



▶ *Labor shortages are likely to constrain growth given that the state unemployment rate is now at a near-record low of 4.0 percent.*

The Federal Reserve Bank of Dallas expects the Texas economy to grow jobs in 2018 at a rate of approximately 3 percent. As Keith Phillips and Christopher Slijk explain in this issue of *Southwest Economy*, this strong performance is the result of broad-based expansion across industries and substantial growth in the energy sector. It is expected that both Texas and the U.S. will surpass crude oil production records achieved in the early 1970s.

Since 1990, Texas employment has grown about 1 percentage point faster than the nation. This growth has been fueled by substantial domestic and international migration to the state. In their article, Pia Orrenius, Alexander Abraham and Stephanie Gullo take an in-depth look at the volume and composition of this migration. Since 2005, net migration to Texas has averaged 228,000 people per year, the highest number of any state. These new residents are far more likely to be college educated than Texans on average and are an important source of educated workers for the region. Jason Saving explains in the “On the Record” interview that due to limits on the deductibility of certain taxes, recent federal tax code changes may further boost migration to Texas. This legislation, while helping Texas, is likely to raise tax bills for certain households in jurisdictions with high state and local taxes.

While the outlook for Texas is positive, certain risks remain. Labor shortages are likely to constrain growth given that the state unemployment rate is now at a near-record low of 4.0 percent. Issues relating to the renegotiation of the North American Free Trade Agreement may also create challenges. Texas is the nation’s top exporter, and Mexico and Canada account for nearly half of the state’s exports.

To help analyze the economic landscape and address key policy questions, the Dallas Fed will continue to produce economic research that sheds light on key issues that are important to the region and the nation. Based on our research, I remain very optimistic about the future economic prospects for Texas and the Eleventh District.

A handwritten signature in black ink that reads "Robert S. Kaplan". The signature is written in a cursive, flowing style.

Robert S. Kaplan
President and Chief Executive Officer
Federal Reserve Bank of Dallas