

TEXAS Economic Outlook



Facing Uncertain Waters

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SAN ANTONIO BRANCH



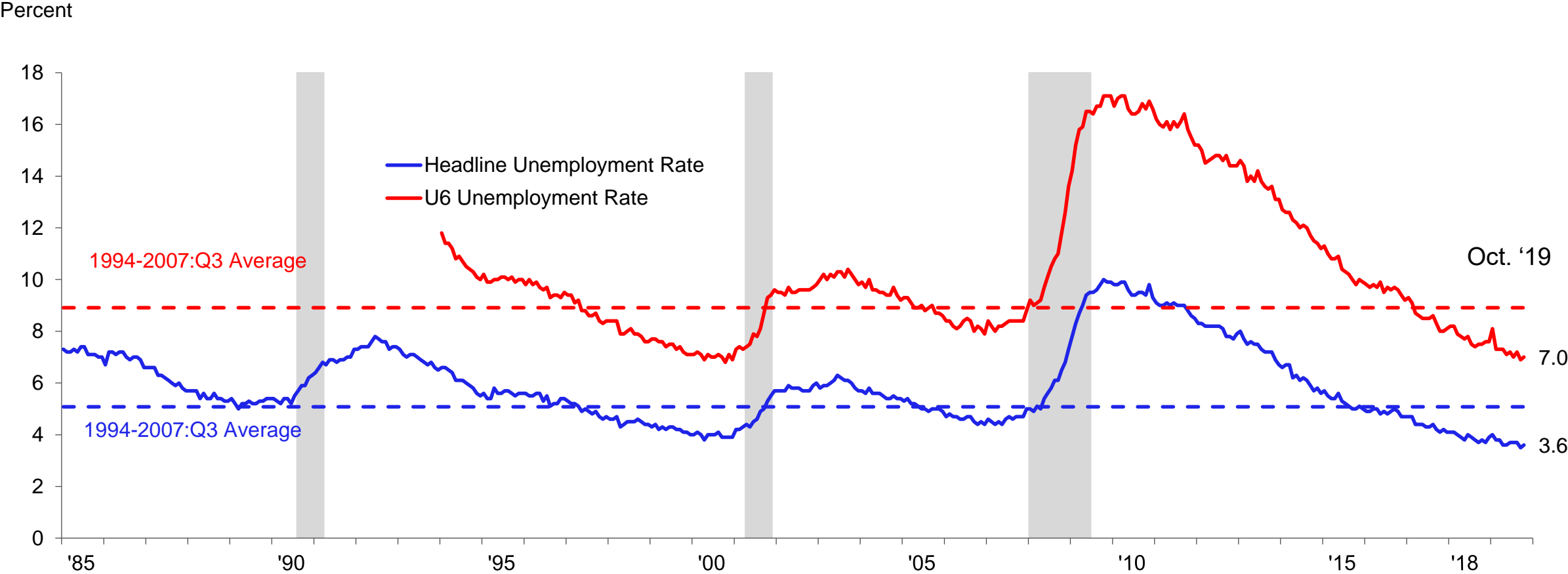
Federal Reserve
Bank of Dallas

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National Economy Growing Strongly

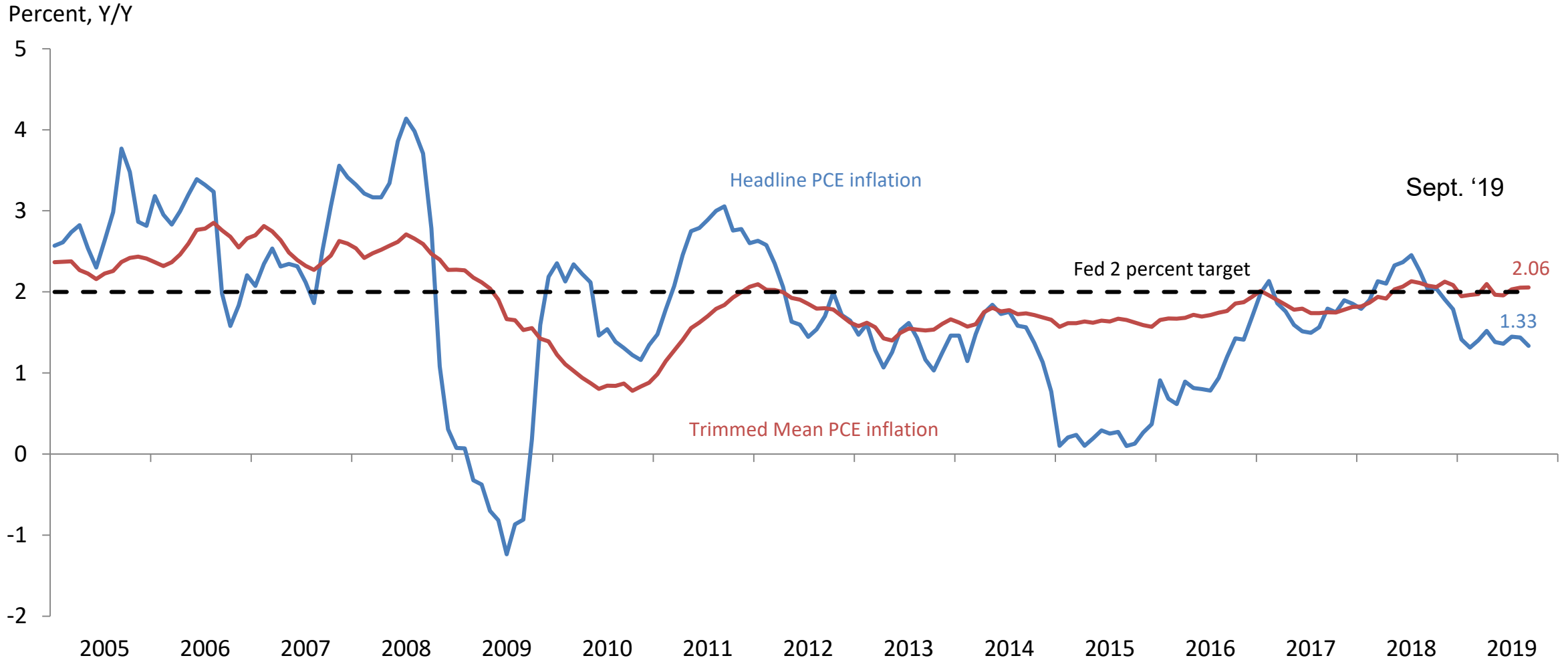
- After growing a strong 1.8% in 2018 job growth has slowed to 1.3% so far this year, while real GDP grew 2.5% in 2018, it is forecasted to grow 2.2% in 2019 and 1.7% in 2020.
- Manufacturing, construction and mining jobs grew strongly last year but have slowed this year
- Labor market below full employment at 3.6% unemployment rate in October
- Inflation is near Fed target of 2%
- Growth in second half of 2019 expected to slow but remain healthy
- Negative yield spread has recently turned positive but still signaling uncertainty about the outlook for 2020

Unemployment Rate Near Historical Lows



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.

