

# Outlook for the Texas Economy



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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).

Joshua Roberson, Weiling Yan, and Koby McMeans

Data current as of August 30, 2023

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# July 2023

UNEMPLOYMENT RATE

4.1%

TOTAL HOME SALES

8.4% MOM

TX CONSUMER CONFIDENCE

27.6 points MOM

NOMINAL AVERAGE HOURLY EARNINGS

2.2% MOM

## Summary

The Texas economy began showing signs of slowing in July, but it still outpaced the U.S. The Federal Reserve's return to raising interest rates did have an effect on the Texas labor market, with worries of higher labor costs on the horizon. The state's housing market cooled with total homes sales falling because of high interest rates. Texas exports remain down from their record year in 2022.

## Fed Raises Rates to Highest Level Since 2001

The Consumer Price Index (CPI) continued to moderate, rising by only 0.2 percent month-over-month (MOM) for the past two months. According to the U.S. Bureau of Labor Statistics, the rise in the shelter index continued to be the primary driver of the MOM increase for all items—jumping from a 70 percent total of June's increase to nearly 90 percent of July's increase. The airline fares index continued to counterbalance the large increases in the shelter index, with a decrease of over 8 percent, marking its fourth consecutive MOM decrease. The Fed resumed its interest-rate hike in July, reaching a 22-year high at 5.25 to 5.5 percent. With the next Federal Reserve meeting occurring in September, the data that comes out between now and then will determine the next steps the Fed takes to get inflation back to its 2 percent goal.

## Texas Payroll Continues to Reach New Heights

Despite the continued interest rate hikes, Texas' labor force remained strong. **Total nonfarm employment** expanded 3.3 percent YOY, with Dallas and Houston contributing 172,700 and 91,000 workers, respectively. The state payroll gained 26,300 new workers in July from the goods-producing sector (up 10,000) and the service-producing sector (up 16,300). Construction and manufacturing exhibited especially strong growth, while professional/business services had a summer layoff of nearly 14,000 workers, with the largest loss in administrative/waste management/remediation services.

Job seekers displayed optimism in the job market, as evidenced by the high participation rate of 64.2 percent. The **unemployment rate** remained unchanged for the third month in a row at 4.1 percent, and continued unemployment claims averaged around 122,300 applications on a weekly basis. Over the course of a year, Texas attracted 441,700 new workers, resulting in a 33-month trend of a record-high total labor force.



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## New Construction Reaches One-Fifth of Total Home Sales<sup>1</sup>

More prospective buyers are dissuaded from making a home purchase in today's high-interest environment, leading to a drop in sales. Compared with last month's reading at 28,000 and July 2020's record high at 38,400 transactions, Texas' **total home sales** fell below 26,000 transactions this month. Monthly sales volume contracted 8.4 percent MOM and 32 percent in three years (see table).

### Home Sales Volume

	Jun	Jul	Monthly Changes
Texas	28,235	25,870	↓ -8.4%
Austin-Round Rock	2,450	<b>2,312</b>	↓ -5.6%
Dallas-Fort Worth-Arlington	<b>7,565</b>	6,989	↓ -7.6%
Houston-The Woodlands-Sugar Land	7,313	6,691	↓ -8.5%
San Antonio-New Braunfels	2,885	2,679	↓ -7.1%

Note: Seasonally adjusted data used for the reported metrics.

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

Even with the reduced housing demand, the market share of new construction sales ballooned. Within a year, the share of new construction sales rose from 15.2 percent to more than 20 percent, indicating every five closed listings is now a new home. Both demand and supply factors contributed to the increasing trend for new homes. The shortage of existing homes is due to current owners' reluctance to give up their current homes.

## Retailers Continue Hiring Amid Mixed Signals

The revenue index rose to its highest level in 16 months, to 12.9, according to **Dallas Fed's Service Sector Outlook Survey**. The future general business activity index improved to 4.4, the first positive showing in 15 months. The future revenue index remained positive at 35.6. These two indexes being positive are a sign that short-term growth is expected to continue.

Retail payroll added 3,400 workers this month after seasonal adjustment as the **Dallas Fed's Retail Outlook Survey** remained in negative territory as retail sales continued to decline. Retailers' perception of broader business conditions plummeted in July, with the outlook uncertainty index rising by 20 points. However, expectations for future retail growth remained positive as the future sales index and the future general business activity index remained positive.

## Global Trade Remains Downbeat

Texas' **all-commodity exports** fell 1.8 percent MOM in June. Comparing Texas and the U.S. since the end of 2022, Texas' exports remained negative at 4.2 percent while the U.S. total mostly stayed

<sup>1</sup> Housing metrics are seasonally adjusted.



consistent. Demand for the top three manufacturing exports moderated with petroleum/coal and chemicals falling 0.2 percent and 0.5 percent MOM, respectively. Computer/ electronic products showed no signs of any monthly movement. Beverage/tobacco had the largest MOM gain at 50 percent, suggesting consumers are returning to leisure activity, reinforced by the 15.6 percent MOM increase in Texas consumer confidence. Demand for Texas' **crude oil exports** fell 5.42 percent YOY. The countries that withdrew the most were India, Spain, and France. Netherlands, on the other hand, posted a 46 percent YOY increase.

