

THE TEXAS ECONOMY continues to outpace the nation, in spite of being hit with a severe drought, declining exports and downturns in the semiconductor and energy industries. Texas employment grew at a 3.2 percent annual rate in the third quarter, compared with a 1.9 percent increase for the United States. Behind this healthy growth is a thriving service-producing sector, which has partially offset declines in other areas such as manufacturing and energy-related employment. While still sound, employment growth has been trending downward from the strong 4.6 percent increase seen in 1997.

The Texas Leading Index, which has been signaling slower growth since May, fell more sharply in August and September. Weakness was evident across most categories. Low oil prices and declining well permits have been chipping away at the index for most of the year as the energy industry continues to lay off workers. Also dampening the outlook has been an

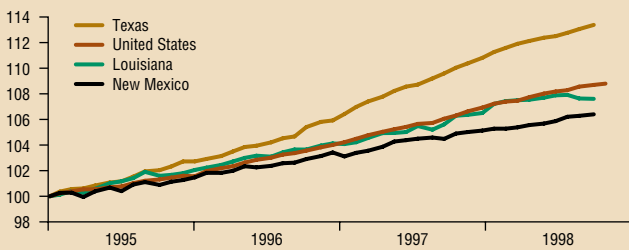
appreciating dollar compared with the currencies of Texas' major trading partners. This will further slow Texas exports, which declined 4.2 percent in the first half of 1998.

The construction sector has been a continuing bright spot for the Texas economy. Low interest rates have fueled a boom in nonresidential and residential construction. Construction contract values for the first nine months were 18 percent higher than a year ago. Backlogs in new home building will feed activity in coming months, but some industry contacts have seen a slight decrease in home sales growth. Also, a slight rise in office vacancy rates and stabilization of rent increases have slowed financing of new projects. However, nonbuilding construction—primarily of roads—has risen in 1998 and should strengthen as states start spending newly allocated federal highway money.

—Sheila Dolmas

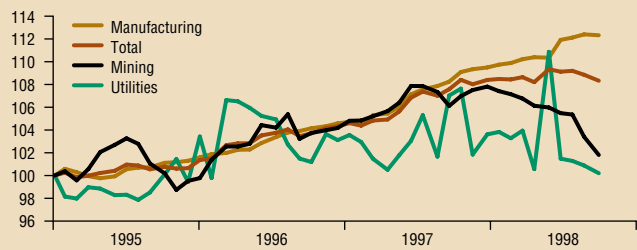
TOTAL NONFARM EMPLOYMENT

Index, January 1995 = 100



TEXAS INDUSTRIAL PRODUCTION INDEX

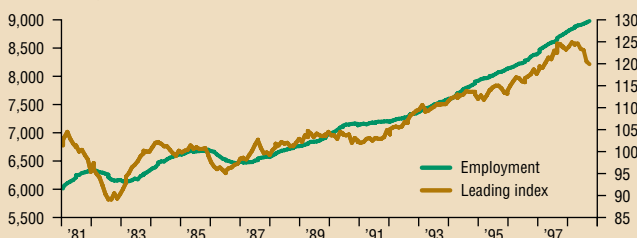
Index, January 1995 = 100



TEXAS LEADING INDEX AND NONFARM EMPLOYMENT

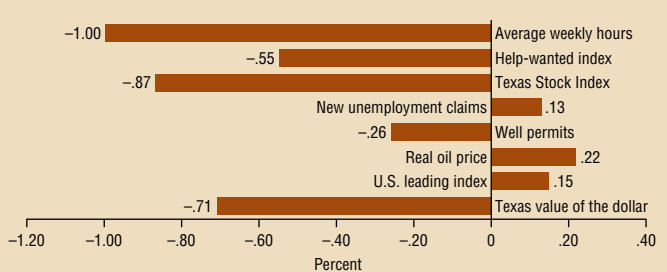
Thousands of persons

Index, 1987 = 100



NET CONTRIBUTIONS OF COMPONENTS TO CHANGE IN LEADING INDEX

July–September 1998



REGIONAL ECONOMIC INDICATORS

Texas employment*

Total nonfarm employment*

	Texas Leading Index	TIPI** total	Texas employment*				Total nonfarm employment*			
			Mining	Construction	Manufacturing	Government	Private service-producing	Texas	Louisiana	New Mexico
9/98	119.9	128.7	168.4	492.6	1,109.9	1,514.3	5,693.7	8,978.9	1,885.6	721.7
8/98	120.5	129.4	169.7	493.6	1,108.0	1,503.4	5,678.1	8,952.8	1,886.1	720.9
7/98	123.1	129.8	170.3	491.3	1,105.7	1,498.4	5,664.2	8,929.9	1,891.0	720.4
6/98	123.4	129.7	170.8	489.4	1,108.1	1,494.9	5,646.1	8,909.3	1,890.4	718.1
5/98	124.6	130.0	170.8	488.2	1,108.1	1,495.5	5,637.1	8,899.7	1,887.2	716.8
4/98	124.6	128.6	171.1	485.9	1,107.1	1,495.8	5,619.5	8,879.4	1,884.4	716.0
3/98	124.3	129.1	171.1	483.4	1,106.7	1,493.2	5,607.6	8,862.0	1,883.7	714.8
2/98	124.9	128.9	171.1	482.2	1,104.7	1,490.9	5,587.9	8,836.8	1,882.5	714.1
1/98	123.9	128.9	170.3	477.7	1,104.5	1,490.2	5,568.6	8,811.3	1,878.7	714.1
12/97	123.2	128.8	171.2	472.4	1,097.2	1,488.1	5,546.2	8,775.1	1,866.2	713.1
11/97	123.9	128.4	170.6	470.0	1,093.2	1,482.6	5,524.5	8,740.9	1,863.7	712.3
10/97	124.5	128.8	169.8	468.5	1,090.1	1,479.7	5,505.8	8,713.9	1,862.5	711.5

* in thousands

** Texas Industrial Production Index

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.