

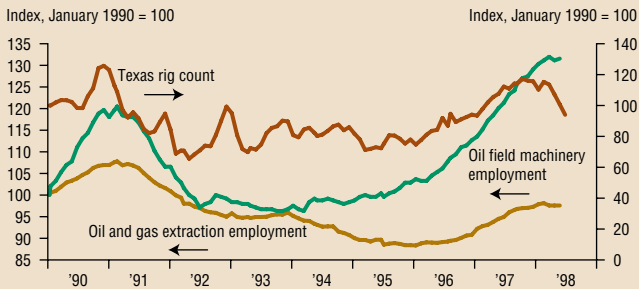
The Texas economy continued to grow at a fast clip in May, with employment increasing at a 4 percent annualized rate. The construction and service industries were the main sectors behind this growth. However, the detrimental effects of Southeast Asia's financial crisis are showing up in the energy and high-tech sectors.

Construction activity remains vigorous, and most construction industry indicators are pointing to continued

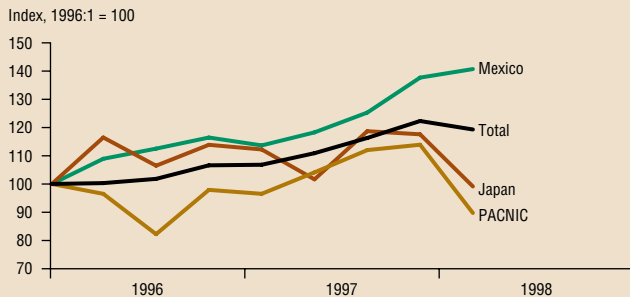
strength. Employment increased at a robust 8.8 percent annual rate in May, buoyed by the extremely strong residential sector. Both single-family and multifamily permits continued to increase in April. Residential contract values were also up 30 percent (annualized) between March and April. Brisk construction activity has fueled increased job gains in the construction-related manufacturing industries such as lumber and wood, and stone, clay and glass.

The service-producing sector continues to be a source of strength for the Texas economy. Private service-producing sector employment growth was a very healthy 5.5 percent (annualized) in May. A thriving national economy continues to boost the transportation and distribution sectors in Texas. Similar employment growth is seen in communications services (9.3 percent annualized) and narrowly defined services (6.9 percent annualized), which include firms in business, engineering and legal

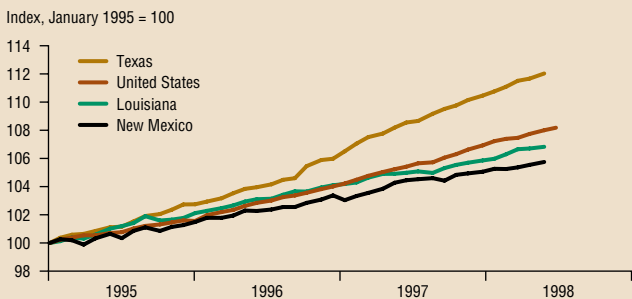
### RIG COUNT AND OIL INDUSTRY EMPLOYMENT



