

May 2016

Valentyn Povroznyuk, Edilberto L. Segura

- **Moderate economic growth continued in the US in April.**
- **The Bureau of Economic Analysis revised its estimate for GDP growth in Q1 upwards to 0.8% quarter-over-quarter.**
- **National industrial production posted a 0.7% mom increase after two months of decline.**
- **US exports increased again in April. Additional exports of industrial supplies and materials ensured a 1.4% mom expansion of total exports.**
- **The Texas economy returned to growth after some slowdown in March.**
- **The Texas rig count remained on a downward trend despite some recovery in world oil prices.**
- **Both the US in general and Texas observed mostly positive developments in labor market conditions.**
- **Consumer inflation accelerated in April, fueled by further growth of energy prices.**

### Executive Summary

The US economy further expanded in April, though its growth rate remained moderate. A more complete dataset showed that GDP growth in Q1 was higher than previously estimated by the Bureau of Economic Analysis. The second estimate reading of GDP growth was reported to be 0.8% qoq. The Texas economy returned to growth in April after two months of moderation.

National industrial output posted a significant improvement in dynamics in April. It returned to growth after two months of sluggish performance on the back of positive contributions from manufacturing and from utilities. The latter benefitted from cooler temperatures, which stimulated demand for electricity and natural gas. Mining output remained on a downward trend in the reporting month. Thanks to positive monthly dynamics, national industrial output saw deceleration in its year-over-year decline to 1.1%, mainly thanks to improvement in dynamics of utilities, while manufacturing and mining remained on the same development trends observed in March.

Consumer confidence softened again in May. Negative developments in assessment of both present conditions and short-term outlook led to accelerated decline in the Consumer Confidence Index. Furthermore, mostly negative changes were reported for both broad business conditions and labor market developments in April.

US construction reported mostly negative developments in April. In monthly terms, construction put in place contracted in all segments. Public construction decline was sharper due to identical decreases in residential and nonresidential construction. On the goods side, construction still observed growth in year-over-year terms, though the pace of growth decelerated again. The number of construction permits expanded during the reporting month, but the pace of growth significantly decelerated. Furthermore, this growth was not enough to stop the negative tendencies in over-year dynamics. As a result, growth of the number of permits turned negative in year-over-year terms.

National exports continued to expand in April thanks to higher exports of goods. Additional exports of industrial supplies and materials together with additional exports of automotive vehicles, parts, and engines were major contributors to growth of merchandise exports. Exports of services reported a decrease due to lower exports of travel and transport services.

The two-month span of decline in the Texas economy ended as the state observed moderate growth in April. Growth was the result of further (although slow) expansion of manufacturing, growth in the services sector, and improvements in foreign trade. Those positive developments also strengthened consumer confidence. Although world oil prices recovered a bit, the Texas rig count remained on a downward trend.

National labor market conditions further improved in April. Employment further increased though at decelerated pace compared to March, while the unemployment indicators did not change much. Service-providing industries generated most of the new jobs in the reporting month. At the same time, mining reported the sharpest decrease in employment among industries. The Texas labor market observed the same tendencies as the national one in terms of employment. As for unemployment, the number of employed expanded a bit, which led to an increase in the unemployment rate by 0.1 percentage point.

Consumer prices further increased in April. Same as in March, dynamics of energy prices played the decisive role in determining growth of consumer prices in general as food prices and prices of all items less food and energy sustained

