

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.

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Data current as of April 5, 2018

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February 2018 Summary¹

A strong U.S. economy and stable energy prices supported growth in the Texas economy. The state accounted for 39 percent of national crude oil production and 84 percent of its exports. The employment expansion extended its 20-month streak, adding more than 70,000 jobs this year alone. Economic opportunities continued to attract both international and domestic migration to Texas. Population growth is essential to expand the talent pool and tax base, but it increases pressure on the local infrastructure and already constrained housing market. Decreased housing affordability, energy price volatility, and trade uncertainty remained the greatest headwinds to the Texas economy.

The Texas economy advanced as the **Dallas Fed's Business-Cycle Index** (a measure of current economic activity in the state) posted 5.2 percent quarterly annualized growth. The metropolitan business cycle indices were positive across the Texas Urban Triangle, led by Austin at 8.5 percent. Dallas and San Antonio maintained moderate growth at 3.6 and 3.7 percent, respectively. Stagnant wages decelerated the Houston index for the second straight month to 5.9 percent, below its post-Harvey peak of 7.8 percent in December. In contrast, recent wage growth pushed the Fort Worth index above 3 percent after slacking the past three months.

The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) balanced around a two-year high amid fewer initial unemployment insurance claims, gains in the U.S. leading index, and declines in the Texas value of the dollar (a weight on Texas export competitiveness). Optimism regarding recent tax cuts and employment opportunities pushed the **Texas Consumer Confidence Index** up two points, reaching a record high.

Population growth continued to fuel the Texas economy. Recently released 2017 data revealed a 1.4 percent increase in the Texas population, nearly 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 struggling regions. Recent improvements in the national economy reduced those pull factors, weighing on the state's overall population growth, while the natural increase (births versus deaths) remained stable.

The Dallas-Fort Worth (DFW) metropolitan statistical area (MSA) topped the nation in absolute population increase, adding 146,200 residents last year, while Houston ranked second at 94,400 (the fewest since 1999). The annual computations covered July 2016 to July 2017, thereby missing any potential impacts from Hurricane Harvey. Austin's population rose 2.7 percent (55,000 net increase), marking its eighth straight year as the fastest growing large MSA. In San Antonio, population growth held firm at 1.9 percent, netting more than 47,000 residents.

¹ All monthly measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.

Interest rates surged as increased fiscal spending and economic growth peaked inflation expectations, prompting concerns that the Fed could accelerate the pace of federal funds rate hikes. The **ten-year U.S. Treasury bond yield** rose 28 basis points to 2.86 percent, the highest since January 2014. A similar 30-basis-point increase pushed the **Federal Home Loan Mortgage Corporation 30-year fixed-rate** above 4.3 percent. In Texas, the rising rate lifted annual mortgage payments nearly \$400 on the median home, adding an additional \$11,655 over a 30-year term. Mortgage financing obstacles, combined with an \$11,000 year-over-year (YOY) sale price increase, struck a blow to waning housing affordability.

Shortages of homes priced less than \$300,000 and a downturn in new-home inventories weighed **Texas housing sales** down 0.9 percent and heightened affordability challenges. Current residential construction activity, measured by the **Residential Construction Cycle (Coincident) Index**, inched forward as industry employment and wage growth offset rising interest rates. A monthly slowdown, however, in weighted building permits and housing starts flattened the **Residential Construction Leading Index (RCLI)**, signaling supply-side challenges as the year progresses. (For additional housing commentary and statistics, see *Texas Housing Insight* at recenter.tamu.edu.)

The average **West Texas intermediate crude oil spot price** ticked down to \$62.23² per barrel but maintained 16.4 percent YOY growth. A stock market correction and persistent U.S. production increases counteracted extended OPEC output cuts. Accelerated drilling activity in the Permian and Eagle Ford Basin lifted Texas' **active rig count** to 476², up 28.6 percent YOY. Texas crude oil production accounted for 39 percent of national output at 3.9 million barrels per day², prompting additional pipeline investment in the state. The **Henry Hub natural gas spot price** receded to \$2.67 per million BTU² (British thermal units) as temperatures moderated from January cold fronts.

Texas added 40,500 **nonfarm jobs**, marking 20 consecutive months of employment growth, on top of January revisions from 16,000 to 29,600 jobs. The statewide **unemployment rate** balanced at 4 percent for the third consecutive month, remaining slightly below the national level. In Austin and San Antonio, the local unemployment rate held firm at 2.9 and 3.3 percent, respectively, while the DFW rate ticked up to 3.5 percent. Houston was the exception with unemployment at 4.6 percent but remained below its 5.8 long-run average. Payroll expansions reduced **initial unemployment insurance claims** 9.9 percent to pre-recessionary levels and boosted the **labor force participation rate** to 63.4 percent, just above the 2017 average.

Data revisions improved the North Texas outlook as Dallas and Fort Worth created 14,500 and 4,500 jobs YTD, respectively. Houston posted the largest monthly increase with 10,800 new jobs, driven by expanding professional and business services. Austin extended a five-month stretch of job gains, adding 4,100 amid increases in education and health services. Rebounds in retail trade supported a 2,300-job increase in San Antonio after decelerating last year.

Texas' goods-producing sector added 12,600 jobs, the most since 2014, as higher oil prices boosted energy sector activity. Construction payrolls expanded 8.8 percent quarterly annualized, adding

² Nonseasonally adjusted.

more than 30,000 jobs since Hurricane Harvey. The **total value of construction**, however, fell 1.3 percent on a three-month moving average after declines in residential real estate investment. Massive increases in DFW's nonresidential construction values offset most of the statewide slack. Office and bank building construction values doubled in DFW, while educational buildings and hospitals posted 26.8 and 26.4 percent growth on a three-month moving average, respectively.

Manufacturing payrolls inched forward, adding fewer than 1,000 jobs in each of the last three months. Rising input costs in response to U.S. tariffs on foreign steel and aluminum could freeze employment growth after recovering last year. At the metro level, manufacturing employment fell at a quarterly annualized rate of 0.3 and 0.2 percent in Fort Worth and San Antonio, respectively, while slowing to 1.6 percent in Austin. Payrolls fared better in Dallas and Houston, where job growth stood at 3.2 and 3.4 percent, respectively.

Texas manufacturers noted optimism in the **Dallas Fed's Manufacturing Outlook Survey**, holding the future outlook and business activity indexes steady. The production index extended a 20-month trend with 25.2 percent of companies increasing capital expenditures. Nearly a third of respondents reported wage and benefit increases, despite minimal movements in the hard data. Manufacturers highlighted recent tax reform and the falling value of the dollar as stimulants to the industry.

The service-providing sector generated 27,900 new jobs after data revisions improved last month's numbers from 8,800 to 21,600. Professional and business services led the charge with 13,200 jobs, followed by trade, transportation, and utilities at 11,800. The employment and wage indexes in the **Dallas Fed's Service Sector Outlook Survey** corroborated solid job growth in the industry. Over 30 percent of participants reported increased revenue, while 36.1 percent battled rising input prices. Respondents complained of NAFTA uncertainty, the lack of the H-2B visa "returning worker" exemption and rising interest rates.

Retail trade bounced back with 6,800 jobs, the largest increase in over two years. The health of the Texas economy supported a 4.6 percent YOY jump in retail sales, maintaining last year's stability. The revenue index in the **Dallas Fed's Retail Outlook Survey** displayed the opposite trend, sliding substantially to start the year. Winter weather disruptions continued to freeze retail activity, but underlying fundamentals improved.

Despite low unemployment levels, employee compensation remained stagnant as **real Texas private hourly earnings** fell 1 percent year to date. Houston and San Antonio wages suffered disproportionately, contracting 2.9 and 5.5 percent YOY, respectively. Annual growth inched into positive territory in Austin and Fort Worth, while settling at 1.8 percent in Dallas.

While Texas wages lagged the national level by \$0.45, Texas *manufacturing* jobs paid a 10 percent premium in hourly earnings relative to the U.S. average. Since July 2017, manufacturing wages have contracted 6.1 and 2.6 percent, respectively, in Dallas and Fort Worth with little sign of reversing trend. In Houston, manufacturing earnings posted 2.4 percent YOY growth, the first positive

reading since October 2017. San Antonio remained the outlier for manufacturing wage growth, rising 10.5 percent YOY but remaining 14.9 percent below the Texas average.

The **U.S. Consumer Price Index (CPI)** surpassed 2 percent growth YOY for the seventh consecutive month. The core inflation rate, which excludes the often-volatile energy and food sectors, approached the 2 percent YOY benchmark amid solid gains in apparel prices. The Houston CPI was higher at 2.6 percent YOY, driven by large increases in transportation and medical costs.

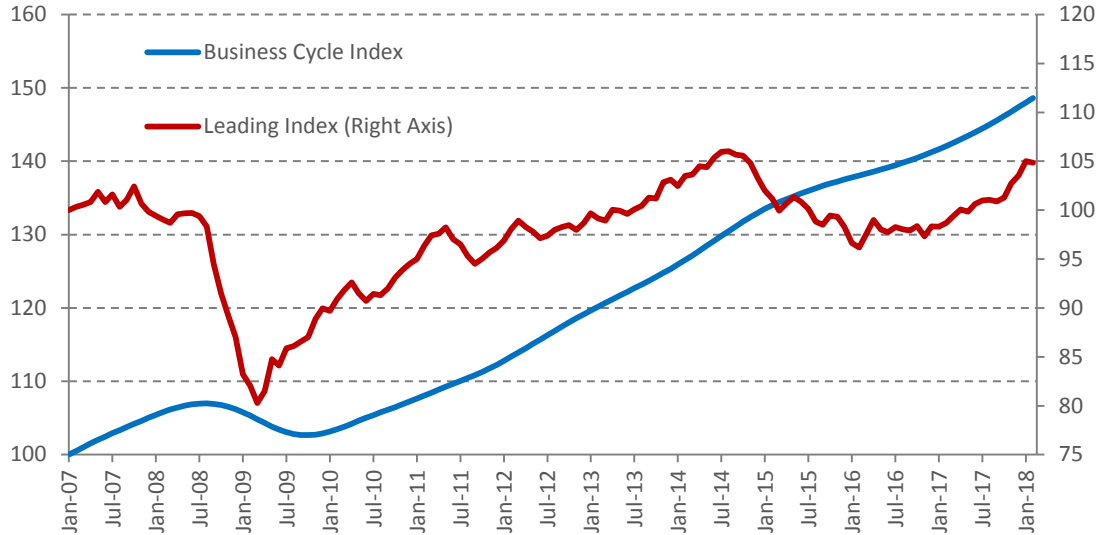
Texas' total commodity and manufacturing exports held near-record levels despite dips in petroleum and electronic products. Bolstered by the strong global economy, **Texas crude oil exports** shattered monthly records amid a 110 percent YOY increase. Favorable currency fluctuations continued to support export growth as the **Texas trade-weighted value of the dollar**³ extended its yearlong downward trend, falling 6.6 percent YOY, thereby boosting the attractiveness of Texas goods and services to foreign consumers.

