



AUSTIN

The Dallas Fed reported that “Growth in the Austin economy remained soft in May. Following the release of updated retail sales and wage data, growth in the Austin Business-Cycle Index year to date was revised down and remained weak relative to the past several years. Jobs declined slightly and the unemployment rate remained near its 15-year low.”

TEXAS

The Real Estate Center at Texas A&M noted that “The Texas economy advanced amid increased energy activity and a strong labor market. Oil production and the number of active Texas rigs increased, stimulating 6,600 new mining and logging jobs despite the price of oil falling to its lowest point this year. Single-family housing and nonresidential construction across the state supported higher construction values and created 3,400 construction jobs. These gains dragged down the statewide unemployment rate and sparked hourly wage increases. Overall, the Texas economy remained robust, but trade uncertainty (especially with Mexico), volatile energy prices, and tax policy uncertainty present potential headwinds.”

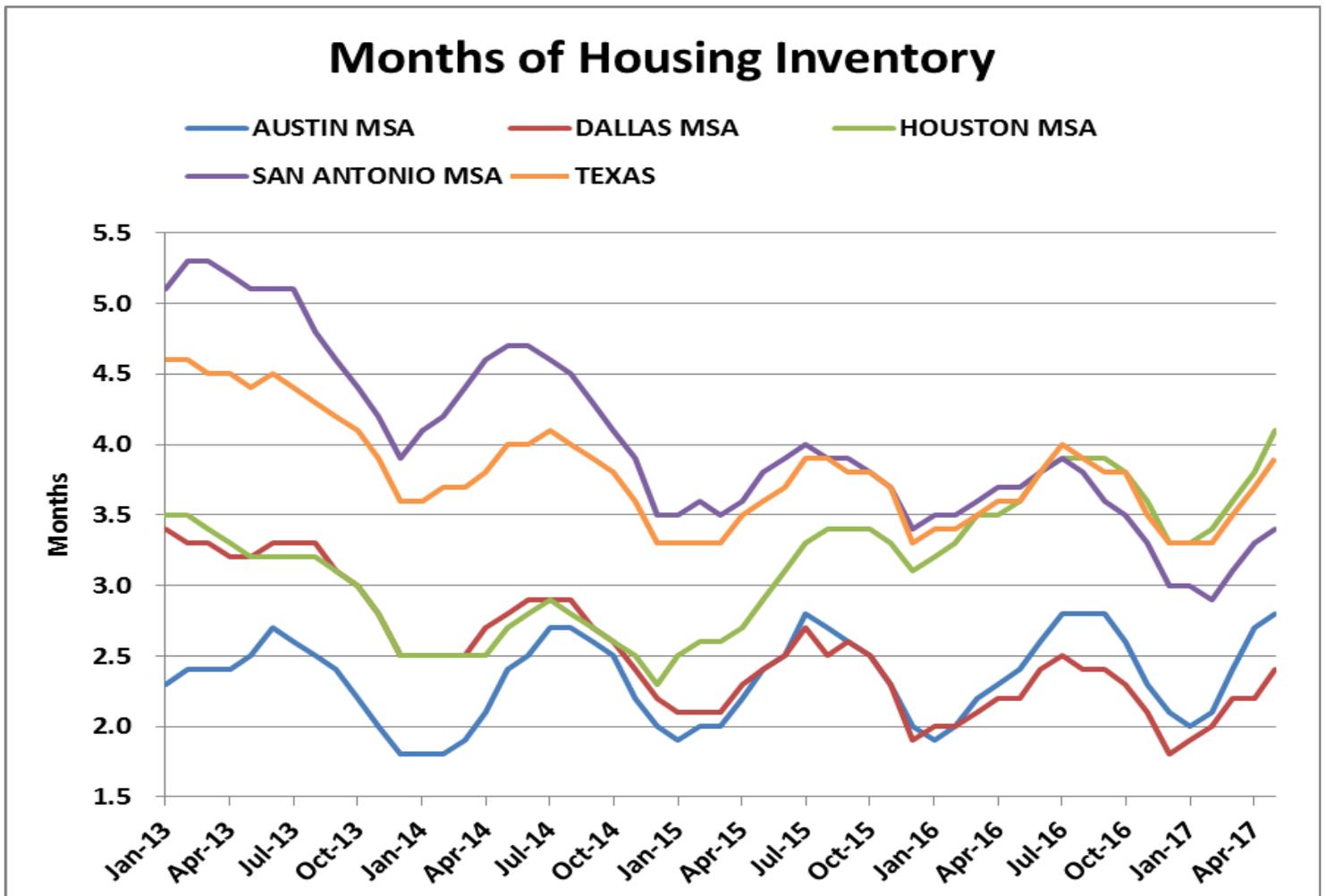


UNITED STATES

“Economic indicators released in May and June point to continued moderate growth and a mostly unchanged outlook for the U.S. The economy is approaching full employment, long-term inflation expectations remain anchored despite a recent dip in inflation, and real gross domestic product (GDP) is projected to grow at a moderate rate in 2017 and 2018.” - Research Department at the Federal Reserve Bank of Dallas

HOUSING – INVENTORY

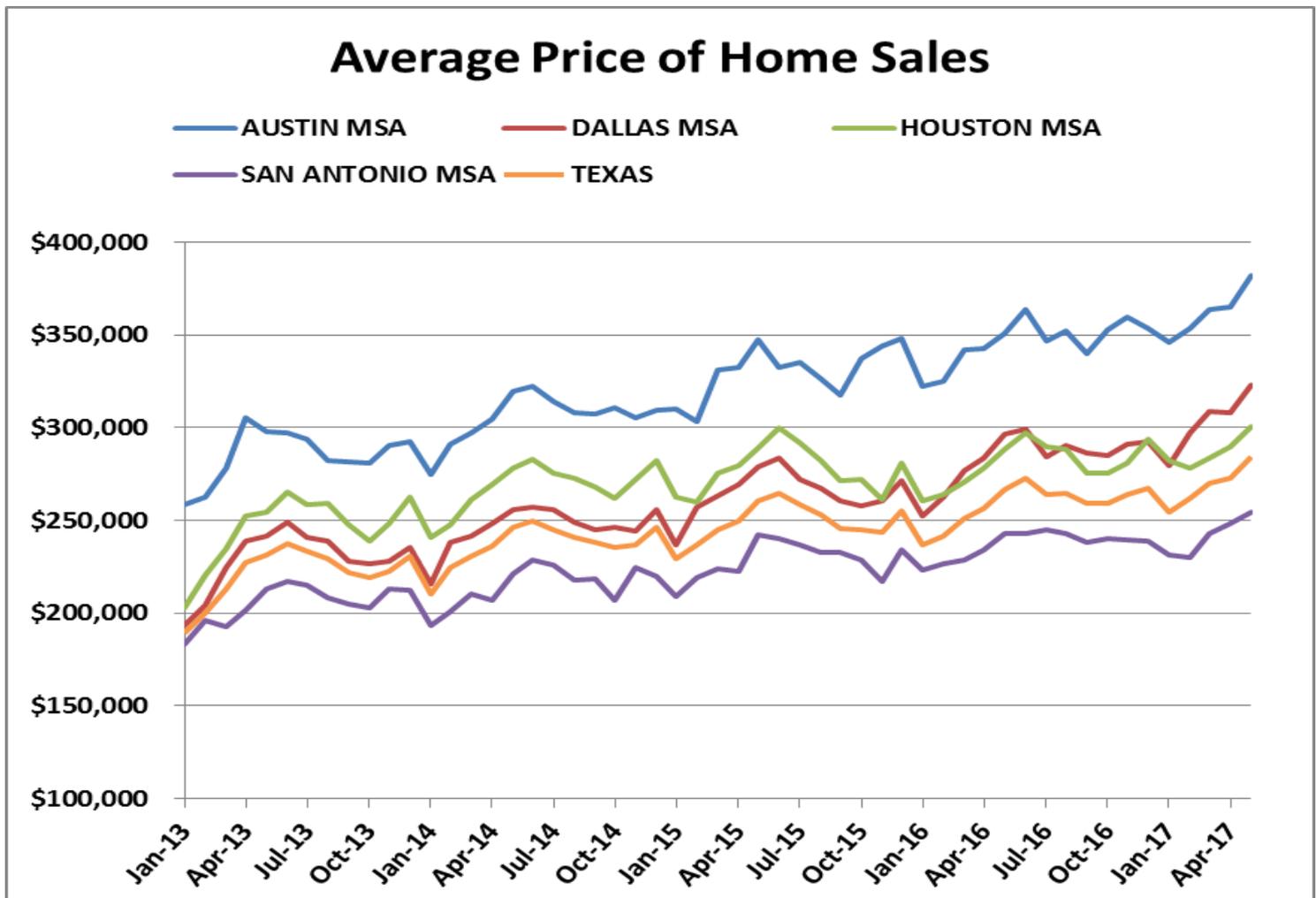
The Austin MSA’s months of housing inventory increased from 2.4 in May 2016 to 2.8 in May 2017. Though months of housing inventory has increased year-over-year, it has been below 3.0 since November 2012. The Real Estate Center has estimated that “seasonally adjusted; around 6.5 months of inventory is considered a balanced housing market in which neither sellers nor buyers dictate prices.”



