



Federal Reserve Bank of Dallas

Comments on Monetary Policy and an Annual Texas Economic Review

Richard W. Fisher

President and CEO

Federal Reserve Bank of Dallas

Dallas

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\$1,530,000,000,000

2013 Texas Economic Output



US States Renamed for Countries with Similar GDPs, 2013



SOURCE: Bureau of Economic Analysis; International Monetary Fund (nominal, not PPP-adjusted); American Enterprise Institute's *Carpe Diem* blog, post by Mark J. Perry, June 12, 2014.



A Record-Setting Year in Texas

- State output continues to climb to new heights.
- Employment growth is broad-based across industries and income groups.
- New highs for income per person.
- Another year as top migration destination from other states.
- Highest percentage of home mortgages with positive equity.
- Construction contract values reach a record.
- Oil & gas production soars along with refining capacity and exports of petroleum products.



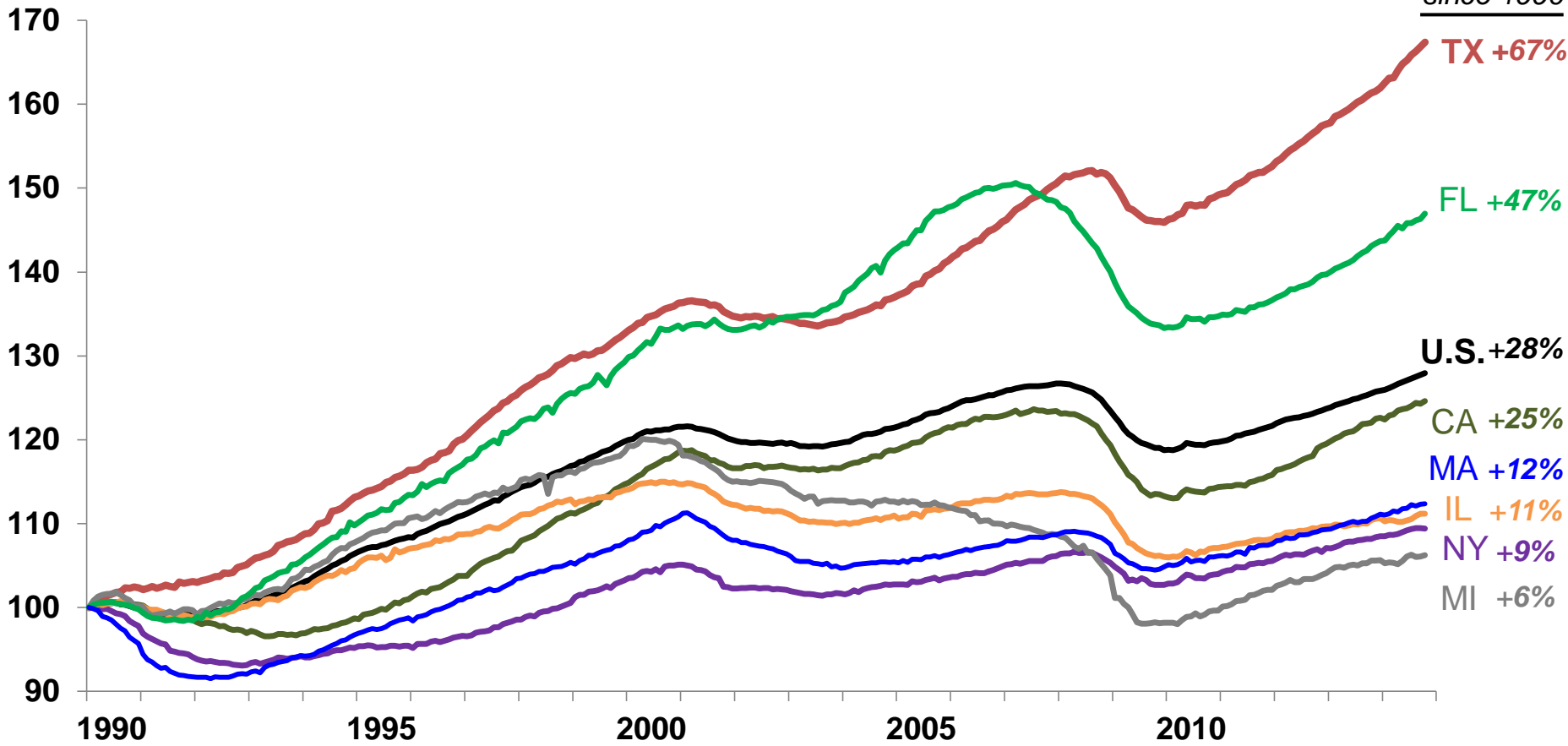
The Lone Star State Shines Bright

- In the past several years, growth in energy, exports, professional and business services, manufacturing, and trade, transportation and utilities have helped drive growth.
- Full-year 2014 job growth is expected be ~3.5%, the current year-to-date run rate is 3.7% annualized growth (strongest since 1998).
- The unemployment rate is 5.1%, near a 6-year low and below the U.S. rate of 5.8%.
 - Notably, since the beginning of the recession, the Texas labor force has grown at a rate **10 times** the U.S. labor force
- Factors contributing to Texas' growth:
 - Larger share of fast-growing, fundamental industries.
 - Favorable long-term factors.



