



Texas Economy Riding Out of the Recession

March 30, 2010

Further evidence confirms a mild recovery is taking hold in the region. Texas job growth was positive in January, up 0.5 percent on an annualized basis, and essentially unchanged in February. The four-week moving average of initial unemployment claims has declined for the past 16 weeks, dropping 6.7 percent. The Texas Leading Index continues to show gains, rising for the seventh straight month. Risks to the recovery do remain, however; home sales and permits still languish. In addition, the commercial real estate market remains weak, and commercial construction is unlikely to improve for some time.

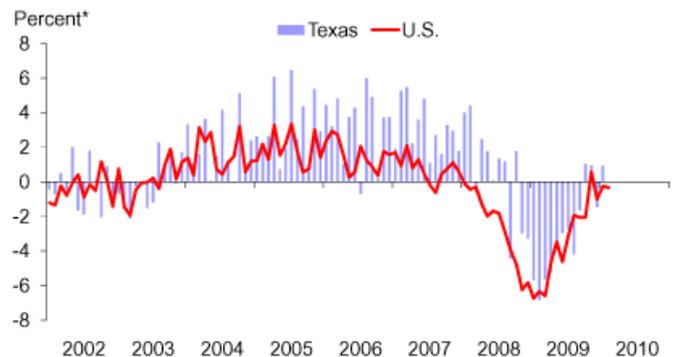
Employment

The Bureau of Labor Statistics employment data were recently benchmarked¹, revealing 337,800 jobs were lost in 2009; this exceeds the Dallas Fed's previous estimate of 329,400. Starting in October—when we saw the first monthly job growth in a year—we have seen a net addition of 3,100 jobs, 0.3 percent on an annualized basis (*Chart 1*). Private employment was flat in February and is down 0.5 percent over the past five months.

For the five months ending in February, by comparison, U.S. nonfarm employment and private payrolls declined 0.6 percent and 0.7 percent, respectively.

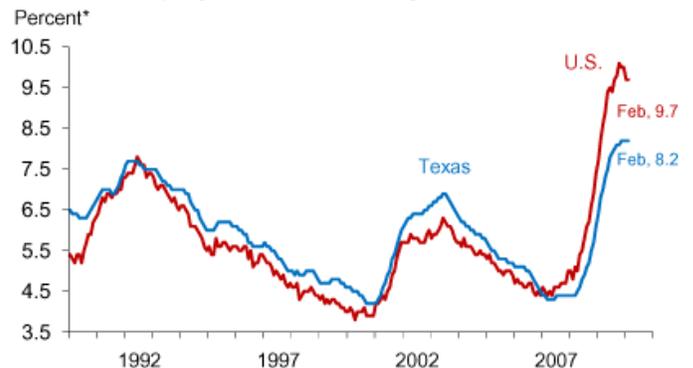
The Texas unemployment rate held steady in February at 8.2 percent and remains below the national average of 9.7 percent (*Chart 2*). Unemployment claims continue to decline as well and are at their lowest level since the final week of 2009.

Chart 1
Texas Job Growth Positive in January, Flat in February



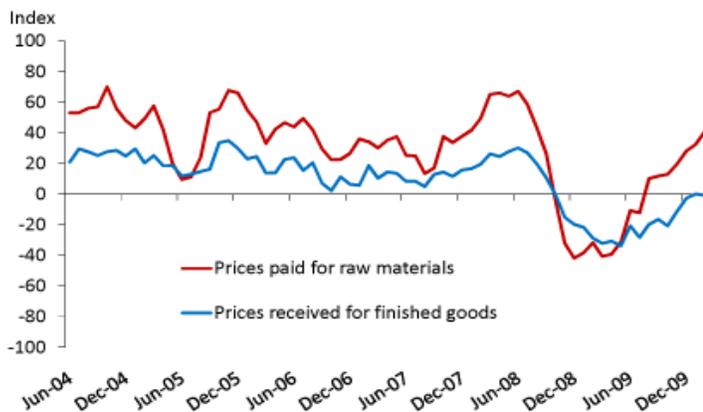
*Month/month; seasonally adjusted, annualized rate.
SOURCES: Bureau of Labor Statistics; Dallas Fed.

Chart 2
Texas Unemployment Rate Steady at 8.2 Percent



*Seasonally adjusted.
SOURCE: Bureau of Labor Statistics.

Chart 3
TMOS Shows Increasing Price Pressure from Raw Materials



SOURCE: Dallas Fed.

Price Pressures

According to Dallas Fed Beige Book contacts, price pressures have remained minimal across industries. While raw material prices have held relatively steady, prices for metals and fiber have ticked up recently.

Respondents to the Texas Manufacturing Outlook Survey reported a broader increase in raw material prices (*Chart 3*). While input prices have increased, prices received for finished goods have not, holding down inflationary pressures for the time being.

