

# ITEXAS Economic Outlook

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## Facing Uncertain Waters

January 15, 2019

SAN ANTONIO BRANCH



Federal Reserve  
Bank of Dallas

A photograph of a kayaker on a river, overlaid with a semi-transparent orange filter. The kayaker is in the upper right quadrant, paddling. The text is centered in the middle of the image, flanked by two horizontal lines.

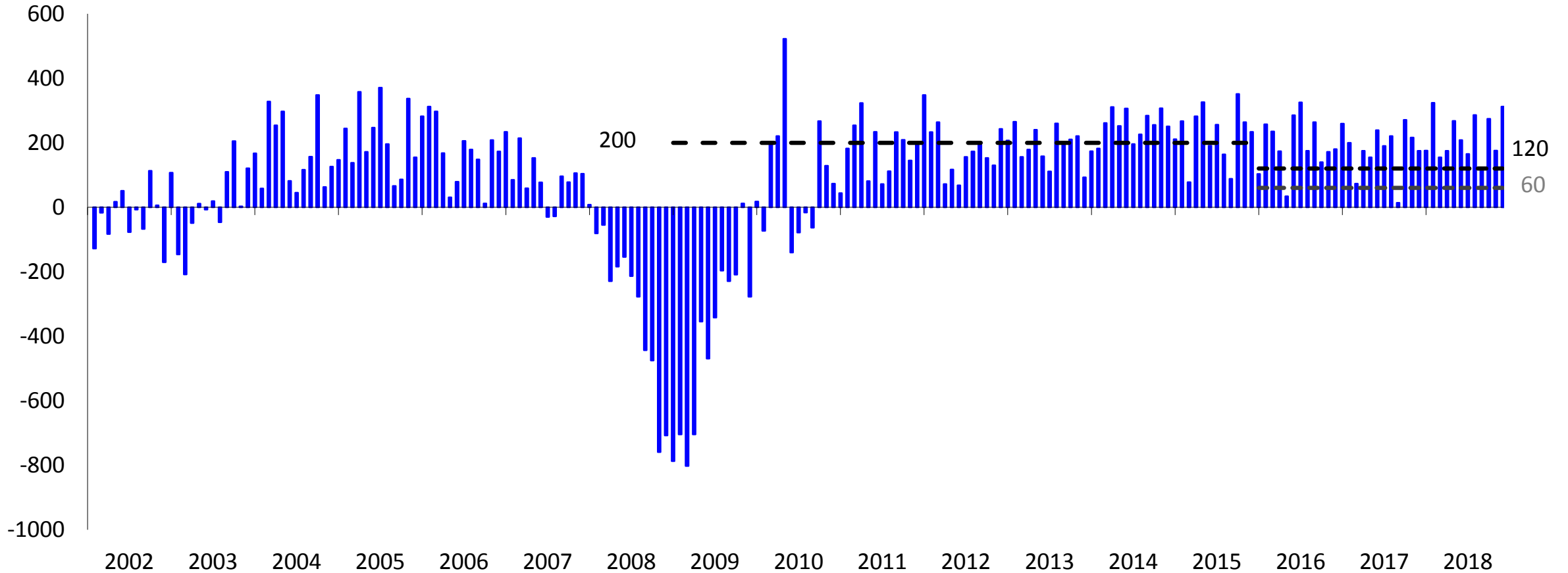
*The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.*

