

# Healthy Texas Expansion Beginning to Slow

December 26, 2018

The Texas economy continues to grow at a solid but slightly slower pace, with job growth broad based across industries and regions. The Austin, Houston and San Antonio metro areas led the state in job growth during the three months ending in November. The Texas Business Outlook Surveys indicate that growth in the manufacturing sector has moderated from the highs seen earlier in the year. Wage pressures have eased somewhat in recent months as well but remain elevated. The Texas labor market will likely tighten further in the months ahead; however, if oil prices continue to linger around \$50 per barrel, job growth in the state may begin to decelerate. Texas exports are also likely to weaken.

## Texas Job Growth Firm

Texas jobs increased at a moderate 2.3 percent annualized rate from August to November and are up 2.4 percent year to date (*Chart 1*). The energy, manufacturing and financial sectors led growth during the three months through November, expanding an annualized 11.0, 5.9 and 4.3 percent, respectively. The trade, transportation and utilities sector and construction industry also added jobs at a strong pace.

## Austin Leads Other Major Metros in Job Growth

Among the largest metro areas, Austin, Houston and San Antonio led job growth over the three months through November (*Chart 2*). In particular, Austin experienced a significant boost from hiring within three sectors—health and education services; trade, transportation and utilities; and government. Job gains in El Paso remained soft over the same period as expansion within the trade, transportation and utilities; construction, mining and natural resources; and information industries were somewhat offset by sharp declines in the professional and business services and leisure and hospitality sectors. Growth in Dallas and Fort Worth moderated as well relative to the third quarter.

## Texas Unemployment Rate Likely to Fall Further

As of November, the state's unemployment rate stood at 3.7 percent—the lowest since the series began in January 1976. Changes in initial claims for unemployment insurance, which tend to lead changes in the unemployment rate by three months, suggest the Texas unemployment rate will fall even further (*Chart 3*).

## Exports Likely to Decelerate in Coming Months

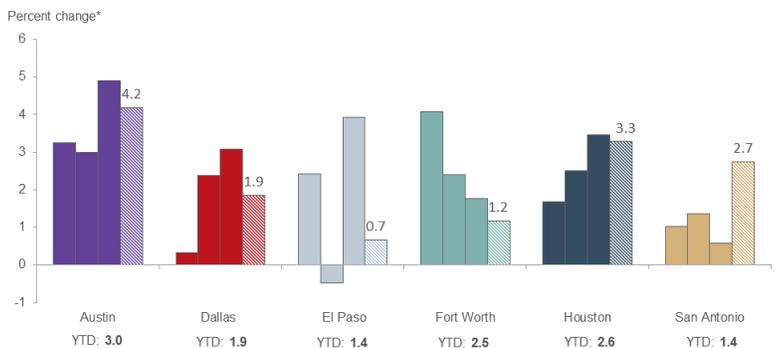
The real Texas trade-weighted value of the dollar continued an upward trend that began in mid-2017 and rose in October to its highest level since March 1995. Despite the strength in the dollar, Texas exports continued to expand from September to November following a brief dip in August (*Chart 4*).

**Chart 1**  
Texas Employment Data Show Continued Expansion



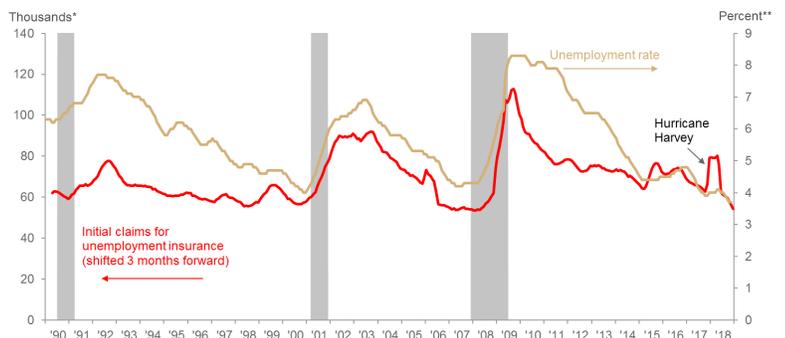
\*Seasonally adjusted, annualized rate.  
NOTE: Quarterly employment growth is measured as the annualized rate of growth from the last month of the prior quarter to the final month of the current quarter. The striped bar for the fourth quarter is the November/August three-month annualized change.  
SOURCES: Bureau of Labor Statistics, Texas Workforce Commission; seasonal adjustments by the Federal Reserve Bank of Dallas.

**Chart 2**  
Growth Broad Based Across Large Metro Areas in 2018



\*Quarterly annualized growth, seasonally adjusted.  
NOTE: The striped bars represent partial fourth quarter 2018; figures are based on November/August 2018 three-month annualized growth.  
SOURCES: Bureau of Labor Statistics, Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

**Chart 3**  
Declining Initial Claims Suggest Further Dip in Texas Unemployment Rate



\*Six-month moving average, seasonally adjusted.  
\*\*Seasonally adjusted.  
NOTE: Shaded areas denote U.S. recessions.  
SOURCES: Federal Reserve Bank of Dallas; Bureau of Labor Statistics.

Exports may have picked up late in the year due to fears of a potential tariff increase in January. Given a generally weaker global economy and a strong dollar, exports are likely to slow beginning next year.

### Activity in Oil Patch May Weaken if Prices Remain Low

The monthly average price of West Texas Intermediate (WTI) crude oil fell to \$57 in November. As shown in Chart 5, historically large changes in real oil prices lead changes in Texas job growth by about six months. This pattern suggests that if oil prices remain low, Texas job growth is likely to weaken during second quarter 2019.

### Wage Pressures Remain Elevated

According to the Texas Manufacturing Outlook Survey and the Texas Service Sector Outlook Survey, wages and benefits have increased at a milder pace in recent months than they did earlier in the year. The wages and benefits indexes for both surveys dipped recently but remain well above their postrecession averages (Chart 6). Private sector average hourly wages in Texas through November increased at an annualized rate of 1.5 percent, slightly below the U.S. pace.

—Judy Teng and Keith R. Phillips

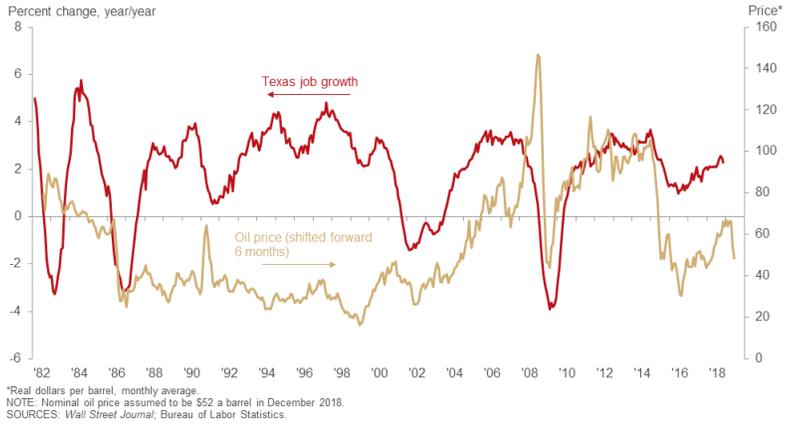
### About the Authors

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**Chart 4**  
Despite Strong Dollar, Texas Exports Continue to Grow



**Chart 5**  
If Oil Prices Persist Near \$50, Texas Job Growth Likely to Feel Impact



**Chart 6**  
Wage Pressures Remain Elevated in Texas

