

Outlook for the Texas Economy



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TECHNICAL REPORT

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About this Report

Texas Real Estate Research Center economists continuously monitor many facets of the global, national, and Texas economies. *Outlook for the Texas Economy* summarizes significant state economic activity and trends. All measurements are calculated using seasonally adjusted data, and percentage changes are calculated month over month, unless stated otherwise.

This publication is designed to be a one-stop resource for economic indicators. We hope you find them as useful as we do. Your feedback is always appreciated. Send comments and suggestions to info@recenter.tamu.edu.

Joshua Roberson and Weiling Yan

Data current as of August 1, 2022

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June 2022

CONSUMER CONFIDENCE INDEX

▼ 4.4% MOM

UNEMPLOYMENT RATE

▼ 4.1%

WTI OIL PRICE

▼ \$113 per barrel

REAL PRIVATE HOURLY EARNINGS

▼ 4.2% YOY

30-YR MORTGAGE RATE

▲ 5.5%

Summary¹

Amid the increasing living costs nationwide, Houston residents faced higher inflation than the average American by \$1 for every \$100 worth of goods and services. On June 15th, the Fed announced a 75-basis-point interest rate hike. However, more forceful Fed interventions are expected in the following months in an attempt to ease rapid inflation. As concerns of a recession hit national headlines, consumers became pessimistic of the market outlook. Data points were mixed, with strong labor demands and a sinking consumer confidence index. The Lone Star State's business conditions were relatively healthy, due in part to the robust energy sector.

Economic Activity

Texas' economy continued to expand in June with the **Dallas Fed's Texas Business-Cycle Index** reporting 9.7 percent positive growth on a seasonally adjusted annualized rate (SAAR). However, growth had been slowing noticeably in Austin as the local economic index fell 115 basis points in a year to 11.7 percent. At 16.2 percent SAAR, Dallas remained the only major metro where growth hovered above year-ago levels.

Despite deflated real earnings, the **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) remained mostly unchanged because of fewer jobless claims. However, amid the alarming inflation rate and rising recession worries, the **Texas Consumer Confidence Index** continued May's fall, dropping 4.4 percent month-over-month (MOM) as consumers feared inflation eroding their purchasing power.

Financial Activity

The **U.S. Consumer Price Index (CPI)** increased at 6.9 percent year to date (YTD). This inflation hike meant consumers needed to pay \$6.90 more for every basket of goods that was worth \$100 at the end of last year. As Houston's CPI outpaced the national average after accelerating 7.9 percent YTD, consumers in this metro paid \$1 more than the typical U.S. consumer. Transportation, housing, and food/beverages were the primary drivers of Houston inflation.

To ease housing demand and lower prices, the 75-basis point interest rate hike was implemented. The **ten-year U.S. Treasury bond yield** rose to 3.1 percent in a month, and the **Federal Home Loan**

¹ All measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.

Mortgage Corporation's 30-year fixed-rate ticked up to 5.5 percent. Both rates reached the highest levels since 2009. The median mortgage rate within Texas increased in May² to 5.1 and 4.7 percent for government-sponsored enterprise (GSE, i.e. Freddie Mac and Fannie Mae) and non-GSE loans, respectively. The mortgage rate hikes turned away many borrowers. CoreLogic's TrueStandings Servicing data provided a large sample size where total loan counts and the average loan balances fell around 61 percent and 41 percent MOM, respectively, for GSE and non-GSE mortgagees.

Housing

Record home prices and rapidly rising mortgage rates continued to discourage buyers and cool the market. According to the Texas Real Estate Research Center's Data Relevance Program, there were over 37,000 recorded **closed home sales** in the state, 9.4 percent below June 2021 sales. According to seasonally adjusted sale estimates, the slowdown of sales actually began in January of this year, but June had the biggest single-month dip. Even though June sales are down from last year, they're almost identical to June 2019, which was the last record-setting year before the COVID-19 pandemic. The drop in home sales coincided with the rapid increase in mortgage rates that began in January and picked up steam in recent months.

Employment

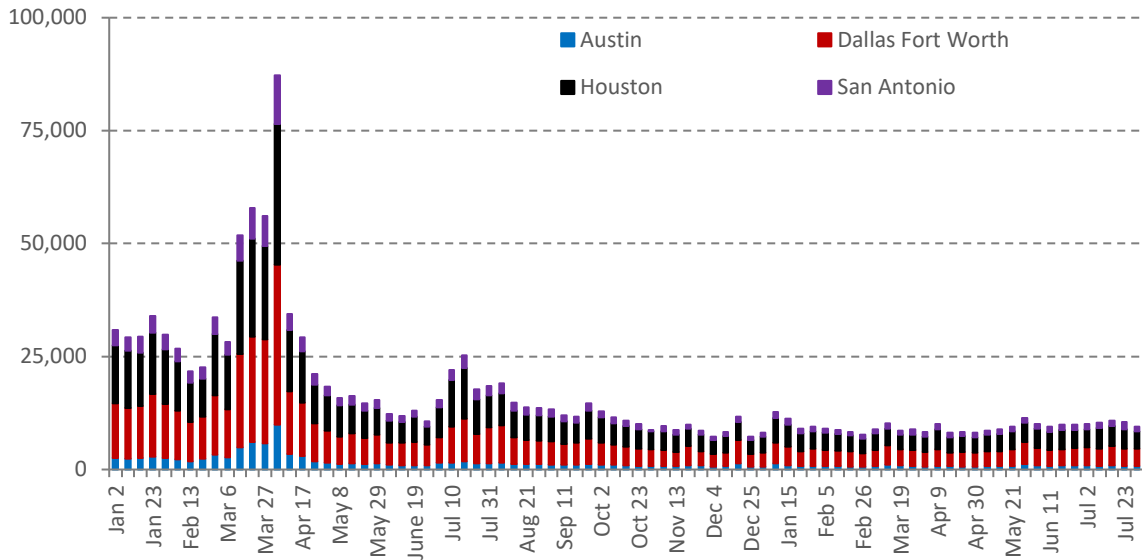
Despite mounting concerns of inflation and recession, Texas' **nonfarm employment** recruited more workers in June than in any other month this year. This robust job creation was broad across the private industries, with only construction seeing a marginal decline. Nevertheless, the Dallas Fed's annual employment forecast expects growth to slow in the second half of the year as a weaker U.S. economic outlook puts downward pressure on Texas companies.

As the national unemployment rate almost returned to the pre-pandemic level of 3.5 percent, the Texas' **unemployment rate** remained elevated at 4.1 percent. The Texas jobless rate typically matches or is lower than the national average. However, that has not been the case since COVID. The labor force participation rate has been higher than the national figure throughout the pandemic possibly due in part to the influx of out-of-state workers. The state's **labor force participation rate** accelerated to 63.8 percent, surpassing the national rate of 62.2 percent. While the national labor force rebounded to its February 2020 size, the Texas labor force expanded by 4.3 percent. The Lone Star State gained 606,000 workers in the past 28 months.

The number of **initial unemployment insurance claims** held steady at below the historical average as employers continued to avoid layoffs in a still-tight labor market. Texas' initial jobless claims withdrew nearly 30 percent in a year, contracting from 84,700 to 60,400 claims. Moreover, Texas' average weekly **continued unemployment insurance claims** held just above May's historical low with 80,000 seasonally adjusted claims.

² The release of Texas mortgage rate data typically lags the *Outlook for the Texas Economy* by one month.

Major Metro Weekly Initial Unemployment Claims (2021-22)



Note: Seasonally adjusted.

Sources: Texas Workforce Commission, U.S. Department of Labor Employment and Training Administration, and Texas Real Estate Research Center at Texas A&M University calculations

Rampant inflation reduced **real private hourly earnings** by 4.2 percent YOY. Workers in all major metros lost real purchasing power. Dallas (\$32.80) took the biggest hit as employees lost 4.4 percent YOY. Houston (\$30.80) and San Antonio (\$27.30) both lost 2.9 percent in real earnings. Austin's (\$32.50) and Fort Worth's (\$32.50) real wages rose this month by 1.3 and 0.5 percent, respectively.

Houston gained around 32,000 nonfarm workers in June, with one third of that expansion in the goods-producing sector. Dallas followed with 16,000 additional workers. While Dallas' good-producing sector lost 2,300 workers, the metro created 5,700 new positions for the professional/business sector. Austin's workforce had 6,200 new workers, and the expansion was across all industries except education/health services. San Antonio's employment growth moderated to 2,700 workers due to the private services' slowdown.

Manufacturing

While manufacturing disruptions persist in China due to COVID-19 lockdowns, domestic manufacturing has expanded. During 2Q2022, Texas' goods-producing sector added 18,900 jobs, accelerating 10.9 percent SAAR in three months. Typical weekly work hours edged up 80 minutes from last June to 42.7 hours. Amid the state's lengthened work shift, Houston's increase in average weekly hours surpassed all other metros. Manufacturing workers in Houston worked 5.5 more hours than last year.

Amid manufacturing employment's historically robust pace, record-high national inflation pulled down Texas' **average hourly manufacturing earnings** (\$27.60) by 1 percent YOY after adjusting for inflation. In addition to a largely unchanged production index, respondents in the **Dallas Fed's Manufacturing Outlook Survey** reported a mixed outlook on future manufacturing activity under the concerns of a looming recession.

Construction

Rapidly rising interest rates have negatively impacted builders. In June, Texas' construction payroll fell by 3,000 workers, the sharpest monthly decline in the past year. **Average hourly construction earnings** (\$29.90) fell 4.3 percent YOY after adjusting for inflation. **Total construction values** retreated after May's surge. Residential activities decreased after four months of robust activities. Both single-family and duplex construction values shrank from year-ago levels, while apartment and multifamily grew. This suggests a consumer behavioral shift from home buying to home renting.

Energy

The energy sector's employment remained robust, though the industry recruited only 1,900 new workers this month. The **West Texas Intermediate (WTI) crude oil spot price** retreated \$5 per barrel in June. However, it continued the peak level at an average of \$113 per barrel, jumping 55.9 percent YTD. Texas' crude oil production remained at five million barrels per day in May³ while **active rigs** shot up by 38 to 357 rigs. **Henry Hub spot price** soared to \$8.6 per million British thermal unit (MMBtu), doubling the year-end price. Amid the rising prices, Texas ranked 14th for lowest weekly retail prices of regular gasoline in the United States at \$4.60 per gallon according to Statista. **Dallas Fed's Energy Survey** reported its highest reading of business activity index in the survey's six-year history. While constrained by rising costs and supply-chains delays, 2Q2022's energy production was high, and the six-month outlook improved significantly. At year-end 2022, respondents expect a WTI oil price of \$108 per barrel and natural gas price of \$7.55 per MMBtu.

Services

Texas added 73,600 workers to the state's service-providing sector—the largest monthly expansion since October 2021. Trade/transportation/utilities employment growth (+11,400) nearly matched leisure/hospitality (+12,700), and it surpassed professional/business services (+9,000). Respondents to the **Dallas Fed's Service Sector Outlook Survey** communicated moderately increasing service activities amid the rising revenue index. Perception of broader business conditions plunged, and the future index fell deeply into the negative territory.

