

May 2017

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- **Real GDP growth for Q1 was revised upwards to 1.2% quarter-over-quarter.**
- **National industrial production posted the largest increase since February 2014 of 1.0% mom in April.**
- **Manufacturing and service sector activities expanded at both national and Texas levels in April.**
- **In April, the Texas rig count grew for 11th month in a row reaching 425.**
- **The US in general and Texas observed similar developments at the labor market, namely employment gains and stable unemployment.**
- **Consumer prices returned to growth after a small decline in March due to growth in all major price indexes but mostly due to higher energy prices.**

Executive Summary

More complete source data showed that real GDP growth in Q1 was higher than previously estimated. The Bureau of Economic Analysis reported that the revised growth rate is equal to 1.2% qoq. This growth is still significantly lower than a 2.1% qoq growth in Q4 2016.

The national industrial production posted another growth in April. This growth was broad based and was the largest over the last 38 months. Good performance in coal mining and drilling and support activities were the major factors of increase in mining production. Manufacturing production expanded on the back of both durables and nondurables. Warmer than usual weather caused increased usage of air-conditioning and, consequently, electricity which led to growth in utilities output.

Consumer confidence continued to soften in May but at slower pace compared to April. A small decline in the Conference Board Consumer Confidence Index was the result of further deterioration in short-term outlook. At the same time, perceptions of the present situation improved among consumers.

Moderate expansion of the Texas economy continued in April on the back of further expansion of both manufacturing and service sectors. Texas rig count market the 11th consecutive monthly growth expanding to 425.

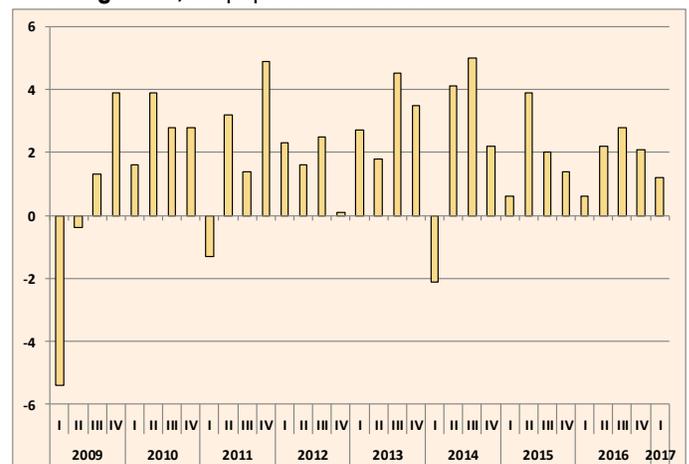
Both national and Texas labor market conditions saw similar positive developments in April. Employment moderately expanded both in the US in general and in Texas. Unemployment saw little changes at both levels.

Consumer prices returned to growth in April. The all items index inched up by 0.2% mom being driven by increases in all three major indexes. The most significant growth was reported for the energy prices again. Monthly growth in food index and in all items less food and energy index was insignificant. Housing market observed rather mixed developments at both national and Texas level during the reporting month.

Economic Growth

More complete source data for real GDP provided grounds for upwards revision of the national real GDP growth in Q1. According to the second estimate of the Bureau of Economic Analysis, real GDP grew by 1.2% qoq at annual rate in Q1 which is almost twice as high as previously estimated (0.7% qoq). The general picture of economic growth remained the same but there were adjustments in growth rates of GDP components. In particular, nonresidential fixed investments and personal consumptions expenditures grew faster than previously estimated. Furthermore, the decrease in state and local government spending was smaller than previously estimated. At the same time, those mentioned positive revisions were partially compensated for by a more significant decrease in

