

HOUSTON BUSINESS BRIEFS

Recession Not Evident In The Houston Area

A recession is not evident in the Houston area, according to the respondents of the August 1989 Houston Beige Book survey. The survey indicates businesses are not experiencing factors that would lead to an economic recession. Price levels are rising modestly, and inventories are not high.

Several industries in the Houston area are experiencing growth which supports the non-recessionary view of the economy. Particularly strong is the demand for single-family homes and apartment rentals, said respondents, and shortages of developed residential lots were also reported. Retail sales have been good, especially in light of the

heavy rains experienced recently, and retailers remain optimistic concerning the prospects for sales gains this fall.

Capacity constraints continue to temper growth in output for some industries. Production of aluminum, paper and petrochemicals has slowed slightly in recent months but still remains at high levels, according to the survey.

The only dents in business activity recently were weather-related. Heavy rains dampened retail sales, and East Texas timberlands were flooded causing a temporary shortage of logs. Logging operations have resumed, and this shortage is expected to be quickly

resolved.

Although a recession is not expected for the Houston area, inflationary pressures also remain in check. Production costs and wage rates continue to rise modestly in a number of industries, but capital investments in more efficient plants are helping to hold down increases in final product prices.

The following is a brief overview of the August 1989 Houston Beige Book survey results expressing what Houston area business leaders believe lies ahead. The Houston Beige Book survey is conducted by the Houston Branch of the Federal Reserve Bank of Dallas. ♦

Housing leads Houston's growth.
Purchases of single-family homes are up 40 percent from a year ago, and prices are edging up.

Construction Industry

Sales of residential real estate are expanding sharply in the Houston area. Purchases of single-family homes are up 40 percent from a year ago, and prices are edging up. Developers indicate Class A lots are in short supply, and some builders have sold out their entire inventory

of vacant lots.

Demand for apartments is also rising, as reflected by slow, but steady increases in rental rates. One management company surveyed reported a occupancy rate of 95 percent on the several thousand units it owns. In addition, properties are again selling at higher prices,

many for cash.

Government and industrial construction remains strong. Most public outlays for building are road and highway projects, while construction of petrochemical plants continues to account for most of the industrial projects.

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Domestically Built Cars Out Sell Imports In Houston

Retail Sales

Heavy rains and flooding in the Houston area slowed the pace of consumer spending in June. The dregs of summer clearance sales have also weighed down the dollar sales volumes. Despite this, more normal spending patterns are again evident with strong apparel sales leading somewhat weaker demands for home furnishings, according to the survey.

Houston area retailers expect further sales gains for the remainder of the year. This optimism is demonstrated by the arrival of large shipments of fall and winter merchandise that was ordered several months ago. These arrivals are boosting inventory levels, and their price are expected to rise 5 to 7 percent above levels earlier this year.

Automotive Sales

New car sales are on a steady growth path. Unit sales are 8 percent above corresponding levels in 1988. Purchases of domestically built models are running well ahead of imports which are down slightly from a year ago. Due to Houston's relatively strong economy, auto makers are diverting more units into the area from weaker markets elsewhere in the country.

Anticipating improved sales in the months ahead, auto dealers expect significant markups in prices of automobiles this fall. Most increases will be about 3 percent,

but loading models with virtually all available options can raise prices nearly 10 percent.

Primary Metals

Demand for aluminum remains at the same high level as a year ago. Current production is down slightly as consumption draws down inventories, which are characterized by survey respondents as "a little above normal."

Aluminum prices have fluctuated widely in the past year but remain high enough to sustain current production levels. Prices quadrupled last year to nearly \$2 a pound, but currently stand at just under \$1 a pound. Production costs have remained essentially unchanged.

Paper Industry

Demand for paper continues to press production capacity, especially for bleached products, according to respondents. Sales of linerboard, used in cardboard containers, have flattened, but there is no indication of a downturn. Future sales continue to be tied to the value of the dollar and export sales. Inventories remain manageable, and implemented savings in production costs are holding up profit margins.

Timber Products

Texas lumber production was curtailed in June as heavy rains flooded forests. Inventories of logs were drawn down, but logging resumed as woodlands dried.

Home improvements, and patching and repairing remained the biggest markets for lumber products. Product prices are slightly above prices a year ago, but the temporary shortage of logs and wage increases are adding to costs which reduce the return on these price increases.

Petrochemical Industry

A major petrochemical producer reported sales have decreased slightly in recent months, but that the level of sales would remain essentially unchanged for the next two years. This expectation is supported by the fact that the dip in output was attributed to a reshuffling of inventories in the industry from downstream users to upstream suppliers. A year ago, inventories of petrochemicals were largely held by users rather than producers which explains the recent slowdown.

Product prices are little changed from a year ago, while wage rates in the industry are up slightly. The large number of plant expansions in the industry are expected to lead to lower prices as those projects are completed. ♦