2016 Texas Economic Outlook: Riding the Energy Roller Coaster

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National Economy Slowed Slightly in 2015

- Job growth slowed from 2.3% in 2014 to 1.9% in 2015, while RGDP growth likely slowed from 2.5% to 2.1%.

- Manufacturing sector hit by global weakness and strong dollar.

- Health care sector picked up with greater insurance coverage. Retail and leisure and hospitality remained healthy, but positive impact of lower energy prices smaller than expected.

- RGDP expected to pick up slightly in 2016.
2015 Consumer Spending Weaker Than Expected

Percent Y/Y

Sources: Bureau of Economic Analysis, Federal Reserve Bank of St. Louis.
U.S. Households Reduced Debt

Ratio, personal debt per capita/personal income per capita

Note: Data are through third quarter 2015, except where noted.
Sources: Federal Reserve Bank of New York, Bureau of Economic Analysis.
Average Job Growth of 221K per Month in 2015
After 260K in 2014 (1.9% vs 2.3%)

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

Note: Shaded areas represent U.S. recessions.
Source: Conference Board, Federal Reserve Bank of Dallas
January Blue Chip Survey Projects 2.1% RGDP Growth in 2015 and 2.6% in 2016

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SAAR, Percent

Source: Blue Chip Economic Indicators
Texas Economy Weakened Sharply in 2015 but Continued to Add Jobs

• In five years prior to 2015, growth in energy, construction and exports provided a strong stimulus to Texas.

• In 2015, low oil prices, strong dollar and labor market tightness reduced job growth.

• Health care and leisure and hospitality remained strong—offsetting some of the weakness in energy and manufacturing.

• In 2015, jobs grew about 1.3% (150,500 jobs), a drop from 3.6% in 2014. In 2016, if oil prices remain near $40 - $50, growth will be around 1.4% (161,200 jobs).
Texas Economic Growth Below Trend but Positive (Texas Business Cycle Index)

Note: Shaded areas represent Texas recessions
Source: Federal Reserve Bank of Dallas

3.8% trend
Texas Ranked Third in Job Growth in 2014, Growth in Energy States Varied Widely


Note: Black bars represent large energy-producing states.
Source: Bureau of Labor Statistics
Texas Ranked 32\textsuperscript{nd} in Job Growth in 2015, but Above Most Energy States

Note: Black bars represent large energy-producing states.
Source: Bureau of Labor Statistics
2015 Texas Job Growth Less Than the Nation’s

Note: 2015 data annualized through November.
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 Still Below Nation’s but Rising

US unemployment rate
Texas unemployment rate

Energy & Manufacturing Weakened Sharply in 2015

(Job Growth 2012-2015)

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

Sources: Bureau of Labor Statistics, Federal Reserve Bank of Dallas
Texas Construction Contracts Strong in 2015

Sources: F.W. Dodge, Federal Reserve Bank of Dallas
Texas Home Inventories Remain Near Historically Low Levels

Source: Multiple Listing Service

Nov. 2015
Texas Office Markets Remain Healthy

Real, Millions $, 5MMA

Office Vacancy Rate

Office and Bank Buildings Contract Values

Note: Shaded areas represent Texas recessions
Sources: F.W. Dodge, CBRE, Federal Reserve Bank of Dallas
Texas Manufacturing Indicators Mixed

Source: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey
Texas Exports Have Weakened as Value of the Dollar Continues to Rise

Drilling Rig Count Continues to Fall Amidst Renewed Plunge in Energy Prices

Source: Oil and Gas Journal, Baker Hughes.
Which Metros Performed the Best in 2015?
Size of Energy Sector Explains a Lot

- El Paso (3.5%)
- Brownsville-Harlingen (1.3%)
- Killeen-Temple-Fort Hood (2%)
- Texarkana (-0.2%)
- Waco (-0.5%)
- Lubbock (1.3%)
- **Austin-Round Rock (4.2%)**
- Sherman-Denison (-0.2%)
- Amarillo (-0.4%)
- **San Antonio (3.6%)**
- **Dallas-Fort Worth-Arlington (3.0%)**
- Beaumont-Port Arthur (0.5%)
- McAllen-Edinburg-Mission (2%)
- College Station-Bryan (5.8%)
- Tyler (-0.2%)
- Abilene (0.6%)
- Laredo (2.4%)
- Wichita Falls (0%)
- San Angelo (-0.4%)
- **Houston-Baytown-Sugar Land (0.1%)**
- **Corpus Christi (0.9%)**
- Longview (-5.1%)
- Odessa (-2.6%)
- Midland (-2.1%)

Note: Data in parentheses are annualized job growth, Dec. 2014 - Nov. 2015. Mining share data as of 2014.

Correlation: -0.52
Share of Manufacturing Also Accounts for Some Differences in Job Growth

Correlation: -0.36

Note: Data in parentheses are annualized job growth, Dec. 2014 - Nov. 2015. Manufacturing share data as of 2014.
Sources: Texas Workforce Commission, Bureau of Labor Statistics.
11th District Banks Remain More Profitable Than U.S. Banks…

Return on Assets, Percent

*Annual data, 2015 data are annualized through Q3
…But Noncurrent Loans Have Ticked Up Regionally

*Annual data, 2015 data are annualized through Q3
NOTE: Seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas.
Texas Job Growth Likely to Be Between 1.0%–2.0% in 2016, Similar to 2015

Texas nonfarm employment and forecast (with 80% confidence band)

San Antonio Economy Grew Strongly in 2015

- 2015 job growth at 3.6% so far—same pace as 2014.
- Health care and construction growth remained robust.
- Financial activities, business services also strong.
- Manufacturing, mining, federal government weak last year.
- Declines in Eagle Ford had little net negative impact.

*Annualized through Nov. 2015
Eagle Ford Jobs Declining

Index, 2007:Q1 = 100*  

*Quarterly, seasonally adjusted.
Summary

• Texas weakened in the first half of 2015, but outlook improved as oil prices stabilized near $60—recent fall below $45 has weakened the outlook.

• Texas doing much better than 1980s and better than other energy states.

• Tight real estate markets and continued growth in sectors such as health care and leisure and hospitality are helping sustain positive job growth.

• 2016 Texas job growth likely to be about 1.4% (161,200 jobs). Biggest risk to the forecast is declining oil prices. If average oil prices fall to $20–$30, then negative job growth likely.
How Did My Forecast From Last Year Do?

Last year stated: **Texas likely to continue to grow, but not nearly as strong as previous year.**

- Forecast was not weak enough
Last Year’s Job Growth Rate Weaker Than Forecast (1.3% vs. Forecast of 2.0%–2.5%)

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

Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations
Texas Business Outlook Surveys

Be part of a process that helps gauge regional business activity and informs monetary policy making.

We want your input!

Texas Manufacturing Outlook Survey
Texas Service Sector Outlook Survey
Texas Retail Outlook Survey