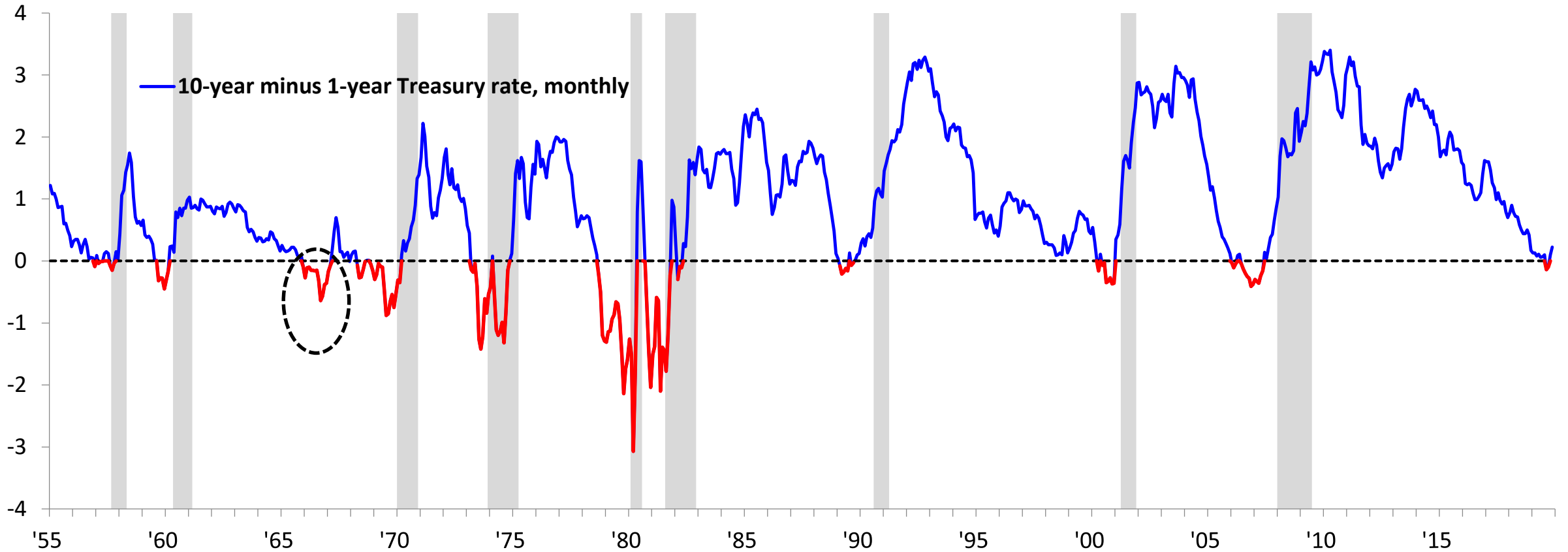
Core Inflation Near 2 Percent Goal



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

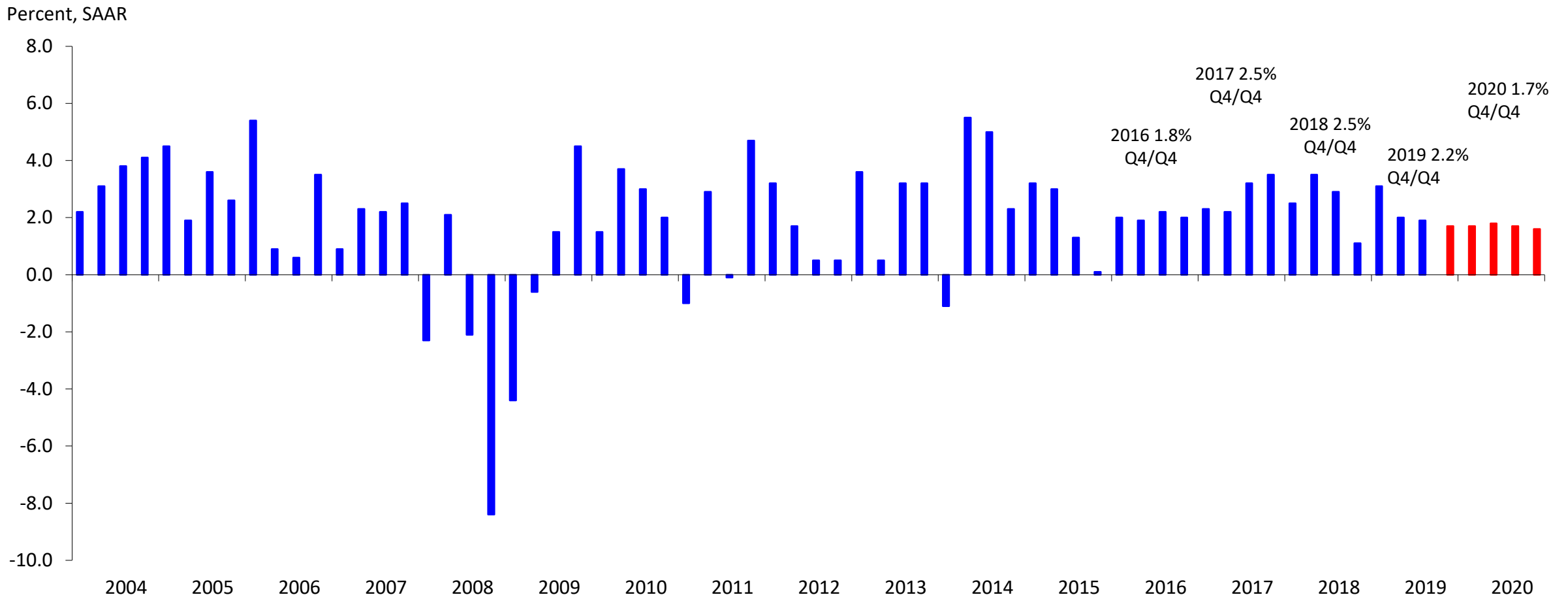
Yield Curve Turns Positive in October – But Caution Remains

Percentage points



NOTE: November data is the average 10 year minus 1 year treasury yield from November 1-8, 2019.

GDP Growth Expected to Slow – No Recession Forecasted for 2020



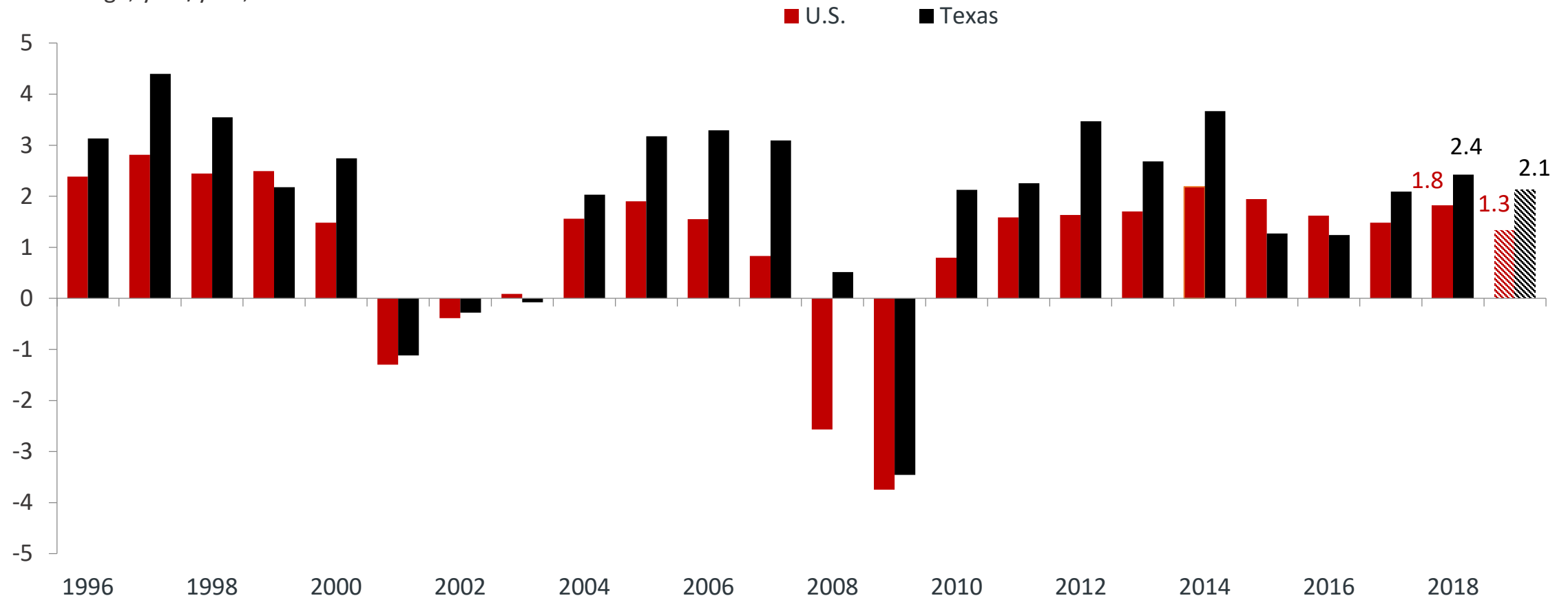
SOURCES: Bureau of Economic Analysis; Blue Chip Economic Indicators.

