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

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