



Broad measures of economic activity suggest that the Texas economy has been expanding at a slower pace this year.

Total employment increased 2 percent through June, well below the vigorous 3.4 percent pace of 2006 (*Chart 1*).¹ The Dallas Fed's Texas Business-Cycle Index, an aggregate measure of the state's economic health, has averaged year-to-date growth of 3.5 percent, compared with 4.2 percent last year.

Service-sector employment grew at a respectable 2.2 percent in Texas during the first half of 2007, but the state isn't getting the boost it did last year from the goods-producing sector. Growth in the goods sector slowed dramatically, from 5.3 percent in 2006 to an annualized pace of 1.3 percent this year (*Chart 2*).

The slowdown in goods-sector job growth occurred in all three major industry categories—construction, manufacturing and energy.

Construction and manufacturing have been hindered by weakness in the housing sector, according to recent data and the July Beige Book, the Dallas Fed's anecdotal re-

port on the Texas economy. Energy-sector activity remains at high levels but has been restrained by lower natural gas prices, a tight labor market and higher costs, including wage pressures.

Housing Measures Down

The housing sector is becoming a drag on economic growth in Texas as homebuilders across the state continue to curb new-home construction in response to weaker demand and higher inventories (*Chart 3*).

Single-family building permits have fallen 34.5 percent since June of last year, and starts are down 12.2 percent. Single-family contract values are 20 percent below June 2006 levels. While the Texas housing market remains better off than other areas of the country, the recent Beige Book found builders don't foresee a revival in the near future.

Manufacturing employment rose in the second quarter after falling the previous three months. Still, year-to-date factory employment is down 1.1 percent, matching the national decline.

Several key industries contributed to the Texas loss (*Chart 4*). Employment fell by 4,000 (6.9 percent) at computer-related firms, largely due to outsourcing and restructuring in the high-tech sector. Jobs were down by 500 (5 percent) in electronic equipment, including home appliances. They fell by 1,400 (2.8 percent) in construction-related manufacturing, a result of the housing downturn. Together, these three industries make up 25 percent of Texas factory employment.

Some areas of strength remain. Commercial construction activity continues to expand, retail sales receipts through May indicate healthy growth and Texas exports recently rebounded, growing 4.5 percent in May.

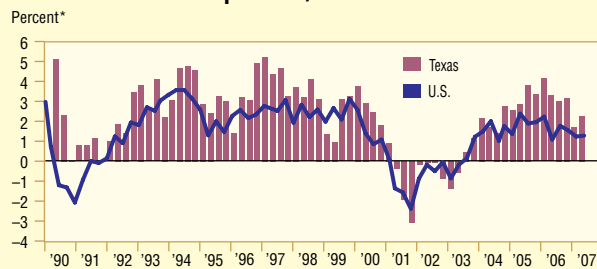
The outlook for the Texas economy continues to be positive, with the Dallas Fed's Texas Leading Index suggesting 2007 job growth of about 2.8 percent—right at the historical average for the state economy.

—Laila Assanie and D'Ann Petersen

Note

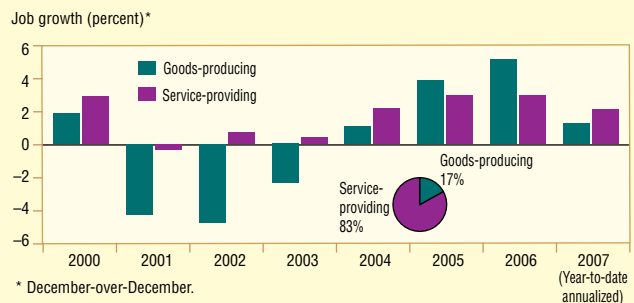
¹2007 employment data are subject to revisions. Past revisions have been substantial.

Chart 1 Job Growth Picks Up in Texas, U.S. but Trails 2006 Pace



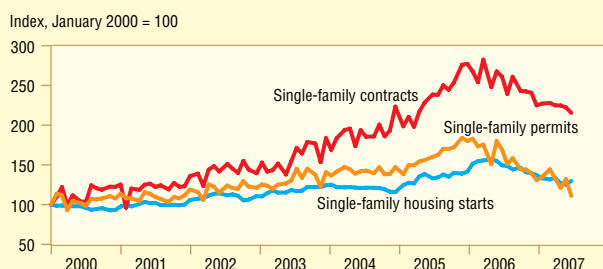
* Quarter-over-quarter.
SOURCE: Texas Workforce Commission, seasonally adjusted by the Dallas Fed.

Chart 2 Texas Goods Sector Loses Steam in 2007



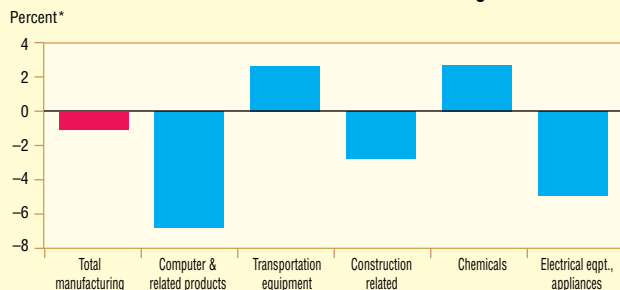
* December-over-December.
SOURCE: Texas Workforce Commission, seasonally adjusted by the Dallas Fed.

Chart 3 Texas Builders Continue to Pull Back



SOURCES: Census Bureau; McGraw-Hill; Dodge Construction.

Chart 4 Job Growth Mixed in Selected Texas Manufacturing Industries



* June-over-December.
SOURCE: Texas Workforce Commission, seasonally adjusted by the Dallas Fed.