

Texas Employment Forecast

Federal Reserve
Bank of Dallas

March 23, 2018

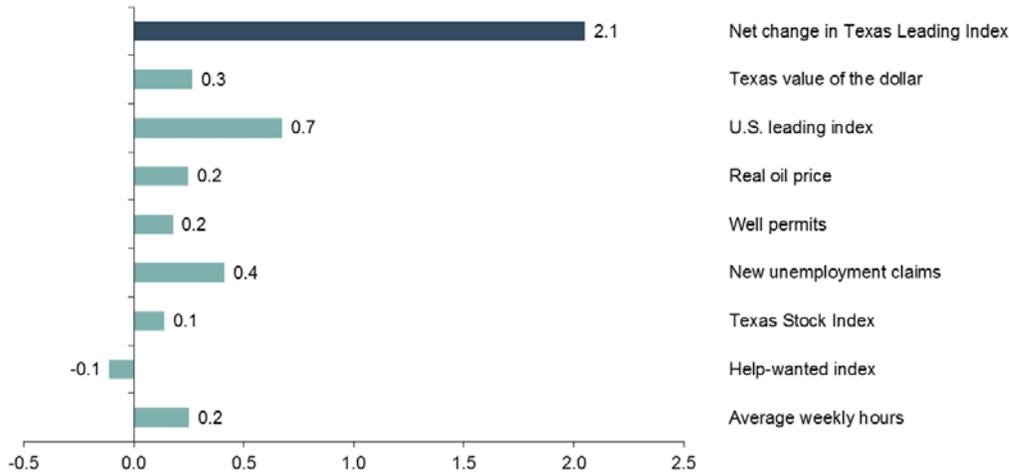
Incorporating an upwardly revised January job growth of 4.0 percent, February growth of 3.2 percent and new leading index data, the Texas Employment Forecast suggests jobs will grow 3.4 percent this year (December/December), with an 80 percent confidence band of 2.1 to 4.7 percent. Based on the forecast, 418,400 jobs will be added in the state this year, and employment in December 2018 will be 12.8 million (*Chart 1*).

“Strong job growth in the past two months and overall strength in the leading index suggest that job growth is likely to pick up this year,” said Keith R. Phillips, Dallas Fed assistant vice president and senior economist. “Energy and construction jobs have surged along with many of the large service sector industries, such as professional and business services. Growth was broad based across the major metros, with Houston in particular rebounding strongly and growing at an annualized rate of 4.7 percent so far this year.”

The Dallas Fed's Texas Leading Index increased sharply over the three months ending in February, rising 2.1 percent (*Chart 2*). Growth was mostly positive across the components, and the rise in the U.S. leading index and a decline in initial claims for unemployment insurance were the largest positive contributors to the index. Modest increases in well permits, inflation-adjusted oil prices and average weekly hours worked in manufacturing also bolstered the index. Despite a sharp decline in the Texas Stock Index in February, the three-month change remained slightly positive. Only help-wanted advertising contributed negatively to the index.



Chart 2
Growth in Leading Index Broad Based Across Components
(Net contributions to change in Texas Leading Index)



NOTE: Three-month percent change through February, seasonally adjusted. Texas value of the dollar for February is estimated.
 SOURCE: Federal Reserve Bank of Dallas.

Next release: April 20, 2018

Methodology

The Dallas Fed Texas Employment Forecast projects job growth for the calendar year and is estimated as the 12-month change in payroll employment from December to December. The forecast reported above is a point estimate with 80 percent confidence bands; in other words, the true forecast lies within the bands on Chart 1 with 80 percent probability.

The Dallas Fed Texas Employment Forecasting Model is based on a transfer function that utilizes past changes in state employment along with past changes in the Dallas Fed Texas Leading Index (TLI). Changes in the TLI have an impact on employment with a lead time of three months, and the effect dies out slowly over time. The regression coefficients on lagged changes in employment and the TLI are highly statistically significant, and the model as a whole has been accurate relative to other forecasters over the past two decades.

The forecasting model has been in use at the Dallas Fed since the early 1990s, and the employment forecast has been published in the *Western Blue Chip Economic Forecast (WBCF)* since 1994. Phillips and Lopez (2009) show that the model has been the most accurate in forecasting Texas job growth relative to other forecasters in the WBCF. In particular, the model had the lowest root mean squared error and has been the closest to the actual the most times (nine of the last 17 years) out of five forecasters that have consistently participated in the survey.

For more details about the model and its performance, see “An Evaluation of Real-Time Forecasting Performance Across 10 Western U.S. States,” by Keith R. Phillips and Joaquin Lopez, *Journal of Economic and Social Measurement*, vol. 34, no. 2–3, December 2009.

Contact Information

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