South Texas Economy Showing Resilience to Energy Downturn

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South Texas Economy Diverse

- Divide region into three key areas – The South Texas Border, San Antonio and Austin. Each has its own industry makeup and key drivers.

- In general this area is less sensitive to energy extraction and manufacturing and more sensitive to government spending.

- During most of expansion, region slightly lagged state with exception of Austin. This year better than state due to less sensitivity to oil industry.
Since 1990, South Texas Has Added Jobs Faster Than The Rest of Texas

Index, Jan. 1990 = 100, SA

Besides Austin, Job Growth Near or Below Rest of TX During Pre-2015 Recovery

Index, Nov. 2009 = 100, SA

## Service-Producing Sectors an Important Source of South Texas Economic Growth

<table>
<thead>
<tr>
<th>Sector</th>
<th>Austin</th>
<th>Brownsville</th>
<th>Laredo</th>
<th>McAllen</th>
<th>San Antonio</th>
<th>Rest of TX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>0.82</td>
<td>0.20</td>
<td>4.59</td>
<td>1.76</td>
<td>1.57</td>
<td>5.02</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.72</td>
<td>0.50</td>
<td>0.09</td>
<td>0.31</td>
<td>0.56</td>
<td>0.95</td>
</tr>
<tr>
<td>Retail</td>
<td>0.98</td>
<td>1.24</td>
<td>1.22</td>
<td>1.38</td>
<td>1.06</td>
<td>1.00</td>
</tr>
<tr>
<td>Transportation and Warehousing</td>
<td>0.54</td>
<td>0.96</td>
<td>4.31</td>
<td>1.02</td>
<td>0.90</td>
<td>1.32</td>
</tr>
<tr>
<td>Professional and technical services</td>
<td>1.59</td>
<td>0.29</td>
<td>0.41</td>
<td>0.31</td>
<td>0.80</td>
<td>1.01</td>
</tr>
<tr>
<td>Computer systems design and related svcs</td>
<td>2.46</td>
<td>0.06</td>
<td>0.05</td>
<td>0.07</td>
<td>0.55</td>
<td>0.99</td>
</tr>
<tr>
<td>Management and technical consulting svcs</td>
<td>1.86</td>
<td>0.28</td>
<td>0.99</td>
<td>0.35</td>
<td>0.89</td>
<td>1.16</td>
</tr>
<tr>
<td>Leisure and hospitality</td>
<td>1.17</td>
<td>1.00</td>
<td>1.03</td>
<td>0.87</td>
<td>1.22</td>
<td>0.96</td>
</tr>
<tr>
<td>Health care and social assistance</td>
<td>0.85</td>
<td>2.04</td>
<td>1.20</td>
<td>1.94</td>
<td>1.22</td>
<td>0.97</td>
</tr>
<tr>
<td>Home health care services</td>
<td>0.77</td>
<td>11.75</td>
<td>6.32</td>
<td>10.14</td>
<td>2.76</td>
<td>2.07</td>
</tr>
<tr>
<td>Federal Government</td>
<td>0.66</td>
<td>1.22</td>
<td>1.69</td>
<td>0.84</td>
<td>1.87</td>
<td>0.76</td>
</tr>
<tr>
<td>State and Local Gov't</td>
<td>1.20</td>
<td>1.46</td>
<td>1.41</td>
<td>1.56</td>
<td>1.00</td>
<td>0.98</td>
</tr>
</tbody>
</table>

**NOTE:** Data from 2015; location quotients measure the ratio of employment share locally to employment share nationally.

**SOURCE:** Texas Workforce Commission; Bureau of Labor Statistics; Federal Reserve Bank of Dallas.
Historically Federal Government Civilian Jobs Have Grown Strongly on Border

Index, Jan. 1995 = 100, SA

Laredo
Brownsville
McAllen
Austin
Rest of Texas
San Antonio

Note: Data adjusted to exclude temporary Census workers.
This Year Most of South Texas Growing Faster than Rest of State

- Energy and manufacturing decline hitting other areas much harder

- Health care strong along the border, weak in Austin and San Antonio

- Federal government stronger this year

- With the exception of Brownsville, metros’ growth outpacing the rest of the state this year

South Texas Border
Home Health Care Big Part of Border Job Growth From Early 1990s to About 2012

Percent Share of Total Jobs, SA

- Brownsville: 10.6%
- McAllen: 9.3%
- Laredo: 5.1%
- Rest of Texas: 1.9%

Note: Data are adjusted for annual BLS occupational reclassifications.
Sources: Bureau of Labor Statistics; Texas Workforce Commission; Federal Reserve Bank of Dallas.
Weak Peso Has Been A Drag on Border Retail Sales

Border Retail Sales

Dollar/Peso Real Exchange Rate (Inverted)

Percent Change, Y/Y

Real Exchange Rate

1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011 2013 2015
Tight Credit Conditions Likely Impacting Housing Growth in South Texas Border

Sources: Census Bureau; Haver Analytics; Federal Reserve Bank of Dallas.
Growth in Northern Mexico Likely Source of Strength for Border Region

NOTE: South Texas includes Laredo, Brownsville, and McAllen. Northern Mexico Border includes Nuevo Laredo, Matamoros, and Reynosa.

• 2016 job growth accelerating in Laredo and McAllen, slowing in Brownsville.

• Education and health care jobs continuing to grow strongly this year.

• Federal gov’t picking up sharply after weakness over the past several years.

• Retail jobs remain weak; very slow growth since the strengthening of the dollar began mid-2014.

• Growth in South Texas border MSAs likely to average around 1.5% – 2.5% this year, 2.0 – 3.0% in 2017.

*Annualized through Sept 2016
San Antonio
Energy Activity has Less Impact on San Antonio than Rest of State

NOTE: Eagle Ford rig count data not available prior to 2007.
• 2016 job growth at 2.0% so far after 2.8% in 2015

• Federal govt. accelerating this year.

• Health care and construction holding steady after strong expansion in last two years.

• Retail, leisure and hospitality weaker, possible spillover effects from Eagle Ford.

• Overall job growth in San Antonio likely to be 2.0 – 2.5% this year and 2.5 – 3.0% in 2017
Austin
Austin Technology Services Employment Continues to Outpace Overall Job Growth

Index, Jan. 2005 = 100

- High-tech services
- Total nonfarm
- High-tech manufacturing

NOTE: Data are seasonally adjusted, dashed lines represent estimates based on broader industry data.
• 2016 job growth down to 1.5% so far this year from 4.6% last year.

• High tech services growth slowing but remain strong.

• Finance and government accelerating from last year.

• Manufacturing, health care shedding jobs; leisure and hospitality and retail still growing but are very weak.

• Overall job growth likely to be about 2.0% this year – 3.0 to 4.0% next year.

*Annualized through Sept. 2016
Summary and Conclusions

• Historically job growth has been strong in South Texas
• Metros areas in region have common and unique features
• This year, Austin and San Antonio slowing
• South Texas Border improved but still below long-term trend.
• Despite current weakness, outlook is generally good: job growth in the major regions of South Texas will surpass the rest of the state in 2016 and 2017 – exception is counties in the Eagle Ford