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Texas’ economic expansion moderated in July. Employment growth softened, and growth in the Texas Business-Cycle Index slowed. The Dallas Fed’s Texas Business Outlook Surveys indicated a pickup in growth and continued optimism but also rising uncertainty. Exports increased in the second quarter, and indicators of the single-family housing market cooled in June.

Labor Market

Texas employment growth softened in July to an annualized 1.3 percent, in part due to a decline in government payrolls (Chart 1). Texas private employment rose an annualized 2.2 percent in July. Year to date, Texas has added jobs at a robust 3.2 percent annualized rate. The Dallas Fed’s Texas Employment Forecast is for 2.7 percent job growth in 2018 (December/December).

The energy sector posted the steepest decline in July among the major sectors after experiencing blistering growth in 2017 and in the first half of 2018. Construction employment growth strengthened to 11.5 percent—the fastest growth among the major sectors. This year through July, all major sectors except information services have added jobs.

Austin employment slumped 6.7 percent in July, and Houston employment edged down 0.1 percent, but the other major metros added jobs. Employment in the major metros expanded this year through July, led by Houston’s 3.9 percent growth.

The Texas unemployment rate held steady at 4.0 percent in July, near its four-decade low of 3.9 percent reached in late 2017. Unemployment declined and was well below postrecession averages in all major metros.
Texas Business-Cycle Index

The Texas Business-Cycle Index, a composite of state payroll employment, the unemployment rate and gross state product, measures underlying economic activity in the state. The index increased an annualized 5.2 percent in July (Chart 2). Its growth rate has slowed for three consecutive months after rising for more than two years.

![Chart 2]

Texas Business-Cycle Index
Month-over-month percent change

*Annualized rate.
NOTES: The horizontal line is the annualized percent change from January 1972 to December 2017. Gray bars indicate Texas recessions.
SOURCE: Dallas Fed

Texas Business Outlook Surveys

Headline Indexes Signal a Pickup in Growth

The three-month moving averages of the headline indexes in the Dallas Fed’s Texas Business Outlook Surveys (TBOS) indicated accelerating expansion in the manufacturing, services and retail sectors in July (Chart 3). The three-month moving average of the Texas Manufacturing Outlook Survey (TMOS) production index rose to its highest point since 2006. The three-month moving averages of the Texas Service Sector Outlook Survey (TSSOS) revenue index and Texas Retail Outlook Survey (TROS) sales index increased and were above their postrecession averages (January 2010–December 2017).

![Chart 3]

Texas Business Outlook Survey Headline Indexes

*Seasonally adjusted, three-month moving average.
NOTE: TMOS is the Texas Manufacturing Outlook Survey, TSSOS is the Texas Service Sector Outlook Survey, and TROS is the Texas Retail Outlook Survey.
SOURCE: Dallas Fed
Company Outlooks Remain Optimistic, Uncertainty Rises

The three-month moving averages of the TBOS company outlook indexes indicated continued optimism in July (Chart 4). The manufacturing and service sector indexes were above their postrecession averages, while the retail index was below its postrecession average. The uncertainty indexes, which debuted in January 2018, gauge uncertainty regarding the outlook. The manufacturing and service sector uncertainty indexes each reached their highest points in the seven months of data, suggesting rising uncertainty in future expectations, and the TROS index ticked up and remained positive.

**Chart 4**
Texas Business Outlook Survey Company Outlook Indexes

*Seasonally adjusted, three-month moving average.
NOTES: Bars refer to uncertainty regarding the outlook. TMOS is the Texas Manufacturing Outlook Survey, TSSOS is the Texas Service Sector Outlook Survey, and TROS is the Texas Retail Outlook Survey.
SOURCE: Dallas Fed.

Exports

Texas exports strengthened in the second quarter, and the growth was broad based across the state’s major export regions (Chart 5). Total exports rose 6.2 percent, up from 0.8 percent in the first quarter. The state’s exports to Asia and the European Union advanced 11.0 percent and 10.0 percent—the fastest growth among major export regions. Exports to Mexico and Canada edged up 1.3 percent and 0.4 percent—the slowest increases among the regions.

**Chart 5**
Texas Exports

*Seasonally adjusted.
NOTE: Numbers in parentheses indicate share of total exports in second quarter 2018.
Mining exports and petroleum and coal products exports—which accounted for the largest and second-largest shares of total Texas exports—rose 18.4 and 5.5 percent, respectively, in the second quarter. Among the state’s major export sectors, only exports of nonelectrical machinery dipped in the quarter.

Texas exports inched up 0.1 percent in June, while U.S. exports contracted 1.8 percent. This year through June, exports have expanded 14.8 percent in Texas and 5.2 percent in the U.S. compared with the same period in 2017.

**Housing Market**

Texas home inventories edged up to 3.7 months in June (Chart 6). Home inventories in the U.S., Dallas, Fort Worth and San Antonio also ticked up, while Houston home inventories inched down. Inventories across major Texas metros and in the U.S. are significantly below the six-month supply considered balanced and below their long-run (January 1990–December 2017) averages.

![Chart 6: Home Inventories](chart.jpg)

*Seasonally adjusted

SOURCES: Real Estate Center at Texas A&M University, Multiple Listing Service.

The number of single-family building permits issued in Texas ticked down 0.3 percent in June but expanded 3.5 percent in the first half of 2018 compared with the same period last year. Texas existing-home sales dipped 0.2 percent in June but were up 2.8 percent in the first half of 2018 compared with the first half of 2017. The state’s median home sales price dropped 0.9 percent in the month but was 1.8 percent above year-ago levels.

**NOTE:** Data may not match previously published numbers due to revisions.

**About Texas Economic Indicators**

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