

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.

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November 2017 Summary¹

The Texas expansion continued as the energy sector advanced, and Gulf Coast reconstruction efforts stimulated the state economy. Oil prices hit a two-year high amid decreased inventories and robust global demand, driving Texas crude oil production up 5 percent. The statewide unemployment rate fell to a record low 3.8 percent and should decline further as initial unemployment insurance claims reached their lowest in more than 30 years. Despite expanding payrolls and historically low unemployment, wages remained stagnant. However, increased oil prices could boost energy-related employment, which typically pay higher wages. Potential headwinds to the Texas economy include energy price volatility and trade uncertainty, especially with Mexico.

Texas' economic expansion continued as the **Dallas Fed's Business-Cycle Index** (a measure of current economic activity in the state) posted 6 percent quarterly annualized growth—the highest since 2014. The metropolitan business cycle indices accelerated across the Texas Urban Triangle, led by Austin's 8.7 percent quarterly annualized growth. Dallas and Fort Worth posted strong numbers at 6.8 and 5.2 percent, respectively, as the region's unemployment rate approached 3 percent. The San Antonio index accelerated 5.4 percent for the eighth consecutive month amid steady payroll expansions. Meanwhile, hurricane recovery efforts pulled the Houston index into positive territory after a three-month contraction.

The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) reached a two-year high as advances in the U.S. leading index and higher oil prices outweighed appreciation in the Texas value of the dollar (a weight on Texas export competitiveness). The **Texas Consumer Confidence Index** returned to pre-hurricane levels amid improved labor market conditions and the overall economic expansion.

Interest rates were stable as optimism about tax reform balanced investors' concerns regarding the quantity of long-term debt the Treasury Department plans to sell as the Federal Reserve begins scaling back its balance sheet. The **ten-year U.S. Treasury bond yield** fell one basis point to 2.35 percent, while the **Federal Home Loan Mortgage Corporation 30-year fixed-rate** hovered around 3.9 percent. Yields remained low by historical standards, contributing to a nationwide surge in mortgage applications for new home purchases.

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**, held steady as falling residential construction values offset industry employment growth. Increased weighted building permits and housing starts accelerated the Texas **Residential Construction Leading Index (RCLI)** to its highest level since April, signaling

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

improvements in residential construction activity through year end. (For additional housing commentary and statistics, see [Texas Housing Insight](https://recenter.tamu.edu/) at recenter.tamu.edu.)

The average **West Texas intermediate crude oil spot price** increased to \$56.64², the highest in two years, driven by geopolitical tension in the Middle East, robust global demand, and extended OPEC production cuts. The number of **active rigs** in Texas rose to 446², primarily from increased activity in the Permian Basin. In response to higher prices, **crude oil production** increased more than 5 percent for the second straight month. The **Henry Hub natural gas spot price** surpassed \$3.00 per million BTU² (British thermal unit) for the first time since May as global supply decreased, a trend that could continue amid predictions of a colder-than-average winter in the United States.

Texas **monthly nonfarm employment** increased by 54,500 jobs, pushing the year-to-date total above 300,000. However, data revisions from the Quarterly Census of Employment and Wages (QCEW) indicated softer growth in the first half of the year than was previously reported. That said, the labor market expansion continued, pulling the Texas **unemployment rate** to an all-time low of 3.8 percent. Unemployment remained even lower in the major metros. Austin unemployment settled under 3 percent for the third consecutive month, while rates in Dallas and Fort Worth hovered at 3.2 and 3.3 percent, respectively. Recovery efforts along the Gulf Coast stimulated San Antonio and Houston payrolls, holding unemployment at 3.1 percent and 4.4 percent, respectively.

After spiking following Hurricane Harvey, **initial unemployment insurance claims** dropped 85.9 percent in October and November, reaching the lowest level since 1974. The hurricane and ensuing reconstruction impact is apparent given the relative stability of these data on a national scale. The recovery stimulus supported an uptick in the **Texas labor force participation rate** to 63.1 percent. However, an aging workforce continues to put downward pressure on labor force participation throughout the nation.

This month's payroll expansion occurred across the state and in various industries. Dallas added 14,400 jobs, primarily in professional-business services and leisure-hospitality. These same industries, as well as construction, pushed San Antonio employment up 3,100 jobs for its sixth straight monthly increase. Houston payrolls expanded by 11,300 jobs, led by construction and professional-business services, but mining and logging employment staggered. Austin added more than 7,000 jobs for the second time in three months, pushing YTD growth above 23,000 jobs. In contrast, the Fort Worth expansion slowed amid employment contractions in wholesale trade and professional business services.

Statewide, the service-providing sector added 42,300 as recovery from the August hurricane continued. The professional and business services subsector led the charge with 14,700 total jobs created, while both education-health services and trade-transportation-utilities generated 8,200 jobs apiece. On the other hand, the information sector shed 1,600 jobs, contracting in ten of the

² Nonseasonally adjusted.

last 11 months. However, the QCEW indicated only a slight decline in information jobs during the first half of the year, and future revisions could dampen the latest five-month slide.

The **Texas Service Sector Outlook Survey** corroborated favorable employment conditions in the industry as all of the labor market indices ticked upward. The revenue index reached a two-year high with over 36 percent of companies reporting revenue growth. While the future outlook and expectations for service providers remained on a 21-month upward trend, respondents in multiple industries noted burdensome regulations and the lack of the H-2B visa “returning worker” exemption.

The retail industry added 6,300 jobs amid a five-month recovery after shedding 22,000 between February and September. Retail sales volume picked up for the third month in a row, rising 6.3 percent YOY. Consequently, the **Dallas Fed’s Texas Retail Outlook Survey** sales index approached a cycle high with more than 38 percent of companies reporting increases. Despite the holiday season, retailer optimism and the future outlook index decelerated.

The goods-producing sector maintained its steady expansion, adding 12,200 jobs and pushing the YTD total above 94,000. Supported by higher oil prices, the mining and logging industry surpassed 32,000 new jobs YTD, but the QCEW revealed much of that growth was overstated earlier this year. The construction industry created 8,200 jobs amid rebuilding efforts around the Gulf Coast, pushing annualized growth up 7 percent, triple the national rate. The **total value of Texas construction** returned to its downward trend after stabilizing last month, falling 3.4 percent on a three-month moving average. Recent completions of hospitals and schools accounted for most of the contraction, while residential construction levels were stable.

Manufacturing employment growth slowed from 4.1 to 2.5 percent annualized quarter over quarter, but 2,700 new jobs offset layoffs in the last two months. North Dallas maintained the largest manufacturing employment growth, rising 7.6 and 7.2 percent in Dallas and Fort Worth, respectively. Austin’s manufacturing growth rate accelerated to 6.4 percent after stagnating this summer, while growth in San Antonio contracted 0.3 percent. Houston manufacturing employment continued to suffer, falling 4.4 percent after booming between April and July. Most of the decline occurred in durable-goods manufacturing, which stabilized this month as production processes normalized after Hurricane Harvey.

The **Texas Manufacturing Outlook Survey** confirmed deceleration in industry employment growth as the labor market indices ticked down but remained positive. The production index extended its upward trend to 17 months, and over 28 percent of respondents reported improved business activity. Similar to the service sector survey, companies mentioned labor shortages and high taxes as major obstacles to manufacturing growth.

Despite low unemployment levels, employee compensation remained stagnant as **real Texas private hourly earnings** fell 0.9 percent, pulling YOY growth below 1 percent. Wages fell 1.3 and 2.0 percent YOY in Fort Worth and Houston, respectively, while dipping 0.4 and 0.3 percent in Austin

and San Antonio. Dallas remained the exception, boasting 3.1 YOY wage growth but posting a 1.1 percent monthly decline.

While Texas wages lagged the national level by \$0.40, Texas *manufacturing* jobs paid a 10.5 percent premium in hourly earnings relative to U.S. average. Fort Worth had the highest manufacturing wages, paying 48.8 percent more than the statewide average but remaining flat on the year. Manufacturing earnings fell 0.4 percent in Houston, having maintained sluggish growth since April. San Antonio remained the outlier for wage growth, rising 17.2 percent YTD while remaining 17 percent below the Texas average.

The **U.S. Consumer Price Index (CPI)** increased 2.2 percent YOY as energy prices elevated. The core inflation rate, which excludes the often-volatile energy and food sectors, increased 1.7 percent YOY, slightly lower than last month. Dallas price growth was even larger as the local CPI hovered around 3.2 percent YOY, the highest since 2011. Housing rents and transportation expenses rose 5.6 and 4.3 percent, respectively, generating most of the local price inflation.

