

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.

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Data current as of September 28, 2022

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August 2022

WTI OIL PRICE

▼ \$91.66

UNEMPLOYMENT RATE

▲ 4.1%

30-YEAR MORTGAGE RATE

▼ 5.22%

U.S. CPI

▼ 8.25%

Summary¹

The Texas economy had a mostly positive month in August, but several metrics are showing more signs of an upcoming slowdown. August job growth fell short of prior months and may continue to stall as a result of Federal Reserve efforts to tackle high inflation. The Fed's influence on rising interest rates has resulted in an abrupt halt in real estate activity, particularly in the residential sector. Between the Fed's current monetary regime and negative global economic factors, the Texas economy is expected to slow in the coming months.

Economic Activity

Texas' economy strengthened in August according to the **Dallas Fed's Texas Business-Cycle Index**, reporting half percent growth over July on a seasonally adjusted annualized rate (SAAR). Growth varied by metro, with the commonality being a diminished growth rate across each metro compared with July. Austin and San Antonio were hit hardest, posting modest 0.2 and 0.1 percent gains, respectively. Houston remains the only metro outpacing its August 2021 year-over-year (YOY) growth at 9.1 percent SAAR.

The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) ended the streak of post-pandemic expansion and edged down for the fourth month. The index suggests there is likely more economic pain on the horizon as a result of inflation reduction policies. Despite this outlook, the **Texas Consumer Confidence Index** made sturdy gains as Fed rate hikes are expected to lessen recession fears. Soon-to-be-released inflation figures will provide a clearer picture of near future economic activity.

Financial Activity

Following the Fed's 0.75 percentage point increase in June, the national inflation rate appears to have peaked. The **U.S. Consumer Price Index (CPI)** decelerated 25 basis points to an 8.25 percent YOY growth. Notwithstanding, core inflation (excluding food and energy) stepped up to 6.3 percent, a 0.4 percent increase over July. Energy prices remained the primary contributor to August's reduction, dropping 5 percent from the previous month's index. The Houston CPI remained elevated over core inflation at 9.5 percent YOY, with rising costs in transportation and

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



food/beverage making up the majority of the increase. 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** remained at 2.9 percent, while the two-year counterpart continued to march upward. The spread difference between the ten-year and two-year bonds remained in negative territory and continued their decline, outlining the market's greater concern of the near-term outlook versus the longer-term outlook. The **Federal Home Loan Mortgage Corporation's 30-year fixed-rate**, which had hovered around 3 percent for years, dipped 30 basis points to 5.22 percent from June's high.

Housing

As a result of higher mortgage rates, housing demand has fallen sharply, and homes are sitting on the market for longer. Texas **housing sales** improved slightly in August, up 5 percent from July's steep decline, and reached a seasonally adjusted rate of 29,300 sales. Overall home sales have been in free fall since around April, and at the current rate 2022, sales will likely fall short of 2021. According to the Texas Real Estate Research Center's Data Relevance Program, the sales level was down 16.3 percent from a year earlier.

Sales in all major metros remained low as mortgage pressures rattled buyers. Austin's and Houston's closed listings were most affected with a reduction of 20 percent YOY, while DFW and San Antonio pulled back over 10 percent. Sales of existing homes, which make up 80 percent of Texas' housing market, inched down for the seventh straight month. Texas' marginal recovery in August was concentrated in the remaining 20 percent of the housing market, where Dallas' new-construction market had a double-digit growth.

Employment

Texas' nonfarm employment slowed in August, posting the smallest job creation since February 2021. Payroll expansion was mixed across industries with the biggest losses in management, manufacturing of nondurable goods, and wholesale trade. Additionally, the Dallas Fed's annual employment forecast expects growth to slow in the second half of the year as a weaker U.S. economy outlook puts downward pressure on Texas companies.

In August the national unemployment rate ticked up 20 basis points to reach 3.7 percent. Texas' **unemployment rate** remained above the national level in August at 4.1 percent. Even though the Texas rate has been higher than the national rate since COVID, the state's workforce has been consistently more engaged with the state's **labor force participation rate** at 63.8 percent versus the national rate of 62.4 percent. The national labor force rate still remains around 1 percent below pre-pandemic levels, whereas Texas recovered in summer 2022.

The number of Texans filing **initial unemployment insurance claims** dropped to the lowest it's been in a decade, with only 41,900 applications filed. Claims have trended downward since the



spike at the start of the pandemic, culminating in record lows not seen in decades. The increased number of job openings has contributed to this trend. Texas' average weekly **continued unemployment insurance claims** trended up slightly month over month (MOM), but it remains on par with April's lows. In general, the number of total claims nearly reverted to pre-pandemic levels.

The 2.8 percent YOY increase in Texas private employees' average nominal earnings (\$30.05) was not enough to overcome inflation, decreasing the state's **real private hourly earnings** by 3.5 percent. Wages changed little in August with the largest paycheck increases coming from Dallas (\$33.69) and Fort Worth (\$32.63) at 0.46 and 0.33 percent MOM, respectively. Austin (\$32.33) and San Antonio (\$27.41) wages slipped by 0.24 and 0.18 percent MOM, respectively.

Hiring across the board in all major metros was stifled as Texas added only 16,400 employees to the payroll compared with over 70,000 added in July. San Antonio was the only metro to have a loss in employment, losing 2,400 jobs. Dallas and Austin had minor upticks in employment at 1,000 employees each. Houston bucked the trend with 15,600 additional jobs added in August. Meanwhile, San Antonio dragged the metric down with a reduction of 2,400 jobs.

Manufacturing

Economic concerns and mounting inflation have coincided with slowed employment growth across Texas, including the manufacturing sector. Texas' goods-producing sector added just 1,900 jobs SAAR in August. Despite manufacturing employment's historically robust pace, record-high national inflation pulled down Texas' **average hourly manufacturing earnings** (\$27.62) as wages increased 0.01 percent MOM, far from enough to counteract inflation. In addition, the Dallas Fed's Manufacturing Outlook Survey dropped even further from the previous month as recession fears loomed.

Construction

With interest rates rising, August posted a decrease in construction employment, dropping 500 jobs from July's record high. The **average hourly construction earnings** (\$29.53) are down \$0.34 from the previous month, ending the trend of upward price hikes. **Total construction values** escalated, bucking the trend of the previous months, led by an uptick in commercial activity. Residential activities tightened by single and double digits across single-family and two-family housing, respectively, as a result of climbing mortgage rates. Houston had emerging office/bank buildings and nonresidential housing. Meanwhile, Dallas' apartment and single-family housing dropped significantly MOM.

