

Regional

Regional Economy Continues to Expand Despite Headwinds

December 19, 2014

The Texas economy has continued to grow at a fast clip in recent weeks. Employment growth accelerated in October, and the Texas Business Outlook Survey indexes point to continued growth in retail and service sector activity in November. The Texas trade-weighted value of the dollar increased sharply, contributing to slowing export growth in October. Although energy sector activity has not yet responded significantly to falling oil prices, sustained prices below \$60 per barrel will likely result in a sharp drop in drilling activity and dampen overall economic activity in 2015.

Job Growth Remains Strong

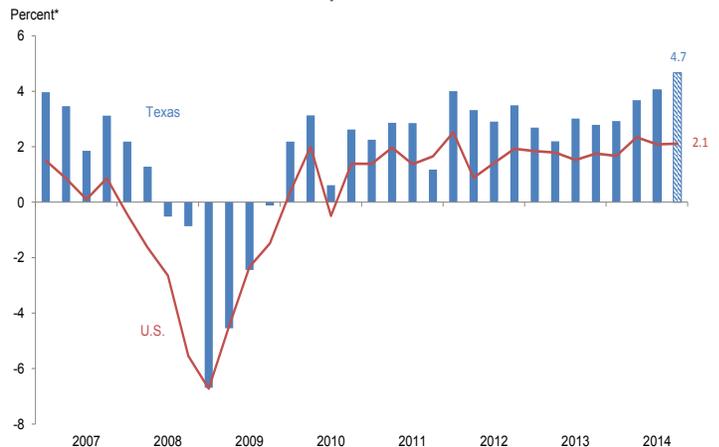
Texas payroll employment expanded at a 4.7 percent annualized pace in October, accelerating from September's 3.6 percent rate. Growth has been strong since the beginning of the year, coming in at an annualized 3.7 percent rate year to date (Chart 1). Energy and construction employment led growth in October, expanding 15.1 percent and 14.9 percent, respectively. Jobs in financial activities grew 8.5 percent, with the real estate sector posting particularly strong growth. Trade, transportation and utilities and health care job growth also came in above their third-quarter averages in October.

Regional labor markets continued to tighten in October. The Texas unemployment rate fell to 5.1 percent, dropping by 0.1 percentage point for the second consecutive month. Initial claims for unemployment insurance rose slightly in November, although they remain near their low postrecession levels.

Oil Prices Decline Sharply

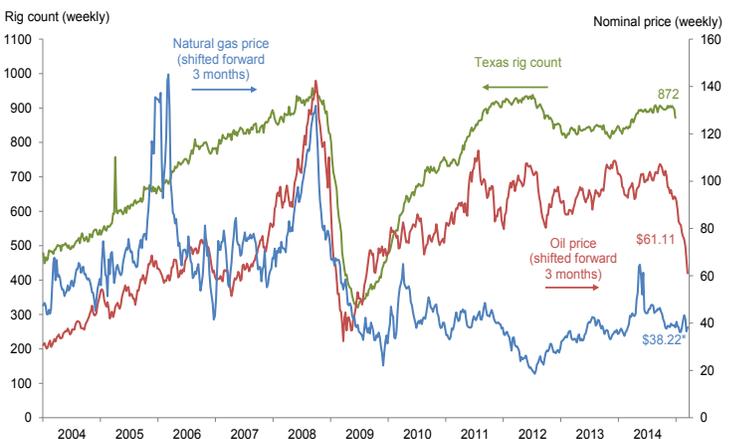
The price of West Texas Intermediate (WTI) crude oil fell from \$82 per barrel in mid-October to below \$60 in mid-December. Since reaching a peak of \$107 in July, the price of WTI has dropped by over 40 percent (Chart 2). Though the rig count has been steady at around 900 for most of the year, it fell to 872 in

Chart 1
Texas Continues to Add Jobs at Rapid Pace



*Seasonally adjusted, annualized rate.
NOTE: Growth is quarter/quarter; Q4 data is October/September.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal adjustments by Federal Reserve Bank of Dallas.