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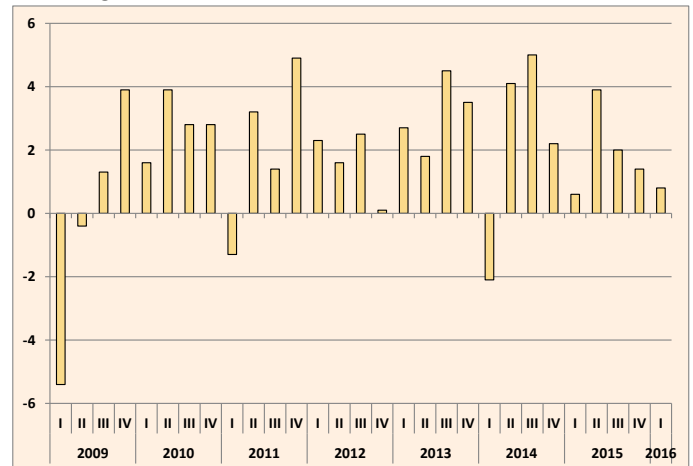
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little changes in general. Because of the mentioned monthly changes, the year-over-year growth in consumer prices accelerated to 1.1%, which is still below the longer-term target of 2%. The US and Texas housing market saw similar developments in April. The existing home sales posted similar growth, same as the median existing-home prices. At the same time, unsold inventories slightly expanded at the national level but remained unchanged in Texas.

## Economic Growth

The Bureau of Economic Analysis upwardly revised GDP growth for Q1 2016 in its second estimate release. According to a more complete dataset, GDP edged up by 0.8% qoq in Q1, which is 0.3 percentage points higher than in the advance estimate released earlier. GDP growth was the result of positive contributions from personal consumption expenditures (PCE), residential fixed investments, and state and local government spending. Those contributions were partially offset by negative dynamics of nonresidential fixed investments, exports, private inventory investment, and federal government spending. In particular, PCEs posted the highest growth rate at 1.9% qoq in Q1. A 17.1% qoq increase in residential fixed investment was more than offset by nonresidential fixed investment leading to a 1.5% qoq decline in total fixed investment. This together with negative developments in private inventories led to a 2.6% qoq decrease in gross private domestic investment. Exports reported a 2.0% qoq decrease, which was only slightly offset by a 0.2% qoq decrease in imports. Growth of the state and local government consumption expenditures and gross investment at 2.9% qoq more than compensated for a 1.6% qoq decrease in the corresponding expenditures at the federal level.

1. GDP growth, % qoq at annual rates



Source: The U.S. Bureau of Economic Analysis

National industrial production dynamics significantly improved in April. It grew by 0.7% mom after two months of decline. The improvement looks even more significant compared to the revised data for March, which shows a decrease of 0.9% mom (0.6% mom in the previous data release). A 0.3% mom increase in manufacturing output was accompanied by a 5.8% mom jump in production of utilities fueled by return of demand for electricity and natural gas to normal level after being at abnormally low levels due to warmer-than-usual weather in March. Mining production, in turn, continued to decrease in April. It posted a 2.3% mom decline, which is 0.7 percentage points less compared to the decrease reported in the previous month. The major reasons for the decrease were substantial cutbacks in oil and natural gas extraction aggravated by reductions in coal mining and in oil and gas well drilling and servicing. Growth in manufacturing output was fueled by positive dynamics in production of durables (increased by 0.6% mom), which was partially offset by a 0.4% mom decrease in output of other manufacturing (publishing and logging). Production of nondurables remained unchanged in April. In year over year terms, dynamics of the total industrial production index improved in the reporting months. The decrease in production decelerated by 0.9 percentage points to 1.1% yoy. Mining still posted the sharpest decrease at 13.4% yoy, while positive monthly dynamics helped turn the over-year growth of utilities positive at 0.4% yoy. This identical to growth reported by manufacturing output, which remained unchanged compared to March.

Manufacturing activity continued to expand at the national level in April. According to the Institute for Supply Management, the PMI index remained above 50% despite a 1.0 percentage point decline. Being at 50.8%, the PMI indicated further expansion of manufacturing sector, though, at slower pace compared to March. Most of the PMI components also indicated expansion despite some decreases in readings. This includes the new orders index (55.8%), production index (54.2%), and price index (59.0%). Only employment and inventories indexes indicated contraction as they remained below 50% threshold in April. The former stayed at 49.2%, which is a 1.1 percentage

