

Texas Water Development Board

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Austin, TX 78711-3231, www.twdb.texas.gov
Phone (512) 463-7847, Fax (512) 475-2053

TO: Board Members

THROUGH: Jeff Walker, Executive Administrator

FROM: Investment Officers

DATE: August 25, 2016

SUBJECT: Quarterly Investment Report for the period March 1 – May 31, 2016

Please find attached the quarterly investment report for the period ending May 31, 2016. This report has been prepared and submitted in accordance with the Public Funds Investment Act (PFIA) and the Texas Water Development Board (TWDB) Investment Policy and Strategies.

This report provides a snapshot of the portfolio at the end of the period, shows the diversification in security types, shows totals by investment fund type (including average yield and weighted average maturity), identifies significant changes from the beginning of the period to the end of the period in each investment fund type, and provides a year-to-date summary of each fund type. We have also included the Federal Reserve Bank's (FED) National Economic Outlook and Texas Economic Indicators for this period. Highlights from the FED report include:

Continued contraction in the oil and gas sectors continue to drag on both the National and Texas economies. Short term, eyes will remain on oil and gas prices to see if recent price gains continue. Also, although the unemployment rate inched up slightly both nationally and in Texas, Texas' unemployment rate (4.4% in April) continues to be below the National average of 5%. The FED will continue to monitor these and other indicators as they determine if and when to make their next interest rate change. Any change in interest rates will ultimately impact the investment portfolio.

The investment portfolio for the TWDB for this period is in compliance with the Public Funds Investment Act and the TWDB Investment Policy and Strategies. We would be happy to discuss any questions you may have regarding this portfolio.

Rebecca Trevino, Chief Financial Officer

Amanda Lavin, Development Fund Manager

Oscar Ramirez, Director of Accounting

Elaine S. Wilson, Revenue Team Lead

Our Mission :

To provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas

Board Members

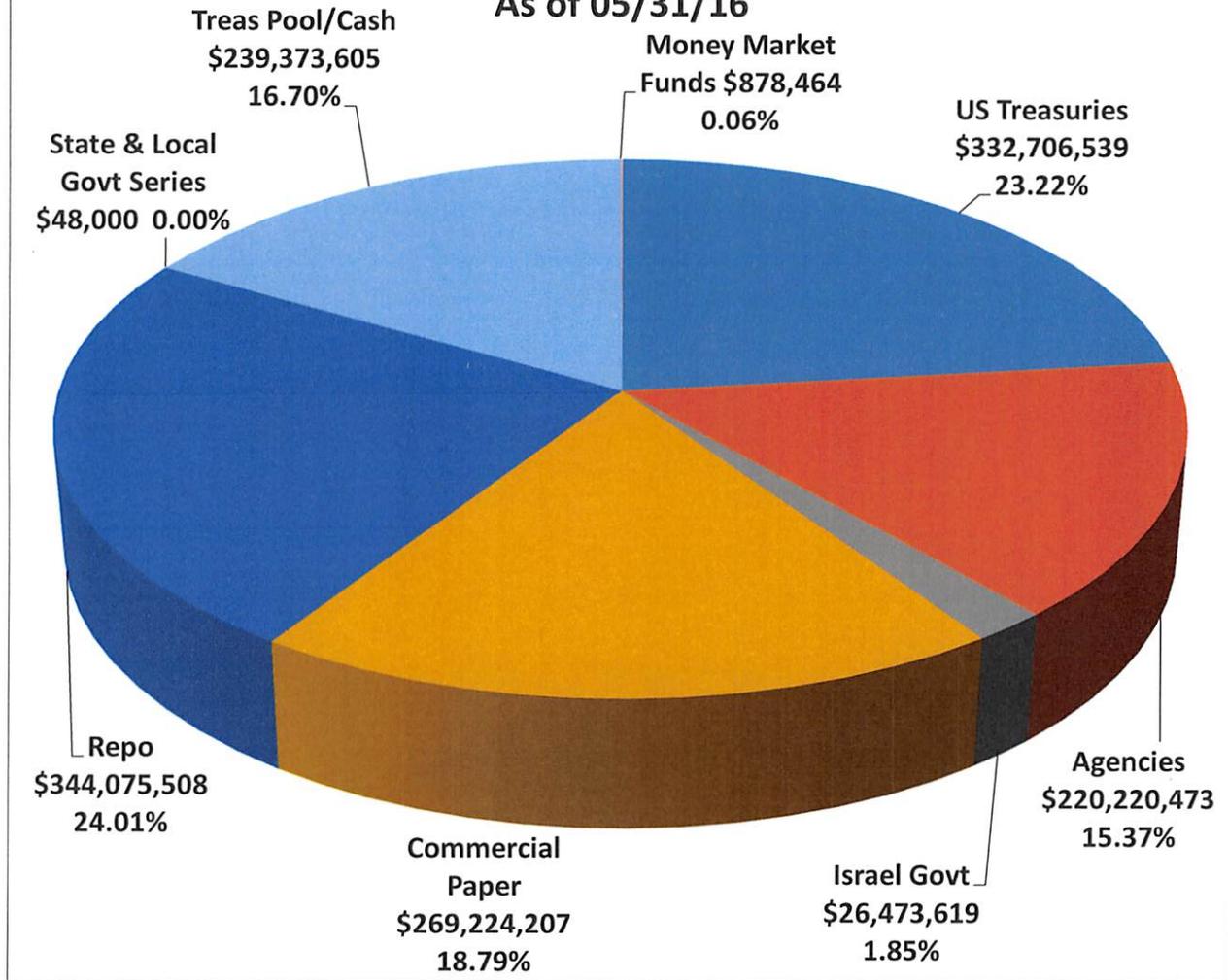
Bech Bruun, Chairman | Kathleen Jackson, Board Member | Peter Lake, Board Member

