

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 Feb 17, 2023

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January 2023

CONSUMER CONFIDENCE INDEX

▲ 0.06

UNEMPLOYMENT RATE

▼ 3.9%

NOMINAL PRIVATE HOURLY EARNINGS

▲ \$31.33

CRUDE OIL EXPORTS

▲ 45.0% YOY

Summary

The new year is marked by optimism in the economy—optimism that inflation will be brought under control, the housing market will return to some veil of normalcy, and the goods-producing and service-providing sectors will see upward growth trends. Unemployment was down in January and housing sales continued, signaling the resilience of Texas' economy.

Economic Overview

The **Texas Leading Economic Index** (a measure of *future* directional changes in the business cycle) posted the third consecutive monthly growth as businesses have shifted their outlook to account for higher interest rates. Additionally, the Conference Board Texas **Consumer Confidence Index** has demonstrated an improvement in consumer sentiment. This index has shown growth in each month since its low point in July of last year. It had a 6-basis point increase in January. The overall **Consumer Price Index** (CPI) continues to moderate, decelerating for the seventh month in a row to 6.4 percent in January.

Energy prices reversed their decline of the past three months, with the biggest increase of the five inflation parameters. The **West Texas Intermediate (WTI) crude oil spot price** reversed direction for the new year, stepping up to \$78.12, though remaining the second lowest crude oil price in a year. Texas' crude oil production slid down over last month to 5.21 million barrels per day as companies increased active rig count to 372, up six rigs month over month (MOM).¹ The **Henry Hub spot price** fell from August's peak at \$8.81 to \$5.53 per million British thermal units (BTU) in December, marking a slight increase from November's price.

The **ten-year U.S. Treasury bond yield** continued its four-month decline, reaching 3.5 percent in January 2023, while the two-year counterpart was at 4.2 percent. The spread between the ten- and two-year bond yields continued to widen for the seventh straight month. The negative spread indicated persistent market uncertainties, and the ten-year bond yield was still far below 2007's 5.1 percent peak. The **Federal Home Loan Mortgage Corporation's 30-year fixed-rate** moderated slightly this month to 6.3 percent, down 0.1 percent over December.

Total home sales inched up 3.4 percent MOM to a seasonally adjusted rate of 27,475 closings. This uptick marked the largest MOM jump since the second half of 2022. However, compared with

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



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January of last year, home sales are down 20 percent. Sales in Austin and Houston rebounded greatly, with the former metro surpassing San Antonio's sales volume and the latter surpassing Dallas' (Table 1).

Sales grew across all price cohorts. While homes below \$300K still make up 40 percent of the market, this sector's sales volume rebounded least at 0.5 percent MOM. The remaining price cohorts ascended moderately at a low single-digit growth, except for homes above \$750K which grew at an impressive 21.6 percent MOM rate, accounting for almost 9 percent of the market.

The Texas economy created 48,600 new jobs in January. The goods-producing sector, led by manufacturing, expanded by 5,900 jobs. Leisure and hospitality led the service-providing sector with over 8,000 jobs added in January. Retail trade showed a different sign, reducing employment by 4,800 employees.

As a result of continued job growth, the **unemployment rate** dropped to 3.9 percent, down 10 basis points from December. Of Texas' four major metros, Austin continued with the lowest unemployment rate, holding steady at 2.9 percent led by mining, logging, and construction. By contrast, Houston remained the MSA with the highest unemployment, though down 10 basis points from the previous month, dropping to 4.2 percent. Many goods-producing jobs, particularly in the oil and gas industry, have still not recovered to pre-pandemic levels.

Over the past year, the number of Texans submitting **initial unemployment claims** on an annual basis has decreased by nearly one million, resulting in a total of 747,000 applicants. In January, the monthly account of initial unemployment claims decreased 2.6 percent to 64,000 applicants. Despite this improvement, there has been a 4 percent increase in Texas' average weekly continued unemployment insurance claims, averaging 131,600 in January. This indicates a deceleration in the job market.

The state's **labor force participation rate** held steady at 63.5 percent. Texas attracted 48,000 net workers in January, and the influx of out-of-state workers expanded Texas' labor force to 14.8 million available workers. Texas' labor force now makes up 9 percent of the total national labor force, which means nine out of every 100 U.S. workers work in Texas.

Private employees' average nominal earnings increased to \$31.33, a strong uptick over previous months. The state's **nominal private hourly earnings** are at a statewide high for January, signifying a strong labor market. However, as inflation hovers at 6.4 percent, these wage gains are not enough to overcome rising costs. Nominal wages in Houston skyrocketed by \$1.26 over December reaching \$33.42. Dallas remains the metro with the highest wages at \$34.55, while San Antonio was the only major metro where wages declined, reaching \$27.61 for January.



Goods-Producing Sectors

Texas' goods-producing sector moderated 8,600 jobs in January as the mining, logging and construction sector dismissed 5,200 employees. Manufacturing lost 3,300 workers as well this month. **Nominal average hourly manufacturing earnings** (\$27.83) rose 48 cents over December. The future production outlook stepped up sharply over the previous month according to the Dallas Fed's Manufacturing Outlook Survey. The outlook improved for January as well, indicating a return of consumer optimism.

Coinciding with the downturn in real estate, construction payroll constricted this month, bucking last month's positive additions. **Average hourly construction earnings** (\$31.40) are a reversal of last month, gaining 44 cents MOM. **Total construction values** are down compared with January 2022 and 2021. However, they are nearer to values before the pandemic, as the market levels out and calms down.

The Texas Real Estate Research Center's **Texas Manufactured Housing Survey (TMHS)** reported the industry ended the year on weak footing as inflation concerns and depleted demand led to lackluster performance. Regardless, respondents hold an optimistic outlook concerning the coming six months, leading to the second highest index value for future general activity.

Service-Providing Sectors

According to the **Dallas Fed's Service Sector Outlook Survey**, growth was prevalent in the sector in January, continuing the upmarket trend. Revenue increased modestly, while the employment index climbed five points. Contradictory to this, perceptions of broader business conditions continued to fall, and general business activity remained in the red for the eighth straight month. Mixed emotions paint a picture of the coming year with expected market uncertainties combined with steady employment growth despite inflation concerns.

Following last year's trend, retail sales continued to worsen in January, falling at a slower pace than in December as inventories slowed as well. The **Dallas Fed's Retail Outlook Survey** remains in negative territory with no signs of letting up as economic conditions tumble. Consequentially, perceptions of broader business conditions follow suit as outlook indexes are buried in the negative. The employment index offered a silver lining, stepping up in January as payroll employment increased. Wages stepped up as well. Growth for 2023 is mixed, but overall expectations are that employment and growth will be positive in the coming months.

