AFTER MORE THAN a decade of growth, the Texas economy shows few signs of faltering. Federal Reserve Bank estimates indicate that gross state product expanded at a brisk 4.3 percent annual rate in the first quarter. Although employment growth appears to have slowed recently, private nonfarm employment in Texas has grown at a 2.9 percent annual rate since the start of the year. The employment growth is broad based, with only a few noteworthy exceptions—apparel (manufacturing and retailing), chemicals, and computer-related manufacturing.

Despite recent declines in oil prices, employment is up sharply in oil and gas extraction and oil field machinery. The industry press reports shortages of skilled workers and a 12- to 18-month backlog for drill pipe.

Residential construction seems to be heating up again, which is partially offsetting a cooling in nonresidential construction. Recent changes in state and federal tax law should further boost housing construction, particularly at the low end of the price range.

The outlook is for more of the same. The Texas Leading Index jumped in July, signaling continued expansion. The probability of a Texas recession in 1997 is now less than 2 percent.

Labor market tightness is one factor that could dampen the forecast. Beige Book contacts continue to report difficulty finding workers. Average hourly wages are rising at roughly the rate of inflation for most Texas manufacturing industries and much faster than inflation for low-wage manufacturing industries. The September 1 increase in the minimum wage could widen this gap even further. Still, wages are not rising as fast in Texas as they are in the rest of the country, so the state should maintain its competitive edge.

— Lori L. Taylor