Jeff Walker, Executive Administrator

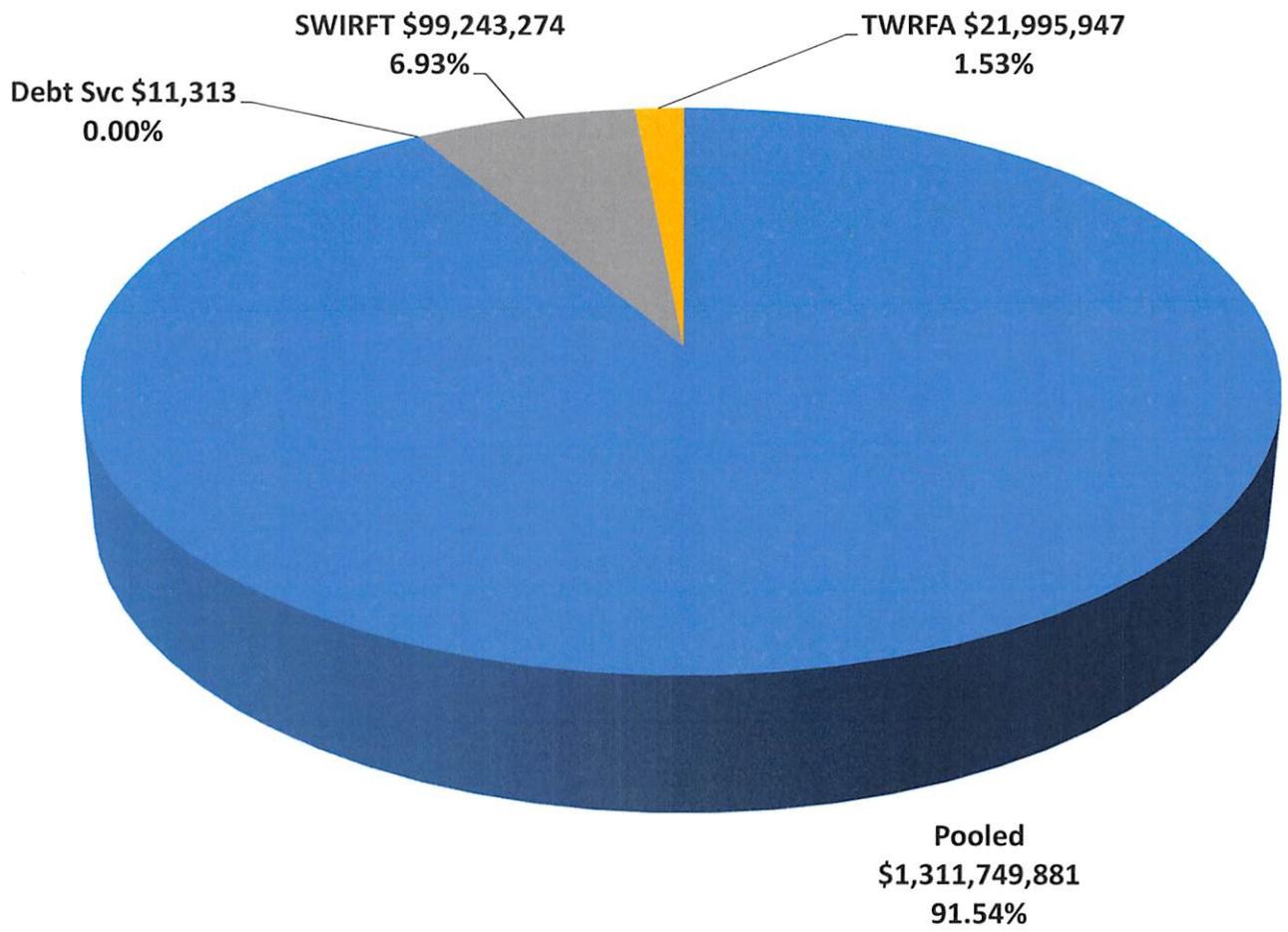
TWDB Portfolio by Security Type

Total Market Value \$1,433,000,414

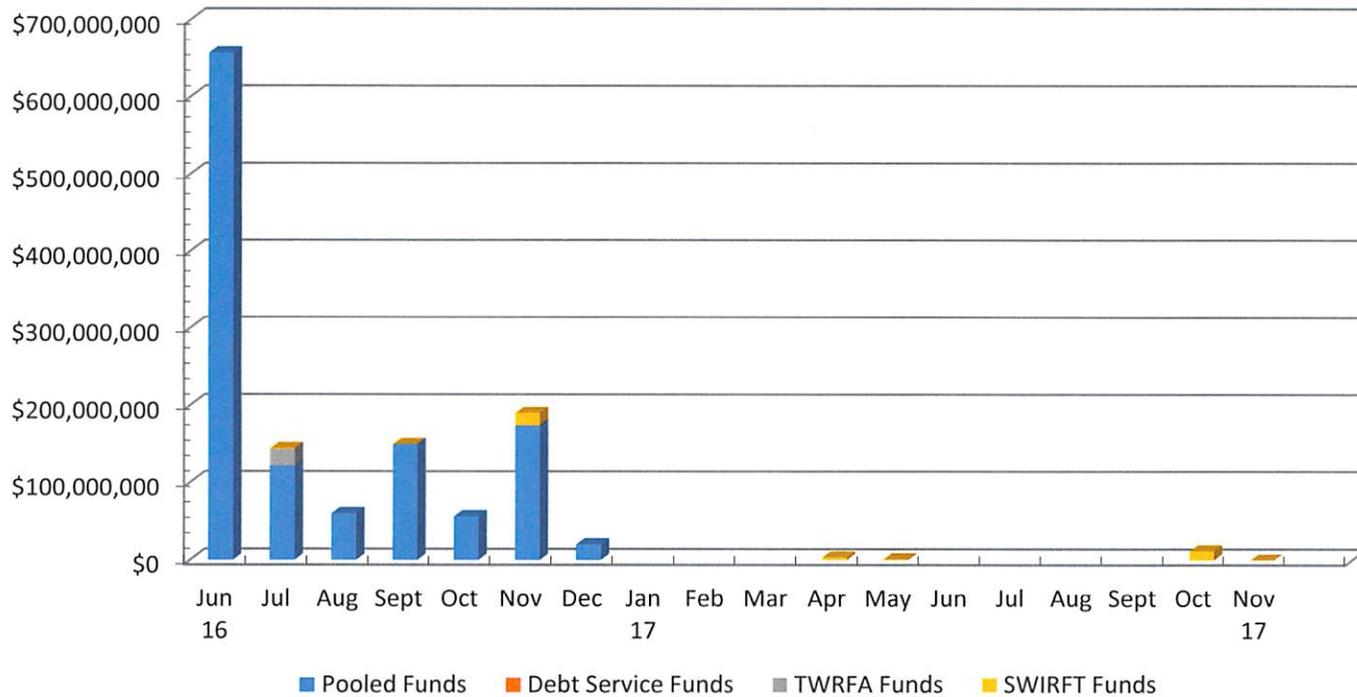
As of 05/31/16



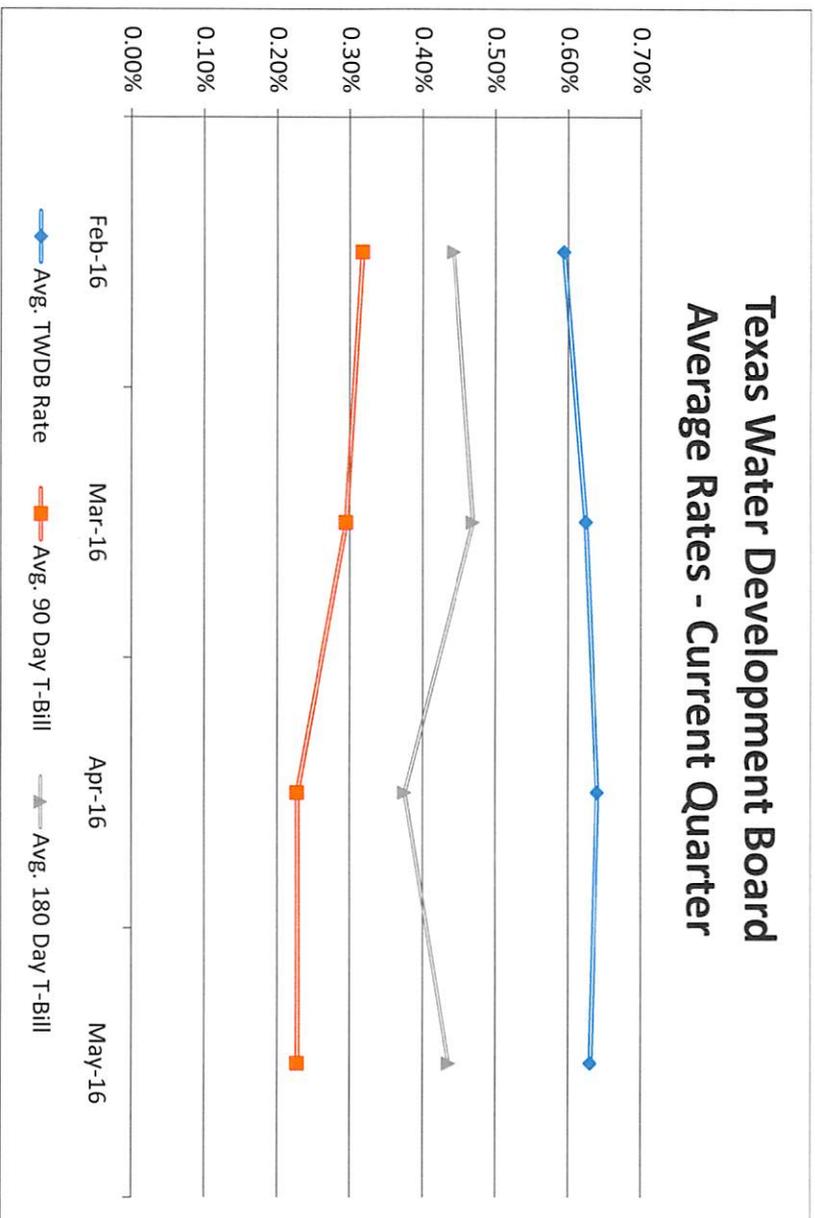
TWDB Portfolio by Fund Type
Total Market Value \$1,433,000,414
As of 05/31/16



Texas Water Development Board Investments Maturing within 18 months



Texas Water Development Board Average Rates - Current Quarter



Texas Water Development Board
 Portfolio Summary
 As of May 31, 2016



	Par Value	Book Value	Market Value	Portfolio Percentage
Cash/Treasury Pool	\$239,373,605	\$239,373,605	\$239,373,605	16.71%
Money Market Funds	\$878,464	\$878,464	\$878,464	0.06%
Commercial Paper	\$270,000,000	\$269,228,651	\$269,224,207	18.79%
Israel US Govt Gtd Bonds	\$25,932,000	\$26,363,634	\$26,473,619	1.84%
Repurchase Agreements	\$344,075,508	\$344,075,508	\$344,075,508	24.02%
US Treasury Bills/Notes	\$331,912,000	\$332,653,273	\$332,706,539	23.22%
US Agency Discounts/Bonds	\$222,525,000	\$220,035,560	\$220,220,473	15.36%
State and Local Govt Treasuries (SLGS)	\$48,000	\$48,000	\$48,000	0.00%
Portfolio Totals	\$1,434,744,577	\$1,432,656,695	\$1,433,000,414	100.00%

	Par Value	Book Value	Market Value	Qtrly Avg Yield	Weighted Avg Maturity (WAM) in Days	Earnings for Period
Treasury Funds	\$239,360,219	\$239,360,219	\$239,360,219	0.818%	1.00	\$608,306
Trust Co. Funds (CWSRF/DWSRF)	\$1,072,629,634	\$1,072,325,746	\$1,072,389,661	0.459%	75.00	\$1,085,886
Pooled Funds	\$1,311,989,854	\$1,311,685,966	\$1,311,749,881	0.545%	57.55	\$1,694,193