Source: Real Estate Center at Texas A&M University

HOUSING – AVERAGE SALES PRICE

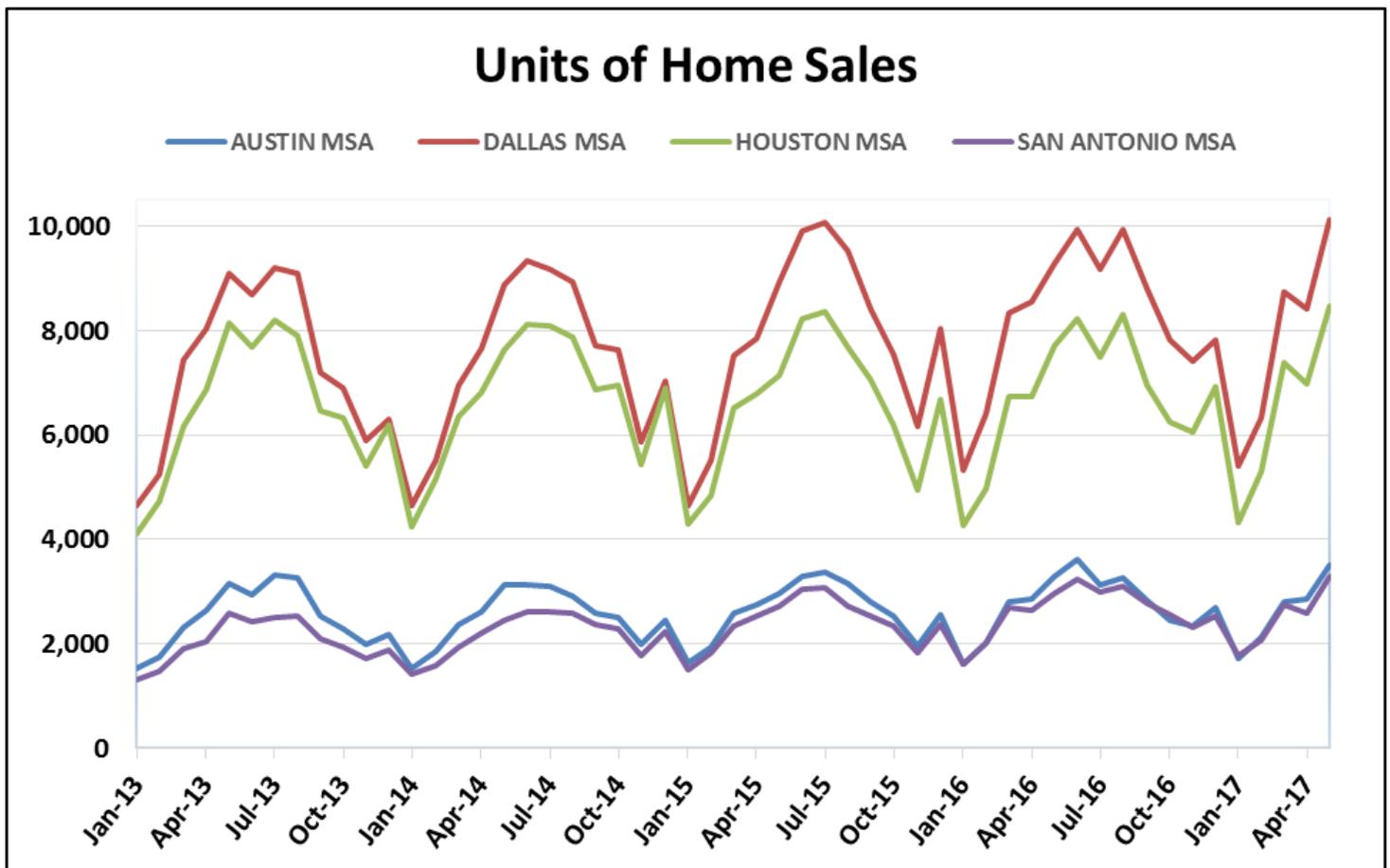
“The Texas housing market moved forward after last month’s slight dip. The mild winter and late Easter pulled housing construction and sales forward into the first quarter, thereby weakening April numbers. Total housing sales increased 8.7 percent month-over-month and 11.2 percent year-over-year. New home months of inventory hit a five-year high and dampened price appreciation. However, supply remained constricted in the existing home market, further elevating prices.” – May Summary - Texas Housing Insight – Real Estate Center – current as of June 27, 2017



Source: Real Estate Center at Texas A&M University

HOUSING – HOME SALES

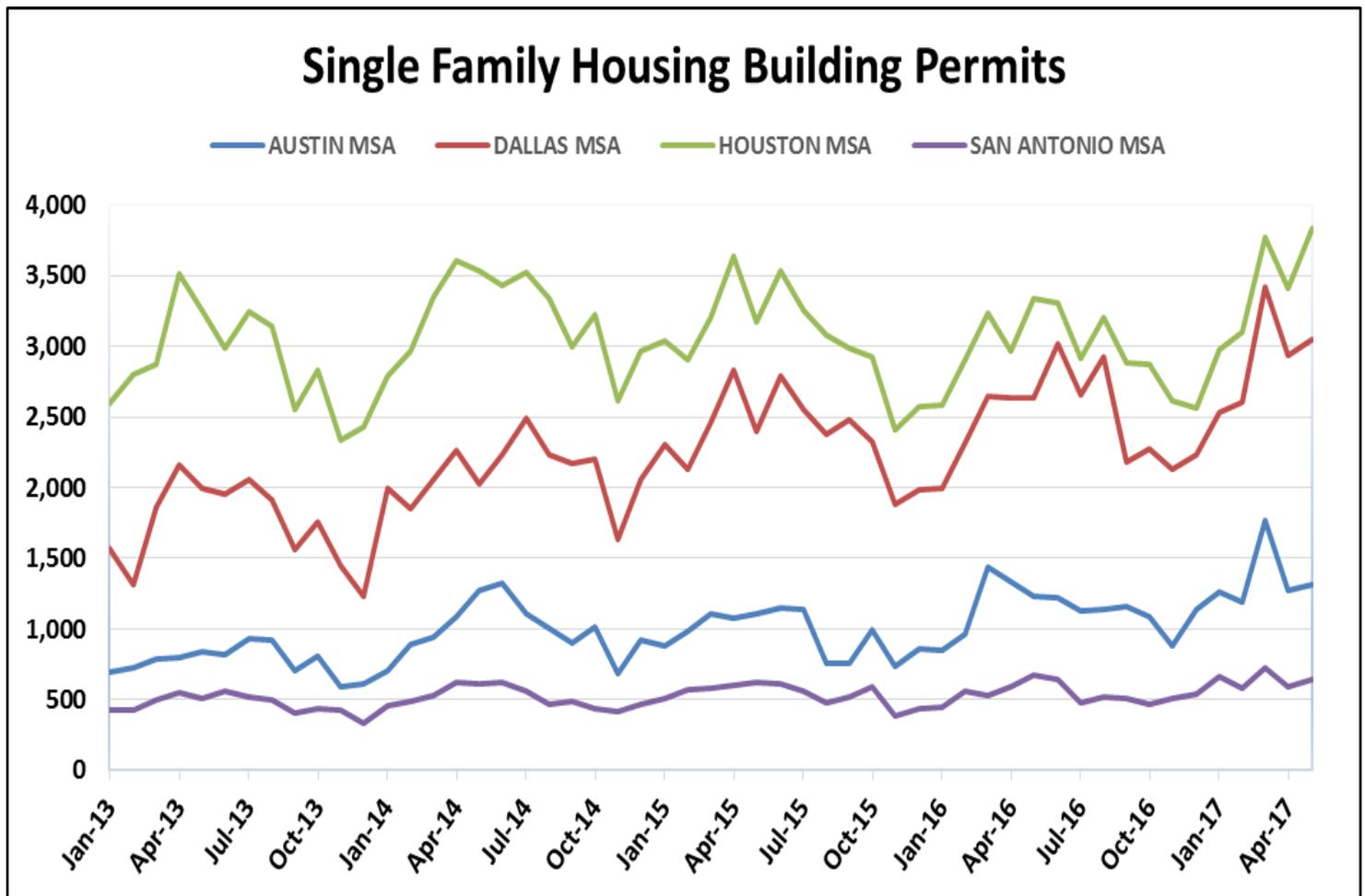
“Home sales in Austin rebounded in May, nearing all-time highs. Sales in both Austin and the State overall continue to trend upward, with year-to-date growth of 4.5 percent in Austin and 5.4 percent in Texas. Meanwhile, home prices in Austin continued to increase in May and were also near all-time highs at a median of \$293,665.” – Dallas Fed



Source: Real Estate Center at Texas A&M University

HOUSING – SINGLE FAMILY BUILDING PERMITS

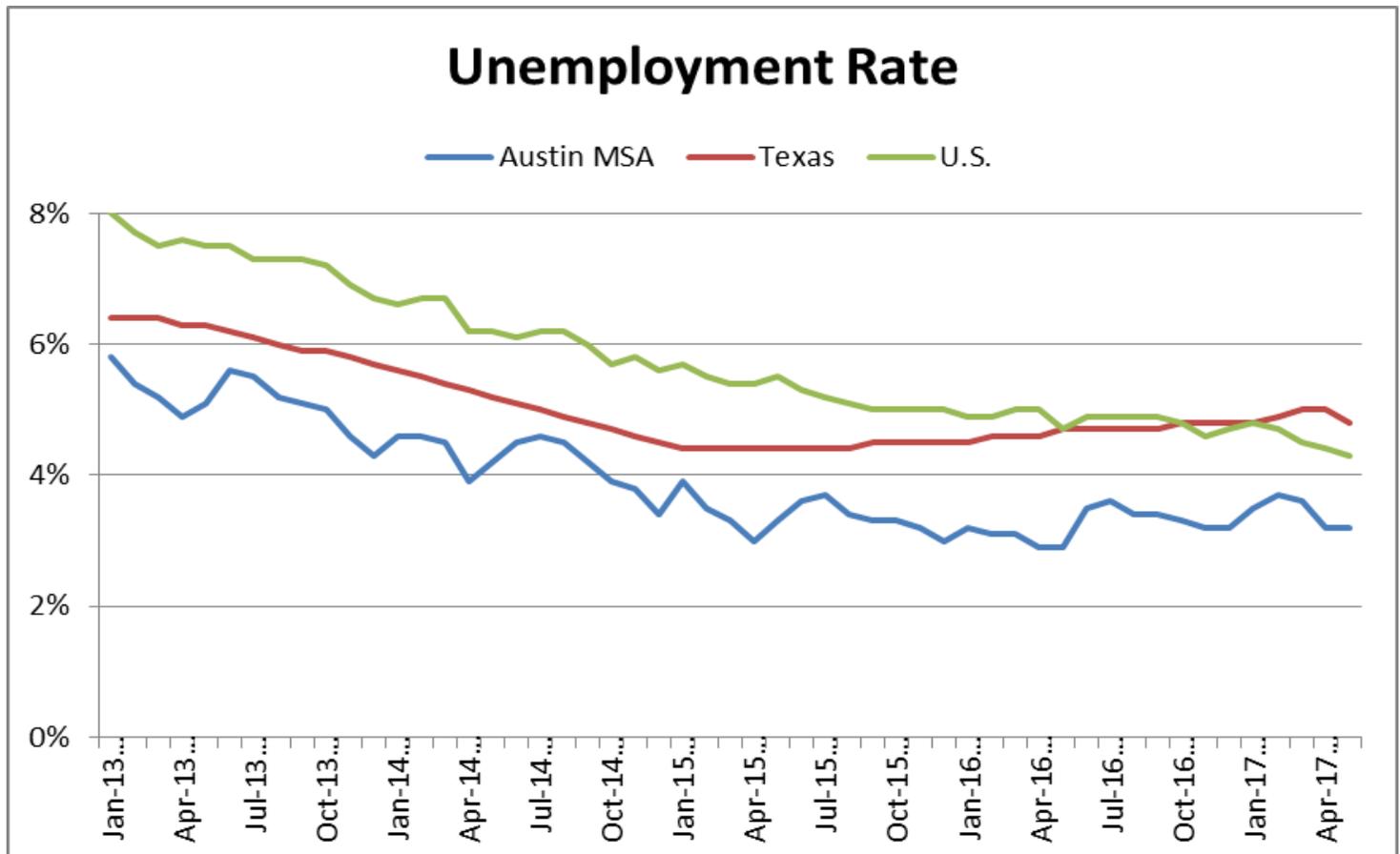
Data prepared by the National Association of Home Builders indicates that 2017 May YTD Single Family building permits are up 17% in Austin-Round Rock, 18% in Dallas-Ft Worth, 13% Houston-Baytown, and 15% in San Antonio.



