

Texas Pandenomics

Despite COVID Waves, Strong Economic Growth
to Continue in 2022



Federal Reserve
Bank of Dallas

Pia Orrenius
Dallas Fed Research
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Overview

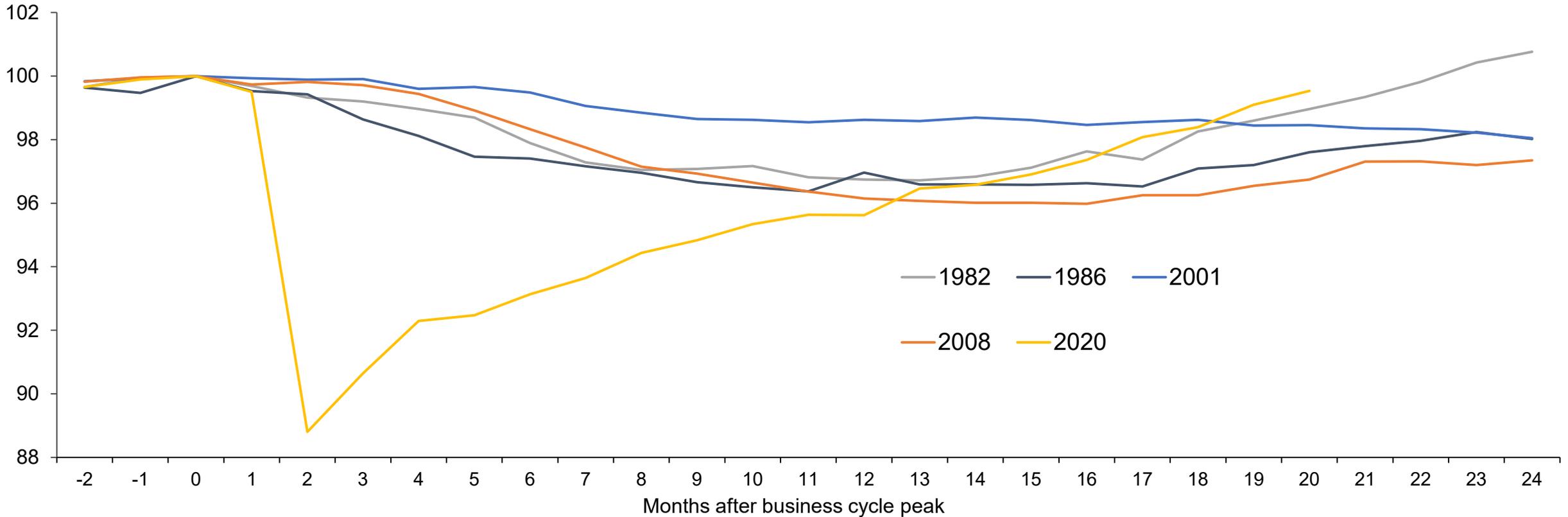
- Pandemic an unusual economic downturn due to the rise in incomes, surging demand for goods and housing, collapse in demand for services, labor shortages
- Despite significant impact of COVID on public health and labor supply, Texas growth outperformed the nation in pandemic overall and in 2021
 - Growth in region accelerated in second half of 2021
- Dallas Fed economic outlook suggests Texas will outperform the nation again in 2022 but risks to the outlook include
 - COVID wave and its direct, indirect effects
 - Supply-side constraints
 - Price and wage pressures

A blue-tinted photograph of a surfer riding a large wave. The surfer is positioned in the lower-left quadrant of the frame, riding the base of a massive, curling wave that dominates the upper half of the image. The water is a deep, vibrant blue, and the overall scene conveys a sense of power and movement.

Pandemonics: A Recession (and Recovery) Like No Other

Pandemic recession stands apart from others: much sharper, shorter-lived decline and steeper recovery

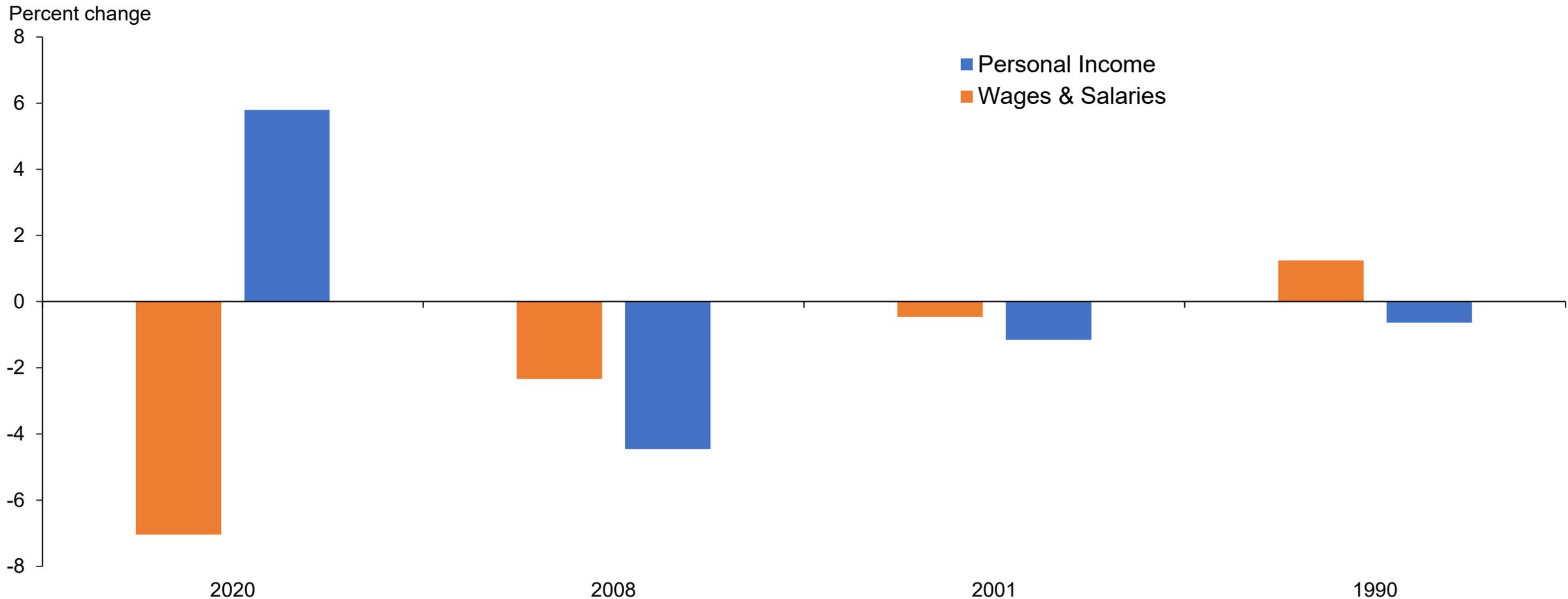
% of peak employment



NOTES: Shown is Texas nonfarm payroll employment. Recessions are indexed to on peak employment: March 1982, January 1986, March 2001, August 2008, and February 2020.

SOURCE: BLS.

