

Regional

Texas Employment Revised Down in First Quarter, Rebounds in Second

July 29, 2016

Texas employment grew at a 1.1 percent annualized rate in June; however, a big downward revision to first-quarter job growth resulted in a year-to-date decline of 0.1 percent on an annual basis. The Texas unemployment rate rose slightly to 4.5 percent in June from 4.4 percent in May. Texas real GDP growth slowed to a 0.3 percent annualized rate in the first quarter from 1.4 percent in fourth quarter 2015, in line with the deceleration observed in the labor market.

With the rig count ticking up and oil prices remaining around the \$45 range, sentiment in the oil and gas industry seems to have improved since the first quarter. [The Texas Service Sector Outlook Survey](#) (TSSOS) revenue index pointed to continued expansion in July. [The Texas Manufacturing Outlook Survey](#) (TMOS) production index was flat in July following negative readings in May and June, suggesting that output stopped falling this month.

The [Texas Leading Index](#) was essentially flat in June after declining 1.1 percent in May. Combined with the revised employment data, this resulted in the Dallas Fed lowering its forecast for 2016 employment growth to 0.5 percent (December/December) from 1.3 percent.

First Quarter 2016 Employment Data Drive Downward Revision

Each quarter, the Texas Workforce Commission releases a more comprehensive employment series called the Quarterly Census of Employment and Wages (QCEW). The Dallas Fed uses this to [benchmark](#) the monthly payroll employment data series. With the release of first quarter 2016 QCEW data, Texas nonfarm employment was revised downward in the first quarter.

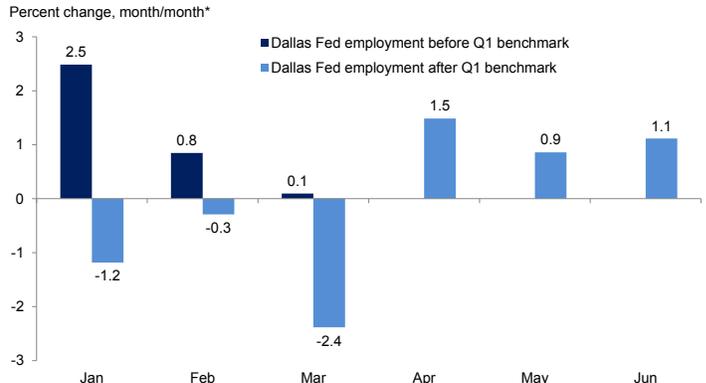
Chart 1 shows both the Texas nonfarm employment series, benchmarked through 2015, and the Dallas Fed's early benchmarked employment series. The Dallas Fed series shows much sharper declines in the first quarter.

First-Quarter Weakness Spreads to the Service Sector

Service sector job growth—which, at 2.6 percent, had buoyed Texas employment in 2015—has slowed to an annualized 0.6 percent year to date in 2016. Only government and the education and health services subsector have shown strong growth (*Chart 2*).

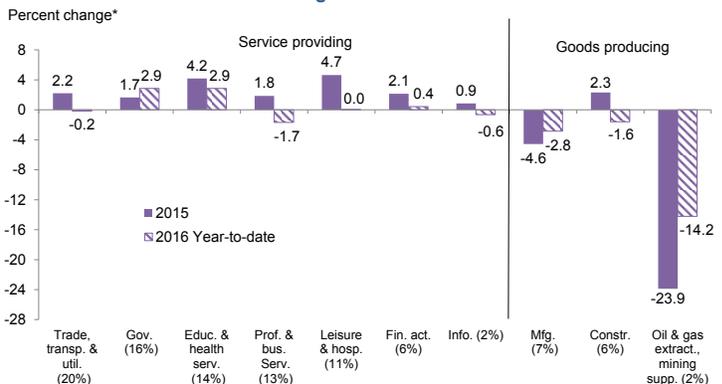
The manufacturing sector, which has been losing jobs since the beginning of 2015, posted a 0.7 percent annualized gain in June. Year to date, employment in the sector

