

Economic Overview

Both the Dallas and Fort Worth economies have remained relatively strong during the first four months of this year as the rest of the U.S. economy has faltered, according to the Federal Reserve's Metro Business Cycle Index (MBCI). The Dallas economy grew by 2.5% during the first four months of the year compared to a growth rate of 3.3% during the same period a year earlier, according to the MBCI. Meanwhile, the Fort Worth economy posted a stronger 2.9% rate during this period compared to a 4.3% rate for the same period a year earlier. It is true that both economies slowed down compared to last year; however, current growth rates remain relatively strong when compared to other metropolitan regions of the country.

Employment in the Dallas and Fort Worth region remained relatively strong especially compared to the rates experienced at the national level. Total non-farm payrolls increased by 2.3% in April compared to the same month a year earlier and were up by 2.4% during the first four months of the year compared to the same period in 2007. Interestingly, the biggest draw on employment growth in the region was the manufacturing sector, shedding employment at a rate of 1.0% during the first four months of this year compared to the same period a year earlier. With the exception of the transportation and utilities sector whose rate of growth was negligible at 0.01% during the period, the rest of the sectors grew at a relatively strong rate. The most important contribution to employment growth came from the education and health services sector (5.7%) followed by the leisure and hospitality (3.9%), information services (2.3%), and government (2.4%). The rest of the sectors averaged a growth rate of 1.5%, all during the first four months of the year and compared to the same period a year earlier.

Meanwhile, the housing sector in both cities has continued to deteriorate even though home prices remained affordable compared to the rest of the country, and the two metros did not experience the extremes experienced by other large metros in the U.S. Furthermore, economic growth in the two metros has continued unabated but has not been able to keep the housing market from following a path similar to other more exposed metros. This is very good news for the Dallas and Fort Worth housing markets, because we could see both housing markets start to pick up steam once the credit crisis subsides and the U.S. economy recovers strength. However, don't expect the housing market to go back to previous "glorious" years as financing for housing will be limited and constrained by the destruction of financing due to the disappearing of the exotic financing instruments that were available during the boom. Thus, the housing market will go back to being a "boring" economic sector, with normal rates of growth rather than the driver of economic growth across the U.S. and Texas economy.

The biggest threat to the Dallas and Fort Worth economy is not the housing market or the credit crisis; the biggest threat to the region's economy is the price of petroleum. While it is true that the U.S. airline industry was caught off guard after the 9-11 attacks, the situation improved considerably after that event and the industry adjusted to the new reality. At that time, the Dallas and Fort Worth region suffered the consequences of the slowdown in air travel and the restructuring of the airline industry. However, the industry was not prepared for what has happened since with the price of petroleum and its effects on profitability. Thus, the industry is in serious trouble today with many airlines either going bankrupt or in the process of merging or considering merging alternatives in order to be able to survive under this new environment. If this situation continues, American Airlines could be another victim of the current price of oil and that could put a dent in the Dallas and Fort Worth economies. Of course, the airline could merge with another airline and maintain the Dallas-Fort Worth hub, but nothing is guaranteed and the situation could develop very fast, especially if the price of petroleum remains at current levels. But even then, the industry will suffer in the current environment for several years, as it tries to recover from the changes that are happening in the industry.

The only positive development that this could bring for the airline industry would be a much more lean industry with less competition and higher ticket prices. However, nobody knows if American Airlines is going to survive and if it survives if it is going to remain in Dallas-Fort Worth.

Wells Fargo Economics
Dallas & Fort Worth, TX

	Dallas						
	2003	2004	2005	2006	2007f	2008f	2009f
Gross Metro Product, C\$B	163.5	171.2	177.7	187.3	194.9	199.8	208.5
Gross Metro Product, % chg.	-0.5	4.7	3.8	5.4	4.0	2.5	4.3
Employment (ths.)	1,883.0	1,903.2	1,950.7	2,017.2	2,074.4	2,107.6	2,152.1
Employment growth, % chg.	-1.7	1.1	2.5	3.4	2.8	1.6	2.1
Unemployment, %	6.8	6.0	5.2	4.8	4.2	4.5	4.7
Personal Income growth, % chg.	2.4	6.7	9.0	7.8	7.2	3.7	6.3
Population (ths.)	3,729.4	3,799.2	3,883.1	4,002.4	4,085.1	4,167.2	4,249.1
Population growth, % chg.	1.6	1.9	2.2	3.1	2.1	2.0	2.0
Net migration (ths.)	19.2	27.8	40.0	73.1	32.8	31.1	29.6
Existing home prices, ths. \$'s	146.3	145.8	156.1	159.1	161.0	158.5	163.3
(Percent change in home prices)	2.3	-0.4	7.1	1.9	1.1	-1.5	3.0
Housing Permits, # (ths.)	36.2	37.6	38.7	37.2	30.2	19.4	28.4
Single-family, # (ths.)	27.3	32.0	31.6	28.4	17.6	12.0	20.4
Multi-family, # (ths.)	9.0	5.6	7.1	8.8	12.6	7.5	8.0
United States							
Employment growth, % chg.	-0.3	1.1	1.7	1.8	1.1	0.1	0.4
Unemployment rate, %	6.0	5.5	5.1	4.6	4.6	5.4	5.7
Personal Income growth, % chg.	3.2	6.2	5.9	6.6	6.2	4.1	4.6

