

# **Texas Economic Outlook: Clear Skies Ahead**

**Border Economic Forum 2006**

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# Introduction

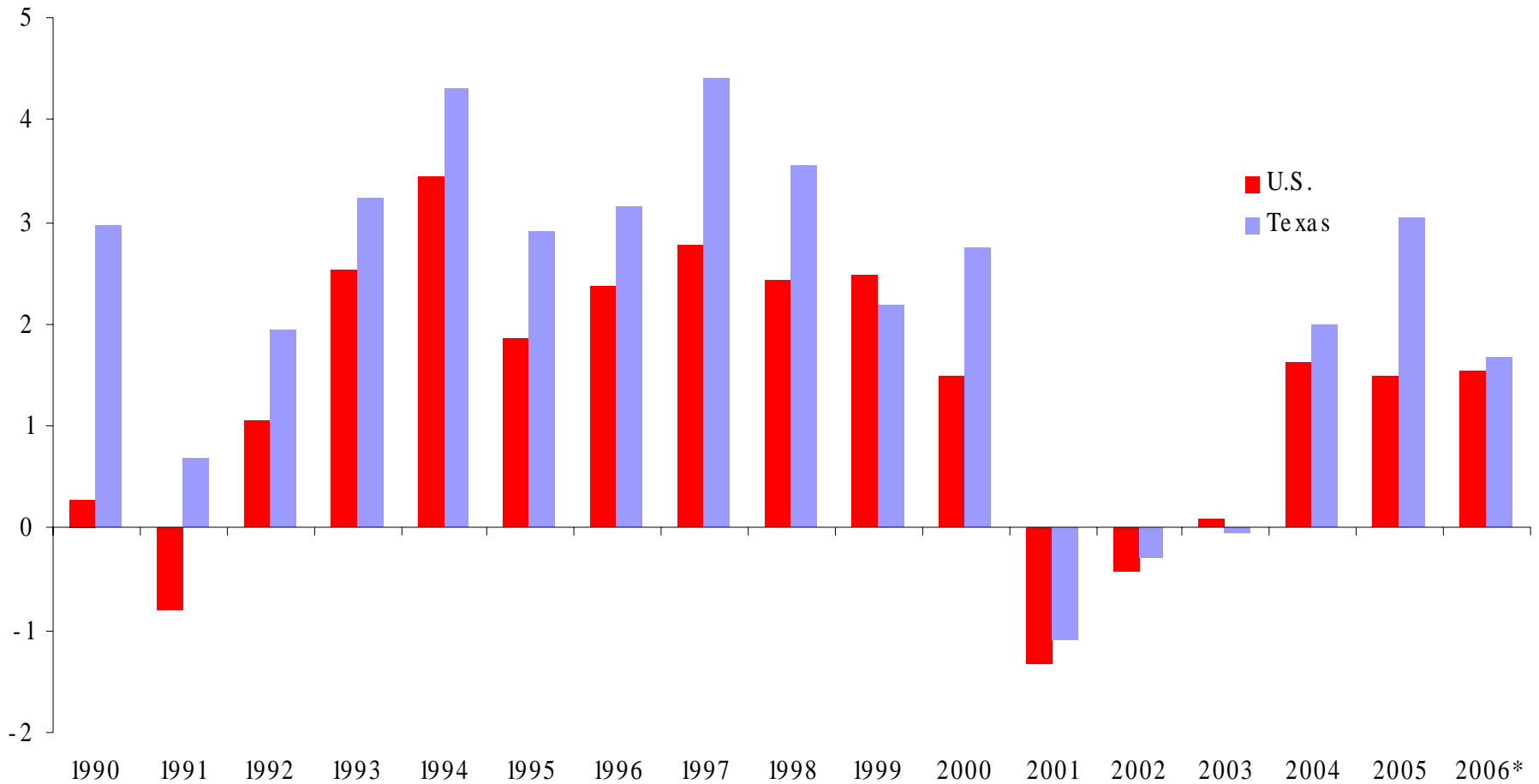
- Lots of regional current analysis at Federal Reserve – FOMC, publications, speeches
- Greenspan said that biggest gains to forecasting accuracy will likely come from data not model improvements
- Data improvements will not get you in top journals

# Dallas Fed Has Unique Data Series for Texas and its Metros

- Employment data which is early benchmarked and seasonally-adjusted using a two-step seasonal adjustment
- Business Cycle Indexes that measure that underlying comovement in broad indicators of the regional economy
- Texas Manufacturing Outlook Survey gives a timely view of manufacturing activity
- Available at [www.dallasfed.org](http://www.dallasfed.org)

# Job Growth Typically Stronger in Texas Than U.S. – Recent Job Growth Weak

Y/Y, Percent



\*2006 figure is YTD annualized

# 1<sup>st</sup> Quarter Job Growth Likely to Be Revised Up

- Payroll employment (annualized percent change)

	Texas			U.S.
	Initial Estimate	After Early Change Benchmark	Change	
• 2004 Q4	1.7	3.4	1.7	1.7
• 2005 Q1	1.4	2.0	0.6	1.7
• 2005 Q2	1.3	2.4	1.1	1.8
• 2005 Q3	1.7	2.7	1.0	1.4
• 2005 Q4	2.4	3.9	2.5	1.6
• 2006 Q1	<b>2.1</b>	NA	NA	1.8

