



Federal Reserve
Bank of Dallas

Resilient Growth

2025 Texas Economic Outlook

Pia Orrenius & Robert Leigh

Research Department

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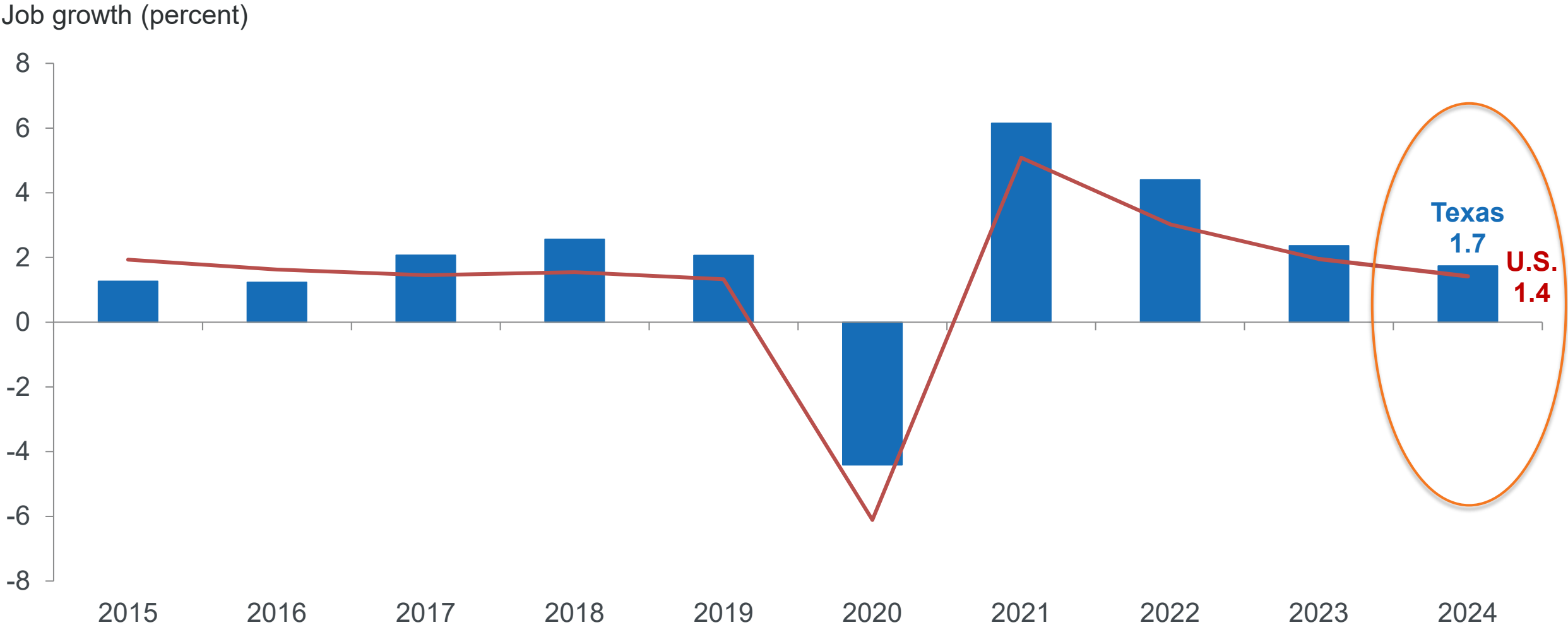
*The views expressed are my own and do not
necessarily reflect official positions
of the Federal Reserve System.*

Overview

- Texas economy is healthy but slowed more than expected in 2024
 - Job growth of 1.7 percent was below the forecast and trend
 - Headwinds included higher interest rates, falling oil and gas prices, and election uncertainty
- Growth is likely to continue slightly below trend in 2025
 - Balancing act
 - Post-election optimism around deregulation, tax cuts
 - Anticipated negative growth effects of higher tariffs, lower immigration, government spending cuts

Labor Market

Texas' 2024 job growth came in below the forecast and below trend

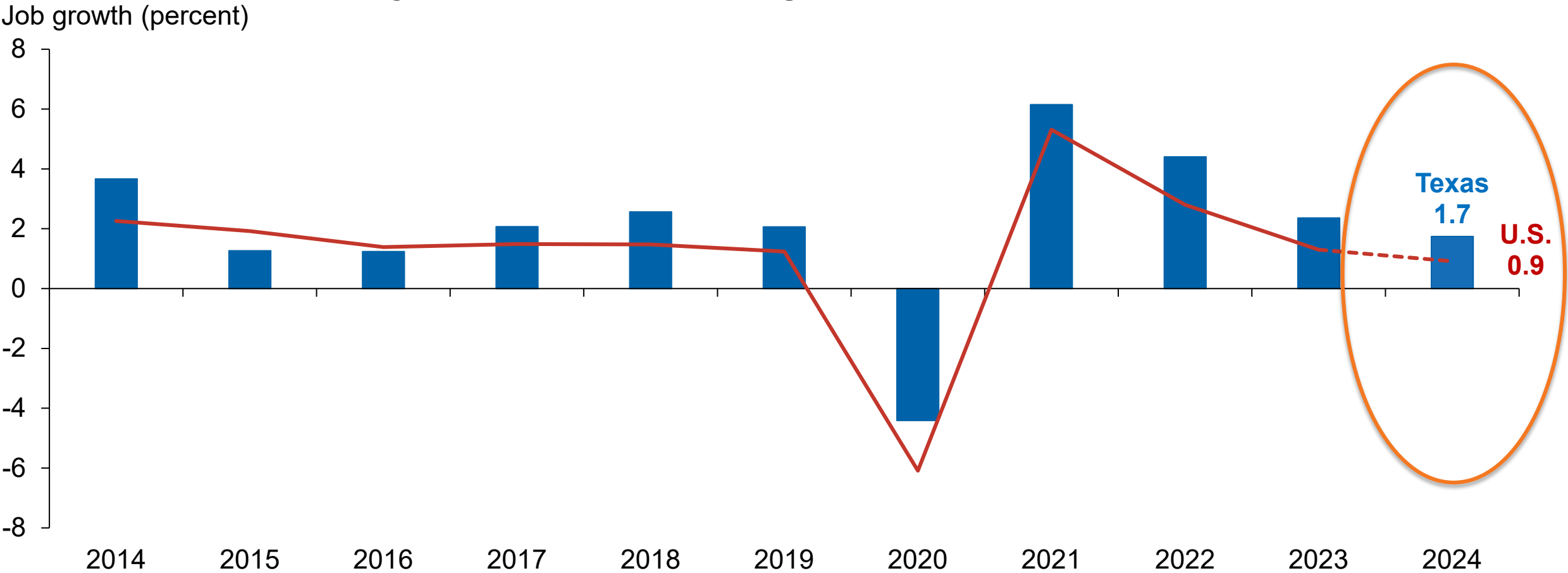


NOTES: Data are Dec./Dec. growth and seasonally adjusted.

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

Did Texas lose its growth premium vis-à-vis the US? It's unlikely.

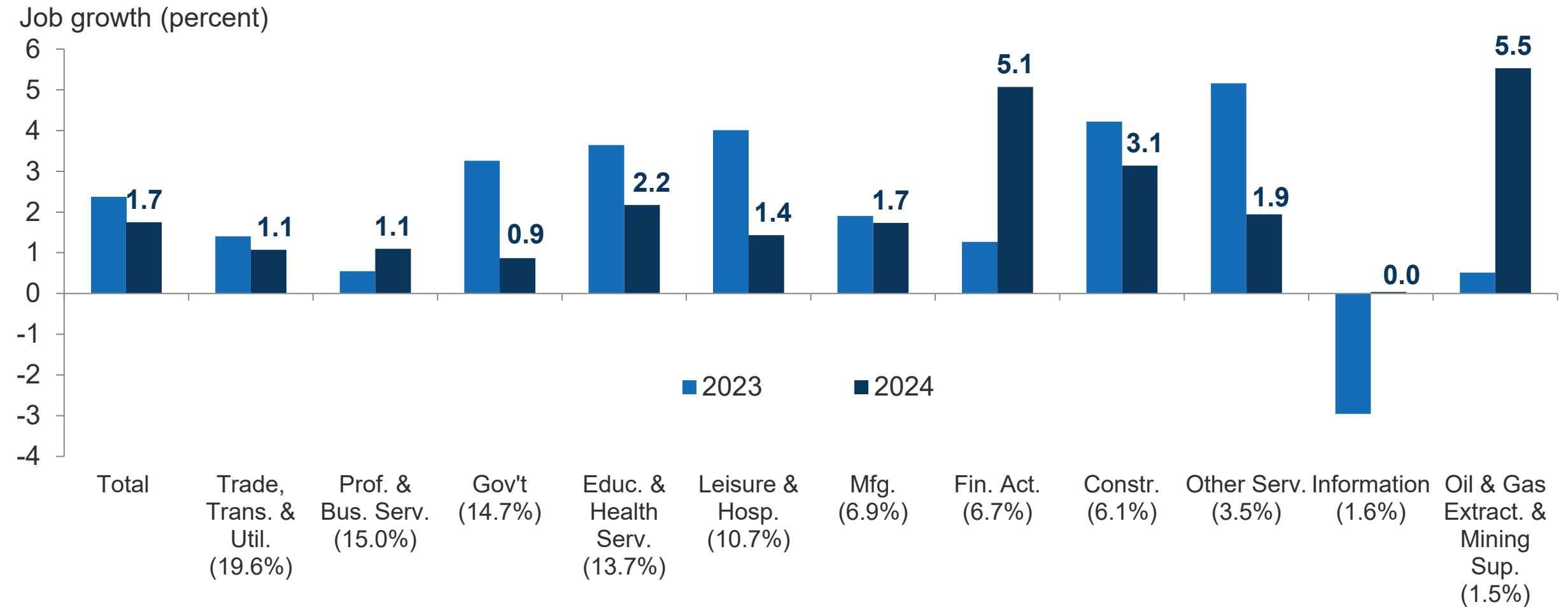
US jobs number likely to be revised down



NOTES: Data are Dec./Dec. growth and seasonally adjusted except 2023 and 2024 U.S. data, which is the Philly Fed's estimate of sum of states, early benchmarked through June 2024 with forecasts through October 2024. Data points for 2024 are annualized job growth for Oct. '24/Dec. '23.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; Federal Reserve Bank of Philadelphia; seasonal and other adjustments by Federal Reserve Bank of Dallas.