Sources: BLS, BEA, Federal Reserve Bank of Dallas, Census Bureau, Economy.com, and Wells Fargo Economics

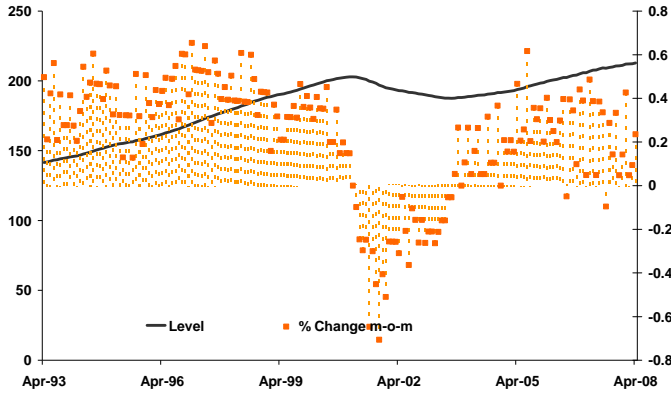
	Fort Worth						
	2003	2004	2005	2006	2007f	2008f	2009f
Gross Metro Product, C\$B	63.1	65.2	67.3	69.6	71.4	73.3	76.5
Gross Metro Product, % chg.	0.8	3.4	3.2	3.4	2.5	2.7	4.3
Employment (ths.)	782.6	794.8	815.5	840.8	867.2	881.6	902.5
Employment growth, % chg.	-0.8	1.6	2.6	3.1	3.1	1.7	2.4
Unemployment, %	6.3	5.6	5.1	4.7	4.2	4.5	4.7
Personal Income growth, % chg.	3.0	7.3	7.5	8.5	8.5	4.5	6.1
Population (ths.)	1,844.2	1,879.6	1,918.5	1,976.0	2,018.0	2,059.4	2,100.1
Population growth, % chg.	1.9	1.9	2.1	3.0	2.1	2.1	2.0
Net migration (ths.)	19.3	16.9	20.5	38.1	20.4	19.3	18.1
Existing home prices, ths. \$'s	120.9	121.3	125.9	126.0	125.2	124.2	128.7
(Percent change in home prices)	3.6	0.3	3.8	0.1	-0.6	-0.9	3.7
Housing Permits, # (ths.)	17.2	18.8	21.2	19.3	13.4	9.3	13.6
Single-family, # (ths.)	13.9	16.1	17.9	15.2	10.0	6.6	10.8
Multi-family, # (ths.)	3.3	2.7	3.3	4.1	3.4	2.7	2.8
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Sources: BLS, BEA, Federal Reserve Bank of Dallas, Census Bureau, Economy.com, and Wells Fargo Economics

by Eugenio J. Alemán

**Wells Fargo Economics
Dallas & Fort Worth, TX**

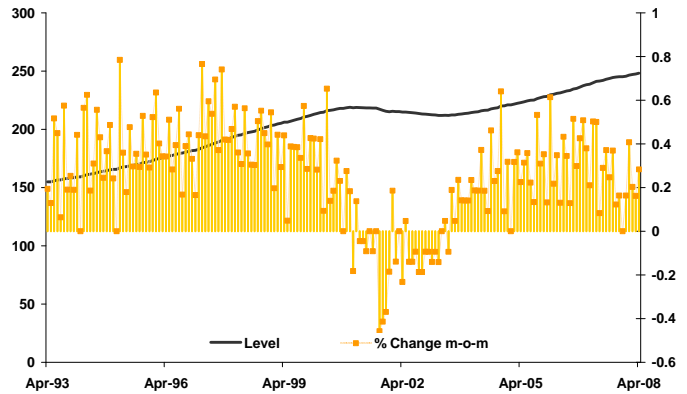
Dallas - Metro Business Cycle



Source: Federal Reserve Bank of Dallas

The Dallas economy has regained some strength during the last several months, according to the MBCI published by the Federal Reserve Bank of Dallas.

