

# Outlook for the Texas Economy



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OCTOBER 2022 DATA  
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](mailto:info@recenter.tamu.edu).

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# October 2022

TX TRADE-WEIGHTED VALUE OF DOLLAR

▲ 8.0% YOY

U.S. CPI

▲ 7.8% YOY

UNEMPLOYMENT RATE

▬ 4.0%

REAL PRIVATE HOURLY EARNINGS

▼ 3.07% YOY

## Summary

Inflation and recession fears remain the paramount concern in the Texas economy. Texas' labor market has continued to expand, although at a suppressed rate. Initial unemployment claims surged as economic conditions loom and employers attempt to cut costs. Furthermore, nominal wage increases were not near enough to offset inflation, leading to continued wage slides for October.

## Economic Overview

The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) fell for the fourth consecutive month after peaking in March. The dip in the index is due to recession uncertainties combined with inflation and rising rates. Conversely, according to the Conference Board **Consumer Confidence survey**, Texas is improving but is still far from recovering since the pandemic.

Persistent inflation and the Fed's tactics to reduce it through rate hikes paint a picture of a slowing economy in the coming months. The Federal Reserve is expected to continue raising rates as inflation persists as one of the nation's biggest economic concerns. The rate hikes have begun to have a positive effect on inflation, although inflation remains elevated since before the pandemic. In October, both the overall Consumer Price Index (CPI) and the core CPI decreased. Overall CPI growth in October was 7.8 percent YOY, down since peaking at almost 9 percent in June. Core inflation, which excludes both food and energy, grew by 6.3 percent YOY, slightly below the 6.7 percent peak reached in September. The Houston CPI stayed slightly lower than core inflation at 7.6 percent YOY, with moderating costs in transportation and other goods and services making up most of the decrease.

As the Federal Reserve imposes forceful monetary policies to curb inflation, the **ten-year U.S. Treasury bond yield** jumped to 3.98 percent<sup>2</sup>, while the two-year counterpart surged by much the same. The spread between the ten-year and two-year bond yields widened slightly while staying in negative territory, indicating an increase in market uncertainties. The **Federal Home Loan Mortgage Corporation's 30-year fixed-rate** elevated further to a 20-year high at 6.9 percent. This rate surpassed the historical highs seen during 2007 and 2009.

The increased mortgage rates' most noticeable impact has been on the housing market. In Texas, **total home sales** diminished 7.4 percent MOM, settling at a seasonally adjusted rate of 27,900 closed listings (Table 1). Texas' four major Metropolitan Statistical Areas (MSAs) all mirrored the



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statewide trend as sales in each metro shrank by double digits YOY. According to Texas Realtors' Data Relevance Project, October sales were down 21 percent from a year earlier. At the current rate, year-end 2022 sales will likely fall short of both 2020 and 2021. For more information on the current state of the housing market, subscribe to the *Texas Housing Insight* report.

Even though the economic landscape appears bleak, Texas' job market has managed to grow robustly. Payroll expansion was overall positive across industries with the strongest gains in mining and logging and professional and business services. Nevertheless, the **Dallas Fed's annual employment forecast** expects growth to slow in the second half of the year, likely a reflection of a weaker U.S. economy outlook putting downward pressure on Texas' companies.

The national unemployment rate worsened compared to the previous month, reaching 3.7 percent. Texas' **unemployment rate** remains elevated over the national level, staying constant at 4 percent in October. Considering that Texas' jobless rate typically matches the national average if not lower, one could explain Texas' relatively high rate with recent surging unemployment claims due to an influx of out-of-state workers.

The state's **labor force participation rate** was 63.6 percent, stagnating for the second month after slipping 0.2 percent MOM but still surpassing the national rate of 62.2 percent. Texas remains at pre-pandemic labor force levels as the economy is expanding, while the national labor force is down 1 percent compared to pre-pandemic levels.

The number of Texans filing **initial unemployment claims** made a 180-degree turn in October as 82,143 applicants filed. With rates on the rise and businesses unsure of the economy, layoffs were more prevalent this month as firms prepared for expected economic slowdowns. Texas' average weekly **continued unemployment insurance claims** continued their upward trend, with a surge of nearly 15,000 more continued claims MOM in October. This bucks the trend of reverting to pre-pandemic levels.

The 4.73 percent YOY increase in Texas private employees' average nominal earnings (\$30.58), while not unsubstantial, was not enough to overcome inflation. Inflation decreased the state's **real private hourly earnings** by 3.07 percent, close to a three-quarter percent decrease from September. There were minor changes to wages in October as the largest paycheck increases came from Houston (\$31.65) and San Antonio (\$28.30) at \$1.06 and \$0.61 MOM, respectively. Austin (\$32.87) was the only metro with a decrease in earnings, falling \$0.40 MOM.

Hiring in all major metros was up as Texas added over 49,500 jobs in October. Dallas and Houston had the largest improvements MOM at 12,700 and 12,900 payroll increases, respectively. Fort Worth had a strong rebound from a loss in jobs the prior month to an increase of 11,000. San Antonio and Austin had strong gains at 5,500 and 2,000 jobs added, respectively.



## Goods-Producing Sectors

Texas' goods-producing sector gained 5,200 jobs in October at a seasonally adjusted annualized rate (SAAR). Despite record-high inflation and rising rates, **average hourly manufacturing earnings** (\$27.20) rose 8 cents MOM. In addition, the Dallas Fed's Manufacturing Outlook Survey continued its fall from previous months. The Texas Real Estate Research Center's **Texas Manufactured Housing Survey (TMHS)** reported a decrease in average hours worked among homebuilders to match the current order flow, and manufacturers expect to see the typical low season between November and February before the selling season begins in March. Despite the downturn in real estate conditions, construction payroll posted an increase of 900 jobs in October. **Average hourly construction earnings** (\$30.98) were up almost a dollar over September, reaching a new record high. **Total construction values** inched down 2.5 percent MOM, the fourth monthly decline since June. In October, statewide residential construction plummeted 8.9 percent relative to September as all residential activities declined. On the other hand, nonresidential construction grew 5.7 percent MOM and 38.8 percent YOY due to robust demand for office buildings and hospitals/other health treatment facilities.

Deteriorating global conditions had lowered energy expectations, and Texas' energy recovery continued its pause in October. The mining and logging sectors added 225,000 positions, still 4 percent below pre-pandemic levels. As inflation hinted at the lowered energy costs, gas prices rose 3 cents MOM, down significantly from prior months. However, the costs remained near double-digit percent and elevated compared with a year earlier.

The **West Texas Intermediate (WTI) crude oil spot price** rose over September's low to an average of \$87.55 per barrel. Texas' crude oil production increased marginally to 5.05 million barrels per day in August<sup>1</sup>, and companies expanded to 371 **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.