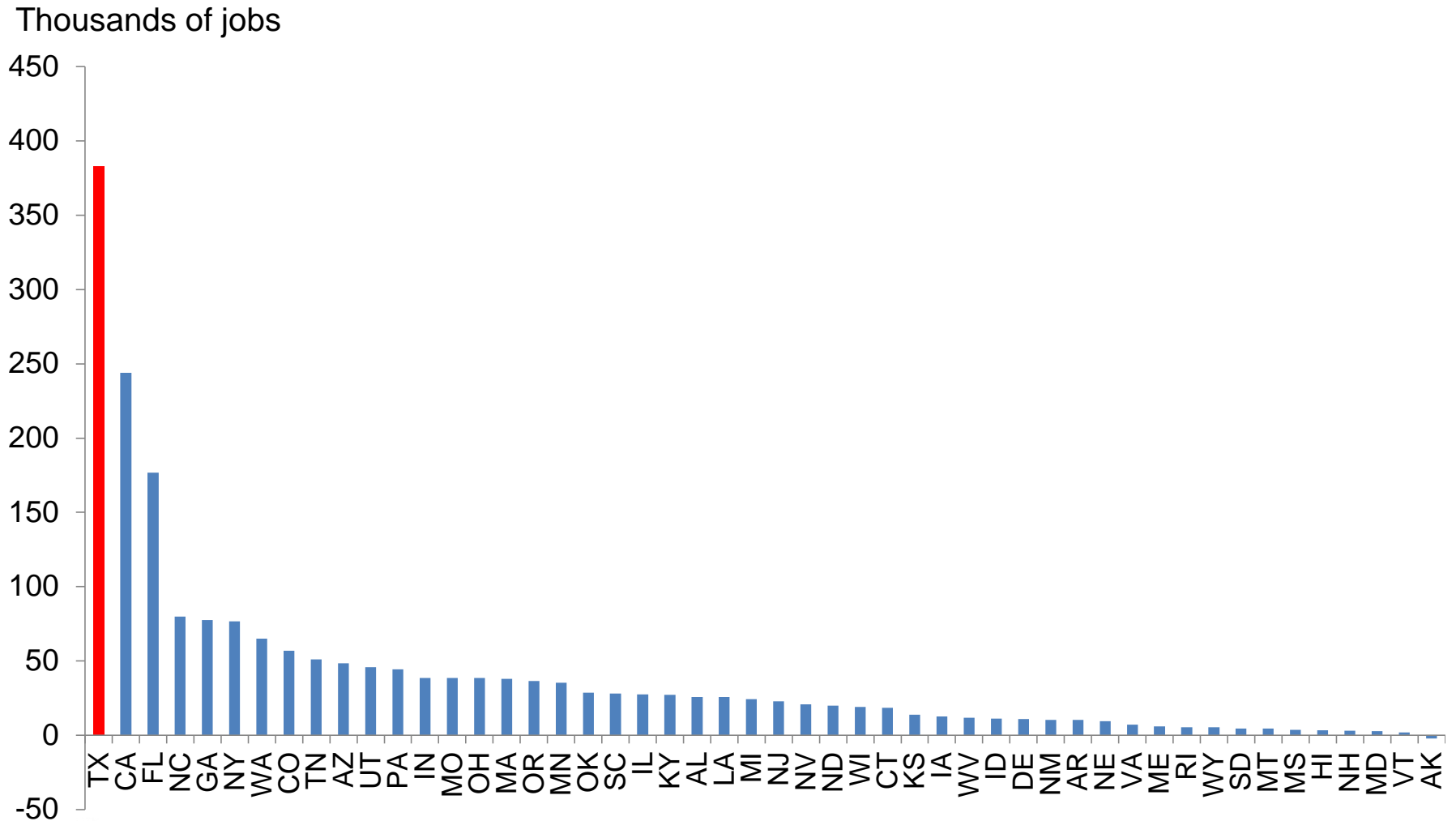
Total Nonagricultural Employment Since 1990 in Selected States

Index, January 1990 = 100



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

Employment Growth by State



NOTE: Data are from Dec. 2013–Oct. 2014.

