

Outlook for the Texas Economy



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About this Report

Real Estate 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 monthly 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.

Dr. Luis Torres and Wesley Miller

Data current as of March 14, 2017

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January 2017 Summary

The Texas economy advanced from December as the number of jobs increased by 51,300. Both the service-providing and goods-producing sectors performed well. The energy sector was stable as crude oil and natural gas prices remained level and inflation increased as economic activity improved. Housing prices in Texas appreciated as supply continued to fall short of growing demand. Overall, the economy appears solid, and expectations are optimistic for 2017. Potential headwinds to the Texas economy include trade uncertainty, volatile energy prices, and national political uncertainty.

The **Texas Business Cycle Index**, which measures *current* economic activity in the state, continued its upward trend. The Dallas Fed's **Texas Leading Index**, which signals *future* directional changes in the business cycle, improved modestly. The index was positively affected by improved oil prices, increased well permits, and stock price appreciation of Texas companies. The index was negatively affected by the appreciation of the Texas value of the dollar and the number of average weekly hours worked by employees. The **major metro Business Cycle Index** indicated that economic conditions in Dallas and Fort Worth were increasingly favorable. Economic activity decelerated in Austin and San Antonio, and was stagnant in Houston.

Interest rates ticked downward for the first time in six months. The **Federal Home Loan Mortgage Corporation's** 30-year fixed-rate dropped five basis points to a 4.2 percent average. The **ten-year U.S. Treasury bond** yield inched down six basis points to 2.4 percent. Interest rates are expected to rise throughout 2017 as the Federal Reserve plans to raise the federal funds rate to combat inflationary pressures and from stronger loan demand.

Texas housing demand was steady as year-over-year sales increased 4.1 percent, and the average number of days on market fell to 57. The supply of housing remained constrained as the statewide months of inventory settled at 3.7 months—identical to the 2016 average. A combination of restricted supply and persistent demand in the Texas housing market caused prices to appreciate. Since 2011, the Texas median sales price for all homes has increased 47.1 percent. House price appreciation has been spurred by the state's economic and population growth over the past decade. Since 2007, employment and population have increased over 10 percent more in Texas than the nation. For additional housing commentary and statistics, see [Texas Housing Insight](http://recenter.tamu.edu) at recenter.tamu.edu.

Natural gas and **crude oil prices** continued to rise out of the early 2016 trough. In January, the Henry Hub spot price of natural gas ticked down slightly from \$3.62 per million BTU (British thermal unit) to \$3.42 but was still 45.4 percent higher than in January 2016. West Texas Intermediate crude oil prices averaged \$60.82 per barrel during January—a year-over-year increase of 68.1 percent. Consequently, the **number of operating rigs** in Texas increased to 303, the most in over a year. Oil price expectations remain positive as OPEC looks to restrict output, but global oil inventories remain saturated. The Energy Information Administration projects the oil supply glut will diminish as the year progresses. The monthly **production of crude oil** in Texas has hovered at

96 million barrels per day since June 2016, but it may be driven up if the price of oil continues to appreciate.

Texas **monthly nonfarm employment** increased by 51,300 jobs in January, the largest gain since February 2013, and the unemployment rate was constant at 4.8 percent. The Texas **labor force participation rate** ticked upward, albeit mildly, for the first time since 2010, to a rate of 63.6 percent. Both the service-providing and goods-producing sectors exhibited significant employment growth. Texas added over 36,000 service-providing jobs, 14,000 of which came from the professional and business services industry. The **Texas Service Sector Outlook Survey** indicated optimism regarding overall economic conditions, but health industry respondents expressed concerns over health care reform uncertainty. The **Texas Retail Outlook Survey** reported positive, yet slowed growth; 23.8 percent of respondents noted decreased sales, and 18.7 percent had increased inventory levels. The company-wide internet sales index declined 30.7 points. Additionally, respondents claimed the retail climate on the Texas-Mexico border remained difficult.

The goods-producing sector recovered significantly following a poor December. Construction employment increased by 8,900 jobs as building activity accelerated. Manufacturing and mining employment expanded by 7,300 and 1,900 jobs, respectively. Additionally, the **Texas Manufacturing Outlook Survey** reported manufacturing activity expansion; business activity was generated by post-election consumer confidence. The future business activity expectations index increased 1.2 points, but some uneasiness was reported regarding future international trade relations. Fort Worth benefited from the strong manufacturing performance, and added 7,300 total jobs. Dallas led the state in employment growth, reporting 13,100 more jobs than in December.

Real **total private employee hourly earnings** in Texas were flat and fell further below the national average. Texas hourly wages were converging toward the national level in 2014 but have currently diverged toward a \$0.50 wage gap. Wages in Texas have struggled to remain above January 2007 levels because of the decline in the energy industry and loss of high-paying energy-related jobs. While the job market remained tight, employment shifted toward lower paying industries, such as leisure and hospitality. Nationally, average hourly wages were 2.1 times higher in the mining industry relative to leisure and hospitality jobs.

Inflation continued to climb as energy and housing prices appreciated. The **Consumer Price Index** for the U.S. and Dallas increased 2.5 percent and 2.7 percent, respectively, marking their largest annual leap in over four years. The transportation component of the Dallas index, which accounts for gasoline prices, grew 4.9 percent^{*}, while the Dallas housing component rose 4.2 percent^{*}. For additional housing commentary and statistics, see [Texas Housing Insight](http://recenter.tamu.edu) at recenter.tamu.edu.

Despite the strong U.S. dollar, Texas exports increased for the third consecutive month to \$232.3 billion (2011 dollars). Real manufacturing exports recorded positive year-over-year growth (1.4 percent) for the first time since March 2016. The **Texas trade-weighted value of the dollar**

^{*} Year-over-year calculation

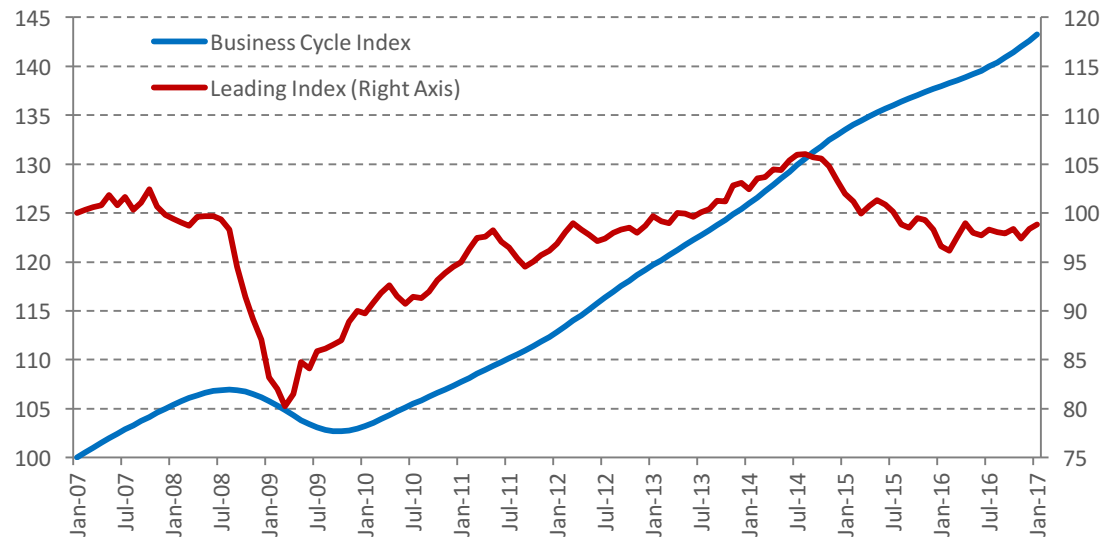
appreciated 6.9 percent last month¹, its largest jump since June. Over half of Texas' exports are traded to Mexico (38.2 percent) and Canada (8.4 percent). Exports have remained stable, in both Texas and the U.S., despite exchange rate and currency market obstacles.

¹ The Texas trade-weighted value of the dollar is generated by the Federal Reserve Bank of Dallas. Its release typically lags the Outlook for the Texas Economy by one month.



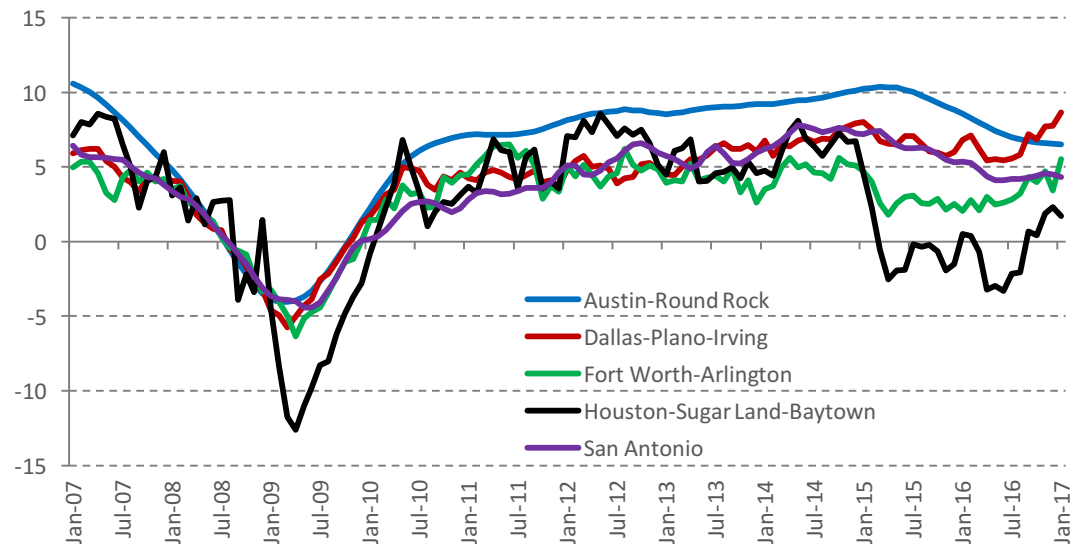
Economic Activity

Texas Business Cycle Index and Leading Index
(Index Jan 2007 = 100)



