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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, Weiling Yan, and John Shaunfield

Data current as of October 25, 2022

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TEXAS A&M UNIVERSITY

Texas Real Estate Research Center



September 2022

REAL COMMODITY EXPORTS

▲ 3.4% QOQ

UNEMPLOYMENT RATE

▬ 4.0%

30-YEAR MORTGAGE RATE

▲ 6.11%

DALLAS CPI

▲ 9.18% YOY

Summary¹

September recorded slight improvements in both the job and housing markets, although overall trends still indicate slowdowns. Climbing 30-year mortgage rates, as a result of the Federal Reserve's efforts to tackle persistent inflation levels, have taken their toll and resulted in borrowers losing buying power. Additionally, Texas' job market still appears robust, but wage growth was not near enough to offset inflation, leading to real wage slides for September. Inflation and recession fears remain the paramount concerns among employers, accounting for the slowed hiring in September.

Economic Activity

Texas' economy strengthened in September according to the **Dallas Fed's Texas Business-Cycle Index**, reporting a half percentage point growth over August on a seasonally adjusted annualized rate (SAAR). Growth varied by metro, though gains were diminished across the board compared with previous months. Austin and Fort Worth had the lowest gains at 0.4 and 0.2 percent, respectively. Houston remains the only metro outpacing its September 2021 year-over-year (YOY) growth at 8.9 percent SAAR.

The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) ended its post-pandemic expansion, edging down for the fifth consecutive month. The dip in the index is due to recession fears caused by rising rates and mounting global economic uncertainty. The **Texas Consumer Confidence Index** made sturdy gains after June's dip, suggesting consumers have processed the shock of the Fed's three 75 basis-point interest rate hikes. Persistent inflation figures and the Fed's tactics to reduce them through rate hikes suggest a slowing economy in the coming months.

Financial Activity

The Fed raised rates by 0.75 percentage points in September as inflation remained one of the nation's biggest economic concerns. Market concerns about the sharp rate increases were subdued by inflation reports for September as core inflation reached 8.2 percent YOY. The **U.S. Consumer Price Index (CPI)** accelerated 1 basis point in September. Core inflation, which excludes food and energy, stepped up to 6.6 percent, an increase of 0.3 percent over August. Housing prices and

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



transportation remained the primary contributor to September's reduction at 2.1 percent MOM. The Dallas CPI elevated to 9.18 percent YOY, with rising costs in food and beverage making up most 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 upcoming year to combat inflation. In accordance, the **ten-year U.S. Treasury bond yield** climbed at 3.52 percent², while its two-year counterpart continued its march upward just the same. The spread between the ten-year and two-year bond yields stayed in negative territory, indicating the market's economic uncertainties about the near future. The **Federal Home Loan Mortgage Corporation's 30-year fixed-rate** elevated to a ten-year high at 6.11 percent. The last time the rate reached 6 percent was in 2008.

Housing

Total home sales have improved 10.9 percent since July's steep decline, reaching a seasonally adjusted rate of 31,000 closed listings (Table 1). However, those gains are not enough to reverse the drop in sales that started in April when the impact of higher mortgage rates began to accumulate. At the current rate, 2022 sales will likely fall short of 2021. According to the Center's Data Relevance Program, sales were down 15.5 percent from a year earlier.

Texas' four Metropolitan Statistical Areas (MSA) all mirrored the statewide trend, as sales in each metro shrank by double digits YOY. Existing-home sales, which make up four-fifths of Texas' total housing market, inched down for the eighth straight month, while new-construction sales increased marginally. This sales disparity was especially pronounced in Austin.

Employment

Economic conditions continue to falter largely as a consequence of the Federal Reserve's efforts to control inflation. Despite this, Texas' nonfarm employment in September managed to expand for the first time since June. Payroll expansion was overall positive across industries with the strongest gains in trade, financial activities, real estate, and leisure and hospitality. Nevertheless, 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 employers.

The national unemployment rate fell over the month, reaching 3.5 percent. Texas' **unemployment rate** remains elevated over the national level, hitting 4 percent in September. For much of the pandemic, the Texas unemployment rate has uncharacteristically exceeded the national rate; however, in recent months the two have begun to converge. In general, engagement in the Texas job market has still been greater than the national market even throughout COVID-19. The state has benefited from an influx of out-of-state workers who are looking for jobs in Texas. The state's

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.

labor force participation rate slipped slightly to 63.6 percent after stagnating for three months but still surpassed the national rate of 62.3 percent. Texas remains at pre-pandemic labor force levels as the economy expands. The national labor force is down 1 percent compared to pre-pandemic levels, with fears of recession and fed funds rate increases being mounting concerns.

The number of Texans filing **initial unemployment insurance claims** continued its drop since the pandemic with 56,670 applications in September. Claims have trended down since the spike during the pandemic, culminating in lows not seen in decades. This coincides with improved conditions for laid-off workers seeking new job opportunities. Jobs are available, but the number of openings is below August's record-breaking level. Moreover, Texas' average weekly **continued unemployment insurance claims** continued to trend up slightly month over month (MOM), though claims remain on par with April's lows. In general, the number of total claims has almost reverted to pre-pandemic levels.

The 4.25 percent YOY increase in Texas private employees' average nominal earnings (\$30.17), while positive, was not enough to overcome inflation. As a result, the state's **real private hourly earnings** decreased by 3.95 percent in September, half a percent more than in August. There were minor changes to MSA wages in September. The largest paycheck increases came in Austin (\$33.28) and Fort Worth (\$33.27) at \$0.91 and \$0.62 MOM, respectively. Houston (\$30.88) and Dallas (\$33.67) wages slipped by \$0.17 and \$0.02 MOM, respectively.

Hiring was up in most major metros as Texas added over 40,000 jobs in September. Fort Worth was the only major metro to post a loss, losing 1,300 employees since August. Dallas and Houston had the largest improvements at 12,700 and 10,600 jobs added, respectively. San Antonio and Austin had strong gains this month at 6,300 and 4,000 jobs added, respectively.

Manufacturing

Manufacturing job growth in Texas was essentially flat in September, gaining only 500 jobs SAAR compared with the thousands gained in prior months this year. The **average hourly manufacturing earnings** (\$32.20) increased from the previous month, but the pace is slower than in 2021. In addition, the **Dallas Fed's Manufacturing Outlook Survey** dropped further from August, reflecting industry leader pessimism in the months ahead.

