

# Outlook for the Texas Economy



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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).

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Data current as of August 4, 2017

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## June 2017 Summary<sup>1</sup>

The Texas economic expansion advanced, leading the country in first quarter GDP and employment growth. Despite volatile energy prices, oil and gas production boomed amid Texas technological advantages. A weakened dollar stimulated Texas exports. Texas crude oil exports nearly tripled relative to 2015 as a result of the lifting of the oil export ban. Potential headwinds to the Texas economy include further decreases in energy prices and trade uncertainty, especially with Mexico.

Recently released first quarter **gross domestic product** (GDP) data revealed Texas' continued expansion. Texas led the nation in real GDP growth at 3.9 percent quarter-over-quarter annualized, doubling the U.S. aggregate rate of 1.4 percent. Energy industry output jumped 28.8 percent, accounting for over half of Texas' growth. Manufacturing output increased 8.6 percent, split evenly between durable and nondurable goods industries.

Texas sustained this strong economic growth as the **Texas Business Cycle Index** (a measure of *current* economic activity in the state) increased at an annualized rate of 5.1 percent in the second quarter. The **major metro Business Cycle Indices** indicated increased economic activity throughout the Texas Urban Triangle. Dallas, Fort Worth, and Houston posted quarterly annualized growth above 3.0 percent, while Austin reached 5.3 percent growth.

The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) jumped to a two-year high amid increased well permits and the depreciation of the Texas value of the dollar. Consumer sentiment was positive as the **Texas Consumer Confidence Index** stabilized after dropping 15.8 percent from March to May. The positive path of the Texas economy outweighed consumers' frustrations regarding tax reform and deregulation.

Interest rates reached annual lows amid softening inflation. Low oil prices dragged down the **ten-year U.S. Treasury bond yield** to a monthly average of 2.19 percent. The **Federal Home Loan Mortgage Corporation 30-year fixed-rate** fell below 4.0 percent for the first time this year, despite the Fed's third straight quarterly hike in the federal funds rate. Low interest rates could ease housing affordability constraints and stimulate residential construction.

**Texas housing sales** decreased 2.1 percent (seasonally adjusted) and housing affordability worsened. Current construction activity, measured by the **Residential Business Cycle (Coincident) Index**, was steady despite lagging residential construction values. The **Residential Construction Leading Index (RCLI)** flattened, projecting only marginal improvements in housing demand and supply imbalances into the third quarter. (For additional housing commentary and statistics, see [Texas Housing Insight](http://recenter.tamu.edu) at recenter.tamu.edu.)

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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 average **West Texas Intermediate crude oil spot price** fell to \$45.18 nonseasonally adjusted, the lowest since September 2016. Booming U.S. production and failing OPEC output cuts increased the global oil glut. The number of **active rigs** in Texas rose to 461<sup>2</sup>—up 48.7 percent this year—and **crude oil production** rose above 3.4 million bpd<sup>2,3</sup>. The **Henry Hub spot price of natural gas** fell below \$3 per million BTU<sup>2</sup> (British Thermal Unit) amid saturated inventories. Increased oil drilling, which produces natural gas as a byproduct, contributed to a global natural gas glut. The Energy Information Administration predicts that the U.S. will be a net exporter of natural gas by 2018—the first time in nearly 60 years. Texas remained the largest gas-producing state, accounting for 24.0 percent of national production.

Texas led the nation in **monthly nonfarm employment** growth at 40,200 new jobs in June, pushing the year's total increase above 168,000. The statewide **unemployment rate** fell to 4.6 percent, down from 5.0 percent in March, while the number of **initial unemployment insurance claims** decreased 9.2 percent year-to-date. After spiking above 64.0 percent this spring, the statewide **labor force participation rate** fell to 63.5 percent. Labor force participation peaked at 69.3 percent in 1995 and currently hovers around 1976 levels.

The unemployment rate fell in every major Texas MSA for the third consecutive month. Austin boasted the lowest rate at 3.2 percent followed by San Antonio at 3.6 percent. Dallas and Fort Worth both settled at 3.8 percent, while Houston experienced a 4 point drop to 5.0 percent. This downward trend, concurrent with recent employment growth, indicates labor force expansions throughout the major metros.

In June, Dallas and Houston led employment growth, adding 5,700 and 6,100 jobs, respectively. San Antonio recovered 1,900 of the 2,000 jobs lost last month, while Austin added 1,400 jobs. Fort Worth posted the largest monthly percentage increase at 0.3 percent, adding 2,600 jobs and pushing this year's total to 12,500. Professional and business services as well as leisure and hospitality employment generated most of the growth.

After flattening last month, the Texas service sector added 30,500 jobs, accounting for 76 percent of total nonfarm employment growth. Health care and social assistance led the growth, adding 9,500 new jobs, followed by a 7,200 employment increase in accommodations and food services. The FIRE industries (finance, insurance, and real estate) expanded for the fourth consecutive month, pushing job growth up to 15,000 year-to-date.

The **Texas Service Sector Outlook Survey** reflected continued expansion, corroborating strong employment numbers. The employment, hours worked, and wage indices rose amid increased business activity. Input and selling prices deflated slightly but may reverse as the labor market continues to tighten.

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<sup>2</sup> Non-seasonally adjusted.

<sup>3</sup> Crude oil production data lag this report by one month.

Retail employment contracted for the fifth straight month, dropping 22,800 jobs since February. Fort Worth, Houston, and San Antonio individually lost over 1,000 retail jobs in June, accounting for a majority of the month's decline. The health of the Texas economy pushed **retail sales**<sup>4</sup> up 3.8 percent up to May 2017, after rising a little over half of a percent in 2016. The **Texas Retail Outlook Survey** reflected this progress, as the indices for business activity and company outlook posted 12-point gains.

The goods-producing sector continued to advance, adding 9,700 jobs. Texas manufacturing employment grew 6.0 percent annualized quarter-over-quarter, well above the national rate of 0.5 percent. Growth rates were even higher in Houston (12.8 percent) and Austin (9.2 percent), followed by solid growth in Fort Worth (3.0 percent). Employment growth was concentrated in durable goods industries, comprising 80 percent of the 30,500 manufacturing jobs created this year. The **Texas Manufacturing Outlook Survey** confirmed employment growth and longer workweeks, but overall activity decelerated. Production, utilization, and new orders slowed but remained positive. Respondents noted a shortage of skilled workers driving up wages, contradicting the hard data where Texas manufacturing earnings decreased. Claims of wage pressures may be isolated to certain sectors or geographic regions within Texas.

Construction activity pulled back as single-family residential construction declined, slowing industry employment growth to under 0.1 percent month-over-month. Statewide total **construction values** fell 1.0 percent on a three-month moving average (3MMA) despite a steady increase in nonresidential construction. Hotel and motel construction exhibited the starkest upward trend, increasing for the fifth straight month on a 3MMA.

Revised data revealed **total private employee hourly earnings** in Texas fell last month, the first decline this year. Hourly earnings decreased marginally in June, pulling year-to-date growth down under half a percent. Wages flattened across the state, decreasing more than half a percent year-to-date in Austin, Houston, and San Antonio, and falling 0.1 percent in Fort Worth. However, Dallas wages grew 2.3 percent and 2.9 percent year-to-date and year-over-year, respectively.

Texas manufacturing jobs paid a 9.9 percent premium in hourly earnings relative to the national average but declined 0.7 percent year-to-date. Fort Worth had the highest manufacturing wages, paying 50.6 percent more than the statewide average but fell 0.7 percent year-over-year. Manufacturing earnings continued to depress in Houston—down 4.3 percent year-to-date—despite adding over 11,000 jobs. San Antonio was the outlier for wage growth, rising 15.6 percent this year but remaining 18.8 percent below the Texas average.

The **U.S. Consumer Price Index (CPI)** fell to 1.6 percent, its lowest year-over-year growth since September 2016, solidifying the current deflationary trend. The core inflation rate, which excludes the often-volatile energy and food sectors, rose marginally by 0.1 percent. The CPI for Houston also

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<sup>4</sup> The Federal Reserve Bank of Dallas seasonally adjusts Texas nominal retail sales data and the data release typically lags the Outlook for the Texas Economy by one month. The series is converted into real terms using the Consumer Price Index.

fell to 1.6 percent as decreased energy prices offset increases in transportation and medical care costs. Stubbornly slow inflation appears to be more than transitory despite advancements toward full employment.

The real goods trade deficit decreased 2.9 percent as U.S. exports hit a two-year high. **Total Texas commodity** and **manufacturing exports** increased 3.7 percent and 3.9 percent, respectively, led by petroleum and coal products. **Texas crude oil exports** have nearly tripled since the oil export ban was lifted in 2015, rising an additional 13.0 percent this month. The falling value of the dollar and global economic acceleration spurred overall export growth. The **Texas trade-weighted value of the dollar**<sup>5</sup> decreased for the fifth consecutive month, falling 5.4 percent year-to-date. Mexico remained Texas' main trading partner, accounting for over a third of exports this year.

