

Outlook for the Texas Economy



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About this Report	3
November 2022 Summary	4
Economic Activity	8
Texas Business-Cycle Index.....	8
Texas Leading Index.....	8
Gross Domestic Product.....	9
Job Openings.....	9
Employment	10
Employment Index.....	10
Unemployment Rate.....	10
Initial Unemployment Claims.....	11
Labor Force Participation Rate.....	11
Energy	12
Crude Oil Price.....	12
Texas Crude Oil Production.....	12
Texas Active Rotary Rig Count.....	13
Oil and Gas Extraction Employment.....	13
Housing	14
Residential Home Sales.....	14
Texas Home Price Index.....	14
U.S. Purchase Mortgage Origination Dollar Volume.....	15
Single-Family Housing Starts.....	15
Manufacturing	16
Texas and U.S. Manufacturing Employment Index.....	16
Texas and U.S. Manufacturing Employee Hourly Earnings.....	16
Texas Manufacturing Employee Hourly Earnings.....	17
Manufacturing Outlook Index.....	17
Services	18
Services Sector Outlook Index.....	18
Retail Sales Index.....	18



Trade.....19
Texas Exports Values by Destination19
Texas Oil and Gas Exports19





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 Jan 10, 2023

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November 2022

UNEMPLOYMENT RATE

▼ 4.0%

DALLAS CORE CPI

▲ 8.1% YOY

REAL COMMODITY EXPORTS

▼ 2.8% QOQ

TOTAL CONSTRUCTION VALUES

▼ 23.9% MOM

Summary

Inflation pressures and uncertainty continue to plague the Texas economy as recession fears trudge onward. Texas' labor market expanded, albeit at a slower pace, remaining a positive aspect in the overall economy. As employers cut costs to stay afloat, initial unemployment claims rise. Inflation continues to offset any nominal wage increases seen in the market leading to decreases in real wages. A record high value of the Texas trade-weighted value of the dollar meant import costs dropped to an all-time low. It also meant foreign traders had to buy Texas' exports at a higher price, thus diminishing export values.

Economic Overview

Persistent inflation and the Fed's tactics to reduce it through interest rate hikes paint a picture of a slowing economy in the coming months. The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) fell for the fifth consecutive month after peaking in March. The dip in the index is due to recession uncertainties combined with inflation and rising interest rates. Even with continued uncertainty, consumer outlook has gradually improved. According to the Conference Board **Texas Consumer Confidence Index**, sentiment has grown to 76.3 (2007=100), inching up steadily every month from 71.8 in June.

The Federal Reserve is expected to continue imposing forceful monetary policies as inflation persists as a national economic concern. The cooling energy price was a primary driver for the decline in year-over-year (YOY) inflation as the overall **Consumer Price Index** (CPI) quickly moderated, decelerating from a 41-year high of 9 percent in June to 7.1 percent in November. Core inflation was unchanged in the past five months. The Dallas core inflation hit a record high at 8.1 percent YOY, with double-digit growth in this metro's food/beverage cost and housing prices that are insensitive to change.

Amid the Fed's streak of interest rate hikes, the ten-year U.S. Treasury bond yield has jumped 129 basis points since June to 3.9 percent, while the two-year counterpart surged by 150 basis points. The spread between the ten- and two-year bond yields widened while staying in negative territory, indicating persistent market uncertainties. The Federal Home Loan Mortgage Corporation's 30-year fixed-rate moderated slightly this month to 6.8 percent, but it still surpassed historical rates during 2007 and 2009.



The increased mortgage rates had the most noticeable impact on the housing market. In Texas, **total home sales** inched down 3.3 percent month over month (MOM), settling at a seasonally adjusted rate of 26,800 closed sales (Table 1). Seasonally adjusted sales in Houston took a big hit, while sales in the other major metros remained comparable to October levels. Texas' sales volume has shrunk by one tenth compared with a year earlier. As winter approaches, sales are expected to trend downward for the next two months. For more information on the current state of the housing market, subscribe to the *Texas Housing Insight* report.

Despite big tech companies' layoffs in national headlines, Texas' job market stayed strong and created 33,600 more jobs. In November, Texas' private sector recruited 34,600 workers, and the professional/business services industry added 1,400 workers. The industry that faced the biggest layoff was construction, dismissing 3,900 workers amid the market's diminishing demand for building projects. The **Dallas Fed's annual employment forecast** remains optimistic and expects a job growth rate of 3.5 percent for 2022 despite the downward revision to the first half. A robust Texas job market has managed to help keep the **unemployment rate** at 4 percent for the third consecutive month. Among Texas' four major metros, Houston had the highest unemployment rate at 4.3 percent, while Austin had the lowest at 2.9 percent. In Houston, many goods-producing jobs, particularly in the oil and gas industry, have still not recovered to pre-pandemic levels. Austin's leisure/hospitality industry boomed, adding over 3,000 workers in a month.

The number of Texans filing **initial unemployment claims** in November dropped by more than 8,000 from October. Despite weekly claims decreasing compared with previous months, claims are expected to continue increasing as businesses are unsure of the economy going forward. Texas' average weekly **continued unemployment insurance claims** shrugged their upward trend, dropping nearly 30,000 continued claims MOM in November.

Texas attracted 311,500 net workers in the past 11 months, and the influx of out-of-state workers expanded Texas' labor force by 2.2 percent to 14.6 million available workers. At the metropolitan level, Dallas added the most workers, followed by Houston and Austin. The state's **labor force participation rate** held steady at 63.5 percent.

The increase in private employees' average nominal earnings (\$30.38) was not enough to overcome inflation, as rising living costs decreased the state's **real private hourly earnings** by 3.2 percent. However, when measured in the recent three months, real wages showed signs of easing, rebounding 0.5 percent quarter over quarter (QOQ). Real wages in Fort Worth (\$33.99) and San Antonio (\$27.91) also reflected positive QOQ changes. While Houston (\$31.78) and Austin (\$32.19) lost less than 1 percent in real earnings, Dallas (\$33.31) lost 1.2 percent QOQ.

Goods-Producing Sectors

Texas' goods-producing sector gained 3,100 net jobs led by the expansion in the mining and logging sector, which added 3,800 but was still 2.6 percent below pre-pandemic levels. Manufacturing employment also expanded. However, amid record-high inflation, **real average hourly manufacturing earnings** (\$27.26) fell 4.5 percent YOY. The future manufacturing outlook appeared



pessimistic according to the Dallas Fed's Manufacturing Outlook Survey. November estimates suggested a contraction in Texas factory activities with the plummeting new orders index.