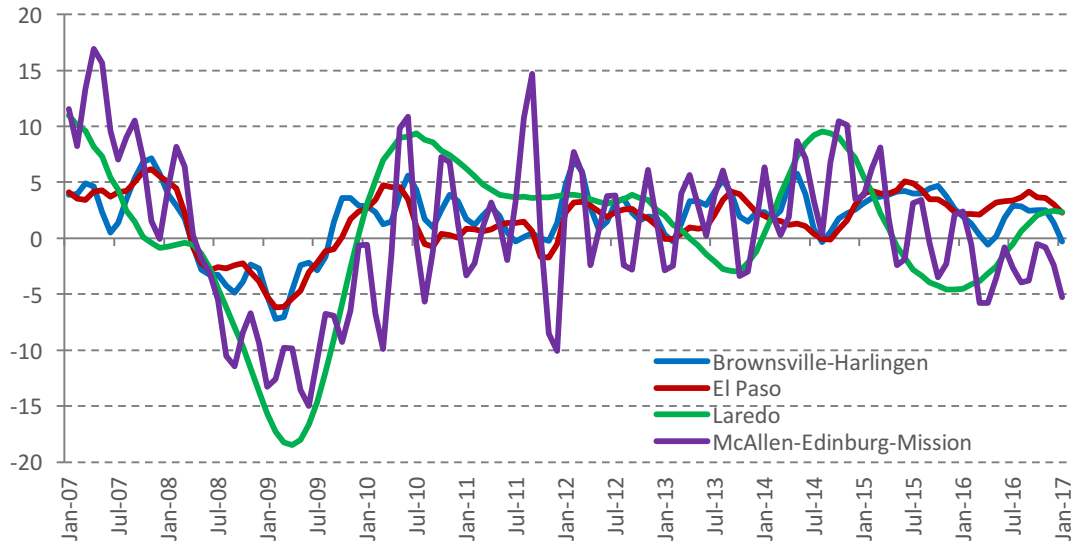
Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas

Major Metros Business Cycle Index
(Quarter-over-Quarter Percent Change)



Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas

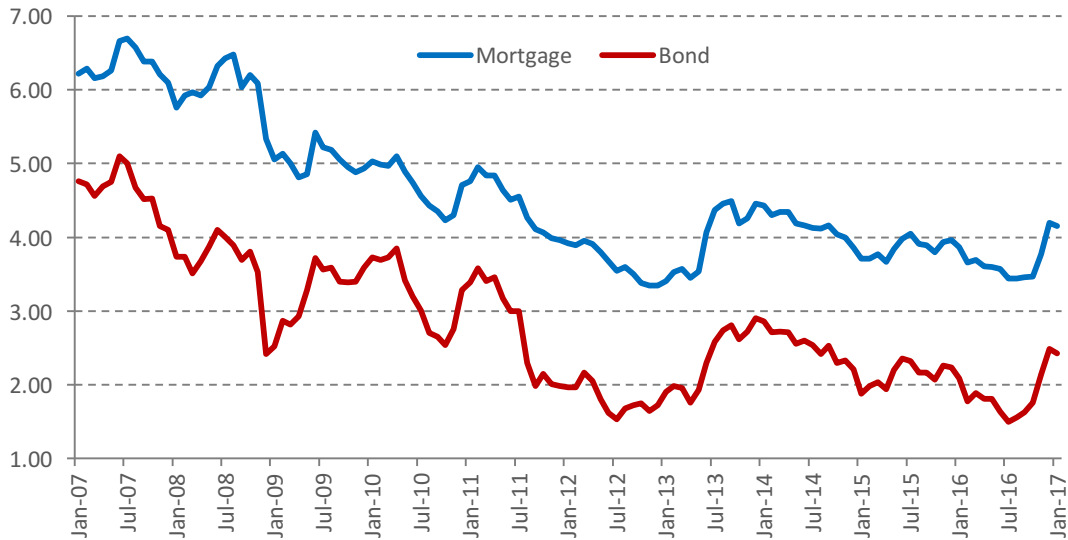
Border Metros Business Cycle Index (Quarter-over-Quarter Percent Change)



Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas

Financial Activity

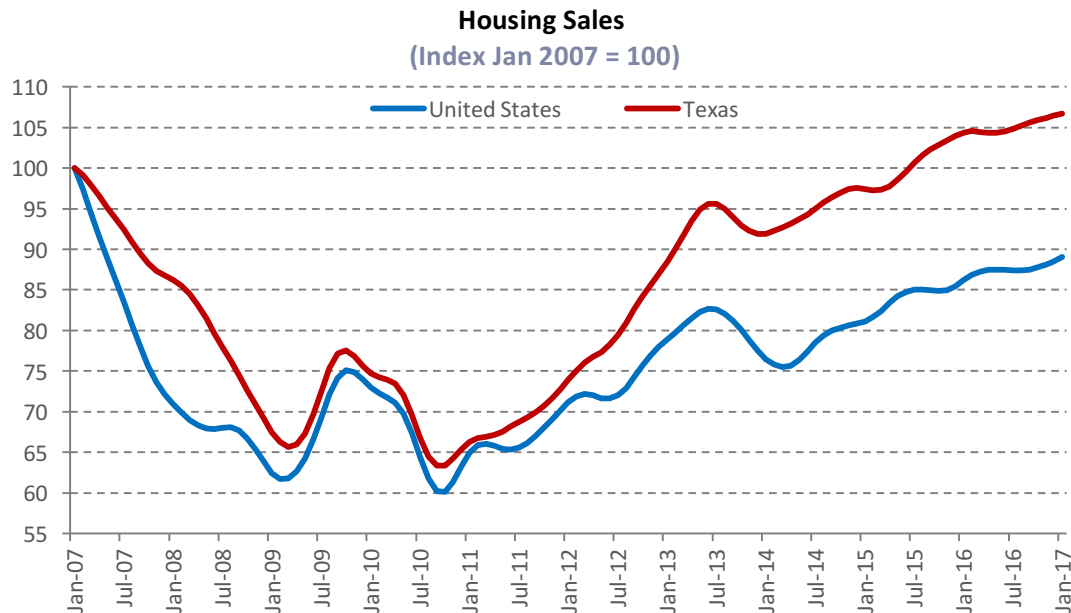
30-Year Mortgage Rate and 10-Year Bond Yield (Percent)



Note: Seasonally adjusted.
Sources: Federal Home Loan Mortgage Corporation and Federal Reserve Board



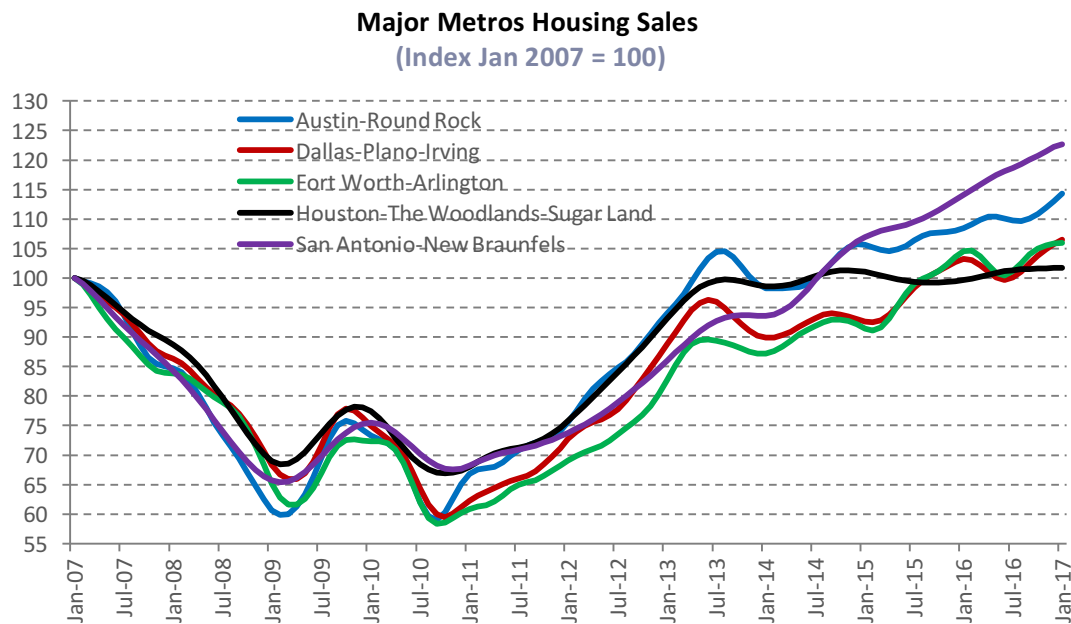
Housing



Note: Seasonally adjusted and detrended. Sales for the United States include all existing homes and new single-family homes; new non-single-family homes are not included. Texas includes all existing and new homes.

For more information, see [Housing Sales](#).

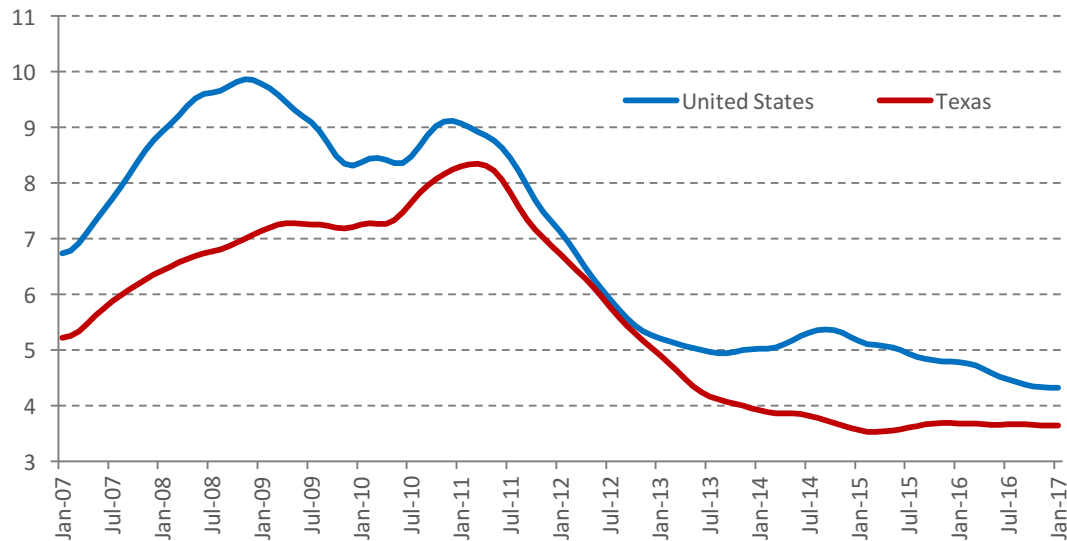
Sources: U.S. Census Bureau, National Association of Realtors, and Real Estate Center at Texas A&M University



Note: Seasonally adjusted and detrended. For more information, see [Housing Sales](#).

