

Economic Environment – Harris County – February 2018

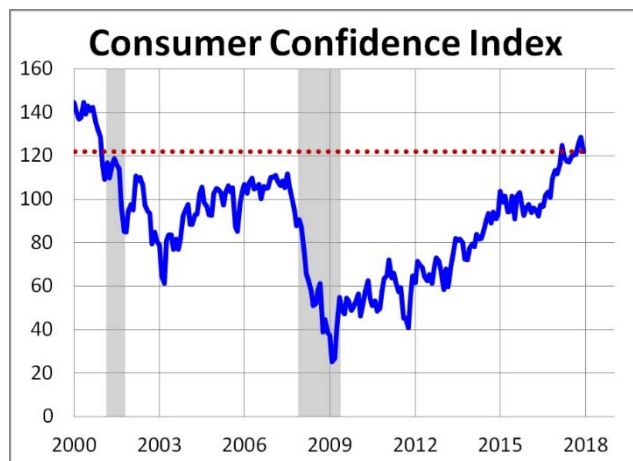
Harris County has experienced tremendous growth since the start of the 21st century with an expanding, diversified local economy that has outperformed most of the country. The energy business has played a large part in this growth along with the relatively low cost of living, affordable housing and an expanding transportation system.

While the population has been steadily increasing, the economic expansion has experienced a few slowdowns tied to oil and natural gas price fluctuations. The impact of high oil prices, above \$70 per barrel, resulted in the expansion of jobs and growth of companies in the oil and related service and manufacturing sectors. Demand for office space in Houston, unincorporated Harris County and surrounding counties has led to significant expansion in the local tax base for all of the new construction, including commercial, industrial, retail and residential property.

Consumer Confidence and Federal Economic Events

Consumer confidence in the national economy has been negative since the banking crisis in 2007-08 that led to a recession. The chart below shows the index reaching 100 in 2015 which is essentially neutral. Consumer's confidence has increased to above 120 for the first time since 2001.

The national economy has had a very strong 2017 with significant reductions in national unemployment percentages and significant increases in the stock market indexes. With low interest rates and relatively low inflation, it should be an interesting next few years as the expanding economy is likely to put some upward pressure on both inflation and interest rates.



Federal debt remains an issue making it important to keep interest rates down until the debt can be reduced. All of these factors on the national level benefit the local economy.

Hurricane Harvey

In late August 2017, Hurricane Harvey made landfall in Rockport, Texas and proceed to dump more than four feet of rain over much of southeast Texas including substantially all of Harris and surrounding counties. This historic rainfall caused major flooding throughout the region. The flooding caused a shift in resources from new construction to repairing buildings and homes damaged by the flooding. The process of rebuilding from the effects of Harvey will continue likely throughout 2018 and into 2019.

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The short term effects of all of the flooding have been generally positive on the local economy as the demand for building materials and labor to rebuild homes and businesses is strong and vehicle sales are likely to remain strong as all of the damaged cars and trucks are replaced.

The longer term effects of the Harvey floods are less certain. Once the flooded property is repaired or replaced, the growing local economy may start growing at the same pre-storm pace and their likely will be significant flood control projects over the next few years to potentially lessen the impact of future storms or other events on the county.

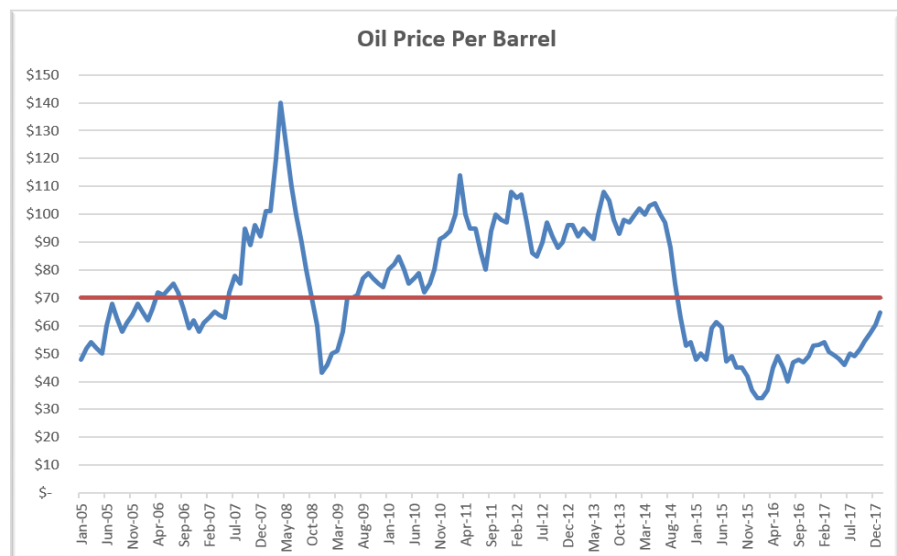
While many of the factors that make Harris County attractive to business development will likely continue, there could be a slowdown related to changing flood maps, limiting construction in certain flood prone areas and other changes.

