

## Hurricane Harvey Unlikely to Throw Texas Off Course

September 29, 2017

Hurricane Harvey caused widespread damage and broad disruption to the Southeast Texas economy. Preliminary estimates indicate that Harvey will be one of the costliest U.S. hurricanes, ahead of Sandy and behind Katrina. However, the storm's negative impact on employment and business activity is expected to be transitory and should not derail the state's positive economic momentum. The Federal Reserve Bank of Dallas' forecast for 2017 job growth is unchanged at 2.6 percent (December to December).

Before Harvey's initial landfall, Aug. 25, state job gains were solid and unemployment was at its lowest level in a decade. After Harvey, initial unemployment claims soared, and the Dallas Fed's analysis suggests that employment will decline in September before likely rebounding to trend growth in subsequent months.

### Employment Gains Strengthen in August

The impact of Hurricane Harvey was not reflected in the August employment figures because payroll data are typically collected around the 12th day of the month.

Texas payroll employment expanded an annualized 2.0 percent in August, up from 1.1 percent in July. Job gains were relatively broad based, with the fastest growth seen in oil and gas extraction and mining support activities, construction, and leisure and hospitality. The picture across the major metros was mixed, with Houston employment flat and Fort Worth down 2.1 percent in August. Employment in both metros is up year to date. Through August, the state has grown at a strong 2.6 percent annual rate.

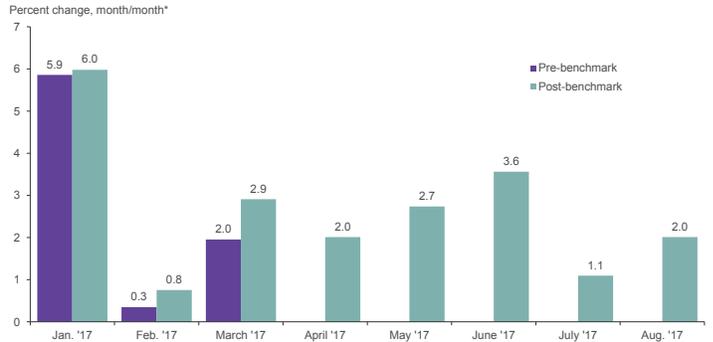
### First-Quarter Job Growth Revised Upward

The Texas Workforce Commission releases a more comprehensive employment series, the Quarterly Census of Employment and Wages (QCEW), which is used to benchmark the monthly Current Employment Statistics data series. With the release of first quarter 2017 QCEW data, Texas nonfarm employment was revised upward by 0.5 percentage points in the first quarter, from 2.69 percent to 3.19. Revisions to employment growth were substantial in February and March (*Chart 1*).

### Initial Jobless Claims Surge with Impact of Hurricane

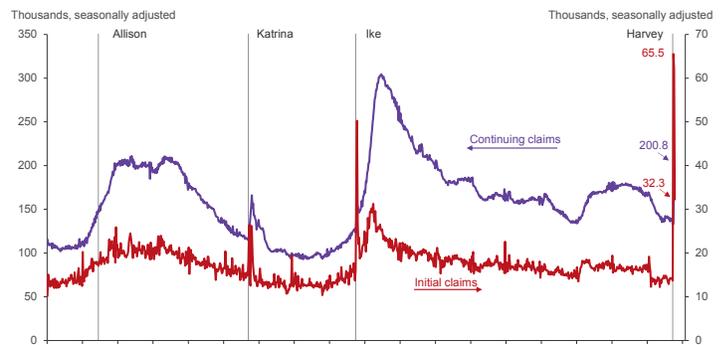
Texas initial unemployment claims climbed to 65,524 in the week ended Sept. 2, nearly five times the level seen in the previous week (*Chart 2*). Claims have since come

**Chart 1**  
Benchmark Revision Reveals Stronger First-Quarter Job Gains for Texas



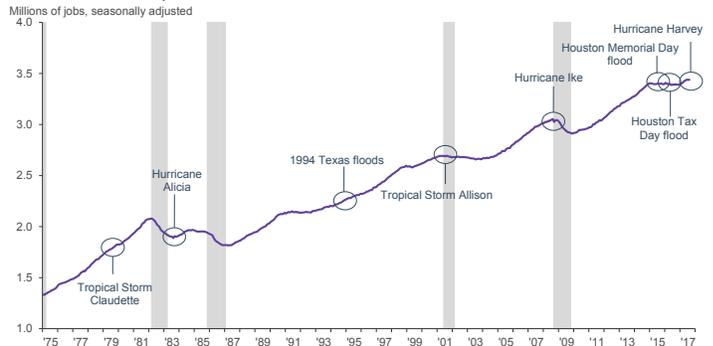
\*Seasonally adjusted, annualized rate.  
NOTES: Data are through August 2017. Early benchmarking is through first quarter 2017.  
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

