

# 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 March 9, 2018

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## January 2018 Summary<sup>1</sup>

A strong U.S. economy and rising energy prices supported growth in the Texas economy. Texas crude oil production reached a cycle-high as global trade factors tipped in the state's favor. The bomb-cyclone storm jolted the demand for utilities but stifled activity in the service sector. Texas created 16,000 jobs amid solid growth in the goods-producing sector. The labor market tightened further, driving the economy towards full employment. Potential headwinds to the Texas economy include decreased housing affordability, energy price volatility, and trade uncertainty.

The Texas economy advanced as the **Dallas Fed's Business-Cycle Index** (a measure of current economic activity in the state) posted 4.8 percent quarterly annualized growth. The metropolitan business cycle indices were positive across the Texas Urban Triangle, led by Austin at 8.0 percent. Dallas and San Antonio maintained solid growth at 4.2 and 3.7 percent, respectively, while rebuilding efforts supported 5.7 percent growth in Houston. Meanwhile, weaker job creation in Fort Worth slowed the index to 1.8 percent.

The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) reached a two-year high amid higher oil prices, gains in the U.S. leading index, and declines in the Texas value of the dollar (a weight on Texas export competitiveness). Despite lagging wages, the **Texas Consumer Confidence Index** jumped 13.3 points as the business-cycle expansion continued.

Robust U.S. and global economic growth heightened inflation expectations and elevated interest rates. In their January meeting, the Federal Reserve Board hinted at three federal funds rate hikes this year as the national economy hovered around full employment. The **ten-year U.S. Treasury bond yield** rose 18 basis points to 2.58 percent, its largest monthly gain in over a year. The **Federal Home Loan Mortgage Corporation 30-year fixed-rate** jumped above 4 percent, maintaining upward momentum. While rates remained low by historical standards, even slight increases could hinder mortgage financing, particularly for first-time homebuyers.

Shortages of homes priced less than \$300,000 restrained **Texas housing sales** to 1 percent growth and heightened affordability challenges. Current residential construction activity, measured by the **Residential Construction Cycle (Coincident) Index**, inched forward as industry employment expanded. Growth in weighted building permits and housing starts accelerated the Texas **Residential Construction Leading Index (RCLI)** to its highest level since 2007, signaling improvements in residential construction activity to start the year. On the demand side, economic growth decreased the statewide foreclosure rate to 0.6 percent, down from its 2010 peak of 2.1 percent. (For additional housing commentary and statistics, see [Texas Housing Insight](#) at [recenter.tamu.edu](http://recenter.tamu.edu).)

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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.

The average **West Texas intermediate crude oil spot price** increased to \$63.70<sup>2</sup>, the highest since 2014, driven by robust global demand and diminishing U.S. stockpiles. The number of **active rigs** in Texas rose to 456<sup>2</sup>, up 35.7 percent year over year, as activity accelerated in both the Permian and Eagle Ford Basin. Higher crude oil prices pushed Texas production above 3.9 million barrels per day<sup>2</sup>, accounting for 41 percent of national output. The opening of the Midland-to-Sealy Pipeline in November 2017 improved the regional supply chain and is scheduled to expand operations this year. The **Henry Hub natural gas spot price** jumped 14.4 percent to \$3.69 per million BTU<sup>2</sup> (British thermal units) after the bomb-cyclone storm lingered in the southern and northeastern United States but normalized later in the month.

Texas **monthly nonfarm employment** added 16,000 jobs led by growth in the goods-producing sector. The **unemployment rate** held at 4 percent, slightly below the national level, while metropolitan unemployment balanced even lower. Houston was the exception with unemployment above 4 percent but remained below its 5.8 percent long-run average. Reduced **initial unemployment insurance claims** corroborated the general labor force tightening and could drop the unemployment rate even lower. Data revisions indicated an improved **labor force participation rate** at 63.4 percent, rather than slipping below 63 percent as previously reported. An aging workforce, however, continues to pressure labor force participation downward throughout the nation.

At the Texas metropolitan level, Houston added the most jobs at 5,300, primarily from gains in education, health services, and the energy sector. Austin had the largest proportional increase at 0.5 percent, as retail jobs stabilized after a six-month decline. Manufacturing rebounded in San Antonio after a fourth-quarter slide last year, balancing total monthly growth at 1,600 new jobs. North Texas employment stagnated for the second straight month as professional-business services and wholesale trade hindered Dallas and Fort Worth, respectively. The sluggish stint, however, should be transitory as the region's economic expansion generated the most job creation across the state in 2017.

Statewide, the goods-producing sector added 7,200 jobs as higher oil prices boosted energy sector activity. The manufacturing sector improved, adding 2,400 jobs, but could stagger amid potential U.S. tariffs on foreign steel and aluminum. Manufacturing job growth hovered around 3 percent (quarterly annualized) in Austin, Dallas, and Fort Worth, followed by Houston at 1.5 percent.

The **Dallas Fed's Texas Manufacturing Outlook Survey** noted positive, yet slowing employment trends in the industry. The production index extended a 19-month upward trend with 25 percent of companies increasing capital expenditures. Companies revealed reinvestment plans following the recent tax cuts and favored the weakened value of the dollar. Skilled labor shortages remain the primary complaint across the manufacturing sector.

Rebuilding efforts along the Gulf Coast propelled construction employment growth above 11 percent (quarterly annualized). **The total value of Texas construction** rose 2.4 percent on a three-

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<sup>2</sup> Nonseasonally adjusted.

month moving average after sliding through most of 2017. Multifamily residential construction accounted for most of the monthly uptick, followed by school and hospital construction. Additionally, hotel and motel investment poured into all the major metros except Austin.

Texas' service-providing sector inched forward, creating 8,800 new jobs, nearly 30,000 less than a year ago. Steady contractions in retail trade and the information sector hindered this month's expansion. The **Texas Service Sector Outlook Survey** corroborated lackluster employment growth as all the labor indices decelerated. The revenue index fell sharply after the cold front stormed through the state early in the month. Respondents expressed concerns regarding NAFTA renegotiations and the lack of the H-2B visa "returning worker" exemption.

The cold weather disproportionately affected the retail industry, resulting in 2,400 lost jobs. The **Texas Retail Outlook Survey** reflected the seasonal impact as the sales index crashed 28.8 points into negative territory, while the future business conditions indices held firm. Labor market tightness forced retailers to compete for the limited supply of skilled workers through wage and benefit increases.

Despite low unemployment levels, employee compensation remained stagnant as **real Texas private hourly earnings** fell 0.8 percent, pulling YOY growth into negative territory. Houston and San Antonio wages suffered disproportionately, contracting more than 3 percent YOY. Hourly earnings fell 0.3 and 0.4 percent YOY, respectively, in Austin and Fort Worth. Dallas remained the exception with 2.1 percent YOY wage growth but showed signs of slowing.

While Texas wages lagged the national level by \$0.44, Texas *manufacturing* jobs paid a 10 percent premium in hourly earnings relative to U.S. average. Fort Worth had the highest manufacturing wages, paying 47.1 percent more than the statewide average but dipped 3.6 percent YOY. Manufacturing earnings were relatively unchanged in Houston and Dallas compared to January 2017. San Antonio remained the outlier for manufacturing wage growth, rising 14.4 percent YOY but remained 15.4 percent below the Texas average.

The **U.S. Consumer Price Index (CPI)** surpassed 2 percent growth YOY for the fifth consecutive month as cold weather elevated energy costs. The core inflation rate, which excludes the often-volatile energy and food sectors, approached the 2 percent YOY benchmark amid rising medical care and transportation prices. The Dallas CPI was higher at 2.7 percent YOY after balancing above 3 percent in 4Q17. Affordable housing constraints pushed Dallas residents into the rental market, where prices inflated 5 percent YOY.

Increased trade in transportation equipment and primary metal manufacturing held **Texas total commodity and manufacturing exports** near record levels, despite a pause in the petroleum industry. Bolstered by higher oil prices, **Texas crude oil exports** increased 167 percent YOY and accounted for 87 percent of the national total. The **Texas trade-weighted value of the dollar**<sup>3</sup>

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<sup>3</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.

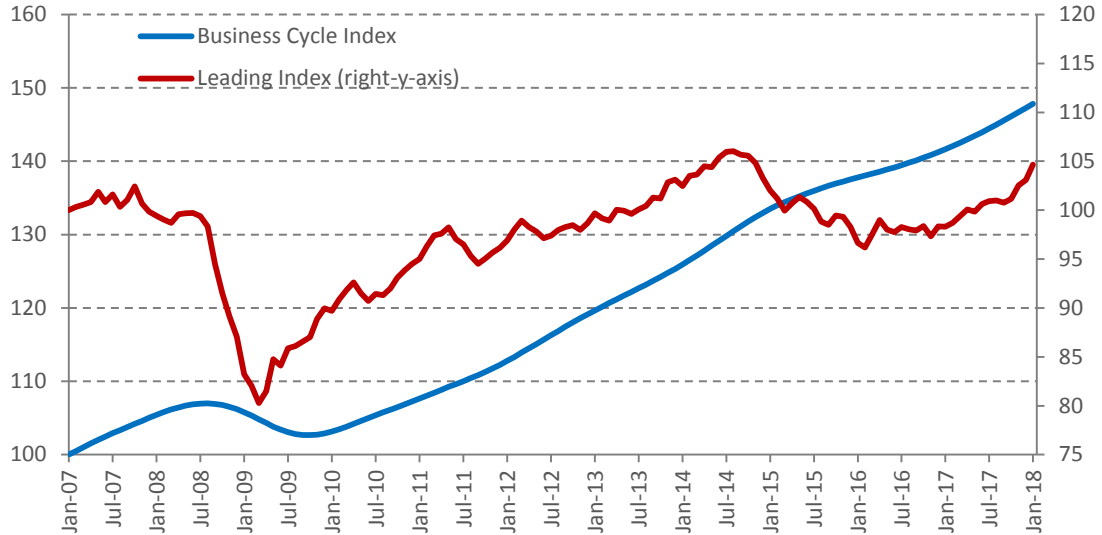
extended its downward trend, falling 8.8 percent YOY and boosting the attractiveness of Texas goods and services to foreign consumers.

