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
Note: Due to the ongoing Federal government shutdown, the release of multiple data series has been delayed, and they are not included in this report. The following analysis represents an overview of the Texas economy based on the available data.

November 2018 Summary

Texas’ economic expansion continued but lost some steam. A drop in oil prices and housing sales combined with weaker hiring in the service sector weighed on momentum. The overall outlook, however, remains positive. Crude oil production hovered around historic levels, and low unemployment pushed wages upward. The number of homes in foreclosure held at its lowest level in decades as Texans’ employment and earnings prospects improved. The manufacturing sector created a record-high 9,100 jobs despite trade tensions and price pressures. While survey data reinforced optimism for both consumers and producers, several risk factors are growing. The combination of rising interest rates, oil-price volatility, and a slowdown in the global economy provide challenges to the current business-cycle expansion.

Ongoing economic activity pushed the Dallas Fed’s Texas Business-Cycle Index up 5 percent on a seasonally adjusted annualized rate (SAAR) for the first time since January 2015. Historically low unemployment and eight years of payroll expansions continued to carry the economy. The Austin and Houston business-cycle indices boomed at 7.4 and 6.4 percent, respectively, but activity decelerated in North Texas. The Dallas and Fort Worth indices slowed to 4.0 and 2.7 percent growth, respectively. San Antonio’s index surpassed 3 percent for the first time in 2018 as employment numbers recovered from a sluggish summer.

Strength in the Texas value of the dollar and sliding oil prices pulled the Texas Leading Economic Index (a measure of future directional changes in the business cycle) down 1.7 points, the largest decrease since 2009. Oil prices weighed on the Texas Consumer Confidence Index, which reached a record high in October. But diversity in the Texas economy combined with healthy activity at the national level should relieve recessionary concerns in the short run. The Dallas Fed forecast 2.4 percent annual employment growth in 2018, above the long-run average of 2.1 percent.

Extended economic growth and relatively strict lending standards pulled the national foreclosure inventory to just 1 percent in 3Q2018, the lowest level since 2006. Texas’ foreclosure inventory hovered around levels unseen since before the oil bust in the 1980s at just 0.7 percent. These conditions corroborate the underlying health of the economy despite the recent slowdown in employment and housing.

Interest rates held near a seven-year high due to the strong national economy, but the flattening yield curve drew investors’ attention. The two- and ten-year U.S. Treasury bond yields settled at 2.86 and 3.12 percent, respectively—hovering around the lowest spread since the Great Recession. The Federal Home Loan Mortgage Corporation’s 30-year fixed-rate rose for the fourth consecutive

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1 All monthly measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.
month to 4.87 percent, weighing on housing affordability conditions. Higher interest rates disproportionately affected Texas refinance mortgage applications, which slid 38.5 percent since January 2018. Purchase applications, which are less sensitive to mortgage rate fluctuations, rebounded with 5.7 percent year over year (YOY) growth.

**Texas housing sales** ticked down 1.1 percent in November and remained on a flat trajectory. Current residential construction activity, measured by the **Residential Construction Cycle (Coincident) Index**, reached its highest level since 2008 as construction employment and wages continued to elevate. Momentum, however, could moderate as indicated by recent declines in the **Texas Residential Construction Leading Index**. Rising interest rates and sluggish residential construction activity over the past few months weighed on the housing market, but robust economic growth upheld a strong foundation. (For additional housing commentary and statistics, see **Texas Housing Insight** at www.recenter.tamu.edu.)

The average **West Texas intermediate crude oil spot price** slid below $60 per barrel with more downward pressure expected in coming months due to decreased global demand and rising U.S. production. Supply conditions remained stable with Texas’ **active rig** count holding at 528. Crude oil production balanced above 4.7 million barrels per day in October\(^2\) after eight consecutive monthly increases. On the natural gas front, unseasonably cold weather and low inventories forced the **Henry Hub spot price** above $4 per million BTU (British thermal units) for the first time since 2014. The Permian Basin’s Waha Hub spot price, however, sank below $2 due to continued pipeline constraints.

A November slowdown in the service-providing sector led to just 14,000 new **nonfarm jobs** in Texas, the smallest gain in over a year. **Labor force participation** balanced at 63.7 percent for the third consecutive month, and the unemployment rate held at a record-low 3.7 percent (the series begins in 1975). **Initial unemployment insurance claims** jumped above 56,000 but remained near historic lows in proportion to the size of the labor force. The major metros maintained even less slack in the labor market. Unemployment balanced at 2.8 percent in Austin, followed by San Antonio at 3.2 percent. North Texas was not far behind with 3.3 and 3.4 percent unemployment in Dallas and Fort Worth, respectively. Houston maintained the highest rate at 3.9 percent and may exhibit upward pressure due to declining oil prices.

**Real private hourly earnings** dipped 0.4 percent YOY as inflation ate away nominal gains. Earnings fell 1.4 percent YOY in Houston and San Antonio, accounting for most of the downward pressure at the state level. Year-over-year earnings ticked up 0.7 percent in Austin and surpassed 1 percent growth in North Texas.