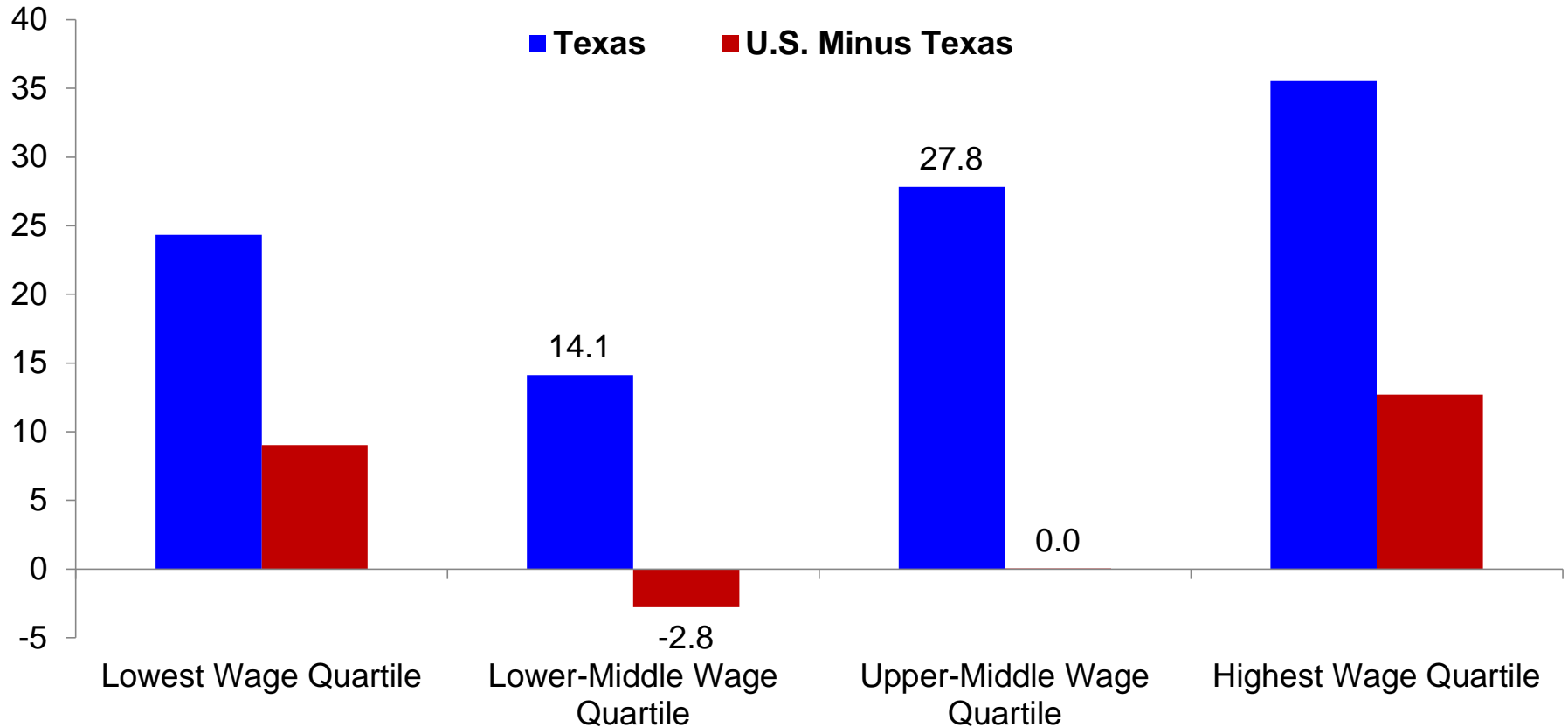
SOURCE: Bureau of Labor Statistics.



Texas Creates Mid- and High-Paying Jobs

Job Growth by Wage Quartile, 2000–2013

Percent change in employment

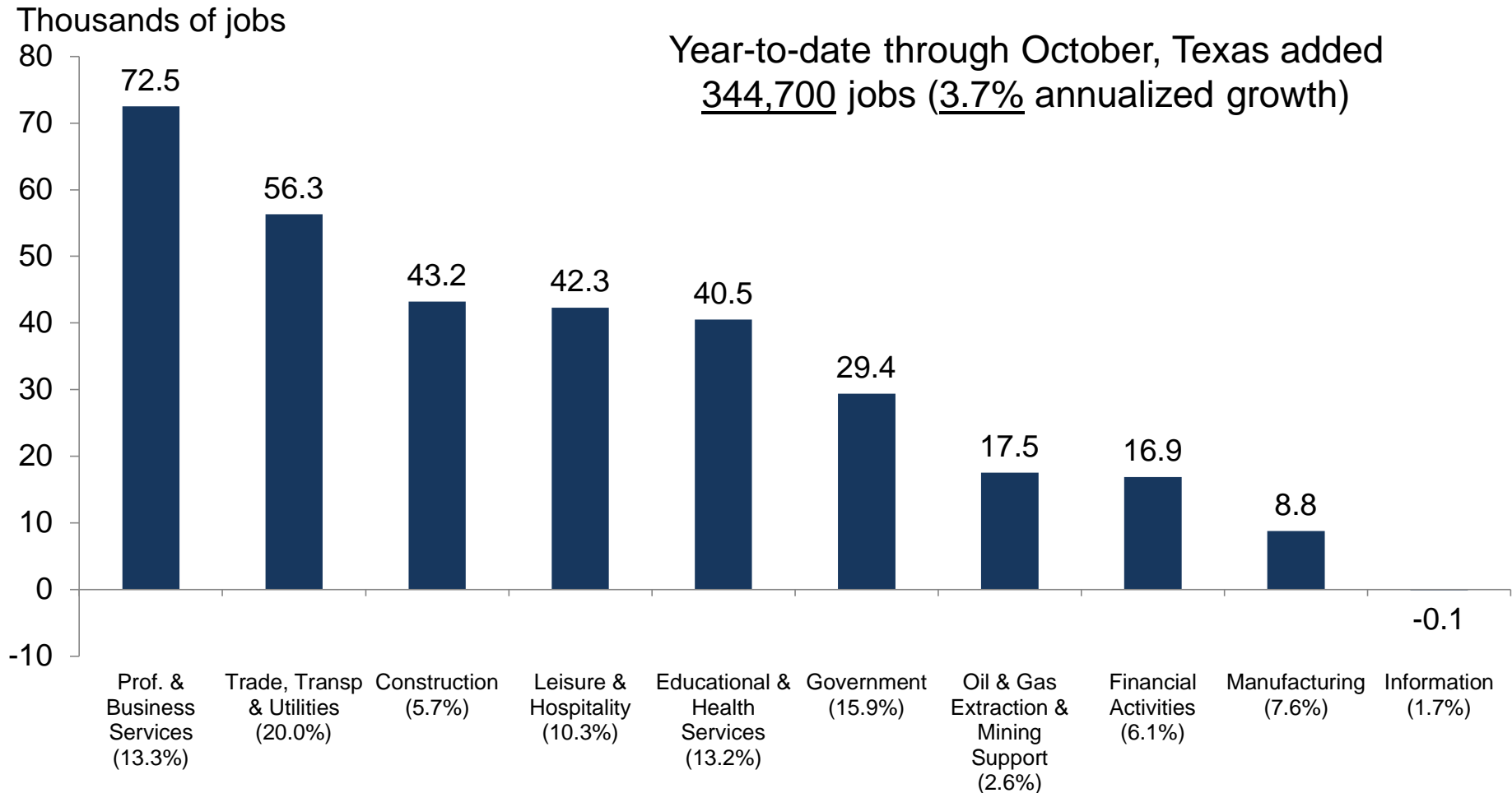


NOTES: Calculations include workers over age 15 with positive wages and exclude the self-employed. Wage quartiles constructed based on U.S. 2000 wage distribution.

