

Outlook for the Texas Economy



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TECHNICAL REPORT



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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 Paige Woodson

Data current as of March 12, 2019

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January 2019 Summary¹

Texas' economic expansion continued but with less momentum. Falling oil prices and signs of weakness in the European and Asian economies weighed on domestic activity. While growth is moderating, the outlook remained positive among a healthy labor market. Rising wages, lower inflation, and a slowdown in home-price appreciation boosted real purchasing power. The goods-producing sector calmed after substantial growth in 2018, but service providers picked up the slack. Texas trade continued to flourish as products shifted from China to other economic partners, but the ongoing dispute between the world's two largest economies could contribute to waning global activity. Political tension and gridlock in Washington added to the current state of uncertainty.

GDP data for 3Q2018 revealed Texas decelerated after leading the nation in the preceding quarter. The growth rate remained positive at 3.7 percent on a seasonally adjusted annualized rate (SAAR), led by gains in wholesale trade and professional/scientific/technical services. The state also benefited from ongoing oil and gas extraction as well as construction activity. The agricultural industry was the largest drag on both the national and state economies, followed by utilities.

The moderation extended into 2019 as the **Dallas Fed's Texas Business-Cycle Index** slowed to 4.1 growth (SAAR) in January, the slowest in over a year. The Fort Worth and Houston indices decelerated to 1.1 and 2.2 percent, respectively. In Austin, the business-cycle index fell below 4 percent SAAR growth for the first time since 2010. On the other hand, the San Antonio index balanced at 3.4 percent and jumped to 4.9 percent in Dallas.

The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) balanced after three consecutive declines due to increased labor hours and stable crude oil production. Some signs of weakness in national economic data, however, suggest slower growth over the next year. Texans remained cautiously optimistic after the sharp drop in oil prices last fall. The **Texas Consumer Confidence Index** inched forward but remained below the October 2018 peak.

The extended business-cycle expansion and relatively strict lending standards pulled the national **foreclosure inventory** below 1 percent in 4Q2018 for the first time since 2006. Texas' foreclosure inventory hovered around levels unseen since before the oil bust in the 1980s at just 0.6 percent. These conditions corroborate the current health of the economy despite signs of slowing.

The Federal Reserve took a less-aggressive approach toward interest-rate increases as the household tax stimulus dissipated. The **ten-year U.S. Treasury bond yield** fell to an annual low of 2.7 percent, while the **Federal Home Loan Mortgage Corporation's 30-year fixed-rate** dipped below 4.5 percent. Texans capitalized on lower rates, pushing mortgage applications for home

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

purchases up 12.3 percent. Refinance mortgage applications, which are more sensitive to interest rate fluctuations, increased 16.7 percent but remained negative YOY.

Texas housing sales kicked off the year with a 1.2 percent increase but remained on a flat trajectory. Current residential construction activity, measured by the **Residential Construction Cycle (Coincident) Index**, inched downward as construction wages balanced after a year of strong growth. The outlook, however, remained stable as indicated by upticks in the Texas **Residential Construction Leading Index**. A steady stream of single-family housing starts and a pause in interest rate increases could lift activity out of its current slowdown. (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** fell for the fourth consecutive month to less than \$50 per barrel amid tepid expectations of global economic growth and the ongoing U.S.-China trade dispute. Prices should stabilize, however, as OPEC plans production cuts to rebalance the market. Political turmoil in Venezuela may also rein in global supply. Texas production remained stable with the **active rig count** trending around 524 over the past two quarters and crude oil production surpassing a record 4.8 million barrels per day in December². Additional pipeline capacity relieved bottlenecks in West Texas, but anticipated supply growth could quickly diminish the impact. On the natural gas front, excess supply pulled the **Henry Hub spot price** below \$3 per million British thermal units after surpassing \$4 at yearend.

Texas added fewer than 20,000 **nonfarm jobs** for the third consecutive month as economic activity returned to more normal levels. Furthermore, revised data indicated annual employment growth of 2.3 percent rather than the 3.2 percent preliminary estimate. Lower oil prices and waning growth in the global economy pulled the Dallas Fed's 2019 annual employment forecast down to just 1.5 percent. The **labor force participation rate** was unchanged at 63.9 percent, and the **unemployment rate** ticked up to 3.8 percent. **Initial unemployment insurance claims** balanced below 59,000, remaining near historic lows in proportion to the size of the workforce. The major metros maintained even less slack in the labor market but exhibited some upward pressure, some of which can be attributed to the partial government shutdown. Unemployment inched above 3 percent in Austin, followed by San Antonio at 3.5 percent. North Texas was not far behind with 3.8 percent unemployment. Houston unemployment held above the state level at 4.3 percent but could inch downward if oil prices stabilize.

Labor-market tightness showed signs of stimulating wages as **real private hourly earnings** rose 1.2 percent year over year (YOY). Moderating inflation contributed to higher purchasing power. North Texas posted the strongest wage growth at 3.4 and 2.2 percent in Fort Worth and Dallas, respectively. Houston and San Antonio followed at 1.7 and 1.3 percent. Austin earnings flattened YOY but remained the highest in the state at \$29.54 per hour in nominal terms.

² The release of Texas crude oil production typically lags the *Outlook for the Texas Economy* by one month.

Dallas led the state in January hiring with 7,200 new jobs, most of which occurred in education/health services and retail trade. Led by the leisure and hospitality sector, San Antonio added 5,100 jobs after minimal growth last year. In Austin and Houston, professional/business services offset declines in the goods-producing sector, netting 2,100 and 4,600 jobs, respectively. Fort Worth was the largest drag on the state's monthly employment figure as contractions in durable goods manufacturing and transportation, in part due to the government shutdown, contributed to a 4,200-job decline.

Texas' goods-producing sector as a whole lost 5,100 jobs, breaking a two-year streak of employment growth. Manufacturers shed 2,000 jobs to start the year, split evenly between the durable and nondurable goods subsectors. **Hourly manufacturing earnings** balanced in real terms, with wage growth in Fort Worth offsetting declines in the other major metros. These fluctuations, however, may be sensitive to short-term changes in how furloughed federal employees were measured at the time of the employment survey. Despite noisy employment readings, the **Dallas Fed's Manufacturing Outlook Survey** noted an acceleration in production and capacity utilization. While sentiments remained positive, respondents indicated increased uncertainty due to the government shutdown and the U.S.-China trade war.

Energy industry employment remained positive, but construction lost 4,800 jobs after significant growth in 2018. The losses occurred primarily in Houston and Fort Worth, which shed nearly 6,000 industry jobs combined. Statewide, **real hourly construction earnings** flattened YOY after substantial growth in the first half of 2018. **Total construction values** fell for the second straight month due to declines in both the residential and nonresidential sectors. Warehouse investment waned after surging for most of the current economic expansion. Hotel/motel construction also moderated after several large-scale projects broke ground last year. On a positive note, office/bank construction continued to surge, led by activity in Austin and Dallas-Fort Worth.

After stalling over the holidays, Texas' service-providing sector rebounded with 20,500 added positions. Employment increases were broad-based aside from the leisure and hospitality industry. The administrative/waste management and remediation subsector recovered 7,400 of the 7,600 jobs lost in November and December. Retailers added 2,900 jobs after a sluggish yearend. The **Dallas Fed's Service Sector Outlook Survey** corroborated industry strength with nearly a third of respondents noting higher revenues, but the employment indices decelerated. Firms struggled to find qualified workers and opted to increase hours for current employees. Concerns regarding monetary policy, lower oil prices, and governmental gridlock weighed on long-run confidence.

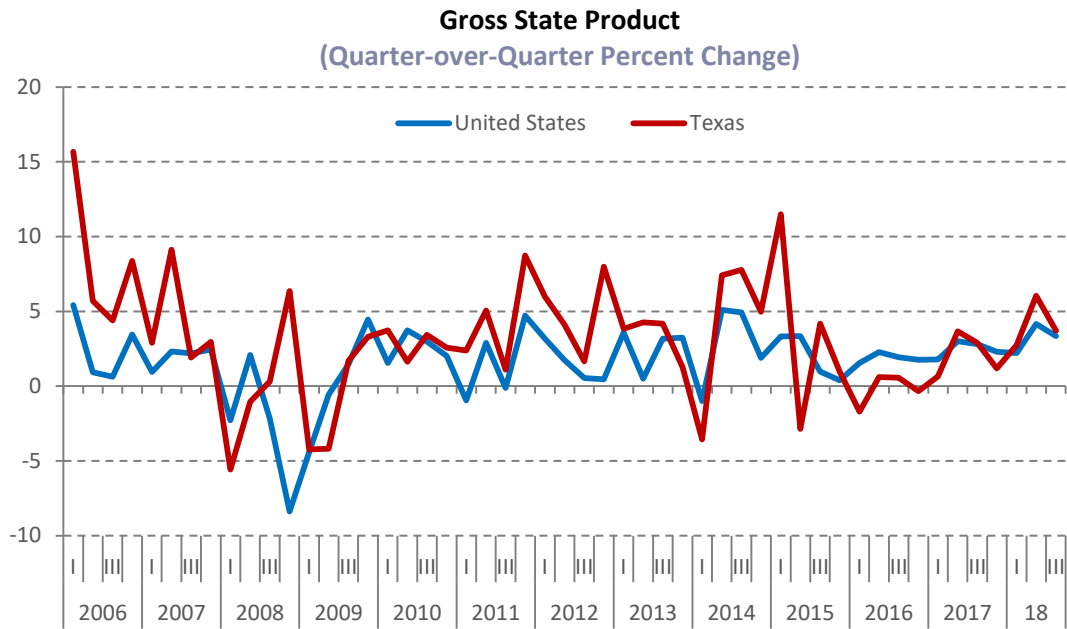
A sharp drop in retail gasoline prices slowed growth in the **U.S. Consumer Price Index (CPI)** to 1.6 percent YOY, its weakest increase since 2016. Core inflation, however, held firmly above the 2 percent benchmark. The Dallas CPI dipped below 2.1 percent YOY growth amid declines in transportation expenses and stable food prices. Moderations in home-price appreciation also relaxed inflationary pressures.

Despite the ongoing U.S.-China trade dispute, Texas' **real commodity exports** grew 15.4 percent in 2018, accounting for nearly 20 percent of the national total. Manufacturing exports, specifically, increased 7.9 percent in real terms, driven by petroleum, chemicals, and transportation equipment. **Crude oil exports** reached record highs amid surging shipments to South Korea, Taiwan, and Canada.

