29th, 2016
The World is Not (Growing) Enough

*1999: Pierce Brosnan; Sophie Marceau
Estimated Growth in Output by Select Global Areas

2016 Projected

Source: International Monetary Fund, World Economic Outlook Update, January 2016.

Notes: 1. For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with FY2011/12 as a base year. 2. Countries included in the calculation of quarterly estimates and projections account for approximately 80 percent of the GDP of emerging market and developing economies at purchasing power parities. 3. Countries included in the calculation of quarterly estimates and projections account for approximately 90 percent of world GDP at purchasing power parities.
NYMEX Crude Oil Future Prices in U.S. Dollars
February 2001 through February 2016

February 2016: $30.62 /Barrel

Source: U.S. Energy Information Administration
World Oil Demand Growth
2007Q1 through 2016Q1*

Source: The World Bank; International Energy Agency

*2016Q1 is an estimate
Moneypenny—Metal Price Indices
February 2007 through February 2016

Base metals include aluminum, copper, lead, nickel, tin and zinc.

Precious metals include gold, platinum, and silver.

Source: The World Bank
The Baltic Dry Index (BDI) is a measure of the price of shipping major raw materials such as metals, grains, and fossil fuels by sea. The BDI is a composite of 3 sub-indices, each covering a different carrier size: Capesize, Panamax, and Supramax.
Skyfall - BRAZIL

- Consumer price index increased 10.7 percent in 2015, despite ongoing economic contraction;
- Highest inflation rate in more than a decade;
- Increases in key categories:
  - Food (12.3%)
  - Transportation prices (10.2%)
  - Housing related costs (18.3%)

- Brazil’s real down 33 percent compared to the U.S. dollar by end of 2015.
- Standard & Poor’s and Fitch Ratings downgraded sovereign debt to junk status
- Boletin Focus, a weekly survey of 100 private financial analysts, predicts Brazil’s economy will contract by another 3 percent this year.

Source: Currency Exchange, Wall Street Journal

*2012: Daniel Craig, Berenice Marlohe
A View to a Kill - RUSSIA

- Collapse in oil prices and economic sanctions (and counter sanctions) related to Ukraine have hurt Russian economic growth;
- Economy contracted about 4 percent in 2015;
- World Bank: Russia will remain in recession in 2016;
- Russia’s ruble down 20 percent compared to U.S. dollar by end of 2015;
- Continued decline in investment expected;
- Budget expenditures will drop 3 to 5 percent in 2016.

Source: Currency Exchange, CNBC

*1985: Roger Moore, Tanya Roberts
I Expect You to Grow - CHINA

- Growth at slowest pace in 2 decades;
- World Bank predicts 6.7% economic growth for 2016 (down from 7.0% in June);
- George Soros: China has “a major adjustment problem” on its hands;
- Stock values fell 12 percent during first week of 2016 trading;
- Government attempts to stabilize economy only made investors even more wary;
  - Circuit breaker system shuts down trading when losses hit a certain level;
  - Too restrictive and causes panic selling once breakers are turned off.

Source: Currency Exchange, CNN Money

*(1964) Goldfinger, misquote from Auric Goldfinger, Sean Connery, Honor Blackman
Quantum of Solace

*2008: Daniel Craig; Olga Kurylenko
Gross Domestic Product
1990Q4 through 2015Q4*

Source: Bureau of Economic Analysis

*3rd (Final) Estimate
Contributions to GDP Growth by Component
2015Q1 – 2015Q4*

Source: Bureau of Economic Analysis

2015Q4: +1.4%
Net Change in U.S. Jobs, BLS
February 2002 through February 2016

February 2016: +242K

Source: U.S. Bureau of Labor Statistics
National Nonfarm Employment
by Industry Sector
February 2015 v. February 2016

- Education and Health Services: 698
- Professional and Business Services: 610
- Trade, Transportation, and Utilities: 470
- Leisure and Hospitality: 446
- Construction: 253
- Financial Activities: 142
- Government: 75
- Other Services: 66
- Information: 41
- Manufacturing: 12
- Mining and Logging: -141