Mexico and Canada received more than half 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 potential of increased tariffs and global trade conflicts presents an additional headwind to Texas trade activity.

³ 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.

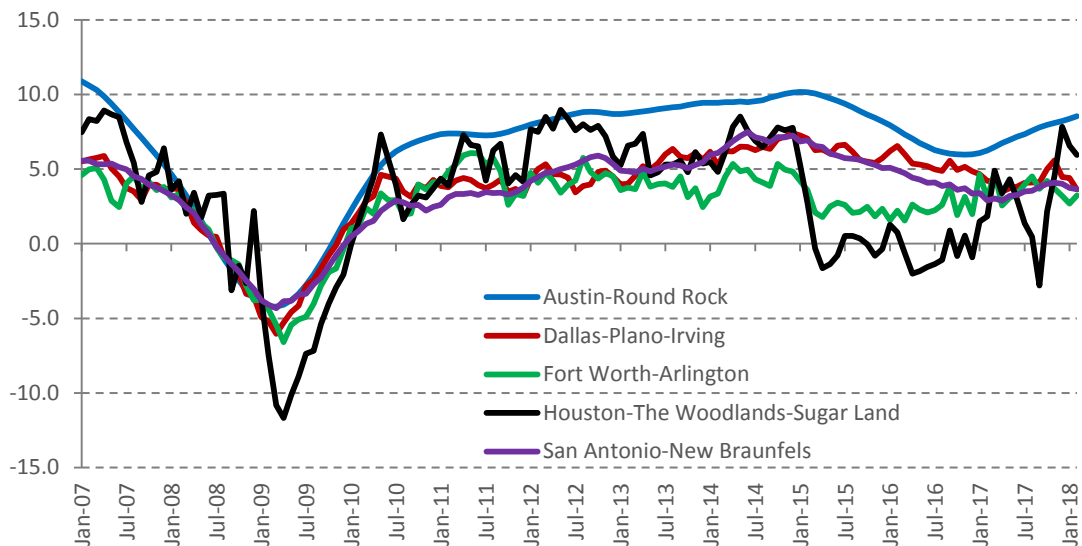
Economic Activity

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

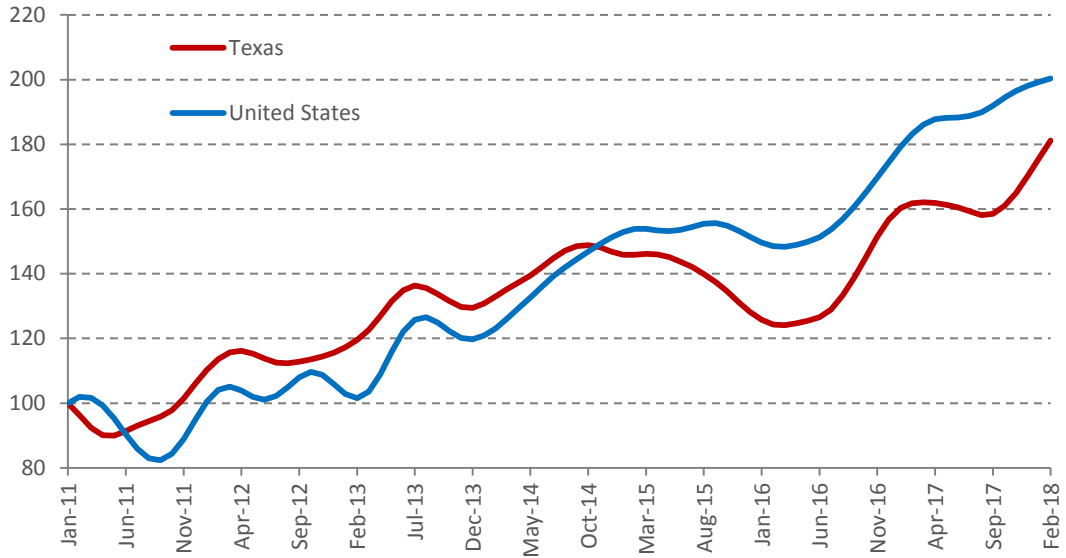
Major Metros Business Cycle Index
(Quarter-over-Quarter Percent Change)



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

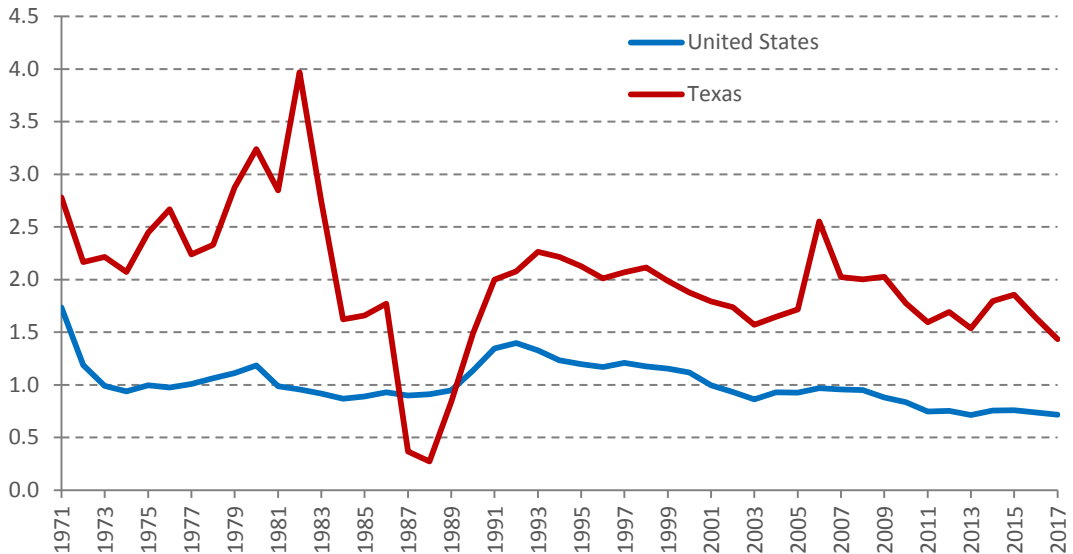


Consumer Confidence Index
(Index Jan 2011 = 100)



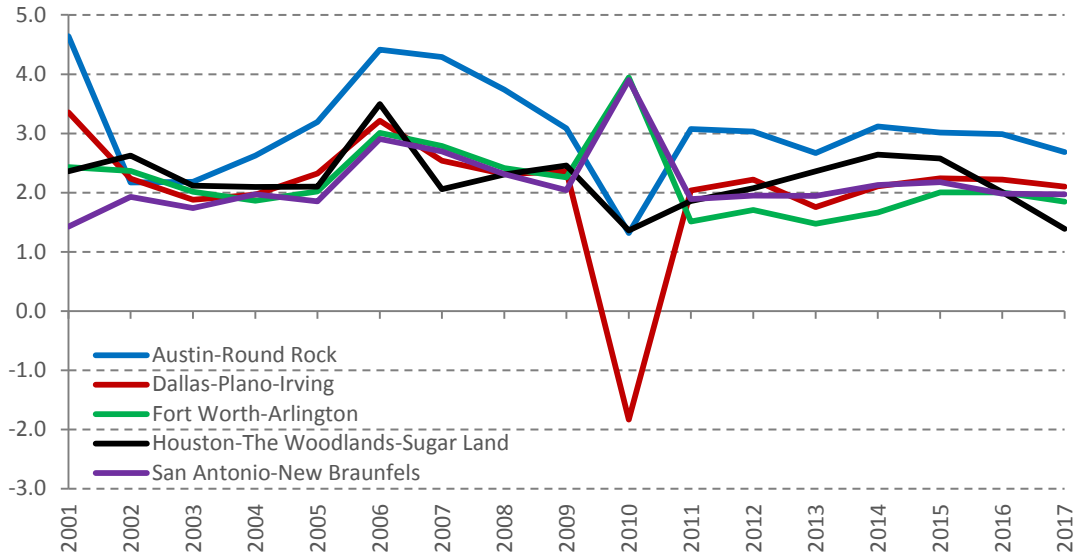
Note: Seasonally adjusted and detrended.
Source: Conference Board

Total Resident Population
(Year-over-Year Percentage Change)



Note: Not seasonally adjusted.
Source: United States Census Bureau

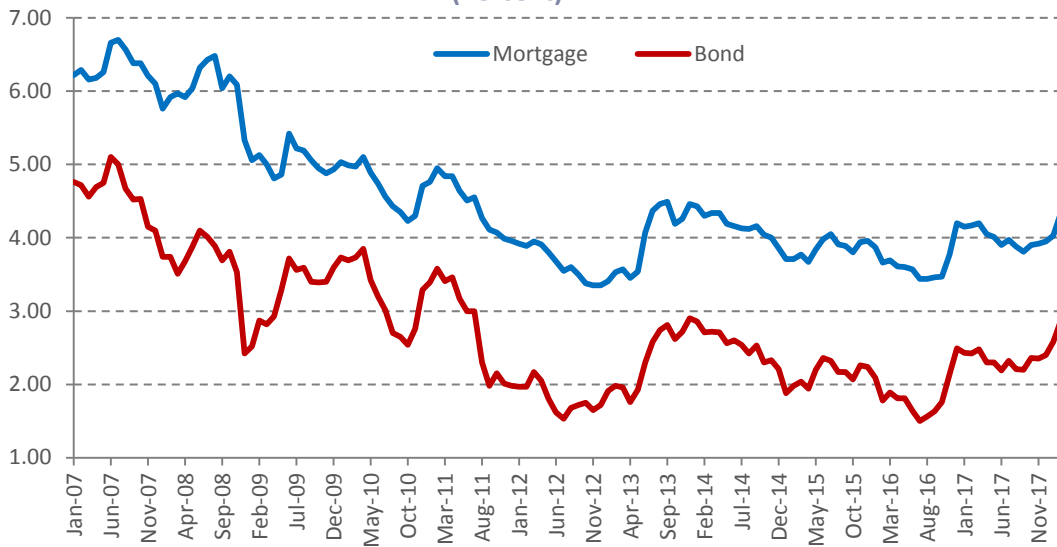
Major Metros Total Resident Population (Year-over-Year Percentage Change)



