



# MORE SPEED BUMPS AHEAD

And a Slowing Regional Economy in 2023



Federal Reserve  
Bank of Dallas

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*The views expressed are those of the presenter and do not necessarily reflect those of the Federal Reserve Bank of Dallas or the Federal Reserve System.*

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# Overview

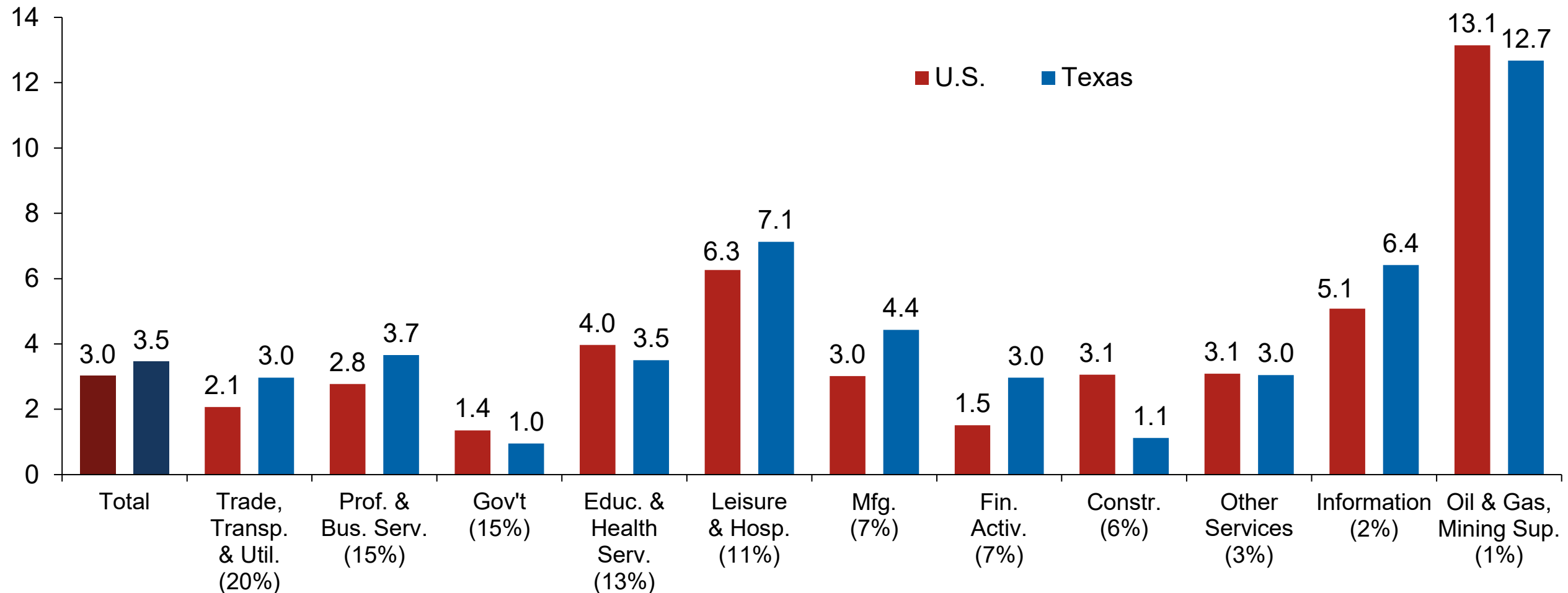
- Signs of slowing are mounting
  - Employment, economic activity, manufacturing new orders, consumption, housing and lending
- But strengths persist
  - Texas employment up 3.5 percent last year, above nation
  - Energy activity robust
  - Domestic migration resilient, international migration increasing
- Soft landing or recession in 2023?
  - Forecast signals below-trend job growth this year but not contraction
  - And while risks to the outlook are to the downside, some unique considerations may bolster the chances of a soft Texas landing



# Looking Back at 2022 Employment

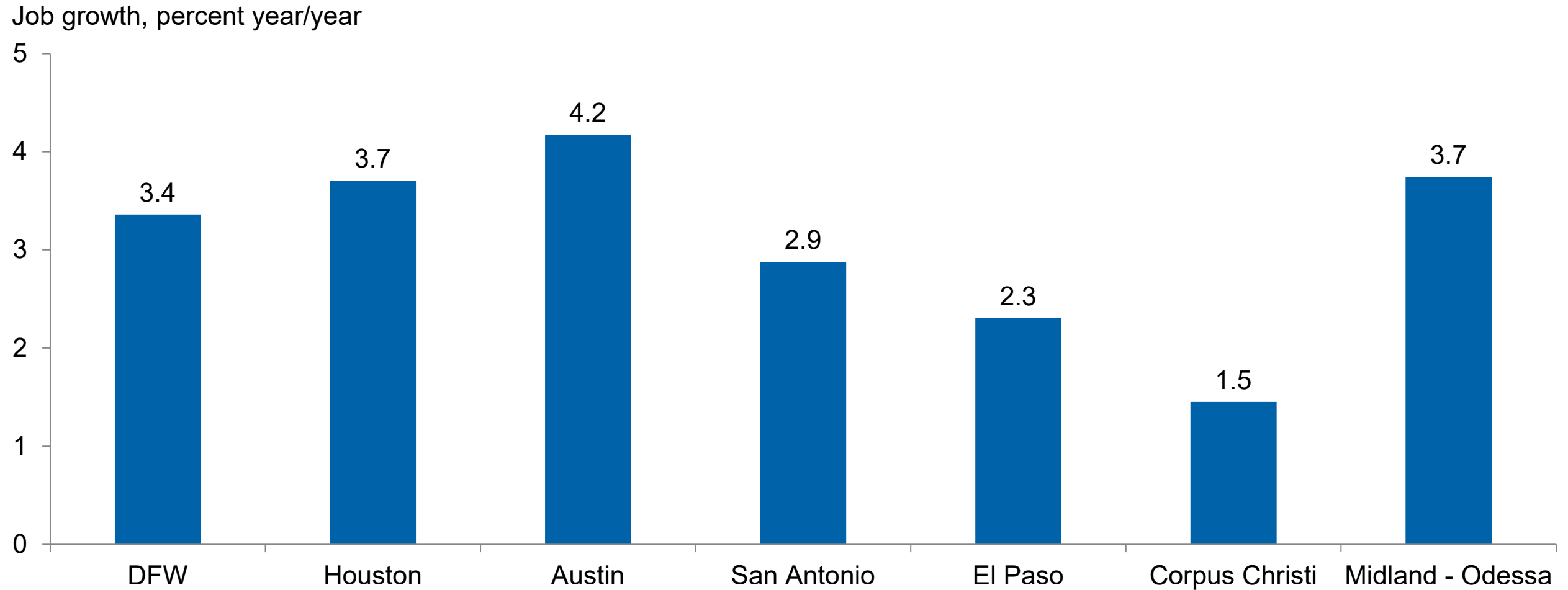
# Texas posted strong, broad based job growth in 2022

Job growth, percent year/year



NOTES: Data are seasonally adjusted and refer to Dec. 2022/Dec. 2021 job growth. Numbers in parenthesis indicate share of total state employment in Dec. 2022.  
 SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.

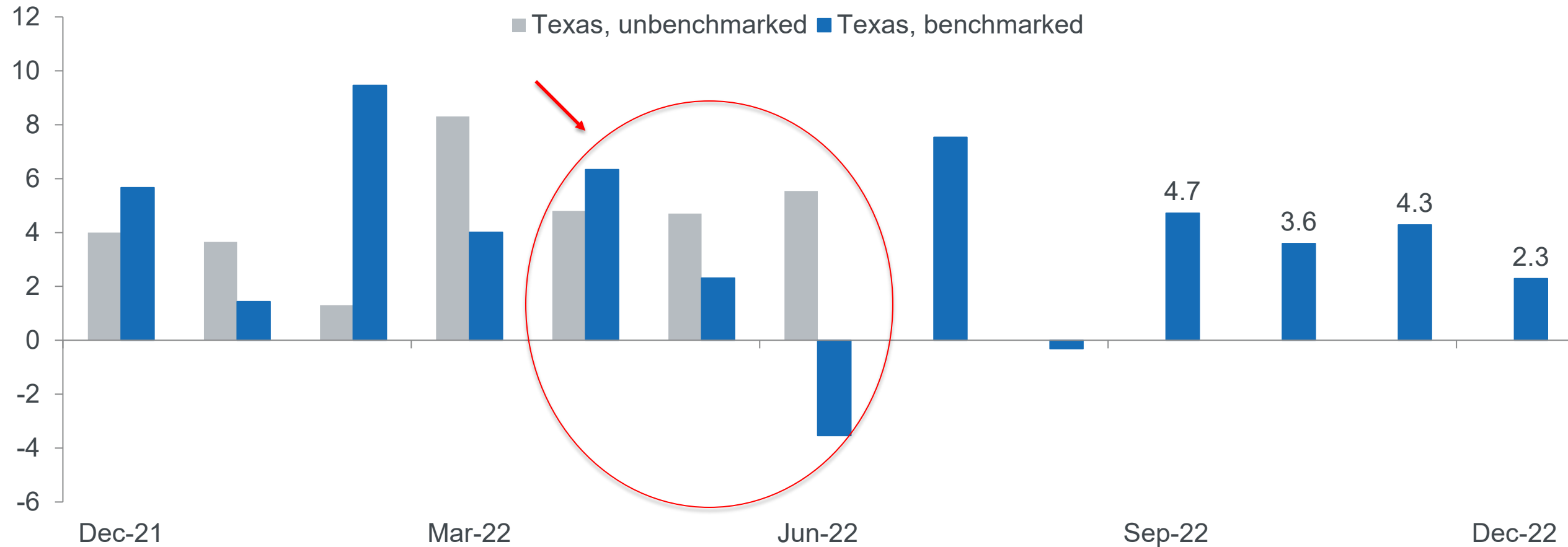
# Metro area job growth has also been fairly broad, robust



NOTES: Data are seasonally adjusted and refer to Dec. 2022/Dec. 2021 job growth.  
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.