Construction

With rising interest rates and a slowing housing market, September posted a decrease in construction payroll, dropping 2,600 jobs over the past month. **Average hourly construction earnings** (\$29.99) were up 47 cents over August, reaching a new record high. **Total construction values** remained at August's level, while one- and two-family housing lagged as a result of diminished demand linked to rising mortgage rates. However, apartment construction values grew as builders shifted to the rental market. This surge truncated the value difference between single-family housing and apartments from \$2.1 trillion to \$0.9 trillion.



Energy

The Texas energy job recovery paused in September as deteriorating global conditions continued to lower energy expectations. The mining and logging sectors, where many energy jobs are categorized, provided 219,000 positions in September, still below 7 percent from its pre-pandemic workforce. As U.S. inflation hinted at lowered energy costs, oil and gas prices both slipped around 10 percent MOM. However, costs remained double-digit percent elevated compared with a year earlier.

The **West Texas Intermediate (WTI) crude oil spot price** fell from June's peak to an average of \$84.26 per barrel. Texas' crude oil production increased marginally to five million barrels per day in July³. Companies expanded to 364 **active rigs**, up from 225 rigs in July 2021. The **Henry Hub spot price** fell from August's peak at \$8.81 to \$7.88 per million British thermal units (BTU), up 52.7 percent YOY.

Dallas Fed's Energy Indicators stated that OPEC+ produced 38.7 mb/d of crude oil in September, 3.4 mb/d below the target. Russia accounted for one-third of the shortfall, while Nigeria and Angola accounted for another third. The ongoing global instabilities put downward pressure on the oil demands, and both WTI and Brent futures imply a continuous fall in the energy prices through the end of 2023.

Services

Texas' service-providing employment grew by 43,300 workers in September. The monthly gain primarily came from wholesale trade (5,700), real estate (5,800), professional/scientific services (4,700), and accommodation/food services (21,000). Despite this payroll growth, respondents to the **Dallas Fed's Service Sector Outlook Survey** said the revenue index is weakening amid slower sector growth. The outlook uncertainty index plummeted six points as perceptions of future business conditions dim because of current economic forces. The future general business activity index fell as well.

Texas retail followed suit with the service market adding 2,200 jobs. Despite the overall gain, motor vehicle/parts dealers dismissed 1,400 workers as inflation dents consumers' appetite for big-ticket purchases such as vehicles. Meanwhile, retail sales activity declined, and the sales index contracted 13 points. The **Dallas Fed's Retail Outlook Survey** is on more unstable footing than in previous months, nearing historic lows. Retailer inventories continue to increase, shown as the Fed's retail inventory index increased over previous months. Meanwhile, the general business activity index and future activity index both fell as respondents expect activity to slow in coming months.

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



Trade

Growing global tensions and uncertainty has increased the demand for U.S. dollars⁴. The **Texas trade-weighted value of the dollar** continued to strengthen in August. In general, the dollar's appreciation makes Texas goods less affordable to foreign buyers. However, the order volume has not yet reflected a decrease in demand as trade values remain robust. Texas' **real commodity exports** peaked at \$43.3 billion, expanding 3.4 percent quarter over quarter in real terms.

Texas' **manufacturing exports** grew 6.5 percent year to date (YTD), doubling the nation's YTD growth. The furniture industry reported an impressive rate of over 50 percent export expansion this year, while petroleum/coal products reported a solid growth of ten percent. Texas' **crude oil exports**, which make up almost 95 percent of the national crude oil exports from petroleum and bituminous minerals, skyrocketed 49.7 percent YTD. Due to Europe's energy crisis, the United Kingdom's demand for crude oil rose by \$4.5 billion, doubling its 2021 YTD demand. The U.K. now receives nearly 10 percent of Texas' total crude oil exports.

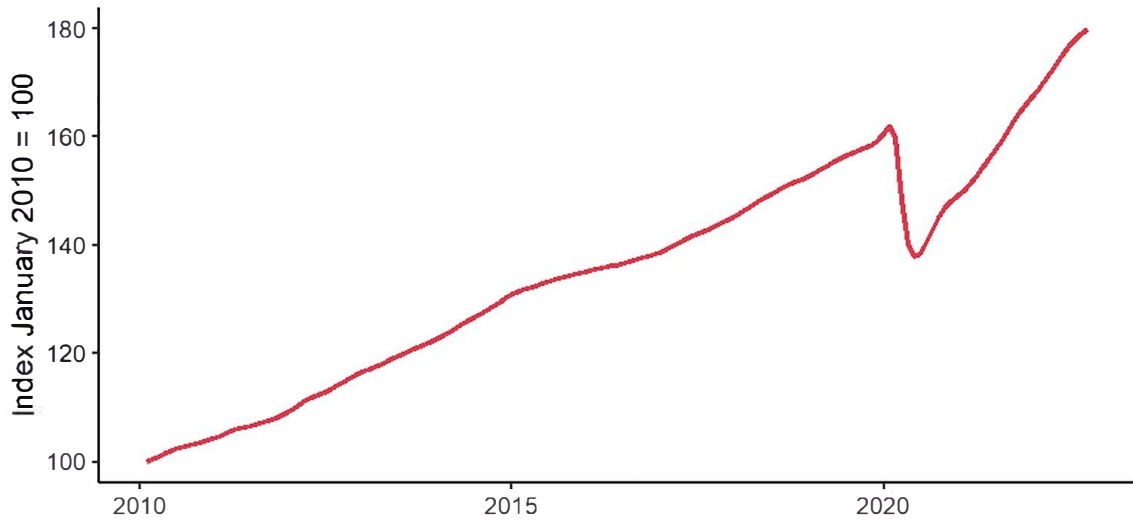
⁴ The release of the trade section is lagging the *Outlook for the Texas Economy* by one month.





