



FEDERAL RESERVE BANK *of* DALLAS SAN ANTONIO BRANCH

Texas Economic Outlook: Tapping on the Brakes

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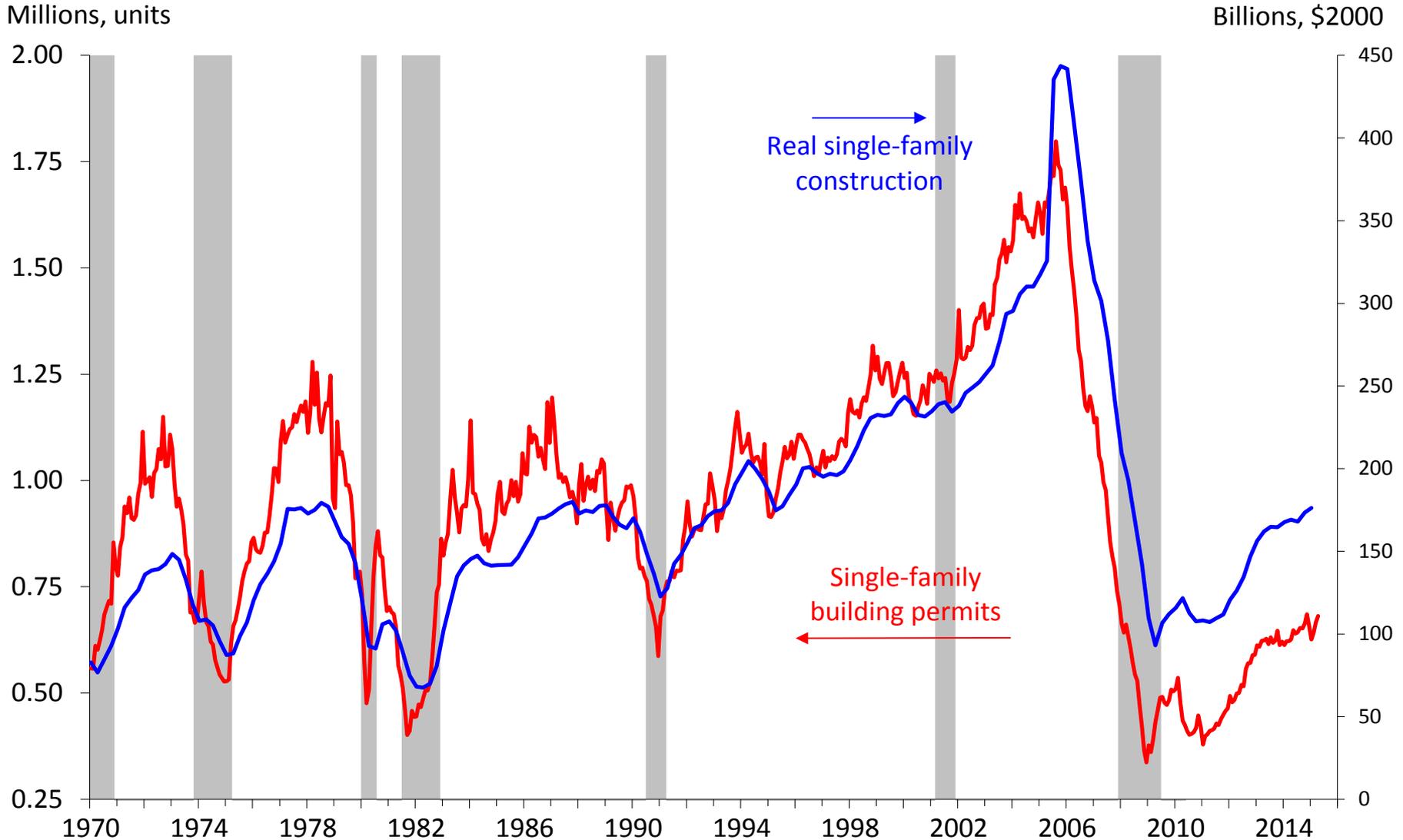


National Economy Picking Up After Q1 Pause

- Consumer spending picked up in 2014 as housing prices and stock market improved, and consumer debt fell – job growth picked up
- Declining energy prices providing a further boost – although retail sales data this year weaker than expected
- Unusually bad weather, strong dollar, West Coast port slowdown, sharp declines in energy sector investment and jobs all factor into Q1 weakness
- Stronger growth expected in remainder of year



Home Construction Continues to Grow – Although at a Slower Pace

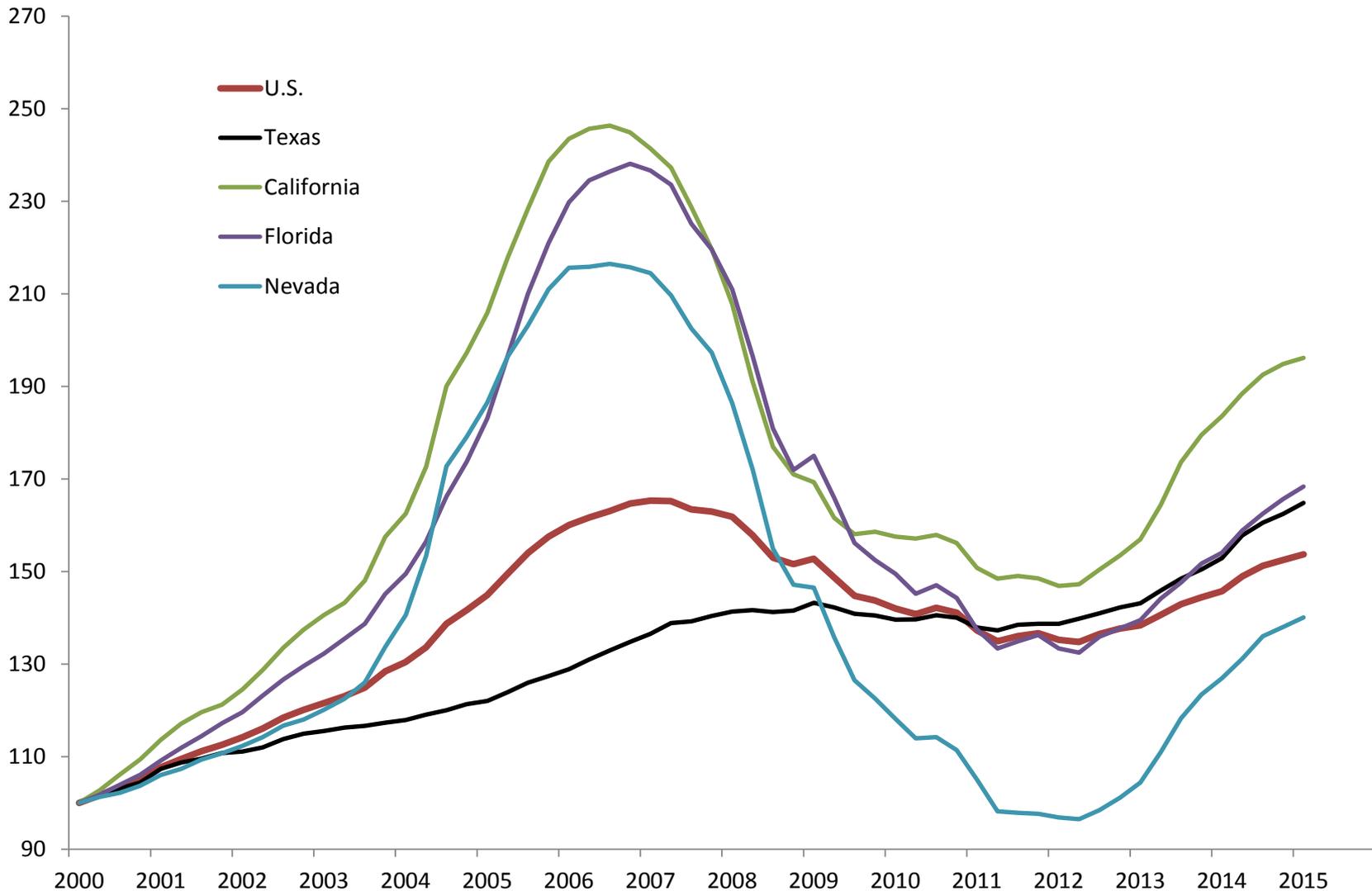


Source: Bureau of Economic Analysis, U.S. Census Bureau and author's calculations.



