DALLASFED Economic Update

Regional

Regional Growth Continues to Stagnate

April 28, 2016

Texas employment growth decelerated further in March to a 0.1 percent annualized rate *(Chart 1A)*. This brings first-quarter growth to 1.1 percent (annualized rate), slightly weaker than fourth quarter 2015 but above the 0.5 percent growth seen in first quarter 2015 *(Chart 1B)*.

The service sector—which accounts for about 85 percent of Texas employment—continued to buoy growth in the state, as the goods-producing sector saw further declines. The service sector rose at a 2.5 percent annualized rate (63,400 jobs) in the first quarter, more than offsetting the 6.5 percent (29,800 jobs) loss on the goods side.

The Texas labor market remained tight overall, with the unemployment rate holding steady at 4.3 percent in March. Initial unemployment claims saw some increases earlier this year but have fallen in recent weeks.

Low Oil Prices Spur Further Declines in Rig Count and Employment

Oil prices remain low but have increased to about $40 per barrel from their lows of around $28 per barrel earlier this year. In this low-price environment, the Texas rig count continues to decline, falling 10 percent from mid-March to late April. Nevertheless, Texas oil production has been fairly stable. The oil and gas sector continues to see layoffs. The sector has lost more than 15,000 jobs in the first quarter after losing about 73,000 last year.

Manufacturing Sees Employment Declines but a Pickup in Activity

The manufacturing sector has rebounded somewhat, according to the Texas Manufacturing Outlook Survey (TMOS). The production index posted a second positive reading in April, and the new-orders index surged upward from its previous negative reading to 6.2 *(Chart 2)*. The company outlook index remained negative, however, suggesting some weakness may still be ahead.

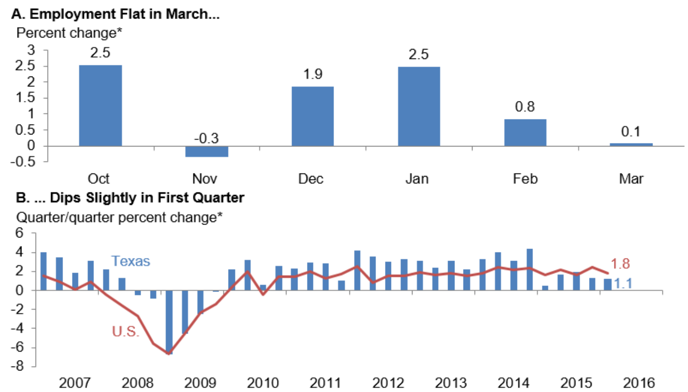
Although manufacturing employment continues to contract—falling again in March at a 3.7 percent annualized rate—the recent uptick in Texas exports and improving TMOS indexes are hopeful signs of stabilization in the sector.

Service Sector Remains a Driver of Growth

Expansion in the service sector continues. The Texas Service Sector Outlook Survey (TSSOS) revenue index moved up to 10.6 in April, and the company outlook index also showed further improvement, moving up to 7.3 *(Chart 3)*.

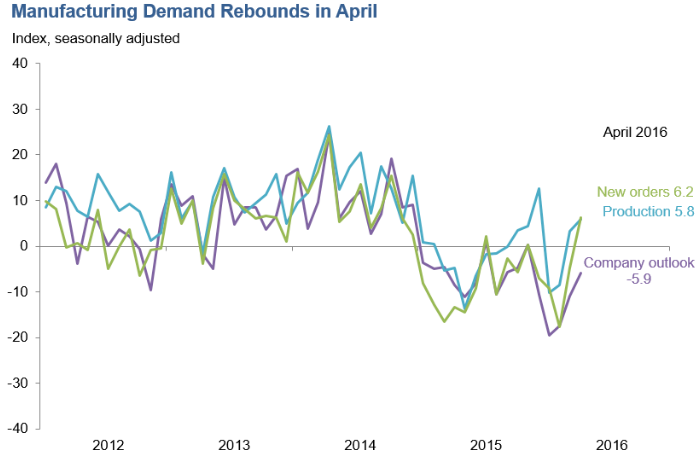
Very strong job growth in the leisure and hospitality and health and education sectors continues to boost the Texas economy. Growth in other service sectors such as trade, transportation and utilities, government, and the financial sectors have remained stable through first quarter 2016.

