

ITEXAS Economic Outlook



Expansion Likely to Continue

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Keynote Speaker

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The views expressed are my own and do not reflect official positions of the Federal Reserve Bank of Dallas or the Federal Reserve System.

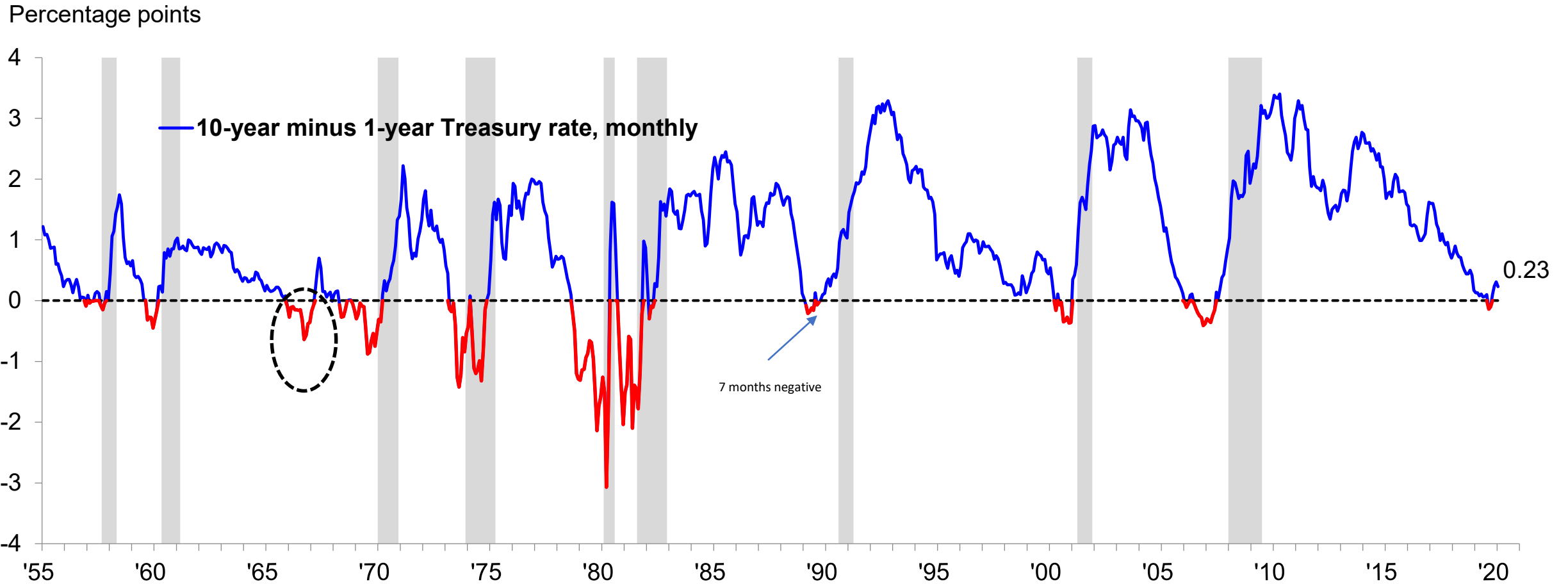


Federal Reserve
Bank of Dallas
San Antonio Branch

National Economic Growth Important to Texas

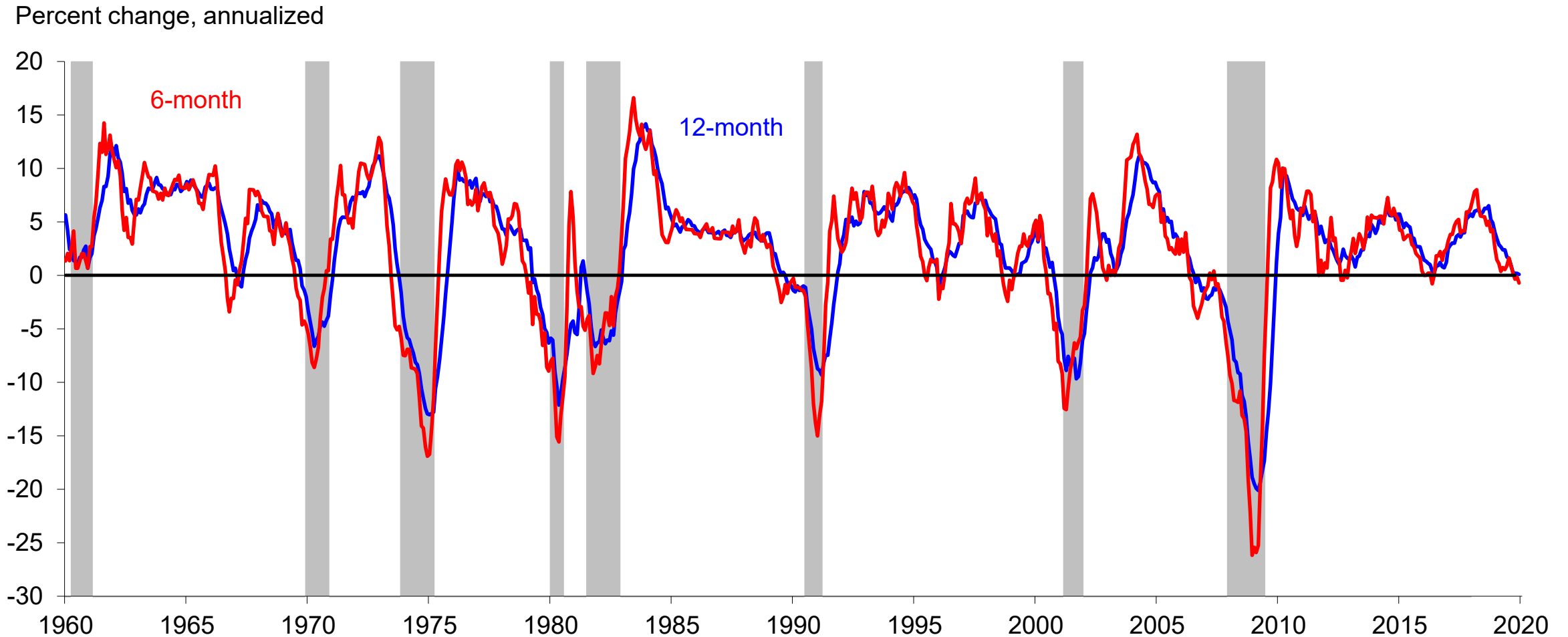
- Yield Curve gave scare in August/September 2019
- US Leading Index weak recently but not predicting recession
- Forecasters expect continued growth

Yield Curve Turns Positive in October – But Caution Remains



NOTE: Data through January 2020.

