

## Regional Economy Grows at Moderate Rate

August 10, 2011

Regional economic growth continued at a moderate rate in the second quarter, down slightly from the first-quarter pace. While supply-chain disruptions from the Japanese disasters and uncertainty about the U.S. economic outlook caused a slowdown in May, evidence suggests conditions in the Eleventh District have since improved and are better than elsewhere in the nation.

### Labor Market

Texas job growth was moderately strong in the second quarter at an annualized rate of 2.3 percent (*Chart 1*). Following a slowdown in May, employment data indicate job growth of 3.5 percent at an annualized rate in June.

Year-to-date job growth stands at 2.4 percent, double the national average. This job creation comes from strong hiring in the energy sector, which has seen 18.6 percent annualized year-to-date growth, and in manufacturing. Although job growth has been broad-based across most sectors, government jobs have fallen 0.14 percent year to date after rising during the recession and in 2010.

The Texas unemployment rate was up to 8.2 percent in June but remained below the national average of 9.1 percent. Texas temporary employment, which leads trends in total employment, fell in June. However, contacts from the Dallas Fed's Beige Book report on current economic conditions say temp-to-hire activity remains strong in Texas.

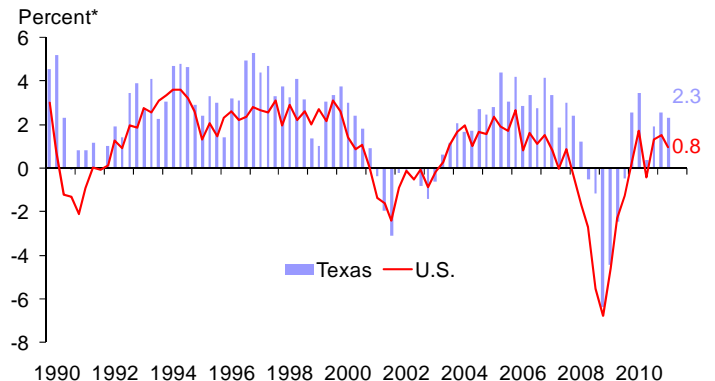
### Construction and Real Estate

Overall construction activity is languishing at low levels. Data on nonresidential contract values and anecdotal Beige Book reports show recent movement toward private projects from public projects.

New-home construction remained weak in the second quarter. Expiration of the homebuyer tax credits led to an initial decline in single-family permits in first quarter 2011, and construction has remained relatively flat since (*Chart 2*).

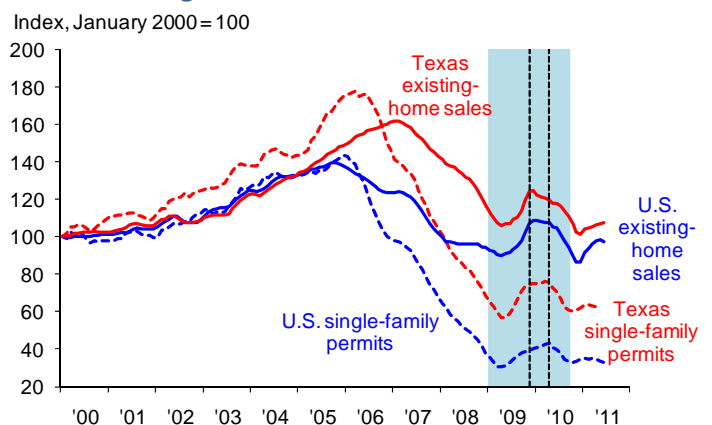
However, traffic and pending sales are improving, and Dallas Fed contacts are cautiously optimistic. Texas existing-home price statistics show that nominal median sales prices in June were up slightly from last June.

**Chart 1**  
Texas Job Growth Moderates Slightly in Second Quarter



\*Quarter/quarter; seasonally adjusted, annualized rate.  
NOTE: Quarterly employment figure is the last month of the quarter.  
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

**Chart 2**  
Texas Housing Market Weak After Tax-Credit Boost



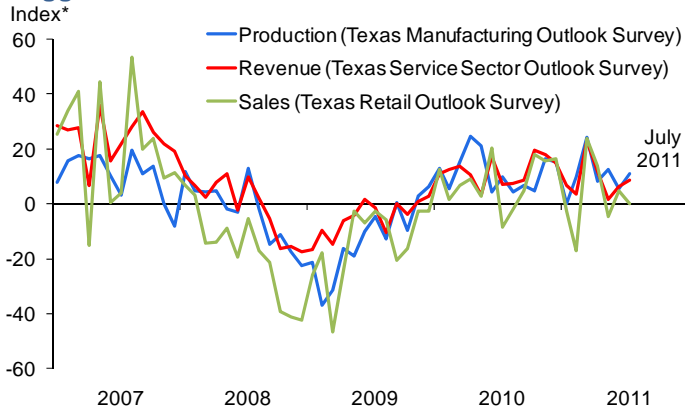
NOTES: The existing-home sales series uses a six-month moving average; the permit series plots a five-month moving average. Shading represents the period during which homebuyer tax credits were effective. Dotted lines indicate tax credit expiration dates.  
SOURCES: Census Bureau; National Association of Realtors; Multiple Listing Service.

Additionally, apartment rents are rising in many Texas metro areas, which could make single-family homes more attractive to buyers.

