

ITEXAS Economic Outlook

KEYNOTE
Keith R. Phillips




Facing Uncertain Waters

January 15, 2019

SAN ANTONIO BRANCH



Federal Reserve
Bank of Dallas

A photograph of a kayaker on a river, overlaid with a semi-transparent orange filter. The kayaker is in the upper right quadrant, paddling towards the left. The water is turbulent, and there are rocks visible. The text is centered in the middle of the image.

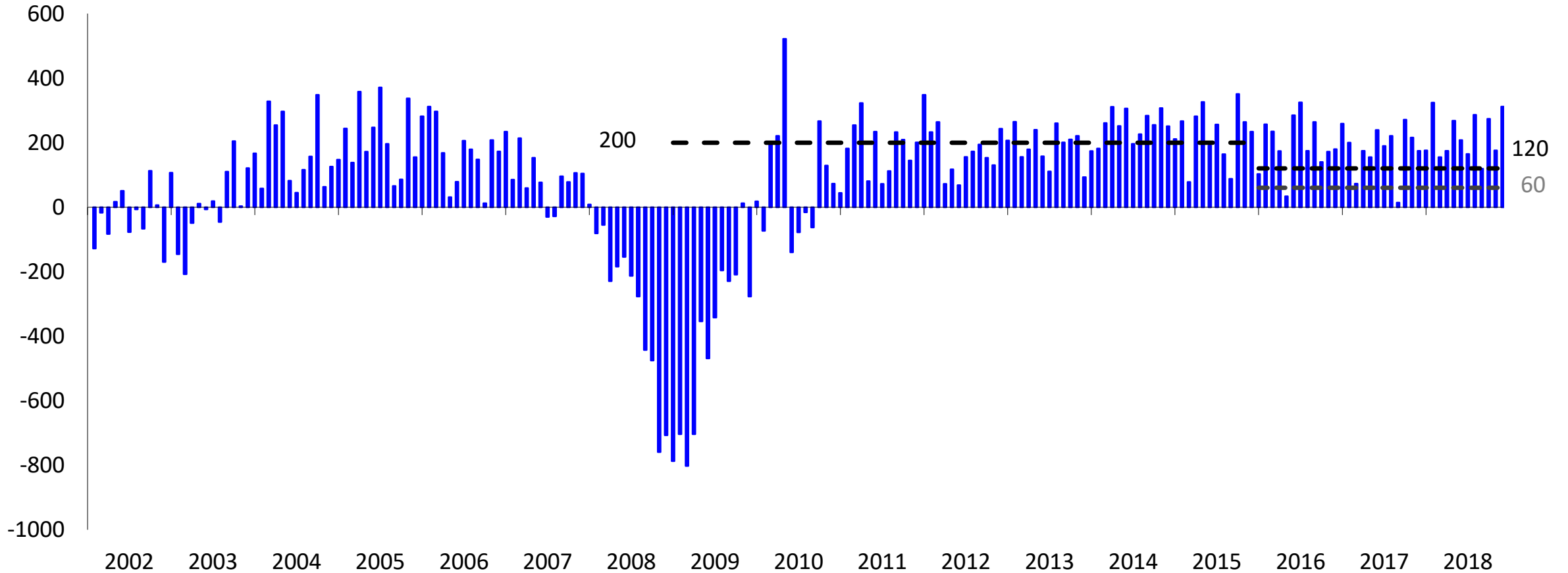
*The views expressed are my own and
do not necessarily reflect official positions
of the Federal Reserve System.*

National Economy Growing Strongly

- Jobs grew 1.8% in 2018 – the fastest pace since 2015, while real GDP growth picked up from 2.5% to about 3.1%.
- Manufacturing, construction and mining jobs grew strongly but retail was weak.
- Labor market below full employment at 3.9% unemployment rate.
- Inflation is close to Fed target of 2%.
- 2019 jobs and GDP growth expected to slow but remain healthy.
- Stock market volatility and yield spread narrowing signaling greater uncertainty about the outlook.

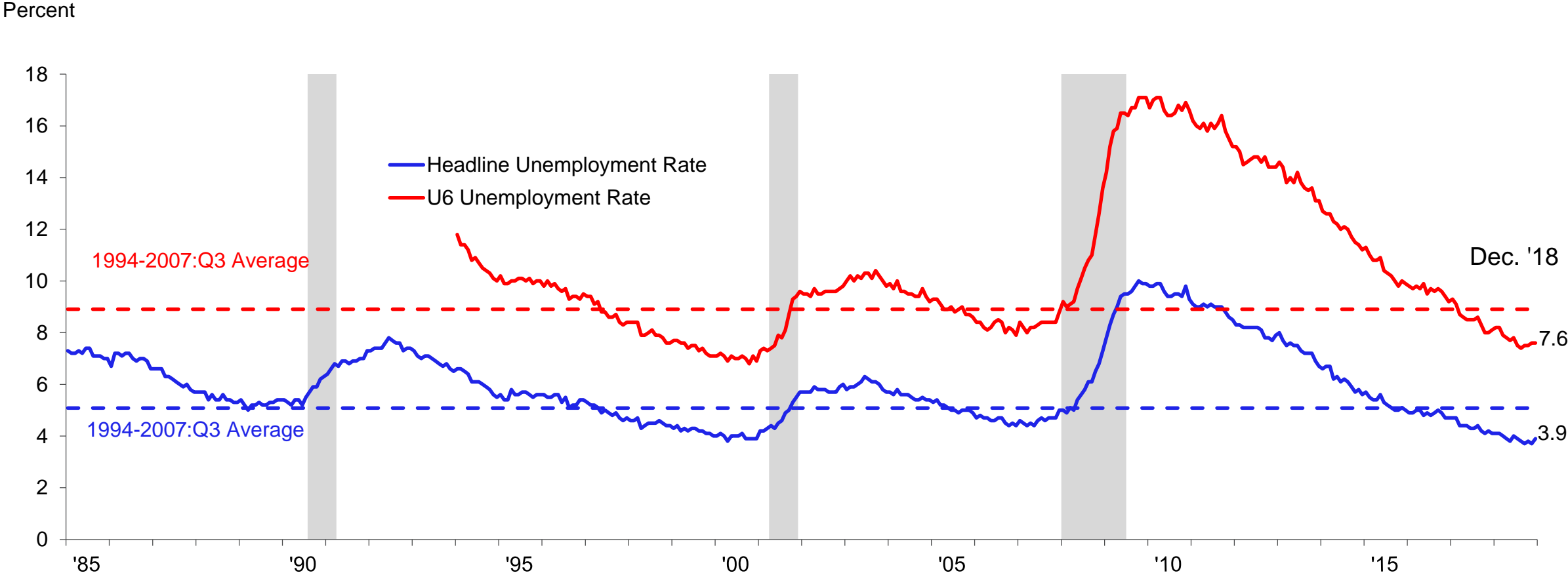
Job Growth Averaged 215k in 2018

Thousands, SA



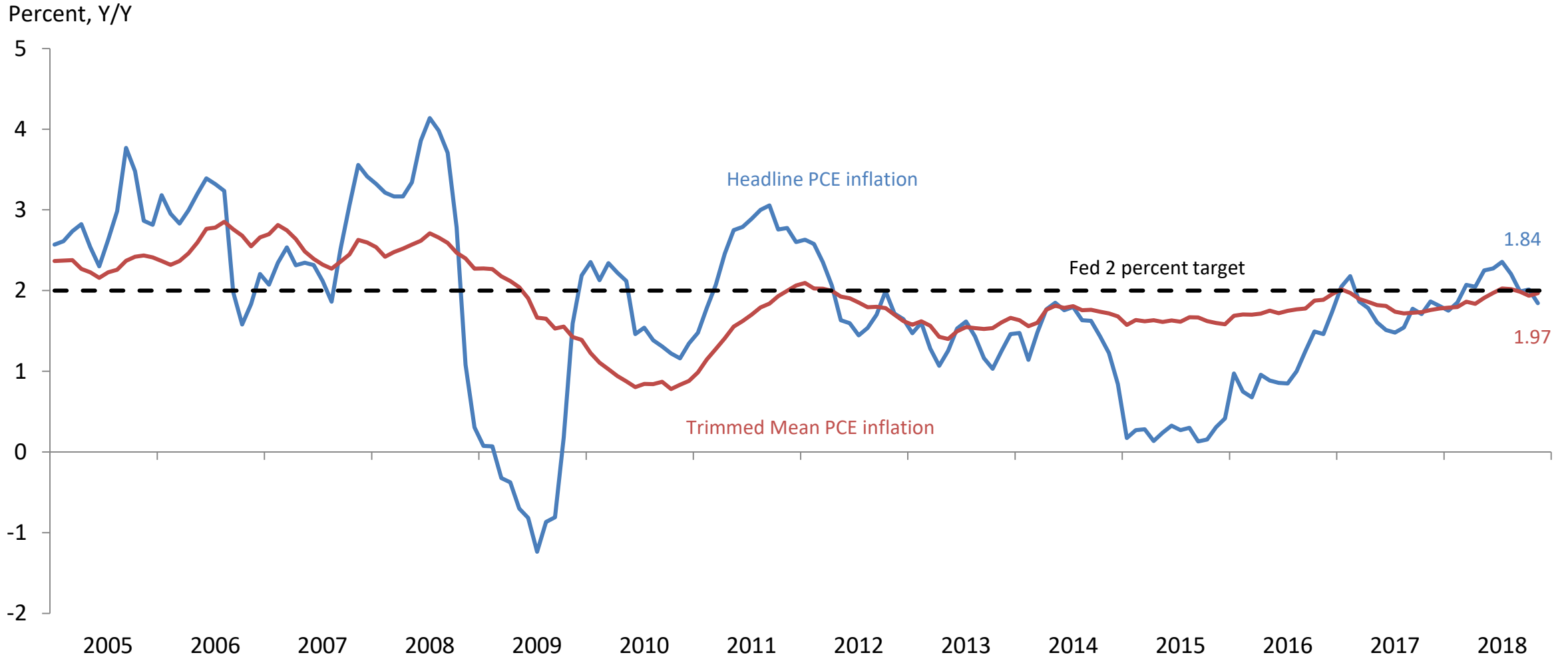
SOURCE: Bureau of Labor Statistics

Unemployment Rate Near Historical Lows



NOTES: U6 Unemployment rate includes marginally attached and part-time for economic reasons workers. Gray shaded areas indicate NBER recessions. SOURCES: Bureau of Labor Statistics; NBER.