U.S. Leading Index Suggests Weaker Growth Over Next 3-6 Months

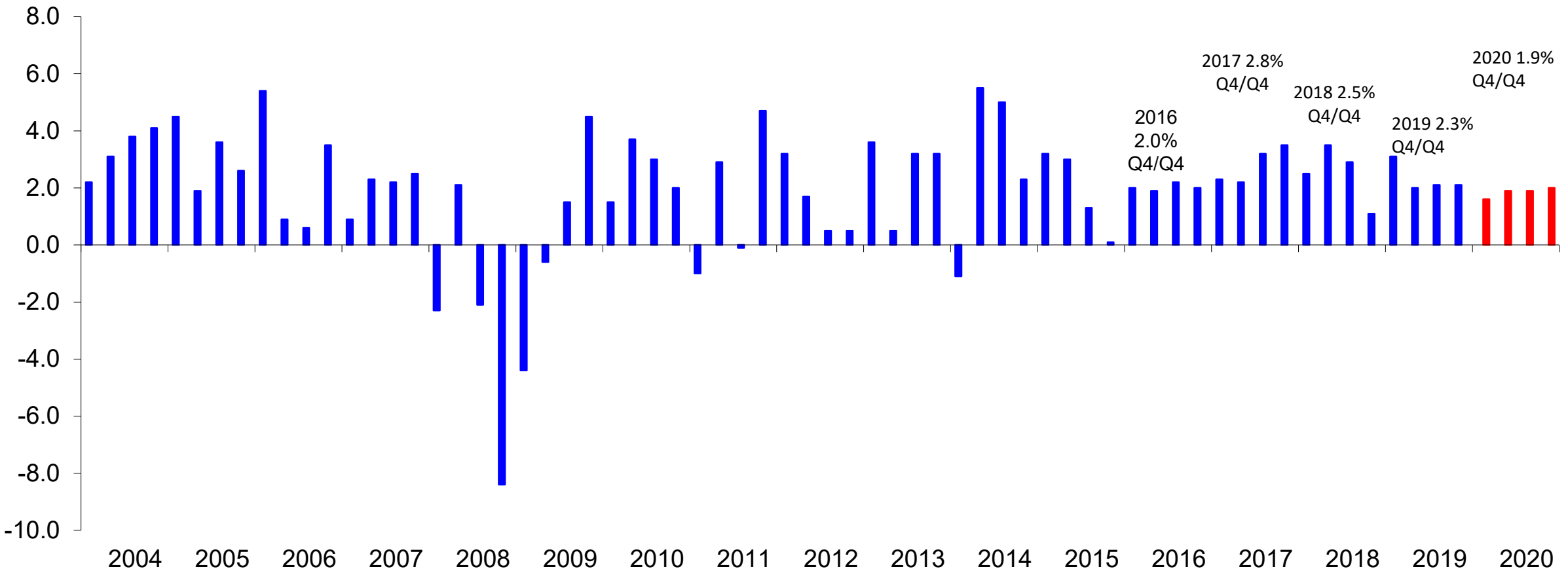


NOTE: Shaded areas represent U.S. recessions.

SOURCES: Conference Board, Federal Reserve Bank of Dallas.

GDP Growth Expected to Slow – No Recession Forecasted for 2020

Percent, SAAR



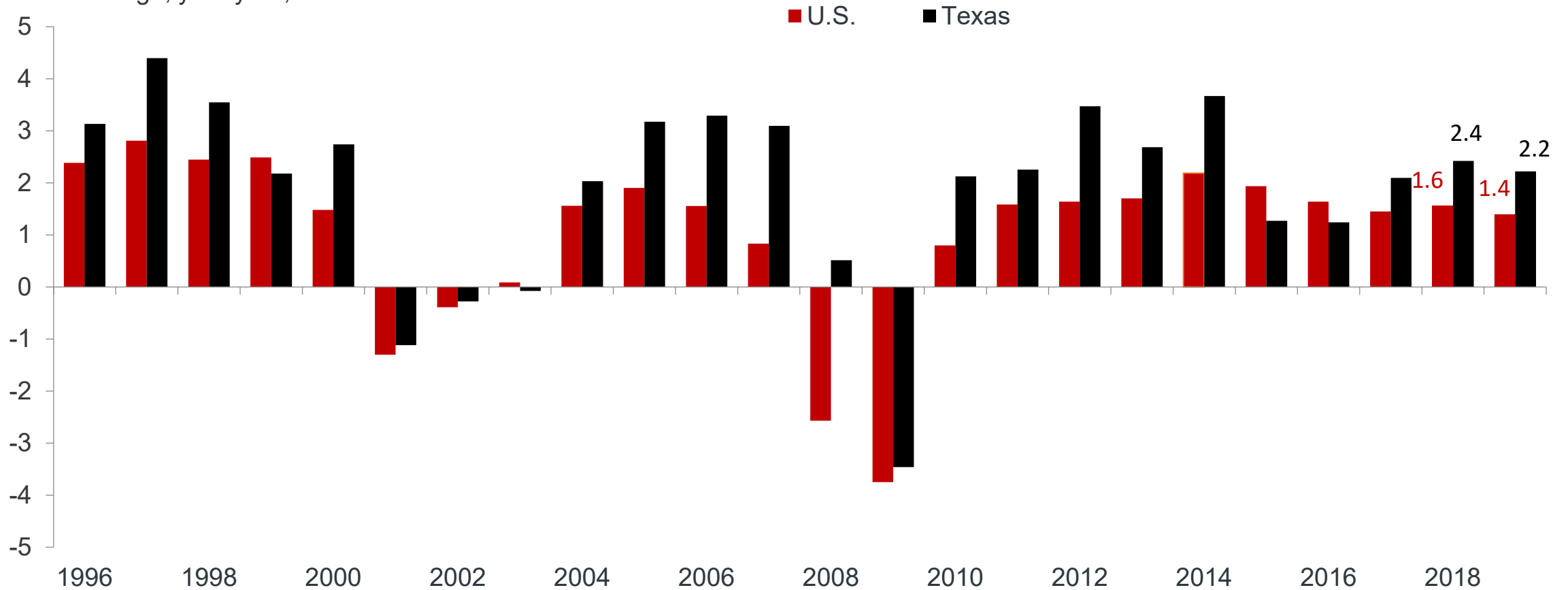
SOURCES: Bureau of Economic Analysis; Blue Chip Economic Indicators.

Texas Economy Moderated in 2019

- Following oil bust in 2015 and 2016, Texas economy picked up in 2017 and 2018 but slowed in 2019.
- Last year job growth weakened slightly from 2.4 to 2.2 percent as the energy industry declined and labor market constraints continued to suppress job growth.
- Growth in the second half of 2019 improved and the leading index picked up – but manufacturing and energy weakened further.
- This year, less trade uncertainty is a positive although the energy sector will remain a drag. Election uncertainty may restrain business investment.
- Overall the forecast is for steady job growth near 2.1 percent with further declines in the unemployment rate.