### **Economic Overview**

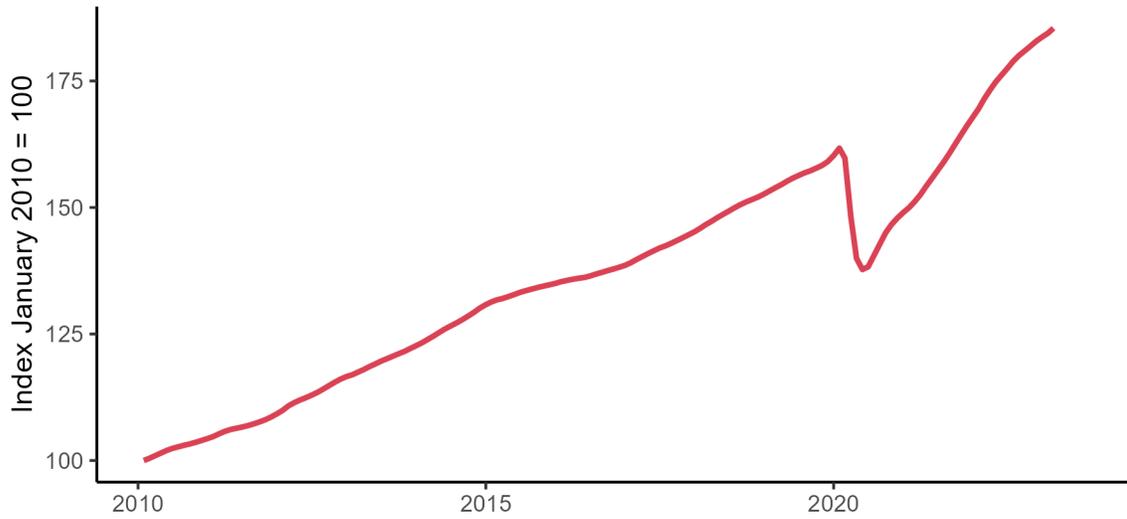
- After data adjustment, the Texas Leading Economic Index rebounded from June's drop, rising to 104.1 (2007=100).
- Nominal **average hourly earnings** rose 2.2 percent MOM, reaching \$31.74. Dallas and Houston both reached average hourly earnings of above \$34, marking the first time Houston crossed this threshold.
- Consumer confidence skyrocketed in July, reaching its highest level since February 2020, reflecting consumers' confidence in both short-term business conditions and outlook for the labor market.
- The ten-year U.S. Treasury bond rose just 15 basis points to **3.9 percent**, showing investors' confidence in the economy is growing.
- The Federal Home Loan Mortgage Corporation's 30-year fixed-rate increased 13 basis points to **6.84 percent**, in large part due to the Fed increasing interest rates.
- The West Texas Intermediate (WTI) crude oil spot price dropped **10.6 percent** YOY from \$92.4 to \$82.5, and the Henry Hub spot price plummeted **65 percent** YOY from \$7.3 to \$2.6 per million British thermal units (BTU).