Strong global economic growth and the falling value of the dollar should support export growth early this year. Mexican and Canada received nearly half of January exports, remaining Texas' primary trade partners. This trilateral relationship highlights the importance of a successful NAFTA renegotiation. The potential of increased tariffs and global trade conflicts present an additional headwind to Texas trade activity.



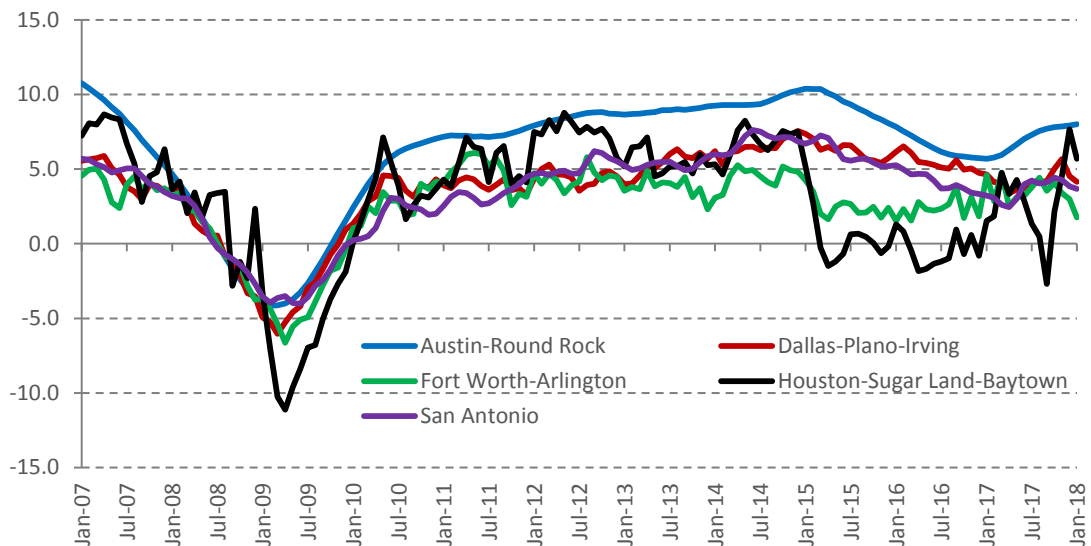
## Economic Activity

**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

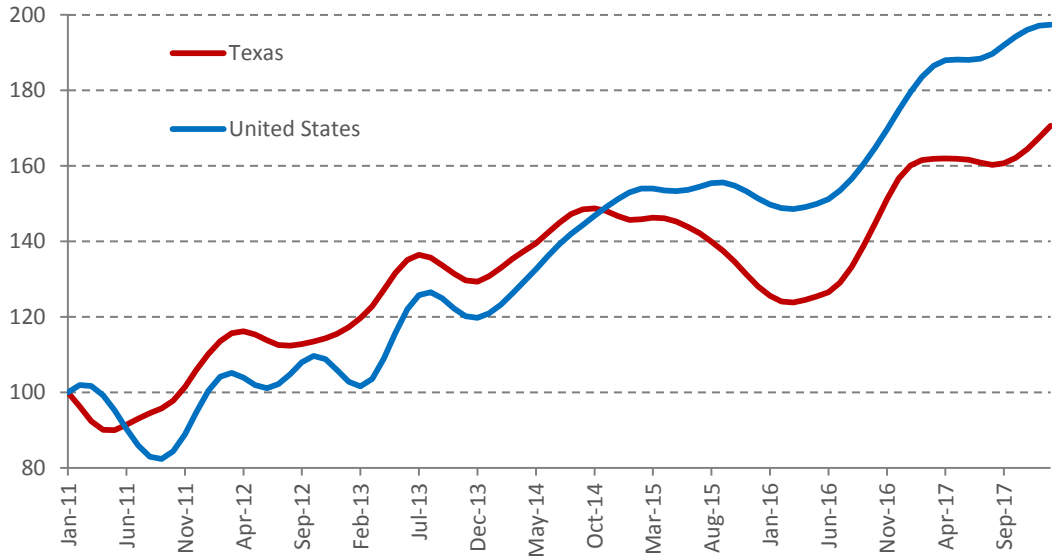
**Major Metros Business Cycle Index**  
(Quarter-over-Quarter Percent Change)



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



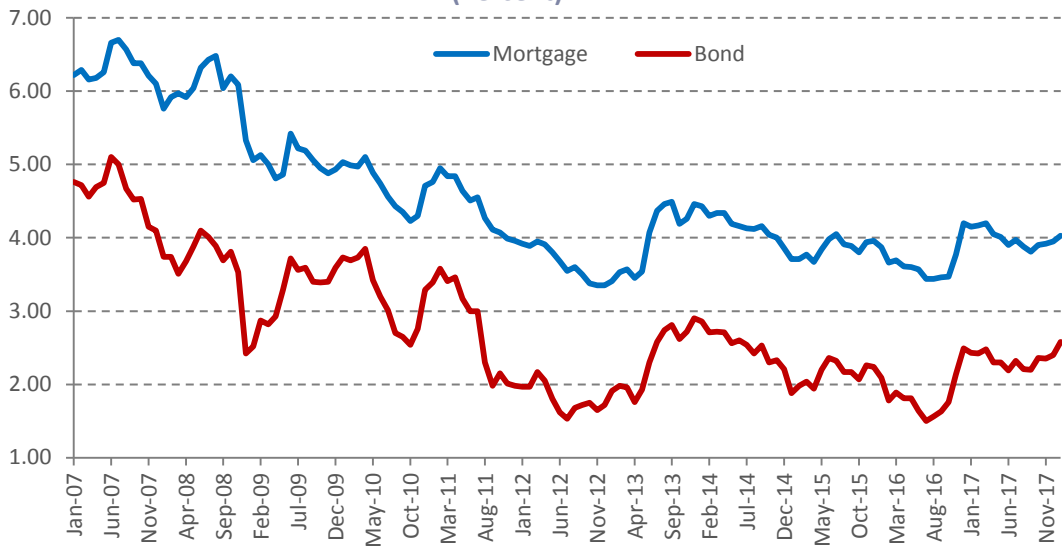
**Consumer Confidence Index**  
(Index Jan 2011 = 100)



Note: Seasonally adjusted and detrended.  
Source: Conference Board

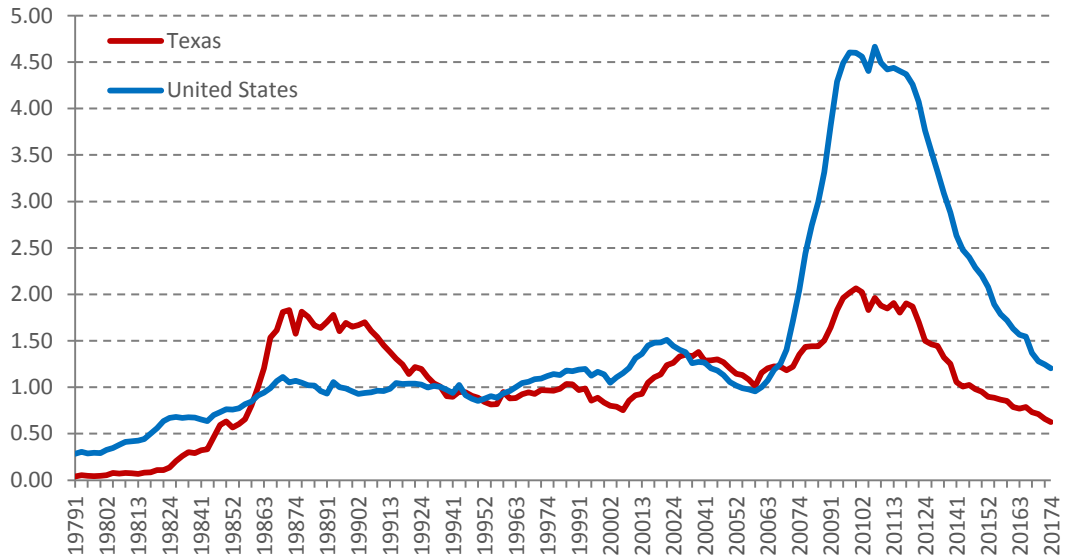
**Financial Activity**

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



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

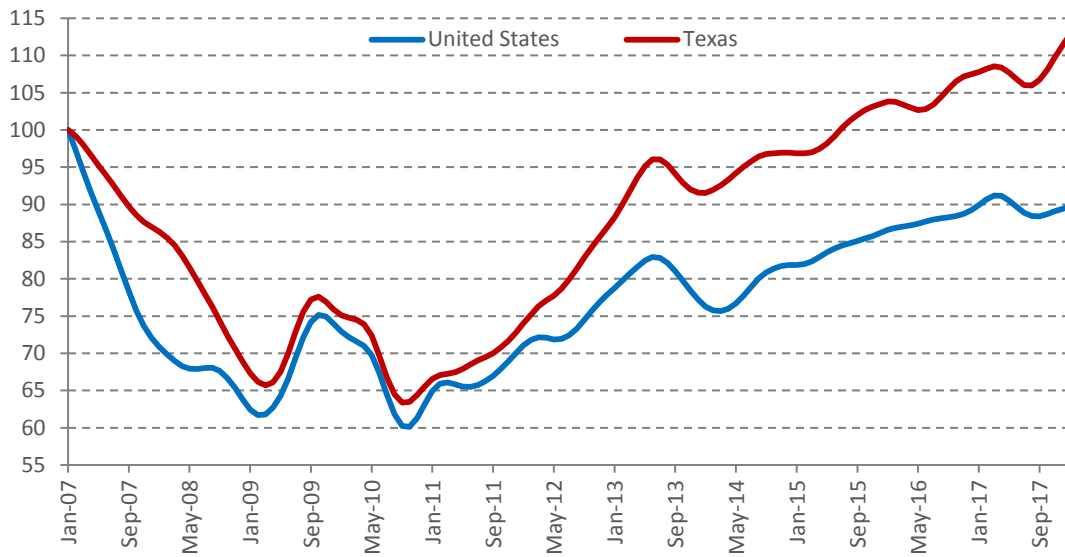
### Mortgage Foreclosure Inventory (End of Period) (Percent)



