

## Regional

## Regional Economy Continues to Grow but Decelerates Slightly

May 2, 2013

The regional economy grew at a moderate but slightly slower pace over the past six weeks amid mixed signals. Survey indicators dipped for both manufacturing and services in April, although the Dallas Fed's Beige Book pointed toward stronger growth. Labor shortages and price pressures have become slightly more pronounced but remain mild.

### Labor Market Expands at Moderate Pace in First Quarter

Texas' first-quarter payroll employment growth was 2.1 percent annualized, almost exactly matching the state's 2 percent trend growth level (*Chart 1*). However, growth has been very volatile over the past three months: up 0.5 percent in January, up 7 percent in February, down 0.9 percent in March.

The state's unemployment rate is broadly consistent with this mixed picture, remaining at 6.4 percent in March as the national unemployment rate fell to 7.6 percent (*Chart 2*).

### Manufacturing Employment Slips as Output Flattens

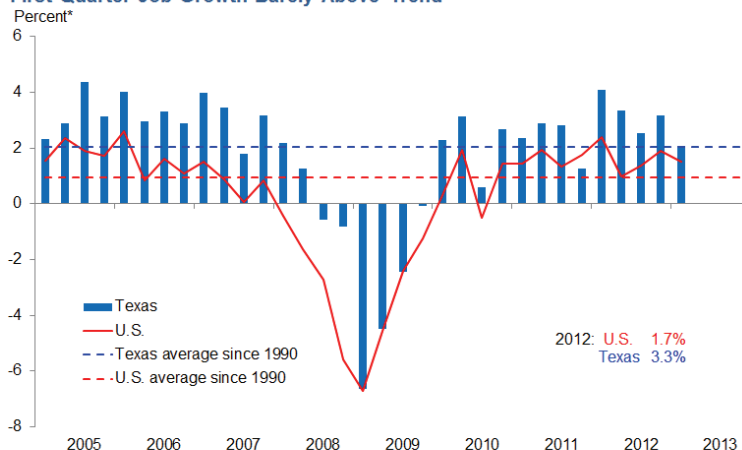
Manufacturing payroll employment fell at a 0.4 percent annual rate in the first quarter, exactly matching its 0.4 percent decline in fourth quarter 2012. The employment figures are consistent with recent data from the Texas Manufacturing Outlook Survey's headline measure—production—which fell just below zero in April (*Chart 3*). Especially notable in the April report was the first decline in new orders for four months, a negative signal because this index can be a leading indicator of economic growth.

The Dallas Fed Beige Book reported increased activity by construction-related manufacturers including lumber, cement and fabricated metal producers. On the other hand, primary metals and paper-product manufacturers saw declines in demand.

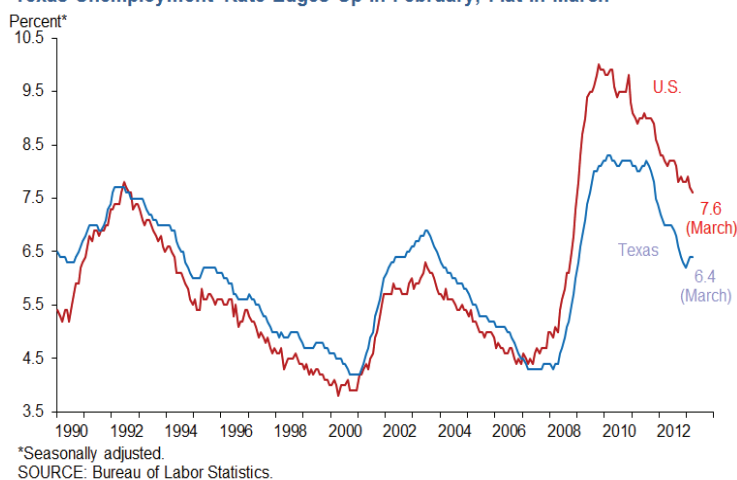
### Services Grow at a Moderate Pace

Service sector payroll employment grew at a 1.8 percent annual rate in the first quarter, downshifting slightly from its 2.6 percent growth over the past year. The revenue component of the Texas Service