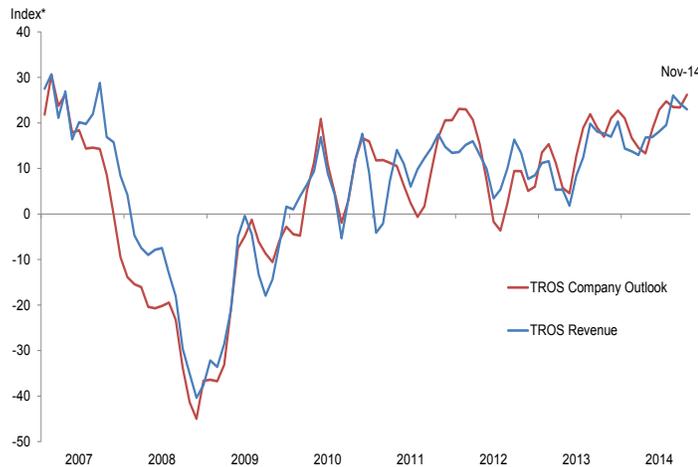
Chart 2
Rig Count Slow to Respond to Oil Price Decline



*Natural gas price is multiplied by 10.
SOURCES: Wall Street Journal; Baker Hughes; Haver Analytics.

the week of December 12. Energy price data shifted three months ahead suggest that historically there has been a delay between a decline in oil prices and a corresponding drop in active rigs. Hence, the rig count is expected to fall further in coming weeks if oil prices remain at or fall below current levels. With many of the major Texas shale plays having average breakeven points above \$60, sustained low oil prices will likely

Chart 3
Texas Retail Sector Growing at a Strong Pace



*Three-month moving average; seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas Texas Retail Outlook Survey (TROS).

result in a sharp drop in oil exploration and extraction activity.

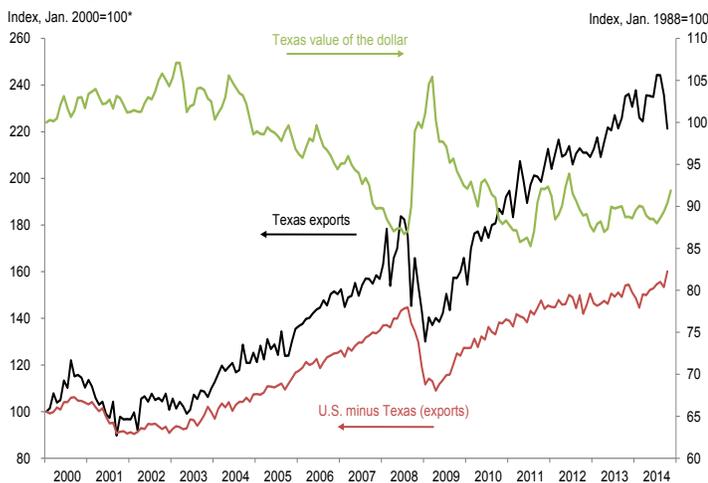
Retail Sector Sees a Boost

Recent oil price declines have benefitted consumers in the form of low gas prices, freeing up more disposable income for retail consumption. The Texas Retail Outlook Survey’s (TROS) headline revenue index has seen robust growth since July, with the index reaching a seven-year high in September and continuing to grow in October and November (Chart 3). The three-month average of the TROS company outlook index rose to a postrecession high in November, indicating that retailers are very optimistic about business activity in the coming months.

Exports Fall Sharply due to a Strengthening Dollar

The real Texas trade-weighted value of the dollar increased sharply from September through November, rising to its highest level since June 2012. This may have had a dampening effect on Texas exports, which declined by 9.4 percent from August through October (Chart 4). The decline in exports has contributed to a deceleration in manufacturing production, and the Texas Manufacturing Outlook Survey production index fell from 13.7 in October to 6.0 in November, its lowest level since December 2013.

