



## Regional Economy Remains on Road to Recovery

August 13, 2010

Recent data and Federal Reserve Bank of Dallas surveys suggest that the regional economy continues to expand, although there are indications the pace may be slowing.

Some sectors of the economy weakened recently. The Texas Manufacturing Outlook Survey's production index, a key indicator of manufacturing conditions, fell below zero in June before moving back into positive territory in July. Other indexes in the Dallas Fed survey, including volume of new orders, posted negative values in July.

The housing sector faltered following the expiration of the home-buyer tax credits. Home sales and home construction activity have declined from April's levels. On a more positive note, high-tech orders remain robust, and the energy sector is contributing strongly to economic growth.

### Job Growth Positive but Slower

Texas employment grew in June at an annualized rate of 0.8 percent. This is a sizeable slowdown from May's annualized growth of 7.5 percent; however, May's figure was driven in part by Census hiring. Private employment (which excludes government) fared better, expanding at a 2.1 percent annualized pace in June, compared with over 3 percent the previous three months (*Chart 1*).

### Housing Falters After Tax Credits Expire

As expected, the Texas housing market weakened after the most recent homebuyer tax credits expired in April.

Month-over-month existing-home sales fell 11 percent in June but remain 10 percent above a year ago. Home price indexes suggest the tax credits may have helped to prop up housing prices, at least in the short term.

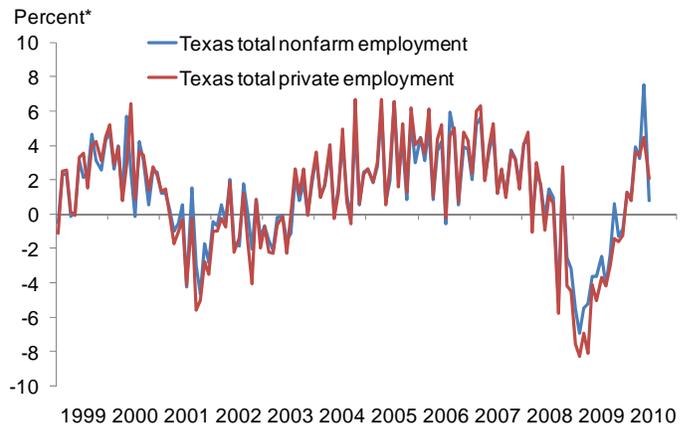
Inflation-adjusted single-family contract values for new homes in Texas fell 18.3 percent from April to June, and single-family permits fell 12 percent over the same period. Despite the declines, Texas represented 15.6 percent of U.S. single-family contract values and 14.7 percent of single-family permits in June (*Chart 2*).

### Commercial Real Estate Struggles

Private nonresidential construction levels remain depressed at near historic low levels, with public projects accounting for most new nonresidential construction. Office, industrial and retail leasing activity remains soft, and vacancy rates are still elevated across these sectors.

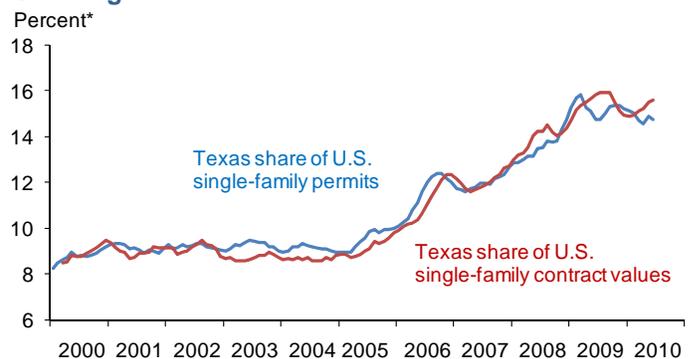
Commercial property sales offer a glimmer of hope for nonresidential markets in the U.S. and Texas as volumes inched up in the first quarter (*Chart 3*). Although newer data are not yet available, respondents to the Dallas Fed's Beige Book, an anecdotal

**Chart 1**  
Monthly Payroll Data Show Slowdown in June



\*Month/month; seasonally adjusted, annualized rate.  
SOURCES: Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

**Chart 2**  
Texas Share of U.S. Housing Construction Still Large



\*Seasonally adjusted.  
NOTE: Series smoothed using five-week moving average.  
SOURCES: Census Bureau; F.W. Dodge; calculations and adjustments by the Federal Reserve Bank of Dallas.

report on economic conditions, suggest that positive sales growth continued into the second quarter.

### Manufacturing Sector Weakens

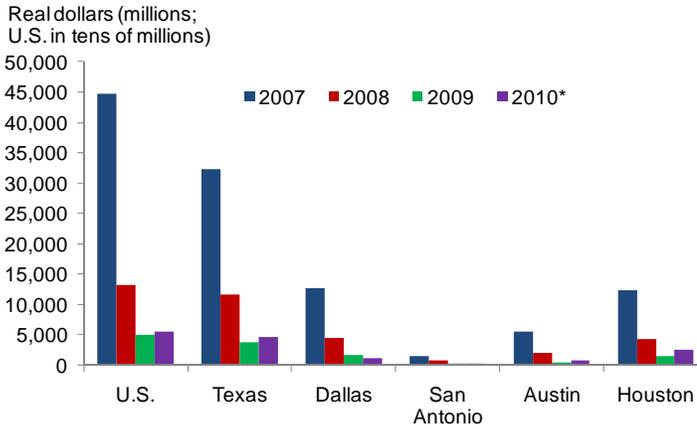
Data from the July release of the Texas Manufacturing Outlook Survey (TMOS) suggest a weakening in the manufacturing sector. Although the TMOS production index turned positive in July, the volume of new orders, volume of shipments and capacity utilization indexes all posted negative values. Decreased home construction activity after the tax-credit expiration and political uncertainty are likely contributing factors, based on comments

from survey respondents.

