DALLASFED Economic Update
Regional

Texas Economy Grows at Moderate Pace

September 14, 2012

The Texas economy is expanding at a moderate pace, with employment growing at a 2 percent annual rate in July. While the housing, real estate and energy sectors are witnessing strong activity, exports were flat through the second quarter and retail sales remain sluggish. Uncertainty from the European debt crisis, the looming fiscal cliff and upcoming elections continues to weigh on business sentiment and poses the main downside risk the remainder of the year.

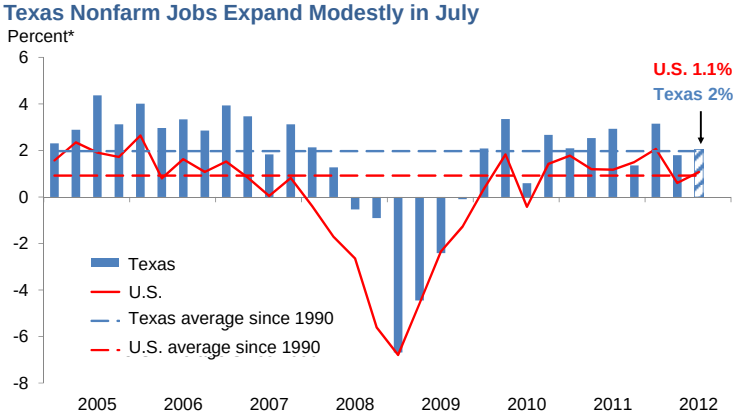
Texas Continues to Outpace U.S. in Job Growth

Payroll job growth was 2 percent in July, slower than the revised 2.4 percent in June (*Chart 1*). So far in 2012, total nonfarm jobs in Texas have grown at a 2.4 percent annual rate, almost the same pace as in the corresponding period in 2011.

Energy continues to outpace other major industries in employment, growing 7.5 percent year to date (*Chart 2*). All industries except information have contributed positively to Texas job growth this year. Professional and business services remains the best-performing services industry, with year-to-date job growth of 4.5 percent. With the housing market gaining ground, the construction industry has added jobs at a 5.2 percent rate in Texas year to date, compared with a 1 percent contraction at the national level. However, Texas' unemployment rate ticked up from 7 percent in June to 7.2 percent in July.

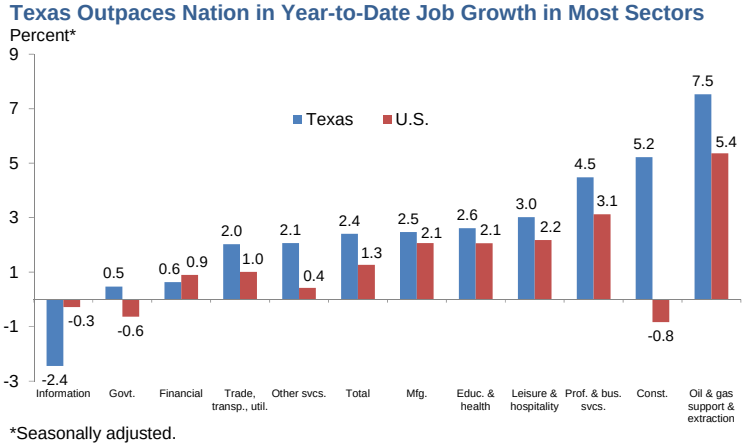
Manufacturing jobs grew at a 5.2 percent rate in July following a 3.6 percent decline in June. Employment in the sector is up 2.5 percent year to date after a solid first quarter and tepid second quarter. Production activity increased again in August, according to the Texas Manufacturing Outlook Survey (TMOS) index, although growth softened. The employment index suggests that job growth in manufacturing is positive but modest.

Chart 1
Texas Nonfarm Jobs Expand Modestly in July



*Quarter/quarter; seasonally adjusted annual rate.
NOTE: Quarterly employment figure is the last month of a quarter. Last data points are the June 2012–July 2012 annualized change for Texas and June 2012–August 2012 annualized change for the U.S.
SOURCE: Bureau of Labor Statistics.

Chart 2
Texas Outpaces Nation in Year-to-Date Job Growth in Most Sectors

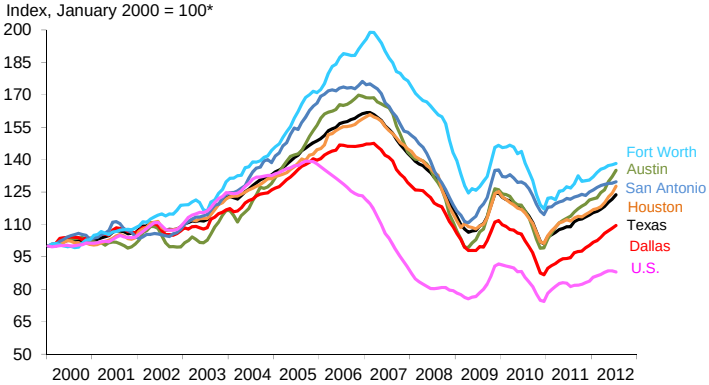


*Seasonally adjusted.
NOTE: Last data points are the December 2011–July 2012 annualized change for Texas and December 2011–August 2012 annualized change for the U.S.
SOURCE: Bureau of Labor Statistics.

