

*Economic Alamo*

Unemployment is the single most comprehensive feature of economic health and, from that perspective, the state's 4.1% unemployment rate speaks volumes. It is the lowest in modern times (since the 1960s). A mature economy—one that is relatively fully employed—would be expected to slow, naturally. Once idle resources are employed, the economy tends to grow more in line with the expansion of its resources. So, now that Texas has recovered from the shallow and short business contraction early in the decade, its economy is moderating to a more sustainable pace.

The Lone Star state's strength draws on many of the forces that are reshaping the national and global economies. Although the state saw its share of shocks early in the decade that stalled the US economy at the turn of the New Millennium, Texas has paced the national economic recovery. Most of the nation's vibrant industries, including finance, transportation, manufacturing (the Rio Grande Valley), technology, and energy, are well represented in Texas. At the same time, the state's population is expanding more rapidly than most, as the outsized cohort that is retiring migrates from the North and Northeast.

Texas should fare well 2008 amid recession worries, for the US. Growth in the Lone Star State has slowed. Yet, the transition from recovery to balanced growth is going well compared with elsewhere, because its real estate markets did not see the excesses that now are haunting other states particularly in the west. Growth should pick up gradually in 2008 from the current slow pace.

HIGHLIGHTS

Texas fared well in 2007 even as the national economy slowed.

Texas isn't suffering from a home building recession, because its real estate markets didn't get out of line like they did elsewhere.

Texas is forecast to grow at a robust 4% pace in 2008, even as the national economy struggles.

Growth will be supported by a broad range of industries, including its star, the energy sector.

ECONOMIC OUTLOOK

	2007	2008	2009
US			
Real GDP			
\$ billions	\$11,717	\$11,951	\$12,362
% change	2.8%	2.0%	3.4%
Nonfarm employment			
Thousands	138,445	138,980	140,420
% change	1.1%	0.4%	1.0%
Monthly change in thousands	111	52	121
Texas			
Real GDP			
\$ billions	\$907	\$941	\$980
% change	3.3%	3.7%	4.2%
Nonfarm employment			
Thousands	10,364	10,510	10,721
% change	2.0%	1.4%	2.0%
Monthly change in thousands	17	12	18

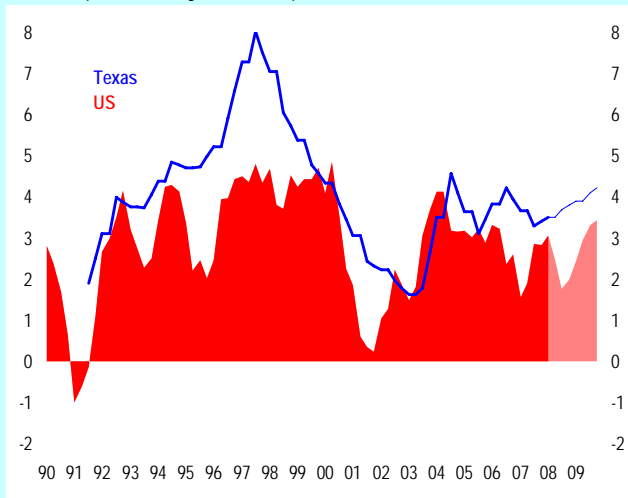
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**Progress report ... all of the good, little of the bad**

This decade's economic recovery hasn't matched the growth in earlier years but the 1990's economy was exaggerated by a number of unusual factors. The North America Free Trade Agreement of 1992 tied the US, Mexican, and Canadian economies and sparked a manufacturing boom that is in full bloom along the Texas/Mexico border. The need to reprogram computer systems to handle the turn-of-the-century date change encouraged many businesses to replace ageing computer systems rather than spend money on programmers to fix old systems and this fed a high-tech boom.

**Solid growth ...**

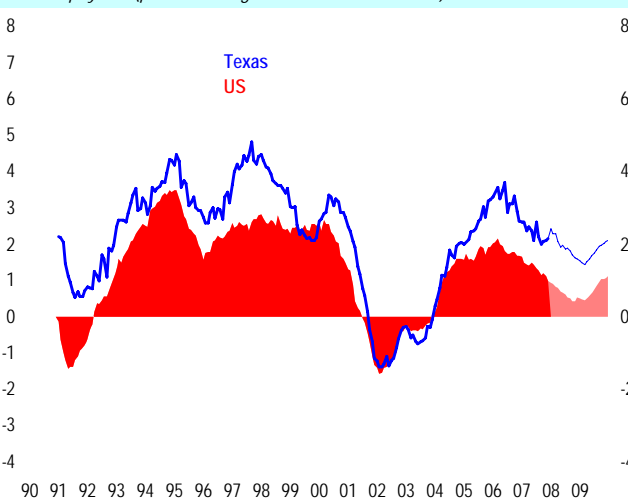
*Real GDP (percent change from four quarters earlier)*



Sources: US Departments of Commerce and Labor; JPMorgan Chase & Co.

