

The fourth quarter of 2016 started with no big surprises from U.S. economic data. We expect to see a moderate uptick in U.S. real GDP growth in the third and fourth quarter, following weak gains through the first half of the year. The first estimate of third quarter GDP is due out on Friday, October 28.

Labor data at the start of October continues to look good. Initial claims for unemployment insurance remained unchanged at 246,000 for the week ending October 8. Continuing claims decreased by 16,000 to hit 2,046,000 for the week ending October 1. We expect October payroll gains to moderately surpass September's net gain of 156,000, reaching around 190,000 to 200,000.

Retail sales for September increased by 0.6 percent, boosted by stronger-than-expected auto sales. Ex-autos, retail sales gained 0.5 percent for the month. We look for auto sales to ease in the fourth quarter, from September's 17.8 million unit rate.

Producer prices for final demand gained 0.3 percent as energy prices increased. Over the previous 12 months, the PPI for final demand is up by just 0.7 percent. The core PPI for final demand (less food and energy) ticked up by 0.2 percent for the month and is up by 1.2 percent over the year.

The National Federation of Independent Business's Index of Small Business Optimism dipped by 0.3 points to 94.1 in September. Fifty-eight percent of small businesses reported that they were hiring or trying to hire

through the month. However, 48 percent reported few or no qualified applicants for their positions. Sales expectations improved for the month.

The minutes from the September 20/21 Federal Open Market Committee show a divergence of opinions within the Fed about labor market conditions. One group of FOMC participants held the view that labor markets could continue to absorb excess slack without stoking inflation. The other camp argued that labor market conditions could tighten well beyond normal levels, leading to inflationary wage gains and potentially requiring a more abrupt increase in the fed funds rate. The minutes reminded us that there were three dissenting voters against the policy announcement of keeping the fed funds rate range unchanged at the September meeting.

We continue to expect that the FOMC will once again vote to keep the fed funds rate steady at their upcoming November 1/2 meeting. There is no rule against raising rates then, but common sense argues for waiting until after the election.

By the December 13/14 FOMC meeting, the Fed will have the benefit of the October and November employment reports, plus two more months of inflation and other economic data.

We have two fed funds rate hikes built into our forecast for 2017, one occurring in June and the other in the following December. This is broadly consistent with the Fed's "dot plot" of September 21.

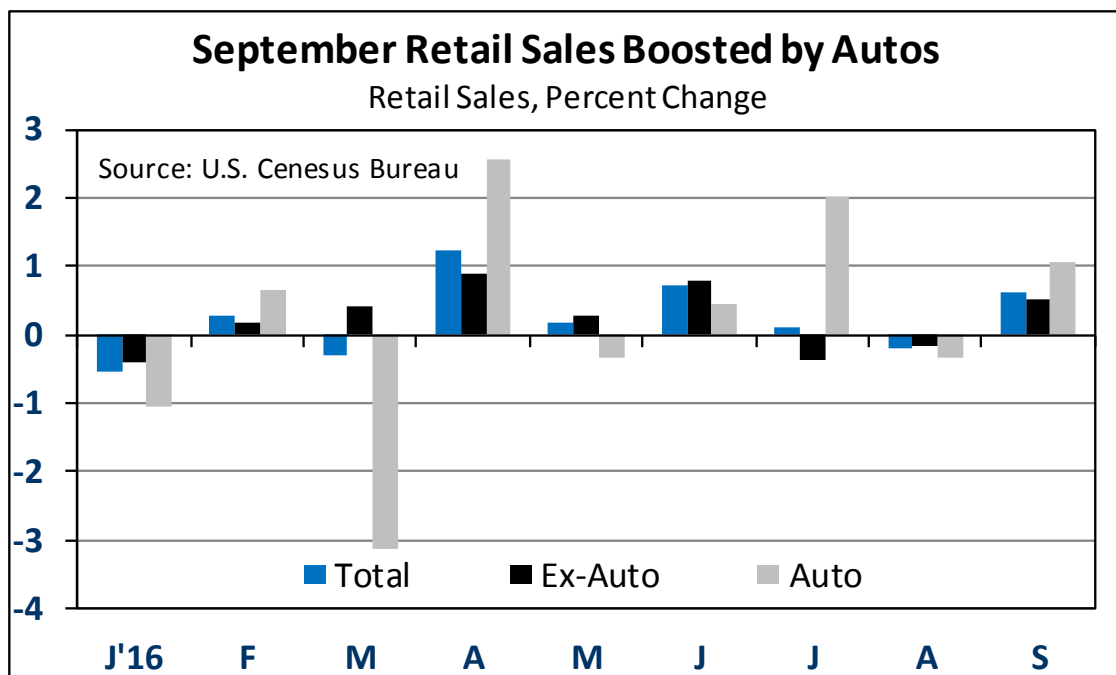
Survey	Last Actual	Comerica Economics Commentary
<b>Fed Funds Rate (Effective)</b> <i>(after the FOMC meeting of 11/1-11/2)</i>	<b>0.40 %</b> <b>(Sep)</b>	We expect to see a 25 basis point increase in the fed funds rate on December 14.
<b>September Industrial Production (10/17, Monday)</b> Consensus: 0.2 percent	<b>-0.4 %</b> <b>(Aug)</b>	<u>Up</u> by 0.3 percent. The September ISM-MF Index showed that manufacturing output was up. Also, we expect to see a rebound in utility production.
<b>September Capacity Utilization (10/17, Monday)</b> Consensus: 75.6 percent	<b>75.5 %</b> <b>(Aug)</b>	<u>Up</u> to 75.8 percent.
<b>September CPI (10/18, Tuesday)</b> Consensus: 0.3 percent	<b>0.2 %</b> <b>(Aug)</b>	<u>Up</u> by 0.3 percent. Natural gas prices were up.
<b>September CPI Ex. Food &amp; Energy (10/18, Tuesday)</b> Consensus: 0.2 percent	<b>0.3 %</b> <b>(Aug)</b>	<u>Up</u> by 0.2 percent. Core consumer inflation is supported by rising house prices and rents.

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Survey	Last Actual	Comerica Economics Commentary
<b>September Housing Starts</b> (10/19, Wednesday) Consensus: 1,175 k	<b>1,142 k</b> <b>(Aug)</b>	<u>Up</u> to a 1,200,000 unit annual rate. Gains on both the single- and multifamily side.
<b>September Housing Permits</b> (10/19, Wednesday) Consensus: 1,165 k	<b>1,139 k</b> <b>(Aug)</b>	<u>Up</u> to a 1,180,000 unit annual rate. A little bounce back from September in multifamily units.
<b>September Existing Home Sales</b> (10/20, Thursday) Consensus: 5,350 k	<b>5,330 k</b> <b>(Aug)</b>	<u>Up</u> to a 5,400,000 unit annual rate. Mortgage apps increased in early September.
<b>September Leading Indicators</b> (10/20, Thursday) Consensus: 0.2 percent	<b>-0.2 %</b> <b>(Aug)</b>	<u>Up</u> by 0.2. manufacturing indicators improved in September.

## Chart of the Week



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## October/November

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
10	11	12	13	14
Columbus Day	NFIB	JOLTS FOMC Minutes	<u>UNEMPLOYMENT CLAIMS</u> (ths) Jul Aug Sep Oct 254 266 259 246 254 262 260 246 252 261 251 266 263 254 267	<u>RETAIL SALES</u> <u>Total</u> <u>Ex-Autos</u> Jul 0.1% -0.4% Aug -0.2% -0.2% Sep 0.6% 0.5% <u>PRODUCER PRICE INDEX</u> <u>Total</u> <u>Core</u> Jul -0.4% -0.3% Aug 0.0% 0.1% Sep 0.3% 0.2%  U of M Consumer Sentiment (Prelim) Business Inventories
17	18	19	20	21
<u>IND PROD</u> <u>CAP UTIL</u> Jun 0.5% 75.5% Jul 0.6% 75.9% Aug -0.4% 75.5%	<u>CONSUMER PRICE INDEX</u> <u>Total</u> <u>Core</u> Jun 0.2% 0.2% Jul 0.0% 0.1% Aug 0.2% 0.3%	<u>HOUSING</u> (ths.) <u>Starts</u> <u>Permits</u> Jun 1,195 1,153 Jul 1,212 1,144 Aug 1,142 1,139	<u>EXISTING HOME SALES</u> (ths) Jun 5,570 Jul 5,380 Aug 5,330 <u>LEADING INDICATORS</u> Jun 0.2% Jul 0.5% Aug -0.2%	
Empire State Survey		Beige Book	Philadelphia Fed Survey	
24	25	26	27	28
CFNAI	<u>CASE-SHILLER HPI COMP-20</u> (SA) May 187.9 Jun 187.8 Jul 187.7  Richmond Fed Survey Consumer Confidence	<u>NEW HOME SALES</u> (ths-SAAR) Jun 579 Jul 659 Aug 609	<u>ADV DURABLE GOODS</u> <u>Total</u> <u>Ex-Transp</u> Jun -4.3% -0.3% Jul 3.6% 1.1% Aug 0.0% -0.4%  Pending Home Sales Kansas City Fed Survey	<u>GROSS DOMESTIC PRODUCT</u> <u>Real GDP</u> <u>Price Index</u> '15Q4 0.9% 0.9% '16Q1 0.8% 0.5% '16Q2 1.4% 2.3%  U of M Consumer Sentiment (Final)
31	November 1	2	3	4
<u>INCOME and SPENDING</u> <u>Income</u> <u>Spending</u> Jun 0.3% 0.5% Jul 0.4% 0.4% Aug 0.2% 0.0%	<u>ISM MFG INDEX</u> Jul 52.6 Aug 49.4 Sep 51.5 <u>CONSTRUCTION SPENDING</u> Jun 0.9% Jul -0.3% Aug -0.7% <u>AUTO SALES</u> (mIn-SAAR) Jul 17.9 Aug 17.0 Sep 17.8	ADP Employment FOMC Meeting	<u>ISM NON-MFG INDEX</u> Jul 55.5 Aug 51.4 Sep 57.1  Productivity and Costs	<u>EMPLOYMENT REPORT</u> <u>U. Rate</u> <u>Jobs (ths)</u> Jul 4.9% +252 Aug 4.9% +167 Sep 5.0% +156 <u>TRADE BALANCE</u> (bln) Jun -\$44.7 Jul -\$39.5 Aug -\$40.7
TX Mfg Survey	FOMC Meeting			

