

## Texas Economy Improves Further

August 3, 2017

The Texas economy is continuing to grow at a solid pace. Employment rose in June, and both manufacturing and service activity expanded, exceeding last year's index averages, according to the Dallas Fed's [Texas Business Outlook Surveys \(TBOS\)](#). However, growth in the energy sector slowed as oil prices fell. Nevertheless, increased activity in export-related manufacturing firms mitigated some of the deceleration in energy-related manufacturing.

The Dallas Fed's latest Texas Employment Forecast for 2017 ticked up from 2.6 percent to 2.8. The main risk factors going into the second half of the year continue to be a sharp decline in energy prices and uncertainty regarding trade and tax policy.

### Employment Growth Robust in June

Texas payroll employment expanded at a 3.6 percent annual rate in June, stronger than May's 2.8 percent increase. On a quarterly basis, job growth ticked up from an annualized 2.7 percent in the first quarter to 2.8 percent in the second and was higher than the nation's 1.6 percent increase (*Chart 1*).

Employment growth has been strong among goods-producing industries (*Table 1*). Oil and gas and support activities posted the fastest employment growth

Chart 1  
Employment Growing Faster in Texas than Nation



\*Seasonally adjusted, annualized rate.  
NOTES: Quarterly employment is the last month of each quarter. Data are through June.  
SOURCES: Bureau of Labor Statistics, Texas Workforce Commission; seasonal adjustments by the Dallas Fed.

in the second quarter at an annualized 25.8 percent, followed by manufacturing at 5.9 percent and education and health services at 4.4 percent. Leisure and hospitality, financial activities and government grew 3.8 percent, 3.7 percent and 2 percent, respectively. Job growth in both the professional and business services and construction sectors decelerated considerably from the first quarter, growing 0.6

Table 1: Job Growth Strong in Oil and Gas, Manufacturing in Second Quarter

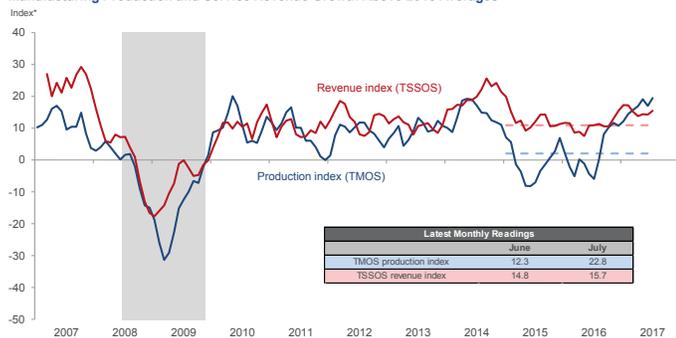
	Q2 2017*	Q1 2017*	2016**
<b>Total</b>	2.8	2.7	1.2
<b>Total private</b>	3.0	2.9	1.1
<b>Oil and gas extraction and support</b>	25.8	17.4	-13.8
<b>Manufacturing</b>	5.9	6.6	-2.5
<b>Education and health services</b>	4.4	3.3	2.9
<b>Leisure and hospitality</b>	3.8	0.1	2.8
<b>Financial activities</b>	3.7	3.1	2.4
<b>Government</b>	2.0	1.5	2.0
<b>Professional and business services</b>	0.6	5.2	0.9
<b>Construction</b>	0.6	6.5	1.2
<b>Trade, transportation and utilities</b>	-0.1	0.0	1.5
<b>Information</b>	-5.0	-8.4	-0.6

\* Annualized percent change, end of quarter over end of previous quarter.

\*\* Percent change, December over December.

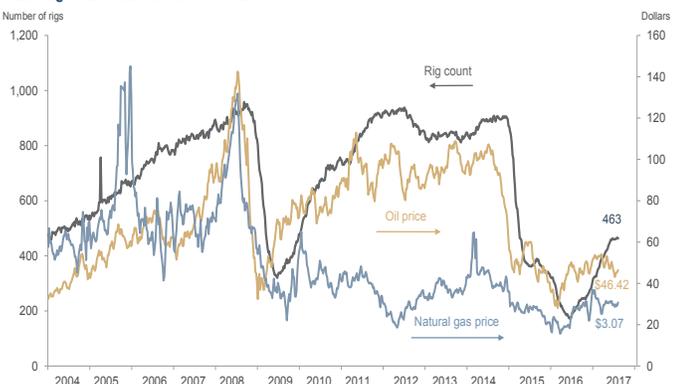
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal adjustments by the Dallas Fed.

