HOUSTON BUSINESS BRIEFS

Houston Recovery Continues

The Houston economy continues to expand at a modest pace according to the latest survey of local business executives conducted by the Houston Branch of the Federal Reserve Bank of Dallas. Growth is broad based, as reflected by the 4 percent increase from last year's level in electric power consumption and new customers. Those gains are down from the larger 7 percent increases experienced earlier in the decade but do reflect a sustainable pace of growth for the Houston area.

All survey respondents reported business activity remains at a high level, although sales in some industries have softened. Unseasonably high temperatures held down retail sales in recent weeks. This combined with the early arrival of goods from manufacturers have increased retail inventory levels, but cooler weather and holiday shopping now promises to spur consumer spending to normal levels.

Purchases of new cars have also slowed increasing inventory levels of 1990 models. Many consumers opted to buy 1989 models or to wait until larger rebates are offered on the 1990 models.

Real estate activity is increasing in the Houston area. Almost all sectors of the market are showing slow growth, and no sector is continuing to decline. Most members of the real estate industry are optimistic.

Paper production has softened, but the industry is still experiencing growth. As a result, the industry will operate with a measure of excess capacity squeezing profit levels and increasing inventories slightly.

In contrast, sales of refined products continue to grow although at a slower rate than many analysts predicted. Inventory levels of refined products are now in line with these sales, and industry respondents believe this will continue.

Petrochemical sales have softened a bit, but production remains at a high level. Members of the industry expect this level of production to decrease reflecting current sales levels.

Inflation is not heating up as respondents report only modest price increases. Retail price hikes could be dampened in the near term as inventories build. Industrial prices will be held down by lower prices for aluminum and paper, and other costs of production. Wage increases are being tied to productivity gains in many manufacturing industries.

The following is a brief overview of each industry according to the results of the October 1989 Houston Beige Book survey which expresses the views of local business executives concerning the present and future business activity in the Houston area. ❖

Retail Sales

Respondents remain upbeat regarding sales prospects for the Christmas season in spite of the September and October decline in consumer spending. They believe the cooler weather will bring shoppers out during the holiday season, and with an extra shopping weekend this year, retailers believe sales will improve.

Retail inventories are higher than planned at present. This is due to both the recent sales slowdown and the early arrival of goods ordered for November. Manufacturers are sending these goods before schedule to well-managed regional retailers and national specialty stores because they are wary potential bankruptcies threatening two large retail conglomerates.

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Houston Area Real Estate Continues To Improve

There is concern among all retailers that should a major retailer file for reorganization under Chapter 11 of the bankruptcy code large quantities of distressed goods would be forced on the market triggering steep price markdowns. This makes present sales even more important. If the retail industry remains stable, retailers look for modest increases in prices of 3 to 4 percent through next spring.

New Car Sales

Purchases of new cars slowed sharply during September from earlier levels, and October sales were flat. Many consumers opted to buy 1989 models in lieu of the higher prices 1990 models. As a result, the number of carryovers was small, and deliveries of the new models boosted showroom inventoies. Dealers believe this large inventory of 1990 models will not decrease in a substantive way until consumers are offered heftier rebates.

Real Estate

The real estate market in Houston continues to improve. Many sectors are showing slow growth, and no sector is continuing to decline. On balance, members of the real estate market are optimistic.

There are many reasons for this optimism. Although widespread excesses persist, vacancy rates are declining in virtually all major building categories. Leasing of apartments, office and industrial properties is rising moderately, and rental rates and property values have improved. Sales of new homes are up 23 percent from the same time last year, and sales of homes priced over $100,000 remain strong in the Houston area. In addition, developed lots for homes over $100,000 remain in short supply.

In contrast, office space outside the central business are and retail space in unanchored shopping centers remain in chronic oversupply.

Paper Production

The paper industry reports sales have softened, but production continues to run at full capacity. In spite of this softening, the outlook for 1990 remains optimistic because sales are still expanding by a couple of percentage points, but this slowdown will have its affect. The industry will operate with a measure of excess capacity squeezing profit levels.

In addition, manufacturers indicate inventories have increased slightly, but stocks have been reduced at the distributor and printer levels. Paper prices have fallen in part because of discounting. Prices of uncoated paper are down about a fifth from a year ago, whereas prices of coated paper are off slightly. Input prices are reported to be stable, and wage gains are up 2 to 3 percent.

Primary Metals

Two new steel mini-mills and a new aluminum plant are to be constructed in the Houston area in the coming year. The choice of the Texas Gulf Coast was based on the ready availability of electric power, labor, transportation, the price of industrial real estate and the size of the local market.

Refining

Sales of refined products continue to grow. Production of winter heating oil is on a seasonal upswing, and gasoline sales are increasing at a 1 to 2 percent annual rate. This is less than the 3 to 4 percent rate predicted by analysts.

Inventories of refined products are now coming in line with these sales gains. Many in the industry indicate that excess inventories of natural gas experienced in the past are now decreasing as rising demand boosts gas prices. Future prices of refined products will be tied to changes in prices of crude oil and natural gas. Recent higher retail prices are an example reflecting the rise in crude oil prices.

Petrochemicals

Sales of petrochemicals have softened a bit, but production remains at a high level. Inventories are in balance with these sales, and excesses are not expected. One respondent indicates future production will ease and mirror the anticipated soft economic landing. ❖