

Regional Economy Moderates

March 19, 2015

The Texas economy continues to expand, but there are signs that growth is slowing. Some major metro areas have begun to experience slower growth, especially in locations where energy industry jobs make up a large portion of employment. The unemployment rate fell further in January, while initial unemployment claims rose. The Texas Manufacturing Outlook Survey (TMOS) showed no growth in production over the past two months. House price appreciation remained strong, and mortgage delinquencies continued to fall in fourth quarter 2014. Oil prices remained at their lowest levels in years, and exports fell again in January, down from year-ago levels.

Job Growth Slows in January

Employment grew 1.7 percent in January, a significantly slower pace than December's 4.3 percent increase and slightly slower than the nation's 2.1 percent rate. Because monthly data can be noisy and subject to revision, more data are needed to determine the extent to which employment growth has slowed. The Texas economy added 367,700 jobs in the past year, growing 3.2 percent year over year in January.

Overall, job growth decelerated across most supersectors in January relative to fourth quarter 2014 (*Chart 1*). The energy sector, which makes up 2.6 percent of Texas' nonfarm employment, lost jobs for the first time in more than five years. The slowdown in the energy sector is affecting activity in sectors closely tied to it, such as manufacturing, which saw no job gains in January. The information sector, which makes up 1.7 percent of Texas' nonfarm employment, registered a 13 percent jump in January due to a sharp increase in data processing, hosting and related services employment.

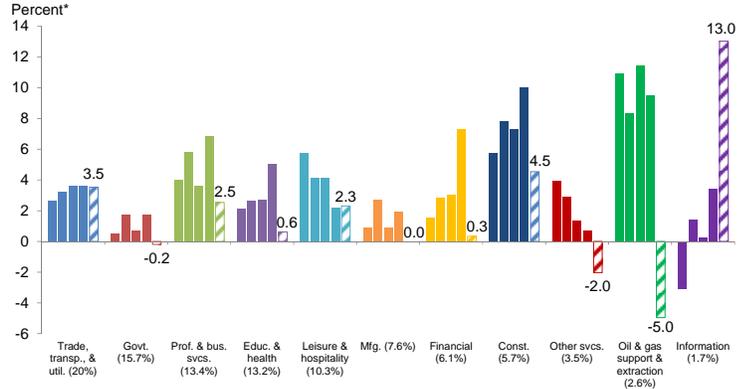
Some Large Metros Feel the Effects of a Slowing Energy Sector

Houston's employment growth decelerated significantly from 3.5 percent in the fourth quarter to 0.1 percent in January due to the slowdown in the energy sector (*Chart 2*). El Paso's employment decline is likely partly due to cuts in federal spending, since government jobs account for a large portion of the metro's labor market, and partly a result of recent weakness in the peso affecting cross-border shopping from Mexico.

Unemployment Drops Further

Texas' unemployment rate fell from 4.6 percent in December to 4.4 percent in January. Initial unemployment insurance claims, a forward-looking indicator for the labor market, climbed 6 percent to 20,000 in January.

Chart 1
January Employment Decelerates Across Most Supersectors

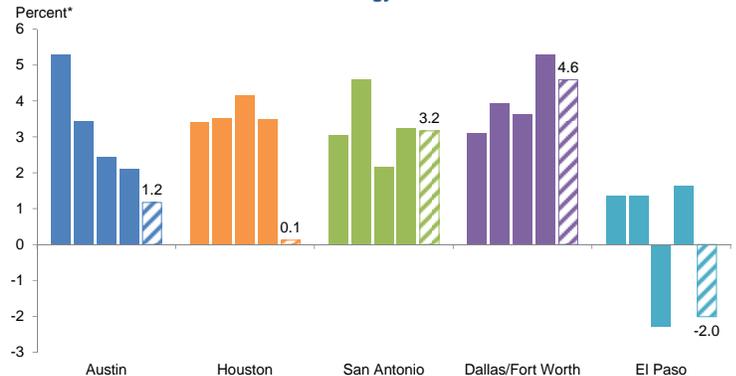


*Quarter/quarter; seasonally adjusted, annualized rate.

NOTE: Quarters begin with first quarter 2014. Striped bars indicate partial quarter, January over December job growth. Numbers in parentheses are shares of total Texas nonfarm employment.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal adjustments by Federal Reserve Bank of Dallas.

Chart 2
Houston Job Growth Slides as the Energy Sector Slows



*Quarter/quarter; seasonally adjusted, annualized rate.

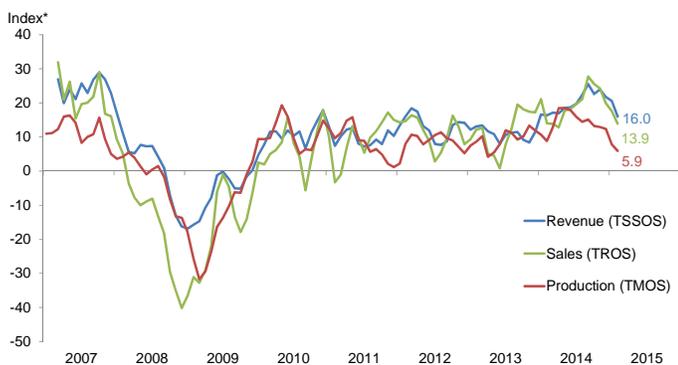
NOTES: Quarters begin with first quarter 2014. Striped bars indicate partial quarter, January over December job growth.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal adjustments by Federal Reserve Bank of Dallas.

