Outlook for the Texas Economy

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TECHNICAL REPORT

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, Weiling Yan, and John Shaunfield

Data current as of August 1, 2022

July 2022

WTI OIL PRICE	UNEMPLOYMENT RATE	30-YEAR MORTGAGE RATE	U.S. CPI
$102 per barrel	4.0%	5.52%	8.5% YOY

Summary[1]

As the Fed attempts to rein in inflation, rising prices pressure the central banks to respond. Bond yields and mortgage rates increase as fears spread over looming economic concerns. Texas' labor market has slowed, though it is still expanding, as market concerns mount. Initial unemployment claims have reached an all-time low as an influx of out-of-state workers join Texas' robust labor force. Additionally, nominal wages increased in three of the four major metros. Amid efforts to attract more skilled labor, the three metros with wage increases beat month-over-month (MOM) inflation hikes for July, offering real increases in wages.

Economic Activity

Texas' economy continued to expand in July according to the **Dallas Fed's Texas Business-Cycle Index**, reporting 1 percent growth over June on a seasonally adjusted annualized rate (SAAR). However, the state economy is losing some steam but remains impressive. Last July, statewide year-over-year (YOY) growth was 13 percent compared with 12 percent this year. The biggest annual difference was in Austin, which went from 17 percent last year to 11 percent this July. Houston took Dallas' place as the only metro that hovered above its year-ago performance at 8.7 percent.

The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) ended its streak of post-pandemic expansion and edged down for the third straight month. The fall in the leading index was due to rising recession worries. The **Texas Consumer Confidence Index** retreated after April's rebound as consumers' inflation fears and Fed rate hikes dissipated purchasing power.

Financial Activity

After the Fed's 0.75-percentage-point increase in June, national inflation retreated. The **U.S. Consumer Price Index (CPI)** decelerated 50 basis points to an 8.5 percent YOY growth. On the other hand, core inflation—excluding food and energy—was mostly unchanged from June's 5.9 reading. Energy prices were the primary contributor to July's moderation, as the sector reported a high-single-digit drop from last month's inflation climb. DFW also reflected a similar fluctuation on transportation as the increase of energy costs slowed. According to the Bureau of Labor Statistics,

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

Dallas' CPI advanced 9.35 percent YOY with rising costs in food/beverages, housing, apparel, and medical. The relatively unchanged core inflation corroborated with concerns on an overheated economy.

The Federal Reserve is expected to impose more forceful monetary policies in the second half of the year to combat inflation. The **ten-year U.S. Treasury bond yield** retreated to 2.9 percent[2], while the two-year counterpart continued to march upward. The spread difference between the ten- and two-year bond yields entered negative territory for the first time since 2008, indicating the market's economic uncertainties about the near future. The **Federal Home Loan Mortgage Corporation's 30-year fixed-rate,** which for years hovered around 3 percent, elevated to 5.52 percent. The last time the mortgage rate was this high was also in 2008.

Housing

Record home prices and rapidly rising mortgage rates continue to discourage buyers and cool the market. As a result, while summer is typically peak season for housing sales, the state lost over 3,000 sales. There were over 28,000 **closed home sales** SAAR in July. COVID-19 continues to impact housing, having offset the typical sales pattern experienced in the past. The downturn in sales can also be attributed to the sudden rise in interest rates as the Fed employs measures in an attempt to curb unprecedented inflation. While sales are down this month, they are very close to July 2019 sales, a record-setting year before COVID-19. Nonetheless, sales are expected to continue their creep downward as the current the economic climate persists.

Employment

Concerns of inflation and a recession have not stifled Texas' **nonfarm employment** recruitment in July, expanding over previous months. Modest job creation was consistent across the private industries with arts/entertainment and personal services making up the majority of the losses. Nevertheless, the Dallas Fed's annual employment forecast expects growth to slow down in the second half of the year as a weaker U.S. economic outlook puts downward pressure on Texas' companies.

The national unemployment rate has reached pre-pandemic levels of 3.5 percent as Texas' **unemployment rate** remains elevated at 4 percent. Considering that Texas' jobless rate is typically the same as, if not lower than, the national average, one could explain Texas' relatively high rate with an influx of out-of-state workers instead of a weak labor market. The state's **labor force participation rate** plateaued at 63.8 percent, surpassing the national rate of 62.1 percent. Texas has regained all its labor force and is in expansion mode. The national labor force is down 1.3 percent compared to pre-pandemic highs and trending downward as workers' fears of a recession mount.

[2] Bond and mortgage interest rates are nonseasonally adjusted. Loan-to-value ratios, debt-to-income ratios, and the credit score component are also nonseasonally adjusted.

The number of Texans filing **initial unemployment insurance claims** decreased over the month to 58,900 in July. Claims have been trending downward since the initial spike in unemployment claims in April 2020. On a weekly basis, claims trended downward within the major metros since March 2020, suggesting improved conditions for laid-off workers seeking new job opportunities. Moreover, Texas' average weekly **continued unemployment insurance claims** trended slight upward at 85,252 SAAR claims, compared with the series average at 162,500 weekly claims (series started in 1987). In general, the number of total claims has nearly reverted to pre-pandemic levels.

The 4.5 percent YOY increase in Texas private employees' average nominal earnings ($29.90) was not enough to overcome inflation, decreasing the state's **real private hourly earnings** by 1.3 percent. Houston's ($31.41) and Dallas' ($33.29) wages climbed 1.7 and 1.1 percent MOM, respectively. San Antonio ($27.62) had nominal gains while Austin ($32.25) was the only metro with a reduction in earnings at 0.7 percent MOM.

Hiring across the board in all major metros was mitigated. Austin led the charge, increasing 1.18 percent MOM in July SAAR. Houston trailed with closer to 0.60 percent MOM growth, while both DFW and San Antonio grew closer to half a percent. Fort Worth had the largest change at 6,000 employees, or 0.58 percent MOM, adding to the seasonally adjusted payroll in July.

Manufacturing

Supply disruptions such as China's COVID-19 lockdowns and the ongoing war between Russia and Ukraine have promoted domestic manufacturing out of necessity. Texas' goods-producing sector has added 12,800 jobs SAAR in July. Despite manufacturing employment's historically robust pace, the record-high national inflation pulled down Texas' **average hourly manufacturing earnings** ($27.43) by 2.6 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, with recession fears and inflation looming.

Construction

Despite rising interest rates, July posted a record high for employment in construction, overcoming the prior month's decline. The **average hourly construction earnings** ($29.78) were up $0.44 from the previous month and trending upward. **Total construction values** contracted for the second consecutive month as residential activities tightened by double-digits. Single-family houses, duplexes, multifamily houses, and apartments all took a hit from climbing mortgage rates. Non-residential investment value was mostly unchanged. Houston office/bank buildings and emerging warehouses starts stalled. Meanwhile, Dallas and San Antonio experienced upticks in hotels/motels construction starts.

Energy

Texas' energy employment had been consistently robust, excluding a marginal dip in May. The mining and logging sector recruited 6,300 new workers this month, recovering 31,400 positions over the past 12 months. As U.S. inflation hinted at lowered energy costs, oil and gas prices both slipped. The **West Texas Intermediate (WTI) crude oil spot price** fell to an average of $102 per barrel, slowing the annual price acceleration by 20 percent MOM. Texas' crude oil production continued its pace of five million barrels per day in June[3], and companies expanded to 364 **active rigs**, up 139 rigs from last June's performance. The **Henry Hub spot price** dropped to $7.3 per million British thermal unit (BTU), down 5.4 percent MOM.

Services

Texas' service-providing sector rallied with 60,000 new workers. Respondents to the **Dallas Fed's Service Sector Outlook Survey** communicated stagnant service activities amid an unchanged revenue index. Conversely, the outlook survey uncertainty took a plunge as perceptions of broader business conditions stagnated in the negative. Respondents have a positive outlook for the future revenue index over the next six months as it jumped over 16 points.

