



LUBBOCK NATIONAL BANK

Lubbock Economic Index And Consumer Price Index September 2016

After remaining flat from July to August, the Lubbock Economic Index pressed upward again in September to a new record 147.3, up from 146.7 in August, and up 2.2% from the September 2015 LEI of 144.2. That increase moves the Lubbock economy into its sixth year of post-recession expansion after reaching the five-year mark in August. The pace of third quarter growth slowed a bit, with the Lubbock Economic Index increasing at a 1.9% annualized pace over the course of the quarter.

The spending indicators continued to come under some downward pressure in the third quarter, and home sales were flat to slightly lower as well. The price of those sales was sharply higher, however, and total construction and home building enjoyed a strong quarterly performance as well. The city continues to add jobs, though the rate of year-over-year growth narrowed in September. The unemployment rate remains higher compared to its year-ago level, but on balance remains low relative to most of the history of the Lubbock Economic Index, which is based at 100.0 in January 1996.

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 per third quarter sales tax receipts was down by about 1.9% compared to the third quarter of a year ago; spending per the September sales tax data was off by over 6% year-over-year. For the year-to-date, real taxable spending continues to run slightly behind year-ago levels, posting a 2.2% decline compared to the first nine months of 2015.
- The 1.8% rate of year-over-year employment growth is the smallest margin of increase thus far in 2016, and reflects the addition of 2,500 jobs over the last 12 months. Employment growth averaged 2% in the third quarter, which is down from the 3.0% and 3.1% rates of employment growth in the first and second quarters, respectively. The September rate of growth is in the mid-range of Texas metro areas, ranking 13th among the 26 Texas Metropolitan Statistical Areas. Dallas-Plano-Irving tops the list at 4.2%. Lubbock boasts the third-lowest unemployment rate, however, at 3.6%; that is up compared to the 3.4% unemployment rate recorded in September of a year ago.

Auto sales activity continues its decline for the second straight year. The monthly, quarterly, and year-to-date real auto spending numbers are all down compared to year-ago levels. Through September, auto sales activity is off by about 3.3% compared to the total through September of a year ago, which in turn was down by 3.1% compared to the first nine months of a year ago. Third quarter auto spending was down by close to 4%, and the September monthly total was down by even more, posting a 6.9% year-



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over-year decline. Again, though, auto sales growth was phenomenal in the years leading up to 2015, including three straight years of double-digit percentage growth 2012-2014.

Building permit activity in the third quarter was up by nearly 18% compared to the third quarter of a year ago, and in fact was the second-highest quarterly total on record behind only the first quarter of this year, which smashed the prior record for inflation-adjusted permit valuations. These are an extraordinary couple of years in terms of construction in Lubbock. A new record for permit valuations was established in 2015, and that record is quite likely to be broken in 2016. Through September, the real building permit total is up by nearly 14% compared to the total through September of a year ago, which in turn was up by 27% compared to the January-September total from the previous year.

New single-family housing construction is not at an all-time record level, but the 827 permits issued thus far in 2016 is the highest in ten years (and is up by 17% compared to the total through September of a year ago). The number of permits issued in the third quarter is up by a whopping 20%, and the September monthly total posted a 23% year-over-year increase.

Third quarter existing home sales were down just slightly compared to the record (for the third quarter) sales total from 2015, and the same is true for the month of September. Through the first nine months of the year, the number of closed sales is up by a modest 2.2%, but that represents a new record for the January-September time frame. The average price of those sales continues to soar, up by close to 11% in September, 13.8% in the third quarter, and over 10% through September compared to the first nine months of a year ago. The aggregate measure of residential real estate activity – the inflation-adjusted total dollar volume of housing sales – remains deep in record territory, of course, up by nearly 11% for both the third quarter and the year-to-date through September.

Crude oil prices have recovered since bottoming out in February of this year, which should begin to help stabilize the regional economy and the observable impacts across the region and to the Lubbock economy, particularly with regard to the spending indicators. Additionally, it appears as though the state of Texas is going to avoid slipping into recession in 2016 (this was an open question in late 2015 and early 2016) as a result of declining oil & gas activity statewide, and both of these phenomena point to continued expansion in the Lubbock economy to close out the year 2016.



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Lubbock Consumer Price Index

The rate of year-over-year increase in the Lubbock Consumer Price Index moved upward again in September to 1.5%, compared to 1.4% in August (and 1.3% for each month April-July). Housing and medical care continue to provide the upward pressure on the Lubbock CPI, while food and grocery price increases are still very much in check and energy remains in actual negative territory.

The rate of year-over-year price increase in the food/grocery sector of the Lubbock CPI declined again in September, dipping to .5% down from .6% in August and 2.4% in September of a year ago.

Lubbock housing price increases continue to press the housing sector of the Lubbock CPI higher, which now stands at 4.6% in September, up from 4.4% in August.