Debt Service Funds	\$11,313	\$11,313	\$11,313	0.813%	1.00	\$23
SWIRFT Funds	\$100,747,464	\$98,963,470	\$99,243,274	1.190%	1,210.95	\$314,755
TWRFA Funds	\$21,995,947	\$21,995,947	\$21,995,947	0.423%	25.97	\$23,443
Portfolio Totals	\$1,434,744,577	\$1,432,656,695	\$1,433,000,414	0.593%	136.94	\$2,032,413

Net Interest Earnings for the Period**	\$2,032,413
Unrealized Gains/(Losses) at end of Period	\$343,719

**Interest earnings net of fees paid for Investment Services

Texas Water Development Board
 Portfolio Summary of Changes by Investment Fund Type
 As of May 31, 2016

**Texas Water
 Development Board**

	Par Value	Book Value	Market Value
Pooled Funds			
Beginning Balance 2/29/16	\$1,017,631,401.19	\$1,018,308,003.77	\$1,018,286,863.42
Period Changes	\$294,358,452.75	\$293,377,962.21	\$293,463,017.15
Ending Balance 5/31/16	\$1,311,989,853.94	\$1,311,685,965.98	\$1,311,749,880.57
Debt Service Funds			
Beginning Balance 2/29/16	\$10,600.00	\$10,600.00	\$10,600.00
Period Changes	\$712.64	\$712.64	\$712.64
Ending Balance 5/31/16	\$11,312.64	\$11,312.64	\$11,312.64
SWIRFT Funds			
Beginning Balance 2/29/16	\$110,040,096.72	\$108,162,274.32	\$108,436,309.07
Period Changes	(\$9,292,632.79)	(\$9,198,804.35)	(\$9,193,034.76)
Ending Balance 5/31/16	\$100,747,463.93	\$98,963,469.97	\$99,243,274.31
TWRFA Funds			
Beginning Balance 2/29/16	\$21,978,247.37	\$21,978,247.37	\$21,978,247.37
Period Changes	\$17,699.46	\$17,699.46	\$17,699.46
Ending Balance 5/31/16	\$21,995,946.83	\$21,995,946.83	\$21,995,946.83
Totals	\$1,434,744,577.34	\$1,432,656,695.42	\$1,433,000,414.35

