

Texas Economy Expands Broadly

March 20, 2017

Economic growth continues to accelerate in Texas across sectors and metropolitan areas. Respondents to the Federal Reserve Bank of Dallas' [Texas Business Outlook Surveys \(TBOS\)](#) indicate strengthening activity in 2017. Employment surged 4.9 percent in January.

The [Dallas Fed's 2017 Texas job growth forecast](#) stands at 2.7 percent, higher than the state's long-run 2.1 percent average and the 1.7 percent expansion in 2016. Downside risks for the state economy include an appreciating dollar, which makes exports more expensive, and potential new U.S. trade policies disrupting economic ties with Mexico.

Economic Activity Exceeds Recent Levels

TBOS headline indexes indicate robust expansion in February. The three-month moving averages of the three indexes are well above the average levels of the past two years (*Chart 1*). The [Texas Service Sector Outlook Survey \(TSSOS\)](#) revenue index remained elevated in February, and the [Texas Retail Outlook Survey \(TROS\)](#) sales index has remained positive since November 2016, suggesting upward momentum. The [Texas Manufacturing Outlook Survey \(TMOS\)](#) production index pushed higher in February to near 2014 levels, when manufacturing boomed with high oil prices and a thriving state economy.

The Texas manufacturing sector's return to growth, which began late last year, mirrors trends seen across the nation. Federal Reserve and Institute for Supply Management manufacturing surveys' new orders indexes indicate a recent rebound following uneven performances in 2015 and 2016 (*Chart 2*).

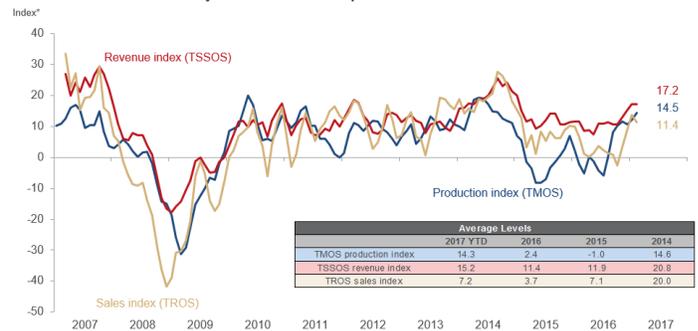
Year Begins with Broad-Based Employment Gains

Texas' annualized employment growth rate of 4.9 percent in January was the highest since October 2014 (*Chart 3*). The expansion was broad based, covering every sector except information. The goods sector's recent rebound into positive territory—which began in fourth quarter 2016 after seven consecutive quarters of decline—reached an annualized 5.6 percent job growth rate in January. Oil and gas employment grew 9.0 percent in January but remained more than 30 percent below its pre-oil-bust peak. Service sector growth was led by professional and business services (8.0 percent), government (7.1 percent) and financial activities (5.9 percent).

The January job expansion was also geographically broad based, with Texas' major metros all improving. Gains were strongest in Dallas-Fort Worth and weakest in Houston.

Looking ahead, TBOS respondents expressed more optimism about hiring plans than they had in recent years. Forty-seven percent of TMOS and TSSOS respondents said they plan to increase employment in the next six to

Chart 1
Texas Business Outlook Surveys' Headline Indexes Up in 2017



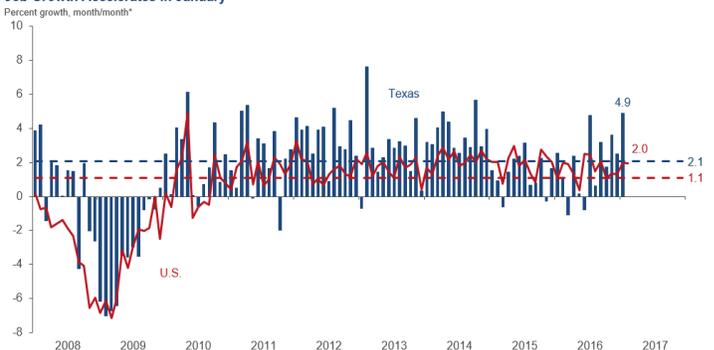
*Seasonally adjusted, three-month moving average.
NOTE: The last data point is February 2017.
SOURCES: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

Chart 2
Other Surveys Show Strength in Manufacturing Across Nation



*Seasonally adjusted, three-month moving average.
NOTES: Average series include all Federal Reserve Bank surveys with new orders indexes. Data are through February 2017.
SOURCES: Federal Reserve Bank of Dallas; Federal Reserve Bank of New York; Federal Reserve Bank of Kansas City; Federal Reserve Bank of Philadelphia; Federal Reserve Bank of Richmond; Institute for Supply Management.

Chart 3
Job Growth Accelerates in January



*Seasonally adjusted, annualized rate.
NOTES: Data are through February 2017 for U.S. and January 2017 for Texas. Dotted lines represent the annual average growth rate from 1990 to 2016.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

12 months—8 percentage points more than a year ago. Manufacturers were particularly bullish, with 57 percent of firms expecting head-count additions this year. This share equals or exceeds figures in 2011, 2012 and 2014, when state manufacturing employment expanded well above a healthy 2.0 percent.

Recent headline unemployment rates of 4.8 percent in Texas and 4.7 percent in the U.S. are slightly below prerecession levels. However, a broader unemployment measure that includes discouraged, marginally attached and part-time workers seeking full-time work remains above prerecession levels in Texas and the U.S.