Note: Seasonally adjusted.  
Source: Mortgage Bankers Association

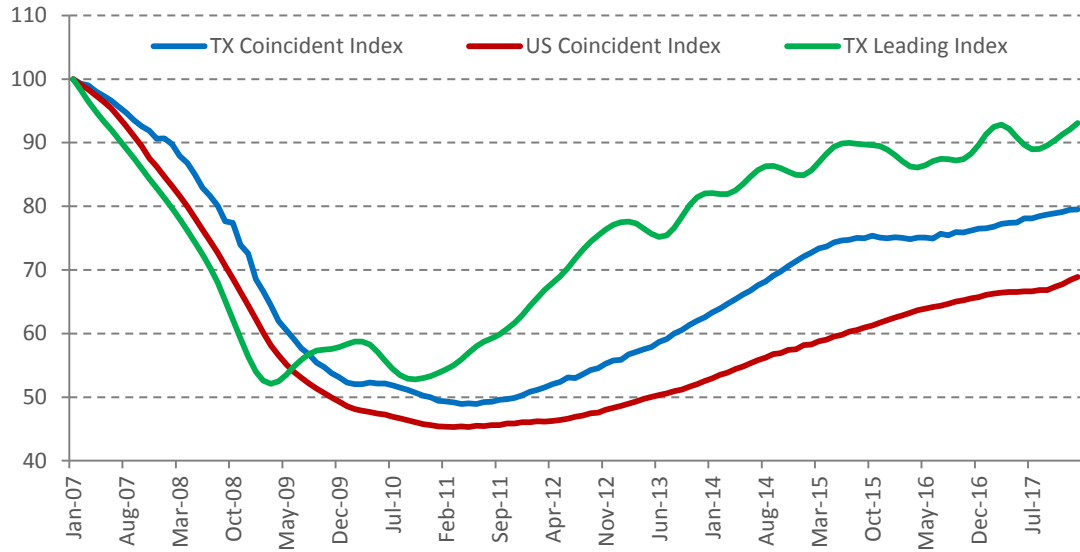
### Housing

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



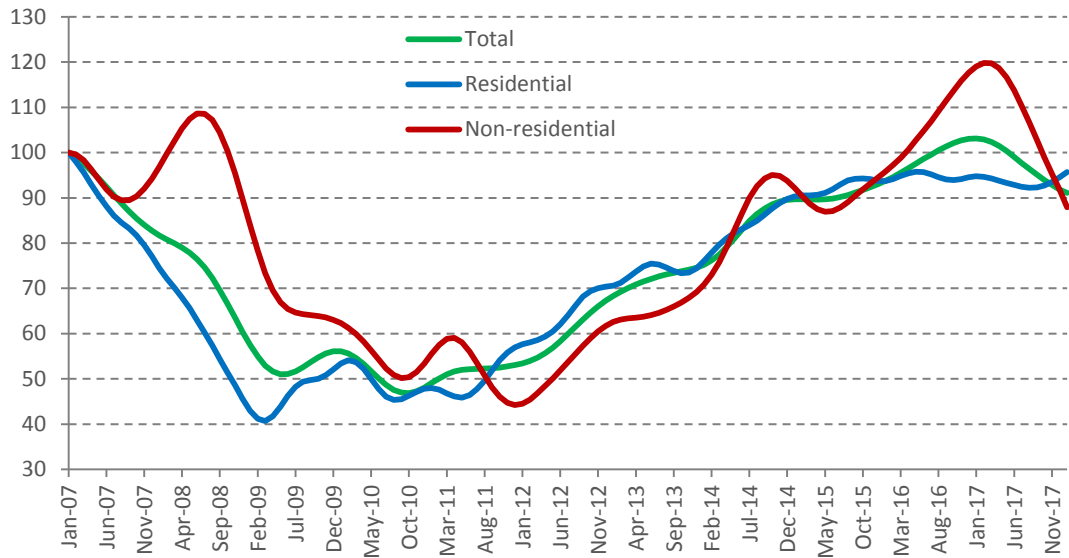
Note: Seasonally adjusted and detrended. Sales for the United States include all existing homes and new single-family homes; new non-single-family homes are not included. Texas includes all existing and new homes.  
For more information, see [Housing Sales](#).  
Sources: U.S. Census Bureau, National Association of Realtors, and Real Estate Center at Texas A&M University

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



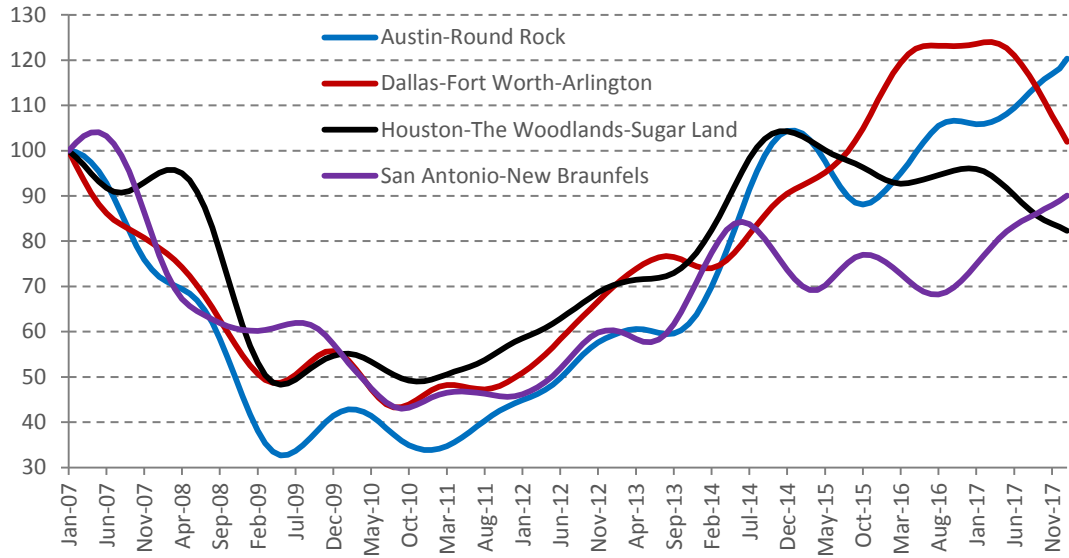
Note: Seasonally adjusted and detrended.  
Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas

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



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

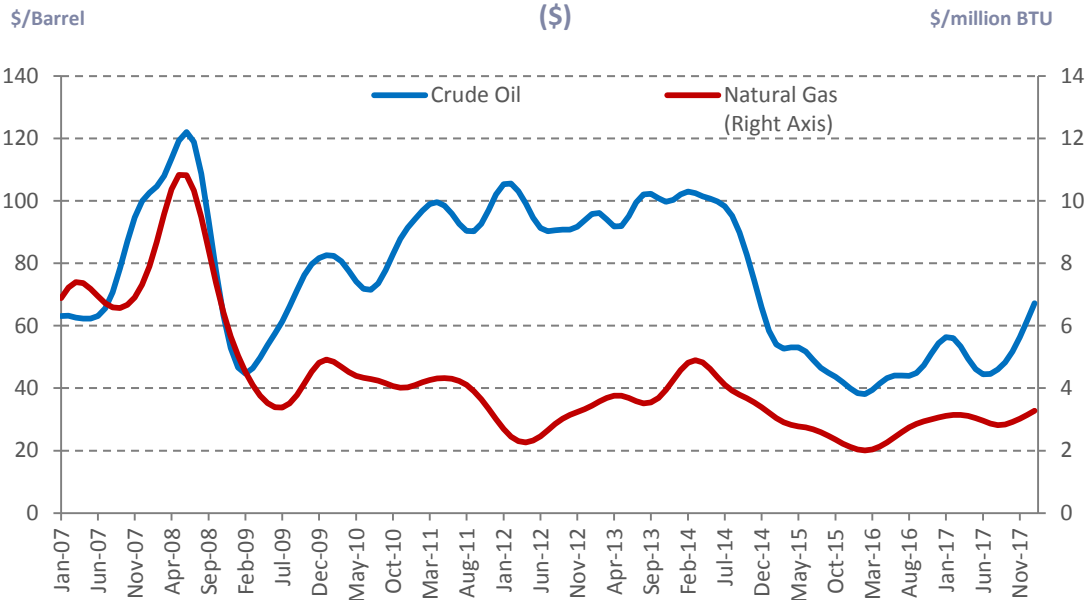
### Major Metros Total Construction Values (Index Jan 2007 = 100)