# Economic Activity

## Texas Business-Cycle Index



Source: Federal Reserve Bank of Dallas

## Texas Leading Index



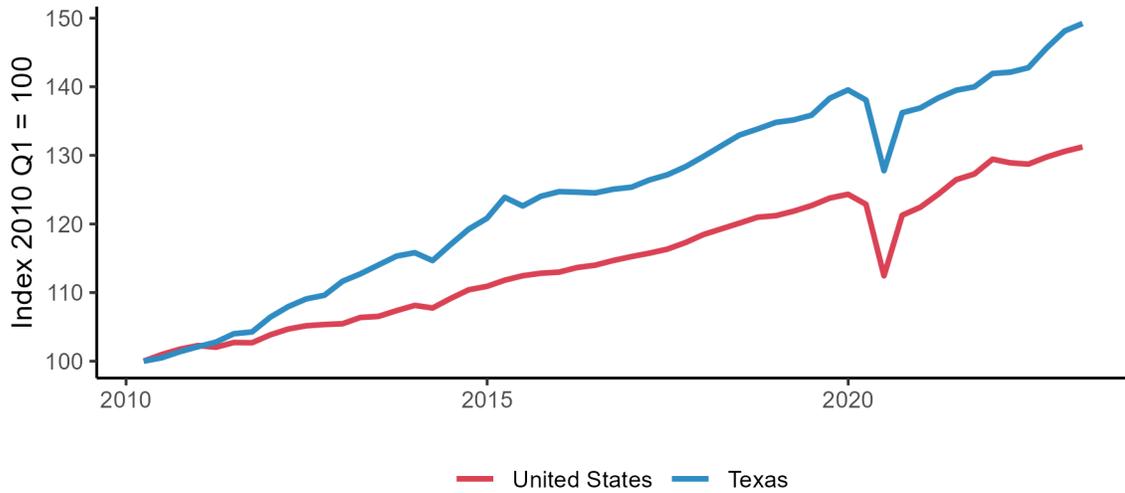
Source: Federal Reserve Bank of Dallas





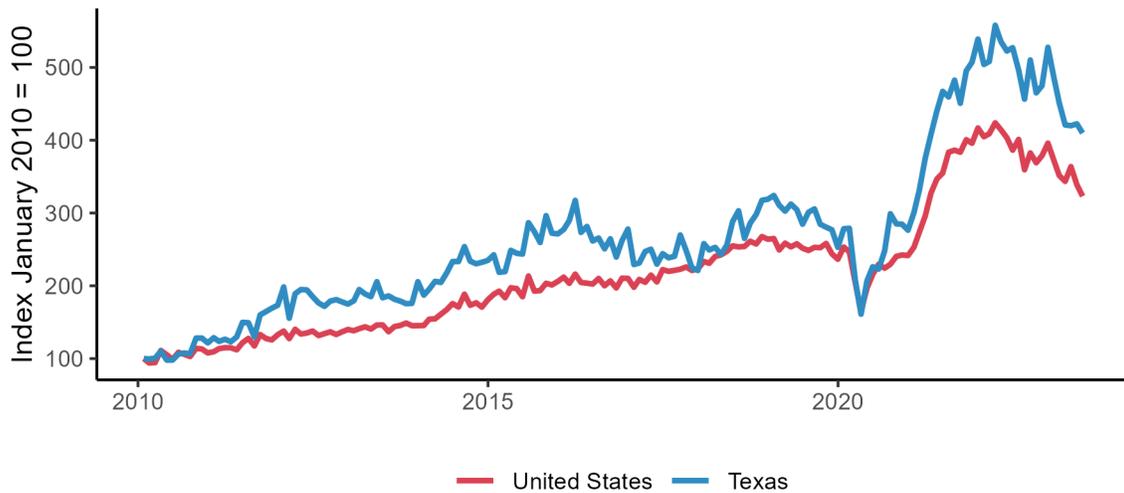
# Economic Activity

## Gross Domestic Product



Source: Bureau of Economic Analysis

## Job Openings



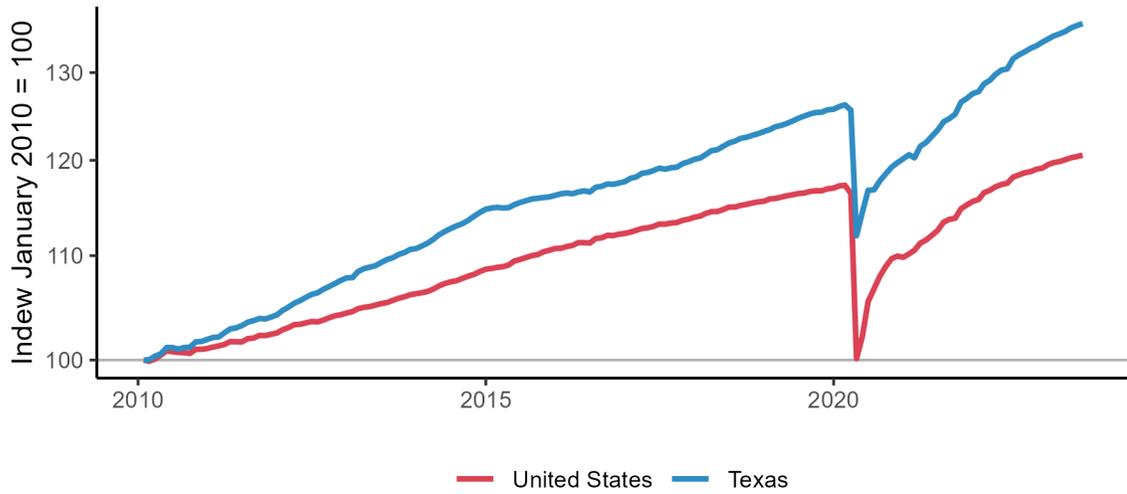
Source: Bureau of Labor Statistics





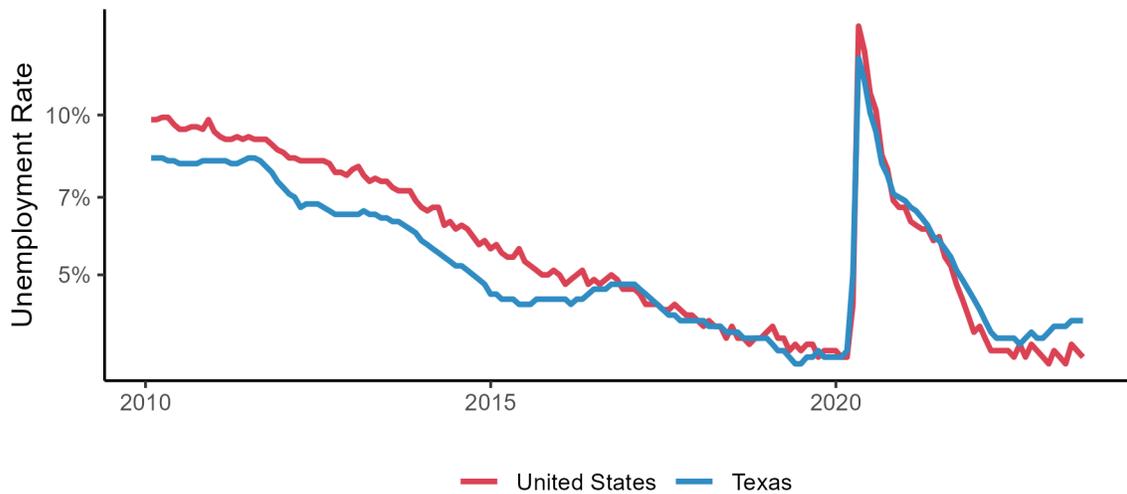
# Employment

## Employment Index



Source: Bureau of Labor Statistics

