

ITEXAS Economic Outlook



Expansion Likely to Continue

Keith R. Phillips
Keynote Speaker

January 31, 2020

The views expressed are my own and do not reflect official positions of the Federal Reserve Bank of Dallas or the Federal Reserve System.

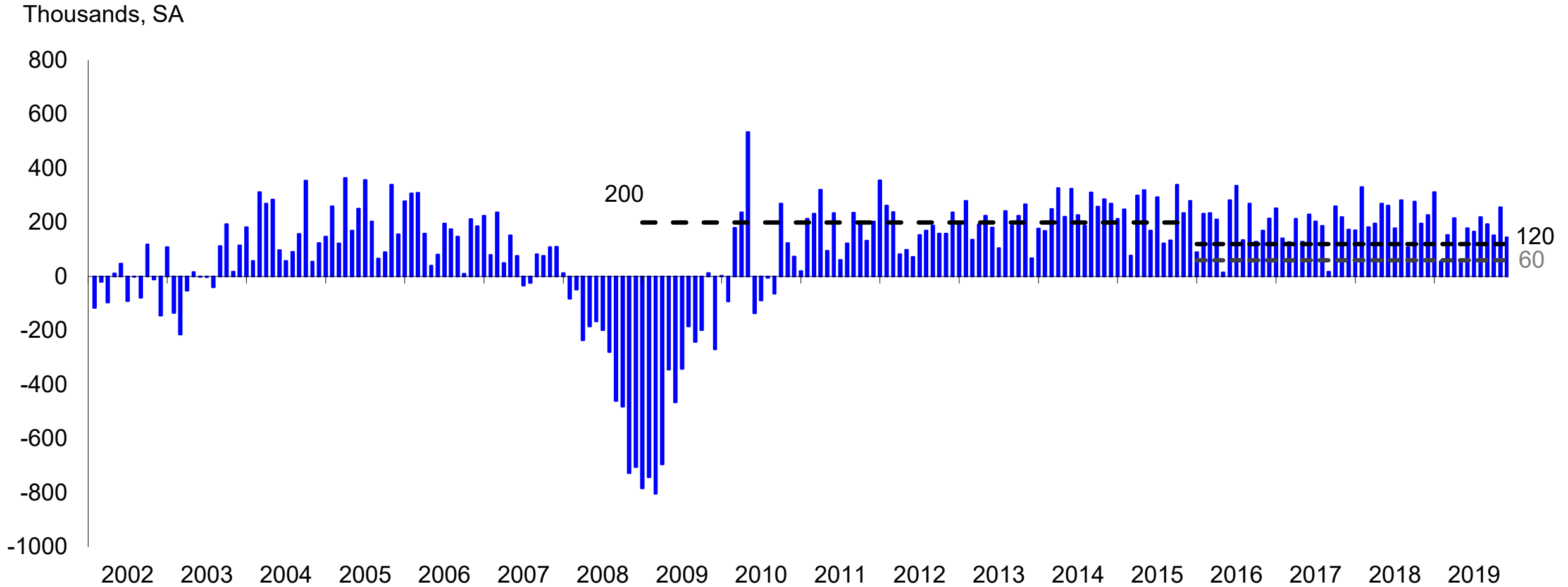


Federal Reserve
Bank of Dallas
San Antonio Branch

National Economy Growing Strongly

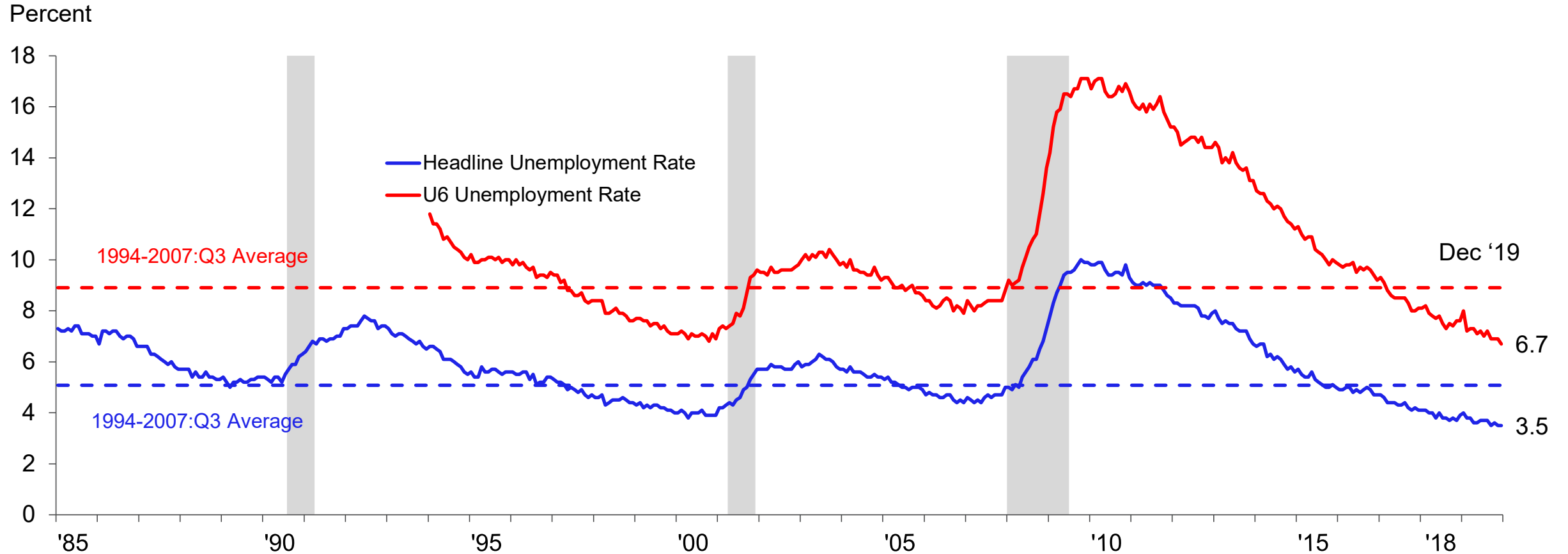
- After growing a strong 1.8% in 2018 job growth slowed to 1.3% in 2019, while real GDP growth slowed from 2.5% to 2.3%
- Manufacturing, construction and mining jobs slowed last year
- Labor market below full employment at 3.5% unemployment rate
- Inflation is stable near Fed target of 2%
- USMCA passage and first stage of China trade deal has reduced uncertainty
- Negative yield spread in August, September and more recent declines in US Leading Index suggests some concern about the outlook for 2020
- Forecasters project GDP to grow between 1.8% and 2.2% this year

Job Growth Averaged 176K Per Month Last Year, 223K in 2018



SOURCE: Bureau of Labor Statistics

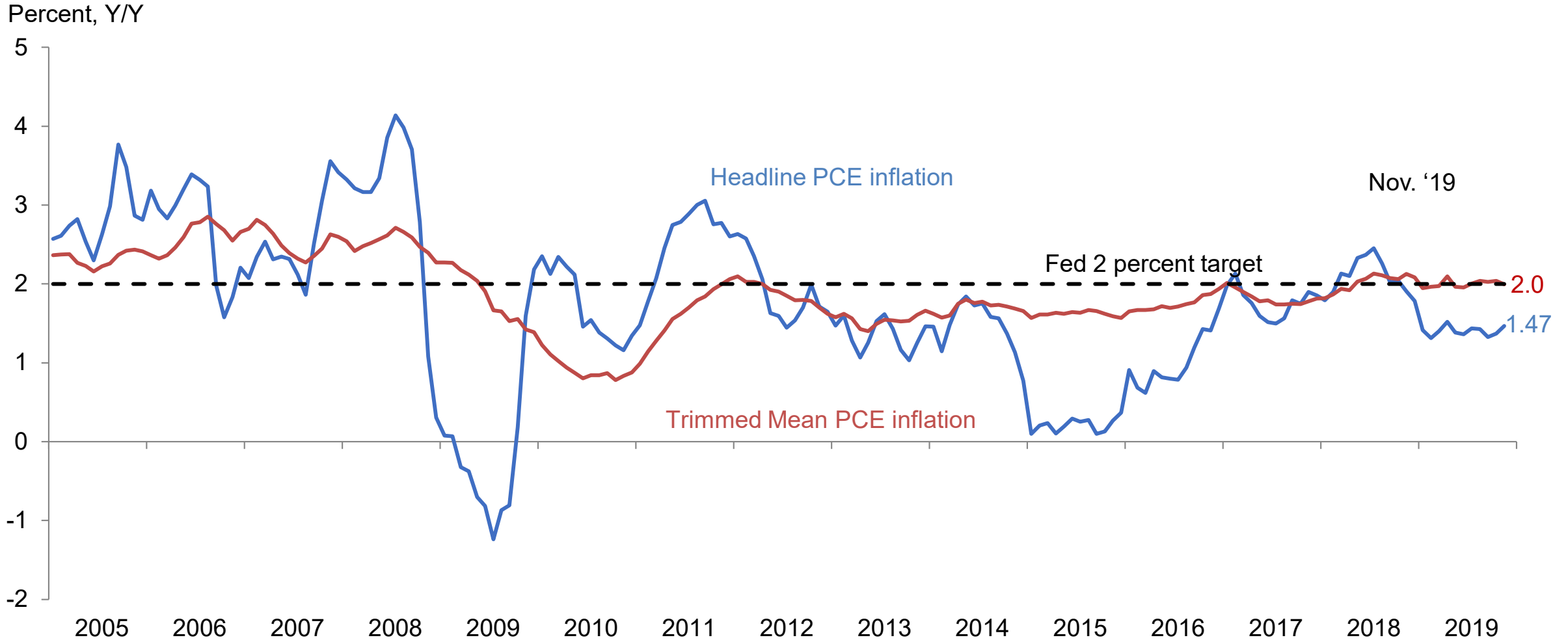
Unemployment Rate Lowest in 50 Years (1969)



NOTES: U6 Unemployment rate includes marginally attached and part-time for economic reasons workers. Gray shaded areas indicate NBER recessions.