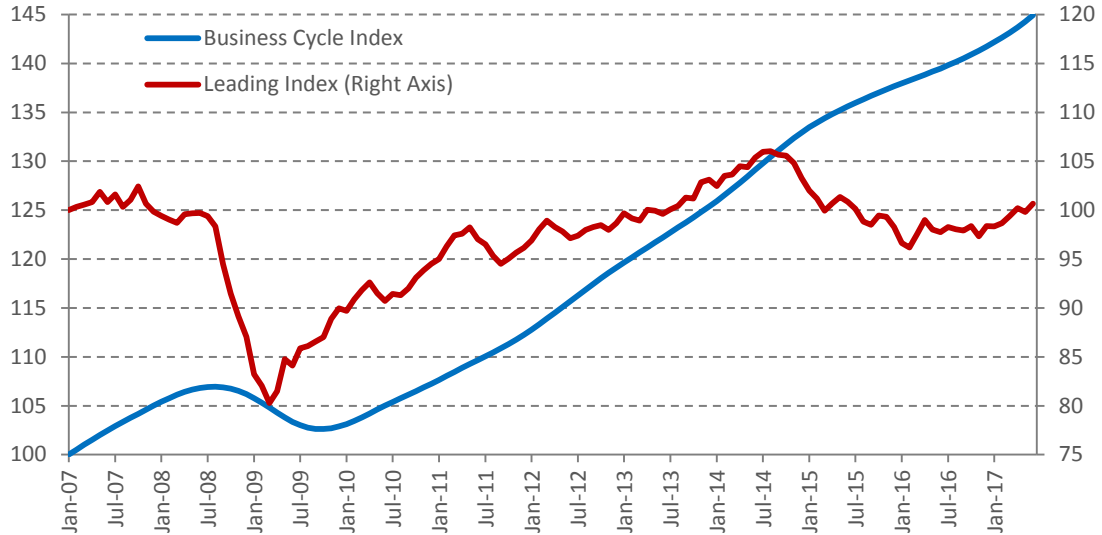
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<sup>5</sup> The Texas trade-weighted value of the dollar is generated by the Federal Reserve Bank of Dallas. Its release typically lags the Outlook for the Texas Economy by one month.



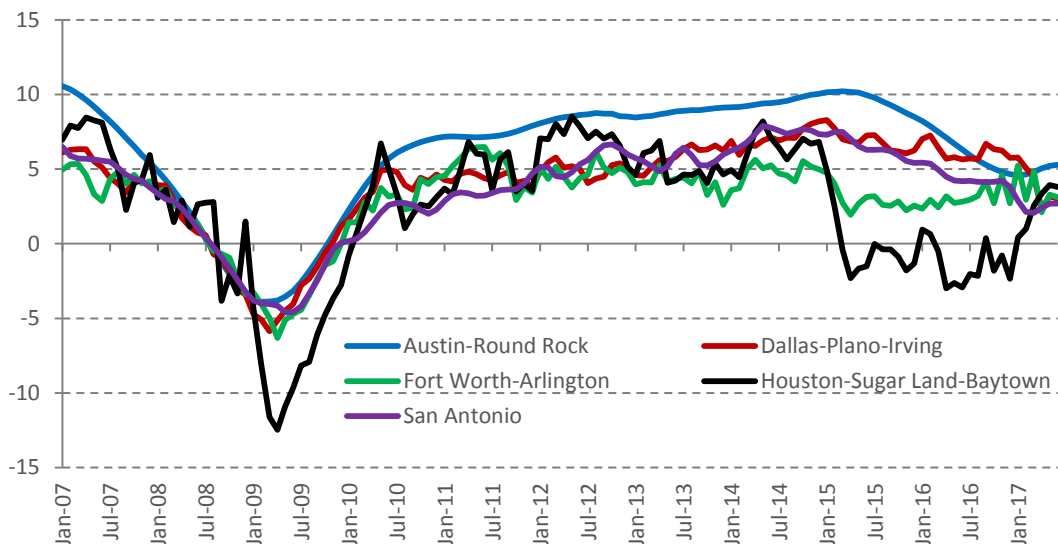
## Economic Activity

**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

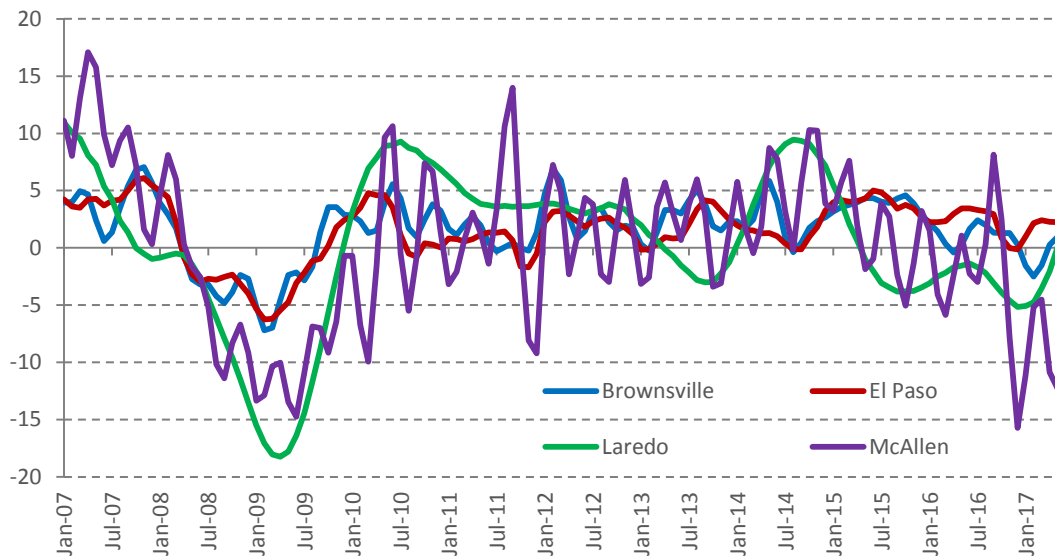
**Major Metros Business Cycle Index**  
(Quarter-over-Quarter Percent Change)



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

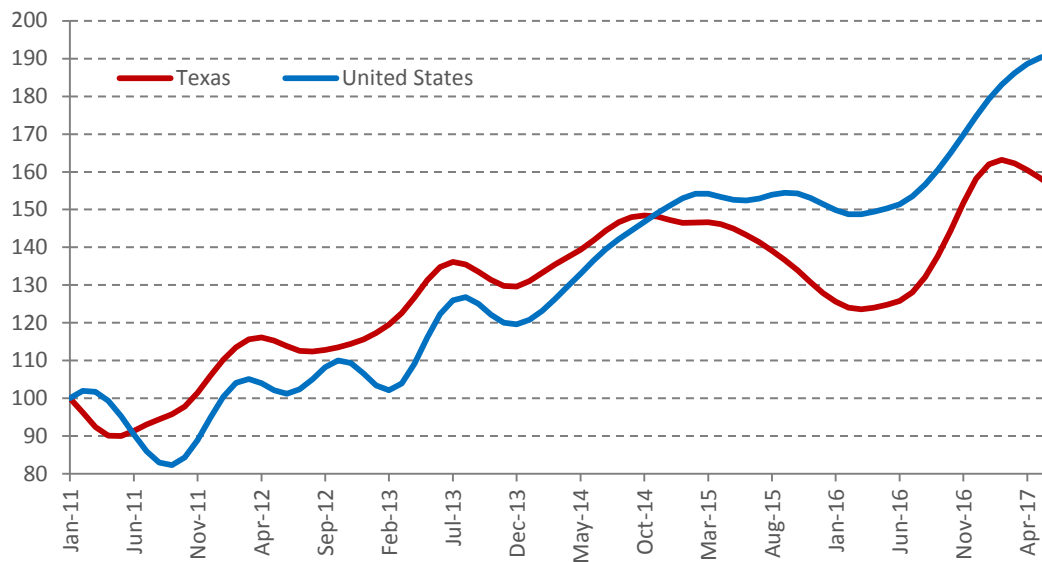


### Border Metros Business Cycle Index (Quarter-over-Quarter Percent Change)



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

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

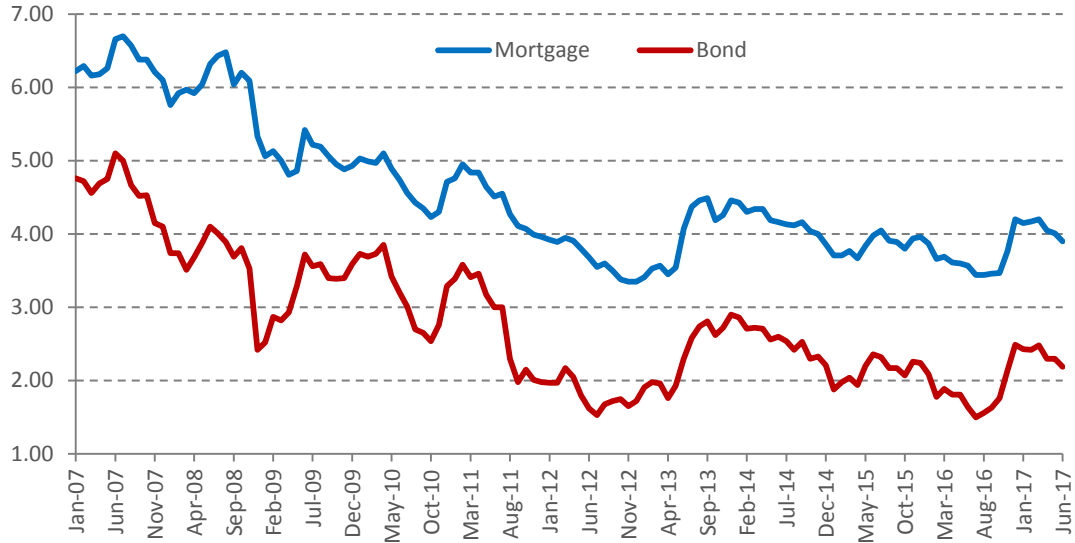


Note: Seasonally adjusted and detrended.  
Source: Conference Board



## Financial Activity

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

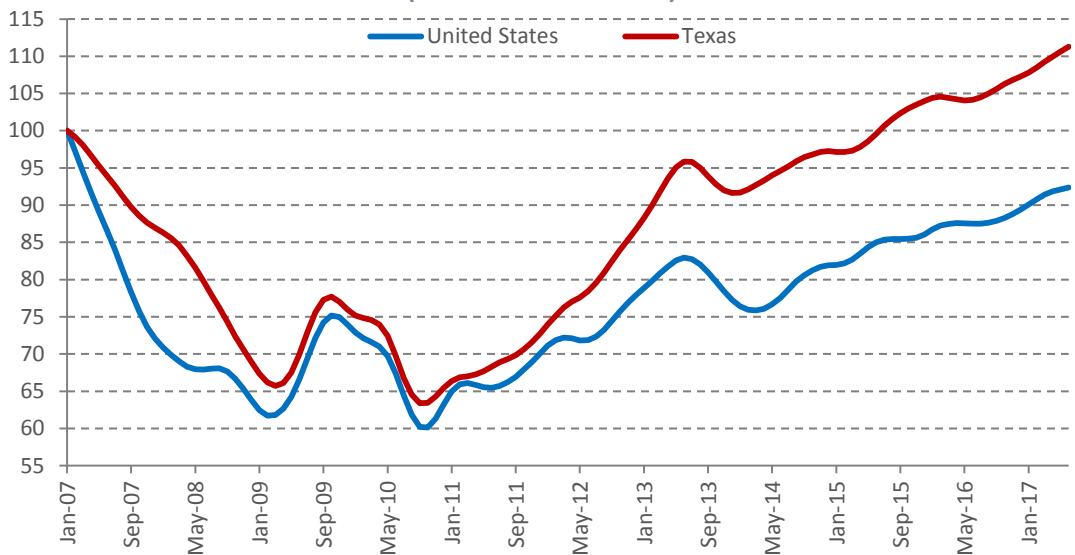


Note: Seasonally adjusted.

