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, and Paige Silva
Summary

Texas’ economic expansion persisted after leading the nation in GDP growth in the second quarter. Hourly earnings failed to make positive headway after adjusting for inflation, but unemployment rates hovered at historical lows as hiring continued, albeit at a slower pace. Housing sales paused in September after record-breaking levels to start the quarter; residential construction, however, picked up after a period of stagnation as short-term interest rates trended downward. Survey data regarding manufacturing and service sector conditions confirmed prevailing uncertainty, but business activity remained stable. Energy prices remained low but posted mild gains despite record-breaking production and lowered expectations of global demand in 2020. Increased trade and political tensions, however, may hinder overall activity in the last quarter of 2019.

Recently released second quarter GDP data for Texas revealed a deceleration from the start of the year but still solid growth at 4.7 percent on a seasonally adjusted annualized rate (SAAR). Energy-related activities accounted for most of Texas’ gains, followed by professional, scientific, and technical services. Wholesale trade was the largest deterrent to growth for both the state and national economies amid the ongoing dispute with China.

Steady growth into the third quarter held the Dallas Fed’s Texas Business-Cycle Index at 4.6 percent SAAR in September. The index remained strong in Austin and Dallas at 6.4 and 5.6 percent growth, respectively. San Antonio’s metric accelerated 3.6 percent as unemployment inched down, while employment growth exceeded the metro’s post-recession average for the fourth consecutive month. On the other hand, Fort Worth’s and Houston’s indices slowed to 2.9 and 3.9 percent, respectively, amid a slowdown in hiring.

The Texas Leading Economic Index (a measure of future directional changes in the business cycle), decreased for the second straight month, suggesting moderate growth moving forward. Declining manufacturing average weekly hours and an increase in the Texas value of the dollar outweighed improvement in oil prices and the national leading index. The Texas Consumer Confidence Index fell after three consecutive monthly gains following heightened political uncertainty and additional tariffs.

Better than expected U.S. economic data and a slightly optimistic outlook on U.S.-China trade talks, however, slowed the downward slide in interest rates. Although long-term rates remained lower

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1 All measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.
than those for short-term instruments, current economic fundamentals at the state and national level are healthy and stable. Short-term interest rates could fall further following the Federal Reserve’s third rate cut of the year in October. The ten-year U.S. Treasury bond yield inched up to 1.7 percent after falling to a three-year low of 1.6 percent in August. The Federal Home Loan Mortgage Corporation’s 30-year fixed-rate flattened at 3.6 percent. Texans capitalized on lower rates, pushing mortgage applications for home purchases up 28.3 percent year to date (YTD). Refinance mortgage applications, which are more sensitive to interest rate fluctuations, have more than doubled since year end.

Texas housing sales decreased 2 percent in September from August after hovering around record levels the previous two months. The Texas Residential Construction Cycle (Coincident) Index, which measures current construction activity, ticked up with industry labor market improvements. The Residential Construction Leading Index rose to its highest level since the Great Recession amid falling interest rates and upward-trending building permits and housing starts. This suggests higher levels of construction in the coming months. (For additional housing commentary and statistics, see Texas Housing Insight at recenter.tamu.edu.)

The average West Texas intermediate crude oil spot price rallied above $55 per barrel after attacks on Saudi oil infrastructure. Within the month, however, Saudi Arabia restored production to pre-attack levels, calming output concerns and preventing a prolonged price spike. Disruptions in the Middle East are less likely to affect global prices in the long-term due to stable American output. Texas crude oil production neared 5.2 million barrels per day in August although the active rig count fell to 426. On the natural gas front, warmer weather led to increased consumption, bumping the Henry Hub spot price up to $2.41 per million British thermal units (BTU) after five straight monthly decreases. In the Permian Basin, the West Texas Waha spot price remained lower than the Henry Hub price but doubled on average compared to August prices. The increase is largely due to the Gulf Coast Express pipeline beginning commercial in-service at the end of September.

Texas’ nonfarm employment growth slowed to 2.6 percent SAAR during the third quarter, resulting in only 49,300 jobs added. The deceleration is unsurprising given the 112,000-job gain last quarter (almost double the post-recession average). Nonetheless, the Dallas Fed’s annual employment growth projection slowed from 2.3 to 2.1 percent. Overall labor market conditions, however, remained strong. The unemployment rate posted 3.4 percent for the fourth consecutive month. On the metropolitan level, joblessness remained at post-recessionary lows. Austin maintained the lowest unemployment rate at 2.6 percent. Unemployment in DFW and Houston stabilized at 3.1 and 3.6 percent, respectively, while San Antonio’s metric fell below 3 percent for the first time in series history. The state’s labor force participation was unchanged at 63.7 percent, even as 23,400 Texans entered the market, pushing the labor force to a record high. Initial unemployment insurance claims flattened at a YTD low of 53,800, corroborating the healthy labor market.

