



▶ *As the nation's leading producer of oil and natural gas, Texas is no stranger to the booms and busts of commodities markets. But the economy's resilience is notable this time.*

Texas is not in recession, but the Eleventh District economy continues to sort through the fallout from the collapse of oil prices. I am confident that the region's economy will continue to expand but, as the articles in this issue of *Southwest Economy* indicate, we still face significant headwinds before we can return to trend growth.

Houston, our district's biggest metropolitan area and the nation's de facto energy capital, continues to deal with the adverse effects of the oil bust, as Jesse Thompson describes in "Houston Grinds to a Halt as Oil Industry Declines." Fortunately for Houston and the state, the downstream energy industry, led by petrochemicals, has held up well, and job creation in the metropolitan area's service sector has offset most of the job losses in the energy and manufacturing sectors.

In "Once-Robust Wage Growth Stops as Texas Economy Slows," Amy Jordan and Emily Gutierrez describe how weekly wages rose sharply in the oil boom but have since fallen regionally while continuing to grow nationally. The decline in compensation affects consumer demand, which has weakened in energy-intensive regions of the state such as Houston and South and West Texas.

The energy sector downturn and slower economic growth are also affecting Eleventh District banks, as Kelly Klemme and Ed Skelton explain in "Risks Mount for Eleventh District Banks amid Energy Weakness." Loan growth slowed markedly in 2015 and, while the region's banks remain profitable, bankers are setting aside more in provision expense to cover possible loan losses. Commercial real estate lending is also receiving additional scrutiny from regulators.

As the nation's leading producer of oil and natural gas, Texas is no stranger to the booms and busts of commodities markets. But the economy's resilience is notable this time; the state is still adding jobs despite the largest drop in energy prices in 30 years. The inherent strength of the Texas economy is bolstered by the quality of its workers and firms and the resourcefulness and productivity of its people.

A handwritten signature in black ink that reads "Robert S. Kaplan". The signature is written in a cursive, flowing style.

*Robert S. Kaplan
President and Chief Executive Officer
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