Note: Not seasonally adjusted.
Source: United States Census Bureau

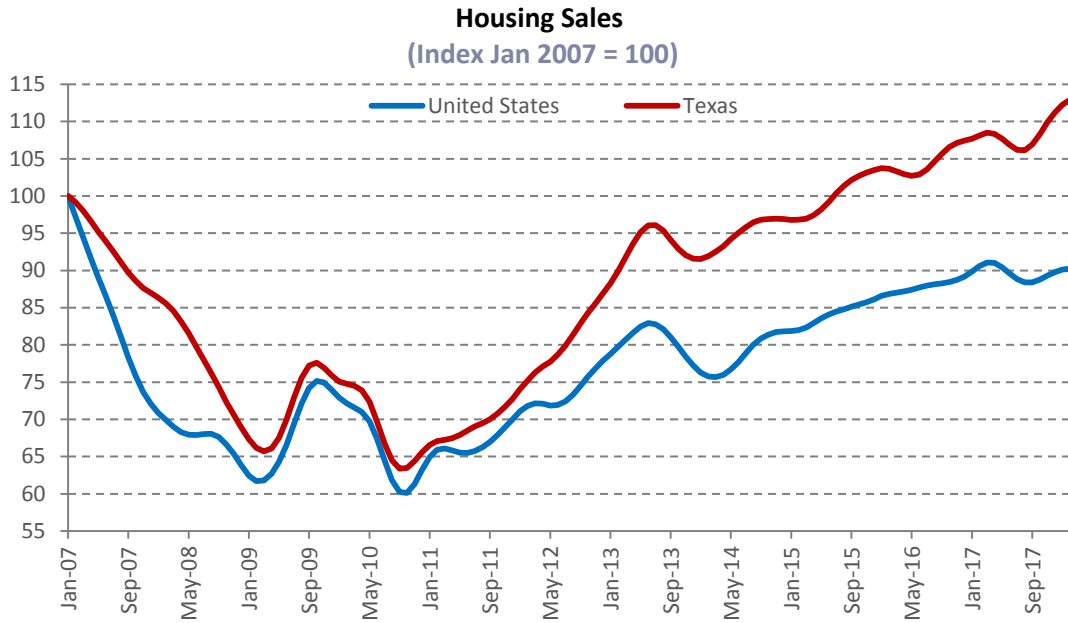
Financial Activity

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



Note: Seasonally adjusted.
Source: Federal Home Loan Mortgage Corporation and Federal Reserve Board

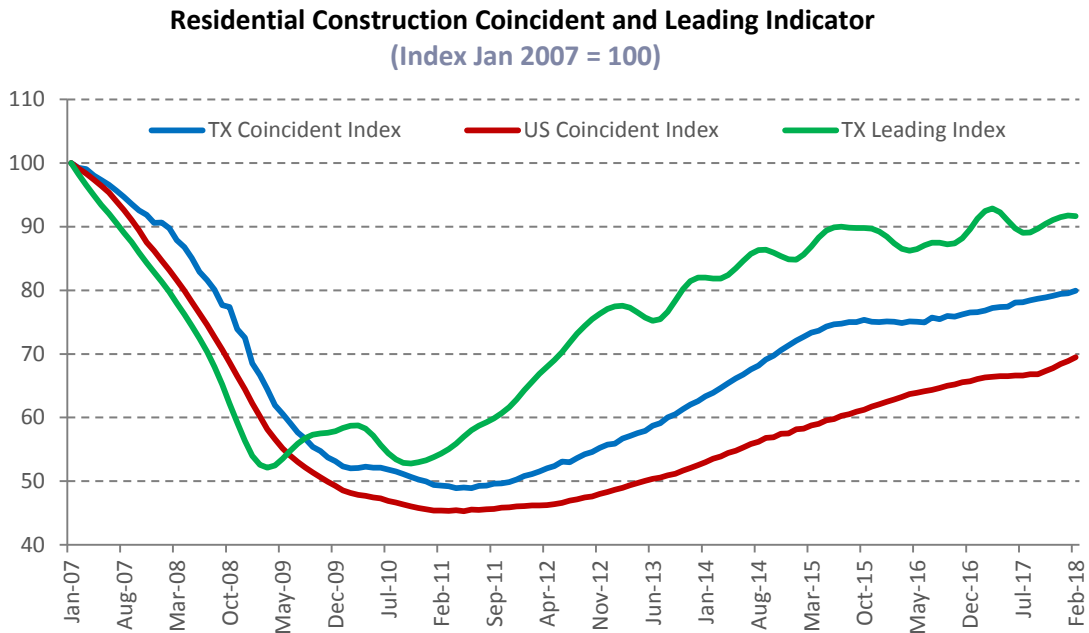
Housing



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

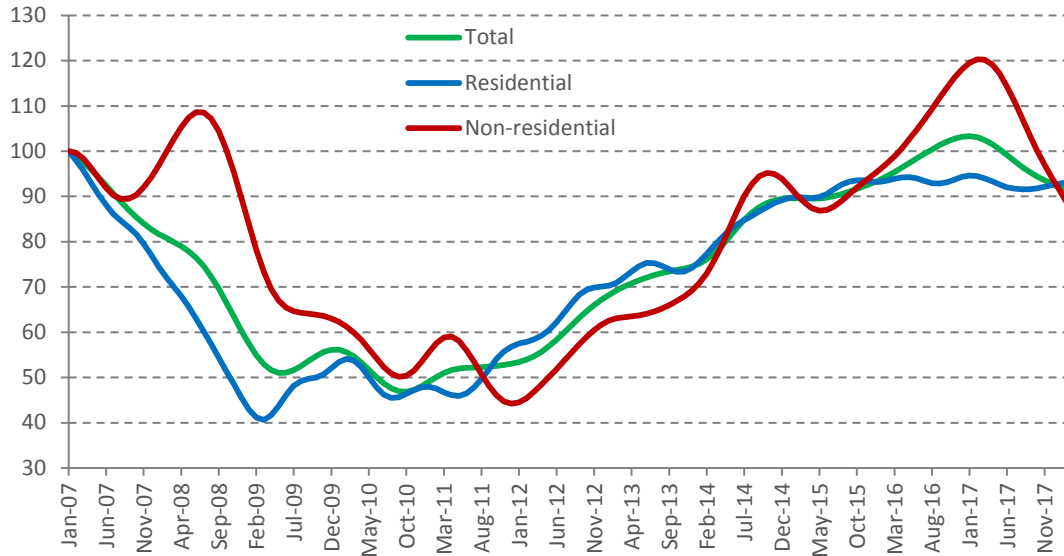


Note: Seasonally adjusted and detrended.

Source: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas

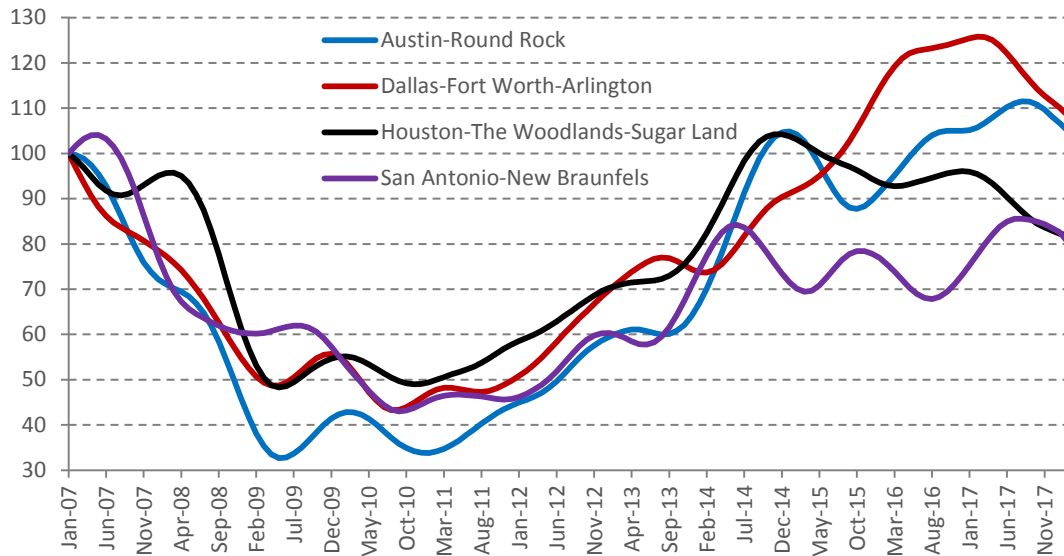


Texas Construction Values
(Index Jan 2007 = 100)