Texas retail was the only private sector that was unchanged among the growing trade payrolls. The gain in building materials/garden equipment/supply dealers (+2,400) was offset by the loss in

³ The release of active rigs and crude oil production typically lag the *Outlook for the Texas Economy* by one month.

general merchandise (-2,200). Corroborating the weakened labor market data, the **Dallas Fed's Retail Outlook Survey** deteriorated as general business expectations became pessimistic, and the company outlook noted spiked uncertainty.

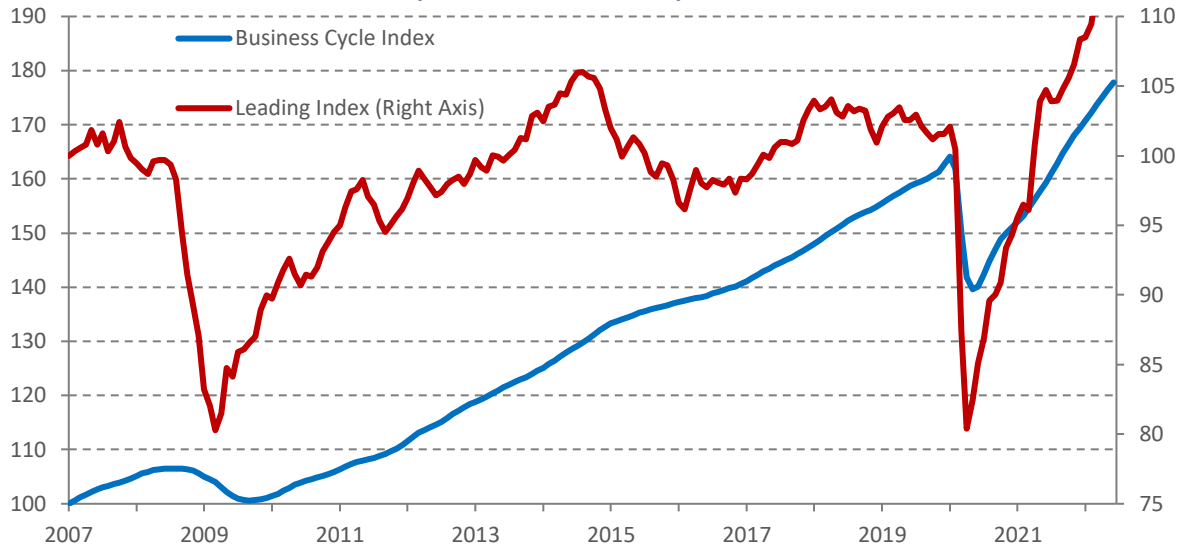
Trade

Europe's worsening energy crisis affected many countries. As foreign currencies were more adversely affected, the **Texas trade-weighted value of the dollar** strengthened. The dollar's trade value appreciated 6.9 percent YOY, making Texas goods less affordable to foreign wholesalers. Nevertheless, Texas' **real commodity exports** peaked, rising 15.6 percent YTD. **Manufacturing exports** grew 5 percent YTD with elevated shipment in petroleum/coal outweighing the reduced shipment in food/kindred products. Notably, **crude oil exports** skyrocketed at 50.2 percent YTD, continuing positive net export values for the 39th consecutive month. In June, Texas' largest crude oil importers—Canada, South Korea, the Netherlands, and Singapore—each purchased over \$1 trillion of crude oil that can be turned into gasoline and diesel.



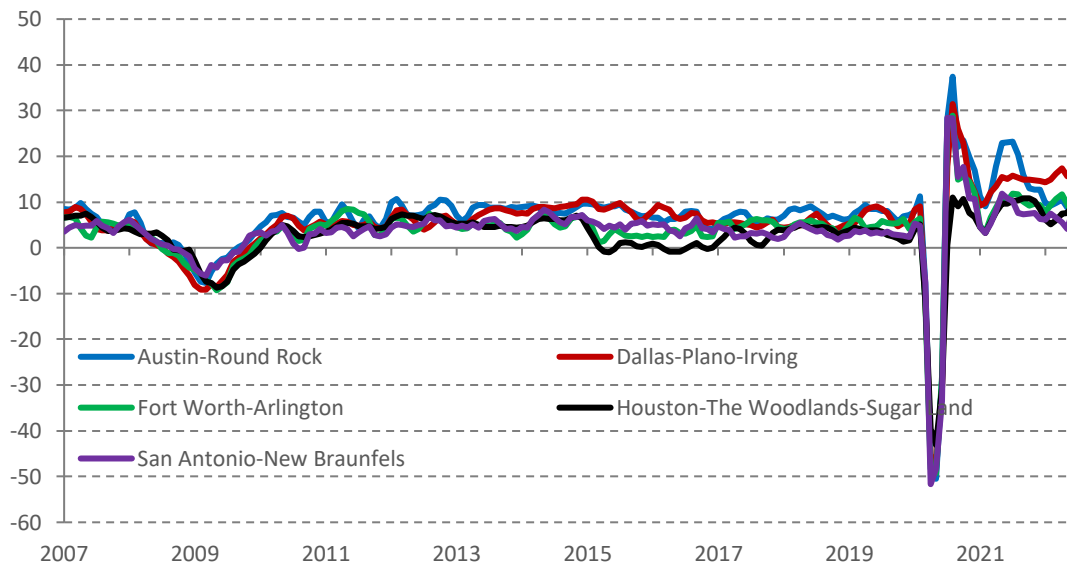
Economic Activity

Texas Business Cycle Index and Leading Index (Index Jan 2007 = 100)



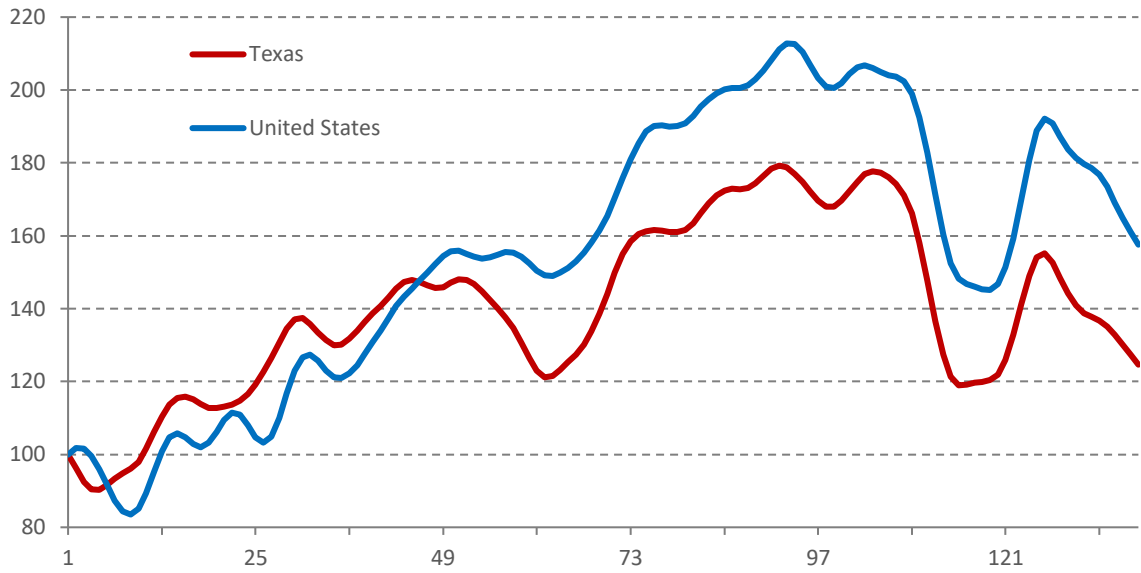
Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas

Major Metros Business Cycle Index (Quarter-over-Quarter Percent Change)



Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas

Consumer Confidence Index (Index Jan 2011 = 100)



Note: Trend-cycle Component.
Source: Conference Board



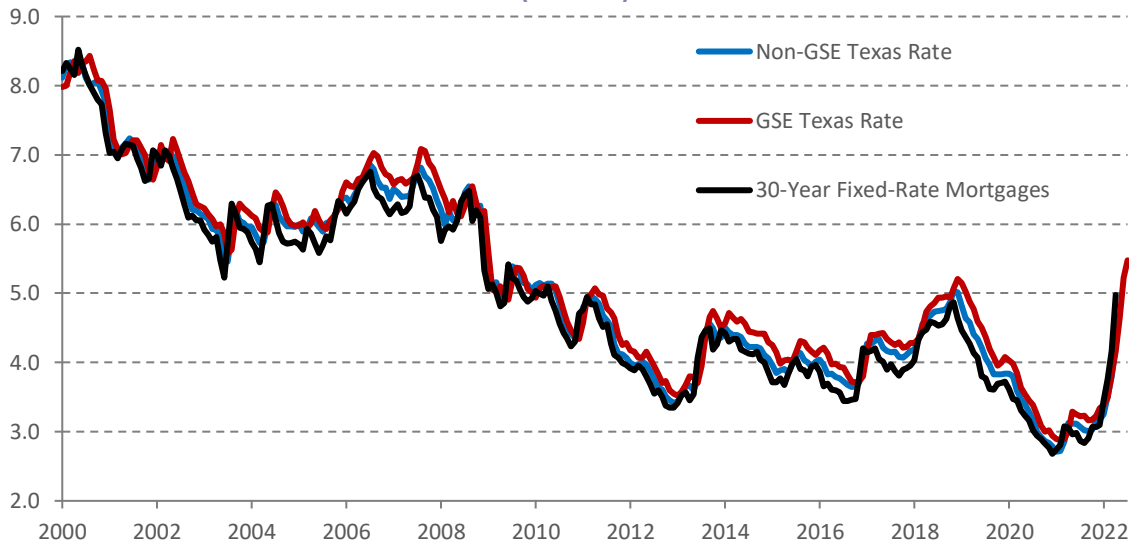
Financial Activity

30-Year Mortgage Rate and Ten-Year Bond Yield (Percent)



