

## Regional

**Are Texas' Economic Woes Nearing End? Hopeful Signs Emerge Regionally****August 4, 2015**

Further glimmers of hope have emerged since mid-June, hinting that the worst of the energy bust may be past. Texas payroll employment grew at an annualized pace of 2 percent in May and 1.8 percent in June, pushing up growth more than a percentage point in the second quarter over the first. The Dallas Fed's Texas Business Outlook Surveys (TBOS) also capture the recent economic pickup.

Despite the improvement, annualized year-to-date job growth of 1.1 percent in the state remains quite modest by Texas standards. The state economy continues to battle the effects of low oil prices, a strong U.S. dollar, uncertainty in Europe and weak global growth. Exports fell in May, and activity is still declining in the manufacturing sector. After stabilizing around \$60 per barrel, oil prices have dropped again to less than \$50 per barrel.

**Employment Growth Accelerates in Second Quarter**

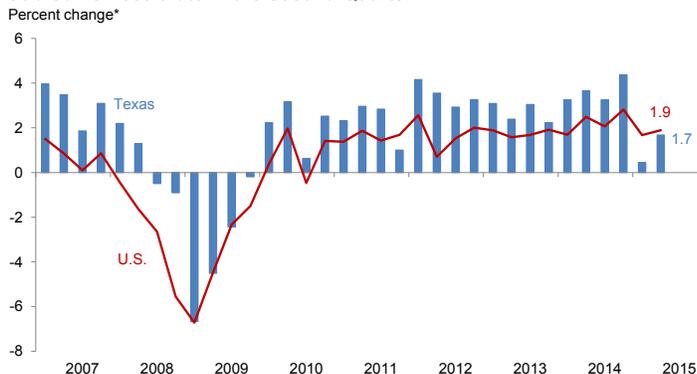
Texas employment improved in the second quarter, with annualized growth at 1.7 percent versus 0.5 percent in the first quarter (*Chart 1*). This acceleration is due to both a pickup in service sector employment gains and a slowing of goods-producing sector job losses.

Employment in the goods-producing sector was relatively flat in June following four successive months of steep declines, a result of strong gains in the oil and gas sector (3,900 new jobs). This is consistent with the Dallas Fed's July Beige Book, which reported that massive layoffs in the energy sector had largely concluded and the industry had weathered the downturn well. In contrast, job losses continued in the manufacturing sector in June, registering a 4.8 percent annualized decline.

For the first half of 2015, however, the goods-producing sector lost jobs on net. Drilling declines have led to annualized year-to-date job losses of 16.6 percent in oil and gas and contributed to an annualized 4.6 percent decline in manufacturing employment. Unusually wet weather also suppressed growth in construction employment, which fell an annualized 0.8 percent in the first half of the year.

Among the large metros, Houston has been most affected by the oil price slump, with year-to-date employment down an annualized 0.5 percent. Austin continues to grow at a rapid pace; year-to-date employment is up an annualized 4.5 percent, thanks to rapid service sector expansion. Year-to-date job growth in Dallas-Fort Worth (2.1 percent) and San Antonio (1.9 percent) has slowed from

**Chart 1**  
**Job Gains Accelerate in the Second Quarter**



\*Quarter/quarter; seasonally adjusted, annualized rate.

NOTES: Quarterly employment is last month of each quarter. Employment data are early benchmarked to first quarter 2015.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

last year's robust pace but remains higher than the state employment trend this year.

**Unemployment at Prerecession Low; Long-Term Jobless Rate Falls**

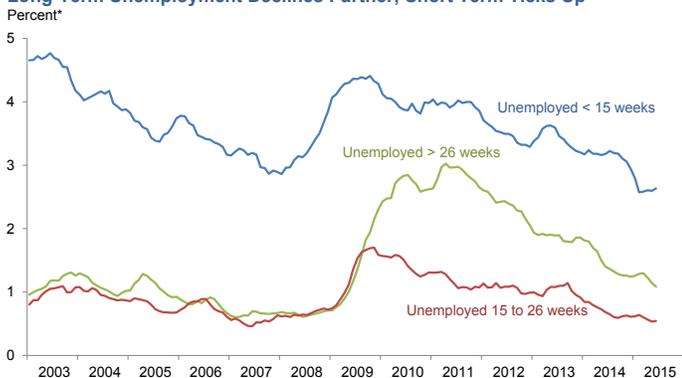
The Texas unemployment rate was down to 4.2 percent in June after ticking up to 4.3 percent in May. The June rate matches the prerecession low of eight years ago. Strong job growth in 2012, 2013 and 2014 has helped reduce joblessness, particularly among the long- and medium-term unemployed in Texas (*Chart 2*).

The long-term unemployment rate—measuring those unemployed 26 weeks or more—is 1.1 percent in the state based on a six-month moving average, just shy of its 2005–07 average of around 0.9 percent. The rate for the medium-term unemployed (those unemployed 15 to 26 weeks) has fallen to 0.5 percent and is below its 2005–07 average of 0.7 percent. The rate for the short-term unemployed (those unemployed 15 weeks or less) has ticked up recently to 2.6 percent due to layoffs in the goods sector but remains well below the 2005–07 average of about 3.4 percent.

