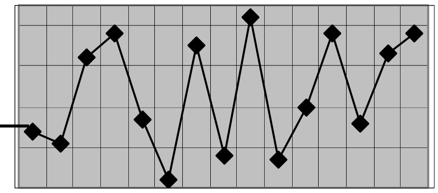
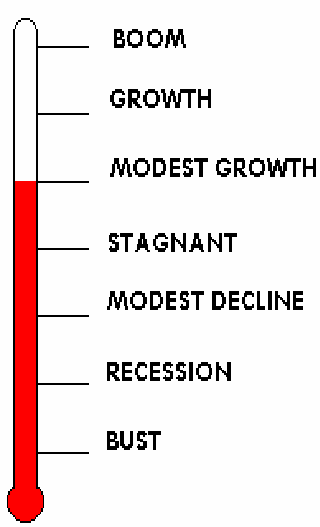
DATABook-Houston keeping you connected & up-to-date with economic developments



DATABook Highlights

KEY STATISTICS	RECENT CHANGE	COMMENTS
Real Private Nonresidential Fixed Investment - Chained 2000 Dollars - **Page 60**	Business investment for the second quarter was 10.76% higher than the second quarter of 2003. This marks the fifth consecutive quarter of positive annual growth in real investment.	Investment growth at annual rates over 10% the last three quarters, sets the bases for real recovery and economic expansion. Look for modest improvements in the goods producing and other employment sectors as firms begin utilizing their new capital equipment.
U.S. Real Retail & Food Services Sales - Deflated Using the Consumer Price Index (1982-84=100) - **Page 62**	This measure indicates that consumer spending has slowed over the last three months. Compared with the average amount of spending for May-July 2003, the 3-month rolling average annual growth rate in July fell to 4.39% from 6.18% in April.	Consumer spending will not be nearly the driving force as in a typical recovery. Besides slow income growth and high energy prices diminishing real incomes, the refinancing boom is over and home equity will no longer be a major factor in financing more consumer spending.
U.S. Index of Leading Economic Indicators, Seasonally Adjusted 1996 = 100 - **Page 64**	After increasing an average of .454 each month since April 2003 and attaining a value of 116.4 in May 2004, the index of leading economic indicators declined to 116.0 in July.	Combined with the decline in consumer spending, high energy prices and concerns over Iraq or new major terrorist attacks have caused a real summer slowdown. However, with energy prices easing and investment increasing, expect modest economic growth over the next 12 months.

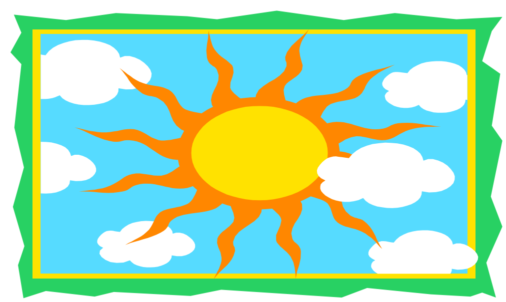
CURRENT CONDITIONS



The slowdown in the recovery this summer is not an aberration. In fact, it was expected and built into our forecasts of last November and this May. All along we have said that consumer spending would be modest and sporadic because consumers exhausted most of their resources keeping the economy afloat during the recession years.

The majority of the growth in the U.S. economy will be stimulated by growth in government spending, business investment, and exports. Houston has slowed down also, but right now has the added advantage of some increased activity in upstream energy.

SHORT-RUN FORECAST



Improving Trends

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