

Texas Economy Resilient to Storm Effects

November 10, 2017

Texas lost fewer jobs than expected in September as a result of Hurricane Harvey, and post-hurricane data from the Texas Business Outlook Surveys (TBOS) point toward a rapid recovery from the storm. The 2017 Texas job growth forecast remained at 2.6 percent after adjusting the model input data for the temporary impact of the storm.

There are cyclical and structural headwinds to the Texas economic outlook. Labor markets have grown significantly tighter this year; the September Texas unemployment rate was 4 percent, having fallen 1 percentage point since April and is currently at a level last observed in December 2000. There is some slack remaining in Houston, but not much, which could hamper hurricane recovery efforts. Given Texas is highly dependent on trade with Mexico, uncertainty around ongoing trade negotiations is another headwind.

Third-Quarter Job Growth Slowed Further by Storm

Before Hurricane Harvey, Texas employment growth had decelerated to an annualized 1.3 percent (August over June) after growing a robust 3 percent in the first half of the year. Slower growth, combined with September's hurricane-induced net losses of 4,409 jobs at the state level, pulled third-quarter growth down to 0.7 percent (Chart 1).

Similar to the nation, Texas' leisure and hospitality sector was most negatively impacted by the hurricane, with restaurants accounting for the bulk of job losses. Despite the slowdown in the third quarter, year-to-date Texas job growth is an annualized 2.2 percent, well ahead of the 1.4 percent growth in the U.S. this year (October/December) and 1.2 percent in Texas in 2016 (December/December).

Hurricane Harvey Dampens Rebounding Houston Payrolls

The Gulf Coast region lost nearly 30,000 jobs in September, but gains in the Austin, San Antonio and Dallas–Fort Worth metro areas nearly offset these losses, adding a combined 25,000 jobs. Payrolls in Houston had rebounded this year after two years of flat growth during the oil bust (Chart 2). Houston employment was up an annualized 1.9 percent through August, before declining 8.9 percent in September.

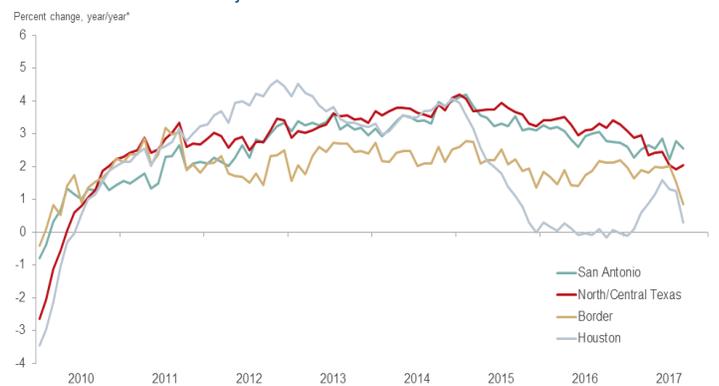
Year-to-date job growth in Dallas and Austin has slowed compared with 2016, but employment growth accelerated in the third quarter in both metros compared with the first half of the year. Growth along the border has remained stable but lackluster this year, trailing the state average and falling off in September. San Antonio leads the state's major metros in year-to-date job gains through September at 2.8 percent.

Chart 1
Texas Employment Expands in Third Quarter Despite September Decline



*Seasonally adjusted, annualized rate.
NOTES: Quarterly data are the last month of the quarter. Dashed line shows partial Q4 growth rate (October/September, annualized).
SOURCES: Bureau of Labor Statistics, Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.

Chart 2
Hurricane Puts Houston's Recovery on Pause



*Seasonally adjusted.
NOTES: Border is the sum of Brownsville, Laredo and McAllen metropolitan statistical areas (MSAs); North/Central Texas is the sum of Dallas, Fort Worth and Austin MSAs.
SOURCES: Bureau of Labor Statistics, Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.

TBOS Results Indicate Robust Business Activity, Storm Resilience

Texas Business Outlook Surveys remained strong in September and October, suggesting that the impact of Hurricane Harvey was both temporary and not large enough to offset continued business growth (Chart 3).

The Texas Manufacturing Outlook Survey (TMOS) production index climbed to 25.6 in October, its highest level since April 2014. The Texas Service Sector Outlook Survey (TSSOS) revenue index also increased again in October to 19.2, its highest level this year.

Texas retailers noted a particularly strong month in September, with the Texas Retail Outlook Survey (TROS) sales index jumping 16 points to 32.8—its highest reading in three years.

Despite moving lower in October, the TROS sales index remained elevated at 17.7. Driving strength in retail are auto sales, which have been particularly robust in the Gulf Coast region; Houston new-car sales roughly doubled in September from August.

Another key indicator of the magnitude of disruption caused by a severe weather event is interruption in power consumption, and Harvey had a relatively limited impact on power transmission. Since power transmission was not disrupted to the same extent as is typical with other hurricanes, employees were largely able to work remotely (where applicable) and some businesses could reopen shortly after the storm. This helped mitigate some of the storm's negative impact on economic activity.

