

Regional

Regional Outlook: Moderate Growth Ahead

January 29, 2015

Economic growth in the Eleventh District moderated somewhat as oil prices fell to five-year lows. Oil well permits and the Texas rig count have seen significant declines, and exports have continued to fall.

Conditions outside the energy sector were generally upbeat in December data as payroll employment rose an annualized 3.7 percent, the unemployment rate continued to trend downward and the Texas Business Outlook Survey (TBOS) indexes remained positive. However, TBOS indexes fell markedly in January. The headline manufacturing production index came in near zero, and the service sector revenue index dipped as well.

Consistent with these developments, the Federal Reserve Bank of Dallas' forecast for 2015 employment growth in Texas is 2.2 percent, in line with the state's long-term average but slower than the 3.6 percent growth seen in 2014.

Employment Remains Solid in December

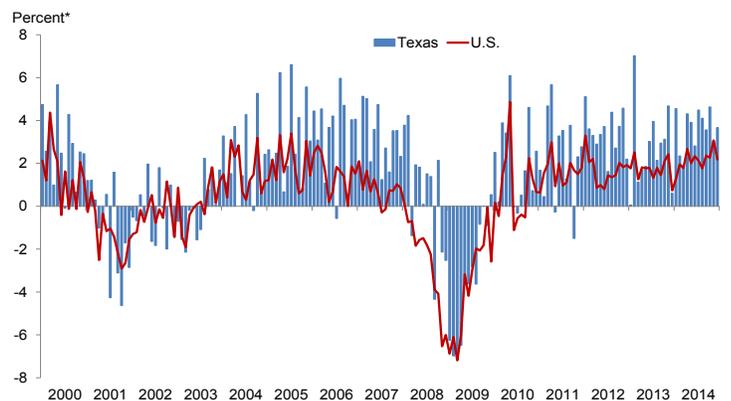
The December payroll employment increase of 3.7 percent represents solid growth (*Chart 1*), but the figure is down somewhat from the 4.6 percent increase recorded in October.

Other labor market data remain reasonably strong. The Texas unemployment rate fell to a postrecession low of 4.6 percent in December. Weekly initial claims in mid-January were only slightly above prerecession levels, although they have ticked up 2 percent since the end of December.

Manufacturing Activity Flat

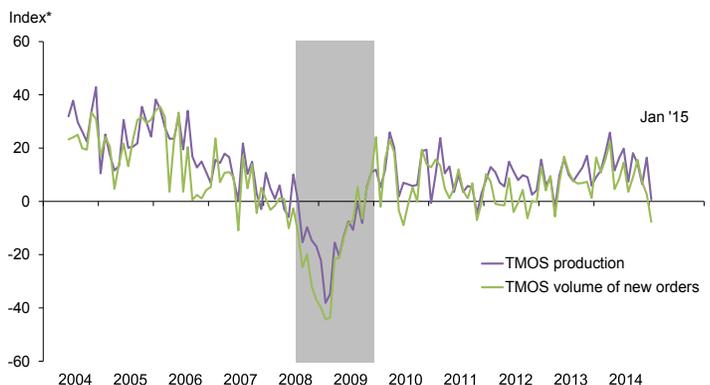
Manufacturing employment grew at 0.8 percent annual rate in December, slightly slower than its 1.5 percent growth in 2014. Overall manufacturing activity as reflected in the Texas Manufacturing Outlook Survey showed a similar pattern, with the headline production index sinking in January to 0.7 (*Chart 2*). Furthermore, the new orders index dropped to -7.7.

Chart 1
Payroll Employment Growth Remains Well Above 3 Percent



*Month/month; seasonally adjusted, annualized rate.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 2
TMOS Headline and New Orders Indexes Turn Sharply Downward



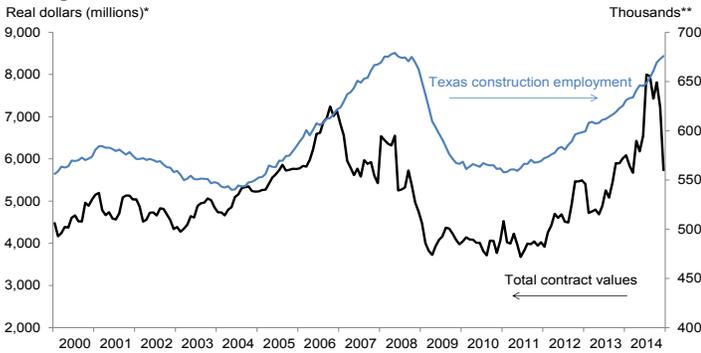
*Seasonally adjusted.
NOTE: Gray bar represents Texas recession.
SOURCE: Federal Reserve Bank of Dallas, Texas Manufacturing Outlook Survey (TMOS).

Growth Slows Slightly in Service, Retail Sectors

The headline revenue index from the Texas Service Sector Outlook Survey remained positive in January but fell from 22.2 to 12.1. Service sector employment declined at a 0.6 percent annual rate in December, compared with a 3.2 percent increase overall in 2014. The January Beige Book reported flat to higher demand across most of the sector, although some staffing firms noted a slight decline in orders and one firm reported that employment demand in Houston was unusually weak.

