

# Regional

## Regional Economic Growth Decelerates

August 3, 2012

Regional indicators point to a slowing in economic growth. Texas employment growth was more modest in the second quarter than in the first, although growth is still outpacing the nation due in part to strength in the energy sector. The recent slowdown appears to be related to weaknesses in the global economy and general uncertainty about the pace of the current U.S. expansion.

### Labor Market Growth Slows but Outpaces U.S. Average

Texas started off 2012 with strong job growth of 3.2 percent in the first quarter, but the pace slowed to 1.4 percent in the second, for a growth rate of 2.3 percent so far this year (*Chart 1*). In the first half of the year, Texas private employment rose at an annualized rate of 3.0 percent, while the government sector contracted. Of note, the construction sector, which had been a drag on the Texas economy since 2008, posted robust employment growth of 9 percent (annualized) in the first half of 2012. Of the major industries, oil- and gas-related jobs have grown at the fastest pace this year, at a 9.5 percent annualized rate.

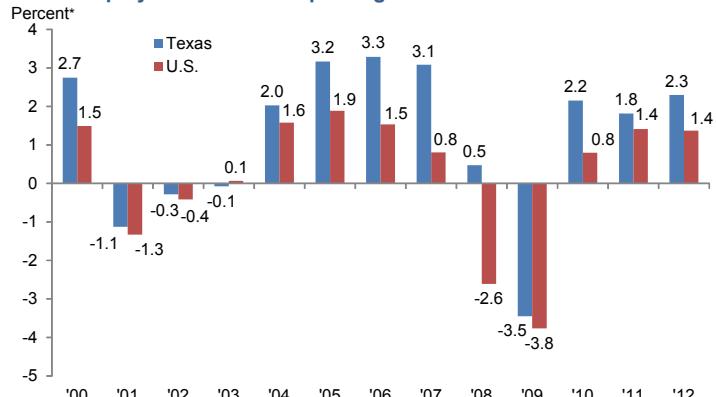
The Texas unemployment rate inched up to 7 percent in June from 6.9 percent in May, as more people entered the labor force than those who found employment. Temporary hiring, which generally leads overall employment, edged down in June following very strong growth in May. However, strong growth in temporary hiring year-to-date may reflect firms' reluctance to add to permanent payrolls given the high level of economic uncertainty.

### Other Measures of Regional Activity Suggest Slower Growth

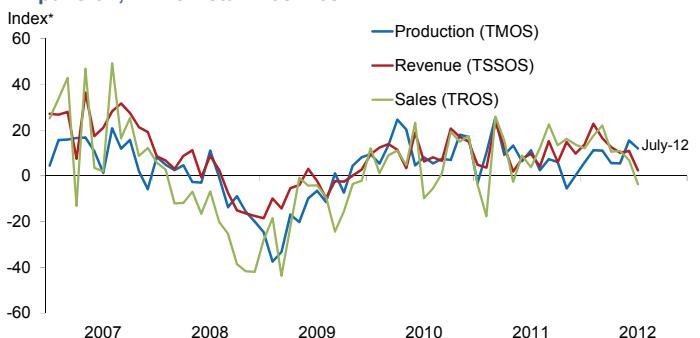
The Dallas Fed's Texas Business Outlook Surveys (TBOS) suggest a modest expansion. Manufacturing activity moderated slightly in July, according to the Texas Manufacturing Outlook Survey's (TMOS) production index. Service sector activity, represented by the Texas Service Sector Outlook Survey's (TSSOS) revenue index, also expanded at a slower pace. Retail executives responding to the Texas Retail Outlook Survey (TROS) said sales fell in July, the first negative reading since May 2011 (*Chart 2*).

