2018 Texas Economic Outlook: Firing on all Cylinders

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Texas Economic Growth Weak in 2015-2016, Accelerated in 2017 and 2018

- In five years prior to 2015, growth in energy, construction and exports provided a strong stimulus to Texas.
- In 2015 and 2016, low oil prices and strong dollar reduced job growth – but Texas did better than other energy states.
- Last year, Texas employment grew much faster than in 2016, faster than the nation and close to trend.
- Pickup mostly due to a rebound in energy and manufacturing sectors.
- Jobs grew 1.9 percent last year, 3.6 percent so far this year and should finish the year at 3.3 percent.
2016 Texas Job Growth Slipped Below Nation Due to Oil Bust

NOTE: Black bars represent large energy-producing states.
2017 Texas Job Growth Improved, 10th Fastest Among States


NOTE: Black bars represent large energy-producing states.
2018 Texas Growth Strong, Currently Third Fastest Among States

Percent Change, Dec. 2017 - May 2018

NOTES: Black bars represent large energy-producing states. Growth rates are seasonally adjusted.
Texas Job Growth Usually Above the Nation’s

NOTE: Shaded bars represent seasonally adjusted, annualized growth from Dec. 2017 to May 2018
Texas Unemployment Rate Near Lowest Level Since 1970s

![Unemployment Rate Chart]

Texas unemployment rate vs. US unemployment rate from 2000 to 2018. The graph shows a decline in unemployment rates over the years, with Texas unemployment rate consistently lower than the US unemployment rate. The data for May 2018 shows a Texas unemployment rate of 3.8% and a US unemployment rate of 4.1%.

Texas Economy Weakened in 2015 and 2016 But Remained in Expansion

(Texas Business-Cycle Index)

NOTE: Shaded areas represent Texas recessions
SOURCE: Federal Reserve Bank of Dallas
Growth Broad-Based Across Large Metros

<table>
<thead>
<tr>
<th>City</th>
<th>Percent, Dec./Dec.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas</td>
<td>3.6</td>
</tr>
<tr>
<td>Houston (24.7%)</td>
<td>4.4</td>
</tr>
<tr>
<td>Dallas (21.1%)</td>
<td>4.1</td>
</tr>
<tr>
<td>San Antonio (8.5%)</td>
<td>0.5</td>
</tr>
<tr>
<td>Austin (8.5%)</td>
<td>3.7</td>
</tr>
<tr>
<td>Fort Worth (8.4%)</td>
<td>2.8</td>
</tr>
<tr>
<td>El Paso (2.5%)</td>
<td>2.0</td>
</tr>
<tr>
<td>Corpus Christi (1.6%)</td>
<td>1.4</td>
</tr>
</tbody>
</table>

NOTES: Shaded bars represent seasonally adjusted, annualized growth from Dec. 2017 to May 2018. Figures in parentheses represent shares of total state employment.
Goods-Producing Industries Rebounded in 2017, Strong So Far This Year

NOTES: Shaded bars represent seasonally adjusted, annualized growth from Dec. 2017 to May 2018. Figures in parentheses represent shares of total nonfarm employment.

Texas Manufacturing Growing Strongly

NOTE: Data are seasonally adjusted.
Texas Service Sector Continuing to Expand

NOTE: Seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas Texas Service Sector and Retail Outlook Surveys.
Business Sector Outlooks Strong this Year but Slightly Weaker in Recent Months

NOTE: Seasonally adjusted.

SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing, Service Sector and Retail Outlook Surveys.
Share of Texas Jobs Tied To Exports 4th Highest Among States

SOURCES: International Trade Administration; WISERtrade; Bureau of Economic Analysis.
State Exports at All-Time High This Year

Index, SA, Real
Jan. 2000=100

Texas Value of the Dollar

Texas

U.S. minus Texas

Q4 2017

Index
Jan. 1988=100

Texas Construction Contract Values Weakened Somewhat Recently but Still at High Level

SOURCES: F.W. Dodge, Federal Reserve Bank of Dallas.
Oil Prices Holding Above $60 This Year – Rig Count Picking Up

NOTE: Data are weekly, last data point is the week of June 22, 2018.
SOURCES: Oil and Gas Journal, Baker Hughes.
Energy Survey Suggests Continued Growth in Energy Activity in 2018

SOURCE: Federal Reserve Bank of Dallas.
Breakeven Prices for New Drilling Below Current Price of WTI

Energy Survey: “In the top two areas in which your firm is active: What WTI oil price does your firm need to profitably drill a new well?”

Dollars per barrel

NOTES: Line shows the mean, and bars show the range of responses. 65 E&P firms answered this question from March 14-22, 2018.
SOURCE: Federal Reserve Bank of Dallas.
Texas Leading Index Components Mostly Positive

Net contributions to change in the Texas Leading Index
(March - May 2018)

-0.68 0.41
-0.03 0.32
-0.02 0.29
-0.08 0.40
0.22

Net Change in Texas Leading Index
Texas Value of the Dollar
U.S. Leading Index
Real Oil Price
Well Permits
New Unemployment Claims
Texas Stock Index
Help Wanted Index
Average Weekly Hours

NOTE: Seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas.
Texas Jobs Forecasted to Grow 3.3% in 2018

Texas nonfarm employment and forecast (with 80% confidence band)

Leading Index

Millions, seasonally adjusted

Index, 1987=100

Recent TMOS Comments Suggest Concerns with Recent Tariffs

- Fabricated metals producer: “I can’t believe the effect the tariff response has had on the metals trade. Somebody needs their head examined if they think this is good for the American economy.”
  - “Steel tariffs to NAFTA partners is a mistake. Higher steel prices could slow down strong projects and the manufacturing recovery which started in fourth quarter 2017.”
- Machinery Manufacturer: There is lots of uncertainty among manufacturers regarding the impact of the steel tariffs. Even steel sourced from the U.S. is rapidly increasing in price due to capacity constraints.
- Food Manufacturer: Tariffs impacting the price of stainless steel are a concern.
Summary

- In 2015 and 2016, Texas weakened sharply but continued to grow - did much better than 1980s and better than other energy states.
- In 2017 energy and manufacturing sectors rebounded.
- Texas grew at 2.1 percent in 2017 and will likely accelerate to about 3.3 percent this year.
- Big challenge is shortage of labor with UR near historical lows - so far labor force has grown strongly (3.5 percent so far this year versus 0.1 percent nationally) but uncertain if it will last.
- Biggest risk to the forecast is trade war or sharp decline in oil prices.
Public Resources from the Dallas Fed:

- Southwest Economy
- Regional Economic Updates
- San Antonio and Austin Economic Indicators
- Texas Business Outlook Surveys
- Energy Survey
- National Economic Updates
- International Economic Updates
- Additional Research Publications and Data