1. GDP growth, % qoq at annual rates



Source: The U.S. Bureau of Economic Analysis

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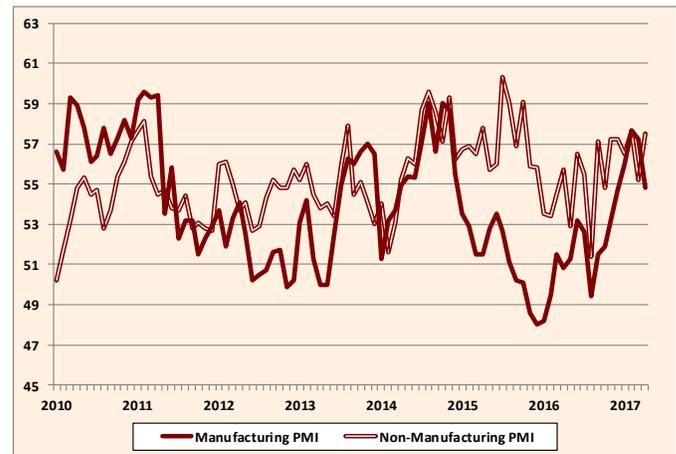
private inventory investment.

The national industrial production posted the third consecutive monthly increase in April. A 1.0% mom growth was the largest since February 2014. It was also broad based, as all the major industry groups posted increases. The largest increase was registered in mining at 1.2% mom thanks to pickups in coal mining and in drilling and support activities. Manufacturing expanded by 1.0% mom thanks to identical advances in both nondurables and durables. Other manufacturing also increased but just by 0.7% mom. Growth in durables was attributed mainly to a large increase in motor vehicles and parts, while growth in nondurables was fueled mainly by gains in food, beverage, and tobacco products. Output of utilities edged up by 0.7% mom because warmer than usual weather conditions boosted air-conditioning usage and, consequently, electric power generation. This effect was partially offset by lower gas utilities output due to decreased demand for heating. In over-year terms, total national production expanded by 2.2% yoy in April. This growth was fueled by fast growth in mining at 7.3% yoy supported by a 1.7% yoy expansion in manufacturing. Utilities, on the contrary, posted a 0.5% yoy decline.

The national manufacturing activities continued to growth in April. The pace of growth decelerated again though. According to the Institute for Supply Management, the PMI index declined by 2.4 percentage points to 54.8% as most of its components posted decreases. The most significant declines were posted by the new orders and employment indexes (7.0 and 6.9 percentage points respectively). At the same time, such important indexes as production and inventories expanded by 1.0 and 2.0 percentage points respectively. Furthermore, the mentioned progress allowed the inventories index to return to growth as it moved above the 50% threshold. Despite mostly negative changes in PMI components, all of them remained above the 50% threshold except for customers' inventories index (decreased by 1.5 percentage points to 45.5%). Of the 18 manufacturing industries, only apparel, leather and allied products reported decline, while 16 industries reported growth.

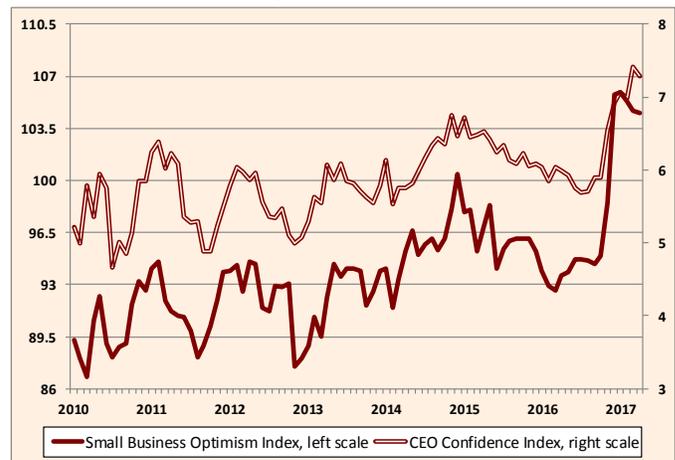
Unlike the manufacturing sector, the US non-manufacturing sector expanded at accelerated pace in April. The NMI Index increased by 2.3 percentage points to 57.5%. Out of the NMI index components, only the imports and inventory sentiment indexes

