Overview

- Economy has been resilient, and growth remains solid.
- U.S., Texas and RGV job growth is slowing.
- Price and wage pressures have eased in recent months, although they remain elevated:
  - Companies report continued upward price pressures induced by higher costs and wages, but less severe than earlier in the year.
  - Texas businesses report increasing difficulties passing costs on to consumers in the form of higher prices.
- Outlook suggests U.S., Texas and RGV will slow in the near term.
- Risks to the outlook include:
  - Geopolitical risk
  - Global slowing
  - Elevated inflation
Recent Economic Performance
GDP Growth Driven by Consumption and Business Investment

Percentage points, annualized

Contribution to GDP growth

Real GDP: 2.1
PCE: Goods: 0.1
PCE: Services: 0.4
Business Fixed Investment: 1.0
Residential Investment: -0.1
Inventory Investment: 0.0
Net Exports: 0.0
Government: 0.6

SOURCE: Bureau of Economic Analysis.
Job Growth Picks Up in Recent Months

Wage Growth Slows Recently, Tempering Concerns About Fast Job Growth

Mixed Evidence on the Degree of Labor Market Cooling

Inflation Is Declining, but Too Soon to Have Confidence 2% Will be Achieved in a Timely Manner

PCE inflation
excluding food and energy
Trimmed mean PCE inflation

12-month percent change

SOURCE: Bureau of Economic Analysis; Federal Reserve Bank of Dallas.
Texas Annual Job Growth Remains Ahead of the Nation

*Seasonally adjusted, annualized rate.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.
DATA: Texas Payroll Employment - Total Nonfarm - Dallasfed.org
Texas Year-to-Date Job Growth Ahead of U.S. in All Industries

Job growth (percent)*

- Total
- Trade, Transp. & Util. (20%)
- Prof. & Bus. Serv. (15%)
- Gov't (15%)
- Educ. & Health Serv. (14%)
- Leisure & Hosp. (11%)
- Mfg. (7%)
- Fin. Activ. (7%)
- Constr. (6%)
- Other Serv. (3%)
- Information (2%)
- Oil & Gas, Mining Sup. (1%)

*Seasonally adjusted, annualized rate.

NOTE: Numbers in parentheses indicate share of total state employment for August 2023.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

DATA: Texas Employment by Industry - Dallasfed.org
Job Growth Has Slowed in 2023

*Seasonally adjusted, annualized rate.

NOTE: Numbers in parenthesis indicate share of state employment for most recent monthly data. U.S. data are through September; Texas and metro data are through August.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

DATA: https://www.dallasfed.org/research/econdata/tx-emp.aspx#tab3
McAllen’s Strong Employment Growth in 2023 led by Prof. and Business Services, Other Services, and Educ. and Health Services

Percent change

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>3.2%</td>
</tr>
<tr>
<td>Educ. and health services</td>
<td>6.3%</td>
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<tr>
<td>Government</td>
<td>0.0%</td>
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<tr>
<td>Trade, transportation and util.</td>
<td>1.7%</td>
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<tr>
<td>Leisure and hospitality</td>
<td>2.7%</td>
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<tr>
<td>Prof. and business services</td>
<td>8.4%</td>
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<tr>
<td>Financial activities</td>
<td>1.0%</td>
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<tr>
<td>Construction and mining</td>
<td>-1.9%</td>
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<tr>
<td>Manufacturing</td>
<td>-2.8%</td>
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<tr>
<td>Other services</td>
<td>-1.5%</td>
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<tr>
<td>Information</td>
<td>6.5%</td>
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</table>

NOTE: Data show seasonally adjusted and annualized percentage employment growth by sector. Numbers in parentheses represent the share of total employment and may not sum to 100 due to rounding.

Positive Employment Growth Across All Brownsville Sectors in 2023 but Construction and Mining

NOTE: Data show seasonally adjusted and annualized percentage employment growth by sector. Numbers in parentheses represent the share of total employment and may not sum to 100 due to rounding.

McAllen and Brownsville Unemployment Rates Far Exceed Texas and U.S.

*Seasonally adjusted, monthly.

SOURCE: Federal Reserve Bank of Dallas.
Texas Employment Forecast Indicates That Jobs Will Increase 2.9 Percent in 2023 After Rising 4.3 Percent in 2022

NOTE: The Dallas Fed Texas Employment Forecast is based on the average of four models. Three models are VARs where Texas payroll employment is regressed on West Texas Intermediate (WTI) oil prices, the U.S. leading index and the Texas leading index, respectively. The fourth model is a regression of payroll employment on lags of payroll employment, expectations for U.S. GDP growth, WTI oil prices and four COVID-19 dummy variables (March-June 2020).
Outlook:
2023 GDP Revised Up, Expected to be Somewhat Slow in 2024, Gradual Return to 2.0 Percent Inflation

<table>
<thead>
<tr>
<th></th>
<th>FOMC Sept.</th>
<th>Blue Chip forecasters</th>
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<tbody>
<tr>
<td><strong>GDP Q4/Q4</strong></td>
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<tr>
<td>2023</td>
<td>2.1</td>
<td>2.1</td>
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<td>2024</td>
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<td><strong>Unemployment Q4</strong></td>
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<td>2023</td>
<td>3.8</td>
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<tr>
<td>2024</td>
<td>4.1</td>
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<tr>
<td><strong>Core PCE inflation Q4/Q4</strong></td>
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<tr>
<td>2023</td>
<td>3.7</td>
<td>3.6</td>
</tr>
<tr>
<td>2024</td>
<td>2.6</td>
<td>2.4</td>
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</tbody>
</table>

SOURCES: Blue Chip Economic Indicators; FOMC.
Summary

- 2023 economic growth higher than expected:
  - Expected growth to slow next year.
- Labor markets are slowing:
  - Gradual increase in unemployment.
- Inflation not expected to be fully back to 2 percent through 2024.
- Texas employment forecast around 2.9 percent for 2023.
- Growth in McAllen and Brownsville is expected to slow and gravitate toward long-term trend growth levels.
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