



Texas Recovery Plods Along in August

September 23, 2010

The Texas economy continues to recover at a moderate pace, but growth appears to have decelerated in August. While the energy sector and mortgage delinquency rates show improvement, job growth in construction and manufacturing is weaker. The uptrend in the Texas Leading Index has paused over the past two months, suggesting that the pace of recovery is slowing.

Job Market Recovery Continues, but Pace Slows

The Texas economy added 14,700 private-sector jobs at a 2.1 percent annual rate in August. August job growth was slightly stronger than the 1.7 percent growth recorded in July. Texas employment has expanded at a 2.7 percent annual rate year to date, faster than the national pace of 1.1 percent. The state has gained jobs at 1.9 percent annual rate so far in the third quarter, slowing from second quarter's 3.7 percent growth (*Chart 1*).

Most major sectors have added jobs since the end of 2009 and outperformed their U.S. counterparts. While employment in private services grew at a faster pace in August than July, growth in manufacturing and construction was slower. The current recovery, though nascent, so far appears stronger than the two previous jobless recoveries (*Chart 2*).

Long-Term Unemployment, Permanent Job Loss High

The average duration of unemployment reached lengths unseen in the three previous recessions, exceeding 30 weeks for the nation. Texas' average duration remains five weeks shorter, another indication that the labor market is stronger in Texas than the nation.

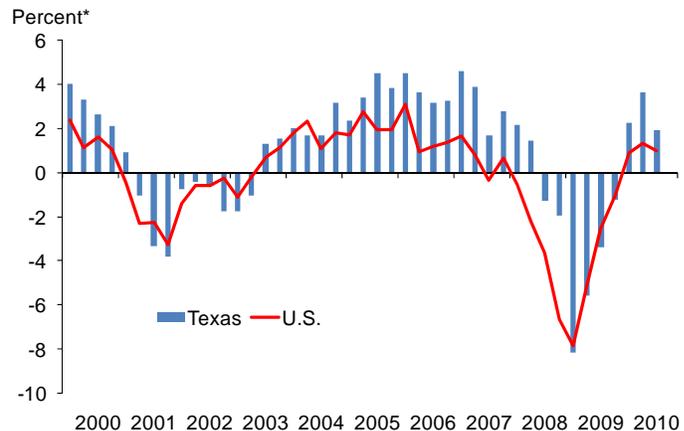
The recent recession also has a significantly higher incidence of permanent job losses—more than 40 percent of the nation's unemployed—than the previous postwar recessions. Permanent job loss refers to unemployment without expectation of recall into a previous position. The share of permanent job losses among the unemployed in Texas has begun to decline and remains below national figures (*Chart 3*).

Initial unemployment insurance claims, which fell until the end of last year, have stabilized since then, raising prospects of a slower recovery going forward. Overall, job growth is expected to be around 2.5 to 3 percent in 2010 and remain modest in 2011.

Retail Sales Sustain Tepid Growth

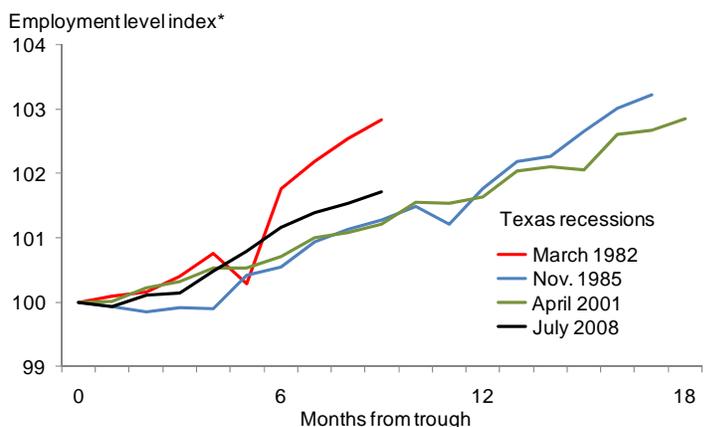
The Dallas Beige Book reports that growth in retail sales slowed in August, and retailers felt uncertain about the strength of the recovery. According to the Texas Comptroller's office, sales tax collections increased less than 1 percent from August 2009. The amount collected missed the 2010 budget-year target by 6.6

Chart 1
Texas Private-Sector Job Growth Slows in Third Quarter



*Quarterly job growth is the seasonally adjusted annualized change of the final month of the quarter from the final month of the previous quarter. SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 2
Economy Produces More Private-Sector Jobs than Past Two Jobless Recoveries



*Recession trough = 100. SOURCES: Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas; authors' calculations.

percent. The tepid growth indicates that retail sales growth the remainder of the year will be positive but small.

