SigmaBleyzer

Texas Economic Update

THE BLEYZER FOUNDATION
Turning Transitions Into Prosperity

April 2013

- **The jobless rate in Texas stood at 6.4% in March versus 7.6% nationwide.**
- **In March, Texas had 3.5% more private sector jobs than a year ago compared to a 1.9% gain for the nation as a whole.**
- **Texas factory activity strengthened in March.**
- **In March, manufacturing activity in Houston expanded for the 43rd consecutive month.**

Executive summary

The national economy grew somewhat slower in March as companies' new orders weakened on worries over the strength of future demand. In particular, less optimistic expectations about the near-term economic outlook weighed on business and consumer sentiment. Meanwhile, uncertainty over global economic health appears to be accentuating this trend. Finally, in March, national employment saw its lowest monthly gain in three quarters.

On the upside, April's business and consumer sentiment showed slight improvement. New orders of durable goods may be starting to pick up thanks to an increase in new orders of transportation equipment and nondefense aircraft and parts. Equally important, growing capital outlays on top of higher construction spending may indicate that private investments will help sustain stronger economic growth in 2013.

In addition, consumers appear to remain in a spending mood as increasing incomes, the strong performance of equity markets as well as growing home values are sustaining private demand. For instance, personal savings as a percentage of disposable income stood below 3% during the first quarter of 2013 indicating that households are confident to expand spending under the current economic conditions. And increasing consumer borrowing continues to drive demand for durable goods; in particular, in March car sales grew by over 8% versus a year ago.

Unlike the nation as a whole, Texas factory activity improved in March and the service industries continued to expand. Meanwhile, stable energy prices are supporting drilling activity, which is adding to economic growth in the Houston metro economy. Houston continues to drive the overall recovery of the Texas economy. For example, the 30% increase in the issuance of new building permits in Houston has helped support the solid uptick in home building activity statewide. Lastly, overseas demand for exports from Texas, which in 2012 remained the largest exporting state in the nation for the eleventh consecutive year, is growing stronger than the nation as whole. On that note, Texas relies more on emerging markets than other states. This should support factory activity in Texas on solid foreign demand for machinery, computers and high technology products.

In March, the Texas jobless rate stood at 6.4% compared to a 7.6% unemployment rate for the nation as a whole. Over the past twelve months, Texas created about 320,000 new private sector jobs, remaining well ahead of the labor market recovery in other large regional economies. As a result, the annual pace of jobs growth in the Texas private industries stood at 3.5% or well above 1.9% for the U.S. This rapid recovery in private sector employment makes Texas one of only 10 states and the District of Columbia where the number of private jobs is higher than in December 2007. In fact, Texas alone has created more private sector jobs than those other nine states combined.

The housing crisis triggered substantial losses of construction jobs in such big regional economies as California and Florida. However, Texas managed to avoid the worst excesses of the housing bubble. As a result, the recent strong employment gains in goods producing industries make Texas the main driver of the national economic recovery. Indeed, Texas accounted for about one in six new private sector jobs created nationwide over the first quarter of this year – up from one in about eight during the same period a year ago.

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April 2013

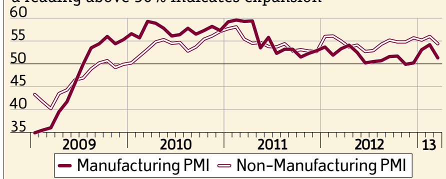
Economic output

The national economy cooled in March with business activity in manufacturing and service industries growing somewhat slower than during the first two months of 2013 (see chart 1) as worries over the strength of future demand curbed companies' appetite to place new orders. In fact, less upbeat expectations about near-term economic conditions continue to weigh on business and consumer sentiment (see chart 2). Weak global economy and renewed euro zone concerns have partly contributed to this trend as well. More importantly, uncertainties over domestic economic policies appear to be exerting a toll on the private sector's hiring activity – in March, private sector employment saw the lowest monthly gain in three quarters (see chart 3).