On the other hand, Texas retail continued its decline amid its otherwise strong job market. Stagnant grocery chain and declining big-box retailer growth work against the sector. The **Dallas Fed's Retail Outlook Survey** deteriorated to its lowest level since July 2020. On the contrary, retailers' inventories surged as supply constraints eased. Respondents' perceptions of broader business conditions maintained their negative outlook as the uncertainty outlook dipped to a three-month low.

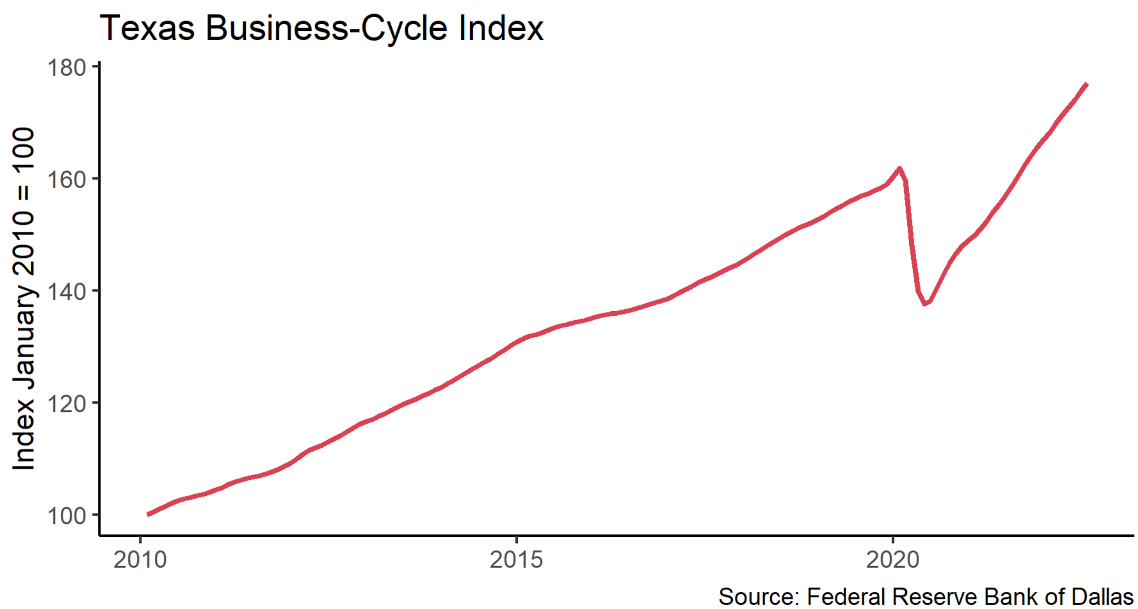
Trade

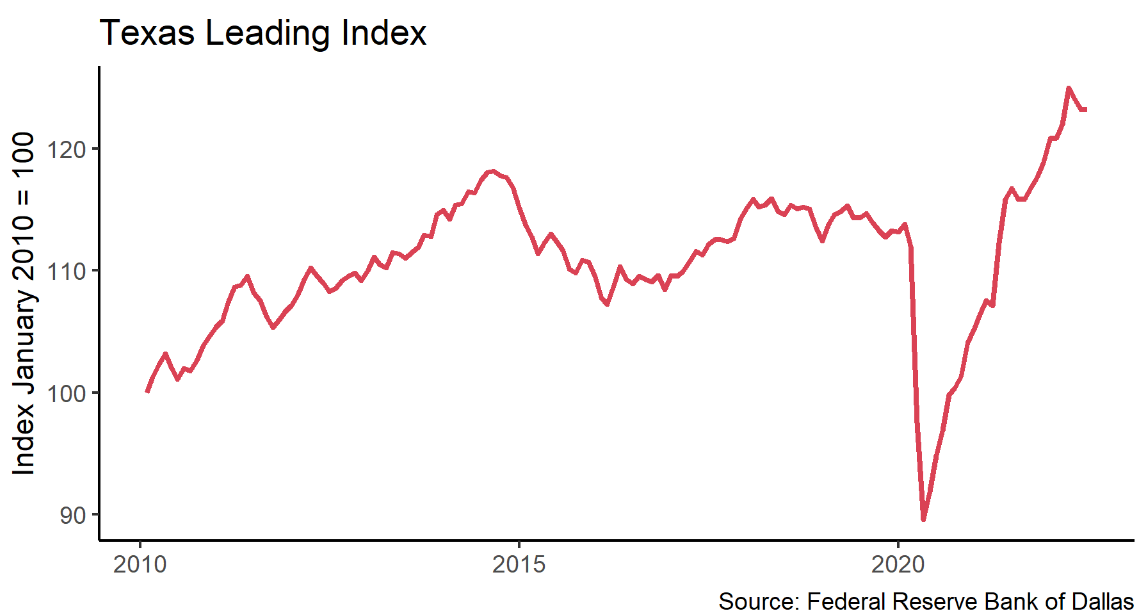
Multiple factors played roles in fueling the global inflationary story. The war between Russia and Ukraine triggered a new round of energy instabilities and amplified the existing supply strains on U.S.'s crop conditions. China's spring COVID-19 outbreak lengthened the lead time and transit costs of commodity exports with quarantined factory workers and collapsed port traffic. In the U.S., the sudden surge in currency circulating since the beginning of the pandemic contributes to the record inflation here at home.

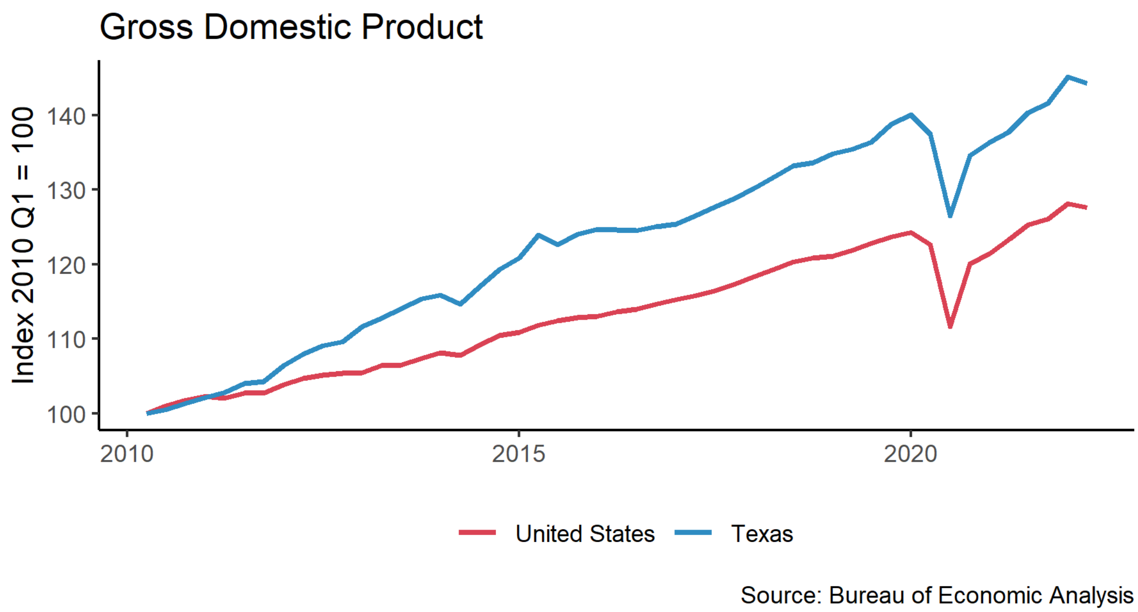
Europe's worsening energy crisis affected many countries. As foreign currencies were more adversely affected, the **Texas trade-weighted value of the dollar**[4] strengthened in June. The dollar's trade value appreciated 6.9 percent YOY, making Texas goods less affordable to foreign wholesalers. Nevertheless, 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 the positive net export values for the 39th consecutive month. Texas' largest crude oil importers—Canada, South Korea, Netherland, and Singapore—each purchased

