



Federal Reserve
Bank of Dallas

Texas Economic Performance and Outlook

(March, 2023)

“Employment Growth Still Strong, Inflation Too High”

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DISCLAIMER: The views expressed are the authors' and do not necessarily reflect the views of the Federal Reserve Bank of Dallas or Federal Reserve System.

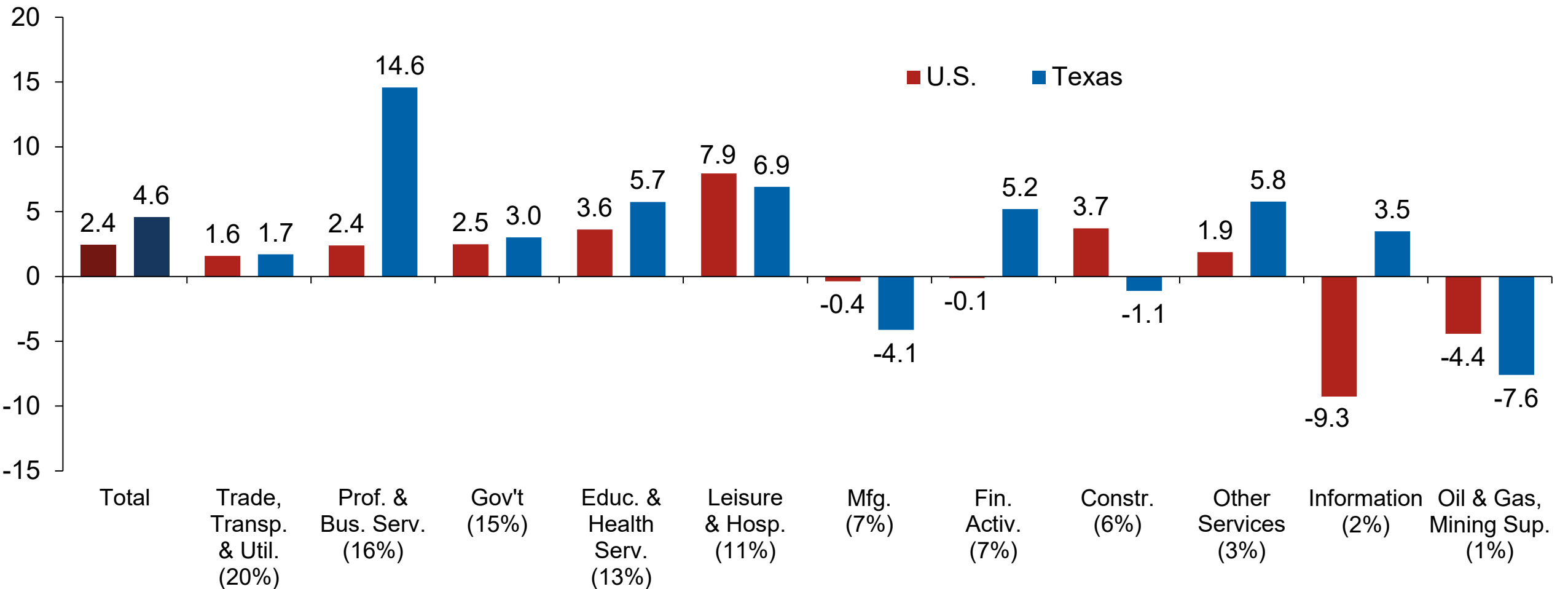
What's New: Labor market strength contrasts with slowing activity

- Texas employment grew 4.6 percent in February, and January growth was revised slightly down to 5.5 percent
 - Texas is growing faster than the nation (U.S. job growth was 2.4 percent in February)
- The Dallas Fed's Texas Employment Forecast indicates that jobs will increase 2.8 percent in 2023
- Despite strong jobs data, the Texas Business Outlook Surveys (TBOS) are mixed, with manufacturing contracting in February while the service sector grew at a modest pace
 - TBOS company outlook worsened but, surprisingly, less than one-third of survey participants expect demand to fall in 2023
- Most concerning to the outlook is price pressures, which show few signs of receding in either the payroll data or the surveys; the latest inflation data have also been high
 - Persistent price pressures may lead to additional monetary policy tightening, which will further slow activity in housing and construction, and dampen investment and consumer demand

Overall Economic Activity

Texas employment remains strong in February but gains in services mask losses in the goods sector

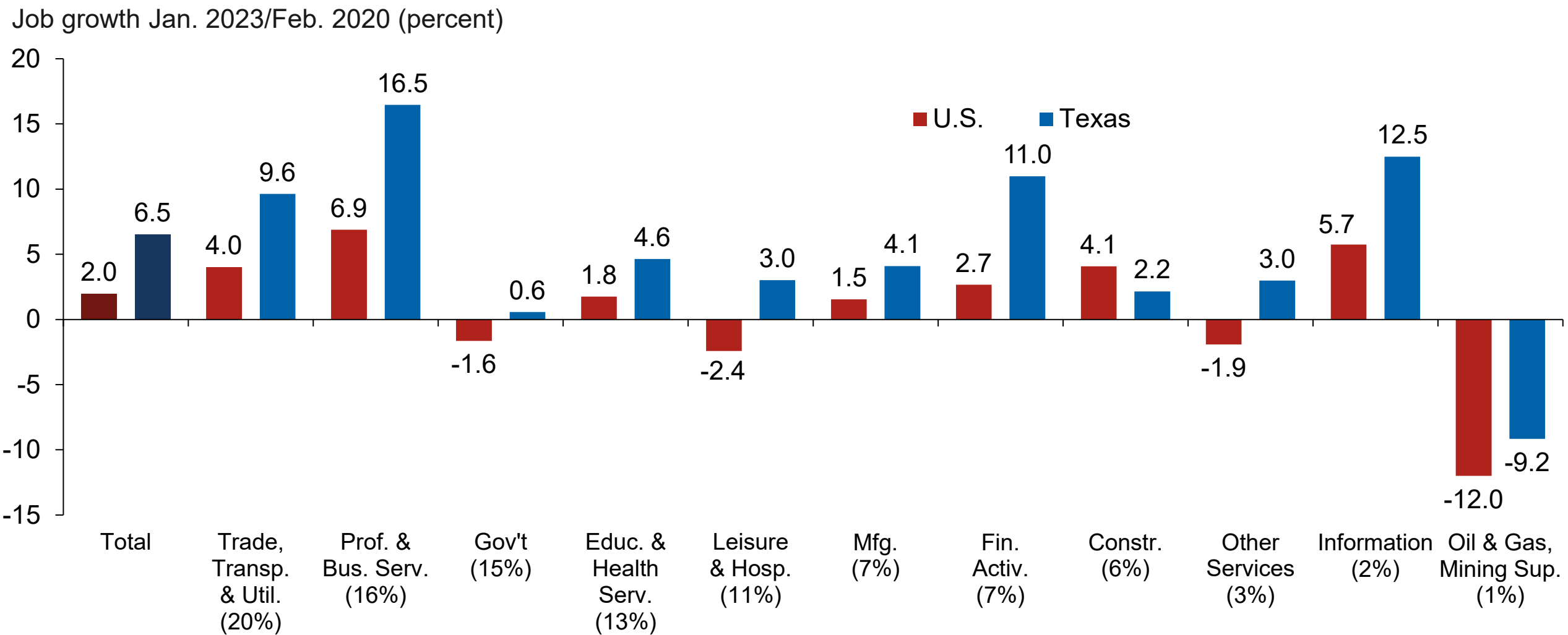
Job growth February 2023/January 2023 (percent)



NOTES: Data are seasonally adjusted and rates are annualized. Numbers in parenthesis indicate share of total state employment in February 2023.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.