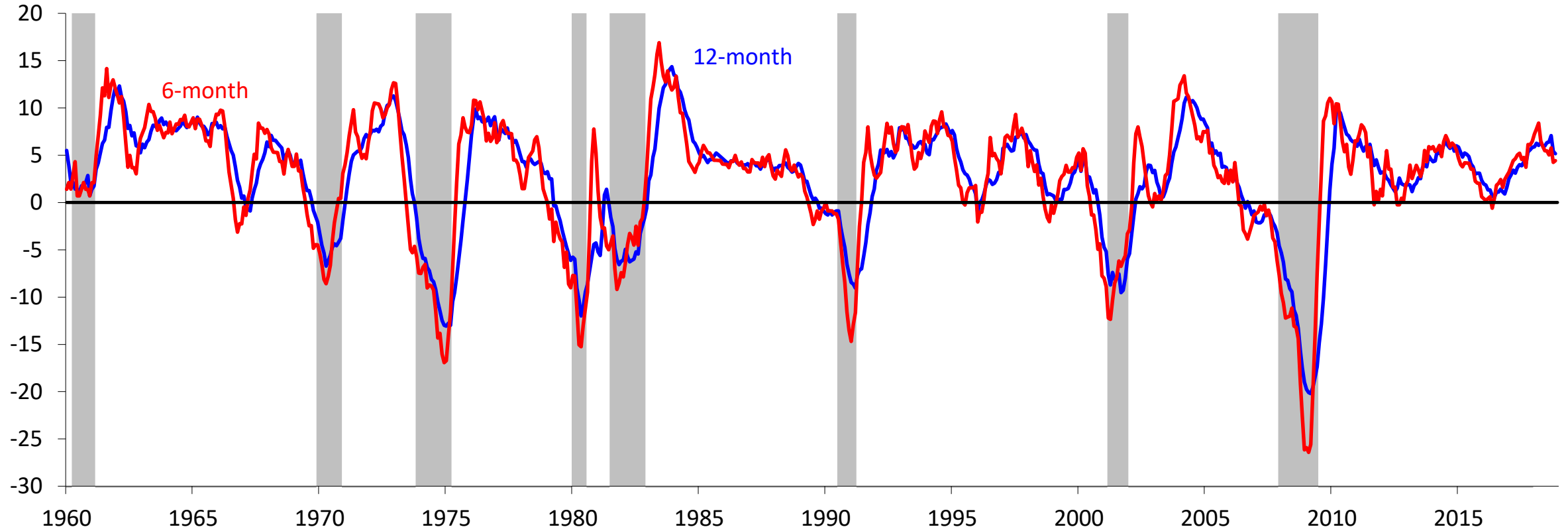
Inflation Measures Near 2 Percent Goal



SOURCES: Bureau of Economic Analysis; Federal Reserve Bank of Dallas.

U.S. Leading Index Suggests Continued Growth in National Economy over next 3-6 Months

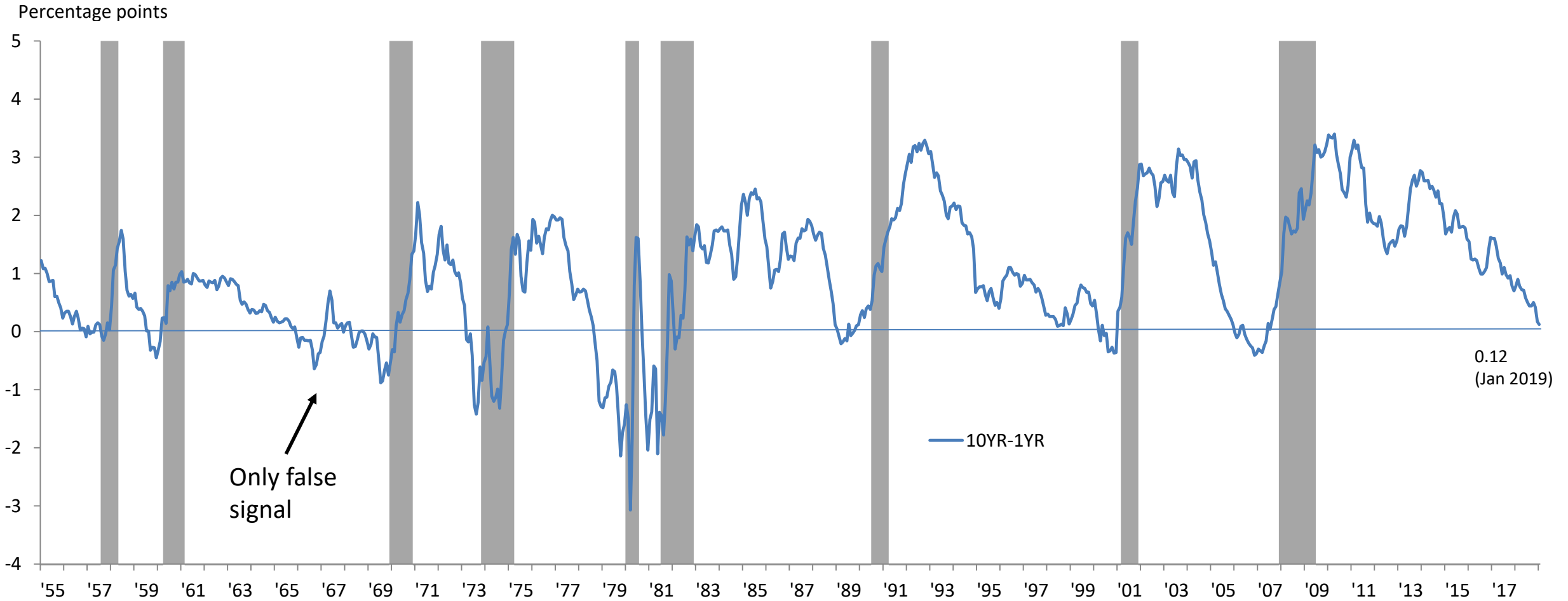
Percent change, annualized



NOTE: Shaded areas represent U.S. recessions.

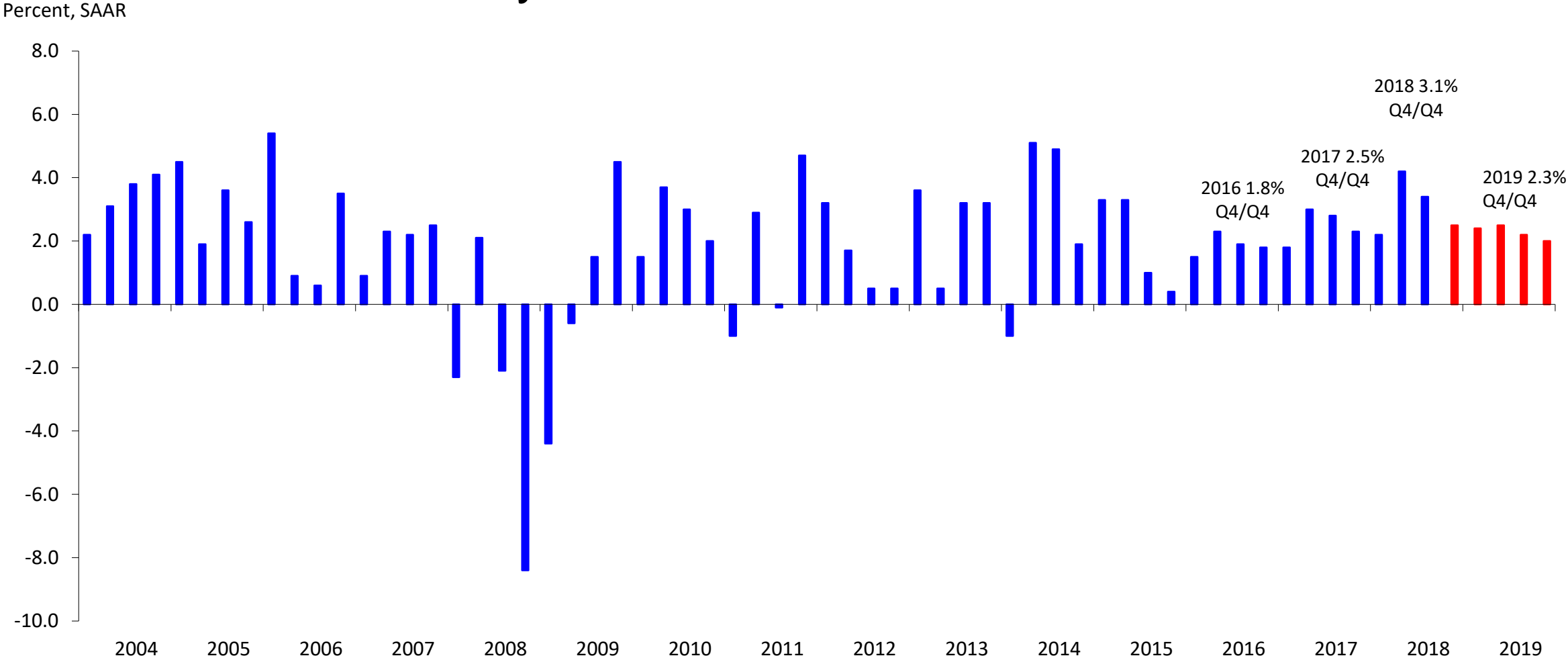
SOURCES: Conference Board, Federal Reserve Bank of Dallas.

10-yr./1-yr. Yield Spread Suggests Low Probability of Recession – but Probability Would Spike with Negative Value



SOURCE: Federal Reserve Board.

GDP Will Likely Slow to a More Moderate Pace in 2019

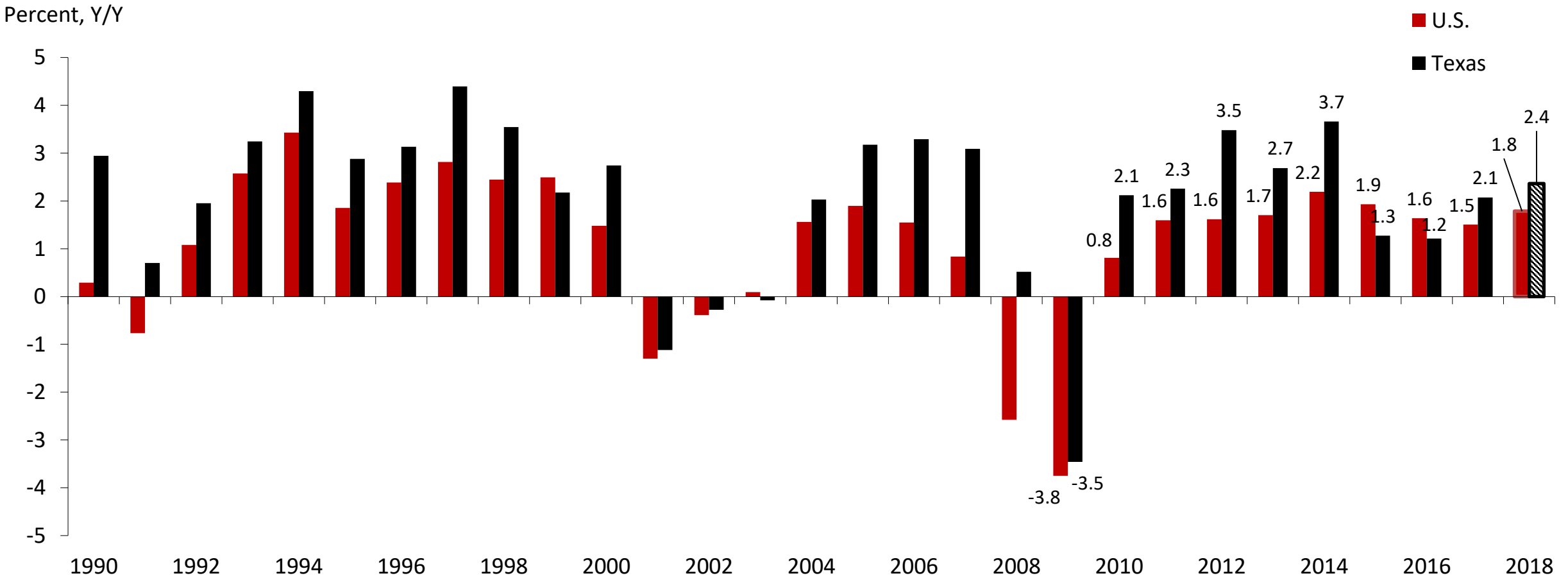


SOURCES: Bureau of Economic Analysis; Blue Chip Economic Indicators.

