

Economic Environment

Harris County Budget Management

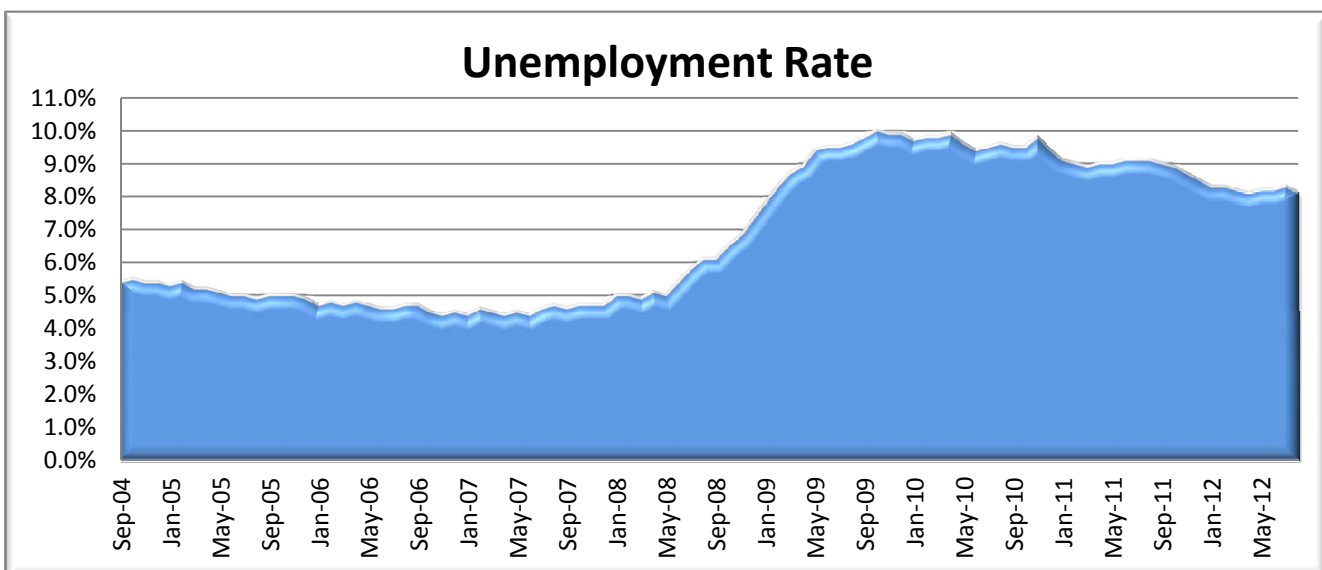
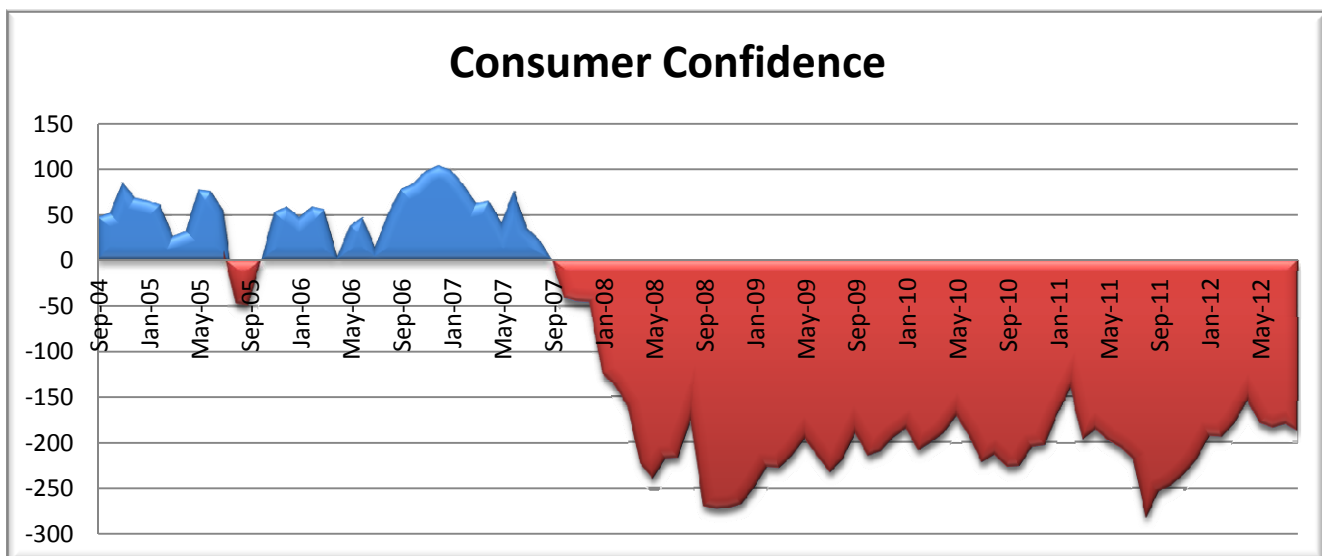
Mid Year Review Sept. 2012