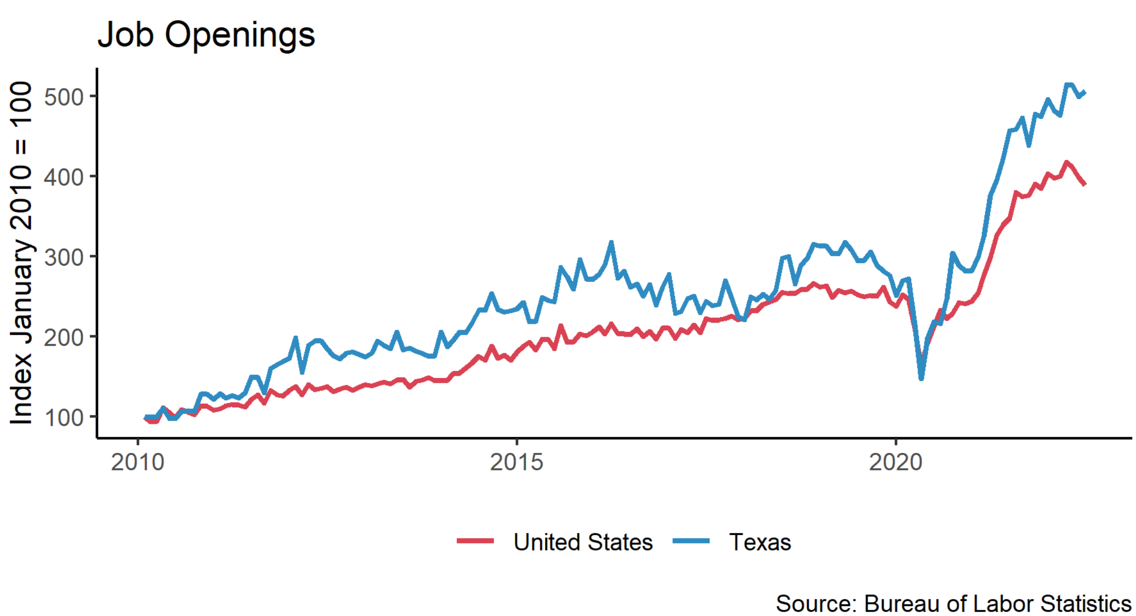
[3] The release of active rigs and crude oil production typically lag the *Outlook for the Texas Economy* by one month.
[4] The release of the trade section is lagging the *Outlook for the Texas Economy* by one month.

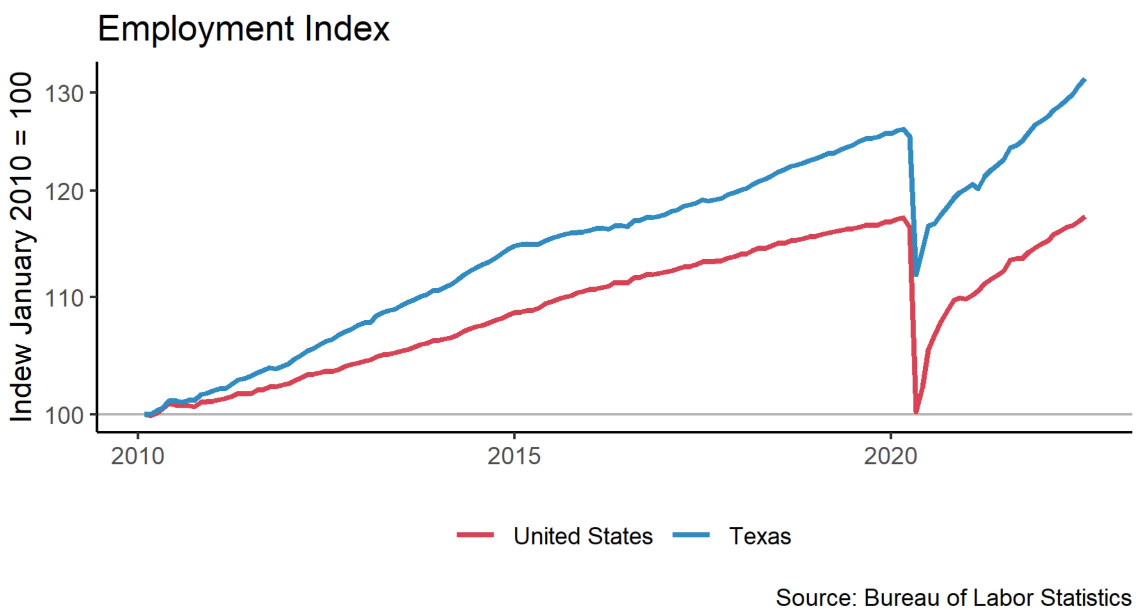
over $1 trillion dollars of crude oil for energy carriers that can be used into gasoline and diesel in June.

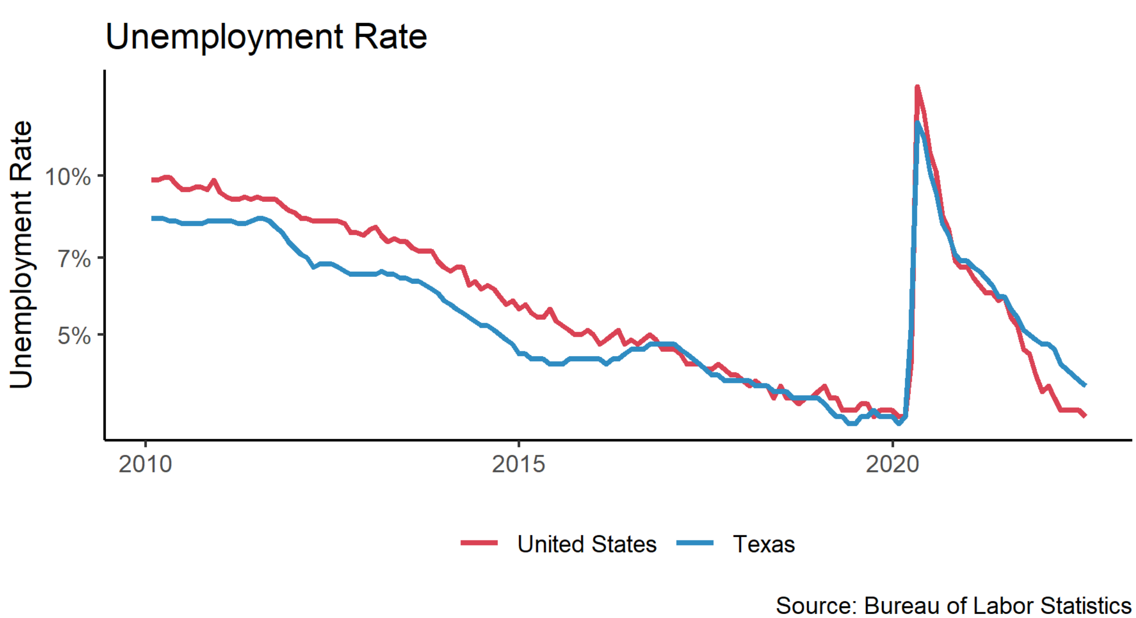

Texas Business-Cycle Index
Index January 2010 = 100
180
160
140
120
100
2010
2015
2020
Source: Federal Reserve Bank of Dallas

