

Texas Economy Continues to Grow

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The Texas economy continues to expand at a moderate pace. Texas employment grew at a 2 percent rate in 2011. Government employment rose in November and December following four months of sharp declines. Housing indicators suggest that the sector continues to heal, and energy activity remains strong. However, a general slowing of exports has recently led to weakness in manufacturing activity, although exports rebounded somewhat in November. Jobs are projected to grow at about a 2 percent pace in 2012.

Employment Reaches Prerecession Peak

In December 2011, Texas finally reached the peak prerecession employment level set in August 2008. The state closed out the year with 10.6 million jobs. As of December 2011, there were 211,600, or 2 percent, more workers employed than in December 2010.

Texas job growth slowed in the fourth quarter, rising at a 1.2 percent annualized rate, compared with 2.7 percent in the first quarter, 2.5 percent in the second quarter and 1.7 percent in the third quarter (*Chart 1*). U.S. jobs grew at a 1.3 percent annualized rate in the fourth quarter.

The oil and gas extraction and mining support sector recorded the fastest job growth in 2011, at 14.7 percent. Other fast-growing sectors included professional and business services at 4.5 percent and leisure and hospitality at 4.0 percent. The information, construction and government sectors lost jobs in 2011. However, government employment grew for the second month in a row in December. After 15 months of losses, it appears government employment has finally bottomed.

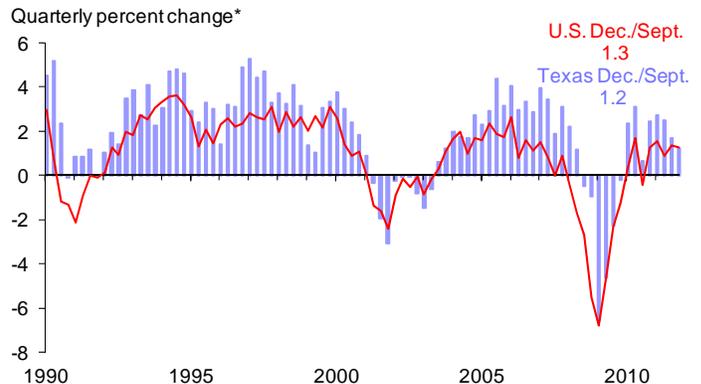
Retail Sales Robust

Retail sales activity consistently increased over the last two quarters of the year, and activity even accelerated slightly in the fourth quarter, according to the Texas Retail Outlook Survey (TROS). Retailers said sales were robust but consumers remain cautious, notes the latest Beige Book.

Signs of Improvement in Real Estate

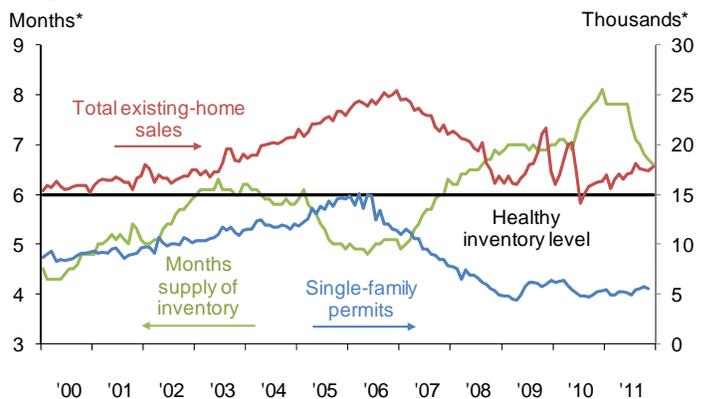
Texas existing-home sales rose by 2.2 percent in December and were up 8.7 percent from a year ago (*Chart 2*).

Chart 1
Texas Job Growth Slows in Second Half of 2011



*Annualized; quarterly employment figure uses the last month of the quarter. SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; Federal Reserve Bank of Dallas.

Chart 2
Texas Existing-Home Sales Tick Up as Inventories Edge Down



*Seasonally adjusted. SOURCES: Census Bureau; Multiple Listing Service; Federal Reserve Bank of Dallas.

Home prices increased by 0.8 percent in the third quarter but are still down 3.1 percent from their peak in first quarter 2009, according to the FHFA House Price Index. Existing-home inventories edged down to 6.6 months of supply in December, well below the peak of 8 months in December 2010. Historically, prices improve when inventories reach about 6 months of supply.