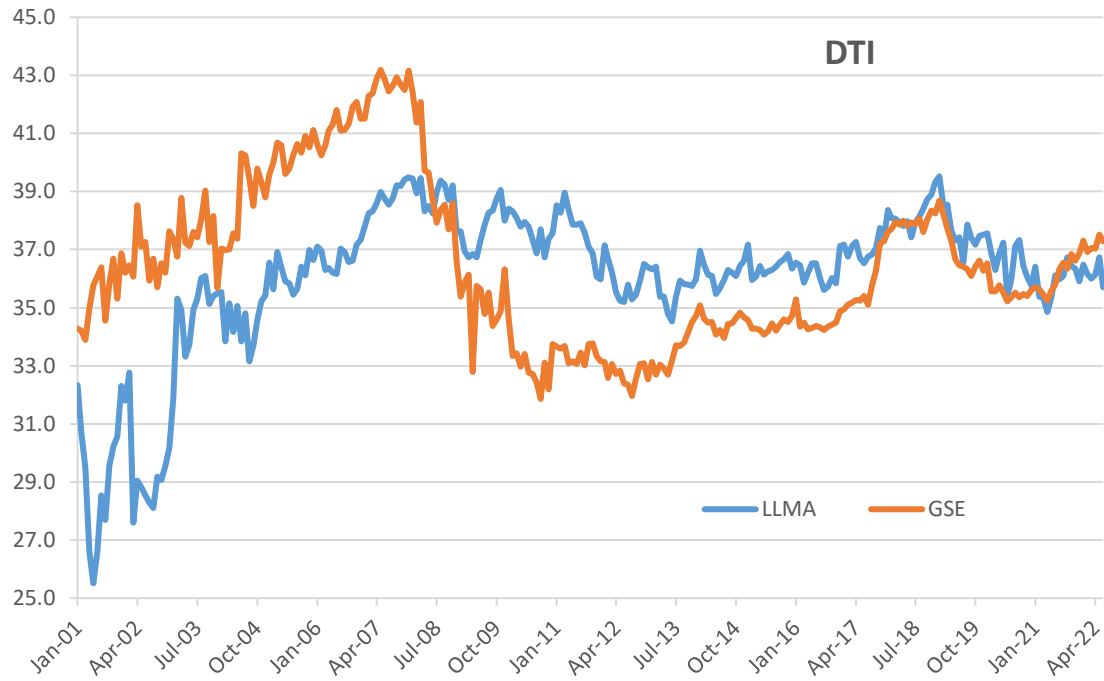
Note: Nonseasonally adjusted.
Sources: Federal Home Loan Mortgage Corporation and Federal Reserve Board

Fixed 30-Year Mortgage Rates (Percent)



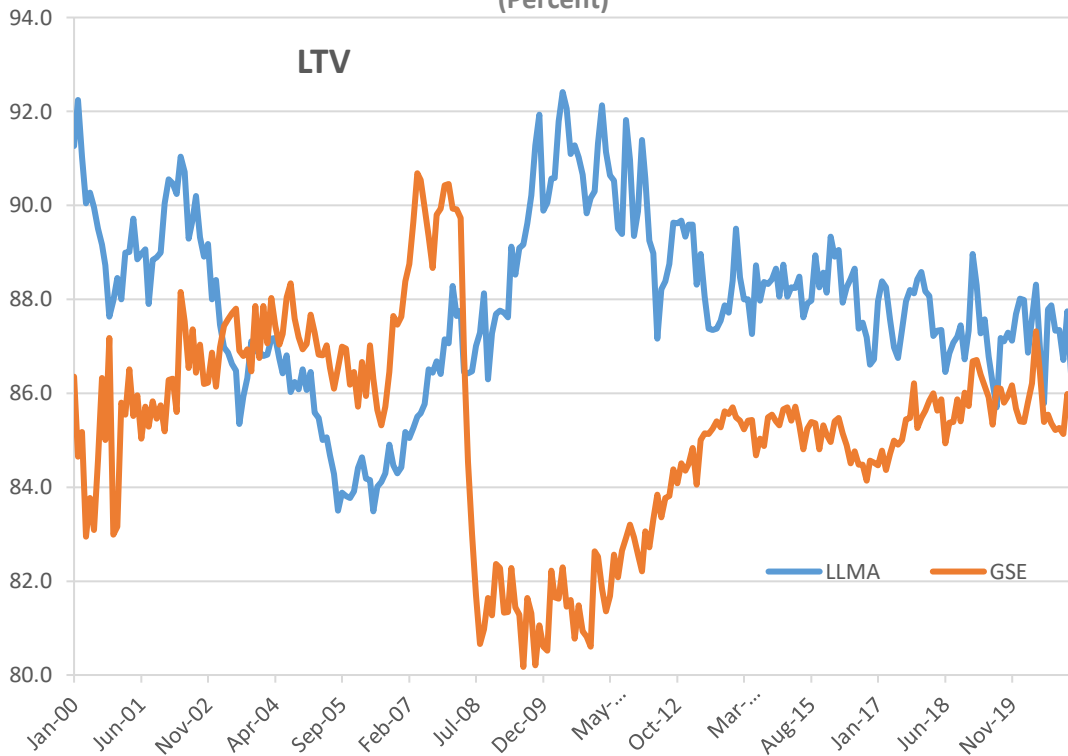
Note: Nonseasonally adjusted. The data for the most recent origination month is preliminary.
Sources: Federal Home Loan Mortgage Corporation and TrueStandings Servicing

Debt to Income
(Percent)



Note: Nonseasonally adjusted. The data for the most recent origination month is preliminary.
Source: TrueStandings Servicing

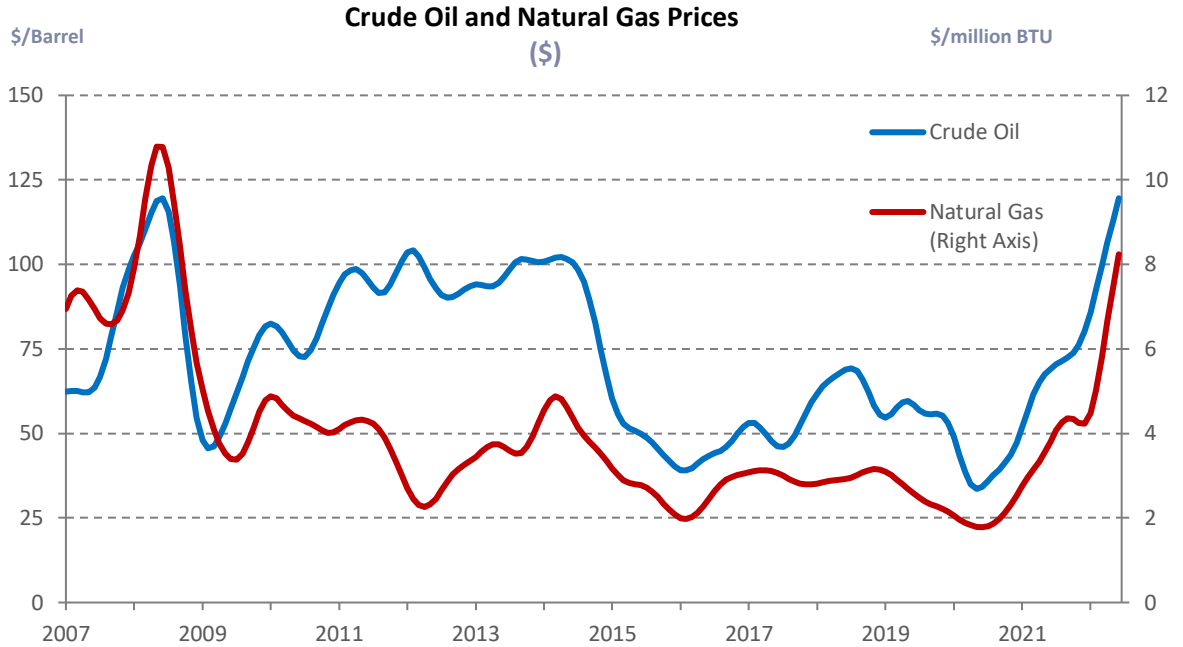
Loan to Value
(Percent)



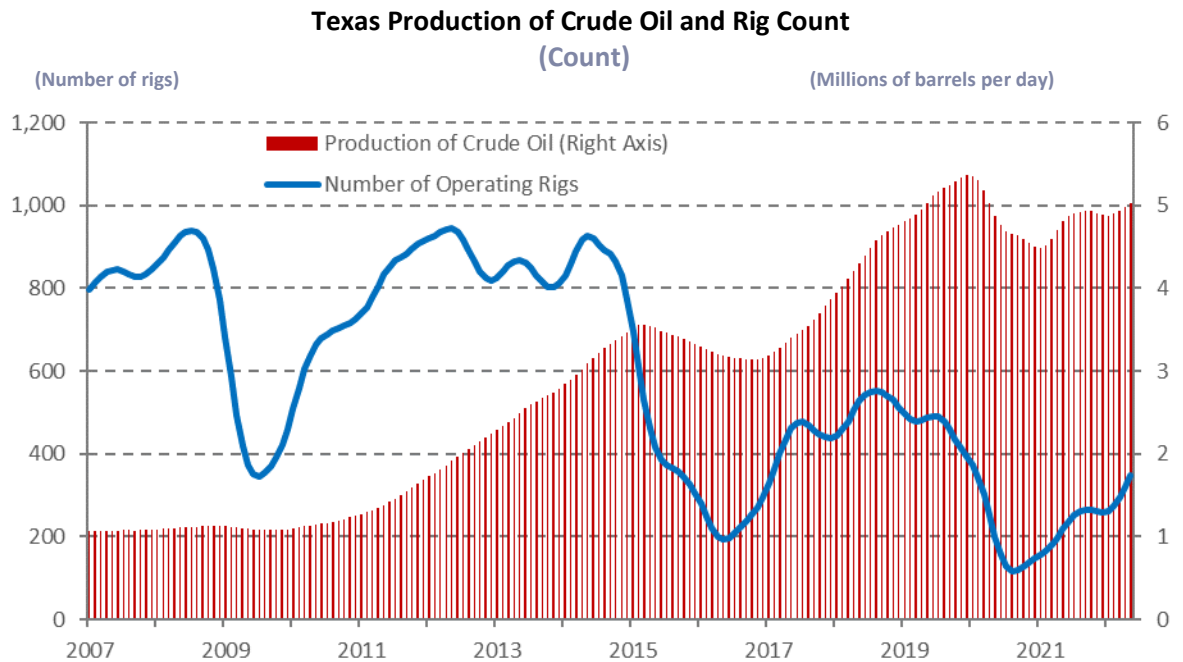
Note: Nonseasonally adjusted. The data for the most recent origination month is preliminary.
Source: TrueStandings Servicing



Energy



Note: Trend-cycle component. For more information, see [Crude Oil and Natural Gas Prices](#).
 Source: U.S. Energy Information Administration received from Thomson Reuters

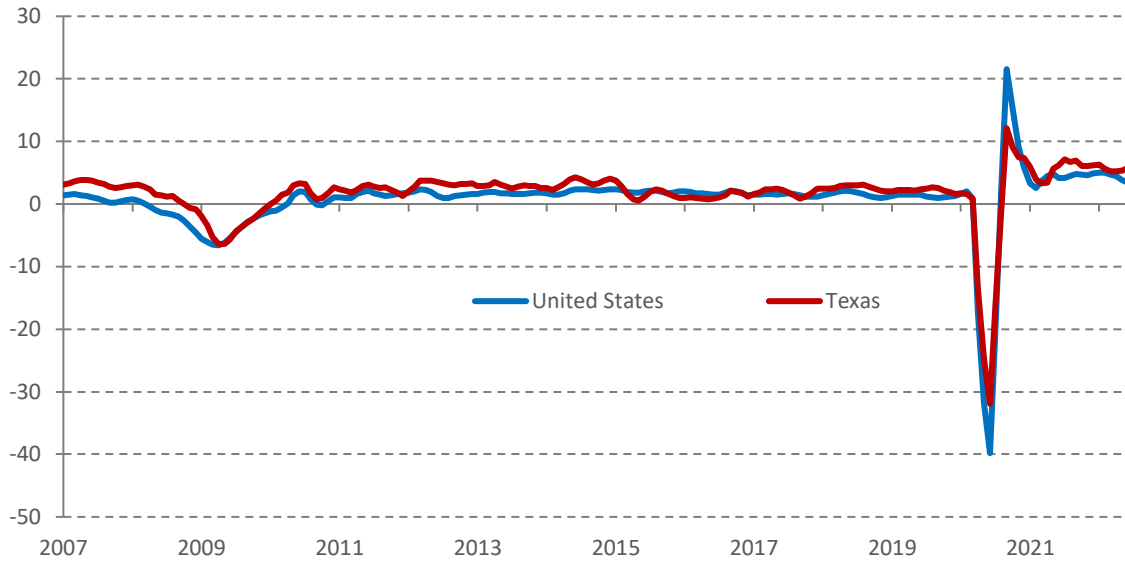


Note: Trend-cycle component. For more information, see [Texas Production of Crude Oil and Rig Count](#).
 Sources: Baker Hughes and U.S. Energy Information Administration