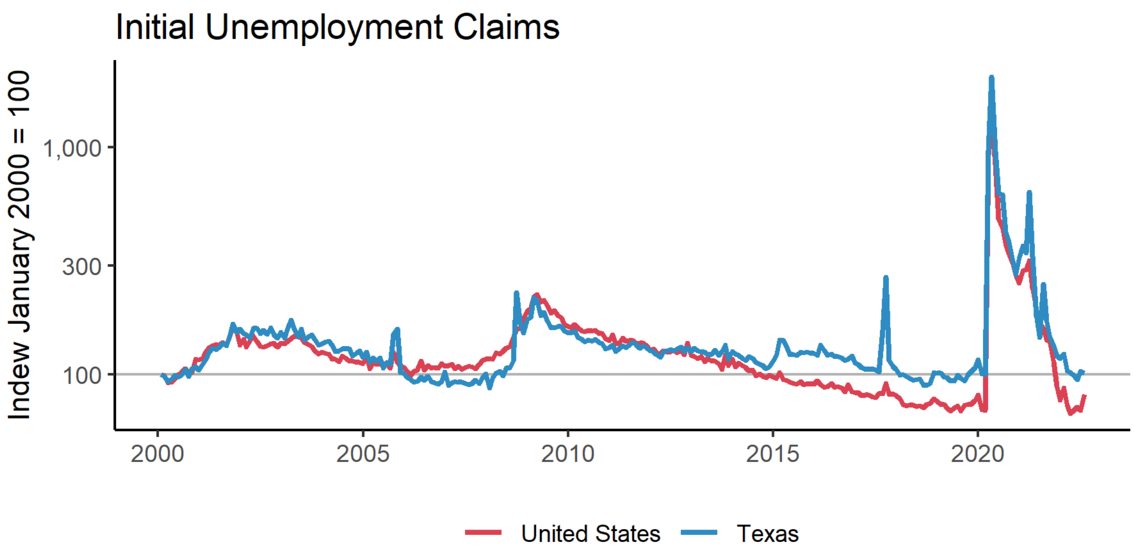

Texas Leading Index
Index January 2010 = 100
120
110
100
90
2010
2015
2020
Source: Federal Reserve Bank of Dallas


Gross Domestic Product
Index 2010 Q1 = 100
140
130
120
110
100
2010
2015
2020
United States
Texas
Source: Bureau of Economic Analysis

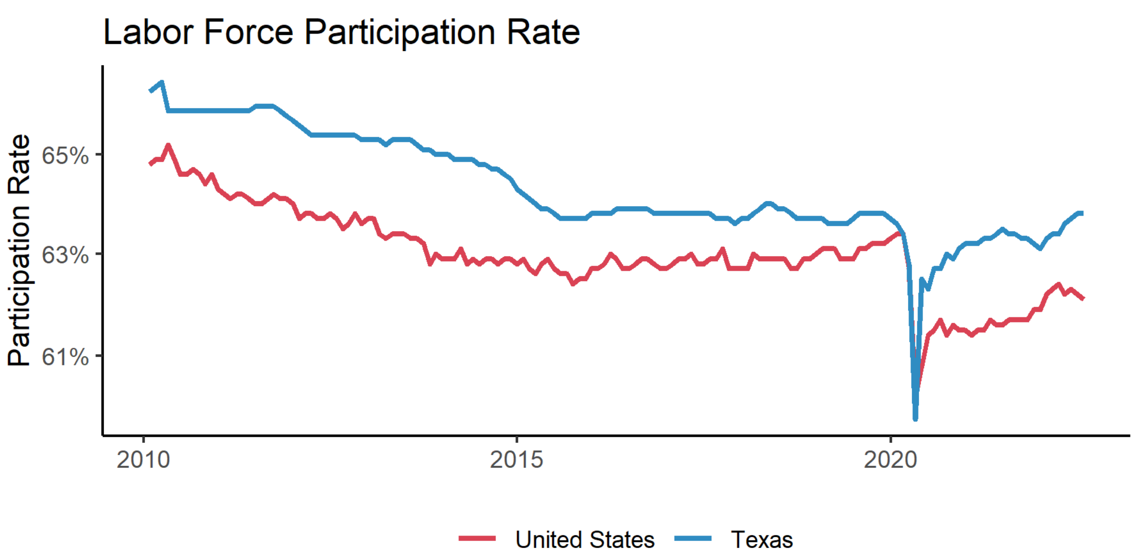

Job Openings
Index January 2010 = 100
500
400
300
200
100
2010
2015
2020
United States
Texas
Source: Bureau of Labor Statistics


Employment Index
Indew January 2010 = 100
130
120
110
100
2010
2015
2020
United States
Texas
Source: Bureau of Labor Statistics


Unemployment Rate
Unemployment Rate
10%
7%
5%
2010
2015
2020
United States
Texas
Source: Bureau of Labor Statistics

