Outlook for the Texas Economy

LUIS TORRES
RESEARCH ECONOMIST

WESLEY MILLER
RESEARCH ASSOCIATE

PAIGE WOODSON
RESEARCH INTERN

TECHNICAL REPORT

REPORTING SEPTEMBER 2018 DATA
About this Report ................................................................................................................................. 3

September 2018 Summary .................................................................................................................. 4

Economic Activity ................................................................................................................................. 8
   Texas Business Cycle Index and Leading Index ................................................................................. 8
   Major Metros Business Cycle Index ................................................................................................. 8
   Consumer Confidence Index ............................................................................................................. 9

Financial Activity ................................................................................................................................. 9
   30-Year Mortgage Rate and 10-Year Bond Yield .............................................................................. 9
   Texas Mortgage Applications .......................................................................................................... 10

Housing ............................................................................................................................................... 10
   Housing Sales .................................................................................................................................. 10
   Residential Construction Coincident and Leading Indicator ........................................................ 11

Energy ................................................................................................................................................. 11
   Crude Oil and Natural Gas Prices .................................................................................................... 11
   Texas Production of Crude Oil and Rig Count .................................................................................. 12

Employment ....................................................................................................................................... 12
   Labor Force Participation Rate ....................................................................................................... 12
   Unemployment Rate ....................................................................................................................... 13
   Unemployment Insurance Claims: Initial Applications ................................................................. 13
   Major Metros Unemployment Rate ............................................................................................... 14
   Total Private Employee Hourly Earnings ......................................................................................... 14
   Major Metros Total Private Employee Hourly Earnings ................................................................. 15
   Employment Growth Rate .............................................................................................................. 15
   Major Metros Employment Growth Rate ....................................................................................... 16

Manufacturing .................................................................................................................................... 16
   Manufacturing Employment ........................................................................................................... 16
   Major Metros Manufacturing Employment ................................................................................... 17
   Manufacturing Employee Hourly Earnings ..................................................................................... 17
   Major Metros Manufacturing Employee Hourly Earnings .............................................................. 18
   Manufacturing Outlook Survey ........................................................................................................ 18

Construction ....................................................................................................................................... 19
   Texas Construction Values ............................................................................................................. 19
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.

Dr. Luis Torres, Wesley Miller, and Paige Woodson

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September 2018 Summary¹

Texas’ economic expansion continued as higher oil prices led to record-level production despite pipeline bottlenecks in the Permian Basin. Employment at the state level extended its two-year growth spurt, but the rate of increase decelerated as firms grappled with a shortage of workers. Rising inflation chipped away at recent wage gains, but tightness in the labor market could provide additional upward pressure. Third-quarter housing sales decreased as higher interest rates and affordability constraints hindered demand on the lower-end of the market. On the trade front, exports stalled amid the ongoing trade dispute with China and the strong trade-weighted value of the dollar. The recent announcement of the U.S.-Mexico-Canada Trade Agreement, however, resolves significant uncertainty regarding Texas’ largest trade partners.

The Texas economy maintained solid 5.2 percent growth on a seasonally adjusted annualized rate (SAAR) according to the Dallas Fed’s Business-Cycle Index. Historically low unemployment supported growth across the major metros. The Austin and Houston business cycles boomed 7.3 and 6.8 percent, respectively. Despite North Texas’ slowdown in hiring, economic activity remained stable at 4.7 and 3.6 percent growth in Dallas and Fort Worth, respectively. On the other hand, improvements in San Antonio’s labor market pushed the business cycle index above 2 percent for the first time since February.

Extended improvements in the national and state economies pushed the Texas Leading Economic Index (a measure of future directional changes in the business cycle) above 2.5 percent growth YOY, its highest level since May. The Dallas Fed’s 2018 statewide employment forecast, however, ticked down to 2.7 percent amid large fluctuations in hiring over the past few months. Annual growth has averaged 2.1 percent since 1991. The healthy economy and labor market tightness lifted the Texas Consumer Confidence Index up 5.8 points after leveling off in July and August.

The booming national economy pushed interest rates to a seven-year high and should continue to elevate with inflation. The ten-year U.S. Treasury bond yield reached 3 percent for the first time since 2011, while the Federal Home Loan Mortgage Corporation’s 30-year fixed-rate elevated above 4.6 percent. Higher interest rates disproportionately affected refinance mortgage applications in Texas, which declined 34.1 percent since January. Mortgage applications for new-home purchase maintained steady monthly growth around 2 percent.

