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 measurements are calculated annually, 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 February 6, 2019

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2018 Annual Summary

The Texas economy accelerated in 2018 in the midst of one of the longest expansionary cycles in recent history. Activity and production strengthened in a multitude of industries. Record highs were reached in crude oil production, single-family housing starts, commodity exports, and multiple employment categories. Labor force participation increased, and the unemployment rate sank to a 40-year low. Texas’ economic expansion is poised to continue through 2019, but potential headwinds are building. Downward pressure on oil prices (augmented by a slowing global economy, the trade war with China, and higher interest rates), presents the greatest economic challenge on the horizon.

Texas’ economic expansion continued as the Dallas Fed’s Business-Cycle Index (a measure of current economic activity in the state) rose 4.3 percent, on par with its post-recession average. The healthy labor market and economy supported growth across the major metros. Austin led the way with 6.6 percent annual growth amid ultra-low unemployment levels. Activity accelerated by 4 percent in both Dallas and Houston while reaching 3.8 percent growth in Fort Worth. San Antonio’s economy moved forward but at a slower rate as annual growth ticked down to 2.8 percent—the lowest level since 2010.

The state’s long-term outlook remained positive as the Texas Leading Economic Index (a measure of future directional changes in the business cycle) rose 2.6 percent annually. Economic activity, however, is expected to decelerate in 2019 amid lower oil prices and waning momentum in the global economy. Texans remained optimistic as the Consumer Confidence Index reached record highs, jumping 8 percent relative to 2017.

Rising interest rates weighed on housing demand throughout most of the year. The ten-year U.S. Treasury bond yield averaged 2.9 percent, its highest annual value since 2010, as financial markets juggled the combination of a strong U.S. economy but slower growth in Europe and China. The Federal Home Loan Mortgage Corporation’s 30-year fixed-rate ticked up similarly above 4.5 percent. Higher interest rates disproportionately affected refinance mortgage applications in Texas, which declined nearly 40 percent over the year. Mortgage applications for purchases, however, increased nearly 10 percent relative to 2017.

A record 343,833 Texas homes sold through Multiple Listing Services in 2018, but the annual rate of increase slowed from 4.1 to 1.7 percent. Current building activity, measured by the Residential Construction Cycle (Coincident) Index, accelerated 7.2 percent annually as industry employment and wages elevated. Momentum, however, moderated toward the end of the year. This balancing may continue into 2019, as indicated by the Texas Residential Construction Leading Index. Rising interest rates and a slowdown in the multifamily sector may weigh on the 2019 outlook, but overall market fundamentals remain solid. (For additional housing commentary and statistics, see Texas Housing Insight at recenter.tamu.edu.)

1 All measurements are calculated annually, unless stated otherwise.
The **West Texas intermediate crude oil spot price** averaged just shy of $65 per barrel in 2018 but lost steam to close the year. Rising crude inventories and concerns of global economic health weighed on prices for much of the fourth quarter. Texas’ crude oil production surpassed record highs above 4.8 million barrels per day in November and accounted for approximately 40 percent of national output. The number of active rigs balanced above 500 for most of the year but remained significantly below the 2012 peak. A colder-than-average winter boosted the **Henry Hub natural gas spot price** up to $3.17 per million British thermal units with larger increases capped by surging supply out of West Texas.

Texas added a record 352,825 nonfarm jobs in 2018, growing a full percentage point faster than the national rate. The Real Estate Center’s **2019 Texas Housing & Economic Outlook**, however, projects growth to decelerate due to lower oil prices. Texas’ **labor force participation rate** ticked up to 64 percent as improved employment prospects drew individuals back to work, still well below the nearly 70 percent rate observed in the 1990s. **Initial unemployment insurance claims** sank 21.7 percent to a 40-year low, while the statewide **unemployment rate** fell below 4 percent. The labor market tightened even more in the major metros. Unemployment in Austin and San Antonio dropped to 2.9 and 3.3 percent, respectively. North Texas was not far behind at 3.5 percent. Houston was the exception with 4.3 percent unemployment but experienced a sharp drop from 5 percent in 2017.

**Real private hourly earnings** balanced around the four-year average as inflation offset nominal gains. Houston wages dipped for the third consecutive year despite steady hiring in the goods-producing sector. North Texas and San Antonio wages took a hit early in the year but recovered most of the losses by December. Austin paid the highest nominal wages at about $30 an hour and posted positive growth in real terms for the sixth consecutive year. A steady influx of high skilled immigrants (both foreign and domestic) bolstered Austin’s earnings environment despite increased inflationary pressure.

Houston created 95,600 new positions in 2018, overtaking Dallas as the statewide leader for the first time since 2014. The construction, trade, and professional/business services industries boomed through most of the year. Dallas hiring held steady with 84,100 jobs created, 79 percent of which occurred in the service-providing sector. Austin’s expansion in trade/transportation and professional/business services accounted for half of the metro’s 36,500 new jobs, maintaining annual employment growth above 3 percent for the eighth consecutive year. Hiring was more modest in Fort Worth at 25,700 added positions, largely in leisure and hospitality. On the other hand, San Antonio’s service sector stalled early in the year, pulling the annual employment increase down to just 16,000 jobs, the lowest level since 2010.

Statewide, the goods-producing sector added a record high 103,700 jobs. Mining and manufacturing rebounded after three years of stunted growth. Manufacturers added 26,600 jobs, most of which occurred in Houston and North Texas. Hourly earnings in the industry, however, remained stagnant in the primary manufacturing metros. San Antonio was the outlier where real earnings jumped 30 percent since 2015 but remained well below the other metropolitan areas.
Weak earnings data contrasted with the Dallas Fed’s Manufacturing Outlook Survey, which showed higher wage bills throughout the year. Constant increases in the price of raw materials also placed additional pressure on profit margins. Indicators for production, capacity utilization, and new orders indicated a positive outlook, but the ongoing trade war with China, higher interest rates, and slower global economic growth topped the list of concerns.

