



FEDERAL RESERVE BANK *of* DALLAS SAN ANTONIO BRANCH

Texas Mid-Year Economic Outlook: The Skies are Beginning to Clear

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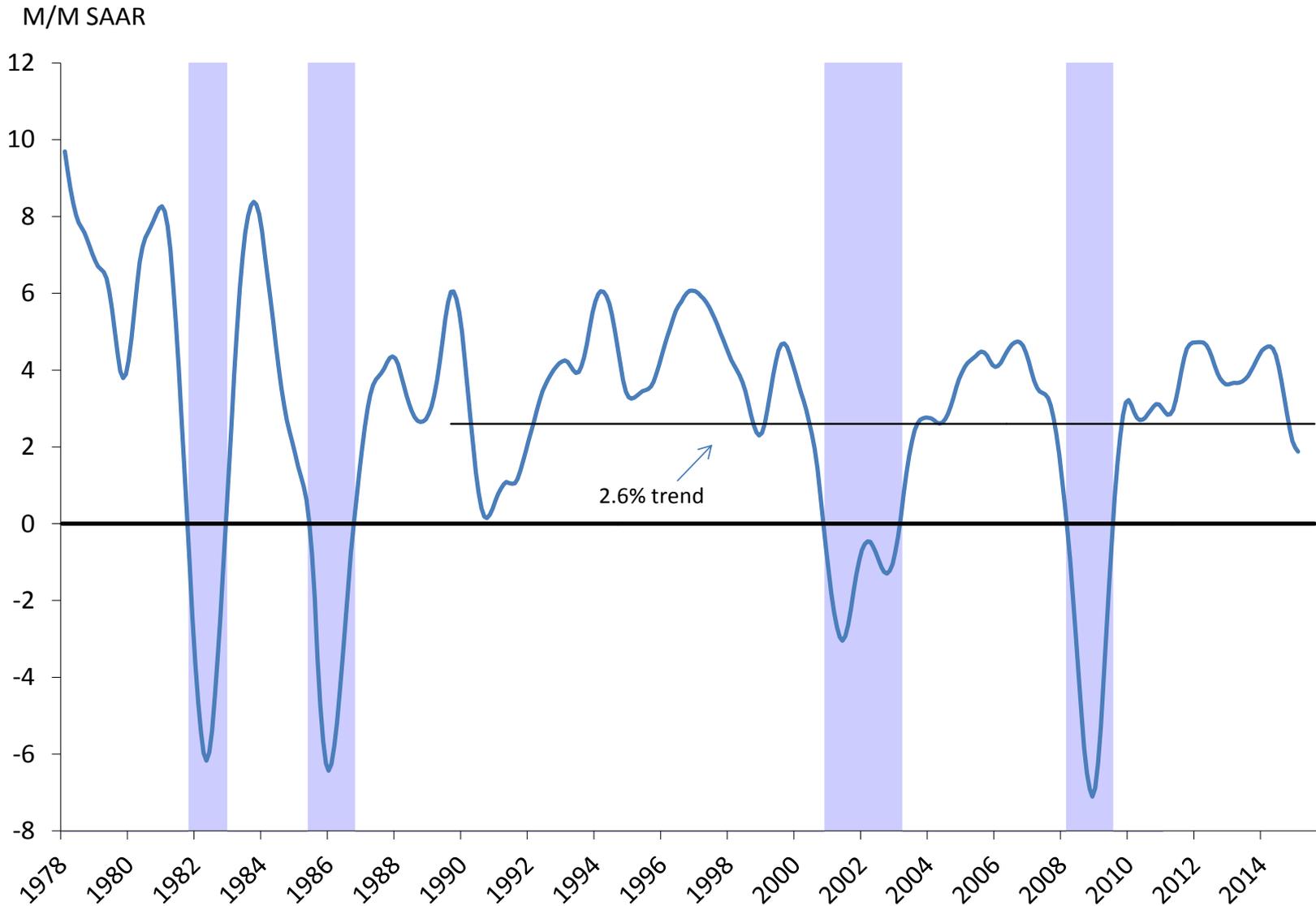


Before this Year TX Economy Has Grown Above Trend and Stronger than Most States

- 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.
- In 2015, low oil prices, strong dollar and labor market tightness restraining job growth. 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)

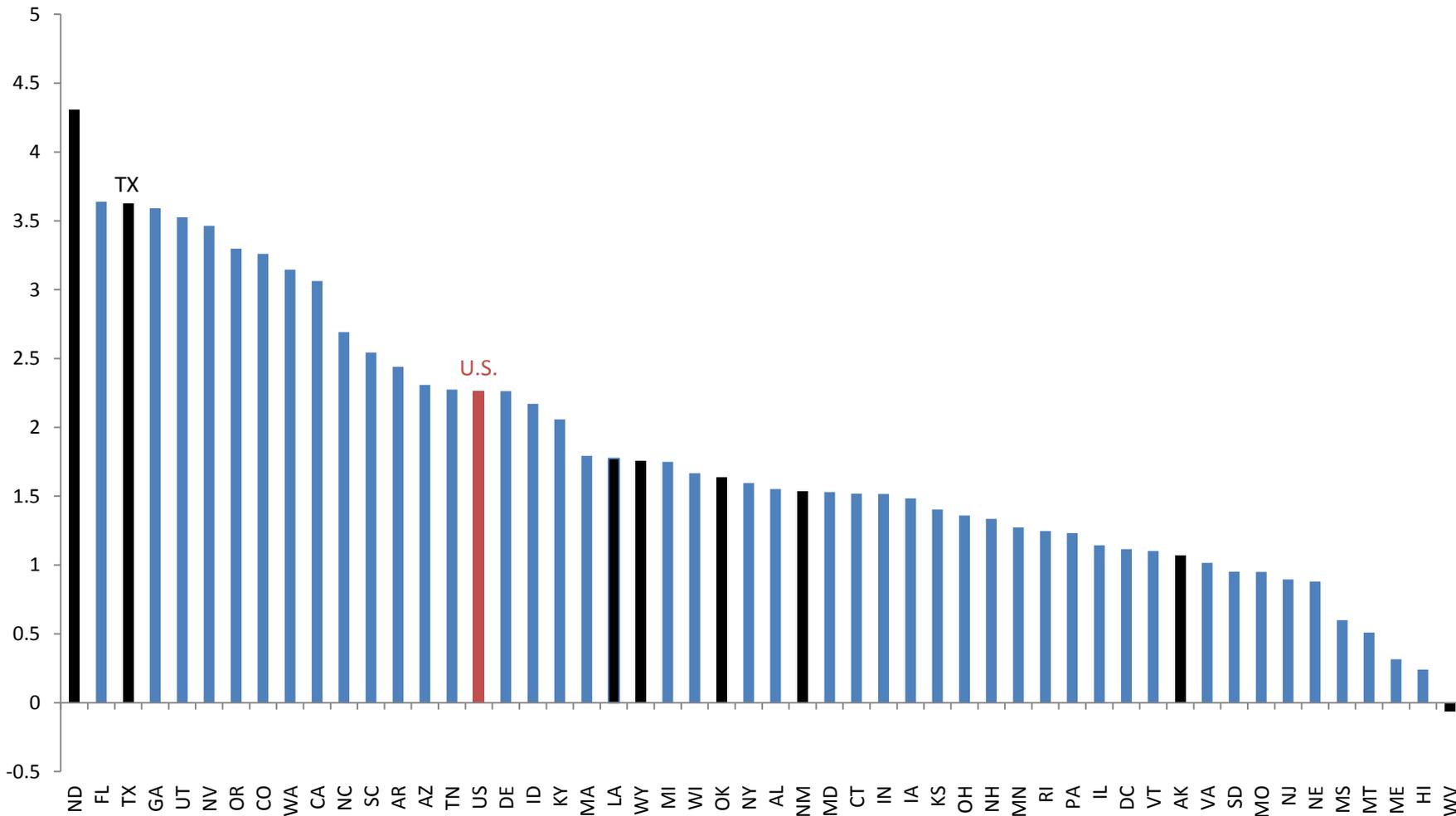


NOTE: Shaded areas represent Texas recession.



