

April 2015

Valentyn Povroznyuk, Edilberto L. Segura

- **National GDP growth decelerated to just 0.2% qoq in Q1 2015.**
- **The industrial production index declined by 0.6% mom nationally in March.**
- **US exports grew by almost 1.0% mom in March.**
- **The Texas production index posted the first decline in almost two years.**
- **The rig count recovered somewhat at the end of March but resumed a decline at the beginning of April.**
- **The national economy continued to generate new jobs in March, while Texas observed the first decline in employment in 54 months.**
- **Inflation continued to grow in monthly terms but not fast enough to reverse the downward annual trend.**

Executive Summary

Economic growth of the US economy continued to soften in March. Low growth over the first three months of the year was reflected by almost flat GDP in Q1 2015 compared to the previous quarter. Industrial production returned to decline in March, which together with the negative developments in the labor market led to lower consumer confidence. Construction posted mixed performance as the value of construction works slightly contracted, while growth in building permits was observed. Exports increased for the first time in six months, which had little to do with changes in demand for US goods on the international markets.

Advance estimates showed little progress in GDP development in Q1 2015. Slowdowns in all the major GDP components except for government expenditures led to eleven times lower growth in Q1 2015 compared to Q4 2014. At the same time, government expenditures made a negative contribution to GDP growth but at slightly decelerated rate compared to the preceding quarter. Personal consumption expenditures saw a deceleration in growth because of flat expenditures on goods. At the same time, the decline in nonresidential structure investment led to a sharp deceleration in growth in gross private domestic investments. Export dynamics entered negative territory, while growth of imports remained positive, although significantly decelerated compared to Q4 2014.

Almost flat manufacturing and declines in mining and utilities caused the return of industrial production to a monthly decline. Even though manufacturing saw a marginal monthly increase in March, data from the Institute for Supply Management suggests that the upward trend in manufacturing will end soon. Non-manufacturing activity, however, will continue to grow at quite good but accelerated rate.

Recent developments in the real sector and in the labor market at the national level made consumers less optimistic in their assessment of both current and future business and labor market conditions. This was reflected by the sharp decline in the Consumer Confidence Index regularly calculated by the Conference Board.

National construction works saw a decline in March due to lackluster performance in private residential construction. However, this had little impact on annual construction works performance. At the same time, building permits posted monthly increases in both number of issued permits and their total valuation. As a result, the upward trend in building permits continued in both monthly and annual terms in March.

US exports finally reversed their downward trend thanks to a resolution of the labor issues in the West Coast ports. Near 1.0% mom growth was ensured thanks to expansion of exports of goods, particularly capital goods. Exports of services once again saw just a marginal increase in monthly terms. Similar to the last few months, positive developments were observed in transport and travel services.

The Texas economy saw some deceleration in growth in March. Economic growth cooling was the result of sluggish performance in the manufacturing sector and construction. In particular, construction saw some negative developments in both the residential sector (a decline in the number of building permits) and in the nonresidential sector (value of construction contracts declined by 53% mom). Also some negative contribution to growth was made by further negative developments in mining, particularly in oil and gas extraction. In particular, rig count continued to decline in April after some recovery at the end of March. The services sector, in contrast, trended up despite some deterioration in indicators. Recent economic developments were in general negatively perceived by Texas consumers, but consumer confidence remained stronger than at the national level.

