Outlook for the Texas Economy

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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

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Summary¹

Economic activity was hit hard in April during a statewide stay-at-home mandate implemented to mitigate the spread of the coronavirus. Employment registered its steepest decline in series history, while joblessness skyrocketed to 12.8 percent. Jobs at food/drinking places fell by 421,200 alone. Continued unemployment insurance claims and weekly initial claims, however, suggest overall hiring resumed in May. Business activity worsened, but survey data revealed three-fourths of the pandemic-related layoffs are believed to be temporary. As oil demand and prices sank to critically low levels, export values plummeted by more than 25 percent. Retail sales decreased less than expected, but housing sales declined 17.6 percent during heightened economic uncertainty. The Real Estate Center’s Texas weekly leading economic activity index indicated modest labor market improvements in May.

Labor market woes due to coronavirus-related uncertainty halted economic activity as the Dallas Fed’s Texas Business-Cycle Index plunged 41 percent on a seasonally adjusted annualized rate (SAAR). The Austin and San Antonio indices plummeted more than 47 percent SAAR, while Fort Worth’s metric fell 46.4 percent. Dallas and Houston fared slightly better than the statewide average, but their indexes still decreased 34.9 and 37.0 percent, respectively.

The Texas Leading Economic Index (a measure of future directional changes in the business cycle) slid to its lowest level since the Great Recession as new unemployment claims, national data, and the real oil price dragged on the index. The Texas Consumer Confidence Index dropped 33 points to its lowest reading since 2013.

Decreased confidence spilled into the bond market, pulling interest rates down in April. Both the ten-year U.S. Treasury bond yield and the Federal Home Loan Mortgage Corporation’s 30-year

¹ All measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.
fixed-rate dropped to their lowest readings on record at 0.7 and 3.3 percent, respectively. Despite the former reaching a series low, mortgage applications for home purchases decreased for the third straight month to plummet 28.5 percent YTD amid coronavirus-related disruptions to the housing market and stricter lending standards. Applications to refinance home loans fell 13.2 percent in April but maintained positive YTD growth after doubling since year end in the first quarter. However, application volumes are expected to recover in the coming months, assuming housing demand remains stable.

Total Texas housing sales declined 17.6 percent amid economic uncertainty surrounding the COVID-19 pandemic. Meanwhile, contemporaneous and anticipated construction activity continued to fall. The Texas Residential Construction Cycle (Coincident) Index, which measures current construction levels, sank to its lowest reading since 2017 as industry employment plummeted. Decreased building permits and housing starts offset falling interest rates, pulling the Residential Construction Leading Index down to levels around those last seen in January 2007. (For additional housing commentary and statistics, see Texas Housing Insight at recenter.tamu.edu.)

The West Texas intermediate (WTI) crude oil spot price nearly halved during April to $16 per barrel, averaging a few dollars above the series’ all-time low recorded in 1998. The plummet was largely due to storage capacity concerns despite an OPEC agreement to cut production by 9.7 million barrels per day, corresponding to about 10 percent of the global supply. An extended period of time with prices this low will financially strain many Texas oil and gas companies, as the commonly considered break-even price is about $50 per barrel. Texas’ active rig count fell to 282 after crude oil production inched up to 5.4 million barrels per day in March. Output will likely be suppressed in the second quarter as global demand expectations remain subdued. On the natural gas front, the Henry Hub spot price ticked down to $1.82 per million British Thermal Units (BTU) as demand softened due to warmer-than-average weather in April, but decreased production kept prices from falling further. Anticipated second-quarter declines in natural gas production in the Appalachian and Permian regions, however, should sustain prices for the rest of the year.

Texas’ nonfarm employment contracted by a record 1.3 million jobs in April as many businesses laid off employees during the statewide stay-at-home mandate. The Dallas Fed projects employment will decline 11.7 percent annually, ending 2020 with 11.4 million workers. Currently, there are 11.6 million Texans employed. Widespread job losses pushed the unemployment rate to a series high of 12.8 percent. Austin was the only major metro with joblessness less than the statewide average, posting 12.6 percent. North Texas recorded unemployment rates of 13.0 and 13.5 percent in Dallas and Fort Worth, respectively, while San Antonio’s metric was slightly higher at 13.6 percent. With a greater proportion of energy-related jobs than the other major Metropolitan Statistical Areas (MSAs), Houston joblessness reached 14.6 percent. Continued unemployment insurance claims skyrocketed to an all-time high of 957,500 in April but hovered below the 1.4 million terminated jobs since February, suggesting some Texans are being rehired since first claiming unemployment insurance. On the other hand, the state’s labor force

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2 The release of crude oil production typically lags the Outlook for the Texas Economy by one month.
Participation sank to its lowest level in series history (starting in 1976) at 58.3 percent. Lower labor force participation may impact the unemployment rate; people who are not in the labor force cannot be counted as unemployed. Currently, job search requirements to receive unemployment benefits have been relaxed due to the extenuating circumstances during the pandemic, allowing Texans to exit the labor force but still receive unemployment benefits. The table summarizes changes in the labor force across Texas’ major MSAs. All but Austin’s labor force decreased by less than the statewide average in terms of percentage change.