Energy

The energy sector has stabilized after the declines seen in 2009. The rig count rebounded strongly from its June 2009 low and continues to climb (Chart 4). The rig count is 38 percent below its all-time high reached in August 2008, though it's unlikely it will return to that level any time soon because drilling has become more efficient, especially in natural gas shale plays.

Commercial Real Estate

Given recent improvements in most sectors, commercial real estate stands out as the laggard and remains a risk to the recovery. Noncurrent loans continue to increase both in the Fed's Eleventh District and the U.S. (Chart 5). The relative good news is that 4 percent of commercial loans in the Eleventh District were noncurrent in the fourth quarter, whereas the national level was almost twice that figure, at 7.1 percent.

With the weakened status of the financial sector, a sharp increase in commercial foreclosures could further disrupt the flow of credit and impede economic growth. Private commercial construction has also dropped off drastically (Chart 6). The more stringent underwriting standards implemented by lenders and a lack of demand for square footage will prevent construction from rebounding in the near term.

Outlook

The Texas Leading Index rose 0.7 percent in January. After bottoming out in March 2009, the index has increased in eight of the 10 months since, climbing a cumulative 13.2 percent. Though the gains have moderated in recent months, the strong rebound off the lows and continued strength suggest Texas will expand in 2010 with job growth in the realm of 2 percent.

—Keith R. Phillips and Jackson Thies

About the Authors

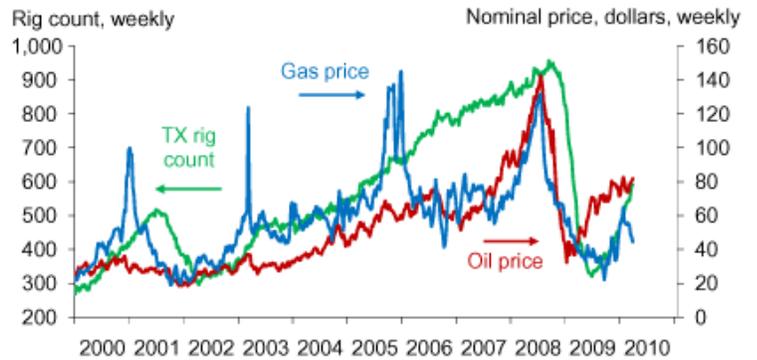
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Note

1. See Frank Berger's article at www.dallasfed.org/data/frbemploy/index.cfm.

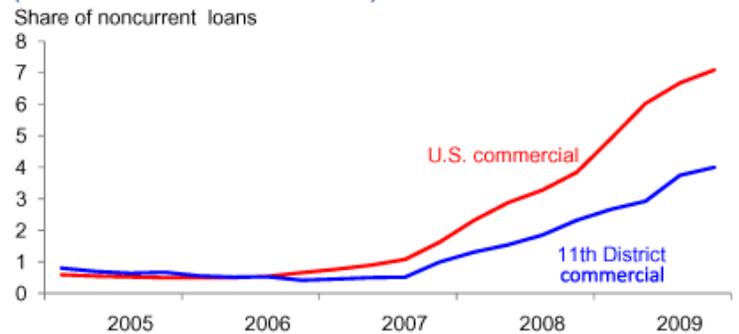
The Regional Economic Update can be found online at www.dallasfed.org/research/update-reg/index.cfm.

Chart 4
Energy Prices, Texas Rig Count Showing Slight Bounce



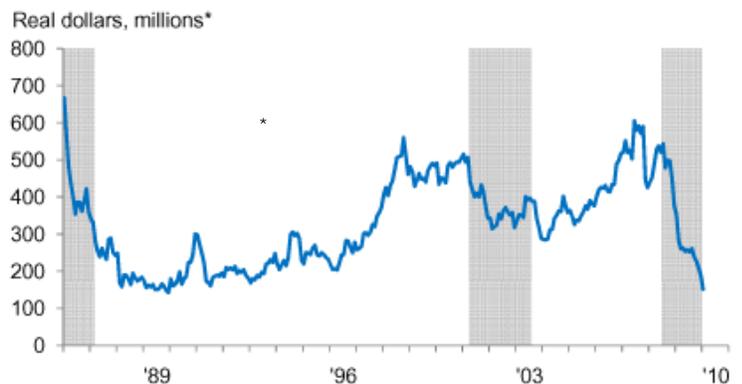
NOTE: Gas price is multiplied by 10.
SOURCES: *Wall Street Journal*; Baker Hughes, Inc.

Chart 5
Share of Noncurrent Commercial Loans Continues to Increase (U.S. insured commercial banks)



SOURCE: Dallas Fed.

Chart 6
Office and Retail Construction at Lowest Level in 20 Years



*Five-month moving average.
NOTE: Shaded areas indicate recessions.
SOURCE: F. W. Dodge.