

# Outlook for the Texas Economy



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MARCH 2019 DATA

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](mailto:info@recenter.tamu.edu).

Dr. Luis Torres, Wesley Miller, and Paige Woodson

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## March 2019 Summary<sup>1</sup>

Entering the ninth year of the business-cycle expansion, Texas' economic activity moderated but remained positive. Payroll employment grew at a steady pace, and unemployment remained historically low. Headline wage numbers, however, were sluggish despite labor-market tightness and decreased inflationary pressure. Crude oil prices elevated to more than \$60 per barrel and supported record-level production and export volumes. Total commodity exports stalled in the first quarter and could continue to struggle amid the ongoing U.S.-China trade dispute. Political tension and gridlock in Washington added to the current state of uncertainty.

Recently released data confirmed the strength of the Texas economy with 3.2 percent annual GDP growth in 2018, the largest increase since 2015 and ranking tenth in the nation. Wholesale trade and professional/scientific/technical services were the leading contributors, followed by steady growth in durable goods manufacturing. Energy-related sectors also fared well through most of last year. Despite the sharp drop in oil prices in November and December, Texas amassed the fastest fourth-quarter growth at 6.6 percent on a seasonally adjusted annualized rate (SAAR).

Contemporaneous data suggest that economic activity has returned to more normal growth levels. The **Dallas Fed's Texas Business-Cycle Index** averaged less than 4 percent SAAR during the first three months of 2019 compared to a 4.3 percent average in 4Q2018. The long-run average of the series is 3.9 percent. At the metropolitan level, much of the deceleration occurred in Fort Worth where employment weakened and pulled the business-cycle index to less than 2 percent SAAR. The index, however, accelerated to 4.7 and 6.2 percent, respectively, in Austin and Dallas. Houston's index picked up from 2.7 to 4.9 percent, while the San Antonio index inched up for the third consecutive month to 3.5 percent.

The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) inched forward amid labor-market strength and rising oil prices. Some signs of weakness in national economic data, however, suggest slower growth over the next year. Despite solid fundamentals in the statewide economy, the **Texas Consumer Confidence Index** dropped 6.4 points in March to its lowest level since 2017. Consumer confidence peaked in October 2018 before oil prices slid at year end.

Recently released 2018 data revealed a 1.3 percent increase in the Texas population, more than doubling national growth. The rate of increase, however, slowed to the lowest level since 1989. Net domestic migration to Texas flourished during and after the Great Recession as the state's economic health pulled residents away from other parts of the country. Improvements in the national economy reduced those pull factors, weighing on the state's overall population growth, while international migration increased, and the difference between births and deaths remained stable.

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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 Dallas-Fort Worth (DFW) Metropolitan Statistical Area (MSA) topped the state in absolute population increase, adding 131,800 residents last year, while Houston ranked second at 92,700. Austin's population rose 2.5 percent (53,000 net increase), marking its ninth straight year as the fastest growing large MSA. In San Antonio, population growth held firm at 1.8 percent, netting more than 43,000 residents.

Lower inflation expectations combined with continued concerns of global economic growth pulled interest rates down for the fifth consecutive month. The **ten-year U.S. Treasury bond yield** fell to an annual low of less than 2.6 percent, while the **Federal Home Loan Mortgage Corporation's 30-year fixed-rate** dropped below 4.3 percent. Texans capitalized on lower rates, pushing mortgage applications for home purchases up 14.6 percent in the first quarter. The impact should support housing demand, particularly in markets struggling with affordability constraints. Refinance mortgage applications, which are more sensitive to interest rate fluctuations, increased 33.4 percent over the same period.

**Texas housing sales** increased 1.6 percent quarter over quarter (QOQ) as more moderate price pressure provided some breathing room in constrained markets. Current residential construction activity, measured by the **Residential Construction Cycle (Coincident) Index**, faltered as construction values trended downward. A slowdown in construction permits hindered the **Residential Construction Leading Index**, outweighing steady single-family activity. Lower interest rates and the extended economic expansion, however, should support the industry in coming months. (For additional housing commentary and statistics, see [Texas Housing Insight](#) at [recenter.tamu.edu](http://recenter.tamu.edu).)

The average **West Texas intermediate crude oil spot price** jumped to more than \$58 per barrel (nonseasonally adjusted), increasing 18.5 percent since the December trough. OPEC production cuts and U.S. sanctions on Iran and Venezuela supported higher prices despite global demand concerns. Texas production reached a record-high 4.88 million barrels per day in February as the industry focus shifted from exploration activity to generating cash flow<sup>2</sup>. The **active rig count** fell to fewer than 502 for the first time this year. On the natural gas front, the **Henry Hub spot price** rebounded above \$3.21 per million British thermal unit (BTU) after a sharp drop to start the year. Rampant crude oil production and additional takeaway capacity in the Permian Basin, however, pulled the **West Texas Waha spot price** below \$1 per BTU.

Texas' **nonfarm employment** growth slowed to 1.7 percent SAAR during the first quarter, resulting in just under 60,000 new jobs. The mean reversion was anticipated given the substantial growth in 2018. The Dallas Fed projects 1.8 percent annual growth through 2019, notably lower than last year's levels. The **unemployment rate** balanced at 3.8 percent for the third consecutive month, and **labor force participation** held firm at 64 percent. Texans filed fewer than 58,000 **initial unemployment insurance claims** in March, corroborating the healthy labor market. Steady hiring in

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

San Antonio held unemployment at 3.3 percent for the past five months, while the Austin rate dipped below 3 percent. Unemployment in Dallas-Fort Worth balanced at 3.5 percent. Despite remaining above the statewide level, Houston's rate trended at a cycle low at 4.1 percent and could fall below 4 percent if oil prices continue to rebound.

Texas' **real private hourly earnings** remained unchanged relative to last year, falling further behind the national average. Austin paid the highest average wages at \$29.26 per hour, 1.1 percent less than year-ago levels after accounting for inflation. Data revisions revealed less growth in Dallas wages, settling at \$28.83 per hour, while Houston and San Antonio balanced at \$27.83 and \$24.13 per hour, respectively. Fort Worth wages trended upward after a four-year lull, averaging \$26.64 per hour amid 2 percent year-over-year (YOY) growth.

Dallas led the state with 27,900 jobs created in the first three months of the year, the city's largest first-quarter gain in series history (beginning in 1990). Most of the growth occurred in professional/business services and trade/transportation/utilities. A resurgence of manufacturing employment contributed to a net quarterly increase of 23,100 jobs in Houston. Booming construction in Central Texas led to a total of 5,300 and 8,200 new positions in Austin and San Antonio, respectively. On the other hand, Fort Worth payrolls added just 1,100 positions in the first quarter after a sluggish start to the year.

Texas' goods-producing sector as a whole added just 4,100 jobs between January and March, down from 27,200 in 4Q2018. Falling oil prices late last year trickled into the first quarter and weighed on energy-sector employment. Weaker global economic conditions hindered the state's manufacturing sector, which added 1,700 first-quarter positions. North Texas accounted for most of the industry's slowdown, while Houston maintained solid growth. **Hourly manufacturing earnings** stagnated across the state except in Fort Worth, where wages spiked 7.4 percent YOY in real terms after an 18-month slide. The **Dallas Fed's Manufacturing Outlook Survey** corroborated these trends with nearly a third of respondents paying higher wages and benefits as well as a slower hiring environment. Production and capacity utilization accelerated despite increased uncertainty. U.S.-China trade tensions remained the primary concern across multiple subsectors.

Construction payrolls started the year slowly but accelerated in February and March, adding a total of 5,900 first-quarter jobs. **Real hourly construction earnings**, however, fell 1.1 percent year-to-date after substantial growth last year. **Total construction values** staggered with declines in both the residential and nonresidential sectors. Single-family construction values extended a five-month slide despite healthy housing-start data. While luxury-home construction has stalled over the past year, the new-home price distribution does not explain the persistent decline in construction values. In the nonresidential sector, waning school construction in Austin and Houston offset investment in office and bank buildings. On the other hand, San Antonio's school construction surged amid booming population growth.

In Texas' service-providing sector, payrolls rebounded with 55,700 new positions after stalling in 4Q2018. Accommodation/food services added 14,300 jobs, followed by

professional/scientific/technical services with 11,200. Health and social assistance employment added 10,900 jobs over the three-month period. The **Dallas Fed's Service Sector Outlook Survey** corroborated robust hiring trends with gains in both full-time and part-time employment as well as hours worked. Sentiments were generally positive, but tariffs and trade uncertainty remained a concern.

Texas retailers shed 4,300 jobs in the first quarter after volatile swings in November and December 2018. Despite stagnant growth in real income levels, retail sales<sup>3</sup> jumped 3.2 percent after accounting for inflation. The **Dallas Fed's Retail Outlook Survey**, however, revealed a contraction in sales, employment, and hours worked. Reports varied widely with a quarter of respondents experiencing declines and another quarter experiencing stronger sales activity. That said, perceptions of the economy fell to their lowest value since 2016.

Higher oil and gasoline prices pushed the **U.S. Consumer Price Index (CPI)** up 1.9 percent YOY, just shy of the Fed's 2 percent benchmark. Core inflation, however, trended downward due to lower global demand for goods. Rebounds in transportation costs combined with higher food and medical expenses pushed the Dallas CPI up 2.7 percent YOY, its largest increase in seven months. Despite a moderation in regional home-price appreciation, housing costs remained an elevated component to household expenditures.

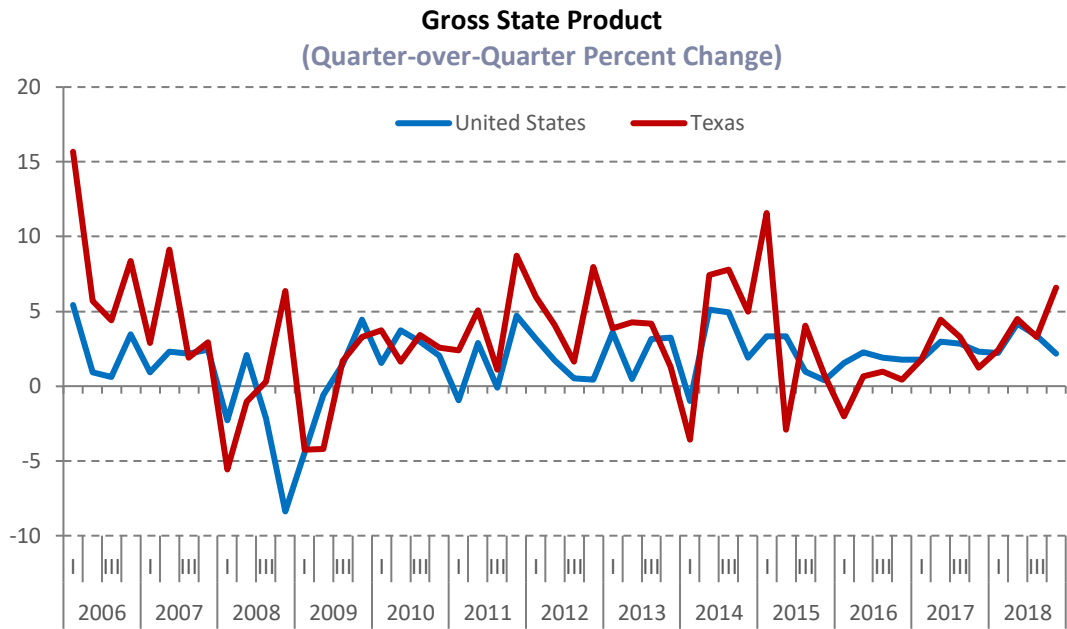
Texas' **real trade weighted value of the dollar** leveled after a year-long climb but was unable to spur export growth. **Real commodity exports** fell 1.5 percent QOQ while rising 1.2 percent at the national level. Most of the statewide slowdown was due to decreased petroleum shipments to Mexico. Despite the ongoing trade dispute, Texas exports to China actually increased after six straight quarterly declines. These gains are likely to dissipate amid upcoming punitive tariffs. **Manufacturing exports** fell 3.1 percent QOQ in real terms with declines across most subsectors. Transportation equipment was the outlier with 9.1 percent QOQ growth. **Crude oil exports** continued to surge with 18.9 percent QOQ growth, with an increase particularly to India.