# But monthly data and downward revisions in Q2 show job growth slowed in 2022

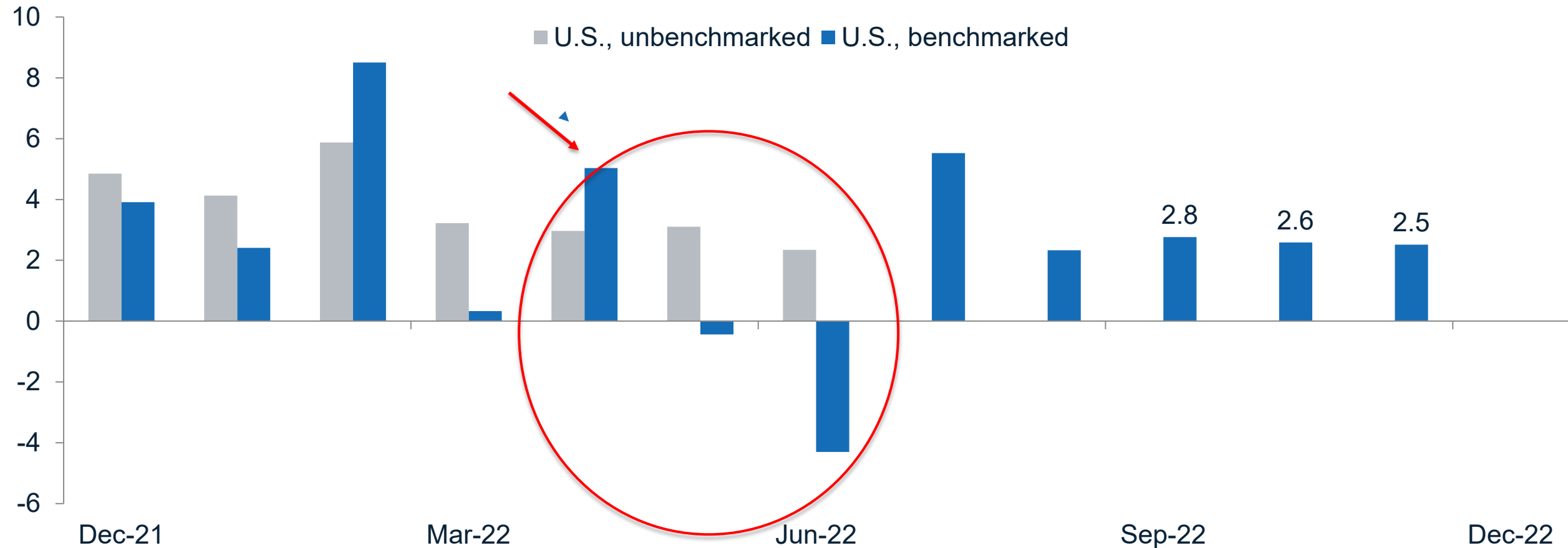
Job growth, percent month/month



NOTES: Data are seasonally adjusted and annualized. Dark bars denote benchmarked data through Q2. Gray bars denote data pre-Q2 benchmark.  
SOURCES: Bureau of Labor Statistics. Adjustments made by the Federal Reserve Bank of Dallas.


# Benchmarking 2<sup>nd</sup> quarter 2022 also results in large downward revision of US employment data

Job growth, percent month/month



NOTES: Data are seasonally adjusted and annualized. U.S. Data is sum of states through November 2022. Dark bars denote benchmarked data through Q2. Gray bars denote data through Q2.  
SOURCES: Bureau of Labor Statistics, Federal Reserve Bank of Philadelphia. Adjustments made by the Federal Reserve Bank of Dallas.

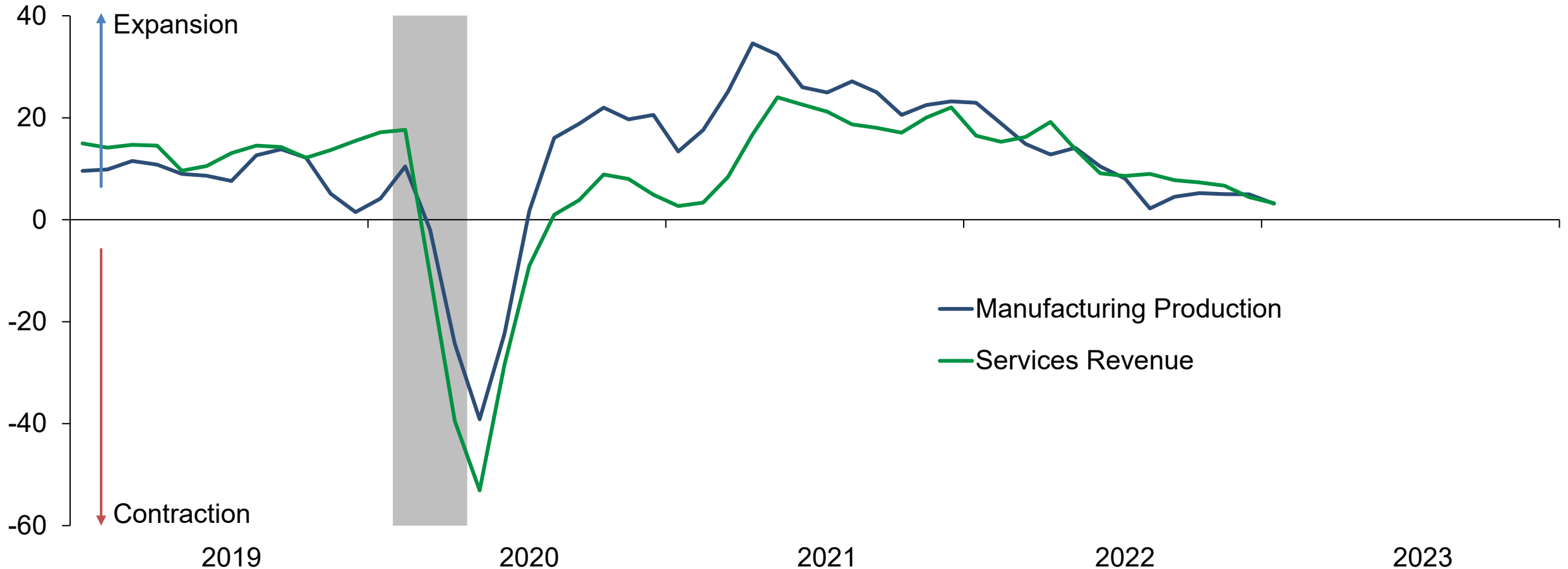


A close-up photograph of a yellow and black striped curb on a dark asphalt surface. The stripes are curved and run horizontally across the top of the image.

# Looking Back at 2022 Economic Activity, Housing & Energy

# Manufacturing output, service sector revenue growth slowed in 2022 from 2021's robust pace

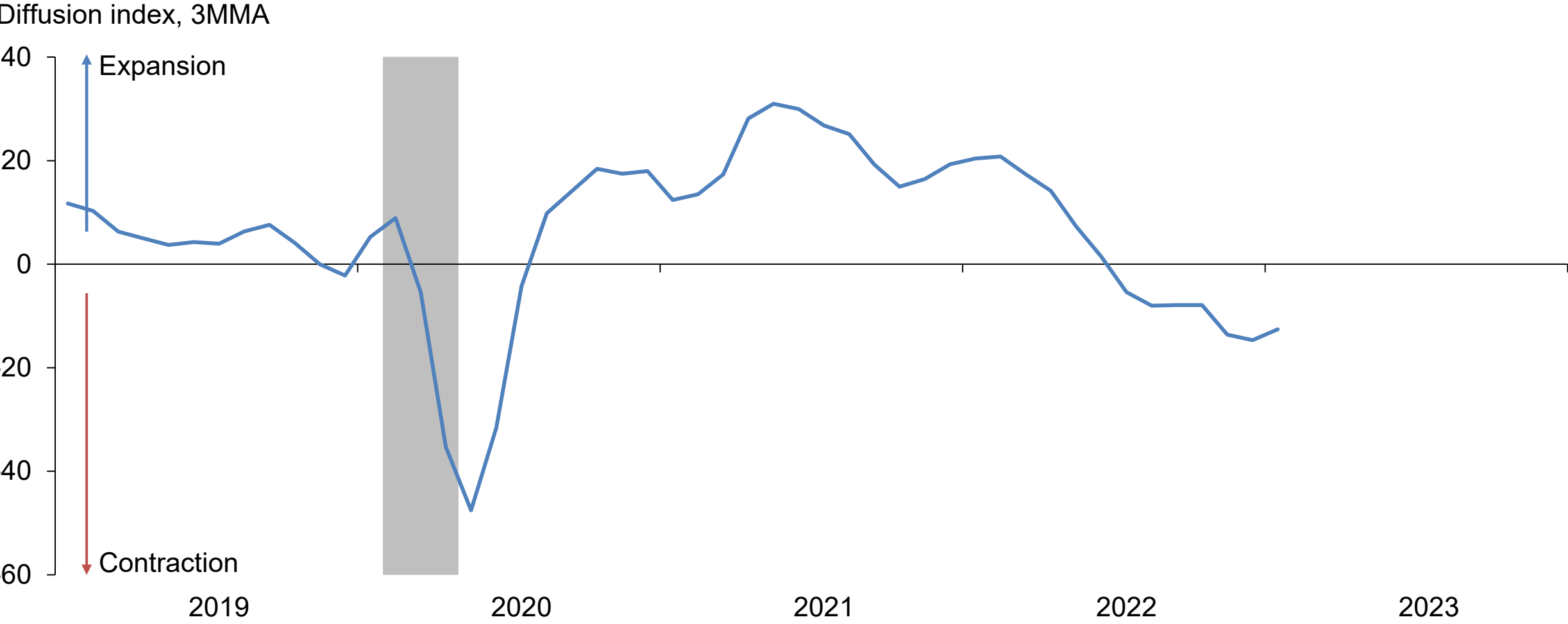
Diffusion index, 3MMA



NOTE: Data through January 2023. Gray shading indicates pandemic recession.