Texas Job Growth Above the Nation's

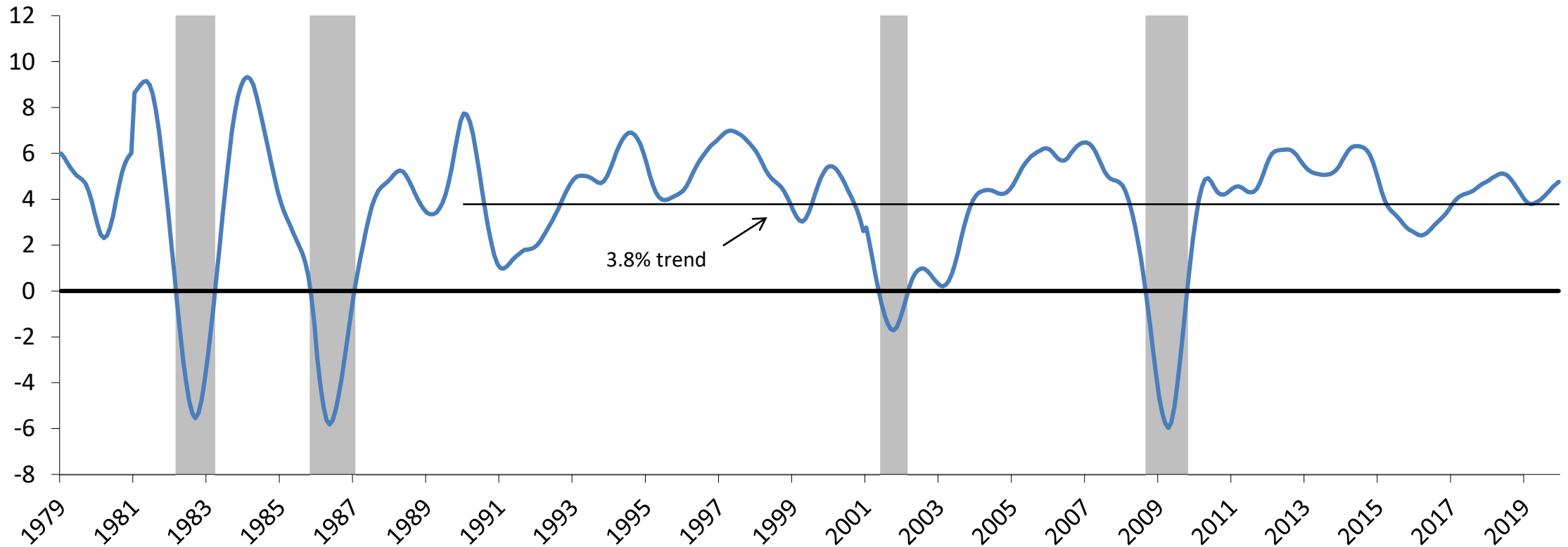
Percent change, year/year, SA



NOTES: Long-run trend growth is 1.1 percent for the U.S. and 2.1 percent for Texas.
 SOURCES: Bureau of Labor Statistics, Texas Workforce Commission; FRB Dallas.

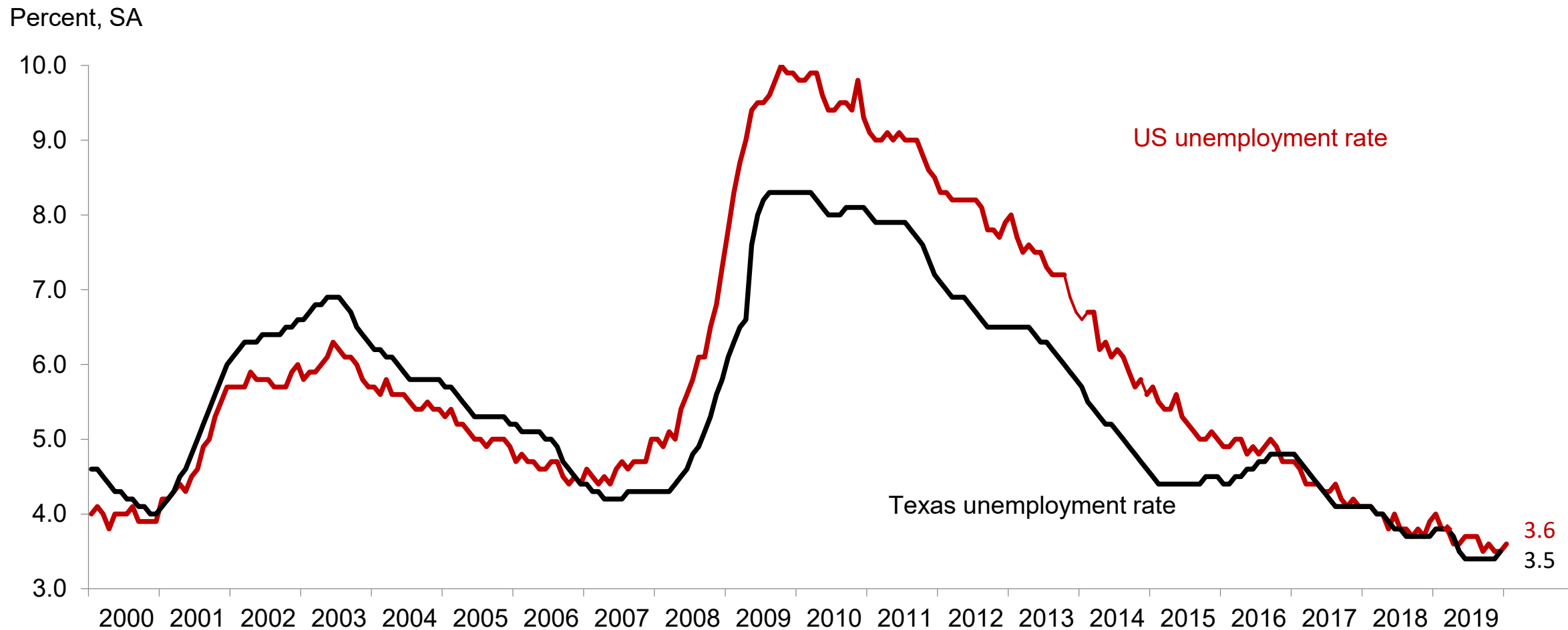
Texas Economy Expanding At Strong Pace (Texas Business-Cycle Index)

Percent, M/M SAAR



NOTE: Data through December 2019. Shaded areas represent Texas recessions. Trend refers to growth from Jan. 1990 – present.

Texas Unemployment Near Historical Low

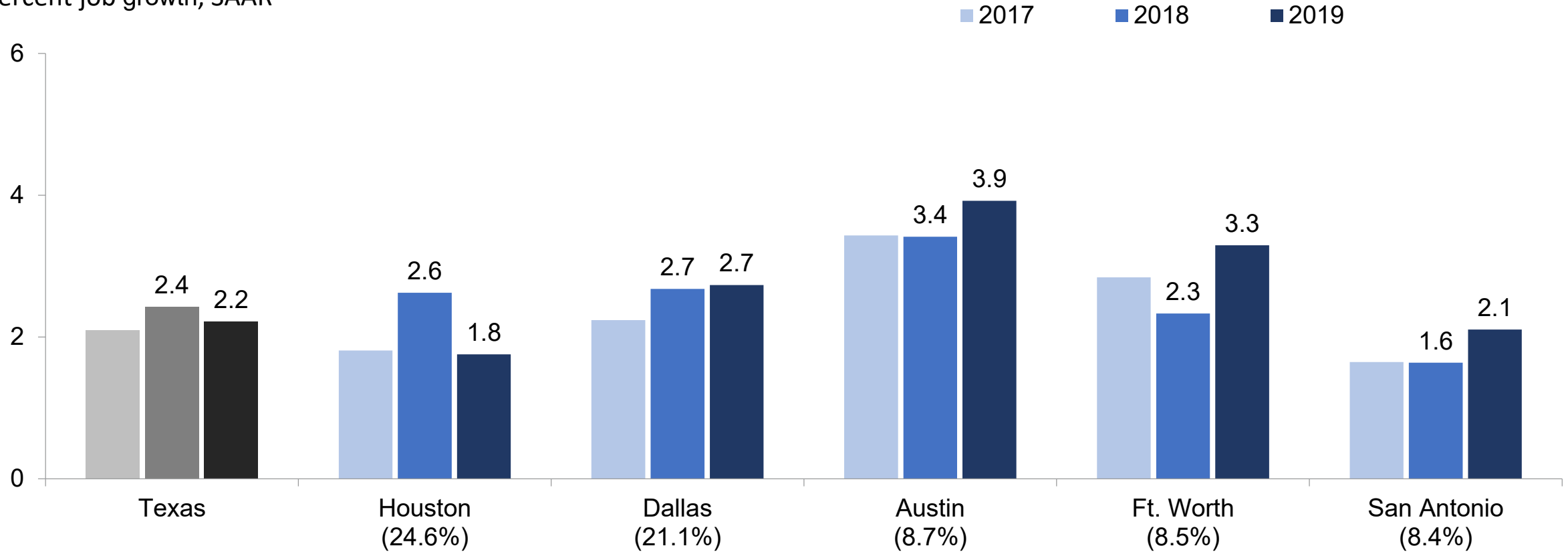


NOTES: U.S. data through January 2020. Texas data through December 2019.