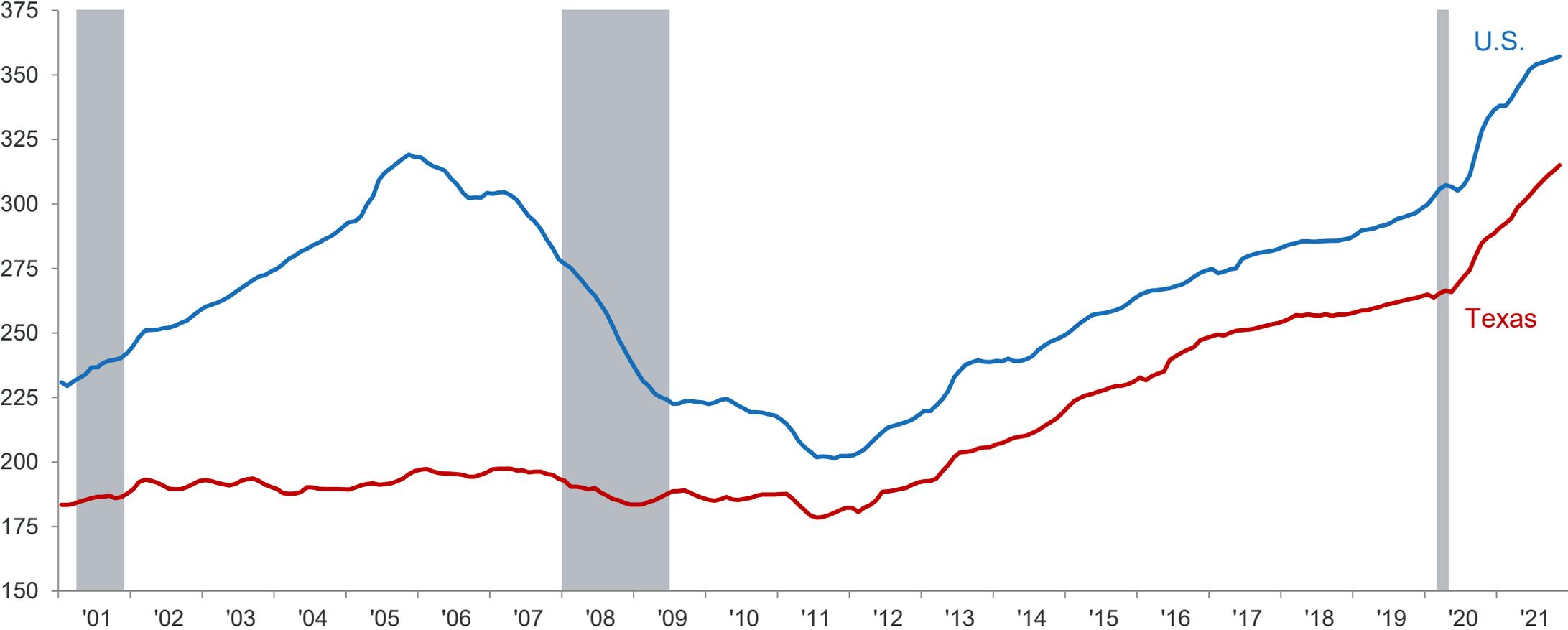
Also unusual for a recession, personal income rose



NOTE: Data for Texas. Change in real per capita personal income and wages & salaries, from first quarter to last quarter of recession.
SOURCE: Bureau of Economic Analysis (BEA)

And unlike Great Recession, house prices soared

Dollars (thousands), four-month moving average*



*Seasonally adjusted, real dollars.

NOTE: Data through Nov. 2021. Shaded bars indicate recessions.

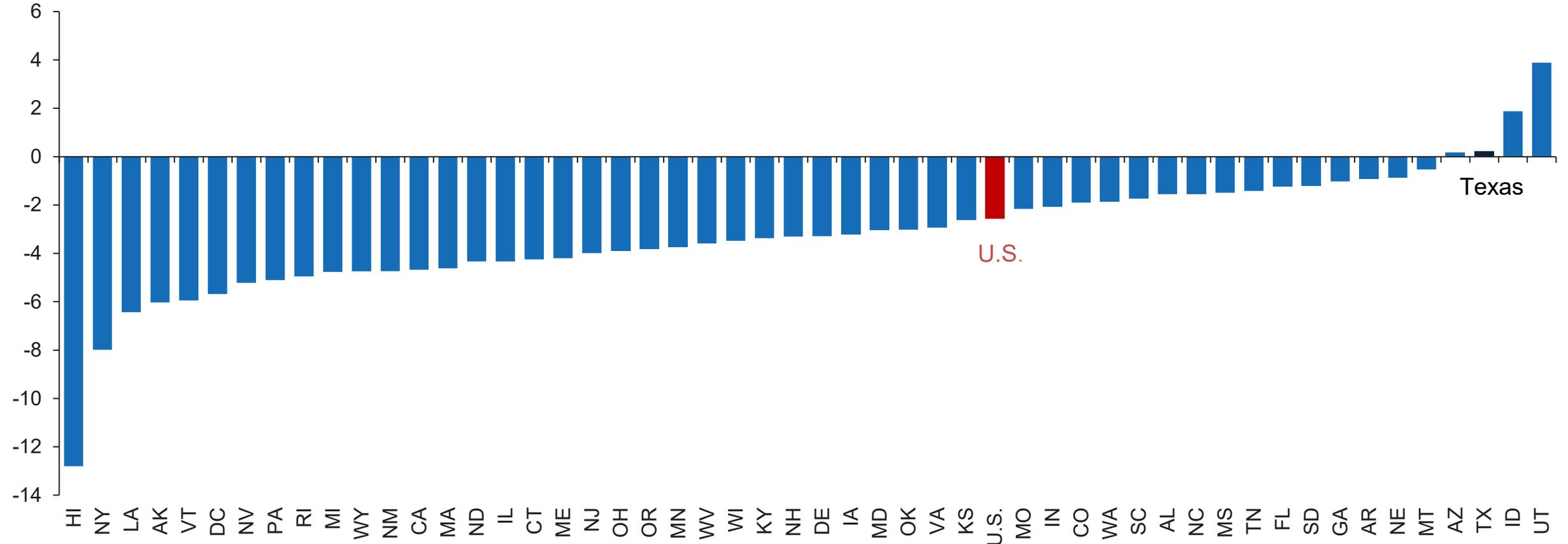
SOURCES: Multiple Listing Service; seasonal and other adjustments by FRB Dallas.



How Texas Fared in Pandemic

Texas is one of only four states that have exceeded their pre-pandemic level of employment

Job growth (percent), Nov 2021/Feb 2020, SA

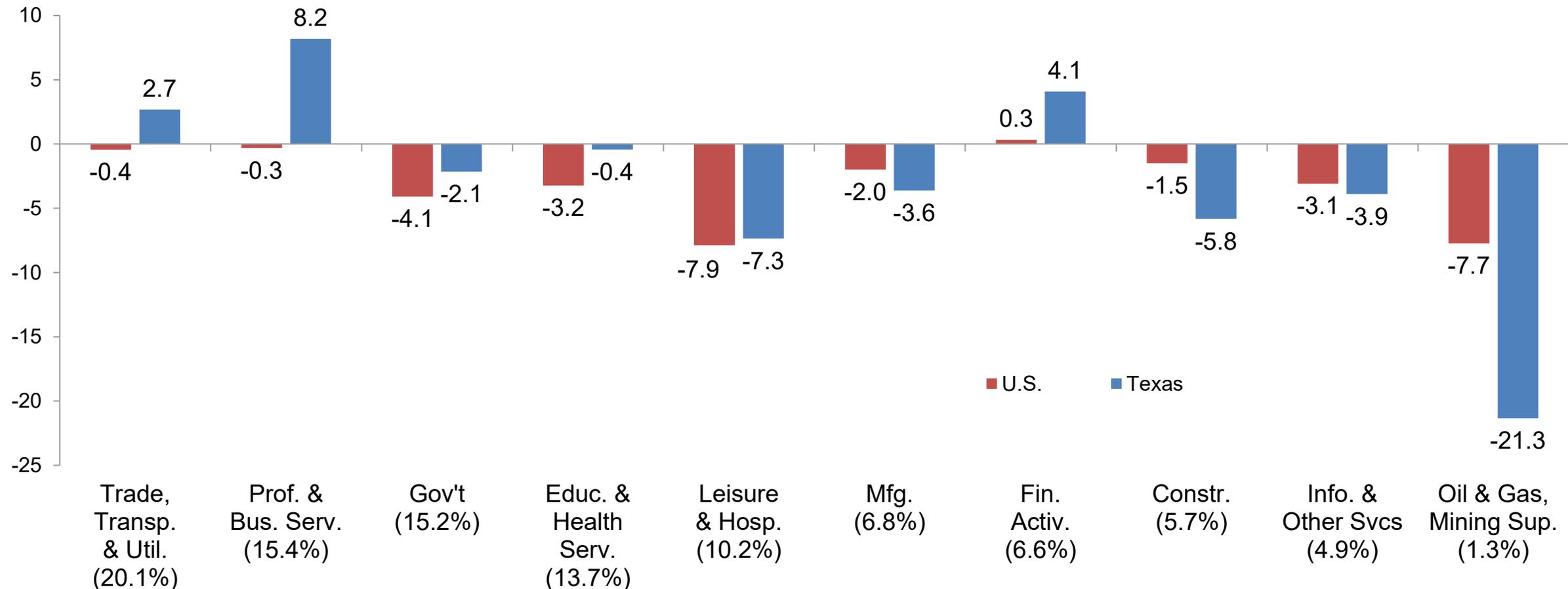


NOTE: Data show non-annualized job growth. Texas data are not early benchmarked to facilitate comparison across states.

