

June 2017

Valentyn Povroznyuk, Edilberto L. Segura

- **Real GDP expanded by 1.4% quarter-over-quarter (qoq) in Q1, according to the third estimate of the Bureau of Economic Analysis.**
- **National industrial production remained flat in May.**
- **Strong performance of both manufacturing and service sectors ensured further moderate expansion of the Texas economy in May.**
- **The Texas rig count reached 460.**
- **Texas unemployment rate inched down by 0.2 percentage points to 4.8% in May.**
- **The Federal Open Market Committee raised the target range for the policy rate to 1.0-1.25%.**
- **The decrease in energy prices caused another minor decline in the consumer inflation in May.**

Executive Summary

The Bureau of Economic Analysis improved its estimate of real GDP growth for Q1 again. The general picture of economic development remained intact but growth of several GDP components was revised upwards.

The national industrial production remained unchanged in monthly terms in May. The decline in manufacturing fully offset increases in both mining and utilities. Decline in production of durables was the major factor of decline in manufacturing, while growth in utilities was the result of ensured by higher output of gas utilities.

The national level consumer confidence reversed the trend and strengthened a bit in June. According to the Conference Board data, consumers were more optimistic about current business conditions. At the same time, their expectations concerning developments in business conditions in the nearest future slightly worsened further.

The Texas economy continued to moderately expand in May. Its growth was promoted by further solid expansion of both manufacturing and service sectors. The energy sector continued contributing to growth as rig count continued to expand reaching 460 by the end of the month. At the same time, consumers have some doubts concerning further economic growth as their confidence continued to soften, though at a slower pace.

The national labor market conditions marginally improved in May, while progress in Texas labor market conditions development was more significant. Employment edged up at both national and Texas levels. On the other hand, the number of unemployed remained flat in the US in general but significantly declined in Texas.

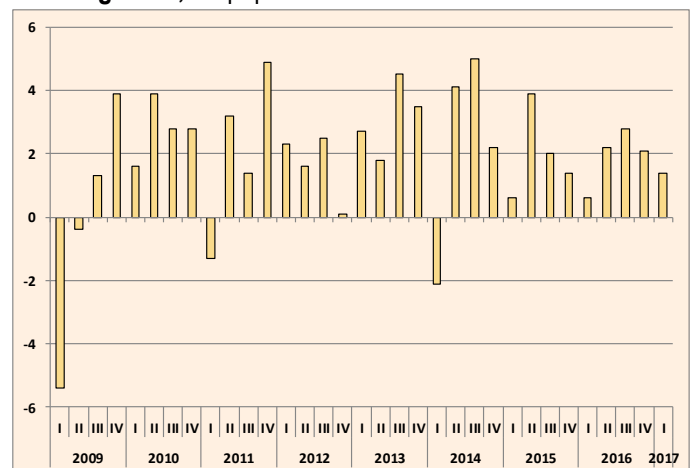
The Federal Open Market Committee decided to raise the policy rate to 1.0-1.25% basing on the most recent economic data in May. Following just one month of increase in April, consumer prices inched down by 0.1% mom in May. Decreasing energy prices were the reason, as their decline more than offset increases in other major price indexes. Housing market improved at both national and Texas levels in May.

Economic Growth

The Bureau of Economic Analysis once again upwardly revised its national real GDP growth estimate for Q1 in June. The third estimate shows that the US GDP grew at 1.4% qoq at an annual rate. This is a 0.2 percentage point improvement over the previous estimate. The improvement in the estimate was the result of upwards revision of personal consumption expenditures and exports dynamics. At the same time, the general picture of economic growth remained unchanged.

After a significant increase in April, the national industrial production remained flat in May. A 0.4% mom decline in manufacturing fully offset a 1.6% mom expansion of mining and a 0.4% mom growth in utilities. The decline in manufacturing was attributed to

1. GDP growth, % qoq at annual rates



Source: The U.S. Bureau of Economic Analysis

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.