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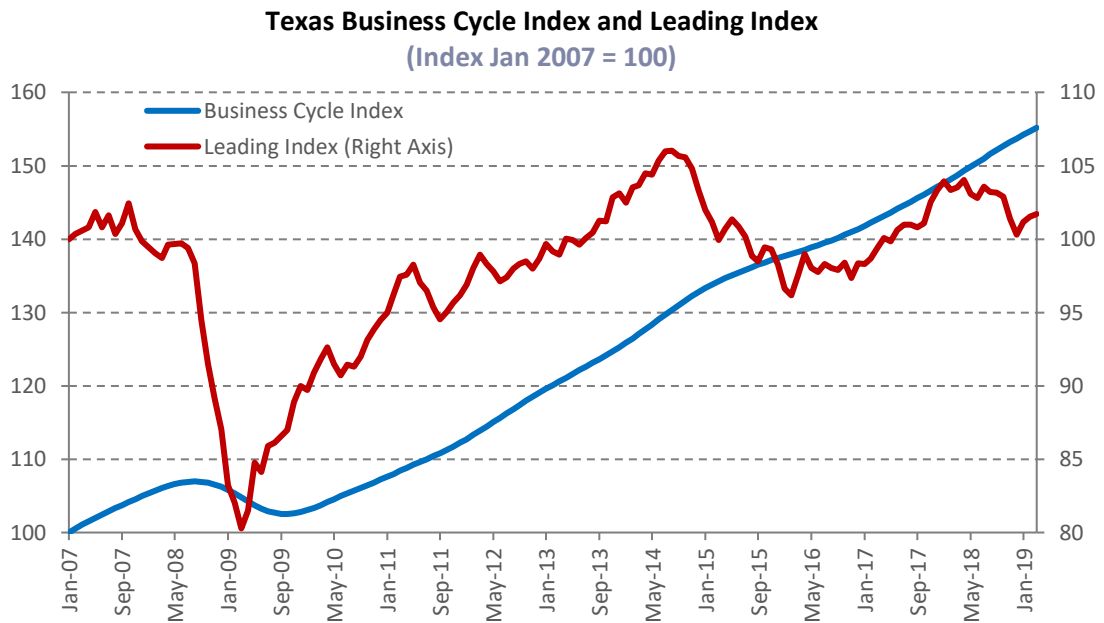
<sup>3</sup> Data for Texas retail sales are available only through February 2019.



## Economic Activity

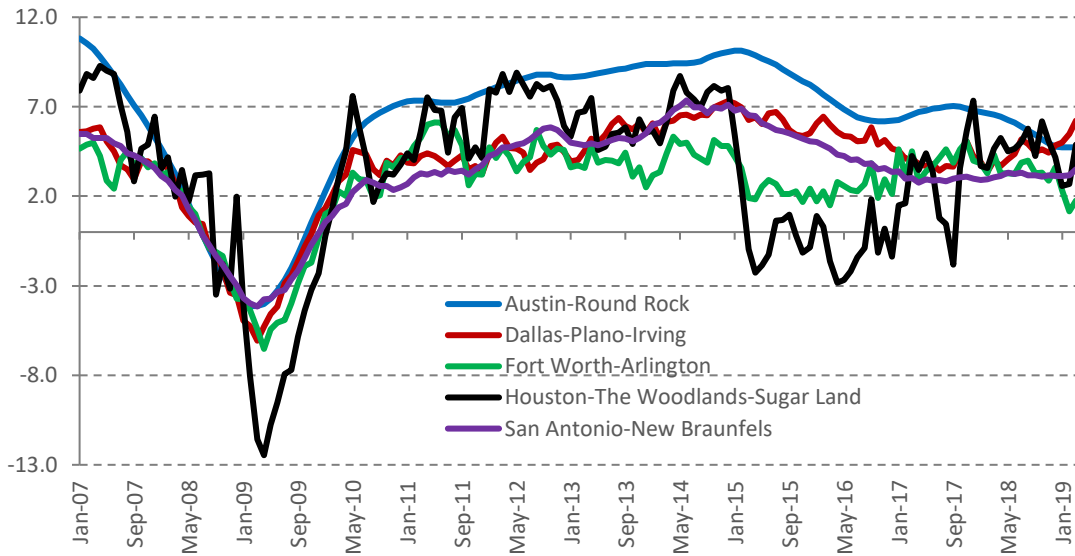


Note: Seasonally adjusted annualized rate.  
Source: Bureau of Economic Analysis



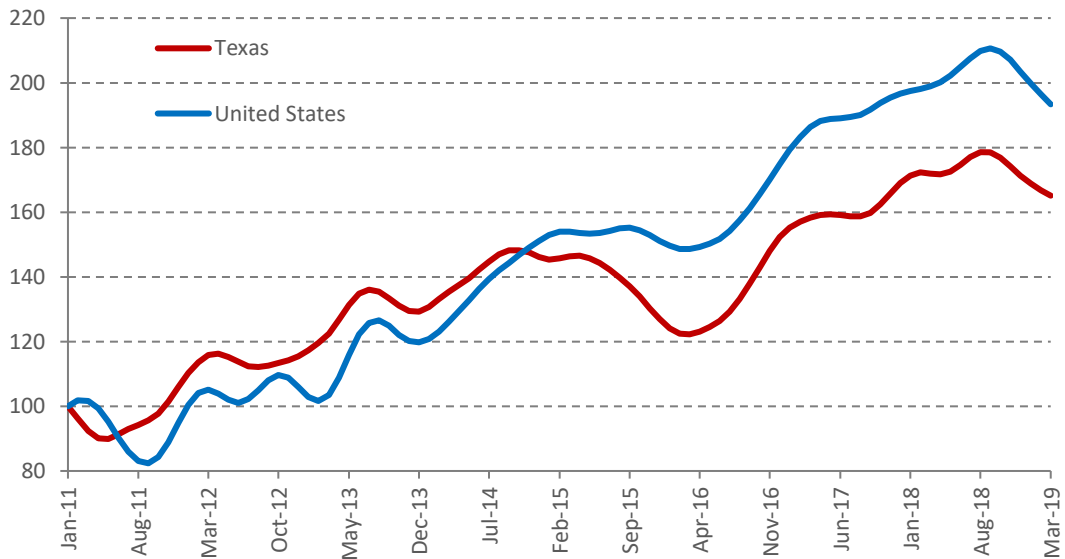
Note: Seasonally adjusted.  
For more information, see [Texas Business Cycle Index](#).  
Source: Federal Reserve Bank of Dallas

**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

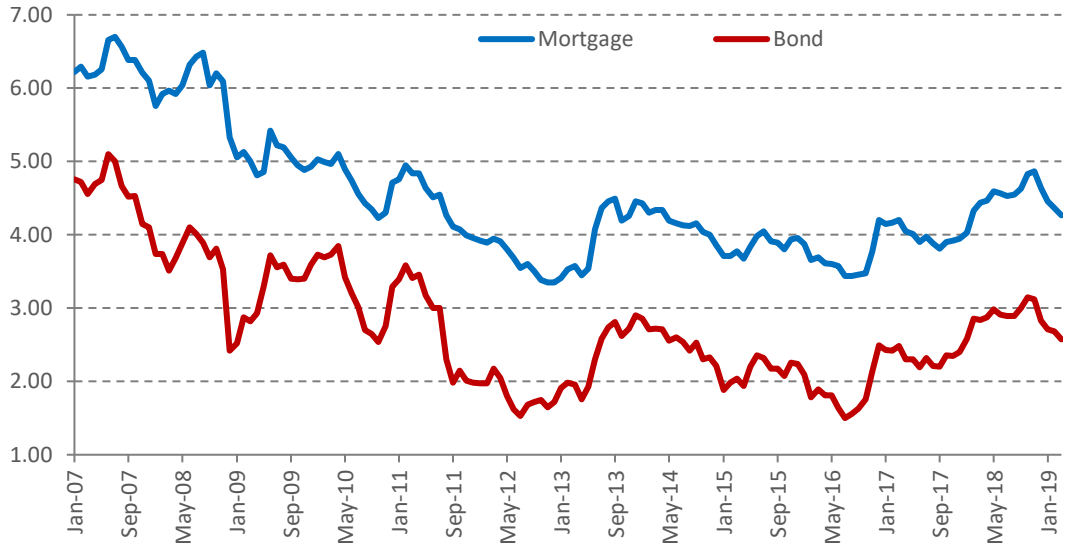
**Consumer Confidence Index**  
(Index Jan 2011 = 100)



Note: Trend-cycle Component.  
Source: Conference Board

## Financial Activity

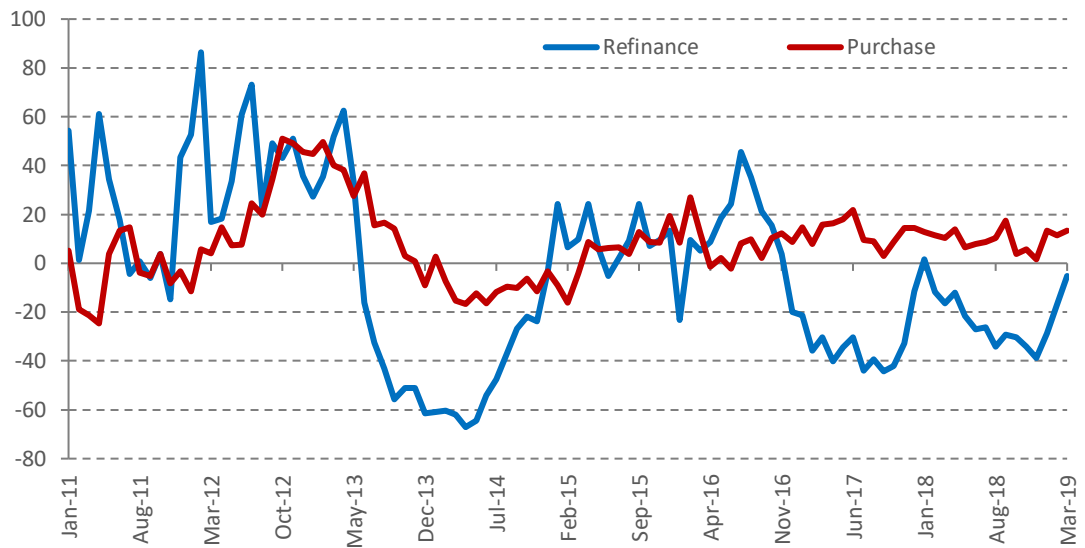
### 30-Year Mortgage Rate and 10-Year Bond Yield (Percent)



Note: Seasonally adjusted.