**Chart 1**  
First Quarter Job Growth Barely Above Trend

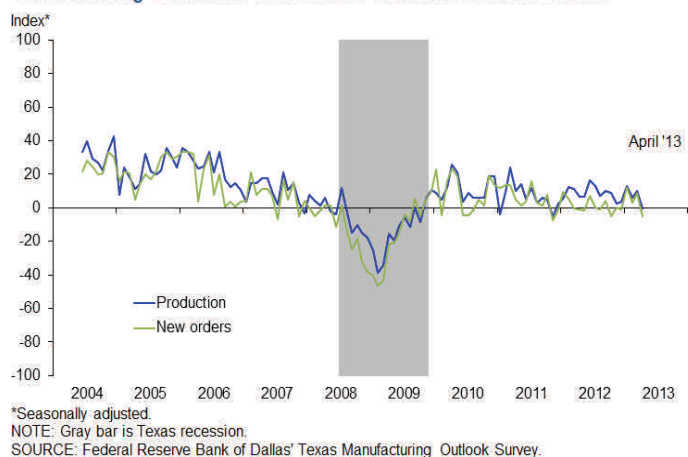


**Chart 2**  
Texas Unemployment Rate Edges Up in February, Flat in March

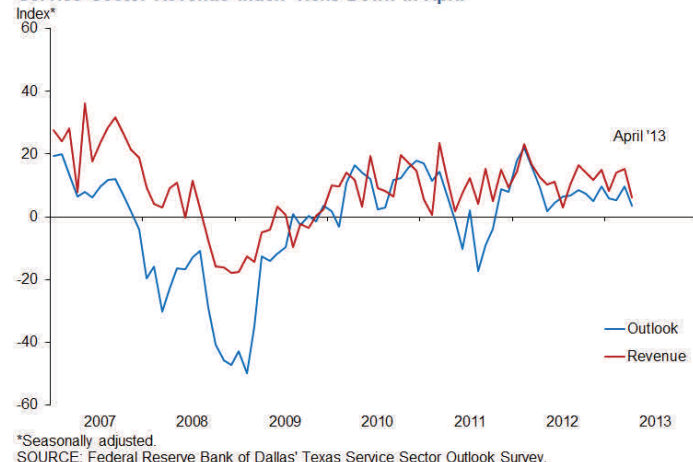


Sector Outlook Survey also fell to 6.1 in April (*Chart 4*). However, the Dallas Fed Beige Book reported improvement in a broad array of service sector industries, including residential construction, accounting, energy, audit, insurance, real estate, legal services and transportation services.

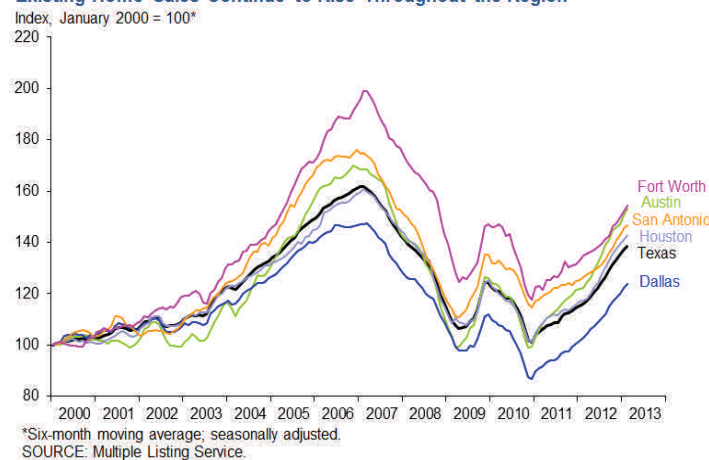
**Chart 3**  
Manufacturing Production and Future Production Indexes Decline



**Chart 4**  
Service Sector Revenue Index Ticks Down in April



**Chart 5**  
Existing-Home Sales Continue to Rise Throughout the Region



## Real Estate and Residential Building Activity Remain Strong

The burgeoning residential real estate recovery continues unabated in Texas, with strong housing demand leading to residential starts rising in the first two months of 2013. Single-family permits rose in the first quarter. Multifamily permits also rose after ticking down in the second half of 2012.

Turning to existing homes, sales in Texas rose at a 14.6 percent annual rate in March to reach a five-year high (*Chart 5*). Strength in this portion of the housing market continues to be broad-based across major metro areas, with all portions of the state sharing in the recovery. Months of inventory fell to 4.3 in March, its lowest level since the waning days of the Clinton administration.

## Energy and Exports

The Texas rig count has risen by seven since early March. Both oil and natural gas prices recovered some of their 2012 losses over the past six weeks. The energy sector has also played an important role in propping up Texas exports. In the first two months of 2013, Texas exports rose by 4.1 percent, due in part to continued strength in petrochemicals—the state's fastest-growing export in the fourth quarter of last year.

## Wage and Price Pressures Rise Slightly but Remain Modest

Beige Book contacts collectively reported slightly greater—though still small in absolute terms—price pressures over the past six weeks. Home prices and certain commodity prices such as cotton rose markedly, and airlines and food producers reported having slightly increased consumer prices. Retail and auto prices held steady, however.

Anecdotal evidence from Beige Book and other sources suggests skilled workers in high-demand sectors are increasingly able to procure salary increases, a modest first step toward the broader-based wage pressures one might eventually expect to see as the recovery continues. Increased labor scarcity in high-demand sectors such as energy and auto dealers was also noted.

## Summary and Conclusion

The Eleventh District economy grew at a moderate pace over the past six weeks, with mixed signals about where it is headed in the near future. Payroll employment grew slightly above its long-term trend in the first quarter, although in March it dipped significantly. The service sector remains stronger than manufacturing but is not growing as quickly as it was six months ago, while manufacturing output growth flattened in April. The energy sector remains strong but is not accelerating; however, real estate and construction have improved further, and retail sales are solid.

The Texas Leading Index rose by 0.54 points from December to February and, at 124.3, stands near the post-recession high (*Chart 6*). The components are mostly positive as well, which is consistent with a modest annual

rate of employment growth over the near term of 2 to 3 percent.

—Christina Daly and Jason Saving

#### About the Authors

Daly is a research analyst and Saving is a senior research economist and advisor in the Research Department of the Federal Reserve Bank of Dallas.

Chart 6

#### Texas Leading Index Remains Near Post-Recession High