Texas Economy Accelerating After Oil Bust in 2015-2016

- 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 has picked up somewhat despite a slowing in the energy sector. Forecast is for 2.1%. Next year job growth will likely weaken somewhat to about 1.0 to 2.0 percent.

Texas Job Growth Usually Above the Nation's

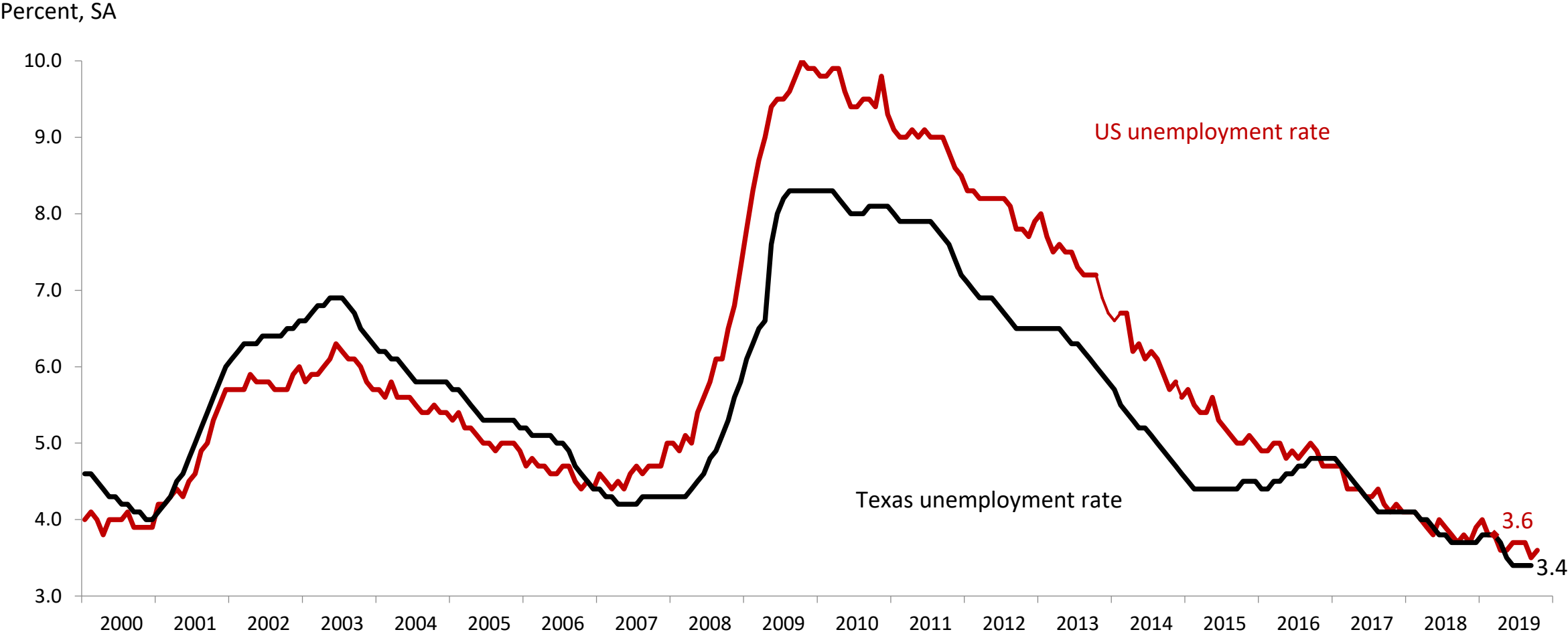
Percent change, year/year, SA



NOTES: Long-run trend growth is 1.1 percent for the U.S. and 2.1 percent for Texas. U.S. data through October 2019 and Texas data through September 2019. Dashed bars are annualized 2019 year-to-date growth.

SOURCES: Bureau of Labor Statistics, Texas Workforce Commission; FRB Dallas.

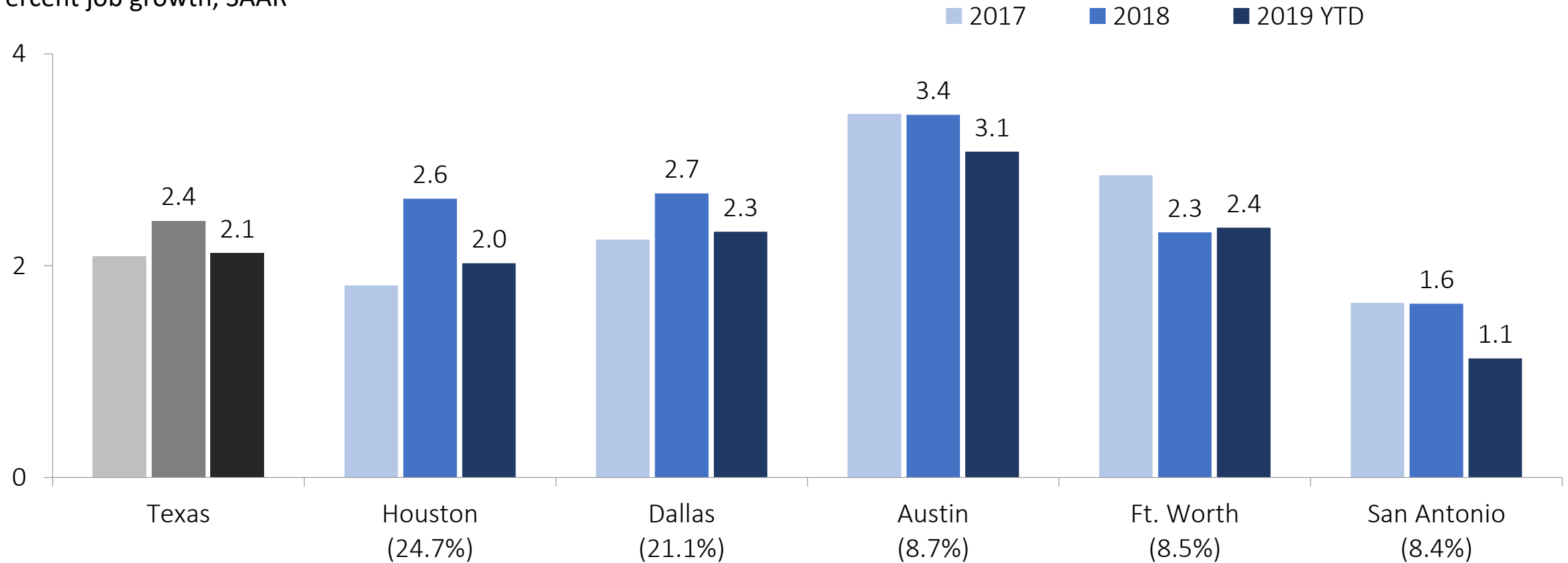
Texas Unemployment Lowest On Record (since 1976)



NOTES: U.S. data through October 2019. Texas data through September 2019.
SOURCE: Bureau of Labor Statistics.