On the upside, Chief Executive Magazine registered a solid rebound of business sentiment in April. The University of Michigan's Index of Consumer Sentiment improved in late-March as well. Meanwhile, new orders of durable goods resumed growth in February, increasing by 5.6% versus the first month of 2013 thanks to a strong increase in new orders of transportation equipment (see chart 4), on surging new orders of nondefense aircraft and parts. Encouragingly, new orders of nondefense capital goods saw a monthly gain in February, which, together with improving construction spending (see chart 5), indicates that private investments may help support stronger economic growth in 2013.

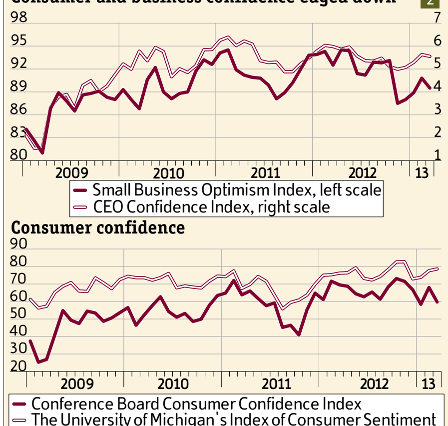
In addition, personal consumption expenditure, which tracks households' outlays on goods and services, grew by 0.7% in February - the best monthly gain since September 2012. Increasing incomes, the strong performance of equity markets and rising home values are helping to sustain consumer demand. In fact, personal savings as a percentage of disposable income stood below 3% during the first two months of 2013 (see chart 6), as households continue to expand spending despite current economic conditions. Lastly, increasing consumer borrowing (according to the Federal Reserve, in February consumer credit grew at an annual rate of 7.8%) is an important factor driving the demand for consumer durables. In particular, car sales remain strong (see chart 7), growing in March by over 8% versus a year ago.

The national economy grew slower in March 1
PMI - Purchasing Managers Indices,
a reading above 50% indicates expansion



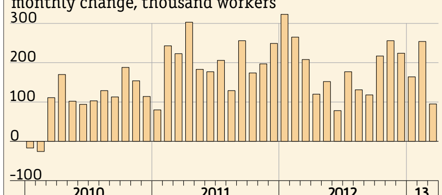
Source: The Institute for Supply Management

Consumer and business confidence edged down 2



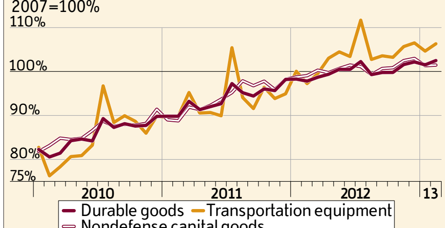
Source: Chief Executive Magazine, The National Federation of Independent Business, The Conference Board, Haver Analytics

Private sector jobs 3
monthly change, thousand workers



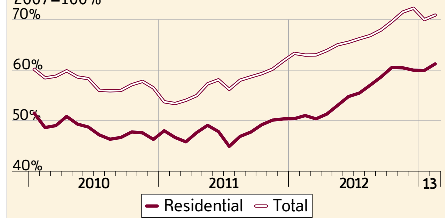
Source: The U.S. Bureau of Labor Statistics

