

# Outlook for the Texas Economy



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## About this Report

Real Estate Center economists continuously monitor many facets of the global, national, and Texas economies. *Outlook for the Texas Economy* summarizes significant state economic activity and trends. All monthly measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.

This publication is designed to be a one-stop resource for economic indicators. We hope you find them as useful as we do. Your feedback is always appreciated. Send comments and suggestions to [info@recenter.tamu.edu](mailto:info@recenter.tamu.edu).

Dr. Luis Torres, Wesley Miller, and Bailey Cuadra

Data current as of July 6, 2017

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## May 2017 Summary<sup>1</sup>

The Texas economy advanced amid increased energy activity and a strong labor market. Oil production and the number of active Texas rigs increased, stimulating 6,600 new mining and logging jobs despite the price of oil falling to its lowest point this year. Single-family housing and nonresidential construction across the state supported higher construction values and created 3,400 construction jobs. These gains dragged down the statewide unemployment rate and sparked hourly wage increases. Overall, the Texas economy remained robust, but trade uncertainty (especially with Mexico), volatile energy prices, and tax policy uncertainty present potential headwinds.

The **Texas Business Cycle Index** (a measure of *current* economic activity in the state) increased 3.7 percent year-over-year, indicating continued economic expansion. The **major metro Business Cycle Indices** indicated similar year-over-year growth throughout the Texas Urban Triangle. Economic activity accelerated for the fifth straight month in Houston, solidifying its recent economic recovery. The Dallas and Fort Worth indices posted the strongest growth, increasing at a quarterly annualized rate of 3.7 percent and 3.3 percent, respectively.

The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) flattened but maintained positive year-over-year growth. The overall health of the Texas economy balanced the index against falling oil prices. The **Texas Consumer Confidence Index** declined by more than 8.0 percent for the second consecutive month, eliminating all of its post-election gains. Stagnant wages weighed on Texans' confidence but have hardly impacted consumption spending.

Multiple components generated interest rate fluctuations in May. In the beginning of the month, European political anxiety waned, elevating the **ten-year U.S. Treasury bond yield** to a peak of 2.42 percent. However, tensions in Washington, D.C., offset this increase and dragged the yield to a monthly average of 2.3 percent. The **Federal Home Loan Mortgage Corporation 30-year fixed-rate** fell to 4.0 percent, despite the Fed's 25-basis-point increase in the federal funds rate. Lower interest rates could ignite stronger demand and simultaneously stimulate residential construction.

**Texas housing sales** increased 8.7 percent (seasonally adjusted) after dipping last month. Current construction activity, measured by the **Residential Business Cycle (Coincident) Index**, was steady as construction worker wages and employment increased. The **Residential Construction Leading Index (RCLI)** flattened after large increases earlier this year, indicating a stabilization at the current level of activity. (For additional housing commentary and statistics, see [Texas Housing Insight](#) at [recenter.tamu.edu](http://recenter.tamu.edu).)

The average **West Texas Intermediate crude oil spot price** fell to a nonseasonally adjusted six-month low of \$48.48 despite OPEC's extended production cuts. Booming U.S. production continued to offset OPEC's market rebalancing measures. The number of **active rigs** in Texas increased 153.1

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<sup>1</sup> All monthly measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.

percent year-over-year to 453<sup>2</sup>, and **crude oil production** rose above 3.3 million bpd<sup>2,3</sup>. The **Henry Hub spot price of natural gas** rose to \$3.2 per million BTU<sup>2</sup> (British thermal units) despite saturated inventories. Increased oil drilling, which produces natural gas as a byproduct, contributed to a global natural gas glut. The Energy Information Administration predicts the U.S. will be a net exporter of natural gas by 2018—the first time in nearly 60 years. Texas remained the largest gas-producing state, accounting for 23.7 percent of national production.

Texas **monthly nonfarm employment** added 14,800 jobs and kept pace to reach the Dallas Fed's 2017 forecast of 289,300 new jobs. The statewide **unemployment rate** fell from 5.0 percent to 4.8 percent but at the expense of a labor force contraction. The statewide **labor force participation rate** fell for the first time this year, dropping to 63.9 percent but maintained positive year-over-year growth. Despite this blip, the number of **initial unemployment insurance claims** remained at pre-recessionary levels, reinforcing the labor market's strength.

The unemployment rate fell in every major Texas MSA for the second straight month. Austin boasted the lowest rate at 3.4 percent, followed by San Antonio at 3.9 percent. Dallas and Fort Worth both settled at 4.0 percent, while Houston experienced a three-point drop to 5.4 percent. This downward trend, concurrent with recent employment growth, indicates labor force expansions throughout the major metros.

Dallas and Fort Worth led employment growth, adding 13,700 and 5,200 jobs, respectively. The number of jobs was unchanged in Austin and fell by 100 in San Antonio. Houston employment growth rose for the ninth consecutive month, supported primarily by an upswing in manufacturing and leisure/hospitality industries. Houston added over 37,000 jobs year-to-date, more than doubling the 2016 annual increase.

The goods-producing sector accounted for 80 percent of Texas nonfarm employment growth. The mining and logging subsector led the charge with 6,600 new jobs, while manufacturing posted a 1,800-job increase. The **manufacturing employment percentage** surged in Houston and Austin, reaching double-digit annualized growth quarter-over-quarter. The **Texas Manufacturing Outlook Survey** corroborated the industry expansion, as the production index hit a three-year high. The hours worked and wage indices jumped 9.8 percent and 5.5 percent, respectively, and expectations soared even higher.

Construction activity accelerated, generating nearly a quarter of May's nonfarm employment growth. Statewide **construction values** rose 11.5 percent on a three-month moving average (3MMA) as single-family and nonresidential construction advanced. Population growth stimulated construction activity as new hospitals in Austin, Dallas, and San Antonio drove up construction values. Dallas benefitted from major investments in multifamily duplex and steady growth in single-

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<sup>2</sup> Non-seasonally adjusted.

<sup>3</sup> Crude oil production data lag this report by one month.

family residential construction. In Houston, major increases in retail, warehouses and office buildings elevated construction values.

Texas' services-providing sector returned to flat growth, ticking up less than a tenth of a percent. The financial sector added 3,000 jobs, led by gains in Houston and Austin, but statewide declines in education and health care negated most of the growth. In contrast, the **Texas Service Sector Outlook Survey** was increasingly optimistic. Increased sales activity elevated the employment and wage indices, but respondents noted frustrations regarding burdensome taxes and regulations impeding potential growth.

Retailers expressed less optimism in **Texas Retail Outlook** as the retail sales and business activity indices decelerated. The employment- and hours-worked indices dipped below zero, and part-time employment increased, suggesting business could be slowing. The hard data confirm retail labor market struggles, where over 18,000 jobs were lost statewide since February. However, decreased optimism contradicts the steady upward trend in actual **retail sales**<sup>4</sup>.

Despite low levels of unemployment, Texas **real personal income per capita** contracted 0.4 percent year-over-year, falling further behind the national level. However, recent increases in wages and salaries, particularly in energy-related industries, suggest a possible convergence. **Total private employee hourly earnings** in Texas rose 2.9 percent year-to-date and showed no signs of slowing. Wage growth was apparent in San Antonio, where hourly earnings increased 2.0 percent from last year, while Austin posted 1.0 percent year-over-year growth. Only recently have earnings picked up in Dallas, where the hourly rate increased 2.8 percent since February. Despite strong employment growth, falling wages continued to plague the Houston and Fort Worth economies, where hourly earnings declined 1.8 percent and 2.2 percent year-over-year, respectively.

Texas manufacturing jobs paid an 11.2 percent premium in hourly earnings relative to the national average. Fort Worth had the highest manufacturing wages, paying 65.6 percent and 49.0 percent more than the national and statewide averages, respectively. Manufacturing earnings surged in San Antonio, where the hourly wage increased 18.0 percent from last year but remained 8.4 percent below the Texas average.

The **U.S. Consumer Price Index (CPI)** fell below the Fed's 2.0 percent benchmark amid a 6.4 percent drop in gasoline prices. The core inflation rate, which excludes the often-volatile energy and food sectors, rose marginally at 0.1 percent. The CPI for Dallas fell to 2.1 percent as food, beverage, and apparel prices offset transportation and housing price inflation. The Federal Reserve considered falling prices to be transitory and remained on track to further raise the federal funds rate.

The real goods trade deficit decreased 1.6 percent as U.S. commodity export growth outpaced import growth by \$1.0 billion. **Total Texas commodity** and **manufacturing exports** increased 2.5

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<sup>4</sup> The Federal Reserve Bank of Dallas seasonally adjusts Texas nominal retail sales data, and the data release typically lags the Outlook for the Texas Economy by one month. The series is converted into real terms using the Consumer Price Index.

percent and 4.0 percent, respectively, led by computer and electronic product sales. The **Texas trade-weighted value of the dollar**<sup>5</sup> fell 5.1 percent year-to-date, providing favorable export conditions. Mexico remained Texas' main trading partner, accounting for 36.4 percent of Texas exports year-to-date.

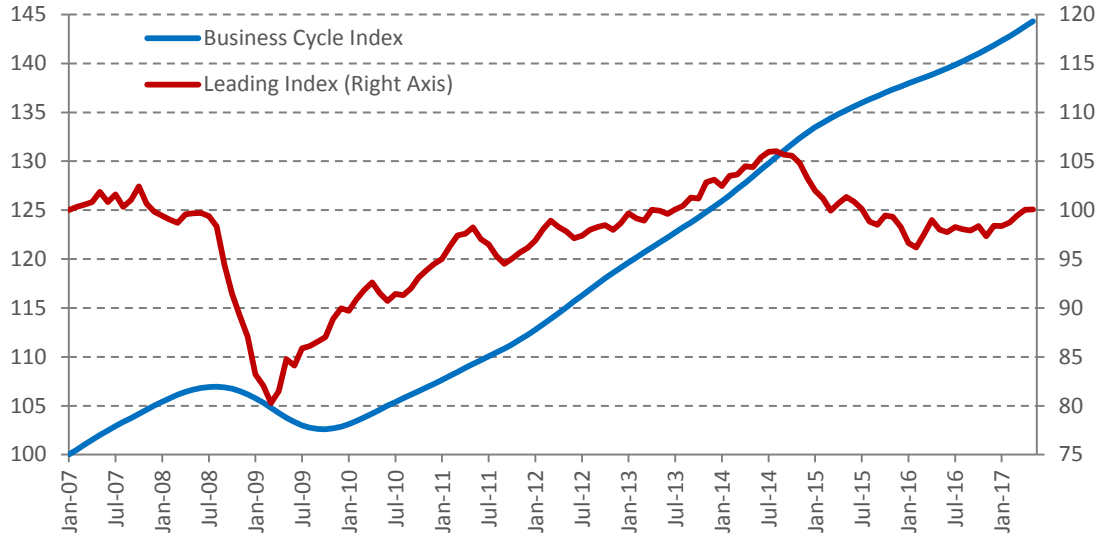
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<sup>5</sup> The Texas trade-weighted value of the dollar is generated by the Federal Reserve Bank of Dallas. Its release typically lags the Outlook for the Texas Economy by one month.



