Outlook for the Texas Economy

LUIS TORRES
RESEARCH ECONOMIST

WESLEY MILLER
RESEARCH ASSOCIATE

PAIGE WOODSON
RESEARCH INTERN

2046
PUBLISHED AUGUST 2018
REPORTING JUNE 2018 DATA
TECHNICAL REPORT

REAL ESTATE CENTER
TEXAS A&M UNIVERSITY

Contents

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

Data current as of August 3, 2018

June 2018 Summary[1]

Texas' economic expansion continued amid increased activity in the goods-producing industries, but rising input costs, resulting from domestic tariffs, could deflate the rate of growth. Employment growth moderated to more sustainable levels after explosive growth to start the year. The improved workforce environment pushed the labor force participation rate to a three-year high. Average earnings remained stagnant but extended to a broader base of workers. Upward inflationary pressure, however, weighed on Texans' purchasing power. Shortages of entry-level homes lifted shelter costs and hindered housing sales despite strong demand. A declining trade environment remains the greatest headwind to the Texas economy, challenging some of the state's most productive industries.

Recently released first quarter **gross domestic product** (GDP) data revealed the Texas economy expanded 2.9 percent on a quarterly seasonally adjusted annualized rate (SAAR), ranking sixth nationally. Energy sector output contributed to nearly a third of the state's growth, followed by solid performance in manufacturing, construction, and trade-related industries. The real estate and professional/business services sectors supported the strong start to the year.

Economic activity accelerated in the second quarter as the **Dallas Fed's Business-Cycle Index** averaged over 5.5 percent SAAR, reaching 2014 levels. Elevated oil prices stimulated the Houston business cycle, pushing growth up 8.9 percent. The growing technology sector lifted Austin's index 6.1 percent. North Texas maintained a more modest expansion at 5.0 and 3.6 percent growth in Dallas and Fort Worth, respectively, while the San Antonio index rose just 2.1 percent amid weak hiring activity.

Due to a surge in the Texas trade-weighted value of the dollar, the **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) decelerated for the second straight month from 4.5 to 3 percent growth year over year (YOY). The slowdown led to downward revisions from 3.2 to 3.0 percent growth in the Dallas Fed's 2018 statewide employment forecast. The **Texas Consumer Confidence Index** ticked up six points as the economic expansion extended to a broader set of workers, but stock market volatility and the impending trade war remained pressing concerns.

Concerns regarding international trade pulled investments into safe assets, offsetting robust economic data and weighing on interest rates after they reached multiyear highs in May. The **ten-year U.S. Treasury bond yield** ticked down 7 basis points to 2.91 percent, despite the Federal Reserve's 25-basis-point increase in the federal funds rate. The **Federal Home Loan Mortgage Corporation's 30-year fixed-rate** balanced below 4.6 percent after an eight-month climb. Despite the recent run, mortgage rates have held historically low since the Great Recession.

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

Pronounced shortages of homes priced below $300,000 pulled **Texas housing sales** down 3.2 percent, but overall demand remained strong as the average number of days on market held tight. Current residential construction activity, measured by the **Residential Construction Cycle (Coincident) Index**, reached its highest level since 2008 as employment and wages trended upward in the construction industry. Momentum should continue through the summer as the Texas **Residential Construction Leading Index (RCLI)** extends its upward climb amid gains in single-family housing starts and weighted building permits. (For additional housing commentary and statistics, see *Texas Housing Insight* at recenter.tamu.edu.)

The average **West Texas intermediate crude oil spot price** dipped to $67.87[2] per barrel amid rising OPEC production targets, but a drop in U.S. inventories provided upward pressure to close the month. The number of **active rigs** in Texas jumped to 534[2], the most since the oil downturn in 2015, while crude oil production surpassed 4.2 million barrels per day[2]. Pipeline bottlenecks in the Permian Basin hindered additional growth and could slow drilling activity in coming months. The **Henry Hub natural gas spot price** approached $3 per million BTU[2] (British thermal units) as an extended winter offset booming exports and excess byproducts from oil drilling activity. Heading in to the middle of summer, natural gas stockpiles are lower than previously anticipated.

Texas employment extended its two-year growth spurt, but rapid gains appeared to moderate. The state added 27,200 **nonfarm jobs** in June, the smallest monthly increase of the year, to close an explosive six-month stretch. Improved job opportunities continued to lure Texans into the workforce, elevating the **labor force participation rate** to a three-year high at 64 percent. Job creation, however, outpaced the labor force expansion, pulling the **unemployment rate** in line with the national average at 4 percent. **Initial unemployment insurance claims** remained near a decade-low at 58,695. Labor markets in the major metros were even tighter, and unemployment rates fell across the board. In Dallas-Fort Worth (DFW) and San Antonio, the local unemployment rate dipped to 3.5 and 3.3 percent, respectively, while the Houston rate fell to 4.3 percent. Austin was the exception with unemployment unchanged from last month at just 3 percent.

Real private hourly earnings ticked up 0.6 percent but remained negative on the year. Compositional changes, such as millennials replacing long-time earners in the workforce and the overall aging population, pressured wages downward. Additionally, the late stage of the business cycle shifted workforce improvements to lower-skilled workers, thereby pulling average earnings downward. Employers increasingly compete for employees through nonwage benefits, such as seasonal bonuses or increased paid leave, which are not captured in the earnings data.

Fort Worth was the only major Texas metro to post positive real earnings growth YTD, after stagnating for the previous ten months. Austin, Dallas, and Houston showed monthly improvements, but earnings remained negative on the year. Despite maintaining some of the

[2] Nonseasonally adjusted.

lowest unemployment in the state, San Antonio earnings dipped for the second straight month, down 0.1 percent YTD.

At the metropolitan level, Houston generated the largest employment growth in both absolute and percentage terms with 12,600 new jobs, pushing SAAR growth up 5 percent. Improvements in the energy sector sparked the local economy, generating more than 71,000 jobs in the first half of the year—well above the 2017 annual total. Dallas added 7,000 jobs as the professional and business services sector continued to flourish, but retail trade stepped back and slowed SAAR growth to 3.9 percent. Fort Worth's professional/business services and retail trade sectors contracted in June, resulting in 500 fewer jobs. Employment growth slowed to 2.2 percent in Austin as education and health services declined for the fourth consecutive month. San Antonio added just 800 jobs, decelerating SAAR growth to half a percent amid 5,000 fewer jobs in leisure and hospitality since February.

Texas' goods-producing employment ramped up 7.3 percent SAAR, the largest quarterly growth in series history (beginning in 1990). The industry added 75,000 jobs YTD, already surpassing the 2017 total. The expansion extended evenly across manufacturing, mining/logging, and construction.

Houston accounted for most of the manufacturing resurgence with 11.1 percent SAAR growth, adding 6,300 jobs since December. In Fort Worth, industry employment picked up 2.2 percent SAAR after stalling to start the year. Growth slowed for the second straight month in Dallas and San Antonio to 1.8 and 1.9 percent, respectively. Austin lost 150 manufacturing jobs in the second quarter but showed signs of improvement in June.

Sluggish wages continued to weigh on Texas' manufacturing industry. Fort Worth paid the highest **hourly manufacturing earnings** (Austin data are unavailable) at an average of $33.98 compared to $21.40 and $23.47 in the U.S. and Texas, respectively. The metro, however, topped out in 2016 despite improvements in today's global manufacturing environment. In real terms, Fort Worth's manufacturing earnings fell for the eighth consecutive month, down 2.3 percent YTD. Industry wages also trended downward in Dallas after accounting for inflation, falling 1 percent this year. In San Antonio, wages spiked 13.2 percent last year but have since leveled off to more typical growth patterns and remained 21 percent below the state average. Despite surging activity in Houston, the average hourly manufacturing earnings dipped 1.2 percent YTD and was flat relative to last year.

Weak earnings data contrast the **Dallas Fed's Manufacturing Outlook Survey**, in which a third of respondents increased wages and benefits. In addition, 54 percent of respondents paid higher prices for raw materials, suggesting inflationary pressure on multiple fronts. The industry remained optimistic as the production index increased for the 24th consecutive month, but 18 percent reported increased uncertainty. Concerns heightened across the industry regarding steel and aluminum tariffs as well as their retaliatory consequences.

The construction industry added 2,900 jobs in June, the fewest this year, after large gains in May. The **total value of construction** also slowed, ticking down 0.7 percent on a three-month moving average. Store and restaurant investment trended downward across the major metros, but new hospital projects in Austin and Houston lifted nonresidential values up 4.8 percent. Total residential construction values flattened, but the multifamily sector maintained positive momentum. **Real hourly construction earnings** also trended upward but moderated after surging to start the year. Texas construction workers earned $1.53 less per hour than the national average.

The upward trend extended in Texas' service-providing sector, but the rate of growth slowed with a 16,800 job-increase in June. Professional/business and education/health services expanded at a rapid clip, while hiring calmed in trade, transportation, and financial activities.

The **Dallas Fed's Service Sector Outlook Survey** corroborated the industry's job growth with 19 percent of respondents noting full-time hiring increases and 28 percent offering higher wages/benefits. More than 40 percent of those surveyed reported rising revenue, pushing the respective index to a three-year high. Increased uncertainty from the trade war topped the list of comments and concerns.

Retail employment stepped back after a four-month run. The **Dallas Fed's Retail Outlook Survey** revealed a similar trend, where employment and hours worked decelerated. The sales index, however, indicated healthy levels of activity. **Retail sales revenue** data confirmed the positive trend, increasing for the ninth consecutive month to 6.2 percent YOY growth in May[3].

Rising fuel prices and strong economic growth pushed the **U.S. Consumer Price Index (CPI)** up 2.9 percent YOY to a six-year high. The core inflation rate, which excludes the often volatile energy and food sectors, climbed 2.3 percent YOY despite downward price pressure for lodging away from home. In Houston, rising transportation and housing prices lifted the local CPI three percent YOY, its largest increase since oil prices collapsed in late 2014.