Amid the downturn in real estate, construction payroll cut 3,900 jobs in November. **Average hourly construction earnings** (\$30.98) had three months of consecutive growth, gaining 37 cents in real value since September. **Total construction values** inched down 23.9 percent MOM, the fourth monthly decline since June. Statewide residential construction plummeted 20 percent relative to October as all residential activities declined. Similarly, nonresidential construction slid 28.1 percent MOM due to fallen demand for office/bank buildings.

The Texas Real Estate Research Center's **Texas Manufactured Housing Survey (TMHS)** reported the eighth consecutive fall of the business activity index, as the overall housing sector has stalled because of the interest rate increases. Despite current challenges, optimism over the next six months turned positive across multiple indicators. Manufacturers expect activity to rebound in 2023 through higher sales and production, and out-of-state shipments should pick up after stalling since May.

As inflation hinted at lowered energy costs, gas prices dropped 16 cents MOM, down significantly from June's \$4.59-per-gallon peak. The reduced cost marked the first YOY decline, diving below the November 2021 price.

The **West Texas Intermediate (WTI) crude oil spot price** signaled a return to September's low at an average of \$84.37 per barrel in November. Texas' crude oil production stepped up to 5.2 million barrels per day in September¹ as companies reduced active rigs slightly to 361, down ten rigs MOM. The **Henry Hub spot price** fell from August's peak at \$8.81 to \$5.66 per million British thermal units (BTU), allowing the current price to be slightly higher than November 2021's price.

Service-Providing Sectors

Texas' service-providing employment grew steadily by 30,500 workers. The monthly gain came primarily from leisure and hospitality (20,200); accommodation/food services (16,700); educational and health services (5,400); and health care and social assistance (5,900). Texas' overall employment rose by 0.3 percent MOM partially due to gains in the service sector. According to the **Dallas Fed's Service Sector Outlook Survey**, the revenue index is recovering, though at a reduced rate, after the Fed began its aggressive rate policy. Additionally, the outlook uncertainty index continues to remain elevated compared with the historical trend, with some recovery expected in the coming year.

Retail activity declined in November as consumers' appetite for big purchases diminished with the current economic conditions. The sales index diminished by four points, going further into negative territory, indicating inventory has not caught up to demand. The **Dallas Fed's Retail Outlook Survey** remains on unstable ground as retail sales weaken in Texas. Retail inventories continue to increase

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



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 pick up in the coming months and sales to increase marginally.

Global Trade

The **Texas trade-weighted value of the dollar² index** reached a historical high at 113.6 in October (the series started in 1988). On the one hand, the triumph of the dollar meant imported goods would cost less than at any time in the past 40 years. On the other hand, the order volume of exported goods retreated. Texas' **real commodity exports** dropped to \$41.8 million, shrinking 2.8 percent QOQ in real terms.

Texas' **manufacturing exports** fell flat in October. While computer/electronic products grew by one tenth, petroleum/coal contracted close to one tenth. Texas's **crude oil exports**, which make up almost 90 percent of the national share, slid 5.5 percent QOQ while the national exports grew 2.8 percent QOQ. Thailand, Spain, and Italy have been holding back on their crude oil demand.

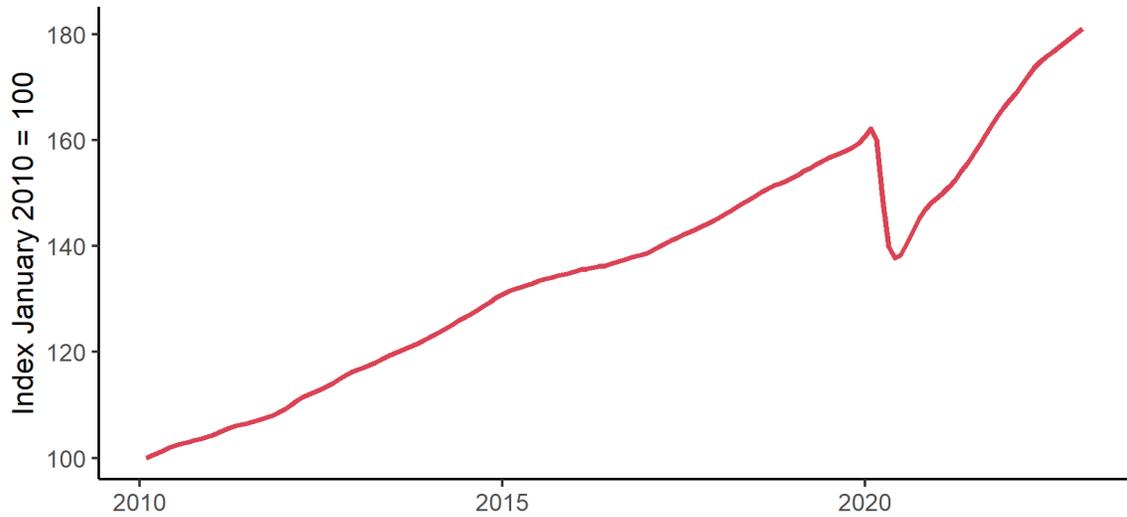
² The release of the trade section is lagging the *Outlook for the Texas Economy* by one month.