Sources: Federal Home Loan Mortgage Corporation and Federal Reserve Board

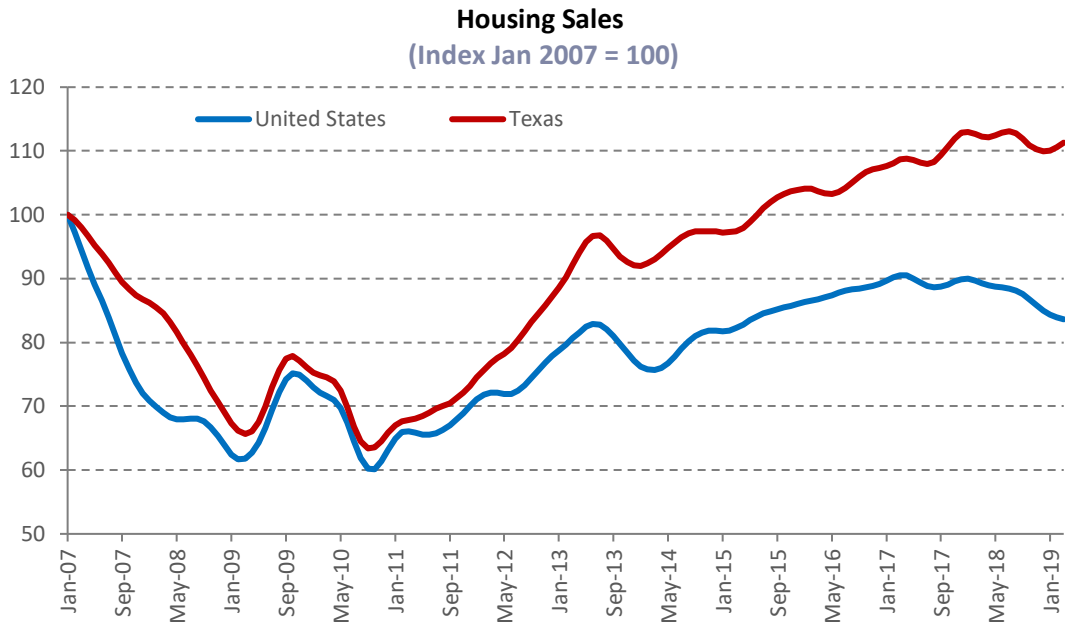
### Texas Mortgage Applications (Year-over-Year Percentage Change)



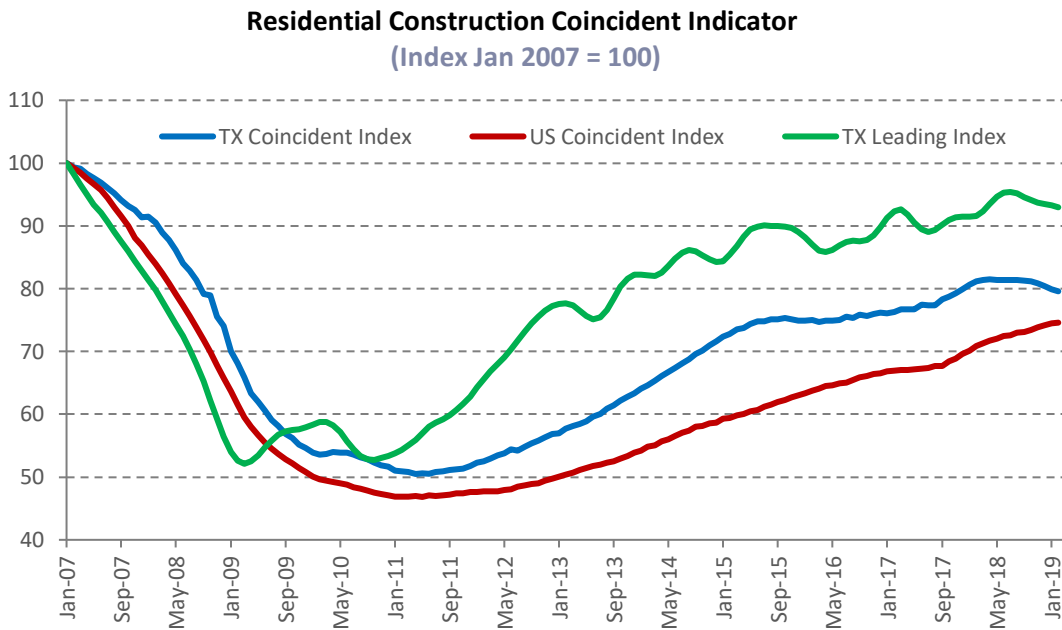
Source: Mortgage Bankers Association



## Housing

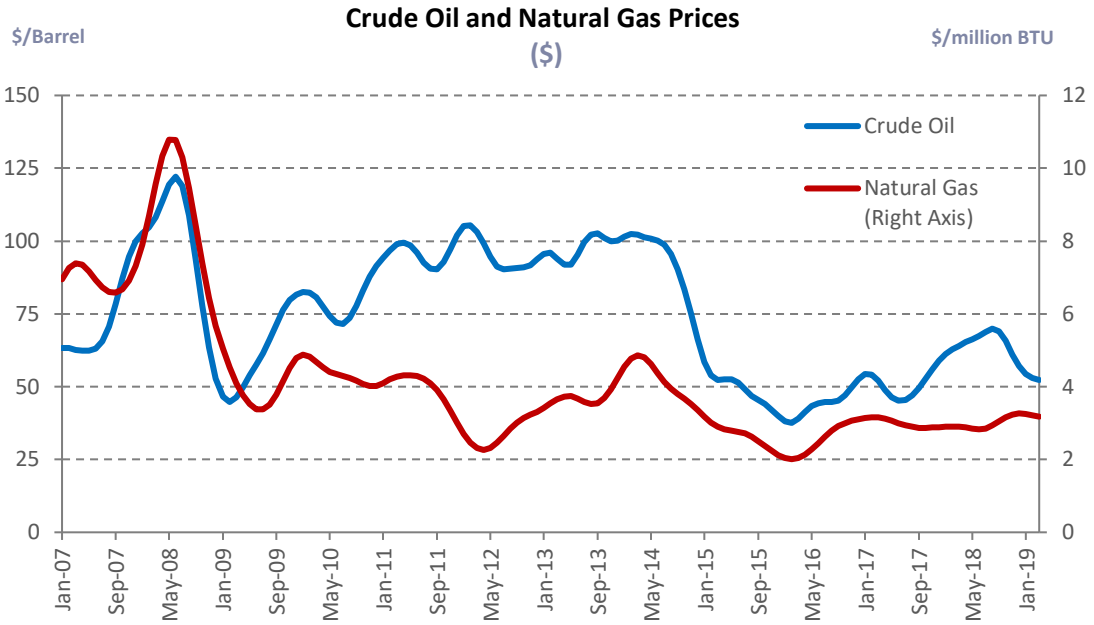


Note: Trend-cycle component. Sales for the United States include all existing homes and new single-family homes; new non-single-family homes are not included. Texas includes all existing and new homes. For more information, see [Housing Sales](#).  
Sources: U.S. Census Bureau, National Association of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



Note: Trend-cycle component.  
Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas

## Energy



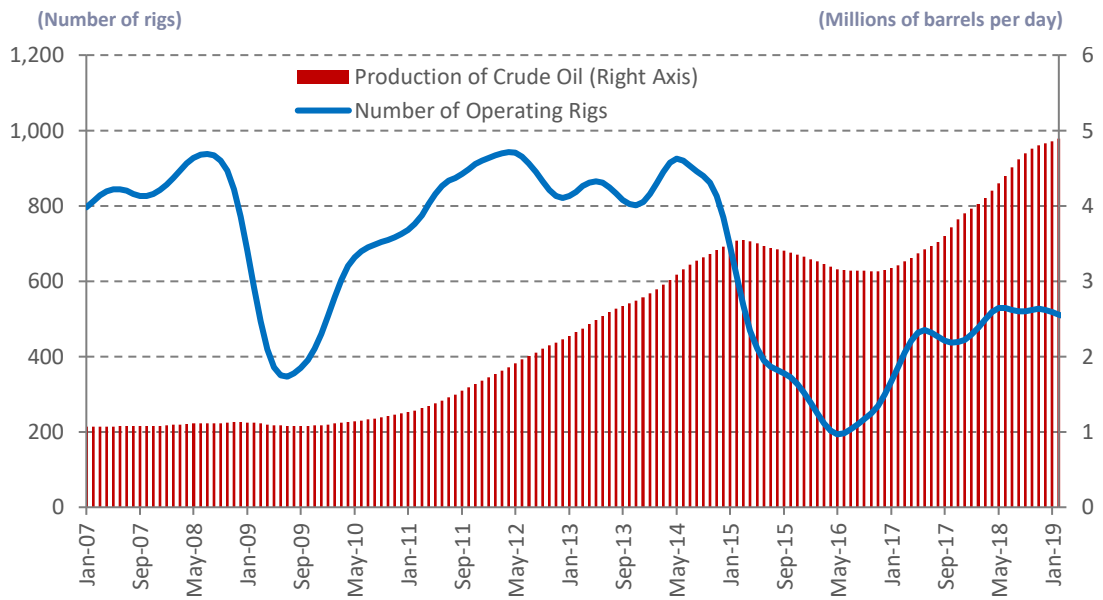
Note: Trend-cycle component.

