Texas Economic Performance and Outlook
(July 2023)
“Employment Growth Slows, Inflation Still High”

Pia Orrenius and Luis Torres
Federal Reserve Bank of Dallas
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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: Job growth slows in June

Texas employment grew 2.1 percent in June, while May growth was revised down to 3.2 percent; Year to date growth is 3.2 percent, below 2022 growth of 4.1 percent.
- Texas is still growing faster than the nation (U.S. job growth was 1.6 percent in June)

The Dallas Fed’s Texas Employment Forecast indicates that jobs will increase 2.5 percent in 2023 (down from 2.8 percent last month).
- The current forecast implies 1.8 percent growth (annualized) in the rest of the year

Texas Business Outlook Surveys (TBOS) continue to signal sluggish growth, with contracting manufacturing production and slow service sector revenue growth in June.

Companies stick to capital expenditure plans despite higher interest rates.
- Businesses who are reducing investment this year attribute that to economic uncertainty and reduced profits. However, among those who invest, most are focused on updating technology.
Overall Economic Activity
Texas employment growth slows in June on weak service sector; construction employment surges

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

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.
DFW leads metro job growth year to date in 2023

Employment Change by Major Metro (June 2023/Dec. 2022)


SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.

Federal Reserve Bank of Dallas
All sectors except oil & gas recovered from pandemic lows in Texas

Job growth June 2023/February 2020 (percent)

NOTES: Data are seasonally adjusted. Numbers in parenthesis indicate share of total state employment in June 2023.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.
Top 5 Texas metros fully recovered from the pandemic

Employment Change by Major Metro (June 2023/February 2020)

Percent change, SA

- DFW (30.5%)
  - Employment Change: 8.9%

- Houston (24.0%)
  - Employment Change: 4.2%

- Austin (9.5%)
  - Employment Change: 14.2%

- San Antonio (8.3%)
  - Employment Change: 6.1%

- El Paso (2.4%)
  - Employment Change: 2.4%


SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.
Texas firms report growth in mfg production turns negative and services revenue growth remains below its long-term average

NOTE: Data through June 2023.
SOURCE: Federal Reserve Bank of Dallas, Texas Business Outlook Surveys
Texas Manufacturing: New orders continued to decline in June

NOTE: Data through June 2023.
SOURCE: Federal Reserve Bank of Dallas, Texas Business Outlook Surveys
Unemployment rates stable/falling for Black and Hispanic workers

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

NOTE: Last data point June 2023.
Housing and Energy Industries
Housing: Single-family building permits rebound while existing-home sales stabilize

Index, Jan 2013 = 100, 3MMA, SA

- Texas single-family housing permits
- Texas home sales
- 30-year Fixed Rate Prime Mortgage

NOTES: Texas single-family housing permits and existing-home sales data through May 2023. Mortgage data through June 2023

SOURCES: MLS; A&M Real Estate Center; Freddie Mac Primary Mortgage Market Survey; U.S. Census.
Texas housing prices stabilize although some metros still see declines

SOURCES: Multiple Listing Service, seasonal and other adjustments by FRB Dallas.
Apartment rent growth ticks up (new leases)

NOTE: Data are seasonally adjusted and are through May 2023. SOURCE: Zillow.
11th District energy activity weaker in 2nd quarter 2023

Current index, quarterly

NOTES: Indexes cover changes from the prior quarter. Data are not seasonally adjusted.
Rig count falls but oil prices stabilize

NOTES: Data are weekly through July 14th, 2023.
SOURCES: Energy Information Administration; Baker Hughes.
DUCs are low too, won’t make up for lagging rig count

NOTES: Well data through June 2023. Rig count data through July 14th, 2023. Rig count is for Texas, drilled but uncompleted wells are for Permian Basin.
SOURCES: Energy Information Administration; Baker Hughes.
High-Frequency Data
Total jobless claims still below pre-pandemic level in Texas

NOTES: Unemployment claims data through the week ending July 8th and include states UI and federal PUA, PEUC and EB when available.

SOURCES: Department of Labor.
Texas and US job postings trending down

% change from Jan. ‘22

Texas
U.S.

NOTE: U.S. and Texas data daily through July 14th, 2023.
SOURCE: Indeed.
New business applications increased sharply during the pandemic, now turning down.
Outlook for 2023
The Texas Employment Forecast indicates that jobs will increase 2.5 percent in 2023 after rising 4.1 in 2022.

