

Outlook for the Texas Economy



LUIS TORRES
RESEARCH ECONOMIST

WESLEY MILLER
RESEARCH ASSOCIATE

BAILEY CUADRA
RESEARCH ASSISTANT



REAL ESTATE CENTER
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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.

Dr. Luis Torres, Wesley Miller, and Bailey Cuadra

Data current as of December 5, 2017

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October 2017 Summary¹

The Texas economy advanced as Houston's recovery continued, and the price of oil reached an eight-month high. Rebounds in leisure-hospitality and accommodation-food services pushed monthly employment growth above 71,000 new jobs. The statewide unemployment rate fell to a record low 3.9 percent but failed to significantly boost wages. Gulf Coast rebuilding efforts supported the construction industry, generating rapid job creation and increased construction values. A combination of higher oil prices and declines in the Texas trade-weighted value of the dollar boosted crude oil exports to record levels. Potential headwinds to the Texas economy include energy price volatility and trade uncertainty, especially with Mexico.

Recently released 2Q17 **gross state product** data for Texas indicated 6.2 percent quarterly annualized growth amid accelerated activity in mining, manufacturing, and real estate. The economic expansion continued through the third quarter as the **Texas Business Cycle Index** (a measure of current economic activity in the state) posted over 5 percent quarterly annualized growth in each of the past three months. The Austin and San Antonio indices surpassed the state level at 7.2 and 5.7 percent quarterly annualized, respectively, after solid job gains and falling unemployment. Similarly, the Dallas index accelerated above 5 percent for the first time this year, while Fort Worth slowed slightly to 3.6 percent growth. Hurricane recovery efforts stabilized the Houston index after contracting 5.5 percent in the previous month.

The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) inched forward as growth in the U.S. leading index and higher oil prices outweighed a slowdown in monthly well permits issued. The **Texas Consumer Confidence Index** flattened after taking a double digit hit from Hurricane Harvey in the previous month but should trend upward as the economic expansion advances.

Interest rates elevated after the U.S. Senate approved a budget resolution, opening the door for tax reform. The potential deficit increase resulting from tax breaks would expand the number of bonds issued, weighing on the price of existing debt. If tax cuts sufficiently stimulate economic activity, it could attract investors away from bonds in favor of riskier assets. Yields received an extra boost after the release of the Federal Reserve Board minutes, indicating a high likelihood of raising the federal funds rate in December. As a result, the **ten-year U.S. Treasury bond yield** rebounded from a year-to-date (YTD) low last month, reaching 2.36 percent. The **Federal Home Loan Mortgage Corporation 30-year fixed-rate** also reversed its downward trend, reaching 3.9 percent after slipping in the third quarter.

Texas housing sales expanded across the state despite shortages of homes priced under \$300,000. Current residential construction activity, measured by the **Residential Construction Cycle (Coincident) Index**, flattened as industry employment gains offset falling construction values.

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

However, rebounds in weighted building permits and housing starts accelerated the Texas **Residential Construction Leading Index** for the first time since March, signaling increased activity in upcoming months. (For additional housing commentary and statistics, see [Texas Housing Insight](#) at recenter.tamu.edu.)

The average **West Texas intermediate crude oil spot price** increased to \$51.58², the highest since February, driven by geopolitical tension in the Middle East and hopes of extended OPEC production cuts. Despite the number of **active rigs** in Texas falling to 442², **crude oil production** rebounded 6.0 percent amid rising well completions. Increased shale activity could counter OPEC supply cuts, thereby hindering upward oil price momentum. The **Henry Hub natural gas spot price** fell to \$2.88 per million BTU² (British thermal unit) despite decreased global supply, a trend that could continue amid predictions of a colder-than-average winter in the northern United States.

Texas **monthly nonfarm employment** added 71,500 jobs as Houston landed back on its feet after two months of hurricane-related payroll declines. The Texas **unemployment rate** dipped to a record low 3.9 percent as labor markets tightened across the state. In Austin, the unemployment rate fell to 2.7 percent, the lowest since 1999. Unemployment fell to 3.2 percent in both Dallas and Fort Worth, while settling at 3.0 percent in San Antonio. Houston unemployment persisted above the state level at 4.4 percent, still well below its historical average. Revised data revealed a surge in **initial unemployment insurance claims** in Texas through September, rather than the large drop reported last month. However, the series shifted to more typical levels, falling 29.6 percent this month and should decline even further as the Houston economy recovers. Despite the tightening labor market, the **Texas labor force participation rate** remained at a historically low 63.0 percent.

This month's payroll expansion occurred primarily in Houston, where recoveries in the leisure and hospitality industry as well as retail trade led to 27,300 total new jobs. Dallas added jobs in both goods-producing and service-providing sectors, elevating its 2017 job creation total to 41,500. San Antonio maintained the largest YTD job growth rate at 2.3 percent, adding over 2,300 jobs in each of the past five months. Austin and Fort Worth added 3,000 and 2,500 jobs, respectively, as growth in leisure and hospitality offset goods-producing employment contractions.

Statewide, the service-providing sector more than recovered the 15,800 jobs lost in August and September. The leisure and hospitality subsector led the charge with 34,700 jobs created, followed by accommodation and food services with 30,000. The **Texas Service Sector Outlook Survey** corroborated these trends as the wages and benefits, hours worked, and employment indices elevated. Increases in the revenue and service sector outlook indices reflected improved conditions after the hurricane.

The retail industry fared similarly well, recovering nearly a third of the 25,100 jobs lost between February and September. The **Texas Retail Outlook Survey** employment indices indicated job

² Nonseasonally adjusted.

growth but slightly lower wage pressures. Despite approaching the holiday season, retailer optimism and future outlook decelerated.

The goods-producing sector maintained its steady expansion, adding 6,800 jobs and pushing the YTD total above 84,000. Supported by higher oil prices, Texas ranked second nationally in year-over-year (YOY) employment growth in mining and logging at 16.9 percent, adding 3,200 in October. The construction industry created 4,500 jobs amid rebuilding efforts around the Gulf Coast, pushing annualized growth to 3.1 percent, nearly twice the national rate. The **total value of Texas construction** increased for the first time on a three-month moving average since May, led by investment in stores, restaurants, offices, and bank buildings. Residential construction values remained negative, but single-family home building ticked upward.

Texas manufacturing employment growth slowed from 5.4 to 4.1 percent annualized quarterly, shedding 900 jobs this month. Dallas posted the highest manufacturing growth rate at 8.0 percent, reaching a 20-year high after lackluster performance over the past two years. Fort Worth maintained 7.7 percent growth, thereby contributing to the robustness of the manufacturing industry in North Texas. Austin's manufacturing growth rate accelerated to 4.8 percent after stagnating late this summer, while growth in San Antonio decelerated to 2.6 percent. The Houston annualized employment growth rate fell to -2.3 percent, a drastic slide from double-digit positive readings between April and July. Houston has lost over 4,000 durable-goods manufacturing jobs since August, all of which should recover as economic conditions normalize.

The **Texas Manufacturing Outlook Survey** confirmed the overall industry expansion, indicating increased activity and demand. The production index extended its positive trend to 16 months, and over 30 percent of respondents reported improved business activity. The hours worked and wage indices slowed, supporting recent labor market adjustments in manufacturing, particularly along the Gulf Coast. Respondents mentioned prolonged supply chain disruptions from the hurricane and subsequent flooding but remained optimistic for the fourth quarter.

Despite low unemployment levels, employee compensation remained relatively mute throughout the state. **Real Texas private hourly earnings** hovered around 1.9 percent YTD after sliding in August and September. Wages fell 1.1 and 2.2 percent YOY in Fort Worth and Houston, respectively. Hourly earnings rose 0.8 percent in Austin—barely above last year's level. Wage growth was more favorable in Dallas and San Antonio, rising 2.4 and 2.1 YOY, respectively.

While Texas wages lagged the national level by \$0.40, Texas *manufacturing* jobs paid an 11.3 percent premium in hourly earnings relative to U.S. average. Fort Worth had the highest manufacturing wages, paying 48.2 percent more than the statewide average but were flat on the year. Manufacturing earnings fell 1.2 percent in Houston amid production process disruptions. San Antonio remained the outlier for wage growth, rising 14.7 percent YTD while remaining 19.5 percent below the Texas average.

The **U.S. Consumer Price Index (CPI)** fell to 2.0 percent YOY after hurricane-related energy price spikes calmed. The core inflation rate, which excludes the often-volatile energy and food sectors,

increased 1.8 percent YOY, indicating upward price pressure. Prices remained elevated in Houston as the local CPI rose 2.3 percent YOY, the highest since 2014. Gasoline and medical care expenses rose over 4.5 YOY, accounting for most of the Houston inflation.

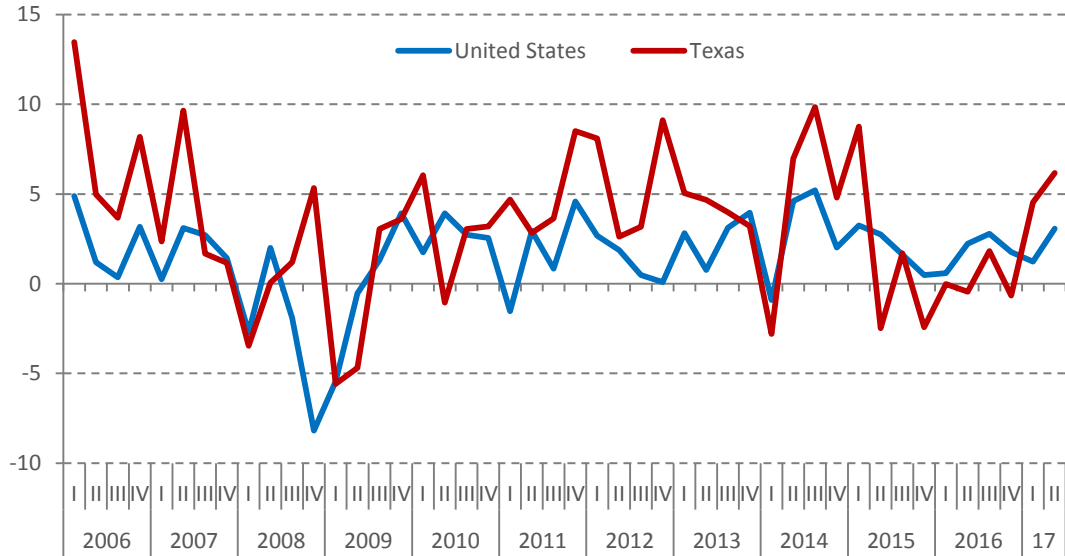
The U.S. real goods trade deficit increased by \$3.1 billion to \$65.3 billion as commodity imports rose and exports flattened. **Total Texas commodity and manufacturing exports** surged 11.2 percent and 10.7 percent, respectively, as petroleum exports returned to pre-Harvey levels. **Texas crude oil exports** continued to hit record highs, rising 15.8 percent amid higher oil prices. Furthermore, the **Texas trade-weighted value of the dollar**³ fell 10.3 percent YTD, thereby increasing the attractiveness of Texas goods and services to foreign consumers.