Economic Activity

Texas Business-Cycle Index



Source: Federal Reserve Bank of Dallas

Texas Leading Index



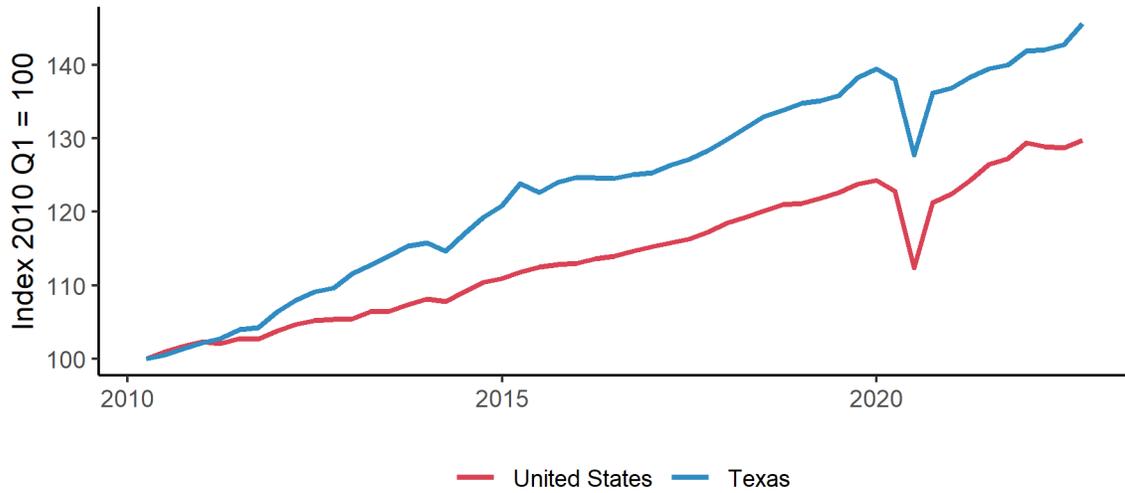
Source: Federal Reserve Bank of Dallas





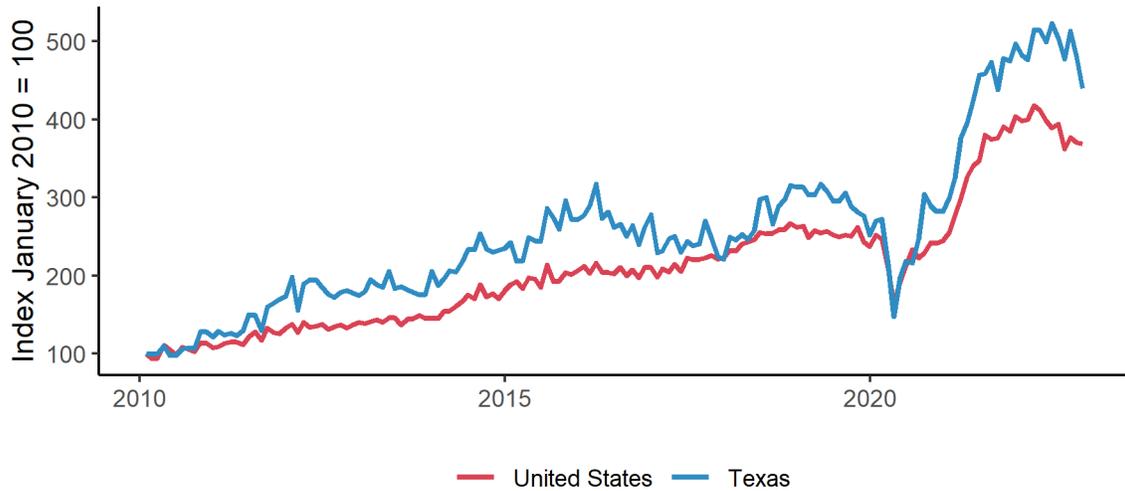
Economic Activity

Gross Domestic Product



Source: Bureau of Economic Analysis

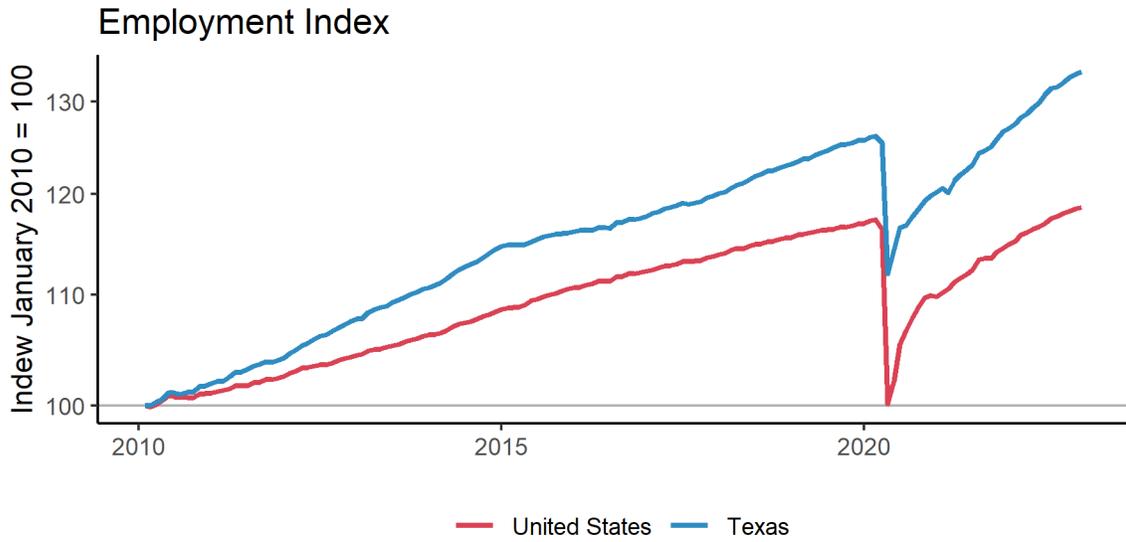
Job Openings



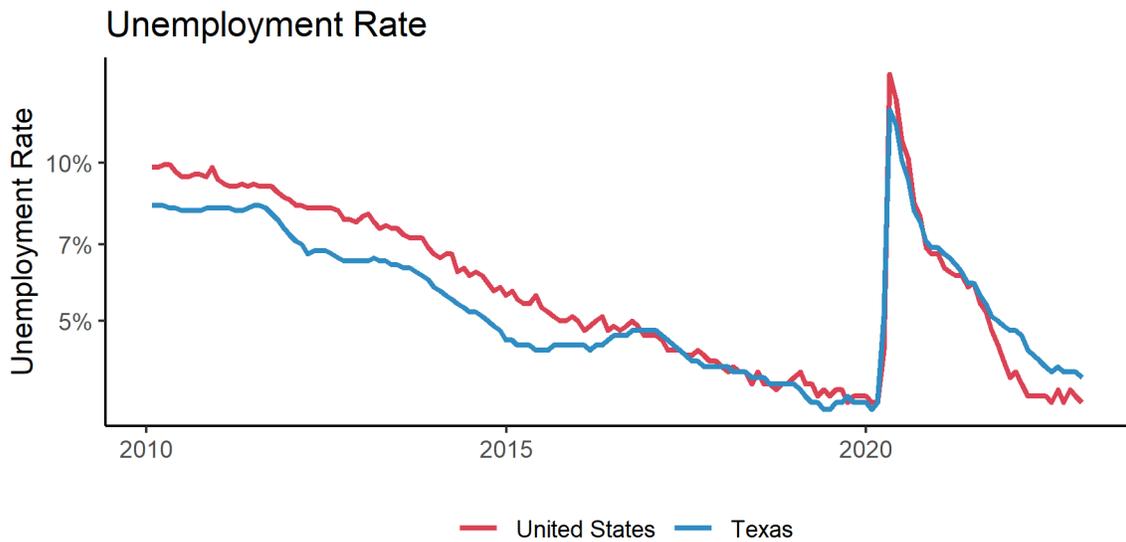
Source: Bureau of Labor Statistics



Employment



Source: Bureau of Labor Statistics



