

Outlook for the Texas Economy



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2046
DECEMBER 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.

Joshua Roberson, Weiling Yan, and John Shaunfield

Data current as of Feb 17, 2023

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December 2022

UNEMPLOYMENT RATE

▼ 3.9%

CPI

▲ 6.5% YOY

TOTAL CONSTRUCTION VALUES

▼ 6.0% MOM

REAL COMMODITY EXPORTS

▼ 5.5% QOQ

Summary

Inflation reduction measures are expected to ease in 2023, but recession fears continue to be a concern. For the time being, employment in Texas is still growing but at a slower pace. Inflation continues to offset any nominal wage increases seen in the market leading to decreases in real wages. The Texas trade-weighted value of the dollar was relatively high, meaning the cost of exporting goods is rising for foreign entities, diminishing values.

Economic Overview

The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) increased, ending a five-month dive. The sudden change in direction follows as the Federal Reserve announced only a 50-basis point increase to its target rate, down from the 75-basis point increase from earlier in the year. Consumer sentiment also improved according to the Conference Board **Texas Consumer Confidence Index**. The index has grown each month since last July's low point.

Energy prices continue to be the primary driver for reduction in year-over-year (YOY) inflation as the overall **Consumer Price Index** (CPI) continues to moderate, decelerating for the sixth month in a row to 6.5 percent in December.

The **West Texas Intermediate (WTI) crude oil spot price** continued to decline, reaching \$76.44 in December, signifying the lowest crude oil price since December 2021. Texas' crude oil production stepped up over last month to 5.2 million barrels per day in October¹ as companies increased active rig count to 366, up five rigs month over month (MOM). The **Henry Hub spot price** for natural gas fell from August's \$8.81 peak to \$5.45 per million British thermal units (BTU) in November.

With the Fed's reduction in monetary policies, the ten-year U.S. Treasury bond yield dipped to 3.6 percent in December. The two-year counterpart subsided to 4.3 percent. The spread between the ten- and two-year bond yields widened while staying in the negative territory, indicating persistent market uncertainties. The Federal Home Loan Mortgage Corporation's 30-year fixed-rate moderated further this month to 6.4 percent, though still surpassing historical rates of 2007 and 2009.

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



Total home sales volume sank from 37,200 in December 2021 to 26,300 in December 2022, a nearly 30 percent drop. On a yearly basis, Houston lost the most in terms of both percentage and net volume—losing close to 35 percent and 3,500 units. On a monthly basis, Austin and Dallas lost the most at 4.4 percent of sales (Table 1). For more information on the current state of the housing market, subscribe to the [Texas Housing Insight](#) report.

The Texas economy created 29,500 new jobs in December. The goods-producing sector, led by manufacturing, had its best month since the summer, expanding by 8,300 jobs. Meanwhile, the service-providing sector had its slowest month since August, expanding by 21,200 jobs. Not all service sectors grew. Admin and waste remediation had the most layoffs, losing 9,700 workers. Despite stubborn inflation growth and overall economic uncertainty, the Texas economy has remained robust. However, according to the **Dallas Fed's annual employment forecast** growth will slow to 1.4 percent for 2023.

As a result of continued job growth, the **unemployment rate** dropped to 3.9 percent, down 10 basis points from November. Austin again had the lowest unemployment rate of the four major metros at 2.9 percent, led by the trade and transportation industry, which added nearly 3,000 workers in December. In contrast, Houston remained at top of the list for highest unemployment rate at 4.3 percent. In Houston, goods-producing jobs, particularly in the oil and gas industry, have not recovered to pre-pandemic levels.

The number of Texans filing **initial unemployment claims** surged in November and December, exceeding 65,600 each month. While the average weekly claims dropped by 245 applications in December, the number of workers remaining unemployed expanded as job growth slowed. As a result, average weekly **continued unemployment insurance claims** grew by 3,400 applications in December.

Texas attracted 330,700 net workers in the past year, and the influx of out-of-state workers expanded Texas' labor force 2.3 percent to 14.6 million available workers. Texas' labor market remains ahead of the national curve with the national labor rate increasing by 1.6 percent. At the metropolitan level, Dallas added the most workers, followed closely by Houston. The state's **labor force participation rate** held steady at 63.5 percent.

Private employees' average nominal earnings increased to \$30.53 and was not enough to overcome inflation for the month. Rising costs decreased the state's **nominal private hourly earnings** by 1.8 percent, closing the gap significantly over November. Nominal wages in Houston and Fort Worth were \$31.99 and \$34.07, respectively, making those cities the only major metros where YOY earnings beat YOY inflation, resulting in minor gains in real income. Dallas saw a reduction of 0.7 percent YOY earnings, while San Antonio and Austin both saw increases of 4.3 percent YOY.



Goods-Producing Sectors

Texas' goods-producing sector gained 8,300 net jobs in December, led by the mining, logging, and construction sector, which accounted for 2,800 new employees. Manufacturing continued to expand as well, adding 5,500 workers to the payroll. **Nominal average hourly manufacturing earnings** (\$27.25) rose 2.4 percent YOY. The future production outlook stepped up sharply over the previous month according to the Dallas Fed's Manufacturing Outlook Survey. The outlook is still down over 62 percent from this time last year, showing how far optimism has dropped concerning manufacturing amid the uncertain economy.

Despite the downturn in real estate, construction payroll added 700 jobs in December, ending a four-month cut in employment. **Average hourly construction earnings** (\$30.68) ended three months of growth, receding slightly over November. **Total construction values** inched down 6 percent MOM. The decline was the fourth in a row. Statewide residential construction dipped 1.7 percent with single-family houses staying flat. Nonresidential construction posted a bigger slide of 9.8 percent MOM due to a great contraction on office/bank buildings.

The Texas Real Estate Research Center's **Texas Manufactured Housing Survey (TMHS)** reported the industry ended the year on weak footing. Decreases in demand resulting from inflated interest rates are resulting in layoffs and reduced activity across industry.

Service-Providing Sectors

Texas' service-providing employment grew by 21,200 workers. The monthly gain came primarily from the Educational and Health Care sectors, adding 12,700 and 12,800 new employees, respectively. Counteracting this, Business and Professional Services lost 4,200 workers. Overall employment in Texas was up again, this time by 0.32 percent, partly because of the gains made in the service sector. According to the **Dallas Fed's Service Sector Outlook Survey**, activity stagnated and revenue dipped. The labor market shows signs of continuing growth, albeit at a slower pace. Despite the slowdown, service sector leaders still felt less uncertainty about the current business environment according to the uncertainty index.