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)



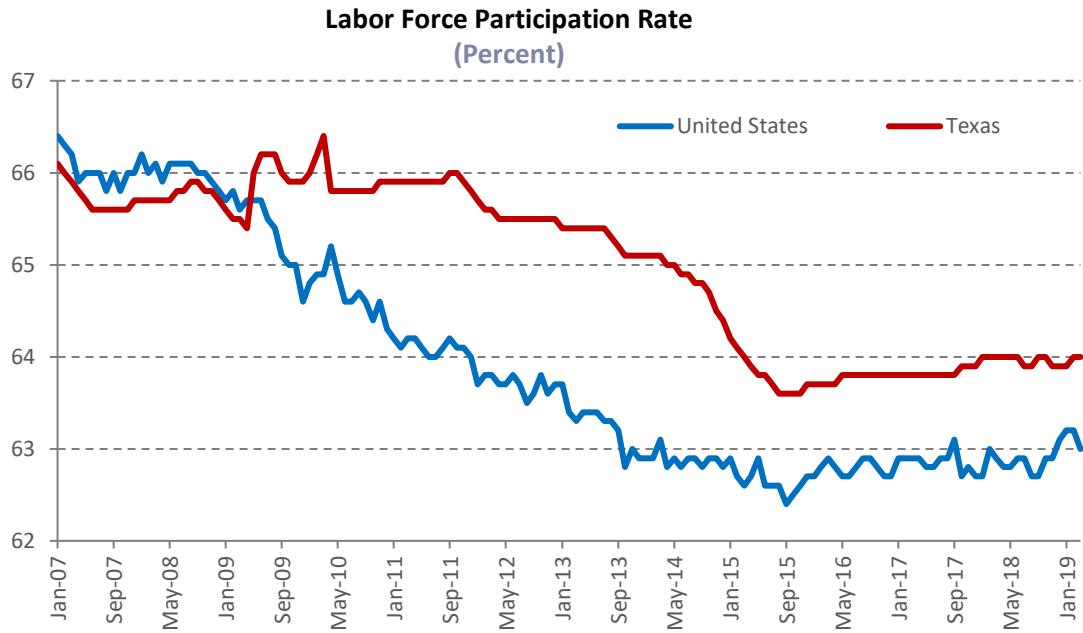
Note: Trend-cycle component.

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

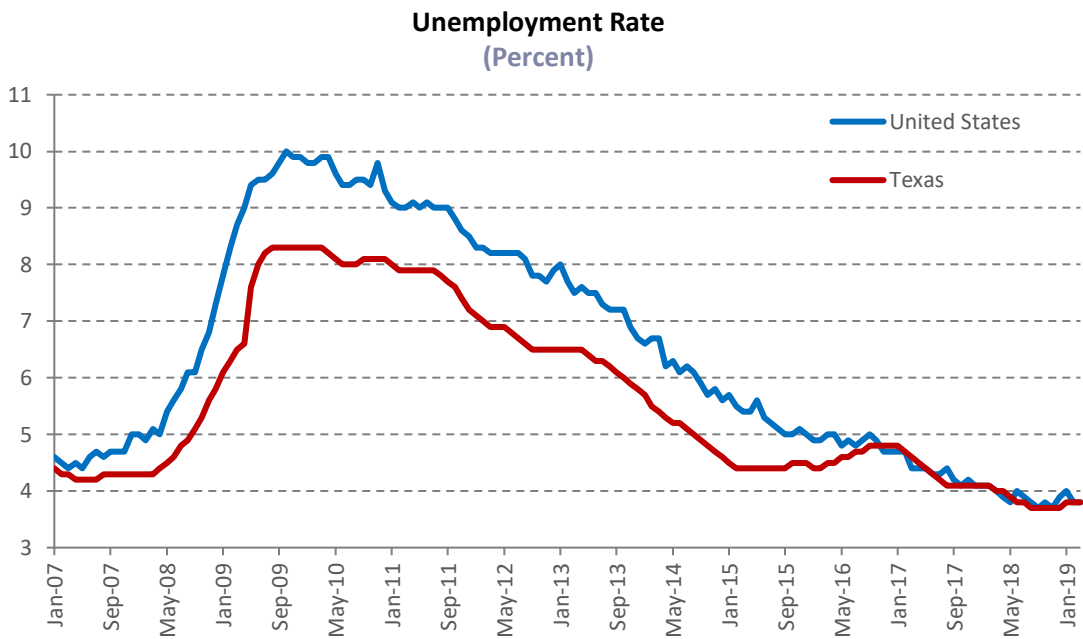
Sources: Baker Hughes and U.S. Energy Information Administration



## Employment

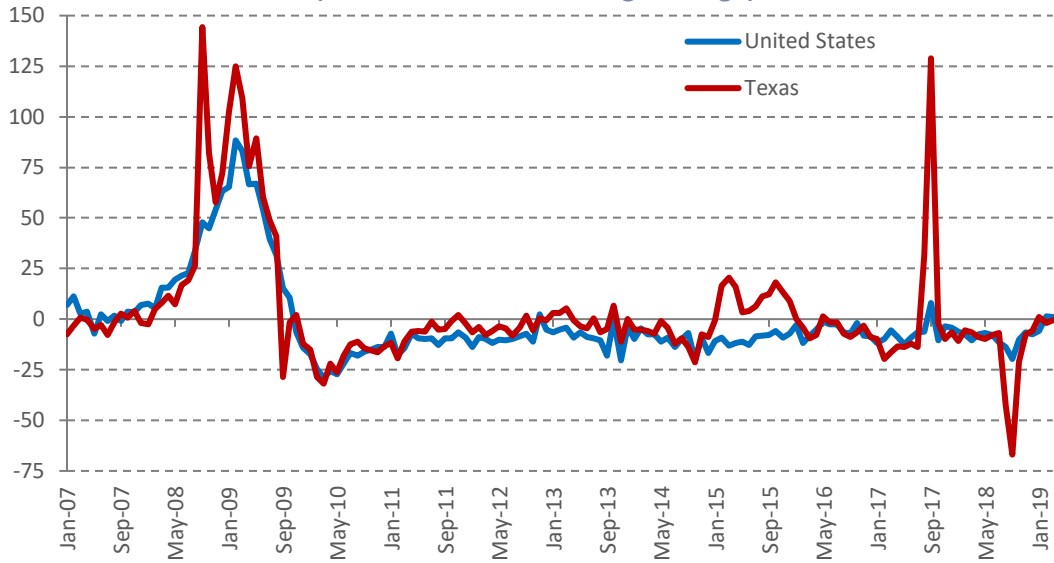


Note: Seasonally adjusted. For more information, see [Unemployment Rate](#).  
Source: Bureau of Labor Statistics



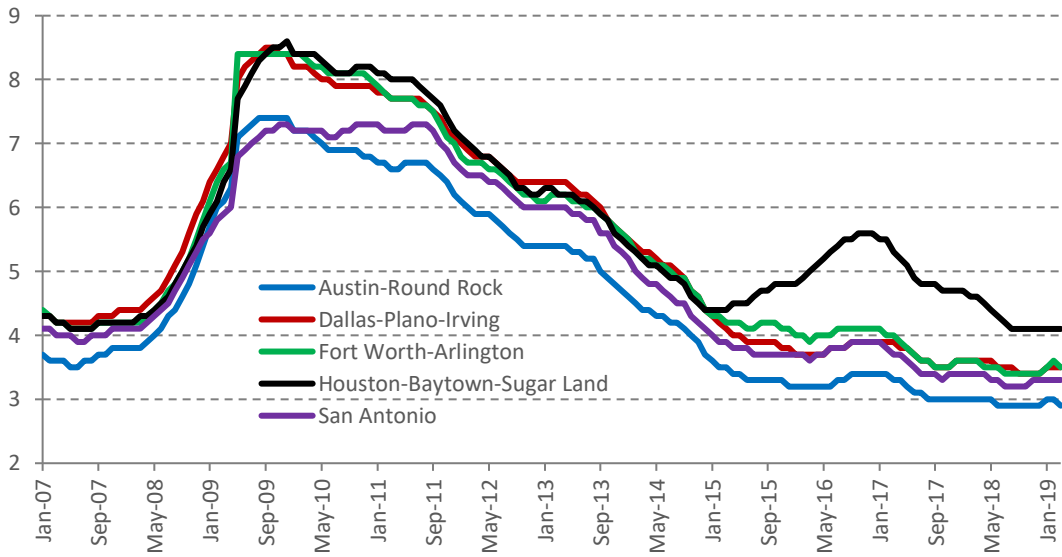
Note: Seasonally adjusted. March 2019 is preliminary. For more information, see [Unemployment Rate](#).  
Source: Bureau of Labor Statistics

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



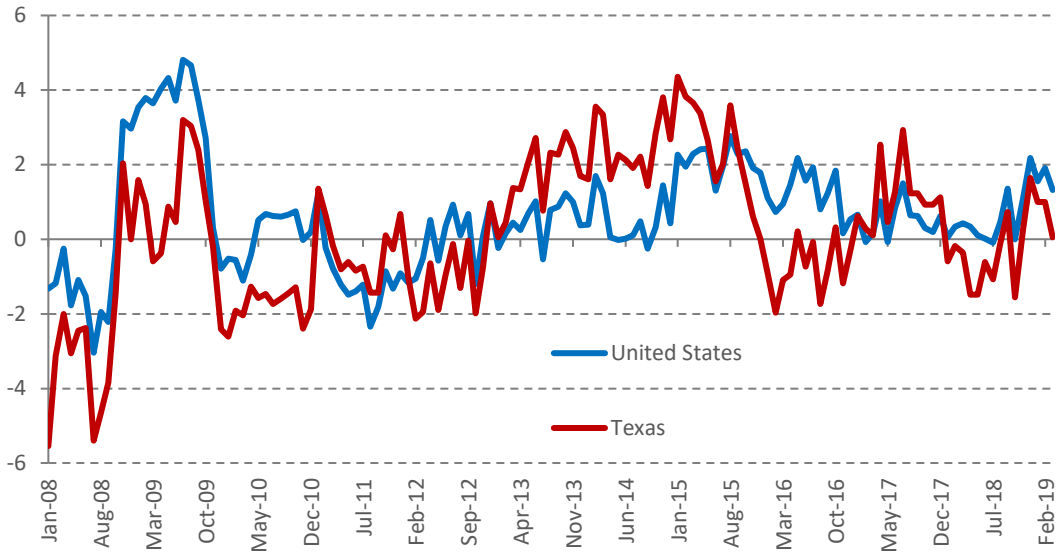
Note: Seasonally adjusted. For more information, see [Unemployment Insurance Claims: Initial Applications](#).  
Source: Department of Labor