Sources: Federal Home Loan Mortgage Corporation and Federal Reserve Board

## Housing

**Housing Sales  
(Index Jan 2007 = 100)**



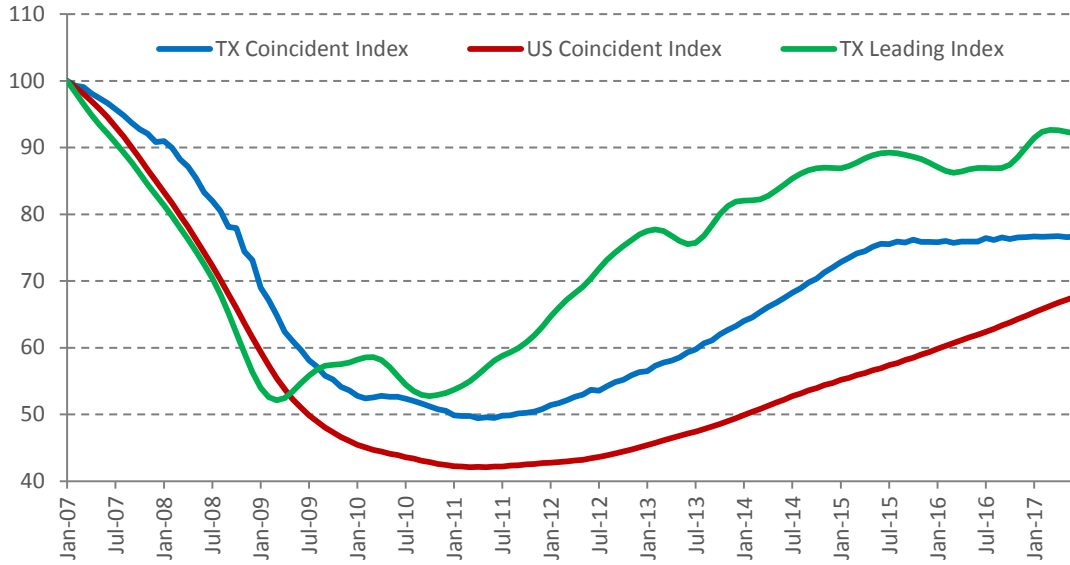
Note: Seasonally adjusted and detrended. Sales for the United States include all existing homes and new single-family homes; new non-single-family homes are not included. Texas includes all existing and new homes.

For more information, see [Housing Sales](#).

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

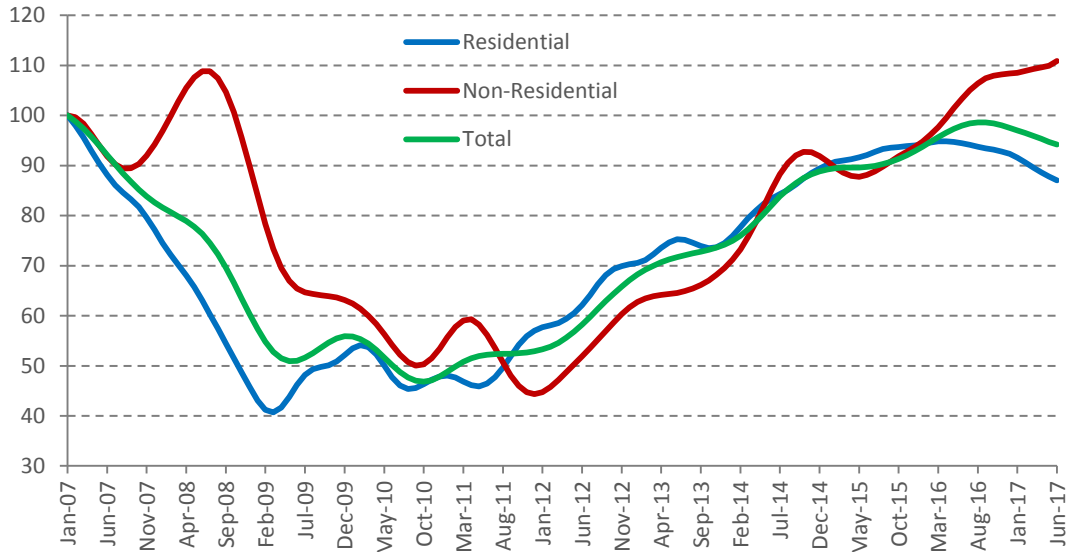


**Residential Construction Coincident and Leading Indicator**  
(Index Jan 2007 = 100)



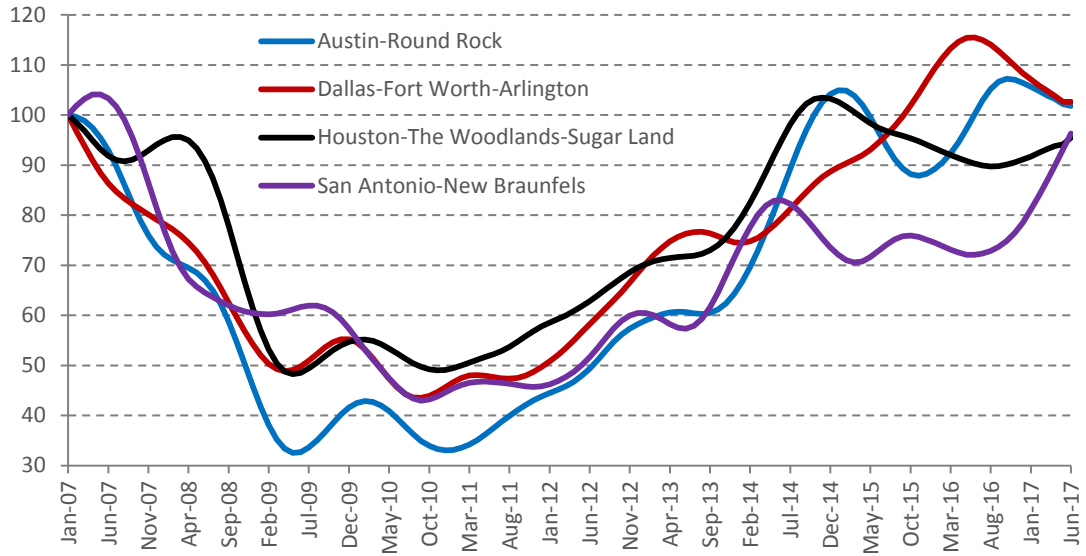
Note: Seasonally adjusted and detrended.  
Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas

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



Note: Real values are seasonally adjusted and detrended.  
Source: Dodge Analytics

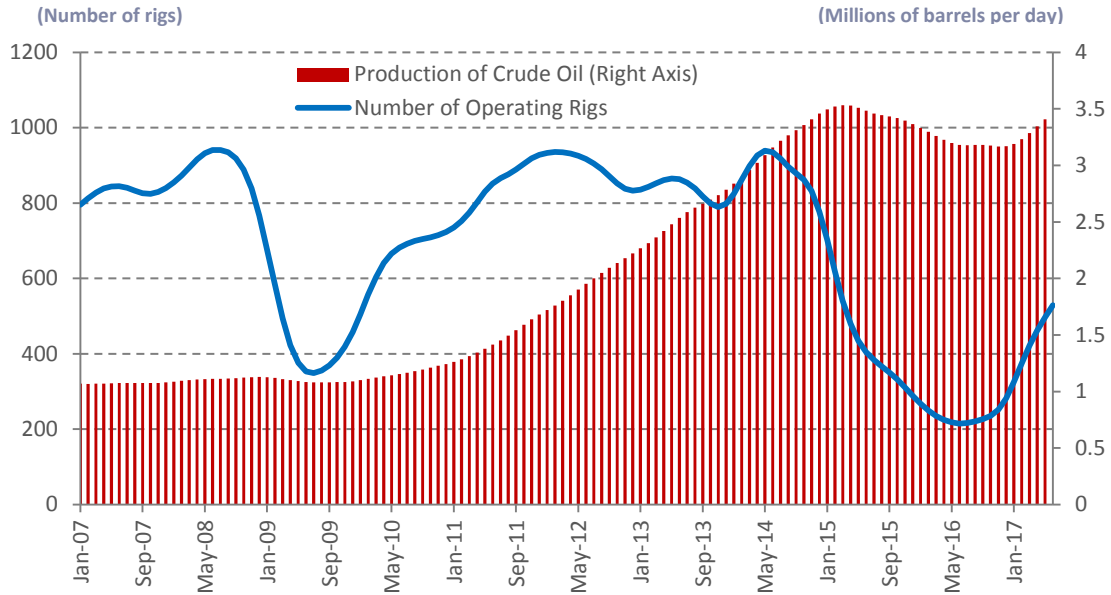
### Major Metros Total Construction Values (Index Jan 2007 = 100)



Note: Real values are seasonally adjusted and detrended.  
Source: Dodge Analytics

