

Texas Employment Forecast

Federal Reserve
Bank of Dallas

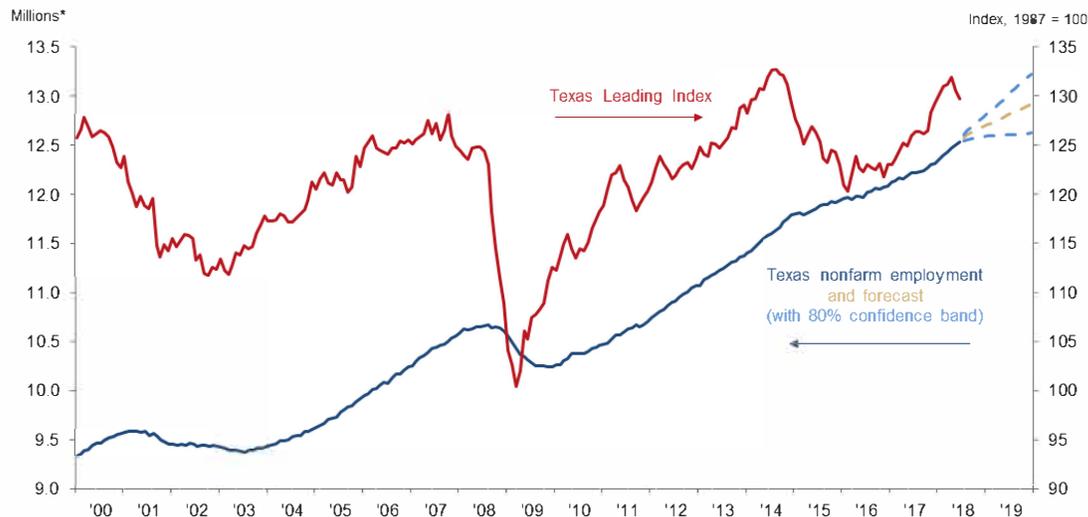
July 20, 2018

Incorporating June employment growth of 2.8 percent and new leading index data, the Texas Employment Forecast suggests jobs will grow 3.0 percent this year (December/December), with an 80 percent confidence band of 2.2 to 3.8 percent. Based on the forecast, 370,400 jobs will be added in the state this year, and employment in December 2018 will be 12.7 million (*Chart 1*).

“Although June extended Texas’ strong streak of job gains so far this year, the leading index declined over the past three months,” said Keith R. Phillips, Dallas Fed assistant vice president and senior economist. “After a very strong pace of job growth in the first half of the year, the economy is likely to decelerate in the second half. Potential factors behind the slowing are a historically tight labor market and a slowing in exports.”

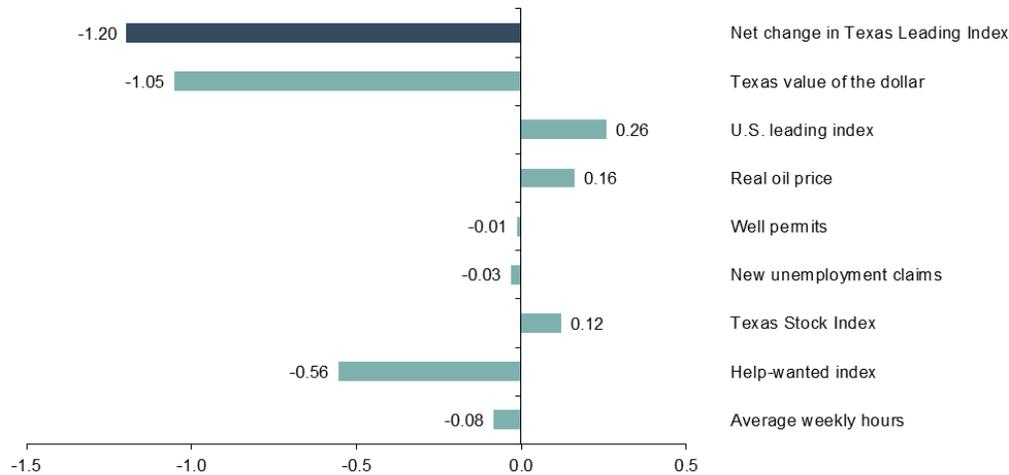
The Dallas Fed’s Texas Leading Index declined over the second quarter, slipping 1.2 percent (*Chart 2*). Growth was mixed across components, with the surge in the Texas trade-weighted value of the dollar and the decline in help-wanted advertising being the most significant drags on the overall index. The increase in the price of oil, rise in the U.S. leading index, and gains in stock prices of Texas companies were moderately positive additions.

Chart 1
Texas Job Forecast Predicts 3.0 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 Components Mixed
(Net contributions to change in Texas Leading Index)



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

Next release: August 17, 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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