Investor Relations: Joshua Ballard
(E) jballard@sigmableyzer.com

Chief Economist Edilberto L. Segura
Editor Rina Bleyzer O'Malley

April 2015

Valentyn Povrozhnyuk, Edilberto L. Segura

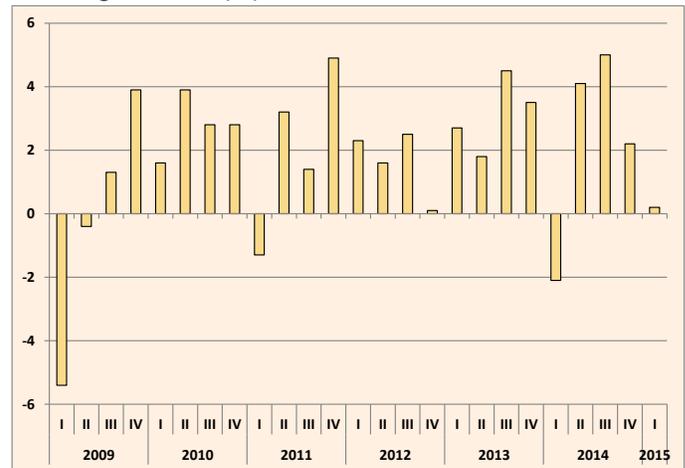
National labor conditions further improved in March but at significantly decelerated pace. The number of new jobs added was 2.2 times lower than the average over the last 12 months. Service-providing industries were generating new jobs at both the national and Texas level, while goods-producing industries suffered declines in employment. Overall, the Texas labor market, in contrast to the national one, did not follow the upward trend in March. The 4.5-year growth in employment ended with a monthly decline of 25,400 jobs. A significant contribution to this was made by mining. As for unemployment, both the US in general and Texas posted declines in the number of unemployed. However, the mentioned decline was insignificant at the national level and had no influence on the unemployment level. At the same time, Texas enjoyed further lowering of the unemployment rate, which was already more than one percentage point lower than the national level.

Recent negative developments in the national economy were not enough to impact the Federal Reserve's monetary policy as the Federal Open Market Committee expects economic conditions to recover soon. Inflation followed expectations of the Federal Reserve as it edged up for the second month in a row on the back of an increase in energy prices. This growth, however, was to a great extent offset by further declines in prices of foods. In year-over-year terms, the decline in the energy index was still overwhelming as all items CPI saw a marginal decline. The housing market saw improvements at both the national and Texas level in March. Moreover, Texas observed faster growth in sales despite a much worse situation with unsold inventory, which was still around historical lows. One of the reasons for higher sales was the price factor as the median existing-home price in Texas remained lower than the national one and grew at a slower pace.

Economic Growth

National level economic growth significantly decelerated in Q1 2015. According to advance estimates of the Bureau of Economic Analysis, GDP growth decelerated from 2.2% qoq in Q4 2014 to a tiny 0.2% qoq in Q1 due to deceleration in all its major components except government consumption expenditures and gross investment. In fact, growth of government remained negative, but the pace of the decline was more than two times slower compared to the previous quarter at 0.8%. As for personal consumption expenditures, their growth more than halved to 1.9% qoq. Consumption expenditures on goods remained almost flat in Q1 and growth in expenditures on services was two-thirds of the increase in the previous quarter at 2.8% qoq. The increase in gross private domestic investments also almost halved to 2.0% qoq because of a 2.5% qoq decline in fixed investment. This decline was attributed mainly to a 23.1% qoq drop in nonresidential structures investment, while other components saw deceleration in growth. Both exports and imports experienced sharp deceleration in Q1 because of goods components. A 13.3% qoq decline in exports of goods was the major reason for an 11.7 percentage point drop in growth of exports in general to -7.2% qoq. Exports of services, in turn, grew by 7.3% qoq, which is almost 2 percentage points lower than in the previous month. As for imports, their growth remained positive at 1.8% qoq in Q1, but this is still a significant deceleration from 10.4% qoq in Q4 2014. Growth of imports slowed from 10.4% qoq to less than 1%, while imports of services expanded at a quite high 6.3% qoq.