Job Growth Broad-Based Across Regions

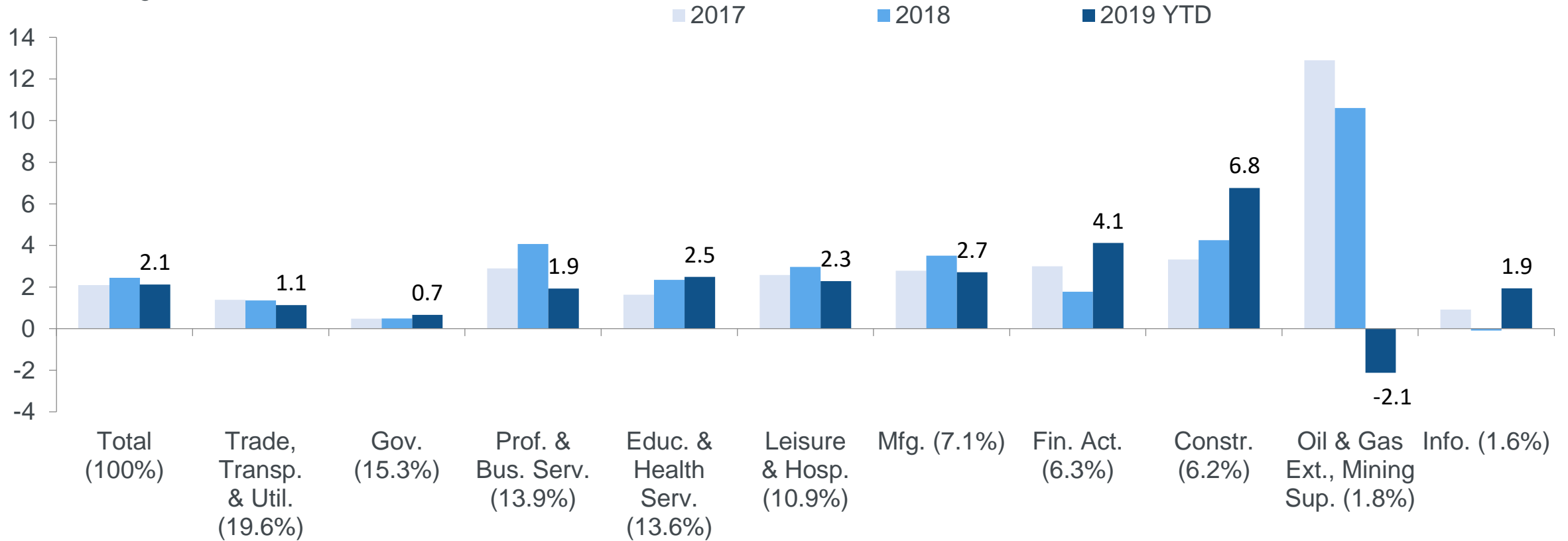
Percent job growth, SAAR



NOTES: Numbers in parentheses refer to the share of Texas employment in the most recent month. 2019 is annualized Sept/Dec.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Dallas Fed.

2019 Job Growth Broad-Based Except Mining

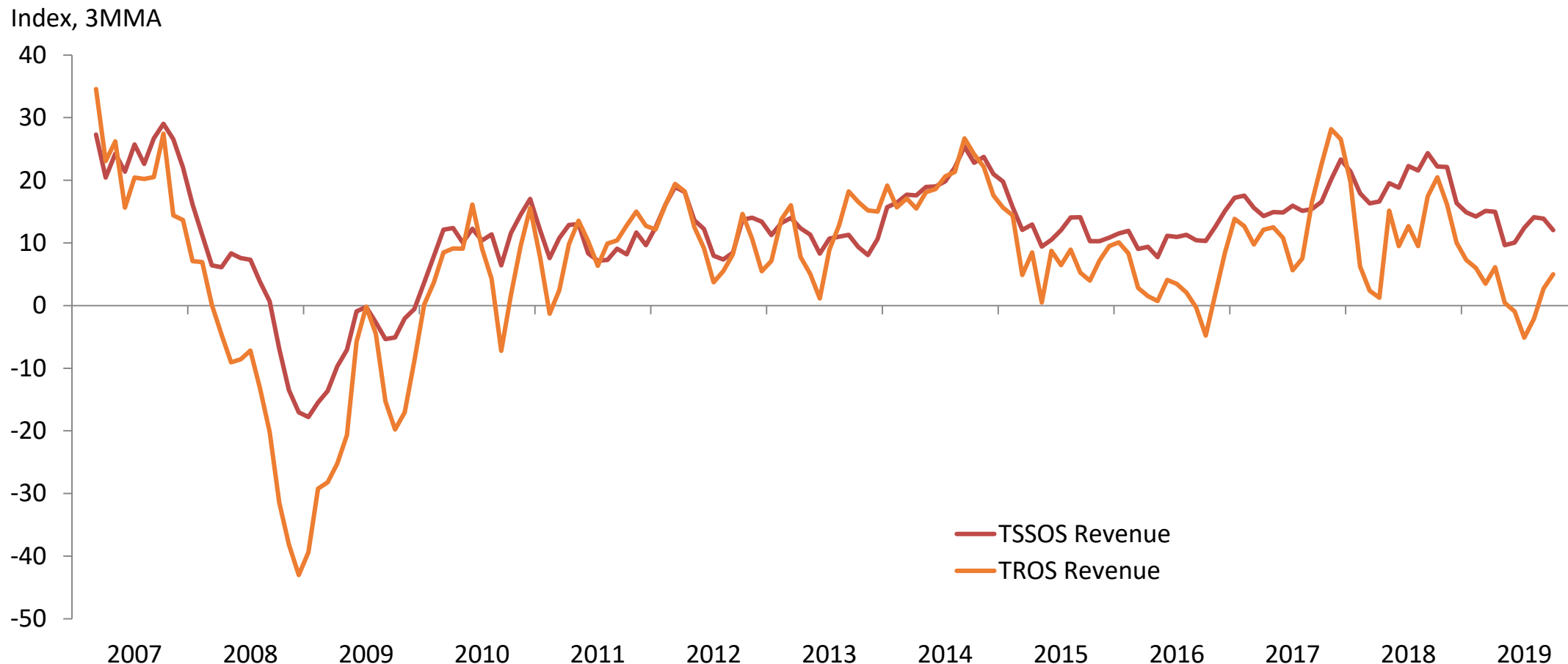
Percent change, SAAR



NOTES: 2019 YTD is Sept./Dec. annualized. Numbers in parentheses are share of Texas employment for most recent month.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.

