# HOUSTON BUSINESS BRIEFS

## Constraints Limit Expanding Houston Economy

The Houston area economy continues to grow with the industrial sector leading the advance, according to respondents of the June 1989 Houston Beige Book survey. The survey, conducted by the Houston Branch of the Federal Reserve Bank of Dallas, indicates that the economy of the Houston area continues to expand despite various economic obstacles.

This growth could expand faster were it not for a number of constraints on business activity. Beige book respondents continue to report that production of petrochemicals, refined products and paper remains at full capacity. This limits the growth of these industries until new plants and efficiencies allow for expanded production capacity.

Another constraint relates to labor. The limited number of skilled labor needed to construct new petrochemical plants may lead to shortages and delays. Survey respondents anticipate a shortage of welders, pipefitters and machinists this fall as demand rises.

The lack of available financing is also constraining growth. Lending at local banks has been sparse, according to respondents. This tight credit market is particularly troublesome to the energy and small business sectors of the economy.

Although these constraints are limiting economic growth in the Houston area, inflation is not a major problem due to moderate price increases. Respondents report that inflationary pressures are modest, although wholesale prices are heating up. Retailers indicate the rise in their prices is being restrained by a move to "lower everyday prices." Manufacturers point to slower increases in prices as a guard against inflation.

Wage inflation also remains in check. This can be explained somewhat by recently negotiated labor contracts in the paper industry which grant annual increases in the 2 to 3 percent range in many industries and 4 percent in the petrochemical industry.

The following is a brief overview of the June 1989 Houston Beige Book survey results expressing what Houston area business leaders believe lies ahead. ❖

**Retail Sales**

The return of warm weather to the Houston area spurred retail sales in April and May. Total receipts were up 8 to 10 percent above sales for the same period last year.

Major retailers and specialty stores reported the largest gains, but major chain stores anticipate advances through a move to "everyday low prices" that is hoped to woo the customer attracted to "discount" prices.

All sectors of the retail market seem to be optimistic about the future in Houston. Retailers demonstrated their bullish attitude through a solid increase of new orders for fall and Christmas. This commitment to the future demonstrates a firm belief that increased sales will continue.

Retail prices are increasing modestly. Wholesale prices are rising a minimum of 4 to 5 percent, and import prices are leading the price increase due to accelerated wage rates in the Far East.

**Automotive Sales**

New car sales increased in April. Sales for the first four months of 1989 were up 9 percent from the same period last year. According to the survey, dealers anticipate this increase will be sustained though this year averaging a 8 to 9 percent increase over 1988.

This optimism is held in spite of the fact that incentive programs featuring low interest rate finance plans have been losing their punch. This attitude is supported by the fact that dealer inventories remain within manageable limits.

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## Strong Fall Inventory Orders Show Retailers Bullish On Houston Economy

**Oil Field Equipment**

Oil field equipment manufacturers are caught with higher inventories than desired due to underinvestment by the major oil companies and lower export sales, according to survey respondents. The consensus is that this trend is not expected to reverse this year, and no growth is anticipated for the industry. However, a major oil field equipment manufacturer anticipates a gradual increase in drilling activity through the third quarter which would then accelerate in the fourth quarter.

Price trends in the industry are a mixed bag. Higher crude prices contrast sharply with weak natural gas prices, although prices for gas are expected to strengthen in the second half of the year. Input prices in the drilling industry remain soft, and there is no upward pressure on wages.

Several factors that affect the oil field equipment industry have created some concerns for some respondents. First, bank lending for drilling projects seems to have dried up, according to respondents, although some recovery in institutional financing is evident.

Second, a strong recovery in drilling would quickly create a number of shortages if industry members do not accurately anticipate the drilling increase. Current estimates suggest serious labor shortages would develop when the number of working rigs in the nation surpass 1,200. Drilling pipe would also be in short supply for a short period of time.

**Paper Industry**

Total production in the paper industry continues at full capacity. However, respondents note some softening in the high level of demand as reflected in a reduction in the backlog of new orders.

Output in 1989 is anticipated to match the level of production in 1988, according to respondents. To meet these challenges, the industry is investing in new plant and equipment to increase both productivity and manufacturing capacity.

Inventory levels are termed "about right" by respondents in the paper industry, and the trend in paper prices is flat. As a result, prices of some products are being rebated. Input prices are flat or minimally increasing, particularly in pulp. Wage increases are in the modest 2 to 3 percent range.

Something of concern to members of the paper industry is the rise in the value of the dollar. A stronger dollar threatens exports, which has been the fastest growing sector of the paper market.

**Petrochemical Industry**

Capacity constraints are holding down petrochemical production to slightly above 1988 levels. As a result, spending for new plants is up sharply along the Texas Gulf Coast, totaling about $5.5 billion according to one estimate.

Selling prices are leveling off, and profit margins are moderate. At the same time, input prices of feedstocks, metals and other raw materials are softening. Wage gains are on the order of 4 percent annually.

Although optimistic about the future of the industry, respondents voiced some concerns. One continuing concern in the industry is the potential shortage of building tradesmen as the number of new plants under construction increases next fall. Respondents fear the pool of labor available will continue to be low and that of highly skilled labor even lower. This concern is particularly worrisome in the skilled labor categories of welders and pipefitters that are crucial to building petrochemical complexes.

**Refining Industry**

Gasoline sales and prices are near seasonal peaks, and refiners are operating at full capacity, according to respondents. Yet, despite the high level of output, there is a minimal amount of new investment to increase capacity in the industry. ❖