### Commercial Real Estate

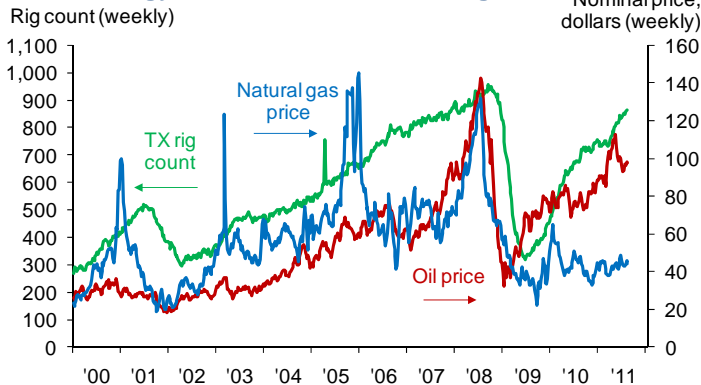
Nonresidential real estate continues to improve, particularly for office and industrial markets, although retail

**Chart 3**  
**Service and Manufacturing Headline Indexes Suggest Growth**



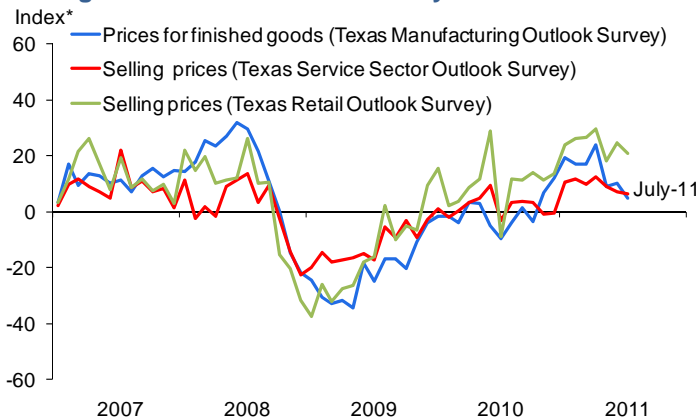
\*Seasonally adjusted.  
 SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

**Chart 4**  
**Texas Energy Sector a Source of Strength**



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

**Chart 5**  
**Selling Price Pressures Ease in July**



\*Seasonally adjusted.  
 SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

remains weak. Beige Book contacts note improvements in the second quarter, and larger users of space are becoming more numerous. Some contacts predict office rent increases in the near term.

**Manufacturing Activity**

Texas Business Outlook Surveys point toward improved service sector and manufacturing activity in July. The Texas Manufacturing Outlook Survey (TMOS) production index rose from 5.6 in June to 10.8 in July, suggesting stronger output growth for July (*Chart 3*).

The Texas Retail Outlook Survey's sales index was zero in July, indicating sales likely did not change from June. However, Beige Book contacts say Texas sales are holding up better than the national average.

Measures of general business activity, which reflect national economic conditions, were mostly negative. Some respondents indicated uncertainty over taxes and regulations.

**Energy**

The energy sector continued to be a driver of the Texas economy. Jobs in the sector rose at an annualized rate of 18.9 percent in June.

The Texas rig count continued to climb, with drilling activity shifting toward oil (*Chart 4*). Shale activity also remains profitable for Texas companies.

**Exports**

Texas exports dipped slightly in May, although in the first five months, exports rose at an annualized pace of 6.3 percent.

High-tech orders, which fell briefly following supply disruptions from the Japanese disasters, are expected to grow in June and July as demand picks up again, according to Dallas Fed contacts.

Petrochemical demand was strong, and transportation services firms said cargo volumes were up in June and July after declining sharply earlier in the year.

**Prices**

Price pressures eased in July, according to both Beige Book and the Texas Business Outlook Surveys (*Chart 5*). Price indexes for finished goods in manufacturing, and selling prices in the retail and service sectors, all declined in July. In contrast, 40.5 percent of TMOS respondents reported an increase in raw materials prices, up from 36.1 percent in June.

**Outlook Still Positive**

Consumer confidence remains high—even rising in July—in the Conference Board's West South Central region, of

which Texas makes up a large share. This contrasts with a decline in consumer confidence at the national level.

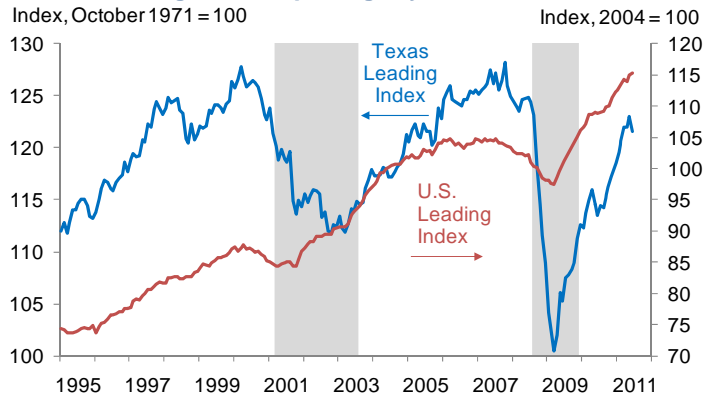
The Dallas Fed's Texas Leading Index, a composite of eight leading indicators, dipped in June (*Chart 6*). But the Bank's forecast for job growth remains positive. Employment is expected to grow 2.5 percent in 2011. And while this prediction is slightly lower than previous estimates, this pace would still allow Texas to regain all the jobs it lost in the recession by October 2011.

—Christina Daly and D'Ann Petersen

**About the Authors**

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**Chart 6**  
**Texas Leading Index Dips Slightly**



NOTE: Shaded areas represent Texas recessions.  
SOURCE: Federal Reserve Bank of Dallas.