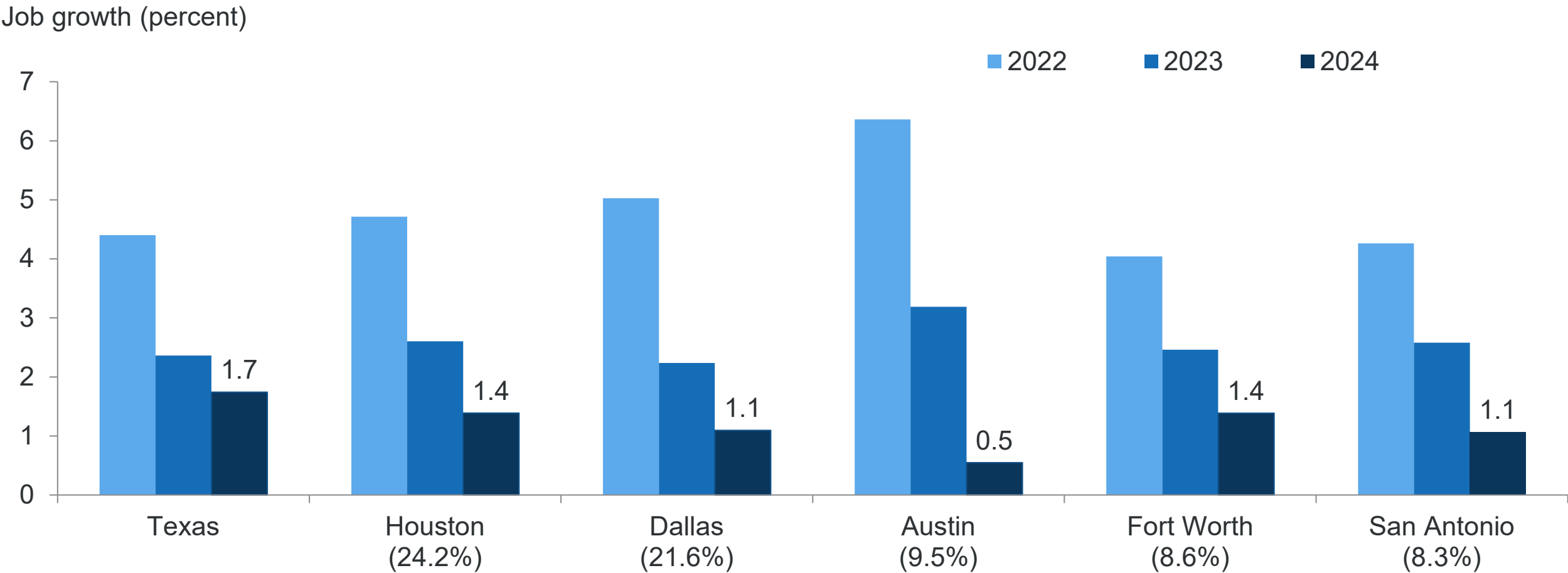
Energy, financial services and construction sectors grew fastest in Texas in 2024; high tech stabilized



NOTE: Data are Dec./Dec. and seasonally adjusted. Numbers in parenthesis indicate share of total state employment for most recent monthly data.

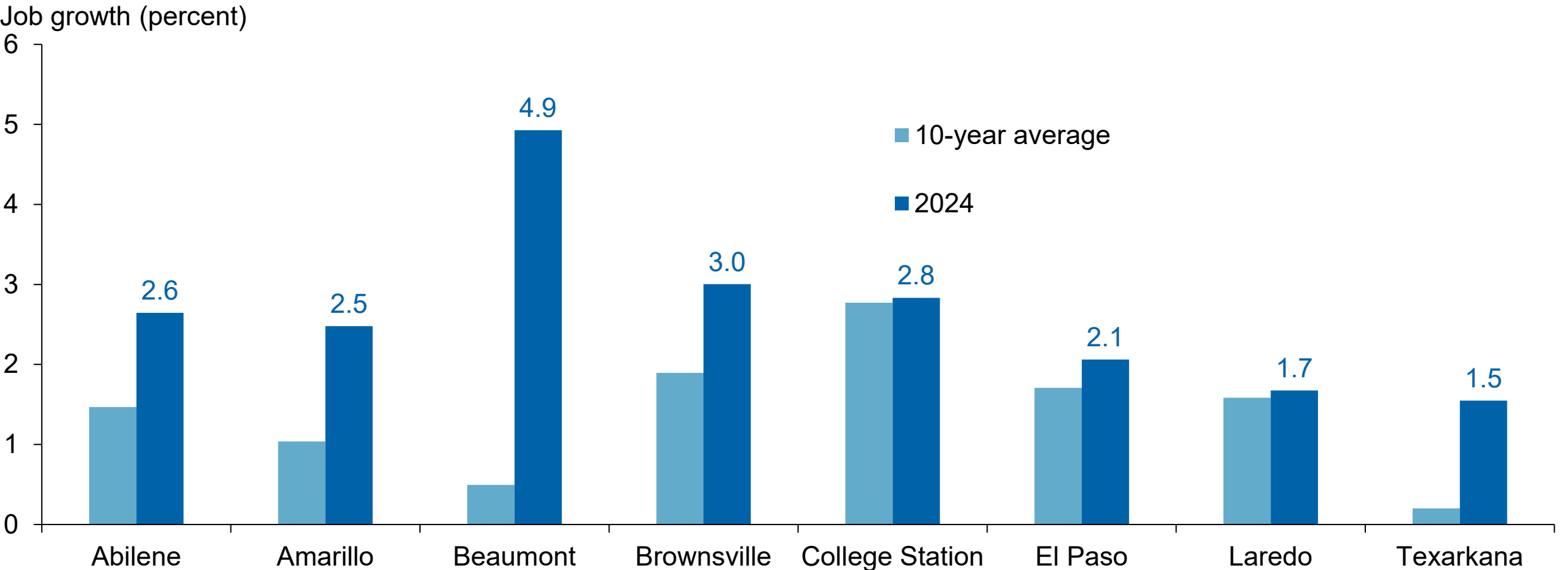
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.

Fort Worth and Houston grew fastest among large metros



NOTE: Data are Dec./Dec. and seasonally adjusted. Numbers in parenthesis indicate share of state employment for December 2024.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.

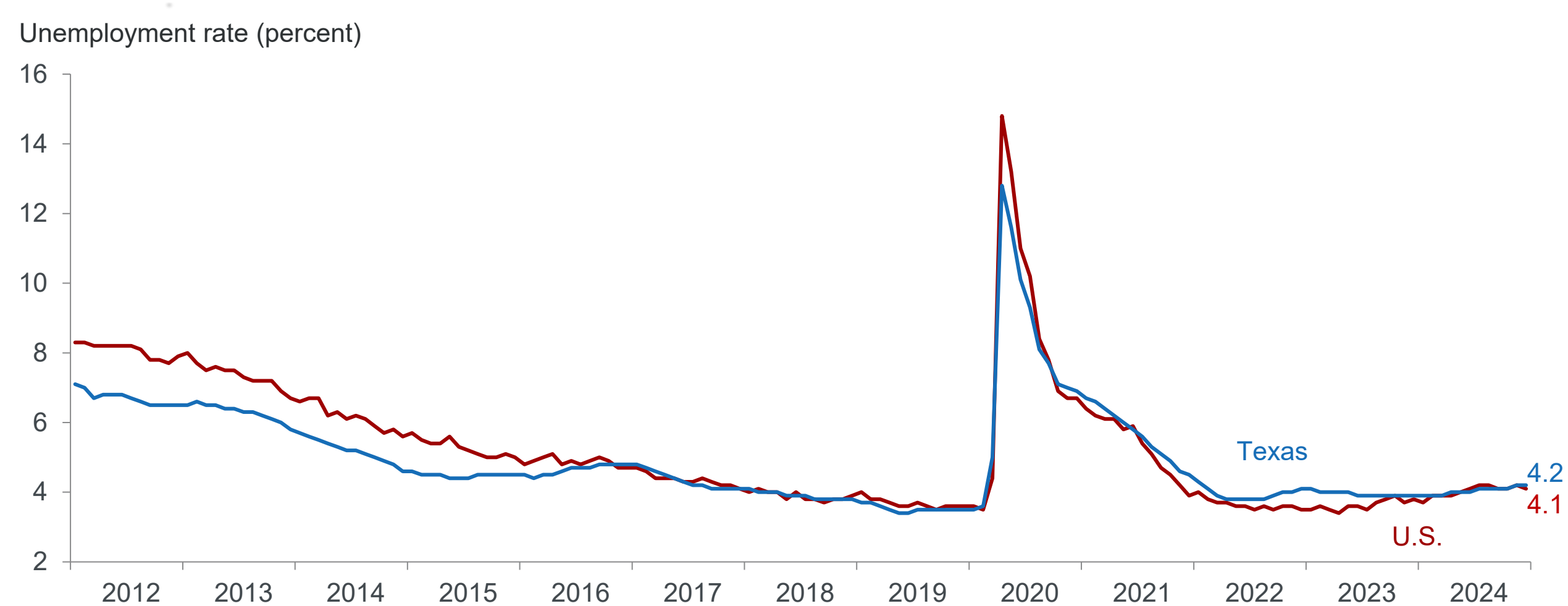
But 2024 may have been the year of the small metro...many small metros outpaced both the state and their own historical growth



NOTES: Shown are Dec. '24/Dec. '23 employment growth rates. 10-year average is the average of the metro's monthly, year over year employment growth rate. Data are seasonally adjusted.

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

Unemployment rate rose slightly in Texas and the nation

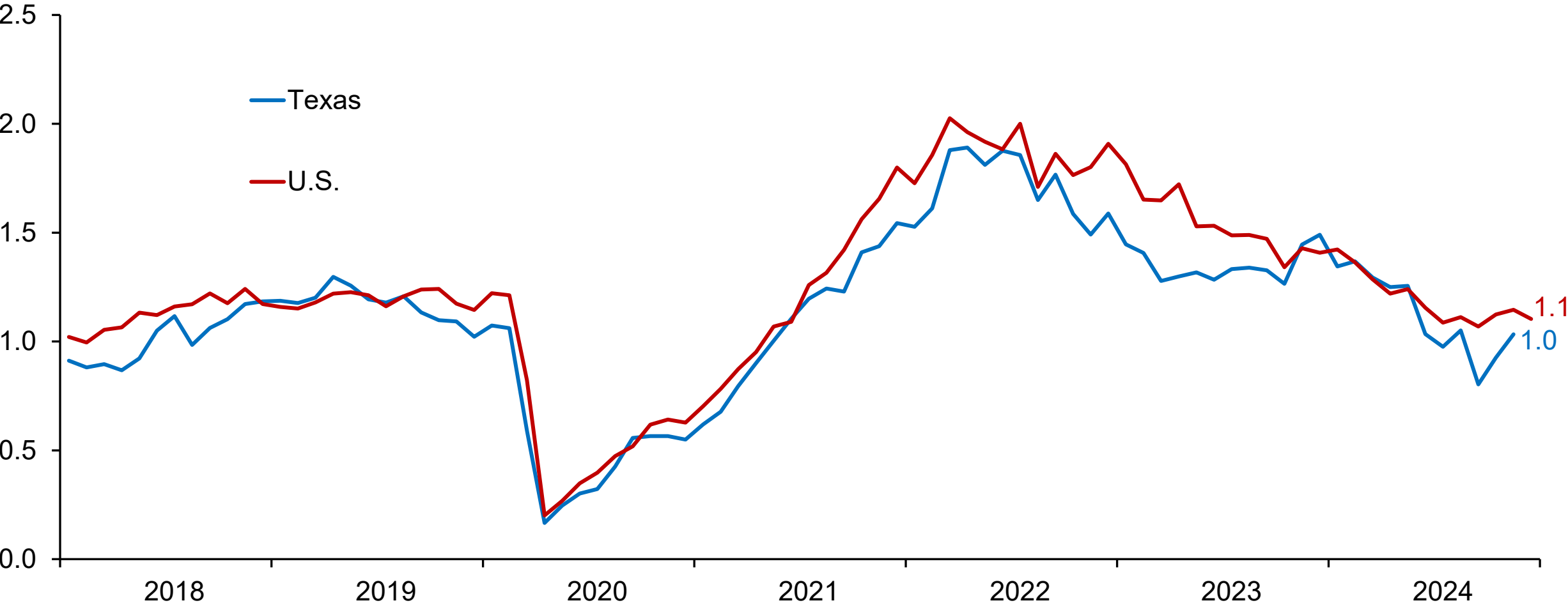


NOTE: Data are seasonally adjusted and monthly through December 2024.

