

## ECONOMIC COMMENTARY

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**It is a pleasure to introduce our first issue of *The Southwest Economy*.**

This newsletter will review business conditions and economic developments in the Southwest, including agriculture, banking, energy, high technology, international trade, and manufacturing. We will look not only at the issues that are specific to the states of the Eleventh Federal Reserve District — Louisiana, New Mexico and Texas — but also at the national issues that affect us as well. And as we have done in this issue, we will occasionally reach beyond our District boundaries to address concerns that are common to the entire Southwest.

In addition, each issue of *The Southwest Economy* will feature a commentary on current economic conditions in the Eleventh District or another matter of importance. In this issue, I am pleased to present the Bank's outlook for the regional economy.

**In contrast with the U.S. economy, which is about to enter its seventh year of expansion, the Eleventh Federal Reserve District economy is showing only mixed signs of expansion.**

While some recent developments give us reason for optimism, other measures of economic performance suggest that we must temper that optimism. On the positive side, unemployment rates in Louisiana, New Mexico and Texas declined in recent months, as nonagricultural employment rose. (Most of the recent employment gains have been in manufacturing and services.) In addition, the slide in Texas construction employment may be near an end. On the negative side, oil prices recently slipped and it appears that manufacturing is growing more slowly than last year.

**Falling oil prices are hampering the recovery.**

Increased world oil production pushed the spot price of West Texas Intermediate crude oil below \$15 per barrel in early September. The impact of lower oil prices is evident in a falling rig count. If the fall in oil prices is sustained, our research staff estimates that total employment losses (including ripple effects) in Texas could offset the gains made in other sectors since the beginning of this year.

**Those manufacturers in the District most helped by the dollar's decline are expanding while the others are contracting.**

Since the first of the year, Texas manufacturers of transportation equipment, scientific instruments, electronic equipment, leather products, nonelectrical machinery, chemicals and allied products, fabricated metals, primary metals and rubber and plastics have increased output, employment, or both. Gains from the lower dollar should continue for the next few years. During the first half of 1988, however, weakness in other manufacturing sectors held the growth of District manufacturing employment below that experienced in the second half of 1987.

**Construction remains a weak link in most parts of the District.**

Throughout the region, construction employment continues its downward trend — although rates of decline recently have slowed. Contract values have stabilized recently, however, suggesting that construction employment may also stabilize in the year ahead.

**District agriculture has endured the drought in good shape.**

Though the drought has sharply reduced crop yields in many areas of the country and pushed crop prices up, it affected yields in the District only slightly. Despite modest declines in production, most farmers in the District are enjoying high cash incomes that are the result of higher crop prices.

**These pluses and minuses lead to my cautious optimism for the near-term economic outlook for our region.**

My outlook is supported by the Texas index of leading indicators (*See the back page*). As stated in our lead article, however, we firmly believe that economic growth in the Southwest will exceed that of the nation over the longer run.