- Average percentage point revision

- 95% confidence limits

1.2  
Lower = 0.6      Upper=1.7

- Predicted 2006 Q1 growth rate

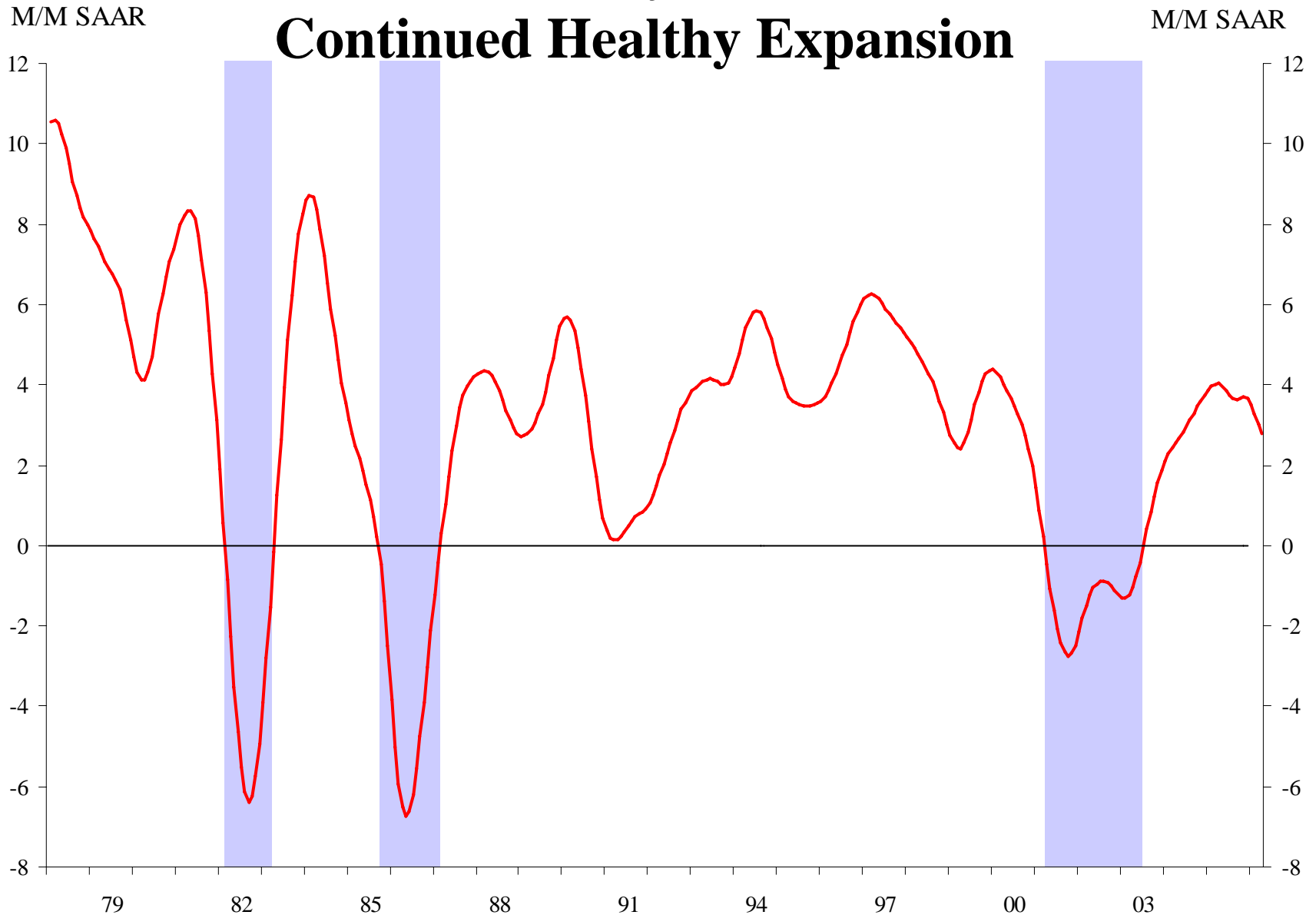
- based on last 5 early benchmarks

**3.3**

- 95% confidence range

**2.7-3.8**

# Texas Business Cycle Index Shows Continued Healthy Expansion

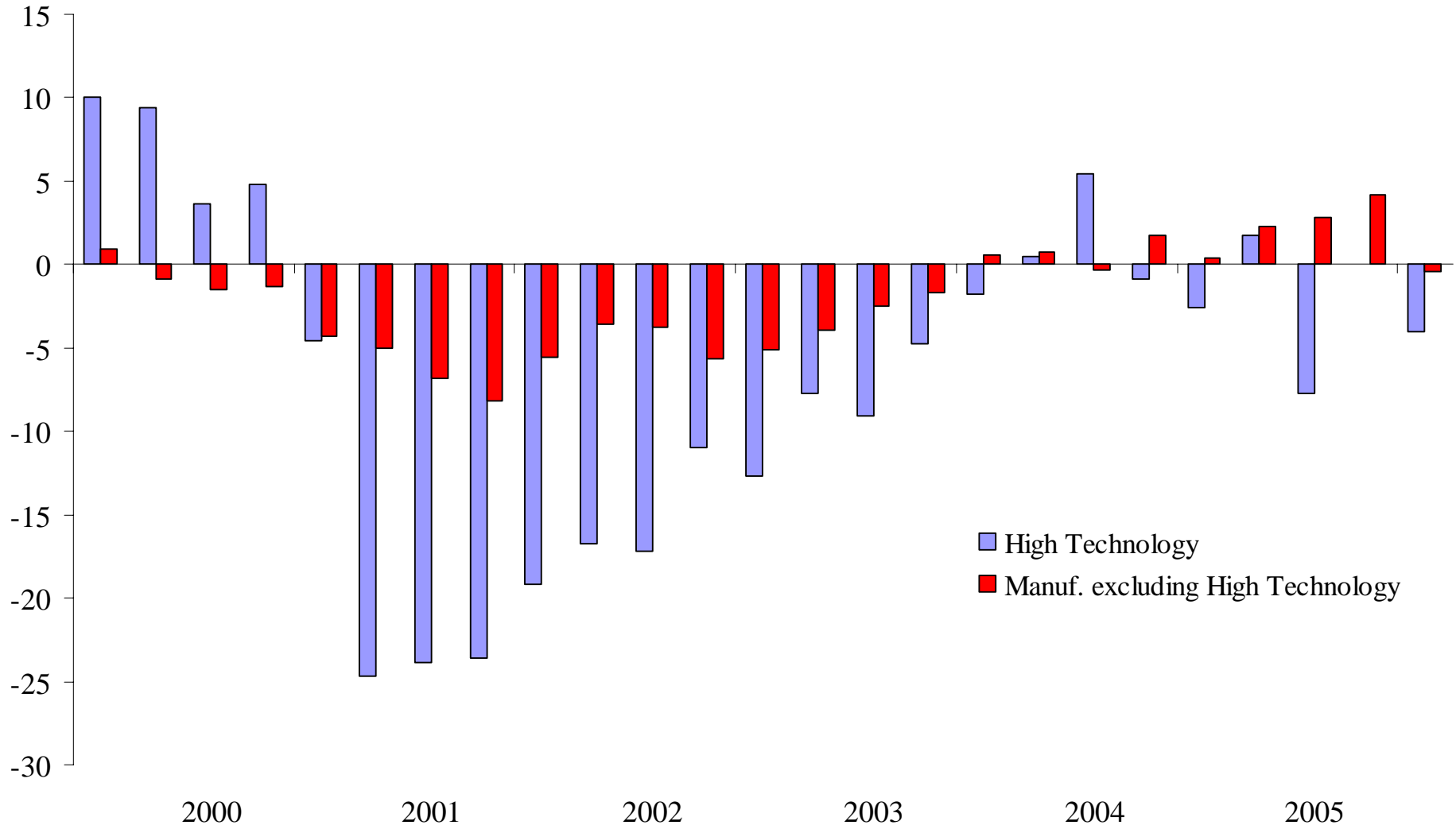


NOTE: Shaded areas represent Texas recession as defined by Yucel and Thompson. The line at April 2001 designates the start of a recession.

