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About this Report

Real Estate Center economists continuously monitor many facets of the global, national, and Texas economies. *Outlook for the Texas Economy* summarizes significant state economic activity and trends. All monthly measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.

This publication is designed to be a one-stop resource for economic indicators. We hope you find them as useful as we do. Your feedback is always appreciated. Send comments and suggestions to info@recenter.tamu.edu.

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July 2018 Summary

Texas’ economic expansion continued amid increased energy sector and construction activity, but growth moderated to more sustainable levels. Crude oil prices reached their highest level since 2014, prompting record production in the Lone Star State, but pipeline bottlenecks in the Permian Basin could hinder additional growth. Domestic steel tariffs heightened the cost of pipeline investment, while retaliatory actions could target the energy industry. Despite the trade spat with China, confidence in the labor market remained elevated as unemployment balanced at just 4 percent. The U.S. and Mexico announced an unofficial trade agreement, but the net impact of the proposal is still uncertain. A declining trade environment remains the greatest headwind to the Texas economy, challenging some of the state’s most productive industries.

The Texas economy maintained solid 5.2 percent growth on a seasonally adjusted annualized rate (SAAR) as indicated by the Dallas Fed’s Business-Cycle Index. After booming in the second quarter, Houston’s growth stabilized at 4.5 percent. The Austin business cycle held 4.4 percent growth as the unemployment rate fell to its lowest level of the year. The Dallas economy maintained more than 5 percent growth for the fifth consecutive month, while the Fort Worth index balanced at 3.8 percent. Weak hiring hindered San Antonio’s growth, holding the business-cycle index around 2 percent.

A surge in the Texas trade-weighted value of the dollar and a moderation in employment growth offset higher oil prices, holding the Texas Leading Economic Index (a measure of future directional changes in the business cycle) below 3 percent growth year over year (YOY). The slowdown led to downward revisions from 3.0 to 2.7 percent growth in the Dallas Fed’s 2018 statewide employment forecast. Annual growth has averaged 2.1 percent since 1991. The Texas Consumer Confidence Index ticked down one point amid the escalating trade war with China, but Texans remained optimistic regarding the overall labor market and economy.

Widespread economic growth and relatively strict lending standards pulled the national foreclosure inventory below 1.1 percent in the second quarter, the lowest level since 2006. The inventory was significantly lower in Texas at 0.7 percent and remained below year-ago levels despite hurricane disruptions last fall. Metropolitan areas along the Gulf Coast suffered from increased foreclosures, but extended grace periods on mortgage payments dampened the overall impact.

International trade concerns pulled investments into safe assets, offsetting robust economic data and weighing on interest rates after they reached multiyear highs in May. The ten-year U.S. Treasury bond yield ticked below 2.9 percent for its second straight monthly decline. The Federal Home Loan Mortgage Corporation’s 30-year fixed-rate fell to 4.5 percent but remained 56 basis

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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.
points above last year’s level. At the national level, mortgage applications for new-home purchases rose 3.6 percent YOY as more inventory hit the market.

**Texas housing sales** rebounded 3.8 percent, reaching a record level 29,456 homes sold through a Multiple Listing Service after a sluggish first half of the year. Current residential construction activity, measured by the **Residential Construction Cycle (Coincident) Index**, hovered at its highest level since 2008 as employment and wages trended upward in the industry. Momentum should continue into the fall as the Texas **Residential Construction Leading Index (RCLI)** extended its upward climb amid gains in single-family weighted building permits and lower interest rates. (For additional housing commentary and statistics, see **Texas Housing Insight** at recenter.tamu.edu.)

The average **West Texas intermediate crude oil spot price** jumped above $70\(^2\) per barrel for the first time since 2014 despite concerns of weakened demand stemming from the U.S.-China trade dispute. Crude oil production surpassed 4.4 million barrels per day\(^3\) in June, the most ever recorded, and accounted for 41 percent of the national total. The number of **active rigs**, however, dropped to 525\(^2\) in July as pipeline bottlenecks in the Permian Basin hindered drilling activity. Despite above-average temperatures, which increased energy demand this summer, the **Henry Hub natural gas spot price** slid to $2.83 per million BTU\(^2\) (British thermal units) as byproducts from oil drilling activity continued to flood the market.