SOURCES: Current Population Survey Merged Outgoing Rotation Groups 2000, 2013; Dallas Fed.



Texas Job Gains by Sector



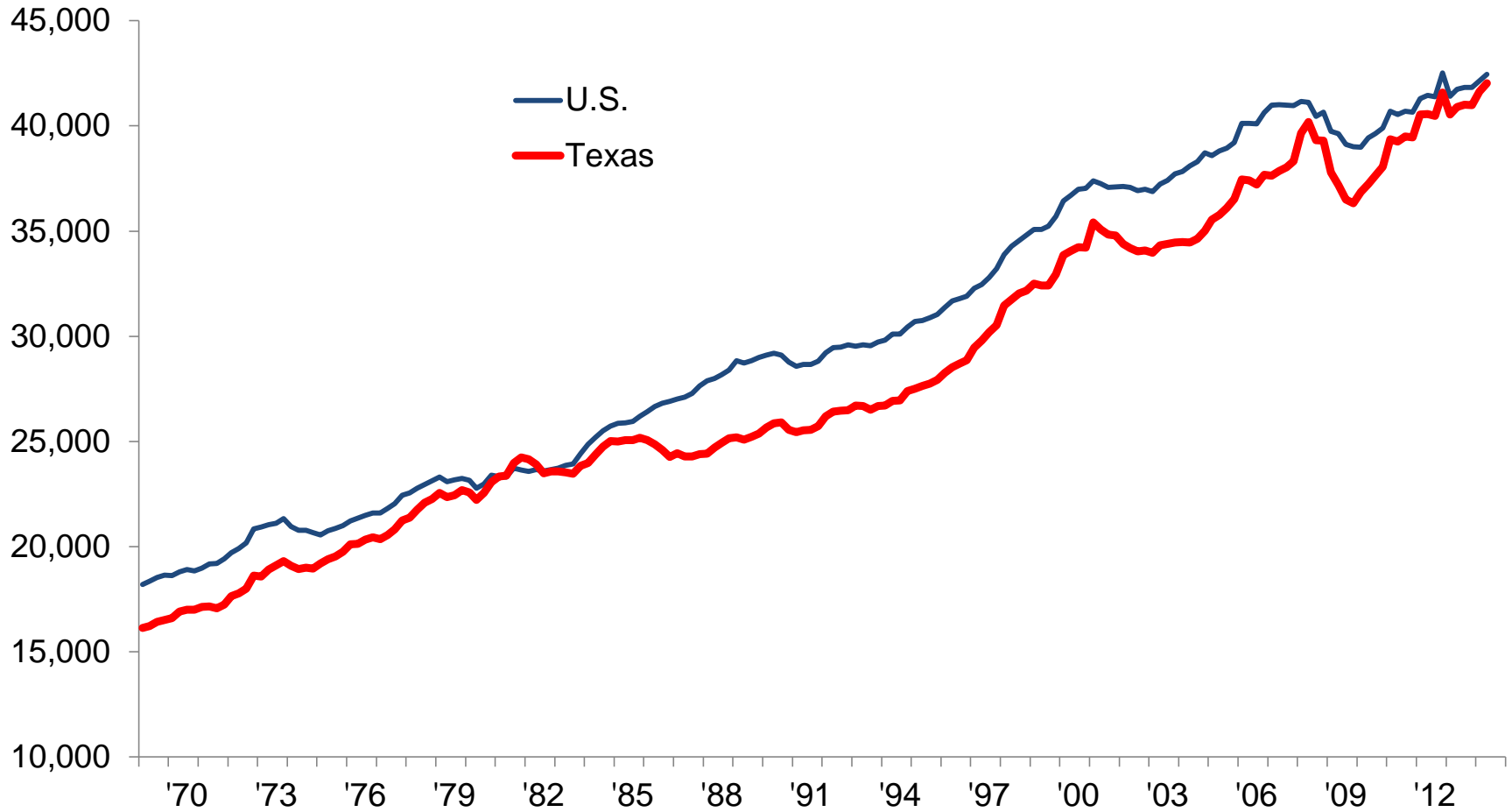
NOTES: Numbers in parentheses are total share of Texas nonfarm employment accounted for by each sector. These data are seasonally adjusted and early benchmarked by Federal Reserve Bank of Dallas.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; Dallas Fed.