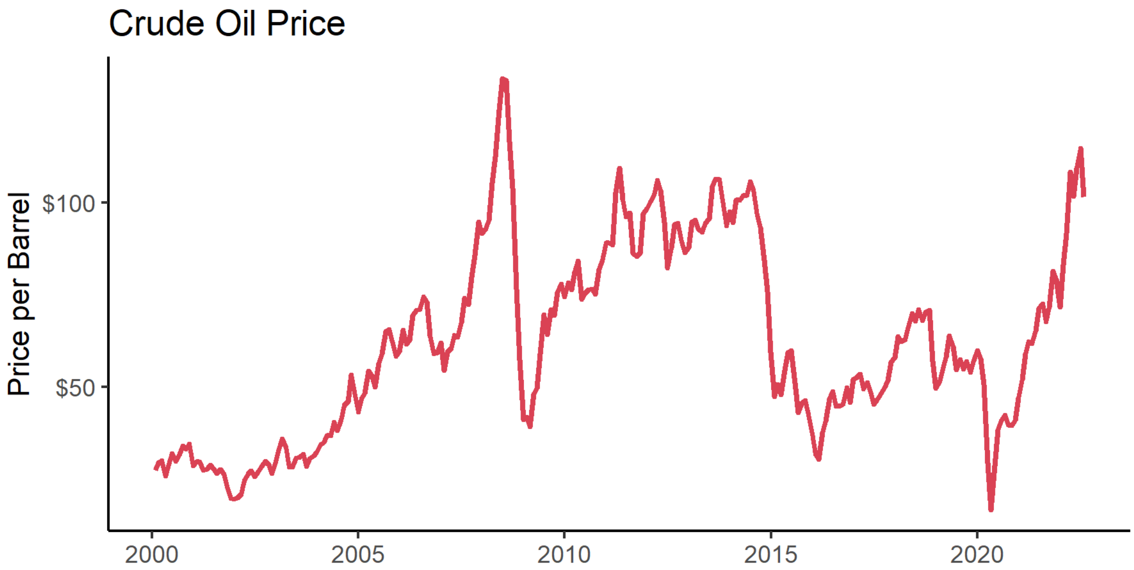


Source: Department of Labor

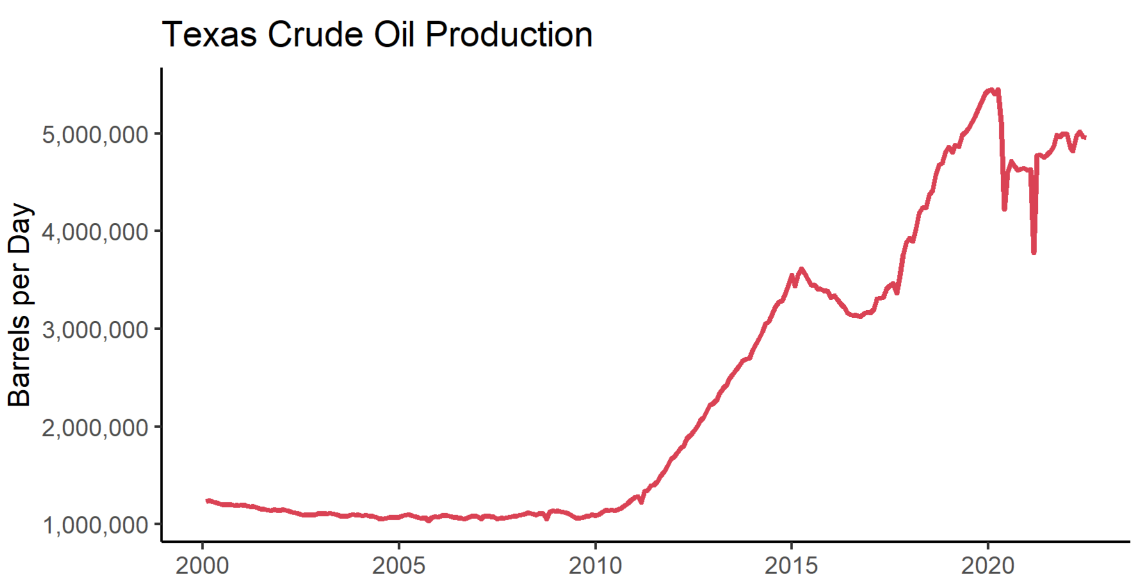


Source: Bureau of Labor Statistics

Energy

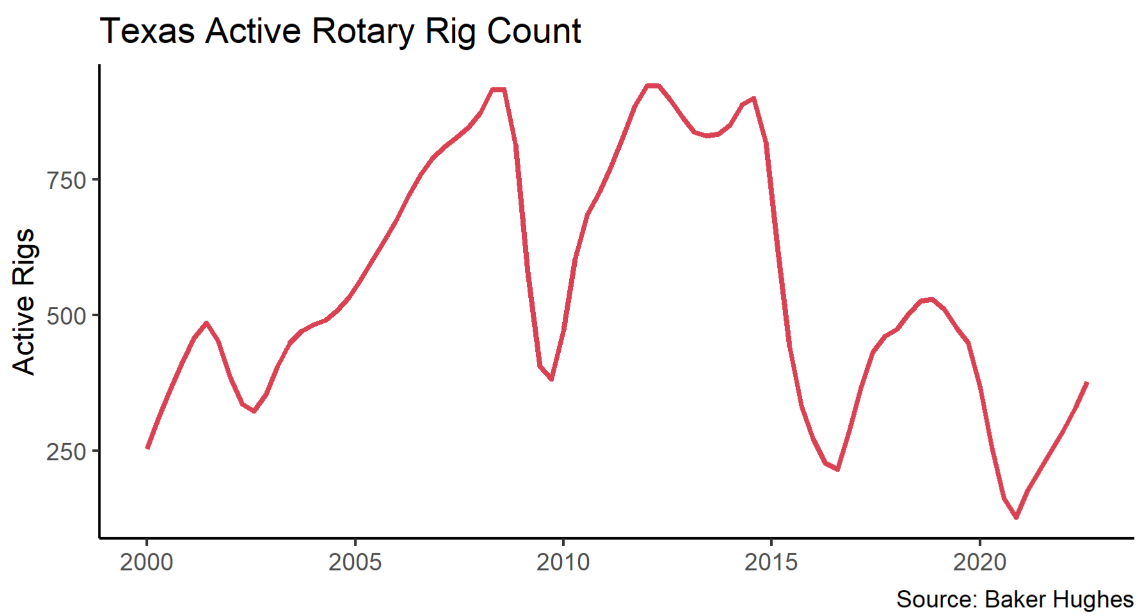


Source: Energy Information Administration

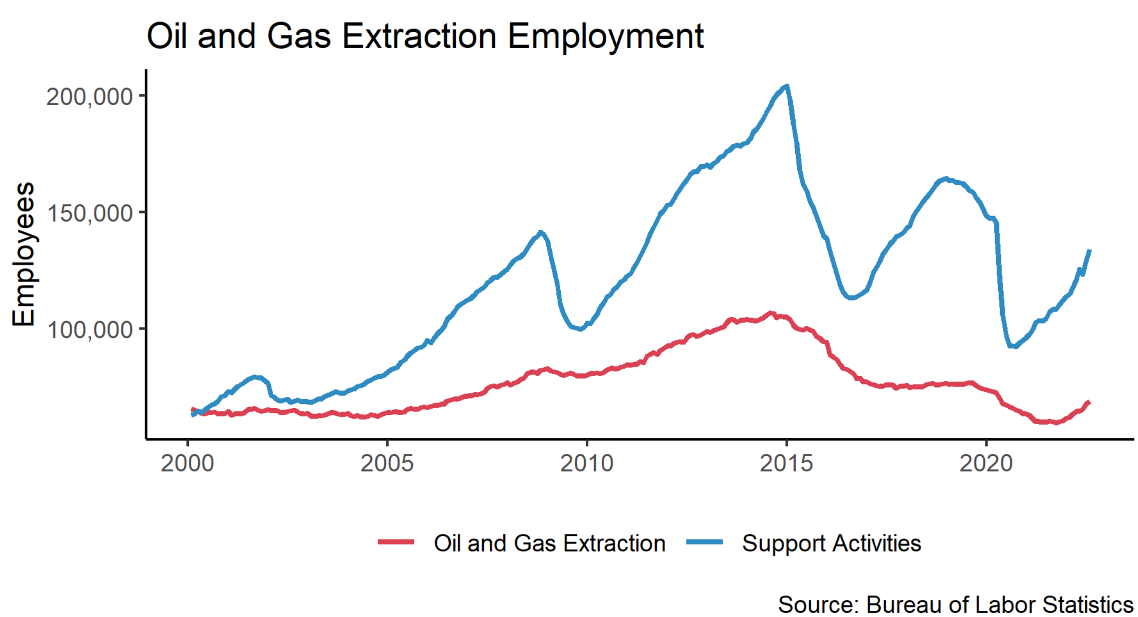


Source: Energy Information Administration

Energy



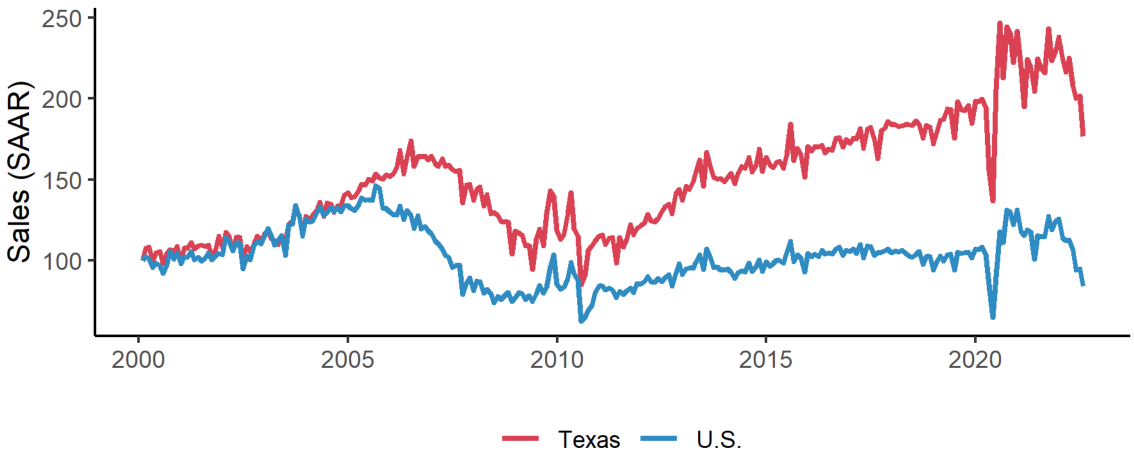
Texas Active Rotary Rig Count
Active Rigs
750
500
250
2000
2005
2010
2015
2020
Source: Baker Hughes



Oil and Gas Extraction Employment
Employees
200,000
150,000
100,000
2000
2005
2010
2015
2020
Oil and Gas Extraction
Support Activities
Source: Bureau of Labor Statistics

