Texas Economic Outlook: Tapping on the Brakes

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• 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

Real single-family construction

Single-family building permits

Source: Bureau of Economic Analysis, U.S. Census Bureau and author’s calculations.
Home Prices Continue to Increase

Index, 2000=100

- U.S.
- Texas
- California
- Florida
- Nevada

Source: FHFA House Price Index
Household Balance Sheets in Better Shape

Note: Data are through first quarter 2015, except where noted.

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%)

Source: Bureau of Labor Statistics
U.S. Leading Index Slowing but Still Suggesting Healthy Growth in Months Ahead

Annualized % change

Source: Conference Board, Federal Reserve Bank of Dallas
RGDP Grew 2.4% in 2014, June Blue Chip Survey Projects 2.0% in 2015

Source: Blue Chip Economic Indicators
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.

2.6% trend
Texas Ranked Third in Job Growth in 2014

Source: Bureau of Labor Statistics
Texas Ranked 33rd in Job Growth So Far in 2015, Though Above Most Energy States


Source: Bureau of Labor Statistics
Texas Jobs Growing Below the Nation So Far in 2015

Percent, Job Growth Y/Y

U.S.
Texas

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

Oil & Gas
Construction
Trade, Transportation, & Utilities
Manufacturing
Business Services
Finance, Insurance, & Real Estate
Leisure & Hospitality
Information Services
Health & Education
Government

(Job Growth 2012-2015)

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

Months

- Texas: 3.3
- U.S.: 5.0

Source: Multiple Listing Service
TX Office Vacancy Rate Beginning to Rise

Source: F.W. Dodge, CBRE, Federal Reserve Bank of Dallas
Texas Exports Have Weakened as Value of the Dollar has Risen

Index, SA, Real
Jan. 2000=100

Index
Jan. 1988=100

Texas State and Local Government Jobs Have Surpassed 2010 Peak

Texas State and Local Share of Total Nonfarm Jobs - 14.1%

U.S. State and Local Share of Total Nonfarm Jobs - 13.6%

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.
• 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.

TX Job Growth Relative to Nation Impacted by Oil Prices

Percent difference in TX and U.S. growth, 12MMA

Texas Job Growth Relative to U.S.

Real Oil Price

Pickup in Leading Index Led By Reduced Unemployment Claims

Texas Leading Index Components, 3 month change
March - May

Net Change in Texas Leading Index
Texas Value of the Dollar
U.S. Leading Index
Real Oil Price
Well Permits
New Unemployment Claims
Texas Stock Index
Help Wanted Index
Average Weekly Hours
Texas Job Growth Likely to be between 0.5–1.5% in 2015, down from 3.6% in 2014

Leading Index

Texas Nonfarm Employment and TLI Forecast (with 80% confidence band)

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

*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

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.