All told: 2,672K Jobs gained

Source: U.S. Bureau of Labor Statistics
February 2016: +19K

Source: U.S. Bureau of Labor Statistics
### State-by-state Growth in Construction Jobs
#### February 2015 v. February 2016

<table>
<thead>
<tr>
<th>STATE</th>
<th>Year-over-year Ch. (‘000)</th>
<th>STATE</th>
<th>Year-over-year Ch. (‘000)</th>
<th>STATE</th>
<th>Year-over-year Ch. (‘000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CALIFORNIA</td>
<td>53.8</td>
<td>SOUTH CAROLINA</td>
<td>5.7</td>
<td>NEW MEXICO</td>
<td>1.9</td>
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<tr>
<td>FLORIDA</td>
<td>25.8</td>
<td>INDIANA</td>
<td>5.5</td>
<td>CONNECTICUT</td>
<td>1.3</td>
</tr>
<tr>
<td>NEW YORK</td>
<td>19.1</td>
<td>WISCONSIN</td>
<td>5.5</td>
<td>VERMONT</td>
<td>1.2</td>
</tr>
<tr>
<td>MASSACHUSETTS</td>
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<td>MISSOURI</td>
<td>5.3</td>
<td>ALABAMA</td>
<td>0.9</td>
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<tr>
<td>WASHINGTON</td>
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<td>NEVADA</td>
<td>5.0</td>
<td>SOUTH DAKOTA*</td>
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<tr>
<td>OHIO</td>
<td>10.9</td>
<td>IOWA</td>
<td>4.3</td>
<td>MONTANA</td>
<td>0.7</td>
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<td>TENNESSEE*</td>
<td>10.2</td>
<td>UTAH</td>
<td>4.3</td>
<td>NEBRASKA*</td>
<td>0.7</td>
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<td>TEXAS</td>
<td>9.4</td>
<td>OREGON</td>
<td>4.2</td>
<td>MAINE</td>
<td>0.6</td>
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<td>NORTH CAROLINA</td>
<td>9.1</td>
<td>NEW JERSEY</td>
<td>3.9</td>
<td>DELAWARE*</td>
<td>0.6</td>
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<tr>
<td>GEORGIA</td>
<td>9.0</td>
<td>LOUISIANA</td>
<td>3.4</td>
<td>DISTRICT OF COLUMBIA*</td>
<td>0.5</td>
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<tr>
<td>MINNESOTA</td>
<td>8.6</td>
<td>OKLAHOMA</td>
<td>3.1</td>
<td>MISSISSIPPI</td>
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<td>MICHIGAN</td>
<td>8.1</td>
<td>VIRGINIA</td>
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<td>-1.5</td>
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<td>MARYLAND*</td>
<td>7.1</td>
<td>KENTUCKY</td>
<td>2.7</td>
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<td>-1.7</td>
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<td>COLORADO</td>
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<td>NEW HAMPSHIRE</td>
<td>2.4</td>
<td>WEST VIRGINIA</td>
<td>-2.3</td>
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<td>ARIZONA</td>
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<td>RHODE ISLAND</td>
<td>2.4</td>
<td>PENNSYLVANIA</td>
<td>-3.2</td>
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<tr>
<td>HAWAII*</td>
<td>6.3</td>
<td>IDAHO</td>
<td>2.0</td>
<td>KANSAS</td>
<td>-4.0</td>
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<td>ILLINOIS</td>
<td>5.7</td>
<td>ARKANSAS</td>
<td>1.9</td>
<td>NORTH DAKOTA</td>
<td>-5.3</td>
</tr>
</tbody>
</table>

*Construction, Mining, and Logging are included in one industry.*

Source: U.S. Bureau of Labor Statistics
Texas Nonfarm Employment by Industry Sector Groups (SA)
February 2015 v. February 2016
Absolute Change

- Leisure and Hospitality: -58,100
- Education and Health Services: -39,600
- Trade, Transportation, and Utilities: +1,300
- Government: +6,900
- Professional and Business Services: +9,400
- Financial Activities: +17,900
- Construction: +25,500
- Other Services: +28,100
- Manufacturing: +53,900
- Mining and Logging: +59,900
- TX Total: +170.9K; +1.4%
- US Total (SA): +2,672; +1.9%