In Texas, only energy has yet to recover all jobs lost in pandemic

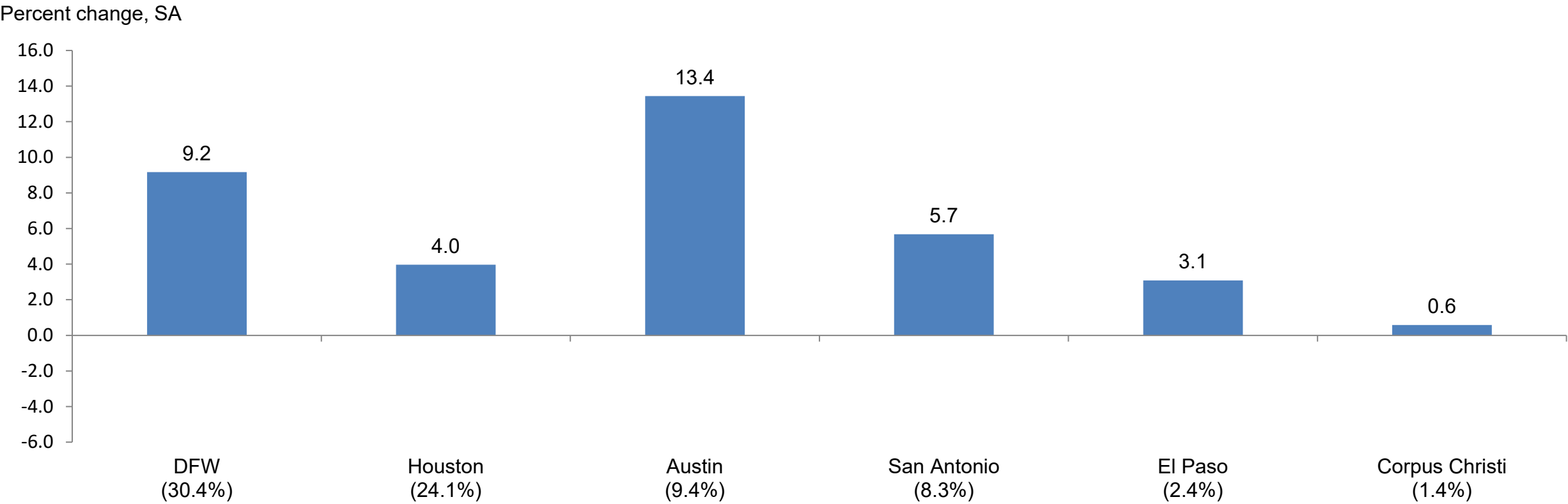


NOTE: Data show Feb. 2023/Feb. 2020 non-annualized job growth. Numbers in parenthesis indicate share of total state employment for February.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.

All major Tx metros have recovered jobs lost during the pandemic

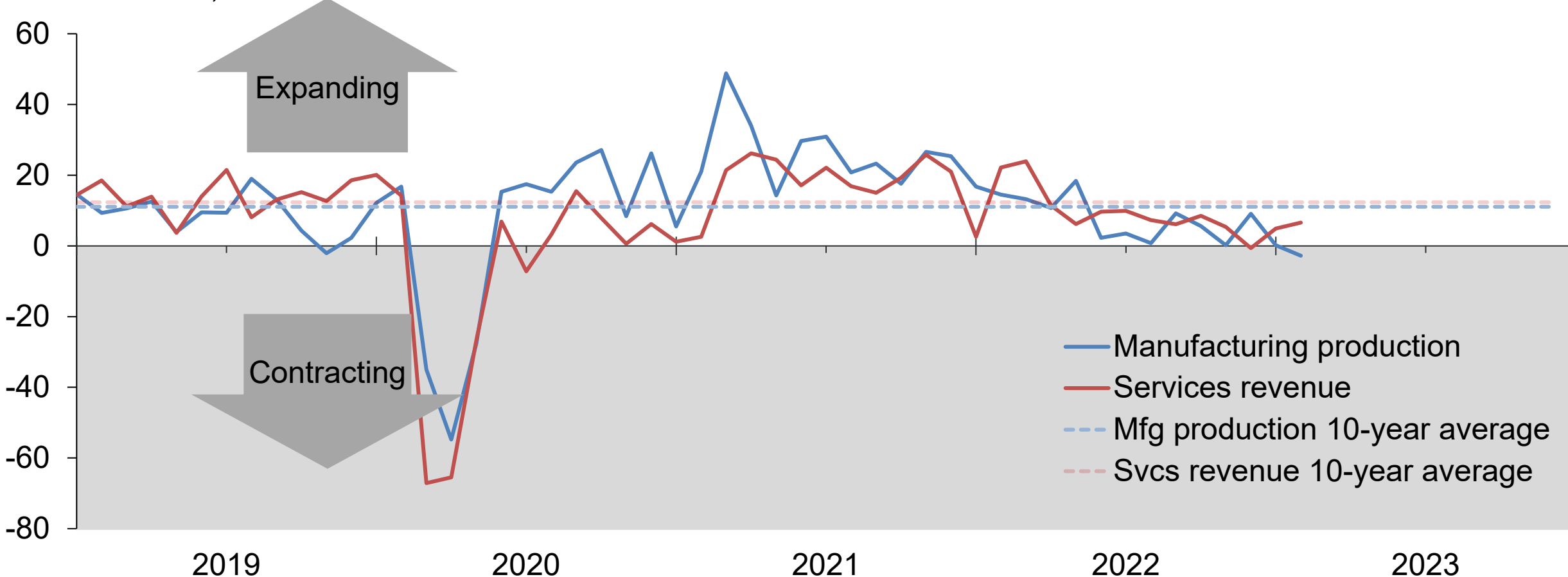
Employment Change by Major Metro (Feb. 2023/Feb. 2020)



NOTES: Data refer to Feb 2023/Feb. 2020 non-annualized job growth. Numbers in parentheses refer to share of state employment in February 2023.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.

Growth in manufacturing production and services revenue remain below long-term averages, according to Texas businesses

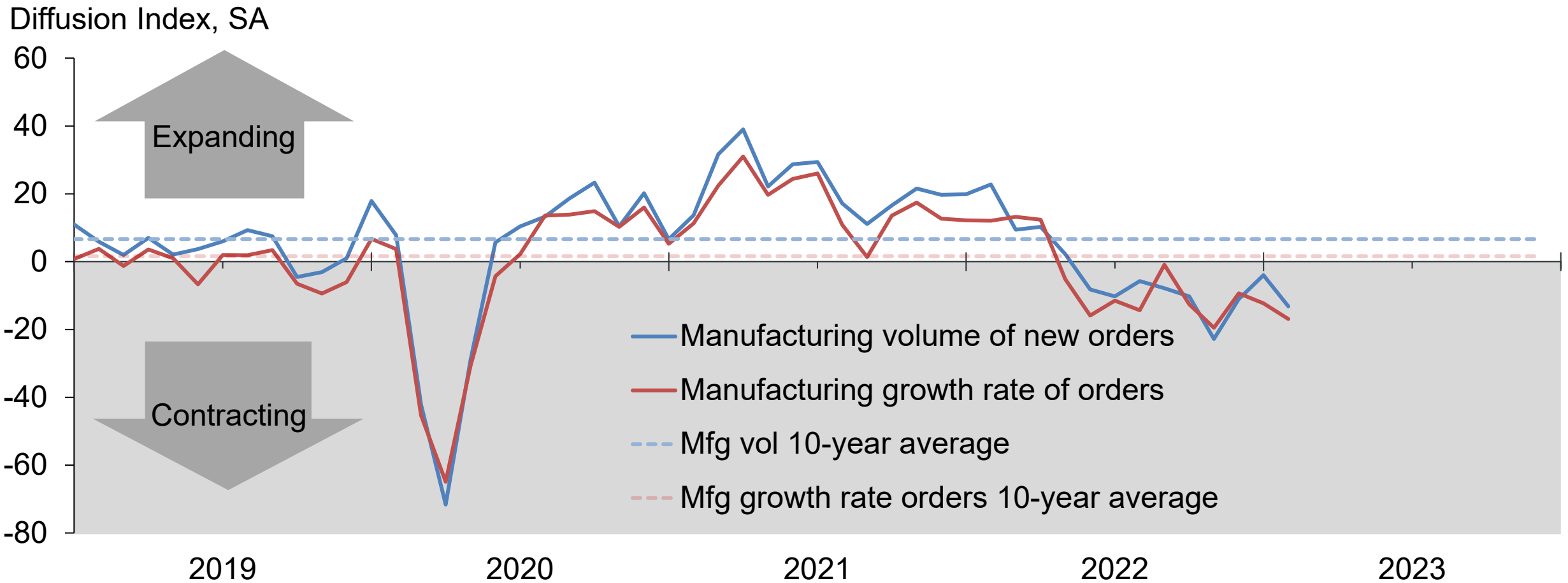
Diffusion Index, SA



NOTE: Data through February 2023.