Energy

Texas energy employment growth has been mostly positive except for a marginal dip in May. The mining and logging sectors recruited 1,600 new workers in August. However, the sector still has around 15,000 fewer jobs than it did at the start of the pandemic. As a result of falling global demand, oil and gas prices both slipped. The **West Texas Intermediate (WTI) crude oil spot price**



fell to an average of \$91.66 per barrel, slowing 10 percent MOM. Texas' crude oil production continued the pace of just under five million barrels per day in June², and companies expanded to 364 **active rigs**, up 139 rigs from last June's performance. The Henry Hub spot price spiked to \$8.8 per million British thermal unit (BTU), up 21 percent MOM.

Services

Texas' service-providing sector accounted for the bulk of employment gains, adding 13,400 new workers. Respondents to the **Dallas Fed's Service Sector Outlook Survey** communicated that the revenue index weakened amid slower sector growth. The outlook uncertainty index dropped as perceptions of broader business conditions stagnated. However, respondents held a positive outlook as the future revenue index stepped up 4 points.

Texas' retail sector had a flat month for job growth, adding only 200 jobs over the previous month. According to the **Dallas Fed's Retail Outlook Survey** the outlook for retail appears fairly bleak, likely in anticipation of a possible economic downturn on the horizon. The rise in retail inventory levels, increased input costs, rising labor costs, and slow revenue growth contributed to this negative outlook.

Trade

Multiple factors fueled global inflation. The war between Russia and Ukraine triggered a new round of energy instabilities, and it amplified the existing supply strains on U.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, along with rising rates, contributes to the record inflation.

The **Texas trade-weighted value of the dollar**³ continued to strengthen in July as the global demand for the dollar continues to rise. The dollar's trade value appreciated 8.3 percent YOY, making Texas goods less affordable to foreign wholesalers. Nevertheless, Texas' nominal **real commodity exports** balanced at record levels at \$42.8 billion, rising 15.2 percent year-to-date (YTD) in real terms. **Manufacturing exports** grew 5.7 percent YTD with \$825 million worth of elevated shipment in petroleum/coal amid the \$297 million loss in transportation equipment. Notably, Texas' **crude oil exports**, which make up most of the national crude oil exports, skyrocketed at 45.8 percent YTD, as the Netherlands and Canada—Texas' two largest crude oil importers—each doubled their year-ago purchases.

² The release of active rigs and crude oil production typically lag the *Outlook for the Texas Economy* by one month.

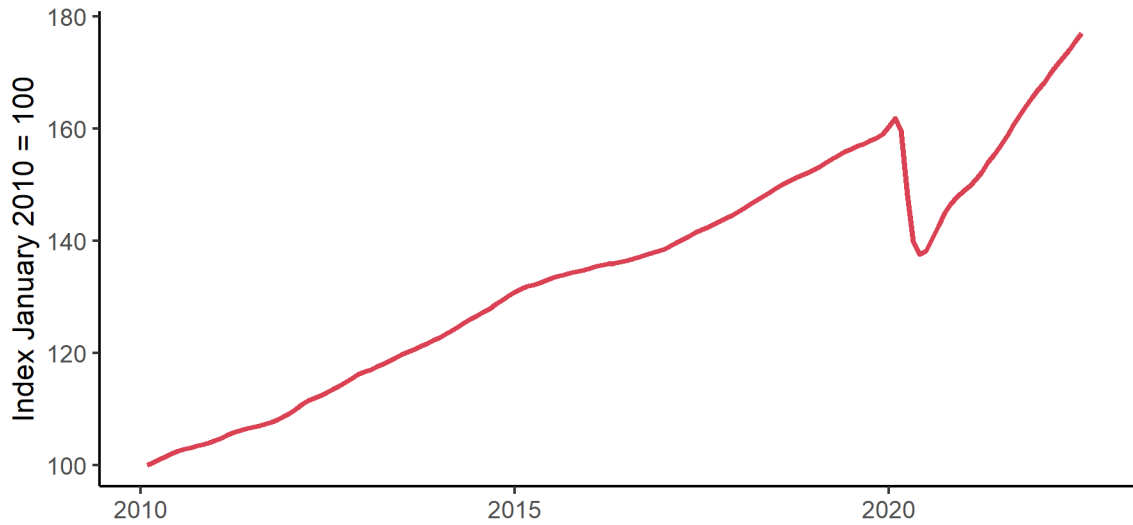
³ The release of the trade section is lagging the *Outlook for the Texas Economy* by one month.