Texas Economy Accelerated in 2018

- In 2015 and 2016, low oil prices and strong dollar reduced job growth – but Texas did better than other energy states.
- In 2017, energy and manufacturing sectors began to recover and overall job growth picked up from about 1.3 percent to 2.1 percent.
- Last year, goods-producing sectors accelerated strongly and job growth picked up further to 2.4 percent.
- This year, job growth likely to slow to about 1.4 percent as labor constraints limit growth along I-35 corridor and low oil prices slow growth in oil-producing regions

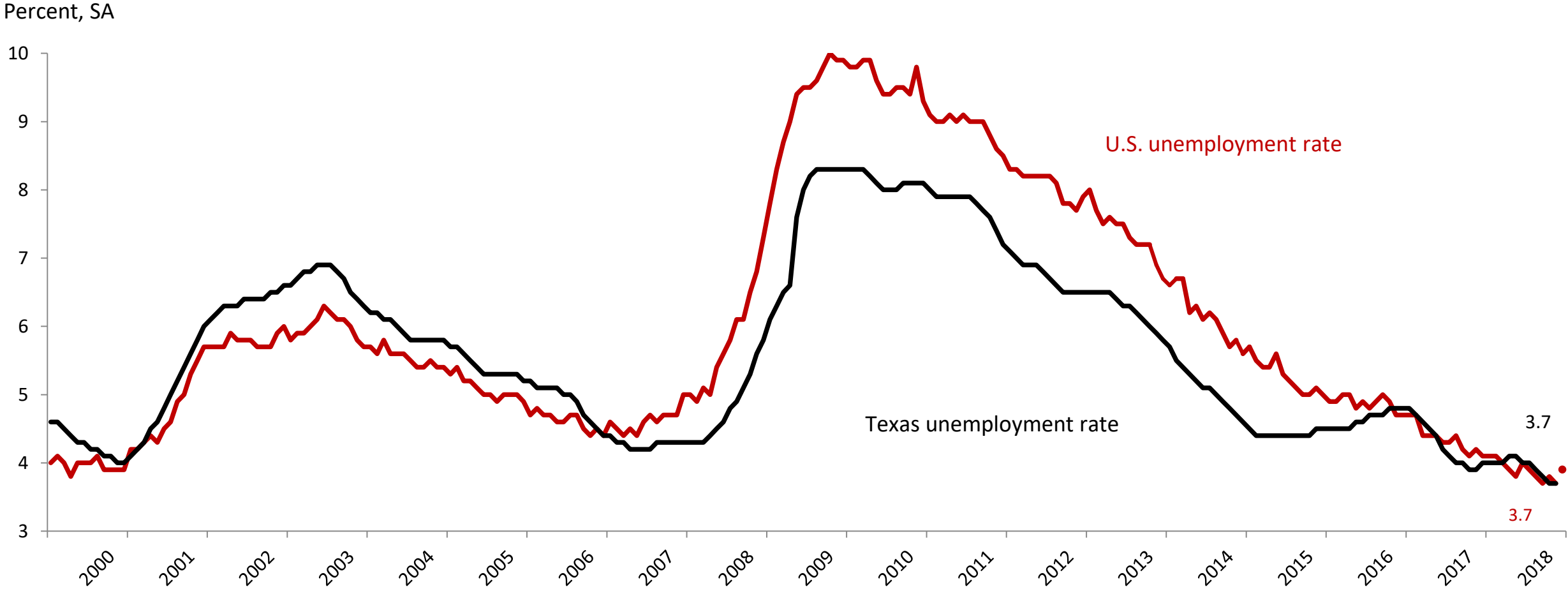
Texas Job Growth Usually Above the Nation's



NOTE: Shaded bar represent seasonally adjusted, annualized growth from Dec. 2017 to Nov. 2018.

SOURCES: Bureau of Labor Statistics, Federal Reserve Bank of Dallas

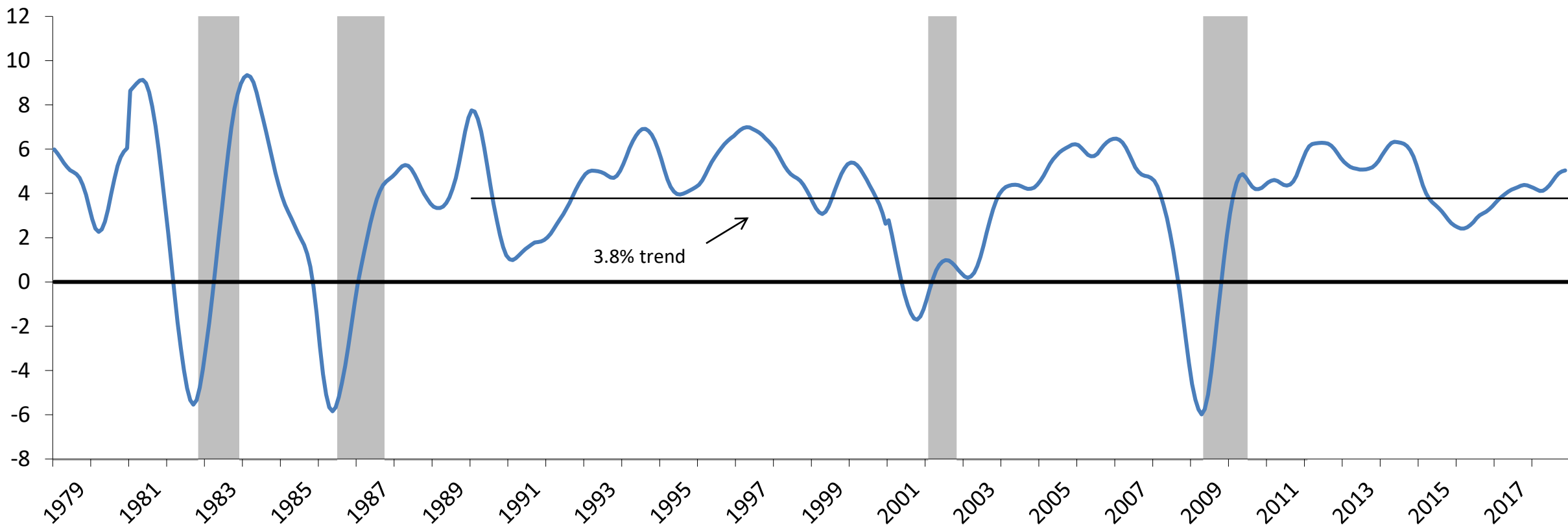
Texas Unemployment Rate at Lowest Level Since 1970s



NOTE: U.S. data through December 2018, Texas data through November 2018.
SOURCE: Bureau of Labor Statistics.

Texas Economy Expanding Above Trend After Weakness in 2015 and 2016 (Texas Business-Cycle Index)

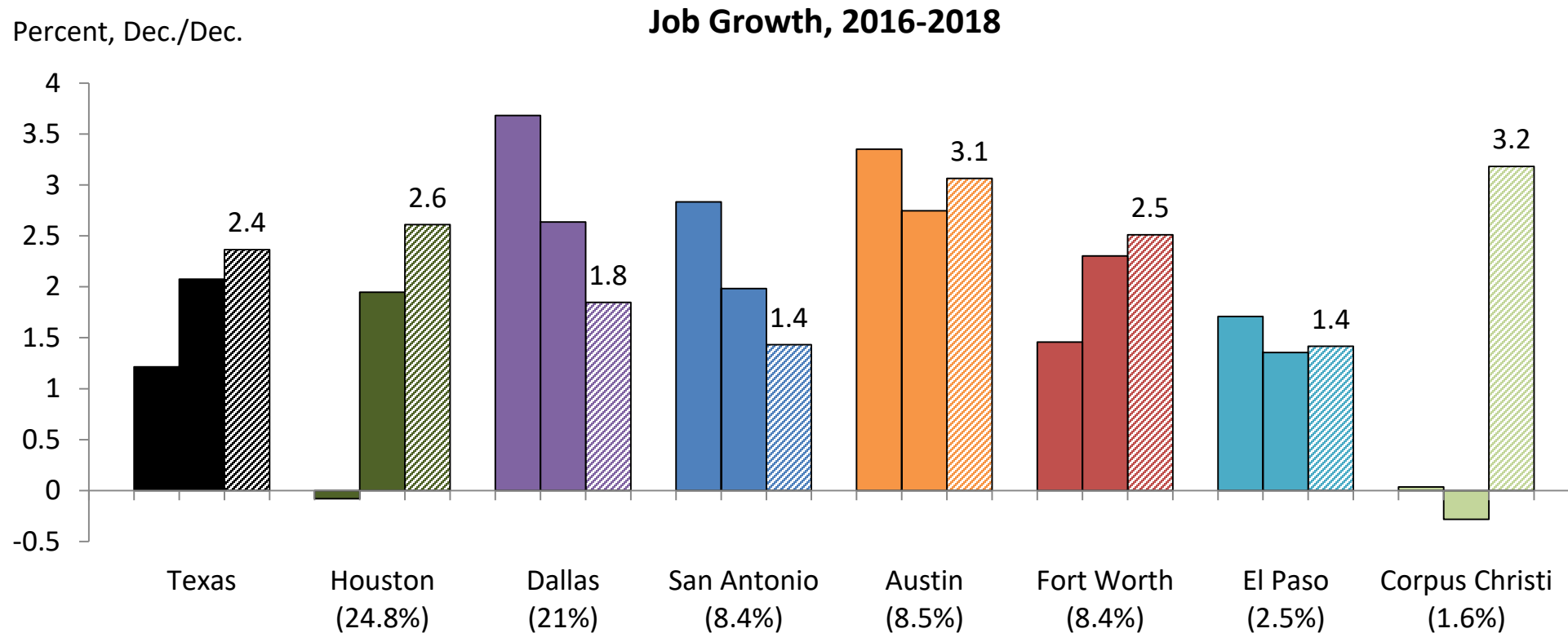
Percent, M/M SAAR



NOTE: Data through November 2018. Shaded areas represent Texas recessions. Trend refers to growth from Jan. 1990 – present.

SOURCE: Federal Reserve Bank of Dallas.