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, WTI oil prices, and four COVID-19 dummy variables (March-June 2020).

SOURCE: Texas Workforce Commission; Bureau of Labor Statics; Federal Reserve Bank of Dallas.
A high but shrinking share of Texas firms is raising prices and wages

Percent Reporting Increase

- Wages and Benefits
- Price Received for Finished Goods/Selling Price

NOTE: Percent reporting increase was constructed by weighing the respective component of TMOS, TSSOS, and TROS according to GDP shares. Data through June 2023.

CPI Inflation in Texas is falling fast but core CPI is not

NOTES: Texas CPI data through May 2023.
Firms have slightly revised down their expectations for wage and price pressures in 2023.

NOTES: Shown are trimmed means with the lowest and highest five percent of responses omitted.
Firms fear potential recession, high labor costs above other factors

- Weakening demand/potential recession: Jun. '23 (55%), Mar. '23 (54%), Dec. '22 (56%)
- Higher labor costs: Jun. '23 (32%), Mar. '23 (39%), Dec. '22 (43%)
- Higher cost of credit/interest rates: Jun. '23 (32%), Mar. '23 (34%), Dec. '22 (36%)
- Elevated input costs/inflation: Jun. '23 (33%), Mar. '23 (36%), Dec. '22 (36%)
- Labor shortages/difficulty hiring: Jun. '23 (32%), Mar. '23 (35%), Dec. '22 (38%)
- Increased taxes and regulation: Jun. '23 (17%), Mar. '23 (16%), Dec. '22 (18%)
- Supply chain disruptions: Jun. '23 (12%), Mar. '23 (16%), Dec. '22 (22%)
- Geopolitical uncertainty/Russia-Ukraine war: Jun. '23 (9%), Mar. '23 (11%), Dec. '22 (11%)

NOTE: Participants were asked, "What are the primary concerns around your firm's outlook over the next six months, if any? Please select up to three." N = 356 in June.
Most firms are still understaffed; among those who are overstaffed, most are hanging on to their workers.

NOTE: Participants were asked, "What is your assessment of your firm's current employment situation in light of your six-month outlook?" N = 357 in June. SOURCE: Dallas Fed's Texas Business Outlook Surveys.
Despite high rates, most firms stick to their capital expenditure plans

**Bar Chart**

- Significantly higher: 11
- Slightly higher: 27
- No change: 37
- Slightly lower: 15
- Significantly lower: 10

**NOTE:** Participants were asked, "What are your firm’s expectations for capital expenditures in 2023 compared to last year?" N = 356 in June.

**SOURCE:** Dallas Fed’s Texas Business Outlook Surveys.
Recent capital expenditures focus on updating technology

- Updating equipment or technology: 59.1%
- Demand for your product or service: 34.8%
- Capacity utilization: 23.5%
- Profitability/cash flow: 17.4%
- Broader economic conditions: 9.8%
- Economic uncertainty: 8.3%
- Tax/regulatory considerations: 6.8%
- Cost or availability of external finance: 5.3%

NOTE: Participants were asked, "What are the primary factors behind the increase in your capital expenditures this year? Please select up to three." This question was only posed to those expecting higher capital expenditures this year. N = 132 in June.
SOURCE: Dallas Fed’s Texas Business Outlook Surveys.
Lower profits and economic uncertainty weigh on investment

<table>
<thead>
<tr>
<th>Factor</th>
<th>%</th>
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<tbody>
<tr>
<td>Economic uncertainty</td>
<td>61</td>
</tr>
<tr>
<td>Profitability/cash flow</td>
<td>44</td>
</tr>
<tr>
<td>Demand for your product or service</td>
<td>31</td>
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<tr>
<td>Broader economic conditions</td>
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<tr>
<td>Cost or availability of external finance</td>
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<tr>
<td>Capacity utilization</td>
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<td>Tax/regulatory considerations</td>
<td>10</td>
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<tr>
<td>Updating equipment or technology</td>
<td>6</td>
</tr>
</tbody>
</table>

NOTE: Participants were asked, "What are the primary factors behind the decrease in your capital expenditures this year? Please select up to three." This question was only posed to those expecting lower capital expenditures this year. N = 90 in June.

SOURCE: Dallas Fed’s Texas Business Outlook Surveys.
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