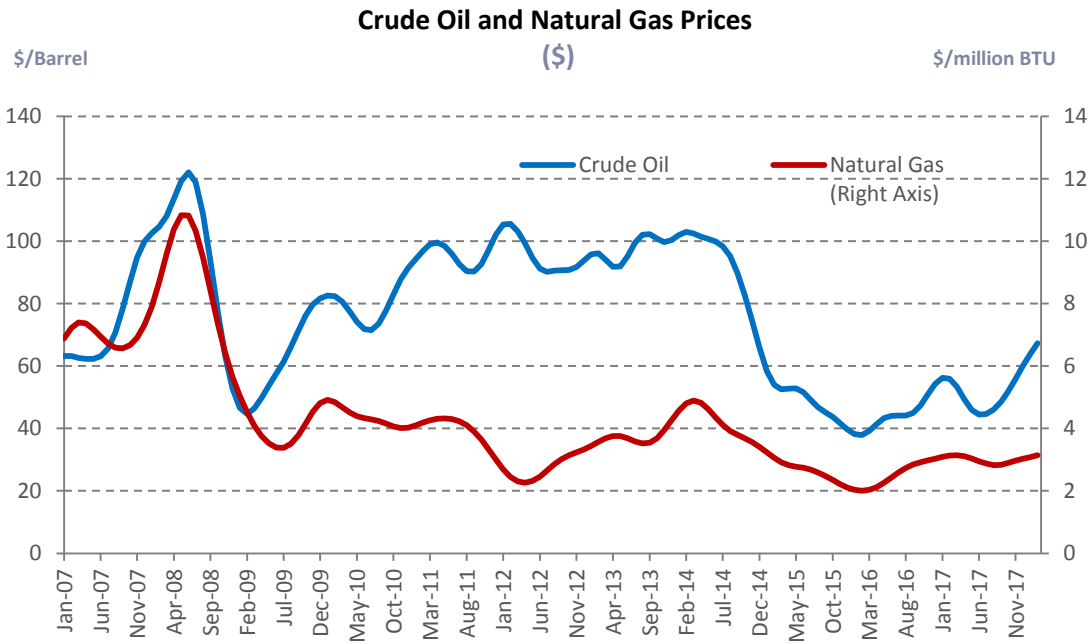
Note: Real values are seasonally adjusted and detrended.
Source: Dodge Analytics

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

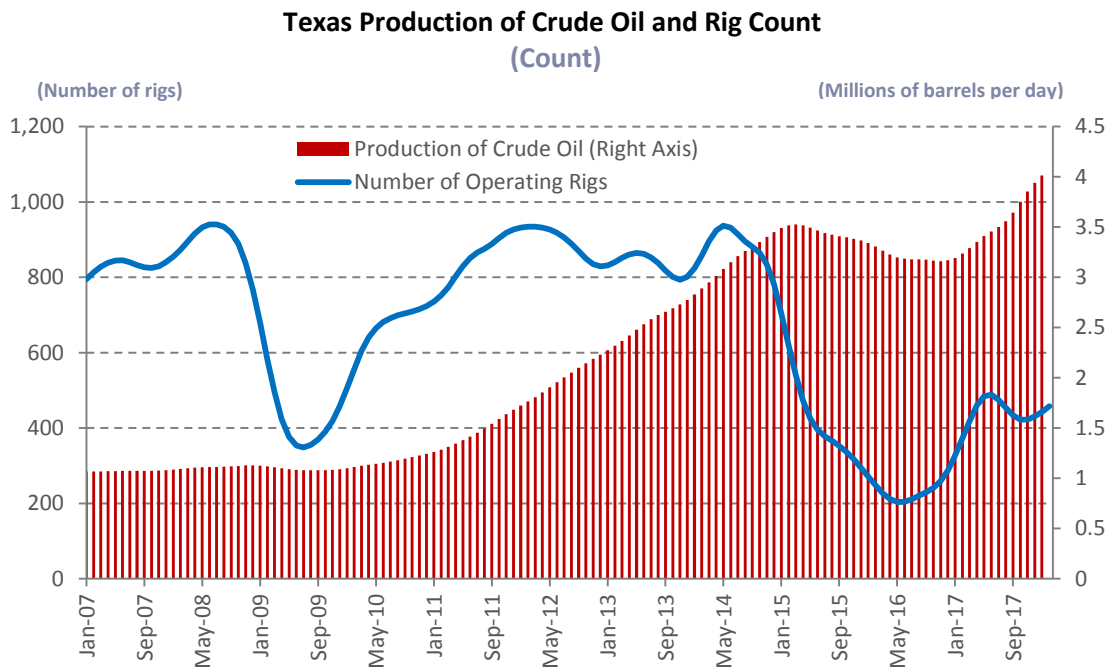


Note: Real values are seasonally adjusted and detrended.
Source: Dodge Analytics

Energy



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

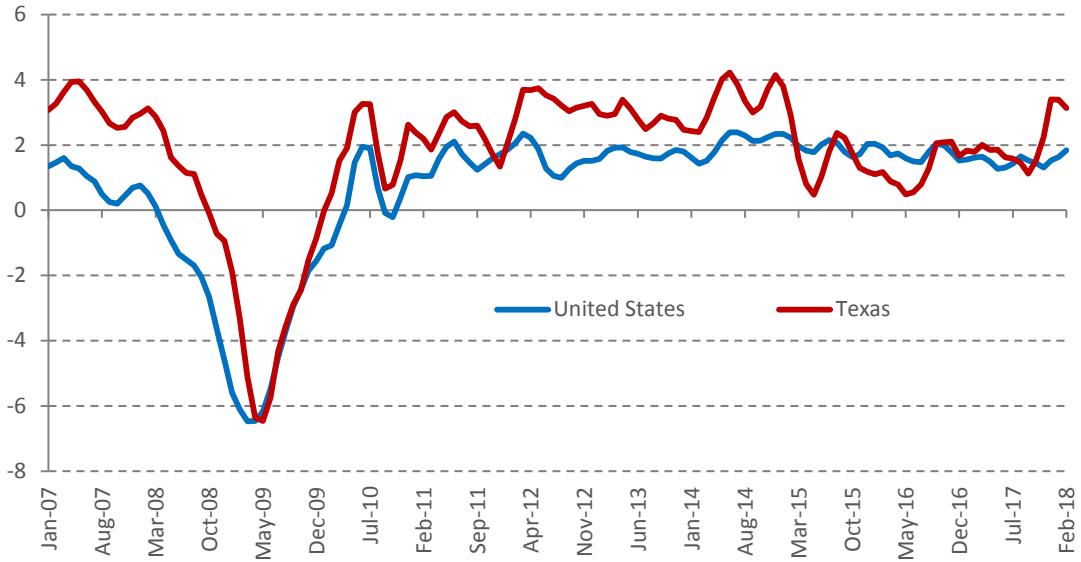


Note: Seasonally adjusted and detrended.
 For more information, see [Texas Production of Crude Oil and Rig Count](#).
 Sources: Baker Hughes and U.S. Energy Information Administration



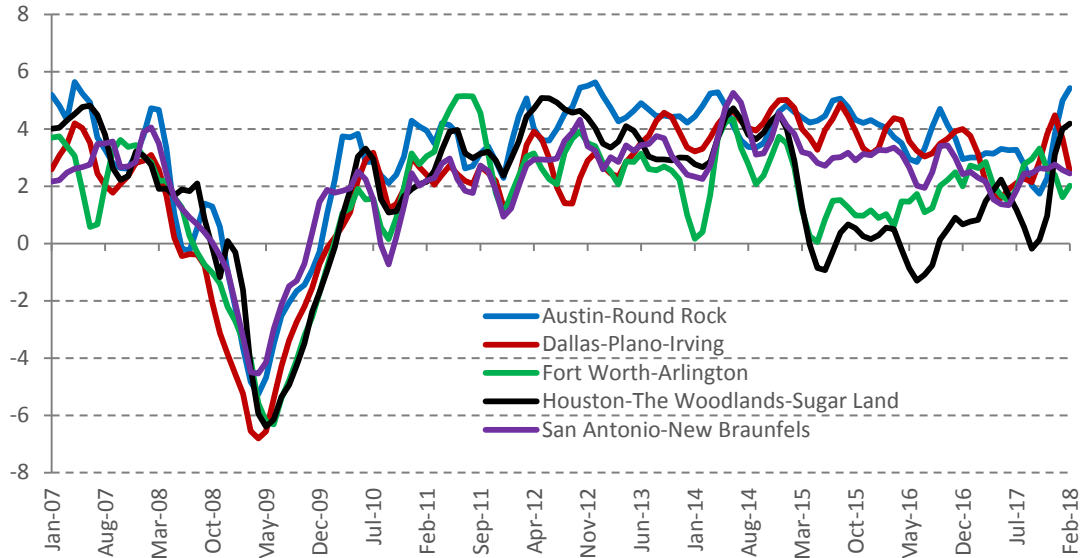
Employment

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



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

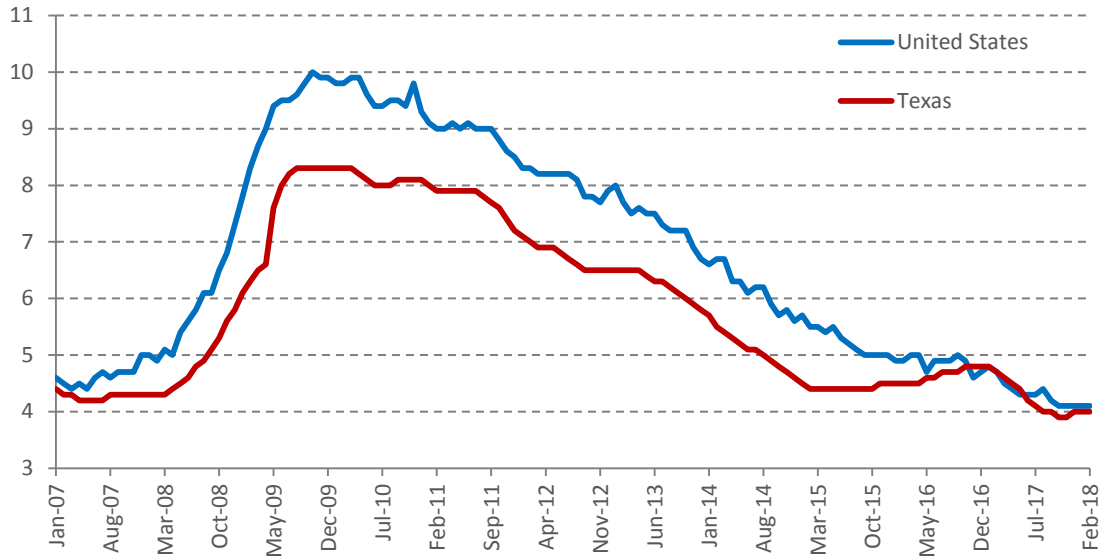
Major Metros Employment Growth Rate
(Quarter-over-Quarter Annualized Percent Change)