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

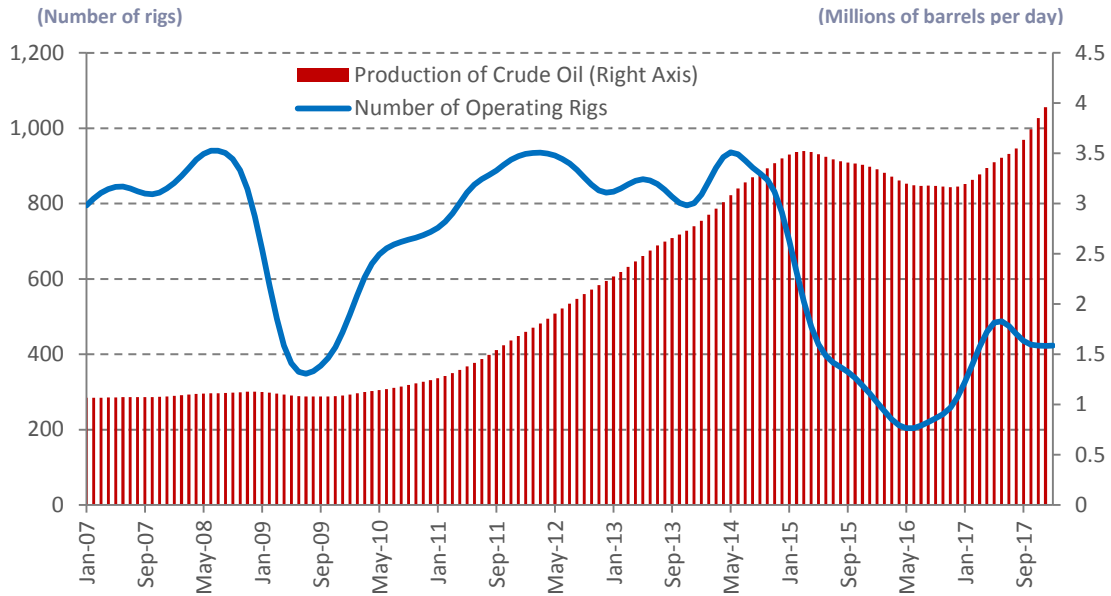
### Energy

#### Crude Oil and Natural Gas Prices (\$)



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

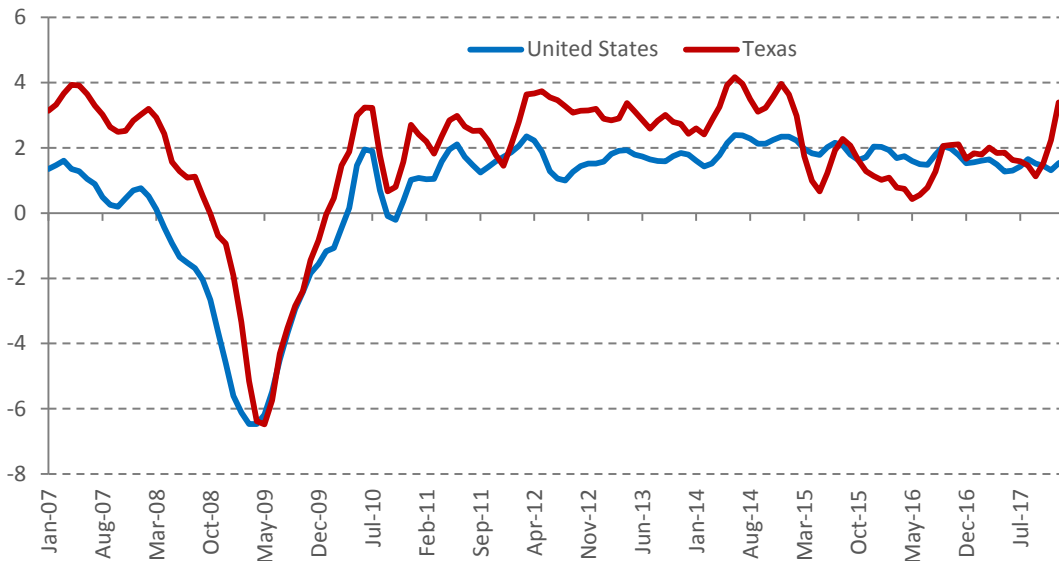
## Texas Production of Crude Oil and Rig Count (Count)



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

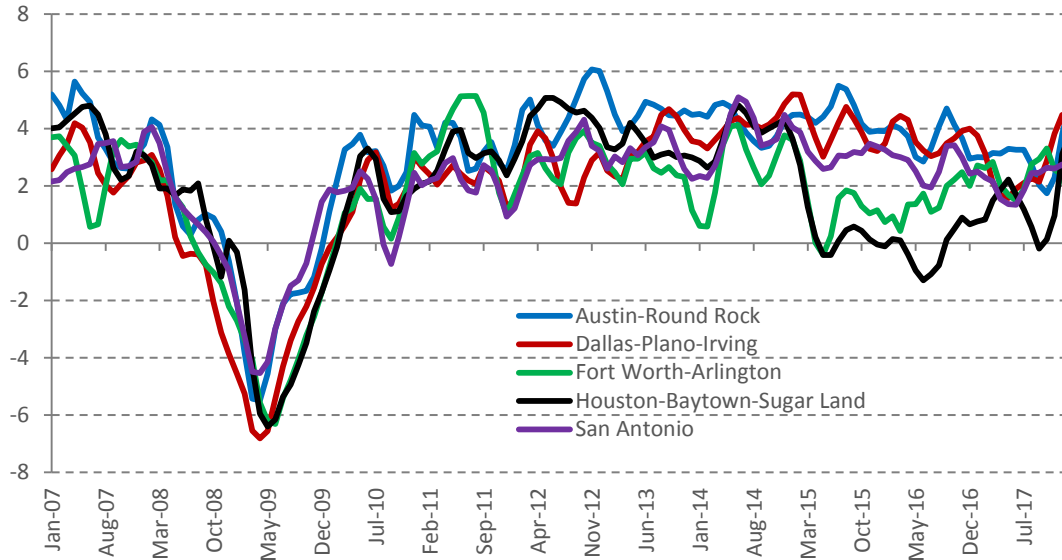
## Employment

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



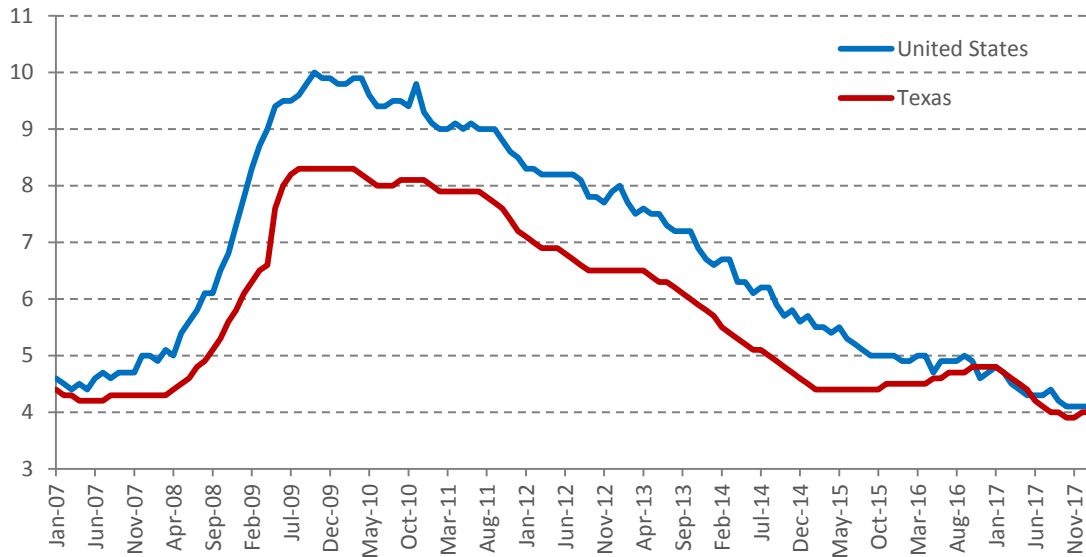
Note: Seasonally adjusted, 3-month moving average. January 2018 is preliminary.  
 For more information, see [Employment Growth Rate](#).  
 Source: Bureau of Labor Statistics

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



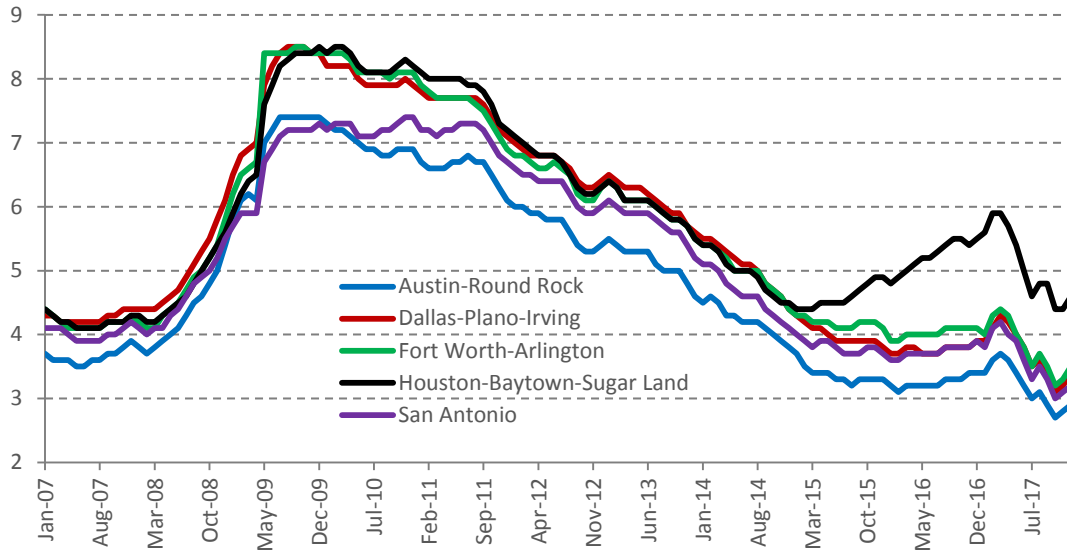
Note: Seasonally adjusted, 3-month moving average. January 2018 is preliminary.  
 For more information, see [Employment Growth Rate](#).  
 Source: Bureau of Labor Statistics