Texas Water Development Board
 Portfolio Summary of Changes by Investment Fund Type
 As of May 31, 2016



Summary of Significant Changes this Period:

Pooled Funds

Loan Repayments	Qtr	\$111,069,310.37
Loan Prepayments	Qtr	\$106,250,000.00
Federal Draws/Reimbursements	Qtr	\$48,011,199.92
EDAP Bond Proceeds 2016A	Apr	\$49,823,775.42
Loan Closings/Disbursements	Qtr	<u>(\$25,245,301.03)</u>
<i>Pooled</i>		<u><u>\$289,908,984.68</u></u>

SWIRFT Funds

SWIRFT Debt Payments	Apr	(\$16,486,448.74)
SWIRFT Repayments	Qtr	<u>\$6,448,747.53</u>
<i>SWIRFT</i>		<u><u>(\$10,037,701.21)</u></u>





Fund Type	Security Description	Security Type	Cusip	Maturity Date	Par Value	Total Book Value	Total Market Value
POOLED	TREAS POOL/CASH	Treas Pool/Cash	Cash Pool	06/01/2016	\$239,362,293	\$239,362,293	\$239,362,293
DEBT SVC	TREAS POOL/CASH	Treas Pool/Cash	Cash Pool	06/01/2016	\$11,313	\$11,313	\$11,313
POOLED	GREENWICH REPO	Repo	RPTWDB01	06/01/2016	\$318,000,000	\$318,000,000	\$318,000,000
POOLED	GREENWICH REPO	Repo	RPTWDB01	06/01/2016	\$4,127,561	\$4,127,561	\$4,127,561
TWRFA	GREENWICH REPO	Repo	RPTWDB01	06/01/2016	\$21,947,947	\$21,947,947	\$21,947,947
SWIRFT	GOLDMAN SACHS FUND	Money Market Funds	X9USDGLD4	06/01/2016	\$878,464	\$878,464	\$878,464
POOLED	US TREAS BILL	US Treasuries	912796HX	06/16/2016	\$50,000,000	\$49,988,417	\$49,997,000
POOLED	IBM CORP CP	Commercial Paper	45920FFW	06/30/2016	\$45,000,000	\$44,984,050	\$44,984,050
POOLED	US TREAS BILL	US Treasuries	912796HZ	07/07/2016	\$51,500,000	\$51,474,456	\$51,487,640
POOLED	FHLB DISC NOTE	Agencies	313384ZC	07/08/2016	\$50,000,000	\$49,970,708	\$49,983,000
POOLED	CRC FUNDING LLC CP	Commercial Paper	12622UGD	07/13/2016	\$20,000,000	\$19,981,333	\$19,981,333
POOLED	US TREAS NOTE	US Treasuries	912828VR	08/15/2016	\$10,000,000	\$10,001,375	\$10,006,100
SWIRFT	US TREAS BILL	US Treasuries	912796HA0	08/18/2016	\$10,000	\$9,995	\$9,994
POOLED	US TREAS BILL	US Treasuries	912796JG	08/25/2016	\$50,000,000	\$49,946,757	\$49,965,000
POOLED	CIESCO LLC	Commercial Paper	17178BJ1	09/01/2016	\$25,000,000	\$24,961,667	\$24,961,667
POOLED	FHLB DISC NOTE	Agencies	313384F8	09/14/2016	\$25,000,000	\$24,959,167	\$24,969,500
POOLED	US TREAS NOTE	US Treasuries	912828LP	09/30/2016	\$100,000,000	\$100,836,868	\$100,841,000
POOLED	CANADIAN IMPERIAL CP	Commercial Paper	13607EK7	10/07/2016	\$20,000,000	\$19,933,156	\$19,933,156
POOLED	FHLB DISC NOTE	Agencies	313384K6	10/14/2016	\$20,000,000	\$19,965,500	\$19,967,800
SWIRFT	US TREAS NOTE	US Treasuries	912828WA4	10/15/2016	\$16,007,000	\$16,023,835	\$16,013,083
SWIRFT	US TREAS NOTE	US Treasuries	912828WA4	10/15/2016	\$207,000	\$207,209	\$207,079
POOLED	BANK OF MONTREAL CP	Commercial Paper	06367JKJ	10/18/2016	\$20,000,000	\$19,928,183	\$19,928,183
POOLED	JP MORGAN SECURITY CP	Commercial Paper	46640PL8	11/08/2016	\$20,000,000	\$19,926,222	\$19,921,778
POOLED	JP MORGAN SECURITY CP	Commercial Paper	46640PL8	11/08/2016	\$4,000,000	\$3,984,356	\$3,984,356
POOLED	FHLB DISC NOTE	Agencies	313384N8	11/09/2016	\$24,000,000	\$23,955,457	\$23,945,280
POOLED	FHLB DISC NOTE	Agencies	313384P5	11/14/2016	\$50,000,000	\$49,897,403	\$49,882,500
POOLED	CHEVRON CORP	Commercial Paper	16677JLF	11/15/2016	\$24,000,000	\$23,914,273	\$23,914,273
POOLED	CHEVRON CORP	Commercial Paper	16677JLG	11/16/2016	\$24,000,000	\$23,913,760	\$23,913,760
POOLED	TOYOTA MOTOR CREDIT	Commercial Paper	89233GLH	11/17/2016	\$24,000,000	\$23,903,107	\$23,903,107
POOLED	TOYOTA MOTOR CREDIT	Commercial Paper	89233GLJ	11/18/2016	\$24,000,000	\$23,902,533	\$23,902,533
POOLED	US TREAS NOTE	US Treasuries	912828G4	11/30/2016	\$50,000,000	\$49,971,354	\$49,991,000
POOLED	JP MORGAN SECURITY CP	Commercial Paper	46640PM9	12/09/2016	\$20,000,000	\$19,896,011	\$19,896,011
SWIRFT	ISRAEL ST U S GOVT NOTE	Isreal Govt	465139DD2	03/15/2017	\$3,426,000	\$3,409,870	\$3,405,033
SWIRFT	US TREAS NOTE	US Treasuries	912828C73	04/15/2017	\$999,000	\$1,002,112	\$1,000,648
SWIRFT	US TREAS NOTE	US Treasuries	912828C73	04/15/2017	\$217,000	\$217,642	\$217,358
SWIRFT	FHLMC NOTE	Agencies	3137EADL0	09/29/2017	\$11,558,000	\$11,609,777	\$11,584,468
SWIRFT	US TREAS NOTE	US Treasuries	912828F54	10/15/2017	\$27,000	\$27,074	\$27,026