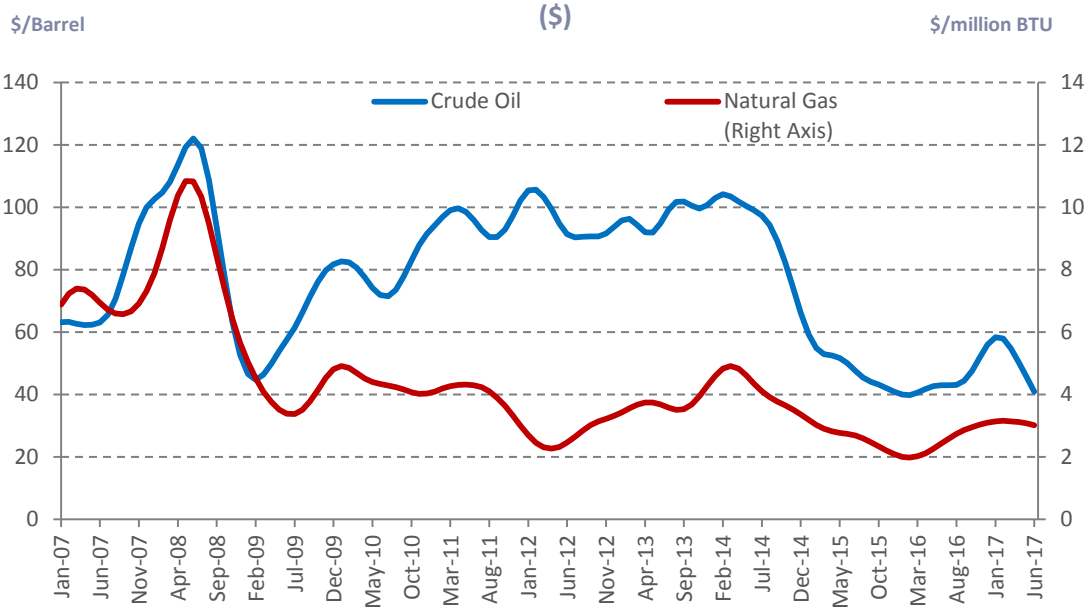
## Energy

### Texas Production of Crude Oil and Rig Count (Count)



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

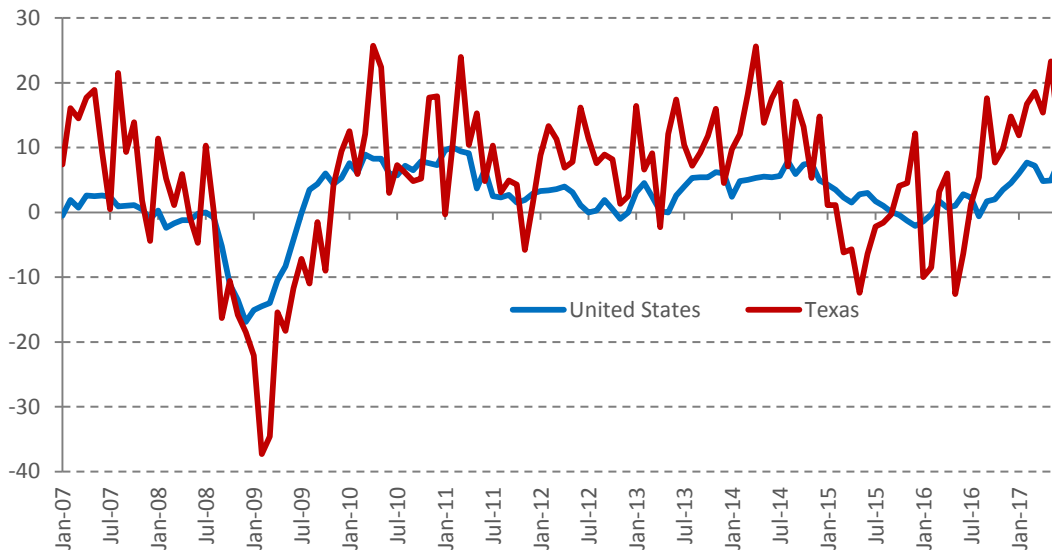
### Crude Oil and Natural Gas Prices



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

### Manufacturing

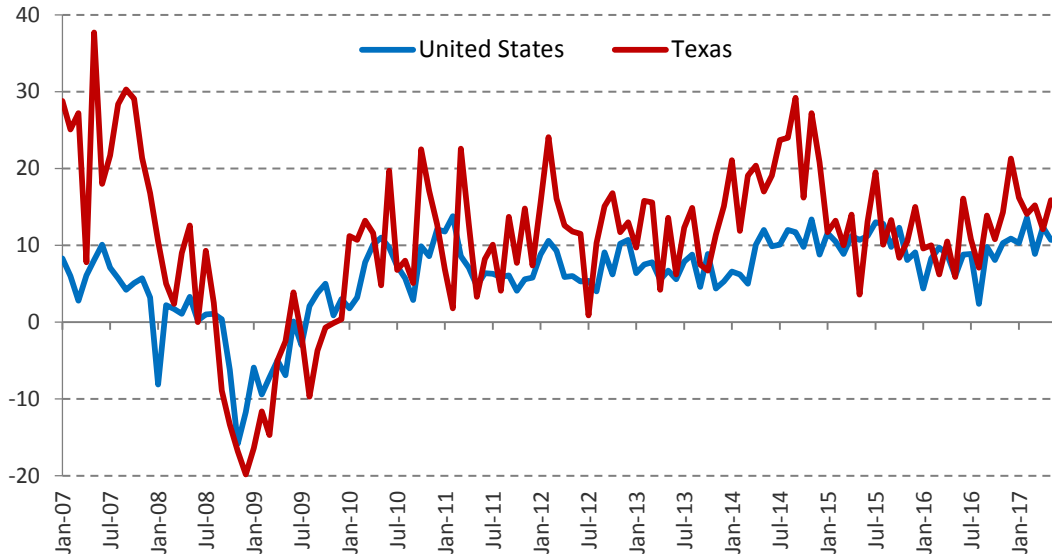
#### Manufacturing Outlook Survey (Index)



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.

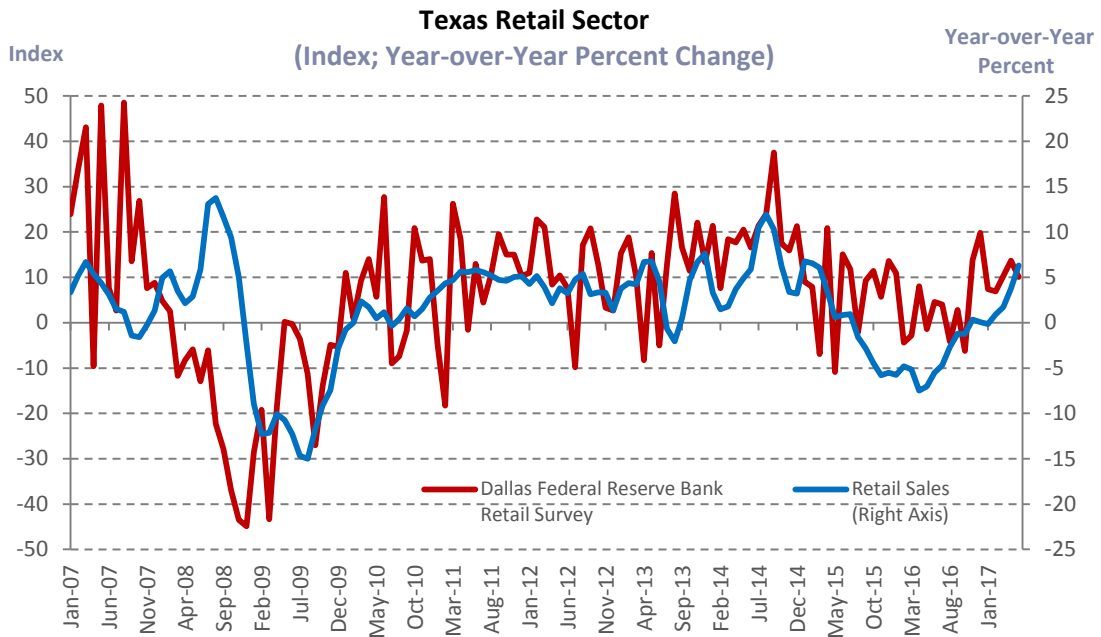
## Services

### 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



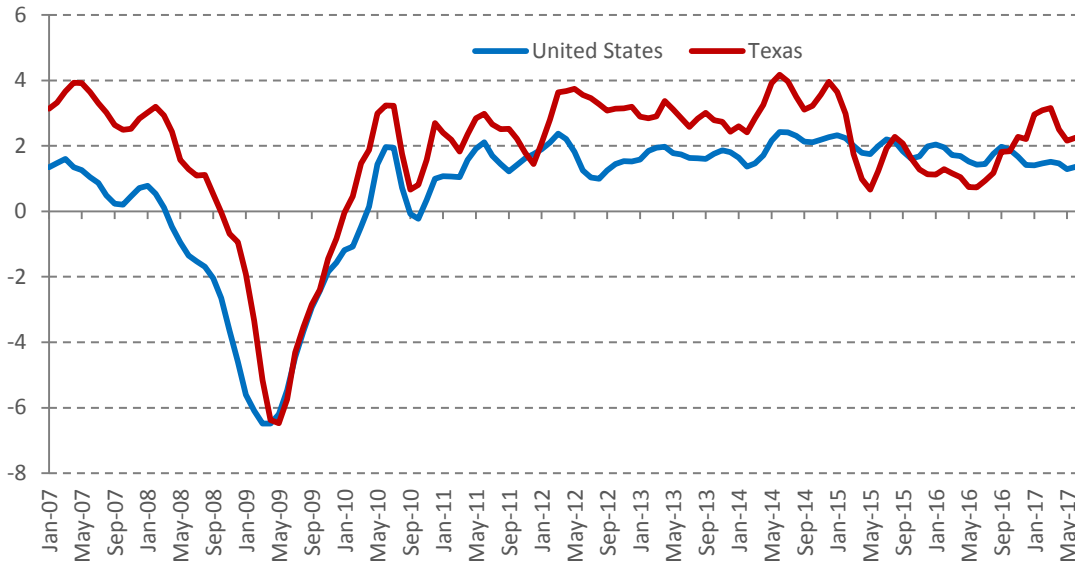
Note: Seasonally adjusted and inflation adjusted. For more information, see [Texas Retail Sector](#).