SOURCES: Bureau of Labor Statistics.

And job openings per unemployed worker fell to one in Texas

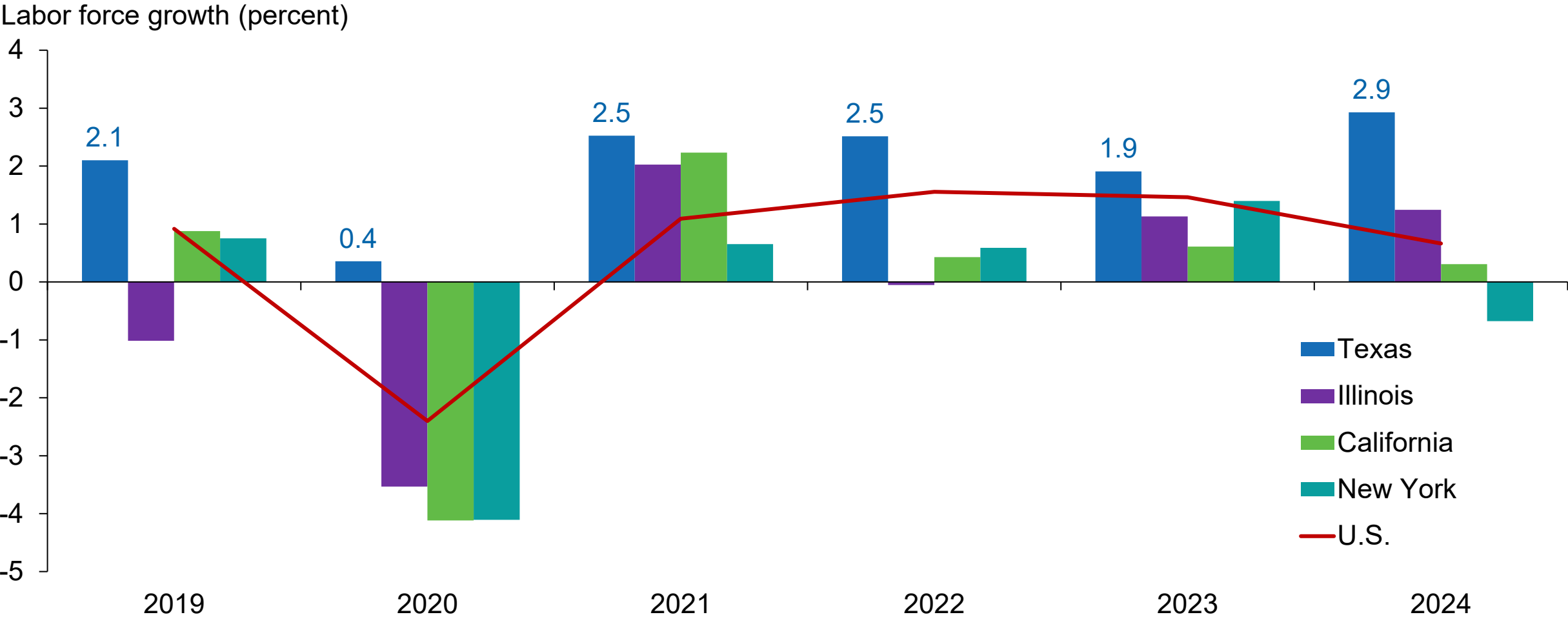
Vacancies per unemployed



NOTES: Data are seasonally adjusted. U.S. data is monthly through December 2024, and Texas data is monthly through November 2024.

SOURCES: Bureau of Labor Statistics.

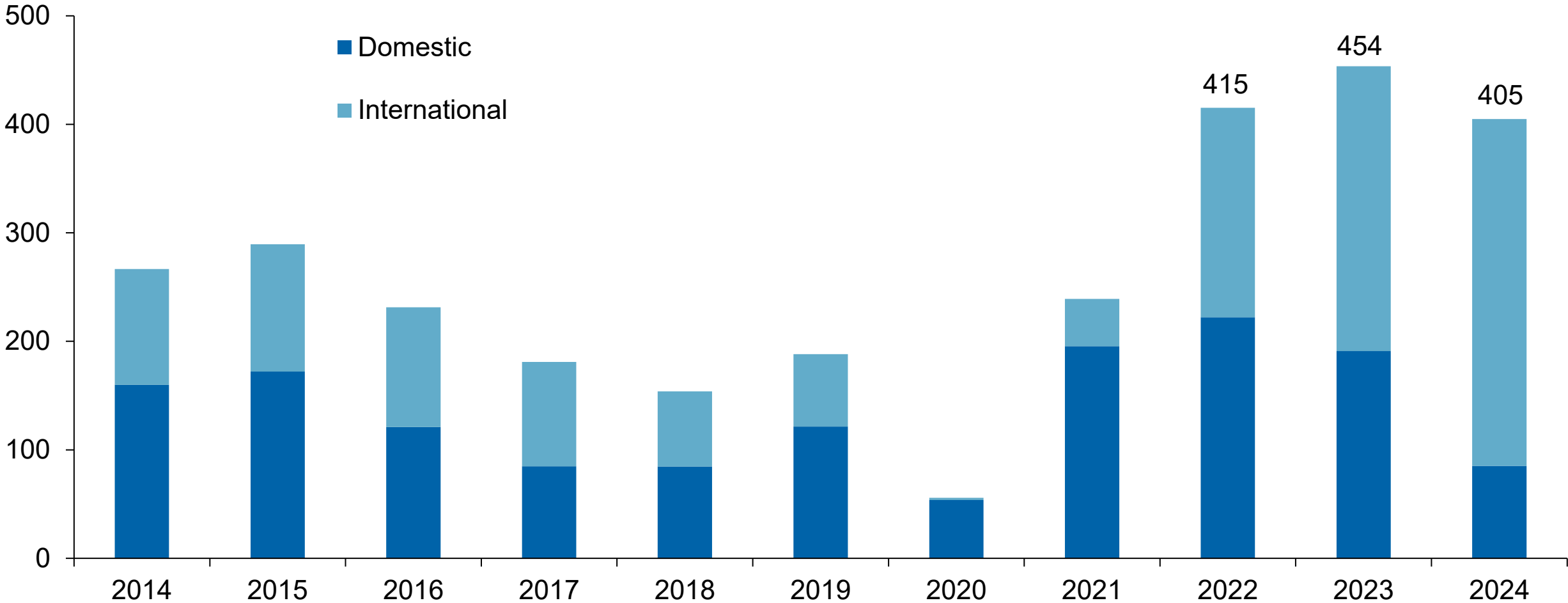
Labor supply was key to looser labor market; Texas led in 2024 labor force growth among large states, US



NOTES: Shown are labor force growth rates (Dec./Dec.). Data are seasonally adjusted.
SOURCE: Bureau of Labor Statistics.

International migration surged further in 2024, accounting for the bulk of Texas' population growth

Thousand persons

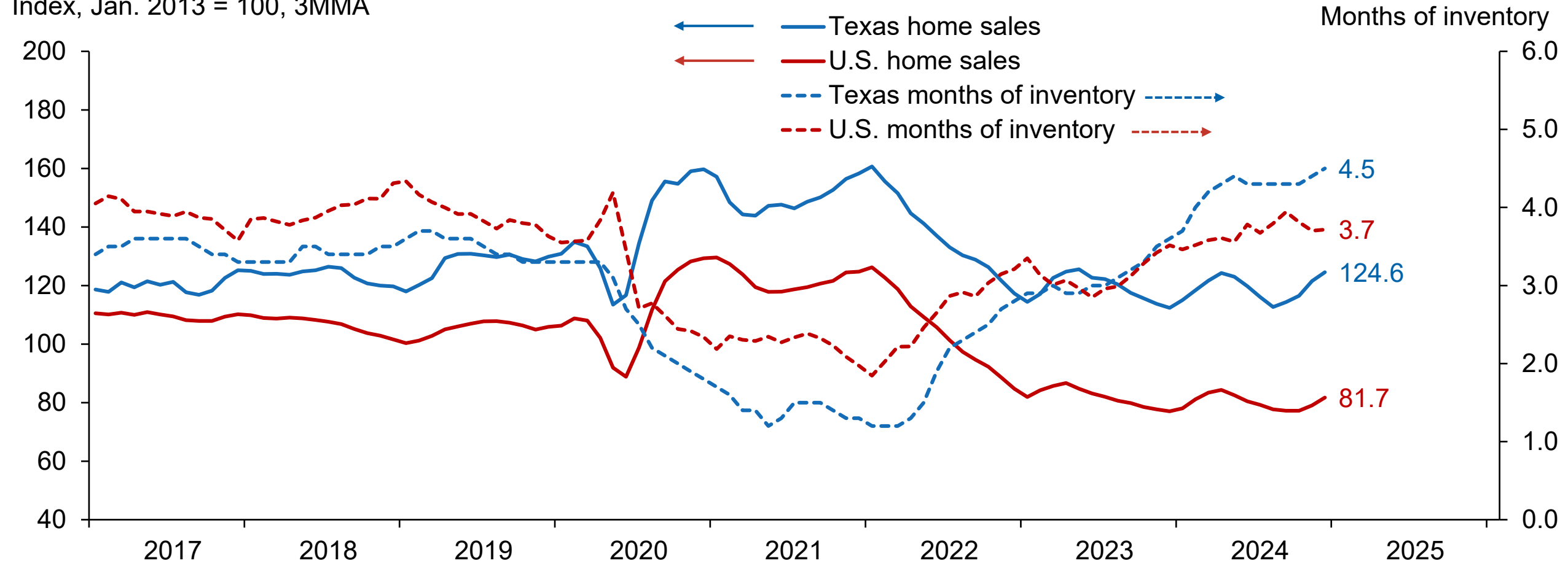


NOTES: Shown are net domestic and net international migration into Texas annually.
SOURCE: Census Bureau.

Housing

Texas home sales flat, inventories rising in 2024

Index, Jan. 2013 = 100, 3MMA

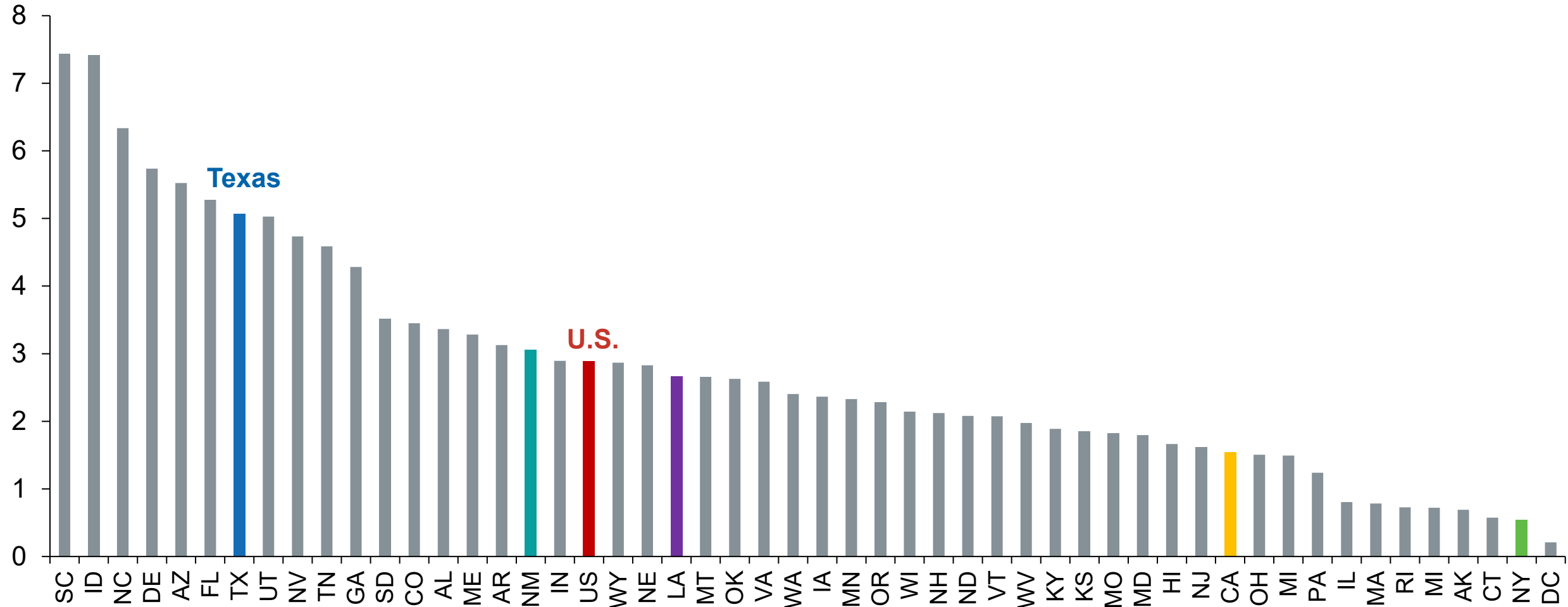


NOTES: Data are monthly through December 2024. Data are seasonally adjusted.

