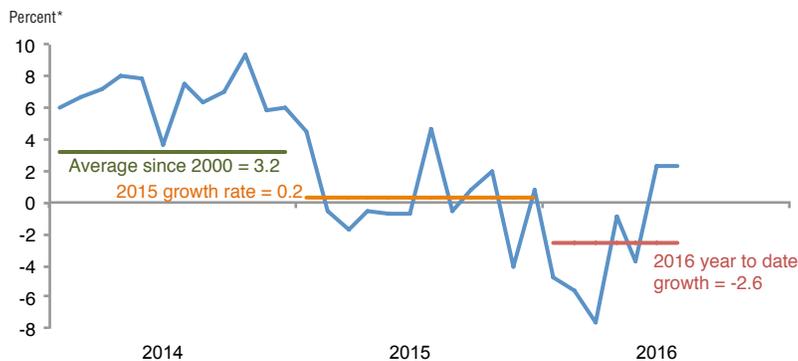


FEDERAL RESERVE BANK OF DALLAS • AUGUST 29, 2016

## Summary

The Houston economy continues to struggle as the 2015–16 oil bust plays out. The service sector is gradually slowing, and goods producers—particularly those tied to energy—continue to hemorrhage jobs. Leading indicators of the regional economy are mixed but continue to point toward a modestly negative outlook in the near term.

## Business-Cycle Index

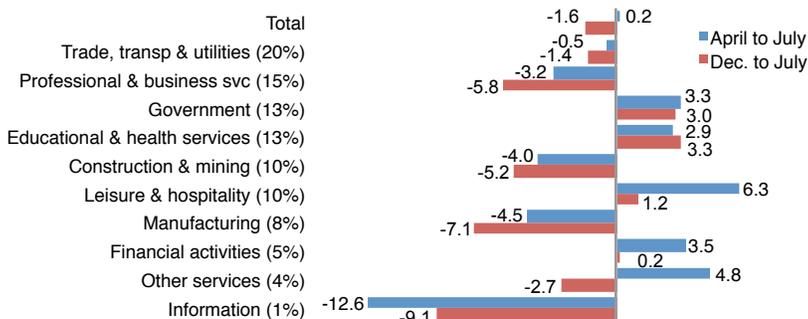


\*Annualized month-over-month growth rate.  
SOURCE: Dallas Fed.

► The **Houston Business-Cycle Index** annualized growth rate was essentially unchanged in July from a revised 2.3 percent in June. The stronger numbers were driven primarily by two consecutive months of job growth. Cumulatively, the index is down an annualized 2.6 percent in 2016. Though further data revisions to the index will come, it is now sending a clearer signal of a modest contraction in the region’s economy in the first half of the year.

## Employment

### Employment Growth



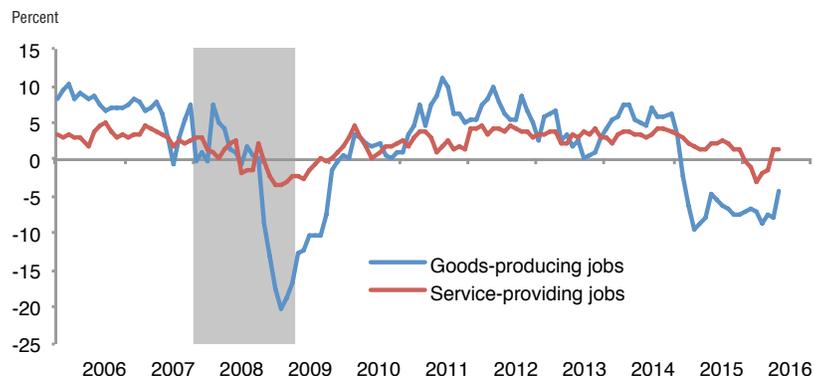
NOTES: Data show seasonally adjusted and annualized percentage growth by industry supersector. Numbers in parentheses represent share of total employment and may not sum to 100 due to rounding.  
SOURCES: Bureau of Labor Statistics; adjustments by the Dallas Fed.