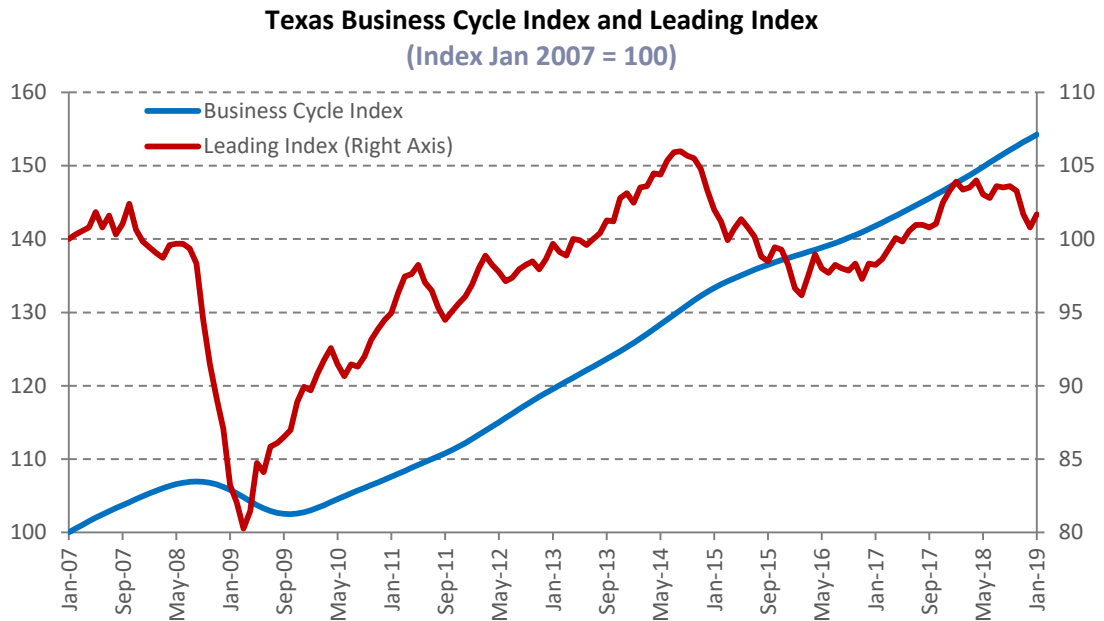
Fluctuations in trade relations altered Texas' national export distribution. Mexico remained the primary trade partner and received a third of Texas' outgoing shipments, followed by Canada at 8.7 percent. China's share dropped to 5.3 percent amid ongoing trade tensions. The boom in crude oil exports elevated South Korea to fourth in Texas export rankings, followed by Japan.



Economic Activity

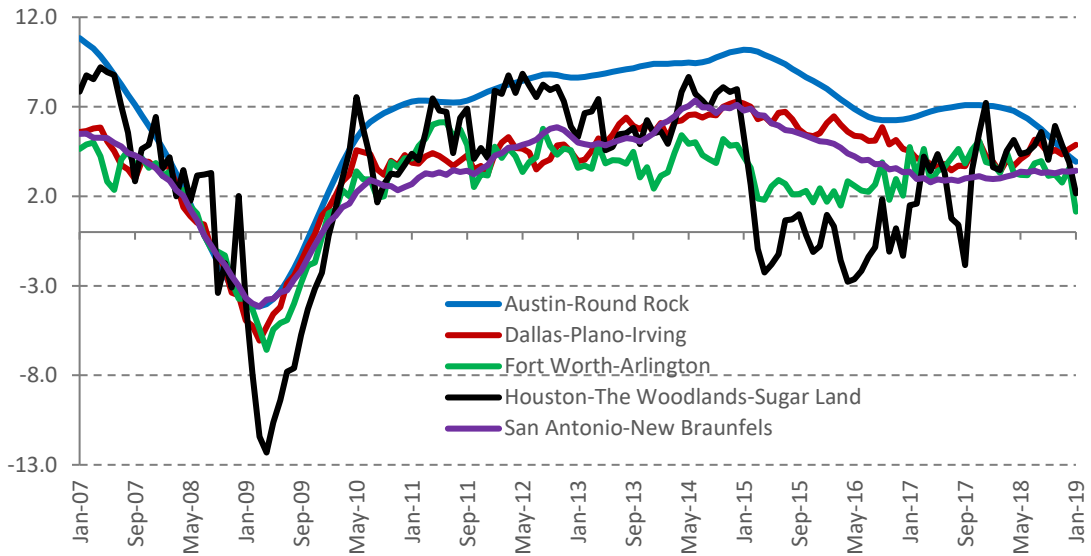


Note: Seasonally adjusted annualized rate.
Source: Bureau of Economic Analysis



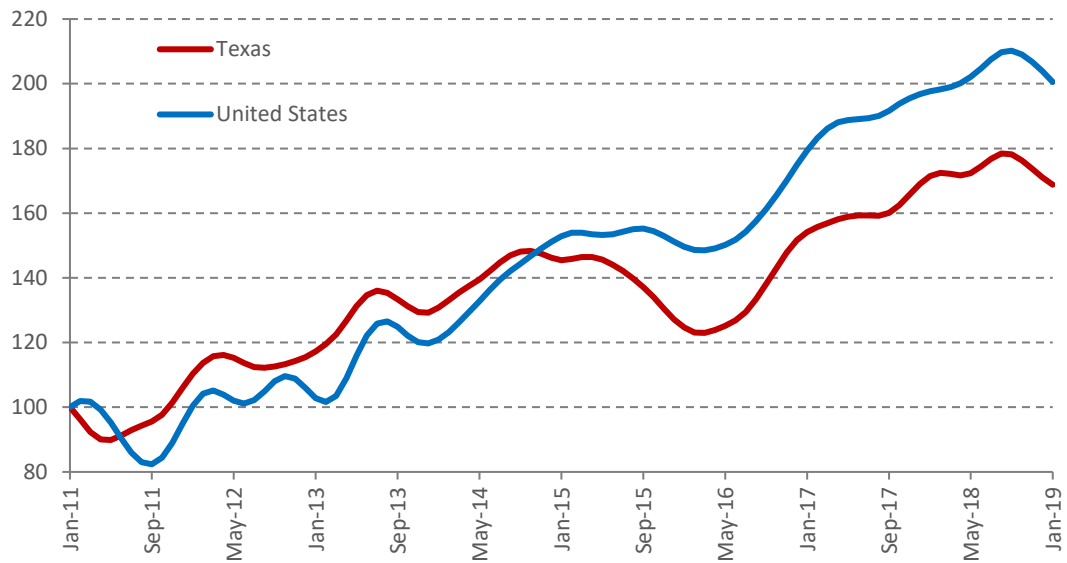
Note: Seasonally adjusted.
For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas

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

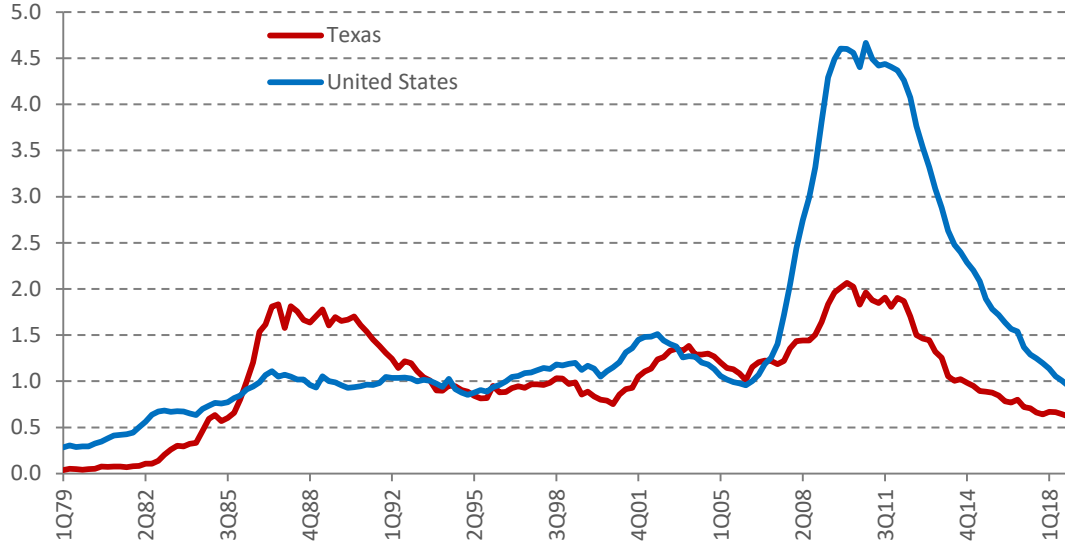
Consumer Confidence Index (Index Jan 2011 = 100)



Note: Trend-cycle Component.
Source: Conference Board

Financial Activity

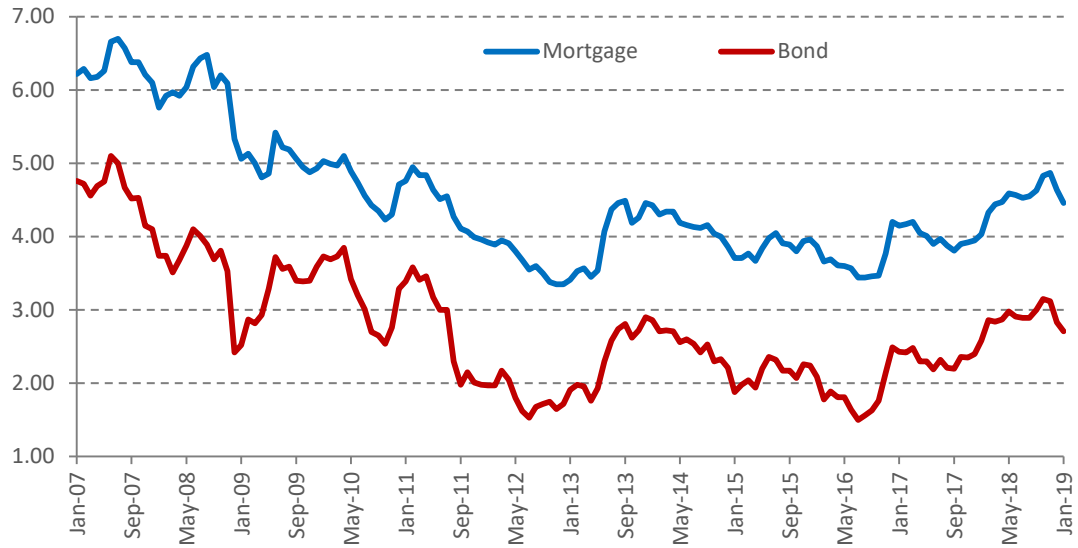
Mortgage Foreclosure Inventory (End of Period)
(Percent)



Note: Seasonally adjusted.