### Unemployment Rate (Percent)



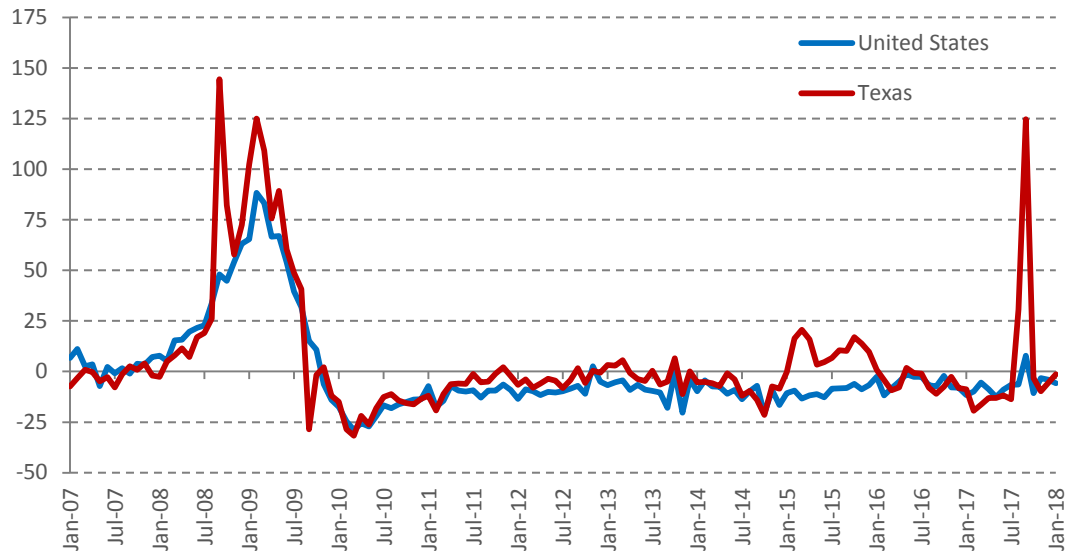
Note: Seasonally adjusted. January 2018 is preliminary. For more information, see [Unemployment Rate](#).  
 Source: Bureau of Labor Statistics

### Major Metros Unemployment Rate (Percent)



Note: Seasonally adjusted. January 2018 is preliminary. For more information, see [Unemployment Rate](#).  
Sources: Bureau of Labor Statistics and Real Estate Center at Texas A&M University

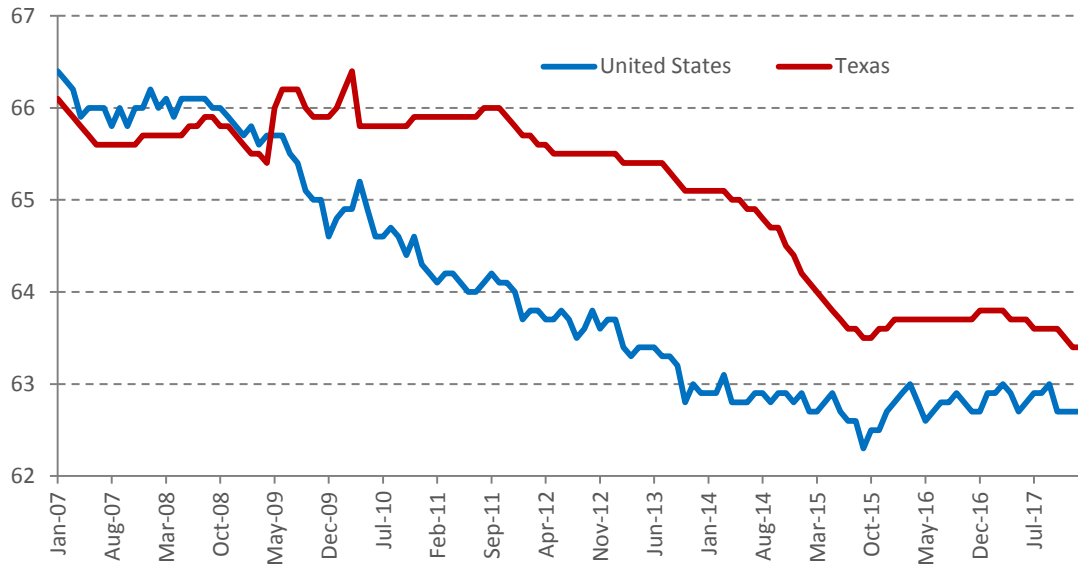
### Unemployment Insurance Claims: Initial Applications (Year-over-Year Percentage Change)



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

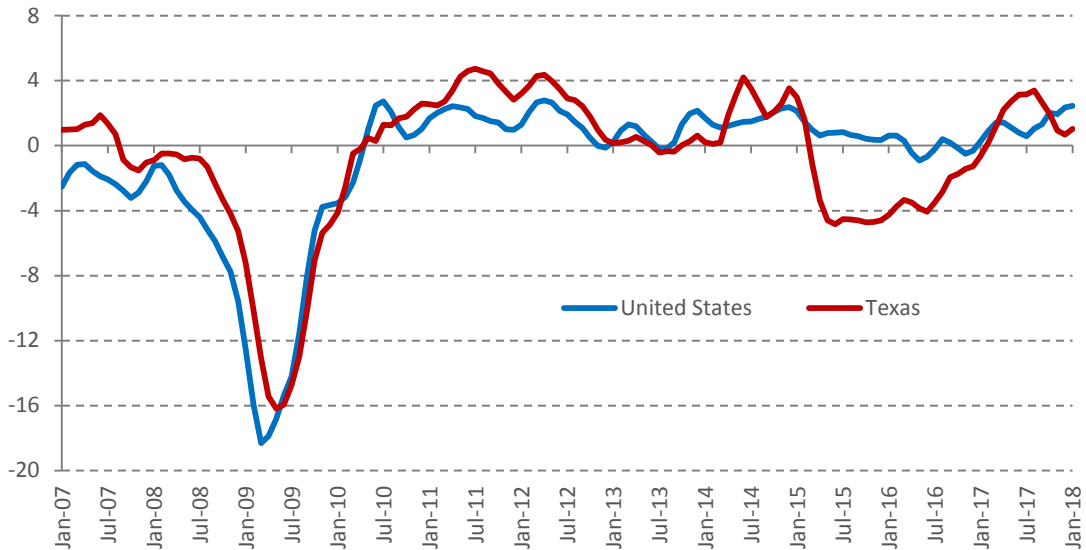


### Labor Force Participation Rate (Percent)



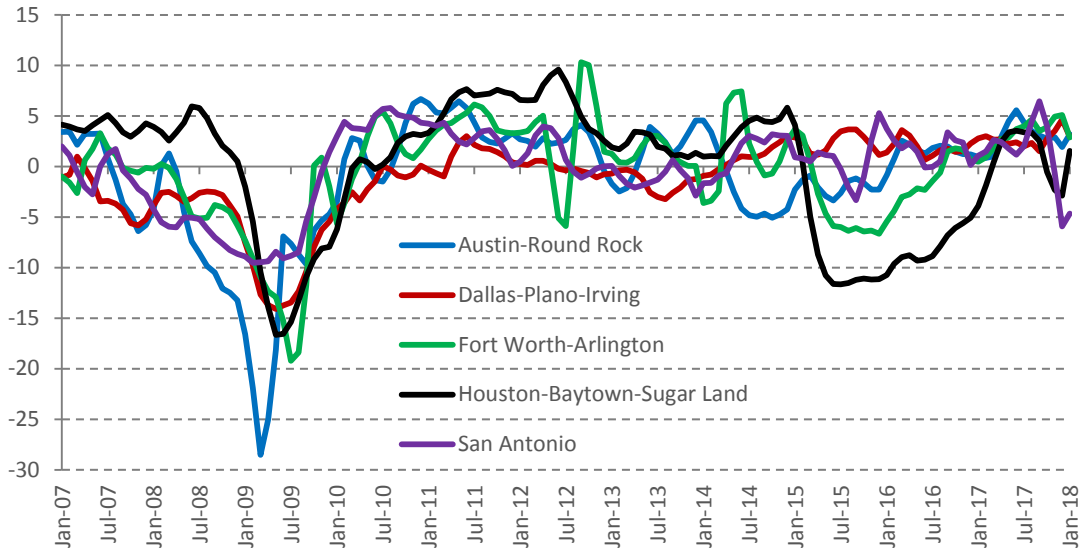
Note: Seasonally adjusted. For more information, see [Unemployment Rate](#).  
Source: Bureau of Labor Statistics

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



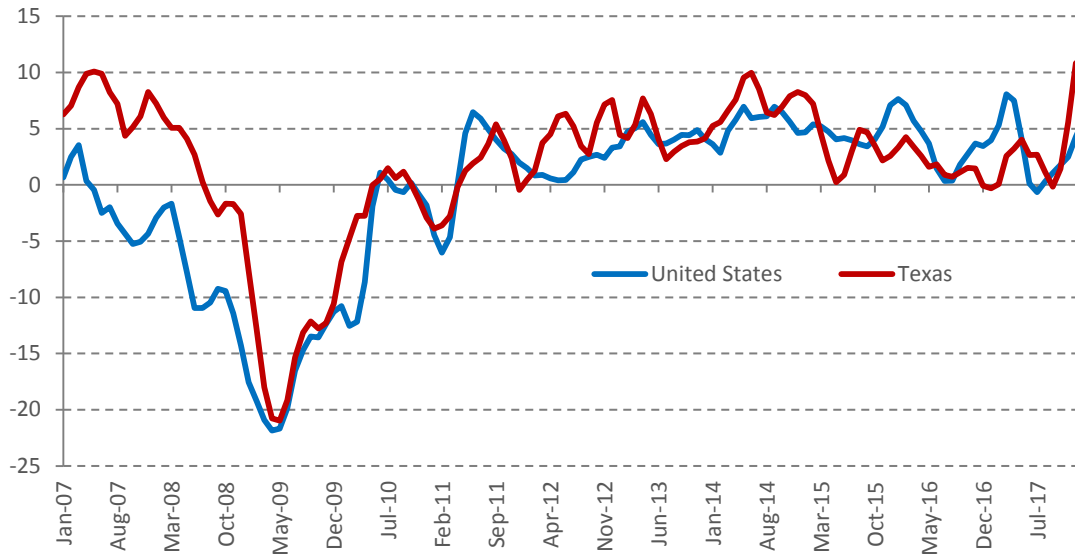
Note: Seasonally adjusted, 3-month moving average. January 2018 is preliminary.  
For more information, see [Employment Growth Rate](#).  
Source: Bureau of Labor Statistics