Global Trade

Amid the strengthened dollar value, the **Texas trade-weighted value of the dollar index**² had a strong year in 2022 with an average of 110.3, and it ended the year with 111.9. This high trade-weighted value of the dollar means foreign buyers must purchase the same basket of goods at a higher cost. Under the price pressure, Texas' **real commodity exports** dropped for the fourth

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



consecutive month, retreating 7.7 percent quarter-over-quarter (QOQ) in real dollar terms. The foreign order value of Texas' **manufacturing exports** dropped 5 percent QOQ. Demand for petroleum/coal products, which make up one-fourth of manufacturing exports, has fallen four times in the last six months.

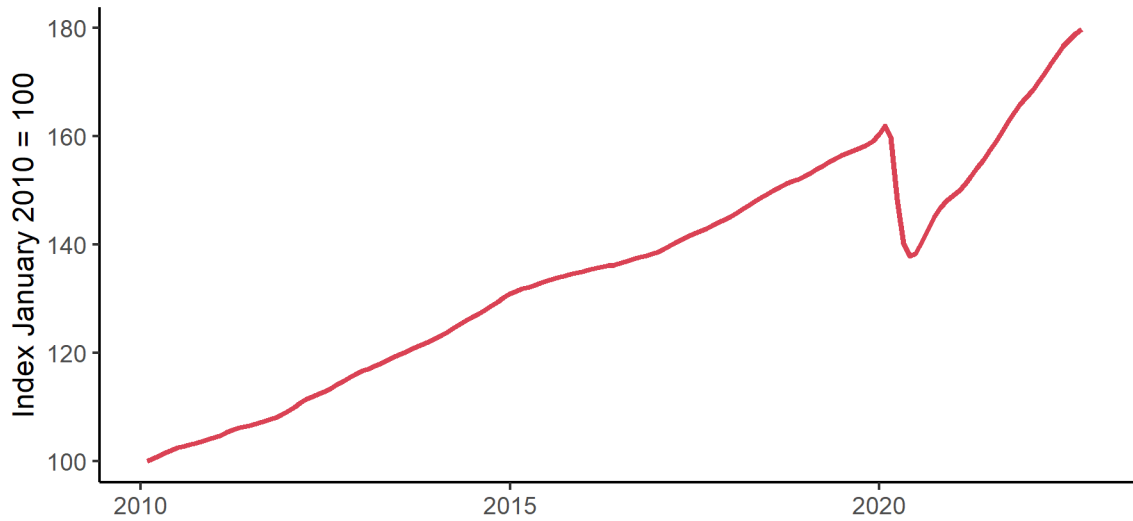
Texas's **crude oil exports**, which also shrank four times in the second half of 2022, had a 45 percent year-over-year expansion in 2022 due to the ban of Russian energy goods. Foreign order for Texas' crude oil grew drastically for Canada, France, Germany, Italy, Japan, South Korea, Netherlands, Singapore, Spain, and Thailand. The United Kingdom's orders grew most aggressively in the past year, raising the nominal crude oil demand from \$5.2 billion to \$11 billion—more than doubling.