Chart 1
Employment Revision Shows Weaker First Quarter for Texas



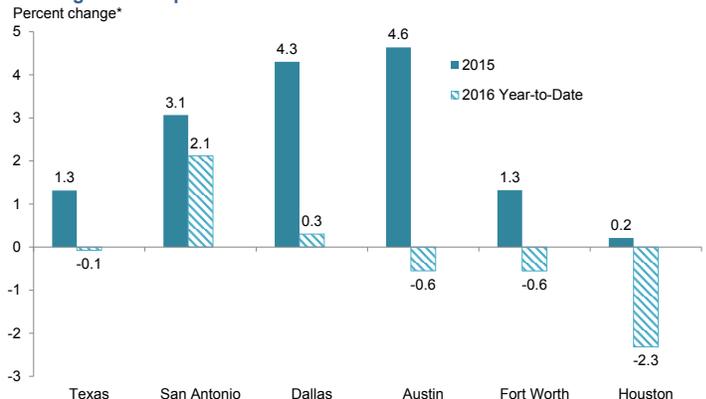
*Seasonally adjusted, annualized rate. Second quarter 2016 benchmark will be available in October. SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 2
Some Service Subsectors Showing Weakness So Far in 2016



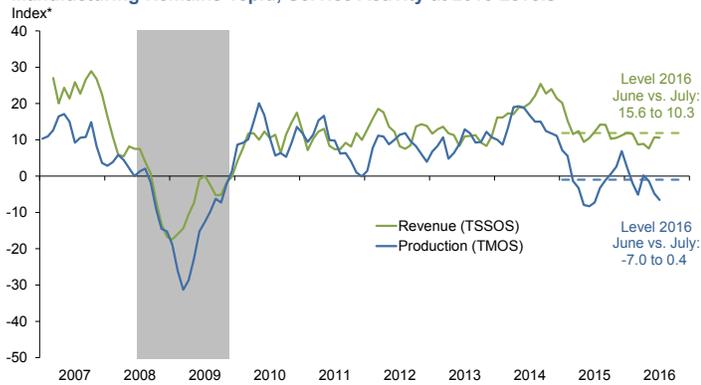
*Seasonally adjusted, annualized rate. NOTES: Numbers in parentheses represent shares of total Texas employment and may not equal 100 due to rounding. Last data point is June 2016. SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 3
Slowing Growth Spreads to More Metros



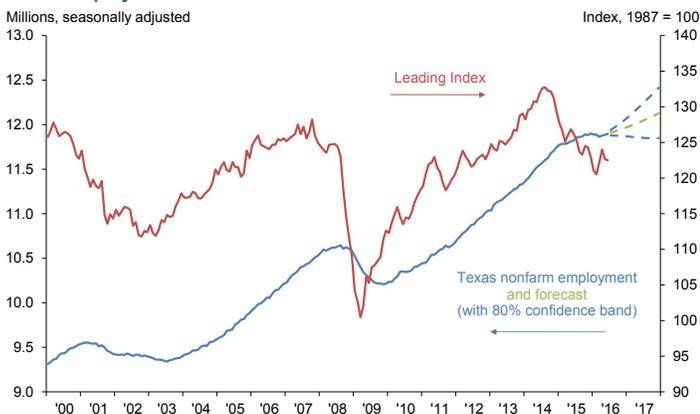
*Seasonally adjusted, annualized rate. NOTE: Last data point is June 2016. SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 4
Manufacturing Remains Tepid; Service Activity at 2015 Levels