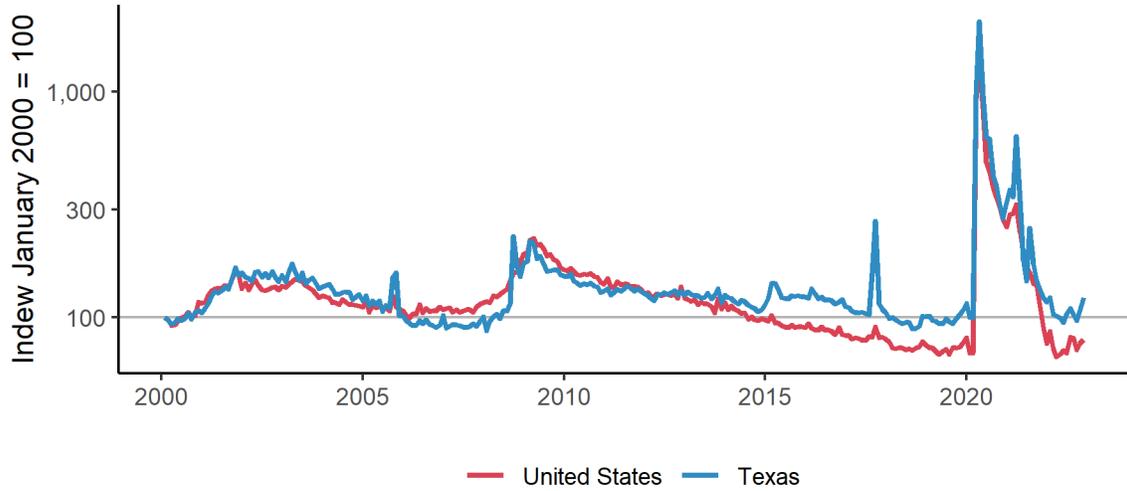
Source: Bureau of Labor Statistics





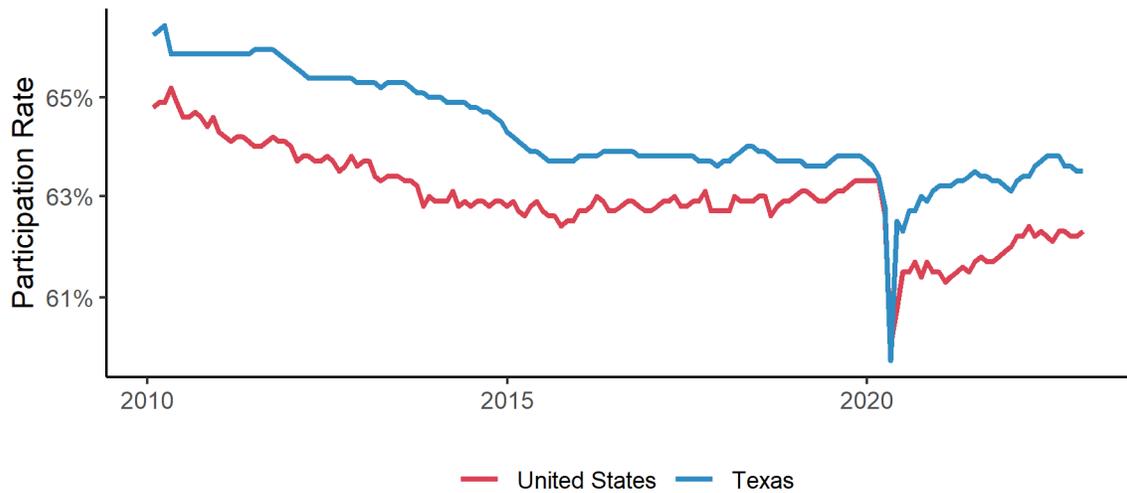
Employment

Initial Unemployment Claims



Source: Department of Labor

Labor Force Participation Rate



Source: Bureau of Labor Statistics



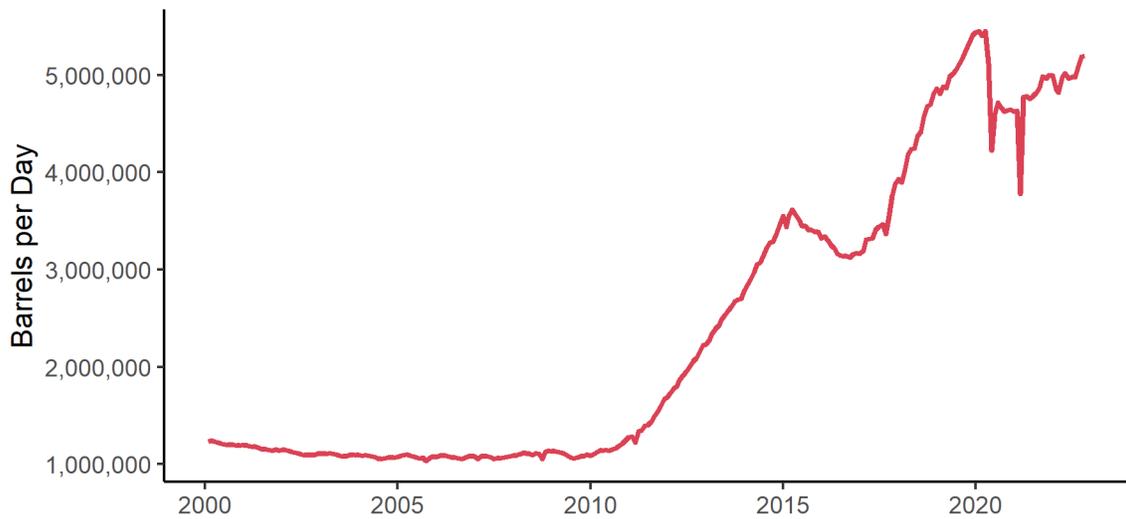
Energy

Crude Oil Price



Source: Energy Information Administration

Texas Crude Oil Production



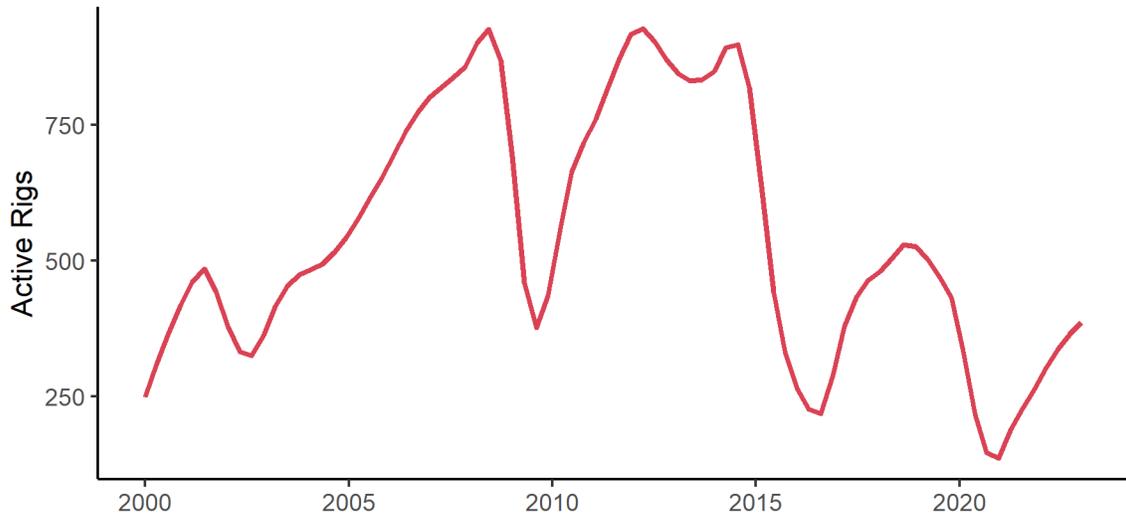
Source: Energy Information Administration





