About this Report .............................................................................................................................. 3

May 2020 Summary .......................................................................................................................... 4

Economic Activity .............................................................................................................................. 11
  Gross State Product ....................................................................................................................... 11
  Texas Business Cycle Index and Leading Index .............................................................................. 11
  Major Metros Business Cycle Index ............................................................................................. 12
  Consumer Confidence Index .......................................................................................................... 12

Financial Activity ............................................................................................................................. 13
  30-Year Mortgage Rate and Ten-Year Bond Yield ....................................................................... 13
  Texas Mortgage Applications ........................................................................................................ 13

Housing ............................................................................................................................................ 14
  Housing Sales ............................................................................................................................... 14
  Texas Residential Construction Indicator .................................................................................... 14

Energy .................................................................................................................................................. 15
  Crude Oil and Natural Gas Prices ................................................................................................. 15
  Texas Production of Crude Oil and Rig Count .............................................................................. 15

Employment .................................................................................................................................... 16
  Employment Growth Rate ............................................................................................................ 16
  Unemployment Rate .................................................................................................................... 16
  Major Metros Unemployment Rate ............................................................................................... 17
  Unemployment Insurance Claims: Initial Applications ................................................................. 17
  Unemployment Insurance Claims: Continued Applications ......................................................... 18
  Labor Force Participation Rate ...................................................................................................... 18
  Real Personal Income per Capita .................................................................................................. 19
  Total Private Employee Hourly Earnings ..................................................................................... 19
  Major Metros Total Private Employee Hourly Earnings .............................................................. 20
  Major Metros Employment Growth Rate ..................................................................................... 20

Manufacturing ................................................................................................................................. 21
  Manufacturing Employment .......................................................................................................... 21
  Major Metros Manufacturing Employment .................................................................................... 21
  Manufacturing Employee Hourly Earnings .................................................................................... 22
  Major Metros Manufacturing Employee Hourly Earnings ............................................................ 22
  Manufacturing Outlook Survey ...................................................................................................... 23

Construction ..................................................................................................................................... 24
  Construction Employment ............................................................................................................ 24
  Construction Employee Hourly Earnings ...................................................................................... 24
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, Paige Silva, and Griffin Carter

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Summary

Overall economic activity improved in May after collapsing the previous month, but a long road to recovery is still ahead. Net hiring was positive for the first time since February while joblessness ticked down. Mining/logging and state government employment were the only sectors to lose more jobs than the prior month as oil prices remained at critically low levels and budgets tightened. Export values and housing sales continued to decline, albeit at a lower rate. The Real Estate Center’s Texas weekly leading economic activity index suggested improved labor-market conditions into June, but a resurgence of COVID-19 cases may hamper further progress.

Recently released data revealed Texas’ Gross State Product decreased 2.5 percent on a seasonally adjusted annualized rate (SAAR) during the first three months of 2020. The decline, however, was the third smallest in the nation, where the average drop was 5 percent in the wake of COVID-19. Accommodation/food services and energy-related activities were the largest contributors to the Lone Star State’s contraction, offsetting small improvements in agriculture/forestry/fishing/hunting and professional/scientific/technical services.

Economic activity continued to plummet in the second quarter. Although the employment downturn may have reached a trough during the prior month, labor market conditions were still weak in May, pulling the Dallas Fed’s Texas Business-Cycle Index down 37.8 percent SAAR. The Austin and Dallas indexes worsened as well, falling 49.0 and 37.2 percent, respectively. On the other hand, the rate of decline slowed to 36.8 percent in Fort Worth and 30.5 percent in Houston. San Antonio’s metric also decelerated but still posted a larger drop than the state, sinking 41.1 percent.

The Texas Leading Economic Index (a measure of future directional changes in the business cycle) inched up two points after hitting a cycle-low the previous month. Decreased initial unemployment claims and an improvement in the real oil price boosted the metric, but the help-wanted index and falling well permits limited overall gains. Meanwhile, the Texas Consumer Confidence Index recovered half of April’s losses as businesses began reopening.

Nevertheless, the rampant spread of the coronavirus kept interest rates at historically low levels, though an upturn in oil prices slowed the downward slide. The ten-year U.S. Treasury bond yield flattened at 0.7 percent, but the Federal Home Loan Mortgage Corporation’s 30-year fixed-rate dropped to its lowest reading on record at 3.2 percent. Mortgage applications for home purchases

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1 All measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.
rose by a third in May after three straight decreases yet remained 4.5 percent below year-end levels. Refinance activity stumbled on the month, although applications were up 60.8 percent year to date (YTD).