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

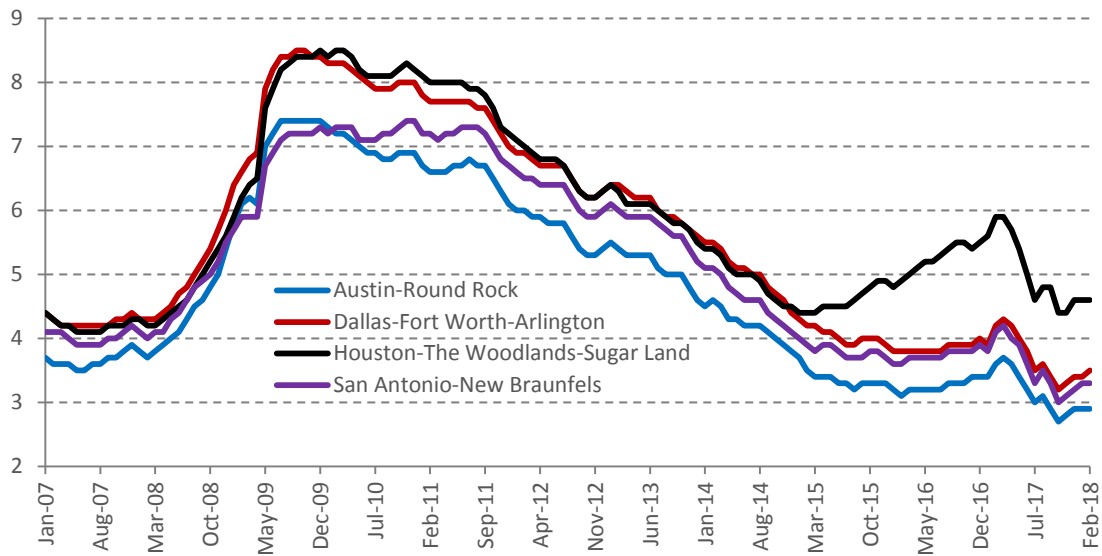


Unemployment Rate (Percent)



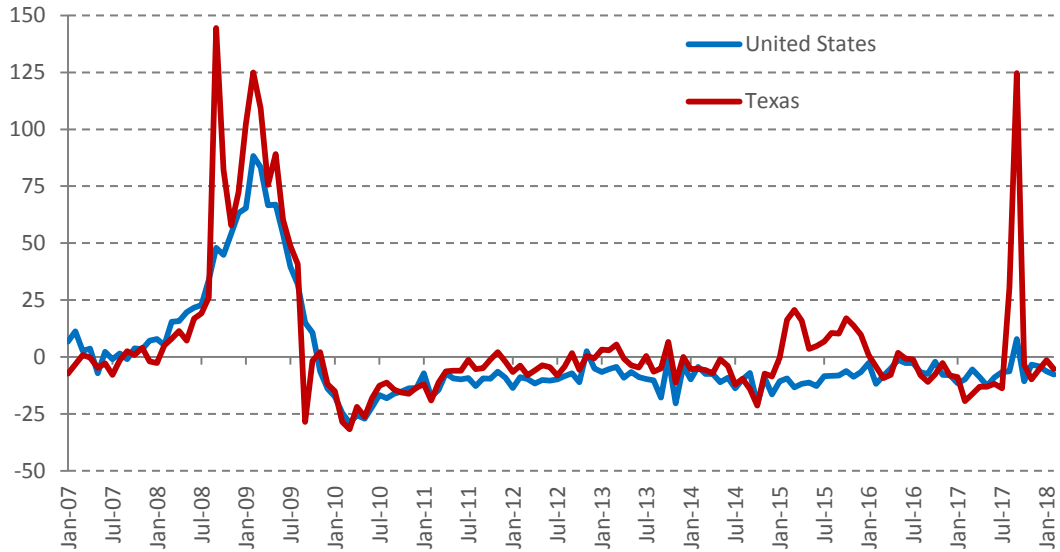
Note: Seasonally adjusted. February 2018 is preliminary. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

Major Metros Unemployment Rate (Percent)



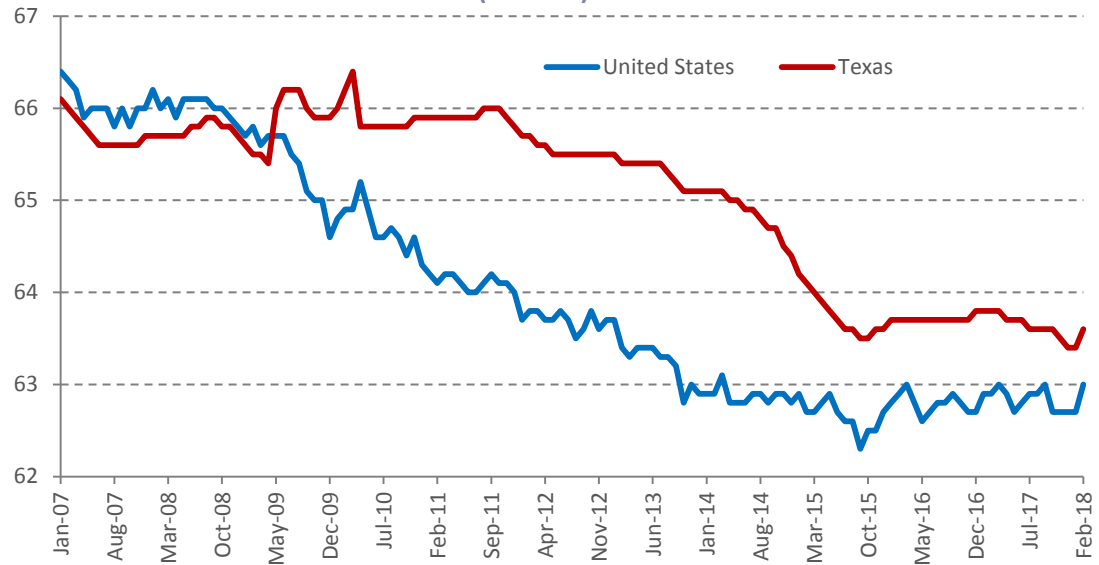
Note: Seasonally adjusted. February 2018 is preliminary. For more information, see [Unemployment Rate](#).
Sources: Federal Reserve Bank of St. Louis

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



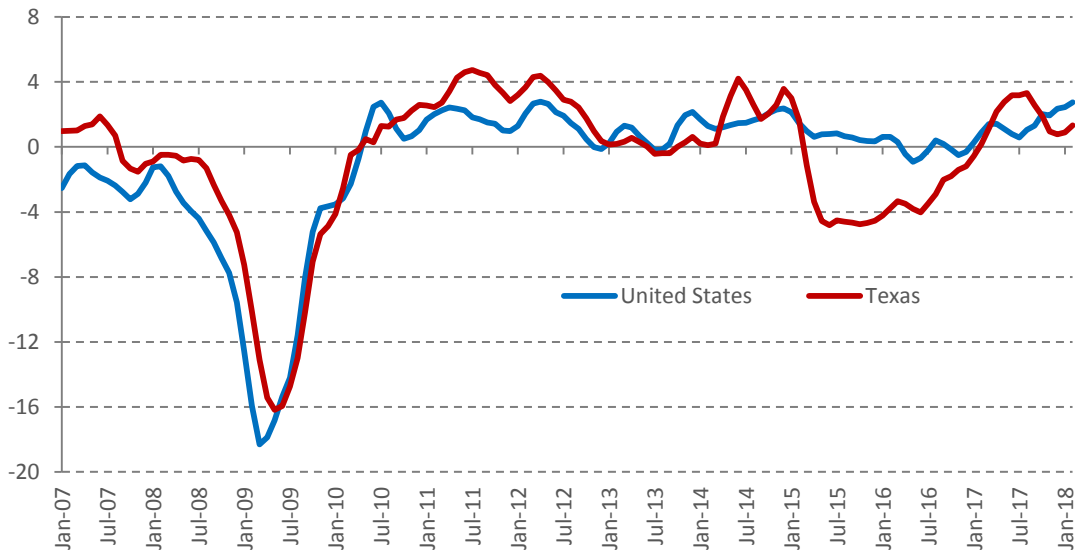
Note: Seasonally adjusted. For more information, see [Unemployment Insurance Claims: Initial Applications](#).
Source: Department of Labor

Labor Force Participation Rate (Percent)



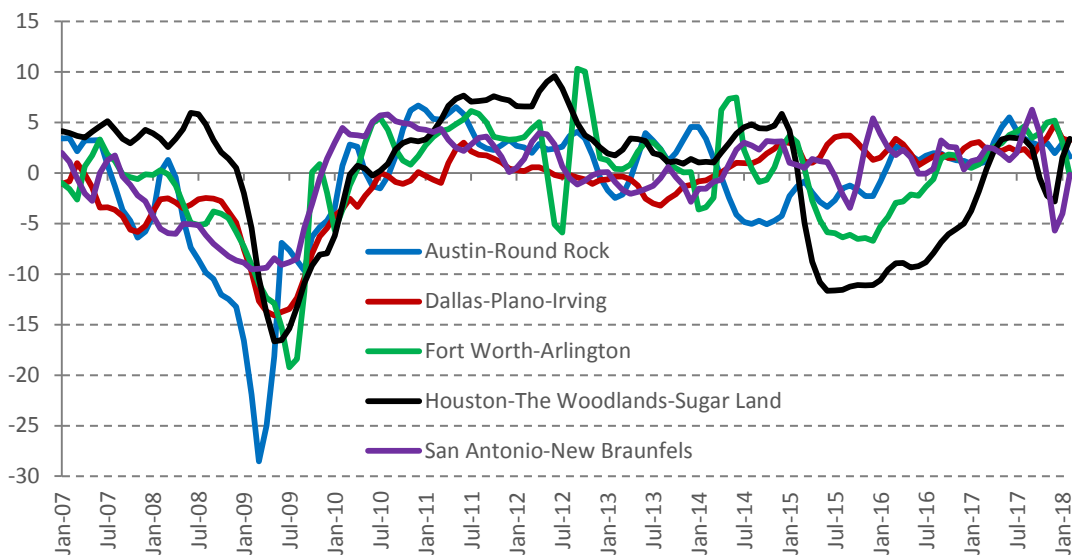
Note: Seasonally adjusted. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