## North Texas Showing East/West Split

- The Texas economy is feeling a persistent downdraft from the beleaguered energy sector. In March, Texas lost a net of 12,000 jobs, just the second monthly loss since late 2010. This kept the state's unemployment rate steady at 4.3 percent, well below the national average of 5.0 percent for the month. We expect job growth to cool statewide, stepping down from a 2.4 percent annual gain in 2015, to about 1.5 percent this year. Real state GDP lost momentum in 2015Q3, the last data point available, when it barely increased at a 0.1 percent annual rate, following a weak 0.5 percent gain in 2015Q2. Over the four quarters from 2015Q4 through 2016Q3, we show a moderate decline in Texas real GDP, driven by the worst drilling conditions since the mid-1980s. Fortunately, oil prices have found some footing, increasing from the February low of \$26 per barrel for West Texas Intermediate crude oil, to near \$45 by late April. We expect drilling activity to stabilize by late summer as long as recent price gains are durable. However, even with some support from firming oil prices, the downdraft in the energy sector will continue well into the second half of this year, if not longer.
- In North Texas we are seeing the an increasing divergence in job creation between the western half of the Dallas-Fort Worth metro area and the eastern half. The divergence appears to have its roots in the energy sector. The overall Dallas-Fort Worth metro area is still showing strong job creation, with March payroll employment up a strong 3.8 percent over the previous 12 months. However, when we just look at the western half of the metro area, the Fort Worth-Arlington metropolitan division, year-over-year job growth has eased to 1.9 percent as of March. The eastern half of the metro area, the Dallas-Plano-Irving metro division has shown an increase in job growth to a 4.7 percent year-over-year rate as of this March. While Fort Worth is showing more evidence of the drag from weak oil prices, we expect that job growth in Dallas will also ease over the next year. However, the boom in residential, retail construction and office construction on the north side of the Dallas metro division will provide insulation from the downdraft in the energy sector for much of North Texas.
- Despite the drag from weak oil prices, the Texas economy retains numerous advantages. Chief Executive Magazine ranked Texas as the best state in the country for businesses for the 12th consecutive year. Rounding out the top five states were Florida, North Carolina, Tennessee and Indiana. The strong business climate here is driving up the demand for commercial space, pushing rents up, particularly in the Dallas uptown area.

### U.S., State, and Local Employment

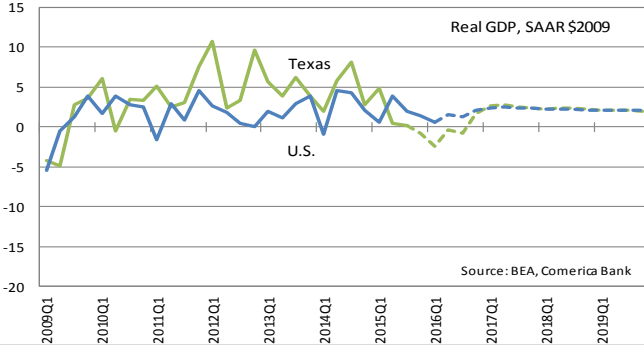
	4Q'15a	1Q'16a	2Q'16f	3Q'16f	4Q'16f	1Q'17f	2Q'17f	3Q'17f	2015a	2016f	2017f
<b>U.S.</b>											
Payroll Jobs (Thousands)	142872	143539	144115	144700	145252	145793	146327	146865	141833	144401	146594
Percent Change Annualized	2.0	1.9	1.6	1.6	1.5	1.5	1.5	1.5	2.1	1.8	1.5
Unemployment Rate (Percent)	5.0	4.9	4.9	4.8	4.8	4.7	4.6	4.6	5.3	4.8	4.6
<b>Texas</b>											
Payroll Jobs (Thousands)	11913	11964	11995	12032	12069	12119	12165	12212	11839	12015	12188
Percent Change Annualized	1.7	1.7	1.0	1.2	1.2	1.7	1.5	1.6	2.4	1.5	1.4
Unemployment Rate (Percent)	4.6	4.4	4.4	4.4	4.4	4.3	4.1	4.0	4.5	4.4	4.1
<b>North Texas</b>											
Payroll Jobs (Thousands)	3453	3473	3492	3502	3512	3526	3542	3559	3400	3495	3551
Percent Change Annualized	4.7	2.4	2.2	1.1	1.2	1.5	1.9	1.9	3.9	2.8	1.6
Unemployment Rate (Percent)	4.0	3.7	3.6	3.6	3.7	3.6	3.5	3.4	4.1	3.6	3.5

a = actual f = forecast

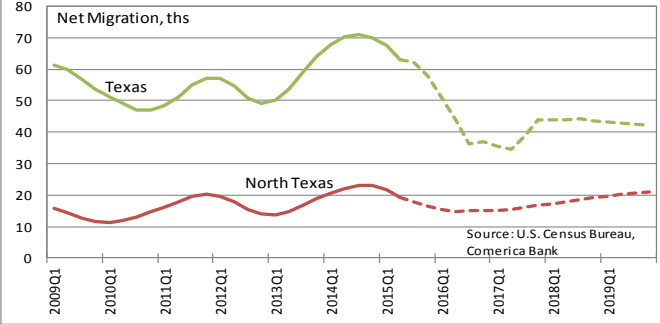
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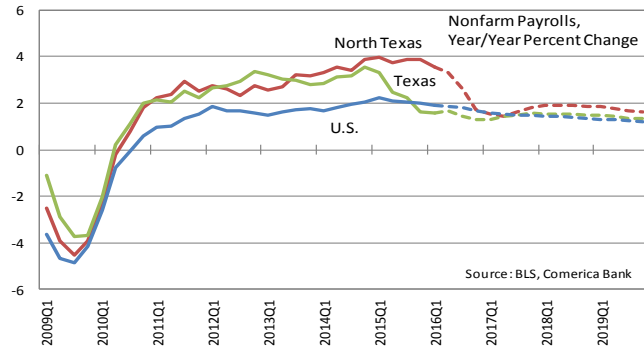
## Texas GDP Growth to Ease