In 2018 I-35 Corridor Slowed from Strong Growth, Energy Metros Rebounded

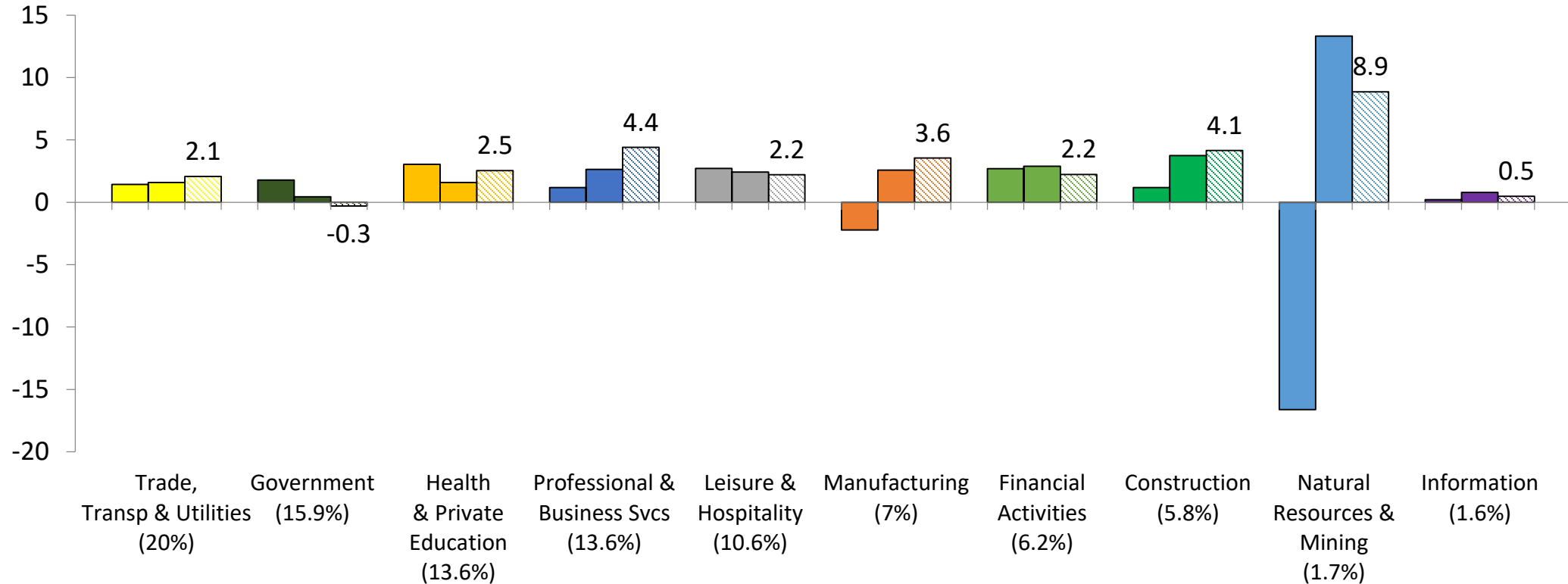


NOTES: Shaded bars represent seasonally adjusted, annualized growth from Dec. 2017 to Nov. 2018. Figures in parentheses represent shares of total state employment.

SOURCES: Bureau of Labor Statistics, Federal Reserve Bank of Dallas.

2018 Job Growth Broad Based Across Industries

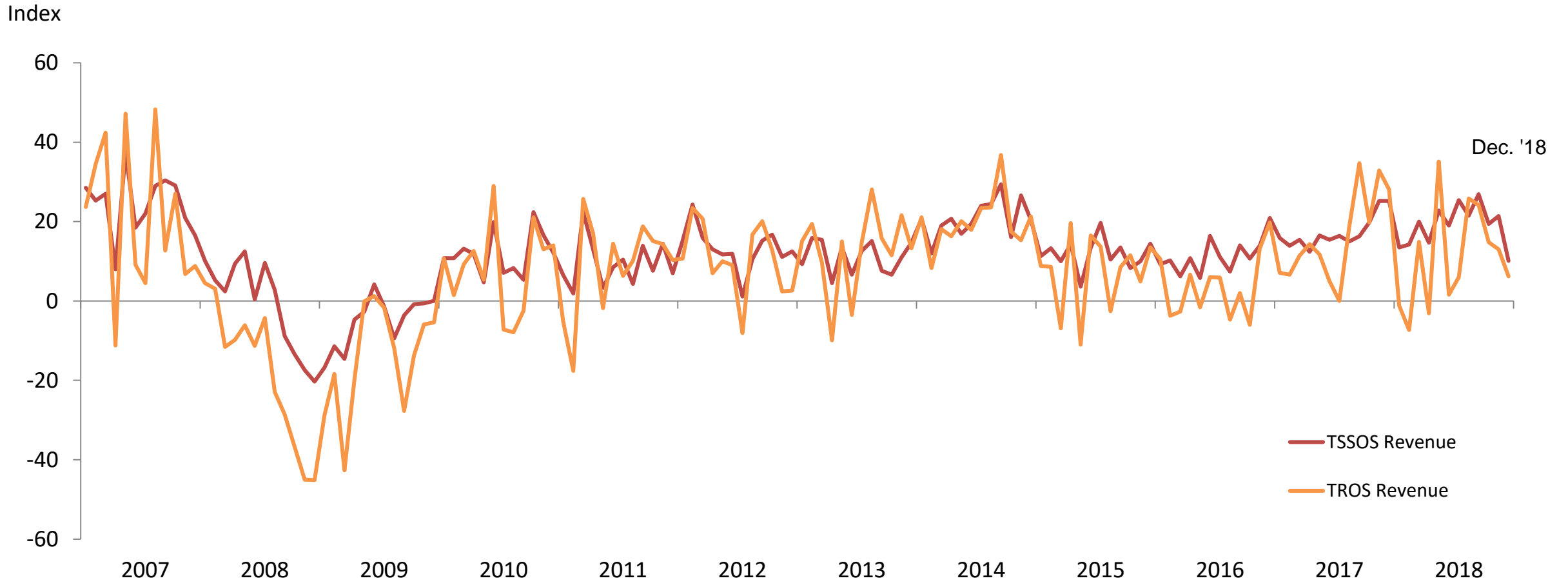
Percent, Dec./Dec.



NOTE: Striped bars are annualized growth Nov. 2018/Dec. 2017. Figures in parentheses represent shares of total nonfarm employment.

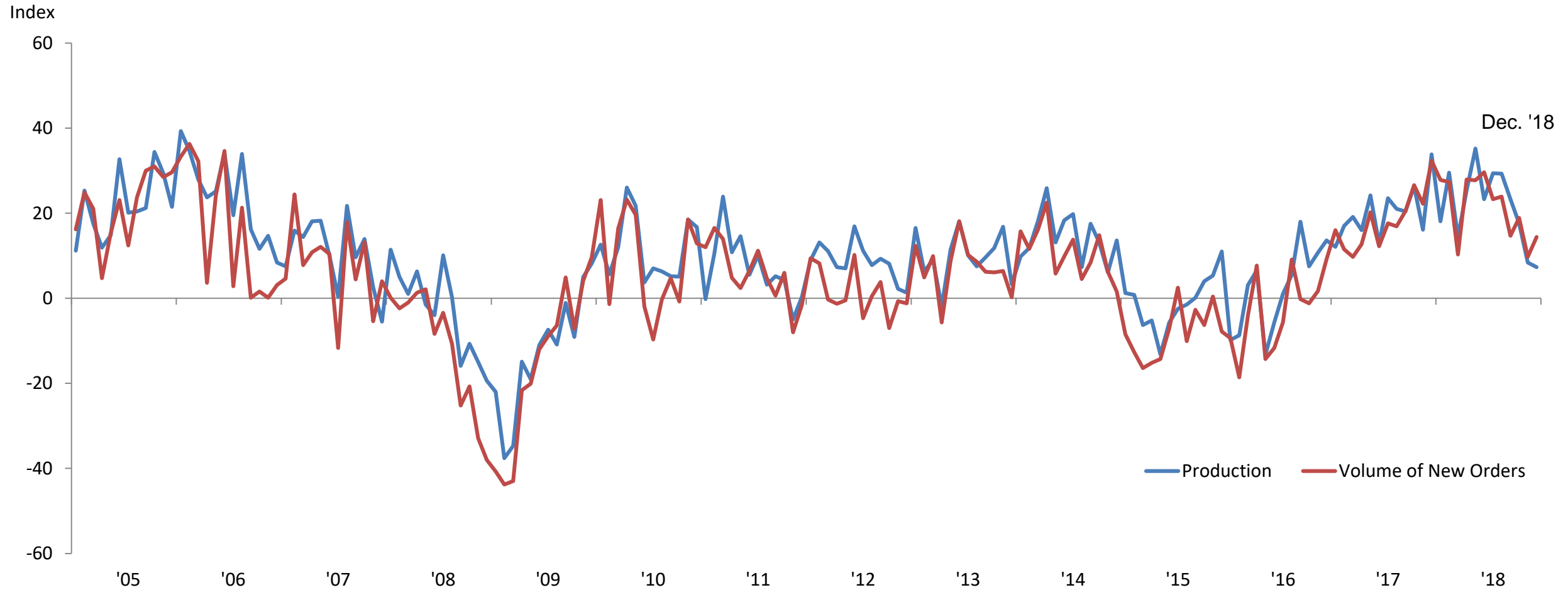
SOURCES: Bureau of Labor Statistics, adjustments by Federal Reserve Bank of Dallas.

Texas Service Sector Strong but Weakened at End of Year



NOTE: Seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas Texas Service Sector and Retail Outlook Surveys.

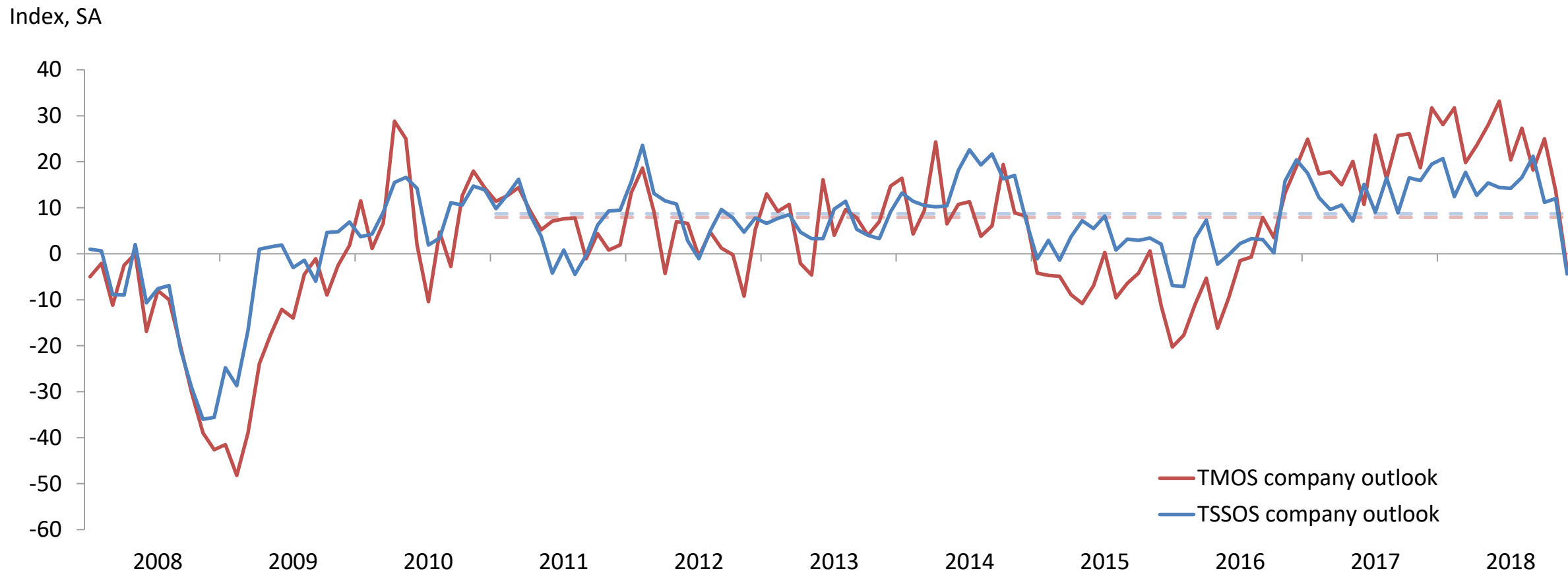
Manufacturing Activity Slowing From Strong Pace



NOTE: Data are seasonally adjusted.

SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey.

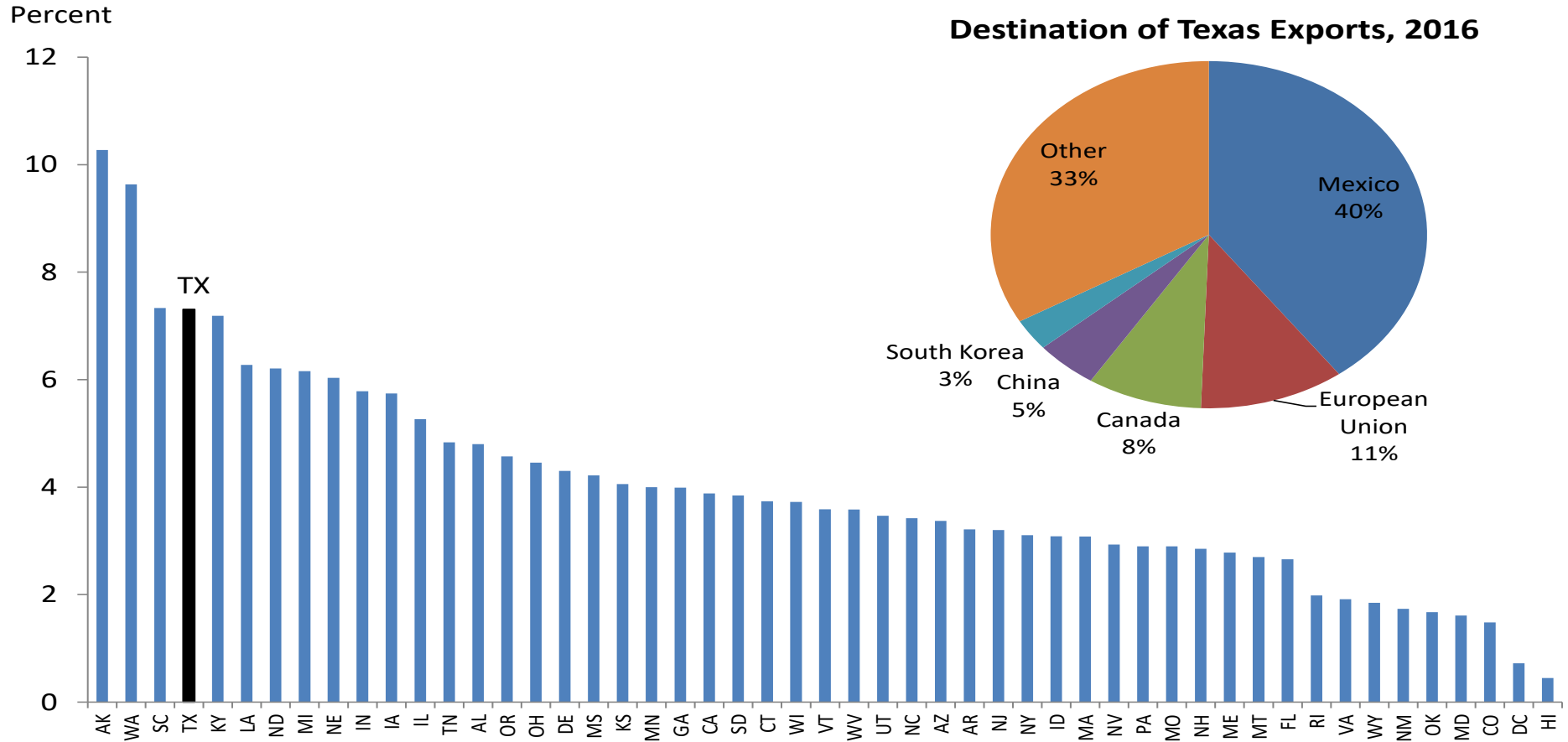
Survey Outlooks Weakened Sharply in December



NOTES: Data through Nov 2018. Dashed lines are post recession averages.

SOURCES: Federal Reserve Bank of Dallas Outlook Surveys: Manufacturing (TMOs); Service Sector (TSSOS).

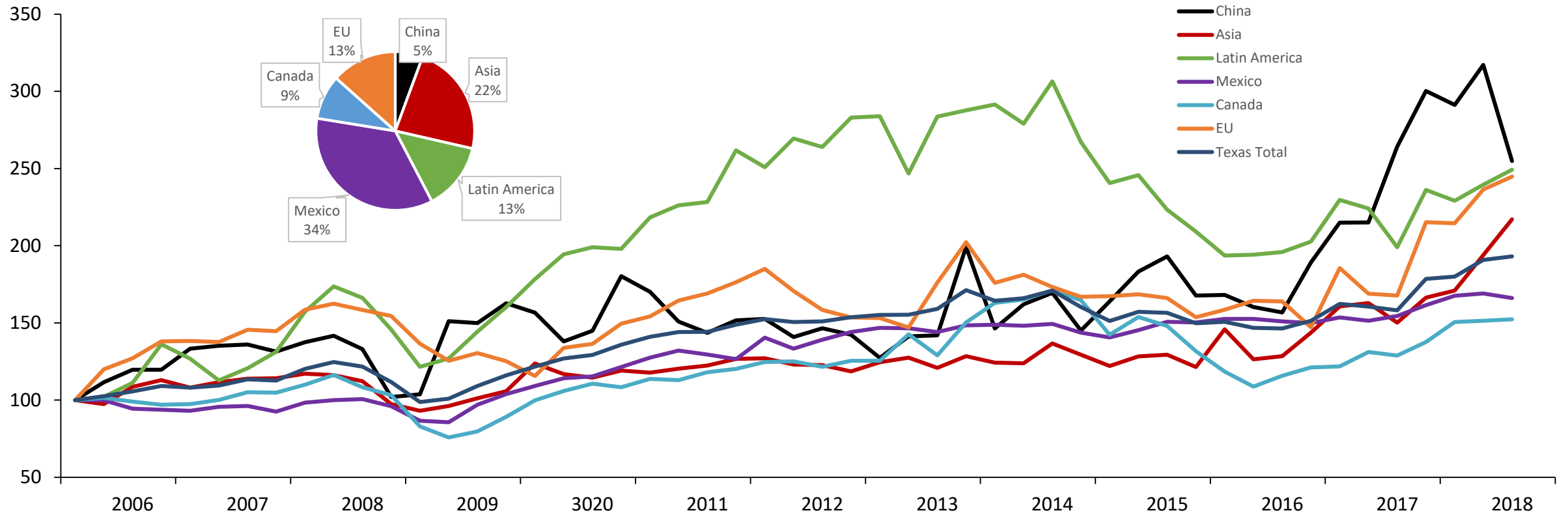
Share of Texas Jobs Tied To Exports 4th Highest Among States



SOURCES: International Trade Administration; WISERtrade; Bureau of Economic Analysis.

Texas Exports to China Declining

Index, 2006 Q1 = 100

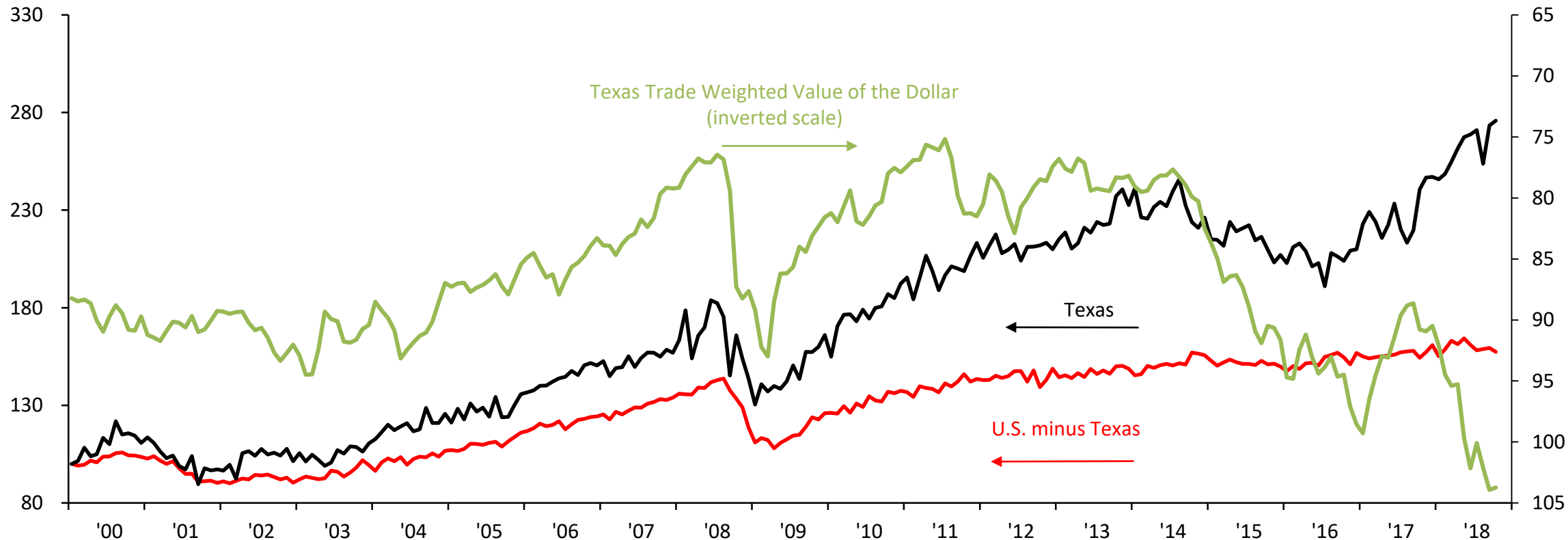


SOURCE: Federal Reserve Bank of Dallas

State Exports Continue to Expand Despite Strong Dollar

Index, SA, Real
Jan. 2000=100

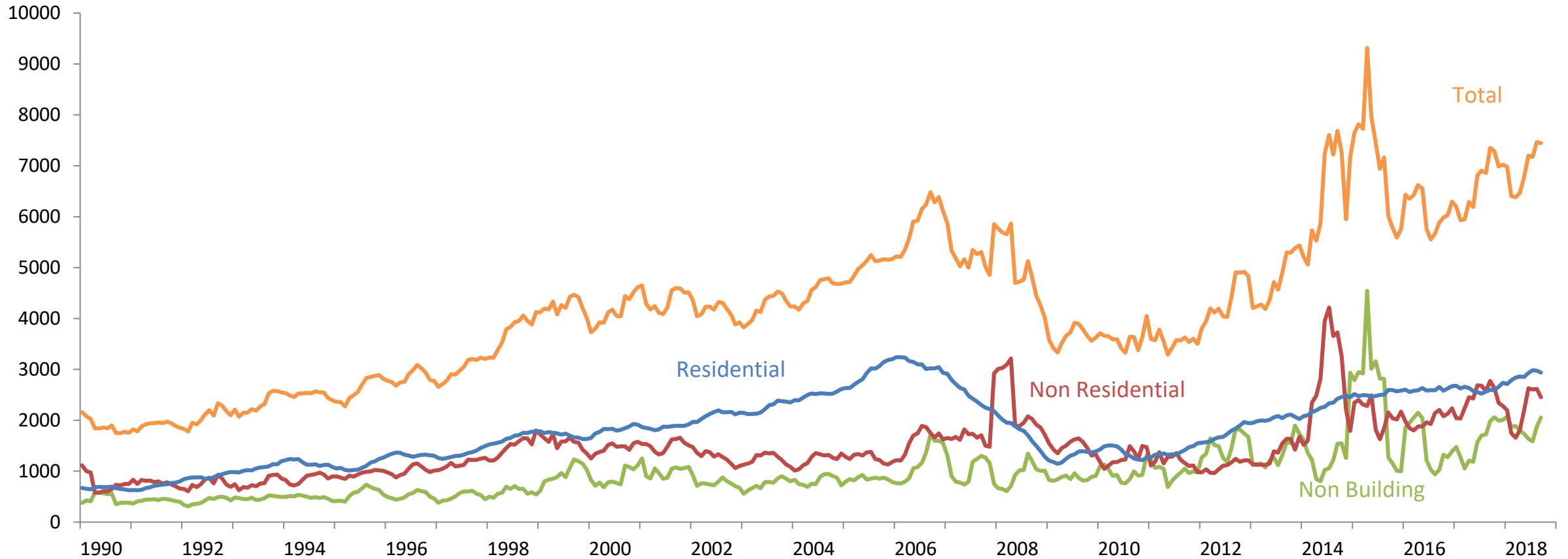
Index
Jan. 1988=100



SOURCES: U.S. Census; Bureau of Labor Statistics; WISERtrade; Federal Reserve Bank of Dallas.