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

Percent Change,
Dec. 2013 - Dec. 2014



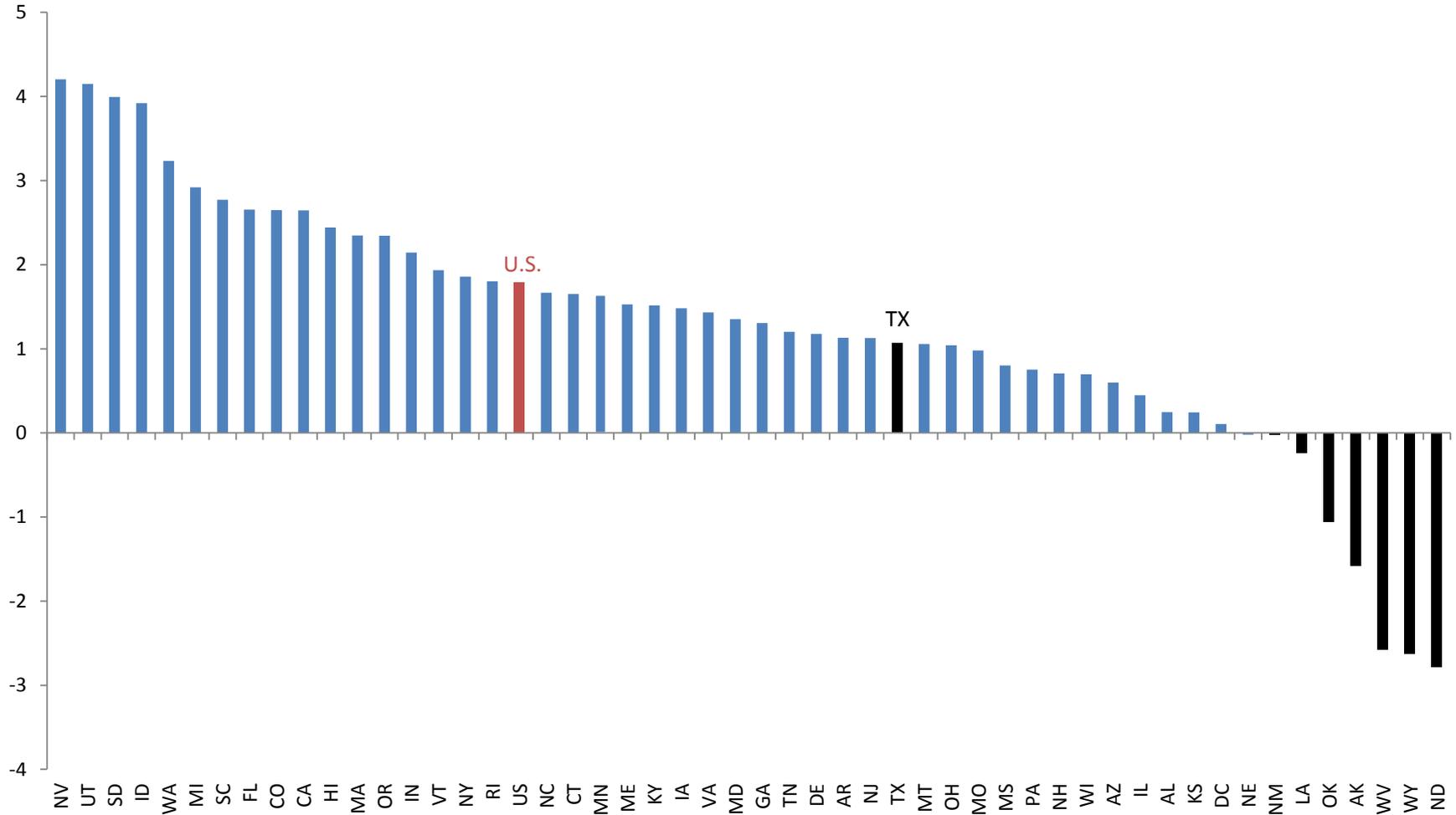
NOTE: Black bars represent large energy-producing states.

SOURCE: Bureau of Labor Statistics



Texas Ranked 31st in Job Growth So Far in 2015, But Above Most Energy States

Annualized Percent Change,
Dec. 2014 - June 2015



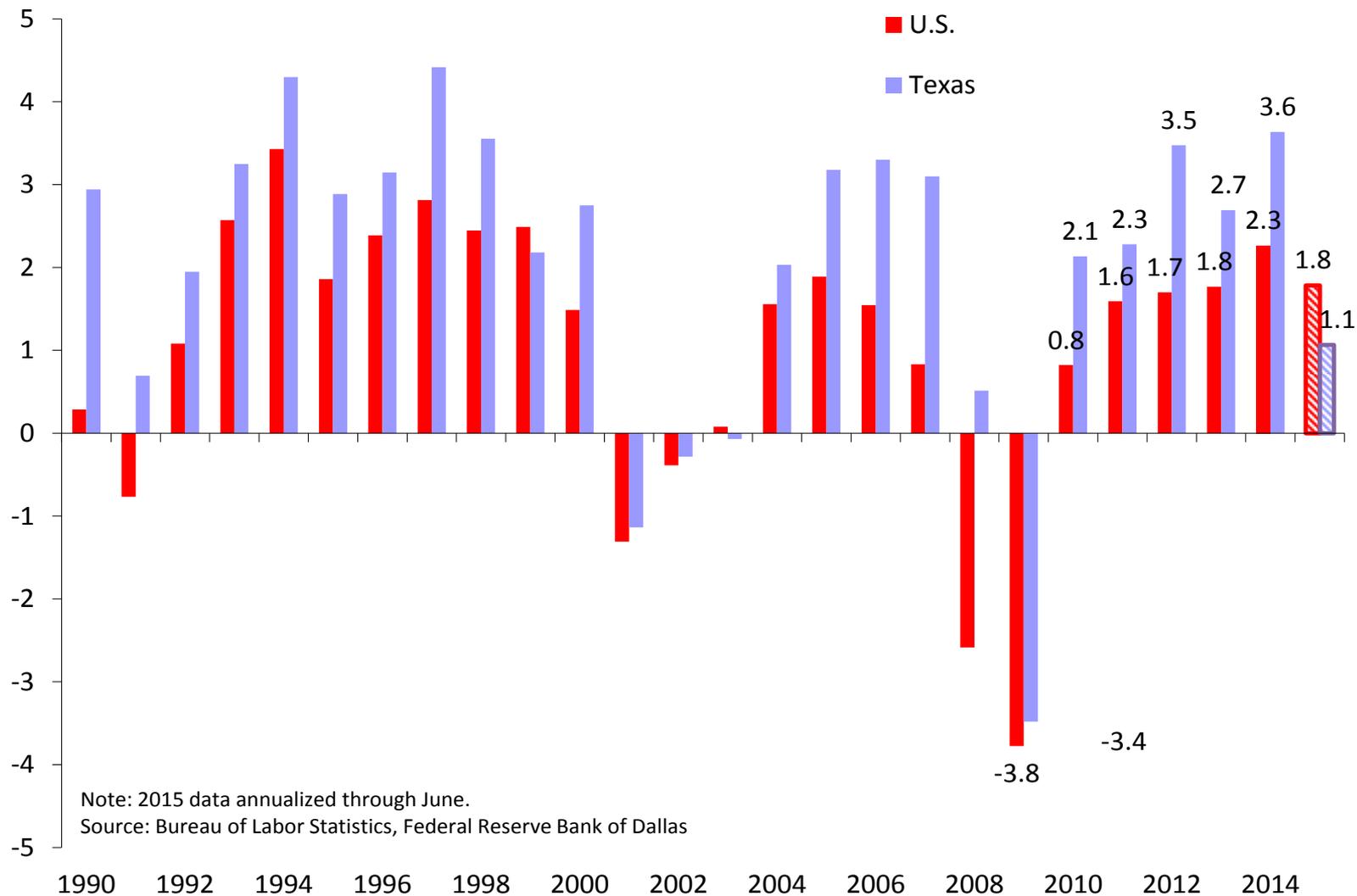
NOTE: Black bars represent large energy-producing states.

