Facing Uncertain Waters

January 15, 2019
The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.
National Economy Growing Strongly

- Jobs grew 1.8% in 2018 – the fastest pace since 2015, while real GDP growth picked up from 2.5% to about 3.1%.
- Manufacturing, construction and mining jobs grew strongly but retail was weak.
- Labor market below full employment at 3.9% unemployment rate.
- Inflation is close to Fed target of 2%.
- 2019 jobs and GDP growth expected to slow but remain healthy.
- Stock market volatility and yield spread narrowing signaling greater uncertainty about the outlook.
Job Growth Averaged 215k in 2018

Thousands, SA

SOURCE: Bureau of Labor Statistics
NOTES: U6 Unemployment rate includes marginally attached and part-time for economic reasons workers. Gray shaded areas indicate NBER recessions. SOURCES: Bureau of Labor Statistics; NBER.
Inflation Measures Near 2 Percent Goal

![Chart showing inflation measures](chart)

**Headline PCE inflation**

**Trimmed Mean PCE inflation**

**Fed 2 percent target**

Sources: Bureau of Economic Analysis; Federal Reserve Bank of Dallas.

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Federal Reserve Bank of Dallas | San Antonio
U.S. Leading Index Suggests Continued Growth in National Economy over next 3-6 Months

Percent change, annualized


NOTE: Shaded areas represent U.S. recessions.
SOURCES: Conference Board, Federal Reserve Bank of Dallas.
10-yr./1-yr. Yield Spread Suggests Low Probability of Recession – but Probability Would Spike with Negative Value

SOURCE: Federal Reserve Board.
GDP Will Likely Slow to a More Moderate Pace in 2019

SOURCES: Bureau of Economic Analysis; Blue Chip Economic Indicators.
Texas Economy Accelerated in 2018

• In 2015 and 2016, low oil prices and strong dollar reduced job growth – but Texas did better than other energy states.

• In 2017, energy and manufacturing sectors began to recover and overall job growth picked up from about 1.3 percent to 2.1 percent.

• Last year, goods-producing sectors accelerated strongly and job growth picked up further to 2.4 percent.

• This year, job growth likely to slow to about 1.4 percent as labor constraints limit growth along I-35 corridor and low oil prices slow growth in oil-producing regions.
Texas Job Growth Usually Above the Nation’s

Texas Unemployment Rate at Lowest Level Since 1970s

NOTE: U.S. data through December 2018, Texas data through November 2018.
Texas Economy Expanding Above Trend After Weakness in 2015 and 2016 (Texas Business-Cycle Index)

NOTE: Data through November 2018. Shaded areas represent Texas recessions. Trend refers to growth from Jan. 1990 – present.

SOURCE: Federal Reserve Bank of Dallas.
In 2018 I-35 Corridor Slowed from Strong Growth, Energy Metros Rebounded

NOTES: Shaded bars represent seasonally adjusted, annualized growth from Dec. 2017 to Nov. 2018. Figures in parentheses represent shares of total state employment.
2018 Job Growth Broad Based Across Industries

Percent, Dec./Dec.

-20 -15 -10 -5 0 5 10 15

Trade, Transp & Utilities (20%)
Government (15.9%)
Health & Private Education (13.6%)
Professional & Business Svcs (13.6%)
Leisure & Hospitality (10.6%)
Manufacturing (7%)
Financial Activities (6.2%)
Construction (5.8%)
Natural Resources & Mining (1.7%)
Information (1.6%)


Texas Service Sector Strong but Weakened at End of Year

NOTE: Seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas Texas Service Sector and Retail Outlook Surveys.
Manufacturing Activity Slowing From Strong Pace

NOTE: Data are seasonally adjusted.
Survey Outlooks Weakened Sharply in December

Index, SA

NOTES: Data through Nov 2018. Dashed lines are post recession averages.

SOURCES: Federal Reserve Bank of Dallas Outlook Surveys: Manufacturing (TMOS); Service Sector (TSSOS).
Share of Texas Jobs Tied To Exports 4th Highest Among States

Destination of Texas Exports, 2016

- Mexico 40%
- European Union 11%
- Canada 8%
- South Korea 3%
- China 5%
- Other 33%

 SOURCES: International Trade Administration; WISERtrade; Bureau of Economic Analysis.
Texas Exports to China Declining

Index, 2006 Q1 = 100

SOURCE: Federal Reserve Bank of Dallas
State Exports Continue to Expand Despite Strong Dollar

Index, SA, Real
Jan. 2000=100

Texas Trade Weighted Value of the Dollar (inverted scale)