## Service-Providing Sectors

Texas' service-providing employment grew steadily by 44,300 workers. The monthly gain primarily came from professional/scientific services (18,700); trade, transportation, and utility (7,400); leisure and hospitality (11,600); and accommodation/food services (10,000). Even with resilient job growth, overall sentiment is still negative in the service sector. According to the **Dallas Fed's Service Sector Outlook Survey**, the revenue index still hasn't recovered since the Fed's aggressive rate policy started. Additionally, the outlook uncertainty index continues to remain elevated compared with the historical trend.

Retail activity declined in October as consumers' appetite for big purchases diminished with the current economic conditions. The sales index increased by 10 points but remained negative,

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<sup>1</sup> The release of active rigs and crude oil production typically lag the *Outlook for the Texas Economy* by two months.



indicating inventory increased but is still not where it needs to be. The **Dallas Fed's Retail Outlook Survey** is on more unstable footing than previous months, nearing historic lows. Retail inventories continue to increase at a slow pace, shown as the index increased over previous months. Meanwhile, general business activity and future activity indexes were mixed as respondents expect activity to slow in the coming months but sales to increase marginally.

## **Global Trade**

War and inflation eroded the buying power of many countries. Europe was hit hardest by an energy crisis and the central bank's tardiness in raising interest rates, resulting in dollar-euro parity for the first time in 20 years. Correspondingly, the **Texas trade-weighted value of the dollar**<sup>2</sup> continued to strengthen in September, rising 8 percent YOY. Despite the dollar appreciation, the order volume has not yet reflected a retreat in foreign demand. For example, Texas' **real commodity exports** stayed robust with \$40 billion worth of goods, expanding 1.3 percent quarter over quarter in real terms.

Texas' **manufacturing exports** grew 6.8 percent YTD, surpassing the U.S.' 3 percent YTD growth. Amid the increases, furniture and petroleum/coal were both highly sought-after goods, reporting over 20 percent YTD expansion. Texas' **crude oil exports**, which make up almost 90 percent of the national share, doubled in September. 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.

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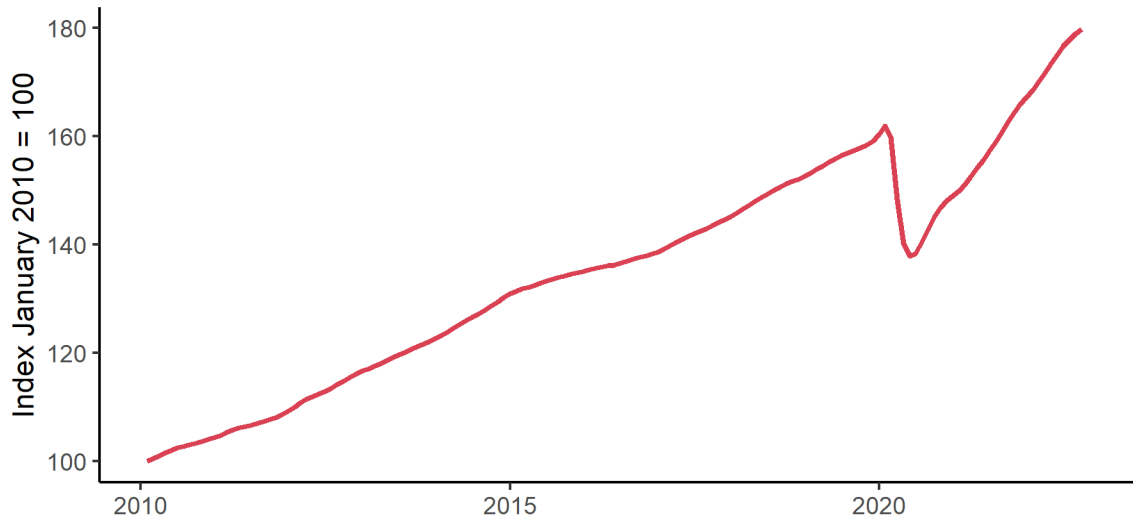
<sup>2</sup> The release of the trade section is lagging the *Outlook for the Texas Economy* by one month.