Texas employment extended its two-year growth spurt, but rapid gains appeared to moderate. The state added 23,500 **nonfarm jobs** in July, the smallest monthly increase of the year, pulling the Dallas Fed’s 2018 employment forecast down to 2.7 percent growth. The deceleration pulled the **labor force participation** below 64 percent after reaching a three-year high in June. The **unemployment rate** balanced at its year-long trend of 4 percent. **Initial unemployment insurance claims** dropped 4.9 percent to 55,827, an all-time low after accounting for changes in the labor force. In Dallas-Fort Worth (DFW) and San Antonio, the local unemployment rate dipped to 3.4 and 3.2 percent, respectively, while the Houston rate fell to 4.1 percent. Austin’s labor market tightened even further, pulling the unemployment rate below 2.9 percent for the first time this year.

**Real private hourly earnings** picked up for the second straight month but remained 1 percent below year-ago levels. Compositional changes, such as millennials replacing long-time earners in the workforce and the overall aging population, pressured wages downward. Additionally, the late stage of the business cycle shifted workforce improvements to lower-skilled workers, thereby weighing on the average. Firms increasingly compete for employees through nonwage benefits, such as seasonal bonuses or increased paid leave, which are not captured in the earnings data.

Fort Worth was the only major Texas metro to post positive growth YOY, following a late-year slump in 2017. Austin, Dallas, and Houston showed monthly improvements and ticked positive YTD.

\(^2\) Nonseasonally adjusted.
\(^3\) The release of Texas crude oil production typically lags the **Outlook for the Texas Economy** by one month.
Data revisions revealed a five-month increase in San Antonio’s real earnings, recovering nearly all of last year’s contraction. In general, real earnings remained flat but inched upward this summer.

Houston led the Texas Urban Triangle in employment growth at 4.2 percent SAAR but showed signs of stabilizing after an explosive nine-month stretch. The manufacturing, financial activities, and leisure/hospitality sectors supported economic growth over the past year but fell in July. As a result, Houston added just 1,900 jobs, the fewest since Hurricane Harvey shocked activity last fall. In North Texas, retail employment improved after a large contraction in June, leading to steady employment growth. Dallas and Fort Worth created 4,500 and 2,100 jobs, respectively. San Antonio’s employment stagnated with just 500 new jobs as the manufacturing and trade sectors suffered contractions. Leisure and hospitality contributed to the regional slowdown, shedding 6,400 jobs since February. A five-month slide in education and health services also weighed on Austin’s employment, resulting in 2,700 fewer jobs in July.

Texas’ goods-producing sector calmed after reaching historic growth in the second quarter. Manufacturing employment accounted for all of the slowdown, losing 3,500 jobs after eight consecutive months of expansion. All of the major metros posted negative or zero SAAR growth in manufacturing. Houston was the exception with a 6 percent increase, down from 11.3 percent in June.

Sluggish wages continued to weigh on Texas’ manufacturing industry. Fort Worth paid the highest hourly manufacturing earnings (Austin data are unavailable) at an average of $34.56 compared to $21.43 and $23.47 in the U.S. and Texas, respectively. Despite recent inflationary pressures, Fort Worth’s manufacturing earnings posted its first monthly increase of the year. On the other hand, real industry wages in Dallas declined 2.2 percent. In San Antonio, wages spiked 13.2 percent last year but have since leveled off to more typical growth patterns and remained 19 percent below the state average. Average hourly manufacturing earnings also struggled in Houston, falling 1.8 percent YTD in real terms.

Weak earnings data contrast the Dallas Fed’s Manufacturing Outlook Survey, in which a third of respondents increased wages and benefits. In addition, 52 percent of respondents paid higher prices for raw materials, suggesting inflationary pressure on multiple fronts. The industry remained optimistic as the production index increased for the 25th consecutive month, but 25 percent reported increased uncertainty. Concerns heightened across the industry regarding widespread tariffs and their retaliatory consequences.