**... and solid growth translates into solid hiring**

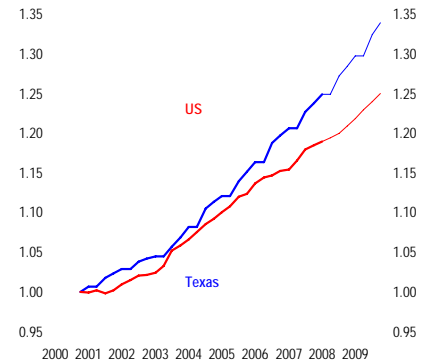
*Nonfarm payrolls (percent change from 12 months earlier)*



Source: US Department of Labor

**Texas' real GDP versus the nation**

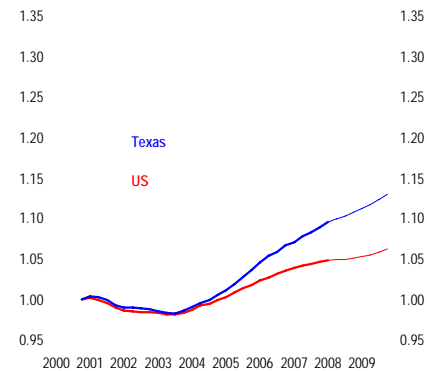
*Real GDP (ratio to 2000 Q4 level)*



Sources: Commerce; JPMorgan Chase & Co.

**Texas' job count versus the nation**

*Nonfarm payrolls (ratio to 2000 Q4 level)*



Source: US Department of Labor

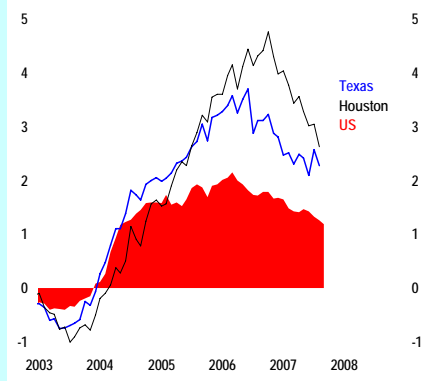
Regional Economic Focus / Texas

Most Texan communities are participating in the state's good performance, although the trends vary. The big economic engines of Houston, Dallas, and San Antonio are slowing down, like the national economy. Austin has seen a revival, however, boosted by the robust technology sector. And new energy in the manufacturing and global economies has revived the economies from the Rio Grande Valley over to El Paso.

Texas certainly absorbed its share of economic jolts in the past five years. Factories shed jobs as new technologies were adopted to improve efficiencies and developing markets abroad offered lower cost options for US manufacturers. The telecommunications fiasco of the late 1990s hit some communities especially hard. Half the telecommunications jobs in San Antonio disappeared after

**Houston**

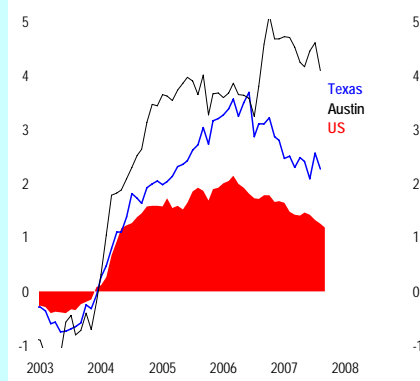
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**Austin**

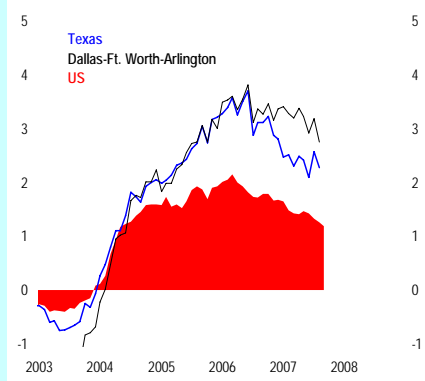
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**Dallas-Ft. Worth-Arlington**

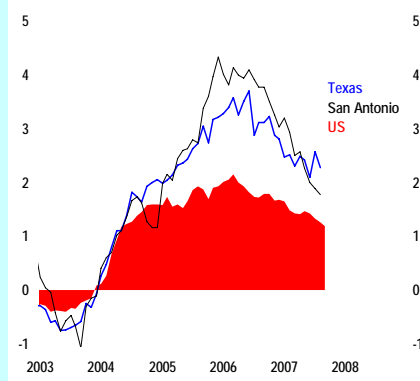
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**San Antonio**

Payrolls (% change from 12 months earlier)

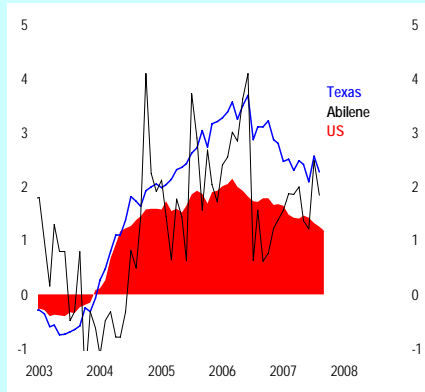


Source: US Department of Labor

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**Abilene**

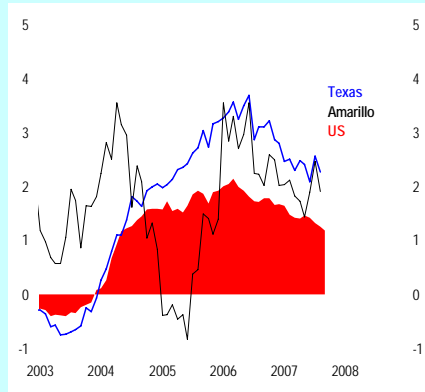
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**Amarillo**

