Comments on Monetary Policy and an Annual Texas Economic Review

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2013 Texas Economic Output
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

Increase since 1990

- TX +67%
- FL +47%
- U.S. +28%
- CA +25%
- MA +12%
- IL +11%
- NY +9%
- MI +6%

Employment Growth by State

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

Texas Job Gains by Sector

Year-to-date through October, Texas added 344,700 jobs (3.7% annualized growth)

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

U.S.
Texas

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

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

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

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
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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