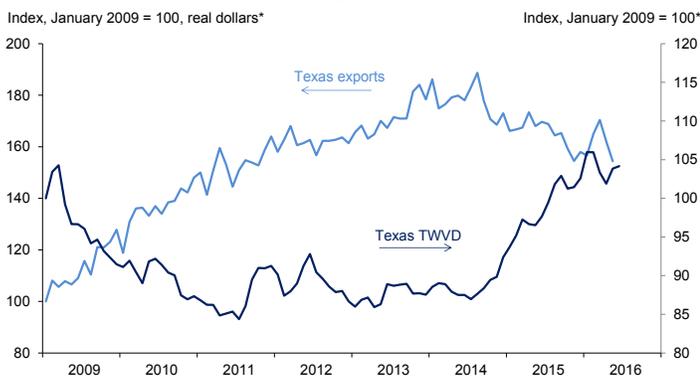
*Three-month moving average, seasonally adjusted.
 NOTES: Shaded area represents Texas recession. Dashed lines represent 2015 averages for revenue and production.
 SOURCES: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS) and Texas Service Sector Outlook Survey (TSSOS).

Chart 5
Texas Employment Forecast Falls to 0.5 Percent



NOTE: Last data point is June 2016.
 SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; Federal Reserve Bank of Dallas.

Chart 6
Exports Fall Again in May; Trade Weighted Value of the Dollar Rebounds



*Seasonally adjusted.
 NOTES: Data for exports through May 2016 and Texas trade weighted value of the dollar (TWVD) through June 2016. Last data point for Texas TWVD estimated using U.S. TWVD.
 SOURCES: Census Bureau; WISERTrade; Federal Reserve Bank of Dallas.

is still down an annualized 2.8 percent. While Texas continues to see job losses in the oil and gas industry, the pace of decline has slowed from -23.9 percent in 2015 to an annualized -14.2 percent so far this year.

Employment Growth Weak in Most Metros Year to Date

Of the major metros, only San Antonio and Dallas showed

positive job growth year to date through June, with 2.1 percent and 0.3 percent annualized gains, respectively (Chart 3). Austin, Fort Worth and Houston all declined.

Houston saw its first employment increase of the year in June, although growth remains negative year to date. Employment in both Austin and Dallas grew more than 4 percent in 2015 but sharply decelerated in the first quarter, dragging down year-to-date growth. Only San Antonio posted strong job gains in the first quarter, and with continued growth in the second quarter, it has seen the fastest year-to-date growth of all of the metros.

Rig Counts Recover Some Lost Ground

Rig counts, which bottomed out at 173 in late May, have climbed back up to 217. Outlooks improved in second quarter 2016 from the pessimistic readings seen in the first quarter, according to the Dallas Fed Energy Survey. In addition, the business activity index—the survey's broadest measure of sentiment among Eleventh District energy firms—turned positive at 13.8, up sharply from -42.1 in the first quarter. The majority of respondents said that business activity was stable relative to first-quarter levels, while nearly a third reported that activity had expanded. This improved sentiment, along with oil prices in the \$45 range and a modest recovery in the rig count, suggests that the oil and gas slump may have moderated.

Manufacturing Improves, Services Continue to Grow

The TMOS production index was flat in July, though the three-month-moving average is still weak (Chart 4). TMOS indexes including company outlook and general business activity also saw improvement, but both remained negative in July. The three-month moving average in the TSSOS revenue index showed the service sector continuing to expand, hovering near its 2015 average. The point estimate, however, did dip slightly from 15.6 in June to 10.3 in July.

Stronger Growth Expected in Second Half of Year

The Texas employment growth forecast is now 0.5 percent for 2016 (December/December), down from 1.3 percent (Chart 5). The large first-quarter employment revision was the main culprit in the forecast decline. That being said, the forecast still calls for the pace of job growth to pick up because Texas employment will have to increase over 1 percent in the second half to reach the 0.5 percent projected growth for the year.

The main risk factors going into the second half remain the possibility of even lower energy prices and the high value of the dollar along with its adverse impact on manufacturing. Steep increases in the value of the dollar since the middle of 2014 have weakened exports. The pullback in the dollar in early 2016 likely led to a spike in export activity, but with the dollar rising again, exports may be depressed further (Chart 6). Over 90

percent of exports from Texas are manufactured products, so further declines in exports could spell more weakness for the sector.

—Sarah Greer and Jesus Cañas

About the Authors

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