Although still outperforming the nation, the Texas economy weakened toward the end of the year. Manufacturing and housing have been the most fragile sectors, but growth has moderated in other areas as well.

After a robust increase of 3.9 percent through June, employment growth was 1.9 percent from July through September and 2 percent in October. Both figures are subject to revision.

The goods sector has been the major drag on economic activity, reflecting the downturn in housing and related weakness in manufacturing (Chart 1). Manufacturing jobs have been declining for the past three months, although employment gains remain positive for producers of wood, cement, petrochemicals, machinery, paper and food.

The single-family housing sector remains weak. Builders continue to pull back on new-home construction, leading to a persistent fall in single-family building permits, contract values and housing starts (Chart 2).

Sales of existing homes remain on a downward track (Chart 3). Inventories of existing homes for sale have risen to just over the equilibrium mark of six months. New-home inventories are somewhat higher, ranging from 7.6 months in Austin to 6.1 months in San Antonio.

Delinquent subprime mortgages continue to inch up in Texas. The state’s delinquency rate is higher than the national average, but its foreclosure rate remains below the nation’s.

Nonresidential and nonbuilding construction has held up well despite the housing sector’s troubles. Demand for apartments has picked up and multifamily construction is robust, with permits on the increase (Chart 4). Given the tighter credit conditions, people who do not qualify for mortgages are seeking apartments.

As oil prices have climbed, activity has increased in the energy industry. Even though the oil and gas extraction sector is less than 2 percent of total employment in Texas, it has added 16,400 jobs year-to-date—making up 6.3 percent of the total job gains in 2007. The Texas rig count stands at 860, with almost 85 percent of domestic rigs exploring for natural gas.

Texas exports were up 5.5 percent in the third quarter. The largest increases were 12 percent to the European Union and 9.5 percent to Latin America (excluding Mexico). Exports to Asia were up a meager 2.2 percent, while exports to China declined. The dollar has maintained strength relative to the peso, and exports to Mexico rose a modest 3.2 percent in the third quarter.

Overall, employment data and anecdotal sources point to a weaker Texas economy, but one that is still quite healthy and stronger than the national economy.

The Texas economic outlook is positive moving into 2008. Housing woes are beleaguering the national economy, but Texas housing markets, while weak, have held up better than many other areas of the country. Although high oil prices pinch Texas consumers as much as those in other states, Texas gets an offset because it’s the nation’s top oil and gas producer.

—Mine Yücel and Mike Nicholson