



LUBBOCK NATIONAL BANK

Lubbock Economic Index

December/4th Quarter/Annual 2016

The Lubbock economy finished the year on a high note with the Lubbock Economic Index improving to a record 149.3 in December, up from 148.9 in November, and up 2.8% from the December 2014 LEI of 145.2. The pace of growth gained momentum in the final quarter of the year with a stout 5.4% annualized rate of increase in the fourth quarter. The pattern of general growth and expansion in the Lubbock economy as measured by the Lubbock Economic Index extended to 64 months with the December increase.

The housing and construction indicators powered index growth in 2016 with double-digit percentage increases in home building permits and record returns in home sales activity and construction. The rate of employment growth narrowed at year-end, and the unemployment rate slipped back above its year-ago level in December. General spending was down for the month, quarter, and the year as a whole, and auto spending was down for the year as well, but higher for the month of December.

CONCURRENT trends in two broad measures of the Lubbock economy best represent its current and ongoing health and status, and these are general consumer spending (retail sales) and payroll employment.

- General real (inflation-adjusted) taxable spending in Lubbock trended downward all year long, posting year-over-year declines in nine of the twelve months in 2016. December was no exception with spending per monthly sales tax receipts down by nearly 3% compared to December 2015, which in turn was down by over 8% compared to December of the prior year. Fourth quarter spending was essentially flat compared to 2015, and for the year as a whole real spending was off by 1.7% compared to the 2015 annual total. Again, spending weakness in Lubbock can very likely be attributed to a generally weaker regional economy, in large part the result of dramatically lower oil & gas activity across the area.
- The Lubbock economy continues to add jobs, but the rate of employment growth narrowed yet further in December falling to 1% for the month, the lowest rate of year-over-year employment growth in 2016. By comparison, employment growth averaged 3.1% in the second quarter of the year and 3% in the first half of the year. Still, Lubbock payroll employment is at its highest level ever, and the Lubbock unemployment rate has generally been at or near its historical low levels throughout 2016. The annual average of 3.4% is the lowest since 1999 (3.0%), though the December monthly unemployment rate moved back above its year-ago level at 3.2%.

Auto sales activity was down modestly in 2016 for the second straight year, with inflation-adjusted spending on new and used motor vehicles off by 3.4% compared to the 2015 annual total, which in turn was down by 2.5% compared to the prior year. In the five years leading up to 2015, however, real auto spending expanded by 74%, averaging nearly 15% per year. While auto spending has flattened and

retreated a bit in the last two years, auto sales growth was stratospheric in the preceding years and sales activity remains comparatively high.

Construction activity set a record in Lubbock in 2016 with the real value of all permits issued surpassing the previous record established in 2003, and outpacing the 2015 annual total by nearly 19%. The fourth quarter 2016 total was up by a stout 25% year-over-year, and was the second-highest fourth quarter total on record behind only the fourth quarter 2003.

Housing construction was historically strong in 2016. The city issued 1,188 new single-family housing construction permits over the year, the highest annual total since the 1,204 permits issued in 2006 and up by 34% compared to the 2015 permit total. And again, that marks the first time since 2006 that more than 1,000 permits were issued in a calendar year. The 361 permits issued in the fourth quarter 2016 represents an all-time fourth quarter record, and was double the total from the fourth quarter 2015. The December permit total exceeded 100 for the first time ever (for the month of December), and was well more than double the number of permits in December 2015.

Existing home sales also set a record in 2015 in terms of closed sales, prices, and the real (inflation-adjusted) total dollar volume of activity. The number of sales improved by about 3.8% in 2016 compared to the 2015 annual total, and fourth quarter sales (also a record) were up by over 10% year-over-year. The 2016 annual average price was a whopping 9.7% higher compared to 2015, and the fourth quarter average was up by 6.7%. Median prices increased as well, up by 8% on average for each month in 2016 compared to 2015.

The total real dollar volume of residential real estate sales activity set records for the month of December, the fourth quarter, and the year 2016, and was up by 11.7% for the year compared to the 2015 annual total. Fourth quarter inflation-adjusted sales activity was up by over 15%, while December posted a 6.5% year-over-year increase.