### Major Metros Unemployment Rate (Percent)



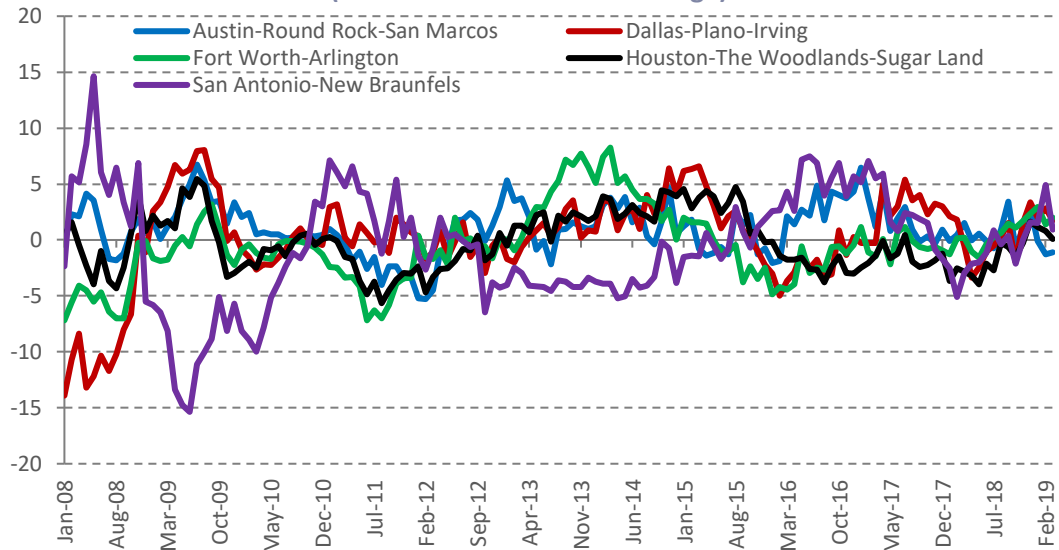
Note: Seasonally adjusted. March 2019 is preliminary. For more information, see [Unemployment Rate](#).  
Source: Bureau of Labor Statistics

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



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

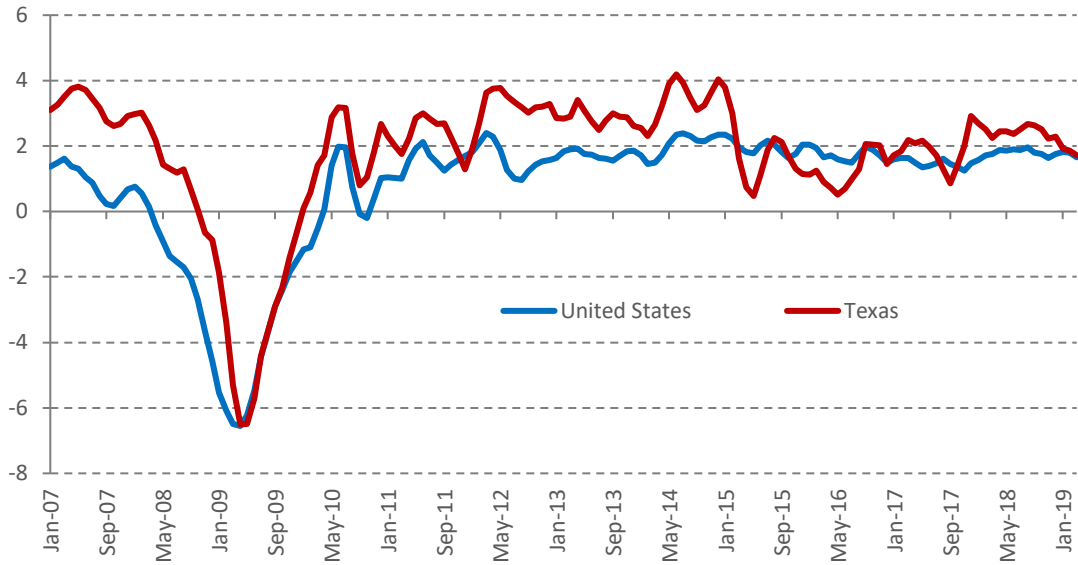
**Major Metros Total Private Employee Hourly Earnings**  
(Year-over-Year Percent Change)



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

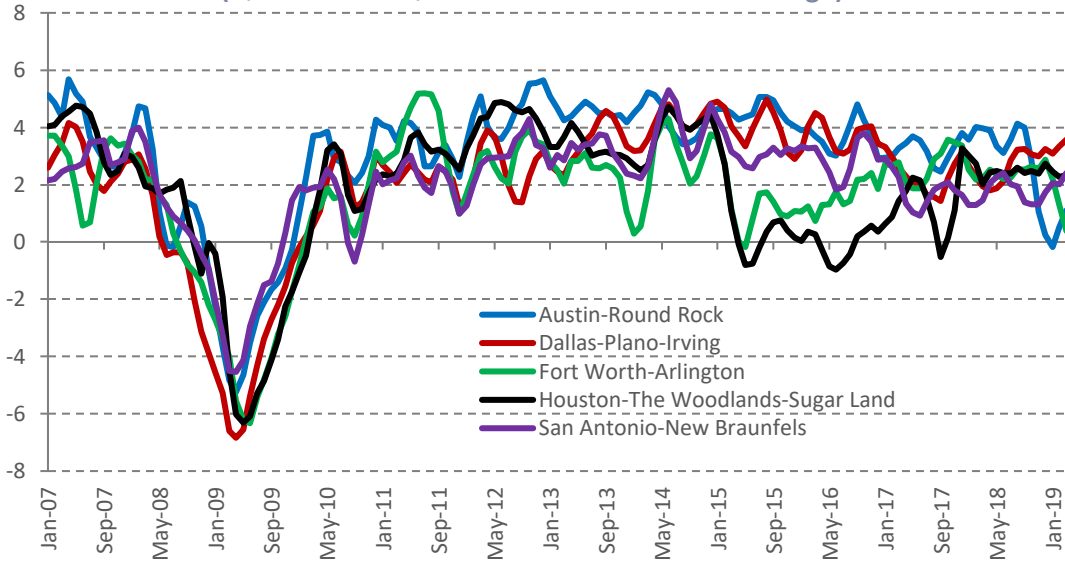


### Employment Growth Rate (Quarter-over-Quarter Annualized Percent Change)



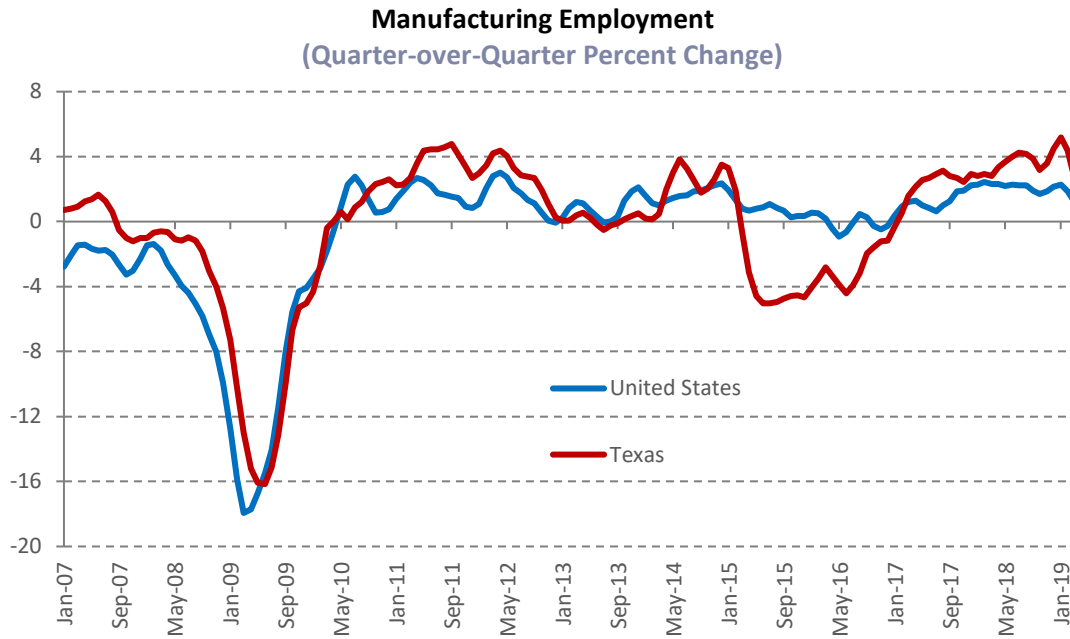
Note: Seasonally adjusted, 3-month moving average. March 2019 is preliminary.  
 For more information, see [Employment Growth Rate](#).  
 Source: Bureau of Labor Statistics

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



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

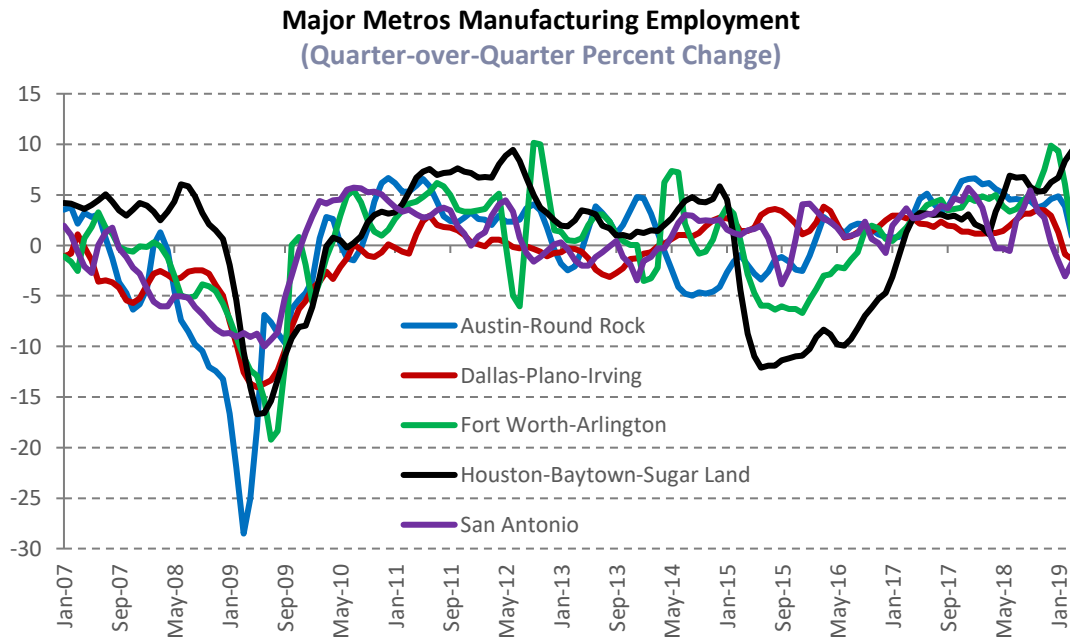
## Manufacturing



Note: Seasonally adjusted, 3-month moving average. March 2019 is preliminary.

