

**Council of Supply Chain Managers  
Houston Roundtable  
April 16, 2009**

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**Houston: Its Role in the Economy and  
a Perspective on Growth**

Good afternoon. My thanks go to John Vogt for inviting me here to chat with you today.

You know it is said that amateurs talk about tactics, but professionals study logistics. I feel pretty comfortable saying I'm definitely in the company of some of the region's top professionals today. Supply chain management professionals have become very important these days as businesses look at ways to get that competitive edge. They're also important to keeping business costs down, which is particularly vital to our economy right now.

As John shared, the Greater Houston Partnership's primary focus is securing economic prosperity for the 10-county region. This is achieved through job growth, capital investment and increased foreign trade. A big part of our focus is attracting businesses to the region and encouraging those businesses with operations here to stay.

A key selling point in that effort is the fact that the Houston region offers one of the most business friendly environments in the nation.

Low operations costs play a significant role in that. So you see the growth and economic prosperity of the Houston region can be tied directly to the quality of the professionals in this room. So thank you for all that you do.

I've been asked to talk to you today about Houston's role in the economy and to give you a perspective on growth as I see it. If you happened to have caught recent news reports, the nation is marveling at our region's ability to remain relatively prosperous during these tough economic times. I guess you can say we're in a sweet spot.

- Just last month, we were named the top metro area in the country by *Site Selection* magazine;
- In February, our housing market was rated the nation's healthiest by *Builder Magazine* and Hanley Wood Market Intelligence;
- Forbes.com says we're the best U.S. city in which to earn a living and to buy a home;
- We've passed Detroit to become the Number 3 customs district in the nation behind Los Angeles and New York;
- *Manufacturers News* ranked us the country's No. 1 manufacturing city;
- We have the largest IT service economy in America, according to the national technology network, Onforce; and
- Inc.com ranks us among the Top 5 best big cities for technology.

As is the case with the rest of the nation, we have experienced job losses in the past two quarters. However, our job loss numbers have been below the national average.

I can also tell you we're starting from a position of considerable strength as we had the fastest job growth in the nation between January 1, 2008 and January 1, 2009 according to the U.S. Bureau of Labor Statistics. And Houston has added 380,000 new jobs over the last five years. This outpaced the **total** job growth numbers of the 16 other **states** in the country posting employment gains.

Now I'm no fortune teller, but I feel pretty confident saying we will come through this national challenge to the economy in pretty good shape.

It is important that this region continue to thrive because we are vitally important to the national and global economy.

If you'll indulge me for a moment, I'd like to preach to the choir and talk about the importance of our region strategic location:

[STRATEGIC LOCATION SLIDE]

Located almost dead center of the Gulf Coast, ours is a strategically well-placed region. Capitalizing on this strategic location, Houston had the vision, enterprise – and courage – to partner with the federal government nearly a century ago to complete the channel that would give Houston a deepwater port.

The cost was \$1,250,000, a very considerable sum for those days. Half of this cost was shouldered by Houstonians. But it was worth it. Houston has been building on that investment since.

Today, it is the 6th-largest port in the world in total tonnage. In 2007, Houston ranked first in foreign tonnage, first in import tonnage, second in export tonnage and second in total tonnage among U.S.

ports. The most recent expansion was completed in 2005, resulting in a channel 45 feet deep and 530 feet wide. Approximately 7,700 deep-draft ships call our port each year, serving more than 1,000 ports worldwide.

Of further value is our world-class international airport. Bush Intercontinental is the eighth-largest international passenger gateway in the country, and also ranks eighth among the nation's airports in total passenger volume. The Houston Airport System serves some 190 cities worldwide, with more than 8 million international passengers per year. Foreign shipments through George Bush Intercontinental Airport totaled more than 181,000 metric tons in 2008 – an increase of just under 6 percent from 2007.

#### [FORTUNE 500 HEADQUARTERS SLIDE]

Our strategic location and business friendly climate have resulted in the Houston region being home to the headquarters of 26 *Fortune* 500 companies, a list of which you see here.