Source: Mortgage Bankers Association

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

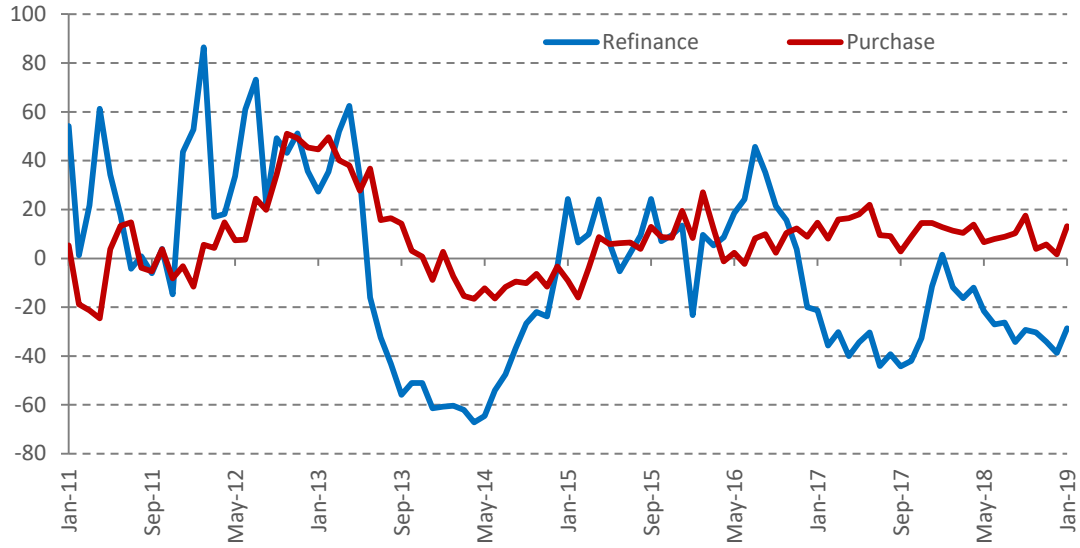


Note: Seasonally adjusted.

Sources: Federal Home Loan Mortgage Corporation and Federal Reserve Board



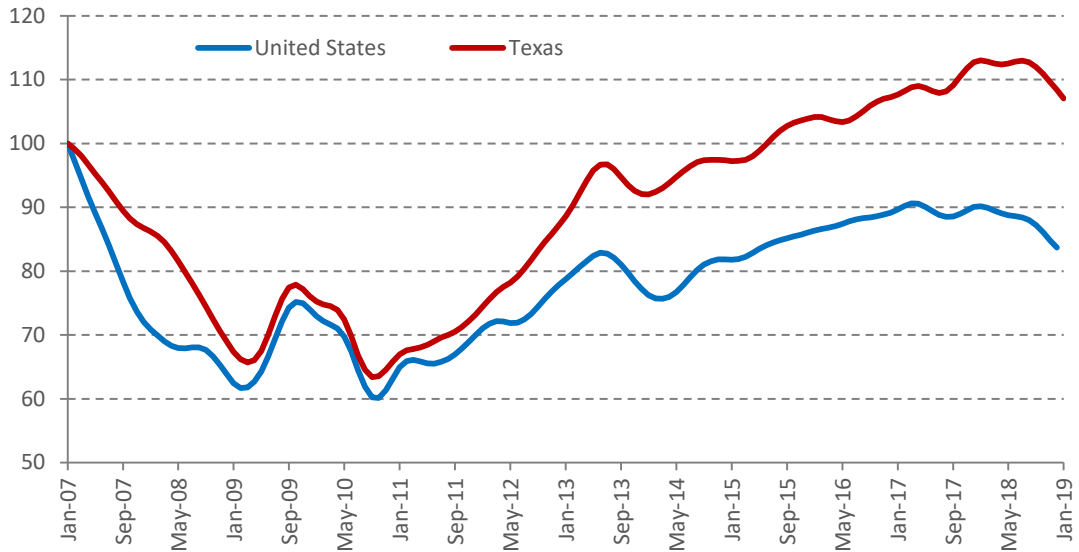
Texas Mortgage Applications (Year-over-Year Percentage Change)



Source: Mortgage Bankers Association

Housing

Housing Sales (Index Jan 2007 = 100)



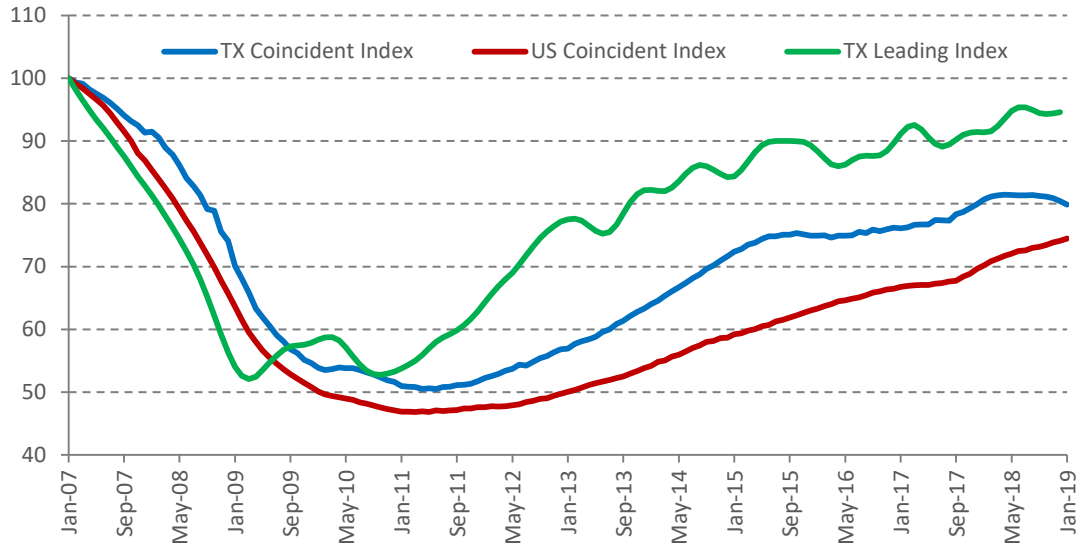
Note: Trend-cycle component. Sales for the United States include all existing homes and new single-family homes; new non-single-family homes are not included. Texas includes all existing and new homes.

For more information, see [Housing Sales](#). January data for U.S. Sales are unavailable due to the government shutdown.

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



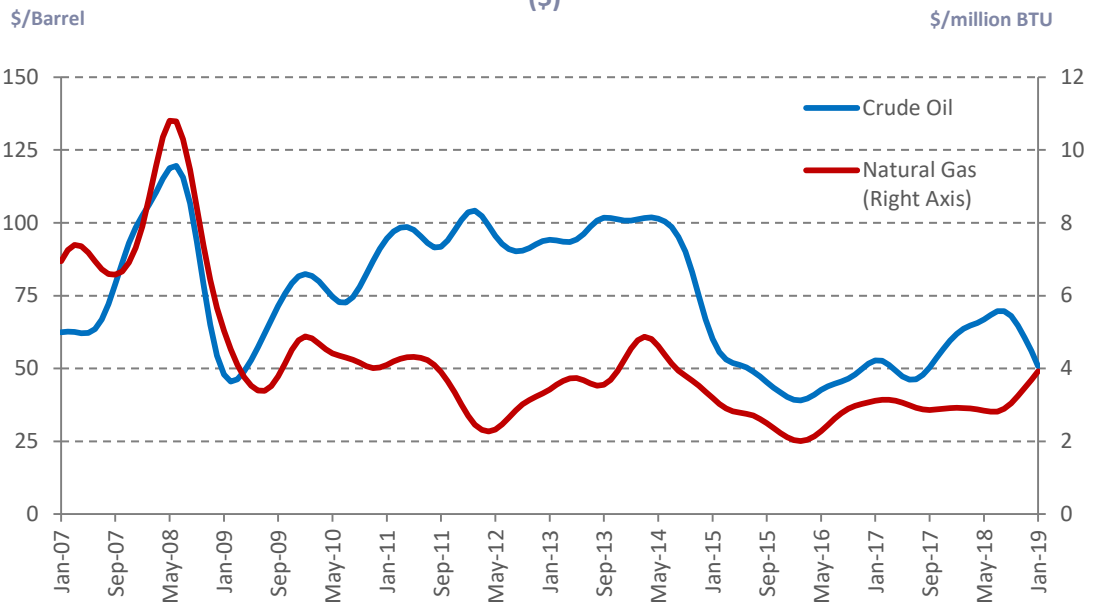
Residential Construction Coincident Indicator (Index Jan 2007 = 100)



Note: Trend-cycle component. January data for the Texas Leading Index are unavailable due to the government shutdown.
Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas

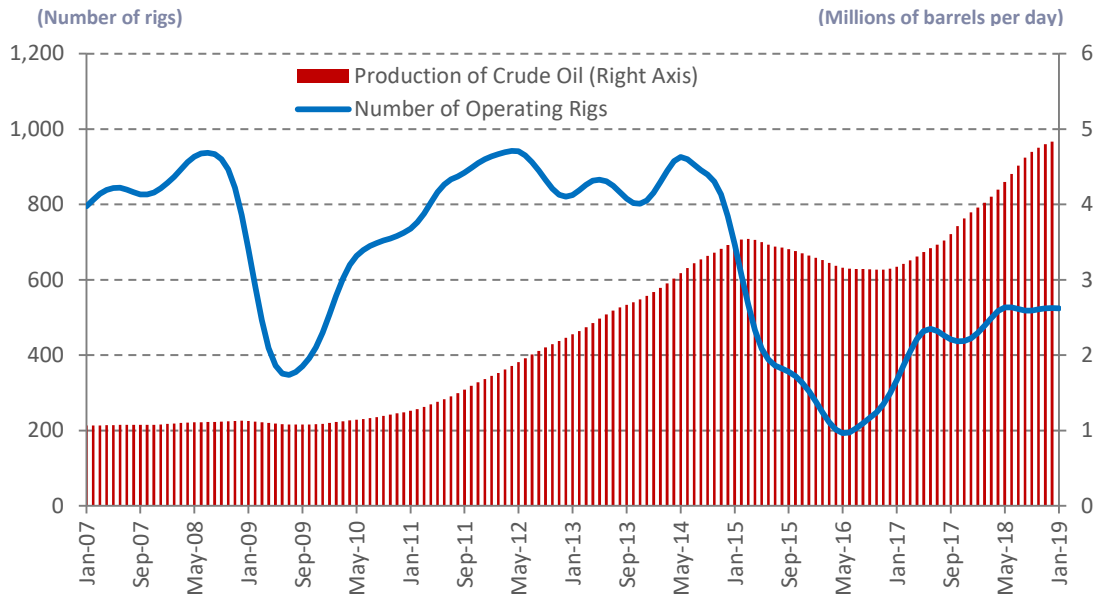
Energy

Crude Oil and Natural Gas Prices (\$)



