The Texas economy expanded at a healthy but measured pace in 2006. Employment rose a solid 3.5 percent in the first half of the year and a slower 1.8 percent in the second. Annual employment increased 2.7 percent, nearly matching its historical average of 2.8 percent and exceeding the nation’s 1.8 percent (Chart 1).

The pace of job creation jibed with a 3.5 percent rise in the Dallas Fed’s Texas Business-Cycle Index, an aggregate measure of the state’s economic activity. Although modest compared with 2005, the expansion was widespread across sectors. The indexes for the state’s major metropolitan areas also strengthened (Chart 2).

All Texas metros recorded employment gains in 2006. Austin led the pack, with overall employment rising 4.5 percent (Chart 3) and construction jobs climbing 7.7 percent. The professional and business services sector built on its 2005 gains, adding 4,200 jobs, or 4.3 percent. Factory employment turned around (rising 4.2 percent) as high-tech manufacturing geared up. Dallas’ economy expanded at a moderate pace. Employment surged at a 4.8 percent rate in the first half of 2006 but slowed to a more modest 2.3 percent in the second. All major sectors recorded net gains, including the restructuring high-tech services industry. Gains came largely from leisure and hospitality, education and health, financial services, and professional and business services. Growth in these sectors invigorated demand for office space, contributing to a 3.5 percent increase in construction jobs.

Fort Worth’s economy grew more slowly than the rest of the state, with employment rising 2 percent. An expanding hotel industry added to robust job gains in the leisure and hospitality sector (2,400 jobs). Natural resources and construction employment grew 6.5 percent as high natural gas prices spurred drilling activity in the Barnett Shale and demand rose for nonresidential space.

The energy sector continued to fuel the Houston economy. The metro gained nearly 99,000 jobs, with employment rising a torrid 7.1 percent in construction and oil and gas extraction. The professional and business services sector saw brisk job growth of 5.2 percent. This upsurge is supported by healthy demand for professionals tied to oil-related services. Buoyed by record port activity, transportation jobs grew 2.7 percent, and the leisure and hospitality industry saw a 5.6 percent increase.

San Antonio’s economy continued on its steady path, posting an increase of 27,200 jobs, up 3.4 percent. The metro’s two stalwart sectors—education and health services and leisure and hospitality—added more than 4,500 jobs each. Factory employment grew 5.1 percent, eclipsing growth in all other major metros. In addition, San Antonio benefited from continued growth in financial services and construction.

Economic growth in the border metros also helped propel the Texas economy (Chart 4). Through much of 2006, the strengthening peso and expanding maquiladora sector spurred construction, retail sales and job growth. However, recent weakness in the Mexican economy and its maquiladora industry has slowed employment growth in the border region.

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