NoteWorthy

QUOTABLE: *"The Texas manufacturing sector has been consistently weak since mid-2008—with no signs of a bottoming out on the horizon."*

—Laila Assanie, Associate Economist

BANKING: District Outperforms U.S. on Profits

Banking industry indicators deteriorated in 2008—both in the Dallas Fed's district and nationwide.

In the Eleventh District, which encompasses Texas and parts of Louisiana and New Mexico, commercial banks' return on average assets—a measure of profitability—was 0.85 percent in 2008, compared with 1.27 percent a year earlier. Despite the decline, these banks exceeded the nation's return of 0.21 percent, which was down from 0.95 percent in 2007.

In 2008, 13 percent of Eleventh District banks lost money, compared with 22 percent for the nation. In the fourth quarter, banks across the U.S. suffered their first overall loss in almost 20 years.

Noncurrent loans—those 90 days or more past due, plus those no longer accruing interest—continued to increase. At Eleventh District banks, the noncurrent loan rate doubled in 2008 to 1.41 percent. Across the nation the rate more than doubled, reaching 2.85 percent. Less than 1 percent of mortgages held by the district's banks were noncurrent, compared with 4 percent for banks nationwide.

The write-off rate was 0.5 percent at Eleventh District banks, compared with 1.3 percent at U.S. banks. In the district and nationwide, however, the ratio of loan-loss reserves to noncurrent loans continued to decline.

—Kenneth J. Robinson

COMMERCIAL BUILDING: Texas Shows Signs of Weakening

Texas commercial construction held up relatively well throughout 2008—in the broad view, at least.

According to F. W. Dodge, nonresidential contract values increased 61 percent from the previous year. The nation saw a 2.5 percent decline. In the fourth quarter, Texas experienced just under 6 percent growth—no small feat in a year marked by unprecedented capital market volatility. The nation saw an 11 percent decline.

Further examination of the data tells a different story. Two large Texas projects accounted for more than $8.5 billion of the $31 billion in total spending in 2008—one of them the $7 billion Shell Motiva refinery expansion in Port Arthur. Without these projects, year-over-year growth would have been 16 percent rather than 61 percent.

The breakdown also shows a gap between private and public construction projects in Texas. With lending activity receding, contract values for private projects such as stores, manufacturing facilities, warehouses and office buildings fell 11 percent in 2008. Public projects—schools, libraries and other government buildings—grew over 46 percent.

In the fourth quarter, the dichotomy was even more apparent. Private projects declined about 33 percent, while public projects grew over 45 percent.

Private-sector activity will probably continue to slow as long as credit is tight. It remains to be seen whether public projects will be able to fill the void.

—Jackson Thies

HURRICANE IKE: Six Months Later, Still Assessing the Damage

On Sept. 13, Hurricane Ike made landfall at Galveston. Six months later, many Texas Gulf Coast communities continue to struggle with debris and damage. Rebuilding is under way, but full recovery is likely to take years.

Preliminary damage estimates, published in January by the Federal Emergency Management Agency (FEMA), include $3.4 billion for housing. About 8,000 housing units were destroyed, and FEMA approved housing assistance for more than 100,000 people.

The state estimates that repairs to waterways and ports—in particular, the heavily damaged Port of Galveston—will cost more than $2.4 billion. Fixing water and wastewater plants and government buildings will take at least $1.7 billion. More than $1 billion will be needed to repair schools and universities.

The storm profoundly impacted the region's business climate. In Galveston County, more than 53,000 employees were put out of work and 18,000 businesses were damaged. In nearby Harris County, 67,000 businesses experienced interruptions in operations, some losing power for as long as a month. The region's agricultural sector was badly hurt, with losses reaching about $434 million.

Many local businesses have now opened. The bulk of the region's economically vital shipping, refining and chemical facilities escaped major damage.

—Mike Nicholson