National Economy

The United States economy is continuing to go through a period of uncertainty that started in 2007. Significant fluctuations in energy prices combined with historically high levels of federal government spending, ongoing military conflicts and fundamental changes in the financial and credit markets have contributed to a high level of concern about the future.

Problems in the housing industry resulting from some aggressive and questionable lending practices over the last few years have led to declining home prices and increased foreclosure rates in many parts of the country. Interest rates have declined significantly as the federal funds rate is near zero and mortgage interest rates continue to be at 50-year lows.

The lack of stability in the European monetary system along with continued high unemployment contribute to the ongoing lack of confidence that U.S. consumers have in the economy. The following graphs show consumer confidence and unemployment rates for the last 8 years.



Challenges for Government at all Levels

State and local governments throughout the U.S. have faced significant budget challenges over the last few years. The State of Texas, despite the relative strength of its economy, has not been immune to the effects of the national economic issues. Budget cuts at the state level often affect the availability of funds for local governments.

County government relies on a combination of property taxes, fees and funding from federal and state governments to conduct operations. This economy has put significant pressure on those sources of county revenue while the need to provide services is increasing.

Harris County Highlights

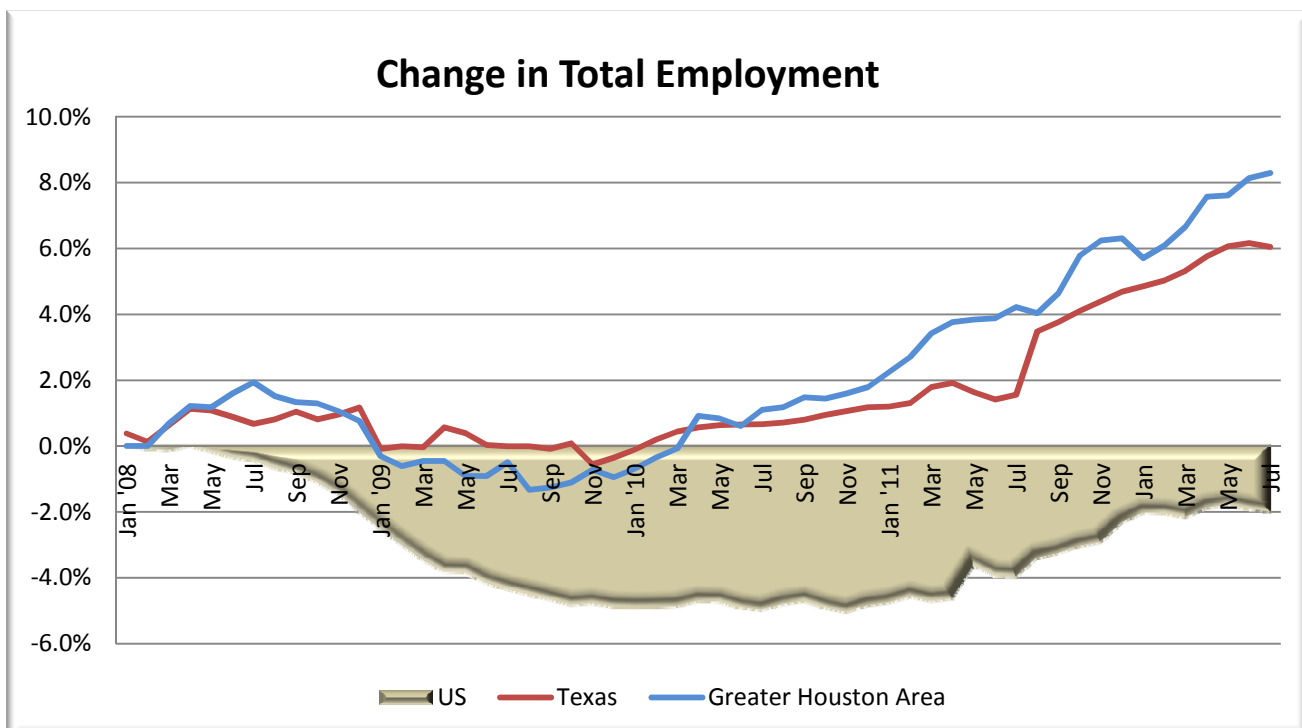
A number of positive trends for the local economy are encouraging. The following information is summarized from the Bureau of Labor Statistics data and information reported by the Greater Houston Partnership.