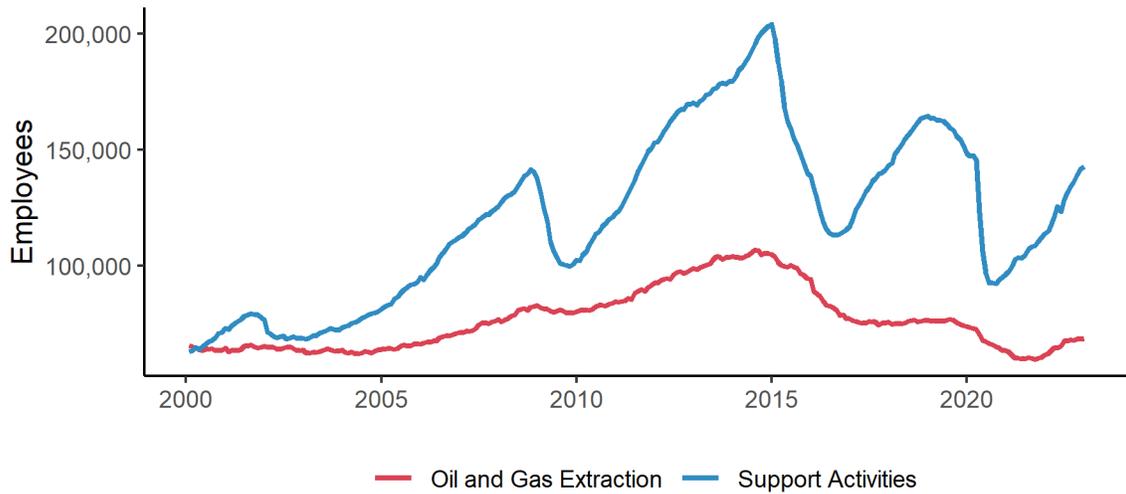
Energy

Texas Active Rotary Rig Count



Source: Baker Hughes

Oil and Gas Extraction Employment



Source: Bureau of Labor Statistics

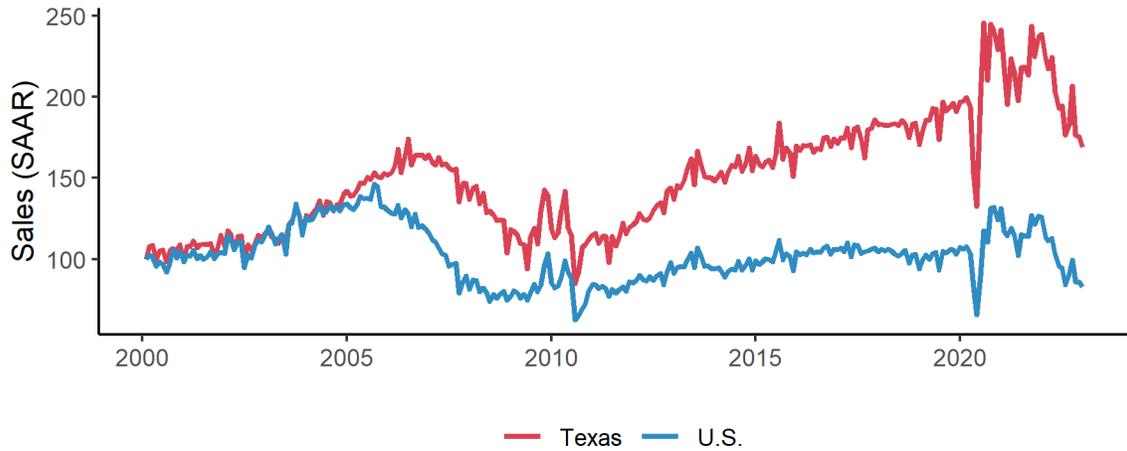




Housing

Residential Home Sales

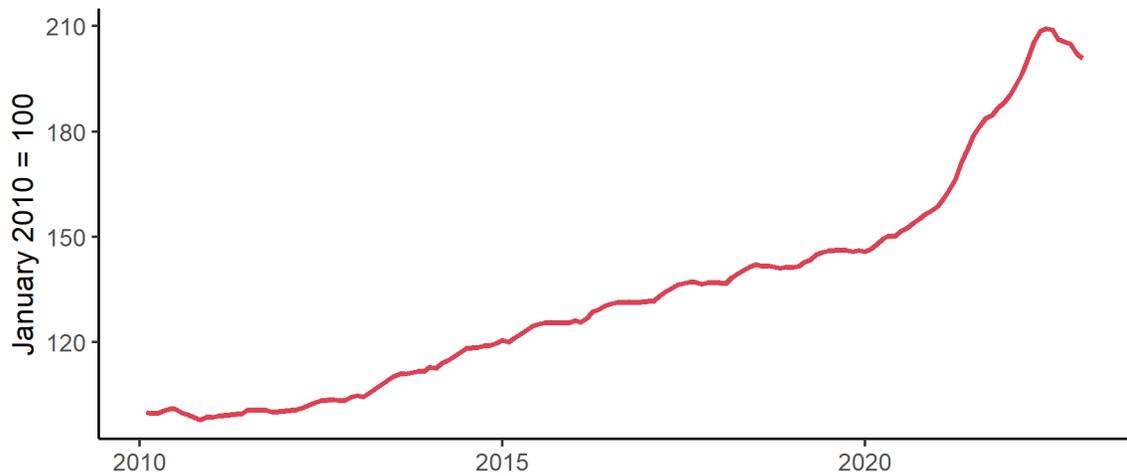
Seasonally Adjusted Annualized Rate



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



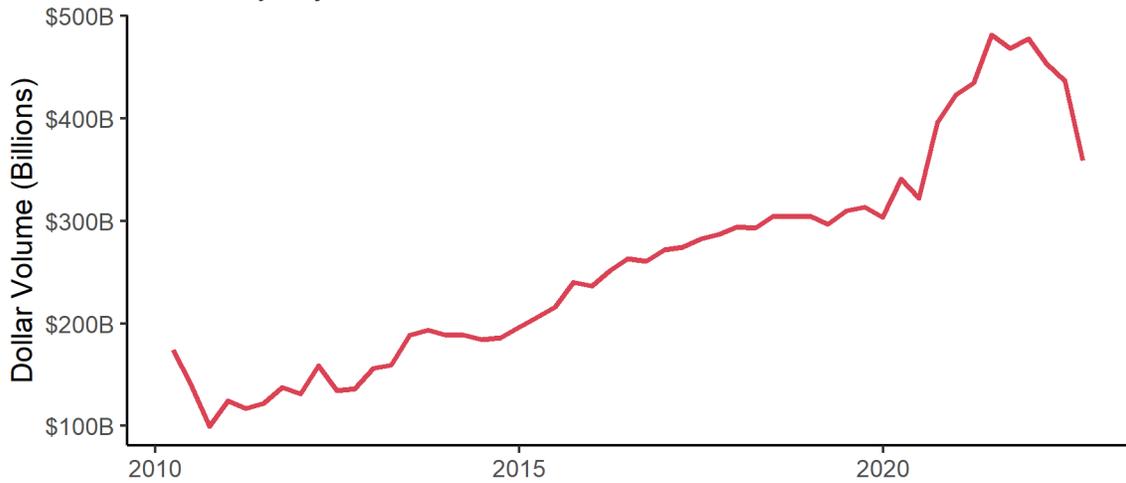
