

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.

Joshua Roberson, Weiling Yan, and Koby McMeans

Data current as of July 22, 2023

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June 2023

CONSUMER PRICE INDEX

▲ 0.2% MOM

UNEMPLOYMENT RATE

▬ 4.1%

TOTAL HOME SALES

▼ 11.8% YOY

NOMINAL AVERAGE HOURLY EARNINGS

▲ 5.0% YOY

Summary

The Texas economy was upbeat in June with a strong labor force and boosted consumer confidence. Slowed inflation and the Federal Reserve’s decision to pause interest rates served as encouraging signs, alleviating merchants’ and investors’ concerns of an impending recession. Existing housing inventory is constrained, turning more prospective buyers to the new-construction market. Texas is resilient and optimistic despite the global trade outlook remaining subdued.

Fed Keeps Rates Steady as Inflation Moderates

The Consumer Price Index (CPI) stayed consistent, showing a slight increase from 0.1 percent month over month (MOM) in May to 0.2 percent in June. According to the Bureau of Labor Statistics, the rise in the shelter index was the primary driver of the MOM increase for all items, accounting for over 70 percent of the overall increase. The airline fares index counterbalanced this large increase, with a decrease of over 8 percent.

Amid inflation moderation and the collapse of high-profile regional banks like Silicon Valley Bank, the Fed paused the interest-rate hike for the first time in June. While expectations indicated a continued hike in July, this pause marked a softening tone from the central bank, halting rate increases after ten consecutive raises.

Texas Payroll Continues to Reach New Heights

Texas’ workforce remained resilient, offering opportunities to 13.9 million workers in June. **Total nonfarm employment** expanded 0.22 percent MOM, with Dallas and Austin contributing 36,900 and 10,800 workers, respectively. The state payroll gained 31,100 new workers, with both the goods-producing sector (up 17,500) and the service-producing sector (up 13,600) exhibiting strong growth. Amid all the growth, the construction sector had a demanding month in June, engaging 11,000 additional workers in buildings/engineering projects.

Job seekers displayed optimism in the job market, as evidenced by the high participation rate of 64.2 percent, a new post-COVID high for Texas. The **unemployment rate** remained low at 4.1 percent, and the continued unemployment claims averaged around 121,000 applications on a weekly basis. Over the course of a year, Texas attracted 354,500 new workers, leading to a record high total labor force of more than 15 million individuals. The state’s labor market continues to thrive and show positive momentum.

Housing Market for New Construction Booming

As mortgage rates remain elevated, homebuyers are becoming more cautious, leading to a drop in Texas' **total home sales**, which fell below 28,000 transactions in June. This represented a decline of 3.2 percent MOM and 11.8 YOY percent. Among the four major metros that reported fewer sales, Austin's monthly sales declined the most with a double-digit reduction.

Despite the challenge of high mortgage rates and reduced housing demand, the market share of new construction sales has surged. Within a year, the share of new construction sales rose from 16.3 percent to over 20 percent, indicating every five closed listings is now a brand new home. Both demand and supply factors contribute to the increasing trend for new homes. The shortage of existing homes is due to current owners' reluctance to give up their current homes, while the state's consistent home demand, fueled by a growing population, is spurring new construction orders.

Merchants' Outlook Is More Positive

Nominal **average hourly earnings** were 5 percent greater than in June 2022 at \$31.06, with Austin accounting for the largest change to \$33.52, just shy of a 2 percent MOM change. The revenue index fell 330 basis points according to **Dallas Fed's Service Sector Outlook Survey**, suggesting the rate of activity grew less rapidly than in May. The future general business activity and future revenue index both showed positive MOM changes, foreseeing growth over the last half of the year.

Retail payroll added 3,400 workers this month, bringing the YOY retail employment change to 2.3 percent. Despite the retail labor market employment growth rebounding, the **Dallas Fed's Retail Outlook Survey** remained in negative territory as retail sales declined. Similar to the service providers, the retailers are optimistic about future business activity. A third of business executives reported they are at their ideal staffing level, with none stating they are looking at reducing the number of current employees.

Global Trade Remains Downbeat

Texas' **all-commodity exports** slightly rebounded MOM, posting a 1.9 percent increase. However, they remained down 17.6 percent YOY. Comparing **manufacturing exports'** YOY performance, petroleum/coal and chemical products continued their loss, falling by 31.6 percent and 16.2 percent, respectively. Computer/electronic products rebounded with a 10.5 percent MOM increase. Demand for Texas' **crude oil exports** fell 2.8 percent MOM. This decline is in large part due to China and Germany accounting for over a 50 percent decrease in their respective exports. China's decrease is in large part due to its increase in imports from Russia.

