SigmaBleyzer

Texas Economic Update

THE BLEYZER FOUNDATION

June 2010

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- **The U.S. economic recovery slowed in June, although the Texas economy continued to grow.**
- **In June, Texas factory production slowed, due to a drop in new orders and shipments of manufacturing goods.**
- **In May, Texas saw the first annual gain in jobs since the end of 2008.**
- **Five Texas metros have already exceeded their pre-recession output levels.**
- **Houston has the highest level of entrepreneurial activity out of the 15 largest U.S. cities, according to the latest Kauffman Index of Entrepreneurial Activity.**
- **The moratorium on deep water drilling puts at serious risk the long-term oil production prospects of the Gulf of Mexico and will have a significant impact on the Texas economy.**

Executive Summary

The U.S. economic recovery slowed in June due to sovereign credit concerns in the Euro area and weaker manufacturing growth in China. On the upside, the Purchasing Managers Indices in manufacturing and service industries remained in positive territory, pointing to continued expansion of economic activity. Still, recent equity market gyrations testify to the fragility of the ongoing recovery. Indeed, up until now, a rapid turnaround of the U.S. economy was supported by export-driven expansion of manufacturing. However, a recovery of consumer spending and demand for housing, for the most part shored up by fiscal stimulus, is still weak due to modest gains in the job market.

Texas factory activity also decelerated. According to the Texas Manufacturing Outlook Survey, the production index declined in June due to falling new orders and shipments of manufacturing goods. Meanwhile, the employment index, which tracks job trends in manufacturing, edged down; reflecting sluggish recovery of the labor market. On the upside, industrial production in May reported the third straight month of annual gains on solid expansion in the mining industry.

Large Texas metros, which entered this recession with more stable housing markets, a relatively higher concentration of commodity producers, and a greater exposure to government, education and export-oriented manufacturing, appear to be more resilient; and are emerging faster from the economic downturn. In particular, according to the Brookings Institution, six Texas metros are among the 20 strongest large U.S. metropolitan economies. Five of them have already exceeded their pre-recession output levels. Also, Forbes puts Austin-Round Rock, Dallas-Ft. Worth-Arlington, San Antonio-New Braunfels and Houston-Sugar Land-Baytown among America's Top 10 Recovery Capitals.

In May, the unemployment rate in Texas remained 1.4 percentage points lower than the national average, with job growth turning positive for the first time since the end of 2008. The Texas labor market, having suffered less pain during this economic downturn, is recovering faster than labor markets in other states. In particular, with the exception of information and wholesale trade, jobs in the major sectors of the Texas economy are either growing faster or disappearing slower than nationwide. Since the beginning of 2010, nonfarm employment in Texas grew by 1.6% - versus a national average of 0.8% - on job gains in construction and stronger hiring in manufacturing and service producing industries.

That said, a sustainable recovery relies on stronger business investment to accelerate private-sector job growth. Indeed, corporate savings have been increasing, putting firms in a position to boost investments and support the economic rebound. However, the national investment climate remains unappealing due to uncertainties over healthcare costs, the impact of regulatory reform, and the future magnitude of fiscal adjustments. We believe this provides an opportunity for Texas thanks to its friendlier business regulations, ability to attract jobs and corporations from higher-cost states, and brighter economic outlook. Indeed, according to the latest Kauffman Index of Entrepreneurial Activity, Texas ranks forth by the number of entrepreneurs per 100,000 people; meanwhile, Houston has the highest level of entrepreneurial activity out of the 15 largest U.S. cities.

Finally, the immediate impact of the moratorium on deep water drilling on Texas may be less serious than on other Gulf States. However, this ban puts at serious risk the long-term oil production prospects of the Gulf of Mexico. And this makes Texas, a global leader in the energy industry, particularly vulnerable to the moratorium-inflicted disruptions of the oil drilling activities.