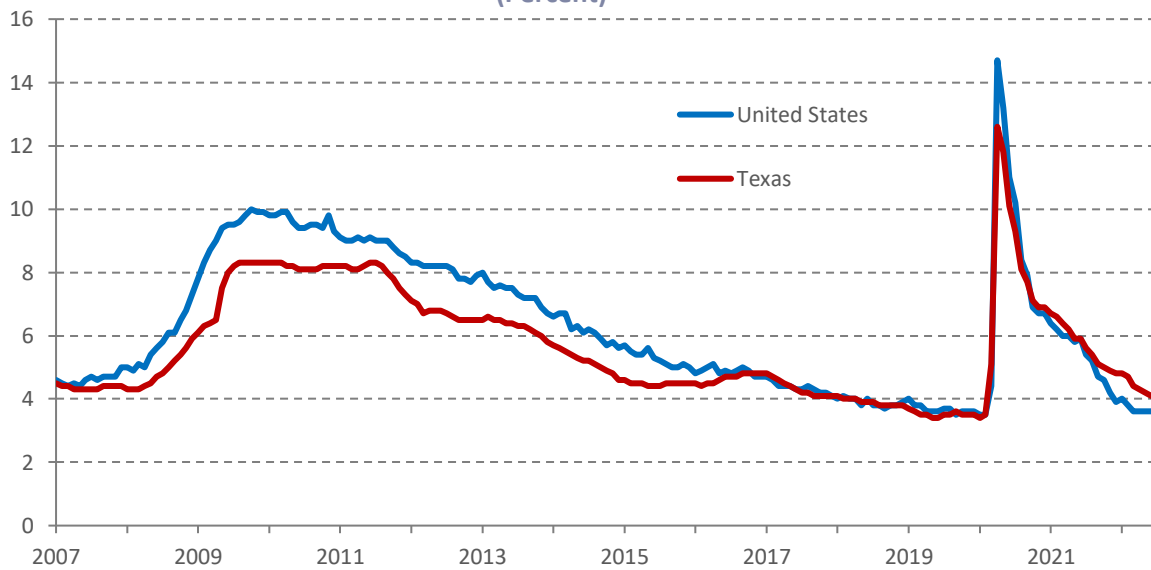
Employment

Employment Growth Rate (Quarter-over-Quarter Annualized Percent Change)



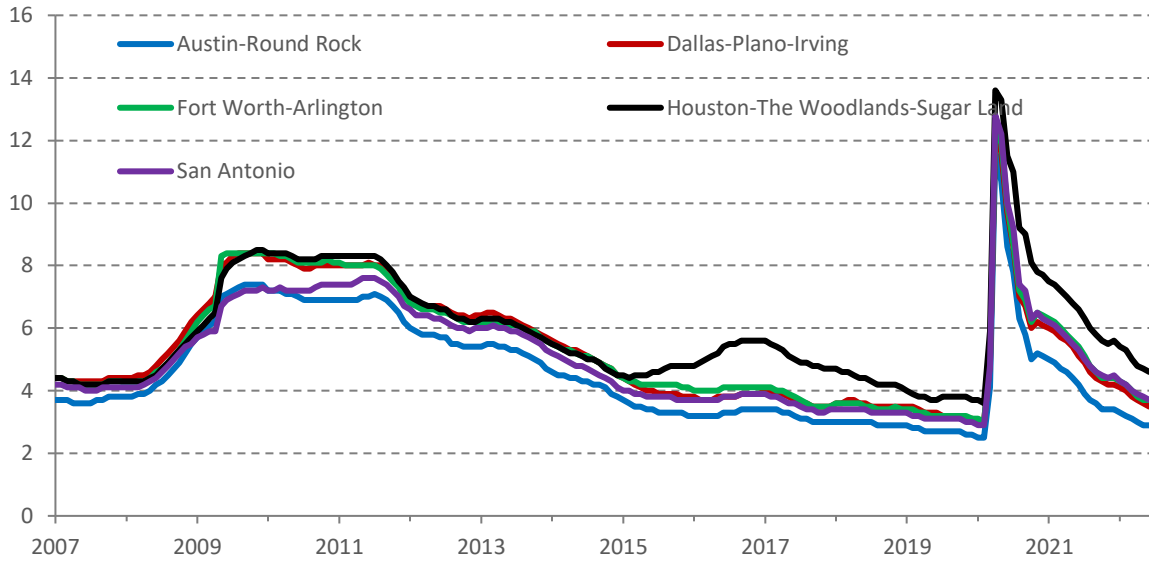
Note: Seasonally adjusted, three-month moving average. May 2021 is preliminary. For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

Unemployment Rate (Percent)



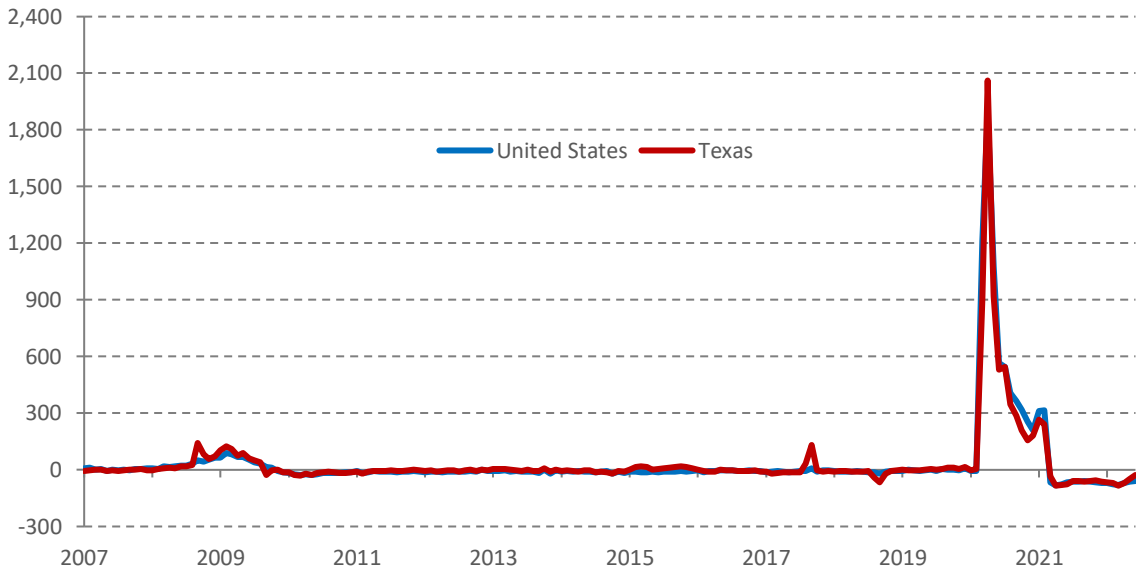
Note: Seasonally adjusted. May 2021 is preliminary. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

Major Metros Unemployment Rate (Percent)



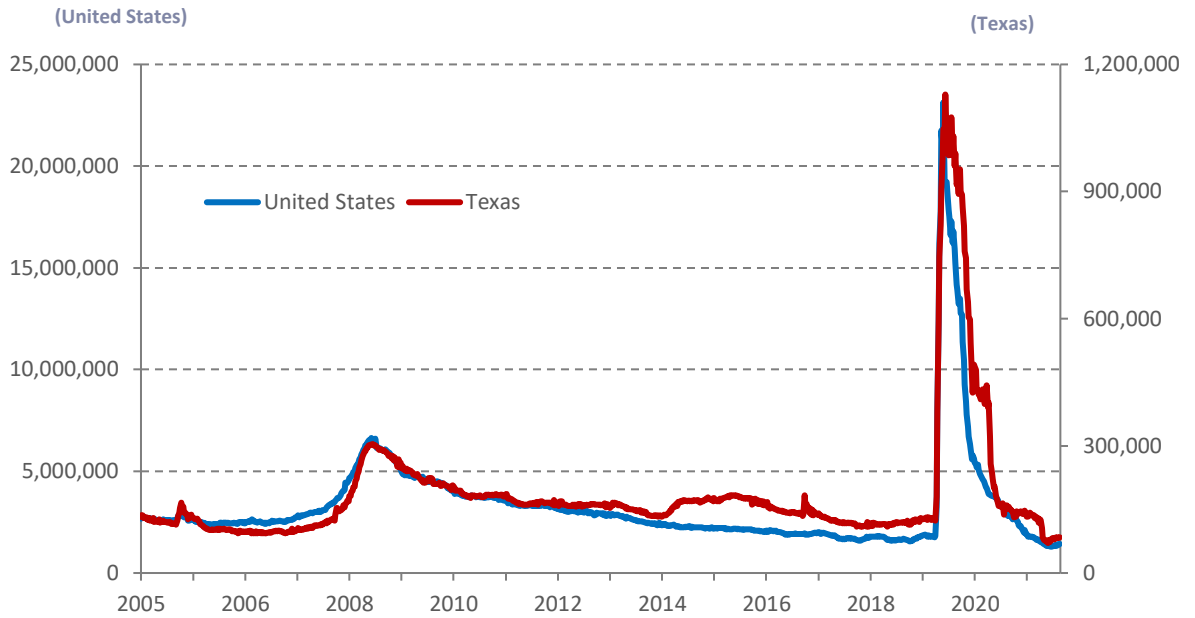
Note: Seasonally adjusted. May 2021 is preliminary. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

Unemployment Insurance Claims: Initial Applications (Year-over-Year Percentage Change)



