



## The Regional Economy: Growth Eases in the Spring

June 22, 2012

Regional economic indicators point to decelerating job and output growth this spring. Employment grew at a sluggish pace in April and May after strong activity earlier in the year. The Texas Business Outlook surveys also reflect slowing expansion. The single-family housing market is improving, although residential construction remains weak. Monthly exports fell in April, as did the Texas Leading Index. Still, the job forecast continues to call for stronger growth in 2012 than in 2011.

### Employment Growth Decelerates

Employment growth slowed to a 0.8 percent annualized rate in May (*Chart 1*). This stemmed from the goods-producing sector, where employment contracted 4 percent. Job losses were in mining (with a 16.4 percent annualized loss, the first notable decline since 2009) and in manufacturing. Construction added jobs but at a slower pace than in April. Service sector employment growth picked up in May, spurred by robust growth in professional and business services, a sector that lost jobs in the prior two months. Since December, employment has risen in all sectors except government, which declined at a 1.6 percent annualized rate. Total year-to-date annualized job growth in Texas is 2.4 percent, nearly a percentage point greater than of the nation. The Texas unemployment rate remained at 6.9 percent in May.

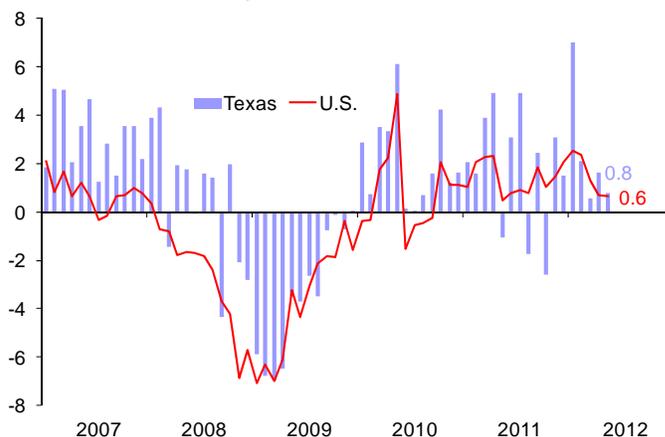
### Other Economic Measures Expand at a Slower Pace

The Texas Business Outlook Survey headline indexes all stayed positive but moved lower in May, suggesting slowing expansion in manufacturing and service sectors during April and May (*Chart 2*).

The surveys also show an increasingly pessimistic outlook for the broader economy. Among manufacturers, the general business activity index fell into negative territory in April and declined further in May, indicating weaker business conditions. Among service sector respondents, the general business activity index remained positive but moved lower, signaling only slowly improving business conditions. Respondents' comments suggested their outlooks were dimmed by uncertainty arising from the upcoming presidential election and deepening problems in Europe.

**Chart 1**  
**Texas Job Growth Slows from Earlier in the Year**

Month/month percent change\*

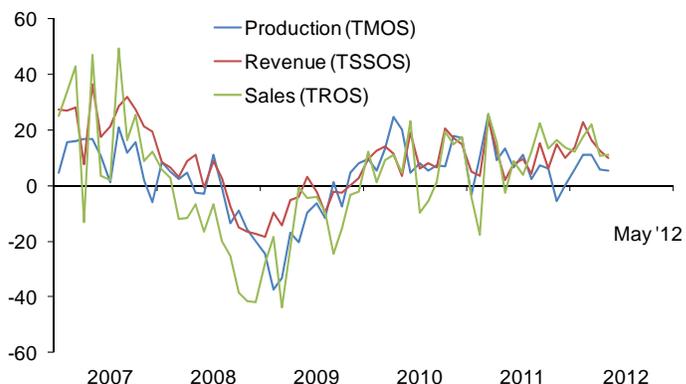


\*Seasonally adjusted annual rate.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; Federal Reserve Bank of Dallas.

**Chart 2**  
**Survey Headline Indexes Recede**

Index\*



\*Seasonally adjusted.

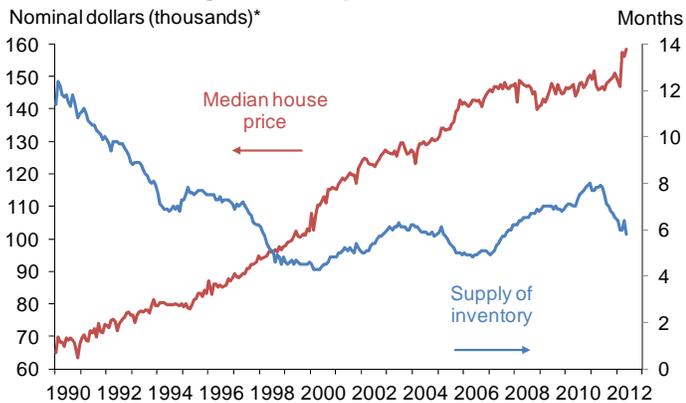
NOTE: Positive readings in the surveys generally indicate expansion of activity, while readings below zero generally indicate contraction.