Sources: Retail Sector Outlook Survey from the Federal Reserve Bank of Dallas, Retail Sales from Texas Comptroller of Public Accounts



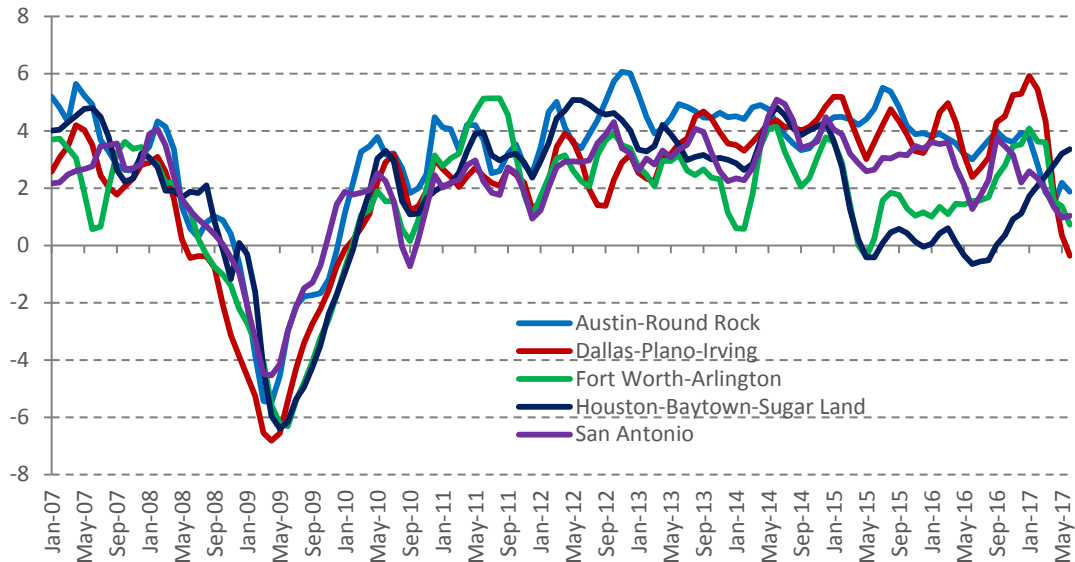
## Employment

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



Note: Seasonally adjusted, 3-month moving average. June 2017 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)

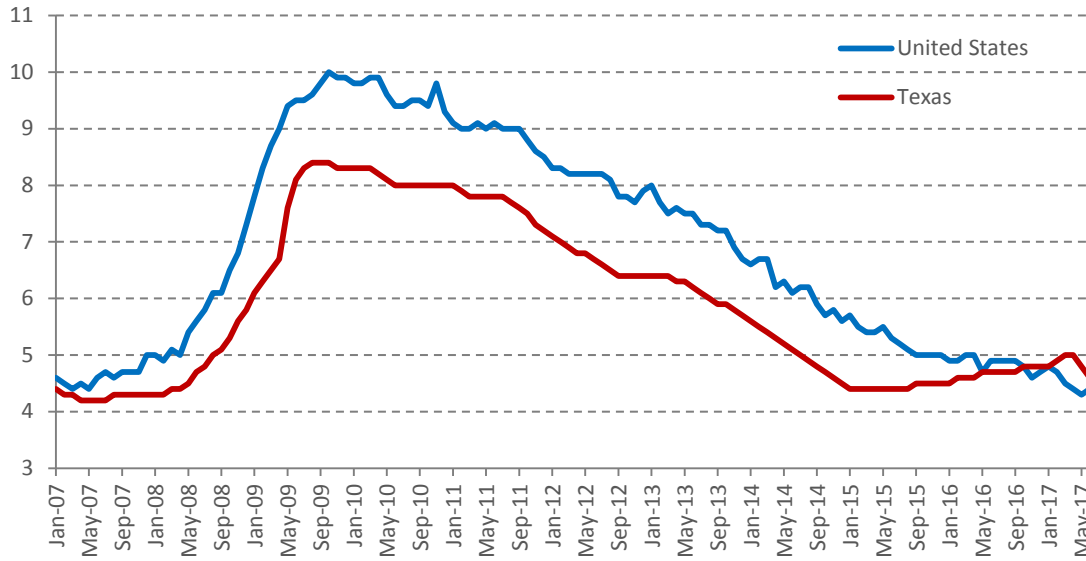


Note: Seasonally adjusted, 3-month moving average. June 2017 is preliminary.  
For more information, see [Employment Growth Rate](#).  
Source: Bureau of Labor Statistics



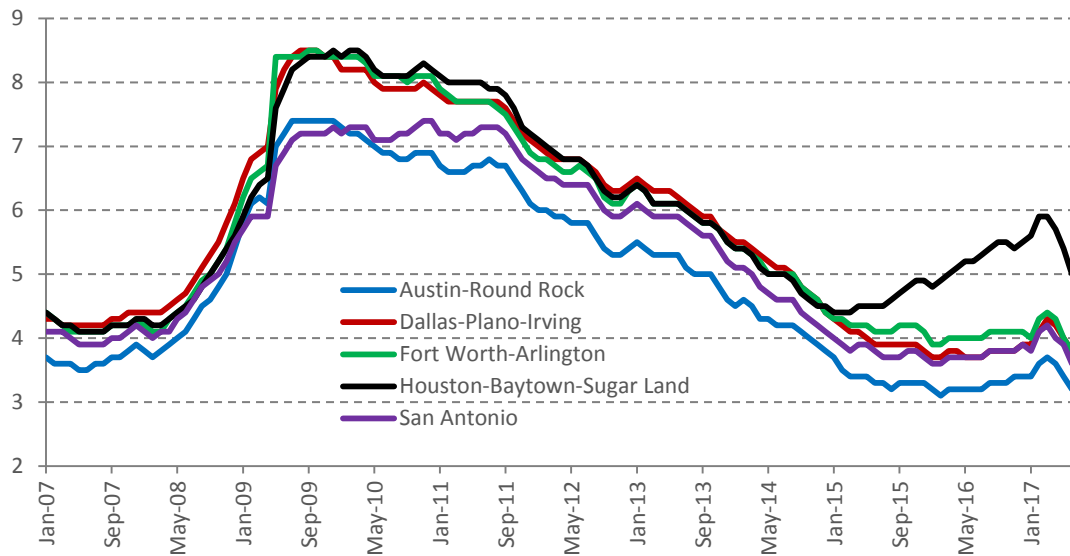


### Unemployment Rate (Percent)



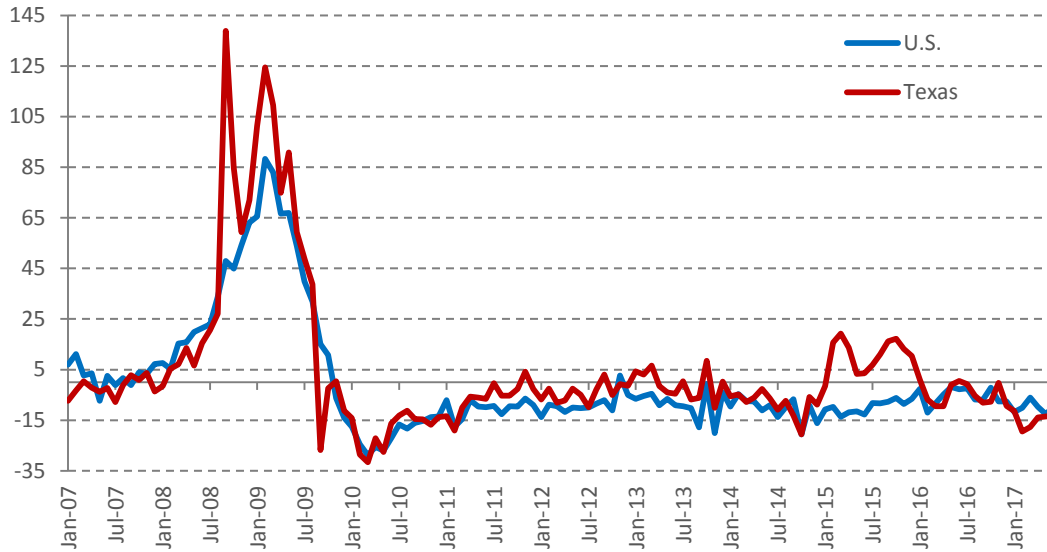
Note: Seasonally adjusted. June 2017 is preliminary. For more information, see [Unemployment Rate](#).  
Source: Bureau of Labor Statistics

### Major Metros Unemployment Rate (Percent)



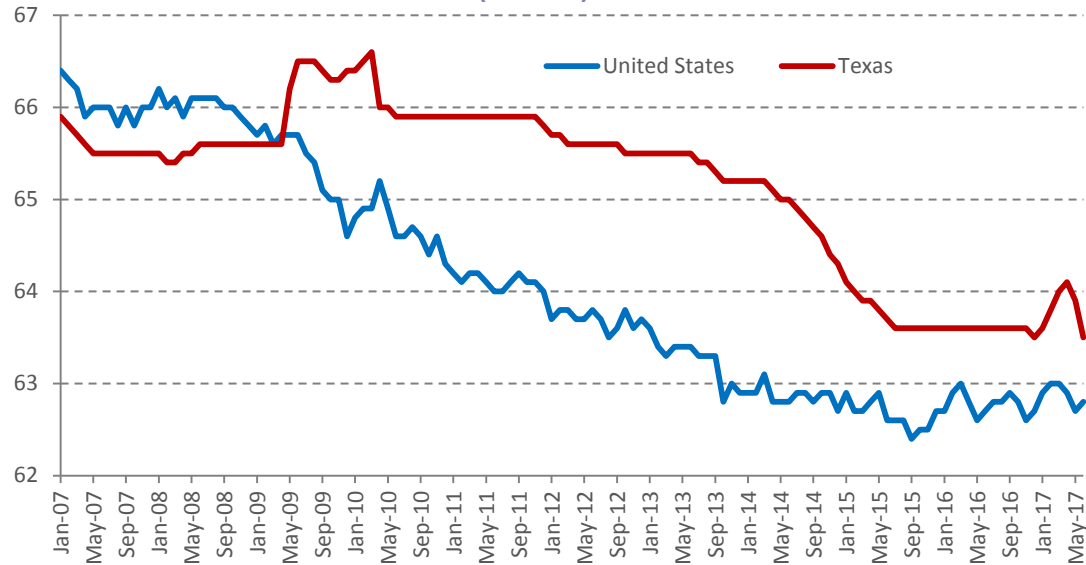
Note: Seasonally adjusted. June 2017 is preliminary. For more information, see [Unemployment Rate](#).  
Sources: Bureau of Labor Statistics and Real Estate Center at Texas A&M University