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



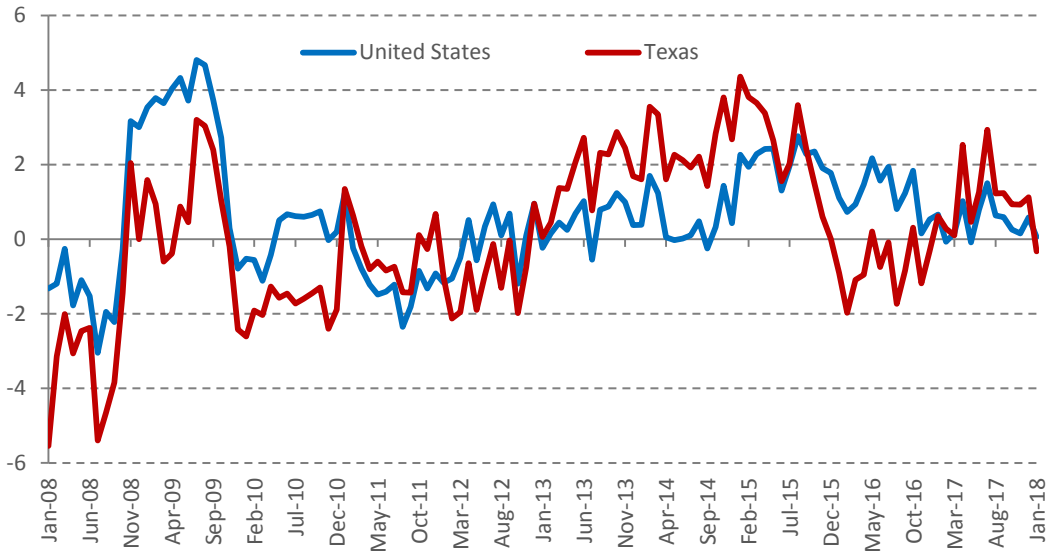
Note: Seasonally adjusted, 3-month moving average. January 2018 is preliminary.  
 For more information, see [Employment Growth Rate](#).  
 Source: Bureau of Labor Statistics

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



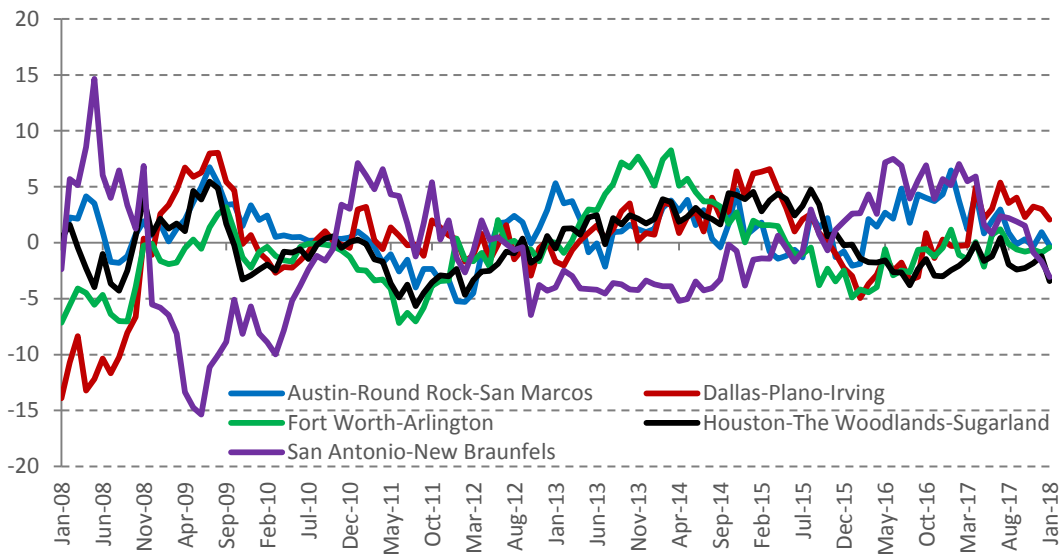
Note: Seasonally adjusted, 3-month moving average. January 2018 is preliminary.  
 For more information, see [Employment Growth Rate](#).  
 Source: Bureau of Labor Statistics

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



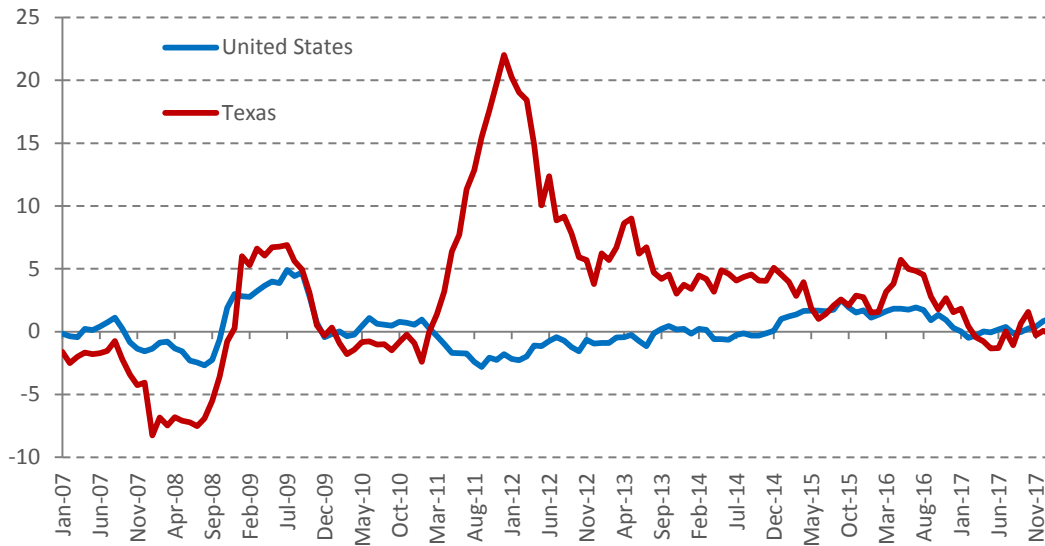
Notes: Inflation adjusted. January 2018 is preliminary.  
For more information, see [Total Private Employee Hourly Earnings](#).  
Source: Bureau of Labor Statistics

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



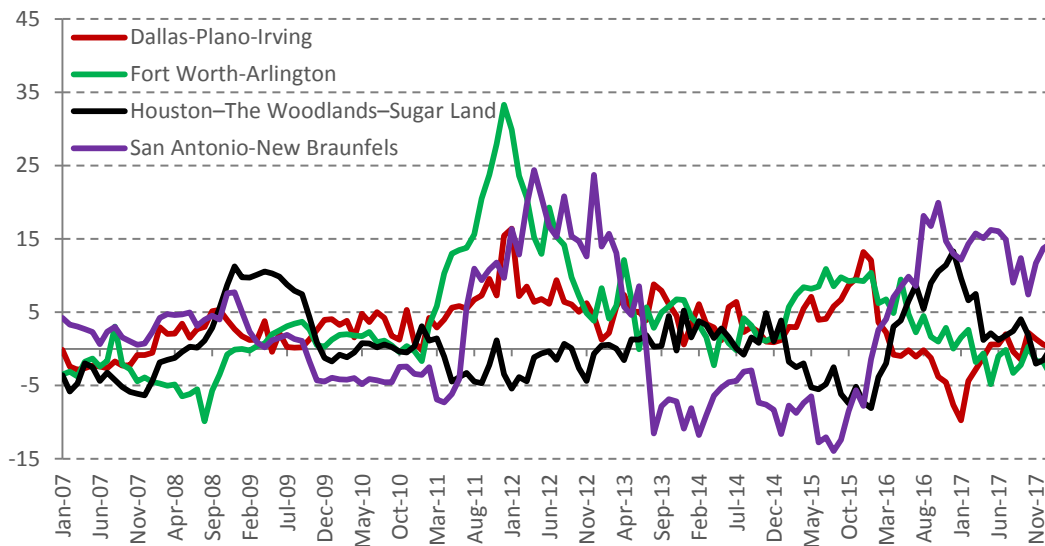
Notes: Inflation adjusted. January 2018 is preliminary.  
For more information, see [Total Private Employee Hourly Earnings](#).  
Source: Bureau of Labor Statistics

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



Notes: Inflation adjusted. January 2018 is preliminary.  
For more information, see [Total Private Employee Hourly Earnings](#).  
Source: Bureau of Labor Statistics