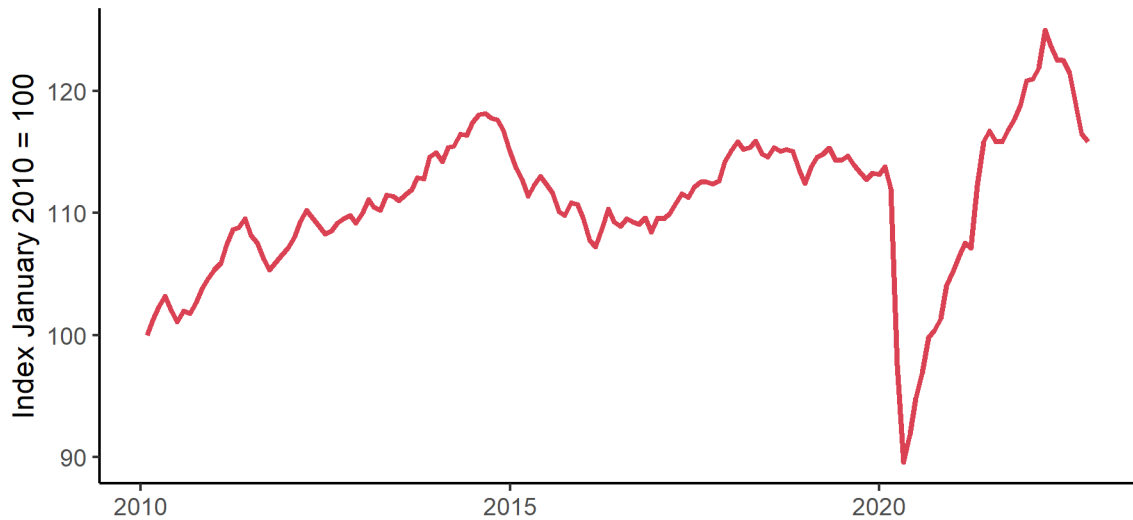
# Economic Activity

### Texas Business-Cycle Index



Source: Federal Reserve Bank of Dallas

### Texas Leading Index



Source: Federal Reserve Bank of Dallas

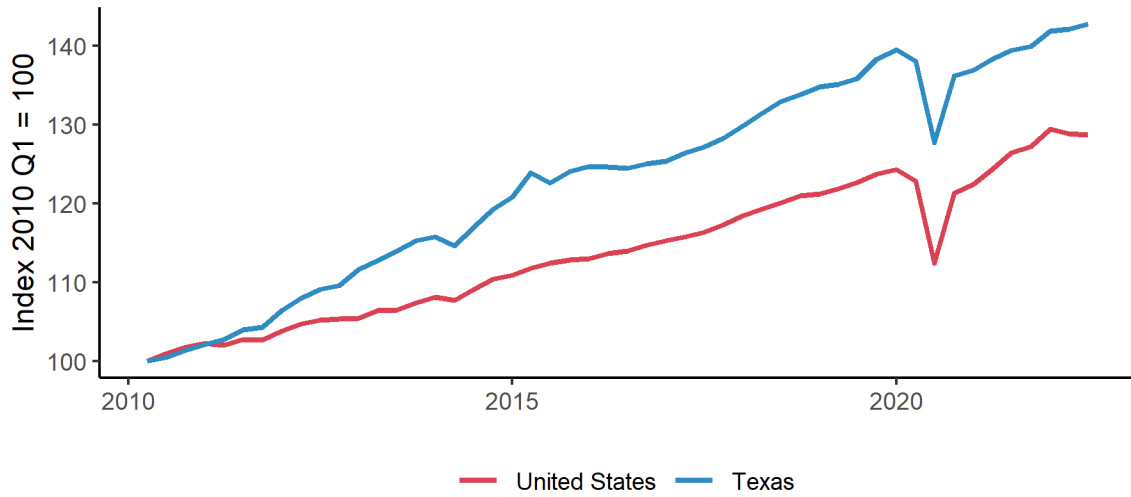






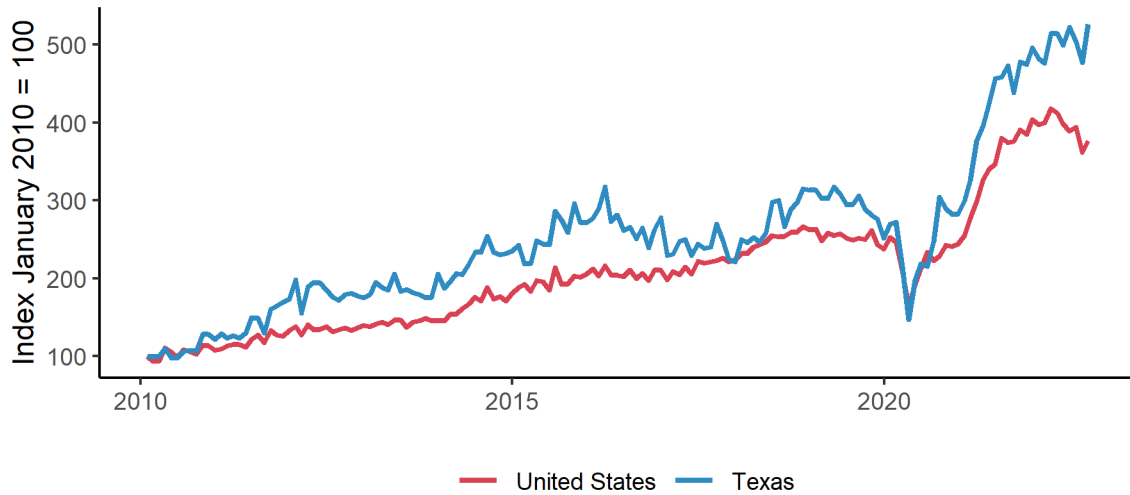
# Economic Activity

## Gross Domestic Product



Source: Bureau of Economic Analysis

## Job Openings

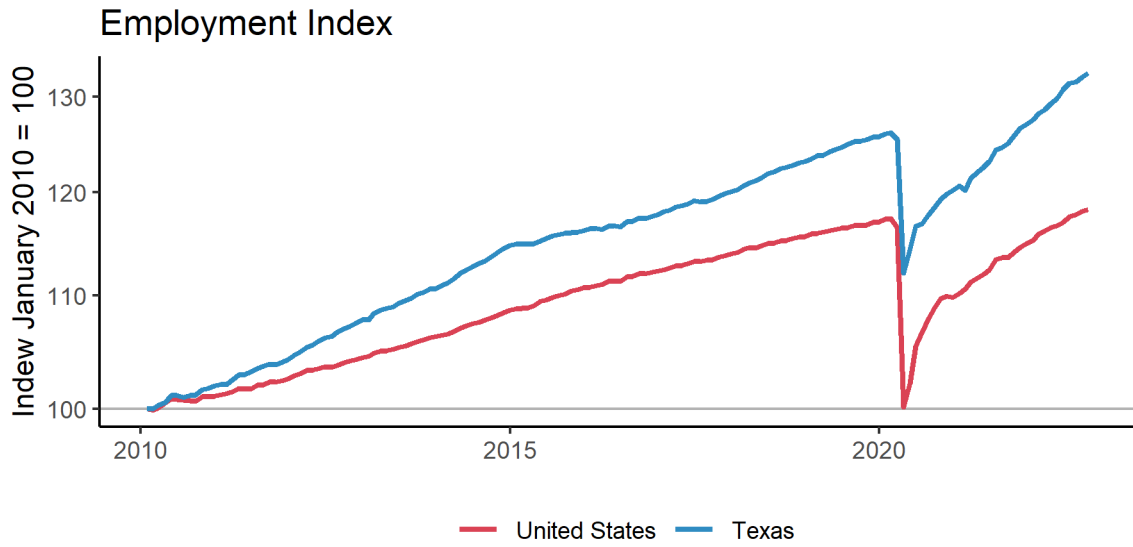


Source: Bureau of Labor Statistics

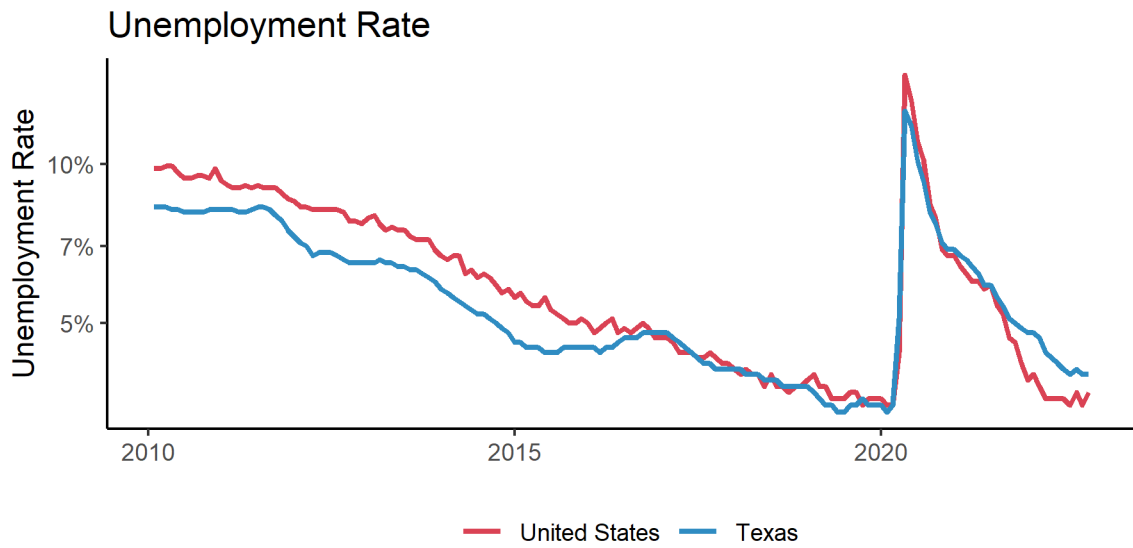