<table>
<thead>
<tr>
<th>Civilian Labor Force (Thousands)</th>
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<tbody>
<tr>
<td>March 2020</td>
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<td>April 2020</td>
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Note: Seasonally adjusted. Source: Bureau of Labor Statistics/Haver Analytics

Texas’ real private hourly earnings rose 4.9 percent year over year (YOY). Compositional changes in the state’s workforce may explain some of the increase, as many of the layoffs were comprised of lower-paying jobs, which would push the average wage up. Austin, the highest-paying metro with average nominal wages of $30.63 per hour, recorded a 4.7 percent rise in real earnings. North Texas posted inflation-adjusted wage growth above the statewide average, climbing 5.9 percent in Dallas ($30.58) and 9.8 percent in Fort Worth ($27.73). Houston ($28.42) and San Antonio ($25.11) earnings, however, increased just 2.1 and 2.7 percent, respectively, after accounting for inflation.

Employment in each of Texas’ major metros registered about a double-digit percent decrease with nearly every subsector contracting. Although leisure/hospitality suffered the most layoffs in every region, Central Texas leisure/hospitality employment fared the worst, with the sector contributing half of the total 123,900 and 107,900 job losses in Austin and San Antonio, respectively. Education/health services was second in the number of positions shed in every major locale except for Dallas, contracting by 20,800 in Austin and 15,000 in San Antonio. Fort Worth’s education/health services contracted by 19,000 jobs, and leisure/hospitality by 51,000. The western metropolitan division posted the largest YTD percentage decrease in total employment in the Urban Triangle, falling 11.5 percent after losing 119,500 positions. Houston employment fell by 317,400 with leisure/hospitality constituting a third of the losses. Following an 800-job downward revision to the March mining/logging increase, the sector recorded its largest decline on record, contracting by 8,300 in April as oil prices plummeted to critically low levels. Only 67,100 Houstonians were employed in the industry, the least amount since 2004. However, even if oil prices remain below $40 per barrel, the rate of decline should slow since there was only a partial recovery from the 2015-16 oil bust and recent job losses have depleted the oil industry’s labor force. In Dallas, leisure/hospitality shed nearly 100,000 positions while professional/business services laid off an additional 49,000 employees.
Texas’ goods-producing employment decreased by 131,100 jobs, or 6.8 percent. Mining/logging cut 24,300 positions, falling by more than 10 percent. Manufacturing declined by only 4.9 percent after laying off 26,800 and 17,500 durable-and-nondurable goods manufacturing employees, respectively. The loss of so many nondurable goods factory jobs, which tend to pay less than their counterpart, may have contributed to average hourly manufacturing earnings increasing from the previous month and soaring 6.6 percent YOY in real terms. In North Texas, Dallas and Fort Worth wages increased 5.2 and 4.3 percent, respectively, after adjusting for inflation. On the other hand, Houston and San Antonio industry earnings extended year-long slides. The Dallas Fed’s Manufacturing Outlook Survey corroborated worsening employment trends as the hours worked index registered a steeper decline, and the job metric remained negative. Contrary to the data, more survey participants reported wages decreased rather than increased; the disparity may be due to the fact that respondents communicate movements in overall earnings, not the average. The production, capacity utilization, and new orders indexes indicated even gloomier conditions than in March. Outlook uncertainty eased slightly as most stay-at-home orders expired but remained at elevated levels.

The construction sector shed 62,500 positions for a 7.9 percent decline. After falling for ten consecutive months, the average hourly wage flattened YOY after accounting for inflation. Total construction values dropped 13 percent in April with most of the drawback in the residential sector. Single-family construction decreased in all four major metros, offsetting minor increases in Houston and DFW apartment activity. Nevertheless, multifamily values, trended downward in the Texas Urban Triangle except for in San Antonio. On the nonresidential side, San Antonio’s warehouse and office/bank building sectors posted increased activity, but DFW pulled overall values down with decreases in stores/restaurants and hotels/motels construction. School building activity in the Metroplex, however, continued to climb.

Service-providing jobs plummeted by 1.2 million, a tenth of the industry’s employees. Losses were widespread, but food services/drinking places were hit hardest, shedding 421,200 positions alone. Administrative/support services employment was reduced by 99,600 while ambulatory health care services contracted by 87,200. Although additional layoffs are not out of the question until the economy is completely reopened and a vaccine is available, April is expected to contain the worst of the job cuts. Nearly 40 percent of the Dallas Fed’s Service Sector Outlook Survey respondents reported decreased full-time and part-time employment, while more than half noted a decline in hours worked. As selling prices and revenue continued to drop, cutting into profits, the general business activity index fell to a record low. Perceptions of future conditions improved slightly but remained in negative territory.