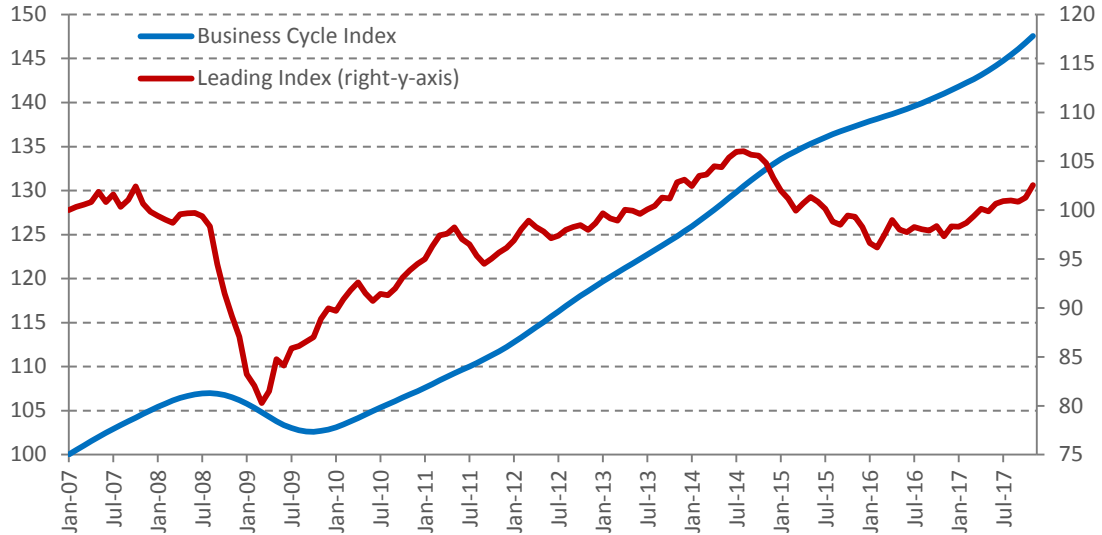
The U.S. real goods trade deficit increased by \$1.1 billion to \$66.7 billion as growth in commodity imports outpaced that of exports. **Total Texas commodity and manufacturing exports** advanced 3.3 percent and 2.8 percent, respectively, as exports of petroleum and transportation equipment remained strong. **Texas crude oil exports** continued to hit record highs, rising 8.1 percent as oil prices increased. The **Texas trade-weighted value of the dollar**³ rose for the first time this year but was still down 7.3 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 37 percent of November exports but slowed economically in recent months. NAFTA renegotiations and the potential of a Mexican recession remain 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.

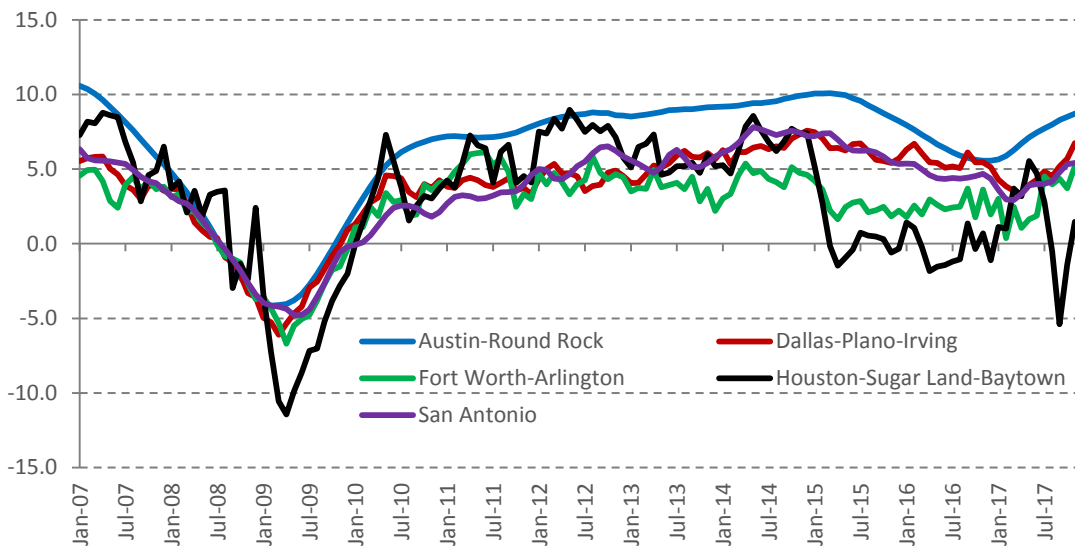
Economic Activity

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

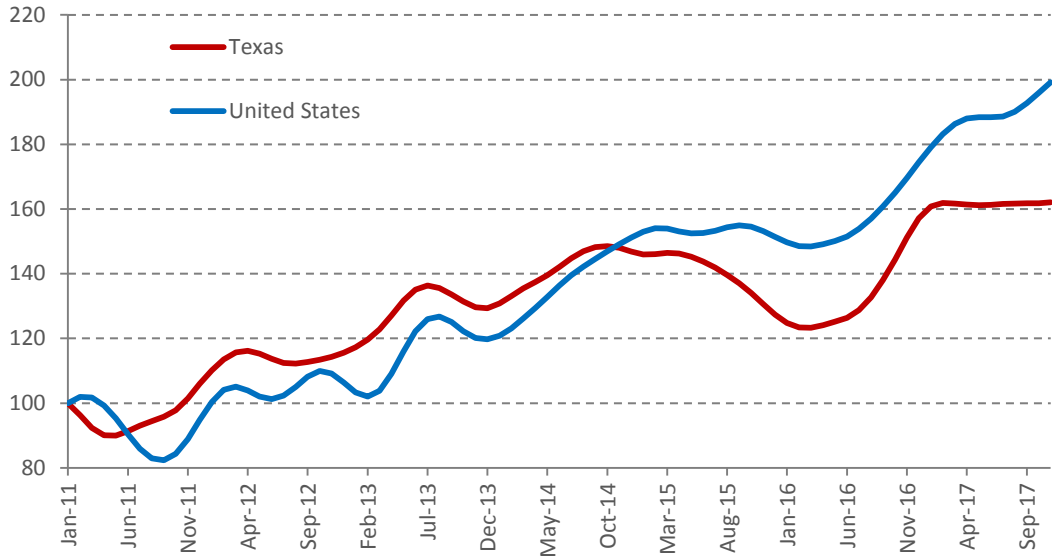
Major Metros Business Cycle Index
(Quarter-over-Quarter Percent Change)



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



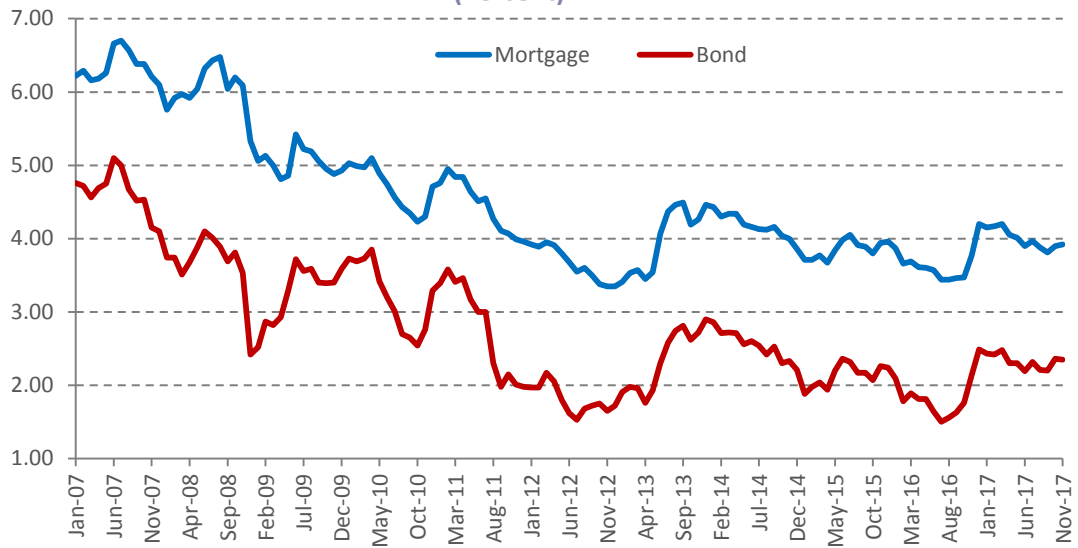
Consumer Confidence Index
(Index Jan 2011 = 100)



Note: Seasonally adjusted and detrended.
Source: Conference Board

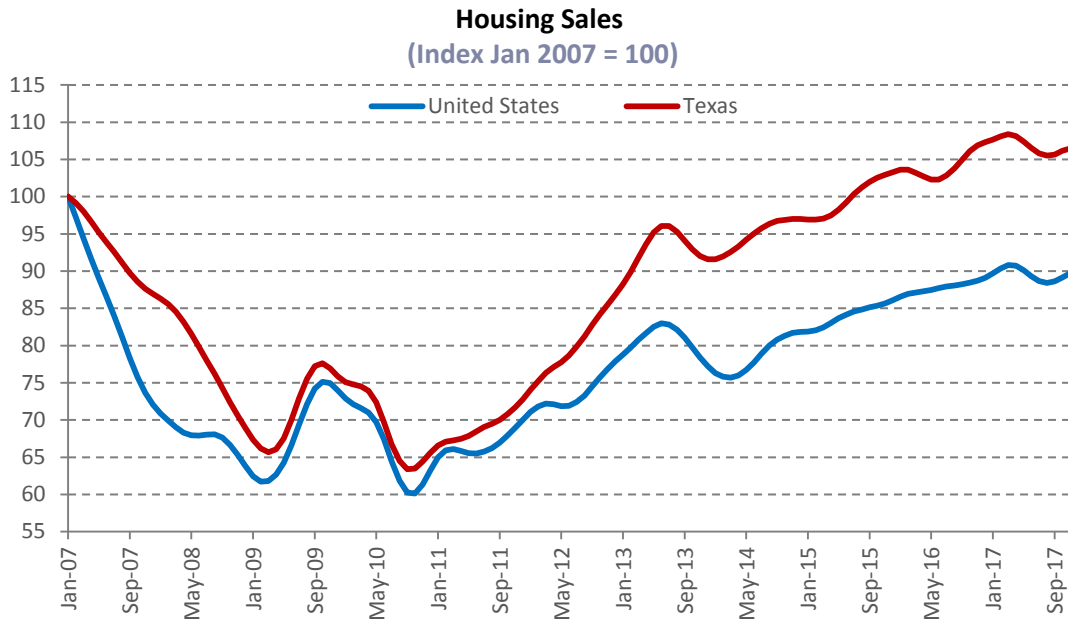
Financial Activity

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



Note: Seasonally adjusted.
Sources: Federal Home Loan Mortgage Corporation and Federal Reserve Board