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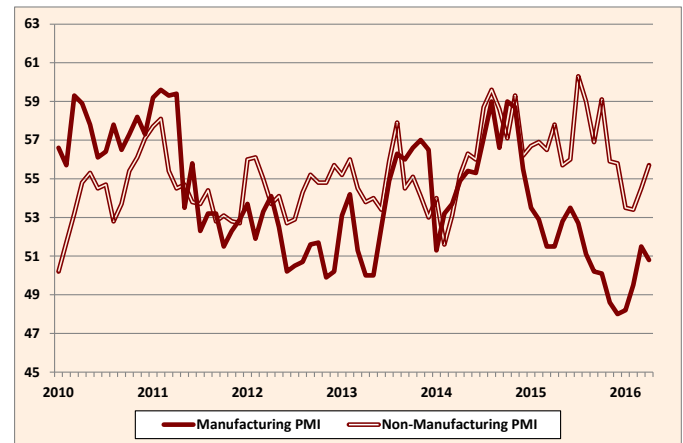
point improvement over the March reading, while the latter further decreased by 1.5 percentage points to 45.5%. Eleven of eighteen manufacturing industries reported growth in April. The highest growth was reported by wood products industry, while the lowest one was reported by beverage and tobacco products. Such important manufacturing industries as primary metals, fabricated metal products, chemical products, and machinery reported growth close to the average for the entire sector. Four manufacturing industries reported contraction in April. Those were petroleum and coal products, transportation equipment, miscellaneous manufacturing, and furniture and related products. Non-manufacturing activity also continued to expand in US in April. The NMI index grew by 1.2

percentage points to 55.7% during the reporting month. Its major components also remained above 50% threshold and sustained minor changes. The business activity index reading was at 58.8%, while the new orders index was reported at 59.9%. Overall, April marked the 75th consecutive month of expansion in economic activity of US non-manufacturing sector.

Consumer confidence softened for the second month in a row in May. Furthermore, the deterioration of the Conference Board Consumer Confidence Index accelerated as after 1.5 basis points loss in April, the Index lowered by 2.1 basis points to 92.6. Negative developments were reported for assessment of both present situation and short-term outlook but

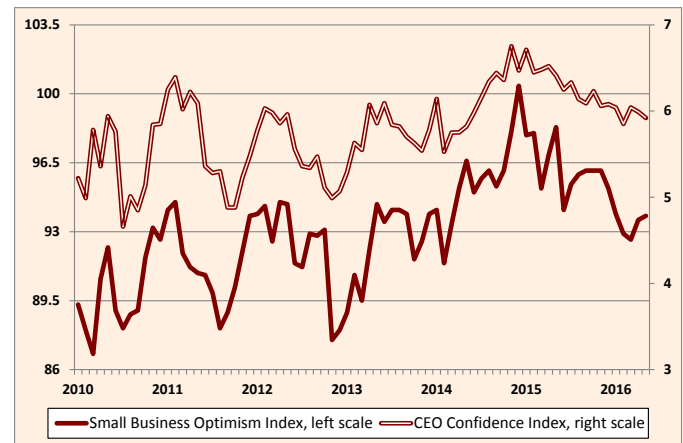
deterioration in present situation perception was more significant. The present situation index decreased from 117.1 to 112.9 basis points, while the expectations index saw a 0.9 basis point decline to 79.0. In relation to current situation, consumers were less optimistic about both business conditions and labor market. Situation was not that simple with assessment of the short-term outlook. Expectations concerning business conditions saw mixed developments as the number of those expecting improvements in business conditions increased same as the number of those expecting business conditions to deteriorate. At the same time, consumers showed less optimism in relation to future labor market conditions. The number of those expecting more jobs over the next six months remained virtually unchanged but the number of those expecting fewer jobs increased.