June 2017

Valentyn Povrozhnyuk, Edilberto L. Segura

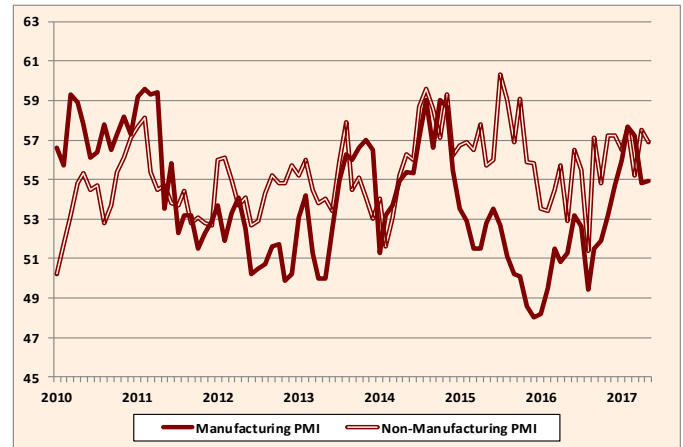
weaker production of durables which fell 0.8% mom due to declines within almost all major industry groups. This decline more than offset a 0.1% increase in output of nondurables and a 0.3% mom growth in other manufacturing. Growth in utilities was fueled by higher output for gas utilities which more than offset a minor decline in output for electric utilities. The year-over-year growth of the national industrial production remained unchanged at 2.2% thanks to over-year expansion of both manufacturing and mining. The former grew by 1.4% yoy, while the latter advanced by 8.3% yoy. Output of utilities remained almost flat in year-over-year terms in May.

National manufacturing continued to expand in April but at decelerated pace. The PMI index of the Institute for Supply Management dropped 2.4 percentage points to 54.8%. Dynamics of the PMI index shows that manufacturing sector is expanding for the eighth month in a row but the rate of its growth continues to decelerate. All the PMI components but the Customers' inventories index exceed the 50% threshold meaning that they are also on the upwards trend. Furthermore, the Inventories index returned to growth after one month of decline. Of the 18 manufacturing industries, only two reported zero growth, while all the others expanded in April.

The upwards trend in the US non-manufacturing sector continued for the 87th consecutive month in April. The NMI index of the Institute for Supply Management equaled 57.5% which is 2.3 percentage points higher than in March. This means that non-manufacturing sector further expanded and at faster pace. Most of the NMI components posted increases and remained above 50%. This includes the Inventories index which reached 52.5% after declining to 48.5% in March. The 16 non-manufacturing industries reported growth in April.

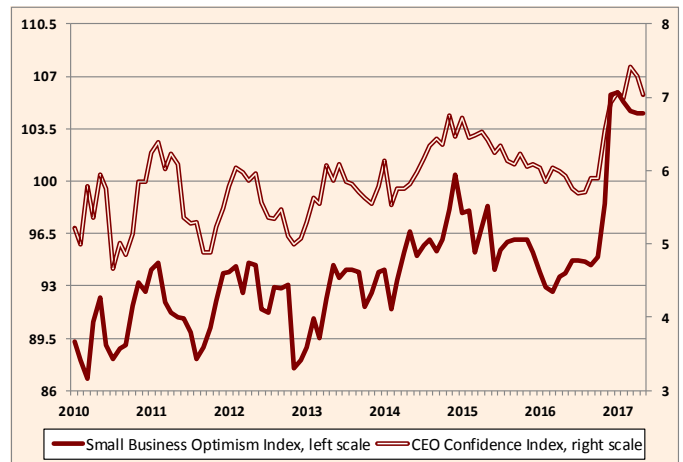
Consumer confidence strengthened in US in June. The Conference Board Consumer Confidence Index moderately increased to 118.9 from 117.6 registered in May. The improvement was attributed to more optimistic perceptions of the current economic conditions, while appraisal of the short-term outlook further deteriorated. In particular, the present situation index gained 5.7 basis points reaching 146.3, while the expectations index declined by 1.7 basis points to 100.6. Appraisal of both current business conditions and current labor market situation improved. At the same time, perceptions of future business conditions further

