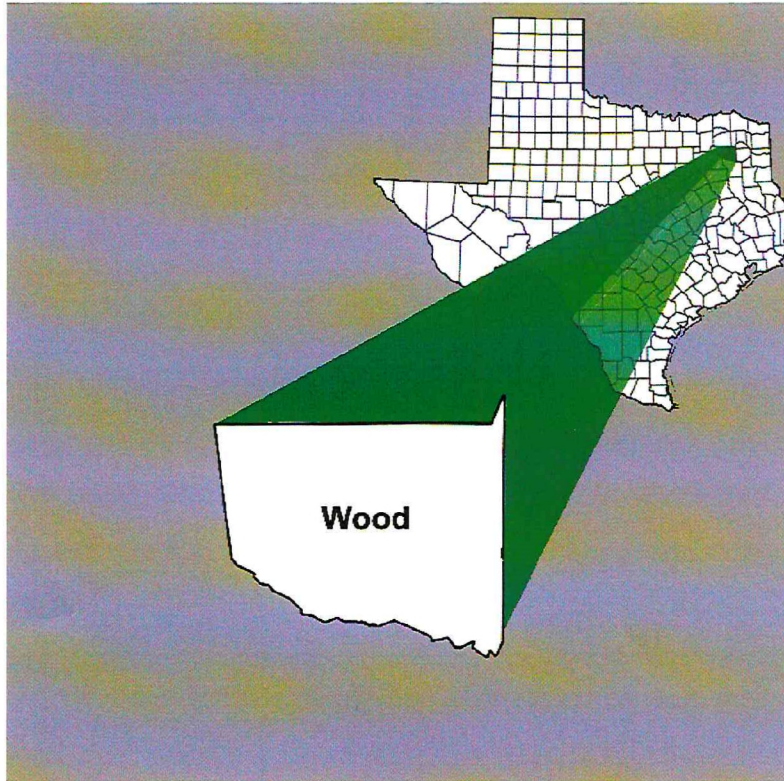
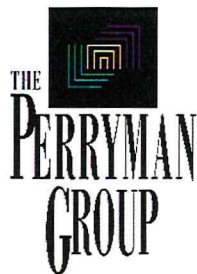


The Economic Outlook for the US, Texas, and Wood County 2015-2020



May 19, 2016





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2015-2020

To download an Appendix with further forecast detail, methodology, and explanation of terms, see <http://www.perrymangroup.com/STForecast/2015WC.pdf>. Follow us on twitter: @PerrymanGroup.

The latest US Bureau of Labor Statistics data indicate that total nonfarm payroll employment increased by 160,000 in April, and the unemployment rate was unchanged at 5.0% Professional and business services, health care,

Continued improvement in the US job market is expected, setting the stage for better conditions.

and financial activities experienced particularly notable gains, while losses continued in the mining sector.

Although the economy has been expanding, long-term unemployment (defined as persons jobless for 27 weeks

or more) has remained persistently high at 2.1 million. The problem of long-term unemployment has been stubbornly persistent since the Great Recession, and the workforce participation rate remains low by historical standards. The number of persons employed part time for economic reasons (sometimes referred to as involuntary part-time workers) was at 6.0 million in April and has shown little movement since November. Over time, continued improvement in the US job market is expected, setting the stage for better conditions.

Federal Reserve Actions

The Federal Open Market Committee is indicating gradual adjustments in monetary policy will likely continue, given the Committee's expectations that "economic activity will expand at a moderate pace and labor market indicators will continue to strengthen." In its March meeting, the Committee noted that "global economic and financial developments continue to pose risks," but the most recent policy statement (late April) removed that reference, indicating some easing in this regard.

On balance, it appears that the federal funds rate will remain relatively low and increase gradually unless new data leads to a change in policy.

International concerns, such as instability and slowing of economic growth in China, are also a factor which could delay future increases. The economy should be able to maintain forward momentum even with modestly increasing interest rates.

Infrastructure Issues

One challenge to future US economic performance is aging physical infrastructure. The American Society of Civil Engineers estimates that to address these problems would require an investment of \$3.6 trillion by 2020.