SOURCE: Bureau of Labor Statistics



Texas Jobs Growing Below the Nation So Far in 2015

Percent, Job Growth Y/Y



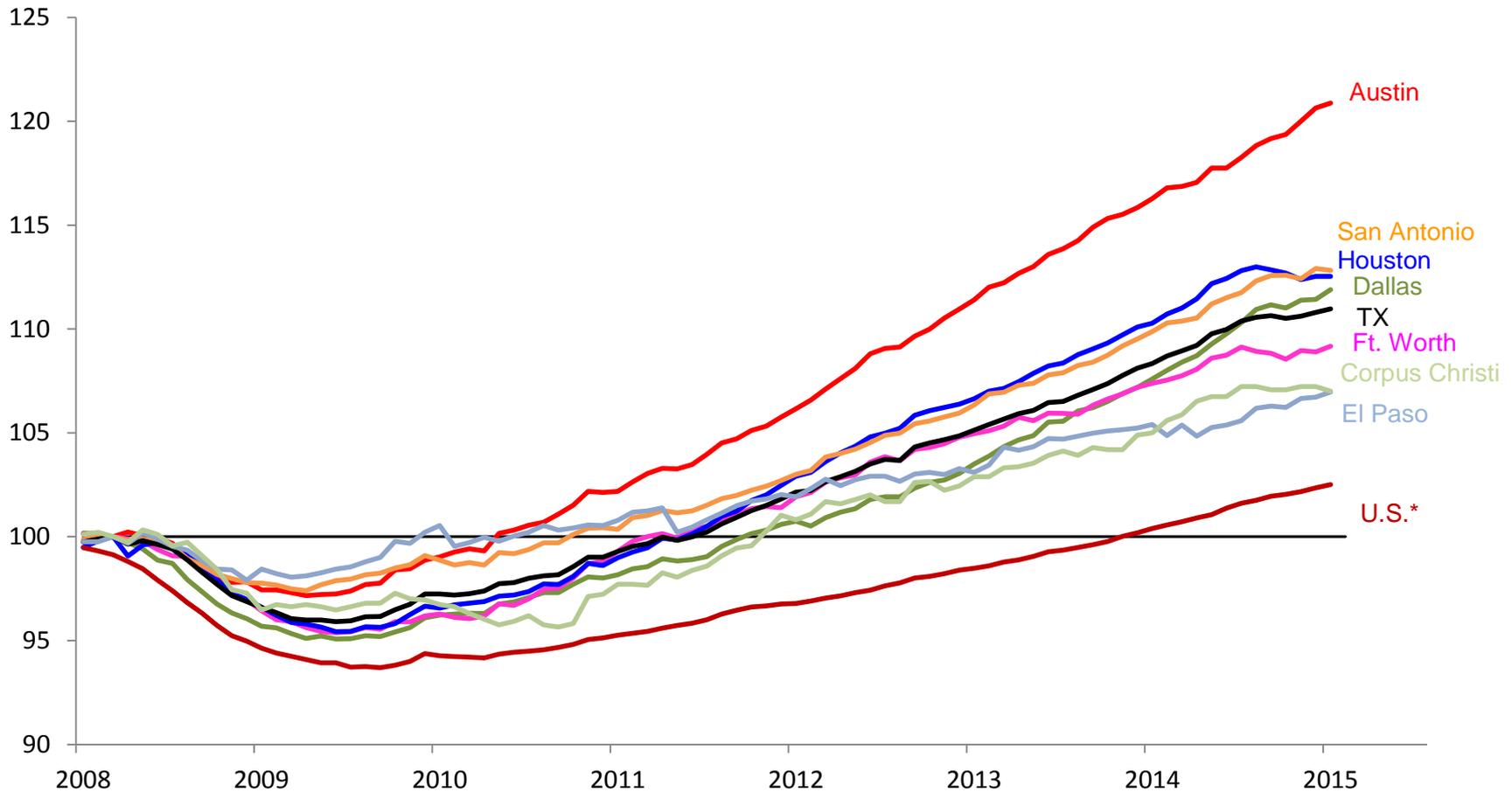
Note: 2015 data annualized through June.