SOURCES: Bureau of Labor Statistics.

In Texas, three sectors have now surpassed pre-pandemic employment. In nation, only one...

Job growth Nov 2021/Feb 2020 (percent)



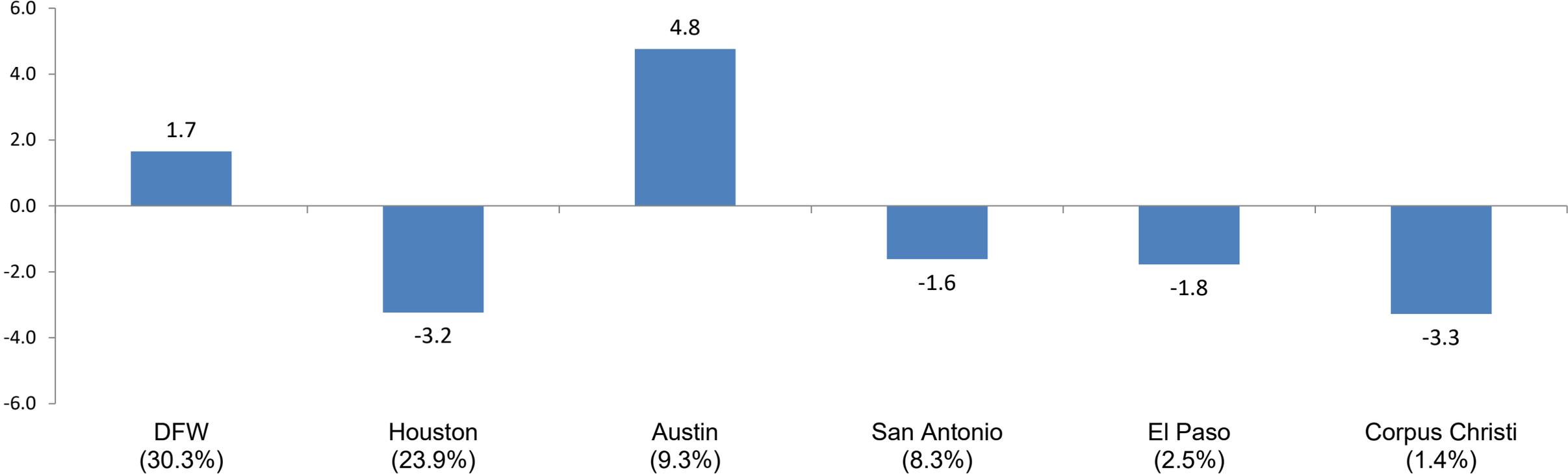
NOTE: Data show Nov. 2021/Feb. 2020 non-annualized job growth. Numbers in parenthesis indicate share of total state employment for November.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.

Austin, DFW first metros to recover all lost jobs; energy metros lag

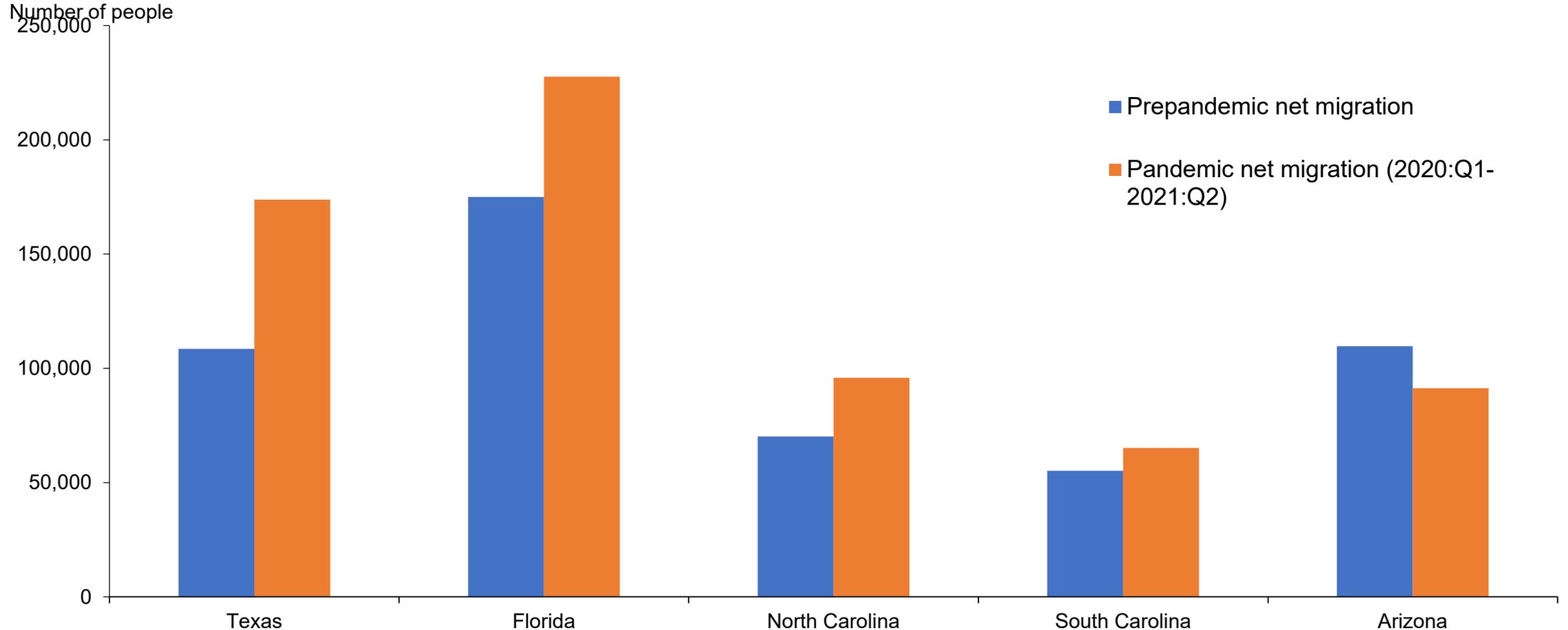
Employment Change by Major Metro (Nov 2021/Feb 2020)

Percent change, SA



NOTES: Data refer Nov. 2021/February 2020 non-annualized job growth. Numbers in parentheses refer to share of state employment in Nov. 2021.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.

