Texas Metros' Rapid Growth Likely to Slow Following Energy Price Drop

By Amy Jordan

ABSTRACT: Houston and Midland will be most affected by the oil and gas sector's slump. Activity may slow in other Texas metropolitan areas, but they will avoid major fallout because of economic diversification that has occurred in recent decades.

Economic growth across Texas' four major metropolitan areas—Austin, Dallas–Fort Worth, Houston and San Antonio—and two metros on the border has been impressive since the recession, contributing to the state's economic expansion.

Overall Texas nonfarm employment growth has been broad-based, increasing by more than 1 million jobs by January 2015, or 10 percent, from its prerecession peak. However, with crude oil prices down 52 percent in February from year-ago levels, Texas' impressive advances since the recession will moderate in 2015, affecting its metropolitan areas to varying degrees.

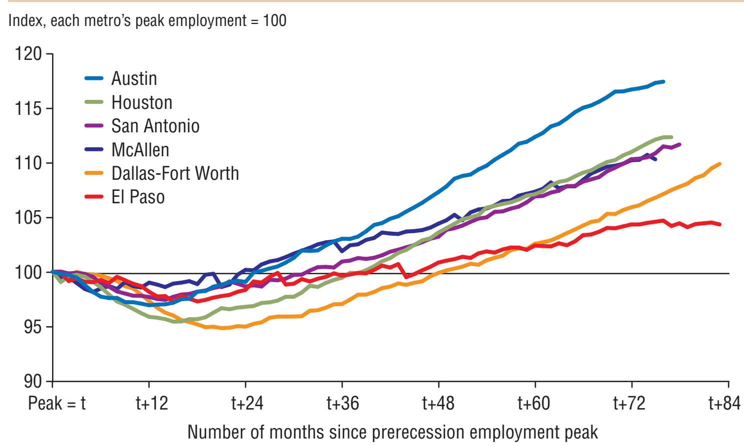
Differences among Texas metros have allowed some to emerge far more quickly than others. While Austin has consistently exhibited outsized growth, Houston has experienced the greatest benefit from the energy sector and its rise after the recession. Although DFW lagged the other metros immediately after the downturn, it will propel the state's expansion in the coming months following the recent oil price decline.

Recession Shortest in Austin

The Great Recession's impact was not as severe in Texas as nationally, though it still significantly affected job growth. From peak to trough, total nonfarm employment fell 4 percent in Texas, while declining 6 percent in the U.S. The recession's impact varied in timing, duration and intensity across the state.

The metro areas entered the recession at various times. Chart 1 graphs employment growth in the major and border metros, with total employment in each indexed to prerecession employment peaks, depicting the depth of job losses and how many months it took each locality to regain all lost jobs.[1] Shorter lines indicate a lesser

Chart 1 Most Metro-Area Jobs Surpass Prerecession Peaks in Less than Four Years; North Texas Slightly Slower



NOTE: Data through January 2015.
SOURCES: Texas Workforce Commission; Federal Reserve Bank of Dallas.

number of months between a metro's prerecession peak employment and January 2015.

Austin, which recovered all its lost jobs in 26 months, was the first major metro to bounce back. From its prerecession employment peak in September 2008 to the trough, Austin lost 3.1 percent of total employment, or 23,500 jobs, the third-greatest decline, behind DFW at 5.4 percent and Houston at 4.8 percent (*Table 1*). San Antonio was the second-fastest major metro to regain prerecession employment levels, reclaiming all lost jobs in 32 months, followed by Houston at 39 months and DFW at 49 months.

Not only did Austin most quickly regain all the jobs it lost during the recession, but it also has grown the most over its prerecession employment peak. By January 2015, Austin's total nonfarm employment stood at 926,300, an increase of 17.4 percent over its high before the downturn. Houston has experienced the second-greatest increase, with employment 12.4 percent higher, followed by San Antonio at 11.7 percent and DFW at 9.9 percent.