Source: Real Estate Center at Texas A&M University

JOBS - UNEMPLOYMENT RATES – AUSTIN MSA, TEXAS, U.S.

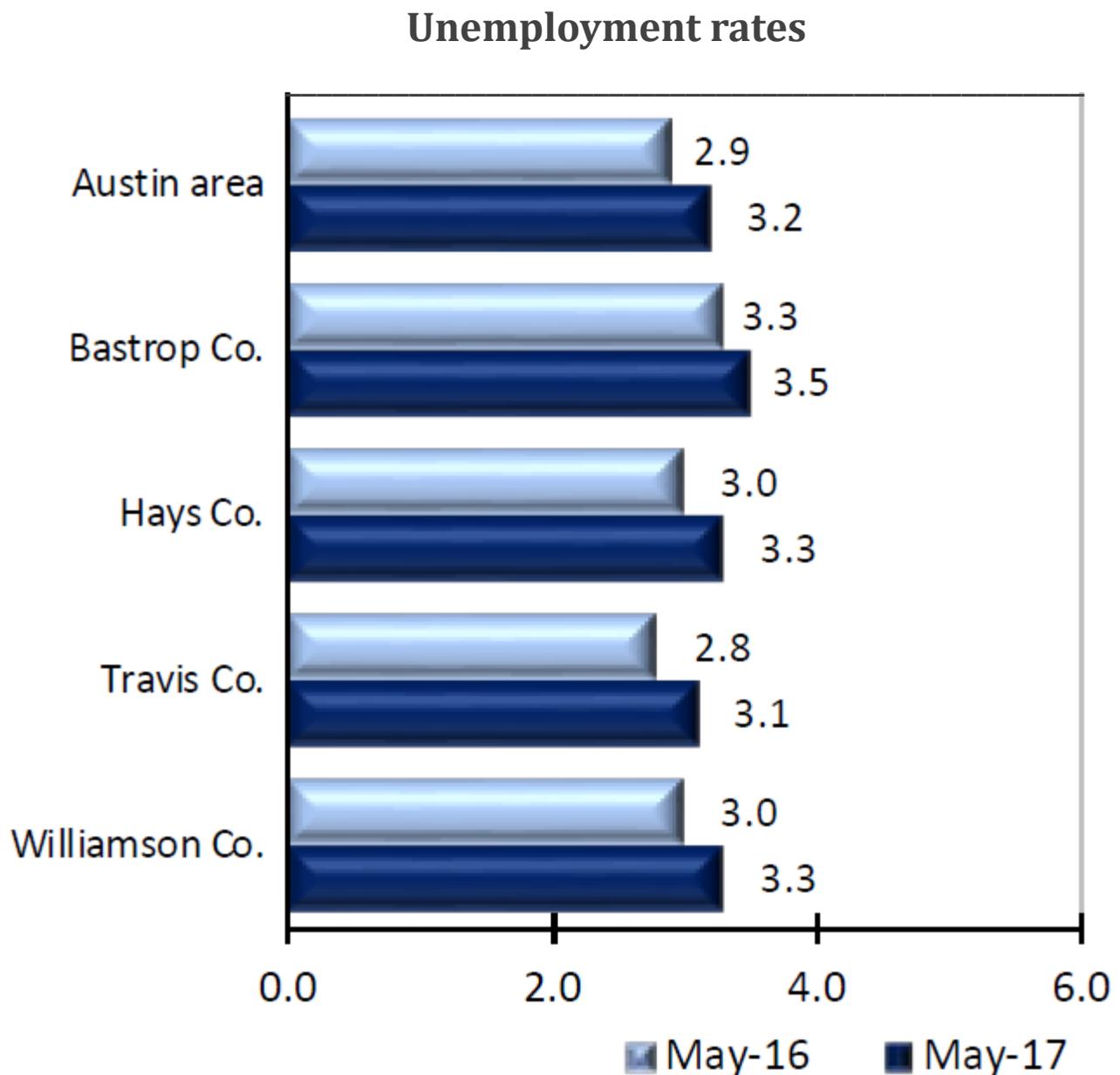
“Austin jobs grew at a mild 1.5 percent annualized pace over the three months through May. While most sectors added jobs at a healthy rate, the large professional and business services industry shed jobs, primarily in administrative services such as executive assistants and facilities support services. Declines in transportation employment led the slip in the trade, transportation and utilities sector, while weakness in accommodation services led to a slight decline in leisure and hospitality employment. Conversely, the goods-producing industries, particularly electronic parts and machinery production, have continued to boom in recent months. Finance and health care saw broad-based increases in jobs, and a surge in state government hiring buoyed overall growth in the public sector.” - Austin Economic Indicators - Dallas Fed – July 2017



Note: U.S. and Texas seasonally adjusted, Austin MSA not seasonally adjusted.
Source: Bureau of Labor Statistics

JOBS - UNEMPLOYMENT RATE – AUSTIN AREA

Below is a chart taken from the June 28, 2017, Austin Area Economic Summary prepared by the U.S. Bureau of Labor Statistics. It graphically shows that unemployment rates throughout the Austin area have increased over prior year.



Source: U.S. BLS, Local Area Unemployment Statistics.

JOBS – HOW DOES THE TEXAS UNEMPLOYMENT RATE COMPARE?

Surprisingly, Texas is tied at number 34 with two other states.

State	June 2017(p) rate	Rank
Colorado	2.3	1
North Dakota	2.3	1
Hawaii	2.7	3
Nebraska	2.9	4
New Hampshire	2.9	4
Indiana	3.0	6
South Dakota	3.0	6
Idaho	3.1	8
Wisconsin	3.1	8
Iowa	3.2	10
Vermont	3.2	10
Arkansas	3.4	12
Utah	3.4	12
Maine	3.5	14
Tennessee	3.6	15
Kansas	3.7	16
Minnesota	3.7	16
Oregon	3.7	16
Virginia	3.7	16
Michigan	3.8	20
Missouri	3.8	20
Montana	3.9	22
Wyoming	3.9	22
South Carolina	4.0	24
Florida	4.1	25
Maryland	4.1	25
New Jersey	4.1	25

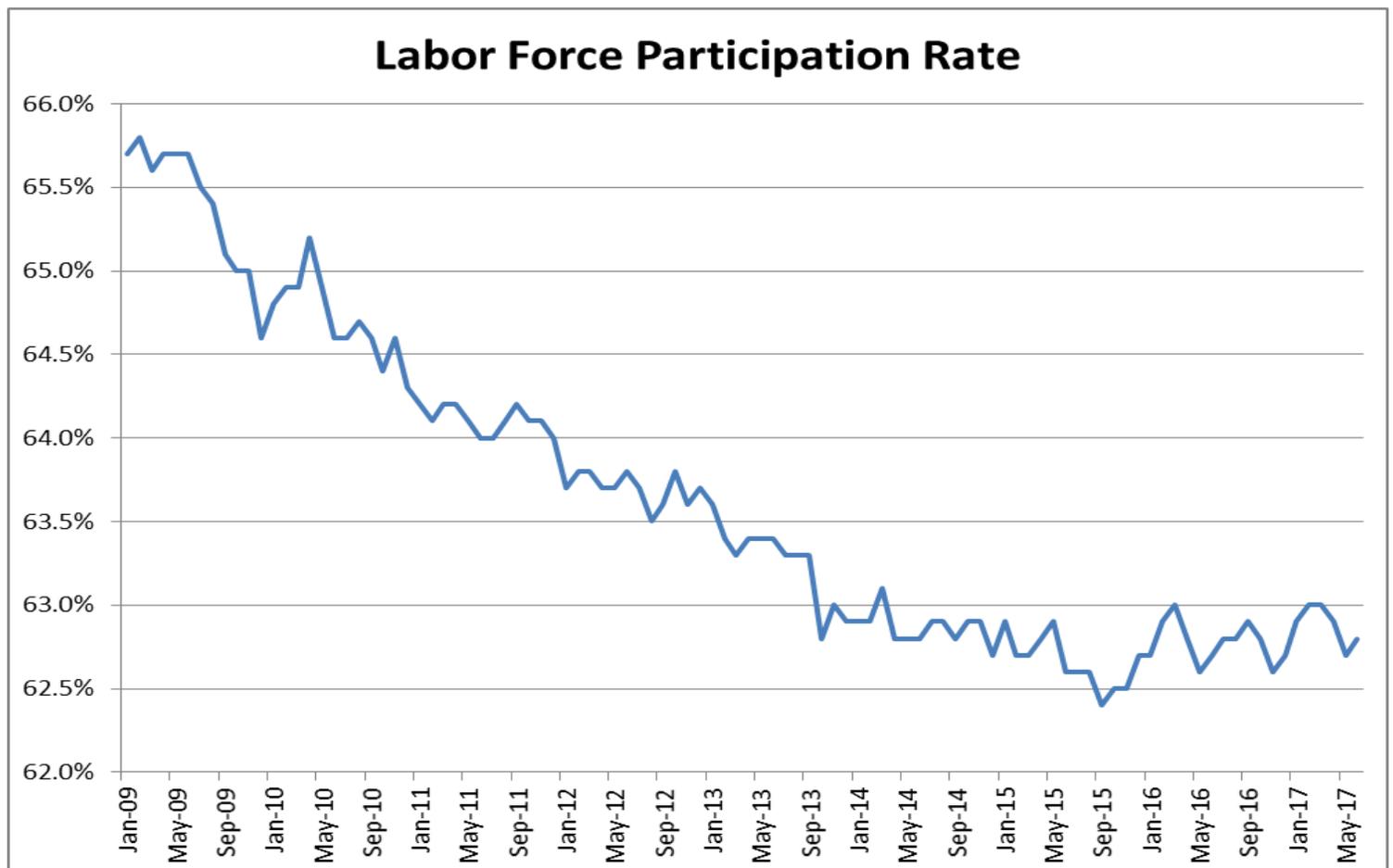
State	June 2017(p) rate	Rank
North Carolina	4.2	28
Rhode Island	4.2	28
Massachusetts	4.3	30
Oklahoma	4.3	30
New York	4.5	32
Washington	4.5	32
Alabama	4.6	34
Texas	4.6	34
West Virginia	4.6	34
California	4.7	37
Delaware	4.7	37
Illinois	4.7	37
Nevada	4.7	37
Georgia	4.8	41
Connecticut	5.0	42
Mississippi	5.0	42
Ohio	5.0	42
Pennsylvania	5.0	42
Arizona	5.1	46
Kentucky	5.1	46
Louisiana	5.5	48
New Mexico	6.4	49
Alaska	6.8	50
Footnotes		
(p) Preliminary		

Source of Data: Bureau of Labor Statistics

JOBS – LABOR PARTICIPATION RATE

The **labor force participation rate**, as defined by the Bureau of Labor Statistics (BLS), is “the percentage of the population [16 years and older] that is either employed or unemployed [that is, either working or actively seeking work].”