SOURCE: Federal Reserve Bank of Dallas, Texas Business Outlook Survey

Texas Manufacturing: new orders continued to decline in February as production contracted

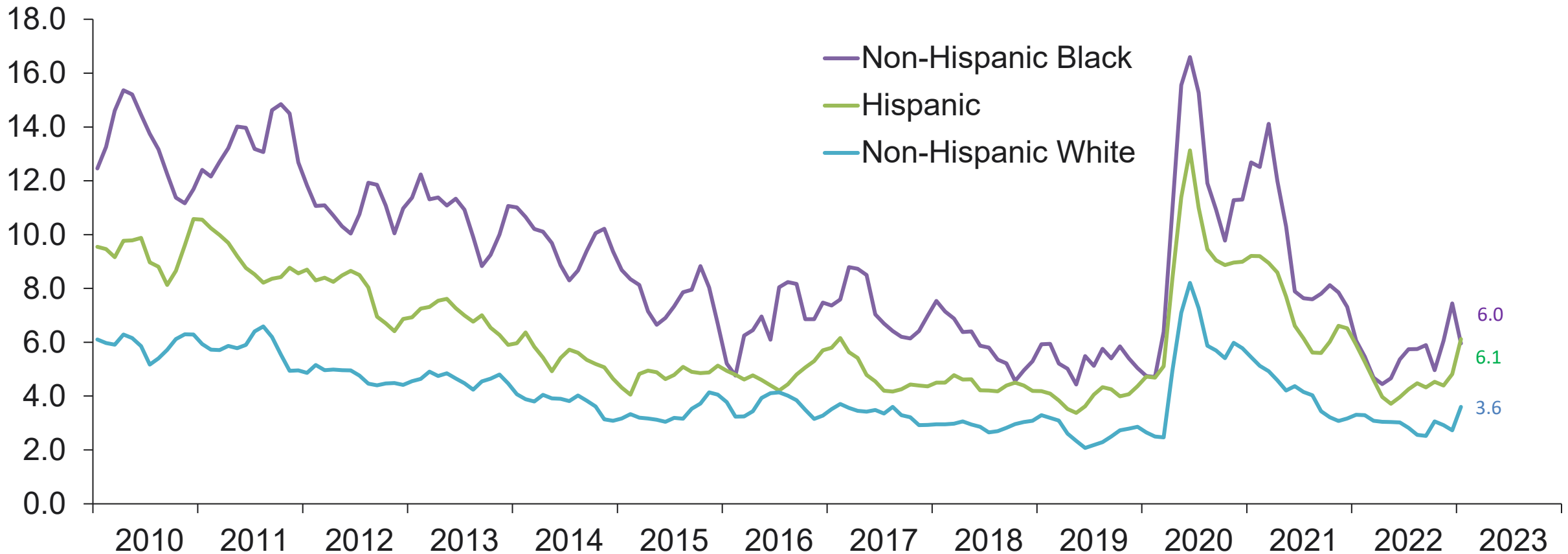


NOTE: Data through February 2023.

SOURCE: Federal Reserve Bank of Dallas, Texas Business Outlook Surveys

Unemployment rates by race/ethnic group trending up

Pct., seasonally adjusted, 3-mo. moving avg.

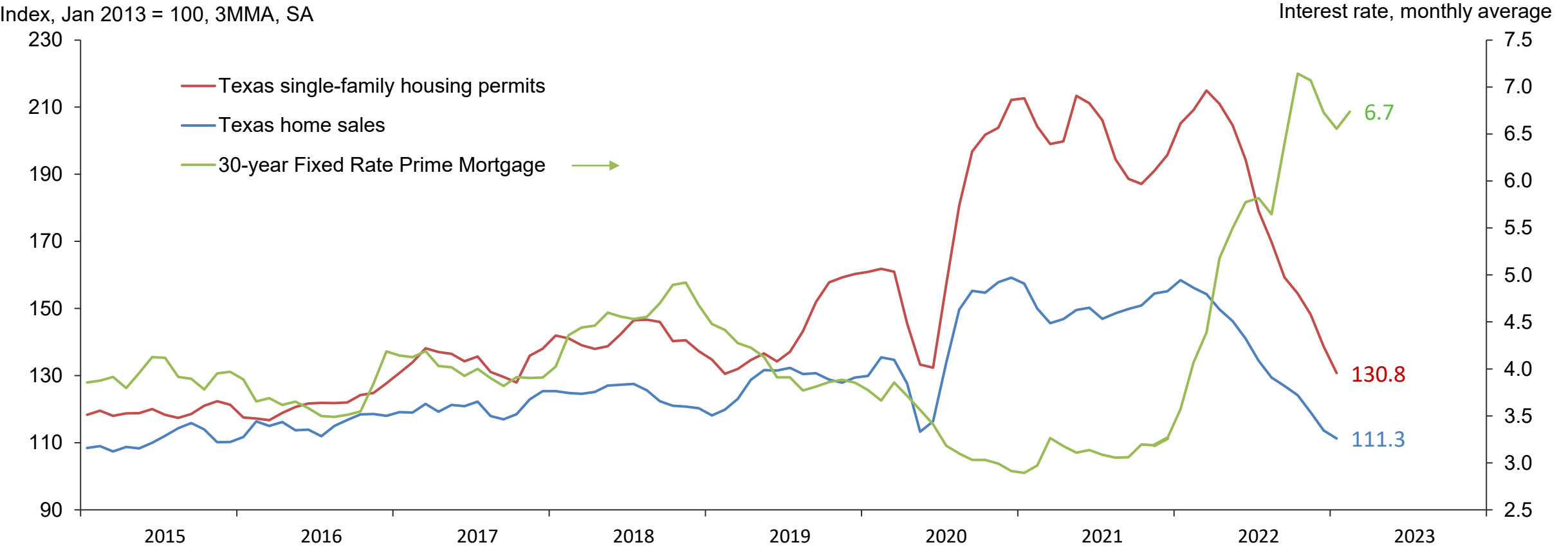


NOTE: Last data point February 2023.

SOURCE: Current Population Survey, authors' calculations.

Housing and Energy Industries

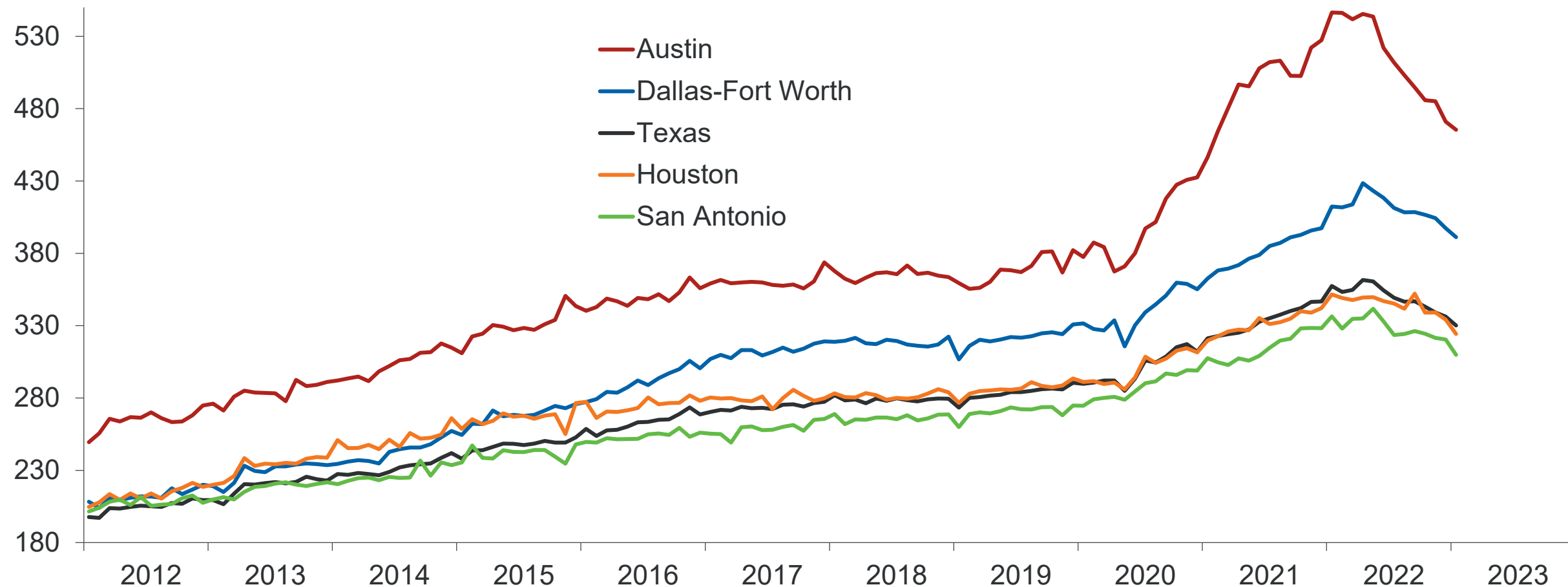
Housing: Single-family building permits and sales continue to decline as mortgage rates remain between 6 and 7 percent



NOTES: Texas single-family housing & home sales through February 2023, mortgage data through February 2023.
SOURCES: MLS; A&M Real Estate Center; Freddie Mac Primary Mortgage Market Survey; U.S. Census.