**Total Texas housing sales** continued to fall in May, but the decline slowed to a 2.1 percent monthly decrease. The Texas **Residential Construction Cycle (Coincident) Index**, which measures current construction levels, inched up in May as the industry began rehiring some of the jobs shed during the economic shutdown. The **Residential Construction Leading Index**, however, extended a downward trend as tumbling housing starts offset increased permitting activity and reduced real interest rates, suggesting sluggish activity in the near future. The metropolitan leading indexes also extended downward trajectories. (For additional housing commentary and statistics, see Texas Housing Insight at recenter.tamu.edu.)

The **West Texas intermediate (WTI) crude oil spot price** rallied to $27 per barrel after averaging $16 per barrel the prior month. Demand increased as stay-at-home orders expired and OPEC production cuts helped assuage the fears of excess supply. Still, prices remained below sustainable levels, resulting in Texas’ **active rig count** falling to 164. Crude oil production decreased to 5.2 million barrels per day in April. On the natural gas front, the **Henry Hub spot price** ticked down to $1.79 per million British thermal unit (BTU) amid low industrial demand. A more rapid decline in natural gas production in the Appalachian and Permian regions, however, should support prices for the rest of the year.

Texas’ job report was better than expected with **nonfarm employment** adding 237,800 jobs, although the YTD decline remained high at 8.5 percent. The Dallas Fed projects employment will contract 3.2 percent annually, ending 2020 with 12.5 million workers. Currently, there are 11.8 million Texans employed. Resumed hiring brought the **unemployment rate** down half a percentage point to 13 percent. However, if economic activity backslides due to a resurgence in new COVID-19 cases, then joblessness may ramp back up again. All the major metros recorded a downtick in unemployment equal to or greater than the statewide average, with Austin’s metric posting the greatest change, sinking to 11.6 percent from 12.7 percent. North Texas posted joblessness at 12.5 in Dallas and 12.9 percent in Fort Worth. Unemployment rates in San Antonio and Houston hovered slightly higher at 13.1 and 14.1 percent, respectively.

Just under 597,000 Texans filed for **initial unemployment insurance claims** in May, halving the April total, with claims decreasing each week (Figures 1 and 2). However, a backslide in economic activity due to a resurgence in new COVID-19 cases may trigger renewed joblessness. Already, average weekly **continued unemployment insurance claims** increased to a new record high of 1.2 million in May. On the bright side, Texas’ **labor force participation** rose from a series low of 58.4 percent to 60.7 percent. The table in page 7 summarizes changes in the labor force across the major Metropolitan Statistical Areas (MSAs). Gains in Houston and San Antonio exceeded the statewide average while Austin and DFW fell short in terms of percentage change.

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2 The release of crude oil production typically lags the Outlook for the Texas Economy by one month.
Note: Initial unemployment claims are seasonally adjusted.

Note: Seasonally adjusted.
Sources: Texas Workforce Commission, U.S. Department of Labor Employment and Training Administration, and Real Estate Center at Texas A&M University calculations
Texas’ real income per capita increased just 0.9 percent year over year (YOY) during 1Q2020, less than the national rate of 1.1 percent. The Lone Star State’s finance/insurance and professional/scientific/technical services sectors posted improvements, but mining/quarrying/oil and gas extraction and accommodation/food services registered large contractions. Transfer payments from the government, however, contributed more to the overall growth in personal income than net earnings from employment.

Meanwhile, real private hourly earnings rose 2.9 percent YOY but declined on a monthly basis. Compositional changes in the state’s workforce may explain some of the fluctuation as much of the hiring in May was concentrated in the lower-paying job sectors, which would pull the average wage down relative to April. However, the proportion of these lower-paying jobs to total jobs was less than the year-ago level, resulting in positive YOY growth in the average wage. Fort Worth posted the largest annual increase in real earnings of 11.4 percent for a nominal wage of $27.86 per hour. Austin ($30.32) and Dallas ($29.91) hourly earnings jumped 4.6 and 4.0 percent YOY, respectively, after accounting for inflation. Real average wage growth in San Antonio ($24.68) was 2 percent, while hourly pay in Houston ($27.49) dipped slightly in real terms, falling 0.8 percent. Houston’s deviation from the upward trending wage may be due to its larger energy-related industry, which is struggling in the low-price environment.