Economic Activity

Texas Business-Cycle Index



Source: Federal Reserve Bank of Dallas

Texas Leading Index



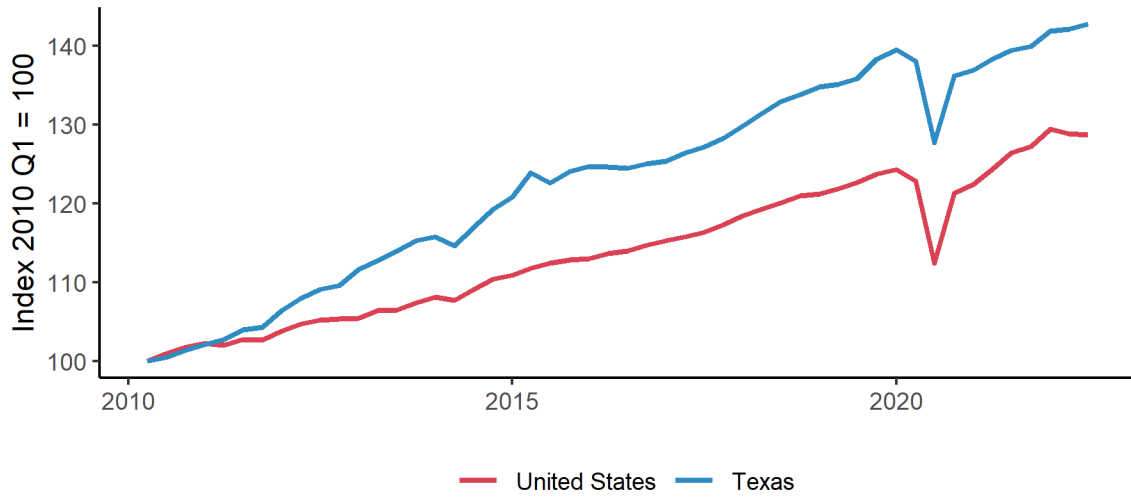
Source: Federal Reserve Bank of Dallas





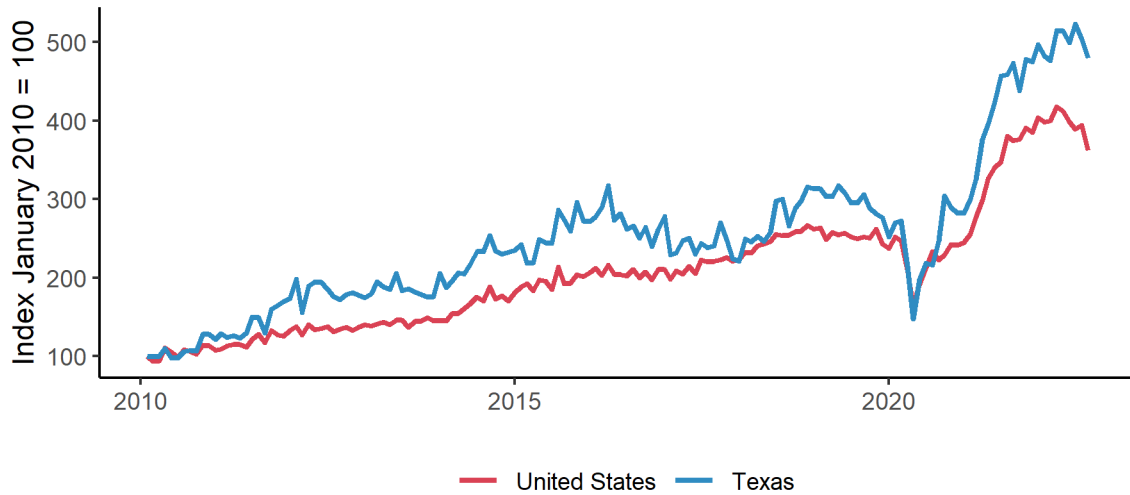
Economic Activity

Gross Domestic Product



Source: Bureau of Economic Analysis

Job Openings