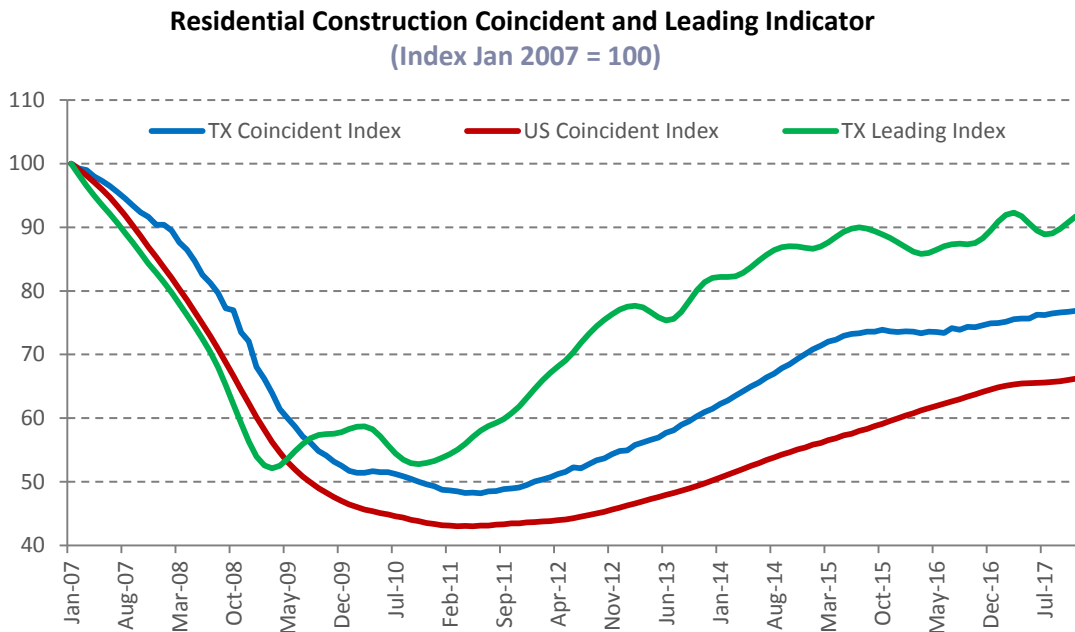
Housing



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

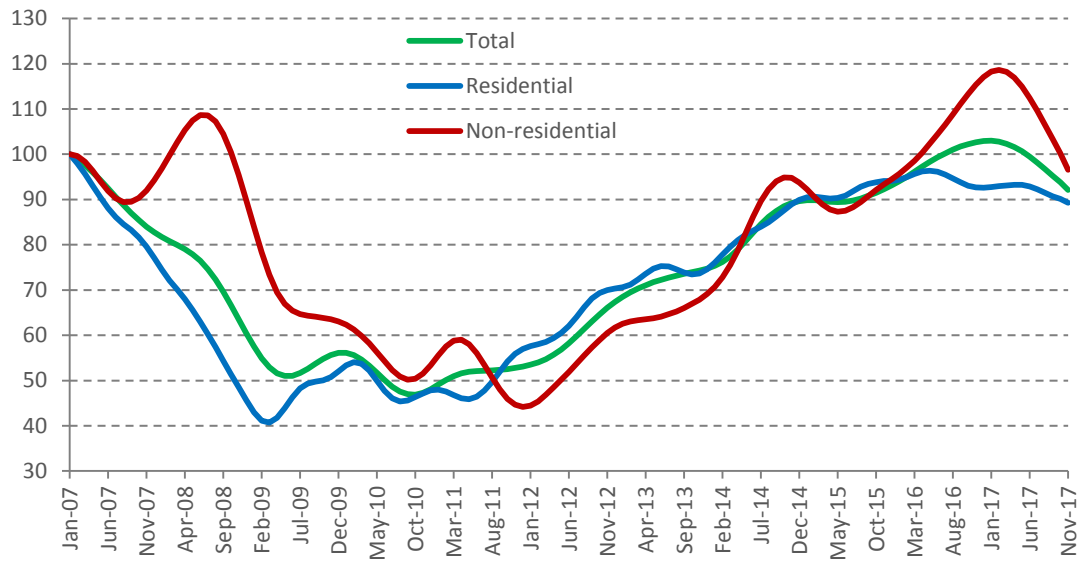


Note: Seasonally adjusted and detrended.

Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas

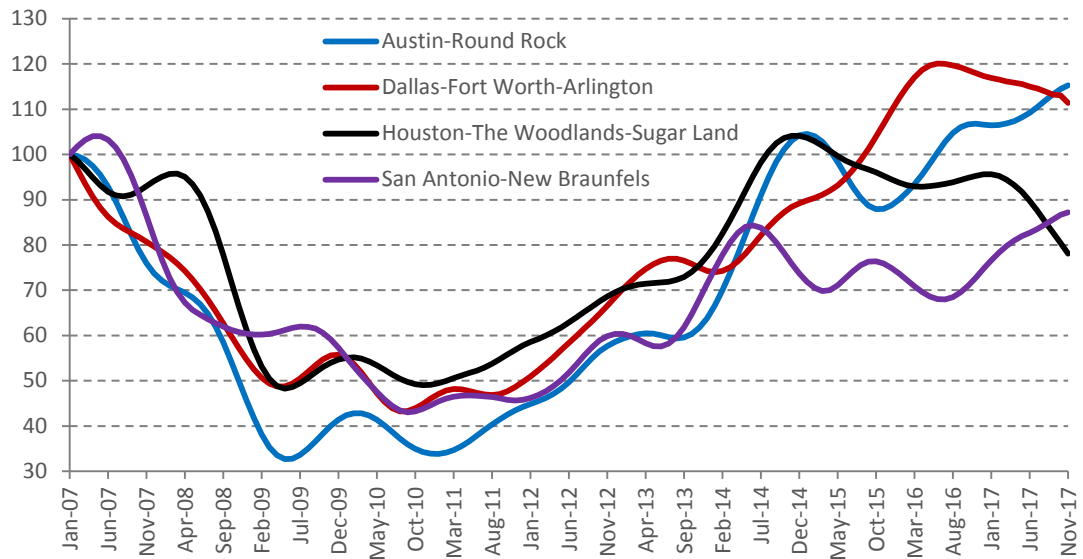


Texas Construction Values
(Index Jan 2007 = 100)



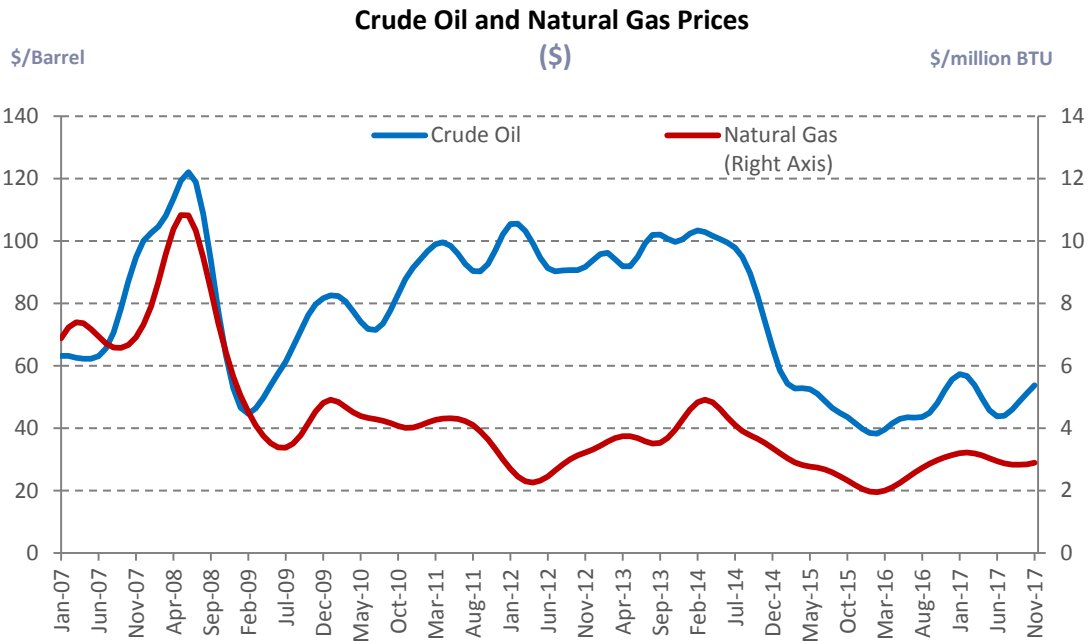
Note: Real values are seasonally adjusted and detrended.
Source: Dodge Analytics

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



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

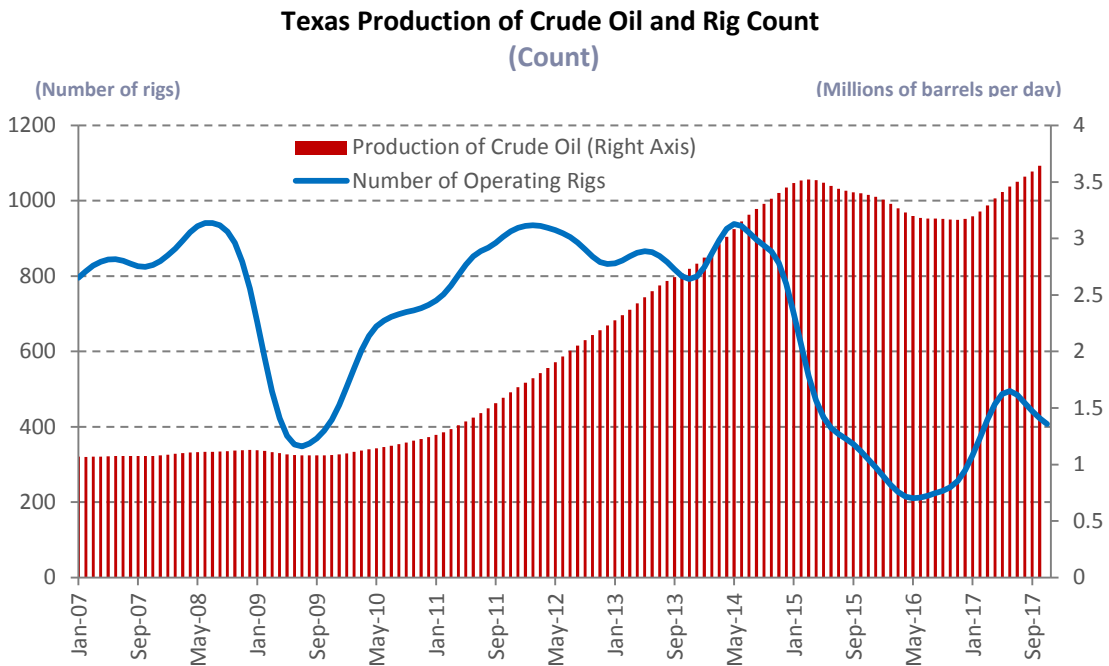
Energy



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



Note: Seasonally adjusted and detrended.

