Texas Economy Moves from Recovery to Expansion

Jesus Cañas
Federal Reserve Bank of Dallas
April 18, 2012

The views expressed are those of the speaker and should not be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System.
U.S. Economic Update

LOST 8.8 MILLION JOBS

REGAINED 3.5 MILLION
Texas Economic Update

LOST 433,000 JOBS

REGAINED ALL
Texas Surpasses Pre-Recession Peak

U.S. employment (millions)

Texas employment (millions)

2005  2006  2007  2008  2009  2010  2011

9.0  9.5  10.0  10.5  11.0

125  130  135  140

Thousands  Thousands

Texas Surpasses Pre-Recession Peak

U.S. employment (millions)

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Thousands  Thousands
Texas Employment Growth Bests U.S.

Annual job growth (percent)
Texas Employment Growth Bests U.S.

Annual job growth (percent)

1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011
Texas Employment Growth Bests U.S.

Annual job growth (percent)

U.S.  Texas

1991  1993  1995  1997  1999  2001  2003  2005  2007  2009  2011
Texas Employment Growth Bests U.S.

Annual job growth (percent)

U.S.  Texas

1991  1993  1995  1997  1999  2001  2003  2005  2007  2009  2011
2011 employment growth
(NAICS Super Sectors, SA by FRB Dallas
YTD growth through Dec)

Thousands of

<table>
<thead>
<tr>
<th>Sector</th>
<th>Growth (2011)</th>
<th>YTD Growth (Dec)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil &amp; Gas Extraction and Mining Support</td>
<td>-5.1</td>
<td>-2.6</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>-10.7</td>
<td></td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>27.3</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>10.7</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>27.3</td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>16.9%</td>
<td></td>
</tr>
<tr>
<td>Educational &amp; Health Services</td>
<td>13.7%</td>
<td></td>
</tr>
<tr>
<td>Trade, Transp &amp; Utilities</td>
<td>19.9%</td>
<td></td>
</tr>
<tr>
<td>Prof. &amp; Business Services</td>
<td>12.8%</td>
<td></td>
</tr>
<tr>
<td>Educational &amp; Health Services</td>
<td>13.7%</td>
<td></td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>10.0%</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8.0%</td>
<td></td>
</tr>
<tr>
<td>Financial Activities</td>
<td>6.0%</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>5.2%</td>
<td></td>
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<tr>
<td>Oil &amp; Gas Extraction and Mining Support</td>
<td>(2.2%)</td>
<td></td>
</tr>
<tr>
<td>Information</td>
<td>1.8%</td>
<td></td>
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</tbody>
</table>
Texas’ employment growth bests nation’s’s
2011 employment growth by sector
(NAICS Super Sectors, SA by FRB Dallas
YTD Growth in Jan. 2012)

Thousands of

-10 -5 0 5 10 15 20 25

-4.8 4.4 13.8 9.4 1.9 2.8 5.3 4.9 -0.5

Trade, Transp & Utilities (20.0%)
Government (16.6%)
Educational & Health Services (13.5%)
Prof. & Business Services (12.9%)
Leisure & Hospitality (10.0%)
Manufacturing (7.9%)
Financial Activities (6.1%)
Construction (5.2%)
Oil & Gas Extraction and Mining Support (2.3%)
Information (1.8%)
Texas Job Growth Stronger in 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Job Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>0.5%</td>
</tr>
<tr>
<td>2009</td>
<td>–3.5%</td>
</tr>
<tr>
<td>2010</td>
<td>2.1%</td>
</tr>
<tr>
<td>2011</td>
<td>2.0%</td>
</tr>
<tr>
<td>2012 (full-year forecast)</td>
<td>2-3%</td>
</tr>
</tbody>
</table>
Unemployment Remains Elevated

Unemployment rate (percent)

Texas


7.3
Unemployment Remains Elevated

Unemployment rate (percent)

11
10
9
8
7
6
5
4
3


Texas

U.S.

7.3
8.3
7.3
Texas Business-Cycle Index Signals Growth

Monthly change (%)

Texas recessions

ENERGY

25% of U.S. refinery capacity and 60% of U.S. petrochemical production is in Texas

Texas #1 producer of oil and gas in nation

High energy prices benefit the Texas economy
Energy Activity Continues Rise

Active rigs in Texas

2001 2003 2005 2007 2009 2011
High Oil Prices Support Energy Activity

*Oil price is dollars per barrel. Natural gas price is dollars per million Btu, multiplied by 10.
Rig count mirrors prices

Oil Rig Count

Gas Rig Count

Rig Count

'90 '92 '94 '96 '98 '00 '02 '04 '06 '08 '10 '12
MANUFACTURING

Texas produces 10% of U.S. goods

Manufacturing sector highly correlated with overall economy

Dallas Fed’s Manufacturing Survey offers early look at trends
Texas Manufacturing Growth Continues