#### [HOUSTON AREA PROFILE SLIDE]

The Houston MSA covers more than 10,000 square miles. It is home to more than 5.7 million residents; represents nearly 3 million jobs and has a Gross Area Product of just under \$417 billion.

#### [IF HOUSTON WERE A STATE SLIDE]

If Houston were a state it would rank 44<sup>th</sup> in land mass, but 19<sup>th</sup> in population and jobs.

#### [JOBS COMPARISON]

To put this into further context, businesses in the Houston region employ more people than the states of Colorado, Maryland or Arizona.

### [GDP comparison]

And if Houston was a sovereign nation, our Gross Domestic Product would surpass that of Saudi Arabia, Taiwan or Norway and it would have the 22<sup>nd</sup> largest economy in the world.

As I mentioned earlier, the greater Houston region is in a much better place to weather the uncertainty which lies ahead on the horizon for our nation. Since the last time we worked through a recession, our economy has become much more diversified. In the early 1980s, before the onset of the recession in 1982, oil and gas accounted for more than two-thirds of our economic base. So when the price of oil plunged, the economy followed.

Today, our economy is larger, with nearly three times the Gross Area Product and 50 percent more jobs.

### [HOUSTON-AREA INDUSTRY MIX]

Our industry mix has grown to include a greater reliance on industries such as aerospace; health care and biotechnology; nanotechnology; and international business. And we're leading the nation in those areas.

### [AEROSPACE SLIDE]

In the field of aerospace, our region is home to NASA Johnson Space Center (JSC), the employer of a work force of more than 17,000. The JSC does business with industry leaders including Boeing, Lockheed, Raytheon and SPACEHAB. And it is also the lead center for the design,

development and construction of Orion, our country's next generation crew exploration vehicle.

### [HEALTH CARE SLIDE]

Houston is also home to Texas Medical Center (TMC). With more than 28 million gross square feet of physical space and nearly 74,000 employees, it is the largest in the world. It includes 47 member institutions and 11 educational institutions which prepare 33,000 full-time students, through the research some of the world's most confounding illnesses, to go out into the world and save the lives of many. More than 5 million patients visit TMC each; more than 13,000 come from overseas to seek treatment.

### [NANOTECH SLIDE]

Let's not forget nanotechnology – the science of incredibly small things – is proof that little things definitely mean a lot. With applications in such diverse fields as health care; construction; and energy, nanotechnology offers the promise of innovation. Houston companies and institutions are active in cutting-edge research and development.

- Houston is one of the top 10 U.S. metro areas with significant research and commercialization related to nanotechnology;
- We rank fourth among up-and-coming tech companies; and
- Among U.S. research universities, Baylor College of Medicine ranked one in molecular genetics research faculty productivity ahead of the University of Massachusetts Medical School and Duke University.

And for the first time in the conference's 12-year history, Houston will host the TechConnect World (formerly NSTI) Conference, May 3-7, 2009. We're proud to be a part of a rotation that includes Boston, MA and Santa Clara, CA. The event provides the Houston region with a unique opportunity to further lead the charge for innovative and emerging technologies.

### [INTERNATIONAL BUSINESS]

As I mentioned early, Houston enjoys a strategic location and world-class infrastructure which includes one of the largest ports in the world and a world class international airport. This has benefitted international business in the region tremendously.

We host the consulates of 90 countries. More than 2,800 Houston area companies do business overseas, shipping nearly \$90 billion in metro exports as of 2007. We are home to 23 foreign banks representing 13 nations, and 61 of the 100 largest foreign corporations have offices right here in Houston. This has had a direct effect on jobs in the region, with 38 percent tied to foreign trade.

While we have expanded our focus in the region, the oil and gas industry is still a major contributor to our economy.

### [ENERGY SLIDE]

We serve as the international center for every aspect of the sector. With more than 3,400 establishments calling Houston home, the region accounts for:

- 29 percent of U.S. jobs in oil and gas extraction;
- 13 percent of the nation's oil field services jobs; and

- Roughly 13 percent of the country's oil and gas and construction machinery manufacturing.