“The U.S. economy added 220,000 jobs in June, the best showing since February and well above analysts' expectations of 174,000. The Labor Department's Bureau of Labor Statistics also said the number of employed Americans -- which set records in February, March and April -- set another record in June, at 153,168,000 employed. And the number of Americans not in the labor force -- after four straight monthly gains -- dropped a bit to 94,813,000. The labor force participation rate rose a tenth of a point to 62.8 percent in June, which is within two-tenths of a point where it's been since January. As BLS has noted, the participation rate shows no clear trend. (The participation rate hit a record high of 67.3 percent in early 2000, plunging to a 38-year low of 62.4 percent in September 2015.)– CNSNews.com

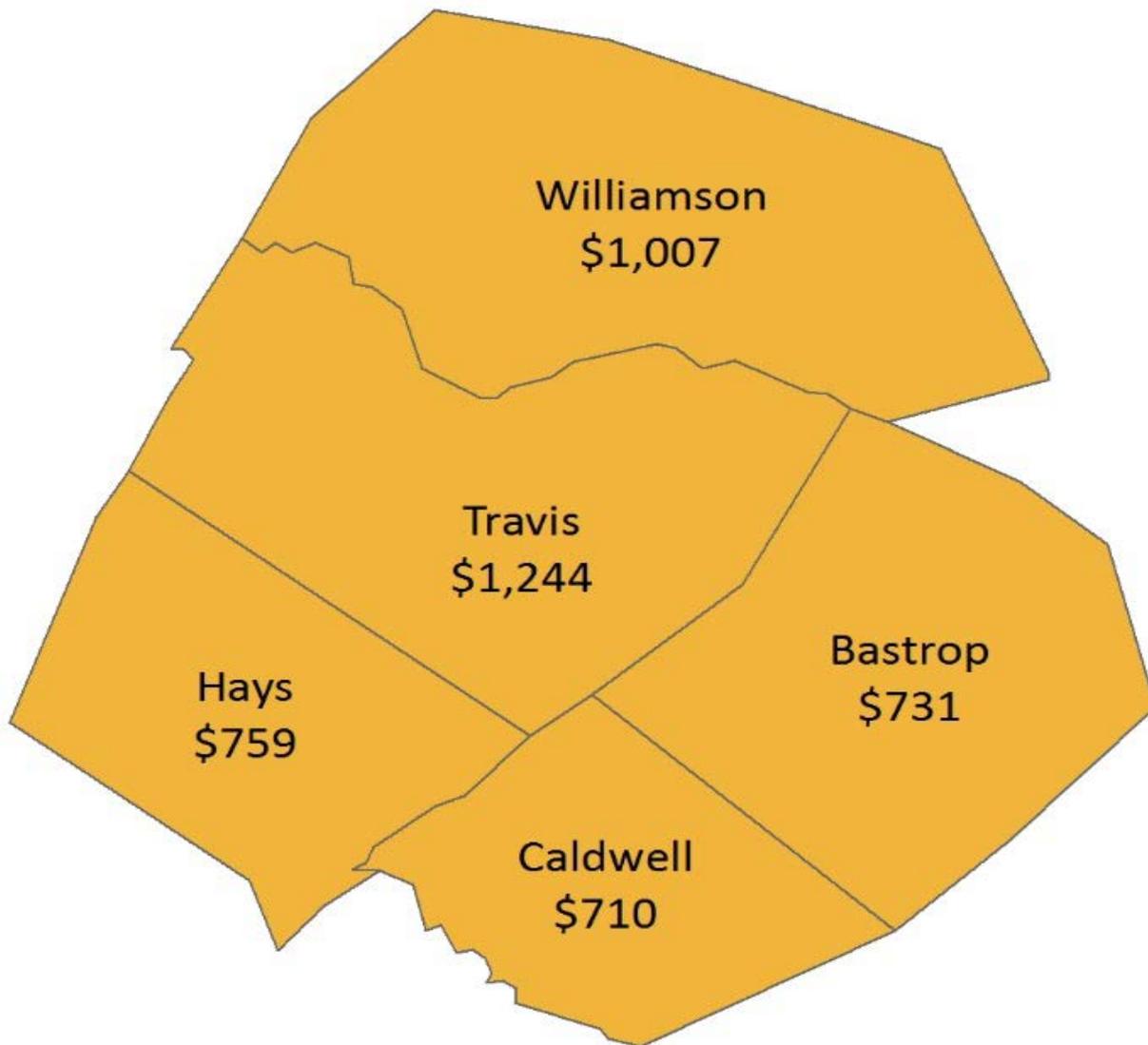


Source of Data: Bureau of Labor Statistics

JOBS – AVERAGE WEEKLY WAGES BY COUNTY

Below is a chart comparing the average weekly wages for all industries by county. The most recent data for the Austin area is from the 4th Quarter 2016. Travis County wages show an increase of \$70 over the previous quarter.

What is included in total wages? “Under most State laws or regulations, wages include bonuses, stock options, severance pay, profit distributions, cash value of meals and lodging, tips and other gratuities, and, in some States, employer contributions to certain deferred compensation plans such as 401(k) plans.” – Bureau of Labor Statistics (BLS)



Source: U.S. BLS, Quarterly Census of Employment and Wages.

JOBS – NONFARM EMPLOYMENT BY INDUSTRY

The chart below shows the year-over-year changes in employment by major industry sector. The total Austin area nonfarm employment has increased by 28,300 jobs (2.8%) from prior year.

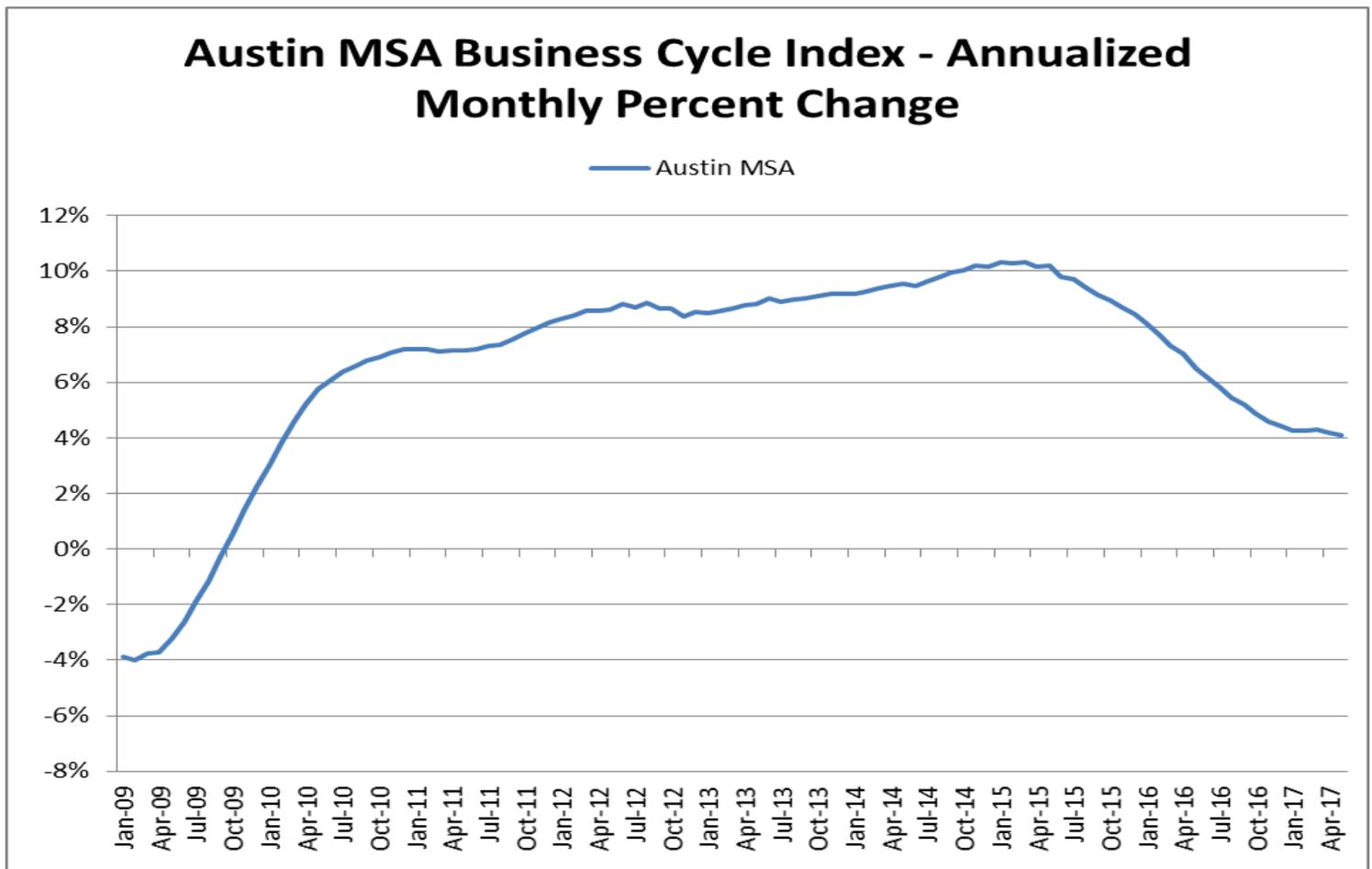
Austin area employment (numbers in thousands)	May 2017	Change from May 2016 to May 2017	
		Number	Percent
Total nonfarm	1,026.9	28.3	2.8
Mining, logging, and construction	61.3	3.0	5.1
Manufacturing	57.4	1.8	3.2
Trade, transportation, and utilities	171.5	2.4	1.4
Information	27.7	-0.7	-2.5
Financial activities	57.8	1.6	2.8
Professional and business services	171.9	3.9	2.3
Education and health services	122.1	6.4	5.5
Leisure and hospitality	127.2	4.5	3.7
Other services	45.6	1.9	4.3
Government	184.4	3.5	1.9

Source: U.S. BLS, Current Employment Statistics.