**Chart 2**  
**Manufacturing Production and Service Revenue Growth Above 2016 Averages**



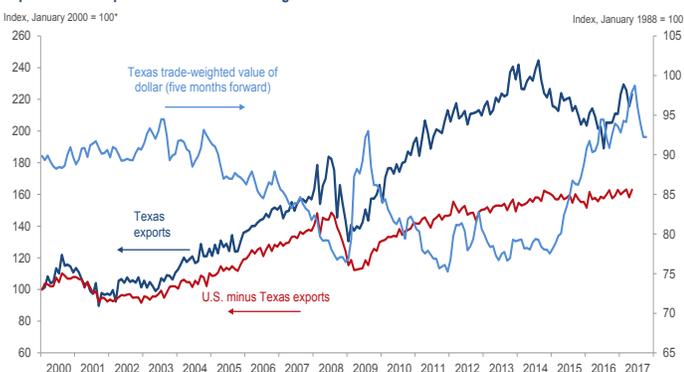
\*Seasonally adjusted; three-month moving average.  
 NOTES: The shaded area represents Texas recession. The dashed lines represent 2016 averages for revenue and production.  
 SOURCE: Dallas Fed, Texas Manufacturing Outlook Survey (TMOS) and Texas Service Sector Outlook Survey (TSSOS).

**Chart 3**  
**Texas Rig Count Stalls as Oil Prices Fall**



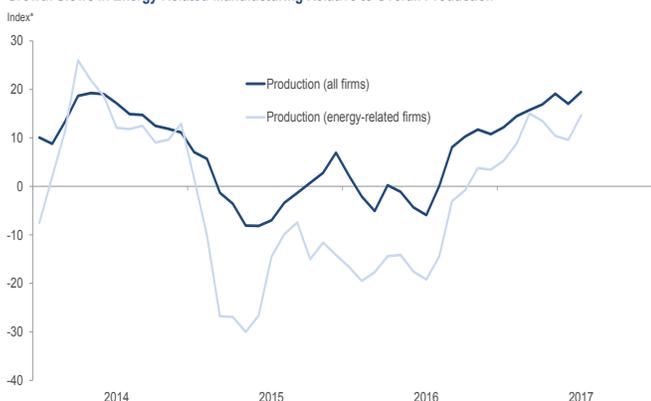
NOTES: West Texas Intermediate oil prices are in dollars per barrel; natural gas prices are in dollars per MMBtu multiplied by 10. The last data point is the week ending July 21, 2017.  
 SOURCES: Wall Street Journal; Baker Hughes; U.S. Energy Information Administration; Haver Analytics.

**Chart 4**  
**Export Growth Expected as Texas Trade-Weighted Value of Dollar Falls**



\*Seasonally adjusted; real May 2017 dollars.  
 NOTE: Data are through May 2017.  
 SOURCES: Census Bureau; WISERTrade; Dallas Fed.

**Chart 5**  
**Growth Slows in Energy-Related Manufacturing Relative to Overall Production**



\*Seasonally adjusted; three-month moving average.  
 NOTE: Data are through July 2017.  
 SOURCE: Dallas Fed, Texas Manufacturing Outlook Survey.

percent. Employment growth in trade, transportation and utilities has been practically flat in 2017, and information services employment contracted 5 percent in the second quarter.

### TBOS Indexes Suggest Continued Growth

Texas factory activity increased in July, and service sector activity continued to reflect expansion, according to business executives responding to the Texas Manufacturing Outlook Survey (TMOS) and the Texas Service Sector Outlook Survey (TSSOS). Both factory production and service revenue continued growing, exceeding last year's averages (*Chart 2*).

### Energy Sector Activity Slows

Growth in energy sector activity slowed as West Texas Intermediate (WTI) oil prices fell to around \$46 per barrel by mid-June. Rig counts in Texas climbed steadily from their May 2016 low of 173 to 458 at the end of May 2017; however, they have fluctuated around 460 since then (*Chart 3*). *Beige Book* contacts said that the pace of increase in the rig count may not be sustainable and that they expect it to taper off past mid-2017. This is consistent with the Dallas Fed's latest *Energy Survey*, which showed that business activity grew robustly in the second quarter, albeit at a slower pace than in the first quarter.

The Energy Survey company outlook index's second-quarter reading indicated prevailing business optimism, though to a lesser extent than in the first quarter. This tempering in optimism coincided with increased uncertainty regarding respondents' outlooks. Over 46 percent of firms reported increased uncertainty, up from 33.8 percent last quarter. On a positive note, the majority of respondents expected WTI oil prices to climb to between \$45 and \$59 by year-end, which is in line with the WTI price range needed to profitably drill a new well.

### Easing Texas Value of the Dollar Likely Bolsters 2017 Exports

Texas exports grew 3.5 percent month over month in May and were up 7.5 percent during the first five months of the year. Texas exports should continue growing as the Texas trade-weighted value of the dollar falls and global growth improves (*Chart 4*). These factors should lift exports in the second half of the year, particularly in cross-border manufacturing sectors such as electronics and transportation.

Increased activity in export-related manufacturing has offset some of the deceleration in energy-related manufacturing. Three-month moving averages show continued growth in the TMOS production index even as output growth in energy-related manufacturing has been below overall production (*Chart 5*).

—Alex Abraham and Jesus Cañas

### About the Authors

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