

# Texas Employment Forecast

Federal Reserve  
Bank of Dallas

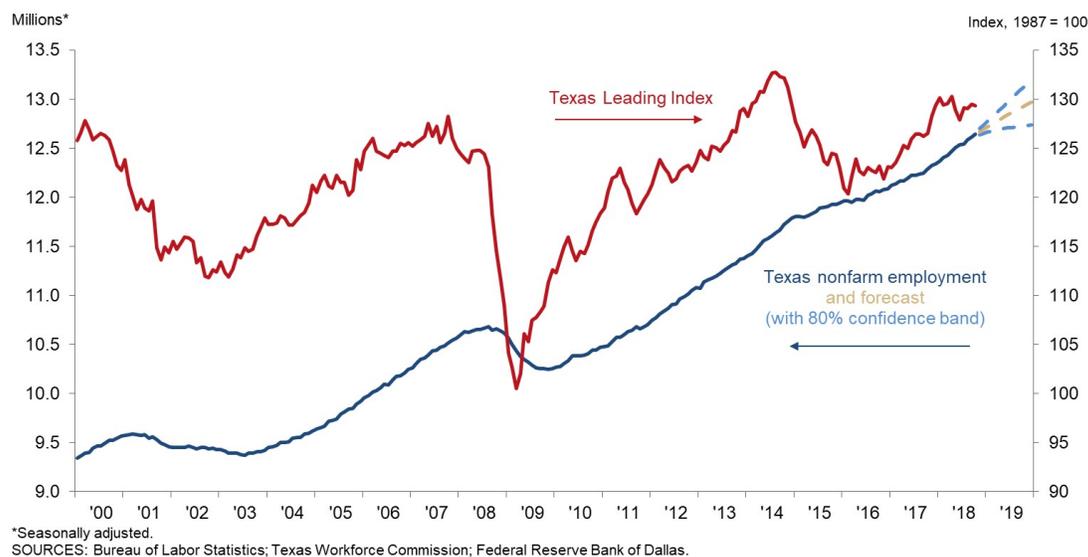
November 16, 2018

Incorporating October employment growth of 2.7 percent, an upward revision of job growth in September and a slight decline in the leading index, the Texas Employment Forecast suggests jobs will grow 2.9 percent this year (December/December), with an 80 percent confidence band of 2.5 to 3.3 percent. Based on the forecast, 353,000 jobs will be added in the state this year, and employment in December 2018 will be 12.7 million (*Chart 1*).

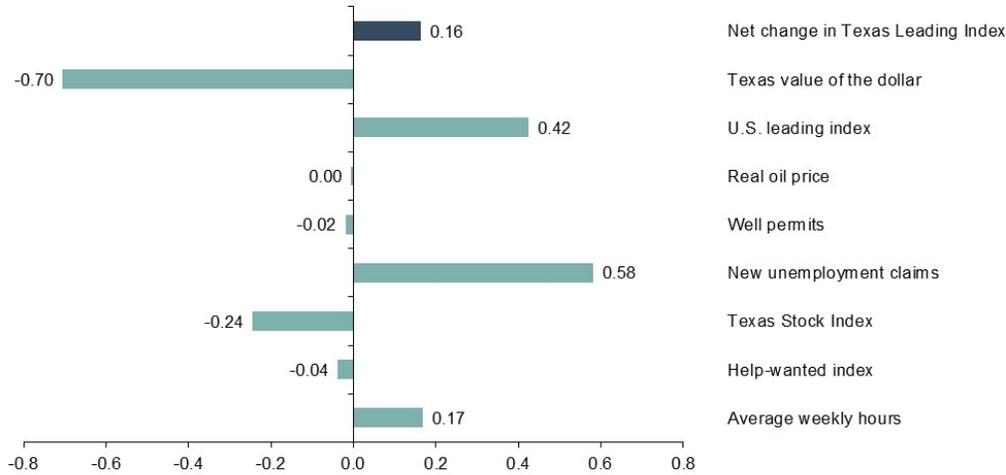
“Despite historically tight labor markets in Texas, jobs continue to grow at a strong pace,” said Keith R. Phillips, Dallas Fed assistant vice president and senior economist. “September job growth was revised up from 1.7 percent to 2.4 percent, resulting in a growth of 2.7 percent since midyear—slightly slower than the 3.1 percent in the first half. Most of the slowing has occurred in the goods-producing sectors of mining, manufacturing and construction, which grew at a very strong pace in first half of 2018. Job growth continues to be broad based across metro areas.”

The Dallas Fed’s Texas Leading Index increased a slight 0.2 percent over the three months ending in October (*Chart 2*). Growth was mixed across components, with declines in initial claims for unemployment insurance and strength in the U.S. leading index pulling the index up. A significant increase in the Texas value of the dollar and a decline in the stock prices of Texas companies suppressed the growth in the index, while other components had only slight impacts. Overall, the index suggests continued growth with some potential headwinds coming from slowing in the energy and export sectors.

**Chart 1**  
Texas Job Forecast Predicts 2.9 Percent Growth in 2018



**Chart 2**  
**Growth in Leading Index Components Mixed**  
**(Net contributions to change in Texas Leading Index)**



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

**Next release:** December 21, 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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