Manufacturing Employment (Quarter-over-Quarter Percent Change)



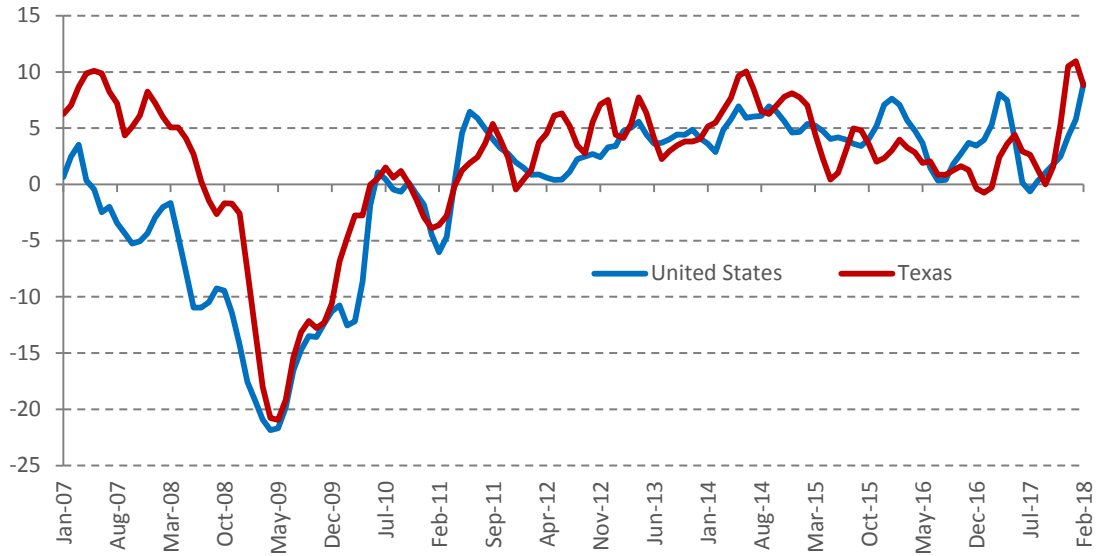
Note: Seasonally adjusted, 3-month moving average. February 2018 is preliminary.
 For more information, see [Employment Growth Rate](#).
 Source: Bureau of Labor Statistics

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



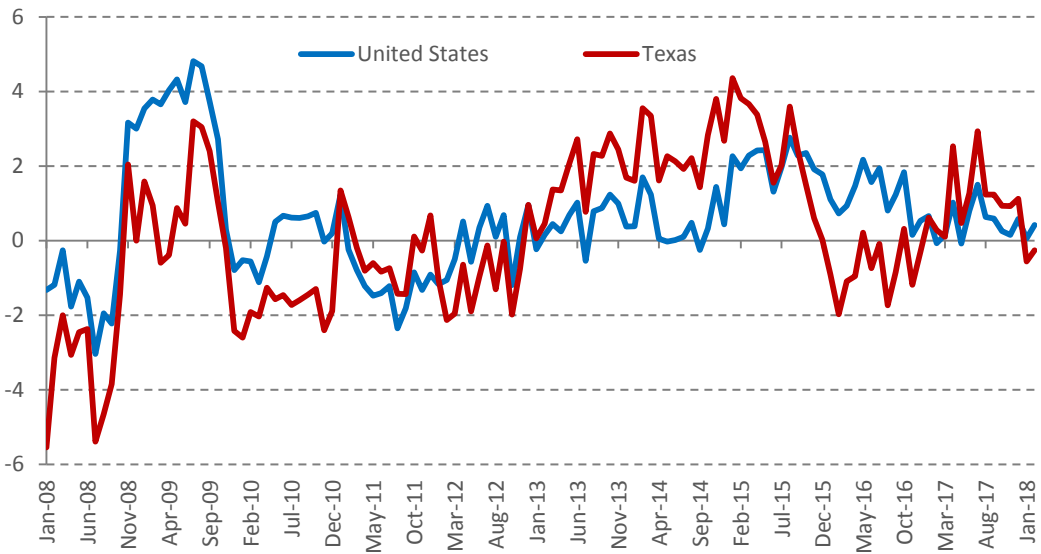
Note: Seasonally adjusted, 3-month moving average. February 2018 is preliminary.
 For more information, see [Employment Growth Rate](#).
 Source: Bureau of Labor Statistics

Construction Employment (Quarter-over-Quarter Percent Change)



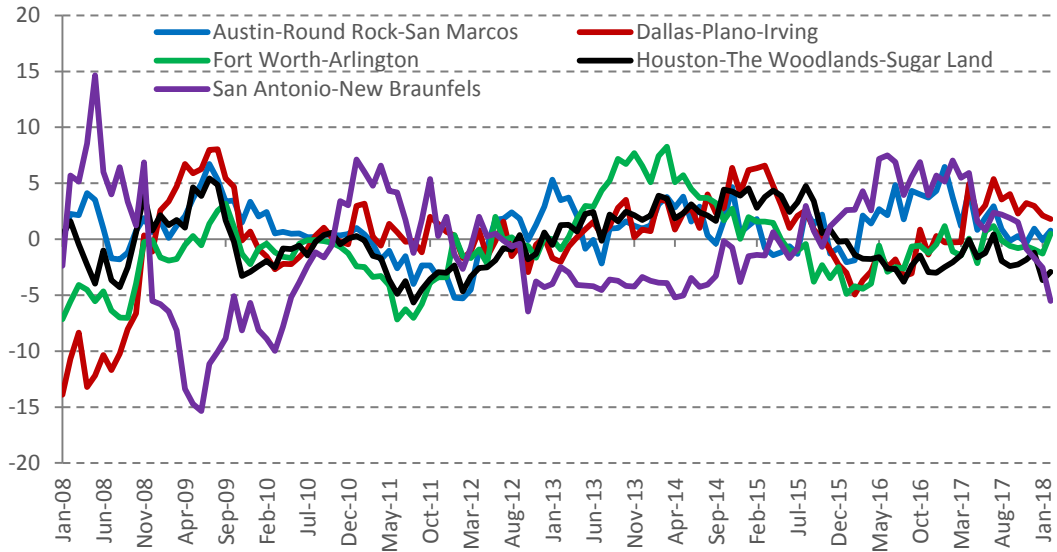
Note: Seasonally adjusted, 3-month moving average. February 2018 is preliminary.
 For more information, see [Employment Growth Rate](#).
 Source: Bureau of Labor Statistics

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



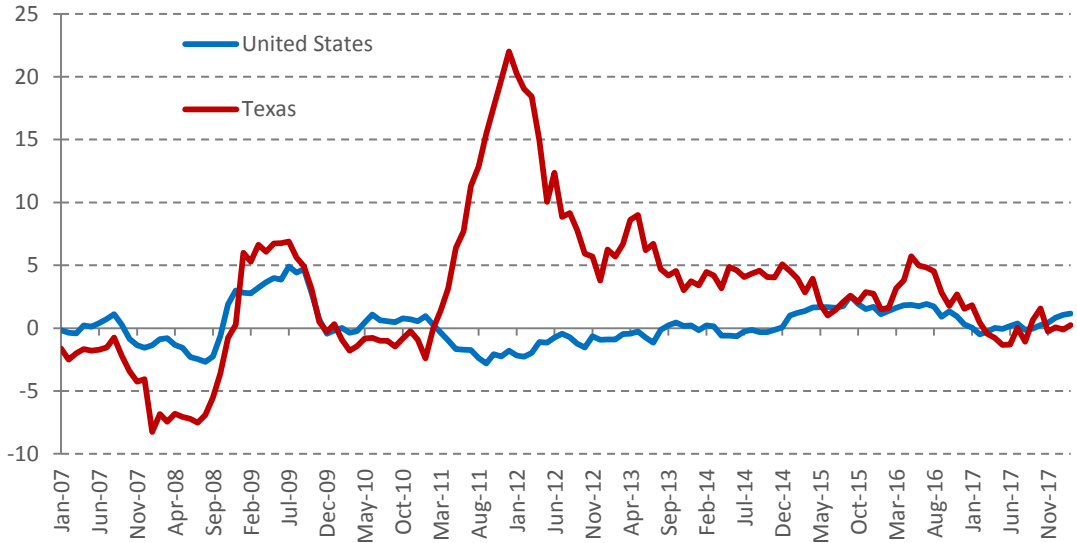
Notes: Inflation adjusted. February 2018 is preliminary.
 For more information, see [Total Private Employee Hourly Earnings](#).
 Source: Bureau of Labor Statistics

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



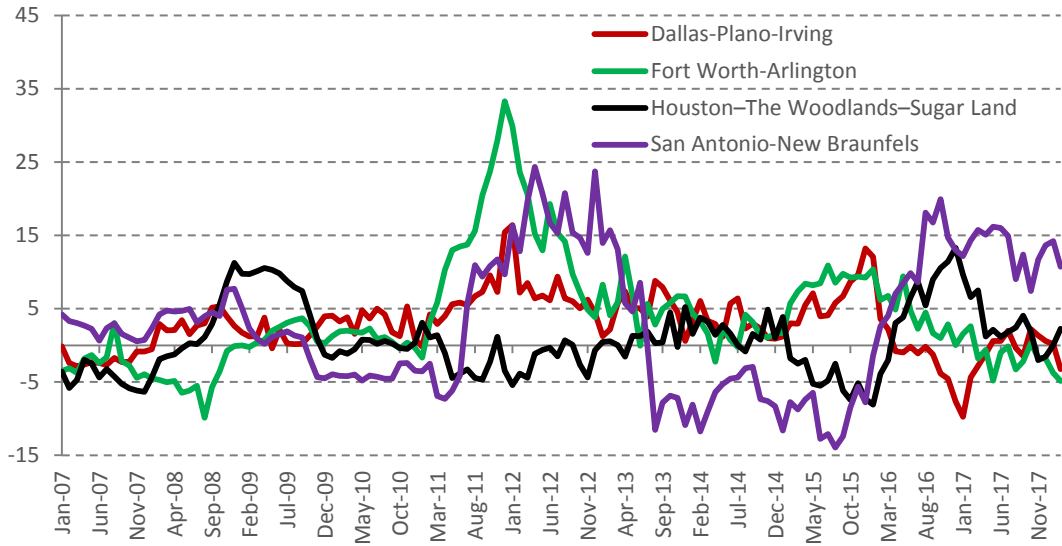
Notes: Inflation adjusted. February 2018 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