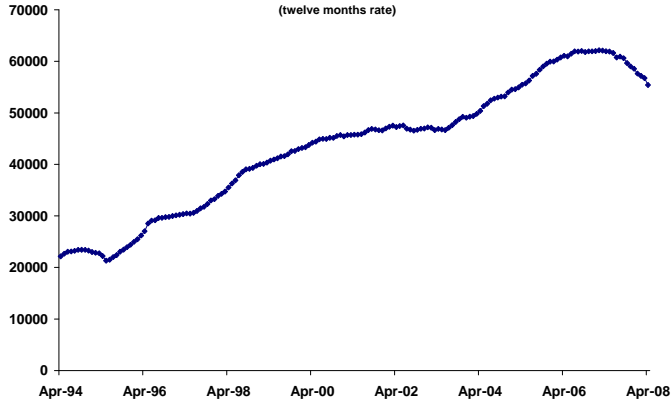
Fort Worth - Metro Business Cycle



Source: Federal Reserve Bank of Dallas

The Fort Worth economy has remained very strong during the first four months of this year after experiencing some weakening by the end of last year.

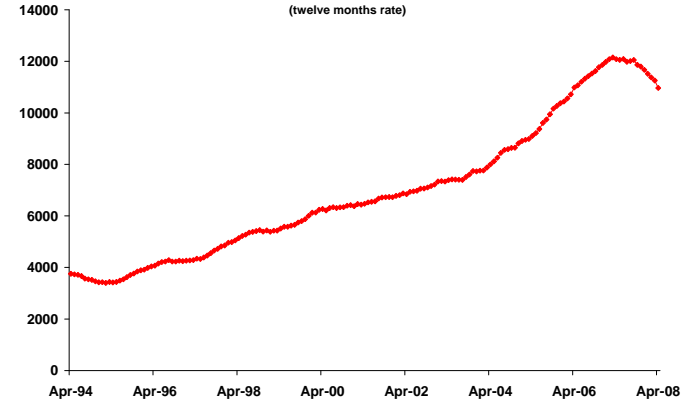
**Dallas Home Sales
(twelve months rate)**



Source: Real Estate Center at Texas A&M University, WF Economics

The Dallas housing market has weakened further during the first part of this year as the U.S. housing and credit crisis affects credit availability.

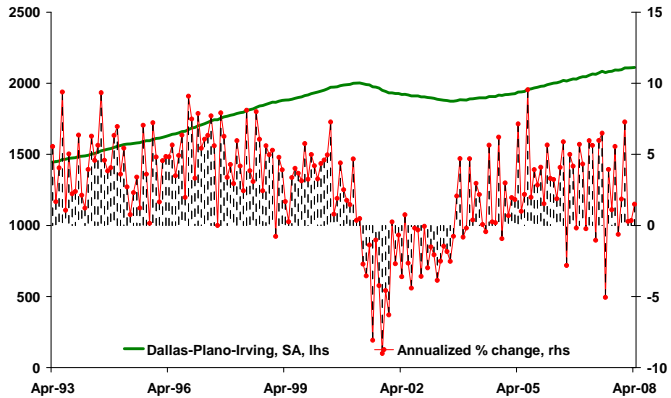
**Fort Worth Home Sales
(twelve months rate)**



Source: Real Estate Center at Texas A&M University, WF Economics

The Fort Worth housing market has not been able to distance itself from the rest of the country even as the economy remained strong.

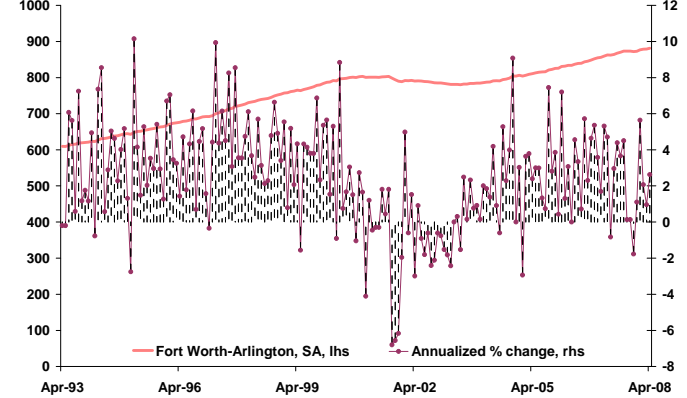
Dallas-Plano-Irving Nonfarm Employment



Source: Federal Reserve Bank of Dallas

Employment in Dallas has weakened during the last several months after remaining very strong during last year and early this year.

Fort Worth-Arlington Nonfarm Employment



Source: Federal Reserve Bank of Dallas

The Fort Worth labor market strengthened during the first four months of this year after slowing down considerably during the last part of last year.