U.S. minus Texas

SOURCES: U.S. Census; Bureau of Labor Statistics; WISERtrade; Federal Reserve Bank of Dallas.
Contract Values Indicate Continued Growth in Construction

SOURCES: F.W. Dodge; Federal Reserve Bank of Dallas.
Residential Housing Leading Indicators Declining

Index, Jan. '08=100, 5MMA, SA

NOTE: Last data point is October 2018.
SOURCES: Bank of Tokyo-Mitsubishi UFJ; U.S. Census Bureau; seasonal and other adjustments by Federal Reserve Bank of Dallas.
Oil Price Decline Suggests Upcoming Decline in Rig Count

Note: Data are weekly, last data point is the week of Jan. 4, 2019.
Sources: Oil and Gas Journal, Baker Hughes.
Breakeven for New Drilling in Permian Ranges from $20 to $70

$/bb

NOTES: Lines show the mean, and bars show the range of responses. Executives from 65 exploration and production firms answered this question during the survey collection period, March 14–22, 2018.
SOURCE: Federal Reserve Bank of Dallas.
If Oil Prices Persist Near $50 per barrel, Texas Job Growth Likely to Feel Impacts in Q2 2019

NOTE: Nominal oil price assumed to be $52 a barrel in Dec. 2018.

Energy Survey Suggests Weaker Growth, More Uncertainty

Index

- Business Activity
- Capital Expenditures
- Employment
- Company Outlook
- Uncertainty

Price per barrel

Q1 2018: $63
Q2 2018: $65
Q3 2018: $68
Q4 2018: $60 (2019)

SOURCE: Federal Reserve Bank of Dallas.
TMOS and TSSOS Future Employment Indexes Suggest Less Hiring in the Next Six Months

SOURCE: Federal Reserve Bank of Dallas
Texas Leading Index Components Generally Negative

Growth in Leading Index Components Mixed
(Net contributions to change in Texas Leading Index)

-1.62
-0.71
-0.58
-0.29
-0.42
-0.58
-0.71

Net change in Texas Leading Index
U.S. leading index
Average weekly hours
New unemployment claims
Well permits
Texas Stock Index
Real oil price
Help-wanted index
Texas value of the dollar

NOTE: Three-month percent change through November, seasonally adjusted. Texas value of the dollar and unemployment claims for November are estimated.
SOURCE: Federal Reserve Bank of Dallas.
Texas Jobs Forecast to Grow about 0.9% to 1.9% in 2019

*Seasonally adjusted.

San Antonio Economy Remained Healthy in 2018

- 2018 job growth at 1.4% after 2.0% in 2017
- Federal govt. grew moderately after decline in 2017
- Health care and leisure and hospitality strong
- Goods-producing sectors slowed and retail remained weak
- UR very low at 3.2 percent – labor force growth slowing
- Overall job growth in San Antonio likely to be 1.0 to 2.0 percent this year

Texas economy accelerated last year – growth was broad-based across industries and regions

Texas unemployment rate reached historical lows

Toward end of the year growth began to slow and business outlooks weakened sharply

Texas expected to have grown 2.4 percent in 2018 and will likely slow to about 1.4 percent in 2019

Texas UR likely to remain low but may tick up slightly

San Antonio facing tight labor markets saw weaker job growth last year - should see job growth of 1.0 to 2.0 percent in 2018

Biggest risk to the Texas forecast is sharp decline in oil prices or trade
How Did My Forecast From Last Year Do?

Last year stated: Texas expected to have grown at about 2.5 percent in 2017 and will likely accelerate to about 3.0 percent in 2018.

– Instead growth likely accelerated from 2.1% in 2017 to 2.4% in 2018
January 2018 Forecast Slightly Overestimated Growth for the Year

Texas Leading Index

Texas nonfarm employment and forecast (with 80% confidence band)

Actual

*Seasonally adjusted.


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Dallas Fed Publications

Public Resources from the Dallas Fed:

- [Southwest Economy](#)
- [Regional Economic Updates](#)
- [San Antonio](#) and [Austin](#) Economic Indicators
- [Texas Business Outlook Surveys](#)
- [Energy Survey](#)
- [National Economic Updates](#)
- [International Economic Updates](#)
- [Additional Research Publications and Data](#)
- [Heart of Texas](#)
- [Dallas Fed Blog](#)
We need your input!

Be part of a survey that gauges regional business activity and informs monetary policy making.

- Texas Manufacturing Outlook Survey
- Texas Service Sector Outlook Survey
- Texas Retail Outlook Survey