

## Regional

## Signs That Slower Growth Will Persist in the Regional Economy

February 1, 2016

The Eleventh District economy continued its modest growth through the end of 2015 even as the near-term outlook dimmed. The manufacturing sector saw persistent softness in 2015, and a January 2016 decline in the Texas Manufacturing Outlook Survey (TMOS) production index signifies this trend may continue into the new year. However, both the Texas Service Sector Outlook Survey (TSSOS) and service sector employment point to sustained moderate growth in services, which make up about three-quarters of the state economy. Exports fell for the fourth time in the last five months in November, and the state's unemployment rate ticked up for the fourth consecutive month in December. The employment growth forecast for 2016 currently stands at 1.1 percent, 0.4 percentage points below 2015's growth and 2.5 percentage points below 2014's.

**Employment Gains Remain Modest**

Texas payroll employment grew at a 1.6 percent annual rate in December—the first time in a decade that Texas has trailed the U.S. for three consecutive months (*Chart 1*). Overall job growth for the state was 1.5 percent in 2015 (December over December), less than half the 3.6 percent rate seen in 2014.

While the state's unemployment rate has increased 0.6 percentage points from its low of 4.1 in August 2015, the labor force has also been growing in recent months, suggesting that some of the change in the unemployment rate is due to new job seekers, not just those losing jobs.

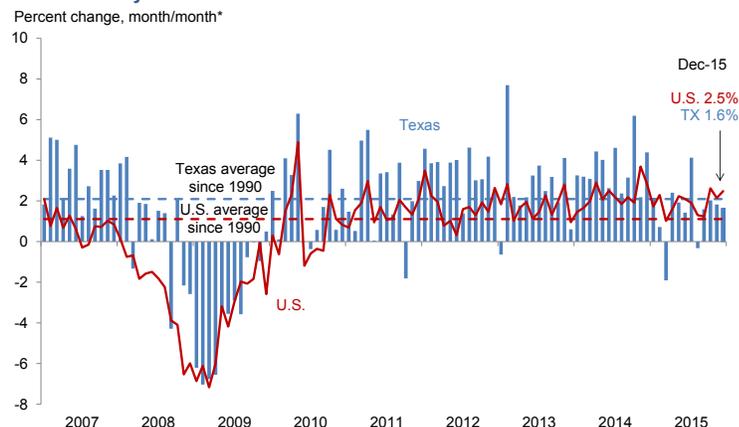
**Oil Prices and Rig Count Decline Further, Oil Production Weakens Only in Some Regions**

Oil prices have declined significantly since December, although they ticked up to \$32 per barrel for the week ending Jan. 29. From early December through the end of January, oil prices dropped 21 percent and the rig count fell by 52 rigs (15.6 percent). The impact of these declines has not been uniform across energy-producing regions. While Eagle Ford production has fallen sharply in response to low energy prices, production in the relatively low-cost Permian Basin maintained steady growth in 2015 (*Chart 2*).

**Oil and Gas Not the Only Sector Adversely Affected by Low Oil Prices**

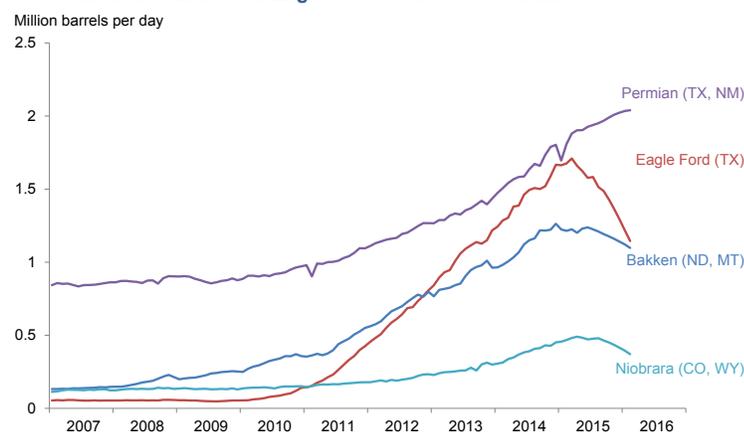
Headline TMOS production index plummeted 23 points to -10.2 in January, while the growth rate of orders remained in negative territory, where it has been since November 2014 (*Chart 3*). The TMOS employment index (not shown), which remained negative or near zero for most of 2015, fell 15.1 points in January to -4.2 and is consistent with the employment woes felt in the Texas manufacturing sector.

**Chart 1**  
Texas Monthly Job Growth Trails Nation



\*Seasonally adjusted, annualized rate.  
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal adjustments by Federal Reserve Bank of Dallas.

**Chart 2**  
Oil Production Plummets in Eagle Ford but not the Permian

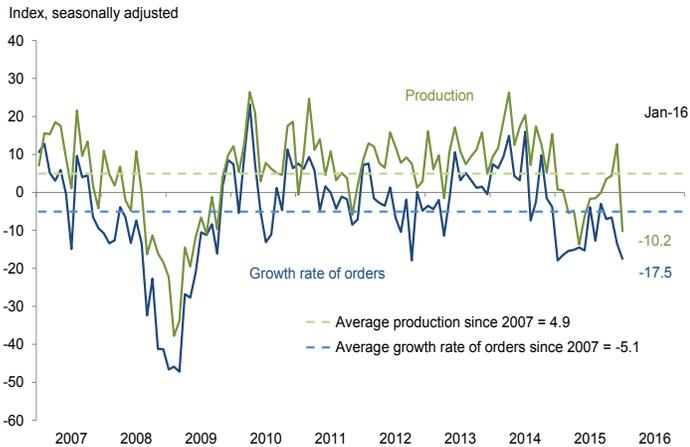


NOTES: Plotted are the top four oil-producing regions. Locations of regions noted in parentheses.  
SOURCE: Energy Information Administration.