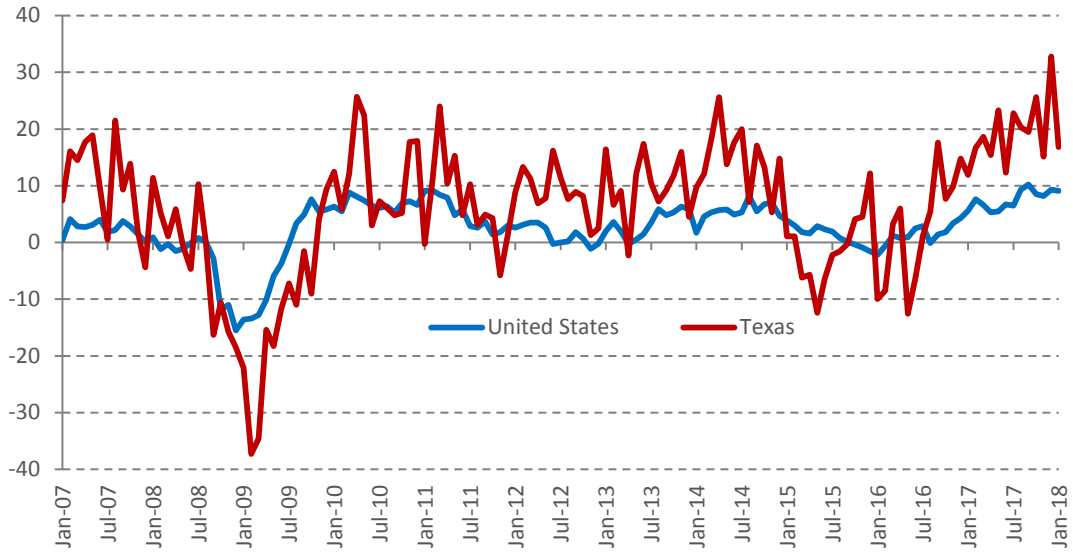
### Major Metros Manufacturing Employee Hourly Earnings (Year-over-Year Percent Change)



Notes: Inflation adjusted. January 2018 is preliminary.  
For more information, see [Total Private Employee Hourly Earnings](#).  
Source: Bureau of Labor Statistic

## Manufacturing

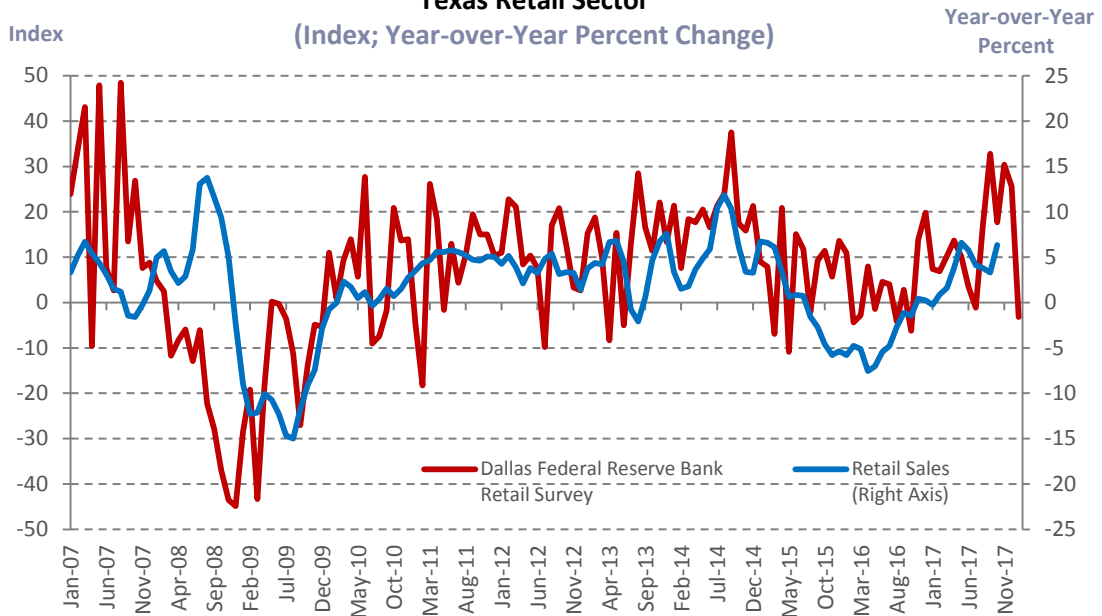
**Manufacturing Outlook Survey  
(Index)**



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

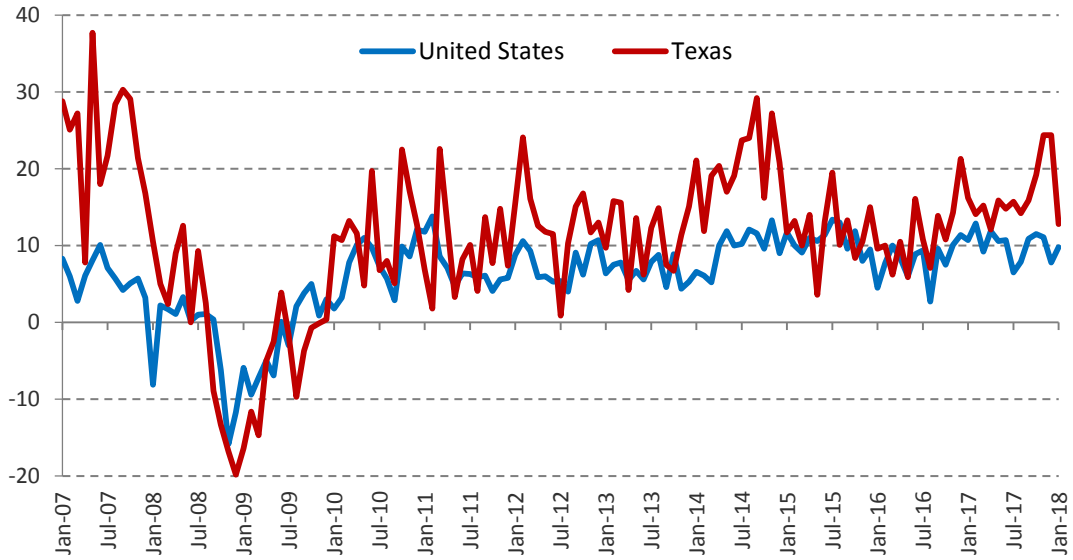
## Services

**Texas Retail Sector  
(Index; Year-over-Year Percent Change)**



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)

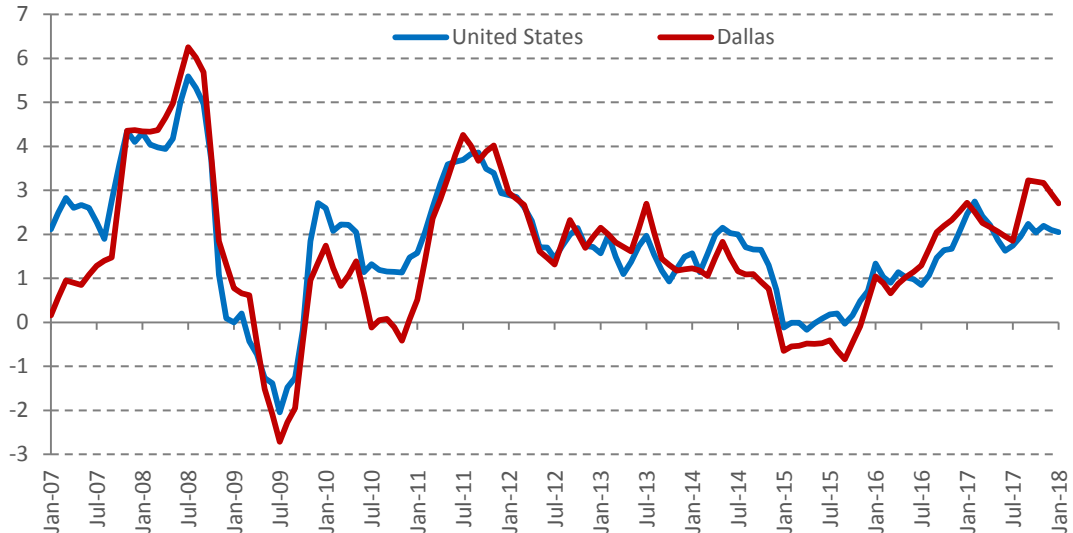


Note: Seasonally adjusted. For more information, see [Services Sector Outlook Survey](#).

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)

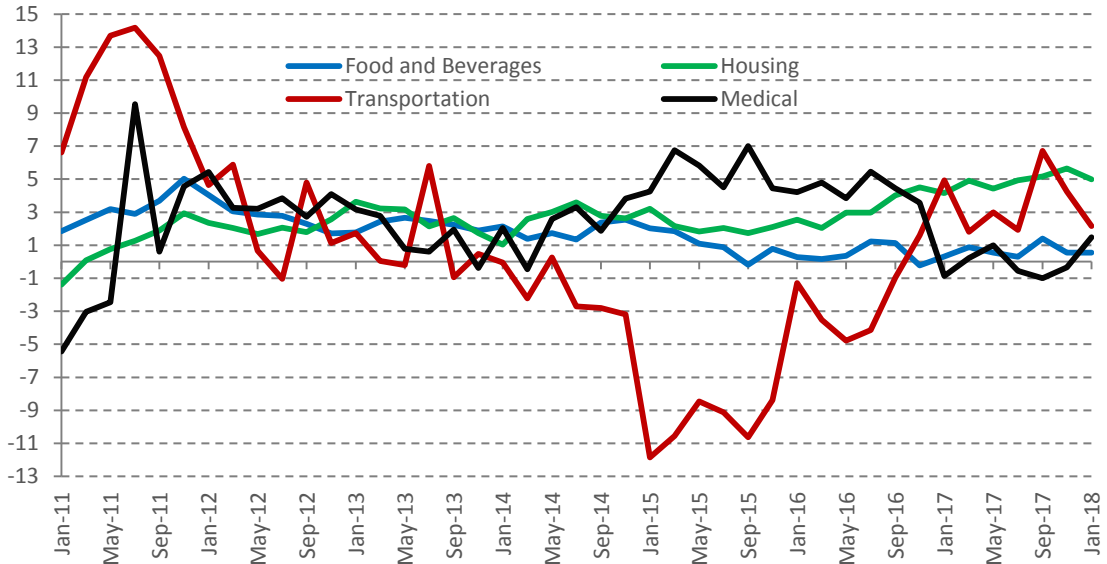


Note: Seasonally adjusted. For more information, see [CPI Inflation Rates](#).