The essential issue is that much of America's infrastructure dates to spending decades ago, during the Great Depression or the 1950s and 1960s (when most of the interstate highway system was originally constructed). Since that time, population and economic growth have greatly enhanced the need for infrastructure, but investments have not kept pace. In fact, public infrastructure spending as a share of GDP is far lower in the United States than in many other nations, and is about half the European level. Roadway congestion costs billions in lost time and fuel each year, and nearly one fourth of US bridges are considered structurally deficient or functionally obsolete.

Another area of infrastructure (not covered by the survey) which is often overlooked but has the potential to dampen US economic performance over time is the nation's courts system. Delays in filling vacancies in the Federal courts and the failure to expand the number of judgeships

One challenge to future US economic performance is aging physical infrastructure.



to keep pace with increases in the population and the level and sophistication of production processes are compromising the essential framework for social progress and prosperity. Investing in judicial infrastructure can not only improve quality of life, but also enhance future prosperity by reducing uncertainties and time required to resolve business disputes. Without additional judges, the current difficulties in a number of districts around the country will only become worse in the future, with caseloads rising, judges increasingly overworked, criminal and civil cases delayed, and people and businesses unable to resolve disputes in a predictable manner and in a reasonable amount of time.

International and Terrorism Issues

The past few months have seen little relief (and, in fact, some escalation) in tension in several regions. A major escalation of military conflicts could affect global economies and US economic performance. In addition, the current refugee crisis could strain social service networks across much of Europe. Even the major Volkswagen emissions scandal could affect performance of the German economy, with fallout across the

European Union and beyond. Greece remains severely challenged by debt levels, and several other nations have the potential for crisis in the next few years. Any of these situations could slow expansion.

The slowing of the Chinese economy is also affecting global conditions. Not only is China one of the world's largest economies, it is also a major trading partner for the United States. As it has become clear (despite data deficiencies) that growth is slowing, concerns have arisen. Add to that a sharp drop in the Chinese stock market, and those qualms have escalated. Chinese policymakers have been attempting to deal with situations that must be corrected (such as debt, a bubble in the stock market earlier this year, real estate imbalances, troubled loan portfolios in major banks, and currency exchange issues), and policies have caused some disruptions.

Nonetheless, the most likely outcome at this point appears to be slower growth in the Chinese

Major escalation of military conflicts could affect global economies and US economic performance.

Outlook for US Economic Indicators 2015 - 2020				
Key Indicator	2015 Level	Projected 2020 Level	Projected Growth Rate*	Projected Increase
Real Gross Product*	\$16.355 trillion	\$19.113 trillion	3.17%	\$2.757 trillion
Population	321.354 million	333.216 million	0.73%	11.862 million
Employment*	141.882 million	154.194 million	1.68%	12.312 million
Real Personal Income*	\$13.933 trillion	\$16.127 trillion	2.97%	\$2.194 trillion
Industrial Production Index*	119.921	139.662	3.09%	19.741
Consumer Price Index*	112.15	124.51	2.11%	12.36
Interest Rates*	2.69%	3.95%	N/A	N/A

*Compound Annual Growth Rate, meaning that it reflects changes in the base from which growth is calculated. Real Gross Product is computed in 2009 dollars, and Real Personal Income by place of residence, in 2009 dollars. Employment is civilian non-agricultural employment. Industrial Production and Consumer Price Indices are given such that 2009 = 100. Interest rates for long-term, 20-year bonds. See the Appendices for further information.



economy than in the past, but still overall expansion at a healthy, sustainable rate. In addition, a recent meeting of the International Monetary Fund was characterized by decreased concern among participants about the Chinese economy. While work remains to be done, policies to stabilize the economy and encourage sustainable growth appear to be working, and global fears have eased to some extent.

Forecast for the US Economy

The Perryman Group's latest projections call for compound annual growth in real gross product (RGP) of 3.17% through 2020, a gain of almost \$2.8 trillion. Employment growth of 1.68% per year over the period is forecast, for a total increase in employment of more than 12.3 million.