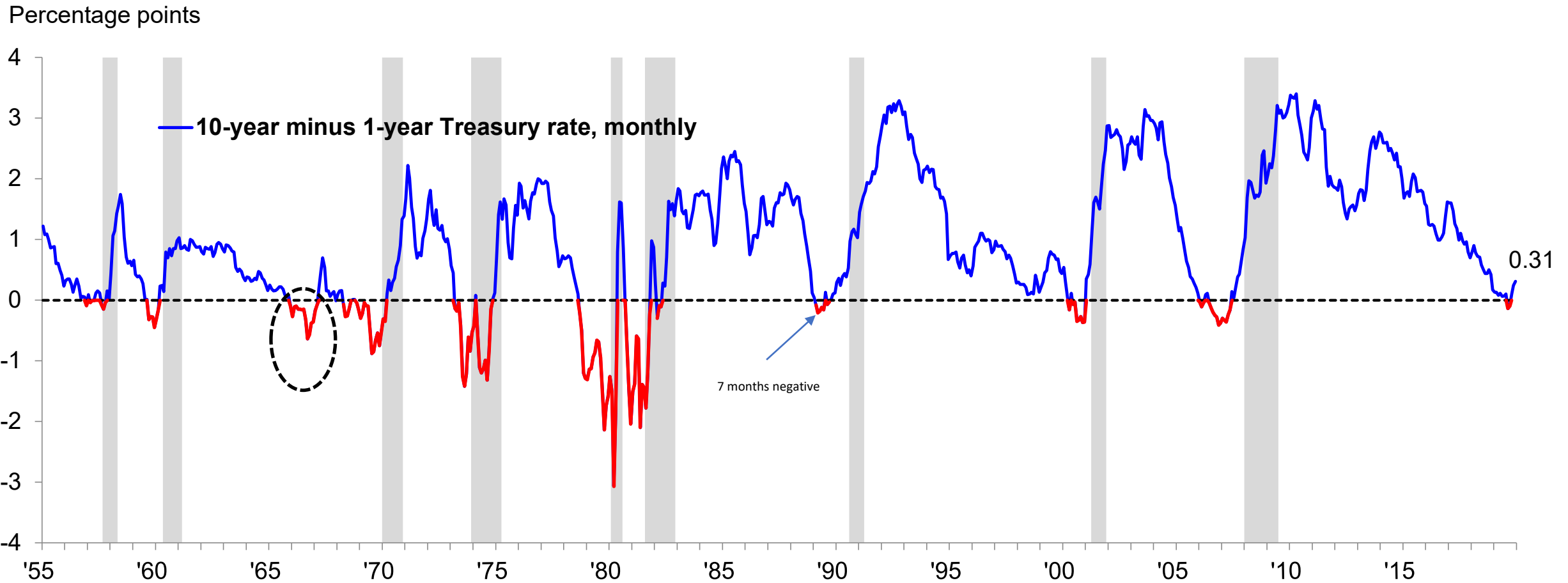
SOURCES: Bureau of Labor Statistics; NBER.

Core Inflation Near 2 Percent Goal



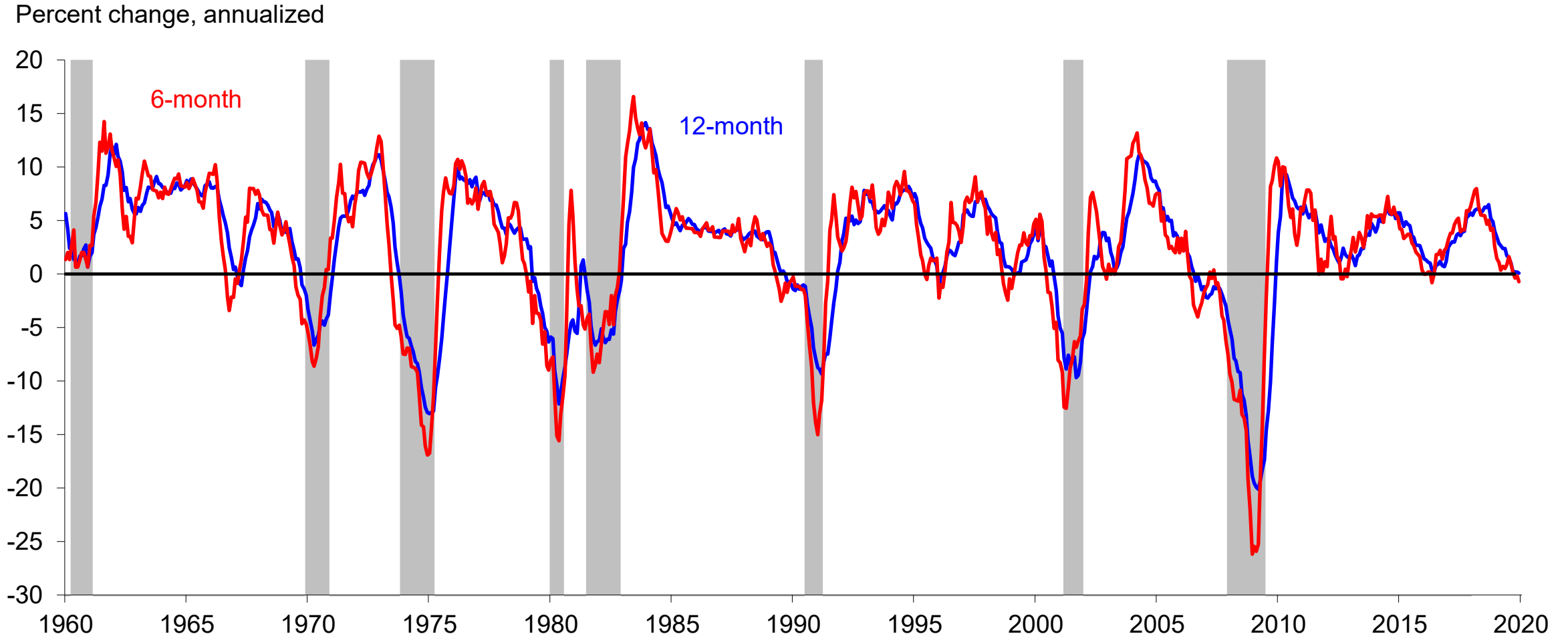
SOURCES: Bureau of Economic Analysis; Federal Reserve Bank of Dallas.

Yield Curve Turns Positive in October – But Caution Remains



NOTE: Data through December 2019.

U.S. Leading Index Suggests Weaker Growth Over Next 3-6 Months

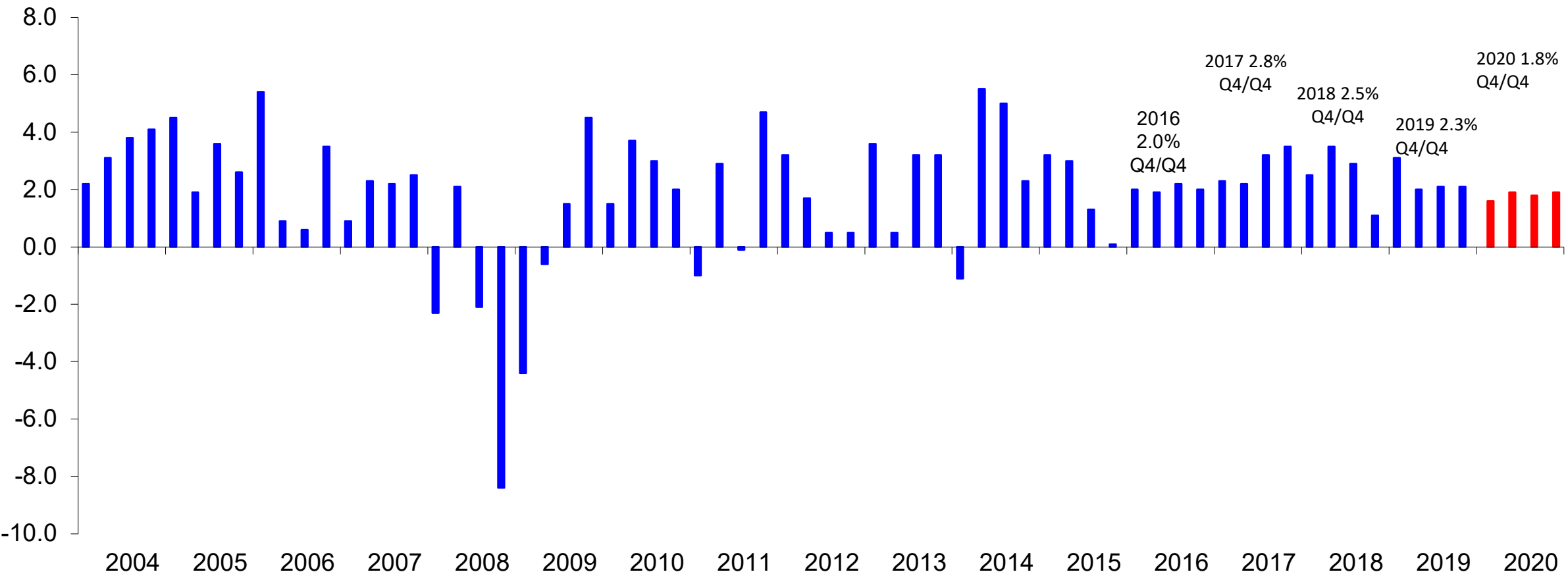


NOTE: Shaded areas represent U.S. recessions.

SOURCES: Conference Board, Federal Reserve Bank of Dallas.

