



Regional Economy Moves Forward

January 28, 2011

Texas' economy continues to expand at a moderate pace, with some notable acceleration in the final weeks of 2010 and early 2011. Payroll employment continues to grow as indicators increasingly point to an improved labor market in 2011. The energy sector remains strong, and while construction and housing activity are only now beginning to stabilize, hard-hit sectors such as manufacturing are increasing current and planned future production levels. The Federal Reserve Bank of Dallas' Texas Leading Index suggests further economic growth in the spring.

Labor Market

Texas payroll employment growth continued an upward trajectory, rising at annual rates of 1.7 percent in November and 3 percent in December (*Chart 1*). Private-sector employment, which excludes government, grew at similar rates.

Most firms responding to the Dallas Fed's anecdotal survey of economic conditions, the Dallas Beige Book, report a stable to slightly rising labor force and an increasingly positive outlook on medium-term hiring prospects. Additionally, staffing services employment—a leading indicator of overall economic activity—shot up in December at a 29 percent annual rate (*Chart 2*).

Texas' unemployment rate ticked up 0.1 percentage points for the second month in a row in December, rising to 8.3 percent. However, unemployment is a lagging indicator that reflects the labor market's recent past rather than its future.

Construction and Real Estate

Construction employment recently posted solid gains, growing at annual rates of 9.2 percent and 21.9 percent in November and December, respectively.

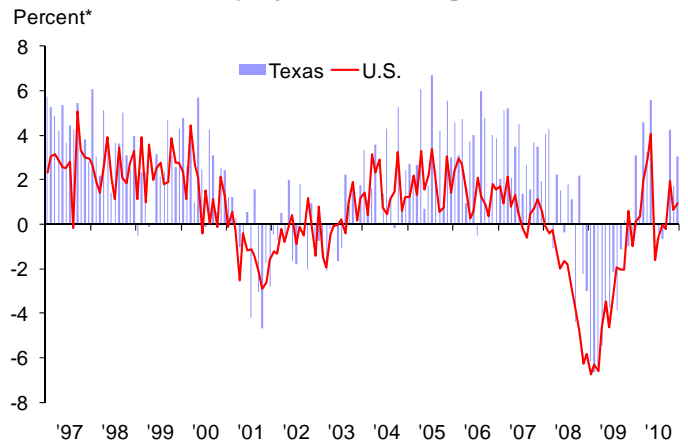
Construction activity, as measured by construction contract values, also showed modest gains in December, consistent with a pickup in economic activity. While the increase was broad-based across the major sectors of residential, nonresidential and non-building (such as streets, highways and bridges), overall construction remains at low levels.

The market for existing homes remains soft following last year's expiration of the homebuyer tax credit, although sales have trended up slightly over the past few months and rose solidly in December (*Chart 3*). Existing-home inventories, measured as the number of months' supply at the current sales pace, have stabilized recently after rising for much of 2010.

Manufacturing Activity

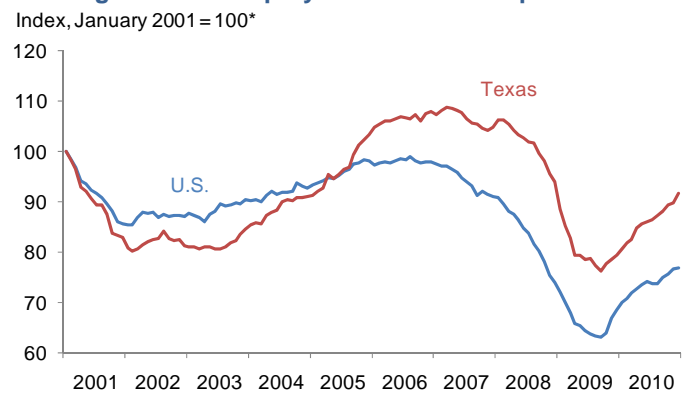
Texas manufacturing activity finished 2010 on a positive note, expanding for the fourth consecutive month, according to the Dallas Fed's Texas Manufacturing Outlook Survey (*Chart 4*).

Chart 1
Total Nonfarm Employment Growing at Moderate Pace



*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
Staffing Services Employment Rises at Rapid Pace



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

Manufacturers expect production activity to be stronger than current levels six months from now.

