Outlook for the Texas Economy

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Technical Report
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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 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.

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Data current as of April 5, 2019

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February 2019 Summary

Economic activity moderated but remained positive as Texas enters the ninth year of the business-cycle expansion. Payroll employment grew at a steady pace despite historically low unemployment. Headline wage numbers, however, remained sluggish despite labor-market tightness and decreased inflationary pressure. Energy prices stabilized after a recent bout of volatility, and crude oil production and exports held firm. Texas exports continued to flourish as products shifted from China to other economic partners, but the ongoing dispute between the world’s two largest economies could contribute to waning global activity. Political tension and gridlock in Washington added to the current state of uncertainty.

The Dallas Fed’s Texas Business-Cycle Index slowed to 3.8 growth on a seasonally adjusted annualized rate (SAAR), the slowest in over a year but continued to press forward. At the metropolitan level, much of the deceleration occurred in Fort Worth as employment weakened and pulled the business-cycle index below 1.1 percent SAAR. The index, however, accelerated to 4.6 and 5.6 percent, respectively, in Austin and Dallas. Houston’s index picked up from 2.4 to 2.9 percent, the same growth rate as in San Antonio.

The Texas Leading Economic Index (a measure of future directional changes in the business cycle) inched forward amid labor-market strength and stable crude oil production. Some signs of weakness in national economic data, however, suggest slower growth over the next year. Texans remained cautiously optimistic after the sharp drop in oil prices last fall. The Texas Consumer Confidence Index inched forward but remained below the October 2018 peak.

Softer economic data, particularly in February’s U.S. employment report, decreased inflation expectations and weighed on interest rates. The ten-year U.S. Treasury bond yield fell to an annual low of less than 2.7 percent, while the Federal Home Loan Mortgage Corporation’s 30-year fixed-rate dropped to 4.4 percent. Texans capitalized on lower rates, pushing mortgage applications for home purchases up 11.2 percent in the first two months of 2019. Refinance mortgage applications, which are more sensitive to interest rate fluctuations, increased 20.2 percent year to date.

Texas housing sales increased 5.2 percent amid lower mortgage rates and decreased price pressure. Current residential construction activity, measured by the Residential Construction Cycle (Coincident) Index, inched downward as construction wages and employment calmed after a year of strong growth. The outlook, however, remained stable as indicated by upticks in the Texas Residential Construction Leading Index. Lower interest rates and the extended economic expansion bolstered the industry outlook. (For additional housing commentary and statistics, see Texas Housing Insight at recenter.tamu.edu.)

The average West Texas intermediate crude oil spot price rebounded above $54 per barrel after four consecutive monthly declines. OPEC production cuts and oilfield disruptions in Nigeria and

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1 All monthly measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.
Libya supported higher prices despite soft economic data at the national level. Texas production balanced around a record-high 4.8 million barrels per day in January while the **active rig count** inched down to 512. Additional pipeline capacity relieved bottlenecks in West Texas, but anticipated supply growth could quickly diminish the impact. On the natural gas front, the **Henry Hub spot price** ticked above $3 per million British thermal units after a sharp drop in January. A warmer-than-usual winter, however, maintained downward pricing pressure.

Texas added 17,700 **nonfarm jobs** in February, in comparison to 20,000 net jobs created nationally. Employment growth held around 1.8 percent on a SAAR, persisting above the Dallas Fed’s 1.5 percent 2019 growth projection but notably lower than last year’s levels. Skilled-labor shortages hindered additional hiring throughout the state. The **unemployment rate** held below 3.9 percent despite **labor force participation** ticking upward for the first time since September, reaching 64 percent. **Initial unemployment insurance claims** fell for the second straight month, corroborating labor-market tightness. The major metros maintained even less slack with unemployment rates falling across the board. Some of the decline, however, may be payback after the federal government shutdown inflated unemployment reporting in January. Austin maintained the lowest unemployment rate at 3.0 percent, followed by San Antonio at 3.4 percent. North Texas was not far behind with 3.6 and 3.7 percent unemployment in Dallas and Fort Worth, respectively. Houston unemployment held above the state level at 4.2 percent but could inch downward if oil prices continue to stabilize.

Despite prolonged labor shortages, **Texas’ real income per capita** rose just 1.8 percent in 2018, ranking 27th nationally in terms of annual growth. The increase, however, was notably better than each of the past three years. The state’s strongest contributors to income growth were oil and gas extraction, construction, and professional/scientific/technical services industries.

Contemporaneous data suggest a continuation of tepid growth in the first two months of 2019. **Texas’ real private hourly earnings** remained tame at 1.3 percent growth year over year (YOY). Dallas wages increased 5.1 percent YOY, reaching $30.15 per hour in nominal terms. Fort Worth ($26.56) and Houston ($27.00) maintained modest growth at 1.8 and 0.9 percent YOY, respectively. Austin hourly earnings edged below $29.25, contracting 1.1 percent YOY. On the other hand, growth accelerated to 3.1 percent in San Antonio, elevating nominal wages to a record high $24.22 per hour. Softer inflationary pressure improved purchasing power across the state.

Dallas led the state in hiring with 11,600 newly created jobs, the largest increase since 2016. Most of the growth occurred in the professional/business services, leisure/hospitality, and trade/transportation/utilities industries. Houston added a record number of manufacturing jobs at 4,825, lifting the total monthly employment increase to 9,100. Growth in Austin’s public sector as well as professional/business services pushed employment growth into positive territory after faltering in January. In San Antonio, construction employment gains reached a record of high more

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2 The release of Texas crude oil production typically lags the **Outlook for the Texas Economy** by one month.
than 1,160 as single-family housing construction accelerated over the past quarter. Fort Worth was
the exception where broad-based industry declines contracted employment figures for the second
consecutive month. The largest losses occurred in construction and leisure/hospitality jobs. The
metro recovered all of January’s lost transportation jobs, which may have been negatively affected
by the government shutdown, but durable-goods manufacturing shed an additional 390 jobs.