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2 The release of crude oil production typically lags the Outlook for the Texas Economy by one month.
Contrary to tight labor market conditions, Texas’ real private hourly earnings fell year over year (YOY) for the fourth straight month. Nominal wages in North Texas ticked up to $29.62 and $26.74 per hour in Dallas and Fort Worth, respectively, but real earnings flattened YOY. Austin ($29.04) extended a steep decline, erasing inflation-adjusted gains from a two-and-a-half year climb between 2016 and 2018. Houston’s nominal wages increased to $27.88 per hour but contracted 1.3 percent after accounting for inflation. On the bright side, San Antonio’s nominal earnings reached a record-breaking $24.81 per hour while real wages extended a slow, but steady, upward trend.

Dallas contributed to over half of Texas’ payroll expansion, adding 24,900 new jobs in the third quarter. Much of the growth occurred in the mining/logging/construction and financial activities sectors. The GM strike started after the September employment survey and thus did not affect 3Q2019 numbers. San Antonio was the runner-up in terms of number of jobs created, expanding employment by 10,500. Hiring in education/health services accelerated, while leisure/hospitality recovered second-quarter losses. The same industries contributed to a gain of 3,700 positions in Fort Worth, offsetting contractions in retail trade and transportation/utilities. Houston and Austin employment growth decelerated, resulting in a net 5,400 and 200 jobs, respectively. Houston’s education/health and leisure/hospitality sectors dragged the three months ending in September, contributing to the third-quarter slowdown in overall employment growth compared to double-digit average monthly additions in the second quarter. Austin’s primary detractors were education/health services and mining/logging/construction.

Texas’ goods-producing payrolls added 16,500 positions between July and September, 10,000 less than 2Q2019. Austin and Fort Worth accounted for much of the deceleration. Houston’s energy sector struggled, but the metro’s manufacturing employment compensated for the slump. Texas’ manufacturers expanded payrolls by 6,900 jobs, the greatest quarterly increase this year.

Amid ongoing weakness in the national industry data, real hourly manufacturing earnings decreased YOY on a statewide basis for the fifth consecutive month. At the metro level, only Fort Worth real wages registered positive growth. The Dallas Fed’s Manufacturing Outlook Survey corroborated these trends as the employment and hours worked indices accelerated with more than a fourth of respondents reporting increased hiring. Additionally, less survey participants reported rising wages and benefits, supporting earnings data. The company outlook and general business activity indices remained in positive territory for the second straight month. Ongoing trade tensions, however, sustained outlook uncertainty.

Construction employment growth remained solid, increasing by 15,400 jobs in the third quarter. Real hourly construction earnings declined YOY for the eighth straight month, although this may be due to employers hiring more low-skilled workers as the demand for higher-paid tradesmen remains largely unfilled, pulling the average wage down. Third-quarter total construction values stumbled as nonresidential activity fell for the first time in three quarters while residential values followed the opposite pattern, rising after three straight quarterly declines. A slowdown in office building and hospital construction in DFW weighed on nonresidential investment. In the residential sector, single-family construction in Houston picked up after a year-long fall, while San Antonio investment trended up. North Texas was the largest contributor to apartment construction values.
In Texas’ service-providing sector, quarterly employment expanded by 32,800 new positions, the smallest change in two years. Employment growth in 2Q2019, however, exceeded 85,000 jobs, which may explain some sluggishness in the recent months. Retail trade losses were offset by continued strength in education/health services, professional/business services, and financial activities. The Dallas Fed’s Service Sector Outlook Survey indicated a slower hiring environment, which is consistent with the data. Acceleration in the revenue and business activity indices, however, suggested solid service sector conditions. Outlook uncertainty remained prevalent but eased in September.

Decreased gasoline costs weighed on the U.S. Consumer Price Index (CPI), resulting in a 1.7 percent increase YOY. Core inflation, however, surpassed the Fed’s 2 percent benchmark, supported by rising housing and medical costs. The same forces accelerated in DFW, offsetting falling transportation costs to pull the local CPI up 2.2 percent YOY. Excluding volatile food and energy costs, inflation in North Texas climbed nearly 3 percent YOY.