BUSINESS CYCLE INDEX – AUSTIN MSA

Business Cycle Indexes are meant to reflect broad movements in local economic conditions. The Dallas Fed states that “the [local area] indexes are constructed based on the aggregated movements in the local area unemployment rate, nonagricultural employment, inflation-adjusted wages, and inflation-adjusted retail sales. The weights of the components are statistically optimized for each metropolitan area in order to best capture the underlying cyclical movements in the local area economy.”

“The Austin Business-Cycle Index expanded at a 4.1 percent annualized rate in May, its slowest pace since the early stages of economic recovery in 2010 and below its 15-year average of 6 percent. Weakness in job growth and a leveling off of the unemployment rate contributed to this slowing, although the low level of unemployment suggests a tight labor market. Soft fourth-quarter retail sales and wage data have also restrained growth.”- Austin Economic Indicators - Dallas Fed

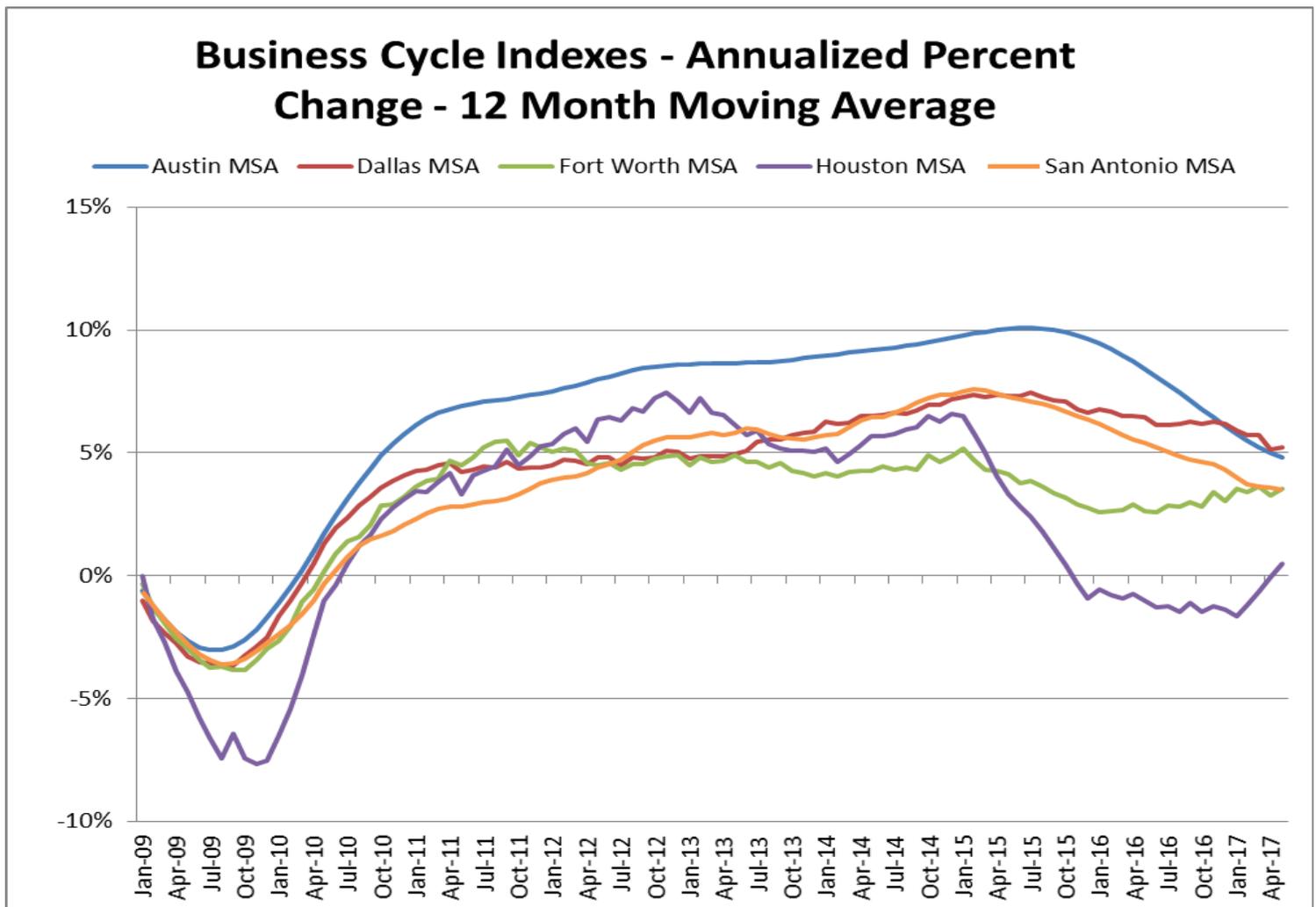


Source: Federal Reserve of Dallas - Index, 1980 = 100

BUSINESS CYCLE INDEX – MAJOR METROS

In the chart below, a twelve month moving average was incorporated to smooth out short-term fluctuations and highlight longer-term cycles.

San Antonio and Austin’s 12 Month Moving Average Business Cycle has decelerated each month since July 2015. “Economic activity accelerated for the fifth straight month in Houston, solidifying its recent economic recovery. The Dallas and Fort Worth indices posted the strongest growth, increasing at a quarterly annualized rate of 3.7 percent and 3.3 percent, respectively.” – Real Estate Center - July Outlook



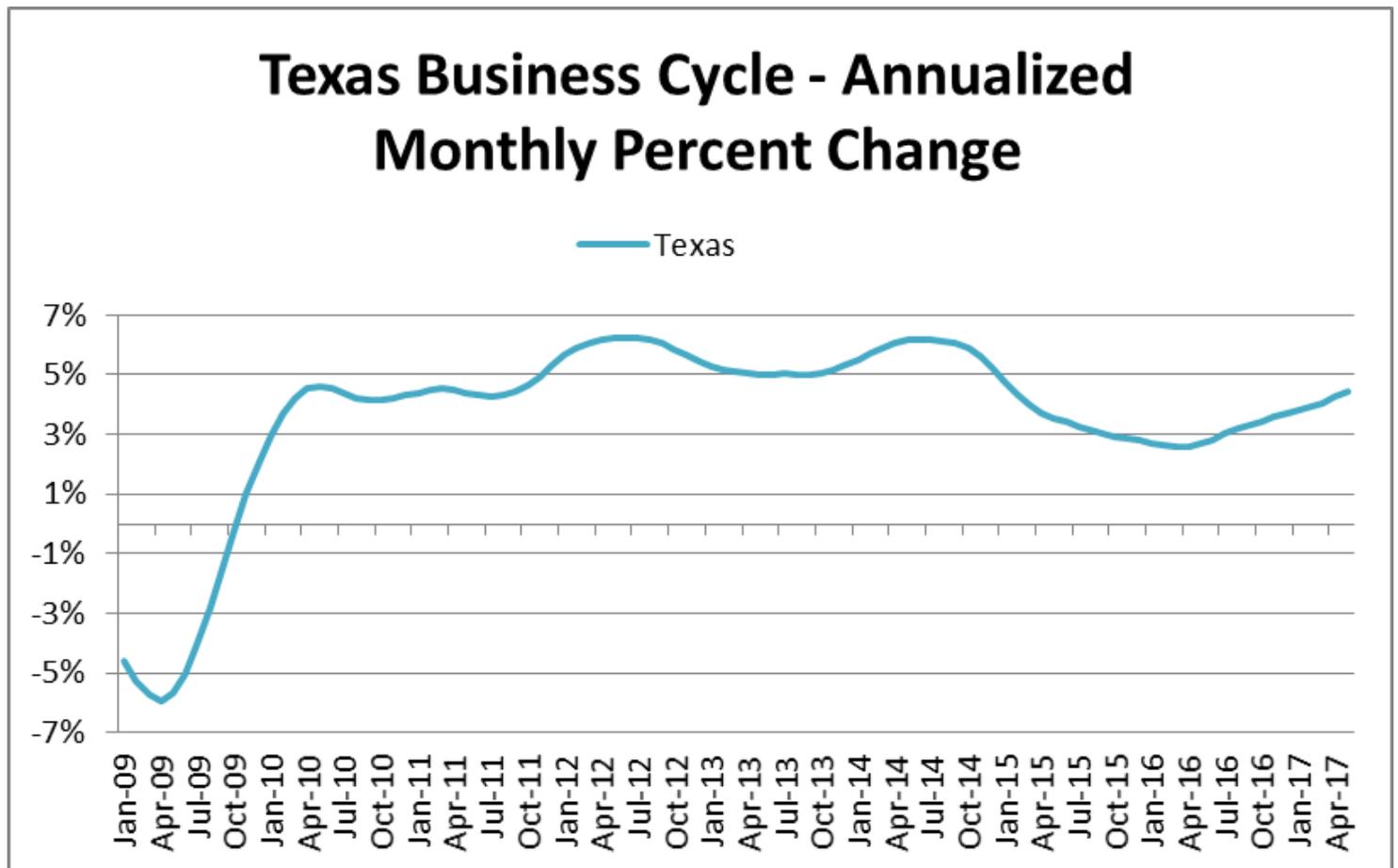
Source: Federal Reserve of Dallas

Source: Federal Reserve of Dallas - Index, 1980 = 100

BUSINESS CYCLE INDEX – TEXAS

The **Texas Business Cycle Index** measures the current state of the Texas economy. The Dallas Fed constructed the index using payroll employment, gross state product, and the unemployment rate.

The Texas Business Cycle Index continues to increase, indicating continued economic expansion.