Outlook for Texas

Most of the major indicators signal that Texas is continuing to expand at a reasonable rate in spite of retrenching in the energy sector. Even with the end of the oil surge (at least for now), the state continues to add jobs at a modest pace, with a gain of 185,000 jobs over the 12 months ended in March. The pattern has been uneven, however, with losses in some months. In March, for example, statewide employment declined by 12,000. The Texas unemployment rate has been at or below the national rate for years, and continues to be at levels generally consistent with full employment.

Oil Price Turnaround

Oil prices remain low due to the oversupply of oil in the market (along with exchange rate movements, sluggish global performance, and global geo-politics), and many difficulties line the road ahead. World production of petroleum exceeded consumption by an average of 1.7 million barrels per day in 2015, and the production surplus is expected to continue as sanctions against Iran are eased and the country increases its oil exports.

The recent decision to allow crude oil exports will also lessen the domestic oversupply, but near-term effects will be minimal. Moreover, there is no doubt that OPEC members and other major producing nations are feeling the economic pinch of lower prices.

However, despite recent attempts by Saudi Arabia and non-OPEC Russia to coordinate a production cap, there is major disagreement among OPEC members over the lower oil prices, especially as member countries are affected differently according to how dependent their national economies are on oil exports.

Furthermore, tension from the Syrian conflict is aggravating OPEC relationships. Moreover, the recent fires in Canada and logistical issues in other countries are working to diminish the surplus and foster some upward movement in short-term prices.

As long as supply exceeds demand, there will be downward pressure on prices. The prospect of Iranian supplies coming on to the market is a short-term issue, although markets are well aware of the situation. Nevertheless, oil prices remain below the sustainable long-term equilibrium level, and it is highly unlikely that they will stay in that range for an extended period of time.

The mounting pressure caused by the low oil prices will eventually result in some type of international agreement, though the politics of the situation cause difficulty in pinning down the exact timeline.

However, there are signs that the energy industry is likely near the bottom in terms of layoffs, and there are signs that the oversupply in the market may be reduced or eliminated within the year. At that time, prices will likely begin to reach levels sufficient to encourage production.

Oil prices remain below the sustainable long-term equilibrium level, and it is highly unlikely that they will stay in that range for an extended period of time.



Workforce Preparedness

In order for the Texas economy to continue to grow, the state's workforce must be prepared for the jobs of the future. Businesses cannot function without quality workers, and, if Texas falls short in this area, economic development will be stifled. At the same time, individuals without marketable skills will find it increasingly difficult to find and keep quality jobs.

The state currently lags the nation in both the percentage of residents 25 and older with high school diplomas (81.6% in Texas and 86.3% for the US) and bachelor's degrees or higher (27.1% in Texas and 29.3% in the US). Worse, the gap is larger among younger age groups, indicating Texas will likely fall further behind if the pattern doesn't change. The Texas Higher Education Coordinating Board's strategic plan includes the overarching goal that at least 60% of Texans ages 25-34 will have a certificate or degree by 2030. The plan is focused on getting more students through school with marketable skills and manageable debt, and progress in this area is critical to future economic growth.

While educational attainment is a primary aspect of being prepared for a job, there are other considerations. Business leaders often define preparedness in terms of personal traits or work ethic, and indicate that "soft skills" (such as integrity, professionalism, positive attitude, and communications) are as important as "hard

skills" (such as tangible, technical proficiency). Although characteristics such as integrity and attitude are difficult to teach, it is possible to make young people more aware of the high importance business leaders place on those attributes. It is also possible to explore additional ways businesses can work with educators (both higher education and K-12) to help young people be better prepared. Internships, part-time jobs, shadowing opportunities, and mentoring can all be invaluable experiences for students.

Ensuring that young people are receiving the knowledge and skills they need benefits individuals, companies, and the economy as a whole. Workforce preparedness is a multi-faceted challenge, but the stakes are high and successful efforts are essential to ongoing prosperity.

Texas Key Economic Indicators

The Perryman Group's most recent short-term forecast indicates the Texas economy is likely to continue to outpace the US rate of growth. Real gross product is forecast to expand at a 4.15% rate of growth through 2020, representing total expansion of \$347.1 billion. More than 1.3 million net new jobs are forecast to be added over the next five years, a 2.12% compound annual rate of growth. The expansion will tend to be concentrated in the later years of the forecast horizon as energy markets return to more normal and sustainable patterns.