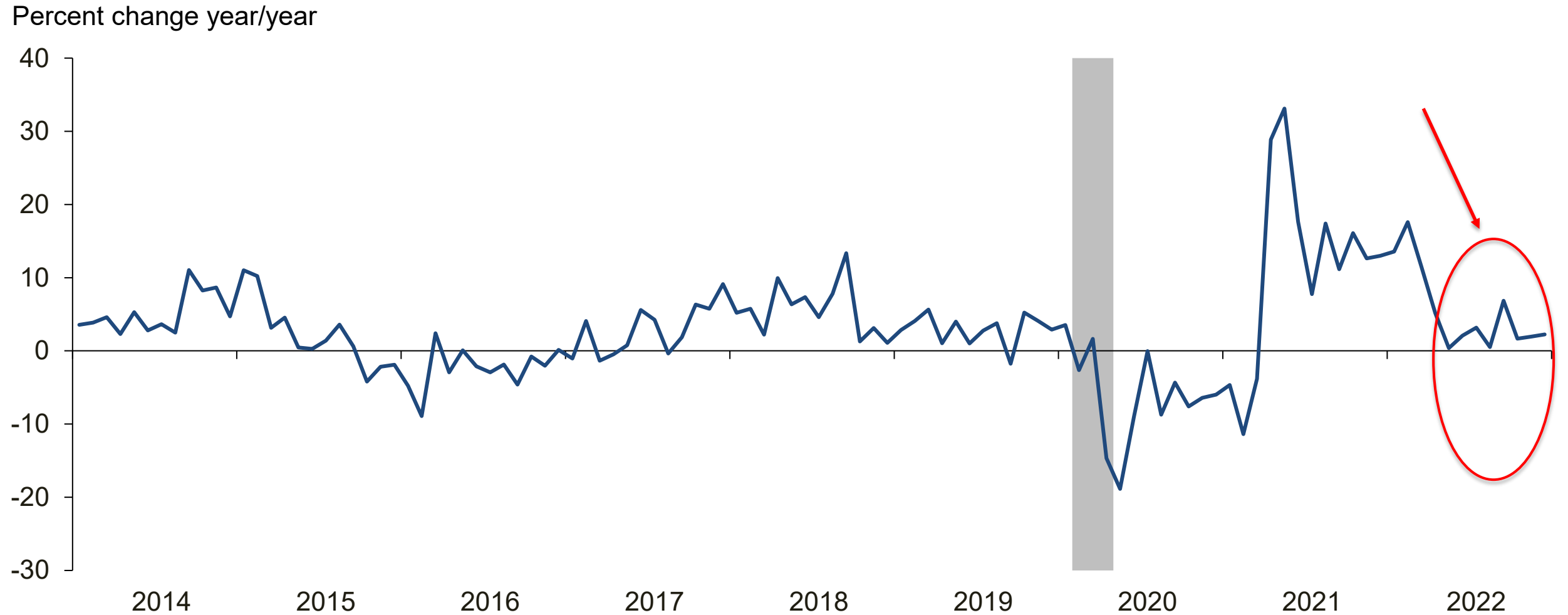
SOURCE: Texas Business Outlook Surveys, Federal Reserve Bank of Dallas; National Bureau of Economic Research.

# New orders in manufacturing began falling in June 2022



NOTE: Data through January 2023. Gray shading indicates pandemic recession.  
SOURCE: Texas Business Outlook Surveys, Federal Reserve Bank of Dallas; National Bureau of Economic Research.

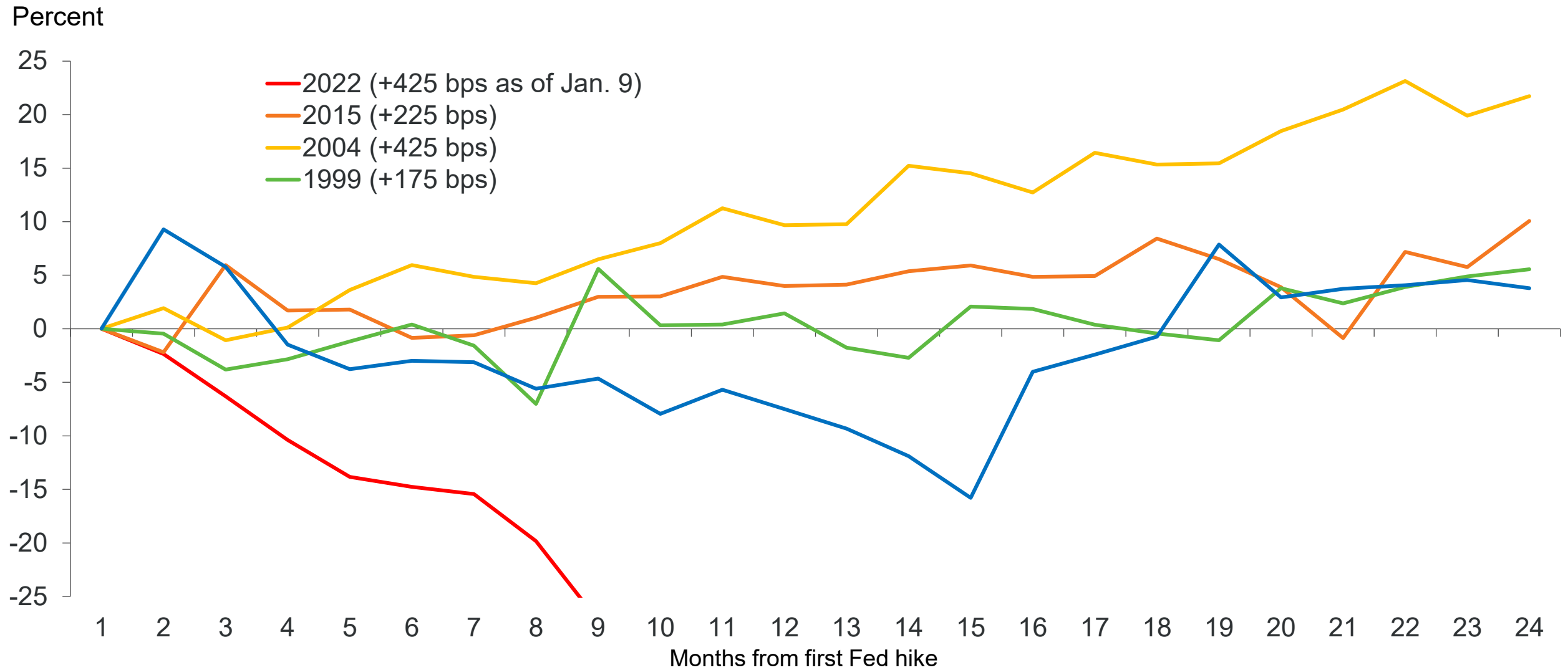
# Texas sales tax revenue slowed sharply in mid-2022, implying less consumption growth



NOTE: Real, seasonally adjusted data through December 2022. Gray shading indicates pandemic recession.

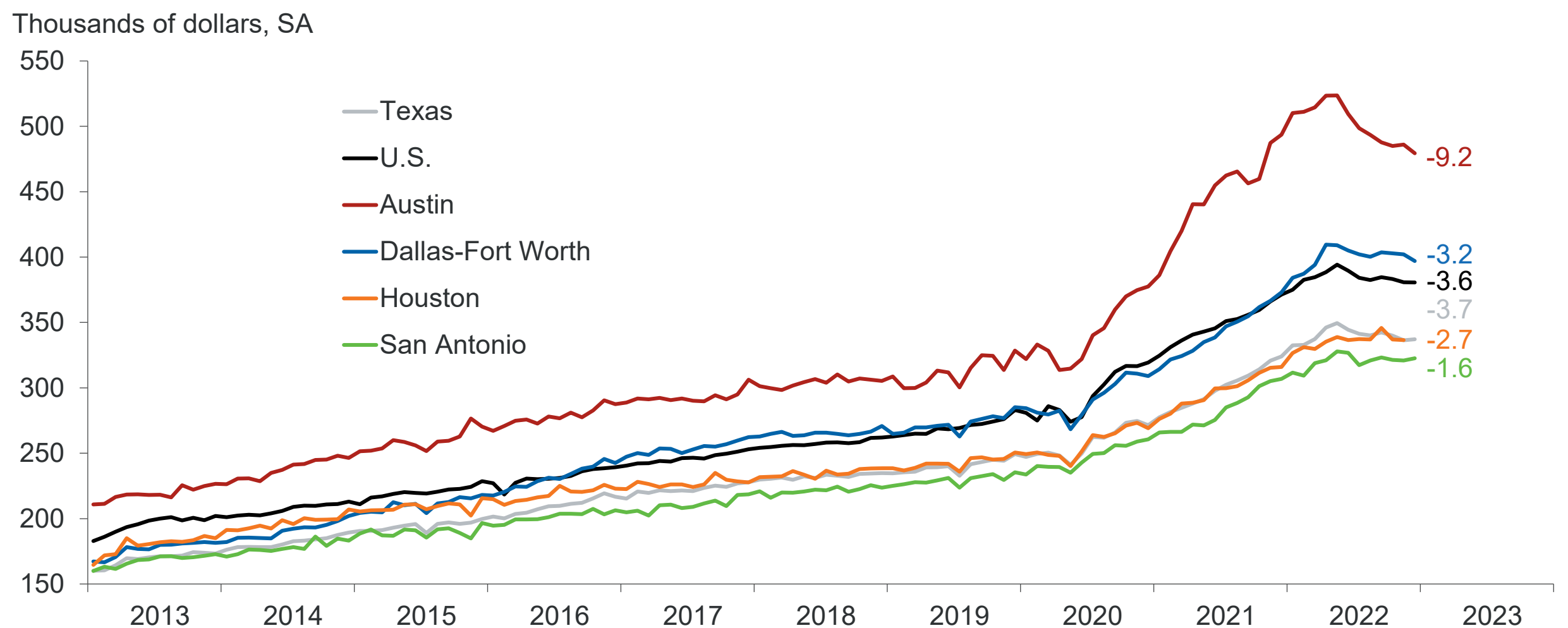
SOURCE: Texas Comptroller, Federal Reserve Bank of Dallas.