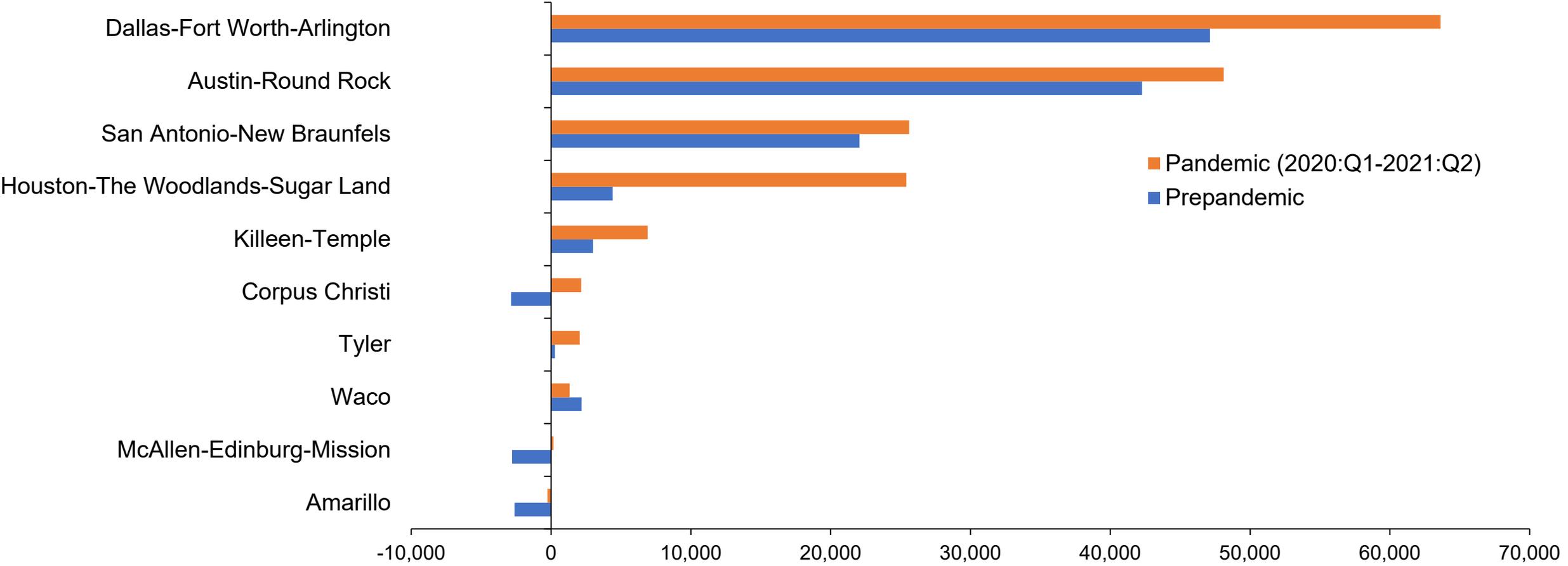
Texas job growth fueled by migration, which accelerated in pandemic



NOTE: Data and analysis from Yichen Su “Largest Texas Metros Lure Big-City, Coastal Migrants During Pandemic,” *Southwest Economy*, 4th quarter, 2021.

SOURCES: Federal Reserve Bank of New York Consumer Credit Panel, Equifax.

Even though migration flowed mostly to D-FW & Austin, almost all Texas metros enjoyed higher inflows in pandemic



NOTES: Data shown are net in-migration figures for Texas metros from Yichen Su “Largest Texas Metros Lure Big-City, Coastal Migrants During Pandemic,” *Southwest Economy*, 4th quarter, 2021.

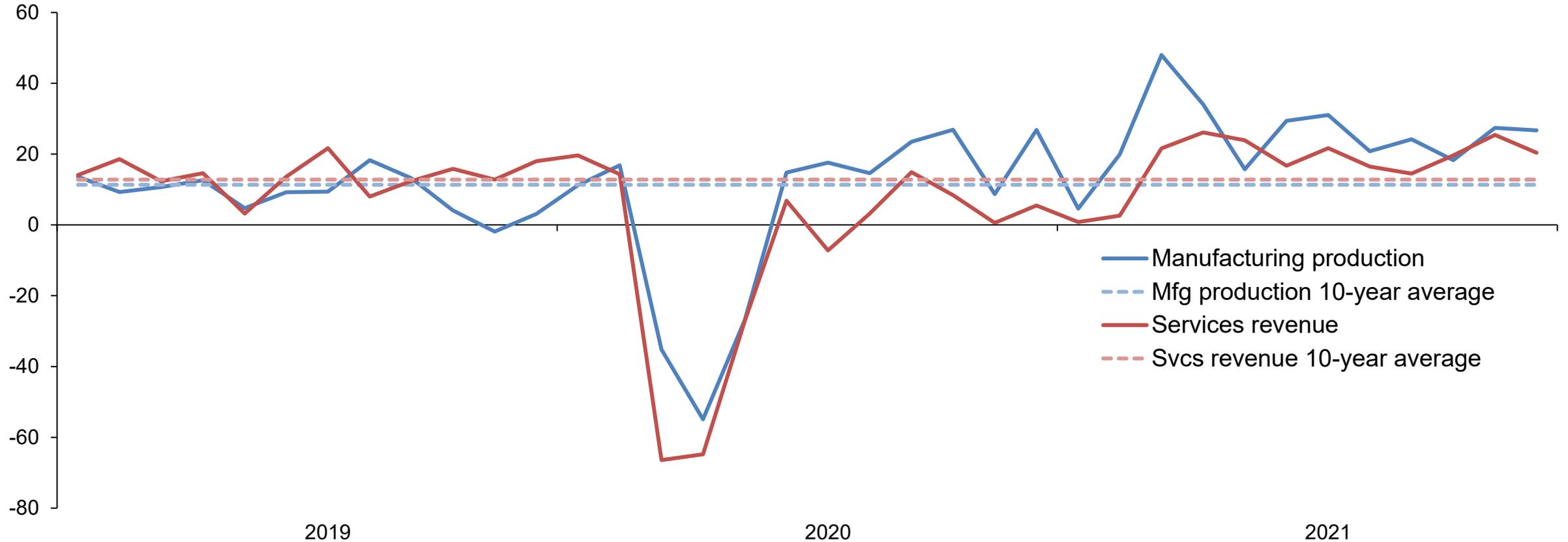
SOURCES: Federal Reserve Bank of New York Consumer Credit Panel, Equifax.



Texas Recent Economic Performance

Manufacturing output and service sector revenue remain strong according to Texas businesses

Diffusion Index, SA

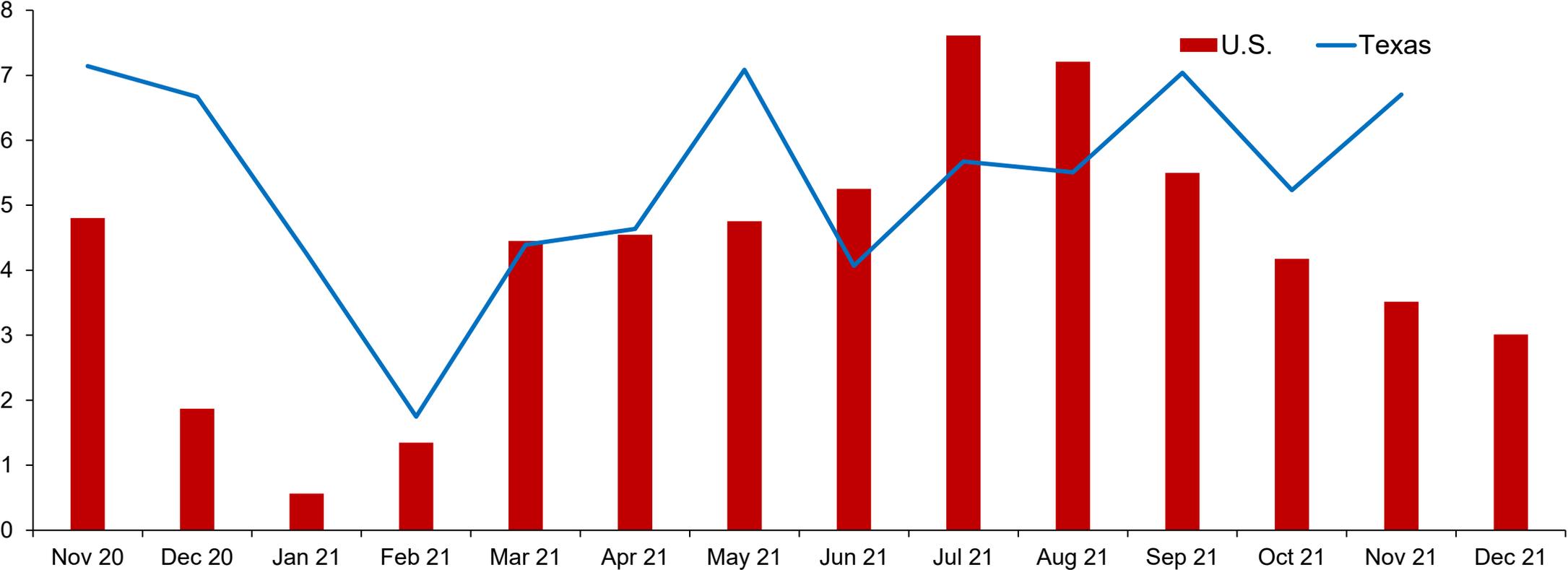


NOTE: Data up to December 2021.