Outlook for Texas Economic Indicators 2015 - 2020

Key Indicator	2015 Level	Projected 2020 Level	Projected Growth Rate*	Projected Increase
Real Gross Product*	\$1.539 trillion	\$1.886 trillion	4.15%	\$347.101 billion
Population	27.006 million	29.187 million	1.57%	2.181 million
Wage & Salary Employment	12.361 million	13.729 million	2.12%	1.368 million
Real Personal Income*	\$1.173 trillion	\$1.484 trillion	4.81%	\$310.818 billion
Real Retail Sales*	\$425.356 billion	\$538.630 billion	4.84%	\$113.274 billion
Housing Permits	167,916	185,147	1.97%	17,231

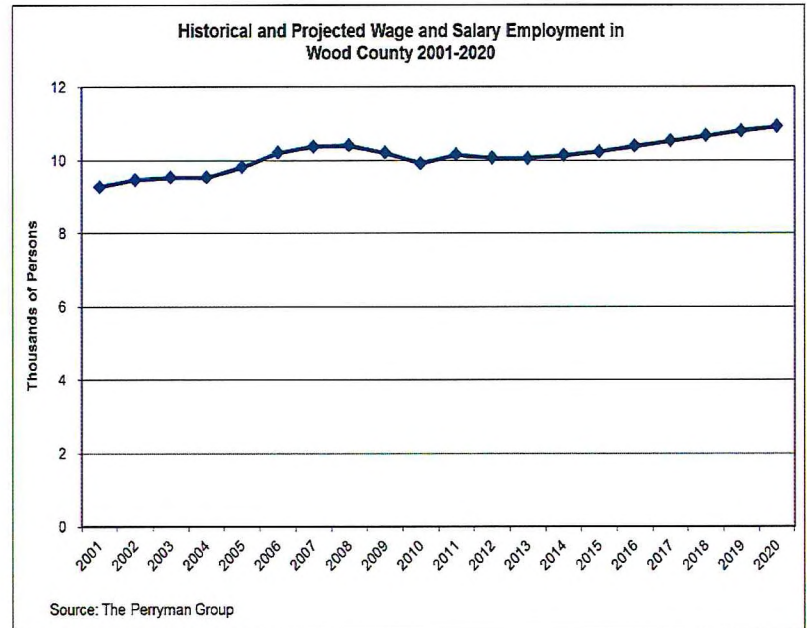
*Compound Annual Growth Rate, meaning that it reflects changes in the base from which growth is calculated. Real Gross Product and Real Retail Sales are computed in 2009 dollars. Real Personal Income by place of residence, in 2009 dollars. See the Appendices for further information.



Wood County Overview

Although Wood County experienced notable job losses during the Great Recession, the past few years have seen significant growth in the overall job market. Even so, the area has not yet reached pre-recession employment totals. The Perryman Group's projections

Wood County output (real gross product) is projected to expand by \$153.3 million by 2020, reaching \$962.6 million (a 3.53% annual rate of growth).



indicate that the county will surpass and exceed the prior peak within the next few years.

3.53% annual rate of growth).

Some 683 net new jobs are expected to be added over the next five years, a 1.30% compound annual rate of growth. The population in the county is forecast to increase by 1,839 to reach 44,437 by 2020.

Wood County Key Economic Indicators

The Perryman Group's short-term forecast for Wood County indicates continued moderate growth over the next five years. Output (real gross product) is projected to expand by \$153.3 million by 2020, reaching \$962.6 million (a

Economic Outlook for Wood County 2015 - 2020				
Key Indicator	2015 Level	Projected 2020 Level	Projected Growth Rate*	Projected Increase
Real Gross Product*	\$809.265 million	\$962.559 million	3.53%	\$153.293 million
Population	42,598	44,437	0.85%	1,839
Wage & Salary Employment	10,233	10,916	1.30%	683
Real Personal Income*	\$1.460 billion	\$1.769 billion	3.91%	\$308.605 million
Real Retail Sales*	\$383.069 million	\$471.766 million	4.25%	\$88.698 million

*Compound Annual Growth Rate, meaning that it reflects changes in the base from which growth is calculated. Real Gross Product and Real Retail Sales are computed in 2009 dollars. Real Personal Income by place of residence, in 2009 dollars. 'Projected Increase' may differ from the difference of the table values due to rounding. See the Appendices for further information.