Retail sales continued their decline with current economic conditions having diminished consumers' appetite for big ticket purchases. The **Dallas Fed's Retail Outlook Survey** remains in negative territory with no signs of letting up as economic conditions trudge onward. Inventories are increasing but at a much slower pace, driving the index down, combined with a falling company outlook index. Future business activity is expected to decline as the index dove further into negative territory, with the only silver lining being positive gains in the future sales index in December.



Global Trade

The **Texas trade-weighted value of the dollar² index** moderated to 111.6 from October's peak but is still 6 percent higher than 2021's year-to-date (YTD) average. The strengthening of the dollar meant exported goods would cost more for foreign traders. As a result, Texas' **real commodity exports** dropped for the fourth consecutive month, retreating 5.5 percent quarter-over-quarter (QOQ) in real terms.

Chemicals was the largest category of Texas' **manufacturing** exports. Chemical exports fell 6.8 percent QOQ, with basic chemicals making up most of the loss. Texas's **crude oil exports**, which make up close to 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 around 57 percent of their YTD crude oil import demands.

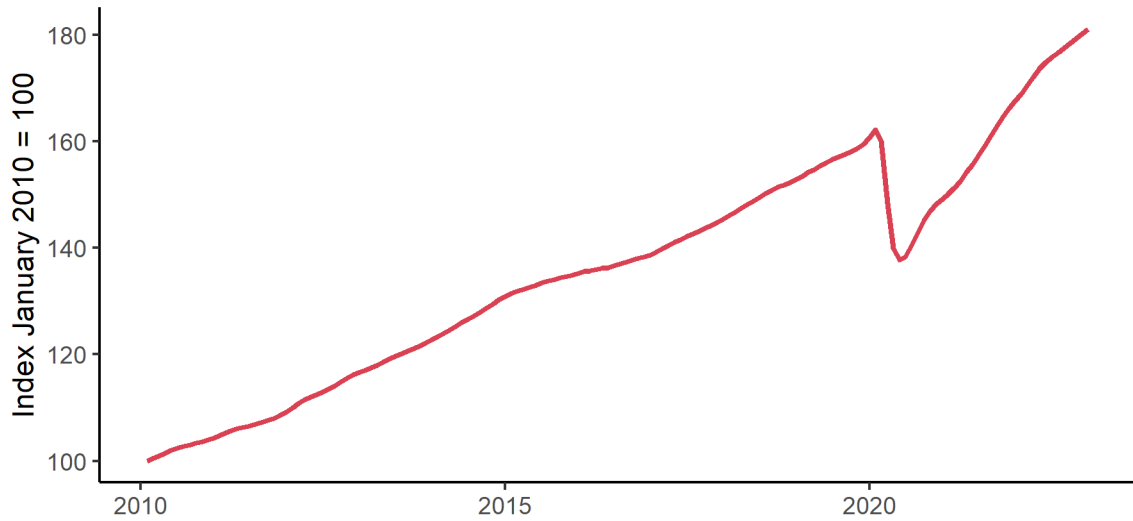
² The release of the trade section is lagging the *Outlook for the Texas Economy* by one month.