# Texas existing-home sales collapse in this round of Fed hikes



SOURCES: Multiple Listing Service, Federal Reserve Bank of Dallas.

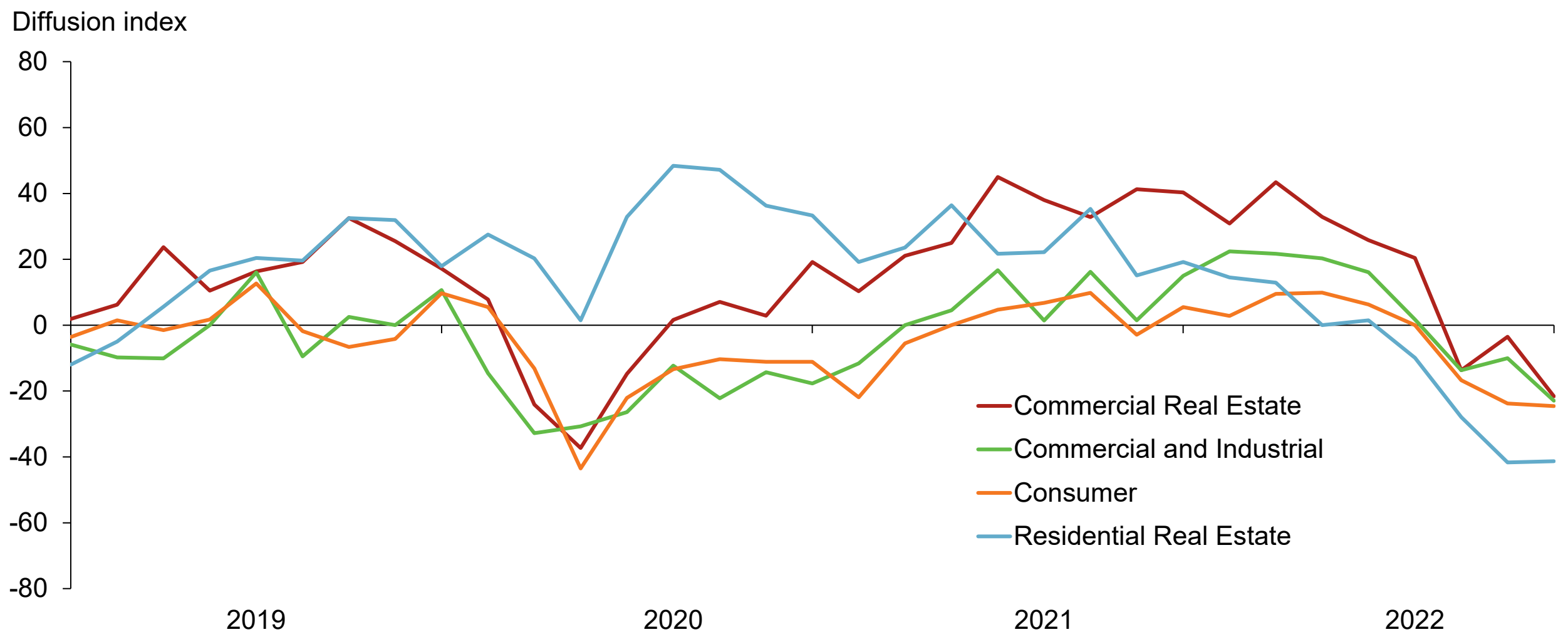
# Home prices also falling after peaking in mid-2022...



NOTES: Seasonally adjusted price in nominal dollars. Data through November 2022. Labels show percent decline from peak, nonannualized.

SOURCES: Multiple Listing Service, seasonal and other adjustments by FRB Dallas.

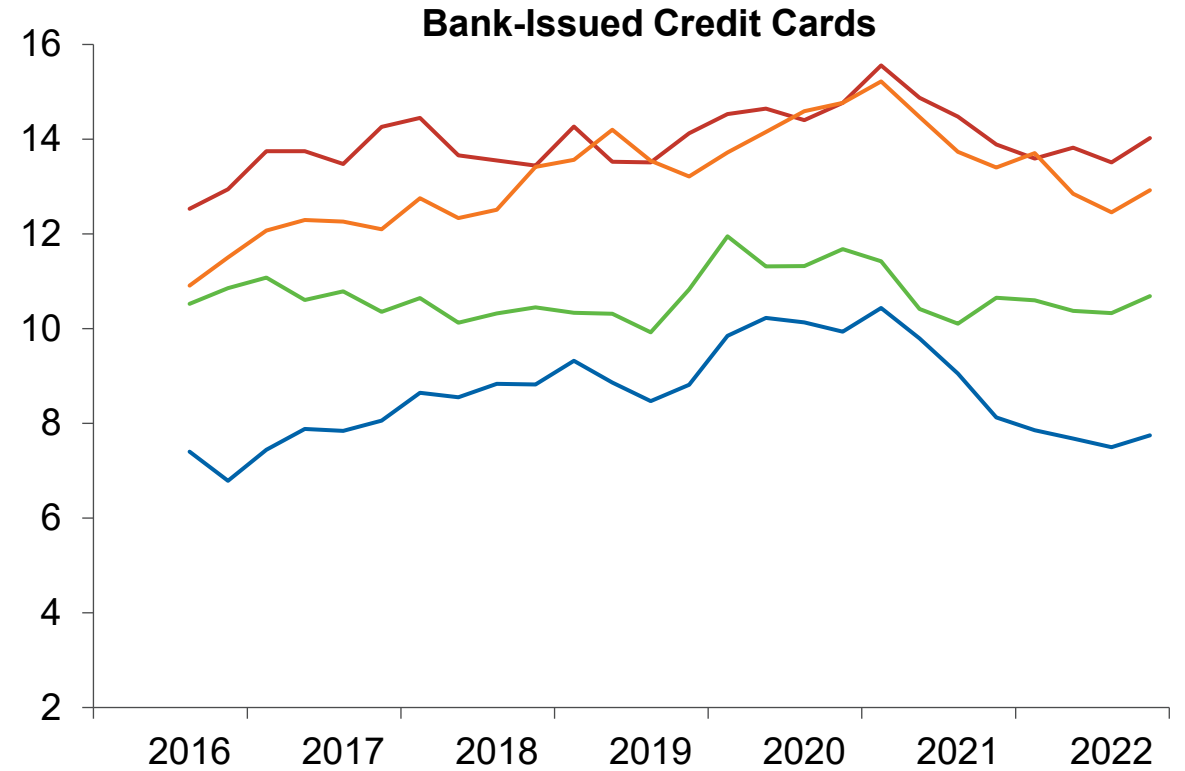
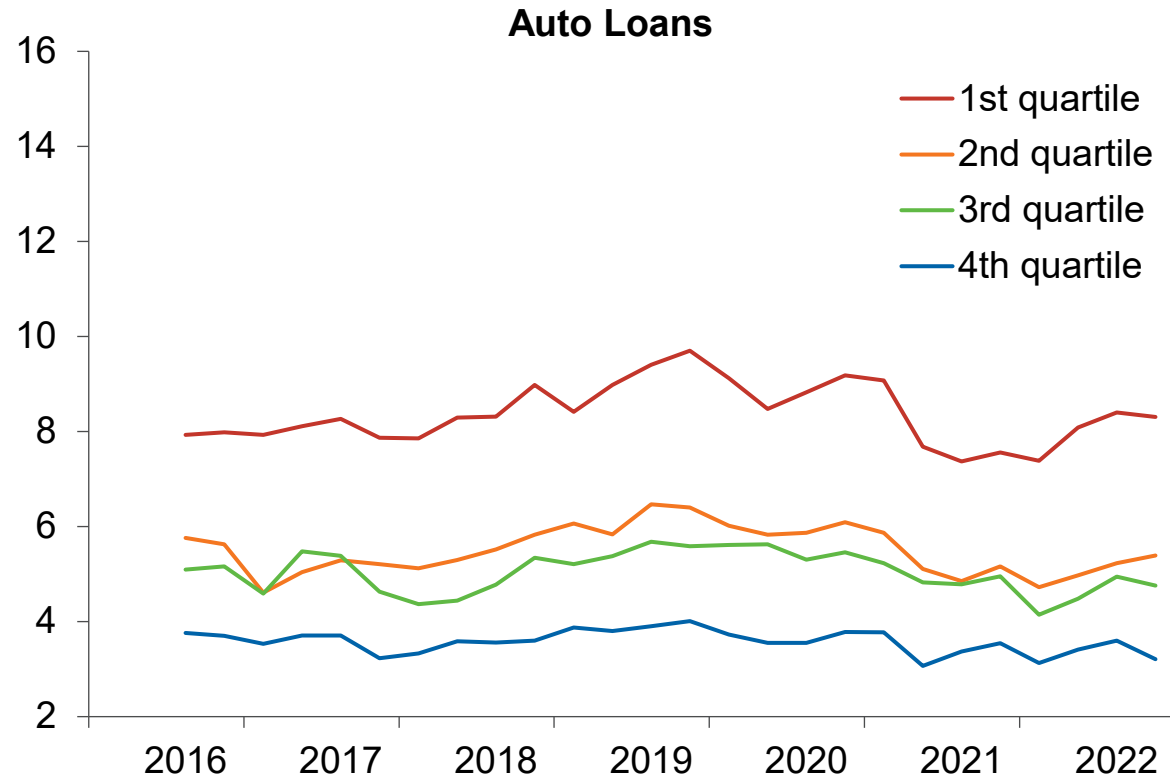
# Loan volumes declining, according to 11<sup>th</sup> District bankers



NOTE: Data through December 2022.  
SOURCE: Federal Reserve Bank of Dallas, Banking Conditions Survey.