### Texas Exports Rise Again

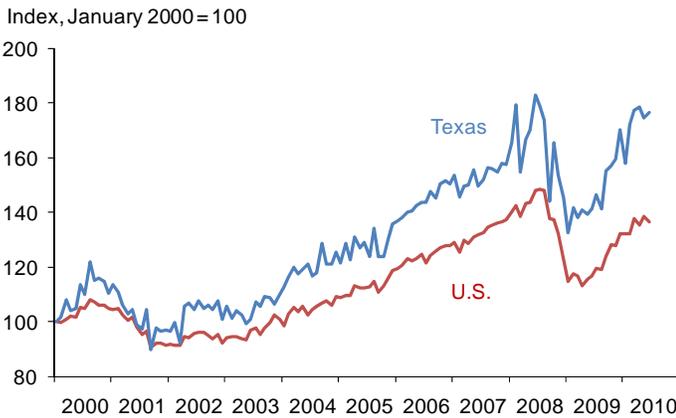
Strong global demand has lifted Texas exports from their 2009 lows. The inflation-adjusted value of Texas exports dipped 2.2 percent in May but rebounded in June to rise 1.1 percent. Texas

**Chart 3**  
**Commercial Real Estate Sales Inch Up in Texas**



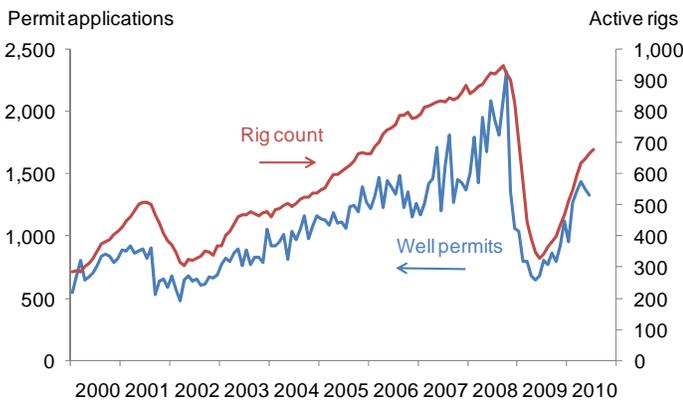
\*Year-to-date, annualized value.  
SOURCES: Real Capital Analytics; adjustments by the Federal Reserve Bank of Dallas.

**Chart 4**  
**Texas Exports Tick Up in June**



SOURCES: Census Bureau; adjustments by the Federal Reserve Bank of Dallas.

**Chart 5**  
**Rig Growth Slows, Well Permits Fall**



SOURCES: Texas Railroad Commission; Baker Hughes Inc.

exports are now 25.1 percent above year-ago levels (Chart 4).

### Energy Sector Boosts Texas

A strong energy sector heavily contributed to the Texas economy's positive first-half growth. Oil prices above \$77 per barrel and natural gas prices at \$4.6 per thousand cubic feet have resulted in oil-focused drilling, although natural gas drilling has been stable despite low prices. Rig counts have risen steadily since June 2009 to nearly double the number in operation a year ago. Well permits had also trended upward before falling slightly in June (Chart 5).

### Retail Sales Rise, Confidence Falls

The Dallas Fed's estimate of Texas retail sales in May rose nearly 1 percent from the previous month, while the U.S. retail sales estimate fell by a similar amount. The Dallas Fed Beige Book noted retailers expect gradual improvement in sales through year-end.

Consumer confidence for the West South Central region, which includes Texas, dipped in June and July, but is up from lows recorded in 2009. At a seasonally adjusted level of 66.1 in July, the West South Central index exceeds the national level of 50.4.

### Slight Slowdown Seen Ahead

After nearly reaching a two-year high in April, the Texas Leading Index—the Dallas Fed's composite of leading economic indicators—fell 1.2 percent in May and 0.9 percent in June (Chart 6). The trend suggests somewhat slower growth is on the horizon. The Dallas Beige Book and TMOS noted in July that uncertainty is a large factor in businesses' less-optimistic outlooks.

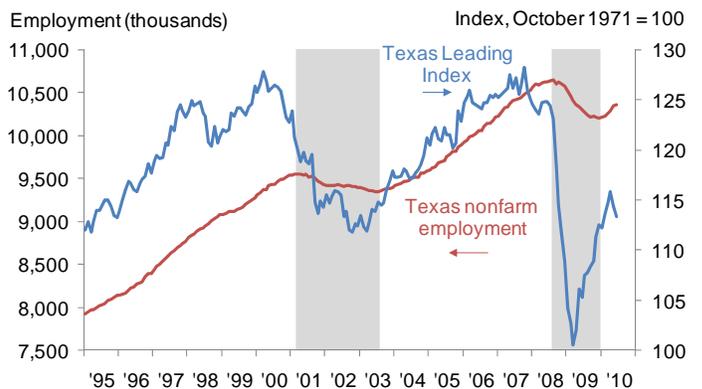
While data and surveys point to slower growth in the near future, conditions have generally improved over the first half of the year. Based on the Texas Leading Index, the most recent employment forecast shows growth of 2.5 to 3 percent in 2010, which is slightly below earlier forecasts.

—D'Ann Petersen and Adam Swadley

### About the Authors

Petersen is a business economist and Swadley is a research assistant in the Research Department of the Federal Reserve Bank of Dallas.

**Chart 6**  
**Slower Growth Ahead for Texas**



NOTE: Shaded areas represent Texas recessions.  
SOURCES: Texas Workforce Commission; Federal Reserve Bank of Dallas.