Texas Water Development Board
 Portfolio Listing by Maturity Date
 As of May 31, 2016



Fund Type	Security Description	Security Type	Cusip	Maturity Date	Par Value	Total Book Value	Total Market Value
SWIRFT	US TREAS NOTE	US Treasuries	912828K25	04/15/2018	\$2,378,000	\$2,375,723	\$2,372,531
SWIRFT	US TREAS NOTE	US Treasuries	912828K25	04/15/2018	\$198,000	\$197,739	\$197,545
SWIRFT	US TREAS NOTE	US Treasuries	912828RH5	09/30/2018	\$27,000	\$27,271	\$27,275
SWIRFT	FHLB NOTE	Agencies	313382U35	10/15/2018	\$11,270,000	\$11,270,000	\$11,291,864
SWIRFT	ISRAEL ST U S GOVT DISC	Isreal Govt	465139DH3	03/15/2019	\$1,846,000	\$1,787,131	\$1,781,113
SWIRFT	US TREAS NOTE	US Treasuries	912828C65	03/31/2019	\$161,000	\$163,621	\$163,787
SWIRFT	US TREAS NOTE	US Treasuries	912828F39	09/30/2019	\$6,000	\$6,103	\$6,128
SWIRFT	RESOLUTION FDG CORP	Agencies	76116FAA5	10/15/2019	\$10,287,000	\$9,780,233	\$9,828,508
SWIRFT	FHLMC NOTE	Agencies	3134A1MY3	02/01/2020	\$485,000	\$459,060	\$454,110
SWIRFT	US TREAS NOTE	US Treasuries	912828J84	03/31/2020	\$163,000	\$163,425	\$163,993
SWIRFT	FNMA NOTE	Agencies	3136G0N49	04/15/2020	\$1,294,000	\$1,296,466	\$1,300,043
SWIRFT	US TREAS NOTE	US Treasuries	912828VZ0	09/30/2020	\$12,000	\$12,296	\$12,353
SWIRFT	RESOLUTION FDG CORP	Agencies	76116FAE7	10/15/2020	\$9,819,000	\$9,084,565	\$9,171,830
SWIRFT	FHLMC NOTE	Agencies	3134A4MW1	01/15/2021	\$125,000	\$114,951	\$114,343
SWIRFT	RESOLUTION FDG CORP	Agencies	76116EFX3	01/15/2021	\$198,000	\$182,004	\$184,136
SWIRFT	RESOLUTION FDG CORP	Agencies	76116FAG2	01/15/2021	\$1,185,000	\$1,090,510	\$1,099,822
SWIRFT	RESOLUTION FDG CORP	Agencies	76116EGV6	04/15/2021	\$160,000	\$151,464	\$148,202
TWRFA	STATE & LOCAL GOVT SERIES	State & Local Govt Series Treas	SL001067	07/10/2021	\$22,000	\$22,000	\$22,000
SWIRFT	ISRAEL ST U S GOVT NOTE	Isreal Govt	465139DN0	09/15/2021	\$9,008,000	\$8,191,283	\$8,153,051
SWIRFT	ISRAEL ST U S GOVT NOTE	Isreal Govt	465139MQ3	02/15/2022	\$658,000	\$589,501	\$587,469
SWIRFT	ISRAEL ST U S GOVT NOTE	Isreal Govt	465139RC9	02/15/2022	\$412,000	\$369,988	\$367,788
SWIRFT	ISRAEL ST U S GOVT NOTE	Isreal Govt	465139BT9	03/15/2022	\$145,000	\$129,702	\$129,555
SWIRFT	RESOLUTION FDG CORP	Agencies	76116EGX2	04/15/2022	\$150,000	\$139,467	\$133,121
TWRFA	STATE & LOCAL GOVT SERIES	State & Local Govt Series Treas	SL001065	07/10/2022	\$26,000	\$26,000	\$26,000
SWIRFT	ISRAEL ST U S GOVT NOTE	Isreal Govt	465139BU6	09/15/2022	\$2,433,000	\$2,142,381	\$2,128,972
SWIRFT	RESOLUTION FDG CORP	Agencies	76116EGY0	10/15/2022	\$5,869,000	\$5,149,658	\$5,201,636
SWIRFT	FHLMC NOTE	Agencies	3134A32C9	03/15/2023	\$441,000	\$378,842	\$379,511
SWIRFT	FHLMC NOTE	Agencies	3134A4BX1	03/15/2023	\$379,000	\$325,581	\$326,414
SWIRFT	RESOLUTION FDG CORP FED	Agencies	76116EGZ7	04/15/2023	\$128,000	\$112,460	\$110,303
SWIRFT	ISRAEL ST U S GOVT NOTE	Isreal Govt	46513EFF4	09/18/2023	\$8,004,000	\$9,743,779	\$9,920,638
SWIRFT	RESOLUTION FDG CORP FED	Agencies	76116EHB9	04/15/2024	\$96,000	\$78,878	\$80,190
SWIRFT	FNMA NOTE	Agencies	31364DKF2	04/08/2025	\$69,000	\$54,742	\$55,053
SWIRFT	FNMA NOTE	Agencies	31364DPG5	03/23/2026	\$2,000	\$1,515	\$1,534
SWIRFT	FNMA NOTE	Agencies	31364DPJ9	03/23/2027	\$5,000	\$3,611	\$3,670
SWIRFT	RESOLUTION FDG CORP	Agencies	76116EHK9	04/15/2028	\$5,000	\$3,541	\$3,635