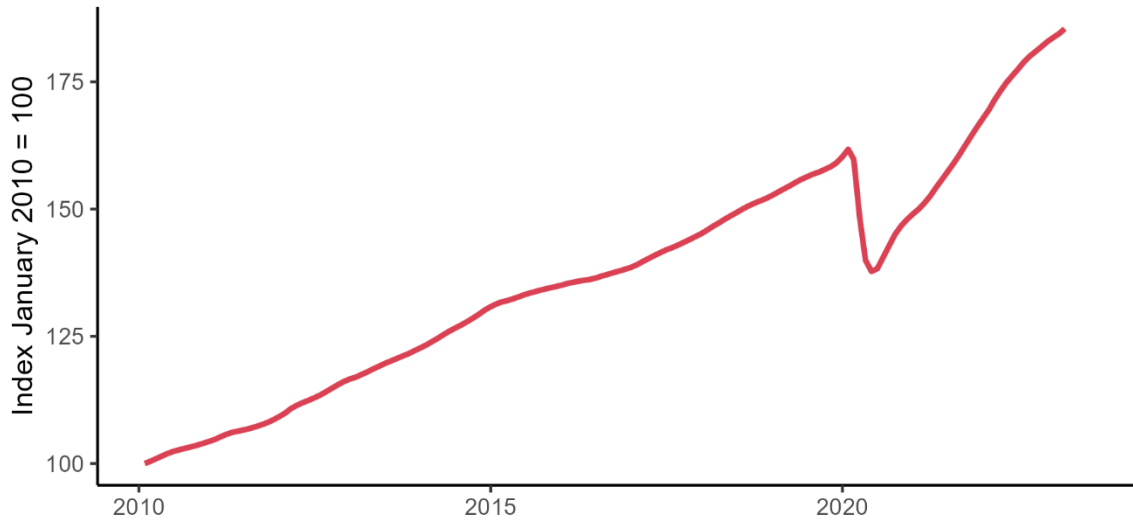
Economic Overview

- After data adjustment, the Texas Leading Economic Index had a weaker reading at 102- in June, the lowest reading since April 2021 (2007=100).
- Consumer confidence in June reached its highest level since January 2022, and Texas consumers reportedly were 3.6 percent more confident than the average U.S consumer.
- The ten-year U.S. Treasury bond rose just shy of 20 basis points to **3.75 percent** amid June's stock market rally.
- The cost of buying homes continued to rise as the Federal Home Loan Mortgage Corporation's 30-year fixed-rate increased 28 basis points to **6.71 percent**.
- As uncertainty arises about U.S. oil consumption, the West Texas Intermediate (WTI) crude oil spot price dropped **38.8 percent** YOY from \$114.8 to \$70.3, and the Henry Hub spot price for natural gas plummeted **71.7 percent** YOY from \$7.7 to \$2.2 per million British thermal units (BTU).