Strong global economic growth and the falling value of the dollar will likely support upward trending export growth throughout the next two quarters. Mexico, Texas' largest trade partner, received more than a third of September exports but slowed economically in recent months. NAFTA renegotiations and the potential of a Mexican recession remained potential headwinds to Texas-Mexico trade activity.

³ 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.

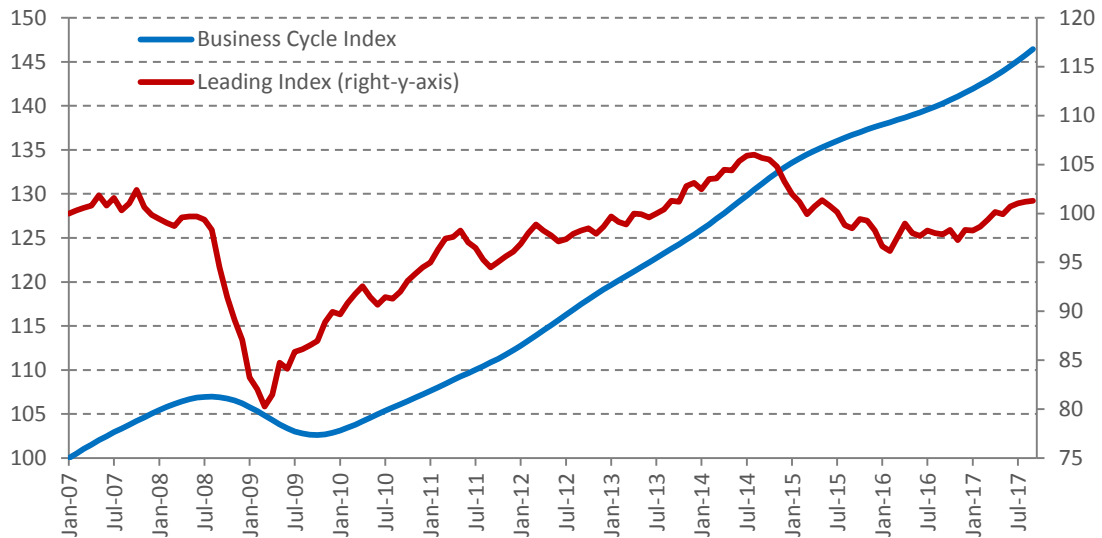
Economic Activity

Gross State Product
(Quarter-over-Quarter Percent Change)



Note: Seasonally adjusted annualized rate. For more information, see [Real GDP Growth](#).
Source: Bureau of Economic Analysis

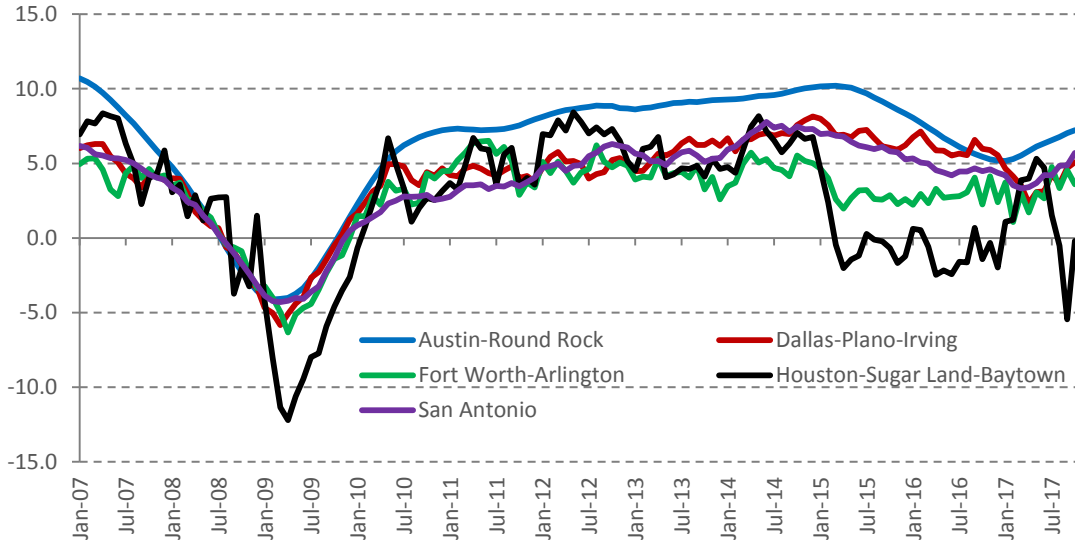
Texas Business Cycle Index and Leading Index
(Index Jan 2007 = 100)



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

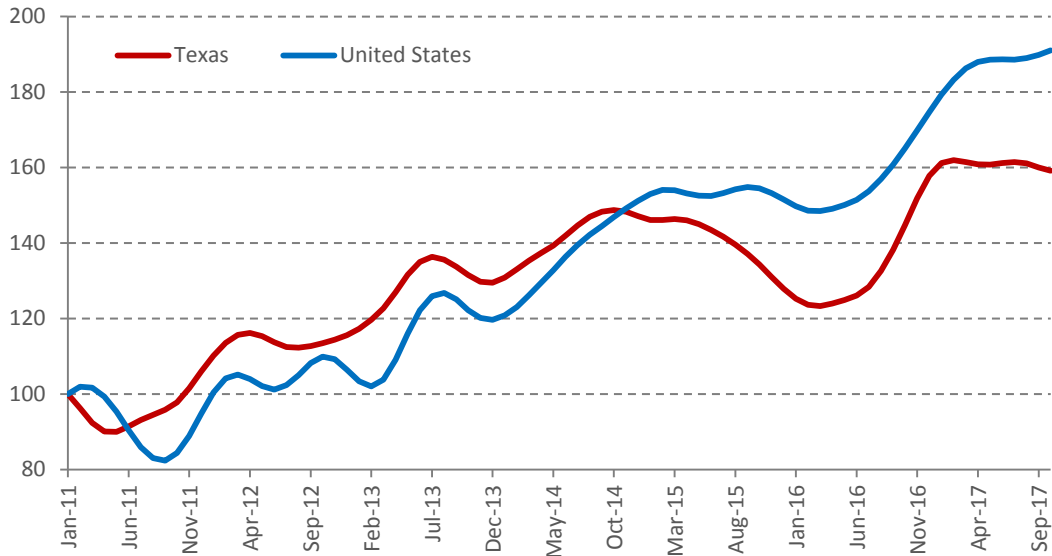


Major Metros Business Cycle Index
(Quarter-over-Quarter Percent Change)



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

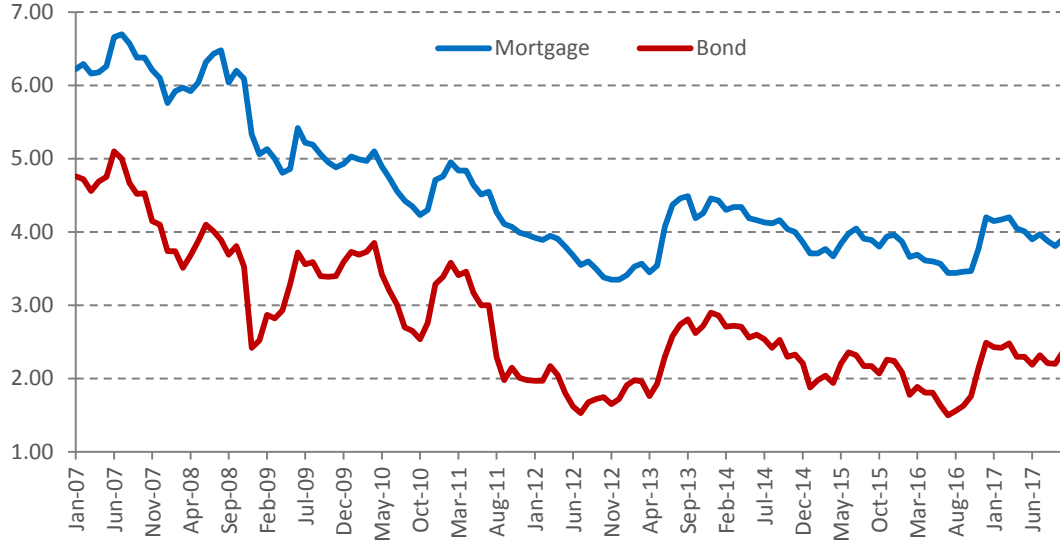
Consumer Confidence Index
(Index Jan 2011 = 100)



Note: Seasonally adjusted and detrended.
Source: Conference Board

Financial Activity

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

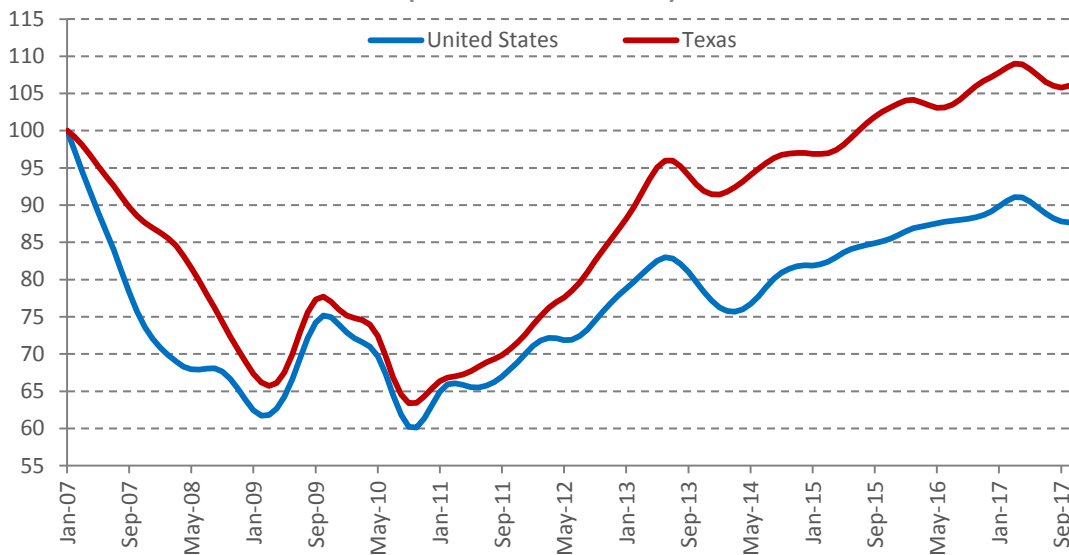


Note: Seasonally adjusted.

