As we look to 2017, we expect to see global consumption and production of energy move toward balance, and we expect to see excess inventories stabilize and then begin to decline.

We have much to be thankful for this holiday season. Despite headwinds from a weak energy sector and a stronger dollar, the Texas economy continues to grow. Federal Reserve Bank of Dallas economists estimate that Texas job growth will register approximately 1.6 percent in 2016. Texas continues to benefit from continued migration of people and firms, which has helped diversify the state’s economy.

Partly as a result of this diversification, it appears that the state’s finances will come through the energy downturn in better shape than first feared. In this issue of *Southwest Economy*, Jason Saving revisits Texas finances in advance of the upcoming legislative session. According to “Lingering Energy Bust Depresses, Doesn’t Sink Texas State Budget,” the downturn in oil and gas prices has cost the state about $3.5 billion in lost severance tax revenue. The broader economic slowdown has also led to a shortfall in sales tax revenue and other tax income as well as slower growth of the state’s rainy-day fund. As a result, the state will start the upcoming legislative cycle with a substantially diminished surplus with which to meet pending health, education and infrastructure needs.

While challenging, this fiscal situation still puts Texas in far better condition than most energy-producing states. Roberto Coronado and Marycruz De León, in their article, “New Mexico Recovery Lags amid Energy, Government Sector Weakness,” describe how New Mexico, which includes a portion of the oil-and-gas-rich Permian Basin, benefited from the post-Great Recession oil boom and has been hurt in the subsequent bust. Severance taxes declined from 20 percent of state tax receipts to just 8.6 percent in the latest fiscal year.

While energy states have had to manage the boom-bust cycle of oil prices, we see better times ahead. As we look to 2017, we expect to see global consumption and production of energy move toward balance, and we expect to see excess inventories stabilize and then begin to decline. As this process unfolds, we expect oil prices to continue to firm.

Due to the increasingly diversified Texas economy, and as the headwinds from weak energy begin to dissipate, I am very optimistic about the growth prospects for our state and the Eleventh District in the months and years ahead.

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