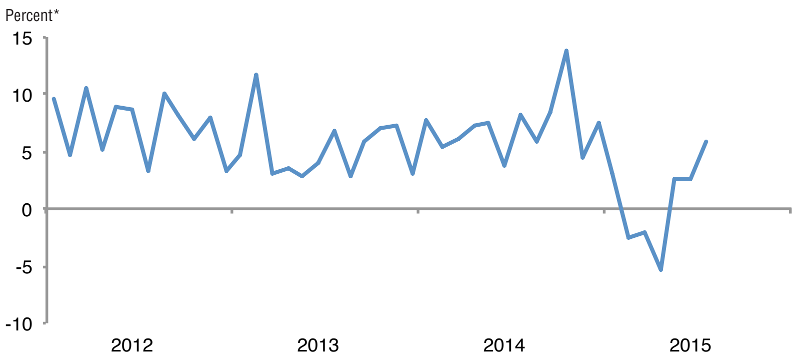
Houston Economic Indicators

FEDERAL RESERVE BANK OF DALLAS • SEPTEMBER 10, 2015

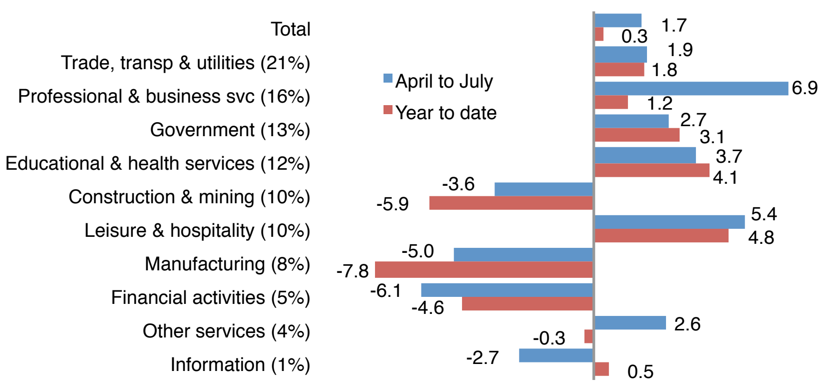
Business-Cycle Index



*Annualized month-over-month growth rate.

▸ The Houston Business-Cycle Index accelerated to a growth rate of 5.9 percent in July from a June growth rate of 2.7 percent due to very strong job growth. Goods-producing sectors continued to underperform relative to private services. The two have largely offset each other year to date. Leading indicators are pointing toward a moderating of losses in industries tied to the oilfield and sustained growth elsewhere. On balance, the outlook for growth in Houston remains weak and uncertain.

Employment Growth

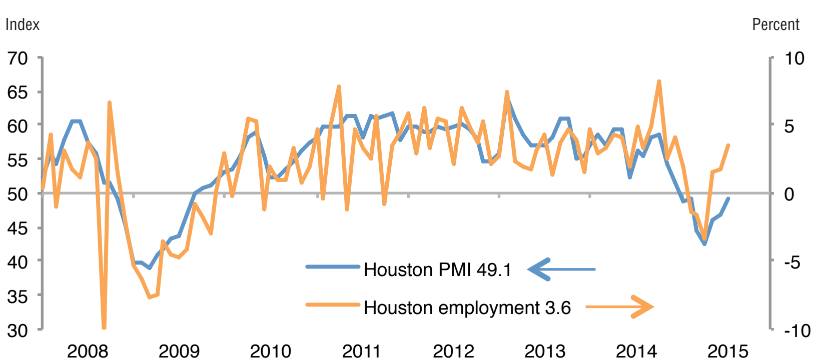


NOTES: Data show seasonally adjusted and annualized percentage growth by industry supersector. Numbers in parentheses represent shares of total employment and may not sum to 100 due to rounding.

▸ July employment increased at an annualized rate of 3.6 percent—the strongest growth this year. Since April, jobs have grown at an annualized 1.7 percent, and year-to-date growth is up from slightly negative to 0.3 percent. Growth since April has been tied primarily to professional and business services and health care jobs. The top two contributors to year-to-date growth have been education and health and leisure and hospitality. Goods-producing industries like mining and manufacturing continued to lead declines both year to date and since April.

▸ The Houston-area unemployment rate ticked up to 4.2 percent in July due to an increase of 3,300 unemployed people in the labor force. June's labor force declines were revised down from 9,700 to 7,400 and the labor force increased in July for only the second time this year. The July unemployment rate for Texas and the U.S were unchanged at 4.2 percent and 5.3 percent, respectively.