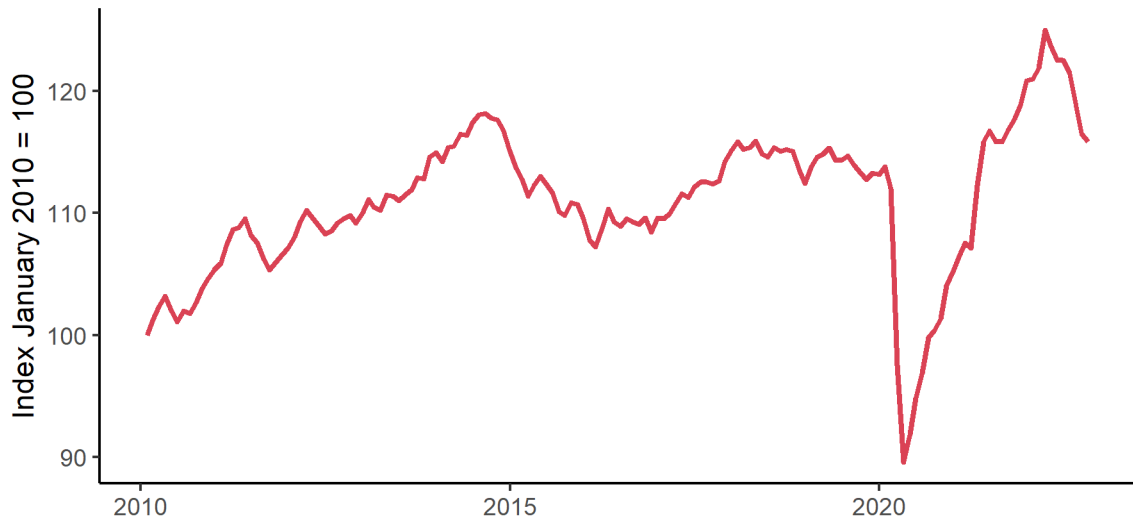
Economic Activity

Texas Business-Cycle Index



Source: Federal Reserve Bank of Dallas

Texas Leading Index



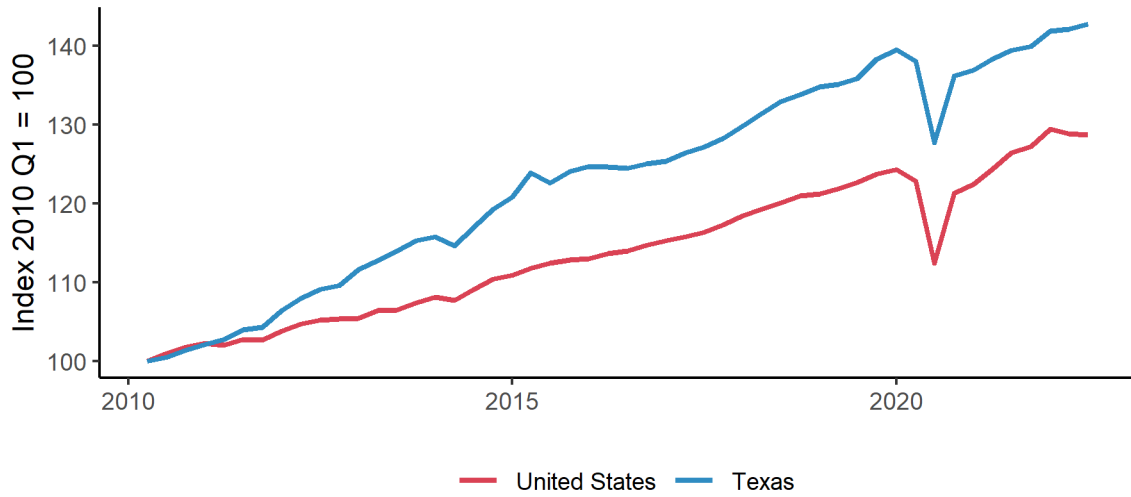
Source: Federal Reserve Bank of Dallas





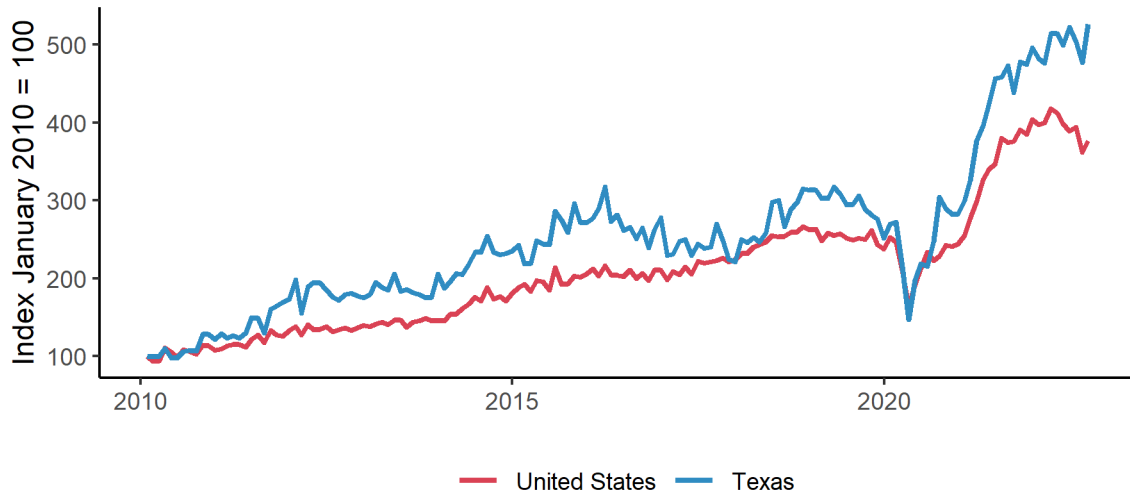
Economic Activity

Gross Domestic Product



Source: Bureau of Economic Analysis

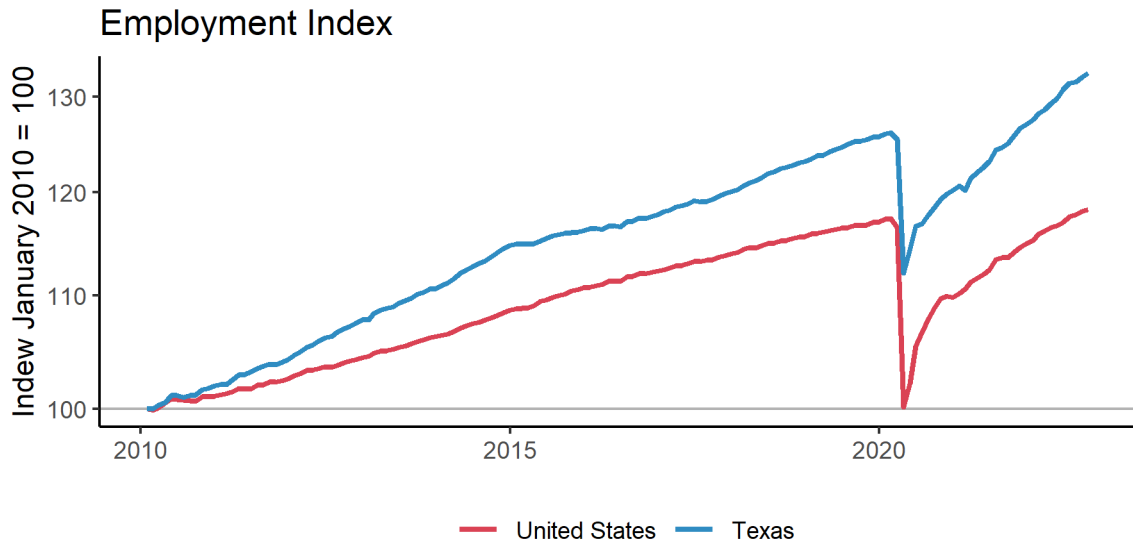
Job Openings



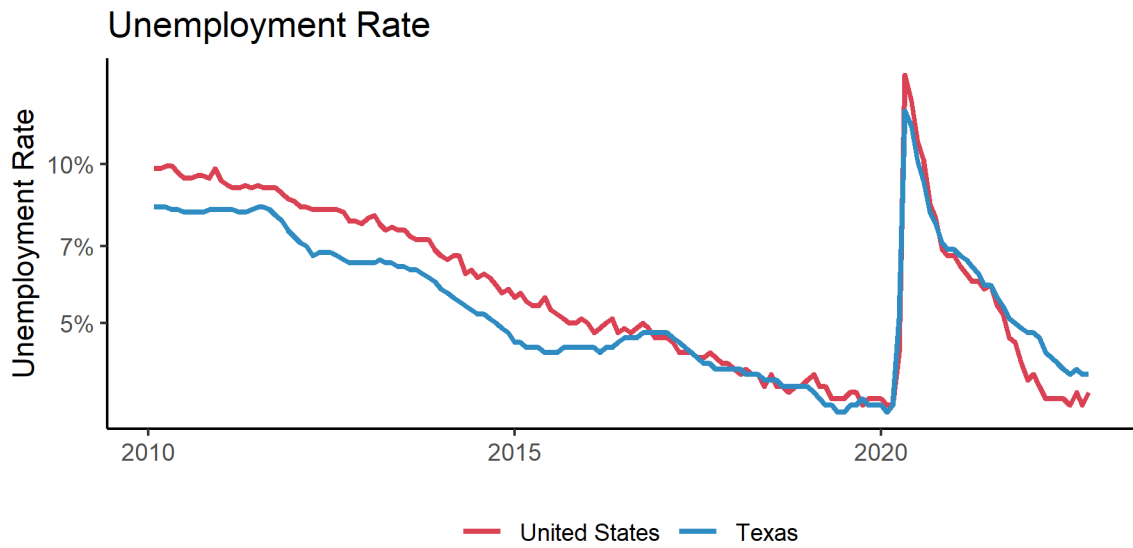
Source: Bureau of Labor Statistics