Chart 1
Texas Job Growth Slows Further



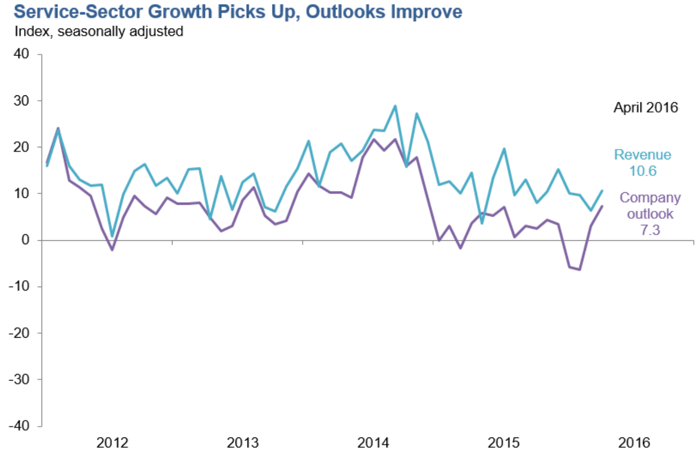
*Seasonally adjusted, annualized rate.
NOTE: Quarterly employment is last month of quarter.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal adjustments by Federal Reserve Bank of Dallas.

Chart 2
Manufacturing Demand Rebounds in April



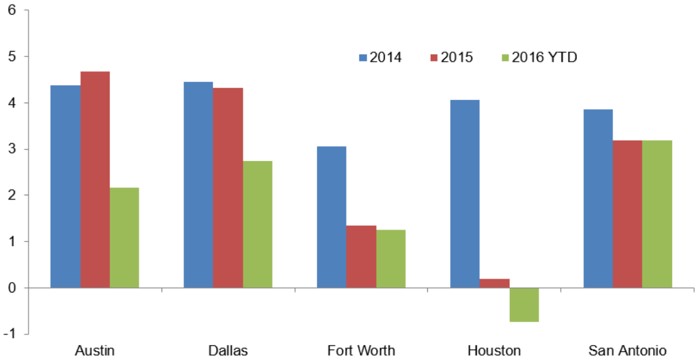
SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey (TMOS).

Chart 3
Service-Sector Growth Picks Up, Outlooks Improve



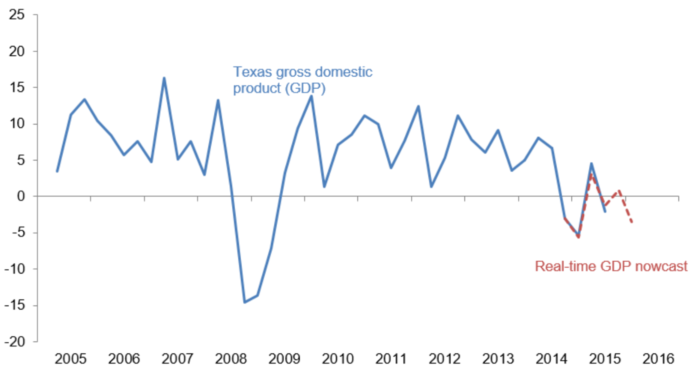
SOURCE: Federal Reserve Bank of Dallas Texas Service Sector Outlook Survey (TSSOS).