Source: Real Estate Center at Texas A&M University

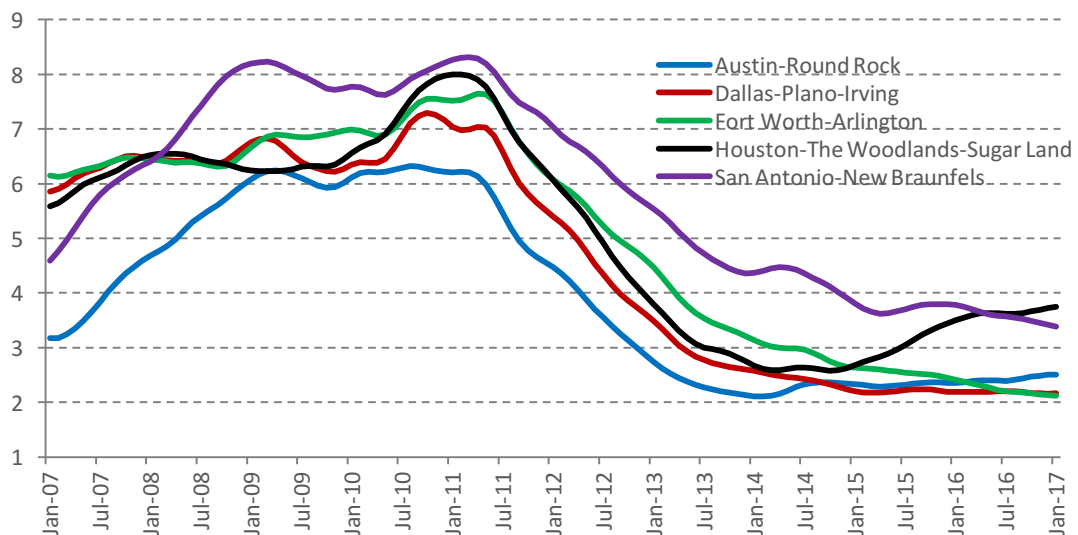
Months of Inventory (Months)



Note: Seasonally adjusted and detrended. Months of inventory for the United States is estimated using weights for all existing homes and new single-family homes; new non-single-family homes are not included. Texas includes all existing and new homes. For more information, see [Months of Inventory](#).

Sources: U.S. Census Bureau, National Association of Realtors, and Real Estate Center at Texas A&M University

Major Metros Months of Inventory (Months)

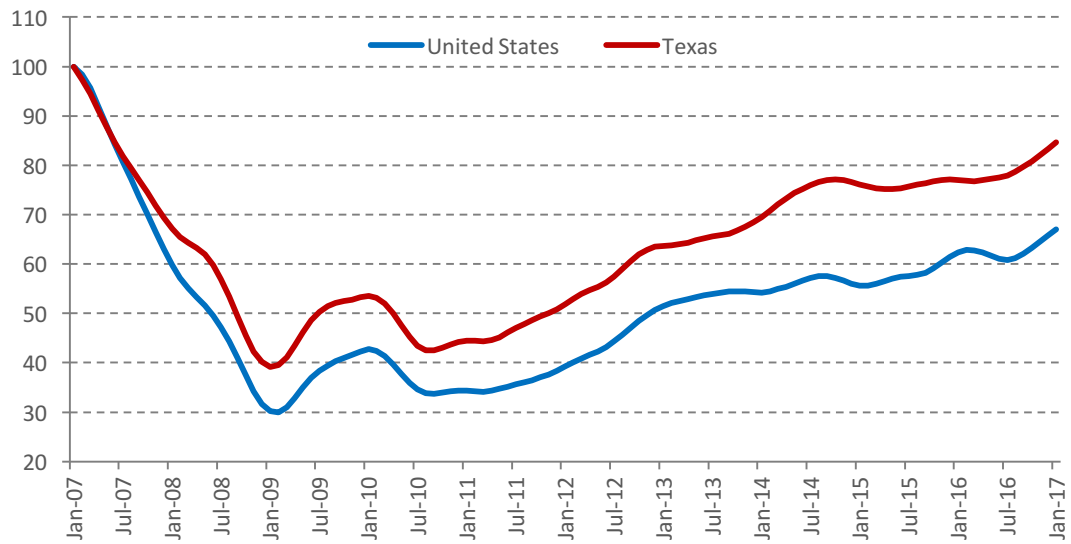


Note: Seasonally adjusted and detrended. For more information, see [Months of Inventory](#).

Source: Real Estate Center at Texas A&M University

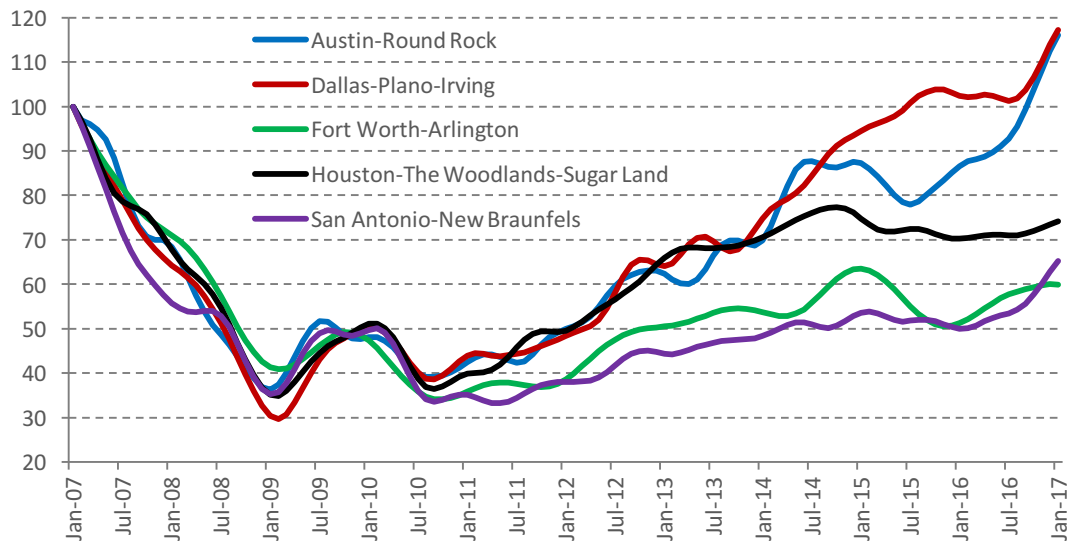


Single-Family Housing Construction Permits (Index Jan 2007 = 100)



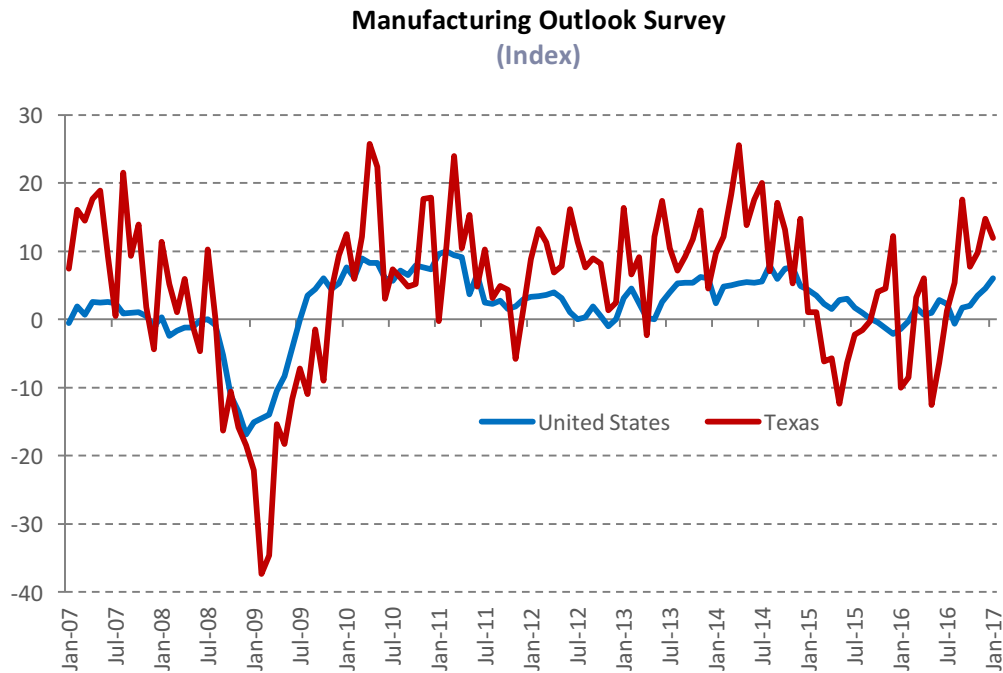
Note: Seasonally adjusted and detrended. For more information, see [Single-Family Housing Construction Permits](#).
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

Major Metros Single-Family Housing Construction Permits (Index Jan 2007 = 100)



Note: Seasonally adjusted and detrended. For more information, see [Single-Family Housing Construction Permits](#).
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