# Employment



Source: Bureau of Labor Statistics

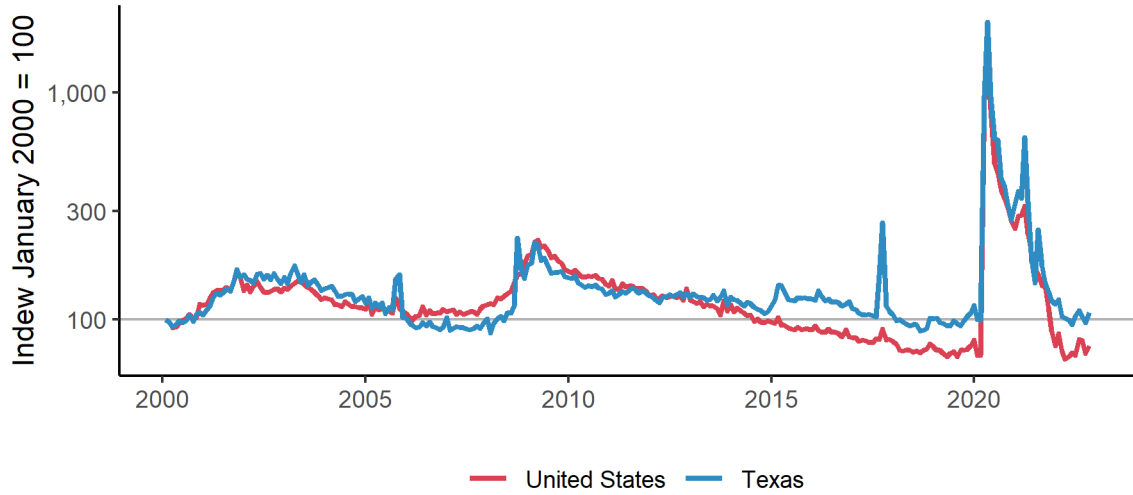


Source: Bureau of Labor Statistics



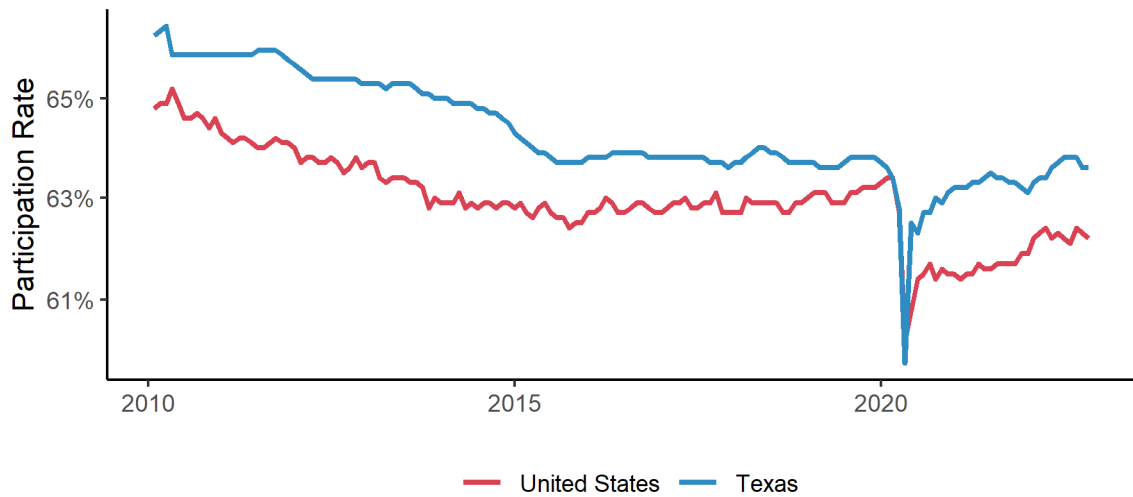
# Employment

## Initial Unemployment Claims



Source: Department of Labor

## Labor Force Participation Rate

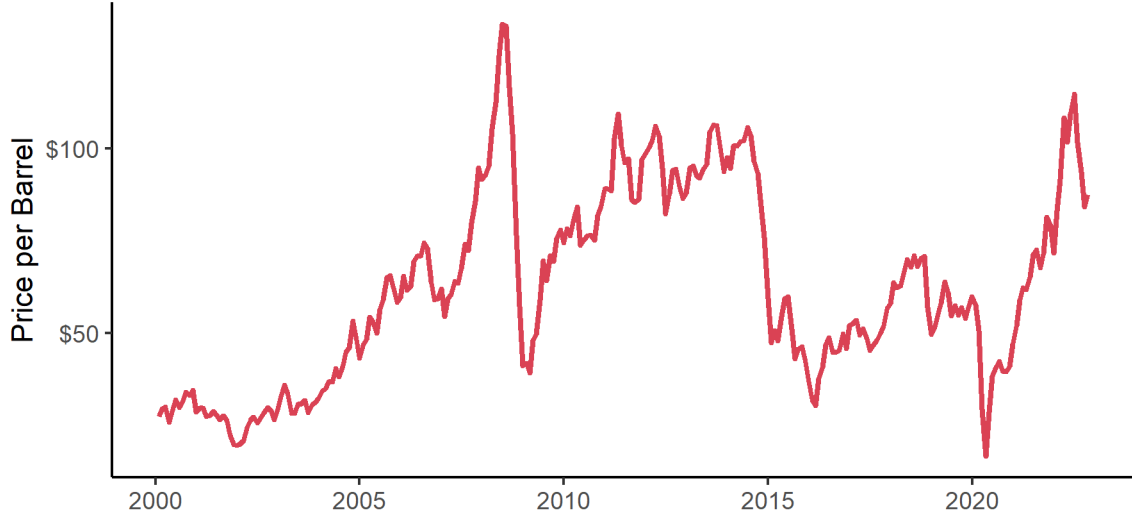


Source: Bureau of Labor Statistics



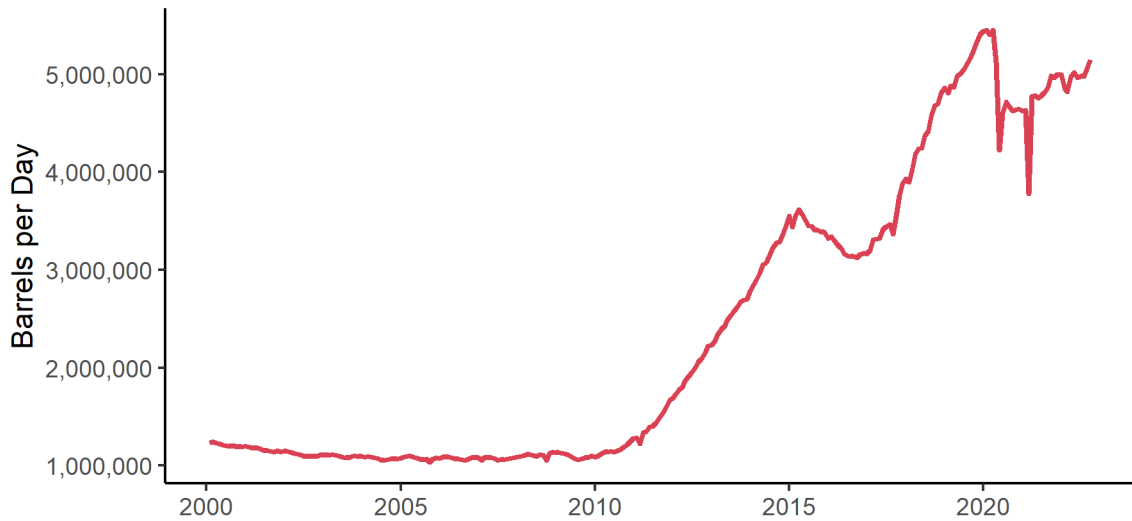
# Energy

### Crude Oil Price



Source: Energy Information Administration