The North Texas economy has an industrial profile that more closely matches that of the nation than the other Texas metros. As jobs at the national level were slow to recover after the recession, so too was employment in DFW. North Texas is also home to the Barnett Shale, an important natural gas producing region. The collapse of natural gas prices in 2008 caused a reduction in Barnett Shale exploration, likely contributing to the relative weakness.

Along the border, McAllen surpassed its prerecession employment peak faster than Austin, taking only 24 months. McAllen's job losses were not as severe as those in the larger metro areas, partly because Mexico, with whom it has extensive trade relations, experienced a shorter recession than the U.S. Farther west, El Paso's job losses as a percentage of total employment were also relatively small, only 2.8 percent. However, El Paso is heavily dependent on the federal government and defense spending, which took much longer to recover; El Paso required 40 months to regain its lost jobs, slower than all the major metros except DFW.

Industry Concentration Diverse

The industries in which a metro area specializes drive its growth. Austin's quick rebound benefited from a concentration of high-tech jobs—both in information services and in professional and business services, sectors in which it has a proportionately greater concentration of employment than the state (*Chart 2*). High-tech also propelled Austin's growth ahead of the other metros.

Energy, benefiting from the shale exploration boom, has been the top-performing sector in recent years, generating jobs in oil and gas extraction and energy support services.

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Table 1 Employment Changes by Metropolitan Area

	Prerecession employment peak: Month	Prerecession employment peak: Employment (thousands)	Employment lost (peak to trough)	January 2015 employment (thousands)	2014 employment growth
Major metropolitan areas					
Austin	Sept. 2008	779.4	3.1%	926.3	3.3%
Dallas-Fort Worth	Feb. 2008	2,989.9	5.4%	3,349.9	4.0%
Houston	Aug. 2008	2,618.5	4.8%	2,972.4	3.6%
San Antonio	July 2008	855.0	2.7%	962.8	3.3%
Border metropolitan areas					
El Paso	Feb. 2008	279.9	2.8%	295.4	0.5%
McAllen	Oct. 2008	220.5	1.9%	244.8	2.3%

SOURCES: Texas Workforce Commission; Federal Reserve Bank of Dallas.

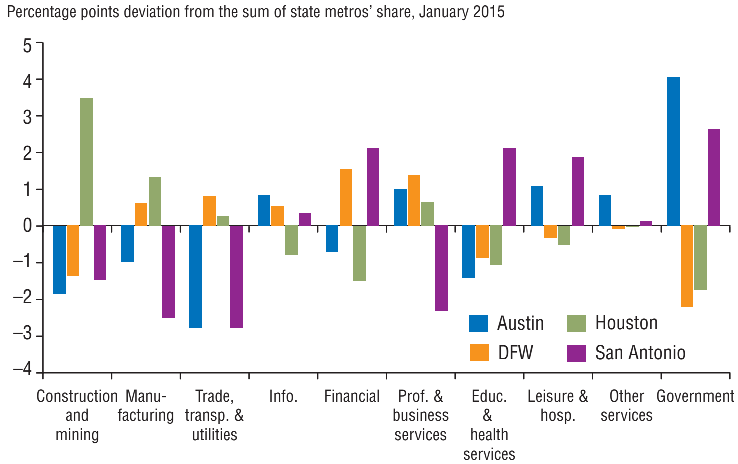
These jobs are concentrated in the construction and mining supersector. Houston, because of the prevalence of energy jobs there, is the only major metro area employing a greater share of people in this supersector than is found statewide. Employment in oil and gas extraction and energy support jobs—referred to below as the energy sector or energy industry—has grown at an annual average of 7.5 percent in Houston since the recession.[2]

However, the energy industry accounts for much more of output than it does employment because this sector is very capital intensive. This is particularly evident in the Houston area in the production of petrochemicals.[3] Whether counting the value of economic activity or jobs, the recent decline in oil prices will likely negatively affect Houston more than the other metros. Indeed, energy job growth slipped in 2014 to 1.4 percent, down from 7 percent in 2013 and 8.1 percent in 2012.