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



Notes: Inflation adjusted. February 2018 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

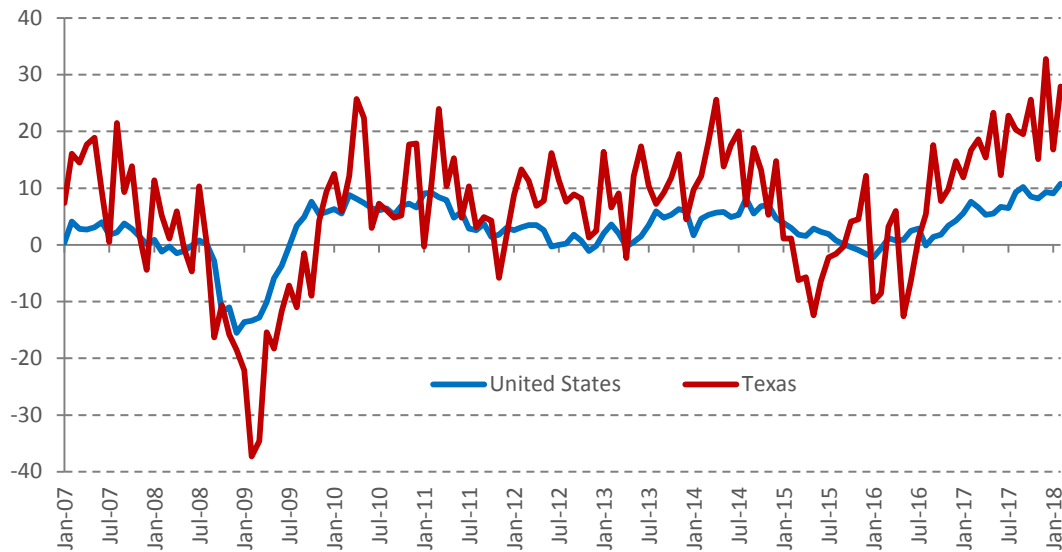
Major Metros Manufacturing Employee Hourly Earnings (Year-over-Year Percent Change)



Notes: Inflation adjusted. February 2018 is preliminary.
 For more information, see [Total Private Employee Hourly Earnings](#).
 Source: Bureau of Labor Statistic

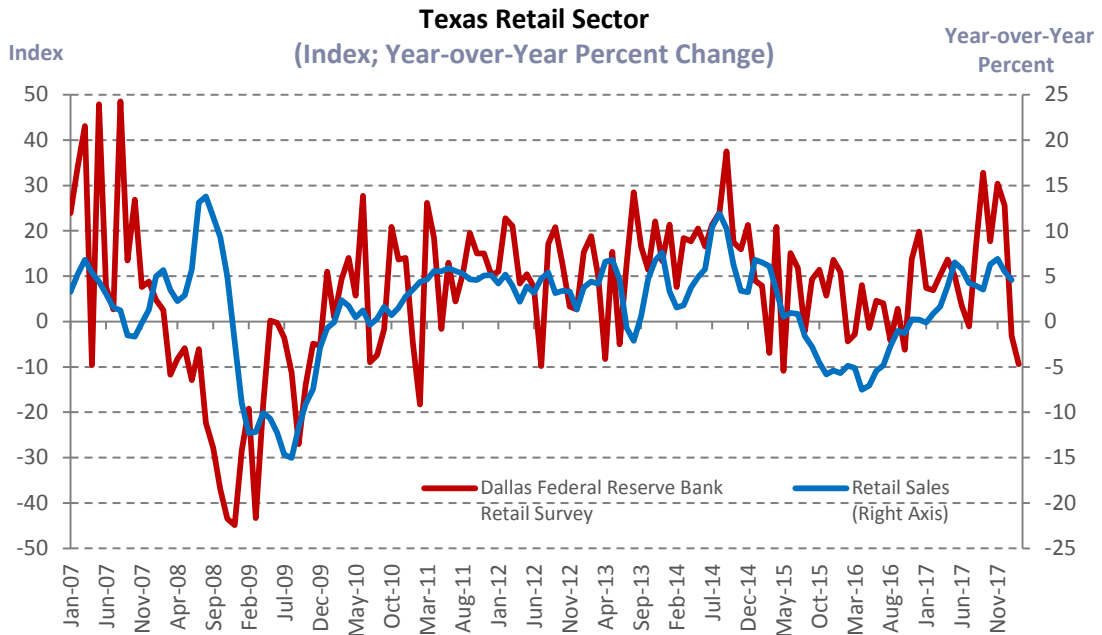
Manufacturing

Manufacturing Outlook Survey (Index)



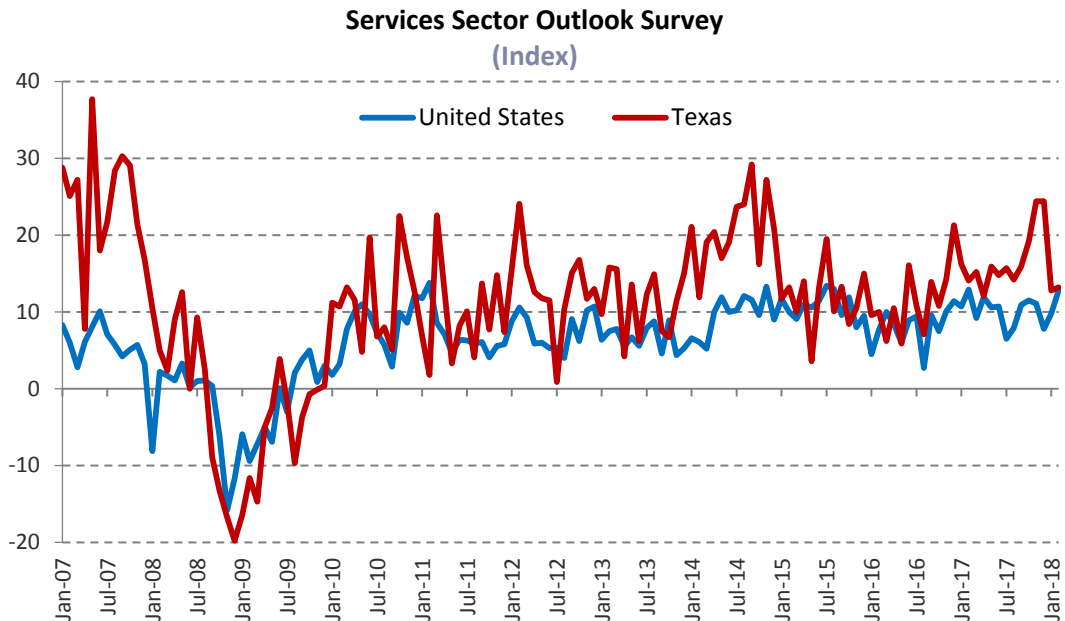
Note: Seasonally adjusted. For more information, see [Manufacturing Outlook Survey](#).
 Sources: Federal Reserve Bank of Dallas and Institute for Supply Management. United States index is adjusted -50 to be on scale with Texas index

Services



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



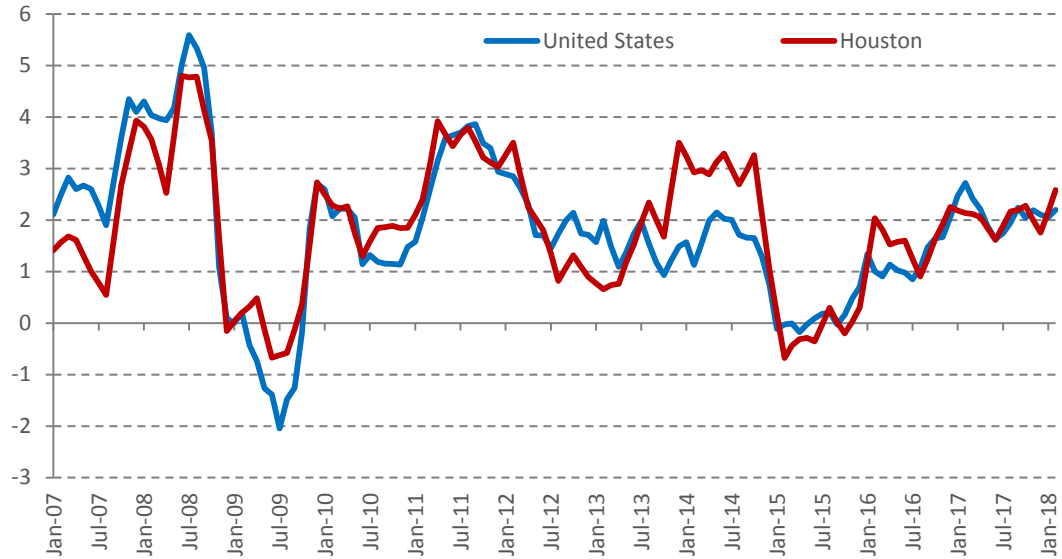
Note: Seasonally adjusted. For more information, see [Services Sector Outlook Survey](#).

Sources: Federal Reserve Bank of Dallas and Institute for Supply Management. United States index is adjusted -50 to be on scale with Texas index.



