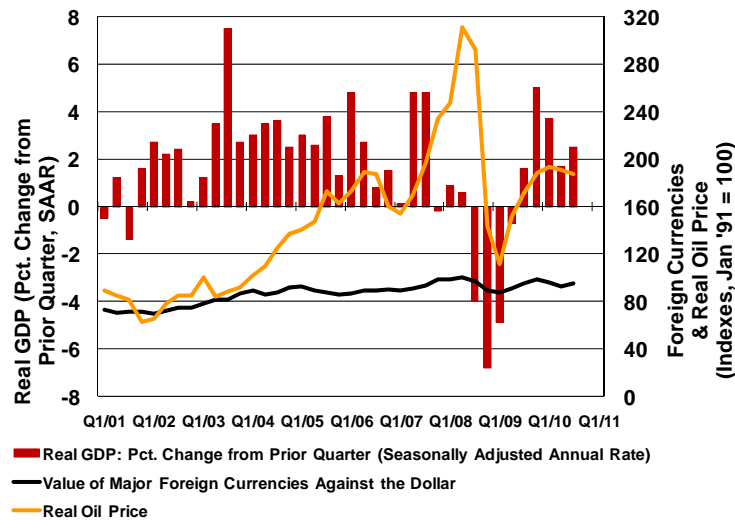


External Economic Drivers

Three external factors have shaped the Houston economy in recent years.

GDP, Major Foreign Currencies vs. the Dollar, and Real Oil Price



Sources: U.S. Bureau of Economic Analysis; U.S. Energy Information Agency

DATA

- For many years, three exogenous factors have guided the course of Houston’s economy: the health of the national economy, the value of the dollar against foreign currencies, and energy prices.
- With energy prices rising sharply, Houston’s economy picked up in ’00 despite slowing growth in real Gross Domestic Product (GDP) and the dollar’s continued appreciation (which inhibited exports of Houston goods and services). In ’01, however, all three factors worked against Houston: oil prices fell by a third, GDP grew anemically and erratically, and the dollar continued to strengthen — with the result that Houston’s job growth slowed to near zero by the end of ’01 and then turned slightly negative.
- All three factors began to move in the right direction for Houston in ’02, and job growth returned in ’04. The decline in the value of the dollar in ’06-’07 was welcome news; real oil prices soared to unprecedented levels in mid-’08; and GDP posted gains in 25 quarters ending Q4/07, including 11 at or above 3 percent — the minimum sustained rate necessary for local economic expansion.
- The latter half of ’08 saw sharp contraction in real GDP, a rise in the value of the dollar and an unprecedented 70 percent decline in oil prices over just five months — all of which dampened growth in the Houston economy. GDP contraction worsened in Q1/09 and continued at a much reduced rate in Q2.
- GDP has posted gains since Q3/09 and oil has traded between \$70 and \$80 for the past year. The region’s economic recovery has begun, however, it’s been much like that of the U.S. so far—a clear bottom but only a gradual return to growth.