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

### Construction Still Tepid; Single-Family Housing Turns Around

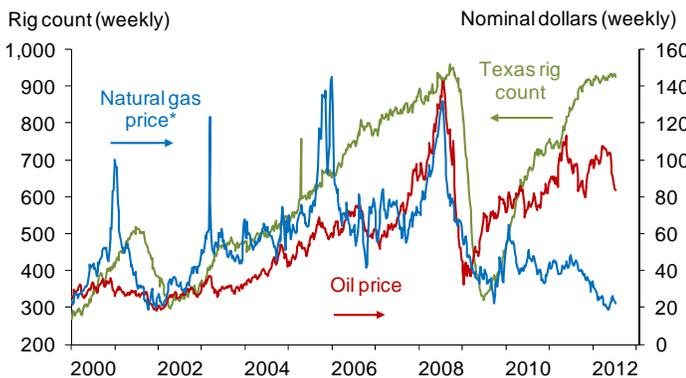
Construction activity remained at low levels in May. Residential construction contract values rose 0.1 percent, while nonresidential fell 1.2 percent and nonbuilding (such

**Chart 3**  
**Supply and Demand of Existing Homes:**  
**Inventories Plunge, Prices Spike**



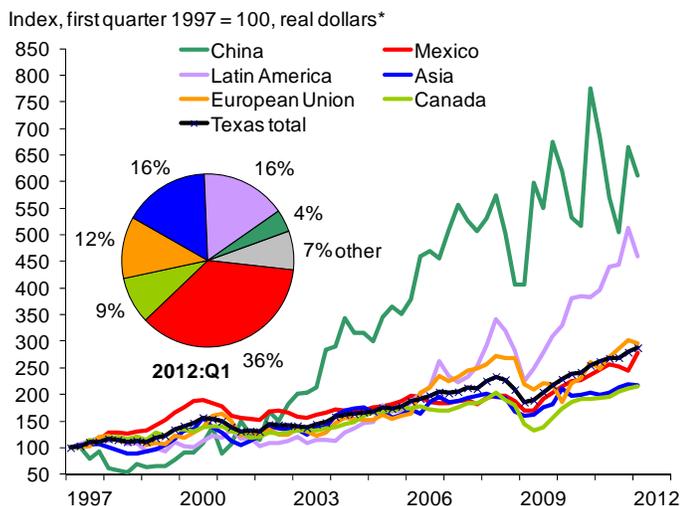
\*Seasonally adjusted.  
 SOURCES: Multiple Listing Service; Federal Reserve Bank of Dallas.

**Chart 4**  
**Energy Activity Remains Strong Despite Drop in**  
**Oil Prices**



\*Multiplied by 10.  
 SOURCES: Wall Street Journal; Baker Hughes; Haver Analytics.

**Chart 5**  
**Increased Exports to Mexico Offset Declines to**  
**Other Countries**



\*Seasonally adjusted.  
 NOTE: Latin America excludes Mexico; Asia excludes China.  
 SOURCES: Census Bureau; Wisertrade; Federal Reserve Bank of Dallas.

as streets, highways and sewers) declined 3.4 percent (based on a five-month moving average).

Existing-home sales increased 1.6 percent in May (six-month moving average), and single-family building permits rose 1.9 percent in April (five-month moving average). Median house prices are up \$7,600 year to date (Chart 3). Existing-home inventory, which stood at 6.5 months in December, fell to 5.8 months in May, pushing below the six-month-supply marker signaling a tight market and rising prices. Inventories in several large metro areas are well below six months, with Austin at 4.2 months, Dallas at 4.5 and Houston at 5.5.

**Oil Prices Falling**

West Texas Intermediate oil prices plummeted to \$84 per barrel as of June 15, down from \$107 highs at the beginning of March (Chart 4).

Natural gas prices rose in late April and early May but have edged back down. Prices were around \$2.46 per MMBtu in mid-June.

The Texas rig count (combined oil and natural gas) stands at 926 active rigs, little changed from the beginning of the year. Production in the Eagle Ford Shale is booming; oil production expanded sixfold from 2010 to 2011, and natural gas production more than doubled.

**Exports Decline in April**

Real Texas exports fell 3.4 percent in April after slowly trending down since December.

Real exports grew 3 percent in the first quarter, a slower pace than in the fourth. Transportation equipment and computers and electronics led first-quarter growth, while petroleum and coal product exports declined more than 10 percent. Although exports to Mexico and Canada increased, exports to Latin America (excluding Mexico), Asia and the European Union fell (Chart 5).

**Outlook Weakens**

The Texas Leading Index fell 0.5 percent in April after increasing for six consecutive months. Areas of concern include rising jobless claims, lower oil prices that could lead to a slowdown in exploration activity, and a decelerating global economy and an appreciating dollar dampening exports.

Although regional economic expansion has slowed in recent months, we expect Texas to continue to add jobs at a moderate rate and outpace the nation in job growth.

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**About the Authors**

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