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

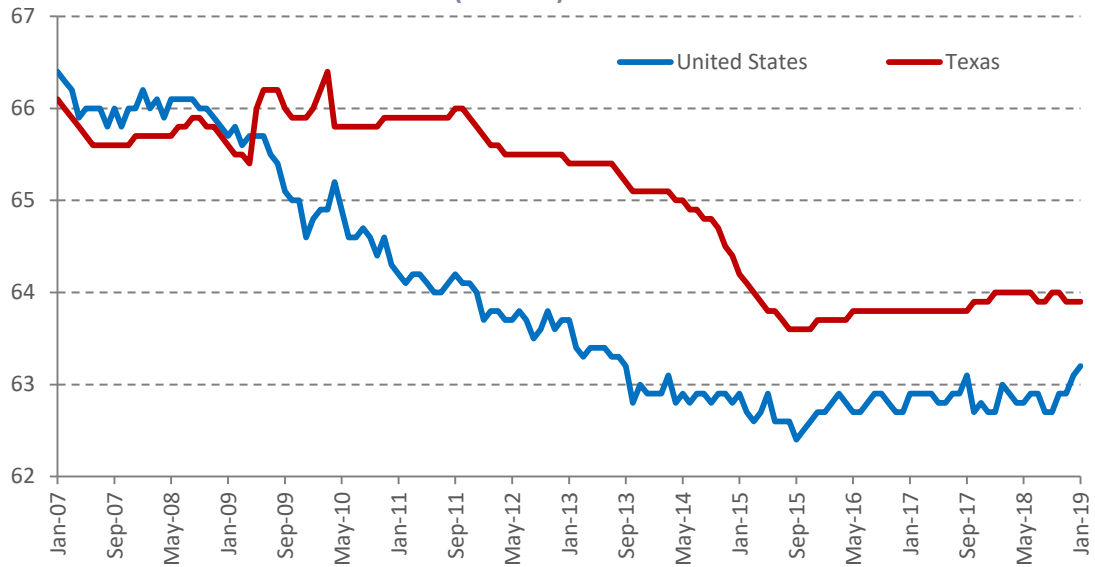
Texas Production of Crude Oil and Rig Count (Count)



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

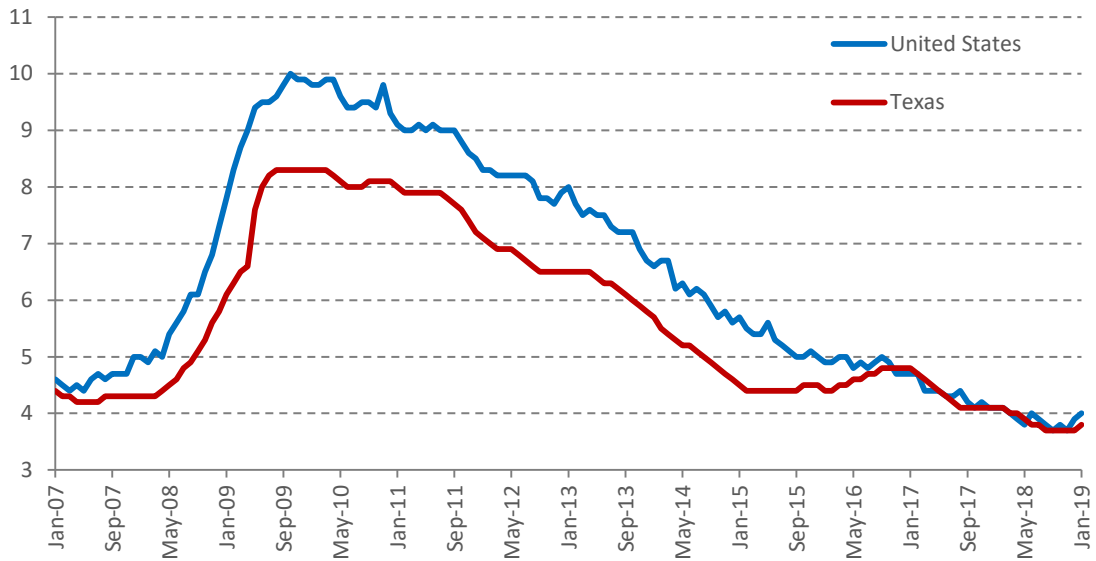
Employment

Labor Force Participation Rate (Percent)



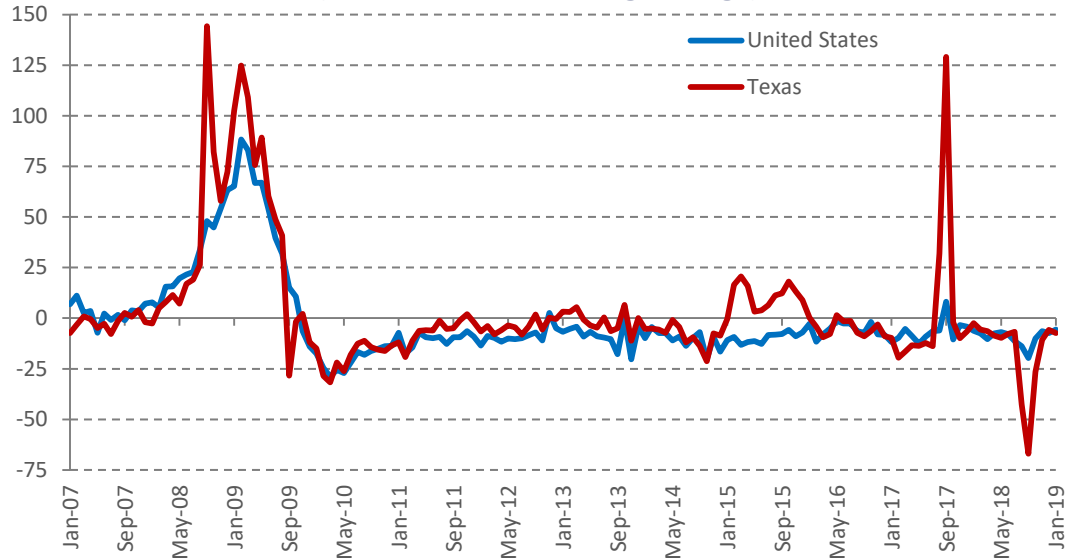
Note: Seasonally adjusted. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

Unemployment Rate (Percent)



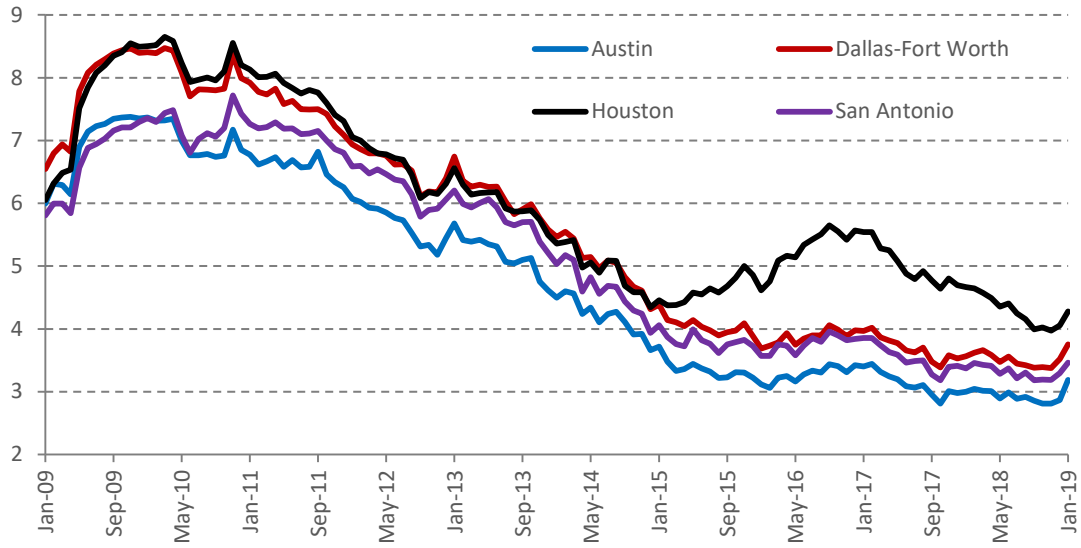
Note: Seasonally adjusted. January 2019 is preliminary. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

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



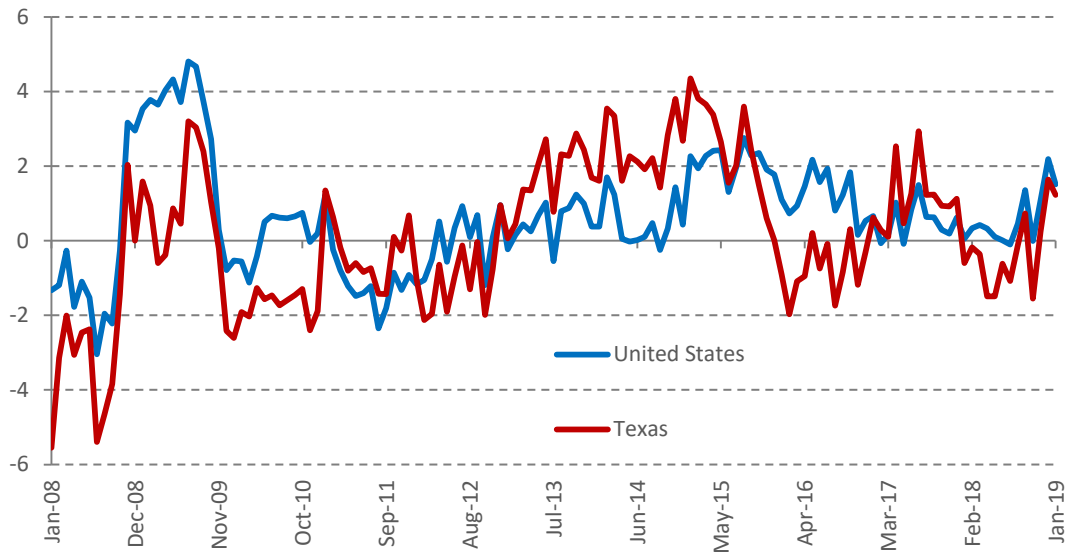
Note: Seasonally adjusted. For more information, see [Unemployment Insurance Claims: Initial Applications](#).
Source: Department of Labor

Major Metros Unemployment Rate (Percent)



