

Texas Employment Forecast

Federal Reserve
Bank of Dallas

August 16, 2019

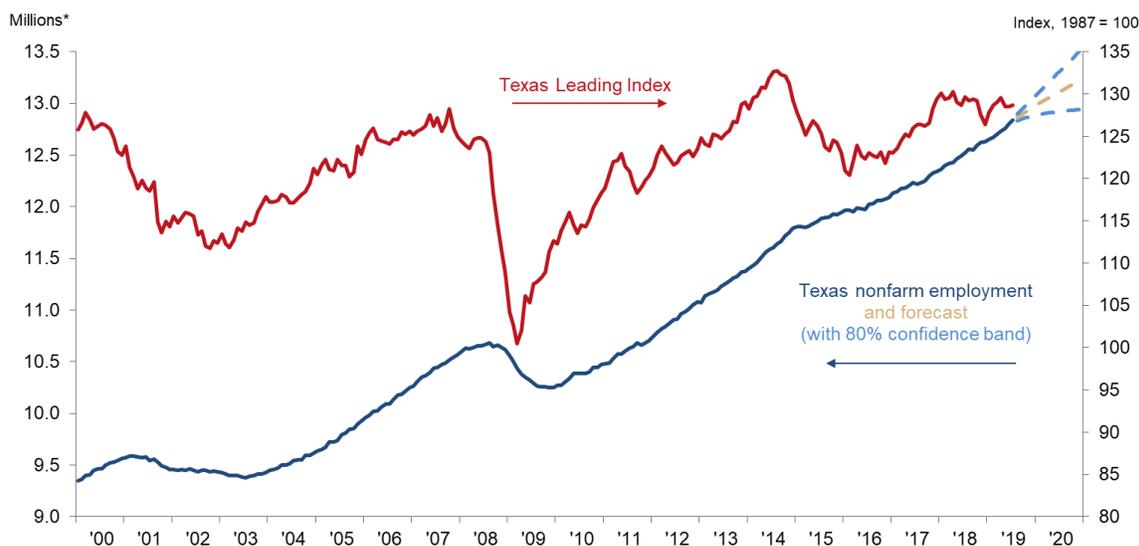
Incorporating July job growth of 3.4 percent and a slight increase in the leading index, the Texas Employment Forecast suggests jobs will grow 2.6 percent this year (December/December), with an 80 percent confidence band of 1.9 to 3.3 percent. Based on the forecast, 331,100 jobs will be added in the state this year, and employment in December 2019 will be 12.9 million (*Chart 1*).

“Despite continued declines in the energy sector, the Texas economy continues to grow at a strong pace,” said Keith R. Phillips, Dallas Fed assistant vice president and senior economist. “Growth in the construction, financial services and leisure and hospitality sectors has been particularly robust, while the manufacturing sector has picked up from modest growth in the first five months of the year.

“Dallas continues to grow rapidly, driven partly by the strength in financial services and construction, and Ft. Worth has recently picked up as manufacturing has improved. While job growth in Houston remains positive, it slowed in July likely due to the weakening in the energy sector.”

The Dallas Fed's Texas Leading Index increased slightly for the second consecutive month in July after a significant decline in May. Over the three months ending in July, the index declined a mild -0.7 percent, with five of the eight indicators showing declines. The oil price, average weekly hours worked in manufacturing and new claims for unemployment insurance gave the most negative signals. Slight declines in the U.S. leading index and permits to drill new oil and gas wells also pushed down the index. Partially offsetting these changes were mildly positive signals from the stock prices of Texas companies and the Texas value of the dollar. Overall, despite the acceleration in Texas jobs in June and July, the index suggests some slowing in the months ahead.

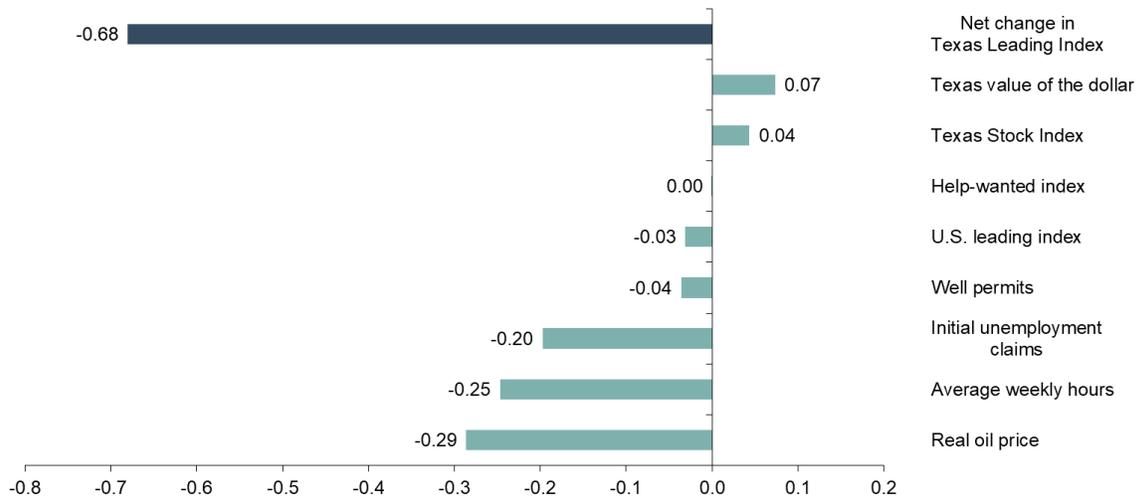
Chart 1
Texas Job Forecast Predicts 2.6 Percent Growth in 2019



*Seasonally adjusted.

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

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



NOTE: Three-month percent change through July, seasonally adjusted. Texas value of the dollar, U.S. leading index and new unemployment claims for July are preliminary estimates from the Dallas Fed.
 SOURCE: Federal Reserve Bank of Dallas.

Next release: September 20, 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

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