



Texas Economy on Solid Footing

By all accounts, the sluggish economic growth witnessed in the years following the 2001 downturn is a thing of the past. In 2005, the Texas economy gathered speed, posting its best performance in five years. Moreover, job growth in the Lone Star State outpaced that of the United States, rising at a rate more in line with its historical average. So far in 2006, signs continue to point to a steady Texas expansion, with few clouds on the horizon.

Texas employment rose a solid 2.7 percent in 2005, according to revised job data released March 9 by the Texas Workforce Commission (TWC). This pace of job expansion was near Texas' 35-year historical average of 2.9 percent and faster than national employment growth. (2005 U.S. employment growth was 1.5 percent, slightly below its 35-year historical average of 1.8 percent.) Texas job growth last year was broad based across major industries and metros. The goods sector (natural resources and mining,

construction and manufacturing) provided a substantial boost after displaying weakness during most of the recession and recovery.

Texas labor market activity remained positive in January, with job gains of 11,700 (1.4 percent annualized), according to data released by the TWC and seasonally adjusted by the Dallas Fed. The largest gains were recorded in professional and business services (3,200), educational and health services (2,700), and trade, transportation and utilities (2,500). The construction industry added 1,700 jobs as demand for new homes remained elevated and commercial construction continued to edge up. Although January's overall employment growth was more moderate than that recorded in 2005, anecdotal reports, such as the Eleventh District Beige Book, indicate Texas labor market activity remains strong.

Besides employment, other economic measures suggest the Texas expansion remains on track. The Dallas Fed's Texas

Coincident Index—a business-cycle index made up of current indicators—rose at a solid 3.4 percent annualized pace in January. Despite slower growth in the index in late 2005 (mostly due to rising unemployment rates following the hurricanes), the index gained ground overall last year, rising at a pace of 3.6 percent—up from 2004's growth of 2.9 percent.

Additionally, real Texas exports are growing at a good clip, up 1.9 percent in fourth quarter 2005 and 5.9 percent from a year earlier. Because Mexico is Texas' largest trading partner, the country's recent economic pickup should give an added boost. Moreover, elevated energy prices have pushed the Texas rig count to its highest level in about 20 years. Finally, a January uptick in the Texas Leading Index confirms the state's economy remains on solid footing for growth in the months ahead.

—D'Ann Petersen