Economic Activity

Texas Business-Cycle Index



Source: Federal Reserve Bank of Dallas

Texas Leading Index



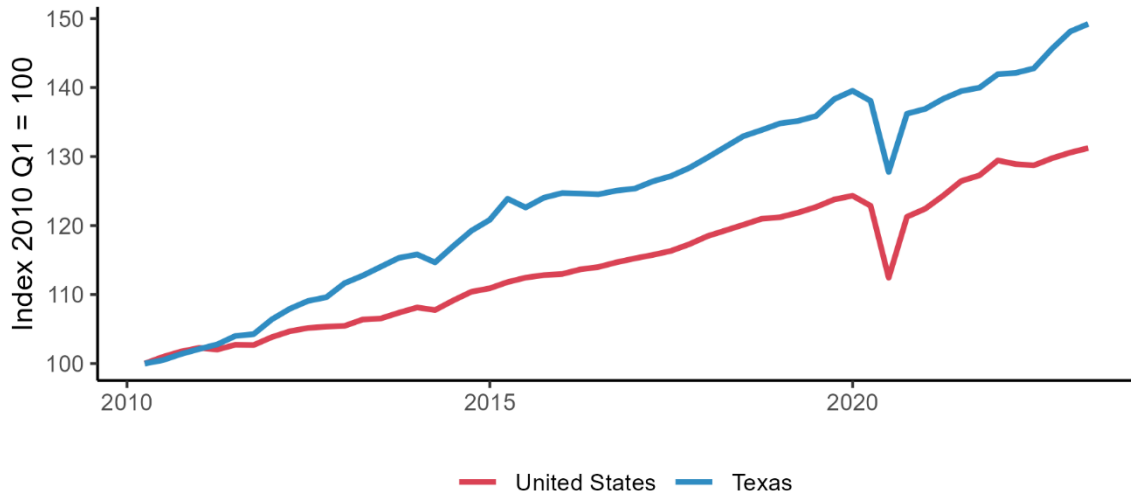
Source: Federal Reserve Bank of Dallas





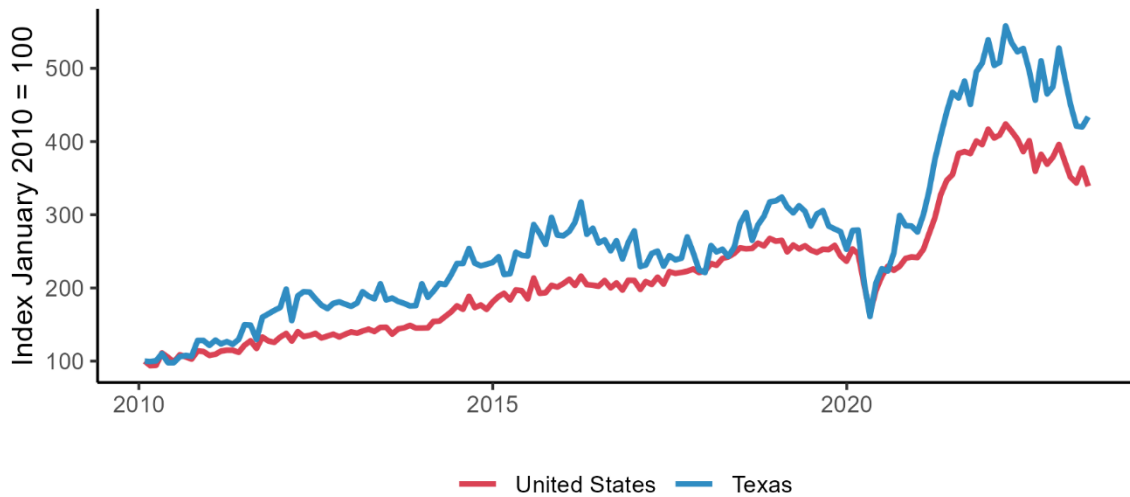
Economic Activity

Gross Domestic Product



Source: Bureau of Economic Analysis

Job Openings

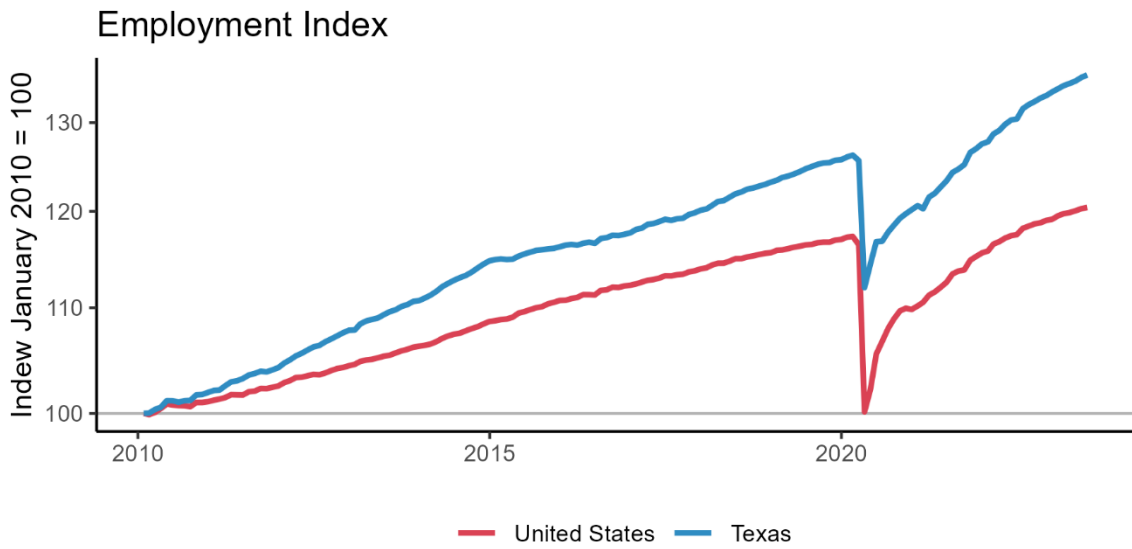


Source: Bureau of Labor Statistics

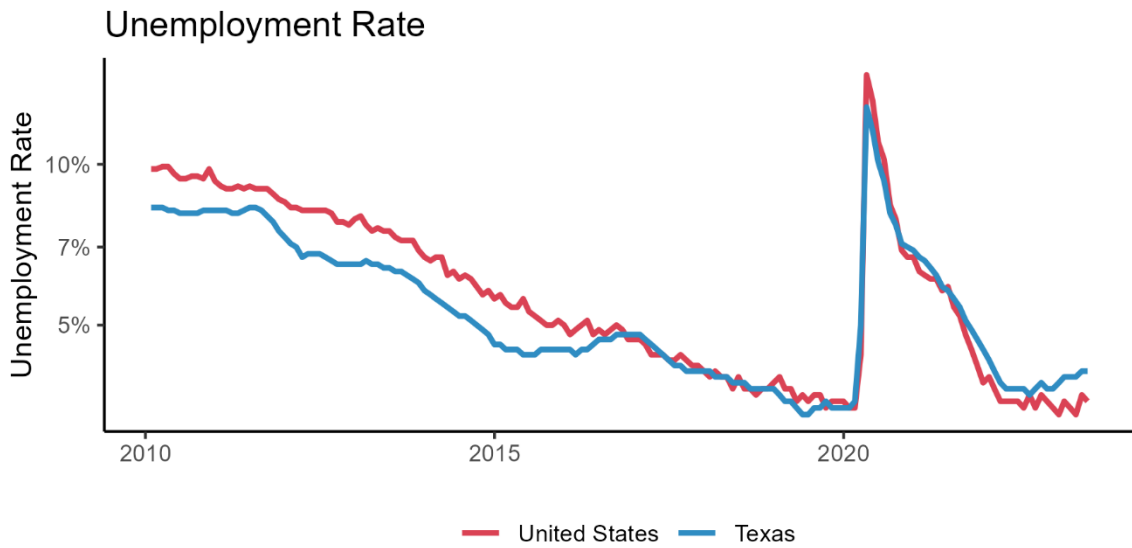




Employment



Source: Bureau of Labor Statistics