SOURCE: Dallas Fed Texas Business Outlook Survey

Texas job growth averaging above U.S. rate since September

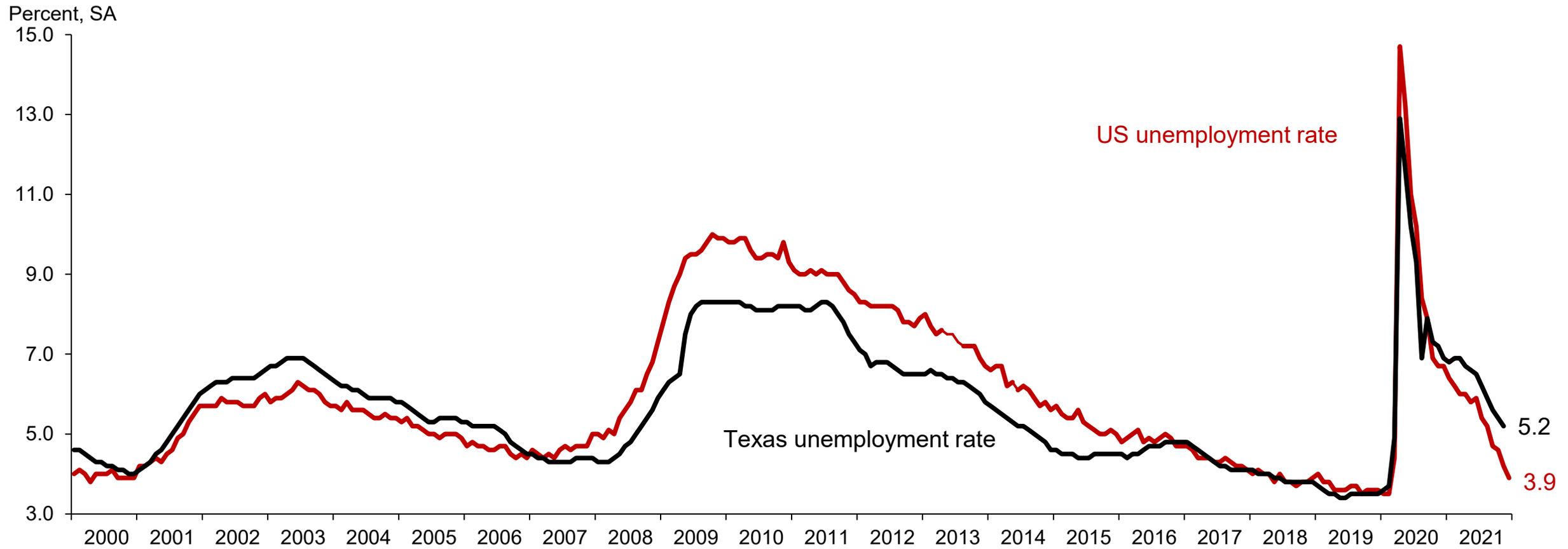
M/M, annualized, 3mma



NOTE: Data up to November 2021.

SOURCE: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.

Texas unemployment rate higher than nation's partly due to higher labor force participation in Texas



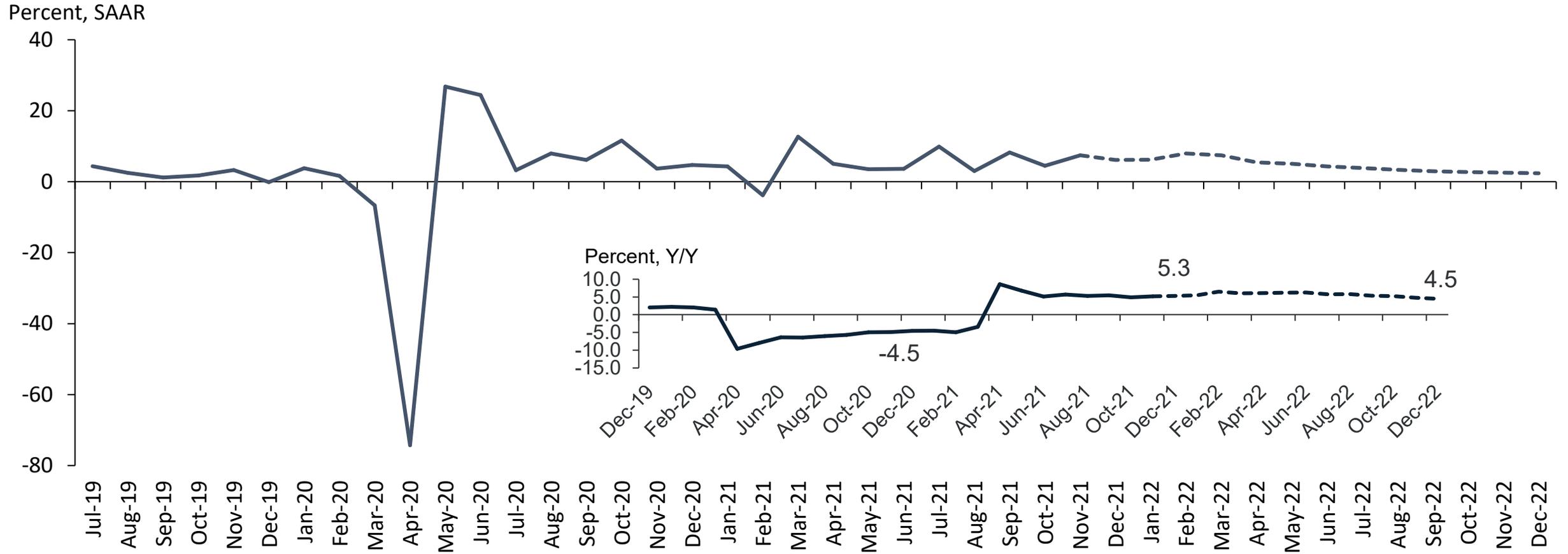
NOTES: U.S. data through December 2021. Texas data through November 2021.

SOURCE: Bureau of Labor Statistics.