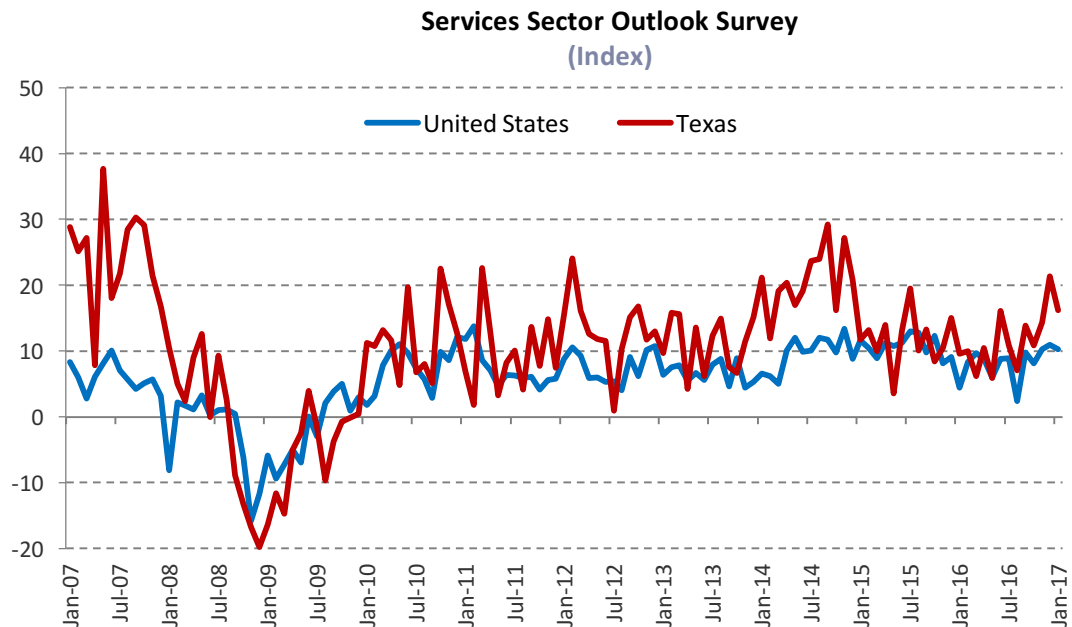
Manufacturing



Note: Seasonally adjusted. For more information, see [Manufacturing Outlook Survey](#).

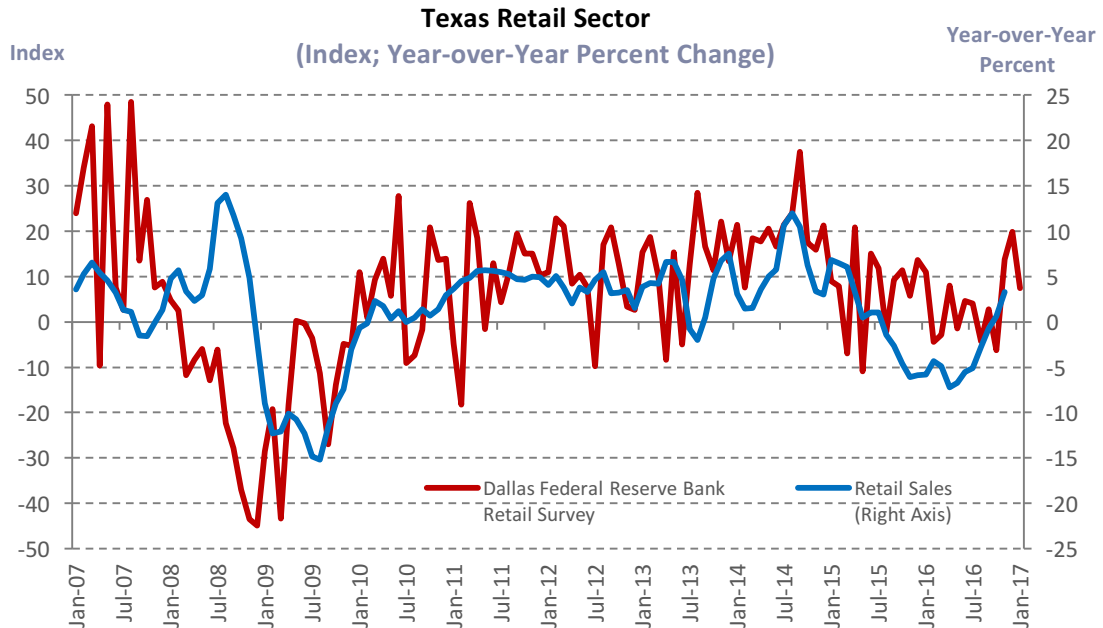
Sources: Federal Reserve Bank of Dallas and Institute for Supply Management. United States index is adjusted -50 to be on scale with Texas index.

Services



Note: Seasonally adjusted. For more information, see [Services Sector Outlook Survey](#).

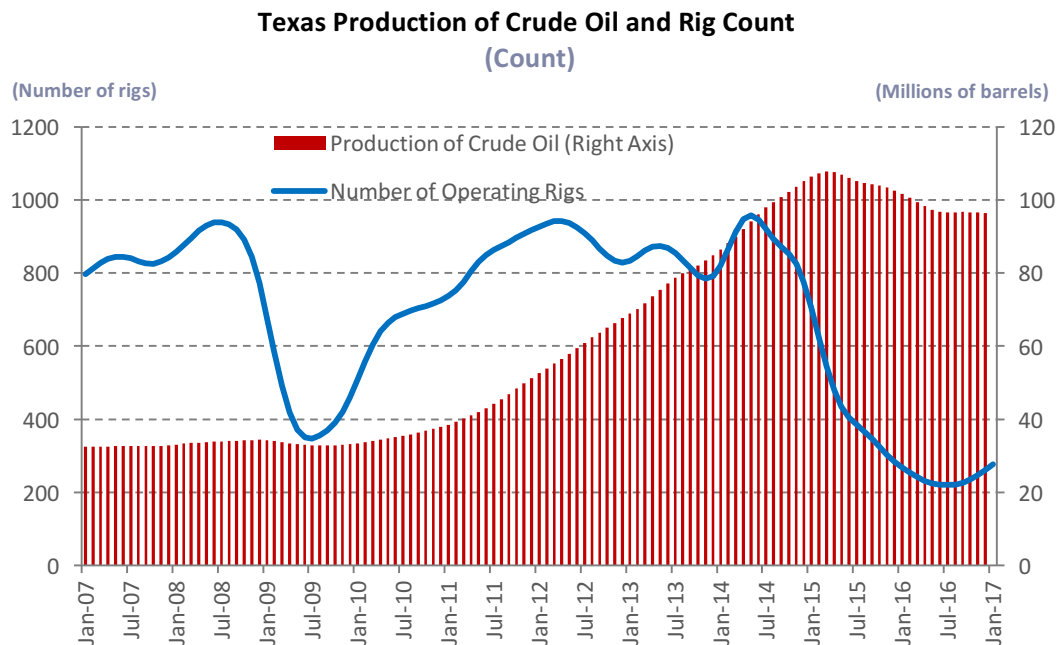
Sources: Federal Reserve Bank of Dallas and Institute for Supply Management. United States index is adjusted -50 to be on scale with Texas index.



Note: Seasonally adjusted and inflation adjusted. For more information, see [Texas Retail Sector](#).

Sources: Retail Sector Outlook Survey from the Federal Reserve Bank of Dallas, Retail Sales from Texas Comptroller of Public Accounts

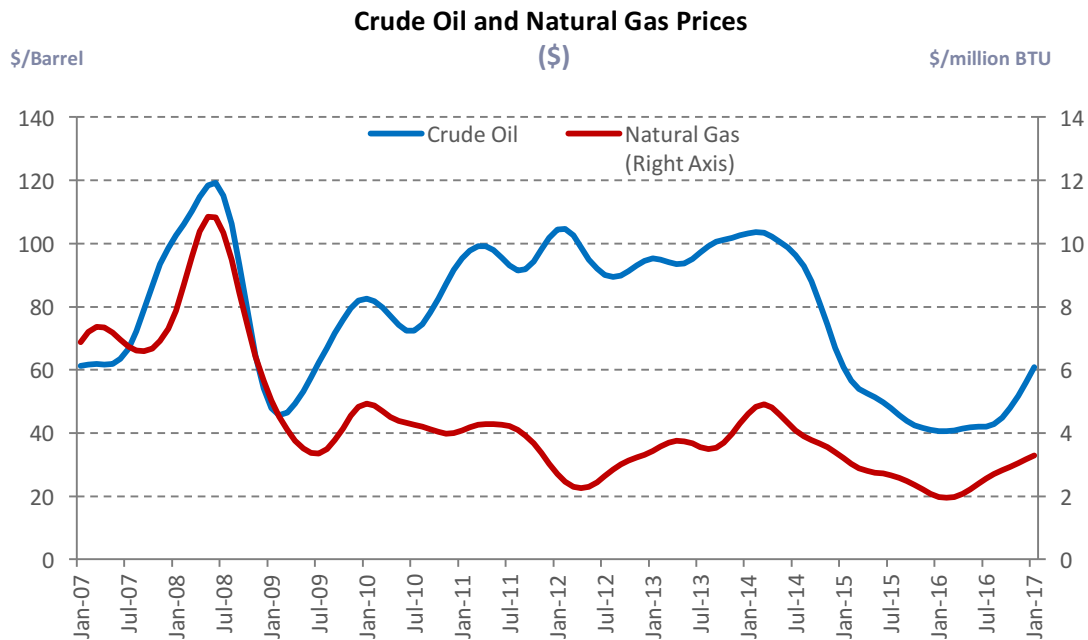
Energy



Note: Seasonally adjusted.

For more information, see [Texas Production of Crude Oil and Rig Count](#).

Sources: Baker Hughes and U.S. Energy Information Administration

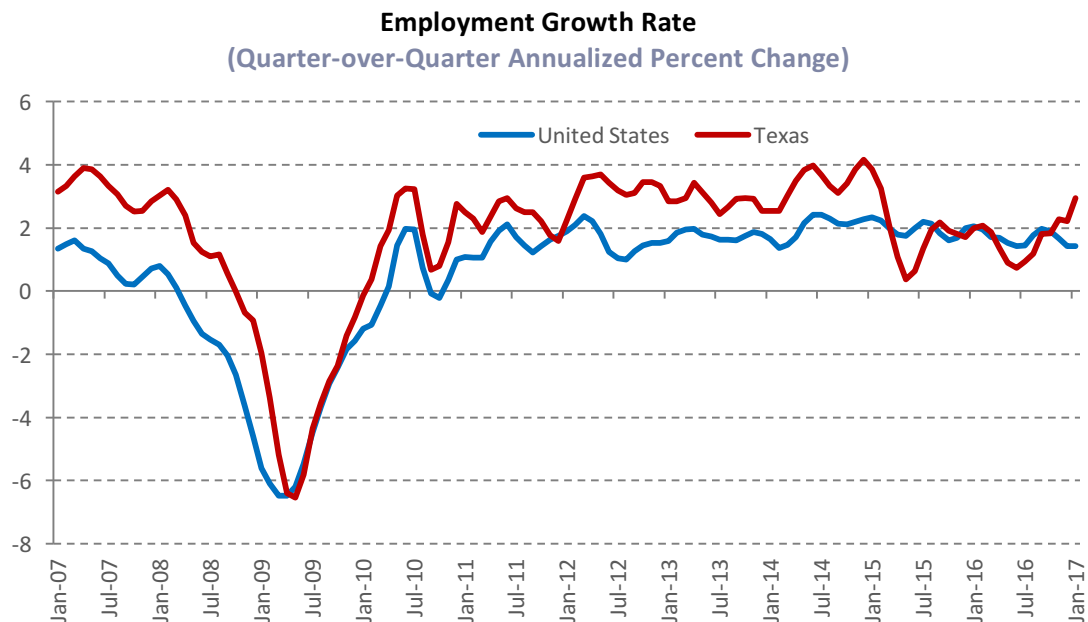


Note: Seasonally adjusted.