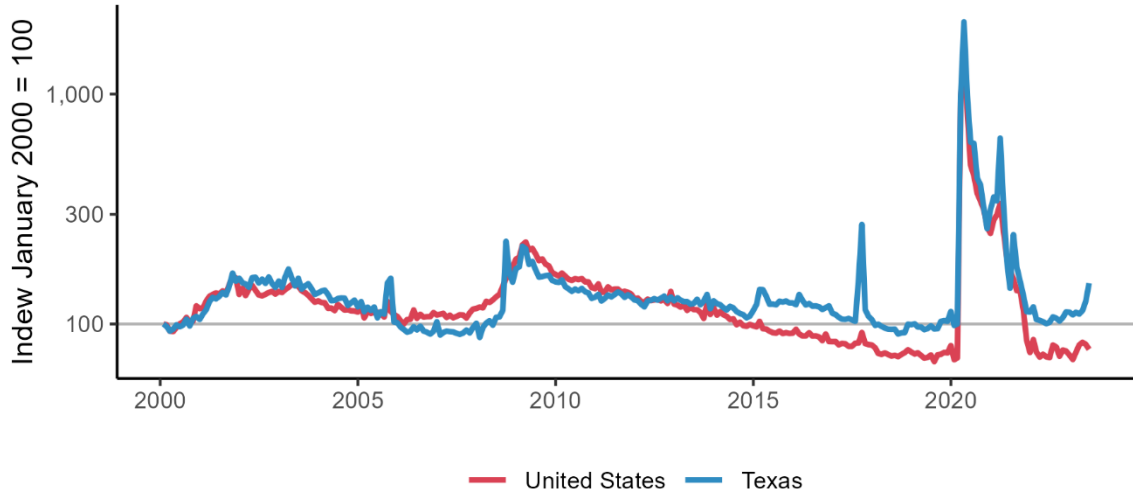
Source: Bureau of Labor Statistics





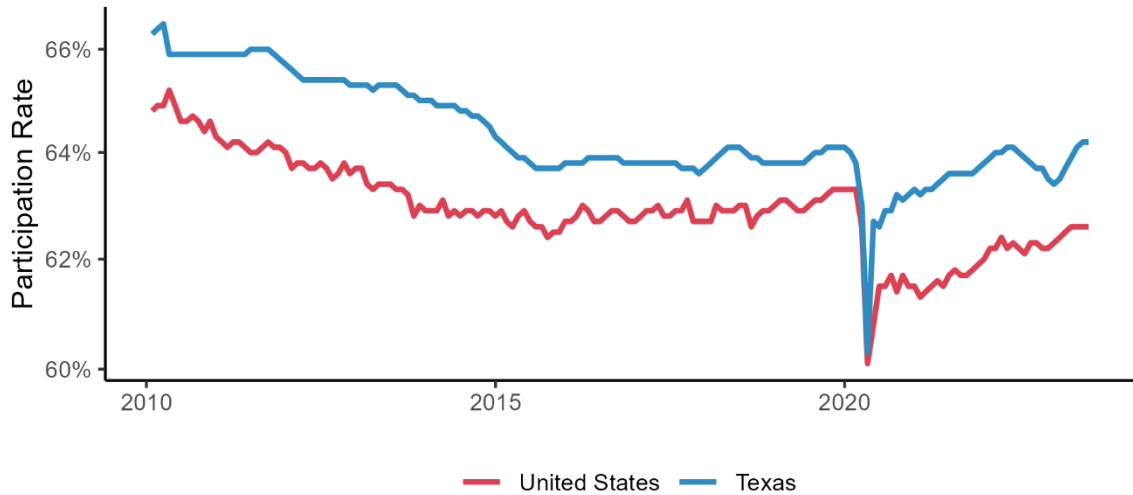
Employment

Initial Unemployment Claims



Source: Department of Labor

Labor Force Participation Rate



Source: Bureau of Labor Statistics





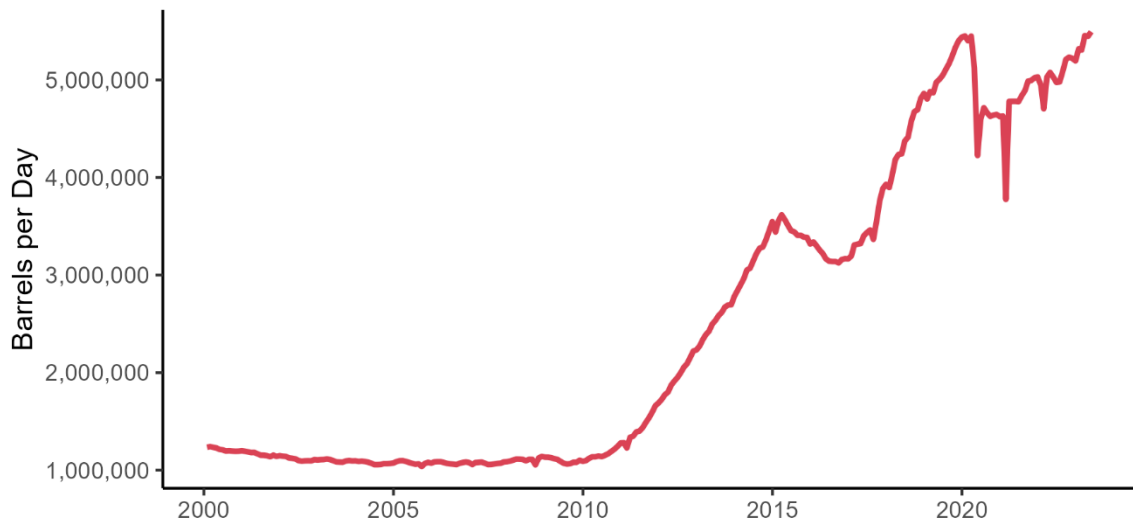
Energy

Crude Oil Price



Source: Energy Information Administration

Texas Crude Oil Production



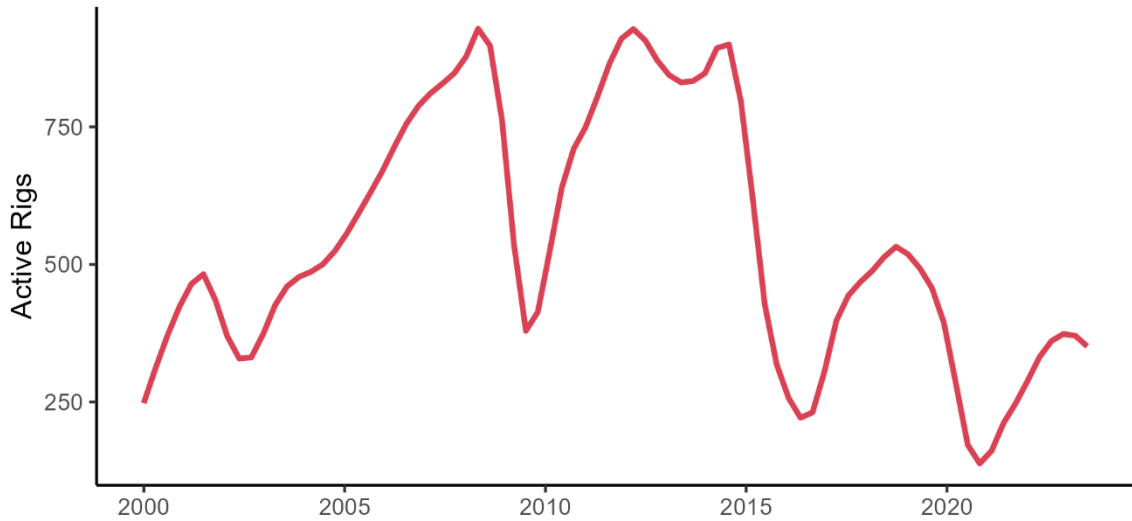
Source: Energy Information Administration