Outlook for 2022

Dallas Fed 2022 Texas jobs forecast between 3.5 and 5.5 percent; 2021 employment set to come in at 5.3 percent growth

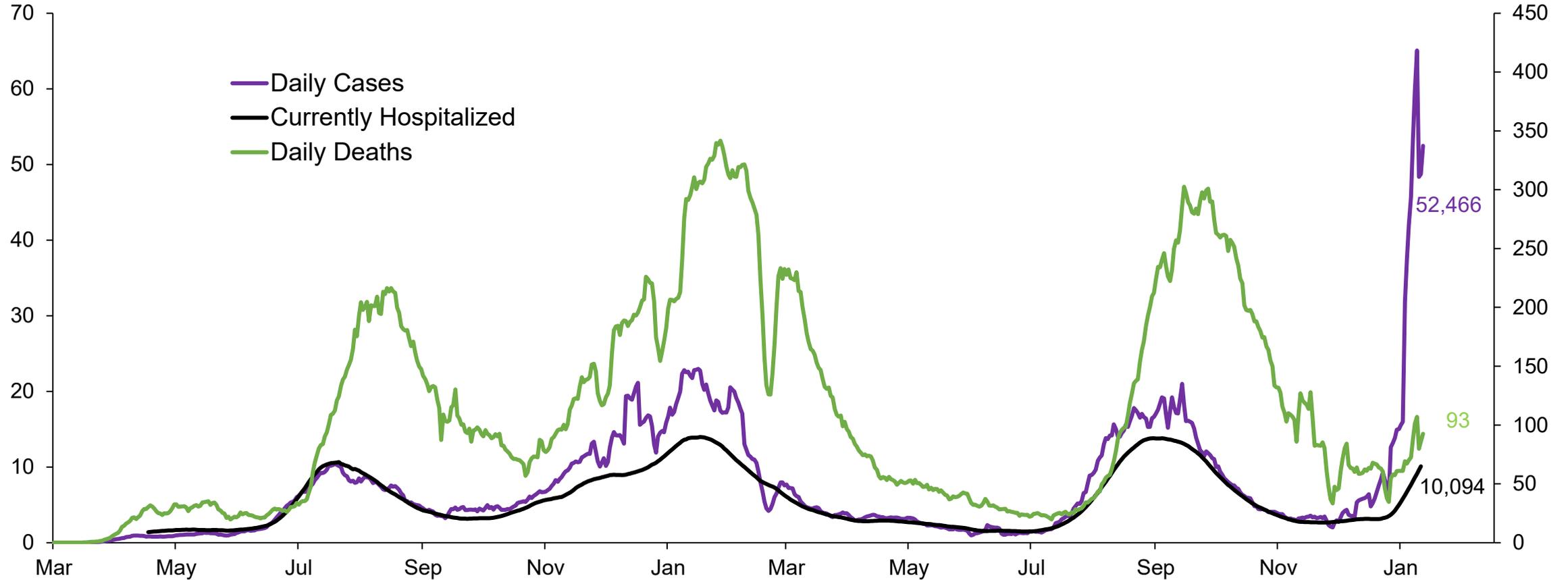


NOTE: Forecast scenario estimates Texas payroll employment for 2021-2022 are based on IHME monthly hospitalization projections for COVID-19 in Texas, direct COVID-19 impacts in March, April, and May 2020, US GDP growth estimates for 2021 and 2022, and WTI prices following the futures contract curve as of 1/7/22.

Texas COVID cases rising sharply, hospitalizations trending up

Cases, 7 day MA (thousands)

Deaths, 7 day MA

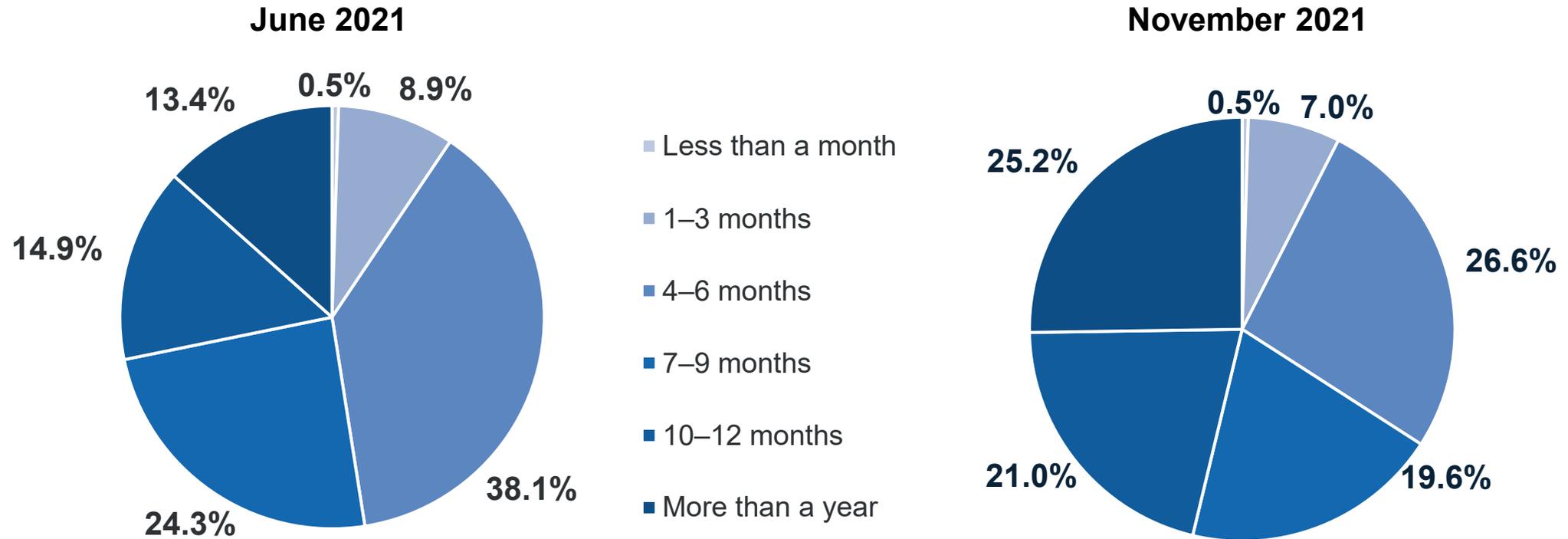


NOTE: Hospitalization data are daily through January 11, 2021. Other data are through January 12, 2022.

SOURCE: New York Times, Texas DSHS.

Firms expecting longer time horizon for supply chain normalization

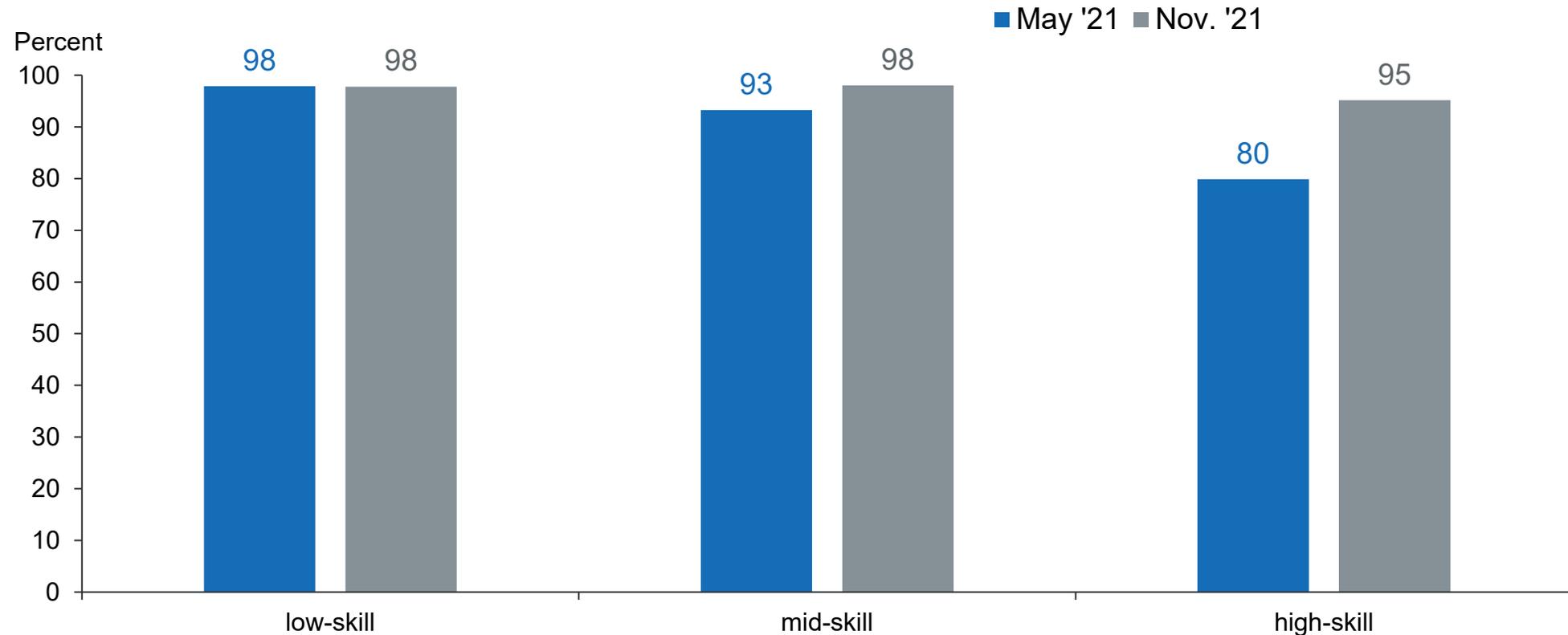
“When do you expect your supply chain to return to normal?”