Sources: Federal Home Loan Mortgage Corporation and Federal Reserve Board

Housing

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



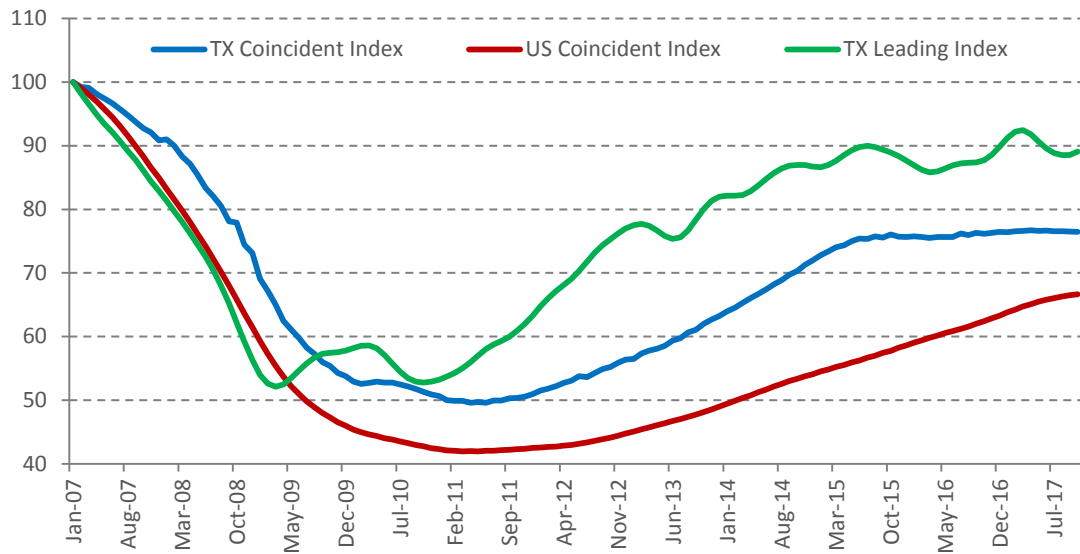
Note: Seasonally adjusted and detrended. Sales for the United States include all existing homes and new single-family homes; new non-single-family homes are not included. Texas includes all existing and new homes.

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

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

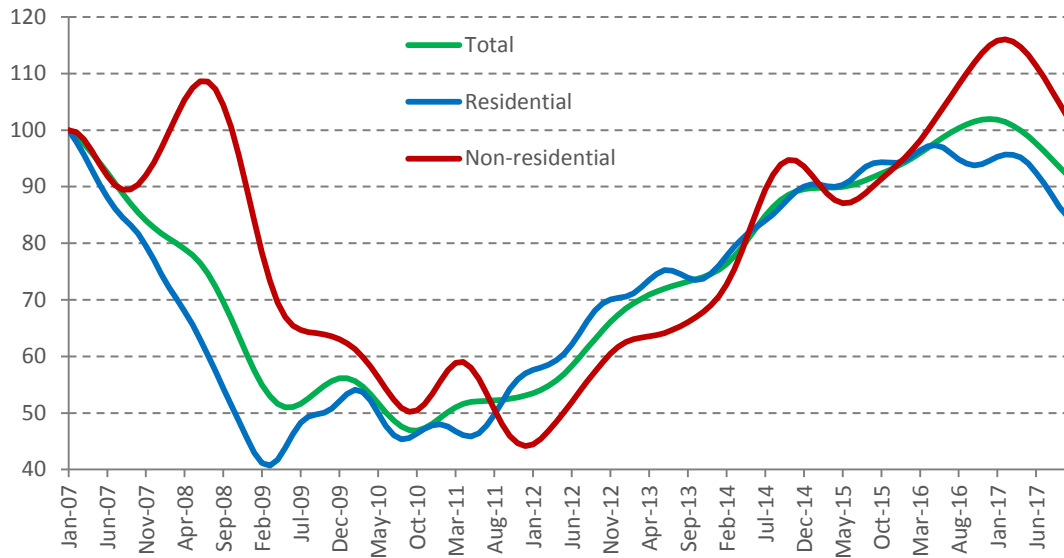


Residential Construction Coincident and Leading Indicator
(Index Jan 2007 = 100)



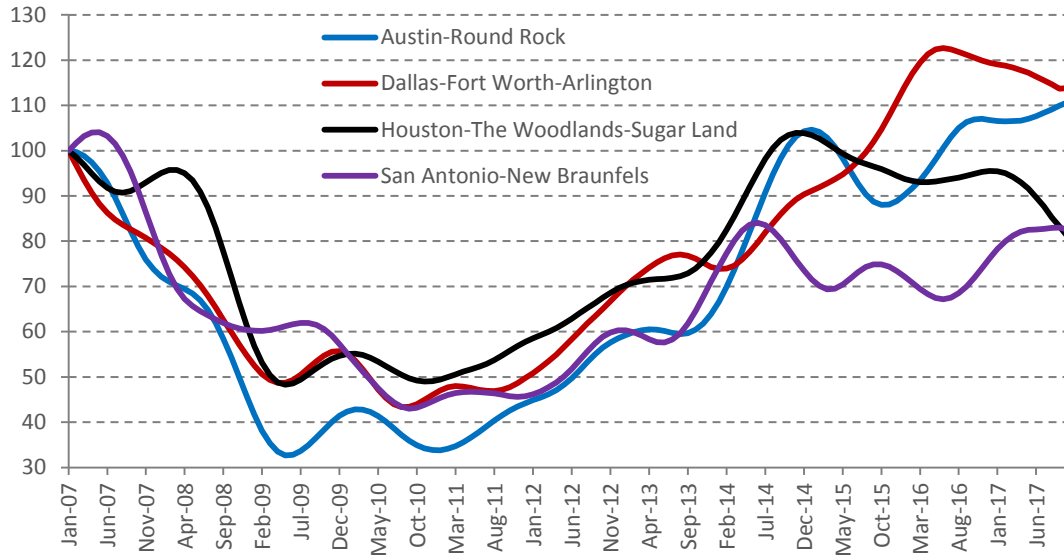
Note: Seasonally adjusted and detrended.
Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas

Texas Construction Values
(Index Jan 2007 = 100)



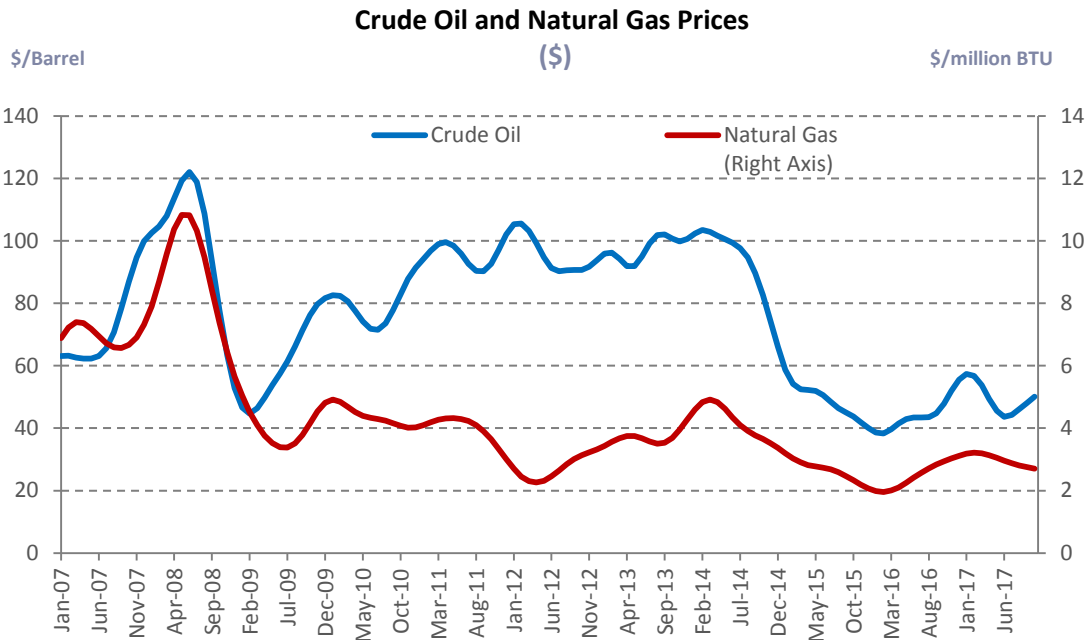
Note: Real values are seasonally adjusted and detrended.
Source: Dodge Analytics

Major Metros Total Construction Values (Index Jan 2007 = 100)