1. GDP growth, % qoq at annual rates



Source: The U.S. Bureau of Economic Analysis

After one month of improved performance in February, industrial production was back to decline in monthly terms in March. The industrial production index inched down by 0.6% mom. This was the result of flat manufacturing and declines in both mining and utilities. At the same time, growth remained positive for industrial production in general and for both manufacturing and mining in year-over-year terms. In particular, a 2.4% yoy increase in

April 2015

Valentyn Povrozhnyuk, Edilberto L. Segura

manufacturing and a 3.7% yoy increase in mining were partially offset by a 3.6% yoy decline in utilities. Therefore, the total industrial production index posted a 2.0% yoy growth in March 2015. At the same time, sluggish monthly performance of the sector led to the first quarterly decrease since the second quarter of 2009. The 1.0% yoy decline in Q1 2015 was attributed mainly to a 60% drop in oil and gas well drilling and servicing at an annual rate and to a decrease in manufacturing by 1.2% yoy.

Data from the Institute for Supply Management (ISM) showed further growth in both manufacturing and non-manufacturing sectors, but at decelerated rates in the US. 10 manufacturing and 14 non-manufacturing industries reported growth in March, while 7 manufacturing and 4 non-manufacturing industries reported contraction. However, the upward trend in manufacturing may end soon. The PMI index dropped 1.4 percentage points from February's reading and equaled 51.5% in March, which is close to the threshold level of 50%. The situation in the non-manufacturing sector is better as the NMI index dropped just 0.4 percentage points to 56.9% in March.

Consumer confidence deteriorated at the national level in April. After the increase in March, the Conference Board Consumer Confidence Index posted a sharper decline from 101.4 to 95.2. The decline was attributed to deterioration in both the present situation assessment and future expectations. The current-day appraisal continued to soften in April due to recent lackluster performance of the labor market. The proportion of people stating that jobs are "plentiful" saw an almost 2 percentage point decline to 19.1%, while those stating that jobs are "hard to get" totaled 26.4% or almost 1 percentage point more compared to March. At the same time, future expectations deteriorated because of less optimistic assessment of both business and labor market conditions.

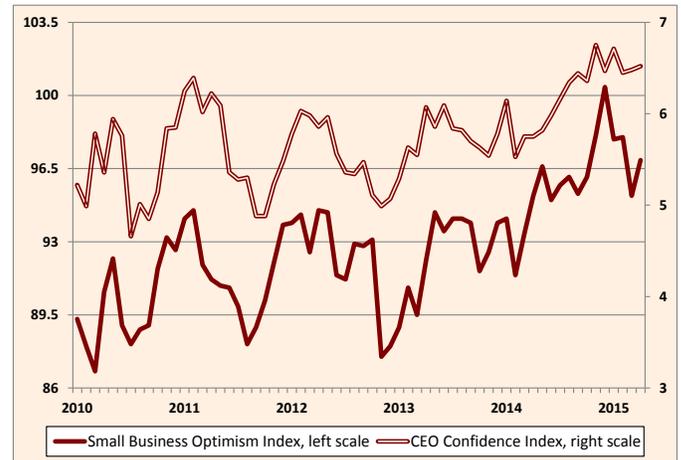
National construction sustained mixed developments in March. Construction spending saw a small monthly decline, although preserving growth in year-over-year terms. At the same time, building permits grew in both monthly and year-over-year terms. Residential construction was to blame for a 0.7% mom decline in total value of construction, as nonresidential construction remained virtually unchanged. Residential construction itself dropped 1.6% mom in March. Most of the decline was attributed to lower residential

