Although energy prices have come down somewhat, they’re still high enough to support strong energy sector activity in Texas. Oil prices fell to $61 per barrel the third week of September after reaching a high of $77 in July. Natural gas prices were down to below $5 per million Btu, from highs above $8 in August.

Oil and gas employment continues to grow strongly despite widespread reports of labor shortages. Through August, extraction jobs were up 5.6 percent, and support activities rose 9.6 percent.

The Texas rig count stood at 788 the third week of September, up 155 from a year earlier (Chart 1). The U.S. rig count is at 1,754, an increase of 303. Of these rigs, 82 percent are drilling for gas, down slightly from 86 percent a year earlier. Eighty-six rigs are drilling in the Gulf of Mexico, all for natural gas.

Weakness in natural gas prices relative to oil helps Texas petrochemical producers. They use natural gas as an input, while European producers rely on oil. Hence, Texas producers have become more competitive. The Dallas Fed’s Beige Book, an anecdotal report on Texas economic conditions, suggests this widening differential has reopened export markets for ethylene.

The energy industry has been reporting labor shortages for some time. The Beige Book notes that engineers and skilled craft workers—pipe fitters, welders and machinists—are in short supply and are the big constraint on expansion right now.

The shortages are consistent with a tightening labor market. So far this year, Texas employment has been growing twice as fast as U.S. jobs (Chart 2). The state’s gains have been broad-based, with almost all sectors doing better than the nation.

### Spending on Energy

For the nation, energy ate up about 6 percent of disposable income in the second quarter, the same as in 1974, when real oil prices were around $35 per barrel (Chart 3).

High energy prices have been hitting Texans disproportionately. Beige Book contacts note that soaring gasoline and air-conditioning bills have been absorbing discretionary income and are dampening consumer spending.

Texans spend more than the average American on energy. Monthly outlays on gasoline, residential natural gas and electricity are $175 per capita in the state, compared with $156 for the nation (Chart 4).

In general, Texans drive more than residents of most other states, but they usually pay less than the national average for gasoline. For a short while, however, Texas gasoline prices were higher because transport problems caused an ethanol shortage in some areas during the transition from the additive MTBE to ethanol.

Texas electricity prices are higher because state utilities use more natural gas for electricity generation than the nation, which relies more on coal. So the average Texan has a higher energy bill, especially in the summer when electricity use peaks.

—Mine Yücel