2. PMI, indexes



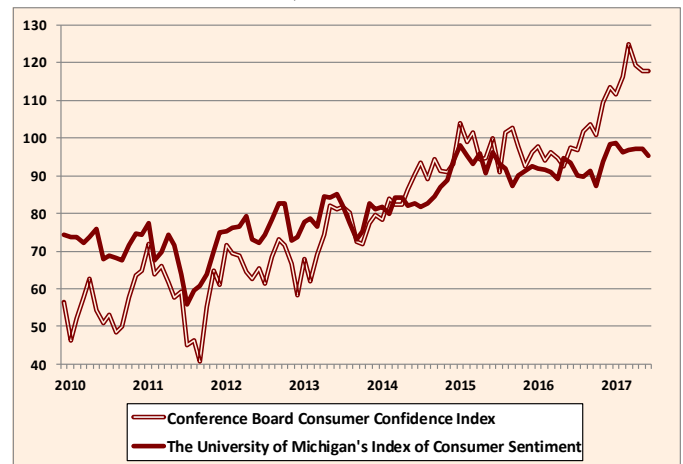
Source: Institute for Supply Management

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.

June 2017

Valentyn Povroznyuk, Edilberto L. Segura

deteriorated, while those of the future labor market conditions saw mixed developments similarly to those observed in the previous month.

The Texas economy posted another moderate growth in May. Texas manufacturing sector posted the 11th consecutive monthly increase in May. Furthermore, its growth accelerated as the production index expanded by eight basis points to 23.3 reaching its highest level over the last three years. Other measures of both current manufacturing activity and expectations regarding future business conditions also improved in May. Furthermore, developments of the latter provided good ground for further growth of the sector.

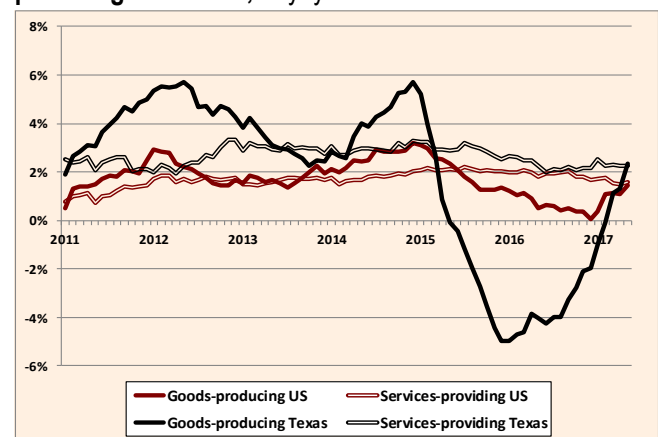
Texas service sector further expanded in May and the rate of growth accelerated. The key measure of the sector's conditions, the revenue index, grew by four basis points to 15.9. Most of the other measures of current sector's conditions saw mostly positive changes during the month.

At the same time, perceptions of the short-term outlook were a bit less optimistic in May because of some negative developments in the index of future general business activity and in the index of future company outlook. This was partially offset by improvements in the labor market indexes.

Consumer confidence further softened in Texas in May. At the same time, the pace of softening significantly decelerated. The Conference Board Consumer Confidence Index declined by 1.4 basis points to 135.4 (as compared to an 11 basis point decline in April). As the pace of consumer softening in Texas and in the US in general was similar, Texas consumer confidence remained stronger than in the US.

The Texas rig count reached 460 by the end of May. This marks further continuing of the upward trend.