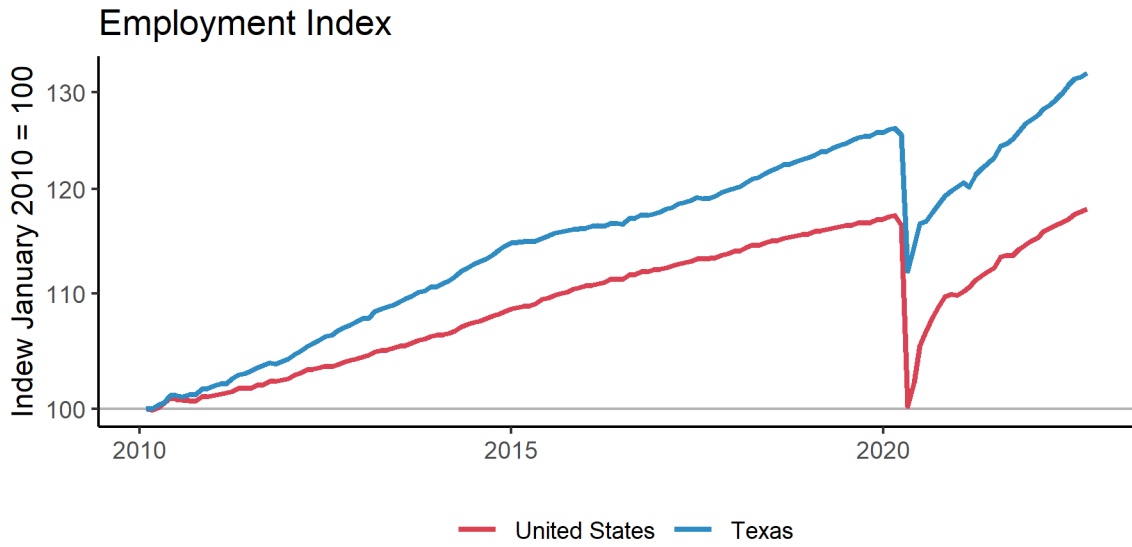


Source: Bureau of Labor Statistics

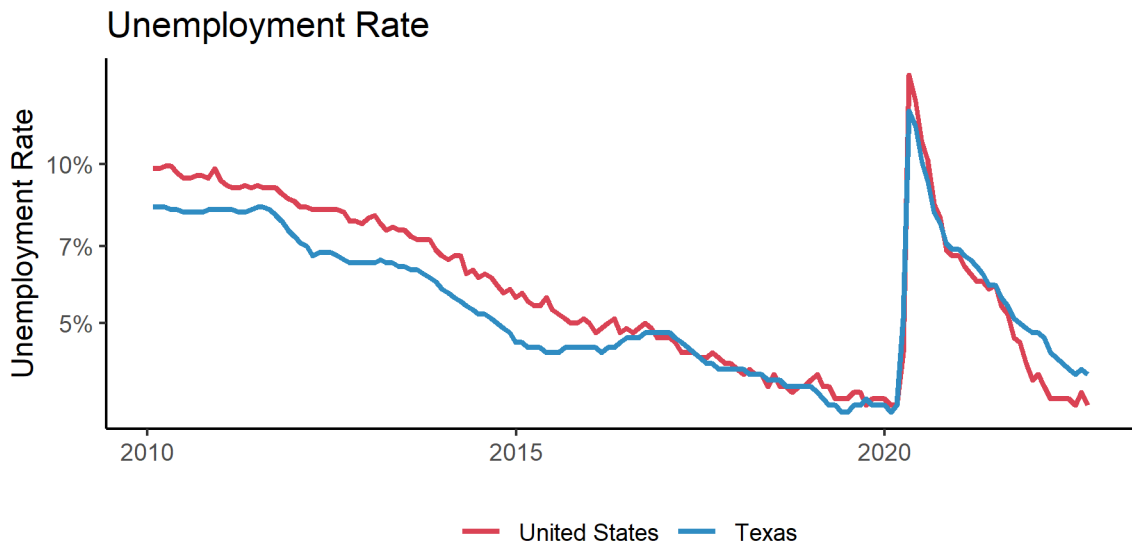




Employment



Source: Bureau of Labor Statistics



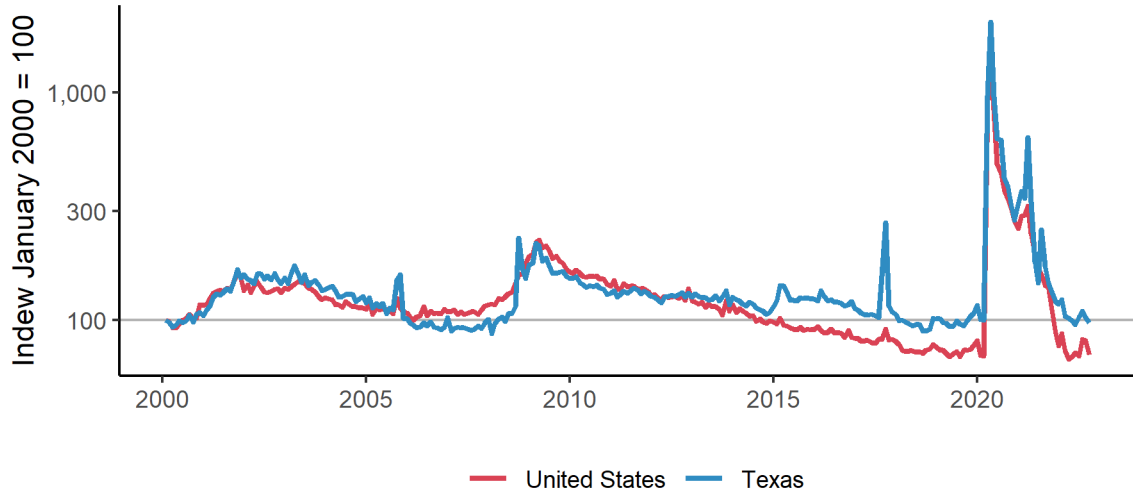
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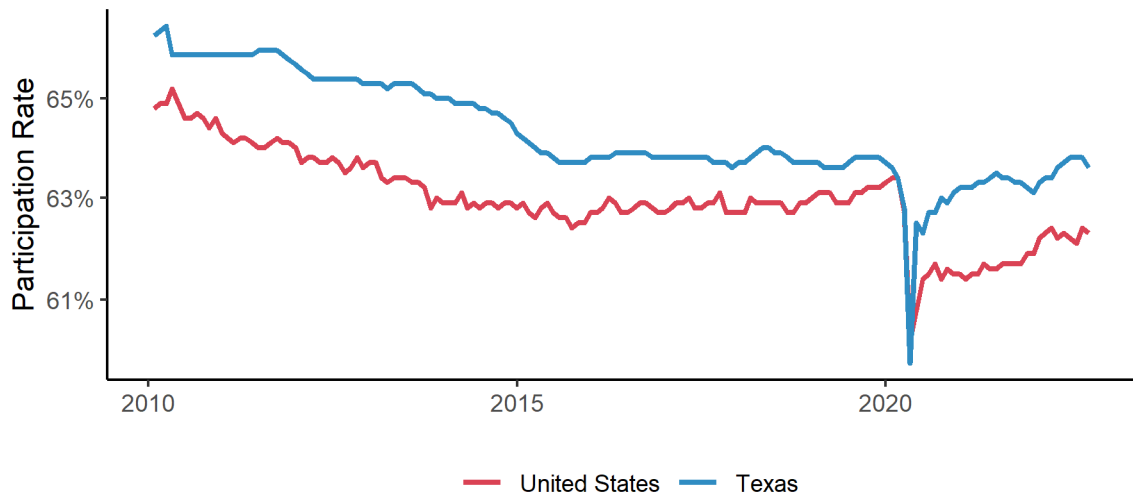
Employment