## Unemployment Rate



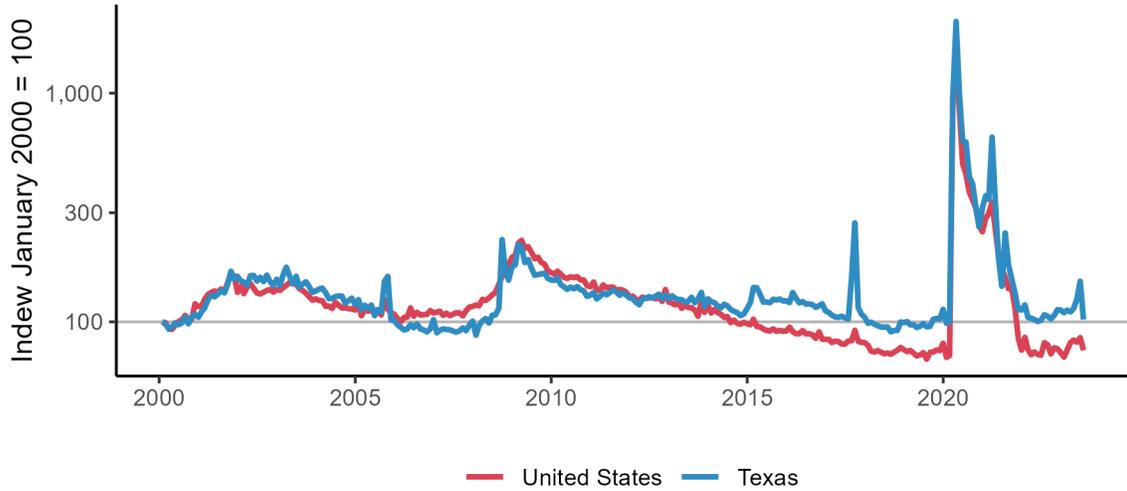
Source: Bureau of Labor Statistics





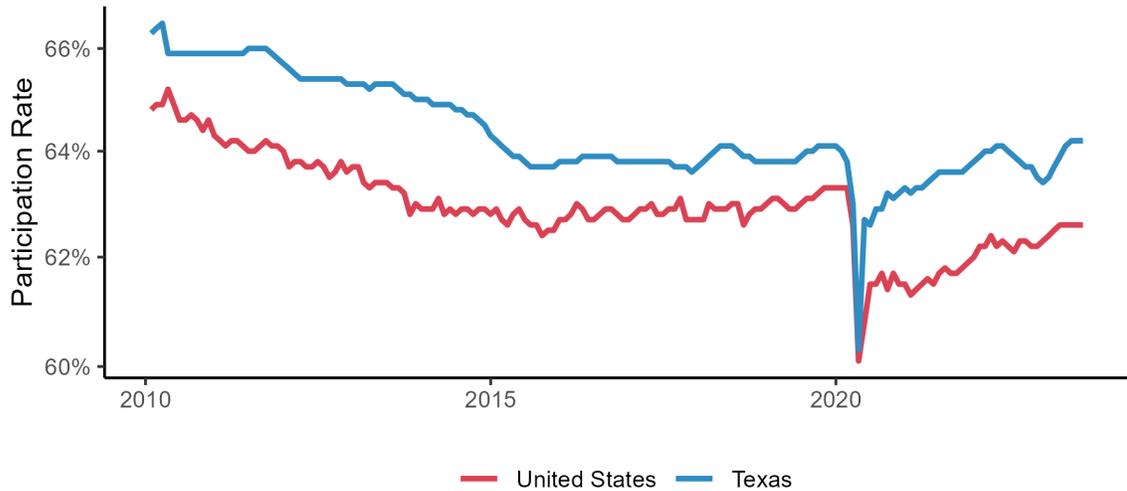
# Employment

## Initial Unemployment Claims



Source: Department of Labor

## Labor Force Participation Rate



Source: Bureau of Labor Statistics





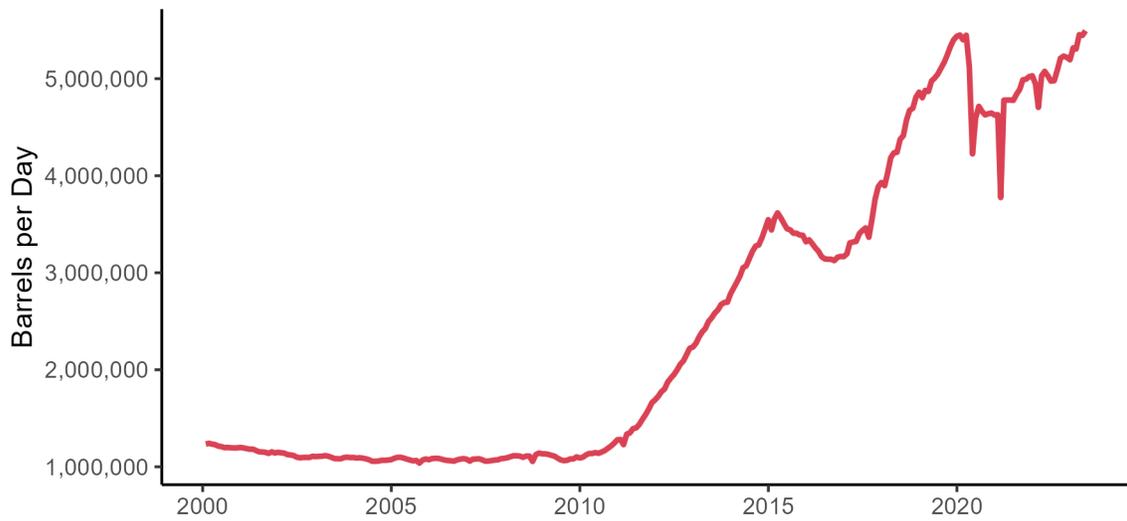
# Energy

### Crude Oil Price



Source: Energy Information Administration

### Texas Crude Oil Production



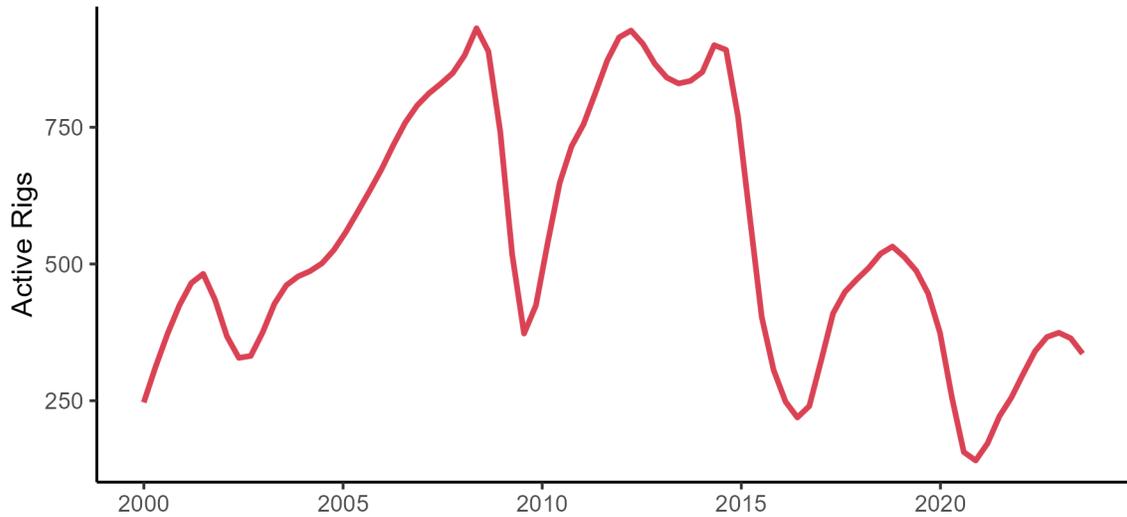
Source: Energy Information Administration