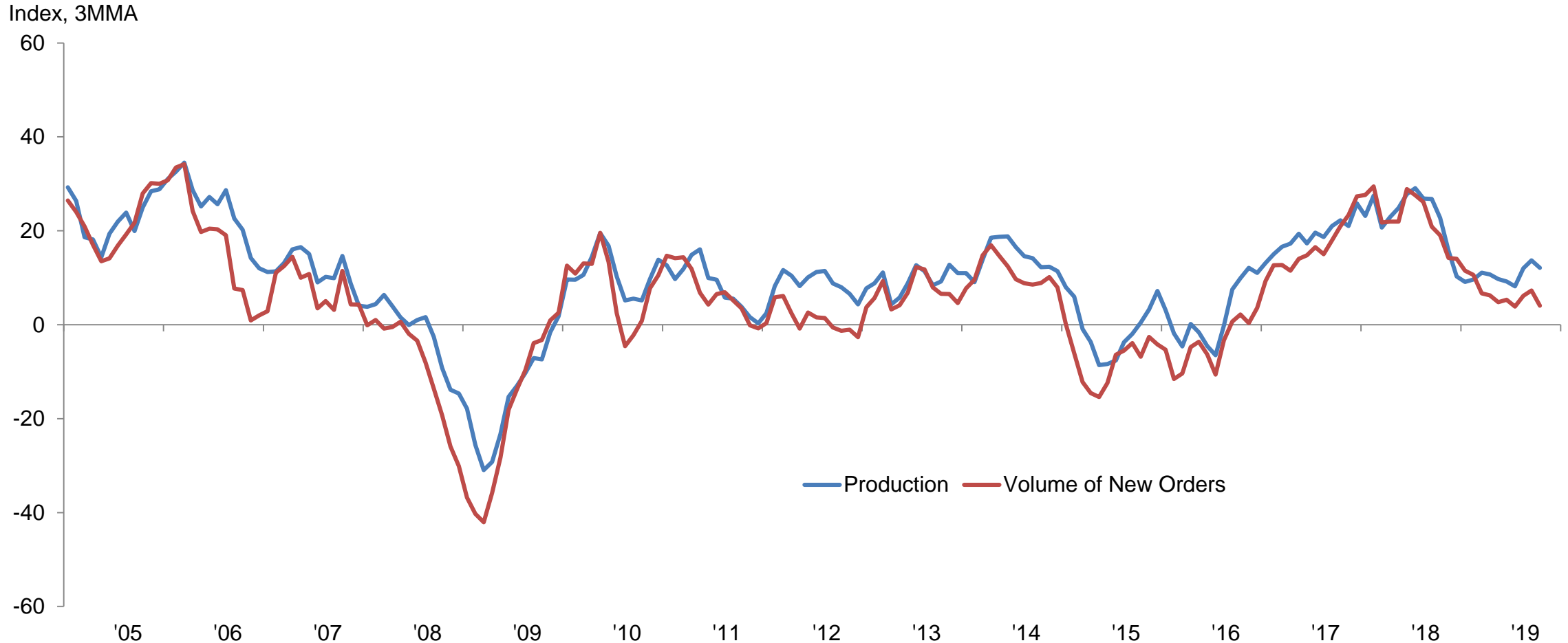
Texas Service Sector Slows While Retail Improving



NOTE: Data are seasonally adjusted. Latest data is October 2019.

SOURCE: Federal Reserve Bank of Dallas Texas Service Sector and Retail Outlook Surveys.

Manufacturing Activity has Slowed This Year

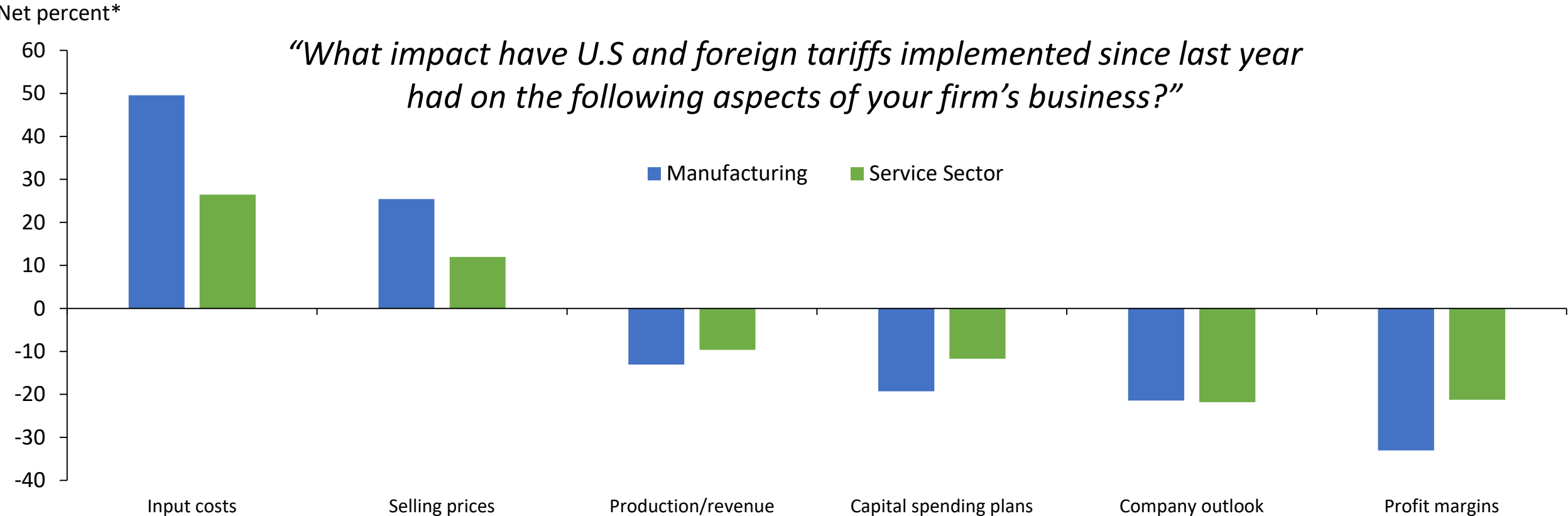


NOTE: Data are seasonally adjusted. Latest data is October 2019.

SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey.

Tariffs Increasing Costs and Prices, Reducing Capex

“What impact have U.S and foreign tariffs implemented since last year had on the following aspects of your firm’s business?”



*Net percent calculated as the share of respondents reporting increase minus the share reporting decrease.

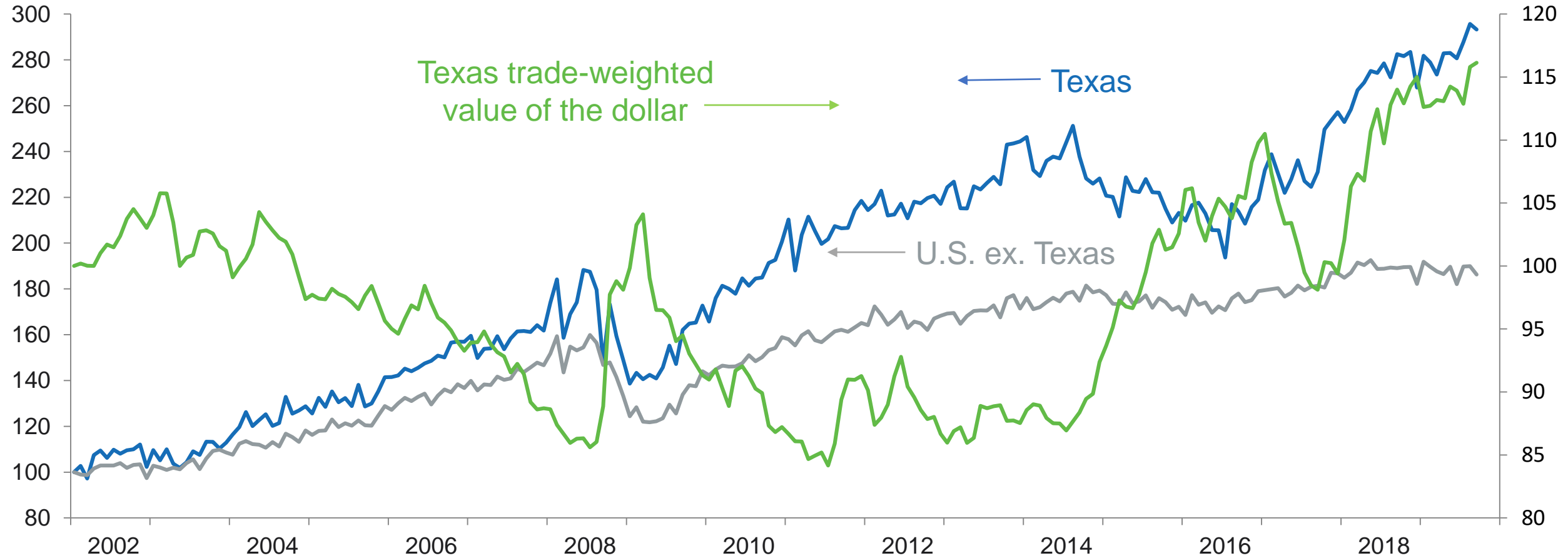
Notes: 360 responses; 115 manufacturing, 245 service sector. Data collected Jun. 11-19, 2019.