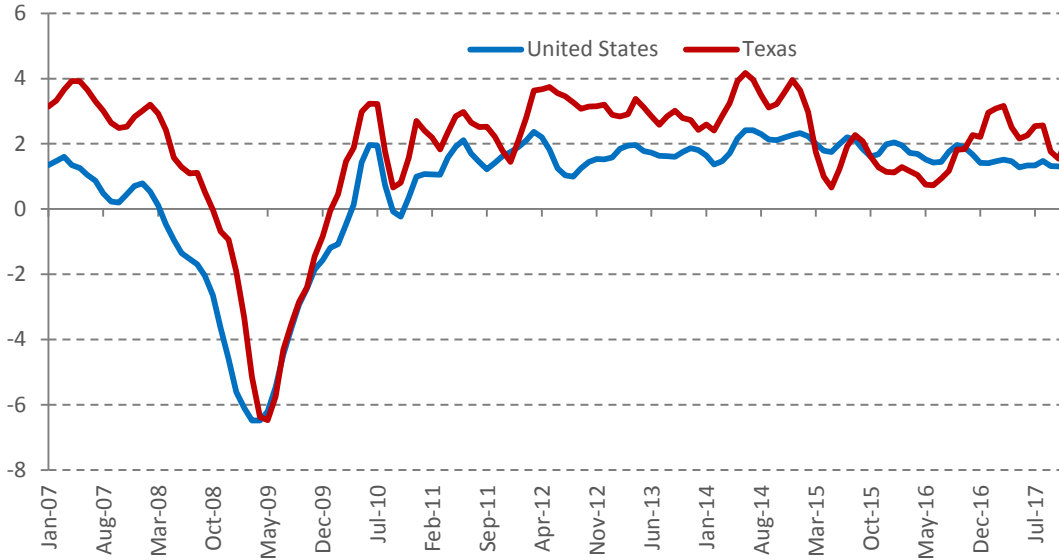
For more information, see [Texas Production of Crude Oil and Rig Count](#).

Sources: Baker Hughes and U.S. Energy Information Administration



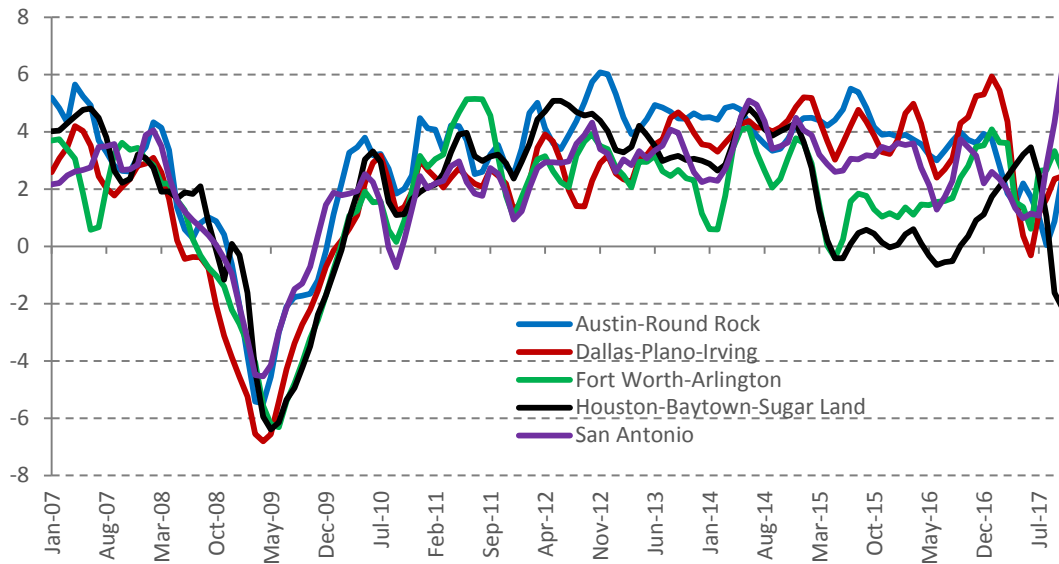
Employment

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



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

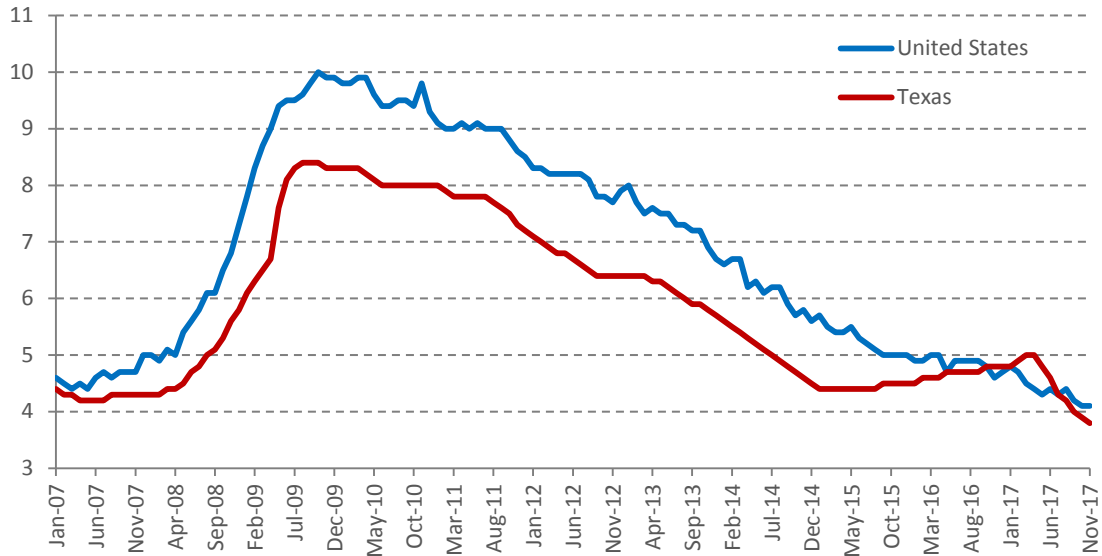
Major Metros Employment Growth Rate
(Quarter-over-Quarter Annualized Percent Change)



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

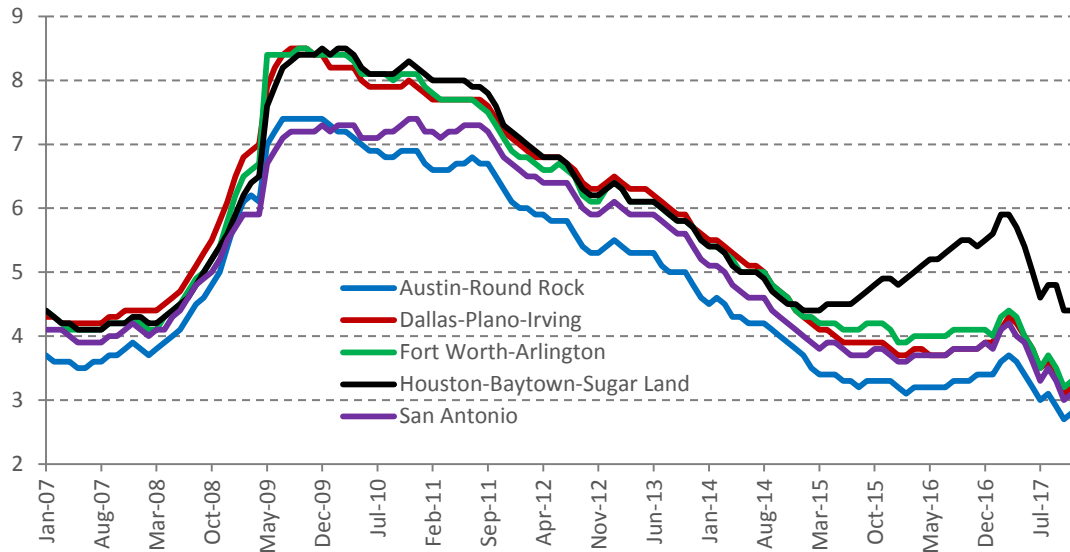


Unemployment Rate (Percent)