New orders of durable goods 4
2007=100%



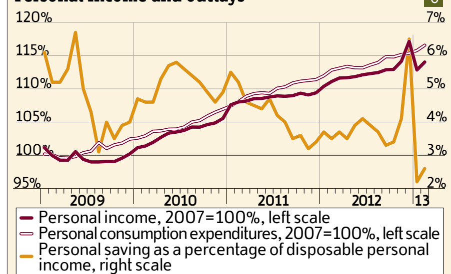
Source: The U.S. Census Bureau

Private construction spending 5
2007=100%



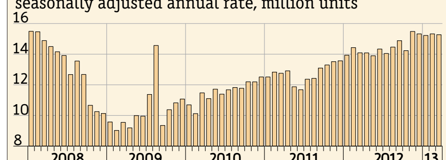
Source: The U.S. Census Bureau

Personal income and outlays 6



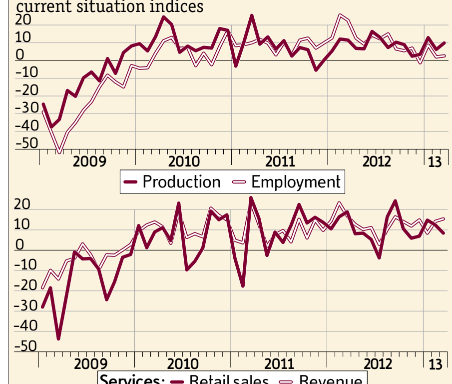
Source: The U.S. Bureau of Economic Analysis

Automobile and light truck sales 7
seasonally adjusted annual rate, million units



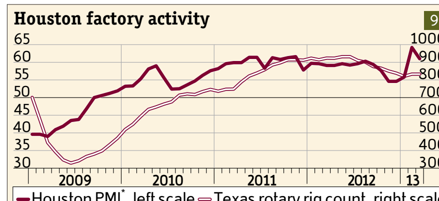
Source: The Federal Reserve Bank of St. Louise, Autodata

Texas Business Outlook Survey 8
current situation indices



Source: The Federal Reserve Bank of Dallas

Houston factory activity 9



PMI – Purchasing Managers Index, a reading above 50 indicates expansion
Source: Institute for Supply Management, Baker Hughes

Turning to Texas, unlike the nation as a whole, the state's factory activity improved in March and service industries continued to grow (see chart 8). Meanwhile, relatively stable energy prices are supporting a rebound in drilling activity, which helps drive economic growth in the Houston metro economy (see chart 9). Houston continues to drive the overall recovery of the Texas economy (see chart

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10) – the Houston metro business cycle index is already 13% higher than the previous peak in August 2008; the statewide business cycle index has gained only 5.2%.

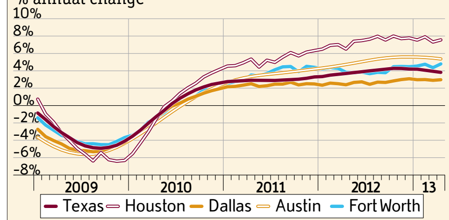
A solid uptick in home building is contributing to the overall economic recovery in Texas. In particular, during the first quarter of 2013, 14% more building permits were issued in Texas than a year ago thanks to a 30% increase in Houston. Although states that experienced the deepest drop in construction activity are now going through a speedier recovery (for example, the number of new private housing units authorized by building permits grew by 34% in California and 52% in Florida), the Texas residential construction industry saw a smaller contraction compared to five years ago (see chart 11). This resiliency of the housing sector helps explain stronger regional job growth as well as improving economic performance in Texas.

Lastly, overseas demand for exports from Texas, which in 2012 remained the largest exporting state in the nation for the eleventh consecutive year (see chart 12), is growing stronger versus the nation as whole - in January-February, exports from Texas increased by 5.4% compared to just 2.2% nationwide. Since Texas relies more on emerging markets (exports to developing countries accounts for about two thirds of all exports from Texas versus just 42% for the nation as a whole), the state's exporters were hit less hard by the economic slowdown in the developed world. This helped support exports of Texas industrial machinery and equipment, which in January-February 2013 grew by 11% versus a 3% drop nationwide. This is important, because improving economic outlook for the developing world and, more specifically, stronger economic growth in Latin America (see chart 13) – the region that accounts for nearly 55% of all exports from Texas – will sustain factory activity in Texas on solid foreign demand for machinery, computers and high technology products fueled by continued economic development in emerging markets.