SOURCE: Bureau of Labor Statistics.

Job Growth Broad-Based Across Regions

Percent job growth, SAAR

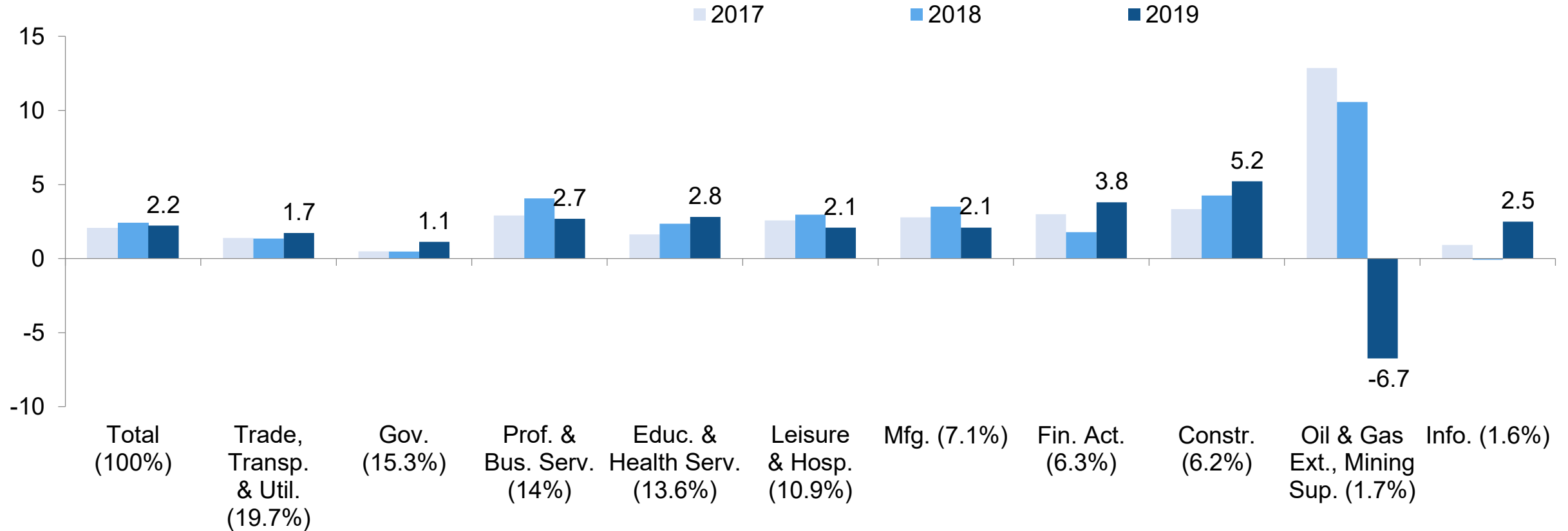


NOTES: Numbers in parentheses refer to the share of Texas employment in the most recent month.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Dallas Fed.

2019 Industry Job Growth Broad-Based Except Mining

Percent change, SAAR

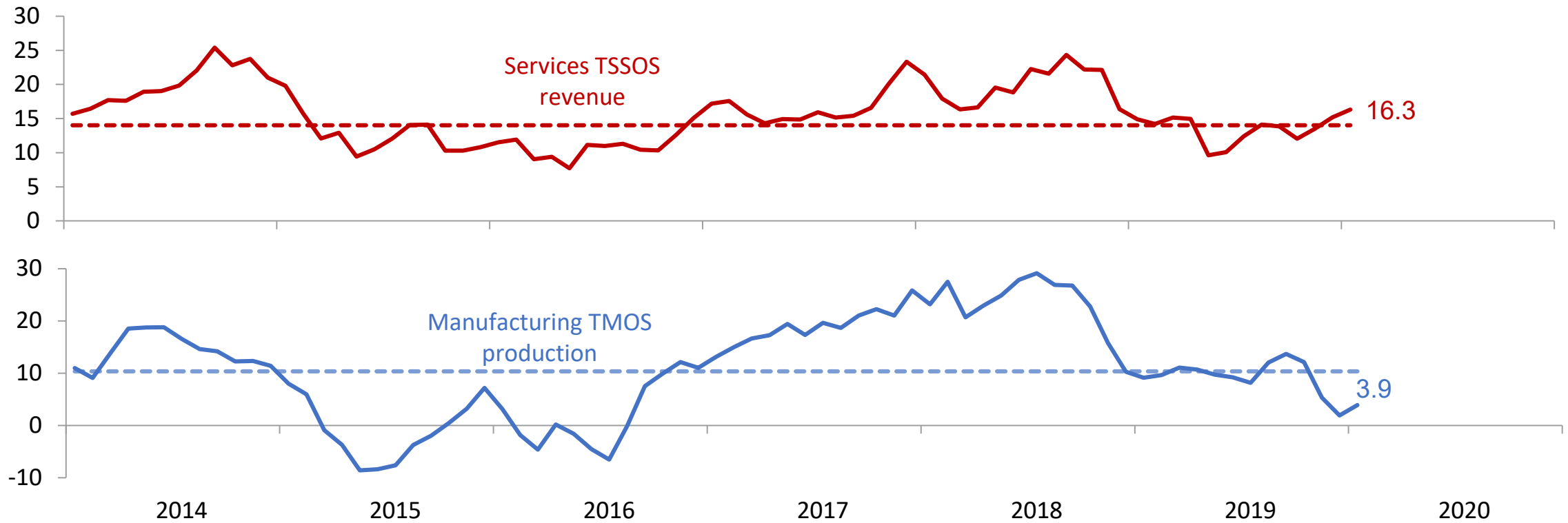


NOTES: Numbers in parentheses are share of Texas employment for most recent month.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.

Manufacturing and Services Activity Picked Up in January

Diffusion index, 3MMA, SA

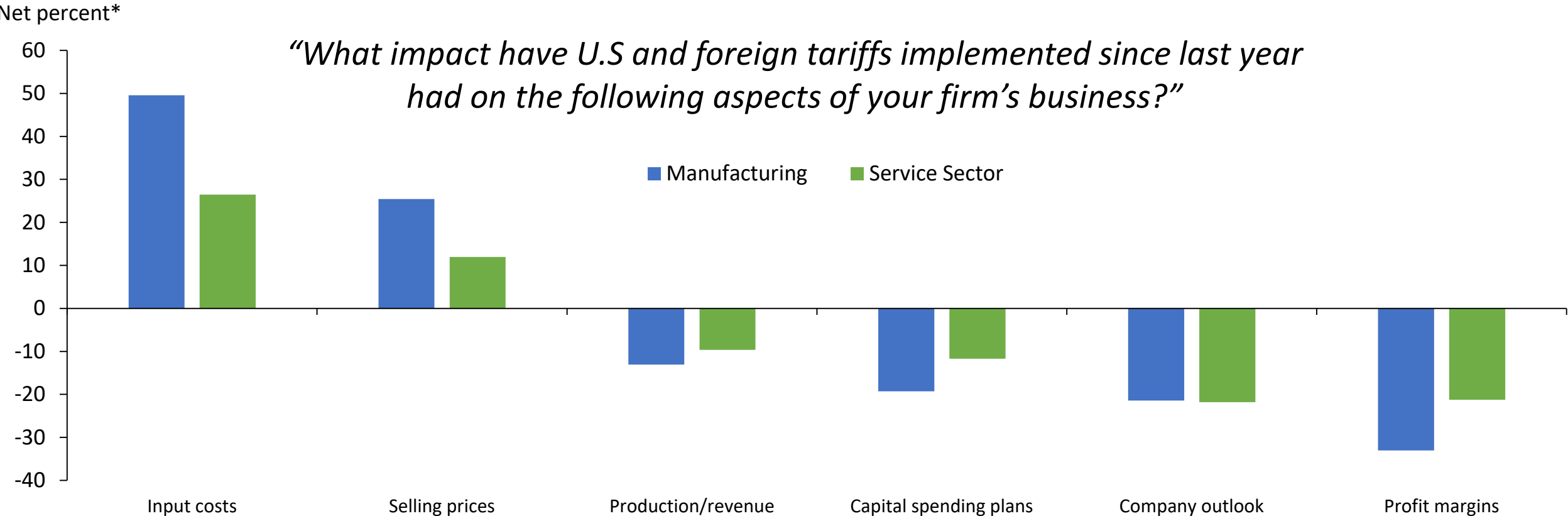


NOTES: Data through January 2020. Dashed lines are postrecession averages.