### Texas Crude Oil Production



Source: Energy Information Administration





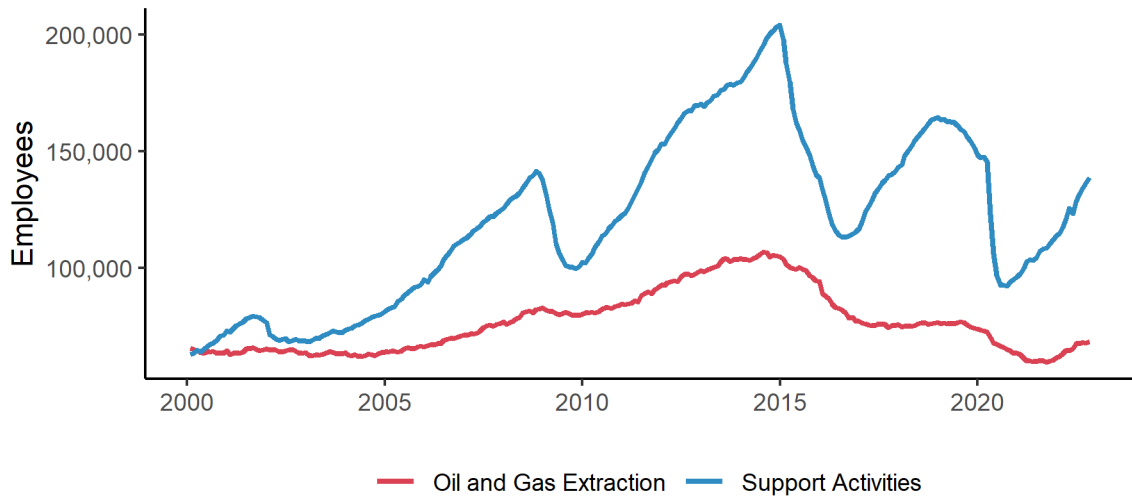
# Energy

### Texas Active Rotary Rig Count



Source: Baker Hughes

### Oil and Gas Extraction Employment



Source: Bureau of Labor Statistics

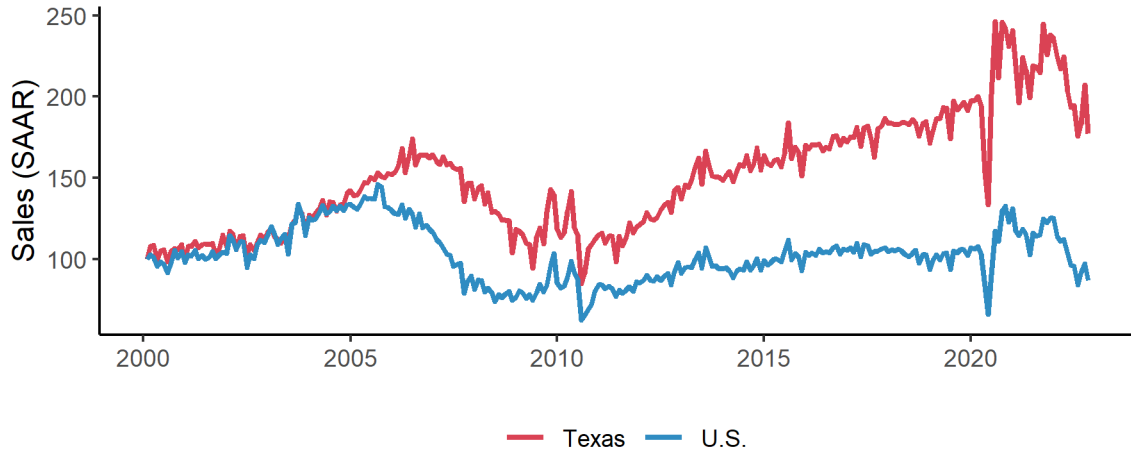




# Housing

## Residential Home Sales

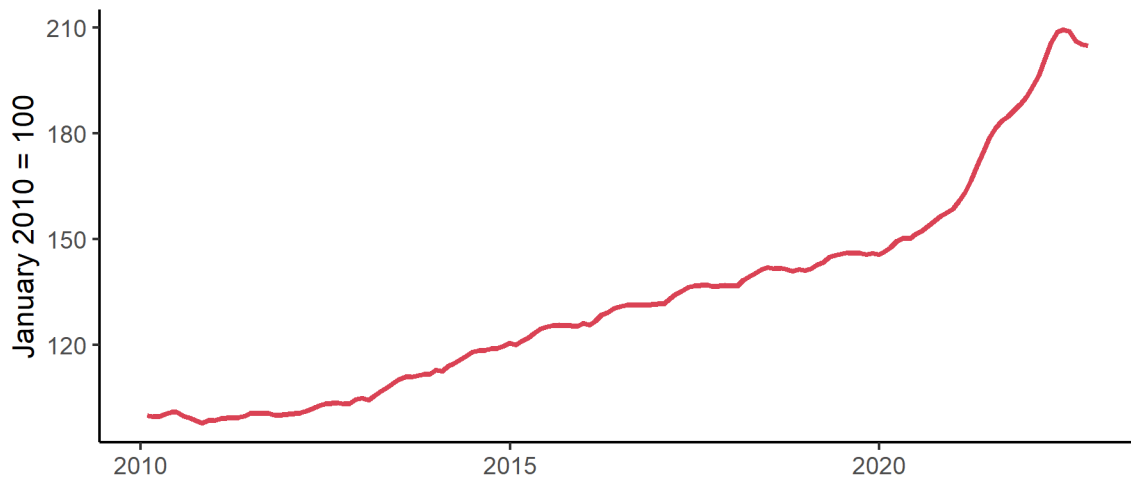
Seasonally Adjusted Annualized Rate



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

## Texas Home Price Index

Seasonally Adjusted Annualized Rate



