DALLASFED Economic Update
Regional

Regional Growth Decelerates in Oil-Dependent Areas

March 18, 2016

The regional economy continues to expand, but recent data suggest that growth likely decelerated in February relative to January. While the Dallas Fed's Beige Book indicates flat economic activity from year-end 2015 to mid-February, the Texas Business Outlook Surveys' headline indexes point to growth in services but continued contraction in manufacturing.

Employment indexes in the Texas Manufacturing Outlook Survey (TMOS) and Texas Service Sector Outlook Survey (TSSOS) declined in February, suggesting steeper decline in manufacturing employment and weaker job growth in services. Revised data show that the unemployment rate increased far less in late 2015 than numbers prior to revision indicated. The labor market remains tight overall, but slack has risen in oil-dependent regions of Texas. Activity in housing and real estate remained brisk in January, with Houston as a notable exception. The Texas employment growth forecast for 2016 has weakened, and low oil prices and a strong dollar remain downside risks.

Employment Growth Picks Up in January

Job growth strengthened in January, increasing at an annualized rate of 2.4 percent after expanding 1.3 percent in December. January job growth was stronger than the U.S. rate and significantly better than the 2015 Texas growth rate of 1.5 percent. After posting the largest declines among sectors in 2015, manufacturing and energy employment turned in gains in January, increasing 3.4 percent and 0.5 percent, respectively. Although the construction sector added jobs at a brisk 3.1 percent rate in 2015, it lost jobs in January. This is consistent with other indicators of construction activity—for example, housing starts and construction contract values—that declined in January.

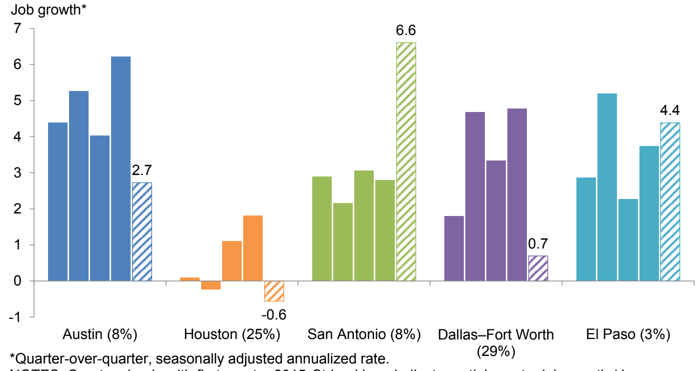
Houston's job growth recovered in the second half of 2015 even as oil prices dropped sharply, but growth turned negative in January *(Chart 1)*. Quarterly growth rates suggest that non-oil-dependent metro areas such as Austin, Dallas–Fort Worth and El Paso fared well in 2015.

Revision Shows Modest Unemployment Increase from August Low

The unemployment rate ticked down to 4.5 percent in January from a revised 4.6 percent in December *(Chart 2)*. The revised data show the jobless rate rose 0.2 percentage points in December from a postrecession low of 4.4 percent in August 2015. Data prior to the revision showed that unemployment had climbed to 4.7 in December from a low of 4.1 in August (0.6 percentage points), suggesting a significant increase in Texas' labor market slack.

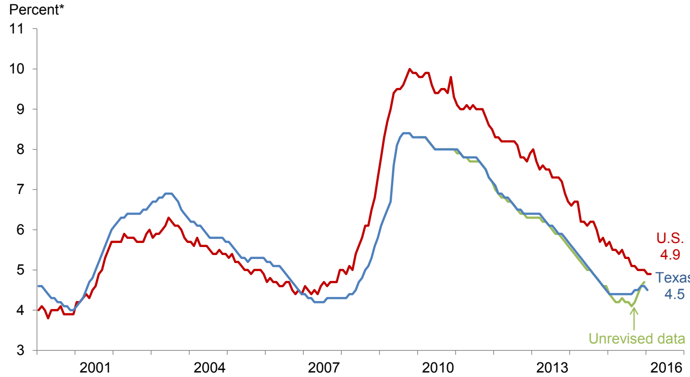
Examining changes in unemployment rates across counties shows that the top oil-producing counties in Texas experienced significantly larger increases in unemployment relative to non-oil-producing counties, which saw their rates decline *(Chart 3)*.