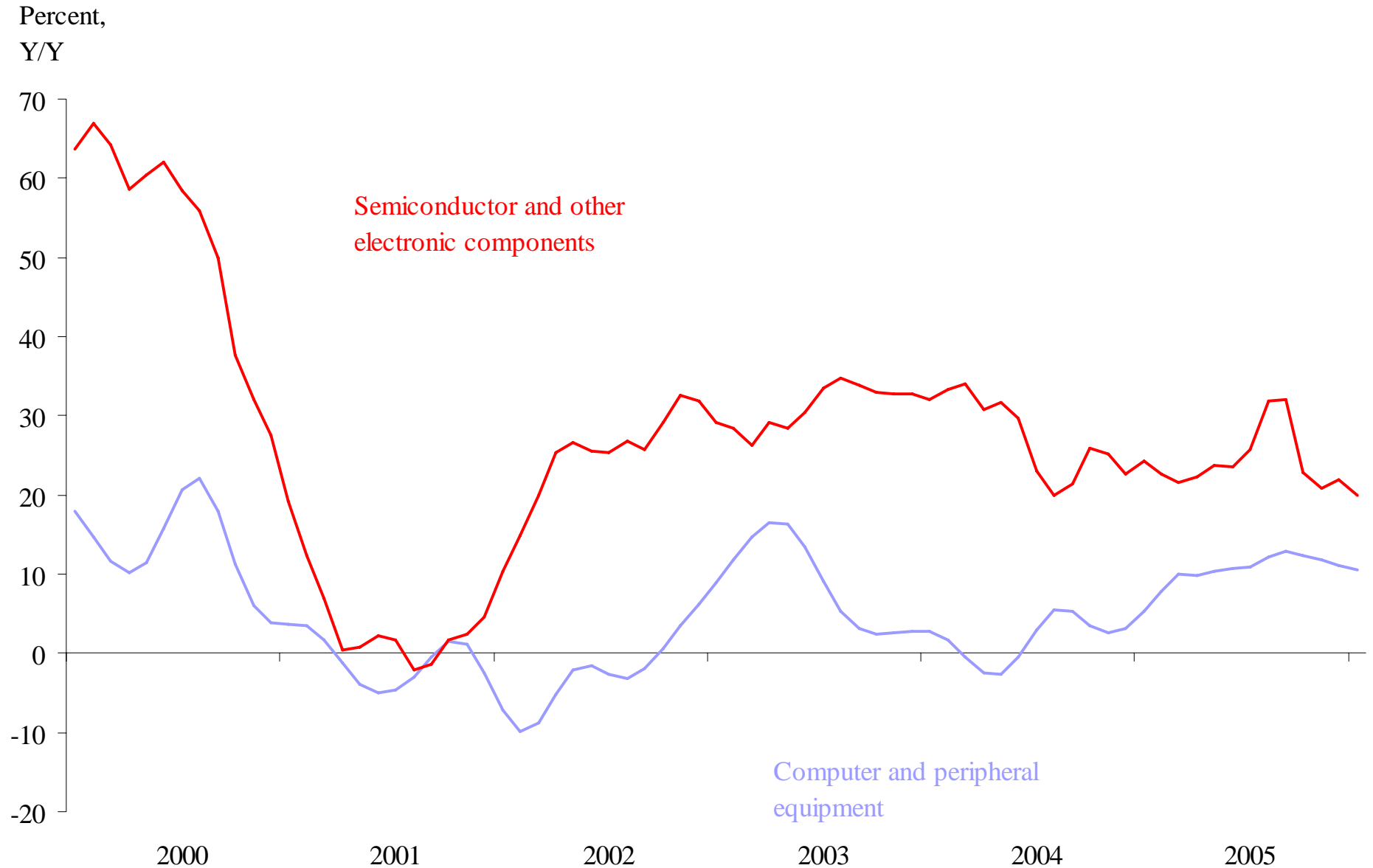
# Manufacturing Jobs Turned the in 2004

Monthly Data, Change During Quarter

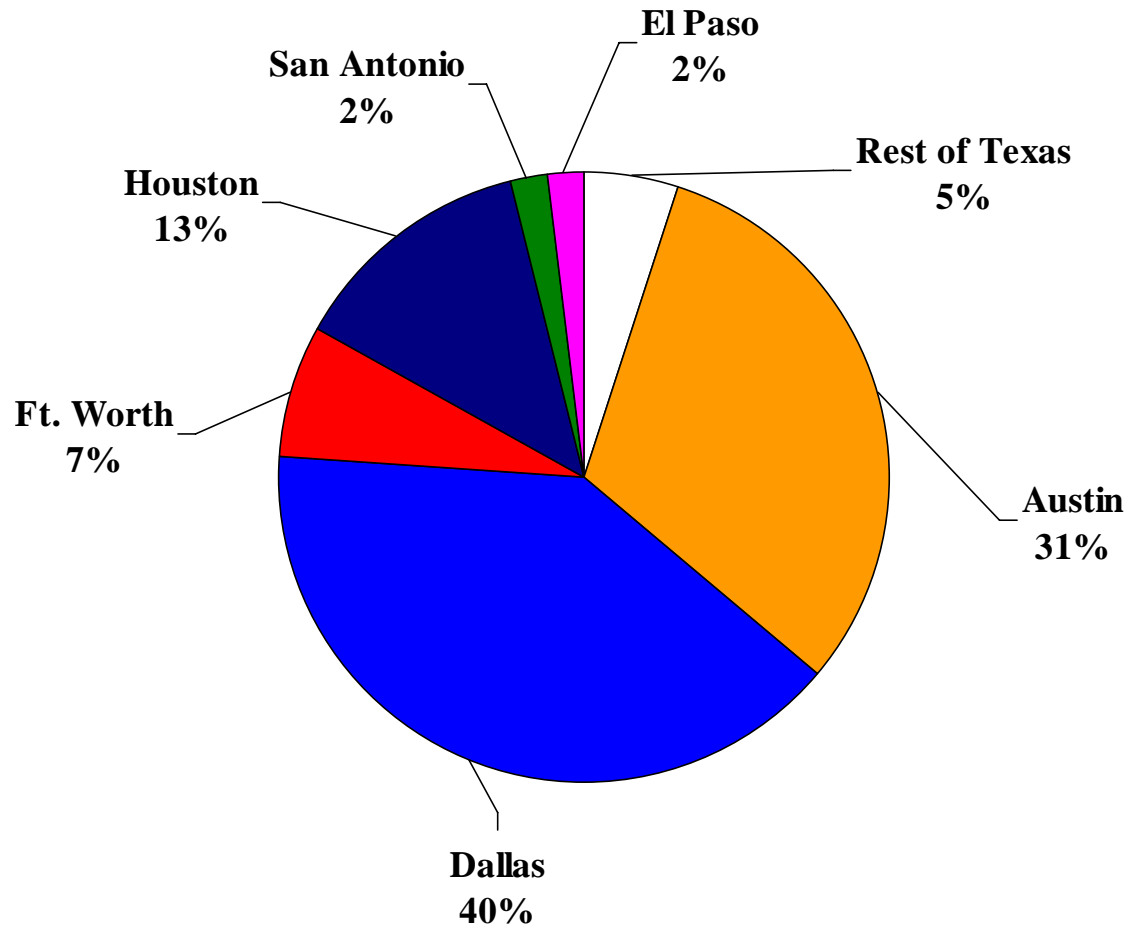
Percent, SAAR



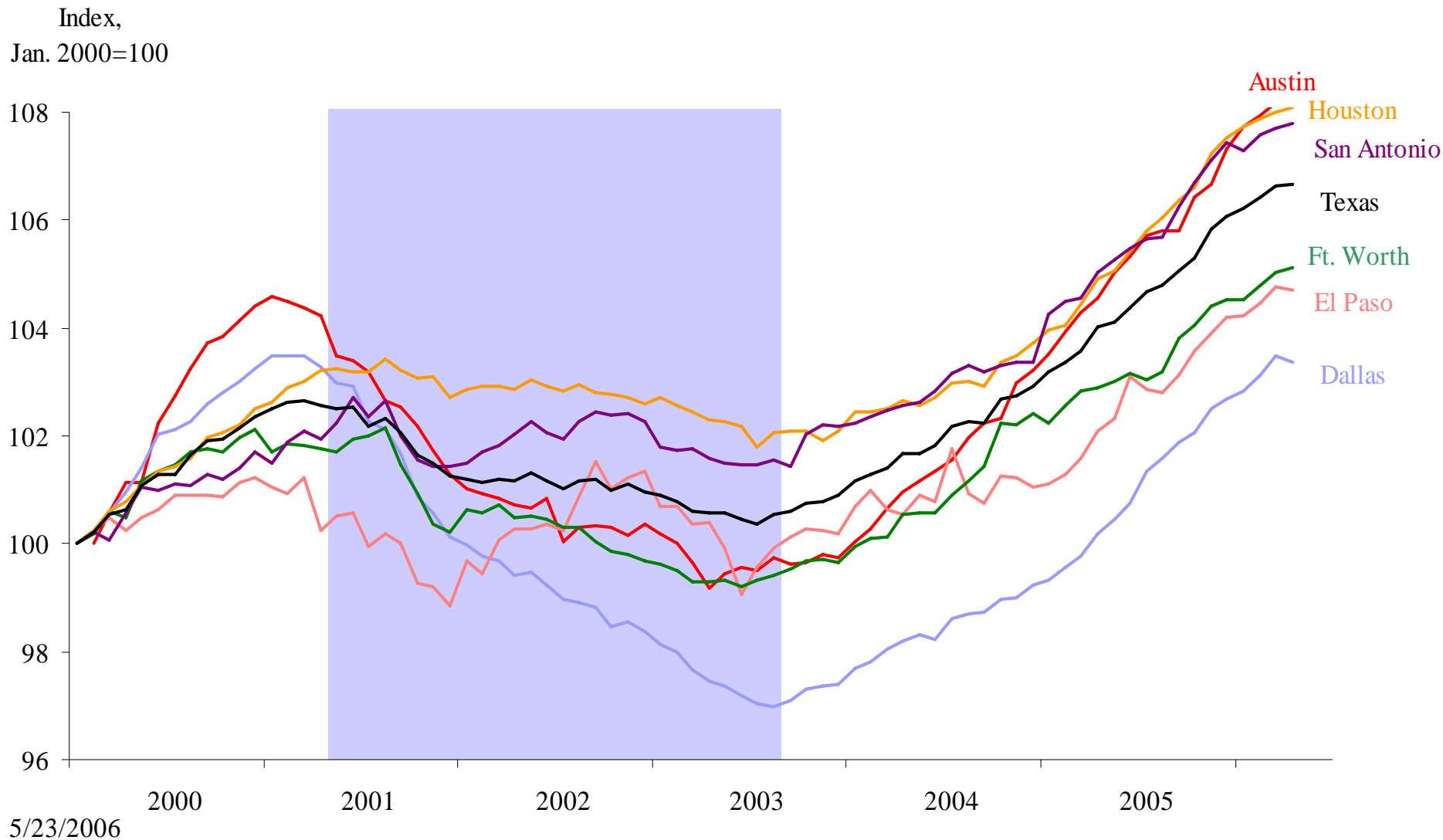
# High Tech Output Strong



# The Distribution of Texas High-Tech jobs



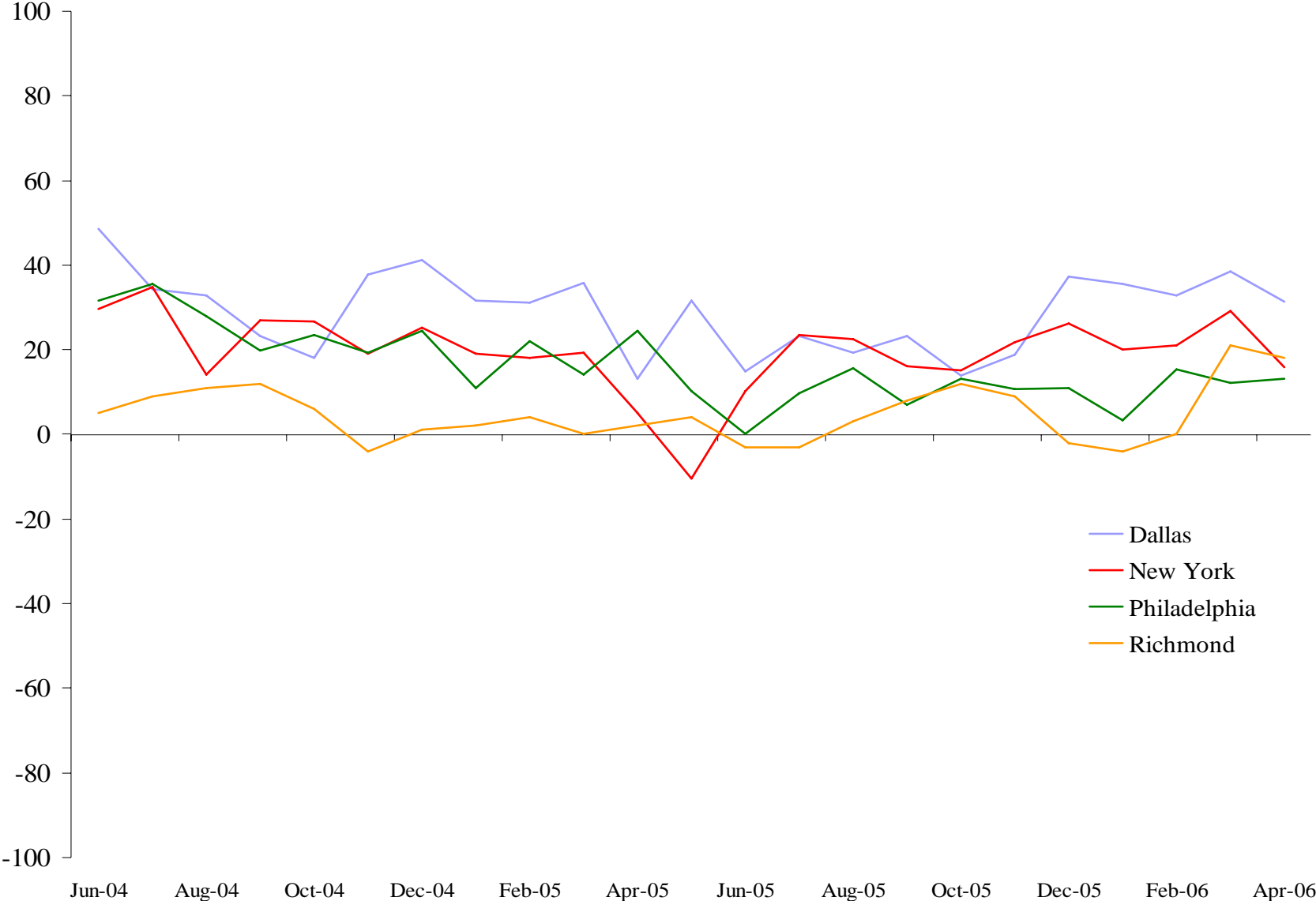
# Jobs in Austin and Dallas Fell Hardest, Now Picking up Fastest



Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas

# Dallas Fed Manufacturing Survey Shows Continued Strength In Business Conditions

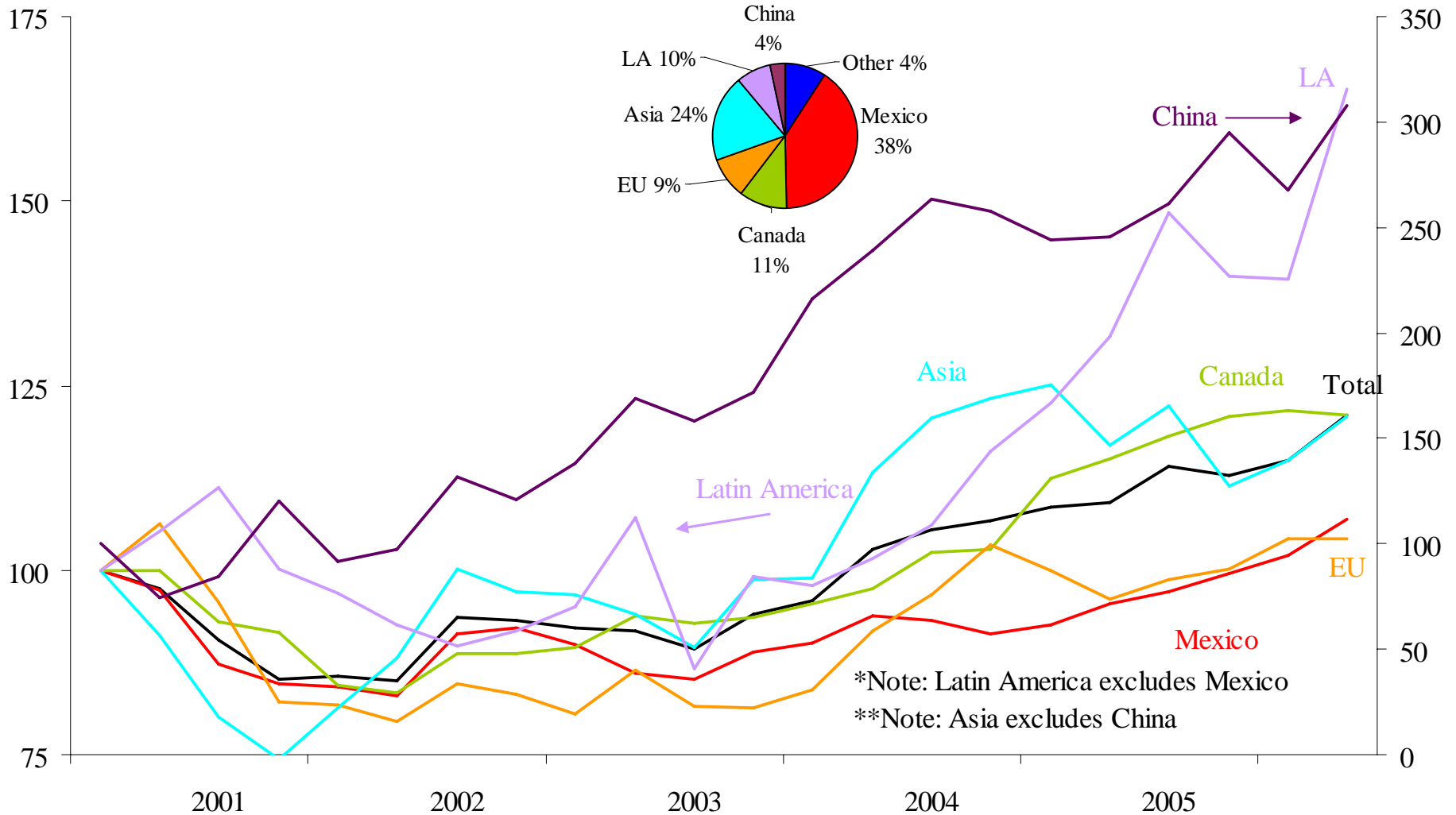
Index Value



# Texas Exports Increasing Strongly

Index Q1'00=100  
Real \$, SA

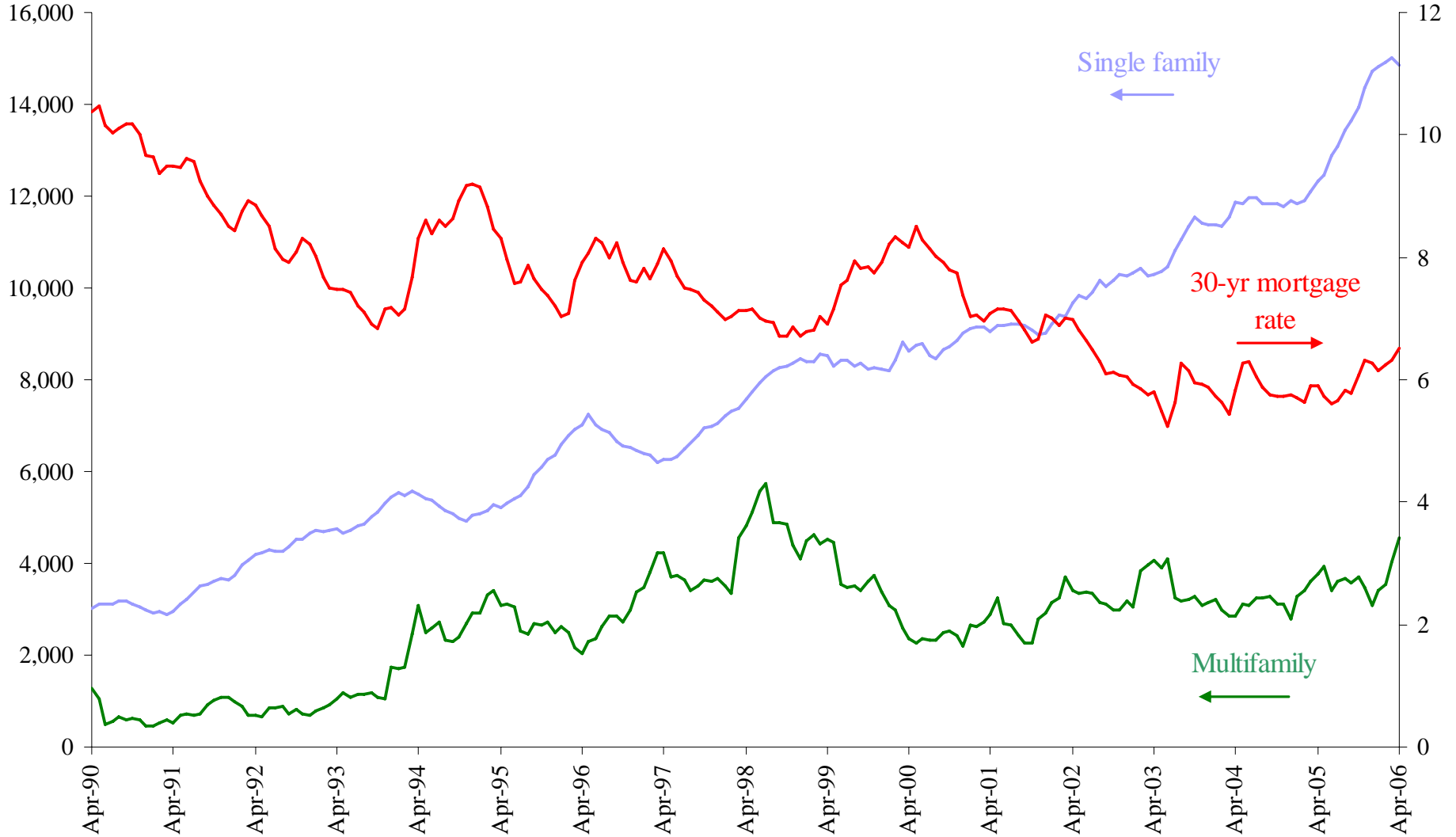
China  
Index Q1'00=100  