Initial Unemployment Claims



Source: Department of Labor

Labor Force Participation Rate



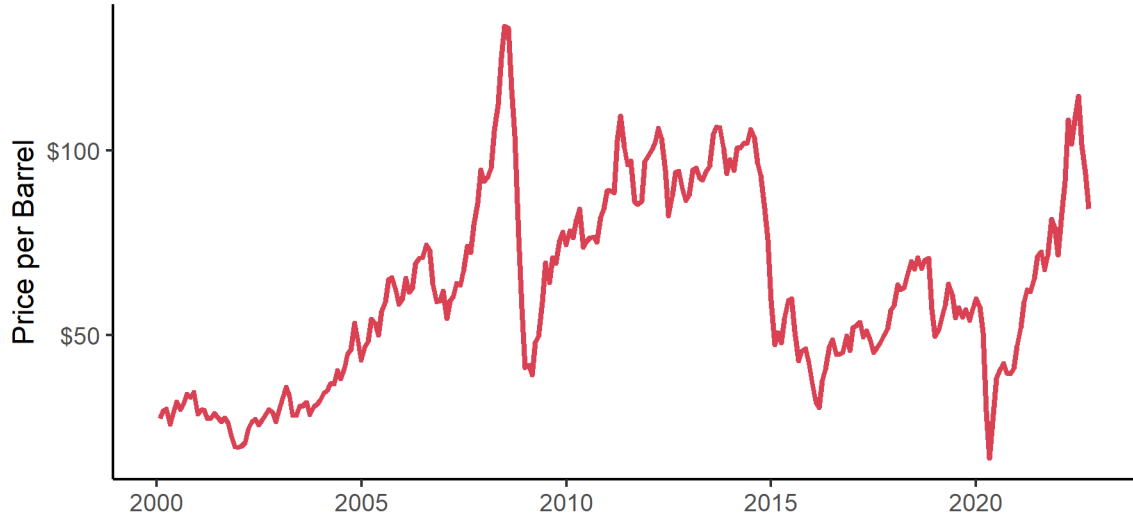
Source: Bureau of Labor Statistics





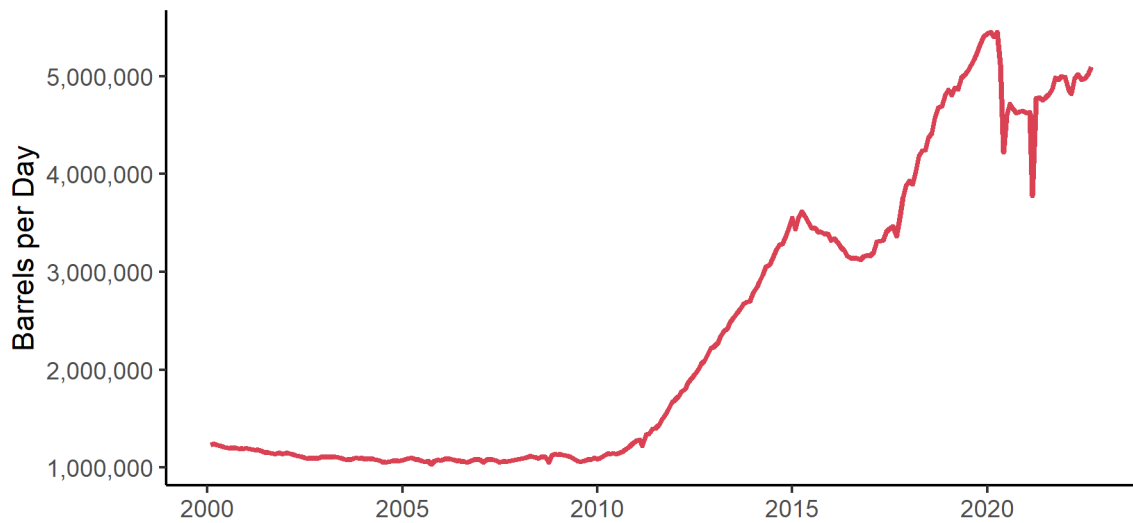
Energy

Crude Oil Price



Source: Energy Information Administration

Texas Crude Oil Production



Source: Energy Information Administration



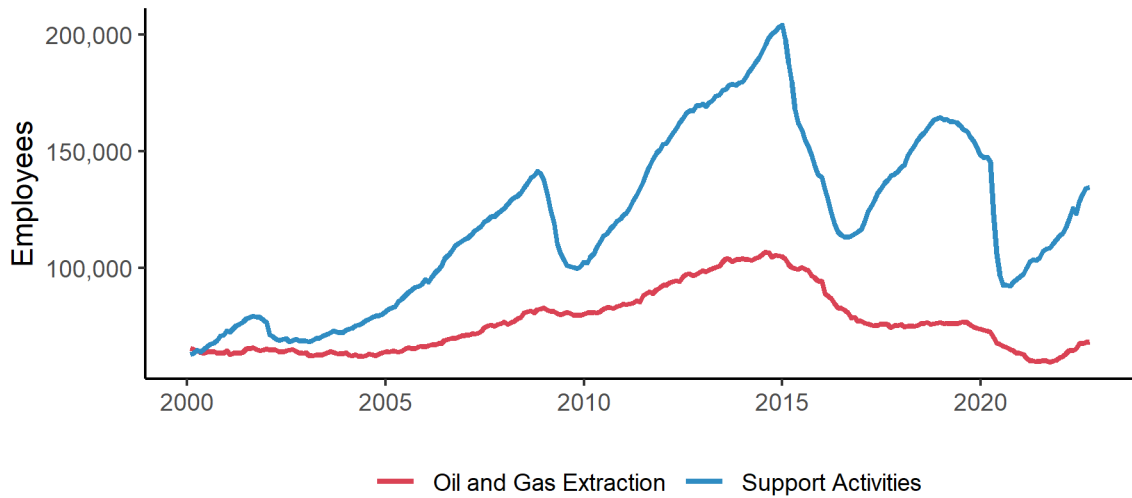
Energy

Texas Active Rotary Rig Count



Source: Baker Hughes

Oil and Gas Extraction Employment



Source: Bureau of Labor Statistics

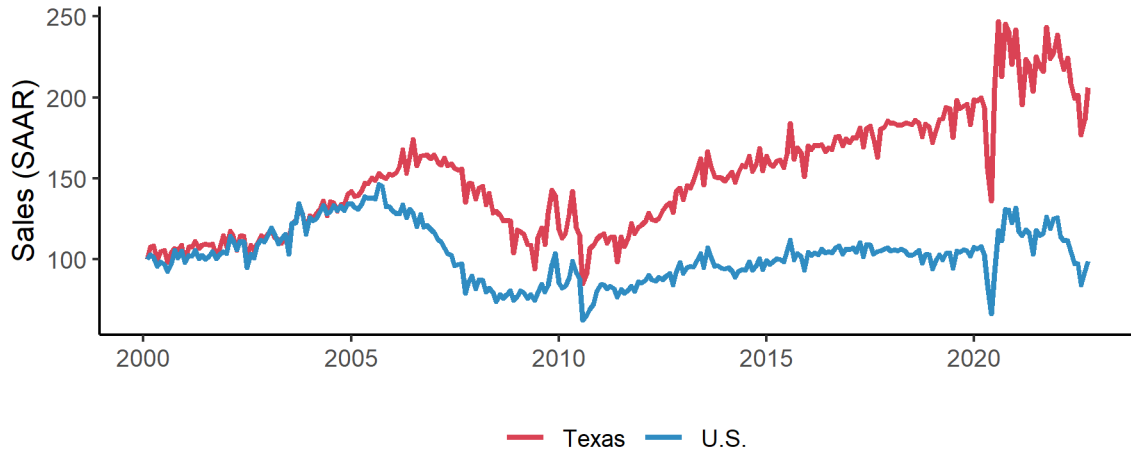




Housing

Residential Home Sales

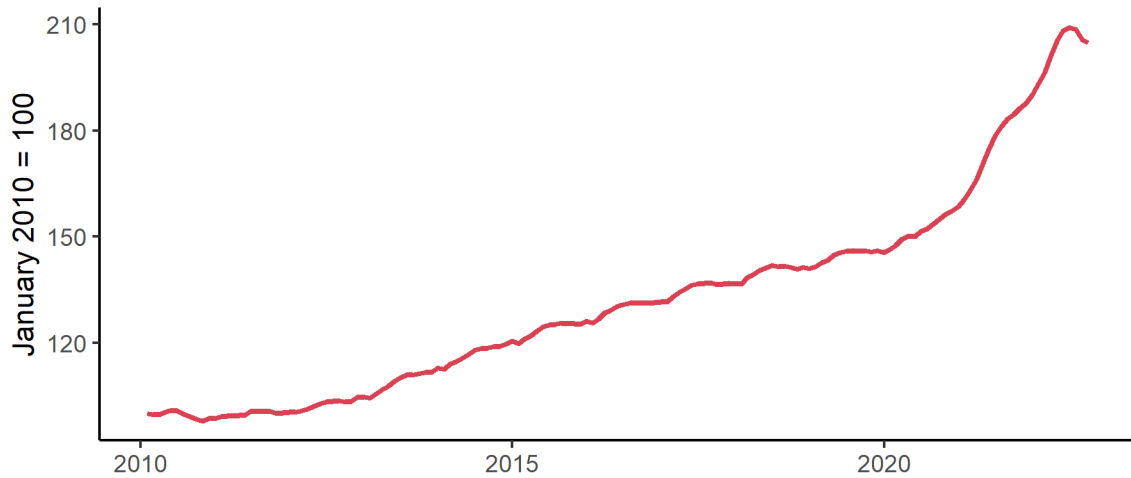
