The region's economy continues to grow at a very healthy rate. Strong growth in services and construction has countered less robust manufacturing activity and weakening energy-related activity. This growth has kept labor market conditions tight and unemployment rates low. Construction labor, in particular, remains in short supply, but this may change in coming months with slower growth in commercial construction.

During the last part of 1998, a pullback in lending for speculative building caused a drop in Texas construction contract values. However, with many buildings under construction, real estate contacts expect completions of new office buildings to outpace leasing in the coming year, pushing occupancy rates down about 1 to 3 percentage points. Some office rent concessions of up to four free months have already been reported this year in Dallas and Houston. Free apartment rent of one or two months is also becoming quite common in some areas as a means of attracting new renters, but this has not yet caused a slowdown in apartment construction.

Low oil and natural gas prices continue to take their toll on the energy industry. Unseasonably warm weather and high inventories have pushed natural gas prices about 20 percent lower than last year's levels. Oil prices, which had reached highs above $25 per barrel in 1997, are now at about $12 per barrel, which is below the cost of drilling for many Texas producers. Slower drilling activity has reduced the number of Texas oil rigs by half over the past year. Texas oil and gas extraction jobs have declined 5 percent over the past 12 months as energy firms continue to lay off workers.

—Sheila Dolmas

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).