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Economic Growth

The U.S. economy continued to expand in June, albeit at a moderate pace. June's Purchasing Managers Index (PMI), which tracks economic activity in the manufacturing sector, slipped to 56.2% from 59.7% in May, indicating that output growth in U.S. manufacturing is easing.[1] On a positive note, June was the 11th straight month of output expansion in manufacturing and the 14th consecutive month of growth in the overall economy.

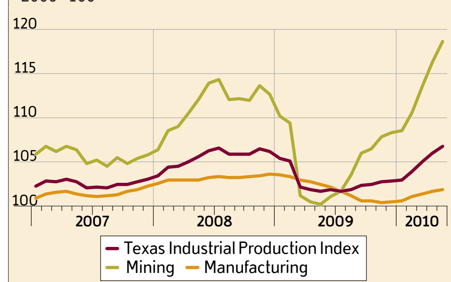
Texas factory activity declined slightly in June. According to the Texas Manufacturing Outlook Survey, the Production index moved into negative territory on falling new orders and shipments of manufacturing goods (see chart 1). Meanwhile, the employment index, which tracks job trends in manufacturing, edged down reflecting a sluggish recovery in the labor market. On the upside, May's level of industrial production was 5.1% higher than a year ago - the third straight month of annual gains - as the mining industry reported nearly a 20% increase in output (see chart 2).

Texas manufacturing grew slower in June 1

Source: The Federal Reserve Bank of Dallas

Industrial recovery in Texas 2

2006=100



Source: The Federal Reserve Bank of Dallas

However, national and state aggregates may hide the fact that the ongoing recovery is proceeding unevenly at the metro level. The U.S. economy depends on the health of the major metro economies - the 100 largest metros produce nearly three quarters of the national output. These metros entered the recession with very different economic conditions in their housing and labor markets, which is influencing the pace of economic recovery. In particular, metros with stable housing markets, a relatively higher concentration of commodity producers, and a greater exposure to government, education and export-oriented manufacturing were more resilient and are emerging faster from the economic downturn. The latest MetroMonitor, released by the Brookings Institution, places six Texas metros among the 20 strongest large U.S. metropolitan economies. These Texas metros account for over 80% of the state's economy and, with the exception of Houston, have already exceeded their pre-recession output levels (see chart 3). Forbes puts Austin-Round Rock, Dallas-Ft. Worth-Arlington, San Antonio-New Braunfels and Houston-Sugar Land-Baytown among the America's Top 10 Recovery Capitals.

Texas metros are recovering faster than other large U.S. cities 3

Metropolitan area	Employment, peak to Q1 2010	Real GMP*	
		peak to Q1 2010	Q4 2009 to Q1 2010
McAllen-Edinburg-Mission, TX	-1.1%	2.5%	1.5%
El Paso, TX	-1.6%	2.6%	1.8%
Washington-Arlington-Alexandria, DC-VA-MD-WV	-2.2%	6.3%	1.5%
Austin-Round Rock-San Marcos, TX	-2.3%	5.3%	1.6%
San Antonio-New Braunfels, TX	-2.9%	3.9%	1.3%
Houston-Sugar Land-Baytown, TX	-3.9%	-0.8%	1.3%
Dallas-Fort Worth-Arlington, TX	-4.5%	1.8%	1.3%
Boston-Cambridge-Quincy, MA-NH	-4.6%	0.2%	0.8%
New York-Northern New Jersey-Long Island, NY-NJ-PA	-4.9%	0.3%	0.7%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	-5.3%	-2.2%	0.7%
Chicago-Joliet-Naperville, IL-IN-WI	-7.5%	-1.5%	1.3%
Charlotte-Gastonia-Rock Hill, NC-SC	-7.6%	-1.0%	1.1%
San Francisco-Oakland-Fremont, CA	-8.2%	-1.6%	1.0%
Atlanta-Sandy Springs-Marietta, GA	-8.4%	-2.9%	0.7%
Los Angeles-Long Beach-Santa Ana, CA	-8.5%	-3.4%	1.0%
Miami-Fort Lauderdale-Pompano Beach, FL	-10.3%	-3.3%	0.7%
Detroit-Warren-Livonia, MI	-17.1%	-12.6%	0.5%
United States	**-6.1%**	**0.8%**	**0.9%**
100 Largest Metros	**-6.4%**	**-0.2%**	**0.9%**

