Cleared for Landing

2024 Texas Economic Outlook

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

- Economic activity and job growth slowing but still robust
  - Texas employment up 3.1 percent last year, above nation
  - Labor force grew at its fastest pace in decades
  - Domestic migration resilient, international migration increasing

- Return to trend growth likely in 2024
  - Some momentum still present at year end 2023
  - Near term risks to the outlook are mixed
  - But medium to long run factors still favor the region
Labor Markets
Texas’ 2023 job growth exceeded expectations

NOTE: Shown is yearly (Dec/Dec) seasonally adjusted job growth.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.
Texas among states with highest 2023 job growth

NOTE: Data show 2023 job growth by state.
Job growth was broad based outside high tech

NOTES: Data are seasonally adjusted 2023 job growth by sector. Numbers in parentheses indicate share of total state employment for December 2023.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas
Among metros, Brownsville moved into the lead as Austin fell from top due to high tech woes.

<table>
<thead>
<tr>
<th>Metro</th>
<th>Job Growth (%)</th>
</tr>
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<tbody>
<tr>
<td>DFW</td>
<td>3.0</td>
</tr>
<tr>
<td>Houston</td>
<td>2.9</td>
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<tr>
<td>Austin</td>
<td>2.9</td>
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<tr>
<td>San Antonio</td>
<td>2.6</td>
</tr>
<tr>
<td>El Paso</td>
<td>1.6</td>
</tr>
<tr>
<td>Corpus Christi</td>
<td>2.7</td>
</tr>
<tr>
<td>Midland - Odessa</td>
<td>3.5</td>
</tr>
<tr>
<td>Brownsville - Harlingen</td>
<td>5.0</td>
</tr>
</tbody>
</table>

NOTE: Data are seasonally adjusted and refer to 2023 job growth.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.
Faster labor force growth in Texas than the nation

NOTES: Data are monthly through December 2023.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.
Construction and Real Estate
Construction robust in 2023 despite high interest rates, moderating now

Index, Jan. 2010 = 100, 5MMA, SA

NOTE: Data are real monthly contract values through December 2023.
SOURCES: F.W. Dodge; Federal Reserve Bank of Dallas.
SF Housing: Building permits recover in 2023, but overall sales retreat

Index, Jan. 2013 = 100, 3MMA, SA

- Texas single-family housing permits
- Texas home sales
- 30-year Fixed Rate Prime Mortgage

Interest rate, monthly average

NOTE: Data are monthly through December 2023.
SOURCES: MLS; A&M Real Estate Center; Freddie Mac Primary Mortgage Market Survey; U.S. Census.
House prices flat to up in 2023

NOTES: Seasonally adjusted nominal price. Data through November 2023 for Houston and December 2023 for the rest.
SOURCES: Multiple Listing Service; seasonal and other adjustments by Federal Reserve Bank of Dallas.
Apartment rent growth bottoming out

NOTES: Data are monthly, seasonally adjusted through December 2023. New York is missing March through September 2020 data. San Francisco is missing June through October 2020 data. Missing data are linearly interpolated.

SOURCE: Zillow.
Office vacancy rates stabilize in Q4 2023

NOTE: Data through Q4 2023.
SOURCE: CBRE Econometric Advisors.
Texas oil and gas production finally surpass prepandemic peak

NOTE: Shown are crude oil and natural gas marketed production through November 2023.
SOURCE: Energy Information Administration.
Texas exports rise, US exports flat in 2023

NOTE: Shown are real exports through November 2023.

SOURCES: Federal Reserve Bank of Dallas; U.S. Census Bureau.
Outlook for 2024
Migration to Texas off its highs by year-end ‘23

Net Migration Flows (Thousands)

NOTE: Data is quarterly through Q4 2023.
SOURCE: FRBNY Consumer Credit Panel/Equifax Data
U.S. immigration surges in 2022, 2023

Millions

NOTES: Permanent visas are all immigrant visas issued in a given year. Temporary visas are a sum of the non-immigrant visas issued, excluding class A (for staff of foreign governments) and class B (travelers for business or pleasure). Inadmissibles allowed entry are taken from CBP reports of encounters at the southern border ending in release into the U.S. or transfer to HHS. Known gotaways are from Homeland Security and CBP and are through 2022.

Texas firms less concerned about recession, but geopolitical/election uncertainty on the rise

- Weakening demand/potential recession
- Geopolitical uncertainty
- Elevated input costs/inflation
- Domestic policy uncertainty
- Higher cost of credit/interest rates
- Labor shortages/difficulty hiring
- Higher labor costs
- Increased taxes and regulation
- Supply-chain disruptions

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. 351 responses in Dec. 2023. Domestic policy uncertainty question added in December 2023 includes national elections.

The Texas employment forecast is for 2.0 percent job growth in 2024.

NOTES: Solid line reflects actual monthly values for Texas employment growth. Dashed line reflects predicted Texas employment growth. Actual data is monthly through December 2023. Predicted data is monthly from January through December 2024.

Risks to the Outlook
Texas CPI too high and moving in the wrong direction

NOTES: CPI data through November 2023.
Texas firms: Price, wage growth expected to moderate this year, but remain elevated

Wages, Input prices (excluding wages), Selling prices

2019: 3.9, 3.4, 7.0
2020: 2.1, 2.7, 7.6
2021: 4.3, 9.9, 5.6
2022: 2.7, 9.6, 3.4
2023: 4.2, 6.2, 3.4
2024 (Expected): 3.5, 7.4, 3.9

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 2024, as of December 2023.

Sales tax revenue points to falling consumption growth

NOTES: Real, seasonally adjusted data through January 2024. Gray shading indicates pandemic recession.
SOURCES: Texas Comptroller of Public Accounts; Federal Reserve Bank of Dallas.
Summary

- Economy had a surprisingly strong year
  - Forecast indicates Texas ‘landing’ at trend growth in 2024

- Downside risks to the outlook
  - Inflation resurgence
  - Consumer resilience may be ebbing; CRE still fragile
  - Geopolitical risk, election uncertainty on the rise

- Upside risks include financial conditions easing, migration remaining unusually high and forecast being wrong
  - Also uncertain when medium to long run factors that favor the region will play out, including nearshoring and industrial policy