For more information, see [Crude Oil and Natural Gas Prices](#).

Source: U.S. Energy Information Administration received from Thomson Reuters

Employment

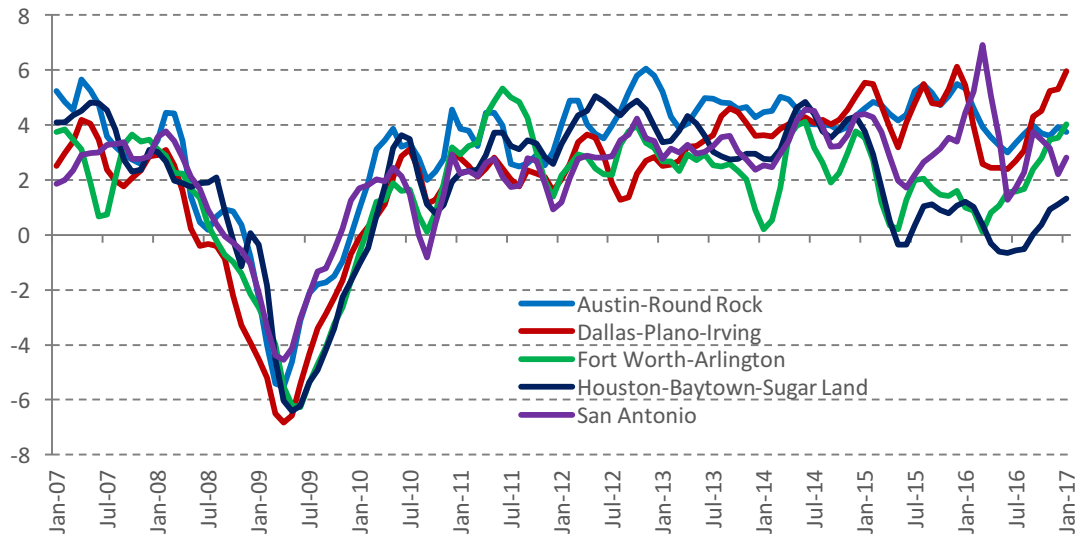


Note: Seasonally adjusted, 3-month moving average. December 2016 is preliminary.

For more information, see [Employment Growth Rate](#).

Source: Bureau of Labor Statistics

Major Metros Employment Growth Rate (Quarter-over-Quarter Annualized Percent Change)

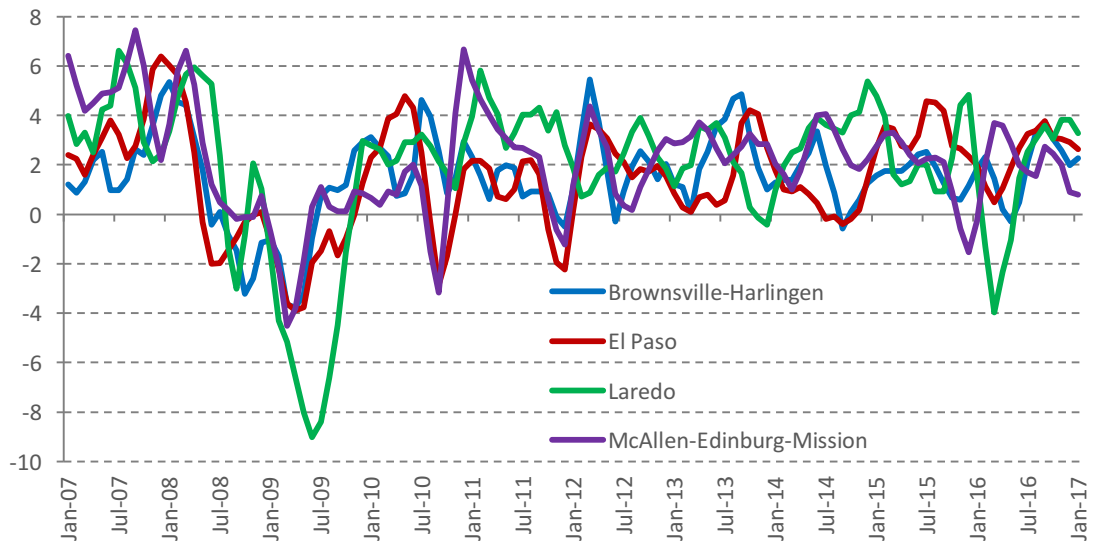


Note: Seasonally adjusted, 3-month moving average. December 2016 is preliminary.

For more information, see [Employment Growth Rate](#).

Source: Bureau of Labor Statistics

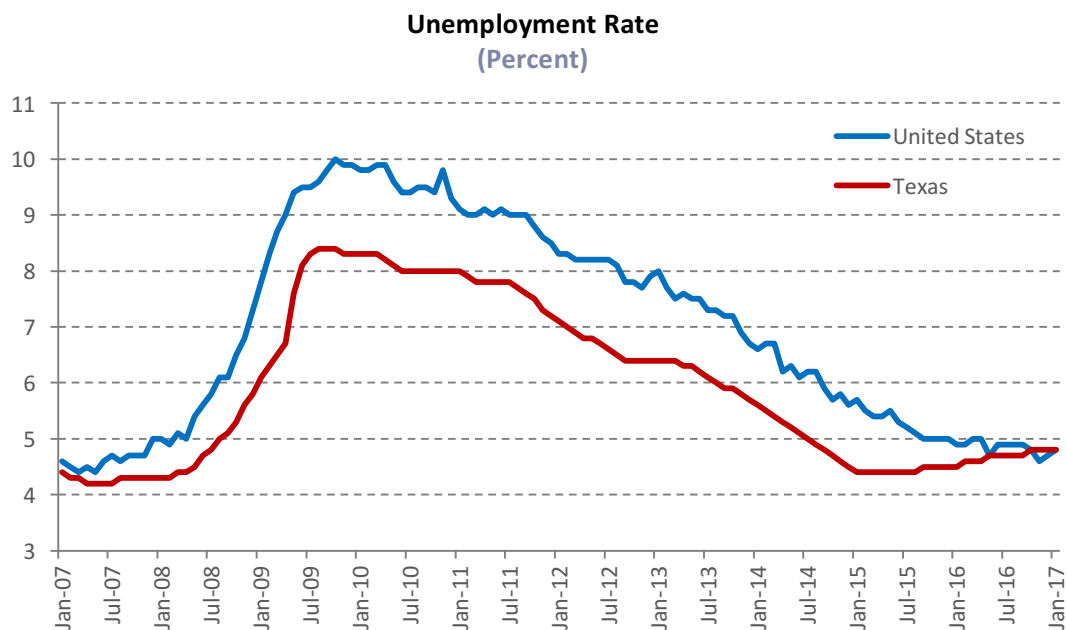
Border Metros Employment Growth Rate (Quarter-over-Quarter Annualized Percent Change)



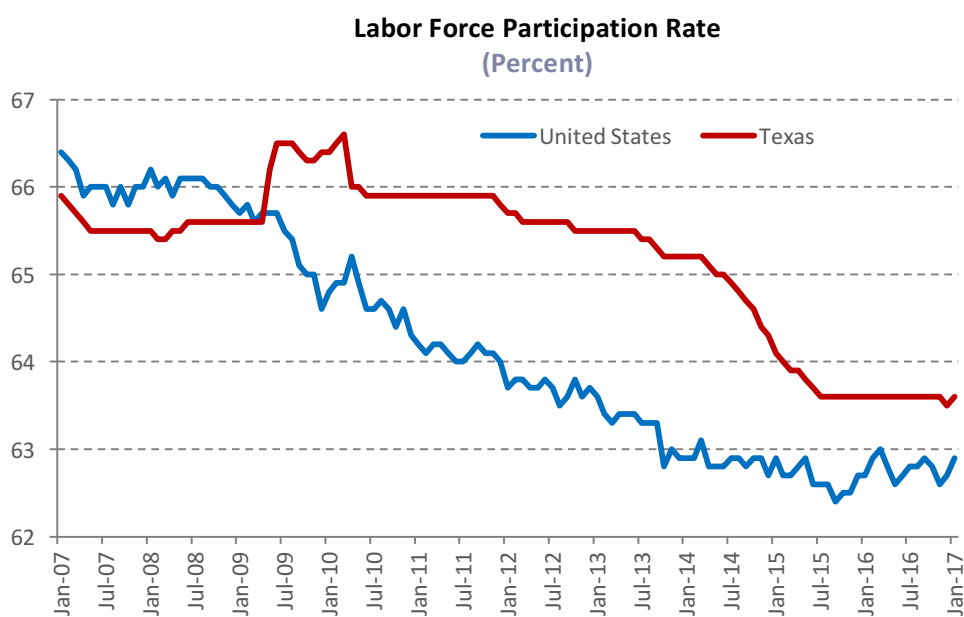
Note: Seasonally adjusted, 3-month moving average. December 2016 is preliminary.

For more information, see [Employment Growth Rate](#).