Employment

Job growth in the Greater Houston Area and the State of Texas continues to be strong with the Houston area adding 218,000 jobs over the last 4.5 years while the State added 627,000 jobs during the same period. This means that almost 35% of all job growth in Texas has been in the Greater Houston Area.

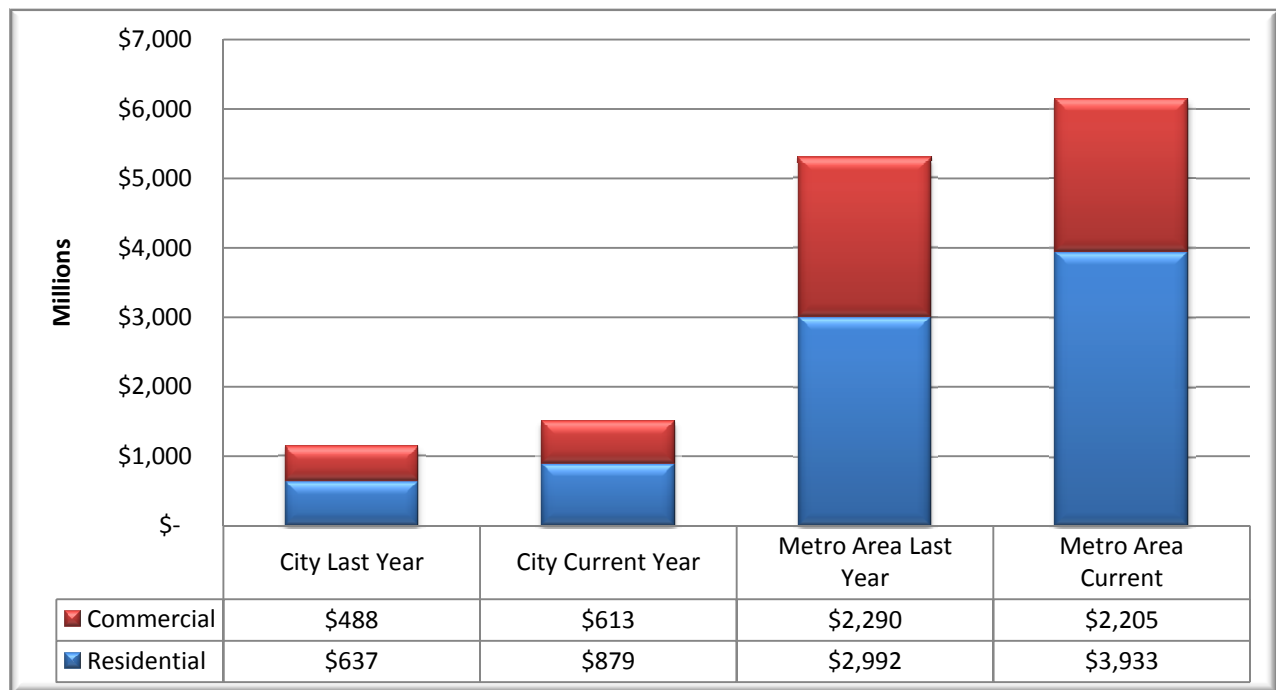
The U.S. has lost a total of 3 million jobs over the same period. The unemployment rates both locally and at the state level continue to run about 1% lower than the national average.

The Houston area now has 24.3% of all jobs in the state and 2.0% of all jobs in the nation.



Construction

The growth in building contracts for both the city of Houston and the metropolitan area continues to show positive signs. The following graph shows the first 7 months of calendar 2012 compared to the same period last year:



The value of residential construction contracts is up 38% in the city of Houston and up 31% for the metropolitan area for the first 7 months of calendar year 2012 compared to the same period last year. The value of all construction contracts is up 33% in the city and 16% in the metropolitan area.

Home Sales and Values

The number of homes sold in the Houston area increased by 15% for the first seven months of 2012 with 42,522 homes closed during that period compared to 36,884 for the same period last year.

The median sales price for a single family detached home grew to \$170,000 in July 2012, up from \$160,000 a year earlier. Harris County continues to average less than 1,000 foreclosures per month, well below the national average.

Consumer Information

New car and truck sales are up 32% from the same time last year. Total retail sales are up 11% and hotel occupancy has increased from 60.5% to 66.7%. The revenue per available hotel room has also increased from \$55.60 to \$63.57.