# 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.

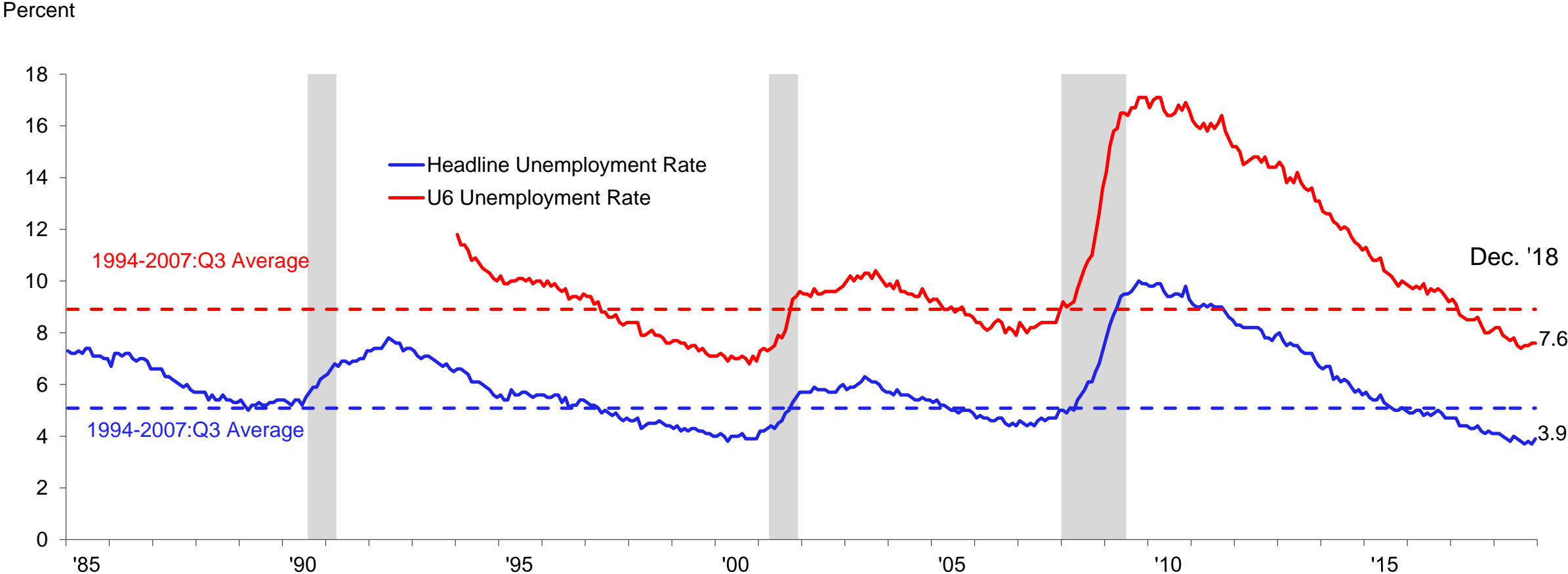
# Job Growth Averaged 215k in 2018

Thousands, SA



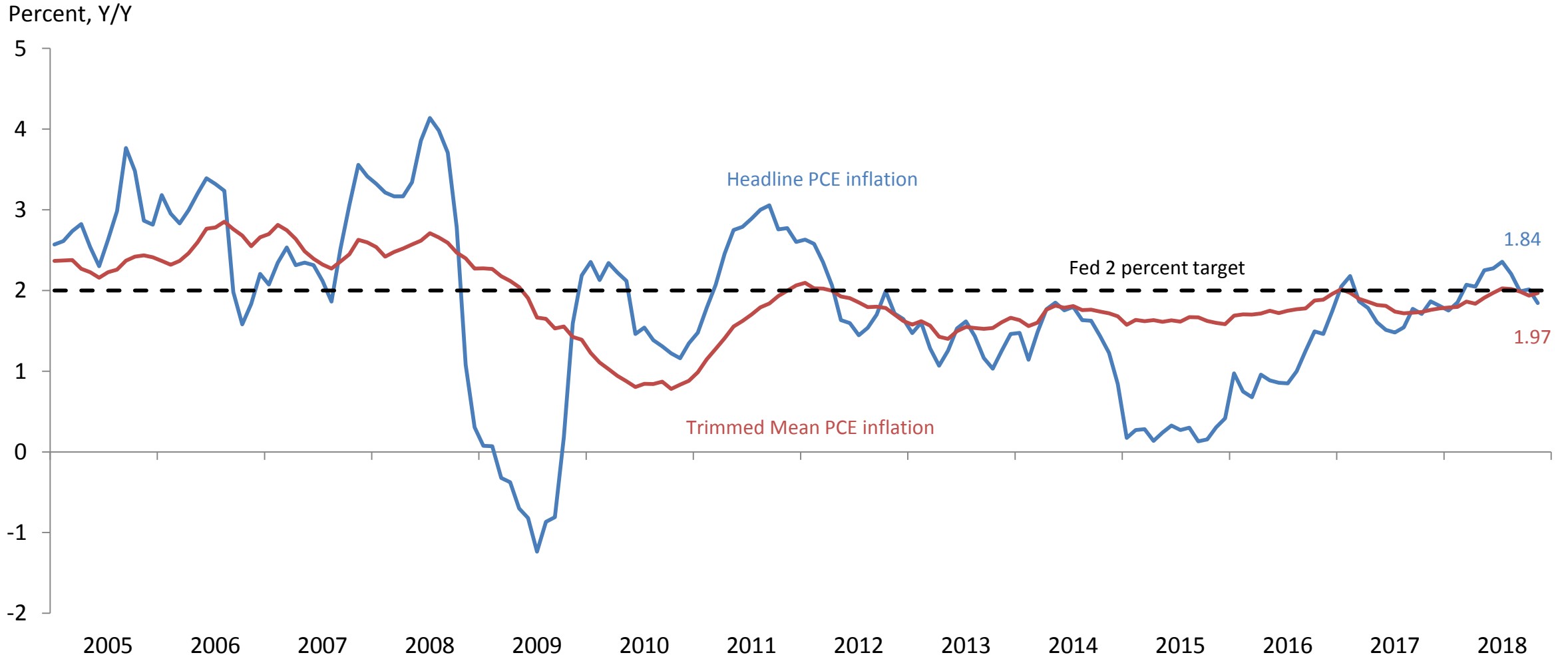
SOURCE: Bureau of Labor Statistics

# 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.

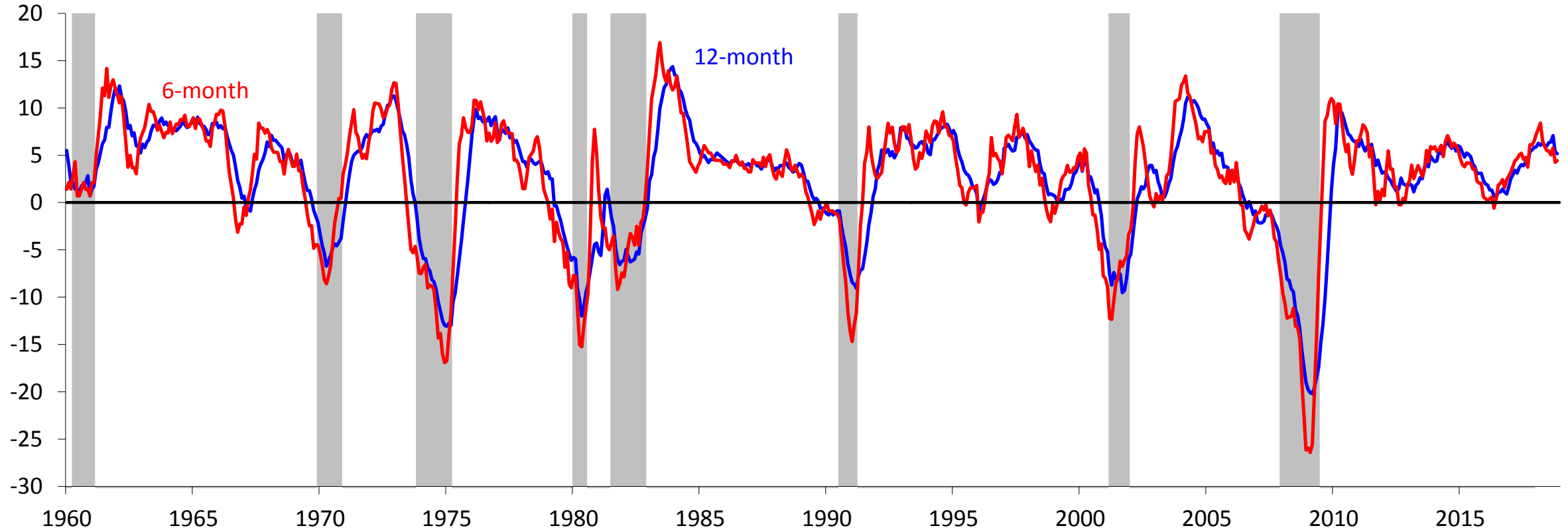
# Inflation Measures Near 2 Percent Goal



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

# U.S. Leading Index Suggests Continued Growth in National Economy over next 3-6 Months

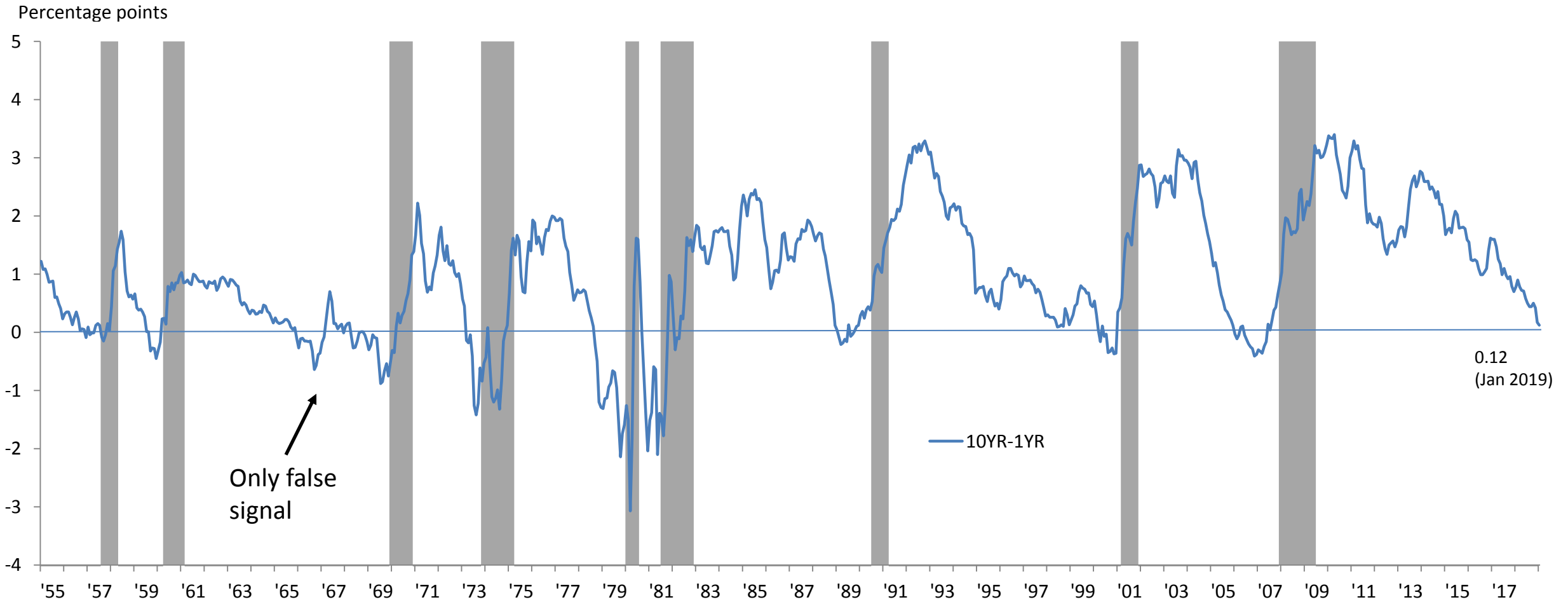
Percent change, annualized



NOTE: Shaded areas represent U.S. recessions.

SOURCES: Conference Board, Federal Reserve Bank of Dallas.

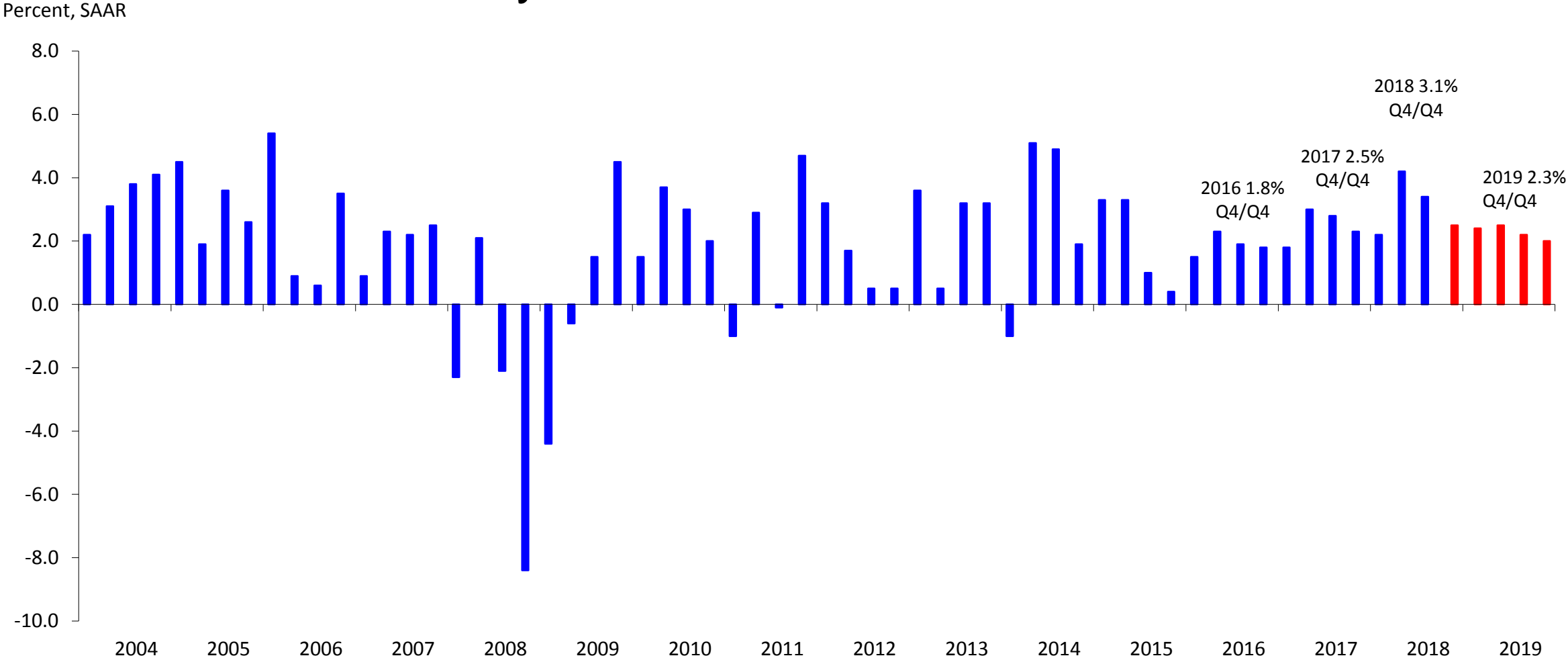
# 10-yr./1-yr. Yield Spread Suggests Low Probability of Recession – but Probability Would Spike with Negative Value



SOURCE: Federal Reserve Board.