GDP Growth Expected to Slow – No Recession Forecasted for 2020

Percent, SAAR



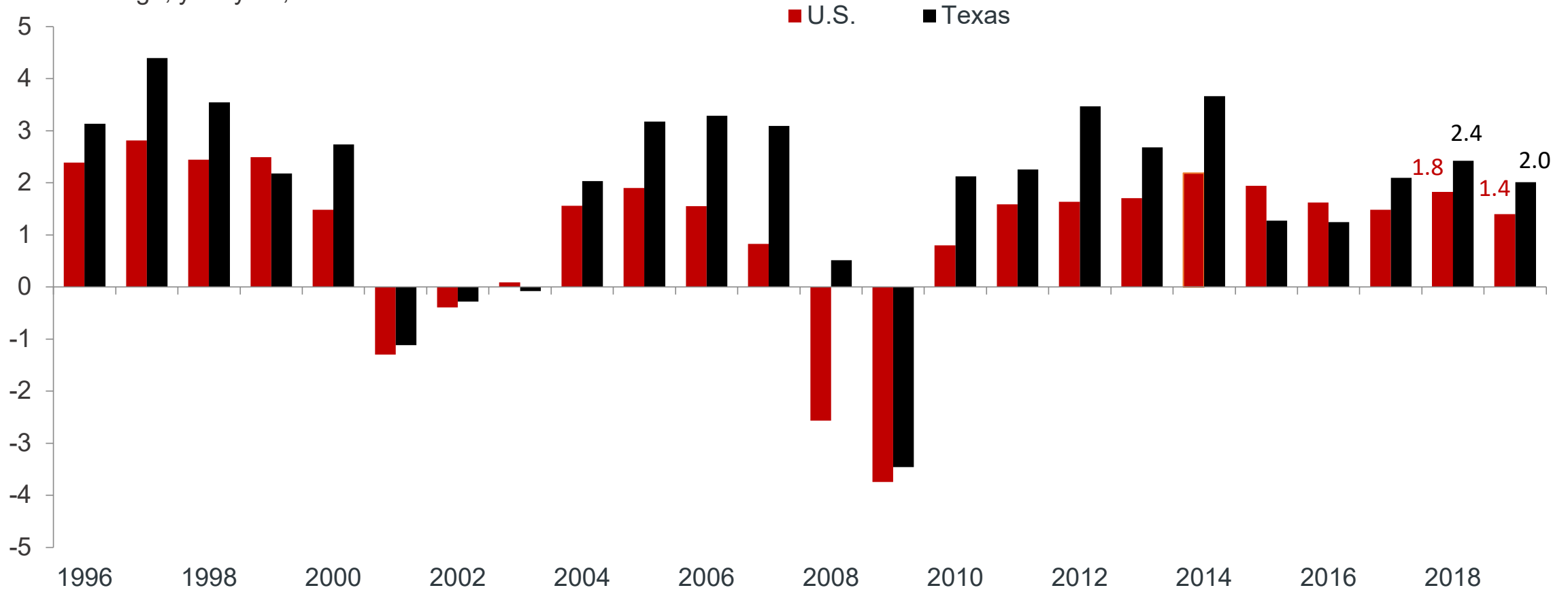
SOURCES: Bureau of Economic Analysis; Blue Chip Economic Indicators.

Texas Economy Moderated in 2019

- Following oil bust in 2015 and 2016, Texas economy picked up in 2017 and 2018 but slowed in 2019.
- Last year job growth weakened slightly from 2.4 to 2.0 percent as the energy industry declined and labor market constraints continued to suppress job growth.
- Growth in the second half of 2019 improved and the leading index picked up – but manufacturing and energy weakened further.
- This year, less trade uncertainty is a positive although the energy sector will remain a drag. Election uncertainty may restrain business investment.
- Overall the forecast is for steady job growth near 2.1 percent with further declines in the unemployment rate.

Texas Job Growth Above the Nation's

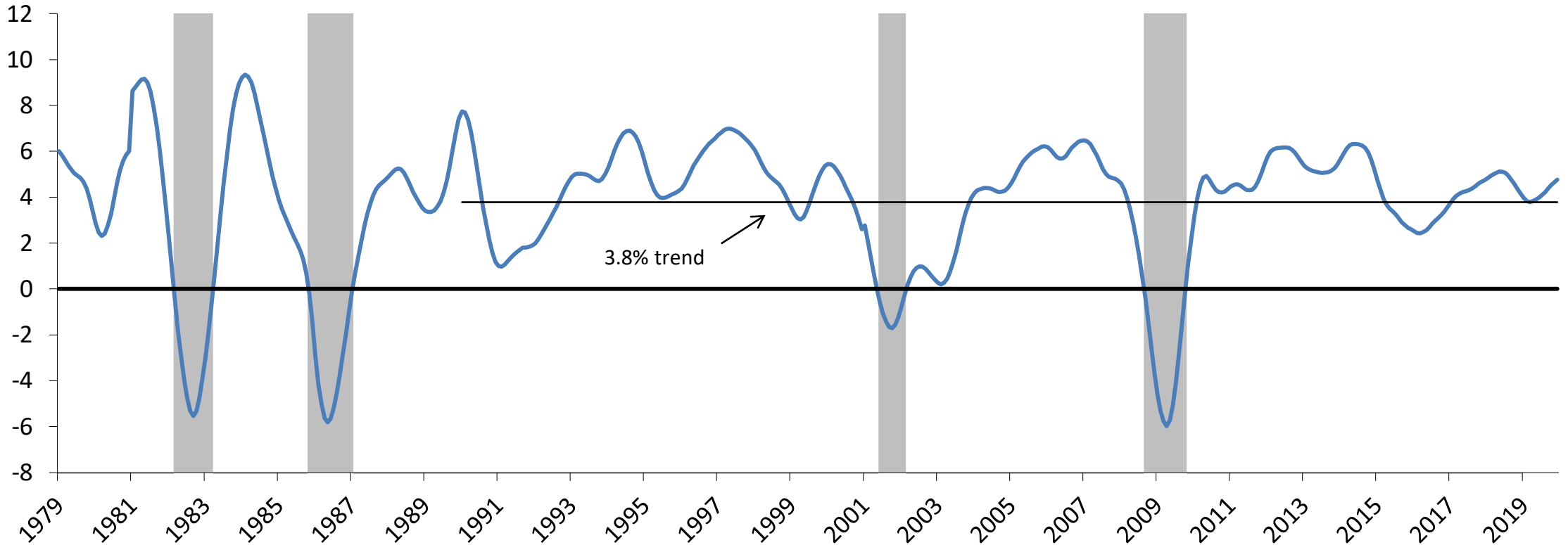
Percent change, year/year, SA



NOTES: Long-run trend growth is 1.1 percent for the U.S. and 2.1 percent for Texas.
 SOURCES: Bureau of Labor Statistics, Texas Workforce Commission; FRB Dallas.

Texas Economy Expanding At Strong Pace (Texas Business-Cycle Index)

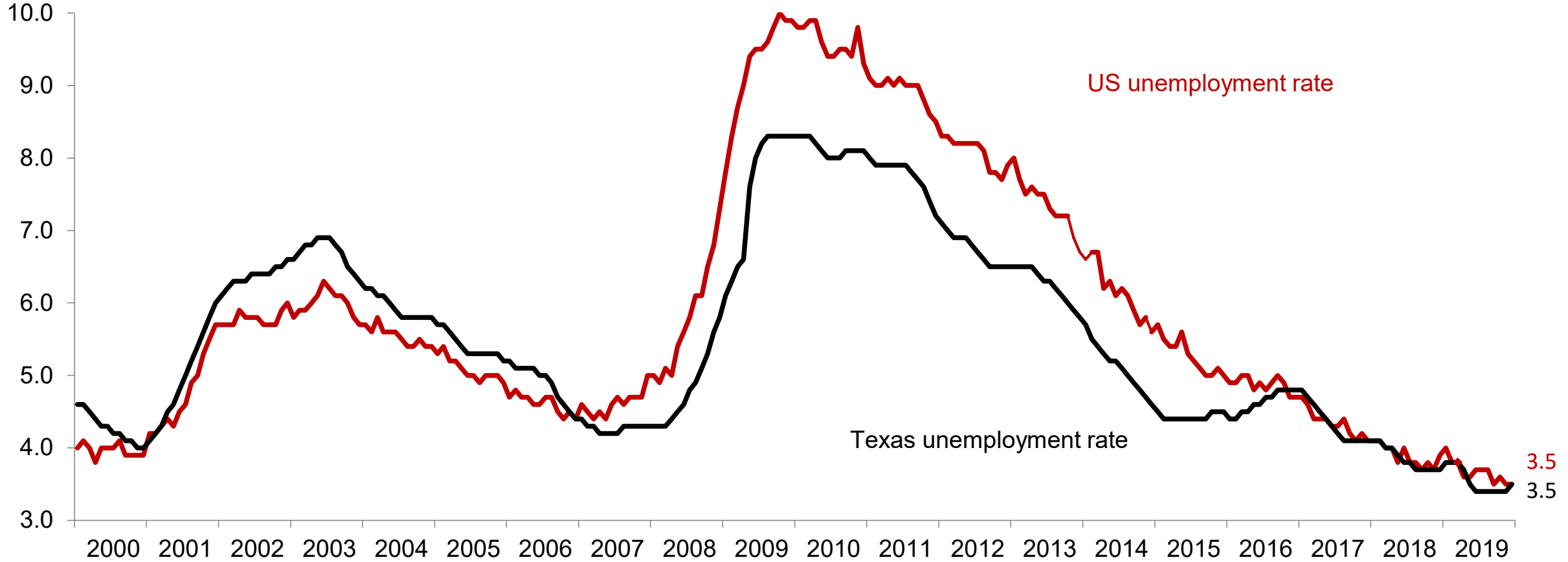
Percent, M/M SAAR



NOTE: Data through December 2019. Shaded areas represent Texas recessions. Trend refers to growth from Jan. 1990 – present.