But we don't just want to be known as the oil and gas capital of the world. We're working on securing our position as the Energy Capital of the World. The Partnership recently hosted our 2<sup>nd</sup> Annual America's Energy Future symposium which assembled thought leaders from the private sector, academia and government to talk about the challenges our nation currently faces in establishing energy independence and to identify possible solutions.

And we're not just talking about change. We're putting our words into action.

- Houston has been recognized as a Solar America City by the Department of Energy;
- The EPA ranks the City of Houston 2<sup>nd</sup> for top green power purchasing local governments with 20 percent of its energy purchases coming from wind power; and
- The largest biodiesel plant in the U.S. is located just a stone's throw away over at the Houston Ship Channel. It processes 105 million gallons of biodiesel fuels per year using animal fats and both edible and non-edible vegetable oils.

It is this kind of leadership – the determination to be a step ahead of the game – which makes this region great. I believe it will continue to yield a pretty significant return on investment. We are experiencing significant economic momentum which will lead to continued growth for the region. Here are a few reasons why:

[ECONOMIC MOMENTUM SLIDE]

There has been substantial metro population growth over the past 10 years. We added more than 1,000,000 new Houstonians to our ranks. That's a rate of 120,000 new residents a year!

And our region is making significant infrastructure investments to further boost international business by doubling the capacity of the Bayport container and increasing international air service.

### [QUALITY OF LIFE SLIDE]

In addition to the business and economic reasons for growth in the region, Houston offers unparalleled quality of life which businesses and their employees find attractive when considering relocation.

According to *Kiplinger's Personal Finance*, Houston is the best city in which to live, work and play. We also have the lowest cost of living and 2<sup>nd</sup> least expensive housing market among major metro areas.

These factors stand to continue the track record of growth and prosperity we've enjoyed over the past two decades or so.

The region is indeed enjoying its place in the sun. But as Thomas Edison once said, "We shall have no better conditions in the future if we are satisfied with all those which we have at present." There are challenges that – if left unaddressed – threaten the prosperity we currently enjoy.

### [PANAMAX SLIDE]

I mentioned our standing as one of the largest ports in the world. Well, there is a development under way right now which promises to dramatically increase traffic at the Port of Houston in just under a half a dozen years. In 2006, the people of Panama voted to approve a \$5

billion expansion of the Panama Canal. The canal will be widened to accommodate the very largest classes of cargo ships.

What does this mean for Houston? At present, if a ship from China wants to sail to the Port of Houston by way of the Panama Canal, for example, its capacity is limited to a maximum of 3,800 twenty-foot equivalent units (TEUs). Ships carrying any more than that are too big to traverse the canal. Larger ships have to dock in Los Angeles and ship their cargos to Houston by rail.

When the canal expansion is completed in 2014, the so-called “post-Panamax” cargo ships, with a capacity of 12,000 TEUs, will be able to sail directly from Asia to Houston. According to a conservative estimate by a spokesman for the Port of Houston Authority, container traffic at the Port of Houston could increase by as much as 20 percent. It will probably exceed that.

### [CRUMBLING INFRASTRUCTURE SLIDES]

While there have been considerable investments made in our region’s port, airport and freight rail lines, we have not been sheltered from the fact that the nation’s infrastructure is in peril. There are predictions that by 2020, every major U.S. container port will at minimum – at *minimum* – double the volume of cargo it was designed to handle. That includes the Port of Houston.

When the bridge over the Mississippi River in Minneapolis collapsed in 2007, it put a spotlight on America’s transportation infrastructure. What we saw was not comforting:

- 33 percent of major U.S. roads are in poor or mediocre condition;

- A quarter of our bridges are structurally deficient or functionally obsolete; and
- Our interstate system, which handles 240 million vehicles traveling 3 trillion miles annually, has changed very little since its creation in 1956; when it was designed to serve 65 million vehicles traveling 600 billion miles annually.

But the issue doesn't end with our ports, roads and bridges. U.S. airline delays are at their highest level in more than 10 years – and it is estimated that passenger traffic could hit 1 billion annually in the next decade.

Railroads will need about \$200 billion over the next 20 years to maintain their existing infrastructure and manage the projected growth in freight.