Source: The Brookings Institution

Despite this, increasing risks of more volatile demand in the U.S. and Texas export markets may reduce output growth in manufacturing during the second half of 2010. In particular, the growth of global manufacturing cooled in June on weaker export orders and renewed worries over sovereign debt risk in the Euro area. The HSBC China Manufacturing PMI fell for the third consecutive month, partially due to tightening measures implemented by Beijing to reign in credit growth, on worries of growing inflationary pressures and emerging asset bubbles. However, this index is above 50%, which indicates the continued ex-

[1]Source: The Institute for Supply Management.

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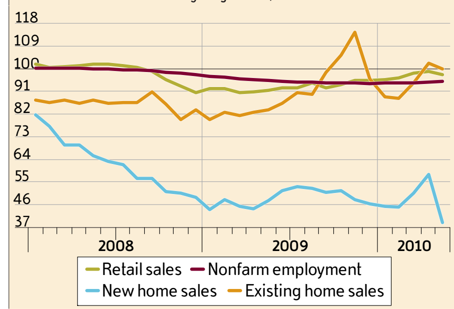
Where Opportunities Emerge

pansion of Chinese manufacturing. Furthermore, major Asian economies, including China, Taiwan, South Korea and Japan, continue to report a strong rebound in exports. Meanwhile, domestic demand is gradually emerging as an important source of growth for Asian economies. Indeed, as more consumers in China and India enter the middle class, these countries are likely to import more goods from the rest of the world. Both India and China are expected to grow at above 9% annually both this year and next,[2] which should support commodity prices and U.S. exporters.

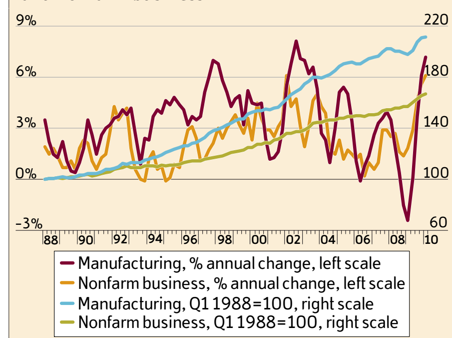
Weak labor market weighs on consumer spending and demand for housing 4
all series are seasonally adjusted, 2007=100



Source: The U.S. Census Bureau, The U.S. Bureau of Labor Statistics, The National Association of Realtors

Increasing worries over sovereign debt in the Euro area represent a serious risk to the global economic recovery. In Europe, a growing budget deficit, and public debt, are prompting governments to adopt fiscal austerity measures. The resulting budget cuts are likely to cool demand leading to slower growth both in Europe and worldwide. In addition, a weaker Euro, which remains under pressure on growth concerns in Europe, adds extra pain to U.S. exporters. On the upside, the size of budget adjustments in the Euro area is small compared to the size of the Euro area economy.[3] This means the impact of fiscal tightening on Euro area economic growth is likely to be relatively modest. And only 9.5% of all Texas exports and 15% of all U.S. exports went to the Euro area in 2009. As a result, a slower economic recovery in the Euro area should not be a principle obstacle for the U.S. economic rebound.