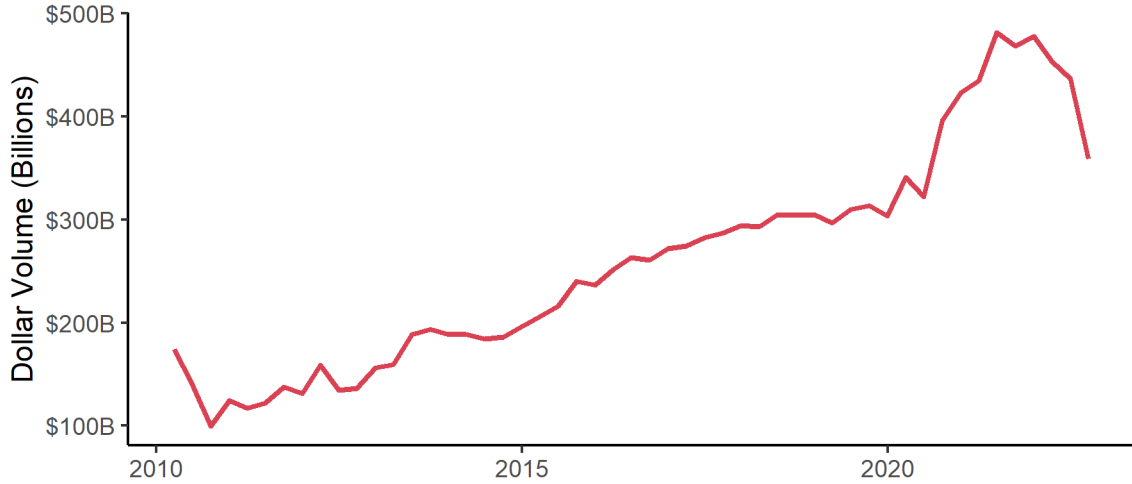
Source: Texas Real Estate Research Center at Texas A&M University





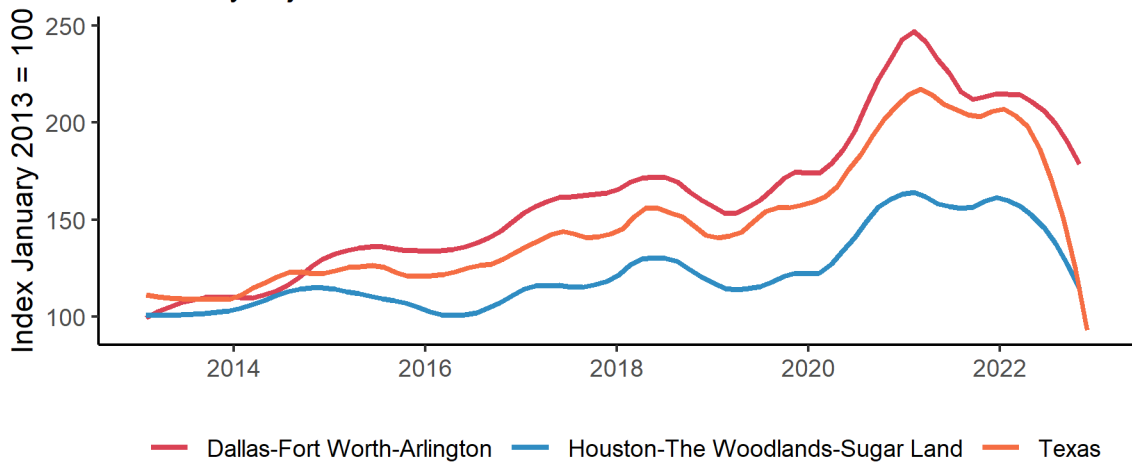
# Housing

## U.S. Purchase Mortgage Origination Dollar Volume Seasonally Adjusted



Source: Mortgage Bankers Association

## Single-Family Housing Starts Seasonally Adjusted Index



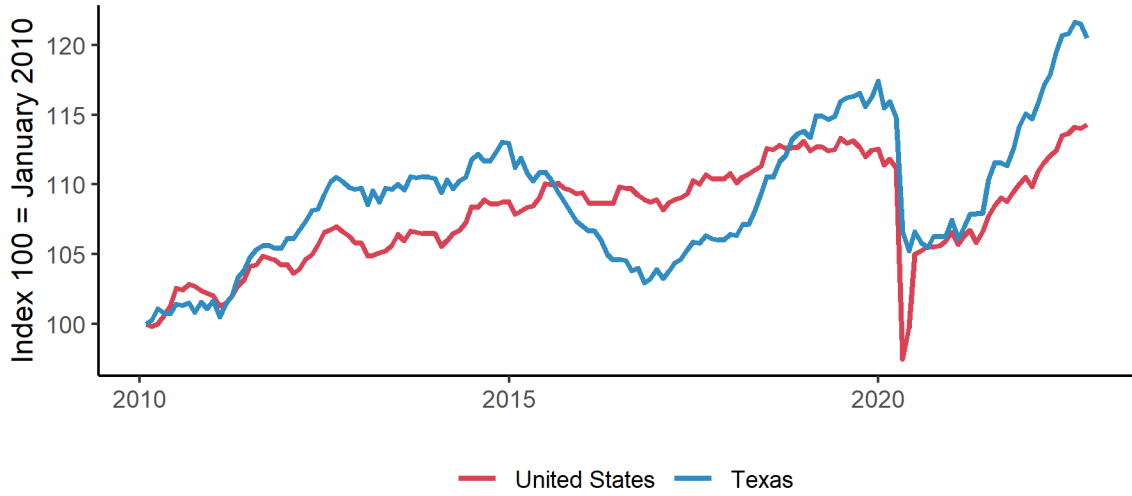
Source: Dodge Data & Analytics - Texas Real Estate Research Center at Texas A&M University