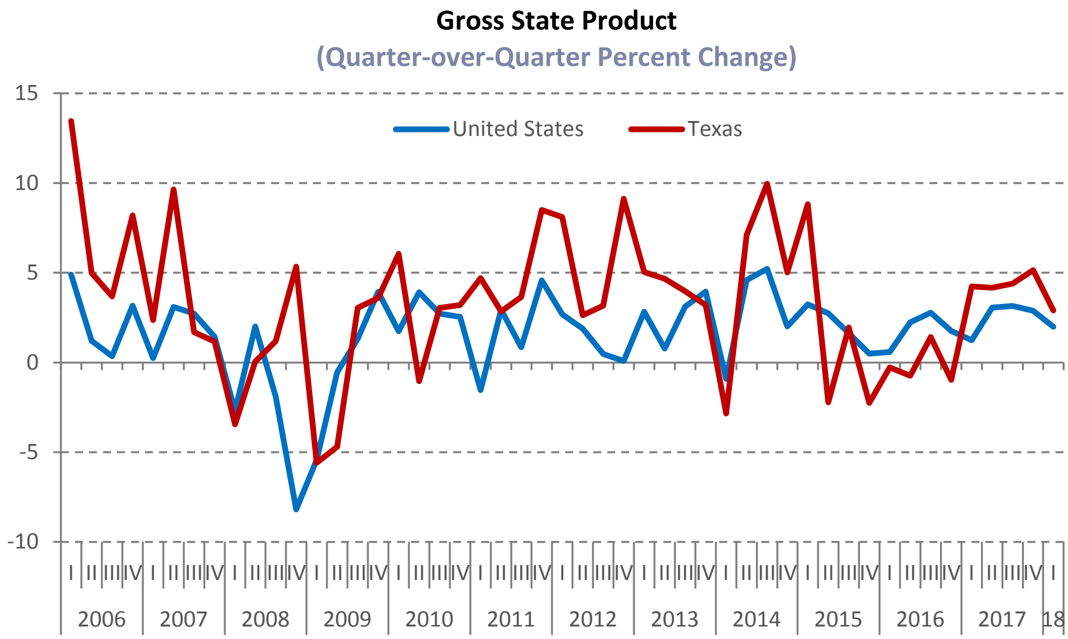
After accounting for inflation, **Texas' total commodity and manufacturing exports** slowed their YOY growth to 16 and 3.3 percent, respectively. This deceleration may be attributable to the increase in the value of the Texas trade-weighted dollar. Crude oil exports skyrocketed to 45.4 percent YTD amid increased pressure to carry out Iranian sanctions. The **Texas trade-weighted value of the dollar[3]** increased for the third consecutive month for a YTD growth of 4.2 percent, though still down 4.7 percent from a decade-long peak at the end of 2016. If this upward trend continues, it may continue to be a deterrent to exports.

Mexico and Canada received 44 percent 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. China is the state's next largest trade partner, receiving 7 percent of exports from Texas. Escalating trade tensions and growing uncertainty present a serious headwind to the Texas economy.

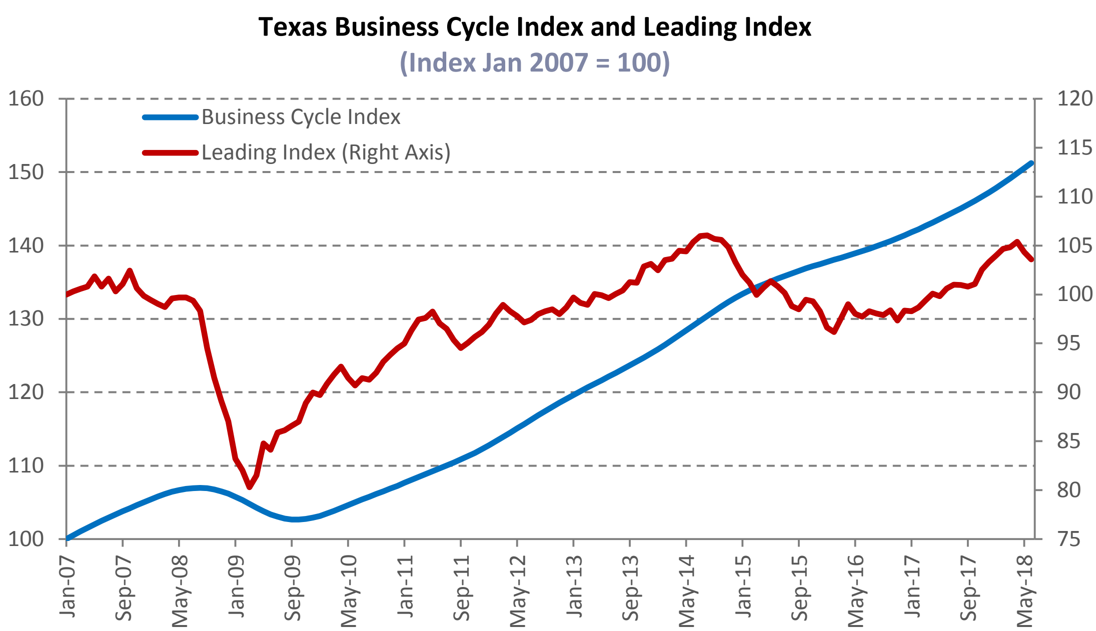
---

[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.

Economic Activity



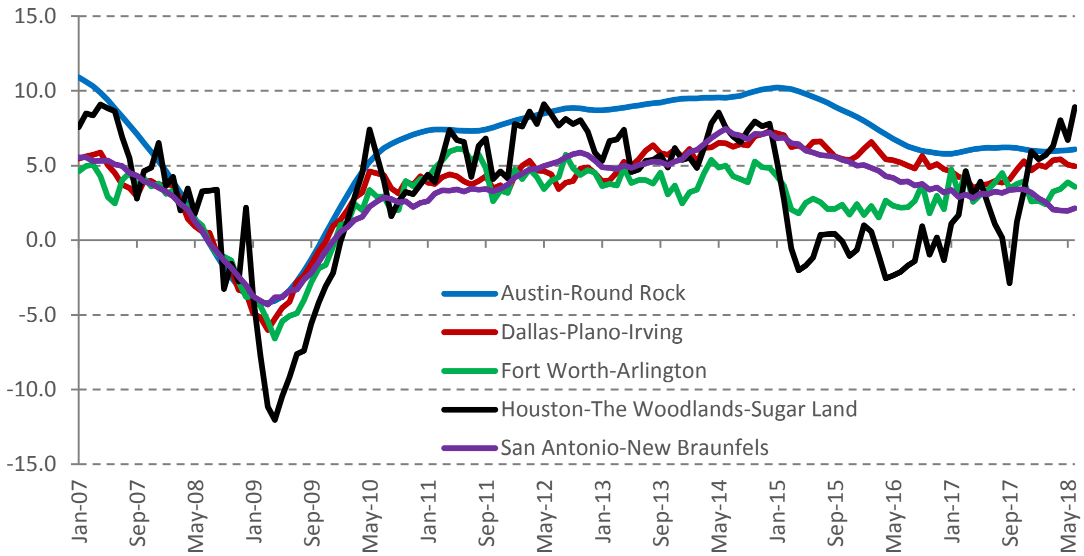
Note: Seasonally adjusted annualized rate.
Source: Bureau of Economic Analysis



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

Major Metros Business Cycle Index

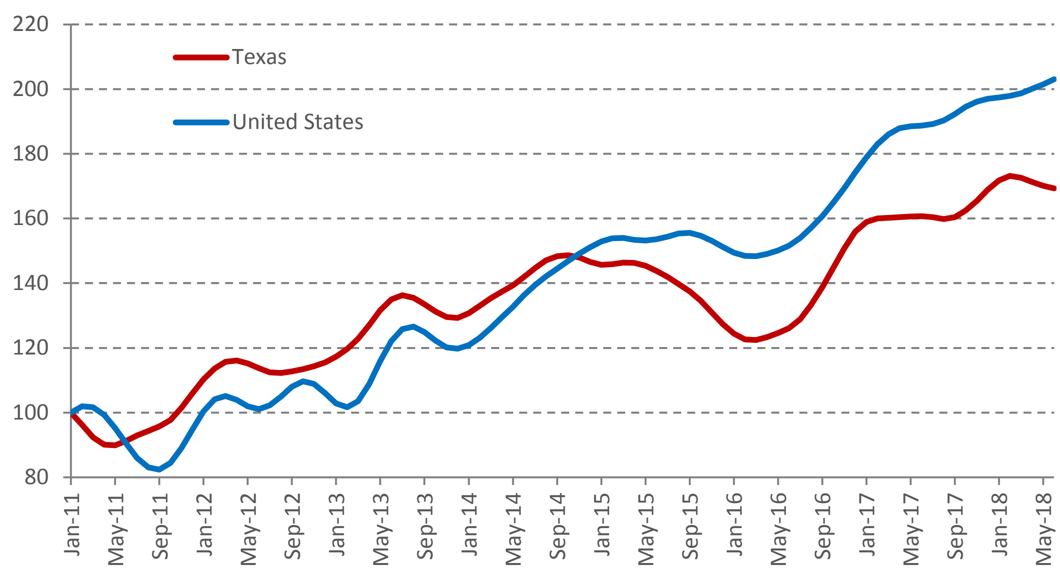
(Quarter-over-Quarter Percent Change)



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

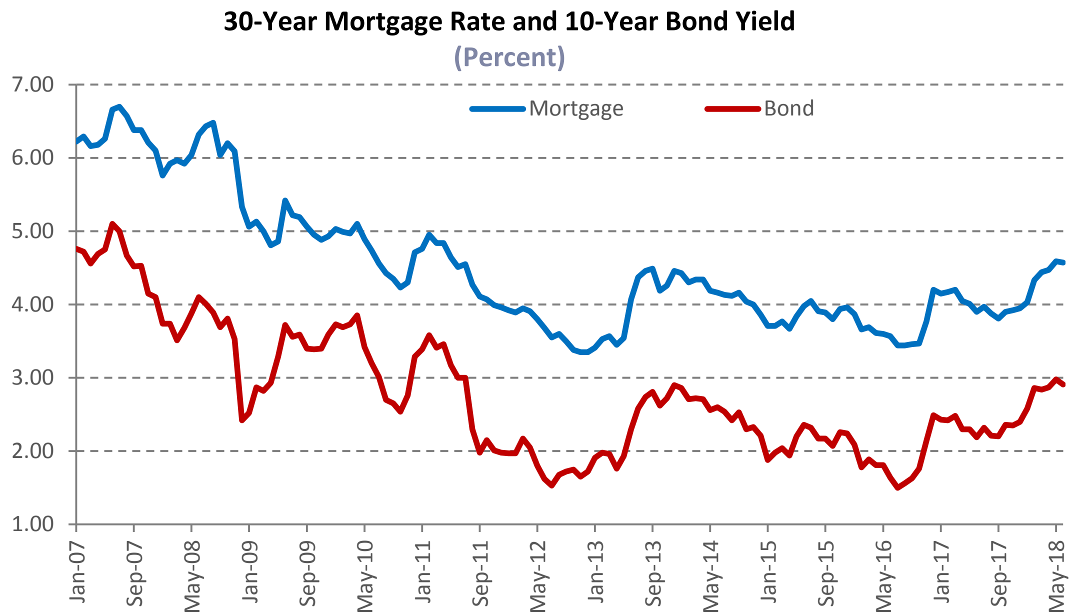
Consumer Confidence Index

(Index Jan 2011 = 100)