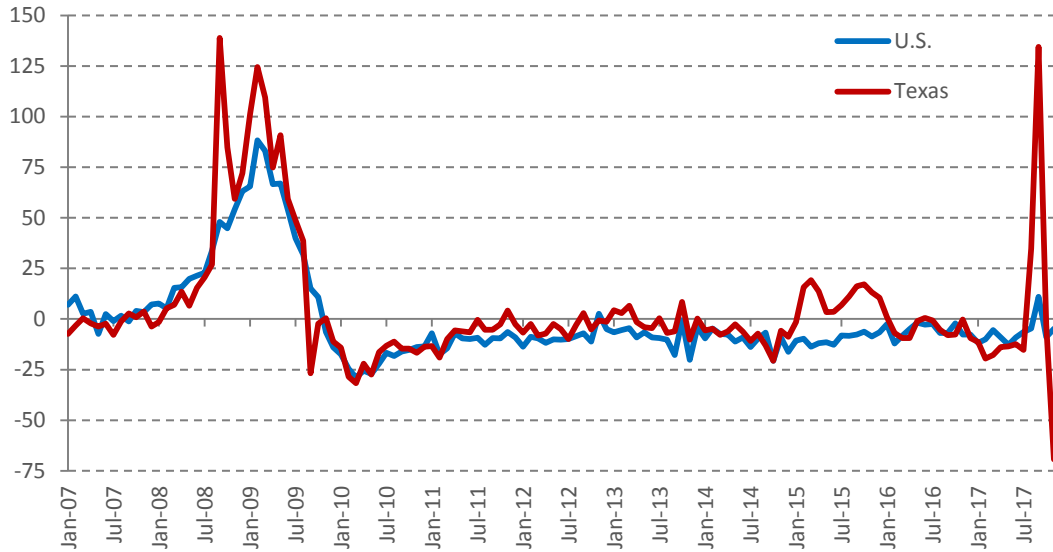
Note: Seasonally adjusted. November 2017 is preliminary. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

Major Metros Unemployment Rate (Percent)



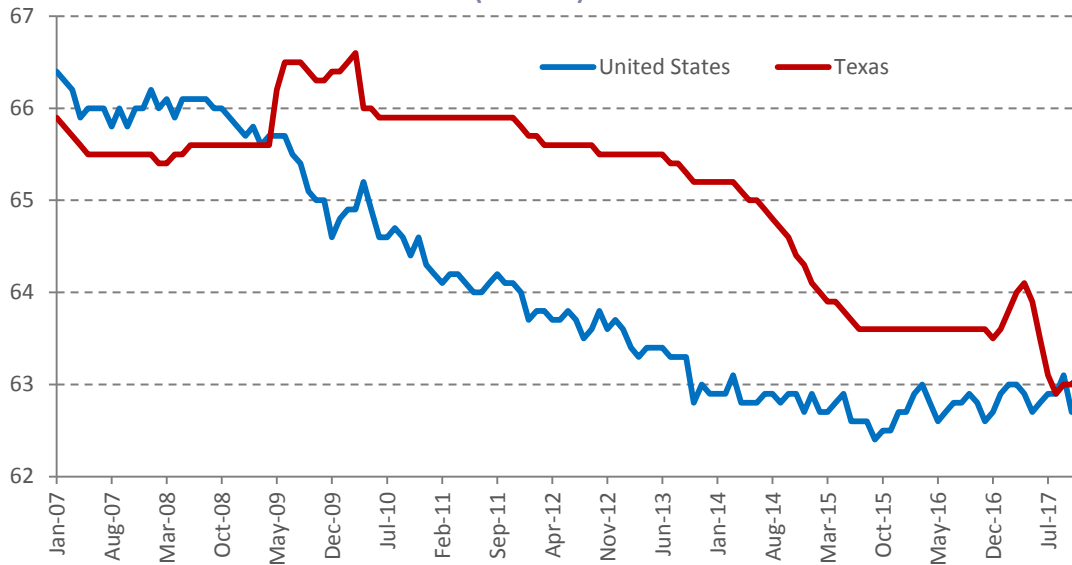
Note: Seasonally adjusted. November 2017 is preliminary. For more information, see [Unemployment Rate](#).
Sources: Bureau of Labor Statistics and Real Estate Center at Texas A&M University

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



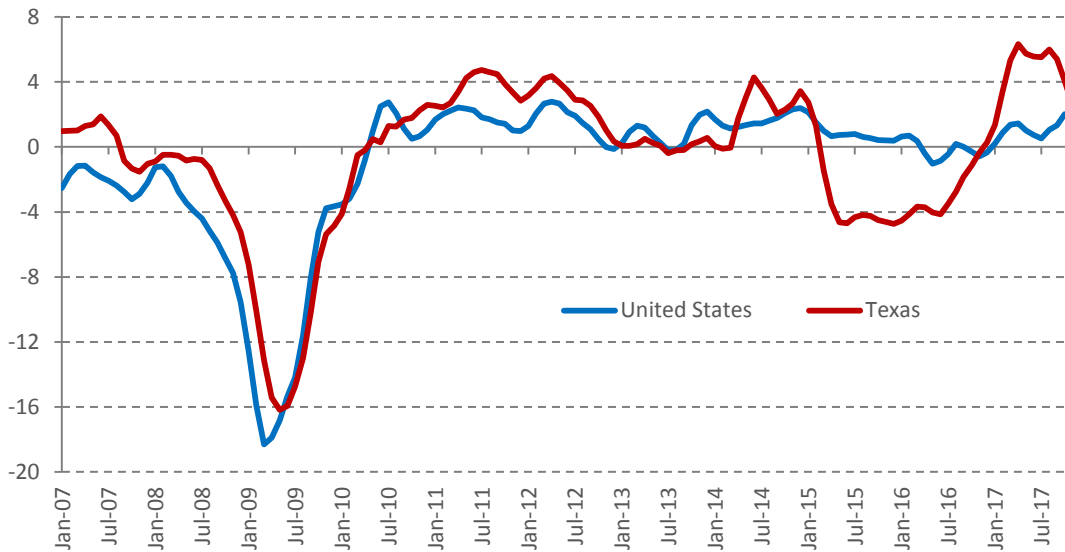
Note: Seasonally adjusted. For more information, see [Unemployment Insurance Claims: Initial Applications](#).
Source: Department of Labor

Labor Force Participation Rate (Percent)



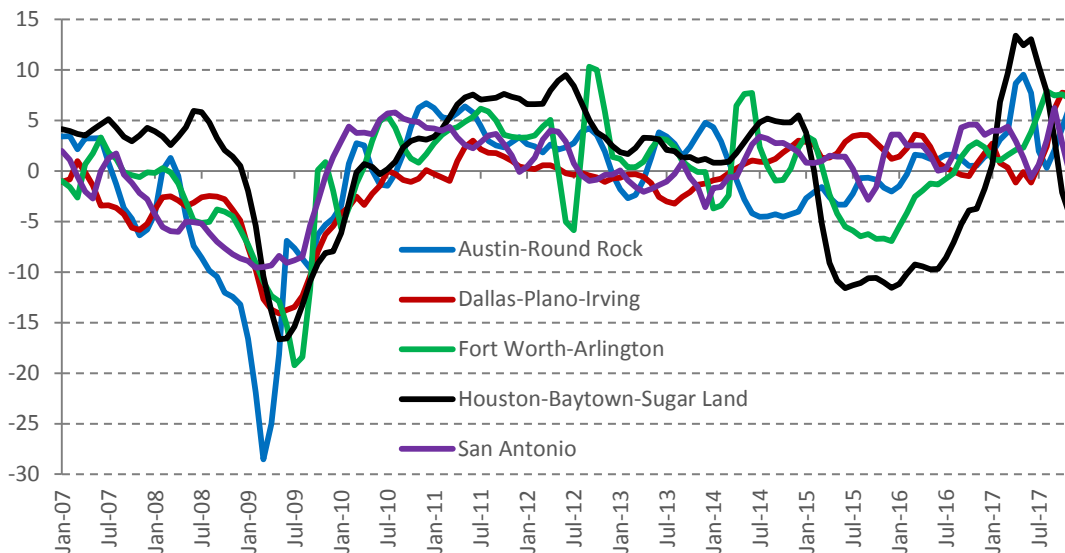
Note: Seasonally adjusted. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

Manufacturing Employment (Quarter-over-Quarter Percent Change)



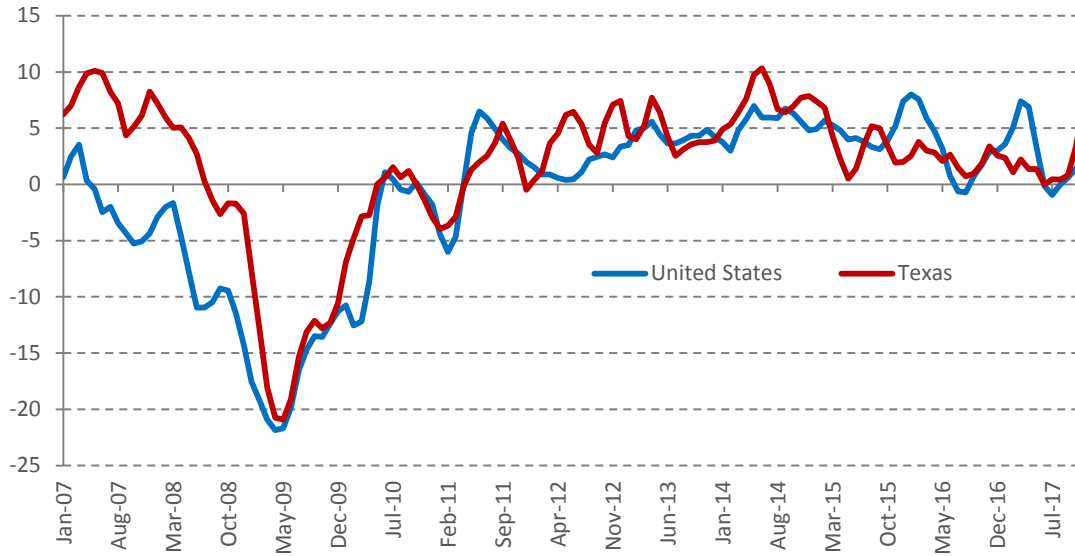
Note: Seasonally adjusted, 3-month moving average. November 2017 is preliminary.
 For more information, see [Employment Growth Rate](#).
 Source: Bureau of Labor Statistics