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

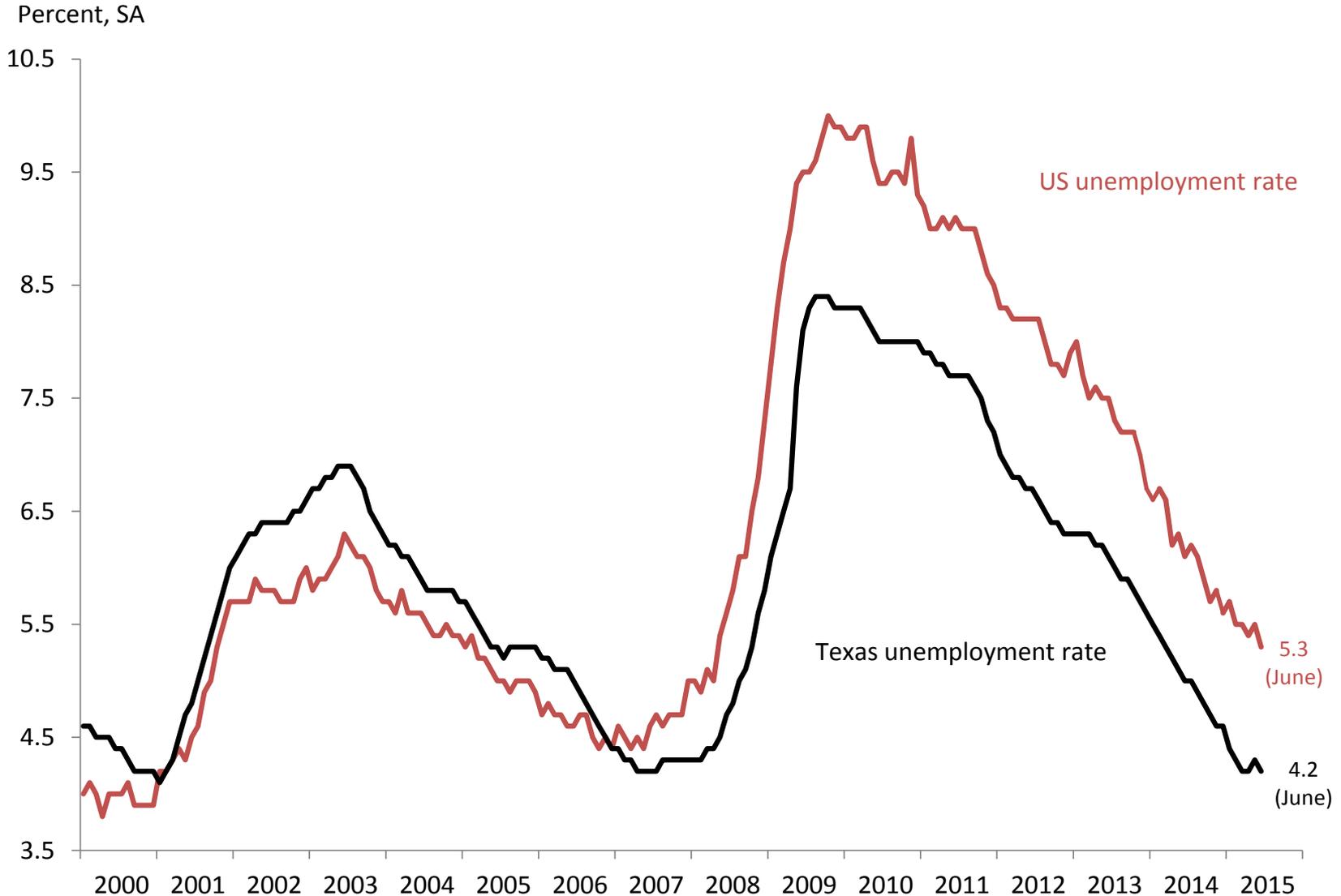


*Indexed from U.S. Peak Employment in January 2008

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



Texas Unemployment Rate Well Below Nation



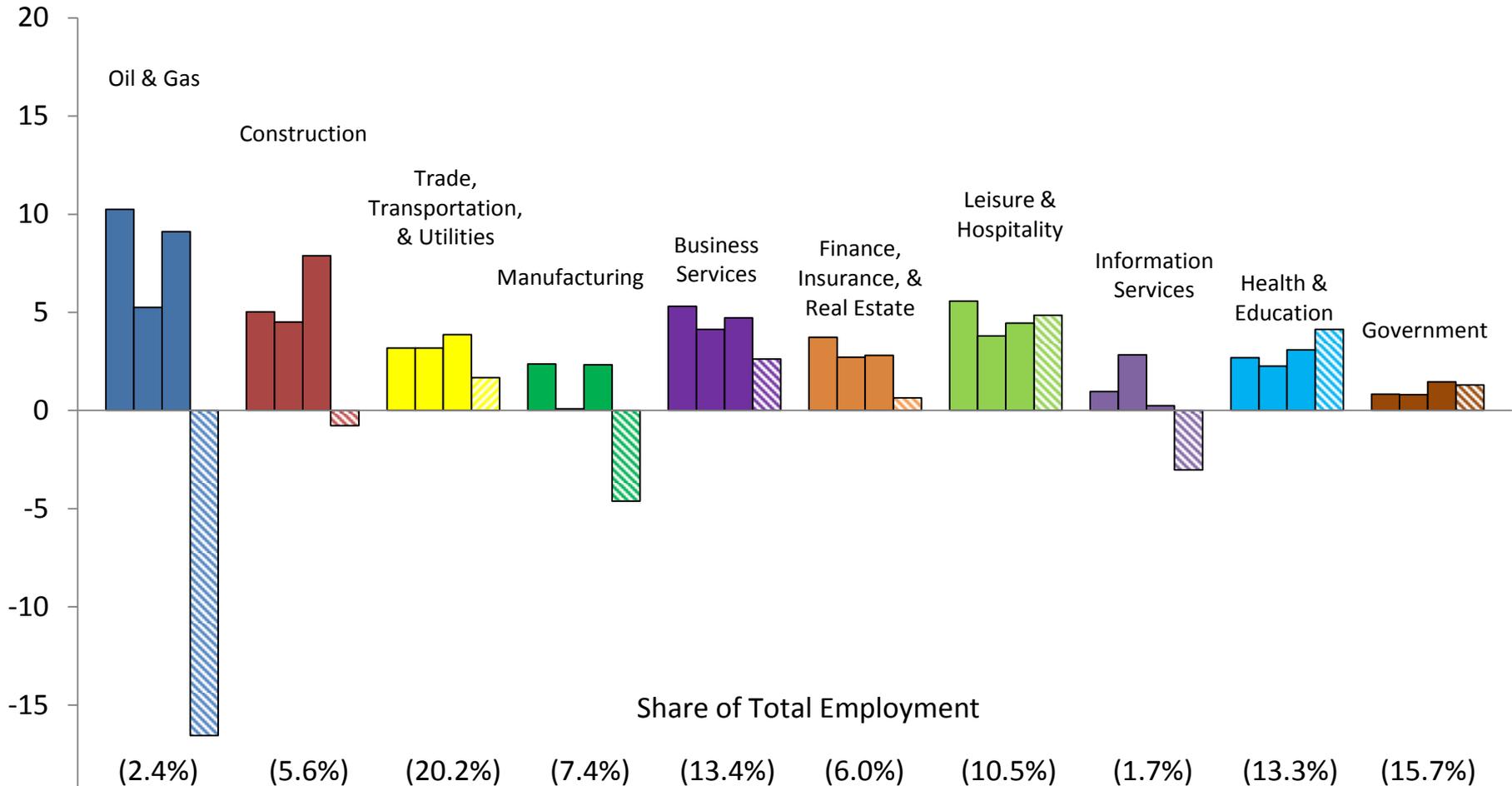
Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas



Energy, Construction & Manufacturing Have Weakened Significantly in 2015

Dec/Dec
Percent Change

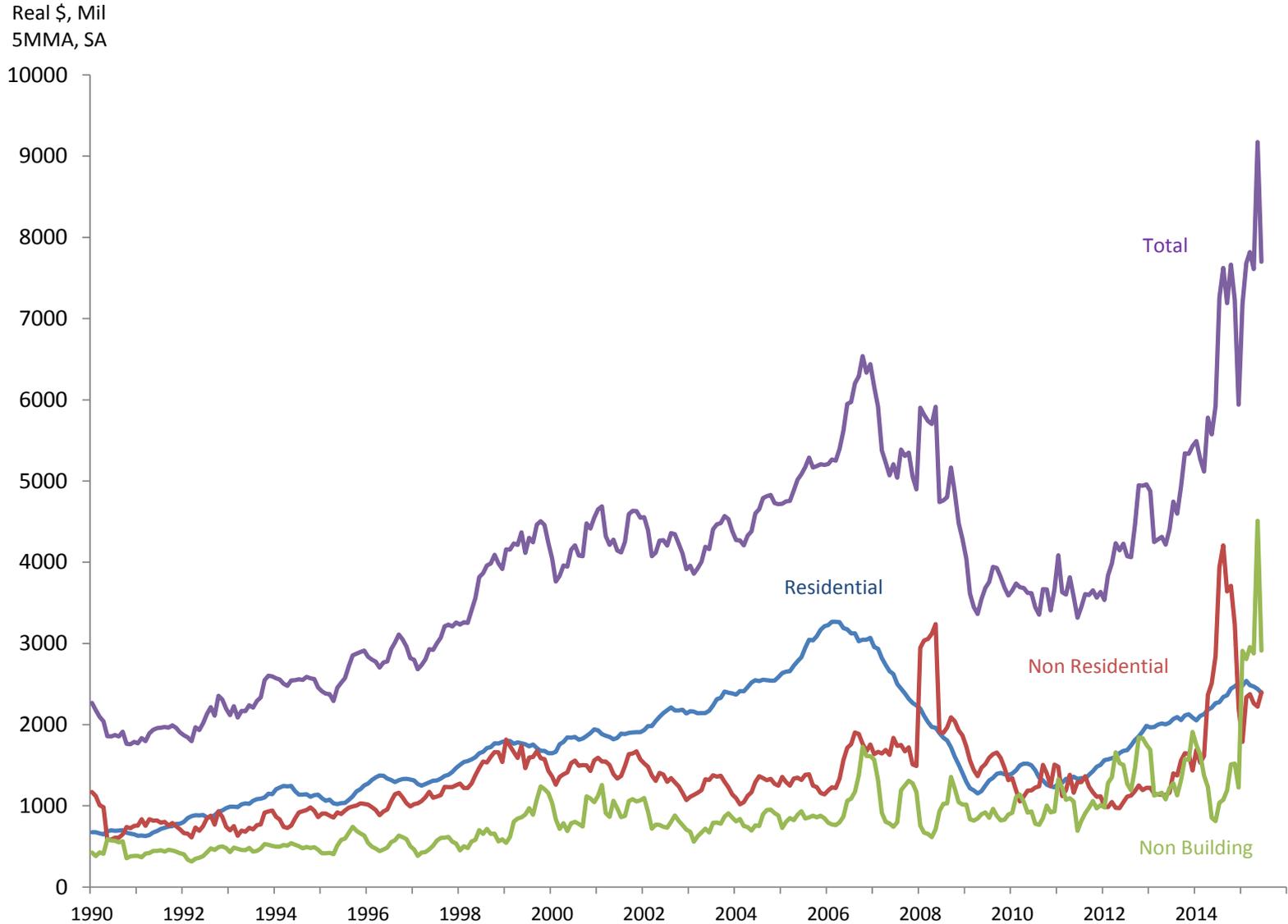
(Job Growth 2012-2015)



Note: Striped bars represent Dec. 2014 - June 2015 annualized change
Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas



Texas Construction Contract Values Increasing Strongly This Year

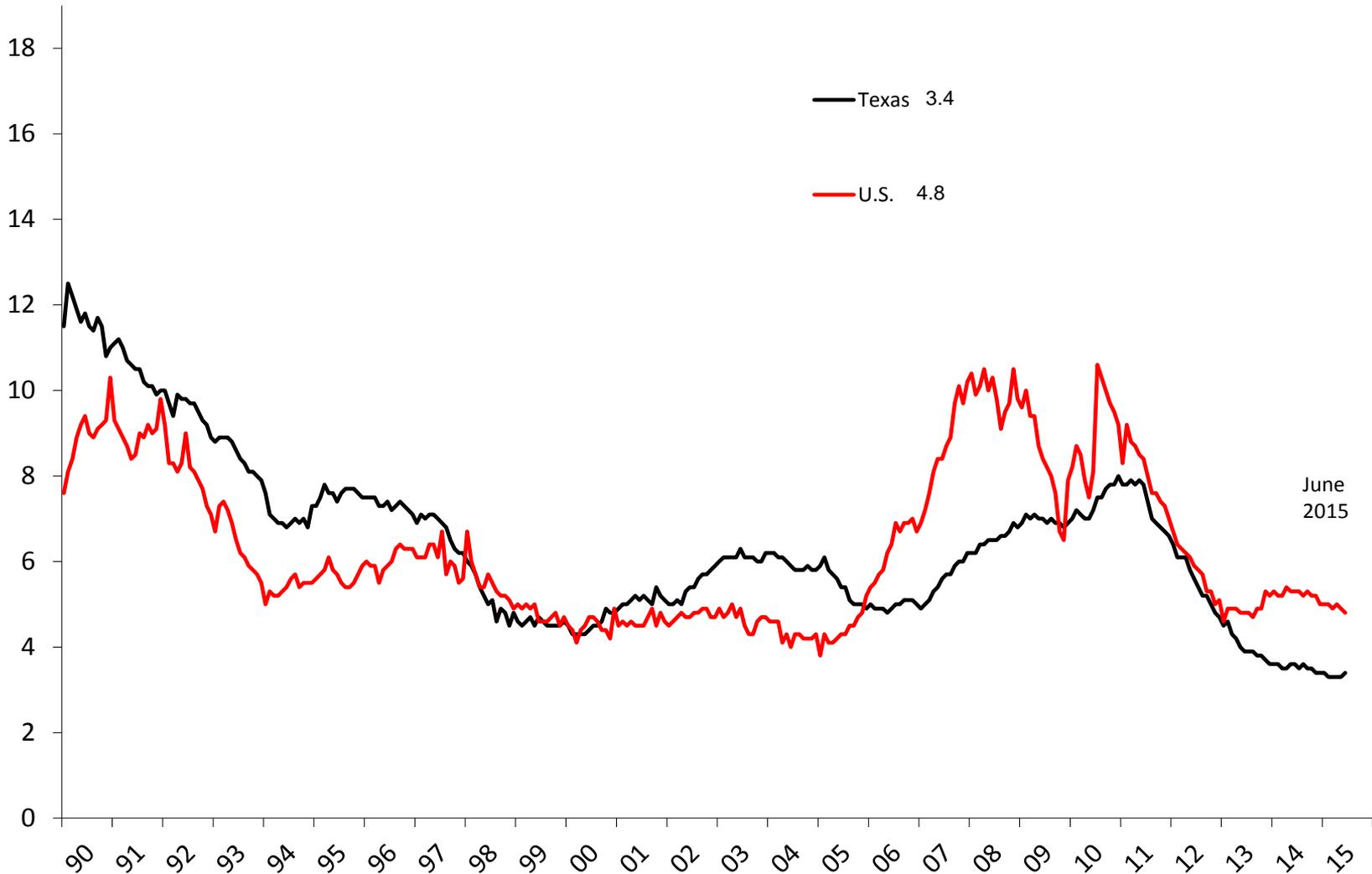


Source: F.W. Dodge, Federal Reserve Bank of Dallas



TX Home Inventories Remain at Historically Low Levels

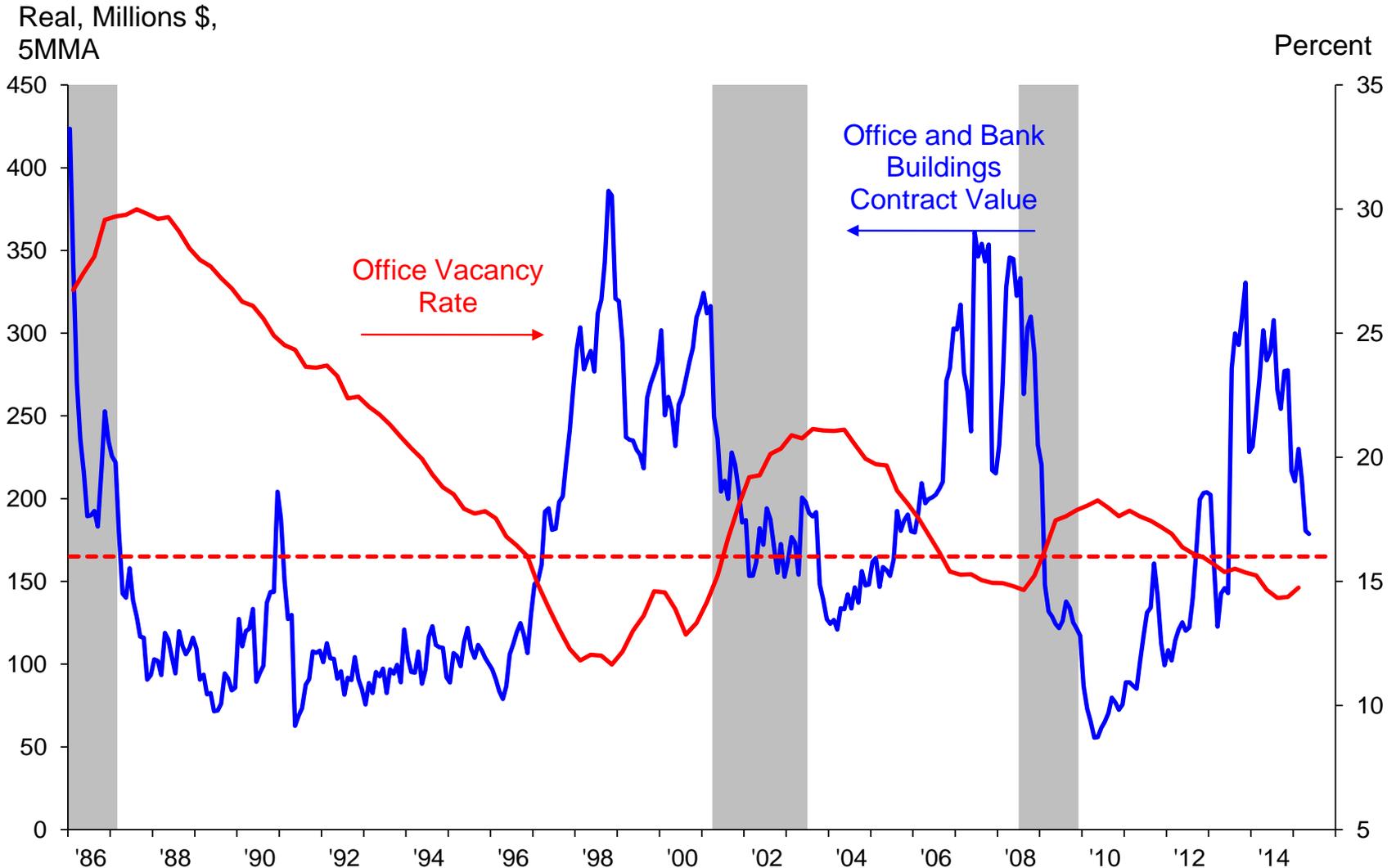
Months



Source: Multiple Listing Service



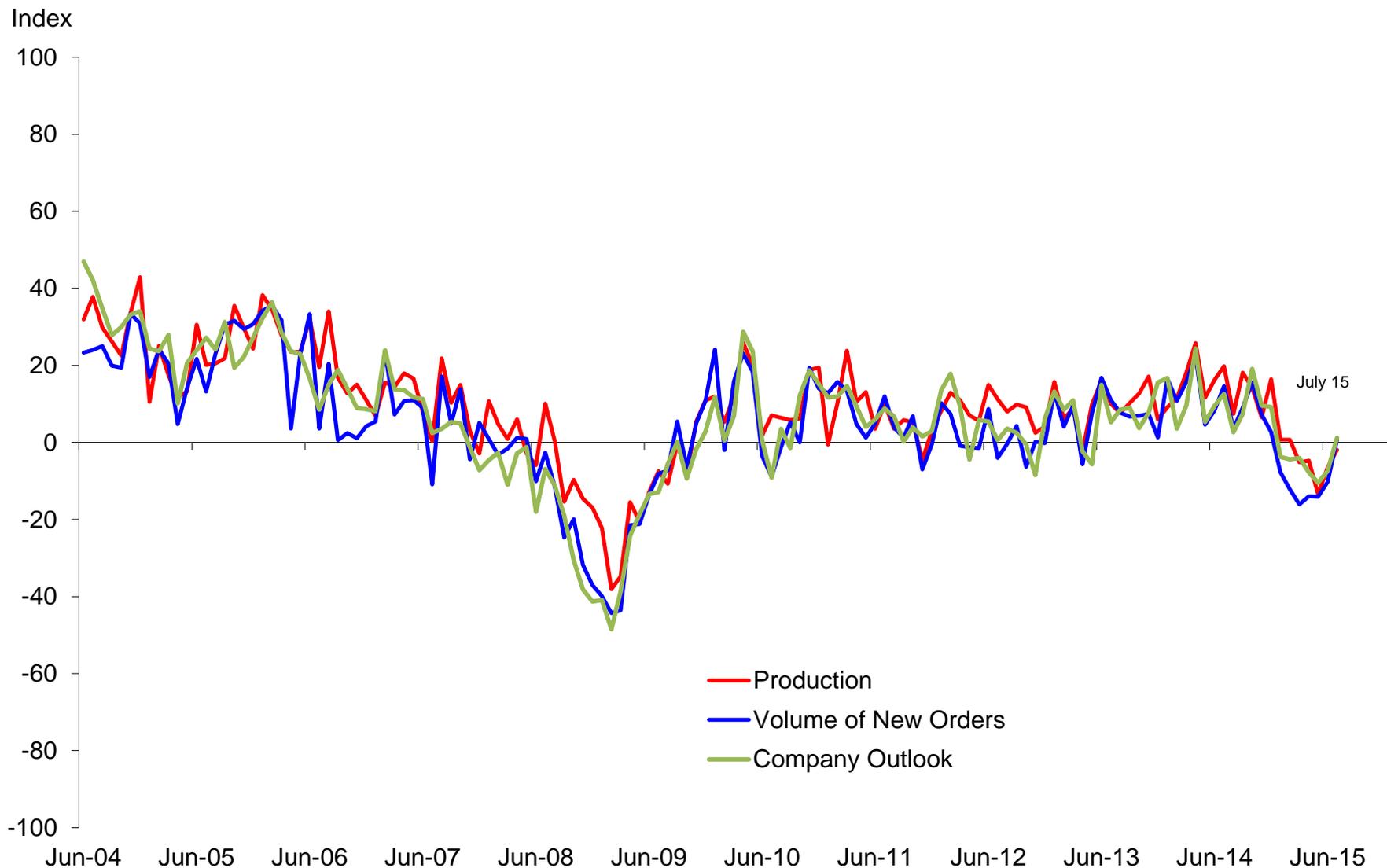
TX Office Vacancy Rising and New Construction Declining