SOURCE: Federal Reserve Bank of Dallas, Texas Business Outlook Survey Special Questions.

Difficulty hiring is high for all skill levels, has not improved

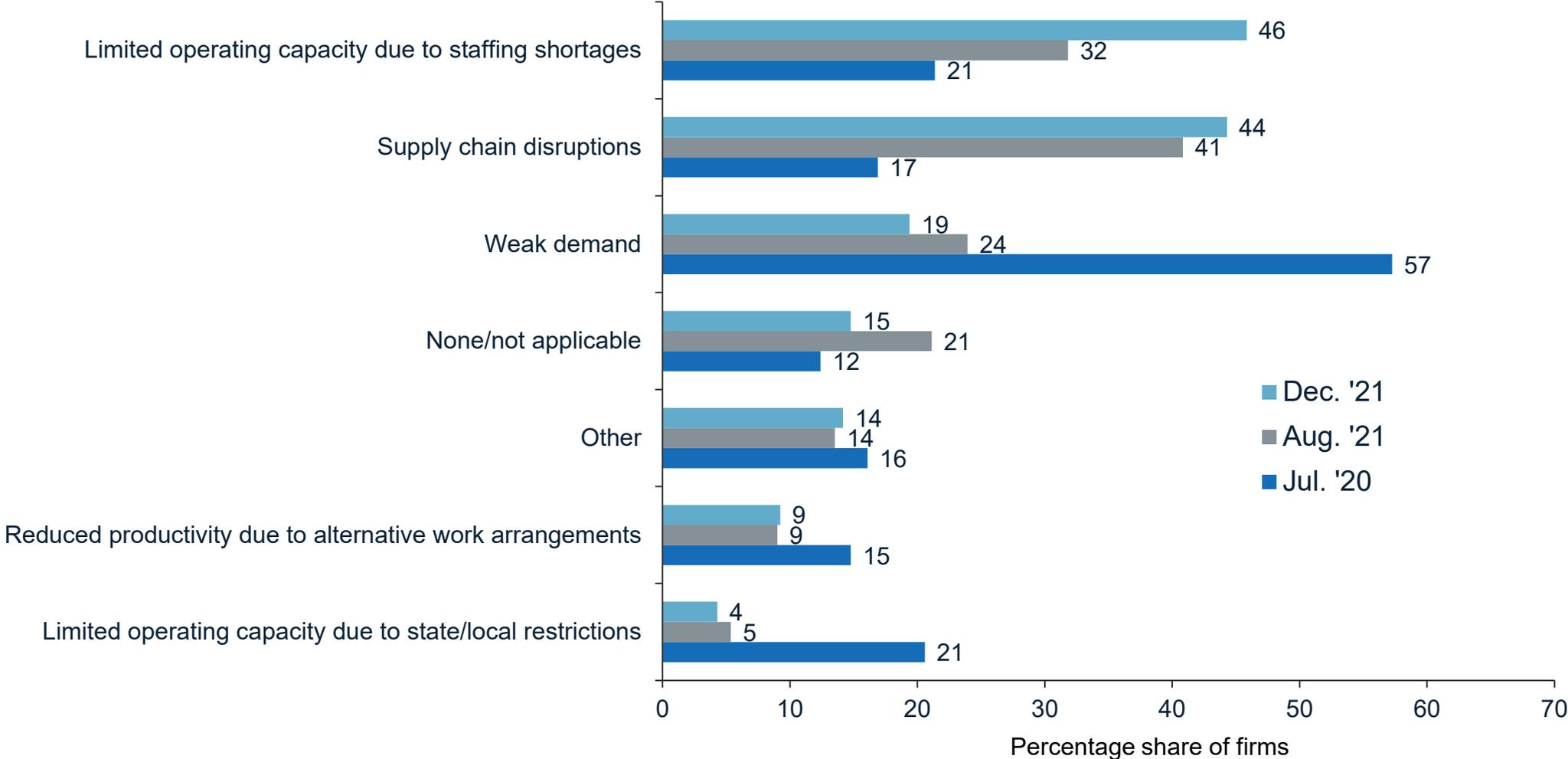
Share of firms reporting difficulty hiring



NOTE: Data are responses to the question "How difficult is it to find workers to fill these positions?". The question was posed only to those trying to fill positions.

SOURCE: Federal Reserve Bank of Dallas, Texas Business Outlook Survey Special Questions.

Supply chain disruptions and staffing shortages are firms' top revenue constraints in December survey

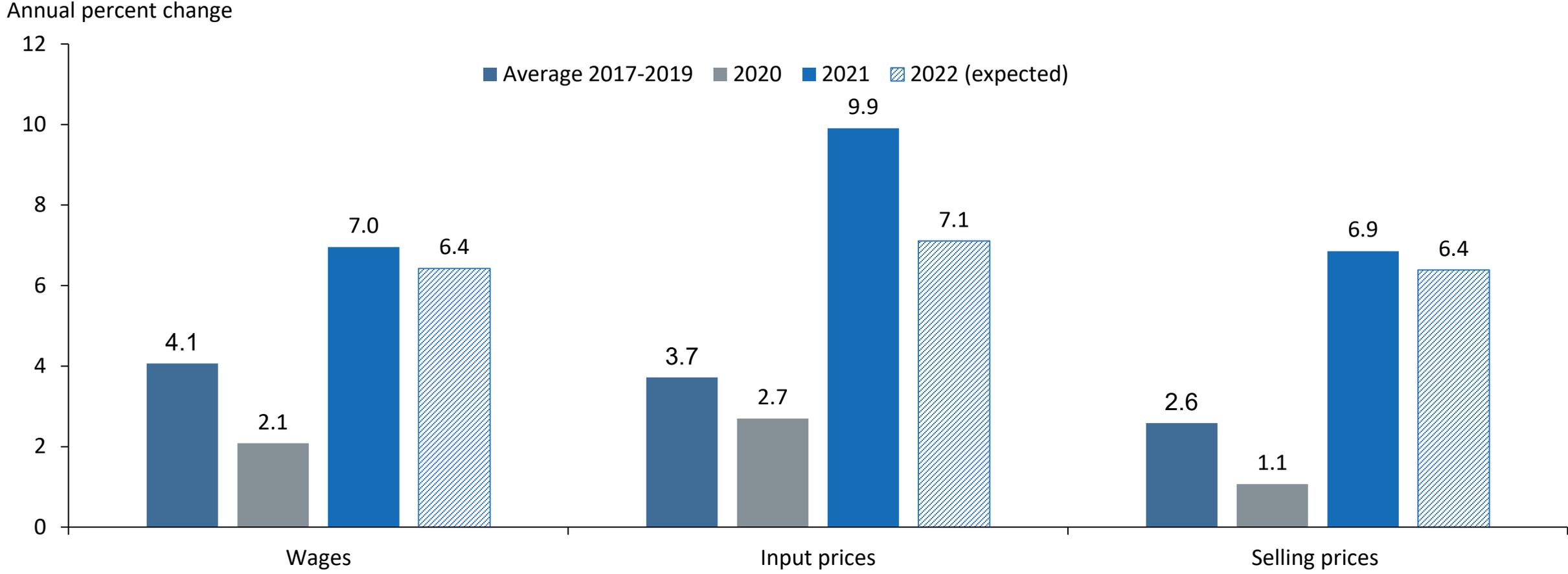


SOURCE: Federal Reserve Bank of Dallas, Texas Business Outlook Survey Special Questions.