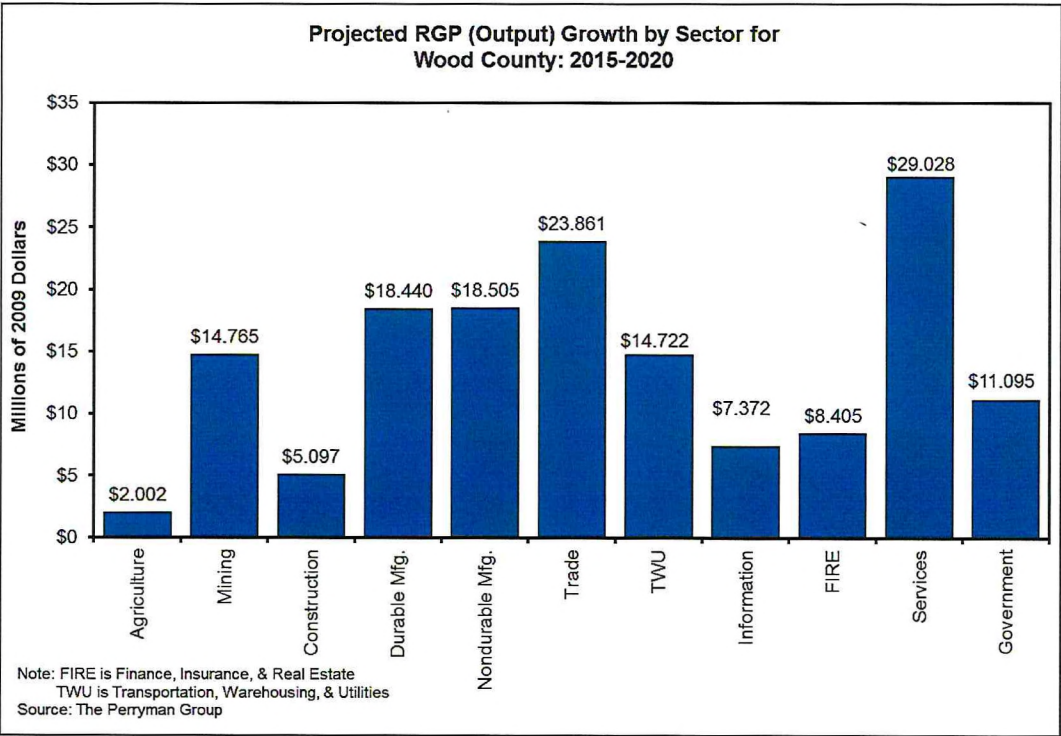
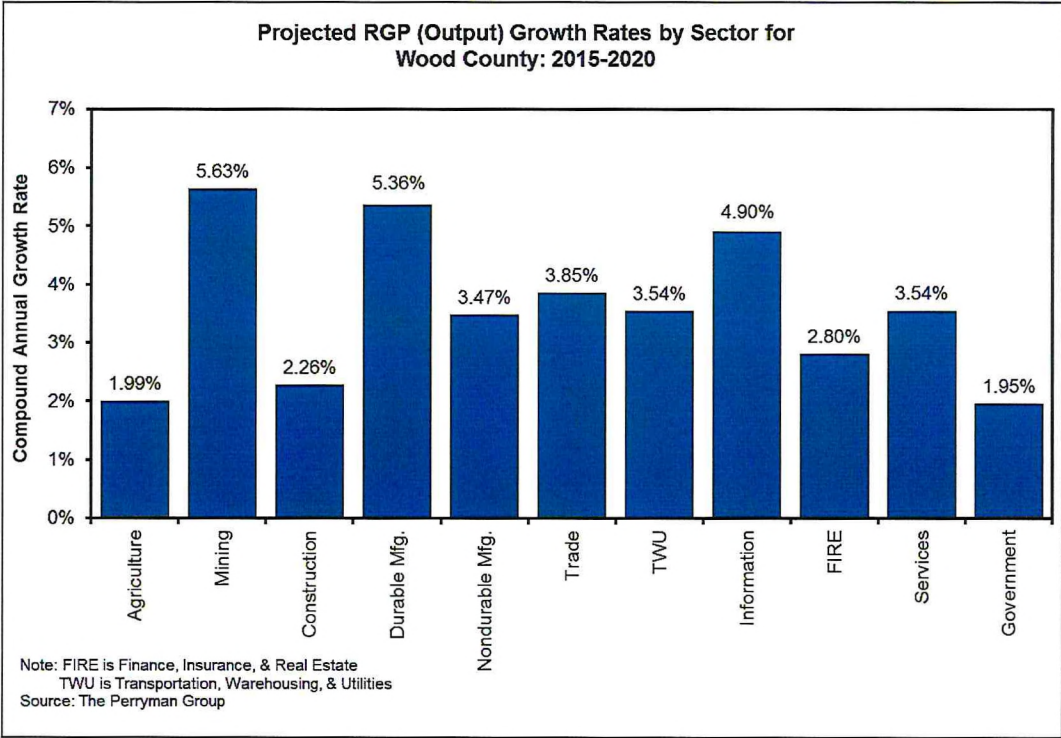


