



Regional Economy Still Improving

March 19, 2012

The regional economy has grown at a moderate pace over the past six weeks, with gradual but broad-based improvement evident. Although employment growth was modest at the end of 2011, Texas Business Outlook Survey labor-market indicators rose in February to their highest levels in at least four years, and other survey indicators were also positive. Exports, manufacturing and service-sector activity all improved somewhat, and the Texas Leading Index is pointing toward moderate growth in the spring.

Labor Market Strengthening

Payroll employment increased at a modest 1.5 percent annual rate in December but grew at a much stronger 6.7 percent rate in January. While new payroll data are always subject to revision, a substantial increase in employment was foreshadowed by anecdotal and survey evidence that suggested improvement in early 2012. The February employment index from the Texas Manufacturing Outlook Survey (TMOS) is at an all-time high, while the index for the Texas Service Sector Outlook Survey (TSSOS) is at a four-year high (*Chart 1*).

Initial claims for unemployment insurance have also improved, falling to their lowest level in more than three years (*Chart 2*). The unemployment rate fell to 7.8 percent in December from a high of 8.5 percent in September.

Manufacturing Activity Continues to Rise

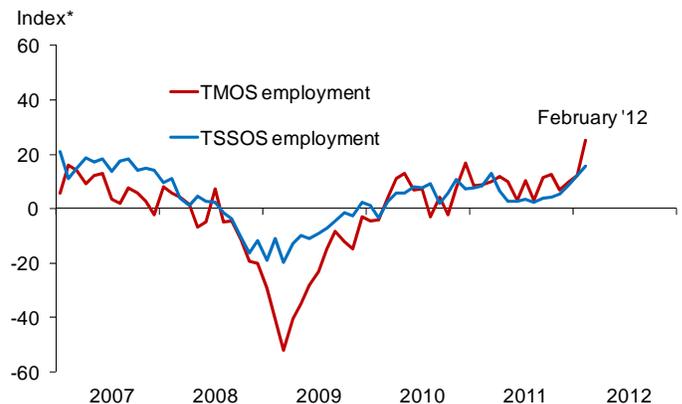
Manufacturing activity appears to be improving after a sluggish fourth quarter. The TMOS production index rose to its highest level in almost a year in February, and the Beige Book noted a broad-based pickup in manufacturing activity.

However, there were some negative signals for manufacturing. Defense-related manufacturing in North Texas could slow if proposed defense cuts are enacted. Texas-based Frito-Lay will lay off 3 percent of its workforce, with some job losses occurring in Texas.

Construction Mixed, Real Estate Slightly Stronger

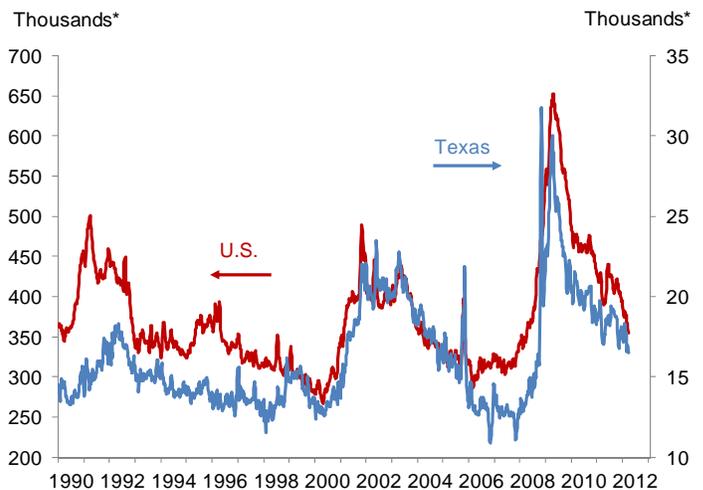
Construction contract values continue to be mixed, with

Chart 1
Employment Indexes for Manufacturing and Services Reach Post-Recession Highs



*Seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS) and Texas Service Sector Outlook Survey (TSSOS).

Chart 2
Initial Claims Reach a Three-Year Low

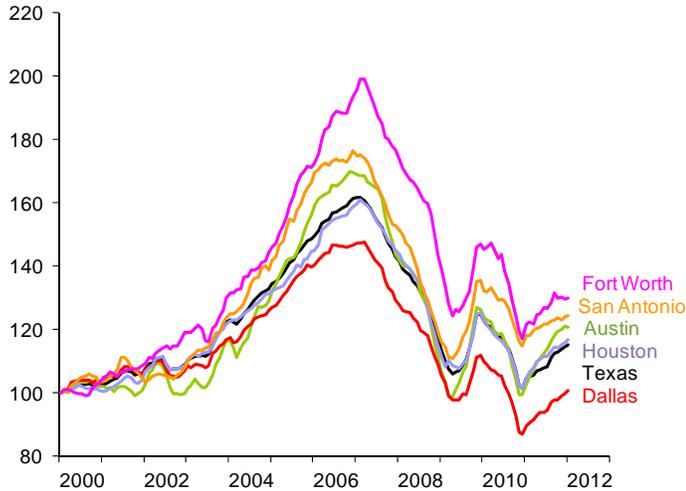


*Seasonally adjusted; four-week moving average.
SOURCE: U.S. Department of Labor.

residential remaining on the rise but nonresidential and nonbuilding still falling. The improvements in residential construction are partly driven by increases in single-family housing activity last year, following the 2010 expiration of the first-time buyer's tax credit. Existing-home sales have improved across the state, especially in Houston and in Dallas, where January sales were 14 percent higher than last year (*Chart 3*).