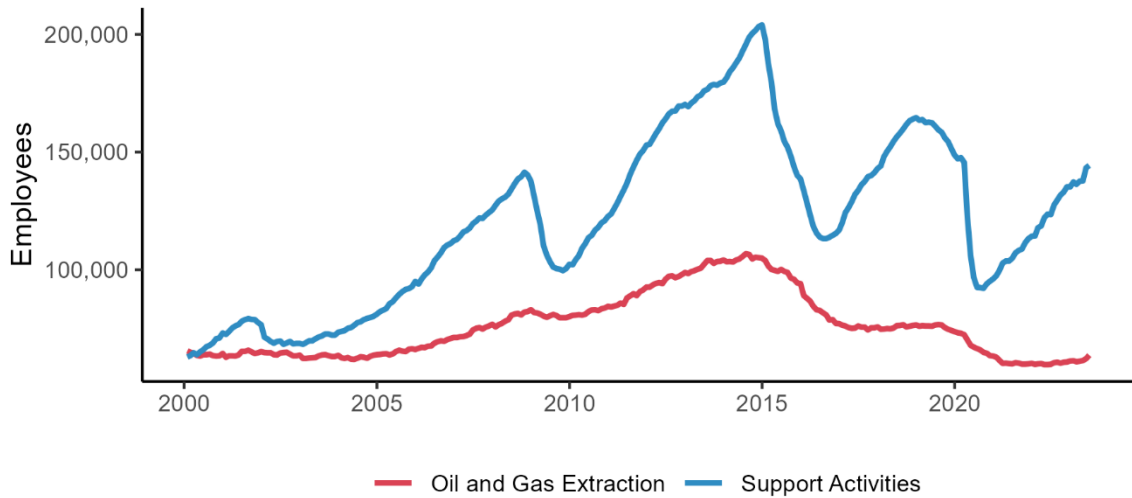
Energy

Texas Active Rotary Rig Count



Source: Baker Hughes

Oil and Gas Extraction Employment



Source: Bureau of Labor Statistics

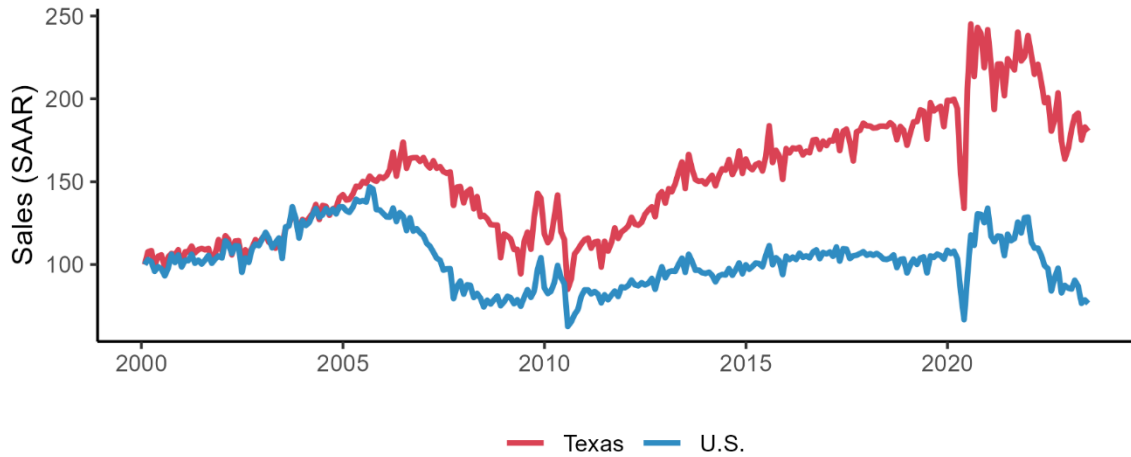




Housing

Residential Home Sales

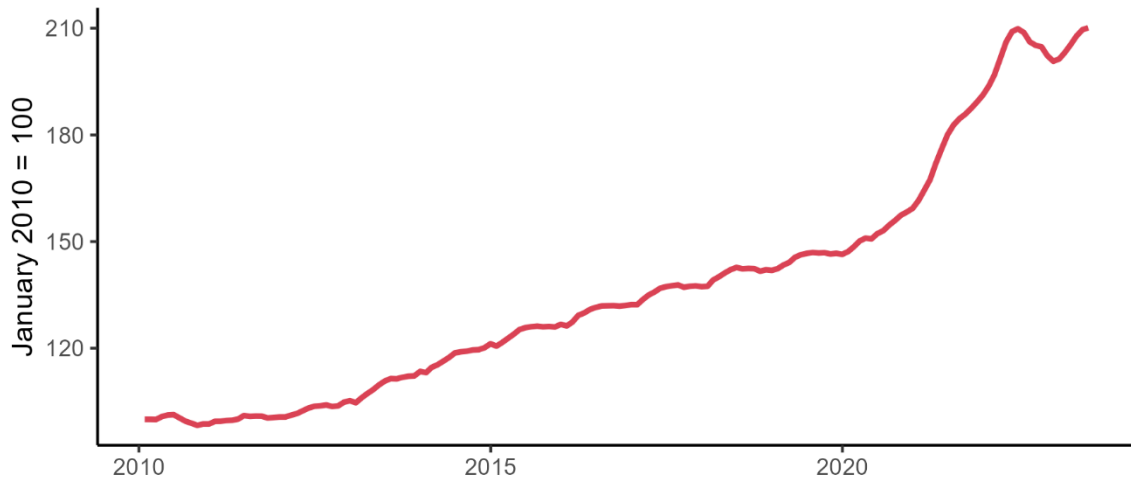
Seasonally Adjusted Annualized Rate



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



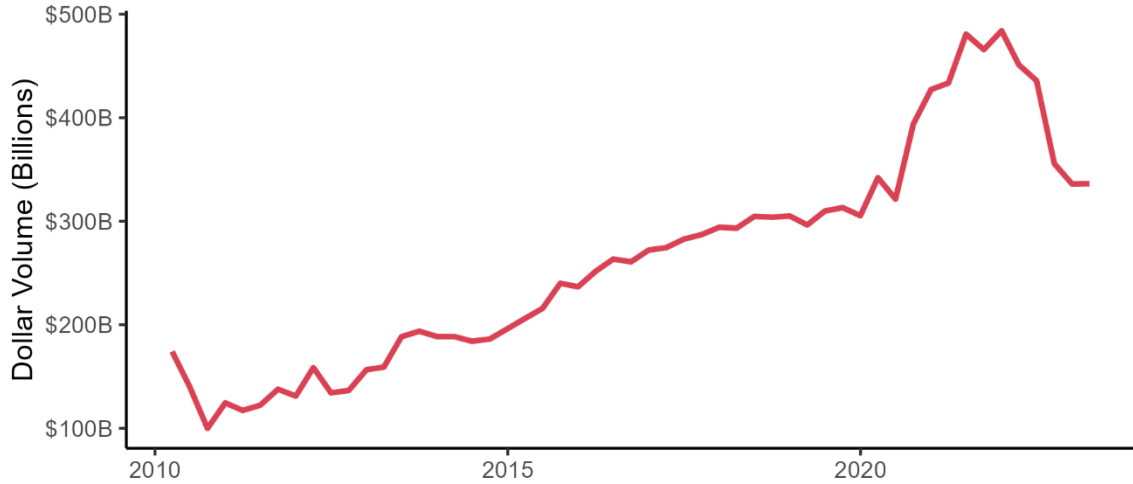