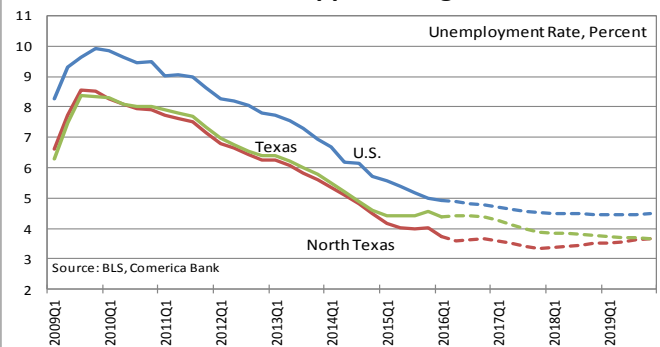
## North Texas Remains a Magnate



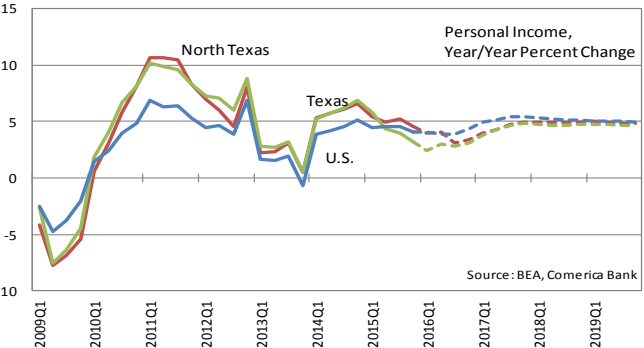
## Job Growth to Ease This Year



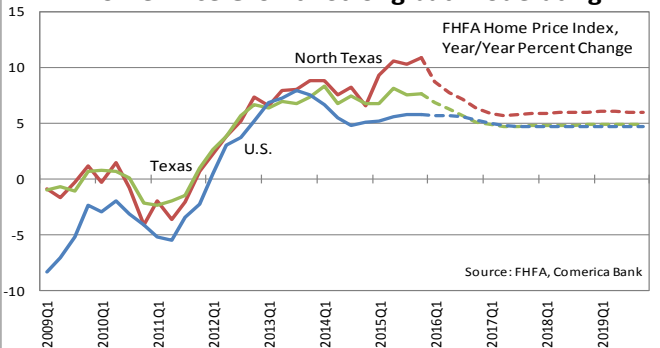
## U. Rates Are Approaching Their Lows



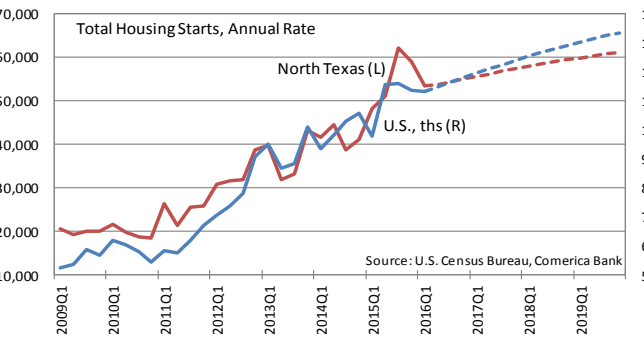
## Income Growth to Moderate



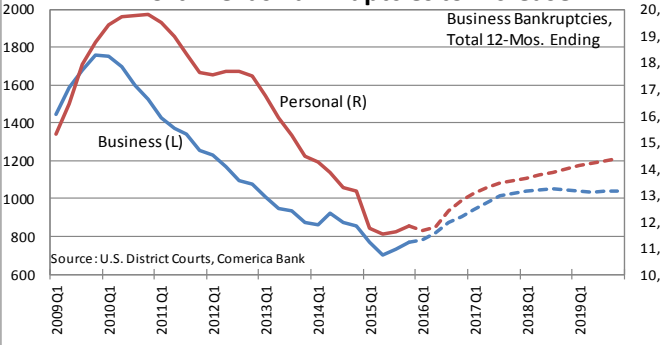
## Home Price Growth Strong but Moderating



## Housing Starts to Continue Upward Trend



## North Texas Bankruptcies to Increase



North Texas is a Comerica Economics designation of the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA), as defined by the Office of Management and Budget (OMB). The 2010 OMB definition of the Dallas-Fort Worth-Arlington MSA consists of Collin, Dallas, Denton, Ellis, Hood, Hunt, Johnson, Kaufman, Parker, Rockwall, Somervell, Tarrant and Wise counties.

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## North Texas Economic Outlook

	4Q'15a	1Q'16a	2Q'16f	3Q'16f	4Q'16f	1Q'17f	2Q'17f	3Q'17f	2015a	2016f	2017f
<b>Labor and Demographics</b>											
Payroll Jobs (Thousands)	3453	3473	3492	3502	3512	3526	3542	3559	3400	3495	3551
<b>Percent Change Annualized</b>	<b>4.7</b>	<b>2.4</b>	<b>2.2</b>	<b>1.1</b>	<b>1.2</b>	<b>1.5</b>	<b>1.9</b>	<b>1.9</b>	<b>3.9</b>	<b>2.8</b>	<b>1.6</b>
Unemployment Rate (Percent)	4.0	3.7	3.6	3.6	3.7	3.6	3.5	3.4	4.1	3.6	3.5
Population (Thousands)	7167	7197	7227	7257	7286	7316	7347	7378	7118	7242	7362
<b>Percent Change Annualized</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>2.0</b>	<b>1.7</b>	<b>1.7</b>
Net Migration (Thousands)	16.5	15.5	14.8	15.1	15.0	15.0	15.5	16.1	75.0	60.4	63.3
<b>Personal Income</b>											
Total Personal Income (Nom., Millions \$)	367354	369685	373200	376130	379888	384439	389275	394051	361600	374726	391651
<b>Percent Change Annualized</b>	<b>2.7</b>	<b>2.6</b>	<b>3.9</b>	<b>3.2</b>	<b>4.1</b>	<b>4.9</b>	<b>5.1</b>	<b>5.0</b>	<b>5.0</b>	<b>3.6</b>	<b>4.5</b>
<b>Housing</b>											
Housing Starts (Total, Ann. Rate)	59000	53383	53644	54192	54957	55593	56204	56767	55101	54044	56477
<b>Percent Change Annualized</b>	<b>-18.0</b>	<b>-33.0</b>	<b>2.0</b>	<b>4.1</b>	<b>5.8</b>	<b>4.7</b>	<b>4.5</b>	<b>4.1</b>	<b>32.8</b>	<b>-1.9</b>	<b>4.5</b>
SF Housing Starts (# of Units, Ann Rate)	33980	33462	33715	33979	34473	34818	35178	35518	32729	33907	35346
MF Housing Starts (# of Units, Ann Rate)	25020	19921	19929	20213	20485	20774	21026	21249	22372	20137	21131
House Prices, FHFA (1995 Q1=100, NSA)	228	233	237	240	243	246	250	254	221	238	252
<b>Year/Year Percent Change</b>	<b>10.8</b>	<b>8.7</b>	<b>7.8</b>	<b>7.1</b>	<b>6.4</b>	<b>5.9</b>	<b>5.7</b>	<b>5.7</b>	<b>10.3</b>	<b>7.5</b>	<b>5.8</b>
<b>Bankruptcies</b>											
Total Business (12 Months Ending)	769	782	820	872	902	939	977	1014	743	844	990
Total Personal (12 Months Ending)	11818	11659	11765	12390	12802	13038	13262	13458	11663	12154	13322

a = actual f = forecast

## Texas Economic Outlook

	4Q'15a	1Q'16a	2Q'16f	3Q'16f	4Q'16f	1Q'17f	2Q'17f	3Q'17f	2015a	2016f	2017f
<b>State GDP</b>											
Real GDP (Chained 2009 Billions \$)	1500690	1491625	1490151	1487210	1493674	1503460	1513788	1523208	1499878	1493624	1527541
<b>Percent Change Annualized</b>	<b>-2.4</b>	<b>-0.4</b>	<b>-0.8</b>	<b>1.7</b>	<b>2.6</b>	<b>2.8</b>	<b>2.5</b>	<b>2.4</b>	<b>1.6</b>	<b>-0.4</b>	<b>2.3</b>
<b>Labor and Demographics</b>											
Payroll Jobs (Thousands)	11913	11964	11995	12032	12069	12119	12165	12212	11885	12054	12235
<b>Percent Change Annualized</b>	<b>1.7</b>	<b>1.0</b>	<b>1.2</b>	<b>1.2</b>	<b>1.7</b>	<b>1.5</b>	<b>1.6</b>	<b>1.5</b>	<b>2.0</b>	<b>1.4</b>	<b>1.5</b>
Unemployment Rate (Percent)	4.4	4.4	4.4	4.4	4.3	4.1	4.0	3.9	4.4	4.4	4.0
Population (Thousands)	27699	27810	27915	28013	28105	28197	28288	28378	27641	28057	28427
<b>Percent Change Annualized</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.7</b>	<b>1.5</b>	<b>1.3</b>
Net Migration (Thousands)	57.7	51.3	44.1	36.3	36.9	35.6	34.6	38.8	58.6	38.2	40.3
<b>Personal Income</b>											
Total Personal Income (Nom., Millions \$)	1298229	1304978	1315039	1325344	1338526	1354810	1371200	1387343	1292128	1333430	1395139
<b>Percent Change Annualized</b>	<b>2.1</b>	<b>3.1</b>	<b>3.2</b>	<b>4.0</b>	<b>5.0</b>	<b>4.9</b>	<b>4.8</b>	<b>4.6</b>	<b>3.5</b>	<b>3.2</b>	<b>4.6</b>
<b>Housing</b>											
Housing Starts (Total, Ann. Rate)	171012	165655	165929	166992	168026	169288	170562	171873	168440	167559	172513
<b>Percent Change Annualized</b>	<b>-12.0</b>	<b>0.7</b>	<b>2.6</b>	<b>2.5</b>	<b>3.0</b>	<b>3.0</b>	<b>3.1</b>	<b>3.1</b>	<b>4.0</b>	<b>-0.5</b>	<b>3.0</b>
SF Housing Starts (# of Units, Ann Rate)	110794	111402	112423	113238	114085	114888	115678	116508	109996	113659	116898
MF Housing Starts (# of Units, Ann Rate)	60218	54253	53505	53754	53941	54400	54884	55364	58444	53900	55615
Existing Home Sales (Ths. of Units, Ann Rate)	441	389	390	392	394	397	400	403	436	393	404
House Prices, FHFA (1995 Q1=100, NSA)	246	250	253	256	259	262	265	268	244	257	270
<b>Year/Year Percent Change</b>	<b>5.7</b>	<b>5.3</b>	<b>4.8</b>	<b>4.7</b>	<b>4.8</b>	<b>4.8</b>	<b>4.8</b>	<b>4.8</b>	<b>7.5</b>	<b>5.5</b>	<b>4.8</b>
<b>Bankruptcies</b>											
Total Business (12 Months Ending)	2038	2094	2236	2385	2481	2577	2673	2767	2028	2420	2771
Total Personal (12 Months Ending)	32055	31682	32123	34097	35118	35576	35921	36117	32180	34228	35957

a = actual f = forecast

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## North Texas Still Expanding, But Feeling Energy Drag