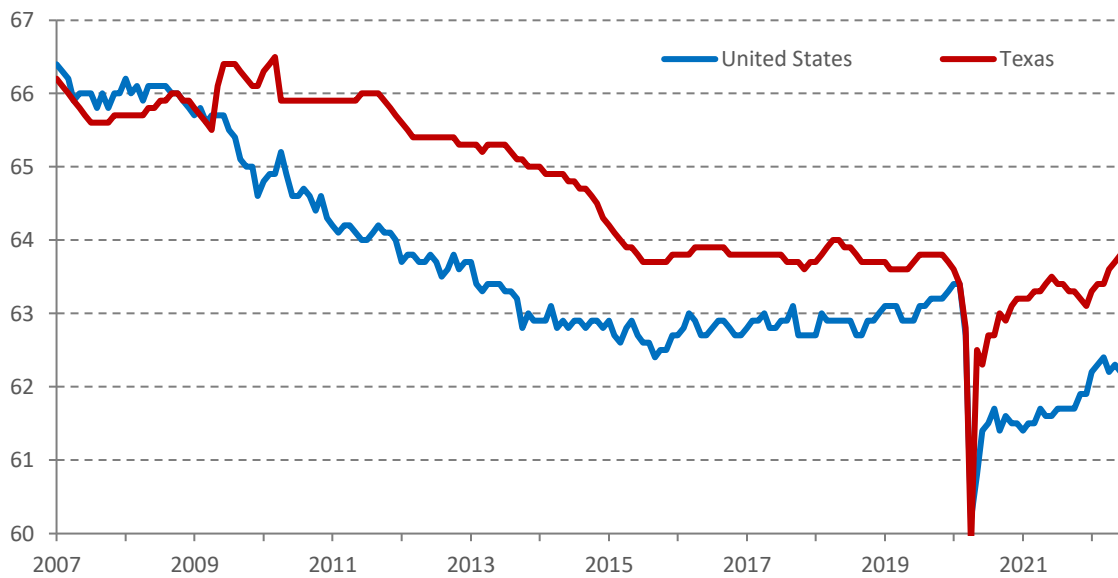
Note: Seasonally adjusted. For more information, see [Unemployment Insurance Claims: Initial Applications](#).
Source: Department of Labor

Unemployment Insurance Claims: Continued Applications



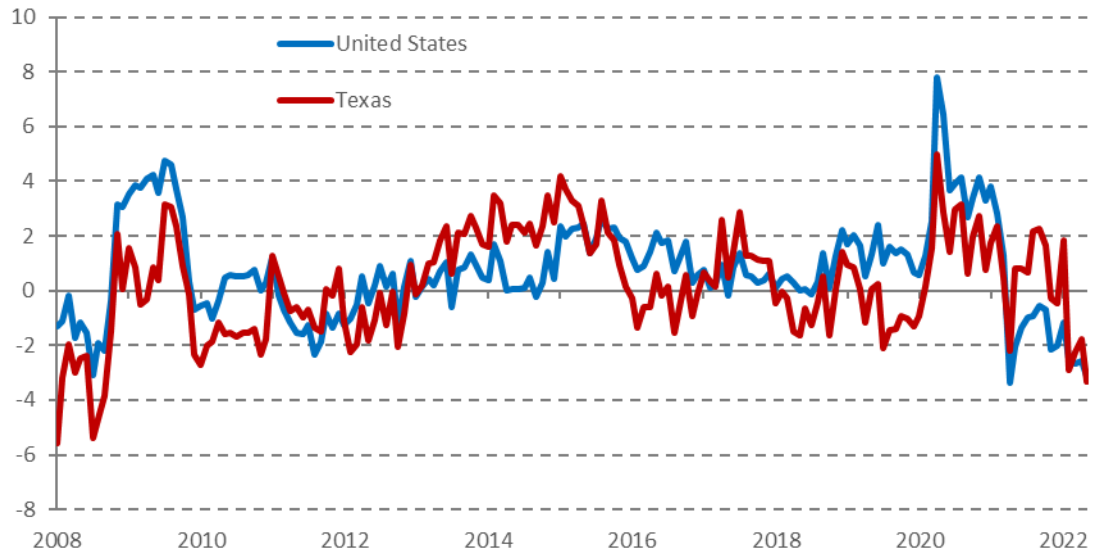
Note: Seasonally adjusted. Average weekly continued claims.
Source: Department of Labor/Haver Analytics

Labor Force Participation Rate (Percent)



Note: Seasonally adjusted. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

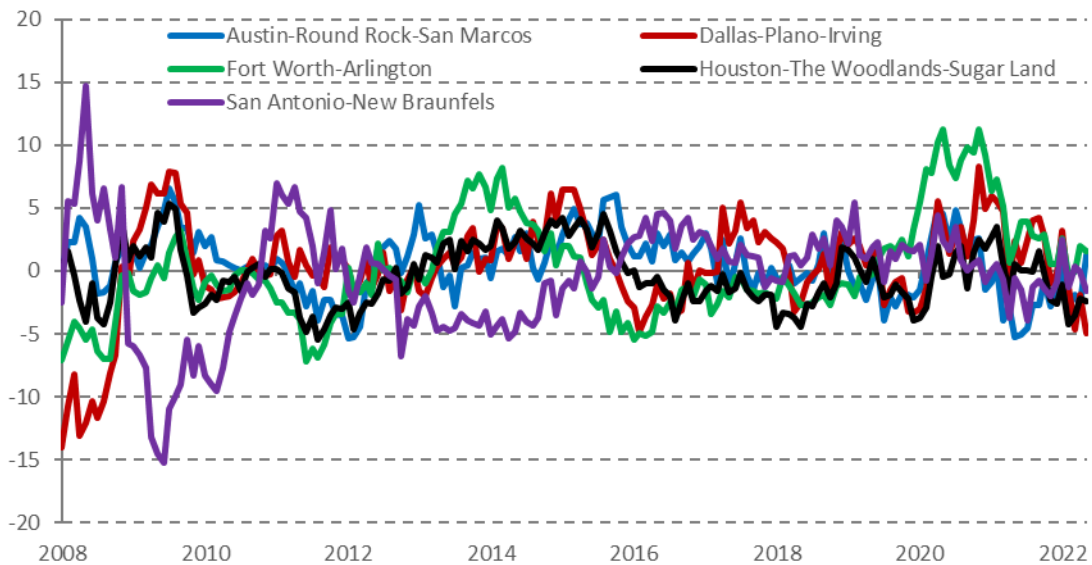
Total Private Employee Hourly Earnings (Year-over-Year Percent Change)



Notes: Inflation adjusted, seasonally adjusted. May 2021 is preliminary. For more information, see [Total Private Employee Hourly Earnings](#).

Source: Bureau of Labor Statistics

Major Metros Total Private Employee Hourly Earnings (Year-over-Year Percent Change)



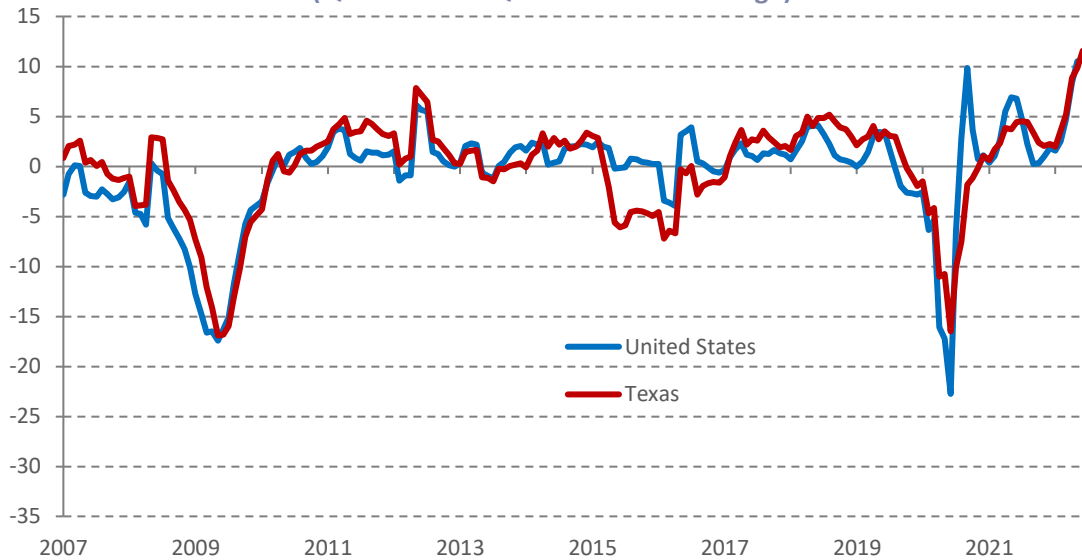
Notes: Inflation adjusted, seasonally adjusted. May 2021 is preliminary. For more information, see [Total Private Employee Hourly Earnings](#).

Source: Bureau of Labor Statistics



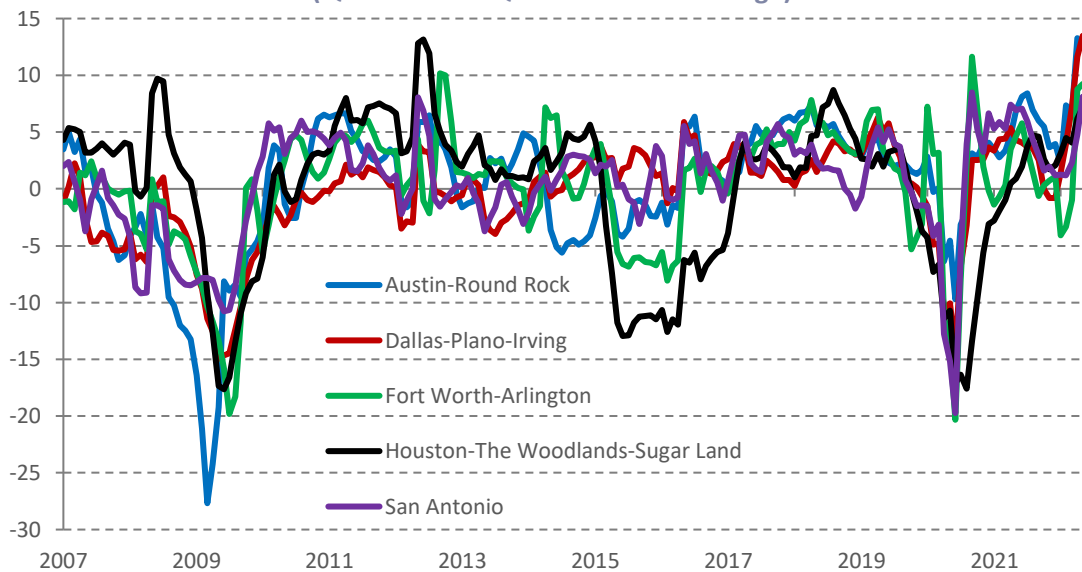
Manufacturing

Manufacturing Employment (Quarter-over-Quarter Percent Change)