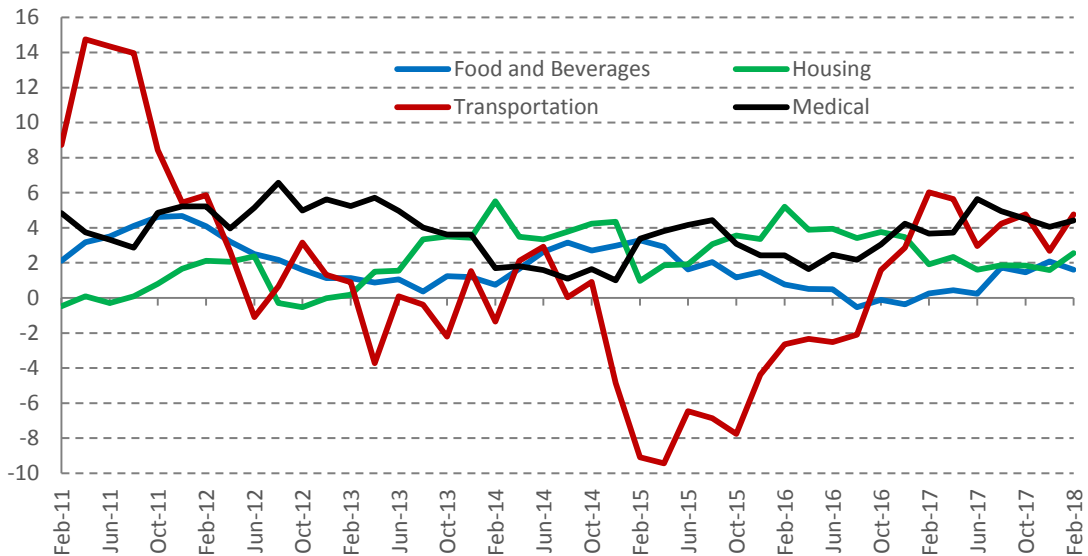
Prices

CPI Inflation Rates
(Year-over-Year Percent Change)



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

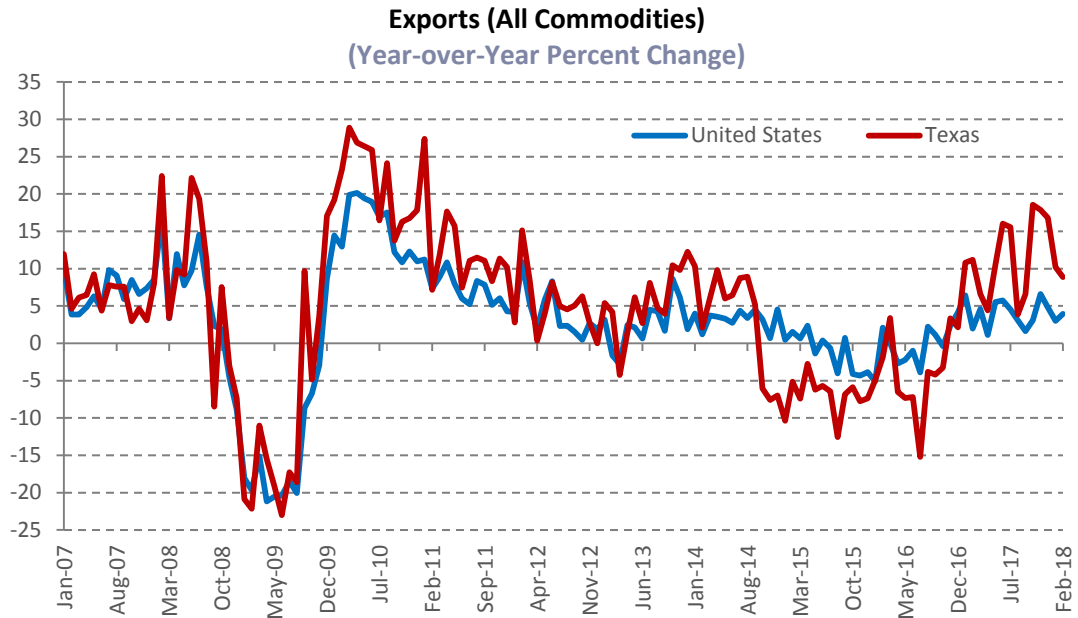
CPI Inflation Rates (Houston Components)
(Year-over-Year Percent Change)



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



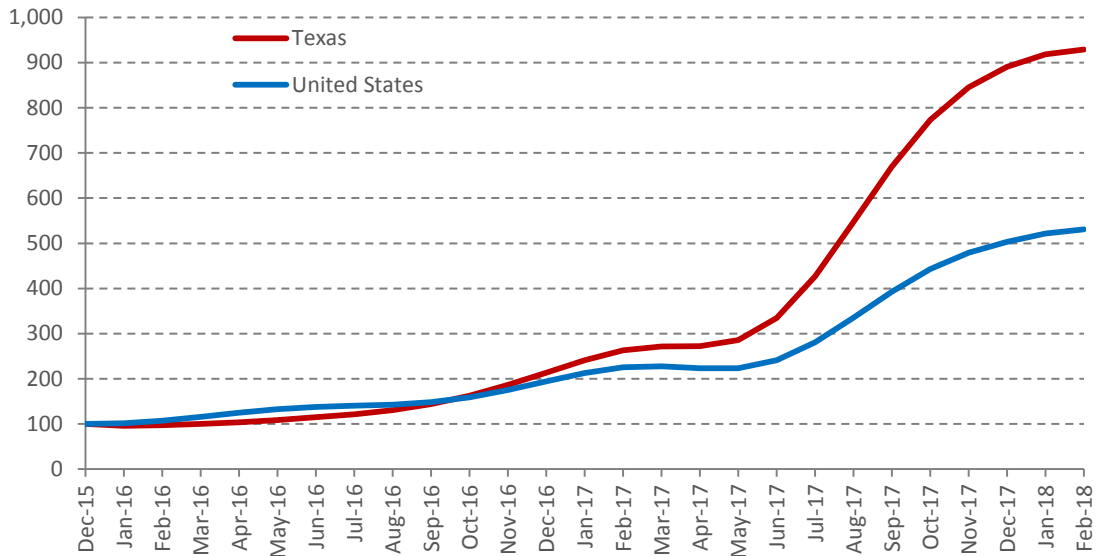
Note: Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see [Exports](#).
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau



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



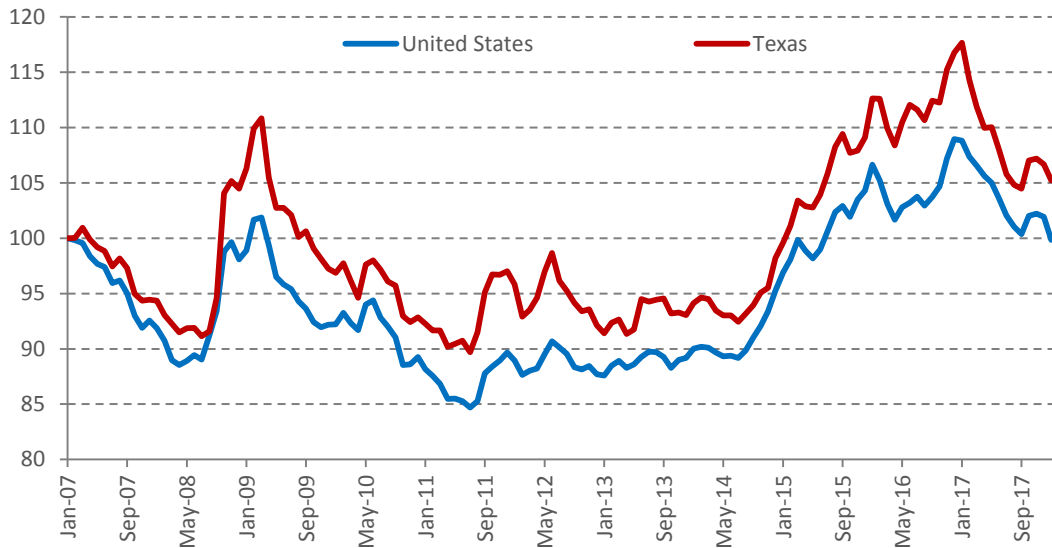
Crude Oil Exports
(Index Dec 2015 = 100)



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 Jan 2007 = 100)

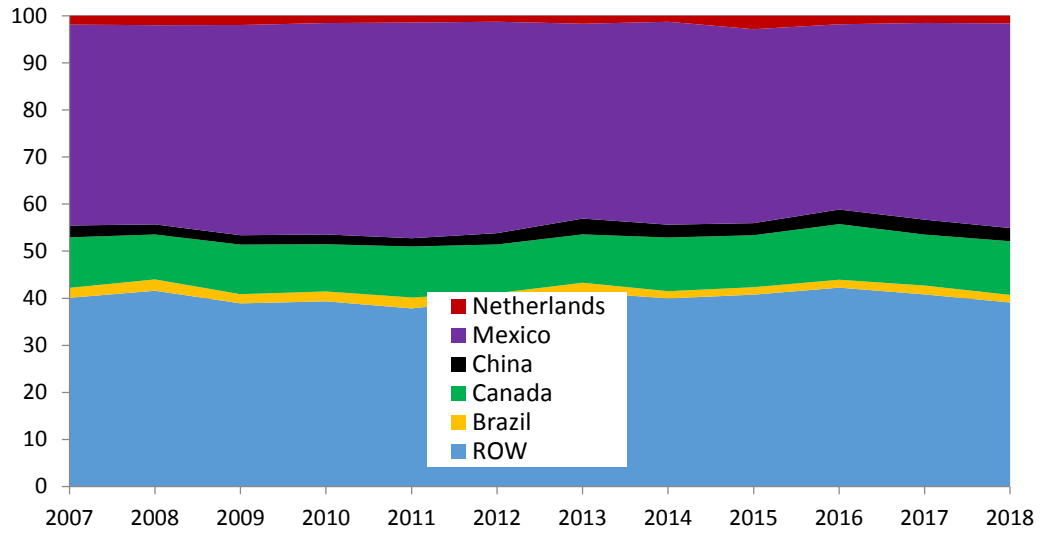


Note: For more information, see [Real Trade Weighted Value of U.S. Dollar](#).

Sources: Federal Reserve Bank of Dallas and Federal Reserve Bank of St. Louis



Texas Exports by Country (Percent)



Note: For more information, see [Exports](#).

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



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