2. PMI, indexes



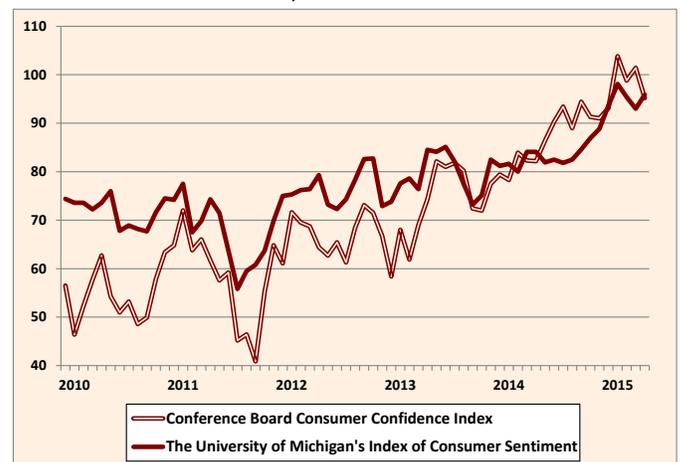
Source: Institute for Supply Management

3. Business confidence, indexes



Source: Chief Executive, National Federation of Independent Business

4. Consumer confidence, indexes



Source: Conference Board, The University of Michigan

Headquarters
 123 N. Post Oak Ln., Suite 410
 Houston, TX 77024 USA
 Tel: +1 (713) 621-3111
 Fax: +1 (713) 621-4666
 Email: sbleyzer@sigmableyzer.com

Where Opportunities Emerge.

Copyright © SigmaBleyzer, 2014.

All rights reserved.

April 2015

Valentyn Povrozhnyuk, Edilberto L. Segura

construction in the private sector. At the same time, an increase in nonresidential construction of the private sector almost fully compensated for a decrease in corresponding spending of the public sector. From a year-over-year perspective, nonresidential construction generated most of the 3.2% growth, expanding by 4.4% thanks to developments in the private sector. Growth in residential construction was more moderate at 1.1% yoy. The total public construction increase was attributed mostly to the nonresidential subsector as the share of residential construction expenditures in total public construction expenditures is very low (around 2.5%). As for building permits, they posted growth in terms of both the number of permits and their valuation from both monthly and a year-over-year perspective. At the same time, growth in permits valuation was significantly higher than that in the number of issued permits (23.8% mom against 17.8% mom and 14.7% yoy against 8.1% yoy, respectively) as most of the increase in the number of permits was ensured by one unit homes, construction of which is more expensive in terms of unit cost.

The downward trend in US exports was finally reversed in March 2015 after successful resolution of the strike in West Coast ports at the end of February. Total exports grew by almost 1.0% mom to USD 187.8 billion. The increase was almost fully attributed to growth in exports of goods, while exports of services remained virtually unchanged. Most of the USD 1.5 billion gain in exports of goods was ensured by exports of capital goods. Exports of civilian aircraft increased by USD 0.5 billion, while exports of civilian aircraft engines and electric apparatus added USD 0.2 billion each. Total exports of goods reached USD 127.1 billion in March. Exports of transport and travel services expanded by USD 0.1 billion, each increasing total exports of services to USD 60.8 billion.

Similarly to the national economy, the Texas economy observed some weakening in growth in March. Both manufacturing activity and construction posted declines. According to the Texas Manufacturing Outlook Survey, the production index fell to -5.2, which is the first negative reading of the indicators in almost two years. The accelerated decline in the new orders index at -16.1 and the negative value of the growth rate of orders for the fifth consecutive month showed that manufacturing activity is likely to also decline in April. In general, most of the manufacturing activity indicators showed negative dynamics in March. In contrast to the manufacturing sector, the Texas service sector experienced further expansion but at a decelerated rate in March. The revenue index edged down to 10.7 from 13.6 observed in February. Despite some deterioration, all the indexes of service sector activity remained positive, except for general business activity which declined to -4.6. At the same time, similar to the manufacturing sector, expectations regarding future business conditions were less optimistic in March compared to those in February. Construction saw declines in both the number of building permits and in nonresidential construction. A 23.7% mom decline in the number of building permits for construction of multi-family houses was not fully offset by a 12.7% mom increase in the number of building permits for construction of single-family houses. As a result, the total number of building permits dropped 3.1% mom and equaled 13,649. This, however, does not necessarily mean a decline in the value of construction works in the residential sector as unit costs of construction of single-family houses are usually higher than the corresponding costs of construction of multi-family houses. At the same time, the value of nonresidential building construction contracts more than halved to USD 2.5 billion in March. Consumer confidence also softened, mainly because of employment dynamics in the state. The Conference Board Consumer Confidence Index for April equaled 116.8, which is a 10.3 basis point drop from the previous month. At the same time, however, the reported level was still above the value of the indicator at the national level. The rig count recovered from 465 as of March 17th to 492 as of the end of the month, but started to decline again in April. Overall, RigData reported that 2,600 fewer wells were drilled in Texas in Q1 2015 compared to the same period in 2014. This means almost the same drop in shale oil production, as a typical shale well delivers 70-80% of its production in the first year.

