The Texas economy slowed significantly during the first seven months of 2001. Although acute problems remain in high tech and manufacturing, softening has spread to other economic sectors. After posting strong gains for the past two years, energy now appears to be leveling off. TCLP (transportation, communications and public utilities) and construction, especially homebuilding, continue to be economic bright spots for Texas. The unemployment rate has increased for six straight months and currently stands at 4.7 percent.

During the first half of 2001, oil and gas exploration served as a continuing and important source of economic strength and stability for the Eleventh District. However, energy may not be immune to the slowing trend. In recent weeks the Texas rig count has flattened out to just over 500 rigs, suggesting that domestic drilling may have peaked for now. Rising inventories have driven the spot price of natural gas down from $4 per thousand cubic feet to around $2.40.

Technology continues as the epicenter of weakness, with North Dallas and Austin the hardest hit. Negative trends in technology have spilled over to the commercial real estate sector; sublease space in North Dallas and Austin has nearly doubled. Meanwhile, the Dallas area is reaching near record levels of new office space under construction.

Before the tragic events of September 11, the near-term outlook for the Texas economy was for weak growth. The Texas Leading Index increased from May to July, suggesting gains in employment over the next three to six months. Nonetheless, Texas’ economic strength will depend on the health of the U.S. economy. The recent events have the potential to dampen spending and slow national economic growth, but the long-term prospects for the U.S. economy remain favorable.

— Charis L. Ward