

# Texas Economy Continues to Advance

June 18, 2018

The Texas economy is expanding at a solid pace. Employment has grown at a 3.6 percent annualized rate through May, driven by job gains in the goods-producing sector. Unemployment remains near its historical low, and labor markets are tight. The Dallas Fed's Texas Business Outlook Surveys (TBOS) suggest economic activity accelerated in May. Texas' rig count is on the rise as oil prices continue to recover.

## Manufacturing, Services and Retail Accelerate

TBOS headline indexes suggest economic activity picked up in May (*Chart 1*). The three-month moving averages of the headline indexes for the manufacturing and service sector surveys continue to trend upward, while the three-month moving average of the retail sales index rose for the first time in six months. All TBOS employment indexes increased and were well above their postrecession averages. The Texas Leading Index and TBOS outlook indexes point to continued expansion in the state.

## Employment Growth Is Broad Based

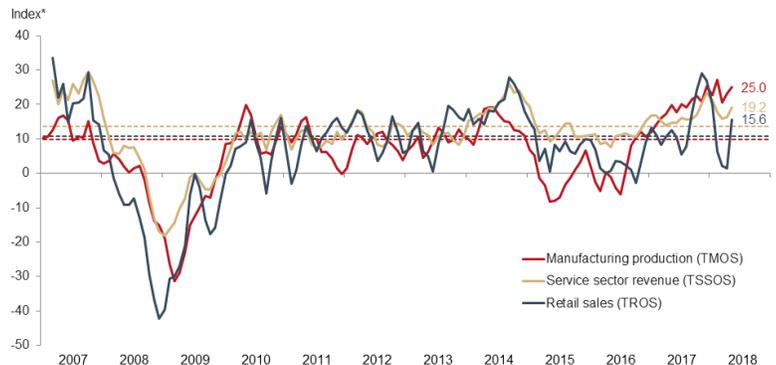
Texas employment expanded at a 3.2 percent annualized rate in May, slower than April's 4.1 percent increase. Job growth remained generally broad based across major Texas metros (*Chart 2*). Year to date through May, Houston leads in job growth among the major metros, supported by its robust energy sector and continued post hurricane rebuilding activity. Job gains through May remain solid in Austin and Dallas-Fort Worth, but have moderated in San Antonio when compared with 2017. El Paso is the only metro to post losses thus far in the second quarter, but job growth year to date remains faster than in 2017.

The Texas Employment Forecast for 2018 was revised down slightly to 3.3 percent in June from 3.6 percent in May but remains well above 2017's growth of 1.9 percent.

## Unemployment Holds Steady Near Record Low

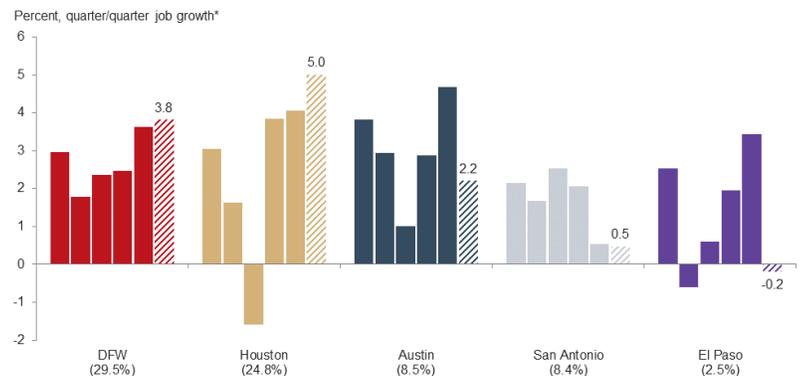
The Texas unemployment rate held steady at 4.1 percent in May, while the U.S. rate edged down to 3.8 percent (*Chart 3*). The jobless rate in Texas has crept up relative to the national rate since March primarily due to stronger labor force growth in the state—more workers sought jobs in an already tight labor market. Despite being slightly above the national rate, the Texas unemployment rate remains near historical lows. Broader measures of labor market slack—including discouraged and marginally attached workers and those working part-time for economic reasons—have also dropped well below their prerecession averages. The Dallas Fed's Beige Book and TBOS contacts report widespread labor shortages.