Seasonally Adjusted Annualized Rate



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

Texas Home Price Index

Seasonally Adjusted Annualized Rate



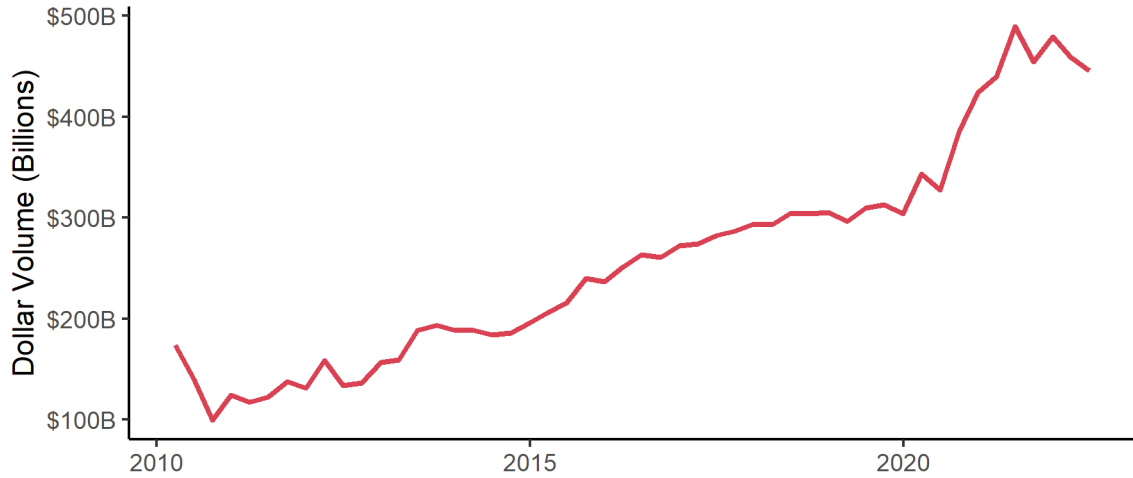
Source: Texas Real Estate Research Center at Texas A&M University





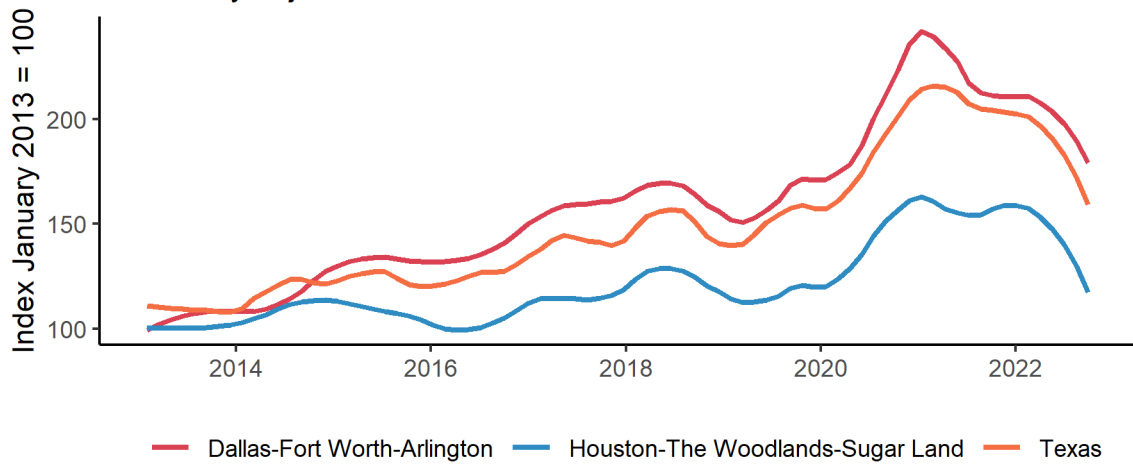
Housing

U.S. Purchase Mortgage Origination Dollar Volume Seasonally Adjusted



Source: Mortgage Bankers Association

Single-Family Housing Starts Seasonally Adjusted Index



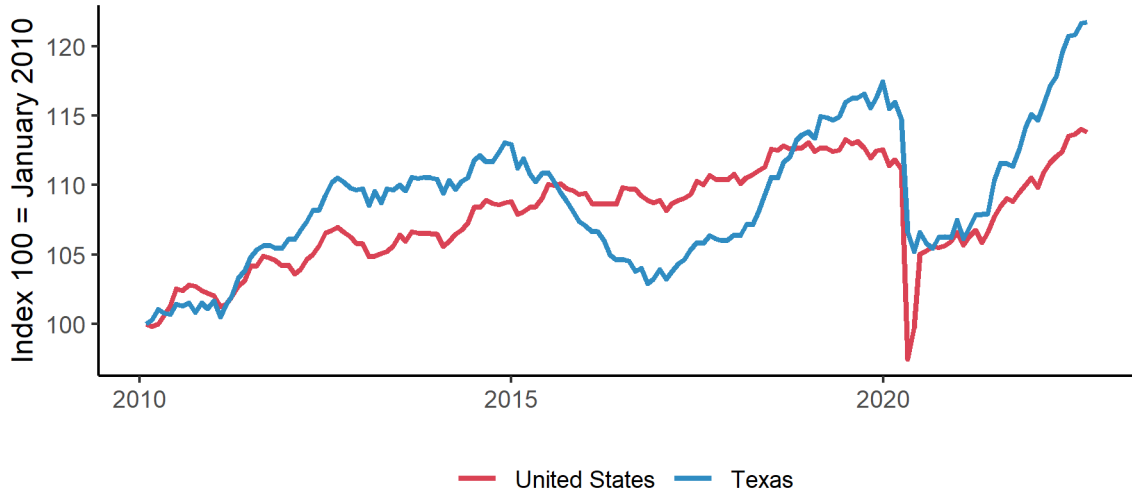
Source: Dodge Data & Analytics - Texas Real Estate Research Center at Texas A&M University





