



## Texas Economic Growth Slows

December 15, 2011

Growth in the Texas economy slowed slightly in October due to continued declines in state and local government employment and the further weakening of exports. According to Federal Reserve Bank of Dallas surveys, the manufacturing sector continued to retrench in November, while private services picked up. The Dallas Fed's Texas Leading Index increased in October but not enough to offset declines in previous months. Given the deceleration in job growth and recent overall weakness in the leading index, the job forecast for 2012 is for similar or slightly slower growth than the 2 percent in 2011.

### Texas Leading Index Increases

The Texas Leading Index rose in October after declining the previous four months (*Chart 1*). Increases in the U.S. Leading Index and declines in new unemployment claims contributed positively to the index. The Texas value of the dollar continues to climb, acting as a drag on the index. The recent pattern in the leading index, combined with the slowdown in job growth, suggests that 2012 employment growth will be 1.5 to 2 percent, with sluggish growth at the beginning of 2012, followed by modestly higher rates later in the year.

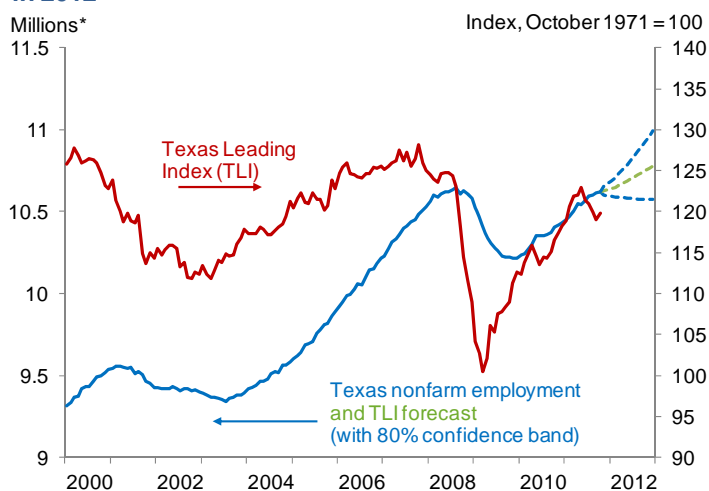
A positive sign for economic growth is the sharp increase in November's Consumer Confidence Index (*Chart 2*). In the West South Central region, which includes Texas, the index nearly doubled to 94.2 from 50 in October. This reading is significantly higher than in any other U.S. region.

### Declines in Government Jobs

Texas total nonfarm jobs have grown at an annualized pace of 1.5 percent over the past four months, slower than the 2.6 percent in the first half of the year (*Chart 3*). Private-sector jobs have been fairly stable, growing 3.3 percent the past four months versus 3.5 percent the first half of the year. The weakening has been centered in government jobs, which have fallen at an annualized rate of 6.9 percent since July after declining only 1.4 percent the first half of the year.

Most of the jobs lost in state and local government have been from public school layoffs. However, data suggest that about half of these individuals likely found jobs at

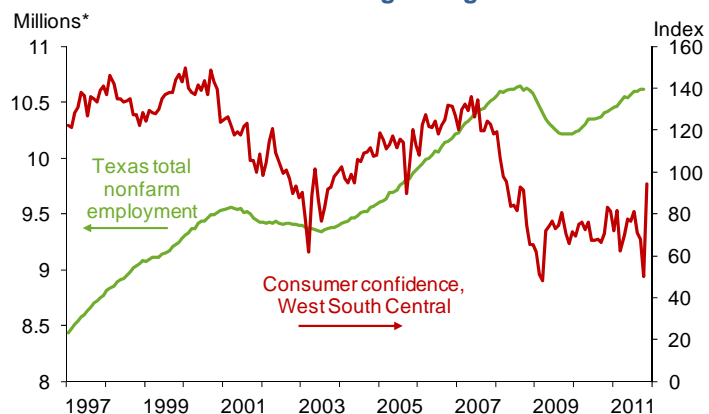
**Chart 1**  
Job Growth Likely to Be Unchanged to Slightly Weaker in 2012



\*Seasonally adjusted.

SOURCES: Federal Reserve Bank of Dallas; Haver Analytics.

**Chart 2**  
Consumer Confidence Growing in Region

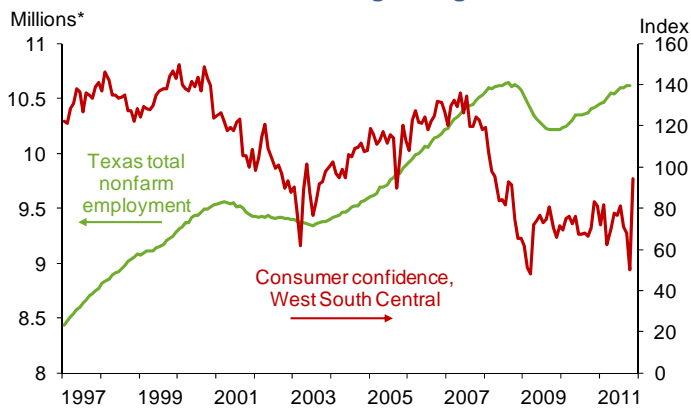


\*Seasonally adjusted.

SOURCES: Conference Board; Federal Reserve Bank of Dallas; Haver Analytics.

