

# Regional

## Could This Be the End of the Texas Slump?

November 4, 2016

Regional economic activity appears to be improving, and the oil-driven slump may be nearing an end.

Texas job growth continues to accelerate, rising an annualized 2.1 percent in September and lifting year-to-date growth to an annualized 1.4 percent. After incorporating the second-quarter early benchmark, the Dallas Fed revised its forecast for 2016 employment growth up to 1.5 percent (December/December), which, if it comes to fruition, would surpass last year's 1.3 percent increase. If there are additional downward revisions to state employment data, like those in the first half of the year, third-quarter growth could come in weaker than the current 2.6 percent increase.

Job losses in the oil and manufacturing sectors have started to slow, and the Texas Manufacturing Outlook Survey (TMOS) production index has remained in positive territory for the past four months, suggesting that the manufacturing sector may soon see a turnaround.

The unemployment rate moved up again, to 4.8 percent in September, 0.5 percentage points above its low of 4.3 percent in March but still below the U.S. rate. The most recent increase reflects people entering the workforce, perhaps because hiring conditions have recently improved.

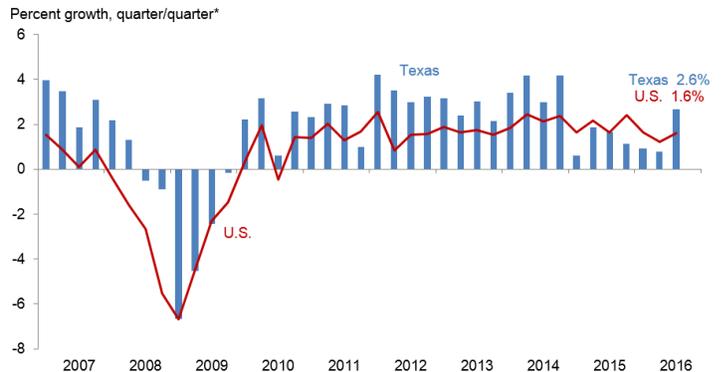
### Texas Employment Growth Rallies in Third Quarter

The pace of Texas job growth more than tripled in the third quarter, reaching an annualized 2.6 percent and outpacing the nation by a percentage point (*Chart 1*). Third-quarter growth was a substantial improvement over first- and second-quarter growth at 0.9 percent and 0.8 percent, respectively.

Most major Texas metros saw a pickup in employment growth in the third quarter compared with the first half of the year. The largest gains were in Dallas at 5.0 percent and Fort Worth at 4.3 percent (annualized). Houston saw a stark turnaround; employment expanded 1.9 percent in the third quarter after contracting an annualized 1.0 percent through June.

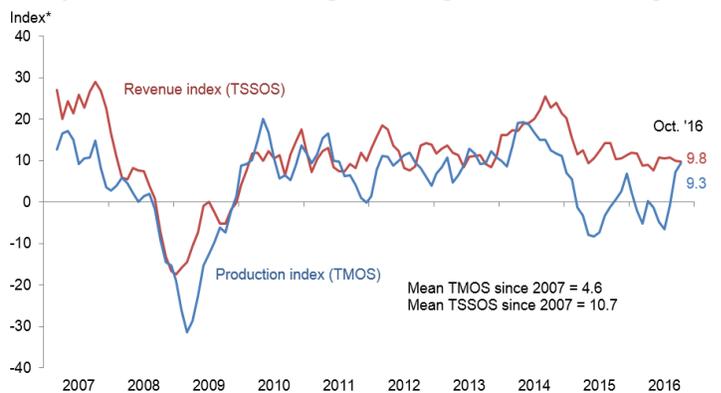
Incorporating the second-quarter early benchmark revision into Texas employment data wiped out gains the energy sector had previously posted in the preliminary August data. While the energy and manufacturing sectors continue to shed jobs, the pace of losses slowed in the third quarter. Construction, along with most of the