Texas’ construction industry posted a banner year with 44,300 new jobs, but momentum tapered to more normal levels in the fourth quarter. The total value of construction flattened at $60.6 trillion as the commercial sector pulled back after multiple years of strong growth. Every nonresidential subsector corrected in nominal terms, with significant declines in retail as e-commerce continues to chip away at brick-and-mortar businesses. Residential construction values, however, rebounded to pre-recessionary levels. Multifamily investment poured into the major metros in the first quarter, but a stream of single-family activity carried the momentum through year end. The spike in activity pushed real hourly construction earnings up 5.5 percent (surpassing $28 per hour in nominal terms). Rising wages and input costs contributed to builders’ difficulty to satisfy demand, pushing prices higher and affordability downward.

The service-providing sector increased 2.4 percent, generating 249,200 jobs statewide. Every subsector, except information services, expanded. Trade/transportation/utilities and professional/business services accounted for more than half of the annual increase. Wholesale trade, specifically, added a record 25,700 jobs following a three-year stagnation.

The Dallas Fed’s Service Sector Outlook Survey corroborated employment growth throughout the year, but momentum subsided in the fourth quarter. Higher costs and increased uncertainty hindered additional hiring, but the healthy economy supported revenues. Swings in inflation expectations and in financial markets also held back service-sector expansions.

The U.S. Consumer Price Index (CPI) hovered above the Federal Reserve’s 2 percent YOY benchmark in every month but December, when it dipped due to lower oil and gasoline prices. Core inflation, however, held firm above the target rate. The Houston CPI trended upward in the fourth quarter, surpassing 2.2 percent YOY growth. Local prices increased primarily due to housing and medical care costs.

The Texas trade-weighted value of the dollar climbed steadily throughout 2018, settling at a 30-year high. Despite currency fluctuations and trade tensions with China, Texas goods and services remained attractive to foreign consumers. Texas’ commodity exports through November broke annual records in both real and nominal terms. Manufacturing exports, led by petroleum products and transportation equipment, flourished through most of the year. Crude oil exports surged for the second straight year and should continue to elevate as pipeline capacity expands in fall 2019.

Texas’ largest trade partners capitalized on the U.S.-China trade spat as domestic producers shifted sales to familiar markets. The completed trade renegotiation between the U.S., Mexico, and Canada reaffirmed North America’s stability and competitiveness in global markets. Smaller trade partners such as Japan and the Netherlands also increased economic connections with Texas.
producers. But the long-run impact of the dispute with China may affect more than a redistribution of trade partners. China is the world’s second-largest economy, and a downturn in East Asia would reverberate through global markets, including Texas’ growing trade industry.
Economic Activity

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

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

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
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: Annual average.
Sources: Federal Home Loan Mortgage Corporation and Federal Reserve Board
Housing

Note: Annual aum. 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. December data for the United States are forecasted due to the government shutdown.
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. November and December data for the Texas Leading Index are unavailable due to the government shutdown.
Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas

Note: Real value. Annual Sum.
Source: Dodge Analytics
Energy

Crude Oil and Natural Gas Prices

Note: Annual average.
For more information, see Crude Oil and Natural Gas Prices.
Source: U.S. Energy Information Administration received from Thomson Reuters
Note: Annual average. 
For more information, see Texas Production of Crude Oil and Rig Count. 
Sources: Baker Hughes and U.S. Energy Information Administration

Employment

Note: Annual average. December 2018 is preliminary. 
For more information, see Employment Growth Rate. 
Source: Bureau of Labor Statistics
Employment Growth Rate
(Annual Percentage Change)

Note: Annual average. December 2018 is preliminary. For more information, see Employment Growth Rate. Source: Bureau of Labor Statistics.

Major Metros Employment Growth Rate
(Annual Percentage Change)

Note: Annual average. December 2018 is preliminary. For more information, see Employment Growth Rate. Source: Bureau of Labor Statistics.
Note: Annual. December 2018 is preliminary. For more information, see Unemployment Rate.
Source: Bureau of Labor Statistics
Note: Annual average. For more information, see Unemployment Insurance Claims: Initial Applications.
Source: Department of Labor

Note: Annual. For more information, see Unemployment Rate.
Source: Bureau of Labor Statistics
Manufacturing Employment
(Annual Percentage Change)

United States
Texas

Note: Annual. December 2018 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics

Major Metros Manufacturing Employment
(Annual Percentage Change)

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

Note: Annual. December 2018 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics
Notes: Inflation adjusted. Annual average. December 2018 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Notes: Inflation adjusted. Annual average. December 2018 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics

Manufacturing Employee Hourly Earnings
(Annual Percentage Change)

Notes: Inflation adjusted. Annual Average. December 2018 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
Notes: Inflation adjusted. Annual average. December 2018 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistic

Notes: Inflation adjusted. Annual average. December 2018 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
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.
Prices

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

United States
Houston

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

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

Food and Beverages
Housing
Transportation
Medical

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. December data are unavailable due to government shutdown. 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. December data are unavailable due to government shutdown. 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. December data are unavailable due to government shutdown. For more information, see Crude Oil Exports.
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau

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

Note: For more information, see Real Trade Weighted Value of U.S. Dollar.
Sources: Federal Reserve Bank of Dallas and Federal Reserve Bank of St. Louis
Note: Trend-Cycle Component. December data are unavailable due to government shutdown. For more information, see Exports.
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau
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