Home prices decline in February across Texas metros

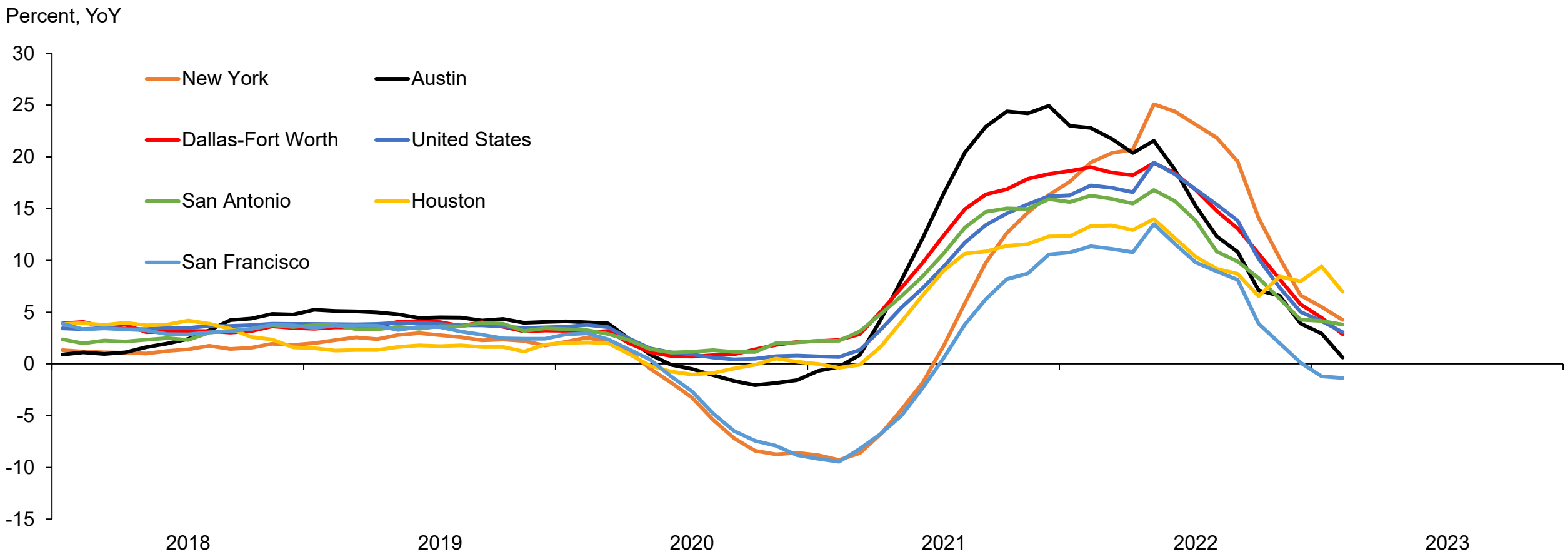
Thousands of dollars, SA



NOTES: Seasonally adjusted sales price, nominal. Data through February 2023.

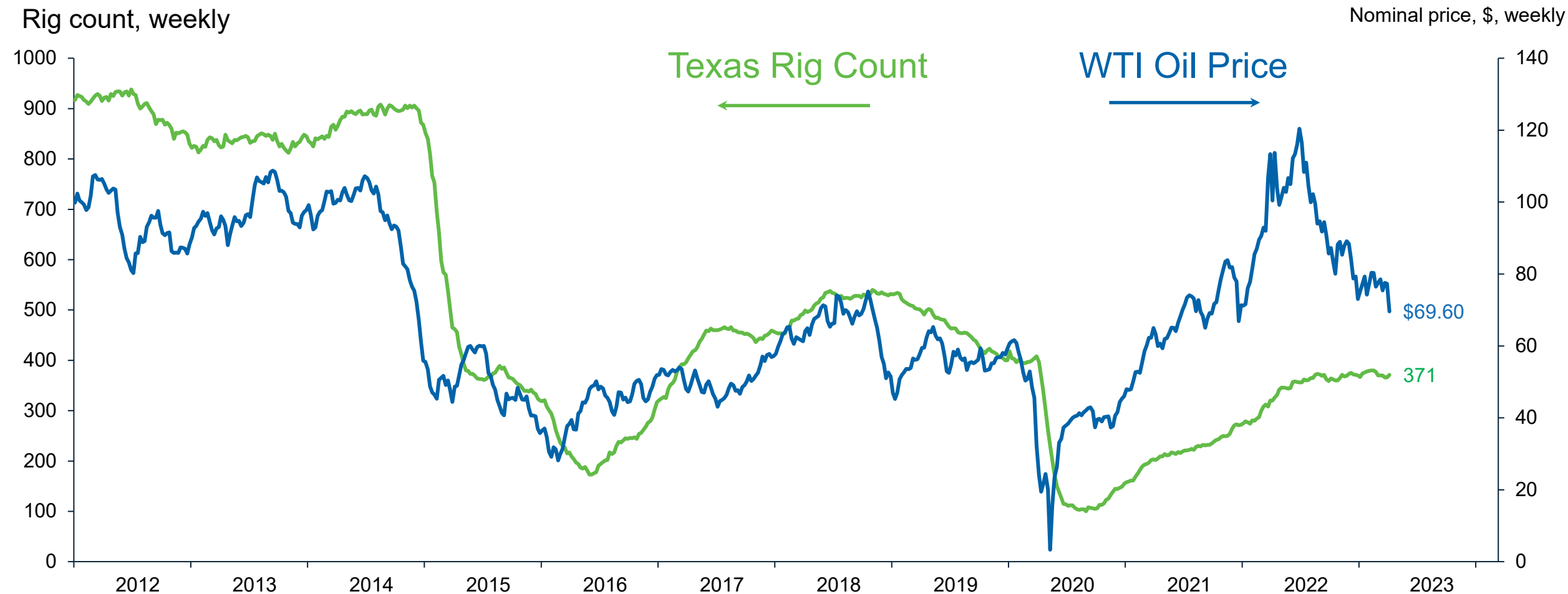
SOURCES: Multiple Listing Service, seasonal and other adjustments by FRB Dallas.

Apartment rent growth in Austin is below pre-pandemic levels (new leases), while in Houston remains above those levels



NOTE: Data through February 2023.
SOURCE: Zillow

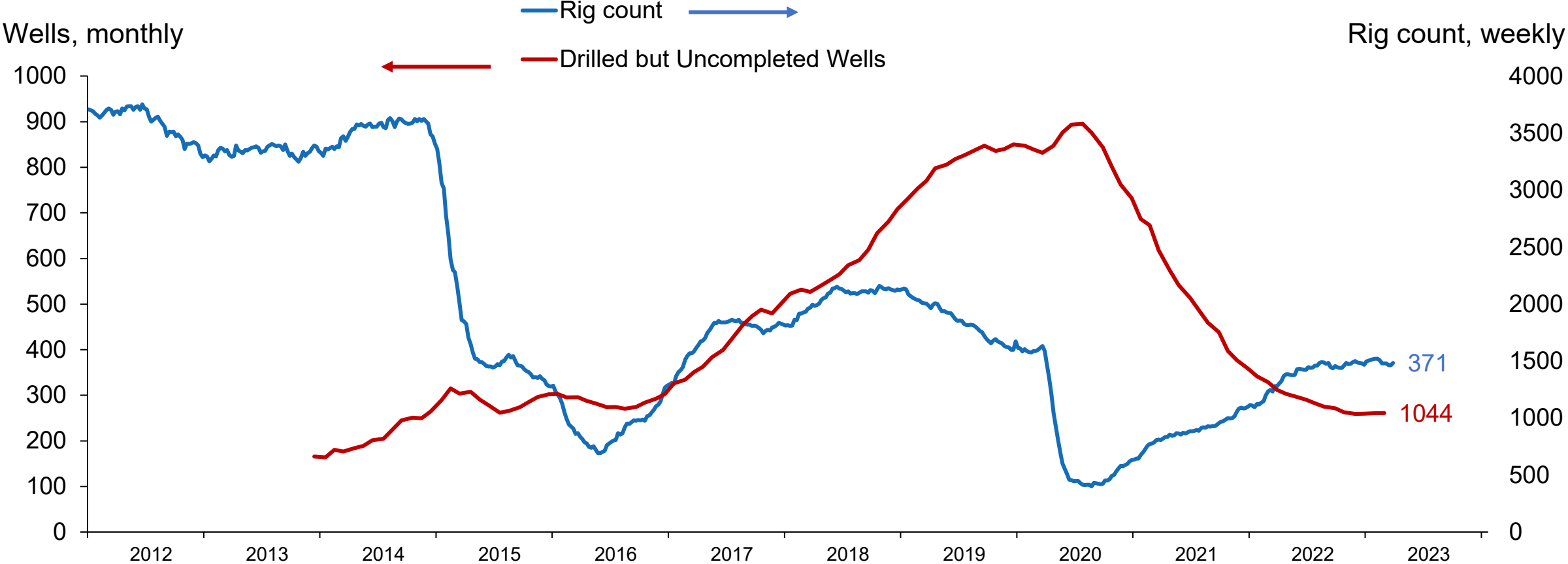
Oil prices are falling and the rig count has stopped rising



