

Regional

Regional Economy Improves Further, but Risks to Outlook Remain

September 23, 2016

The Texas economy has been in expansion after contracting in first quarter 2016, suggesting the worst of the energy bust may be over. Employment is up, and the Dallas Fed’s most recent forecast suggests job growth in the second half of the year will be much stronger than in the first. The Texas Business Outlook Surveys have also improved, and there are signs of life in the energy sector. However, weakness persists in construction spending and exports, and significant risks to the outlook remain.

Texas Employment Growth Picks Up

State employment growth has averaged 2.0 percent since contracting 1.3 percent in the first quarter. This recent acceleration is evident when looking at the three-month moving average (*Chart 1*). On a monthly basis, Texas employment grew an annualized 3.2 percent in July and 2.6 percent in August, surpassing the nation’s 2.3 and 1.3 percent increases, respectively. Texas employment is up an annualized 0.8 percent (59,676 jobs) year to date.

Houston’s growth trails the state’s, contracting an annualized 1.0 percent through August. In Dallas—where U.S. economic growth is a tailwind—year-to-date growth is the fastest among the large metros at an annualized 1.8 percent.

Despite robust August job growth, the state’s unemployment rate ticked up to 4.7 percent from 4.6 percent in July. The increase came as more people joined the labor force to look for work.

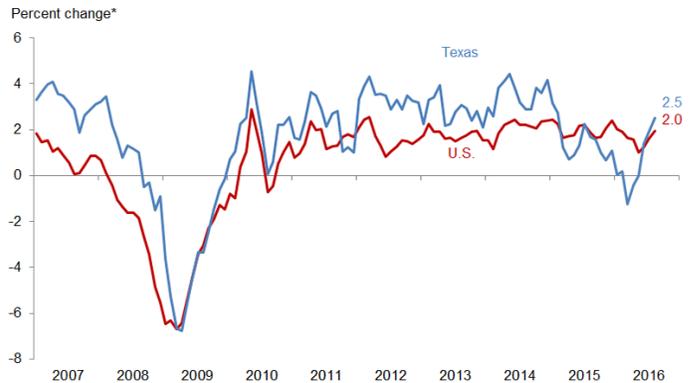
August Employment Gains Broad-Based Across Industries

Job growth was broad-based in August. Most notably, the oil and gas sector saw an annualized 1.2 percent increase—the first month of net job gains in that sector since December 2014 (*Chart 2*). Construction added jobs on net for the second consecutive month, but manufacturing employment continued to decline. In the service sector, education and health services has posted the fastest growth year to date—up an annualized 3.1 percent—despite declining slightly in August.

Surveys Indicate Improved Economic Activity

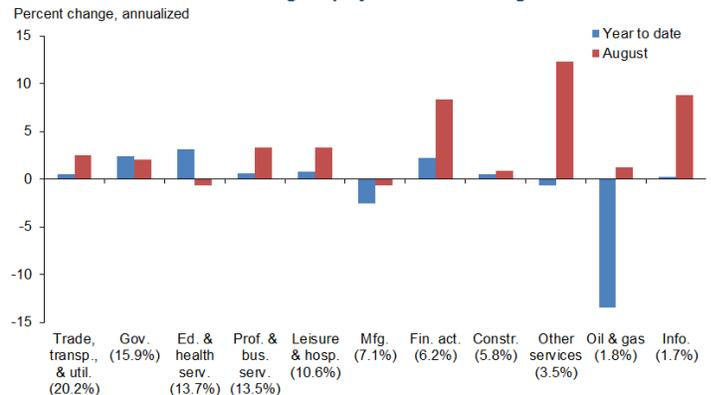
The Texas Manufacturing Outlook Survey (TMOS) production index increased to 4.5 in August, bringing the

Chart 1
Texas Surpasses U.S. in Employment Growth



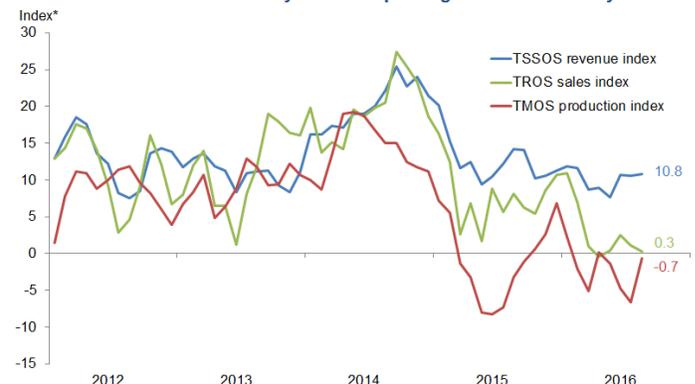
*Seasonally adjusted, annualized rate; three-month moving average.
NOTE: Last data point is August 2016.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 2
Turnaround in Goods-Producing Employment Seen in August



NOTES: Year-to-date data are through August. Each sector’s share of employment is in parentheses.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

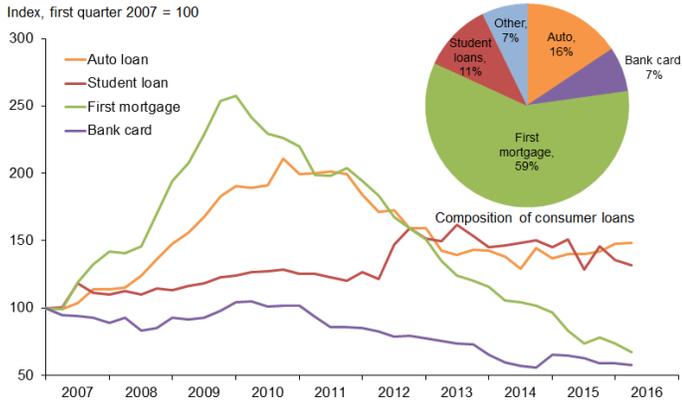
Chart 3
Texas Business Outlook Surveys Show Improving Economic Activity