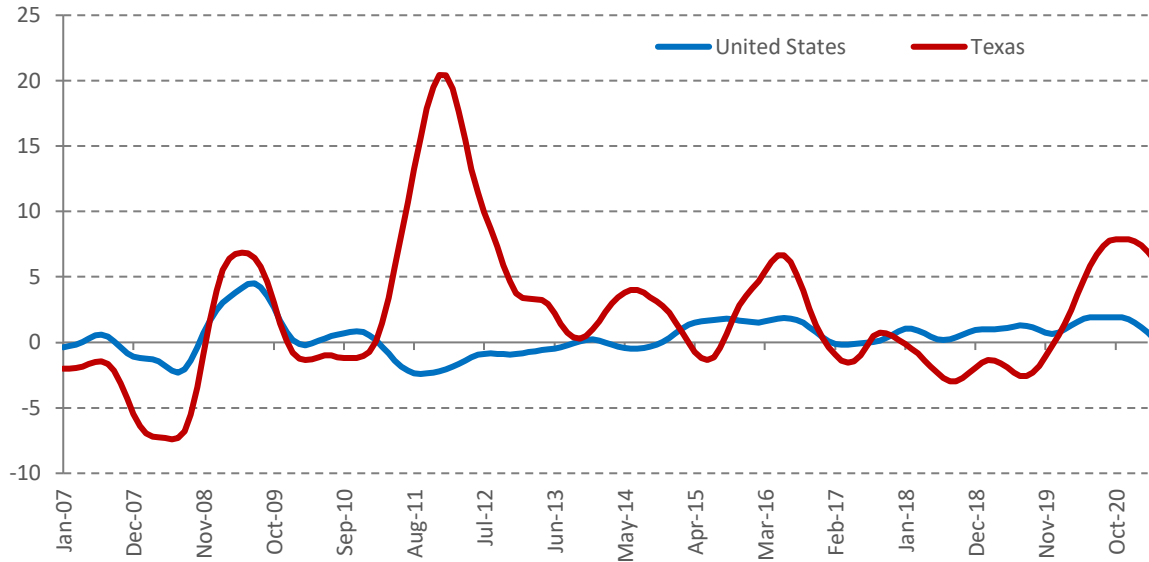
Note: Seasonally adjusted, three-month moving average. May 2021 is preliminary. For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

Major Metros Manufacturing Employment (Quarter-over-Quarter Percent Change)



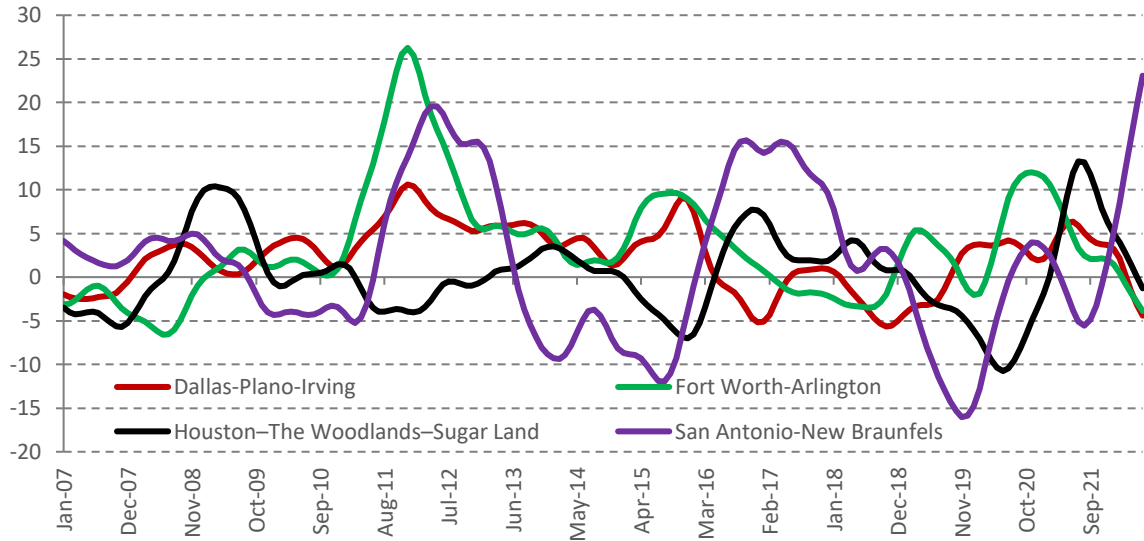
Note: Seasonally adjusted, three-month moving average. May 2021 is preliminary. For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

Manufacturing Employee Hourly Earnings (Year-over-Year Percent Change)



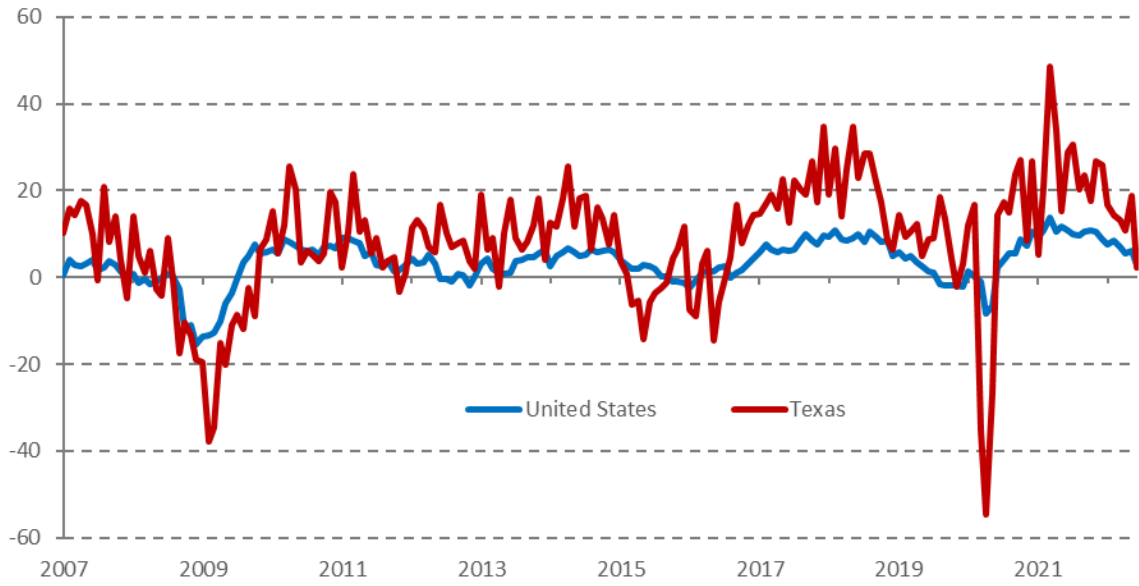
Notes: Inflation adjusted, seasonally adjusted. May 2021 is preliminary. For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Major Metros Manufacturing Employee Hourly Earnings (Year-over-Year Percent Change)



Notes: Inflation adjusted, seasonally adjusted. May 2021 is preliminary. For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Manufacturing Outlook Survey (Index)



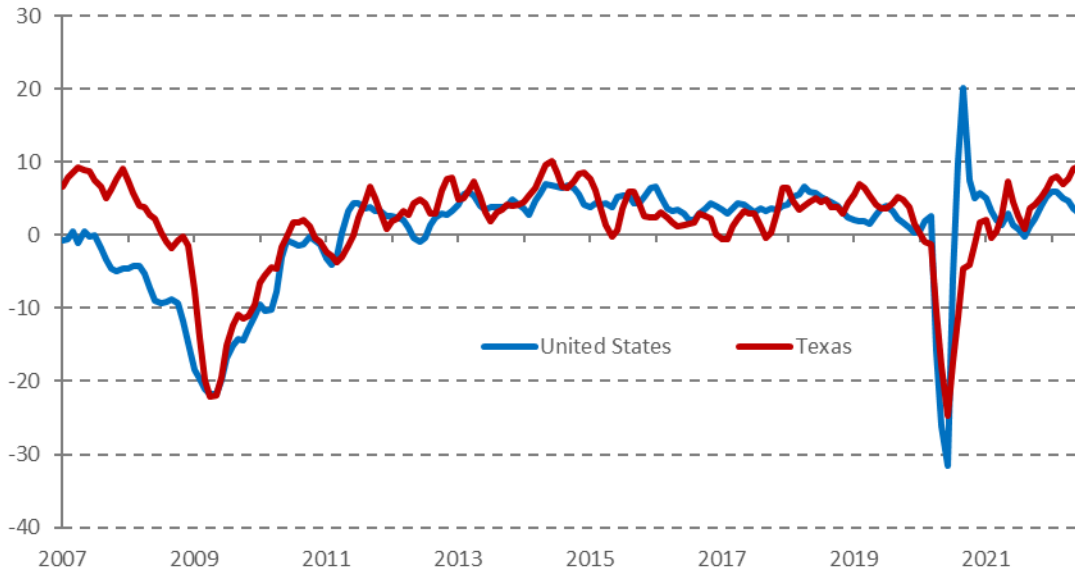
Note: Seasonally adjusted. For more information, see [Manufacturing Outlook Survey](#). United States index is adjusted -50 to be on scale with Texas index.

Sources: Federal Reserve Bank of Dallas and Institute for Supply Management



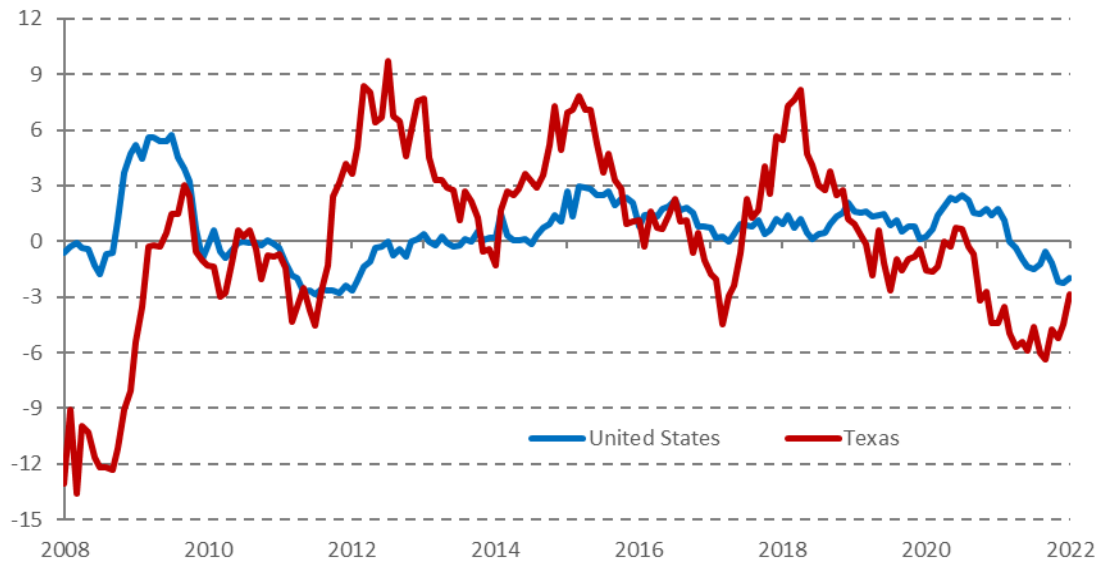
Construction

Construction Employment (Quarter-over-Quarter Percent Change)



