

QUOTABLE *“Natural gas in storage is headed toward an all-time high by late fall. That has pushed natural gas prices to lows more consistent with \$40 oil than \$70 oil.”*

—Stephen P. A. Brown, Director of Energy Economics

TEXAS ECONOMY: New Data Show Output Grew 4.3 Percent in 2005

A few weeks after each quarter ends, the Bureau of Economic Analysis issues initial estimates of the nation's output, or gross domestic product. It takes considerably longer for the BEA to pull together its first readings on each state's economy, captured as gross state product.

The BEA's first look at 2005 state-level growth was released in early June. Arizona led the way, with an 8.7 percent increase in gross state product. Texas' economy grew 4.3 percent—16th best in the country and 0.8 percentage point faster than the nation as a whole.

The results follow historical norms. For much of the past century, Texas' employment and output have grown faster

than the nation's, largely because of the state's attractive business climate, transportation facilities and low cost of living.

The BEA also revised Texas' 2004 growth upward, now estimating that state output rose 5.1 percent, almost a full percentage point faster than the rest of the country. A strong performance by the state's manufacturing sector was key to the good showing.

Texas' 2003 growth was revised downward, however. It's now estimated at 1.4 percent, almost half the U.S. rate. The state, just emerging from recession at the time, lagged the nation in recovery. Texas employment fell in 2003, while the nation added jobs.

ENERGY: Drilling Activity Responds to High Prices

High energy prices are spurring Texas oil and gas exploration, sending a key measure of drilling activity to its highest level in two decades.

Baker Hughes' weekly rig count rose to 749 in early June, capping a steady rise that saw the indicator cross 500 in July 2004, 600 in June 2005 and 700 in April 2006. The count sank below 200 in early 1999.

Well permits filed with the Texas Railroad Commission suggest the pace of exploration will remain strong. They've been above 1,000 a month since November 2004 and averaged nearly 1,300 the first four months of this year. From 1990 to late 2003, permits never hit 1,000 a month.

The key, of course, is energy prices. Oil has been hovering around \$70 a barrel in recent months. Natural gas, although down sharply from its 2005 peaks, still sells for around \$6 per million Btu, well above what it was a few years ago.

The hottest section of the state for drilling stretches from Abilene, through the Dallas-Fort Worth metroplex and into East Texas. This swath, which includes the Barnett Shale gas reserves outside Fort Worth, accounted for three-quarters of the net increase in rigs over the past year.

Traditionally oil-rich West Texas has also seen a significant increase in drilling operations.

MANUFACTURING: Survey Finds Sector Strong, Optimistic

The Dallas Fed's Texas Manufacturing Outlook Survey indicates the state's factories continued humming through the first five months of 2006.

Readings for production, capacity utilization, and new-order volume and growth have been strong since the beginning of the year, with May rebounds offsetting April dips. Most companies say they expect business to get better over the next six months.

The survey has been finding evidence of rising costs for raw materials and wages and benefits. In May, for example, 57 percent of responding companies reported an increase in raw materials prices. Most companies saw no change in prices received for finished goods that month, but the percentage of

firms reporting increases was up from the previous month.

In general, this year's survey participants have expressed optimism about the overall economy and their own companies, both for the present and six months ahead.

The Dallas Fed unveiled the Texas Manufacturing Outlook Survey in November, although data collection dates back to May 2004. Roughly 80 manufacturers regularly respond to questions about their Texas operations. Respondents come from all sectors of manufacturing, and no one industry dominates.

The Dallas Fed releases the survey each month. Complete information can be found on the bank's web site at www.dallasfed.org/data/outlook/index.html.