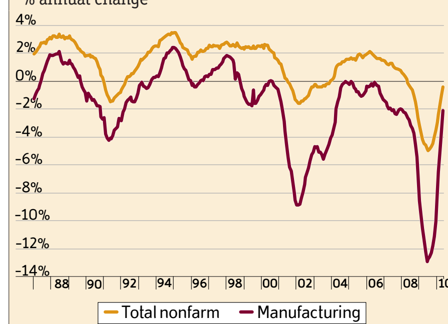
Output per hour in manufacturing and nonfarm business 5



Source: The U.S. Bureau of Labor Statistics

The big question is whether the U.S. economic recovery can be sustained if exports grow slower than the last several quarters. Up until now, a turnaround in the U.S. economy was supported by export-driven expansion of manufacturing[4]. However, a recovery of consumer spending and demand for housing, for the most part shored up by fiscal stimulus, is still fragile, with only modest gains in the job market (see chart 4). Indeed, according to the latest State of the Nation's Housing Report by the Joint Center for Housing Studies at Harvard University, employment gains are the principle driver behind any meaningful housing turnaround. This means a decline in sales of new homes in May, to the lowest level on record (due to the expiration of the homebuyer tax credit), reflects the limits of the housing recovery when the unemployment rate is close to 10% and private-sector job growth is weak.

Jobs in manufacturing and the overall economy 6
% annual change



Source: The U.S. Bureau of Labor Statistics

All of this implies that this economic recovery will remain fragile unless the private sector starts creating lasting new jobs. The output expansion in industry is aiding states that are strong in export-oriented manufacturing. However, this may not be sufficient to bring needed job gains nationwide. First, improving exports tend to benefit existing exporters with more modest impact on the creation of new firms. Second, productivity growth in manufacturing is usually higher than in the overall economy, partially due to stronger global competitive pressures. This means that manufacturing firms are more likely to respond to increasing demand by utilizing existing workers more productively (or reallocating to less costly locations) rather than creating new jobs. In fact, over the last two decades, productivity in manufacturing more than doubled, while it grew by only two thirds in nonfarm business (see chart 5). At the same time, the share of manufacturing jobs in the overall economy shrank from about 16% in 1990 to less than 9% in May 2010, which implies that employment tends to grow faster in non-manufacturing industries. Indeed, jobs losses in manufacturing are typically larger during recessions, while employment in manufacturing starts to grow later than in the overall economy and at a slower pace (see chart 6).

[2]Source: The International Monetary Fund.
[3]The Economist estimates that announced discretionary budget cuts will amount to only 0.2% and 1% of the Euro area GDP in 2010 and 2011, respectively.
[4]Texas also benefits from improving demand for petroleum products, which explains solid output gains in the mining industry.

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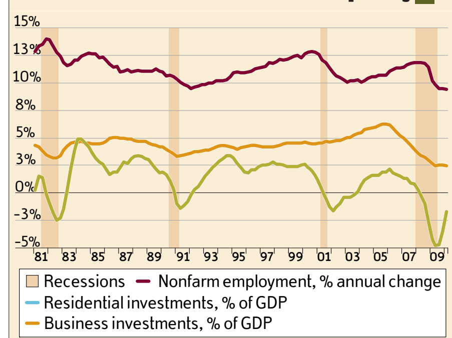
Therefore, a resumption of business spending is necessary to accelerate private-sector job growth. After all, corporate savings have been increasing, putting firms in a position to boost investments and support a recovery. In particular, the share of liquid assets (such as currency, savings deposits and money market fund shares) in the total financial assets of nonfarm, nonfinancial corporate businesses grew from 10.5% at the end of 2008 to 13% in the first quarter of 2010.[5] However, this also means that firms are choosing to hoard cash instead of investing. In fact, since the beginning of this financial crisis, the ratio of business investments to GDP fell from 12% in the last quarter of 2007 to roughly 9% in the first quarter of 2010 (see chart 7). Essentially, firms have to conserve more cash to service higher debt[6]. Even leaving aside tight credit markets, the quality of the business climate has emerged as a principle concern for inventors. Businesses remain confused about the impact of coming regulatory reforms. And this confusion deters corporations from investing in new offices and factories. Uncertainty over healthcare expenses, as well as likely tax hikes (to pay off public debt and reduce the federal budget deficit), makes it increasingly difficult to assess future business costs. Add to this still cloudy prospects for business sales, and the obvious response for many firms is to delay investments into productive assets.



