

Regional

Regional Economic Growth Builds Momentum

August 4, 2014

The regional economy picked up pace in the second quarter, with payroll employment growing at a faster rate than in the first quarter. The Texas Business Outlook Surveys (TBOS) point to an uptick in activity in June and July. The July Beige Book continued to note healthy growth and optimism in outlooks. A strong energy sector, brisk activity in commercial real estate and lower economic uncertainty all seem to be helping Texas.

Texas Employment Growth Accelerates

Texas employment grew an annualized 4.7 percent in May and 2.4 percent in June, down from the strong 5.8 percent growth seen in April. Nevertheless, job creation accelerated to 4.3 percent in the second quarter, up from 2.4 percent in the first (*Chart 1*). This is the strongest growth since third quarter 2005 and is above the robust 3.9 percent growth seen in first quarter 2012. Texas continues to add jobs at a faster clip than the U.S., and the differential of Texas job growth over the U.S. has increased to 1.3 percentage points this year from 0.9 percentage points last year.

In the first half of 2014, Texas job creation was broad based, with the state's lead over U.S. job growth extending to all major sectors except construction, manufacturing and miscellaneous services. Although manufacturing employment growth has been sluggish year to date, job creation in chemical manufacturing—tied to the booming energy sector—has bucked the trend. The unemployment rate held steady at 5.1 percent in June, the lowest since August 2008.

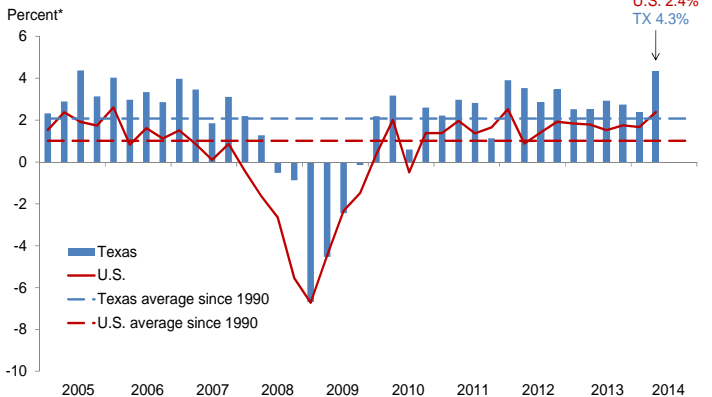
Texas Business Outlook Surveys Suggest Stronger Growth

The TBOS headline indexes rose in July from their June readings, suggesting a slight acceleration in growth in the manufacturing, services and retail sectors. Moreover, the quarterly averages of the headline indexes for all three surveys were not only higher in the second quarter compared with the first, but also significantly above second quarter 2013 levels.

Home Sales Flat to Up Slightly

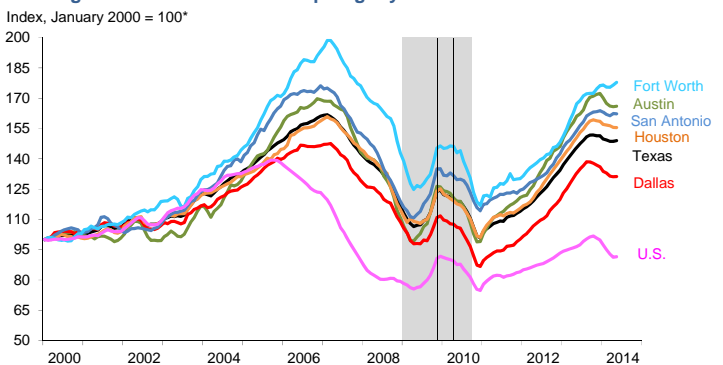
Existing-home sales rose 2.1 percent in June, following a

