Economic Update
TEXAS
Federal Reserve Bank of Dallas

Texas Economic Growth Continues at Healthy Pace

May 10, 2018

The Texas economy remains in a broad-based expansion. Job growth in the first quarter was a robust 3.5 percent, maintaining the solid gains seen in fourth quarter 2017. The state's energy sector continues to boom, and areas of the state tied to oil and gas are growing at their strongest pace since 2014. The Dallas Fed's Texas Business Outlook Surveys (TBOS) suggest sustained growth in the state's manufacturing and service sectors through April. With this strength, the Dallas Fed's Texas Employment Forecast projects growth of 3.4 percent for the year.

Employment Growth Accelerates Across Most Industries, Metros

Texas job growth moderated in March to a 2.3 percent annualized rate. However, growth in February was revised up by a percentage point to 4.2 percent. Along with January's healthy pace, this brought overall growth in the first quarter to 3.5 percent.

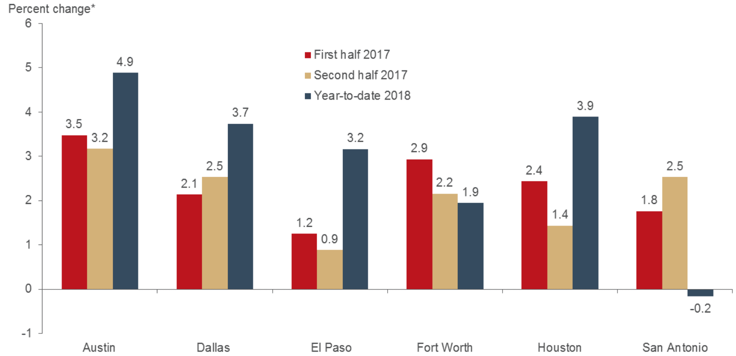
Across the state's major metros, growth was mostly broad based (*Chart 1*). Continued expansion in the energy sector has disproportionately benefited Houston job growth, which accelerated from 1.4 percent in the second half of 2017 to 3.9 percent, or 29,000 net new jobs, in the first quarter. Dallas and Austin also saw a significant pickup in jobs, growing at 3.7 percent and 4.9 percent, respectively. San Antonio saw an unusual weakening in the first quarter, likely due in part to moderating effects following a strong surge in post-Hurricane Harvey leisure and hospitality hiring.

The outlook for state employment remains strong. The Texas Leading Index increased 1.6 percent over the first quarter, bolstered mainly by increases in the U.S. leading index and decreases in initial claims for unemployment insurance. Combined with recent strength in job growth, the Dallas Fed's Texas Employment Forecast suggests that 2018 job growth will be 3.4 percent.

State Manufacturing and Service Sectors Strong

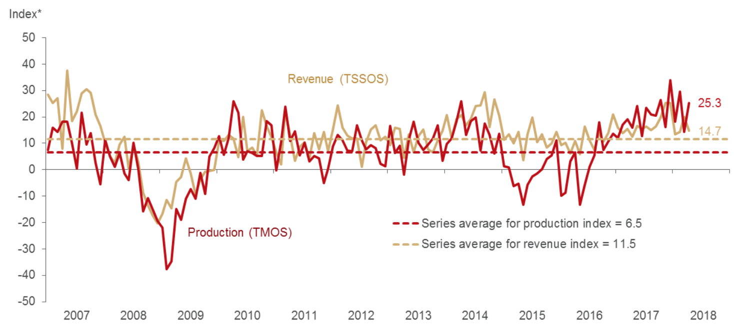
Data from TBOS suggest manufacturing and service sector activity continued to grow at a strong pace in April (*Chart 2*). The headline production index for the Texas Manufacturing Outlook Survey (TMOS) rebounded in April, while the revenue index for the Texas Service Sector Outlook Survey (TSSOS) slipped but continued to point toward above-average growth. TBOS employment indexes also held well above their postrecession averages, indicating further hiring in April.

Chart 1
First-Quarter Job Growth Strong in Most of Texas' Large Metros



*Seasonally adjusted, annualized rate.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.

Chart 2
Manufacturing Output Rebounds in April While Service Sector Revenue Dips Slightly

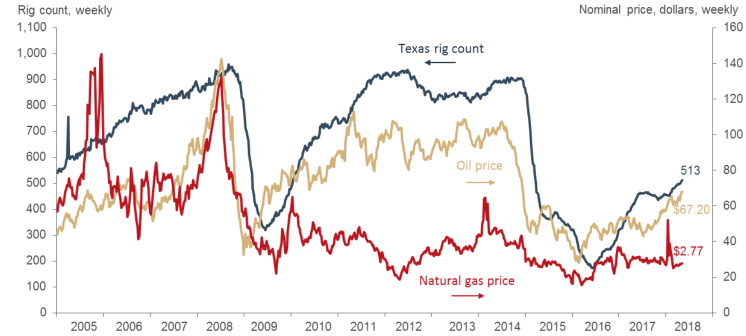


*Seasonally adjusted.
NOTES: Last data point is April 2018.
SOURCES: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey (TMOS); Texas Service Sector Outlook Survey (TSSOS).