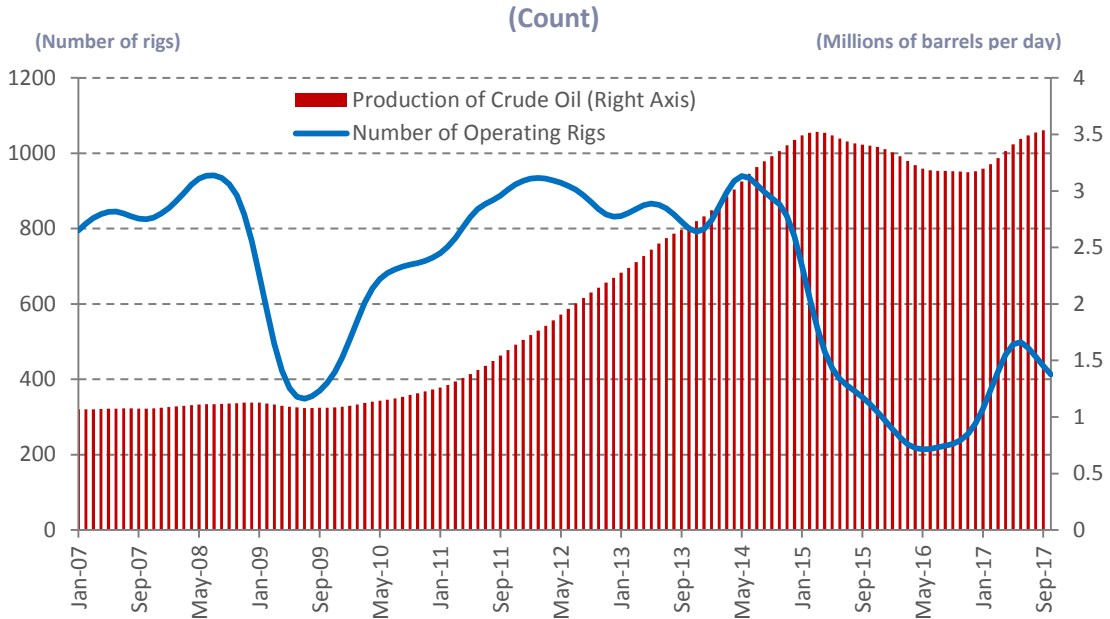
Note: Real values are seasonally adjusted and detrended.
Source: Dodge Analytics

Energy



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

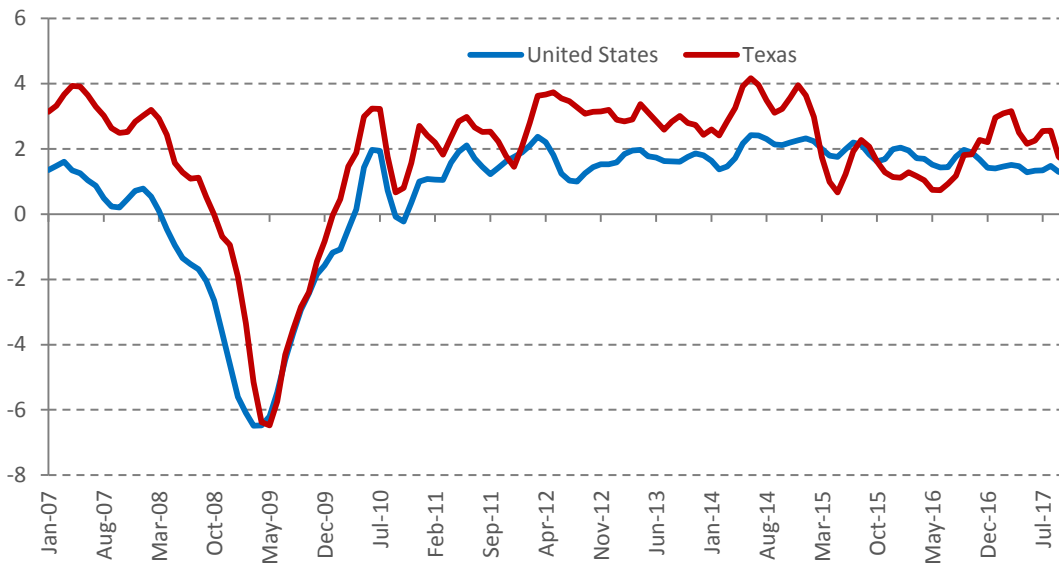
Texas Production of Crude Oil and Rig Count



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

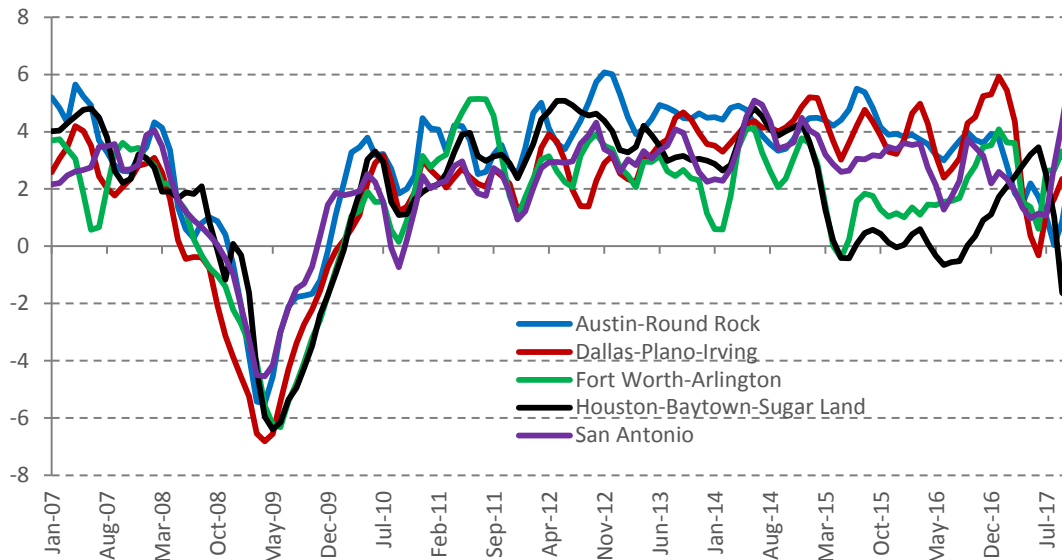
Employment

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



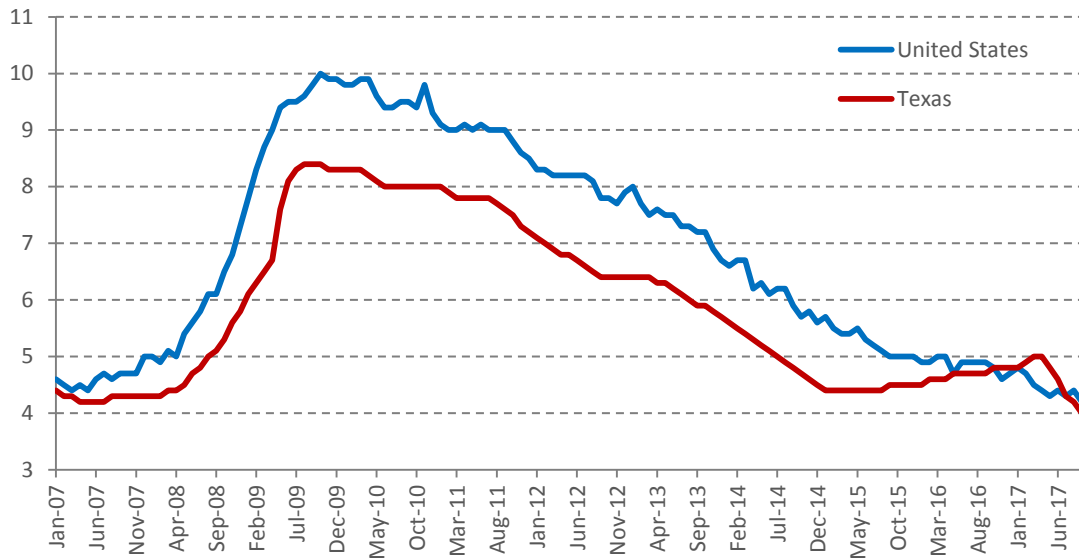
Note: Seasonally adjusted, 3-month moving average. October 2017 is preliminary.
 For more information, see [Employment Growth Rate](#).
 Source: Bureau of Labor Statistics

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



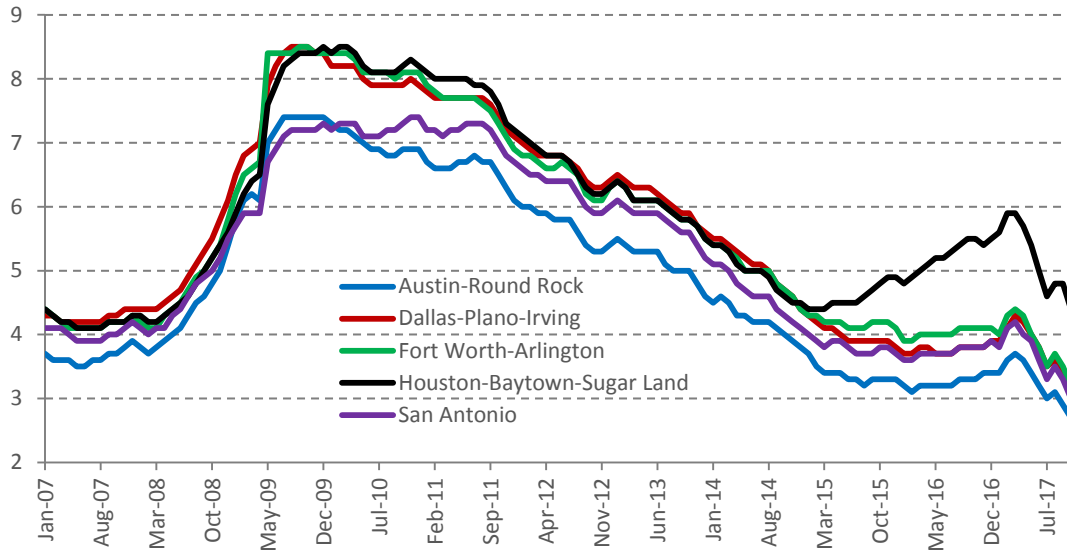
Note: Seasonally adjusted, 3-month moving average. October 2017 is preliminary.
 For more information, see [Employment Growth Rate](#).
 Source: Bureau of Labor Statistics