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



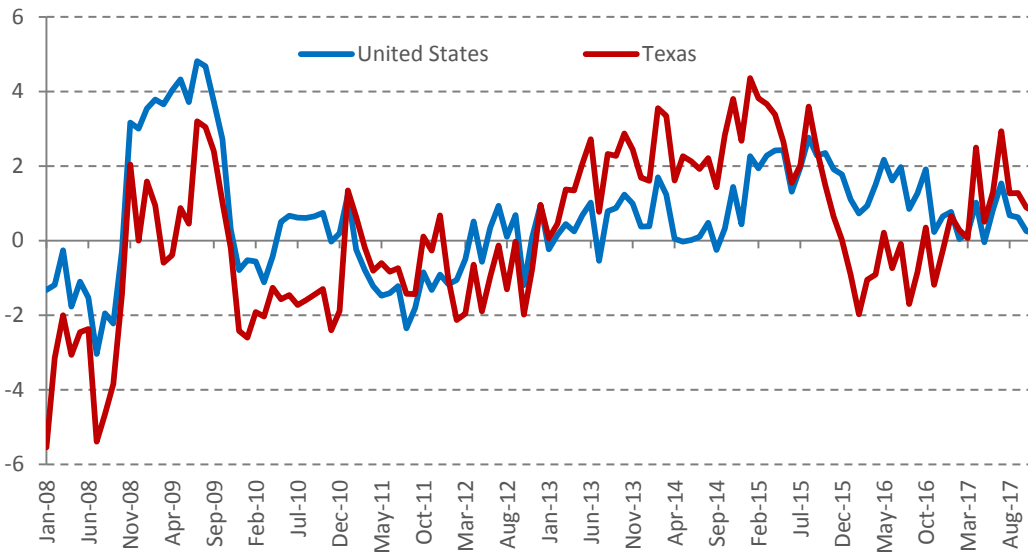
Note: Seasonally adjusted, 3-month moving average. November 2017 is preliminary.
 For more information, see [Employment Growth Rate](#).
 Source: Bureau of Labor Statistics

Construction Employment (Quarter-over-Quarter Percent Change)



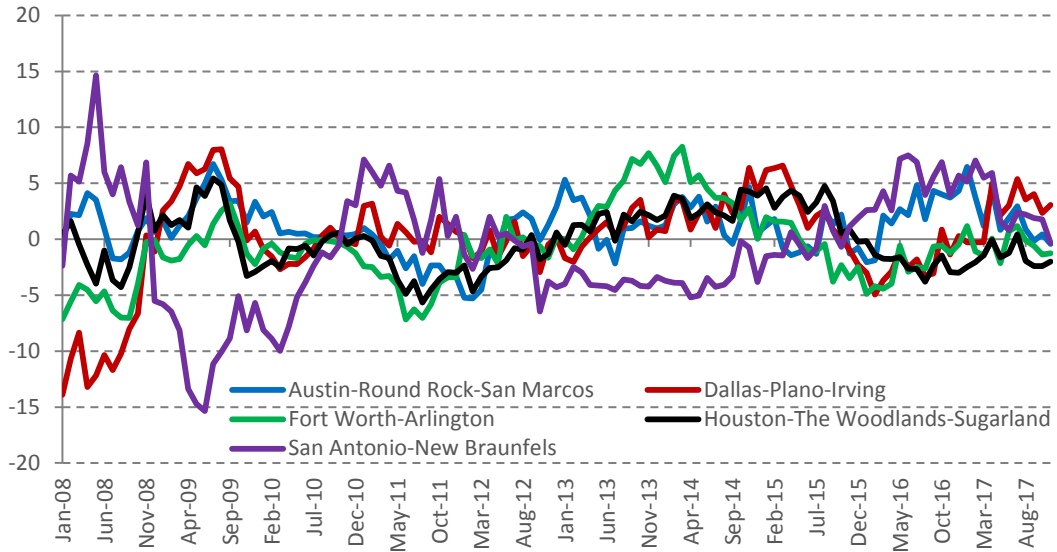
Note: Seasonally adjusted, 3-month moving average. November 2017 is preliminary.
 For more information, see [Employment Growth Rate](#).
 Source: Bureau of Labor Statistics

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



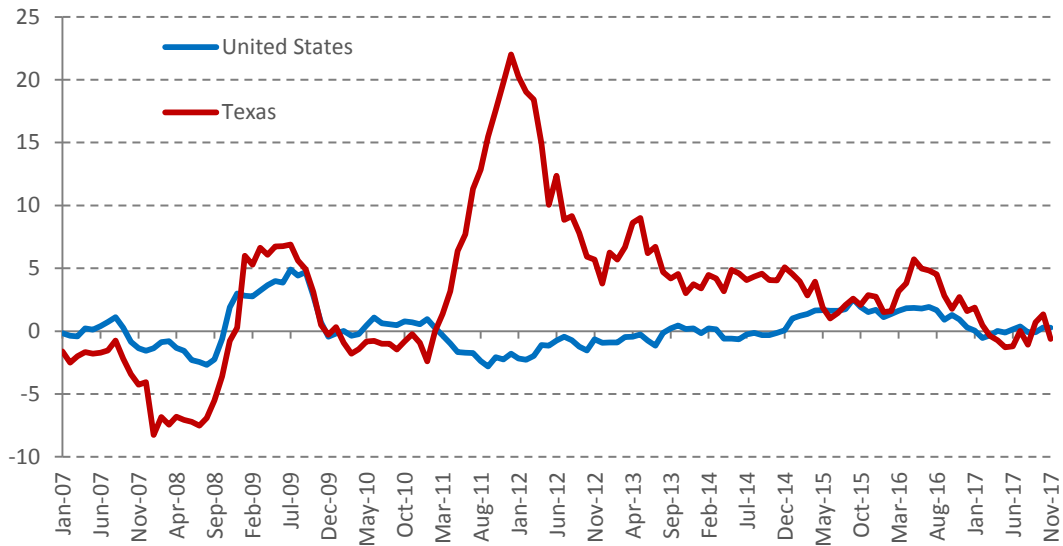
Notes: Inflation adjusted. November 2017 is preliminary.
 For more information, see [Total Private Employee Hourly Earnings](#).
 Source: Bureau of Labor Statistics

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



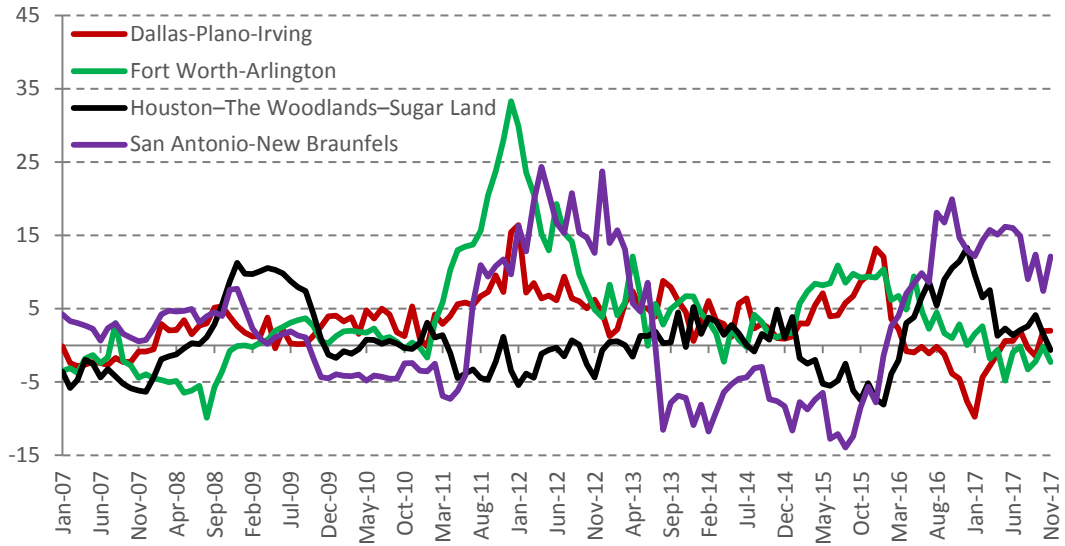
Notes: Inflation adjusted. November 2017 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

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



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

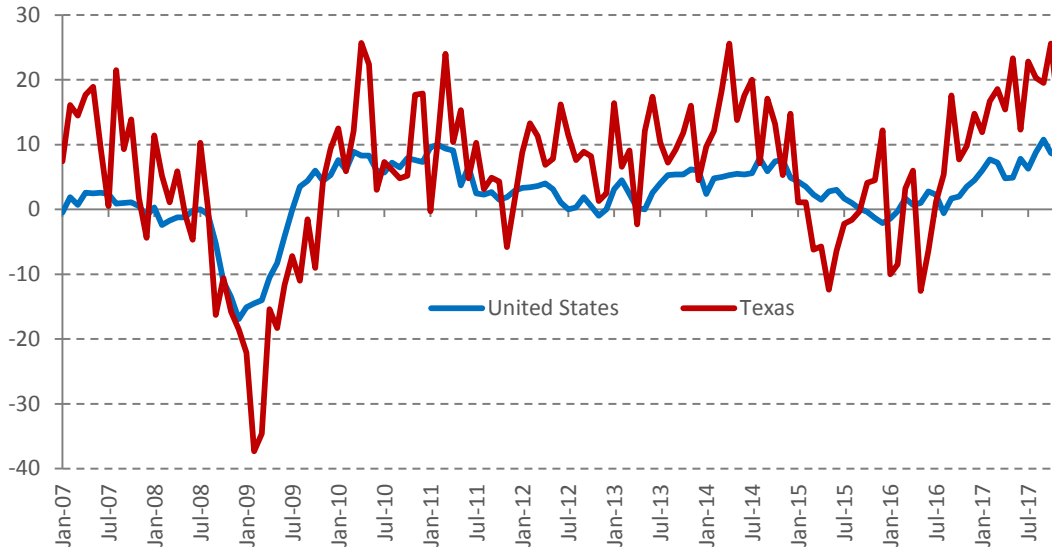
Major Metros Manufacturing Employee Hourly Earnings (Year-over-Year Percent Change)