Employment



Source: Bureau of Labor Statistics



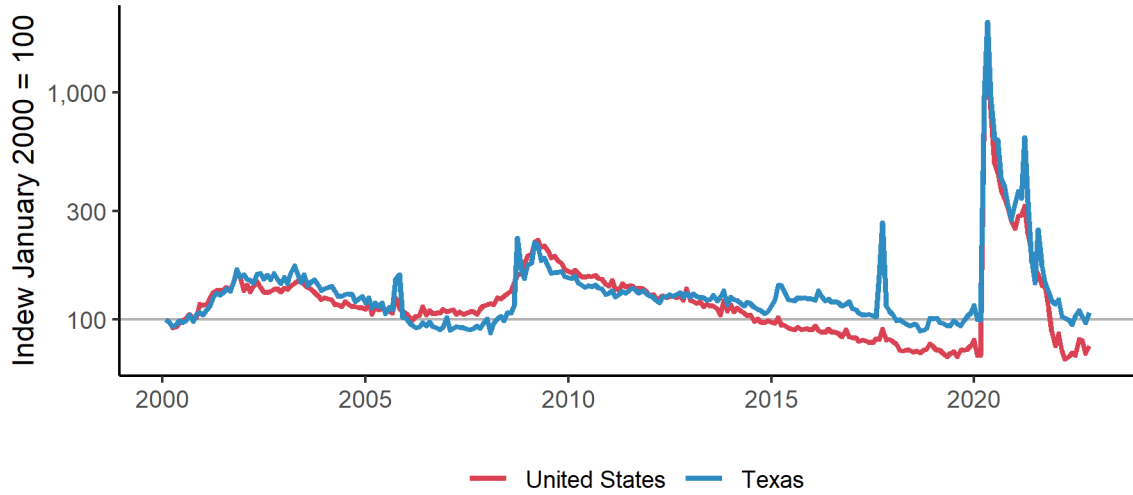
Source: Bureau of Labor Statistics





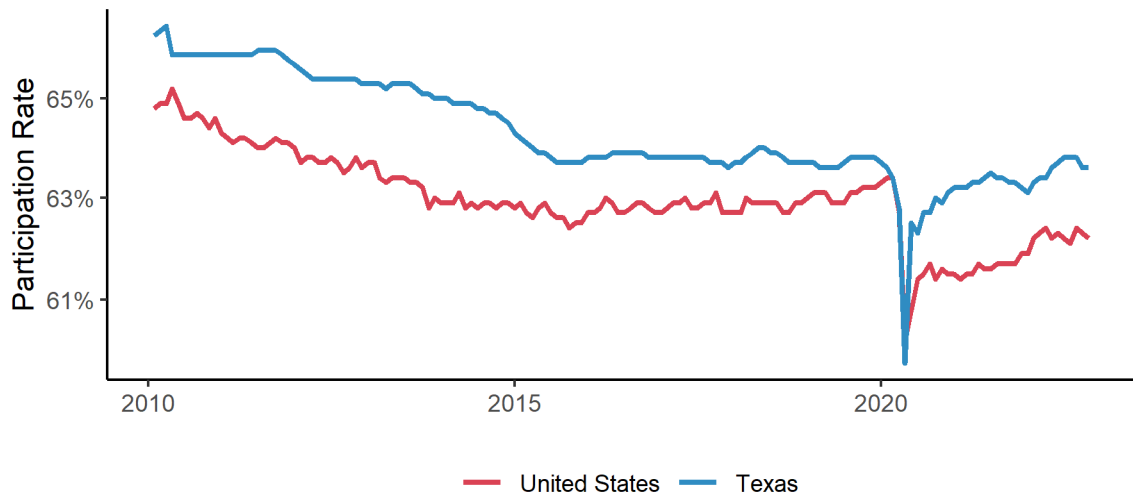
Employment

Initial Unemployment Claims



Source: Department of Labor

Labor Force Participation Rate



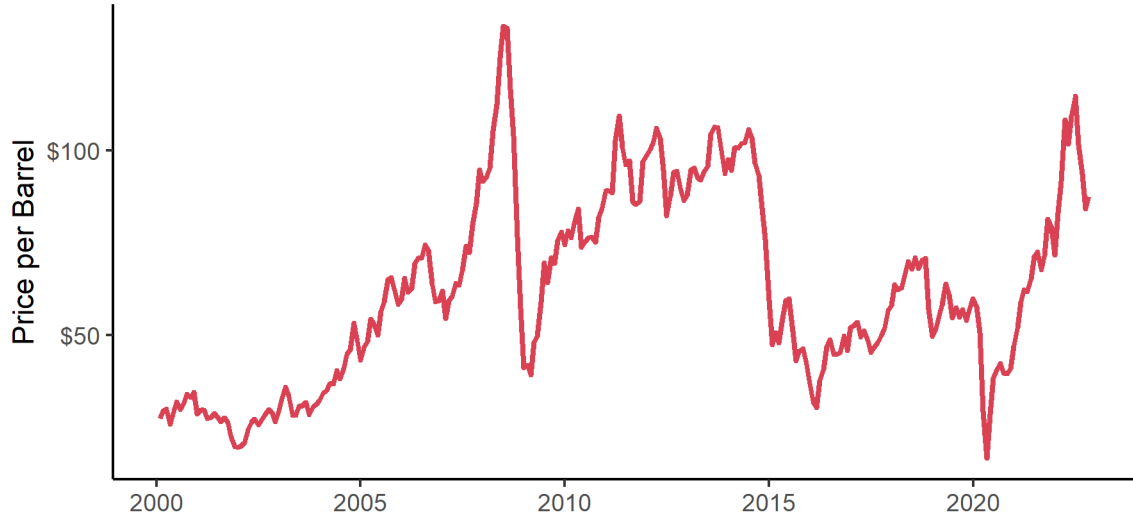
Source: Bureau of Labor Statistics





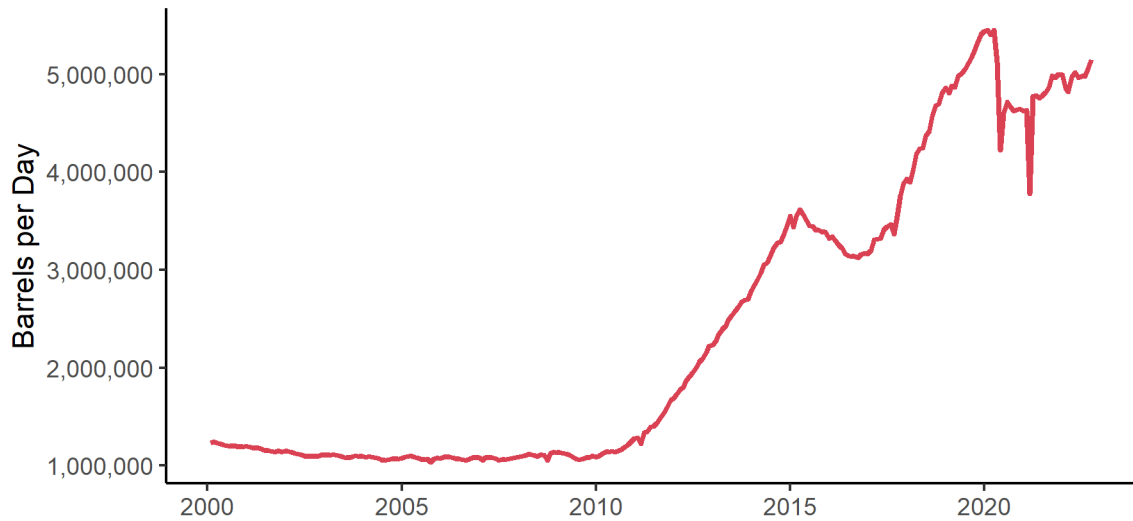
Energy

Crude Oil Price



Source: Energy Information Administration