Despite the improvement in the housing sector, overall

construction activity in Texas is generally flat. The signs of a bottoming out in the single-family housing sector, along with decreases in the mortgage delinquency and foreclosure rates in the third quarter, suggest that Texas will see a gradual improvement in single-family residential building activity in 2012. In addition, a gradual improvement in nonresidential vacancy rates suggests nonresidential construction activity may also edge up in 2012.

Energy Activity Remains Strong

The Texas rig count remains elevated at 923 in the third week of January, on par with high levels seen in late October 2008, and West Texas Intermediate (WTI) crude oil prices averaged \$100 per barrel. Oil and service companies expect a high level of activity throughout the year, but employment growth in the energy sector is

likely to subside somewhat from the high rates recorded in 2011.

Manufacturing Dips

Factory activity decreased in the fourth quarter for the first time in two years, according to the Texas Manufacturing Outlook Survey (TMOS), although the pace of decline slowed in December. The TMOS production index moved up to -1.3 in December from -5.1 in November.

Despite the weakness in production, manufacturing employment grew at a solid 2.4 percent annualized rate in December and 3.3 percent in 2011.

Exports Stall but Rebound in November

Texas exports grew 4.5 percent in November after stalling in the two previous months due to the strong dollar (*Chart 3*). On a quarterly basis, exports to Europe, Asia (excluding China), Canada and Latin America (excluding Mexico) grew. Exports to China and Mexico fell in the third quarter.

Price Pressures Lessen

Price pressures eased in December, according to the Texas Business Outlook Surveys (TBOS) and the Eleventh District Beige Book. Selling prices declined for manufacturers, and prices in the retail and service sectors decelerated, according to the TBOS.

Outlook Positive

The Texas Leading Index rose for the second month in November after falling from June through September. All components of the index contributed positively over the three months ending in November except the Texas value of the dollar (*Chart 4*).

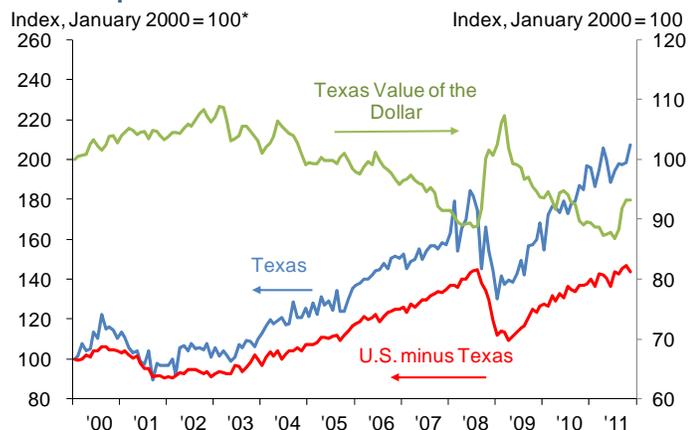
Overall, job growth in 2012 will likely be close to 2 percent for the third consecutive year. The weaker growth in exports, due to softer global economic expansion, may limit job creation this year. Offsetting this weakening will be a gradual improvement in construction activity and less drag from state and local government. With its slower rate of growth, energy employment will provide less impetus to the regional economy.

—Yingda Bi, Jesus Cañas and Keith Phillips

About the Authors

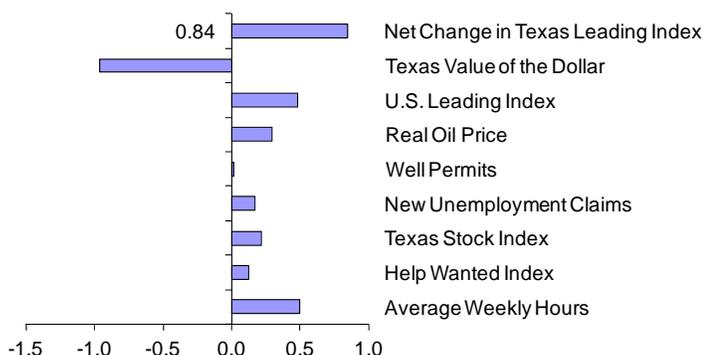
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Chart 3
Texas Exports Slowed in Second Half of 2011



*Seasonally adjusted, real dollars.
SOURCES: Census Bureau; Wisetrade; Federal Reserve Bank of Dallas.

Chart 4
Most Texas Leading Index Components Are Increasing
3-Month Change (Sept.–Nov.)



SOURCE: Federal Reserve Bank of Dallas.