Chart 1
Houston Sheds Jobs in January After Posting Gains in Second Half of 2015



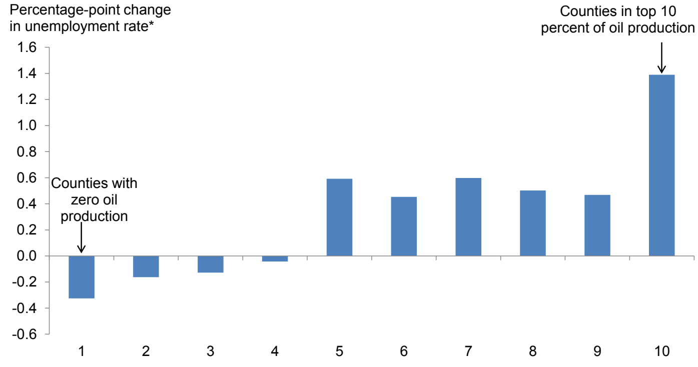
*Quarter-over-quarter, seasonally adjusted annualized rate.
NOTES: Quarters begin with first quarter 2015. Striped bars indicate partial-quarter job growth (January 2016 over December 2015). Numbers in parentheses represent the metro's share of total Texas employment.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal adjustments by the Federal Reserve Bank of Dallas.

Chart 2
Revised Data Show Modest Increase in Fourth-Quarter Unemployment Rate



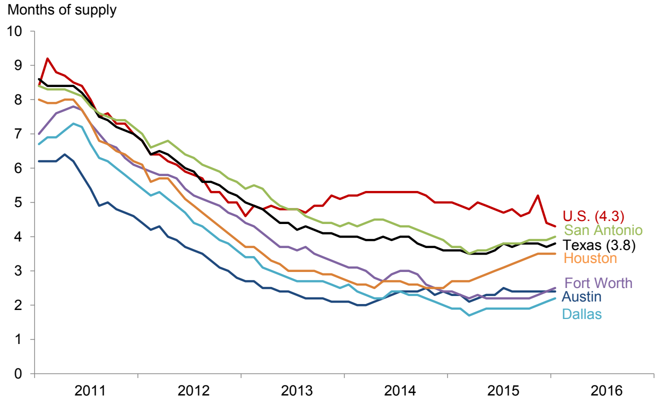
*Seasonally adjusted.
NOTE: Data through January 2016 for Texas and February 2016 for U.S.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal adjustments by the Federal Reserve Bank of Dallas.

Chart 3
Unemployment Rises More in Oil-Intensive Counties in Texas



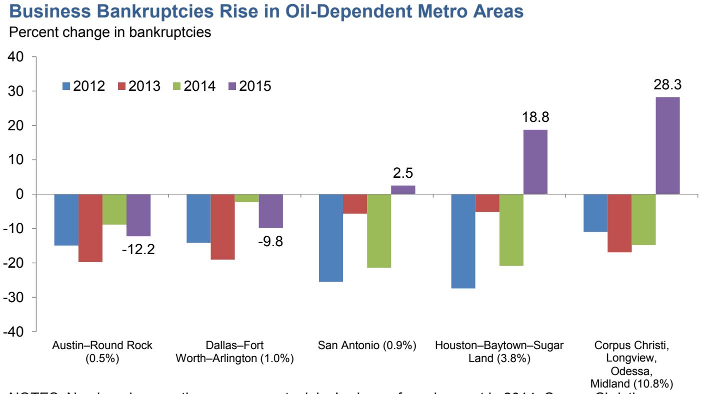
*From 2014 to 2015.
SOURCES: Texas Railroad Commission; Bureau of Labor Statistics' Local Area Unemployment Statistics.

