



▶ *Production sharing with Mexico is likely boosting U.S. export competitiveness.*

Prospects for the Texas economy have improved since first quarter. We currently expect 2017 job growth of approximately 2.5 percent, the strongest rate in three years.

While the forecast for the region has improved, some developments still cloud the outlook. One of these is the upcoming renegotiation of the North American Free Trade Agreement (NAFTA) among the U.S., Mexico and Canada. Texas is now the top exporting state in the nation with \$231 billion in exports in 2016. The state also imported \$229 billion.

Much of U.S.–Mexico trade is production sharing. The nature of this trade partnership is explained in this issue's article, "Intra-Industry Trade with Mexico May Aid U.S. Global Competitiveness," a collaborative effort between Federal Reserve Bank of Dallas economist Jesus Cañas and two colleagues from Banco de México, Aldo Heffner and Jorge Herrera Hernández. The authors argue that production sharing with Mexico is likely boosting U.S. export competitiveness.

The improved economic outlook is also a welcome message for our banks, which are still managing through some of the residual negative effects of the 2015–16 oil bust, a situation Kelly Klemme and Edward C. Skelton outline in their article, "Eleventh District Banks Confront Challenging Energy, Rate Situation."

During the early parts of 2016, district banks faced sharply slower loan growth and rising levels of noncurrent loans. Improved conditions in the energy sector will boost reported performance, but with a lag.

As we look ahead, I am very optimistic about growth prospects for the Eleventh District. At the Dallas Fed, we will continue to work to understand the regional economy, national and global economies, and share our research with policymakers, business leaders and the public in a manner that is insightful and informative.

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
Federal Reserve Bank of Dallas*