Source: Bureau of Labor Statistics

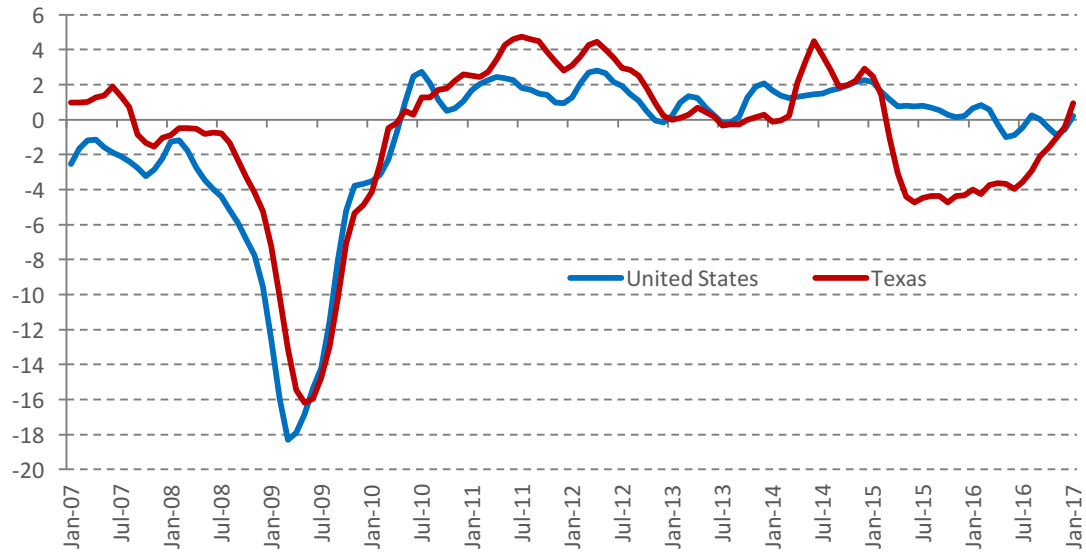


Note: Seasonally adjusted. December 2016 is preliminary. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics



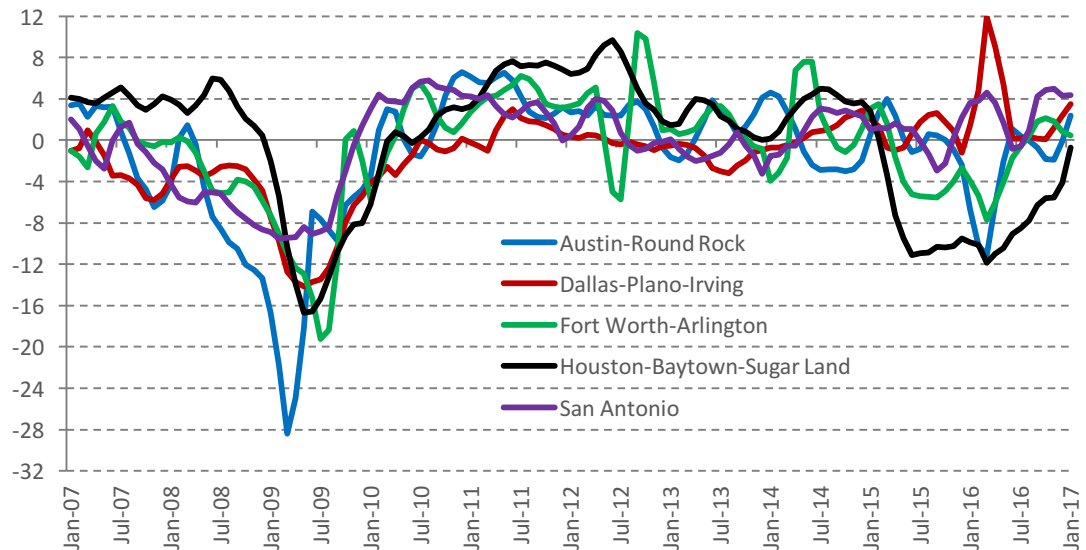
Note: Seasonally adjusted. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

Manufacturing Employment (Quarter-over-Quarter Percent Change)



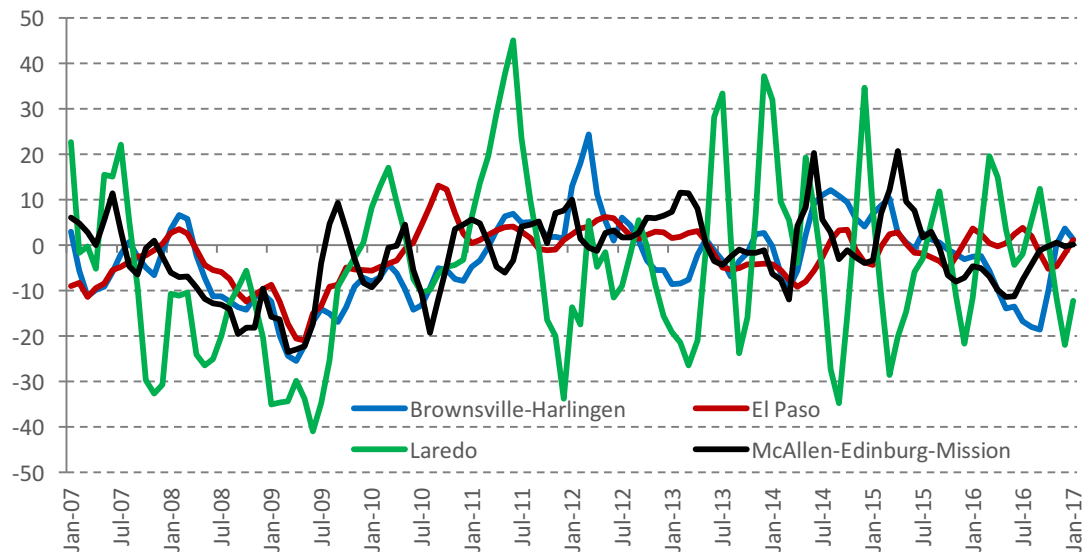
Note: Seasonally adjusted, 3-month moving average. January 2017 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

Major Metros Manufacturing Employment (Quarter-over-Quarter Percent Change)



Note: Seasonally adjusted, 3-month moving average. January 2017 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

Border Metros Manufacturing Employment (Quarter-over-Quarter Percent Change)

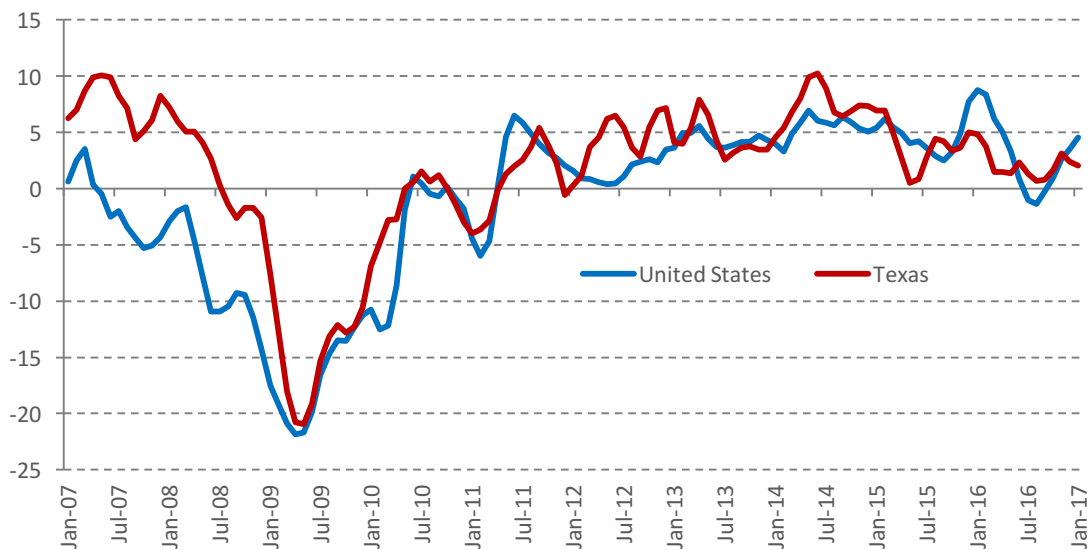


Note: Seasonally adjusted, 3-month moving average. January 2017 is preliminary.

For more information, see [Employment Growth Rate](#).

Source: Bureau of Labor Statistics

Construction Employment (Quarter-over-Quarter Percent Change)

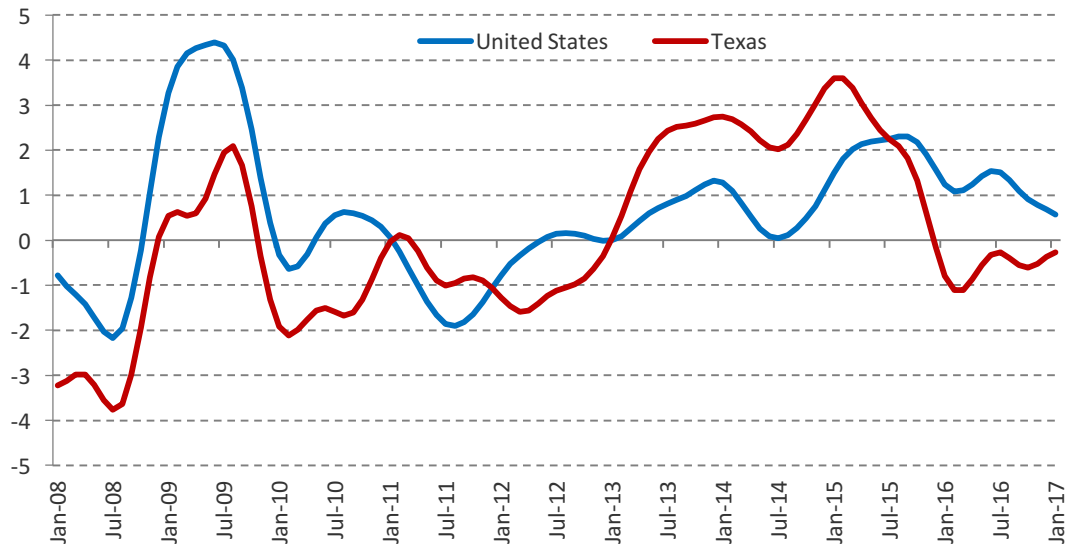


Note: Seasonally adjusted, 3-month moving average. December 2016 is preliminary.