NOTES: Data are weekly through March 11, 2023.

SOURCES: Energy Information Administration; Baker Hughes.

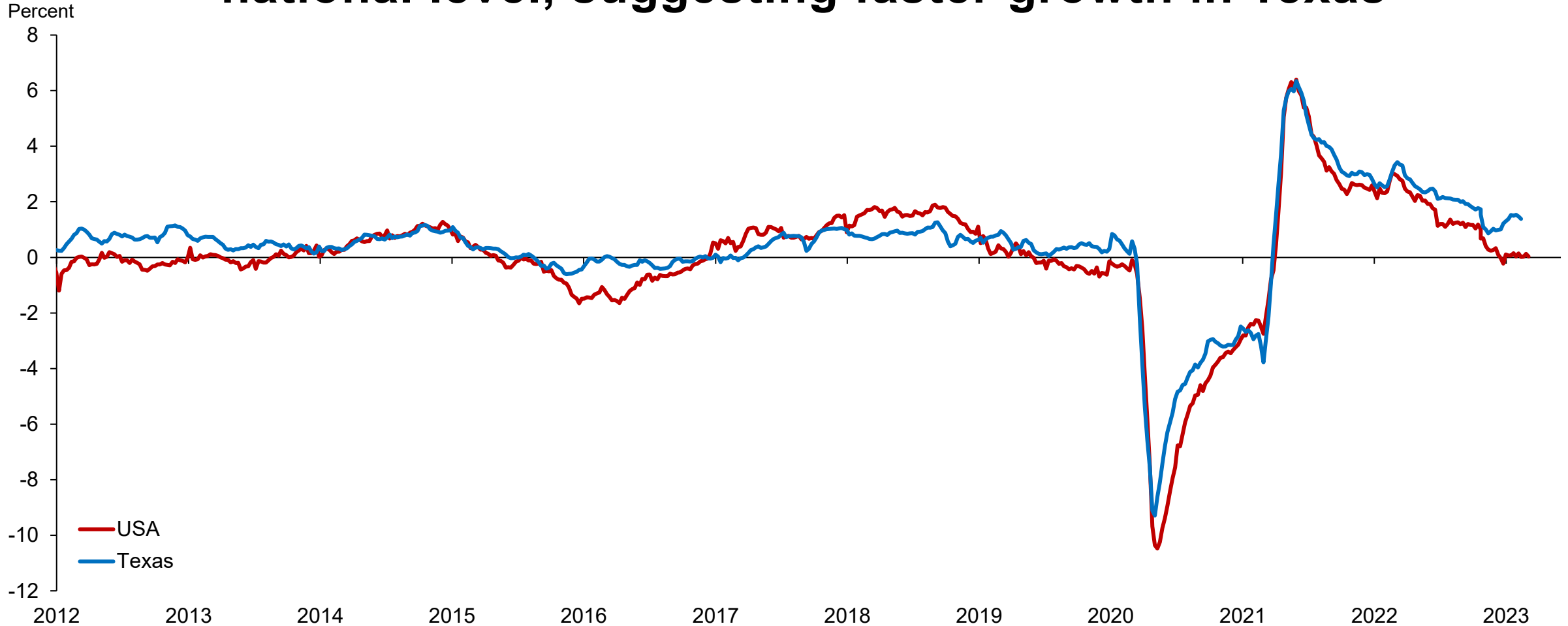
DUC declines have reached a trough as rig count flattens



NOTES: Well data through February 2023. Rig count data through Mar 11, 2023. Rig count is for Texas, drilled but uncompleted wells are for Permian Basin.
SOURCES: Energy Information Administration; Baker Hughes.

High-Frequency Data

Texas weekly economic conditions index remains above national level, suggesting faster growth in Texas



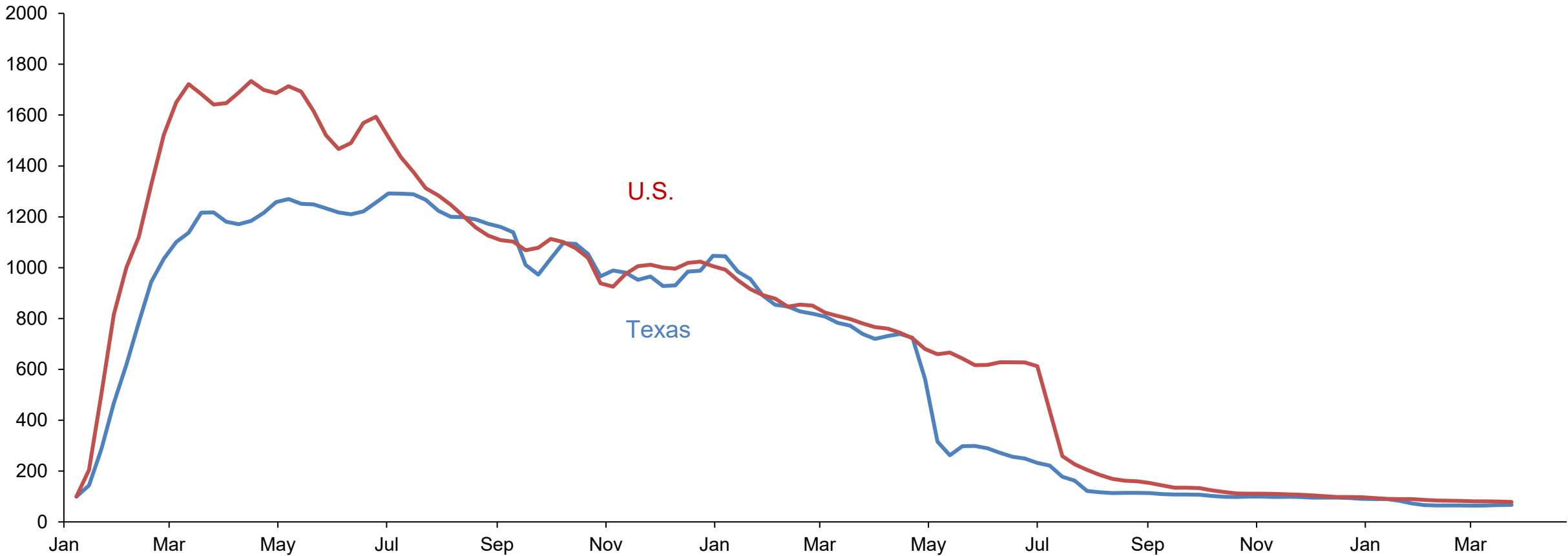
NOTES: Texas data through February 28, US data through March 11