Businesses are slow to resume investment spending 7

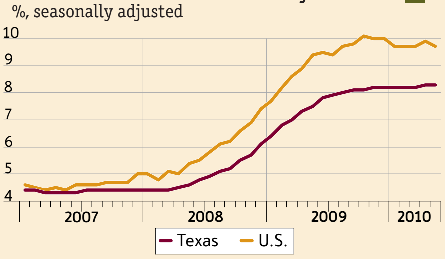
Source: The U.S. Bureau of Labor Statistics, Bureau of Economic Analysis, NBER

We believe, the regional costs of doing business, and the quality of the local investment environment, is becoming increasingly important for investment decisions. This helps Texas, because of the state's favorable business climate, its ability to attract jobs and corporations from higher-cost states, and it's brighter economic outlook. And, a friendlier business climate supports entrepreneurial activity, which is vital for sustained gains in employment and productivity. Indeed, according to the latest Kauffman Index of Entrepreneurial Activity, Texas ranks forth by the number of entrepreneurs per 100,000 people (450 in Texas vs. 340 nationwide). More than that, over the last 10 years this index has improved by over 60% in Texas and by only 24% nationwide.[7] Meanwhile, Houston has the highest level of entrepreneurial activity out of the 15 largest U.S. metros (630 entrepreneurs per 100,000 people). All of this testifies to the more dynamic and flexible nature of the Texas economy, which sustains the state's competitive edge in national and global economies.

Employment

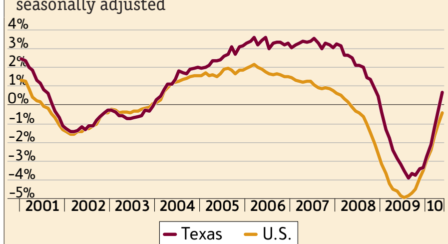
In May, the unemployment rate in Texas remained at 8.3%, or 1.4 percentage points lower than the national average (see chart 8). Job growth turned positive for the first time since the end of 2008, with nonfarm employment gaining 0.6% versus May 2009. More than that, the Texas labor market, having suffered less pain during this economic downturn, is recovering faster than labor markets in other states (see chart 9). Since May 2009, employment in Texas increased by 66,700 jobs, while it fell by 560,000 nationwide. With the exception of information and wholesale trade, jobs in major sectors of the Texas economy are either growing faster or falling slower than the national average (see chart 10). Since the beginning of

The unemployment rate in Texas has been lower than in the nation for over 3 years 8
%, seasonally adjusted



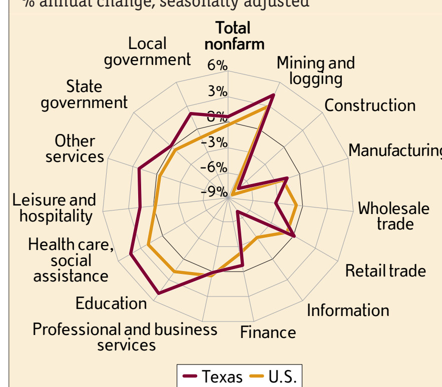
Source: The U.S. Bureau of Labor Statistics

The Texas labor market is on the mend 9
nonfarm employment, % annual change, seasonally adjusted



Source: The U.S. Bureau of Labor Statistics

The job picture is getting better in major sectors of the Texas economy 10
% annual change, seasonally adjusted



Source: The U.S. Bureau of Labor Statistics

[5]Source: The Federal Reserve Board, Flow of Funds Accounts, First Quarter 2010.
[6]Credit market debt owed by nonfinancial firms has increased from 66% of GDP in 2004 to 75% of GDP in the first quarter of this year.
[7]According to the survey by the Kauffman Foundation, in 1997-1999 the number of entrepreneurs per 100,000 people was 280 both in Texas and the U.S.

