

## Texas Economy Still Slowing; Energy, Exports Are Bright Spots

The Texas economy has slowed since January but continues to outperform the nation. While signals remain mixed, there is increased sentiment that Texas economic growth may remain tepid until 2009.

Payroll employment rose at a 1.3 percent annual rate in April, below recent trends but substantially better than national payroll employment growth, which turned negative in January (Chart 1). The manufacturing sector shed jobs in March and April due to sluggish demand and high inventories.

Texas' performance also remains strong relative to the U.S. on the unemployment front. The state unemployment rate fell to 4.1 percent in April, almost a full point below the national figure.

Texas construction employment grew at a 3.8 percent annual rate in April after growing 2.2 percent in the first quarter. Construction contract values continued their January swoon, however, falling 5.5 percent in March and 1.2 percent in April. The decline was

broad-based across residential, nonresidential and nonbuilding construction (Chart 2).

Texas existing-home sales remained strong during the initial portion of the national slowdown in 2006 but are now falling at about the same rate as the U.S. as a whole. The declines are broad-based geographically, with all major metro areas declining substantially over the past six months (Chart 3).

Encouragingly, inventories decreased slightly in April, and Texas homes continue to sell more quickly than homes are selling nationally. The Office of Federal Housing Enterprise Oversight home price index for Texas also bucked national trends by edging up slightly in the first quarter—a positive signal for the housing market.

### Energy, Exports Strong

The Texas energy sector remains the single most prominent source of economic strength. The Texas rig count continues to hover near 20-year highs as oil prices soar to

new heights. In real terms, energy prices are the highest they have ever been.

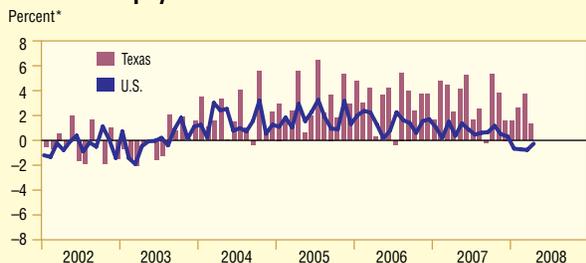
Real Texas exports grew 3.9 percent in the first quarter, substantially stronger than in fourth quarter 2007. U.S. exports also rose during the first quarter but at a lower rate.

The Texas Manufacturing Outlook Survey suggests that regional price pressures are on the rise. More than two-thirds of firms reported higher raw material prices in May, and almost two-thirds foresee continued increases over the next six months. This translated into a significant number of firms raising their finished-good prices.

The Texas Leading Index has taken a turn for the worse, with key components negative over the past three months (Chart 4). While the leading index's decline doesn't portend recession, it does reinforce the notion that the Texas economy is unlikely to grow at a substantially faster pace over the near term.

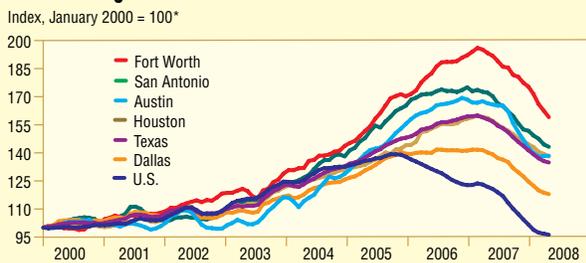
—Jason L. Saving and Mike Nicholson

Chart 1 Texas Employment Growth Bests the Nation



\* Month-over-month, seasonally adjusted annualized rate.  
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 3 Existing-Home Sales



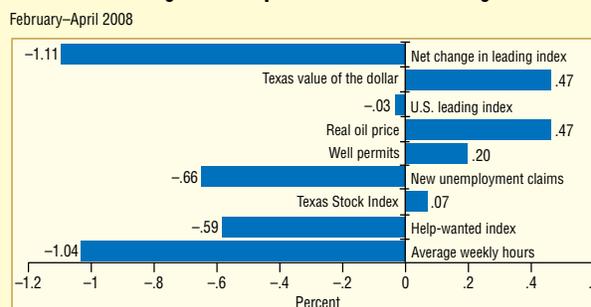
\* Six-month moving average.  
SOURCES: National Association of Realtors; Texas A&M Real Estate Center; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 2 Texas Contract-Value Decline Broad-Based



\* Five-month moving average, seasonally adjusted.  
SOURCES: McGraw-Hill Construction; F. W. Dodge; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 4 Texas Leading Index Components (three-month change)



SOURCE: Federal Reserve Bank of Dallas.