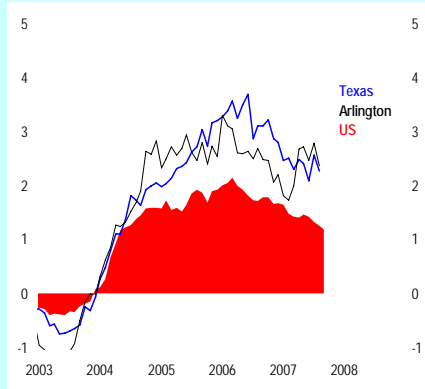
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**Arlington**

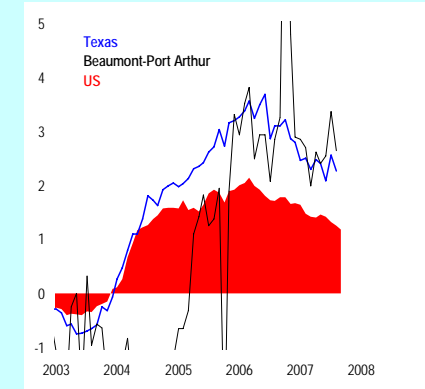
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**Beaumont**

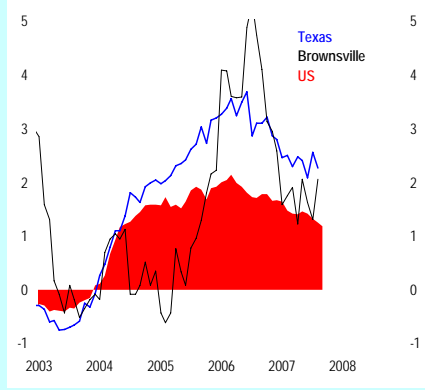
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**Brownsville**

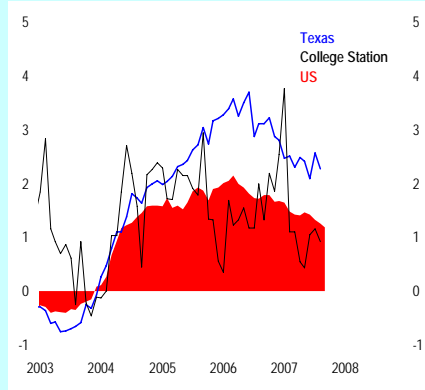
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**College Station**

Payrolls (% change from 12 months earlier)

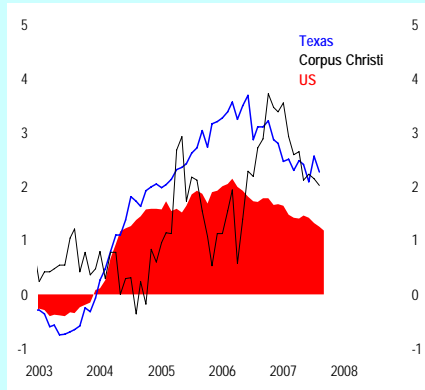


Source: US Department of Labor

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**Corpus Christi**

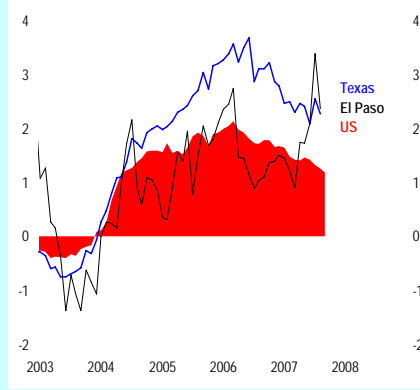
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**El Paso**

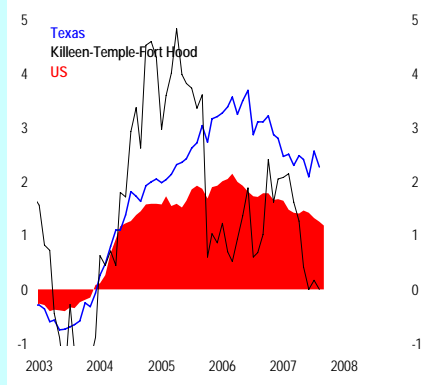
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**Killeen**

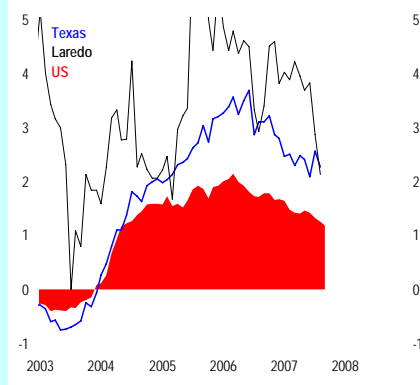
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**Laredo**