# GDP Will Likely Slow to a More Moderate Pace in 2019

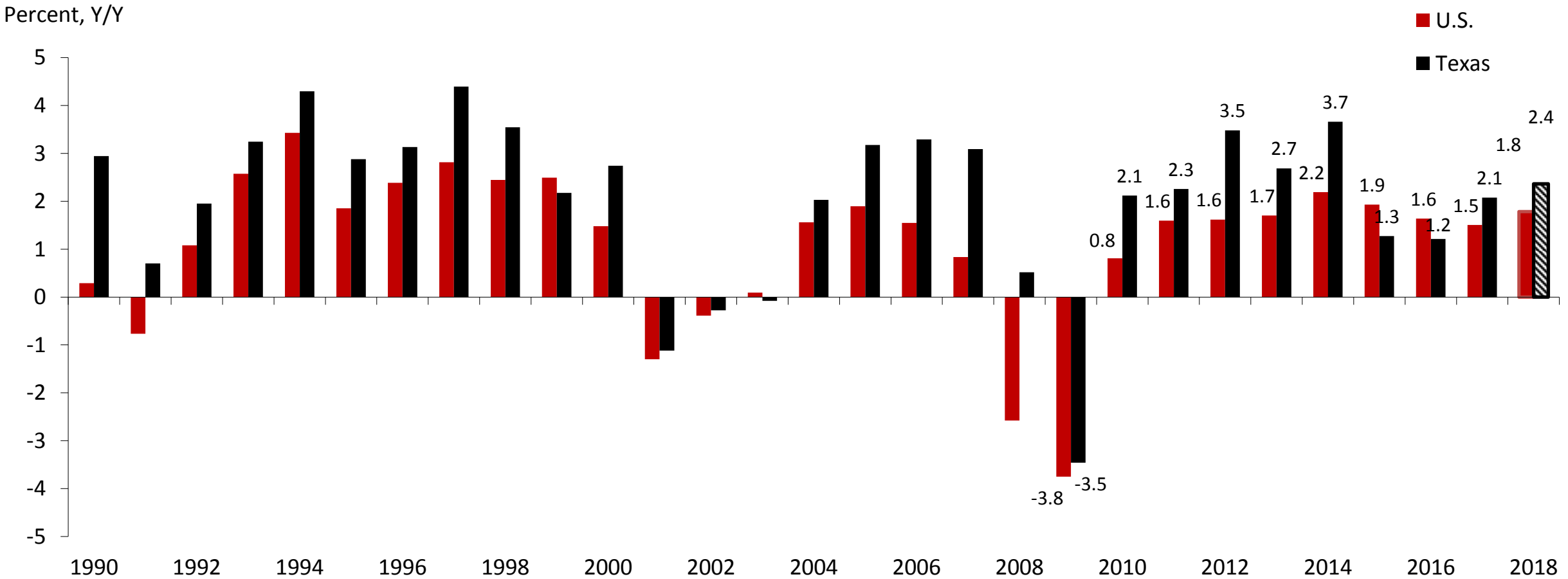


SOURCES: Bureau of Economic Analysis; Blue Chip Economic Indicators.

# Texas Economy Accelerated in 2018

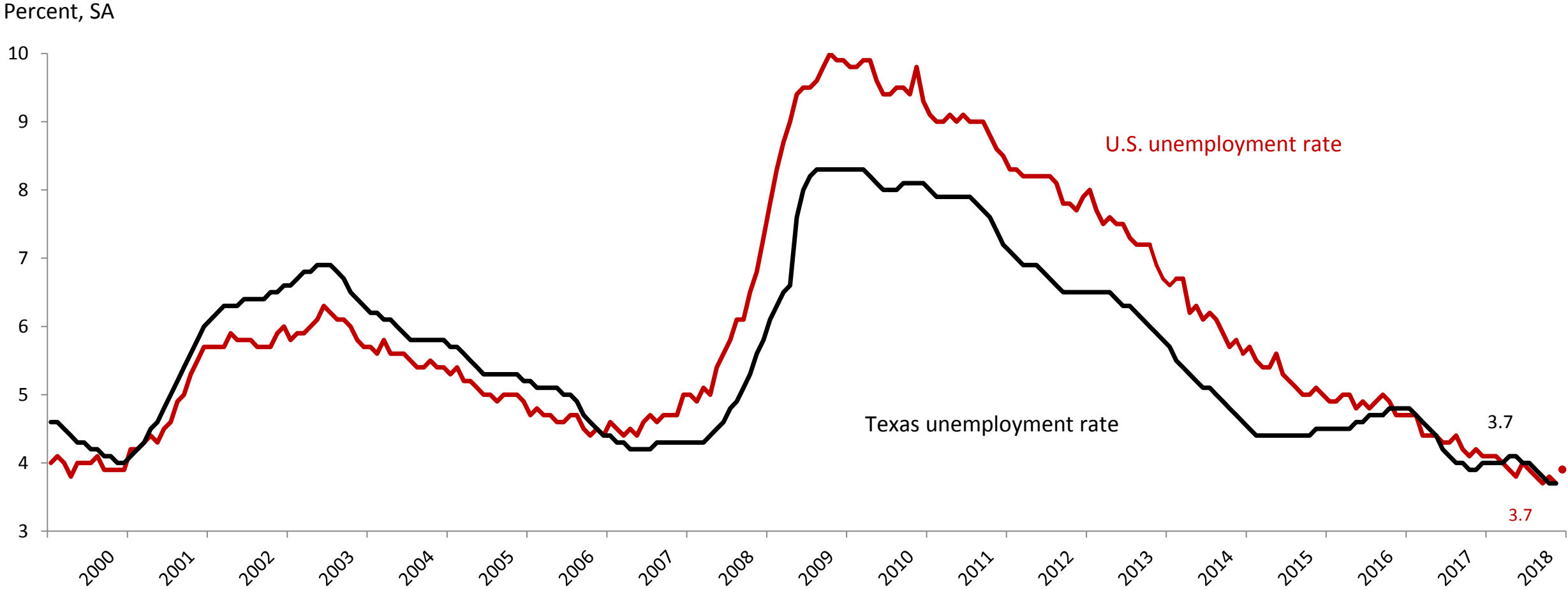
- In 2015 and 2016, low oil prices and strong dollar reduced job growth – but Texas did better than other energy states.
- In 2017, energy and manufacturing sectors began to recover and overall job growth picked up from about 1.3 percent to 2.1 percent.
- Last year, goods-producing sectors accelerated 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



NOTE: Shaded bar represent seasonally adjusted, annualized growth from Dec. 2017 to Nov. 2018.  
 SOURCES: Bureau of Labor Statistics, Federal Reserve Bank of Dallas

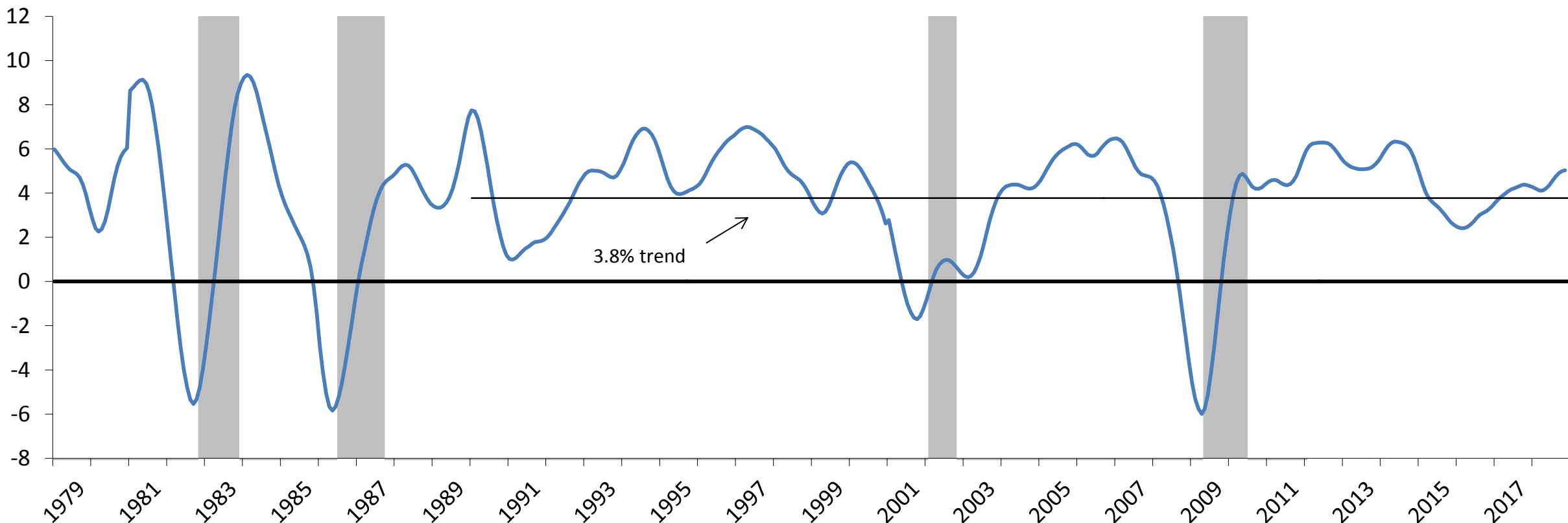
# Texas Unemployment Rate at Lowest Level Since 1970s



NOTE: U.S. data through December 2018, Texas data through November 2018.  
SOURCE: Bureau of Labor Statistics.