Earlier energy sector strength from the shale boom has benefited areas beyond Houston, such as the Permian Basin in West Texas and the Eagle Ford Shale in South Texas. In addition to employment, other business indicators advanced. Personal income in Midland and Odessa in the Permian Basin shot up—rising in Midland 17.5 percent in 2012 and 5.2 percent in 2013, and advancing in Odessa 14.1 percent in 2012 and 4.2 percent in 2013.

While Houston's energy share of the workforce is the largest of the major metros, other regions experienced positive job creation spillovers in service industries. DFW and the border metros employ larger shares of workers in trade, transportation and utilities jobs than the state, while Austin, DFW and San Antonio employ greater shares in information services jobs, and Austin and DFW hold larger shares in professional and business services jobs. These sectors have expanded to support energy activity across the state, so the slowdown in the energy sector may affect these metros to varying degrees.

Chart 2 Varying Job Shares Reflect Texas Metros' Specialization



SOURCES: Texas Workforce Commission; Federal Reserve Bank of Dallas.

The DFW economy, despite its similarities to the national economy, could feel the effects of persistently low oil prices, especially in transportation and business service sectors that expanded to serve the oil industry. San Antonio will see more mixed impacts because workers who moved to the nearby Eagle Ford over the past few years may return to San Antonio, and this could provide a small boost to job growth. Still, some oil companies that set up operations just outside San Antonio will likely experience direct job losses.

Austin is more geographically removed from the oil fields, though anecdotal evidence indicates notable employment in energy support activities, including the manufacture of high-tech instruments and computer equipment for hydraulic fracturing used in the shale formations. As a result, Austin's growth may be slightly impacted, but less so than Houston and DFW. Depending on the extent of job losses, overall consumer spending may also take a hit, although it will benefit from lower gasoline prices. (*See "Lower Oil Prices Weaken Prospects for Job, Economic Growth in Texas," p. 10.*)

San Antonio's share of employment in the financial activities services sector—which includes jobs in insurance, financial institutions and real estate—also bears watching. Wages in the sector are the second highest of service-providing industries in the state, and this sector has posted steady growth since the recession, both advantages for San Antonio, whose overall 3.3 percent employment growth closed the gap with Austin in 2014.

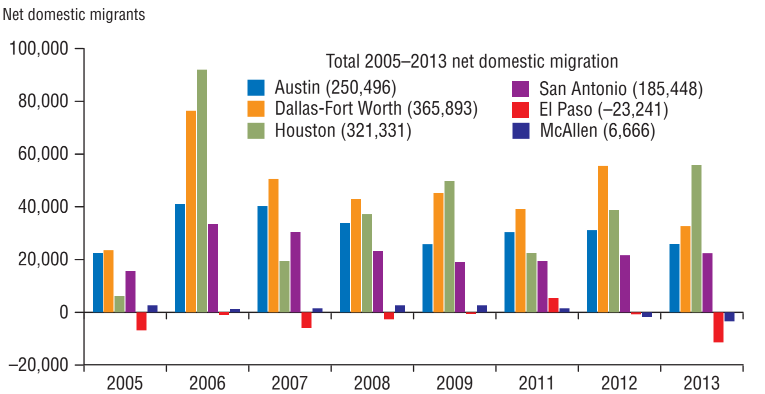
DFW Adds Most Newcomers

Even though DFW was the slowest to recover after the recession, its correlation with a strengthening U.S. economy was reflected in its growth last year. DFW expanded 4 percent in 2014, surpassing Austin at 3.3 percent and registering the fastest expansion among the metros.

DFW's net migration—more people arriving than departing—outpaced all other major metro areas in the state in 2011 and 2012 (*Chart 3*).[4] Economically motivated in-migration helps regions grow by resolving growth bottlenecks, boosting economic efficiency and adding to aggregate demand. DFW has also been one of the top destinations in the state since 2005 and has grown the most since then.

Despite record migration, the newcomers have found jobs. Unemployment rates for the major metros are not at record lows, but all were at six-year lows in January 2015 (*Chart 4*).