Texas Unemployment Near Historical Low

Percent, SA

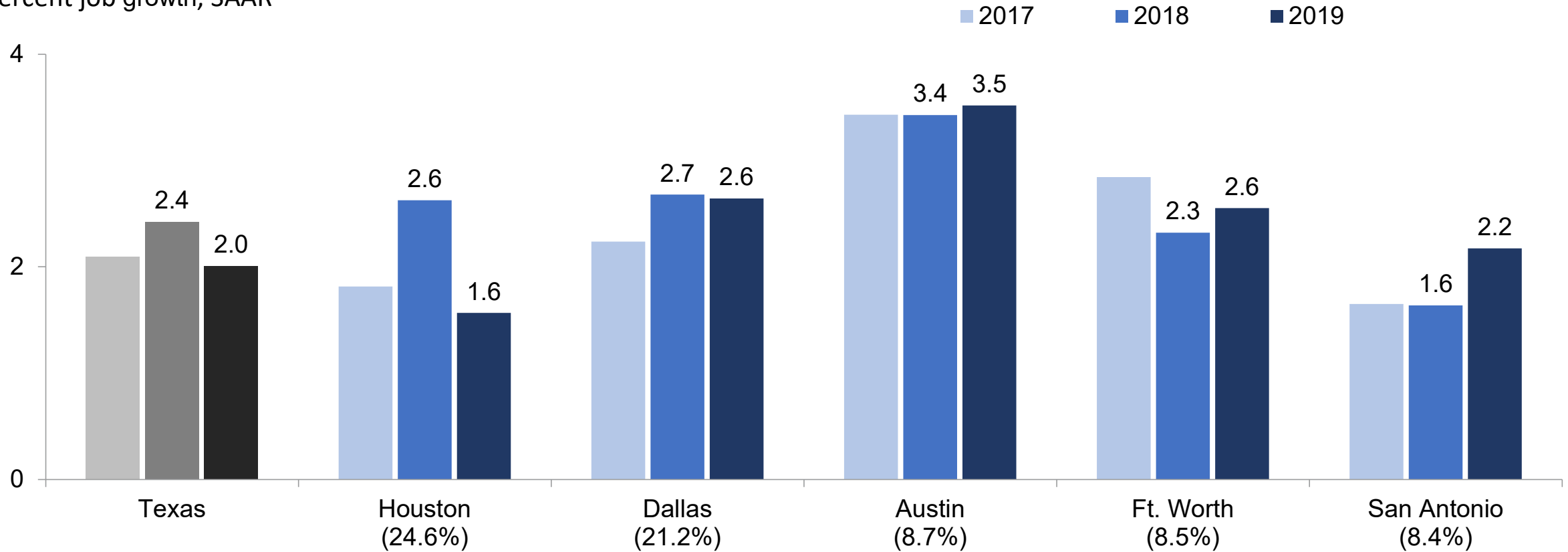


NOTES: Data through December 2019.

SOURCE: Bureau of Labor Statistics.

Job Growth Broad-Based Across Regions

Percent job growth, SAAR

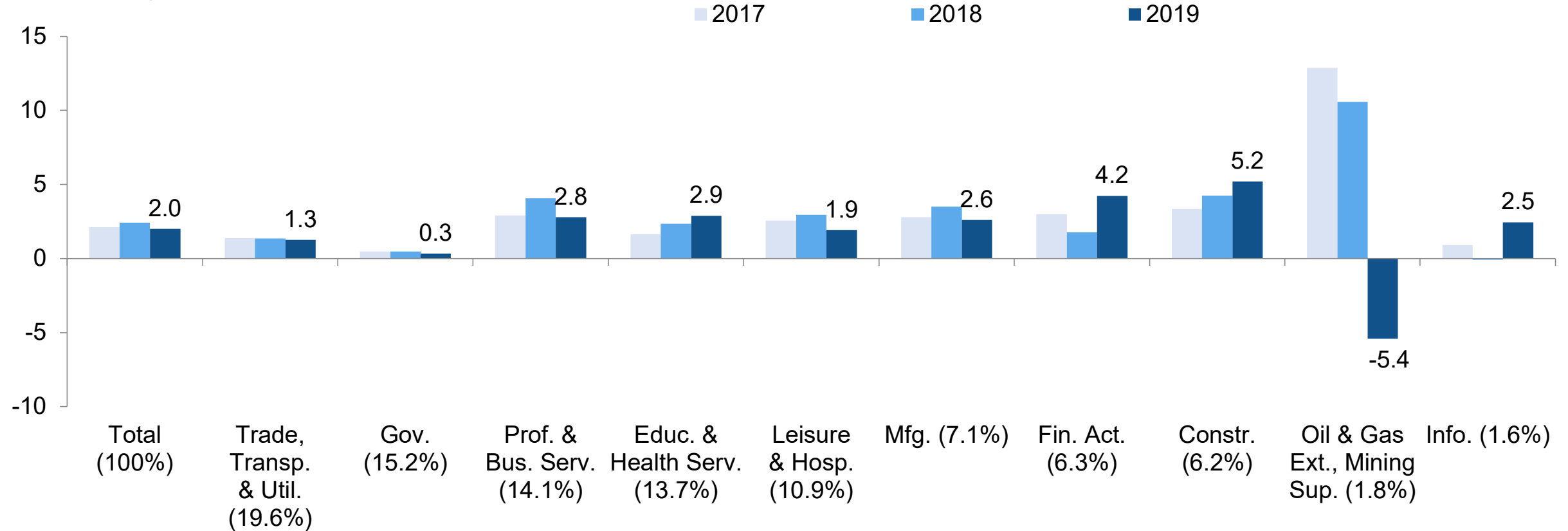


NOTES: Numbers in parentheses refer to the share of Texas employment in the most recent month.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Dallas Fed.

2019 Job Growth Broad-Based Except Mining

Percent change, SAAR

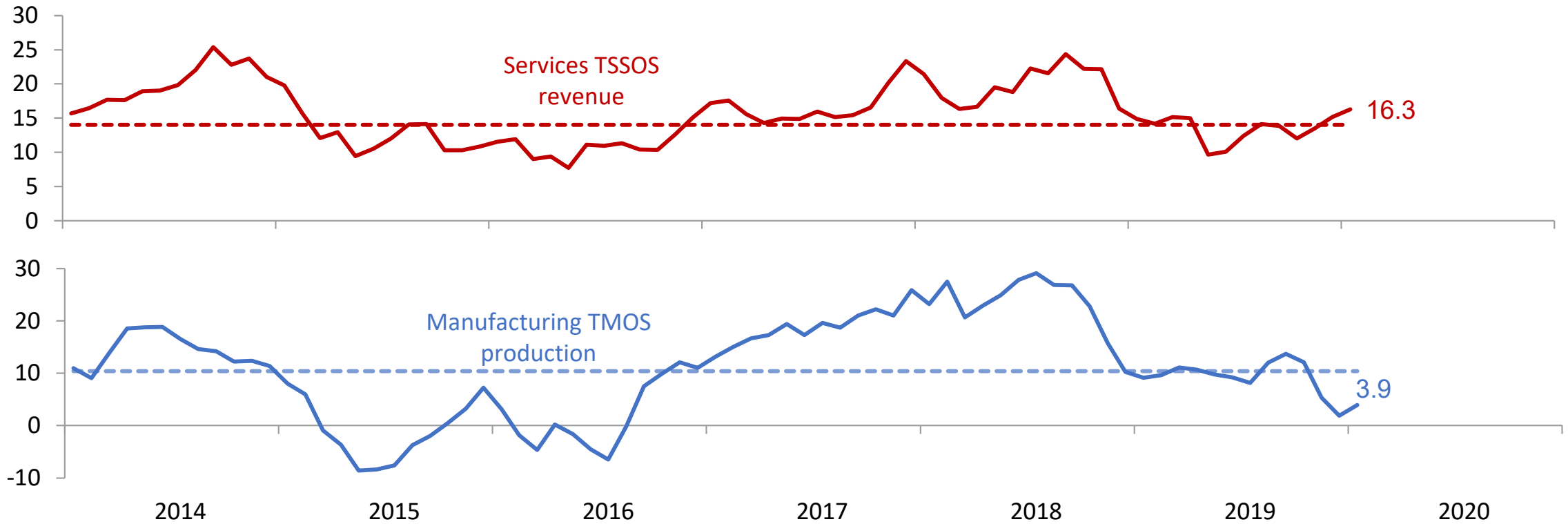


NOTES: Numbers in parentheses are share of Texas employment for most recent month.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.

Manufacturing and Services Activity Picked Up in January

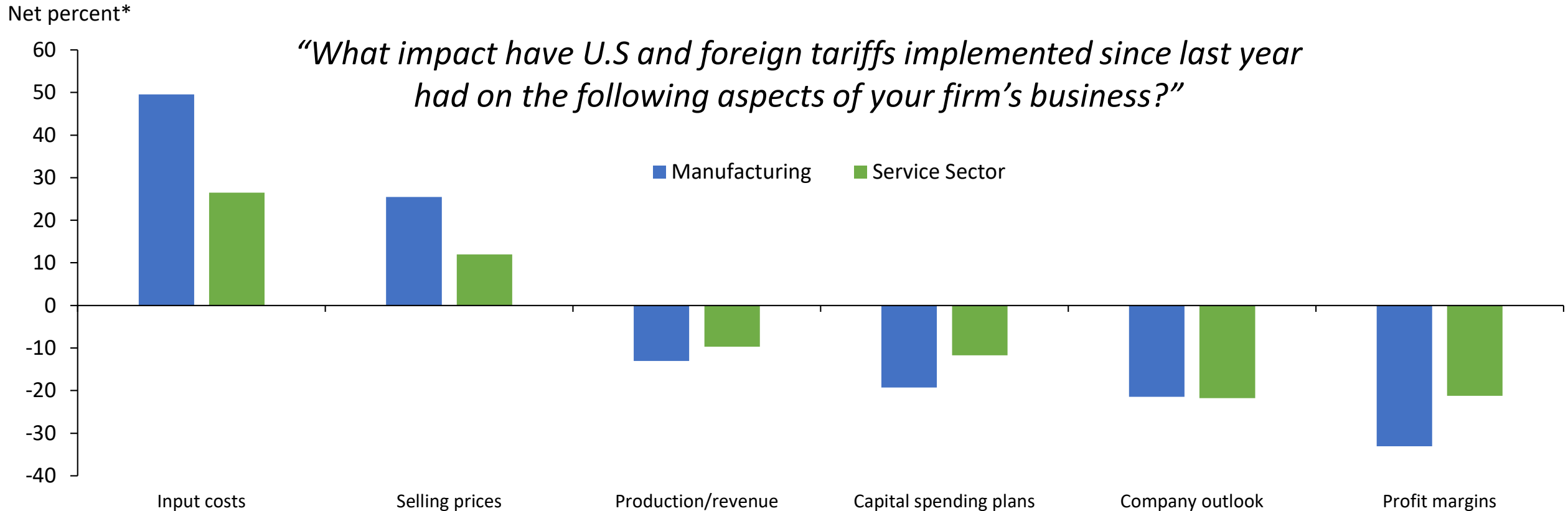
Diffusion index, 3MMA, SA



NOTES: Data through January 2020. Dashed lines are postrecession averages.