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



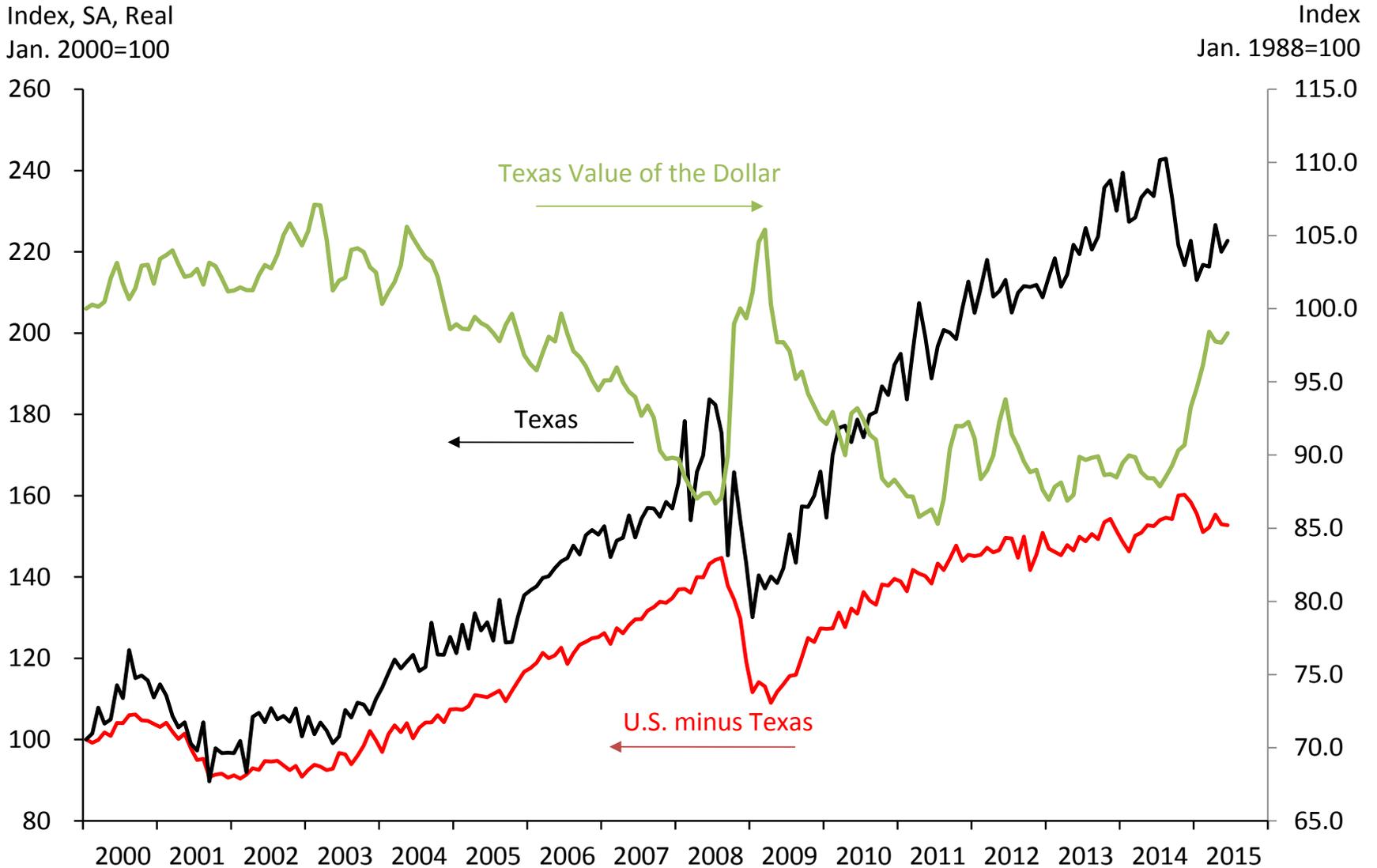
TX Manufacturing Beginning to Show Signs of Improvement



SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey.



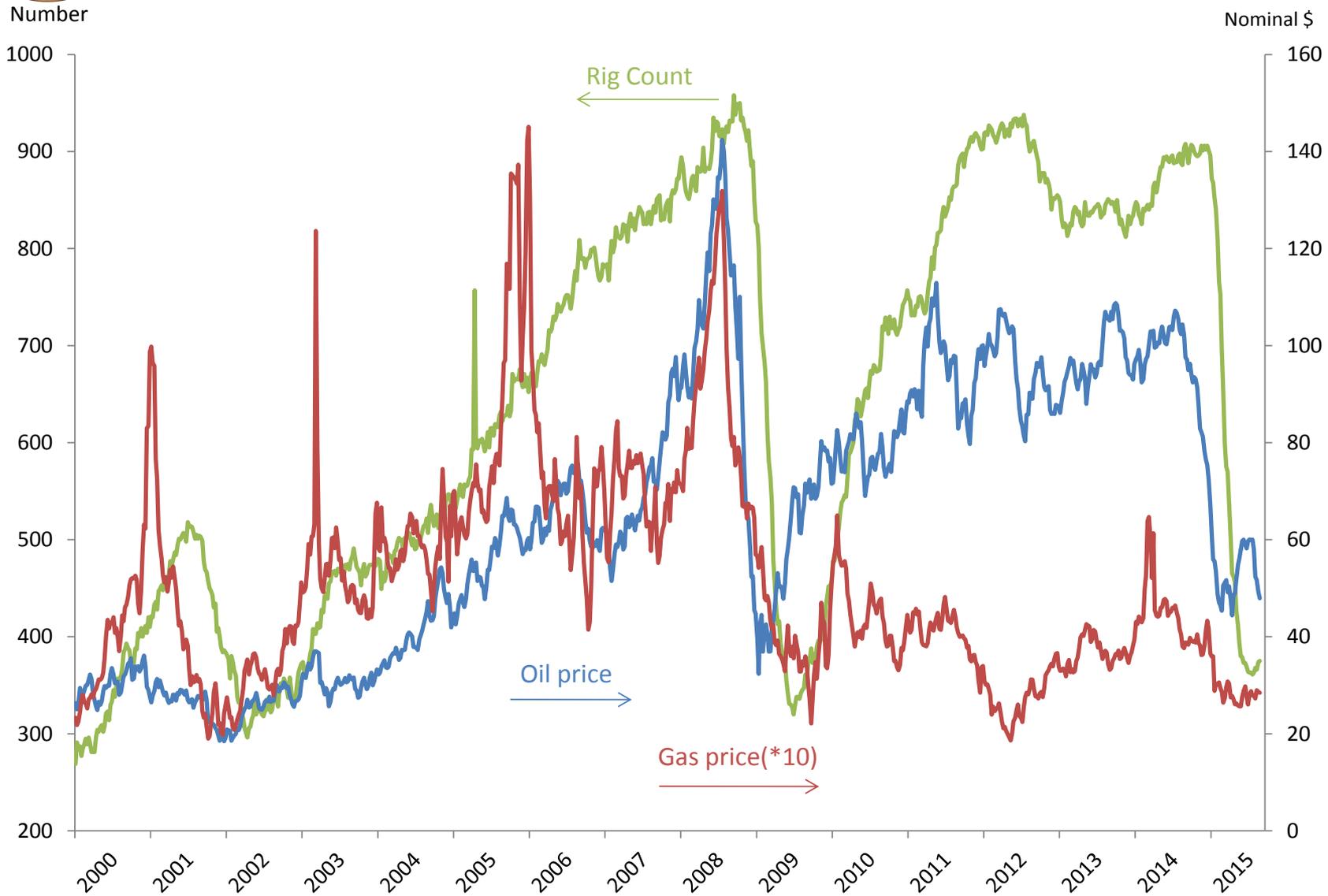
Texas Exports Have Weakened as Value of the Dollar has Risen