Home Prices Continue to Increase

Index, 2000=100

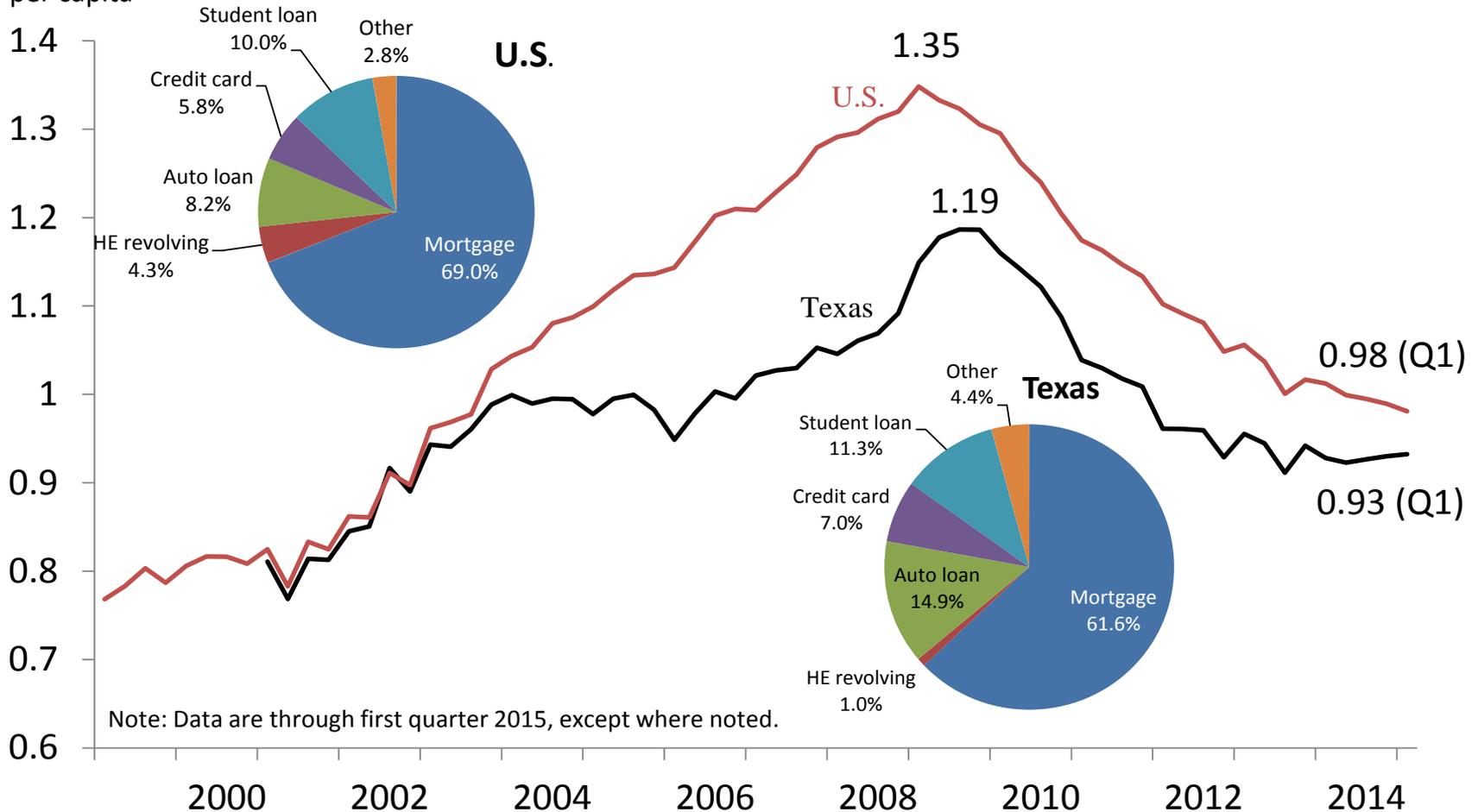


Source: FHFA House Price Index



Household Balance Sheets in Better Shape

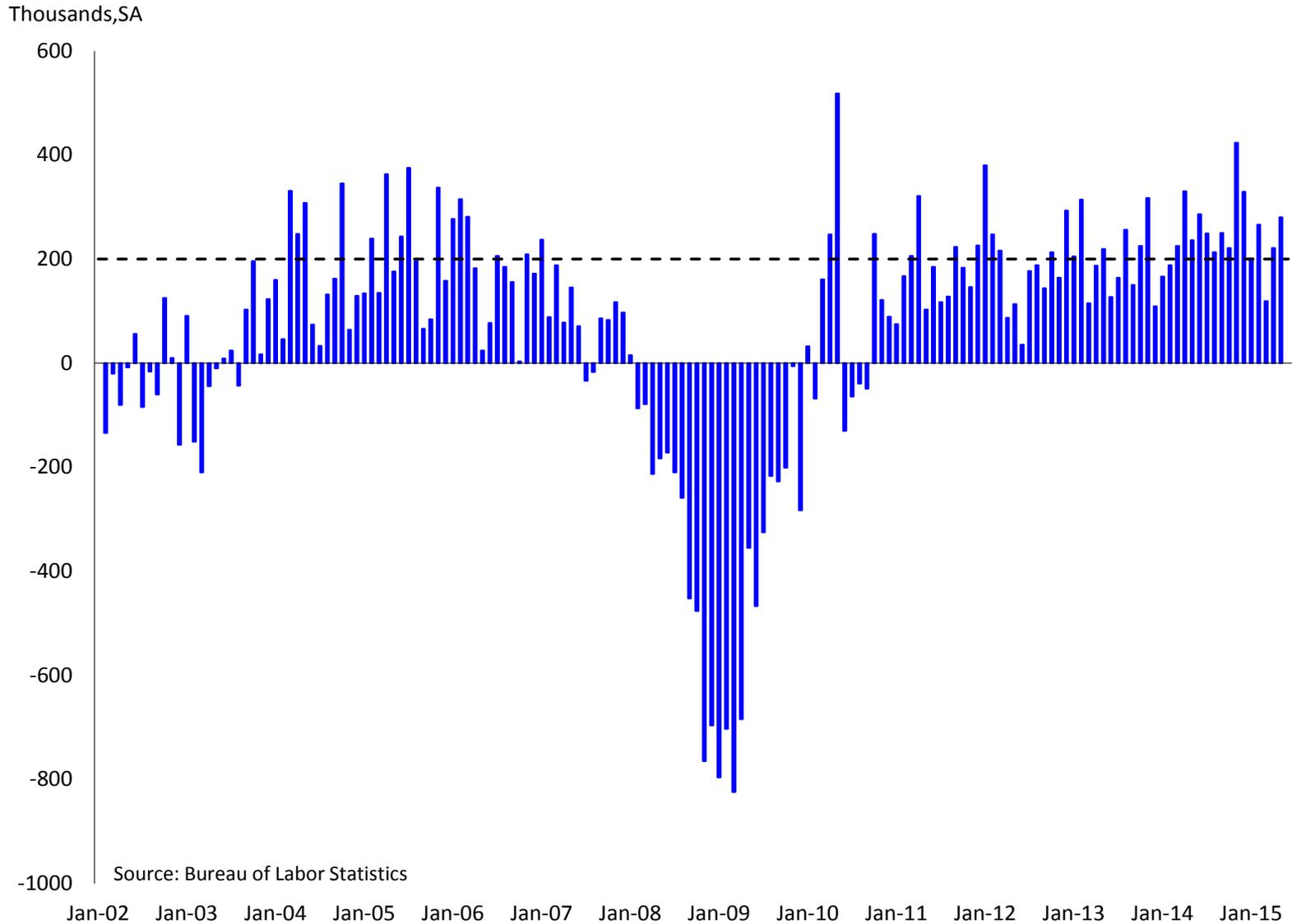
Ratio, personal debt per capita/personal income per capita



Sources: Federal Reserve Bank of New York, Bureau of Economic Analysis.



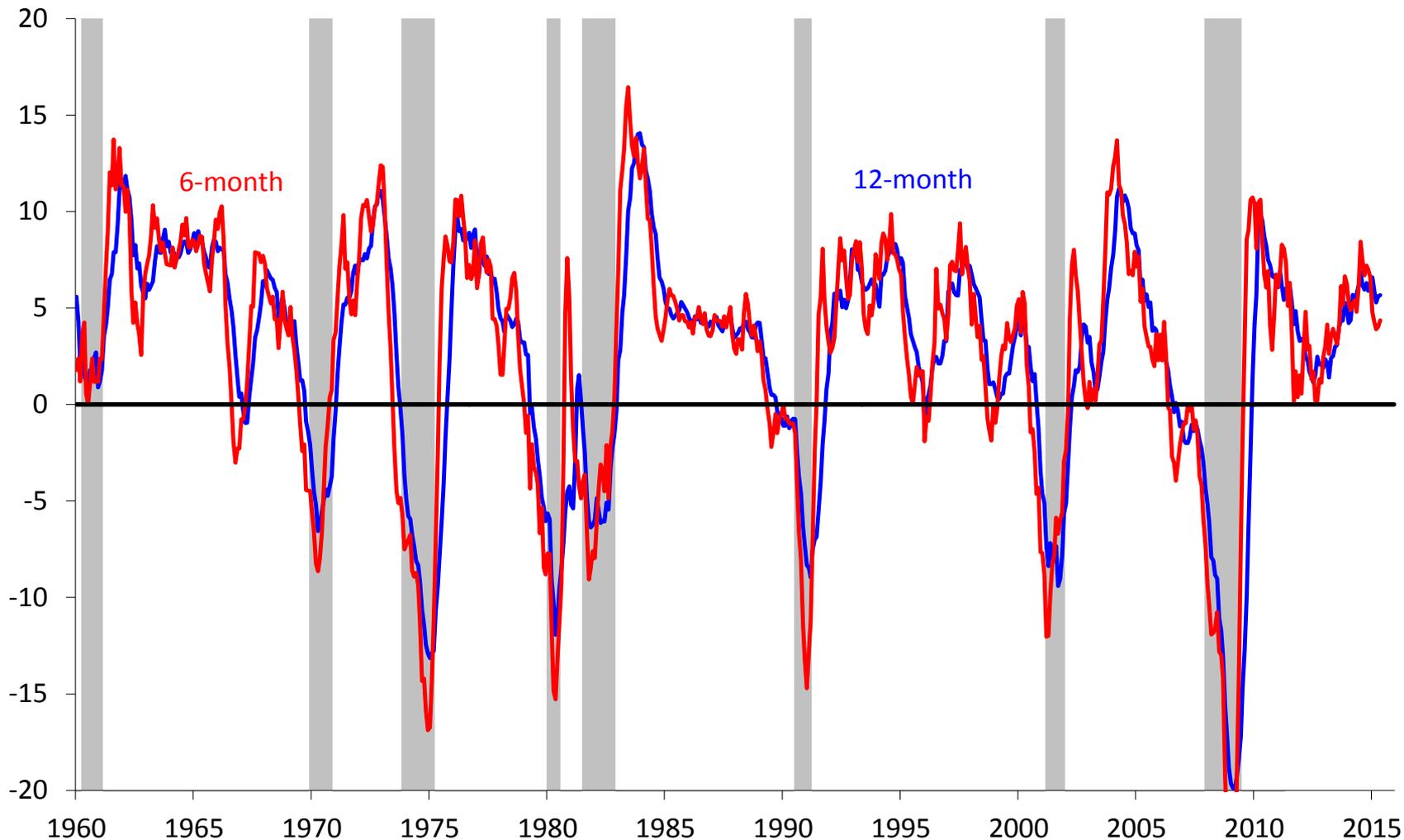
Average Job Growth of 217K per Month in 2015 After 260K in 2014 (1.9% vs 2.3%)



U.S. Leading Index Slowing but Still Suggesting Healthy Growth in Months Ahead



Annualized
% change



Source: Conference Board, Federal Reserve Bank of Dallas

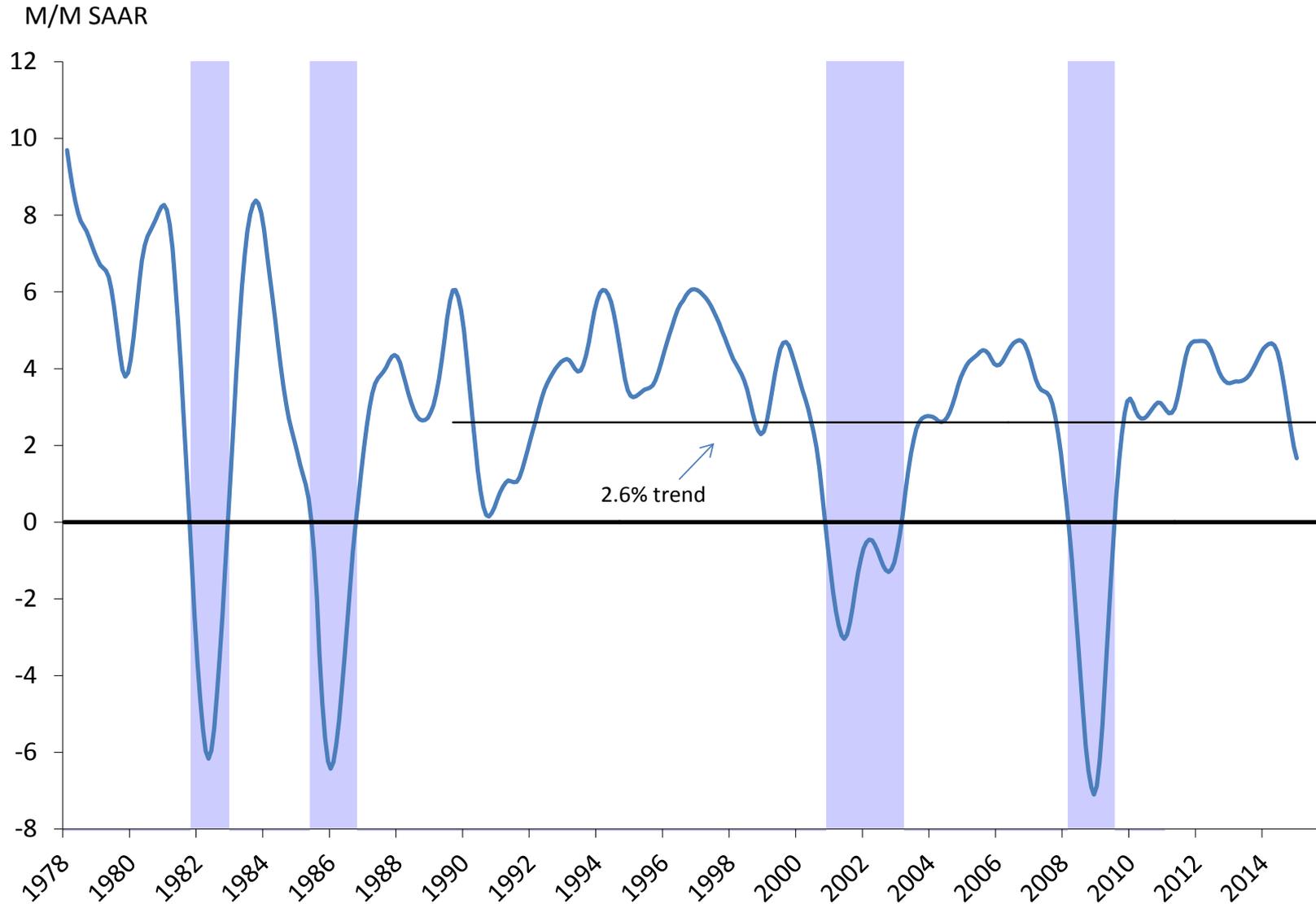


TX Economy Has Grown Above Trend and Stronger than Most States

- In past five years growth in energy, construction and exports provided a strong stimulus to Texas.
- 2014 growth was broad based across sectors. Energy, construction, business services, health care, exports and tourism strong. Government sector improved.
- In 2015, low oil prices and labor market tightness will likely restrain growth. Strong dollar may dampen exports. I expect job growth will slow in 2015 to between 0.5% and 1.5% (from 3.6% in 2014).