*Seasonally adjusted, three-month moving average.
NOTE: Last data point is August 2016.
SOURCES: Federal Reserve Bank of Dallas’ Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

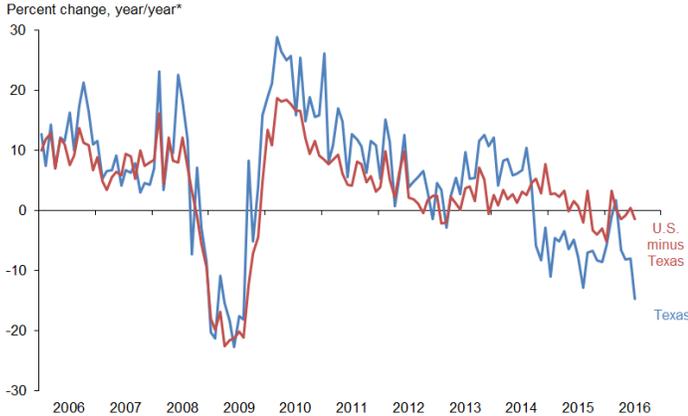
three-month moving average up to -0.7 (Chart 3). This increase coincided with a rebound in the TMOS growth rate of orders index, which turned positive in August for the first time since November 2014, suggesting demand for manufactured products improved. However, the TMOS general business activity index remained negative for the 20th straight month in August, suggesting perceptions of broader business conditions worsened.

Chart 4
Texas Delinquency Rates Falling Except for Auto Loans



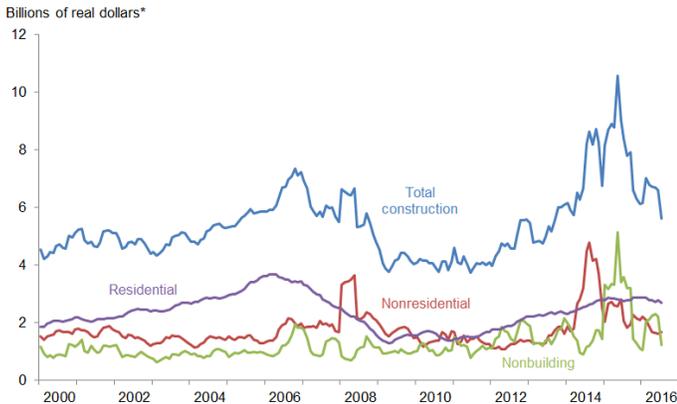
NOTES: Includes loans that are delinquent 90+ days and loans that are severely derogatory. Pie chart represents share of dollar value of debt in Texas.
SOURCES: Federal Reserve Bank of New York Consumer Credit Panel; Equifax.

Chart 5
Downturn in Exports Looks Far Worse in Texas than U.S.



*Millions of 2000 dollars.
SOURCES: Census Bureau; WISERTrade; Federal Reserve Bank of Dallas.

Chart 6
Construction Contract Values Continue Falling



*Five-month moving average; seasonally adjusted.
NOTE: Last data point is July 2016.
SOURCE: F.W. Dodge.

The Texas Service Sector Outlook Survey (TSSOS) continued to reflect expansion. The three-month moving average of the revenue index measured 10.8 in August—the month’s value was 6.5—indicating continued expansion in state service sector activity but at a slower pace than in July.

Much of the TSSOS softening is explained by declines in retail sales. The Texas Retail Outlook Survey sales index fell to -5.3 percent in August, bringing the three-month moving average down to 0.3.

Loan Performance Improving

Although retail sales appear to have weakened in August, Texas consumers are in relatively good shape overall. Loan delinquency rates decreased in the second quarter for all major loan categories except auto loans (Chart 4). Auto loans account for 16 percent of total lending in Texas—the second-largest category behind mortgages. Additionally, total debt per capita in Texas is almost \$8,000 lower than the national average.

Energy Sector Shows Signs of Stabilization, but Exports Fall

The Texas rig count continued increasing and reached 244 rigs for the week ending Sept. 16, up from its May low of 173. Oil prices have been relatively stable and stood at \$44.34 per barrel for the week ending Sept. 16.

Despite improvements in labor markets and the energy sector, state exports continue to fall even as U.S. exports remain fairly stable (Chart 5). The real value of Texas exports is down 24 percent from its 2014 peak and 6 percent this year through July from the same period last year. Although the declines may seem indicative of contracting global demand and a strong dollar, they partly reflect a measurement problem due to faulty export-price deflators. It appears oil price declines are depressing both nominal and real values of Texas exports. This is especially true for refined petroleum products, for which export volume has remained stable or increased.

Construction Spending Continues to Contract

Construction activity overall has been trending down from its peak in early 2015 (Chart 6). The five-month moving average of total construction contract values decreased 8.4 percent from January to July. Nonresidential building saw the sharpest contraction at 19.8 percent, and residential construction spending fell 6.5 percent. In contrast, nonbuilding construction is up 8.2 percent despite declining steeply during July.

Outlook Brightens but Remains Modest

The Dallas Fed’s [Texas Employment Forecast](#) suggests 1.2 percent growth in 2016, implying job gains in the second half of the year will be around 2.3 percent. While this would represent a significant turna-

round in growth, this positive assessment is tempered by risks of sharply lower oil prices, a stronger dollar and decelerating global or U.S. growth.

—Stephanie Gullo, Amy Jordan and Pia Orrenius

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