### 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

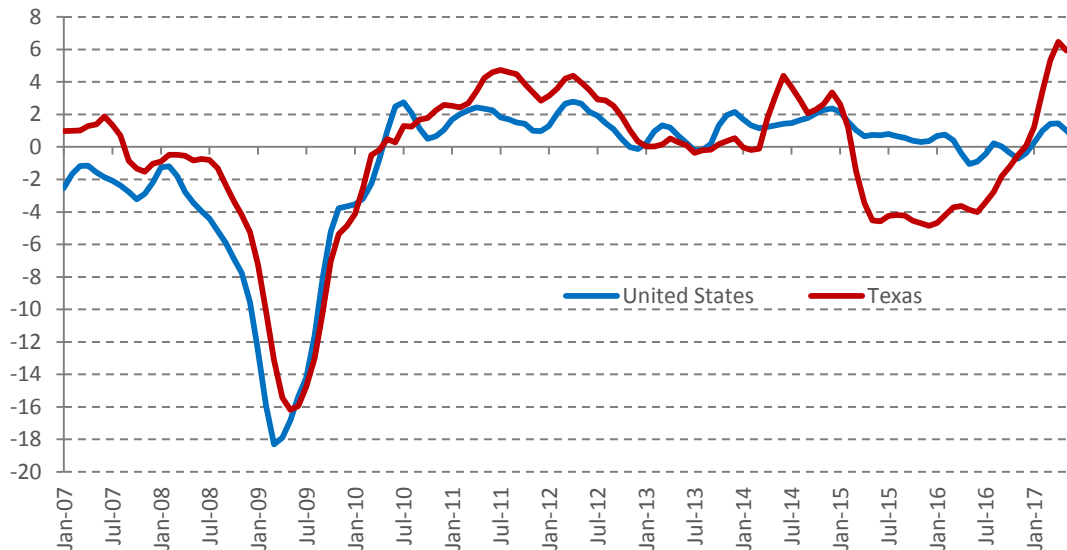
### Labor Force Participation Rate (Percent)



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

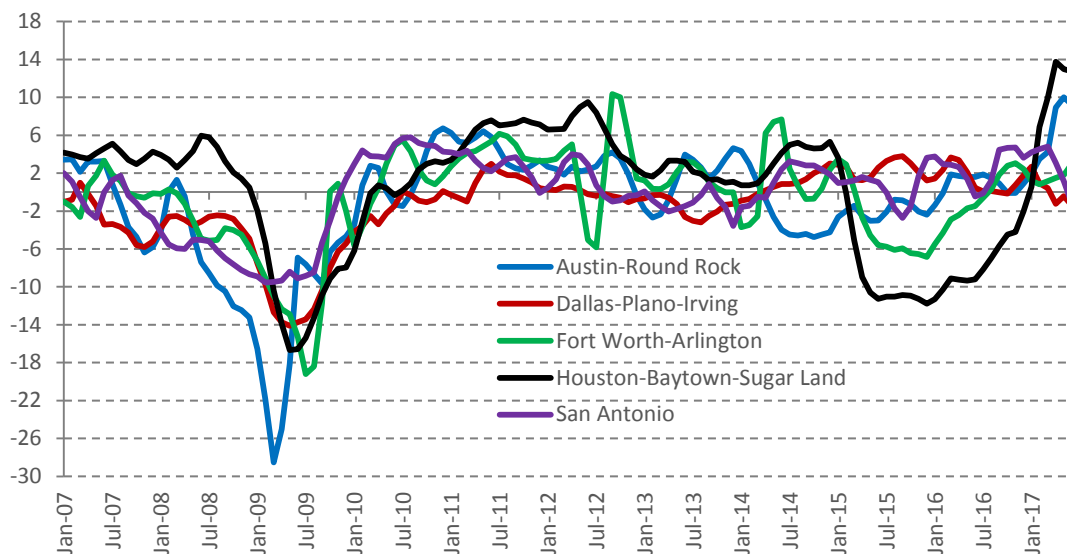


### Manufacturing Employment (Quarter-over-Quarter Percent Change)



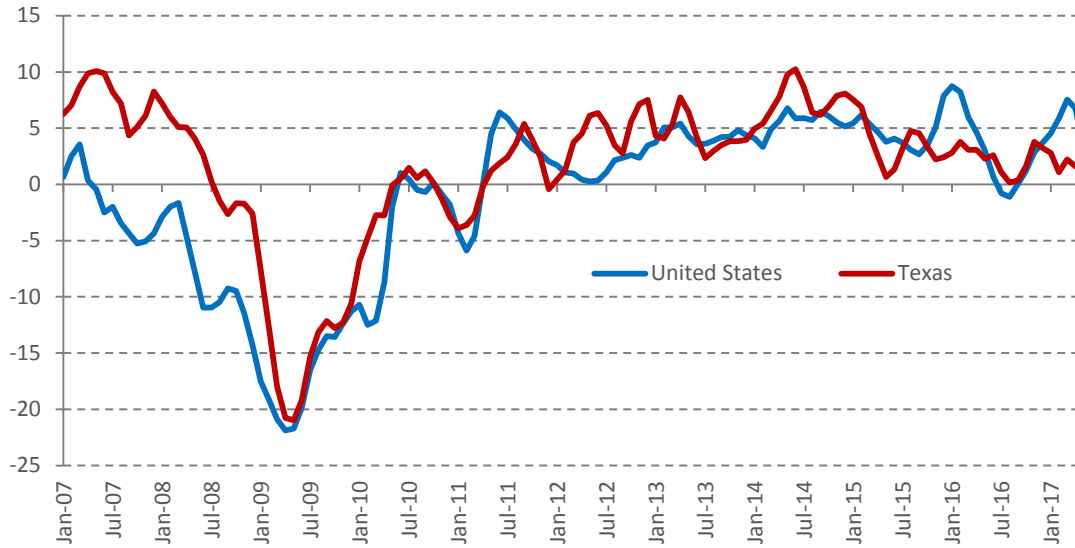
Note: Seasonally adjusted, 3-month moving average. June 2017 is preliminary.  
 For more information, see [Employment Growth Rate](#).  
 Source: Bureau of Labor Statistics

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



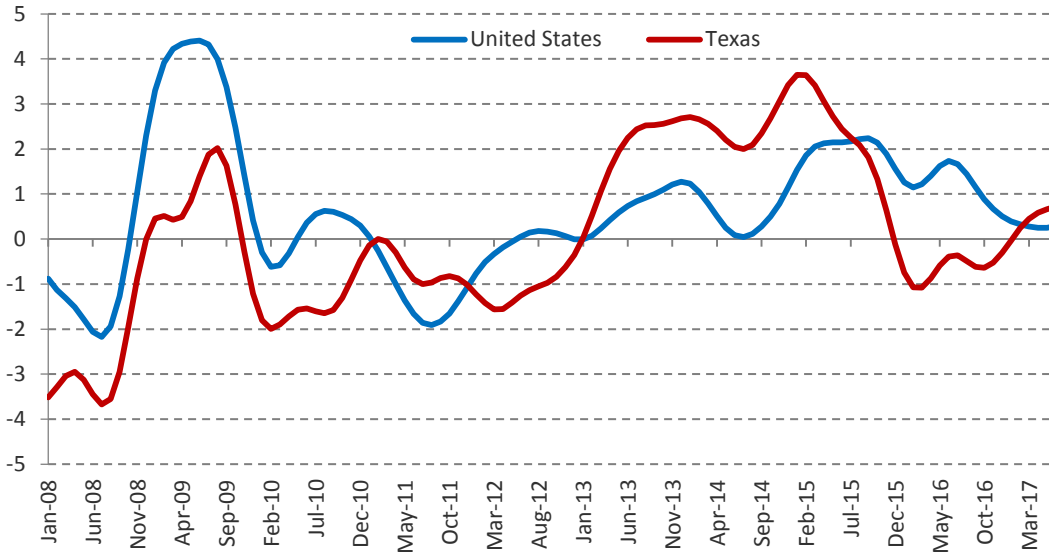
Note: Seasonally adjusted, 3-month moving average. June 2017 is preliminary.  
 For more information, see [Employment Growth Rate](#).  
 Source: Bureau of Labor Statistics