Again making the distinction between components that are higher compared to year-ago levels but by a smaller margin, and those that are actually below last year's level (meaning the aggregate prices that make up that sector of the CPI are lower than they were a year ago), the energy sector of the Lubbock CPI is -2.1% in September, compared to -2.4% in August. And obviously the driving force behind that actual year-to-year decline is gasoline prices that remain below year-ago levels.

Medical care cost increases are finally being reflected in the Consumer Price Index, not just in Lubbock but elsewhere. The Lubbock CPI health care sector registered a 3.9% year-over-year change in September, up from 3.8% in August (and 2.5% in September of a year ago). At the US national level, the medical care CPI increased at a 4.9% rate in September. In the southern region of the US, the rate of medical care cost increases shot upward to 5.3% in August and September, compared to 3.9% in July.

The rate of year-over-year price increase for various miscellaneous goods and services in Lubbock was unchanged from August to September at a slight .5%.

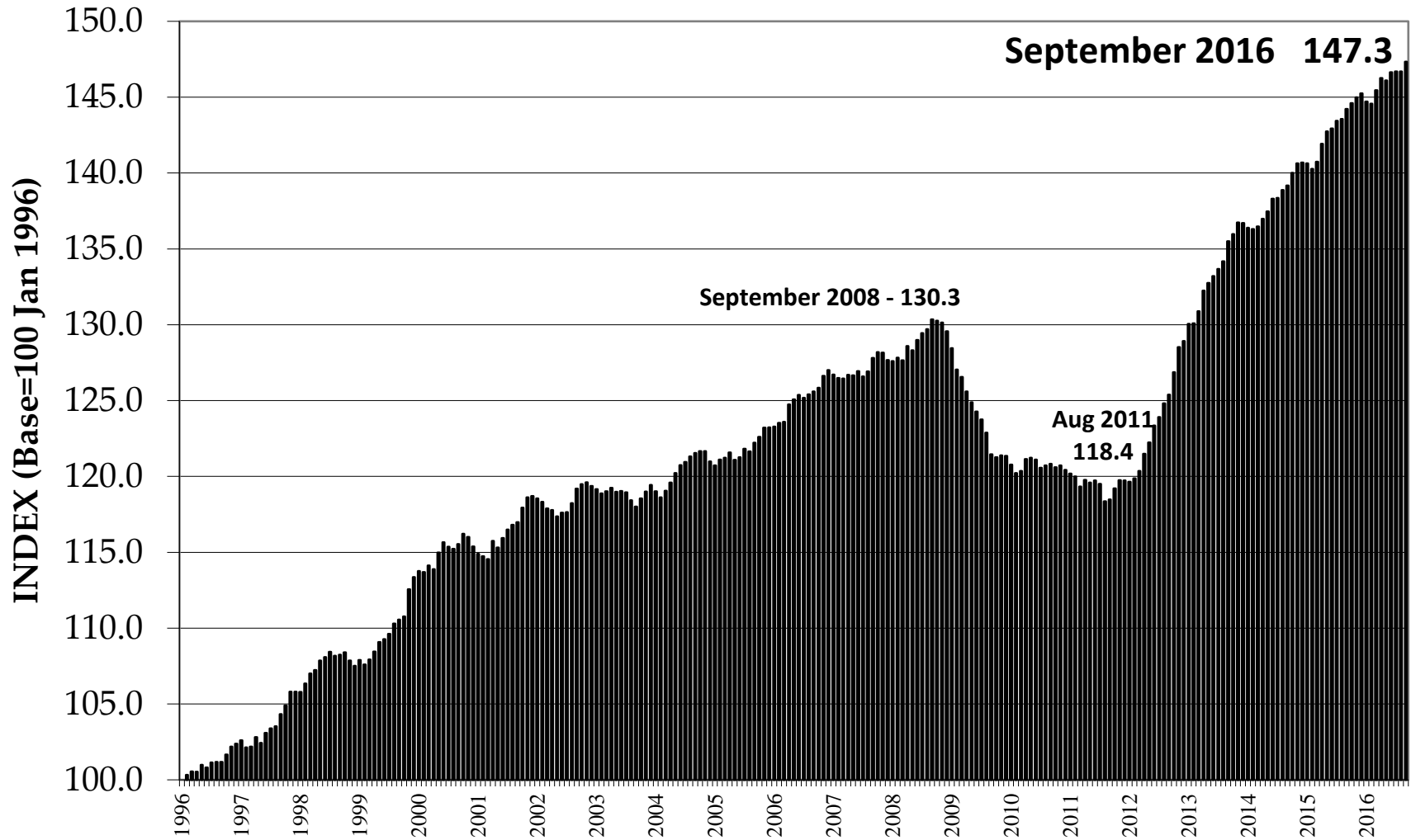
The national CPI-U (the US Consumer Price Index, a broad measure of price change over time) rose at a 1.5% annual rate in September, up from 1.1% in August; and again, that is up from a .8% rate of increase in July. The "core CPI", the Consumer Price Index minus food and energy, increased at a rate of 2.2% in September, compared to 2.3% in August.

The CPI for the southern region of the US (which includes Texas) increased again in September, rising to 1.4% for the month compared to 1.1% in August.

