Outlook for the Texas Economy

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September 2020 Data
Technical Report
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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 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, Paige Silva, and Griffin Carter

Data current as of Nov. 17, 2020

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Texas’ economy continued to rally in the third quarter after the pandemic squashed activity in March and April. Nevertheless, the Lone Star State still has far to go to regain pre-pandemic conditions with elevated unemployment levels and surging COVID-19 cases. Energy employment declined for the sixth straight month as oil and gas prices decreased. Commodity exports fell, hampered by gloomy demand expectations for oil during the travel restrictions. On the bright side, the manufacturing and construction sectors registered positive job growth, as did the service-providing industry. Retail employment faltered, although survey data suggested revenues were stable. Meanwhile, the state’s housing market boomed as sales set a new record high. The Real Estate Center’s Texas weekly leading economic activity index, however, turned down in October, indicating weaker economic conditions as the number of COVID-19 cases shot up in the U.S. and Europe.

Although the economy reopened more in September, the recovery slowed with the Dallas Fed’s Texas Business-Cycle Index decelerating from 10.0 to 8.4 percent growth on a seasonally adjusted annualized rate (SAAR). Only Austin’s index exceeded the state average, increasing 16.4 percent SAAR. The Dallas metric matched the state’s growth rate, while Houston and San Antonio’s index rose 5.9 and 5.0 percent, respectively. Economic activity in Fort Worth stalled completely.

The Texas Leading Economic Index (a measure of future directional changes in the business cycle) flattened following four solid monthly increases, suggesting the pace of recovery decelerated. Similarly, the Texas Consumer Confidence Index inched up less than two points compared with eight points the previous month as hopes of a second round of fiscal stimulus waned.

The dubious timeline for additional government stimulus also contributed to low inflation expectations and persistent economic uncertainty surrounding the pandemic, keeping interest rates at historically low levels. The ten-year U.S. Treasury bond yield inched up for the second straight month to 0.7 percent, but the Federal Home Loan Mortgage Corporation’s 30-year fixed-rate fell to an unprecedented low of less than 2.9 percent (series starting in 1971). Mortgage rates slid to decades-low levels within Texas during August, sinking to 3.01 and 3.07 percent for non-GSE and GSE loans, respectively. (For more information, see Finding a Representative Interest Rate for

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1 All measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.
2 Bond and mortgage interest rates are nonseasonally adjusted. Loan-to-value ratios, debt-to-income ratios, and the credit score component are also nonseasonally adjusted.
Total Texas housing sales rebounded 6.3 percent in September, pushing third-quarter activity up more than one-third above depressed 2Q2020 levels. The Texas Residential Construction Cycle (Coincident) Index, which measures current construction levels, ticked up modestly due to improvements in industry wages, employment, and construction values. The Residential Construction Leading Index rose for the fifth straight month amid increased building permits and housing starts and a decrease in the real ten-year Treasury bill. The major metros also registered growth in their leading indexes except for San Antonio, where permits and starts fell, pulling the metric down. (For additional housing commentary and statistics, see Texas Housing Insight at recenter.tamu.edu.)

The West Texas Intermediate (WTI) crude oil spot price fell to $40 as global coronavirus cases surged, aggravating an already slow economic recovery. Texas’ active rig count slowed its steep descent, flattening at 107 after crude oil production decreased to 4.7 million barrels per day in August when two hurricanes made landfall in the Gulf Coast. On the natural gas front, the Henry Hub spot price sank to $1.92 per million British thermal units (BTU) in September after reaching $2.35 the prior month. Cooler-than-average temperatures and the impacts of hurricane activity pulled demand down to end the quarter. Demand expectations, however, remain positive going into 2021, supported by increased demand and reduced output.

Nonfarm employment expanded payrolls by 40,700 positions in September for a total of 177,900 third-quarter hiring compared with 857,700 losses in the first half of the year. The Dallas Fed revised their annual employment projection upward from a 4.8 percent to 4.2 percent contraction. On the other hand, the Lone Star State’s unemployment rate reversed a four-month decline, jumping one-and-a-half percentage point to 8.3 percent, whereas the national metric continued to decrease to 7.9 percent. Joblessness rose across Texas’ major metros, especially in Houston, where the rate climbed to 9.7 percent. The metric in San Antonio increased to 7.8 percent, and posted 7.7 and 7.5 percent in Fort Worth and Dallas, respectively. Austin maintained the lowest unemployment at 6.4 percent.

The number of Texans filing initial unemployment insurance claims decreased by 38,300 to 217,900 after declining each week but the first (Figures 1 and 2). Average weekly continued unemployment insurance claims ticked down throughout the month, falling to 807,500. Nonetheless, total claims were nearly four times greater than pre-pandemic levels in February. Texas’ labor force participation rate ended a four-month upturn, sinking to 63.6 percent from an all-time high of 64.4 percent the previous month. The metric, however, remained greater than the national average of 61.4 percent.

