Outlook for the Texas Economy

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Technical Report

2046
October 2019 Data
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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

Data current as of December 5, 2019

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Summary

Texas’ economic growth slowed but remained positive. Job growth paused in North Texas; Fort Worth’s data, however, was negatively affected by the General Motors (GM) strike. Unemployment remained at historically low levels, corroborating the strength of the labor market, although average wages remained stagnant after adjusting for inflation. Housing sales rebounded amid low mortgage interest rates while the residential construction outlook was positive. Ongoing strength in the national and state economies pulled foreclosure inventories down in the third quarter. Energy prices dipped, but oil prices were above the commonly considered break-even price of $50 per barrel. The service sector remained healthy, although manufacturing business activity took a step back. Correspondingly, manufacturing and crude oil shipments fell, pulling down total export values. Political and trade-related uncertainty remain the greatest deterrents to Texas’ economic expansion, although headway has been recently made regarding the U.S.-Mexico-Canada Agreement (USMCA).

The Dallas Fed’s Texas Business-Cycle Index stabilized at 3.9 percent on a seasonally adjusted annualized rate (SAAR), confirming overall healthy economic conditions. The Houston and San Antonio indices accelerated 4.8 and 5.4 percent SAAR, respectively, amid payroll expansions while Austin’s index remained strong at 6.4 percent. On the other hand, economic activity in North Texas slowed to 3.5 and 0.5 percent in Dallas and Fort Worth, respectively, as hiring stumbled.

The Texas Leading Economic Index (a measure of future directional changes in the business cycle), flattened after two consecutive decreases, suggesting moderate growth moving forward. Average weekly manufacturing hours increased; the Texas value of the dollar, however, posted its third straight uptick, weighing down export values by making domestic goods more expensive to international buyers. The Texas Consumer Confidence Index inched forward but failed to recover lost ground from a drop in September.

The national foreclosure inventory sank to a cycle-low less than 0.9 percent in the third quarter amid the continuing business-cycle expansion and tightening lending standards. Texas’ foreclosure inventory hovered around levels unseen since before the oil bust in the 1980s at just 0.6 percent, corroborating the current health of the economy.

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1 All measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.
Speculations of a U.S.-China trade truce and continued strength in the national economic data slowed the downward slide in interest rates. After four straight months where the yield curve was inverted, long-term rates rose above those for short-term instruments, signaling increased confidence. Although talks of recession are still widespread, current economic fundamentals at the state and national level are healthy and stable. The ten-year U.S. Treasury bond yield inched above 1.7 percent, while the Federal Home Loan Mortgage Corporation’s 30-year fixed-rate ticked up to 3.7 percent after ten consecutive monthly decreases. Mortgage applications for home purchases stumbled on the month but registered 21.7 percent year-to-date (YTD) growth. Refinance mortgage application activity accelerated as rates remained relatively low, more than doubling since year end.

Amid low mortgage rates, Texas housing sales recovered from September’s slowdown, increasing 2.8 percent. The Texas Residential Construction Cycle (Coincident) Index, which measures current construction activity, ticked up with industry-wage improvements. The Residential Construction Leading Index rose to its highest level since the Great Recession amid upward-trending building permits, suggesting 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 sank to a YTD low below $53 per barrel as the OPEC demand forecast was revised downward for the third consecutive month. Texas crude oil production neared 5.3 million barrels per day in September\(^2\), while the active rig count stabilized at 425. After last month’s reprieve from five straight declines, the Henry Hub spot price fell to $2.29 per million British thermal units (BTU) amid projections of a warmer winter this year, lowering demand after strong supply growth during the injection season. In the Permian Basin, the West Texas Waha spot price traded negative amid news of the construction start date on Permian Highway Pipeline being pushed back from 4Q2020 to 2021. It was previously traded at nearly $2 in the weeks after the Gulf Coast Express began commercial in-service at the end of September.