The Dallas-Fort Worth metro area CPI was newly updated in September and posted a year-over-year increase of 2.0%, up sharply from the 1.3% rate of change in July. The Houston metro area CPI was last updated in August and dropped significantly, falling to .9% for the month compared to a 1.6% rate of year-over-year increase in June. The Dallas-Fort Worth and Houston metro area CPI values are calculated every other month on off months from one another.

The Lubbock Economy

The Lubbock Economic Index January 1996 - September 2016



The Lubbock Metro Area Economy

The Lubbock Economic Index

Lubbock Economic Indicators* September/3rd Quarter 2016	Base Year 1996	One Year Ago 2015	This Year 2016	% Change 2015-2016
Retail Sales - September	\$ 246,917,691	\$ 347,890,227	\$ 326,132,530	-6.3%
Retail Sales - 3rd Quarter	\$ 748,734,433	\$ 1,098,713,474	\$ 1,077,567,903	-1.9%
Retail Sales - Year-To-Date	\$ 2,317,353,101	\$ 3,358,241,834	\$ 3,283,688,679	-2.2%
Dollars Spent on Auto Purchases - September	\$ 35,850,084	\$ 74,328,562	\$ 69,214,996	-6.9%
Dollars Spent on Auto Purchases - 3rd Qtr	\$ 118,914,167	\$ 216,003,345	\$ 207,666,453	-3.9%
Dollars Spent on Auto Purchases YTD	\$ 343,950,799	\$ 623,781,584	\$ 603,368,893	-3.3%
Hotel/Motel Spending - YTD Through September	\$ 31,296,125	\$ 71,594,643	\$ 73,797,759	3.1%
Lubbock International Airport Passenger Enplanements - September	53,196	39,328	39,846	1.3%
Lubbock International Airport Passenger Enplanements - 3rd Qtr	155,182	119,601	116,161	-2.9%
Lubbock International Airport Passenger Enplanements - YTD	294,773	340,830	341,653	0.2%
Value All Construction Permits - September	\$ 23,471,669	\$ 47,037,928	\$ 63,350,276	34.7%
Value All Construction Permits - 3rd Qtr	\$ 97,572,698	\$ 146,025,132	\$ 177,030,666	21.2%
Value All Construction Permits - YTD	\$ 228,875,495	\$ 510,493,349	\$ 599,073,990	17.4%
New Home Permits - September	55	91	112	23.1%
New Home Permits - 3rd Qtr	158	238	308	29.4%
New Home Permits - YTD	325	706	827	17.1%
Number of Home Sales - September	195	342	336	-1.8%
Number of Home Sales - 3rd Qtr	607	1,197	1,188	-0.8%
Number of Home Sales - YTD	1,024	3,206	3,278	2.2%
Average Home Sale Price - September	\$ 94,003	\$ 169,231	\$ 187,259	10.7%
Average Home Sale Price - 3rd Qtr	\$ 90,208	\$ 168,570	\$ 191,863	13.8%
Average Home Sale Price - YTD	\$ 86,404	\$ 167,246	\$ 184,658	10.4%
Dollar Volume Residential Real Estate Sales - September	\$ 22,921,060	\$ 58,954,213	\$ 62,918,936	6.7%
Dollar Volume Residential Real Estate Sales - 3rd Qtr	\$ 81,820,516	\$ 205,890,558	\$ 228,353,164	10.9%
Dollar Volume Residential Real Estate Sales - YTD	\$ 222,060,954	\$ 549,339,992	\$ 608,674,036	10.8%
Employment				
Wage and Salary Employment - September	111,400	141,300	143,800	1.8%
Wage and Salary Employment - 3rd Qtr Avg	110,435	140,465	143,335	2.0%
Wage and Salary Employment - YTD Avg	110,045	139,510	143,290	2.7%
Unemployment Rate - September	3.6%	3.4%	3.6%	5.9%
Unemployment Rate - 3rd Qtr Avg	4.2%	3.7%	3.8%	4.5%
Unemployment Rate - YTD Avg	4.3%	3.5%	3.5%	-1.3%
LUBBOCK ECONOMIC INDEX - SEPTEMBER (Base=100 January 1996)	101.2	144.2	147.3	2.2%

* 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 - September (Posted WT Int. Crude)	\$ 22.23	\$ 41.91	\$ 41.48	-1.0%
Rig Count (Texas RRC District 8A) - September	16	17	14	-17.6%
Crude Oil Production (Texas RRC District 8A) - September	111,534	79,234	76,421	-3.6%
Value of Oil Production (Texas RRC District 8A) - September	\$ 1,956,597	\$ 3,768,737	\$ 2,890,814	-23.3%

Agriculture (Regional)

Cotton Price (West Texas, cents/pound) - September	72.53	58.14	66.75	14.8%
Fat Cattle Price (\$/hd. Wt.) - September	\$ 71.09	\$ 135.01	\$ 106.03	-21.5%
Value Cattle Marketed (\$000's) - September	\$ 219,965	\$ 271,624	\$ 271,866	0.1%