**Chart 1**  
TBOS Headline Indexes Suggest Activity Accelerated in May



\*Three-month moving average, seasonally adjusted.  
NOTES: Data are through May 2018. Dashed lines are postrecession averages beginning in January 2010.  
SOURCES: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys (TBOS); Texas Manufacturing Outlook Survey (TMOS); Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

**Chart 2**  
Job Growth Strengthens in Houston and DFW



\*Seasonally adjusted annualized rate.  
NOTES: Quarters begin with first quarter 2017. Patterned bars show May 2018/March 2018 annualized growth. Numbers in parentheses refer to the share of state employment in May 2018.  
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

**Chart 3**  
Texas Unemployment Rate Holds Steady



NOTES: U.S. and Texas data are through May 2018.  
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

## Survey Respondents Indicate Wage Increases

TBOS wage indexes remained firmly above their postrecession averages in May. On average, respondents to TBOS Special Questions last month expect wages to increase 4.4 percent and input prices to rise 4.8 percent this year compared with 2017 (Chart 4). The share of respondents who said they are raising wages and/or benefits to recruit and retain employees also increased, rising from 49.4 percent in November 2017 to 61.6 percent in May.

## Growth in Existing-Home Sales Moderates Somewhat

Existing-home sales were up 2.9 percent on a year-over-year basis in April—about the same as in March (Chart 5). After rising steadily in the second half of 2017, sales growth has moderated in most metros except Austin and San Antonio. Part of the moderation may be due to long-standing housing supply constraints.

With construction activity still below prerecession levels, the supply of homes remains very tight in most metros. Average inventory levels of existing homes in Texas have held steady at 3.4 months this year and remain below their long-run equilibrium of six months in all major metros. With steady demand for housing and inadequate supply, house prices continue to appreciate, but at a slower pace than last year. Year-over-year growth in the Federal Housing Finance Agency House Price Index for Texas remains robust but has been moderating since second quarter 2017.

## Energy Continues Its Push Forward

In May, the West Texas Intermediate spot price hovered above \$70 per barrel, likely due to increased geopolitical uncertainty surrounding key oil-producing countries (Chart 6). Prices have receded below \$70 per barrel in June but remain well above the Permian Basin's average breakeven price of \$50 as reported in the Dallas Fed's Energy Survey.

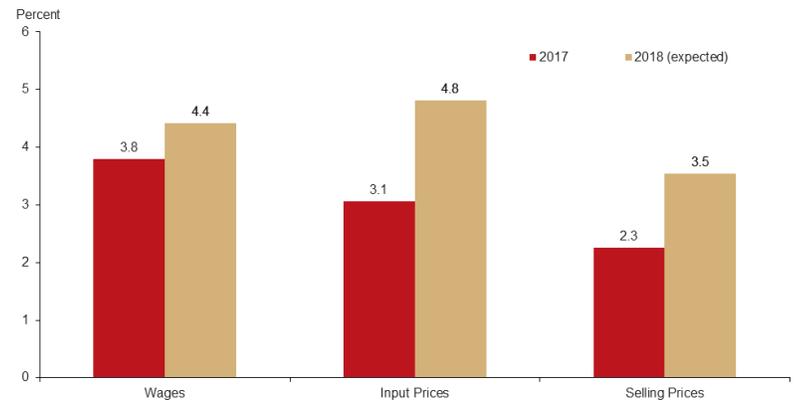
Texas' rig count continued its steady climb, increasing from a low of 173 rigs in May 2016 to 538 rigs at the start of June. Beige Book respondents indicated drilling and completion activity increased further in the Permian but expressed concerns over pipeline-capacity and worker-availability constraints.

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## About the Authors

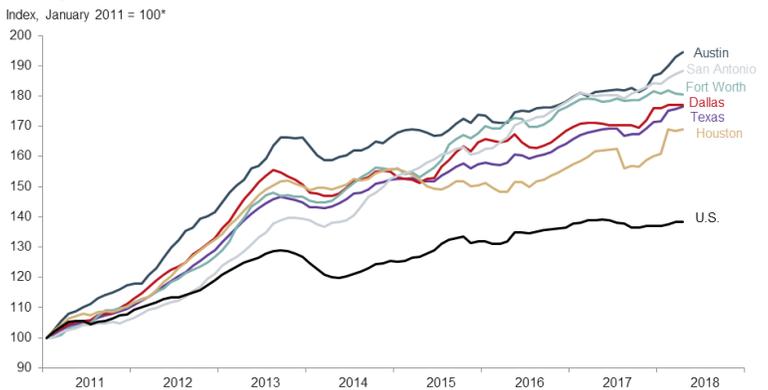
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**Chart 4**  
Faster Growth in Wages and Prices Expected in 2018



NOTE: Texas Business Outlook Survey data, collected May 15–23, 2018, with 328 firms responding.  
SOURCE: Federal Reserve Bank of Dallas.

**Chart 5**  
Existing-Home Sales Show Some Moderation in Growth



**Chart 6**  
Rig Counts Improve Further as Oil Prices Continue to Recover