Real \$, SA



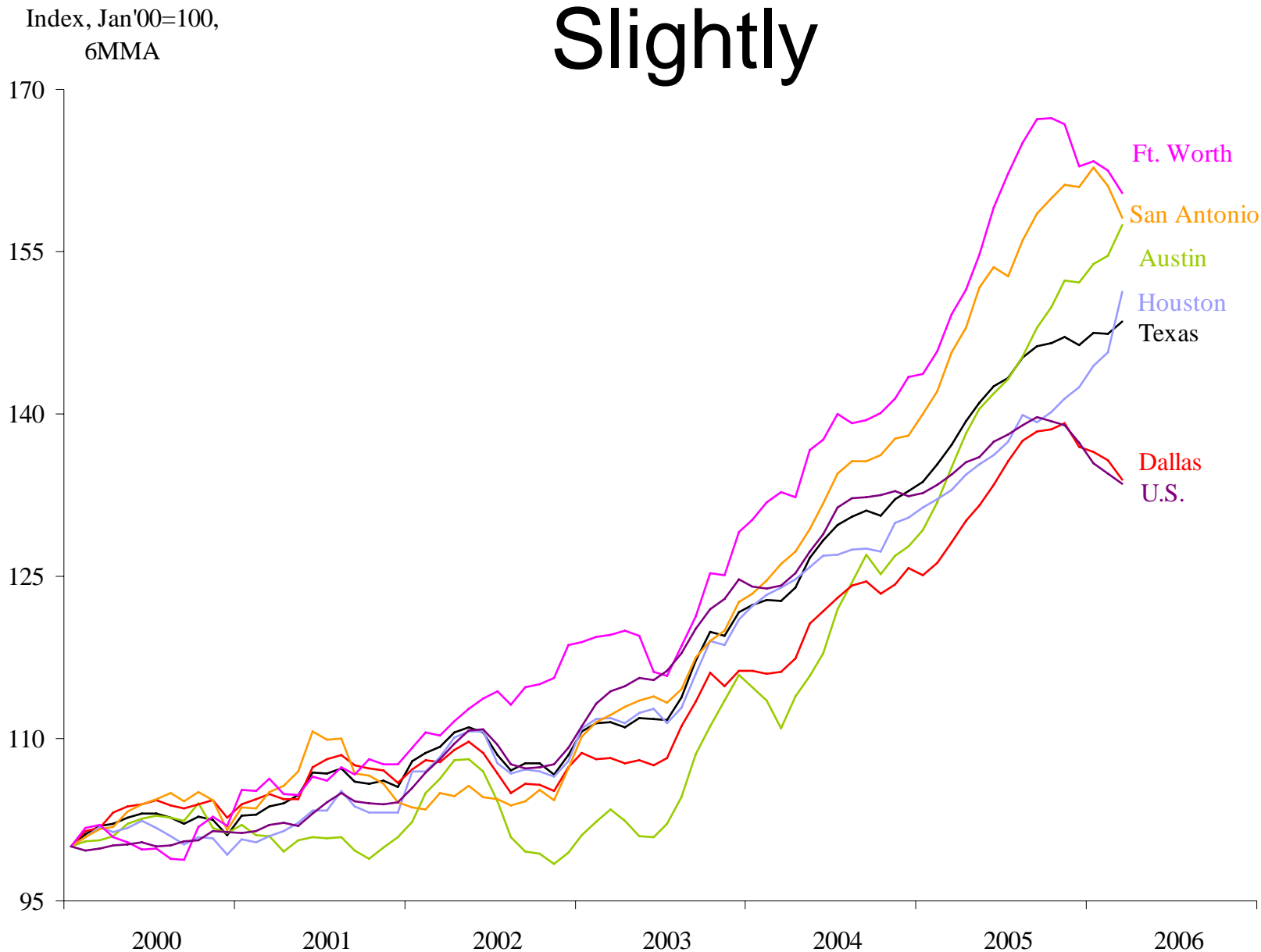
# Single Family Building Still Strong

Number of permits  
SA, 5MMA

Mortgage Rate

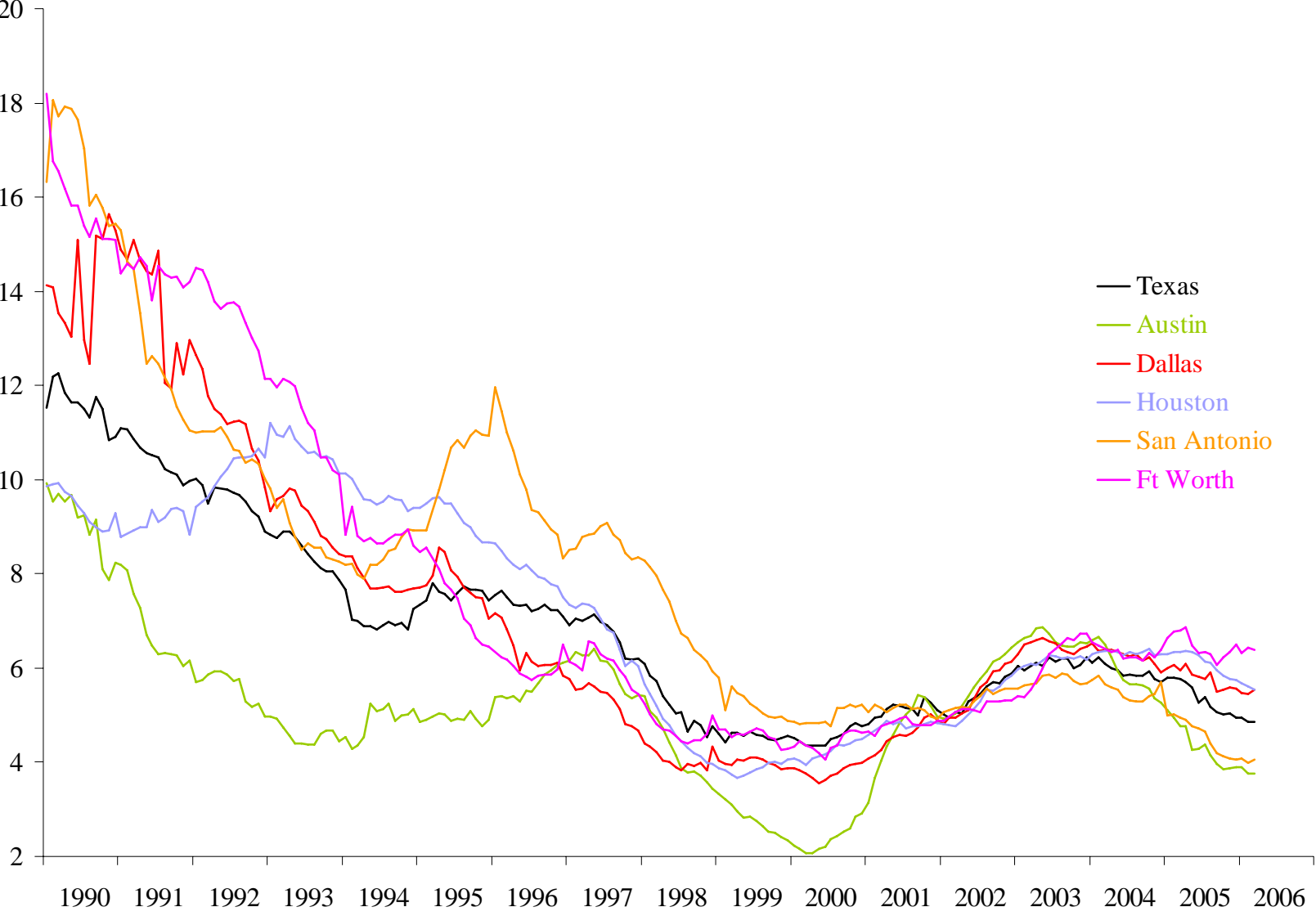


# Existing Home Sales Weaken Slightly

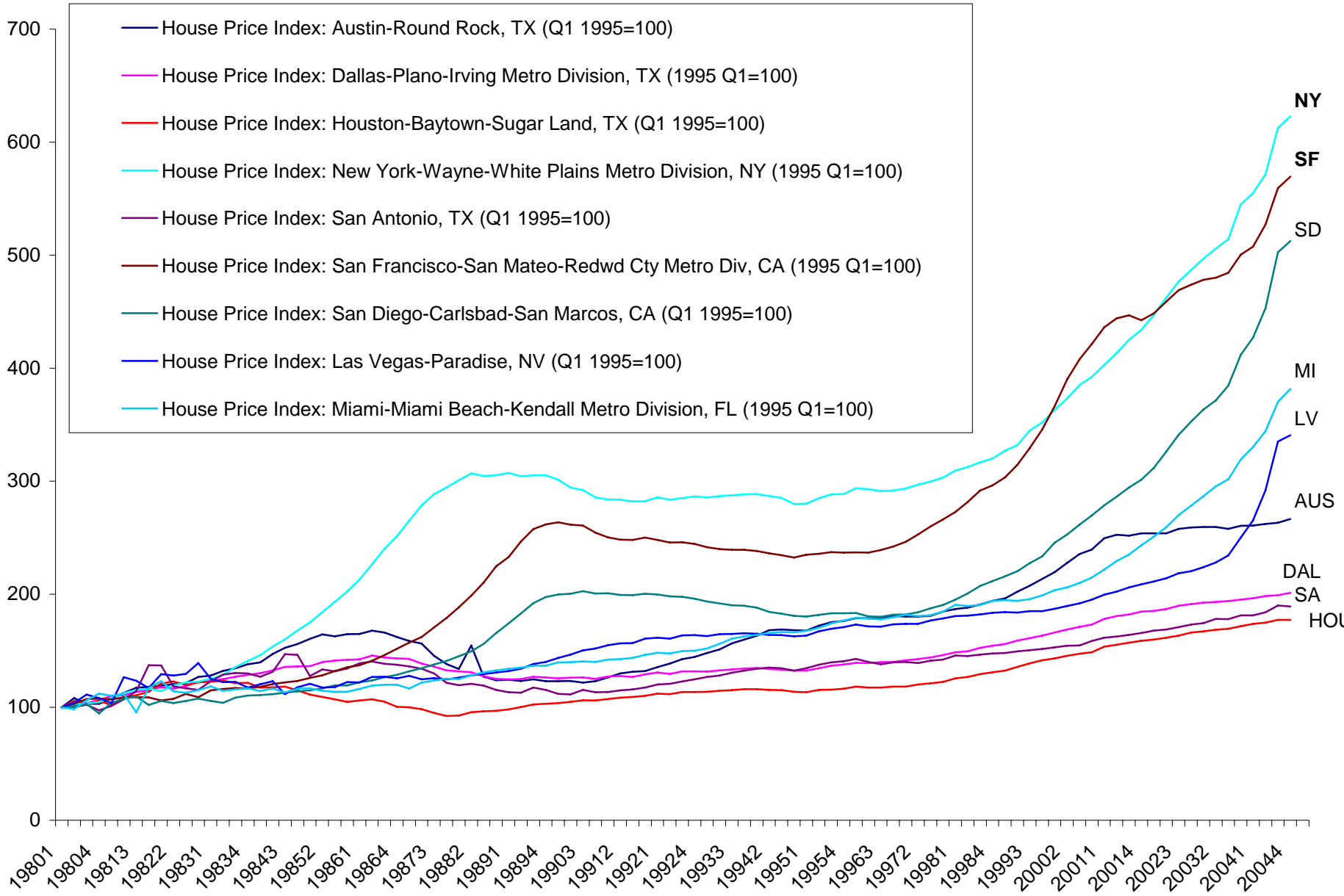


# Home Inventory Falling

Months



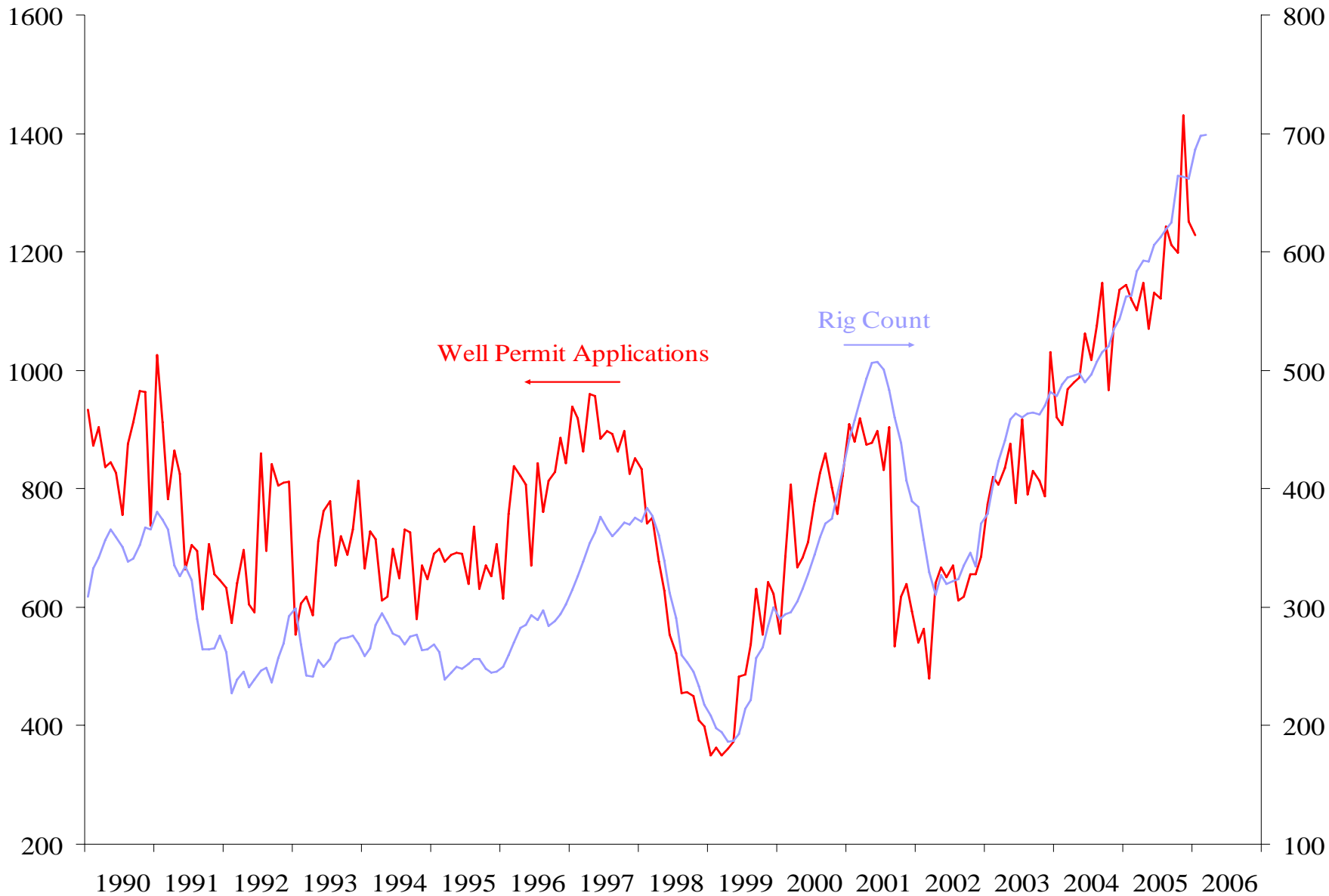