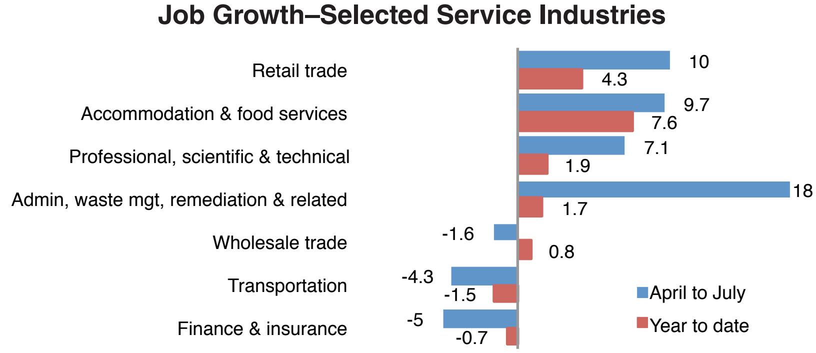
Purchasing Managers Index



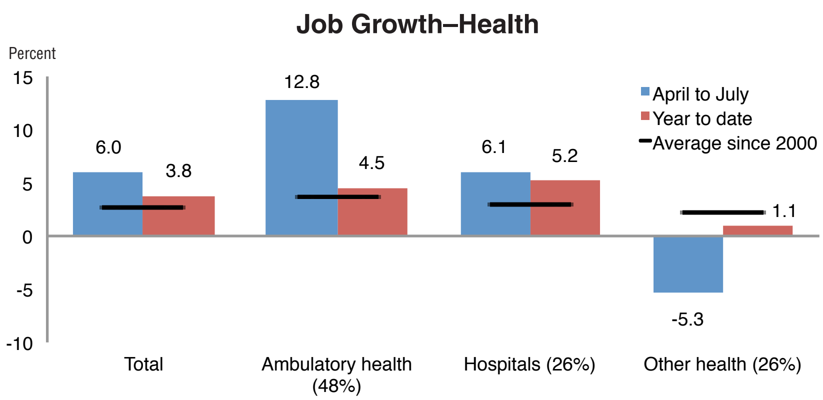
NOTES: Employment growth is a monthly, seasonally adjusted annual rate. Composite index values >50 indicate expansion, and index values <50 indicate contraction.

▸ The July PMI rose to 49.1. Values below 50 signal employment declines, but July was the strongest reading since February. Improvements in July came primarily from the sales and production indexes. Sales and employment indexes each saw a third consecutive month of improvement. Oil and gas extraction-related activities remain weak, but all other industries remain neutral to positive. If these improvements persist, it suggests that employment growth in the second half of the year may not be as weak as implied by earlier data.

Service Sector



NOTES: Data show the April annualized and seasonally adjusted year-to-date change. Sorted from largest to smallest industry.

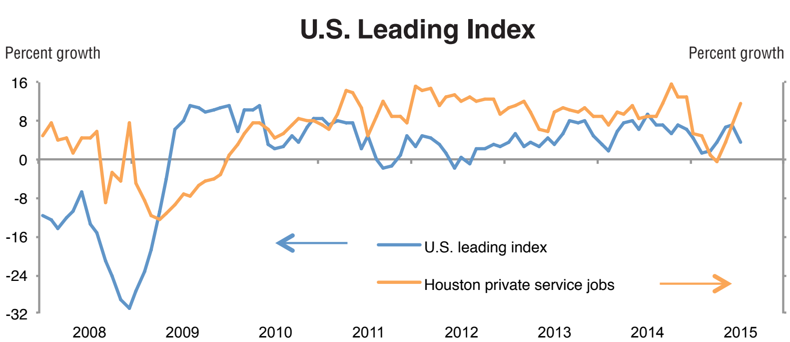


▸ Service sector growth broadly picked up steam in the last three months, offsetting recent declines in goods-producing industries. Administrative, waste management, remediation and related service sectors in particular led with 9,000 new administrative jobs added, over half of which came from employment services (e.g., staffing firms)—a subsector often tracked as a leading indicator. Retail jobs (up 7,200) and food and drink employment (up 5,800) also contributed strongly. Transportation (down 1,500) and finance and insurance (down 1,200) were the loss leaders among service sectors over the last three months. Within the latter group, jobs at credit institutions and insurance and related employment dropped a combined 1,400 jobs in June and July.

▸ Health employment growth accelerated over the last three months. As the largest category of health workers, ambulatory medicine (e.g., physician offices and dentists) saw the sharpest acceleration since April. Other health jobs (nursing homes, mental health, social assistance) actually contracted, pulling its year-to-date growth to well below average levels. Hospital employment also accelerated and has been growing much faster than its historical average of 3 percent this year. Indeed, construction activity tied to the health sector has been very strong this year, particularly for hospitals with over 4 million square feet planned or under construction across the region. Medical office facilities have also been picking up steam with nearly 1 million square feet under construction.

Leading Indicators

NOTES: Data are three-month annual growth rates, seasonally adjusted. Rig counts are three-month percent changes.



NOTE: Data are three-month annual growth rates, seasonally adjusted.

▸ The Texas index of leading economic indicators is one of the best predictors of how total employment will change in the next three months in Houston. This is also true for Houston's goods-producing sector specifically, since the index proves to be an early signal of changes in the growth rate of goods-producing jobs. This sector has done poorly in Houston this year as the collapse in oil and gas prices caused drilling activity across the nation to decline rapidly. Support activities for mining and fabricated metals manufacturing jobs have fallen precipitously in 2015. Over the last three months, the goods industries have declined at an annual rate of 5.5 percent. For the three months ending in July, the leading index was down an annual 1.1 percent. Rig counts were down only 0.7 percent in the three months ending in August. This suggests that job losses in the goods-producing sectors should moderate over the next three months.

▸ The private service-providing sector is less intimately tied to the oilfield, and the index of leading indicators for the national economy as a whole has a tighter relationship with Houston services employment than either the Texas leading index or rig counts. Service-providing jobs have done relatively well this year compared to goods-producing jobs. Over the three months ending in July, private service jobs grew at an annual rate of 4.3 percent, which is the fastest growth rate this year. The U.S. leading index moderated to a three-month growth rate of 3.7 percent in July. This suggests the service sector should continue to grow at a healthy pace, although moderate somewhat over the next three to six months.

SOURCES: **Business-cycle index:** Federal Reserve Bank of Dallas; **employment:** Bureau of Labor Statistics (BLS) and Dallas Fed; **purchasing managers index:** Institute for Supply Management; **service sector:** BLS and Dallas Fed; **leading indicators:** BLS, Dallas Fed, Baker Hughes and Conference Board.

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