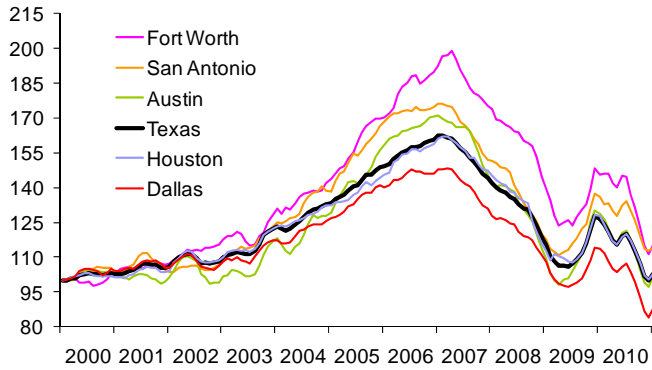
Energy

The energy sector is still going strong as oil prices creep upward and the overall rig count holds near two-year highs (*Chart 5*). Energy employment increased at a 5.2 percent annual rate in November before slowing to a 2.2 percent rate in December.

While the overall rig count has been fairly constant, drilling ac-

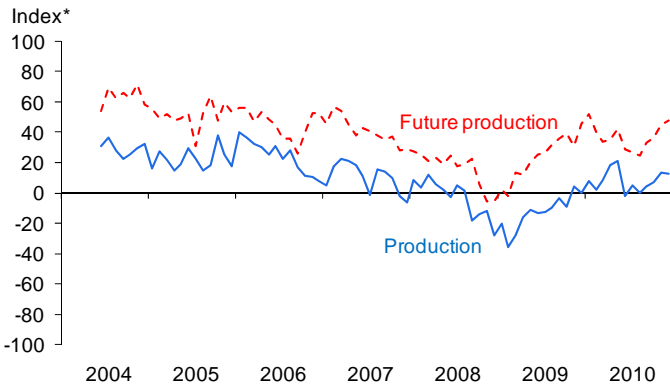
Chart 3
Existing-Home Sales Begin to Stabilize

Index, January 2000=100*



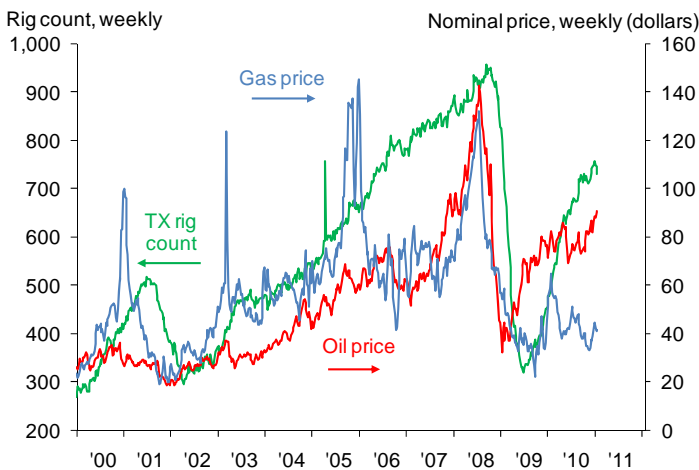
* Seasonally adjusted; five-month moving average.
SOURCES: National Association of Realtors; Texas A&M Real Estate Center; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 4
Texas Production and Future Production Indexes Stay Positive



* Seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey.

Chart 5
Rig Count Stable as Focus Shifts Toward Oil



NOTE: Gas price is multiplied by 10.
SOURCES: Wall Street Journal; Baker Hughes; Haver Analytics.

tivity is shifting increasingly toward oil and oil-related products due to low natural gas prices. Barring an unexpected change in oil or natural gas prices, such activity is expected to continue throughout 2011.

Exports

Texas exports rose in November, growing at a 3.5 percent annual rate as exports from the rest of the U.S. fell. Although data are not yet available, recent positive developments in the Mexican economy point to a possible increase in Texas exports to Mexico following a decrease in the third quarter.

Retail Sales

The most recent retail sales data suggest a fairly flat trend through October. However, increasing anecdotal evidence suggests that this trend may turn up. Retailers report moderate improvement in holiday sales, and several large national retailers note that the performance of Texas stores exceeded national averages.

Expansion Picks Up

The Texas economy continues to expand at a moderate pace, with some observable acceleration near the end of 2010 and in early 2011. Positive indicators in manufacturing and services and rapidly growing staffing services employment point to an improved labor market to come. While existing employment data are somewhat tepid, increasing anecdotal evidence further supports this view. Continued weakness in real estate as well as an impending state budget shortfall may offset these positive signals to some extent.

In November, the Texas Leading Index achieved its highest level in more than two years (*Chart 6*). This reading is consistent with other leading indicators. On the whole, evidence supports the notion of an improved outlook for 2011.

—Jason Saving and Adam Swadley

About the Authors

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Chart 6
Texas Leading Index Hits Two-Year High



SOURCE: Federal Reserve Bank of Dallas.