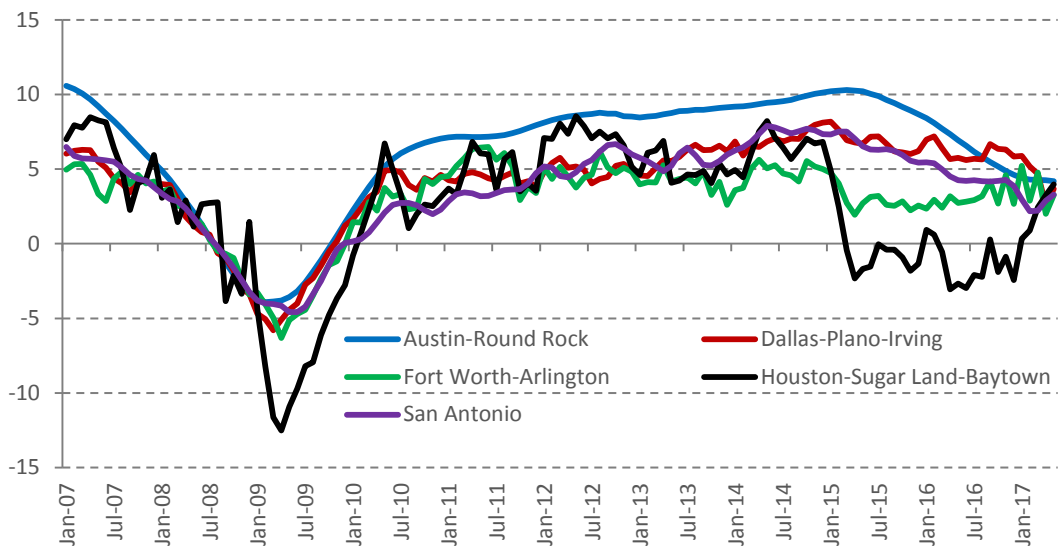
## Economic Activity

**Texas Business Cycle Index and Leading Index**  
(Index Jan 2007 = 100)



Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).  
Source: Federal Reserve Bank of Dallas

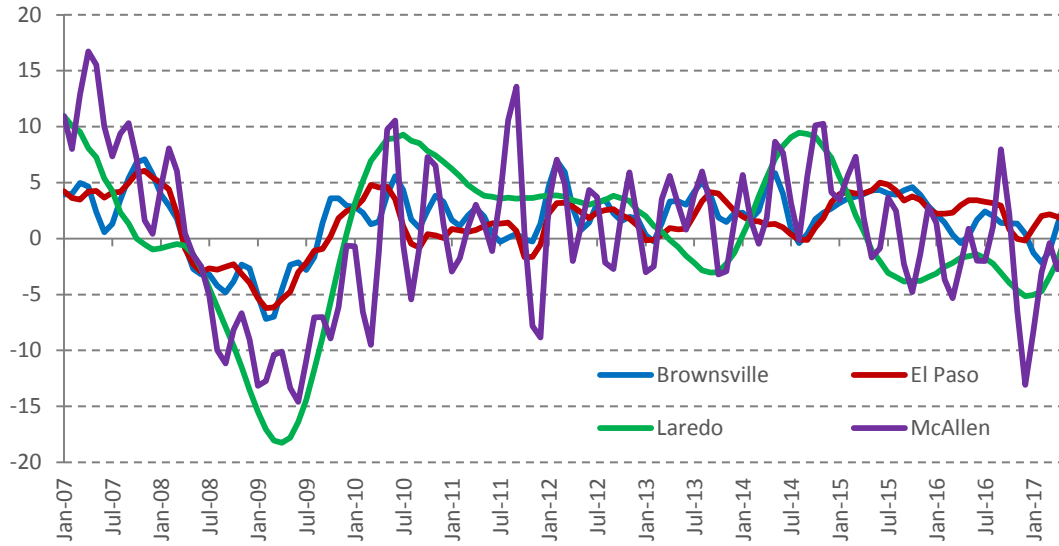
**Major Metros Business Cycle Index**  
(Quarter-over-Quarter Percent Change)



Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).  
Source: Federal Reserve Bank of Dallas

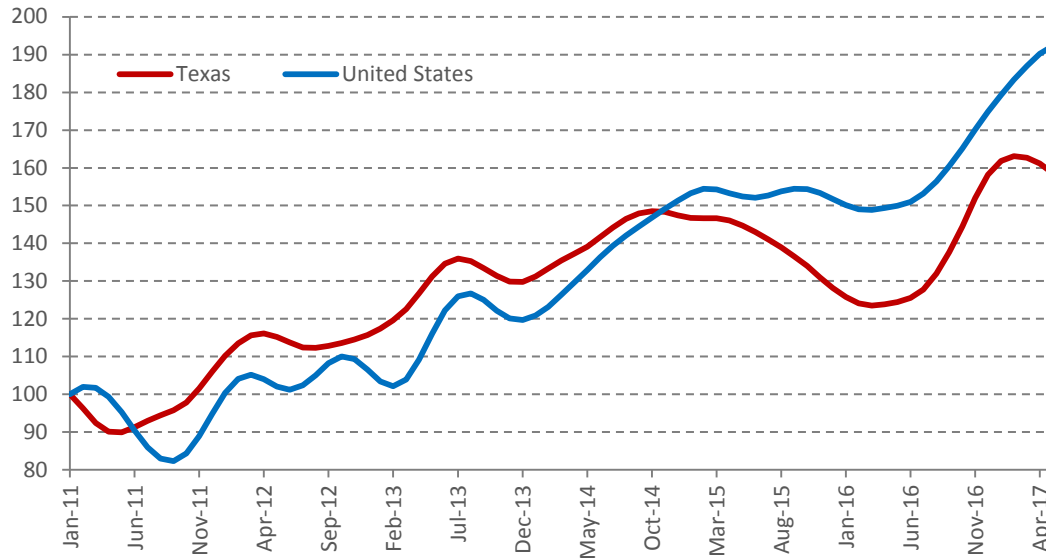


**Border Metros Business Cycle Index**  
(Quarter-over-Quarter Percent Change)



Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).  
Source: Federal Reserve Bank of Dallas

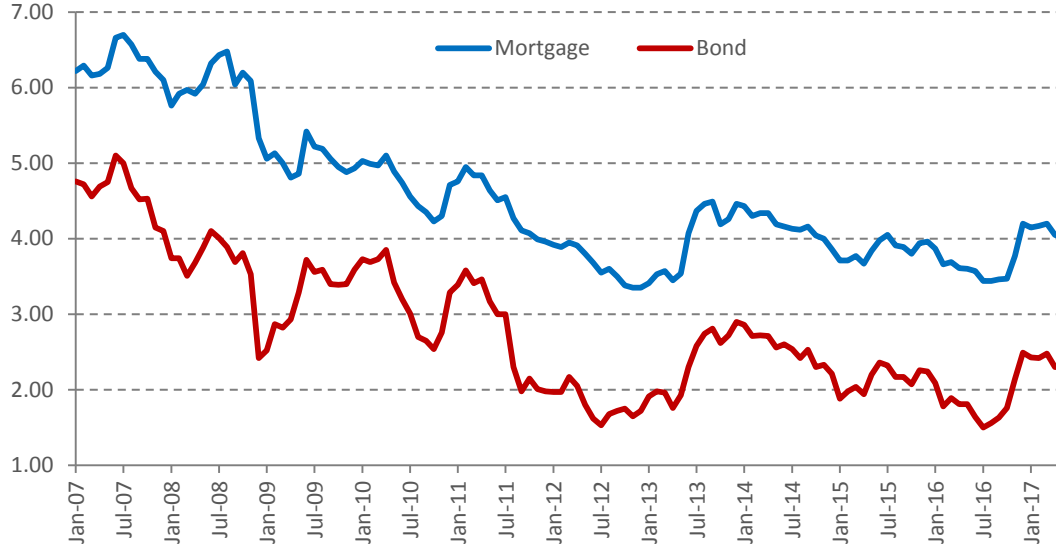
**Consumer Confidence Index**  
(Index Jan 2007 = 100)



Note: Seasonally adjusted and detrended.  
Source: Conference Board

## Financial Activity

**30-Year Mortgage Rate and 10-Year Bond Yield  
(Percent)**

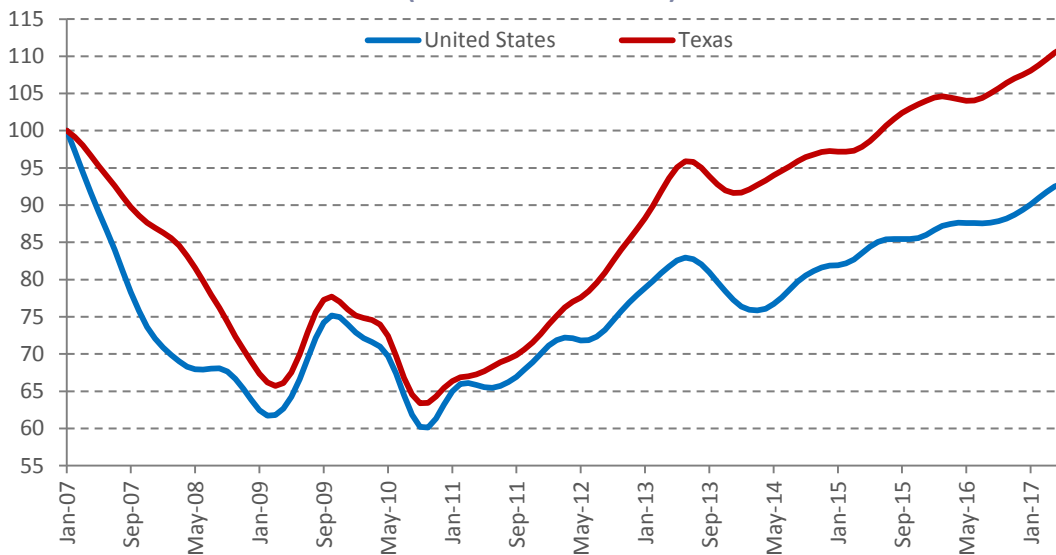


Note: Seasonally adjusted.

