Recovery Continues
In Spite Of
Areas Of Softness

Overall activity in the Houston economy remains at a high level, but areas of softness are cropping up, according to the November 1989 Houston Beige Book survey conducted by the Houston Branch of the Federal Reserve Bank of Dallas. Specific industries experiencing slowdowns are automotive sales, the timber products industry, and the oil field equipment industry.

New car sales weakened as many consumers purchased 1989 models, and others are waiting for larger rebates on 1990 models. This combined with strong fleet sales of 1990 models have given dealers cause for concern.

Sales of lumber products are slowing, and demand for paperboard used for containers is declining. However, demand for bleached paper products is growing, and inventories of all product areas are not showing significant growth.

Competition continues to be a major factor in many of these industries. Specifically, the oil field equipment industry is fiercely competitive, especially with domestic drilling rising on a seasonal basis.

The petrochemical industry is currently experiencing flat sales, according to survey respondents, and the outlook for 1989 is more of the same.

In contrast, strength is evident in several sectors of the Houston economy. Retail merchants are optimistic regarding Christmas sales, which will cap a year of solid growth in consumer spending. Prices and rents continue to firm in the local real estate market, although gains are not large enough to trigger a recovery in building activity. In addition, export sales of high technology equipment are boosting that sector of manufacturing.

Overall, despite slower sales in some industries, the economy continues to improve. Although capital expansion plans appear to be easing in goods-producing industries, inventory levels remain within manageable limits, and inflationary pressures were reported to be modest.

The following is a brief overview of the November 1989 Houston Beige Book survey which expresses the views of Houston area business leaders concerning the present and future state of the Houston area economy.

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November
Industry Outlooks

Retail Sales
Consumer spending in Houston recovered in October — following a slowdown in September — with the return of seasonal temperatures. Spending in the Houston area continues to out pace that level experienced in the state as a whole. In light of this, local retailers are optimistic regarding Christmas sales.

That confidence is reflected in a number of retail expansions. More than a dozen local or national retailers opened new outlets in the area in November. Although the openings were timed for the beginning of the Christmas season, retailers cited confidence in the strengthening Houston economy for their expansions.

Automobile Sales
Houston auto dealers report that the current sales environment is the toughest they have faced in a long time. New car sales rose 23 percent in October, but the increase was skewed by weak sales levels a year earlier and strong fleet sales this year.

Current demands for new cars are weak because consumers anticipate larger price rebates for 1990 models in the near future, according to the survey. Heavy purchases of the 1989 models cut into the new model year.

Dealers forecast sales will be up in 1990, but they are not expected to match the 7 percent gain posted this year.

Real Estate
All sectors of the Houston real estate market continue to improve, as reflected by rising occupancy and rental rates. The strongest markets are for small warehouses, strip shopping centers and luxury apartments.

In spite of this increased demand, large inventories of vacant properties and small increases in rental rates provide no incentive to spur full-fledged recovery in local construction.

Even though property prices are rising, they remain well below replacement costs. Attractive price levels have continued to attract foreign interests, but currently potential buyers are largely smaller family groups rather than large institutional investors.

Timber Products
Lumber producers report sluggish sales and anticipate more of the same for 1990. One respondent attributed the current slowdown to high interest rates and structural changes in basic construction markets.

Although the market had experienced a temporary increase in demand for some wood products due to the rebuilding of the Carolinas following Hurricane Hugo, the industry was unable to sustain this level of demand.

Sales of paper are mixed. Demand for bleached products continues to grow, but sales of containers are softening. Exports are also weakening, and the industry

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Currency Shipments Suggest
A Merry Christmas
For Houston Area Retailers

Increased currency shipments through the Houston Branch of the Federal Reserve Bank of Dallas to local commercial banks suggest strong Christmas retail sales in Houston and the Texas Gulf Coast region. In November, these shipments totaled $335 million. This level represents a 9 percent increase over November 1988.

The post-Thanksgiving currency shipments offer even more dramatic results. For the shopping period between Friday, November 24, and Friday, December 1, currency shipments at the Houston Branch ran 42 percent higher than the previous year for the same period.

Generally, currency shipments through the Houston Branch have been increasing steadily over the past few years due to improved economic conditions accompanying Houston's economic recovery. For the first 11 months of 1989, regional currency shipments were up 2 percent over the same period in 1988.

However, the holiday season increases seen both in 1988 and 1989 are much stronger than any seen since 1983. In fact, from 1984 to 1987, currency shipments typically fell between October and November, indicating that recession in the local economy during this time outweighed merchant efforts to gear up for holiday shipping. In contrast, currency shipments during October and November in 1988 increased 26 percent, and 1989 saw an increase of 14 percent during this time. These results indicate Houston's economic expansion is generating healthy holiday sales.

These results are tempered by the fact that profits earned by merchants during the holidays may depend on more than sales volumes. Widespread price discounting has been reported nationally. Although this activity has not been seen in Houston to a great extent, merchants may find their bottom line squeezed by reduced prices if this trend spreads.

Overall, the Houston economy has shown few indications that it will soften as the national economy has done. However, scattered signs of a slowdown are evident. Slower employment growth is reported in manufacturing. Lumber and paperboard report declining sales. Construction on petrochemical plants has slowed with fewer hours reported at local construction engineering firms.

In spite of this, retailers have been consistently optimistic about the Houston economy since last summer, according to Houston Beige Book surveys conducted during this time. After reporting "fantastic" back-to-school sales, most were looking forward to a big Christmas season. Local demands for currency would indicate these optimistic expectations for holiday sales are becoming a reality.
outlook for 1990 was characterized as "iffy" by one respondent.

Despite weaker sales, lumber and paper inventories are not swelling. However, next year new manufacturing capacity will be coming on line, which could lead to some imbalances in stocks.

Costs in both industries are rising. The only concern reported was rising wage rates in the lumber industry. A 20 percent increase was granted this year, and a 10 percent gain is anticipated in 1990. But, both of these increases were measured from depressed wage levels a year ago, so the overall gains appear to be modest.

High Technology

Overall sales of computers are slowing, but demand for some segments remain strong. New models and foreign purchases are doing well, and demand for devices with the latest technology is expected to grow in 1990, according to survey respondents.

Respondents also reported that inventories of new products have been reduced as production works to catch up with strong demand; selling prices and costs of production are steady; and, computer makers are expanding their European production capacities.

Petrochemicals

Sales of petrochemicals continue to be flat, and the outlook for 1990 is more of the same, according to the survey. Overall inventory levels are in balance, but three petrochemical plant fires have reduced the inventories and production capacity of polyethylene, which is used in making packaging for food and pharmaceuticals.

No significant shortages are anticipated since the industry began to build polyethylene inventories last spring. Prices are up but remain below levels experienced last year at this time.

Prices of ethylene — a major building block chemical — continue to fall, and the decline is expected to extend into 1990. Other costs of production show no significant increases.

The capital expansion in the petrochemical industry appears to be peaking. A number of new plants will be coming on line in 1990, and new starts are fading as work at construction engineering companies has begun to ebb, according to one respondent.

In a broader view, events in Eastern Europe are causing some companies to rethink their investment plans on the continent.

An important consideration for petrochemical officials in 1990 is the actions taken by environmentalists to promote the ban of plastics used in packaging. One state and a number of municipalities have supported the ban through legislative actions. According to one major manufacturer, this is the most serious problem facing the industry in the coming year.