Texas housing sales fell 2.5 percent in the third quarter despite a record-breaking July. Current residential construction activity, measured by the Residential Construction Cycle (Coincident) Index, reached its highest level since 2008 as construction wages continued to elevate. This momentum, however, may moderate in the fourth quarter as the Texas Residential Construction Leading Index (RCLI) ticked down for the first time this year. Rising interest rates and a slowdown in housing starts weighed on the residential construction outlook, but robust economic growth

¹ All monthly measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.
upheld a sturdy lower bound. (For additional housing commentary and statistics, see Texas Housing Insight at recenter.tamu.edu.)

The average West Texas intermediate crude oil spot price surpassed $70^2 per barrel for the second time this year as investors weighed the impacts of U.S. sanctions on Iran in coming months and a slight drop in domestic stockpiles. Crude oil production capitalized on the price gains, surpassing 4.5 million barrels per day^2,3 in August, the most ever recorded, and accounting for 40 percent of the national total. The number of active rigs, however, declined for the third consecutive month to 509 as pipeline bottlenecks in the Permian Basin hindered drilling activity. The Henry Hub natural gas spot price reached $3 per million BTU^2 (British thermal units) for the first time since January, stretching further from the West Texas Waha hub price, which also suffered from the Permian pipeline constraints.

Texas employment extended its two-year growth spurt, but the rate of increase slowed to 15,600 newly created nonfarm jobs. The three-month total settled at 65,300 additional jobs, down from 105,300 in the second quarter and resulting in a modest revision in the Dallas Fed’s 2018 forecast from 2.8 to 2.7 percent growth. Labor force participation dropped to 63.7 percent, reversing strong gains earlier this year. The unemployment rate sank to 3.8 percent for the first time in series history (beginning in 1975), while initial unemployment insurance claims dropped to a 36-year low below 46,000 despite growth in the labor force. The unemployment rate was even lower in the major Texas metros. Unemployment in Austin held under 3 percent for the third consecutive month, followed by San Antonio at 3.2 percent. North Texas was not far behind with unemployment rates at 4 percent in both Dallas and Fort Worth. Houston maintained the highest rate at 4 percent, but the healthy energy sector continued to improve local labor market prospects.

Real private hourly earnings, however, dropped 0.4 percent amid inflationary pressure. Houston’s 0.5 percent contraction accounted for most of the state’s monthly decline. Earnings in North Texas recovered all of its first-quarter losses, while Austin reached a record level $29.82 per hour (nominally), rising 1.8 percent on the year. San Antonio wages trailed the other major metros but increased 2.3 percent YTD.

Houston led the Texas Urban Triangle in employment growth at 3.2 percent SAAR with solid gains in the goods-producing sector. The MSA added more than 21,000 construction jobs and 11,500 manufacturing jobs this year alone. A slowdown in retail hiring weighed on North Texas’ employment growth. Dallas added 15,600 jobs in the third quarter, while Fort Worth added just 4,800—the fewest quarterly increase in over two years. The transportation sector, which accounts for 9 percent of Fort Worth’s labor force, remained a bright spot with 2,600 new jobs in 3Q18. On the other hand, a rebound in the professional/business services and education/health services sectors led to 4,800 new positions in Austin. San Antonio’s service sector reversed course after lagging all summer, generating positive job growth for the first time since May. The metro

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^2 Nonseasonally adjusted.
^3 The release of Texas crude oil production typically lags the Outlook for the Texas Economy by one month.
generated 1,400 jobs, primarily in leisure/hospitality and retail trade. The professional/business services sector, however, continued to contract, shedding 4,800 jobs this year.

Statewide, the goods-producing sector calmed after reaching historic growth in the second quarter. The manufacturing industry added 4,800 quarterly jobs, most of which occurred in Houston and Dallas. Industry employment stalled in Fort Worth and contracted 5.4 and 3.0 percent SAAR in Austin and San Antonio, respectively. The Central Texas metros shed a total of 2,000 manufacturing jobs over the past three months.

Stagnant wages continued to weigh on Texas’ manufacturing industry. Hourly manufacturing earnings ticked up to $23.66 but remained down 0.6 percent on the year after accounting for inflation. Texas paid $2 above the national average, but that gap is shrinking. In real terms, manufacturing earnings declined in 11 of the past 13 months in both Dallas and Fort Worth. Houston fared slightly better after hurricane-related disruptions dissipated, but YTD growth remained negative. In San Antonio, wages spiked last year but have since leveled off to more typical growth patterns and remained 16 percent below the state average.

Weak earnings data contrast the Dallas Fed’s Manufacturing Outlook Survey, in which a third of respondents increased wages and benefits. A quarter of those surveyed increased hiring and nearly a fifth expanded hours worked. In addition, 45 percent of respondents paid higher prices for raw materials as tariffs cut into the industry’s margins. The future outlook remained positive, but the ongoing trade dispute with China and upcoming midterm elections reduced the recent optimism.