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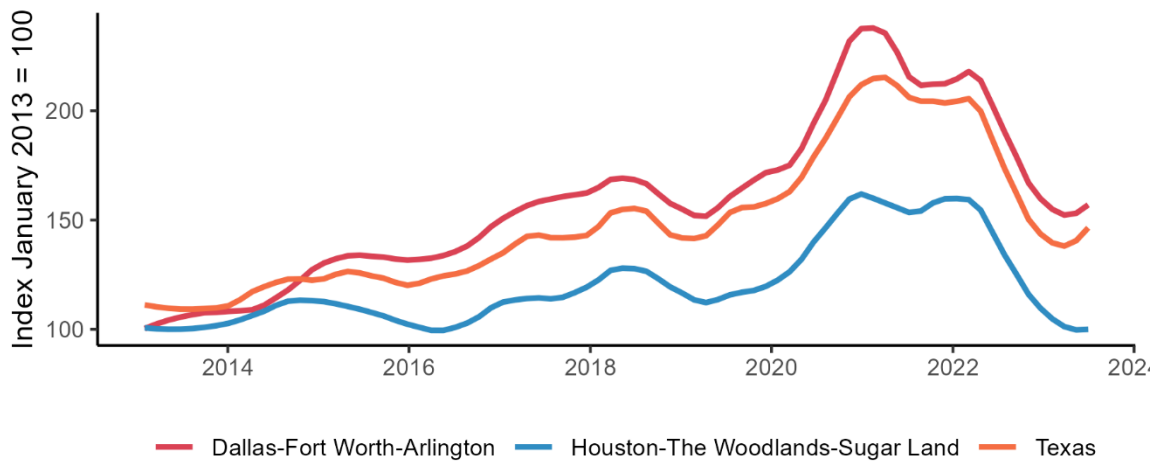
Housing

U.S. Purchase Mortgage Origination Dollar Volume Seasonally Adjusted



Source: Mortgage Bankers Association

Single-Family Housing Starts Seasonally Adjusted Index



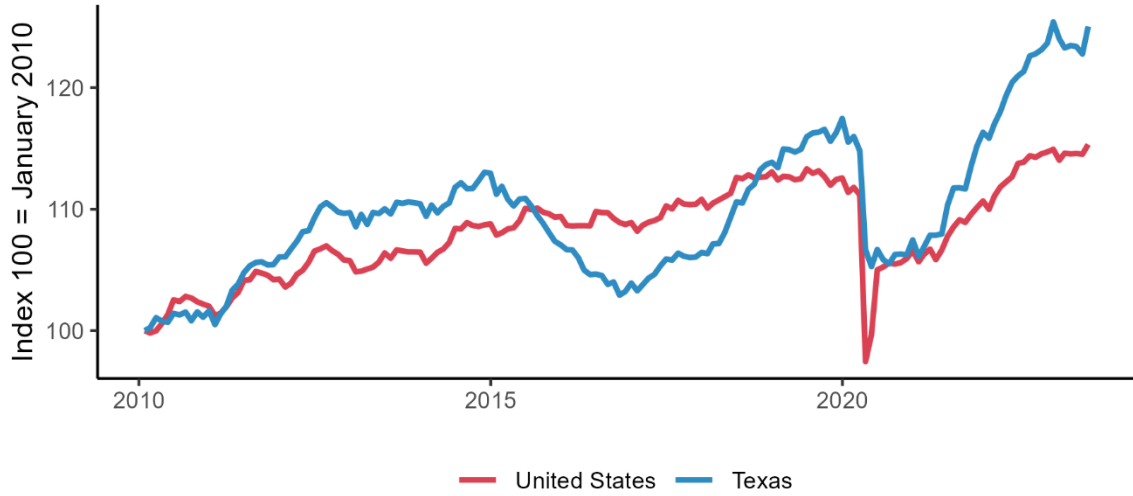
Source: Dodge Data & Analytics - Texas Real Estate Research Center at Texas A&M University





