

Regional

Regional Economic Outlook Brightens

April 30, 2014

The regional economy continues to expand at a moderate pace, with employment growing at a 2.4 percent annual rate in the first quarter, slightly faster than the fourth quarter of last year. Unemployment fell further to 5.5 percent, its lowest level since September 2008. April readings from the Texas Business Outlook Surveys (TBOS) improved over March, suggesting that both manufacturing and service activity picked up, and the April Beige Book was slightly more optimistic. Wage pressures continued to intensify as labor shortages persisted. The employment forecast, based on the Texas Leading Index (TLI) and employment data through March, is for 2.8 percent growth for the year, up from 2.4 percent six weeks ago.

Job Growth About the Same as Last Year

Texas employment grew at a 0.9 percent annualized rate in March, down from a revised 3.6 percent in February. However, employment grew at a 2.4 percent annualized pace in the first quarter, slightly up from 2.3 percent in the fourth quarter of 2013 and close to last year's pace of 2.5 percent (*Chart 1*). Texas continues to add jobs faster than the nation. It ranks sixth among the states in job growth, the same as in 2013 but down from third in 2012. Growth has been broad based—every major sector has added jobs year to date.

Housing Market Faces Headwinds

Residential construction activity has shown some signs of improvement over the past few months. Residential contract values picked up in March, while single-family permits grew for the second consecutive month in February. Existing-home sales decreased at a nonannualized 0.9 percent pace in March after rising 4.4 percent in February.

The consensus among industry participants sug-

Chart 1
Employment Growing at About the Same Pace as Last Year

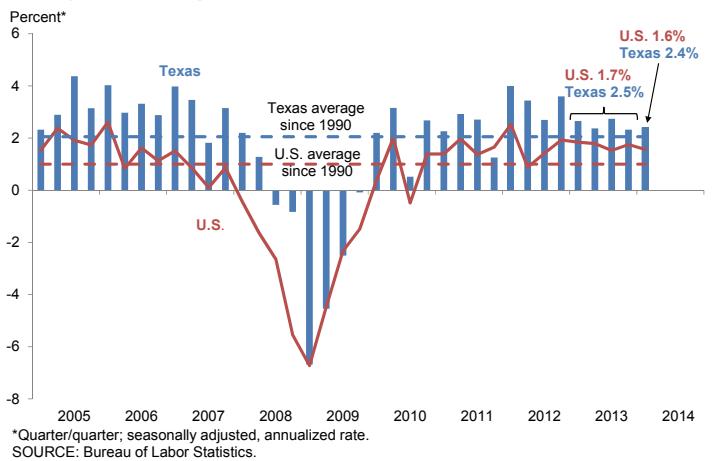
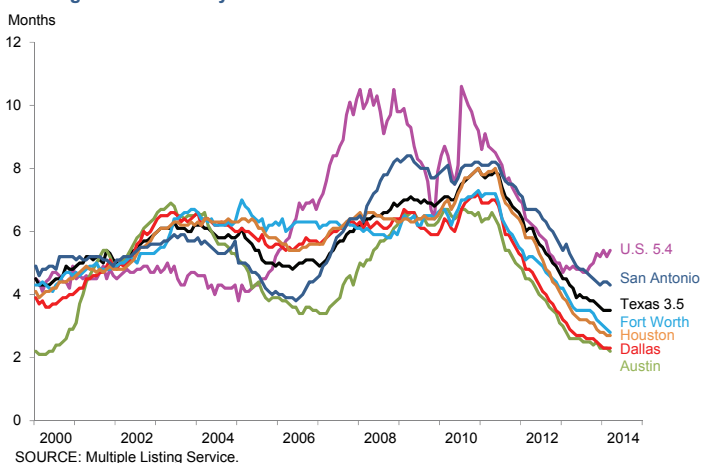
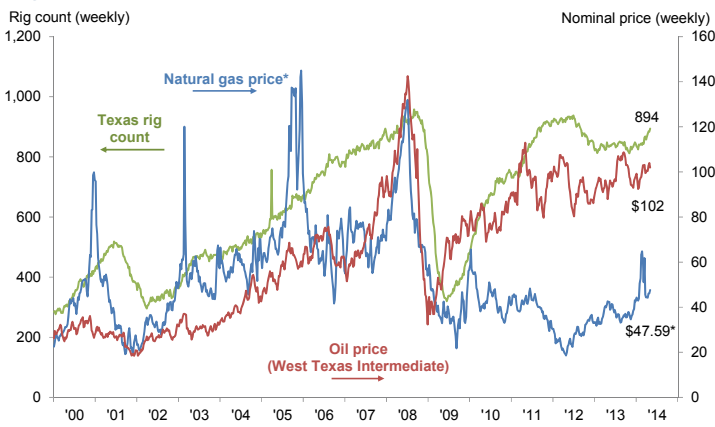


Chart 2
Existing-Home Inventory Levels Remain at Record Lows



gests that the housing market will continue growing in 2014 but will face some headwinds. On the demand side, higher mortgage rates and prices may affect housing affordability, and tighter lending standards may shut out potential buyers. On the supply side, the limited availability of developed lots, along with labor shortages, wage pressures and construction cost increases, may limit homebuilding activity. In March, inventories of existing homes re-

Chart 3
Rig Count and Oil Price Continue to Rise While Gas Prices Fall



*Natural gas price is multiplied by 10.
SOURCES: *Wall Street Journal*; Baker Hughes; Haver Analytics.

mained at record lows in metropolitan areas across Texas (*Chart 2*).