Residential Home Sales

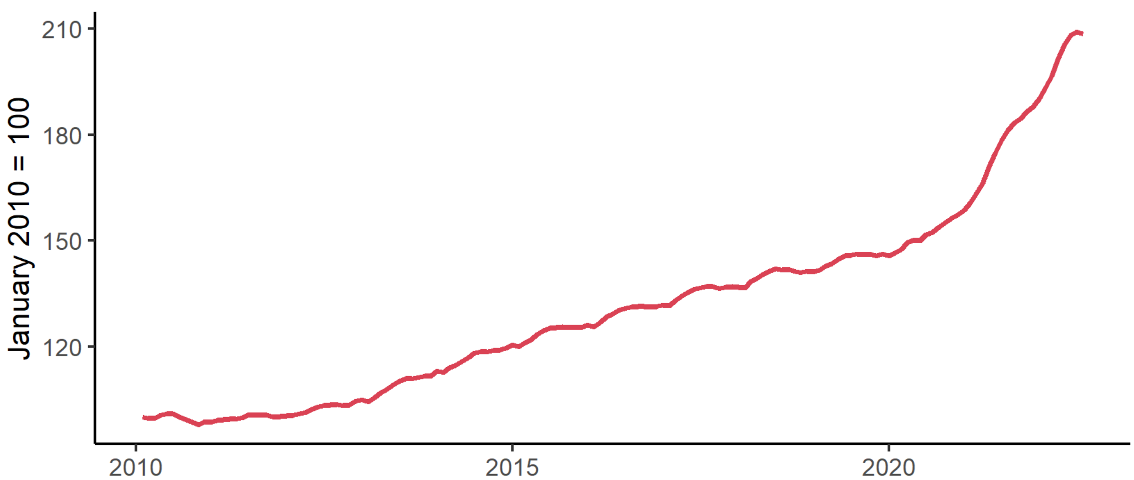
Seasonally Adjusted Annualized Rate



Source: National Association of Realtors - Texas Real Estate Research Center at Texas A&M University