Chart 1
Texas Job Growth Accelerates in Second Quarter 2014



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

Chart 2
Existing-Home Sales Are Flat to Up Slightly



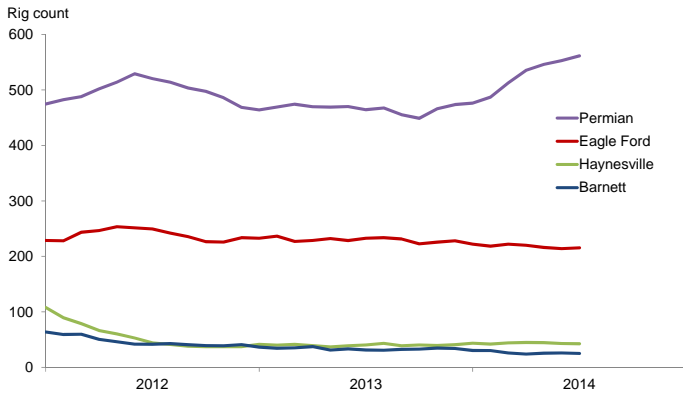
*Seasonally adjusted, six-month moving average.
NOTES: Shading represents period when the homebuyer tax credit was active. Vertical lines show original tax expiration dates. Last data point is June.
SOURCE: Multiple Listing Service.

0.9 percent increase in May. Six-month moving averages also show that sales are holding steady or picking up slightly both in the state and in most major Texas metros (*Chart 2*).

Commercial Real Estate Remains Brisk

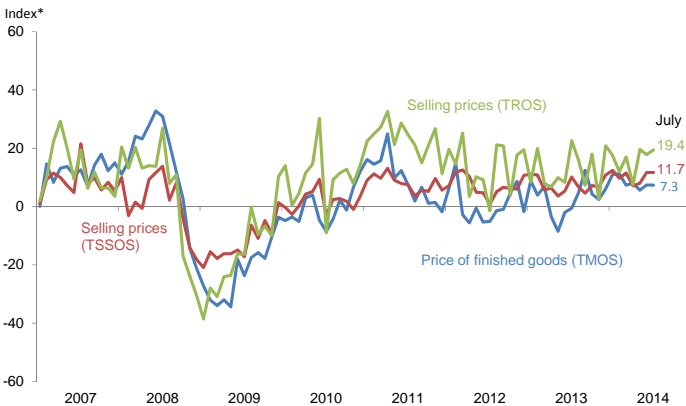
Activity in commercial real estate remains brisk across Texas major metros and is characterized by low vacancy rates, rising rents and high levels of construction for office and industrial space. Second-quarter data from CBRE Inc. show that office leasing activity was strong and rents con-

Chart 3
Rig Count Rises Rapidly in the Permian Basin



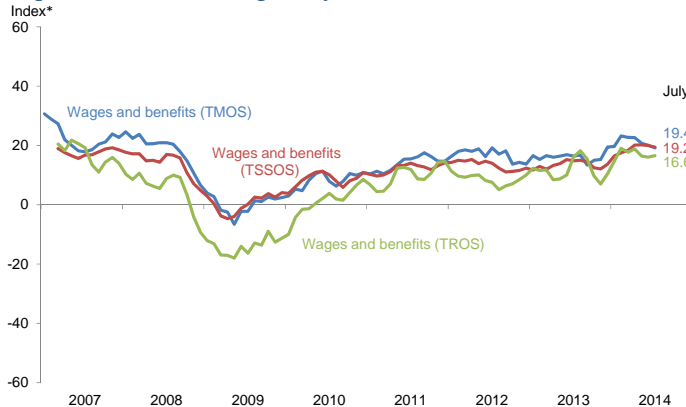
NOTE: Last data point is July.
SOURCE: Baker Hughes.

Chart 4
Price Pressures Remain Modest



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

Chart 5
Wage Pressures Are Holding Steady



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

tinued to trend upward. Office vacancy rates in the second quarter were below first-quarter and year-ago levels in all major metros except Fort Worth (*Table 1*).