Energy Activity Remains Strong

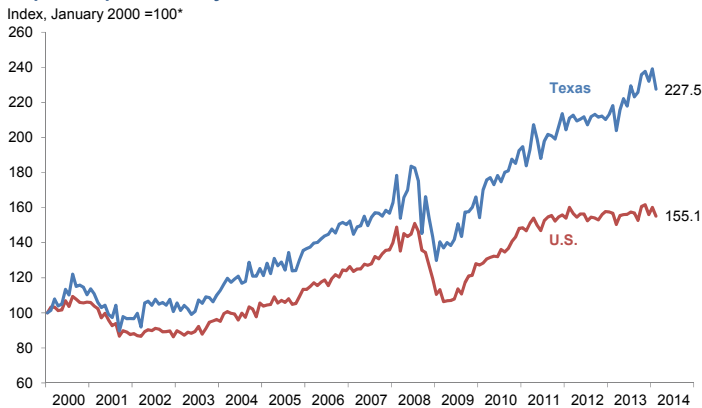
Energy activity is robust and drilling activity continues to increase, according to the Beige Book. The rig count was 894 for the week ending April 25, a level not seen since August of 2012. Much of the increase in U.S. drilling—nearly 60 percent—came from Texas. WTI crude oil prices averaged \$102 per barrel for the week ending April 25, about \$2 more than six weeks ago. Natural gas prices have fallen over the past six weeks but remain above price levels seen in April of last year. Henry Hub natural gas is selling for about \$4.76 (*Chart 3*).

Texas Exports Decline in February

Texas exports fell 4.8 percent month over month in February after growing 3 percent in January, a sign that weak overseas growth could be tempering demand for Texas goods (*Chart 4*).

Exports to China and the European Union grew strongly year over year in the fourth quarter of 2013 but fell to Latin America, excluding Mexico. Exports to Mexico expanded only 6 percent year over year in the fourth quarter, or less than half of the 2012 growth rate, reflecting a significant slowdown in the Mexican economy in 2013. However, better growth prospects for Mexico in 2014 and a stable exchange rate should contribute to Texas export growth in the coming months.

Chart 4
Exports Dip in February



*Seasonally adjusted; real dollars.
SOURCES: Census Bureau; Wisetrade; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

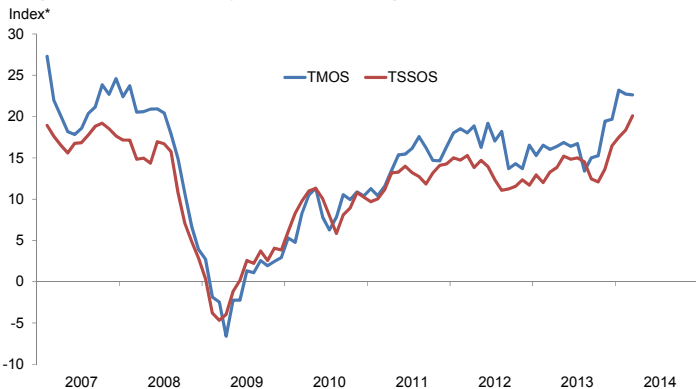
Wage Pressures Intensify

According to the April TBOS, upward pressure on wages continues. Wages and benefits indexes for both the Texas Manufacturing Outlook Survey and Texas Service Sector Outlook Survey are at elevated levels (*Chart 5*). The TBOS wage indexes are consistent with reports by Beige Book contacts of higher wages across industries, with labor shortages in construction-related manufacturing, residential construction, and drilling and oilfield services.

Regional Outlook Improves

The Texas economy has continued to grow at a moderate pace over the past six weeks. Job growth expanded at a slightly faster rate in the first quarter than in fourth quarter 2013, and TBOS and Beige Book reports point to a slight improvement in the pace of economic activity. Company outlooks on av-

Chart 5
Wage Pressures Intensify as Labor Shortages Persist



*Seasonally adjusted; centralized three-month moving average.
SOURCES: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS) and Texas Service Sector Outlook Survey (TSSOS).

**Table 1
Company Outlook Indexes Suggest More Optimism
About the Region**

	TMOS	TSSOS
First quarter 2013	9.4	6.5
Second quarter 2013	2.3	3.0
Third quarter 2013	7.6	9.5
Fourth quarter 2013	10.4	6.8
January–April 2014	13.0	10.3

SOURCE: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS) and Texas Service Sector Outlook Survey (TSSOS).

erage have improved significantly in 2014 over fourth quarter 2013 in both the services and manufacturing sectors, according to TBOS (*Table 1*).

The employment forecast has been upgraded to 2.8 percent growth for the year, and the TLI hit a record high in February, growing 1.1 percent month over month.

—Jesus Cañas and Melissa LoPalo

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About the Authors

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