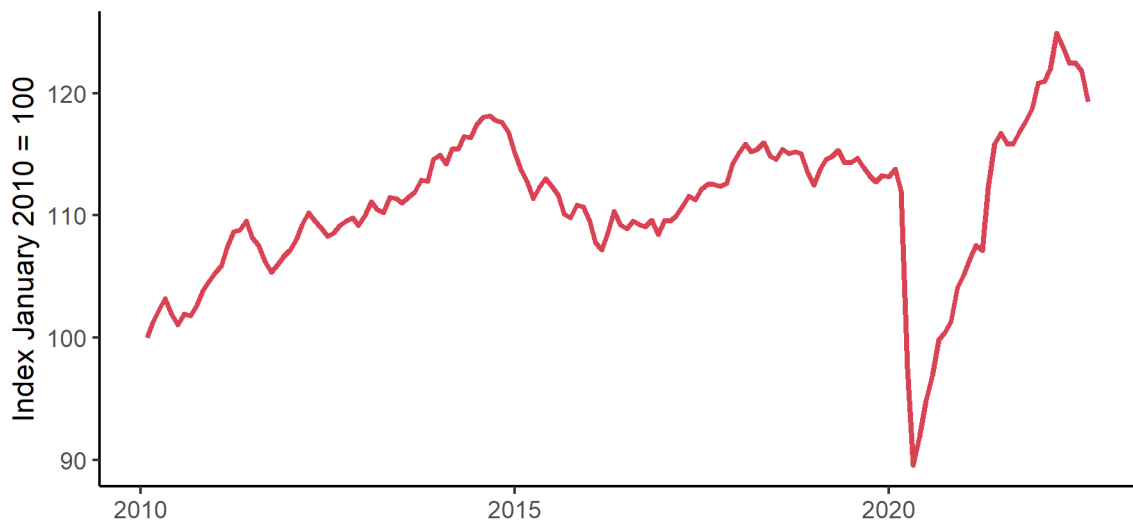
Economic Activity

Texas Business-Cycle Index



Source: Federal Reserve Bank of Dallas

Texas Leading Index



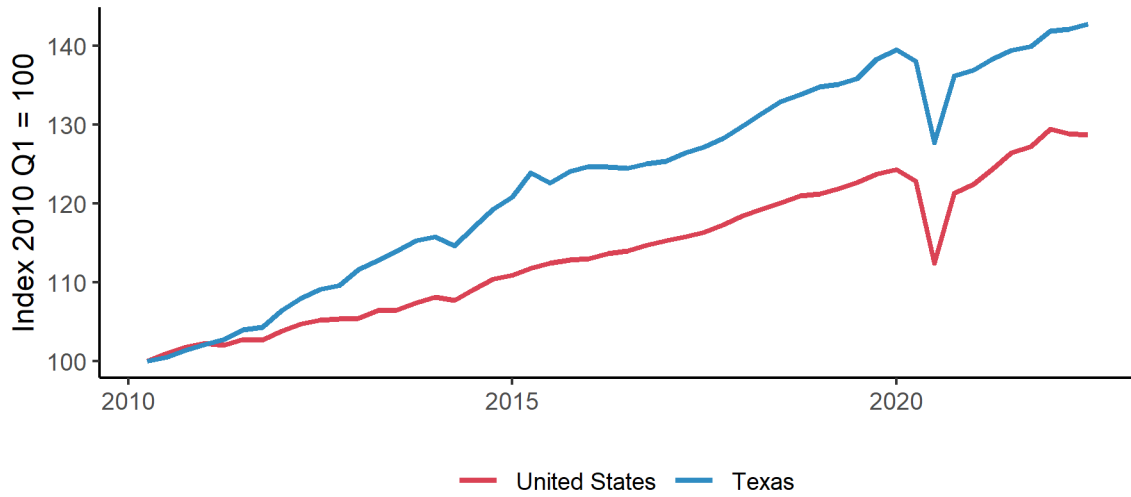
Source: Federal Reserve Bank of Dallas





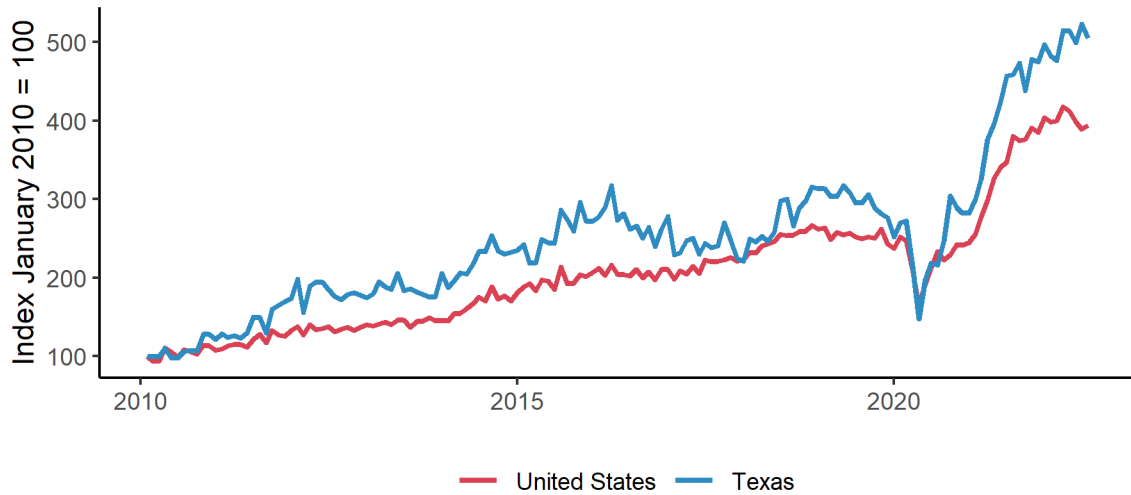
Economic Activity

Gross Domestic Product



Source: Bureau of Economic Analysis

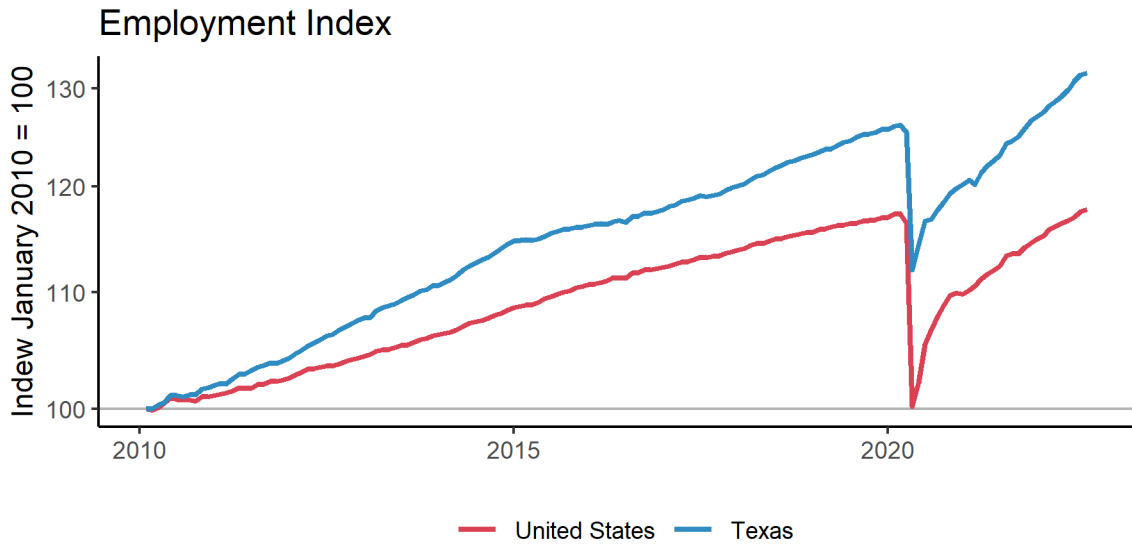
Job Openings



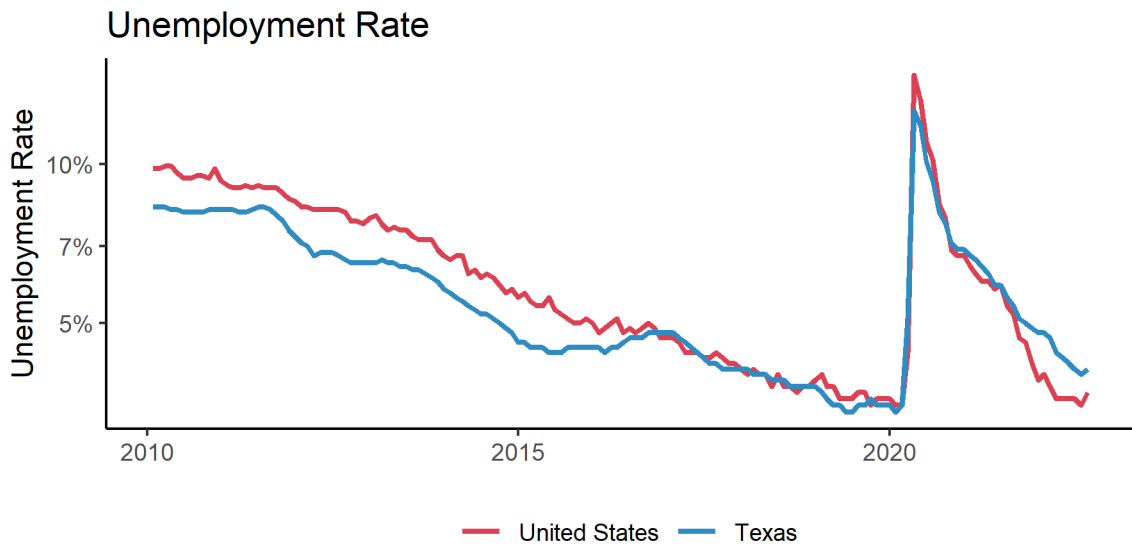