After lackluster growth the previous two months, Texas’ nonfarm employment added 30,100 jobs for 2.2 percent SAAR growth in October. The Dallas Fed’s annual employment growth projection remained unchanged at 2.1 percent. The unemployment rate held at 3.4 percent for the Fifth consecutive month. On the metropolitan level, joblessness hovered at post-recessionary lows. Austin maintained the lowest unemployment rate at 2.6 percent, while Dallas and Houston held steady at 3.1 and 3.6 percent, respectively. Fort Worth and San Antonio unemployment ticked up to 3.2 and 3.0 percent, respectively, after record lows the previous month but remained at historically low levels. The state’s labor force participation inched up to 63.8 percent as a cumulative 80,700 Texans entered the labor market since August, likely contributing to the rise in Fort Worth’s and San Antonio’s unemployment rate. Following three straight decreases, initial unemployment insurance claims increased to a YTD high of 59,000.

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\(^2\) The release of crude oil production typically lags the Outlook for the Texas Economy by one month.
Texas’ **real private hourly earnings** fell year over year (YOY) for the fifth straight month. The aging workforce may explain some sluggishness in the average earnings, as older workers generally experience less wage growth. Austin was the highest-paying metro with nominal wages of $28.96 per hour. After adjusting for inflation, however, earnings fell YOY for the tenth straight month. Real earnings in Dallas ($28.88) and Houston ($27.67) also extended downward trends, decreasing 1.0 and 2.3 percent YOY, respectively. Fort Worth ($26.70) inflation-adjusted wages stumbled after 15 consecutive increases. On the bright side, San Antonio ($24.70) real earnings increased 1.7 percent YOY.

Along with real wage improvements, San Antonio led the major metros in employment growth, creating 10,000 jobs in October, the greatest monthly change in the metro’s series history. Gains in leisure/hospitality and professional/business services comprised half the growth. The same sectors boosted Austin and Houston employment, which added a total of 6,500 and 8,000 positions, respectively. Trade/transportation/utilities and education/health services were the largest detractors in Austin, while construction payrolls contracted in Houston. North Texas employment struggled as Dallas shed 200 jobs while Fort Worth added only 200 jobs after a sluggish third quarter. In Dallas, professional/business services was mainly responsible for the negative job report, contracting for the second straight month. The sector has been a large component of growth in the metropolitan division for much of the past decade. Meanwhile in the west side of the metroplex, the GM strike in Arlington pulled down durable-goods manufacturing employment but has since been resolved, with workers returning to their positions. Hiring in mining/logging/construction and education/health services, however, offset the strike’s losses.

Texas’ goods-producing payrolls shed a total of 2,600 positions amid manufacturing and energy-related losses. **Hourly manufacturing earnings** inched forward on a monthly basis but decreased YOY for the sixth consecutive month after accounting for inflation. On the metro level, only DFW registered positive real wage growth. The **Dallas Fed’s Manufacturing Outlook Survey** corroborated these trends as the employment index decelerated and the number of respondents reporting rising wages and benefits increased, consistent with the monthly nominal data. Business activity reversed a two-month positive trend as production slowed and new orders contracted. Respondents noted the slowing economy, tariffs, and uncertainty as primary concerns.

Construction employment growth slowed but remained positive, adding 1,500 jobs. Real hourly industry earnings declined YOY for the ninth straight month, although this may be due to employers hiring more low-skilled workers as the demand for higher-paid tradesmen remain largely unfilled, pulling the average wage down. **Total construction values** picked up as hospital construction activity was reinvigorated by projects in DFW and Houston. School-building investment, however, fell for the third consecutive month amid a drawback in Central Texas. On the residential side, both single-family and multifamily values took a step back; single-family investment, however, maintained a strong upward trend. The sector in Houston and North Texas continued to recover after sliding in the second half of 2018, while Austin and San Antonio YTD values were positive compared with levels in the first ten months of 2018.
In Texas’ service-providing sector, payrolls added 32,700 new positions on top of an 8,000-job upward revision to September numbers. Accommodation/food services and transportation/warehousing/utilities were the largest contributors to October’s gains, correcting for a third-quarter slump. The Dallas Fed’s Service Sector Outlook Survey indicated improvements in employment and revenues, pushing the indices above each of the series’ averages. Selling prices fell, but wages/benefits and input prices increased, cutting into profits. However, the revenue, company outlook, and business activity indices accelerated, attesting to the strength of the service sector.