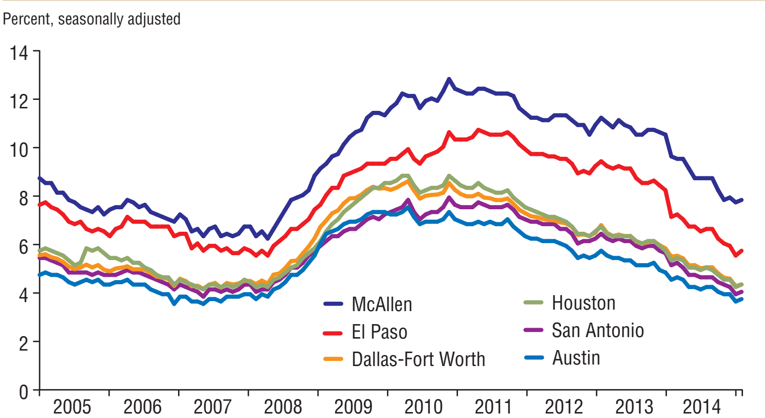
Chart 3 Recent Job Growth Attracts Migration to Metros



NOTE: Comparable 2010 data not available. Data are for July of previous year to July of year indicated. Hurricane Katrina, which struck New Orleans and the Gulf Coast on Aug. 29, 2005, contributed to the large migration to Texas in 2006.

SOURCE: U.S. Census Bureau.

Chart 4 Despite High In-Migration, Unemployment Rates Trend Down in the Recovery Across the State



SOURCES: Bureau of Labor Statistics; seasonal and other adjustments by Federal Reserve Bank of Dallas.

Austin recorded the lowest unemployment rate at 3.7 percent, followed by San Antonio, 4 percent, and Houston and DFW, both 4.3 percent. Unemployment in the border metros, although higher than in the other major metro areas, has also trended down in the recovery and reached six-year lows. El Paso was at 5.7 percent, McAllen at 7.8 percent in January.

Slower Pace of Growth

Even without the oil price collapse, tightening labor and housing markets have recently begun constraining state growth. Wage pressures have risen for several years, with weekly wages increasing 3 percent in 2012 and 2013; respondents to Dallas Fed surveys have indicated that this trend continued into 2014, noting labor shortages in several sectors.[5] This is consistent with the rapidly falling unemployment rate, which reached 4.4 percent in January.

As employment costs rose, price pressures increased, with those affecting housing markets particularly severe amid record low inventories and sharply higher prices that together have restrained demand.[6]

Lower oil prices will contribute to slower overall growth, which will resolve some of the bottlenecks the state has experienced recently and increase labor market slack. Growth in Houston will slow substantially, while Midland and Odessa will lose jobs. Some other areas may also experience slower expansion, though Austin, DFW and San Antonio should continue growing in 2015 because of their unique industrial compositions. DFW will perform the best while mirroring the U.S. economy, and border metros will benefit from the Mexican economy's projected solid performance this year.

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Notes

[1] The major metros include Austin–Round Rock (Austin), Dallas–Plano–Irving combined with Fort Worth–Arlington (DFW), Houston–Baytown–Sugar Land (Houston) and San Antonio; the two border regions are El Paso and McAllen–Edinburg–Mission (McAllen).

[2] Annual average growth is calculated since 2011.

[3] See "Shale Revolution Feeds Petrochemical Profits as Production Adapts," by Jesse Thompson, Federal Reserve Bank of Dallas *Southwest Economy*, Fourth Quarter, 2013.

[4] U.S. Census Bureau does not provide migration data for 2010.

[5] Dallas Fed surveys that include data and/or anecdotal evidence on high wage pressures include the Eleventh District Beige Book, Texas Manufacturing Outlook Survey, Texas Service Sector Outlook Survey and Texas Retail Outlook Survey.

[6] See "Single-Family Housing Squeeze Eases in Texas; Multifamily Soars," by Laila Assanie, Federal Reserve Bank of Dallas *Southwest Economy*, Fourth Quarter, 2014.