

Regional Economic Update

February 2010

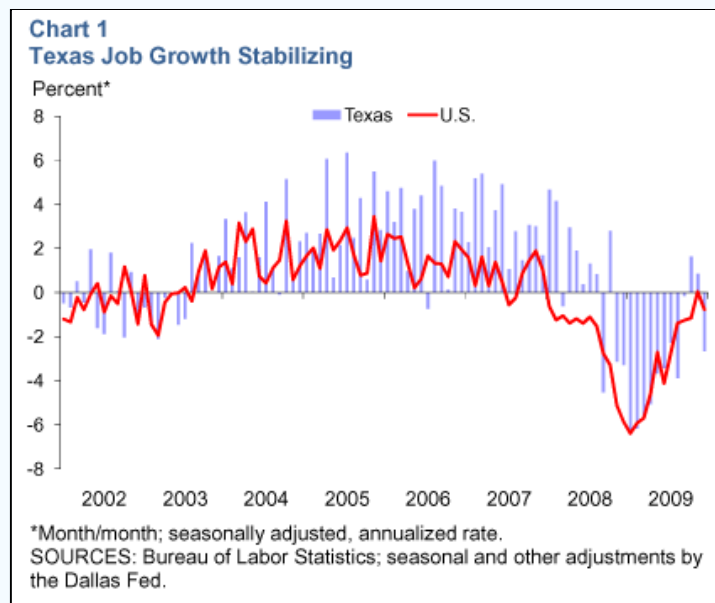
Regional Data Support Signs of Recovery

Continuing improvement in the regional economy supports the prospects of a mild recovery. Notably, Texas real GDP increased at a 3.3 percent annualized pace in the third quarter. In addition, total nonfarm employment increased in both October and November and fell slightly in December. Overall, from September to December, jobs were essentially unchanged.

Employment

Recent employment data indicate that the Texas economy is beginning to recover but at a tepid pace. The improvement, along with the data substantiating it, is unlikely to follow a smooth upward trend. The latest nonfarm employment figures highlight the ongoing headwinds. After increasing in both October and November, employment dropped 0.2 percent in December or 2.7 percent on an annualized basis (*Chart 1*).

Private employment also declined, falling 0.3 percent in December after rising 0.1 percent in November. In comparison, both U.S. nonfarm employment and private payrolls declined 0.1 percent in December.

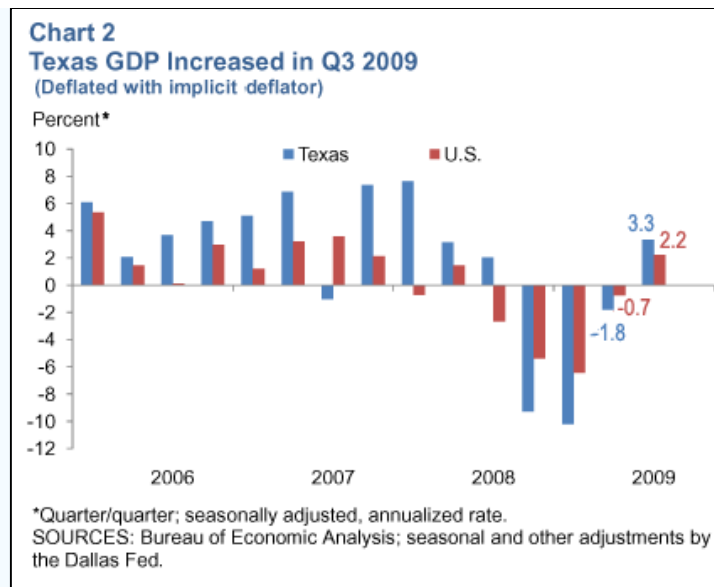


Over the course of the year, Texas payrolls declined by 3.1 percent—shedding 329,400 jobs; U.S. employment dropped by the same amount, 3.1 percent, over the same period.