The South Plains cotton crop is going to be a big one for the 2016 crop year. The 3.7 million bales ginned through December is the second-highest running total through December since at least 1996 (when data collection began for the Lubbock Economic Index analysis), down only compared to the 4.3 million bales ginned through December 2010.

Regional economic weakness took its toll on the spending indicators in 2016 and the rate of employment growth slowed in the second half of the year. However, other segments of the Lubbock economy certainly picked up the slack and continued to push the Lubbock Economic Index upward throughout 2016. Those segments may well moderate in 2017 compared to the strong rates of growth in 2016; however, oil price recovery couldn't have come along at a better time, and should begin to bring some healing to the regional economy, which will hopefully show up in the Lubbock metro area economy in the form of general spending recovery.

The Texas Workforce Commission will issue revised data for Lubbock and other Texas metro areas in early March, and set the benchmarks for monthly employment data estimates moving forward. At that time, we will close the books on 2016 and issue a general forecast for the coming year. At this point, however, there is little reason to suspect the Lubbock economy will not be a growth economy yet again in 2017.

Lubbock Consumer Price Index

The rate of year-over-year increase in the Lubbock Consumer Price Index increased in December, rising to 1.8% for the month compared to 1.6% in October and November. The CPI rate of change began to fall in March 2015 largely due to falling energy prices and bottomed out at 1.2% in March 2016 before beginning to post modest increases through the end of the year. Food and grocery prices remained on the decline through year-end, but housing, energy, and medical care costs began to push the Lubbock CPI upward, particularly in the second half of the year.

The rate of year-over-year price increase in the food/grocery sector of the Lubbock CPI fell to 0 in December, meaning the December CPI value was unchanged from December 2015 to December 2016. That's down from an increase of .1% in November. In December of a year ago the rate of year-over-year change was 2.1%, and declined all throughout 2016.

Housing prices increased in 2016 however, with the Lubbock housing CPI posting a 5.0% year-over-year increase in December, up from 4.9% in November.

The energy (fuels and utilities) sector of the Lubbock CPI moved back into positive year-over-year territory for the first time since June 2015, increasing to .2% in December, compared to -8% in November.

The medical care component of the Lubbock CPI was unchanged from November to December at 3.6%. The US national health care CPI increased at a 4.1% year-over-year rate in December, while the US southern regional medical care CPI rose at a 4.6% rate.

The rate of year-over-year price increase for various miscellaneous goods and services in Lubbock rose slightly to .5% in December compared to .4% in November.

The national CPI-U (the US Consumer Price Index, a broad measure of price change over time) increased at a 2.1% annual rate in December, compared to 1.7% in November. The "core CPI", the Consumer Price Index minus food and energy, posted a 2.2% rate of year-over-year growth in December compared to 2.1% in November.

The CPI for the southern region of the US (which includes Texas) jumped up in December to 2.0% compared to 1.6% in November.

The Dallas-Fort Worth metro area CPI was last updated in November and increased to 2.4% compared to 2.0% in September (and 1.3% in July). The Houston metro area CPI was newly updated in December and the rate of increase was up significantly at 2.3% compared to 1.7% in October. The Dallas-Fort Worth and Houston metro area CPI values are calculated every other month on off months from one another.

