



Region Continues to See Broad-Based Improvement

June 25, 2010

The regional economy continues to grow at a moderate pace. Payroll employment growth has strengthened in Texas, and the unemployment rate has stabilized more than a percentage point below the U.S. rate. Manufacturing and other sectors that fared poorly during the recession show increasing signs of life.

Labor Market

Texas payroll employment has rebounded in recent months, growing at annual rates of 3.6 percent in April and 4.1 percent in May (*Chart 1*).

Consistent with a broad-based if somewhat tepid economic recovery, all of Texas' major metro areas recorded similar employment upticks. The strongest growth occurred in El Paso, where employment expanded at a 6.3 percent annual rate in May. Houston (5.2 percent) and Dallas–Fort Worth (3.9 percent) also performed well.

The state unemployment rate was stable in April and May at 8.3 percent, a level slightly above 1991–92 recessionary highs (*Chart 2*).

Texas manufacturing employment is rebounding strongly. It rose an annualized 3.2 percent in April and 7.7 percent in May after declining almost 6 percent in 2009. Of all manufacturing subsectors, the machinery and fabricated metal industries recorded the most impressive growth.

Service-sector employment has also improved in recent months. It rose 2.4 percent in April and 3.2 percent in May. Subsectors showing exceptionally strong growth in May include leisure and hospitality and professional and business services.

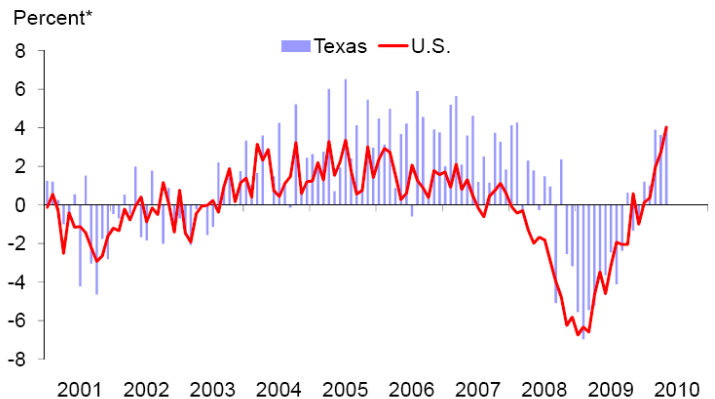
Construction and Real Estate

Construction employment is on the rise, increasing at annual rates of 18.2 percent in April and 0.9 percent in May. This contrasts with declines of 7.8 percent over the previous quarter and 9.1 percent over the previous year.

Texas housing starts jumped in the first quarter, up almost 60 percent from last year in Dallas–Fort Worth alone—though the question remains whether these numbers can be sustained following the April expiration of the homebuyer tax credits.

Construction contract values suggest that building activity is recovering. Residential construction has fared the best, but the five-month moving average of nonresidential contract values also climbed in May, the first such uptick since September 2009 (*Chart 3*).

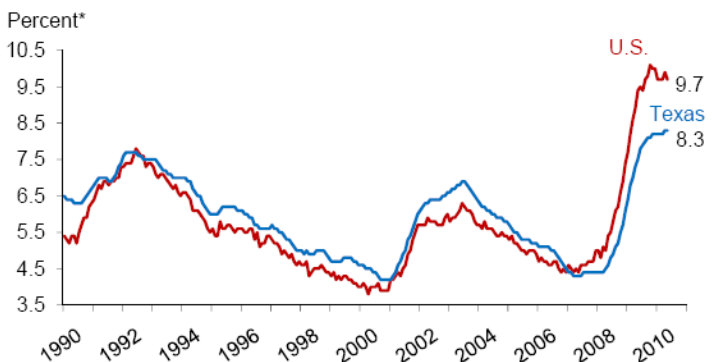
Chart 1
Nonfarm Employment Rises in Texas



*Month/month; seasonally adjusted, annualized rate.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 2
Texas Unemployment Ticks Up, Remains Below U.S. Rate



*Seasonally adjusted.

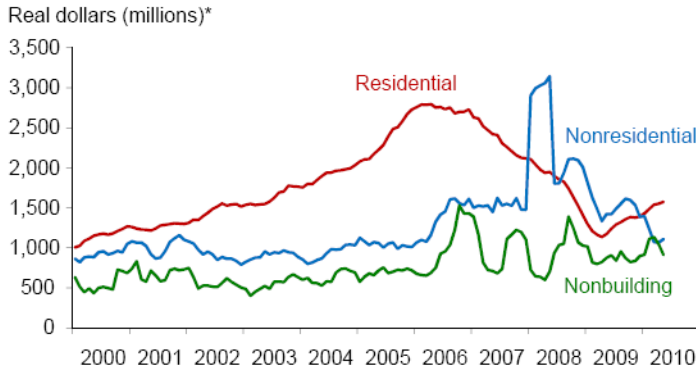
SOURCES: Bureau of Labor Statistics; seasonal adjustments by the Federal Reserve Bank of Dallas.