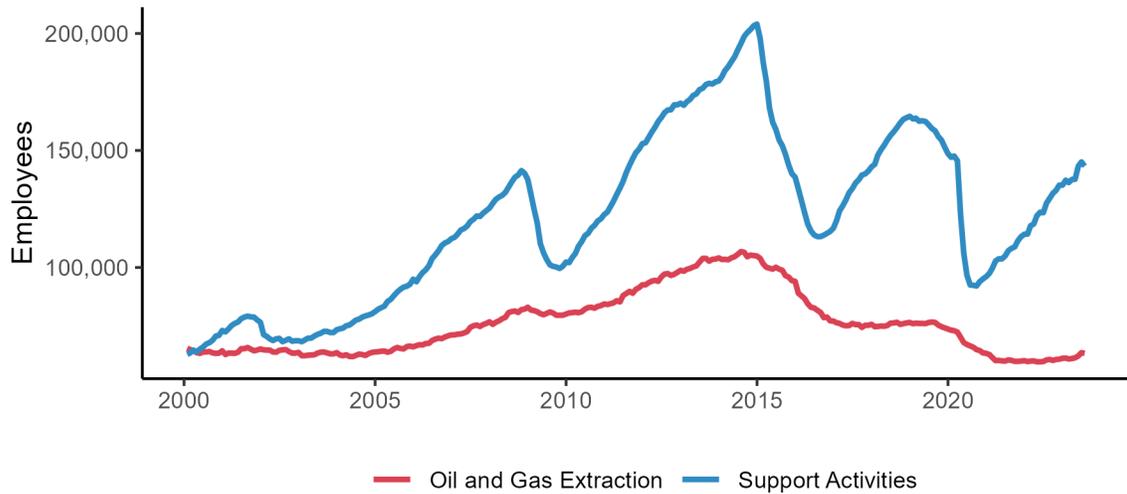
# Energy

### Texas Active Rotary Rig Count



Source: Baker Hughes

### Oil and Gas Extraction Employment



Source: Bureau of Labor Statistics

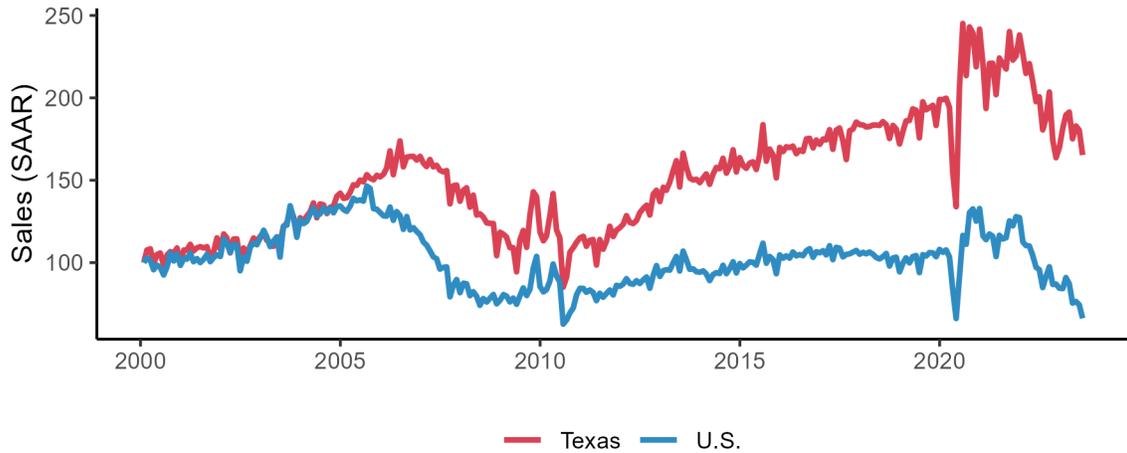




# Housing

## Residential Home Sales

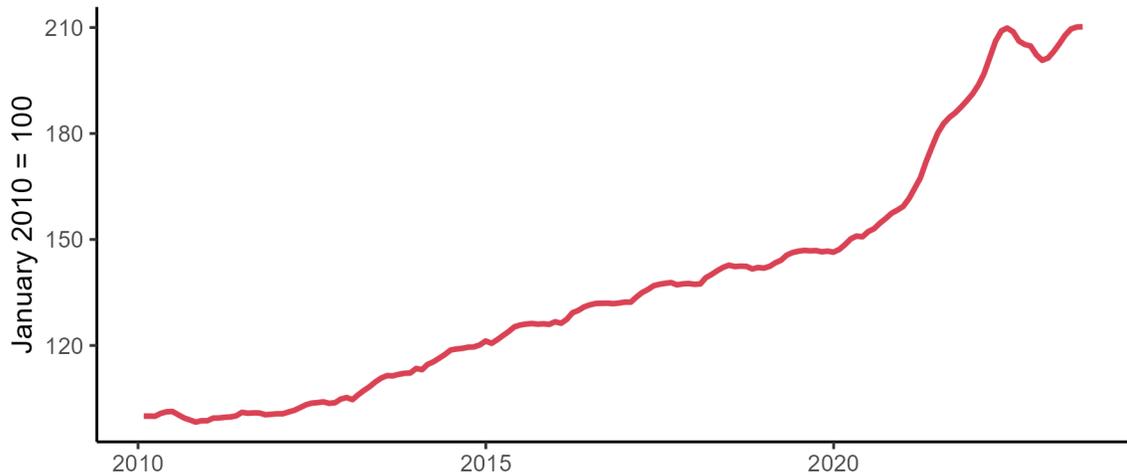
Seasonally Adjusted Annualized Rate



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