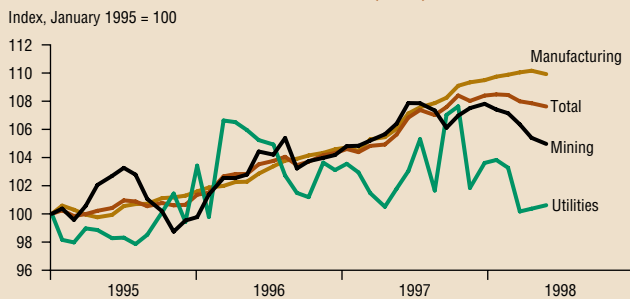
### REAL TEXAS EXPORTS



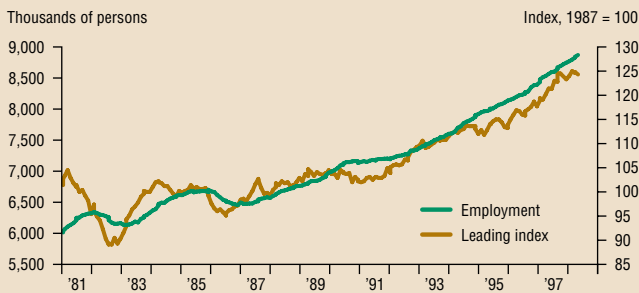
### TOTAL NONFARM EMPLOYMENT



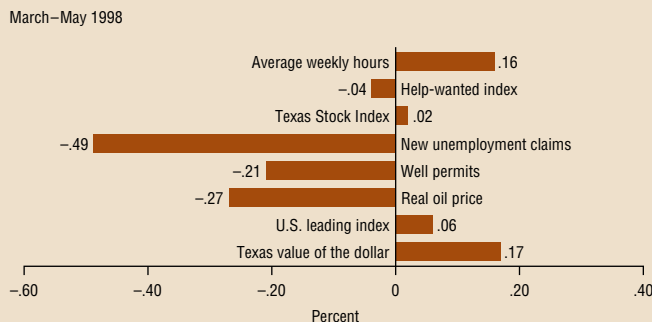
### TEXAS INDUSTRIAL PRODUCTION INDEX (TIPI)



### TEXAS LEADING INDEX AND NONFARM EMPLOYMENT



### NET CONTRIBUTIONS OF COMPONENTS TO CHANGE IN LEADING INDEX



services. Computer services, which are included in the business services category, continue to be very healthy, augmented by demand for consulting for Y2K systems upgrades.

The problems in Southeast Asia are hurting the energy and high-tech industries. In the energy sector, low oil prices have weakened the upstream portion of the industry, and feeble product demand and low product prices have taken their toll on the downstream portion. The decline in oil prices, due to oversupply and an unusually warm winter, was exacerbated by slower demand from Southeast Asia. Low oil prices have slowed what had been a vibrant energy industry in Texas for the past couple years. Both employment and rig count, good measures for the upstream energy industry in Texas, have weakened recently. Employment growth has flattened, and the rig count has dropped considerably.

The high-tech industry is undergoing a restructuring and consolidation. Sales and profits have fallen in the high-tech industry as the result of two intermingling factors at work: lower domestic demand for high-end computers and weak demand, due to the Asian crisis,

for products using chips. Employment growth in industrial machinery (which includes computers) and electronics (which includes semiconductors) has flattened in Texas.

The Asian crisis is also affecting Texas exports. Total Texas exports fell 2.5 percent (quarter over quarter) in the first quarter of 1998. The chart titled "Real Texas Exports" shows that this decline was concentrated in exports to Japan and Pacific newly industrialized countries (PACNIC). While exports to Mexico increased 2.2 percent in the first quarter, exports to Japan, Korea and China fell 16 percent, 50 percent and 41 percent, respectively. The decreases in exports were led by declines of 2.8 percent in electronics, 6 percent in industrial machinery and 2.5 percent in chemicals.

The Texas economy is unlikely to sustain the high rate of employment gains seen in the first five months of the year. The continuing drag from Southeast Asia, along with the expected deceleration of the national economy, should slow Texas growth in the second half of the year.