On the real estate front, existing-home sales spiked in April in conjunction with the expiring homebuyer tax credits, but the less volatile six-month moving average remained essentially flat.

Energy

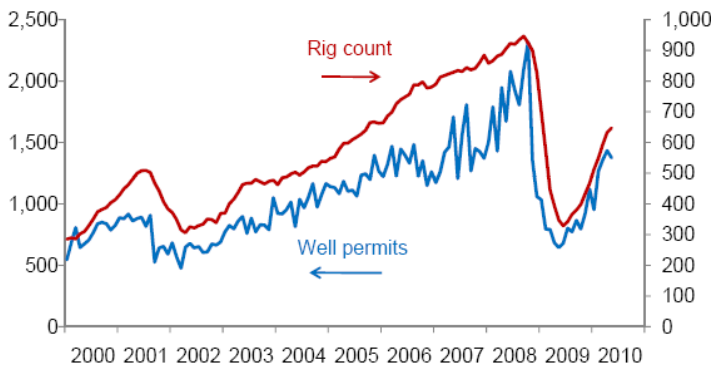
Natural resource and mining payroll employment continues its rapid ascent, rising at annual rates of 21.3 percent in April and 38.5 percent in May. Recent dramatic increases in well

Chart 3
Contract Values Mixed, but Residential
Continues to Rise



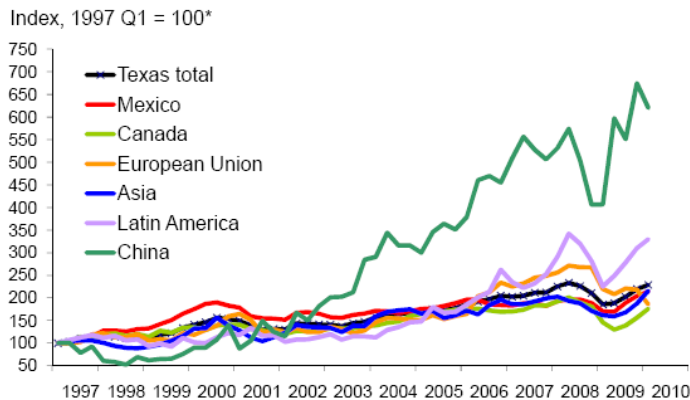
*Seasonally adjusted; five-month moving average
 SOURCES: Census Bureau; F.W. Dodge; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 4
Well Permit Applications, Rig Count Soar



SOURCES: Texas Railroad Commission; Baker Hughes Inc.

Chart 5
Real Texas Exports Strengthen Except to
China, E.U.



*Real dollars, seasonally adjusted.
 NOTES: Latin America excludes Mexico; Asia excludes China. The European Union is composed of 27 nations.
 SOURCES: WISER Trade; Census Bureau; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

permit applications and the rig count reinforce the energy sector's health over the last several months, with applications climbing 22.7 percent year to date and the rig count up 38.7 percent (*Chart 4*). However, applications decreased in May amid lingering uncertainty about how the recent Deepwater Horizon explosion will affect sector activity going forward.

Exports

Texas exports increased at nonannualized rates of 3.1 percent in March and 0.5 percent in April. First-quarter breakdowns suggest exports to Latin America, Mexico, Canada and Asia (excluding China) remained robust while exports to China and the European Union dipped 8 percent and 14.8 percent, respectively (*Chart 5*).

Retail Sales and Consumer Confidence

Estimated retail sales rose at a 7.7 percent annualized rate in March, roughly in line with national trends. Consumer confidence picked up as well, rising to 79.6 in the West South Central census region, which includes Texas. This is the highest level since September of 2008.

Moderate Expansion

The Texas economy continues to expand at a moderate pace. Encouraging signs are present in the manufacturing, energy, construction and retail sectors.

The Texas Leading Index, a composite of eight indicators that tend to change direction before the economy does, rose for the third consecutive month in May and hit its highest value in almost two years (*Chart 6*). This is consistent with continued moderate expansion over the near term.

—Mike Nicholson and Jason Saving

About the Authors

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Chart 6
Texas Leading Index Continues to Climb



SOURCE: Federal Reserve Bank of Dallas.