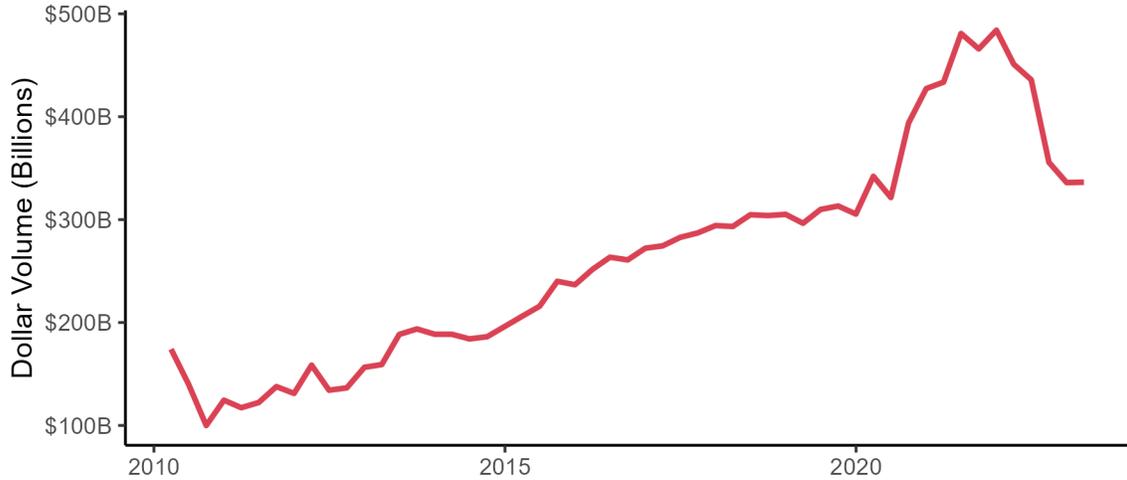
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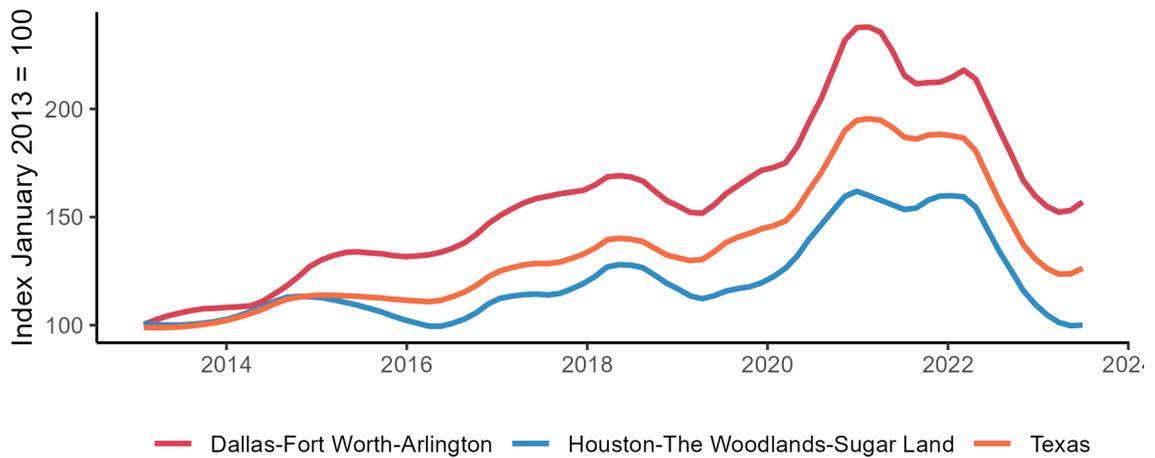
# Housing

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



Source: Mortgage Bankers Association

### Single-Family Housing Starts Seasonally Adjusted Index



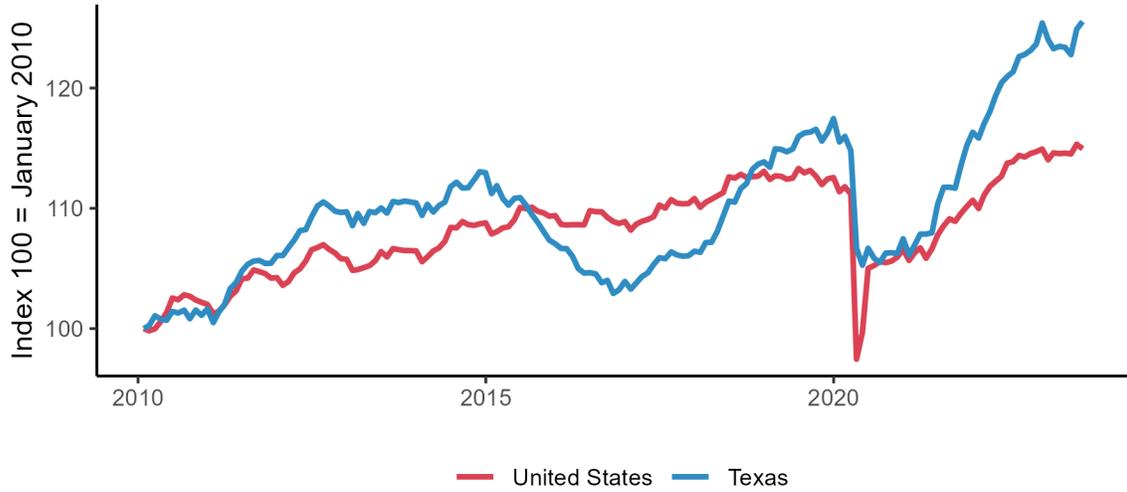
Source: Dodge Data & Analytics - Texas Real Estate Research Center at Texas A&M University