SOURCE: University of Notre Dame

Total jobless claims still below pre-pandemic level in Texas

Total claims, initial and continuing

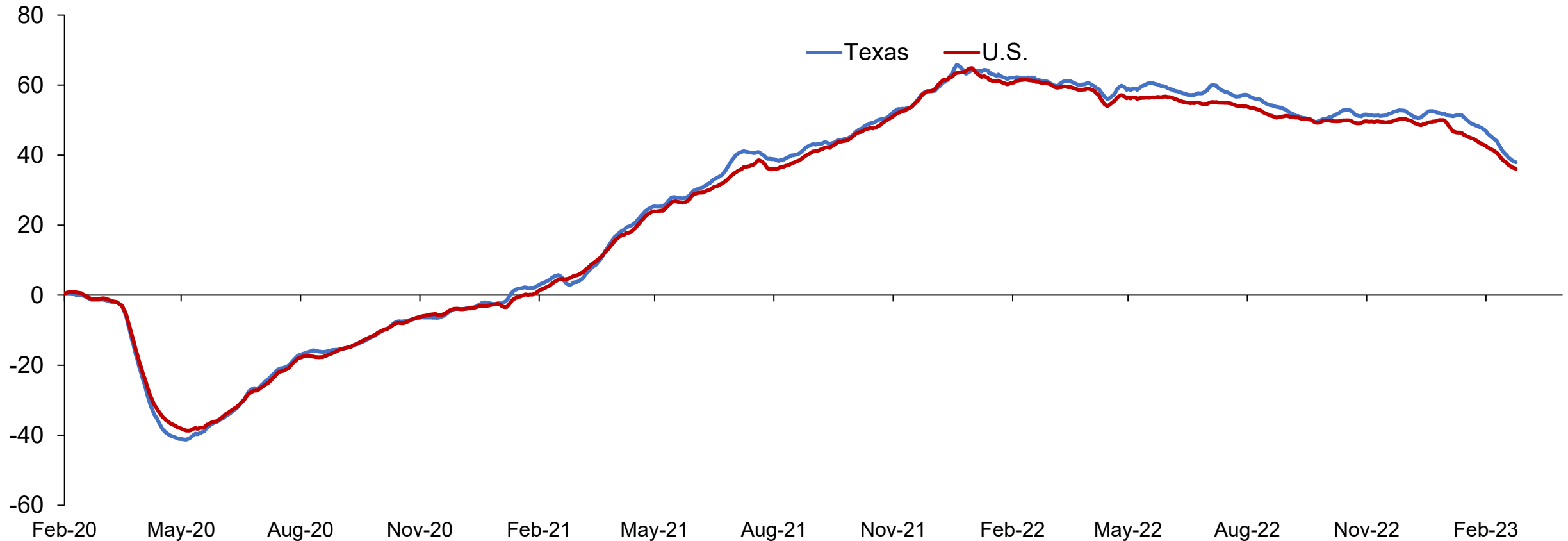
2 week moving average, Index, second week of March 2020 = 100



NOTES: Unemployment claims data through the week ending March 24 and include states UI and federal PUA, PEUC and EB when available.
SOURCES: Department of Labor.

Texas job postings trending down slightly but remain well above pre-pandemic levels

% change from Feb. '20



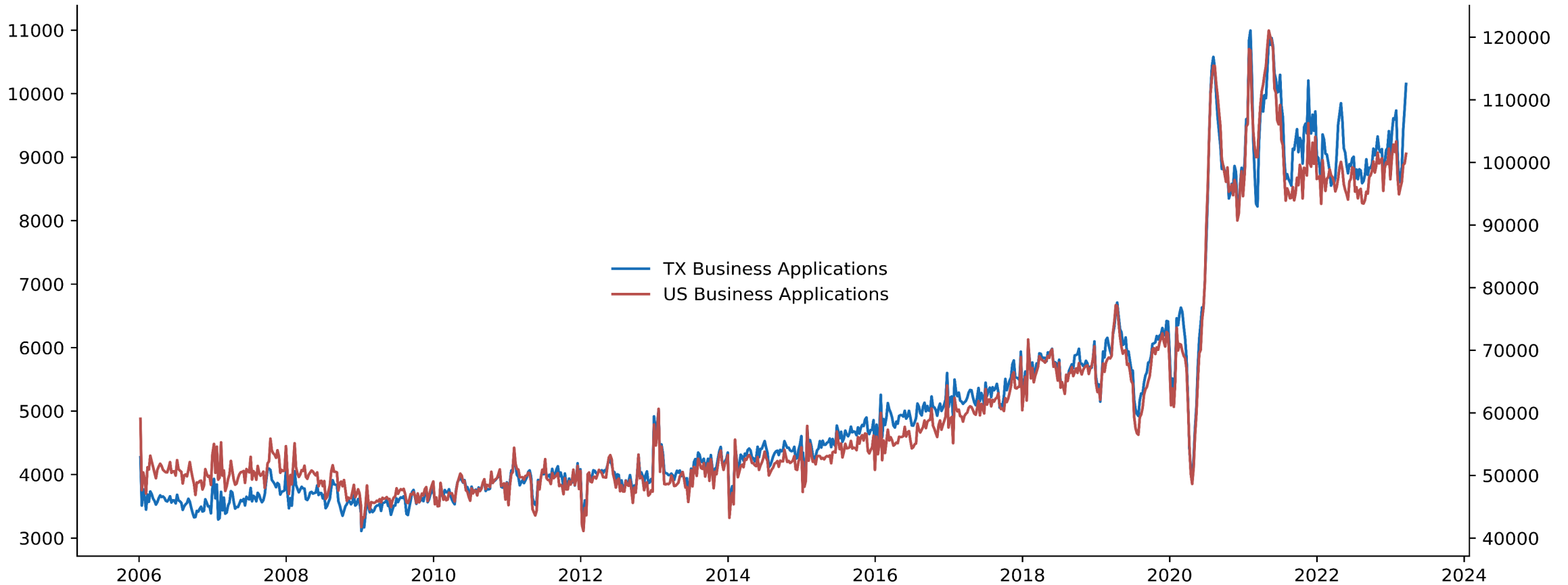
NOTE: U.S. and Texas data daily through February 25th, 2023.

SOURCE: Indeed.

New business applications increased sharply during the pandemic, remain elevated

TX Applications, SA, 4WMA

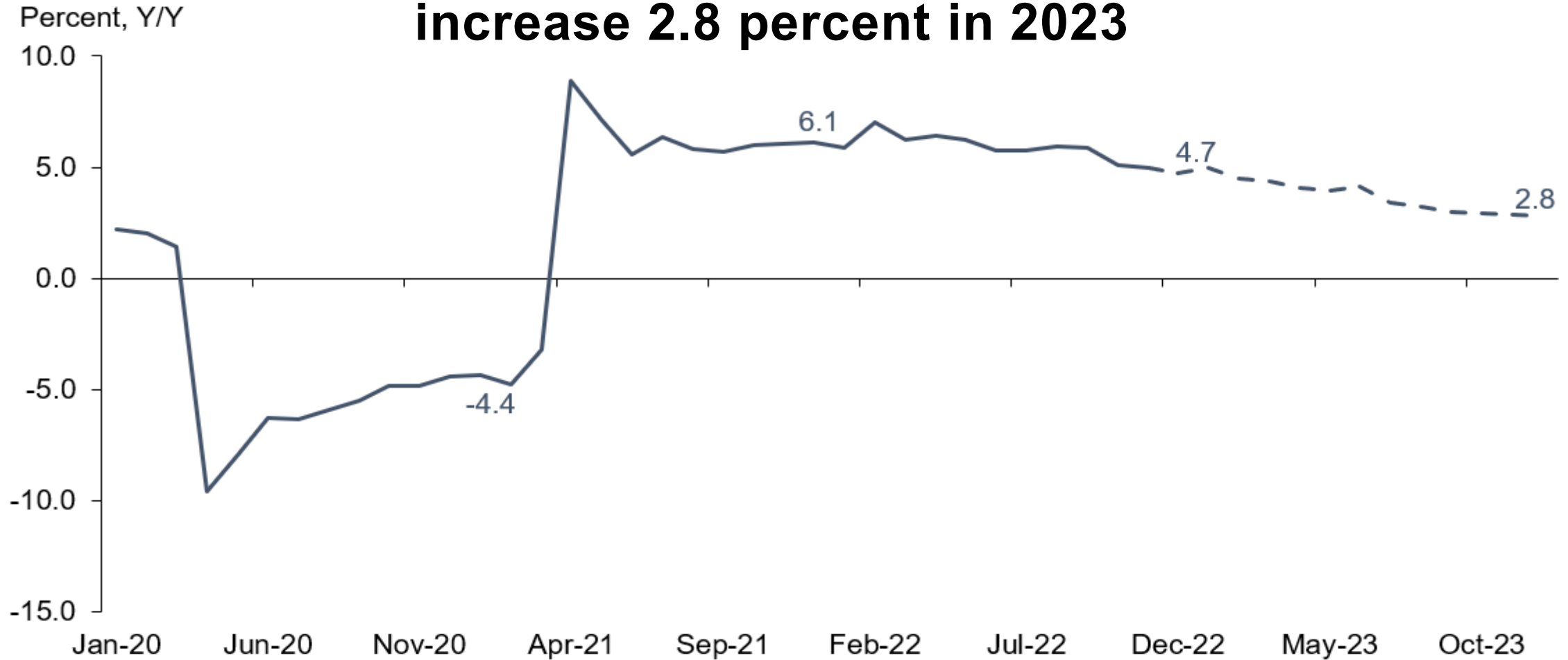
US Applications, SA, 4WMA



NOTE: Data through March 19.
SOURCES: U.S. Census Bureau.