**Chart 2**  
Initial Claims Spike Following Hurricane Harvey



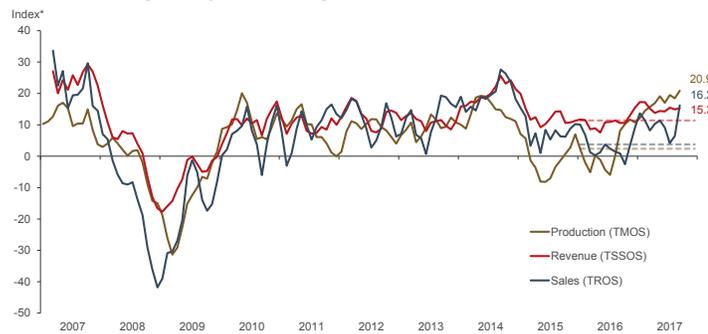
NOTE: Initial claims data are through Sept. 16, 2017, and continuing claims data are through Sept. 9, 2017.  
SOURCE: U.S. Department of Labor.

**Chart 3**  
Past Severe Weather Impacts on Texas Gulf Coast Job Growth Short-Lived



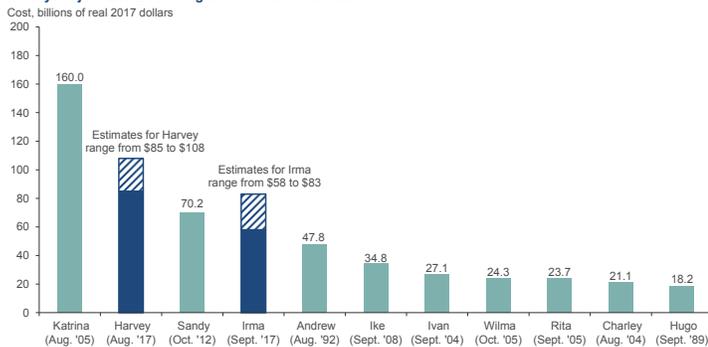
NOTE: Gray bars represent Texas recessions. Gulf Coast employment refers to the Houston, Beaumont, Corpus Christi and Victoria metros.  
SOURCES: Bureau of Labor Statistics; National Oceanic and Atmospheric Administration; adjustments by the Federal Reserve Bank of Dallas.

**Chart 4**  
**TBOS Points to Strong Recovery in Manufacturing, Stable Growth in Services**



\*Three-month moving average, seasonally adjusted.  
 NOTES: Data are through September 2017. Dashed lines are 2016 averages.  
 SOURCES: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

**Chart 5**  
**Harvey Projected to Be Among Costliest U.S. Hurricanes**



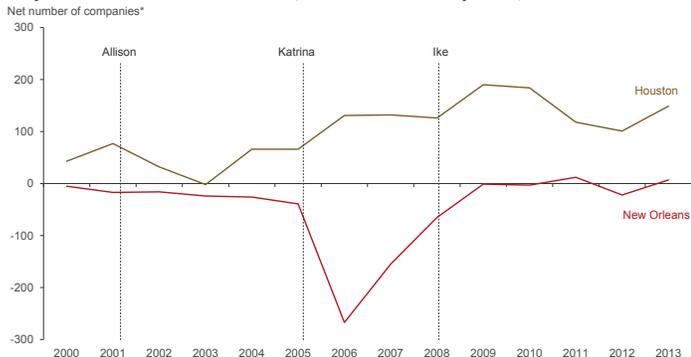
NOTE: Costs include loss of personal and commercial property, public and private infrastructure, vehicles, livestock, and time-element losses (e.g., time costs for businesses, and hotel costs for loss of living quarters).  
 SOURCES: National Oceanic and Atmospheric Administration; National Centers for Environmental Information; Moody's Analytics; Enki Research.

**Chart 6**  
**Texas Home Sales Dip in August**



\*Three-month moving average, seasonally adjusted.  
 NOTE: Last data point is August 2017.  
 SOURCES: Texas A&M Real Estate Center; Multiple Listing Service; seasonal and other adjustments by Federal Reserve Bank of Dallas.

**Chart 7**  
**Many Firms Leave New Orleans After Katrina; Houston Less Affected by Allison, Ike**



\*The net number is the difference between firms moving in and those moving out of the metro area each year.  
 SOURCE: National Establishment Time Series Database.

down to around 32,000 in the week ended Sept. 16 but are still elevated relative to the 2017 pre-Harvey average of 13,900. Following Hurricane Ike in September 2008, Texas initial jobless claims rose 142 percent and remained elevated for at least five weeks. Given that the disruption caused by Harvey is of a larger magnitude, initial claims will likely remain elevated for a similar or slightly longer period. Prior to Harvey, state initial jobless claims were below their 2000–06 averages.