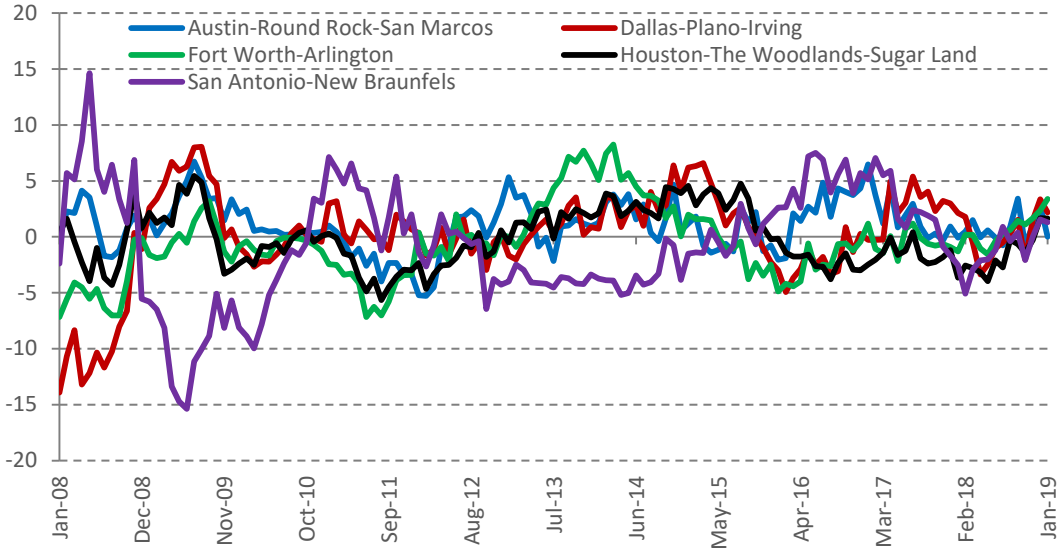
Note: Seasonally adjusted. For more information, see [Unemployment Rate](#).
Source: Texas Workforce Commission

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



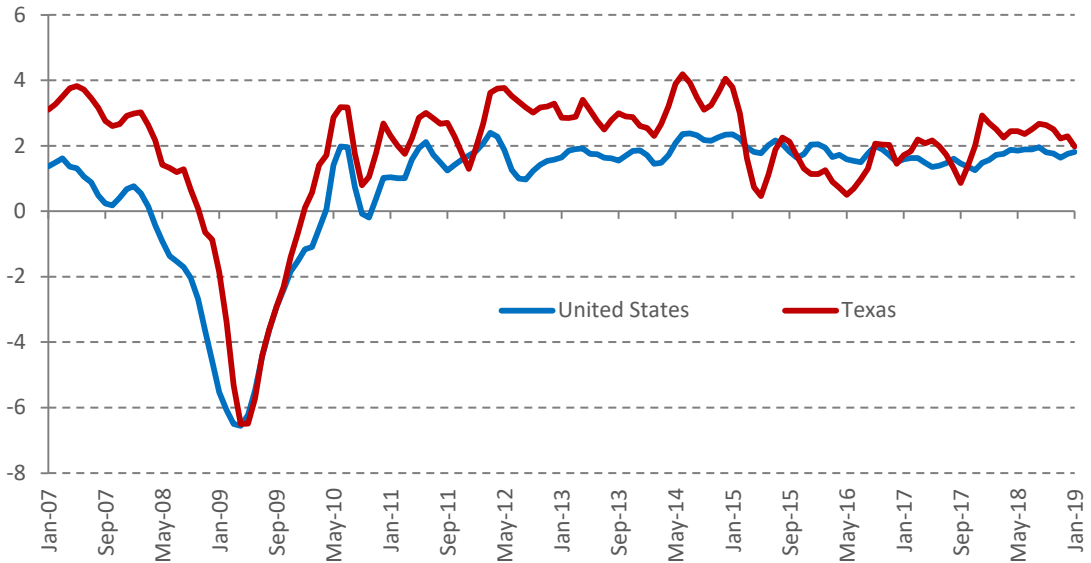
Notes: Inflation adjusted. January 2019 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

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



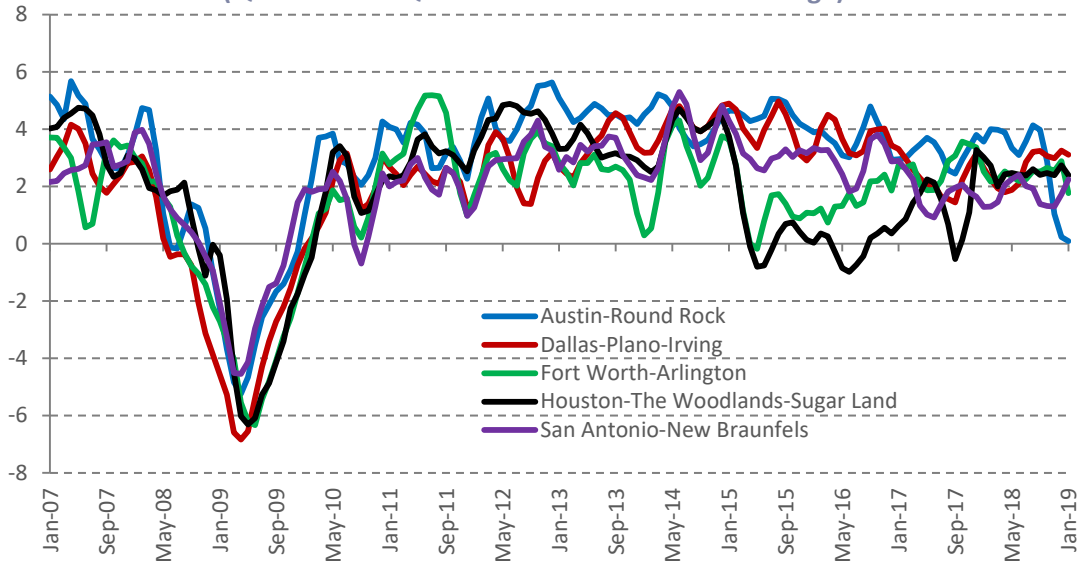
Notes: Inflation adjusted. January 2019 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

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



Note: Seasonally adjusted, 3-month moving average. January 2019 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

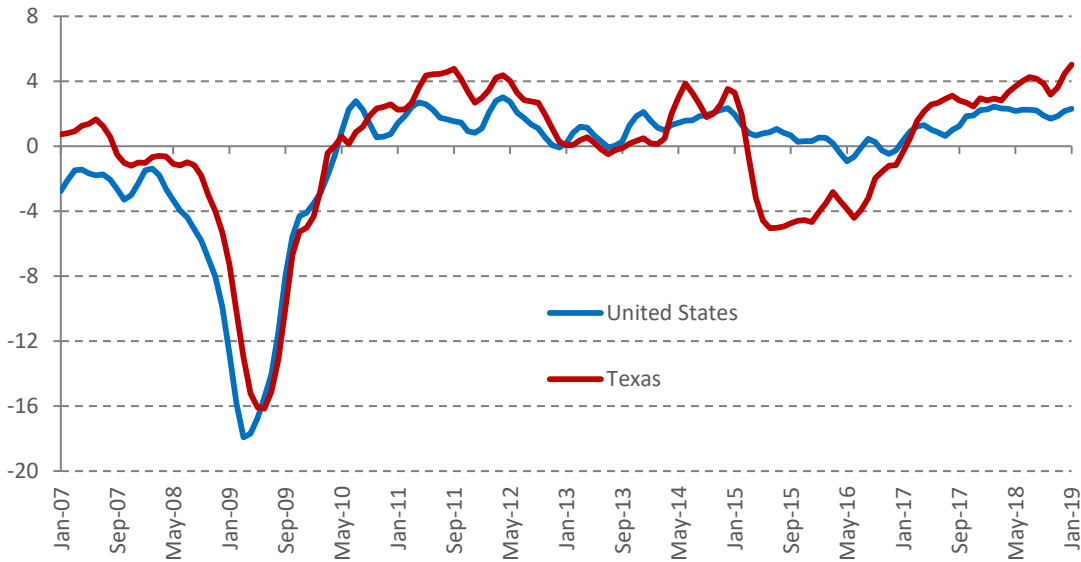
Major Metros Employment Growth Rate
(Quarter-over-Quarter Annualized Percent Change)



Note: Seasonally adjusted, 3-month moving average. January 2019 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

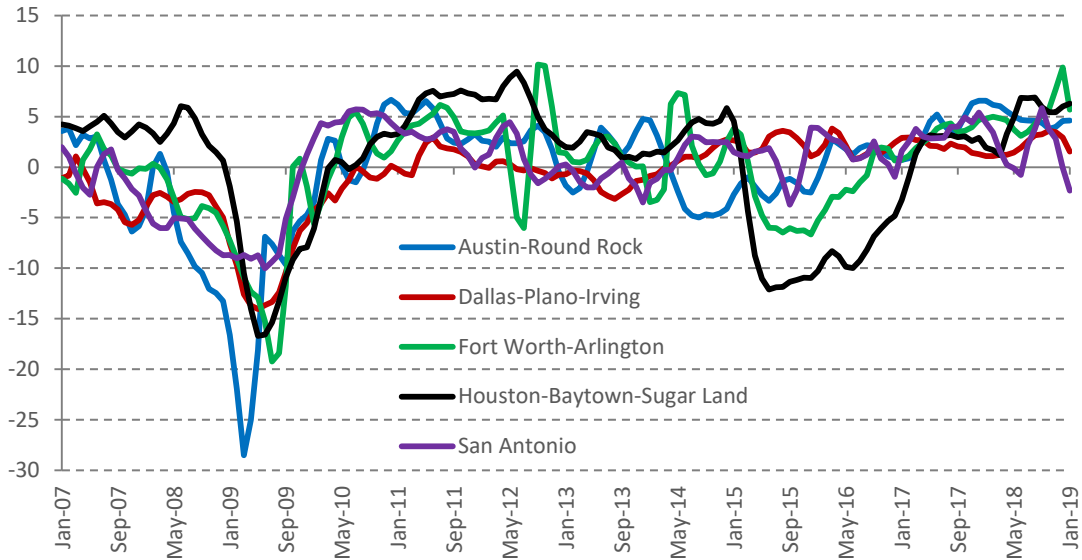
Manufacturing

Manufacturing Employment
(Quarter-over-Quarter Percent Change)