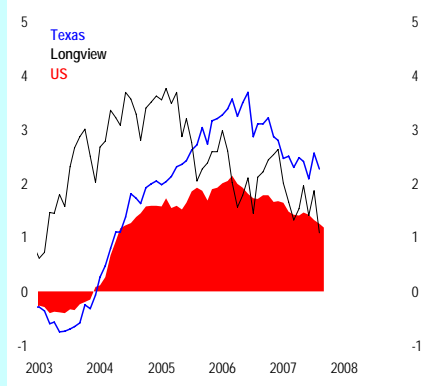
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**Longview**

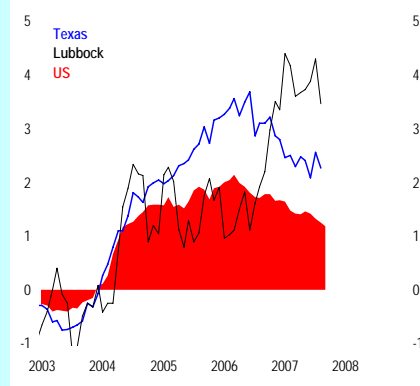
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**Lubbock**

Payrolls (% change from 12 months earlier)

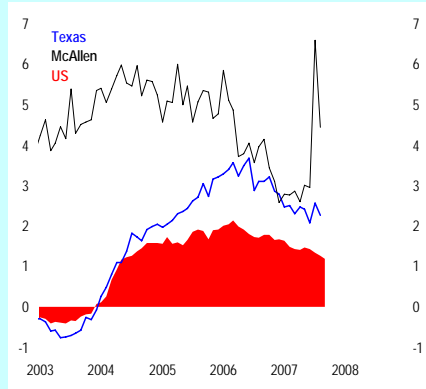


Source: US Department of Labor

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McAllen

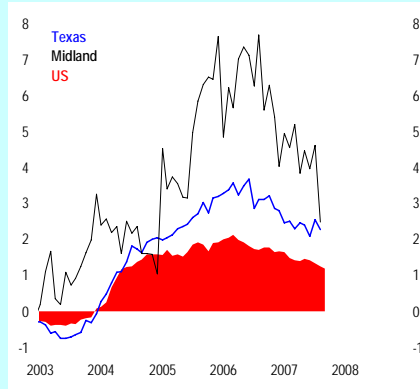
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

Midland

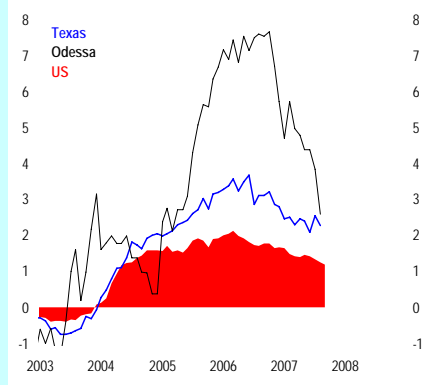
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

Odessa

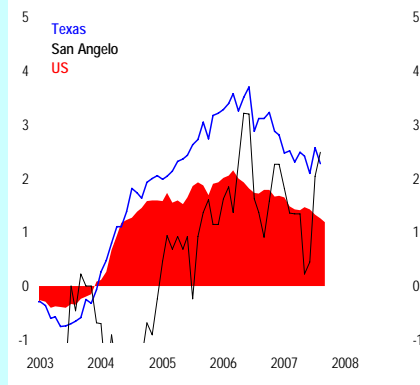
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

San Angelo

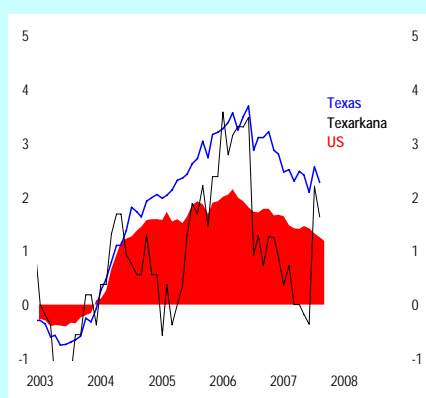
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

Texarkana

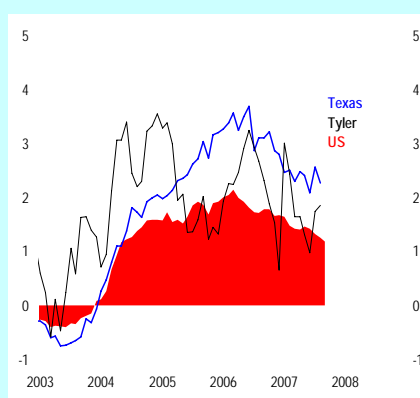
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

Tyler

Payrolls (% change from 12 months earlier)



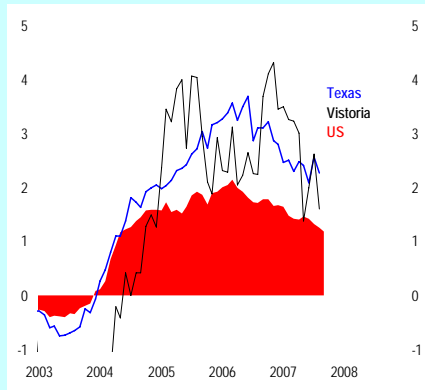
Source: US Department of Labor

2000. And Silicon Valley's shock reverberated through the Texas economy, particularly the Austin area whose 680,000-strong workforce back in 2000 shed almost 20,000 technology jobs. Enron's collapse and the loss of its 5,000 jobs was a special challenge for Houston. Texas generosity to displaced New Orleans' residents in the wake of Hurricane Katrina was a challenge. Roughly half of New Orleans' residents fled to Houston and Dallas.

