

## Regional Economy Picks Up

April 26, 2012

Regional economic indicators point to stronger job and output growth in the first quarter of the year. Improvement has been pronounced and broad based, although growth slowed in March. Since December, Texas job growth has surged, unemployment has dipped, survey indexes have posted strong readings for production and revenue, retail sales have increased and exports have risen further. The Texas Leading Index increased in February for the fifth consecutive month. However, construction remains subdued, house prices are still depressed and purchasing power is undermined by high fuel and food prices.

### Employment Growth Strong

First-quarter employment grew at a rapid rate of 3.1 percent in Texas (annualized), compared with 1.9 percent in the nation (*Chart 1*). The pace slowed as the quarter progressed. Employment grew at an annualized rate of 6.8 percent in January, 2.3 percent in February and 0.4 percent in March. The unemployment rate fell from 7.1 percent in February to 7 percent in March.

First-quarter job growth was broad based. All major industries except government saw employment increases. Notably, construction employment rose 7.2 percent (annualized) in the quarter after falling in the last two quarters of 2011.

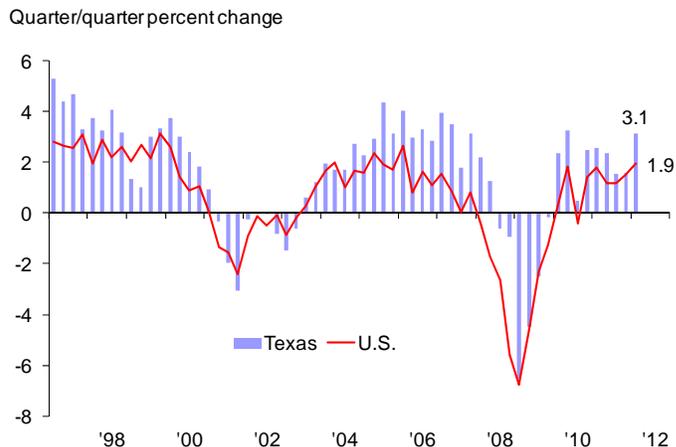
### Surveys Suggest Output Growth

The Texas Business Outlook Surveys' headline indexes suggested greater activity in March (*Chart 2*). Manufacturing growth continued, according to the Texas Manufacturing Outlook Survey's production index, which held steady at a reading of 11. The Texas Service Sector Outlook Survey suggested revenue continued to grow but at a slower pace in March. The retail sector showed notable strength; the Texas Retail Outlook Survey's sales index rose to its highest reading in six months.

### Construction Mixed, Real Estate Improves

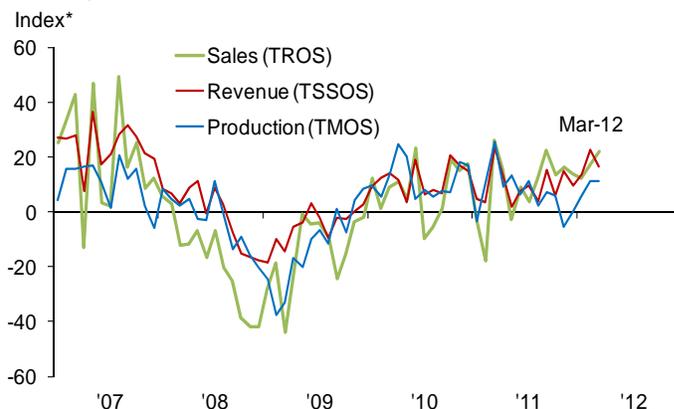
Texas total construction contract values (five-month moving average) remain at very low levels (*Chart 3*). Residential construction contract values fell 3 percent in March. Nonresidential building contract values rose 4.4

**Chart 1**  
Texas Job Growth Spikes in First Quarter



\* Seasonally adjusted annual rate; 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**  
Survey Headline Indexes Rise in 2012



\* Seasonally adjusted.  
SOURCES: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

percent, while nonbuilding construction contract values rose 1.1 percent.