SOURCE: Dallas Fed Texas Business Outlook Surveys.

Tariffs Increasing Costs and Prices, Reducing Capex

“What impact have U.S and foreign tariffs implemented since last year had on the following aspects of your firm’s business?”



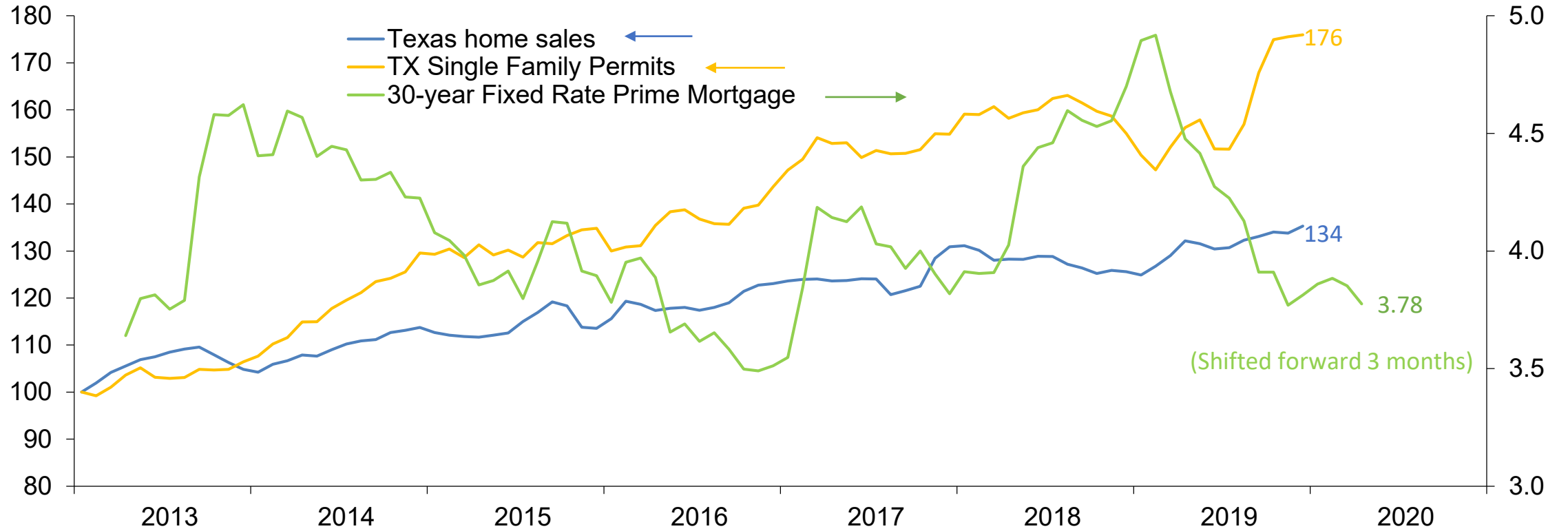
*Net percent calculated as the share of respondents reporting increase minus the share reporting decrease.

Notes: 360 responses; 115 manufacturing, 245 service sector. Data collected Jun. 11-19, 2019.

Source: Dallas Fed Texas Business Outlook Surveys, June 2019 Special Questions.

Mortgage Rates Declined in 2019 – Home Building Grew Strongly

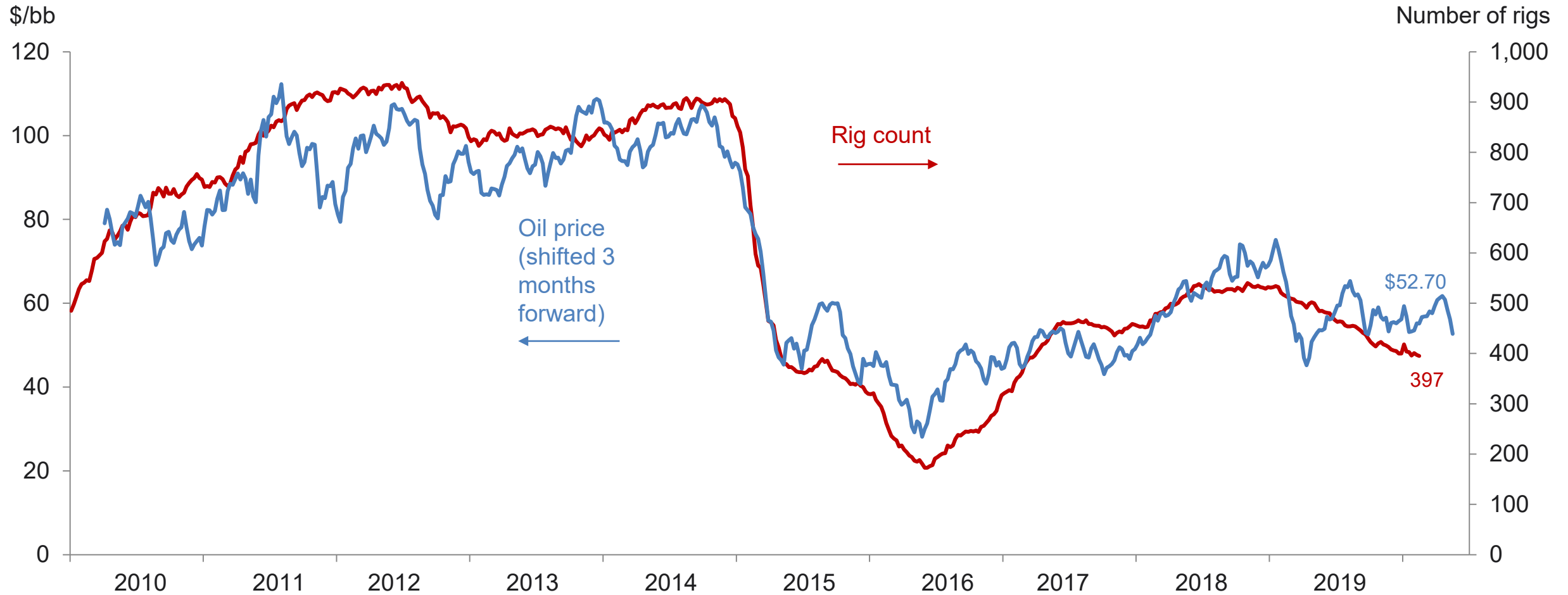
Index, Jan 2012 = 100, 3MMA, SA



NOTES: 30 year fixed mortgage rate data through January 2020. All else through December 2019. Effective interest rate is for closed 30-year, fixed rate, prime, first mortgages.