As businesses gradually reopened and the statewide stay-at-home mandate expired, Texas’ major metros recorded similar trends in hiring. Nearly half of the job gains occurred in the leisure/hospitality sector. Education/health services and retail trade reported the next-highest expansions in Fort Worth, Houston, and San Antonio, pushing overall employment up by 28,800, 63,900, and 28,700 jobs, respectively. In Dallas, where a total of 46,400 positions were added, professional and business services hired the second greatest number of jobs. Austin employment increased by 16,300 with other services behind leisure/hospitality. State and local government decreased across the board as budgets tightened.

Texas’ goods-producing industry added 4,100 jobs, a scant improvement after shedding almost 140,000 positions during the previous two months. Mining/logging was the sole detractor from goods-producing employment, laying off 14,600 employees as oil prices remained at critically low levels. The manufacturing sector posted slight improvement, hiring 1,800 workers in the durable-goods field and 3,700 in non-durable goods. The addition of more lower-paying non-durable goods jobs pushed average hourly manufacturing earnings up on a monthly basis, but relative to year-ago levels, real wages climbed 4.9 percent. The improvement was concentrated in North Texas whereas Houston and San Antonio earnings extended year-long slides. The Dallas Fed’s
Manufacturing Outlook Survey revealed more respondents reported an increase in wages and benefits than a decrease. The employment index, however, stayed in negative territory. On the bright side, company outlook improved while the production, capacity utilization, and new orders indexes rebounded.

Construction employment recovered by the greatest percentage change in the goods-producing sphere, jumping 1.8 percent after adding 13,200 jobs. Meanwhile, average hourly construction earnings remained sluggish after accounting for inflation. Despite the gradual reopening of the economy, total construction values ticked down another 1.5 percent in real terms. Residential construction decreased for the fifth consecutive month with particular weakness in Houston’s apartment sector. Nonresidential investment picked up slightly with various warehouse, school-building, and hospital construction projects in Central Texas. Office-building and stores/restaurant values, on the other hand, fell in DFW and Houston.

Service-providing jobs inched up above ten million after adding 233,700 positions in May. Food services/drinking places called back 184,000 employees while ambulatory health care services expanded payrolls by 57,400. State and local government were the only subsectors to accelerate job cuts, laying off 53,200 workers as other expenses skyrocketed. Unless the second wave of COVID-19 cases triggers another economic shutdown, overall service-providing employment is expected to continue to recover, albeit gradually. The Dallas Fed’s Service Sector Outlook Survey contradicted the jobs report, with the employment and hours worked indexes declining, although at a slower rate than the prior month. All other current business indicators were negative except for input prices. Respondents expect revenue, selling prices, and labor market conditions to improve in the future, but COVID-19 impacts were the top concerns.

Texas retailers hired 27,100 employees, mostly in the clothing/clothing accessories and general merchandising sectors. Electronics/appliance stores and gasoline stations, however, registered larger job cuts than in April. As the state began to reopen, retail sales rebounded on the month but persisted 1.1 percent below year-ago levels after adjusting for inflation. The Dallas Fed’s Retail Outlook Survey sales and employment metrics rose significantly but remained negative as more respondents noted decreases than increases. Outlook uncertainty prevailed, but the index was below its series average. For the first time this quarter, a plurality of survey participants expected future business conditions to improve.

Annual movements in the U.S. Consumer Price Index (CPI) were sluggish for the second straight month as transportation costs fell 10.7 percent YOY. Core inflation also decelerated, increasing only 1.2 percent. In Dallas, the CPI fell into negative growth territory for the first time in more than four years as diminished demand pulled down apparel and recreation costs in addition to local transportation prices.

After the Texas trade-weighted value of the dollar shot up 5.8 percent for its second straight increase the previous month³, Texas’ real commodity exports fell 15.1 percent to a ten-year low.

³ The release of the Texas trade-weighted value of the dollar data typically lags the Outlook for the Texas Economy by one month.
Manufacturing exports declined 17.3 percent in real terms, with petroleum/coal products accounting for the majority of the decrease, followed by computer/electronic products. Meanwhile, crude oil exports sank 32.2 percent amid reduced shipments to Taiwan, India, and the United Kingdom.