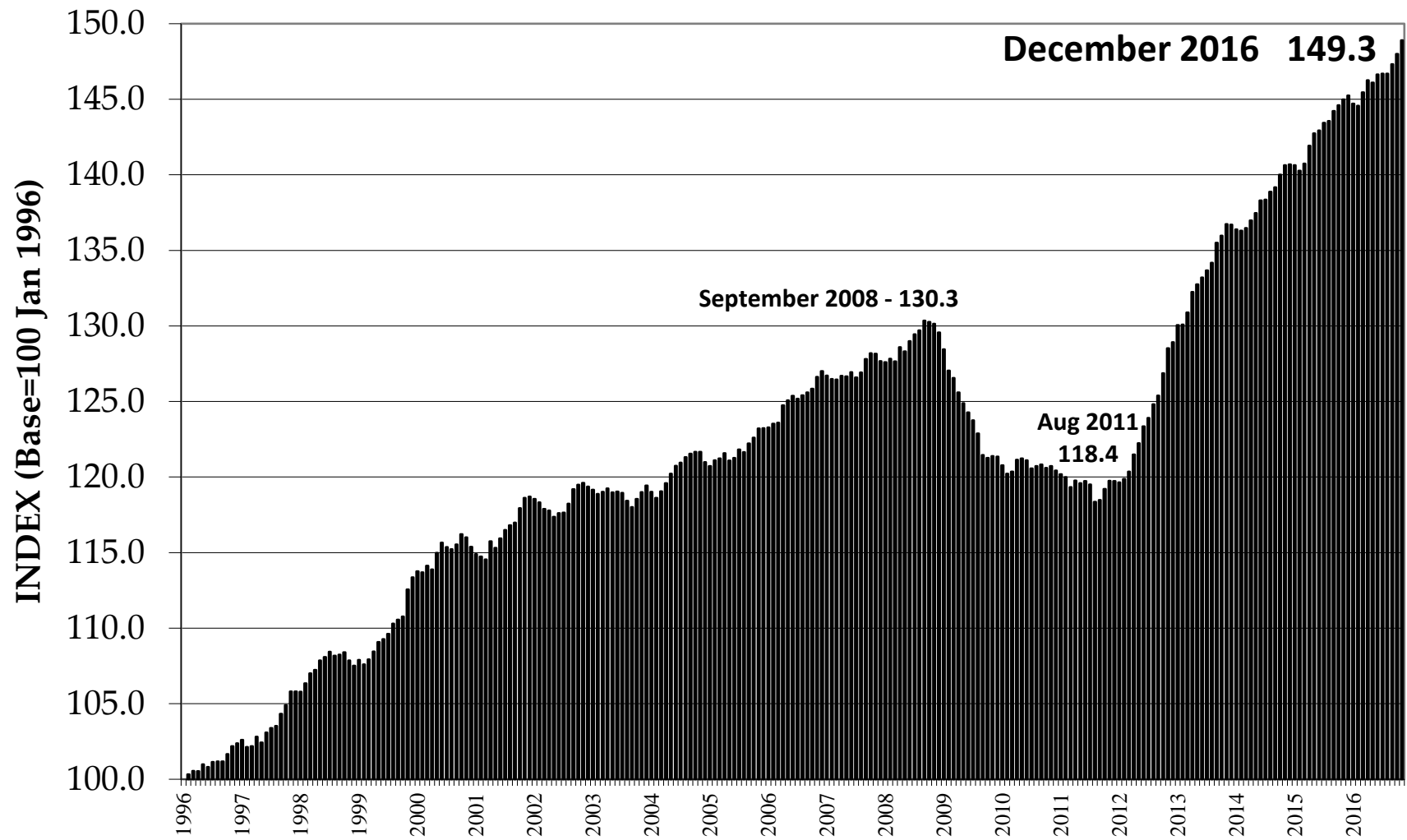
The Lubbock Metro Area Economy

The Lubbock Economic Index

Lubbock Economic Indicators* December/4th Quarter 2016	Base Year 1996	One Year Ago 2015	This Year 2016	% Change 2015-2016
Retail Sales - December	\$ 247,553,300	\$ 344,062,916	\$ 334,044,535	-2.9%
Retail Sales - 4th Quarter	\$ 752,959,612	\$ 1,106,834,283	\$ 1,106,012,616	-0.1%
Retail Sales - Annual	\$ 3,084,441,566	\$ 4,485,551,246	\$ 4,409,722,137	-1.7%
Dollars Spent on Auto Purchases - December	\$ 34,746,738	\$ 53,830,553	\$ 60,924,540	13.2%
Dollars Spent on Auto Purchases - 4th Qtr	\$ 101,220,559	\$ 191,467,524	\$ 184,204,893	-3.8%
Dollars Spent on Auto Purchases - Annual	\$ 446,296,524	\$ 817,289,682	\$ 789,547,584	-3.4%
Hotel/Motel Spending - Annual	\$ 46,232,132	\$ 97,149,820	\$ 100,437,930	3.4%
Lubbock International Airport Passenger Enplanements - December	53,056	38,195	40,310	5.5%
Lubbock International Airport Passenger Enplanements - 4th Qtr	161,267	121,968	124,078	1.7%
Lubbock International Airport Passenger Enplanements - Annual	615,023	462,798	465,731	0.6%
Value All Construction Permits - December	\$ 16,962,575	\$ 46,126,548	\$ 34,658,880	-24.9%
Value All Construction Permits - 4th Qtr	\$ 54,986,655	\$ 132,915,025	\$ 166,207,257	25.0%
Value All Construction Permits - Annual	\$ 284,450,645	\$ 644,720,976	\$ 766,802,917	18.9%
New Home Permits - December	51	50	108	116.0%
New Home Permits - 4th Qtr	123	181	361	99.4%
New Home Permits - Annual	571	887	1,188	33.9%
Number of Home Sales - December	152	310	309	-0.3%
Number of Home Sales - 4th Qtr	480	778	857	10.2%
Number of Home Sales - Annual	2,111	3,984	4,135	3.8%
Average Home Sale Price - December	\$ 93,687	\$ 168,846	\$ 183,745	8.8%
Average Home Sale Price - 4th Qtr	\$ 84,013	\$ 172,444	\$ 184,061	6.7%
Average Home Sale Price - Annual	\$ 85,771	\$ 168,261	\$ 184,535	9.7%