SOURCES: MLS; Texas A&M Real Estate Center; Wall Street Journal.

Oil Price Suggests Flattening Rig Count



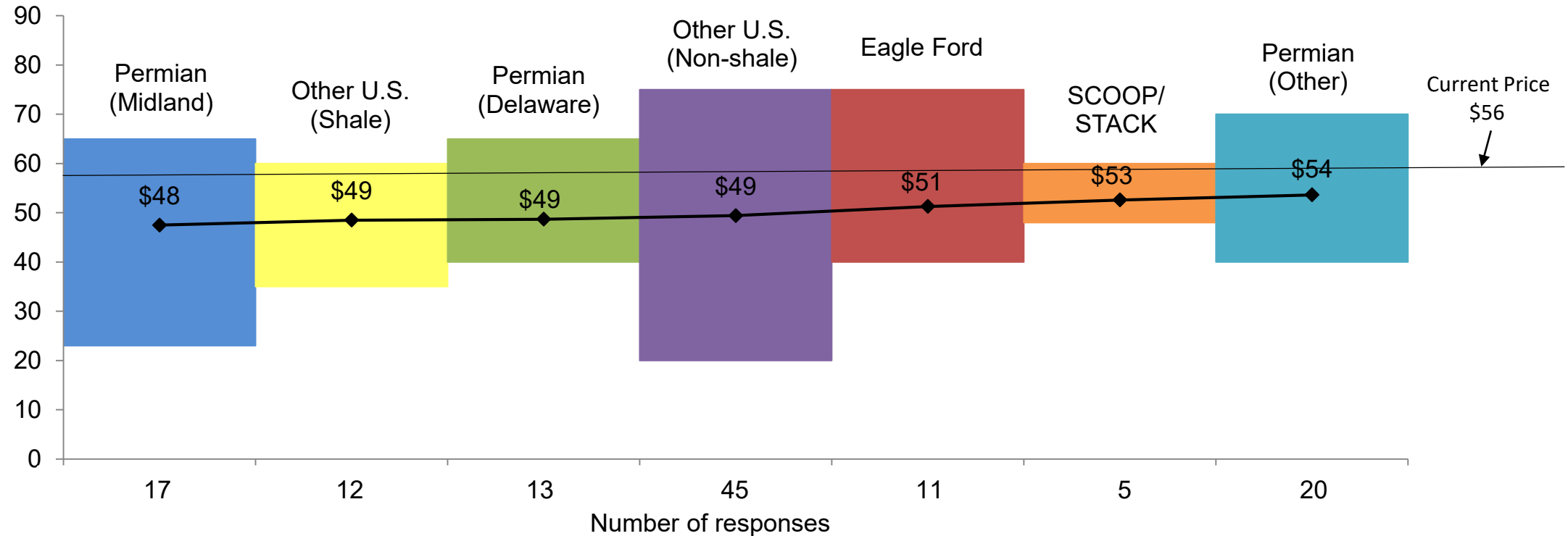
NOTE: Data are weekly, through the week ending January 31, 2020.
SOURCES: EIA; Baker Hughes.

Current Oil Prices Support Moderate Drilling Activity

In the top two areas in which your firm is active:

What WTI oil price does your firm need to profitably drill a new well?

Dollars per barrel

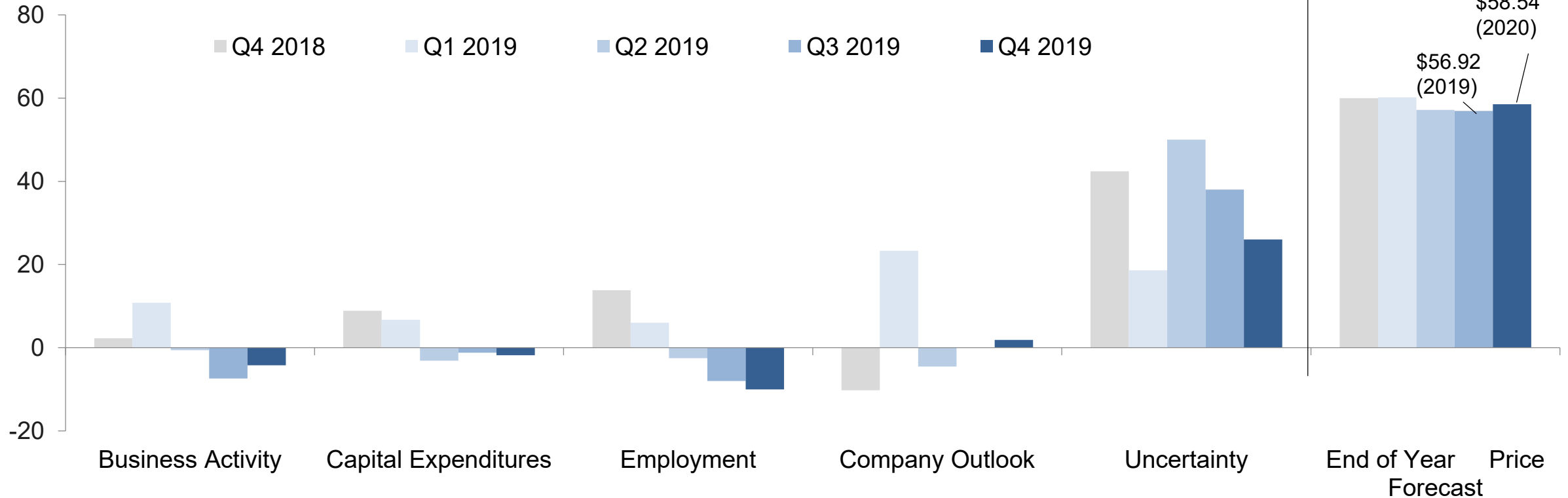


NOTES: Lines show the mean, and bars show the range of responses. Executives from 82 exploration and production firms answered this question during the survey collection period, March 13–21, 2019.

SOURCE: Federal Reserve Bank of Dallas.

