



## Texas Midyear Report Favorable

The Texas economy grew strongly during the first half of the year, with total nonfarm employment posting a 2.3 percent gain. The Texas Coincident Index, an aggregate measure of statewide economic activity, increased 3.2 percent, and private employment gains were robust. Anecdotal evidence from the Eleventh District Beige Book continues to suggest solid economic activity and a tightening labor market. The service sector is still adding jobs at a good clip, but it is the goods-producing sector—manufacturing, construction and energy industries—that is giving the state's economy a major boost.

Several factors are spurring growth in the Texas goods-producing sector. First, oil and gasoline prices remain elevated, dampening consumer spending to some extent but benefiting the state through increased royalty payments and tax revenues. Drilling-related employment and the Texas rig count are on an upswing despite anecdotal reports of labor and equipment shortages.

Second, healthy activity in the construction industry, driven by in-migration and busi-

ness expansion, is propelling the state's economy. Texas construction employment is growing more than twice as fast as its national counterpart (6 percent versus 2.4 percent). Both home demand and homebuilding remain high. Retail construction is solid, and even the office sector, which took a huge hit during the most recent downturn, is witnessing declining vacancy rates and increased construction.

Third, overall manufacturing employment rose slightly in the second quarter (0.4 percent), and average weekly hours worked also ticked up recently. Moreover, the July Beige Book indicates that Texas manufacturing output remains strong, and the Dallas Fed Business Outlook Survey suggests a pickup in production and shipments six months from now.

Jobs are being added in Texas' service-providing sector at a much faster pace than at the national level. Employment growth is fairly broad based, with the key exception being the information sector, which includes Internet service-providing and telecommuni-

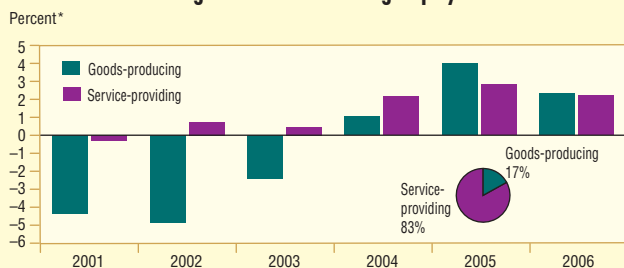
cations firms that are still restructuring. Texas' largest sector—trade, transportation and utilities—added 21,900 jobs at 2.2 percent in the first half of the year, outperforming national job growth in this sector by about 2 percentage points. The professional and business services sector—Texas' second-largest private sector—recorded the strongest growth (5.8 percent), with noteworthy increases in accounting, computer systems design, and architectural and engineering services.

Additionally, the state economy is benefiting from growth in the maquiladora industry along the Texas-Mexico border. Employment in these maquiladoras increased 7.3 percent (13,200 jobs) through May, and most maquiladora industries posted net job gains.

Finally, an increase in the Texas Leading Index during the first half of the year confirms that the Texas economy remains strong and is poised for moderate and broad-based growth in coming months.

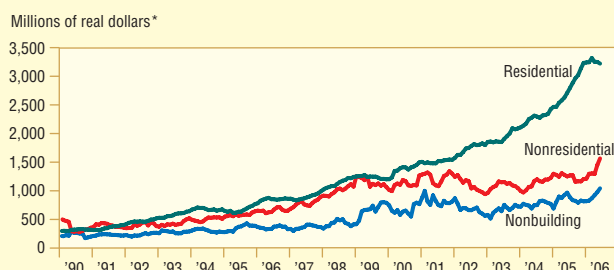
—Laila Assanie

### Texas Goods-Producing and Service-Providing Employment



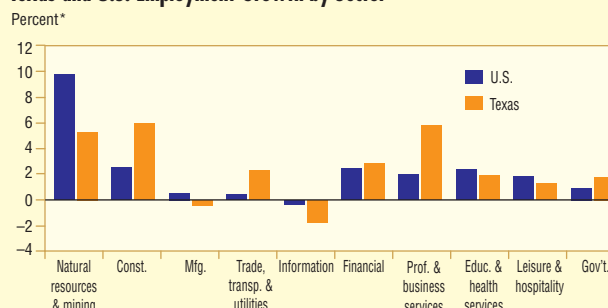
\*December-over-December, seasonally adjusted, annualized rate. 2006 figure is June-over-December, annualized.

### Texas Construction Contract Values



\*Seasonally adjusted, five-month moving average.

### Texas and U.S. Employment Growth by Sector



\*Year-to-date, seasonally adjusted, annualized rate.

### Maquiladora Employment