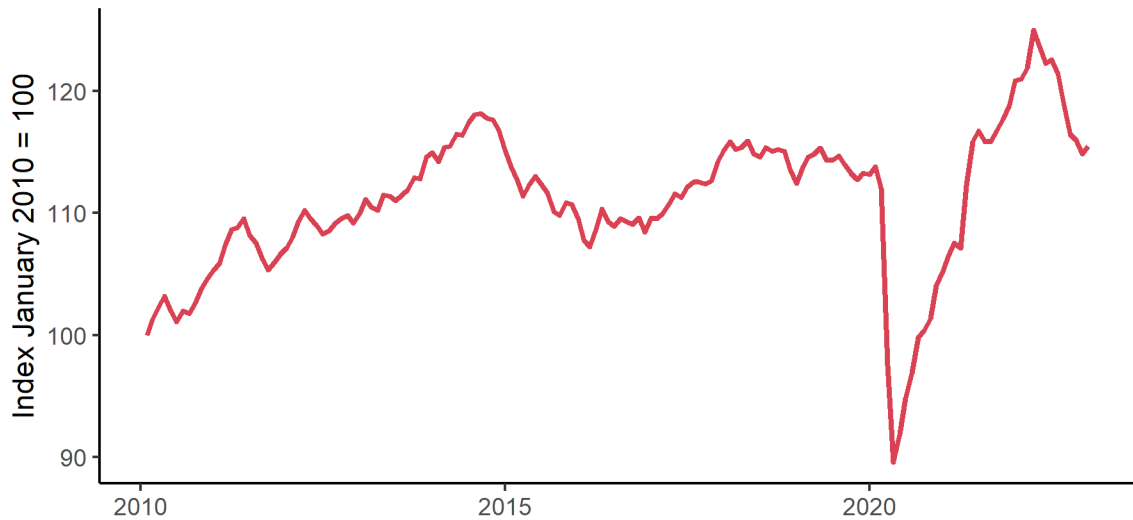
Economic Activity

Texas Business-Cycle Index



Source: Federal Reserve Bank of Dallas

Texas Leading Index



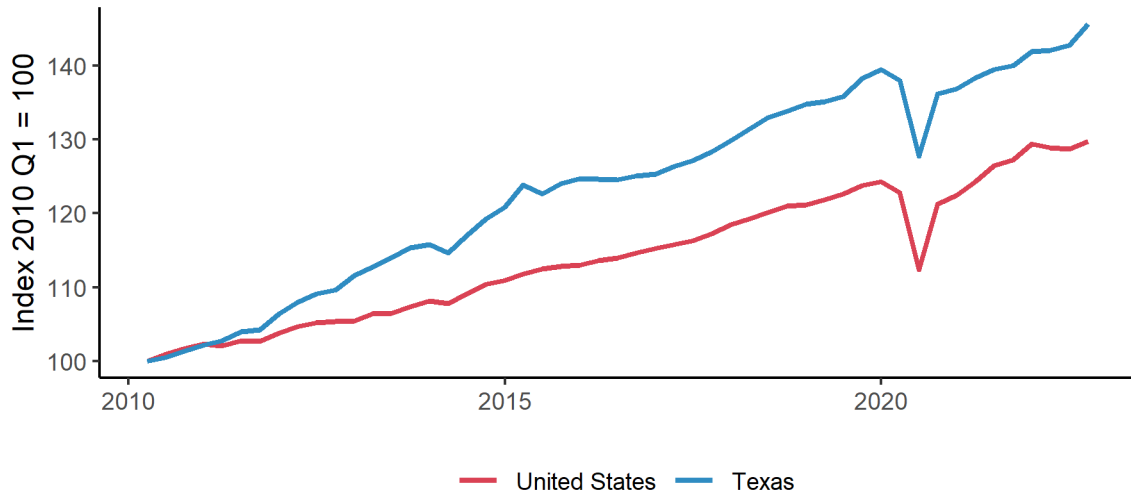
Source: Federal Reserve Bank of Dallas





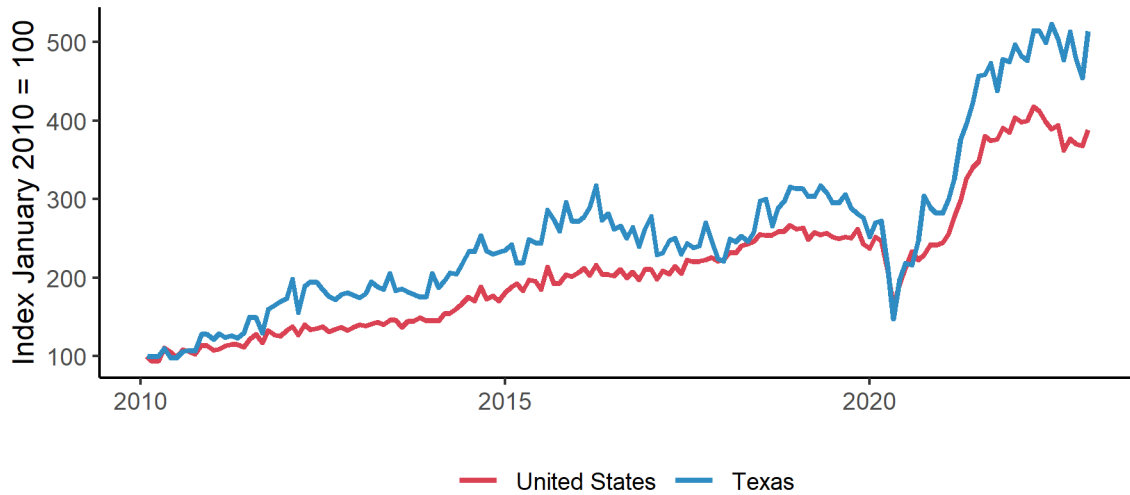
Economic Activity

Gross Domestic Product



Source: Bureau of Economic Analysis