For more information, see [Employment Growth Rate](#).

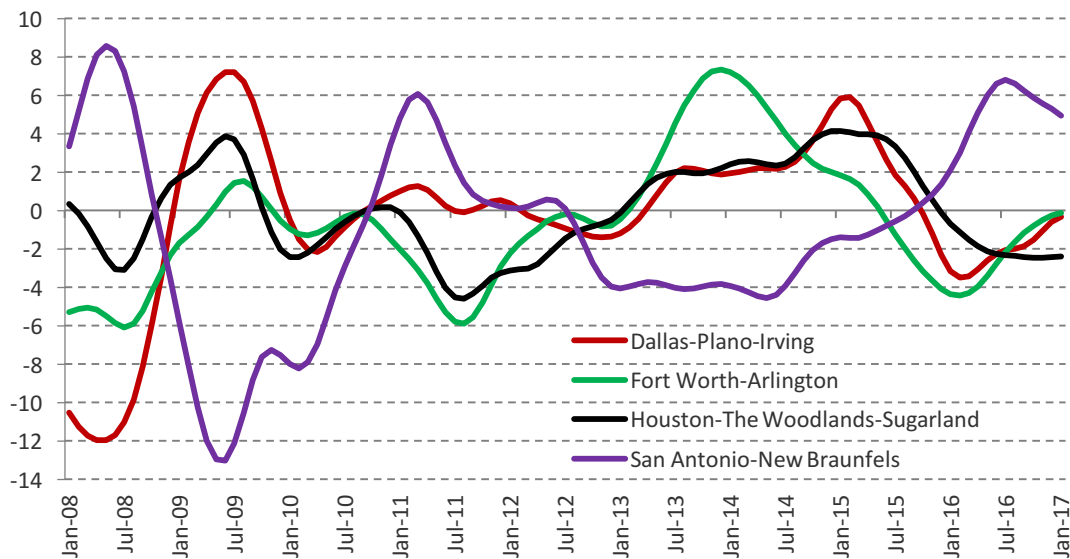
Source: Bureau of Labor Statistics

Total Private Employee Hourly Earnings (Year-over-Year Percent Change)



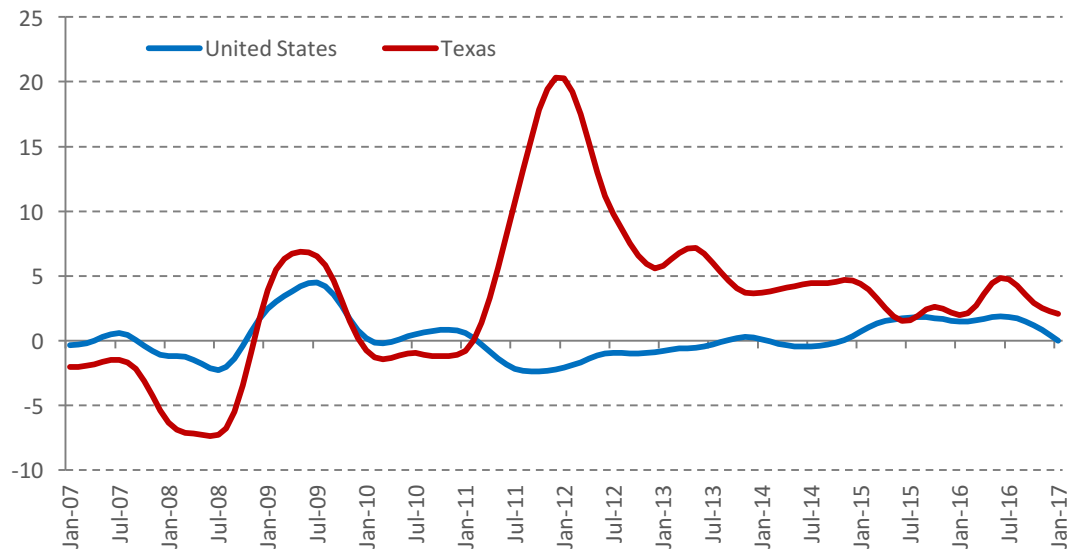
Notes: Inflation adjusted, seasonally adjusted and detrended. December 2016 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Major Metros Total Private Employee Hourly Earnings (Year-over-Year Percent Change)



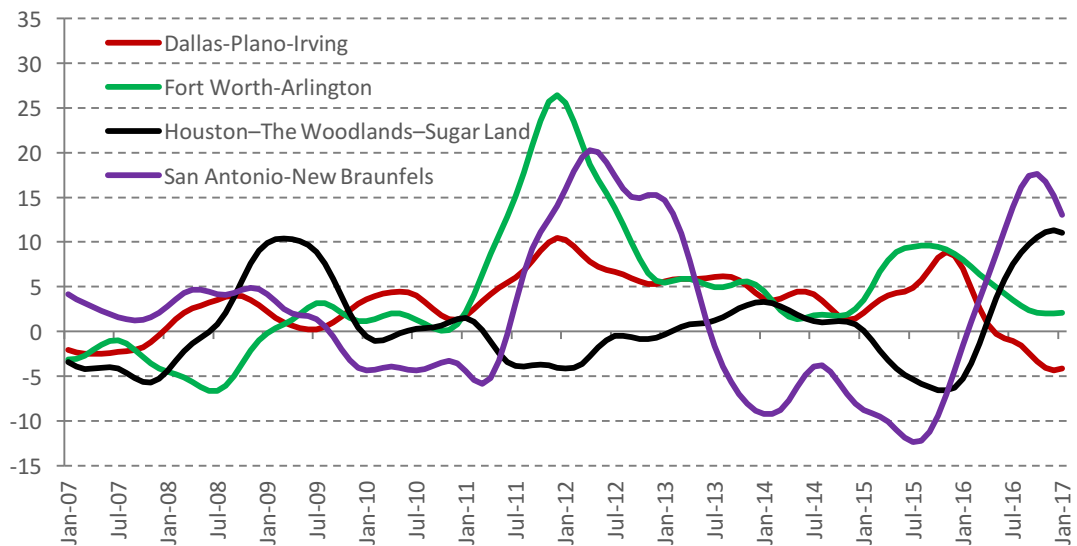
Notes: Inflation adjusted, seasonally adjusted and detrended. December 2016 is preliminary. The Bureau of Labor Statistics is currently recalculating data for approximately 350 metropolitan areas and divisions including: Austin, Brownsville, El Paso and Laredo. The recalculations are expected to be complete on March 13th, 2017.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Manufacturing Employee Hourly Earnings (Year-over-Year Percent Change)



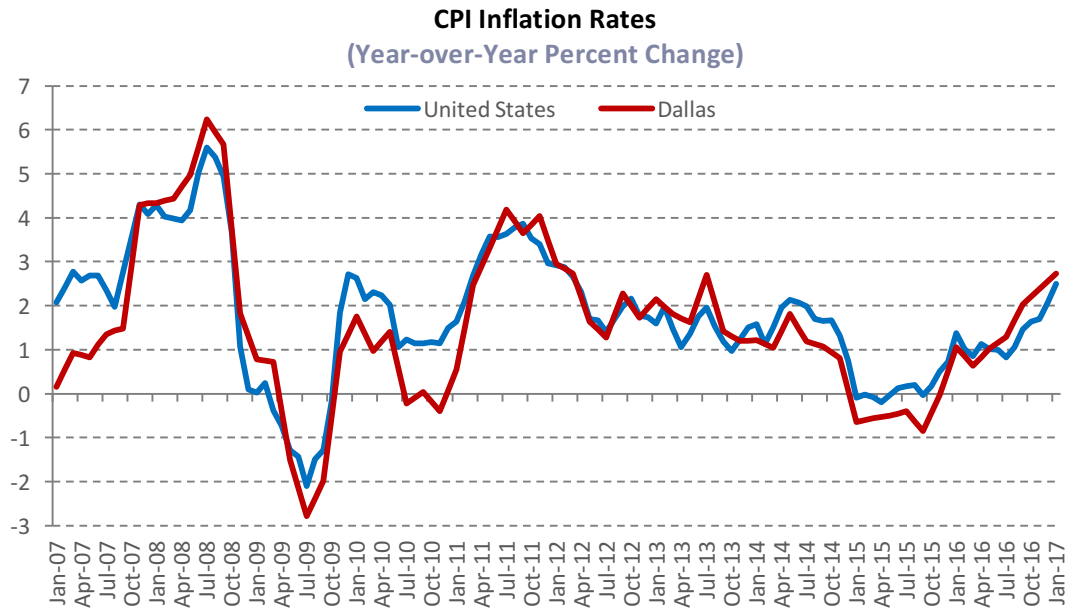
Notes: Seasonally adjusted and detrended. Inflation adjusted. December 2016 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Major Metros Manufacturing Employee Hourly Earnings (Year-over-Year Percent Change)



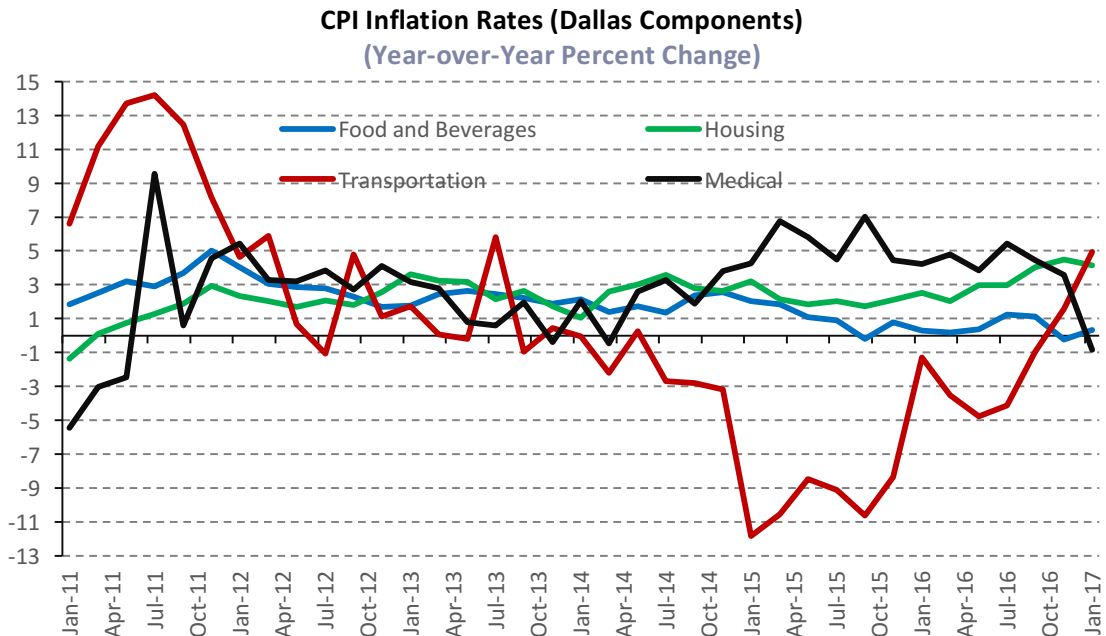
Notes: Seasonally adjusted and detrended. Inflation adjusted. December 2016 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Prices



Note: For more information, see [CPI Inflation Rates](#).