Texas overcame these hurdles, because it enjoys a comparative advantage in many new industries that are prospering today. The state sits at the crossroads of global trade flows that reach into Latin America and Asia. It enjoys a vibrant financial industry that has thrived along with Wall Street. Texas and other Southwestern states are benefiting from the migration of the population to warmer climates as

**Victoria**

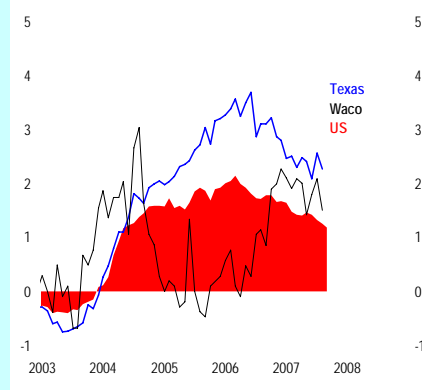
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**Waco**

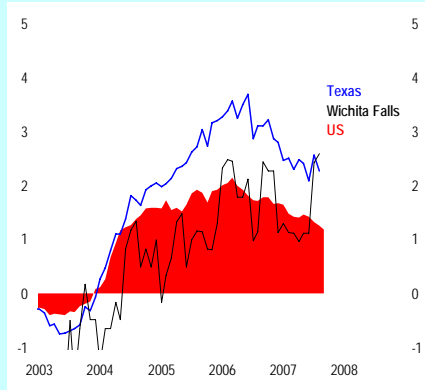
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**Wichita Falls**

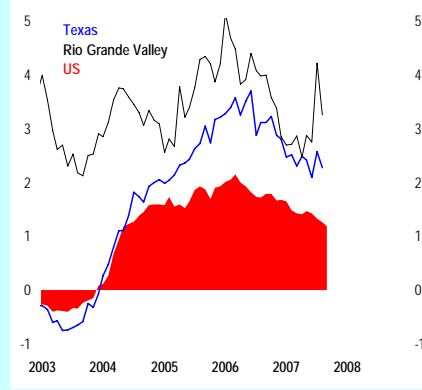
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

**Rio Grande Valley**

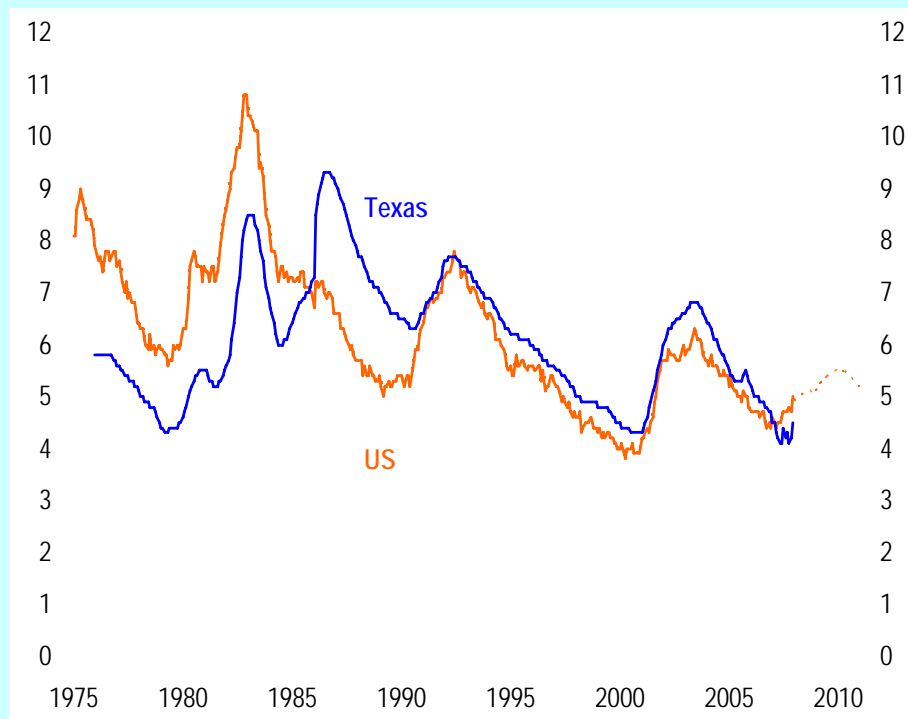
Payrolls (% change from 12 months earlier)



Source: US Department of Labor

It doesn't get better than this

Unemployment rate (percent of the labor force)



Source: US Department of Labor

the population ages and the Baby Boom generation approaches retirement. Its military bases, particularly at Fort Bliss, are surviving at a time when the military is closing or consolidating other military bases. And Texas is thriving from the growing energy needs of a rapidly growing global economy, particularly the economies in East Asia.