- The North Texas economy continues to expand at a moderating rate. Labor market data has changed after strong and steady gains through 2014. In 2015, the steadiness gave way to choppiness. The peak months of job gains in 2015 were actually higher than in 2014. However, peak months were often followed by weak months or losses, as was the case in March and May. Year-over-year job growth has shifted down from a peak of 4.4 percent in January 2015, to 3.0 percent in December 2015. Unemployment in the metro area bottomed out at 3.7 percent in August of last year, and then increased to 4.1 percent by December, still well below the U.S. average of 5.0 percent for December. So we can say that conditions are changing. We expect to see slower overall job growth through most of 2016. Also, we can see a separation in performance between the eastern and western halves of the metro area. In the Dallas-Plano-Irving metropolitan division, year-over-year employment growth in December was a strong 3.6 percent. In the Forth Worth-Arlington metro division, year-over-year job growth in December has dipped to 1.4 percent, below the U.S. average of 2.0 percent for the month. The unemployment rate for the two halves of the metro were indistinguishable through 2014. Now we see the Forth Worth metro division higher at 4.3 percent, while the Dallas metro division showed 4.1 percent unemployment in December. With large transplant employers still staffing up in North Texas, we expect to see ongoing support for moderate-to-weak job growth for the rest of this year.
- The collapse in oil prices to below \$30/barrel has pulled the wind from the sails of the Texas economy. This year, areas that are economically diverse will outperform areas that are concentrated in oil and gas production. Most Texans will notice a cooler overall state economy this year. We assume that oil prices will increase to \$45 per barrel by year-end. A lower price track would imply even cooler economic conditions for the state.

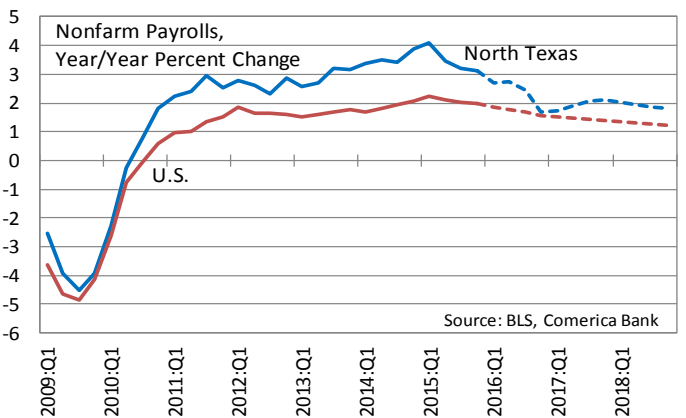
### North Texas Economic Outlook

	4Q'15a	1Q'16f	2Q'16f	3Q'16f	4Q'16f	1Q'17f	2Q'17f	3Q'17f	2015a	2016f	2017f
<b>Labor and Demographics</b>											
Payroll Jobs (Thousands)	3431	3450	3463	3474	3489	3509	3528	3546	3388	3469	3537
<b>Percent Change Annualized</b>	<b>4.8</b>	<b>2.2</b>	<b>1.5</b>	<b>1.3</b>	<b>1.8</b>	<b>2.3</b>	<b>2.1</b>	<b>2.1</b>	<b>3.5</b>	<b>2.4</b>	<b>2.0</b>
Unemployment Rate (Percent)	4.0	4.0	4.0	4.0	4.0	3.8	3.6	3.5	3.9	4.0	3.6
Population (Thousands)	7174	7206	7237	7267	7297	7328	7359	7390	7123	7252	7374
<b>Percent Change Annualized</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>2.1</b>	<b>1.8</b>	<b>1.7</b>
Net Migration (Thousands)	18.1	17.1	15.4	15.5	15.5	15.6	16.0	16.2	82.0	63.5	64.3
<b>Personal Income</b>											
Total Personal Income (Nom., Millions \$)	365529	369328	372938	376547	381063	386153	391307	396397	360313	374969	393838
<b>Percent Change Annualized</b>	<b>4.1</b>	<b>4.2</b>	<b>4.0</b>	<b>3.9</b>	<b>4.9</b>	<b>5.5</b>	<b>5.4</b>	<b>5.3</b>	<b>4.7</b>	<b>4.1</b>	<b>5.0</b>
<b>Housing</b>											
Housing Starts (Total, Ann. Rate)	58268	58018	59921	60977	61702	62397	63112	63864	54918	60154	63486
<b>Percent Change Annualized</b>	<b>-22.0</b>	<b>-1.7</b>	<b>13.8</b>	<b>7.2</b>	<b>4.8</b>	<b>4.6</b>	<b>4.7</b>	<b>4.9</b>	<b>32.4</b>	<b>9.5</b>	<b>5.5</b>
SF Housing Starts (# of Units, Ann Rate)	34008	33987	34968	35486	35988	36384	36817	37254	32736	35107	37030
MF Housing Starts (# of Units, Ann Rate)	24260	24031	24952	25491	25714	26013	26295	26610	22182	25047	26455
House Prices, FHFA (1995 Q1=100, NSA)	229	232	235	238	241	244	248	251	222	236	249
<b>Year/Year Percent Change</b>	<b>10.7</b>	<b>8.1</b>	<b>6.8</b>	<b>6.2</b>	<b>5.5</b>	<b>5.4</b>	<b>5.5</b>	<b>5.6</b>	<b>10.3</b>	<b>6.6</b>	<b>5.5</b>
<b>Bankruptcies</b>											
Total Business (12 Months Ending)	744	786	824	847	871	895	912	931	737	832	923
Total Personal (12 Months Ending)	11503	11539	11654	12332	12660	12595	12565	12610	11584	12046	12660

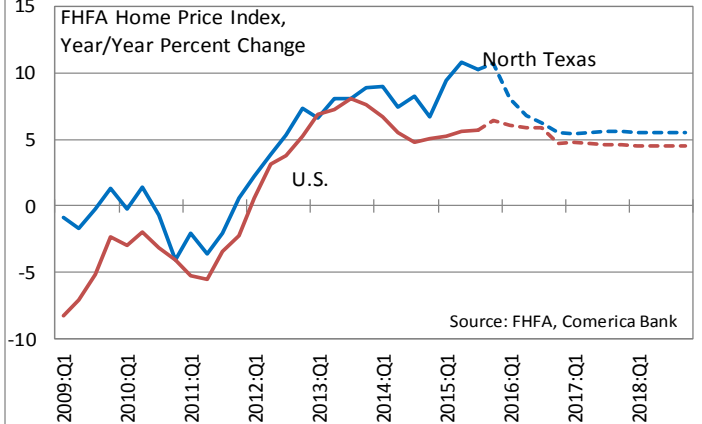
a = actual f = forecast

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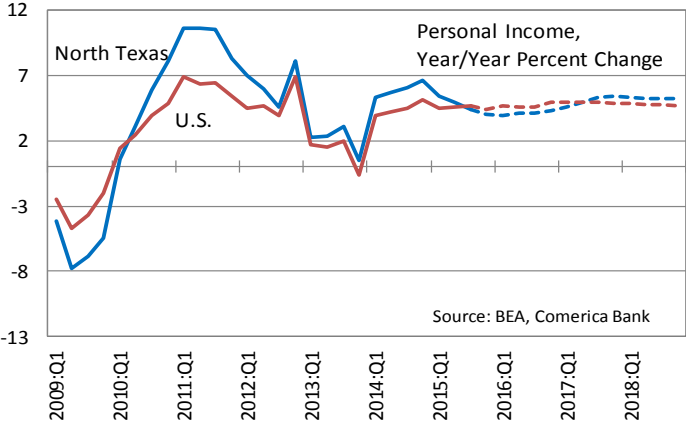
### North Texas Job Growth to Cool



