Pandenomics: Despite COVID Waves, Strong Economic Growth to Continue in 2022

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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.
Overview

• Pandemic an unusual economic downturn due to the rise in incomes, surging demand for goods and housing, collapse in demand for services, labor shortages

• Despite significant impact of COVID on public health and labor supply, Texas growth outperformed the nation in pandemic overall and in 2021
  • Growth in region accelerated in second half of 2021

• Dallas Fed economic outlook suggests Texas will outperform the nation again in 2022 but risks to the outlook include
  • Additional COVID waves
  • Lasting supply-side constraints
  • Continued high inflation
Pandenomics: A Recession (and Recovery) Like No Other
Pandemic recession stands apart from others: much sharper, shorter-lived decline and steeper recovery

Also unusual for a recession, personal income rose

NOTE: Data for Texas. Change in real per capita personal income and wages & salaries, from first quarter to last quarter of recession.
SOURCE: Bureau of Economic Analysis (BEA)
And unlike Great Recession, house prices soared

*Dollars (thousands), four-month moving average*

*Seasonally adjusted, real dollars.


SOURCES: Multiple Listing Service; seasonal and other adjustments by FRB Dallas.
How Texas Fared in Pandemic
Texas is one of only four states that have exceeded their pre-pandemic level of employment.

NOTE: Data show non-annualized job growth since beginning of pandemic. Texas data are not early benchmarked to allow comparison across states.

In Texas, three sectors have now surpassed pre-pandemic employment. In nation, only one…


SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.
Austin, DFW first metros to recover all lost jobs; other metros catching up

Employment Change by Major Metro (Dec 2021/Feb 2020)


SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.
Texas job growth fueled by domestic migration, which accelerated in pandemic

Number of people

173,813
108,530

Texas
Florida

Prepandemic net migration
Pandemic net migration (2020:Q1-2021:Q2)

NOTE: Data and analysis from Yichen Su “Largest Texas Metros Lure Big-City, Coastal Migrants During Pandemic,” Southwest Economy, 4th quarter, 2021.

SOURCES: Federal Reserve Bank of New York Consumer Credit Panel, Equifax.
Even though migration flowed mostly to D-FW & Austin, almost all Texas metros enjoyed higher inflows in pandemic

Dallas-Fort Worth-Arlington
Austin-Round Rock
San Antonio-New Braunfels
Houston-The Woodlands-Sugar Land
Killeen-Temple
Corpus Christi
Tyler
Waco
McAllen-Edinburg-Mission
Amarillo

NOTES: Data shown are net in-migration figures for Texas metros from Yichen Su “Largest Texas Metros Lure Big-City, Coastal Migrants During Pandemic,” Southwest Economy, 4th quarter, 2021.
SOURCES: Federal Reserve Bank of New York Consumer Credit Panel, Equifax.
Texas Recent Economic Performance
Texas job growth above U.S. rate since Sept. 2021

NOTE: Data through December 2021.
SOURCE: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.
Manufacturing output and service sector revenue growth robust in 2021 but slowed in January 2022

NOTE: Data through January 2022.
SOURCE: Dallas Fed Texas Business Outlook Survey
Outlook for 2022
U.S. GDP expected to grow 3.9 percent in 2022, 2.5 percent growth in 2023

NOTE: Data through December 2021.
SOURCE: Bureau of Economic Analysis; Blue Chip Economic Indicators.
Dallas Fed 2022 Texas jobs forecast between 2 and 4 percent growth (Dec/Dec); point estimate is 3 percent

NOTE: Forecast scenario estimates Texas payroll employment for 2022 are based on IHME monthly hospitalization projections for COVID-19 in Texas, direct COVID-19 impacts in March-June 2020, US GDP growth estimates for 2022, and WTI prices following the futures contract curve as of 1/27/22.
Texas COVID cases falling sharply, hospitalizations slowing

Cases, 7 day MA (thousands)

- Daily cases
- Currently hospitalized
- Daily deaths

Deaths, 7 day MA


SOURCE: New York Times, Texas DSHS.
Texas businesses report on impact of Omicron surge; staff absenteeism biggest problem

NOTES: Respondents reporting a negative impact to their business by the current COVID-19 surge were asked to indicate how they were impacted. N=257. Percentages are calculated as shares of all responding firms, not the subgroup noting a negative impact.

SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys, January 2022
Supply chain disruptions and staffing shortages are firms’ top revenue constraints in December survey

- Limited operating capacity due to staffing shortages
- Supply chain disruptions
- Weak demand
- None/not applicable
- Other
- Reduced productivity due to alternative work arrangements
- Limited operating capacity due to state/local restrictions

SOURCE: Federal Reserve Bank of Dallas, Texas Business Outlook Survey Special Questions.
TBOS firms report on hiring impediments; lack of applicants top complaint

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<th>Issue</th>
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<th>Oct. '21</th>
<th>Jul. '21</th>
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<td>Lack of available applicants/no applicants</td>
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<td>Workers looking for more pay than is offered</td>
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<td>Lack of technical competencies (hard skills)</td>
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<td>Inability to pass drug test and/or background check</td>
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<td>Lack of child care, including school interruptions</td>
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<td>Fear of COVID-19 infection</td>
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NOTES: Respondents were asked, "Are there any impediments to hiring or recalling workers? Please select all that apply." N=251.
Wage and price pressures surged in 2021 in Texas and are expected to remain elevated in 2022.

NOTES: Respondents were asked each December, "What annual percent change in wages, input prices and selling prices did your firm experience in [current year]?" Respondents were also asked about expectations for the upcoming year, shown here for 2022. Over 300 firms responded. Values are 5 percent trimmed means.

U.S. CPI inflation highest since 1982

NOTES: Data through December 2021. Shaded bars indicate U.S. recessions.
Summary

• Texas employment forecast to grow between 2 and 4 percent in 2022—more slowly than in 2021, but still well above trend and nation

• Accelerated migration of people out of high-density, high-cost-of-living areas should continue to benefit Texas and boost growth
  • Inflows not without some growing pains

• Supply-chain disruptions and labor shortages expected to be a continued drag on growth – no strong expectations of significant relief through first half of 2022
  • Further outbreaks of COVID remain a downside risk to the outlook, but tend to constrict supply, not demand
    • Price pressures likely to remain elevated
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