Source: Bureau of Labor Statistics



Employment



Source: Bureau of Labor Statistics



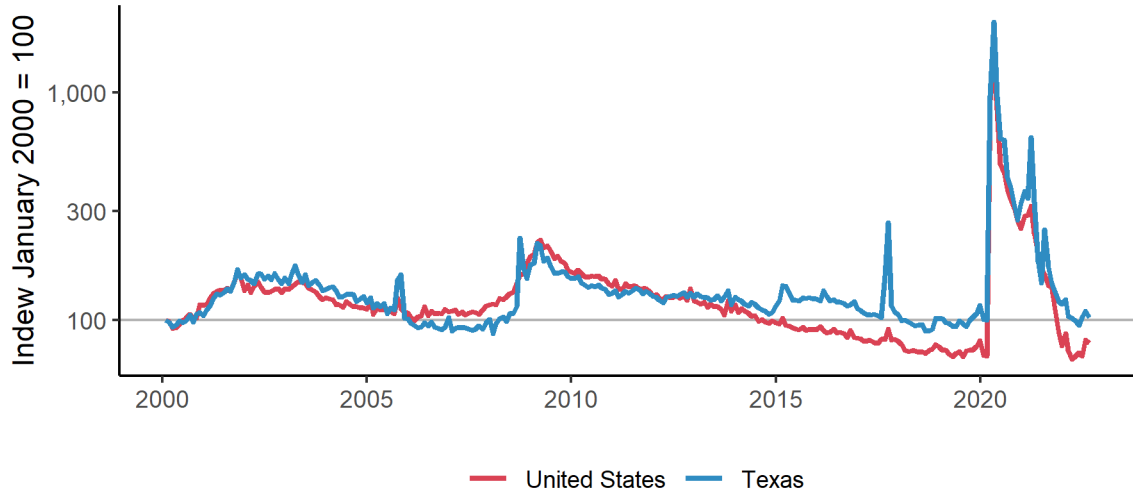
Source: Bureau of Labor Statistics





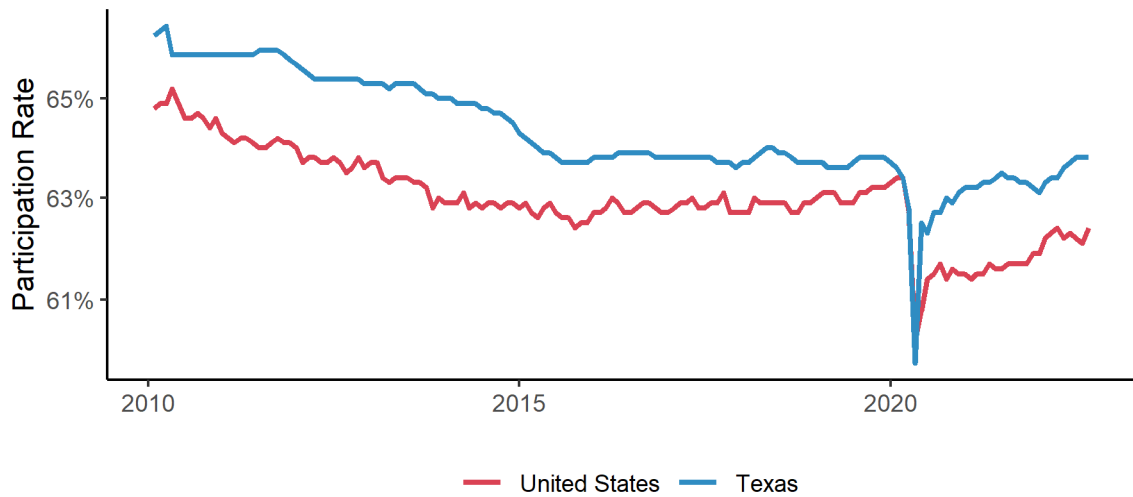
Employment

Initial Unemployment Claims



Source: Department of Labor

Labor Force Participation Rate



Source: Bureau of Labor Statistics





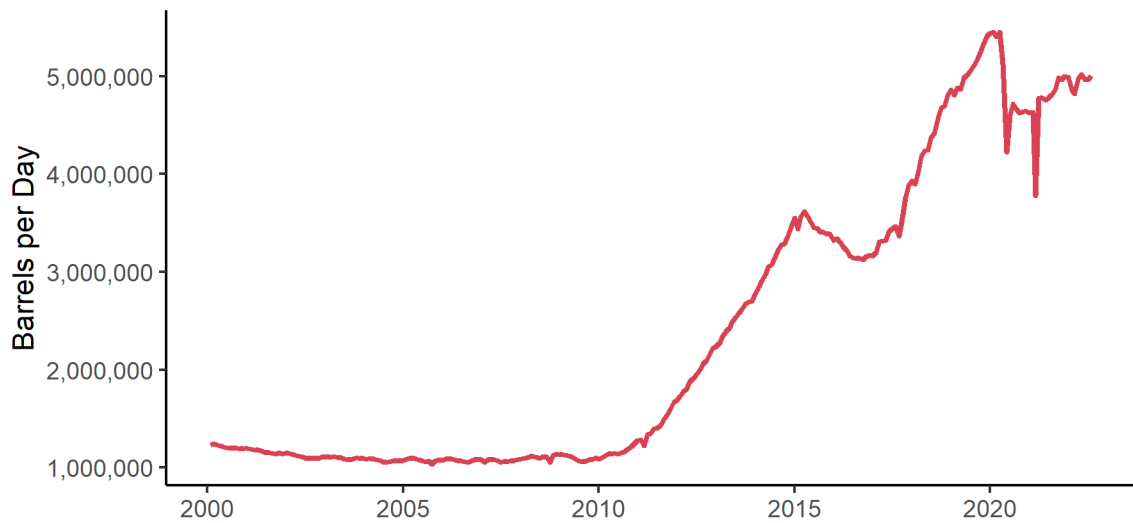
Energy

Crude Oil Price



Source: Energy Information Administration