Source: Federal Home Loan Mortgage Corporation and Federal Reserve Board

## Housing

**Housing Sales  
(Index Jan 2007 = 100)**



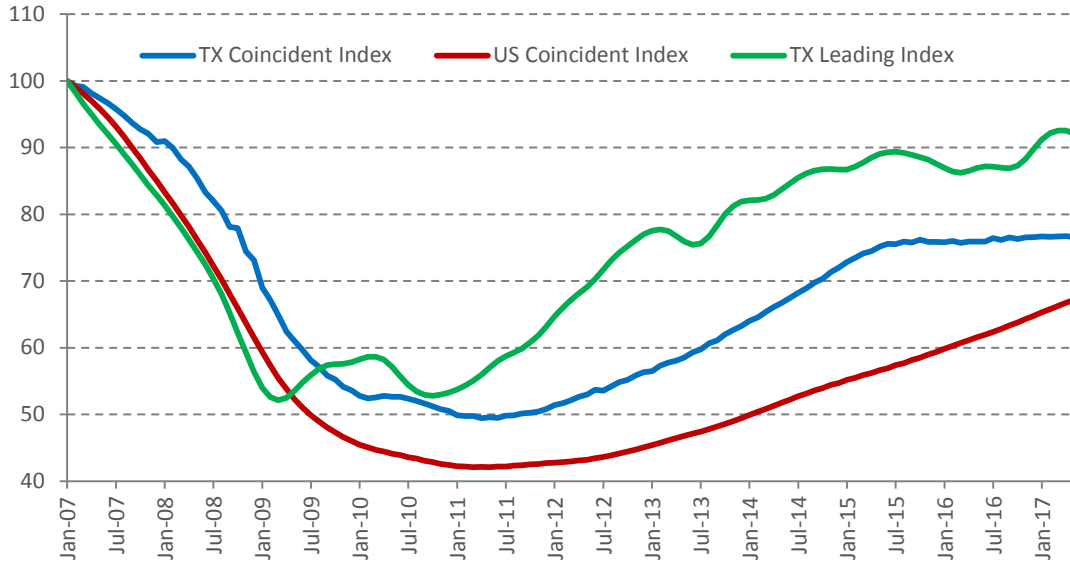
Note: Seasonally adjusted and detrended. Sales for the United States include all existing homes and new single-family homes; new non-single-family homes are not included. Texas includes all existing and new homes.

For more information, see [Housing Sales](#).

Sources: U.S. Census Bureau, National Association of Realtors, and Real Estate Center at Texas A&M University

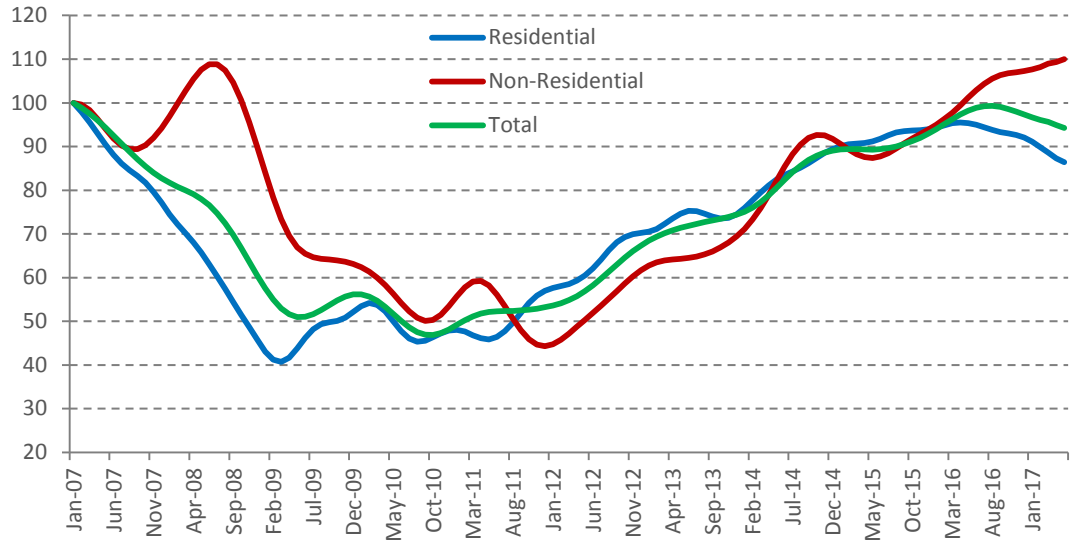


### Residential Construction Coincident and Leading Indicator (Index Jan 2007 = 100)



Note: Seasonally adjusted and detrended.  
Source: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas

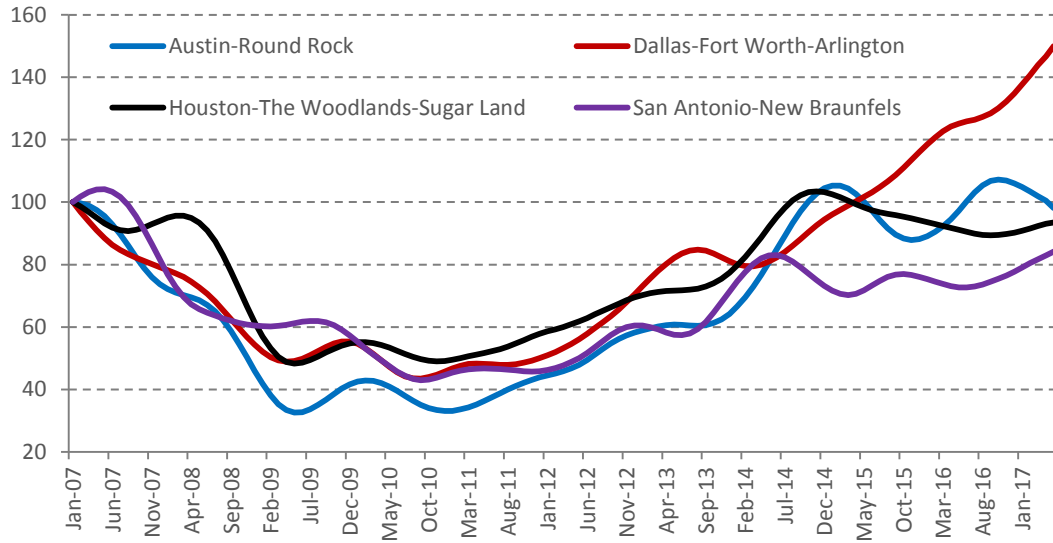
### Texas Construction Values (Index Jan 2007 = 100)



Note: Real values are seasonally adjusted and detrended.  
Source: Dodge Analytics

### Major Metros Total Construction Values

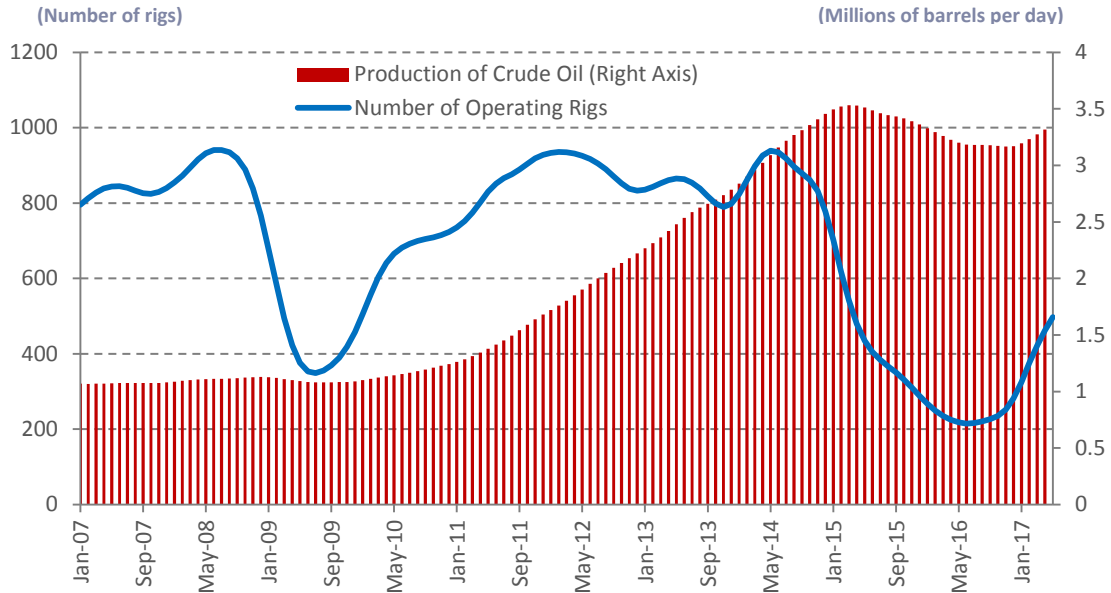
(Index Jan 2007 = 100)



Note: Real values are seasonally adjusted and detrended.  
Source: Dodge Analytics

