

QUOTABLE: “While Texas new-home construction and home sales are trending down, the state hasn’t witnessed the dramatic price declines seen in other areas of the country.”

—D’Ann Petersen, Associate Economist



MEXICO: Sluggish Growth May Pick Up in Second Half

Deep economic ties mean many Texans keep a close eye on Mexico’s economy, which has been plugging along at a more modest pace this year.

After rising 4.8 percent in 2006, Mexico’s real growth slowed to 2.6 percent in the first quarter, reflecting in part the U.S. economic slowdown. Private analysts surveyed by Banco de México in June expected a slight pickup in Mexican economic activity during the second half.

They now forecast inflation-adjusted GDP growth of 3.1 percent in 2007. These analysts had called for 3.5 percent real growth just five months ago.

Recent months have brought small but inconsistent gains

in industrial production and capital formation. After slowing to 5 percent at the start of 2007, year-over-year export growth had spikes of 10 percent in April and 7 percent in June.

Retail sales remain sluggish, echoing the slowdown of private consumption growth this year. Consumer credit has been growing at a slower pace, and remittances from Mexicans working in the U.S. have been declining since October.

Inflation, measured at the consumer level, seems to be coming down slowly, although it remains above Banco de México’s 3 percent goal. Inflationary expectations over the medium term also remain stubbornly above target.

—Erwan Quintin



NEW BRAUNFELS: Adding Jobs on Edge of Austin, San Antonio Areas

New Braunfels is proof of that old saw about what matters in real estate—location, location, location.

With fast-growing San Antonio to the south and booming Austin to the north, New Braunfels and surrounding Comal County have been doing quite well in recent years.

County employment grew 6.4 percent in 2005 and 5.8 percent in 2006.

Besides strong job growth, Comal County also had a relatively high per capita income in 2005 of \$32,522, slightly above Texas’ \$32,460.

High-paying jobs in the surrounding metros help boost per capita income. Half of Comal’s residents work outside the county—similar to such communities as The Woodlands near Houston, Plano near Dallas and Georgetown near Austin.

Higher incomes usually reflect education. A third of county residents have at least a bachelor’s degree—7 percentage points above the state average. Nearly 90 percent of adults have at least a high school diploma, compared with 79 percent in Texas.

New Braunfels also appears attractive to retirees. A total of 13.3 percent of Comal County residents are over 64, exceeding the average of 12.1 percent for the nation and 9.6 percent for the state.

The New Braunfels area offers good schools and attractive Hill Country living, which should be magnets for additional commuters and retirees.

—Michelle Hahn



‘STAFF PAPER’: Exploring Links Between Globalization, Lower Inflation

Countries that are more open to the rest of the world tend to have lower inflation rates, a fact first documented in 1993. Subsequent research has proposed theories about why countries that trade more with the rest of the world tend to have better monetary policies.

In a Dallas Fed *Staff Paper*, “Openness and Inflation,” Mark Wynne and Erasmus Kersting expand the notion of openness beyond what has been included in most existing research—namely, trade in goods and services. They consider other dimensions of openness, such as cross-border flows of capital and labor.

Wynne and Kersting’s model shows the various ways

international economic integration may change the trade-off between economic growth and inflation.

The model suggests that the positive effect on employment from a given monetary expansion is smaller in more open economies, giving their central banks greater incentive to choose lower rates of money growth.

Globalization’s impact on monetary policy is difficult to judge because these forces are relatively new. The *Staff Paper*’s extension of a previous study suggests that foreign capacity utilization may be replacing domestic capacity utilization as a significant contributor to U.S. price pressures, but the findings are tentative.