Source: Dallas Fed Texas Business Outlook Surveys, June 2019 Special Questions.

State Export Growing Despite Dollar Strength, Tariffs

Index, Jan. 2002=100, SA

Index, Jan. 2002=100, SA

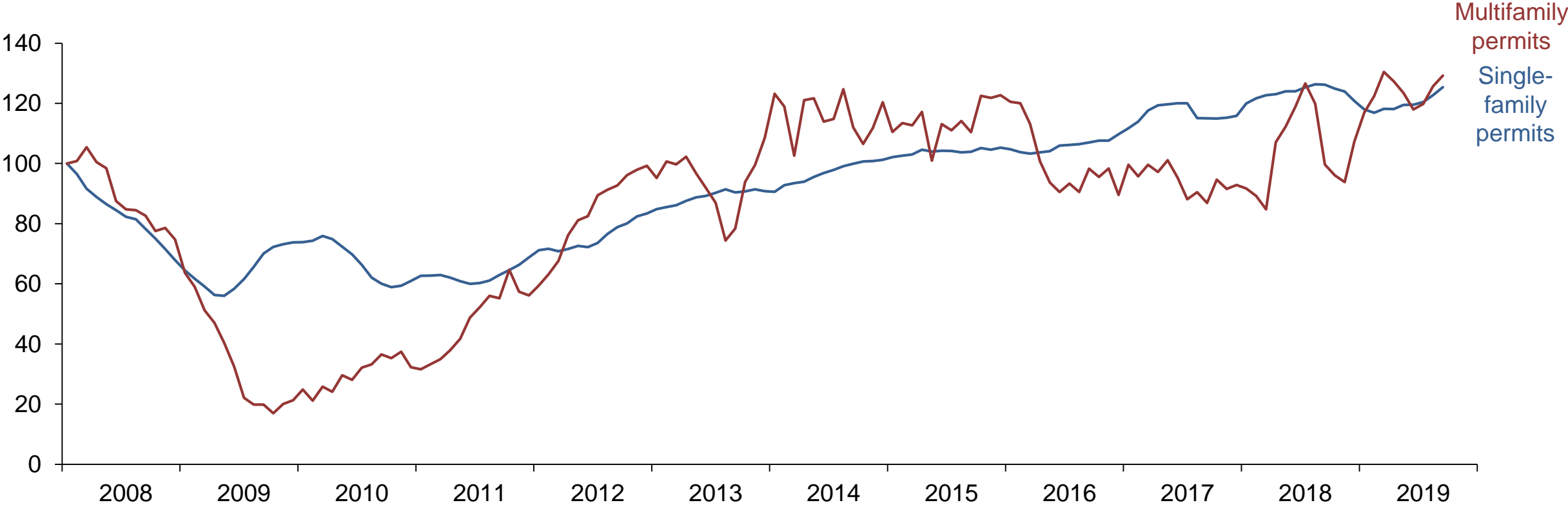


NOTES: Data through Sept. 2019. Exports data in real dollars.

SOURCES: U.S. Census Bureau; Bureau of Labor Statistics.

Recent Home Building Indicators Suggest Continued Growth

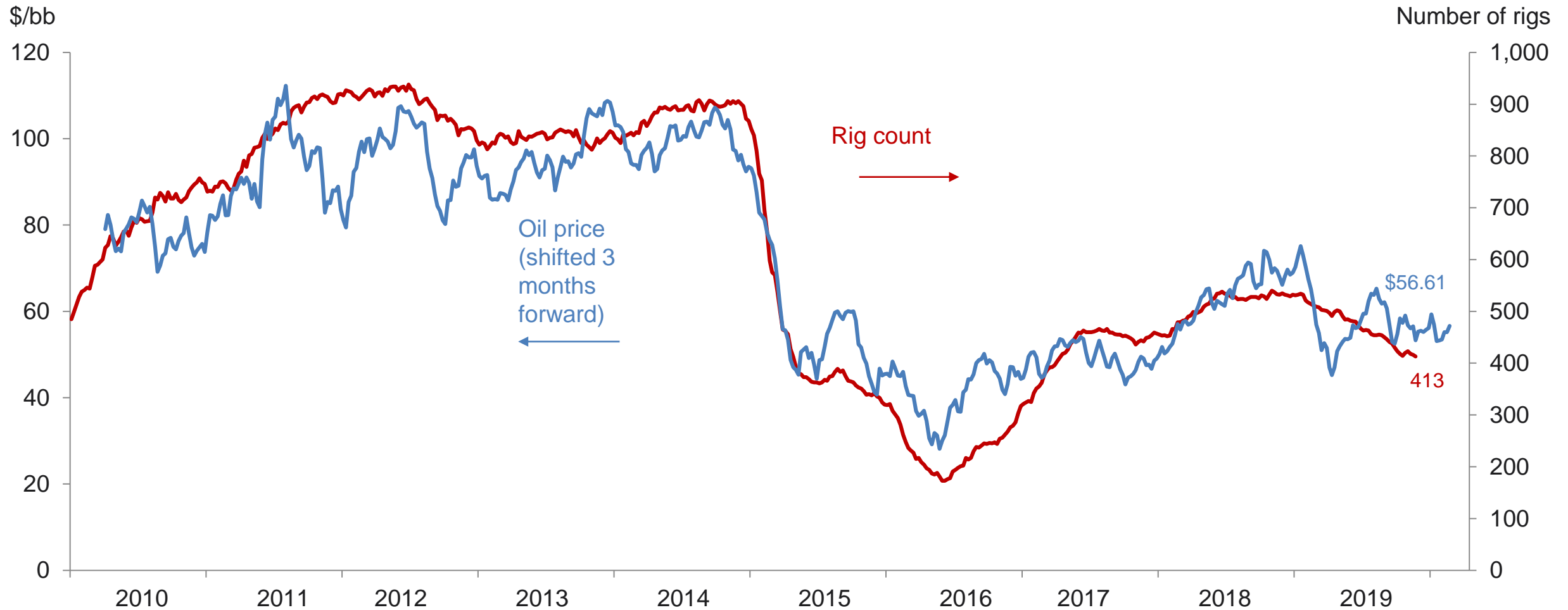
Index, Jan. '08=100, 5MMA, SA



NOTE: Data through September 2019.

SOURCES: Bank of Tokyo-Mitsubishi UFJ; U.S. Census Bureau; seasonal and other adjustments by Federal Reserve Bank of Dallas.

Energy Activity Slowing as Rig Count Weak



NOTE: Data are weekly, through the week ending November 8, 2019.

