

Economic Trends – January 2011

Beaumont / Port Arthur / Orange

2010 was a year of modest recovery for the region and 2011 appears poised for a year of increasing rate of recovery.

INDUSTRIAL UPDATE

The latest news is that Zero Emission Energy Plants Ltd., or ZEEP, will acquire the property and engineering design developed by Eastman Chemical Co. for a petroleum coke gasification plant in Beaumont. - a \$1.6 billion project announced in 2007 by Eastman and then cancelled in late 2009. Purchase of the property should be complete by mid-year. The facility will use petroleum coke as feedstock in producing hydrogen and carbon dioxide for industrial use. The project will bring 1,500 construction jobs and 250 permanent jobs. The new facility will produce zero emissions.

Three refinery expansions are at different phases in the Beaumont area. The TOTAL expansion is near completion and the start of production. The Motiva project, the largest of the three, is at its peak of construction and is expected to be completed in Q1 of 2012. The restarted Valero refinery expansion project is closer to the front end of the construction curve and will employ more than 1500 workers at its peak. Completion date for construction is projected to be in 2012. (Note: Valero postponed the project in June of 2009 due to the recession and resumed in summer of 2010.) Together these three projects roughly total \$10 billion worth of investment in Port Arthur and the surrounding area.

Moody's Analytics puts perspective on so much investment in one industry (refinery) in the area: "With the national recovery under way, refinery utilization has started to recover from its lows, making this kind of investment more palatable. With its location neighboring Houston and its relatively inexpensive costs, Beaumont is poised to further its reputation as an energy-centric metro area."

Eastman sold the methanol plant they purchased in Beaumont (formerly owned by Terra Industries). The sale includes a related ammonia tank and methanol terminal assets and a methanol pipeline. A Swiss-based firm, Pandora Methanol, bought the facility and will begin testing in April and consumer production in July of 2011.

The 2011 upbeat forecast for the chemical makers is good news for the Beaumont area chemical plants. The Association of Chemical Industry of Texas reports that executives in the industry expect a transition from recovery to strength in 2011, that chemical stocks are near pre-recession levels, and that the Dow Jones Chemicals index is at an all-time high. Kevin Swift, chief economist with the American Chemistry Council says, "There's increasing talk about a super-cycle in terms of profitability."

October 21, 2010 was an historic day in Southeast Texas. Golden Pass LNG received its first shipment of 7.5 million cubic feet of liquefied natural gas from Qatar. The facility has the capacity to store more than 27 million cubic feet and the ability to process and distribute 2 billion cubic feet per day – enough for 10 million households in the U.S. located between the Midwest and the East Coast. The next shipment should arrive in November, and the terminal is expected to be at full capacity within the first three months of 2011. Shipments should arrive every two to three days once the facility is operating at full capacity. The terminal is owned jointly by Qatar Petroleum, ExxonMobil and Conoco-Phillips and represents a \$2 billion investment. The facility will employ as many as 90 permanent workers.

OTHER REGIONAL ECONOMIC NEWS

Nationally known economist Ray Perryman recently completed an economic impact study for the Sabine-Neches Waterway improvement. A proposed \$1 billion channel improvement project that would update the design and deepen the waterway to 48 feet to accommodate larger ships would increase gross product output in Jefferson County by \$17.8 billion and create 21,517 jobs, according to the study. The favorable cost-benefit analysis of the study brings the project one step closer to reality.

Perryman also presented results of another recent study for the area on Lamar University which showed a \$310 million a year economic impact. At the unveiling of the results, Lamar President Dr. Jimmy Simmons announced three major initiatives of Lamar University to continue the growth and impact of the institute on the economy: a Ph.D. program in Energy Engineering, a Research and Commercialization Center, and a Center of Excellence in Energy Engineering.

A \$72 million class-action lawsuit against the Texas Windstorm Insurance Association was approved recently, finalizing the majority of roughly 2,600 Hurricane Ike slab cases. About 85% of the cases in the lawsuit represent Bolivar Peninsula homeowners. Payment started in December. Homeowners received as low as \$10,000 or as high as \$240,000, but the average was between \$50,000 to \$60,000 from the class-action lawsuit. This settlement should significantly boost the economy of the Bolivar Peninsula as well as Beaumont / Port Arthur / Orange area (primary living place of many of owners of the second-home beach houses.)