Oil Prices

While the local economy has diversified over the last few decades, the oil and gas industry continues to play a vital role. Oil prices have been climbing since the flooding with the December month-end price exceeding \$60 per barrel for the first time since June Of 2015. January closed at \$64.73 per barrel.

These higher prices are impacting employment in the energy business and will be a significant factor should the price move over \$70 per barrel and sustain that level of pricing long term.

Recent price increases are encouraging and the chances of reaching the higher price levels within the next several months are positive.



Natural Gas and Plastics Manufacturing

One aspect of the energy boom that has not been negatively affected by the subsequent downturn is the availability of low cost natural gas referred to as “the shale gas boom.” The abundant supply of natural gas resulting from the new drilling and extraction techniques have resulted in significant growth in the plastics manufacturing business, particularly affecting the Port of Houston infrastructure. Natural gas contains many of the vital raw materials that are used to manufacture plastics and chemicals. The new abundant supply of cheap natural gas has launched a big building spree in the petrochemical business along the Gulf Coast.

This high growth industry has helped the industrial property values to remain strong and is starting to impact the Port of Houston region. Exports are likely to grow tremendously with significant growth in related truck and heavy industrial traffic.

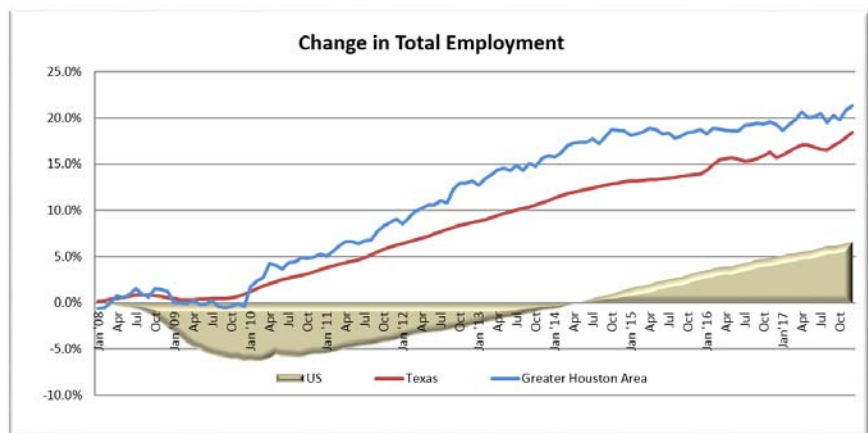
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Increased heavy traffic will likely put a strain on road systems in and around the Port and industrial areas of Harris County and surrounding counties. This increased economic activity will be dependent on maintaining and increasing the roads and related infrastructure.

With both positive and negative issues related to the energy business, the local economy has remained fairly stable with job gains in healthcare, construction, retail and education offsetting part of the job losses in energy. The local unemployment rate in December 2017 was 4.3% vs. a 3.9% rate for the State of Texas and 4.1% national average.

Local Employment

The job market in the Houston metropolitan area has been fairly resilient through the oil price collapse. The chart compares the growth in jobs for the Houston area, the State of Texas and the nation since the beginning of 2008. The Houston metropolitan area has experienced over 20% growth in employment over this period compared to just over 18% for the State and just over 5% for the entire country.



Construction

The local construction industry slowed down in 2016 and 2017 compared to very strong growth periods in 2014 and 2015. Total building contracts in the Houston area are averaging \$1.52 billion per month for 2017, up 10% from the 2016 amount. Within the City of Houston, building permits are down 10% for 2017 compared to 2016.

New construction of commercial, industrial, retail and residential property significantly impacts the growth in the local tax base and represents an important component of the growth in resources needed to fund infrastructure improvements to keep up with population growth. A slowdown in demand for office space not only slows down the pace of new construction, but also impacts the market value of existing property.

Home Prices

Sales of single family homes during the first 11 months of 2017 were up 3% compared to last year with the median sales price increasing by 4% to \$228,000 in November 2017 compared to \$220,000 a year ago. The number of active listings is flat from a year ago and the average time a home is on the market is five months in both years.

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Impact on Harris County

Property taxes are essential to funding the general operations and debt service of Harris County. Since 2006, the taxable value of single family homes in the county has increased by an average of 4.2% per year. Harris County has added 159,000 new single family homes since 2006, which is a 17% increase. A slowdown in either the continued growth of new homes or a drop in home prices would directly impact the available resources for the county.

Commercial, industrial and other business property has grown by an average of 6.9% per year since 2006 and now represents 51% of the total tax levy up from 48% in 2006.

A variety of factors ranging from the effects of flooding from Hurricane Harvey, legislative actions limiting property tax growth or county funding sources and the ongoing fluctuations in oil and natural gas prices all could impact the local economy.

The flooding likely will result in significant increases in local spending on flood control related projects, although it is uncertain at this point what will be done and how it will be funded.

Harris County government was prepared for the impact of Hurricane Harvey and is well positioned financially to deal with ongoing challenges related to the weather, the legislature and the energy marketplace.