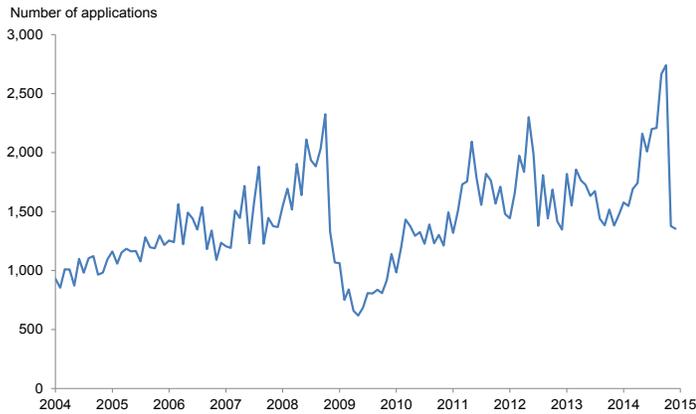
The Texas Retail Outlook Survey suggests that retail sales

Chart 3
Contract Values Slide; Construction Job Growth Remains Strong



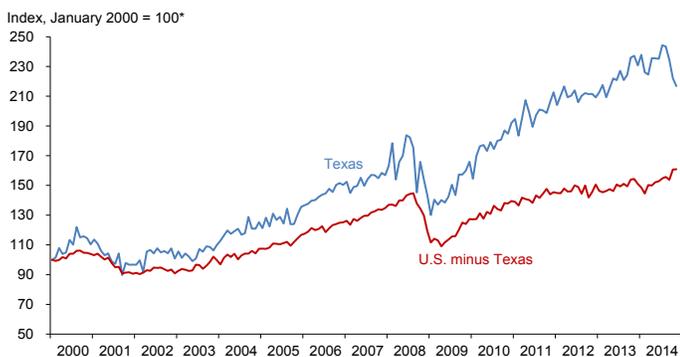
*Five-month moving average, seasonally adjusted.
 **Seasonally adjusted.
 SOURCES: F.W. Dodge; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 4
Well Permits Plummet to Lowest Level Since 2012



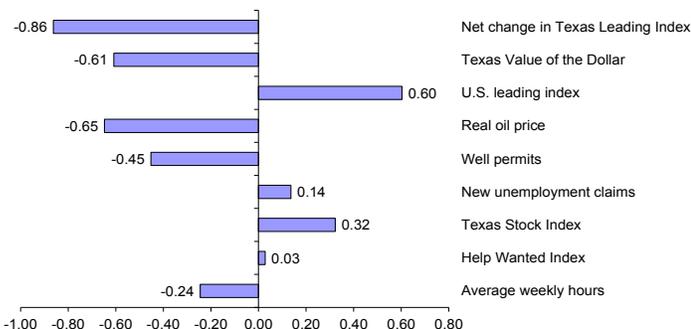
SOURCES: State agencies; Haver Analytics.

Chart 5
Texas Exports Continue to Plunge



*Seasonally adjusted; real dollars.
 SOURCES: Census Bureau; WISERTrade; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 6
Texas Leading Index Components Turn Negative
 (Three-month change, September–November)



SOURCES: Federal Reserve Bank of Dallas; Conference Board; Haver Analytics; Texas Workforce Commission.

continued to grow in January, albeit at a slower pace than in December, with the sales index declining from 24.3 to 10.6. Beige Book noted that retail demand grew, although respondents' reports on the pace of growth were mixed, and some retail contacts noted that Texas sales were no longer outperforming the national average.

Construction Contract Values Drop in December

Overall construction employment rose at a 5.7 percent annual rate in December. The five-month moving average of Texas contract values fell nearly 21 percent in December, in large part due to a sharp decline in nonresidential construction values (*Chart 3*). This is consistent with Beige Book contacts' reports of some nervousness about the potential impact of lower oil prices on construction activity, and it suggests that construction employment growth may slow in coming months.

Low Oil Prices Begin to Show Up in Energy Activity

Six weeks ago, available data suggested low oil prices had not yet significantly affected energy activity. That has now changed. The Texas rig count fell by 143 from the first week in December to the third week in January—the most rapid decline since the onset of the 2007–09 recession—after hovering around 900 throughout November. Well permits, a leading indicator of future oil production, have fallen a staggering 50.6 percent since October (*Chart 4*).

Texas Exports Continue to Fall

Texas exports declined a nonannualized 11 percent from August to November, compared with a 3.3 percent increase for the rest of the nation (*Chart 5*). Anecdotal evidence suggests exports of chemical and petroleum products may be largely responsible for the slowdown, along with a rise in the Texas trade-weighted value of the dollar.

Outlook Is for Continued but Slower Growth

Increases in components of the Texas Leading Index resulting from a rise in the U.S. leading index were more than offset by decreases resulting from lower oil prices, the fall in well permits and an appreciating dollar (*Chart 6*). Based on the net drop in the Texas Leading Index, the 2015 employment forecast now stands at 2.2 percent. While broadly similar to the state's trend growth rate over the past few decades, the forecast is well below the 3.6 percent growth experienced in 2014.

—Jason Saving and Sarah Greer

About the Authors

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