Source: U.S. Bureau of Labor Statistics

*According to the Local Area Unemployment Statistics (LAUS) series TX added 190,658 jobs between February 2015 and February 2016..
Houston MSA Nonfarm Employment
by Industry Sector Groups (NSA)
February 2015 v. February 2016
Absolute Change

Leisure & Hospitality: -20,700
Education & Health Services: -16,200
Government: -10,100
Construction: -7,100
Trade, Transportation & Utilities: -5,300
Financial Activities: -1,700
Other Services: -200
Information: -200
Professional & Business Services: -11,300
Mining and Logging: -17,700
Manufacturing: -23,100

Houston MSA Total: +9.0K; +0.3%
TX Total (SA): +170.9K; +1.4%
US Total (SA): +2,672; +1.9%

Source: U.S. Bureau of Labor Statistics
*Houston-The Woodlands-Sugar Land, TX
$ Billions in Petrochemical Construction Underway on Houston’s East Side

*Top 10 Projects by Investment Value*

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>Investment Value ($ Billions)</th>
<th>Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNG liquefaction project</td>
<td>$14.0</td>
<td>2018</td>
</tr>
<tr>
<td>LNG export facility</td>
<td>$10.0</td>
<td>2020</td>
</tr>
<tr>
<td>LNG export terminal</td>
<td>$9.5</td>
<td>2018</td>
</tr>
<tr>
<td>Petrochemical Complex</td>
<td>$8.9</td>
<td>2018</td>
</tr>
<tr>
<td>LNG export terminal</td>
<td>$6.0</td>
<td>2015Q4</td>
</tr>
<tr>
<td>Gulf Coast Petrochemicals Project</td>
<td>$6.0</td>
<td>2017</td>
</tr>
<tr>
<td>Facility expansion</td>
<td>$6.0</td>
<td>2017</td>
</tr>
<tr>
<td>Methanol production and export facility</td>
<td>$4.5</td>
<td>TBD</td>
</tr>
<tr>
<td>Gulf Coast Expansion Project</td>
<td>$4.0</td>
<td>2017</td>
</tr>
<tr>
<td>Propylene oxide and tertiary butyl alcohol plant</td>
<td>$4.0</td>
<td>2018</td>
</tr>
</tbody>
</table>

Source: Greater Houston Partnership; CBRE, February 2016
## Houston Office Market Statistics
### 2015Q4

<table>
<thead>
<tr>
<th>Market</th>
<th>Total Vacancy Rate (%)</th>
<th>Average Asking Rate ($)</th>
<th>Net Absorption (SF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD</td>
<td>9.1%</td>
<td>$39.70</td>
<td>-53,042</td>
</tr>
<tr>
<td>Suburban</td>
<td>15.4%</td>
<td>$26.83</td>
<td>1,281,981</td>
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<tr>
<td>Houston Total</td>
<td>14.2%</td>
<td>$28.67</td>
<td>1,228,939</td>
</tr>
<tr>
<td>Class A</td>
<td>11.7%</td>
<td>$37.73</td>
<td>1,221,980</td>
</tr>
<tr>
<td>Class B</td>
<td>16.9%</td>
<td>$23.98</td>
<td>-58,180</td>
</tr>
</tbody>
</table>

Source: CBRE
Dallas MSA Nonfarm Employment by Industry Sector Groups (NSA)

February 2015 v. February 2016
Absolute Change

<table>
<thead>
<tr>
<th>Industry Sector Group</th>
<th>Change</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>38,500</td>
<td></td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>24,900</td>
<td></td>
</tr>
<tr>
<td>Education &amp; Health Services</td>
<td>17,000</td>
<td></td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>16,400</td>
<td></td>
</tr>
<tr>
<td>Financial Activities</td>
<td>12,200</td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>10,500</td>
<td></td>
</tr>
<tr>
<td>Information</td>
<td>1,400</td>
<td></td>
</tr>
<tr>
<td>Other Services</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Mining, Logging, and Construction</td>
<td>-200</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-4,400</td>
<td></td>
</tr>
</tbody>
</table>

