Texas Employment Forecast

Federal Reserve Bank of Dallas

January 18, 2019

Incorporating December job growth of 2.5 percent and a decline in the Texas Leading Index, the Texas Employment Forecast suggests jobs will grow 1.1 percent this year (December/December), with an 80 percent confidence band of -0.5 to 2.7 percent. Based on the forecast, 137,000 jobs will be added in the state this year, and employment in December 2019 will be 12.8 million (*Chart 1*).

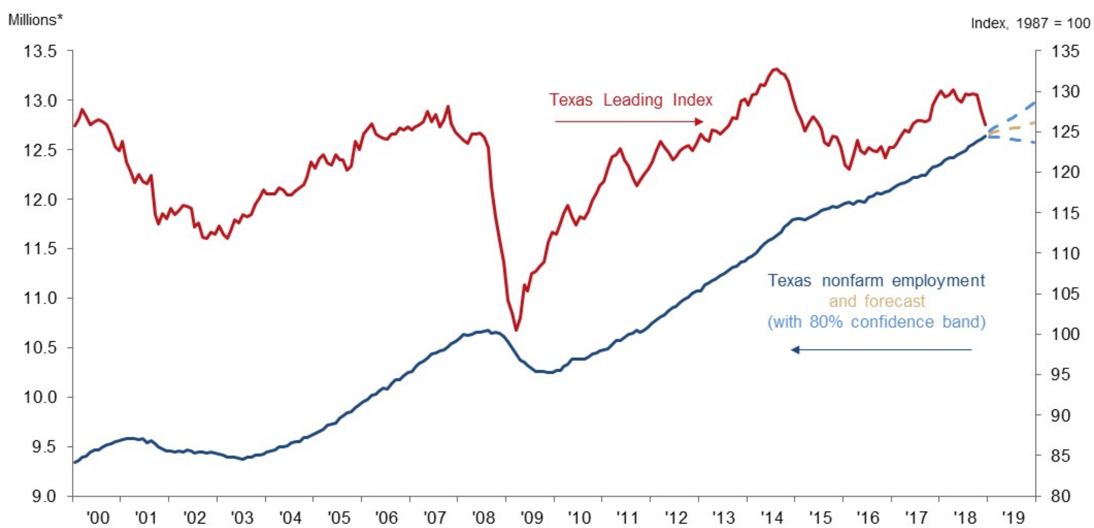
"As was discussed at the 2019 Texas Economic Outlook event on Tuesday, Texas is beginning the year with increased uncertainty due to the fourth-quarter decline in oil prices, trade uncertainty and volatility in financial markets," said Keith R. Phillips, Dallas Fed assistant vice president and senior economist. "Economic conditions will likely differ across the state this year as labor constraints limit growth along I-35 corridor and low oil prices slow growth in oil-producing regions."

With every release of new jobs data and leading indicators, more is learned about the momentum and outlook for employment growth and the forecast is adjusted. With the data released today, the forecast was adjusted slightly from what was released earlier in the week.

The Dallas Fed's Texas Leading Index decreased 3 percent over the three months ending in December (*Chart 2*). Growth was negative across almost all components, with a slight increase in average weekly hours worked in manufacturing being the one exception. The U.S. Leading Index and permits to drill new oil and gas wells declined only slightly, while the stock prices of companies with a large presence in Texas and real oil prices declined sharply. Moderate increases in new claims for unemployment insurance and the Texas export-weighted value of the dollar and a moderate decline in help-wanted advertising also contributed to the weaker outlook.

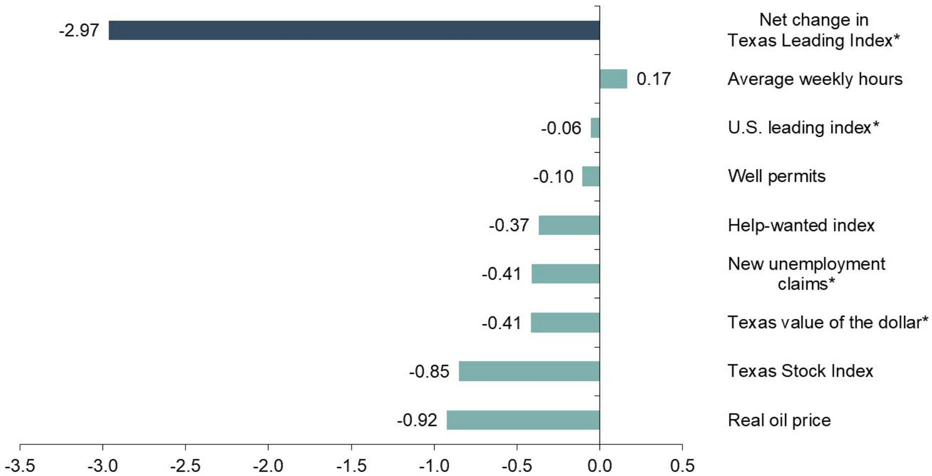
Overall, the index suggests some slowing of job growth in the months ahead with potential headwinds coming from weakening in the energy and export sectors and in overall earnings growth of Texas-based companies.

Chart 1
Texas Job Forecast Predicts 1.1 Percent Growth in 2019



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

Chart 2
Most Leading Index Components Post Negative Growth
(Net contributions to change in Texas Leading Index)



*These components have been estimated by the Dallas Fed for the latest month
NOTE: Three-month percent change through December, seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas.

Next release: March 8, 2019

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

For more information about the Texas Employment Forecast, contact Keith Phillips at keith.r.phillips@dal.frb.org.