

Texas Employment Forecast

Federal Reserve
Bank of Dallas

May 18, 2018

Incorporating April annualized employment growth of 4.2 percent and gains in the leading index, the Texas Employment Forecast projects jobs will grow 3.6 percent this year (December/December), with an 80 percent confidence band of 2.5 to 4.7 percent. Based on the forecast, 444,100 jobs will be added in the state this year, and employment in December 2018 will be 12.8 million (*Chart 1*).

“Texas job growth picked up in April, and year to date the state has added 151,200 jobs—the most over a four-month period since the end of 2014,” said Keith R. Phillips, Dallas Fed assistant vice president and senior economist. “Combined with continued growth in the leading index, this makes it very likely that job growth will be strong in the second half of 2018.”

“Energy jobs continue to accelerate sharply, growing at a double-digit rate year to date. Energy-producing areas of the state such as Midland and Odessa are booming. Houston, which has about 25 percent of all jobs in the state, is now the fastest-growing major metro in Texas so far this year at 4.5 percent.”

The Dallas Fed’s Texas Leading Index increased strongly over the three months through April, rising 1.5 percent (*Chart 2*). Growth was broad based across the components, with only the Texas Stock Index contributing negatively to the index. A decline in new claims for unemployment insurance and the Texas value of the dollar, along with an increase in the U.S. leading index and average weekly hours worked in manufacturing, were the largest positive contributors to the index.

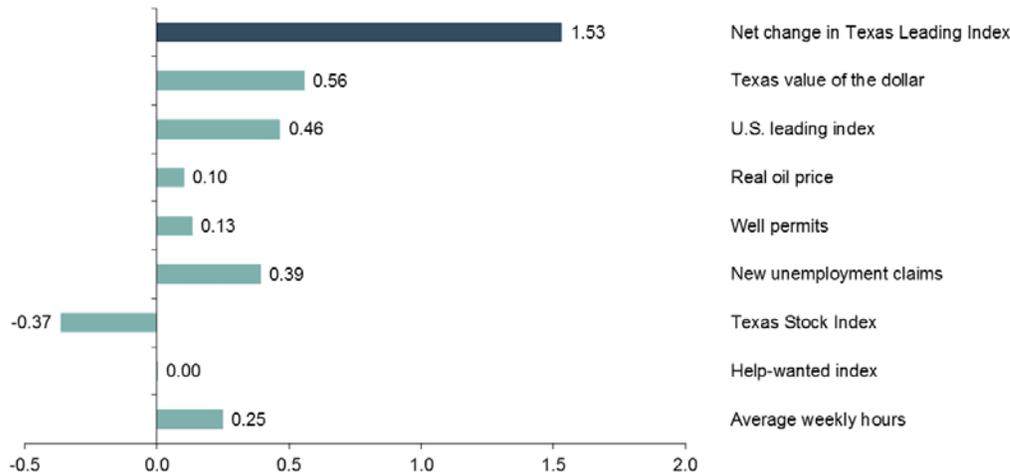
Chart 1
Texas Job Forecast Predicts 3.6 Percent Growth in 2018



*Seasonally adjusted.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; Federal Reserve Bank of Dallas.

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



NOTE: Three-month percent change through April, seasonally adjusted. Texas value of the dollar and unemployment claims for April are estimated.
SOURCE: Federal Reserve Bank of Dallas.

Next release: June 15, 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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