2010, nonfarm employment in Texas grew by 1.6%, versus 0.8% in the nation, on positive job growth in construction (nationwide, employment in construction is still declining and was down by 1.6% since the start of 2010) and stronger hiring in manufacturing and service producing industries.

Labor market situation in Texas' big cities 11
not seasonally adjusted

	Unemployment rate		Civilian employment,
	May 2010	April 2010	May 2010 vs. May 2009
State of Texas	**8**	**8.1**	**1.7%**
Houston-Sugar Land-Baytown	8.3	8.4	1.1%
Dallas-Plano-Irving	8.1	8.2	2.5%
Fort Worth-Arlington	8.1	8.2	1.7%
San Antonio-New Braunfels	7.1	7.3	1.0%
Austin-Round Rock-San Marcos	6.9	7.0	2.8%
El Paso	9.3	9.4	2.8%

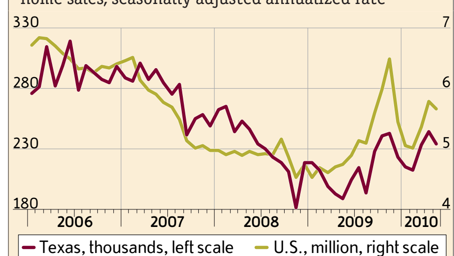
Source: The Texas Workforce Commission

In May, Texas added over 75,000 jobs thank to employment growth across ten major industries. Professional and business services grew by 10,200 jobs - and May was the fifth straight month of growth for this sector; leisure and hospitality, trade, transportation and utilities expanded by 17,800 jobs. Employment remained roughly the same in education, healthcare and social assistance; however, this sector created 57,900 jobs over the last 12 months or 87% of all new jobs added since May 2009. And employment is still on an uptrend in goods producing industries - Texas mining, manufacturing and construction expanded by 6,500 jobs, 7,000 jobs and 2,000 jobs, respectively. This improving employment situation reflects the relatively stronger performance of large Texas metros compared to other parts of the country. Indeed, the unemployment rate in big Texas cities is falling, while civilian employment is posting solid gains (see chart 11).

Housing market

Overall, the fiscal stimulus has boosted home sales, both in Texas and nationwide. Home sales climbed in April, and then fell in May, as the homebuyer tax credit expired (see chart 12). This year, activity in the residential real estate market closely mirrors 2009 performance, when sales peaked prior to the expiration of the initial homebuyer tax credit on November 30th.[8]

Home sales weakened on homebuyer tax credit expiration 12
home sales, seasonally adjusted annualized rate



Source: The Real Estate Center at Texas A&M University, The National Association of Realtors, The Bleyzer Foundation

Texas and the U.S. housing markets currently face similar pressures - i.e. high unemployment and foreclosure rates and tight access to mortgage financing - which may keep home sales at low levels throughout the rest of 2010. However, on many counts, Texas has relatively stronger economic and demographic fundamentals, which adds resilience to the housing sector here (see chart 13). This means the impact of the expiration of the homebuyer tax credit on Texas may be less pronounced compared to other U.S. states.

Texas housing market is better positioned for a recovery 13

Economy	Texas	California	U.S.
Private sector employment, % change December 2007-May 2010	-3.8%	-11.3%	-7.2%
Unemployment rate, %	8.3%	12.4%	9.7%
Personal income, % change Q4 2007 to Q1 2010	1.7%	-1.3%	0.7%
Real GDP growth, 2000-2008 average	3.2%	2.9%	2.3%
Housing			
S&P/Case-Shiller Home Price Indices, % change 2006 to March 2010	-4.2%	-35.0%	-29.2%
Seriously delinquent loans, Q1 2010	5.7%	12.1%	9.5%
% of residential properties with mortgages in negative equity, Q1 2010	11.8%	34.1%	23.7%
% of subprime mortgages in foreclosure, April 2010	5.7%	13.2%	13.6%
Demographics			
Projected population change, % 2000 to 2030	59.8%	37.1%	29.2%
Population, % change 2000-2009	18.3%	9.1%	91.0%
Contribution of net migration to population change in 2000-2009	45.3%	9.9%	35.0%