Note: Trend-cycle Component.
Source: Conference Board

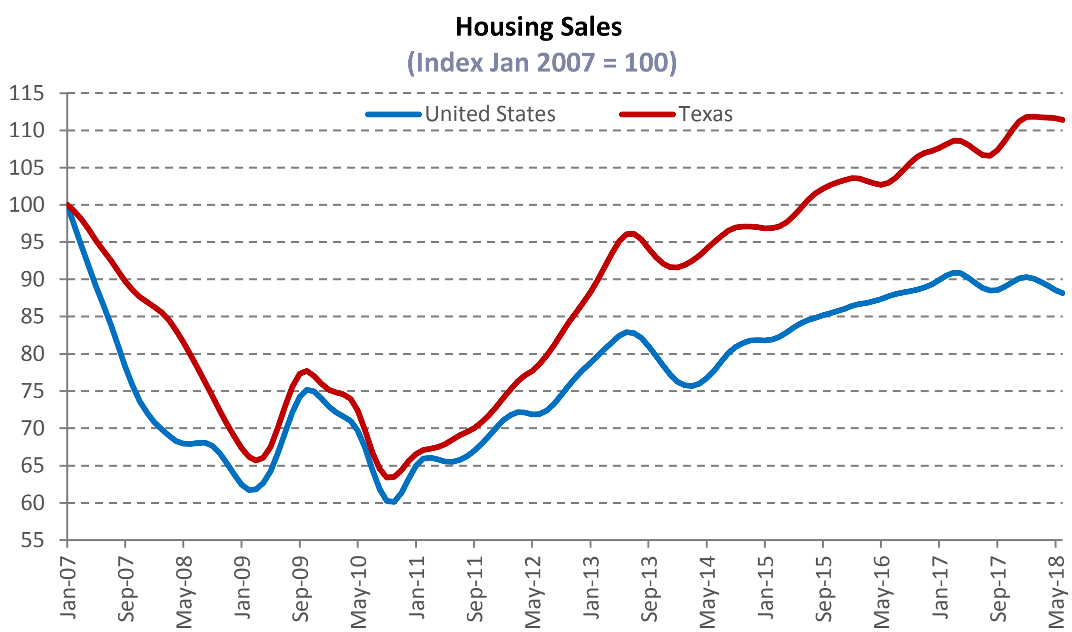
Financial Activity



Note: Seasonally adjusted.

Source: Federal Home Loan Mortgage Corporation and Federal Reserve Board

Housing



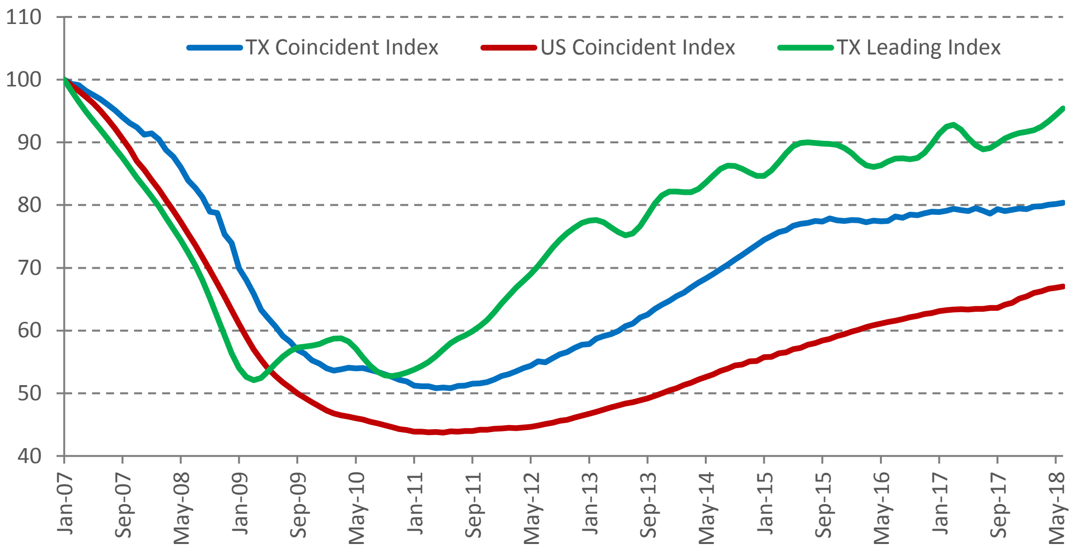
Note: Trend-cycle component. Sales for the United States include all existing homes and new single-family homes; new non-single-family homes are not included. Texas includes all existing and new homes.

For more information, see Housing Sales.

Sources: U.S. Census Bureau, National Association of Realtors, and Real Estate Center at Texas A&M University

Residential Construction Coincident and Leading Indicator

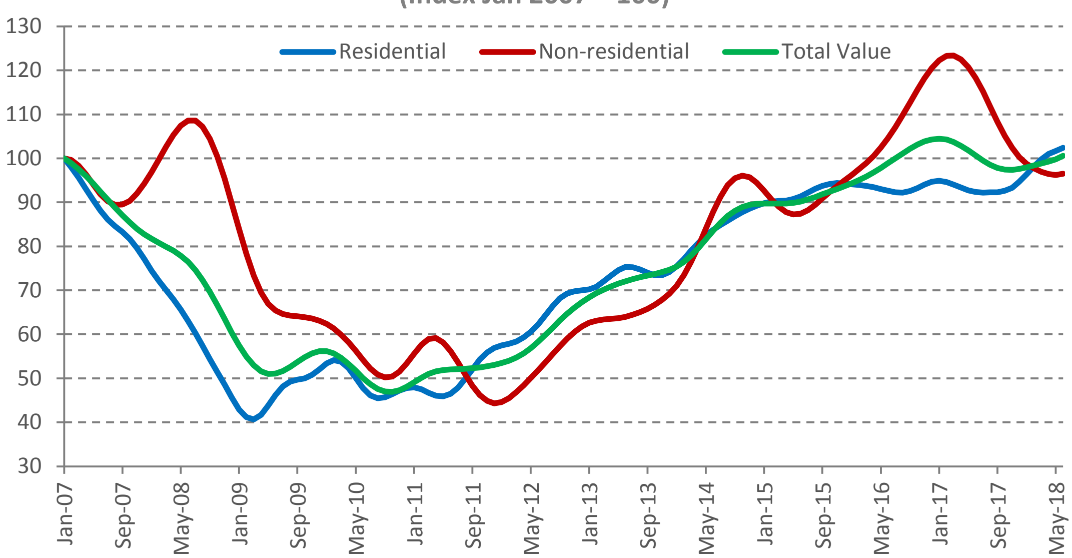
(Index Jan 2007 = 100)



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

Texas Construction Values

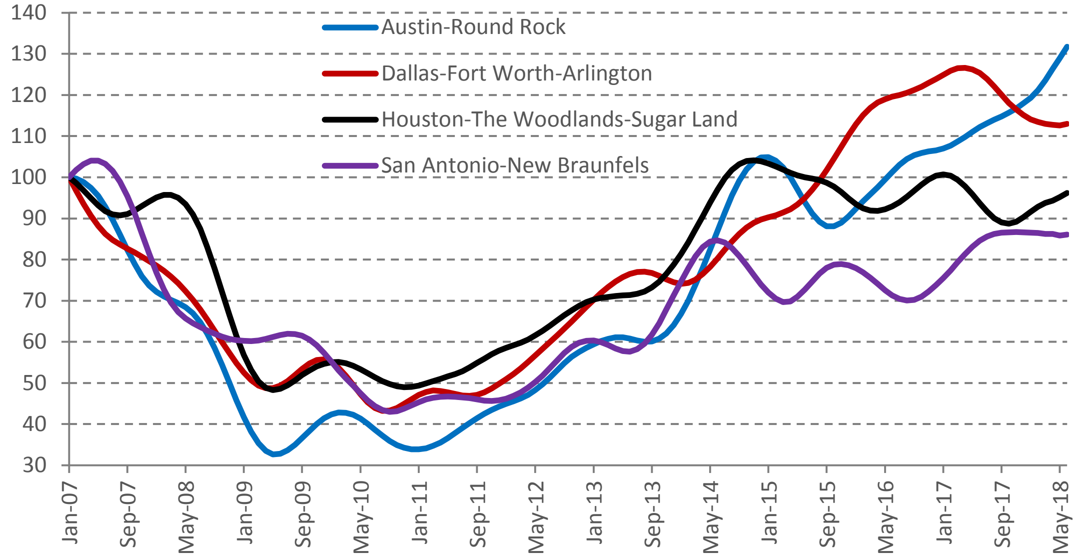
(Index Jan 2007 = 100)



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

Major Metros Total Construction Values

(Index Jan 2007 = 100)