The Texas economy's strengths are featured in its broad-based job growth during the last three years, from the financial industry—traditional banking activities and capital market businesses—to business services to energy services, compared with national trends (table on page 8). Hiring by business services, already a source of strength, continues to accelerate. Despite the dominance of the energy sector in the state, compared with other states, hiring in this sector merely matches national trends.

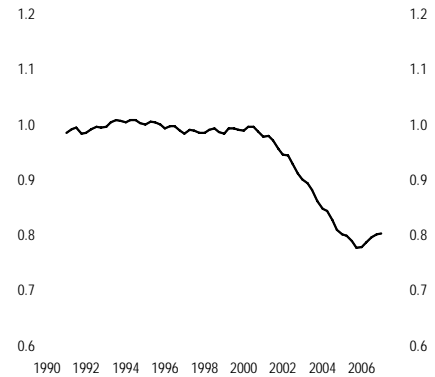
The state's unemployment trend says it all (figure above). The unemployment rate now stands at 4.1%. That is the lowest at least since the 1960s and is the first time in memory that the state's unemployment rate has dropped below the US average. By this measure, the state has reached its maximum potential output level.

The state's rapid growth brings challenges. The public sector is struggling to keep its educational and health care infrastructure in line with its growing population. As a result, employment in education, education services, health care, and public services has been an important source of new jobs in Texas. Employment in the public sector too is growing faster than the national average. At the same time, infrastructure needs are boosting employment in businesses construction highways, streets and utilities.

Texas managed to escape the real estate excesses that now plague many other communities, including its neighbors in California, Nevada, and Arizona. It isn't too surprising that in the markets that have become very expensive—unaffordable—sales are cooling and builders are shutting down projects. The rapid closure of the pipeline of sub-prime mortgage loans in particular has disproportionately dampened new home building nationwide and slowed sales in the West more than in any other region. Fortunately, most real estate markets in Texas did not see the influx of speculative money from California that fueled real estate prices in Las Vegas and Arizona and more recently is spilling into Utah. Housing appreciation has

No speculative bubble here

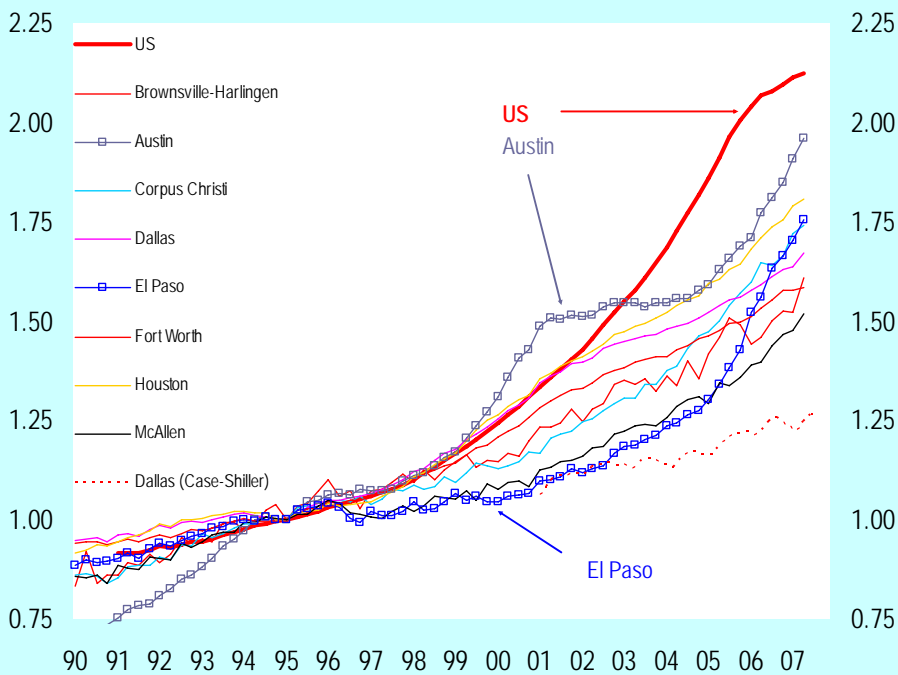
Ratio of house prices to US average (1990 = 1.0)



Source: OFHEO

Texas ... steady house price trends are a blessing

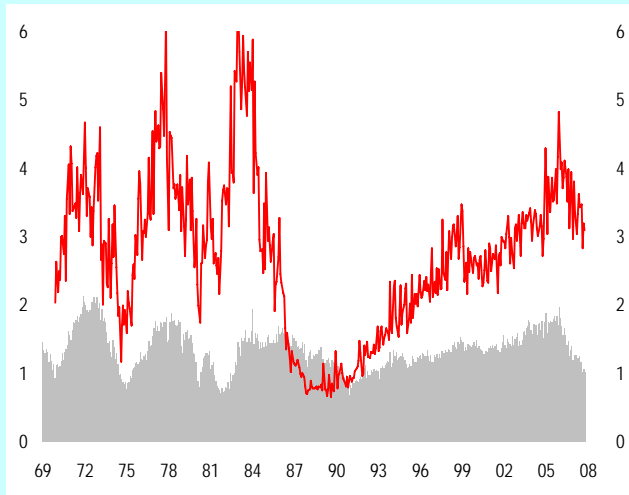
House prices (ratio to prices in 1995 Q1)