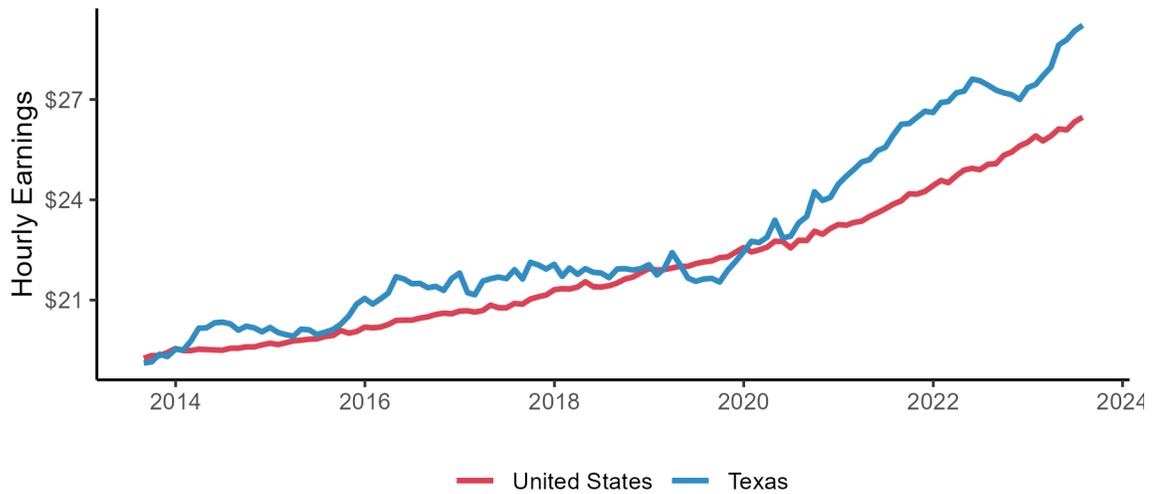
# Manufacturing

### 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



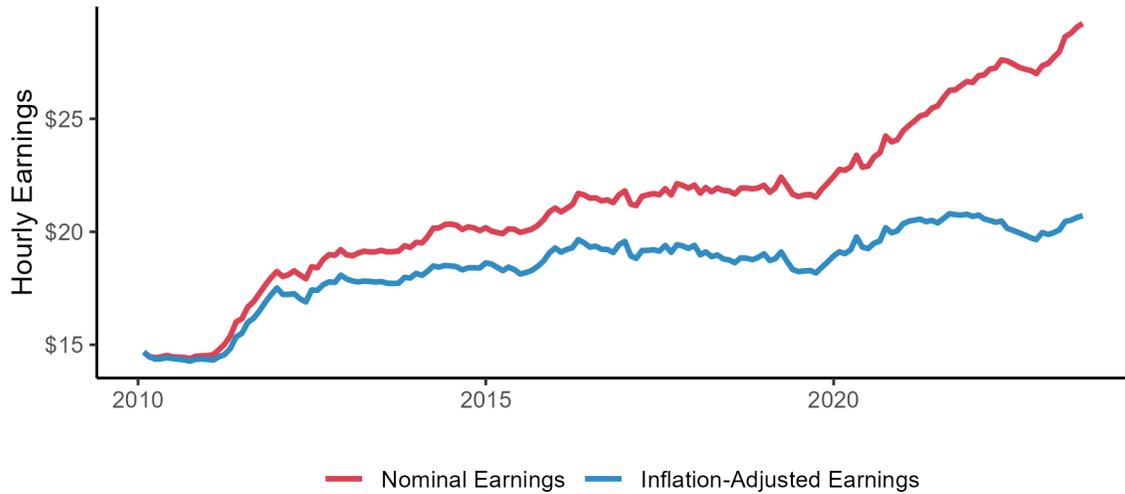
Source: Bureau of Labor Statistics - Texas Real Estate Research Center at Texas A&M University





# Manufacturing

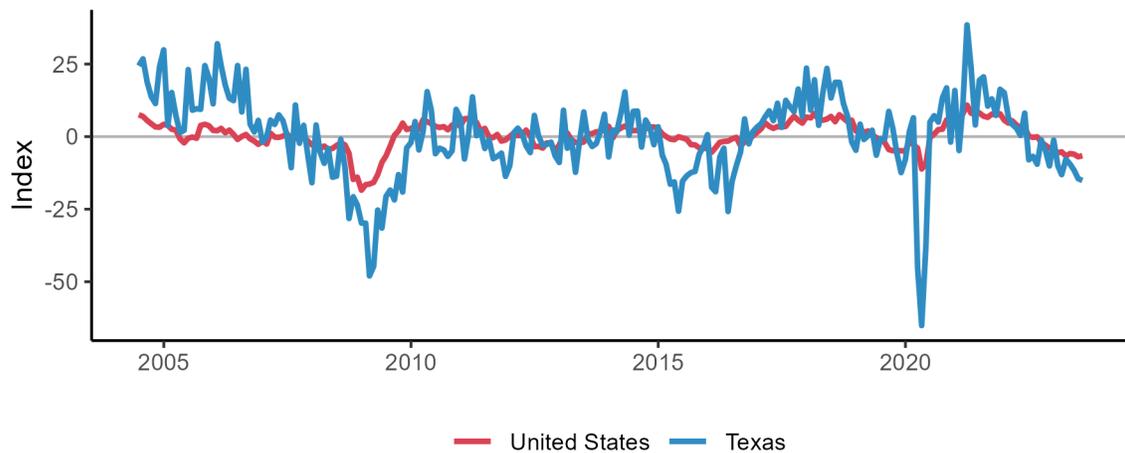
## Texas Manufacturing Employee Hourly Earnings