Job Openings

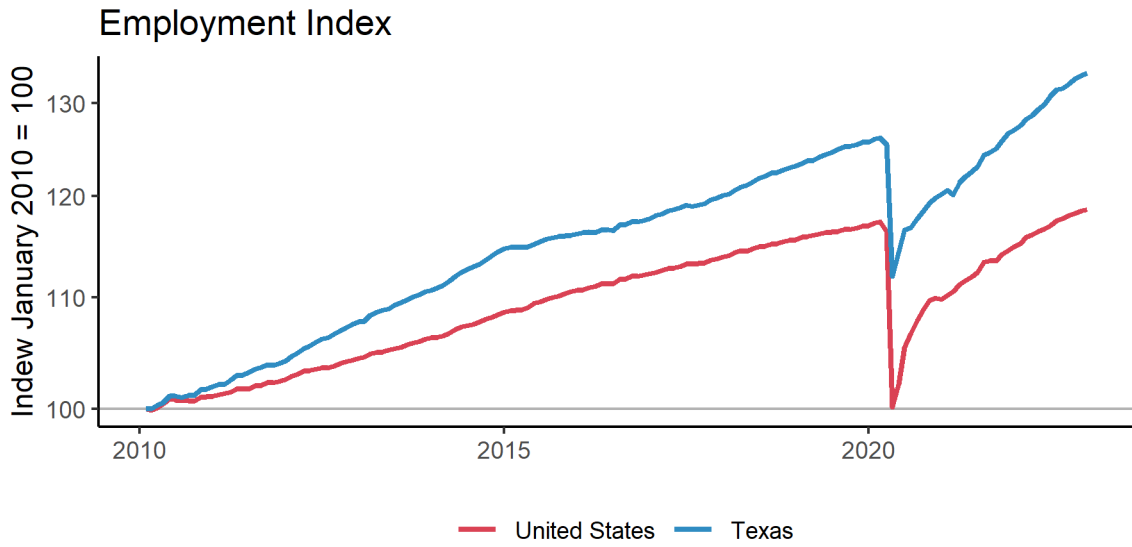


Source: Bureau of Labor Statistics

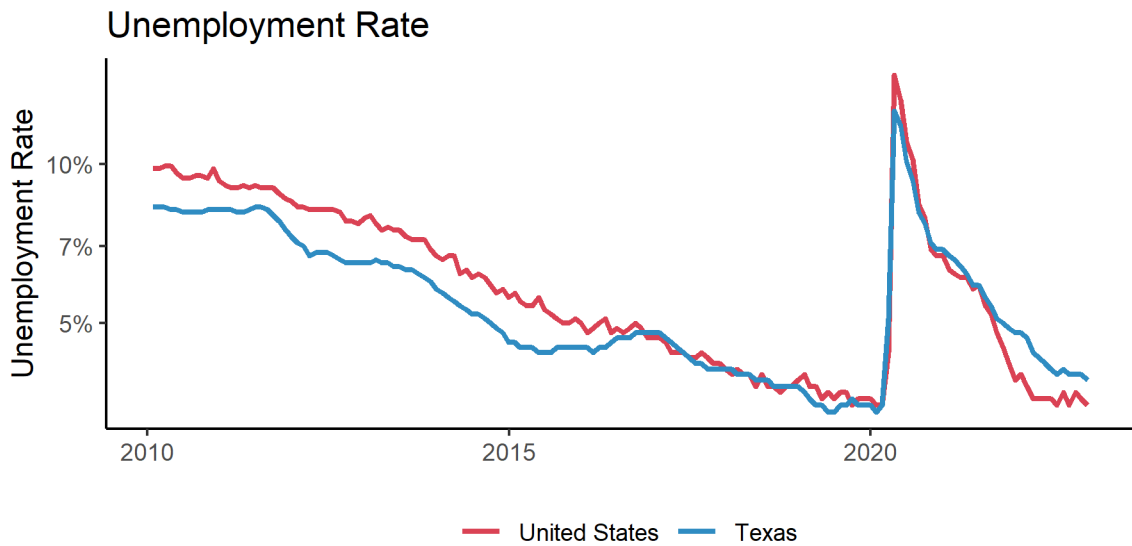




Employment



Source: Bureau of Labor Statistics



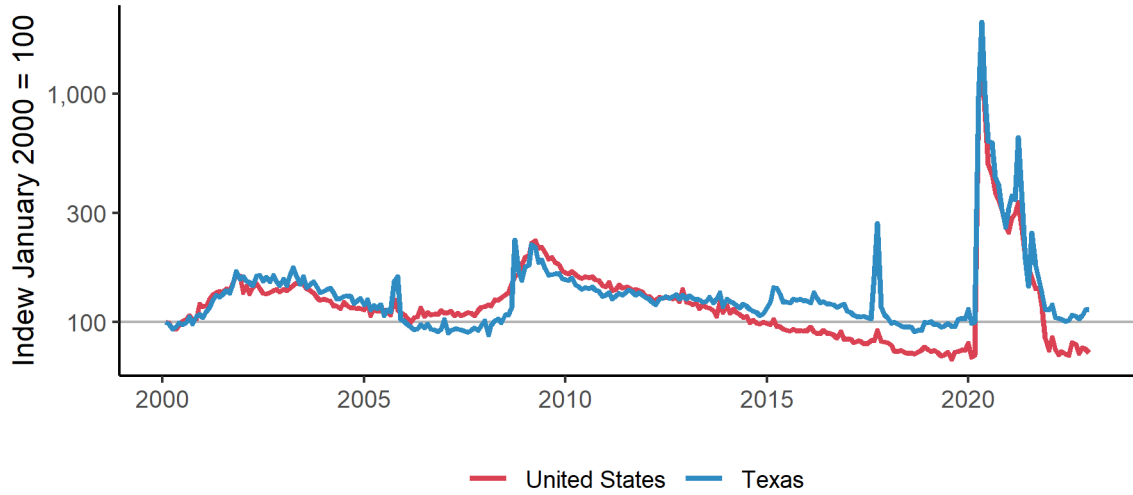
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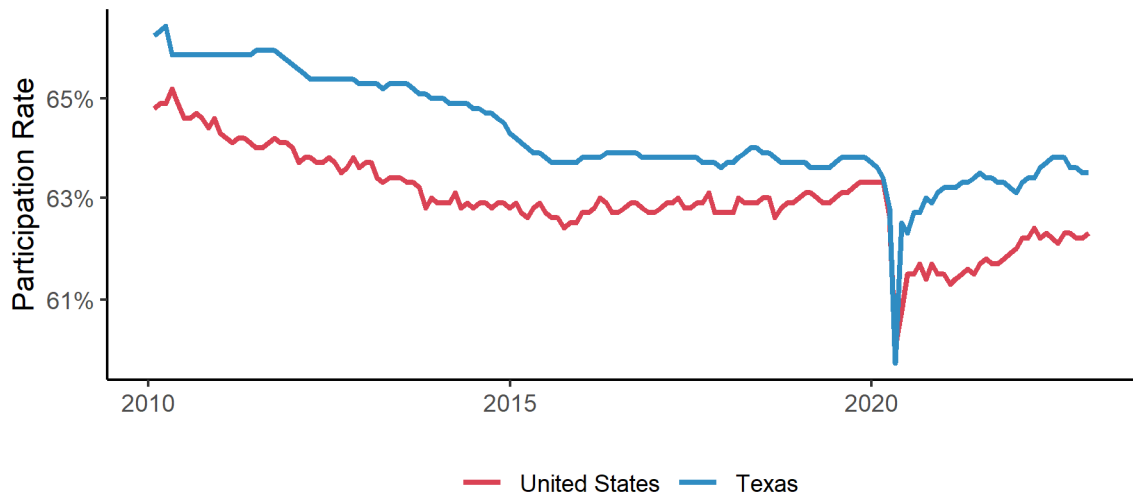
Employment