Employment

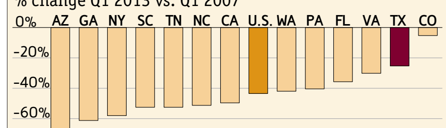
Following the biggest monthly employment gain on record in February (when Texas added 79,600 new nonfarm jobs thanks to 66,100 more private sector jobs), the private sector lost 3,700 jobs in March – the first monthly decline since December 2009 (see chart 14). Still, over the past twelve months, Texas has created about 320,000 new private sector jobs, remaining well ahead of the labor market recovery in other large regional economies (see chart 15). Meanwhile, in March the annual pace of job growth in Texas private industries stood at 3.5%, well above 1.8% for the nation as a whole (see chart 16). In particular, only 10 out of 50 states and the District of Columbia employed more workers in the private sector compared to the previous employment peak in December 2007. In fact, Texas alone has already created more private sector jobs than the total for the next nine states, where the private sector employed more workers in March than five years ago (see chart 17).

Metro Business Cycle Indices 10
% annual change



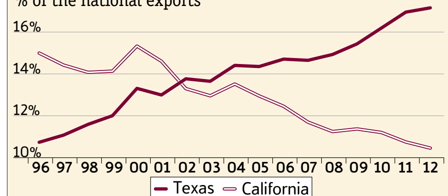
Source: The Federal Reserve Bank of Dallas

Housing units authorized by building permits 11
% change Q1 2013 vs. Q1 2007



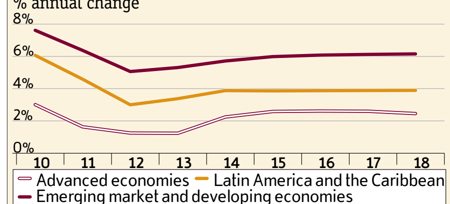
These states account for about two thirds of all building permits issued nationwide.
Source: The U.S. Census Bureau

Texas accounts for nearly a fifth of all U.S. exports 12
% of the national exports



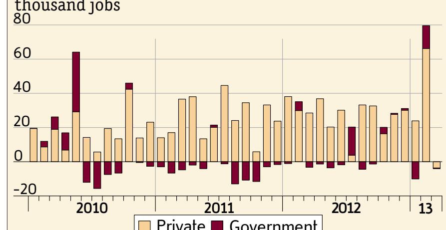
Source: The U.S. Census Bureau

Global economic growth 13
% annual change



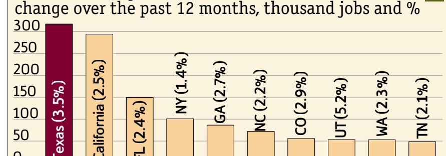
Source: IMF, World Economic Outlook April 2013

Monthly job growth in Texas 14
thousand jobs



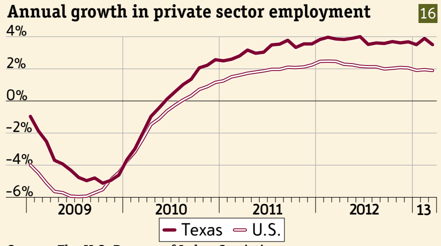
Source: The U.S. Bureau of Labor Statistics

Private sector jobs in March 2013 15
change over the past 12 months, thousand jobs and %



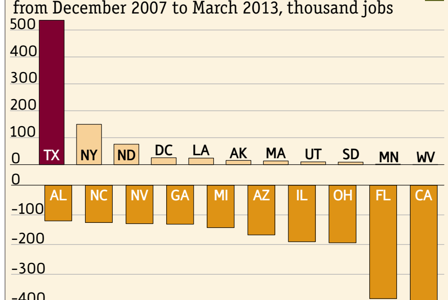
Source: The U.S. Bureau of Labor Statistics

Annual growth in private sector employment 16



Source: The U.S. Bureau of Labor Statistic

Change in private sector employment 17
from December 2007 to March 2013, thousand jobs



Source: The U.S. Bureau of Labor Statistic

In March, the national economy was still short 2.3 million private jobs compared to December 2007. California and Florida account for over 35% of this decline in private sector employment, while the biggest drop in private sector jobs was registered in Nevada, where in February there were 11.4% fewer private jobs than five years ago. Sizable job losses in construction and manufacturing