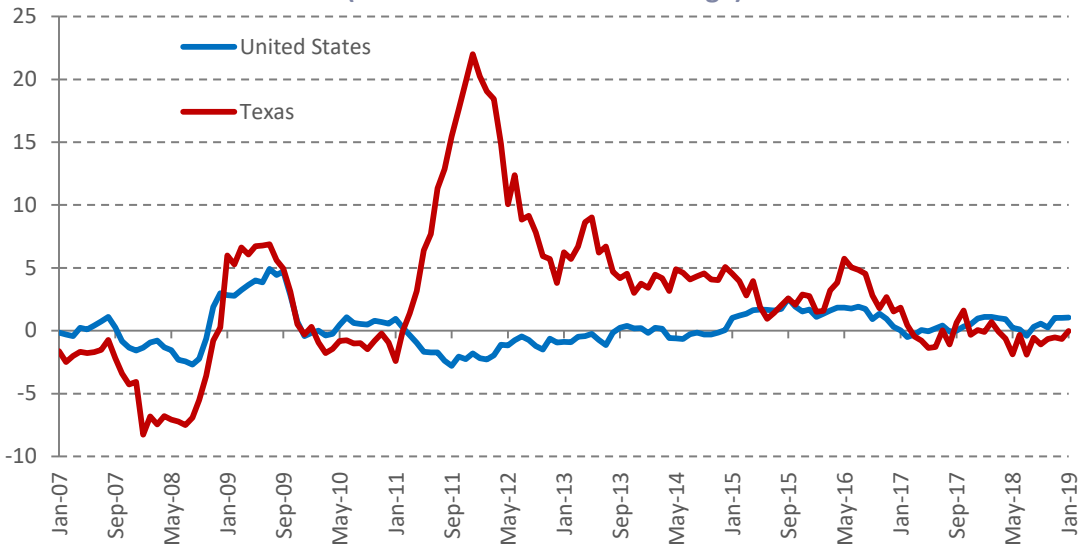
Note: Seasonally adjusted, 3-month moving average. January 2019 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

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



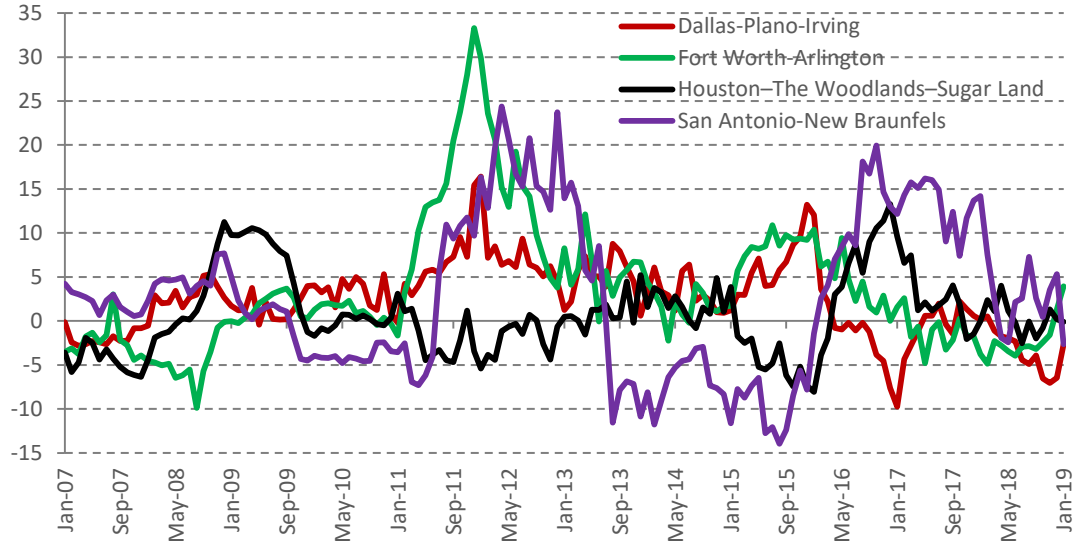
Note: Seasonally adjusted, 3-month moving average. January 2019 is preliminary.
 For more information, see [Employment Growth Rate](#).
 Source: Bureau of Labor Statistics

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



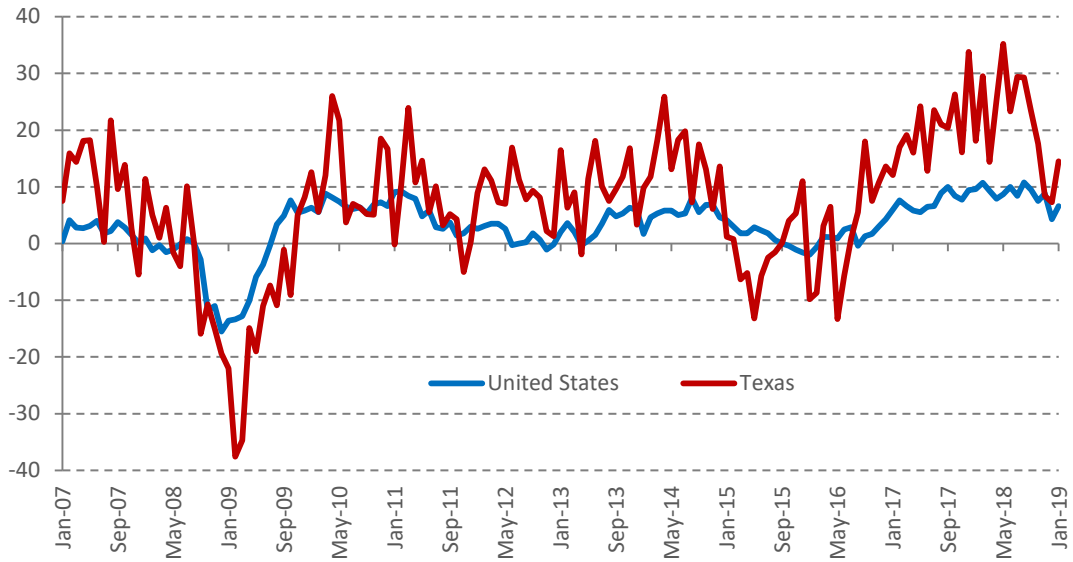
Notes: Inflation adjusted. January 2019 is preliminary.
 For more information, see [Total Private Employee Hourly Earnings](#).
 Source: Bureau of Labor Statistics

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



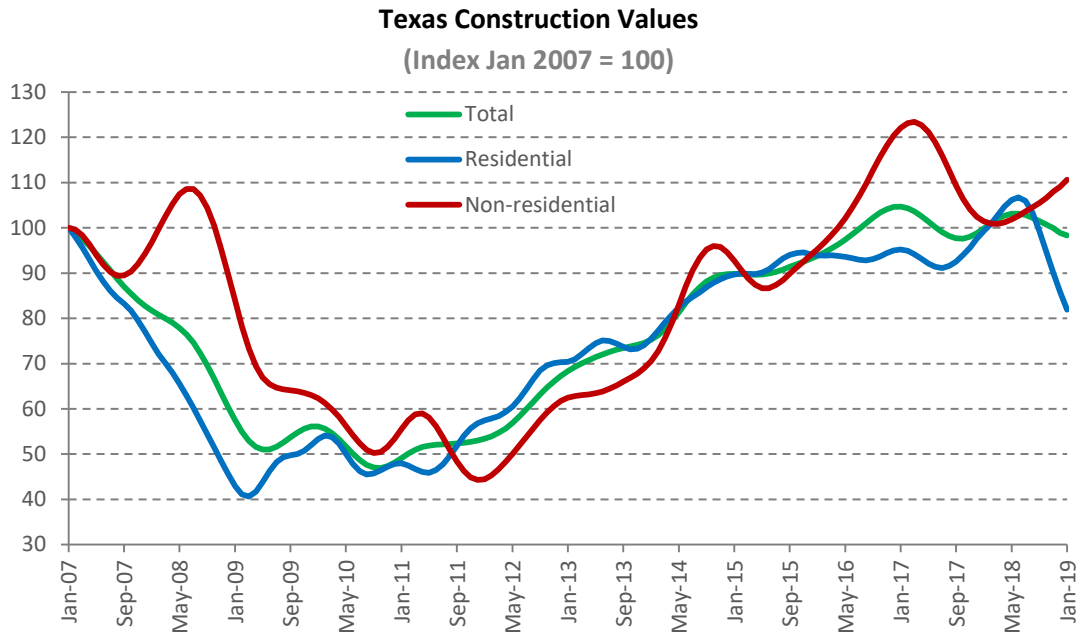
Notes: Inflation adjusted. January 2019 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistic

Manufacturing Outlook Survey (Index)

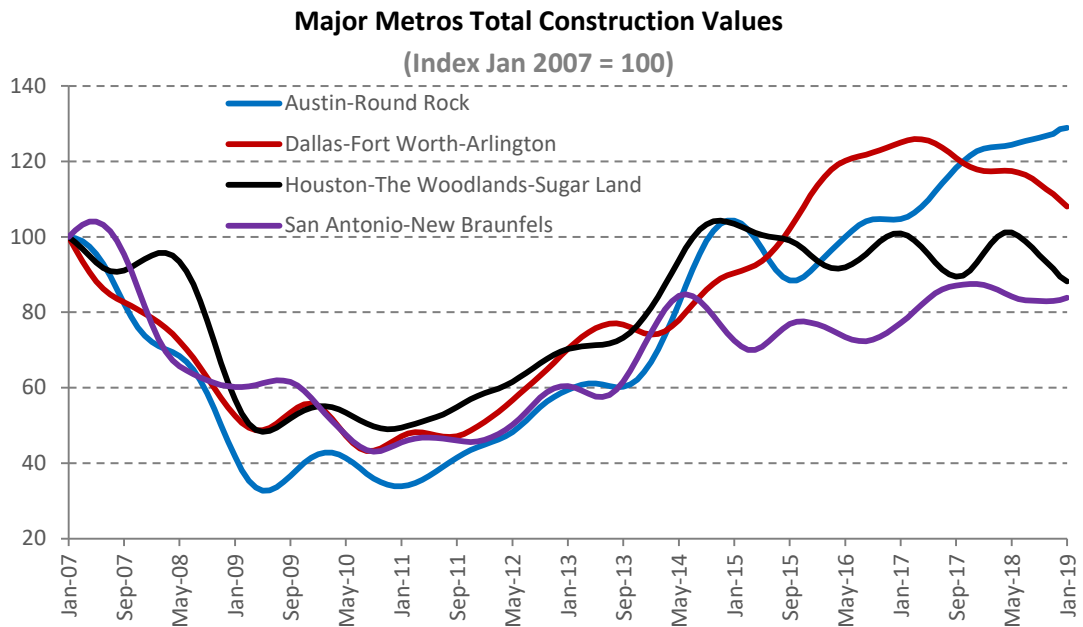


Note: Seasonally adjusted. For more information, see [Manufacturing Outlook Survey](#).
Sources: Federal Reserve Bank of Dallas and Institute for Supply Management. United States index is adjusted -50 to be on scale with Texas index