Texas Economic Growth Dipping Below Trend (Texas Business Cycle Index)

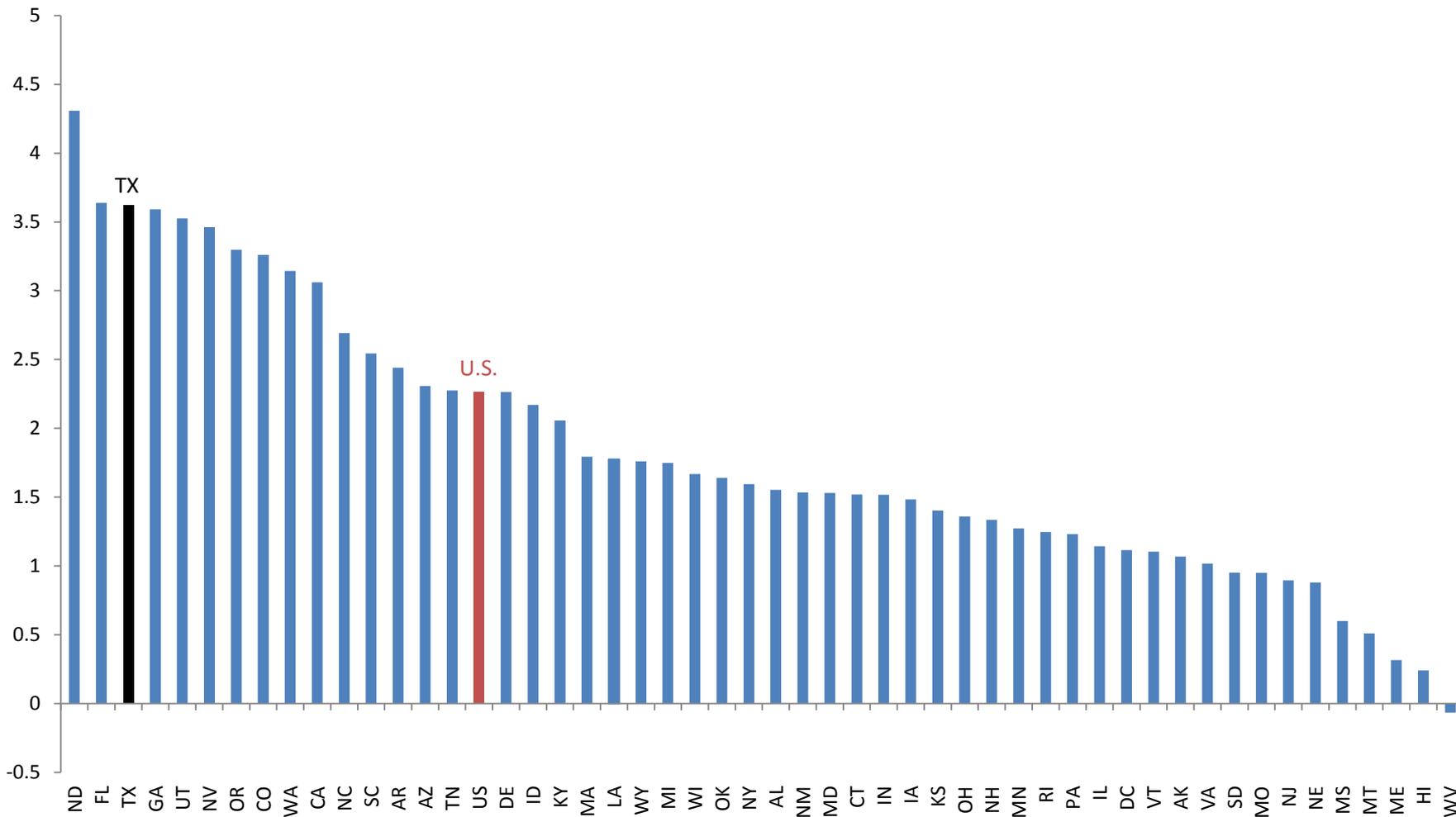


NOTE: Shaded areas represent Texas recession.