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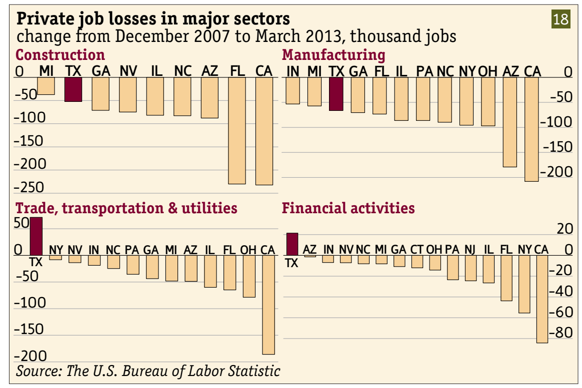
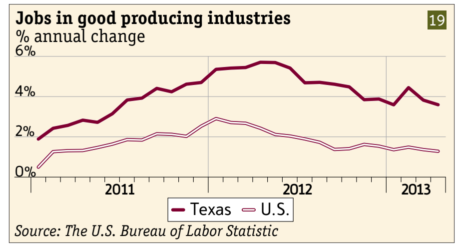
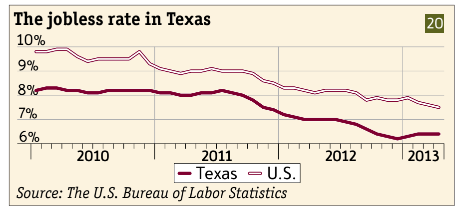
help explain why many states fall behind Texas in job creation. For instance, California and Florida – states that experienced particularly severe housing slumps – account for over 27% of all construction jobs lost nationwide over the past five years. Texas has only 7.8% or 52,000 fewer construction jobs compared to a nearly 60% fall of construction employment (or a drop of 75 thousand jobs) in Nevada (see chart 18), where at the start of the economic downturn employment in construction represented over 11% of all private jobs, or nearly twice the national level. Factory jobs have been more resilient in Texas as well, supported by exports and a smaller exposure to the sharp retrenchment of consumer demand for durable goods (such as cars and furniture) following the collapse of the housing bubble. In March 2013, Texas employed just 7% fewer workers in manufacturing compared to a 13% decline for the nation as whole on shrinking factory employment in California, Ohio, Illinois and Pennsylvania – other large manufacturing hubs. Lastly, Texas continues to buck the national trend in service-providing industries as it employs more workers in finance and trade, transportation and utilities than five years ago. Nationwide, employment in finance and trade, transportation and utilities is 5.3% and 3.5% lower than at the end of 2007 on disproportionately large job losses in service sectors of Florida and California.[1]





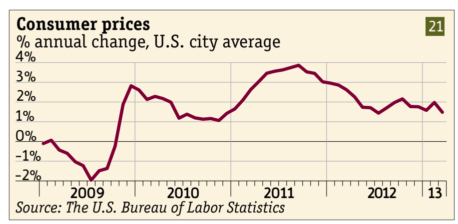
This slow labor market recovery in the worst hit states as well as recent strong employment gains in Texas make the Lone Star state the main driver of the national economic recovery. Indeed, Texas accounted for about one in six new private sector jobs created nationwide over the first quarter of this year – up from one in 8.2 during the same period a year ago or one in seven for the year 2012. Thanks to a solid rebound in homebuilding activity in Texas (in February alone, nearly 16,000 new construction jobs were created in the state), local goods-producing industries are adding jobs at a faster pace than the nation as a whole (see chart 19).