Record Income Per Capita

Per capita personal income

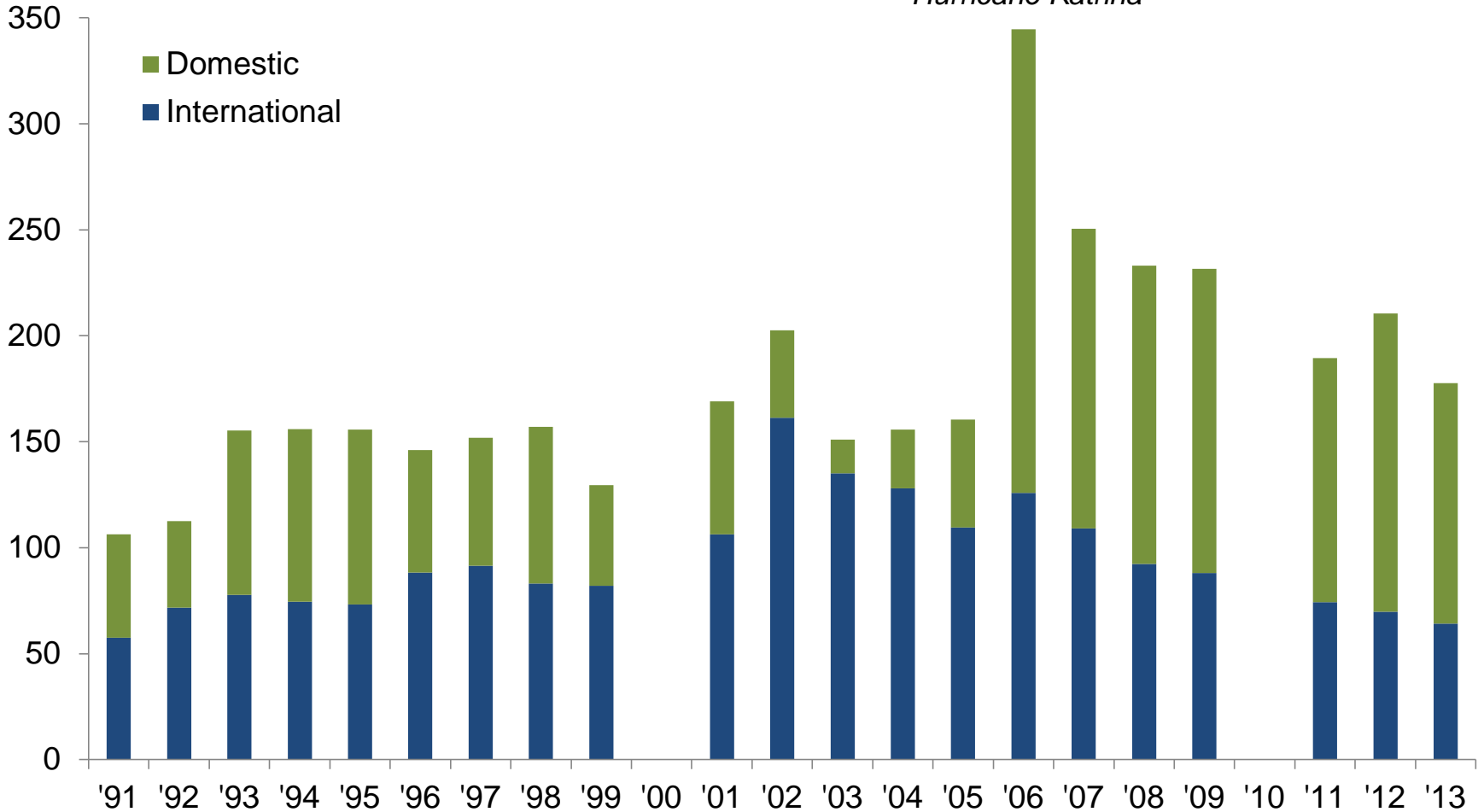


NOTE: Quarterly data inflation-adjusted to 2009 dollars.
SOURCES: Bureau of Economic Analysis.



Texas Remains Top Destination

Net migration (thousands)



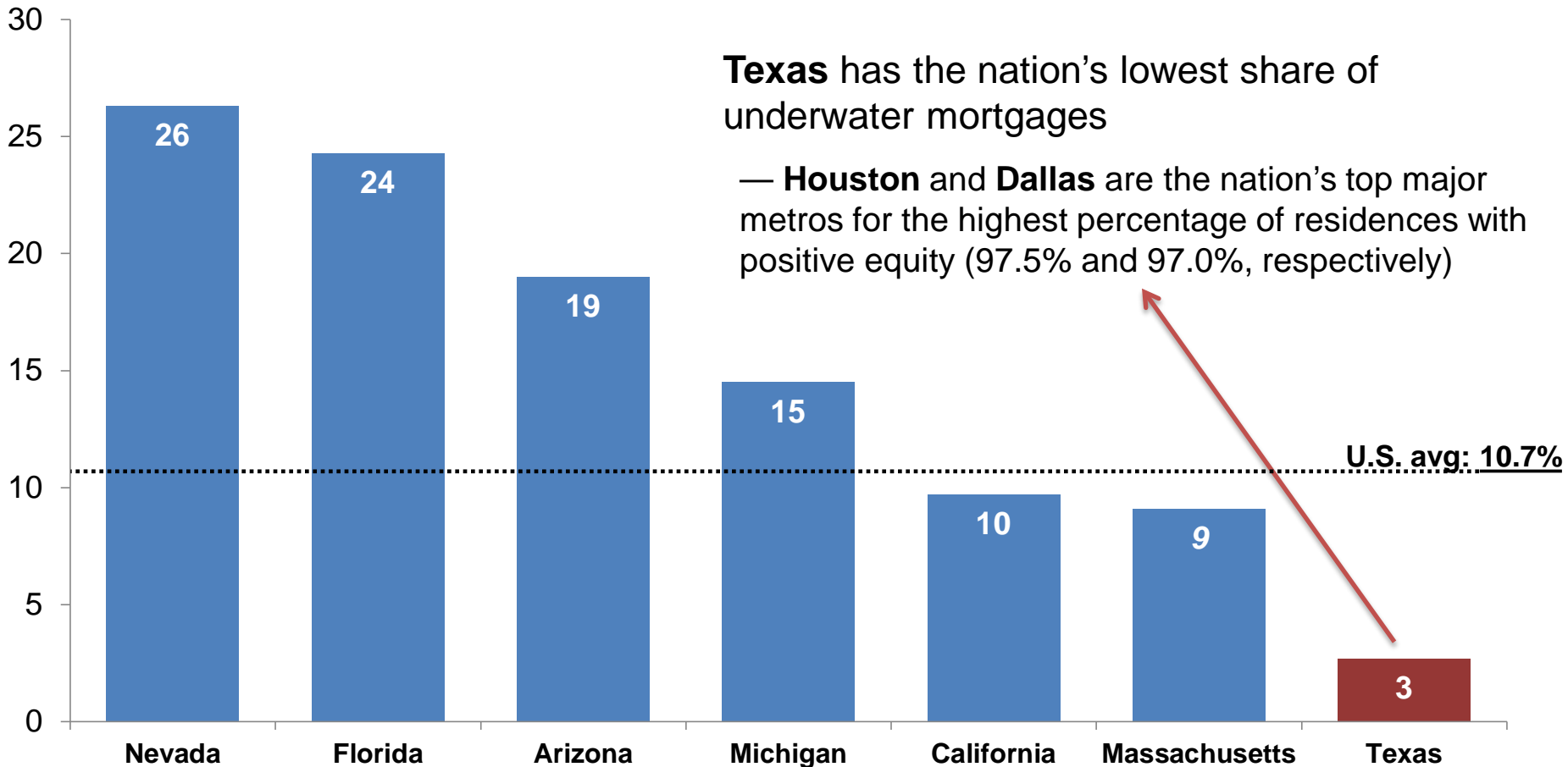
NOTE: Data are for July of the previous year to July of the year indicated. Decennial census years unavailable.