Source: Office of Federal Housing Enterprise Oversight

**Home building remains strong as a result**

*Housing starts (ratio to level of starts in 1990)*



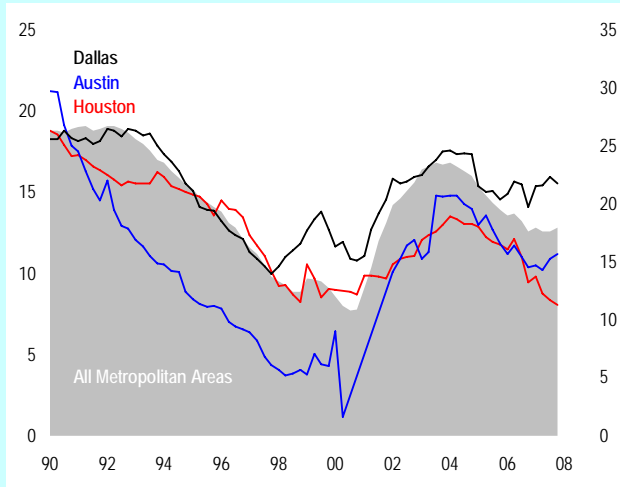
Source: Census Department

been relatively moderate across the state (figure to the right), with prices in most communities up only 40–60% over the past decade.

Two real estate markets in Texas run against the grain of most others in the state. The tech boom and bust depressed Austin’s real estate market for much of the 1990s but a tech revival is reenergizing the Austin economy and its real estate markets are showing it. In addition, El Paso has seen a marked rise in its real estate markets. The city’s good fortunes reflect bustling Nafta-related business,

**Building boom keeps Dallas vacancy high**

*Metropolitan area’s office vacancy rate (percent)*



Source: US Department of Commerce

expansion of its military base, and some inflow of money from California investors, in the wake of the Golden State's earlier real estate boom.

Moderate real estate appreciation in the state is now proving to be a blessing. Residential building remains robust in Texas, in contrast to the building bust unfolding in once hot real estate markets.

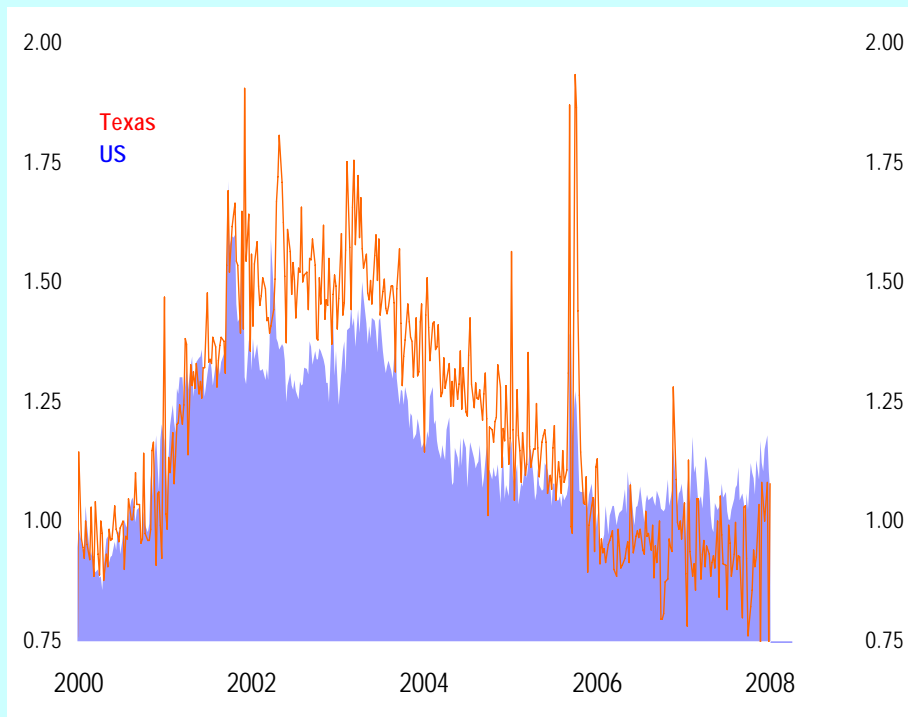
The commercial real estate markets remains a mixed story. Divergences from community to community have more to do with excessive building than with local economic conditions. For example, office vacancy rates in the Dallas markets are down from their peak levels at the end of 2003, but new additions are preventing a drop in vacancy rates.

*2008 ... what could be wrong?*

The coming year is likely to look a lot like the last two years in Texas. Strong hiring in the retail, financial, and educational services, the drivers in recent years, likely will continue (table on the next page). The booming energy sector will be a key driver for the state, and particularly

**Layoff pace at best-of-times levels**

*Jobless claims (ratio to 2000 level)*



Source: US Department of Labor

Houston. Employment in the natural resources sector is growing twice as fast as the national average and this trend is likely to be ongoing into 2008.