Texas Crude Oil Production

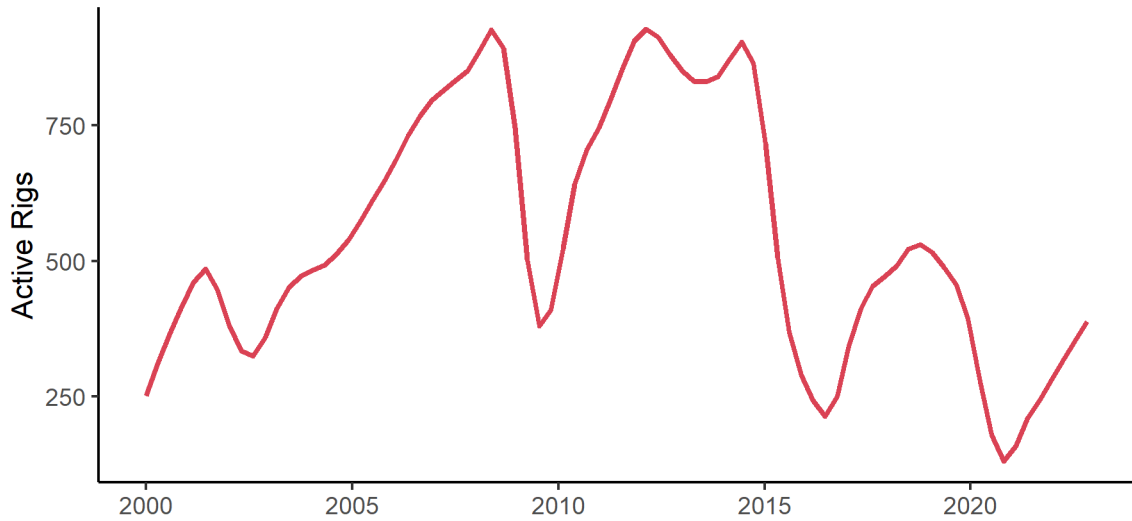


Source: Energy Information Administration



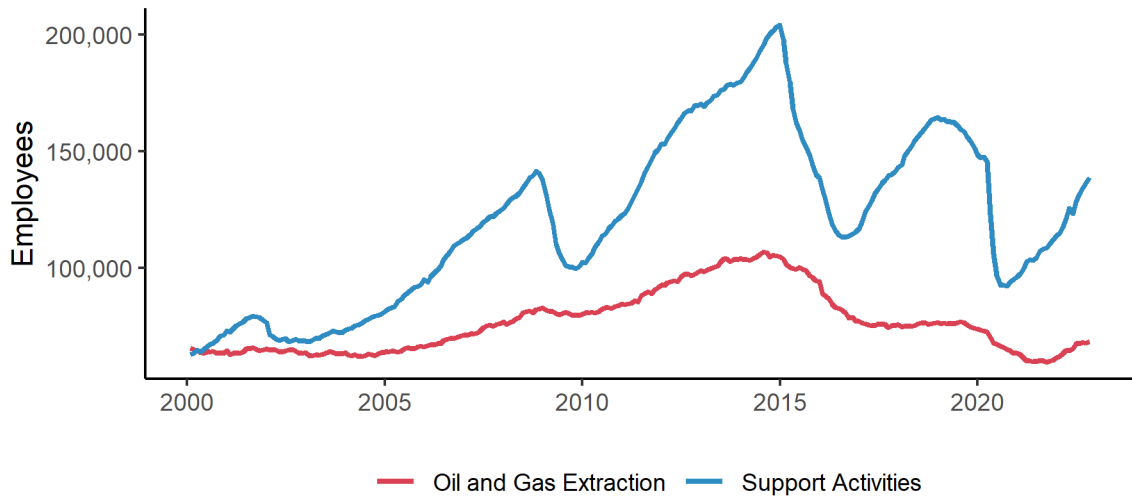
Energy

Texas Active Rotary Rig Count



Source: Baker Hughes

Oil and Gas Extraction Employment



Source: Bureau of Labor Statistics

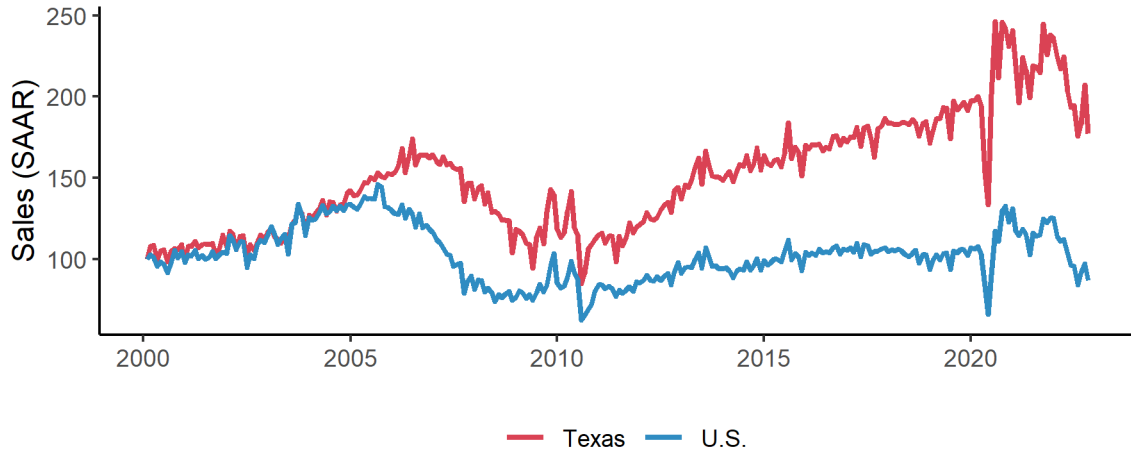




Housing

Residential Home Sales

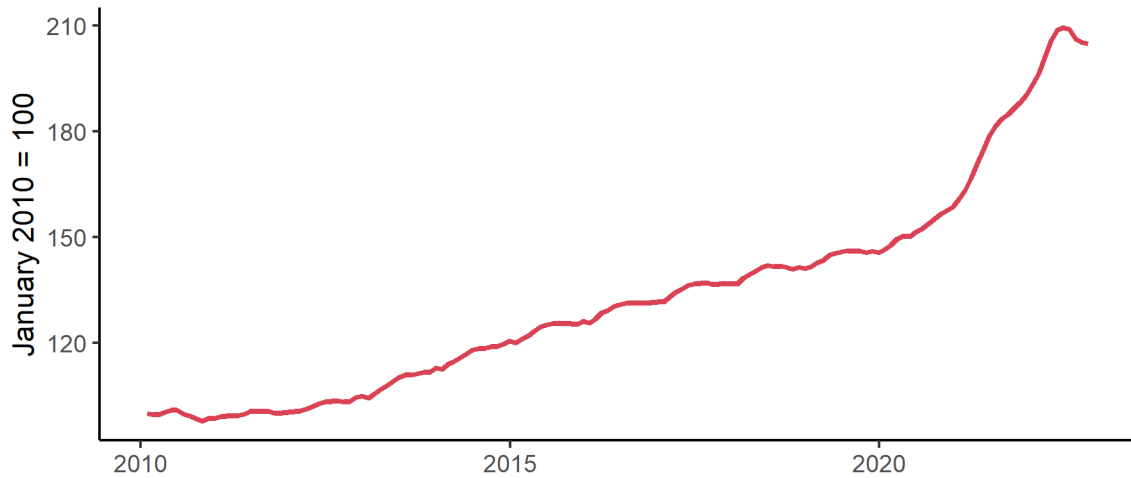
Seasonally Adjusted Annualized Rate