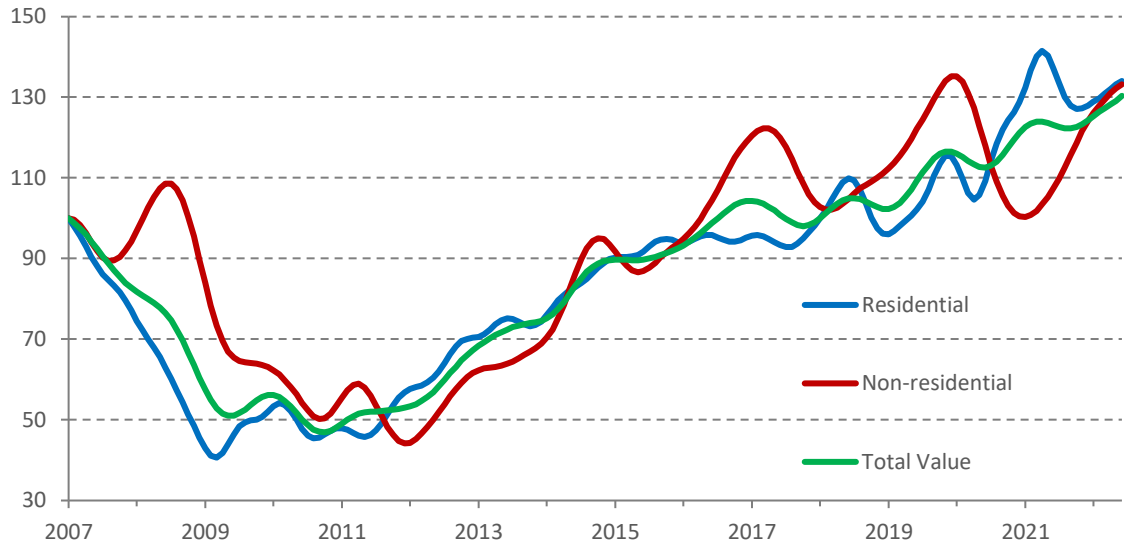
Note: Seasonally adjusted, 3-month moving average. May 2021 is preliminary. For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

Construction Employee Hourly Earnings (Year-over-Year Percent Change)



Notes: Inflation adjusted, seasonally adjusted. May 2021 is preliminary. For more information, [see Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Texas Construction Values (Index Jan 2007 = 100)

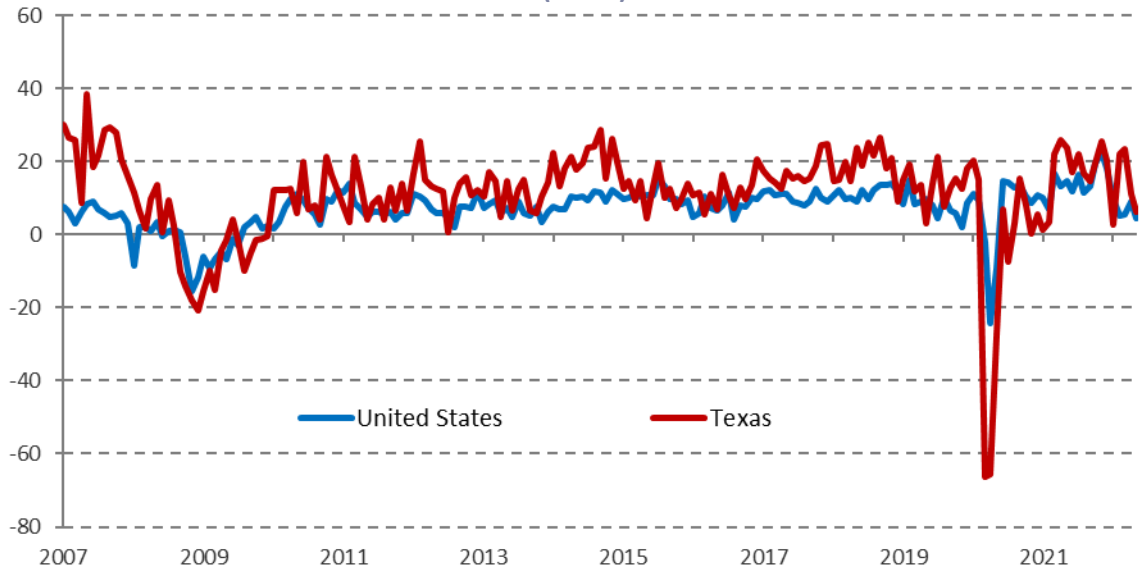


Note: Inflation adjusted trend-cycle component.
Source: Dodge Analytics



Services

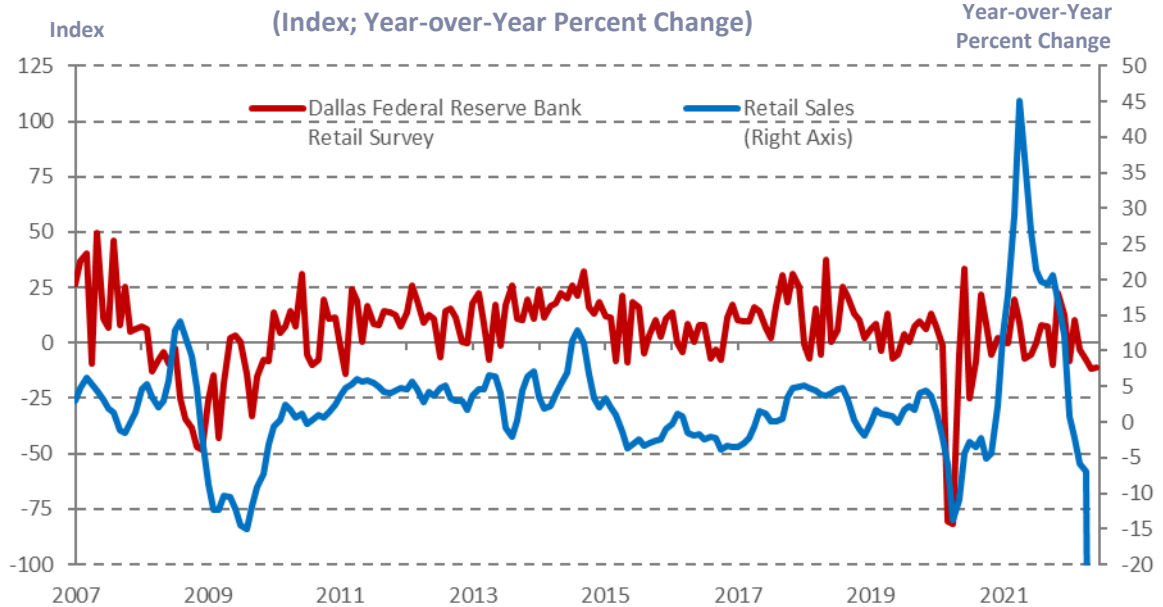
Services Sector Outlook Survey (Index)



Note: Seasonally adjusted. For more information, see [Services Sector Outlook Survey](#). United States index is adjusted -50 to be on scale with Texas index.

Sources: Federal Reserve Bank of Dallas and Institute for Supply Management

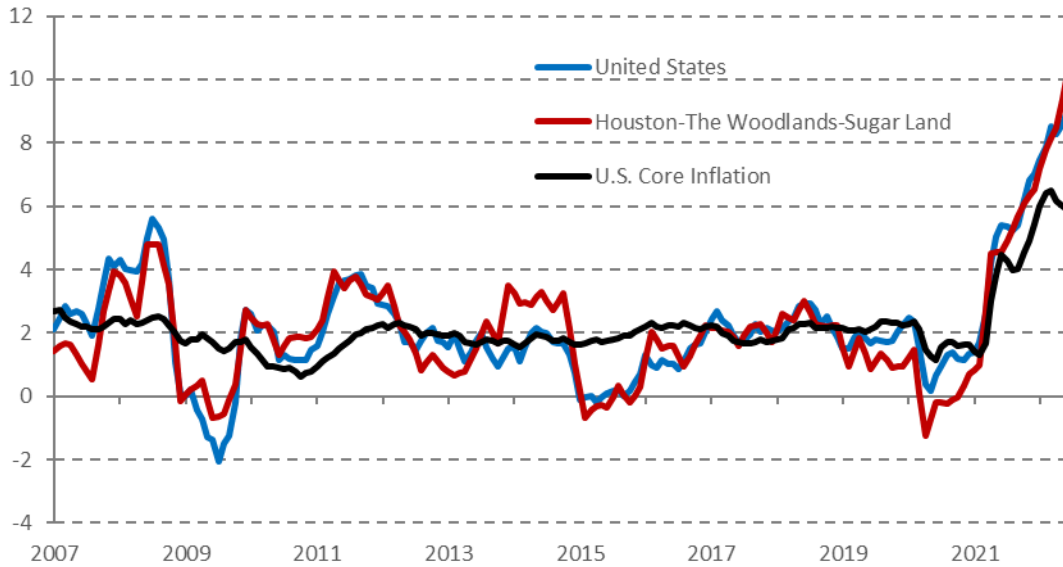
Texas Retail Sector



Note: Seasonally adjusted and inflation adjusted. For more information, see [Texas Retail Sector](#).

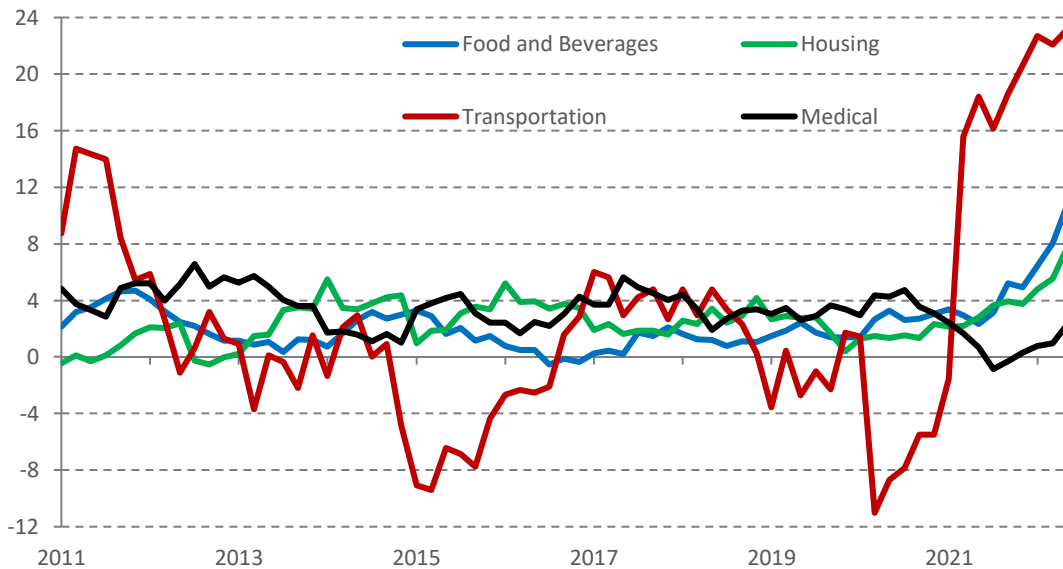
Sources: Retail Sector Outlook Survey from the Federal Reserve Bank of Dallas, Retail Sales from Texas Comptroller of Public Accounts

CPI Inflation Rates (Year-over-Year Percent Change)



Note: Seasonally adjusted. For more information, see [CPI Inflation Rates](#).
Source: Bureau of Labor Statistics

CPI Inflation Rates (Dallas-Fort Worth Components) (Year-over-Year Percent Change)