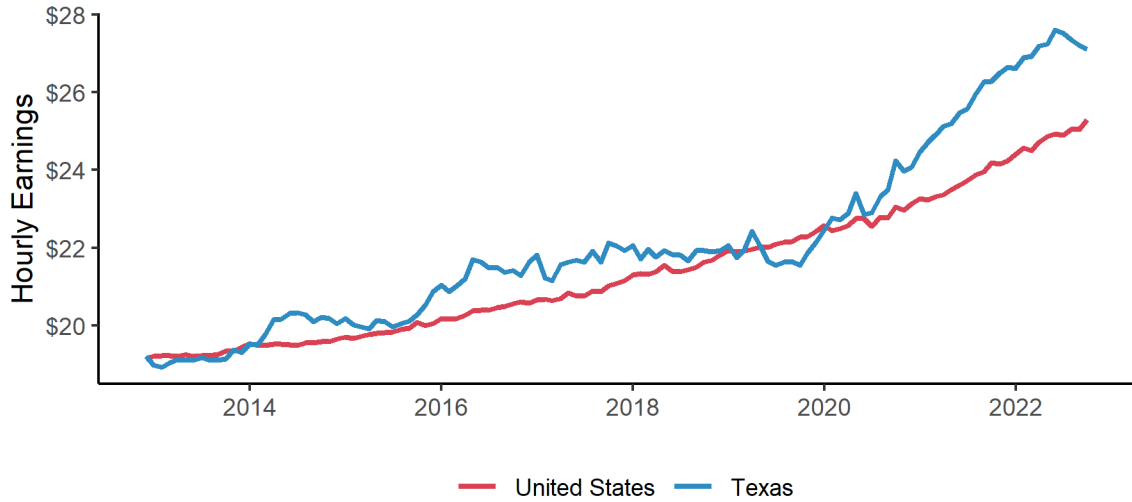
Manufacturing

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



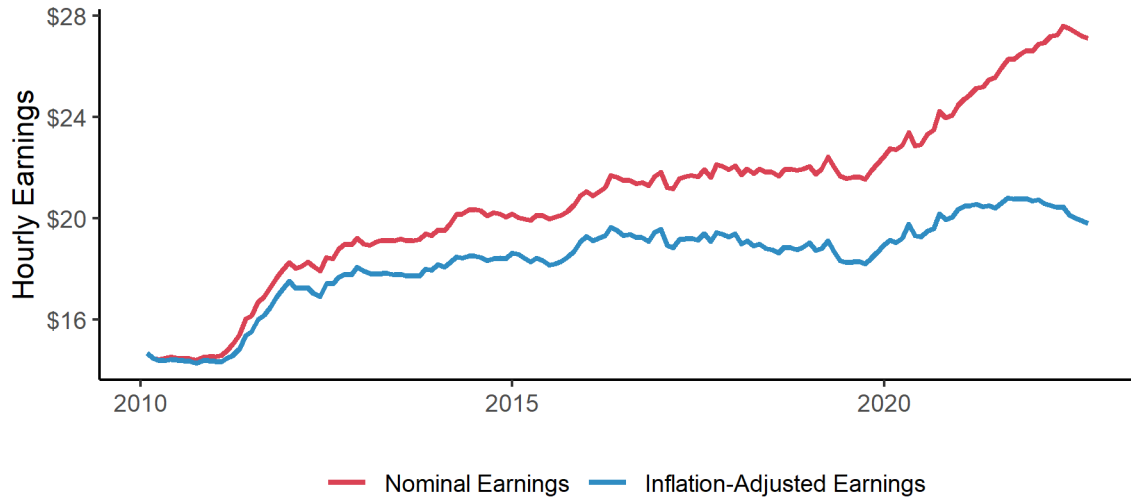
Source: Bureau of Labor Statistics - Texas Real Estate Research Center at Texas A&M University





Manufacturing

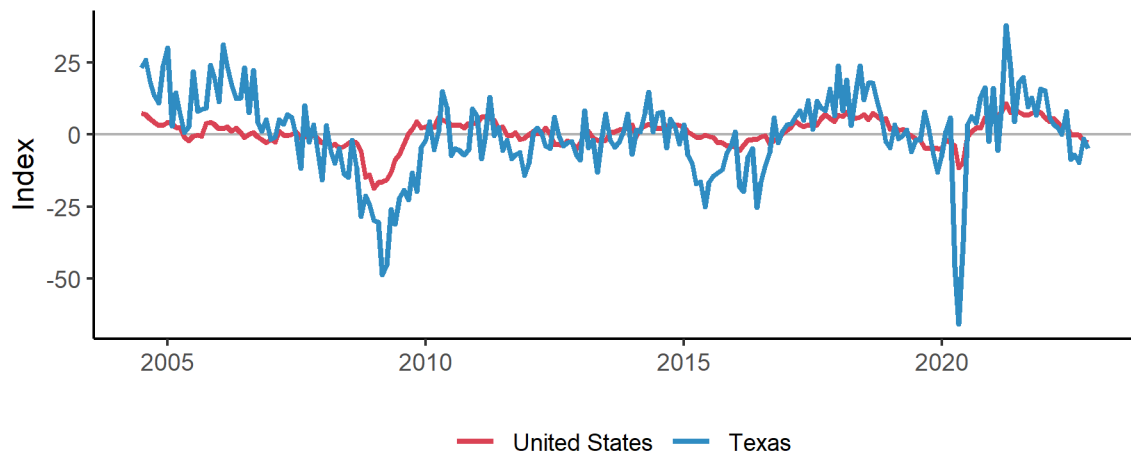
Texas Manufacturing Employee Hourly Earnings