Unemployment Rate (Percent)



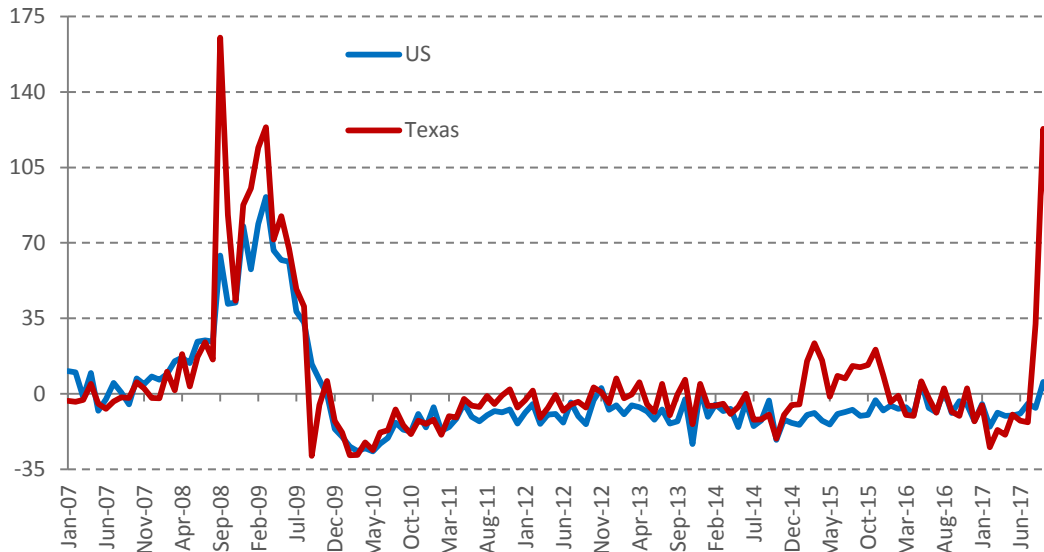
Note: Seasonally adjusted. October 2017 is preliminary. For more information, see [Unemployment Rate](#).
 Source: Bureau of Labor Statistics

Major Metros Unemployment Rate (Percent)



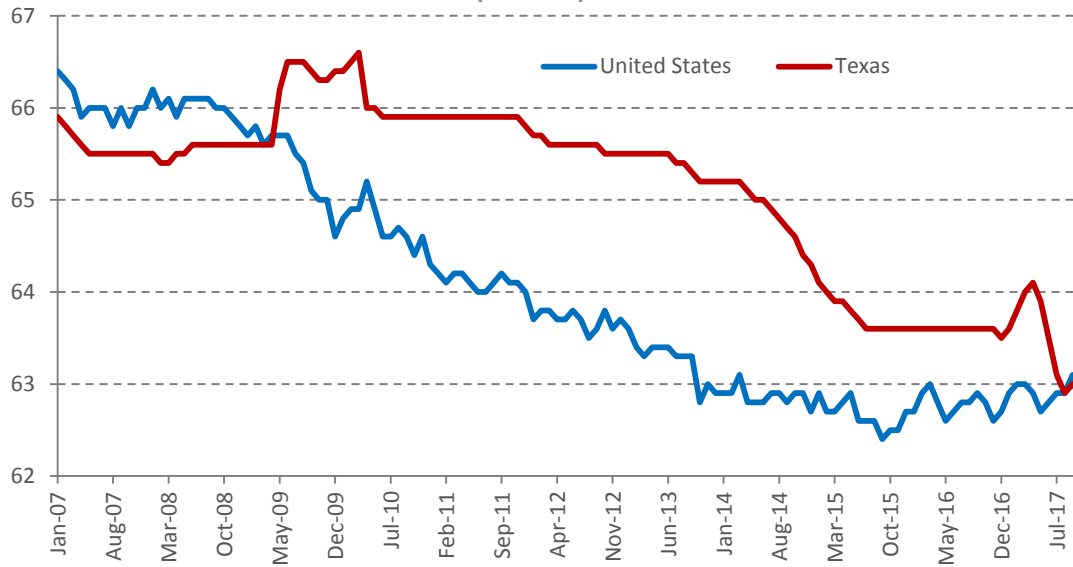
Note: Seasonally adjusted. October 2017 is preliminary. For more information, see [Unemployment Rate](#).
Sources: Bureau of Labor Statistics and Real Estate Center at Texas A&M University

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



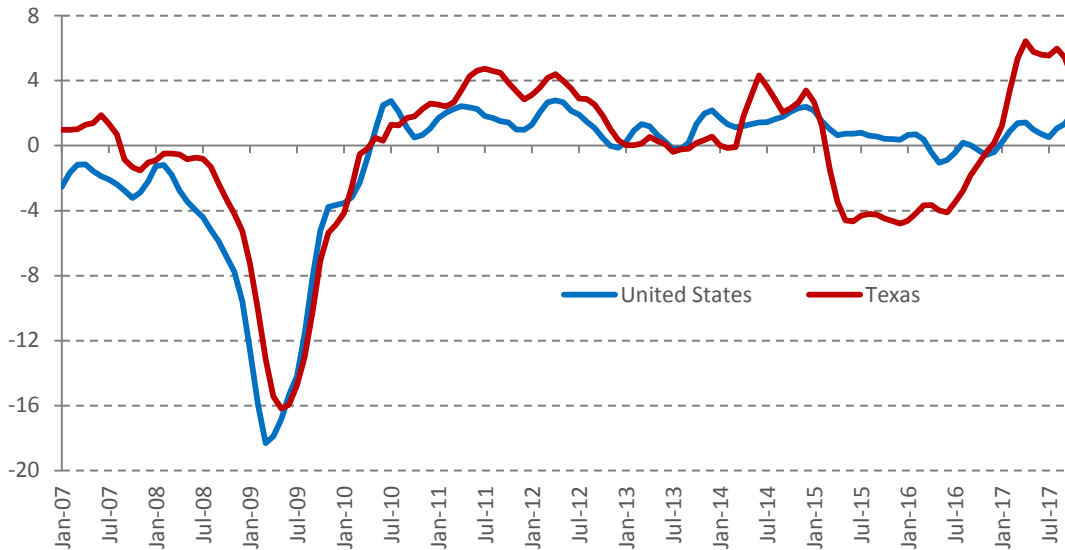
Note: Seasonally adjusted. For more information, see [Unemployment Insurance Claims: Initial Applications](#).
Source: Department of Labor

Labor Force Participation Rate (Percent)



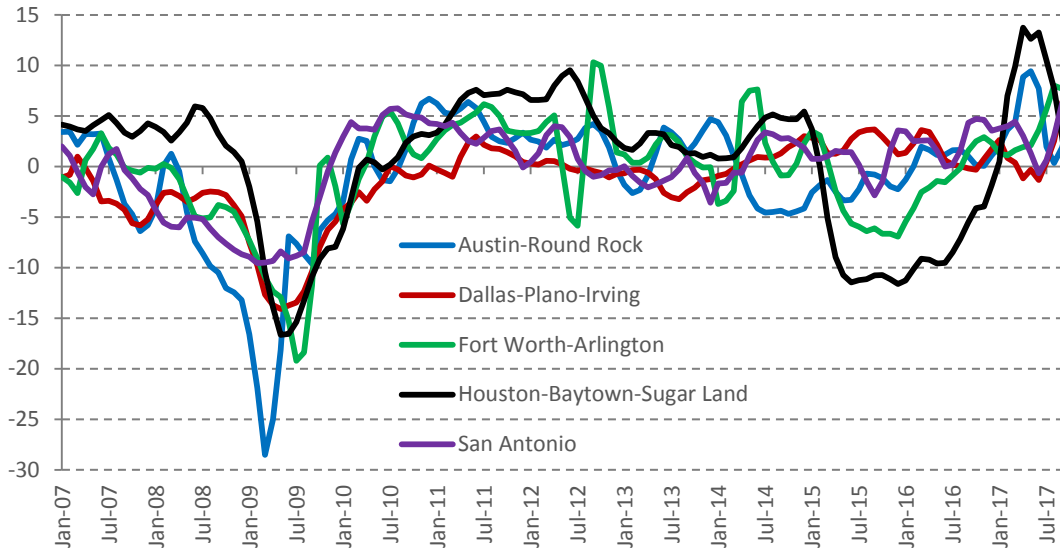
Note: Seasonally adjusted. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

Manufacturing Employment (Quarter-over-Quarter Percent Change)



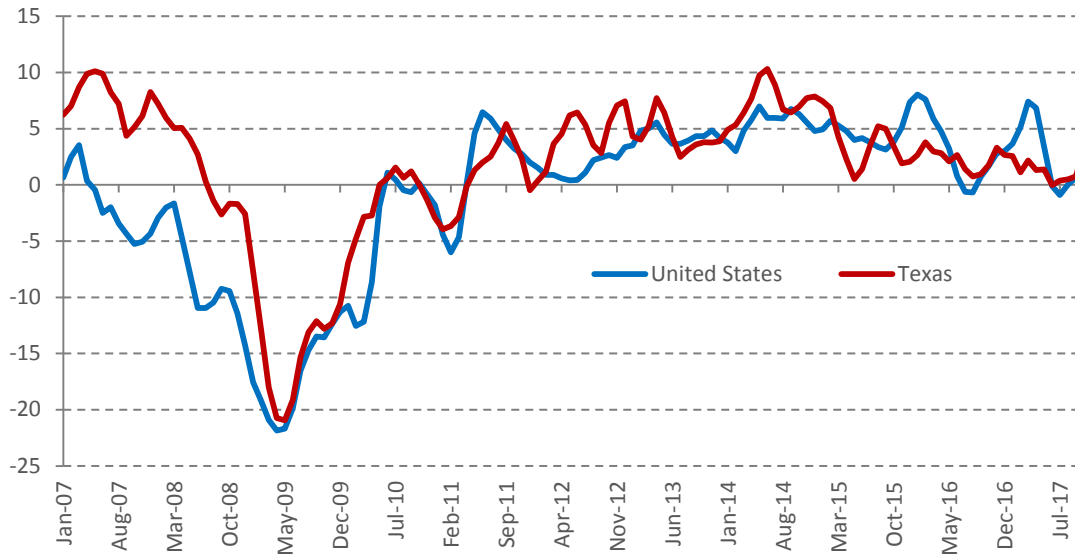
Note: Seasonally adjusted, 3-month moving average. October 2017 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