SOURCE: Dallas Fed Texas Business Outlook Surveys.

Tariffs Increasing Costs and Prices, Reducing Capex



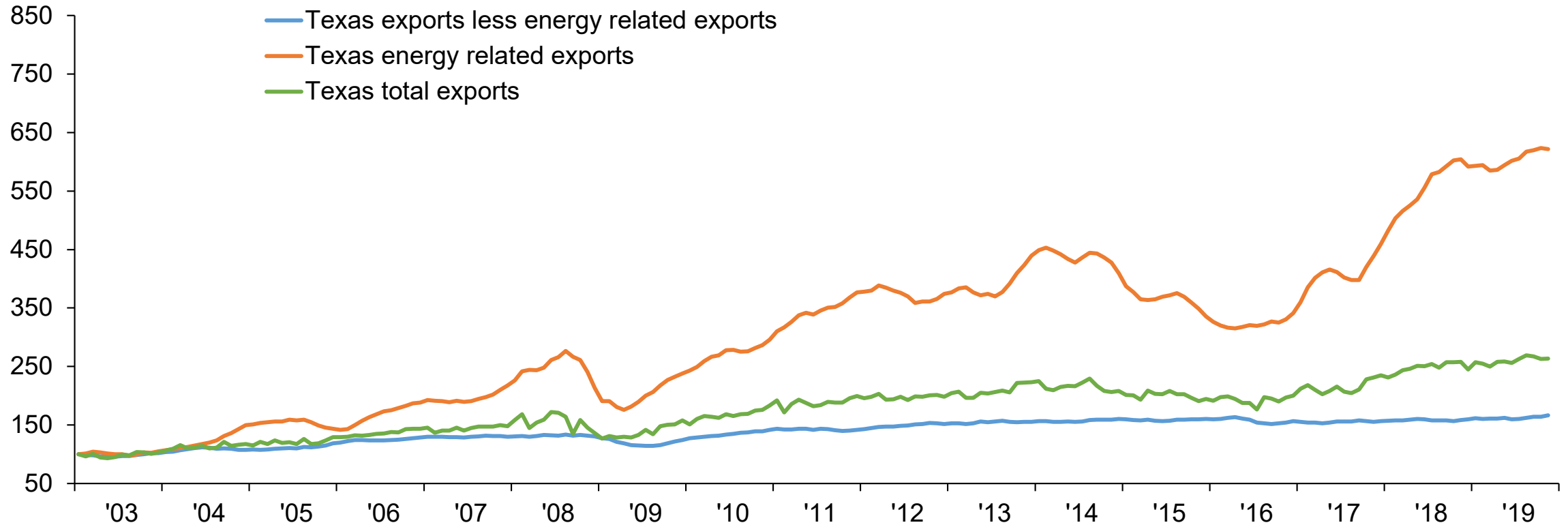
*Net percent calculated as the share of respondents reporting increase minus the share reporting decrease.

Notes: 360 responses; 115 manufacturing, 245 service sector. Data collected Jun. 11-19, 2019.

Source: Dallas Fed Texas Business Outlook Surveys, June 2019 Special Questions.

Energy Exports Growing Strongly: Less Impacted by Tariffs, Dollar Strength

Index, Jan 2003 = 100, 5MMA, real 2018\$

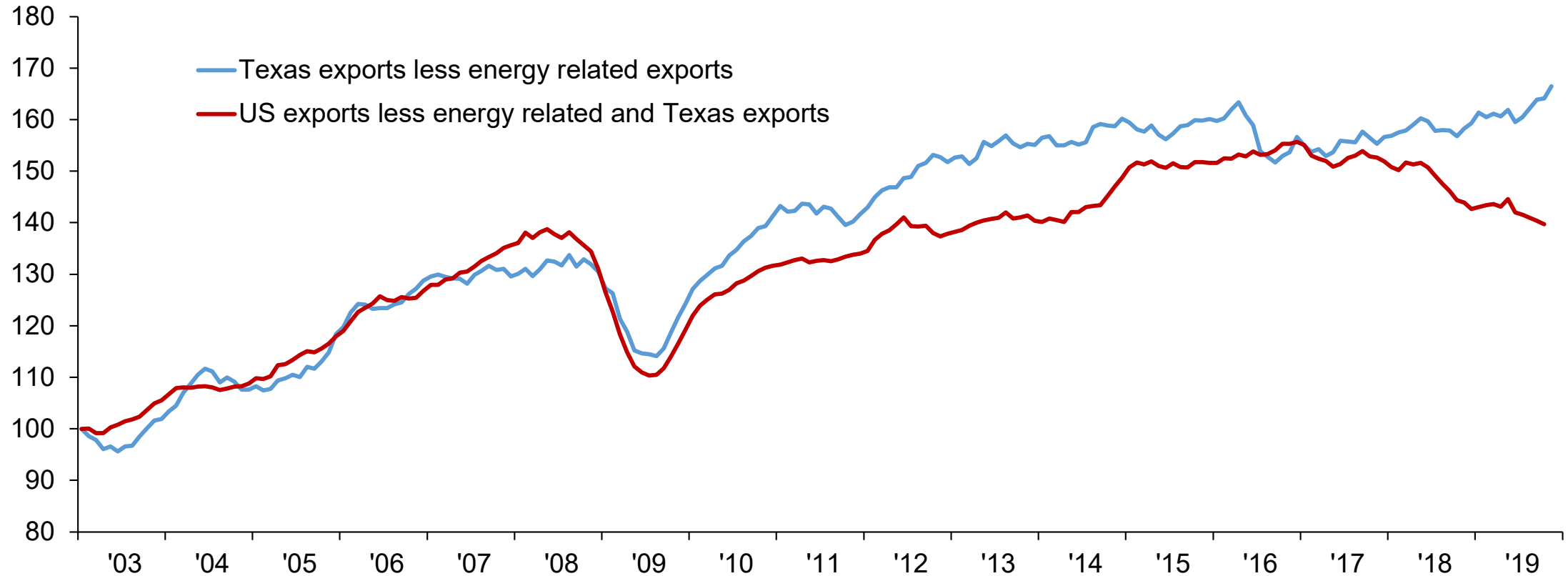


NOTE: Energy related exports include mining, chemical, and petroleum and coal products exports. Data through November 2019.

SOURCES: U.S. Census, USATrade.

Texas Non-Energy Exports Doing Better than Rest of U.S. States

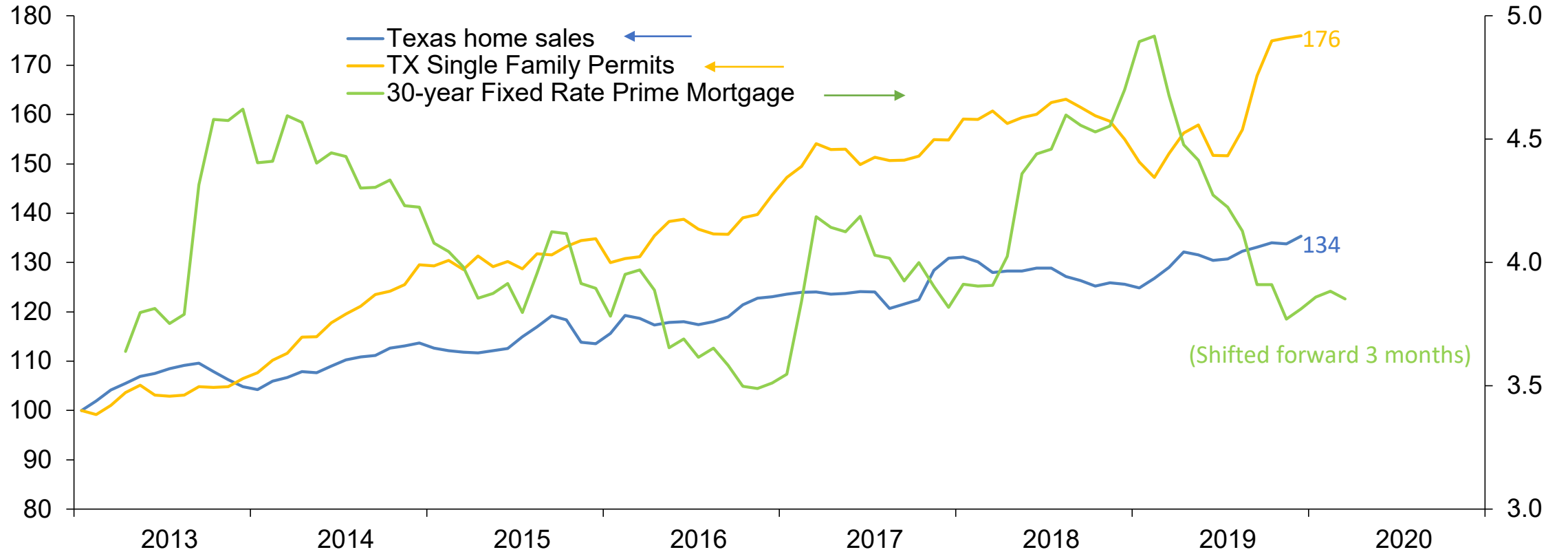
Index, Jan 2003 = 100, 5MMA, real 2018\$



NOTES: Energy related exports include mining, chemicals and petroleum and coal products exports. Data through November 2019.
SOURCE: U.S. Census, Bureau of Labor Statistics, USATrade.