Total Investments

\$1,434,744,577 \$1,432,656,695 \$1,433,000,414



FY 2016

Fund Types	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Debt Service Funds									
Securities	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cash/Money Market Funds	\$14,113	\$14,113	\$14,113	\$9,992	\$40,534,666	\$10,600	\$10,600	\$11,262	\$11,313
Total	\$14,113	\$14,113	\$14,113	\$9,992	\$40,534,666	\$10,600	\$10,600	\$11,262	\$11,313
Pooled Funds									
Securities	\$854,220,226	\$835,948,247	\$849,795,371	\$888,161,310	\$819,578,701	\$860,079,270	\$911,126,288	\$937,128,608	\$1,072,323,674
Cash/Money Market Funds	\$128,397,292	\$126,050,995	\$160,073,258	\$166,968,425	\$167,356,095	\$158,228,734	\$168,159,645	\$226,476,855	\$239,362,292
Total	\$982,617,518	\$961,999,242	\$1,009,868,629	\$1,055,129,736	\$986,934,796	\$1,018,308,004	\$1,079,285,933	\$1,163,605,463	\$1,311,685,966
TWRFA Funds									
Securities	\$48,000	\$48,000	\$48,000	\$48,000	\$48,000	\$48,000	\$48,000	\$48,000	\$48,000
Cash/Money Market Funds	\$21,829,754	\$21,831,352	\$21,833,201	\$21,836,023	\$21,924,347	\$21,930,247	\$21,935,156	\$21,941,437	\$21,947,947
Total	\$21,877,754	\$21,879,352	\$21,881,201	\$21,884,023	\$21,972,347	\$21,978,247	\$21,983,156	\$21,989,437	\$21,995,947
SWIRFT Funds									
Securities	\$0	\$0	\$106,867,858	\$106,575,219	\$107,988,977	\$106,326,212	\$98,566,207	\$98,449,294	\$98,085,006
Cash/Money Market Funds	\$0	\$0	\$848,196,106	\$534,024	\$342,128	\$3,308,595	\$16,657,042	\$521,837	\$878,464
Total	\$0	\$0	\$955,063,964	\$107,109,244	\$108,331,105	\$109,634,807	\$115,223,249	\$98,971,131	\$98,963,470
PORTFOLIO TOTALS	\$1,004,509,385	\$983,892,707	\$1,986,827,906	\$1,184,132,994	\$1,157,772,914	\$1,151,188,596	\$1,216,603,495	\$1,284,577,293	\$1,432,656,696

U.S. Labor Market Resilient as Output Slumps (Again)

May 3, 2016

Indicators of economic activity have mildly declined since mid-March, reflected by a weak first reading of output growth for first quarter 2016. Despite this, the labor market has continued in stride, while measures of inflation have edged up from low levels. Gains in oil prices and decelerating growth in the trade-weighted value of the dollar, if maintained, will support stronger business sector activity in the medium term. Households continue to benefit from low energy prices and have positive expectations about the future, suggesting that consumption demand will continue to support output growth. On balance, professional forecasters and forward-looking indicators point to a return to healthy growth this year.

Another Slow First Quarter?

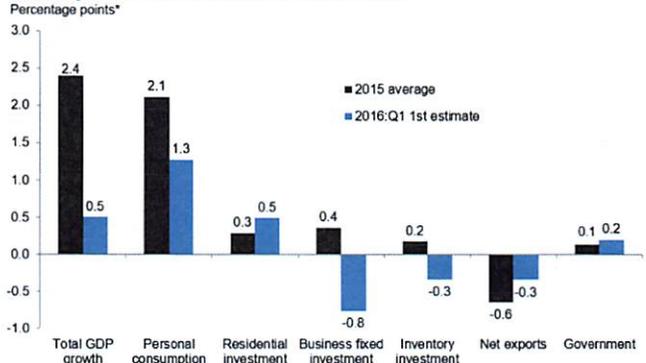
The economy expanded softly in the first quarter, held down by weaker contributions from personal consumption and a large drag from business fixed investment (Chart 1). Real gross domestic product grew 0.54 percent at a seasonally adjusted, annualized rate, significantly below the annual average growth of 2.4 percent in 2015. This figure may belie strength in the economy—at least one analysis shows that first-quarter estimates exhibit some “residual seasonality.”¹

Nevertheless, business investment in equipment and structures decelerated considerably to a 5.8 percent annualized rate in the first quarter, subtracting 0.8 percentage points from overall growth. Much of this decline owed to contractions in the oil and gas sector. Investment in mining exploration, shafts and wells reduced business investment growth by approximately 2.6 percentage points, and the category is now at its lowest level on record. Similarly, investment in mining and oilfield machinery equipment shaved off approximately 0.2 percentage points in the first quarter. Generally, changes in oil and gas investment are highly correlated with changes in the active rig count. If recent oil price gains are sustained, the rig count decline will likely slow in the medium term, and negative contributions from oil and gas investment will fade over the year.

Labor Market Strong, but Wage Growth Slow to Follow

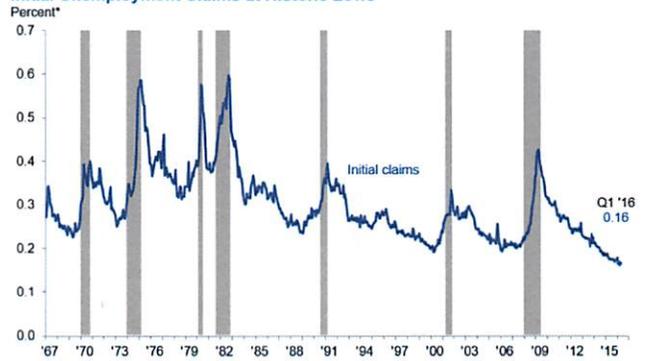
Despite anemic output growth in the first quarter, labor market indicators were strong. March nonfarm payrolls grew by 215,000, keeping the three-month moving average at 209,000, slightly above the average recovery

Chart 1
Economy Off to a Slow Start in First Quarter 2016



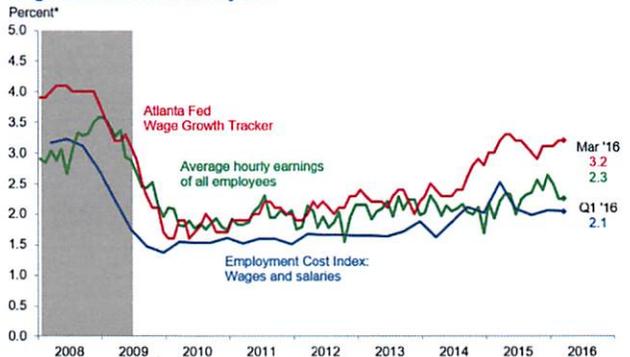
*Contribution to total gross domestic product (GDP) growth.
SOURCE: Bureau of Economic Analysis.

Chart 2
Initial Unemployment Claims at Historic Lows



*As a share of the civilian labor force.
NOTE: Shaded areas indicate U.S. recessions.
SOURCES: Bureau of Labor Statistics, Department of Labor.

Chart 3
Wage Growth Still Relatively Low



*Year-over-year growth, seasonally adjusted.
NOTE: Shaded area indicates U.S. recession.
SOURCES: Bureau of Labor Statistics, Federal Reserve Bank of Atlanta.

pace. A strengthening labor market has encouraged a greater share of prime-age workers (25 to 54 years) to enter the labor force, signaling greater confidence in job prospects.

As employment has grown, labor market slack has continued to diminish. Although the unemployment rate ticked back up to 5.0 percent in March, it has been near this relatively low level since October 2015. Additionally, the rate of initial claims filings relative to the labor force fell to a historic low (*Chart 2*), confirming that labor market conditions remain strong.