Construction

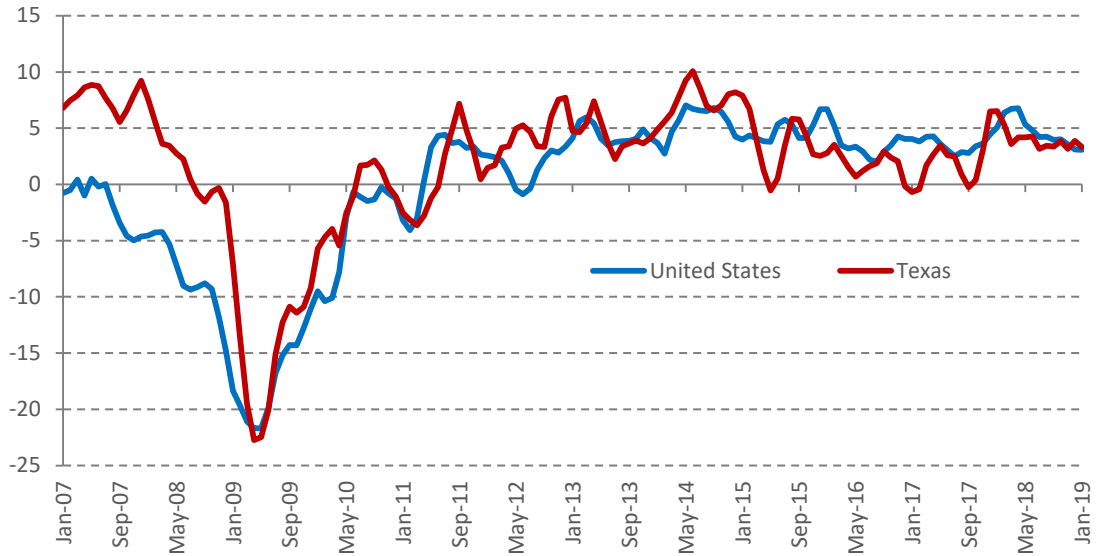


Note: Inflation adjusted trend-cycle component.
Source: Dodge Analytics



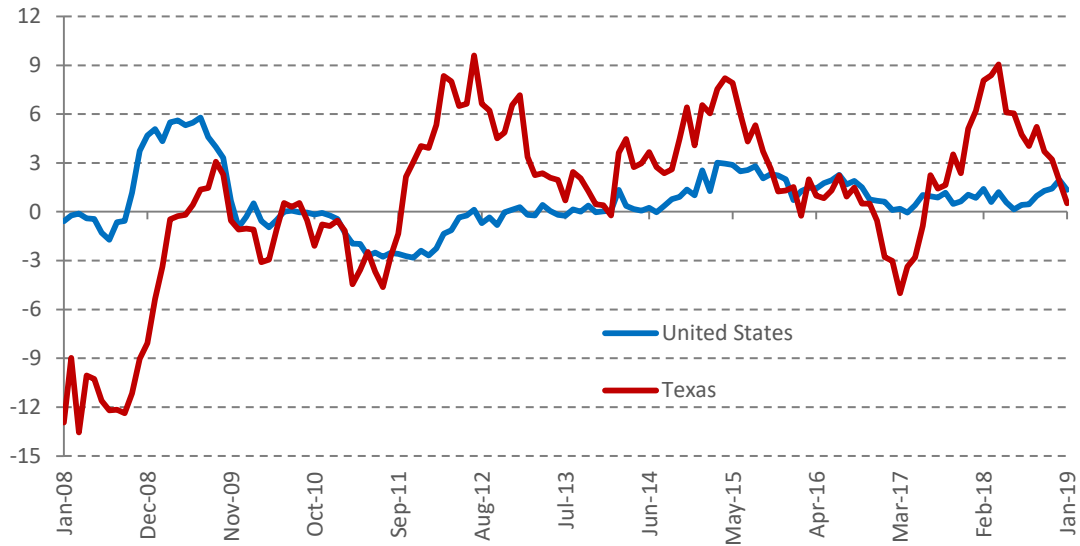
Note: Inflation adjusted trend-cycle component.
Source: Dodge Analytics

Construction Employment (Quarter-over-Quarter Percent Change)



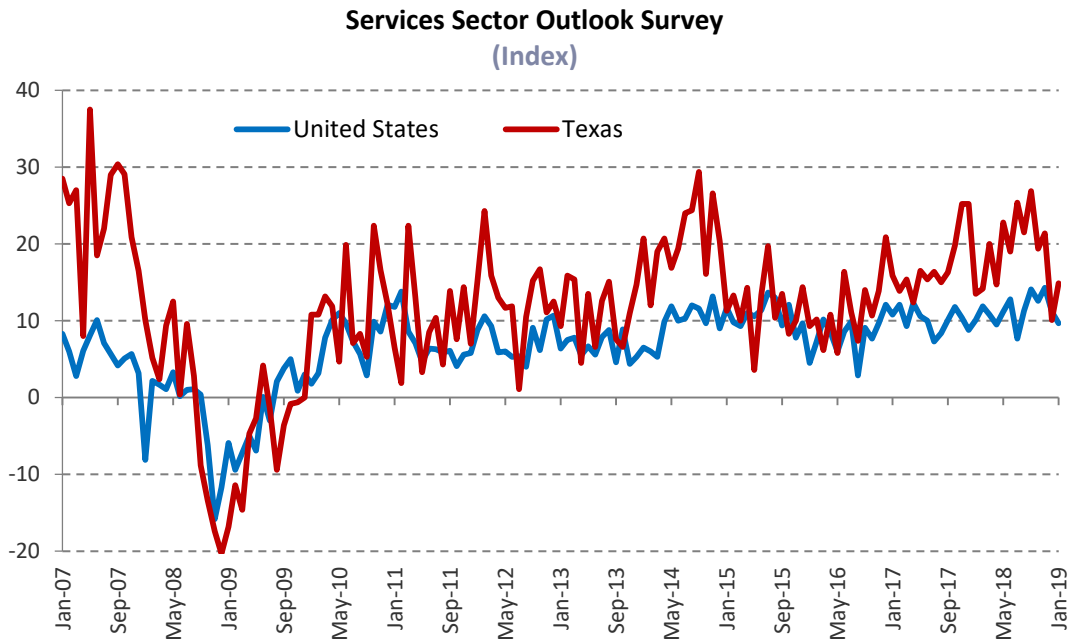
Note: Seasonally adjusted, 3-month moving average. January 2019 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

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

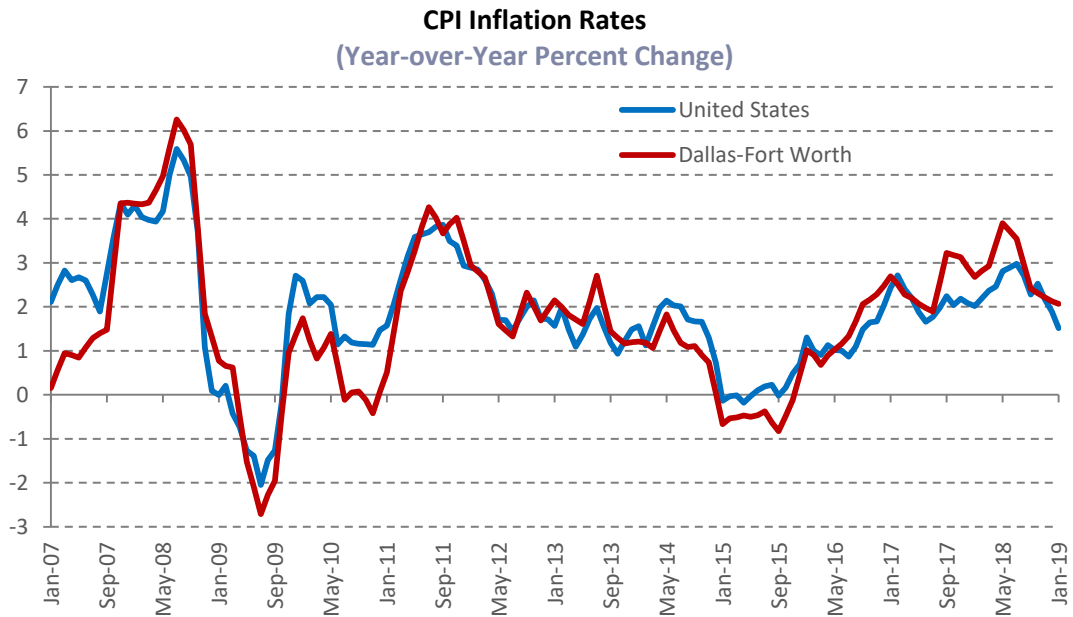


Notes: Inflation adjusted. January 2019 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Services

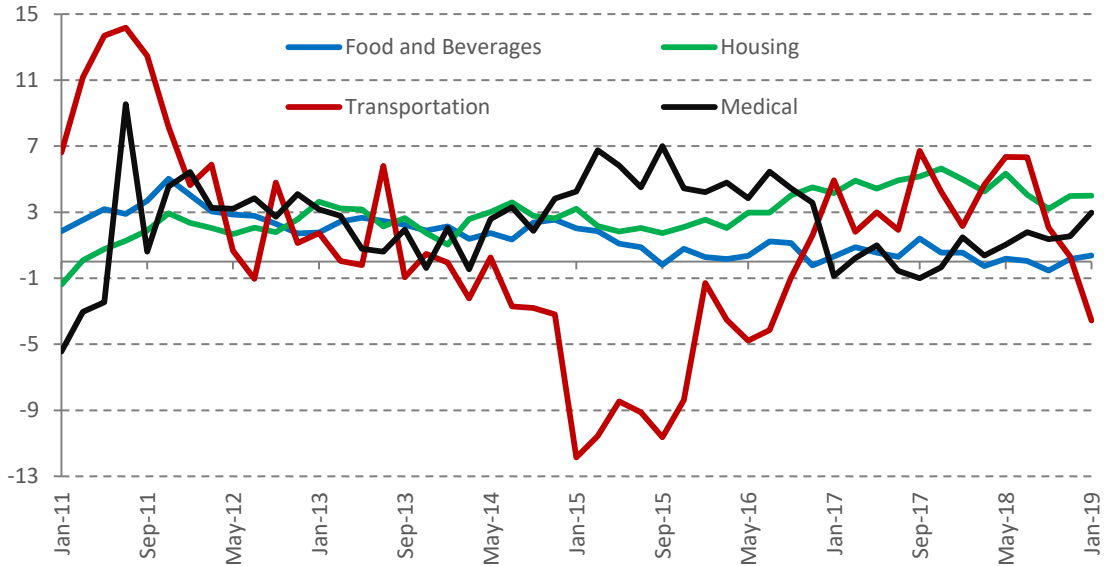


Note: Seasonally adjusted. For more information, see [Services Sector Outlook Survey](#).
Sources: Federal Reserve Bank of Dallas and Institute for Supply Management. United States index is adjusted -50 to be on scale with Texas index.