Texas Home Price Index

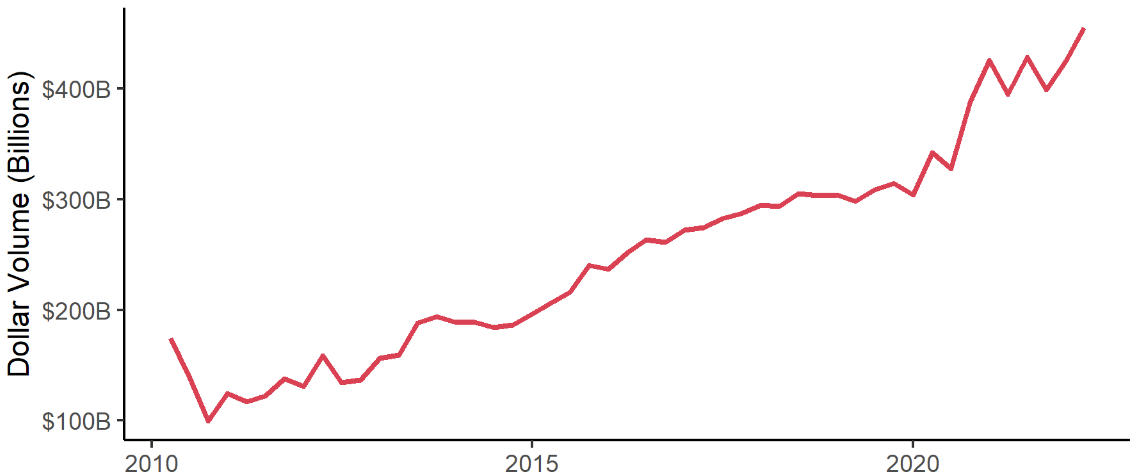
Seasonally Adjusted Annualized Rate



Source: Texas Real Estate Research Center at Texas A&M University

U.S. Purchase Mortgage Origination Dollar Volume

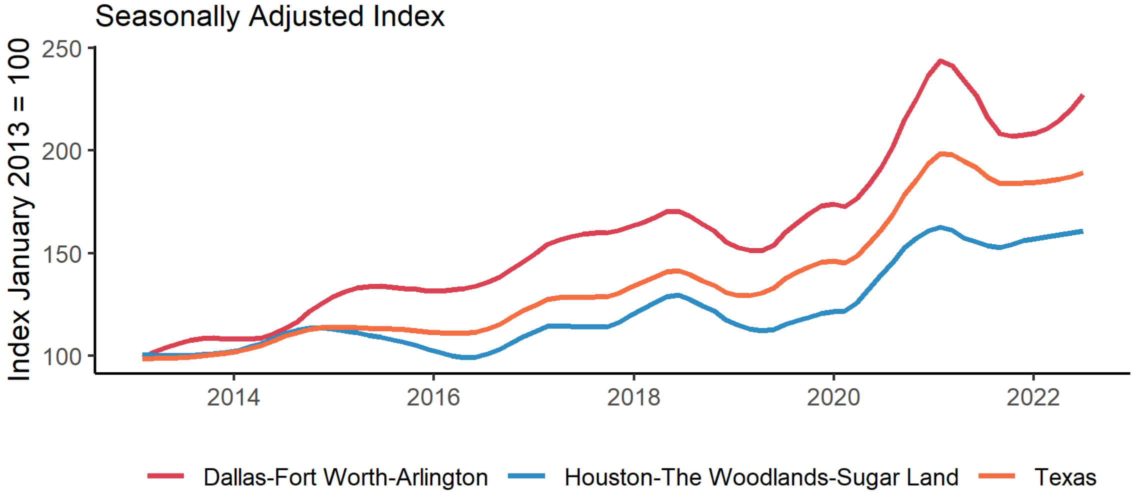
Seasonally Adjusted



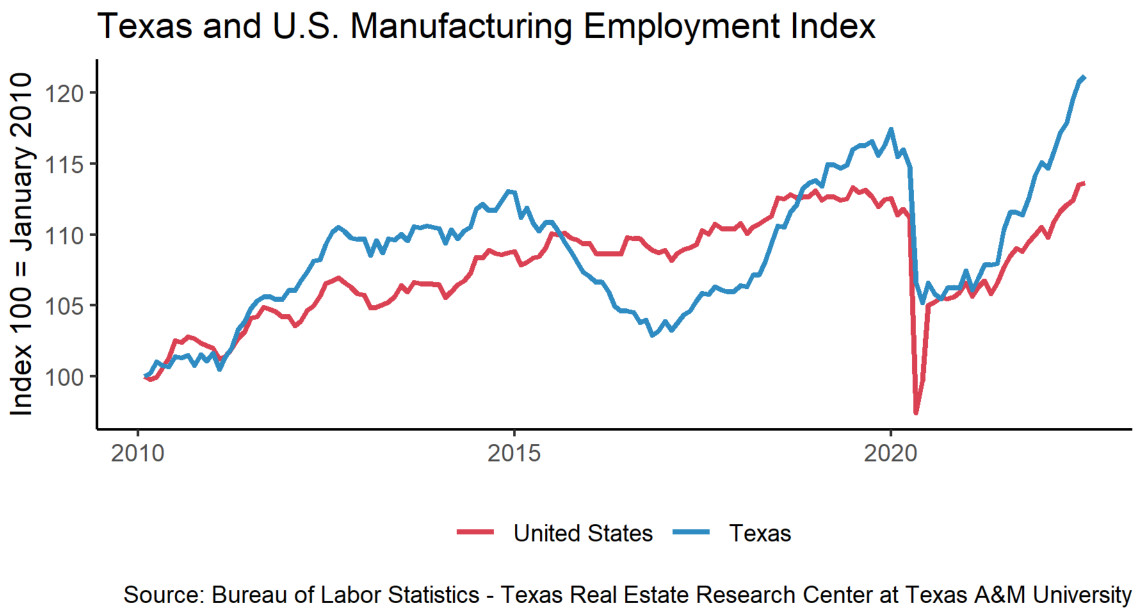
Source: Mortgage Bankers Association

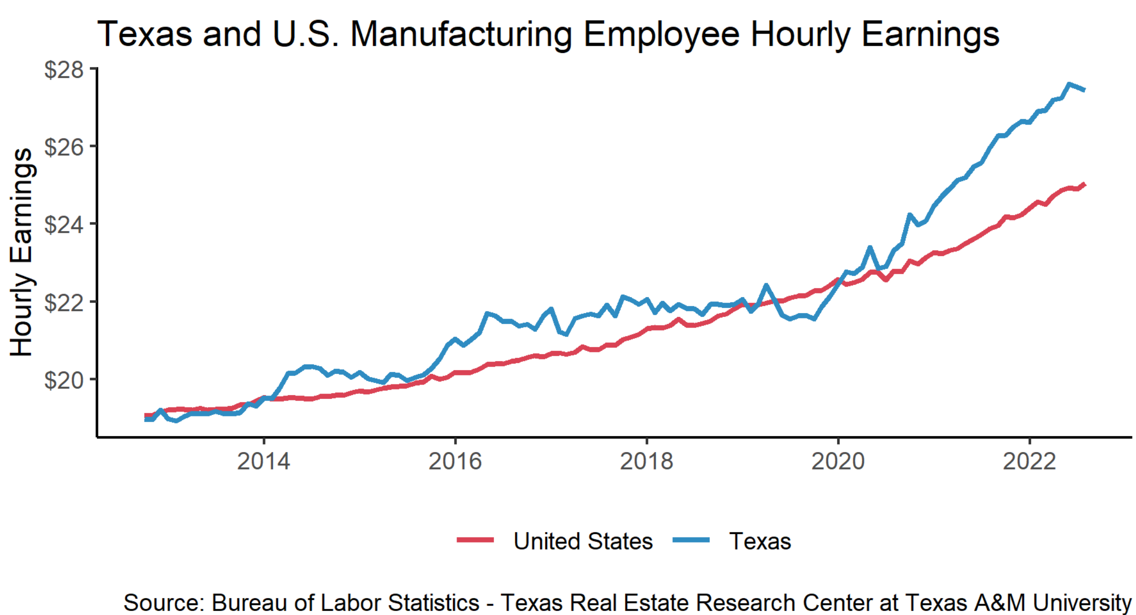
Single-Family Housing Starts

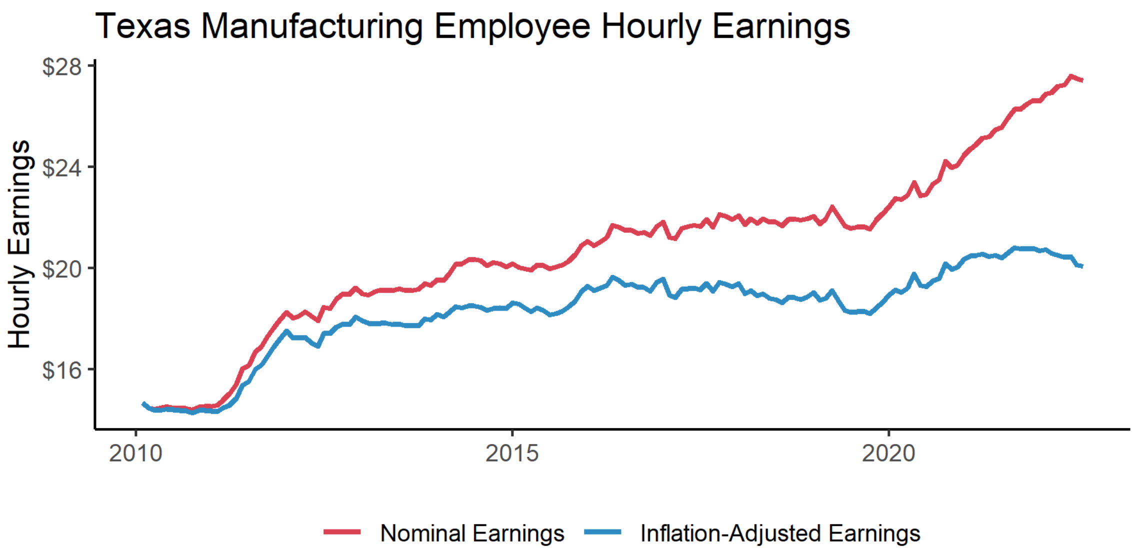
Seasonally Adjusted Index



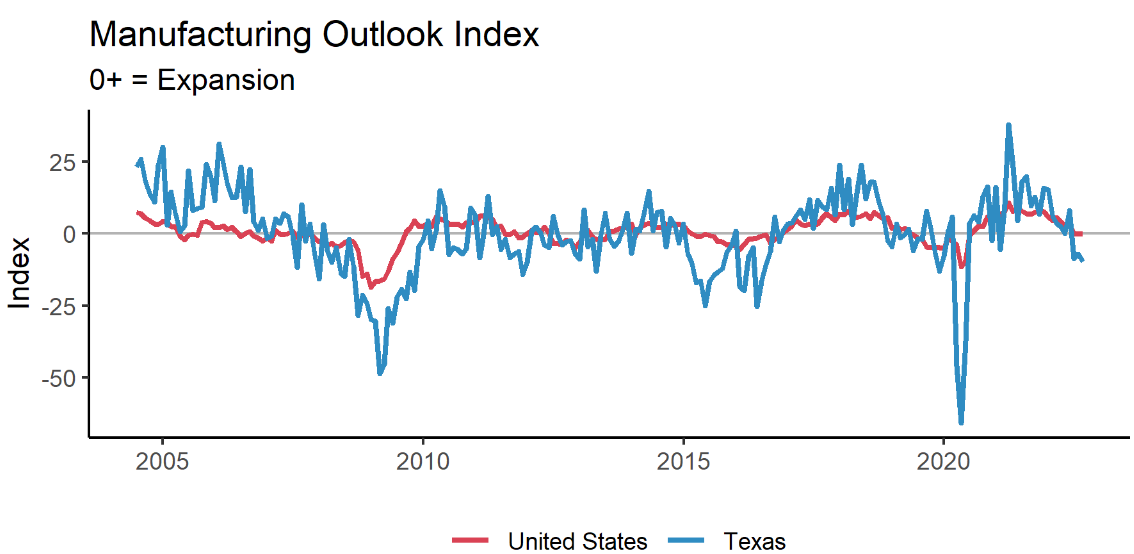
Source: Dodge Data & Analytics - Texas Real Estate Research Center at Texas A&M University


Texas and U.S. Manufacturing Employment Index
Index 100 = January 2010
120
115
110
105
100
2010
2015
2020
United States
Texas
Source: Bureau of Labor Statistics - Texas Real Estate Research Center at Texas A&M University


Texas and U.S. Manufacturing Employee Hourly Earnings
Hourly Earnings
$28
$26
$24
$22
$20
2014
2016
2018
2020
2022
United States
Texas
Source: Bureau of Labor Statistics - Texas Real Estate Research Center at Texas A&M University