Housing Recovery Gains Momentum

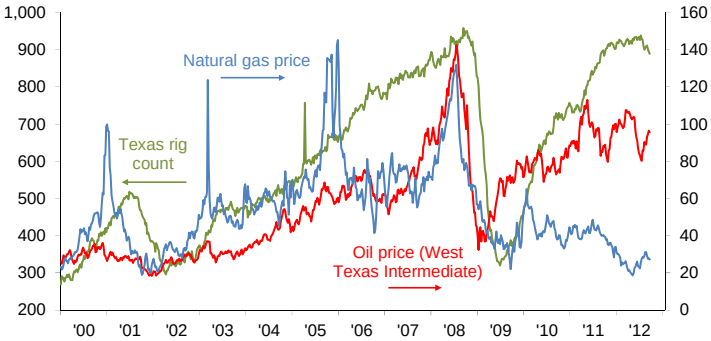
Existing-home sales were up 11 percent year to date in July (*Chart 3*). The improvement can be attributed in part to home affordability gains. With low mortgage rates, rising apartment rents and home prices yet to see significant appreciation, the affordability of single-family homes continues to lure buyers.

Chart 3
Existing-Home Sales Gathering More Steam
Index, January 2000 = 100*



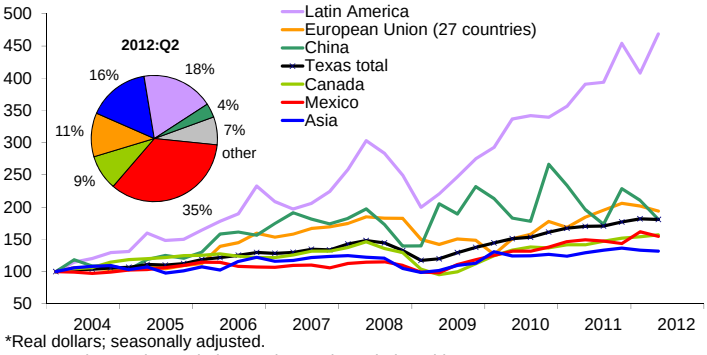
*Six-month moving average.
SOURCE: Multiple Listing Service.

Chart 4
Texas Rig Count Remains at High Levels
Rig count (weekly) Nominal price, dollars (weekly)



NOTE: Gas price is multiplied by 10.
SOURCES: *Wall Street Journal;* Baker Hughes; Haver Analytics.

Chart 5
Texas Exports to Mexico, Europe and China Decline
Index, 2004:Q1 = 100*



*Real dollars; seasonally adjusted.
NOTE: Latin America excludes Mexico; Asia excludes China.
SOURCES: Census Bureau; Wisertrade; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

With continued improvement in home sales, average inventory levels in Texas have declined to 5.5 months, below the six-month level widely considered healthy. Not surprisingly, house prices have recently improved, with the National Association of Realtors median price for Texas up 3.9 percent year to date in July and the S&P/Case Shiller Index for Dallas up 3.3 percent in the first half.

In a sign of continued improvement in construction activity, the five-month moving average of housing permits rose 5.7 percent in July and was up 37 percent year over year. Powered by demand for apartments, multifamily permits have climbed over the past several months during a period of sluggish growth for single-family permits.

Energy Remains Bright Spot for Texas

The Beige Book reports that energy activity in Texas is still strong. The rig count fell slightly but remains high as oil and natural gas prices have trended upward in recent weeks (*Chart 4*).

Employment growth in the sector is strong at 7.5 percent year to date and 11 percent year over year in July. The pace has slowed from a robust 18 percent in 2011.

Exports Slow as Mexican Growth Decelerates

Export growth slowed in Texas from 2.8 percent in May to 0.4 percent in June. On a year-to-date basis, the reading was largely flat. Looking at quarterly data, exports fell 0.5 percent from the first to second quarter. Much of the decline was attributable to Mexico, Texas' largest trading partner (*Chart 5*). Mexican gross domestic product (GDP) growth decelerated from an annual rate of 4.9 percent in the first quarter to 3.5 percent in the second.

Retail Sales Appear to Soften

The Dallas Fed Retail Sales Index declined in June, suggesting softer retail sales. The Beige Book noted tepid retail sales growth in August, although sales were reportedly stronger in Texas than the nation. However, the Texas Retail Outlook Survey sales index suggested a strong rebound in August.

Prices were mostly steady, but the Beige Book reported more instances of price and wage pressures in August than July. Indexes of future prices and wages from TMOS ticked up in July and August after declining from March to June.

Outlook Points to Moderate Growth

The Texas Leading Index rose in July after three consecutive months of decline (Chart 6). The closely watched three-month change in the index, however, was negative.

Dallas Fed Outlook surveys point to moderate economic growth in the near term as uncertainty continues to weigh on businesses. A strong recovery in housing and

continued vigor in the energy sector may present surprises on the upside.

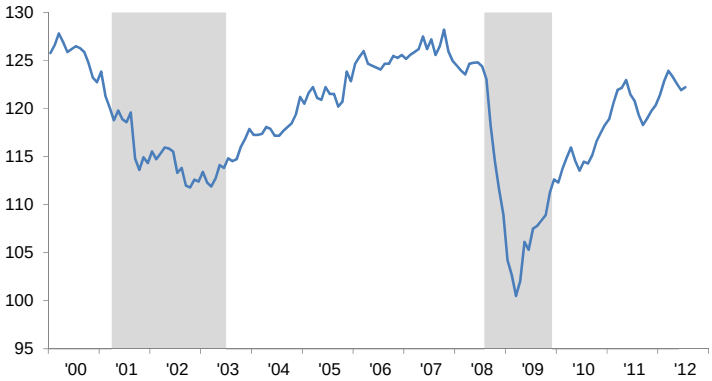
—Christina Daly, Anil Kumar and Melissa LoPalo

About the Authors

Daly and LoPalo are research assistants and Kumar is a senior research economist in the Research Department of the Federal Reserve Bank of Dallas.

Chart 6
Texas Leading Index Ticks Up in July

Index, January 1971 = 100



NOTE: Shaded areas represent Texas recessions.
SOURCES: The Conference Board; Federal Reserve Bank of Dallas.