Mortgage Rates Declined in 2019 – Home Building Grew Strongly

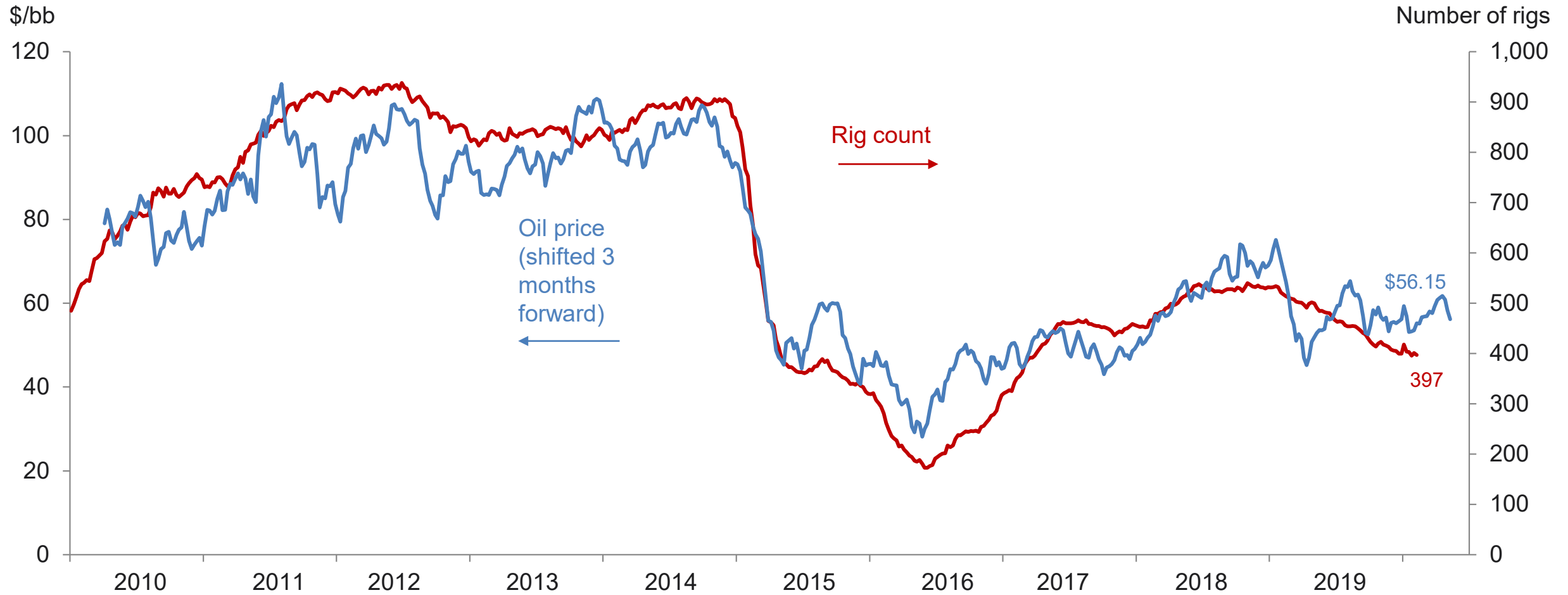
Index, Jan 2012 = 100, 3MMA, SA



NOTES: Data through December 2019. Effective interest rate is for closed 30-year, fixed rate, prime, first mortgages.

SOURCES: MLS; Texas A&M Real Estate Center; Wall Street Journal.

Oil Price Suggests Flattening Rig Count



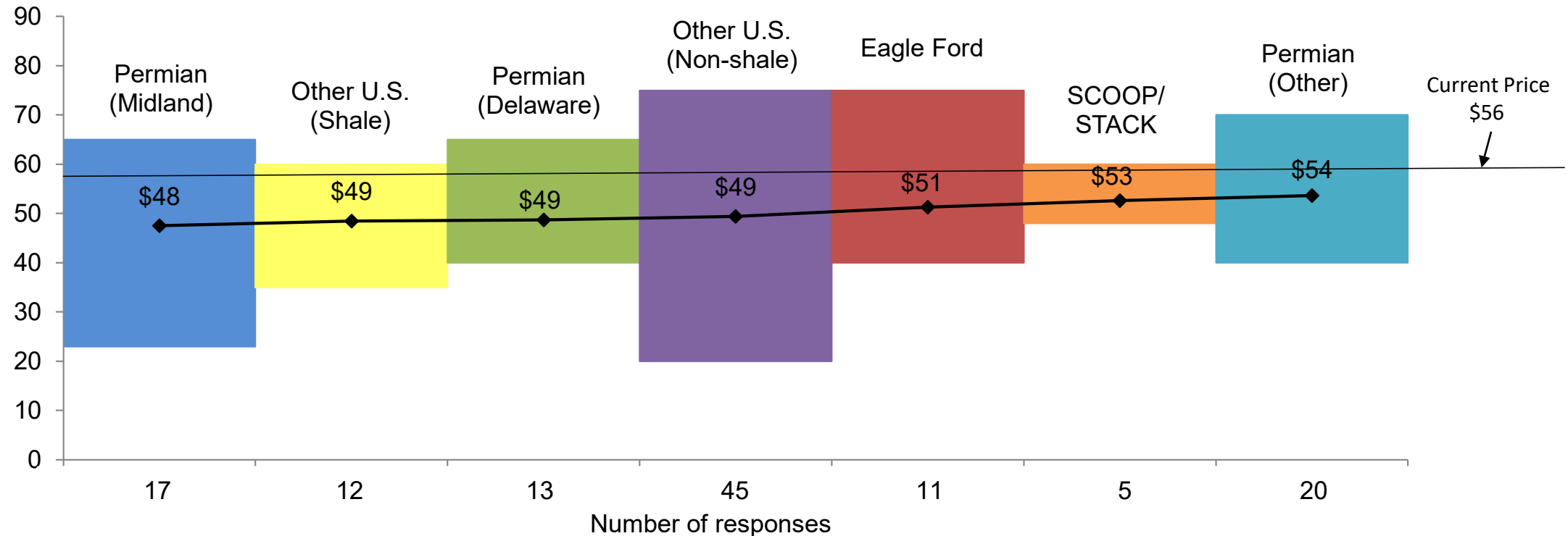
NOTE: Data are weekly, through the week ending January 24, 2020.
SOURCES: EIA; Baker Hughes.

Current Oil Prices Support Moderate Drilling Activity

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

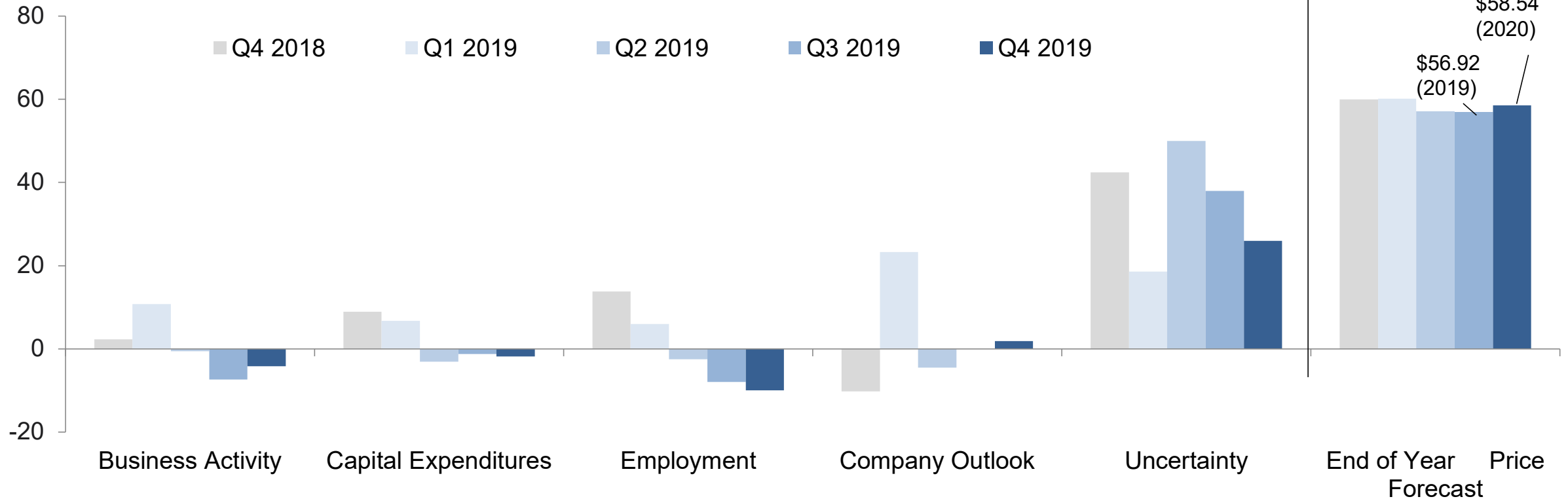


NOTES: Lines show the mean, and bars show the range of responses. Executives from 82 exploration and production firms answered this question during the survey collection period, March 13–21, 2019.

SOURCE: Federal Reserve Bank of Dallas.