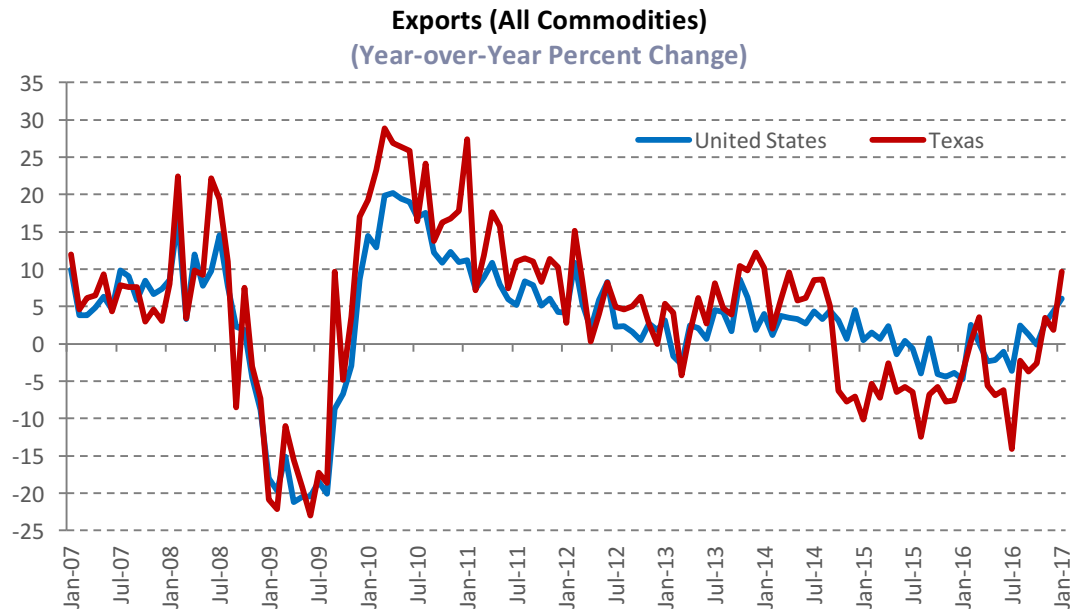
Source: Bureau of Labor Statistics



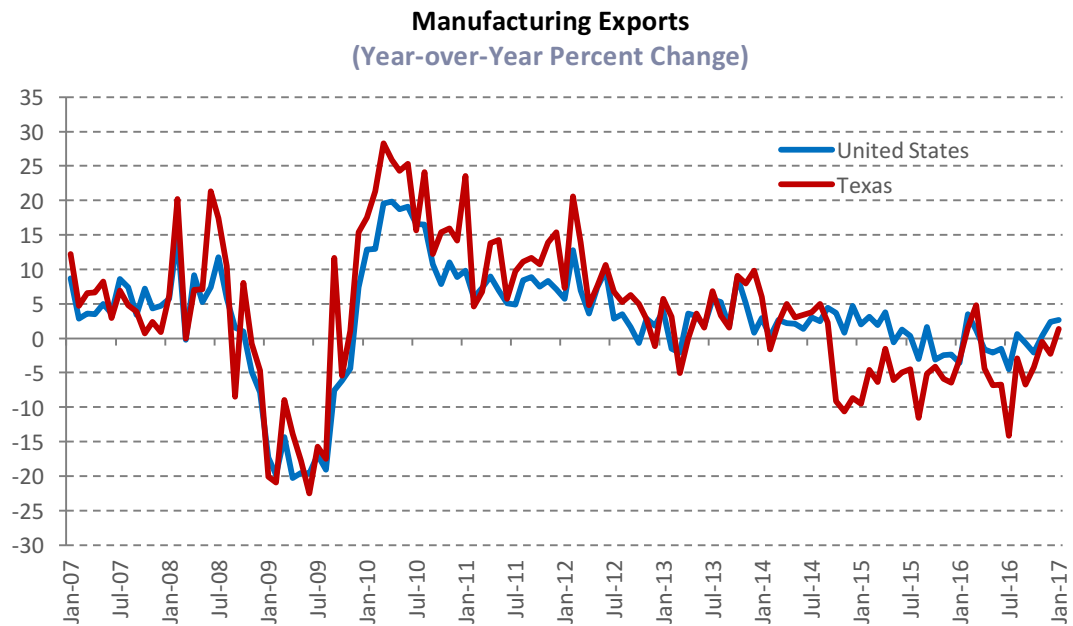
Note: The Dallas CPI is composed of the following major groups: Food and Beverages, Housing, Apparel, Transportation, Medical Care, Recreation, Education and Communication, and Other Goods and Services. The four major components are included in the graph above.

Source: Bureau of Labor Statistics

Trade

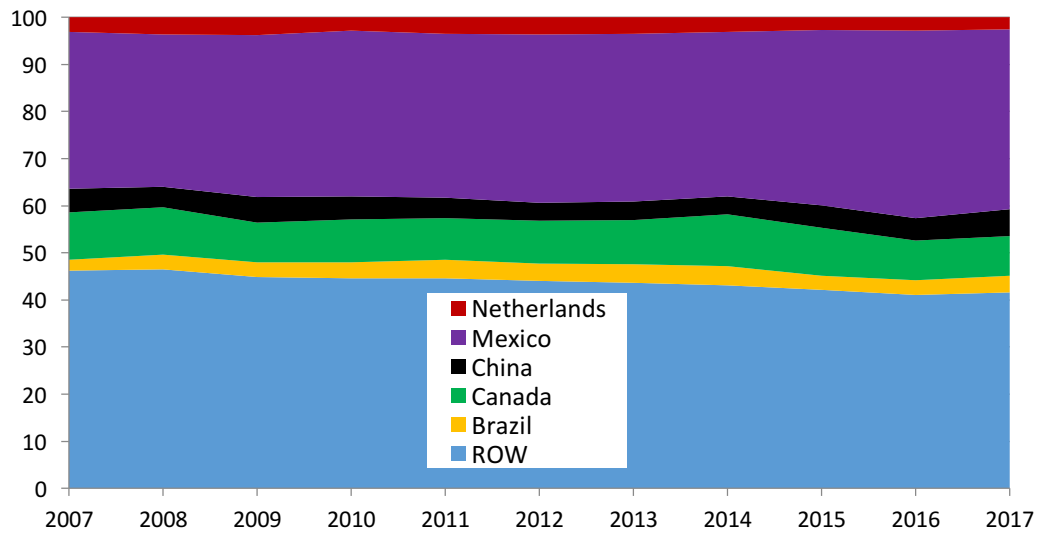


Note: Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see [Exports](#).
Sources: International Trade Administration, Foreign Trade Division, and U.S. Census Bureau



Note: Inflation adjusted with Bureau of Labor Statistics export indices. For more information, see [Manufacturing Exports](#).
Sources: International Trade Administration, Foreign Trade Division, and U.S. Census Bureau

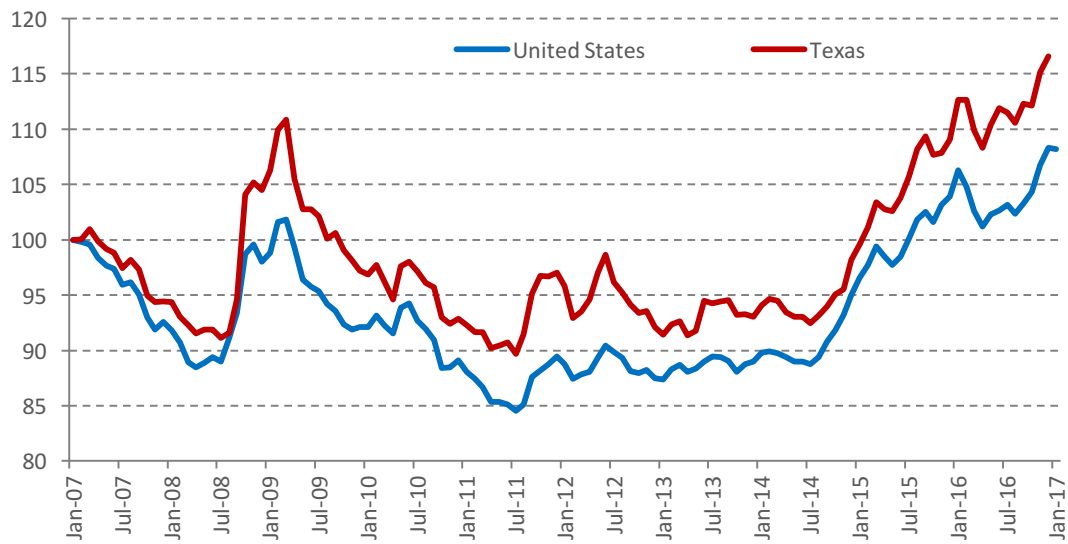
Texas Exports by Country
(Percent)



Note: For more information, see [Exports](#).

Sources: International Trade Administration, Foreign Trade Division, and U.S. Census Bureau

Real Trade Weighted Value of U.S. Dollar
(Index January 2007 = 100)



Note: For more information, see [Real Trade Weighted Value of U.S. Dollar](#).

Sources: Federal Reserve Bank of Dallas and Federal Reserve Bank of St. Louis



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