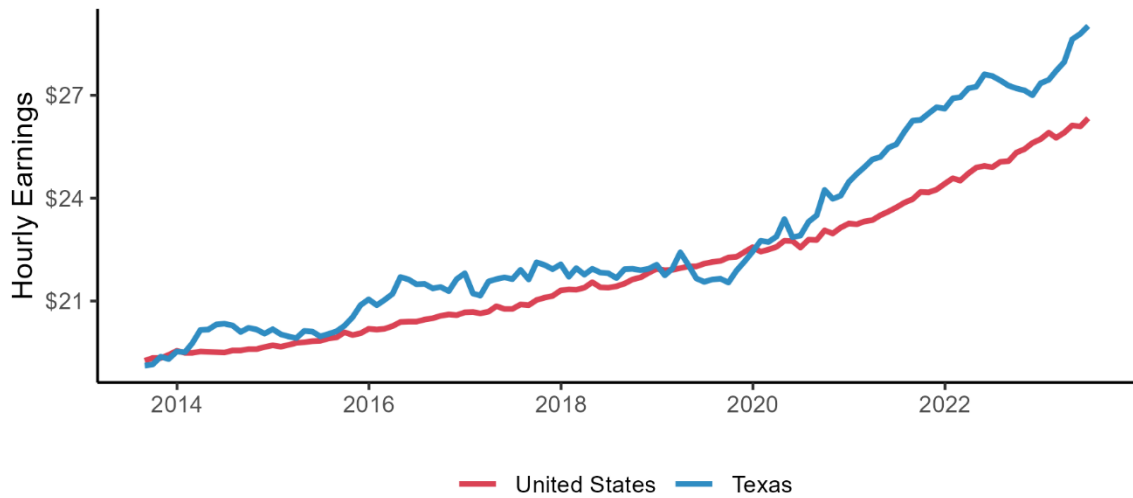
Manufacturing

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



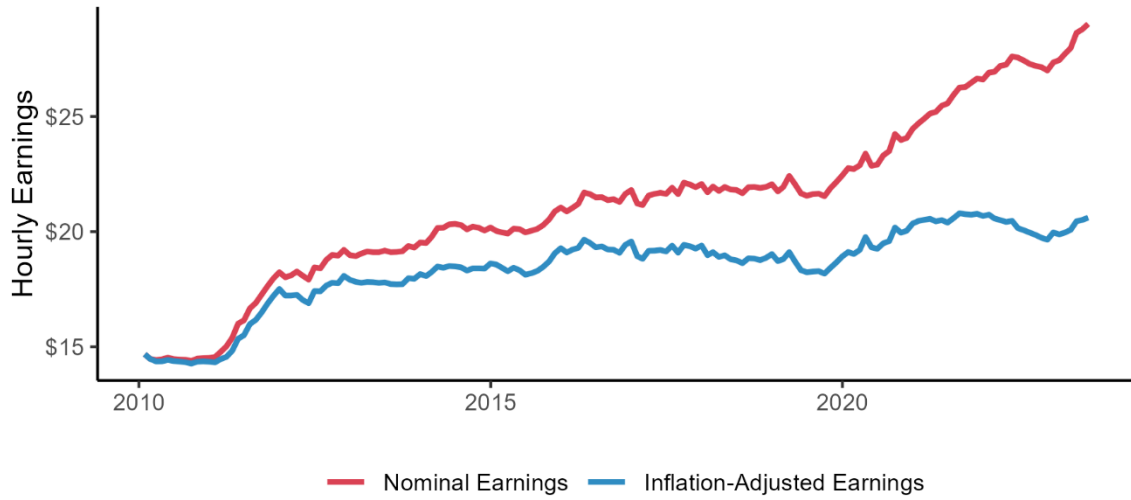
Source: Bureau of Labor Statistics - Texas Real Estate Research Center at Texas A&M University





Manufacturing

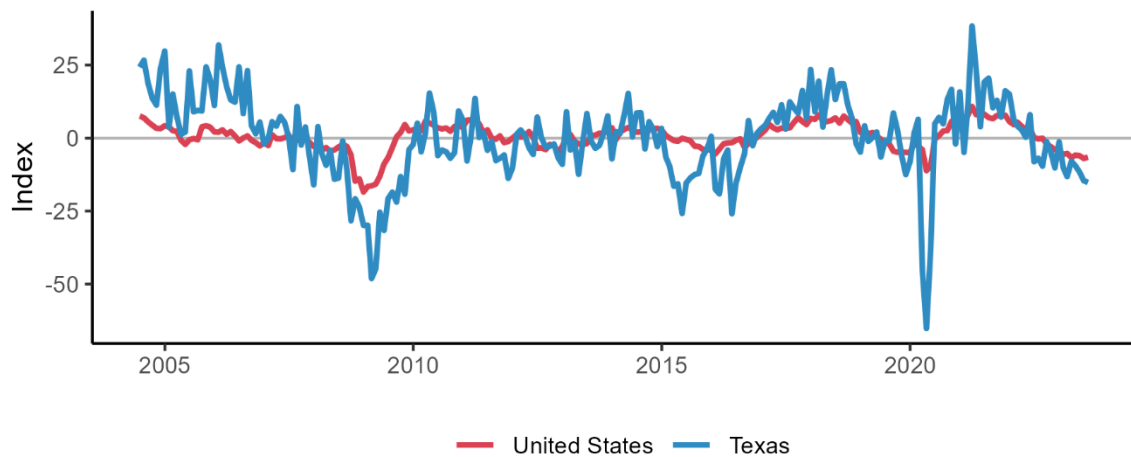
Texas Manufacturing Employee Hourly Earnings



