



Federal Reserve
Bank of Dallas

Regional Economic Update: Conditions Good, Outlook Brightening

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Federal Reserve Bank of Dallas

DABE Annual Outlook

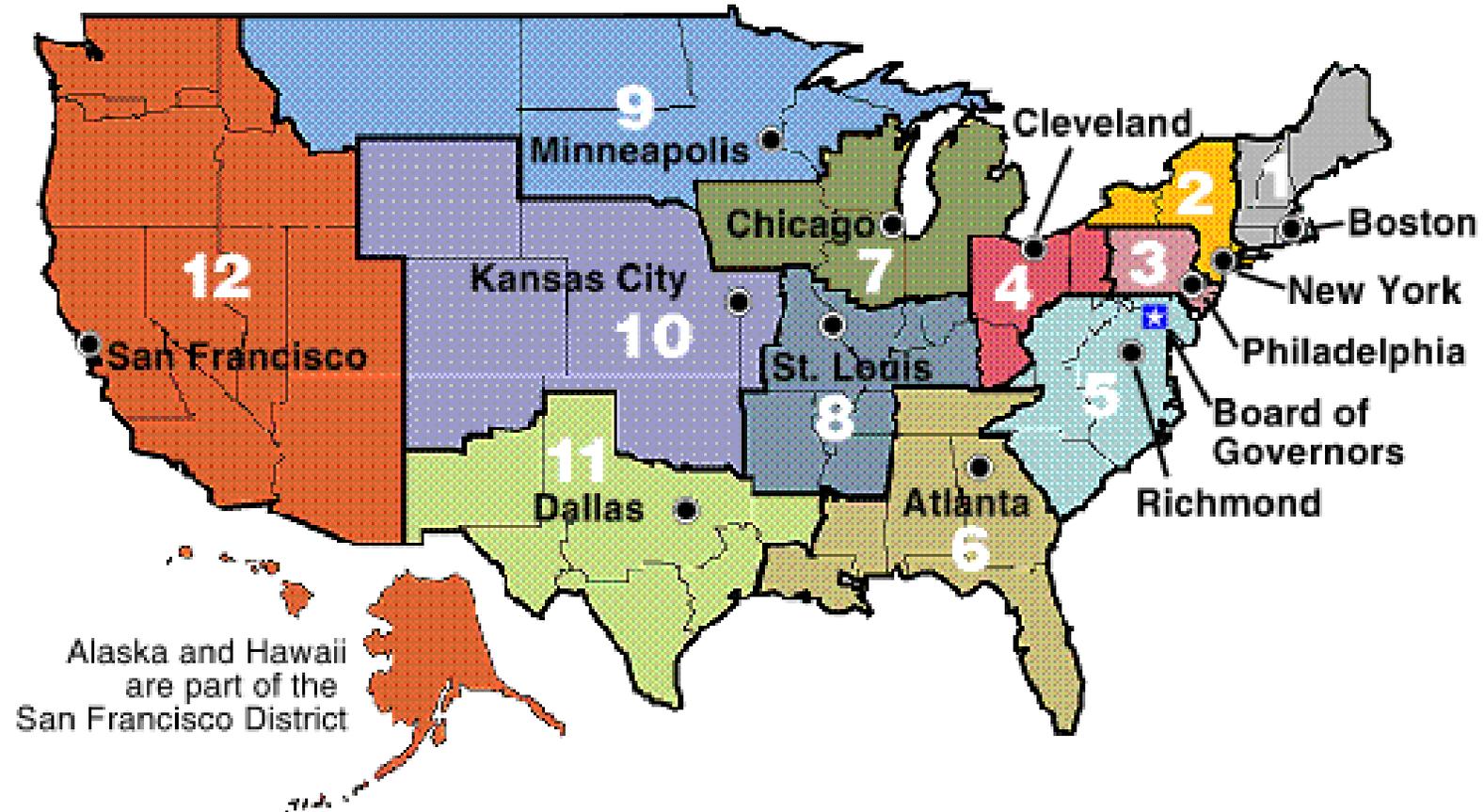
1/17/2020

The views expressed are my own and do not necessarily reflect the views of the Federal Reserve Bank of Dallas or Federal Reserve System.

Roadmap

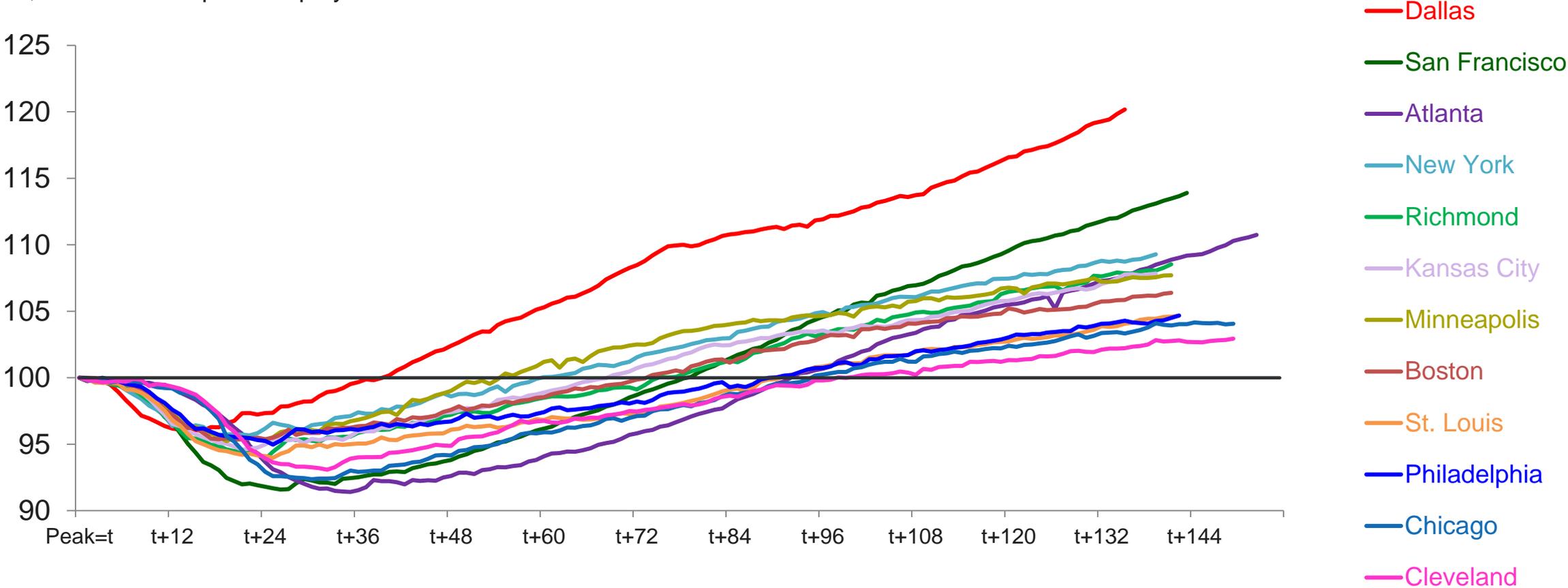
- Regional economy was healthy overall in 2019
 - Texas job growth close to trend
 - Tight labor markets are pushing wages higher, consumer strong
 - Migration picked up
- Headwinds either stable or dissipating slightly as we enter 2020
 - Labor markets tight but stable
 - Suppress job growth as labor shortages cause difficulty hiring
 - Investment suppressed but uncertainty improving
 - Tariffs and trade policy uncertainty are a headwind to growth and investment
 - Energy sector weak but pace of decline slowing
 - Global growth slower, including Mexico, but some positive signs emerging