► Total nonfarm employment in **Houston** was essentially flat at an annualized 0.2 percent over the three months ending in July. Construction and mining (–632 and –3,052 jobs, respectively), professional and business services (–3,721), and manufacturing (–2,610) led decliners. Job growth came mostly from leisure and hospitality (4,688), government (3,136), and private educational and health services (2,692).

► Annualized growth in total employment was –1.6 percent between December and July (–27,500 jobs).

► **Houston’s** unemployment rate rose from 4.9 percent in June to 5.4 percent in July, its highest level since March 2014. Despite weakness in the local labor market, **Houston’s** labor force has continued to grow this year. The unemployment rate was 4.9 percent in the U.S. and 4.6 percent in Texas in July.

### Goods and Services Jobs

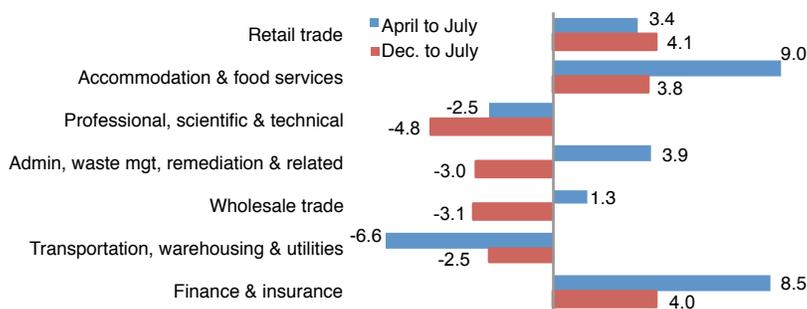


NOTES: Data are three-month annual growth rates. Gray bar indicates U.S. recession.  
SOURCES: Bureau of Labor Statistics; adjustments by the Dallas Fed.

► Jobs in goods-producing industries continue to lose ground, albeit at a slower pace. A year into the oil bust, July’s **rebenchmarking** of first-quarter data shows that the private service sector joined the goods-producing sector in contracting in January. However, the growth rates for both goods and services have been improving since April.

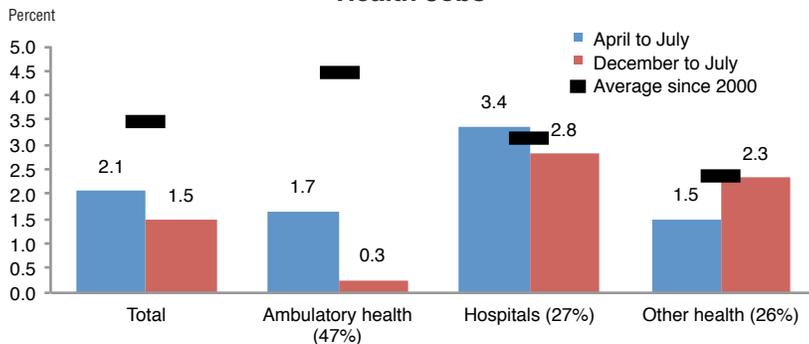
## Service Sector Jobs

### Selected Service Industries



NOTES: Data are annualized and seasonally adjusted percent changes. Industries are sorted from largest to smallest.  
SOURCES: Bureau of Labor Statistics; adjustments by the Dallas Fed.