Energy Survey Suggests Continued Weakness

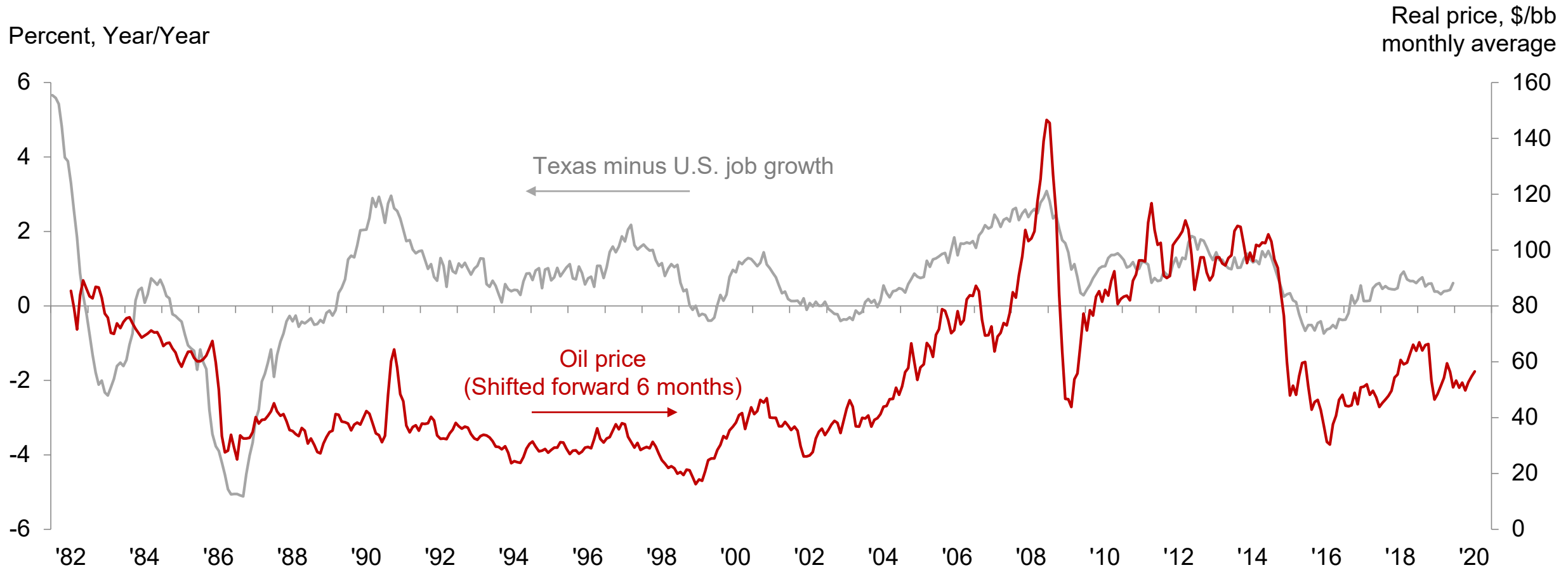
Diffusion index



NOTE: Price forecast is average year-end forecast of WTI oil price among respondents.

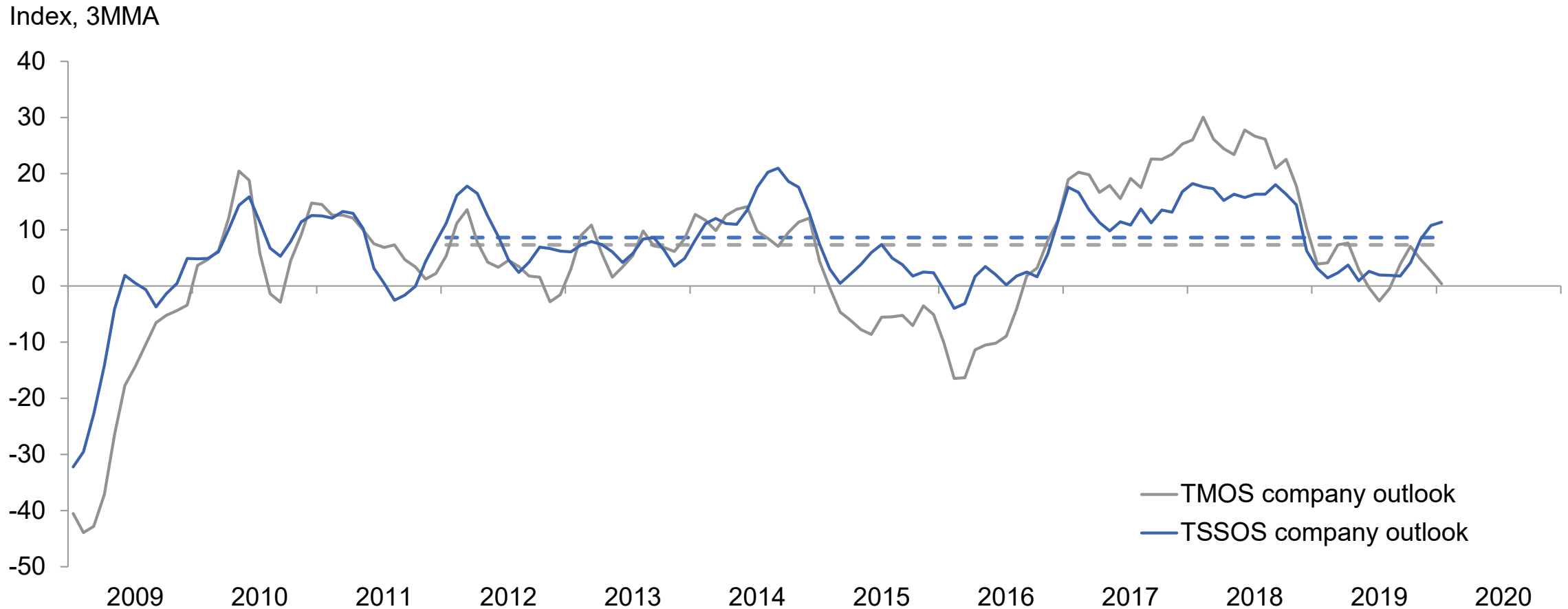
SOURCE: Federal Reserve Bank of Dallas Energy Survey.

Recent Oil Prices Suggest Texas Job Growth Will Remain Above Nation's



NOTE: Nominal oil price was \$59.81 a barrel in Dec. 2019.
SOURCES: *Wall Street Journal*; Bureau of Labor Statistics.

Outlook Improving in Services but not in Manufacturing

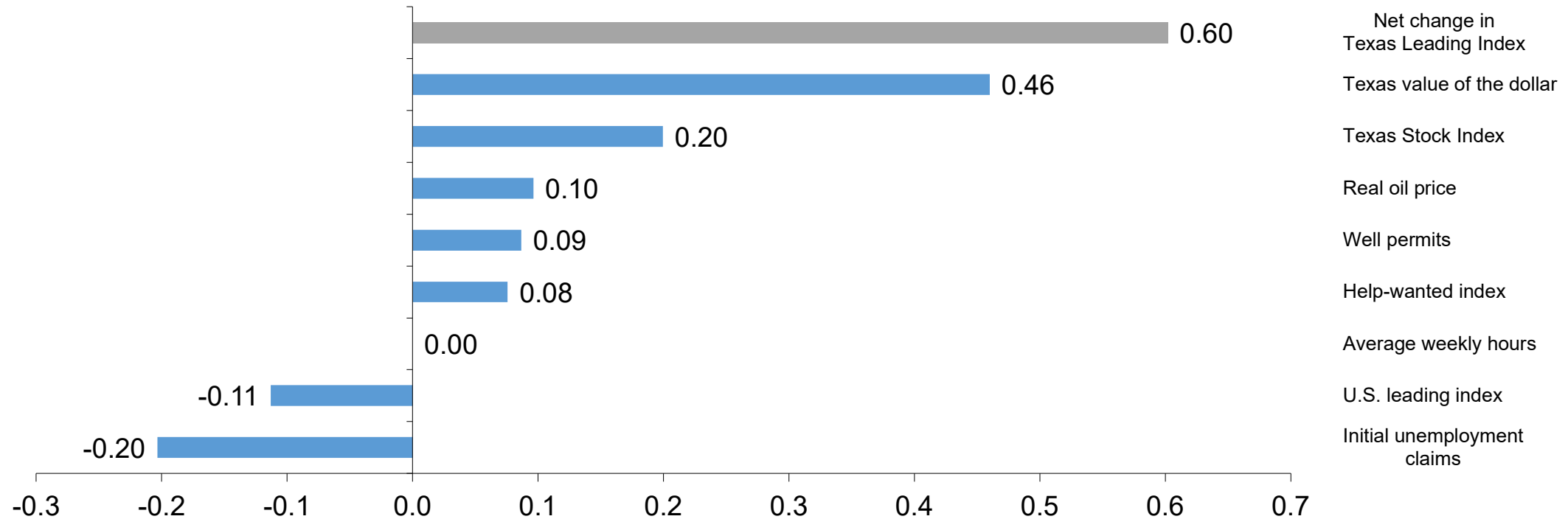


NOTES: Data through January 2020. Dashed lines are post recession averages.