While single-family construction contract values dipped, other single-family construction indicators continued on an upward trajectory. Housing starts rose for the third month in a row, and permits for single-family housing increased in February. Overall, single-family construction

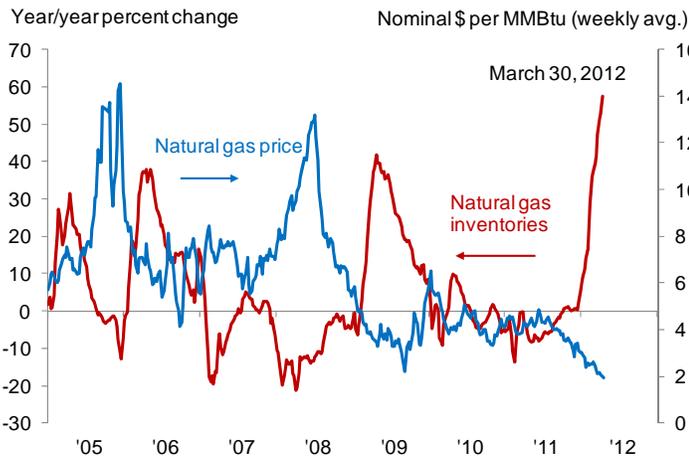
**Chart 3**  
**Construction Contract Values Remain Low in Texas**

Index, Jan 2000 = 100\*



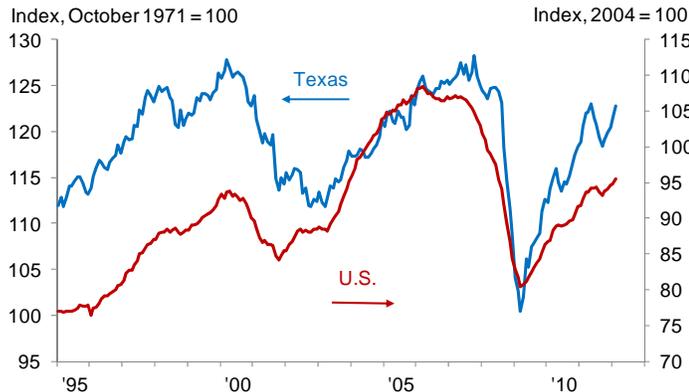
\* Real values, seasonally adjusted; five-month moving average.  
 SOURCES: F.W. Dodge; Federal Reserve Bank of Dallas.

**Chart 4**  
**Natural Gas Inventories Surge**



SOURCES: *Wall Street Journal*; U.S. Energy Information Administration; author's calculations.

**Chart 5**  
**Texas Leading Index Rises Sharply in February**



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

appears to have bottomed out in early 2011 and is still at very low levels, but indicators are headed upward.

Sales and inventory data suggest housing markets across the state continue to improve. Texas house prices rose 1.2 percent in the fourth quarter, according to the Federal Housing Finance Agency, while prices were flat in the U.S. Months of inventory remained at 6.1 in March for Texas. Below six months of inventory is consistent with a "tight" housing market, which could result in higher prices.

**Retail Sales Pick Up**

Retail sales picked up the pace in February, growing 0.9 percent after edging up 0.7 percent in January. This is consistent with other reports of increased retail activity and stronger consumer demand.

**Exports Rise More Slowly in 2012**

Texas exports continue to rise, albeit at a slower pace. Monthly growth in real Texas exports averaged 0.3 percent in January and February, compared with 2.8 percent in fourth quarter 2011.

**Energy Activity a Driver**

High oil prices continue to contribute positively to the Texas economy. Although the West Texas Intermediate crude oil price has recently fallen below March highs of \$107 per barrel, prices are still high enough to support more oil extraction, particularly in the Eagle Ford and Permian Basin areas.

Natural gas inventories are 57 percent higher than at the same time last year, due to rising production and lower heating demand during an unusually warm winter (*Chart 4*). As a result, prices have fallen below \$2 per MMBtu. This has stalled dry natural gas drilling activity in the Barnett and Haynesville shales and prompted mining services firms to move operations toward Eagle Ford and the Permian Basin, where there are more oil and natural gas liquids.

**Outlook Positive**

The Texas Leading Index rose 1.1 percent in February, a fifth consecutive increase (*Chart 5*). Job growth is estimated to be 2.5 to 3 percent for 2012.

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