

Economic Trends – July 2009

Beaumont / Port Arthur / Orange Area

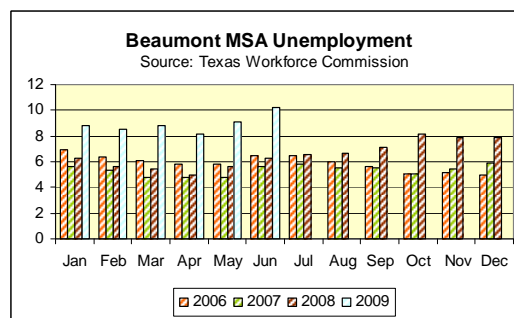
REFINERY AND PETROCHEMICAL INDUSTRIES

Roger Ihne, a principal with Deloitte LLP, recently released a study entitled “A Tsunami of Change Bearing Down on the Refining Industry.” Ihne foresees shrinking profits margins as well as demand, but does not see the demise of the refining industry. Proposed legislation regarding stricter fuel economy standards and renewable fuel mandates could contribute to those shrinking profits. Yet, Southeast Texas defies the capital spending hiatus across the nation and the world with nearly \$10 billion investment in the very industry for which he sees trouble. Motiva is undertaking a \$7+ billion refinery expansion project while Total is undertaking a \$2.2 billion Deep Conversion Project. There was one major economic casualty in the southeast Texas refinery industry – Valero’s indefinite postponement of its expansion projects announced earlier this year.

The Dallas Federal Reserve’s June Beige Book reported more signs of stabilization in the state’s manufacturing sector compared with the last survey. Many petrochemical products are over-supplied given current weak economic conditions. Export demand was stronger for ethylene and polypropylene producers as higher oil prices and lower natural gas prices make these domestic gas-based products a bargain. Refining capacity utilization rates stayed in the 82% to 84% range (for the state of Texas) and remain about 7 percentage points below a year ago. Demand for gasoline is down 2.6% from a year ago, and demand for distillates is down more than 15% as poor economic conditions reduce consumption of diesel fuel.

UNEMPLOYMENT

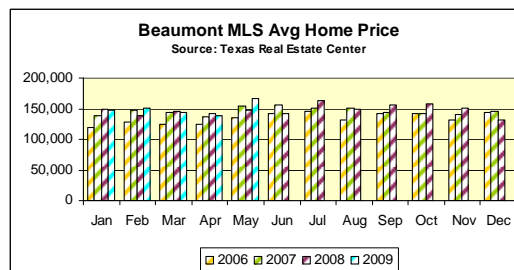
While the latest numbers for unemployment look bleak, it is important to remember that this is a lagging indicator for the economy. In the Beaumont MSA, nine hundred jobs were lost since May and 7000 jobs or 4.2% were lost since June 2008. The biggest losses were in manufacturing and government. The June unemployment rate was 10.2%. In late June, the Sitel call center in Port Arthur announced a layoff of 430 workers to occur in August. The good news is that the West call center in Beaumont will be able to hire some of those workers.



The seasonally adjusted rate for the State of Texas for June was 7.5% which is well below the national rate of 9.5%. In May, the Texas rate was 7.1%.

HOME PRICES

Home prices reached an all-time peak in Beaumont MLS in May with the average home price being \$167,000 and median home price being \$139,200.



SALES TAX

Beaumont took a huge hit on sales tax collection compared to the same month one year ago with a 13.5% decrease. Orange County, City of Orange, and Bridge City are still feeling the effects of the Hurricane Ike economic bubble.

Taxing Entity	May 09 / May 08 % change
Beaumont	- 13.5%
Port Arthur	- 0.8 %
Orange (county)	+10.2%
Orange (city)	+16.2%
Bridge City	+13.0 %
West Orange	- 7.3 %

CONSUMER PRICE INDEX

In Houston (Harris and the seven adjoining counties), consumer prices declined 0.6 percent from June '08 to June '09, primarily because energy costs fell 23.5%. Prices were up for all other categories with other good and services having the greatest increase of 6.3% and food costs the lowest increase of 1.1% over the year. The Beaumont area prices approximate those in the Houston area.

STIMULUS FUDING

Texas Department of Transportation submitted pre-applications for rail projects in our service area as part of the American Recovery and Reinvestment Act. The pre-applications include:

- \$0.5 million study to determine the feasibility and cost of replacing the Neches River Bridge to alleviate freight delays and delays to Amtrak's Sunset Limited route.
- \$3 million for feasibility studies for the Baton Rouge to Houston High-Speed Rail Corridor, in cooperation with the State of Louisiana
- \$9.5 million for preliminary studies for the designing and construction of Texas High Speed Rail service in central Texas.

STATE OF TEXAS ECONOMY

As reported in the July economic update from the Federal Reserve Bank of Dallas, "Texas contraction shows some signs of moderating, but outlook remains feeble." Non-residential private construction is falling and office, industrial and retail vacancy rates are rising. Public-sector construction spending, however, is holding up, particularly in some hospitals and universities. The June Texas Manufacturing Outlook Survey suggests that declines in overall manufacturing activity appear to have slowed over the past four months.

Note: Information in this report came from media reports and other publicly available sources.