In contrast to other states, the construction boom that Texas enjoys is likely to remain in place. The migrating population is generating demand for public infrastructure—schools, hospitals, public utilities, and health care facilities. And such demand is likely to remain strong, especially because housing markets in neighboring states have become very expensive and are handing Texas a comparative advantage. This trend also will continue to spur relatively strong demands for public sector hiring, compared with the rest of the nation.

Altogether, 2008 looks like it will be a respectable—if less robust—year for the Texas economy. Moreover, compared with the national economy, which is expected to continue to grow at a subpar pace, the state's economy could well be the lone star of the field of 50 players.

### Follow the jobs

February 15, 2008

*Job growth (annualized percentage change)*

	US			Texas		
	2006 Share (%)	2002-06 (% ar)	2007 (% ar)	2006 Share (%)	2002-06 (% ar)	2007 (% ar)
Total	100.00	1.1	1.3	100.00	1.6	2.7
Natural Resources	0.53	4.6	4.8	2.00	6.6	9.7
Oil and Gas Extraction	0.11	3.2	10.2	0.72	2.5	3.6
Construction	5.77	3.5	-0.8	6.14	1.3	3.8
Manufacturing	10.22	-1.7	-1.2	9.09	-0.5	-0.1
Motor Vehicles and Parts	0.70	-2.4	-6.4	0.09	9.3	6.7
Wholesale	4.39	1.1	2.0	4.94	1.5	2.5
Retail	11.14	0.5	0.5	11.09	0.8	1.1
Motor Vehicle and Parts Dealers	1.40	0.3	0.1	1.53	0.1	1.5
Nonstore Retailers	0.31	-0.6	2.6	0.16	-4.8	-9.6
Electronic Shopping and Electronic Auctio	0.06	8.2	11.3	0.16	-4.8	-9.6
Transportation & Public Utilities						
Transportation and warehousing	3.26	1.4	1.3	3.70	2.3	1.0
Utilities	0.41	-2.1	1.3	0.45	-3.7	2.9
Information	2.25	-2.6	1.4	2.18	-2.7	0.4
Financial	6.21	1.6	1.4	6.26	1.9	2.3
Professional and Business Services	13.10	2.5	1.8	12.60	3.6	5.3
Professional and Technical Services	5.56	2.6	3.7	5.24	3.4	4.2
Management of Companies and Enterprise:	1.35	1.8	1.6	0.60	5.9	9.6
Administrative and Waste Services	6.19	2.6	0.2	6.76	3.5	5.9
Employment Services	2.56	3.1	-3.8	2.76	6.1	4.2
Education and Health Services	13.09	2.3	3.2	12.08	2.9	2.4
Health Care and Social Assistance	11.16	2.6	3.2	10.75	3.0	2.5
Ambulatory Health Care Services	3.98	5.1	3.8	4.83	4.6	3.0
Doctors Offices	1.62	2.3	3.2	1.62	3.4	2.8
Home Health Care Services	0.67	6.5	6.8	1.78	6.8	1.3
Hospitals	3.31	1.6	2.5	2.63	1.7	1.6
Nursing and Residential Care Facilities	2.17	1.5	2.6	1.55	1.6	2.9
Social Assistance	1.71	3.1	4.2	1.74	2.1	2.1
Child Day Care Services	0.56	1.1	2.5	1.09	0.8	2.3
Leisure & Hospitality	10.35	2.5	3.2	9.81	2.6	4.3
Other Services	4.03	0.3	1.1	3.49	-0.8	2.8
Government	15.25	0.5	1.1	16.17	1.4	2.2
Federal	1.98	-0.1	-1.3	1.80	1.0	-0.6
State	3.51	0.0	1.0	3.39	0.8	1.9
Local	9.76	0.9	1.6	10.98	1.7	2.8

Source: US Department of Labor

**OTHER REPORTS AND WHERE TO FIND THEM*****Economic reports of interest ...***Perspectives on the economy and financial markets

*Markets & the Economy* (weekly report on economic and market outlook issues, weekly)

Weekly telephone broadcast (what to look for in the coming week, weekly)

*Occasional Topics* (in depth analysis of a key economic or market issue, infrequent)

*Economic Briefing Book* (visual tour with brief commentary of key economic trends, updated weekly)

*Economic and Market Update / Summary*

*Economic and Market Update / Details*

*Economic and Market Update / Regional Trends*

Regional economic perspectives

*Regional Economic Focus* (outlook for selected states, updated once a quarter)

***... can be obtained from the following resources***For internal users ...

On the intranet: Commercial Banking Home Page > Market Intelligence > Glassman Markets and the Economy Update

To receive the weekly economic telephone broadcast, contact Katerina Sarafov at [katerina.g.sarafov@jpmchase.com](mailto:katerina.g.sarafov@jpmchase.com)

For external users ...

On the internet: [www.chase.com/commercial](http://www.chase.com/commercial) > Home > New You Can Use > Click the link "Visit our publication library"

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