

Economic Trends – June 2009

Beaumont / Port Arthur / Orange Area

The major news this month has been Valero's postponement of its \$1.6 billion hydrocracker unit indefinitely. Earlier this year Valero announced the postponement of its \$800 million coker unit. The project would have employed 2,500 craft workers at the peak of construction.

The Motiva Port Arthur Refinery expansion project, by far the largest of all the projects announced in the area at \$7+ billion, continues with approximately 2,500 workers on site at this time. Construction at the project continues within the scope of work that was originally approved, though the timeline was extended during the company's recent cost review. The column for the new crude unit went up in May, and several other large vessels have now been set in place. As work continues, approximately 300 to 350 modules and 1,000 pieces of equipment are expected to arrive for placement on foundations as part of the project. Motiva hired 140 process operators who are receiving extensive training in preparation for the project going on-line in early 2012.

Total's \$2.2 billion Deep Conversion Project is proceeding well with 2,000 contractors in the facility. Engineering is 65% completed. The Project so far is on schedule, within budget, and safety has been good so far.

Construction work at Golden Pass LNG terminal continues with between 400 and 500 workers. Construction is 70% complete on the \$1 billion terminal to be placed in operation in mid-2010.

The year-old Cheniere LNG terminal located in Louisiana, just across the state-line, has just begun receiving shipments of liquid natural gas for Total and Chevron.

Jefferson Refinery, based in The Woodlands, plans to revive the old Independent Refining Corp. facility in Hamshire, which has been closed since 1983. The proposed \$330 million project would bring hundreds of jobs during construction and create 100 to 150 permanent jobs. The company plans to sell bonds through the Jefferson County Economic Development Corp. in order to finance the project.

The following excerpt from the latest monthly publication of *Economy at a Glance* by the Greater Houston Partnership provides excellent insight to the effect of changing crude and gas prices on our area. Though the excerpt speaks about the Houston area, it is fairly reflective of our area. The Beaumont/Port Arthur area's major petro-chem sector of the economy is very similar to that of the Houston area. (Note: Readers can obtain *Economy at a Glance* on request through an email to kasdorf@houston.org.)

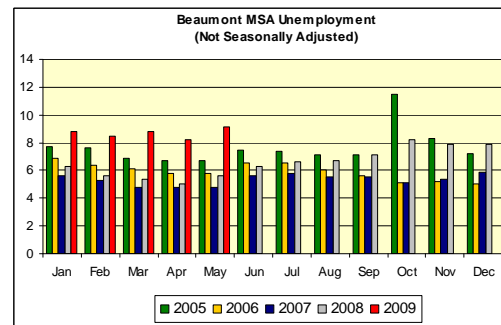
“It's good news for parts of upstream energy in Houston that oil prices have climbed above \$60 per barrel after falling into the \$30s in December, January and February. That's a large step in the right direction: prices need to reach \$70 to support a solid level of international activity. In the U.S., the price of natural gas has a large bearing on drilling activity: nearly four in five working rigs are gas-directed. And gas prices, which averaged more than \$9 per million British thermal units last year before falling below \$4 for most of the past three months, are under strong downward pressure. Natural gas in storage is at the upper end of the five-year range, 22 percent above the five-year average, and the world is awash in LNG, for which the U.S. has the only

storage capacity. With the collapse of gas prices, the Baker Hughes count of active domestic rotary rigs plunged from a recent peak of 2,031 last September to 900 in late May. Industry analysts expect the rig count to bottom near 800 around mid-year.

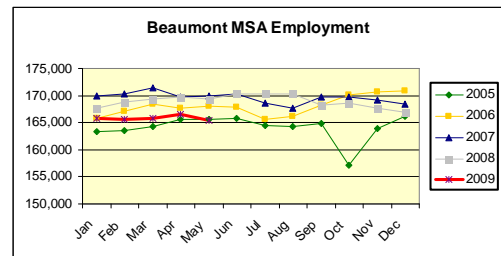
Low natural gas prices do have a positive side for Houston because natural gas is a major feedstock for the region's petrochemicals producers. Because most production elsewhere relies on crude oil as a feedstock, Houston enjoys a competitive advantage when gas is priced inexpensively relative to oil. (A rule of thumb holds that Houston enjoys this advantage when the ratio of the price of a barrel of crude to one MMBtu of natural gas exceeds 6. The ratio, currently in the neighborhood of 14, has dipped below 6 only for brief periods over the past 19 years.)

Houston's emergence from the current recession depends not only on oil prices at least moderately higher than they are today, but also on much higher natural gas prices stemming from a resurgence in demand that can come only from recovery in the domestic economy. Houston lagged the nation entering recession, and it's likely to lag it in recovery. But even when recovery comes, don't expect the rig count to soar to 2,000 again: with moderate demand and improving technology, no more than 800 to 1,000 rigs are needed to provide ample supply."

The unemployment rate spiked to a surprising level of 9.1% in May, nearly a whole percentage point over April's 8.2% and 3.3 percentage points over May 2008's rate of 5.8%. After months of having a partial shield from the economic downturn as compared to the US, the May spike now brings the area's unemployment rate to that of the US. Note that the rate for the state of Texas at 6.9% is still more than two percentage points lower than the US.



Since May of 2008, the loss of nonagricultural jobs tallies to 5,600 representing a 3.4% loss. The sectors taking the biggest hit in this loss are: manufacturing at 1,800 – a 7.8% loss; trade, transportation & utilities at 900 – a 2.9% loss; professional and business services at 700 – a 4.5 % loss; and government at 700 – a 2.7% loss. (Note: In the charts to the right, the spike in green in October 2005 is due to Hurricane Rita.)



In late June, the Sitel call center in Port Arthur announced a layoff of 430 workers to occur in August. The good news is that the West call center in Beaumont will be able to hire some of those workers.

The Legislature adjourned its 140-day regular session June 1. Gov. Rick Perry plans to call a special legislative session to address unfinished state business. Following are highlights from the regular session that impact the economy of the state and the Beaumont / Port Arthur / Orange area:

- The state's Rainy Day Fund remains untouched, leaving an expected balance of at least \$9.1 billion in the Fund at the end of the 2010-11 biennium.
- Funding for disaster relief and debris removal was increased five fold to \$78.6 million.
- Reforms to the Texas Windstorm Insurance Association were passed to provide a critical safety net for property owners along the Texas coast. These reforms will, for the first time, allow the state to build a significant catastrophic reserve fund to recover from future storms.

- Funding for the Skills Development Fund was increased by more than \$30 million to provide grants for public community or technical colleges and employers to provide customized job training in targeted industries and specialized occupations. (Total of \$80 million in General Revenue)
- Texas Enterprise Fund was increased by \$20 million, providing \$200 million in economic development funding to help close major deals.
- The Emerging Technology Fund was increased by \$94 million to support Research Superiority Acquisition Awards, Commercialization Awards, and Matching Awards through the state's institutions of higher education. (Unexpended Balance authority + \$94 million = \$203.5 million for 2010-11)

Note: Information in this report came from media reports, publicly available reports, and interviews with corporate officials.