Texas Crude Oil Production



Source: Energy Information Administration



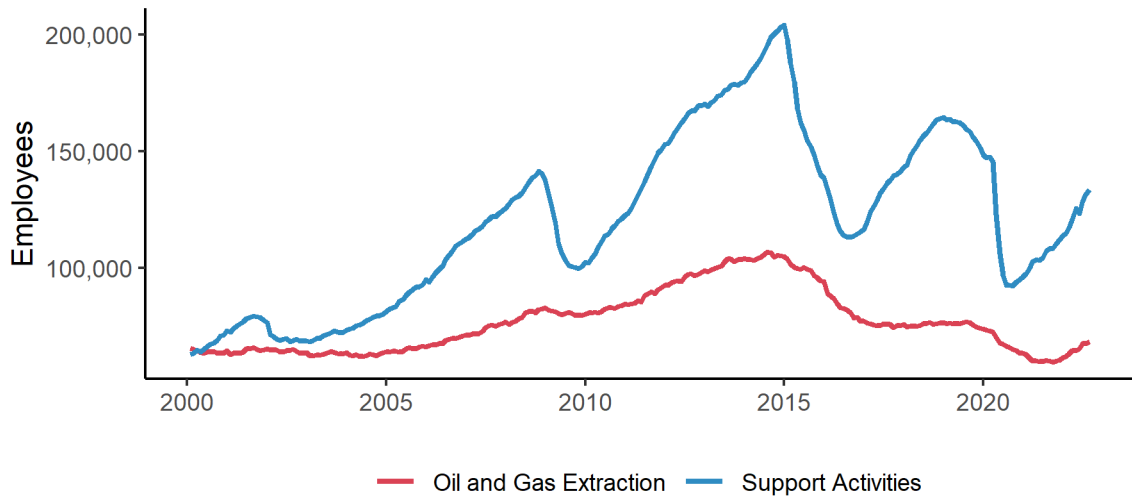
Energy

Texas Active Rotary Rig Count



Source: Baker Hughes

Oil and Gas Extraction Employment



Source: Bureau of Labor Statistics

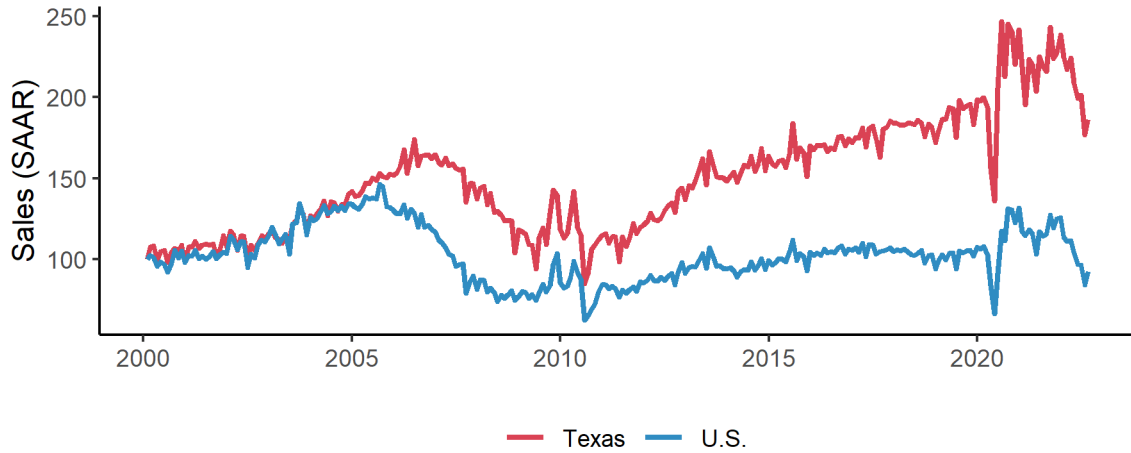




Housing

Residential Home Sales

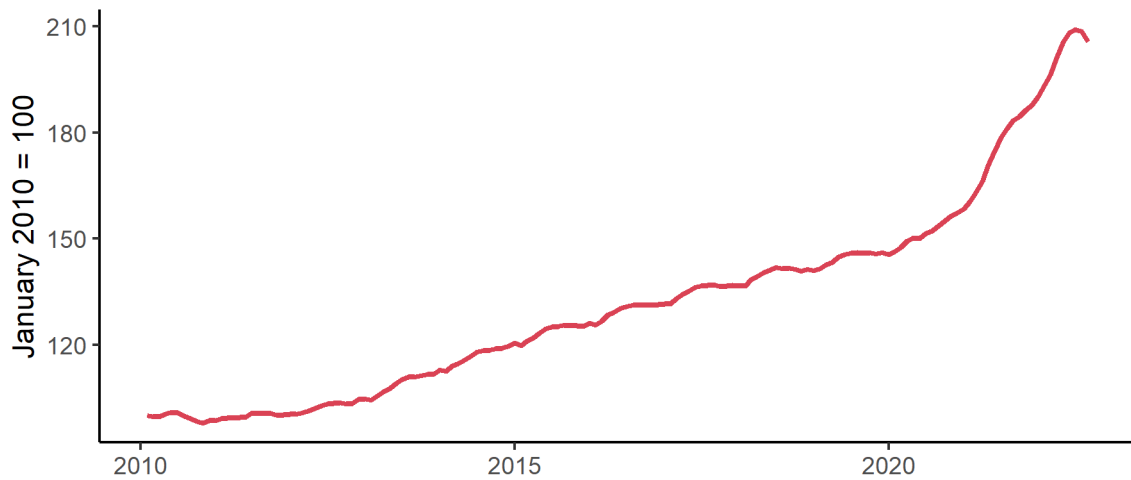
Seasonally Adjusted Annualized Rate



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