Contract Values Indicate Continued Growth in Construction

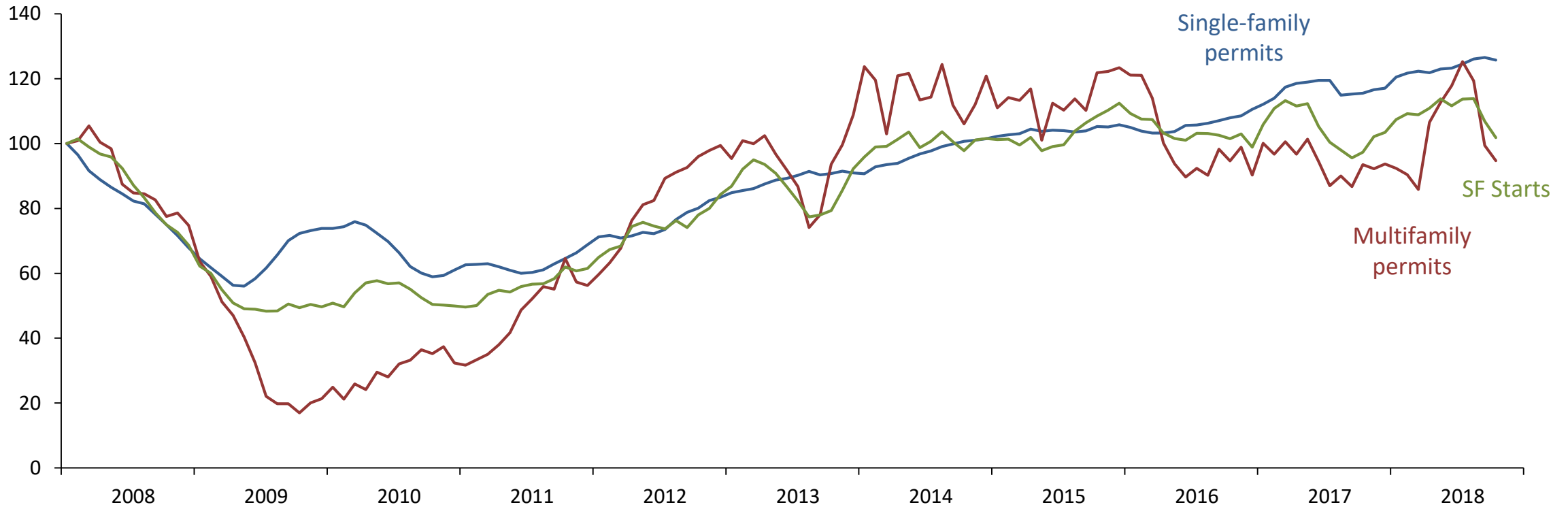
Real \$, Mil
5MMA, SA



SOURCES: F.W. Dodge; Federal Reserve Bank of Dallas.

Residential Housing Leading Indicators Declining

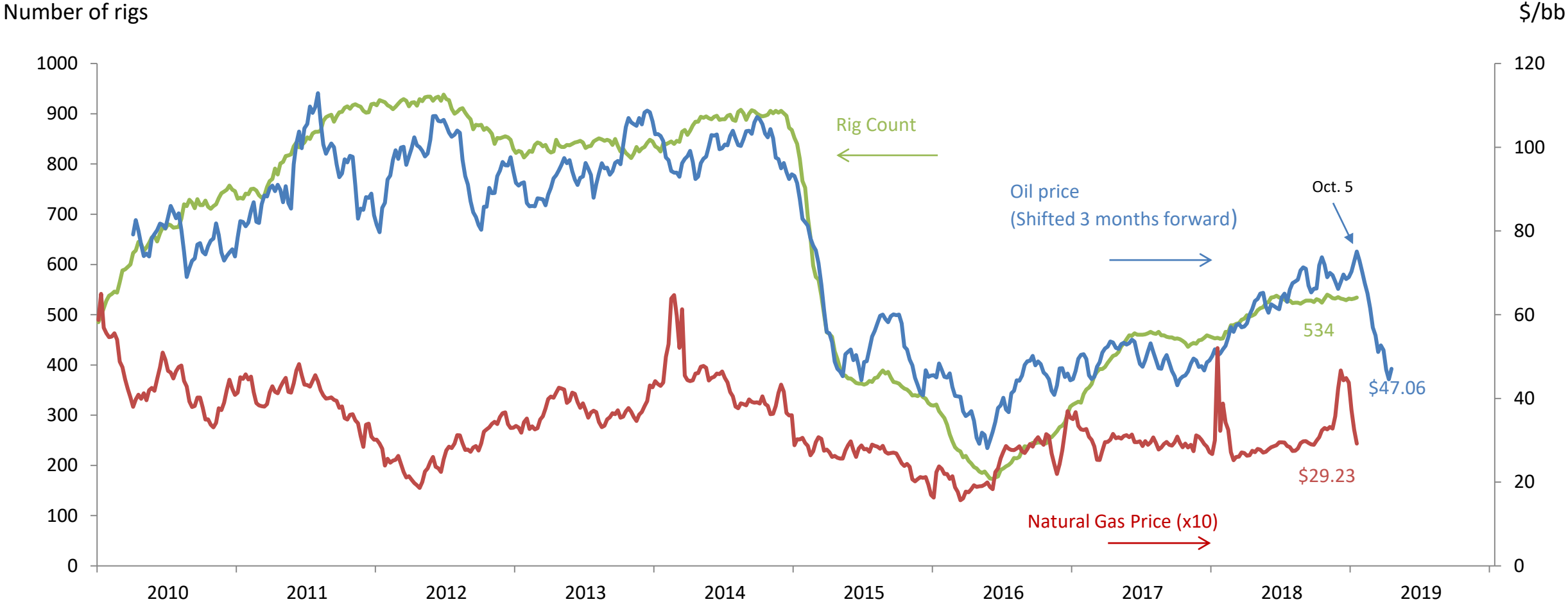
Index, Jan. '08=100, 5MMA, SA



NOTE: Last data point is October 2018.

SOURCES: Bank of Tokyo-Mitsubishi UFJ; U.S. Census Bureau; seasonal and other adjustments by Federal Reserve Bank of Dallas.

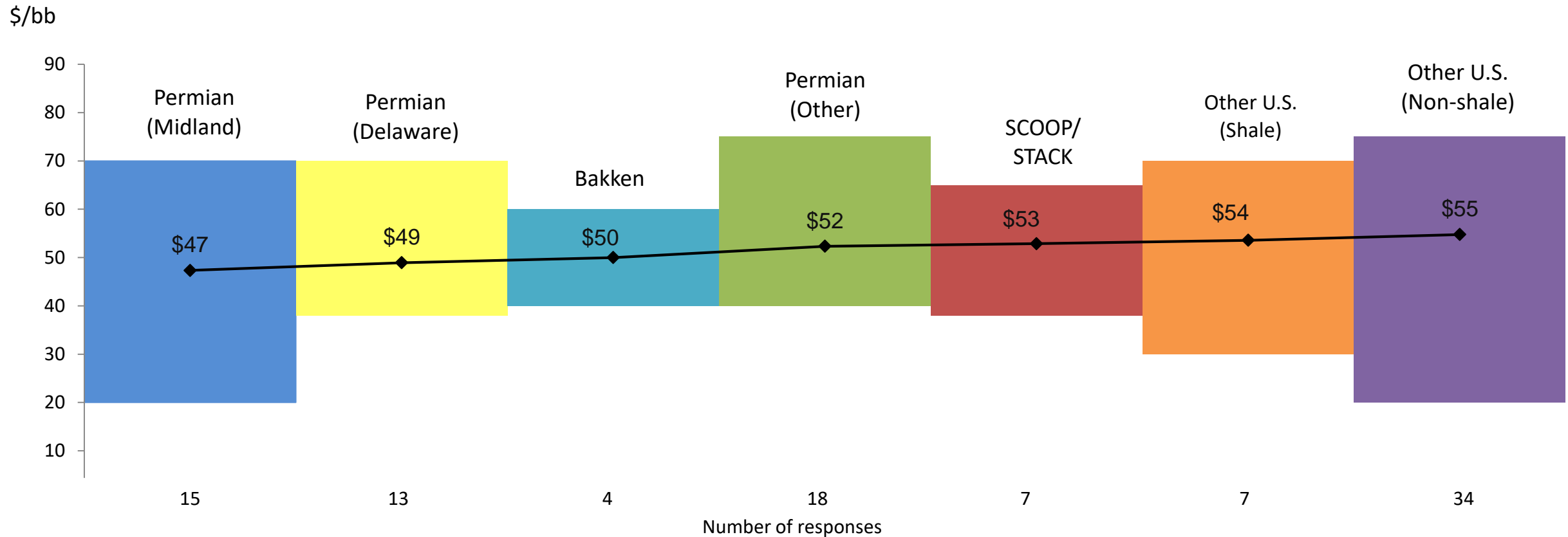
Oil Price Decline Suggests Upcoming Decline in Rig Count



NOTE: Data are weekly, last data point is the week of Jan. 4, 2019.

SOURCES: Oil and Gas Journal, Baker Hughes.