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



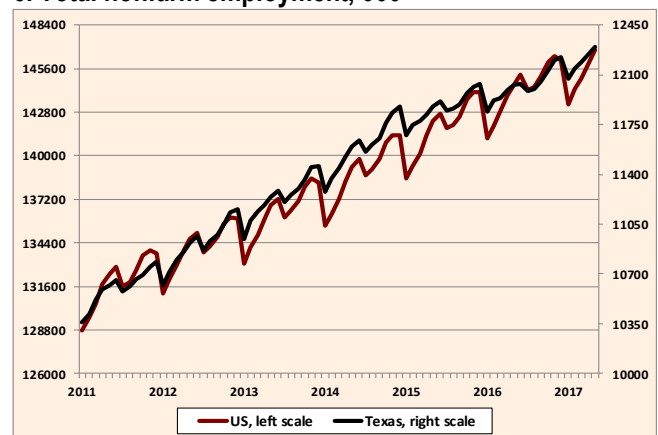
Source: Bureau of Labor Statistics

Employment

The national labor market conditions saw little progress in May. Employment expanded again, while the unemployment remained almost flat in terms of both the number of unemployed and the unemployment rate. Total nonfarm employment increased by 152,000 or 0.1% mom. Professional and business services and food service and drinking places were the leaders in terms of new employment creating 56,000 (a 0.3% mom increase) and 33,000 (a 0.3% mom increase) new jobs respectively. Also notable increases in employment were generated by health care and mining (20,600 or 0.1% mom growth and 6,200 or 1.0% mom growth). Other major industries saw either little or no changes in employment in May. In year-over-year terms, total nonfarm employment grew by 2.2 million or 1.5%. As the number of unemployed remained roughly unchanged at 6.9 million, so did the unemployment rate equaling 4.3%..

Texas labor market conditions showed more progress in May, as both employment and unemployment

6. Total nonfarm employment, 000



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.

June 2017

Valentyn Povrozhnyuk, Edilberto L. Segura

improved. Total nonfarm employment added 19,400 new jobs (a 0.2% mom increase). The largest employment increase was reported by mining and logging at 6,800 jobs (3.0% mom). Construction and financial activities also generated significant employment gains at 4,300 (0.6% mom) and 4,000 (0.5% mom) respectively. Other industries reported just little changes in employment. Over-year, employment expanded by 272,200 or 2.3% in Texas. The number of unemployed reversed the upward trend and decreased by 20,300 or 3.0% mom pushing down the unemployment rate. Compared to April, the unemployment rate dropped 0.2 percentage points to 4.8% which is still above the national unemployment rate.

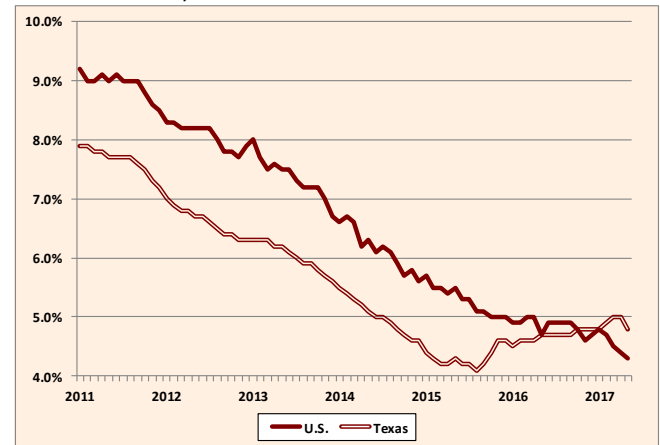
Labor market conditions of Texas metros saw mixed developments in May. Most of the metros observed monthly declines in employment, although those declines were not significant in many cases. On the positive side, only five metros reported employment declines in over-year terms. As for unemployment, most of the metros observed large monthly declines in the number of unemployed and only four metros reported growth. This slightly improved the situation also in over-year terms, increasing the number of metros with declining number of unemployed to 7. Amarillo remained as the metro with the lowest unemployment rate at 3.1%, while McAllen-Edinburg-Mission remained as the metro with the highest unemployment rate metro (7.5%).

Monetary Policy and Asset Prices

Taking into account the realized and expected labor market conditions and inflation, the Federal Open Market Committee decided to raise the target range for the policy rate from 0.75-1.0% to 1.0-1.25% level. The still accommodative mode of the monetary policy is expected to strengthen improvement of the labor market conditions and to push the inflation back to the above 2% yoY level.