Outlook for 2023

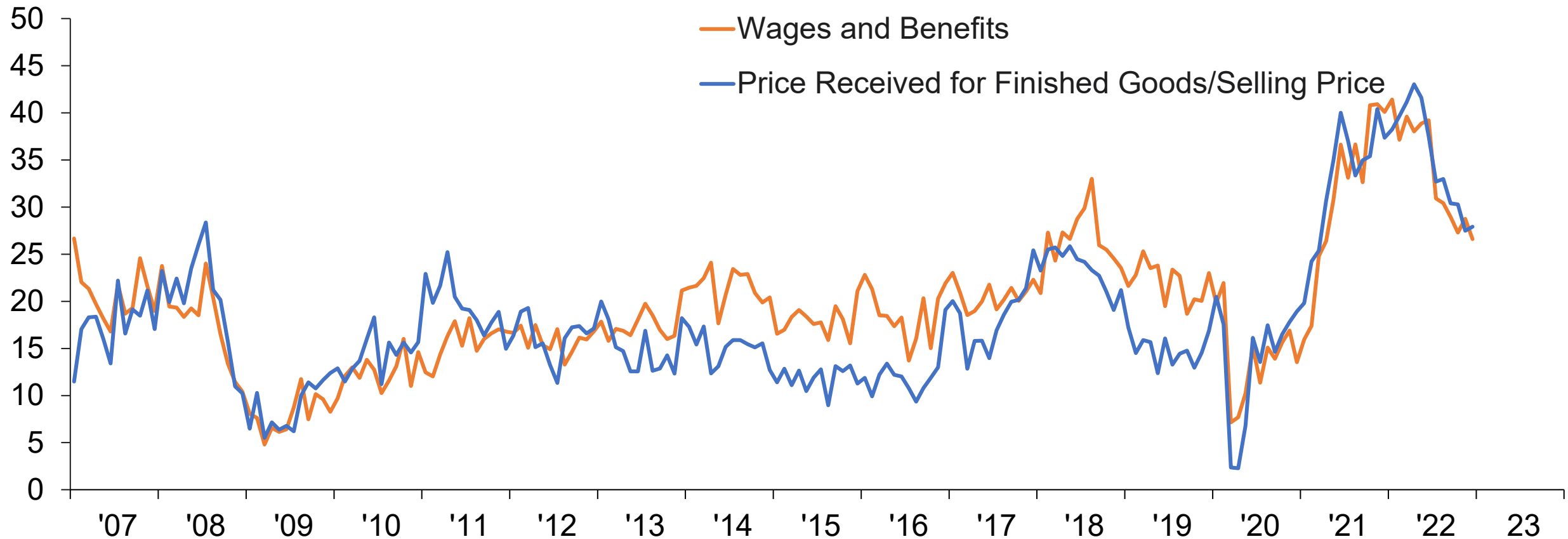
The Texas Employment Forecast indicates that jobs will increase 2.8 percent in 2023



NOTE: The Dallas Fed Texas Employment Forecast is based on the average of four models. Three models are VARs where Texas payroll employment is regressed on WTI oil prices, the US leading index and the Texas leading index, respectively. The fourth model is a regression of payroll employment on lags of payroll employment, expectations for U.S. GDP growth, and WTI oil prices, and four COVID-19 dummy variables (March-June 2020).

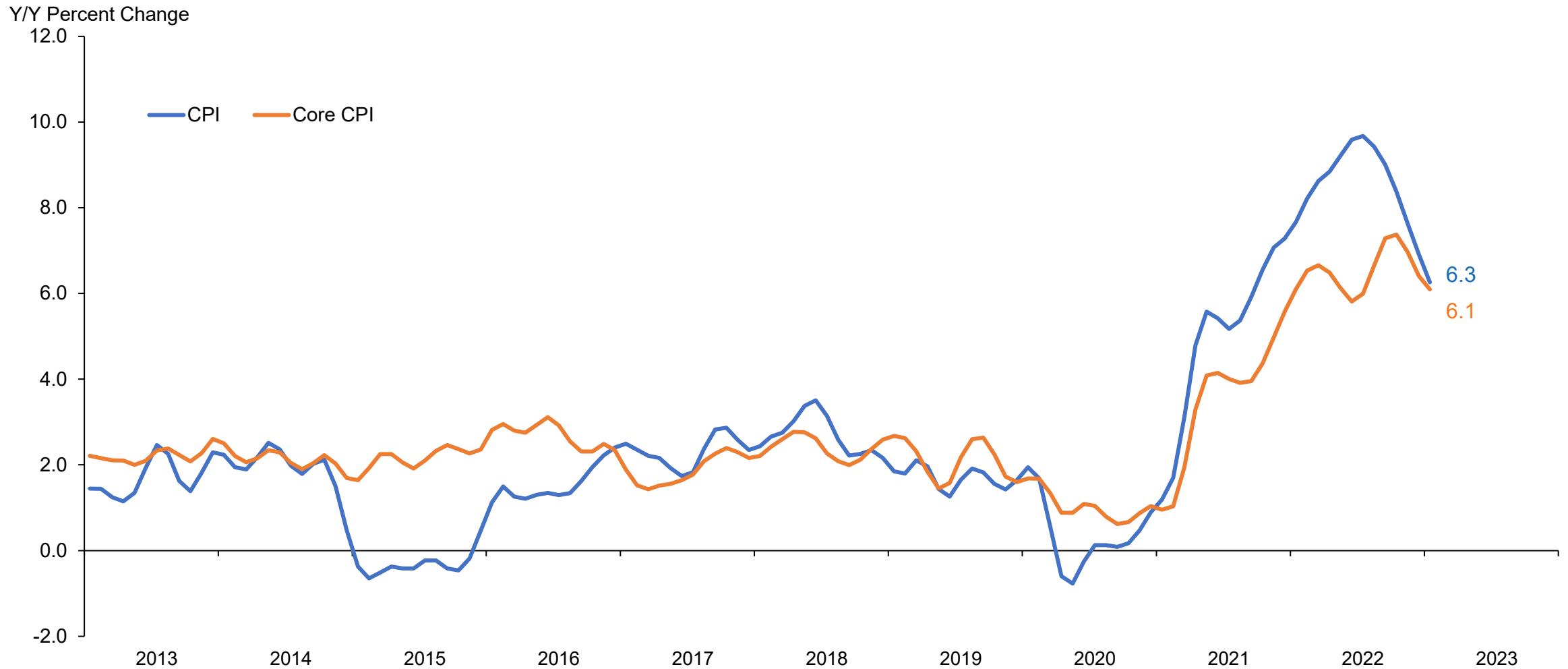
While a shrinking share of Texas firms is raising prices and wages, it is still far above average, pointing to continued high inflation

Percent Reporting Increase



NOTE: Percent reporting increase was constructed by weighing the respective component of TMOS, TSSOS, and TROS according to GDP shares. Data through Feb. 2023.
SOURCE: Texas Business Outlook Surveys, Federal Reserve Bank of Dallas.