Initial Unemployment Claims



Source: Department of Labor

Labor Force Participation Rate



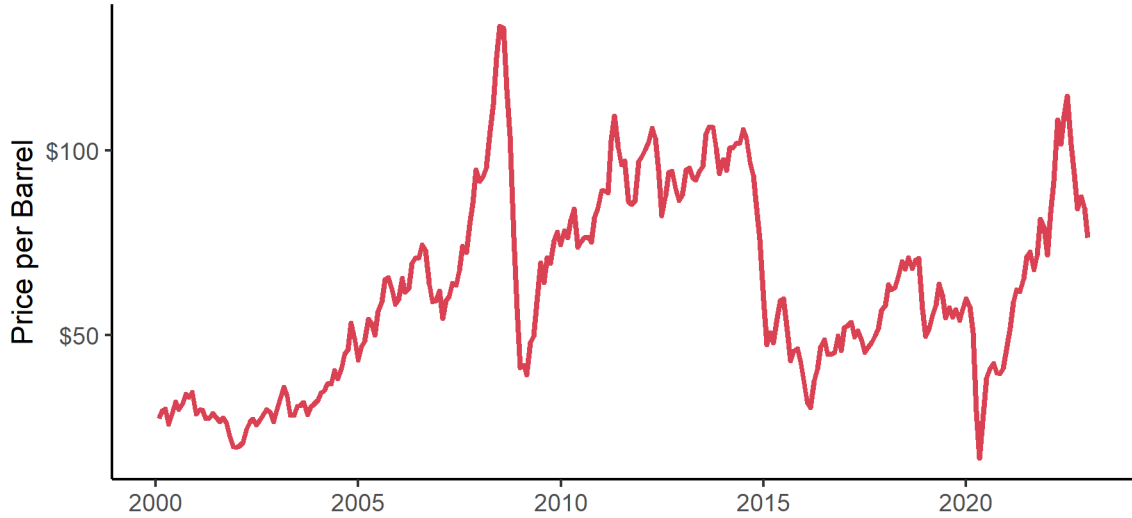
Source: Bureau of Labor Statistics





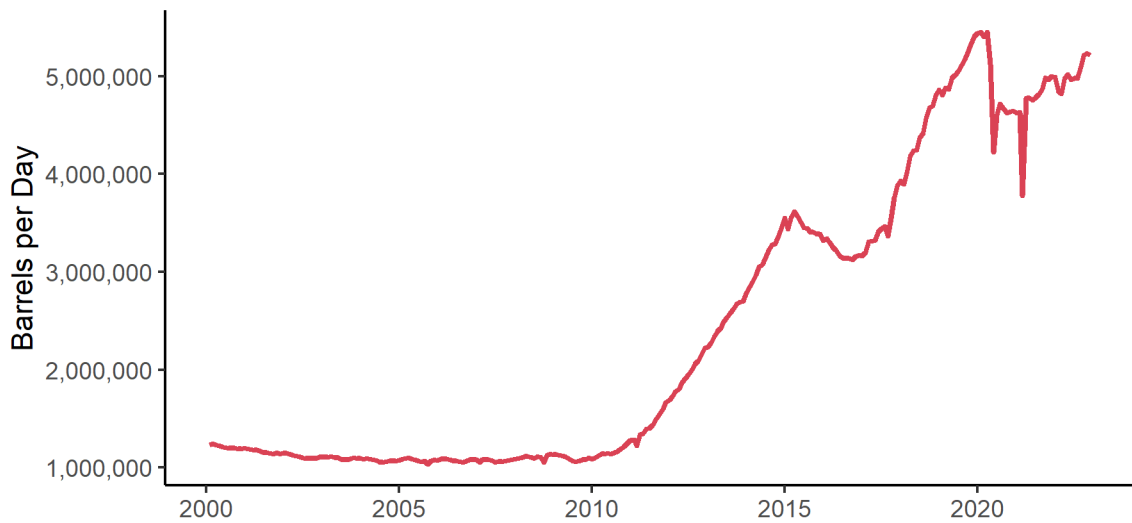
Energy

Crude Oil Price



Source: Energy Information Administration

Texas Crude Oil Production



Source: Energy Information Administration





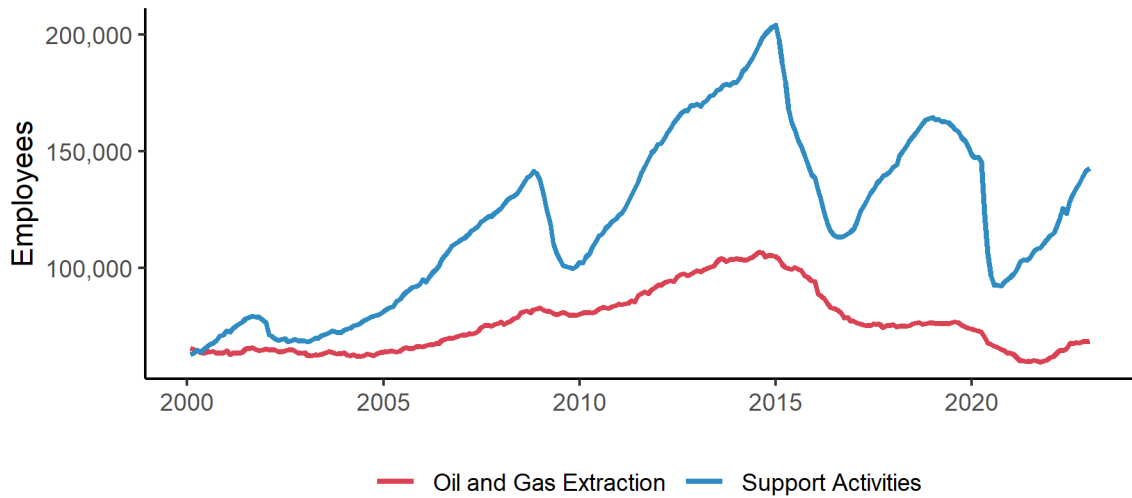
Energy

Texas Active Rotary Rig Count



Source: Baker Hughes

Oil and Gas Extraction Employment



Source: Bureau of Labor Statistics

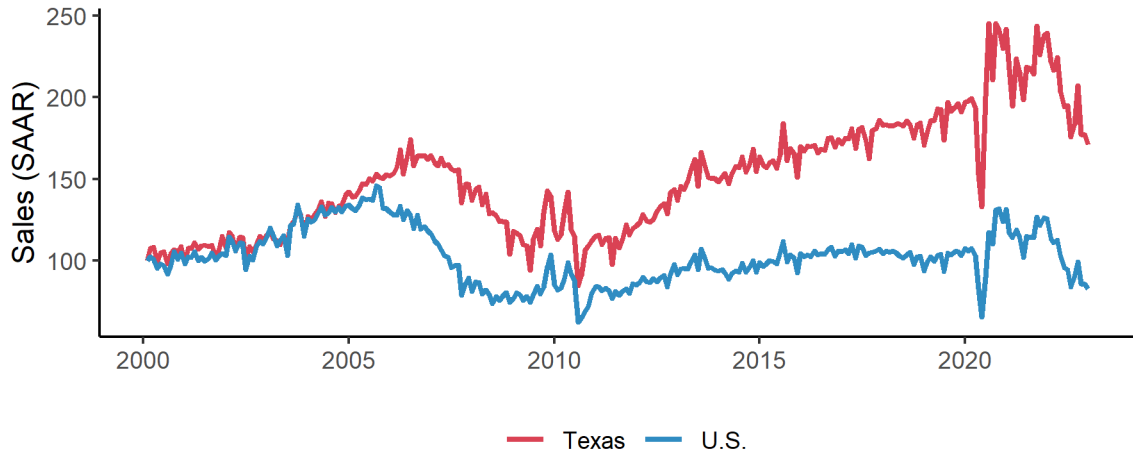




Housing