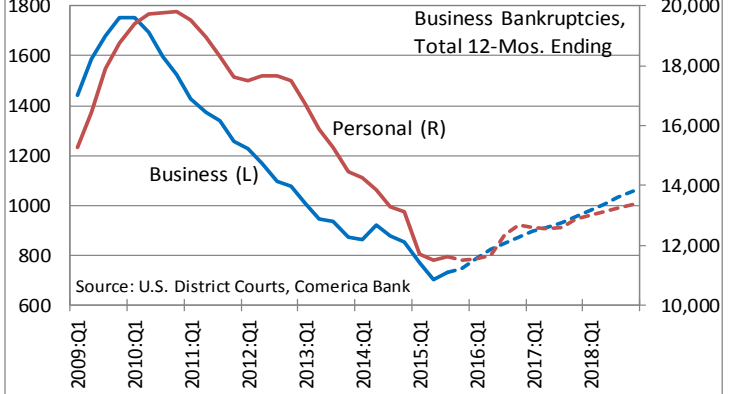
### Home Prices To Moderate



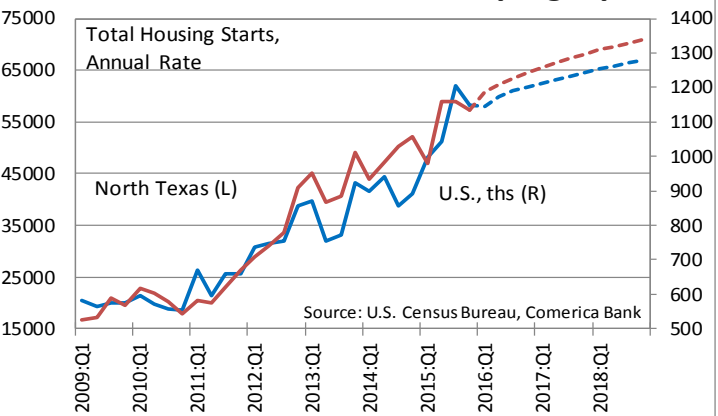
### Income Strained by Oil Prices



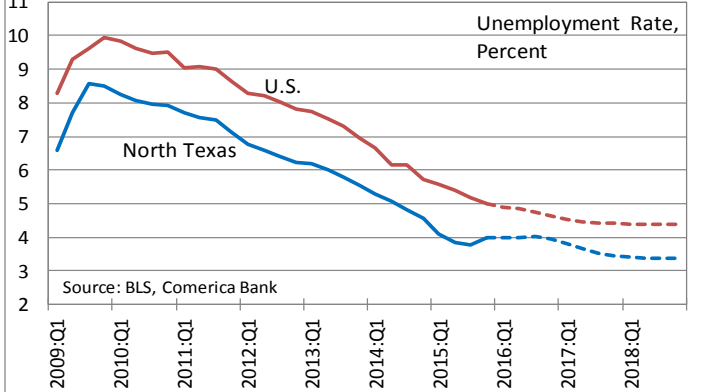
### North Texas Bankruptcies Expected to Increase



### House Construction Ramping Up



### North Texas Unemployment Rate Declines



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## Diverse North Texas Economy Bucking Energy Headwinds

- While the Houston metro area economy has seen four months of net job losses so far this year, the Dallas/Fort Worth metro area economy has seen just two months of job losses. Job growth has clearly downshifted in North Texas, from the heady 10,800 job per month average of 2014, to 6,800 net new jobs per month through September of this year. Energy prices matter for the North Texas economy, but its economic diversity is paying dividends now. Looking ahead, we expect North Texas to dodge a regional recession even though job growth will cool down in 2016.
- Oil prices are weak, finishing the year by testing the late-August sub-40 lows. Perversely, the Paris terrorist attacks may have provided some support for global oil prices, but downside momentum may continue as inventories of both crude and refined products increase. Natural gas prices also remain exceptionally weak at \$2.50 per mmbtu. In just one example of the energy drag to North Texas, Occidental Petroleum recently announced a consolidation of its Dallas operations and plans to relocate up to 100 employees to its new Houston headquarters.
- Non-energy corporate activity in North Texas remains very positive. Defense giant Lockheed Martin landed a \$1 billion contract to build 17 new C-130J transport aircraft for the U.S military. Lockheed also just closed its \$9 billion acquisition of military helicopter builder Sikorsky. Corporate relocations to North Texas are expected to continue at pace through 2016. Approximately 9,000 California companies moved out of state over the past seven years, many to North Texas. The Dallas Regional Chamber expects that trend to continue. Commercial development on the north side of the metro area remains very active, pushing toward Oklahoma. The \$1 billion Gates of Prosper project has begun utility and roadway construction.

### North Texas Economic Outlook

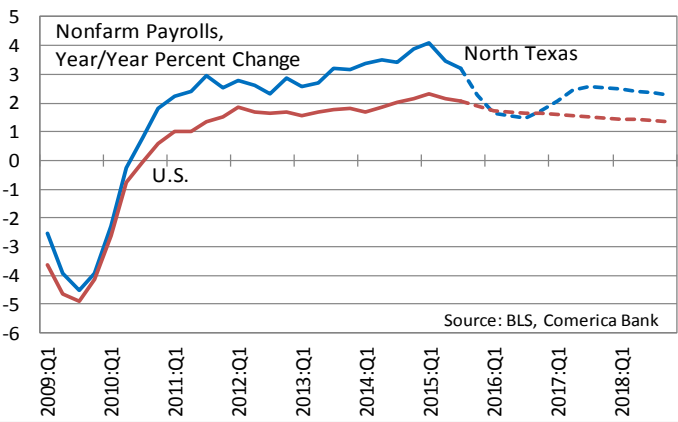
	3Q'15a	4Q'15f	1Q'16f	2Q'16f	3Q'16f	4Q'16f	1Q'17f	2Q'17f	2014a	2015f	2016f
<b>Labor and Demographics</b>											
Payroll Jobs (Thousands)	3391	3403	3415	3423	3440	3462	3485	3507	3275	3381	3435
<b>Percent Change Annualized</b>	<b>2.5</b>	<b>1.5</b>	<b>1.3</b>	<b>1.0</b>	<b>2.1</b>	<b>2.6</b>	<b>2.7</b>	<b>2.5</b>	<b>3.5</b>	<b>3.2</b>	<b>1.6</b>
Unemployment Rate (Percent)	3.8	3.8	4.0	4.1	4.0	3.8	3.6	3.5	4.9	3.9	4.0
Population (Thousands)	7126	7160	7194	7226	7257	7289	7320	7353	6970	7108	7241
<b>Percent Change Annualized</b>	<b>2.0</b>	<b>1.9</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>	<b>1.8</b>	<b>1.8</b>	<b>1.9</b>	<b>2.0</b>	<b>1.9</b>
Net Migration (Thousands)	20.1	19.4	18.4	17.4	16.3	16.5	16.9	17.3	74.2	80.2	68.7
<b>Personal Income</b>											
Total Personal Income (Nom., Millions \$)	348041	349438	351359	353639	357120	361217	365488	369825	337958	346907	355834
<b>Percent Change Annualized</b>	<b>3.1</b>	<b>1.6</b>	<b>2.2</b>	<b>2.6</b>	<b>4.0</b>	<b>4.7</b>	<b>4.8</b>	<b>4.8</b>	<b>5.6</b>	<b>2.6</b>	<b>2.6</b>
<b>Housing</b>											
Housing Starts (Total, Ann. Rate)	59368	55834	56613	57179	57638	58048	58628	59160	41481	52991	57369
<b>Percent Change Annualized</b>	<b>105.9</b>	<b>-21.8</b>	<b>5.7</b>	<b>4.1</b>	<b>3.2</b>	<b>2.9</b>	<b>4.1</b>	<b>3.7</b>	<b>12.1</b>	<b>27.7</b>	<b>8.3</b>
SF Housing Starts (# of Units, Ann Rate)	34174	34923	35471	35843	36108	36352	36742	37089	24870	32925	35943
MF Housing Starts (# of Units, Ann Rate)	25193	20911	21142	21336	21530	21695	21885	22072	16611	20065	21426
House Prices, FHFA (1995 Q1=100, NSA)	224	227	230	233	237	240	244	248	202	222	235
<b>Year/Year Percent Change</b>	<b>9.8</b>	<b>9.8</b>	<b>7.2</b>	<b>6.0</b>	<b>5.7</b>	<b>5.9</b>	<b>6.1</b>	<b>6.3</b>	<b>7.9</b>	<b>9.9</b>	<b>6.2</b>
<b>Bankruptcies</b>											
Total Business (12 Months Ending)	702	710	752	778	793	807	821	840	878	721	782
Total Personal (12 Months Ending)	11316	11474	11673	11917	12113	12063	12028	12014	13622	11505	11942