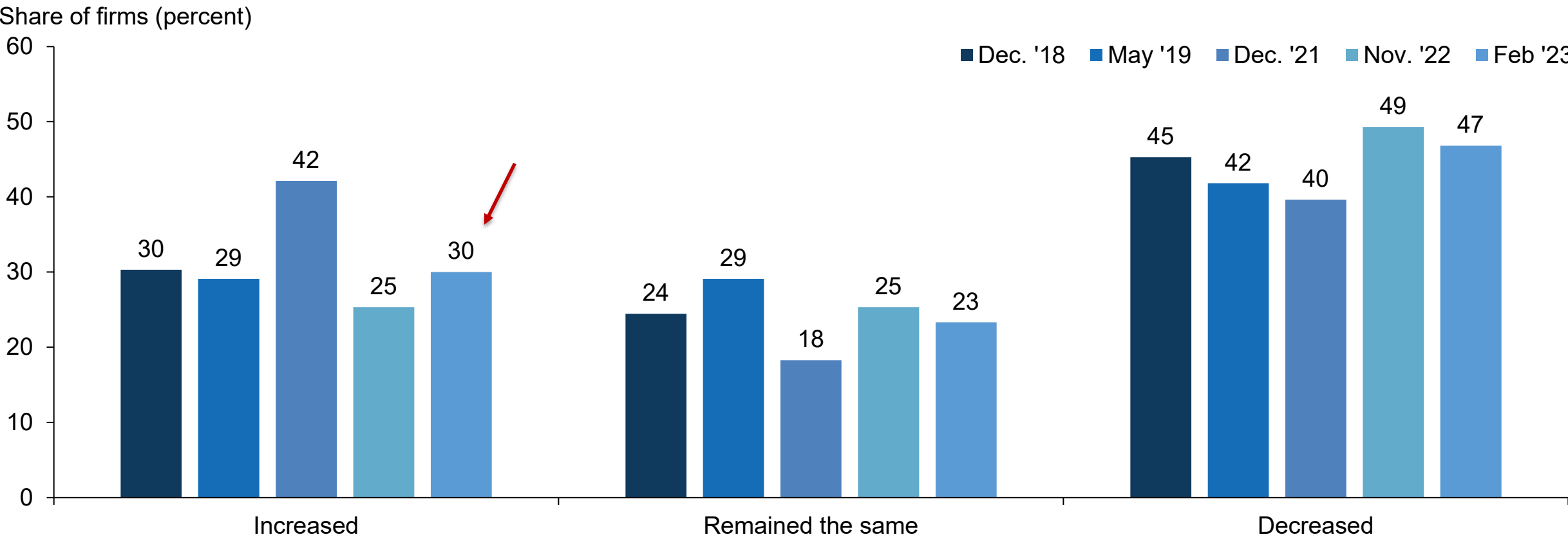
CPI Inflation in Texas declining but still too high



NOTES: Texas CPI data through February 2023

SOURCES: Bureau of Labor Statistics

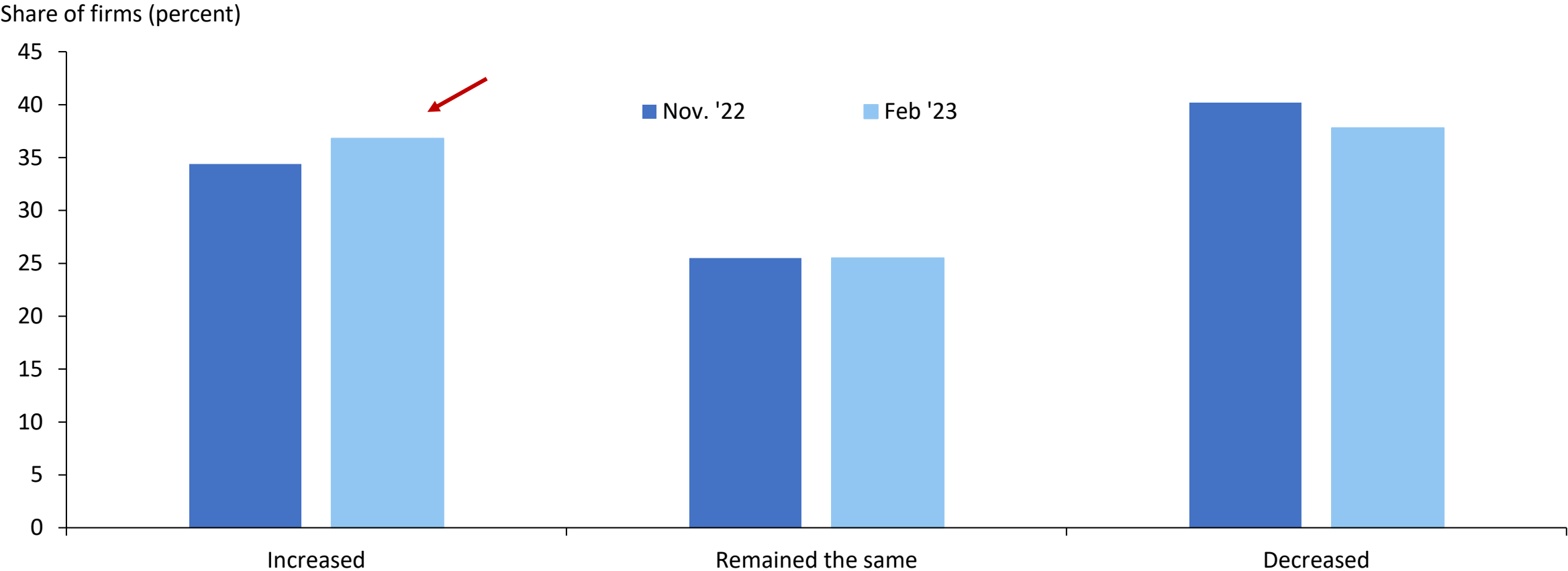
Share of Texas firms reporting an increase in operating margins in the past six months rose



NOTE: Respondents were asked, "How has your firm's operating margin, defined as earnings before interest and taxes (EBIT) as a share of total revenue, changed over the past six months?"

SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

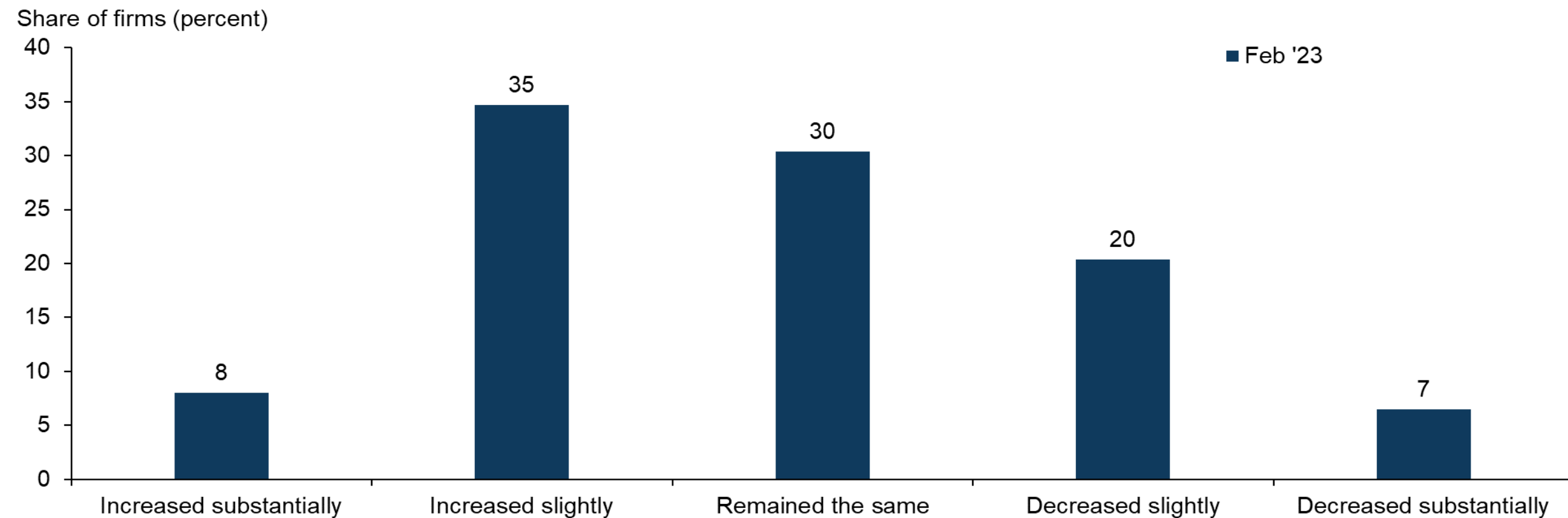
Share of Texas firms expecting an increase in operating margins in the next six months also rose



NOTE: Respondents were asked, "How do you expect your firm's operating margin, defined as earnings before interest and taxes (EBIT) as a share of total revenue, to change over the next six months?" (n=400).

SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

What recession? Texas firms are expecting an increase in demand in 2023



NOTE: Respondents were asked, "How do you expect demand for your firm's goods and/or services this year to compare with 2022?"

SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

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