SOURCE: Census Bureau.



Texas Has the Highest Percentage of Home Mortgages with Positive Equity

Percent of mortgages with balance > home value



Texas has the nation's lowest share of underwater mortgages

— **Houston** and **Dallas** are the nation's top major metros for the highest percentage of residences with positive equity (97.5% and 97.0%, respectively)

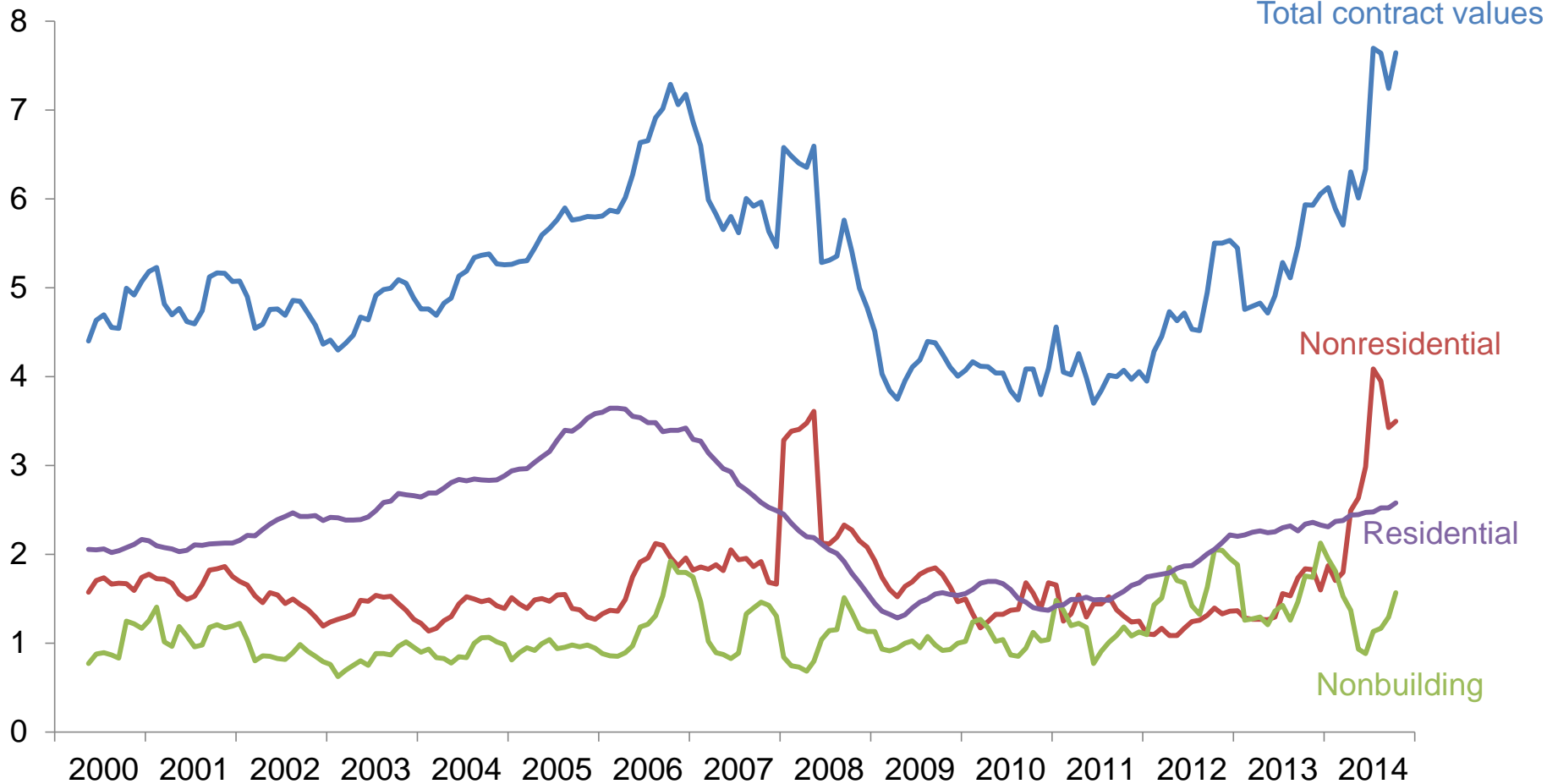


NOTE: As of second quarter 2014.