# No Housing Bubble in Texas



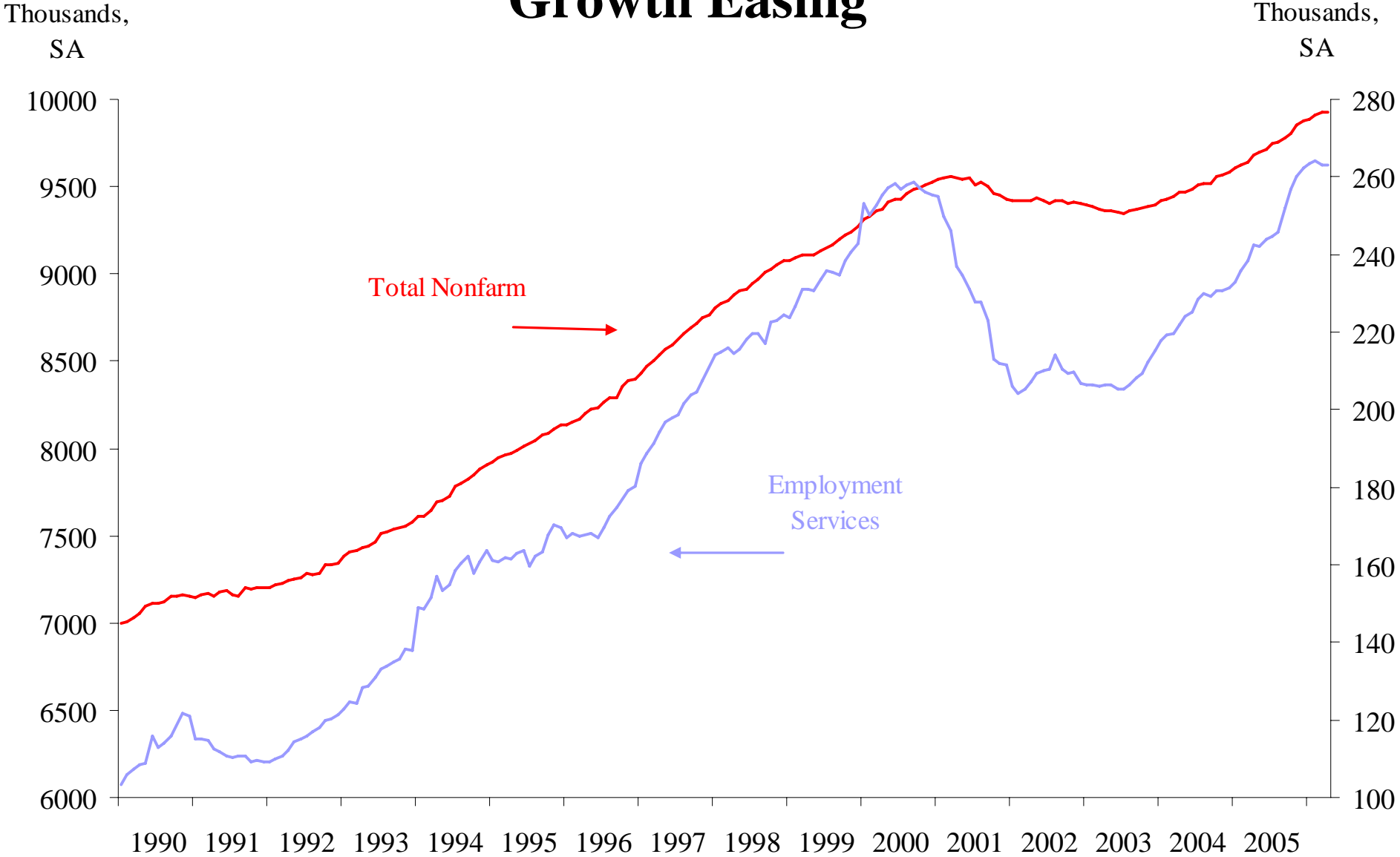
# Energy price Impacts

- Overall, energy price shocks close to neutral on Texas job growth
- Royalty payments increasing strongly due to new drilling for natural gas
- Now even more likely that we will return to job performance better than nation