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

TX Leading Index Components Mostly Positive Over Past 3 Months

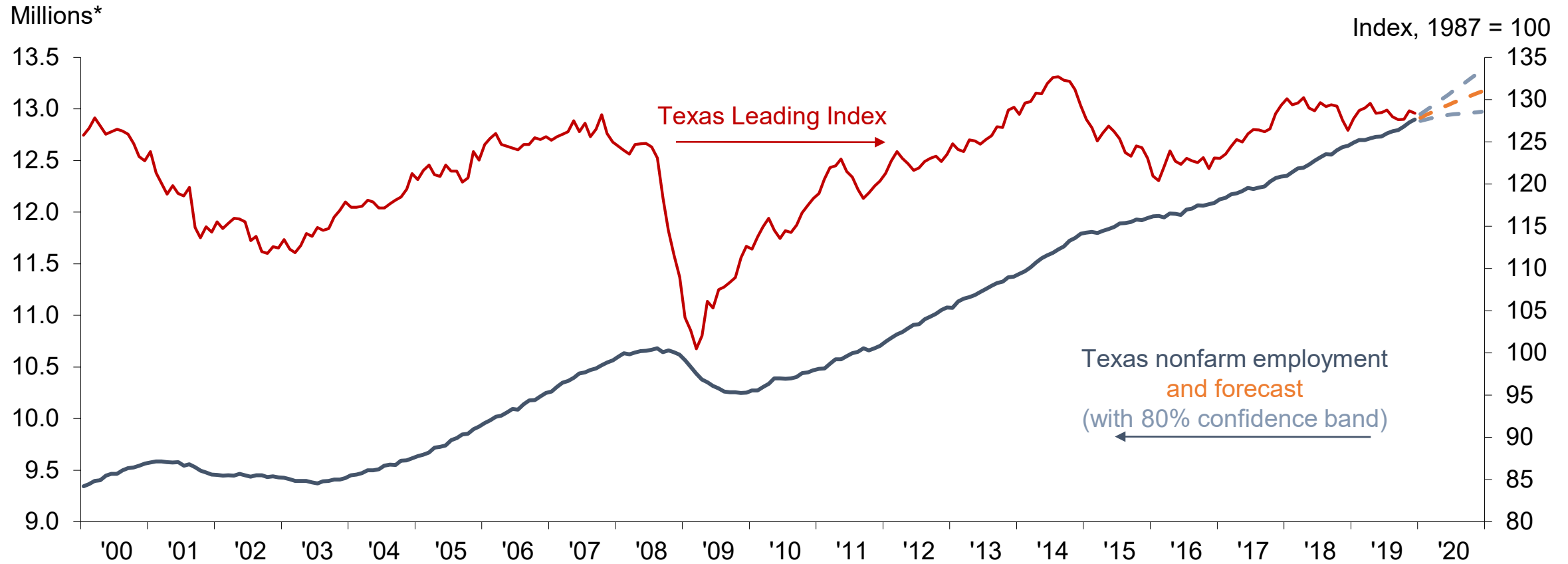
Net contributions to change in Texas Leading Index



NOTE: Three-month percent change through December, seasonally adjusted. Texas value of the dollar is a preliminary estimate from the Dallas Fed.

SOURCE: Federal Reserve Bank of Dallas.

Texas Jobs Forecast to Grow about 2.1% in 2020

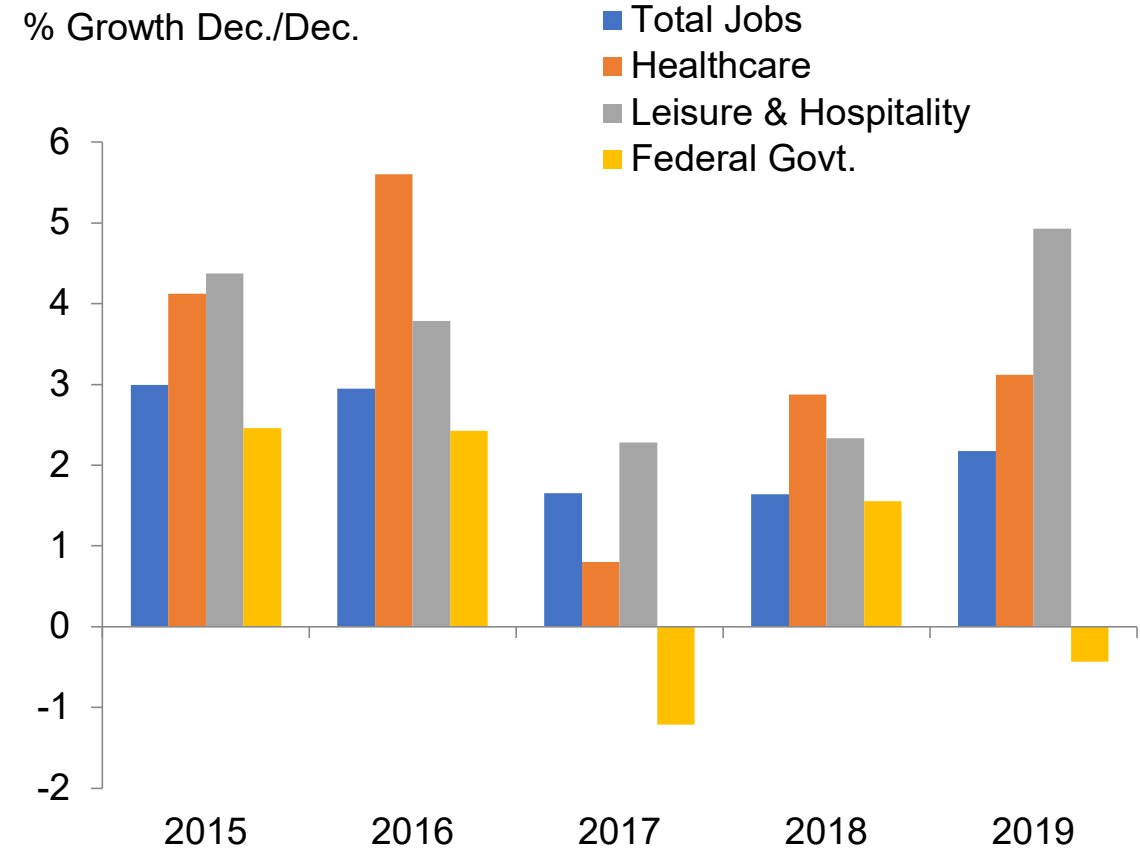


*Seasonally adjusted.

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

San Antonio Economy Picked Up in 2019

- 2019 job growth at 2.2% after 1.6% in 2018
- Federal govt. declined slightly after growing moderately in 2018
- Construction, health care and leisure and hospitality strong
- Finance and Insurance down, retail flat
- UR very low at 3.0 percent – labor force picked up in second half of 2019



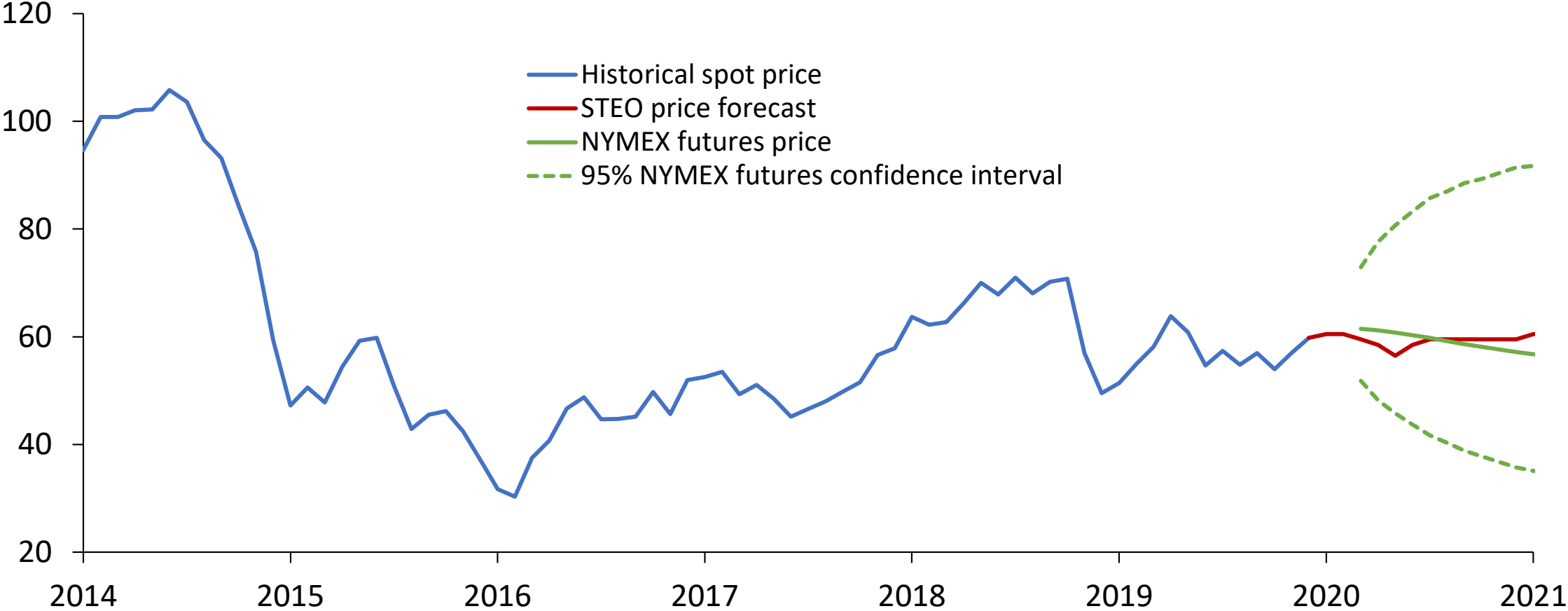
SOURCES: Bureau of Labor Statistics; adjustments by FRB Dallas.

Summary

- National economy slowed in 2019 but remained above trend – forecasters expect continued growth but caution remains
- Texas even stronger than nation but energy sector likely to continue to decline
- Historically tight labor markets continue to restrain job growth
- Texas jobs grew 2.0 percent in 2019 and will likely grow about 2.1 percent this year – with greater downside than upside risks
- Texas unemployment rate likely to decline further
- Biggest downside risks to forecast are sharp decline in oil prices, trade war escalation, national recession

Uncertainty in Crude Price Forecasts

WTI crude oil, dollars per barrel



Note: Prices as of 1/14/20. STEO: Short-Term Energy Outlook. NYMEX: New York Mercantile Exchange.
Source: EIA

How Did My Forecast From Last Year Do?

Last year stated: “Texas expected to have grown 2.4 percent in 2018 and will likely slow to about 1.4 percent in 2019”

– Instead growth slowed from 2.4% in 2018 to 2.0% in 2019

Dallas Fed Resources

Publications and Surveys:

- [Texas Employment Forecast](#)
- [Metro Economic Indicators](#)
- [Regional Economic Updates](#)
- [Southwest Economy](#)
- [Heart of Texas](#)
- [Dallas Fed Blog](#)
- [National Economic Updates](#)
- [International Economic Updates](#)
- [Texas Business Outlook Surveys](#)
- [Energy Survey](#)



Visit [DallasFed.org](https://www.dallasfed.org)