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

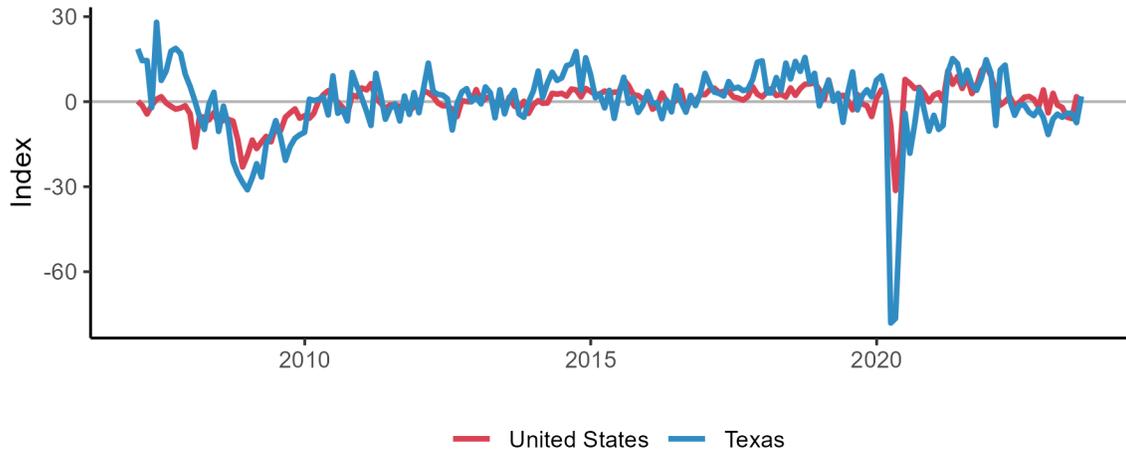




# Services

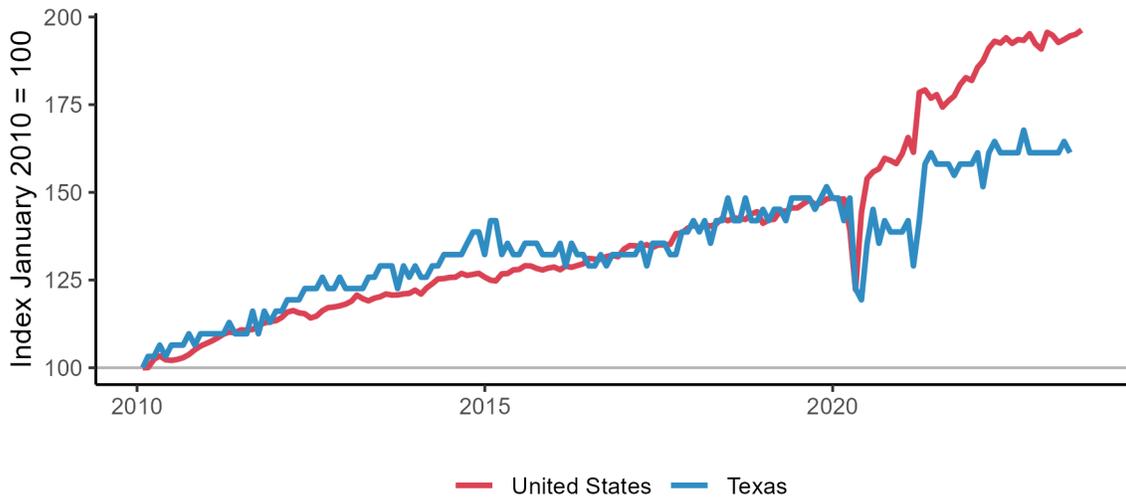
## Services Sector Outlook Index

0+ = Expansion



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

## Retail Sales Index



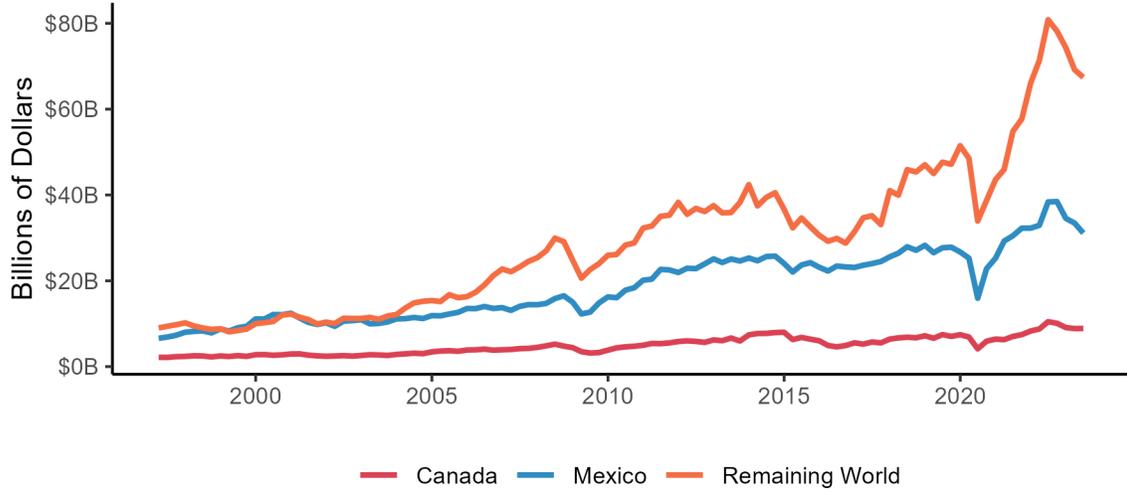
Source: Census Bureau - Federal Reserve Bank of Dallas





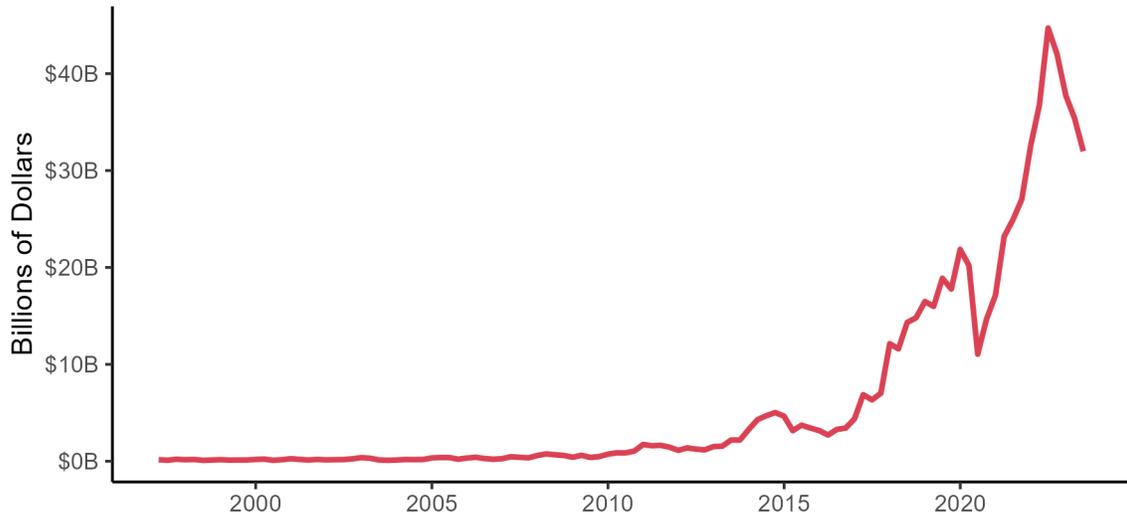
# Trade

### Texas Export Values by Destination



Source: Census Bureau via WISER

### Texas Oil and Gas Exports



Source: Census Bureau via WISER





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