**Drier Weather Boosts Construction; Home Sales Mixed**

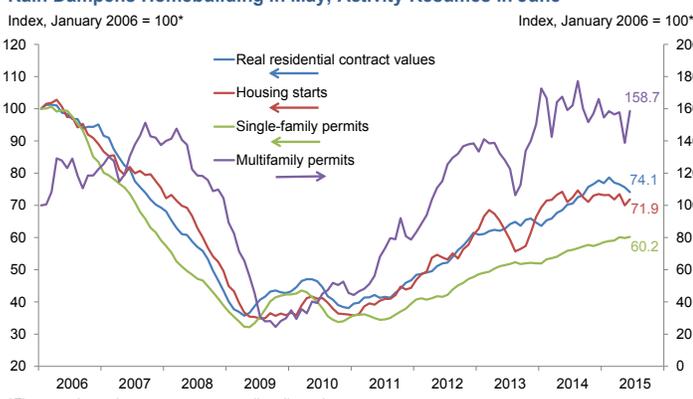
Record rainfall in May hampered homebuilding in the state, but activity bounced back with drier weather in June. Housing starts and permits fell in May, but housing starts rose 35.1 percent and single-family permits increased 3.6 percent in June, accompanied by a surge in multifamily permits (*Chart 3*). Real residential contract values fell 3.3 percent in May and were rel-

**Chart 2**  
**Long-Term Unemployment Declines Further; Short Term Ticks Up**



\*Six-month moving average; seasonally adjusted.  
 NOTE: Last data point is June.  
 SOURCES: Census Bureau, Current Population Survey; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

**Chart 3**  
**Rain Dampens Homebuilding in May; Activity Resumes in June**



\*Five-month moving average; seasonally adjusted.  
 NOTE: Last data point is June.  
 SOURCES: Bank of Tokyo-Mitsubishi; Census Bureau; F.W. Dodge.

actively flat in June.

May rains also restrained homebuyers, with existing-home sales flat in May but up 2.6 percent in June. Six-month moving averages show moderating sales activity across Texas and a mixed picture for the metros. Signs of slowing are apparent in Austin and Houston. Sales have flattened in Dallas, but are rising in Fort Worth and San Antonio.

**Apartment Rent Growth Solid; Home Price Gains Slow**

Strong apartment demand has led to rapid increases in rents, with Dallas–Fort Worth (DFW) leading the pack with annual growth of 5.5 percent (*Table 1*). Annual rent increases in Houston and Austin are just shy of the DFW figure. While rent growth in San Antonio is lower than in the other Texas markets, it has accelerated relative to growth in second quarter 2014.

House prices, which had been increasing at a steep rate, dipped slightly in June. While the inflation-adjusted median home sales price in Texas rose 7.8 percent from year-ago levels, it slipped 0.2 percent in June from its May level.

**Oil Prices Dip, but Rig Counts Recover Slightly**

During the week ended July 31, West Texas Intermediate crude oil prices were down \$12 from their recent high of \$60 in June, while the Texas rig count was up 3.9 percent from the last week of June at 375 (*Chart 4*). Oil prices fell in part because of worries over a slowing Chinese economy and the Greek debt crisis and in part because Iran and six western powers reached a nuclear agreement that could lift export sanctions against Iran. Ending the trade ban would allow Iranian oil to reenter an already oversupplied market. While natural gas prices ticked down in the last two weeks of July, prices are up 2.2 percent since the end of June.

**Outlook Slightly Improved**

The Texas economy has seen slight improvement since the June update. Payroll employment growth accelerated in the second quarter compared with the first. TBOS respondents expect improved conditions ahead. The company outlook indexes for all three surveys—manufacturing, retail and services—rose in July. The headline index for manufacturing

**Table 1: Texas Apartment Markets Strong in Second Quarter**

Metro area	Occupancy	Occupancy growth	Rent growth	Net absorption	Units completed	Under construction
	Q2 2015	Q2 2015/Q2 2014	Q2 2015/ Q2 2014	Q2 2015	Q2 2015	Q2 2015
Dallas-Ft. Worth	95.4%	90 basis points	5.5%	8,100 units	4,700 units	35,100 units
Houston	94.7%	30 basis points	5.3%	6,000 units	2,900 units	32,000 units
Austin	95.4%	0 basis points	4.8%	1,600 units	1,000 units	13,800 units
San Antonio	94.0%	80 basis points	3.9%	2,000 units	600 units	8,900 units

NOTE: Demand is considered strong if net absorption exceeds units completed, rents are rising and occupancy is high.

SOURCE: MPF Research.

remained negative, but less so in June and July, suggesting that declines in the manufacturing sector are waning. Headline indexes for services and retail remained positive. Activity in the housing sector slowed in May but picked up in June as expected.

The Dallas Fed's Texas Leading Index, which had rebounded, dipped slightly in June (Chart 5). However, the three-month change in the index was positive, up 0.94 percent from April to June. As a result, the employment forecast is for 1.2 percent growth in 2015, up from under 1 percent in mid-June. The slightly improved outlook is largely a result of a pickup in job growth and gains in the U.S. Leading Index.

Despite hopeful signs the past six weeks, overall Texas economic growth remains modest at best. Year-to-date employment gains are underperforming year-to-date U.S. job growth of 1.8 percent (annualized) as well as the state's long-term average of 2.1 percent. The recent decline in oil prices also poses a risk to the outlook.

—Laila Assanie and Sarah Greer

### About the Authors

Assanie is a business economist and Greer is a research assistant in the Research Department of the Federal Reserve Bank of Dallas.

