SEVERAL FACTORS TEMPERED the District's expansion in January. Bad weather disrupted construction activity. At some companies, the impact of the Mexican recession continued to curb growth, and some high-tech industries still felt the effects of weaker than expected demand in 1996. A tight labor market may also have been a restraint on the economy. The energy industry remained a strength, however, despite falling oil and natural gas prices.

District employment fell an annualized 2.1 percent in January, pulled down by a 3.2 percent drop in Texas. Louisiana employment grew 0.9 percent, while New Mexico job growth jumped 3.1 percent. Historically, the revisions of January job growth estimates have been the largest of any month, so these figures will likely be revised. (The Bureau of Labor Statistics revised the employment series for 1996. Louisiana's job growth in 1996 went up from 0.9 percent to 2.1 percent, and New Mexico's went down from 2.6 percent to 1.7 percent. The Dallas Fed forecasts BLS revisions for Texas, so the state's 2.3 percent gain for 1996 was unchanged.)

The construction industry was an important source of economic weakness in January, when unusually severe weather stalled Texas' construction activity. Still, the industry has been cooling since activity surged in the first half of 1996.

The tight labor market may be restraining expansion, particularly in Texas, where job growth has outpaced the nation's for the past decade and outpaced its long-run average for the past three years. Texas' statewide unemployment rate has been hovering around its lowest level in 15 years.

Economic indicators suggest continued moderate employment growth. After dropping in December, the Texas Leading Index increased strongly in January as seven of the eight indicators registered increases. (The retail sales category was dropped from the index because the Census Bureau discontinued the series.)

—Fiona Sigalla