2018 Texas Economic Outlook: Firing on all Cylinders

Keith R. Phillips
Assistant Vice President and Senior Economist
6/27/2018

The views expressed in this presentation are strictly those of the presenter and do not necessarily reflect the positions of the Federal Reserve Bank of Dallas or the Federal Reserve System. Any secondary distribution of this material is strictly prohibited.
Texas Economic Growth Weak in 2015-2016, Accelerated in 2017 and 2018

- In five years prior to 2015, growth in energy, construction and exports provided a strong stimulus to Texas.
- In 2015 and 2016, low oil prices and strong dollar reduced job growth – but Texas did better than other energy states.
- Last year, Texas employment grew much faster than in 2016, faster than the nation and above trend.
- Pickup mostly due to a rebound in energy and manufacturing sectors.
- Jobs grew 1.9 percent last year and are expected to accelerate to about 3.3 percent in 2018.
2016 Texas Job Growth Slipped Below Nation Due to Oil Bust

NOTE: Black bars represent large energy-producing states.
2017 Texas Job Growth Improved, 10th Fastest Among States

NOTE: Black bars represent large energy-producing states.
2018 Texas Growth Strong, Currently Third Fastest Among States

NOTES: Black bars represent large energy-producing states. Growth rates are seasonally adjusted.

Texas Job Growth Usually Above the Nation’s

NOTE: Shaded bars represent seasonally adjusted, annualized growth from Dec. 2017 to May 2018
Texas Unemployment Rate Near Lowest Level Since 1970s

Texas Economy Weakened in 2015 and 2016 But Remained in Expansion
(Texas Business-Cycle Index)

NOTE: Shaded areas represent Texas recessions
SOURCE: Federal Reserve Bank of Dallas
I-35 Corridor Continues to Grow, Houston Rebounding

Job Growth, 2016-2018

<table>
<thead>
<tr>
<th>City</th>
<th>Percent, Dec./Dec.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas</td>
<td>3.6</td>
</tr>
<tr>
<td>Houston</td>
<td>4.4</td>
</tr>
<tr>
<td>Dallas</td>
<td>4.1</td>
</tr>
<tr>
<td>San Antonio</td>
<td>0.5</td>
</tr>
<tr>
<td>Austin</td>
<td>3.7</td>
</tr>
<tr>
<td>Fort Worth</td>
<td>2.8</td>
</tr>
<tr>
<td>El Paso</td>
<td>2.0</td>
</tr>
<tr>
<td>Corpus Christi</td>
<td>1.4</td>
</tr>
</tbody>
</table>

NOTES: Shaded bars represent seasonally adjusted, annualized growth from Dec. 2017 to May 2018. Figures in parentheses represent shares of total state employment.

Goods-Producing Industries Rebounded in 2017, Strong So Far This Year

Job Growth 2016-2018

NOTES: Shaded bars represent seasonally adjusted, annualized growth from Dec. 2017 to May 2018. Figures in parentheses represent shares of total nonfarm employment.
Texas Manufacturing Growing Strongly

NOTE: Data are seasonally adjusted.
Texas Service Sector Continuing to Expand

NOTE: Seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas Texas Service Sector and Retail Outlook Surveys.
Business Sector Outlooks Picking Up This Year

NOTE: Seasonally adjusted.

SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing, Service Sector and Retail Outlook Surveys.
Share of Texas Jobs Tied To Exports 4th Highest Among States

Destination of Texas Exports, 2016

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

SOURCES: International Trade Administration; WISERtrade; Bureau of Economic Analysis.
State Exports at All-Time High This Year

Index, SA, Real
Jan. 2000=100

Texas Value of the Dollar

Texas

U.S. minus Texas

Q4 2017

Mexico
Latin America, excl. Mexico
European Union
Canada
China
Other

Texas Construction Contract Values Weakened Somewhat Recently but Still at High Level

SOURCES: F.W. Dodge, Federal Reserve Bank of Dallas.
Oil Prices Holding Above $60 This Year – Rig Count Picking Up

NOTE: Data are weekly, last data point is the week of June 22, 2018.
SOURCES: Oil and Gas Journal, Baker Hughes.
Energy Survey Suggests Continued Growth in Energy Activity in 2018

SOURCE: Federal Reserve Bank of Dallas.
Breakeven Prices for New Drilling Below Current Price of WTI

Energy Survey: “In the top two areas in which your firm is active: What WTI oil price does your firm need to profitably drill a new well?”

NOTES: Line shows the mean, and bars show the range of responses. 65 E&P firms answered this question from March 14-22, 2018. SOURCE: Federal Reserve Bank of Dallas.
Texas Leading Index Components Mostly Positive

Net contributions to change in the Texas Leading Index (March - May 2018)

-0.68  0.41  Net Change in Texas Leading Index
-0.03  0.32  Texas Value of the Dollar
-0.02  0.29  U.S. Leading Index
-0.08  0.40  Real Oil Price
-0.80  0.22  Well Permits
-0.60  New Unemployment Claims
-0.40  Texas Stock Index
-0.20  Help Wanted Index
0.00  Average Weekly Hours

NOTE: Seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas.
Texas Jobs Forecasted to Grow 3.3% in 2018

Millions, seasonally adjusted

Index, 1987=100

Energy Activity has Less Impact on San Antonio than Rest of State

2018 job growth at 0.5% so far after 2.1% in 2017 – past data suggests upward revision
Construction, Federal government slowing this year
Health care, retail accelerating
Leisure and hospitality weaker has declined sharply – data issues.
Overall job growth in San Antonio likely to be 2.0 – 3.0% this year. UR at 3.3 vs 4.1 for TX.

*Annualized through May 2018
Jobs Data Suggests Harvey Had Temporary Effect on Texas Job Growth...

Mil. jobs, SA

- Baseline estimate (9/4/17)
- $60 billion estimate of damages (9/4/17)

SOURCES: Bureau of Labor Statistics; National Oceanic and Atmospheric Administration; authors’ calculations.
...and Gulf Coast Job Growth

Thousands of jobs, SA

Baseline (9/4/17)
$60 billion estimate of damages (9/4/17)

Jan-17 Feb-17 Mar-17 Apr-17 May-17 Jun-17 Jul-17 Aug-17 Sep-17 Oct-17 Nov-17 Dec-17 Jan-18 Feb-18 Mar-18

NOTE: Gulf Coast includes the Houston, Beaumont-Port Arthur, Victoria, and Corpus Christi MSAs.
SOURCES: Bureau of Labor Statistics; National Oceanic and Atmospheric Administration; authors’ calculations.
Summary

- In 2015 and 2016, Texas weakened sharply but continued to grow - did much better than 1980s and better than other energy states.
- In 2017 energy and manufacturing sectors rebounded.
- Texas grew at 1.9 percent in 2017 and will likely accelerate to about 3.3 percent in 2018.
- Biggest risk to the forecast is trade war or sharp decline in oil prices.
- Last year at this meeting forecasted 2.4 percent for 2017 – actual was 1.9 percent