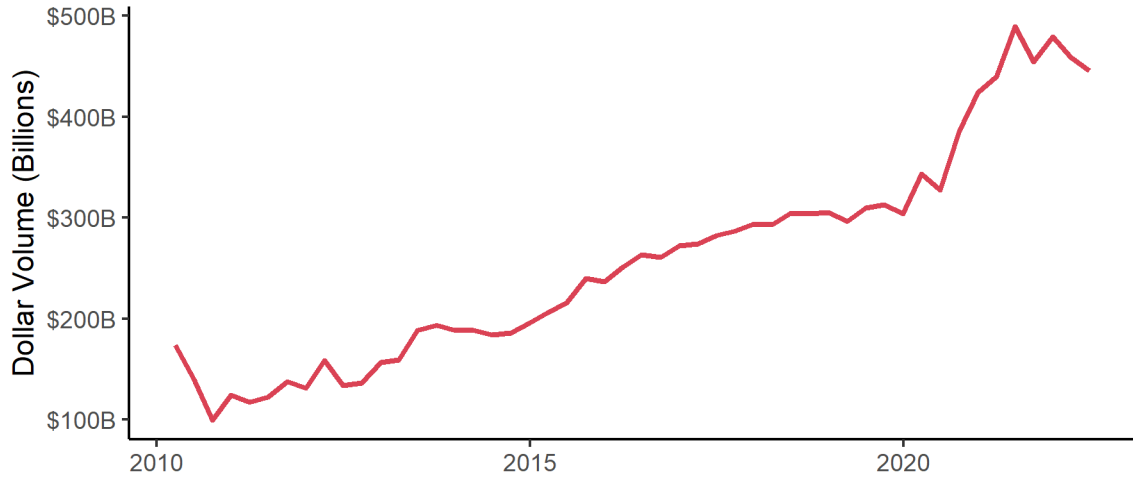
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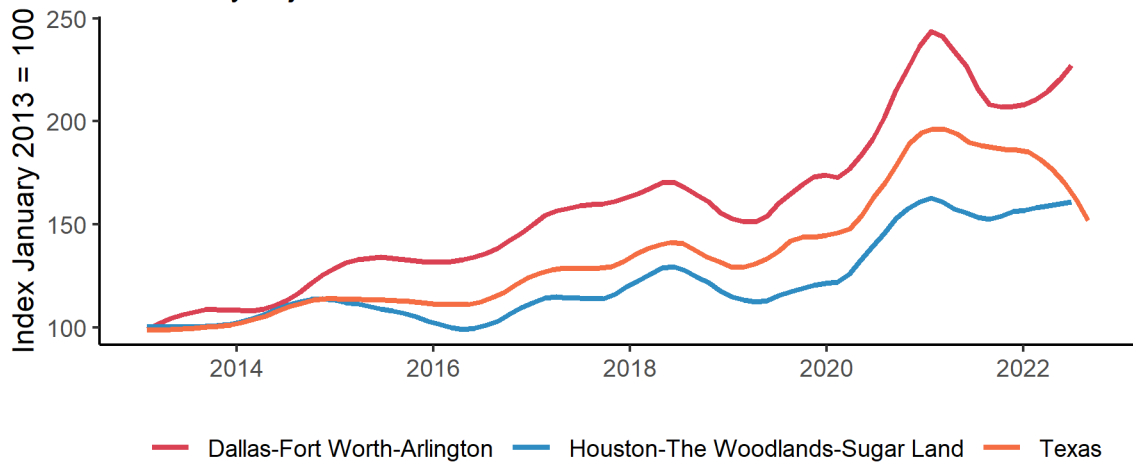
Housing

U.S. Purchase Mortgage Origination Dollar Volume Seasonally Adjusted



Source: Mortgage Bankers Association

Single-Family Housing Starts Seasonally Adjusted Index



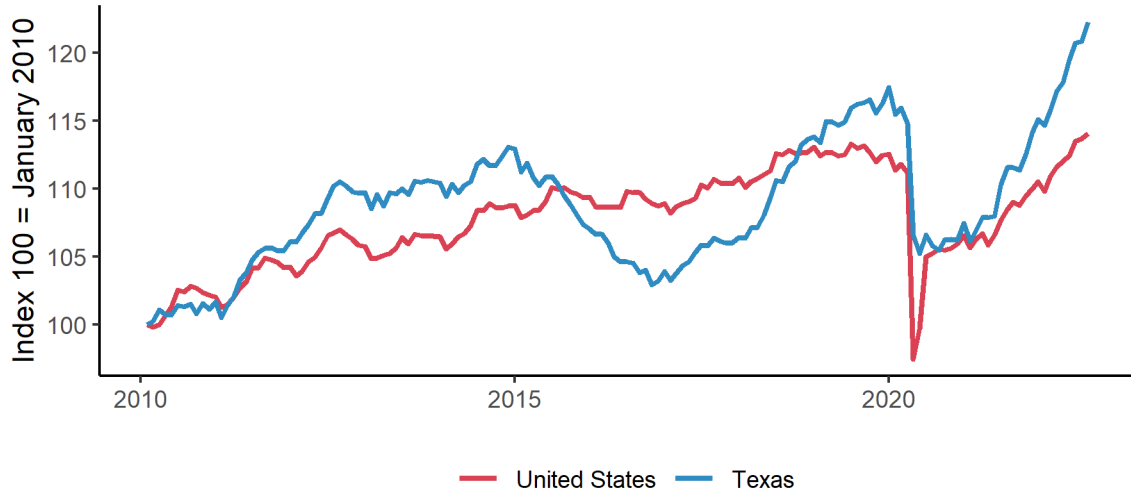
Source: Dodge Data & Analytics - Texas Real Estate Research Center at Texas A&M University