**Chart 1**  
Texas Employment Growth Races Ahead in Third Quarter



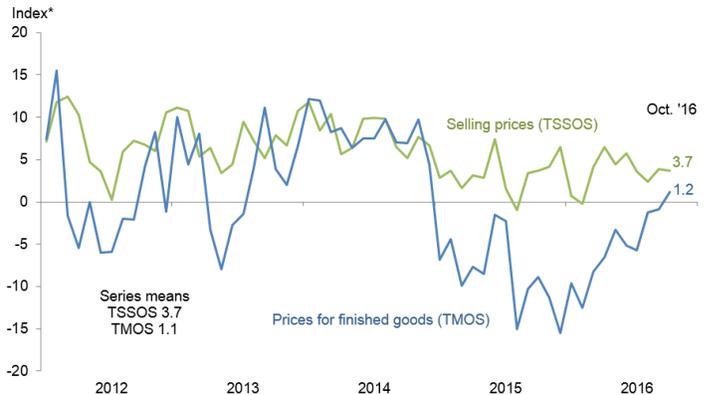
\*Seasonally adjusted, annualized rate.  
NOTES: Quarterly data are the last month of the quarter; average annual growth since 1990: U.S. 1.1 percent, Texas 2.1 percent.  
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

**Chart 2**  
Survey Indexes Show Manufacturing Rebounding, Services Still Growing



\* Seasonally adjusted; three-month moving average.  
SOURCE: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS) and Texas Service Sector Outlook Survey (TSSOS).

**Chart 3**  
Deflationary Pressures in Manufacturing Dissipate in October



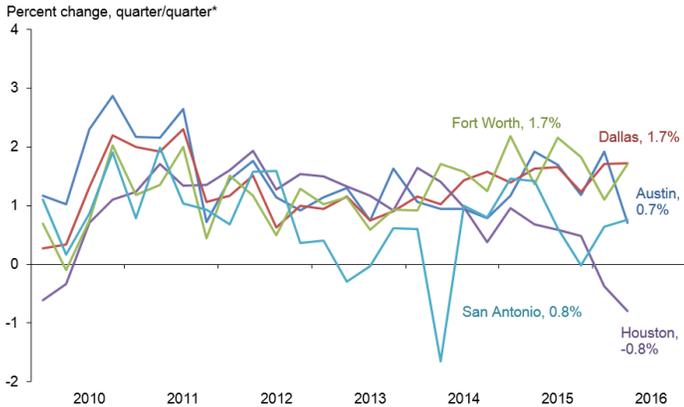
\*Seasonally adjusted.  
SOURCE: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS) and Texas Service Sector Outlook Survey (TSSOS).

service sectors, saw strong job growth in the quarter.

## Dallas Fed Surveys Show Possible Manufacturing Turnaround

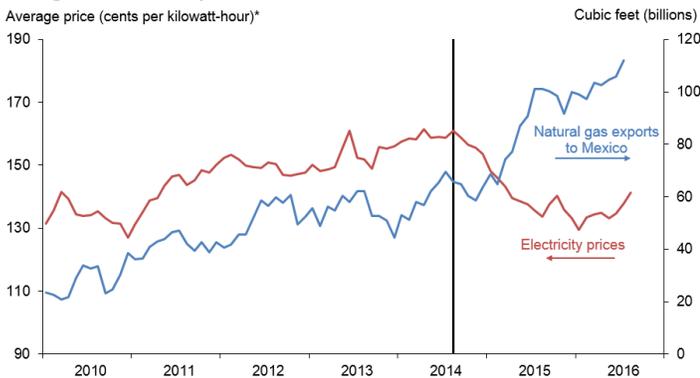
Headline indexes from the Dallas Fed's Texas Business Outlook Survey show continued strength in the service sector and accelerating growth in manufacturing activity in October (Chart 2). This is potentially good news for the

**Chart 4**  
Apartment Rents Continue Climbing, Except in Houston



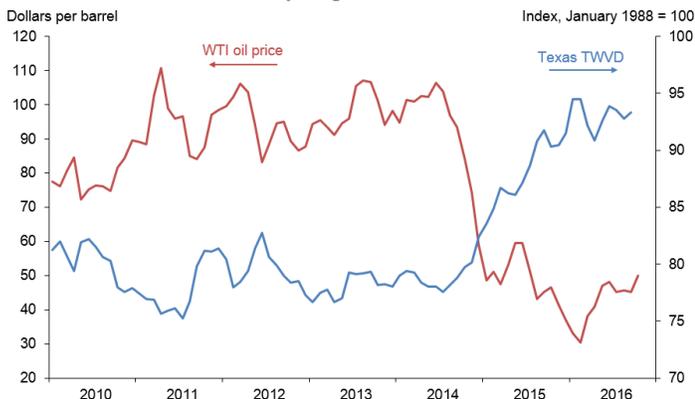
\*Seasonally adjusted.  
NOTE: The last data point is second quarter 2016.  
SOURCES: CBRE; seasonal adjustments by the Federal Reserve Bank of Dallas.