Although the Texas trade-weighted value of the dollar3 inched up for the second straight month, Texas’ real commodity exports rose 1.9 percent quarter over quarter (QOQ) while national exports increased 1.2 percent. More than half of the statewide improvement was due to additional energy shipments to China and Mexico. Manufacturing exports increased 2.5 percent QOQ after adjusting for inflation amid an upward correction in transportation equipment following a 2Q2019 decline. Crude oil exports registered solid 7.2 percent QOQ growth in real terms to reach an all-time high.

Amid an escalation in tariffs, total commodity exports to China fell in September after five straight monthly increases, reducing China’s share of outgoing shipments from 4.9 to 3.8 percent. Two years ago, China received a record 7.9 percent of Texas’ exports. Today, Brazil and South Korea are among the recipients of Texas’ commodities with a greater share than China at 4.4 and 5.6 percent, respectively. Mexico (32.8 percent) and Canada (8.9 percent) remain at the top of the list.

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3 The release of Texas retail sales and trade-weighted value of the dollar data typically lags the Outlook for the Texas Economy by one month.
Gross State Product
(Quarter-over-Quarter Percent Change)

United States  Texas

Note: Seasonally adjusted annualized rate.
Source: Bureau of Economic Analysis

Texas Business Cycle Index and Leading Index
(Index Jan 2007 = 100)

Business Cycle Index  Leading Index (Right Axis)

Note: Seasonally adjusted. For more information, see Texas Business Cycle Index.
Source: Federal Reserve Bank of Dallas
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 10-Year Bond Yield
(Percent)

Note: Seasonally 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
Housing Sales
(Index Jan 2007 = 100)

United States
Texas

Residential Construction Coincident Indicator
(Index Jan 2007 = 100)

TX Coincident Index
US Coincident Index
TX Leading Index

Note: Trend-cycle component. Sales for the United States include all existing homes and new single-family homes; new non-single-family homes are not included. Texas includes all existing and new homes. For more information, see Housing Sales.
Sources: U.S. Census Bureau, National Association of Realtors, and Real Estate Center at Texas A&M University

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

Note: Trend-cycle component. For more information, see Crude Oil and Natural Gas Prices.
Source: U.S. Energy Information Administration received from Thomson Reuters

Texas Production of Crude Oil and Rig Count

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. September 2019 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics

Note: Seasonally adjusted. September 2019 is preliminary. For more information, see Unemployment Rate.
Source: Bureau of Labor Statistics
Major Metros Unemployment Rate
(Percent)

Note: Seasonally adjusted. September 2019 is preliminary. For more information, see Unemployment Rate.
Source: Bureau of Labor Statistics

Labor Force Participation Rate
(Percent)

Note: Seasonally adjusted. For more information, see Unemployment Rate.
Source: Bureau of Labor Statistics
Note: Seasonally adjusted. For more information, see Unemployment Insurance Claims: Initial Applications.
Source: Department of Labor

Notes: Inflation adjusted, seasonally adjusted. September 2019 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
Notes: Inflation adjusted, seasonally adjusted. September 2019 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics

Note: Seasonally adjusted, three-month moving average. September 2019 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics
Note: Seasonally adjusted, three-month moving average. September 2019 is preliminary. For more information, see Employment Growth Rate. Source: Bureau of Labor Statistics.
Notes: Inflation adjusted, seasonally adjusted. September 2019 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. September 2019 is preliminary. For more information, see Employment Growth Rate.

Source: Bureau of Labor Statistics

**Construction Employee Hourly Earnings**

*(Year-over-Year Percent Change)*

Notes: Inflation adjusted, seasonally adjusted. September 2019 is preliminary. For more information, see Total Private Employee Hourly Earnings.

Source: Bureau of Labor Statistics
Note: Inflation adjusted trend-cycle component.
Source: Dodge Analytics

Texas Construction Values
(Index Jan 2007 = 100)

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

Note: Inflation adjusted trend-cycle component.
Source: Dodge Analytics
Services Sector Outlook Survey
(Index)

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

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

Note: Seasonally adjusted. For more information, see CPI Inflation Rates.
Source: Bureau of Labor Statistics
The Dallas-Fort Worth CPI is composed of the following major groups: Food and Beverages, Housing, Apparel, Transportation, Medical Care, Recreation, Education and Communication, and Other Goods and Services. The four major components are included in the graph above.

Source: Bureau of Labor Statistics
Real Trade Weighted Value of U.S. Dollar
(Index Jan 2007 = 100)

Note: For more information, see Real Trade Weighted Value of U.S. Dollar.
Sources: Federal Reserve Bank of Dallas and Federal Reserve Bank of St. Louis

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

Note: Seasonally adjusted. Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see Exports.
Sources: International Trade Administration, Foreign Trade Division, and U.S. Census Bureau
Manufacturing Exports
(Year-over-Year Percent Change)

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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