SOURCES: MLS; A&M Real Estate Center; Freddie Max Primary Mortgage Market Survey; U.S. Census.

Texas builds a lot of houses; economists call it 'elastic housing supply'

Permits per thousand residents

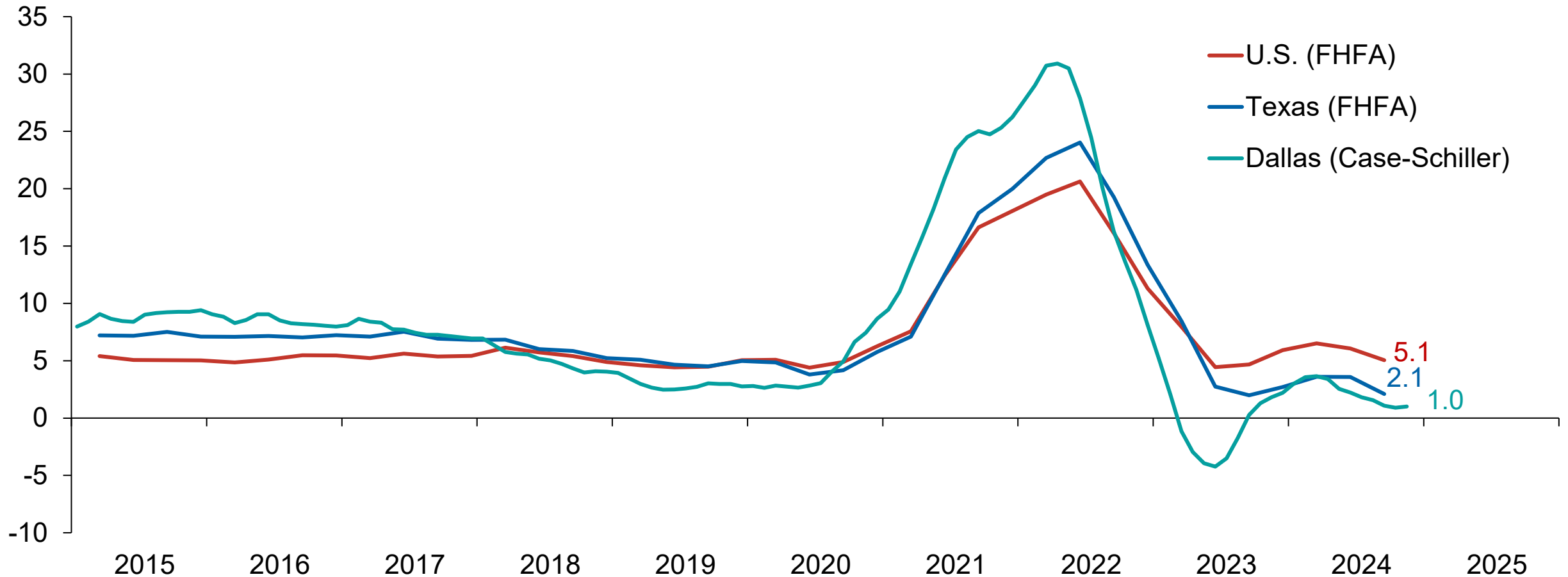


NOTE: Shown are January through December 2024 single family housing permits per thousand residents.

SOURCE: Census Bureau.

Texas house price growth trails nation, real prices falling

Percent, Y/Y

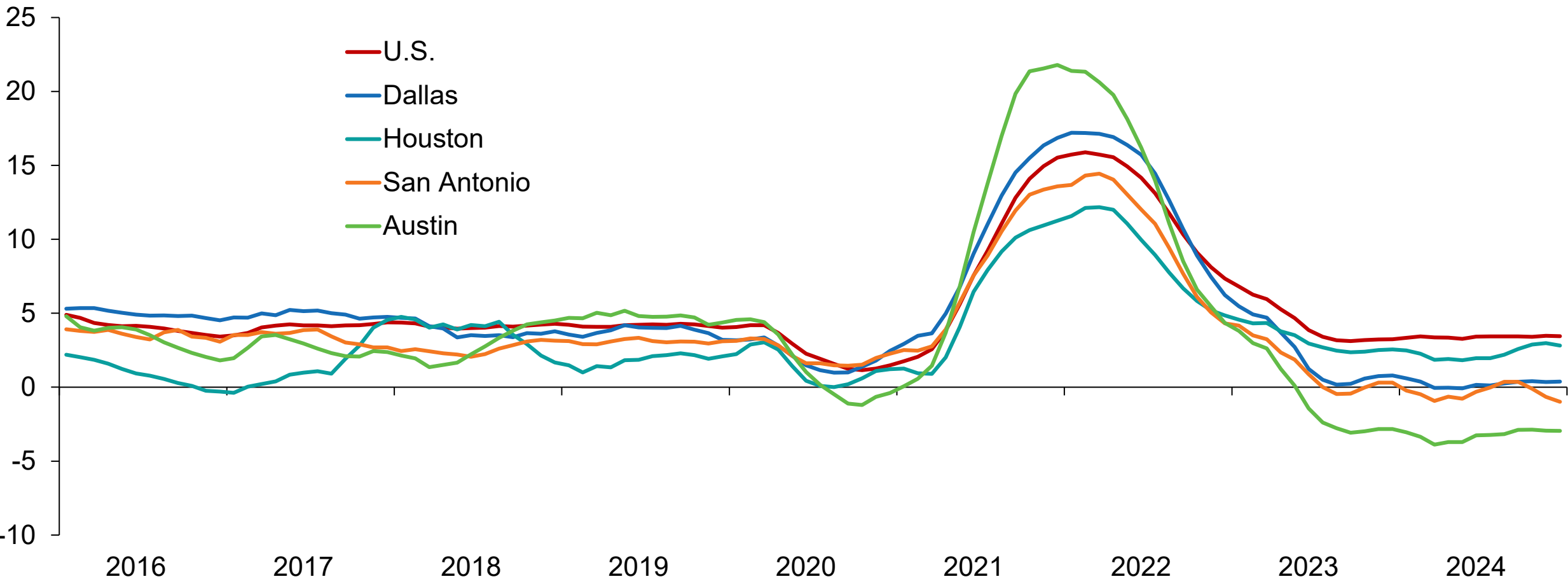


NOTES: Shown are home price indices. FHFA indices are quarterly through Q3 2024. Case-Schiller index is monthly through November 2024.

SOURCES: S&P Core Logic; Federal Housing Finance Agency.

And apartment rents are flat to down in most major Texas metros

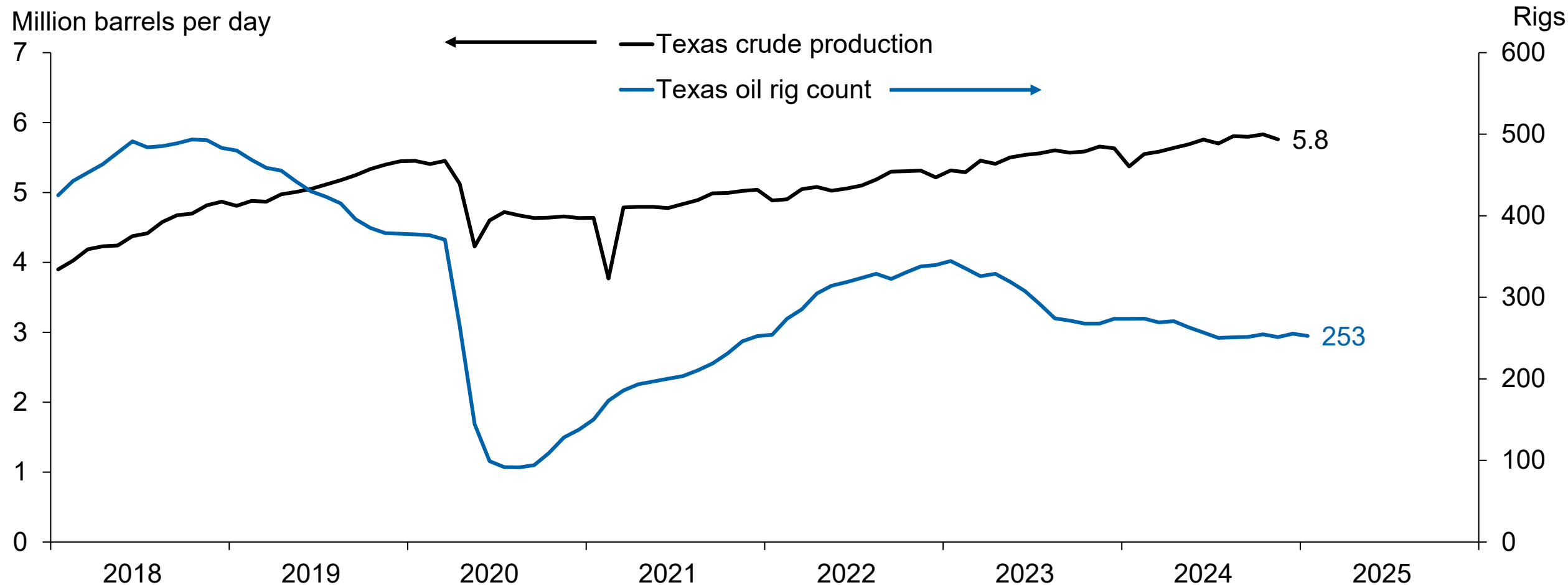
Percent, Y/Y



NOTES: Data are for new leases and smoothed using a 3-month moving average; data also seasonally adjusted and monthly through December 2024.
SOURCE: Zillow.