a = actual f = forecast

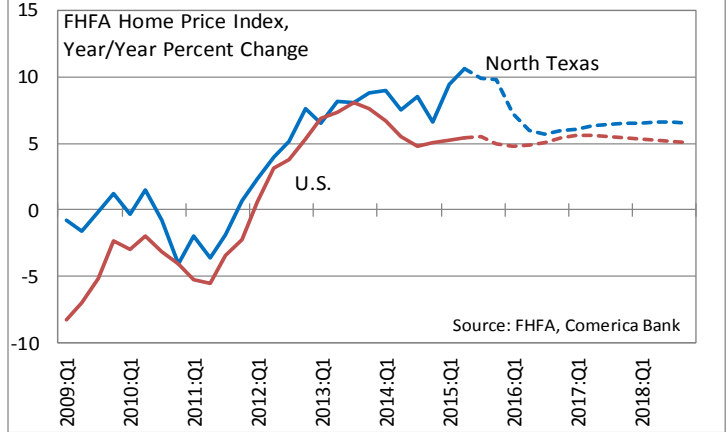
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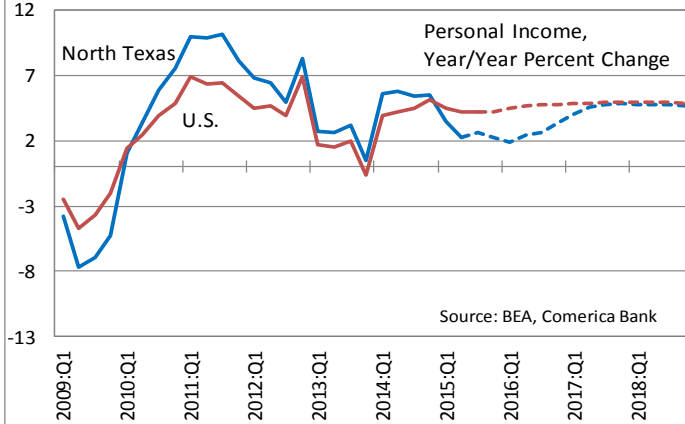
### North Texas Job Growth to Cool



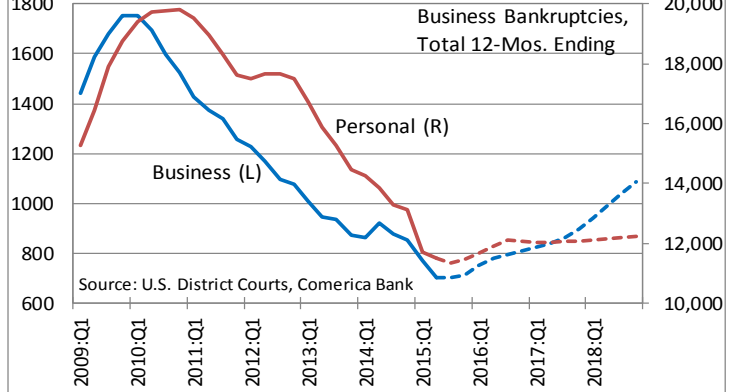
### Home Prices To Moderate



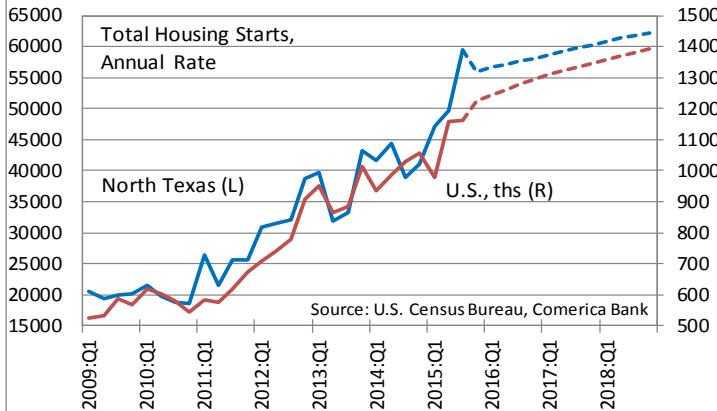
### Income Strained by Oil Prices



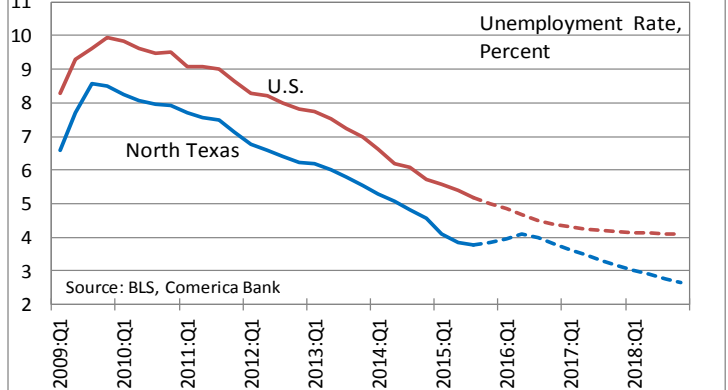
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### House Construction Ramping Up



### North Texas Unemployment Rate Declines



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## North Texas Shows Benefits of Economic Diversity

- The Texas economy is feeling the drag from lower oil prices, and North Texas is no exception. However, the well-diversified economy of the Dallas/Ft. Worth metro area is providing some insulation from the downdraft in the state's energy sector. North Texas gained an average of 11,000 payroll jobs per month over 2014. Through the first eight months of 2015, that average is down to 6,600. In two months this year, March and May, North Texas had net job losses, and in July there were close to zero net new jobs. This is clearly a downshift for the regional economy, but the downshift is not as pronounced as it is in the Houston metro area, which has seen net job losses in four out of eight months this year.
- Examples of economic diversity in North Texas are easy to find. Facebook announced in July that construction had begun on a new \$1 billion data center in Fort Worth. Along with the data center, Facebook is part of a partnership that is building a 202 megawatt wind farm in Clay County, Texas, well outside of the Dallas/Ft. Worth metro area. Fort Worth's central business district will see its first new office tower since 2008. The 25-story 640 Taylor project will begin construction this year. Three North Texas counties, Collin, Denton and Rockwall, were among the 25 fastest-growing counties in the U.S. in 2014, according to the Census Bureau.
- With rapid economic growth over the past several years, housing markets in North Texas remain tight. According to the July Case-Shiller House Price index, Dallas house prices were up 8.2 percent over the previous 12 months, well ahead of the U.S. average of 4.5 percent. Corelogic issued a report this month that put all the Texas big housing markets on a watchlist for being overvalued. Austin topped the Corelogic list. Houston was second on the list of 14 cities, Dallas was eighth and Fort Worth ranked twelfth.

### North Texas Economic Outlook

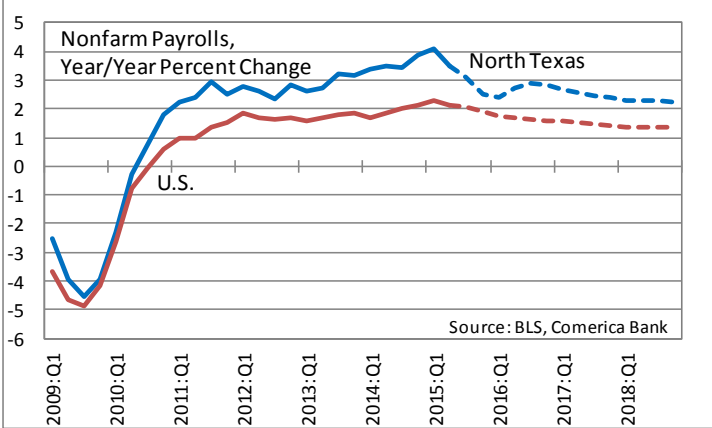
	2Q'15a	3Q'15f	4Q'15f	1Q'16f	2Q'16f	3Q'16f	4Q'16f	1Q'17f	2014a	2015f	2016f
<b>Labor and Demographics</b>											
Payroll Jobs (Thousands)	3370	3389	3412	3439	3461	3486	3508	3531	3275	3382	3474
<b>Percent Change Annualized</b>	<b>1.3</b>	<b>2.2</b>	<b>2.7</b>	<b>3.2</b>	<b>2.7</b>	<b>2.9</b>	<b>2.6</b>	<b>2.6</b>	<b>3.5</b>	<b>3.3</b>	<b>2.7</b>
Unemployment Rate (Percent)	3.9	3.8	3.8	3.6	3.5	3.4	3.3	3.2	4.9	3.9	3.4
Population (Thousands)	7091	7127	7162	7197	7233	7268	7304	7339	6970	7109	7251
<b>Percent Change Annualized</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>1.9</b>	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>
Net Migration (Thousands)	20.7	20.5	20.5	20.6	20.7	20.6	20.6	20.4	74.2	81.7	82.6
<b>Personal Income</b>											
Total Personal Income (Nom., Millions \$)	343008	346742	351432	356749	361816	367310	372686	378149	336029	345401	364640
<b>Percent Change Annualized</b>	<b>3.1</b>	<b>4.4</b>	<b>5.5</b>	<b>6.2</b>	<b>5.8</b>	<b>6.2</b>	<b>6.0</b>	<b>6.0</b>	<b>5.0</b>	<b>2.8</b>	<b>5.6</b>
<b>Housing</b>											
Housing Starts (Total, Ann. Rate)	49366	50104	51004	51799	52668	53534	54333	55130	41481	49438	53084
<b>Percent Change Annualized</b>	<b>18.9</b>	<b>6.1</b>	<b>7.4</b>	<b>6.4</b>	<b>6.9</b>	<b>6.7</b>	<b>6.1</b>	<b>6.0</b>	<b>12.1</b>	<b>19.2</b>	<b>7.4</b>
SF Housing Starts (# of Units, Ann Rate)	32283	32838	33524	34113	34733	35349	35900	36447	24870	32186	35024
MF Housing Starts (# of Units, Ann Rate)	17084	17266	17480	17686	17935	18186	18433	18683	16611	17252	18060
House Prices, FHFA (1995 Q1=100, NSA)	220	224	228	232	235	239	243	247	202	222	237
<b>Year/Year Percent Change</b>	<b>10.6</b>	<b>10.0</b>	<b>10.4</b>	<b>7.9</b>	<b>6.9</b>	<b>6.6</b>	<b>6.4</b>	<b>6.4</b>	<b>7.9</b>	<b>10.1</b>	<b>6.9</b>
<b>Bankruptcies</b>											
Total Business (12 Months Ending)	744	761	782	805	814	822	835	851	878	764	819
Total Personal (12 Months Ending)	11419	11296	11232	11124	11100	11142	11209	11148	13622	11415	11144