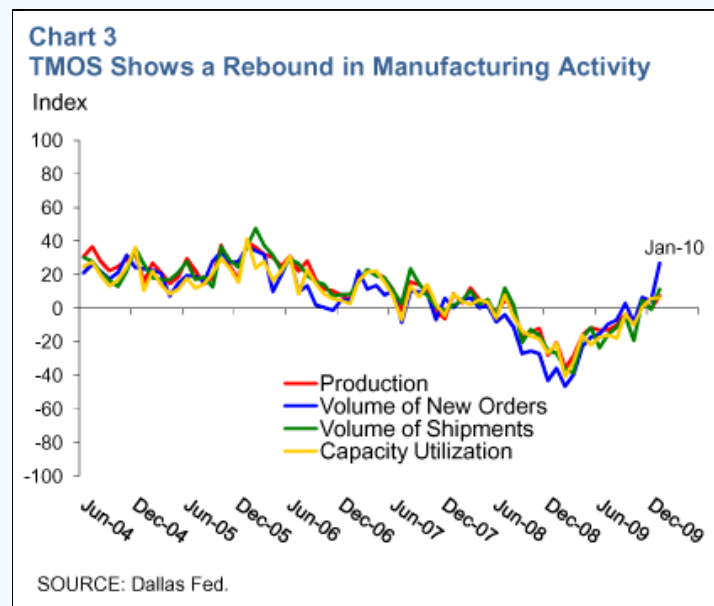
The Texas unemployment rate rose slightly in December to 8.3 from 8 percent, but remains below the national rate of 10 percent.

Output

Texas real GDP grew at a 3.3 percent annualized rate in the third quarter after declining 1.8 percent in the second quarter (*Chart 2*). This was the first increase after three consecutive quarters of decline and bested the nation's 2.2 percent growth.



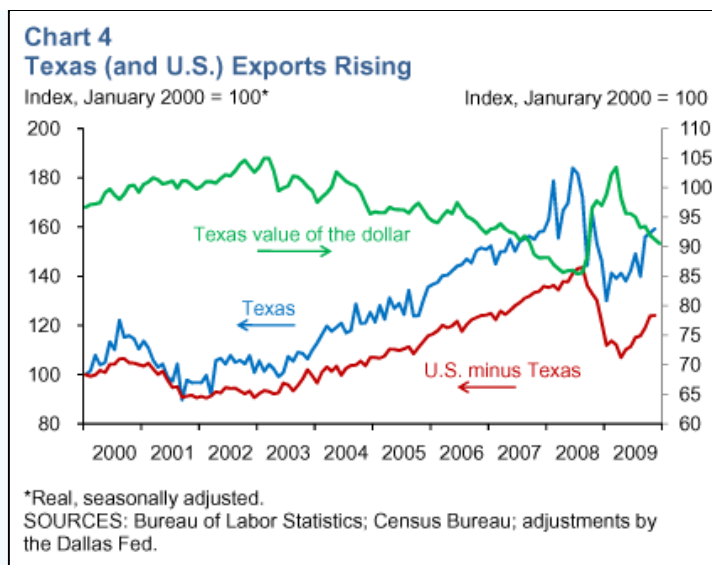
The manufacturing industry has risen off its lows and is poised for modest expansion, according to the Texas Manufacturing Outlook Survey (TMOS)(Chart 3). The majority of respondents expect increases in production, new orders and shipments in the next six months. The future company outlook measure is now at its highest level in almost three years.



Exports

Real Texas exports are also providing support to the Texas economy. Exports increased 1.1 percent in November to their highest level in over a year and surged 12 percent since June (Chart 4). U.S. exports excluding Texas rose only 0.1 percent in November.

Maquiladora activity in Juarez continues to improve, driving an increase in border traffic and demand for exports. The dollar remains relatively weak compared with the currencies of Texas' trading partners, helping to make our exports more attractive.