Texas Ranked Third in Job Growth in 2014

Percent Change,
Dec. 2013 - Dec. 2014

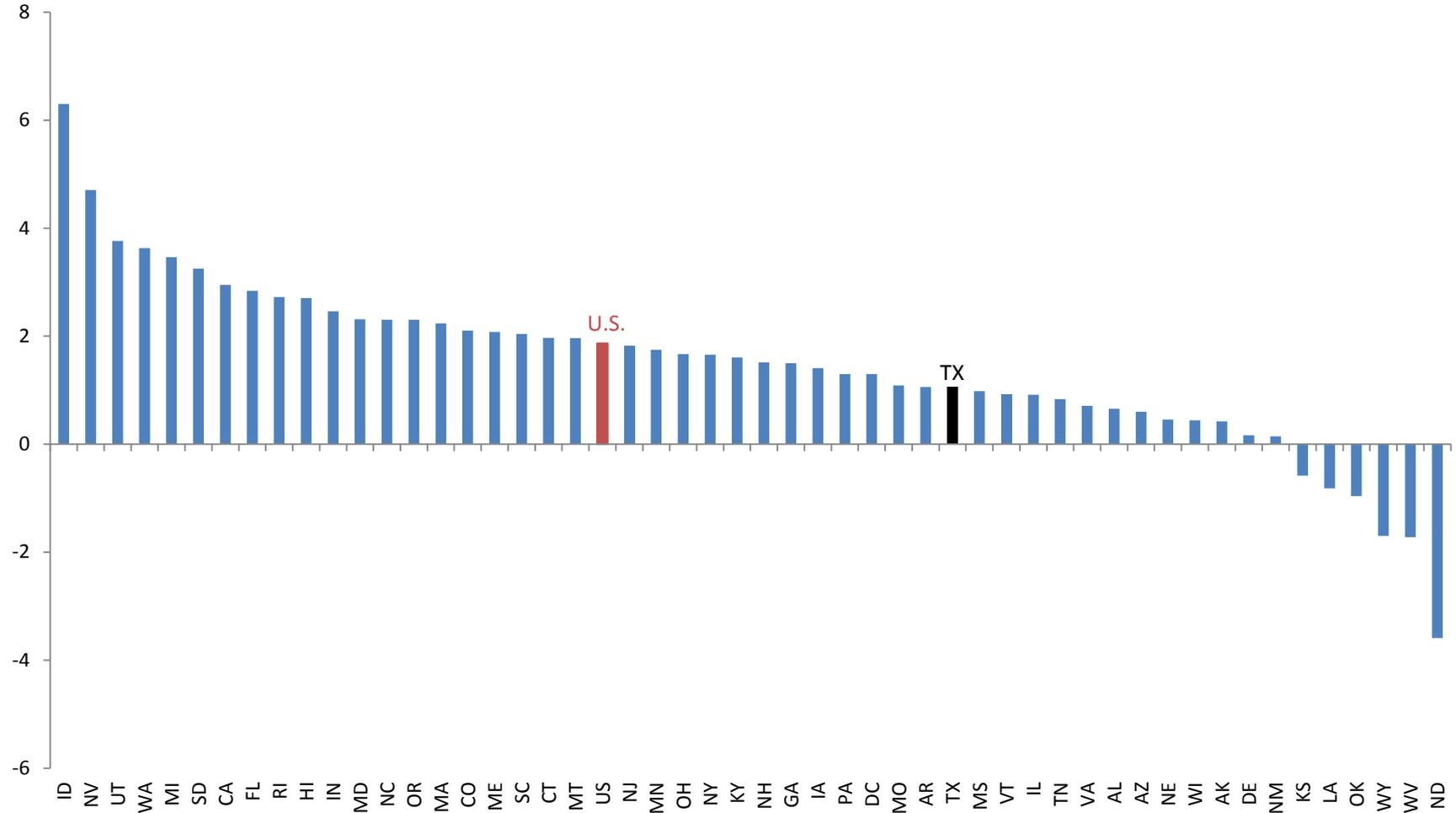


Source: Bureau of Labor Statistics



Texas Ranked 33rd in Job Growth So Far in 2015, Though Above Most Energy States

Annualized Percent Change,
Dec. 2014 - May 2015

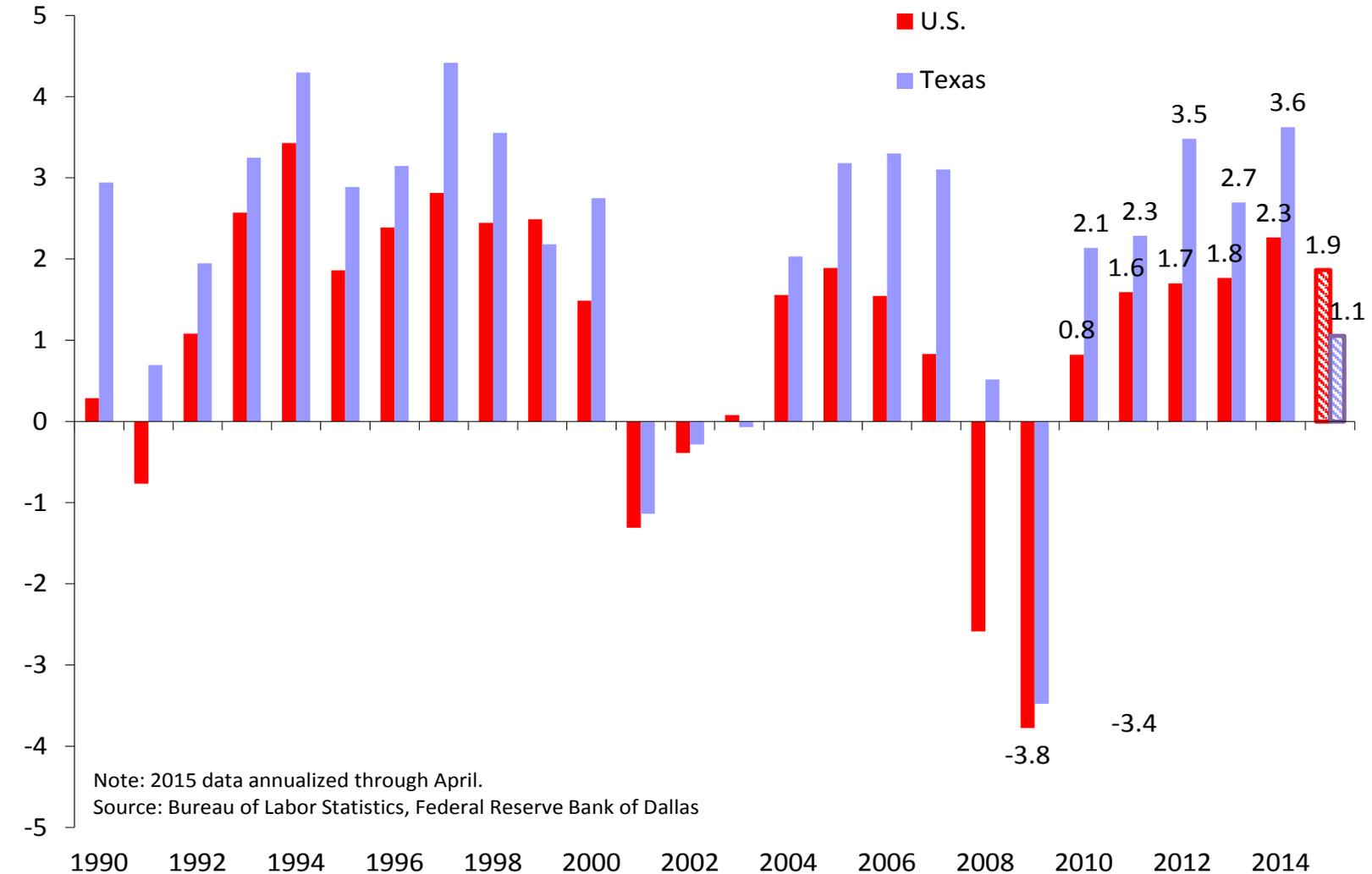


Source: Bureau of Labor Statistics



Texas Jobs Growing Below the Nation So Far in 2015

Percent, Job Growth Y/Y



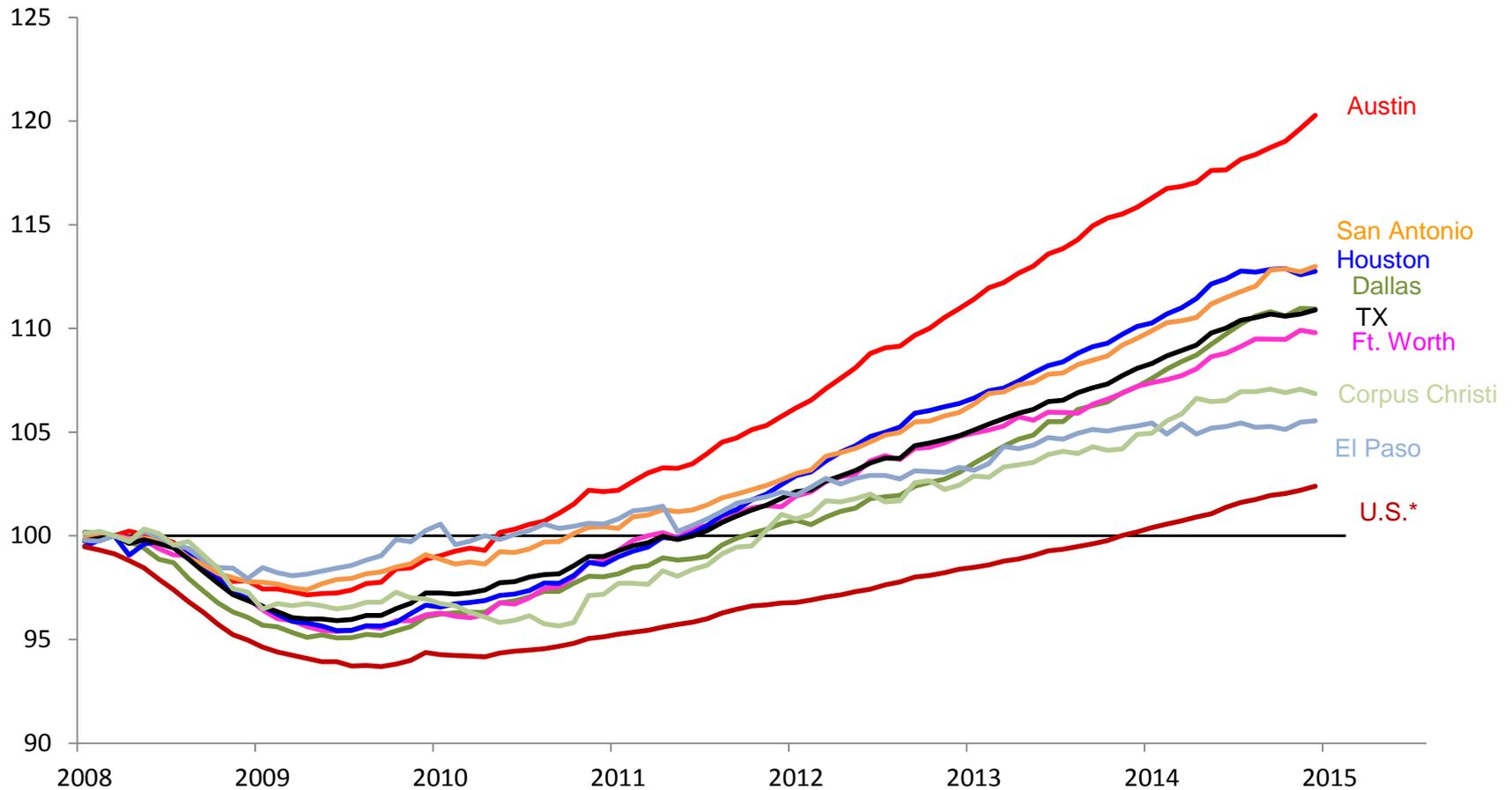
Note: 2015 data annualized through April.

Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas



Job Growth has been Broad-Based Across Large Texas Metro Areas

Nonfarm Employment Index
Aug. 2008=100

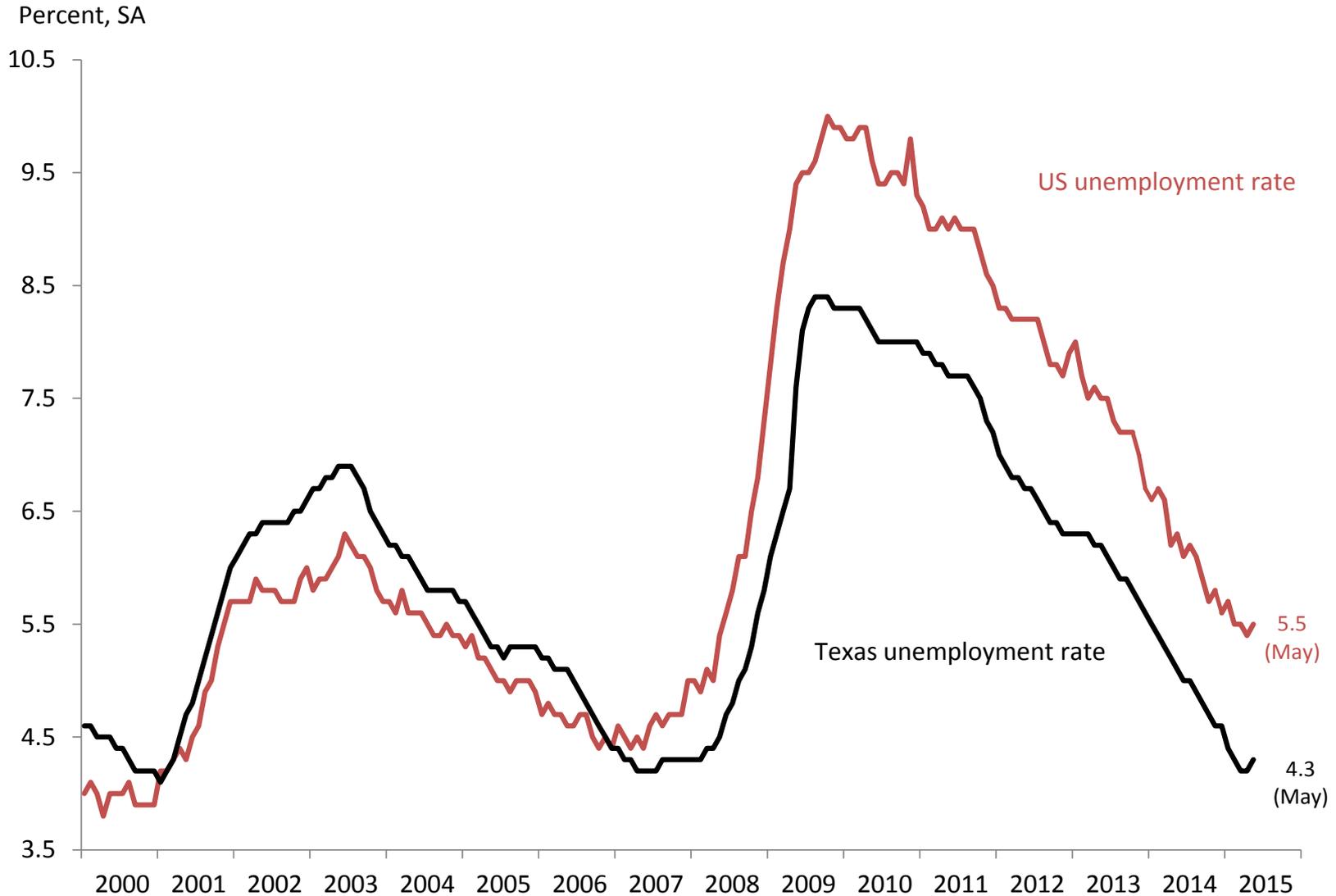


*Indexed from U.S. Peak Employment in January 2008

Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas



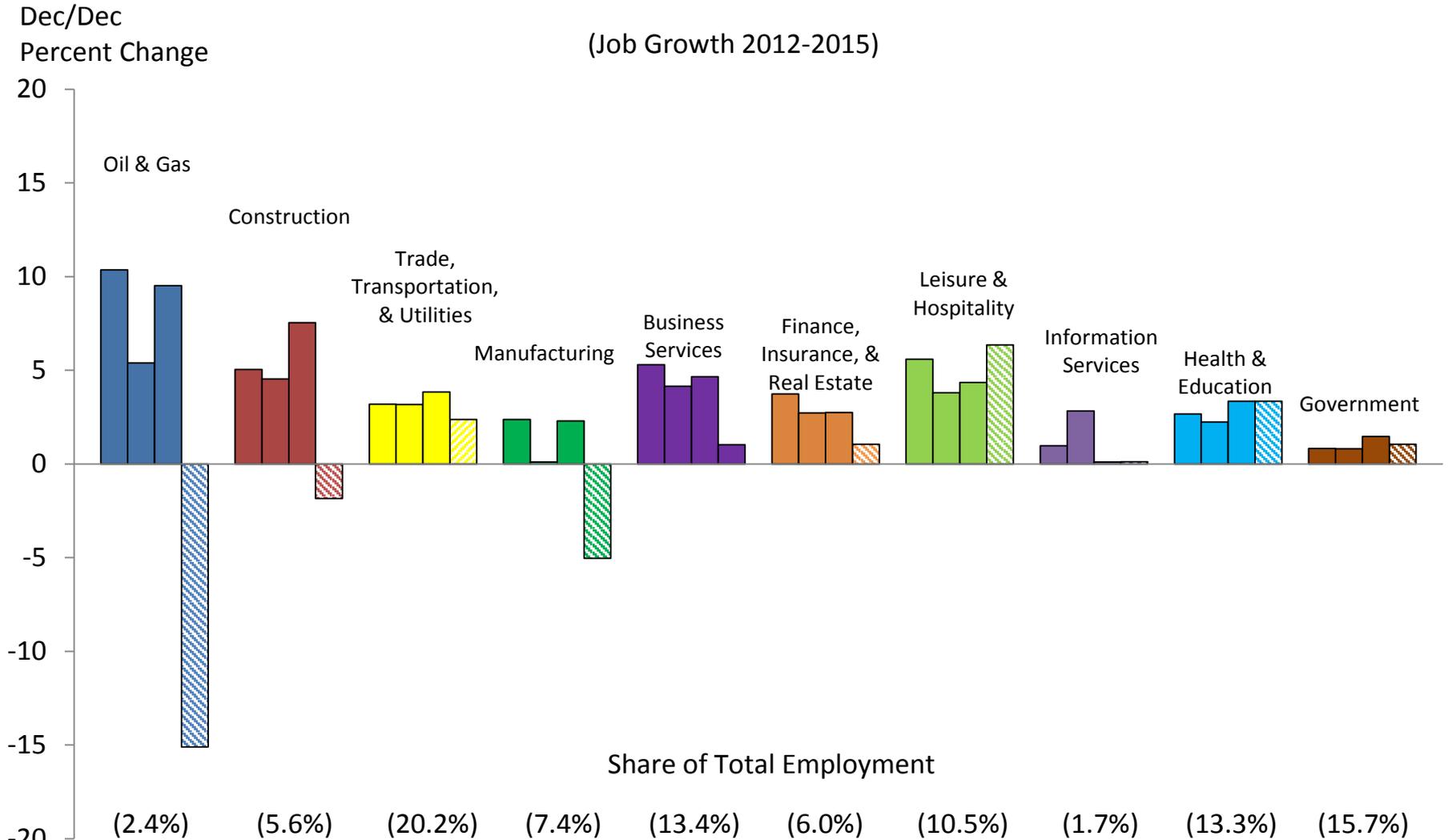
Texas Unemployment Rate Well Below Nation



Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas



Energy, Construction & Manufacturing Have Weakened Significantly in 2015

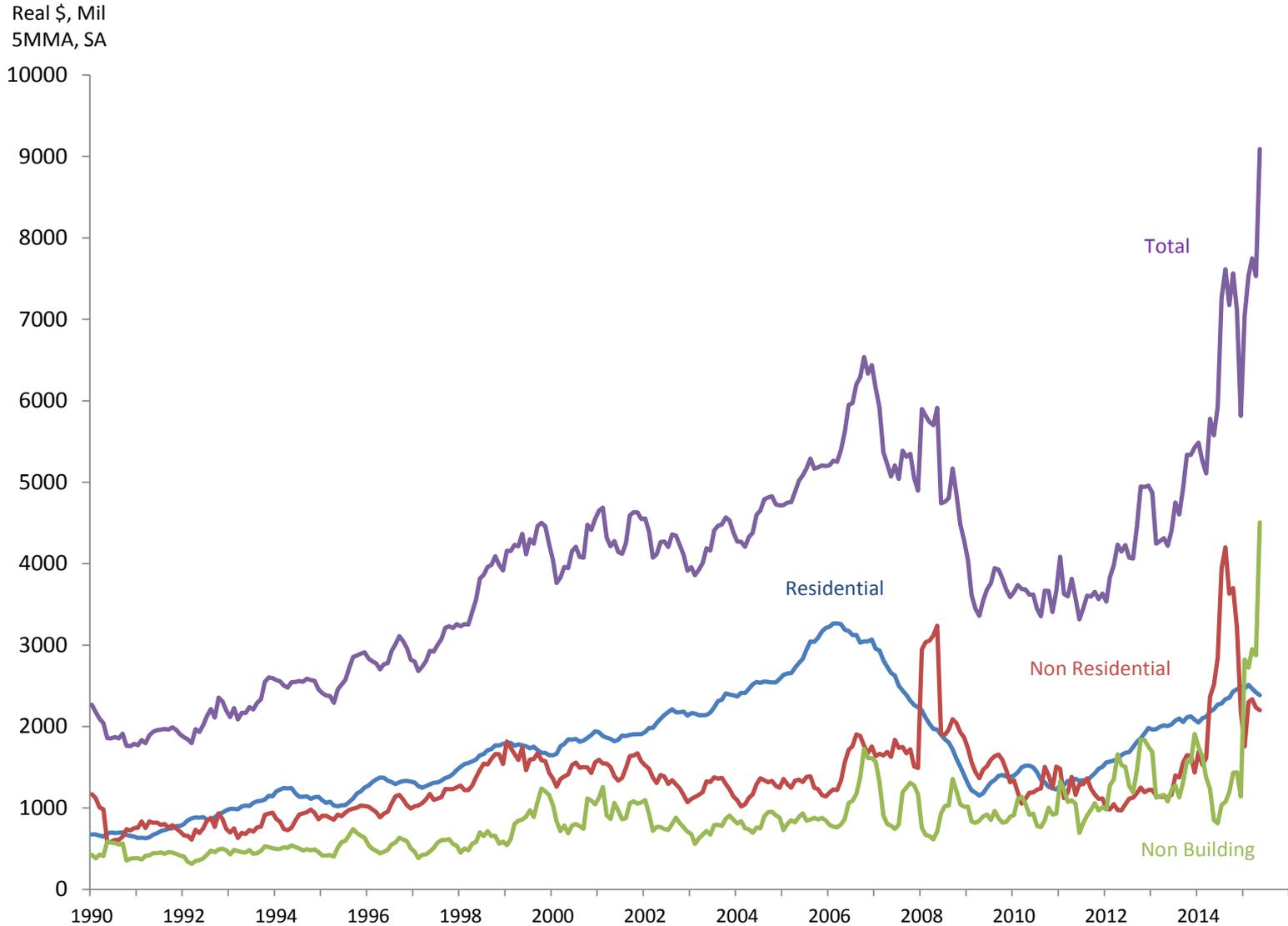


Note: Striped bars represent Dec. 2014 - May 2015 annualized change

Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas



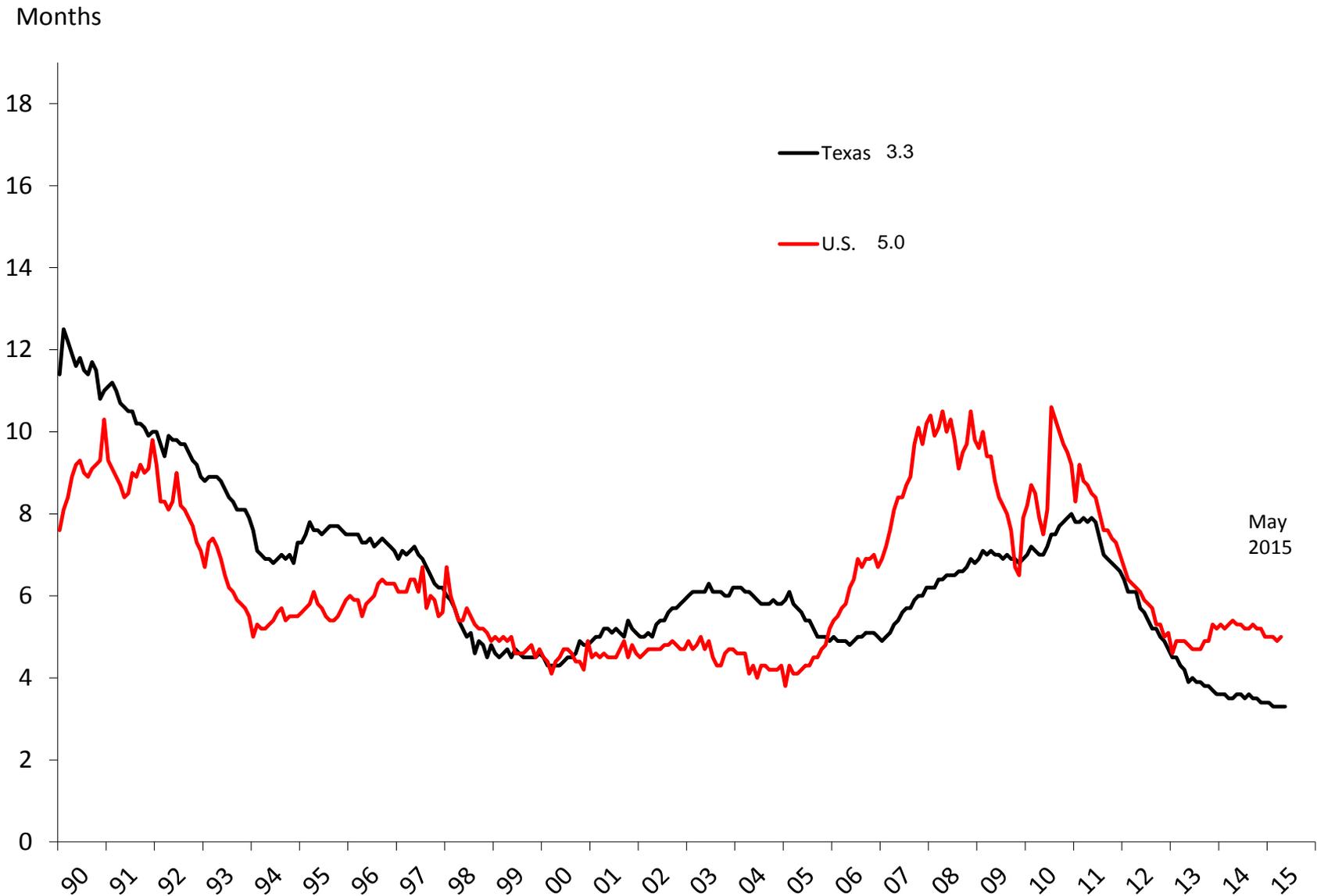
Texas Non-Building Construction Contract Values Increasing Strongly This Year



Source: F.W. Dodge, Federal Reserve Bank of Dallas



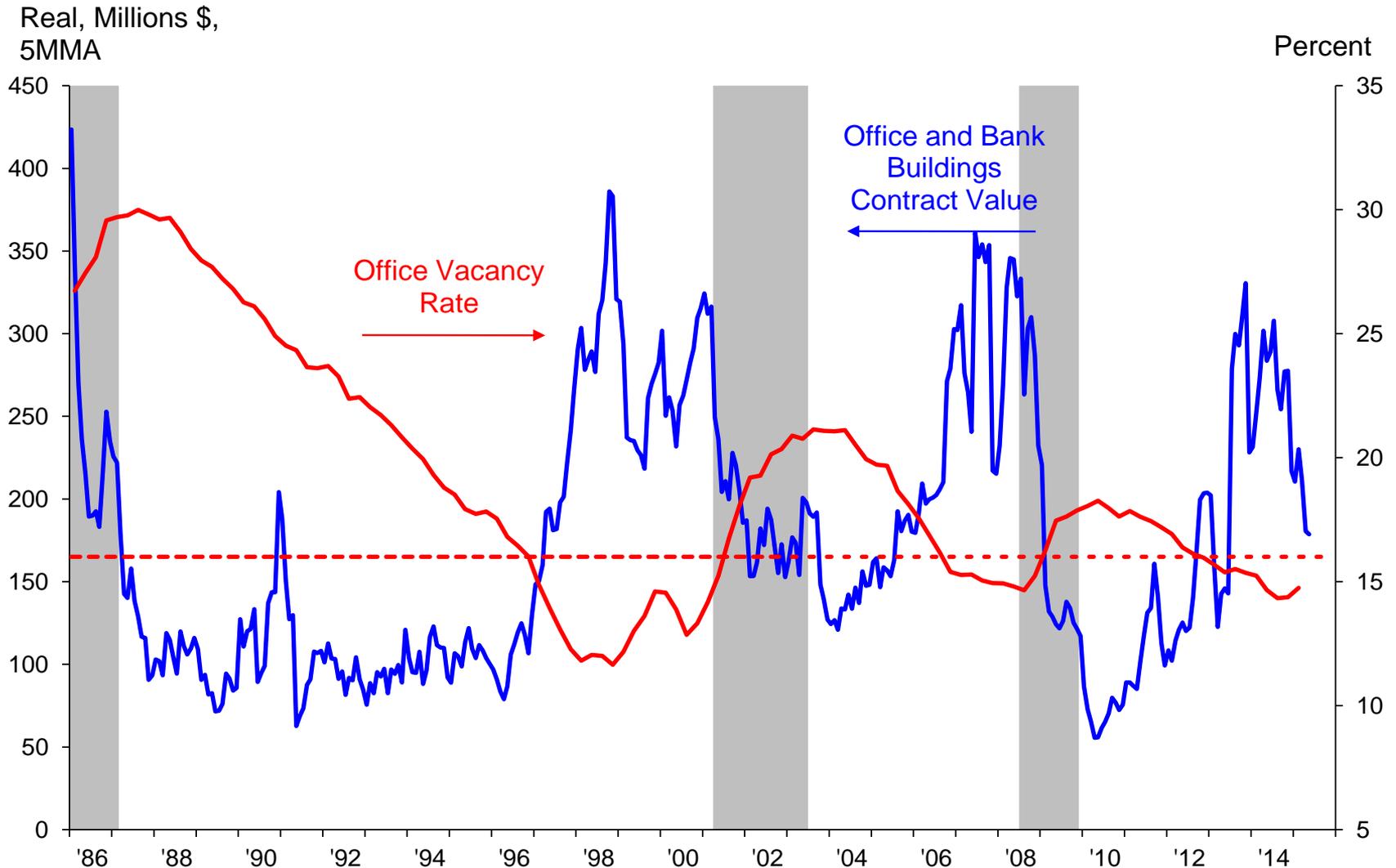
TX Home Inventories Remain at Historically Low Levels



Source: Multiple Listing Service



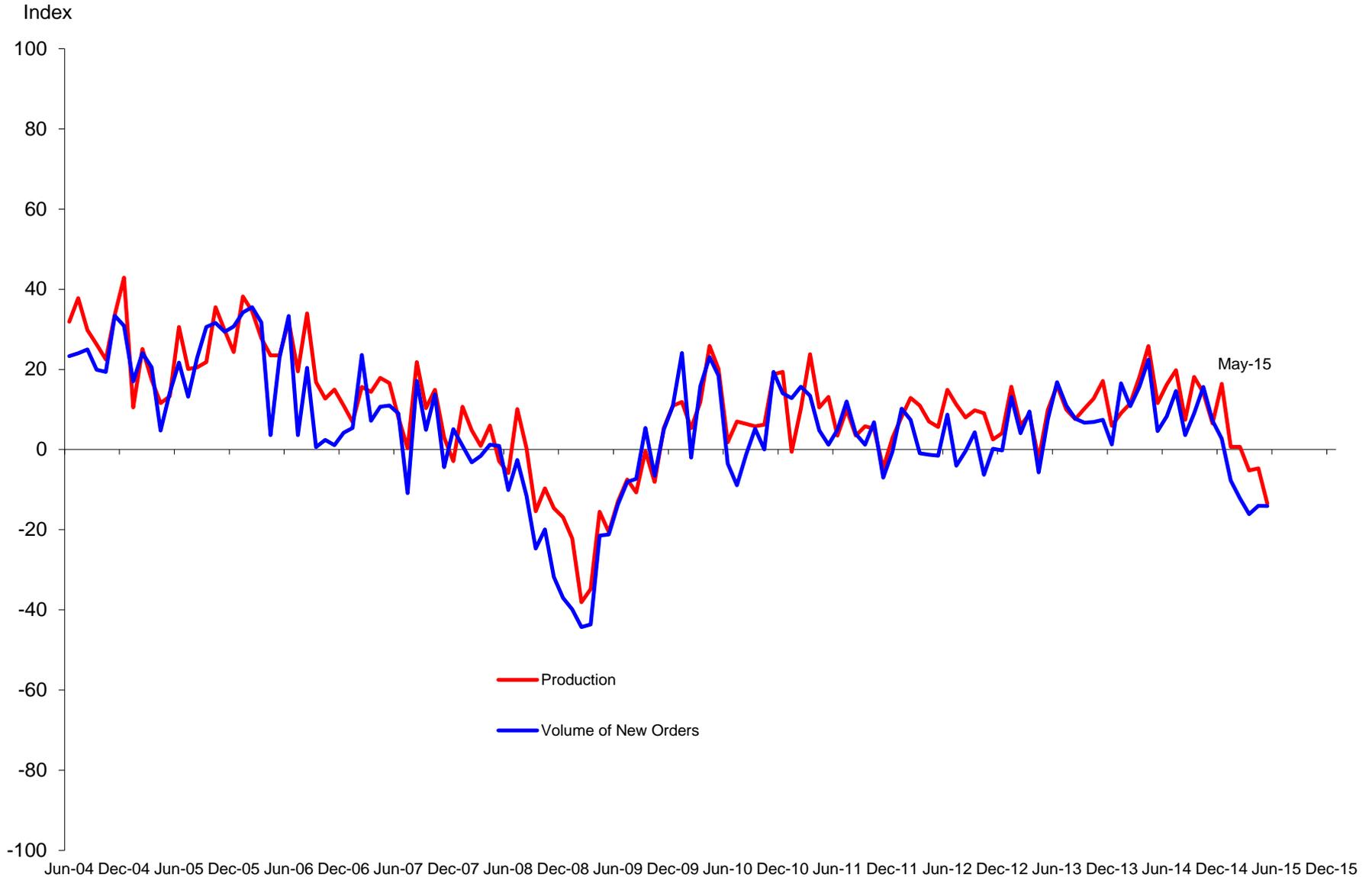
TX Office Vacancy Rate Beginning to Rise