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

Source: Bureau of Labor Statistics



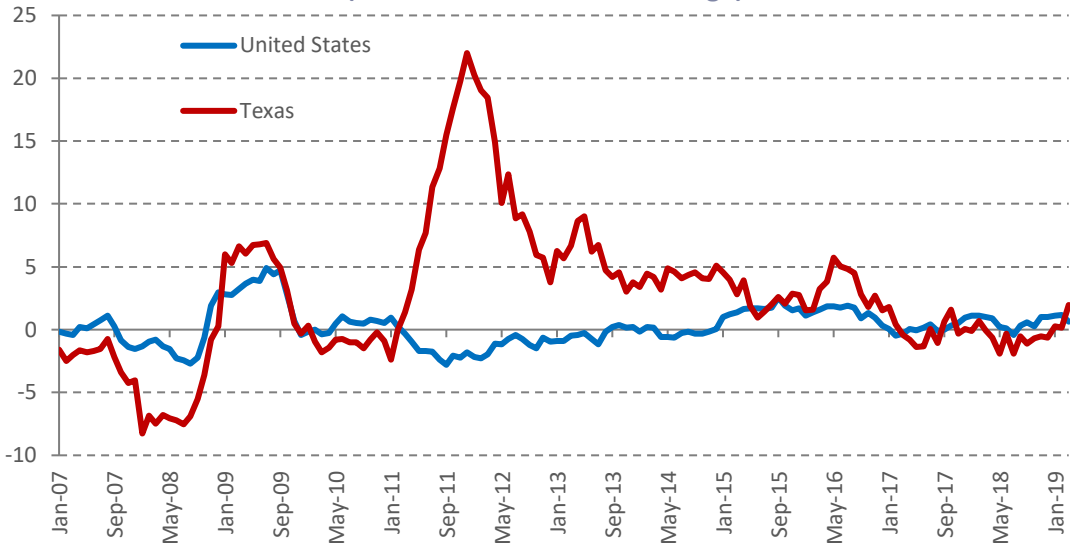
Note: Seasonally adjusted, 3-month moving average. March 2019 is preliminary.

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

Source: Bureau of Labor Statistics

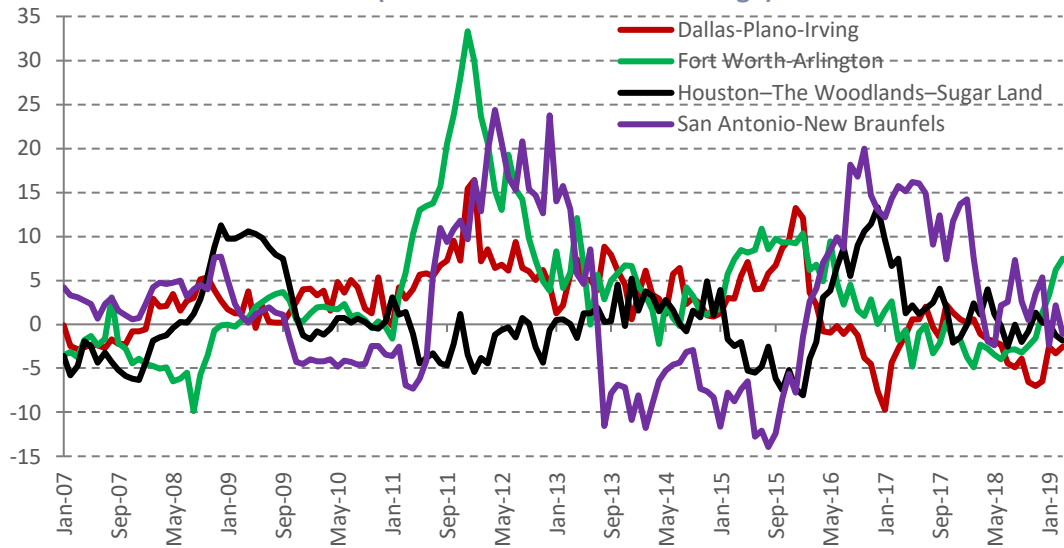


### Manufacturing Employee Hourly Earnings (Year-over-Year Percent Change)



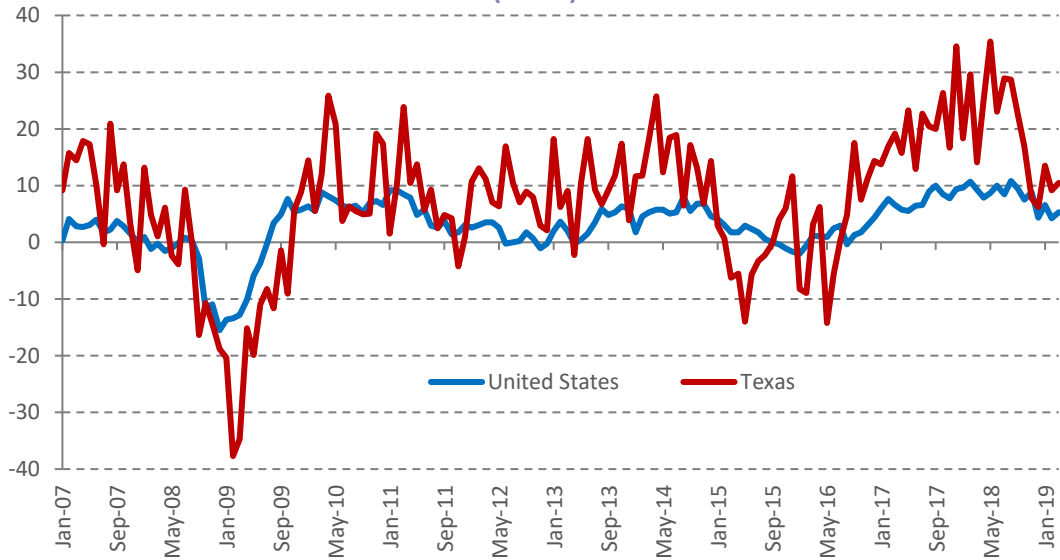
Notes: Inflation adjusted. March 2019 is preliminary.  
For more information, see [Total Private Employee Hourly Earnings](#).  
Source: Bureau of Labor Statistics

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



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

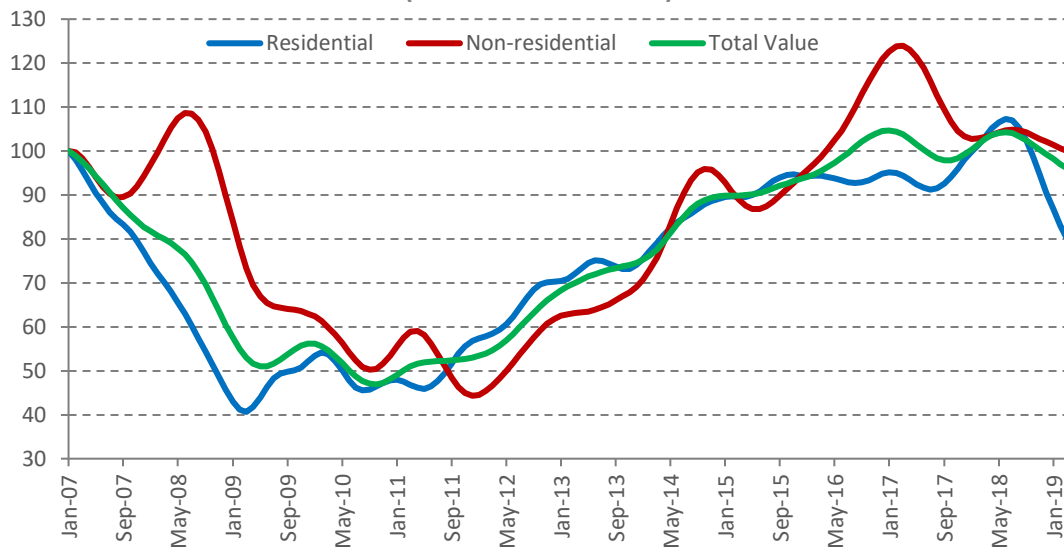
### Manufacturing Outlook Survey (Index)



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

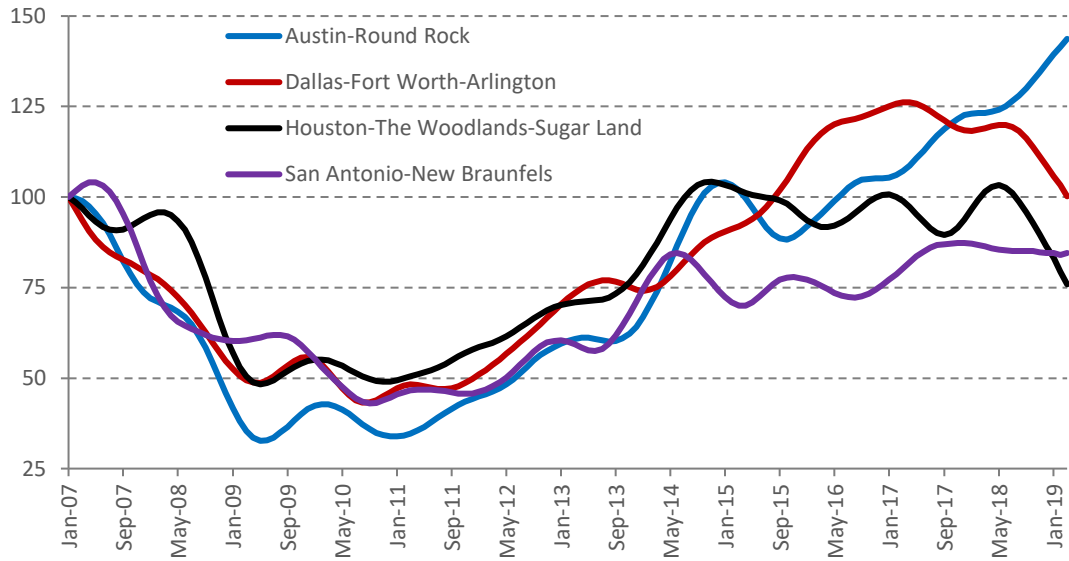
### Construction

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



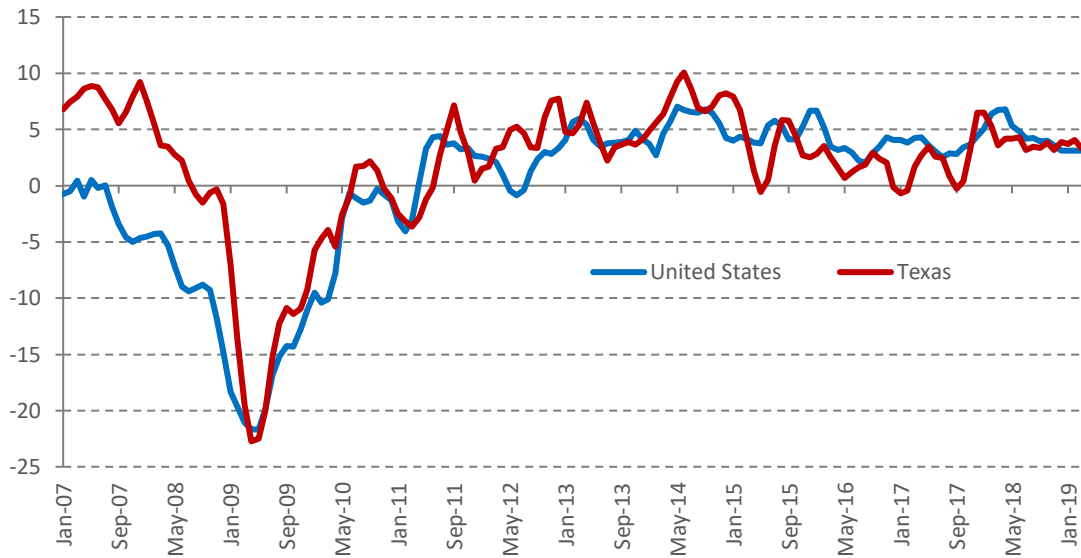
Note: Inflation adjusted trend-cycle component.  
Source: Dodge Analytics

