

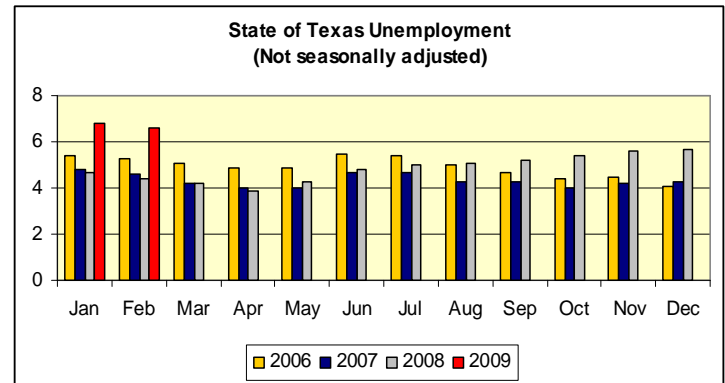
Economic Trends – March 26, 2009

State of Texas

Previous assessments of the Texas economy showed Texas being resistance to, but not immune from the recession. The current assessment, however, is that Texas is feeling the effects of the worldwide recession. That said, the Texas economy continues to fare better than those of many other states.

In February, Texas' non-seasonally adjusted unemployment declined slightly to 6.6%, significantly below the nation's 8.9% rate. Industry job losses hit Professional & Business Services, Construction, and the Trade, Transportation, and Utilities sectors the hardest.

The Dallas branch of the Federal Reserve recently projected that Texas could lose as many as 300,000 jobs in 2009. State Comptroller Susan Combs, not nearly as pessimistic as the Feds, revised her estimate of job losses for the year up by 60% -- from 111,000 to 180,000.



Thus far, Texas has weathered the national real estate crunch without significant damage to property values, but sales and construction activity are slowing. Despite its continuing resiliency, Texas is unlikely to remain immune from the national real estate crunch. As of February 2009, the Texas foreclosure rate was one in every 896 mortgages. The rate was a 14.14 percent drop from February 2008, but a 7.92 percent increase from January. Comparable rates in other states include Nevada's one in 70, California's one in 165, and Arizona's one in 147.

Beaumont / Port Arthur / Orange Area

The Beaumont / Port Arthur / Orange area seems somewhat recession resistant for two reasons. First, the area's cup over-floweth with \$15 billion in industrial development and expansion and the spin off effects from that.

- The largest project of the area, Motiva's \$7+ billion refinery expansion slowed down as of mid-January for cost review of the project. Numerous construction contract employees were released then. The project is still continuing forward – in a slower mode this year (still with significant dollars being spent) and a ramp up of the project expected in 2010 and completion scheduled for Q1 of 2012 rather than late 2010.
- Valero postponed their coker expansion project until further notice because of expenses and economic uncertainty. They will proceed, however, with their 50,000 barrels-per-day hydrocracker unit expansion project. The \$1.6 billion project will hire 2400 workers at the peak and will be completed December 2011.
- The \$1.6 billion Eastman gasification project is seeking a federal loan guarantee from DOE as an advanced energy project under the Energy Policy Act of 2005. A decision on the loan is expected in the second half of 2009. Construction on the plant was initially scheduled to begin this year, but economic problems and rising product costs pushed the engineering back, in turn pushing the construction start back
- On January 29, Total announced that their \$2.2 billion coker unit project was full speed ahead despite the economic downturn.

- Construction on the Golden Pass LNG terminal and pipeline is progressing with continued assessments of the impact of Hurricane Ike on the terminal and the extent of the impact on schedule. The extent of the damage to the pipeline is minimal and is on course to be completed in 2Q09.

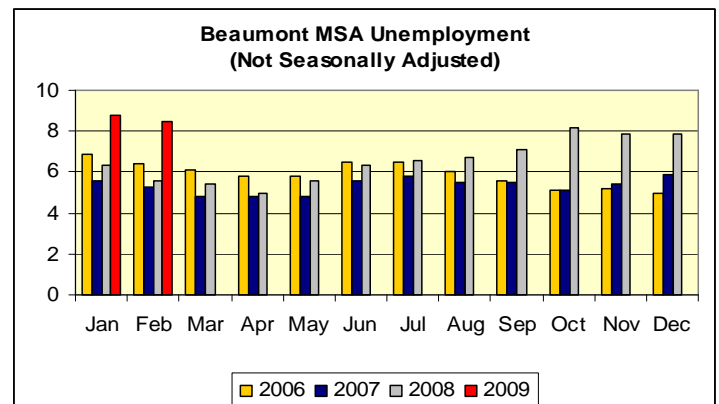
The second reason for the area’s resilience during troubled times is the economic bubble following Hurricane Ike. Repairs to damaged homes and commercial businesses were concentrated in Orange County. The costs for repairing significant damage to industrial plants (caused by flooding) in both Orange and Jefferson County amounted to more than \$1 billion from September 2008 through February 2009.

Texas was allocated \$1.3 billion in CDBG funds for Ike recovery. The Office of Rural Community Affairs (Gov’s designated agency) in turn allocated \$139 million to our region for the first phase of recovery. Fifty percent is allocated for housing and 49% for infrastructure, and 1% for economic development. The regional economic development group is recommending that \$1.4 million of the fund for economic development be used for revolving loan fund for small businesses in the Hardin, Jefferson, Orange counties. A second round of hurricane funds from the feds is expected.

The ports of Beaumont and Orange each received \$4 million in federal grants to expand and improve cargo operations. These are economic recovery grants from the U.S. Economic Development Administration. The grants will help create jobs, as well as increase size and business at both ports.

An \$8 million project of the Corp of Engineers will be reinforcing the entire length of the Port Arthur seawall starting in April 2009 and ending before storm season.

The unemployment rate for the area declined from 8.8% in January to 8.5% in February. This rate is the fourth highest in the state, down from third highest last month. This area has consistently ranked in the top three. Very rarely has the region’s rate been *below* the nation’s rate, but it was in February. (Nation’s unemployment rate was 8.9% - not seasonally adjusted.)



Losses were primarily in Retail Trade and Professional and Business Services sectors. (Note: Engineering firms in the area account for a large Professional and Business Services employment sector.) The low price of crude has been helpful in minimizing layoffs in the dominant industry in the area -refineries and petrochemical plants – as demand for their products has decreased with the economic downturn.

Manpower Inc.’s Employment Outlook Survey predicted an upswing in hiring for the area by 13 percent for second quarter of 2009. This is the seventh highest in the nation.

Gerdau Ameristeel cut back worker hours to 32 per week in December. Lyondell (which is still making the decision of whether to invest the dollars required for recovery from plant flooding by Hurricane Ike) laid off 75 workers in mid February. On the positive side, Signal International recently announced that they would be hiring 200-300 new workers.

The Beaumont-Port Arthur area saw the biggest fourth quarter (2008) home price increases in the country (according to the National Association of Realtors.) The median price of \$132,600 is 16.7% higher than in the same period one year ago. Home prices are holding through February.

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