Energy Survey Suggests Continued Weakness

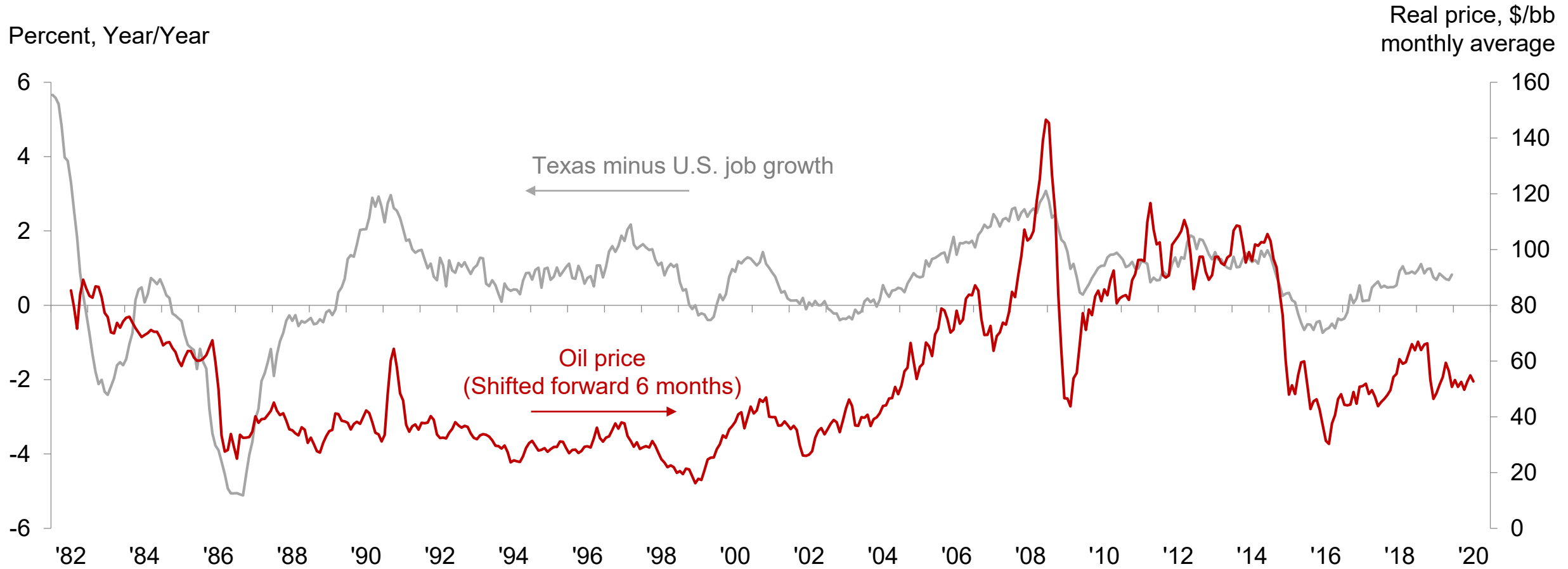
Diffusion index



NOTE: Price forecast is average year-end forecast of WTI oil price among respondents.

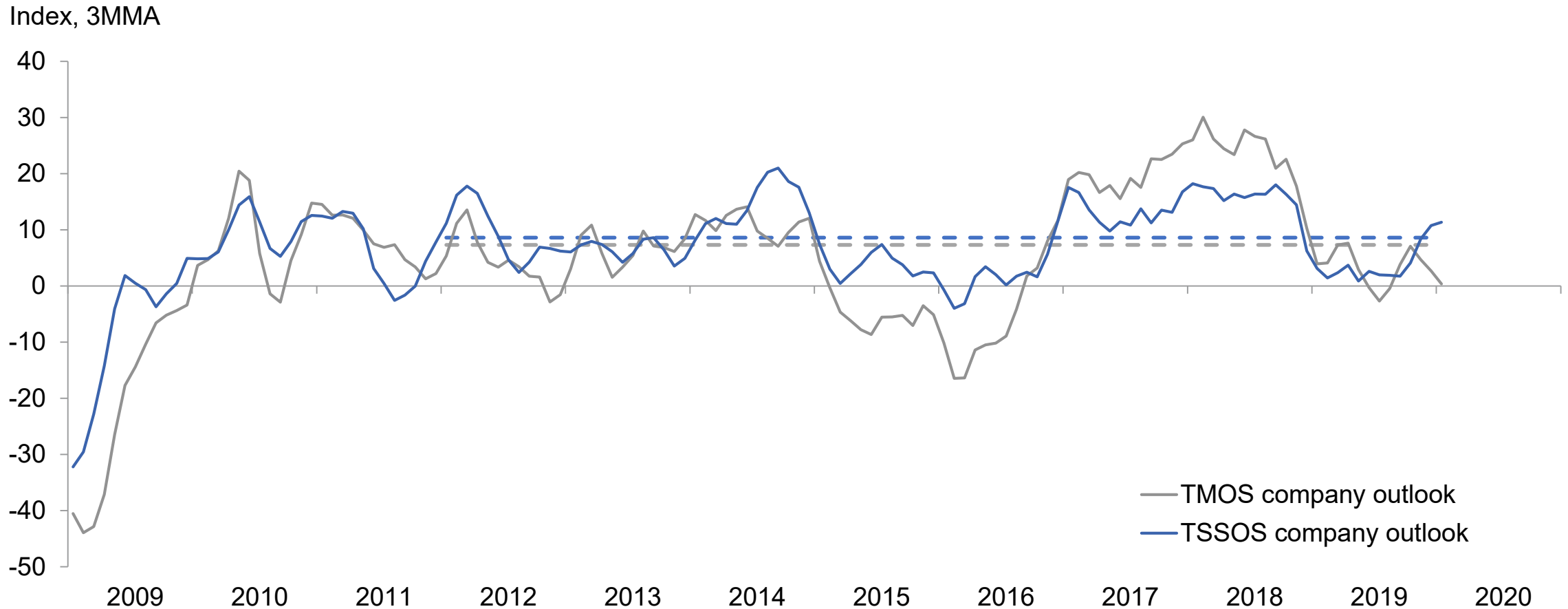
SOURCE: Federal Reserve Bank of Dallas Energy Survey.

Recent Oil Prices Suggest Texas Job Growth Will Remain Above Nation's



NOTE: Nominal oil price was \$57.56 a barrel in Jan. 2019.
SOURCES: *Wall Street Journal*; Bureau of Labor Statistics.

Outlook Improving in Services but not in Manufacturing

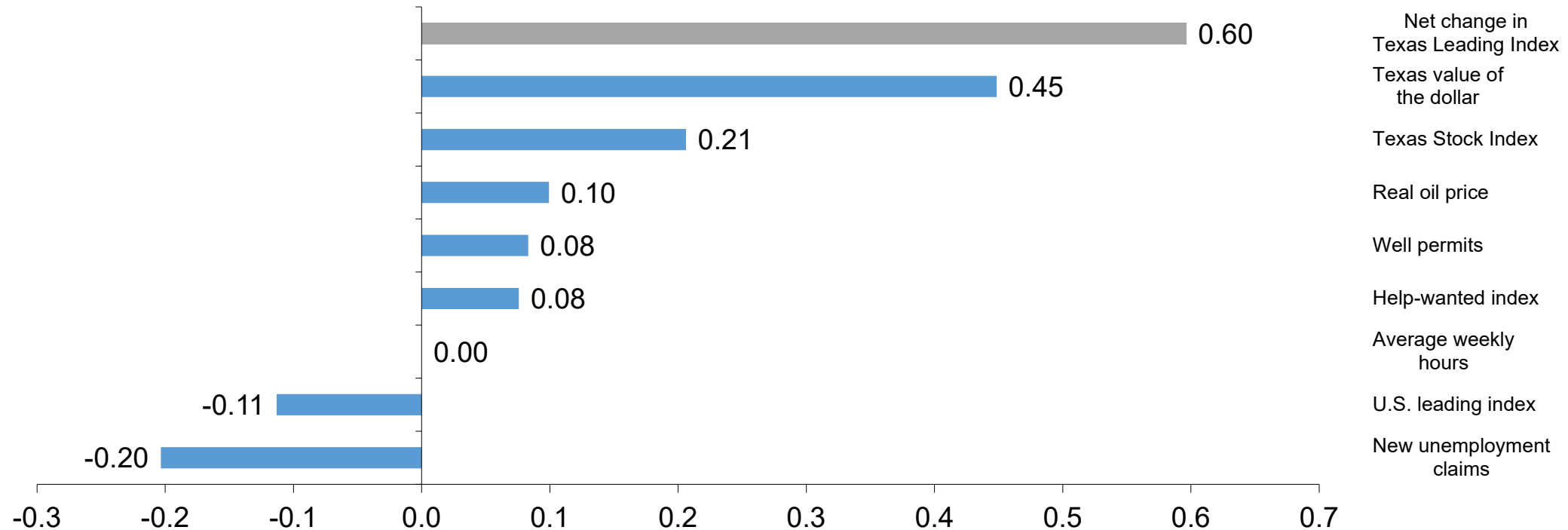


NOTES: Data through January 2020. Dashed lines are post recession averages.