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



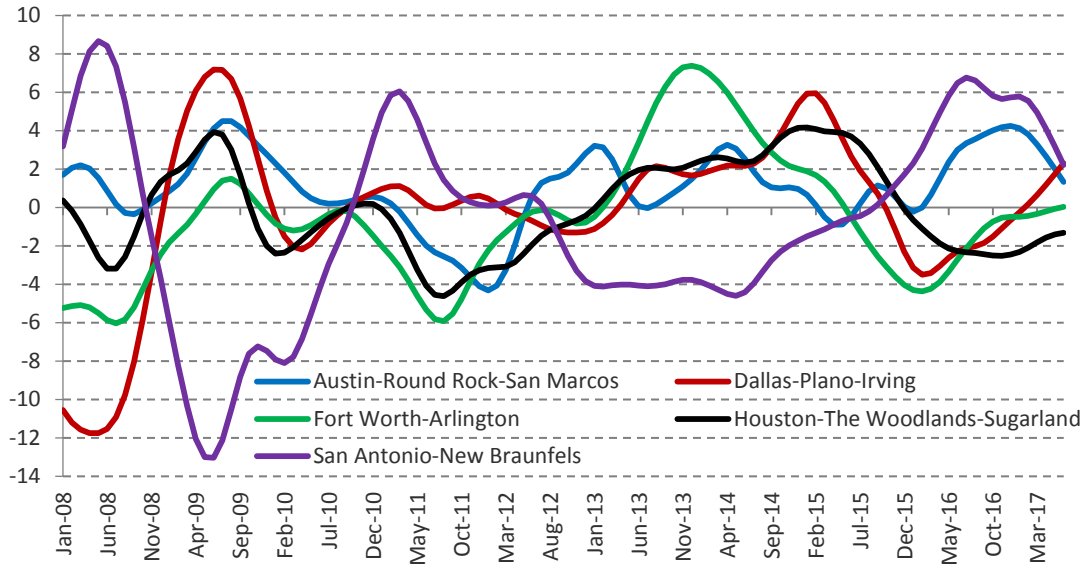
Note: Seasonally adjusted, 3-month moving average. June 2017 is preliminary.  
 For more information, see [Employment Growth Rate](#).  
 Source: Bureau of Labor Statistics

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



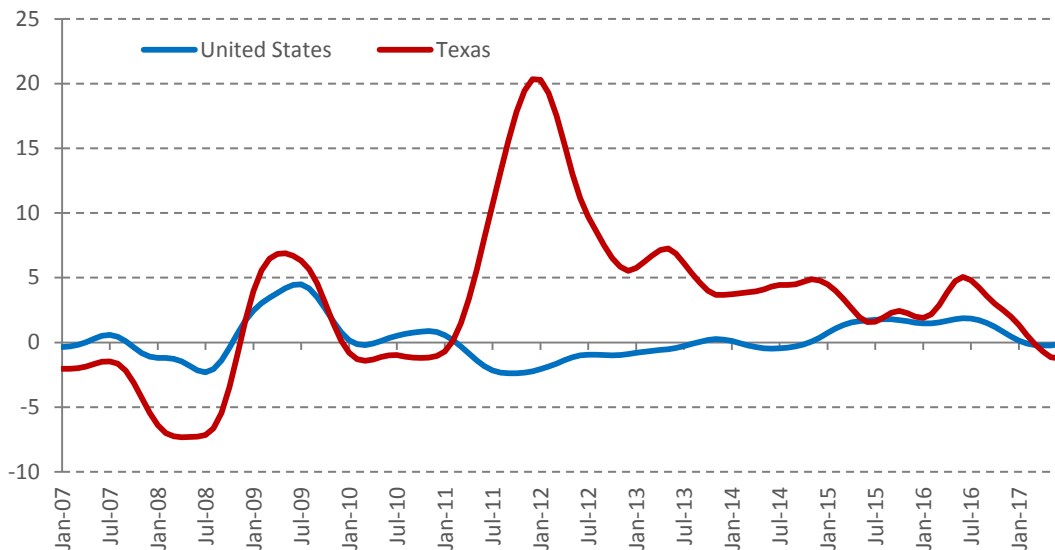
Notes: Inflation adjusted, seasonally adjusted and detrended. June 2017 is preliminary.  
 For more information, see [Total Private Employee Hourly Earnings](#).  
 Source: Bureau of Labor Statistics

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



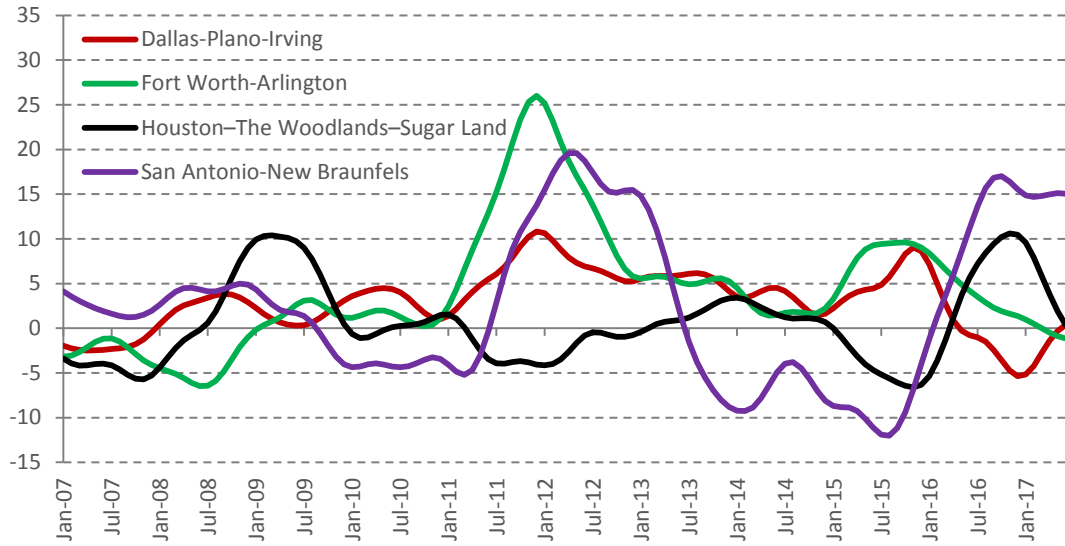
Notes: Inflation adjusted, seasonally adjusted and detrended. June 2017 is preliminary.  
For more information, see [Total Private Employee Hourly Earnings](#).  
Source: Bureau of Labor Statistics

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



Notes: Seasonally adjusted and detrended. Inflation adjusted. June 2017 is preliminary.  
For more information, see [Total Private Employee Hourly Earnings](#).  
Source: Bureau of Labor Statistics

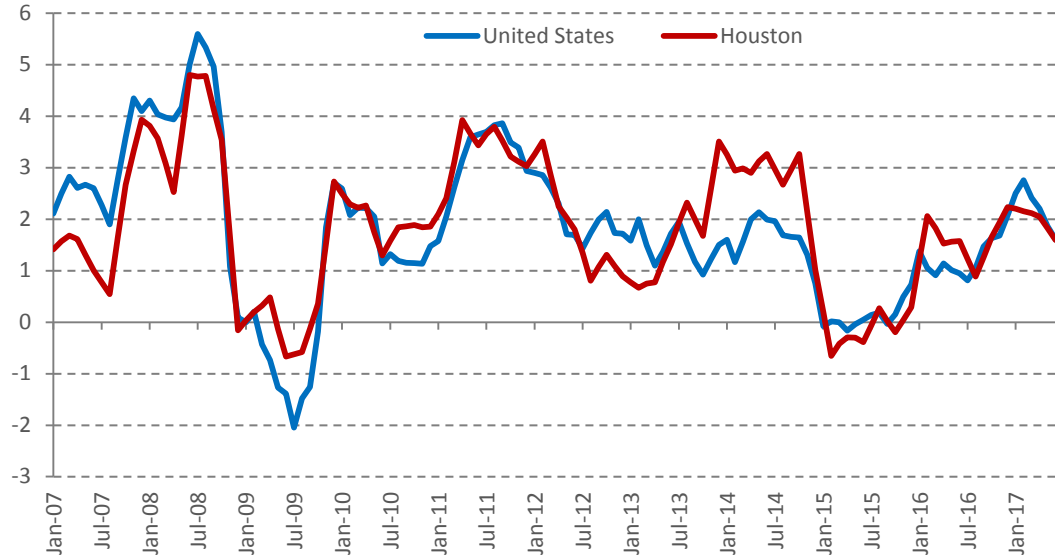
### Major Metros Manufacturing Employee Hourly Earnings (Year-over-Year Percent Change)



Notes: Seasonally adjusted and detrended. Inflation adjusted. June 2017 is preliminary.  
For more information, see [Total Private Employee Hourly Earnings](#).  
Source: Bureau of Labor Statistic