Wood County Output Growth by Sector

Output is projected to expand in all industrial sectors over the next five years. The fastest growth rates are expected in the area's small mining (which will expand as the industry recovers) and durable manufacturing sectors as well as information and services.

The services and trade sectors are projected to be the largest contributors to output (RGP) growth in Wood County over the next five years.

Given its large size relative to other sectors, the services segment will be the largest contributor to output growth over the period, with a projected gain of more than \$29.0 million. The wholesale and retail trade industry group is expected to contribute nearly \$23.9 million to overall output growth in Wood County.



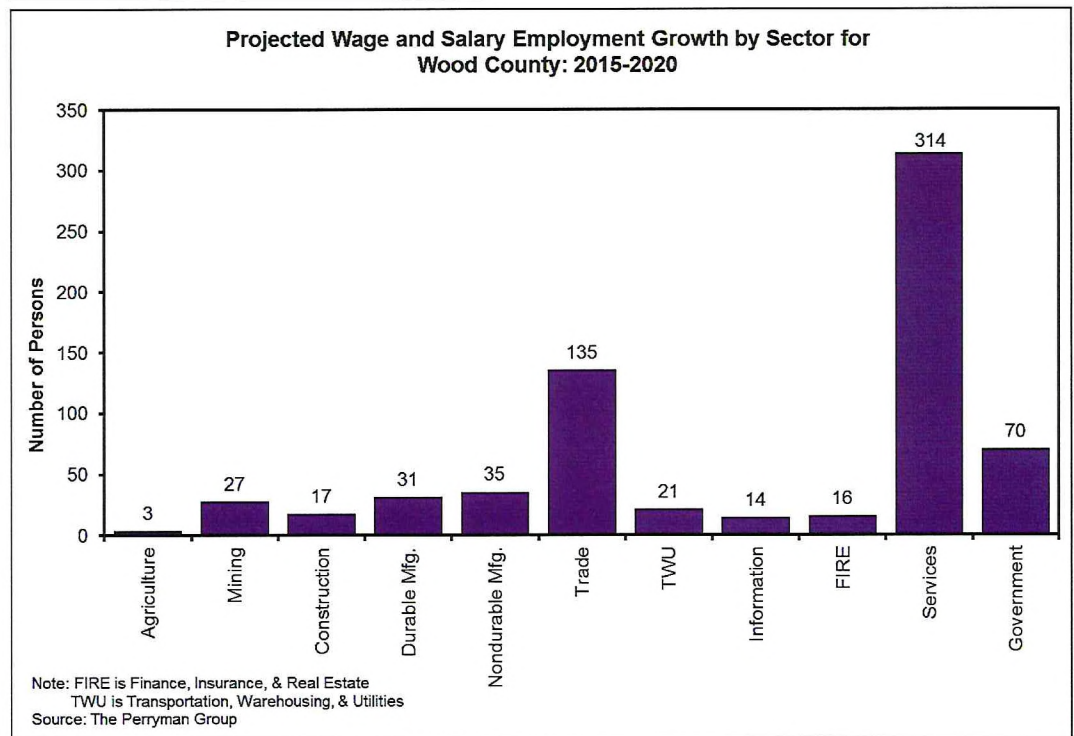
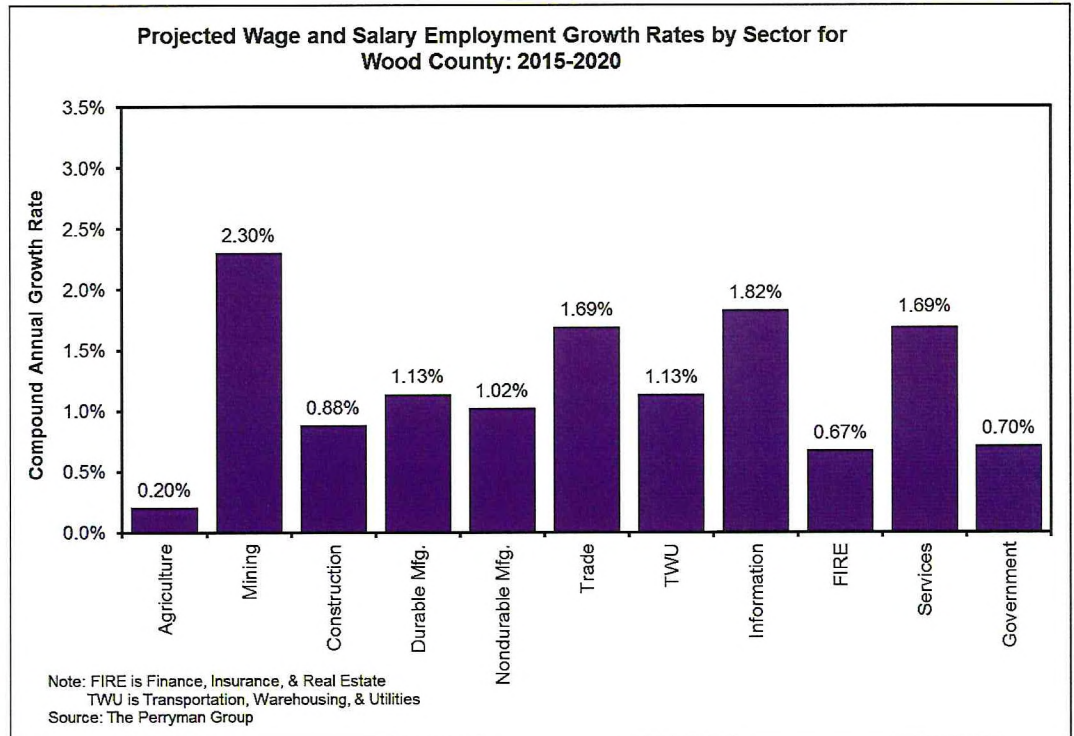
Wood County Employment Growth by Sector

Employment growth is projected to be strongest in the services sector and is expected to generate the most hiring, with gains of an estimated 314 net new jobs over the next five years. The trade sector is forecast to provide an additional 135 jobs by 2020.

Employment growth will be concentrated also in the services and trade sectors.

Conclusion

All major industry groups in Wood County are forecast to expand through 2020. Although business cycles are inevitable, the area is projected to see ongoing moderate economic growth over the next five years and beyond.



For more than 30 years, The Perryman Group has met the challenges of thousands of clients through a systematic approach and a level of performance that assures a consistent standard of excellence. The firm has been involved in scores of major events shaping the economic landscape, from crucial corporate locations to landmark legislation to important regulatory policies to notable judicial decisions. TPG's practice areas include economic modeling and forecasting, litigation and regulatory support, business valuation, economic development and strategic planning, and impact assessment. The firm also provides market and industry analysis, statistical modeling and analysis, economic forecasts, survey and demographic studies, economic statistics, research and information, and feasibility studies and business plans, as well as speeches, presentations, conferences, and other appearances.