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



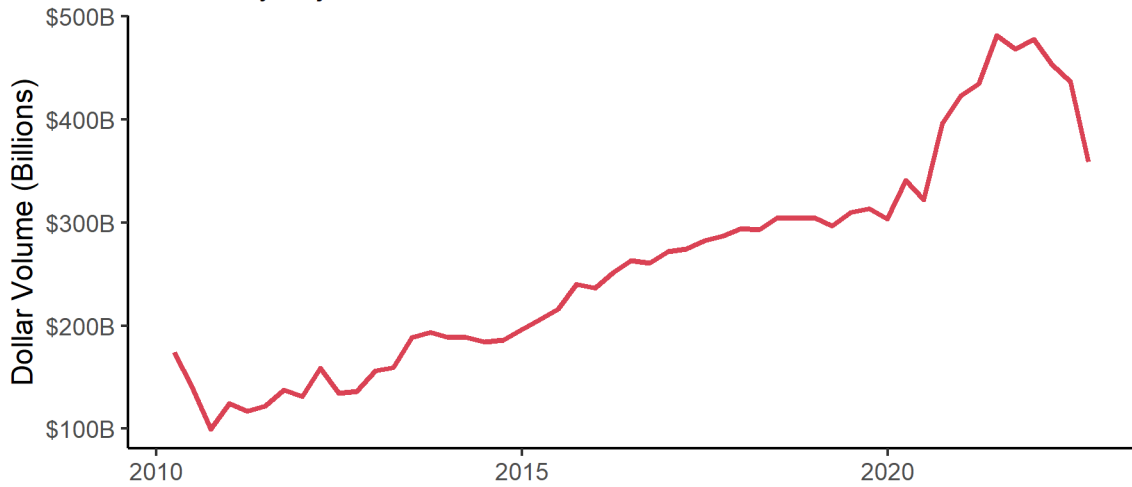
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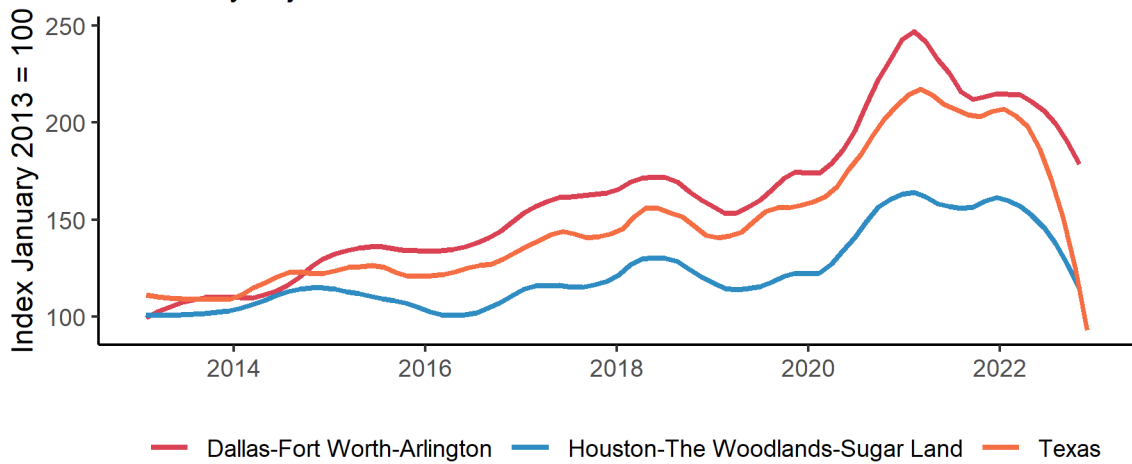
Housing

U.S. Purchase Mortgage Origination Dollar Volume Seasonally Adjusted



Source: Mortgage Bankers Association

Single-Family Housing Starts Seasonally Adjusted Index



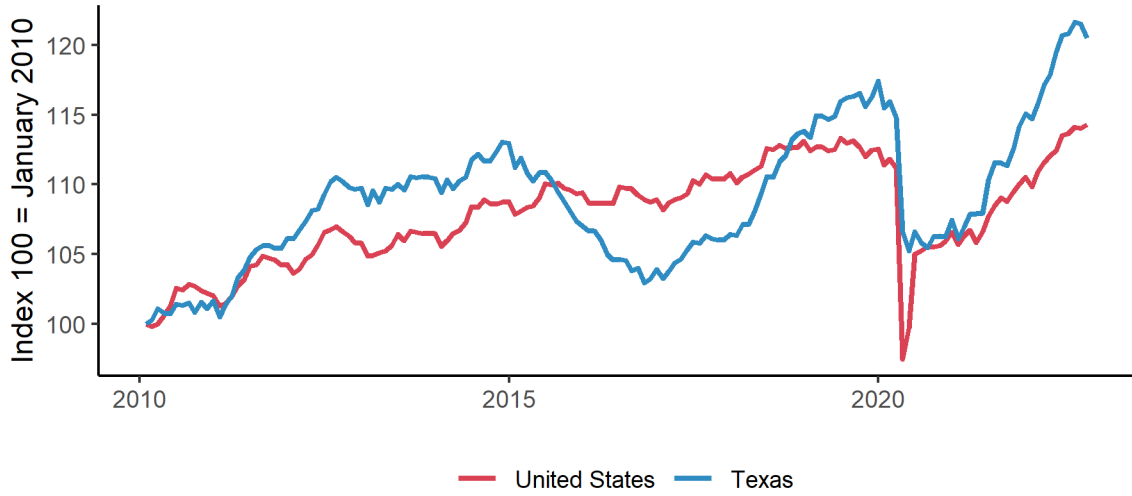
Source: Dodge Data & Analytics - Texas Real Estate Research Center at Texas A&M University