Chart 4
Home Inventories Creep Up in Houston



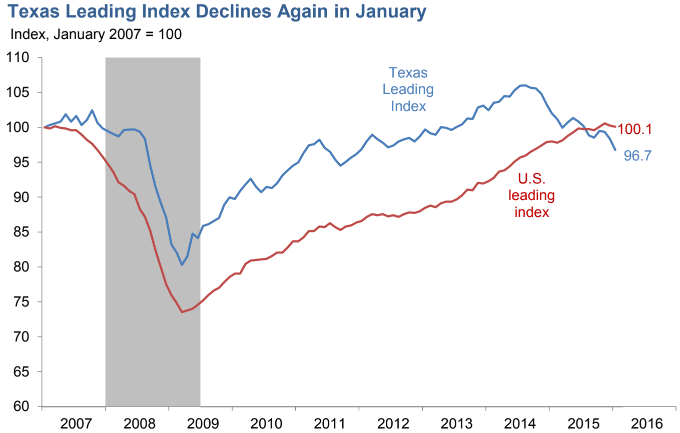
NOTE: Data through January 2016.
SOURCE: Multiple Listing Service.

Chart 5
Business Bankruptcies Rise in Oil-Dependent Metro Areas



NOTES: Numbers in parentheses represent mining's share of employment in 2014. Corpus Christi, Longview, Odessa and Midland make up the top 20 percent of metros regarding shares of mining employment among the 24 metros in Texas. Other major metros are shown.
SOURCES: Administrative Office of the U.S. Courts; Texas Workforce Commission.

Chart 6
Texas Leading Index Declines Again in January



NOTES: Data through January 2016. Shaded bar indicates U.S. recession.
SOURCES: Conference Board; Federal Reserve Bank of Dallas.

Manufacturing Turns Downward, but Service Sector Grows

The TMOS production index for February came in at –8.5, indicating a second consecutive month of decline in manufacturing activity. A sharp decline in the TMOS employment index suggests that manufacturing job losses accelerated from January to February. The TSSOS revenue index held steady at 9.7 in February, pointing to continued growth in the service sector.

Houston's Housing Market Shows Easing

Existing-home sales were largely flat in January after spiking in December. With construction activity still below prerecession levels, home supplies remain tight in most metros. Houston's inventory levels have steadily increased from a low of 2.5 months in December 2014 to 3.5 months in January 2016, indicating that energy sector weakness may be spilling over into the metro's housing market *(Chart 4)*.

Retail Sales Weaken and Price Pressures Subside

Consistent with the Federal Reserve's Beige Book reports, the Texas Retail Outlook Survey (TROS) sales index declined from 10.6 in January to –5.1 in February, indicating contraction in retail sales. It was the first time since August 2015 that the index had turned negative. The TMOS finished-price index declined for the 14th straight month in February. The TSSOS selling-price index remained flat, but the TROS price index declined for a second consecutive month, coming in at –7.2. The Texas Business Outlook Surveys' wage indexes show that while wage growth remains strong in the service and retail sectors, weakness in manufacturing has led to significantly slower wage growth in 2015 relative to 2014.

Energy-Dependent Areas See Business Bankruptcies Increase

Activity in the energy sector remains weak. The Texas rig count dropped further from 281 at the end of January to 227 in the first week of March. Business bankruptcies accelerated in energy-intensive areas in Texas, even as they declined in less-energy-dependent metros such as Austin and Dallas–Fort Worth *(Chart 5)*. Although it's unclear how many of the business bankruptcies were from the oil and gas sector, the tight link between energy dependence and the growth rate in bankruptcies points to increased financial stress from the energy sector contraction.

Weakness in exports persists due to a strong dollar and low oil prices. Texas' monthly real exports ticked down 1.4 percent in January. On a year-over-year basis in January, Texas exports were down 5.9 percent relative to a 5.3 percent decline in the U.S.

Outlook Suggests Sluggish Growth

Downward movement in the three-month moving average of the Texas Business Outlook Surveys' general business activity and company outlook indexes suggests that pessimism has deepened among respondents, especially since late 2015.

The Texas Leading Index declined in January for a third consecutive month. The three-month change from November 2015 to January 2016 was also negative, indicating slower growth going forward *(Chart 6)*. The job growth forecast for 2016 has dipped from 1.1 percent to 0.9 percent, suggesting that the Texas economy will continue to expand but at a slower pace than in 2015.

—Emily Gutierrez and Anil Kumar

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About the Authors

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