Source: The U.S. Bureau of Labor Statistics, The U.S. Census Bureau, The Bureau of Economic Analysis, The Federal Reserve Bank of New York, Standard & Poor's, CoreLogic, The Mortgage Bankers Association

Drilling Moratorium Effects:

On May 30th, following the Deepwater Horizon oil spill in April, the White House introduced a moratorium on new deep water oil drilling. The moratorium was halted on June 22nd by U.S. Judge Martin L.C. Feldman of the Eastern District of Louisiana. The judge said that the government did not prove this moratorium justified the economic damage to the drilling-rig operators and suppliers. In particular, over 20,000 jobs in the oil industry of the state of Louisiana alone may be lost due to the shutdown of the oil drilling operations.[9] The White House filed an appeal to reverse Feldman's ruling

[8] In November 2009, the homebuyer tax credit was extended until April 30th, 2010.
[9] Source: The Office of the Governor of the State of Louisiana.

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and reinstate the moratorium on deepwater drilling. However, on July 8th a three-judge panel of the United States Court of Appeals for the Fifth Circuit, in New Orleans, turned down this request lifting the original moratorium.

On Monday July 12th, the Obama administration issued a revised moratorium on deepwater oil drilling, which extends until November 30th and affects the same oil rigs as the original moratorium. This new moratorium is based on types of drilling technologies rather than on water depths of the oil rigs. This means the government is likely to face another legal battle with the oil companies over the new ban. As a result, drilling activity in the Gulf of Mexico is likely to remain on hold until all legal uncertainties are resolved.

Impact of the Deepwater Horizon oil spill 14

83,927 square miles (or 35% of the Gulf of Mexico federal waters) are closed to fishing.
Source: National Oceanic and Atmospheric Administration

The Deepwater Horizon oil spill is the worst environmental tragedy in the United States (see chart 14). And, the impact of the deep water oil drilling moratorium may add to the oil spill related economic and environmental problems of the Gulf States.

First, the Gulf of Mexico is an important source of the national oil supply. Indeed, according to the U.S. Energy Information Administration, in 2009, the Gulf of Mexico field production of crude oil stood at 1.54 million barrels per day (bbl/d) or about 30% of the total crude oil production in the U.S. The agency estimates that a six-month deep water drilling moratorium will result in the reduction of crude oil production by 31,000 bbl/d in the last quarter of 2010; and by 82,000 bbl/d in 2011.[10] The federally managed Gulf of Mexico outer continental shelf region provides over 98% of all crude oil production in the Gulf; Alabama, Louisiana and Texas make up the rest.

Second, deep water drilling plays a crucial role in the Gulf coast energy industry. In fact, most of the recent large oil discoveries are in deep waters; and, according to the Bureau of Ocean Energy Management, Regulation and Enforcement (formally the Minerals Management Service) over 70% of all offshore crude oil production in the Gulf of Mexico comes from wells in 1,000 ft (305 m) of water or greater. Thus, the ban on deep water drilling is likely to threaten jobs at the oil rigs as oil companies delay drilling current and new exploration wells.[11]

Thirdly, as large drilling projects are put on hold, long-term production loss may have wider implications for oil related businesses, including oil drilling and rig supply services, water transportation, port services, as well as shipbuilding and manufacturing of equipment for oil rigs. The immediate impact on Texas may be less pronounced than on Louisiana as most of the outer continental shelf structure are concentrated offshore in Louisiana (according to the Office of the Governor of the state of Louisiana, 22 out of 33 deepwater rigs, where drilling activity was suspended, are located off Louisiana's coast). However, this ban puts at serious risk the future growth of the oil industry in the Gulf of Mexico. Fewer new rigs, as well as more cumbersome and time-consuming drilling permits and rules, will reduce crude production in the Gulf region. This makes Texas, a global leader in the energy industry, particularly vulnerable to the moratorium-inflicted disruptions on oil drilling activities.

