A sluggish national economy, the global credit crunch and Hurricane Ike have taken some steam out of Texas’ growth.

State employment rose at a tepid 0.6 percent annualized rate in September, adding 5,500 jobs (Chart 1). Nationally, jobs have been declining for most of the past year.

Texas manufacturing—which accounts for about half of goods-producing employment—continued to shed jobs. Construction employment fell 2.4 percent, its first contraction since March.

Texas unemployment increased 0.1 percentage point to 5.1 percent in September. Perhaps more significant, the rate was up 0.7 percentage point, or nearly 16 percent, in the third quarter. October’s Dallas Beige Book, the Dallas Fed’s anecdotal survey of business conditions, found that some firms are laying off employees, reducing hours or cutting overtime.

Energy and commodity prices have decreased significantly, easing cost pressures for many industries. Forty-three percent of firms responding to the Dallas Fed’s Texas Manufacturing Outlook Survey reported raw materials price increases in September, down from 58 percent in August.

The pullback in home construction hasn’t subsided. Compared with year-ago levels, single-family permits in Texas were down 32.9 percent in August and housing starts had dropped 30.4 percent.

New and existing home sales fell 12.1 percent year-over-year in the state, although they rose 3.9 percent in August.

Texas home prices continue to buck the U.S. trend. The Office of Federal Housing Enterprise Oversight index shows the state’s home prices rose 3.6 percent year over year, compared with a 1.7 percent decline for the nation (Chart 2).

Exports and Energy

Export growth and a healthy energy sector continue to be sources of strength for the Texas economy.

Aided by the dollar’s decline, real exports rose more than 5 percent in the second quarter. The increase was broad-based across the state’s major trading partners. Exports were up 17 percent to Latin America and 8 percent to China. Sales to the EU, Canada and Mexico also increased (Chart 3).

Texas’ energy sector is still doing well despite recent declines in oil and natural gas prices and temporary refinery disruptions due to Hurricane Ike (for more on Ike’s impact, see page 5).

Prices are still high enough to encourage drilling and other industry activity. The Texas rig count stood at 925 as of Oct. 17, up 8.8 percent over the previous year (Chart 4). Energy-related hiring was strong, but job growth could weaken if prices continue to decline.

Although the Texas economy is slowing, it’s still doing better than the national economy. Through September, Texas added 150,400 jobs, a 1.9 percent annualized gain. The growth rate is below the state’s historical trend of 3 percent but looks good compared with the nation’s employment decline.

Movements in the Dallas Fed’s Texas Leading Index over the past several months point to positive—but below trend—employment growth for the rest of 2008. The labor market is likely to remain weak into early 2009.

—Mike Nicholson

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**Chart 1** Employment Grows Faster in Texas than Nation

**Chart 2** Texas Home Prices Holding Up

**Chart 3** Texas Exports Remain Robust

**Chart 4** Energy Sector Still Strong

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

* Percent

* Real dollars, seasonally adjusted.

NOTES: Asia excludes China; Latin America excludes Mexico.

SOURCES: WISERTrade; seasonal and other adjustments by the Federal Reserve Bank of Dallas.