Residential Home Sales

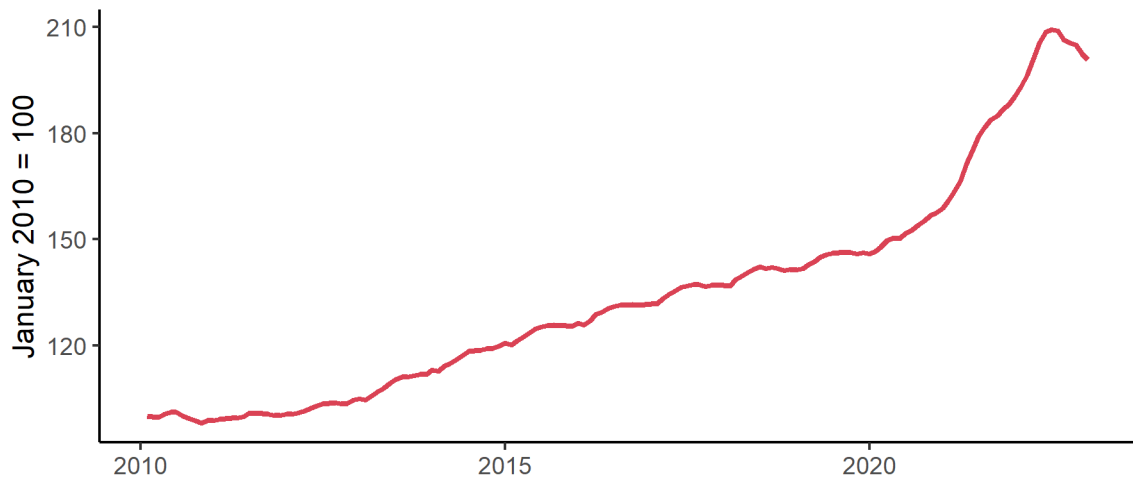
Seasonally Adjusted Annualized Rate



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



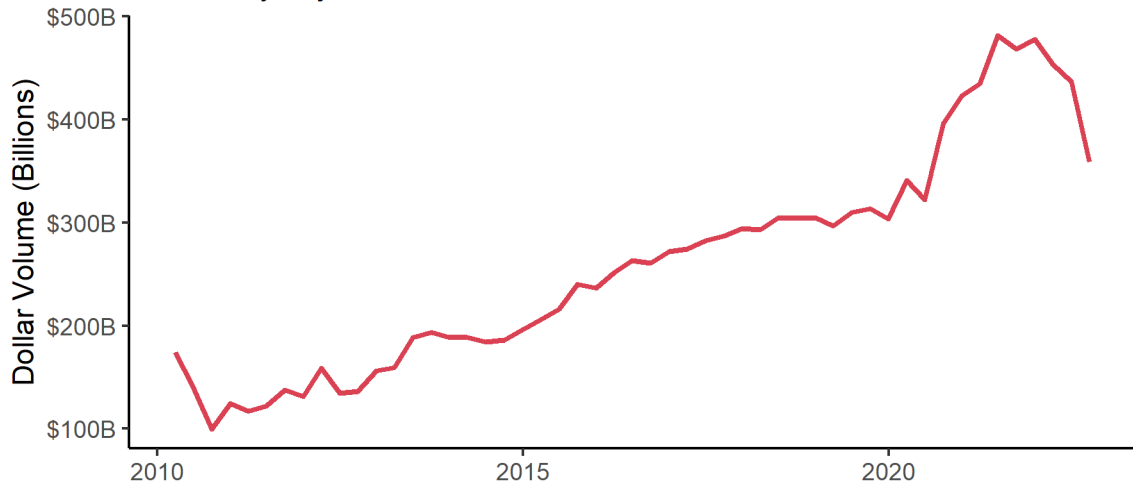
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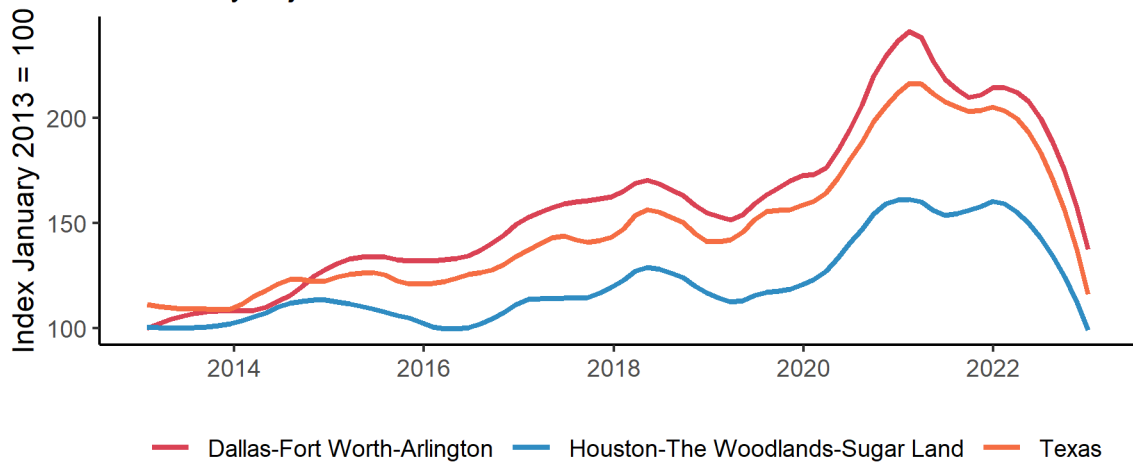
Housing

U.S. Purchase Mortgage Origination Dollar Volume Seasonally Adjusted



Source: Mortgage Bankers Association

Single-Family Housing Starts Seasonally Adjusted Index



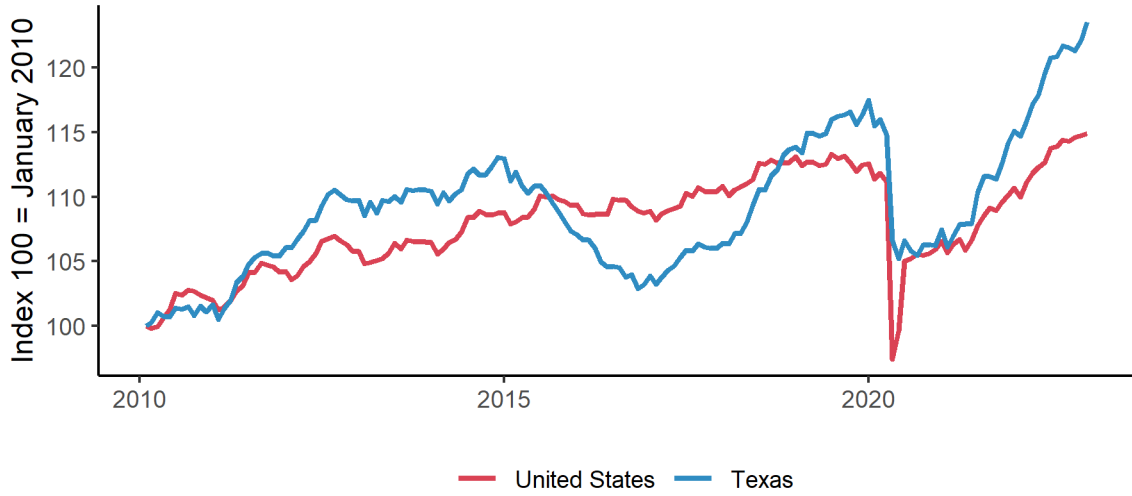
Source: Dodge Data & Analytics - Texas Real Estate Research Center at Texas A&M University