Federal Reserve District map



10 years after Great Recession, 11th Federal Reserve District still outperforms

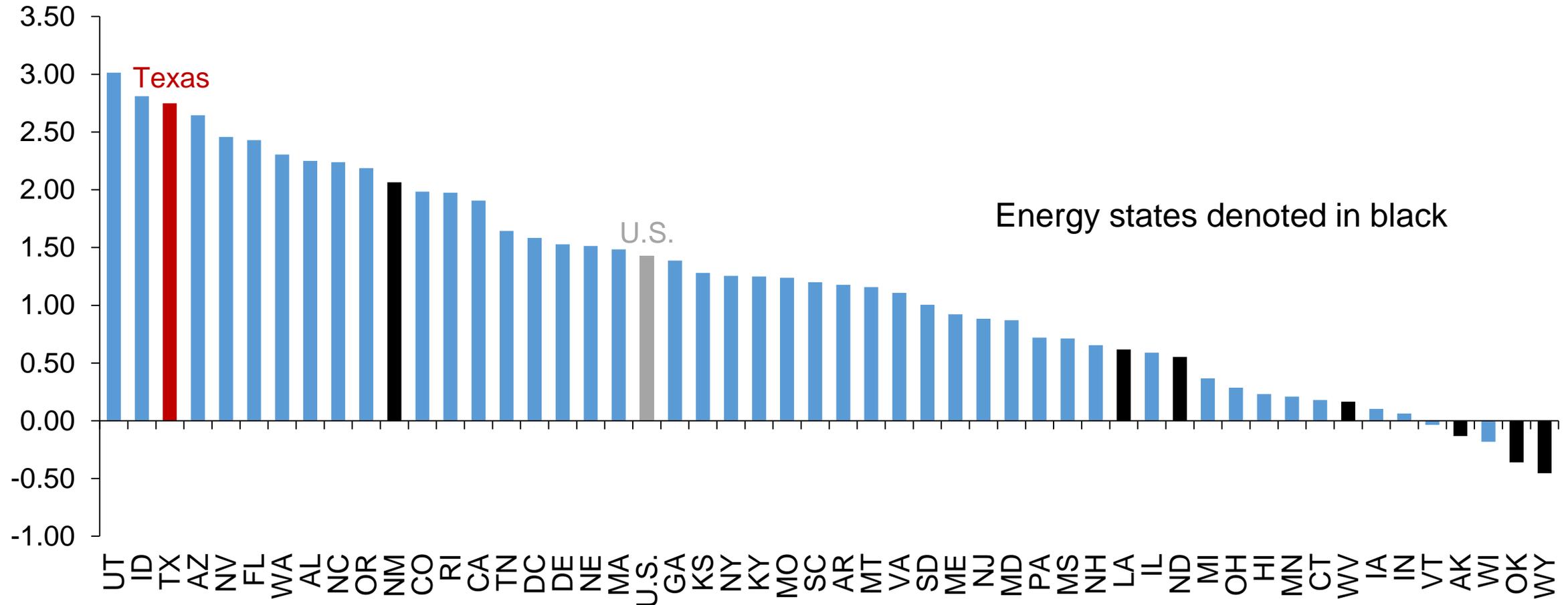
Index, each district's peak employment = 100



NOTE: Data through November 2019.
SOURCES: Bureau of Labor Statistics; FRB Dallas.

Texas 3rd among states in job growth in 2019

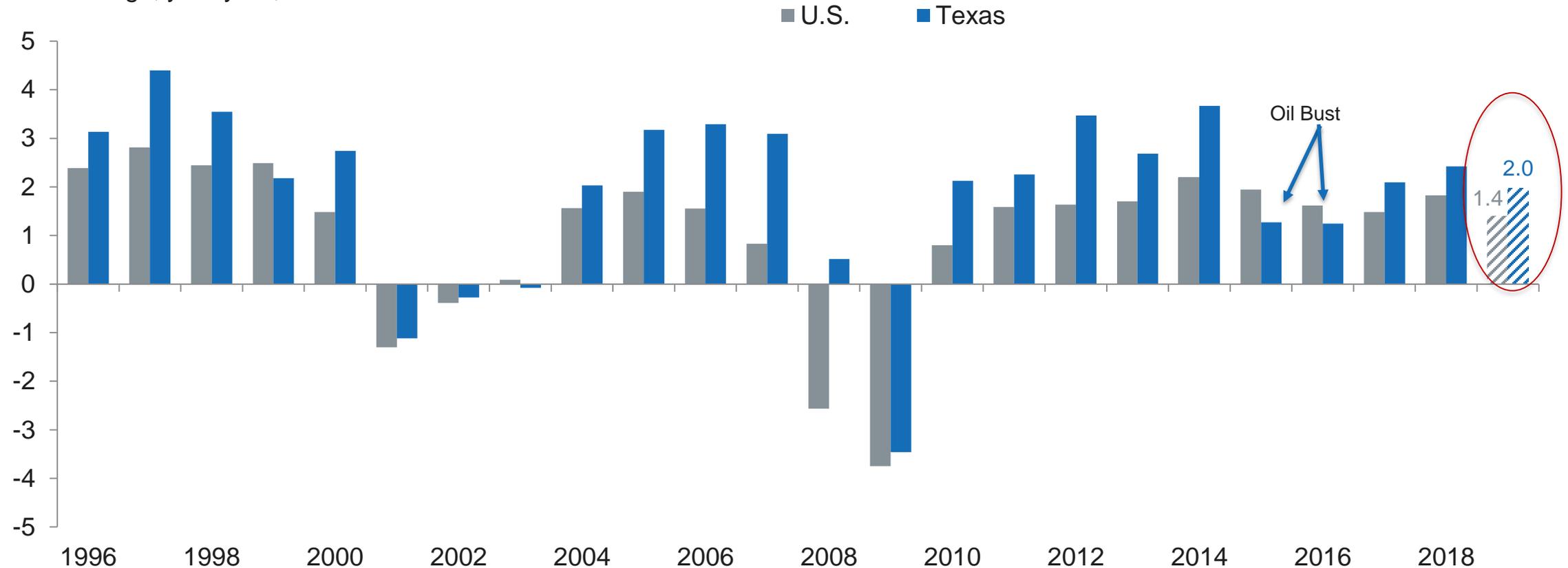
Percent change, Nov 2019/Dec 2018, SAAR



SOURCES: Bureau of Labor Statistics.

2019 Texas job growth above nation's, close to state trend

Percent change, year/year, SA

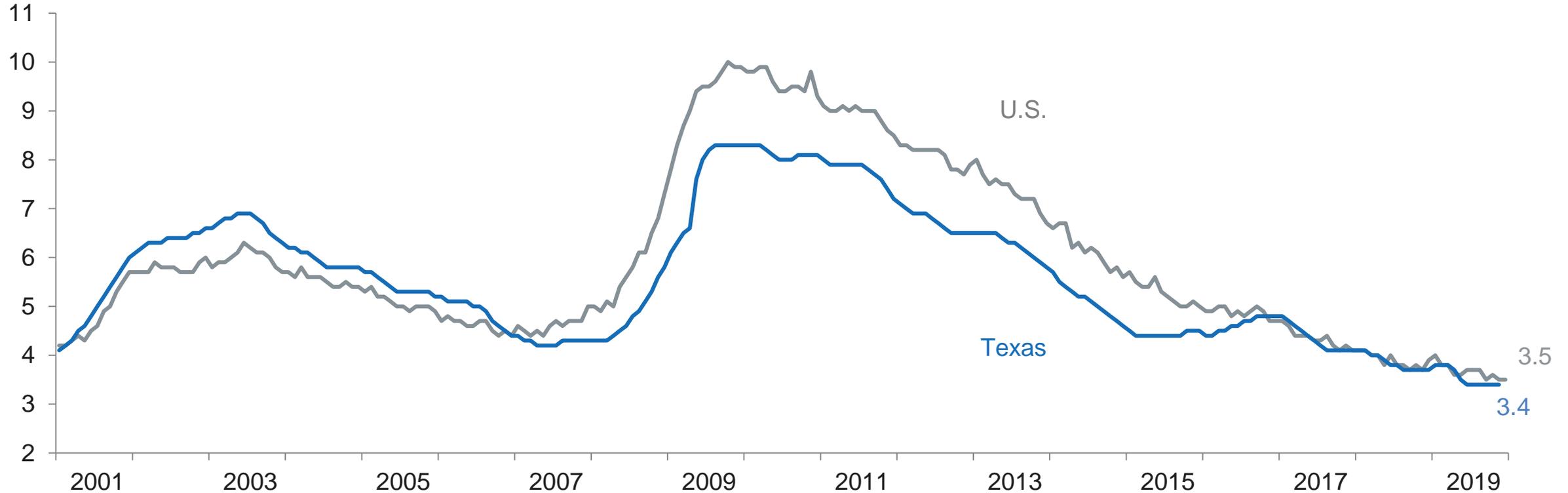


NOTES: Latest data refers to Nov. 2019/Dec. 2018 annualized growth rate for Texas and Dec. 2019/Dec. 2018 for the U.S.. Long-run trend growth is 1.1 percent for the U.S. and 2.1 percent for Texas.