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



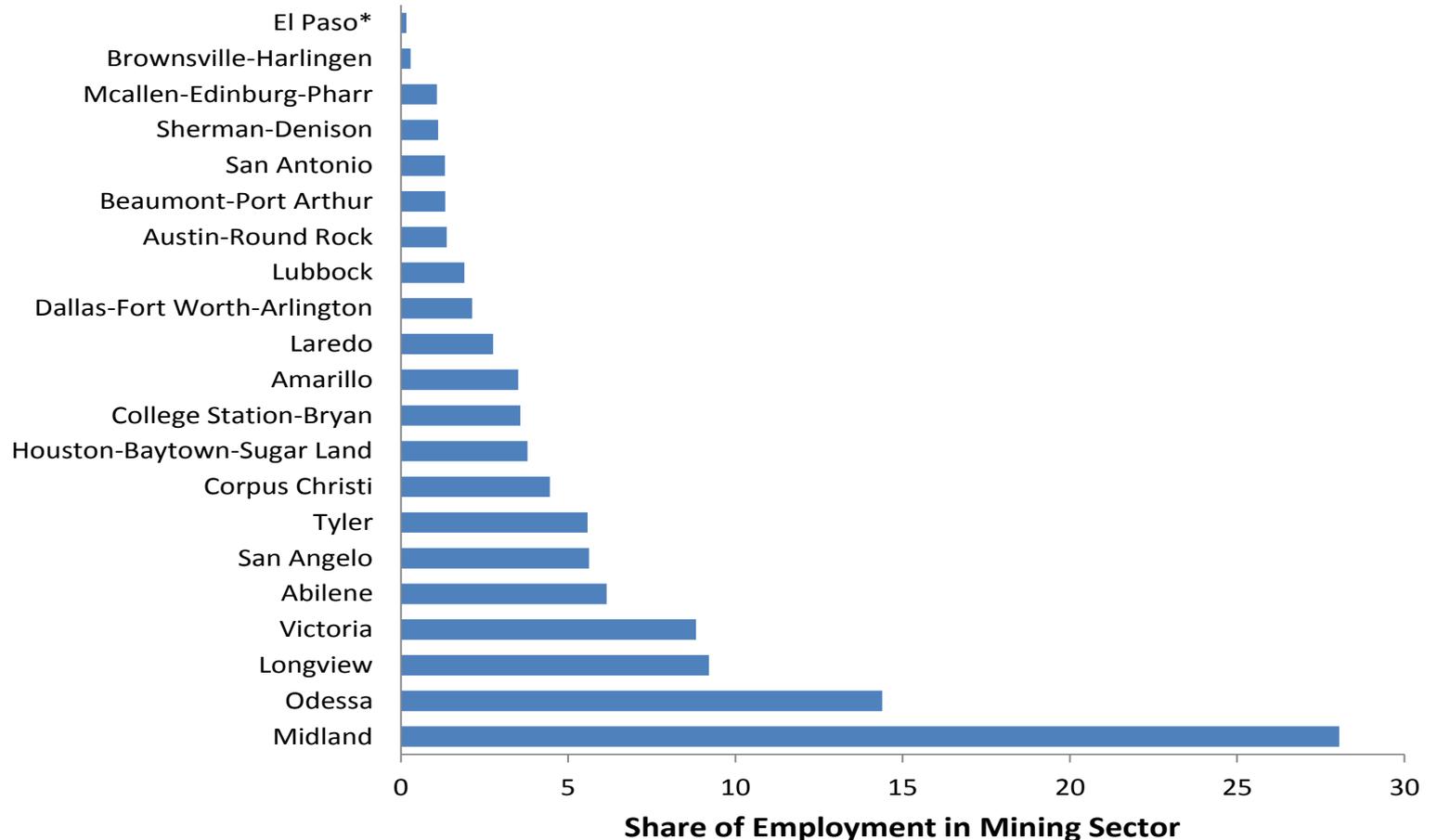
Oil Prices Low, Drilling Rig Count Down by 60%



Source: Oil and Gas Journal, Baker Hughes.



Texas Metro Areas Differ Greatly in 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

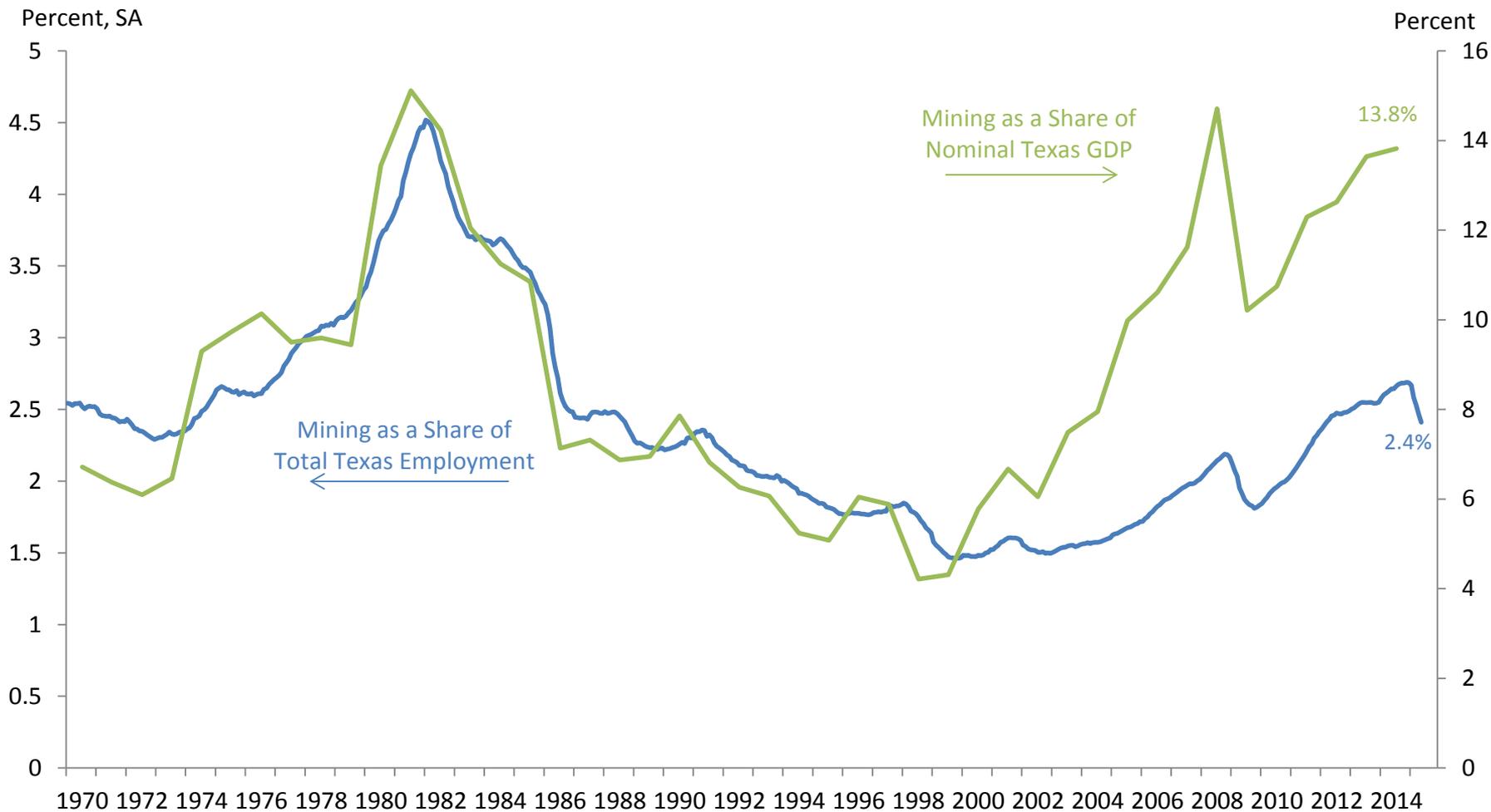


What Impact Does a Decline in Oil Prices Have on the Texas Economy?