# Loan delinquency rose in 2022 but remains at low levels, even in low-income areas

Delinquency by income quartile



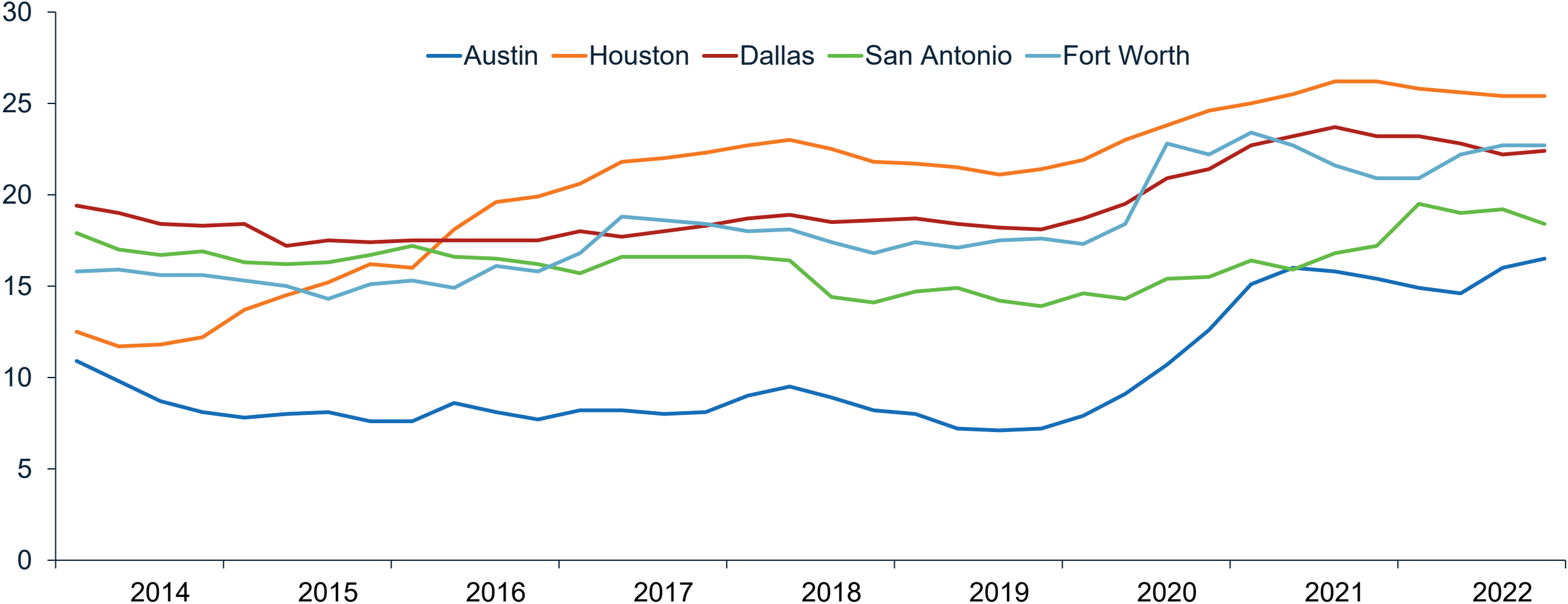
NOTE: The NY Fed Consumer Credit Panel/Equifax is a nationally representative anonymous random sample from Equifax credit files. It tracks all consumers with a US credit file residing in the same household from random, anonymous sample of 5% of US consumers with a credit file. Delinquency is defined as the share of balance adjusted by joint account that are 30+ day past due in the total adjusted balance. Equifax data assets are used as a source but all calculations, findings, assertions are that of the author. Income quartiles are based on the average total income from the 2020 IRS Statistics of Income at Zip Code level.

SOURCE: 10% of NY Fed Consumer Credit Panel/Equifax, IRS 2020 Statistics of Income.



# Commercial Real Estate: Office vacancies remain high

Vacancy, percent

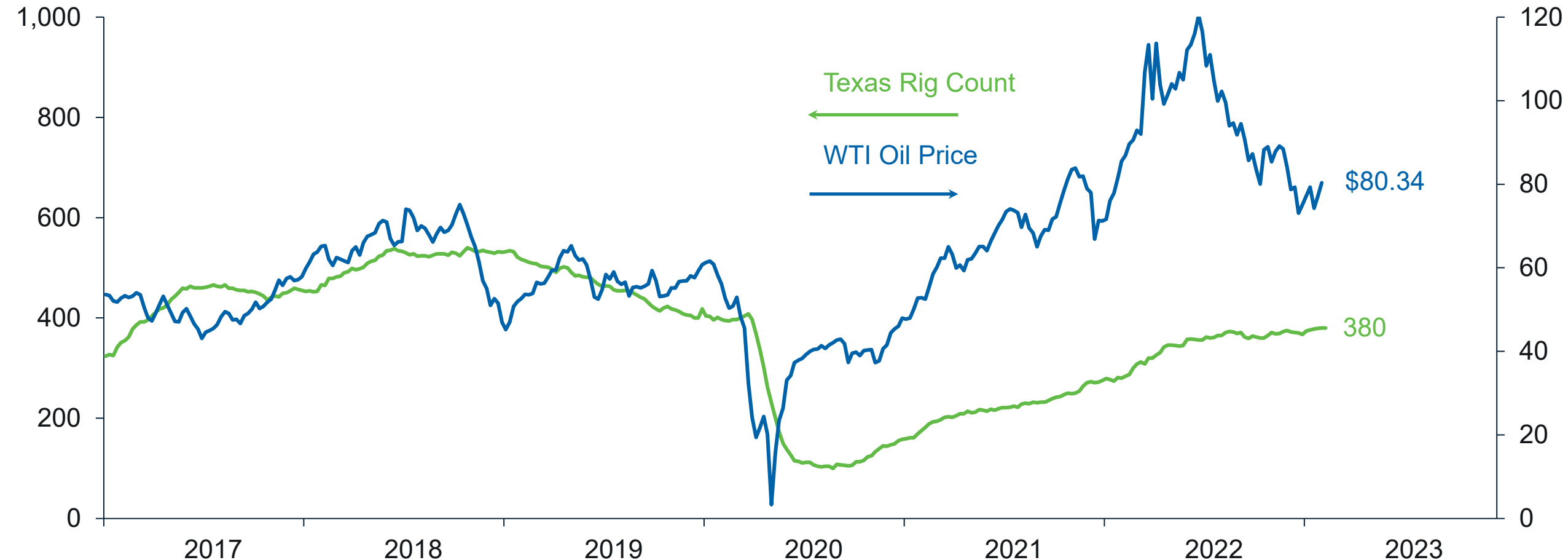


NOTE: Quarterly data through Q4 2022.  
SOURCE: CBRE Econometric Advisors.

# Energy: Drilling activity subdued despite high oil, gas prices

Rig count, weekly

Nominal price, \$, weekly



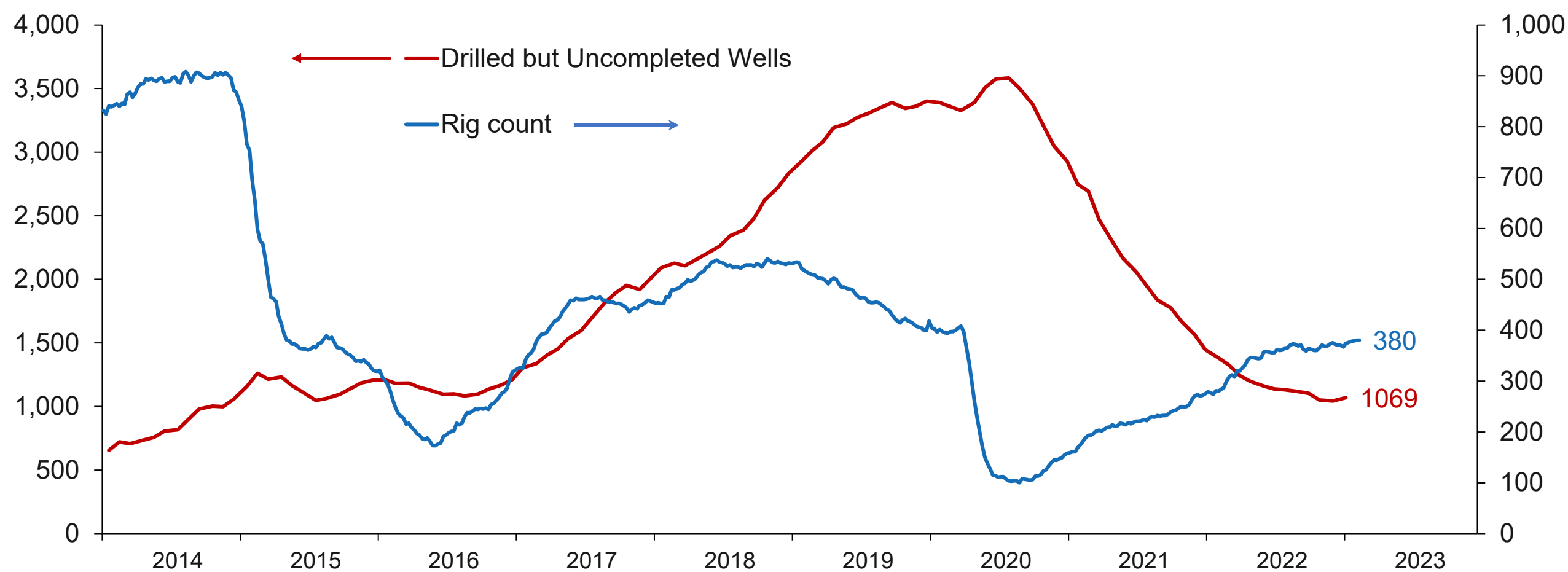
NOTES: Data are weekly through January 27, 2022.