Exports to Mexico and Canada decreased by 17.3 and 11.6 percent, respectively, registering only half the value of exports at year-end. The monthly reduction was largely attributed to a drop in computer/electronic products to Mexico and energy-related products and chemicals to Canada. The two countries combined received just over a third of Texas’ total outgoing shipments. On the other hand, outgoing shipments to China rose almost 70 percent after massive oil/gas purchases. Subsequently, China’s share of Texas exports doubled to one-tenth, a record high. The coronavirus pandemic and renewed tensions between the U.S. and China, however, make a phase-two trade deal between the two countries unlikely in the foreseeable future.

The Center created a Texas weekly leading economic activity index to predict turning points in Texas employment. (For more information, see COVID-19 Impact Projections on Texas Economy at https://www.recenter.tamu.edu/articles/special-report/COVID-19-Impact-Projections.) The index took a step backward the last week of June (Figure 3), primarily due to an increase in the number of people filing for unemployment insurance. Based on both the Texas weekly leading index and national employment, which rose 3.6 percent relative to May, Texas nonfarm employment could grow 3.4 percent, amounting to 403,000 jobs, in June. Yet the recent upsurge in COVID-19 cases in Texas could hinder the rebound in economic activity. Further waves of infections can reverse increased mobility and spending, affecting the path to recovery.
Figure 3. Texas Weekly Leading Index
(Index 1/7/2006 = 100)

Note: Data updated through June 27, 2020.
Source: Real Estate Center at Texas A&M University
Gross State Product
(Quarter-over-Quarter Percent Change)

United States  Texas

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

Texas Business Cycle Index and Leading Index
(Index Jan 2007 = 100)

Business Cycle Index  Leading Index (Right Axis)

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

Note: Trend-cycle component. Source: Conference Board.
30-Year Mortgage Rate and Ten-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)

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

Texas Residential Construction Index
(Index Jan 2000 = 100)

Note: Trend-cycle component.
Sources: Real Estate Center at Texas A&M University and Federal Reserve Bank of Dallas
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 Growth Rate
(Quarter-over-Quarter Annualized Percent Change)

Note: Seasonally adjusted, three-month moving average. May 2020 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics

Unemployment Rate
(Percent)

Note: Seasonally adjusted. May 2020 is preliminary. For more information, see Unemployment Rate.
Source: Bureau of Labor Statistics
Note: Seasonally adjusted. May 2020 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
Unemployment Insurance Claims: Continued Applications
(Thousands)

(United States) (Texas)


0 2,000 4,000 6,000 8,000 10,000 12,000 14,000 16,000 18,000

United States Texas

Note: Seasonally adjusted. Average weekly continued claims.
Source: Department of Labor/Haver Analytics

Labor Force Participation Rate
(Percent)


58 59 60 61 62 63 64 65 66 67

United States Texas

Note: Seasonally adjusted. For more information, see Unemployment Rate.
Source: Bureau of Labor Statistics
Note: Seasonally adjusted quarterly annualized rate.
Source: Bureau of Economic Analysis

Note: Inflation adjusted, seasonally adjusted. May 2020 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
Note: Inflation adjusted, seasonally adjusted. May 2020 is preliminary. For more information, see Total Private Employee Hourly Earnings. Source: Bureau of Labor Statistics

Note: Seasonally adjusted, three-month moving average. May 2020 is preliminary. For more information, see Employment Growth Rate. Source: Bureau of Labor Statistics
Note: Seasonally adjusted, three-month moving average. May 2020 is preliminary. For more information, see Employment Growth Rate.
Note: Inflation adjusted, seasonally adjusted. May 2020 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. May 2020 is preliminary. For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics

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

Note: Inflation adjusted, seasonally adjusted. May 2020 is preliminary. For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
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

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 and Retail Sales from Texas Comptroller of Public Accounts
CPI Inflation Rates (Year-over-Year Percent Change)

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

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

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 figure 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
Texas Exports by Country

(Percent)

Note: Trend-cycle component. For more information, see Exports.
Sources: International Trade Administration, Foreign Trade Division, and U.S. Census Bureau
Texas A&M University
2115 TAMU
College Station, TX 77843-2115

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

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