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



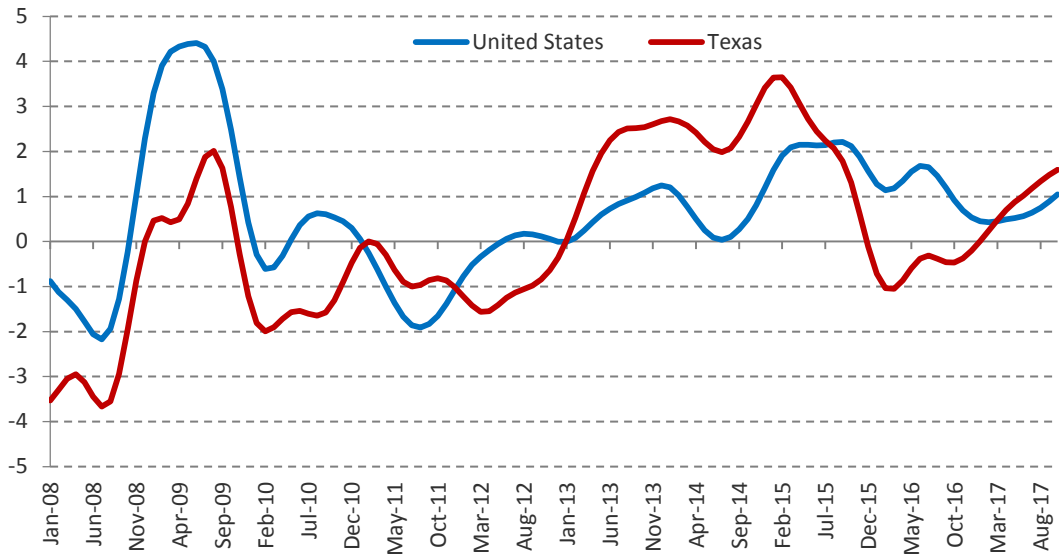
Note: Seasonally adjusted, 3-month moving average. October 2017 is preliminary.
 For more information, see [Employment Growth Rate](#).
 Source: Bureau of Labor Statistics

Construction Employment (Quarter-over-Quarter Percent Change)



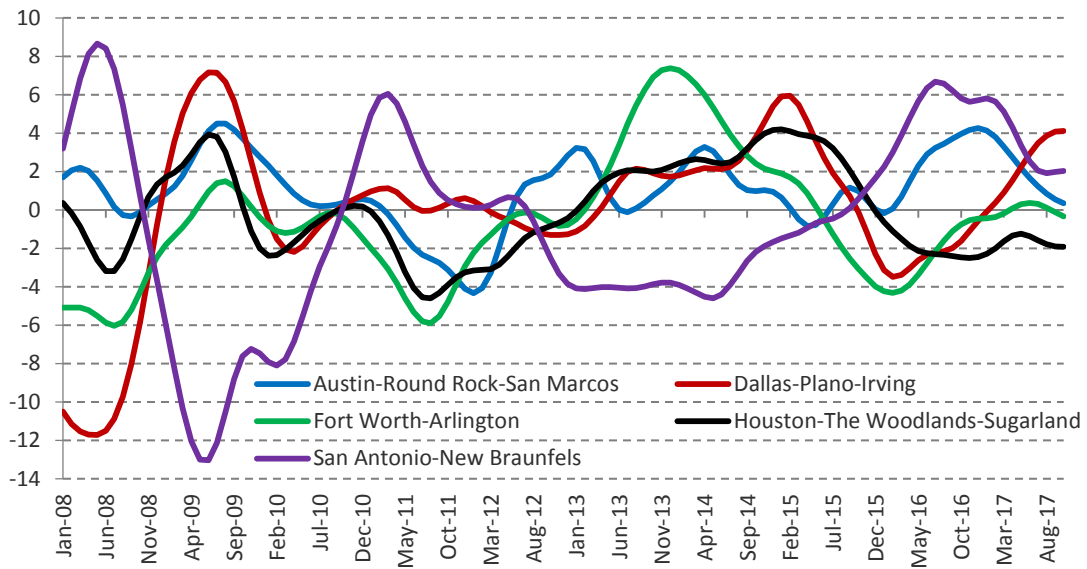
Note: Seasonally adjusted, 3-month moving average. October 2017 is preliminary.
 For more information, see [Employment Growth Rate](#).
 Source: Bureau of Labor Statistics

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



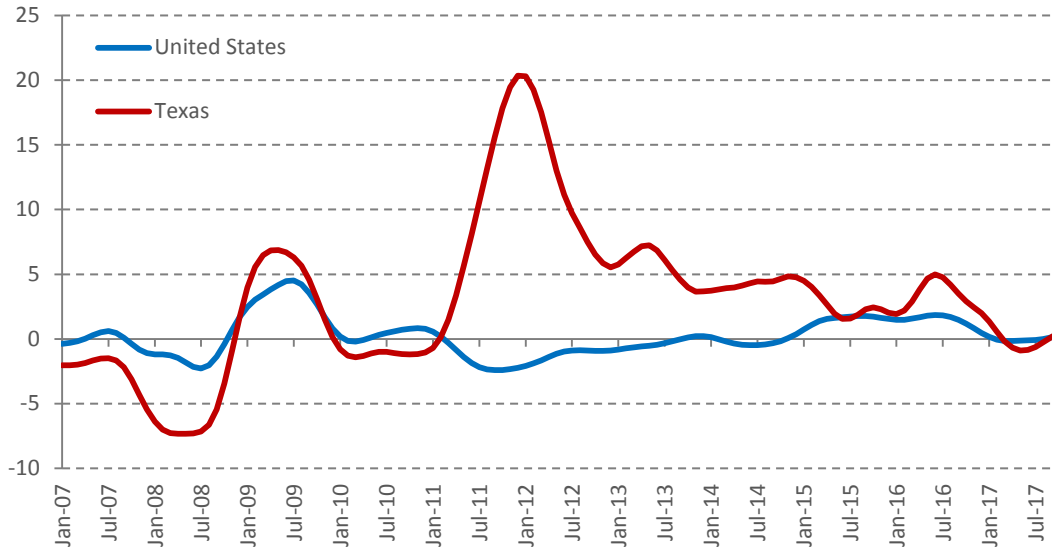
Notes: Inflation adjusted, seasonally adjusted and detrended. October 2017 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

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



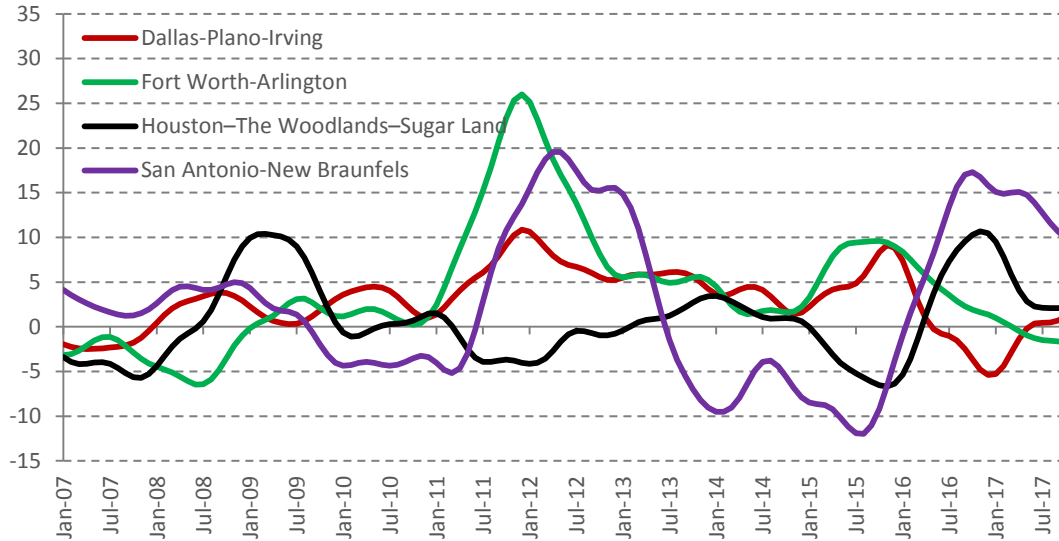
Notes: Inflation adjusted, seasonally adjusted and detrended. October 2017 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