Energy

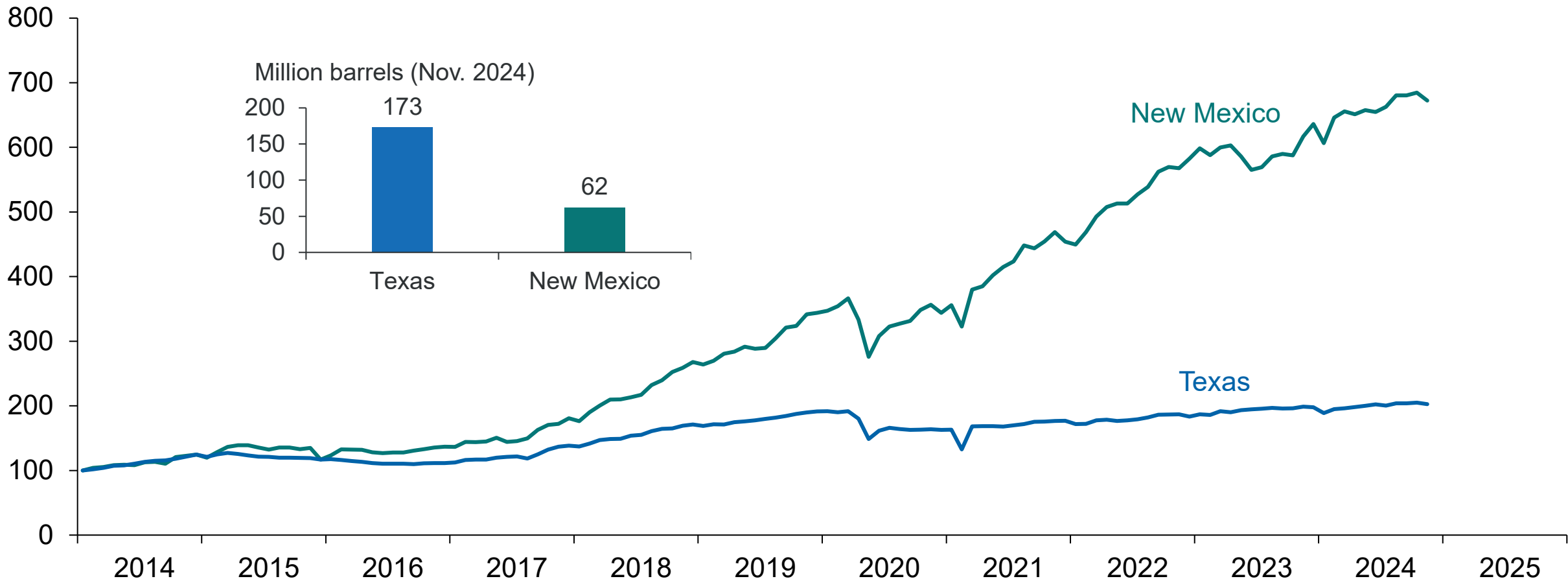
Oil production rising slightly despite flat rig count



NOTES: Texas crude oil production is monthly through November 2024. Texas rotary oil rig count is averaged from the weekly level through January 2024.
SOURCES: Energy Information Administration; Baker Hughes.

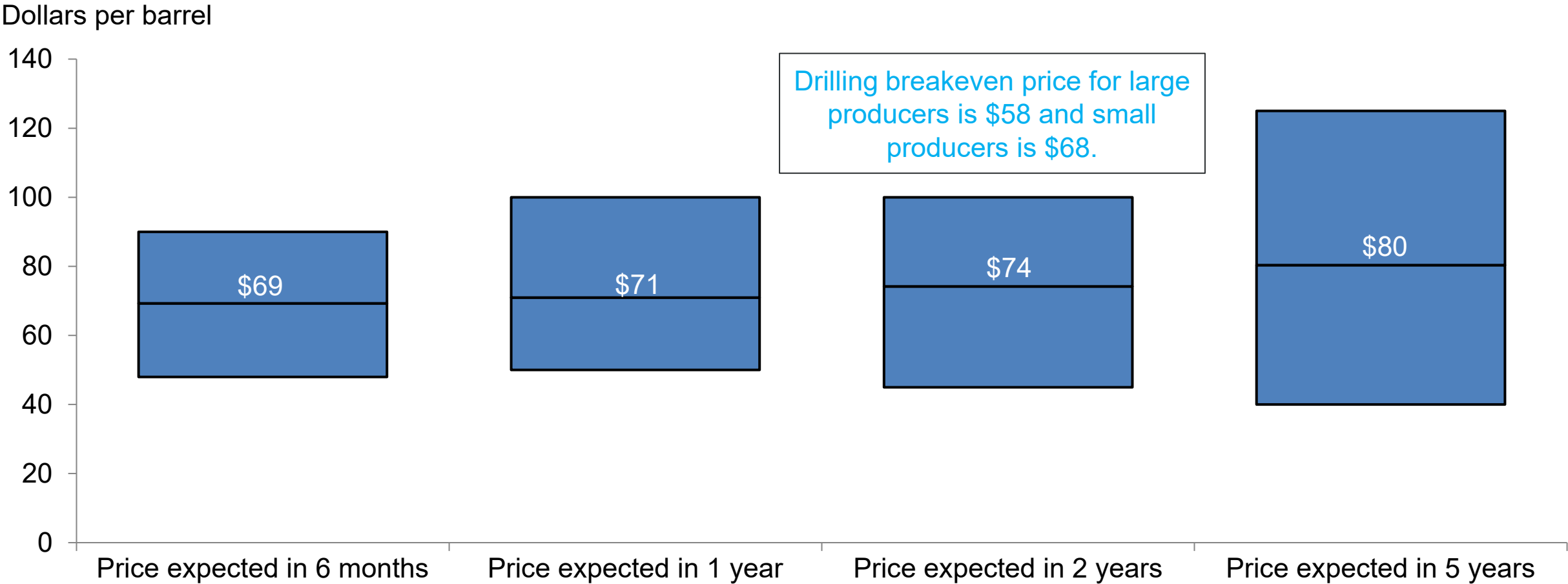
Oil production booming in New Mexico

Crude production, Jan. 2014 = 100



NOTES: Data is monthly through November 2024.
SOURCE: Energy Information Administration.

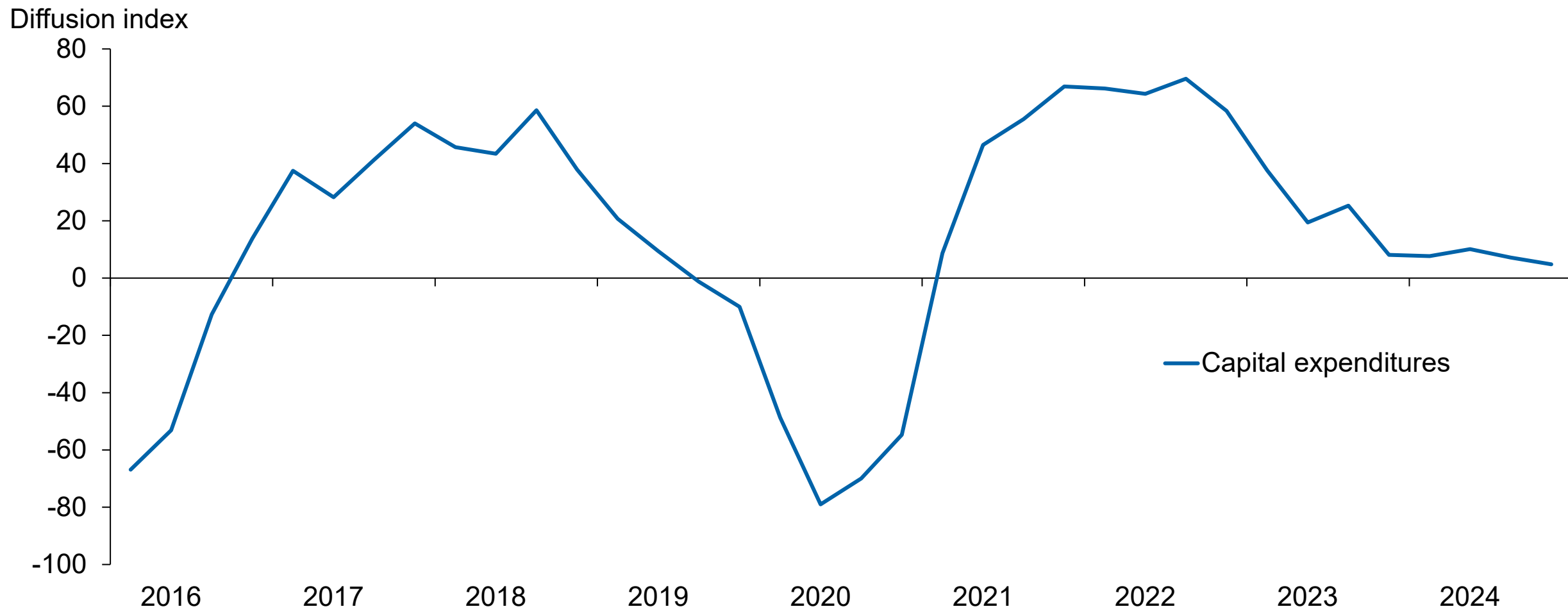
Dallas Fed Energy Survey respondents expect oil prices around \$70, above breakeven



NOTE: Executives from 124 oil and gas firms answered this question during the survey collection period, Dec. 11–19, 2024. For reference, WTI (West Texas Intermediate) spot prices averaged \$70.66 per barrel during the survey period. The middle line denotes the mean, while the bottom and top of the box denote the minimum and maximum response.

SOURCES: Federal Reserve Bank of Dallas; Chicago Mercantile Exchange (reference price).

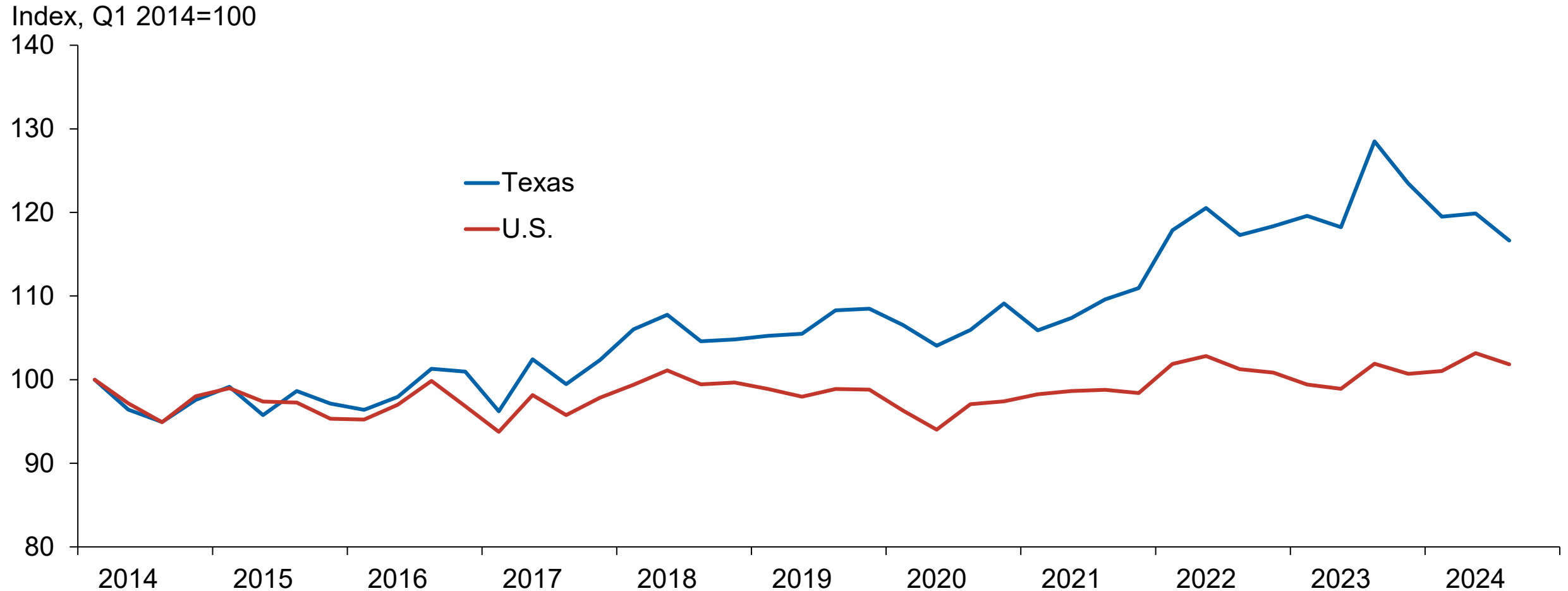
Energy survey shows capex growth slowing



NOTES: Shown is the diffusion index of energy firm capital expenditures for the current quarter versus one year ago. Data is quarterly through fourth quarter 2024. Firms include E&P and O&G support services.

