Pandenomics: Where Do We Go From Here?

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Keynote Speaker

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The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.
National Economy
U.S. Economy Likely to Grow Strongly in Second Half of 2021

• After growing a healthy 1.4% in 2019, job growth fell sharply to -6.2% in 2020, while real GDP growth slowed less: from 2.3% to -2.5%
• Labor market well below full employment at 6.7% unemployment rate
• Inflation slightly below Fed target of 2%
• Pandemic has been main driver of economic growth – vaccines suggest strong growth in second half of the year
• Upward sloping yield curve reflects positive outlook over next 12 months
• Blue Chip Forecasters project GDP to grow about 4.0% this year
  • Jobs likely to improve by less than output with Blue Chip year-end UR forecast of 5.5%
Historic Monthly Job Loss in April, Rebound Dissipating

NOTE: Data up to December 2020.
SOURCE: Bureau of Labor Statistics
Unemployment Rate has Declined, but Remains High

NOTES: U6 Unemployment rate includes marginally attached and part-time for economic reasons workers. Gray shaded areas indicate NBER recessions. Data up to December 2020.

SOURCES: Bureau of Labor Statistics; NBER.
Core Inflation Below 2 Percent Goal

NOTE: Data up to November 2020.
SOURCES: Bureau of Economic Analysis; Federal Reserve Bank of Dallas.
Steeper Yield Curve Signals Positive Outlook

NOTE: Data through December 2020.
GDP Growth Expected to Increase about 4.0 percent – Surpass pre-COVID Levels

Sources: Bureau of Economic Analysis; Blue Chip Economic Indicators.
Texas Economy Declined Less than Nation Last Year – Will likely Grow Faster than the Nation this Year

• Despite sharp decline in the energy sector, Texas jobs declined less than the national average.

• Better performance likely due to less pandemic hit, increased preference for low cost, low density areas to live and work.

• Data through mid-January suggests weak job growth due to COVID surge but data since mid-January shows declines in COVID – hints at improvement in jobs in February.

• COVID will have long-last structural impact on many industries, suggesting that while Texas job growth will be strong this year, it will not fully recover to pre-COVID levels.
Pandenomics: This Texas Recession Like No Other, Much Sharper, Shorter-Lived Decline, Steeper Recovery

% of peak employment

SOURCE: BLS.
Pandenomics: Unlike Other Texas Recessions, Manufacturing Activity has Outperformed Services

NOTE: Data through January 2021. Dashed lines are post-recession averages TMOS 9.7; TSSOS 11.9.
Employment Among High Income Earners Recovered Quickly While Low Income Earners were Hit Harder

NOTE: Data through Oct. 22, 2020. High income is greater than $60,000 per year; middle income is between $27,000 and $60,000 per year; low income is less than $27,000 per year.

SOURCES: Paychex; Intuit; Earnin; Kronos; Opportunity Insights.
Despite Large Decline in Energy Sector, Texas Job Growth Not as Weak as the Nation’s

NOTES: Long-run trend growth is 1.1 percent for the U.S. and 2.1 percent for Texas.
Texas Unemployment Rate Close to Nations

NOTES: Data through December 2020.
All Texas Metros were Hit Hard Early in Pandemic

Employment (June/Feb 2020)

Percent change, SA

-8.4  -7.3  -8.0  -7.3  -7.7  -6.7  -7.1

Houston (24.2%)  Dallas (21.2%)  Austin (8.9%)  Fort Worth (8.6%)  San Antonio (8.3%)  El Paso (2.5%)  Corpus Christi (1.4%)

NOTES: Data refer June/Feb 2020 non-annualized job growth. Numbers in parentheses refer to share of state employment in December 2020.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.
Austin Employment Improving the Most Since Mid-Year

Employment (Dec/June 2020)

<table>
<thead>
<tr>
<th>City</th>
<th>Percent Change, SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Houston</td>
<td>2.2</td>
</tr>
<tr>
<td>Dallas</td>
<td>3.4</td>
</tr>
<tr>
<td>Austin</td>
<td>5.1</td>
</tr>
<tr>
<td>Fort Worth</td>
<td>2.8</td>
</tr>
<tr>
<td>San Antonio</td>
<td>1.3</td>
</tr>
<tr>
<td>El Paso</td>
<td>2.0</td>
</tr>
<tr>
<td>Corpus Christi</td>
<td>-1.0</td>
</tr>
</tbody>
</table>

NOTES: Data refer Dec 2020/June 2020 non-annualized growth. Numbers in parentheses refer to share of state employment in December 2020.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.
During Pandemic Texas Job losses Widespread Across Industries, Oil & Gas, Leisure & Hospitality Hardest Hit


SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.
Single-family Housing Market Takes Off in Pandemic, Helped by Falling Mortgage Rates

SOURCES: MLS; A&M Real Estate Center; Freddie Mac Primary Mortgage Market Survey; U.S. Census.
Energy Sector Declined Sharply with Fall in Oil prices: Rig Count Now Increasing from Very Low Levels

NOTES: Data are weekly. Data through the week of Jan. 22, 2021.
SOURCES: Oil and Gas Journal; Baker Hughes.
Recent Economic Activity
Despite Pandemic Surge, Texas Job Growth Strong in December