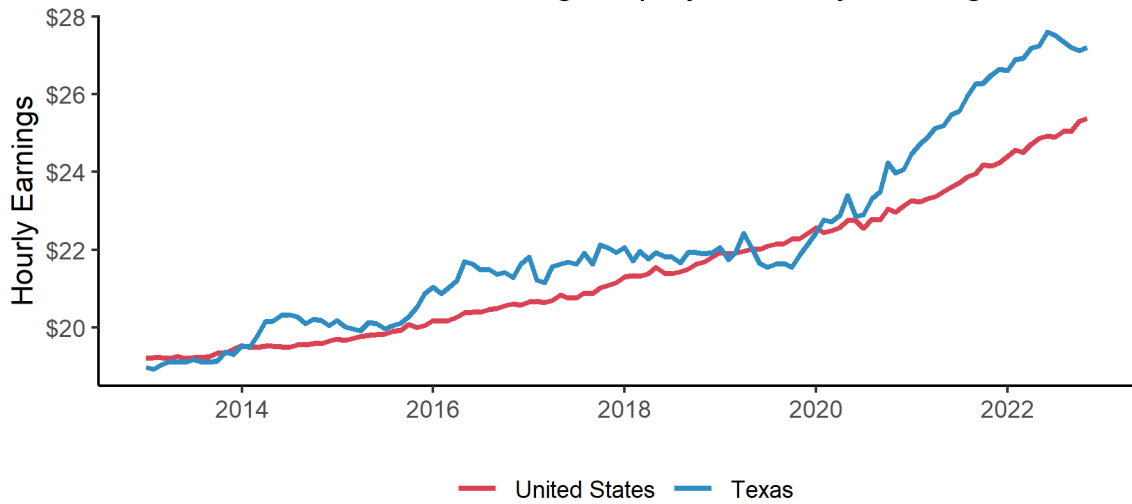
# Manufacturing

### 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

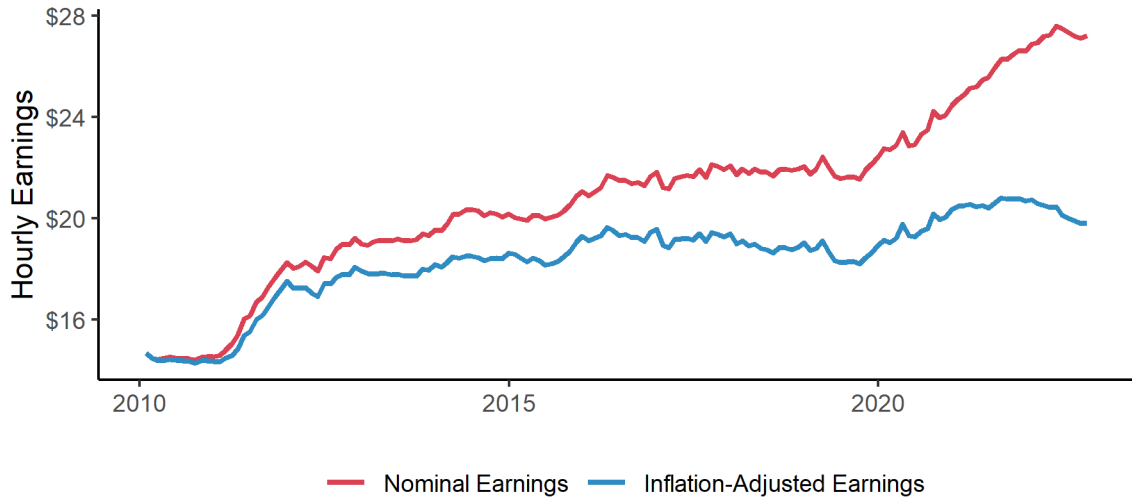






# Manufacturing

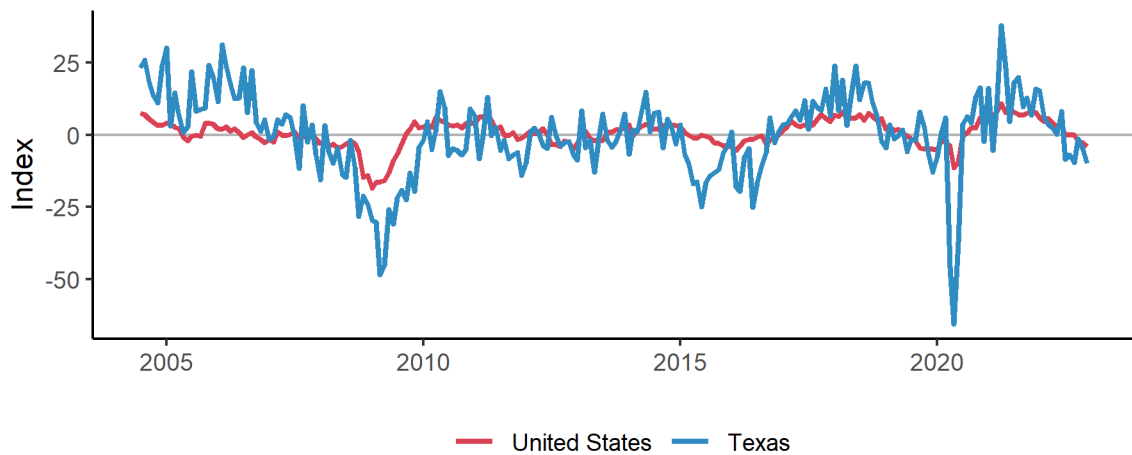
## Texas Manufacturing Employee Hourly Earnings