The Panama Canal Expansion Project, a \$5.25 billion undertaking funded in 2006, is scheduled for completion in 2014. Transpacific trade between Asia and the U.S. East Coast accounts for more than half of canal traffic. By 2020, post-Panamax ships (vessels larger than the current locks) are projected to comprise 30 percent of the global fleet. To attract this maritime trade, the canal seeks to double capacity by adding a third set of locks. The project also involves construction of approach lanes to the new locks and widening/deepening of the existing navigational channels. The canal is expanding so it can remain competitive, ensuring that Asia-U.S. East Coast trade routes do not shift west from Asia through the Suez Canal [in Egypt]. The fastest-growing market for Houston regional ports is East Asia, with total tonnage increasing more than 30 percent in the last three years. Steady growth is anticipated with the opening of the new locks. (Source: excerpts from Southwest Economy by Federal Reserve Bank of Dallas – Third Quarter 2010 – “Texas Well Positioned as Panama Canal Expands” – interview with retired U.S. Coast Guard Capt Bill Diehl) Note that three ports are in the region – Port of Beaumont, Port of Orange, and Port of Port Arthur.

CONSUMER CONFIDENCE

Nationally consumer confidence took a slight dip in December after reaching the highest level in five months in November. Indexes for the West South Central region which includes Texas, Louisiana, Arkansas, and Oklahoma continue to score very high as compared to other regions of the nation.

COST OF LIVING

In the third quarter of 2010, the cost of living in Beaumont was 4% below the average for all 314 places that completed their Cost of Living survey. Grocery costs were the biggest bargain for the Beaumont area. (Source: The Council for Community and Economic Research)

UNEMPLOYMENT CLAIMS

In the Beaumont MSA, initial unemployment claims decreased from 2728 in November to 2437 in December. Continued claims increased from 11,105 to 11,744. Compared to December of 2009, initial claims were up nearly 9.5%; however, continued claims were down by about 18%.

SALES TAX

Sales tax (collected in November of 2010 and distributed to taxing entities in January of 2011) for the larger cities in the area showed a 4.3% increase over November of 2009. Port Arthur and Kountze were showing the largest increases. While all this may sound encouraging, remember that the trough year of the recession began setting in the region in late 2009, so the comparison is being made to a “trough” month.

City	Nov-10	Nov-09	% change
Beaumont	\$2,524,447	\$2,483,262	1.7%
Port Arthur	\$1,007,144	\$844,834	19.2%
Orange (city)	\$266,767	\$293,306	-9.0%
Nederland	\$253,139	\$244,955	3.3%
Silsbee	\$192,376	\$180,612	6.5%
Lumberton	\$206,193	\$191,732	7.5%
Vidor	\$127,614	\$137,603	-7.3%
Port Neches	\$77,845	\$73,314	6.2%
Bridge City	\$89,452	\$86,913	2.9%
West Orange	\$79,242	\$81,206	-2.4%
Pinehurst	\$61,603	\$54,096	13.9%
Sour Lake	\$40,483	\$57,664	-29.8%
Kountze	\$27,551	\$22,165	24.3%

City Total \$4,953,855 \$4,751,663 4.3%

County	Nov-10	Nov-09	% change
Jefferson	\$1,659,003	\$1,729,050	-4.1%
Orange	\$283,655	\$221,397	28.1%

County Total \$1,942,657 \$1,950,447 -0.4%

City & County Totals \$6,896,512 \$6,702,110 2.9%

State of Texas

JOBS

The State of Texas produced 48% of all the new jobs in the country in the past year. Source: Texas Real Estate Center

OIL & NATURAL GAS

Natural gas and oil production tax collections combined are 86 % higher for the first four months of fiscal year 2011 compared to the same period in 2010. By contrast, fiscal 2010 oil and natural gas production tax collections combined were 24 % lower than collections in 2009. (Source: Texas Comptroller)

TEXAS vs. EPA

The State of Texas and the EPA have been in a battle over EPA's permitting related to greenhouse emissions such as carbon dioxide for new (not existing) industrial facilities. The implementation of the 2007 Clean Air Act rules issued by EPA was to begin in January. All other states except Texas are implementing the new rules, but Texas is refusing for their state agency (TCEQ – Texas Commission on Environmental Quality) to implement the new rules. EPA consequently intended to override TCEQ and run the permitting process in Texas. The battle landed in the court system and Texas has lost a third time - most recently in the U.S. Court of Appeals for the District of Columbia Circuit. The EPA held a hearing in Dallas last Friday to take public comments on its action in Texas and the comments were overwhelmingly against the State. The agency will take written comments until Feb. 14th.

TEXAS COMPETITIVENESS

The Beacon Hill Institute Tenth Annual State Competitiveness Report gave mixed results to Texas for 2010. Texas scored high on overall tax burden, employment in high-tech industries, venture capital, IPOs, exports, foreign direct investment and percent of population born abroad who come to work. Texas scored near the bottom in most human resources indexes (translate to workforce). Texas is ranked dead last among the 50 states in the percent of the adult population that graduated from high school and percent of population without health insurance. Other disadvantages for the state were rankings of 37th in percent of population enrolled in degree-granting institutions, 35th in academic R&D and 41st in science and engineering degrees awarded. The Beacon Hill Institute is billed as a leading free enterprise think tank and is based at Suffolk University in Boston.