Energy Sector Robust

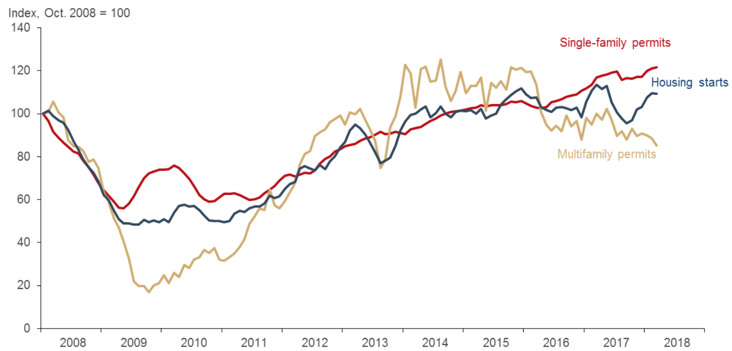
Activity in the energy sector picked up further in March and April, as oil prices rose above $65 per barrel due to lower-than-expected inventories and heightened geopolitical risk (*Chart 3*). The state's drilling rig count rose to a three-year high of 513 in the last week of April. Production continued to increase across the state's major oil-producing regions, with the Permian Basin seeing by far the most significant growth in output.

Chart 3
Texas Rig Count Trending Up on Higher Oil Prices



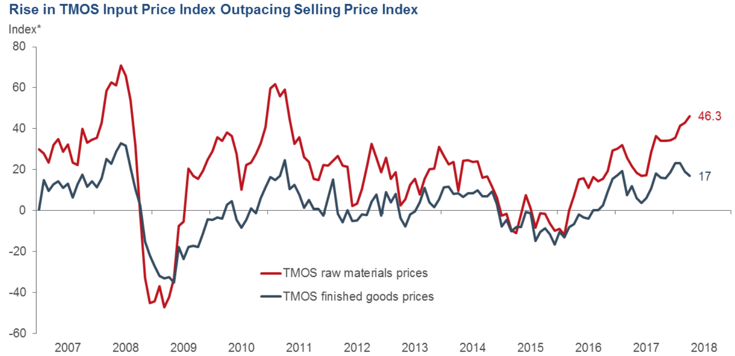
NOTES: Natural gas price series is multiplied by 10; last data point is week ending April 27, 2018.
SOURCES: Energy Information Administration; *Wall Street Journal*; Baker Hughes; Haver Analytics.

Chart 4
Residential Housing Starts Trending Upward So Far This Year



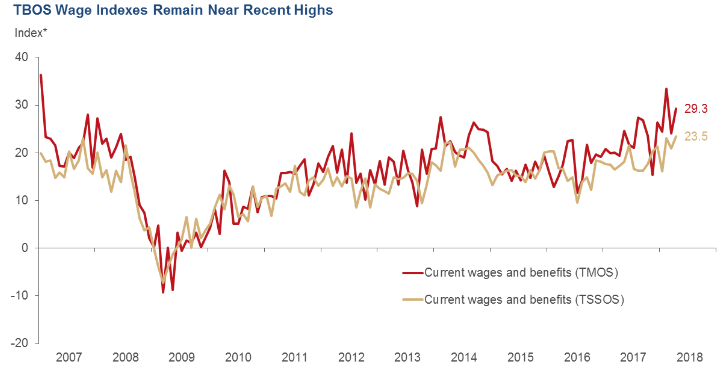
*Series are seasonally adjusted and indexed on five-month moving averages.
NOTE: Last data point is March 2018.
SOURCES: Bank of Tokyo-Mitsubishi UFJ; Census Bureau; seasonal and other adjustments by Federal Reserve Bank of Dallas.

Chart 5
Rise in TMOS Input Price Index Outpacing Selling Price Index



*Seasonally adjusted.
NOTE: Data are through April 2018.
SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey (TMOS).

Chart 6
TBOS Wage Indexes Remain Near Recent Highs



*Seasonally adjusted.
NOTE: Last data point is April 2018.
SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey (TMOS) and Texas Service Sector Outlook Survey (TSSOS).

Real Estate and Construction Activity Robust

Residential real estate activity continued to strengthen in February and March. Existing-home sales continued to rise across the state, with sales in all major metros at or near all-time highs, while home inventories held near 20-year lows.

On the construction side, single-family activity picked up notably, with both permits and starts up statewide since the end of last year (*Chart 4*). Multifamily permits have continued to moderate following the boom in 2013–15. However, overall solid growth in residential building is reflected in construction employment, which expanded at a 6.3 percent annualized pace in the first quarter.

Price and Wage Pressures Continue to Rise

Texas price pressures picked up further through April. TBOS respondents on net noted increasing prices in April, with the TMOS finished goods price index near postrecession highs and the TSSOS selling prices index at its highest value in over 10 years. This suggests that upward pressure on inflation will continue, and year-over-year growth in the Texas Consumer Price Index held above 2 percent.

Nevertheless, pricing power among firms remains limited relative to input costs. While the TMOS finished goods prices index remains elevated, the TMOS raw materials prices index rose to a seven-year high in April (*Chart 5*). Anecdotes from businesses across the state suggest that while raw material and other input costs continue to rise, the ability of businesses to pass on costs is more limited.

Wage pressures remain elevated. The TMOS and TSSOS wage and benefits indexes both held at or near postrecession highs (*Chart 6*). The share of TSSOS respondents noting wage increases rose to 26.6 percent—the highest share on record. This is reflective of tight labor markets across the state; the unemployment rate has held steady at a near-historic low of 4.0 percent for four consecutive months. This suggests that pressure on employers to attract workers may spur further wage increases going forward.

—Christopher Slijk and Jason Saving

About the Authors

Slijk is an assistant economist and Saving a senior research economist and advisor in the Research Department of the Federal Reserve Bank of Dallas.