

**Amid Solid Growth in Employment,
Texas Seems Poised to Outperform the National Economy**

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By NEAL TEMPLIN – Wall Street Journal
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DALLAS -- The state of Texas prides itself on leading the nation out of recessions.

That didn't happen last time. From 2001 through 2003, the state lost a total of 136,000 jobs, essentially mirroring the dismal performance of the overall U.S. economy.

Now, the Lone Star State is riding high again. Texas, the nation's third-largest state economy, created 293,000 net jobs last year, its highest total since 1998, according to an analysis by the Federal Reserve Bank of Dallas. The state's 3% job-growth rate was double that of the U.S. as a whole. And Dallas Fed economist Fiona Sigalla predicts the state will create jobs at a slightly faster pace this year than last. "It's the Texas that we're used to seeing," Ms. Sigalla said.

If Ms. Sigalla is right, it means the Texas economy should expand faster than the overall economy, which many economists believe will start to slow in the second half of this year. In a statement Wednesday, after it raised short-term interest rates another notch, the Federal Reserve said that while U.S. economic growth has been strong, it will "likely moderate to a more sustainable pace, partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices."

At least two of those factors -- the housing market and energy prices -- could work in Texas's favor.

There are many reasons Texas may outperform the national economy. The state is home to three major airlines, and it felt the pinch when travelers stayed home after the Sept. 11, 2001, terrorist attacks. The airlines still are shaky, but fares and traffic are rising again, benefiting the state economy.

Dallas and Austin both were whacked by the contraction of the high-technology sector a few years ago. Now, they are benefiting as the sector begins adding jobs again. From 2000 through 2003, the Dallas-Fort Worth metro area lost nearly 62,000 high-technology jobs as telecommunications companies slashed employment, according to the Greater Dallas Chamber. The bleeding has stopped, and the area is beginning to slowly add high-technology jobs.

It is a similar story in Austin, where South Korean giant Samsung Electronics Co. is building a memory-chip factory, its second plant in the area. The plant will employ 800 by next year, with an average annual wage of \$60,000.

Meanwhile, Houston and the rest of the state's oil patch are riding high energy prices. When oil prices first started climbing after years at rock bottom, energy companies were reluctant to hire. Now, with oil topping \$70 a barrel, oil-field employment is surging again. One indication: Texas currently has 730 drilling rigs in operation, the first time the rig count here has exceeded 700 since the mid-1980s.

Hurricane Katrina also has been a factor in the Texas economy. Tens of thousands of evacuees fled to Texas from Louisiana. That helped juice the Texas economy in the fourth quarter of 2005. Retail sales surged because of all the new residents. Apartment-vacancy rates plummeted in both Dallas and Houston.

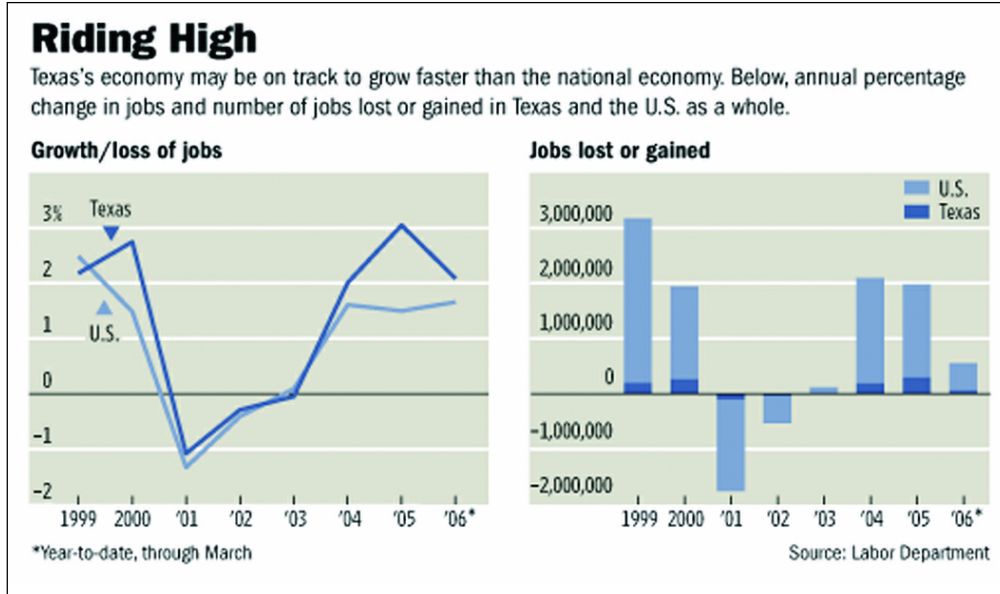
At the same time, Texas, the No. 2 manufacturing state in the country, continues to attract new factories. The San Antonio economy is getting a big boost from a new Toyota Motor Corp. assembly plant, which will start producing Tundra pickup trucks this fall. The plant will employ 2,000 workers after its second shift comes on next year. Another 2,100 workers will work for suppliers located on the same 2,000-acre tract as the truck plant.



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Toyota says it chose Texas because it wanted to build pickups in the middle of the largest truck market in the country. But the low cost of living here is luring other companies to the state, economists say. Texas has no personal-income tax. From March 2000 though March 2006, as home prices doubled in some coastal areas, home prices rose just 31% in Texas. The median single-family home price today in Texas is just \$139,000, compared with \$217,000 for the U.S. as a whole.



The low cost of living could be a long-term advantage. Home-price appreciation in Texas is expected to outpace that of the rest of the country over the next couple of years. But Texas is unlikely to ever close the gap. Unlike California or the Northeast, Texas has few of the constraints that squeeze development and push up housing prices. Thousands of relatively affordable homes are being constructed each year on the fringes of the state's major cities.

"We basically have an unlimited supply of land," said Mark Dotzour, chief economist of the Real Estate Center at Texas A&M University. "And we have a population that doesn't mind getting in their big pickup truck and driving a long ways to work each day."

Just the same, the rise in real-estate values should be good news for the Texas economy. In recent years, homeowners in many parts of the U.S. have been able to take advantage of soaring property values to extract equity from their homes in the form of cash-out mortgage refinancings and home-equity lines of credit. That has provided a significant economic boost.

Texas has largely missed out on this stimulus because home-price appreciation here has been so modest. If real-estate values accelerate here, Texas should benefit from this same wealth effect even as it becomes less pronounced in the rest of the economy, Mr. Dotzour says.

Moreover, while Texas's energy-heavy economy in the past tended to have steep cycles driven by oil prices, diversification has brought the state more in line with the national economy, says Daniel Hamermesh, an economics professor at the University of Texas. "There's no question it will grow more rapidly over the next 10 or 15 years than the rest of the country, but I don't think we'll see those wild swings."