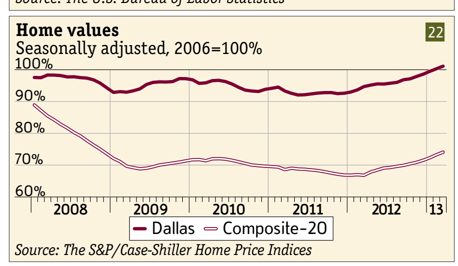


Lastly, in March, the Texas jobless rate stood at 6.4% compared to a 7.6% unemployment rate for the nation as a whole (see chart 20). True, the unemployment rate has grown slightly in Texas since the start of 2013. However, this trend is mostly driven by a growing labor force – up by 0.6% in the first quarter (versus a decline of 0.3% nationwide) as more workers are moving to Texas. Indeed, the labor force participation rate in Texas grew slightly in 2013 in contrast to a continued downtrend nationwide, which is a sign of a brighter labor market situation in Texas versus the U.S.

Monetary Policy and Asset Prices

Stable energy price continue to support the overall price stability – in March, consumer prices were just 1.5% higher than a year ago (see chart 21). This low inflation does imply that the speed of economic recovery remains moderate. The Federal Reserve looks set to stick to its accommodative monetary policy in the short-term, continuing to purchase agency mortgage-backed securities and longer-term Treasury securities at a pace of $40 billion and $45 billion per month, respectively, to keep long-term interest rates low. Considering recent fiscal tightening, this monetary policy stance should help maintain economic growth and ensure further gains in the housing market (see chart 22).





[1]Although California and Florida provided roughly 17% of all national jobs in finance and trade, transportation and utilities at the start of the recession, the two states absorbed about 30% of the total job losses in those industries.

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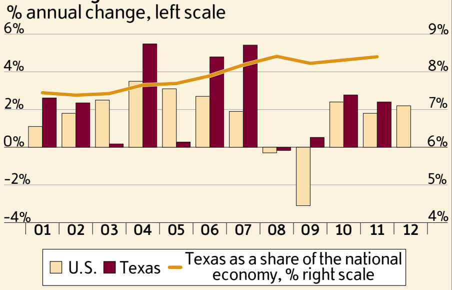
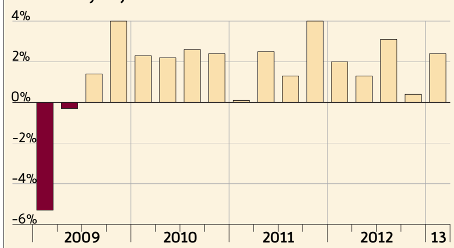
Economic growth: Texas vs. U.S.
% annual change, left scale



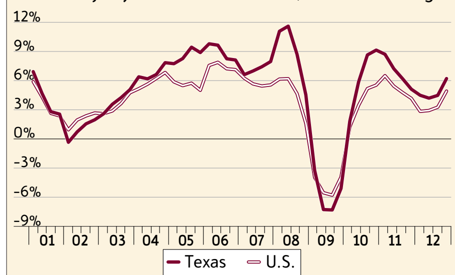
Source: The U.S. Bureau of Economic Analysis

U.S. quarterly GDP
% change from preceding period
seasonally adjusted at annual rates



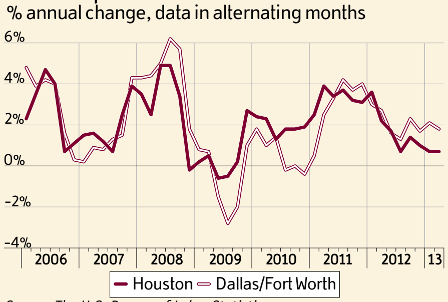
Source: The U.S. Bureau of Economic Analysis

Personal income
seasonally adjusted at annual rates, % annual change



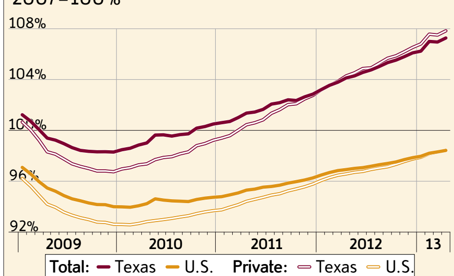
Source: The U.S. Bureau of Labor Statistics