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

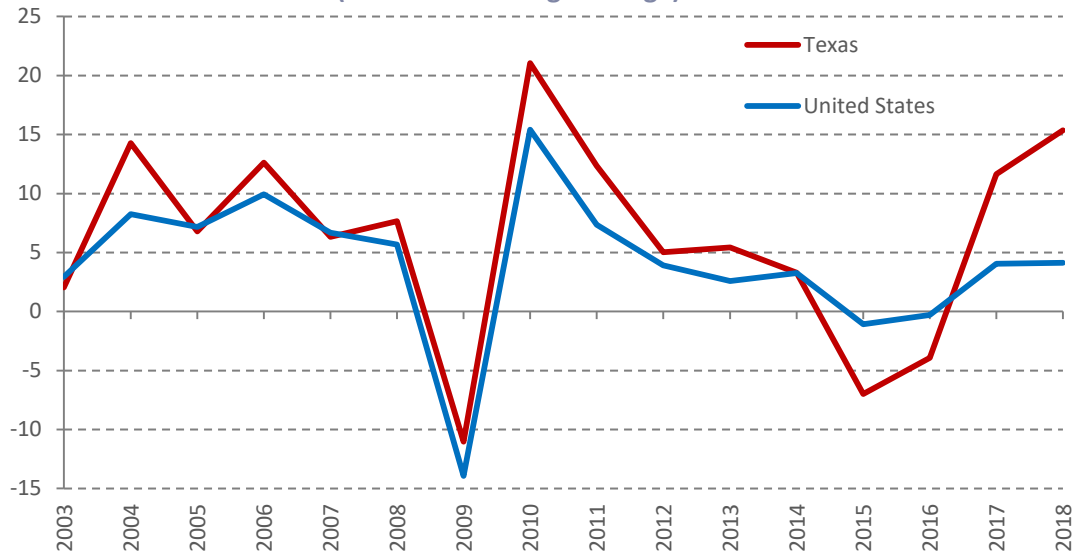
CPI Inflation Rates (Dallas-Fort Worth Components) (Year-over-Year Percent Change)



Note: The Dallas-Fort Worth 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

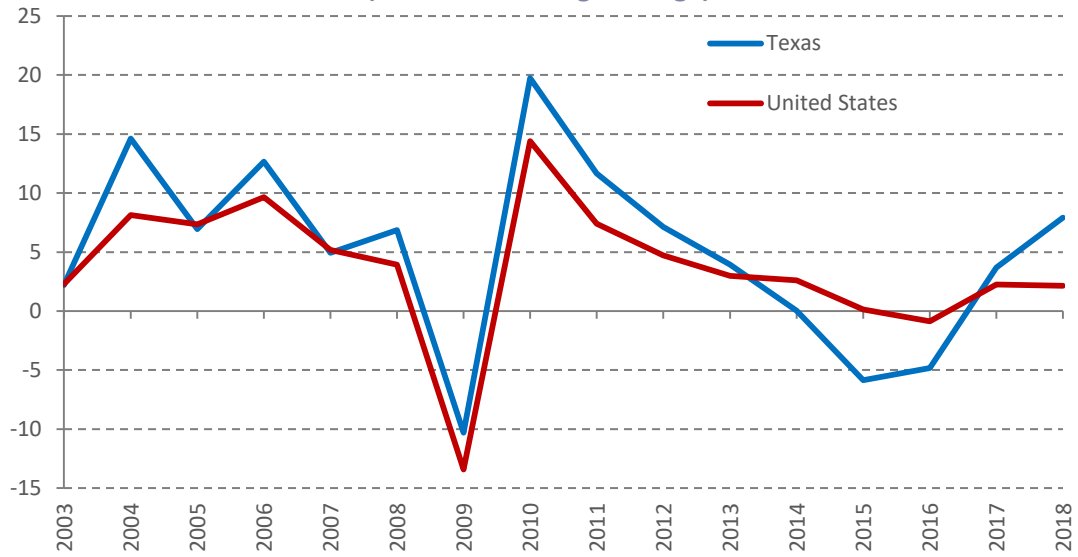
Trade

Exports (All Commodities) (Annual Percentage Change)



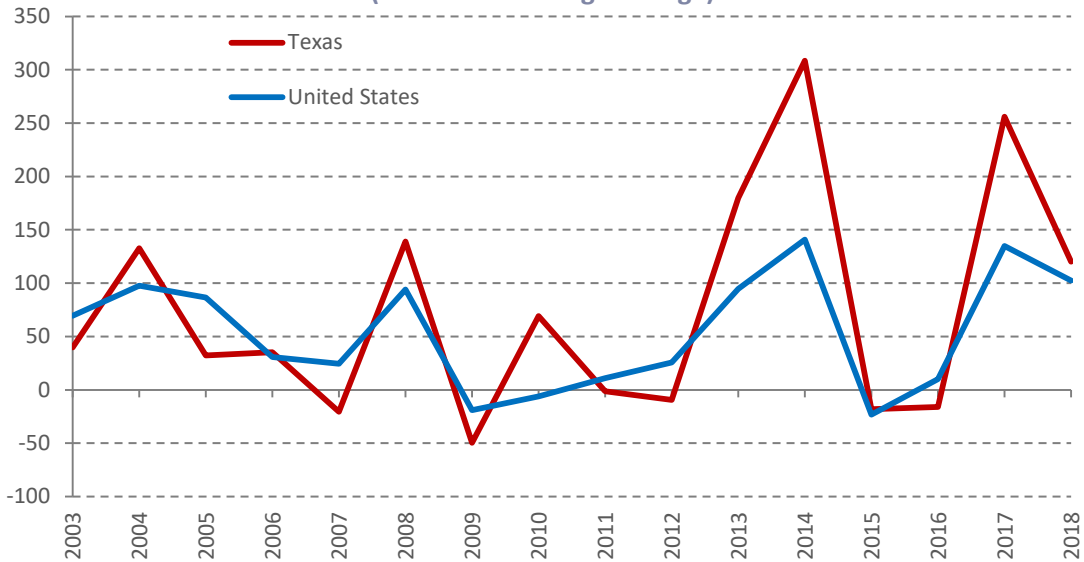
Note: Inflation adjusted with Bureau of Labor Statistics export indices. Annual sum. For more information, see [Exports](#). January data are unavailable due to the government shutdown.
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau

Manufacturing Exports (Annual Percentage Change)



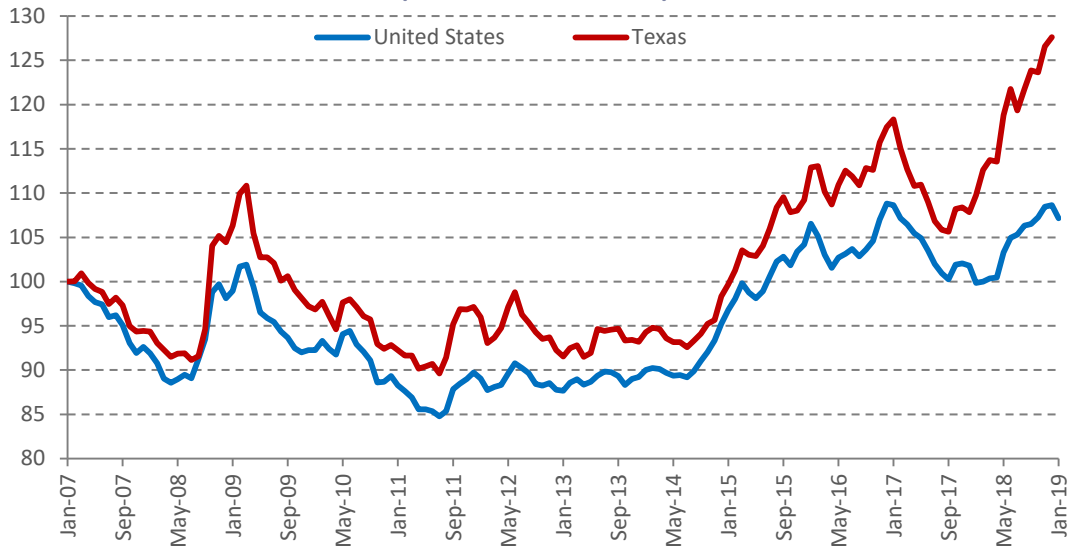
Note: Inflation adjusted with Bureau of Labor Statistics export indices. Annual sum. For more information, see [Manufacturing Exports](#). January data are unavailable due to the government shutdown.
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau

Crude Oil Exports (Annual Percentage Change)



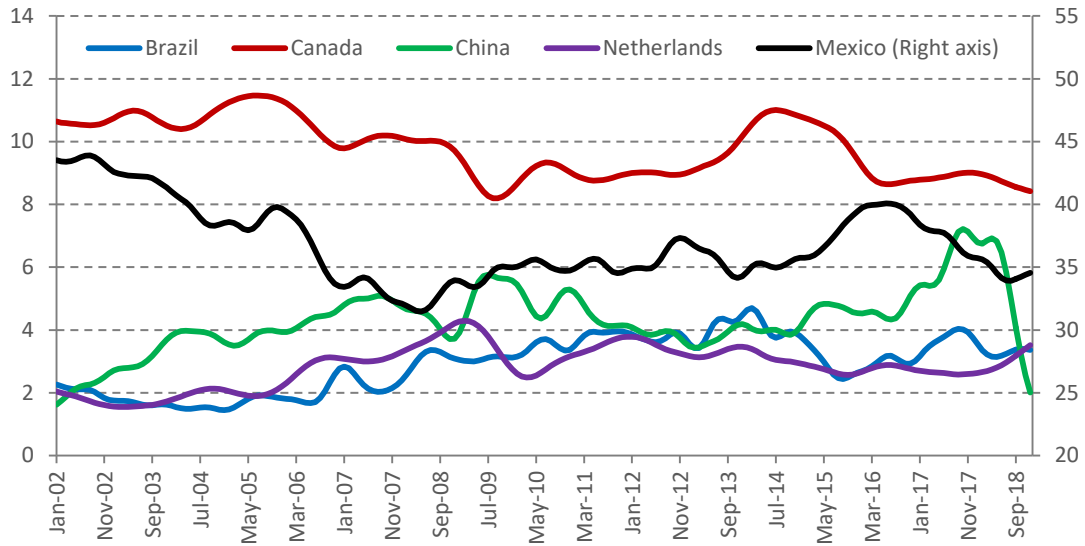
Note: Inflation adjusted and detrended with Bureau of Labor Statistics export indices. Annual sum. For more information, see [Crude Oil Exports](#). January data are unavailable due to the government shutdown.
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau

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



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