Despite a few signs of cooling, the Texas economy continues to expand strongly. Most sectors of the economy are adding workers. So far this year, Texas’ employment has increased at an annualized rate of 3.2 percent. Job growth has been twice as fast as the nation’s for over a year (Chart 1).

Texas’ unemployment rate dipped to 4.8 percent in September and October, the lowest since May 2001 (Chart 2). Seasonally adjusted initial claims for unemployment insurance declined to 53,493 in October, a level not seen since January 1982.

Helping create new jobs has been the strength in Texas exports, which reached an inflation-adjusted record $11.9 billion in August. Overseas sales are posting the strongest growth since 1999, driven primarily by the energy industry, with increases in shipments of chemicals and oil and gas extraction equipment.

Home prices haven’t risen as fast in Texas as in other parts of the country, but the state’s building boom has been just as impressive as the nation’s. Residential contract values reached record levels in Texas as well as the U.S. over the past year (five-month moving average).

Texas’ construction sector is now outperforming the country overall. Over the past two years, the state’s residential contract values increased from 8 percent to 10 percent of the U.S. total. Nonresidential building also strengthened over the past year and should boost the economy well into 2007.

The healthy building activity has meant new jobs. In the first 10 months of this year, construction employment increased 9.3 percent in Texas, compared with 1.2 percent for the nation (Chart 3).

### Downshifting in Spots

Amid overall solid growth, there are signs of cooling.

While still strong, Texas homebuilding has slowed as inventories inched up during the summer. Still low by historical standards, the inventories suggest the supply of homes for sale is exceeding demand. Texas’ inventory growth hasn’t been as rapid as in the country as a whole (Chart 4).

The slowing homebuilding has reduced business for some Texas manufacturers.

Texas’ economy will continue to get a boost from a robust energy industry, which reports a backlog of orders for services and equipment from drilling activity around the world. Still, heavy inventories of natural gas and the recent dip in prices caused the state’s drilling activity to pause in November.

The industry’s growth will likely slow in coming months. Lower energy costs are a boon for business and consumers, but for Texas the news is mixed because the drop in energy prices results in lower royalty payments.

Aside from a few weak spots, the outlook for the overall economy continues to be bright. After declining between April and July, the Texas Leading Index bounced back in August, September and October. The index, however, still suggests slower job growth through the remainder of 2006.

—Fiona Sigalla