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

Tight labor markets a constraint; Texas and U.S. unemployment rates at record lows

Percent, SA

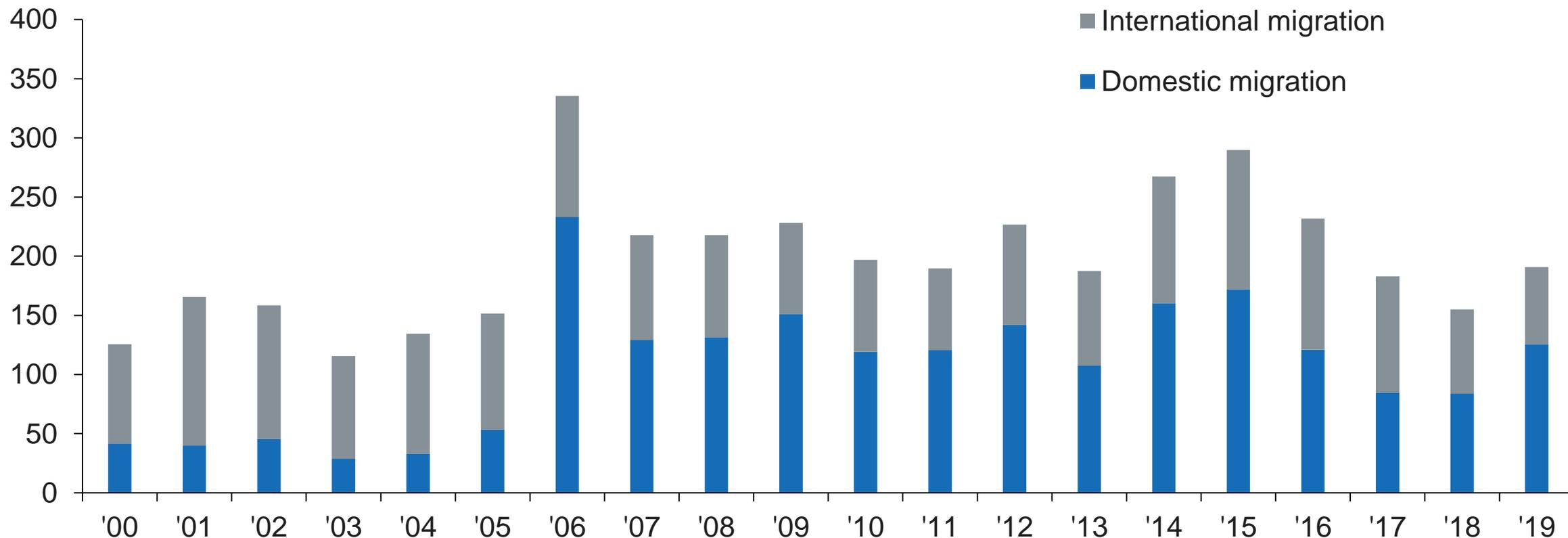


NOTE: Data through November 2019 for Texas and December 2019 for the U.S..

SOURCE: Bureau of Labor Statistics.

Large net in-migration allows Texas to grow faster

Net migration (thousands)



NOTE: Data are for July of the previous year to July of the year indicated.

SOURCE: U.S. Census Bureau.

Relocations to Texas more likely to be driven by job market

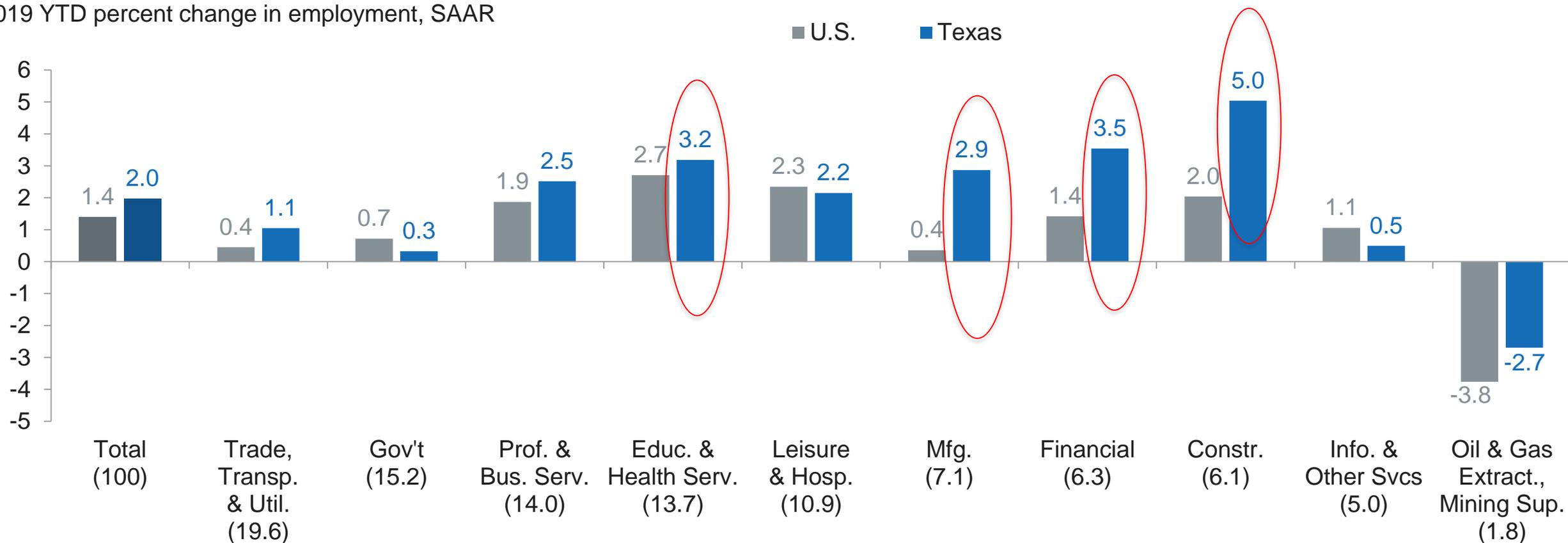
Reason	Texas	Non-Texas
Relocated for job	51	41
Family Reasons	27	27
Amenities	18	24
Other	5	8

NOTE: Data refer to 2010-2019.

SOURCES: CPS-ASEC, author's calculations.

By Industry: Broad based job growth, energy the lone exception

2019 YTD percent change in employment, SAAR

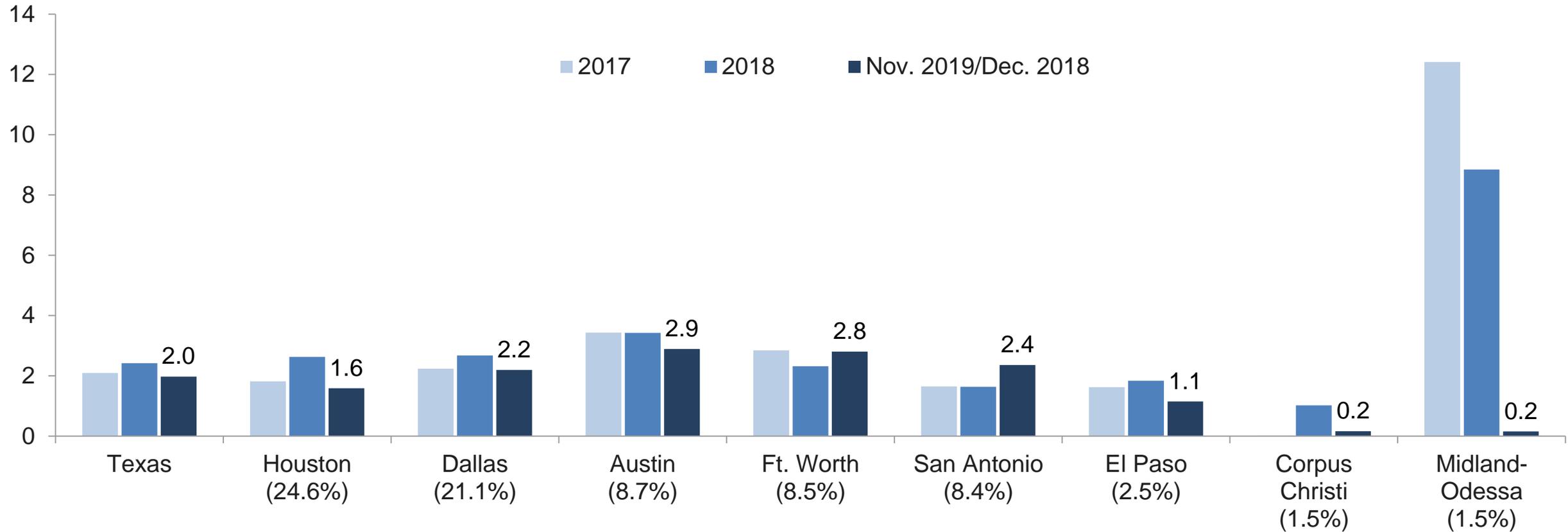


NOTES: Data refer to Nov. 2019/Dec. 2018 annualized growth for Texas and Dec. 2019/Dec. 2018 growth for the U.S.. Numbers in parentheses are share of Texas employment for November.