SOURCE: Federal Reserve Bank of Dallas' Energy Survey.

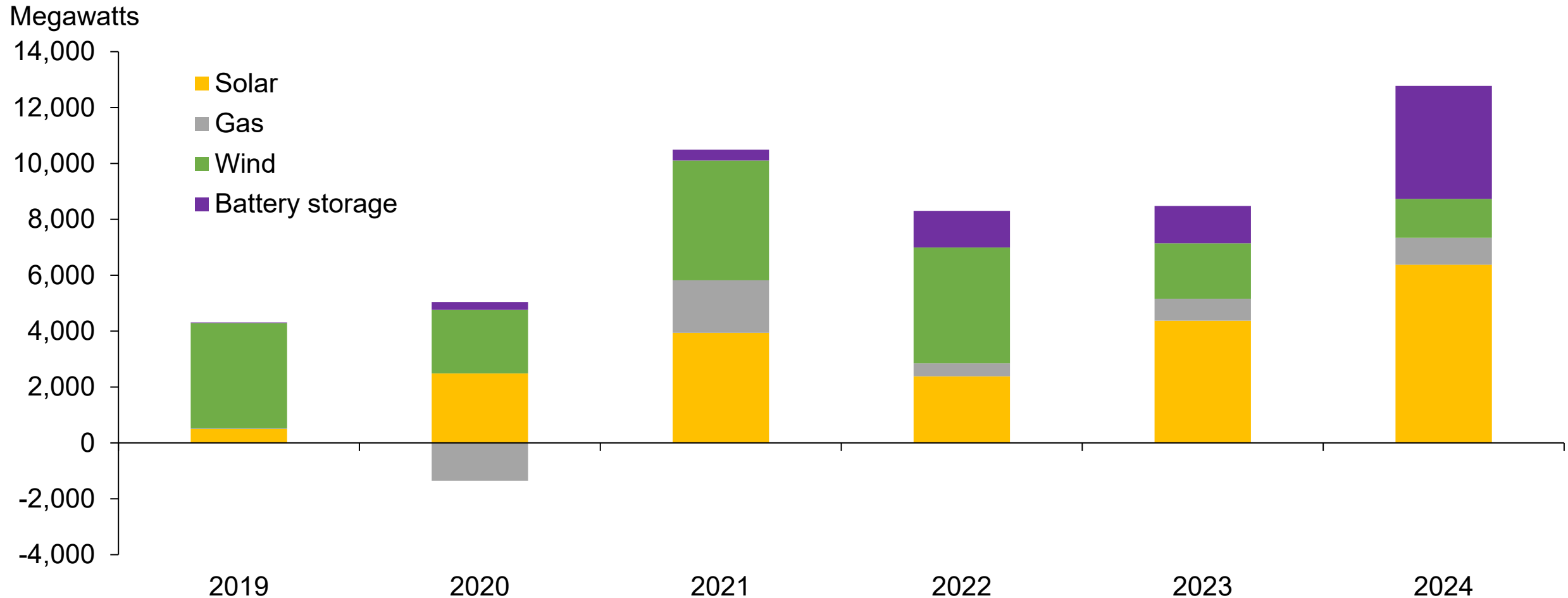
Economic growth, hot weather and electrification are boosting electricity consumption in Texas more than in US



NOTE: Shown are seasonally adjusted retail sales of electricity in KWH. Data are quarterly through Q3 2024.

SOURCE: U.S. Energy Information Administration.

But significant generating capacity, including batteries, is being added to the Texas grid



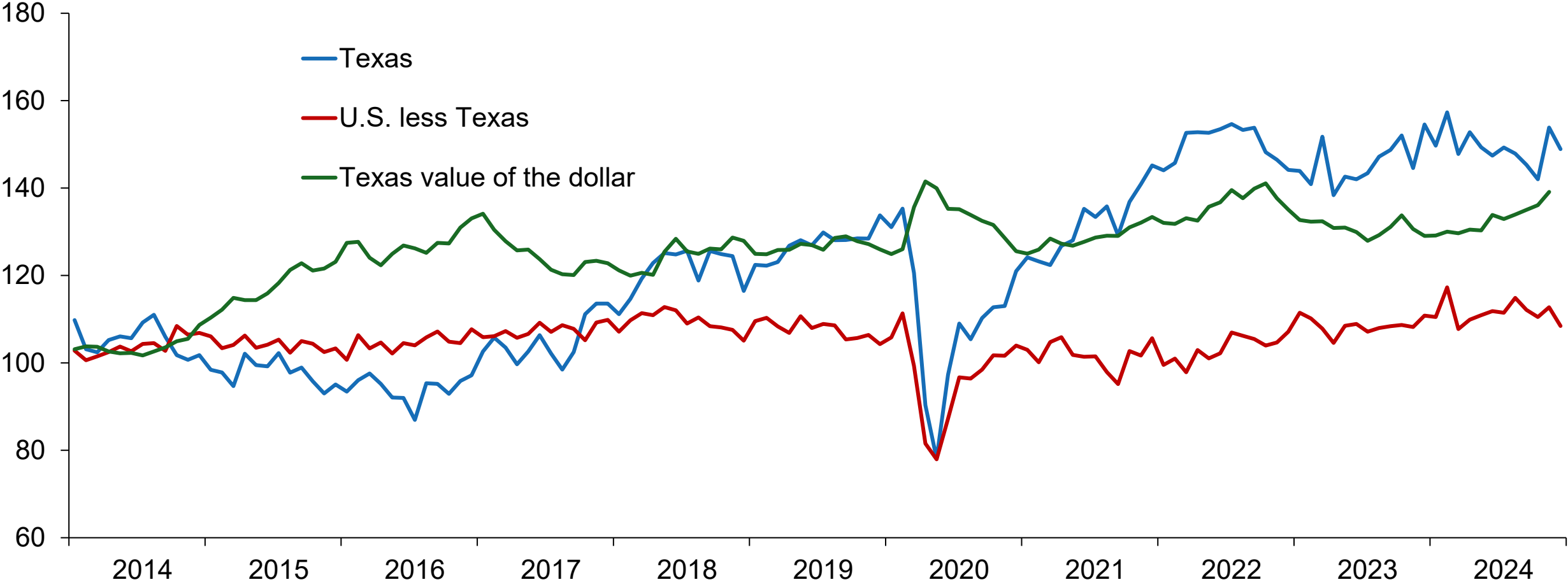
NOTE: Data through December 2024.

SOURCE: US EIA Preliminary Monthly Electric Generator Inventory.

International Trade

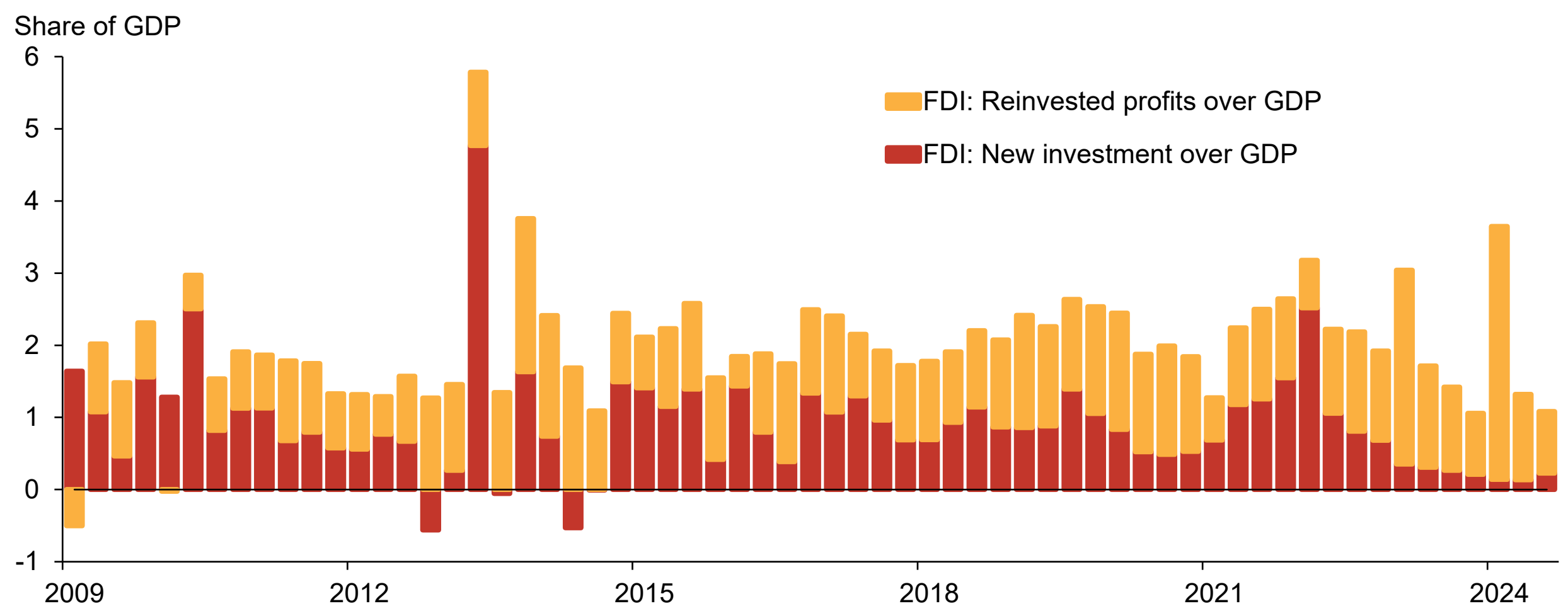
Strong dollar, lower demand held down Texas export growth in 2024

Index, Jan. 2013=100



NOTE: Trade data are real and seasonally adjusted, monthly through December 2024. Texas value of the dollar is monthly through November 2024.
SOURCES: Federal Reserve Bank of Dallas; U.S. Census Bureau.