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

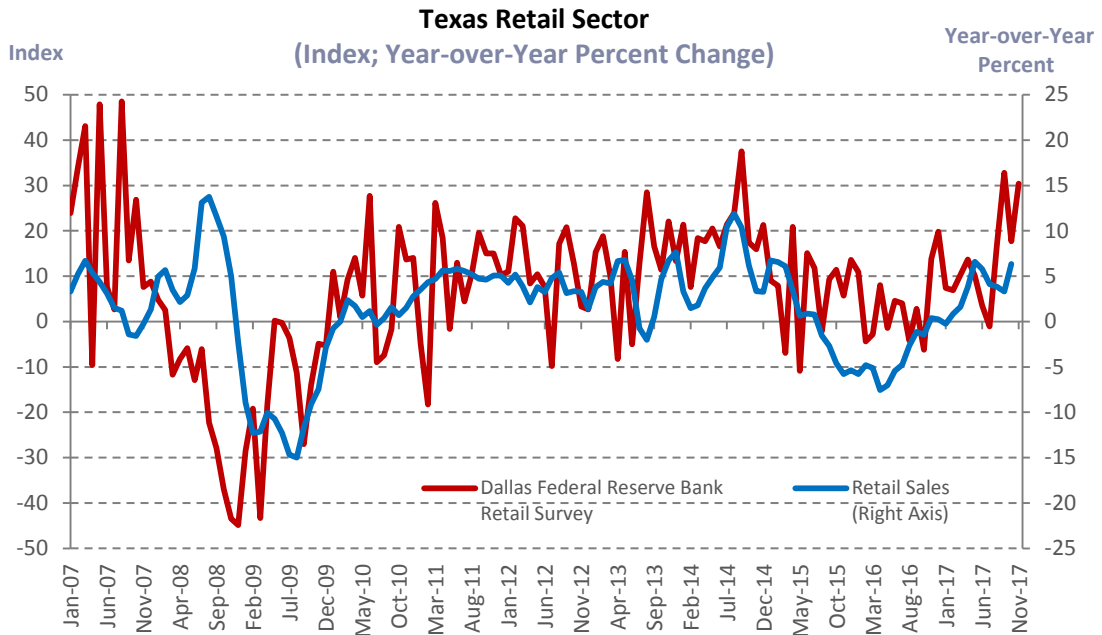
Manufacturing

Manufacturing Outlook Survey (Index)

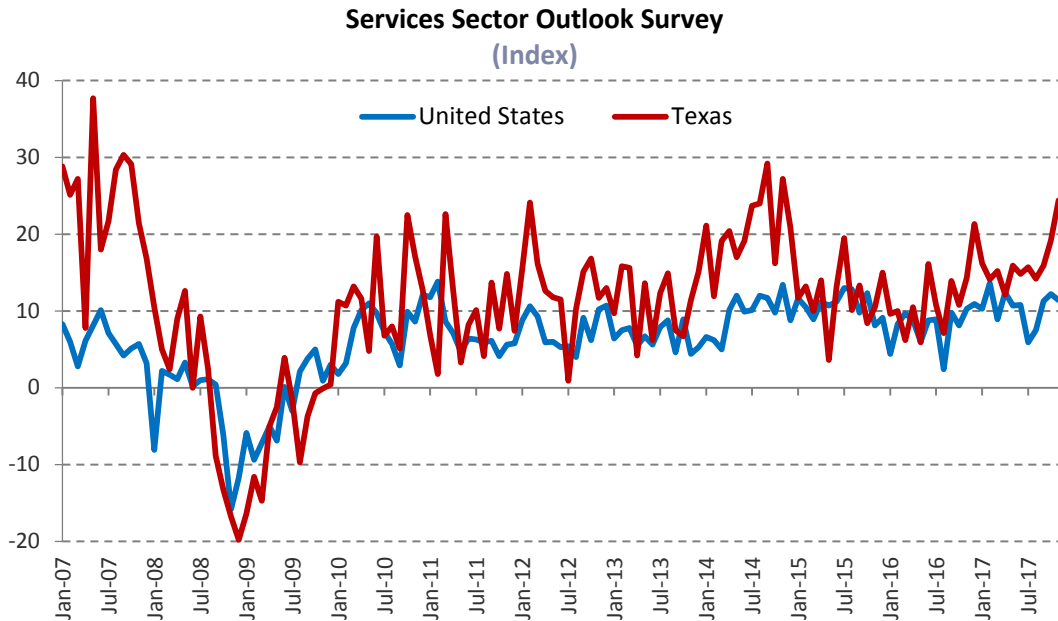


Note: Seasonally adjusted. For more information, see [Manufacturing Outlook Survey](#).
Sources: Federal Reserve Bank of Dallas and Institute for Supply Management. United States index is adjusted -50 to be on scale with Texas index

Services



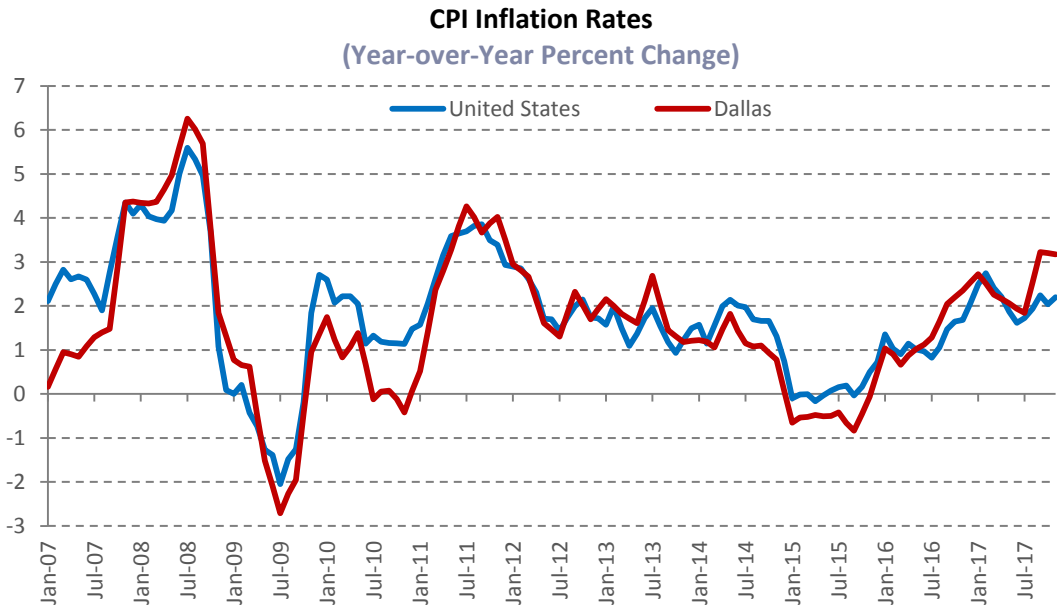
Note: Seasonally adjusted and inflation adjusted. For more information, see [Texas Retail Sector](#).
Sources: Retail Sector Outlook Survey from the Federal Reserve Bank of Dallas, Retail Sales from Texas Comptroller of Public Accounts



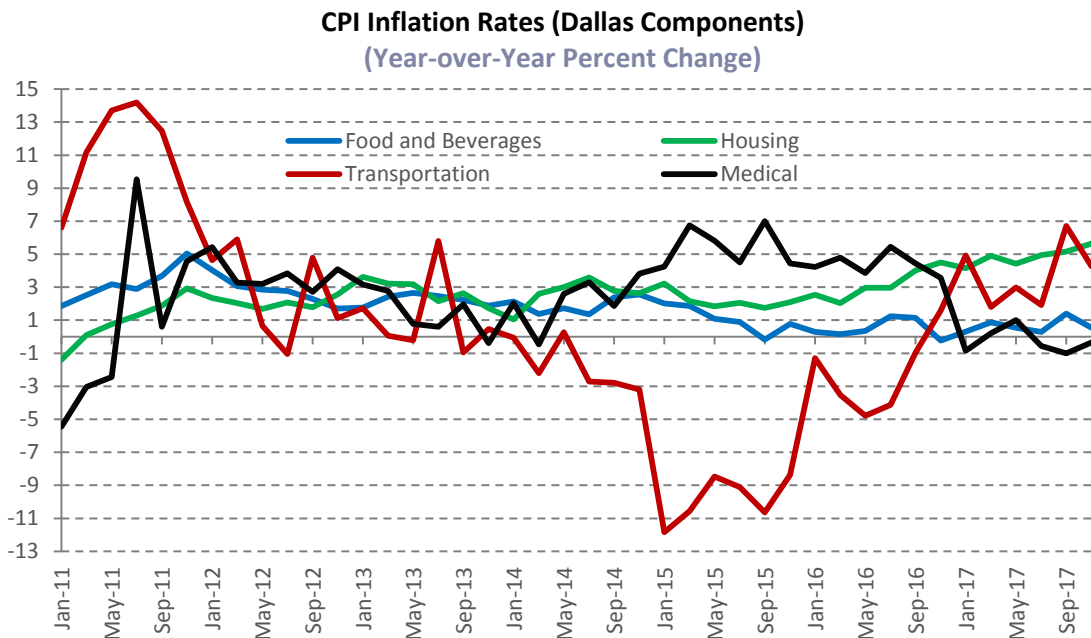
Note: Seasonally adjusted. For more information, see [Services Sector Outlook Survey](#).
Sources: Federal Reserve Bank of Dallas and Institute for Supply Management. United States index is adjusted -50 to be on scale with Texas index.



