

Regional

Regional Growth Accelerates Slightly

September 18, 2013

Regional economic activity rose at a slightly faster pace during the past six weeks. Employment growth picked up in July, and the August reading of the Texas Service Sector Outlook Survey (TSSOS) suggested a pickup in activity, particularly in the retail sector. Export growth was robust in July after pausing in June, and energy activity strengthened.

Texas' employment growth was quite volatile in the first part of the year but has settled at roughly the long-run average of 2 percent since 1990. However, federal government payrolls continue to decline as a result of the sequester, holding back employment growth in metros with high military or health care concentrations—such as San Antonio and El Paso.

Job Growth Picks Up in July

Texas employment grew 2.3 percent in July, up slightly from 2 percent in the second quarter (*Chart 1*). For the year, job growth is holding fairly steady at a slower pace than was seen last year (3.3 percent). Still, Texas continues to add jobs at a slightly faster pace than the U.S.

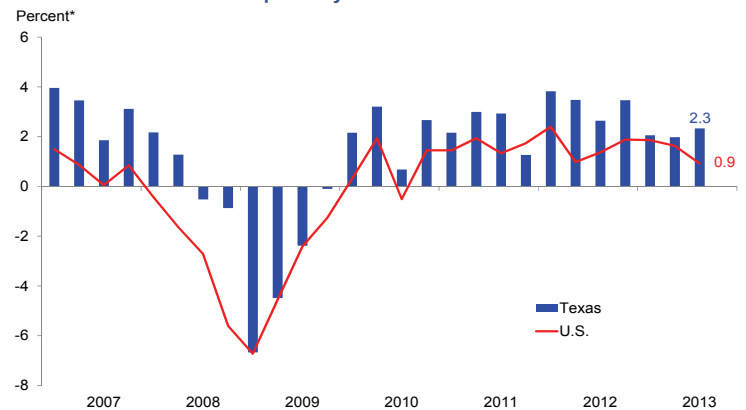
The Texas Manufacturing Outlook Survey (TMOS) employment index posted its highest reading in a year in August (*Chart 2*). This is a positive sign for overall Texas employment growth in August because the TMOS employment index is the timeliest indicator of state employment.

The Texas unemployment rate remained at 6.5 percent for the third month in a row in July. Meanwhile, the U.S. unemployment rate declined from 7.6 percent in June to 7.4 percent in July before falling further to 7.3 percent in August.

Dallas Fed Surveys Suggest Growth in Output

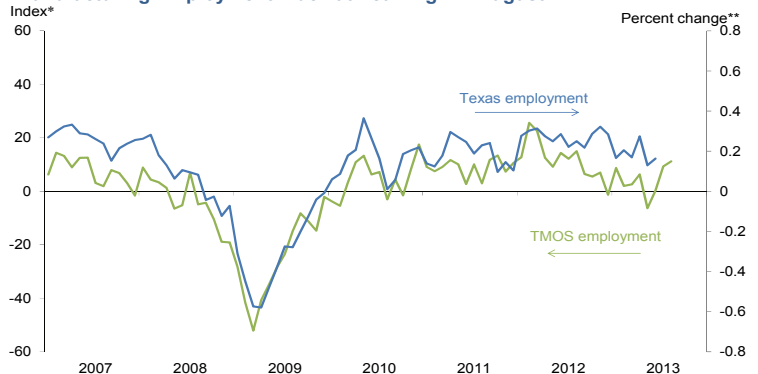
The TMOS headline production index, the timeliest indicator of regional output, remained positive in August, although it fell slightly, indicating a slower pace of growth than in July (*Chart 3*). The Texas Retail Outlook Survey (TROS) sales index posted large gains in August that, combined with a strong July reading, suggest faster retail growth than in the second quarter.

Chart 1
Texas' Job Growth Picks Up in July



*Quarter/quarter; seasonally adjusted, annualized rate.
NOTE: Third quarter 2013 numbers are July over June.
SOURCE: Bureau of Labor Statistics.

Chart 2
Manufacturing Employment Index at Year High in August



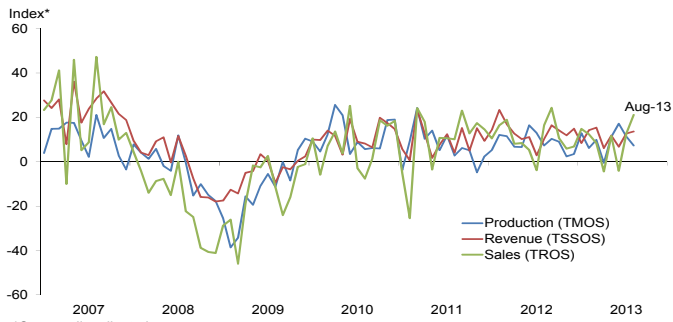
*Seasonally adjusted.
**Month/month; seasonally adjusted; 3-month moving average.
SOURCES: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS); Bureau of Labor Statistics.

Ongoing Strength in Texas Real Estate Markets

The Texas housing market continues to boom. Existing-home sales were up 5.6 percent in July—the highest monthly increase since the expiration of the first-time homebuyer tax credit in mid-2010 (*Chart 4*). Texas' supply of home inventories fell to 3.9 months in July, the 15th consecutive month below the six-month supply that marks a tight housing market.