# Texas Economy Expanding Above Trend After Weakness in 2015 and 2016 (Texas Business-Cycle Index)

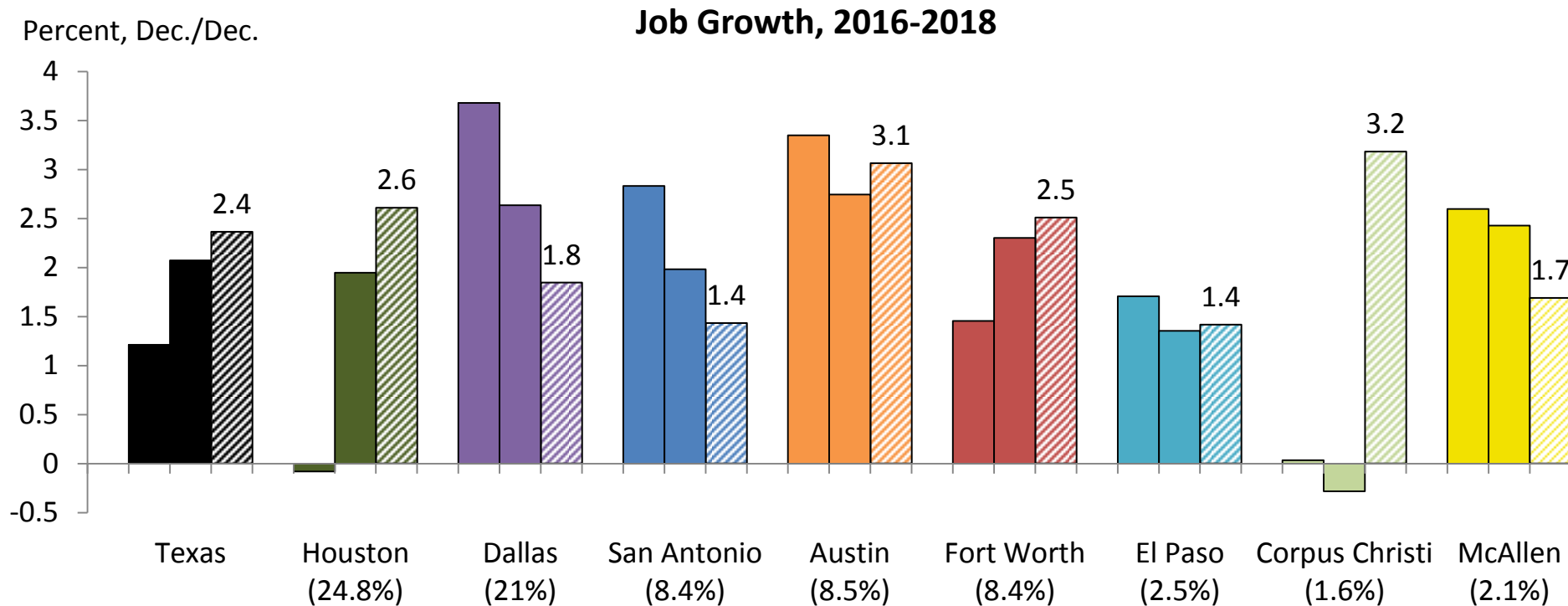
Percent, M/M SAAR



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

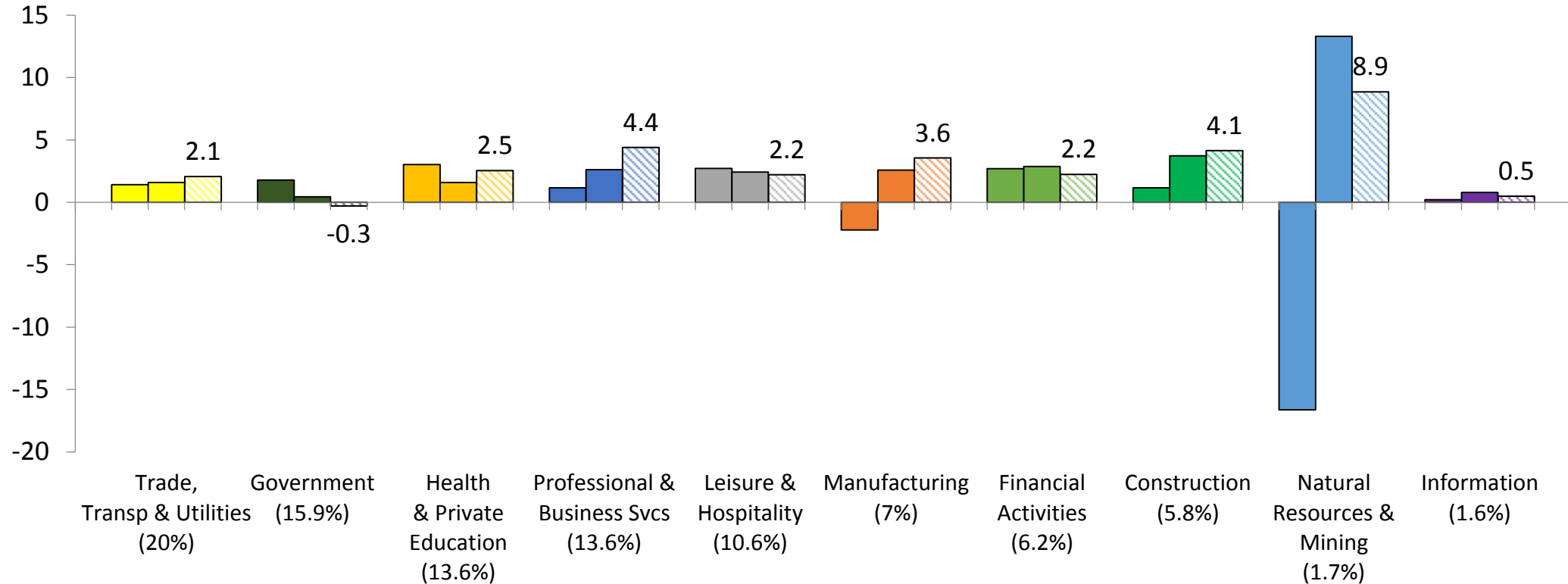


NOTES: Shaded bars represent seasonally adjusted, annualized growth from Dec. 2017 to Nov. 2018. Figures in parentheses represent shares of total state employment.

SOURCES: Bureau of Labor Statistics, Federal Reserve Bank of Dallas.

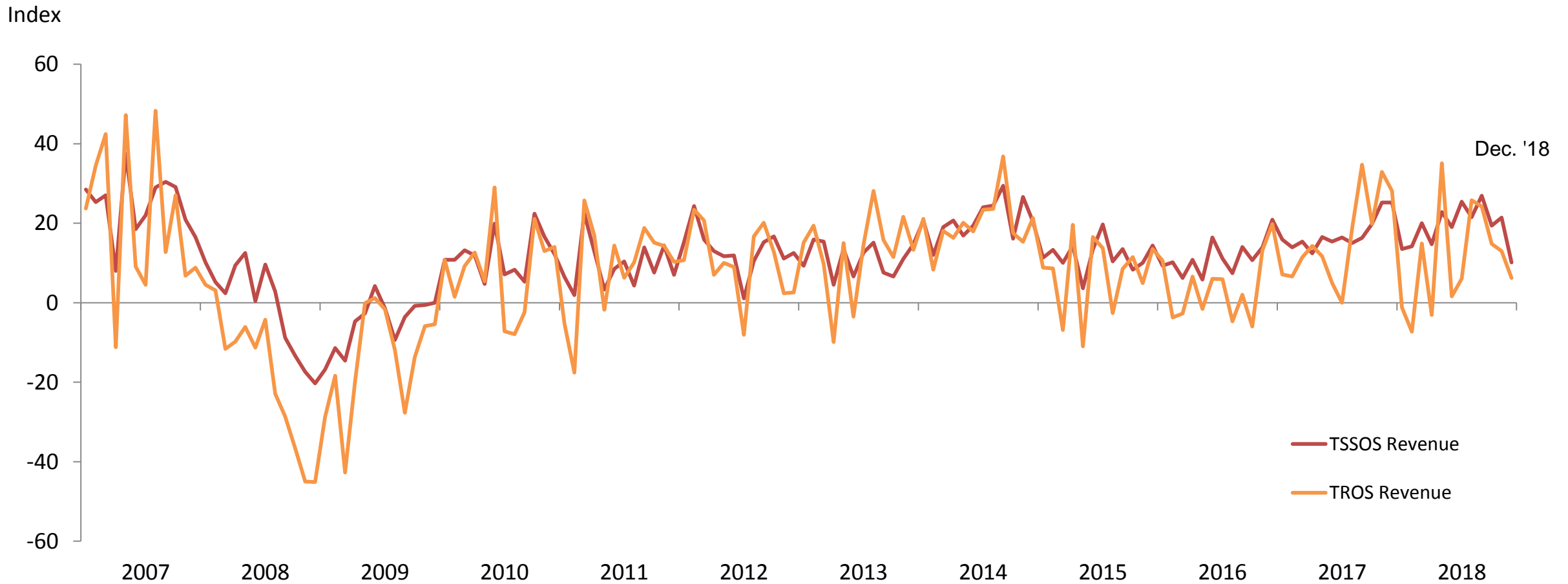
# 2018 Job Growth Broad Based Across Industries

Percent, Dec./Dec.



NOTE: Striped bars are annualized growth Nov. 2018/Dec. 2017. Figures in parentheses represent shares of total nonfarm employment.  
 SOURCES: Bureau of Labor Statistics, adjustments by Federal Reserve Bank of Dallas.