Retail trade employment increased modestly after two straight declines but remained flat YTD. Recently released 1Q2019 MSA retail sales data revealed a drop in inflation-adjusted sales in every major metro with the exception of San Antonio. Contemporaneous data, however, show that statewide retail sales\(^3\) increased 3.2 percent YOY after accounting for inflation. The Dallas Fed’s Retail Outlook Survey suggested retailers increased hiring; the hours worked index, however, fell for the third straight month. Although uncertainty remained prevalent, the company outlook index accelerated to its best reading in over a year. Survey respondents expect retail activity to continue to grow in the next six months.

As inflationary pressures remained mild, the U.S. Consumer Price Index (CPI) increased 1.8 percent YOY, missing the Fed’s 2 percent benchmark. Core inflation, however, surpassed 2.3 percent amid increasing housing and medical care expenditures. In Houston, falling transportation costs offset rising medical expenses, resulting in YOY growth of less than 1 percent.

After a third straight uptick in the Texas trade-weighted value of the dollar\(^4\), Texas’ real commodity exports fell 2 percent from a record high in September but still accounted for a fifth of the national total. Manufacturing exports declined 2.7 percent after adjusting for inflation as transportation equipment shipments dropped. Crude oil exports stumbled 2.3 percent in real terms, weighing heavily on total exports. China was a notable contributor to the decrease, failing to import any crude oil from Texas for the first time since January as China’s share of total exports sunk to 2.7 percent. Mexico and Canada received 40.4 percent of Texas’ outgoing shipments, the smallest percentage in 11 years. Recent progress, however, has been made regarding the USMCA as the U.S. Congress signaled approval, although the trade pact likely won’t be ratified until 2020. Continuing U.S.-China trade tensions are a threat to a vital part of Texas’ economy.

\(^3\) The release of Texas retail sales typically lags the Outlook for the Texas Economy by one month.
\(^4\) The release of the Texas trade-weighted value of the dollar 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
Mortgage Foreclosure Inventory (End of Period)
(Percent)

Note: Seasonally adjusted.
Source: Mortgage Bankers Association

30-Year Mortgage Rate and 10-Year Bond Yield
(Percent)

Note: Nonseasonally adjusted.
Sources: Federal Home Loan Mortgage Corporation and Federal Reserve Board
Texas Mortgage Applications
(Year-over-Year Percentage Change)

Refinance
Purchase

2011 2013 2015 2017 2019

Note: Seasonally adjusted.
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

$/million BTU

Crude Oil
Natural Gas
(Right Axis)

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)

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

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

Unemployment Rate
(Percent)

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

Note: Seasonally adjusted. October 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
Unemployment Insurance Claims: Initial Applications

(Year-over-Year Percentage Change)

United States

Texas

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

Total Private Employee Hourly Earnings

(Year-over-Year Percent Change)

United States

Texas

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

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

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

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

Note: Seasonally adjusted, three-month moving average. October 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, seasonally adjusted. October 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, seasonally adjusted. October 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. October 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. October 2019 is preliminary. For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
Texas Construction Values
(Index Jan 2007 = 100)

[Graph showing Texas Construction Values with trend-cycle component]

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

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

[Graph showing Major Metros Total Construction Values with trend-cycle component]

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

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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 and inflation adjusted. For more information, see Texas Retail Sector.
Sources: 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-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
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

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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