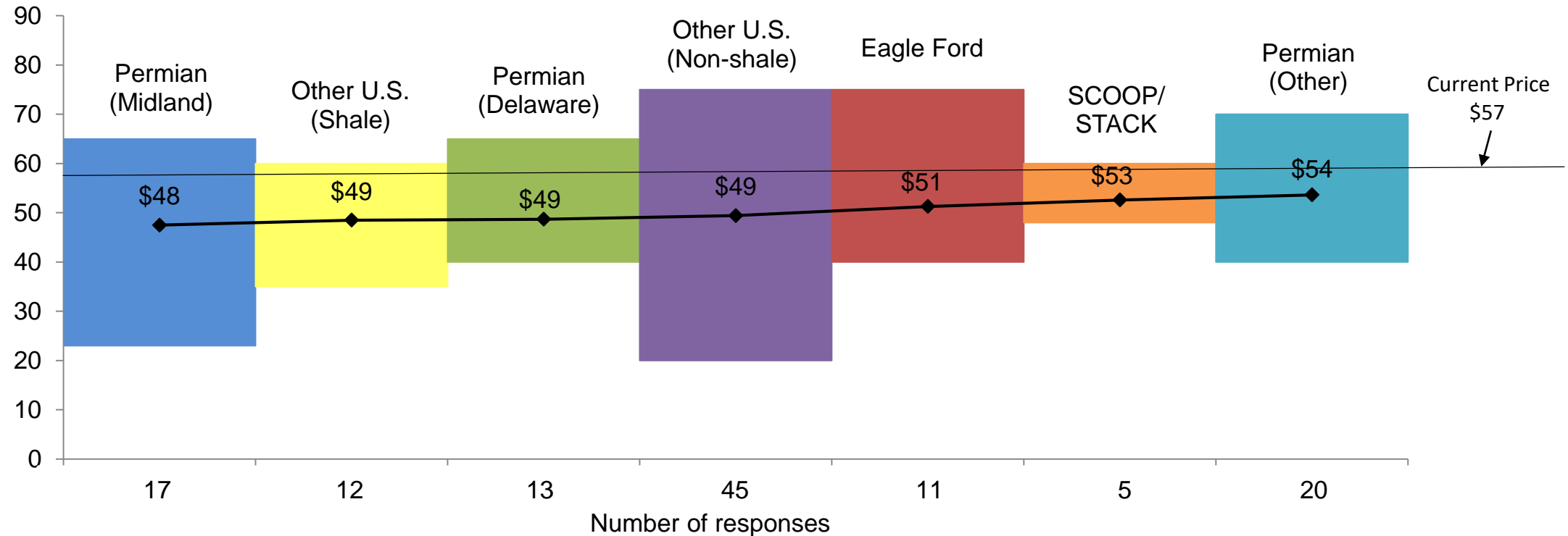
SOURCES: EIA; Baker Hughes.

Current Oil Prices Support Moderate Drilling Activity

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?

Dollars per barrel

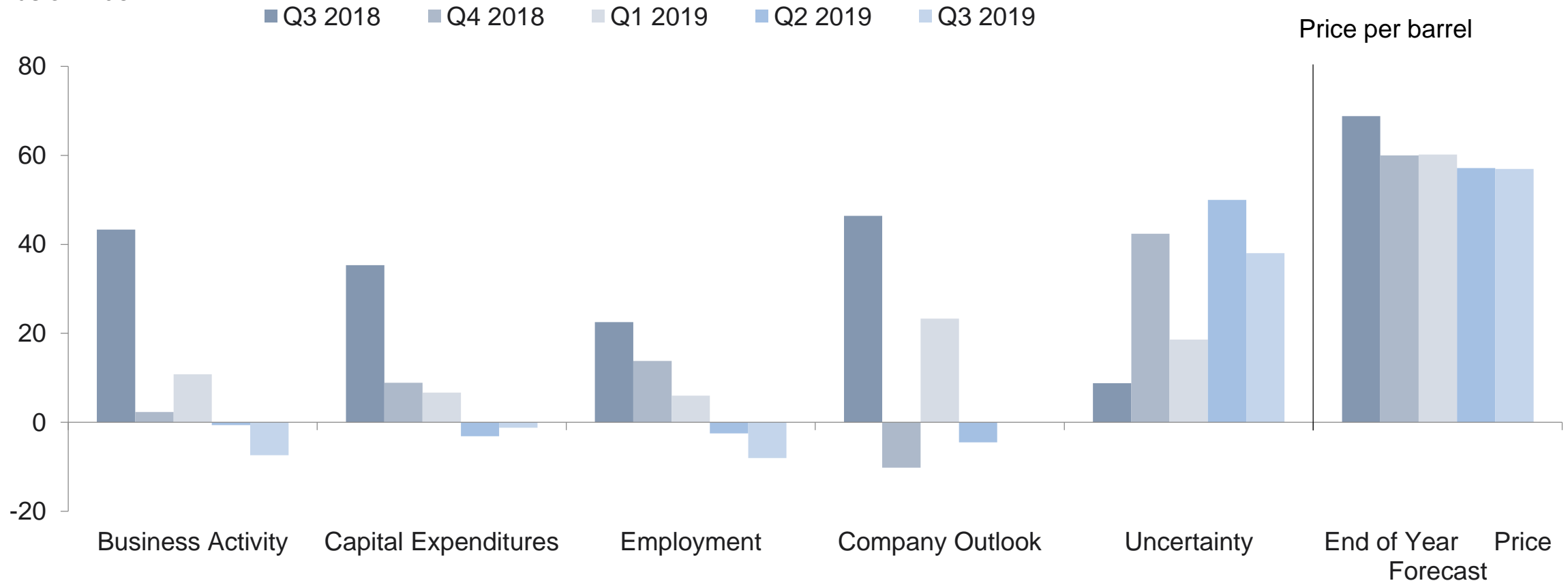


NOTES: Lines show the mean, and bars show the range of responses. Executives from 82 exploration and production firms answered this question during the survey collection period, March 13–21, 2019.

SOURCE: Federal Reserve Bank of Dallas.

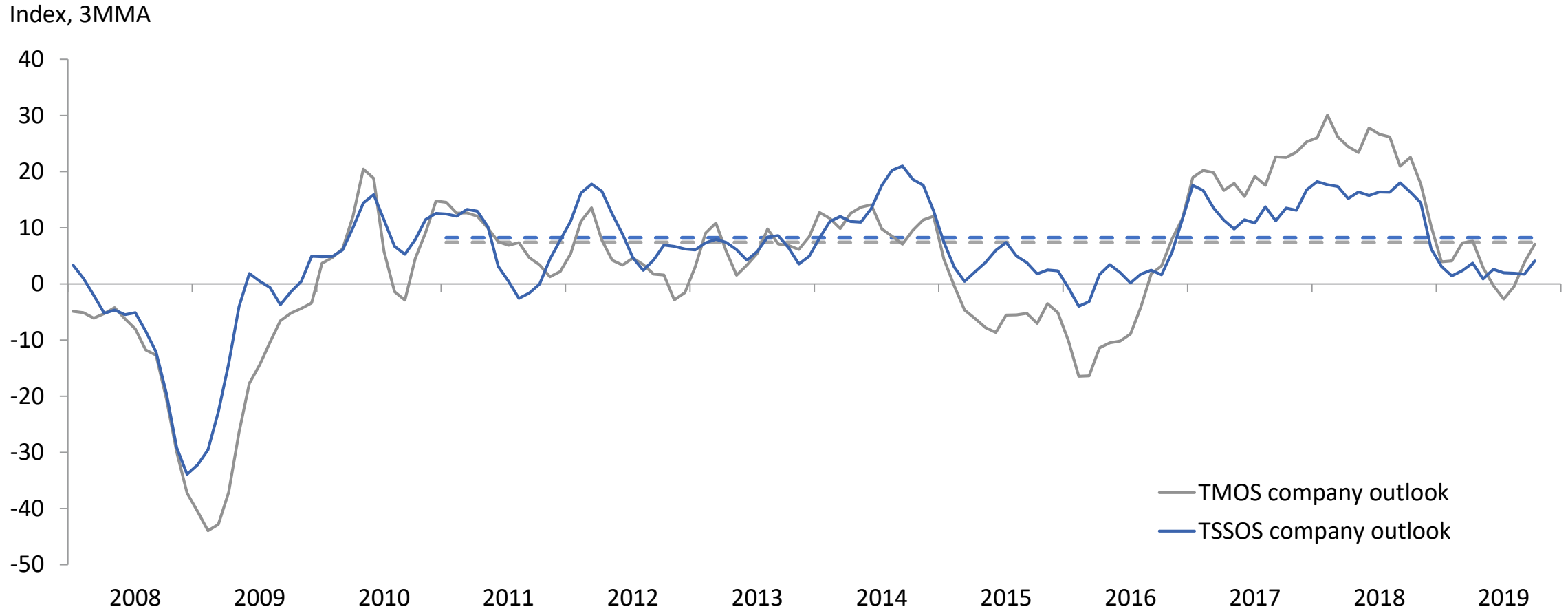
Energy Survey Suggests Continued Weakness

Diffusion index



NOTE: Price forecast is average year-end forecast of WTI oil price among respondents.
 SOURCE: Federal Reserve Bank of Dallas Energy Survey.