# Texas Service Sector Strong but Weakened at End of Year

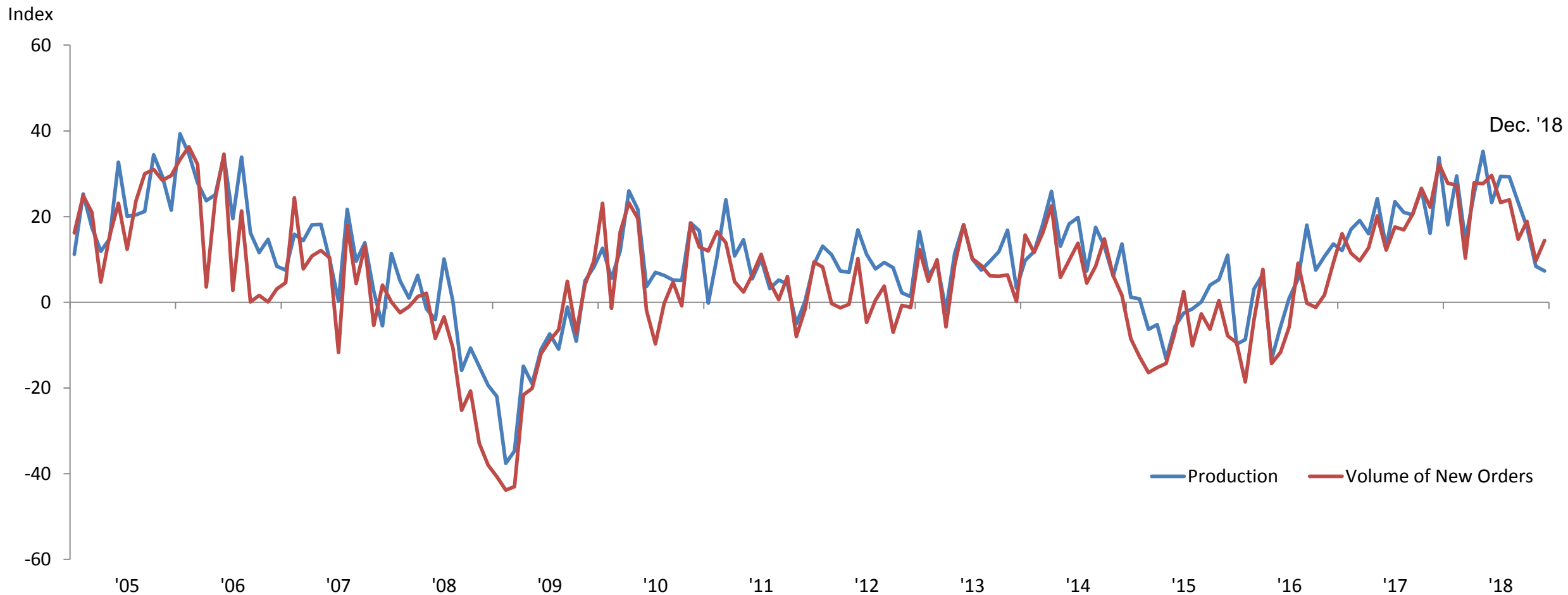


NOTE: Seasonally adjusted.

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



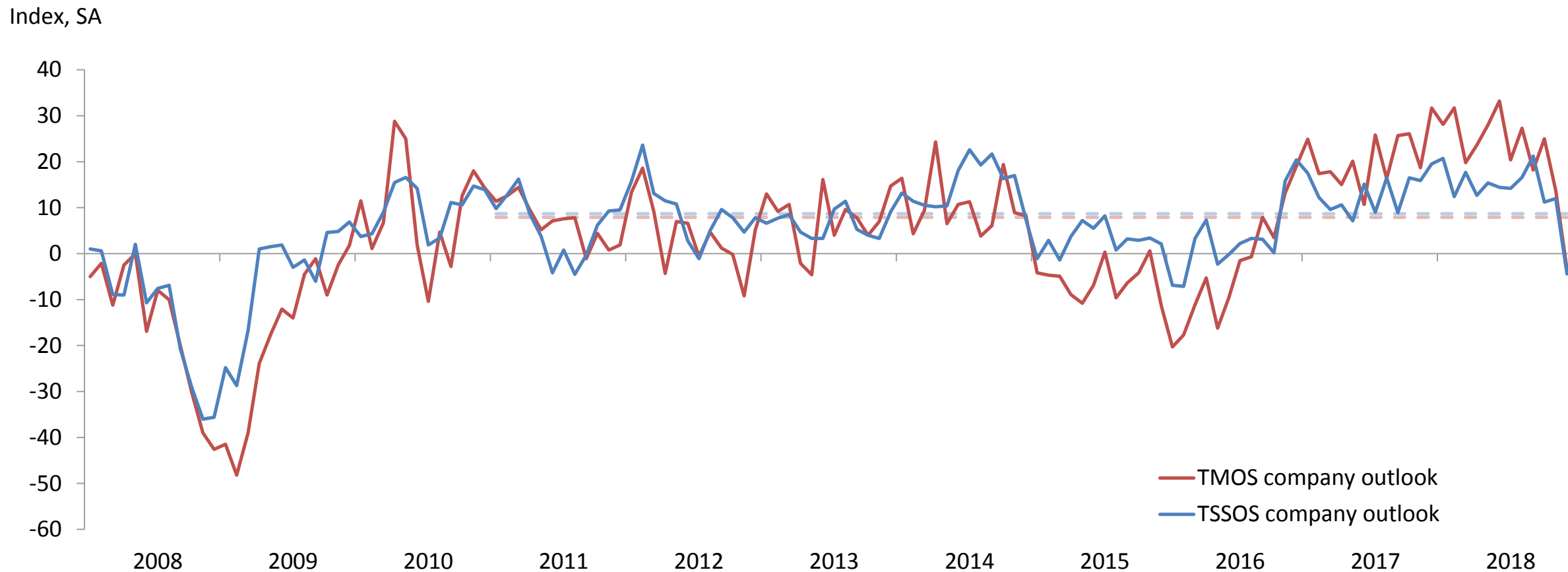
# Manufacturing Activity Slowing From Strong Pace



NOTE: Data are seasonally adjusted.

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

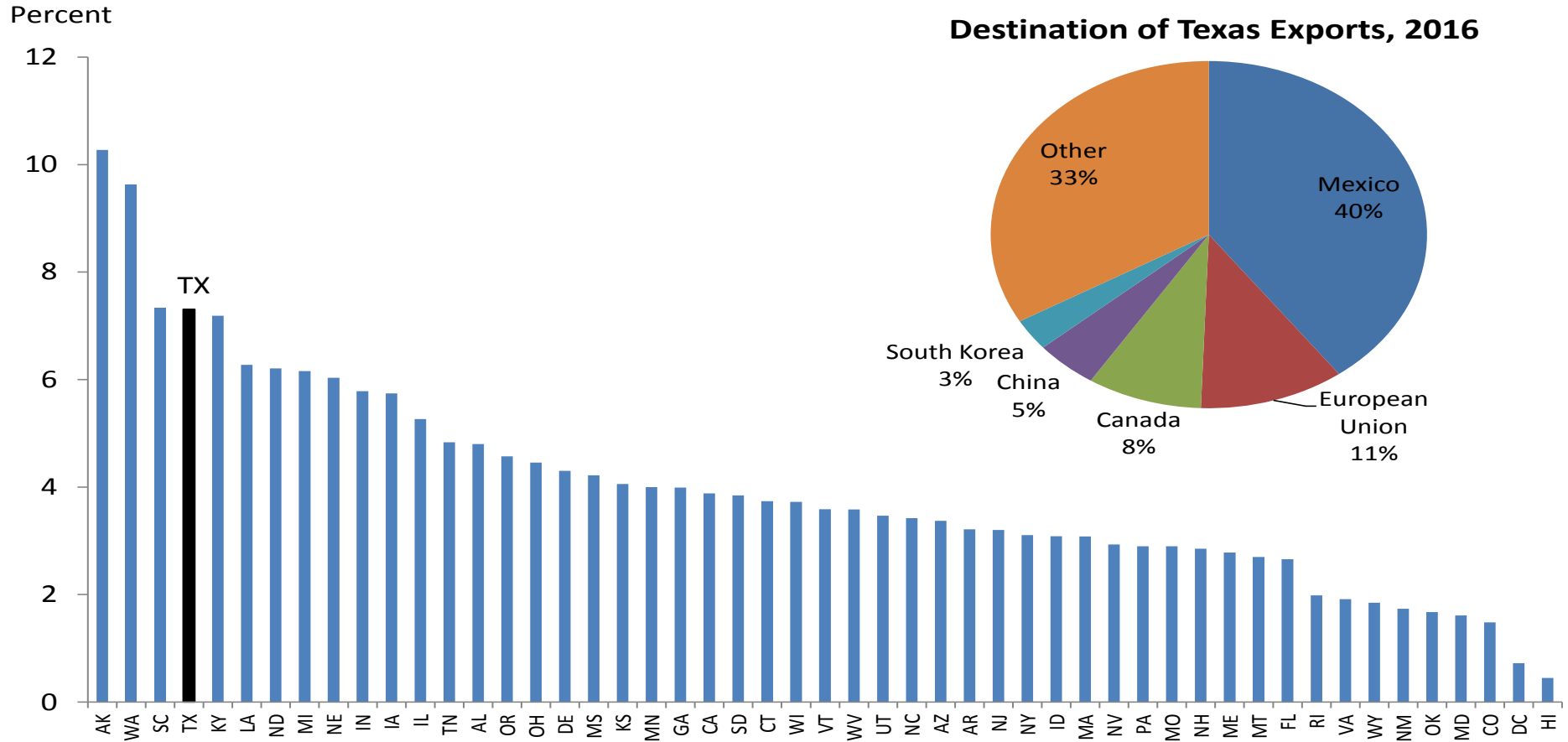
# Survey Outlooks Weakened Sharply in December