Although Texas economic activity remains positive for the most part, firms responding to the Dallas Fed surveys sug-

**Chart 1**  
Texas Employment Growth Improving



**Chart 2**  
Service and Manufacturing Headline Indexes Suggest Modest Expansion, While Retail Declines



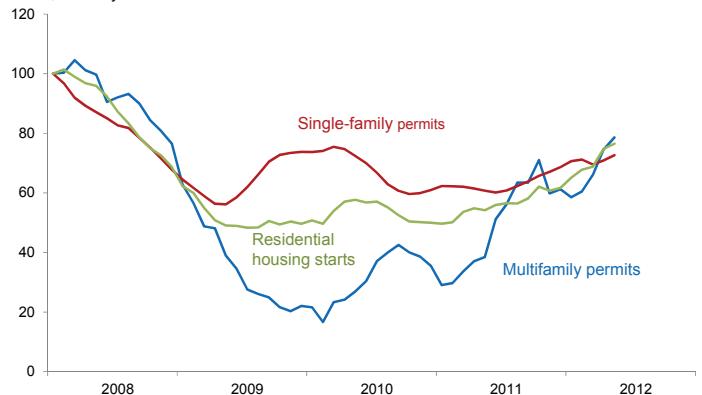
gest that U.S. business conditions have worsened, with many citing heightened uncertainty.

### Housing Recovery Spurs Construction

Increases in housing demand have led to rising construction levels this year. Texas single-family permits rose at an annualized pace of 34 percent year-to-date through June (*Chart 3*), and residential construction activity is up 42 percent from levels in May 2011, when activity started to pick up. Through June, existing home sales are up 18.5 percent, and home prices have begun to rise this year.

**Chart 3**  
**Residential Construction Improves**

Index, January 2008 = 100\*

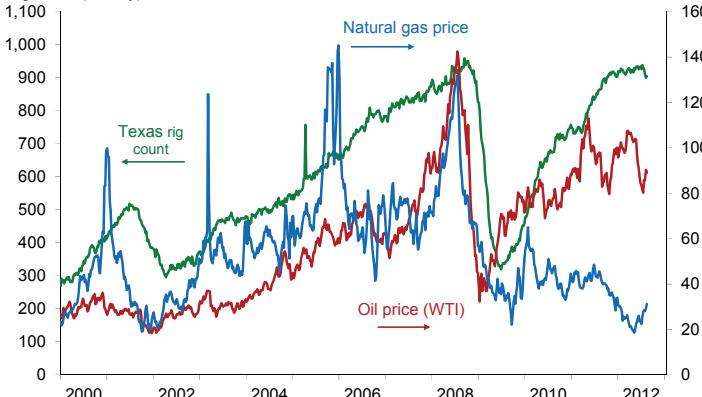


\*Five-month moving average.

SOURCES: Census Bureau; Bank of Tokyo-Mitsubishi.

**Chart 4**  
**Oil Prices Rising**

Rig count (weekly)

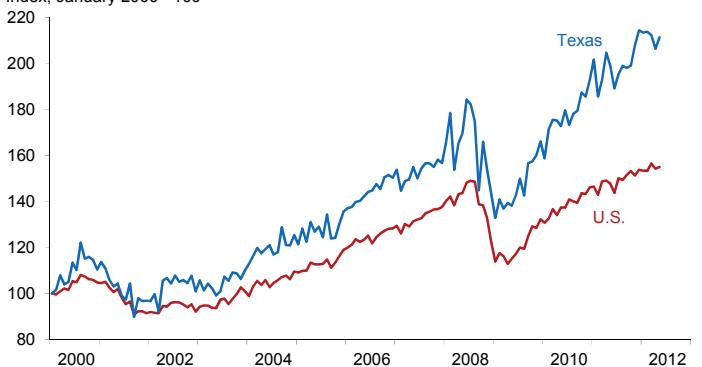


Note: Gas price is multiplied by 10.

SOURCES: Wall Street Journal; Baker Hughes; Haver Analytics.

**Chart 5**  
**Texas Exports Improve in May**

Index, January 2000 =100\*



\*Real dollars; seasonally adjusted.