Source: F.W. Dodge, CBRE, Federal Reserve Bank of Dallas



TX Manufacturing Production, New Orders Falling

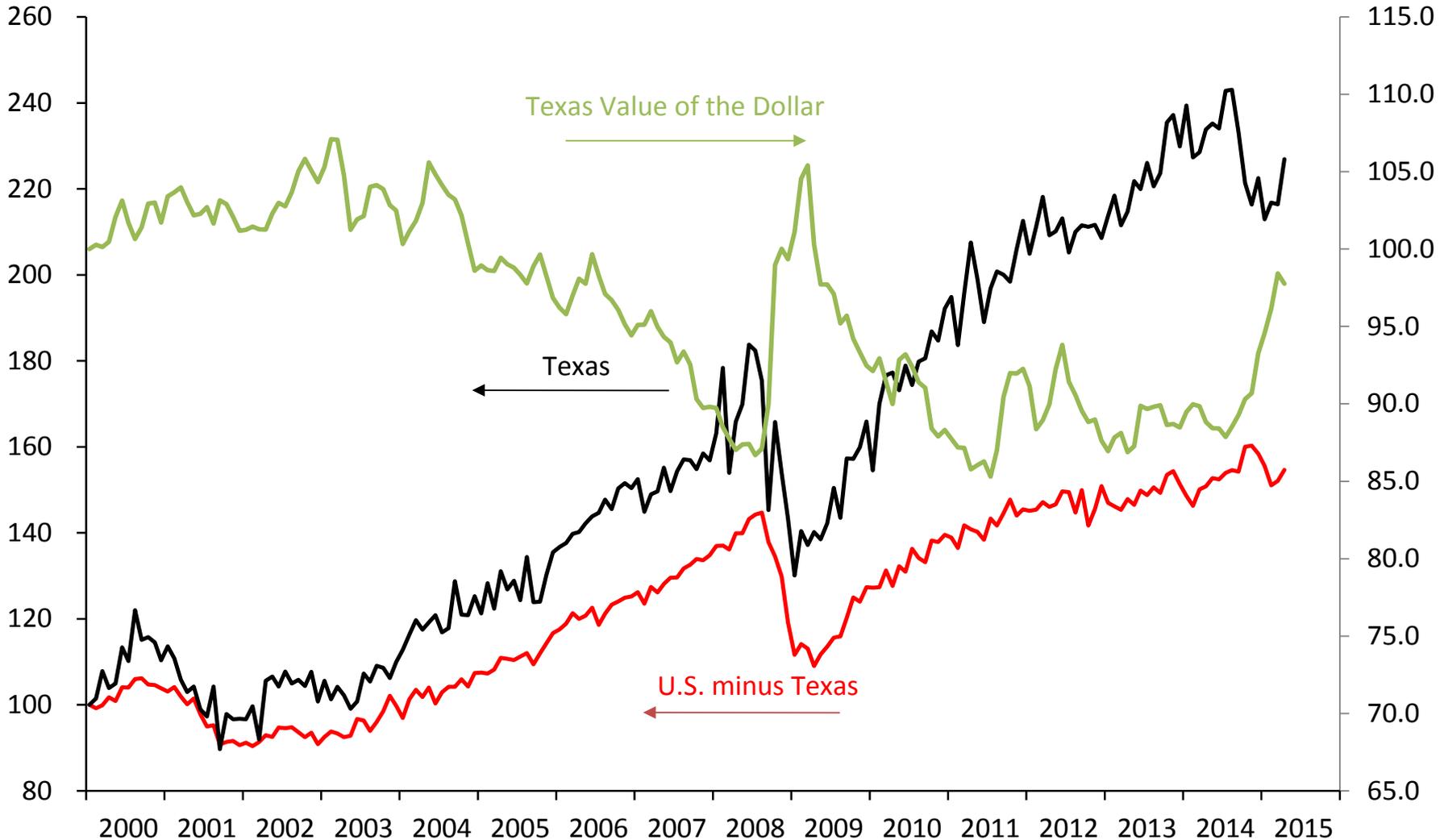




Texas Exports Have Weakened as Value of the Dollar has Risen

Index, SA, Real
Jan. 2000=100

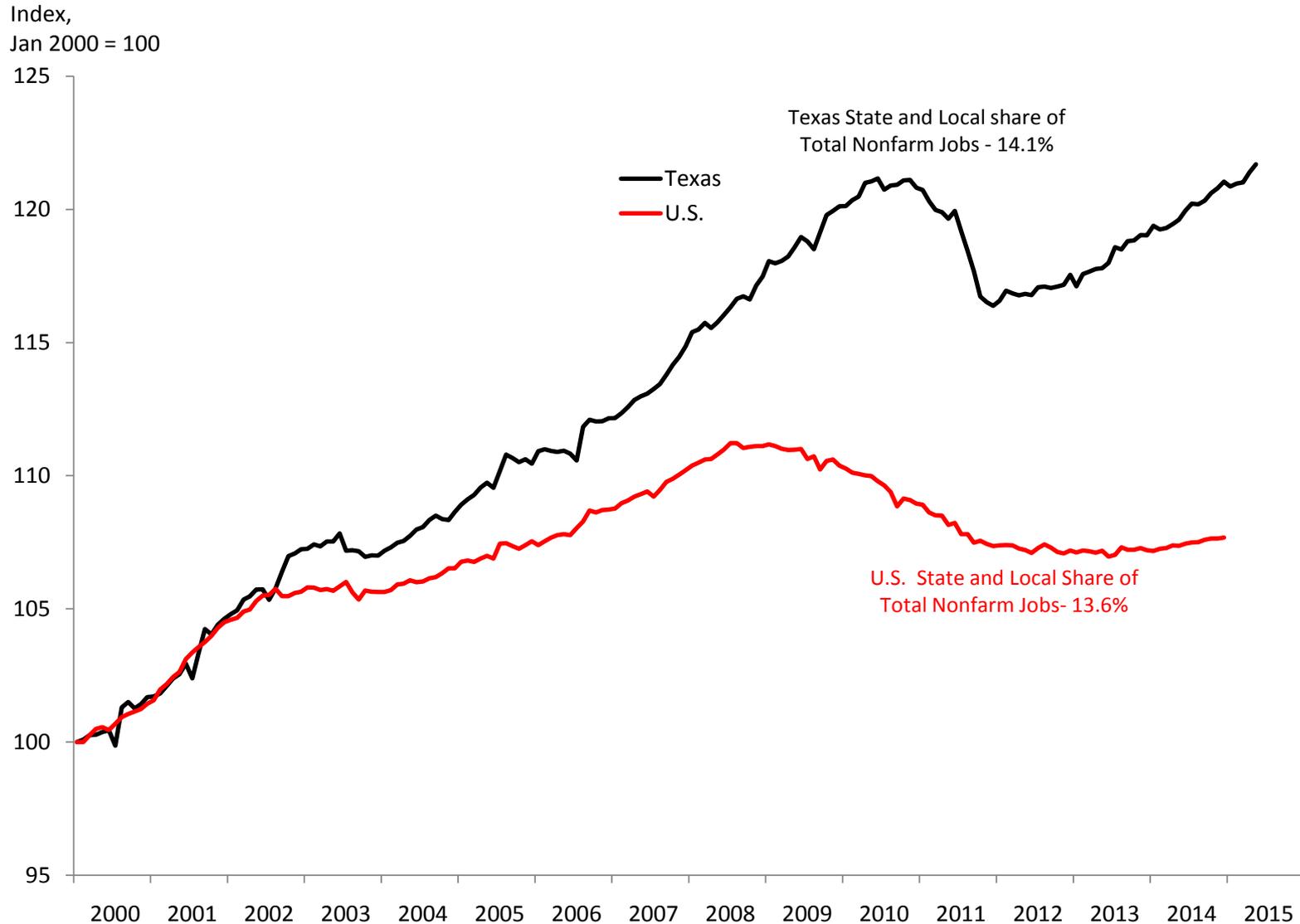
Index
Jan. 1988=100



Source: U.S. Census, Bureau of Labor Statistics, WISERtrade, Federal Reserve Bank of Dallas



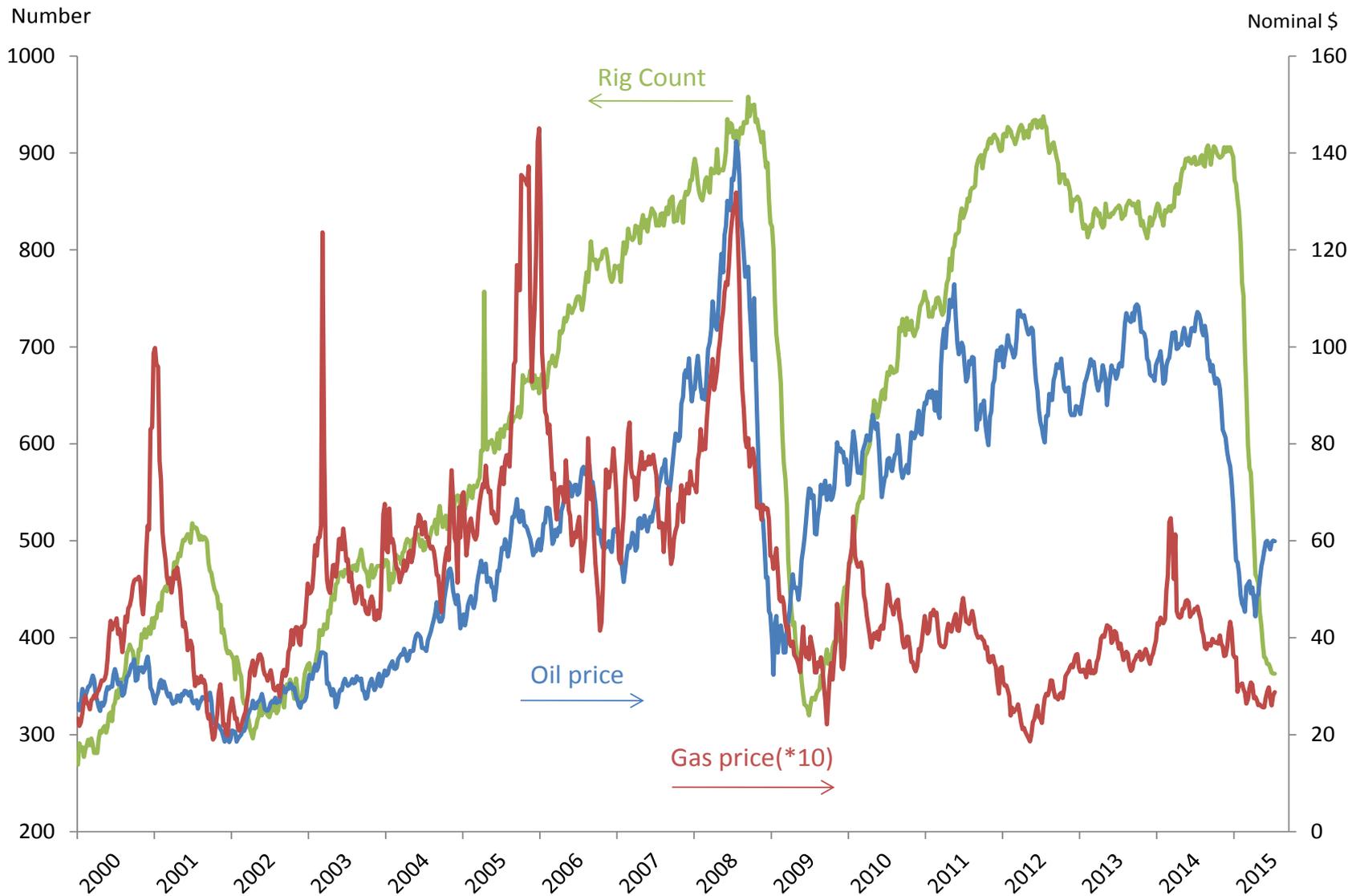
Texas State and Local Government Jobs Have Surpassed 2010 Peak



Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas



Oil Prices Low, Drilling Rig Count Down by 60%



Source: Oil and Gas Journal, Baker Hughes.