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



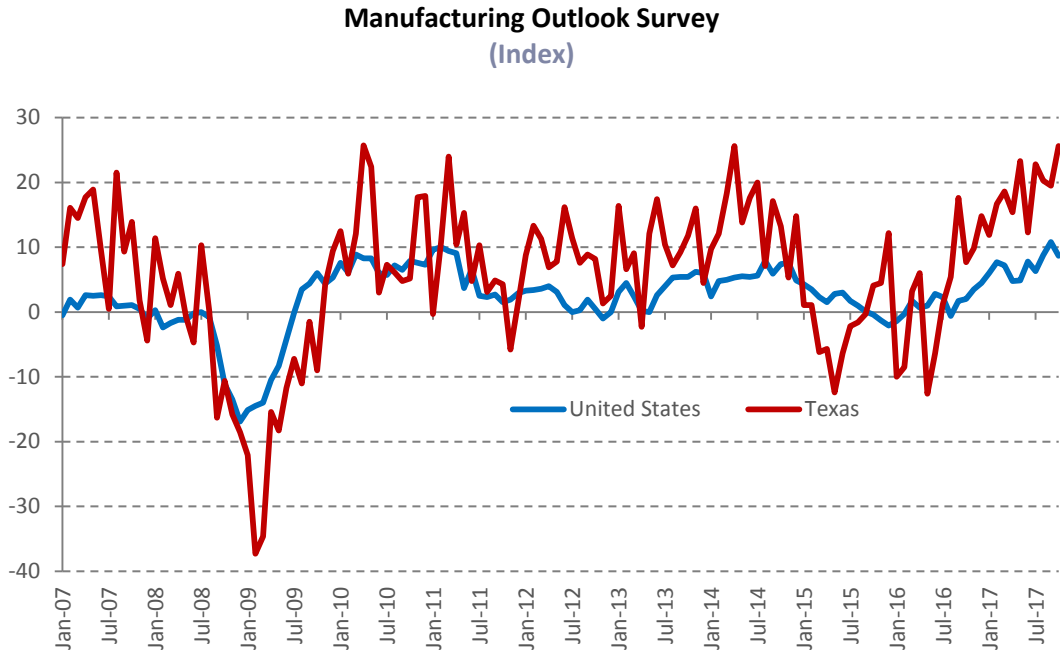
Notes: Seasonally adjusted and detrended. Inflation adjusted. October 2017 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

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



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

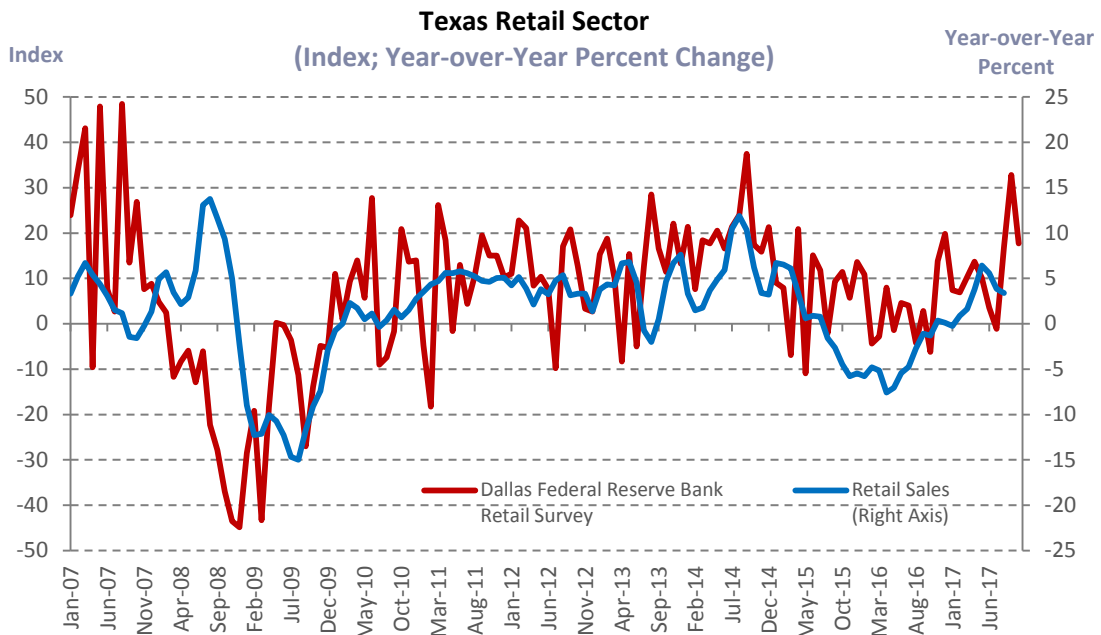
Manufacturing



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

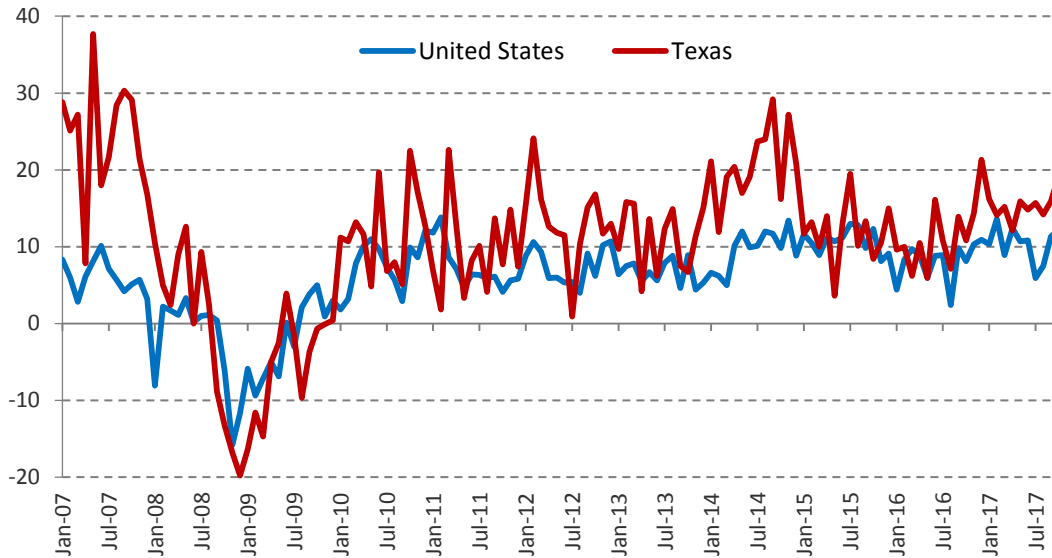


Note: Seasonally adjusted and inflation adjusted. For more information, see [Texas Retail Sector](#).

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



Services Sector Outlook Survey (Index)

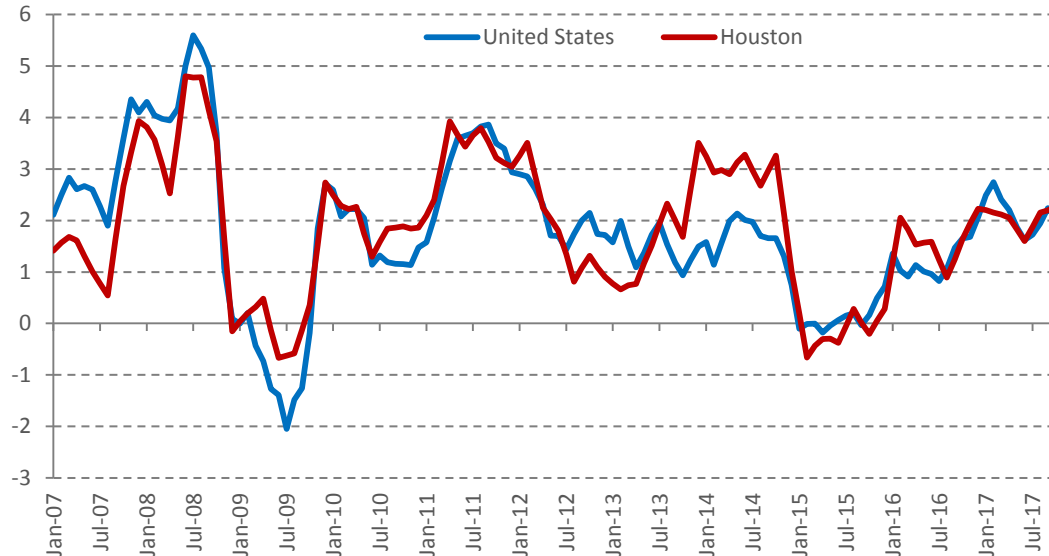


Note: Seasonally adjusted. For more information, see [Services Sector Outlook Survey](#).

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

Prices

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

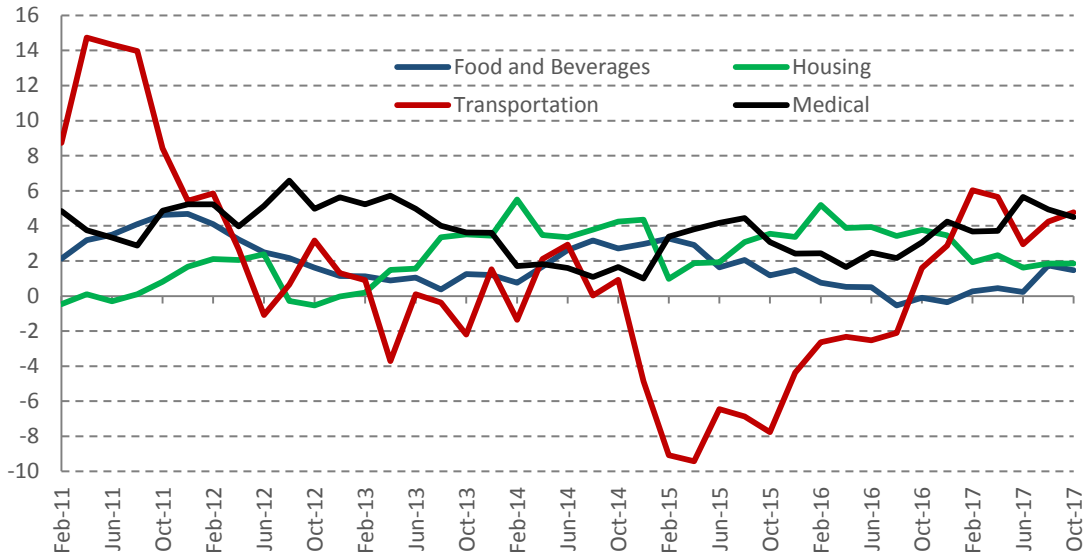


Note: Seasonally adjusted. For more information, see [CPI Inflation Rates](#).