## 2. PMI, indexes



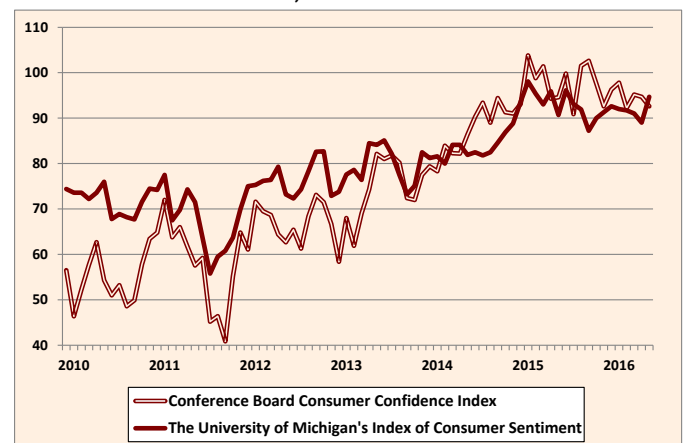
Source: Institute for Supply Management

## 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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There were mostly negative developments in national construction in April. The value of construction put in place decreased by 1.8% mom due to a contraction in both private and public segments. Private construction posted a 1.5% mom decline in April because of identical decreases in residential and nonresidential construction. Similarly, public construction saw contraction of 2.8% mom due to identical declines in residential and nonresidential construction. The sharpest decline of public nonresidential construction was observed in highway and street construction at 6.6% mom, while in the private construction segment the sharpest decline in nonresidential construction was reported for communication construction at 7.2% mom. Because of negative monthly dynamics, the year-over-year growth of construction put in place further decelerated to 4.5%. Private construction continued to grow faster at 6.2% yoy, while public construction growth entered the negative territory decreasing by 0.6% yoy. The number of construction permits edged up by 2.0% mom in April which is significantly below growth observed in March (15.6% mom). Furthermore, due to negative statistical base effect the year-over-year growth of the number of permits turned negative and reached -5.9% yoy. As for the valuation of the construction permits, its growth was close to that of the number of permits in monthly terms but was significantly different from the correspondent growth in year-over-year terms. In particular, valuation of permits increased by 1.0% yoy, which was probably because of different distribution of permits between types of houses. In particular, the number of permits for construction of single-unit houses (high unit cost of construction) increased by 4.3% yoy and the number of permits for construction of multi-unit houses (lower unit cost of construction) decreased by 23.6% yoy.

US exports further expanded in April. Total exports posted a 1.4% mom increase to USD 182.8 billion on the back of exports in goods which more than offset a minor decline in exports of services. Industrial supplies and materials ensured additional USD 1.8 billion of exports, while automotive vehicles, parts, and engines ensured additional USD 0.8 billion. Overall, exports of goods grew by 2.5% mom or USD 2.9 billion in April. Services, in turn, reported USD 62.7 billion of exports which is USD 0.3 billion or 0.5% less than in March. Travel services reported USD 0.2 billion less exports, while transport services decreased exports by USD 0.1 billion.

After some moderation in February and March, the Texas economy returned to growth in April. Expansion of factory activity in the state was one of the reasons for that. Manufacturing activity posted growth for the second consecutive month. The production index increased by 2.5 basis points to 5.8, indicating an increase in output for the sector. Other major indexes also reflected significant positive developments in manufacturing activity. In particular, the capacity utilization index saw positive reading for the second month in a row at 8.2, same as shipments index (7.1). The decline in the new orders index decelerated by 11 basis points to 0.7. At the same time, perceptions of broader business conditions remained pessimistic, according to the Federal Reserve Bank of Dallas. As the data shows, the general business activity index remained unchanged at -13.9, while the company outlook index saw some improvements but also remained negative at 5.9. The employment index reported the negative reading for the fourth consecutive month at 3.7. Indexes for future expectations saw some negative developments but remained positive.

Texas service sector activity continued to expand in April. The revenue index increased from 6.4 to 10.6, its highest reading this year. Significant improvements were reported also for the labor market of the sector as the employment index moved up by 5.2 basis points to 6.3. Perceptions of broader economic conditions were mixed in April. The general business activity index remained unchanged at -3.7, while the company outlook index edged up from 3.1 to 7.3. At the same time, expectations regarding future business conditions reflected more optimism.

Unlike in the US in general, consumer confidence further strengthened in Texas in May. As the Conference Board reported, the consumer confidence index expanded by 13.5 basis points to 117.3 during the reporting month.

