HE DISTRICT ECONOMY continues to grow, albeit at a more modest pace than a year ago. Seasonally adjusted employment rose at an annual rate of 2 percent in April and 2.5 percent in May, down from 2.9 percent in the first quarter. The service sector is still adding jobs at a strong pace, but low commodity prices continue to hurt the manufacturing and energy industries, and the region’s booming construction industry is cooling.

After surging in the first quarter, Texas construction contract values and housing permits came down to earth in April. Total contract values fell at an annualized rate of 24 percent, led by a steep decline in nonresidential building construction. Housing permits fell 23.5 percent. Construction employment fell at an annualized rate of 3.4 percent in May after rising at an annualized rate of 9.4 percent in the first four months of the year. Contacts in the real estate community continue to express concern about some overbuilding, however.

Energy activity has not increased much with higher oil prices, although there is increased optimism about the second half of this year. U.S. output is expected to rise by at least 400,000 barrels per day if oil prices remain at their current levels. Still, oil prices will come down as fast as they went up if OPEC does not hold together. Although OPEC’s output agreement seems to be holding up, fiscal and supply pressures may cause a break in the agreement. The Venezuelan and Mexican economies are suffering from low oil revenues and may be compelled to revise their output cuts. On the supply side, Iraqi oil production will rise as its output ceilings are raised in the United Nations’ oil-for-food program. Higher oil prices will bring increased supply from other non-OPEC producers as well, putting downward pressure on prices.

—Fiona Sigalla