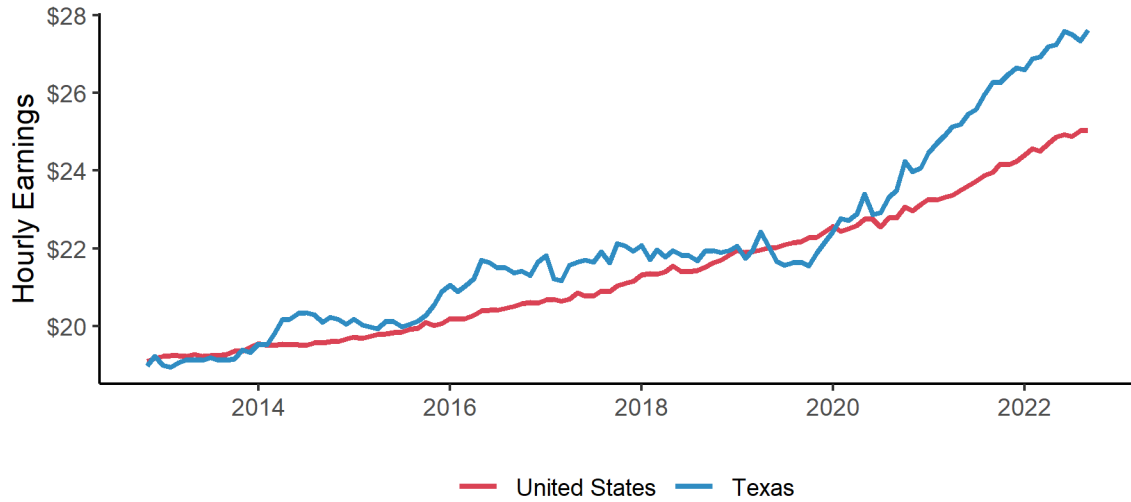
Manufacturing

Texas and U.S. Manufacturing Employment Index



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

Texas and U.S. Manufacturing Employee Hourly Earnings



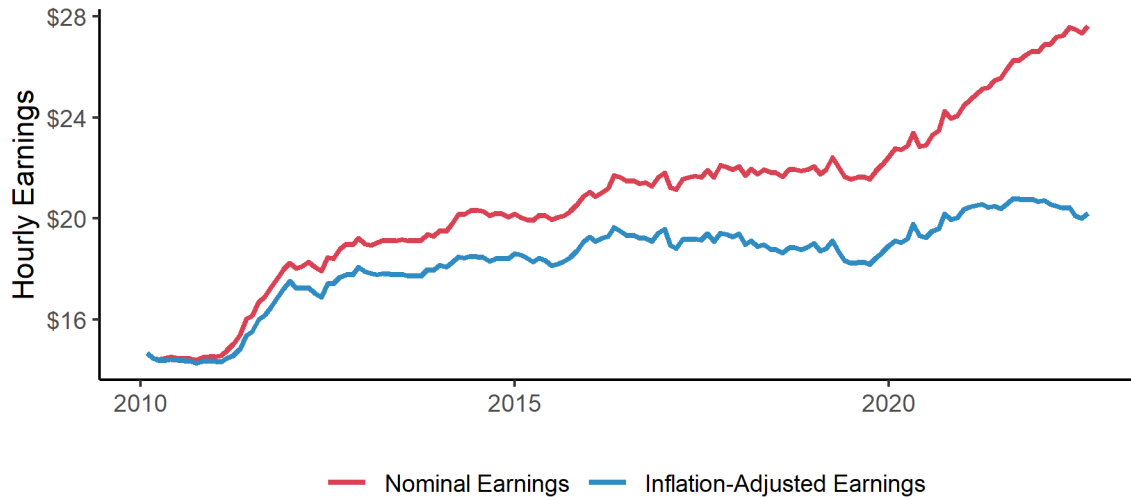
Source: Bureau of Labor Statistics - Texas Real Estate Research Center at Texas A&M University





Manufacturing

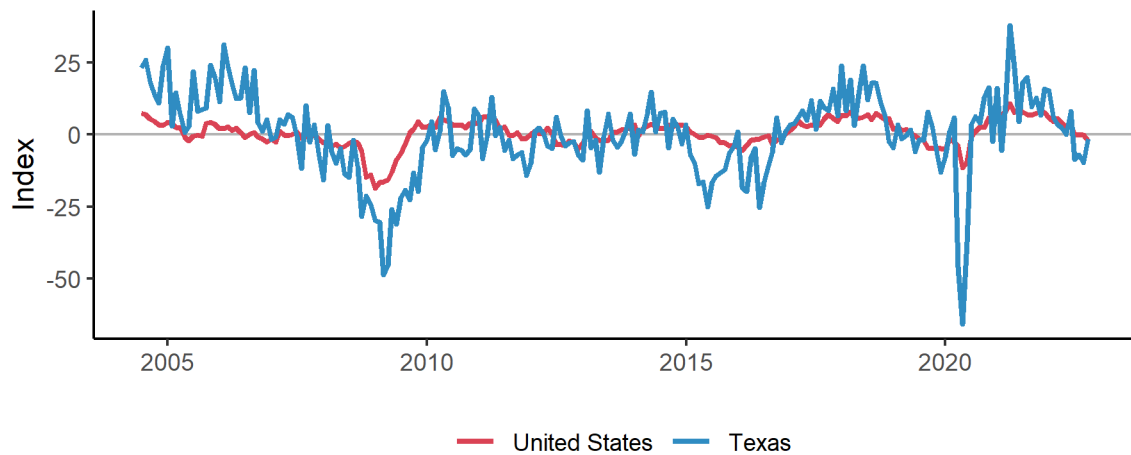
Texas Manufacturing Employee Hourly Earnings