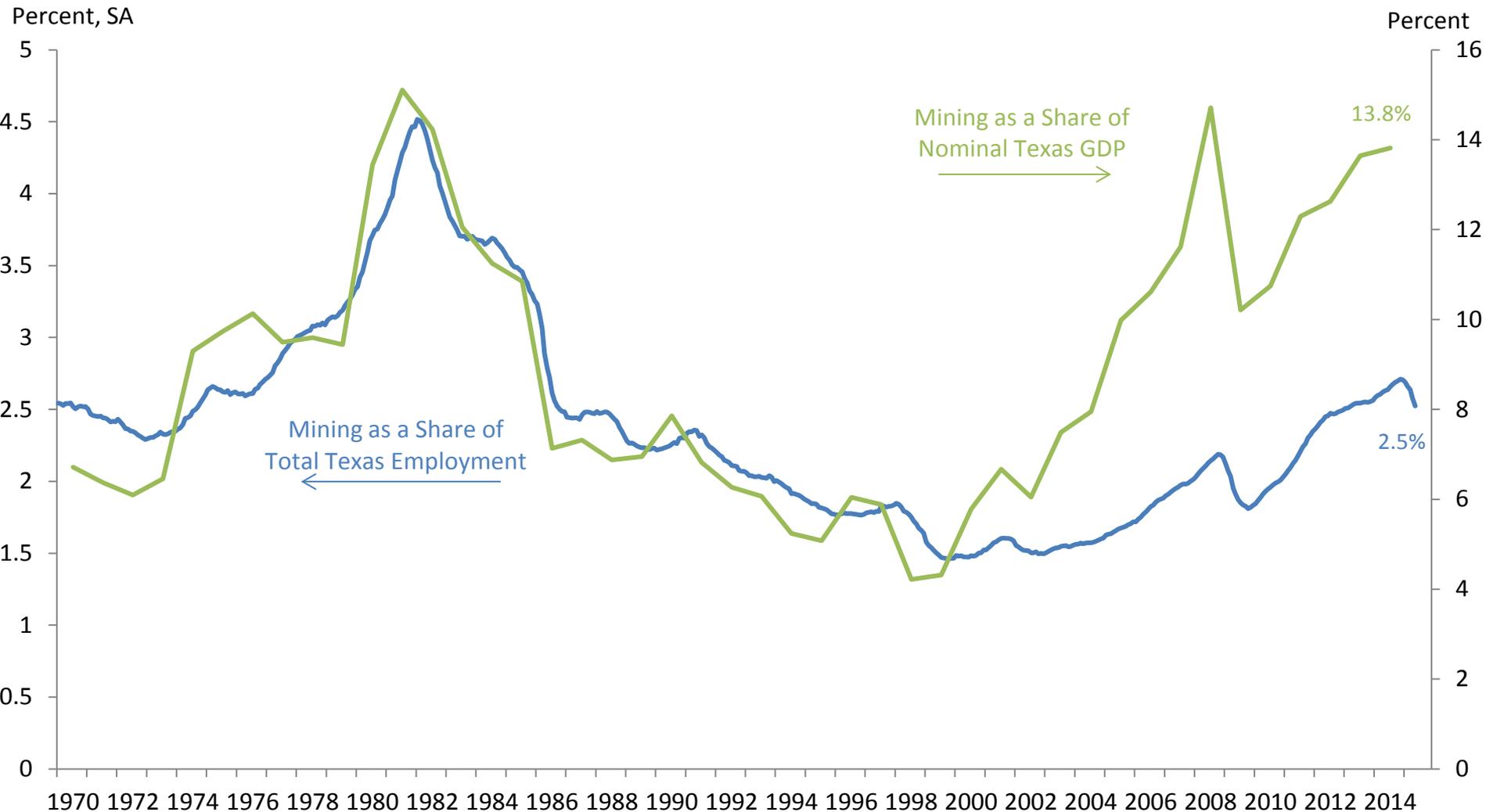


Low Oil Prices Will Likely Dampen TX Job Growth in 2015

- Oil prices have declined by 45% since last July, initial drop from \$106 to \$80 likely was good for TX economy
- Sustained drop from \$80 to \$60 will hurt TX economy - \$60 is below the breakeven point for large share of shale drilling.
- Texas GDP growth will likely weaken more than jobs as output per worker in mining is about 4.6 times more than average for the state.



Energy's Share of TX Economy Increased with Shale Drilling

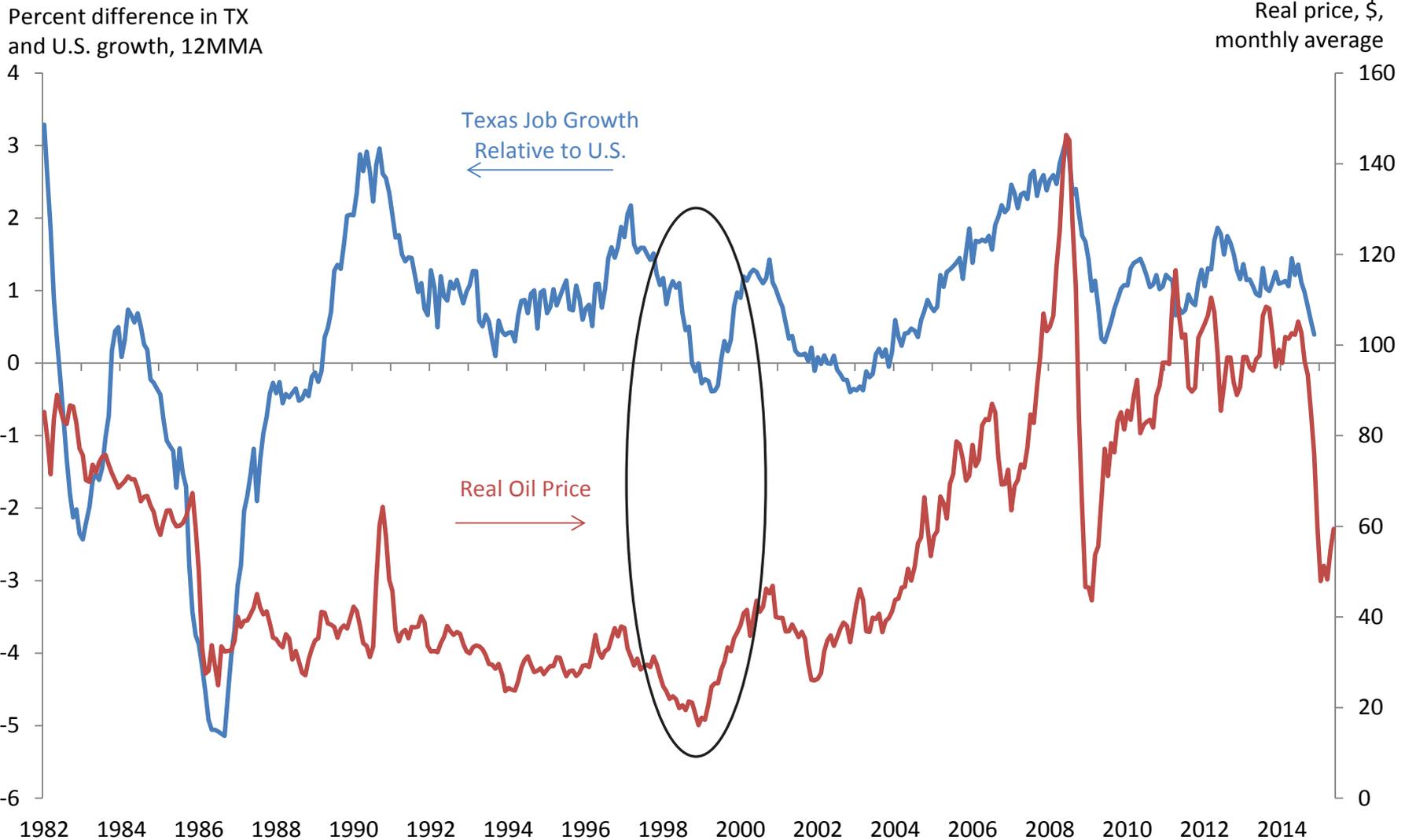


NOTE: GDP values prior to 1997 and employment values prior to 1990 extrapolated from SIC coded data.

SOURCES: Bureau of Labor Statistics, Bureau of Economic Analysis, FRB Dallas.



TX Job Growth Relative to Nation Impacted by Oil Prices

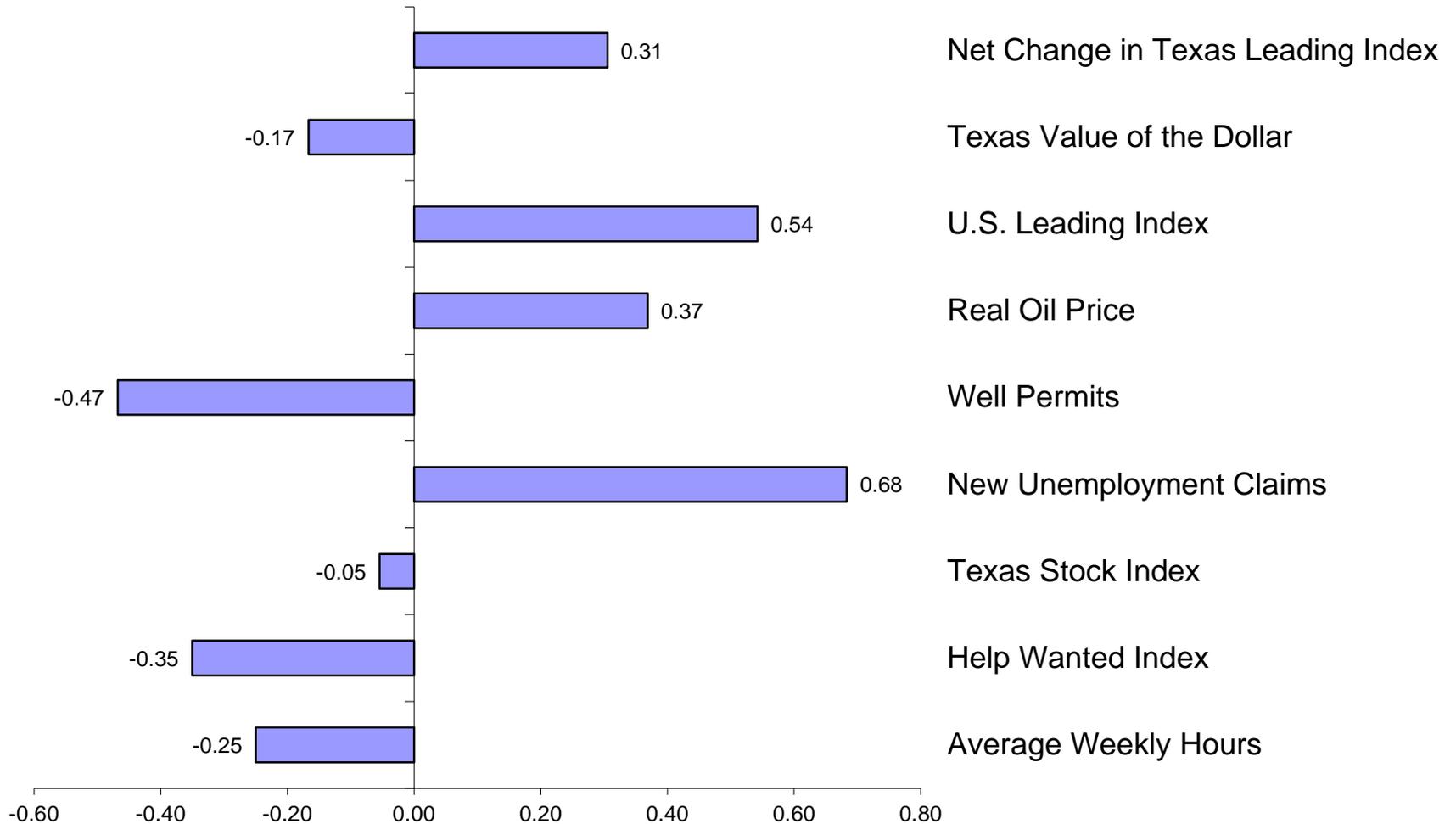


SOURCES: *Wall Street Journal*, Bureau of Labor Statistics.