Chart 4
Texas Exports Have Declined in Recent Months

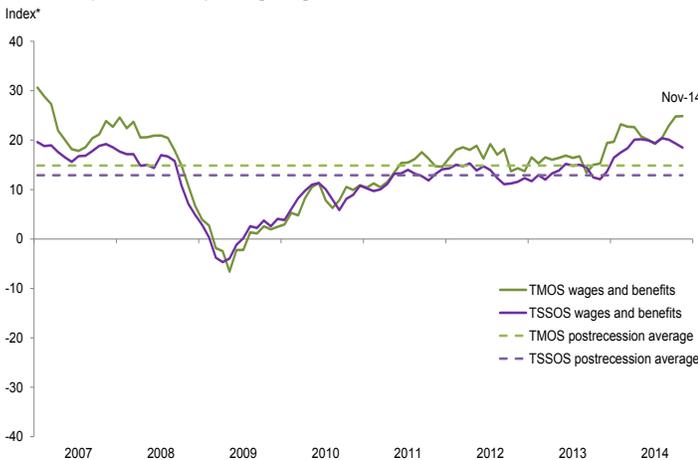


*Seasonally adjusted, real dollars.
SOURCES: U.S. Census Bureau; Federal Reserve Bank of Dallas.

Wage Pressures Remain Elevated

Based on the Texas Manufacturing and Service Sector Outlook Surveys, wage pressures continued to rise in October and November. The wages and benefits indexes for both surveys remain well above their postrecession averages (Chart 5). Private sector wages in Texas increased an annualized 12.2 percent in October, and year to date have increased by 3.7 percent—more than double the U.S. rate.

Chart 5
More Respondents Reporting Wage Increases



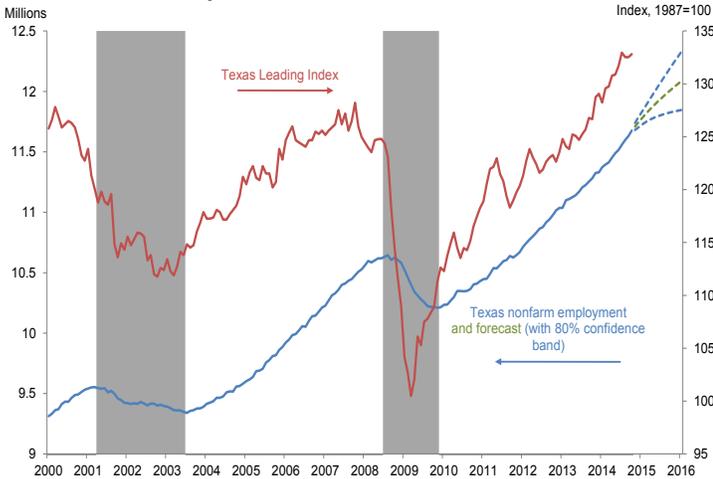
*Seasonally adjusted, three-month moving average.
SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey (TMOS) and Texas Service Sector Outlook Survey (TSSOS).

Employment Outlook Mixed for 2015

Job growth in 2014 is on pace to grow around 3.6 percent (Chart 6). The Texas Leading Index ticked up 0.2 percent in October, with strength in the U.S. Leading Index and continued growth in well permits offsetting declines resulting from falling oil prices and the rise in the value of the dollar.

Continued tightness in the Texas labor market and lower oil prices will likely provide strong headwinds for growth next year. The employment forecast for 2015 is 2.7 percent—nearly a full percentage point

Chart 6
2015 Job Growth Likely to Moderate But Remain Above Trend



NOTE: Shaded areas represent Texas recessions. Latest value for Texas Leading Index is October 2014.
 SOURCES: Bureau of Labor Statistics; Federal Reserve Bank of Dallas; author's calculations.

below the estimate for 2014, but still above Texas' long-term average of 2.1 percent. However, continued declines in oil prices may push 2015 job growth below the forecasted rate.

—Christopher Slijk and Keith Phillips

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