North Texas and Austin accounted for most of the softness in the statewide employment reading. Fort Worth shed 2,000 service-sector jobs while a decline in professional and business services led to marginal gains in Austin. Professional and business services pulled Dallas’ employment gains

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\(^2\) The release of Texas crude oil production typically lags the **Outlook for the Texas Economy** by one month.
down from 6,600 to 1,000 in November, its lowest increase of the year. San Antonio, however, posted its third-largest payroll increase in series history with 6,800 jobs after lagging all summer. In Houston, robustness in the goods-producing sector supported steady growth with 8,900 new jobs.

Texas’ goods-producing sector added 13,100 jobs amid a record breaking month for manufacturing. Manufacturers created 9,100 jobs, the largest increase in state history, led by growth in Houston and Fort Worth. Hourly manufacturing earnings approached $24, ticking positive YOY in real terms for the first time in seven months. Real earnings in the industry increased across the major metros. Dallas was the exception where salaries and wages dropped for the sixth consecutive month after accounting for inflation. A quarter of respondents in the Dallas Fed’s Manufacturing Outlook Survey increased wages and benefits, and more than a fifth ramped up hiring. The manufacturing activity indices, however, showed signs of deceleration. Trade relations and labor shortages remained the primary concerns across the industry.

Energy and construction jobs contributed to gains in the goods-producing sector, but growth has calmed after a strong first half of the year. The construction industry added 2,700 jobs, most of which occurred in Fort Worth and Houston. Real hourly construction earnings stagnated over the past four months following rapid gains in 2017 and early 2018. Hourly construction earnings fell $2 below the national average. Total construction values improved for the second straight month due to an uptick in the nonresidential sector which suffered over the past year. Rebounds in office and bank building in Central Texas and hospital construction in DFW accounted for most of the growth. Texas’ residential construction values trended upward, led by multifamily investment in North Texas and the Houston market. The flood of new apartments moderated rent growth across the larger metropolitan areas.

After adding 30,600 positions in October, Texas’ service-providing sector stalled with under 1,000 newly created jobs. Two pillars of the industry, leisure/hospitality and accommodation/food services, combined for a total of 19,300 lost jobs in November. The negative reading represents a correction after an eight-month stint of steady growth. Continued improvements in professional and business services prevented a contraction at the aggregate level.

The Dallas Fed’s Service Sector Outlook Survey corroborated industry strength with 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 and overall uncertainty weighed on long-run confidence.

A year-long expansion in the retail industry buoyed the service-providing sector. Retailers added 2,300 jobs in November, pushing the YTD total above 23,000. The industry lost 2,700 jobs in 2017. The economic expansion bolstered consumer spending, leading to 5.1 percent YOY growth in retail sales during October. While transaction volumes were up, inflationary pressures squeezed retail margins with little signs of easing.

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3 The release of Texas retail sales typically lags the Outlook for the Texas Economy by one month.
A sharp drop in gasoline prices slowed growth in the **U.S. Consumer Price Index (CPI)** to 2.2 percent YOY, its weakest increase in nearly a year. Core inflation, however, picked up after three consecutive declines. The Dallas CPI matched the national index at 2.2 percent with prices easing in housing and transportation. While lower energy prices relaxed price pressures, the net effect is detrimental to the Texas economy.
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: 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.
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.
Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas
Energy

Crude Oil and Natural Gas Prices

Crude Oil
Natural Gas (Right Axis)

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

Production of Crude Oil (Right Axis)
Number of Operating Rigs

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)

- United States
- Texas

Note: Seasonally adjusted. For more information, see Unemployment Rate. Source: Bureau of Labor Statistics

**Unemployment Rate**
(Percent)

- United States
- Texas

Note: Seasonally adjusted. November 2018 is preliminary. For more information, see Unemployment Rate. Source: Bureau of Labor Statistics
Unemployment Insurance Claims: Initial Applications
(Year-over-Year Percentage Change)

Major Metros Unemployment Rate
(Percent)

Note: Seasonally adjusted. November 2018 is preliminary. For more information, see Unemployment Rate. Sources: Federal Reserve Bank of St. Louis.
Note: Seasonally adjusted annualized rate
Source: Bureau of Economic Analysis

Notes: Inflation adjusted. November 2018 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
Notes: Inflation adjusted. November 2018 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
Manufacturing

Note: Seasonally adjusted, 3-month moving average. November 2018 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics
Note: Seasonally adjusted, 3-month moving average. November 2018 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics

Notes: Inflation adjusted. November 2018 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
Notes: Inflation adjusted. November 2018 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

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
Note: Seasonally adjusted, 3-month moving average. November 2018 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics

Notes: Inflation adjusted. November 2018 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
Services

Services Sector Outlook Survey
(Index)
United States  Texas

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)

Index

Dallas Federal Reserve Bank Retail Survey
Retail Sales (Right Axis)

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: 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

Note: Seasonally adjusted. For more information, see CPI Inflation Rates.
Source: Bureau of Labor Statistics
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