Economic growth has softened in Texas, and evidence suggests that some business leaders are expecting continued weakness.

Texas job growth has been slowing since 2006, when it posted a 3.3 percent increase. Employment rose 2.9 percent in 2007, and growth is likely to end 2008 around 1.5 percent.

Despite the slowdown, the state continues to grow much more rapidly than the nation, with nearly all sectors of the economy adding workers at a faster pace over the past three years. In 2007, one-third of private-sector jobs created in the U.S. were in Texas, making the state’s job growth three times faster than the nation’s (Chart 1).

The relative strength of the Texas construction sector is particularly notable. The state’s construction workforce rose 5.6 percent last year, while U.S. construction jobs declined 3 percent.

A number of recent indicators point to slower growth. Beige Book, the Dallas Fed’s anecdotal survey of economic conditions, has been reporting decelerating growth for over a year. In March and April, business executives expressed a great deal of uncertainty about the outlook for growth, and some are cutting capital spending, paring inventories and reducing or freezing employment.

Home sales are slowing, and after credit standards tightened in fall 2007, the drop has been as precipitous in Texas as in the rest of the country (Chart 2).

Most Indicators Soft
The Dallas Fed’s Texas Manufacturing Outlook Survey has weakened over the past few months. Indexes for production, volume of new orders and volume of shipments have decelerated since mid-2007.

Most indicators of current conditions remained soft in April. Manufacturers perceive general business conditions as worse than their own company outlooks (Chart 3).

The Texas economy is also showing signs of strength. Energy activity remains high, and real estate markets are in better shape in Texas than in the nation. Home sales have slowed, but sharp cutbacks in home construction have helped keep Texas inventories from rising and price declines at bay.

The Texas unemployment rate of 4.3 percent remained well below the U.S. rate of 5.1 percent in March (Chart 4). Firms continue to have difficulty finding workers, according to anecdotal reports.

Current labor market conditions echo those of the state’s early 1980s energy boom, which sent Texas unemployment rates below the national average. For over 20 years—between 1985 and 2007—Texas unemployment tended to be above the U.S. rate. But the state unemployment rate moved below and has steadily diverged from the U.S. trend since May 2007.

Movements in the Dallas Fed’s Texas Leading Index over the past several months point to slower growth but not to recession.

—Fiona Sigalla

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

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