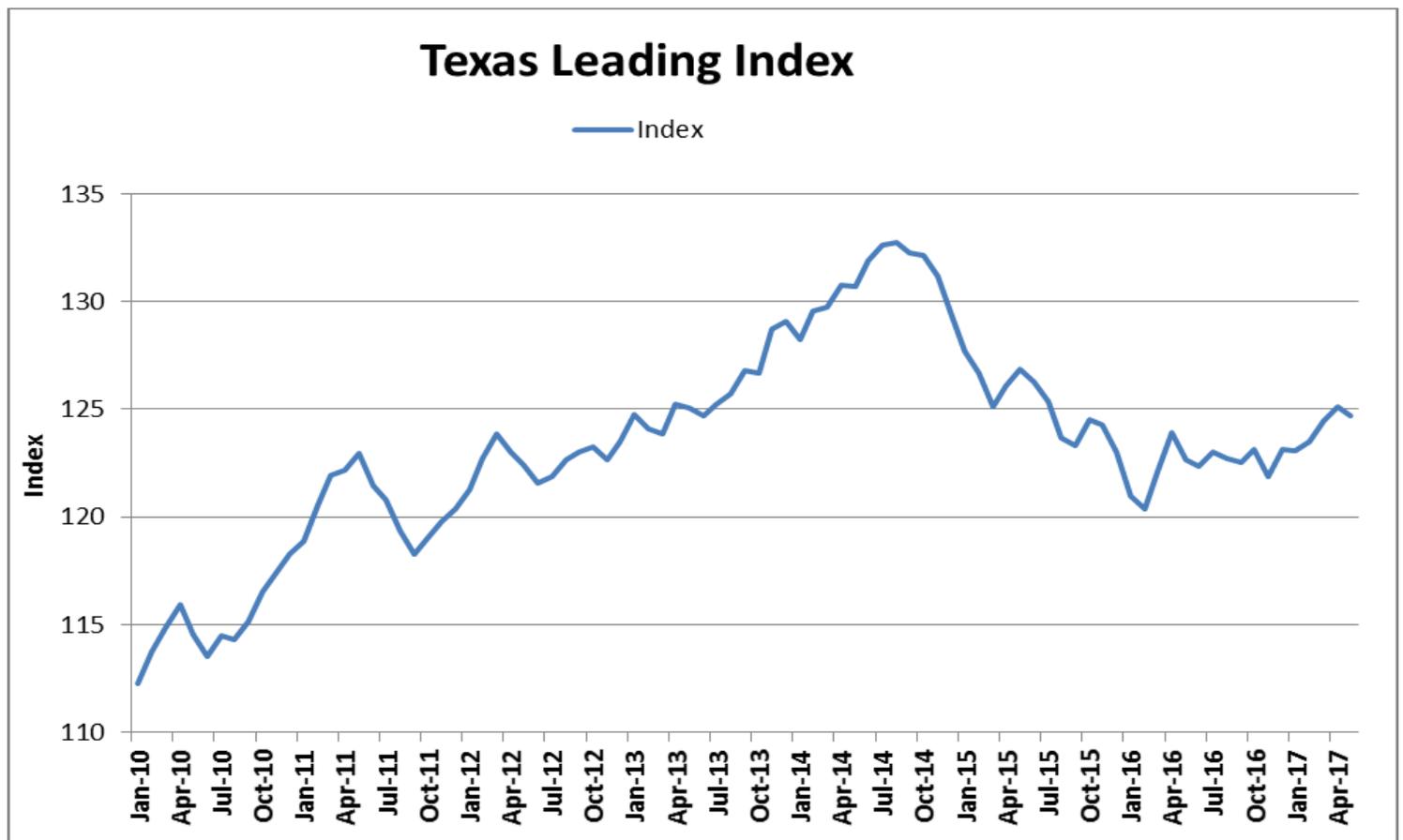


Source: Federal Reserve of Dallas - Index, 1987 = 100

LEADING INDEX – TEXAS

Dallas Fed has defined the **Texas Leading Index** as the “single summary statistic that sheds light on the **future** of the State's economy.” The Texas Leading Index is made up of eight leading indicators that have been shown to change direction – up or down – before the overall economy. The eight indicators used by the Dallas Fed are the Texas value of the dollar, U.S. leading index, real oil price, well permits, initial claims for unemployment insurance, Texas stock index, help-wanted index and average weekly hours worked in manufacturing.

The Texas Leading Index “flattened but maintained positive year-over-year growth. The overall health of the Texas economy balanced the index against falling oil prices.” - Real Estate Center – July Outlook



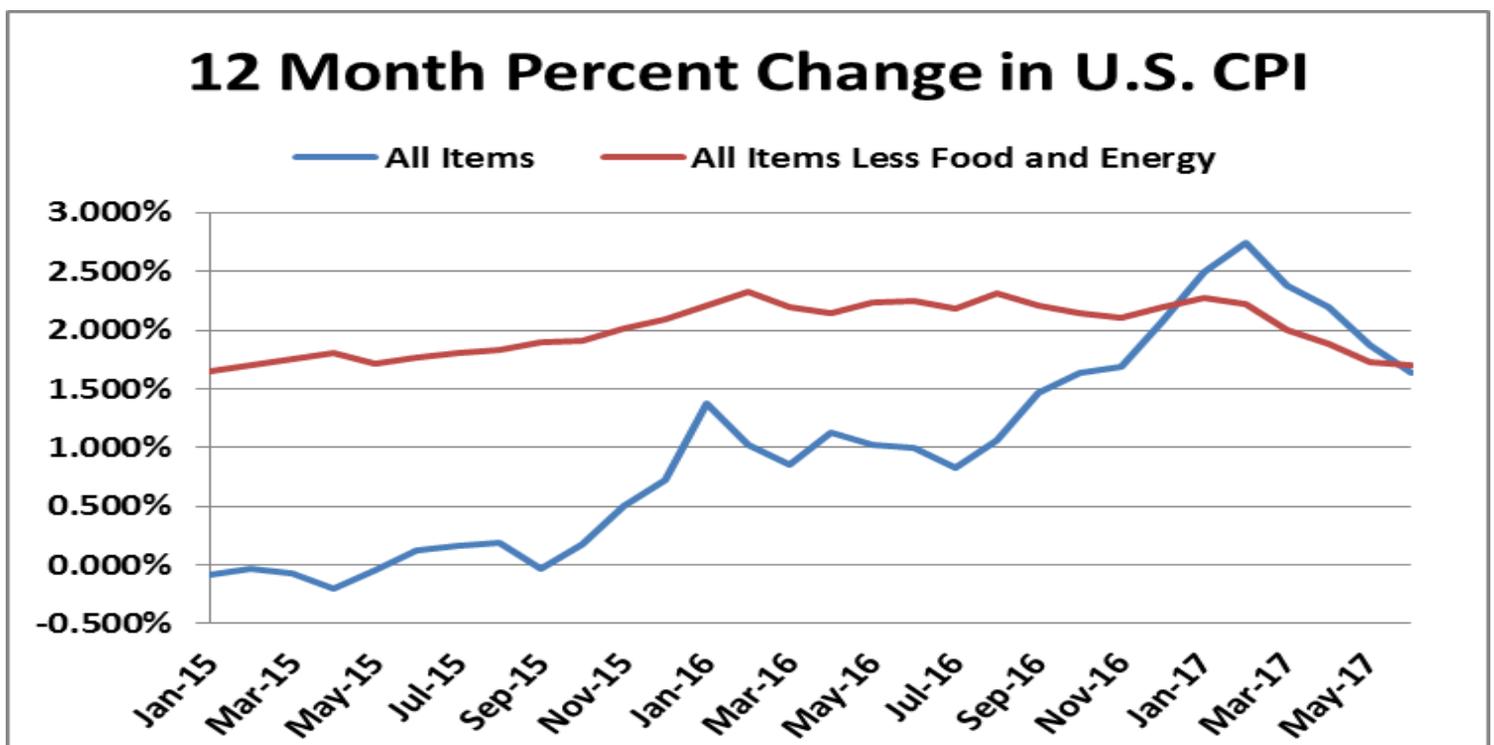
Source: Federal Reserve of Dallas – Index, 1987 = 100

CONSUMER PRICE INDEX

According to the Bureau of Labor Statistics (BLS), “The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.” Basically, the CPI measures inflation as experienced by 87% of the total U.S. population in their day-to-day living expenses.

There are a variety of CPI numbers generated each month. In the graph below, two numbers are compared. The first is the **Official CPI Number** that is reported to the media. It is the broadest and most comprehensive CPI and is called the **All Items CPI for All Urban Consumers**. The second one is called the **All items less food and energy**. The BLS mentions that “Some users of CPI data use this index because food and energy prices are relatively volatile, and these users want to focus on what they perceive to be the ‘core’ or ‘underlying’ rate of inflation.”

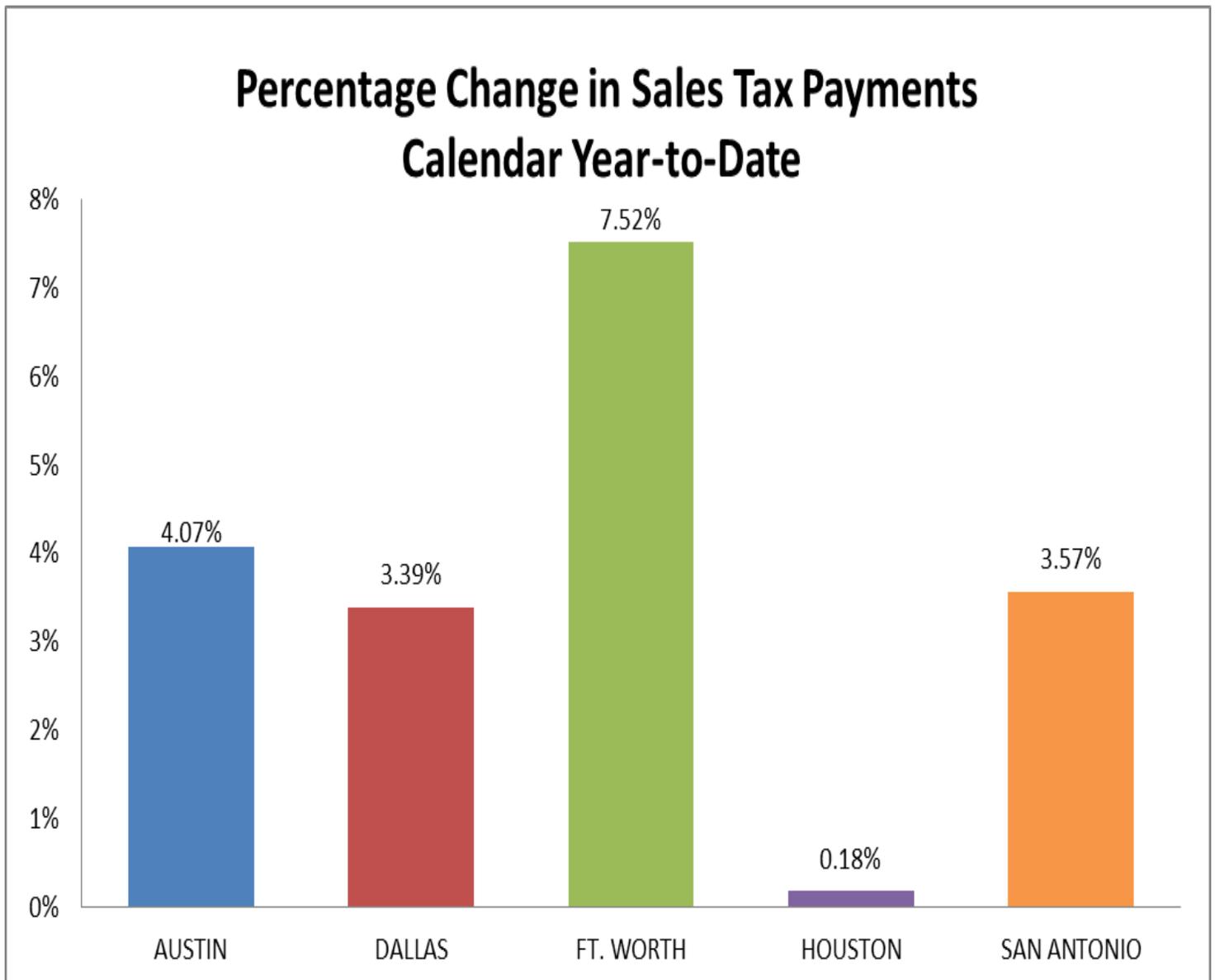
“The all items index rose 1.6 percent for the 12 months ending June; this measure has been declining steadily since February, when it was 2.7 percent. The index for all items less food and energy rose 1.7 percent for the 12 months ending June, the same increase as for the 12 months ending May. The energy index rose 2.3 percent over the last year, while the food index increased 0.9 percent.” – BLS – Economic News Release