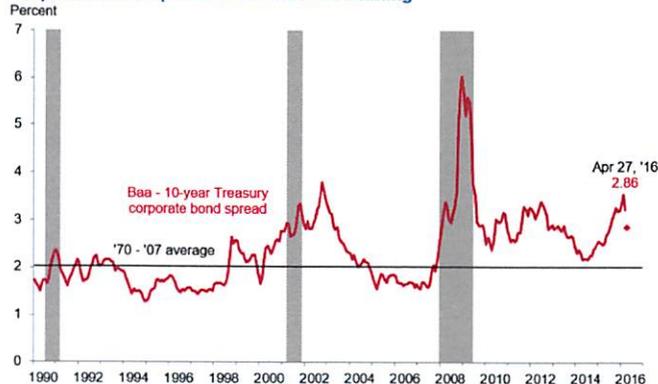
Generally, wage growth should accelerate as slack diminishes, but various measures of wage growth have risen slowly and remain below prerecession levels (*Chart 3*). Part of this slower wage recovery could be explained by the increasing flow of people from outside the labor market directly into employment. Approximately 52.4 million made such a move in 2015, compared with 47.8 million in 2014 and 45 million in 2013. This acceleration in labor force flows has increased labor supply and kept wage growth modest but has not affected traditional measures of slack such as the unemployment rate. Given that participation rates are at low levels, these flows may continue to grow and, thus, wage growth may not return to prerecession levels for some time.

Chart 4
Import Price Declines Less of a Drag on Inflation



* Year over year, seasonally adjusted.
NOTE: Shaded area indicates U.S. recession.
SOURCES: Bureau of Economic Analysis; Federal Reserve Bank of Dallas; Bureau of Labor Statistics.

Chart 5
Corporate Bond Spreads Elevated but Declining



NOTE: Shaded areas indicate U.S. recessions.
SOURCE: Federal Reserve Board.

Inflation Expected to Reach Target Rate in Next Two Years

Import prices remain a drag on inflation, especially accounting for the effect of oil prices (*Chart 4*). However, growth in the trade-weighted value of the dollar has decelerated in recent months, and import price deflation has eased, reducing downward pressure on domestic inflation.

Core measures of domestic inflation held steady in February and March after bouncing back in January. The core Consumer Price Index (CPI) registered 2.2 percent on a year-over-year basis in March, roughly consistent with Federal Reserve's target.² Professional forecasters predict that headline measures of CPI will rise to 2.3 percent in 2017. The personal consumption expenditures index, however, is expected to rise more slowly, reaching 2.0 percent by 2018. Long-term inflation expectations remain well-anchored.

Financial Stress Eases; Bond Yields Improve

Financial market stress has continued to fall since March's Federal Open Market Committee meeting. Corporate bond rates remained flat in April as U.S. Treasury rates rose, driving down corporate bond spreads (*Chart 5*). Alternative measures of financial stress have also eased, with the VIX (volatility index) remaining at low levels and various Federal Reserve financial stress indexes indicating normal conditions. Favorable financial conditions supported by low interest rates will continue to bolster the real economy going forward.

—Camden Cornwell

Notes

1. For more discussion, see "The Puzzle of Weak First-Quarter GDP," by Glenn Rudebusch, Daniel Wilson and Tim Mahedy, Federal Reserve Bank of San Francisco Economic Letter, May 18, 2015, www.frbsf.org/economic-research/files/el2015-16.pdf, and "Residual Seasonality in GDP," by Charles E. Gilbert, Norman J. Morin, Andrew D. Paciorek and Claudia R. Sahm, Federal Reserve Board FEDS Notes, May 14, 2015, www.federalreserve.gov/econresdata/notes/feds-notes/2015/residual-seasonality-in-gdp-20150514.html.

2. Assuming that CPI inflation is on average 0.3 percentage points higher than PCE inflation.

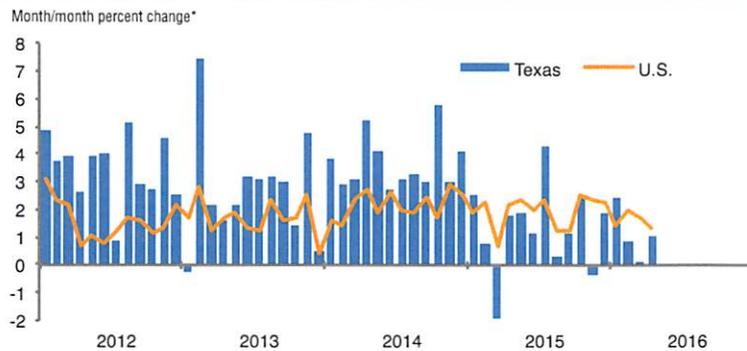
About the Author

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Summary The Texas economy expanded in April. Payroll employment grew during the month, although unemployment edged up. The Texas Manufacturing Outlook Survey production index continued to be positive, but housing starts declined in March. Exports rose in the first quarter after two consecutive quarters of decline, and the estimated value of the Texas Leading Index increased in April.

Employment



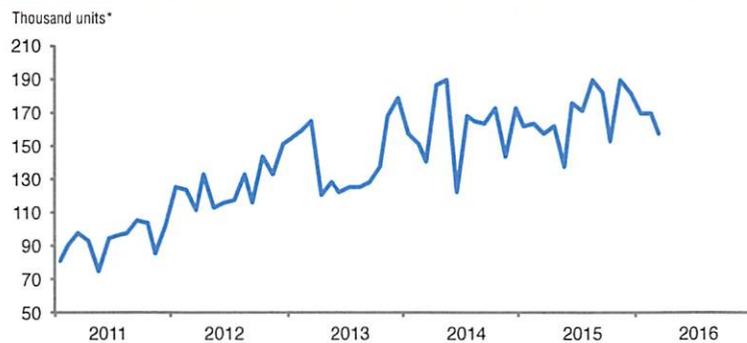
*Seasonally adjusted annualized rate.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; adjustments by the Dallas Fed.

▶ Texas employment grew at a 1.1 percent annualized pace in April, compared with the nation's 1.3 percent rate. Texas gained 10,700 jobs in April after adding almost 1,000 in March. Texas employment stands at nearly 12.0 million, according to the payroll survey (Current Employment Statistics).

▶ The Texas unemployment rate ticked up in April to 4.4 percent. The state's reading continues to be lower than the U.S. rate, which held steady at 5.0 percent.

▶ The Dallas Fed's Texas Employment Forecast reported a 2016 estimate of 1.5 percent growth (December over December), up from the 1.0 percent growth forecasted in April. The Texas Employment Forecast is available at the [Dallas Fed website](#).