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

By Metro: Employment growth slowest in energy hubs

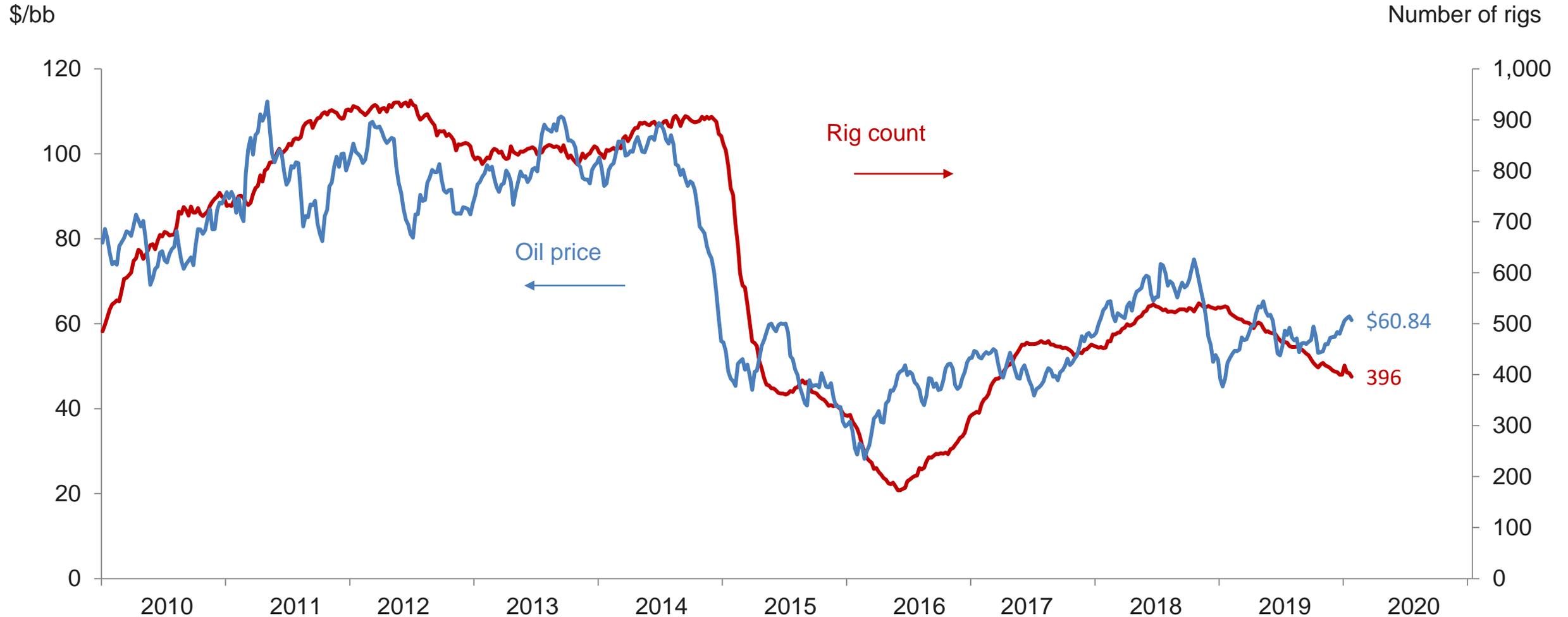
Percent change in employment, Dec./Dec., SAAR



NOTE: Numbers in parentheses refer to the share of Texas employment in the most recent month.

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

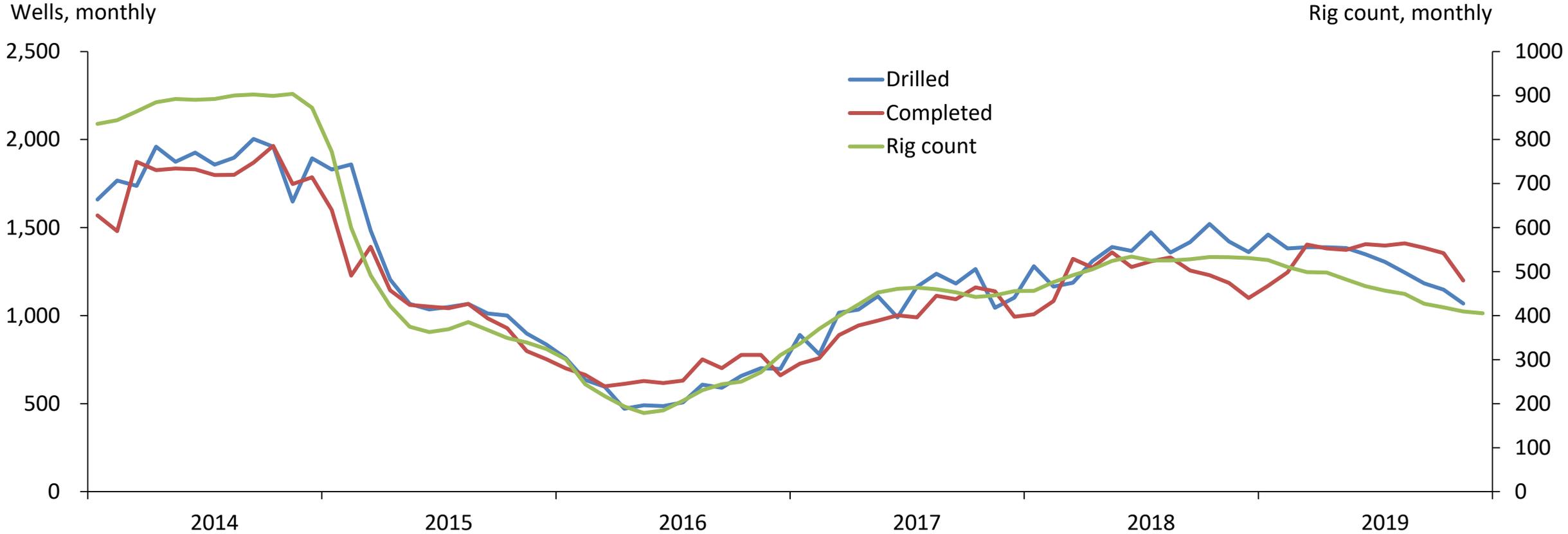
Energy activity continues to slow as rig count trends down



NOTE: Data are weekly, through the week ending January 10, 2020.

SOURCES: EIA; Baker Hughes.