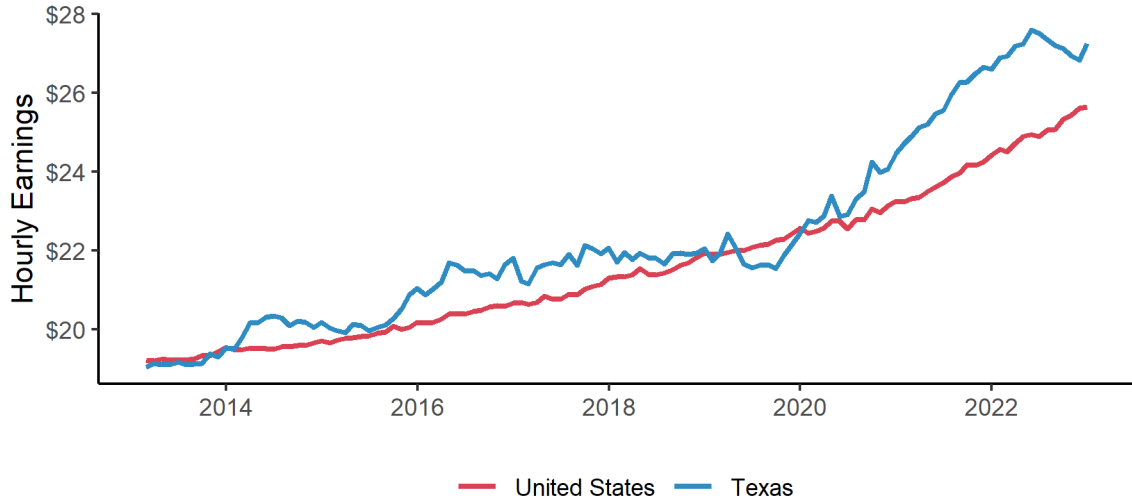
Manufacturing

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



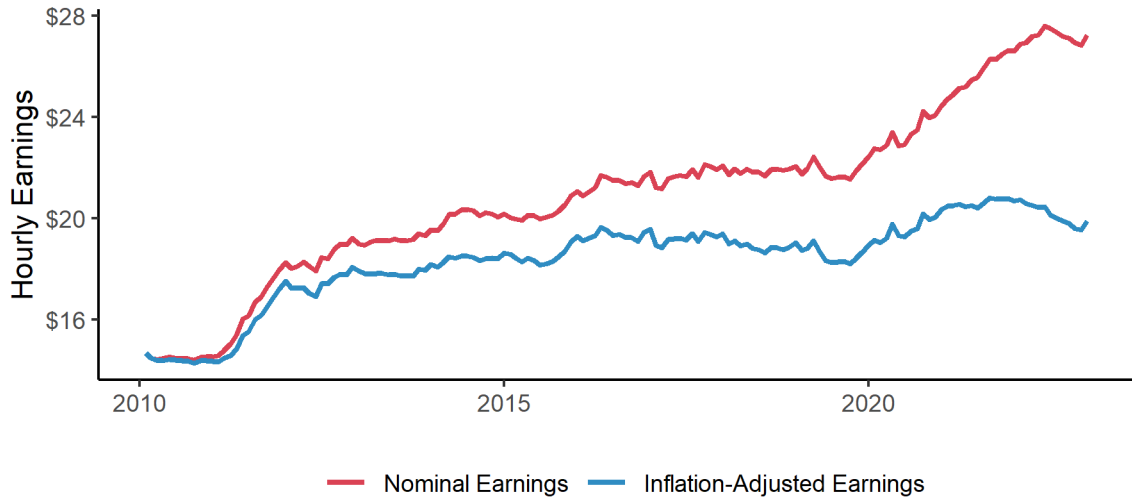
Source: Bureau of Labor Statistics - Texas Real Estate Research Center at Texas A&M University





Manufacturing

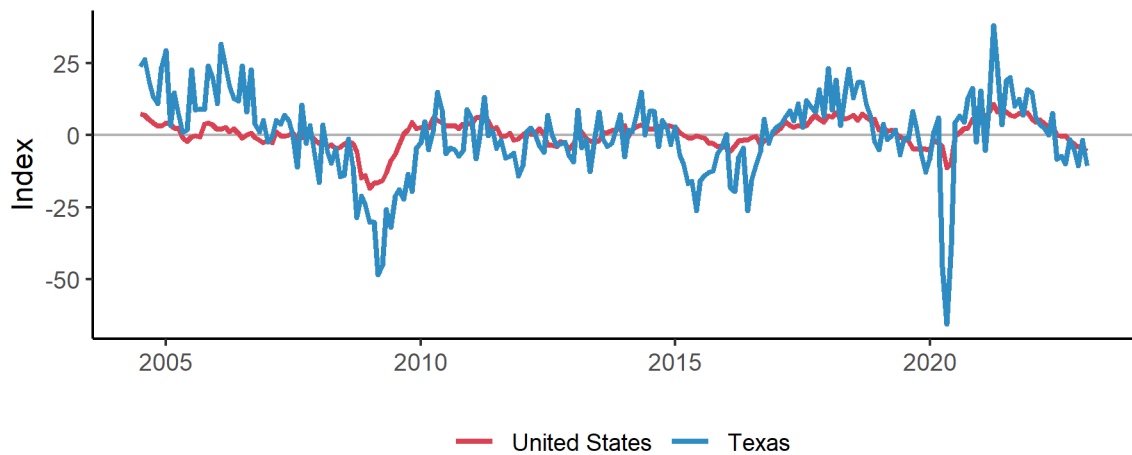
Texas Manufacturing Employee Hourly Earnings