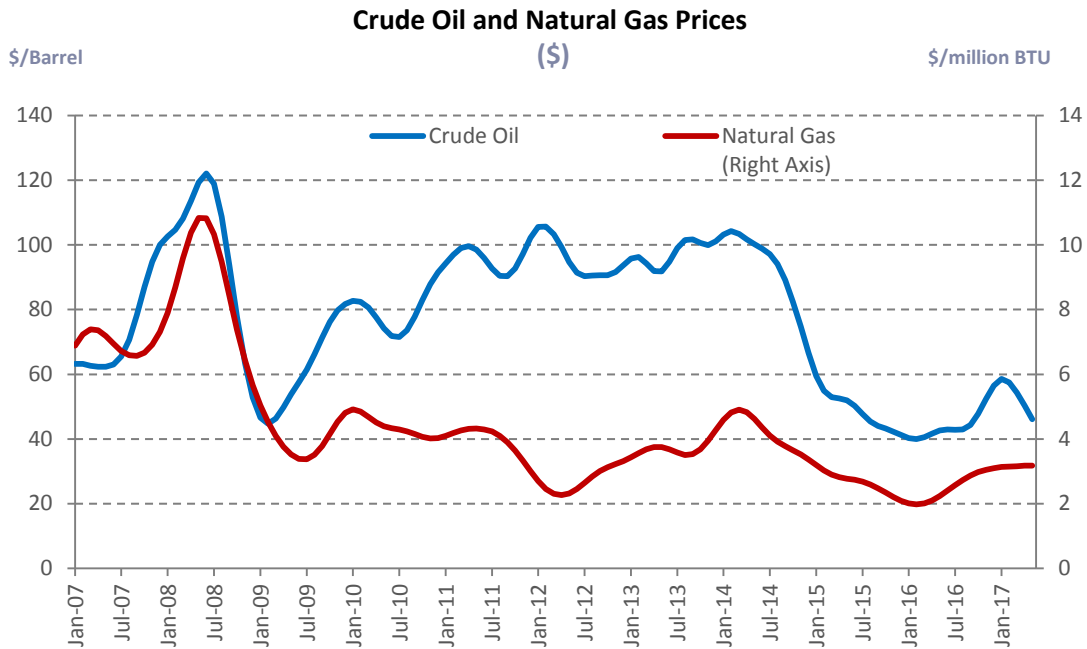
### Energy

#### Texas Production of Crude Oil and Rig Count



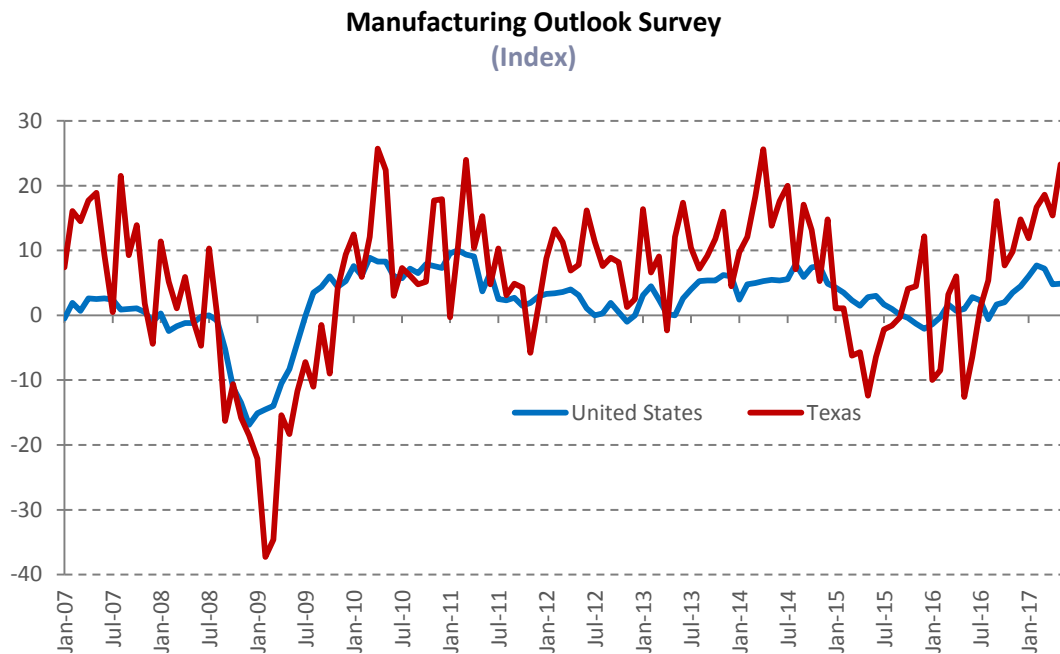
Note: Seasonally adjusted and detrended.  
For more information, see [Texas Production of Crude Oil and Rig Count](#).  
Sources: Baker Hughes and U.S. Energy Information Administration





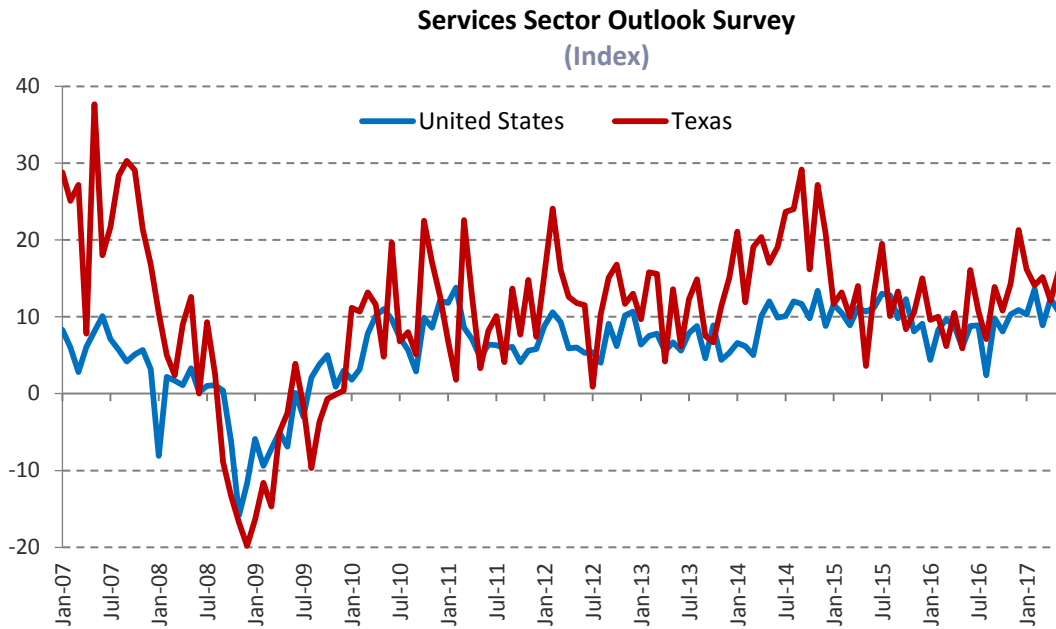
Note: Seasonally adjusted and detrended.  
 For more information, see [Crude Oil and Natural Gas Prices](#).  
 Source: U.S. Energy Information Administration received from Thomson Reuters

## Manufacturing



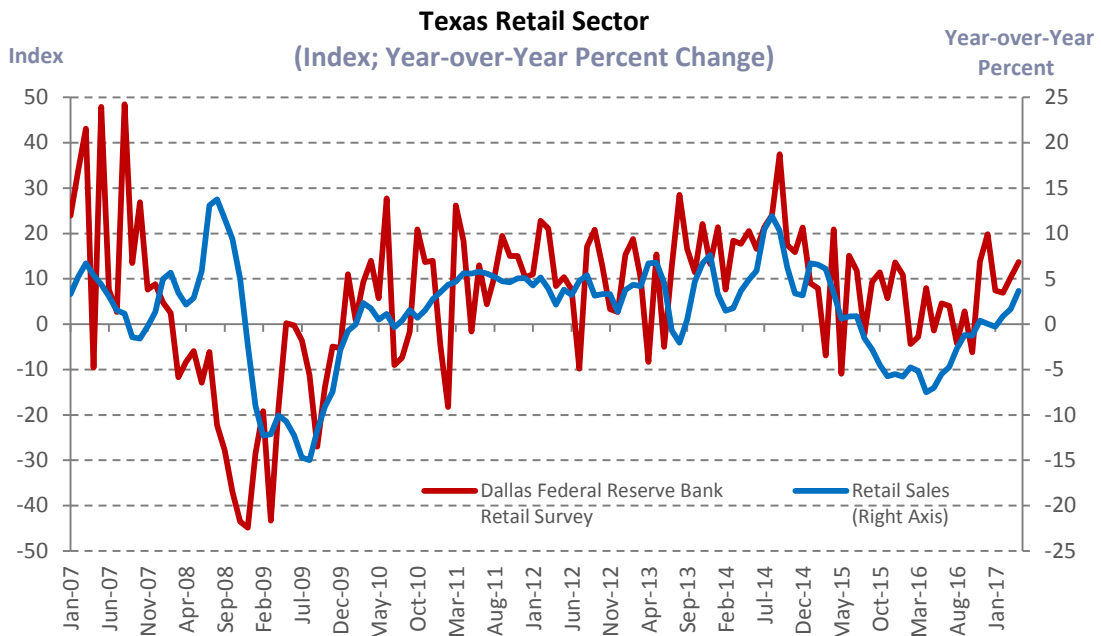
Note: Seasonally adjusted. For more information, see [Manufacturing Outlook Survey](#).  
 Sources: Federal Reserve Bank of Dallas and Institute for Supply Management. United States index is adjusted -50 to be on scale with Texas index.

## Services



Note: Seasonally adjusted. For more information, see [Services Sector Outlook Survey](#).

Sources: Federal Reserve Bank of Dallas and Institute for Supply Management. United States index is adjusted -50 to be on scale with Texas index.