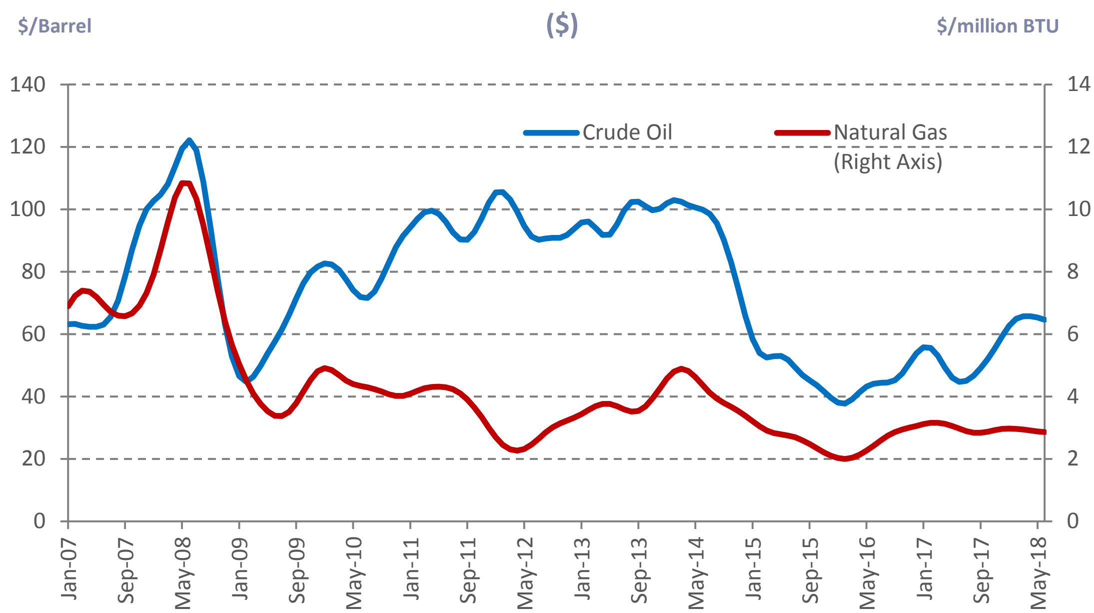


Note: Inflation adjusted trend-cycle component.
Source: Dodge Analytics

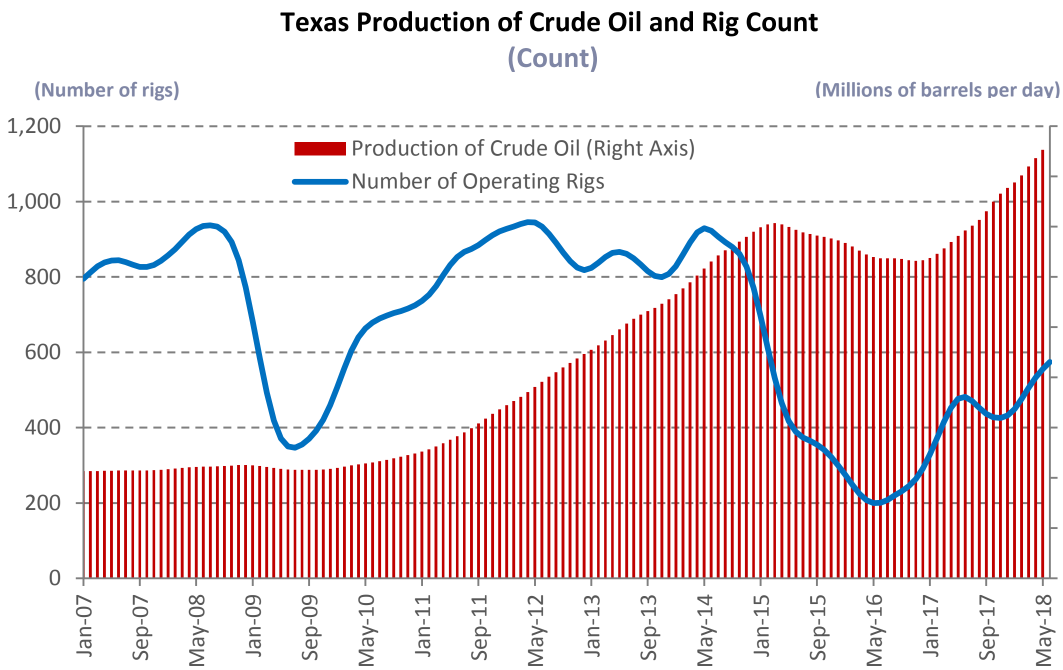
Energy

Crude Oil and Natural Gas Prices

($)

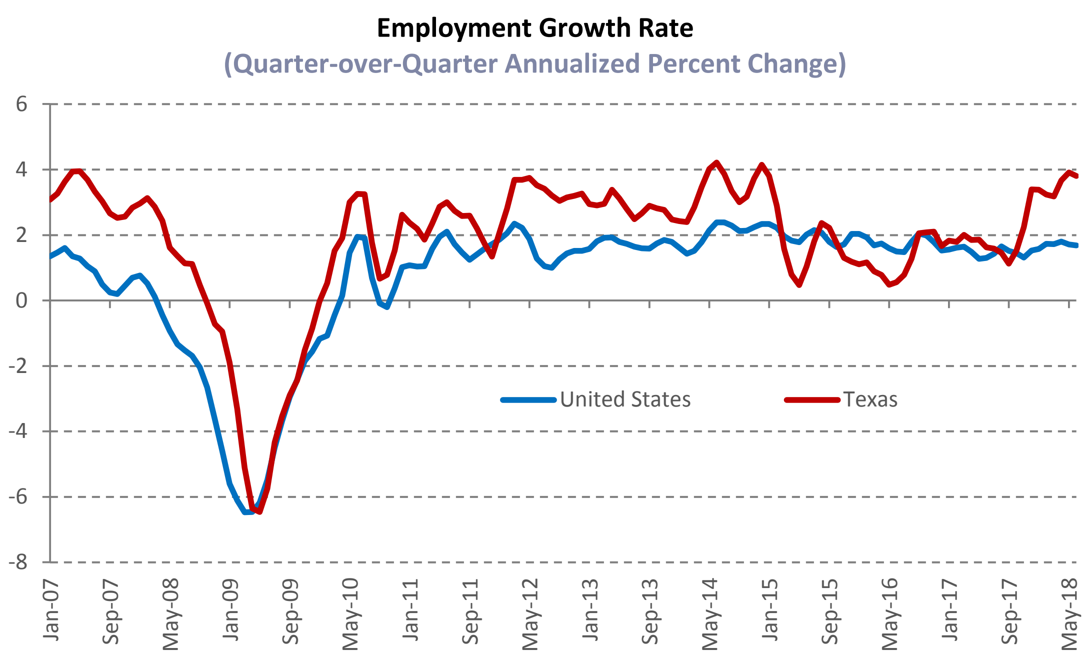


Note: Trend-cycle component.
For more information, see Crude Oil and Natural Gas Prices.
Source: U.S. Energy Information Administration received from Thomson Reuters



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

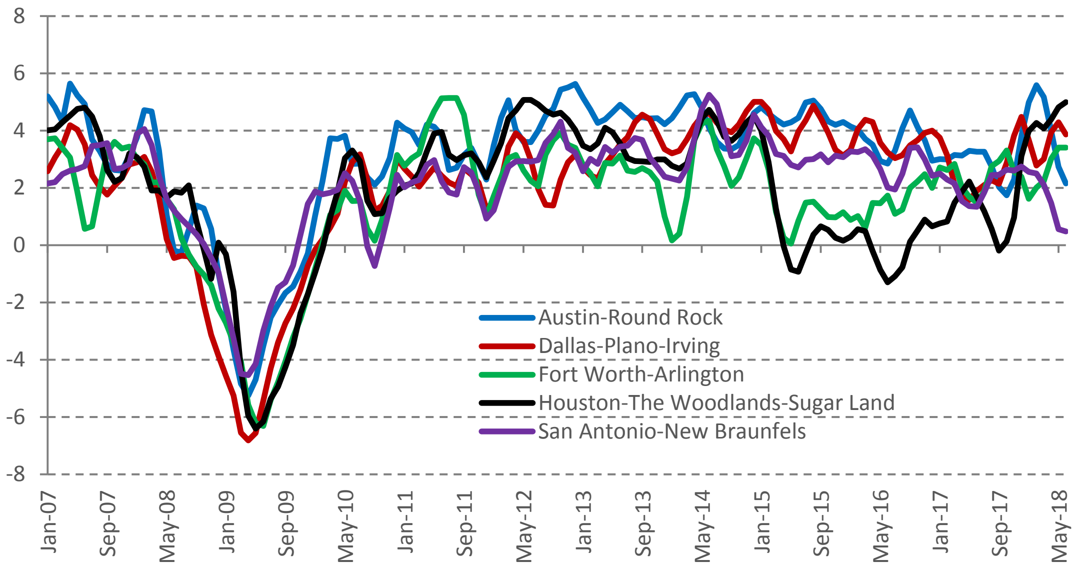
Employment



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

Major Metros Employment Growth Rate

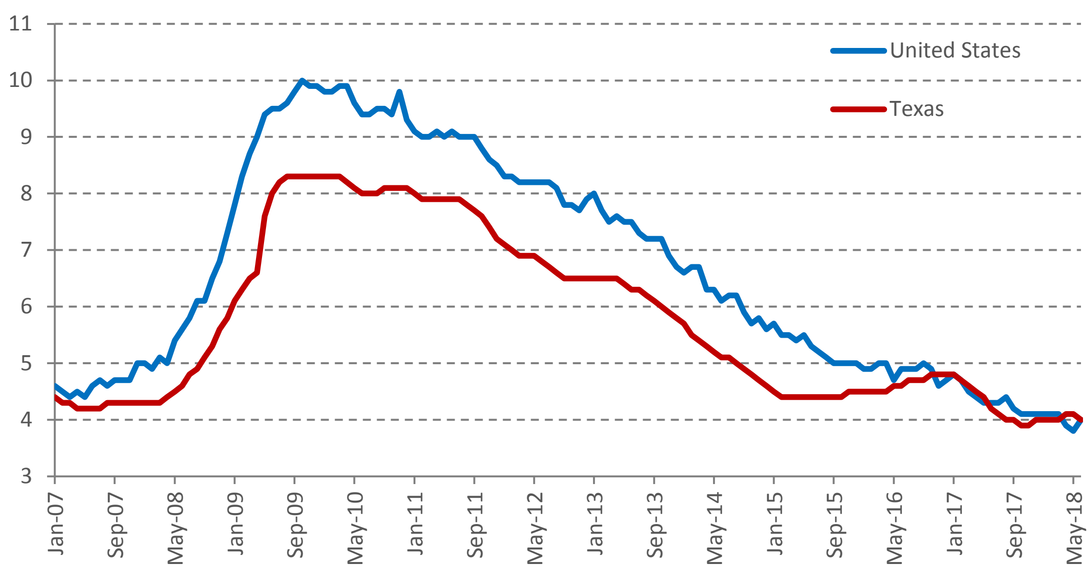
(Quarter-over-Quarter Annualized Percent Change)



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

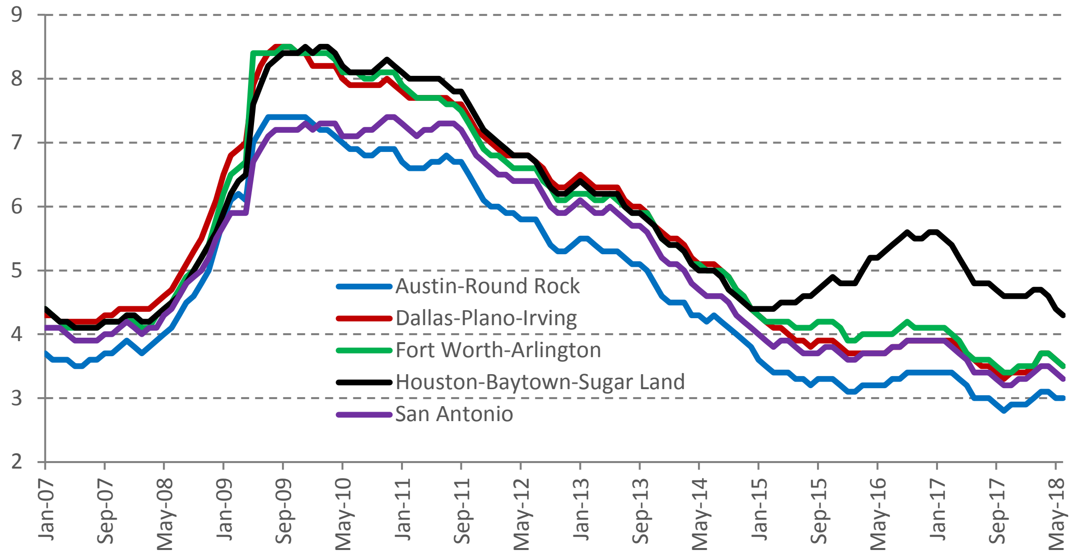
Unemployment Rate

(Percent)