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

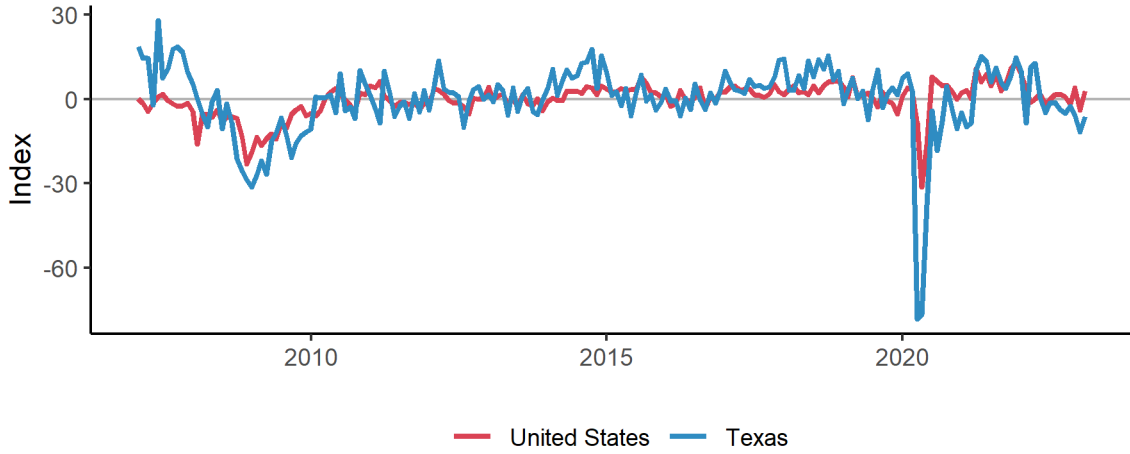




Services

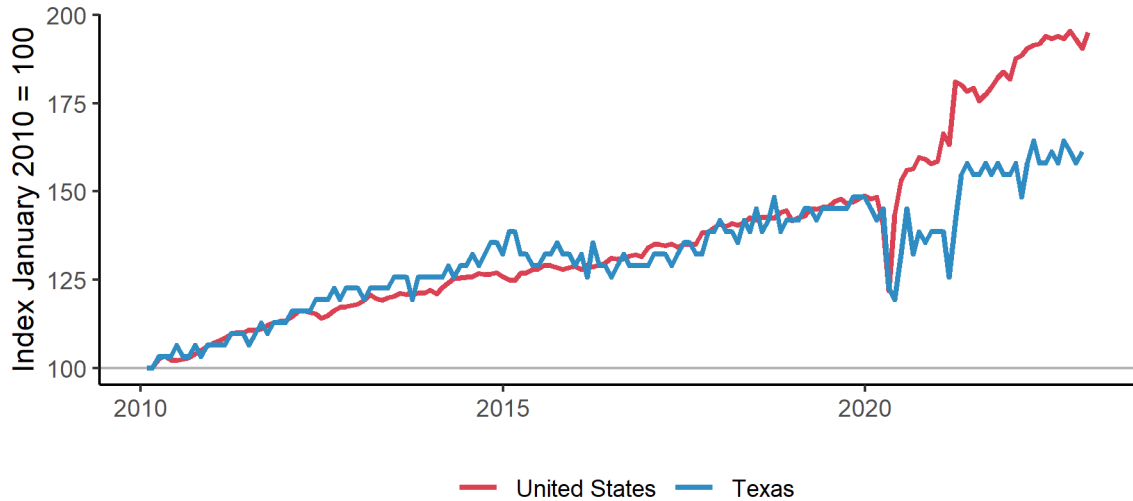
Services Sector Outlook Index

0+ = Expansion



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

Retail Sales Index



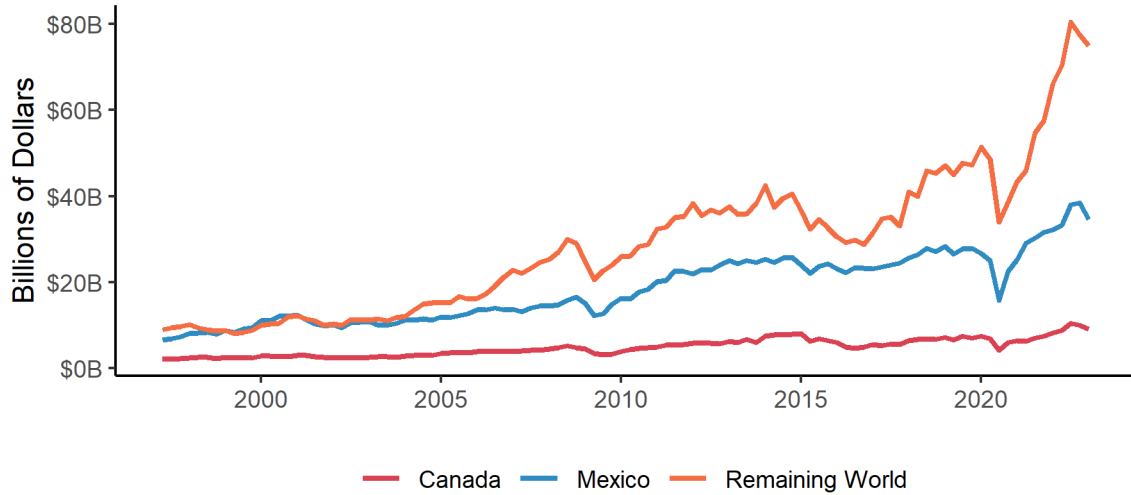
Source: Census Bureau - Federal Reserve Bank of Dallas





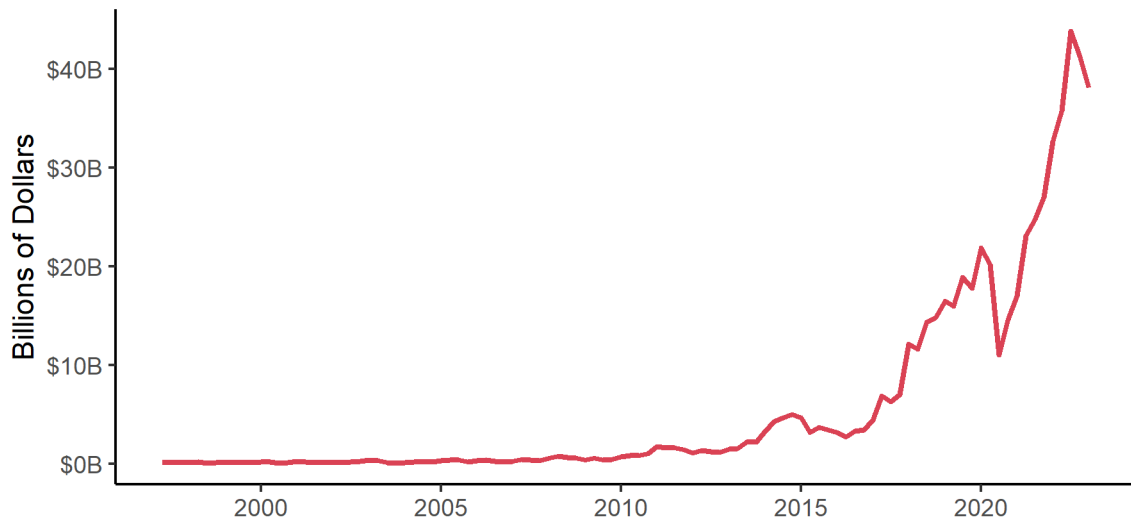
Trade

Texas Export Values by Destination



Source: Census Bureau via WISER

Texas Oil and Gas Exports



Source: Census Bureau via WISER





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