Finally, the environmental impact of the oil spill may hurt many Texas businesses operating in the Gulf region. At present, Louisiana, Mississippi, Alabama and Florida have the greatest exposure to the oil spill, which threatens jobs in fishing, leisure and hospitality as well as the oil industry. Although on Monday July 5th, tar balls from the Gulf oil spill were found on Galveston's East Beach, the amount discovered so far is trivial compared to the hardest-hit parts of the Gulf coast in other states. This means Texas fishing and resort businesses may be less affected by the oil spill compared to other Gulf coast states.

Having said that, the economic impact of the oil spill on commercial and recreational fishing in Texas may be significant, both due to the lower harvest this year and the future impact on the fish population. In particular, shrimp fishing, which is the most commercially valuable fishing activity in Texas (see chart 15), may suffer significantly from the Gulf oil spill. On the upside, according to the Texas Parks and Wildlife Department, the Gulf of Mexico Shrimp Season is still scheduled to open on July 15th as state fishing waters remain open to

[10] This amounts for roughly 2.5% and 7% of the current deep water crude oil production in the Gulf of Mexico.
[11] According to the Louisiana Mid-Continent Oil and Gas Association, a suspension of drilling operations at the 33 Gulf well may result in as many as 46,200 lost jobs.

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commercial fishing. In addition, Texas shrimp habitats have more restricted access to the open sea thanks to the offshore barrier islands, which should provide better protection against oil-contaminated water.

Commercial fishing in the Gulf of Mexico 15
2008 data

	Shrimp		Blue crabs		Oysters		Red snapper	
	$ mln.*	mln. lbs	$ mln.*	mln. lbs	$ mln.*	mln. lbs	$ mln.*	mln. lbs
Louisiana	130.6	89.0	32.00	41.60	38.80	12.80	2.03	0.59
Texas	157.2	63.8	2.30	2.60	8.83	2.68	2.74	0.87
Alabama	38.4	17.0	3.30	2.70	0.24	0.07	0.24	0.06
West Florida	23.3	9.9	1.50	1.80	5.47	2.50	2.94	0.85
Mississippi	17.1	8.6	0.45	0.45	6.87	2.61	-	-

* dockside value
Source: National Oceanic and Atmospheric Administration

The Louisiana Mid-Continent Oil and Gas Association estimates the idle rigs cost from $8.25 million to $16.5 million per day (33 idle rigs times $250,000 to $500,000 per day rate lease). The Energy Information Administration estimates lost production at 31,000 barrels per day in the fourth quarter and 82,000 barrels per day in 2011. At current and forecast prices, that's valued at $215 million and $2.3 billion, respectively. Wood MacKenzie estimates government royalties and tax payments will be reduced by $420 million to $650 million in 2011. And the energy investment and merchant bank Tudor, Pickering, Holt & Co. estimates that up to 50,000 regional jobs could be lost.

The moratorium has affected 18 firms drilling deepwater exploratory wells in the Gulf with 16 of those firms having a significant presence in Houston. The 16 firms lease 31 of the 33 deepwater rigs impacted by the drilling ban. These firms must decide whether to ride out the moratorium (however long it lasts), attempt to renegotiate contracts with rig operators, or decide whether to move rigs under contract to locations overseas, like Brazil or Africa. Moving a rig is expensive and once gone it won't return to the Gulf for several years.

When drilling resumes, the industry will operate under stricter safety regulations, higher liability caps, and closer government oversight, all of which will drive up the cost of finding and producing oil. The higher costs could reduce the industry's appetite for deepwater drilling, which forms a vital part of our nation's energy security- and the Houston regional economy.

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