Texas retail jobs dropped by 117,800 with nearly half of the losses in the clothing/clothing accessories industry. Only grocery stores registered an increase in employment, adding 5,900 new hires. During the statewide stay-at-home order, inflation-adjusted retail sales sank 1.9 percent YOY and contracted for the third consecutive month. The Dallas Fed’s Retail Outlook Survey corroborated the weakening labor market conditions with the employment, hours worked, and wages/benefits indices decreasing. Outlook uncertainty remained heightened, but similar to the service-sector survey, survey participants expect less dismal future activity.
Participants of all three of the Dallas Fed’s Business Outlook Surveys were asked special questions regarding COVID-19 impacts during April; the results of these questions were combined. According to the survey, production/revenue/sales and demand for products/services were the most negatively affected by the pandemic, with about four-fifths of the respondents reporting a decline. Nearly half of the participants noted a decrease in employment, but three-quarters of those reporting a negative effect believe the impact to be temporary. More than half of the survey respondents expect demand for their firm’s products/services to return to typical levels within six months once shelter-in-place and social distancing mandates are lifted. Only 15 percent estimate it might take longer than a year.

The U.S. Consumer Price Index (CPI) flattened relative to a year ago as the low oil-price environment reduced transportation costs 9.4 percent annually. Core inflation fared better, increasing 1.4 percent YOY but still recorded its smallest increase in nine years. Houston’s CPI fell 1.3 percent with plummeting local transportation prices the main reason for the overall decrease.

After a double-digit percent hike in the Texas trade-weighted value of the dollar the previous month3, Texas’ real commodity exports fell 26.5 percent. Manufacturing exports declined 21.7 percent in real terms, sinking to a ten-year low as petroleum/coal products and transportation equipment shipments dropped. Meanwhile, April crude oil exports plunged to half the value of the prior month.

Exports to Mexico and Canada each decreased by more than a third, pulling their combined share of exports received to an all-time low of less than 36 percent. Much of the decline was comprised of energy-related and transportation equipment exports to both countries. The United States-Mexico-Canada Agreement, effective July 1, 2020, should reaffirm trade relationships between the involved nations, but commitments may be difficult to fulfill because of coronavirus disruptions. On the other hand, outgoing shipments to China rose 10 percent in April led by chemicals and machinery. Additionally, purchases of Texas agricultural products increased for the third straight month. The global COVID-19 pandemic, however, may make meeting purchases targets more difficult than expected when the phase-one U.S.-China trade deal was negotiated.

With critically low oil prices and a month-long, statewide stay-at-home mandate in place, April is likely to contain the worst of the economic decline in percentage terms, barring another lockdown period. A glimpse of possible employment outcomes can be seen when analyzing weekly initial unemployment insurance claims, which are more timely than monthly data. Graph 1 shows that beginning in May and continuing through the first week of June, Texas’ seasonally adjusted initial unemployment claims dropped each week, although levels still remained abnormally high. Metropolitan data (Graph 2) lag a week behind the statewide release but also showed initial claims decelerating. Taking into consideration weekly initial claims and continued claims, the Real Estate Center estimates the Lone Star State’s unemployment rate could fall 0.4 percentage points to around 12.4 percent in May, while the labor force could potentially gain 647,000 Texans.

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3 The release of the Texas trade-weighted value of the dollar data typically lags the Outlook for the Texas Economy by one month.
The Center created a Texas weekly leading economic activity index to predict turning points in Texas employment. (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 plateaued during the last week of May after registering a strong improvement during the previous three weeks, signaling only modest economic improvements going forward (Graph 3). Based on both the Texas weekly leading index and national employment, which increased 1.9 percent relative to April, Texas nonfarm employment could increase 1.5 percent in May. If so, the Texas economy could recover around 174,000 of the 1.39 million jobs lost in March and April. Nonetheless, many analysts expect employment will make only a partial recovery until the spread of COVID-19 is contained, and the economy is able to reopen completely.

Graph 1. Texas Weekly Initial Unemployment Claims

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
Graph 2. Major Metro Weekly Initial Unemployment Claims

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

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

Note: Seasonally adjusted.
Source: Real Estate Center at Texas A&M University
Note: Seasonally adjusted. For more information, see Texas Business Cycle Index.
Source: Federal Reserve Bank of Dallas
Note: Trend-cycle Component.
Source: Conference Board
30-Year Mortgage Rate and Ten-Year Bond Yield
(Percent)

Note: Nonseasonally adjusted.
Sources: Federal Home Loan Mortgage Corporation and Federal Reserve Board

Texas Mortgage Applications
(Year-over-Year Percentage Change)

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.

Texas Residential Construction Index
(Index Jan 2000 = 100)

Note: Trend-cycle component.
Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas.
Note: Trend-cycle component. For more information, see [Crude Oil and Natural Gas Prices](#). Source: U.S. Energy Information Administration received from Thomson Reuters.

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

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

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

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

Notes: Inflation adjusted, seasonally adjusted. April 2020 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
**Notes:** Inflation adjusted, seasonally adjusted. April 2020 is preliminary. For more information, see Total Private Employee Hourly Earnings. Source: Bureau of Labor Statistics

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Notes: Inflation adjusted, seasonally adjusted. April 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, 3-month moving average. April 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. April 2020 is preliminary. For more information, see Total Private Employee Hourly Earnings.

Source: Bureau of Labor Statistics

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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 -50 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 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
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: 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

Crude Oil Exports
(Year-over-Year Percentage Change)

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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