Chart 3
Existing-Home Sales Improve Statewide

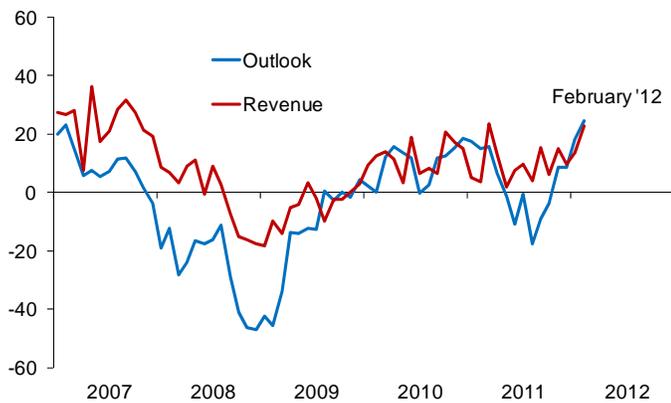
Index, January 2000 = 100*



*Seasonally adjusted; six-month moving average.
SOURCES: National Association of Realtors; Texas A&M Real Estate Center; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

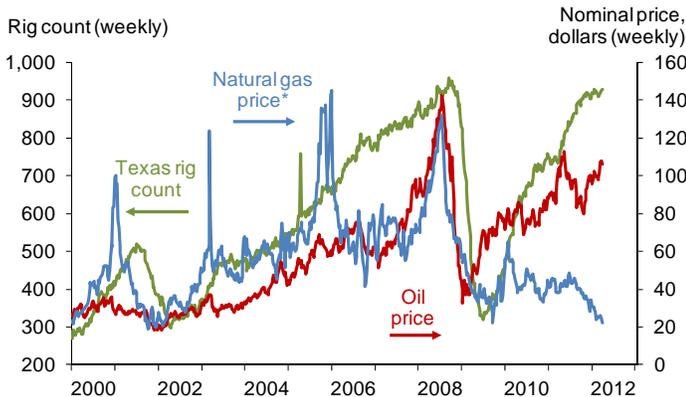
Chart 4
Service-Sector Revenue, Firm Outlook Indexes Climb

Index*



*Seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas' Texas Service Sector Outlook Survey.

Chart 5
Rig Count Stable as Oil and Gas Prices Diverge



*Per million British thermal units, multiplied by 10.
SOURCES: Wall Street Journal; Baker Hughes; Haver Analytics.

Two other data releases reinforce the idea of improvements in the Dallas–Fort Worth area. First, March home foreclosure filings are down 20 percent year over year in the metroplex. Second, Dallas home prices fell only 1.3 percent year over year, compared with a 4 percent decline nationwide.

Service-Sector Activity Grows

The TSSOS suggests service-sector activity has continued to expand over the past six weeks. The revenue index rose in February to its highest level since the recession began. Moreover, companies' individual outlooks rose to the highest level in the five-year history of the survey (Chart 4).

The Beige Book also reported a broad-based increase in demand for services. Shipments of cargo rose, business services expanded and staffing firms reported high levels of demand. Responding firms in the financial services sector reported fewer problem loans and higher loan quality.

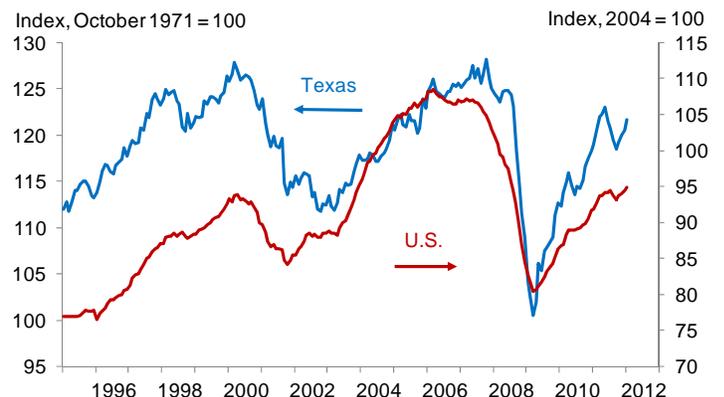
Energy Strong, Likely to Strengthen Further

The Texas rig count remained at high levels last seen in 2008 as oil prices moved above \$100 per barrel (Chart 5). The current Cushing oil bottleneck may get some relief soon as TransCanada Corp. announced plans to immediately begin construction of the Oklahoma-to-Texas leg of the Keystone XL pipeline. This is expected to deliver up to 700,000 barrels of oil per day to the Gulf Coast by summer 2013.

Price Pressures Remain but Are Modest

Price pressures have remained moderate over the past six weeks. Both TMOS and TSSOS reported somewhat stronger price pressures for raw materials and finished goods in February. Beige Book also noted a modest increase for fabricated metals, food and transportation

Chart 6
Texas Leading Index Rises After Third-Quarter Swoon



SOURCES: The Conference Board's U.S. Leading Economic Index; Federal Reserve Bank of Dallas' Texas Leading Index.

equipment and higher fares for cargo transport.

Summary

The Texas economy has grown at a moderate pace in recent weeks due to broad-based improvement. Concerns from the fourth quarter about a growth slowdown have ebbed somewhat on better manufacturing and services data.

Additionally, the Texas Leading Index has risen for four consecutive months, and all but one of the leading-index components are positive (*Chart 6*). Other leading indicators, such as temporary employment, are also positive. While these indicators do not signal exceptionally strong growth, they do suggest the regional economy may grow at a moderate pace over the near term.

—Christina Daly and Jason Saving

About the Authors

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