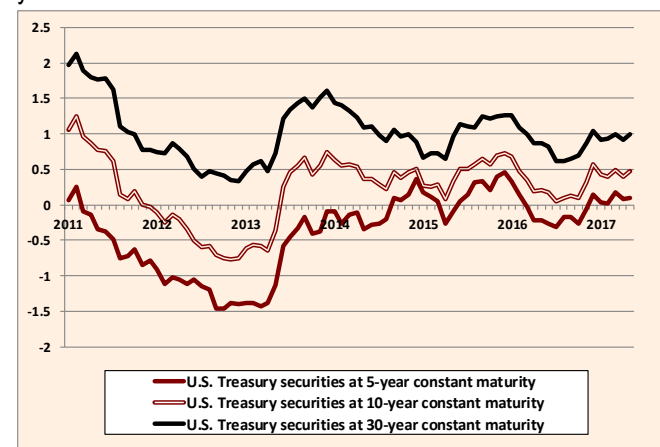
Consumer prices changed the trend again in May. After one month of increase, consumer prices inched down by 0.1% mom. This was the result of a 2.7% mom decline in the energy index caused by a 6.4% mom decline in gasoline prices and a 2.8% mom decline in prices of fuel oil. That decline more than compensated for a 0.2% mom increase in food prices and a 0.1% mom increase in all items less food and energy prices. Both food at home index and food away from home grew almost identically. At the same time, prices of commodities less food and energy commodities and prices of services less energy services once again moved in opposite directions. Prices of the former continued to decline but the increase in prices of the latter was slightly more significant. The over-year all items index remained at the downward trend despite return of the energy prices to growth. The all times index dropped to 1.9% which

7. Jobless rate, %



Source: Bureau of Labor Statistics

8. Borrowing rates (quoted on investment basis), % per year inflation indexed



Source: Federal Reserve System

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.

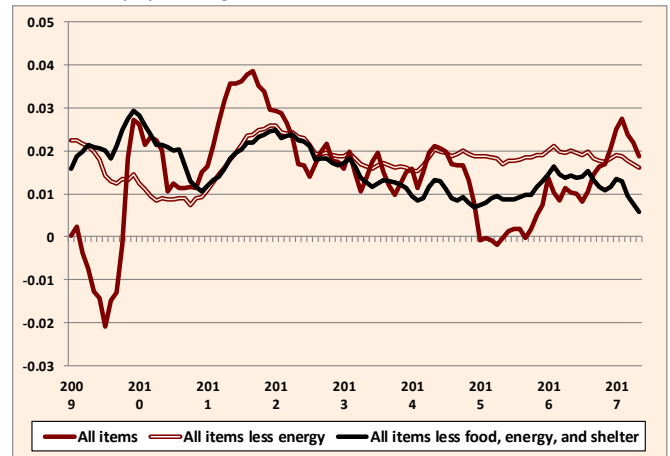
June 2017

Valentyn Povrozhnyuk, Edilberto L. Segura

is marginally below the target level of 2% yoy. All three major indexes posted increases ranging from 0.9% yoy for the food index to 5.4% yoy for the energy index.

Situation at the housing market improved at both national and Texas level in May. The existing-home sales rebounded in May after some decline in April. Total existing-home sales edged 1.1% mom to a seasonally adjusted annual rate of 5.62 million. This increase was stimulated by healthy job market in most of the country and continued downward trend in mortgage rates. At the same time, this growth pushed the over-year increase in sales upwards from 1.6% to 2.7%. Low inventory supported further growth (5.8% yoy) in the median existing-home price which reached a new peak at USD 252,800 surpassing the previous maximum of USD 247,600 in June 2016 and marking the 63rd consecutive month of year-over-year gains. Total housing inventory expanded by 2.1% mom to 1.96 million existing homes available for sale. In over-year terms, however, inventory dropped 8.4% marking the 24th straight month of over-year declines. Unsold inventory remained unchanged at 4.2-month supply at the current sales pace. In May, Texas actual existing-home sales expanded by one-fifth in monthly terms. This, together with the statistical base effect, pushed the year-over-year growth upwards from around zero to 10.0%. Growth of the median existing-home price decelerated by 2.2 percentage points to 6.7% yoy as housing inventory continued to expand. In particular, unsold inventory inched up again from 3.7 to 3.9 months of supply at the current sales pace.

9. CPI, % yoy change



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.

June 2017

Valentyn Povrozhnyuk, 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.