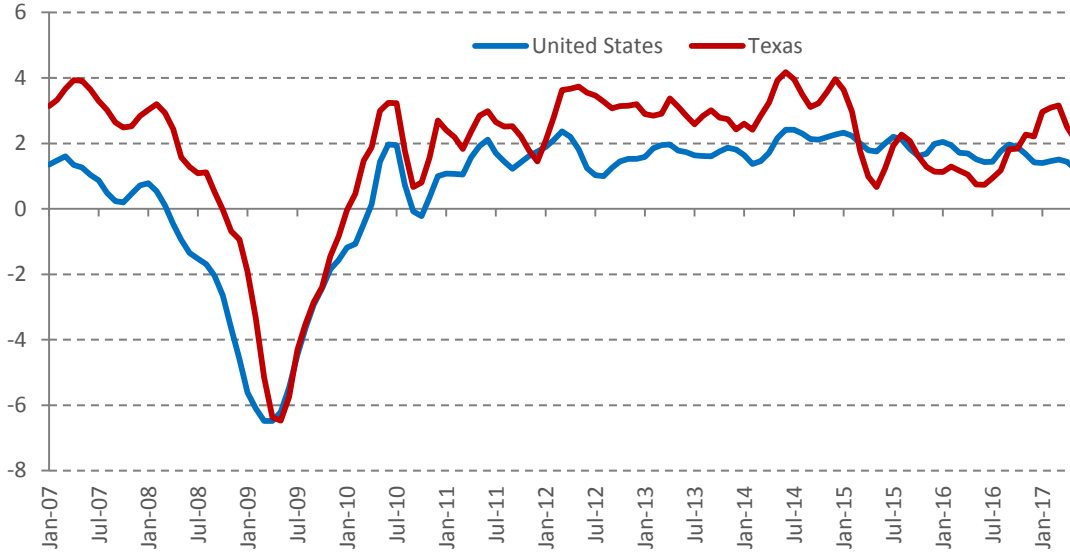
Note: Seasonally adjusted and inflation adjusted. For more information, see [Texas Retail Sector](#).

Sources: Retail Sector Outlook Survey from the Federal Reserve Bank of Dallas, Retail Sales from Texas Comptroller of Public Accounts



## Employment

**Employment Growth Rate**  
(Quarter-over-Quarter Annualized Percent Change)

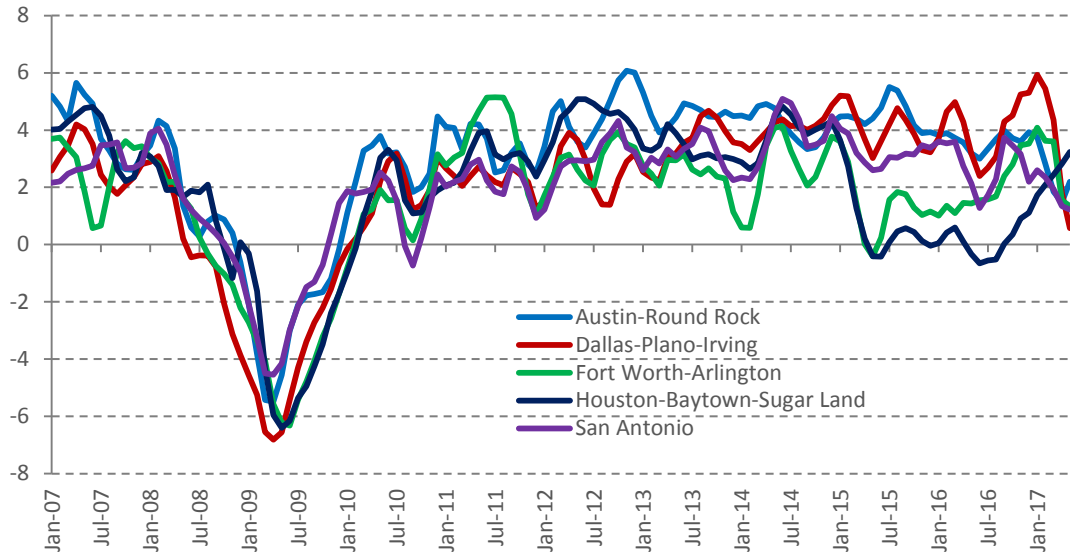


Note: Seasonally adjusted, 3-month moving average. May 2017 is preliminary.

For more information, see [Employment Growth Rate](#).

Source: Bureau of Labor Statistics

**Major Metros Employment Growth Rate**  
(Quarter-over-Quarter Annualized Percent Change)



Note: Seasonally adjusted, 3-month moving average. May 2017 is preliminary.

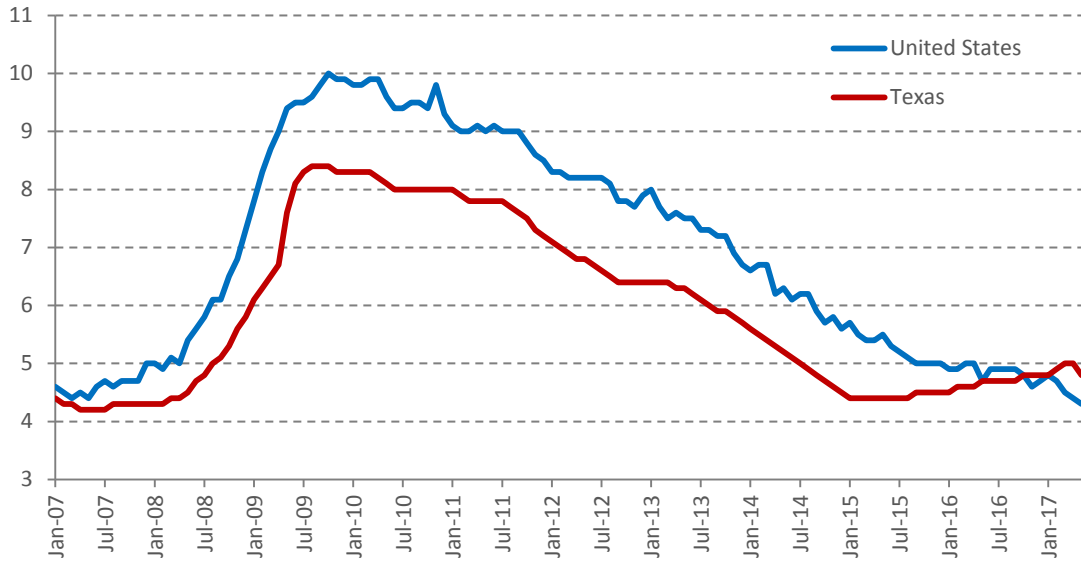
For more information, see [Employment Growth Rate](#).

Source: Bureau of Labor Statistics



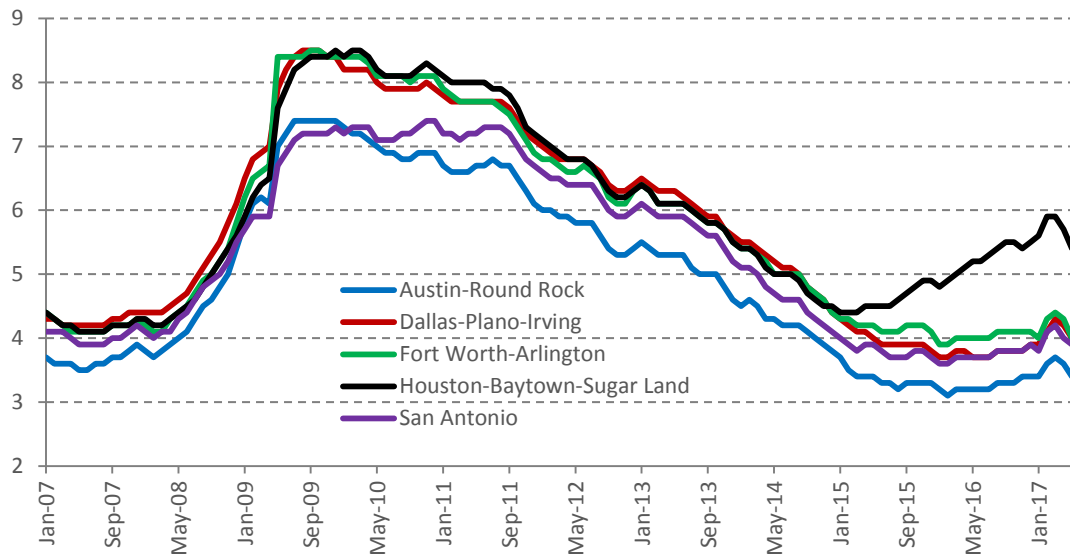


### Unemployment Rate (Percent)



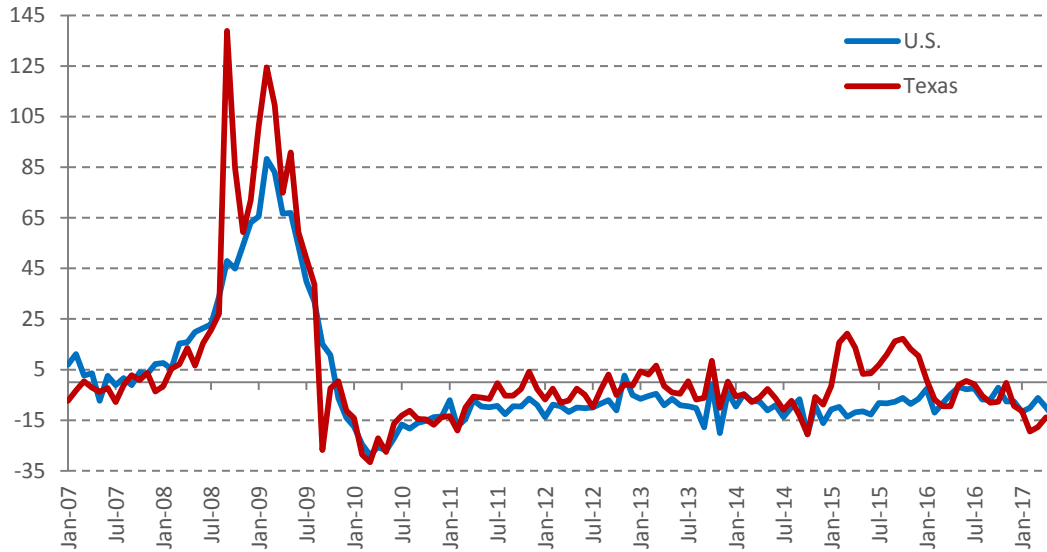
Note: Seasonally adjusted. May 2017 is preliminary. For more information, see [Unemployment Rate](#).  
Source: Bureau of Labor Statistics