SOURCES: Energy Information Administration; Baker Hughes.


# DUC count fell in pandemic as rising oil prices prompted producers to complete more wells

Wells, monthly

Rig count, weekly



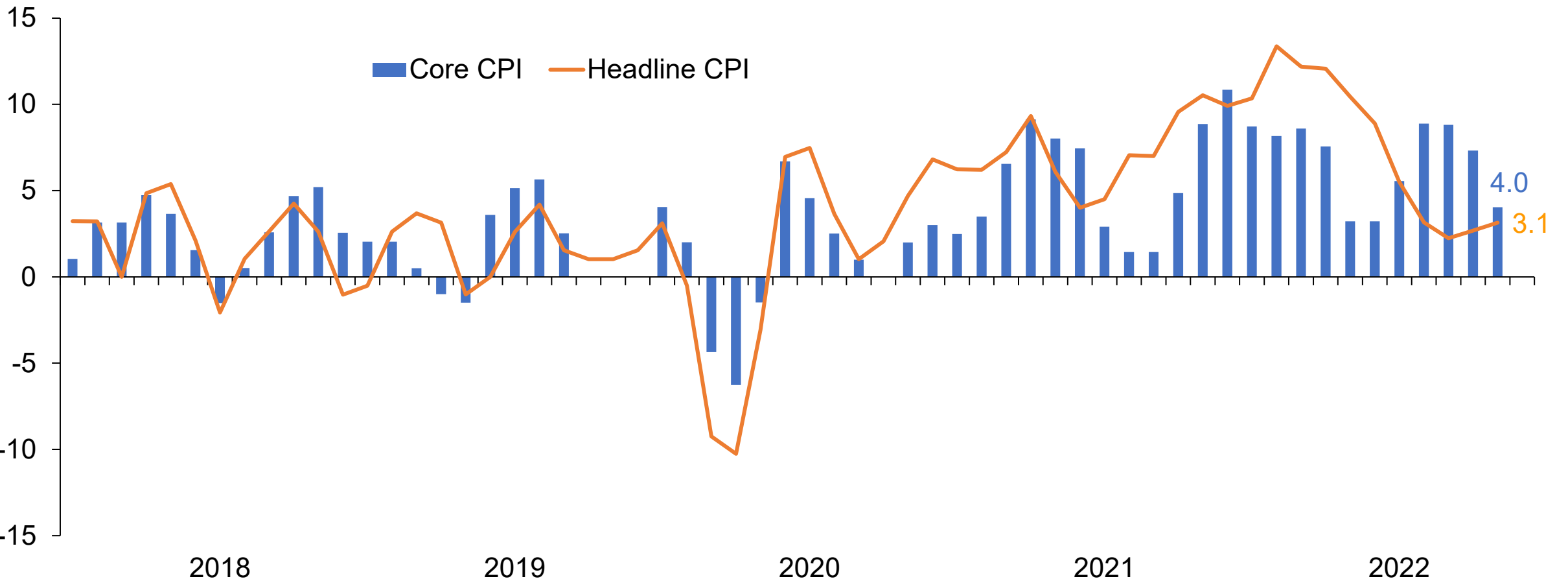
NOTES: Well data through Dec. 2022. Rig count data through January 27, 2023. Rig count is for Texas, drilled but uncompleted wells are for Permian.  
SOURCES: Energy Information Administration; Baker Hughes.



# Looking Back at 2022 Prices

# Texas CPI has fallen sharply on a month/month basis, but still too high

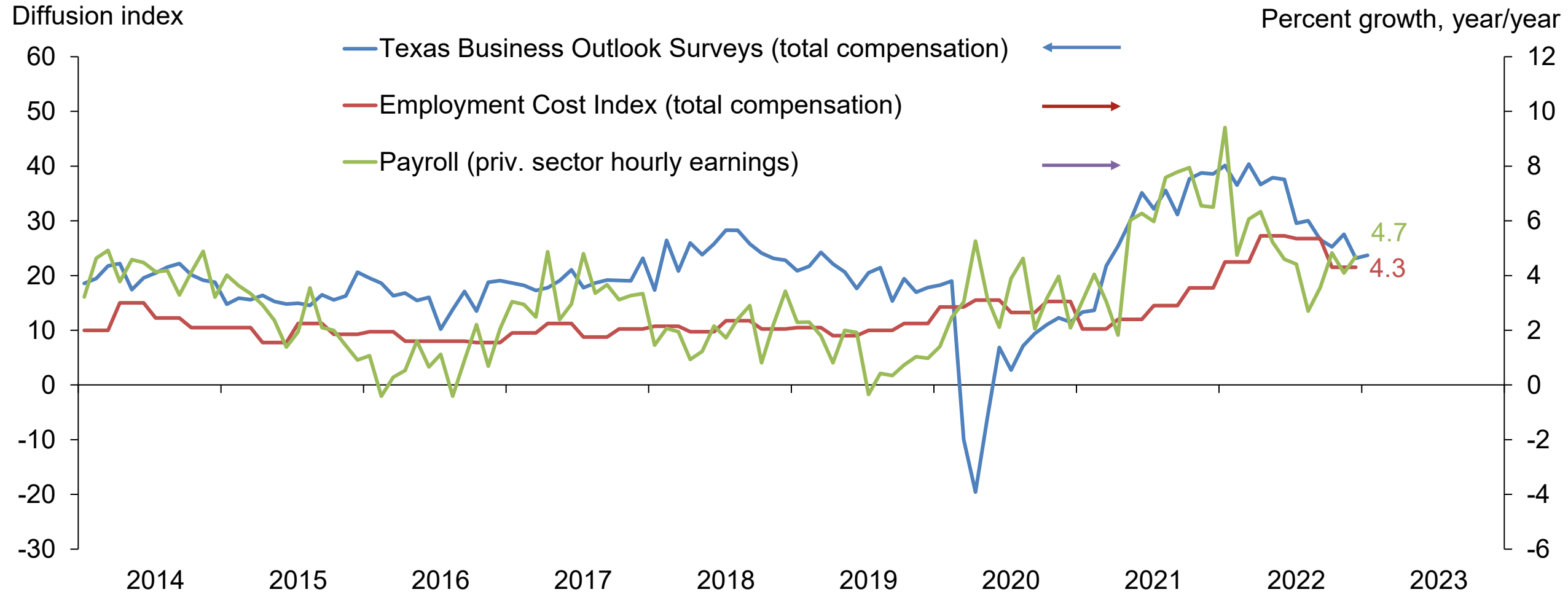
Percent change, month/month annualized



NOTES: Data through November 2022

SOURCE: Bureau of Labor Statistics; adjustments made by the Federal Reserve Bank at Dallas