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

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

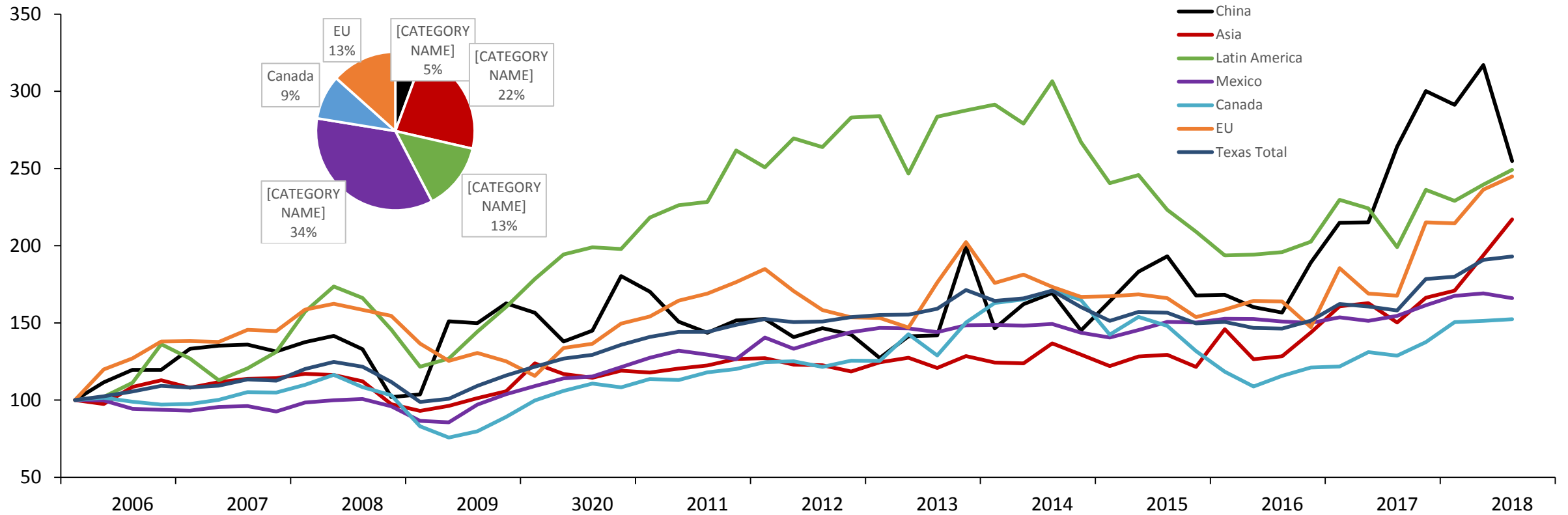
# Share of Texas Jobs Tied To Exports 4th Highest Among States



SOURCES: International Trade Administration; WISERtrade; Bureau of Economic Analysis.

# Texas Exports to China Declining

Index, 2006 Q1 = 100

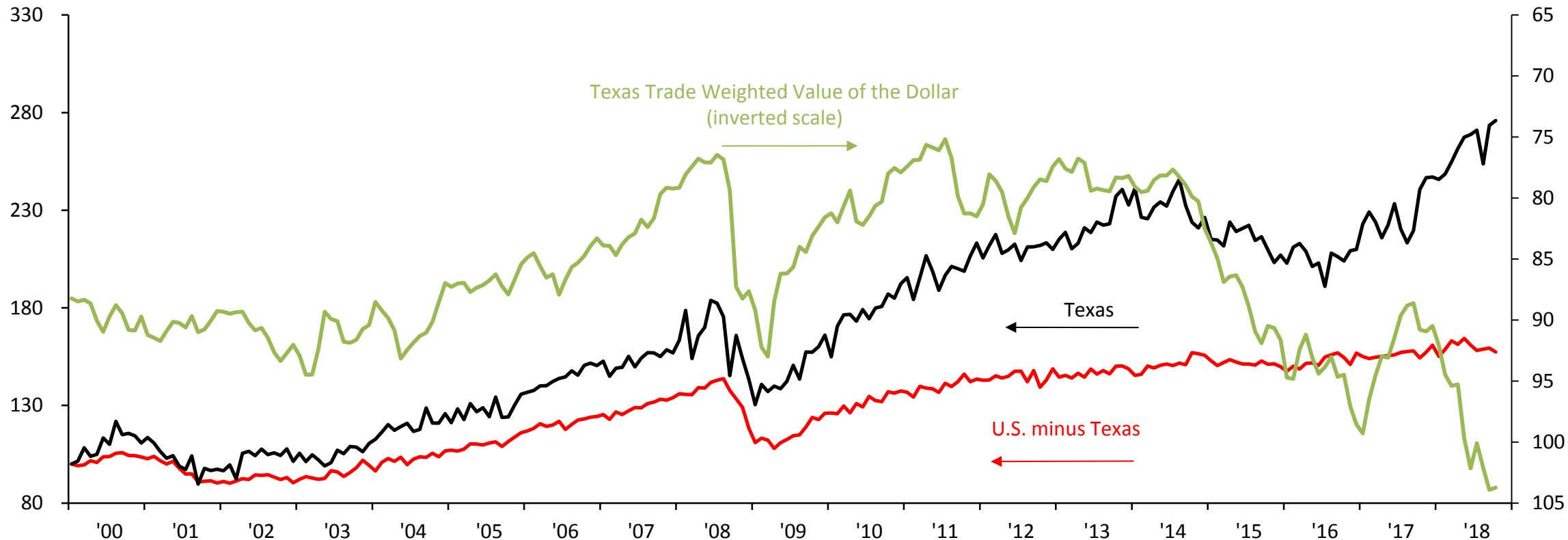


SOURCE: Federal Reserve Bank of Dallas

# State Exports Continue to Expand Despite Strong Dollar

Index, SA, Real  
Jan. 2000=100

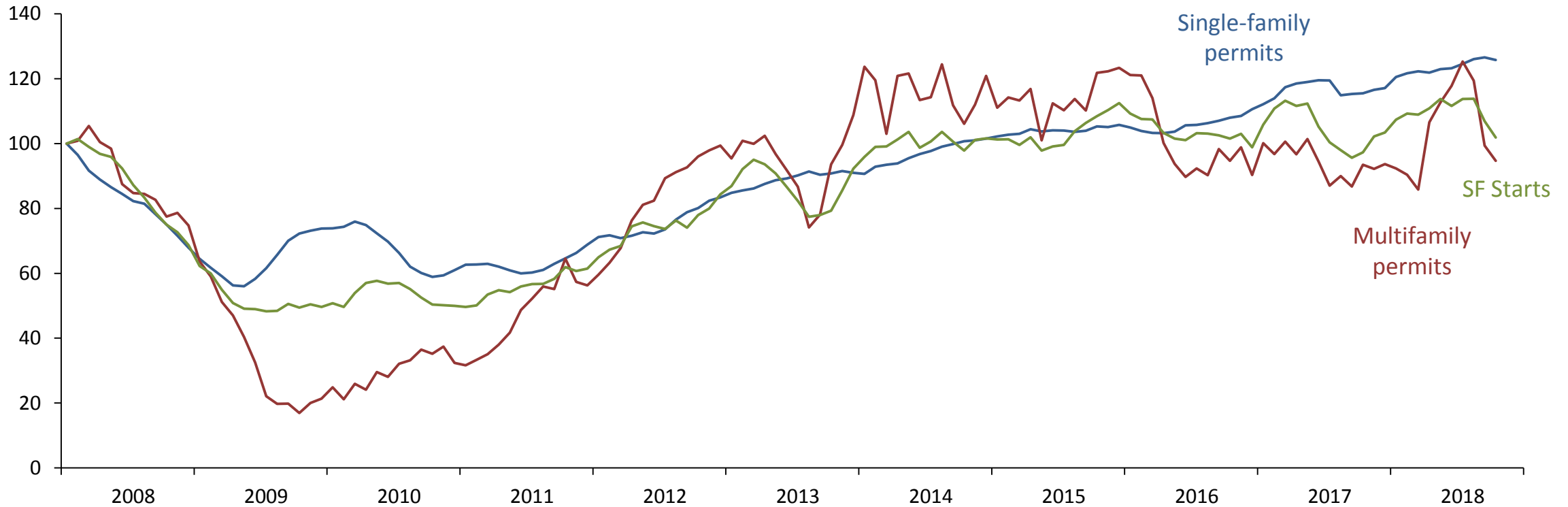
Index  
Jan. 1988=100



SOURCES: U.S. Census; Bureau of Labor Statistics; WISERtrade; Federal Reserve Bank of Dallas.

# Residential Housing Leading Indicators Declining

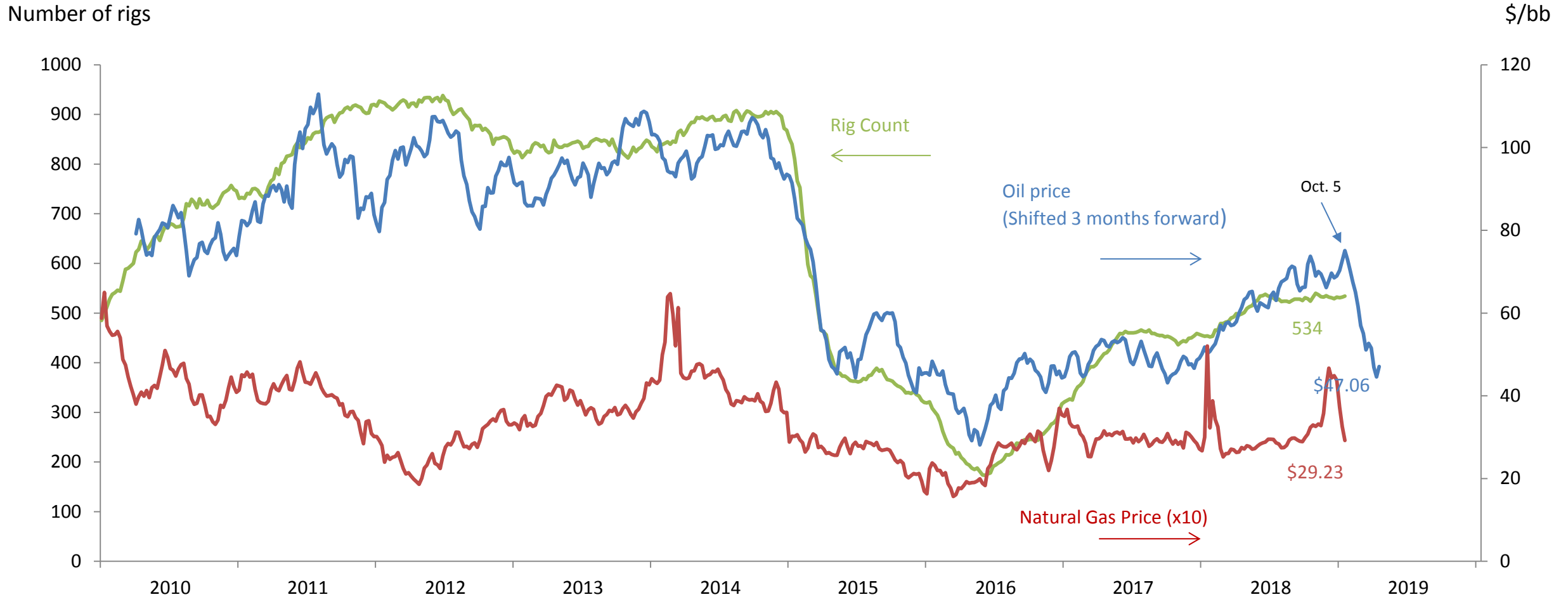
Index, Jan. '08=100, 5MMA, SA



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.