And (strangely) nearshoring momentum in Mexico has not resulted in new FDI



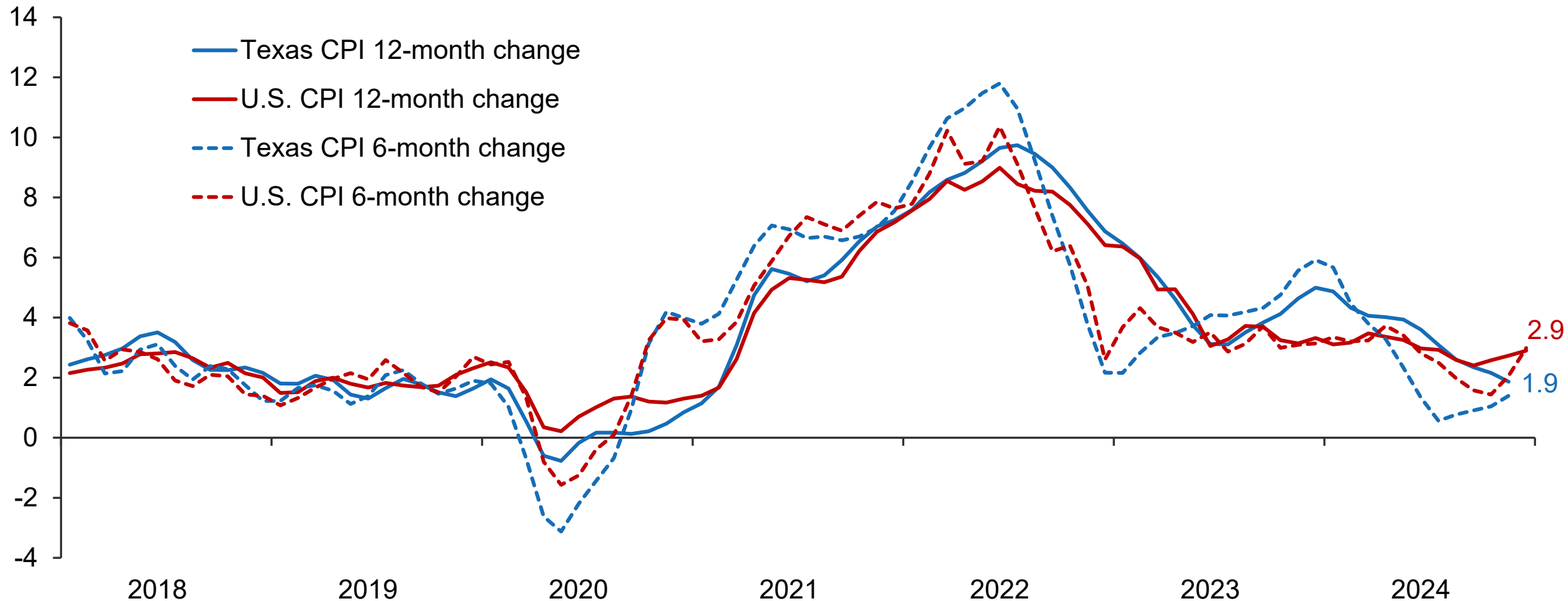
NOTES: Data are reported quarterly and seasonally adjusted. Last data point is third quarter 2024.

SOURCES: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography); Banco de México (Bank of Mexico); authors' calculations.

Prices

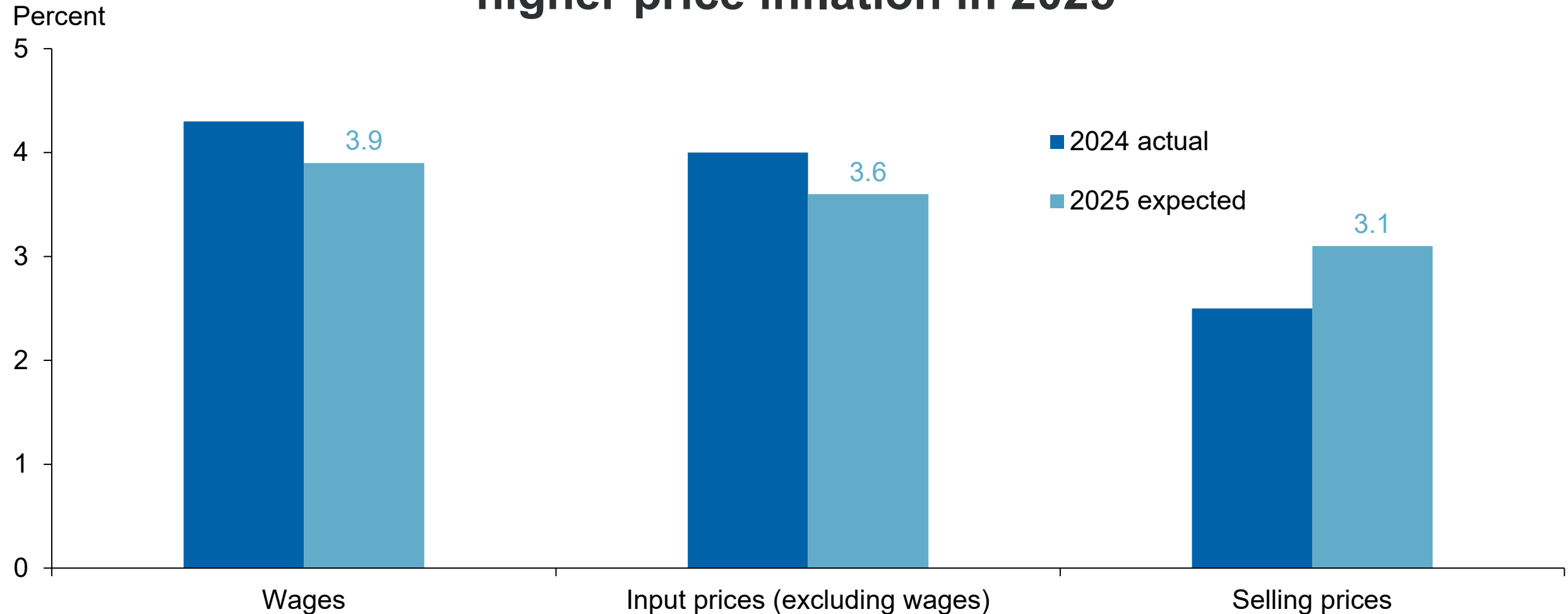
Texas inflation slips below U.S. as national CPI turns up

Percent change



NOTES: Data are seasonally adjusted and monthly through November 2024 for Texas and December 2024 for the U.S.. 6- month percent changes are annualized rates.
SOURCES: Bureau of Labor Statistics; adjustments by the Federal Reserve Bank of Dallas.

Texas businesses expect slightly lower wage and cost inflation but higher price inflation in 2025



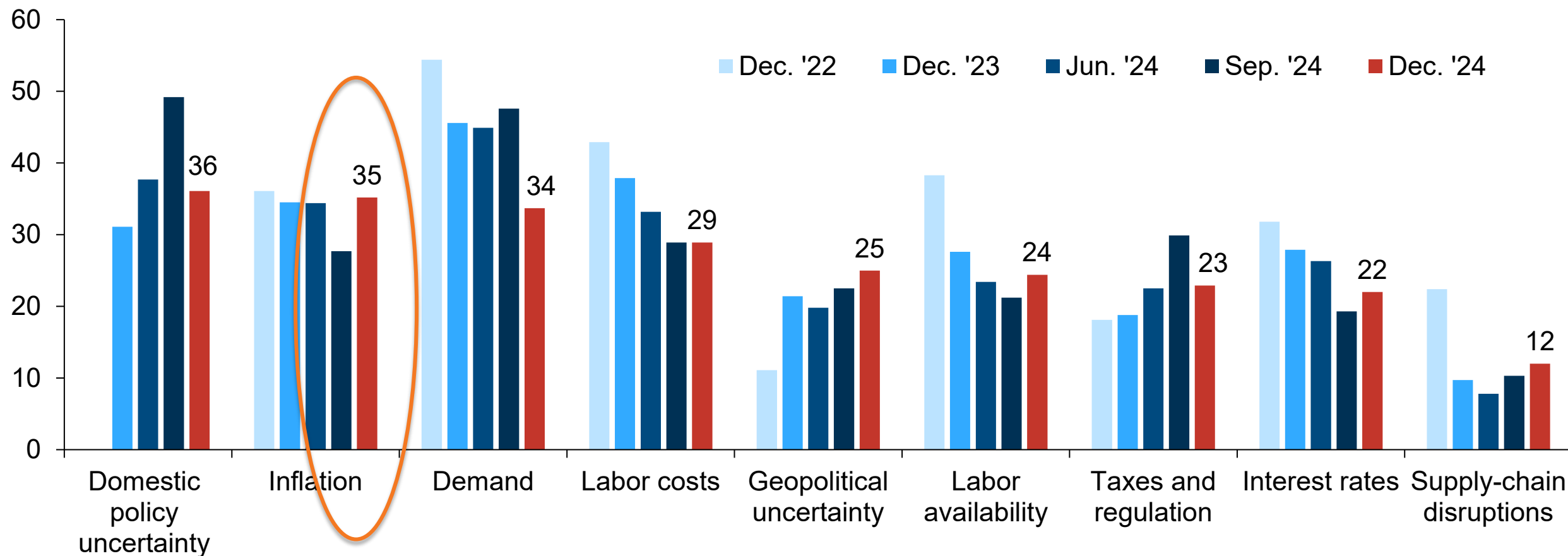
NOTES: Shown are actual and expected 12-month changes in prices and wages. N=302 in December 2024. Shown are averages, calculated as trimmed means with the lowest and highest 5 percent of responses omitted.

SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys.

Outlook

Inflation again a top concern among Texas businesses

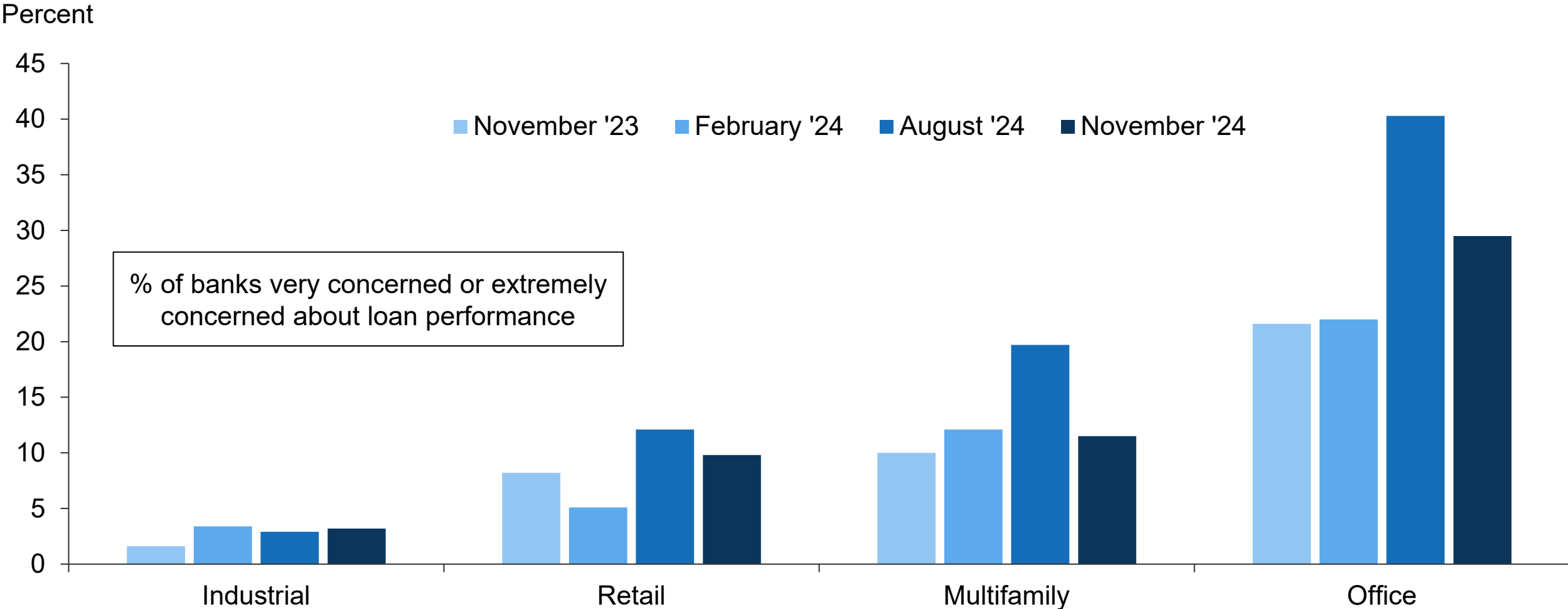
Percent of respondents citing as top three outlook concern



NOTES: Firms were asked, "What are the primary concerns around your firm's outlook over the next six months, if any?" and could select up to three concerns. N = 311 in Dec. '24. Domestic policy uncertainty was added as a response choice in Dec. '23.