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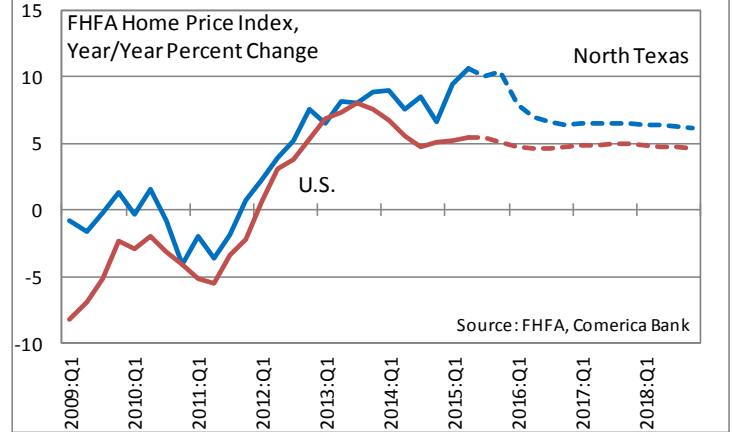
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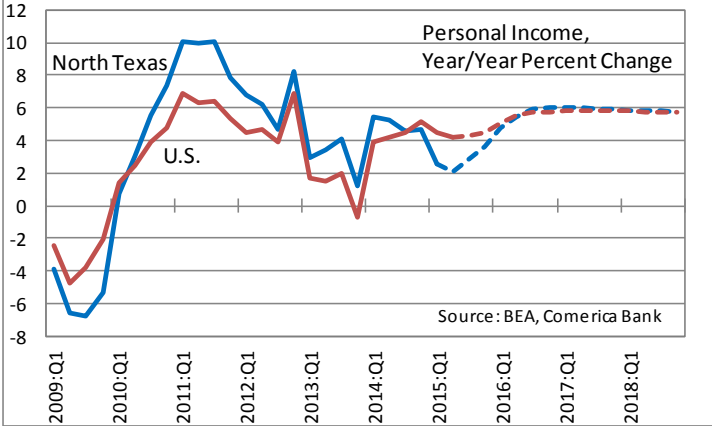
### North Texas Payrolls Keep Growing



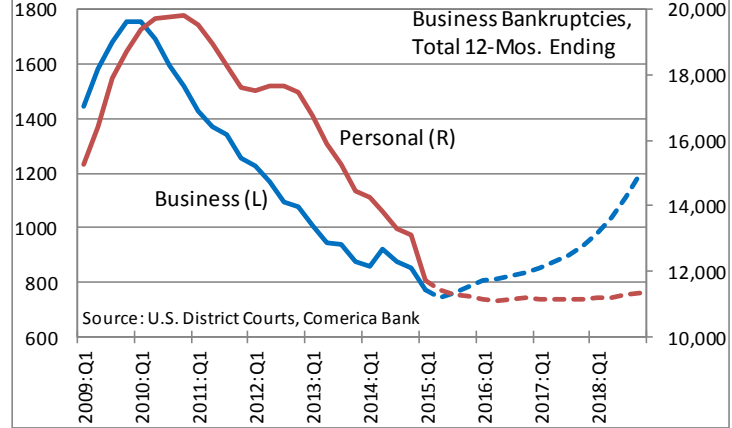
### Home Prices To Moderate



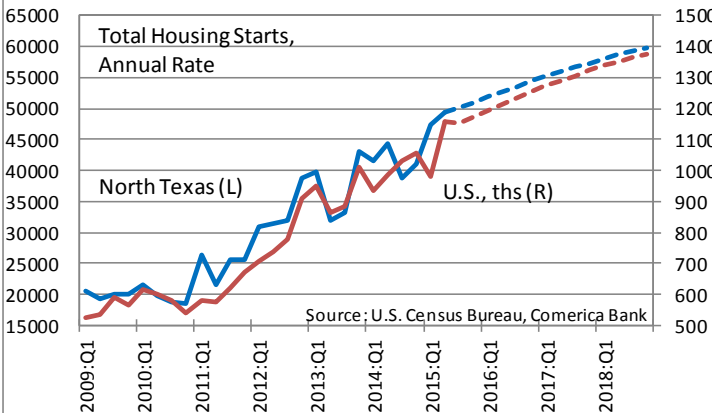
### Income Strained by Oil Prices



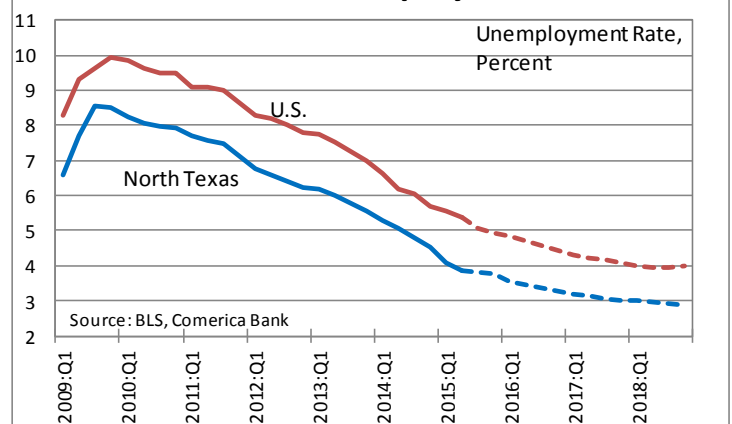
### North Texas Bankruptcies



### House Construction Ramping Up



### North Texas Unemployment Rate



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## A Downshift in North Texas Job Growth

- Following strong job growth from last October through January, payroll job gains have downshifted in North Texas. After adding nearly 11,000 jobs per month in 2014, only 2,800 jobs were added to the Dallas-Fort Worth metro area in February. In March the metro area lost 10,200 payroll jobs, the first monthly decline since a negligible dip in November 2010. The March job loss was the largest monthly decline since June 2009. One month of bad data does not make a trend, but it comes at a time when energy-related industries are under pressure from the significant slide in crude oil prices over the second half of last year into early 2015. Recent firming of crude oil prices is a good sign for the North Texas economy, but we are still in the early days of the near-\$60 crude oil.
- U.S. crude oil production appears to be levelling out after ramping up sharply since 2009. Inventories of crude oil in storage are also levelling out. Both are positive signs for stabilizing crude oil prices. Interestingly, some Texas drillers are preparing to bring more rigs into play in response to recently higher crude oil prices, potentially changing the production/storage relationship. So this feels like an oil market that is still searching for equilibrium in terms of both prices and drilling activity. The impact of the energy sector on the North Texas economy is also shifting. We have seen a one-way drag since the rig count started falling at mid-year 2014. We expect to see a consolidated energy sector with improved and stable drilling activity that will add support to the North Texas economy in 2016, if oil prices stabilize...still a big "if".
- There is a lot more to North Texas than the oil business. Commercial and residential property markets remain very active. The Case-Shiller House Price Index for Dallas was up 8.6 percent in February, over the previous year. Companies looking for a mid-continent location are still finding the North Texas area very attractive. Kubota Tractor and Credit Corporation has just announced that they will be moving their U.S. headquarters from Torrance, California to Grapevine, Texas, where they will employ 675 workers.

