NoteWorthy

QUOTABLE: *"In the medium to long term, the regional outlook is still a function of U.S. fundamentals, which have not improved much from last year."*

—Pia Orrenius, Assistant Vice President and Senior Economist

TEXAS TOURISM: Gas Price Spike Could Lead to Fewer Pleasure Trips

This spring's gasoline price spike could promote more "staycations" and fewer road trips in 2012.

Texas tourism generated gross domestic product of $23.4 billion in 2010, or about the same as the agriculture and food production industry, according to a study commissioned by the governor's office. Tourism spending totals $48 billion, 55 percent from Texans. Outside visitors make 198 million annual trips to the state, 70 percent for pleasure.

Gasoline prices this spring are up more than 20 percent from last December—more than six times the annual rate of the consumer price index. The short-term price elasticity for fuel—a measure of how motorists' gasoline use is affected by prices—suggests that consumption could fall about 4 percent in 2012 if prices rise 30 percent, as they did during the 2008 oil spike, according to the Federal Highway Administration. Because it's harder to cut back essential job- and school-related trips when fuel prices climb, consumers trim elsewhere.

Texas gasoline sales rose 2 percent in 2011, which partially reflects an increase in traffic. Motorists racked up 106 million daily vehicle miles in Dallas–Fort Worth, 82 million in Houston and 41 million in San Antonio.

Grand Prairie, Texas-based amusement park operator Six Flags Entertainment acknowledged the travel wildcard in its annual report, saying its business is vulnerable to "general economic conditions, including relative fuel prices, and changes in consumer spending habits."

—Michael Weiss

BANKING: Profitability and Lending Rise as Problem Loans Fall

Commercial banking—nationally and in the Eleventh District—continued recovering from the financial crisis, with profitability and asset quality strengthening in 2011.

Banks nationally reported a return on assets of 0.92 percent last year, up from 0.65 percent in 2010.

Eleventh District institutions continued outperforming their counterparts nationwide, with a return on assets of 1.13 percent, the first time since 2007 that they reported a full-year return exceeding 1 percent.

A decline in the amount set aside to cover bad loans—now at levels last seen in 2007—was the major profitability contributor.

Asset-quality difficulties continued abating, with the proportion of loans 90 days or more past due falling to 4.1 percent last year at banks across the nation, compared with 4.9 percent in 2010. Eleventh District banks fared even better, with a noncurrent loan rate of 2.4 percent in 2011, down from 3 percent in 2010.

Among banks nationwide, one- to four-family residential mortgage loans still dominated the noncurrent category; for district banks, commercial real estate loans were the major problem source.

Lending rose 1.8 percent nationally and 3.1 percent in the Eleventh District in 2011. Business borrowing also increased, up 7.1 percent nationally and 2.4 percent in the district. However, loans to small businesses registered a decline.

—Kenneth J. Robinson

AGRICULTURE: Sector's Share of GDP Smaller in Texas than in U.S.

Texas is one of the top agriculture states, accounting for 7 percent of the value of U.S. agricultural products sold. The Texas food and fiber system—more broadly encompassing agricultural production and associated economic activities—is responsible for an estimated 8.6 percent of state gross domestic product (GDP), according to Texas AgriLife Research.

Yet agricultural production in Texas represents only 0.6 percent of state GDP. More surprising, the figure is less than agriculture's 1.1 percent share for the U.S. as a whole. How can the nation's second-largest agriculture producer have a lower ratio of agriculture-to-total GDP than the U.S.?

Texas has relatively low agriculture productivity, ranking 43rd when measured as output (gross production) divided by inputs (capital, land, labor and goods used in production), according to the U.S. Department of Agriculture. No. 1-ranked California and second-place Florida produce higher-value products such as fruits and nuts. Texas' relatively less-productive land requires more inputs for successful production—mostly of low-value field crops—depressing the state's agriculture GDP calculation.

Additionally, Texas boasts the largest livestock industry in the U.S., which accounts for a disproportionate share of the state's agricultural sector. Maintaining breeding herds is a big component of Texas agriculture but is not fully reflected in GDP estimates because these assets aren't regularly sold.

—Emily Kerr