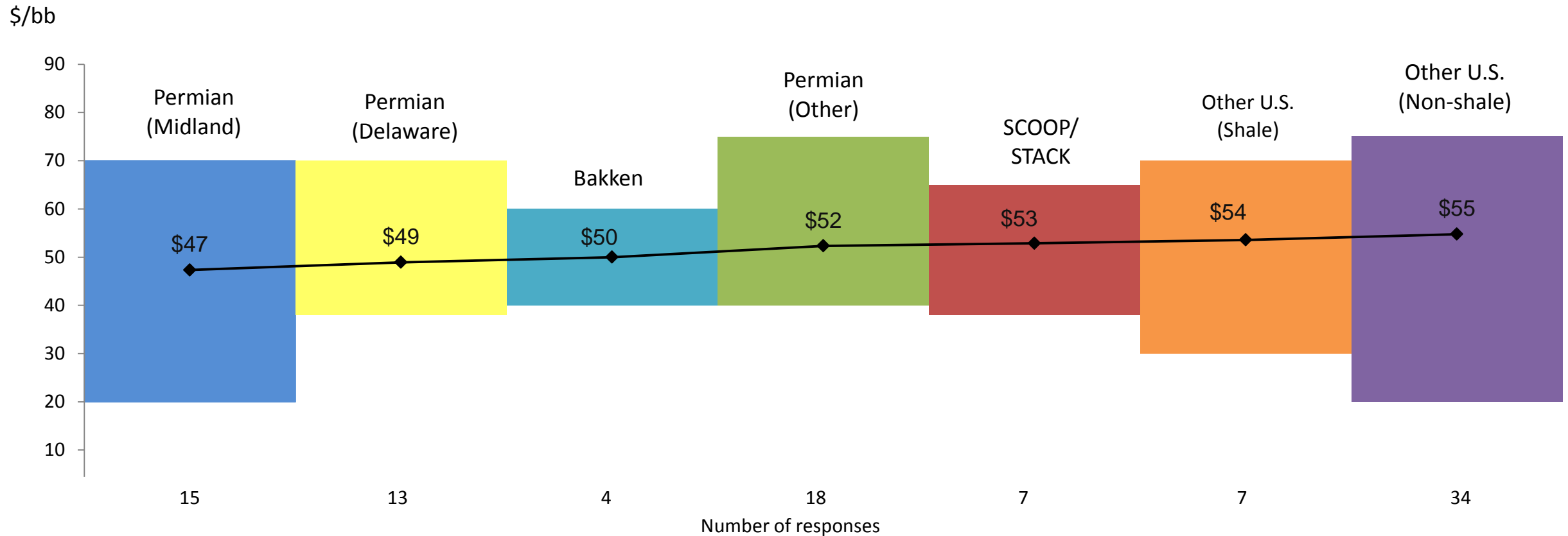
# Oil Price Decline Suggests Upcoming Decline in Rig Count



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



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.

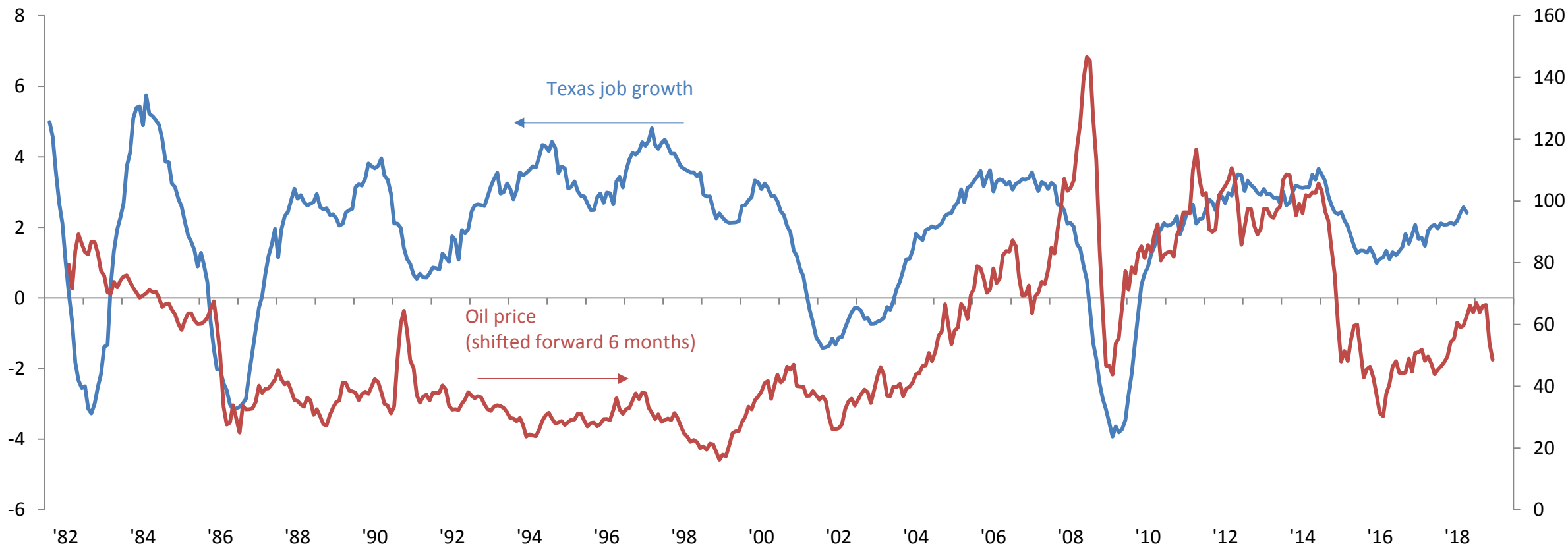
SOURCE: Federal Reserve Bank of Dallas.