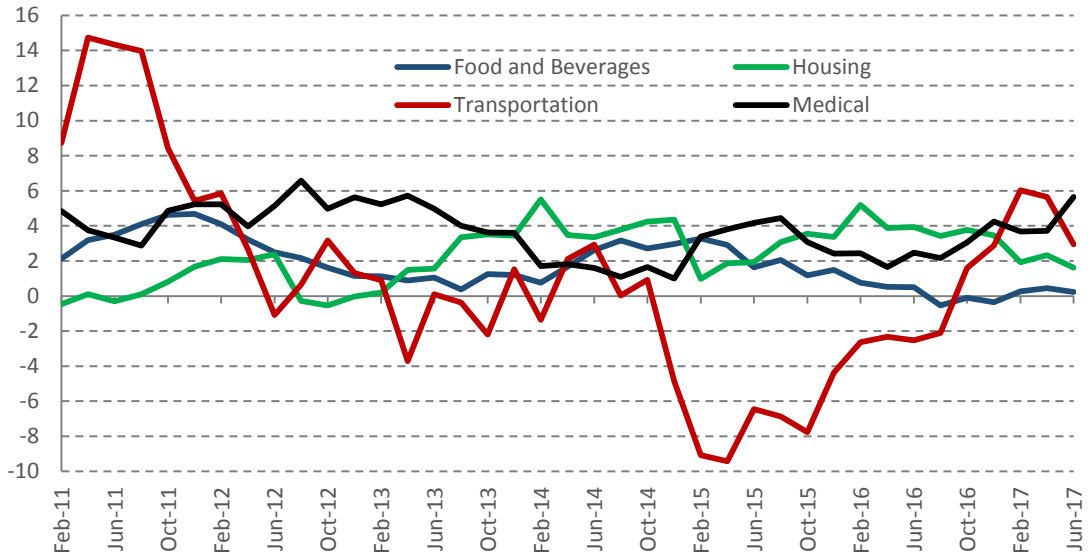
### Prices

#### 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 (Houston Components) (Year-over-Year Percent Change)

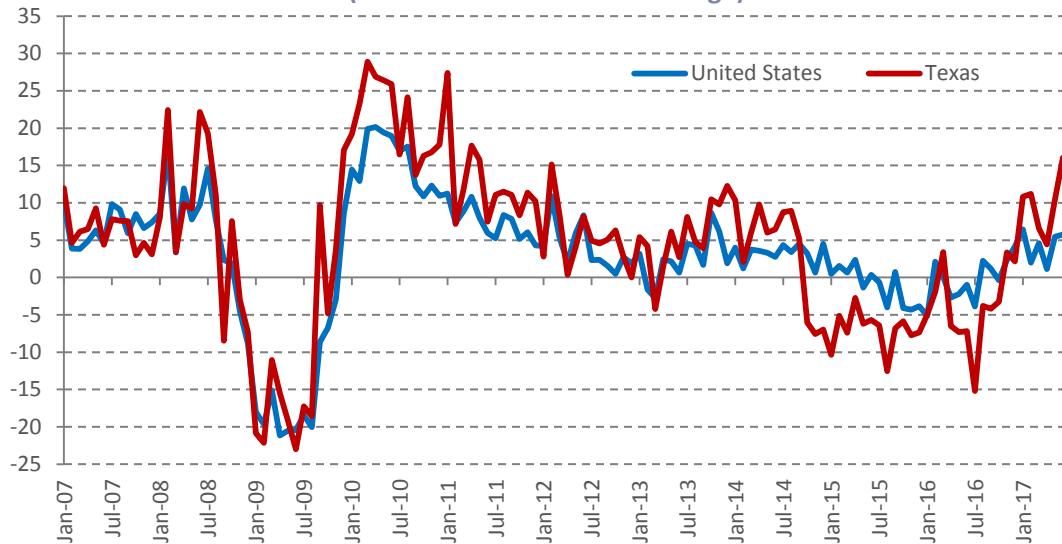


Note: The Houston CPI is composed of the following major groups: Food and Beverages, Housing, Apparel, Transportation, Medical Care, Recreation, Education and Communication, and Other Goods and Services. The four major components are included in the graph above.

Source: Bureau of Labor Statistics

### Trade

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

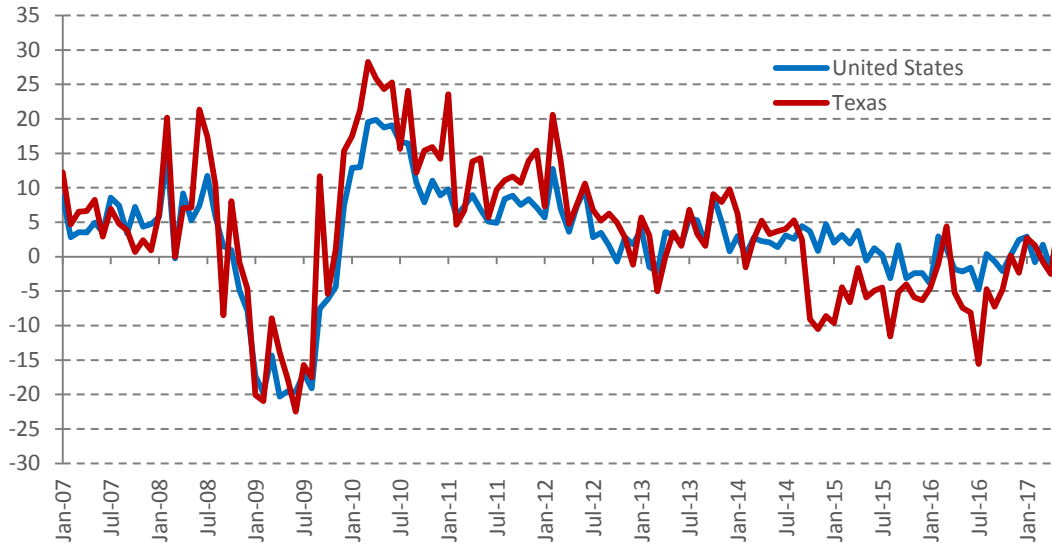


Note: Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see [Exports](#).

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

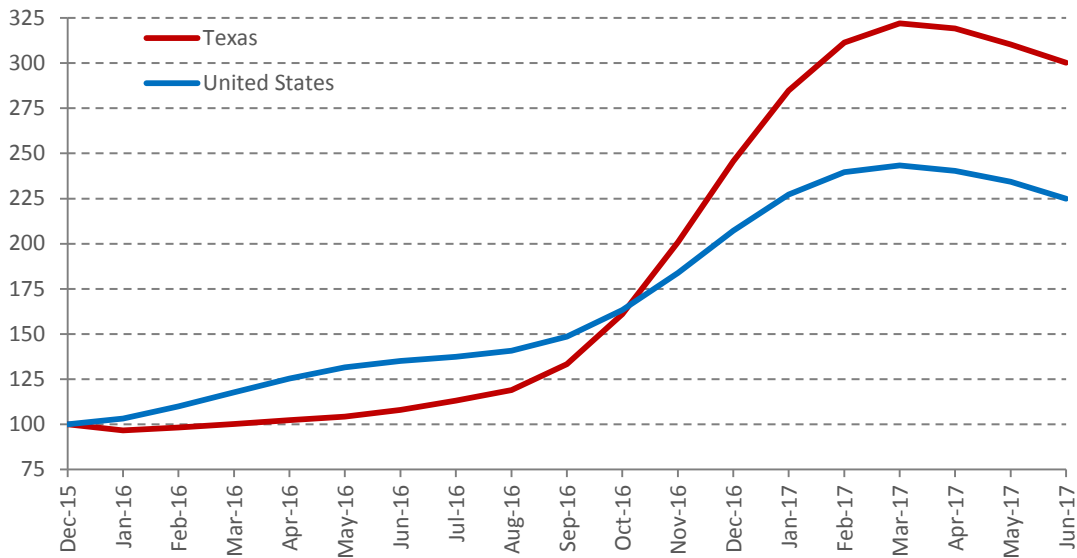


### Manufacturing Exports (Year-over-Year Percent Change)



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

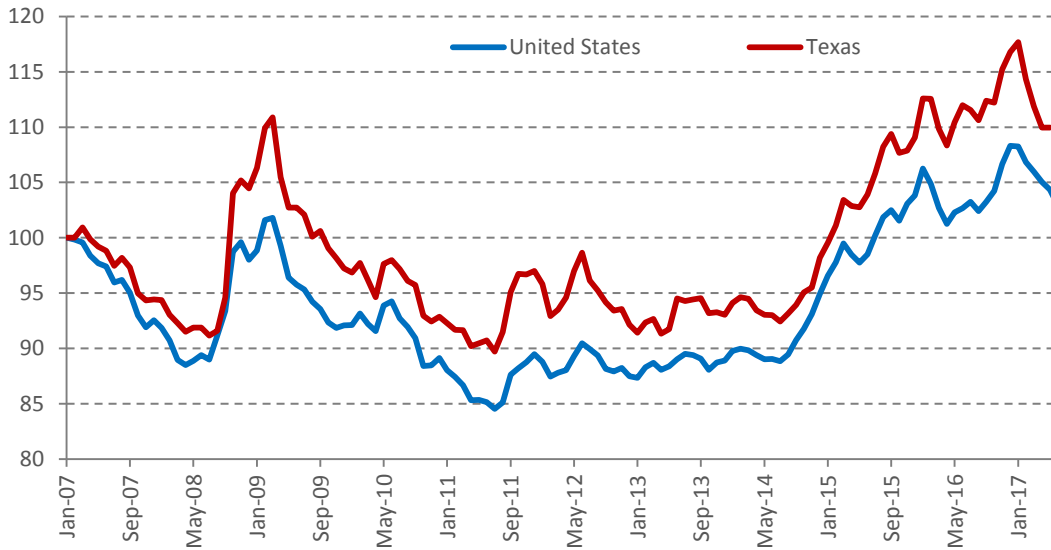
### Crude Oil Exports (Index Dec 2015 = 100)



Note: Inflation adjusted 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

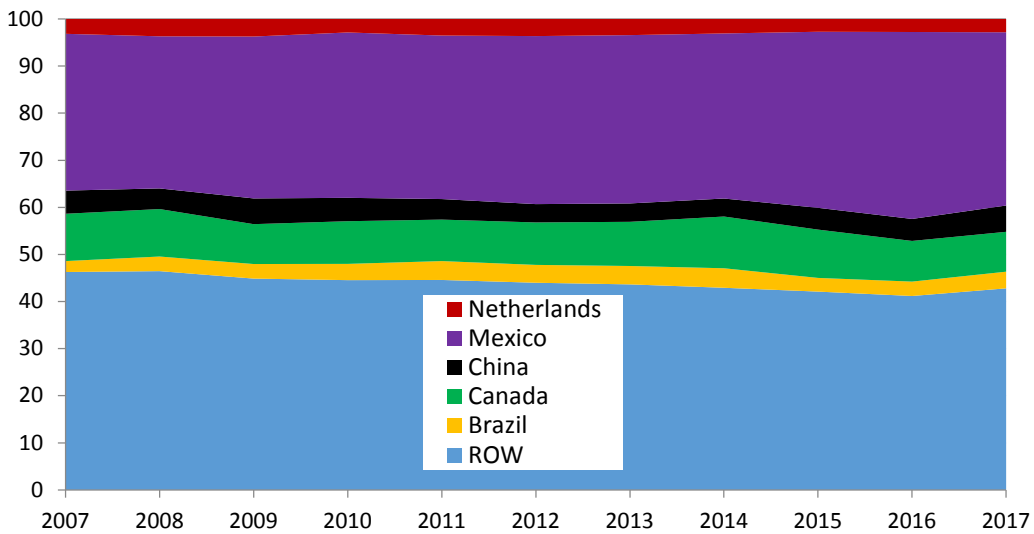


**Real Trade Weighted Value of U.S. Dollar  
(Index January 2007 = 100)**



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



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