Texas’ real private hourly earnings rose just 0.4 percent year over year (YOY) on average, flattening as hiring slowed. Austin paid the highest wage at $30.24 an hour, but annual growth decelerated to

3 The release of crude oil production typically lags the Outlook for the Texas Economy by one month.
just 0.7 percent. San Antonio hourly earnings ($25.13) stabilized YOY, and the Houston metric ($27.02) declined 4.6 percent in real terms. Only Fort Worth wages ($28.31) accelerated, soaring 9.6 percent, although Dallas’ earnings ($30.03) ticked up 1.2 percent.

Even though Austin only gained 1,300 jobs in September, the metro registered the smallest decline below year-end employment of 3.6 percent. The leisure/hospitality sector accounted for the majority of the year-to-date (YTD) losses in Austin and in Dallas, where monthly hiring added 10,100 workers, pulling the YTD contraction up to 3.9 percent. Employment was 5.8 and 5.6 percent below year-end levels in Houston and Fort Worth, respectively, amid widespread losses across both the goods-producing and service-providing industries despite the monthly addition of 20,300 positions in the former and 2,600 in the latter. Decreases in San Antonio’s government sector offset hiring in leisure/hospitality, resulting in an overall 1,600 jobs shed in September and a 5.1 percent YTD decline.

Texas’ goods-producing payrolls expanded by 7,700 workers in September, but industry jobs still fell 7 percent YTD. Energy-related employment contracted for the seventh straight quarter, although 1,300 monthly jobs were added. The manufacturing sector also posted gains from the month, adding 1,100 and 1,600 employees in durable-goods and non-durable goods, respectively. According to the Texas Manufactured Housing Survey, the state’s manufactured housing industry ramped up production during the month while the outlook remains favorable as supply-chain disruptions are expected to subside in coming months. Amid renewed hiring, average hourly manufacturing earnings accelerated 10.7 percent YOY after accounting for inflation. Most of the improvement was attributed to North Texas’ industry wages as the San Antonio metric flattened, and Houston earnings declined 6.8 percent annually. The Dallas Fed’s Manufacturing Outlook Survey corroborated labor-market data with both the employment and wage indices increasing. The production metric accelerated, while all other business indicators except for finished goods inventories were positive. The pandemic and the pending results of the U.S. presidential election, however, were prominent concerns.

The construction industry eked out positive quarterly growth as payrolls gained 3,700 jobs in September. The jobs added were unlikely higher-paying positions though, as average hourly construction earnings fell YOY after adjusting for inflation. Total construction values declined 6.5 percent on the month but increased during the third quarter relative to the three months ending June. Residential values rebounded 20 percent in 3Q2020 with every major metro contributing to the improvement; only Austin, however, posted continuous growth through September with strength in both the single-family and multifamily sectors. On the other hand, nonresidential values plummeted more than 25 percent quarter over quarter (QOQ) with reductions in activity in every sector but office construction. School values decreased uniformly through the major metros, resulting in the largest quarterly nonresidential decline, but the pace stayed ahead of the groundbreakings through the first three quarters of last year.

The service-providing industry added 33,000 monthly positions, bringing the three-month recovery to 179,900 employees. Still, jobs were down 5 percent YTD with leisure/hospitality losses numbering 239,100. Federal government, however, increased 14.8 percent YTD amid mid-year
Census-related recruitment, while professional/scientific/technical services and finance/insurance employment were up modestly above year-end levels. The Dallas Fed’s Service Sector Outlook Survey indicated slower hiring and revenues, although the index for outlook uncertainty flattened while general business activity improved.

Texas’ retailers decreased hiring slightly in September, falling 3.4 percent below year-end employment. Although general merchandisers laid off 8,900 workers during the month, the subsector registered only a 1.2 percent YTD contraction. Electronic/appliance stores and miscellaneous store retailers posted the steepest YTD declines, dropping 21.6 and 11.5 percent, respectively. In contrast, building material/garden equipment/supplies dealers grew 7.9 percent compared with December 2019 levels. More than one-third of the Dallas Fed’s Retail Outlook Survey’s respondents noted increased sales, while the hours-worked index tipped into positive growth territory for the first time in eight months. Hiring stabilized as expectations of future activity were optimistic.

The U.S. Consumer Price Index (CPI) rose at its fastest pace since the first quarter, jumping 1.4 percent annually. Transportation costs continued to weigh on the index, and although core inflation increased 1.7 percent, it persisted below the Fed’s 2 percent target. DFW’s CPI, however, moved sluggishly for the sixth straight month as apparel and transportation prices fell 6.2 and 7.7 percent YOY, respectively.

Although the Texas trade-weighted value of the dollar\(^4\) ticked down 2 percent in August, the metric still increased 4.4 percent YOY, making goods relatively more expensive to the foreign buyer. Texas’ real commodity exports decreased 3.6 percent, falling 15.7 percent below year-ago levels. Manufacturing exports posted a similar annual decline but rose modestly on a monthly basis due to reduced energy-related and chemical shipments offsetting improvements in transportation equipment and computer/electronic products. Crude oil exports fell 7.7 percent to slightly more than half of the year-end record-high value.