Dallas MSA Total: +116.8K; +3.5%
TX Total (SA): +170.9K; +1.4%
US Total (SA): +2,672; +1.9%

Source: U.S. Bureau of Labor Statistics

*Dallas-Fort Worth-Arlington, TX
San Antonio MSA Nonfarm Employment by Industry Sector Groups (NSA)

February 2015 v. February 2016

Absolute Change

- Mining and Logging: -2,100
- Trade, Transportation & Utilities: -2,100
- Manufacturing: -1,000
- Financial Activities: -600
- Government: -200
- Leisure & Hospitality: -3,000
- Professional & Business Services: 0
- Construction: +2,400
- Other Services: +2,900
- Education & Health Services: +4,900
- Transportation & Utilities: +4,300
- Information: +4,000
- Manufacturing: +3,900
- Other Services: +2,400
- Mining and Logging: +2,400
- Professional & Business Services: +2,900
- Construction: +2,400
- Other Services: +1,900
- Transportation & Utilities: +1,900
- Information: +1,900
- Manufacturing: +1,900
- Professional & Business Services: +1,900
- Transportation & Utilities: +1,900
- Information: +1,900
- Manufacturing: +1,900
- Professional & Business Services: +1,900
- Transportation & Utilities: +1,900
- Information: +1,900
- Manufacturing: +1,900
- Professional & Business Services: +1,900
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- Manufacturing: +1,900
- Professional & Business Services: +1,900
- Transportation & Utilities: +1,900
- Information: +1,900
- Manufacturing: +1,900
- Professional & Business Services: +1,900
- Transportation & Utilities: +1,900
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- Manufacturing: +1,900
- Professional & Business Services: +1,900
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- Professional & Business Services: +1,900
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- Manufacturing: +1,900
- Professional & Business Services: +1,900
- Transportation & Utilities: +1,900
- Information: +1,900
- Manufacturing: +1,900

San Antonio MSA Total: +25.4K; +2.6%
TX Total (SA): +170.9K; +1.4%
US Total (SA): +2,672; +1.9%

Source: U.S. Bureau of Labor Statistics

*San Antonio-New Braunfels, TX
Austin MSA Nonfarm Employment by Industry Sector Groups (NSA)
February 2015 v. February 2016
Absolute Change

<table>
<thead>
<tr>
<th>Industry Sector Group</th>
<th>Austin MSA</th>
<th>Texas Total (SA)</th>
<th>US Total (SA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>+39.8K</td>
<td>+170.9K</td>
<td>+2,672</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>+4.2%</td>
<td>+1.4%</td>
<td>+1.9%</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education &amp; Health Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining, Logging, and Construction</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Government</td>
<td>+2,100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Services</td>
<td>+1,400</td>
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<td></td>
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<tr>
<td>Financial Activities</td>
<td>+1,200</td>
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<td>Information</td>
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</tr>
<tr>
<td>Manufacturing</td>
<td>-500</td>
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<td></td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Labor Statistics
*Austin-Round Rock, TX*
## Employment Growth, U.S. States (SA)

February 2015 v. February 2016 Percent Change

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>%</th>
<th>Rank</th>
<th>State</th>
<th>%</th>
<th>Rank</th>
<th>State</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IDAHO</td>
<td>4.0</td>
<td>18</td>
<td>NORTH CAROLINA</td>
<td>2.1</td>
<td>32</td>
<td>WISCONSIN</td>
<td>1.3</td>
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<tr>
<td>2</td>
<td>UTAH</td>
<td>3.3</td>
<td>18</td>
<td>SOUTH CAROLINA</td>
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<td>36</td>
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<td>3</td>
<td>OREGON</td>
<td>3.1</td>
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<td>21</td>
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<td>IOWA</td>
<td>1.0</td>
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<td>3</td>
<td>WASHINGTON</td>
<td>3.1</td>
<td>22</td>
<td>DISTRICT OF COLUMBIA</td>
<td>1.5</td>
<td>38</td>
<td>MAINE</td>
<td>1.0</td>
</tr>
<tr>
<td>6</td>
<td>ARIZONA</td>
<td>3.0</td>
<td>22</td>
<td>KENTUCKY</td>
<td>1.5</td>
<td>40</td>
<td>CONNECTICUT</td>
<td>0.9</td>
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<td>6</td>
<td>FLORIDA</td>
<td>3.0</td>
<td>22</td>
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<td>NORTH DAKOTA</td>
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Source: U.S. Bureau of Labor Statistics