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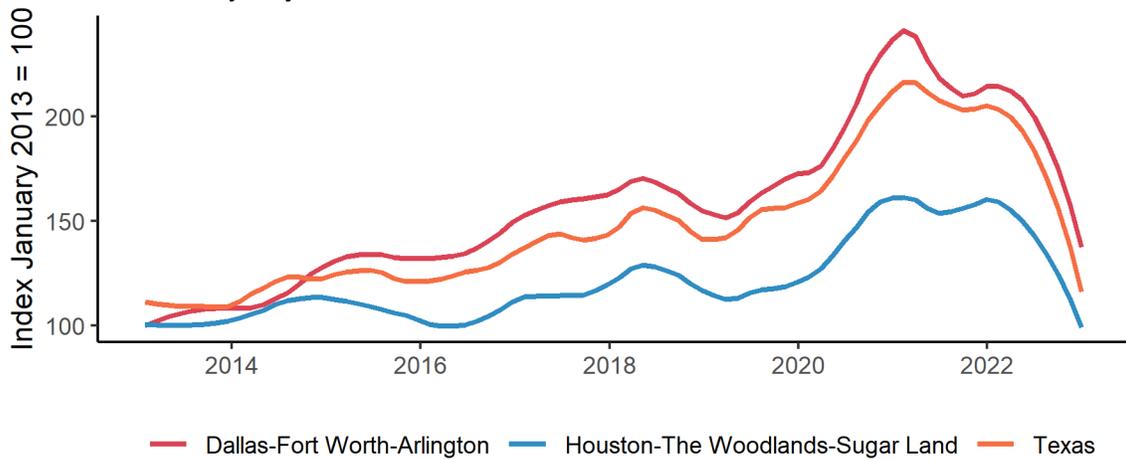
Housing

U.S. Purchase Mortgage Origination Dollar Volume Seasonally Adjusted



Source: Mortgage Bankers Association

Single-Family Housing Starts Seasonally Adjusted Index



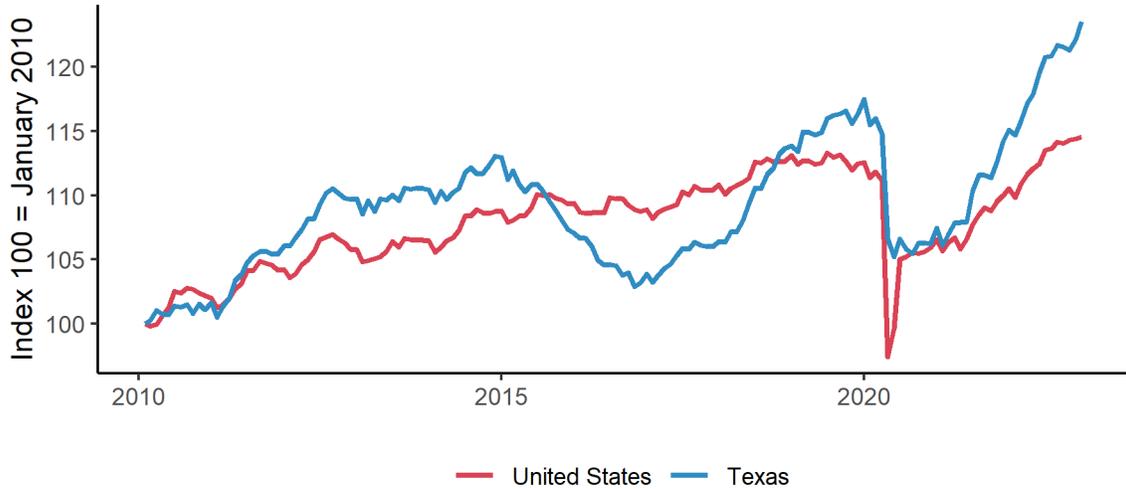
Source: Dodge Data & Analytics - Texas Real Estate Research Center at Texas A&M University