SOURCES: Federal Reserve Bank of Dallas Outlook Surveys: Manufacturing (TMOs); Service Sector (TSSOS).

TX Leading Index Components Mostly Positive Over Past 3 Months

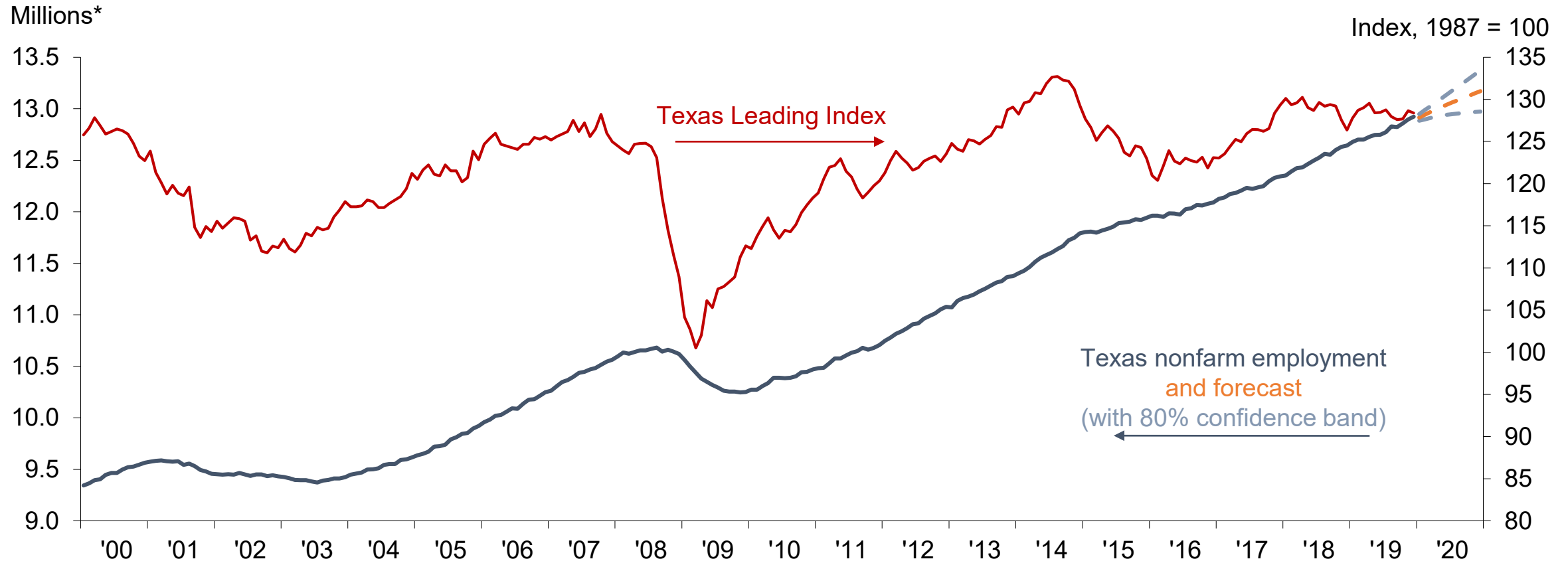
Net contributions to change in Texas Leading Index



NOTE: Three-month percent change through December, seasonally adjusted. Texas value of the dollar is a preliminary estimate from the Dallas Fed.

SOURCE: Federal Reserve Bank of Dallas.

Texas Jobs Forecast to Grow about 2.1% in 2020



*Seasonally adjusted.

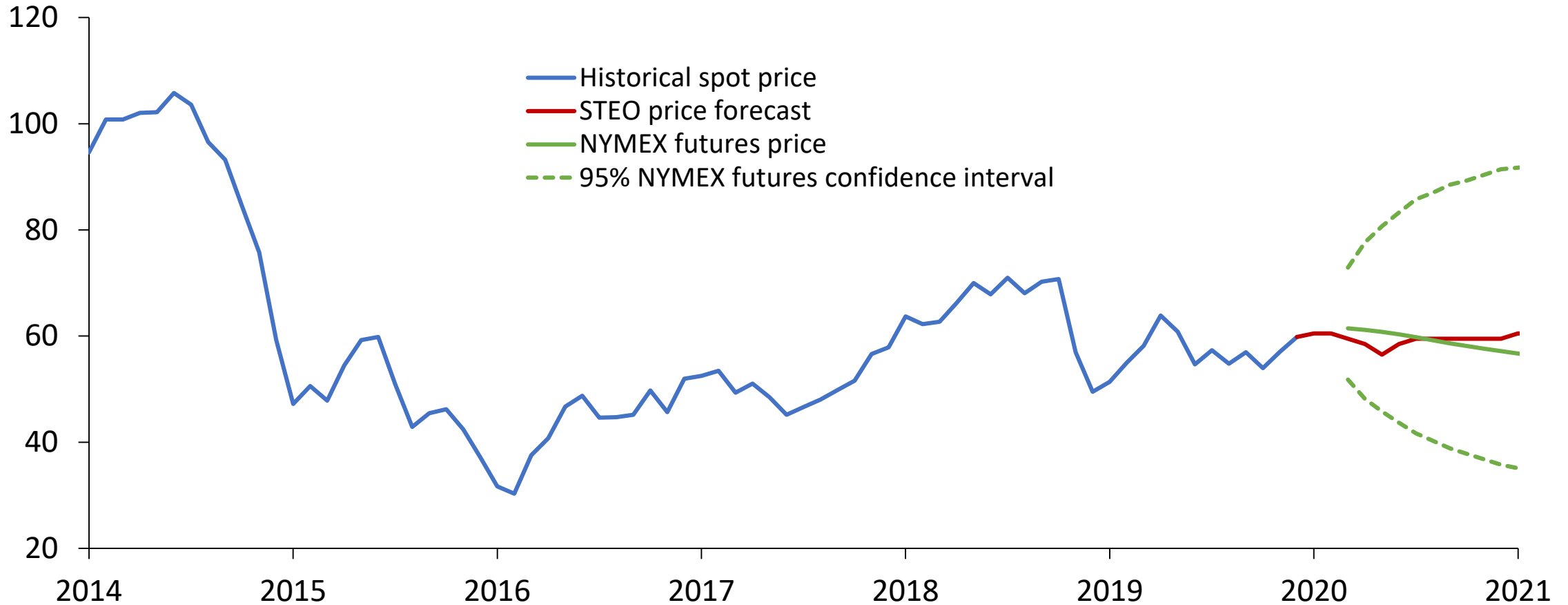
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; Federal Reserve Bank of Dallas.

Summary

- National economy slowed in 2019 but remained above trend – forecasters expect continued growth but caution remains
- Texas even stronger than nation but energy sector likely to continue to decline
- Historically tight labor markets continue to restrain job growth
- Texas jobs grew 2.2 percent in 2019 and will likely grow about 2.1 percent this year – with greater downside than upside risks
- Texas unemployment rate likely to decline further
- Biggest downside risks to forecast are sharp decline in oil prices, trade war escalation, national recession

Predicting Oil Prices a Risky Business

WTI crude oil, dollars per barrel



Note: Prices as of 1/14/20. STEO: Short-Term Energy Outlook. NYMEX: New York Mercantile Exchange.

Source: EIA

Dallas Fed Publications

Public Resources from the Dallas Fed:

- [Employment Forecast](#)
- [Southwest Economy](#)
- [Regional Economic Updates](#)
- [San Antonio](#) and [Austin](#) Economic Indicators
- [Texas Business Outlook Surveys](#)
- [Energy Survey](#)
- [National Economic Updates](#)
- [International Economic Updates](#)
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