Prices



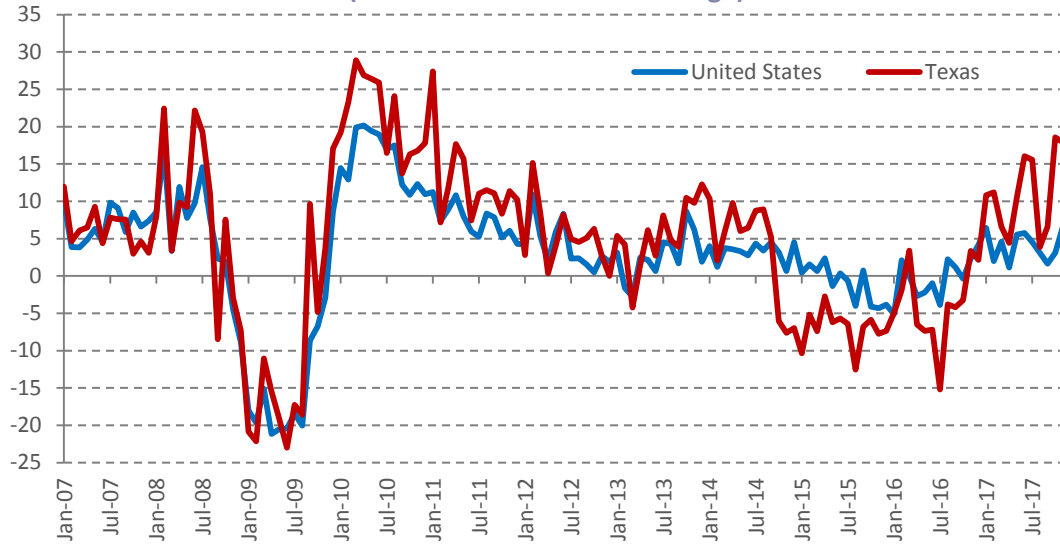
Note: Seasonally adjusted. For more information, see [CPI Inflation Rates](#).
Source: Bureau of Labor Statistics



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.
Source: Bureau of Labor Statistics

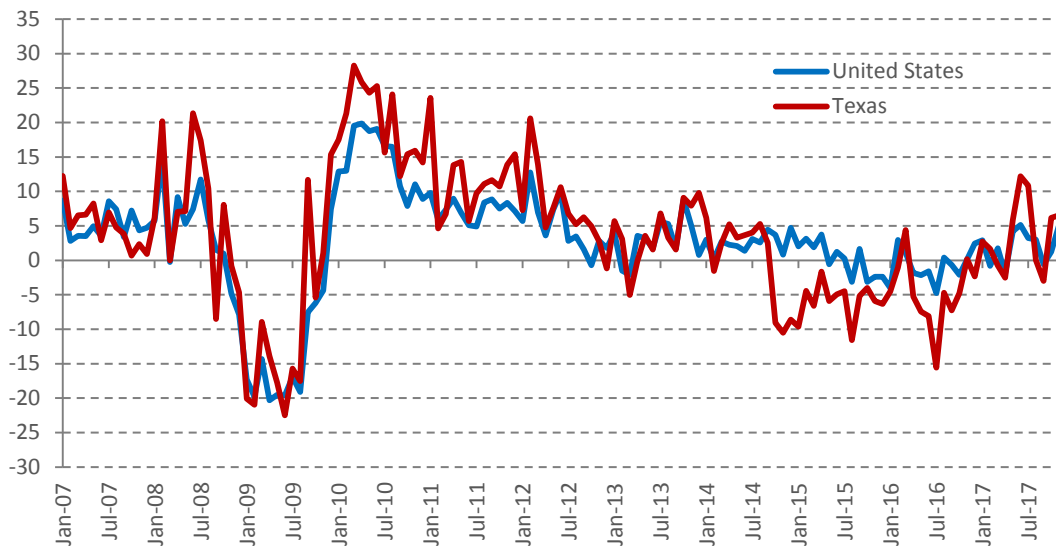
Trade

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

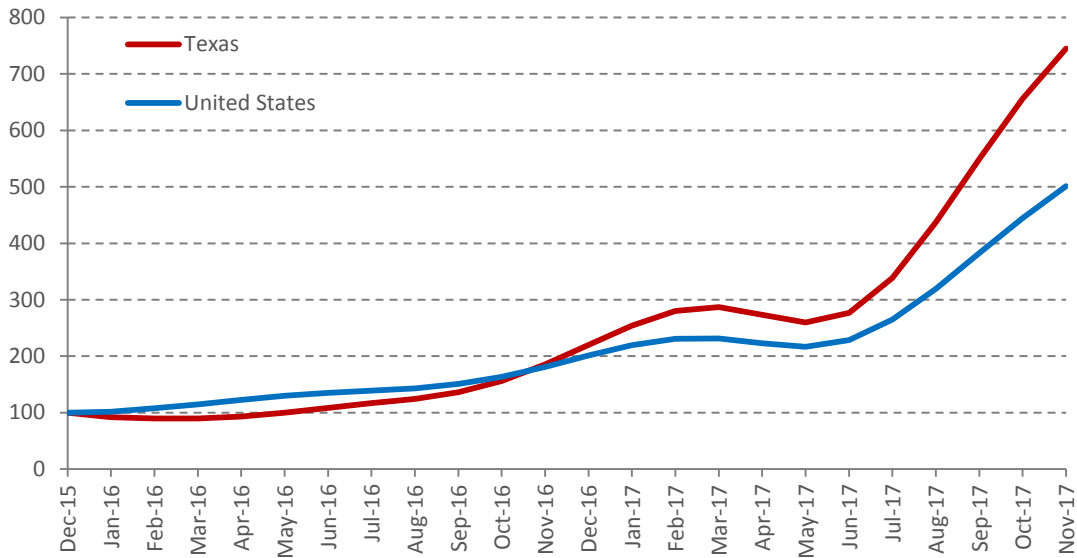
Manufacturing Exports
(Year-over-Year Percent Change)



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)

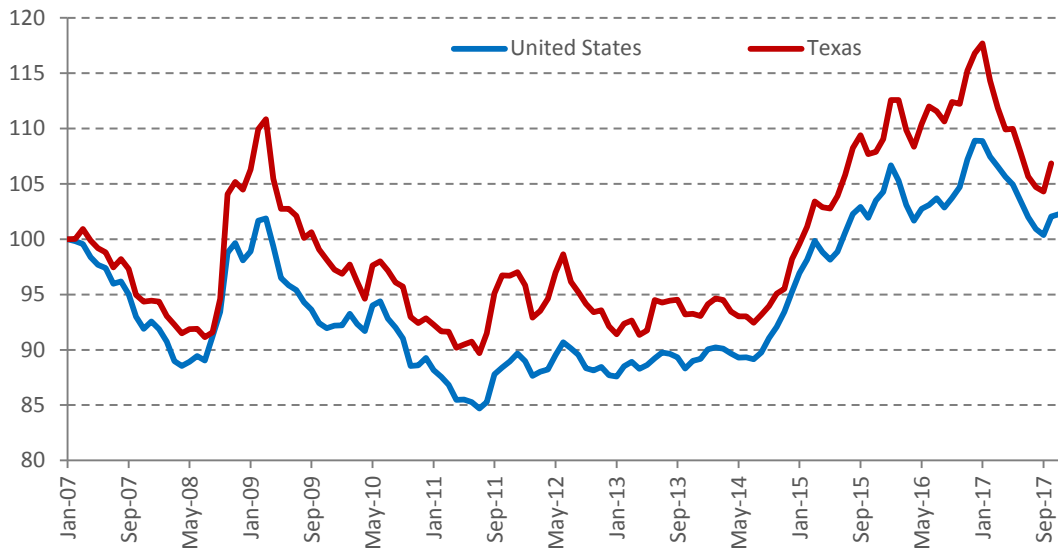


Note: Inflation adjusted and detrended with Bureau of Labor Statistics export indices.

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)

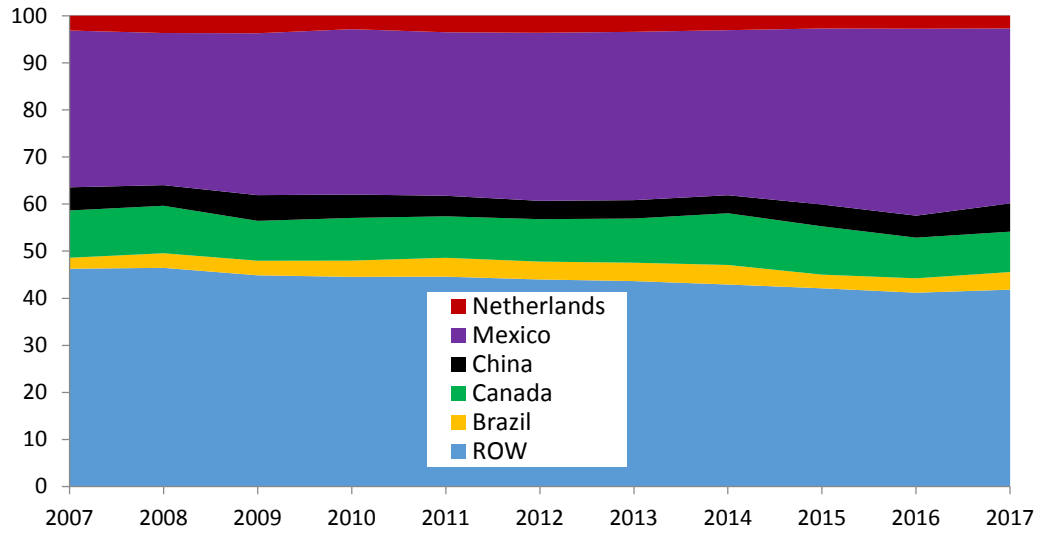


Note: For more information, see [Real Trade Weighted Value of U.S. Dollar](#).

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



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