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

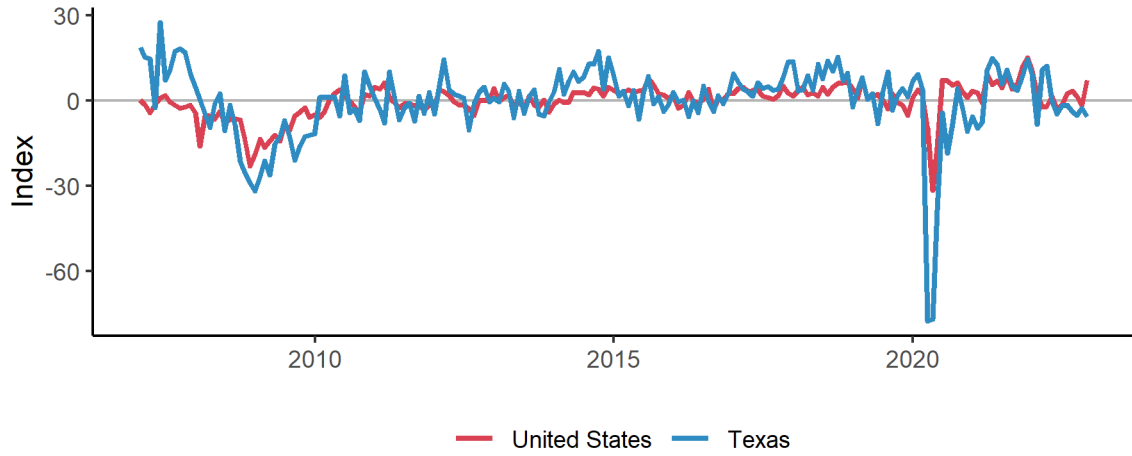




# Services

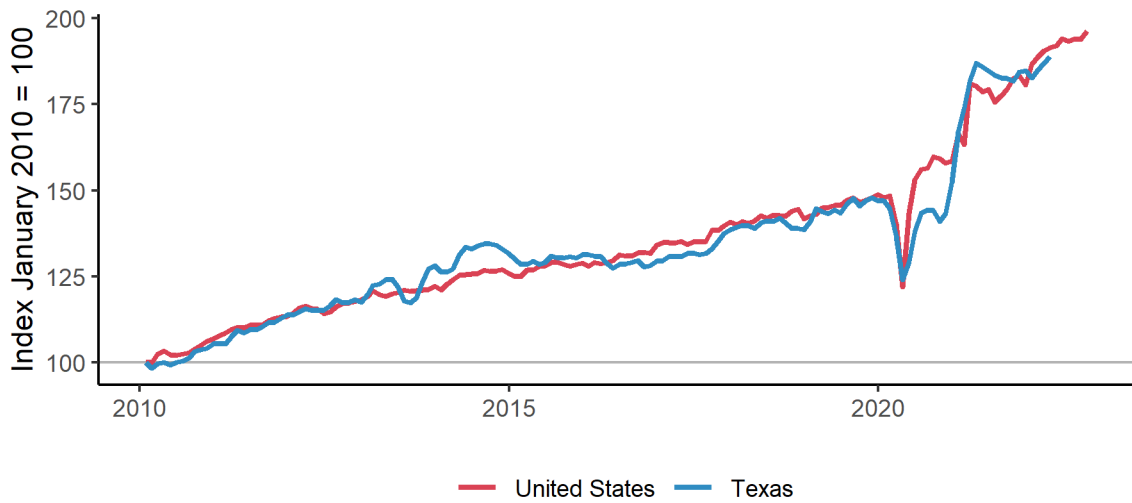
## Services Sector Outlook Index

0+ = Expansion



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

## Retail Sales Index



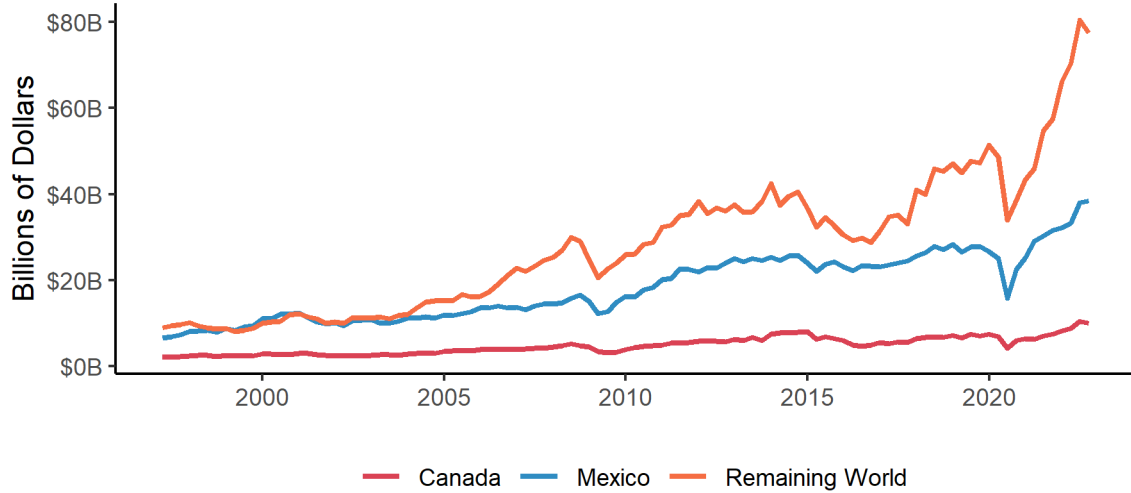
Source: Census Bureau - Federal Reserve Bank of Dallas





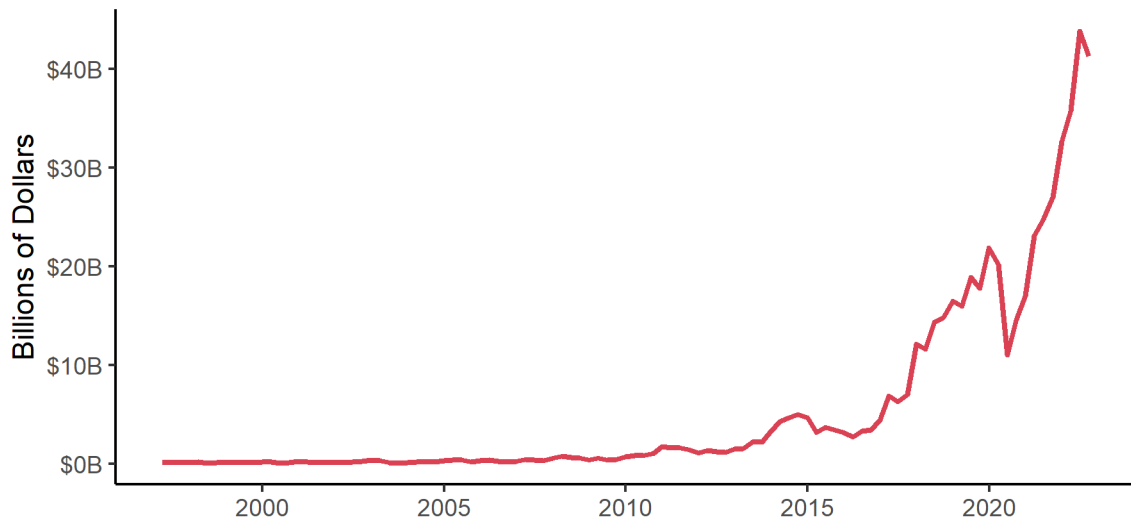
# Trade

## Texas Export Values by Destination



Source: Census Bureau via WISER

## Texas Oil and Gas Exports



Source: Census Bureau via WISER





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