

# Economic Environment

## Introduction

The purpose of this report is to update our analysis of the current economic environment and issues related to the FY 2012-13 budget.

## National Economy

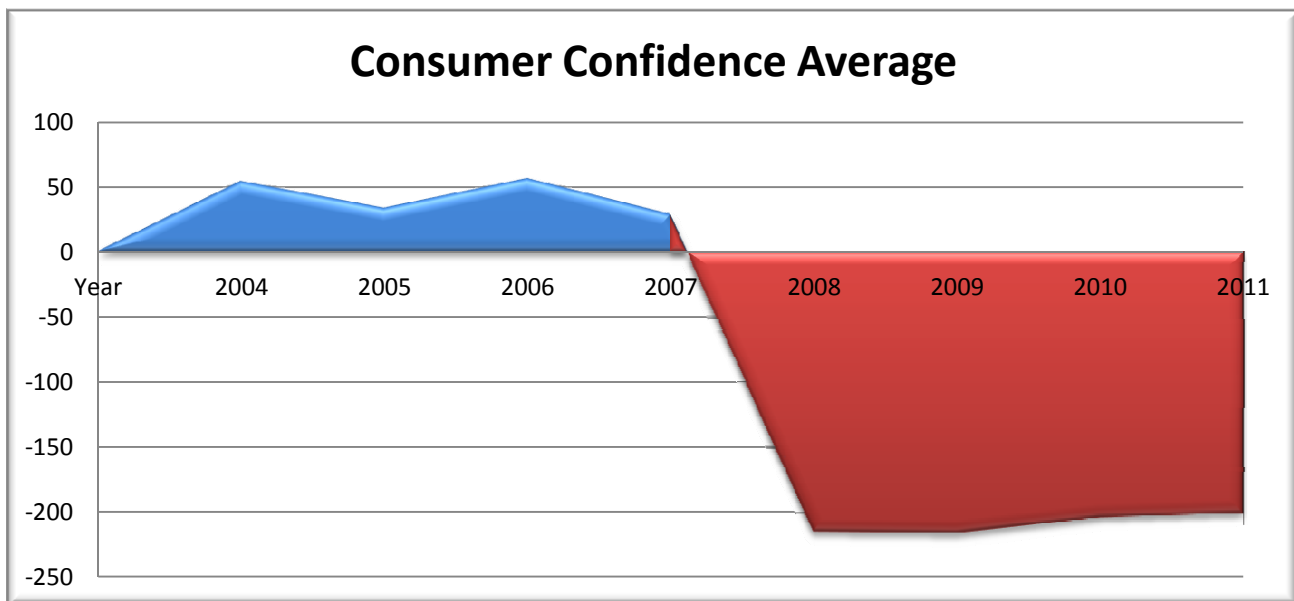
The United States economy is continuing to go through a period of uncertainty that started in 2007. Significant fluctuations in energy prices combined with historically high levels of federal government spending, ongoing military conflicts and fundamental changes in the financial and credit markets have contributed to a high level of concern about the future.

Problems in the housing industry resulting from some aggressive and questionable lending practices over the last few years have led to declining home prices and increased foreclosure rates in many parts of the country. Interest rates have declined significantly as the federal funds rate is near zero and mortgage interest rates continue to be at 50 year lows.

While there are some signs of improvement, it does not appear that the economy has reached the bottom of this current cycle and there are a number of ongoing concerns about major industries, local and state government funds and the potential impacts that inflation and historically high federal deficits could have on the economy over the next few years.

## Consumer Confidence is Low

Consumer confidence, as measured by three groups (The Conference Board, University of Michigan and ABC News), has remained significantly negative since September 2007. The average of these three indexes has trended up and down over this 3-4 year period but has not come close to showing a positive outlook throughout this economic downturn.



Restoring consumer confidence in the economy is a key ingredient to reestablishing growth, reducing unemployment and improving the conditions of the financial markets in the US.

**Challenges for Government at all Levels**

State and local governments throughout the US have faced significant budget challenges over the last 3-4 years. The State of Texas, despite the relative strength of its economy, has not been immune to the effects of this economy. The State has made some significant budget cuts.

County government relies on a combination of property taxes, fees and funding from federal and state governments to conduct operations. This economy has put significant pressure on those sources of county revenue while the need to provide services is increasing.

The economy has started to rebound in Harris County with some of the increases in property values to amounts similar to before the downturn began.

**Local Economic Indicators**

The Greater Houston Partnership (GHP) tracks a number of local economic indicators and the following summarize some of these trends:

Nonresidential electricity sales, an indicator of industrial production is up 2.2% from 2010 levels.

Continuing claims for unemployment dropped from an average of 101,755 claims for 2010 to 80,032 for 2011, a 21% drop, bring the number below the average for 2008.

In aviation, there was a slight increase in flights and total passengers from 2010 to 2011 along with a 5.7% increase in air cargo going through Houston's airports.

The Greater Houston area gained 75,800 new jobs during 2011, a 3% increase. The December 2011 total number of employees in this area reached 2.643 million, the highest year end total exceeding the previous high of 2.628 million in December 2008.

The unemployment rate was 7.3% in December for this area compared to 8.3% nationally.

Inflation ended 2011 with a 3% increase both nationally and for the county. Energy costs during 2011 increased 6.6%.

In housing, the median price rose from \$153,900 to \$155,000 during 2011 and there was a 4% increase in the number of homes sold and a 5.2% increase in the related dollar value of the sales.

There has been significant growth in the building contracts which are up 34% in December 2011 compared the December 2010 for the Greater Houston Area and up 73% during that same time frame in the city of Houston.

All of these indicators appear to point to a continued recovery for this area.