Total exports to Mexico accelerated 12.9 percent, reclaiming a third of the state’s outgoing shipments. Trade to Canada flattened in September, but quarterly values rebounded almost 35 percent. Manufacturing exports increased to the nation’s southern and northern neighbors as the implementation of the United States-Mexico-Canada Agreement reaffirmed North American trade relationships. China’s share of exports stabilized at 8 percent with a rise in energy-related shipments contributing half of the quarterly 28.6 percent growth. Uncertainty surrounding the U.S-China relationship, however, will likely continue, at least in the short-term, as President-elect Biden fine-tunes his approach to trade.

The Center created a Texas weekly leading index to predict turning points in the Texas economy. (For more information, see COVID-19 Impact Projections on Texas Economy at https://www.recenter.tamu.edu/articles/special-report/COVID-19-Impact-Projections.) The index decreased during all but one week of October (Figure 3) amid a resurgence in the number of

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\(^4\) The release of the Texas trade-weighted value of the dollar data typically lags the Outlook for the Texas Economy by one month.
COVID-19 cases in the state. Increased initial unemployment claims and falling new business applications suggested slower economic activity, offsetting downticks in the real rate for the ten-year Treasury bill, which continues to exhibit a negative return in real terms. Meanwhile, the real WTI oil price fluctuated during the month, having minor effects on the index. Nevertheless, the metric continued to trend upwards. Further waves of infections, however, can reverse improved mobility and spending, affecting the path to recovery.

Figure 1. Texas Weekly Initial Unemployment Claims and New COVID-19 Cases (2020)

Note: Initial unemployment claims are seasonally adjusted.
Note: Seasonally adjusted.

Sources: Texas Workforce Commission, U.S. Department of Labor Employment and Training Administration, and Real Estate Center at Texas A&M University calculations

Figure 2. Major Metro Weekly Initial Unemployment Claims (2020)

Note: Data updated through October 31, 2020.
Source: Real Estate Center at Texas A&M University

Figure 3. Texas Weekly Leading Index
(Index 1/7/2006 = 100)
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)

- United States
- Texas

Note: Trend-cycle component.
Source: Conference Board
Note: Nonseasonally adjusted.
Sources: Federal Home Loan Mortgage Corporation and Federal Reserve Board

Note: Seasonally adjusted.
Source: Mortgage Bankers Association
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
Note: Trend-cycle component.
Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas
Crude Oil and Natural Gas Prices

![Graph showing crude oil and natural gas prices from 2007 to 2019.](image)

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

![Graph showing Texas production of crude oil and rig count from 2007 to 2019.](image)

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

Note: Seasonally adjusted, three-month moving average. September 2020 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics

Unemployment Rate
(Percent)

Note: Seasonally adjusted. September 2020 is preliminary. For more information, see Unemployment Rate.
Source: Bureau of Labor Statistics
**Major Metros Unemployment Rate**

(Percent)

- Austin-Round Rock
- Dallas-Plano-Irving
- Fort Worth-Arlington
- Houston-The Woodlands-Sugar Land
- San Antonio

Note: Seasonally adjusted. September 2020 is preliminary. For more information, see [Unemployment Rate](#).

Source: Bureau of Labor Statistics

**Unemployment Insurance Claims: Initial Applications**

(Year-over-Year Percentage Change)

- United States
- Texas

Note: Seasonally adjusted. For more information, see Unemployment Insurance Claims: Initial Applications.

Source: Department of Labor
Unemployment Insurance Claims: Continued Applications

Note: Seasonally adjusted. Average weekly continued claims.
Source: Department of Labor/Haver Analytics

Labor Force Participation Rate

Note: Seasonally adjusted. For more information, see Unemployment Rate.
Source: Bureau of Labor Statistics
Notes: Inflation adjusted, seasonally adjusted. September 2020 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
Note: Seasonally adjusted, three-month moving average. September 2020 is preliminary. For more information, see Employment Growth Rate. Source: Bureau of Labor Statistics.
Note: Seasonally adjusted, three-month moving average. September 2020 is preliminary. For more information, see Employment Growth Rate. Source: Bureau of Labor Statistics.
Notes: Inflation adjusted, seasonally adjusted. September 2020 is preliminary. For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
Note: Seasonally adjusted. For more information, see Manufacturing Outlook Survey. United States index is adjusted -50 to be on scale with Texas index.

Sources: Federal Reserve Bank of Dallas and Institute for Supply Management
Construction Employment
(Quarter-over-Quarter Percent Change)

Note: Seasonally adjusted, three-month moving average. September 2020 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, seasonally adjusted. September 2020 is preliminary. For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
Note: Inflation adjusted trend-cycle component.
Source: Dodge Analytics
Note: Seasonally adjusted. For more information, see Services Sector Outlook Survey. United States index is adjusted to be on scale with Texas index.
Sources: Federal Reserve Bank of Dallas and Institute for Supply Management

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

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
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

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

Note: Seasonally adjusted. 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: Seasonally adjusted. 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

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Note: Seasonally adjusted. Inflation adjusted 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
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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