# If Oil Prices Persist Near \$50 per barrel, Texas Job Growth Likely to Feel Impacts in Q2 2019

Percent, Year/Year

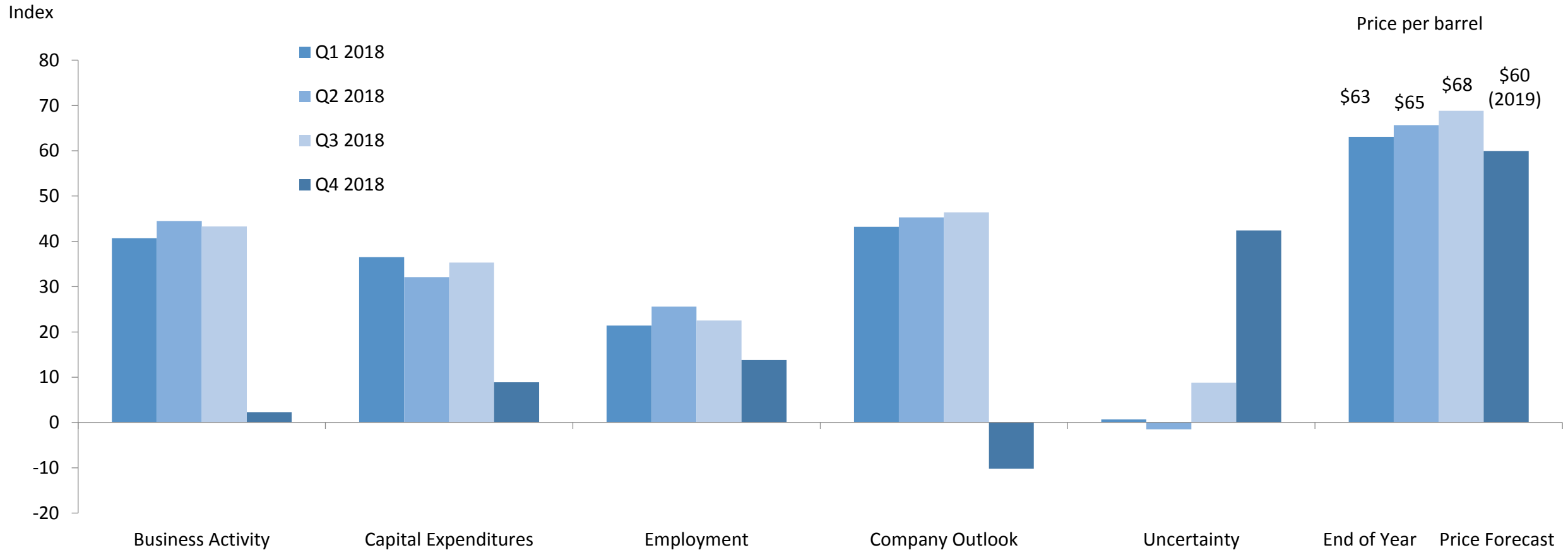
Real price, \$/bb  
monthly average



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

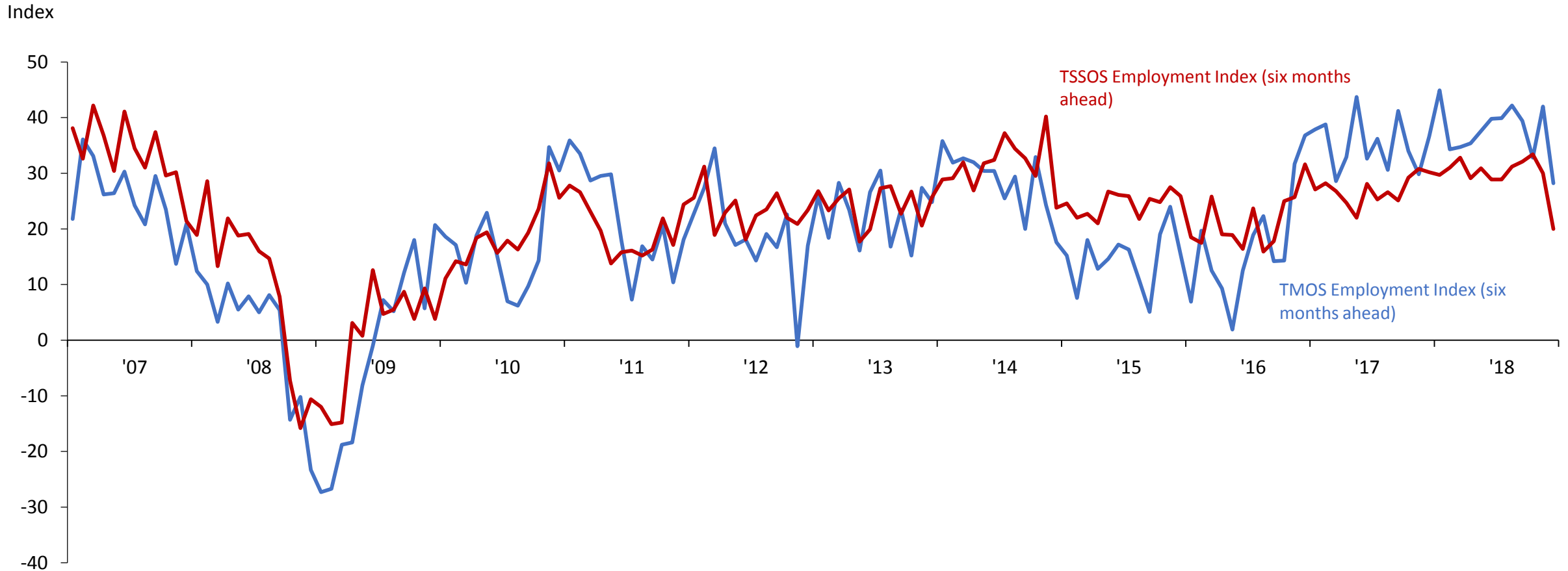
SOURCES: *Wall Street Journal*; Bureau of Labor Statistics.

# Energy Survey Suggests Weaker Growth, More Uncertainty



SOURCE: Federal Reserve Bank of Dallas.

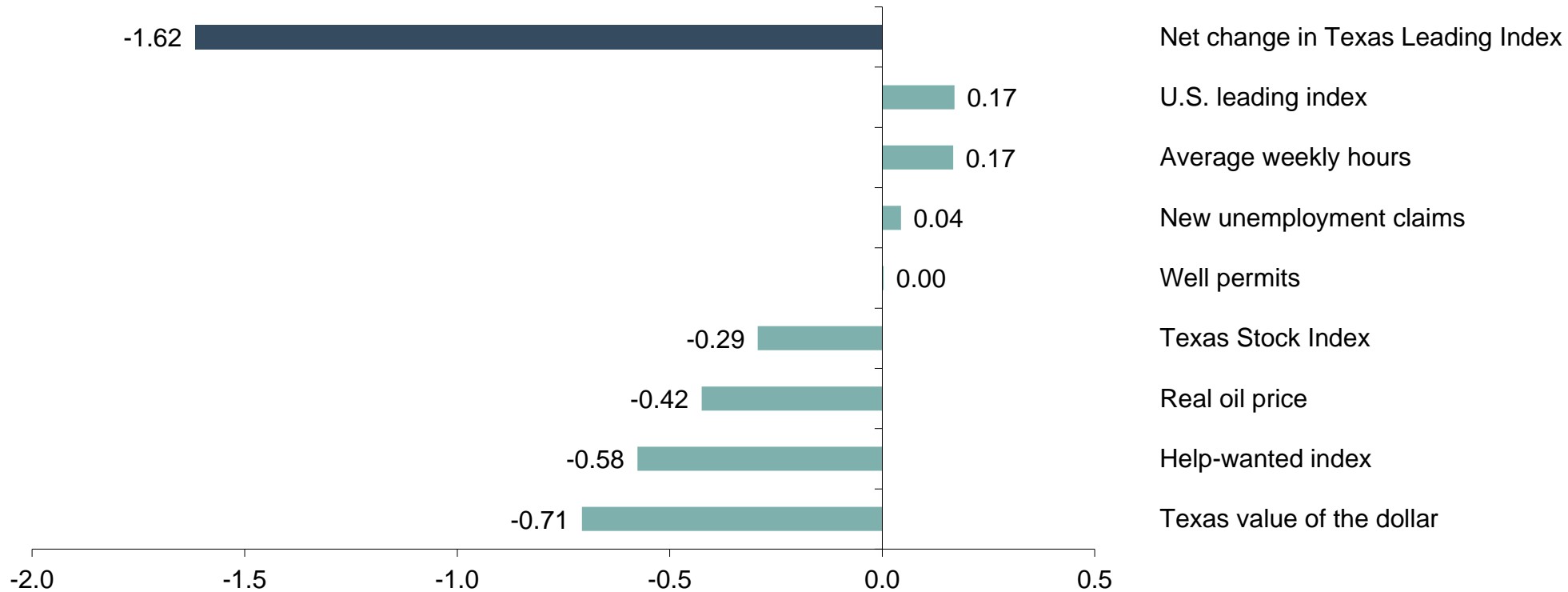
# TMOS and TSSOS Future Employment Indexes Suggest Less Hiring in the Next Six Months



SOURCE: Federal Reserve Bank of Dallas

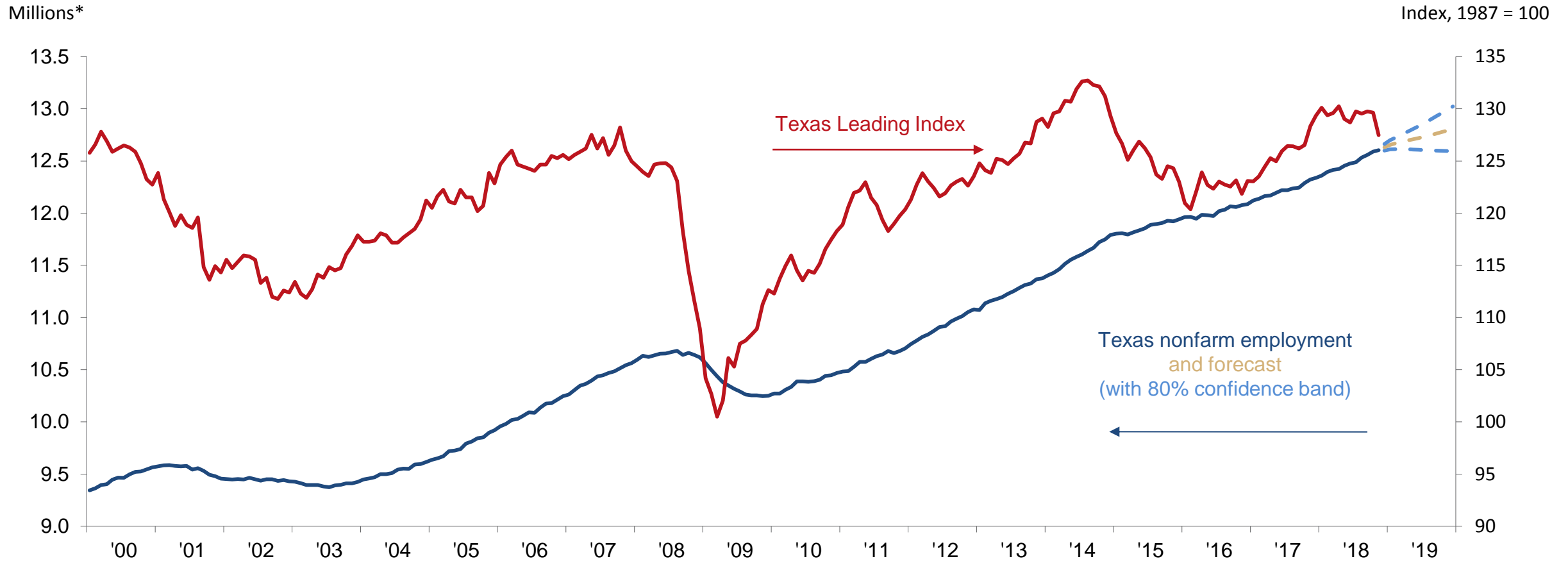
# Texas Leading Index Components Generally Negative

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



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.

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

# Summary

- 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
- Biggest risk to the Texas forecast is sharp decline in oil prices or trade

# 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](#)
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