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

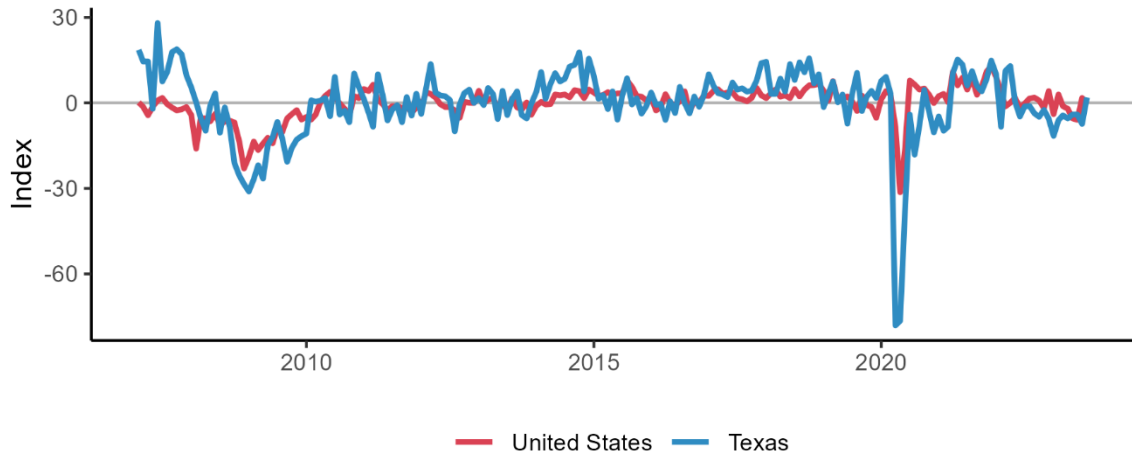




Services

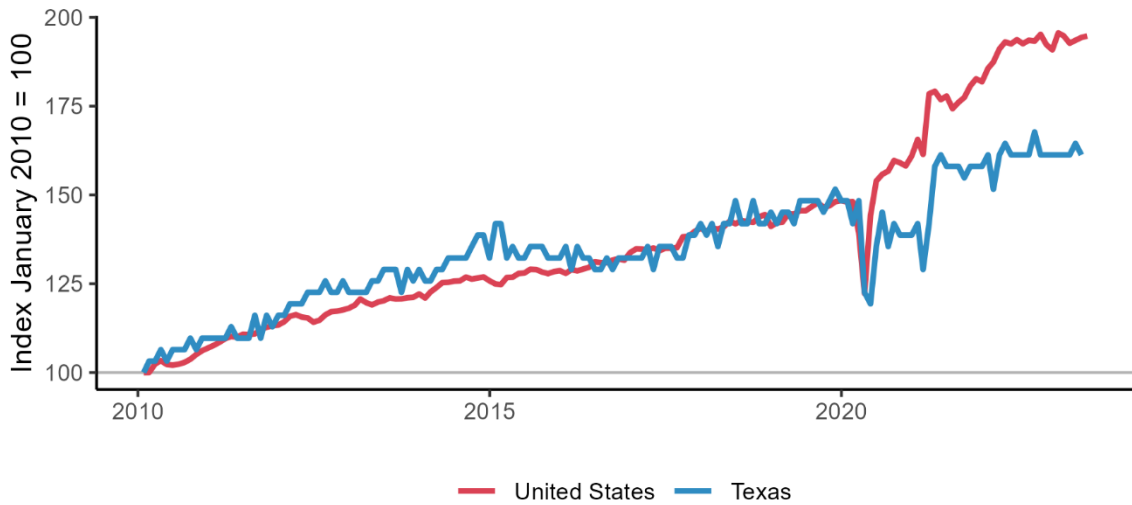
Services Sector Outlook Index

0+ = Expansion



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

Retail Sales Index



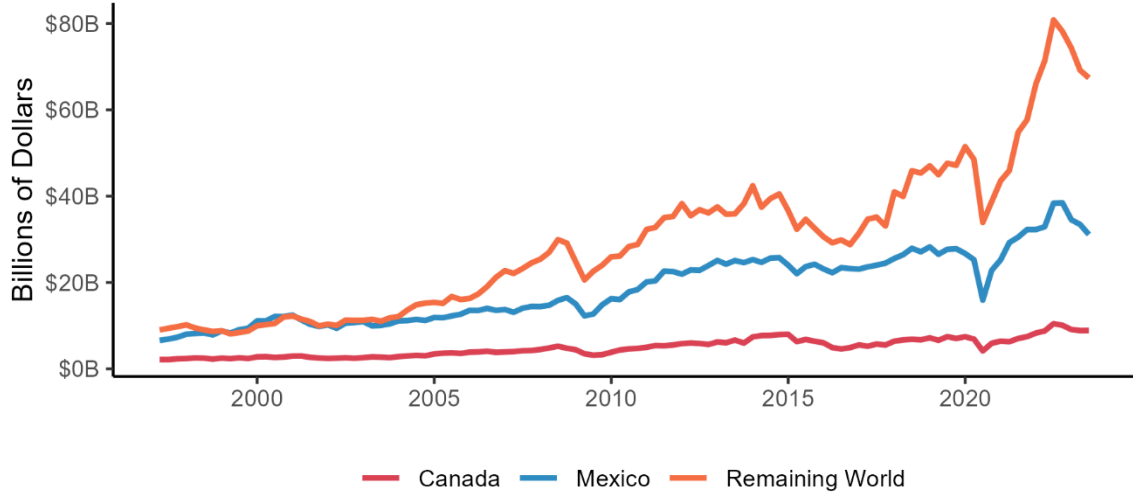
Source: Census Bureau - Federal Reserve Bank of Dallas





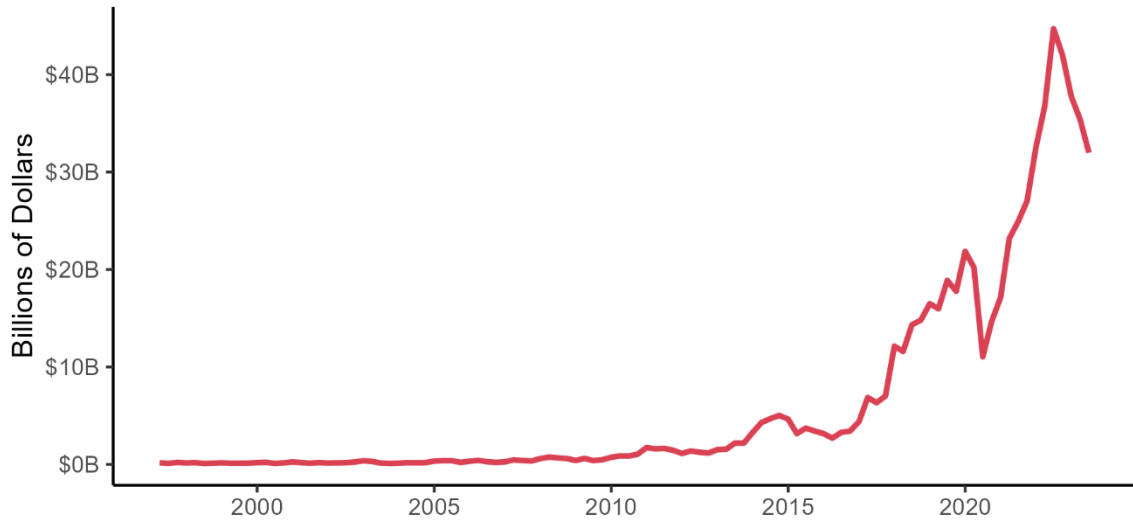
Trade

Texas Export Values by Destination



Source: Census Bureau via WISER

Texas Oil and Gas Exports



Source: Census Bureau via WISER





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