2. PMI, indexes



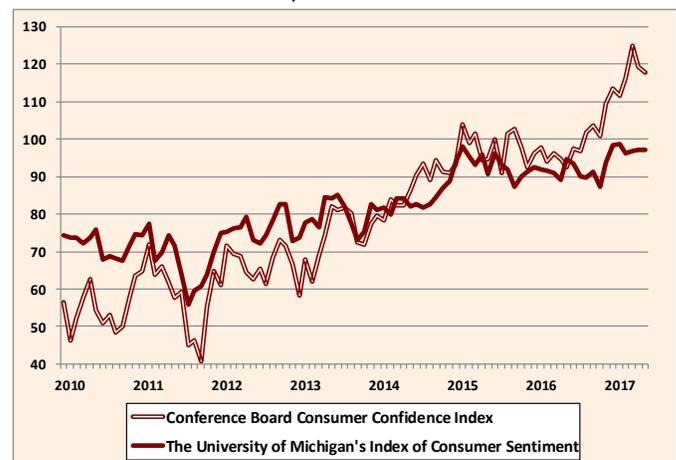
Source: Institute for Supply Management

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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posted declines (by 3.5 and 5.0 percentage points to 53.0% and 60.0% respectively) and the employment index remained virtually unchanged at 51.4%. All the other components posted increases including the inventories index which moved above the 50% threshold (increase by 4.0 percentage points to 52.5%). Similarly to the manufacturing sector, only one non-manufacturing industry (Agriculture, Forestry, Fishing and Hunting) reported decline, while 16 industries reported growth.

Consumer confidence further softened at the national level in May. After quite significant decline in April, the Conference Board Consumer Confidence Index dropped 1.5 basis points to 117.9 due to deteriorated short-term outlook. The Present Situation Index inched upwards to 140.7, while the Expectation Index declined from 105.4 to 102.6. Consumers' appraisal of current conditions remained relatively steady as a moderate deterioration in perceptions of business conditions was slightly more than compensated for by improved appraisal of the labor market conditions. As for the short-term outlook, consumers' appraisal of future business conditions also deteriorated, while appraisal of the labor market conditions saw mixed developments.

Moderate expansion of Texas economy continued in April. One of the growth factors was further expansion of the manufacturing activities, although the pace of expansion decelerated. The production index moved down by 3 basis points to 15.4. Other measures of current manufacturing activity also indicated continued growth in April. Perceptions of broader business conditions also improved. Furthermore, expectations regarding future business conditions further improved in general, although several ahead indexes retreated from their March levels.

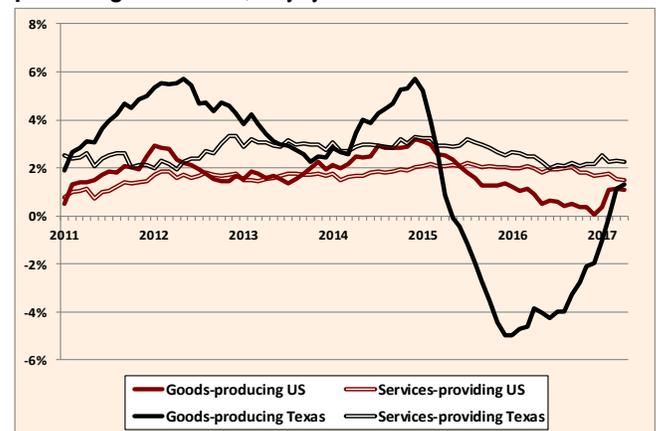
Texas service sector remained at the upwards trend despite further deceleration in growth pace in April. The key measure of service sector conditions, the revenue index, decreased by 3 basis points to 12.1. Perceptions of broader economic conditions reflected optimism, though. At the same time, expectations regarding future business conditions softened in April.

Consumer confidence softened a bit in Texas in April. The Conference Board Consumer Confidence Index dropped 11 basis points to 136.8 which is still above the level observed for the country in general despite a bit faster softening.