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

Manufacturing Outlook Index

0+ = Expansion



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

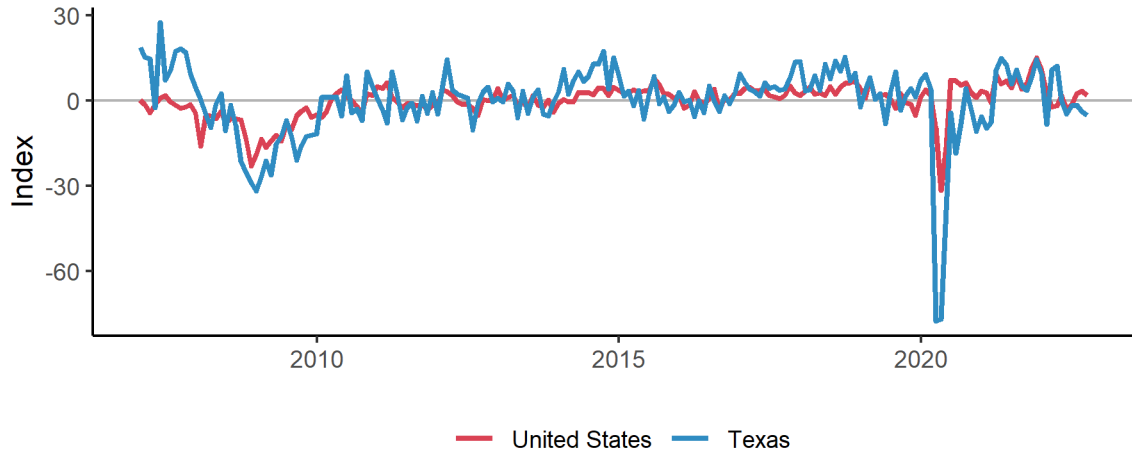




Services

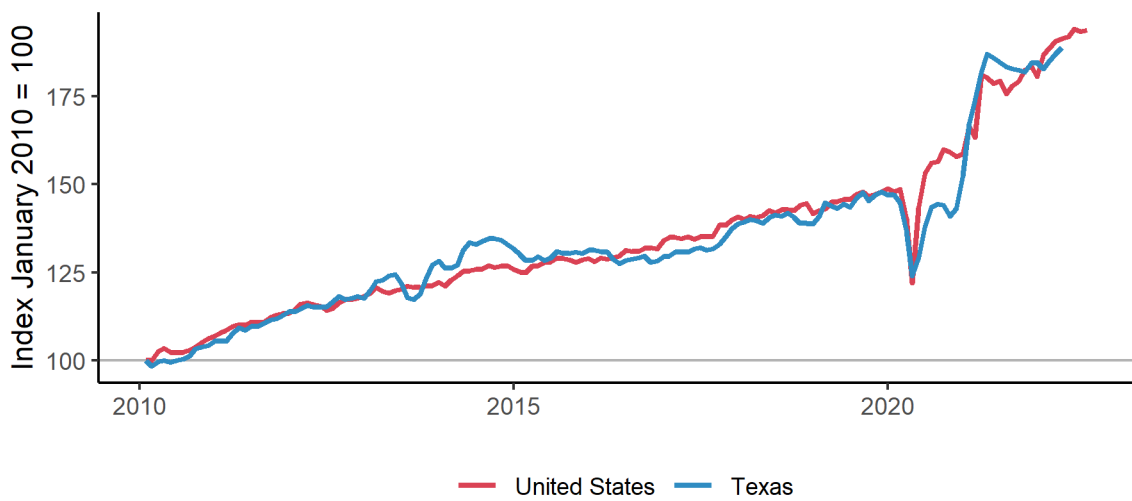
Services Sector Outlook Index

0+ = Expansion



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

Retail Sales Index



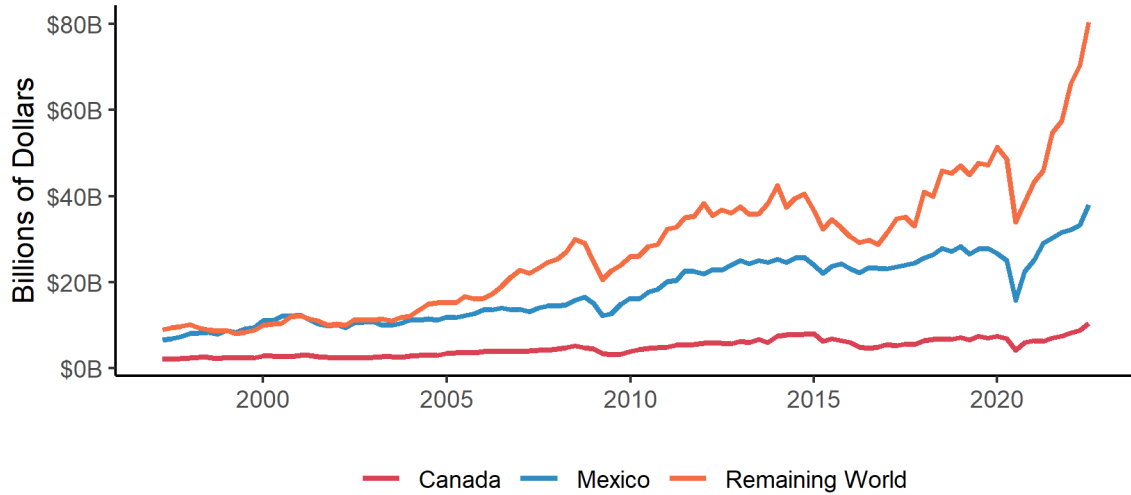
Source: Census Bureau - Federal Reserve Bank of Dallas





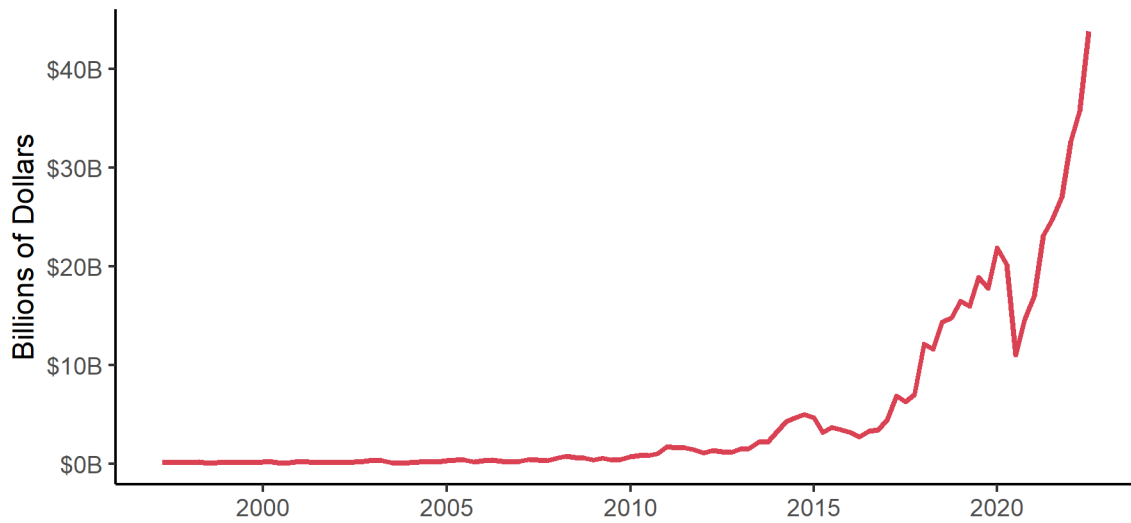
Trade

Texas Export Values by Destination



Source: Census Bureau via WISER

Texas Oil and Gas Exports



Source: Census Bureau via WISER



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