Outlooks Recently Improve in Manufacturing and Services

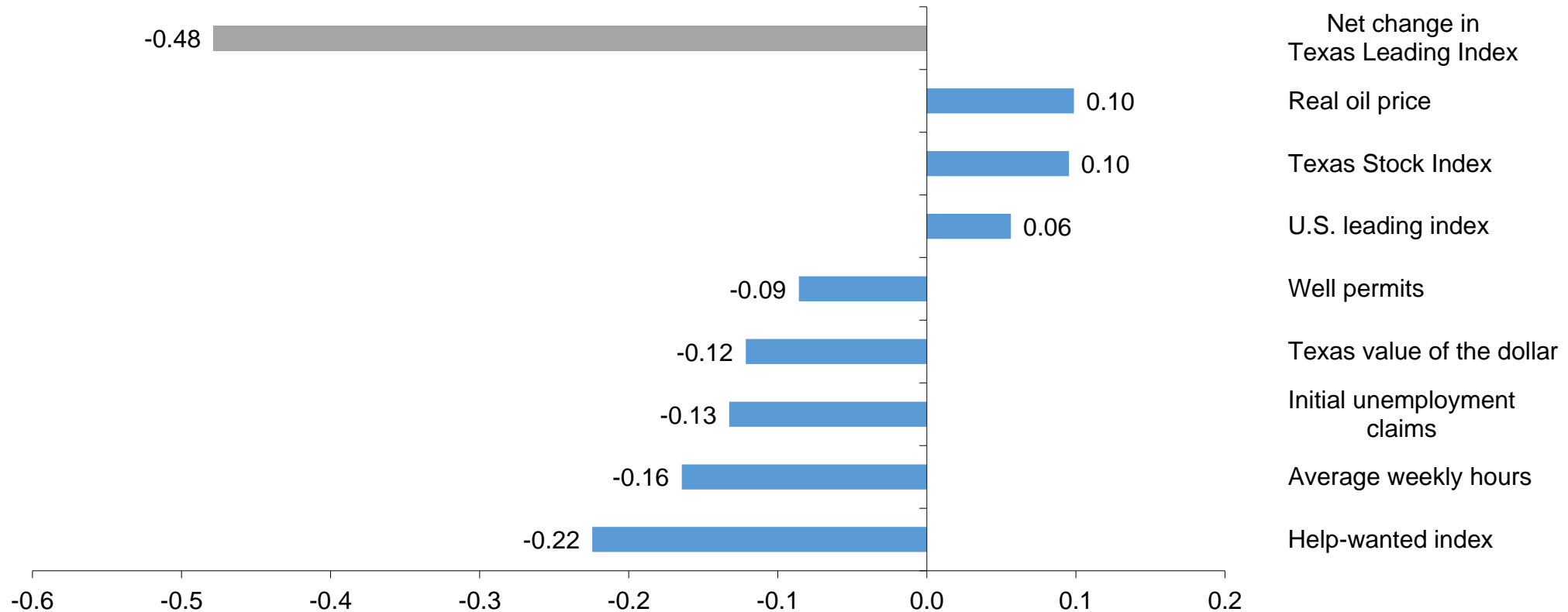


NOTES: Data through October 2019. Dashed lines are post recession averages.

SOURCES: Federal Reserve Bank of Dallas Outlook Surveys: Manufacturing (TMOs); Service Sector (TSSOS).

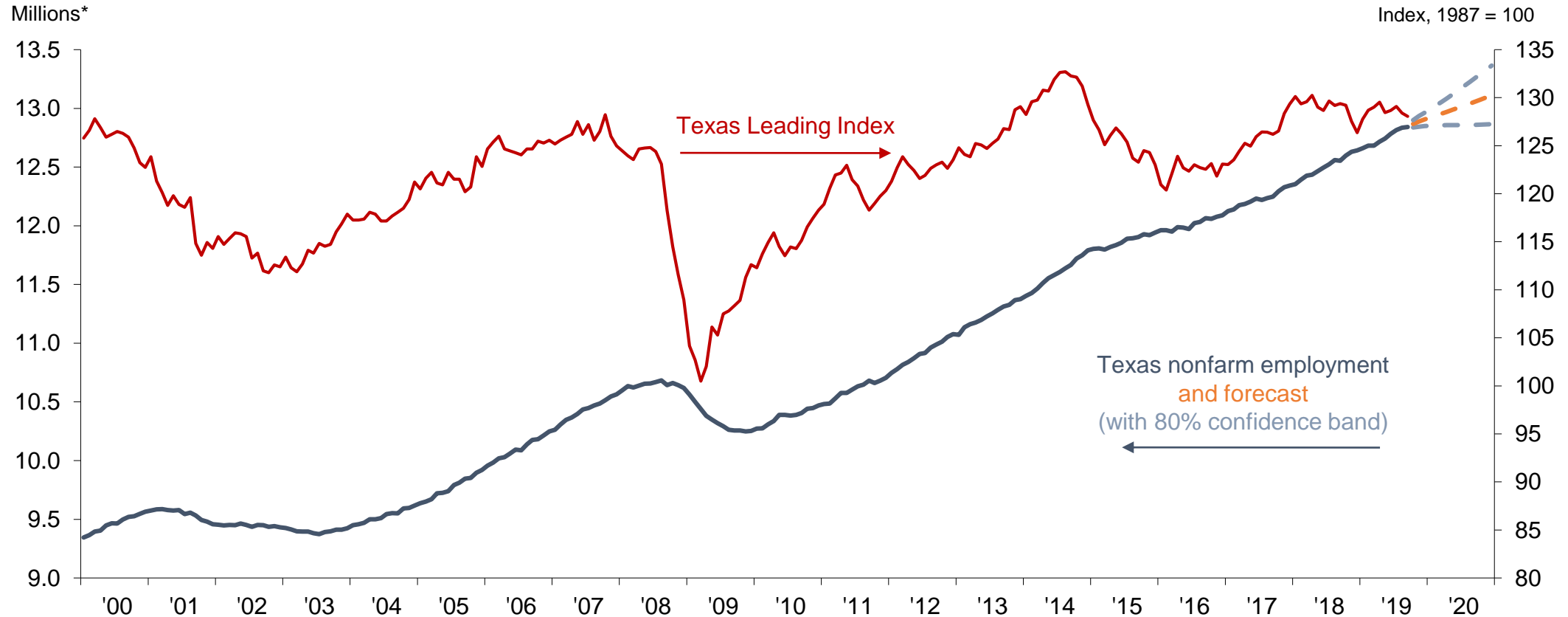
TX Leading Index Components Mixed Over Past 3 Months

Net contributions to change in Texas Leading Index



NOTE: Three-month percent change through September, seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas.

Texas Jobs Forecast to Grow about 2.1% in 2019, 1.0% to 2.0% in 2020



*Seasonally adjusted.
 SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; Federal Reserve Bank of Dallas.

Summary

- National economy slowing some this year but remains above trend – yield curve still suggests increased recession risk in 2020
- Texas even stronger than nation but energy sector is slowing from very strong growth in 2018
- Historically tight labor markets continue to restrain job growth
- Texas grew 2.4 percent in 2018 and will likely grow about 2.1 percent this year and 1.0 to 2.0 percent in 2020 – with greater downside than upside risks
- Texas unemployment rate likely to remain low
- Biggest risks to forecast is sharp decline in oil prices, trade war escalation, national recession

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](#)
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