Breakeven for New Drilling in Permian Ranges from \$20 to \$70



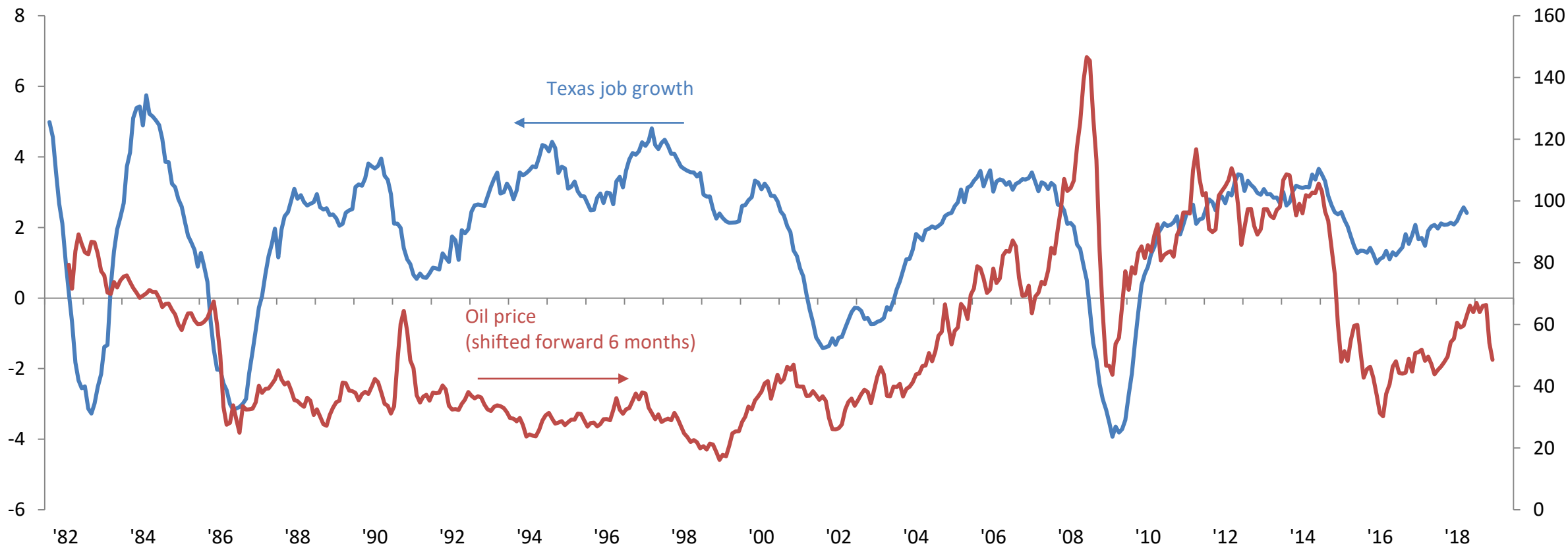
NOTES: Lines show the mean, and bars show the range of responses. Executives from 65 exploration and production firms answered this question during the survey collection period, March 14–22, 2018.

SOURCE: Federal Reserve Bank of Dallas.

If Oil Prices Persist Near \$50 per barrel, Texas Job Growth Likely to Feel Impacts in Q2 2019

Percent, Year/Year

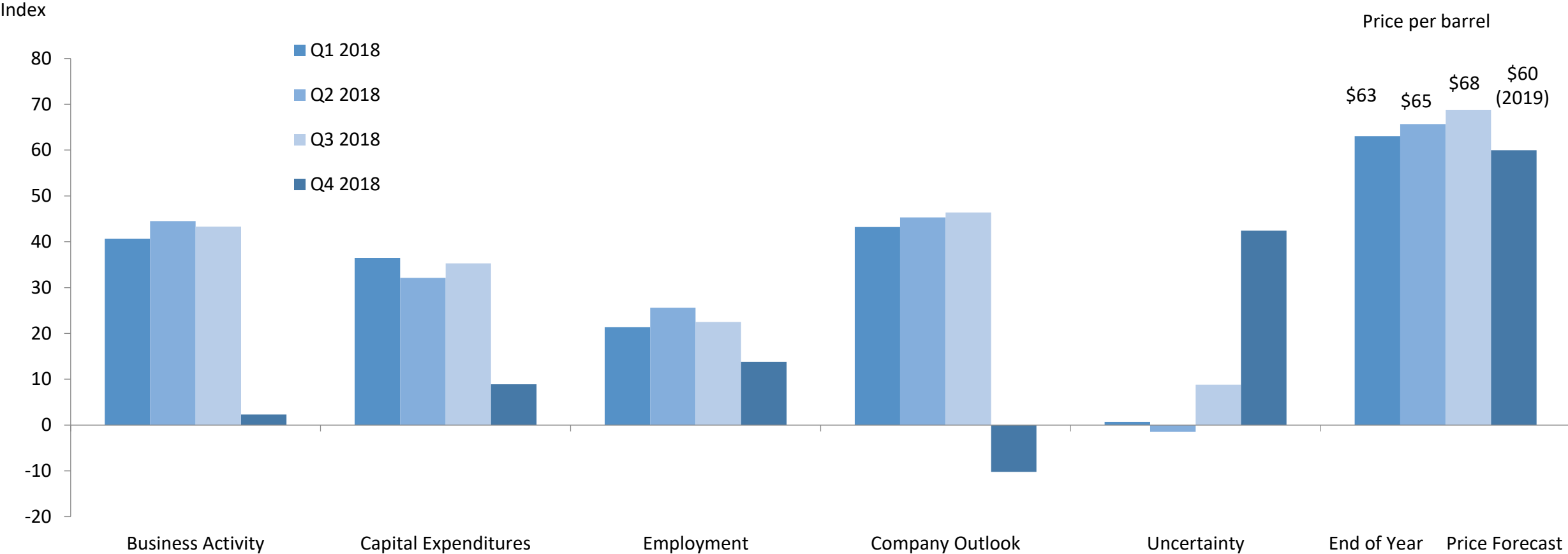
Real price, \$/bb
monthly average



NOTE: Nominal oil price assumed to be \$52 a barrel in Dec. 2018.

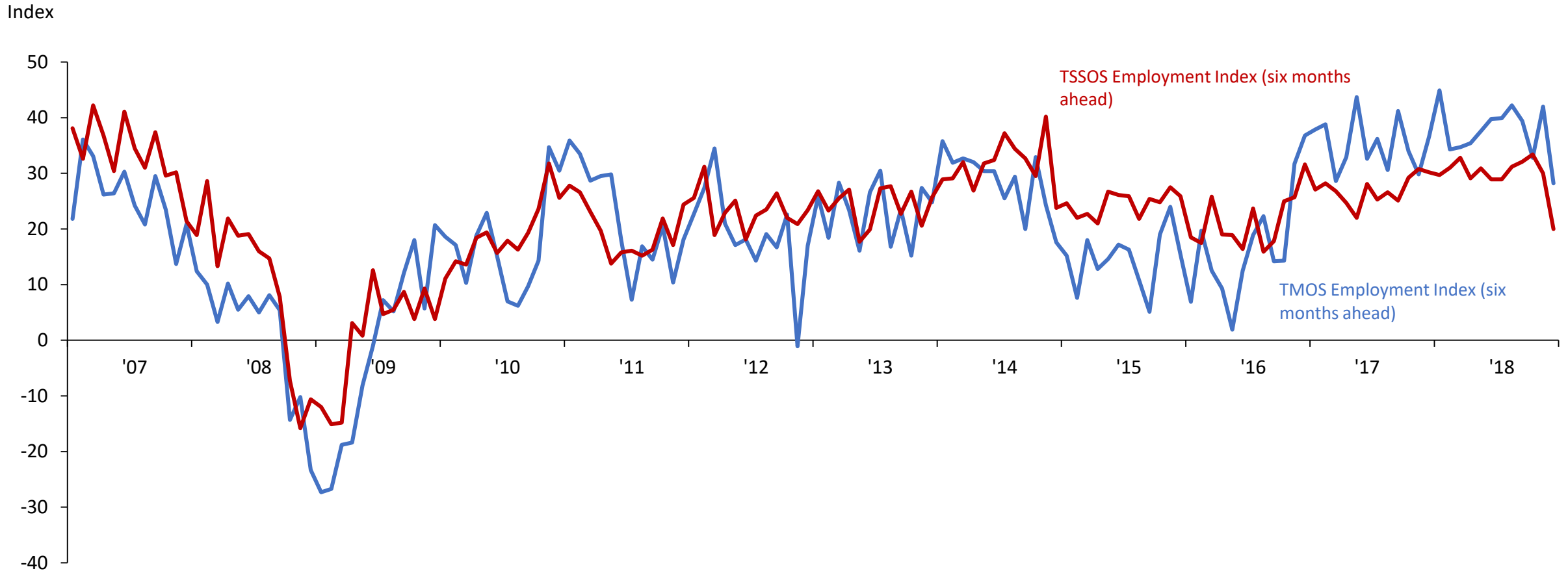
SOURCES: *Wall Street Journal*; Bureau of Labor Statistics.

Energy Survey Suggests Weaker Growth, More Uncertainty



SOURCE: Federal Reserve Bank of Dallas.

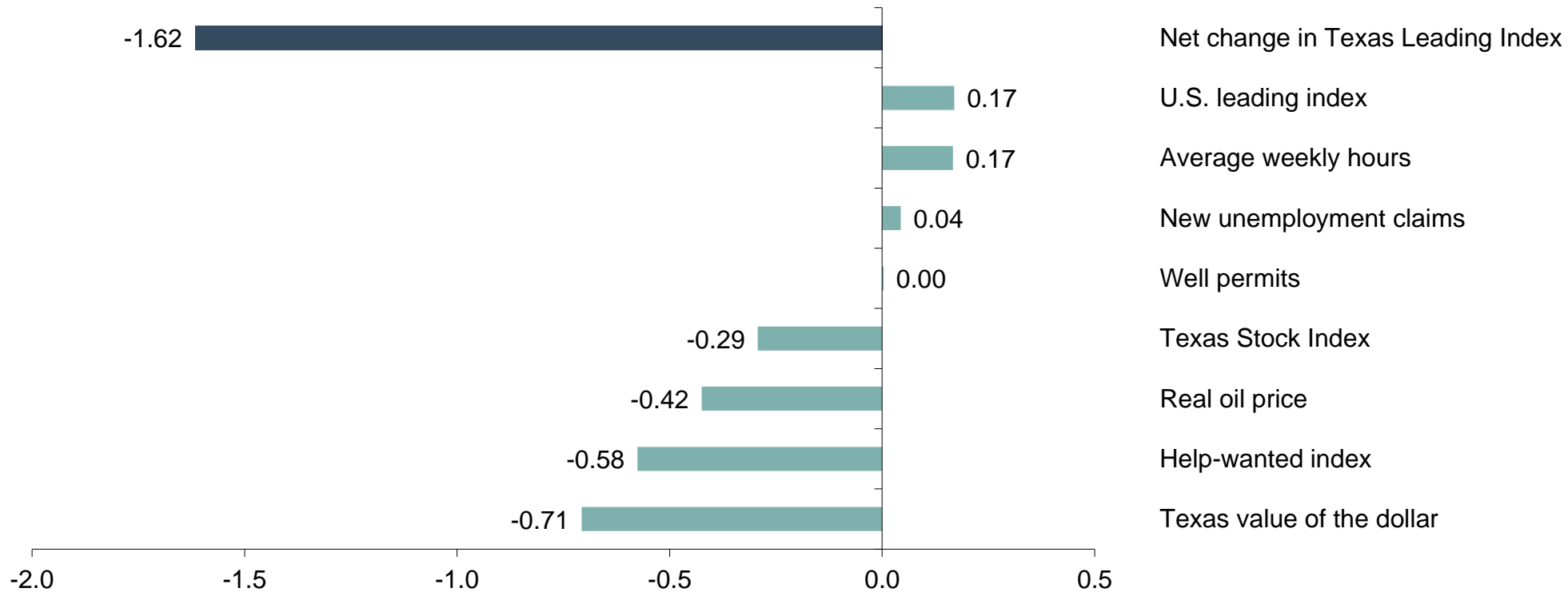
TMOS and TSSOS Future Employment Indexes Suggest Less Hiring in the Next Six Months



