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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May 2019 Summary

Well into the ninth year of the business cycle expansion, Texas’ economic activity remained healthy. Crude oil prices were above the year-end trough and are anticipated to rise if trade talks with China are successful. Payroll expansions continued during historically low unemployment. Growth rates for real income per capita and average hourly earnings continued to lag despite skilled labor shortages. Texas home sales corrected after reaching a record high in April, but the housing market stayed strong with a positive future outlook amid decreasing interest rates and a resurgence in single-family permit issuance. Exports rebounded after staggering values to start the year. Strained trade relations and the slowing global economy, however, may weigh on overall activity in the second half of 2019.

The Dallas Fed’s Texas Business-Cycle Index accelerated 4.8 percent on a seasonally adjusted annualized rate (SAAR), registering above the post-recession average. Payroll expansions held steady, however, but trade uncertainty hindered higher growth. At the metropolitan level, Austin’s index boomed above 8 percent SAAR in the midst of favorable labor-market conditions. Houston and Dallas posted solid SAAR growth at 6.0 and 5.5 percent, respectively. Economic activity was more modest in San Antonio, where the index remained at 3.3 percent. In Fort Worth, labor-market improvements lifted the local index to its highest level this year at 1.9 percent SAAR.

The Texas Leading Economic Index (a measure of future directional changes in the business cycle) decreased after four straight increases amid a dip in oil prices and appreciation in the Texas value of the dollar, which limited export growth by making goods more expensive to international buyers. After data revisions bumped up April’s improvement, the Texas Consumer Confidence Index slid more than eight points in May to the lowest level since 2017. Consumer confidence peaked in October 2018 before oil prices slid at year end.

Continued concerns about global economic growth and trade uncertainty pulled interest rates down for the seventh consecutive month. Long-term rates fell faster than those for short-term instruments, inverting the yield curve and stirring talks of a recession. Economic fundamentals at

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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.
2 The start of the business expansion defined here is the peak of the previous cycle.
the state and national level, however, remain healthy and stable. Interest rates could fall further in anticipation of the Federal Reserve’s possible rate cuts this year due to a low inflation environment. The ten-year U.S. Treasury bond yield fell to an annual low of 2.4 percent, while the Federal Home Loan Mortgage Corporation’s 30-year fixed-rate dropped below 4.1 percent. Mortgage applications fell in both Texas’ refinance and purchase market but remained positive YTD.

Texas housing sales inched down monthly after a record-breaking April but continued a general trend upward. The Residential Construction Cycle (Coincident) Index faltered as construction values fell, indicating sluggish contemporaneous supply activity. Low interest rates and a rebound in construction permits, however, pushed the Residential Construction Leading Index to its highest level since the Great Recession. (For additional housing commentary and statistics, see Texas Housing Insight at recenter.tamu.edu.)

After four consecutive increases, the average West Texas intermediate crude oil spot price dipped below $60 per barrel but remained $8 above the December trough. Strained trade relations with China contributed to uncertainty regarding future oil demand, weighing down prices. Anticipated OPEC production cuts, however, may support higher prices. Texas production balanced above 4.9 million barrels per day in April as the industry focus shifted from exploration activity to generating cash flow3. The active rig count ticked down for the fourth consecutive month to 480. Natural gas prices extended an eighth-month stretch of volatility. The Henry Hub spot price fell to $2.68 per million British thermal unit (BTU), a two-and-a-half year low. In the Permian Basin, insufficient infrastructure pushed the West Texas Waha spot price into negative territory per BTU for the third straight month despite ample demand. Prices are expected to remain low until additional pipeline is available later this year.

Texas added 19,600 nonfarm employment jobs, registering 2.5 percent SAAR growth. The Dallas Fed’s annual employment growth projection was unchanged at 2.3 percent. The unemployment rate fell to a series low of 3.5 percent. While initial unemployment insurance claims increased by 2,400, numbers remained negative YTD. Labor market tightness persisted in the major metros as well. Austin maintained the lowest unemployment rate at 2.8 percent, followed by San Antonio at 3.1 percent. Unemployment in Dallas-Fort Worth ticked down to 3.3 percent. In Houston, the unemployment rate fell to a record low at 3.8 percent. Labor force participation, however, dipped below 64 percent at the state level.

Despite prolonged labor shortages, Texas' real income per capita rose just 1.5 percent YOY, ranking 20th nationally in terms of annual growth. The increase fell short of the 2018 average of 1.67 percent. The professional/scientific/technical services and health care/social assistance industries generated most of the quarterly improvement. Hindering overall growth was the transportation/warehousing sector. Disruptions at the border may have contributed to the decline

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3 The release of Texas crude oil production typically lags the Outlook for the Texas Economy by one month.
as employers sought to decrease input costs that increased wait times and trade uncertainty pushed upward.

Texas’ **real private hourly earnings** flattened YOY and fell $1.75 short of the national average in nominal terms. This is the largest U.S.-Texas wage gap in more than a decade. Dallas overtook Austin as the highest paid metro at $28.67 per hour, but real earnings stagnated compared to its North Texas counterpart. Fort Worth wages averaged just $26.53 per hour, but inflation-adjusted pay rose 2.1 percent YOY, extending a ten-month streak of rising pay. Earnings in Houston ($27.87) and San Antonio ($24.31) grew 1.4 and 1.8 percent YOY in real terms after falling flat the past two months. Nominal wages in Austin sank to $28.40 per hour, the lowest in nearly two years, compounding five-month YOY consecutive declines after adjusting for inflation.