The remaining goods-producing components, mining/logging and construction, maintained healthy levels and added over 10,000 jobs apiece. The total value of construction held steady at 1.2 percent growth on a three-month moving average. Store and restaurant investment trended downward across the major metros, but surging office/bank development in Austin, combined with major hotel projects in DFW, lifted nonresidential values up 2.9 percent. A boom in apartment construction across the state increased total residential construction values 2 percent after
flattening in June. Real hourly construction earnings in Texas continued to climb, rising 3.7 percent YTD, but nominal earnings remained $1.42 below the national average.

The upward trend extended in Texas’ service-providing sector, but growth slowed with only 16,100 new jobs. Professional/business recorded its first monthly decline since August 2017, after a ten-month expansion that created more than 82,000 jobs. The subsector now accounts for 14 percent of all Texas employment and is poised to increase as the business-cycle advances.

The Dallas Fed’s Service Sector Outlook Survey corroborated overall growth in the industry with 19 percent of respondents noting full-time hiring increases and 28 percent offering higher wages/benefits. More than 40 percent of those surveyed reported rising revenue, pushing the respective index to a three-year high. The industry outlook remained optimistic despite skilled labor shortages, rising prices, and trade uncertainty.

Data revisions revealed six straight months of retail sector employment expansions, producing 15,200 additional jobs. The Dallas Fed’s Retail Outlook Survey suggested that hiring conditions dampened as businesses coped with inflation and wage/benefit increases. The revenue index, however, picked up steam with 30 percent of respondents reporting monthly gains.

Rising home prices and strong economic growth pushed the U.S. Consumer Price Index (CPI) above 2.9 percent YOY to a six-year high. Higher input costs forced businesses to raise selling prices. Excluding the often volatile energy and food sectors, the core inflation rate surpassed 2.3 percent YOY for the first time since the Great Recession. Despite a brief pause in North Texas’ rapid home-price appreciation, the local CPI remained elevated above 3.5 percent YOY. Transportation services, led primarily by gasoline prices and airfare, contributed to the increase.

The U.S. real goods trade deficit increased 6 percent to $73 billion as activity fell off after spiking in May in attempt to beat newly imposed trade restrictions. After accounting for inflation, Texas’ total commodity exports maintained positive growth, but manufacturing exports fell for the first time this year. Crude oil exports dropped 7.4 percent after spiking in June. In addition to changing trade conditions, the increase in the value of the Texas trade-weighted dollar weighed on exports. The Texas trade-weighted value of the dollar\(^4\) increased for the fourth consecutive month, reaching 6.9 percent YTD growth.

Mexico and Canada received 44 percent of this year’s exports from Texas, remaining the state’s primary trade partners. This trilateral relationship highlights the importance of a successful NAFTA renegotiation. The U.S. and Mexico announced an unofficial agreement and turn toward Canada in efforts to finalize the pact before the third quarter. China remained the state’s next largest trade partner, receiving 7 percent of exports from Texas. Tit-for-tat tariffs imposed by China and the

\[\text{\textsuperscript{4} The release of Texas retail sales and trade-weighted value of the dollar data typically lags the Outlook for the Texas Economy by one month.}\]
European Union reduced foreign demand for Texas goods, causing additional supply-chain disruptions and uncertainty.
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
Note: Seasonally adjusted.
Source: Federal Home Loan Mortgage Corporation and Federal Reserve Board

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

Note: Trend-cycle component.
Source: 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

(Number of rigs) (Millions of barrels per day)

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

Employment Growth Rate

(Quarter-over-Quarter Annualized Percent Change)

United States
Texas

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

Note: Seasonally adjusted. July 2018 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. July 2018 is preliminary. For more information, see Unemployment Rate.
Sources: Federal Reserve Bank of St. Louis
Notes: Inflation adjusted. July 2018 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
Note: Seasonally adjusted, 3-month moving average. July 2018 is preliminary. For more information, see Employment Growth Rate. Source: Bureau of Labor Statistics

Manufacturing

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

Notes: Inflation adjusted. July 2018 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
Note: Inflation adjusted. July 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
Construction Employment
(Quarter-over-Quarter Percent Change)

Note: Seasonally adjusted, 3-month moving average. July 2018 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. July 2018 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.
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 trend-cycle component using the 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
Note: For more information, see Exports.
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau
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