Chart 4
Job Growth Uneven Across Metros So Far This Year



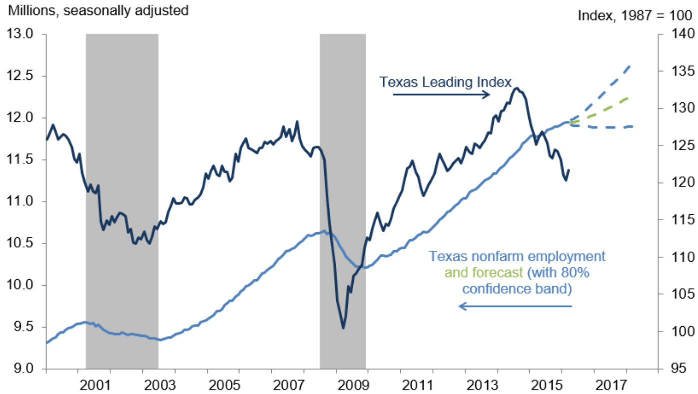
NOTE: 2016 data through March.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.

Chart 5
Texas Nominal GDP Likely Fell in First Quarter



NOTES: Dashed line represents real-time estimate for 2015:Q1–2016:Q1 based on regression model. Last data point is 2015:Q3 for Texas GDP and 2016:Q1 for nowcast estimate.
SOURCES: Bureau of Economic Analysis; Federal Reserve Bank of Dallas.

Chart 6
2016 Employment Forecast for Continued Moderate Growth



NOTE: Shaded areas represent Texas recessions.
SOURCES: Bureau of Labor Statistics; Federal Reserve Bank of Dallas; Texas Workforce Commission.

Texas Economic Activity Uneven Across Metros

Texas economic activity continues to be uneven across sectors as well as the major metros. The negative impact of low oil prices seen in Houston and Fort Worth last year is now spreading to Austin and Dallas *(Chart 4)*.

So far this year, Houston has seen declines of 5,525 jobs. Employment growth in San Antonio and Fort Worth has remained stable, while Austin and Dallas are showing significantly weaker gains than in 2015, partly as a result of spreading effects from the contracting energy sector.

In Houston—a region that is highly sensitive to the oil bust—there likely won't be enough growth in other sectors to offset the energy declines this year. Strength in the U.S. economy serves as a lifeline for some other Texas metros whose industry mix more closely mirrors that of the nation.

Texas Migration Remains Strong Through July 2015

Robust migration the state has enjoyed in recent years showed no signs of slowing through the first half of last year, according to data released by the Census Bureau. Texas net migration was stronger over the July 2014 to July 2015 period than the year prior, even as oil prices fell sharply. The latest data show that more than 270,000 people relocated to Texas during that period, making Texas the No. 2 destination in the U.S., behind Florida.

This trend may begin to slow over the July 2015 to July 2016 period, however, as oil prices have fallen further and the energy bust has slowed economic growth in the state. This may especially be the case in Houston, where domestic net migration has shown signs of slowing. Domestic migration growth slipped 6 percent in the latest data (July 2014 to July 2015) in the Houston metro area and even more sharply in Harris County. Despite this slowdown, Houston still added more people last year than any other U.S. metro area.

First-Quarter Output Growth Was Likely Negative; 2016 Job Growth Expected to be Modest

While we only have state gross domestic product (GDP) data through third quarter 2015, our model for Texas nominal GDP projects a 3.5 percent decline in first quarter 2016 *(Chart 5)*.[1] A decline in output in the first quarter may seem at odds with the gains reflected in the employment data. However, energy and manufacturing are very capital intensive, thus, contracting activity in these industries may not be fully reflected in the employment numbers.

While the Texas Leading Index (TXLI) has been on a steady decline, March's estimate shows its first increase since October 2015 *(Chart 6)*. This is largely due to the increase in oil prices in March and positive readings from the Texas help-wanted index and the Texas stock index. The Dallas Fed employment forecast for Texas now stands at 0.5–1.0 percent growth for 2016.

—Sarah Greer and Emily Kerr

Notes

1. The model uses the TMOS growth rate of orders index, log difference in quarterly West Texas Intermediate prices and two lags of GDP, and takes the form: $\Delta GDPt = \beta 0 + \beta 1 *TMOSt + \beta 2 *\Delta WTIt + \beta 3 *\Delta GDPt\text{-}1 + \beta 4 *\Delta GDPt\text{-}2 + \varepsilon t$

About the Authors

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