Source: Bureau of Labor Statistics, not seasonally adjusted, 1982-84=100

SALES TAX – METRO

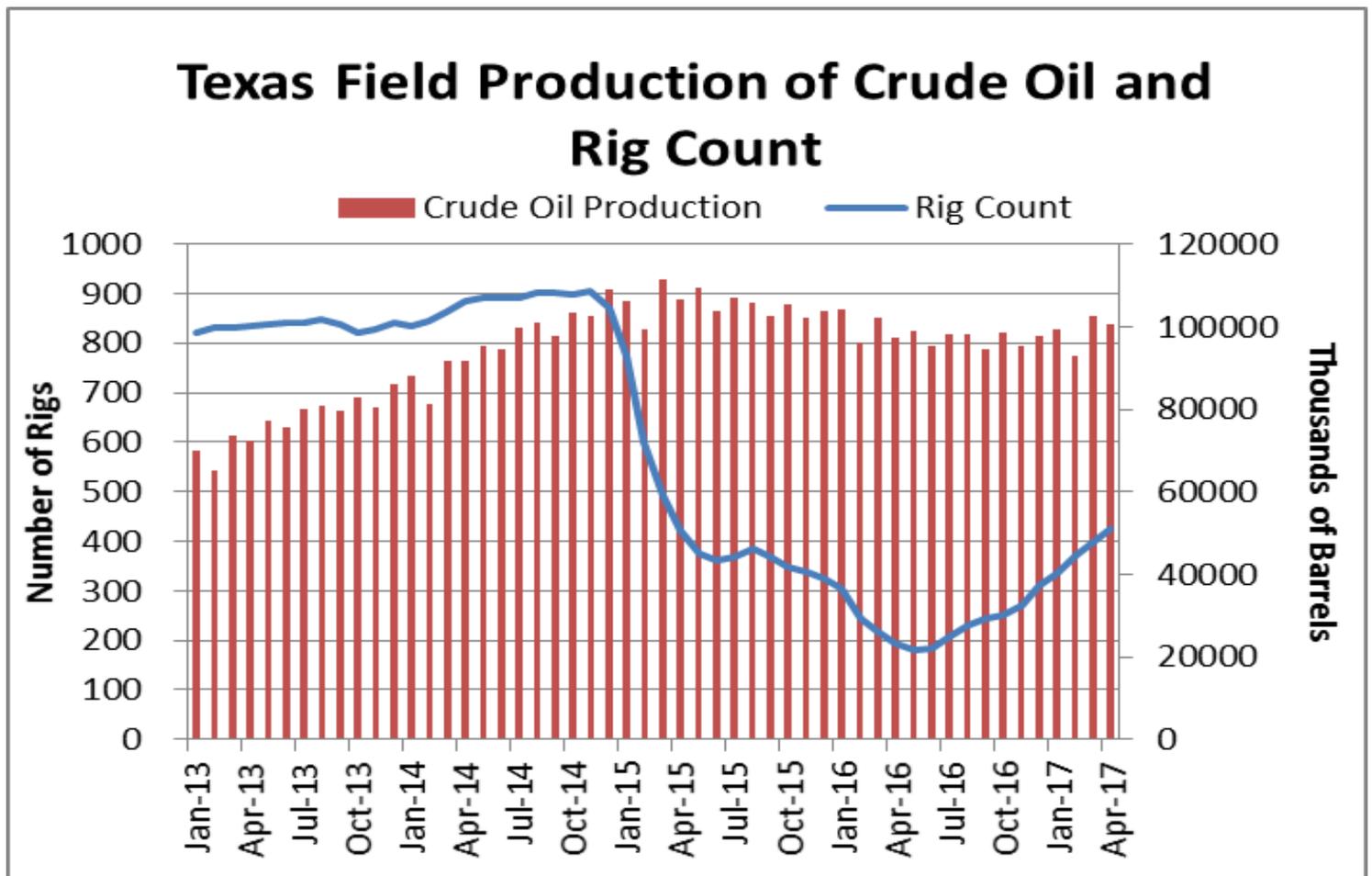
Below is a graph of the 2016 vs. 2017 year-to-date percentage change in Sales Tax Payments made by the State to the five major cities in Texas. Based on the July 2017 report, Houston has joined the other four cities in experiencing year-over-year growth. The increase in Austin's year-to-date revenue is \$4.8M.



Source: Texas Comptroller of Public Accounts

OIL AND NATURAL GAS

“The average West Texas Intermediate crude oil spot price fell to a non-seasonally adjusted six month low of \$48.48 despite OPEC’s extended production cuts. Booming U.S. production continued to offset OPEC’s market rebalancing measures. The number of active rigs in Texas increased 153.1 percent year-over-year to 453, and crude oil production rose above 3.3 million bpd. The Henry Hub spot price of natural gas rose to \$3.2 per million BTU (British thermal units) despite saturated inventories. Increased oil drilling, which produces natural gas as a byproduct, contributed to a global natural gas glut. The Energy Information Administration predicts the U.S. will be a net exporter of natural gas by 2018—the first time in nearly 60 years. Texas remained the largest gas producing state, accounting for 23.7 percent of national production.” - Outlook for the Texas Economy – Real Estate Center – May Summary



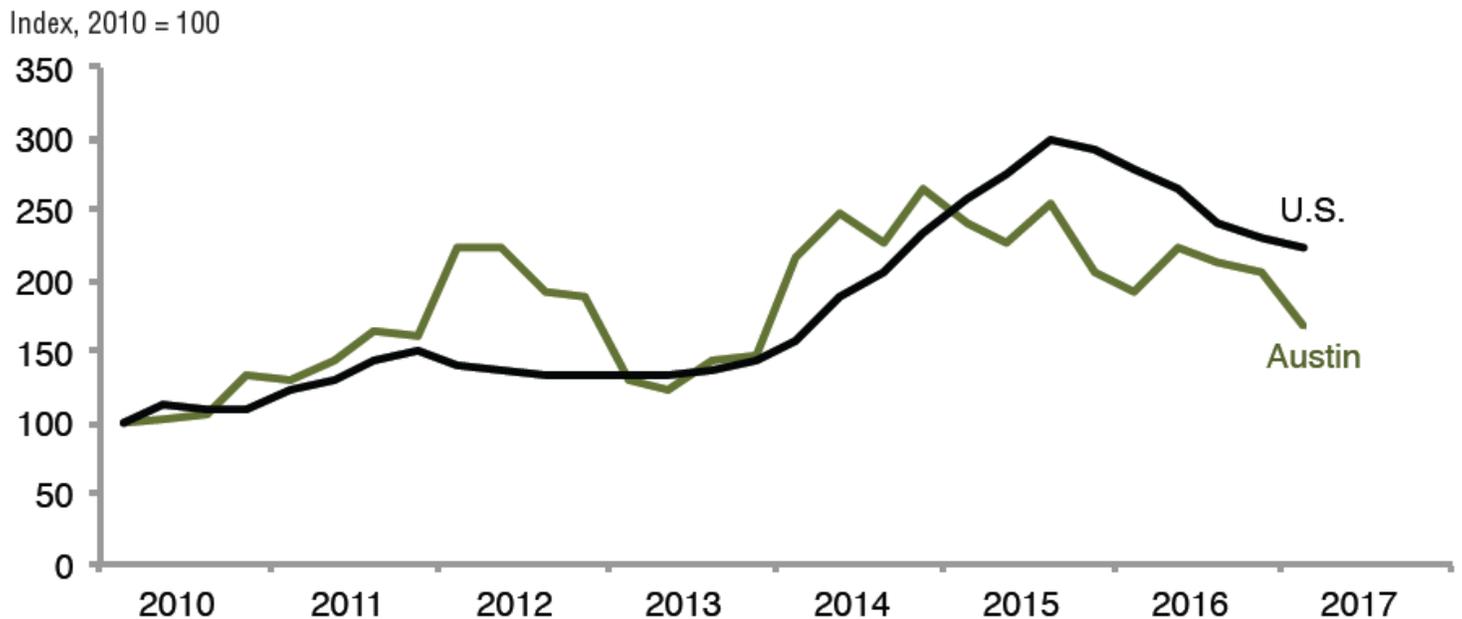
Source: of Data: Baker Hughes and U.S. Energy Information Administration.

Venture Capital

“Inflation-adjusted venture capital funding in Austin declined in the first quarter of 2017, following broader trends seen in the nation. Year-over-year funding was down 11.5 percent, though this was better than the 20.8 percent decline in the national average. The average funding per deal in Austin in the first quarter was slightly higher than the average of \$6.9 million over the past six years.” – Dallas Fed

The graph below was prepared by the Dallas Fed.

Venture Capital Funding



NOTES: Indexed on four-quarter moving average. Data are inflation adjusted.