# Wage growth is moderating but remains elevated

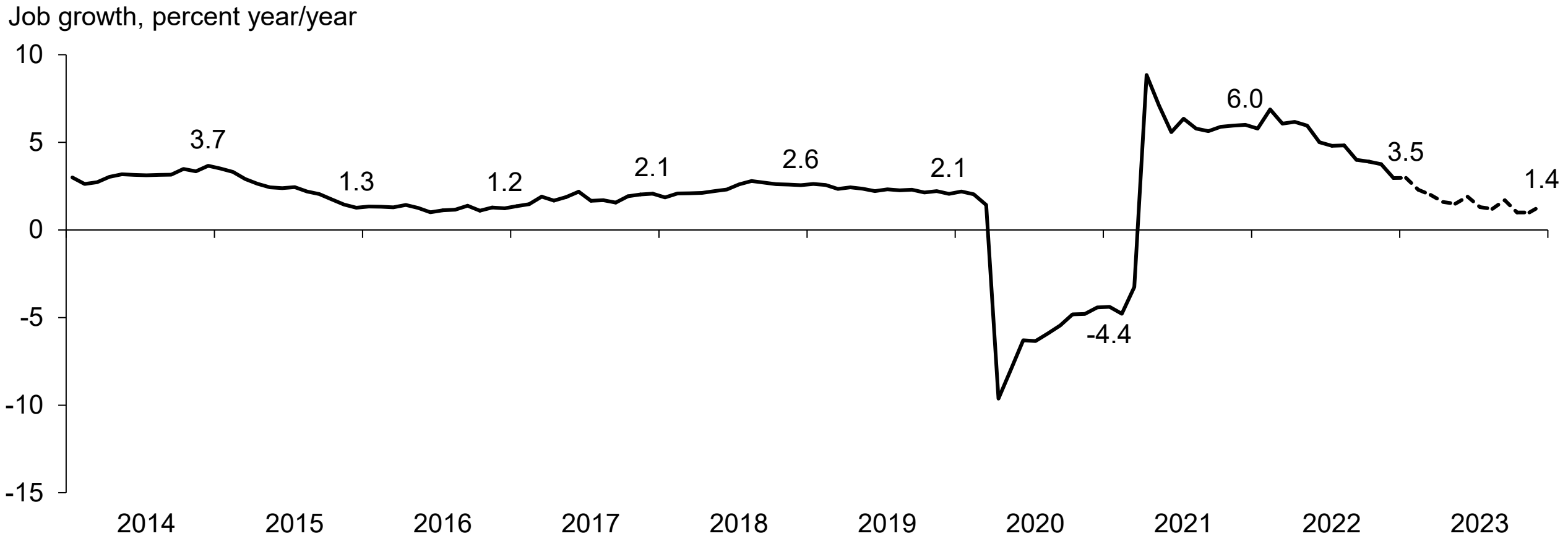


NOTE: TBOS data through Jan. 2023, payroll data through December 2022, and ECI data through Q4 2022. Texas ECI is an average of Dallas-Fort Worth and Houston ECIs. TBOS and ECI measure total compensation, while payroll is private sector hourly earnings. Numbers listed are last observations.  
 SOURCE: Federal Reserve Bank of Dallas: Texas Business Outlook Surveys; Bureau of Labor Statistics;

A close-up photograph of a yellow and black striped curb on a dark asphalt surface. The stripes are curved and repeat across the width of the image.

# Looking Ahead to 2023

# Dallas Fed Texas jobs forecast: 1.4 percent in 2023

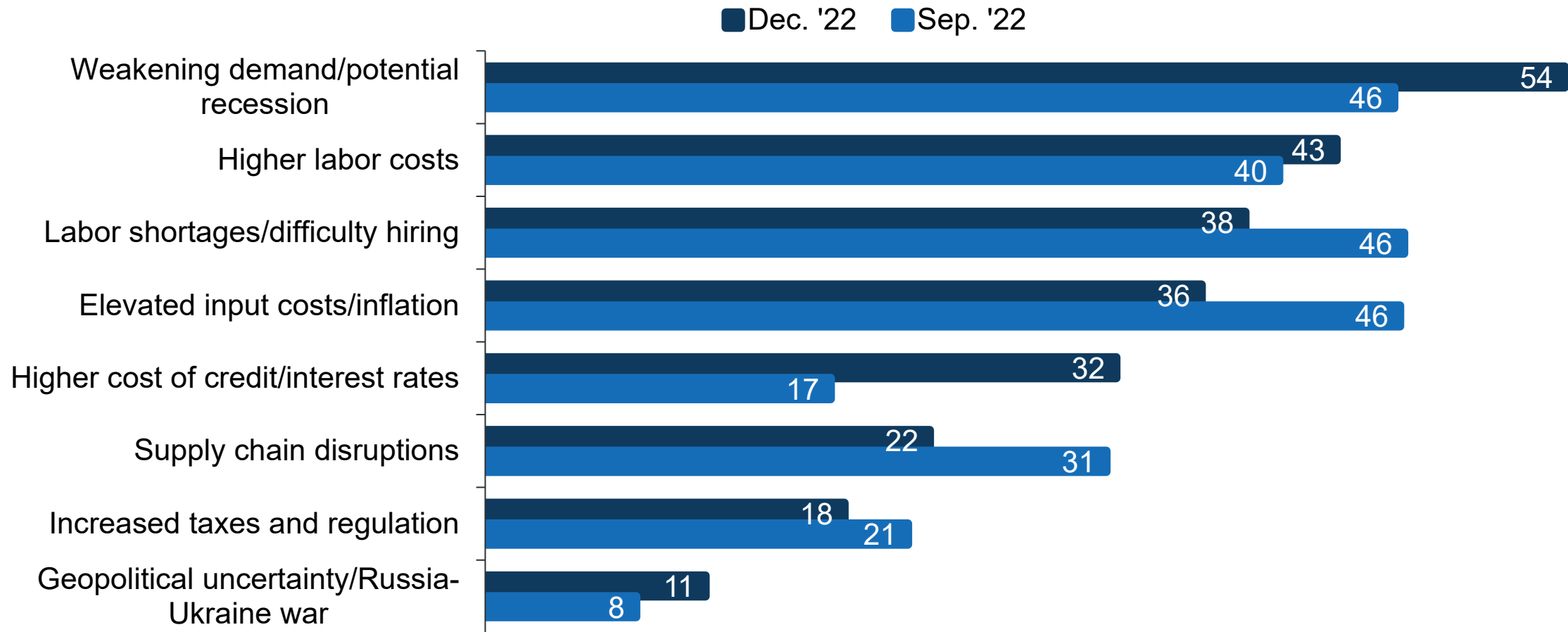


NOTE: The forecast is the average of four models that regress payroll employment on a number of indicators including lags of employment, oil prices, US leading index, Texas leading index, expectations for U.S. GDP growth, and Texas COVID-19 hospitalizations. The models incorporate forecasted revisions to 3<sup>rd</sup> and 4<sup>th</sup> quarter 2022 employment data. Dashed line indicates forecast.

SOURCES: Dallas Fed; Bureau of Labor Statistics; Institute for Health Metrics and Evaluation.



# Weakening demand, high labor costs top list of outlook concerns among Texas firms

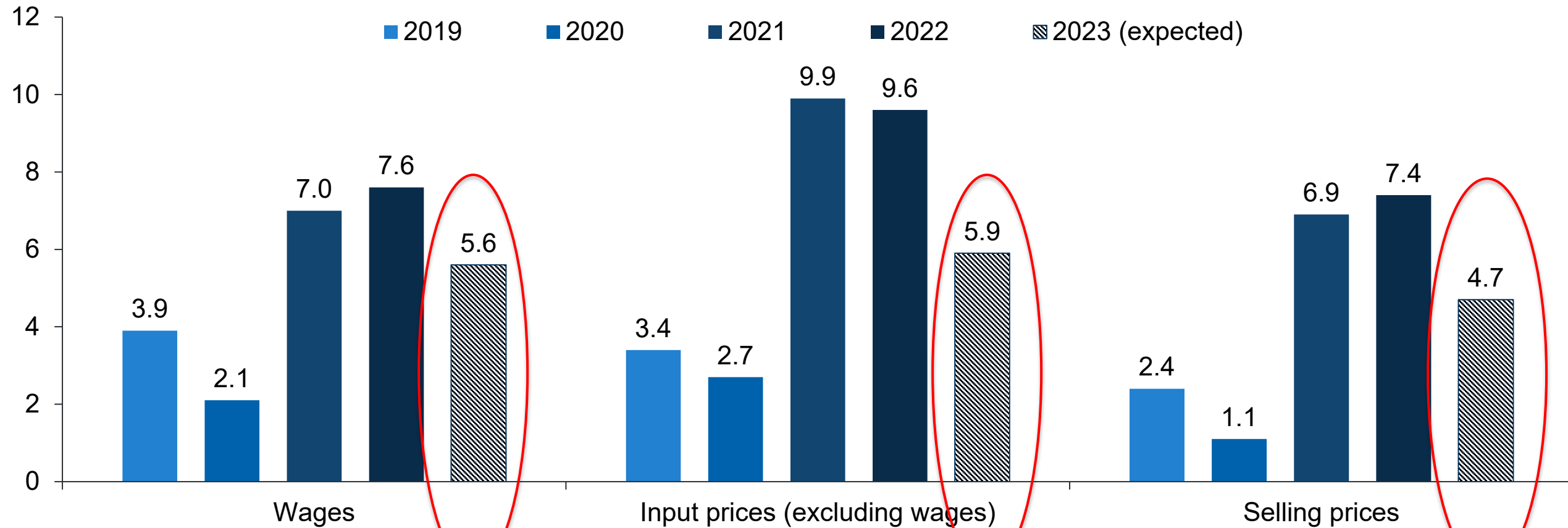


NOTES: Respondents were asked "What are the primary concerns around your firm's outlook over the next six months, if any? Please select up to three." Shown is the percent of respondents citing each concern. 380 responses in Sep. 2022 and 371 responses in Dec. 2022.

SOURCE: Dallas Fed's Texas Business Outlook Surveys.

# Texas firms: Price, wage growth expected to moderate this year, but remain elevated

Percent change (average across responses)



NOTES: Shown are the trimmed mean actual percent changes in wages, input prices, and selling prices reported by TBOS respondents in Dec. of each year. Shaded bars indicate forecasted changes in prices for 2023, as of December 2022.