Manufacturing sector employment declined in 2015 at a 4.1 percent annual rate (December/December) (*Chart 4*). Breaking manufacturing out by some of its subsectors shows that nondurable goods manufacturing—food and chemical for example—fared better than durable goods—such as primary metals, fabricated metals and machinery manufacturing. This is likely due to a higher concentration of energy-related manufacturing present in the durable goods subsectors in Texas.

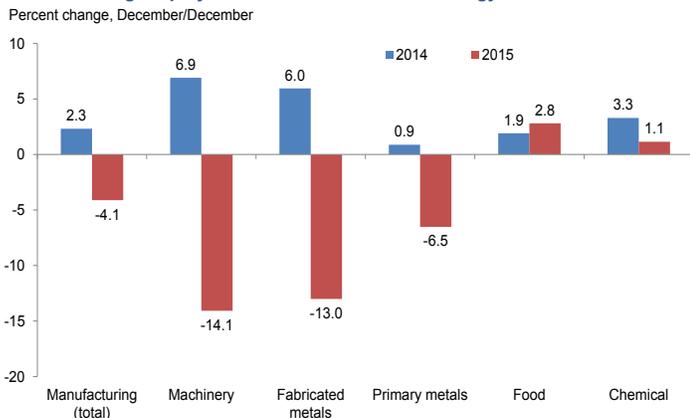
The stronger dollar, which has dampened exports, has also negatively impacted the state's manufacturing sector. While the Texas manufacturing sector has sustained significant losses, U.S. manufacturing sector employment actually grew by 0.2 percent in 2015.

**Chart 3**  
**TMOS Production and Order Growth Indexes Fall in January**



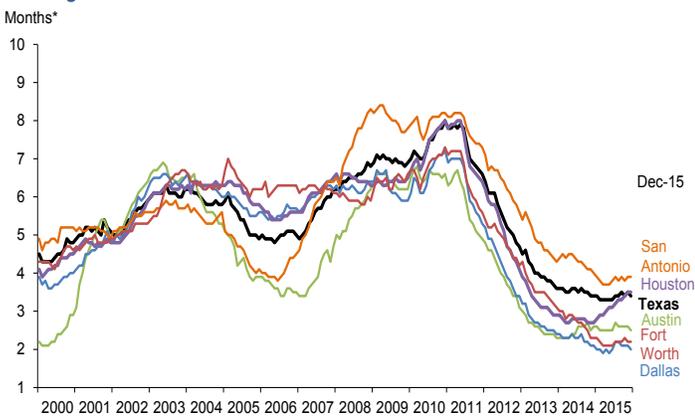
SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey (TMOS).

**Chart 4**  
**Manufacturing Employment in Industries Tied to Energy Suffer the Most**



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

**Chart 5**  
**Existing-Home Inventories Rise in Houston**



\*Seasonally adjusted.  
 SOURCES: Multiple Listing Service; National Association of Realtors; seasonal adjustments by Federal Reserve Bank of Dallas.

**Construction Contracts Fall, Some Weakness Seen in Houston Housing and Office Markets**

The five-month moving- average for Texas construction contract values fell 3.5 percent in December. Declines were seen across the five-month-moving-averages for most categories except residential contract values, which increased 0.1 percent. Non-residential contract values fell 1.7 percent, and nonbuilding contract values—encompassing projects such as roads and bridges—were down 14.6 percent.

The Houston office vacancy rate rose 2.6 percentage points from Q4 2014 to Q4 2015 compared with decreases of 1.0 percentage point in Austin and 0.7 percentage points in Dallas, according to CBRE. Net absorption of space in DFW was near record highs in 2015, while there is weakness in Houston, where rent concessions are being offered.

Existing-home inventories continue their rise in Houston, indicating some softening in the Houston housing market (*Chart 5*). Inventories across Texas and the other metros remain at low levels.

**Outlook Has Weakened Somewhat**

The Texas Leading Index declined again in December, a pattern that has persisted through most of 2015, contributing to the employment forecast of 1.1 percent growth for 2016 (December/December). On the upside, the Texas service sector continues to show resilience during this most recent slump in oil prices.

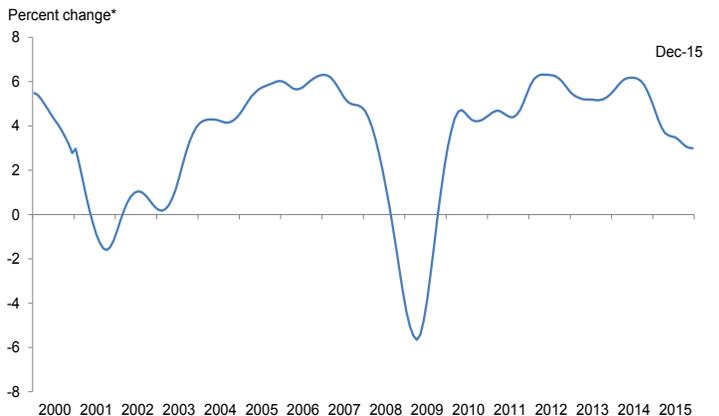
The Texas Business-Cycle Index, which was designed to gauge overall state economic activity, shows the gradual downshifting in economic growth over the course of 2015 (*Chart 6*). While it does not indicate recession at this point in time, it does show a noticeable dip in recent months, consistent with the negative state economic impact of low energy prices.

—Sarah Greer and Jason Saving

**About the Authors**

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**Chart 6**  
**Texas Business-Cycle Index Remains Positive but Illustrates Downshifting to More Modest Growth**



\*Annualized rate.  
 SOURCE: Federal Reserve Bank of Dallas.