Employment

Improvement in national labor market conditions significantly slowed in March 2015. Growth in employment moderated, while the unemployment rate remained unchanged. Total nonfarm employment expanded by 126,000 during the month, which is significantly below the average of 269,000 observed over the last 12 months. The private sector generated 129,000 new jobs, while employment in the public sector contracted by 3,000. Goods-producing industries saw a decline in employment in March. The decline was almost fully attributed to a drop of 11,000 jobs in mining (actually, the industry lost 30,000 jobs in Q1, while it generated 41,000 new jobs over the

April 2015

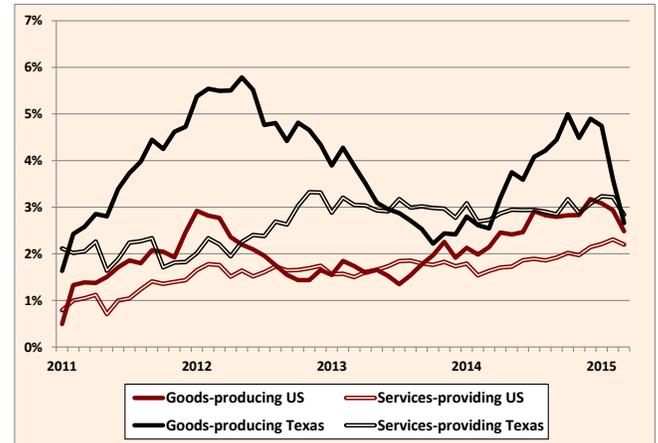
Valentyn Povroznyuk, Edilberto L. Segura

whole 2014), while both construction and manufacturing observed just a minor decrease in the number of employed. Service-providing industries managed to generate 142,000 new jobs in March with the largest gain in professional and business services (40,000) and in education and health services (38,000). The unemployment rate stood at 5.5% as the number of unemployed was little changed in March. Compared to the same month of 2014, however, the unemployment rate dropped 1.1 percentage points, which is almost the same as in February. The number of unemployed saw a 1.1% yoy or 1.8 million decline.

The Texas labor market conditions saw mixed developments in March. The situation with unemployment continued to improve, while employment posted a decline. The unemployment rate inched down by 0.1 percentage point again to 4.2% which is the lowest rate since July 2007. The number of unemployed dropped 21.4% yoy totaling 554,600 in March 2015. At the same time, the 53-month upward trend in employment ended in March as the number of employed fell by 25,400. Mining and logging, one of the key industries in Texas, observed further decline in employment losing 2,800 people in March. Education and health services posted the highest gain in employment at 3,400 jobs during the reporting month. Growth in employment was also observed in financial activities, leisure and hospitality, and other services. The mentioned above monthly decline in employment significantly decelerated its year-over-year growth in March. Texas has added 327,500 jobs for an overall growth of 2.9% yoy which is still higher than employment growth at the national level (2.3% yoy).

In March, most of the Texas metros saw monthly declines in employment. Just 5 metros managed to increase employment and two more saw no changes in the number of employed. However, neither of the mentioned increases reached even 0.5% mom. Waco was the leader among those 18 metros observing decline in employment with a 0.7% mom decrease. Negative monthly developments led to a deceleration in year-over-year growth of employment in most of the metros. However, just four of them saw year-over-year declines in the number of employed. Three of them were the same as in February (Wichita Falls, El Paso, and Amarillo) and were joined by College Station-Bryan. Unlike in the case of employment, just a few metros saw negative developments in