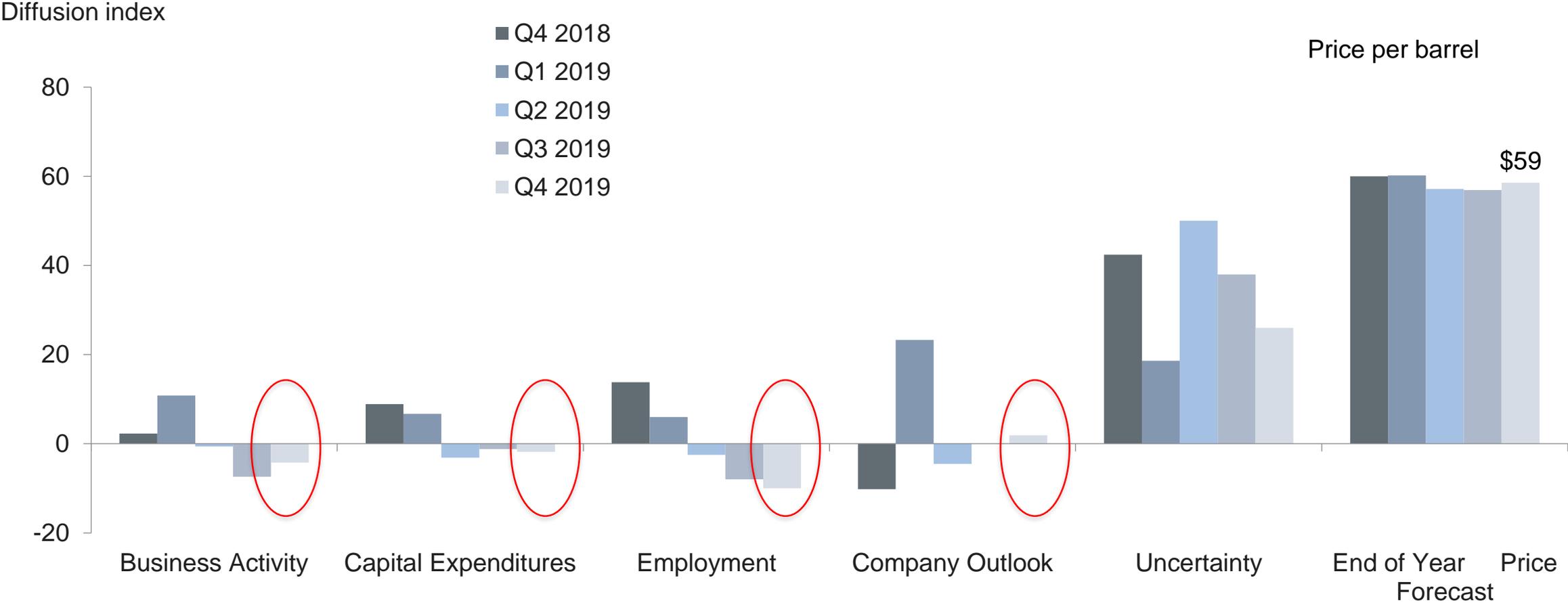
Well completions also falling



NOTE: Rig count data through December 2019; all other data through November 2019.

SOURCES: Energy Information Administration; Baker Hughes.

Dallas Fed Energy Survey: activity still declining, but company outlook turns positive in Q4

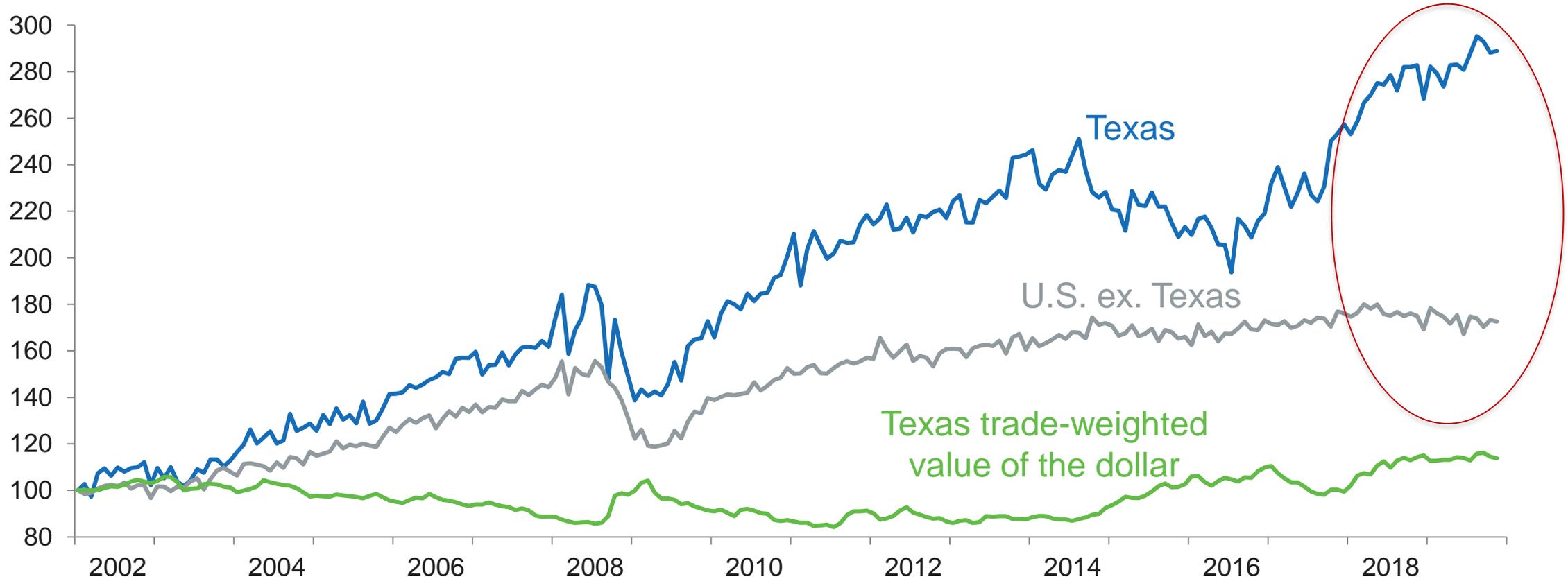


NOTE: Price forecast is average year-end forecast of WTI oil price among respondents.

SOURCE: Federal Reserve Bank of Dallas Energy Survey.

Texas exports keep hitting records despite tariffs, expensive dollar

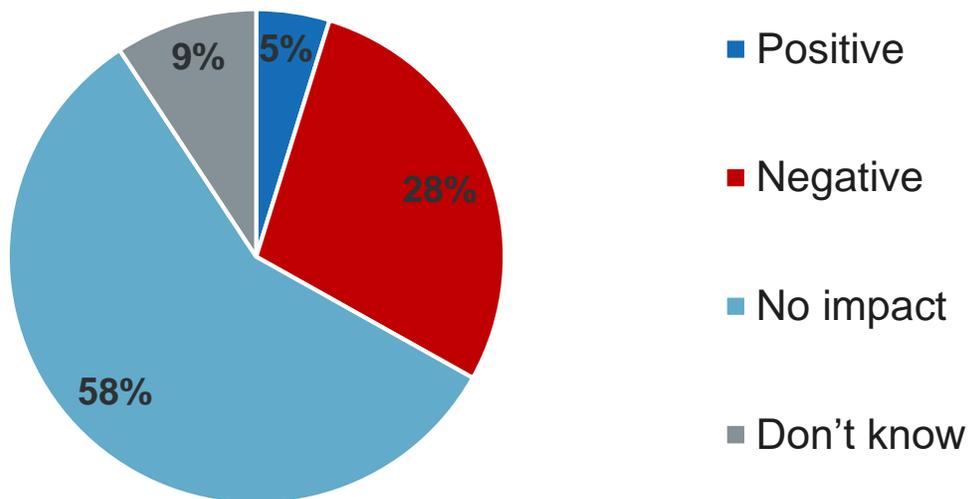
Index, Jan. 2000=100, SA



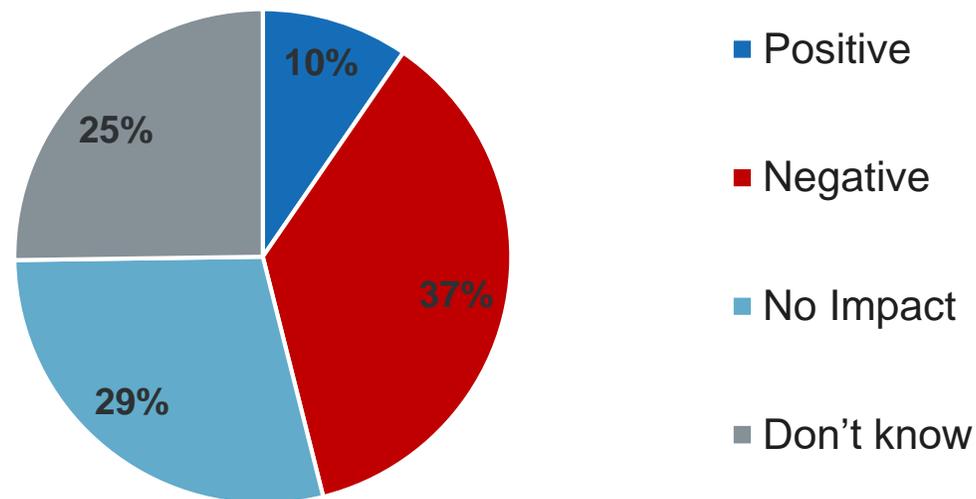
NOTES: Data through November 2019. Exports data in real dollars.
SOURCES: U.S. Census Bureau; Bureau of Labor Statistics.