**U.S. Year-over-year Percent Change: +1.9%**
Recession Watch

as of December 2015
## Unemployment Rates, 20 Largest Metros (NSA)

### January 2016

<table>
<thead>
<tr>
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<td>Tampa-St. Petersburg-Clearwater, FL Metropolitan Statistical Area</td>
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<table>
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<td>20</td>
<td>Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area</td>
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</tbody>
</table>

Source: U.S. Bureau of Labor Statistics

1. Area boundaries do not reflect official OMB definitions.
License to Sell

*License to Kill, 1989: Timothy Dalton; Carey Lowell

Sage Policy Group, Inc.
Architecture Billings Index
January 2008 through February 2016

February 2016: 50.3

Source: The American Institute of Architects
Nonresidential Construction Put-in-Place
December 2006 through January 2016

Source: U.S. Census Bureau
Inputs to Construction PPI (NSA)

February 2001 – February 2016

Feb. 15 v. Feb. 16: -3.7%

Source: U.S. Bureau of Labor Statistics
Construction Materials PPI (NSA)
12-month % Change as of February 2016

Concrete Products: 2.5%
Plumbing Fixtures and Fittings: 0.3%
Prepared Asphalt and Tar Roofing & Siding: -1.5%
Fabricated Structural Metal Products: -2.4%
Softwood Lumber: -6.4%
Nonferrous Wire and Cable: -8.4%
Iron and Steel: -17.6%
Steel Mill Products: -17.7%
Natural Gas: -22.3%
Crude Energy Materials: -28.8%
Crude Petroleum: -48.5%

Source: U.S. Bureau of Labor Statistics

Sage Policy Group, Inc.
Tomorrow Never Dies

*1997: Pierce Brosnan; Michelle Yeoh; Teri Hatcher
Sales Growth by Type of Business
February 2015 v. February 2016*

Building Material & Garden Supplies Dealers: +12.2%
Motor Vehicle & Parts Dealers: +6.8%
Sporting Goods, Hobby, Book & Music Stores: +6.7%
Food Services & Drinking Places: +6.4%
Internet, etc. Retailers: +6.3%
Furniture & Home Furn. Stores: +3.8%
Health & Personal Care Stores: +2.9%
Clothing & Clothing Accessories Stores: +2.8%
Miscellaneous Store Retailers: +2.4%
General Merchandise Stores: +2.3%
Food & Beverage Stores: +1.4%
Electronics & Appliance Stores: -3.2%
Gasoline Stations: -15.6%

Total Retail Sales: +3.1% YOY

Source: U.S. Census Bureau
*February 2016 advanced estimate
Conference Board Leading Economic Indicators Index
August 2007 through February 2016

February 2016: 123.2
where 2010: 100

Source: Conference Board
Dr. Know

• Not a Happy New Year so far. Everyone knows about China and N.Korea, but we have problems right here;

• Corporate profit margins are slipping and interest rates are on the rise – does not sound like a great recipe for stock prices or for corporate investment;

• Only the consumer is really contributing significantly to growth, with state and local government spending playing a supporting role;

• Job growth should remain decent in the near-term – we ended 2015 with a near-record in total job openings;

• All about interest rates – market guesses that one or two rate increases are likely this year – possible, but I think the second half of the year won’t be as good as the first and therefore no rate increases are likely late this year; and

• We may be transitioning very quickly from the mid-cycle stage of the recovery to the late-stage – 2017 outlook very very murky.

*1962: Sean Connery; Ursula Andress
Thank You

• Follow us on Twitter @SagePolicyGroup
• You can always reach me at abasu@sagepolicy.com
• Please look for updates of information at www.sagepolicy.com.
• Also, if you need us in a hurry, we are at 410.522.7243 (410.522.SAGE)
• Please contact us when you require economic research & policy analysis.