Similar to national construction, Texas construction saw mostly negative developments in April. Nonresidential building construction returned to a decline in April. The value of contracts dropped from USD 1.9 billion to USD 1.3 billion during the month. Unlike in US in general, the number of construction permits posted a high increase in Texas in April, expanding by 15.7% mom. However, year-over-year growth remained negative and even further accelerated reaching 19.1%. As the number of permits for construction of multi-unit houses grew faster than that for construction of single-unit houses, valuation of construction permits grew slower than the number of permits in

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April. In particular, total valuation of construction permits increased by 7.3% mom. Similarly, the year-over-year decline of construction permits valuation was slower than that of the number of permits at 12.6%.

As the latest available data shows, Texas exports grew by 3.9% in Q1 2016 but still remained lower than a year ago by 1.7%. Exports to Asia (excluding China) grew the most (by 22.3%), while exports to Canada posted the sharpest decline of 8.5%. Machinery and petroleum and coal products saw the highest growth among industries. Primary metals and fabricated metals reported further decreases during the quarter.

Despite some increase in world oil prices, the Texas rig count continued to decrease in April. It marked the eighth consecutive month of decrease with an 11.0% mom drop to 194. As a result, the rig count remained 54.0% lower than in April 2015.

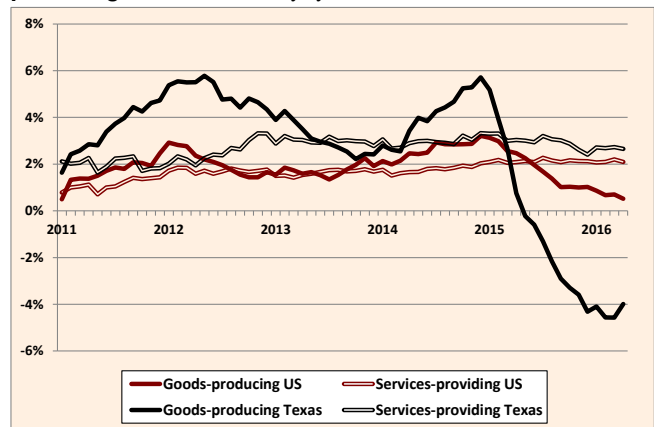
## Employment

US labor market conditions continued to gradually improve in April. Total nonfarm payroll employment increased and the number of unemployed and the unemployment rate posted almost no change. At the same time, employment gains continued to decline. Total nonfarm payroll employment expanded by 123,000 (0.1% mom) compared to 186,000 observed in March. The services sector again fueled the employment growth generating 137,000 new jobs, while mining was the sector with the sharpest employment decrease. Professional and business services reported the largest employment growth at 55,000 jobs or 0.3% mom. Health care employment expanded by 35,900 or 0.2% mom. Financial activities industry was another leader in employment gains as it added 18,000 of new jobs or 0.2% mom. Mining reported one more decrease in employment of

10,100 jobs or 1.5% mom. From its peak in September 2014, mining employment decreased by 214,500 or almost by one-fourth. Other industries, including construction, manufacturing, trade (wholesale and retail), transportation, information, leisure and hospitality, and government reported no significant changes in employment in April. In over-year terms, total nonfarm payroll employment expanded by 2.6 million new jobs or 1.9% in April. The number of unemployed remained almost unchanged around 7.9 million meaning that the unemployment rate also remained virtually unchanged at 5.0%.