Clearly, a declining infrastructure – in some cases, a crumbling infrastructure – is one of the most important challenges we face when considering continued economic growth in the greater Houston area. I think supply chain managers would agree, if we can't get products where they need to be, this poses a very real threat to regional prosperity.

As I watched President Obama give his inaugural address a few short months ago, I was most excited about his commitment to addressing this challenge.

[JESSE H. JONES SLIDE]

And we don't have to start from scratch either. There is a very successful prototype for federal investment in massive infrastructure

reinforcement. Most of you probably know of Jesse Holman Jones. He was one of Houston's great business executives and builders.

A report from the Harvard Business School said he was "responsible for the transformation of Houston into the most important city for international commerce in the South." The *Saturday Evening Post* wrote in 1940 that, "Next to the President, no man in the government and probably the United States wields greater powers."

But Jesse Jones was also responsible for what is widely believed to be one of the greatest infrastructure-building programs in history.

### [RFC PROJECT SLIDES]

As head of the Reconstruction Finance Corporation, he oversaw a multi-billion-dollar effort from 1933 to 1937 that included construction of the Hoover and Grand Coulee dams; river diversion, flood control, levee, and irrigation projects; the Golden Gate Bridge; and the Pennsylvania Turnpike.

So we know it can be done. It just takes courageous leadership to make it happen.

It is encouraging to see our newly elected president is proposing reinvesting taxpayer dollars into providing a solution for the challenge of our crumbling and outdated national infrastructure. Consider this:

### [INFRASTRUCTURAL INVESTMENT DISPARITY SLIDE]

China spends 9 percent of its Gross Domestic Product on infrastructure, and India, 5 percent. Since 1980, America has spent, on average, less than 2 percent annually. Meanwhile, states facing constrained budgets have been left to their own devices and forced to

make priority decisions among competing interests. And the demands for increased capacity keep growing year after year.

We're not immune to these problems here, either.

### [REGIONAL SHORTFALL SLIDE]

If current spending levels remain constant, we'll have a \$16 billion shortfall between now and 2025 for new transportation capacity in this region. We'll be able to fund just 40 percent of needed roadway improvements. That can only lead to more congestion, which will impact the operations of companies whose profits depend on continued over-the-road efficiency and could have a negative impact on our efforts to bring businesses to the region.

### [INFRASTRUCTURAL INVESTMENT SLIDE]

Money spent on transportation is money well spent, too.

For example, U.S. industries save 24 cents on production and distribution costs for every dollar put into non-local road systems. A \$2.75 billion public investment in freight railroad would save \$10 billion in highway costs over the next two decades.

In short, we need to build a 21<sup>st</sup> century infrastructure to support a 21<sup>st</sup> century economy. Yes, infrastructure is critical to Houston's continued growth. As the epicenter of U.S. international trade and transportation, I think we have a pretty good argument for receiving our fair share of those funds being appropriated through President Obama's economic stimulus program. It's a position we have shared with and will continue to impress upon our regional Congressional delegation in the weeks to come.

This year the Partnership has focused its efforts on supporting major infrastructure projects. In recent months, our Board of Directors passed a resolution in support of increased funding to the Houston Ship Channel. And we owe a big thank you to our representation in Congress for consistently garnering funding above the budgets presented by the outgoing administration. We've also started working in Austin and in Washington to capture our share of proposed infrastructure funds so we can accomplish the projects outlined in the Regional Mobility Plan.

It is our goal to work cooperatively to reinvest taxpayer dollars in an infrastructure-building program to make our beloved Jesse H. Jones proud.

As I close, I'd like to leave you with this thought that's dedicated to the visiting students that are in the room. It's from a young entrepreneur with whom you might be familiar. His name is Bo Bennett, and he says, "As sure as the spring will follow the winter, prosperity and economic growth will follow recession." – brilliant insight from a 28-year-old self-made millionaire. He hit the nail on the head.

We put in the heavy lifting early. The region is in a good place. With the commitment to collaborative reinvestment in our region, we will do more than just get through this recent challenge. We will continue our march toward economic growth and prosperity.

Thank you!