**Chart 5**  
Mexico's Energy Reform Leads to Electricity Price Declines, Rising Natural Gas Imports from the U.S.



\*Seasonally adjusted.  
NOTE: The vertical line indicates the date of reform, August 2014.  
SOURCES: Energy Information Agency; Sistema de Información Energética (Energy Information System).

**Chart 6**  
Are Economic Headwinds Dissipating?



NOTES: The Texas trade weighted value of the dollar (TWVD) is estimated for September using the change in the U.S. TWVD. The last data point for West Texas Intermediate (WTI) crude oil is October.  
SOURCES: Energy Information Agency; Federal Reserve Bank of Dallas.

state's manufacturing sector, which contracted through most of 2015 and the first half of 2016.

Another positive sign is that deflationary pressures that have plagued manufacturers since early 2015 may be dissipating, according to TMOS (Chart 3). October was the first month since December 2014 that the TMOS index of prices received for finished goods was positive. Selling prices in the service sector have continued to increase at an average pace.

## Home Prices, Apartment Rents Continue to Rise

Despite the state's energy woes the past two years, housing markets remain robust, with the possible exception of Houston's. The Texas median single-family home price rose 6.1 percent year over year in September, faster than the nation's 4.2 percent increase. Inventories remained low at 3.7 months of supply. Tight inventories and strong demand for single-family homes have led to the rapid price appreciation over the past four years.

Prices are rising in part due to the shift in composition of homes sold, according to a new article from the Texas A&M Real Estate Center, produced jointly with the Dallas Fed.<sup>1</sup>

Sales of entry-level homes—those priced under \$200,000—dropped from 69 percent of total sales in 2011 to 47 percent this year. This drop is even more exaggerated across most of the major Texas metros, with Austin by far seeing the greatest shift away from homes sold in the entry-level range.

The Texas apartment market has seen increases in rents, but unlike single-family construction, multifamily construction has been robust during the recovery from the Great Recession. Despite a near-record number of units coming online, both Dallas and Fort Worth posted 1.7 percent growth in apartment rents in the second quarter over the first (Chart 4). Houston, however, has seen declining rents and occupancy rates.

## Texas Exporting 15 Percent of Its Natural Gas Production to Mexico

Texas is exporting an increasing volume of natural gas to Mexico. These exports now account for about 15 percent of the state's natural gas production. With the completion of new pipelines and the deregulation of Mexico's electricity markets in mid-2014, U.S. natural gas exports to Mexico have increased 71 percent; over the same period, average electricity prices in Mexico have fallen 12 percent, from 161 to 141 cents per kilowatt-hour (Chart 5). About 78 percent of U.S. exports were from Texas in July.

## Are Headwinds of Strong Dollar, Low Oil Prices Dissipating?

Risks to the outlook include low oil prices and an unusually strong Texas trade-weighted value of the dollar

(TWVD). Low oil prices led to the collapse of drilling activity in the state in 2015, and an expensive dollar has hurt manufacturing exports. Those headwinds seem to be waning somewhat, with West Texas Intermediate oil prices hovering in the \$40- to \$50-per-barrel range—up from their brief dip into the \$20 range earlier in the year—and the Texas TWVD stabilizing this year after seeing large increases in 2014 and 2015 (*Chart 6*).

According to the third-quarter [Dallas Fed Energy Survey](#), most Texas oil producers need stable oil prices above \$55 to profitably expand drilling activity in areas where they are active. The Texas rig count increased to 256 for the week ending Oct. 28, its highest level since February. For manufacturers who have struggled to remain globally competitive with the rising dollar, the recent stabilization may bring a sigh of relief.

—Sarah Greer, Amy Jordan and Pia Orrenius

**Note**

1. See "[Game of Homes: The Supply-Demand Struggle](#)," by Laila Assanie, Sarah Greer and Luis B. Torres, Texas A&M Real Estate Center Publication 2143, Oct. 4, 2016.

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