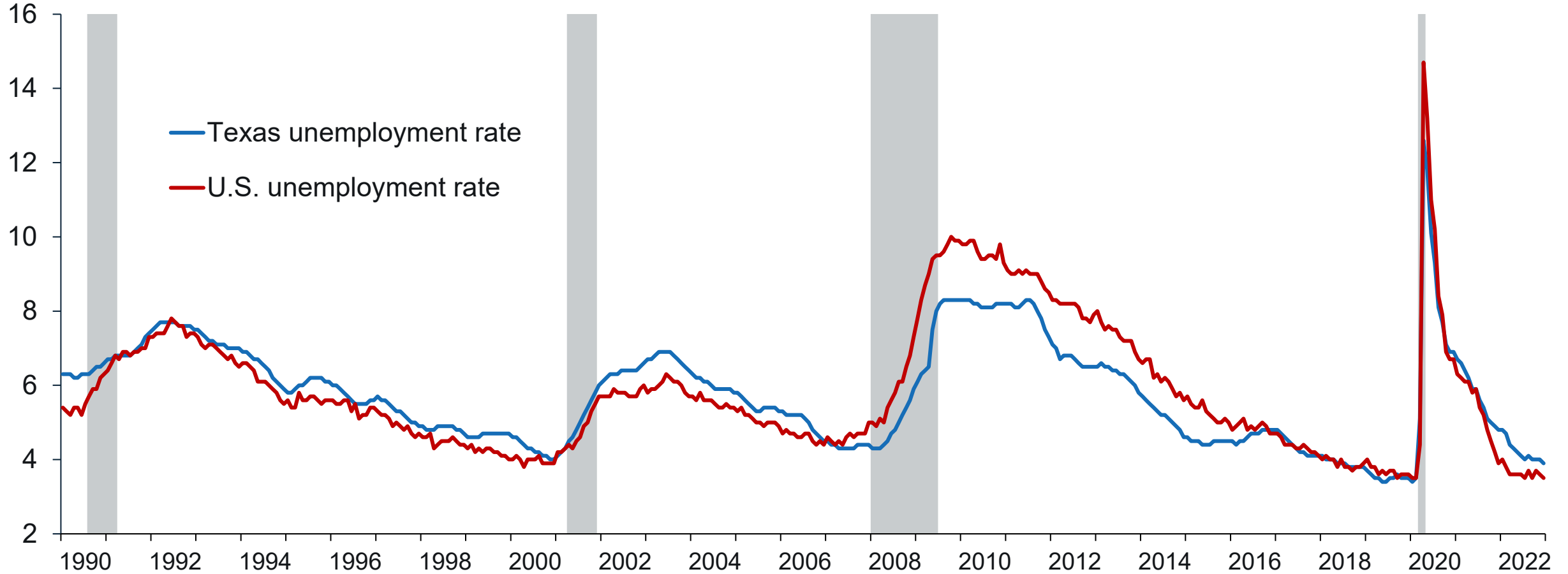
SOURCE: Dallas Fed's Texas Business Outlook Surveys.

A close-up photograph of a yellow and black striped curb on a dark asphalt surface. The stripes are curved and run horizontally across the frame. The text "Additional Considerations" is overlaid in white on the lower part of the image.

# Additional Considerations

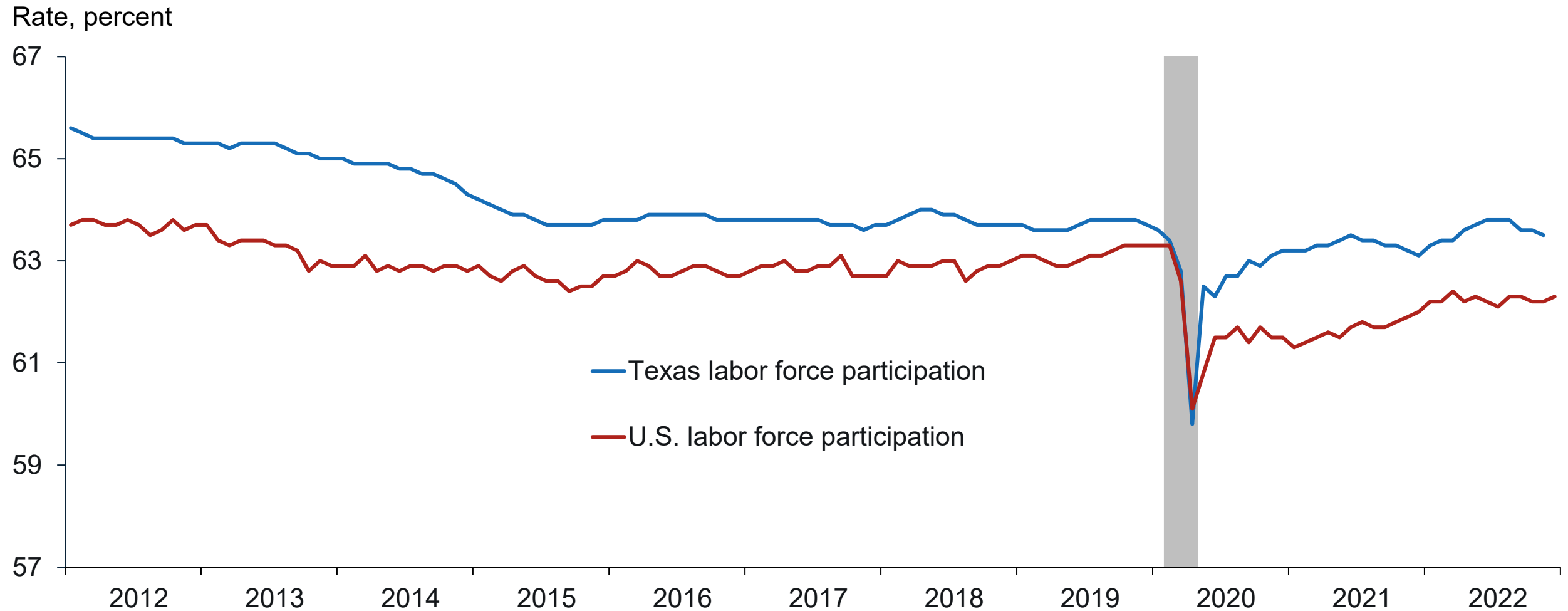
# Unemployment in Texas rises less than US in recessions

Rate, percent



NOTE: Texas labor force participation through November 2022; all other data through December 2022.  
SOURCE: Bureau of Labor Statistics.

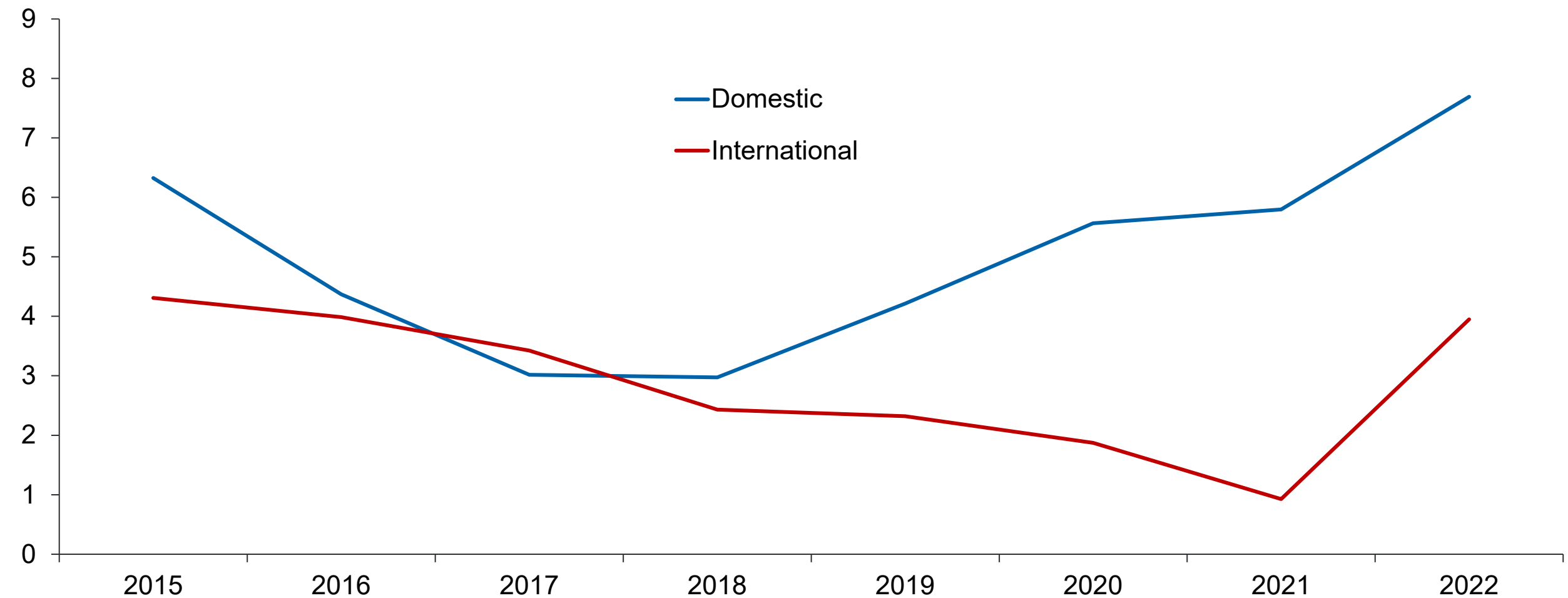
# Labor force participation recovered faster in Texas after pandemic recession



NOTE: Texas labor force participation through November 2022; all other data through December 2022. Gray shading indicates pandemic recession.  
SOURCE: Bureau of Labor Statistics.

# Migration to Texas has helped boost labor supply; domestic inflows surged in pandemic

Rate, per thousand people



NOTE: Data include number of domestic and international migrants per thousand Texas residents.

SOURCE: U.S. Census Bureau.

# Summary: Fed speed bumps having intended effect

- Signs of slowing are spreading
  - Benchmark revisions large and negative, suggesting payroll job growth overstated in 2022
  - Interest rate sensitive sectors buckling under higher rates, with weakness spilling over into broader economy
- But energy, labor markets are robust and fundamentals healthy
  - Texas better poised for soft landing than nation
  - While energy less of a boost than in past, still a large positive
  - Migration procyclical
- Texas economy forecast to grow more slowly this year, likely below trend, but not projected to contract
  - Risks to the outlook are to the downside

A close-up photograph of a curb with alternating yellow and black diagonal stripes, set against a dark asphalt background. The curb runs horizontally across the top half of the image.

**Thank you!**  
**Questions?**