Overall Construction Activity Strengthens, Residential Remains Weak

Total construction contract values in the state increased year over year in September, driven by spending in building and nonresidential construction. This is the strongest sign of a construction recovery since the oil bust ended in 2016. However, weakness remains in residential construction spending, which declined year over year for the fifth consecutive month in September (*Chart 4*).

However, with post-hurricane recovery efforts underway, residential construction will likely pick up in coming months. Hurricane Harvey destroyed 16,930 homes in the Gulf Coast region and damaged another 290,051 homes.¹ There are roughly 4.6 million homes in the affected Gulf Coast counties, so about 1 in 15 homes is damaged or destroyed.

With Gulf Coast residents displaced from their homes, apartment occupancy has surged. Net absorption totals almost 11,000 units in Houston since Hurricane Harvey, according to CBRE data.²

Home sales were up in the state as well as most major metro areas in September after declining in August, according to Multiple Listing Service data. Texas existing-home sales rose 9.5 percent in September after falling 8.1 percent in August. Houston experienced the largest rebound in sales, with more modest gains in Dallas, Fort Worth and San Antonio.

Exports Expand Rapidly

Texas exports were up 8.3 percent through September 2017 compared with the same period last year (*Chart 5*). Increasing state exports this year occur as the Texas trade-weighted value of the dollar softens, oil prices rise and export capacity is added in Texas ports and along the border. Exports from the rest of the U.S. are up 2.7 percent for the year.

—Amy Jordan and Alexander T. Abraham

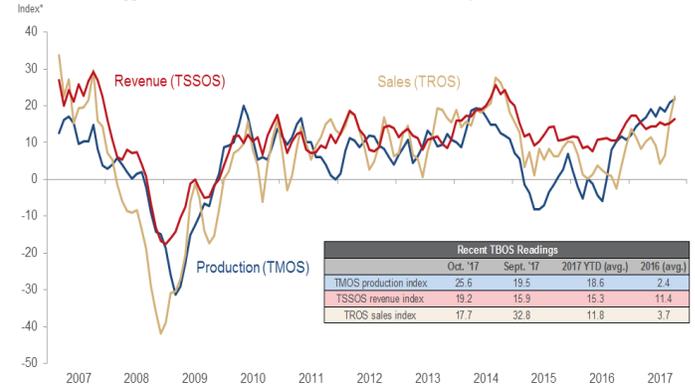
Notes

1. Numbers according to the Texas Division of Emergency Management Oct. 20, 2017, Situation Report.
2. Data are from CBRE Houston Multifamily MarketView Q3 2017.

About the Authors

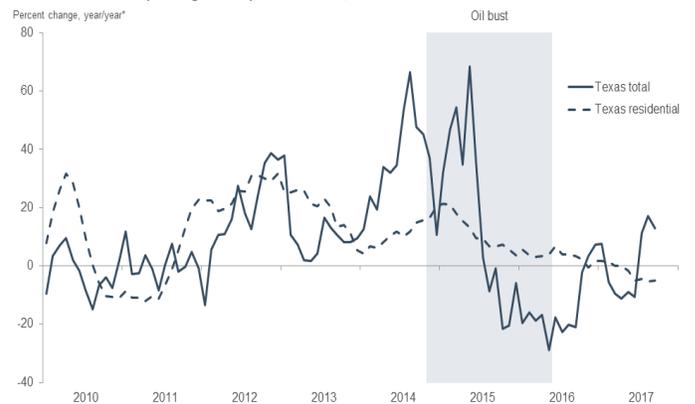
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Chart 3
TBOS Indexes Suggest Robust and Broad-based Growth Continued in September and October



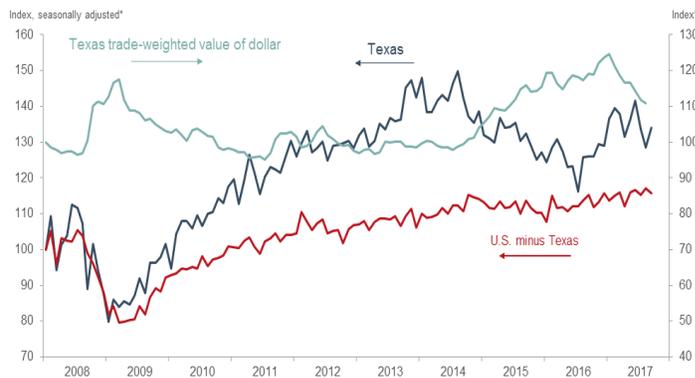
*Three-month moving average, seasonally adjusted.
SOURCES: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS), Texas Retail Outlook Survey (TROS).

Chart 4
Texas Construction Spending Picks Up After Oil Bust, But Not in Residential



*Real dollars, seasonally adjusted, five-month moving average.
SOURCES: F.W. Dodge; seasonal and other adjustments by Federal Reserve Bank of Dallas.

Chart 5
Falling Dollar Helps Boost Texas Exports



*January 2008 = 100.
NOTE: Underlying export data are in real dollars.
SOURCES: Census Bureau; WISERTrade; seasonal and other adjustments by Federal Reserve Bank of Dallas.