SOURCE: Federal Reserve Bank of Dallas

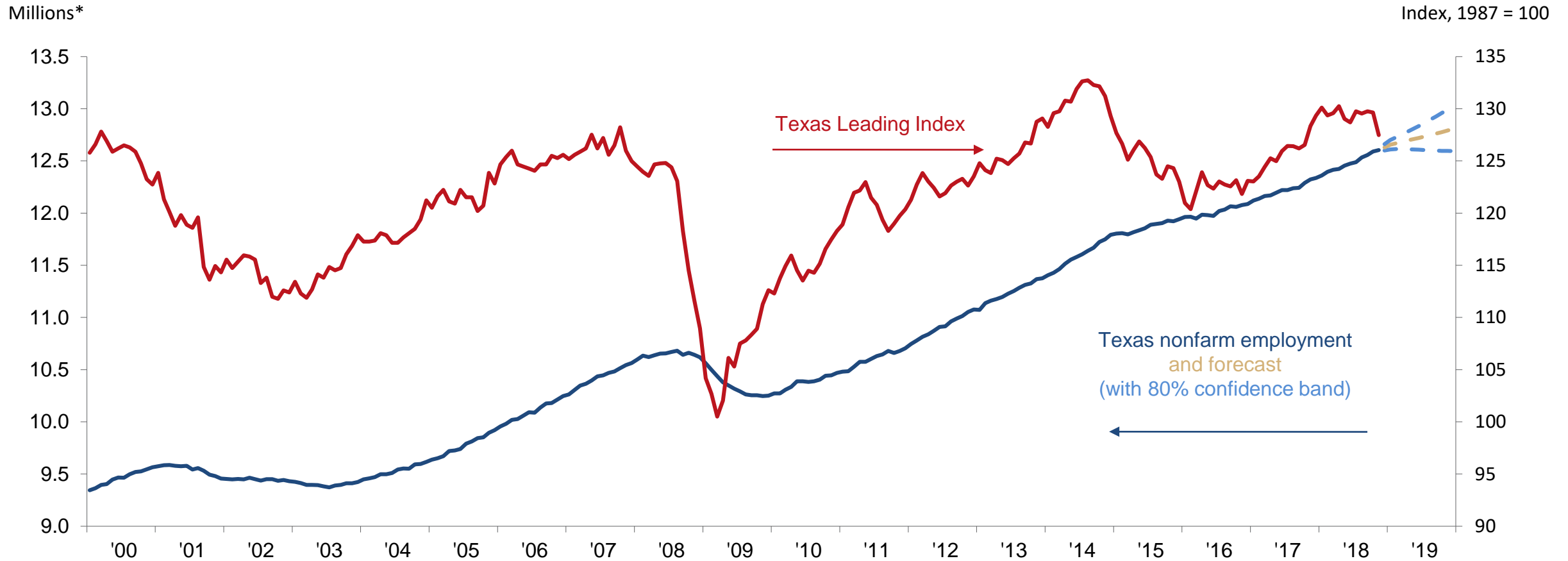
Texas Leading Index Components Generally Negative

Growth in Leading Index Components Mixed
(Net contributions to change in Texas Leading Index)



NOTE: Three-month percent change through November, seasonally adjusted. Texas value of the dollar and unemployment claims for November are estimated.
SOURCE: Federal Reserve Bank of Dallas.

Texas Jobs Forecast to Grow about 0.9% to 1.9% in 2019

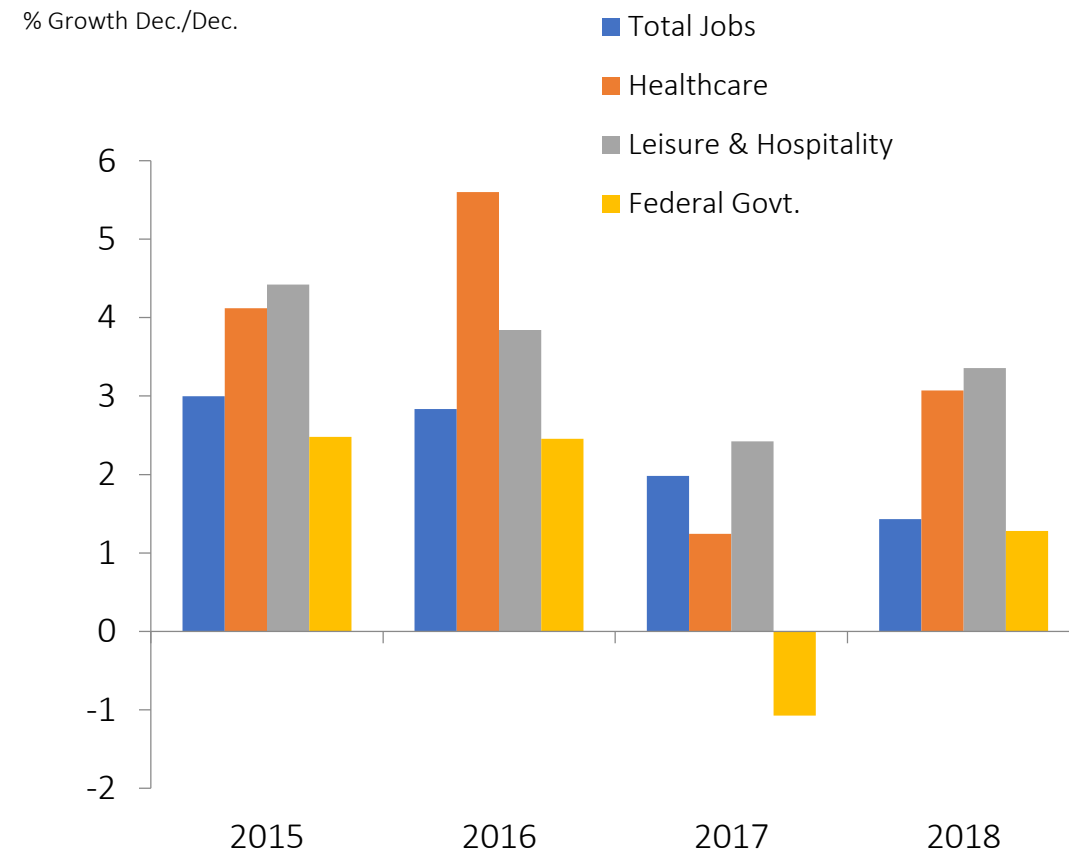


*Seasonally adjusted.

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

San Antonio Economy Remained Healthy in 2018

- 2018 job growth at 1.4% after 2.0% in 2017
- Federal govt. grew moderately after decline in 2017
- Health care and leisure and hospitality strong
- Goods-producing sectors slowed and retail remained weak
- UR very low at 3.2 percent – labor force growth slowing
- Overall job growth in San Antonio likely to be 1.0 to 2.0 percent this year



*Data is annualized Nov. 2018/Dec. 2017.

SOURCES: Bureau of Labor Statistics; adjustments by FRB Dallas.

Summary

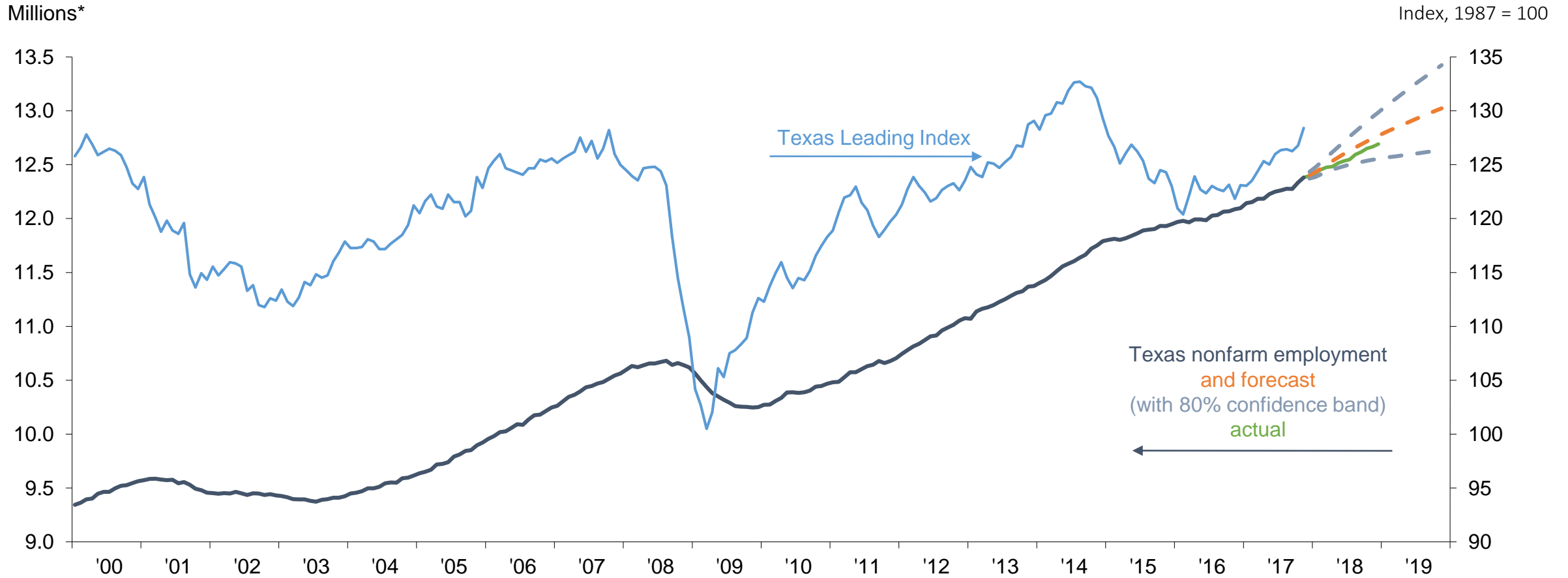
- Texas economy accelerated last year – growth was broad-based across industries and regions
- Texas unemployment rate reached historical lows
- Toward end of the year growth began to slow and business outlooks weakened sharply
- Texas expected to have grown 2.4 percent in 2018 and will likely slow to about 1.4 percent in 2019
- Texas UR likely to remain low but may tick up slightly
- San Antonio facing tight labor markets saw weaker job growth last year - should see job growth of 1.0 to 2.0 percent in 2018
- Biggest risk to the Texas forecast is sharp decline in oil prices or trade

How Did My Forecast From Last Year Do?

Last year stated: Texas expected to have grown at about 2.5 percent in 2017 and will likely accelerate to about 3.0 percent in 2018.

- Instead growth likely accelerated from 2.1% in 2017 to 2.4% in 2018

January 2018 Forecast Slightly Overestimated Growth for the Year



*Seasonally adjusted.

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

Dallas Fed Publications

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](#)
- [Heart of Texas](#)
- [Dallas Fed Blog](#)



We need your input!

*Be part of a survey
that gauges regional
business activity and
informs monetary
policy making.*



Texas **Manufacturing**
Outlook Survey



Texas **Service Sector**
Outlook Survey



Texas **Retail**
Outlook Survey