### Major Metros Unemployment Rate (Percent)



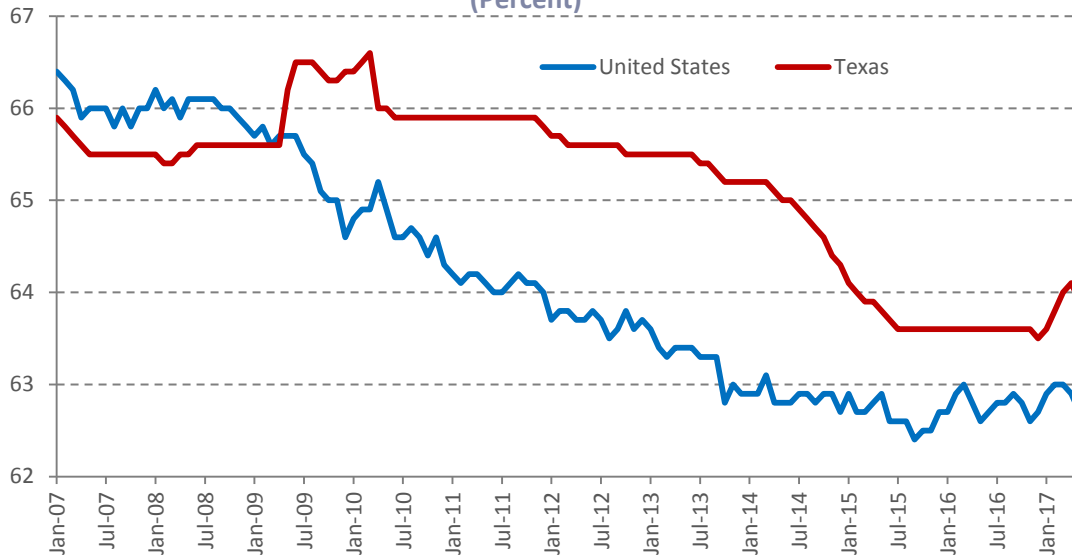
Note: Seasonally adjusted. May 2017 is preliminary. For more information, see [Unemployment Rate](#).  
Sources: Bureau of Labor Statistics and Real Estate Center at Texas A&M University

### Unemployment Insurance Claims: Initial Applications (Year-over-Year Percentage Change)



Note: Seasonally adjusted. For more information, see [Unemployment Insurance Claims: Initial Applications](#).  
Source: Department of Labor

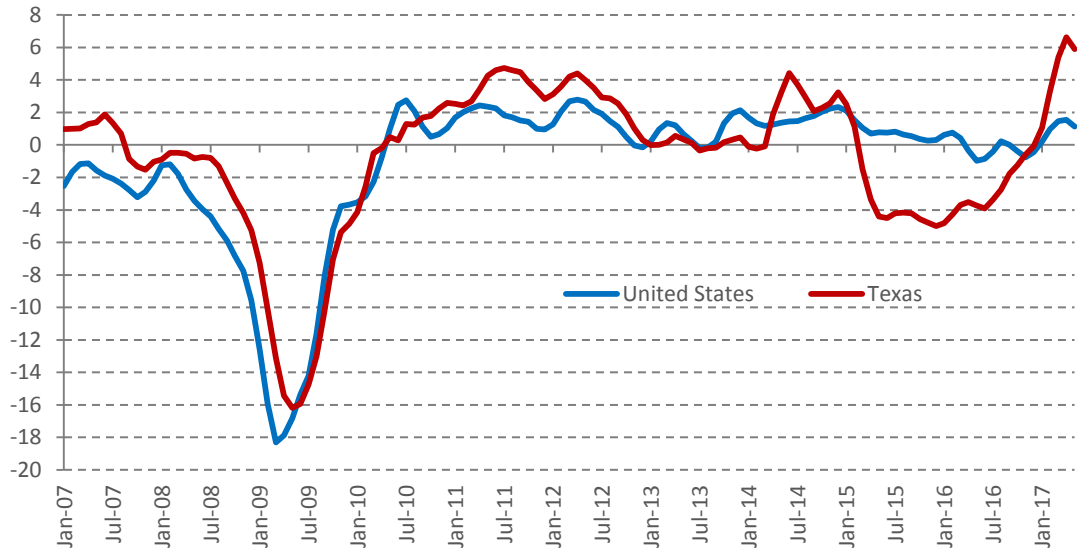
### Labor Force Participation Rate (Percent)



Note: Seasonally adjusted. For more information, see [Unemployment Rate](#).  
Source: Bureau of Labor Statistics

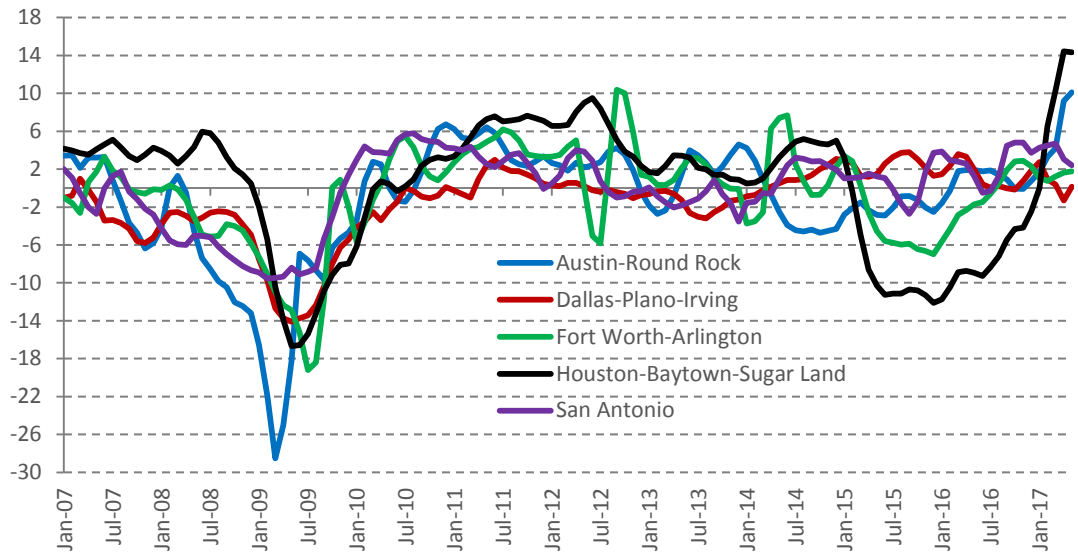


### Manufacturing Employment (Quarter-over-Quarter Percent Change)



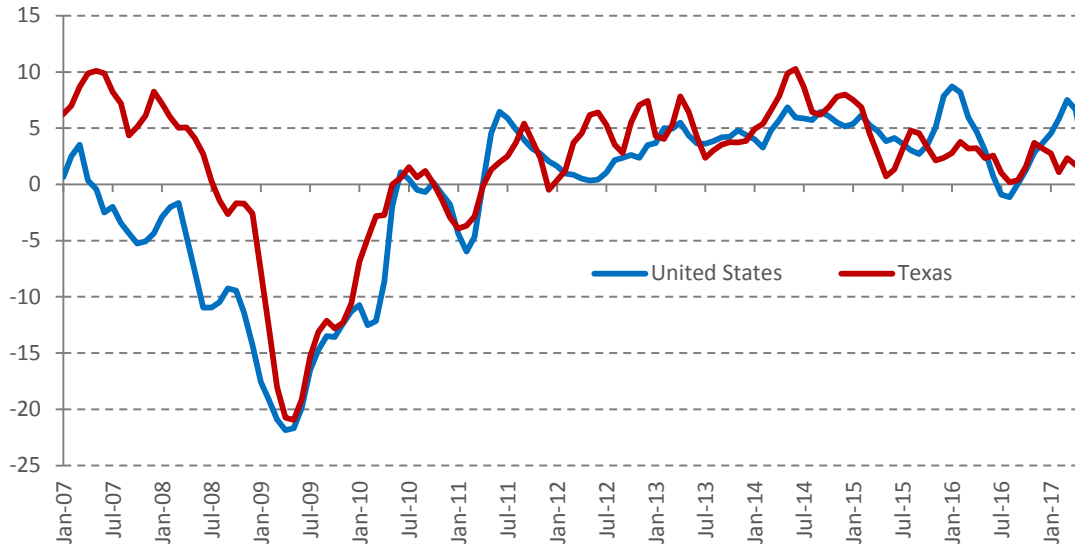
Note: Seasonally adjusted, 3-month moving average. May 2017 is preliminary.  
 For more information, see [Employment Growth Rate](#).  
 Source: Bureau of Labor Statistics

### Major Metros Manufacturing Employment (Quarter-over-Quarter Percent Change)



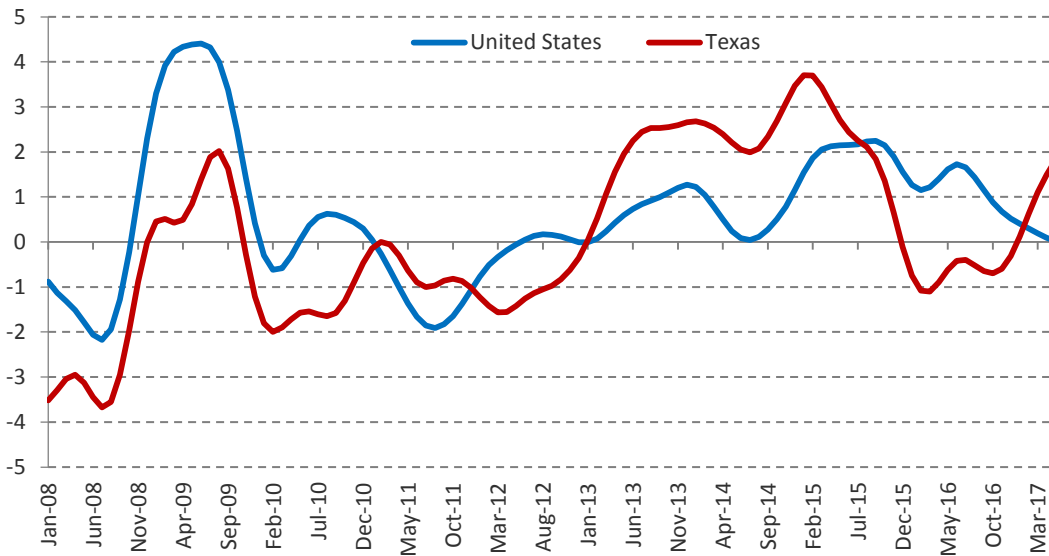
Note: Seasonally adjusted, 3-month moving average. May 2017 is preliminary.  
 For more information, see [Employment Growth Rate](#).  
 Source: Bureau of Labor Statistics