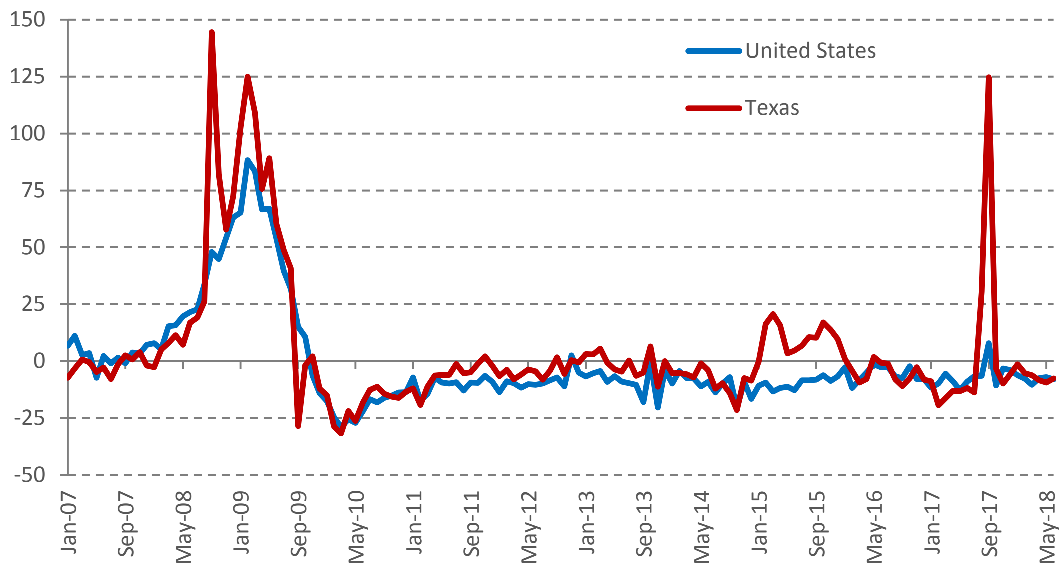
Note: Seasonally adjusted. June 2018 is preliminary. For more information, see Unemployment Rate.
Source: Bureau of Labor Statistics

Major Metros Unemployment Rate
(Percent)



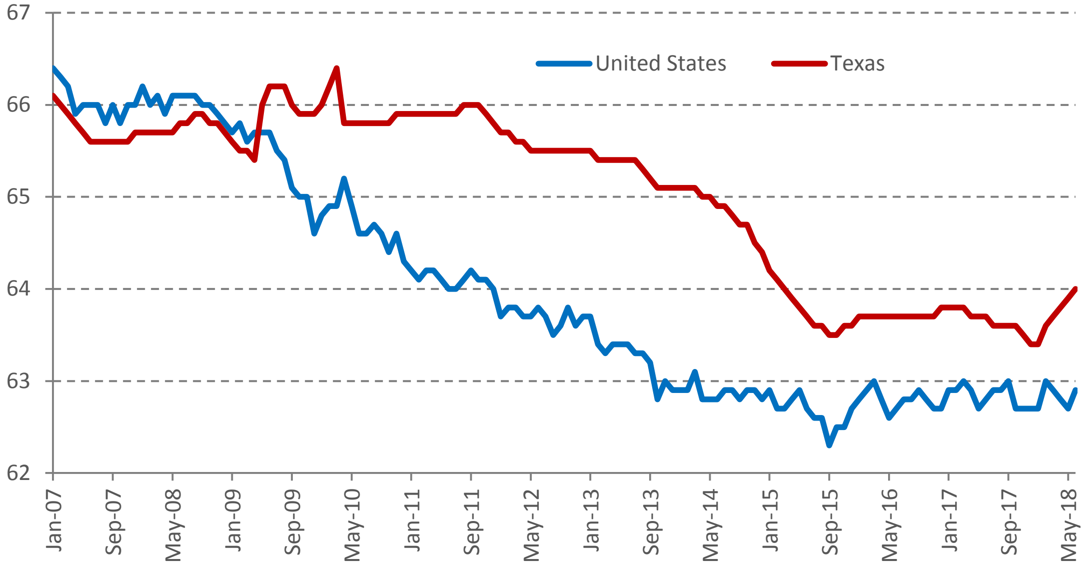
Note: Seasonally adjusted. June 2018 is preliminary. For more information, see Unemployment Rate.
Source: Federal Reserve Bank of St. Louis

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



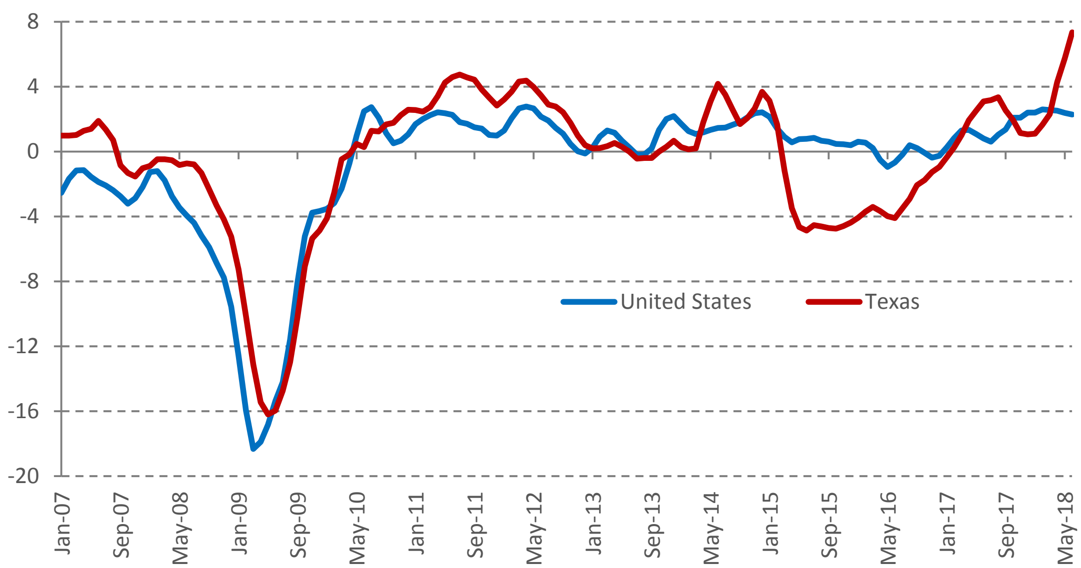
Note: Seasonally adjusted. For more information, see Unemployment Insurance Claims: Initial Applications.
Source: Department of Labor

Labor Force Participation Rate
(Percent)

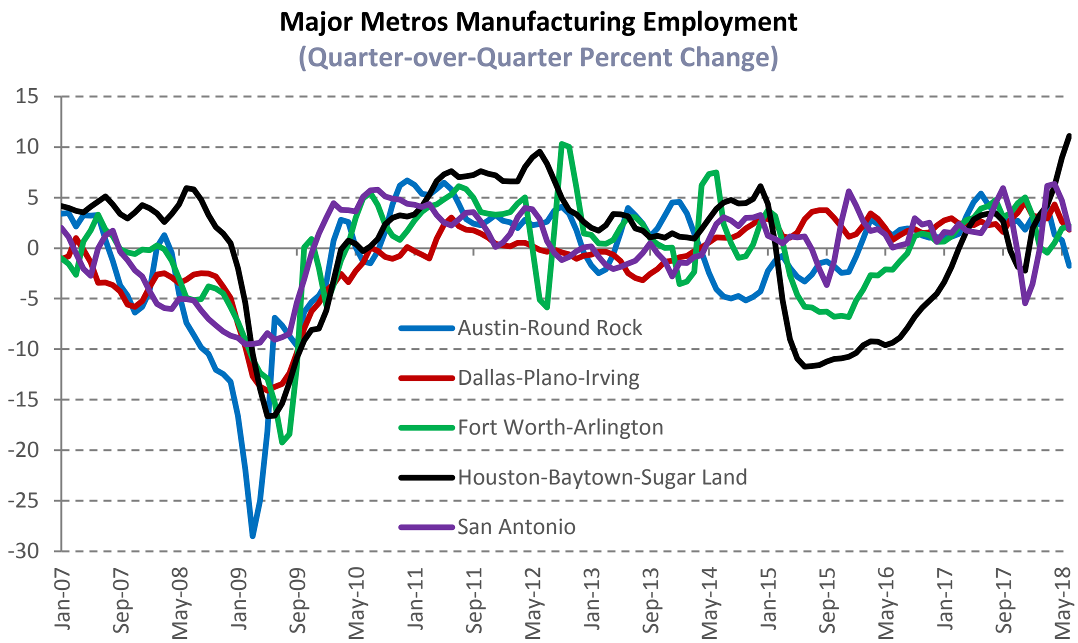


Note: Seasonally adjusted. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

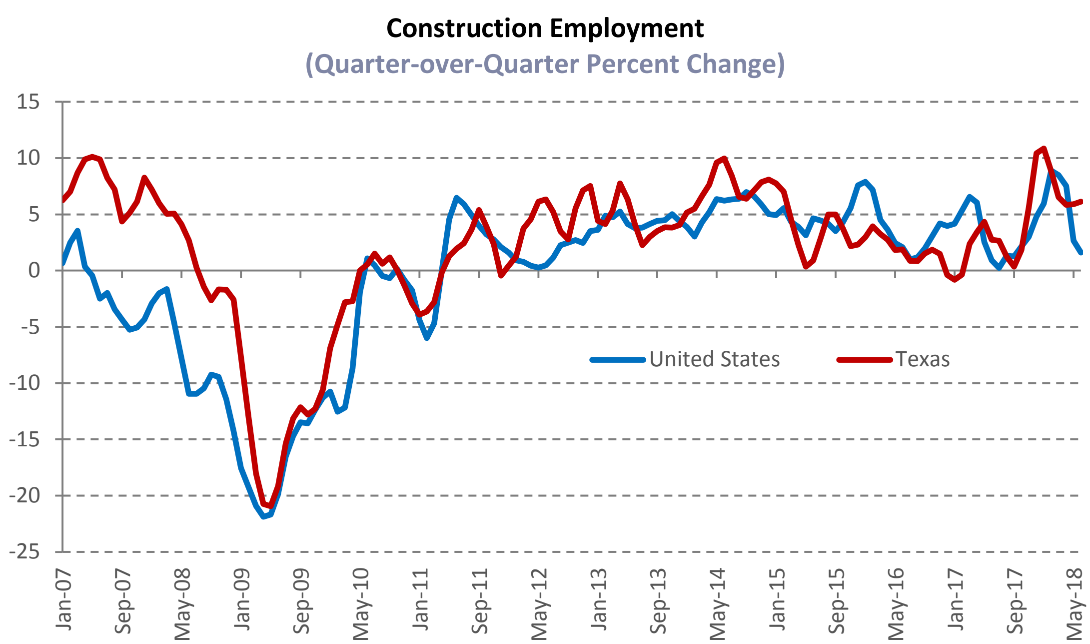
Manufacturing Employment
(Quarter-over-Quarter Percent Change)