Texas recession

Production

2007 2008 2009 2010 2011
Texas Manufacturing Growth Continues

Texas recession

Production

Employment

2007 2008 2009 2010 2011
Texas Manufacturing Growth Continues

Production

Employment

General Business Activity

Index

Texas recession

2007 2008 2009 2010 2011

Federal Reserve Bank of Dallas
Texas accounts for 15% of U.S. exports

Gulf coast is a major exporter of oil and petrochemicals

Land-based trade on Texas-Mexico border also important export region
Texas Export Strength Continues

Index, 2000=100


220 200 180 160 140 120 100 80

Texas  U.S.
Texas Exports to China Growing Faster

Index, 2000=100

*Latin America excludes Mexico.
**Asia excludes China.
Energy Supports Export Growth

Index, 2000=100

- Petroleum & Coal Products: 17%
- Agric. & Food: 8%
- Comp. & Electronics: 17%
- Machinery: 10%
- Transp. Mfg.: 9%
- Chemicals: 19%
- Other: 20%

- Petroleum & Coal Products
- Agric. & Food
- Chemicals

Source: Federal Reserve Bank of Dallas
### US-Mexico trade: mostly intra-industry

<table>
<thead>
<tr>
<th>SITC Code</th>
<th>Product</th>
<th>Billions $</th>
<th>SITC Code</th>
<th>Product</th>
<th>Billions $</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>PETROLEUM</td>
<td>41.6</td>
<td>1</td>
<td>ELECTRICAL MACHINERY</td>
<td>16.6</td>
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<td>2</td>
<td>ROAD VEHICLES</td>
<td>32.1</td>
<td>2</td>
<td>ROAD VEHICLES</td>
<td>13.9</td>
</tr>
<tr>
<td>3</td>
<td>TELECOMMUNICATIONS/SOUND RECORDING</td>
<td>31.2</td>
<td>3</td>
<td>PETROLEUM</td>
<td>9.6</td>
</tr>
<tr>
<td>4</td>
<td>ELECTRICAL MACHINERY</td>
<td>22.3</td>
<td>4</td>
<td>OFFICE/AUTOMATIC DATA PROCESSING MACHINES</td>
<td>7.3</td>
</tr>
<tr>
<td>5</td>
<td>GENERAL INDUSTRIAL MACHINERY</td>
<td>9.2</td>
<td>5</td>
<td>GENERAL INDUSTRIAL MACHINERY</td>
<td>7.2</td>
</tr>
<tr>
<td>6</td>
<td>POWER GENERATING MACHINERY AND EQUIPMENT</td>
<td>7.3</td>
<td>6</td>
<td>TELECOMMUNICATIONS/SOUND RECORDING</td>
<td>6.6</td>
</tr>
<tr>
<td>7</td>
<td>PROFESSIONAL/SCIENTIFIC INSTRUMENTS</td>
<td>6.4</td>
<td>7</td>
<td>MISCELLANEOUS MANUFACTURED ARTICLES</td>
<td>6.6</td>
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<tr>
<td>8</td>
<td>OFFICE/AUTOMATIC DATA PROCESSING MACHINES</td>
<td>6.4</td>
<td>8</td>
<td>PLASTICS IN PRIMARY FORMS</td>
<td>5.6</td>
</tr>
<tr>
<td>9</td>
<td>VEGETABLES AND FRUIT</td>
<td>5.9</td>
<td>9</td>
<td>POWER GENERATING MACHINERY AND EQUIPMENT</td>
<td>5.3</td>
</tr>
<tr>
<td>10</td>
<td>SPECIAL TRANSACTIONS AND COMMODITIES</td>
<td>5.1</td>
<td>10</td>
<td>ORGANIC CHEMICALS</td>
<td>5.2</td>
</tr>
</tbody>
</table>

**Subtotal** | 167.6 | **Subtotal** | 83.8 |
**Other**     | 48.3  | **Other**    | 67.7  |
**Total**     | 215.9 | **Total**    | 151.5 |
Texas Maquiladora Related Exports to Mexico Close to 60%
Texas is #1 cotton-producing state in U.S.

Texas also first in livestock production

2011 record year for Texas drought loss
HOUSING

Construction
Existing-home sales
House prices
Effect of homebuyer tax credit
Residential Construction Still Subdued

 Millions of dollars

Residential Construction Contract Values

Federal Reserve Bank of Dallas
Existing-Home Sales Increasing Again

Total existing home sales

Federal Reserve Bank of Dallas
House Prices Finally Increasing...
...and are in Better Shape than U.S.
Texas has much lower share of underwater mortgages

Percent of mortgages with balance > home value, 2011Q4

- Nevada: 61%
- Arizona: 48%
- Florida: 44%
- Michigan: 35%
- California: 30%
- Texas: 10%
- U.S.: 23%

Source: CoreLogic
WHAT DO WE EXPECT FOR THE REST OF 2012?
Texas Economy will Continue Expanding

Millions of jobs

Dallas Fed Employment Forecast
Summary

Texas Out of Recession, Out of Recovery, and into Expansion

Texas Growth Outpacing U.S. Growth

Job Growth Should Pick up in 2012

Some Uncertainty Persists
Texas Economy Moves from Recovery to Expansion

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