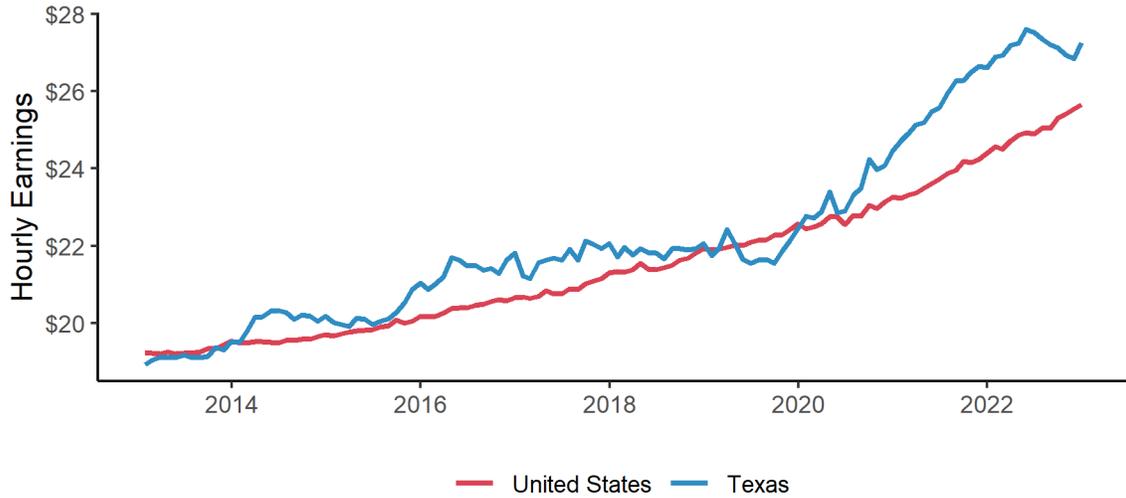
Manufacturing

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



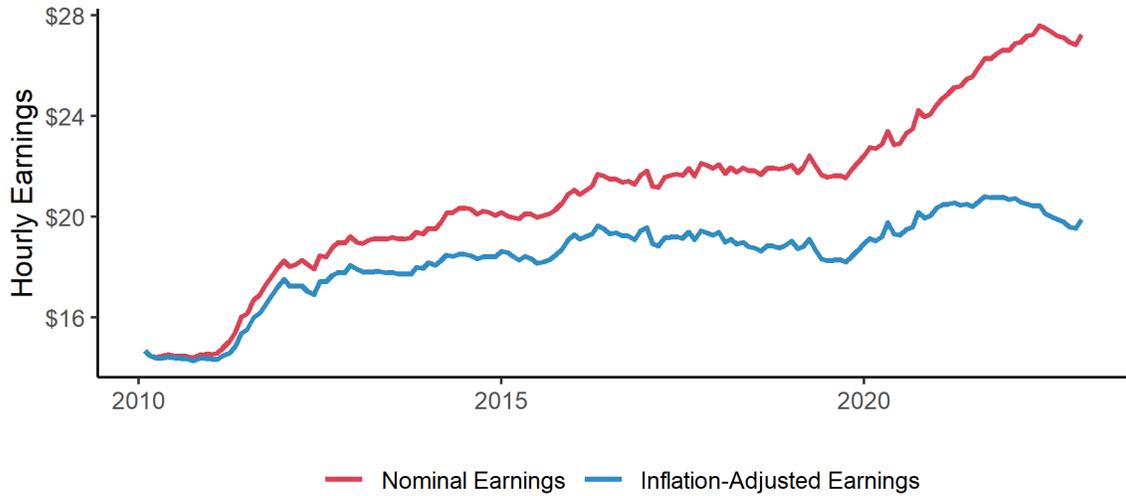
Source: Bureau of Labor Statistics - Texas Real Estate Research Center at Texas A&M University





Manufacturing

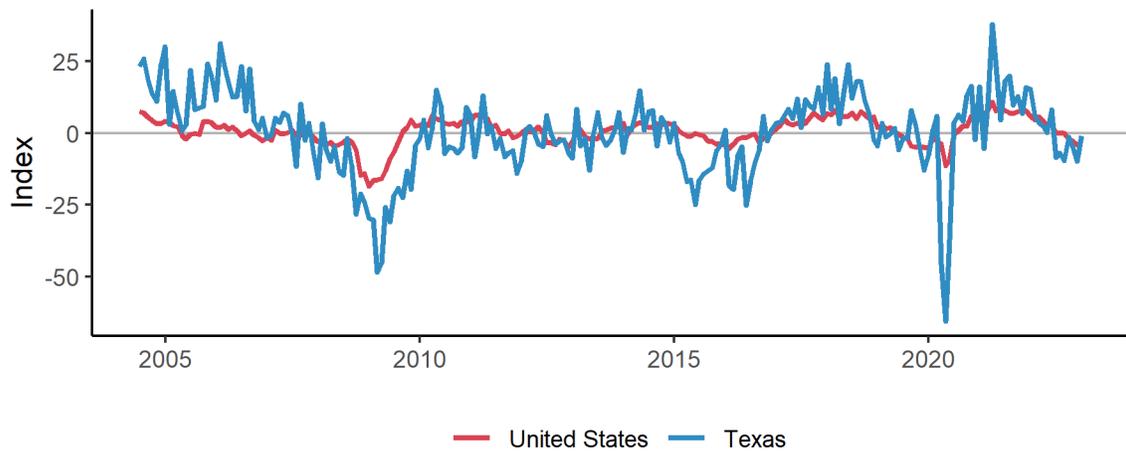
Texas Manufacturing Employee Hourly Earnings