### Construction Employment (Quarter-over-Quarter Percent Change)



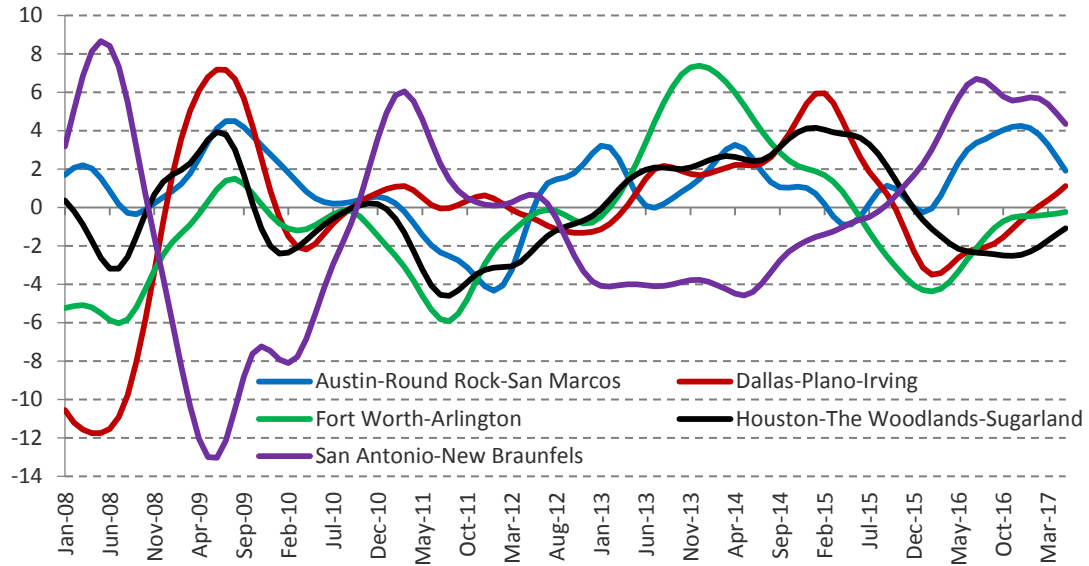
Note: Seasonally adjusted, 3-month moving average. May 2017 is preliminary.  
 For more information, see [Employment Growth Rate](#).  
 Source: Bureau of Labor Statistics

### Total Private Employee Hourly Earnings (Year-over-Year Percent Change)



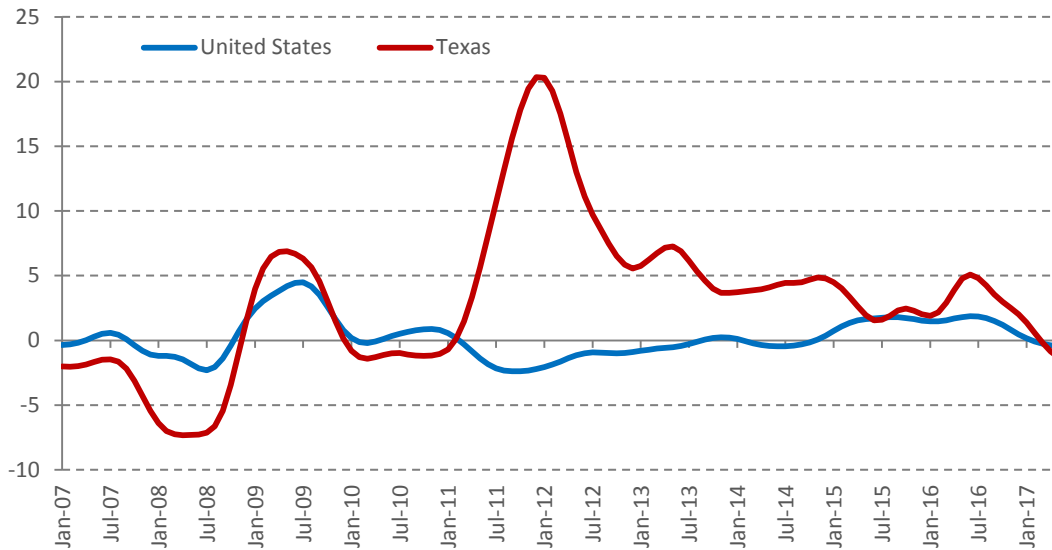
Notes: Inflation adjusted, seasonally adjusted and detrended. May 2017 is preliminary.  
 For more information, see [Total Private Employee Hourly Earnings](#).  
 Source: Bureau of Labor Statistics

### Major Metros Total Private Employee Hourly Earnings (Year-over-Year Percent Change)



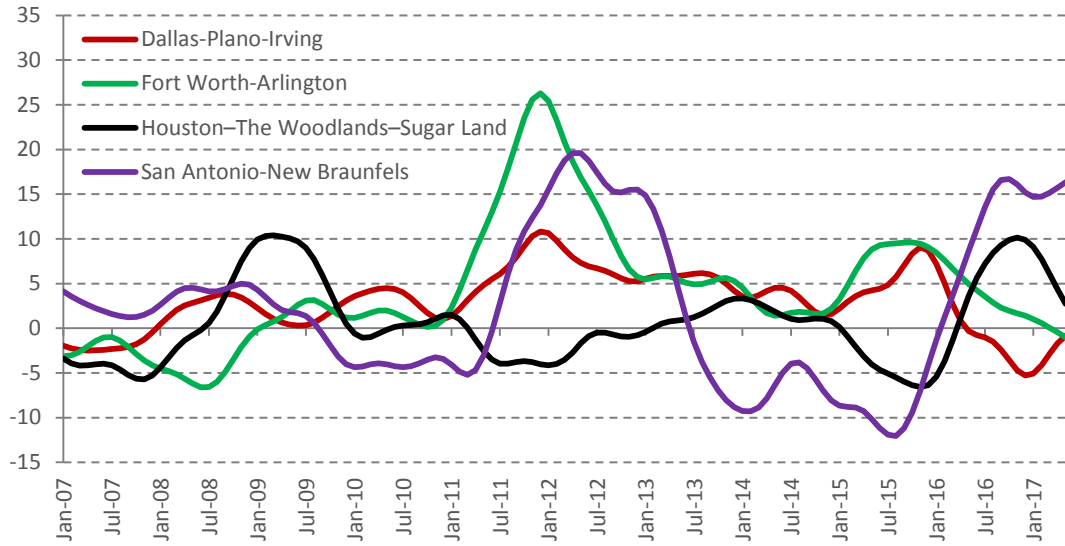
Notes: Inflation adjusted, seasonally adjusted and detrended. May 2017 is preliminary.  
For more information, see [Total Private Employee Hourly Earnings](#).  
Source: Bureau of Labor Statistics

### Manufacturing Employee Hourly Earnings (Year-over-Year Percent Change)



Notes: Seasonally adjusted and detrended. Inflation adjusted. May 2017 is preliminary.  
For more information, see [Total Private Employee Hourly Earnings](#).  
Source: Bureau of Labor Statistics

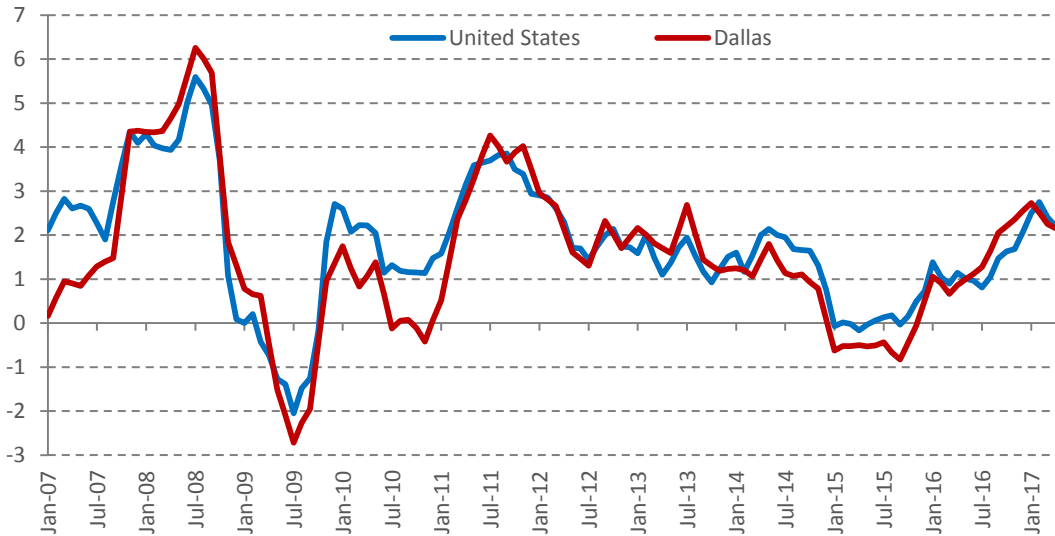
### Major Metros Manufacturing Employee Hourly Earnings (Year-over-Year Percent Change)



Notes: Seasonally adjusted and detrended. Inflation adjusted. May 2017 is preliminary.  
For more information, see [Total Private Employee Hourly Earnings](#).  
Source: Bureau of Labor Statistic