Texas added jobs in December, the US lost jobs


SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.
Output Growth Stalls Out in January, According to Texas Businesses

Texas, U.S. Surpass Previous Peaks in COVID hospitalizations

Currently hospitalized per thousand, 7dma

SOURCES: Texas Department State Health Services; covidtracking.com.
Mobility and Engagement Index Down in Mid-January from Mid-December

SOURCE: Federal Reserve Bank of Dallas.
Homebase Staffing Levels Decline from Mid-December to Mid-January

% change from Jan, 7 day MA

SOURCE: Homebase.
Initial Jobless Claims Up 26 percent in January in Texas

NOTE: Data through the week ending January 23.
SOURCE: Department of Labor.
The Texas Weekly Employment Estimate Suggests Job Growth Slowed Sharply in January

SOURCE: Federal Reserve Bank of Dallas.
Outlook for 2021
Of 10 Largest States, Population Growth Strongest in Texas Last Year
More Than One-Third of Texas Firms Expect it to Take More Than a Year for Revenues to Return to pre-COVID Levels

When do you expect your firm’s revenues to return to pre-COVID levels?

Manufacturing:
- Less than 6 months: 6%
- 6-12 months: 25%
- More than a year: 28%
- Never: 42%

Services:
- Less than 6 months: 37%
- 6-12 months: 30%
- More than a year: 30%
- Never: 3%

NOTES: This question was only posed to those indicating January revenues are below normal (59 percent of all firms). Data collected Jan. 12-20. 148 responses. Results are preliminary.
Jobs May Not Return to pre-COVID Levels this Year Due to Large Amount of Structural Changes in the Economy

Texas Businesses Report on Expected Permanent Structural Changes Due to COVID-19

NOTES: 369 respondents. Firms were asked, “Are there structural changes your firm has made or plans to make as a result of the COVID-19 pandemic that you expect to be permanent? If yes, please specify any changes, and whether it is an increase or decrease.
Energy Survey Suggests Mild Improvement this Year

NOTE: Price forecast is average year-end forecast of WTI oil price among respondents.
Short-term Outlook Improving More in Manufacturing than Services

NOTES: Data through January 2021. Dashed lines are post 2008-2009 recession averages.

SOURCES: Federal Reserve Bank of Dallas Outlook Surveys: Manufacturing (TMOS); Service Sector (TSSOS).
Texas Leading Index Components Mostly Positive in December

<table>
<thead>
<tr>
<th>Component</th>
<th>Net Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas value of the dollar*</td>
<td>0.34</td>
</tr>
<tr>
<td>Well permits</td>
<td>0.33</td>
</tr>
<tr>
<td>Real oil price</td>
<td>0.32</td>
</tr>
<tr>
<td>U.S. leading index*</td>
<td>0.20</td>
</tr>
<tr>
<td>Help-wanted index</td>
<td>0.19</td>
</tr>
<tr>
<td>Texas Stock Index</td>
<td>0.10</td>
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<tr>
<td>Average weekly hours</td>
<td>0.00</td>
</tr>
<tr>
<td>New unemployment claims*</td>
<td>-0.18</td>
</tr>
</tbody>
</table>

NOTE: December 2020, seasonally adjusted. Texas value of the dollar is a preliminary estimate from the Dallas Fed.

SOURCE: Federal Reserve Bank of Dallas.
Green Shoots? Texas Business Applications Increase to Historic Levels

NOTE: Data for Texas business applications through Q4 2020.
SOURCE: U.S. Census.
Dallas Fed 2021 Texas Jobs Forecast Projects Some Weakness Over Next Few Months, Strong Growth of 4.2 percent for the Year

NOTE: Forecast scenario estimates Texas payroll employment for 2021 are based on monthly hospitalization projections for COVID-19 in Texas, direct COVID-19 impacts in March, April, and May, US GDP growth estimates for 2021, and WTI prices following the futures contract curve as of 1/28.
SOURCE: Federal Reserve Bank of Dallas.
Summary

• Pandemic is unprecedented and has many aspects of a natural disaster instead of a typical recession
• Texas outperformed the nation last year despite a large decline in the energy sector
• Movement of people and firms out of high-density, high cost of living areas should continue to benefit Texas
• Pandemic will likely cause significant amount of long-term structural change that may delay return of jobs to pre-COVID levels
• Jobs in Texas are forecasted to grow about 3.1 to 5.3 percent - at 4.2 percent will be 0.8 percent below pre-COVID level but 4.3 percent below trend
How Did My Forecast From Last Year Do?

Last year stated: “Texas jobs grew 2.0 percent in 2019 and will likely grow about 2.1 percent this year – with greater downside than upside risks”

– Instead growth declined from 1.9% in 2019 to -4.5% in 2020

Obviously did not forecast the pandemic – if trust my forecast than economy likely would have grown about 2.0 percent last year without pandemic – so in December 2020 TX jobs were 6.5% below trend
Explore our resources at dallasfed.org
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

COVID-related:
- Mobility and Engagement Index
- Real-Time Population Survey
- Texas Weekly Employment Estimate
- Weekly Economic Index