Texas' unemployment rate has hovered around 5 percent since the start of the year—the lowest reading since the state fell into recession in 2001. Labor force growth has been relatively strong, but enough new jobs have been created to absorb the increase in workers.

Since Texas' recession ended in July 2003, state job growth has exceeded the nation's as a whole by 0.8 percentage point a year. The gap breaks down this way: 0.7 percentage point comes from Texas firms expanding faster than their U.S. counterparts, and 0.1 percentage point owes to Texas' slightly larger share of fast-growing industries.

Overall, job growth numbers don't seem to show a strengthening labor market. Initial reports indicate Texas employment rose at an annualized rate of 1.8 percent for the first five months—weaker than last year's 3.1 percent rate.

Anecdotal reports, however, suggest the 2006 data have understated job growth, making it likely that the figure will be revised upward. During periods of recovery, initial employment estimates are generally revised up. For example, for the five quarters ending in fourth quarter 2005, the average upward revision has been 1.2 percentage points.

Forecasts indicate Texas job growth for 2006 is likely to come in around 3 percent.

Additional evidence of the state's economic health can be found in the Dallas Fed's Texas Leading Index, which continues to signal expansion. The index's recent rise has been the result of increases in average weekly hours worked, the help-wanted index and oil prices, as well as a drop in new unemployment claims.

Construction activity is still strong. Homebuilding remains at high levels. Existing-home sales are healthy, despite a cooling in the Dallas–Fort Worth area, particularly for lower-priced homes.

Nonresidential construction picked up in recent months. In April, nearly half of Beige Book contacts reported they had started or planned to start major construction projects in 2006. Most firms said this year's construction spending was higher than last year's.

Capacity constraints are limiting growth in a few industries. The energy sector, for example, has been robust, but it faces shortages of rigs, equipment and skilled labor. Oil service firms report growing backlogs of unfinished work, and they are turning down jobs they can't schedule.

In addition, some manufacturing and service sectors are being crimped by shortages of skilled labor. Some contacts report difficulties in finding entry-level workers who meet basic qualifications, such as background checks and drug tests.

Some Texans may be facing financial strain. Gasoline prices have jumped sharply this year, driven up by rising crude oil prices and new regulatory requirements. Beige Book contacts in April and June reported that retail sales have been weakest among low-income consumers, who are spending a larger share of their disposable income on high utility and gasoline bills.

—Fiona Sigalla