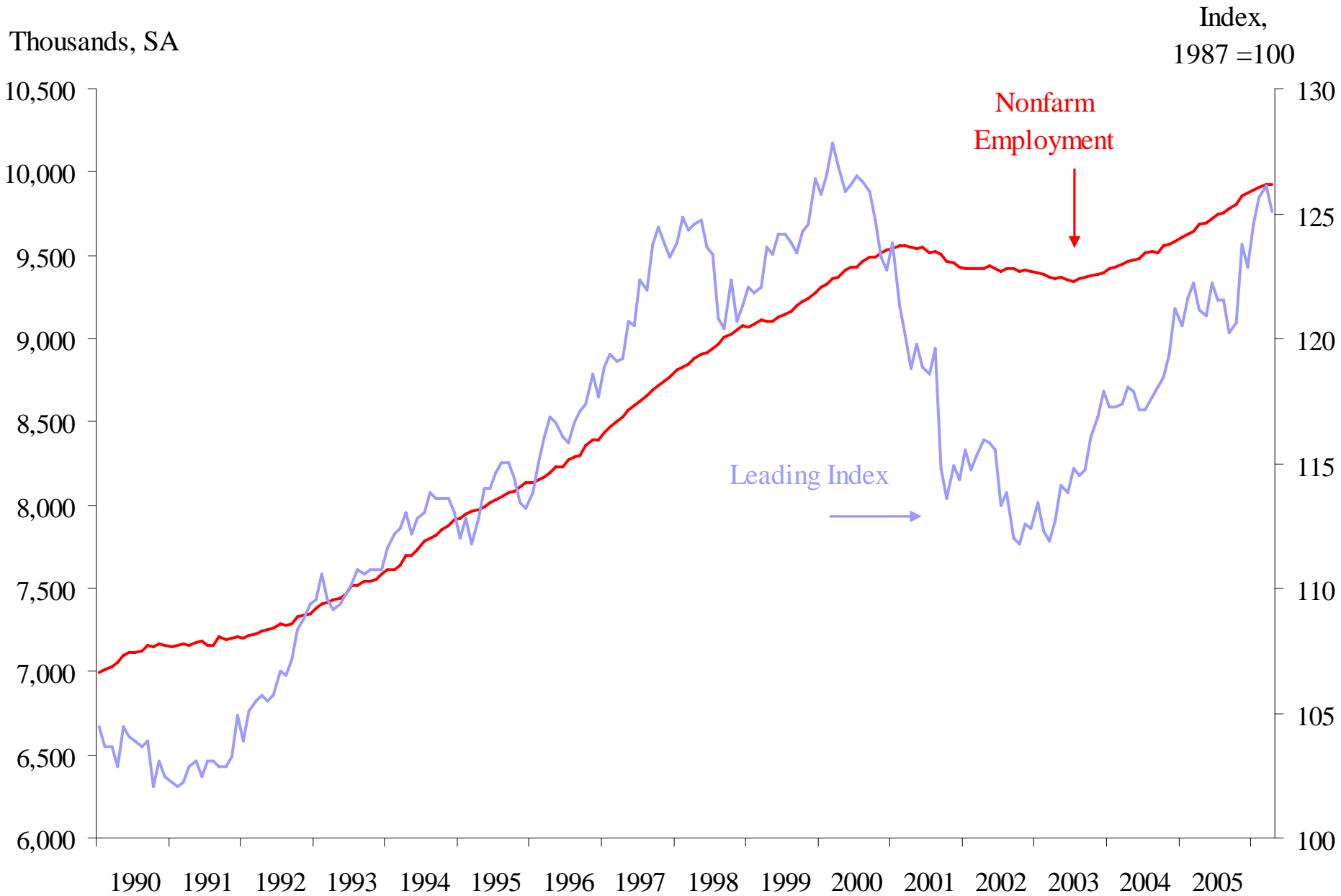
# Well Permits and Rig Count



# Temp Workers Reflect Some Job Growth Easing

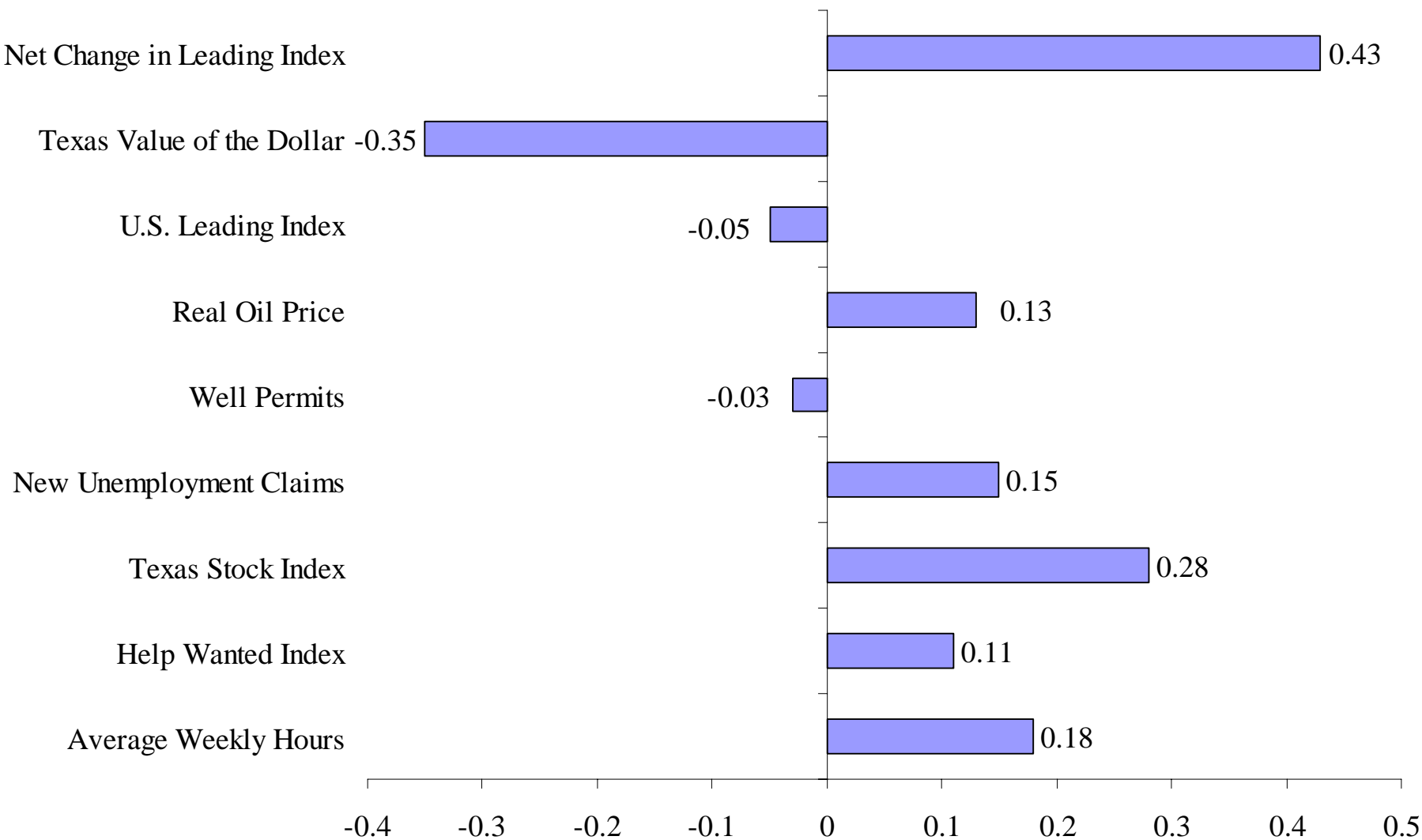


# Texas Leading Index Increasing



# TXLI Components Positive Over Past Three Months

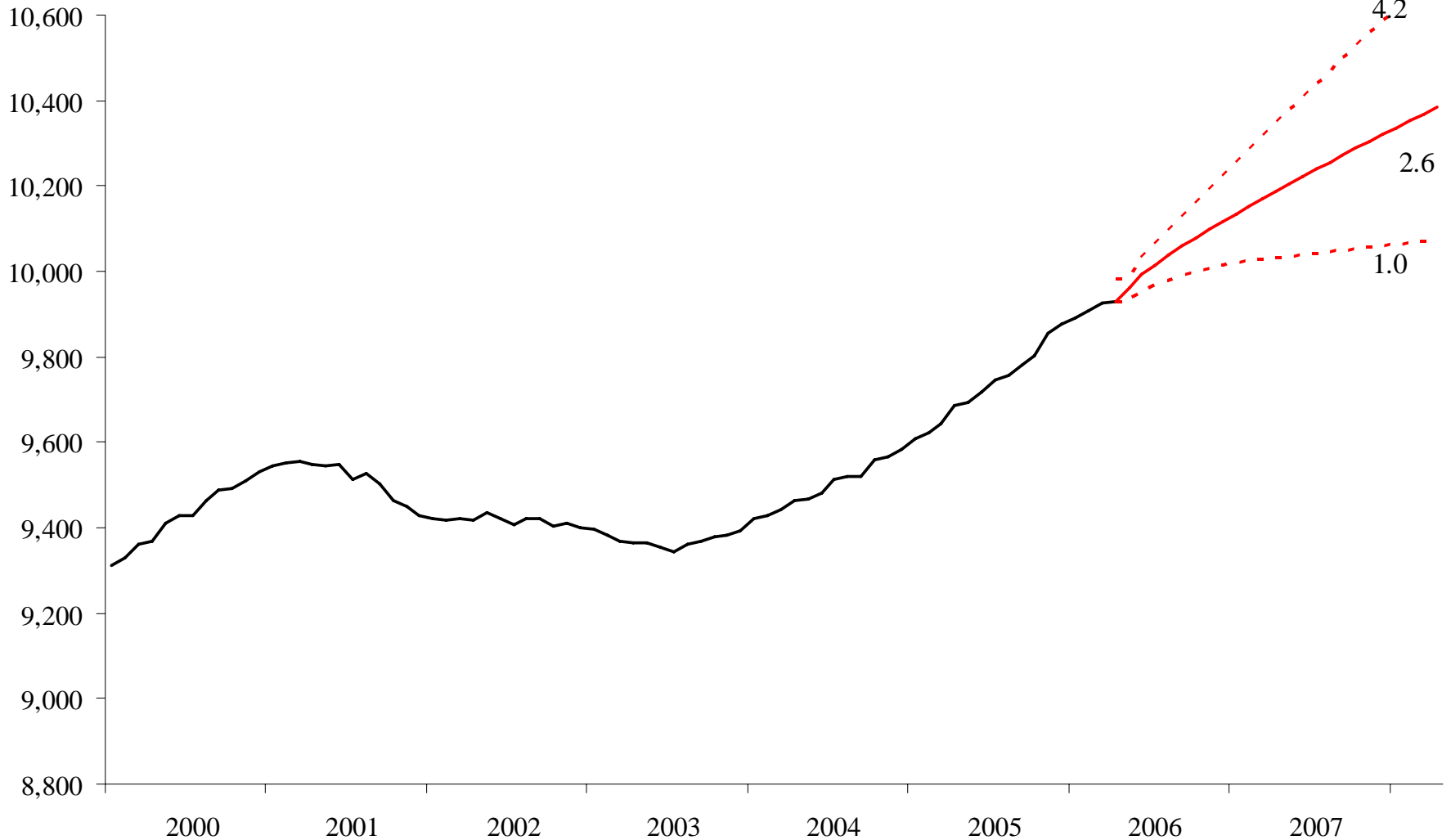
(Change January - April 2006)