Houston led the state with 8,200 new jobs as the professional/business services sector extended a seven-month expansion. The same industry boomed in Dallas, complementing wholesale trade additions for a total of 4,800 jobs created. In Fort Worth, gains in construction and education/health services balanced losses across multiple service-providing sectors. Austin employment grew by 4,000 positions as retail corrected for April losses, and the business/professional and leisure/hospitality services continued to expand. San Antonio was the exception, netting a 900-job decrease after steady growth to start the year as several industries registered monthly contractions.

Employment growth in Texas’ goods-producing sector slowed after a three-month acceleration, adding only 2,500 jobs. Most of the payroll expansion occurred in construction, but real wages in the industry remained suppressed following steady growth in 2018. **Total construction values** flattened after a surge of office-building investment in North Texas last month. Apartment construction fell in Austin and Houston, weighing on residential values. San Antonio was the bright spot where office-building investment picked up after a lackluster start to the year, and school building activity resurged after a brief pause last month.

The remaining goods-producing subsectors shed 400 jobs apiece amid a weakening global economy. Following Dallas and Houston data revisions boosting April gains from 2,700 to 4,300, hiring in the energy industry corrected downward. Manufacturing employment contracted as Houston registered a net loss for the first time in more than a year. In Dallas, hiring moderated in the industry after adding 3,100 positions in the past two months. Austin and Fort Worth’s manufacturing employment growth remained negative YTD. San Antonio, however, added 560 jobs after a slow start to the year.

**Hourly manufacturing earnings** dipped across the state except in Fort Worth, where wages rose 4.2 percent YOY in real terms after sliding between 2017 and 2018. The metro’s current payroll trimming may be concentrated at the lower end of the skill/wage spectrum, thereby pushing average wages upward. This would represent a distributional shift rather than meaningful growth in earnings. The **Dallas Fed’s Manufacturing Outlook Survey** corroborated slowing activity with only a fifth of businesses increasing hiring while the wage index eased slightly. Production, capacity
utilization, and new orders remained positive but decelerated amid ongoing U.S.-China trade tensions.

Texas’ service-providing sector created 17,100 positions. Professional/scientific/technical services led with 4,400 new hires on top of a record high 8,300 jobs created in April. Health care/social assistance extended steady growth, adding 3,400 jobs as the aging population supported higher demand. While data revisions revealed a positive outlook on wholesale trade, the retail sector registered a 4.8 percent YTD decrease in employment. Leisure/hospitality and accommodation/food services contributed to May’s slowdown in hiring, contracting after five months of payroll expansion.

The Dallas Fed’s Service Sector Outlook Survey corroborated the deceleration in hiring with less than 15 percent of businesses reporting an increase in employment while the wage index was mostly unchanged. More than a fifth of respondents declared revenue increases, but the index slowed as concerns over trade disputes with Mexico and China weighed on consumer confidence and retail sales. The industry outlook on general business conditions remained volatile.

Lower energy prices pulled the U.S. Consumer Price Index (CPI) below 1.8 percent YOY, but core inflation maintained the Fed’s 2 percent benchmark. Potential interest rate decreases later this year may boost inflation. Hikes in food/beverage and medical prices failed to lift the Dallas CPI above 1.5 percent as transportation costs extended a three-month stagnation. Local housing costs registered the lowest increase since 2014.

Amid appreciation in the real trade weighted value of the dollar⁴ and weaker global demand, Texas’ real commodity exports flattened, but national exports increased 1.6 percent. State manufacturing exports picked up after falling in April as transportation equipment values rebounded, but remained negative YTD. Crude oil exports from Texas dipped but registered 22.3 percent YTD as Texas exported 90 percent of the national share for the second straight month.

After three months of depressed values, exports to Mexico reached their highest level since reporting a record high in November. Computer/electronic products rebounded, followed by transportation equipment and chemicals in terms of growth. Petroleum products, however, continued to fall after first-quarter increases. Threats of tariffs on Mexican products could disrupt progress. With anticipations of impending tariff talks, exports to China picked up, posting the greatest value since last summer. Increased shipments of oil/gas accounted for most of the improvement.

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

Texas Mortgage Applications
(Year-over-Year Percentage Change)

Source: Mortgage Bankers Association
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

$/Barrel


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

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


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

Source: U.S. Energy Information Administration received from Thomson Reuters
Note: Seasonally adjusted. May 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. May 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.
Real Personal Income Per Capita
(Annual Percentage Change)

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

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

Notes: Inflation adjusted. May 2019 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)

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

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

Note: Seasonally adjusted, three-month moving average. May 2019 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics
Note: Seasonally adjusted, three-month moving average. May 2019 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics
Note: Seasonally adjusted, three-month moving average. May 2019 is preliminary. For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics
Notes: Inflation adjusted. May 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
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
Construction Employment
(Quarter-over-Quarter Percent Change)

Note: Seasonally adjusted, 3-month moving average. May 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. May 2019 is preliminary. For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
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.

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 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
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
Note: Inflation adjusted and de-trended 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: 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.
Sources: International Trade Administration, Foreign Trade Division, and U.S. Census Bureau