—Mine K. Yücel

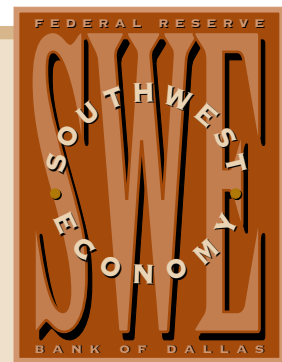
## REGIONAL ECONOMIC INDICATORS

	Texas employment*							Total nonfarm employment*		
	Texas Leading Index	TIPI total	Mining	Construction	Manufacturing	Government	Private service-producing	Texas	Louisiana	New Mexico
5/98	124.3	127.9	169.9	487.7	1,099.0	1,490.8	5,623.5	8,870.9	1,871.9	717.5
4/98	124.8	128.2	170.0	484.3	1,097.4	1,490.5	5,599.8	8,842.0	1,869.8	716.1
3/98	124.6	128.3	169.9	481.7	1,097.0	1,488.4	5,592.8	8,829.8	1,868.9	714.9
2/98	125.0	128.9	170.8	479.1	1,094.2	1,481.6	5,570.6	8,796.3	1,862.6	714.1
1/98	124.0	128.9	170.4	475.7	1,091.8	1,481.3	5,551.0	8,770.2	1,857.0	714.2
12/97	123.3	128.8	169.4	470.9	1,094.0	1,480.0	5,532.0	8,746.3	1,854.9	712.8
11/97	123.9	128.4	169.0	468.1	1,091.6	1,478.2	5,514.6	8,721.5	1,852.1	712.0
10/97	124.5	128.8	168.9	464.3	1,088.3	1,475.3	5,494.4	8,691.2	1,849.4	711.3
9/97	124.6	127.9	168.6	465.6	1,087.7	1,475.0	5,474.8	8,671.7	1,845.4	708.5
8/97	122.8	127.2	168.3	465.5	1,084.4	1,480.6	5,445.5	8,644.3	1,839.4	709.7
7/97	123.0	127.6	167.3	461.4	1,079.9	1,469.8	5,425.6	8,604.0	1,841.3	709.2
6/97	121.3	127.0	165.6	457.9	1,081.5	1,472.2	5,418.1	8,595.3	1,839.6	708.7

\* in thousands

## FURTHER INFORMATION ON THE DATA

For more information on employment data, see "Reassessing Texas Employment Growth" (*Southwest Economy*, July/August 1993). For TIPI, see "The Texas Industrial Production Index" (Dallas Fed *Economic Review*, November 1989). For the Texas Leading Index and its components, see "The Texas Index of Leading Indicators: A Revision and Further Evaluation" (Dallas Fed *Economic Review*, July 1990). Online economic data and articles are available on the Dallas Fed's Internet Web site, [www.dallasfed.org](http://www.dallasfed.org).



### Robert D. McTeer, Jr.

President and Chief Executive Officer

### Helen E. Holcomb

First Vice President and Chief Operating Officer

### Harvey Rosenblum

Senior Vice President and Director of Research

### W. Michael Cox

Vice President and Economic Advisor

### Senior Economists and Assistant Vice Presidents

Stephen P. A. Brown, John Duca,  
Robert W. Gilmer, Evan F. Koenig

### Director, Center for Latin American Economics, and Assistant Vice President

William C. Gruben

### Senior Economist and Research Officer

Mine K. Yücel

### Economists

Robert Formaini    Jason L. Saving  
David M. Gould    Fiona D. Sigalla  
Joseph H. Haslag    Lori L. Taylor  
Keith R. Phillips    Lucinda Vargas  
Stephen D. Prowse    Mark A. Wynne  
Marci Rossell    Carlos E. J. M. Zarazaga

### Research Associates

Professors Nathan S. Balke,  
Thomas B. Fomby,  
Gregory W. Huffman,  
*Southern Methodist University*  
Professor Finn E. Kydland,  
*Carnegie Mellon University*  
Professor Roy J. Ruffin,  
*University of Houston*

### Executive Editor

Harvey Rosenblum

### Editors

W. Michael Cox, Mine K. Yücel

### Publications Director

Kay Champagne

### Copy Editors

Anne L. Coursey, Monica Reeves

### Design & Production

Laura J. Bell

*Southwest Economy* is published six times annually by the Federal Reserve Bank of Dallas.

The views expressed are those of the authors and should not be attributed to the Federal Reserve Bank of Dallas or the Federal Reserve System.

Articles may be reprinted on the condition that the source is credited and a copy is provided to the Research Department of the Federal Reserve Bank of Dallas.

*Southwest Economy* is available free of charge by writing the Public Affairs Department, Federal Reserve Bank of Dallas, P.O. Box 655906, Dallas, TX 75265-5906, or by telephoning (214) 922-5254.