### North Texas Economic Outlook

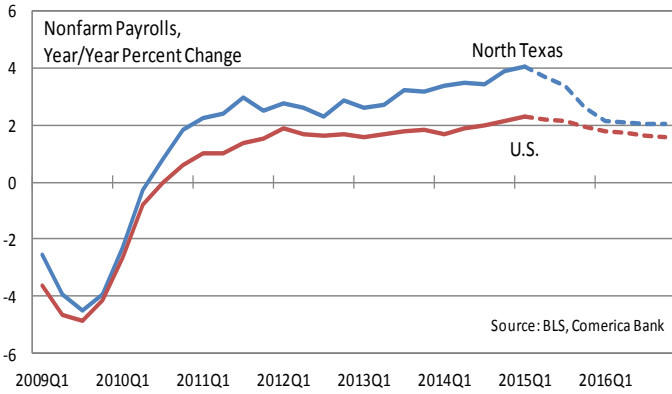
	1Q'15a	2Q'15f	3Q'15f	4Q'15f	1Q'16f	2Q'16f	3Q'16f	4Q'16f	2014a	2015f	2016f
<b>Labor and Demographics</b>											
Payroll Jobs (Thousands)	3358	3377	3396	3414	3430	3447	3465	3482	3275	3386	3456
<b>Percent Change Annualized</b>	<b>3.7</b>	<b>2.3</b>	<b>2.3</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>3.5</b>	<b>3.4</b>	<b>2.1</b>
Unemployment Rate (Percent)	4.1	3.9	3.8	3.7	3.7	3.6	3.5	3.5	4.9	3.9	3.6
Population (Thousands)	7050	7079	7110	7140	7170	7200	7230	7260	6969	7095	7215
<b>Percent Change Annualized</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>
Net Migration (Thousands)	17.1	15.8	16.9	15.9	16.6	16.0	16.5	16.0	74.2	65.8	65.1
<b>Personal Income</b>											
Total Personal Income (Nom., Millions \$)	344896	349249	353307	357511	361726	366092	370797	375560	336495	351241	368544
<b>Percent Change Annualized</b>	<b>5.0</b>	<b>5.1</b>	<b>4.7</b>	<b>4.8</b>	<b>4.8</b>	<b>4.9</b>	<b>5.2</b>	<b>5.2</b>	<b>5.1</b>	<b>4.4</b>	<b>4.9</b>
<b>Housing</b>											
Housing Starts (Total, Ann. Rate)	48587	47445	48290	49191	50071	50841	51608	52268	40582	48378	51197
<b>Percent Change Annualized</b>	<b>134.7</b>	<b>-9.1</b>	<b>7.3</b>	<b>7.7</b>	<b>7.3</b>	<b>6.3</b>	<b>6.2</b>	<b>5.2</b>	<b>9.2</b>	<b>19.2</b>	<b>5.8</b>
SF Housing Starts (# of Units, Ann Rate)	31092	30597	31023	31524	31981	32384	32788	33109	25185	31059	32565
MF Housing Starts (# of Units, Ann Rate)	17496	16847	17267	17667	18090	18456	18820	19159	15396	17319	18631
House Prices, FHFA (1995 Q1=100, NSA)	196	199	202	205	208	210	213	216	187	200	212
<b>Year/Year Percent Change</b>	<b>8.9</b>	<b>6.4</b>	<b>5.9</b>	<b>6.3</b>	<b>5.9</b>	<b>5.8</b>	<b>5.7</b>	<b>5.6</b>	<b>9.5</b>	<b>6.9</b>	<b>5.8</b>
<b>Bankruptcies</b>											
Total Business (12 Months Ending)	843	832	825	822	821	823	822	816	878	831	821
Total Personal (12 Months Ending)	12949	12649	12388	12193	12069	12000	11987	11989	13622	12545	12011

a = actual f = forecast

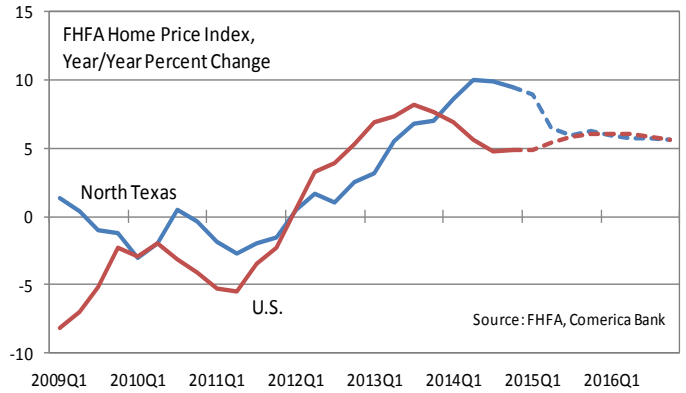
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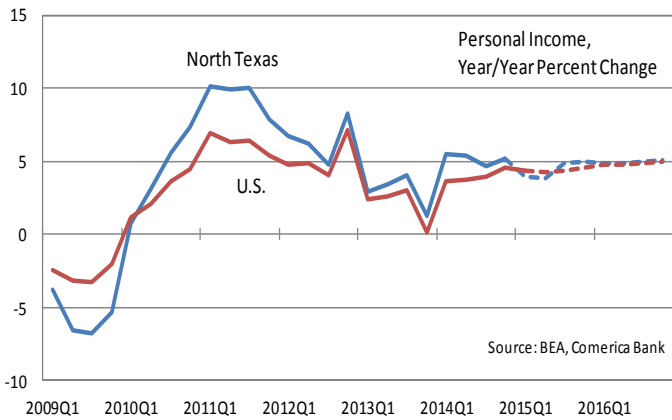
### North Texas Job Growth to Ease with Lower Oil Prices



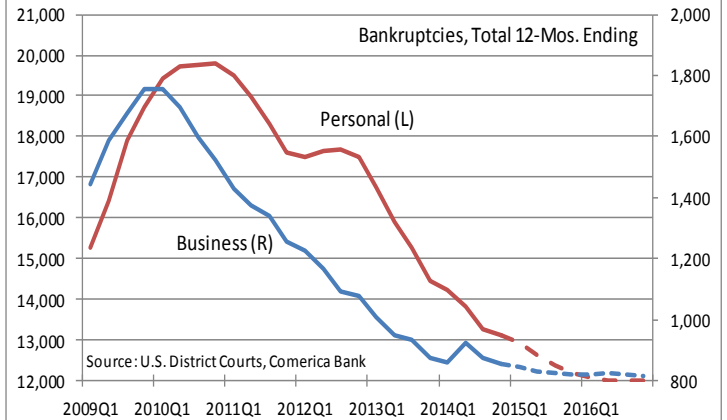
### House Price Gains to Cool



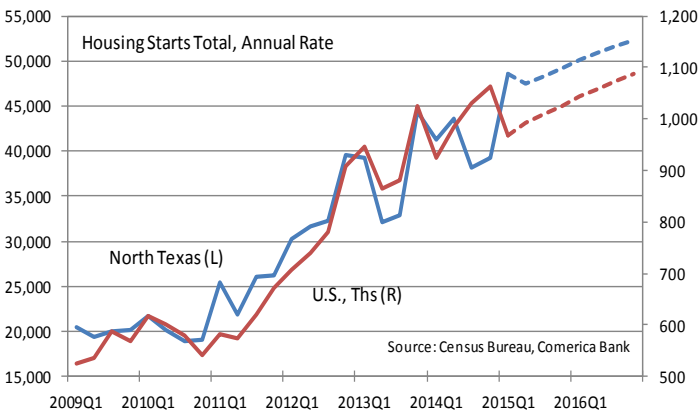
### Income Growth to Moderate



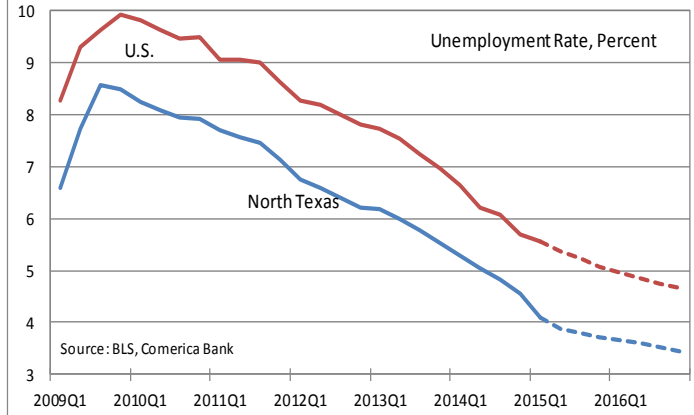
### Bankruptcies Approaching Cyclical Low



### Housing Starts Driven by Population Growth



### Unemployment Rates Are Falling



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