Texas firms report they are far more likely to be harmed than helped by tariffs

Current (2019)



Longer term
(2020-2021)

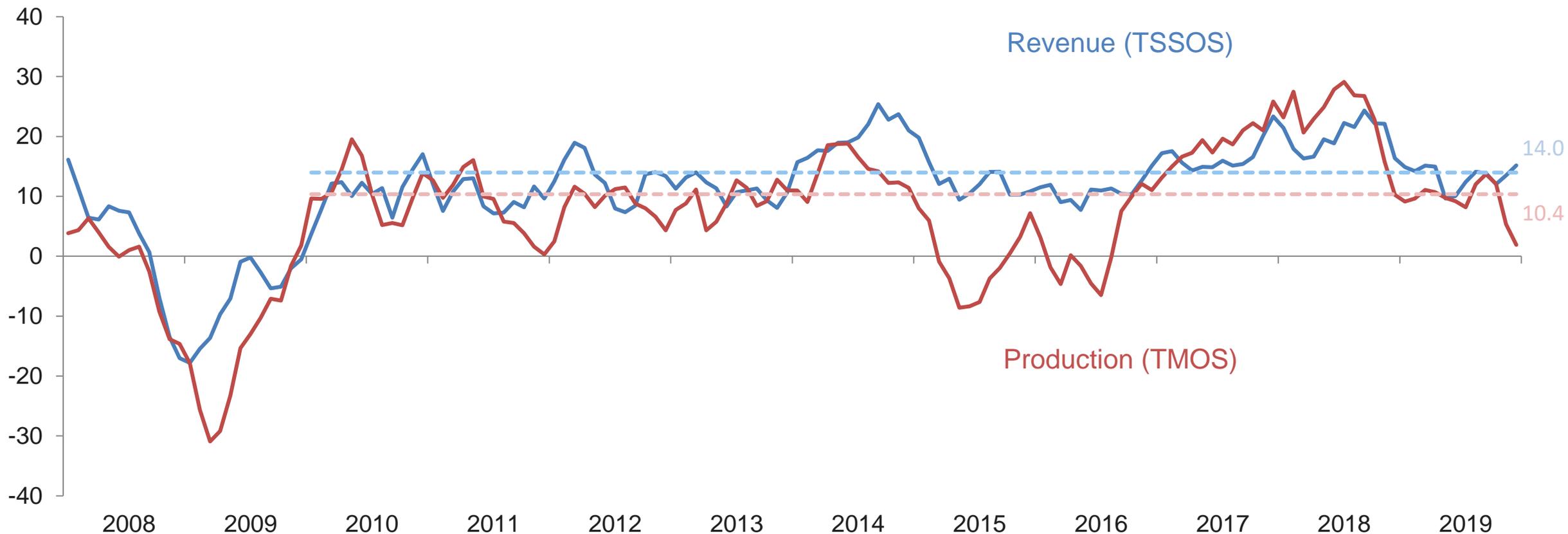


NOTES: Data collected June 11-19 and 363 business executives responded to the surveys.

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

Texas Business Outlook indexes show services, manufacturing activity diverging at year-end

Diffusion index, 3MMA, SA

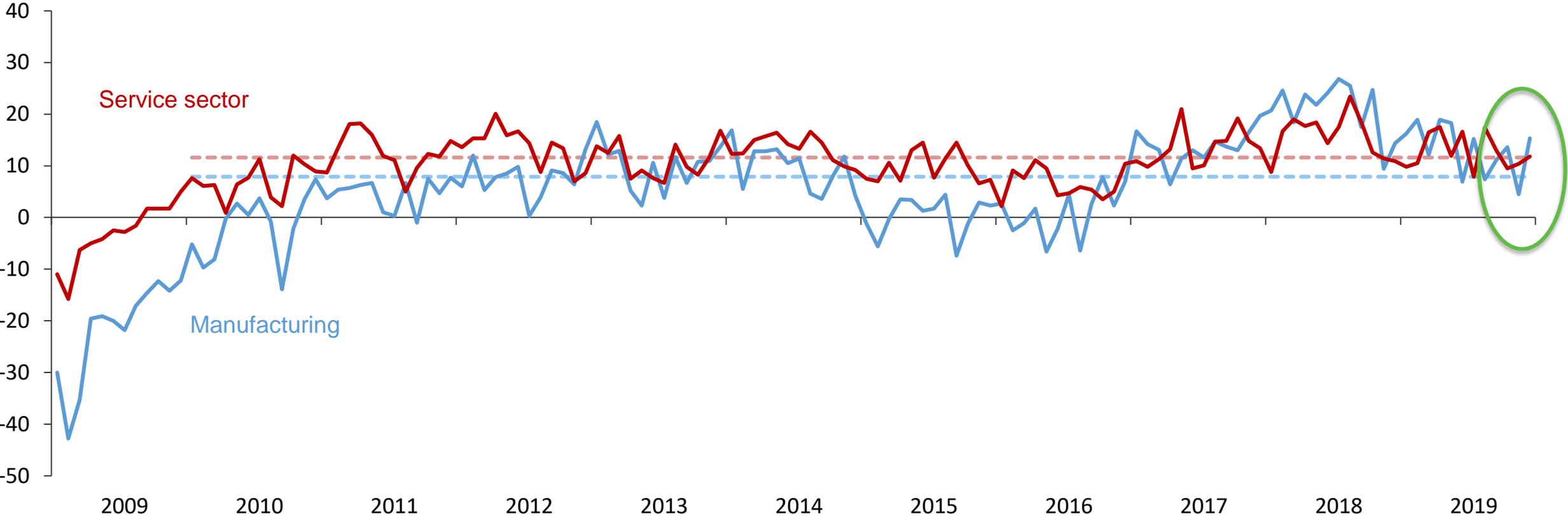


NOTES: Data through December 2019. Dashed lines are post-recession averages.