Average hourly wages ticked up 1.2 percent in Texas in January, exceeding the 2016 monthly trend rate of 0.2 percent. Additionally, some manufacturing and staffing services contacts reported instances of upward wage pressure in February.

Energy Production Expands Beyond Permian to Eagle Ford

While the Texas rig count began rising in mid-2016, the increases have been largely confined to the Permian Basin. Eagle Ford rig counts have increased monthly since November, with the largest jump occurring in February. Dallas Fed energy industry contacts indicate that growing oil

production in the U.S. and heightened uncertainty cloud the outlook for oil prices. Additionally, even as the rig count rises in Texas, oil patch employment likely will not return to pre-bust levels because of higher operational efficiency and increased automation.

Exports Increase, Remain Below 2014 Level

Texas exports rose 2.9 percent in the fourth quarter, finishing the year at a level similar to the end of 2015 but still well below 2014 levels (*Chart 4*)—before the value of the dollar began its dramatic rise. Monthly data show a 5.7 percent rise in exports in January. Exports to Mexico, Latin America and the European Union were largely unchanged from fourth quarter 2015. Exports to Asia surged 17.0 percent (including a sharp rise in exports to China), while exports to Canada declined 8.4 percent.

Housing Affordability Slips, Construction Contract Values Fall

[Housing affordability](#)—the share of homes sold that were affordable to a median-income family in the area—has fallen in most major Texas metros (*Chart 5*). Houston is an exception, the result of the oil bust slowing home appreciation.

Apartment demand and occupancy rates generally remain high. Contacts expect rent growth to moderate this year. Austin and DFW office markets remain strong, and industrial availability is tight in most major metros. Again, Houston is an exception, experiencing apartment oversupply and a relatively weak office market.

Nominal Texas construction contract values (aggregated as five-month moving averages) fell 1.4 percent year over year in January but remained 1 percent above their five-year average.

Household Debt-to-Income Ratio Increase Reflects Oil-Bust Impact

The debt-to-income ratio began rising in Texas in second quarter 2015, while it has trended lower nationally. Texas as consumer debt has increased, driven largely by higher mortgage debt from a still-booming housing market—home sales and valuations are both rising faster than they are nationally (*Chart 6*). Also, high-wage [energy and manufacturing jobs](#) declined precipitously during the oil bust, damping income growth in Texas as income continued rising in the U.S.

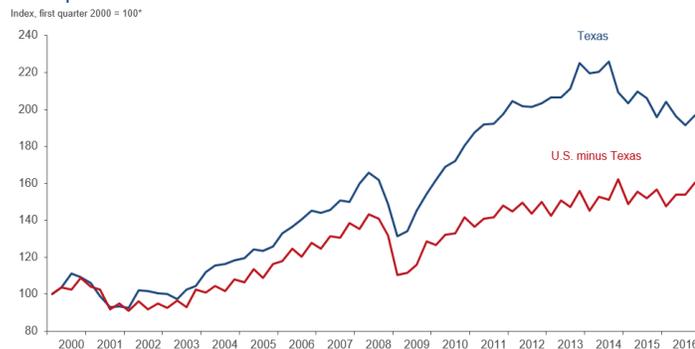
Texas also has the highest auto loan balance of any state, accounting for 11.8 percent of U.S. auto loans in fourth quarter 2016. Additionally, 8.6 percent of Texas auto loans were 30 or more days past due (including severe derogatory), the seventh-highest percentage among the states. Dallas Fed contacts noted in January that, as a result of increased delinquencies, auto companies are easing away from the subprime market. This could affect auto sales, which have already weakened this year.

—Stephanie Gullo, Alex Abraham and Emily Kerr

About the Authors

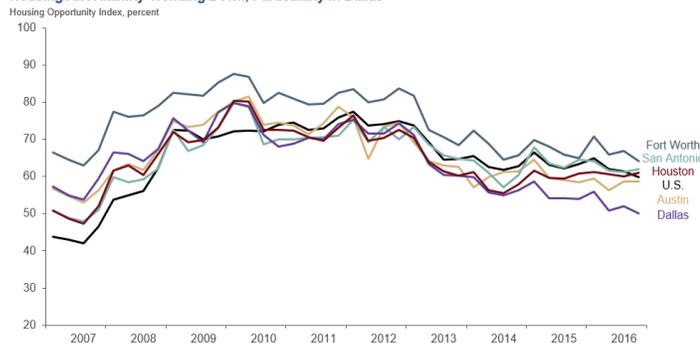
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Chart 4
Texas Exports Remain Below 2014 Levels



*Seasonally adjusted
NOTE: The last data point is fourth quarter 2016.
SOURCES: Census Bureau; Wisenrade; Bureau of Labor Statistics.

Chart 5
Housing Affordability Trending Down, Particularly in Dallas



NOTES: Data are through fourth quarter 2016. The Housing Opportunity Index represents the share of homes sold in a given area that would have been affordable to a family earning the local median income.
SOURCE: National Association of Home Builders/Wells Fargo.

Chart 6
Texas Income Growth Flattens, Debt Increases



NOTES: The last data point is fourth quarter 2016 for debt and third quarter 2016 for personal income. Debt per capita is based on a 5 percent sample of consumers with credit reports; personal income per capita is based on all population. The oil bust shading represents Texas energy sector employment peak to trough.
SOURCES: Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit; Bureau of Economic Analysis.