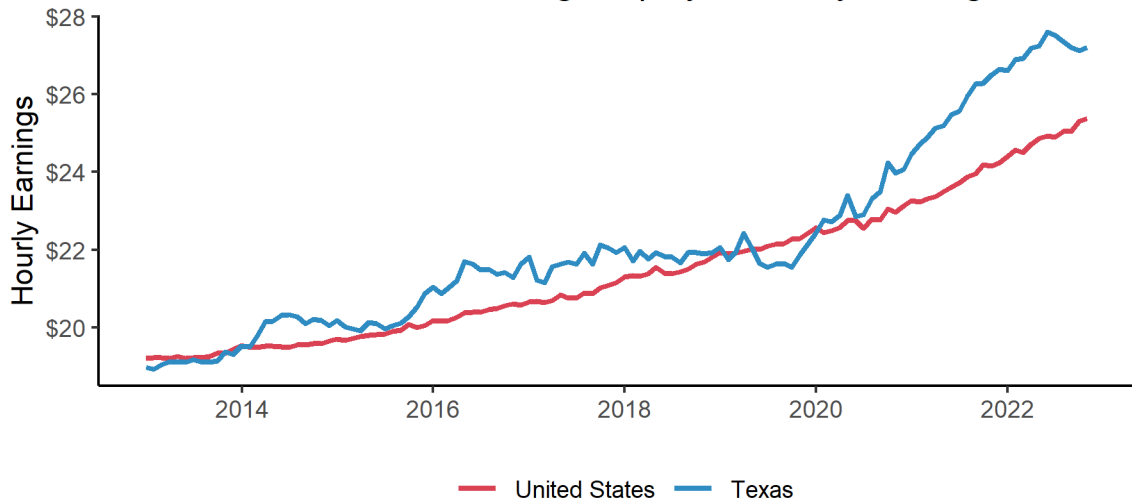
Manufacturing

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



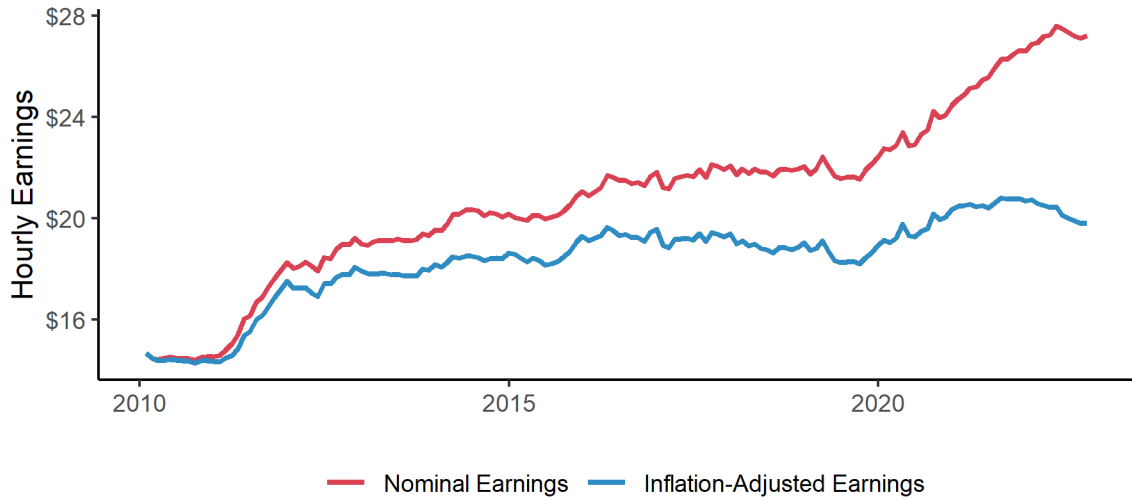
Source: Bureau of Labor Statistics - Texas Real Estate Research Center at Texas A&M University





Manufacturing

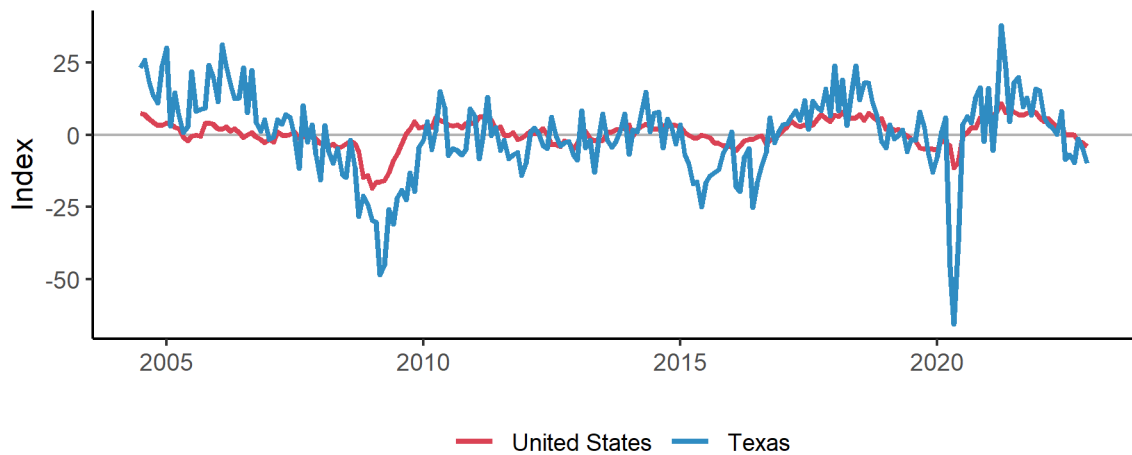
Texas Manufacturing Employee Hourly Earnings