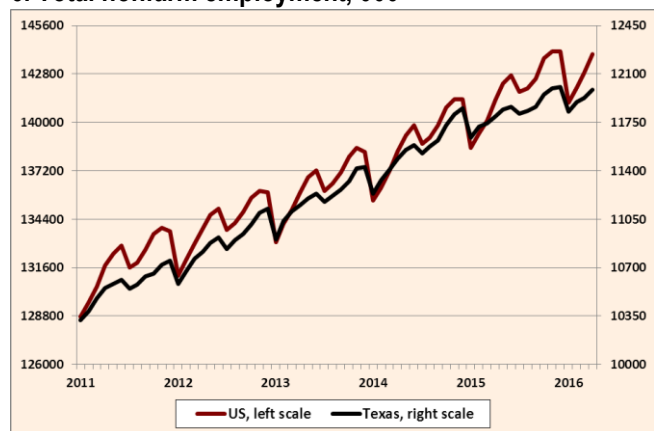
Texas labor market conditions posted mostly positive developments in April. Total nonfarm employment further increased, though at much slower pace. Texas employers created 11,900 new nonfarm jobs (0.1 mom growth) in April which marked the 12th month of employment growth over the last 13 months and was a significant progress over a 9400 decrease reported in March. In year-over-year terms, total nonfarm employment increased by 191,100 new jobs or 1.6%. Similar to the national level, service-providing industries fueled employment growth. At the same time, goods-producing

## 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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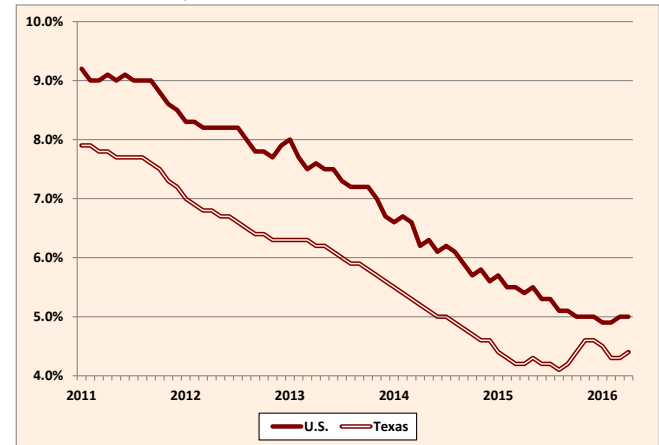
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industries reported employment losses. Among the service-providing industries the largest increase in employment in absolute terms was posted by education and health services industry at 12,1900 jobs which was equivalent to 0.7% mom. Professional and business services were second best with 4,500 additional jobs (0.3% mom). Decrease in employment of mining continued in April. The sector reported a decrease of 6,400 jobs, which was equivalent to 2.7% mom. On the good side was some deceleration in decrease as the rate of decrease lowered from 3.1% observed in March and 3.4% observed in February. Unfortunately, unemployment also slightly increased in April. The number of unemployed increased by almost 10,000 or 1.7% mom to 587,049. This led to the unemployment rate inching up by 0.1 percentage point to 4.4%, which was still below the unemployment rate at the national level.

## 7. Jobless rate, %



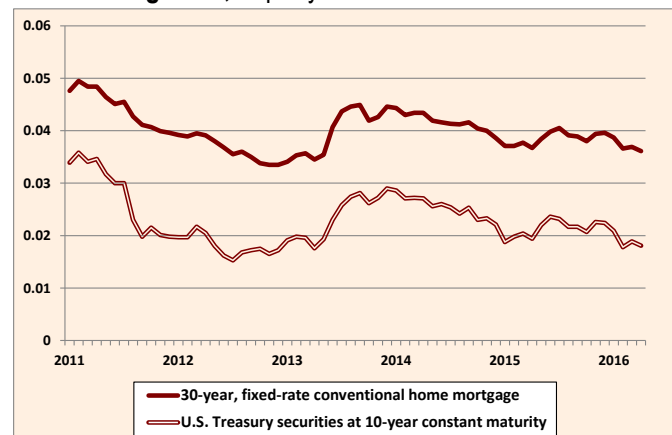
Source: Bureau of Labor Statistics

Labor market conditions saw mixed developments at the level of Texas metropolitan areas in April. Although employment saw little changes in monthly terms, in year-over-year terms it deteriorated a bit, as Houston and Wichita Falls joined the club of other three metros experiencing decrease in employment. Victoria posted the highest monthly growth of employment at 0.63%. Situation with unemployment was exactly the opposite. The number of unemployed sustained cardinal changes in monthly terms, while its over-year dynamics did not change much. In particular, just one metro (Odessa) posted a monthly increase in the number of unemployed compared to March, when just one metro saw decrease in the number of unemployed. At the same time, that monthly progress led only to some positive changes in the over-year dynamics of the number of unemployed, while the number of metros experiencing growth in unemployment remained almost unchanged. The lowest unemployment rate was observed in Amarillo again at 2.7%. Brownsville-Harlingen reported the highest unemployment rate at 6.7%.