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



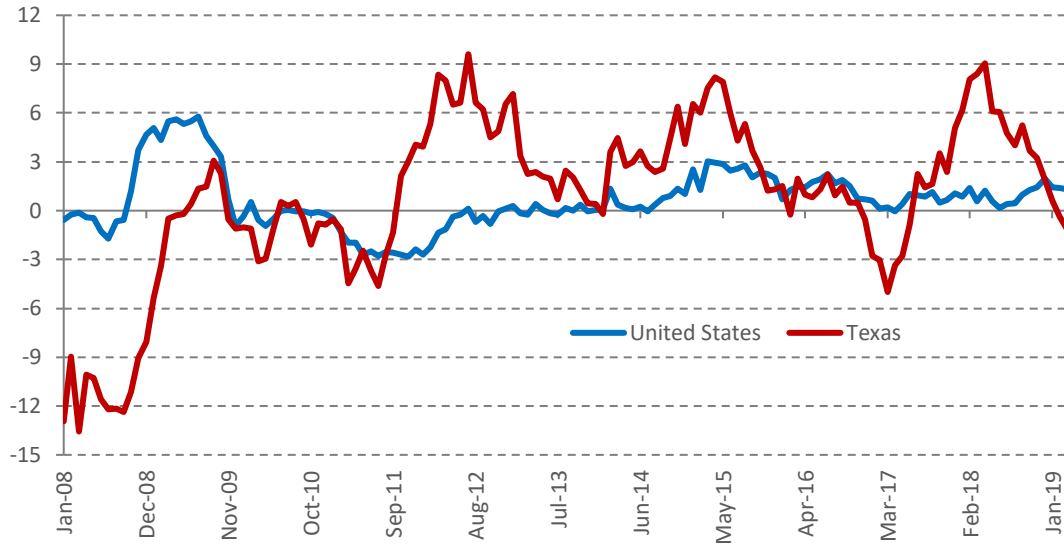
Note: Inflation adjusted trend-cycle component.  
Source: Dodge Analytics

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



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

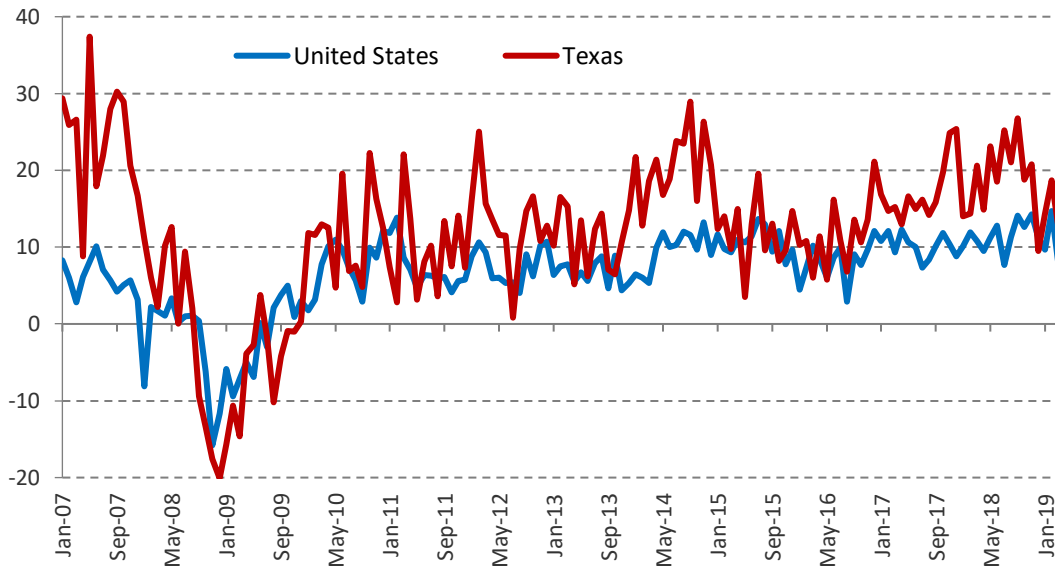
### Construction Employee Hourly Earnings (Year-over-Year Percent Change)



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

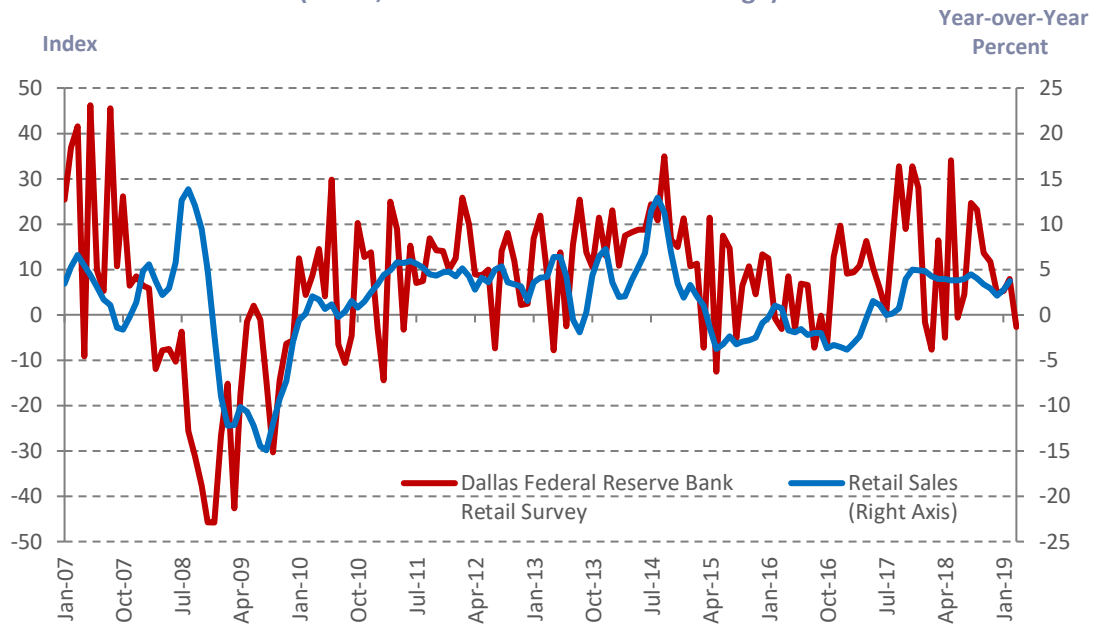
### Services

#### Services Sector Outlook Survey (Index)



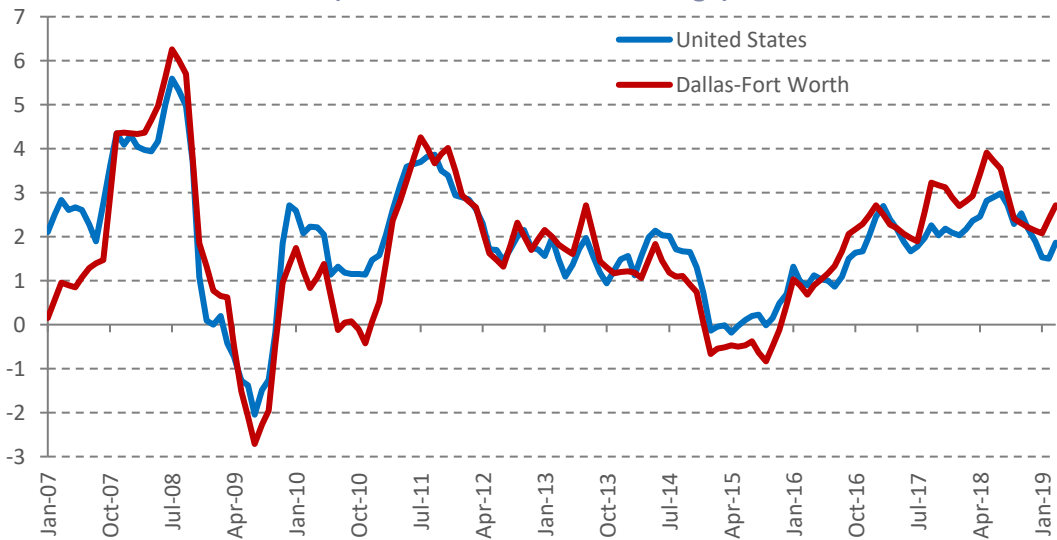
Note: Seasonally adjusted. For more information, see [Services Sector Outlook Survey](#).  
Sources: Federal Reserve Bank of Dallas and Institute for Supply Management. United States index is adjusted -50 to be on scale with Texas index.

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



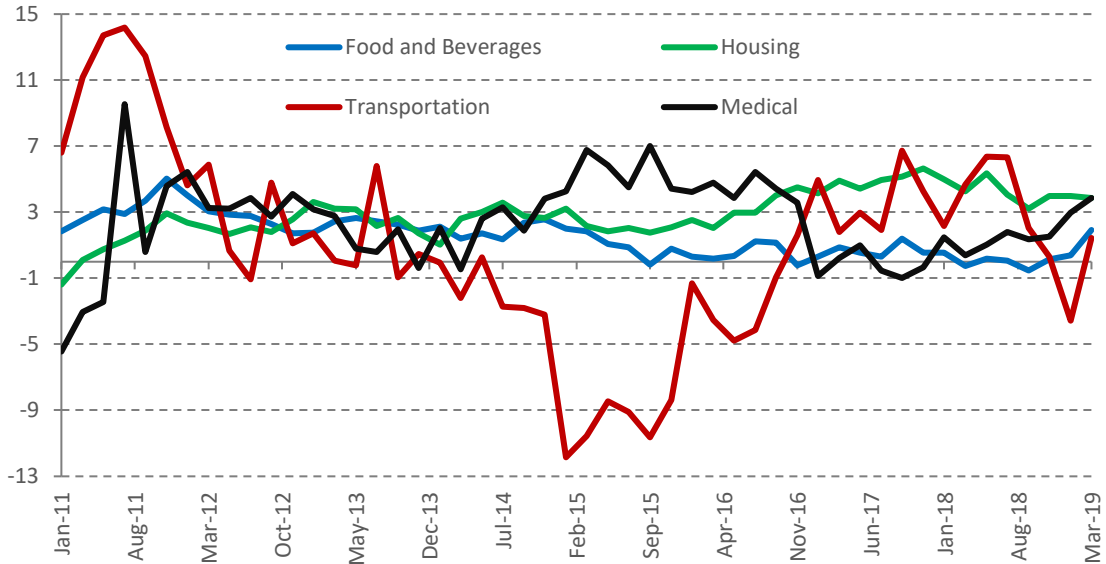
Note: Seasonally adjusted and inflation adjusted. For more information, see [Texas Retail Sector](#).  
Sources: Retail Sector Outlook Survey from the Federal Reserve Bank of Dallas, Retail Sales from Texas Comptroller of Public Accounts