SOURCE: CoreLogic.

Record Texas Construction Contract Values

Billions of dollars



NOTE: Inflation- and seasonally adjusted, 5-month moving average. Last data point is October. "Nonbuilding" includes contracts such as streets, bridges and utilities.

SOURCE: F.W. Dodge.

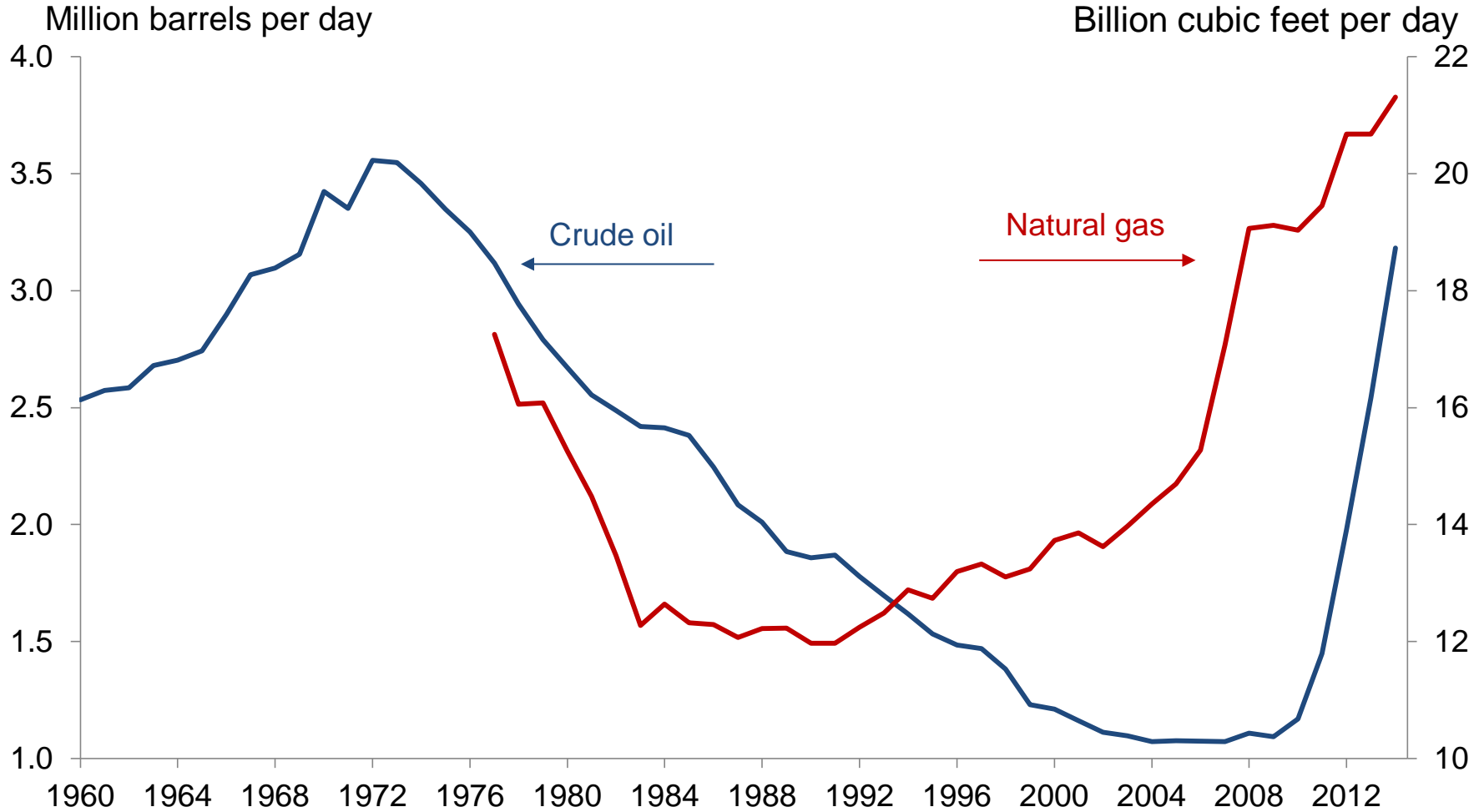


Texas Is a Leader in the Energy Boom

- **Texas is the country's No. 1 producer of oil and gas.**
 - Record natural gas production.
 - Oil production has nearly doubled in Texas in the last five years, reaching its highest level since 1976.
- Texas' **3.2 million barrels/day of crude oil** is ~37% of U.S. total and ranks as the world's **sixth largest** crude oil contributor, more than Iraq and slightly less than Canada.
- Texas accounts for ~29% of U.S. **natural gas production** and is the world's **third largest** contributor, more than Norway and Saudi Arabia ... *combined*
- Texas is home to 25% of U.S. refinery capacity and 60% of U.S. petrochemical production.
 - Record net exports of ~2 million barrels/day of petroleum products.



Texas Energy Production Has Soared



NOTE: Annual data except for final end points, which show August 2014 estimates.
SOURCES: U.S. Energy Information Administration; Railroad Commission of Texas.