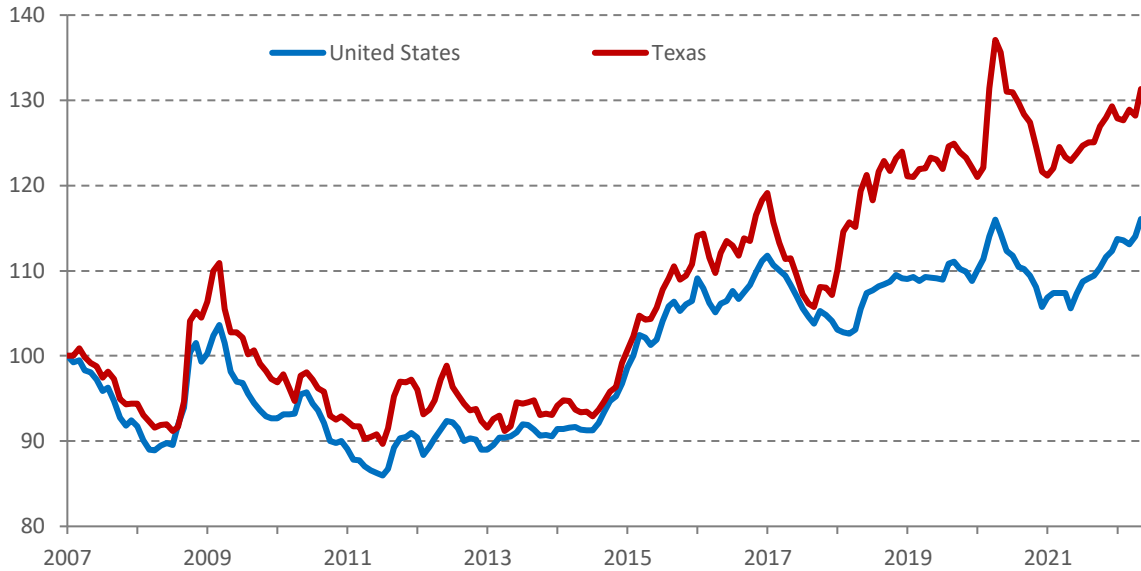


Note: The Dallas-Fort Worth CPI is composed of the following major groups: Food and Beverages, Housing, Apparel, Transportation, Medical Care, Recreation, Education and Communication, and Other Goods and Services. The four major components are included in the graph above.
Source: Bureau of Labor Statistics



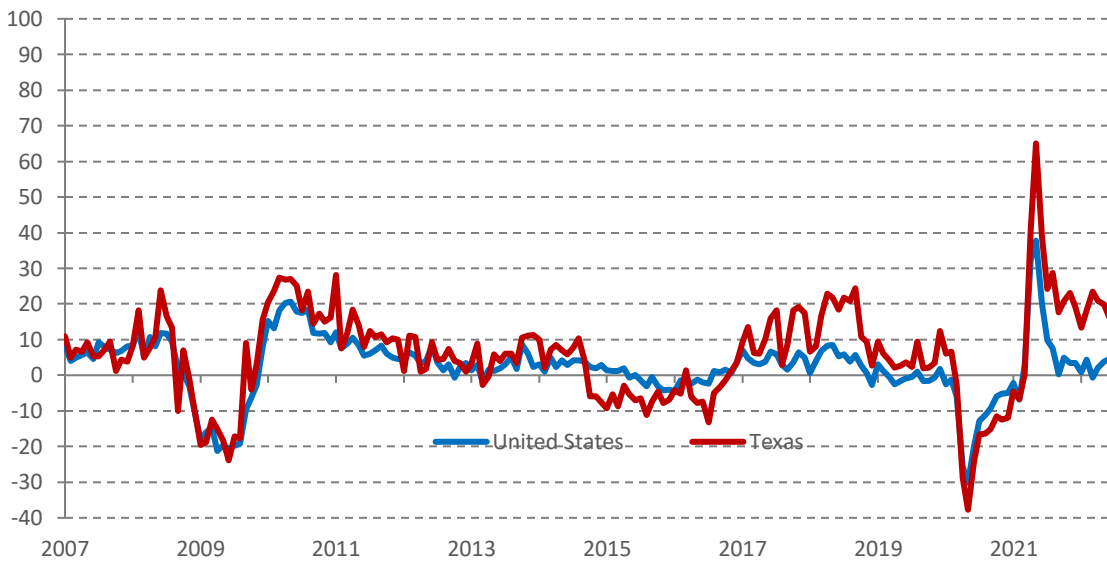
Trade

Real Trade Weighted Value of U.S. Dollar (Index Jan 2007 = 100)



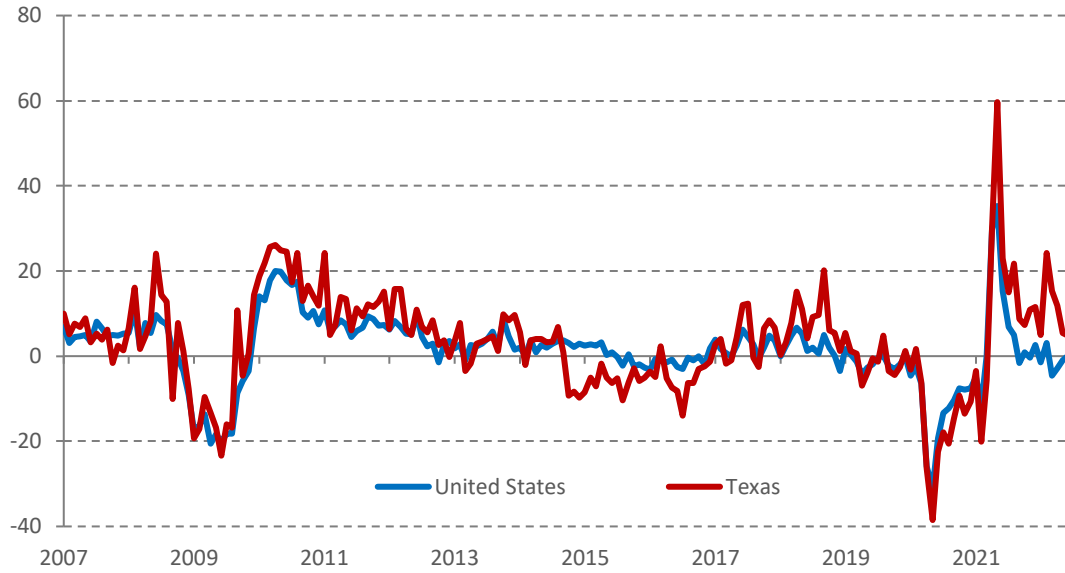
Note: For more information, see [Real Trade Weighted Value of U.S. Dollar](#).
Sources: Federal Reserve Bank of Dallas and Federal Reserve Bank of St. Louis

Exports (All Commodities) (Year-over-Year Percent Change)



Note: Seasonally adjusted. Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see [Exports](#).
Sources: International Trade Administration, Foreign Trade Division, and U.S. Census Bureau

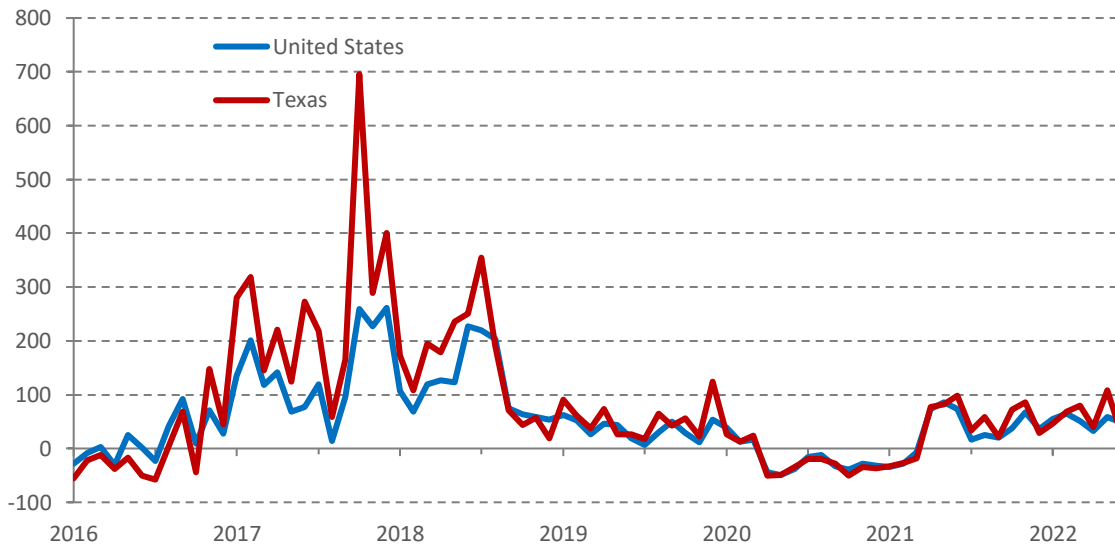
Manufacturing Exports (Year-over-Year Percent Change)



Note: Seasonally adjusted. Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see [Manufacturing Exports](#).

Sources: International Trade Administration, Foreign Trade Division, and U.S. Census Bureau

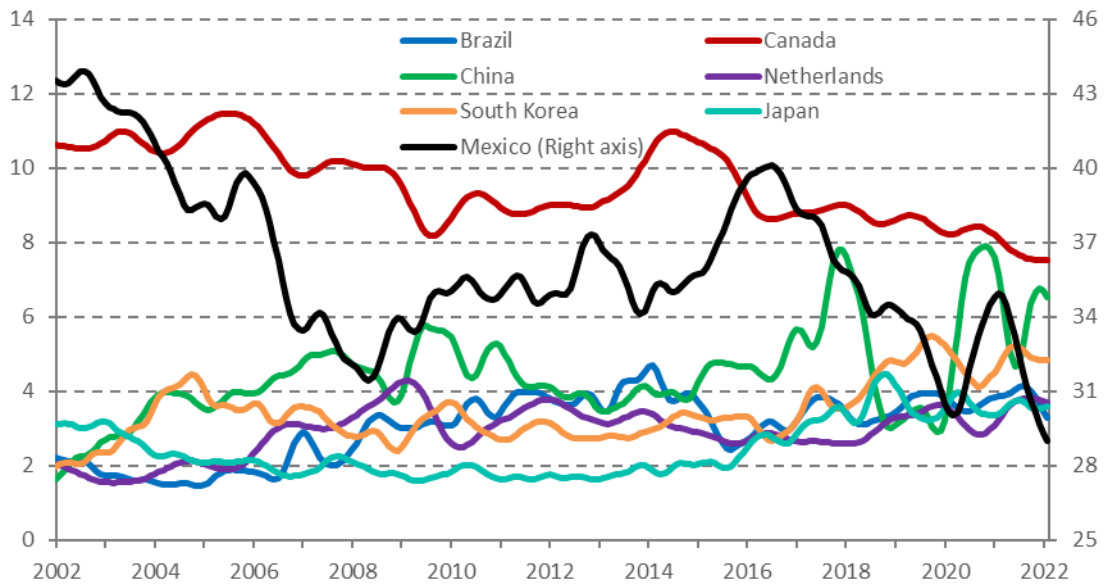
Crude Oil Exports (Year-over-Year Percentage Change)



Note: Seasonally adjusted. Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see [Crude Oil Exports](#).

Sources: International Trade Administration, Foreign Trade Division, and U.S. Census Bureau

Texas Exports by Country (Percent)



Note: Trend-cycle component. For more information, see [Exports](#).

Sources: International Trade Administration, Foreign Trade Division, and U.S. Census Bureau



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