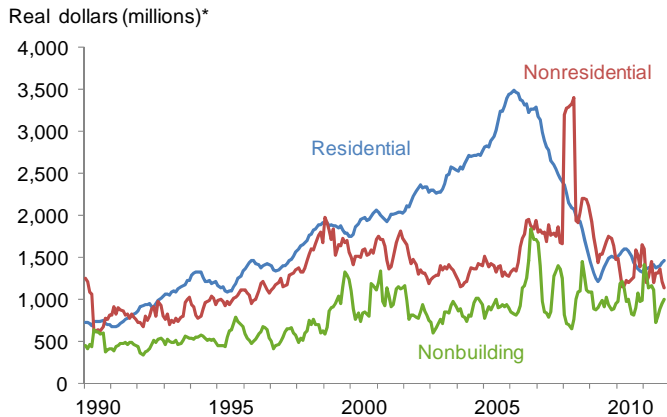
private schools. By including private school employment, it appears that K–12 education jobs have declined at an annualized rate of 5.5 percent over the past four months instead of 9.8 percent.

**Chart 2**  
**Consumer Confidence Growing in Region**



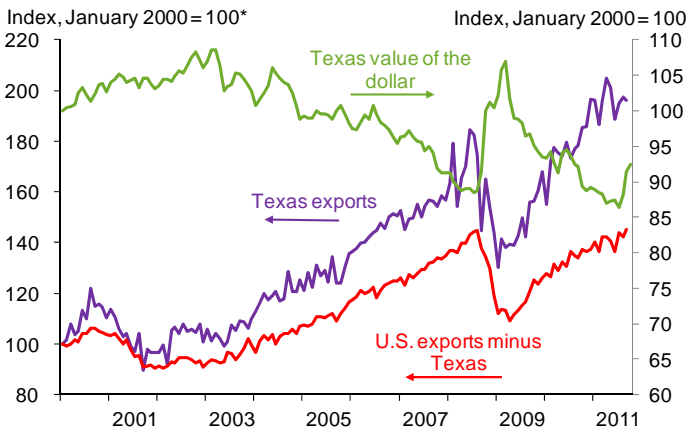
\*Seasonally adjusted.  
SOURCES: Conference Board; Federal Reserve Bank of Dallas; Haver Analytics.

**Chart 4**  
**Overall Texas Construction Values Moving Sideways**



\*Seasonally adjusted; five-month moving average.  
SOURCES: F.W. Dodge; Haver Analytics.

**Chart 5**  
**Texas Exports Slow and Real Texas Value of Dollar Increases**



\*Real; seasonally adjusted.  
SOURCES: Census Bureau; Bureau of Labor Statistics.

## Construction and Real Estate Mostly Flat

Typically in the early stages of a recovery, the construction sector—and single-family building in particular—grow strongly and help ignite other industries. However, two years into the economic recovery, single-family housing has yet to sustain a strong bounce back (*Chart 4*). So far, only multifamily permits have increased significantly. Overall, the construction data suggest Texas will see only a gradual improvement in residential and nonresidential building activity in 2012.

However, there has been some slight improvement in prices of homes resold in the third quarter. Home prices are down only 3 percent from their peak in the first quarter of 2009. Home inventories, mortgage delinquencies and foreclosures have also fallen. Overall property values are likely to be flat to slightly higher in 2012. This will provide some stability to consumer wealth and spending and may also help school districts avoid future layoffs.

## Exports Dip

Over the past two years, Texas has benefited from the sharp increase in exports more than the nation on average, yet this source of strength is beginning to wane. Concerns over events in Europe are being felt in Texas, both through direct trade with Europe and trade with Latin America that goes on to Europe. Another potential problem for exports has been the large increase in the Texas trade-weighted value of the dollar (*Chart 5*). With a stronger dollar and a weakening international economy, the outlook for Texas exports is weak.

## Manufacturing Also Falls

As exports have declined, manufacturing has also been impacted because nearly a quarter of Texas manufacturing jobs are related to exports. According to the Dallas Fed's Texas Manufacturing Outlook Survey, both new orders and production declined in November (*Chart 6*). This is the first time both have been negative since October 2009.

## Indicators Remain Mixed

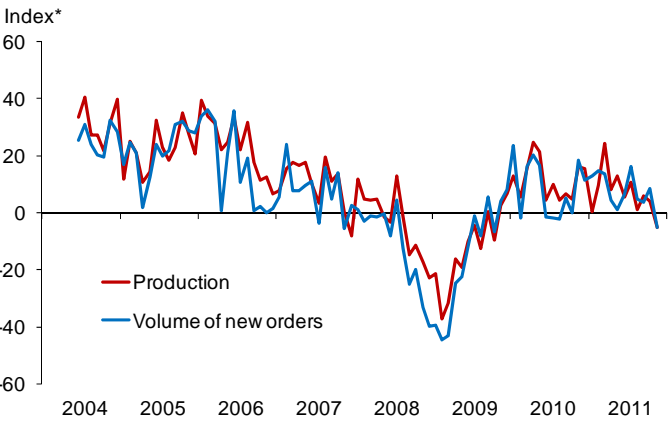
While private services industries continued to grow at a fairly steady pace through October, the Texas economy weakened due to a slowing world economy and sharp cutbacks in local government employment. Heading into the new year, Texas will continue to feel the impact of weakening exports and government cutbacks. As 2012 progresses, however, the state economy is likely to slowly accelerate, although overall job growth is projected to remain moderate.

—Christina Daly and Keith R. Phillips

About the Authors

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Chart 6  
Texas Manufacturing Activity Declines in November



\*Seasonally adjusted.  
SOURCE: Texas Manufacturing Outlook Survey.