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

Investment down from 2018 highs, but growing at average pace

Diffusion Index, SA

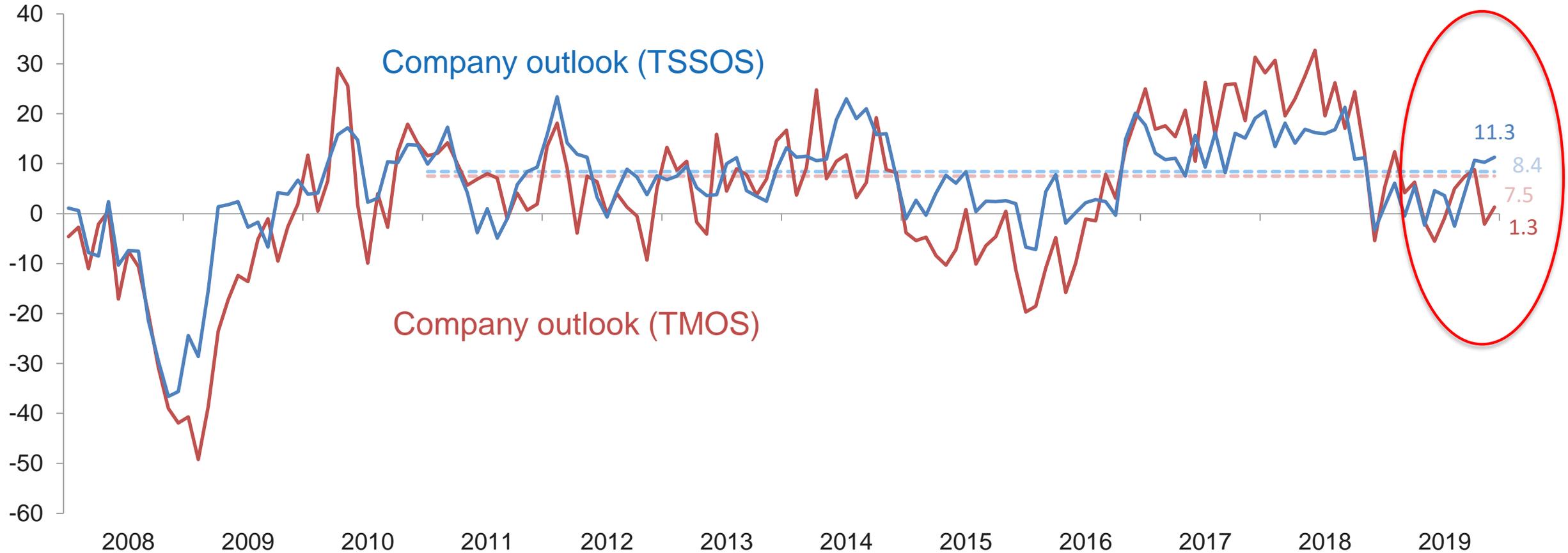


NOTES: Data through December 2019. Dotted lines are post-recession averages beginning in January 2010: TSSOS: 11.6, TMOS: 7.9.

SOURCES: Federal Reserve Bank of Dallas Texas Business Outlook Surveys (TBOS).

Company outlook indexes edge up in December

Diffusion index, SA

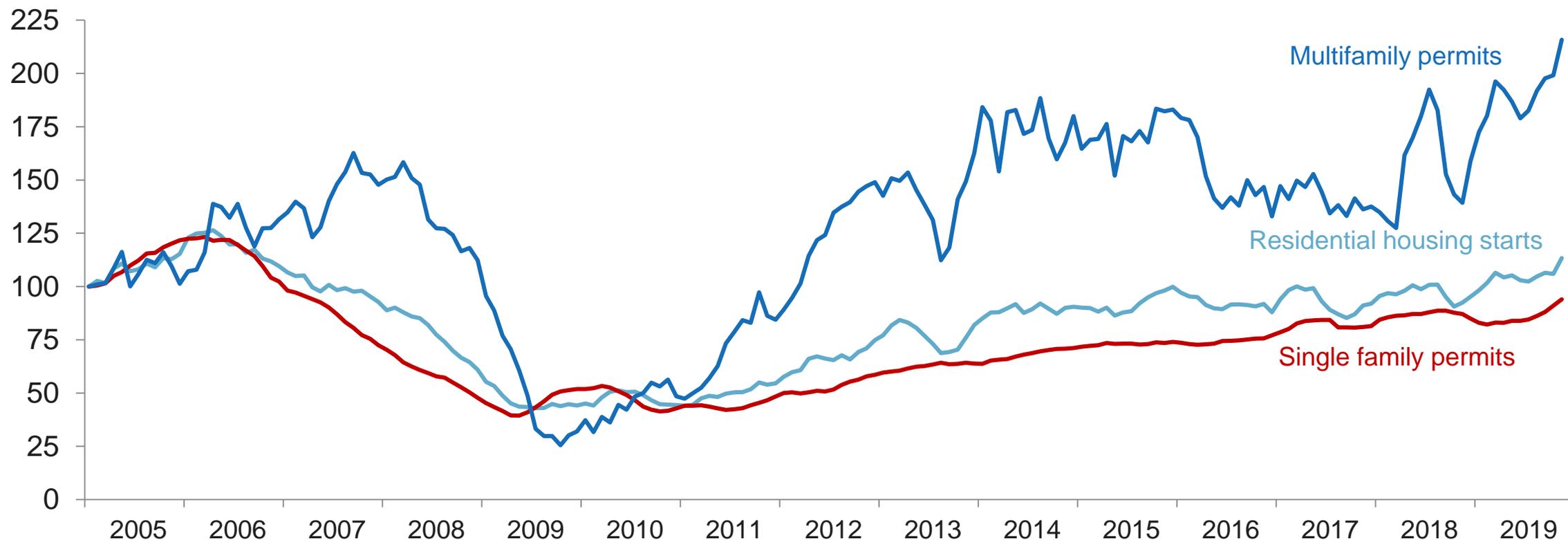


NOTES: Data through December 2019. Dashed lines are post-recession averages.

SOURCES: Federal Reserve Bank of Texas Business Outlook Surveys (TBOS).

Bright spot: Texas residential construction activity reversed course in 2019

Index, Jan. 2005=100, 5MMA, SA

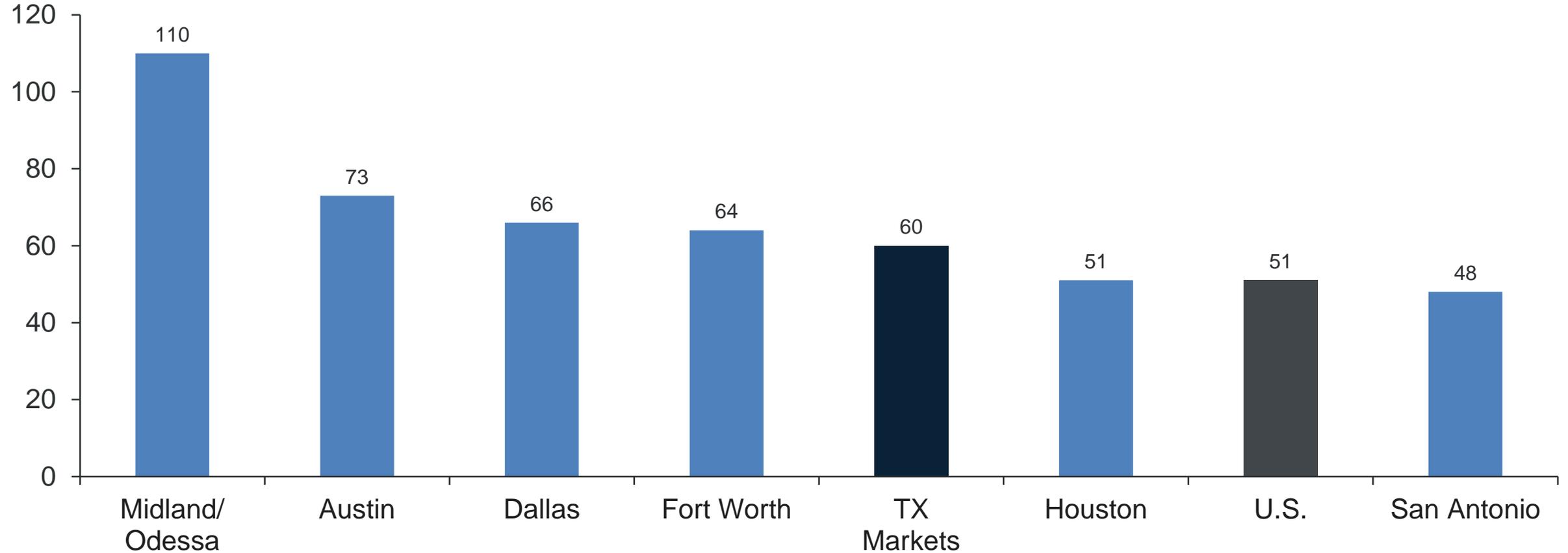


NOTE: Data through November 2019.

SOURCES: U.S. Census Bureau; Bank of Tokyo-Mitsubishi UFJ.