- Oil prices have declined by nearly 60% since last July, initial drop from \$106 to \$80 likely was good for TX economy
- Sustained drop from \$80 to \$45 is hurting TX economy - \$45-\$55 is below the breakeven point for majority of shale drilling.
- Q1 SWE article by Michael Plante suggested that 50% decline in oil prices would lead to job loss of 140,000



Energy's Share of TX Economy Increased with Shale Drilling

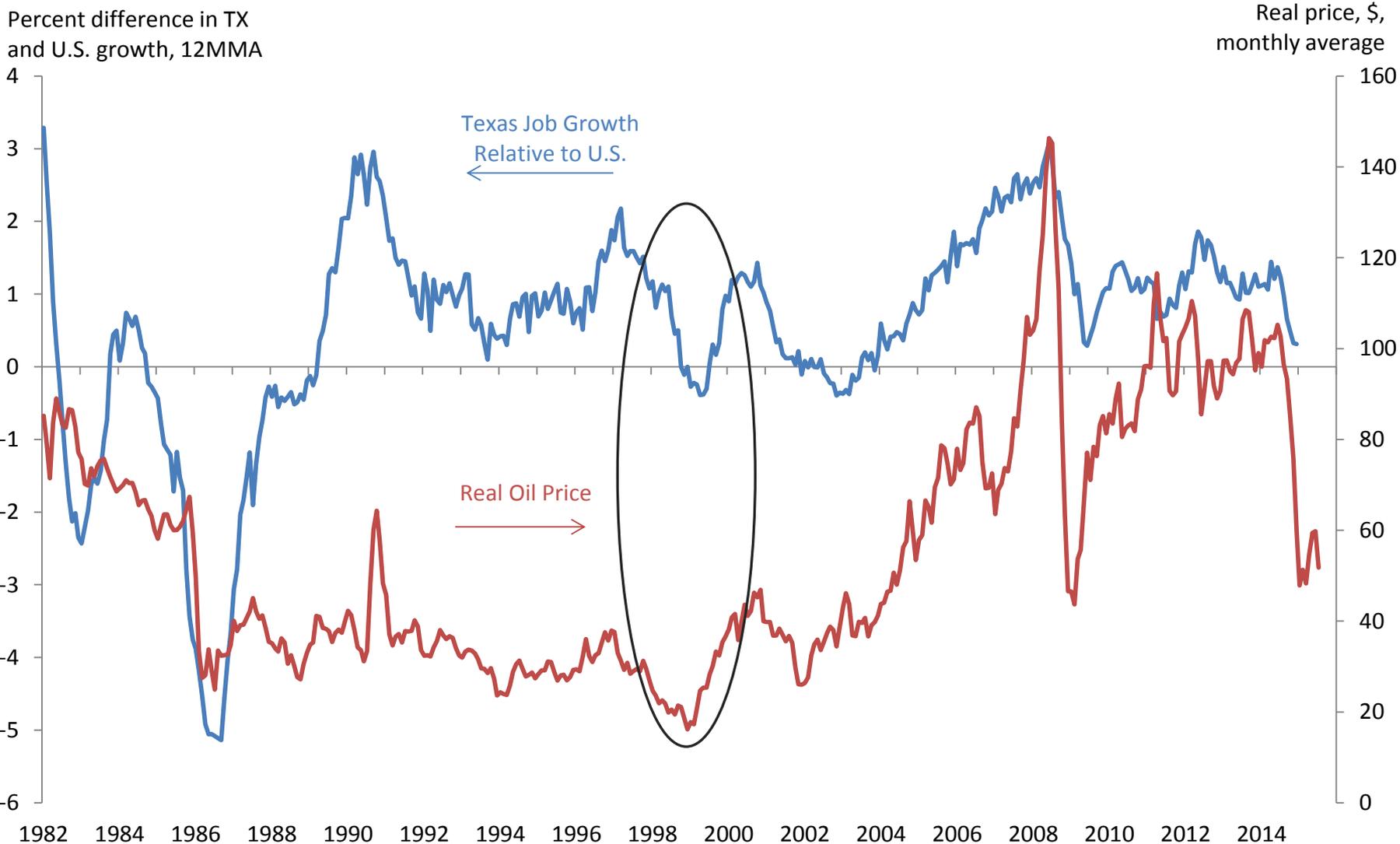


NOTE: GDP values prior to 1997 and employment values prior to 1990 extrapolated from SIC coded data.

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



TX Job Growth Relative to Nation Impacted by Oil Prices

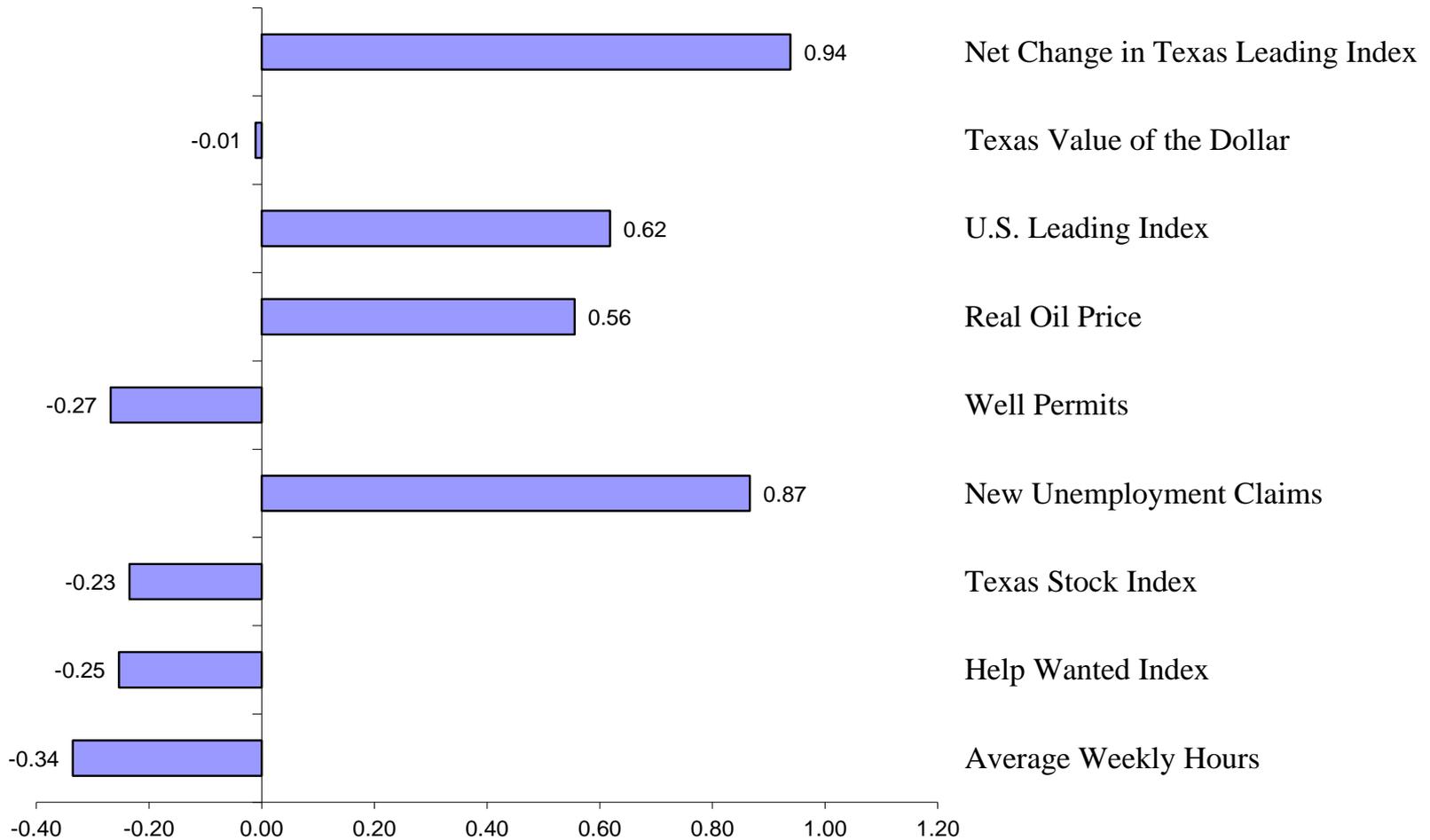


SOURCES: *Wall Street Journal*, Bureau of Labor Statistics.



Pickup in Leading Index Led By Reduced Unemployment Claims

Texas Leading Index Components, 3 month change
April -June





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



Summary

- TX expansion was strong until this year.
- Initial oil price decline from \$106 to \$80 had positive impact but movement from \$80 to \$45-\$55 has had sharply negative impacts.
- Strong dollar and tight labor markets also dampening growth but long-term factors and diversification helping us to do better than other energy states and relative to 1980s.
- Biggest cuts in the energy sector are likely over but recent oil price decline likely means some further cuts in second half.
- This year Texas job growth likely to be 0.5-1.5% (58,700 to 176,300 jobs).