## Monetary Policy and Asset Prices

Consumer inflation accelerated in April. After a 0.1% mom increase in March, the all items consumer price index expanded by 0.4% mom. The increase was broad-based as all the major price indexes expanded, but the main reason was further acceleration of growth in energy prices. The growth of 3.4% mom for energy prices was attributed mostly to an 8.1% mom increase in gasoline prices (almost four-fold acceleration from 2.2% mom in March). The mentioned 3.4% mom increase was the largest since February 2013. As for food prices, they returned to growth after one month of decline in March. Prices of food at home inched up by 0.1% mom after a 0.5% mom decline in March, while prices of food away from home expanded at the same rate of 0.2% mom for the second month in a row. Prices of all items less food and energy remained on an upwards trend as growth in prices of services less commodities less food and energy commodities. In

## 8. Borrowing rates, % per year



Source: Federal Reserve System

energy services more than offset some decline in prices of year-over-year terms, consumer inflation also accelerated

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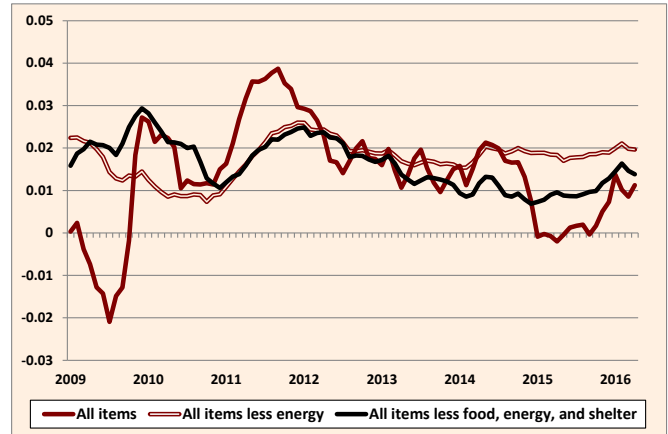
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insignificantly from 0.9% to 1.1%. This was mainly the result of deceleration in decline of energy prices from 12.6% yoy to 8.9% yoy. Growth in prices of foods and of all items less food and energy remained almost intact at 0.9% yoy and 2.1% yoy respectively.

Both national and Texas housing markets expanded in April. Existing home sales expanded for the second consecutive month despite faster growth of prices and ongoing inventory shortages. Total existing-home sales grew by 1.7% mom to a seasonally adjusted annual rate of 5.45 million from an upwardly revised 5.36 million observed in March. The growth was ensured by a jump in sales in the Midwest, where home prices are most affordable, and a decent increase in the Northeast, which offset declines in the South and West. The median existing-home price marked the 50th month of a year-over-year increase with an accelerated 6.3% yoy growth to USD 232,500 in April. At the same time, total housing inventory remained 3.6% yoy lower at 2.14 million existing homes available for sale despite a 9.2% mom expansion. Situation with unsold inventory improved in April. Unsold inventory was equivalent to 4.7-month supply at the current sales pace compared to a 4.4 months in March. The Texas housing market observed almost the same growth dynamics as the national market. In particular, actual existing-home sales posted a 1.8% mom increase, which, however, led to further deceleration of year-over-year growth from 7.2% to 5.1%. Growth of the median existing-home prices was similar to one observed at the national level at 6.45% yoy. On the other hand, unsold inventory remained unchanged compared to March at a 3.6-month supply at the current sales pace.

### 9. CPI, % yoy change



Source: Bureau of Labor Statistics

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