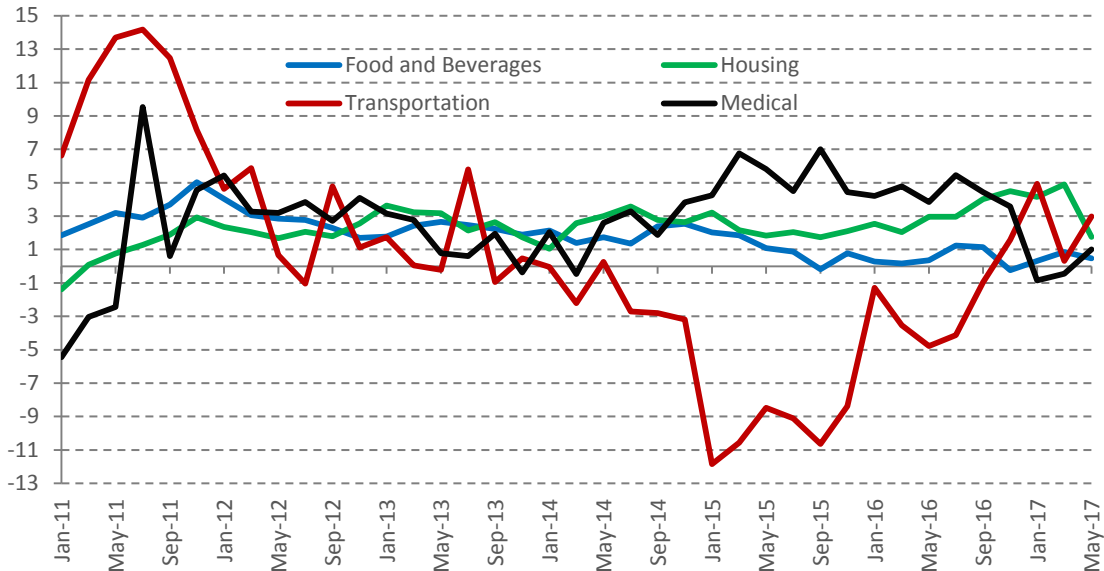
### Prices

#### CPI Inflation Rates (Year-over-Year Percent Change)



Note: Seasonally adjusted. For more information, see [CPI Inflation Rates](#).  
Source: Bureau of Labor Statistics

### CPI Inflation Rates (Dallas Components) (Year-over-Year Percent Change)

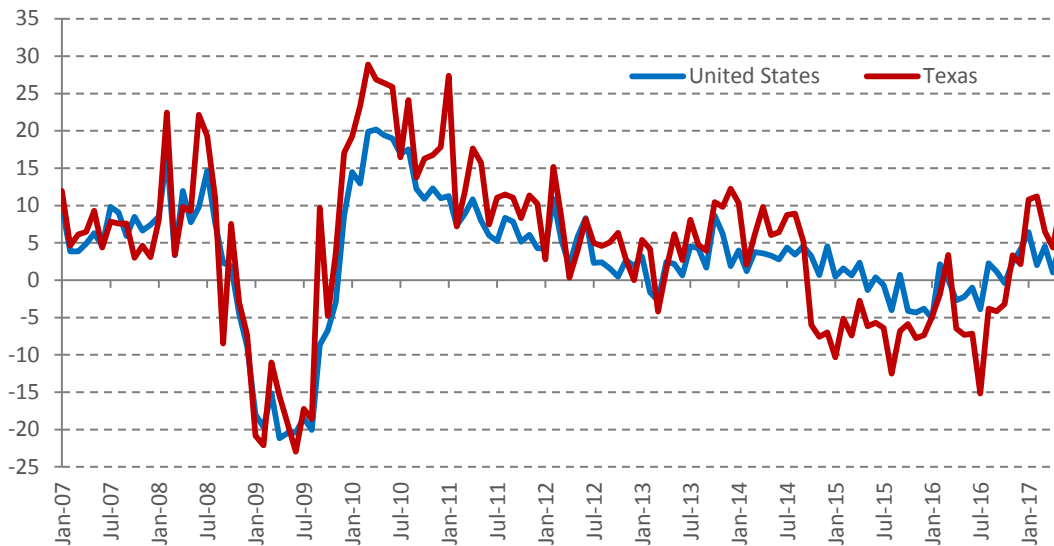


Note: The Dallas CPI is composed of the following major groups: Food and Beverages, Housing, Apparel, Transportation, Medical Care, Recreation, Education and Communication, and Other Goods and Services. The four major components are included in the graph above. For more information, see [CPI Inflation Rates](#).

Source: Bureau of Labor Statistics

## Trade

### Exports (All Commodities) (Year-over-Year Percent Change)

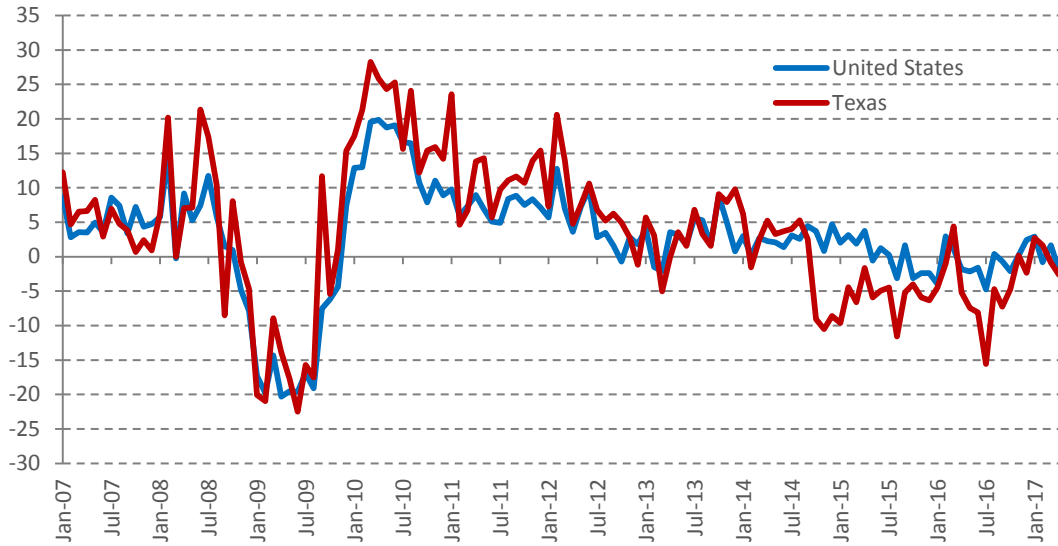


Note: Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see [Exports](#).

Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau

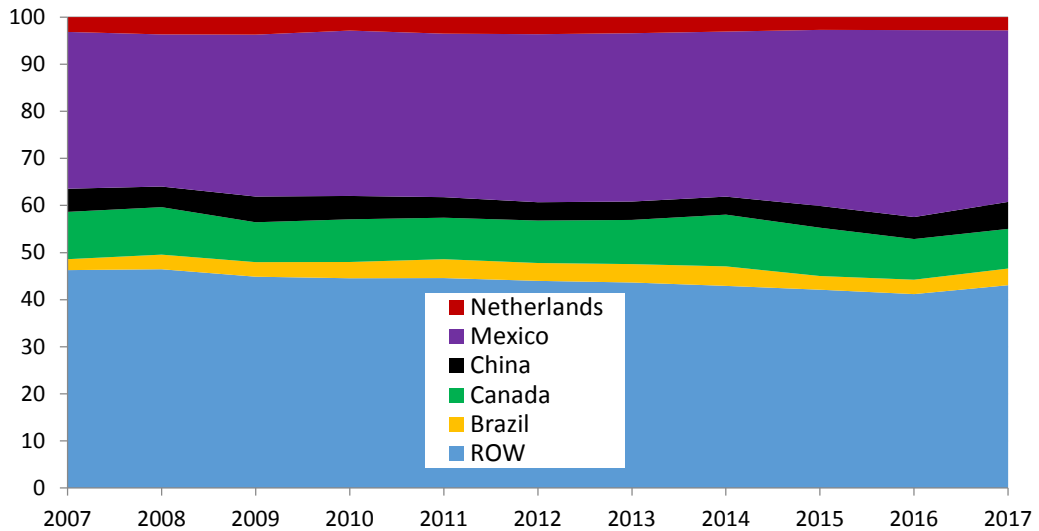


### Manufacturing Exports (Year-over-Year Percent Change)



Note: Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see [Manufacturing Exports](#).  
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau

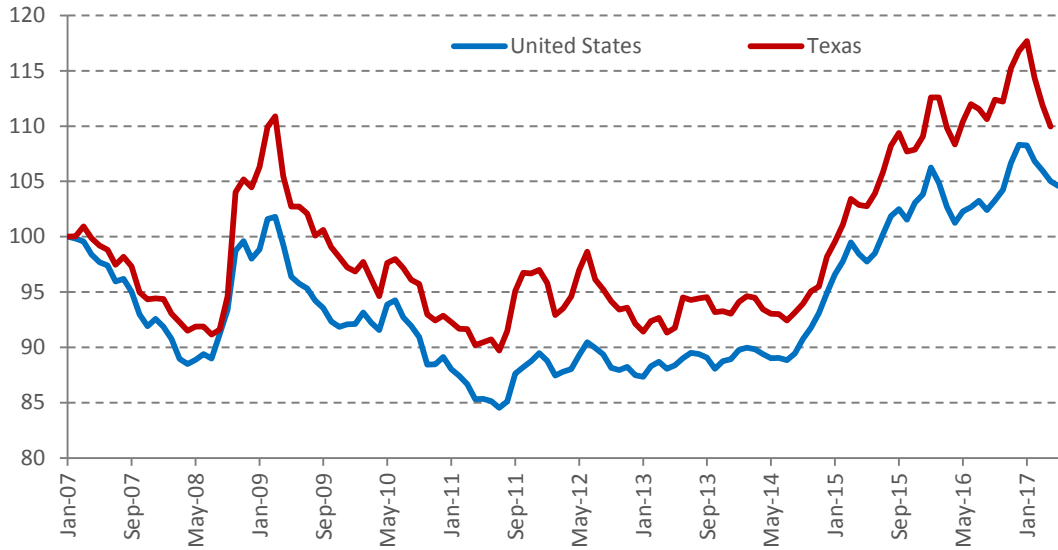
### Texas Exports by Country (Percent)



Note: For more information, see [Exports](#).  
Sources: International Trade Administration, Foreign Trade Division, and U.S. Census Bureau



**Real Trade Weighted Value of U.S. Dollar**  
(Index January 2007 = 100)



Note: For more information, see [Real Trade Weighted Value of U.S. Dollar](#).  
Sources: Federal Reserve Bank of Dallas and Federal Reserve Bank of St. Louis





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