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



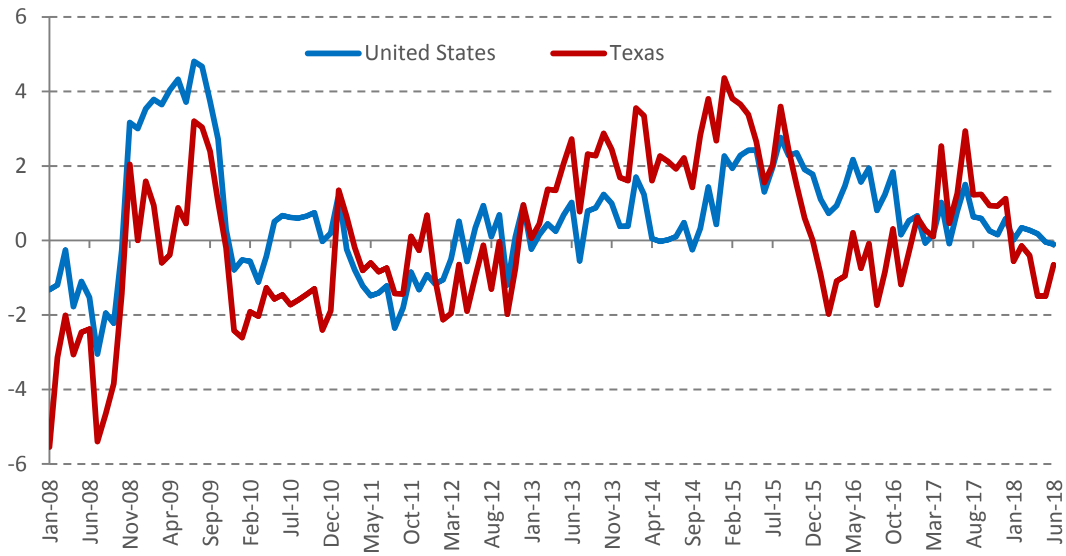
Note: Seasonally adjusted, 3-month moving average. June 2018 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics



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

Total Private Employee Hourly Earnings

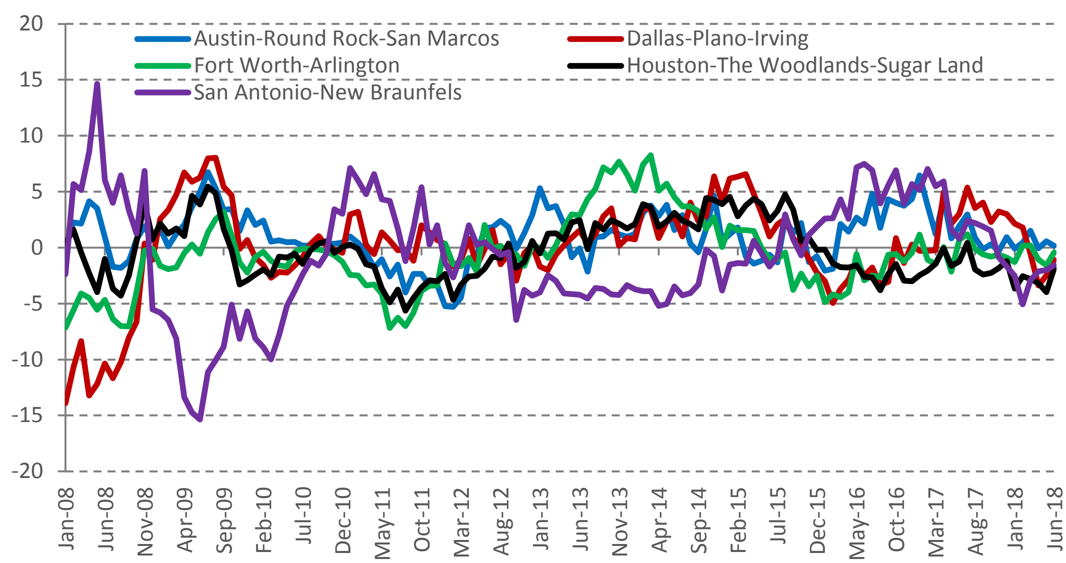
(Year-over-Year Percent Change)



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

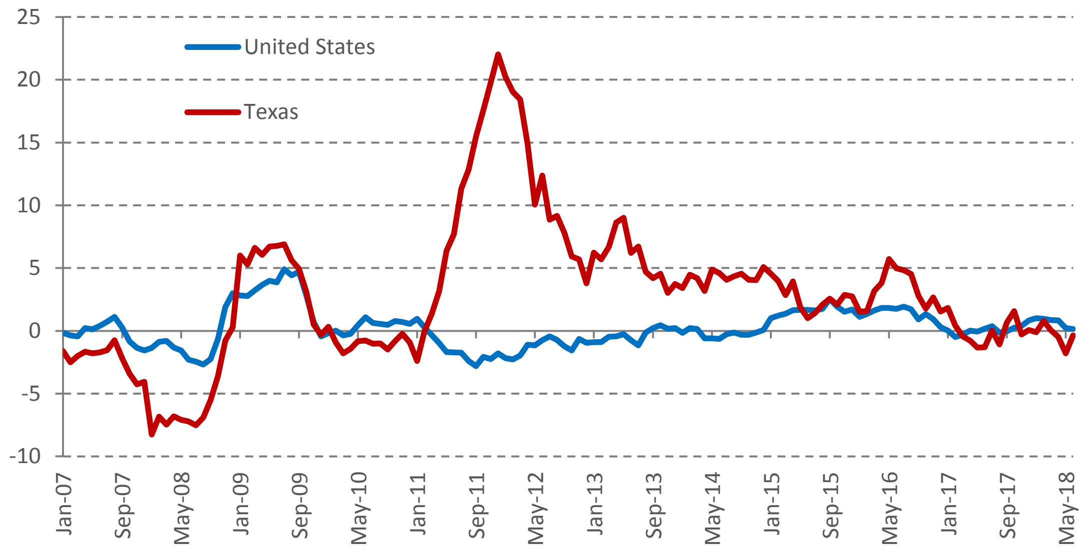
Major Metros Total Private Employee Hourly Earnings

(Year-over-Year Percent Change)



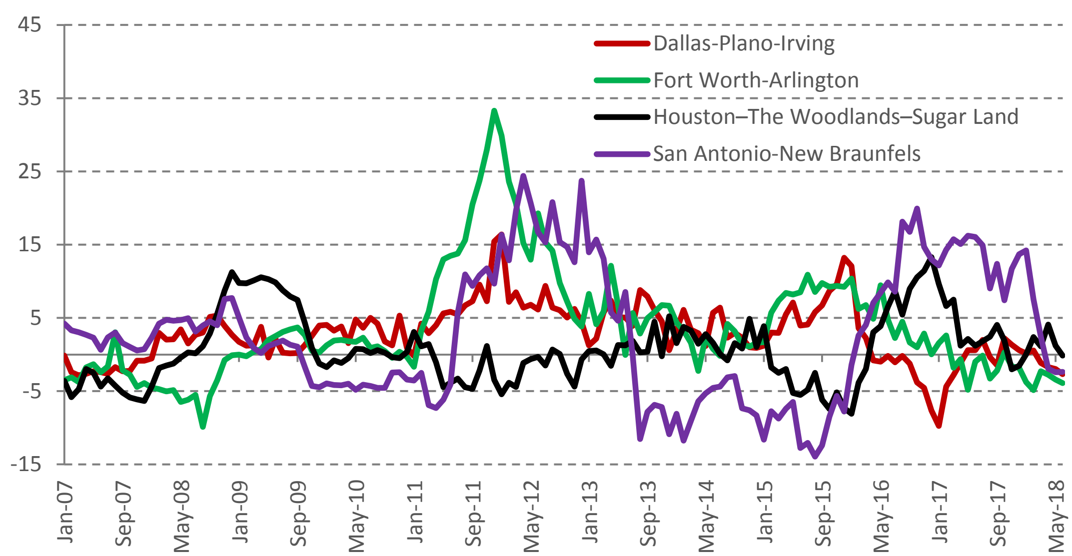
Notes: Inflation adjusted. June 2018 is preliminary.
For more information, see [Total Private Employee Hourly Earnings].
Source: Bureau of Labor Statistics

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



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

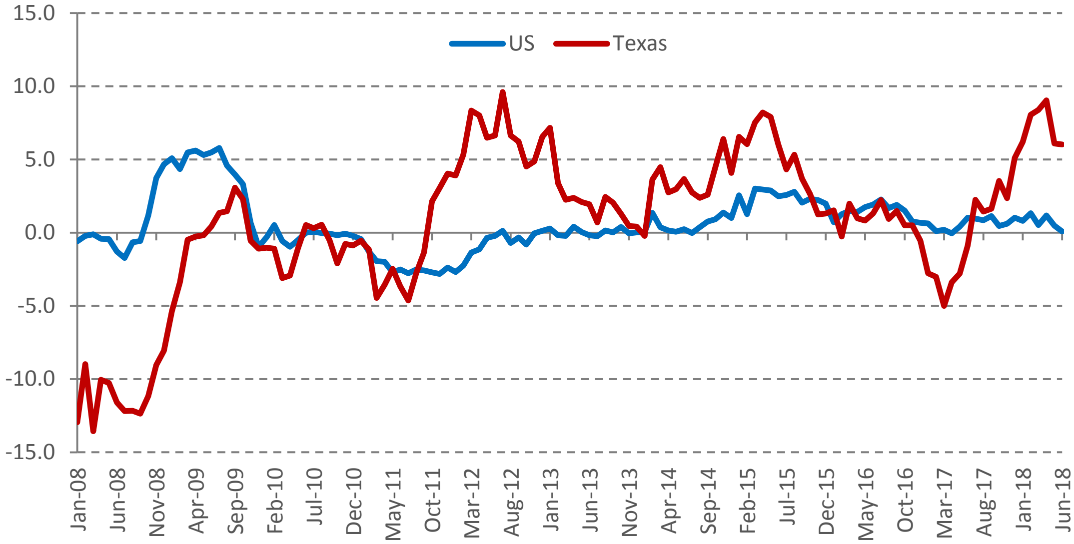
Major Metros Manufacturing Employee Hourly Earnings
(Year-over-Year Percent Change)



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

Construction Employee Hourly Earnings

(Year-over-Year Percent Change)