Consumer prices
% annual change, data in alternating months



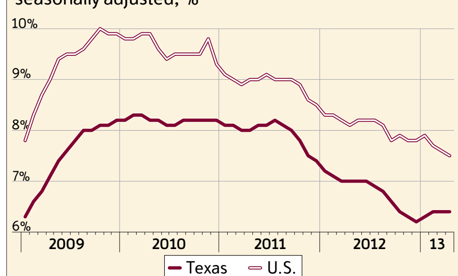
Source: The U.S. Bureau of Labor Statistics

Nonfarm employment
2007=100%



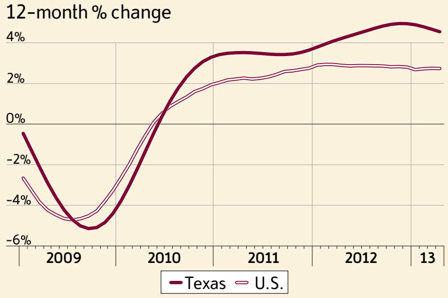
Source: The U.S. Bureau of Labor Statistics

Unemployment rates
seasonally adjusted, %



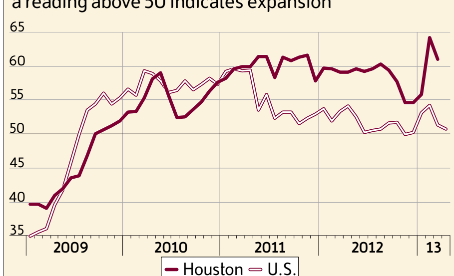
Source: The U.S. Bureau of Labor Statistics

State Coincident Indexes
12-month % change



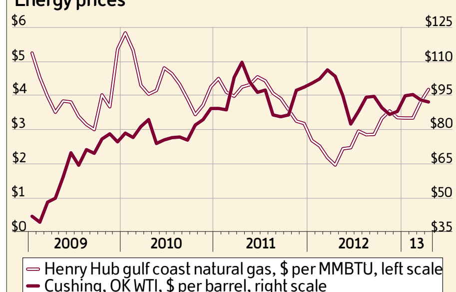
Source: The Federal Reserve Bank of Philadelphia

Purchasing Managers Index
a reading above 50 indicates expansion



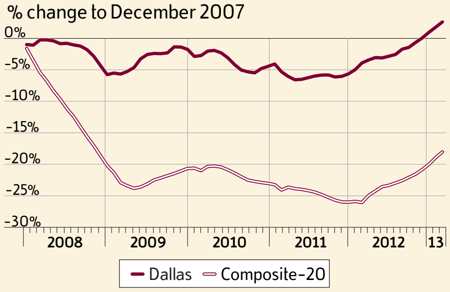
Source: The Institute for Supply Management

Energy prices



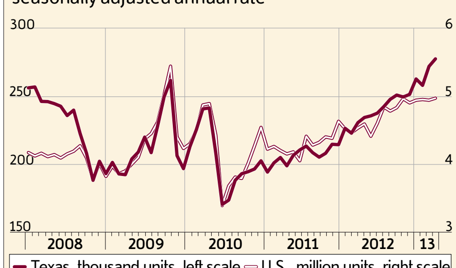
Source: The U.S. Energy Information Administration

Home values
% change to December 2007



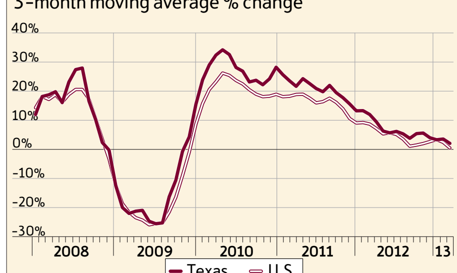
Source: The S&P/Case-Shiller Home Price Indices

Home sales
seasonally adjusted annual rate



Source: The National Association of Realtors, The Real Estate Center at Texas A&M University

Exports
3-month moving average % change



Source: The U.S. Department of Commerce

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Where Opportunities Emerge