

Texas Economy Picks Up Pace

April 27, 2011

Growth in the Texas economy is gaining steam. While activity likely slowed at the beginning of the year, it picked up in February and March. Rising oil prices are boosting the energy sector, and Dallas Fed regional business surveys suggest manufacturing activity and retail sales rose in March. Payroll employment is growing at an accelerating rate, with forecast 2011 job growth at about 3 percent. Soft spots remain in construction, single-family housing and commercial real estate (with the exception of multifamily, which is doing well). Texas exports also began the year on a down note.

Labor Market

Texas payroll employment grew at a healthy 2.6 percent annual rate in first quarter (*Chart 1*). Private-sector employment outperformed overall employment, rising at a 3 percent annual pace in the first quarter. Texas' growth rate exceeded the nation's by 1 percentage point.

First-quarter job growth in Texas was broad-based across industries. The energy sector expanded the fastest, followed by professional business services, manufacturing, and education and health services.

The Texas unemployment rate fell to 8.1 percent in March from 8.2 percent in February. Although this figure is only 0.1 percentage point below the March 2010 level, the relative stability is at least partially attributable to state labor force growth roughly matching job creation (*Chart 2*).

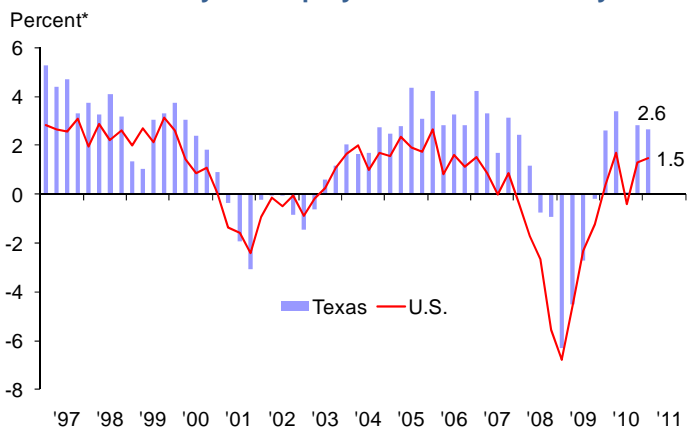
Construction and Real Estate

Construction contract values fell in February in all categories—residential, nonresidential and nonbuilding—with residential and nonresidential categories rebounding in March. After a pause in January and February, construction employment picked up in March, growing at a 1.6 percent annual rate for the quarter.

Single-family housing activity remains weak in Texas and nationally. Existing-home sales in the state are near a nine-year low, and housing construction is close to a 16-year low. Single-family permits dipped in February and were flat in March. Housing starts, following a six-month decline, were flat in February and ticked up in March.

Texas home inventories remain high—7.5 months of supply at the current sales rate. A six-month supply is generally considered a healthy market. Sales of existing homes fell in February to a seven-month low, with all major Texas metro areas declining. Existing-home sales ticked up in March, rising 6.4 per-

Chart 1
First Quarter Payroll Employment Growth Healthy



*Quarter/quarter; seasonally adjusted, annualized rate.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.

Chart 2
Texas Labor Force Growth Soaks up New Jobs, With Little Change in Unemployment Rate



*12-month change, seasonally adjusted.
SOURCE: Bureau of Labor Statistics; seasonal and other adjustments by Federal Reserve Bank of Dallas.

cent from February; however, year-to-date activity is flat.

Texas house prices fell 1.6 percent in the fourth quarter from the previous three months and were off 1.8 percent from prior-year levels, according to the Federal Housing Finance Agency Home Price Index (*Chart 3*).

Commercial Real Estate Markets

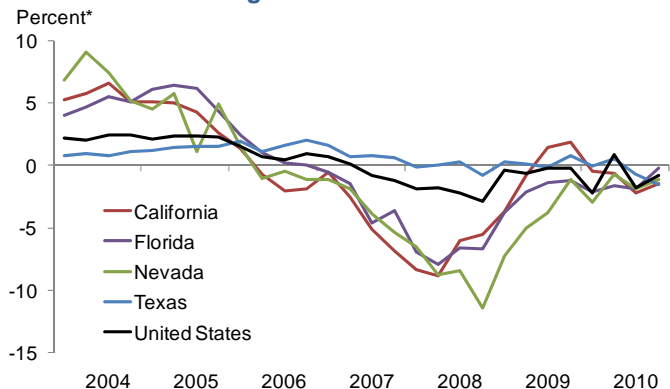
Commercial real estate is showing tentative signs of improvement. Anecdotally, Dallas Fed Beige Book contacts report

that office and industrial leasing activity has picked up in recent months. Fourth-quarter data also suggest improving industrial absorption and vacancy rates. The multifamily housing sector appears to be doing particularly well, with apartment construction and rents rising.