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



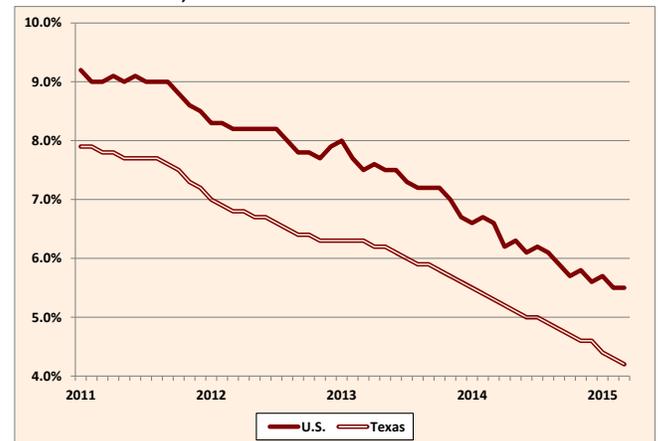
Source: Bureau of Labor Statistics

6. Total nonfarm employment, 000



Source: Bureau of Labor Statistics

7. Jobless rate, %



Source: Bureau of Labor Statistics

Headquarters
 123 N. Post Oak Ln., Suite 410
 Houston, TX 77024 USA
 Tel: +1 (713) 621-3111
 Fax: +1 (713) 621-4666
 Email: sbleyzer@sigmableyzer.com

Where Opportunities Emerge.

Copyright © SigmaBleyzer, 2014.

All rights reserved.

April 2015

Valentyn Povrozyuk, Edilberto L. Segura

unemployment in March. Despite the negative monthly changes in both employment and unemployment, Midland still posted the highest increase in the number of employed and the lowest unemployment rate among the Texas metros in March.

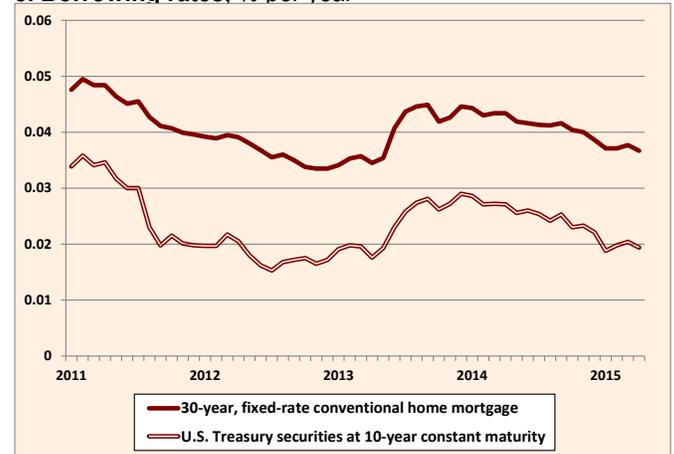
Monetary Policy and Asset Prices

The Federal Open Market Committee decided to leave its monetary policy stance unchanged again in April. The Committee acknowledged some slowdown in economic growth, in part reflecting some transitory factors, and the fact that growth in employment also somewhat slowed in Q1 2015. At the same time, the Committee continues to expect that economic activity will expand at a moderate pace thanks to appropriate policy accommodation. It also expects that labor market indicators will continue to move towards levels considered as consistent with Committee's dual mandate. Despite current inflation being below the long-run objective, the Committee still anticipates it to rise gradually toward 2% over the medium term along with improvements in the labor market and fading away of effects of declines in energy and import prices.