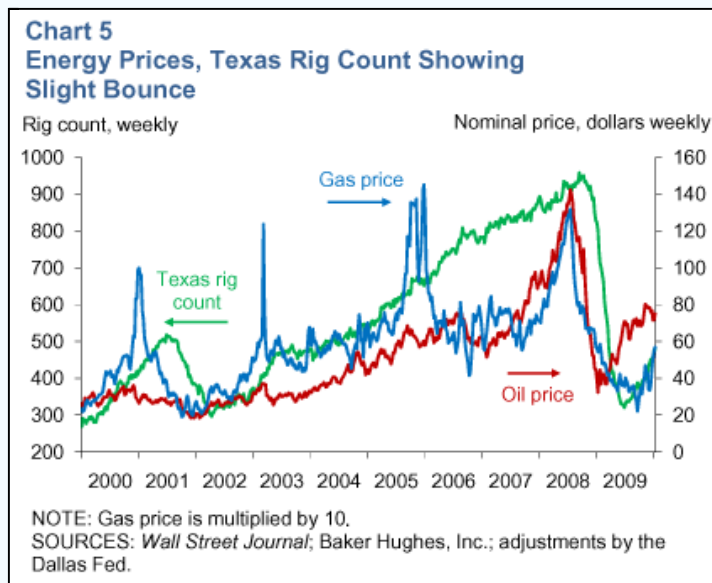


Energy

The energy sector continues to stabilize after the large declines of 2009. The rig count has now redeployed approximately one quarter of the total rigs idled since 2008, though it is still about 50 percent below the high reached in August 2008 (*Chart 5*). Oil and gas extraction employment has increased from recent lows as well, partly driven by improving oil and natural gas prices as compared with earlier in 2009.

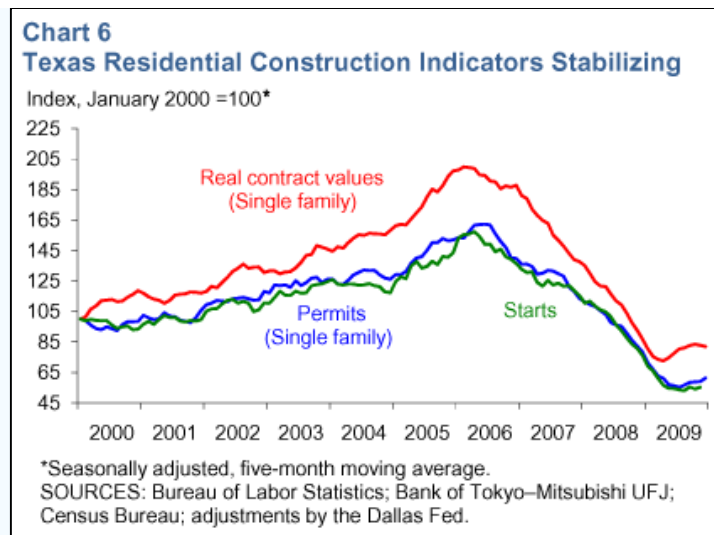
Oil prices have ticked down recently as market participants reevaluate the strength of the economic recovery. West Texas Intermediate averaged almost \$77 per barrel in the week ending January 22, slightly below the \$80 per barrel average from the week prior, but substantially higher than the year-ago level of \$37.

Gas prices have held fairly steady recently after rising in late December due to cold weather across the U.S. Prices were just above \$5.50 per million Btu for the week of January 22, well above the year-ago price of \$4.80.



Housing

Residential building activity appears to be stabilizing as single-family permits and contract values have leveled off (*Chart 6*). The share of mortgage loans delinquent greater than 90 days continues to rise, however, suggesting foreclosures will continue to increase in the coming quarters—potentially suppressing new home starts. Repeat sales home prices climbed in both the second and third quarter, though, showing the market is gradually improving.



Outlook

The Texas Leading Index of economic indicators rose 2.1 percent in November, the largest gain since it jumped 2.2 percent in July. Historically, the Leading Index has strengthened sharply as Texas emerged from recession.

Taking into account the most recent leading index data and the December employment figures, the Dallas Fed employment forecast suggests Texas job growth may come in between 1 and 2 percent in 2010.

—Keith R. Phillips and Jackson Thies

About the Authors

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