SOURCES: Census; Wisertrade; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Texas single-family existing home inventories are at 5.7 months of supply at the current sales pace. Inventories below about 6.5 months of supply are historically consistent with rising home prices. Several Texas metros, including Austin, Dallas and Fort Worth, have inventories close to four months of supply, suggesting room for further price increases.

The foreclosure rate is still elevated in Texas at 4.4 percent but remains well below the national average of 7.4 percent. The share of seriously delinquent Texas mortgages continues to decline, which signals that the foreclosure rate should improve with time.

Texas apartment markets remain healthy. Strong demand in the first half of 2012 has pushed apartment vacancy rates down below 10 percent in Texas' major metros despite an upswing in multifamily construction.

### Energy Activity Still Strong; Oil Price Edging Up

The price of West Texas Intermediate crude oil recently ticked up to just over \$90 per barrel, and the Texas rig count remained high in June at 951 rigs (Chart 4). Dallas Fed contacts at energy-related firms said activity remains strong and that the rapid shift from dry-gas drilling to oil-directed drilling has not reduced the overall pace of activity.

### Exports Are Sluggish as Global Demand Weakens

Texas exports (adjusted for inflation) increased in May after falling in April (Chart 5). However, real Texas exports have decreased 2.8 percent this year through May, consistent with slowing global growth. In the July Dallas Fed Beige Book, contacts noted slower demand for high-tech products and petrochemicals, two of Texas' largest exporting industries.

### Price Pressures Are Minimal

Price pressures are relatively low according to Texas firms responding to the TBOS surveys and the Dallas Beige Book. The majority of manufacturers and retailers surveyed for TBOS noted declines in selling prices in July. The most recent Dallas Beige Book reported little price pressure and an overall decline in input costs.

### Agriculture Remains a Concern

Agricultural conditions deteriorated slightly in recent months due to hot and dry weather, although drought conditions are improved from a year ago. Livestock producers have seen pastures dry out, cattle prices fall and feed costs increase, mainly as prices for corn and other grains have increased.

### Outlook Reflects National Uncertainties

The regional economy continues to expand, but employment growth has slowed. Despite the slowdown, Texas continues to outperform many other areas of the U.S. On a positive note, although consumer confidence declined at

the national level in June, the index continued to rise in the West South Central Region, of which Texas makes up a significant share (*Chart 6*).

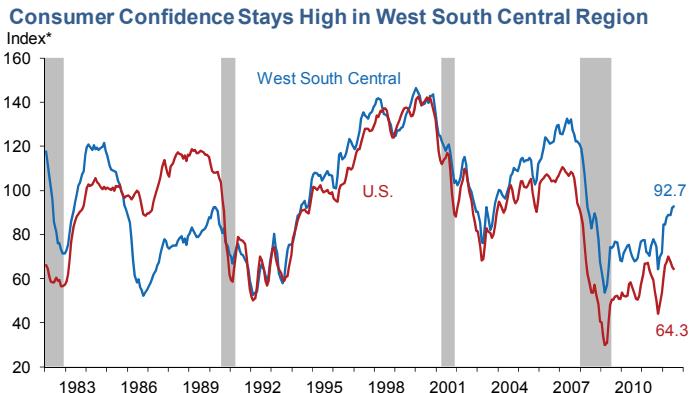
The Texas Leading Index, the Dallas Fed's barometer of future employment activity, edged down in April and May, suggesting slower growth ahead. The current forecast is for a slowdown in job growth in the second half of the year, although annual growth is expected to come in slightly higher than in 2011.

—Christina Daly and D'Ann Petersen

#### About the Authors

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**Chart 6**  
**Consumer Confidence Stays High in West South Central Region**



NOTE: Shaded bars represent U.S. recessions.  
\*Seasonally adjusted, three-month moving average.  
SOURCE: Conference Board.