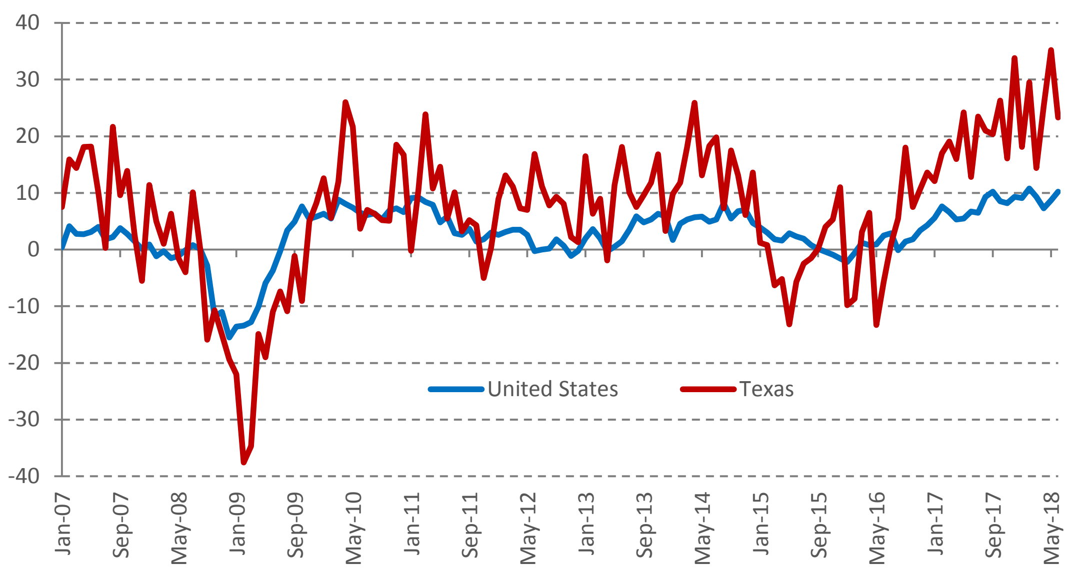


Notes: Inflation adjusted. June 2018 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics

Manufacturing

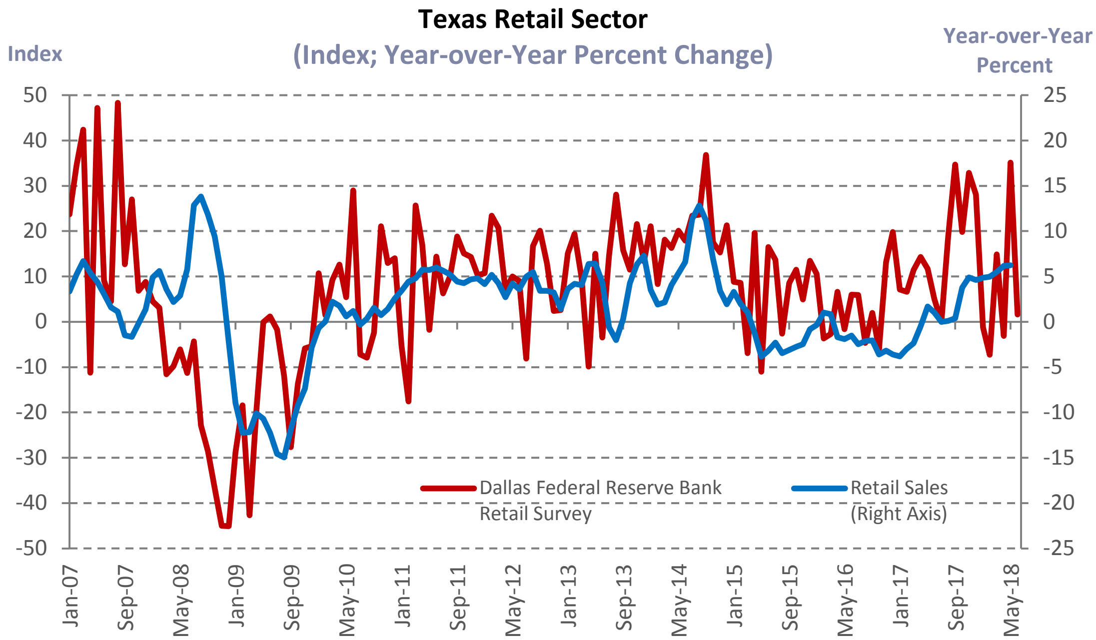
Manufacturing Outlook Survey

(Index)

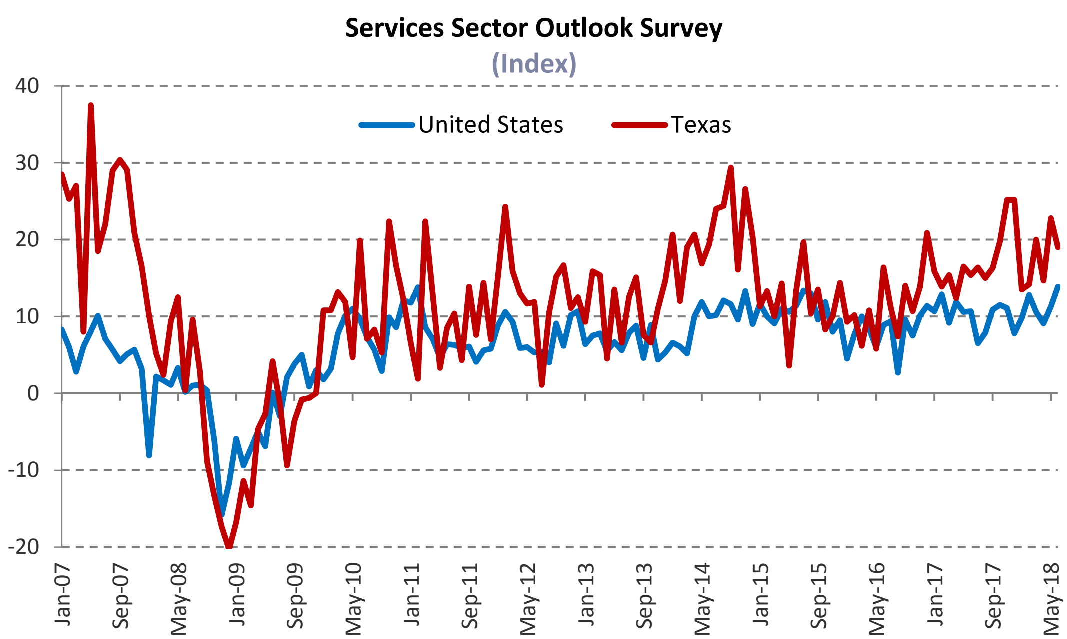


Note: Seasonally adjusted. For more information, see Manufacturing Outlook Survey.
Sources: Federal Reserve Bank of Dallas and Institute for Supply Management. United States index is adjusted -50 to be on scale with Texas index

Services

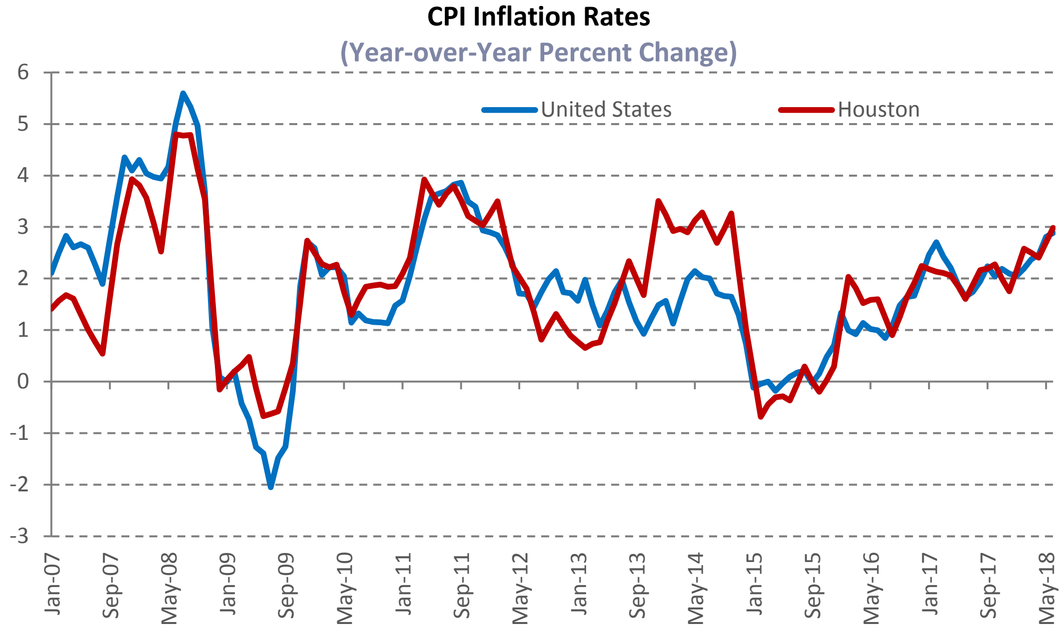


Note: Seasonally adjusted and inflation adjusted. For more information, see [Texas Retail Sector](#).
Sources: Retail Sector Outlook Survey from the Federal Reserve Bank of Dallas, Retail Sales from Texas Comptroller of Public Accounts

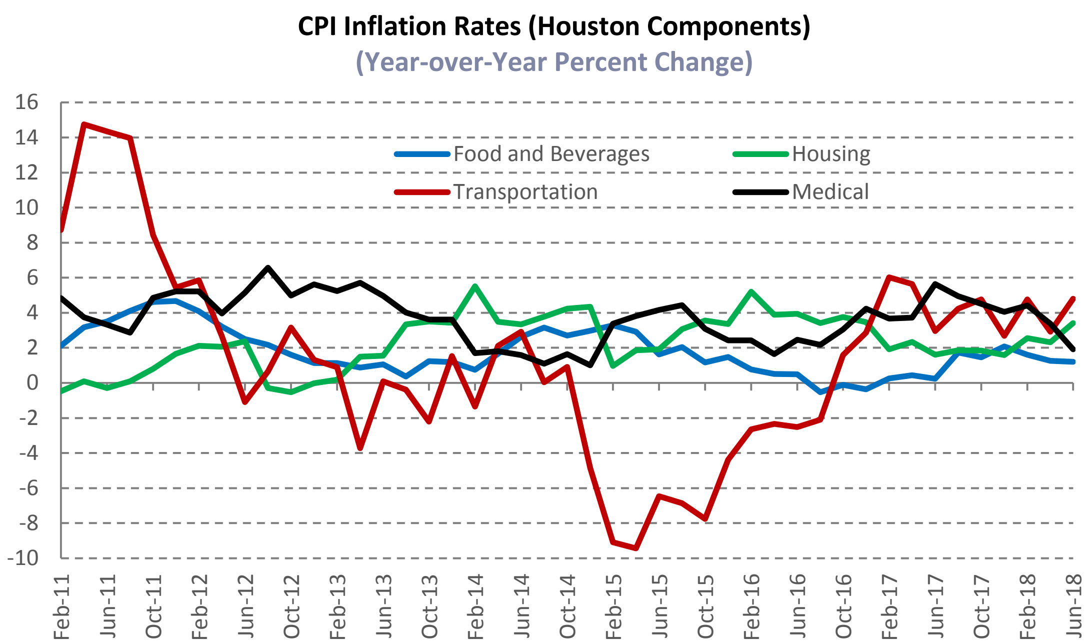


Note: Seasonally adjusted. For more information, see [Services Sector Outlook Survey](#).
Sources: Federal Reserve Bank of Dallas and Institute for Supply Management. United States index is adjusted -50 to be on scale with Texas index.