Pickup in Leading Index Led By Reduced Unemployment Claims

Texas Leading Index Components, 3 month change
March -May





Texas Job Growth Likely to be between 0.5–1.5% in 2015, down from 3.6% in 2014



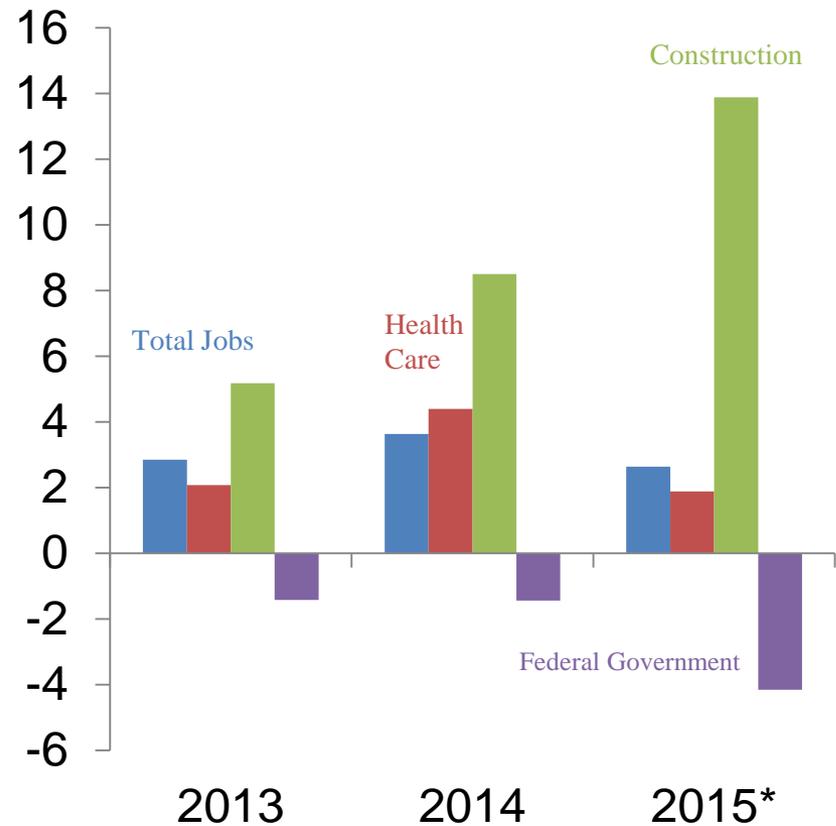
Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations



San Antonio Economy Holding Up in 2015

- 2015 job growth at 2.6% so far after 3.6% in 2014
- Health care job growth moderate after strong expansion in 2014
- Construction very strong
- Federal govt. weak so far this year
- Business services, financial activities also strong so far this year
- Likely will see some slowing this year – although Eagle Ford effects mixed

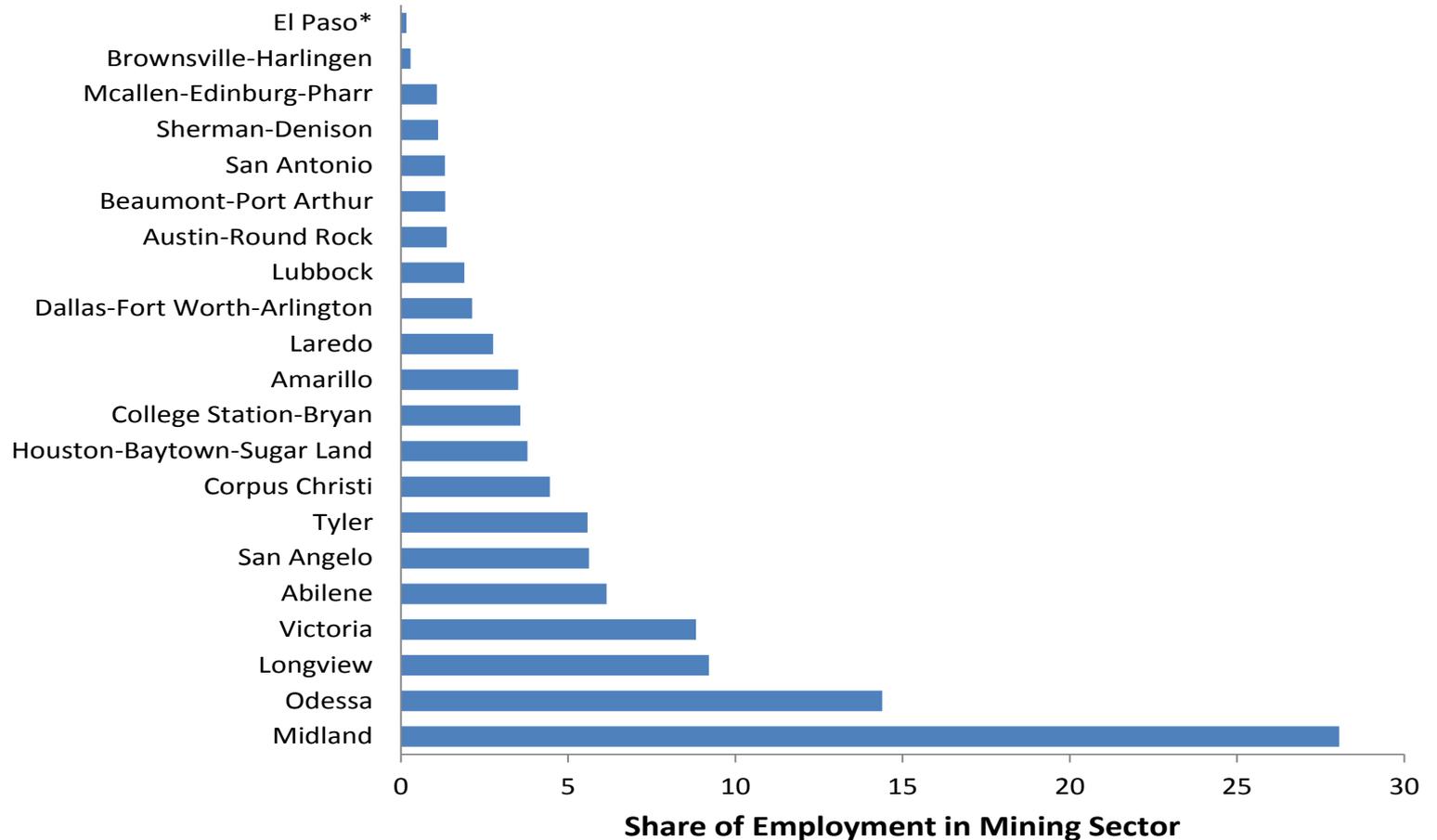
% Growth Dec./Dec.



*Annualized through May 2015



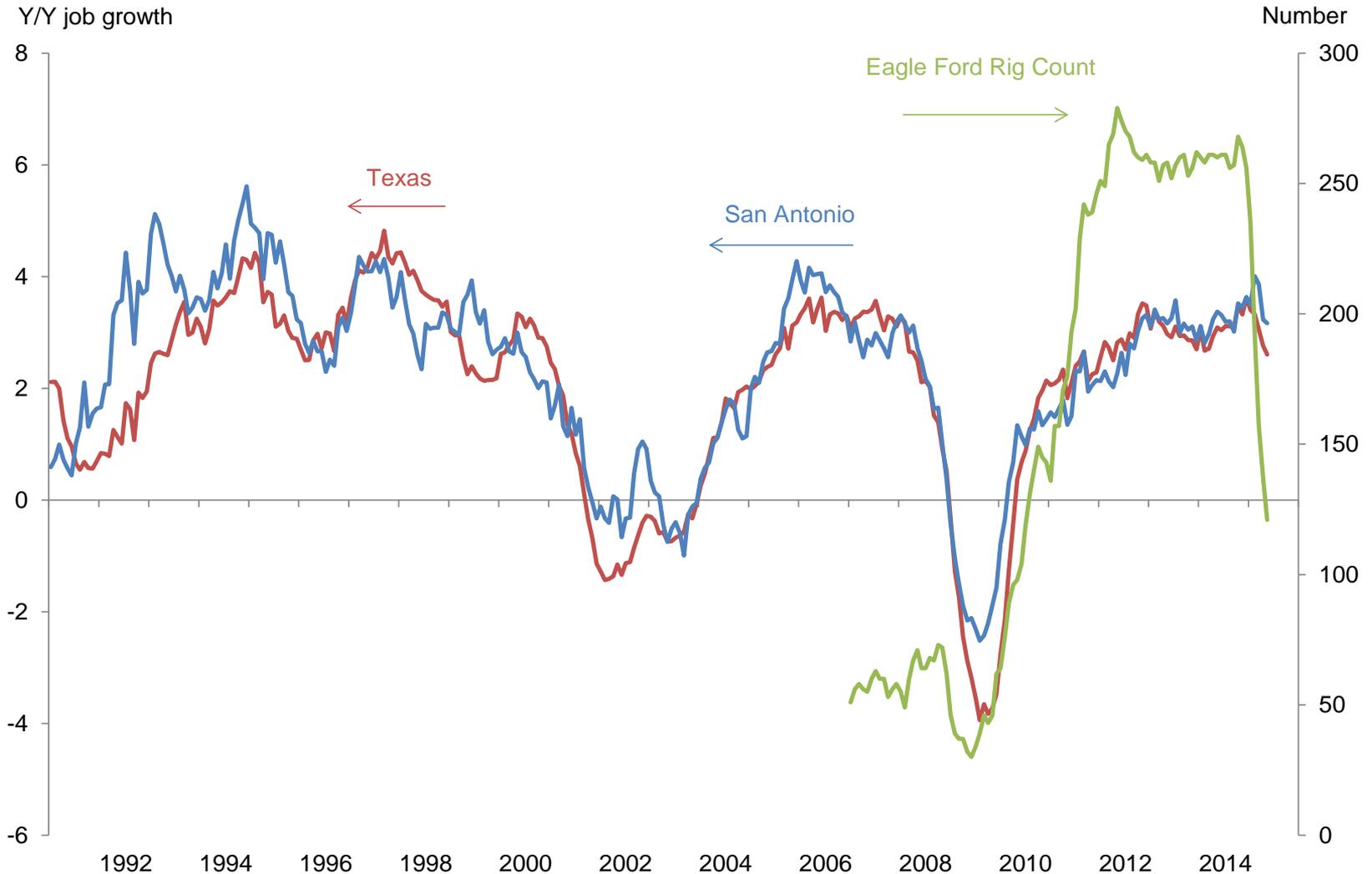
San Antonio has a Small Share of Jobs in the Oil and Gas Industry



*El Paso data as of 2008. All others as of 2012. Source: Bureau of Economic Analysis



No Clear Boost to San Antonio Job Growth from Eagle Ford Development



SOURCE: Oil and Gas Journal, Bureau of Labor Statistics, Federal Reserve Bank of Dallas.



Summary

- U.S. economy picked up in 2014 – Slowing so far this year – biggest concern is weak foreign demand and strong dollar
- TX growth was strong and broad-based in 2014 - initial oil price decline from \$106 to \$80 had positive impact.
- Movement of oil prices from \$80 to \$60 having sharply negative impacts but growth likely to remain positive.
- This year Texas job growth likely to moderate to 0.5-1.5%
- Bottom line: Texas jobs likely to continue to grow but not nearly as strongly as last year. San Antonio likely will have faster job growth than Texas this year.