Manufacturing Activity Remains Flat; Services and Retail Continue to Grow

Downward movement in the three-month moving averages of the key indexes from the Texas Business Outlook Surveys (TBOS) points to recent softness (*Chart 3*). The TMOS production index remained at 0.7 in February, suggesting zero growth in Texas manufacturing activity for the second consecutive month. The TMOS employment index moved down from 9 to 1.3 in February, indicating significantly slower growth, and the TMOS general business activity index fell sharply in February, declining from -4.4 to -11.2. The Texas Service Sector Outlook Survey

Chart 3
TBOS Headline Indexes Indicate Slower Growth



*Three-month moving average; seasonally adjusted.
 NOTE: Data are through February 2015.
 SOURCES: Federal Reserve Bank of Dallas Texas Business Outlook Surveys (TBOS); Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

(TSSOS) revenue index rose to 13.6 in February from 12.1, and the TSSOS employment index rose 6 points to 12.0 in February, signaling continued slow growth in the service sector. The Texas Retail Outlook Survey (TROS) sales index slowed from 10.6 to 6.8 in February.

Home Sales Steady at High Levels

Existing-home sales declined at a non-annualized 1 percent rate in January, following positive growth in December. Home sales have increased 9 percent year over year in January, a slightly stronger pace than the 7.7 percent year-over-year rate seen in December. Existing-home sales have stabilized at high levels across most Texas metros. Dallas is the notable exception, where home sales cooled slightly by 6.6 percent in January, likely due to tight supply rather than weak demand. Texas continues to experience historically low inventories, with just 3.4 months of supply in January.

Mortgage Delinquencies Continue to Decline

Texas mortgage delinquency rates continued to decline in fourth quarter 2014. Seriously delinquent mortgages edged down year over year 0.5 percentage points to 2.9 percent. The recent rapid appreciation in house prices, which has boosted equity for homeowners, may have contributed to the decline in mortgage delinquencies.

Oil Prices Remain Low

Oil prices hovered around \$48 per barrel in March, up slightly from January's low of \$46 (Chart 4). Rig counts have experienced a 44 percent drop from a high of 901 in November to 501 as of the second week of March. Most of the decline in the U.S. rig count has occurred in Texas; however, oil production is holding up because wells are more productive now than in the past. Anecdotal reports in the Beige Book noted a sharp pullback in demand for oilfield services in February.

Exports Fall Again in January

Texas real exports declined 4.5 percent in January and were down 10.7 percent year over year due to a strengthening dollar, slower growth in trading partner economies and the sharp drop in oil prices (Chart 5). Exports to all major markets declined year over year in the fourth quarter, with the exception of Canada. For the quarter, exports to China and Latin America (excluding Mexico) recorded the largest fall, while exports to Mexico and Canada declined only modestly. Petroleum and coal exports plunged 29 percent, although the decrease could be overstated due to lower export prices stemming from low oil prices.

Moderate Outlook

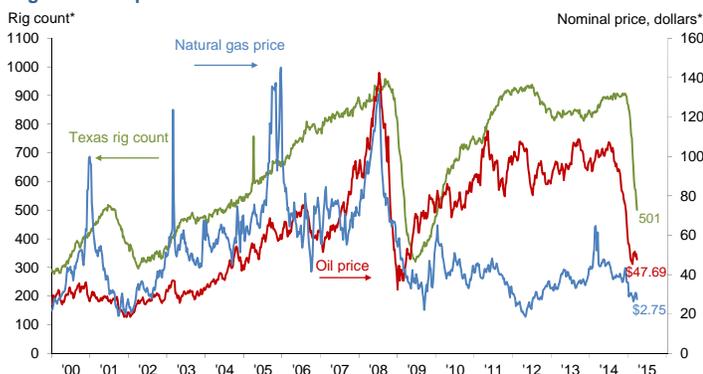
The Texas Leading Index ticked down for the fifth consecutive month in January. The three-month change in the index from November to January was also negative at 3.5 percent, indicating slower growth moving forward. Texas' job forecast for 2015 was revised to 1–2 percent, down from its previous range of 2–2.5 percent, suggesting that Texas' economy will continue to expand but at a slower pace than in 2014.

—Emily Gutierrez and Anil Kumar

About the Authors

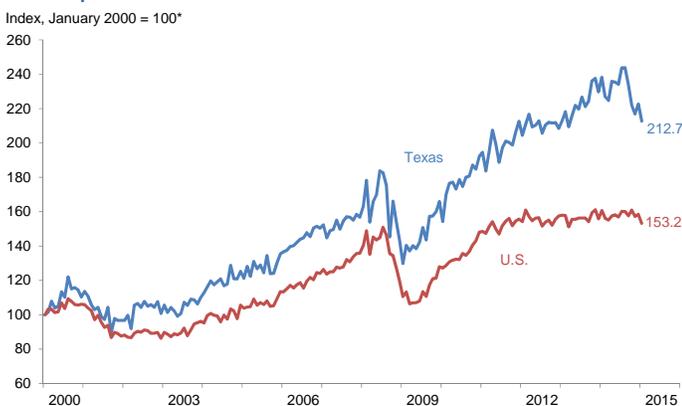
Gutierrez is a research assistant and Kumar is a senior research economist and advisor in the Research Department at the Federal Reserve Bank of Dallas.

Chart 4
Rig Count Drops as Oil Prices Remain Low



*Weekly.
 NOTES: Natural gas price is multiplied by 10. Data through week of March 13, 2015.
 SOURCES: Wall Street Journal, Baker Hughes; Haver Analytics.

Chart 5
Texas Exports Extend Recent Weakness



*Seasonally adjusted.
 NOTE: Data are through January 2015.
 SOURCES: U.S. Census Bureau; Wisetrade; Bureau of Labor Statistics.