# Texas Employment Growth Likely to Remain Modest

Forecast with an 80% Confident Interval

Employment,  
Thous., SA



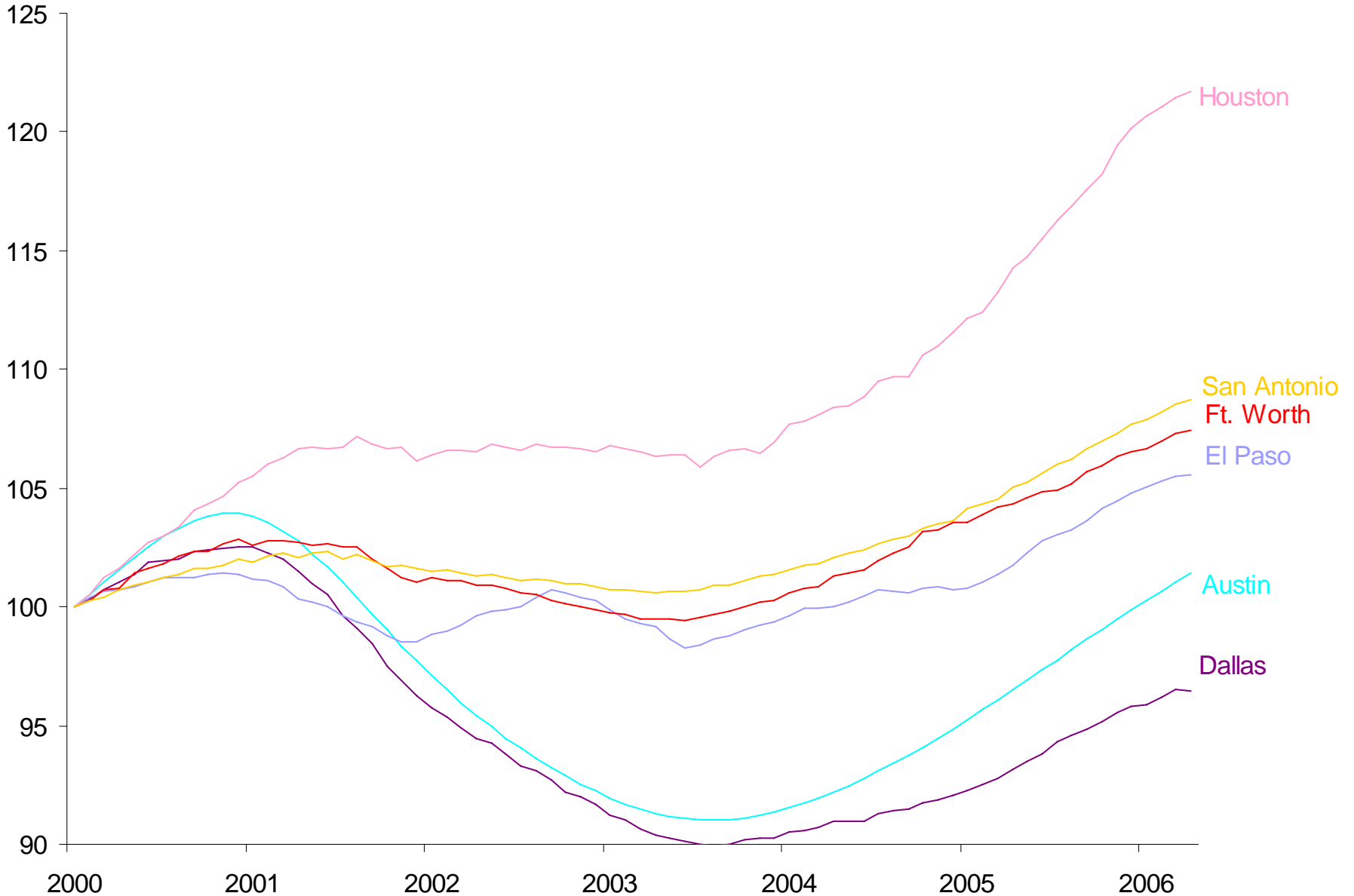
# Regional Business Cycles

Available at [www.dallasfed.org](http://www.dallasfed.org)

# Austin and Dallas at Center of High Tech Boom and Bust

(Business Cycle Indexes)

Index Jan 2000=100



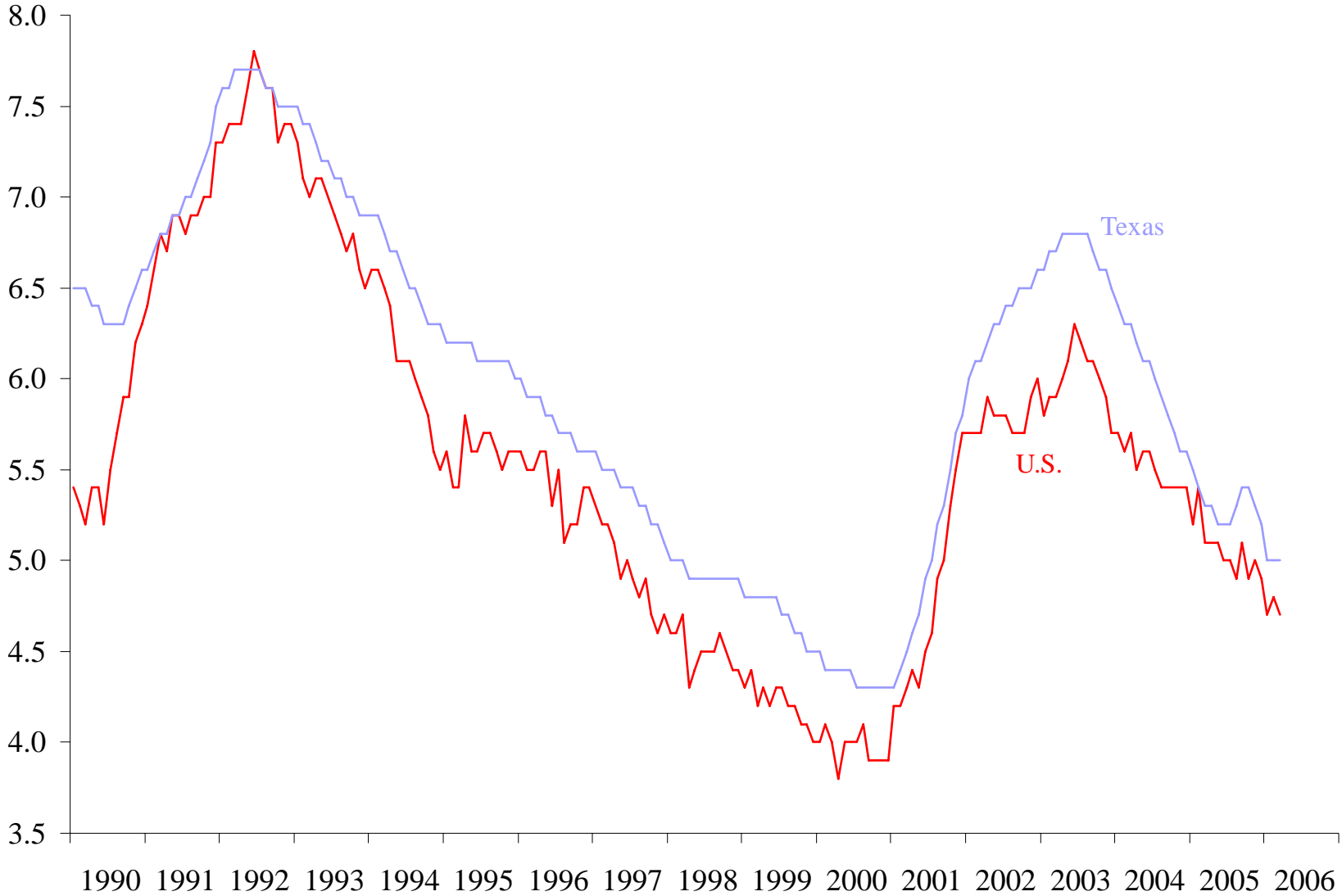
# Summary

- Texas economy has slowed moderately in recent months but may be revised up.
- Texas will likely grow faster than the US again this year.
- Texas forecast calls for 2.5 to 3.0 percent job growth with less than 10 percent chance of growth less than one percent over next 12 months.
- Austin likely to continue to lead major metros in 2006.
- Most metros performing well



# Texas and US U-rate

Percent, SA



# Texas Fiscal Update

- After adjusting for the sales tax amnesty program in April of 2004, the April 2005 state sales tax revenue increased 3.6 percent year over year.
- May sales tax revenue is up 8.6 percent compared to the same time last year
- Year-to-date city sales tax allocations are up 7.3 percent compared to last year

# Hurricane Economic Facts

- Katrina area produced about .5% of US GDP
- Katrina ports handled 7.5 % of US port cargo
- Production equal to 5 % of US oil and 9 % of US natural gas consumption remains shut in
- 1.6 million barrels of daily refining capacity (8 % of US oil consumption) remains shut down – restarting dates extend until end of year
- Current Gasoline futures prices suggest a slight increase over next 6 months
- Heating bills could be 50% higher this winter