Construction measures suggest a ramping up in single-family homes to meet increased demand. Texas single-family housing permits increased 1.2 percent in July and are up almost 20 percent from a year ago. Texas' metros (excluding El Paso) are reaching record highs for home

Chart 3
Survey Headline Indexes Point to Growth



*Seasonally adjusted.
SOURCES: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

prices this year. Apartment construction has continued to ease from the breakneck pace reached at the end of last year.

Energy Sector Continues to Expand

West Texas Intermediate crude oil prices rose slightly from \$106 per barrel in mid-July to \$109 in early September and are up about 14 percent from last year. The price of natural gas was \$3.65 per mmbtu in the first week of September, down 3 cents from July but up nearly 30 percent from last year.

Texas oil production in the first half of the year was up 31 percent from the same period a year ago, faster than the 8 percent growth in U.S. oil production outside of Texas. Oil and gas employment in Texas is up 8 percent year to date, making it the fastest-growing sector this year.

Texas Export Growth Rebounding

Texas exports increased in the second quarter, then spiked 4 percent in July after weakness earlier in the year, whereas the U.S. (minus Texas) has seen flat exports in 2013. Second-quarter Texas exports were boosted by a 16.8 percent rise in exports to Canada, our second-largest trading partner (*Chart 5*). Increased exports of computers and electronics and transportation equipment, as well as natural gas, also drove the second-quarter export numbers higher.

Price Pressures Subdued

The August price indexes from the Dallas Fed surveys suggest slightly increased upward pressure, although most respondents continued to note no change in prices. Most Dallas Fed Beige Book respondents said prices were stable and reported minimal wage pressures.

Outlook for Growth on Par with Texas Average

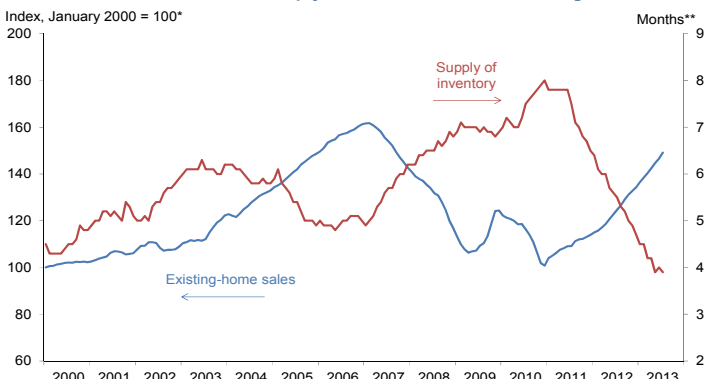
While the regional economy appears to have picked up slightly since late spring and early summer, any improvement in the pace of growth for the rest of the year will likely be mild. The Texas Leading Index increased in July (*Chart 6*), and the resulting Dallas Fed employment forecast suggests that Texas will finish the year at an annual growth rate similar to that seen in the first seven months of the year—about 2 percent—which is in line with the average rate of growth over the past couple of decades.

—Christina English and Emily Kerr

About the Authors

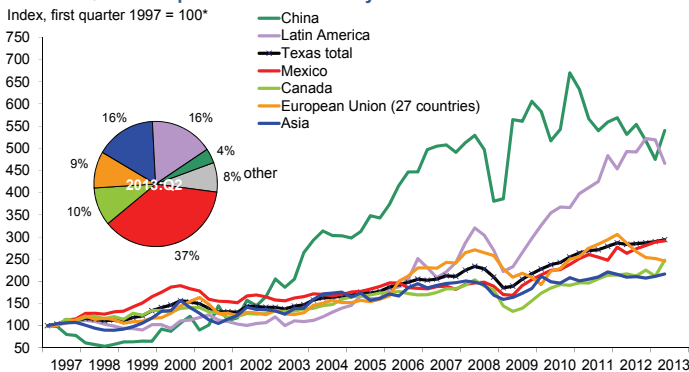
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Chart 4
Texas Home Sales Increase Sharply, Inventories Continue Falling



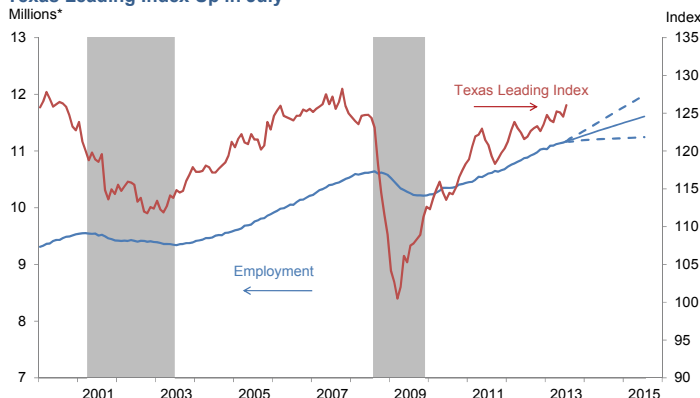
*Six-month moving average; seasonally adjusted.
**Seasonally adjusted.
SOURCE: Multiple Listing Service.

Chart 5
Second-Quarter Export Growth Driven by Canada



*Real dollars, seasonally adjusted.
NOTES: Asia excludes China; Latin America excludes Mexico.
SOURCE: Wisar Trade.

Chart 6
Texas Leading Index Up in July



*Seasonally adjusted.
NOTE: Shaded bars represent Texas recessions.
SOURCES: Federal Reserve Bank of Dallas' Texas Leading Index; Bureau of Labor Statistics.