Source: Bureau of Labor Statistics



CPI Inflation Rates (Houston Components) (Year-over-Year Percent Change)

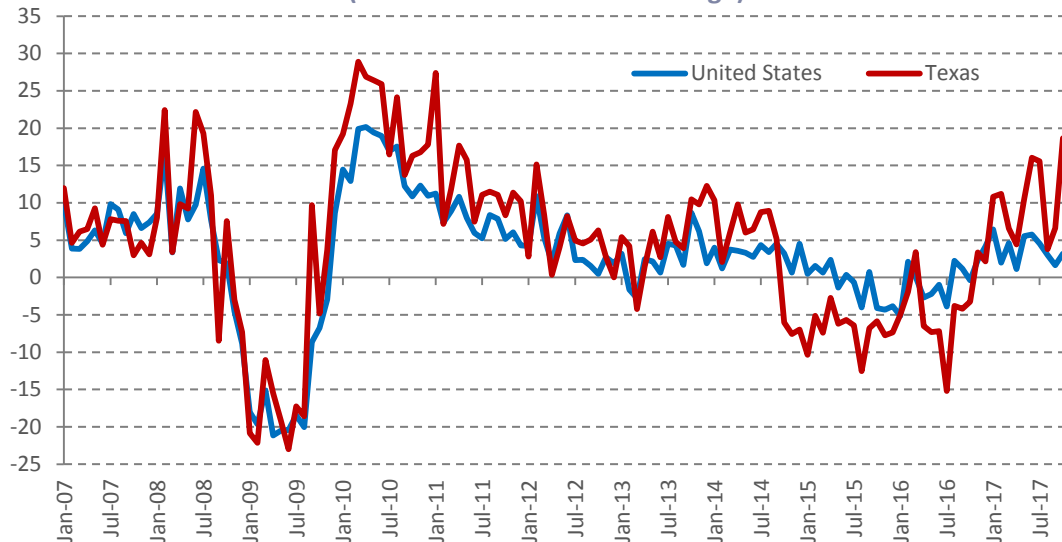


Note: The Houston CPI is composed of the following major groups: Food and Beverages, Housing, Apparel, Transportation, Medical Care, Recreation, Education and Communication, and Other Goods and Services. The four major components are included in the graph above.

Source: Bureau of Labor Statistics

Trade

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

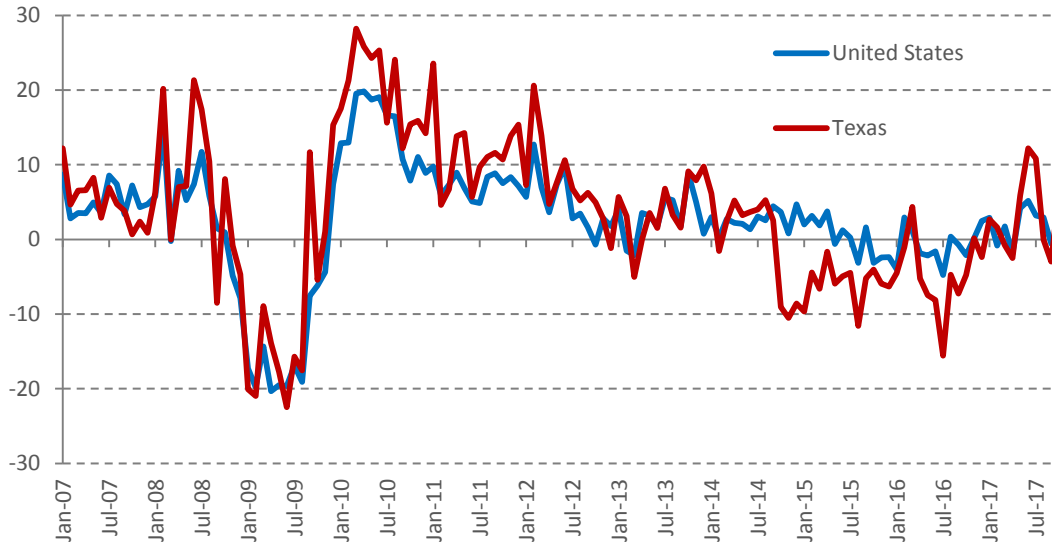


Note: Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see [Exports](#).

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

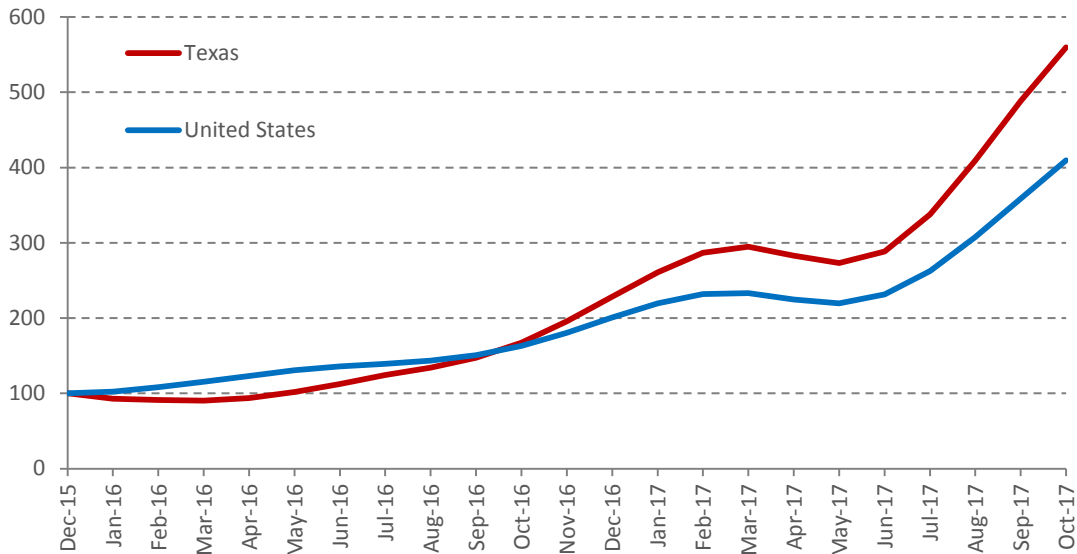


Manufacturing Exports (Year-over-Year Percent Change)



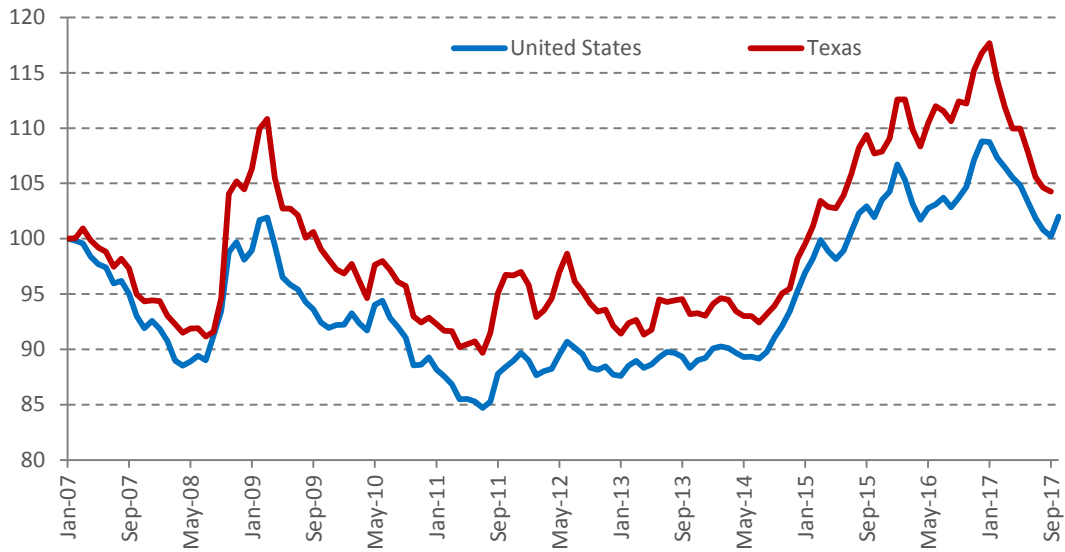
Note: Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see [Manufacturing Exports](#).
Sources: International Trade Administration, Foreign Trade Division, and U.S. Census Bureau

Crude Oil Exports (Index Dec 2015 = 100)



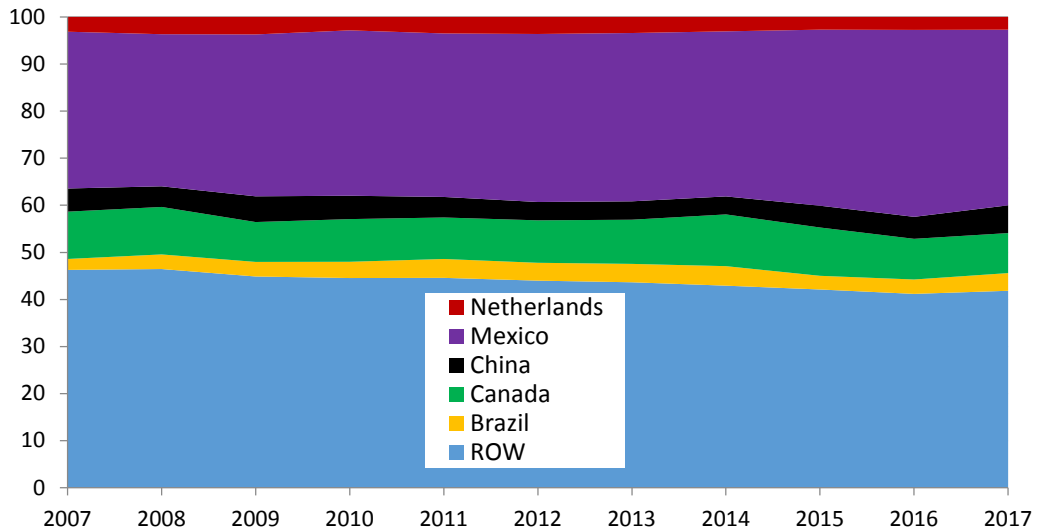
Note: Inflation adjusted and detrended with Bureau of Labor Statistics export indices. For more information, see [Crude Oil Exports](#).
Sources: International Trade Administration, Foreign Trade Division, and U.S. Census Bureau

Real Trade Weighted Value of U.S. Dollar (Index Jan 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

Texas Exports by Country (Percent)



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



MAYS BUSINESS SCHOOL

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

<http://recenter.tamu.edu>
979-845-2031

DIRECTOR

GARY W. MALER

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