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

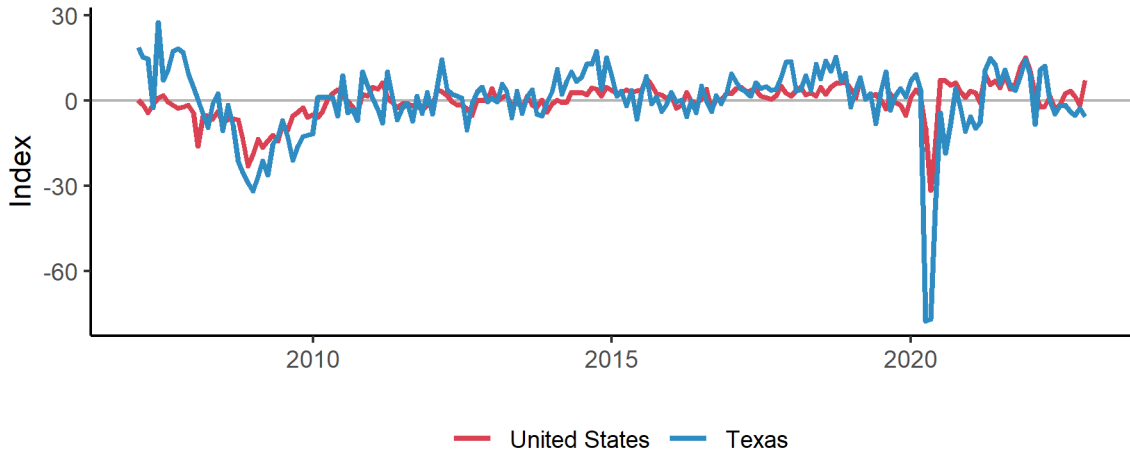




Services

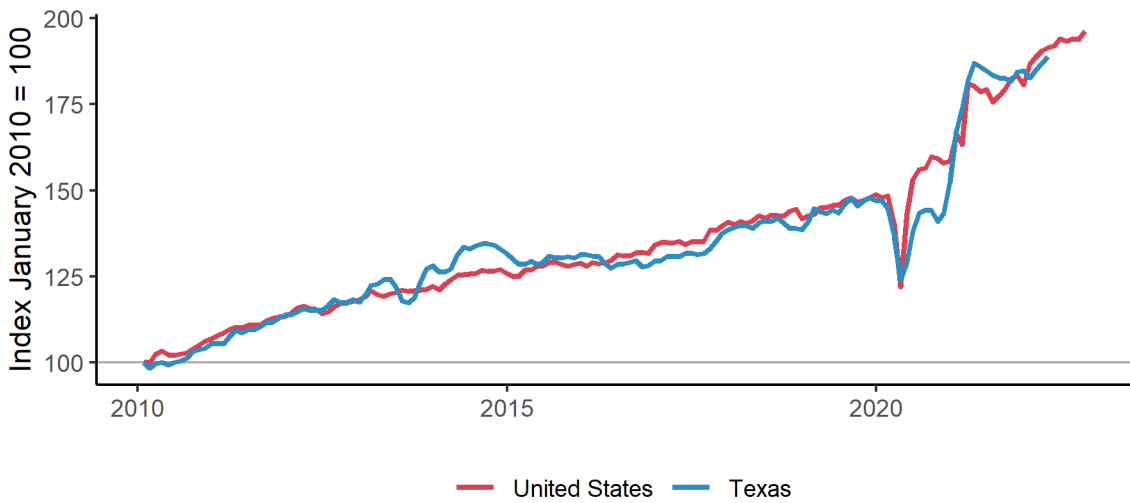
Services Sector Outlook Index

0+ = Expansion



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

Retail Sales Index



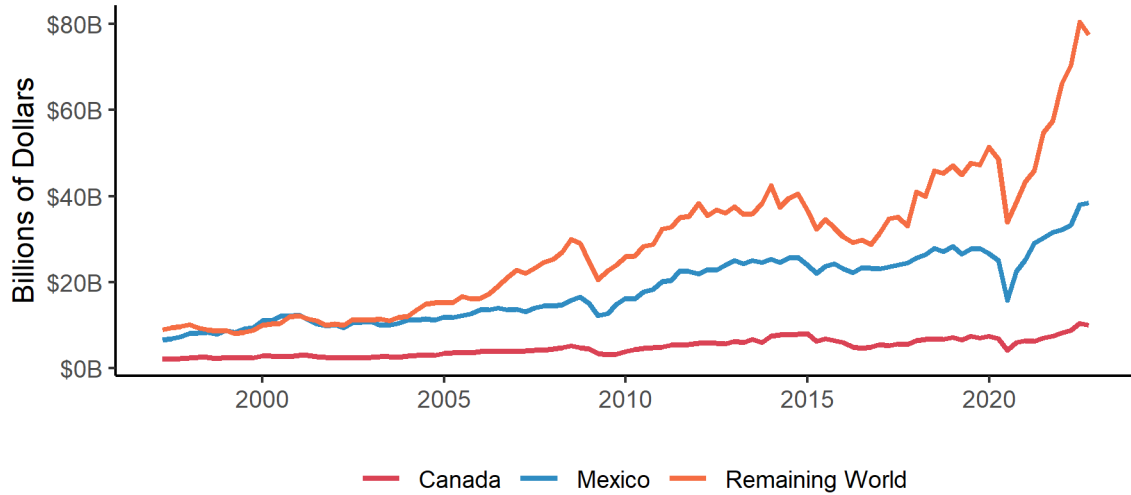
Source: Census Bureau - Federal Reserve Bank of Dallas





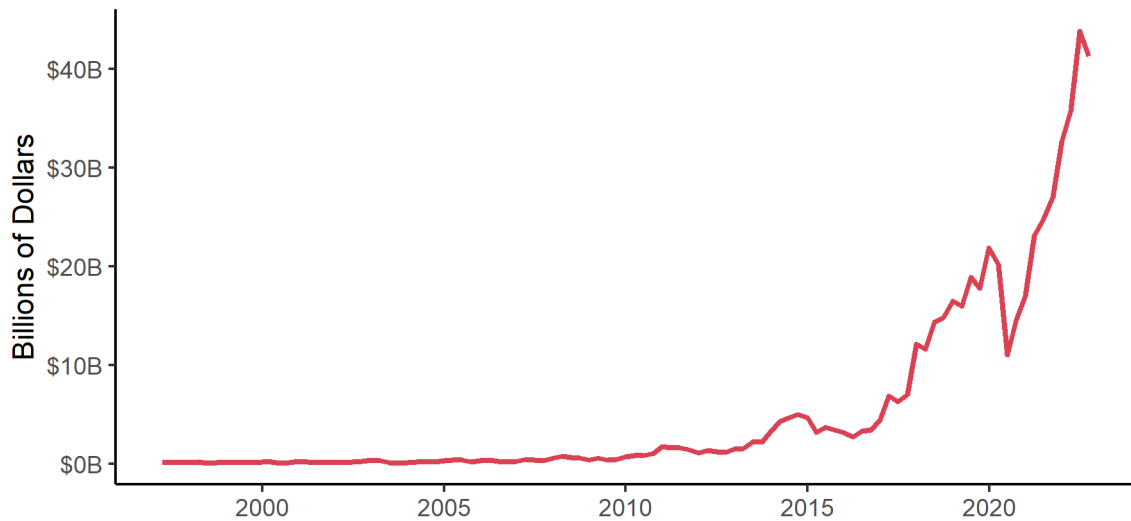
Trade

Texas Export Values by Destination



Source: Census Bureau via WISER

Texas Oil and Gas Exports



Source: Census Bureau via WISER





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