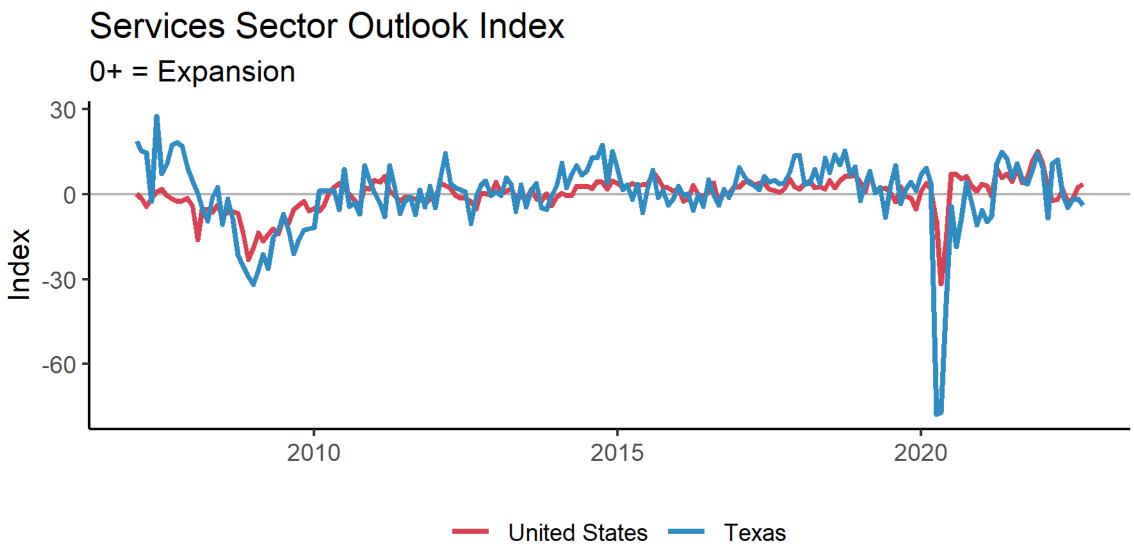


Source: Bureau of Labor Statistics - Texas Real Estate Research Center at Texas A&M University

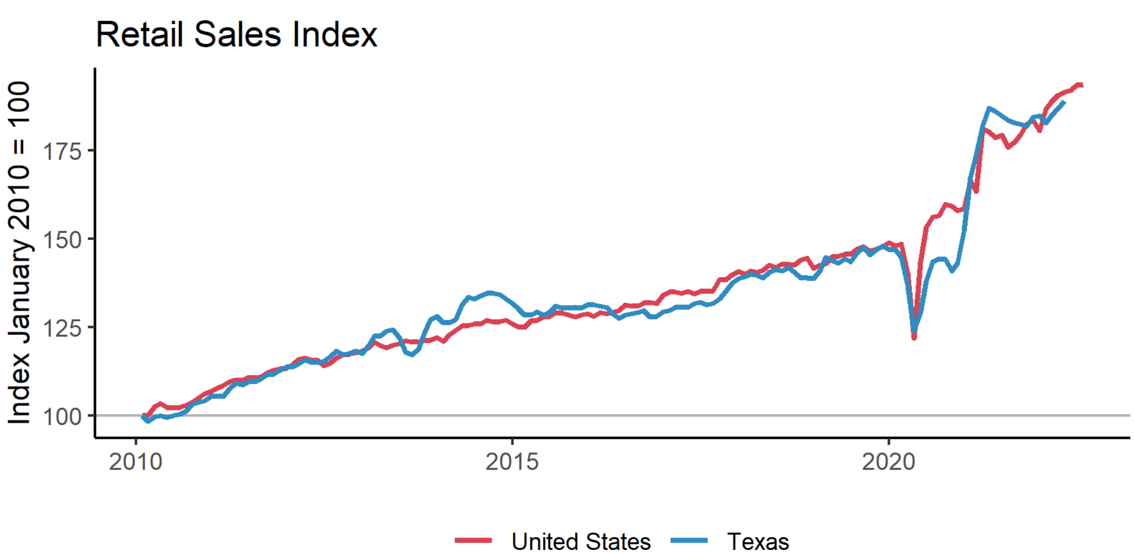


Source: Institute for Supply Management - Federal Reserve Bank of Dallas

Services

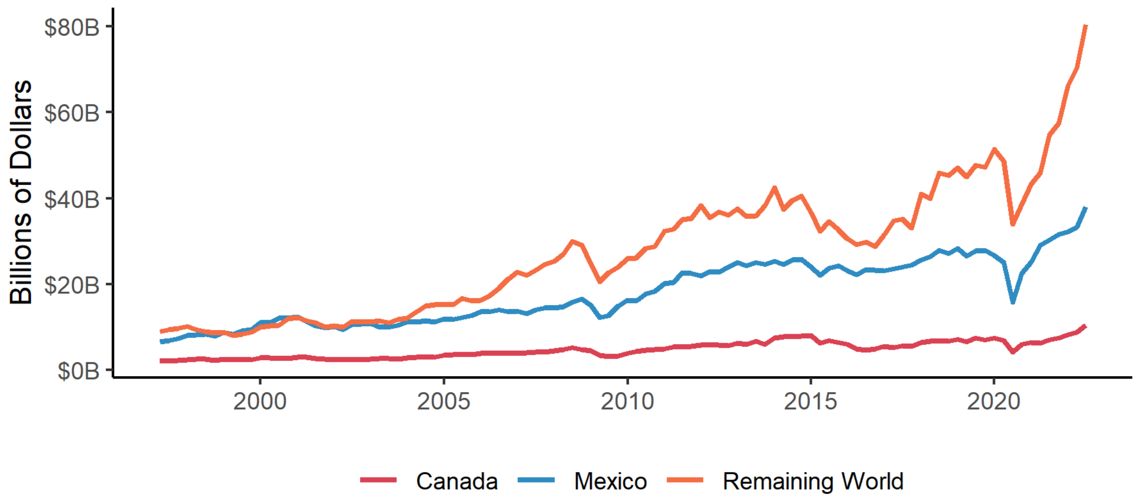


Source: Institute for Supply Management - Federal Reserve Bank of Dallas



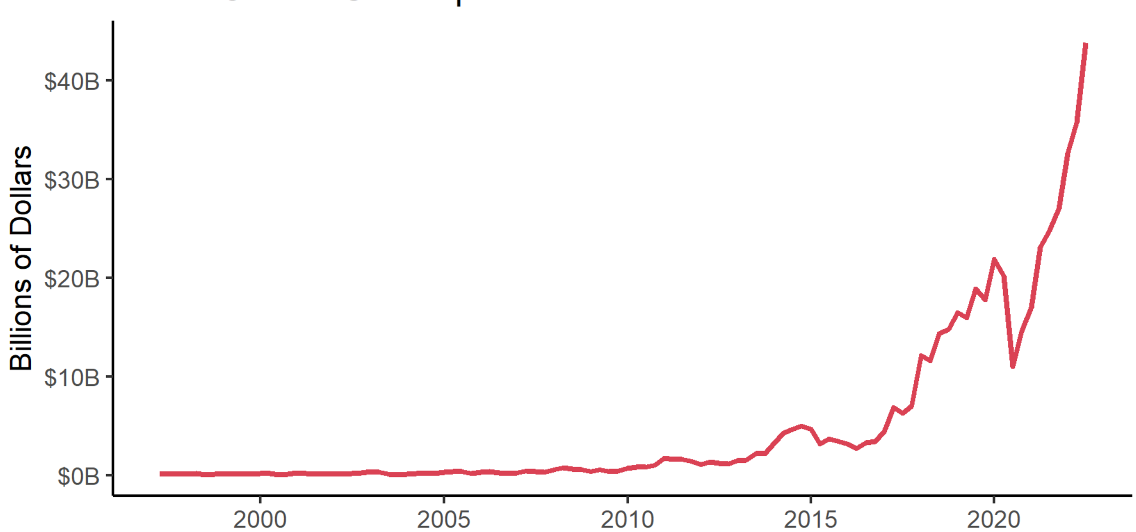
Source: Census Bureau - Federal Reserve Bank of Dallas

Texas Export Values by Destination



Source: Census Bureau via WISER

Texas Oil and Gas Exports



Source: Census Bureau via WISER

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