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

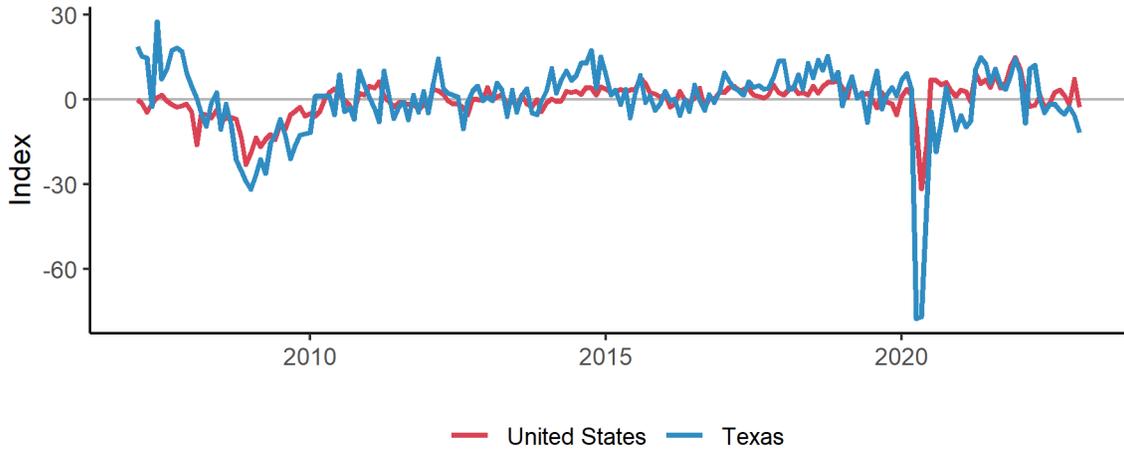




Services

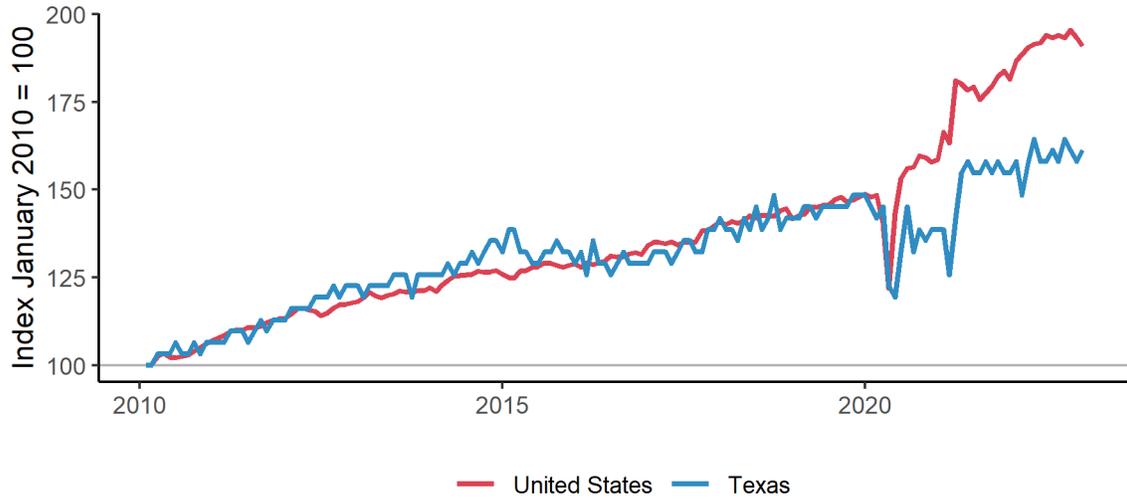
Services Sector Outlook Index

0+ = Expansion



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

Retail Sales Index



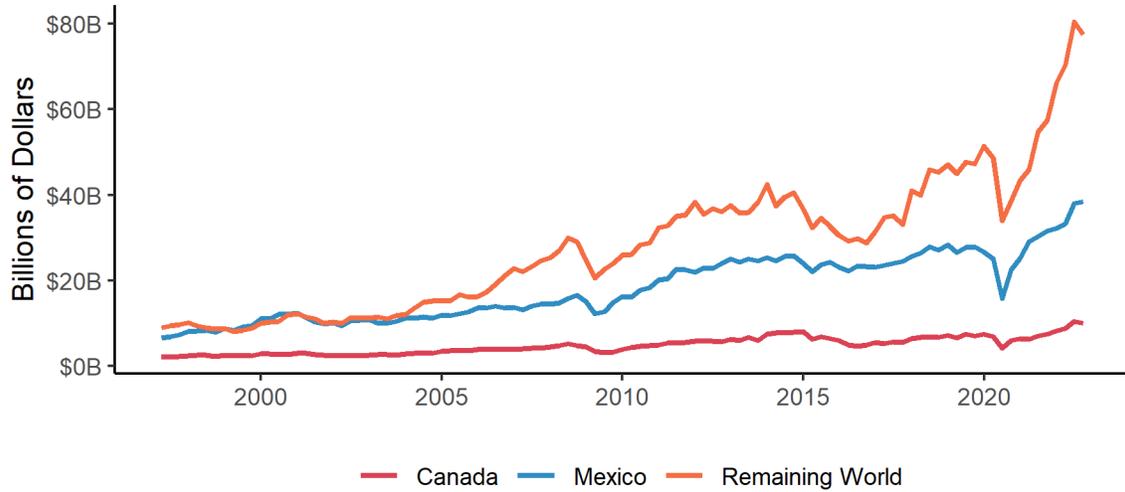
Source: Census Bureau - Federal Reserve Bank of Dallas





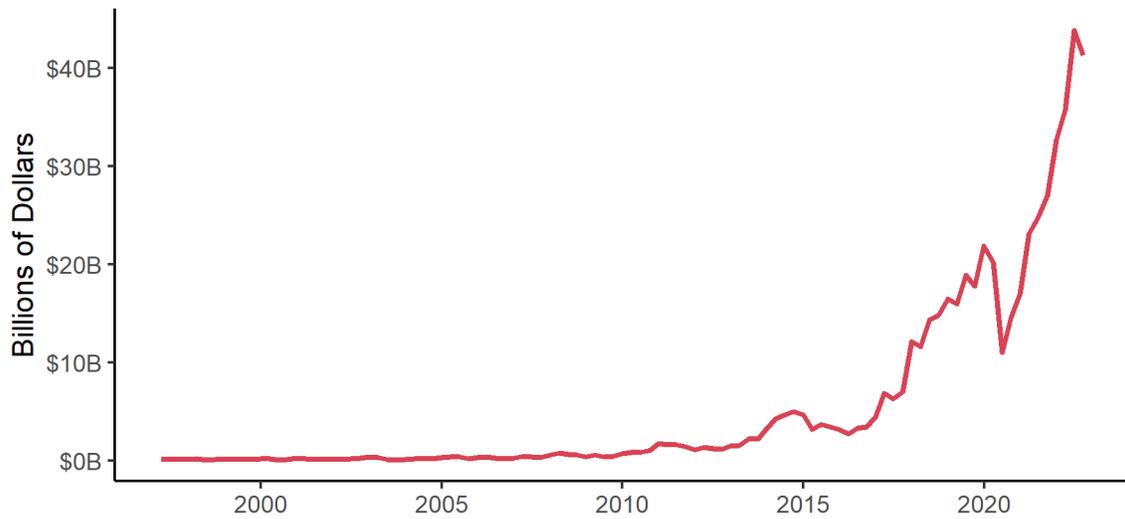
Trade

Texas Export Values by Destination



Source: Census Bureau via WISER

Texas Oil and Gas Exports



Source: Census Bureau via WISER



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