Dollar Volume Residential Real Estate Sales - December	\$ 22,166,211	\$ 53,336,609	\$ 56,777,343	6.5%
Dollar Volume Residential Real Estate Sales - 4th Qtr	\$ 62,943,204	\$ 136,921,372	\$ 158,021,639	15.4%
Dollar Volume Residential Real Estate Sales - Annual	\$ 286,200,056	\$ 689,219,808	\$ 769,973,659	11.7%
Employment				
Wage and Salary Employment - December	112,800	143,300	144,700	1.0%
Wage and Salary Employment - 4th Qtr Avg	112,600	142,765	144,565	1.3%
Wage and Salary Employment - Annual Avg	110,685	140,325	143,600	2.3%
Unemployment Rate - December	3.3%	3.1%	3.2%	3.2%
Unemployment Rate - 4th Qtr Avg	3.4%	3.3%	3.1%	-4.1%
Unemployment Rate - Annual Avg	4.1%	3.5%	3.4%	-1.9%
LUBBOCK ECONOMIC INDEX - DECEMBER (Base=100 January 1996)	102.4	145.2	149.3	2.8%
* With the exception of the average home sale price, all indicators expressed in dollar form above are adjusted for inflation by restating prior periods in current dollars				
Oil and Gas (Regional)				
Oil Price/Barrel - December (Posted WT Int. Crude)	\$ 23.37	\$ 33.77	\$ 48.69	44.2%
Rig Count (Texas RRC District 8A) - December	19	14	17	21.4%
Crude Oil Production (Texas RRC District 8A) - December	148,220	105,197	100,795	-4.2%
Value of Oil Production (Texas RRC District 8A) - December	\$ 3,027,315	\$ 4,773,168	\$ 4,004,782	-16.1%
Agriculture (Regional)				
Cotton Price (West Texas, cents/pound) - December	69.83	59.64	68.87	15.5%
Cotton - Bales Ginned Crop Year - Texas South Plains	2,495,400	3,031,700	3,702,050	22.1%
Fat Cattle Price (\$/hd. Wt.) - December	\$ 66.27	\$ 124.98	\$ 113.95	-8.8%
Value Cattle Marketed (\$000's) - December	\$ 308,460	\$ 365,864	\$ 372,645	1.9%

The Lubbock Economy

The Lubbock Economic Index January 1996 - December 2016



The Lubbock Economy

The Lubbock Economic Index 2011 - 2016