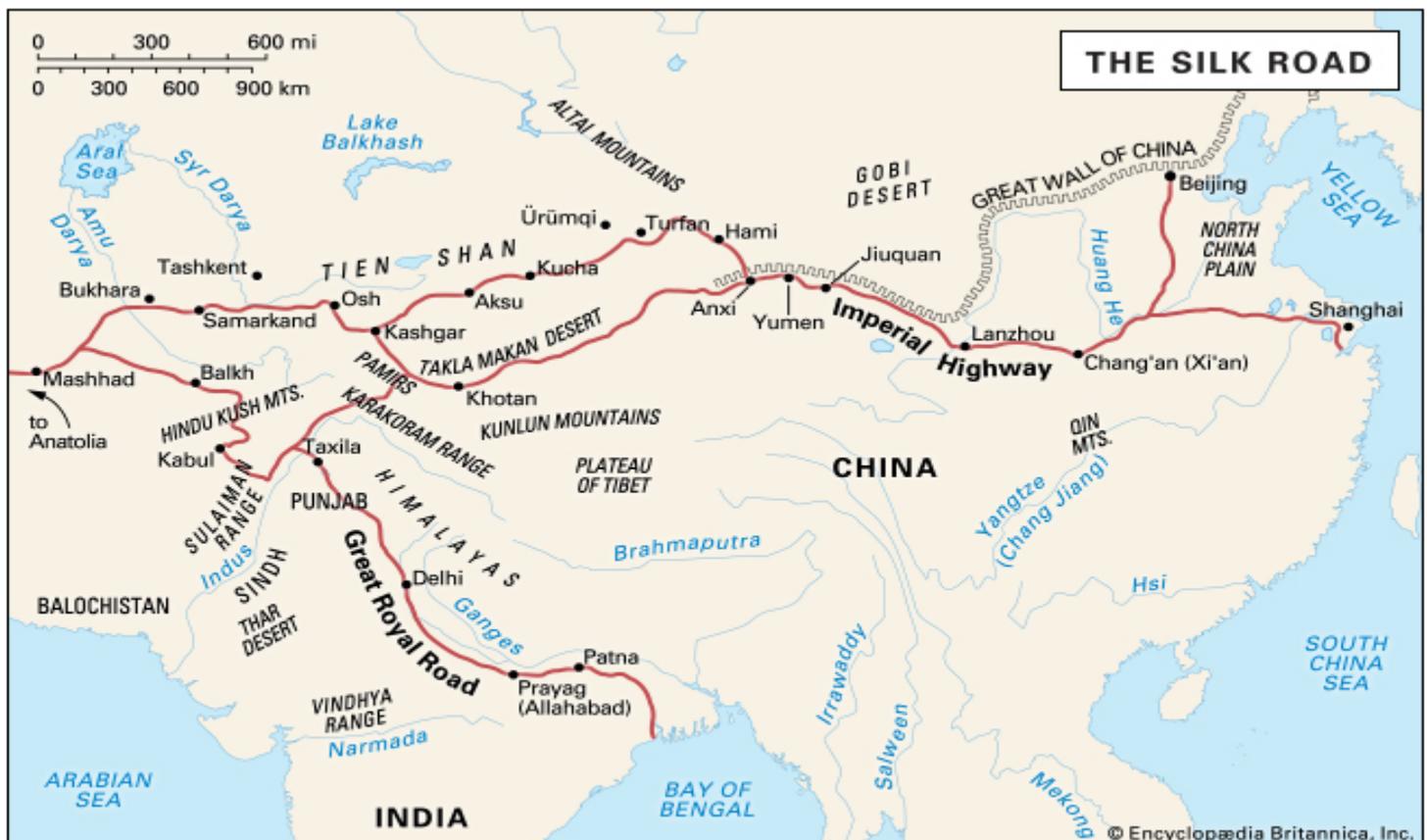
SOURCES: Austin Chamber of Commerce; PricewaterhouseCoopers; Thomson Reuters; National Venture Capital Association.

IN-DEPTH –NEW SILK ROAD – ONE BELT, ONE ROAD

WHAT WAS THE ORIGINAL SILK ROAD?

“The original Silk Road came into being during the westward expansion of China’s Han Dynasty (206 BC–220 AD), which forged trade networks throughout what are today the Central Asian countries of Kyrgyzstan, Tajikistan, Kazakhstan, Uzbekistan, Turkmenistan, and Afghanistan, as well as modern-day Pakistan and India to the south. Those routes eventually extended over four thousand miles to Europe.”

“Valuable Chinese silk, spices, jade, and other goods moved west while China received gold and other precious metals, ivory, and glass products.” – Council on Foreign Relations (CFR) – May 2015



Silk Road.

Encyclopædia Britannica, Inc.

IN-DEPTH – NEW SILK ROAD – ONE BELT, ONE ROAD

WHAT HAPPENED TO THE ORIGINAL SILK ROAD?

“The route peaked during the first millennium, under the leadership of first the Roman and then Byzantine Empires, and the Tang dynasty (618–907) in China.

But the Crusades, as well as advances by the Mongols in Central Asia, dampened trade. By the sixteenth century, Asian commerce with Europe had largely shifted to maritime trade routes, which were cheaper and faster.” - CFR

WHAT IS THE NEW SILK ROAD?

The New Silk Road is a bold plan initiated by the Chinese president, Xi Jinping. The ancient trade route between China and the West would reopen as a double trade corridor. Land routes (the “Belt”) and maritime routes (the “Road”) would connect China, Central Asia, the Middle East and Europe.

The land route is not just a single road, Xi “wants to create a vast network of railways, energy pipelines, highways, and streamlined border crossings, both westward—through the mountainous former Soviet republics—and southward, toward Pakistan, India, and the rest of Southeast Asia.” - CFR

IN-DEPTH –NEW SILK ROAD – ONE BELT, ONE ROAD

WHO WOULD BE IMPACTED BY THE ONE ROAD, ONE BELT INITIATIVE?

“The initiative will connect more than 65 countries across Europe, Asia and Africa covering 63% of the world’s population and 29% of global GDP” – HSBC

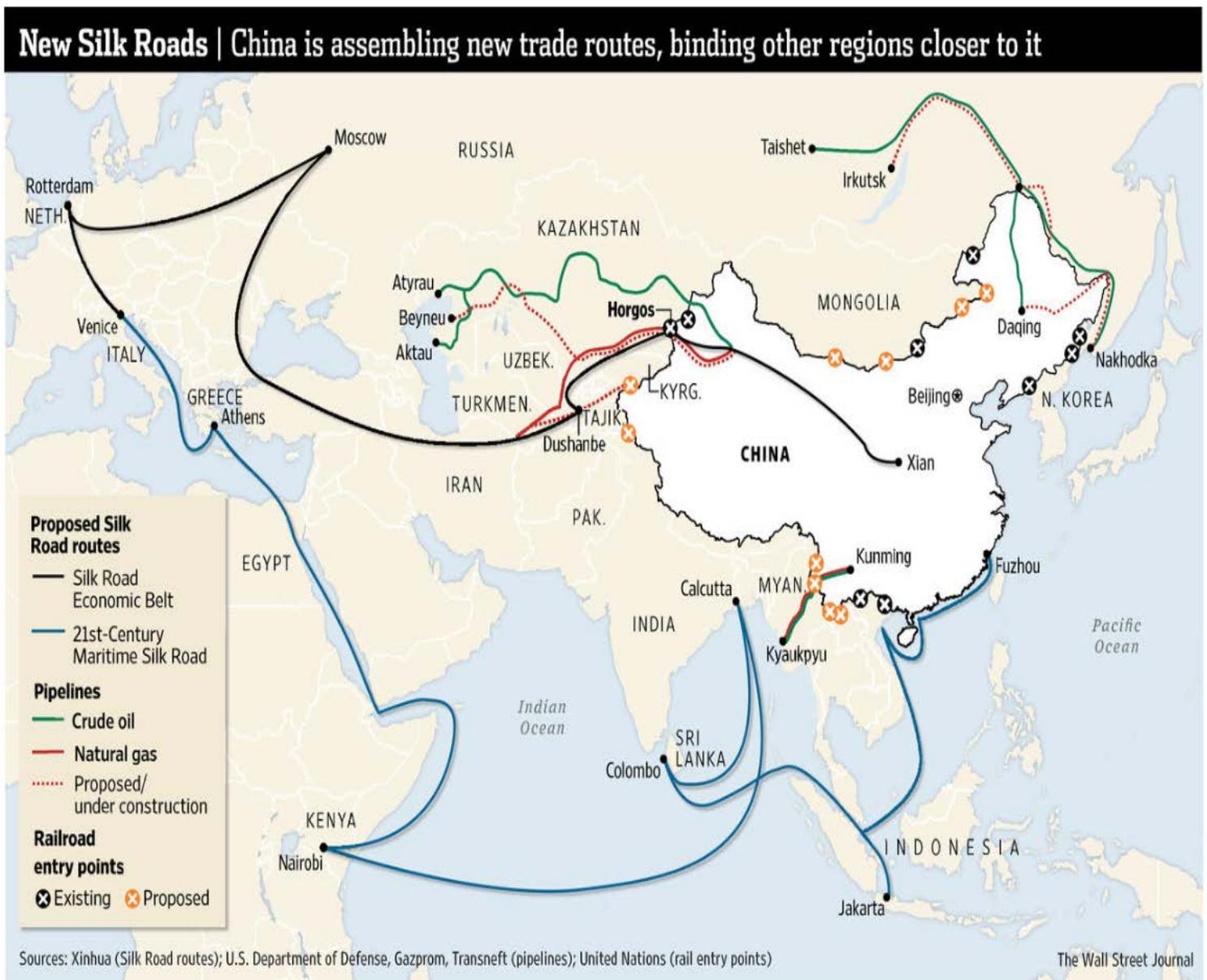


Image: Wall Street Journal

IN-DEPTH –NEW SILK ROAD – ONE BELT, ONE ROAD

WHERE WILL MONEY BE INVESTED?

“Sixty-two countries could see investments of up to US\$500 billion over the next five years, according to Credit Suisse, with most of that channeled to India, Russia, Indonesia, Iran, Egypt, the Philippines and Pakistan.

Chinese companies are already behind several energy projects, including oil and gas pipelines between China and Russia, Kazakhstan and Myanmar. Roads and infrastructure projects are also underway in Ethiopia, Kenya, Laos and Thailand.” – World Economic Forum

WHAT DOES CHINA GAIN BY REVIVING THE ANCIENT TRADE ROUTES?

- 1) An outlet for China’s industrial overcapacity -steel, heavy equipment
- 2) New markets for consumer goods
- 3) The expanded use of the Chinese currency, the renminbi
- 4) Secure long-term energy supplies
- 5) Economic development in its Xinjiang province
- 6) Regional influence
- 7) Economic control of Central Asia

IN-DEPTH –NEW SILK ROAD – ONE BELT, ONE ROAD

WHAT ARE SOME OBSTACLES TO COMPLETING A NEW SILK ROAD?

- 1) Funding
- 2) Local Opposition
- 3) Security Risks
- 4) Engineering Logistics
- 5) Political Uncertainty
- 6) Environmental Issues
- 7) Return on Investment
- 8) Trade Barriers

OTHER CONCERNS WITH CHINA LEADING THE ENDEAVOR?

To secure funding for infrastructure projects countries most likely will borrow money from Beijing. Terms of the loan may require that state owned Chinese companies must construct the project using Chinese workers. So a relatively poor country could end up with massive debt on a project that did not generate many local jobs and may not generate any rate of return.

IN-DEPTH –NEW SILK ROAD – ONE BELT, ONE ROAD

IS THIS THE FUTURE?



China's first direct freight train to the UK arrives at Barking Freight Terminal in east London in January CREDIT: JULIAN SIMMONDS

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