



▶ *Shipments to Mexico and Canada make up half of all Texas exports, and a majority are intra-industry trade, which leverages each nation's competitive advantage through collaborative production.*

**A**fter serving as a growth engine for the national economy for several years, Texas is struggling with the impact of lower oil prices, a stronger dollar and, more recently, adverse weather. Federal Reserve Bank of Dallas regional economists have been working overtime to assess and understand the impact of these factors on Texas' future prospects. Particularly noteworthy has been weakening export trade; Texas is the nation's top exporting state.

The strong performance of the Texas economy over the past five years would not have been possible without our neighbors and top trading partners, Mexico and Canada. Shipments to Mexico and Canada make up half of all Texas exports, and a majority are intra-industry trade, which leverages each nation's competitive advantage through collaborative production. The magnitude of intra-industry trade with our North American Free Trade Agreement (NAFTA) partners helps insulate prices of our traded goods from fluctuations in the value of the dollar, at least in the short run.

The Dallas Fed has long noted the economic benefits of free trade, and our research chronicles its positive effects. While NAFTA clearly led to a surge in Texas exports and continues to support economic growth in the region, trade-related issues abound.

In this issue of *Southwest Economy*, we look at some of the implications of the U.S. government's Country of Origin Labeling on meat products. Although such labeling may be informative for consumers, the World Trade Organization, acting on a complaint from Canada, ruled last month that it unfairly restrains trade and discriminates against meat imports.

Other articles in this issue consider the impact of China's economic slowdown on Texas trade, the outlook for the region's banks and early measures of Texas employment growth.

Texas has encountered an unwelcome pause in what has been an extraordinary period of economic growth. While we at the Dallas Fed track the impacts of weak oil prices and the strong dollar, we remain mindful of sources of lasting economic vitality—foremost among these is the free movement of goods and services with our trading partners.

*Helen E. Holcomb  
Interim President, First Vice President  
and Chief Operating Officer  
Federal Reserve Bank of Dallas*