Energy

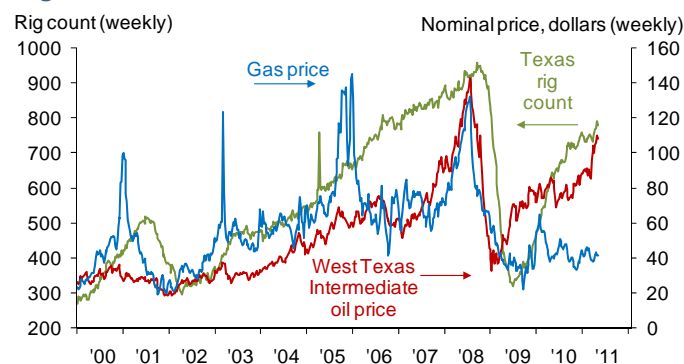
High oil prices, which climbed to around \$110 per barrel for

Chart 3
House Prices Falling in Texas Too



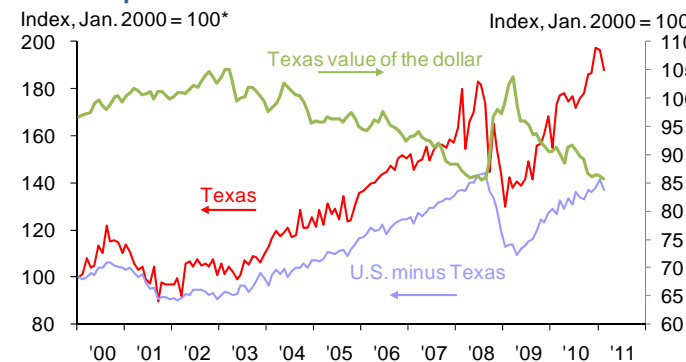
*Quarter/quarter; FHFA index; seasonally adjusted.
SOURCES: Federal Housing Finance Agency; Haver Analytics.

Chart 4
Rig Count Rises With Oil Prices



NOTE: Gas price, per million British thermal units, is multiplied by 10.
SOURCES: *Wall Street Journal*; Baker Hughes; Haver Analytics.

Chart 5
Texas Exports Start Year on Down Note



*Real, seasonally adjusted.
SOURCES: Bureau of Labor Statistics; Census Bureau; seasonal and other adjustments by Federal Reserve Bank of Dallas.

West Texas Intermediate crude in mid-April from \$100 a month earlier, are benefitting the energy sector. The Texas rig count continues to climb, with growth driven almost entirely by oil-directed drilling (*Chart 4*). Natural gas prices have risen modestly in recent weeks to around \$4.25 per million British thermal units.

Exports

Texas exports dropped 4.7 percent during the first two months of 2011 after surging 10.7 percent in the fourth quarter (*Chart 5*). The exports decline occurred despite a weaker dollar, which makes U.S. goods prices more competitive overseas.

Prices and Wages

Regional data from the Dallas Fed's Texas Manufacturing Outlook Survey (TMOS) suggest that the rate of price increases picked up in April following a steady rate of gain in February and March. Dallas Fed Beige Book contacts also report several cases of firms passing escalating costs on to customers. Despite higher prices and more hiring, regional wage data and anecdotal evidence from Beige Book contacts show little sign of wage pressures.

Positive Outlook Ahead

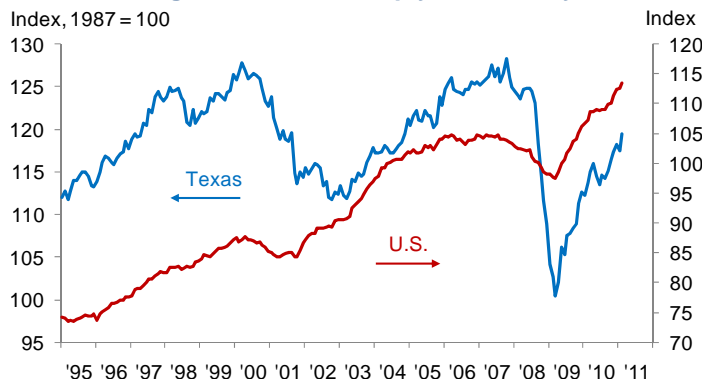
The outlook for the regional economy is bright. After a brief pause in January, the Dallas Fed's Texas Leading Index rose sharply in February, suggesting continued economic expansion in 2011 (*Chart 6*). Broad-based hiring across industries reflects employers increasing confidence that a sustained expansion is under way. Exports and contract values may rebound after early weakness, and the single-family housing market is expected to improve in the second half of the year.

—Pia Orrenius and Adam Swadley

About the Authors

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Chart 6
Texas Leading Index Rises Sharply in February



SOURCES: The Conference Board; Federal Reserve Bank of Dallas.