### 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)

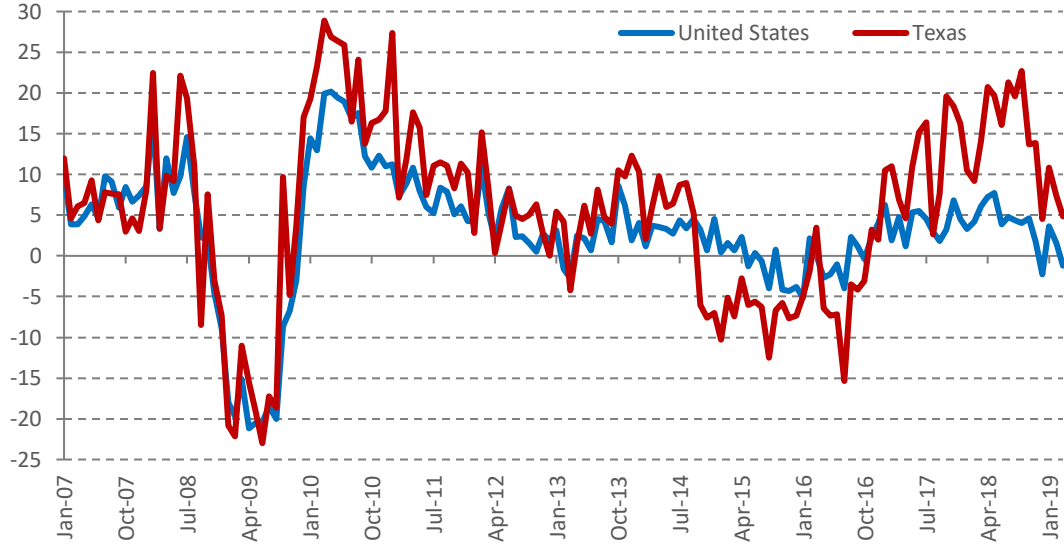


Note: The Dallas CPI is composed of the following major groups: Food and Beverages, Housing, Apparel, Transportation, Medical Care, Recreation, Education and Communication, and Other Goods and Services. The four major components are included in the graph above.

Source: Bureau of Labor Statistics

**Trade**

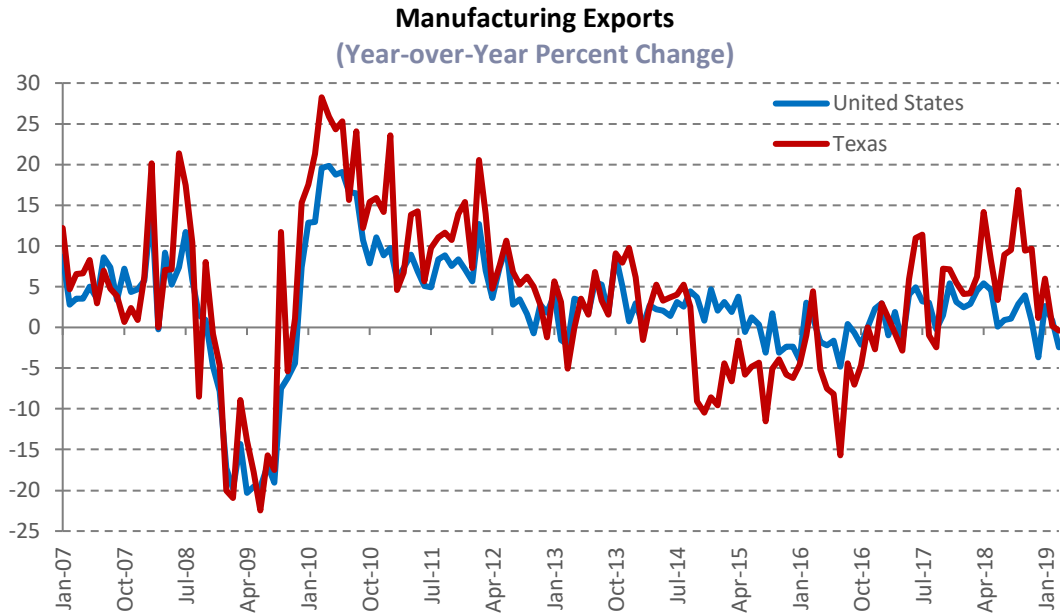
**Exports (All Commodities)**  
(Year-over-Year Percent Change)



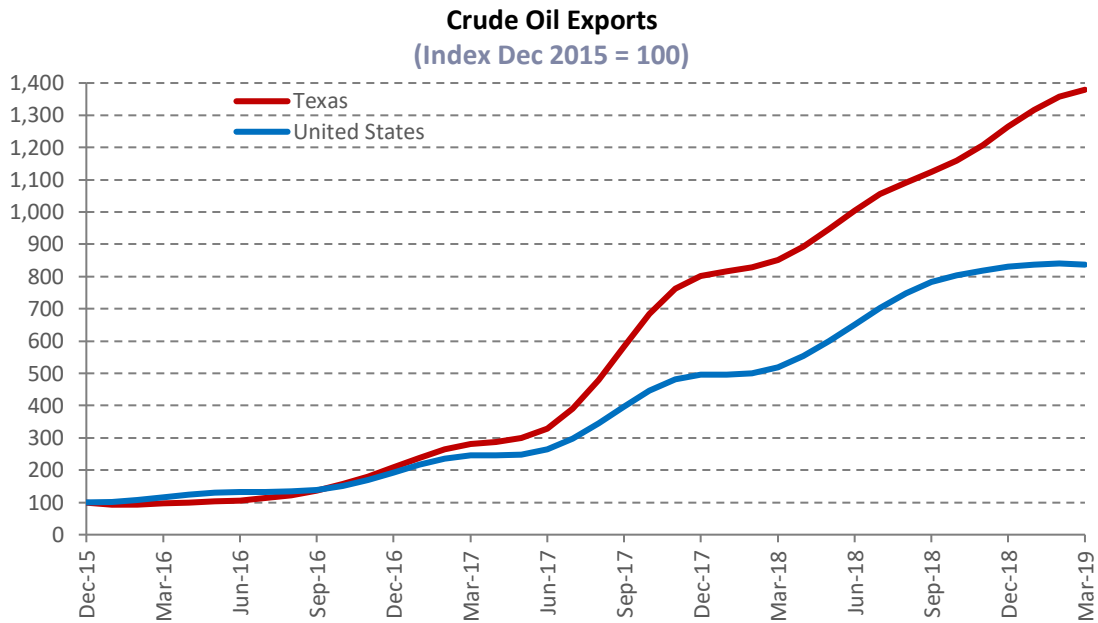
Note: Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see [Exports](#).

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



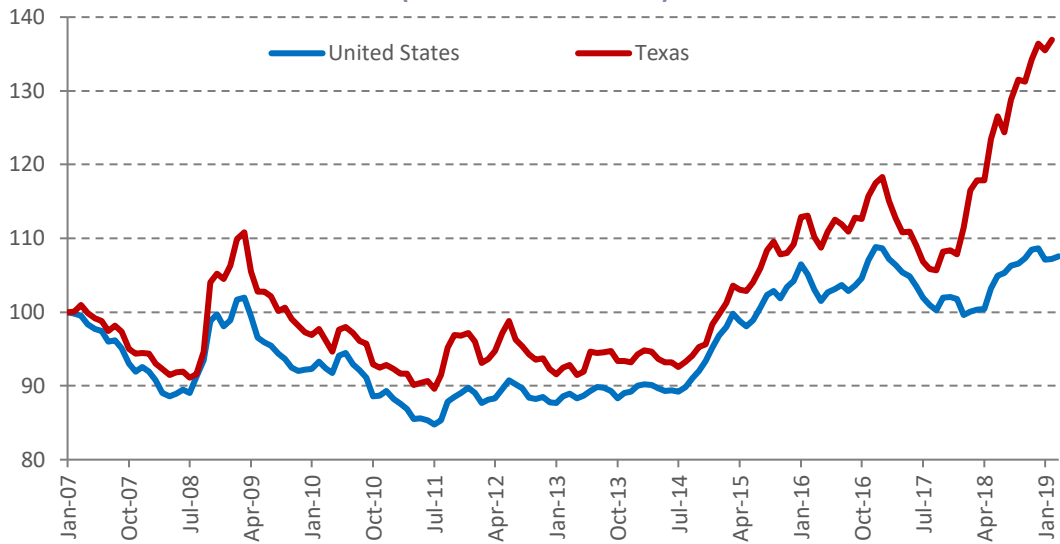


Note: Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see [Manufacturing Exports](#).  
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau



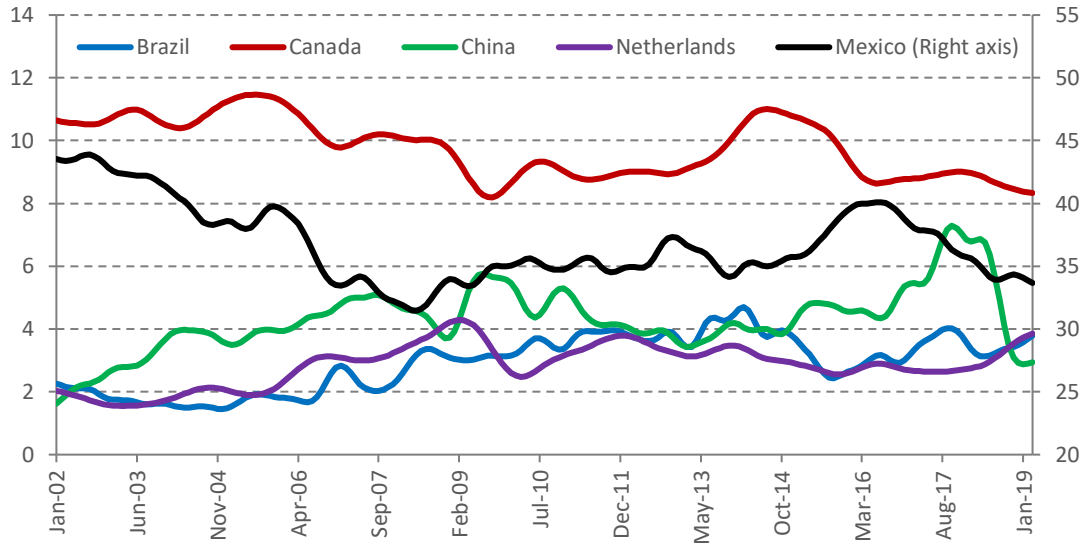
Note: Inflation adjusted and detrended with Bureau of Labor Statistics export indices. For more information, see [Crude Oil Exports](#).  
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau

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



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