Housing Starts



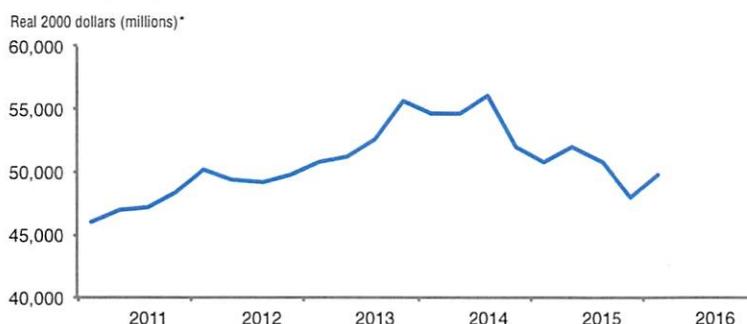
*Seasonally adjusted annualized rate.
SOURCE: Bank of Tokyo-Mitsubishi UFJ.

▶ Texas housing starts, including both single-family and multifamily units, fell 7.0 percent in March after ticking down 0.2 percent in February. Starts were in line with year-ago levels in March.

▶ Single-family housing construction permits inched up 2.7 percent in March and were up 3.3 percent year over year.

▶ Existing-home sales rose 1.9 percent from March to April. Home inventories ticked down to 3.6 months' supply in April—2.9 percent above their year-ago level.

Exports



*Seasonally adjusted, quarterly.
SOURCES: Census Bureau; WISERTrade; adjustments by the Dallas Fed.

▶ Texas exports increased 3.9 percent in first quarter 2016 but were 1.7 percent lower than a year ago. In the first quarter, exports to Asia (excluding China) saw the largest rise among Texas' major trading partners at 22.3 percent, followed by exports to China at 6.1 percent and to Mexico at 3.5 percent. Exports to Canada dropped the most at 8.5 percent, followed by exports to Latin America (excluding Mexico), which fell 6.6 percent in the quarter.

▶ Looking at exports by industry, machinery and petroleum and coal products picked up in the first quarter after experiencing declines in previous quarters. Exports of computers and electronics saw the largest jump at 11.9 percent, followed by transportation equipment at 9.8 percent. Primary metals and fabricated metals exports continued to contract during the quarter.

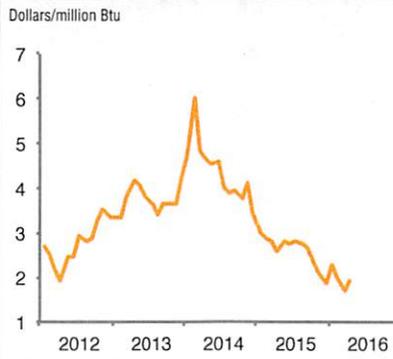
Crude Oil Prices



SOURCE: Wall Street Journal.

▶ West Texas Intermediate crude oil ticked up from \$37.80 per barrel in March to \$40.76 in April. The price was 25.1 percent lower year over year.

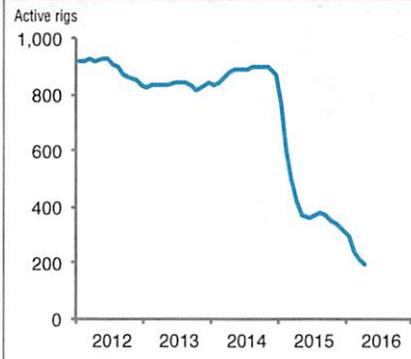
Natural Gas Prices



SOURCE: Wall Street Journal.

▶ The price of natural gas inched up to \$1.90 per million Btu in April, up 11.8 percent from March but 26.4 percent lower than April 2015.

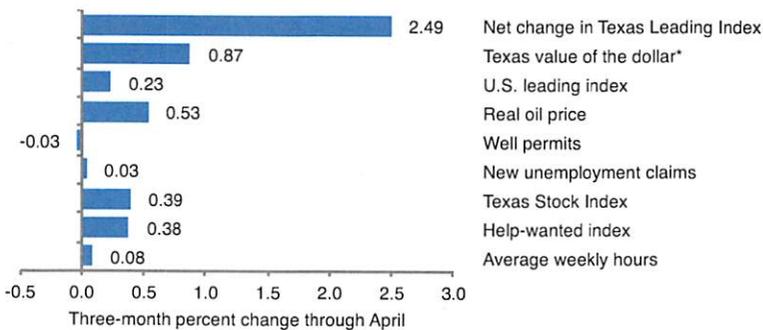
Texas Rig Count



SOURCE: Baker Hughes.

▶ The Texas rig count dropped for the eighth consecutive month, declining from 218 in March to 194 in April. The rig count remains 54.0 percent below April 2015 levels.

Texas Leading Index with Components



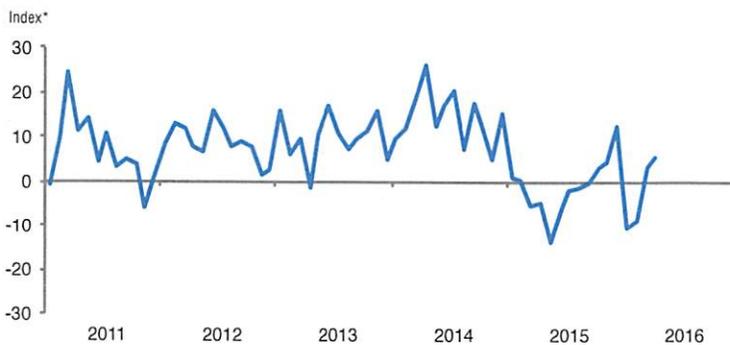
*Estimated April value.

NOTE: Data are seasonally adjusted.

SOURCE: Dallas Fed.

▶ The Texas Leading Index estimate, which uses key economic indicators to forecast employment growth, rose 1.5 percent in April, and the three-month net change (February to April) was 2.49 percent. A decline in well permits depressed the index estimate, while a rise in the U.S. leading index, real oil prices, stock prices of Texas-based companies, the help-wanted index and average weekly hours contributed positively.

Manufacturing Outlook Survey Production Index



*Seasonally adjusted.

SOURCE: Dallas Fed.

▶ Texas factory output grew again in April, according to business executives responding to the Texas Manufacturing Outlook Survey. The production index, a key measure of state manufacturing conditions, climbed from 3.3 in March to 5.8 in April, indicating that output continued to expand for the second straight month.

▶ The Dallas Fed conducts the Texas Manufacturing Outlook Survey monthly to obtain a timely assessment of the state's factory activity.

NOTE: Data may not match previously published numbers due to revisions.

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