### Harvey's Employment Impact Expected to Be Short Lived

Historically, the impact of extreme weather events on Texas Gulf Coast payroll employment has been transitory as employment resumes its normal growth path following a temporary decline (*Chart 3*). Many of the weather events highlighted in *Chart 3* were not as severe as Harvey but still point to the resiliency of the area's economy.

A Dallas Fed analysis of the effect of Hurricane Harvey on employment suggests that jobs will fall sharply in September, by 54,200 to 73,700 on the Gulf Coast and 37,800 to 60,400 statewide.<sup>1</sup> Employment will likely rebound to trend growth along the Gulf Coast by year-end and in Texas in October.

### Texas Business Outlook Survey Reflects Continued Expansion

Texas factory activity increased in September, and retail and service sector activity continued to reflect expansion, according to business executives responding to the Dallas Fed's Texas Business Outlook Surveys (TBOS). Factory production and service revenue continued growing in September, exceeding last year's averages (*Chart 4*). Retail sales climbed markedly in September as well.

Hurricane Harvey had a negative effect on the revenue and/or production of 41 percent of firms responding to the TBOS special questions that focused on its impact. Over the next six months, 33 percent of all special question respondents expect a decrease in their revenue and/or production as a result of the storm. These firms identified loss of customer base, personnel disruptions and transportation and/or supply chain disruptions as the most significant impediments to getting back to business as usual.

### Harvey's Economic Losses Daunting

Despite the transitory impact of Harvey on employment and business activity, the damage to property and infrastructure is severe. Moreover, insured losses are expected to be a smaller share of the total compared with other major U.S. hurricanes because a larger-than-usual proportion of the property damage was from flooding. Harvey's damage costs are estimated at \$85 billion and up, putting the storm's losses ahead of most major U.S. hurricanes (*Chart 5*).

## Labor Shortages May Worsen as Texas Gulf Coast Repairs, Rebuilds

Labor markets tightened further in August, with the state unemployment rate falling to 4.2 percent—its lowest level since July 2007. Labor markets in Austin and Dallas were even tighter, with unemployment below 4 percent.

With a limited labor pool from which to choose, companies are reporting worker shortages and difficulty hiring. Shortages are particularly acute in construction, where wages have rapidly increased since 2012. Labor demand will rise as post-hurricane repair and restoration work gets underway, further squeezing the Texas construction market and pushing up labor and material costs.

When asked about the impact of Hurricane Harvey on the labor market, 27 percent of firms responding to the TBOS special questions survey expected their ability to find and hire workers to become more difficult over the next six months.

## Home Sales Dip, May Decline Further Post-Harvey

Overall, statewide home sales have plateaued at elevated levels and dipped in August (*Chart 6*). Sales of entry-level homes (priced under \$250,000) have been mostly flat to down throughout the current expansion as home prices have rapidly increased. Sales of homes priced between \$250,000 and \$749,000, which had been expanding at a solid pace and accounted for 35 percent of the overall market in 2016, have softened in recent months as well. Sales of homes priced above \$750,000 have increased 3.9 percent year to date. Home sales will likely slow further in the near term in Houston and other affected areas due to the widespread storm damage to homes but will gradually return to normal as recovery begins.

## Longer-Run Economic Impact Likely Limited

Research suggests that the longer-term impact of the hurricane is expected to be limited.<sup>2</sup> Houston will rebound because of its importance as the energy capital of the U.S. and as a center for business and trade. Other parts of the coast will gradually recover as well, although some small-business owners may find it difficult to reopen.

One indicator of Houston's resilience is the sustained in-migration of firms following previous severe weather events (*Chart 7*). New Orleans was in economic decline before Katrina made landfall in 2005, with more firms moving out of the metro area relative to those coming in. Katrina accelerated the out-migration from New Orleans. In contrast, Houston's economy was adding new firms on net prior to Allison and Ike and continued attracting employers after the storms' immediate impacts passed.

—Laila Assanie and Stephanie Gullo

## Notes

1. For the Gulf Coast, growth is expected to rebound by an annualized 15.7 to 21.1 percent in October and rise 8.7 to 11.2 percent in November. A slight rise of 3.6 to 4.3 percent is anticipated in December. For Texas, growth will likely rebound by an annualized 11.8 to 15.0 percent in October while staying close to what had been forecast absent the hurricane for November and December.
2. "The Economic Growth Impact of Hurricanes: Evidence from U.S. Coastal Counties," by Eric Strobl, *The Review of Economics and Statistics*, vol. 93, no. 02, 2011, pp. 575–89; and "Local Economic Impacts of Natural Disasters," by Yu Xiao, *Journal of Regional Science*, vol. 51, no. 4, 2011, pp. 804–20.

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## About the Authors

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