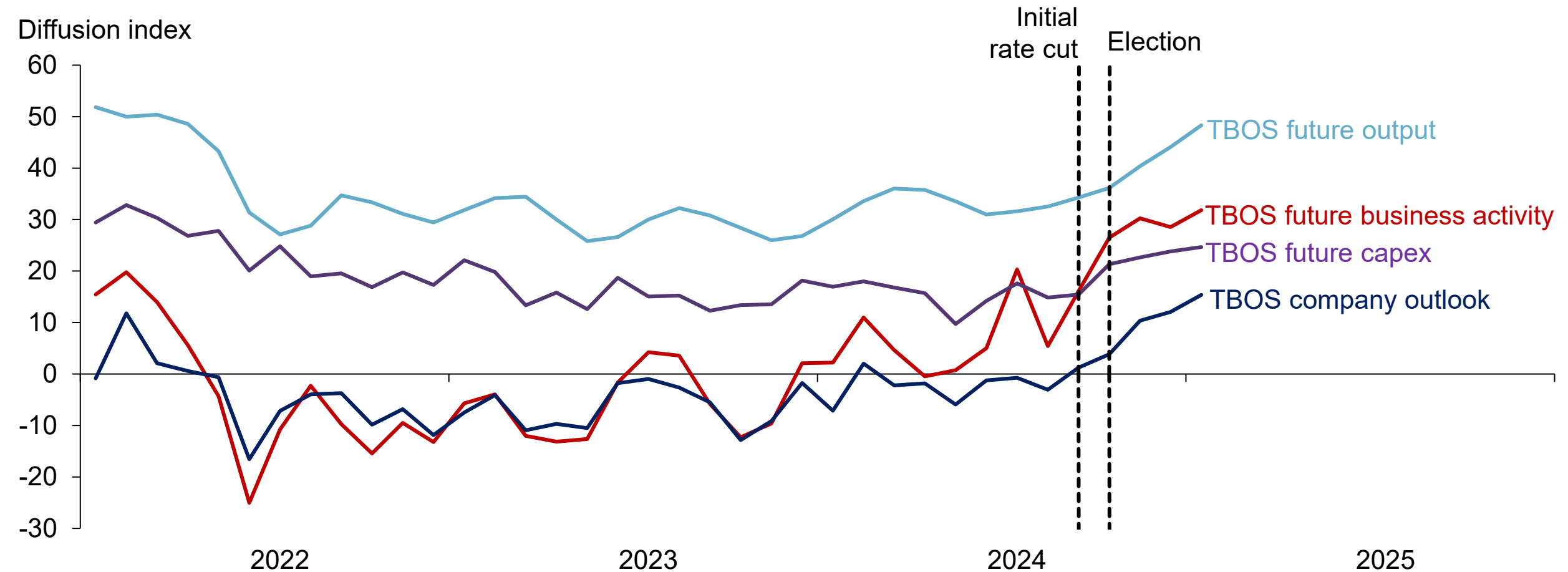
SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys.

Texas banks report CRE loan concerns receding from August peak



NOTES: Shown are percentages of respondents who answered 4 or 5 to "How concerned are you about the performance of the following categories in your commercial real estate (CRE) loan portfolio, on a scale of 1 (not concerned at all) to 5 (extremely concerned)?" For Aug. 2023 N=65, Nov. 2023 N=61, and Nov. 2024 N=62.
SOURCE: Federal Reserve Bank of Dallas' Banking Conditions Survey.

Texas businesses report notably improved outlooks after rate cuts, election

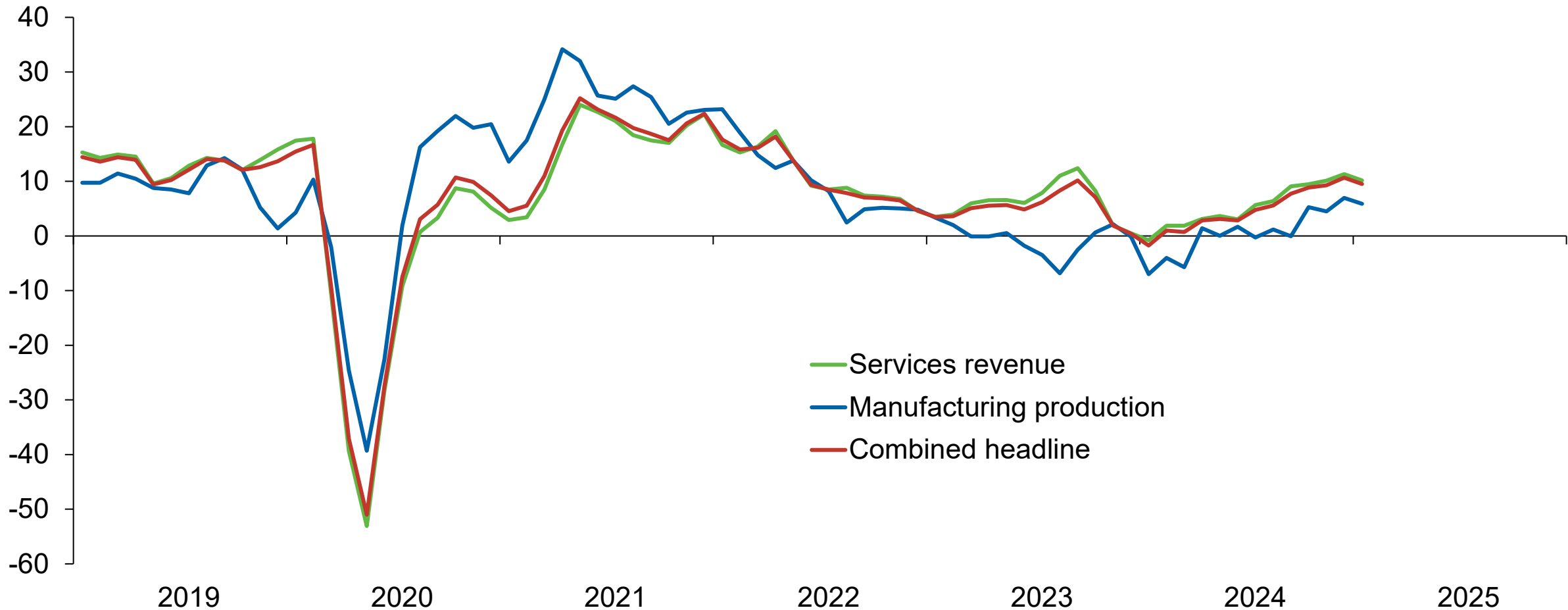


NOTE: TBOS indexes are state GDP-weighted averages of TSSOS and TMOS data. Data are seasonally adjusted, three-month moving average, and monthly through Jan. 2024.

SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys.

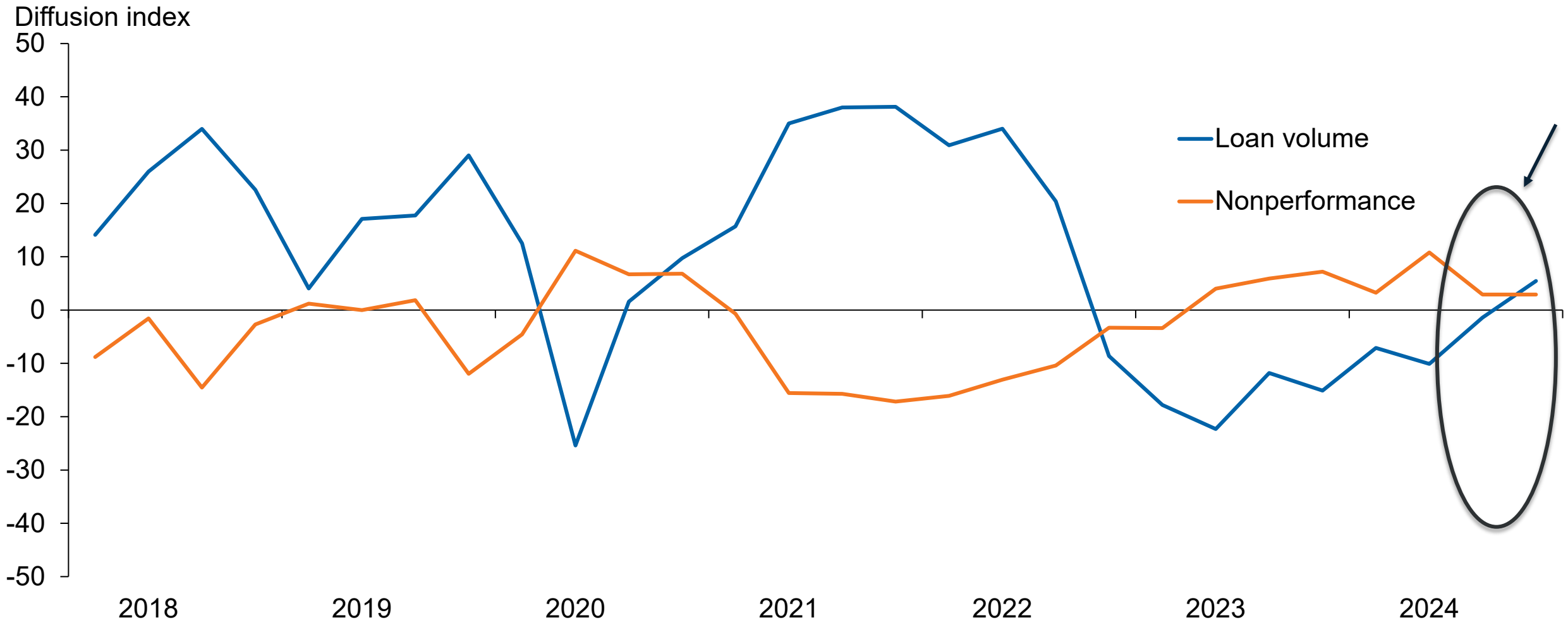
Texas business outlook surveys suggest activity growing again

Diffusion index



NOTE: Shown are results from TMOS and TSSOS surveys. Data are seasonally adjusted and three-month moving averages. Data are monthly through January 2024.
SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys.

Loan volumes finally growing after two years of contraction!



NOTES: Shown are diffusion indices for commercial real estate loan volume and nonperformance. Data are through December 2024.

SOURCE: Federal Reserve Bank of Dallas' Banking Conditions Survey.

Employment forecast for 2025 is 1.6 percent growth



NOTES: Solid line reflects actual monthly values for Texas employment growth. Dashed line reflects predicted Texas employment growth. Actual data is monthly through December 2024. Predicted data for January 2025 through December 2025.
SOURCE: Federal Reserve Bank of Dallas.

Summary

- Business leaders are optimistic for 2025 even as some economists revise their forecasts down
- Progress on inflation has slowed, and markets now expect fewer rate cuts than before
- In Texas, resilient growth is expected to continue in 2025 at about the same pace as in 2024
- Risks to the outlook include tariffs, sharply lower immigration, rollback of federal government spending
- Tailwinds are deregulation, tax cuts and the state's robust business climate and budget surplus

Thank you!