Texas exports edged down by 0.7% in March. At the same time, the first quarter exports of the state expanded by 7.8% yoy. All top five export categories of Texas exports reported increases but the largest increase was seen in exports of mining and oil and gas products. Geographically, the most significant increase in Texas exports was observed in exports to the EU.

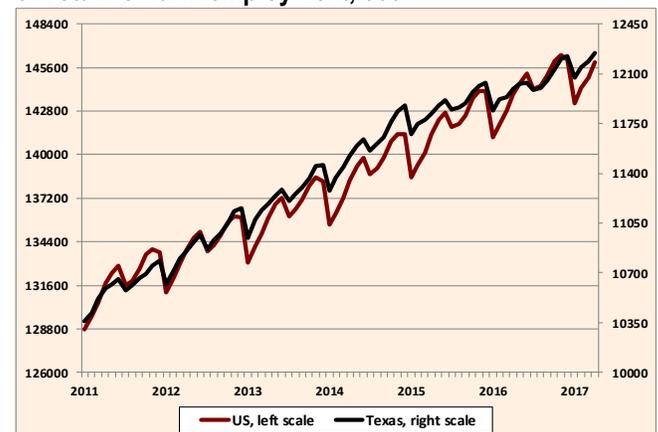
Drilling activity further expanded in Texas in April. In particular, the Texas rig count grew by 26 rigs to 425 marking the 11th monthly increase in a row.

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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Employment

The national labor market conditions improved again in April as employment increased again and unemployment remained almost unchanged. Total nonfarm payroll employment grew by 207,000 (0.1% mom) mostly thanks to more new jobs in the service sector. Leisure and hospitality sector was the leader in new job creation as its employment expanded by 60,000 (0.4% mom). It was followed by health care and social assistance (48,100 or 0.2% mom) and professional and business services (46,000 or 0.2% mom). Notable increases were also observed in employment of financial activities (16,000 or 0.2% mom) and mining (9,700 or 1.5% mom). Since a recent low in October 2016, mining has added 44,000 jobs, three-fourths of which were attributed to employment gains in support activities for mining. Employment in other major industries saw little or no changes in the reporting month. The over-year growth in employment was at 1.4% or in April. The number of unemployed saw little changes remaining around 7.1 million. Similarly, the unemployment rate remained flat at 4.4%.

Texas labor market observed similar changes to those reported for the national labor market in April. Texas employment further increased, while its unemployment remained virtually unchanged. Total nonfarm employment expanded by 29,000 (0.2% mom). The largest employment growth was observed in Education and health services industry at 10,500 (0.6% mom). Other notable employment increases were reported for manufacturing (6,100 or 0.7% mom) and professional and business services (4,400 or 0.3% mom). Other industries saw little or no changes in employment in April. In year-over-year terms, total nonfarm employment expanded by 2.1%. The number of unemployed and, consequently, the unemployment rate remained unchanged at 676,328 and 5.0% percent respectively.

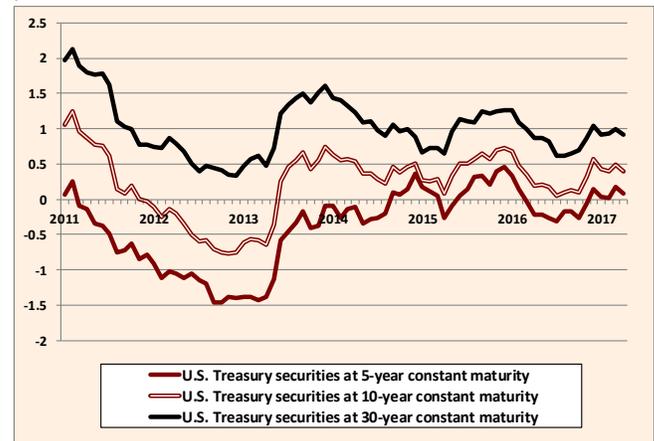
Texas metros saw further moderate improvements at the labor market in April. Only two metros reported monthly decline in employment and two more reported zero growth. This slightly improved the over-year dynamics of employment among metros as the number of those observing employment decline decreased by two to six and employment growth rates of the others mostly accelerated. Similar positive developments were observed also in terms of unemployment. All the metros reported monthly declines in unemployment which led mostly to deceleration of the over-year growth in unemployment among metros. Also, the number of metros observing decline in unemployment increased from two to five. Amarillo once again reported the lowest unemployment rate of 3.0%, while McAllen-Edinburg-Mission remained as the metro with the highest unemployment rate (8.0%).