Table 1: Office Vacancy Rates

Market	2013 Q2	2014 Q1	2014 Q2
Austin	11.3	10.9	9.7
Dallas	20.5	19.3	19
Fort Worth	13.5	15.8	15.9
Houston	12.8	12.6	11.8
San Antonio	17.7	17.4	16.8

Source: CBRE Econometric Advisors.

Energy Still a Major Driving Factor

The energy sector remains robust, and growth in drilling activity has been increasingly concentrated in the Permian Basin in West Texas. In mid-July there were 563 rigs in the area, up by about 95 rigs since the start of the year (*Chart 3*). In comparison, the rig counts in the Barnett and Eagle Ford basins have each declined by 10 rigs.

Texas Exports Flat in May

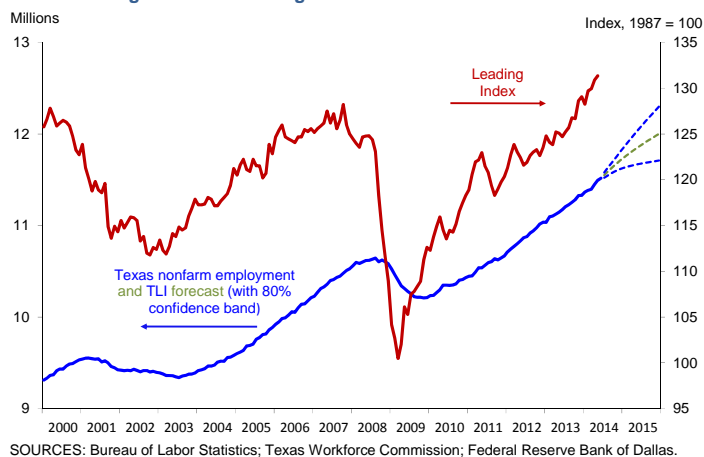
Texas' monthly real exports edged down 0.2 percent in May, following a 4.7 percent increase in April. Texas exports have been volatile this year; however, exports will likely see steady growth as the Mexican economy is growing faster than in 2013. Mexico's global economic activity index (IGAE), the proxy for GDP, grew 1 percent from March to May, and industrial production grew in April and May.

Price and Wage Pressures Holding Steady

Price pressures remained modest, with the exception of dairy and cattle prices, which are at or near record highs. The July TBOS data suggest selling prices in Texas are rising modestly (*Chart 4*). The Texas Manufacturing Outlook Survey (TMOS) finished goods prices index and Texas Service Sector Outlook Survey (TSSOS) selling prices index were flat in July, indicating price pressures continued at about the same pace in July as in June. The Texas Retail Outlook Survey (TROS) selling prices index ticked up in July.

Labor shortages and modest upward pressure on wages continue, and the July Beige Book noted that wage pressures remained strongest for skilled workers in high-demand sectors such as energy and construction. There were also reports of modest upward pressures in airlines, high tech, fabricated metals, primary metals and transportation equipment manufacturing. The wage and benefits indexes for TMOS and TSSOS were flat in July, but indexes are above year-ago levels, indicating wage pressures are higher than this time last year (*Chart 5*).

Chart 6
Texas Leading Index Forecasting Above-Trend Job Growth for 2014



Outlooks Positive; Job Forecast Points to Strong Growth

The Texas economy grew at a strong pace in the second quarter, with payroll employment growth accelerating in the second quarter compared with the first. The company outlook indexes for TMOS and TSSOS also rose in July, pointing to increased optimism in outlooks. The Texas Leading Index grew for the fourth consecutive month in May, rising 0.4 percent (*Chart 6*). The index rose 1.3 percent from March to May and is up 1.8 percent year to date. The employment forecast based on the leading index is for 3.4 percent growth in 2014, nearly on par with the 3.3 percent job growth (annualized) seen in the first half. Hence, the current rate of employment growth is expected to continue in the second half, resulting in faster growth in 2014 than 2013 and well above the long-term average of around 2.0 percent.

—Laila Assanie and Christina English

About the Authors

Assanie is a business economist and English is a former research analyst in the Research Department of the Federal Reserve Bank of Dallas.