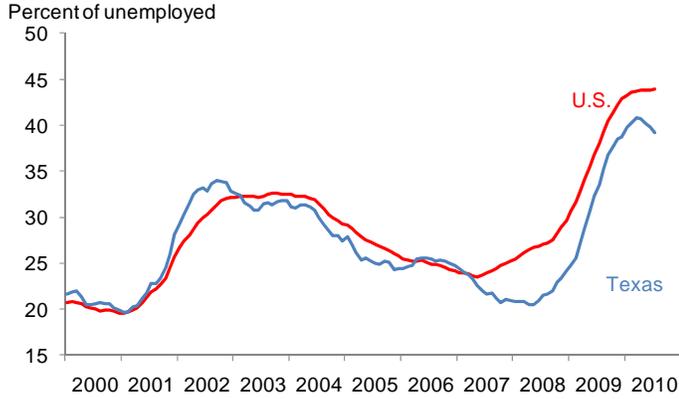
Serious Delinquencies Start to Fall

Serious delinquencies—mortgages 90 or more days past due, plus the inventory of foreclosures—among both prime and sub-prime borrowers in Texas began to decline in the second quarter but remain at high levels.

Housing Indicators Weaken

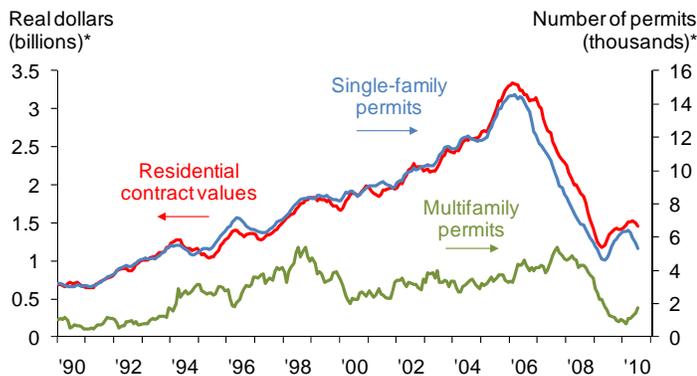
After hitting bottom in 2009, residential construction activity picked up in Texas, and employment in the sector recovered at a faster rate than in both manufacturing and services. But recent downward movement in the two leading indicators of fu-

Chart 3
Permanent Job Losses Remain at High Levels



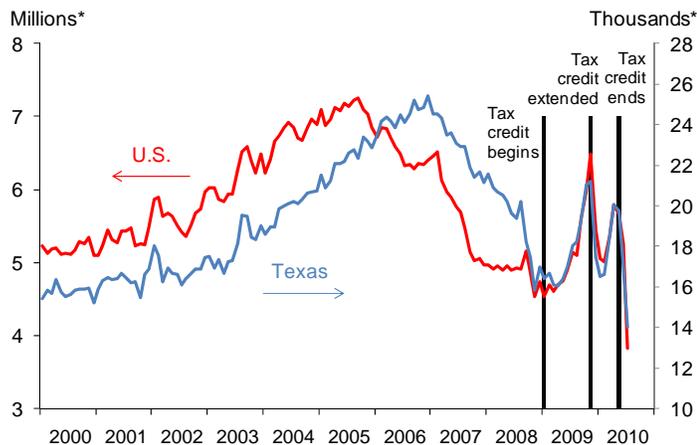
SOURCES: Bureau of Labor Statistics; Census Bureau; authors' calculations.

Chart 4
Construction Recovery Losing Pace



*Seasonally adjusted (five-month moving average).
SOURCES: Census Bureau; F.W. Dodge; seasonal adjustments by the Federal Reserve Bank of Dallas.

Chart 5
Existing-Home Sales Decline After Tax Credit Expires



*Seasonally adjusted.
SOURCES: Multiple Listing Service; seasonal adjustment by the Federal Reserve Bank of Dallas.

ture construction activity—single-family permits and residential construction contract values—point to an impending reversal in recent gains in homebuilding activity (Chart 4).

The fledgling housing market recovery that began in 2009 started to slip after the homebuyer tax credit expired in April 2010 (Chart 5). Texas sales of existing homes declined 17.4 percent from June to July and 22 percent from July 2009.

Energy Industry Recovers Strongly

Oil prices rebounded strongly and reached a postrecession high during the year but have since stabilized at levels that are still conducive to drilling. The rig count in Texas has risen steadily. Anecdotal reports indicate that the Gulf of Mexico drilling moratorium is not having a significant impact on the state's energy sector. A recent decline in natural gas prices may dampen overall activity going forward, however.

Exports Decline in July

Real Texas exports declined 3.2 percent in July, although they are up 15.2 percent from July 2009. Exports to Latin America (excluding Mexico) have grown impressively, but exports to China and the rest of Asia dropped in the first and second quarters.

Recovery Likely to Decelerate

The Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS) and Texas Leading Index, a composite index of eight leading economic indicators, both point to slower growth in the near future. Although still in the majority, fewer manufacturers responding to TMOS in August expect an improvement in capacity utilization or an increase in future orders. The Texas Leading Index appears to have paused after showing sustained increases earlier in the year, suggesting a slower pace of job gains, among other economic measures, in the coming months (Chart 6).

—Anil Kumar and Yingda Bi

About the Authors

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Chart 6
Texas Leading Index Fluctuates After Sustained Climb



SOURCE: Federal Reserve Bank of Dallas.