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

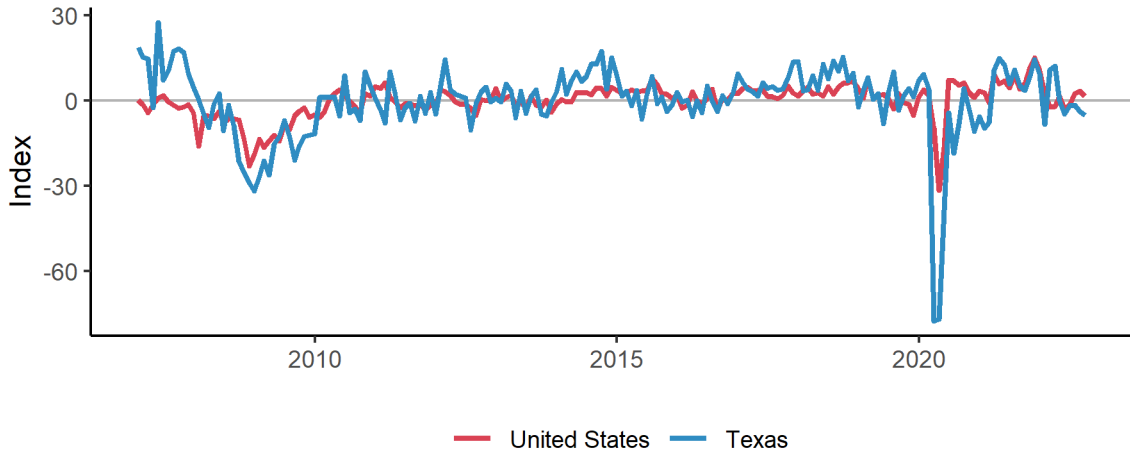




Services

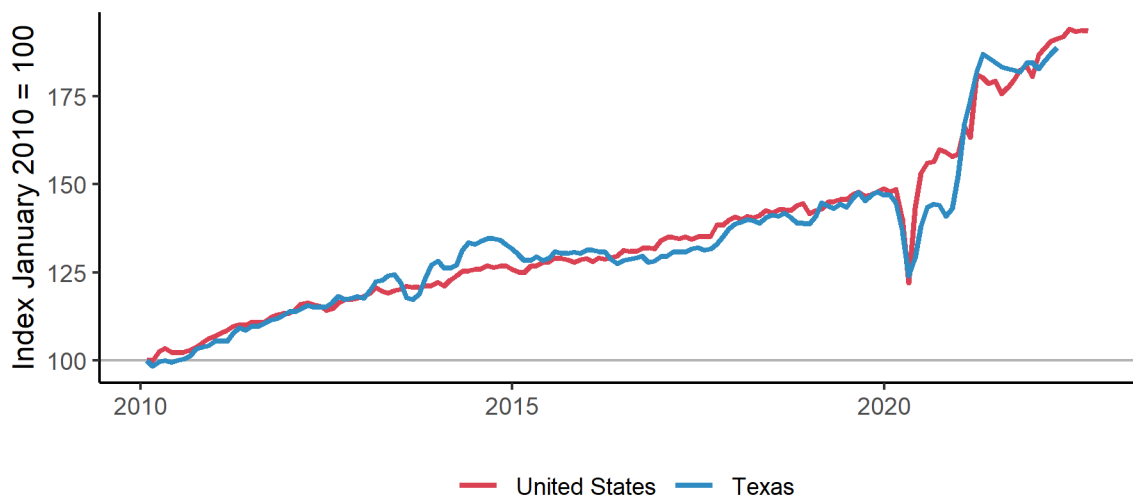
Services Sector Outlook Index

0+ = Expansion



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

Retail Sales Index



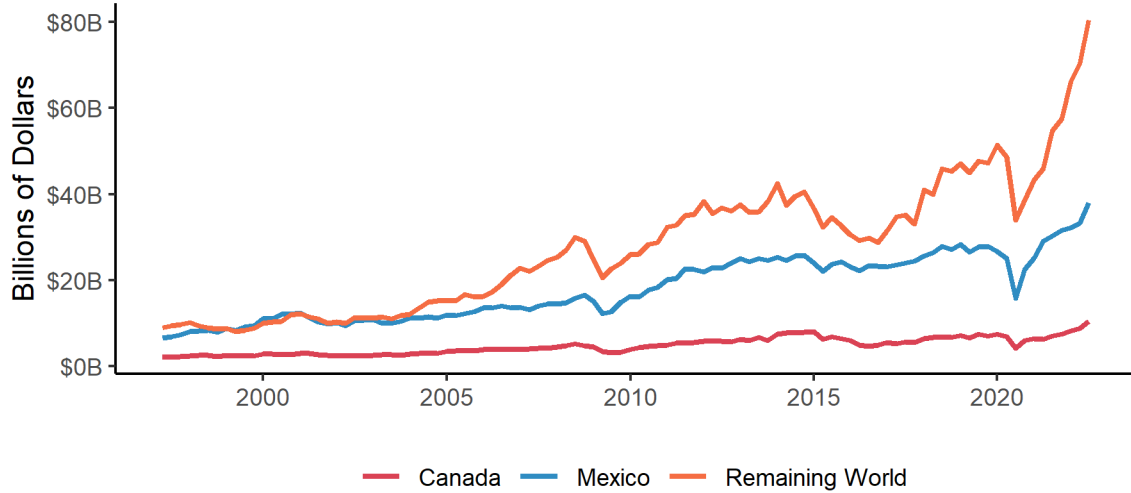
Source: Census Bureau - Federal Reserve Bank of Dallas





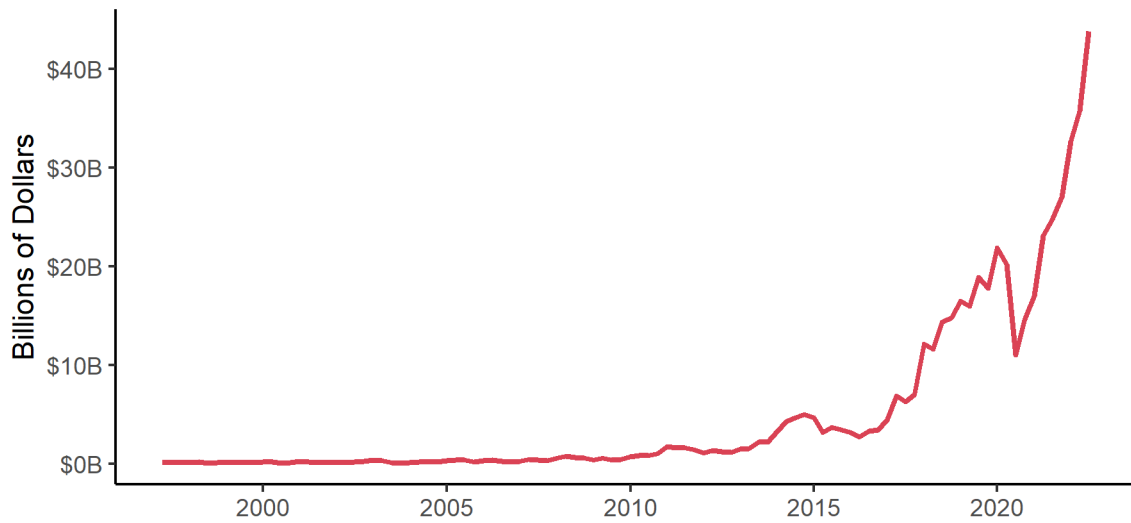
Trade

Texas Export Values by Destination



Source: Census Bureau via WISER

Texas Oil and Gas Exports



Source: Census Bureau via WISER



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