Consumer inflation continued its upward trend in March. The all items CPI index grew by 0.2% mom for the second consecutive month on the back of increases in the energy and shelter indexes, which more than compensated for the decline in the food index. Growth in energy prices slightly accelerated in March as the energy index expanded by 1.1% mom compared to 1.0% mom in February. Energy commodities ensured the mentioned growth more than offsetting declines in prices of energy services. In March, the gasoline index increased by 3.9% mom, which was its largest increase since February 2013. The fuel oil index grew even faster at 5.9% mom. In contrast, the electricity index fell by 1.1% mom and utility gas service index dropped 2.7% mom. In year-over-year terms, however, the electricity index was the only one posting an increase (by 0.9% yoy), while all the other energy index saw declines (ranging from 14.4% yoy for utility gas service index to 29.2% yoy for gasoline index). In March, the food index declined by 0.2% mom after an identical increase in the previous month. The mentioned decline was mainly the result of a 0.5% mom decline in the food at home index, which was the sharpest decline of the indicator since April 2009. Furthermore, five of the six major grocery store food group indexes also saw declines. The food index remained positive in year-over-year terms, however, totaling 2.3%. The shelter index and a broad array of indexes posted monthly increases in March. Most of those indexes observed growth also in year-over-year terms but an 18.3% yoy decline in the energy index more than offset those increases. As a result, the all items CPI saw a 0.1% yoy decline.

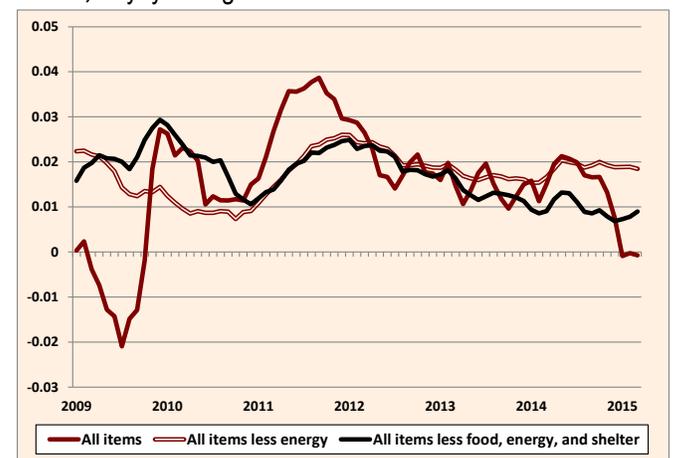
Some improvements in housing inventory, especially at the national level, led to a jump in housing sales in March. National level existing-home sales observed the highest increase in 18 months. Seasonally adjusted annual existing-home sales grew by 6.1% mom to 5.19 million. This growth ensured the year-over-year increase in sales

8. Borrowing rates, % per year



Source: Federal Reserve System

9. CPI, % yoy change



Source: Bureau of Labor Statistics

April 2015

Valentyn Povroznyuk, Edilberto L. Segura

for the sixth consecutive month. Moreover, the 10.4% yoy increase in sales registered in March was the highest annual increase since August 2013. Total housing inventory posted good growth of 5.3% mom to 2.0 million existing homes available for sale (2.0% higher than a year ago). At the same time, unsold inventory further declined to a 4.6-month supply at the current sales prices from the 4.7-month supply observed in February. The median existing-home price reached USD 212,100 indicating that its growth accelerated again and reached 7.8% yoy in March. As for Texas, the situation with housing inventory improved, but not much. Unsold inventory inched up to a 3.2-month supply but remained around historical lows. This, however, led to a faster increase in existing home sales in year-over-year terms compared to the national level. Total existing-home sales grew by 10.7% yoy to 24,772 actual sales. At the same time, the median existing-home price continued to grow slower compared to the national level in March. The price reached USD 191,000, which is a 7.3% yoy increase.

Headquarters
123 N. Post Oak Ln., Suite 410
Houston, TX 77024 USA
Tel: +1 (713) 621-3111
Fax: +1 (713) 621-4666
Email: sbleyzer@sigmableyzer.com

Copyright © SigmaBleyzer, 2014.

All rights reserved.

Where Opportunities Emerge.

April 2015

Valentyn Povroznyuk, Edilberto L. Segura

Headquarters
123 N. Post Oak Ln., Suite 410
Houston, TX 77024 USA
Tel: +1 (713) 621-3111
Fax: +1 (713) 621-4666
Email: sbleyzer@sigmableyzer.com

Where Opportunities Emerge.

Copyright © SigmaBleyzer, 2014.

All rights reserved.