Prices

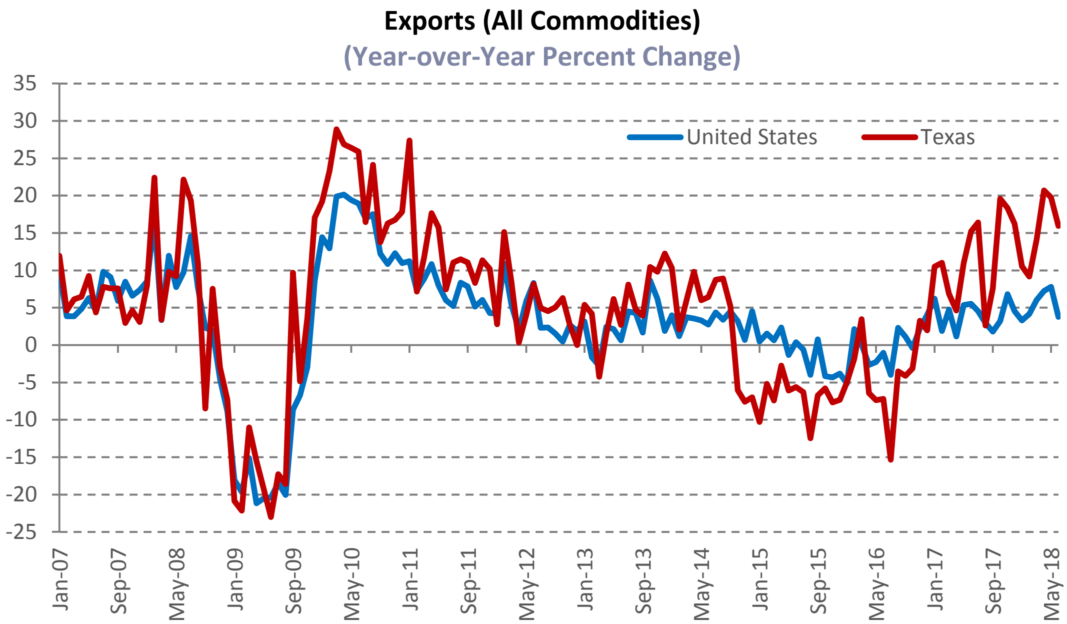


Note: Seasonally adjusted. For more information, see [CPI Inflation Rates](#).
Source: Bureau of Labor Statistics

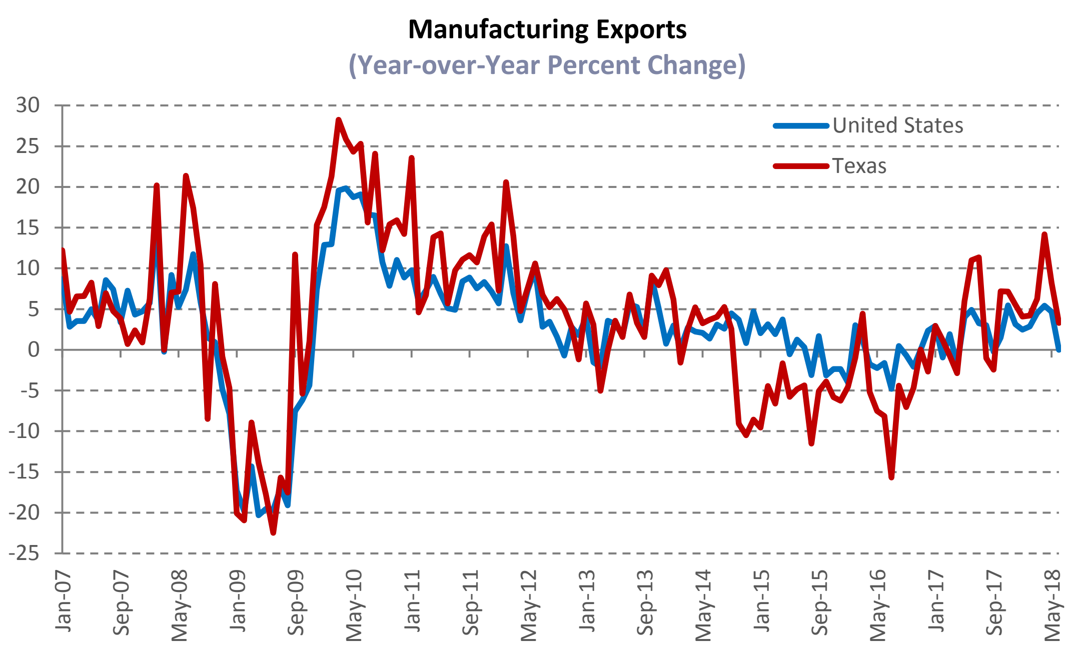


Note: The Houston CPI is composed of the following major groups: Food and Beverages, Housing, Apparel, Transportation, Medical Care, Recreation, Education and Communication, and Other Goods and Services. The four major components are included in the graph above.
Source: Bureau of Labor Statistics

Trade

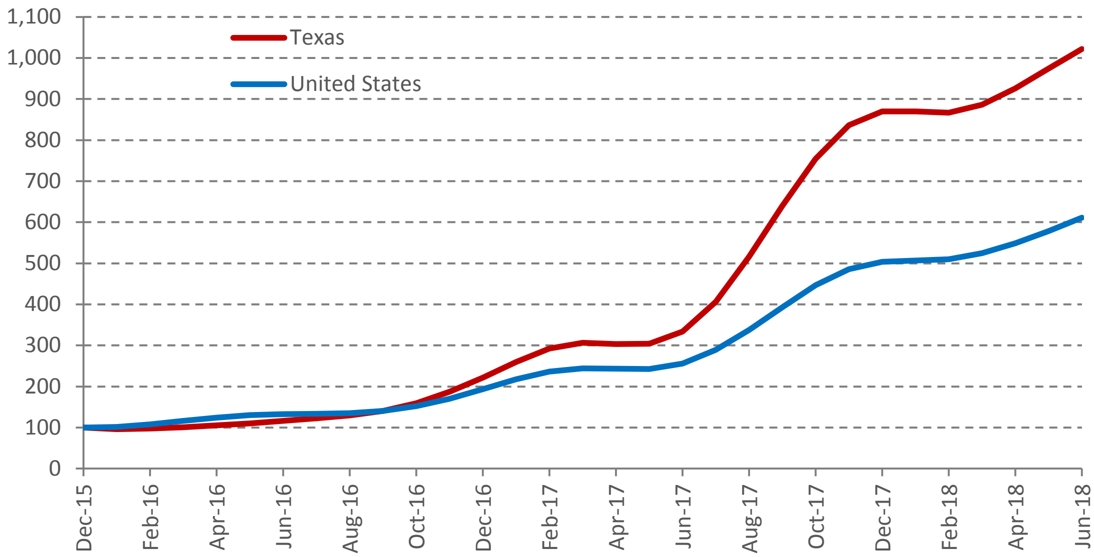


Note: Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see Exports.
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau



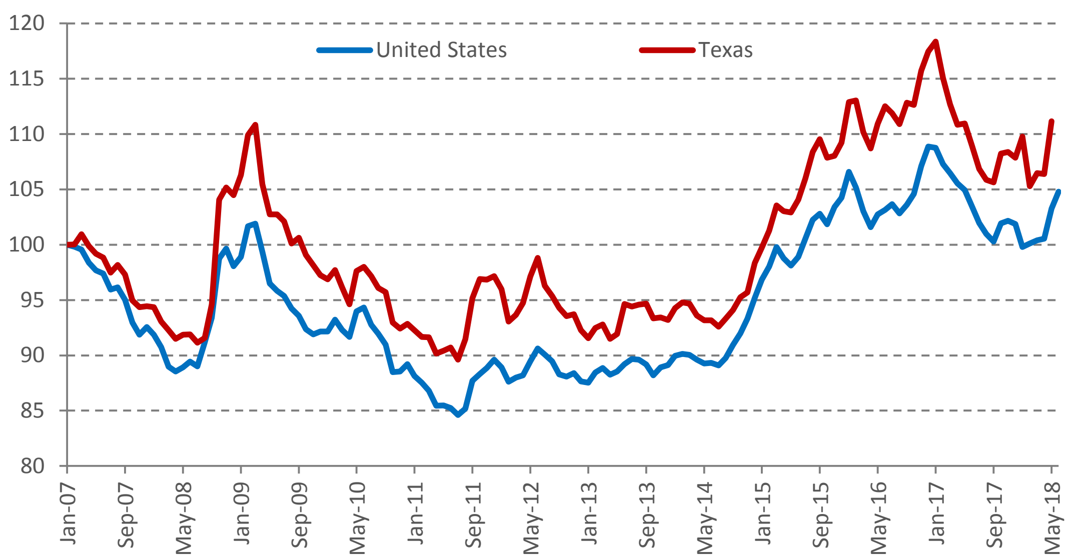
Note: Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see Manufacturing Exports.
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau

Crude Oil Exports
(Index Dec 2015 = 100)



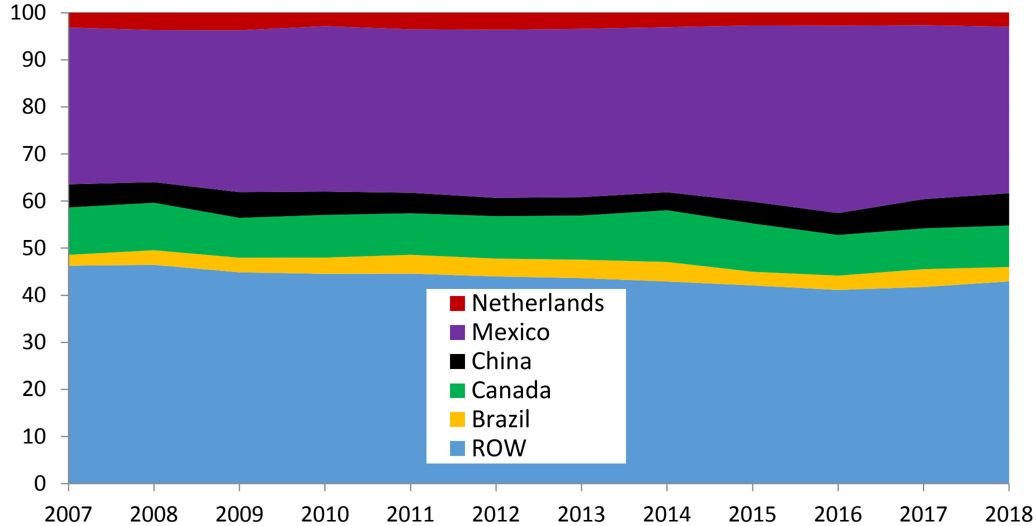
Note: Inflation adjusted trend-cycle component using the Bureau of Labor Statistics export indices. For more information, see Crude Oil Exports.
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau

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



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

MAYS BUSINESS SCHOOL

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

http://recenter.tamu.edu
979-845-2031