The construction industry added 3,000 jobs, the second fewest since Hurricane Harvey hit last fall. Houston accounted for most of the monthly slowdown after adding 24,100 positions between February and August. The total value of construction fell 8.1 percent on a three-month moving average due to decreased investment in the nonresidential sector. Retail building activity slid to a decade-low as online operations expanded. A decline in Houston hospital construction accounted for most of the monthly downturn following a flood of investment earlier this year. Austin’s hotel construction activity ticked down for the fourth consecutive month, but eight new projects in the pipeline should lift values in coming months. Residential construction values stepped back after a productive summer, but single-family start values trended upward across the state. Real hourly construction earnings recovered last month’s losses, reaching 2.9 percent YTD growth, but remained nearly $2 below the national average.

The service-providing sector added just 7,200 jobs with growth slowing in professional/business services, health care, social assistance, and trade related industries. The public sector, which accounts for 15 percent of Texas’ nonfarm labor force, contracted for the fifth consecutive month with reductions at the county and local levels. The information industry’s decline continued, shedding a total of 4,800 jobs this year and shrinking to 2 percent of the state’s labor market.

The Dallas Fed’s Service Sector Outlook Survey indicated mixed employment trends as a fifth of respondents increased hiring, but momentum stalled in the part-time employment, hours worked, and wages/benefits indices. More than a third of those surveyed reported rising revenue amid the
extended economic expansion. The impact of import tariffs flowed downstream to support activities for the transportation industry, elevating costs and uncertainty, while skilled-labor shortages spanned across the service sector.

The healthy economy held the **U.S. Consumer Price Index (CPI)** at 2.3 percent YOY growth, above the Federal Reserve’s benchmark, but lower used-automobile prices dampened the core inflation rate. Additional tariffs on U.S. imports, however, threaten to push consumer prices higher. In Dallas, decreased home-price appreciation and lower transportation costs pulled the local CPI to a YTD low of 2.4 percent YOY.

The ongoing trade dispute with China stalled **Texas’ total commodity exports**. Contractions in petroleum and computer/electronic products pulled **manufacturing exports** down 0.4 percent. On the other hand, **crude oil exports** reached record levels as trade to Canada accelerated, but barriers to China present downward pressure for the remainder of the year. In addition to evolving trade conditions, currency fluctuations dragged on exports. The **Texas trade-weighted value of the dollar** jumped 14.6 percent YTD in August, reaching its highest level in over a decade and making domestic goods relatively more expensive for our trade partners.

The international composition of Texas trade shifted amid policy changes and global politics. Exchanges with Mexico and Canada flattened since the first quarter, reducing their share of Texas exports to less than 42 percent. Exports to China accounted for only 3.2 percent of the Texas total, falling below shipments to the Netherlands, Japan, South Korea, and Taiwan. The last time trade to China lagged all four of those countries was in February 2002, one month after its accession into the World Trade Organization.

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4 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.
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: Trend-cycle Component.
Source: Conference Board

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

Housing Sales
(Index Jan 2007 = 100)

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
Energy

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

Residential Construction Coincident and Leading Indicator

(Index Jan 2007 = 100)

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

(Number of rigs) (Millions of barrels per day)

- Production of Crude Oil (Right Axis)
- Number of Operating Rigs

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

Employment

Labor Force Participation Rate

(Percent)

United States Texas

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

Note: Seasonally adjusted. September 2018 is preliminary. For more information, see Unemployment Rate.
Source: Bureau of Labor Statistics

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
Major Metros Unemployment Rate
(Percent)

Note: Seasonally adjusted. September 2018 is preliminary. For more information, see Unemployment Rate.
Source: Federal Reserve Bank of St. Louis

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

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

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

Note: Seasonally adjusted, 3-month moving average. September 2018 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics
Note: Seasonally adjusted, 3-month moving average. September 2018 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics

Manufacturing
Note: Seasonally adjusted, 3-month moving average. September 2018 is preliminary. For more information, see Employment Growth Rate. Source: Bureau of Labor Statistics

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

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

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.
Construction

Texas Construction Values
(Index Jan 2007 = 100)

Note: Inflation adjusted trend-cycle component.
Source: Dodge Analytics

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

Note: Inflation adjusted trend-cycle component.
Source: Dodge Analytics
Note: Seasonally adjusted, 3-month moving average. September 2018 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics

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

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

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

Manufacturing Exports
(Year-over-Year Percent Change)

Crude Oil Exports
(Index Dec 2015 = 100)

Note: Inflation adjusted trend-cycle component using the 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)

United States
Texas

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