Source: Bureau of Labor Statistics



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

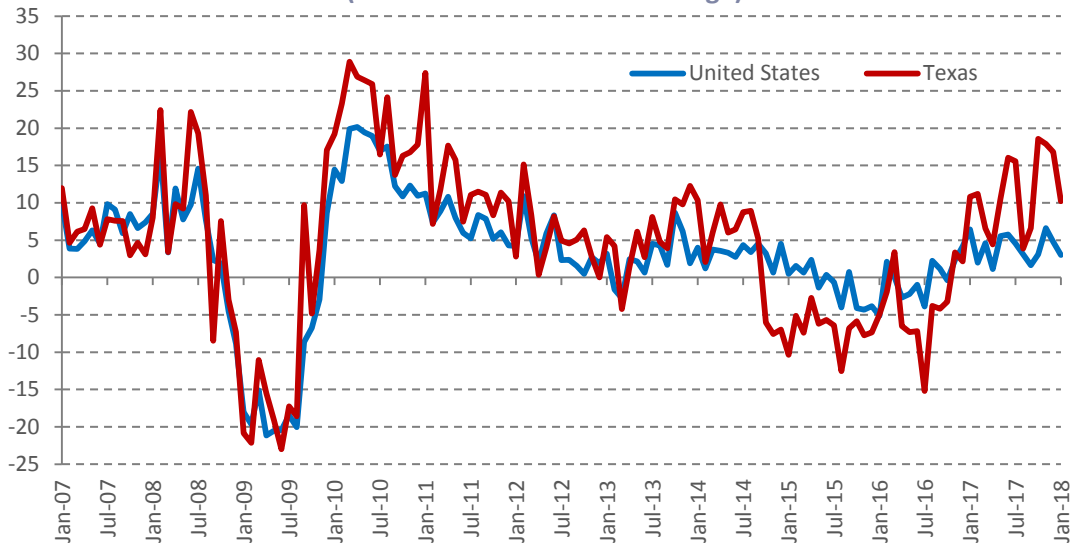


Note: The Dallas CPI is composed of the following major groups: Food and Beverages, Housing, Apparel, Transportation, Medical Care, Recreation, Education and Communication, and Other Goods and Services. The four major components are included in the graph above.

Source: Bureau of Labor Statistics

**Trade**

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

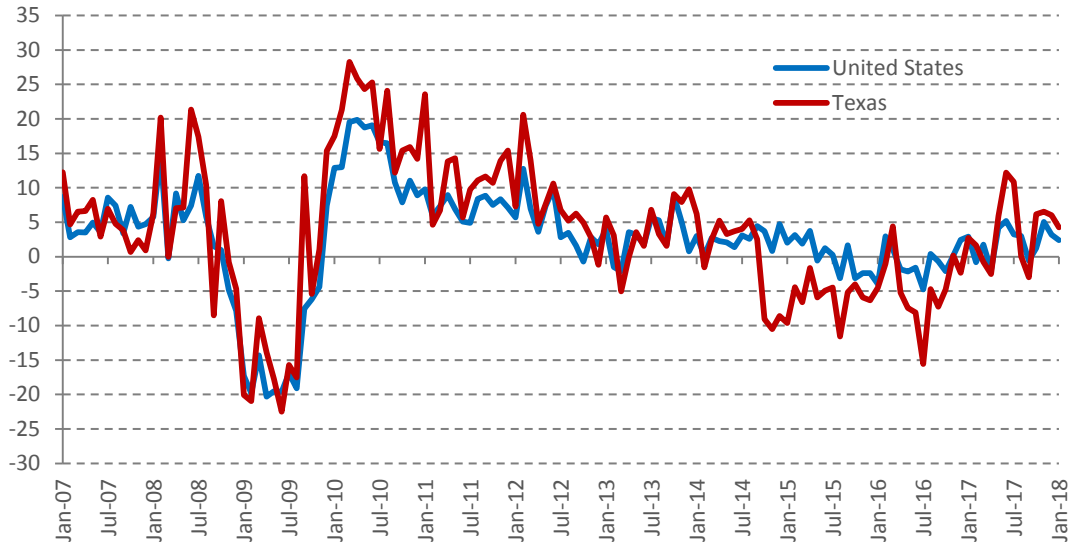


Note: Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see [Exports](#).

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

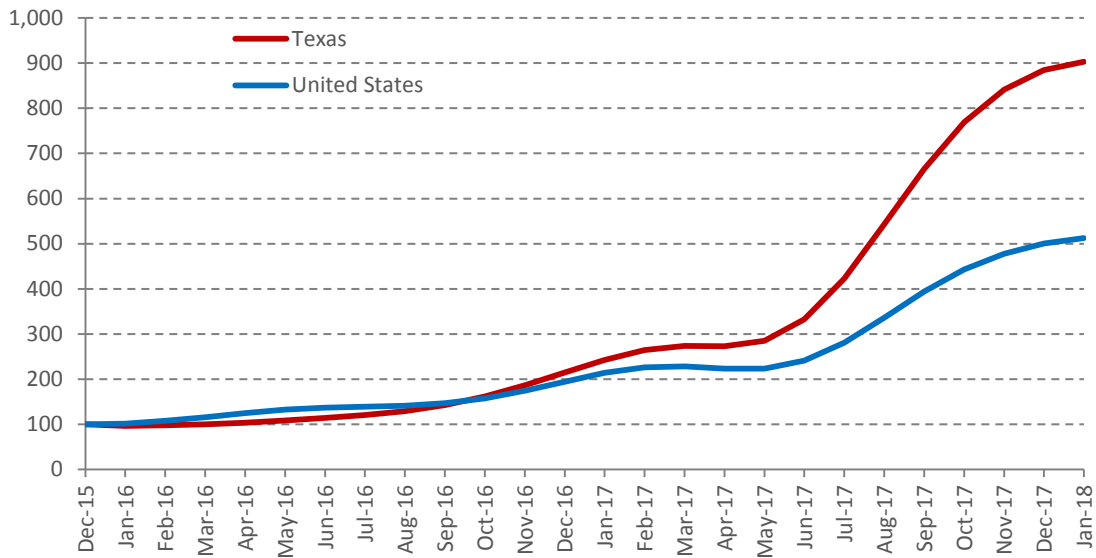


### Manufacturing Exports (Year-over-Year Percent Change)



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

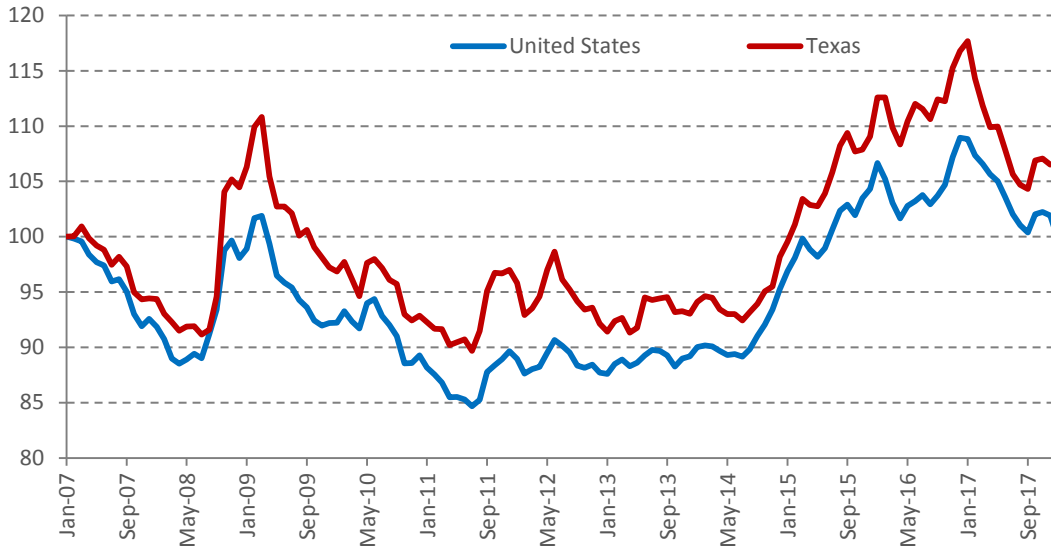
### Crude Oil Exports (Index Dec 2015 = 100)



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

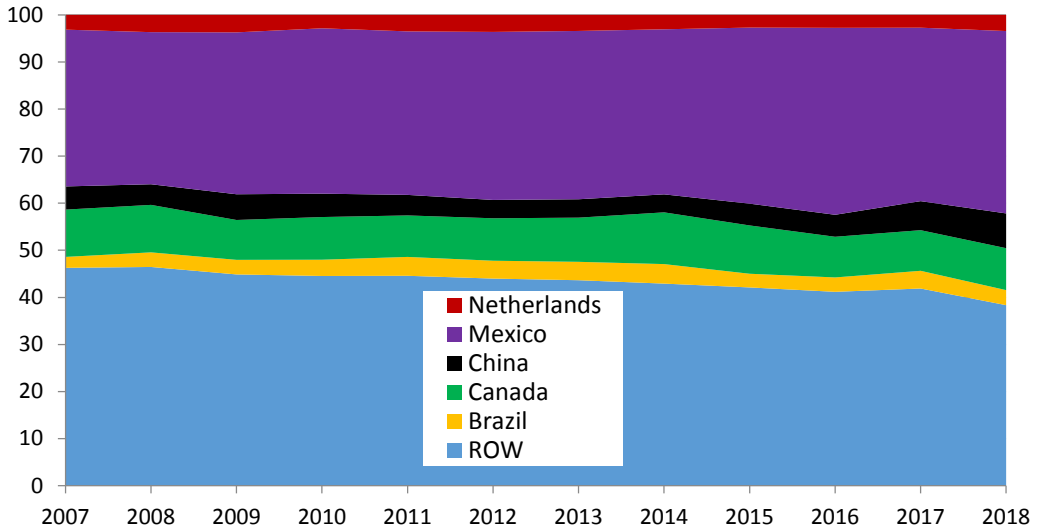


**Real Trade Weighted Value of U.S. Dollar**  
(Index Jan 2007 = 100)



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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