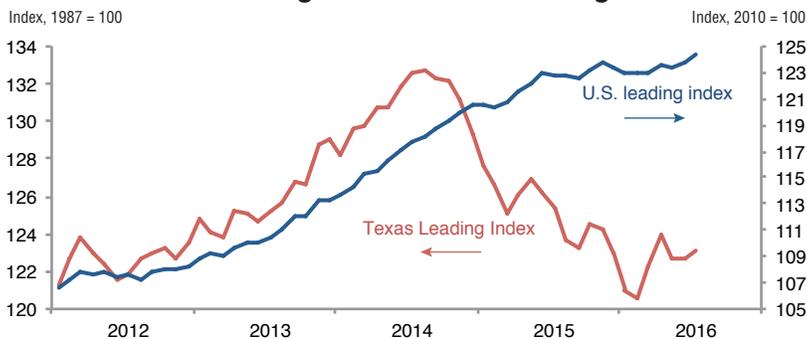
### Health Jobs



NOTES: Data show seasonally adjusted and annualized percentage employment growth. Numbers in parentheses represent share of total health employment and may not sum to 100 due to rounding.  
SOURCES: Bureau of Labor Statistics; adjustments by the Dallas Fed.

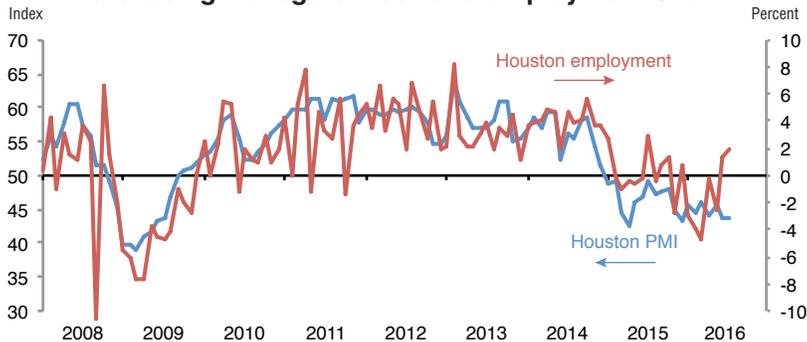
## Leading Indicators

### Texas Leading Index and U.S. Leading Index



NOTE: July Texas Leading Index data point is an estimate.  
SOURCES: The Conference Board; Dallas Fed.

### Purchasing Managers Index and Employment Growth



NOTE: Employment growth is a monthly, seasonally adjusted annual rate. Composite index values >50 indicate expansion, and index values <50 indicate contraction.

SOURCES: Institute for Supply Management; Bureau of Labor Statistics; Dallas Fed.

► Service sector growth has picked up in recent months and grew an annualized 1.2 percent in the three months ending in July. The pickup was led by accommodation and food services (5,900 jobs, mostly at restaurants and bars), finance and insurance (2,000) and retail trade (2,500).

► Transportation, warehousing and utilities was the loss leader (-2,352) over that period, likely due to weakness in warehousing. Architecture, engineering, computer systems and related fields drove losses in the professional and scientific sector (-1,400).

► Private health employment growth has been volatile this year, and it grew faster in the three months ending in July (1,700 jobs) than its average pace year to date. This was particularly apparent with ambulatory health jobs (such as physicians' offices, dentists and outpatient care centers).

► Weaker data in the first quarter limited December-to-July health employment growth to 4,706 jobs, the softest such growth since 2011, when the sector added 1,600 jobs. Hospital construction continues to suggest that public and private hospital employment growth will remain healthy in the coming months.

► The [Texas Leading Index](#) ticked up in July after holding steady from May to June. This implies not only a modest improvement to the outlook for the state of Texas, but also a stronger rate of employment growth in Houston over the next three to four months given that Houston is such a large part of the state's economy.

► The U.S. leading index rose in June and July on a broad improvement in its components. This suggests improved employment growth in Houston six months from now—more so for service-providing than goods-producing industries.

► The Houston Purchasing Managers Index (PMI) was 43.8 in July, marking 11 months in the mid-40s (readings under 50 imply a contracting economy). A powerful leading indicator for Houston, this suggests—in contrast to the Texas and U.S. leading indexes—that employment growth over the next three months will likely not improve much, if at all. The Houston PMI has also done well predicting the direction of revisions to initial growth job estimates over the past year.

► However, it is of note that the sales and finished-goods inventory components of the index have registered their best readings since July 2015 and December 2014, respectively.

NOTE: Data may not match previously published numbers due to revisions.

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