7. Jobless rate, %



Source: Bureau of Labor Statistics

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



Source: Federal Reserve System

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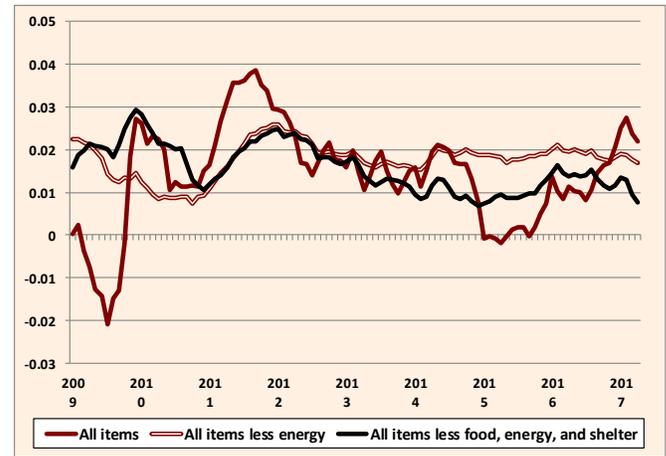
Monetary Policy and Asset Prices

Basing on the most recent economic data the Federal Open Market Committee decided to maintain the target range for the policy rate unchanged at 0.75-1.0% level in April. The monetary policy stance remained accommodative aiming at further strengthening of the labor market conditions and sustained return of inflation to the target band.

Consumer prices returned to growth in April. After a small monthly decline in March, the all items index edged up by 0.2% mom on the back of increases in all three major indexes. In particular, food index increased by the same 0.2% mom thanks to identical increases in food at home and food away from home indexes. A 1.2% mom increase in gasoline prices together with a 2.2% mom increase in utility gas service prices ensured a 1.1% mom increase in the energy index. All items less food and energy posted just a tiny 0.1% mom growth as insignificant increase in prices of services less energy services more than offset also insignificant decline in prices of commodities less food and energy commodities. In year-over-year terms, the all items index further decelerated but still remained within the target band of over 2%. A 2.2% yoy growth was driven mainly by a 9.3% yoy growth in the energy index which was supported by less significant increases in both other indexes (the all items less food and energy expanded by 1.9% yoy, while the food index posted a 0.5% yoy increase).

Both national and Texas housing markets sustained mixed developments in April. Fast growth of the national existing-home sales in March not supported by comparable growth in inventory was the major reason for decline in existing-home sales in April. Total existing-home sales dropped 2.3% mom to the seasonally adjusted annual rate of 5.57 million. This led to a significant deceleration in the over-year growth of sales (from 5.9% to 1.6%). Growth of the median existing-home price also decelerated a bit but remained significantly higher than that of sales at 6.0% yoy (to USD 244,800). Total housing inventory managed to increase by 7.2% mom to 1.93 million existing homes available for sale, but remained 9.0% lower than a year ago. Unsold inventory increased to 4.2-month supply at the current pace of sales. As for Texas, actual existing-home sales declined by 4.7% mom to 27,887 in April but remained flat in year-over-year terms. At the same time, growth of the median existing-home price accelerated to 9.3% yoy. Unsold inventory further moderately increased to 3.7-month supply at the current sales pace.

9. CPI, % yoy change



Source: Bureau of Labor Statistics

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