Price and Wage Pressures

Wage and price pressures surged in 2021 in Texas and are expected to remain elevated in 2022



NOTES: Respondents were asked each December, "What annual percent change in wages, input prices and selling prices did your firm experience in [current year]?" Respondents were also asked about expectations for the upcoming year, shown here for 2022 only. More than 300 firms responded each period. Values are 5 percent trimmed means.

SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

Texas firms seeing greater ability to pass through costs to customers

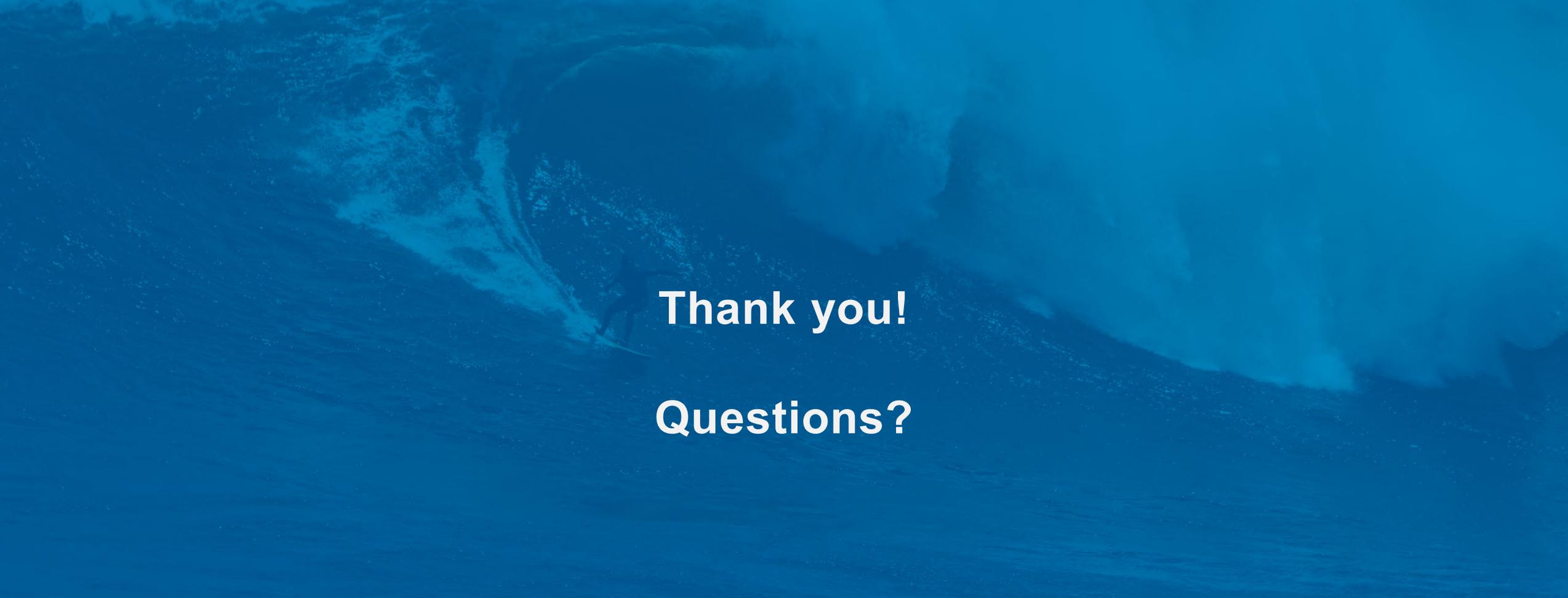
If costs (including wages) are increasing, to what extent are you passing the higher costs on to customers in the way of price increases?

	Dec. '18	Aug. '19	May '21	Dec. '21
None	24%	41%	36%	24%
Some	49%	44%	38%	41%
Most	18%	10%	17%	24%
All	8%	5%	9%	11%

SOURCE: Federal Reserve Bank of Dallas, Texas Business Outlook Survey Special Questions.

Summary

- Texas economy forecast to grow more slowly in 2022 than in 2021, but still well above trend
- Accelerated migration of people out of high-density, high-cost-of-living areas should continue to benefit Texas
 - Inflows not without some growing pains, however
- Supply-chain disruptions and labor shortages expected to be a continued drag on growth – no strong expectations of significant relief through first half of 2022
- Further outbreaks of COVID remain a downside risk to the outlook, but tend to constrict supply, not demand
 - Price pressures likely to remain elevated

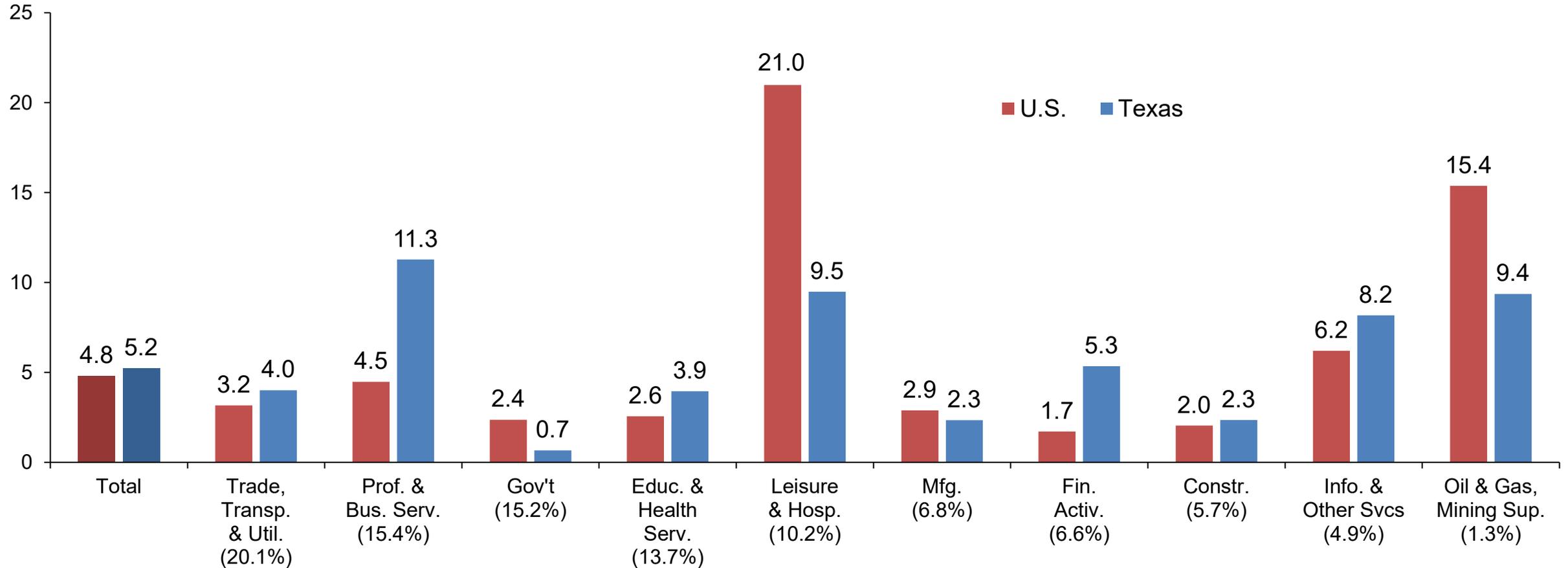


Thank you!

Questions?

Job growth strong and broad-based in 2021

Job growth (percent)



NOTE: Data show Nov 21/Dec 20 annualized growth. Numbers in parenthesis indicate share of total state employment for November.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.

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with **Pia Orrenius**

Vice President and Senior Economist, Dallas Fed

February 3 from 11 a.m. –noon CT



Register at dallasfed.org



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