Texas’ goods-producing sector as a whole added just 800 jobs, but data revisions revealed 2,800
lost jobs in January instead of the 5,100 originally reported. Manufacturing employment offset last
month’s decline with 1,400 new jobs, all of which occurred in the nondurable-goods subsector.
Recent weakness, however, held hourly manufacturing earnings slightly negative YOY after
accounting for inflation. Real hourly industry earnings decreased YOY in all of the major metros.
Fort Worth was the exception where earnings-per-hour jumped 5.1 percent YOY in real terms after
a steady four-year slide. These fluctuations, however, may be sensitive to short-term changes in
how employees contracted by the federal government were measured during the temporary
shutdown. In the Dallas Fed’s Manufacturing Outlook Survey, more than a fifth of respondents
expanded payroll employment, and 30.1 percent paid higher wages and benefits. Production and
capacity use slowed as manufacturers adjusted to waning global growth. U.S.-China trade tensions
remained the primary concern across multiple subsectors.

Hiring was mixed in the remaining goods-producing sectors. Energy employment contracted for the
first time since November 2016, while the construction industry recovered 500 of the 2,800 jobs
shed in January. Real hourly construction earnings dipped negative YOY after substantial growth in
the first half of 2018. Total construction values, however, ticked up as the residential sector
stabilized following a five-month slide. Apartment construction picked up in Austin, DFW, and
Houston amid solid population growth and shifting preferences toward higher-density housing. In
the nonresidential sector, declines in office/bank building offset an acceleration in warehouse
investment.

Texas’ service-providing sector created 16,900 positions, maintaining steady growth after stalling in
4Q2018. Leisure and hospitality rebounded with 5,500 new jobs, accounting for 31 percent of the
aggregate monthly increase. Accommodation/food services and finance/insurance employment
added 4,300 and 4,100 jobs, respectively. On the other hand, the transportation/warehousing/
utilities subsector continued to struggle, shedding 4,200 jobs over the past three months. The
Dallas Fed’s Service Sector Outlook Survey corroborated industry strength with nearly a third of
respondents noting higher revenues, and the employment indices accelerated. The survey,
however, reported increased pricing pressure in both wages and inputs, contrasting hard inflation
data.

Lower energy prices slowed the U.S. Consumer Price Index (CPI) to 1.5 percent YOY, its weakest
increase since 2016. Core inflation held slightly above the 2 percent benchmark but trended
downward, particularly due to lower price tags on new vehicles and prescription drugs. A sharp
drop in transportation costs (e.g., airline fares and auto insurance) pulled the Houston CPI below 1
percent YOY growth. Moderations in home-price appreciation also relaxed inflationary pressures.
Despite the ongoing U.S.-China trade dispute, Texas’ real commodity exports\(^3\) grew 4.5 percent in January, accounting for 20 percent of the national total. Manufacturing exports, specifically, increased 5.7 percent in real terms, driven by computer/electronic products and electrical equipment/appliances and components. Crude oil exports reached record highs amid surging shipments to South Korea, Taiwan, and Canada. Petroleum exports, however, fell for the third consecutive month.

Fluctuations in trade relations altered Texas’ national export distribution. Mexico remained the primary trade partner and received a third of Texas’ outgoing shipments, followed by Canada at 8.2 percent. The Netherlands ranked third at 4.5 percent, followed by South Korea and Japan. China’s share dropped to 2.6 percent, the lowest since 2003 after it had been recently admitted to the World Trade Organization.

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\(^3\) Trade data for February are unavailable due to the government shutdown.
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.
Sources: 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
Note: Trend-cycle component.
Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas

Energy

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

Labor Force Participation Rate
(Percent)

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

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

Real Personal Income Per Capita
(Annual Percentage Change)

Note: Annual Average.
Source: Bureau of Economic Analysis
Notes: Inflation adjusted. February 2019 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
Note: Seasonally adjusted, 3-month moving average. February 2019 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics
Manufacturing

Manufacturing Employment
(Quarter-over-Quarter Percent Change)

-20 -16 -12 -8 -4 0 4 8

Jan-07 Sep-07 May-08 Jan-09 Sep-09 May-10 Jan-11 Sep-11 May-12 Jan-13 Sep-13 May-14 Jan-15 Sep-15 May-16 Jan-17 Sep-17 May-18 Jan-19

United States
Texas

Note: Seasonally adjusted, 3-month moving average. February 2019 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics

Major Metros Manufacturing Employment
(Quarter-over-Quarter Percent Change)

-30 -25 -20 -15 -10 -5 0 5 10 15

Jan-07 Sep-07 May-08 Jan-09 Sep-09 May-10 Jan-11 Sep-11 May-12 Jan-13 Sep-13 May-14 Jan-15 Sep-15 May-16 Jan-17 Sep-17 May-18 Jan-19

Austin-Round Rock
Dallas-Plano-Irving
Fort Worth-Arlington
Houston-Baytown-Sugar Land
San Antonio

Note: Seasonally adjusted, 3-month moving average. February 2019 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. February 2019 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. February 2019 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

Note: Inflation adjusted trend-cycle component.
Source: Dodge Analytics
Note: Seasonally adjusted, 3-month moving average. February 2019 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics
Notes: Inflation adjusted. February 2019 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.
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: Inflation adjusted with Bureau of Labor Statistics export indices.
For more information, see Exports. February data are unavailable due to the government shutdown.
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau
Note: Inflation adjusted and detrended with Bureau of Labor Statistics export indices. For more information, see Crude Oil Exports. February data are unavailable due to the government shutdown. Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau.

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