Some Current Challenges

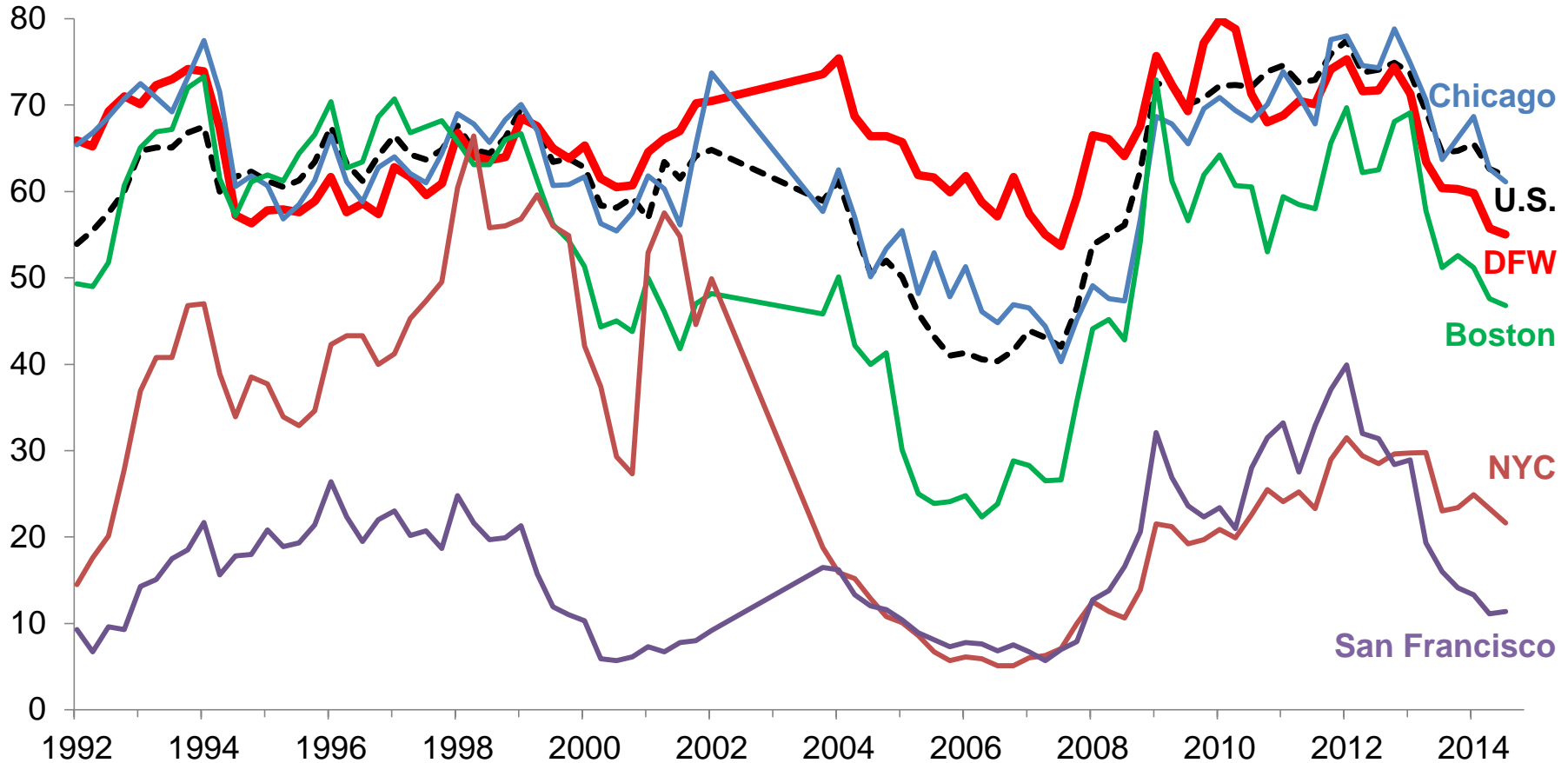
- **Acute labor shortages:**
 - Anecdotes of shortages for auditors, plumbers, welders, electricians, construction workers, truck drivers.
 - Wage gains statewide have increased to **4.3% yr/yr.**
- **Emerging price pressures:**
 - Houston is seeing wage inflation and shelter costs creep into overall prices: Core price inflation is **3.7% yr/yr.**
- **Bottlenecks in ability to export various oil & gas products:**
 - Texas' share of total world petroleum and coal products is ~6%; this figure will likely grow rapidly if recent U.S. regulatory ruling allowing some exports of condensate is expanded.
- **Declining affordability as housing prices have risen quickly and mortgage lending has slowed:**
 - Q3 '14 FHFA home prices increased 7.1% yr/yr in TX; 4.5% nationwide.

In sum, labor market tightness may restrain growth next year, the energy sector may cool a bit, and regional price pressures may cool



Housing Affordability Declining

Percent of homes considered "affordable"



NOTE: The Housing Opportunity Index assumes that the family spends 28 percent of its gross income on a 30-year, fixed-rate mortgage with a 10 percent down payment.

SOURCES: National Association of Home Builders; Wells Fargo.



A Record-Setting Year

- **Texas growth continues to outpace the U.S., with broad-based employment and income gains**
 - Texas has added 344,700 jobs year-to-date
 - 2014 job growth is running a full percentage point stronger than last year.
- **New records:**
 - Employment and income per capita.
 - Construction contract values.
 - Oil & gas production.
- **Yet, Texas is facing some growing pains:**
 - Emerging labor shortages.
 - Growing regional price pressures.

SUMMARY: Opportunities abound for Texas' continued success; none of them have much to do with monetary policy





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