Despite apartment building boom, Texas rent growth exceeds US since 2010

Total rent growth since early 2010

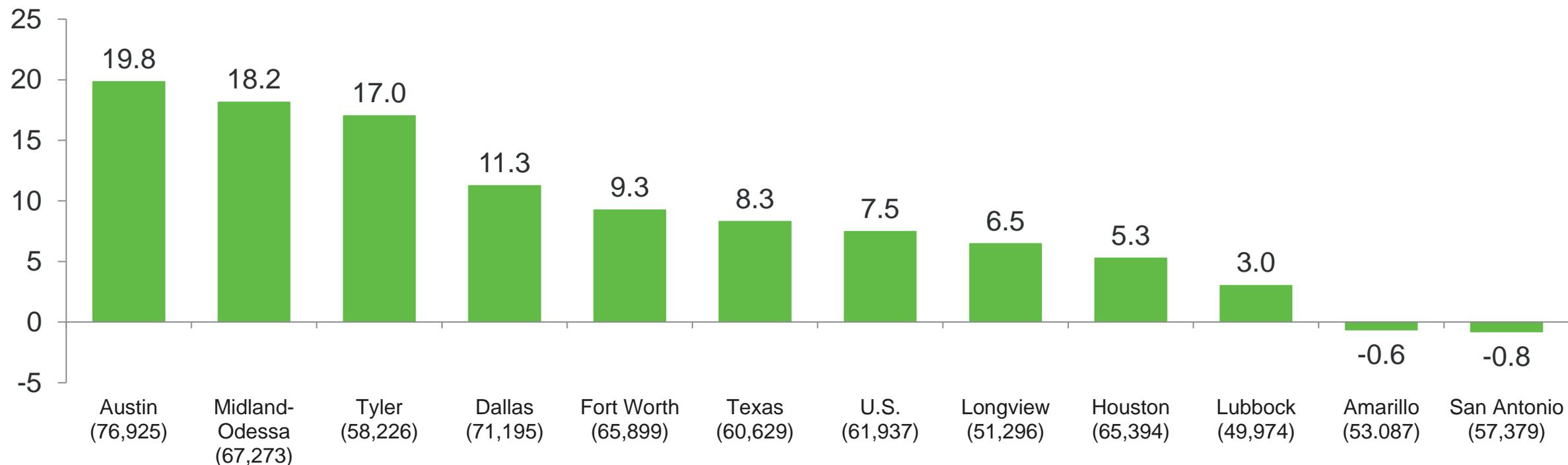


NOTES: Data through Q3 2019. U.S. data based on the 150 metros that form the core of RealPage's coverage.

SOURCE: RealPage Inc.

But income gains in several Texas metros have also exceeded nation since 2010

Percent growth, 2010-18

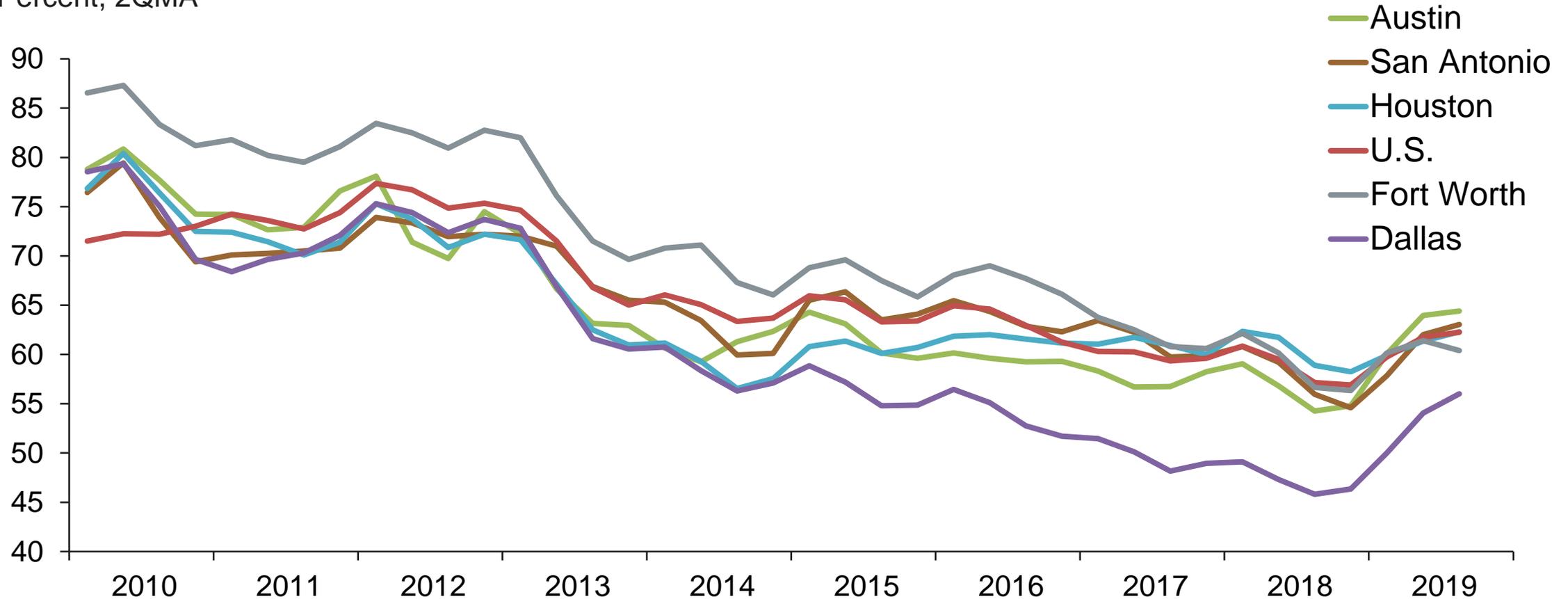


NOTES: Bars show real median household income growth 2010-18. Median 2018 incomes are displayed in parentheses.

SOURCE: Census Bureau, 2010 and 2018 American Community Survey 1-year estimates.

Housing affordability now highest in Austin(!)

Percent, 2QMA



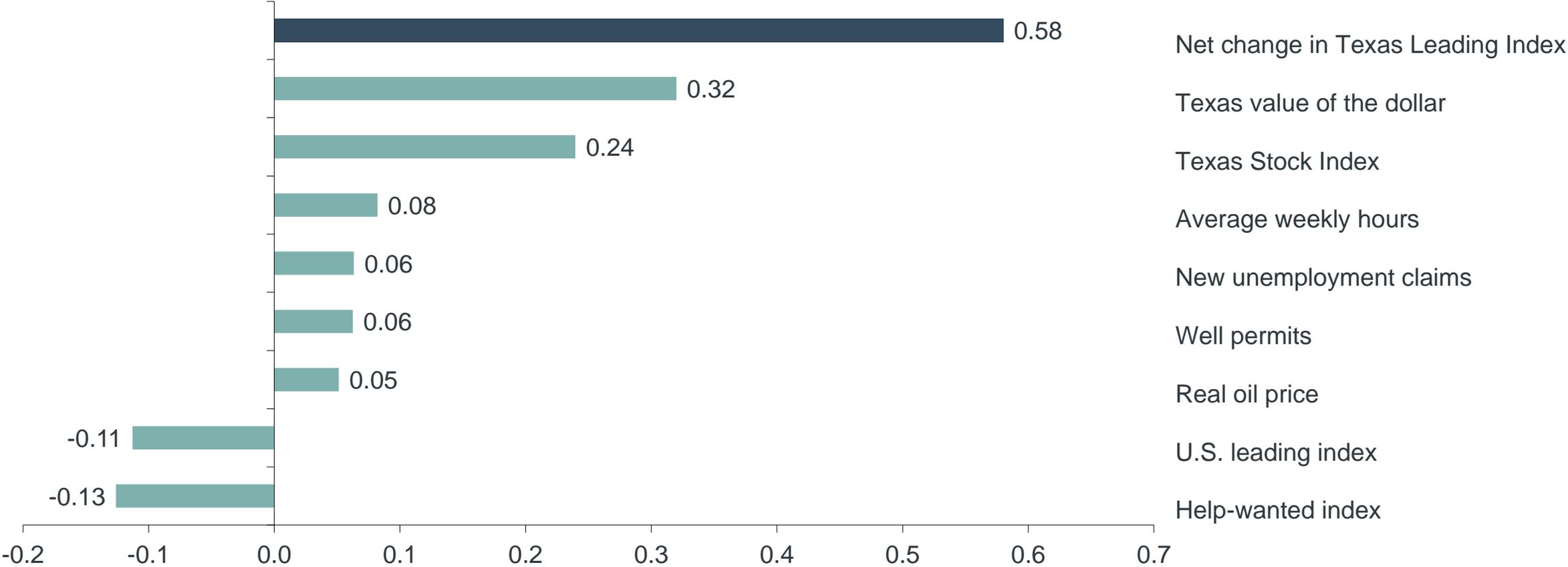
NOTES: Data through Q3 2019. Two-quarter moving average is plotted.

SOURCE: National Association of Home Builders/Wells Fargo.

Outlook for 2020

Most leading index components are positive

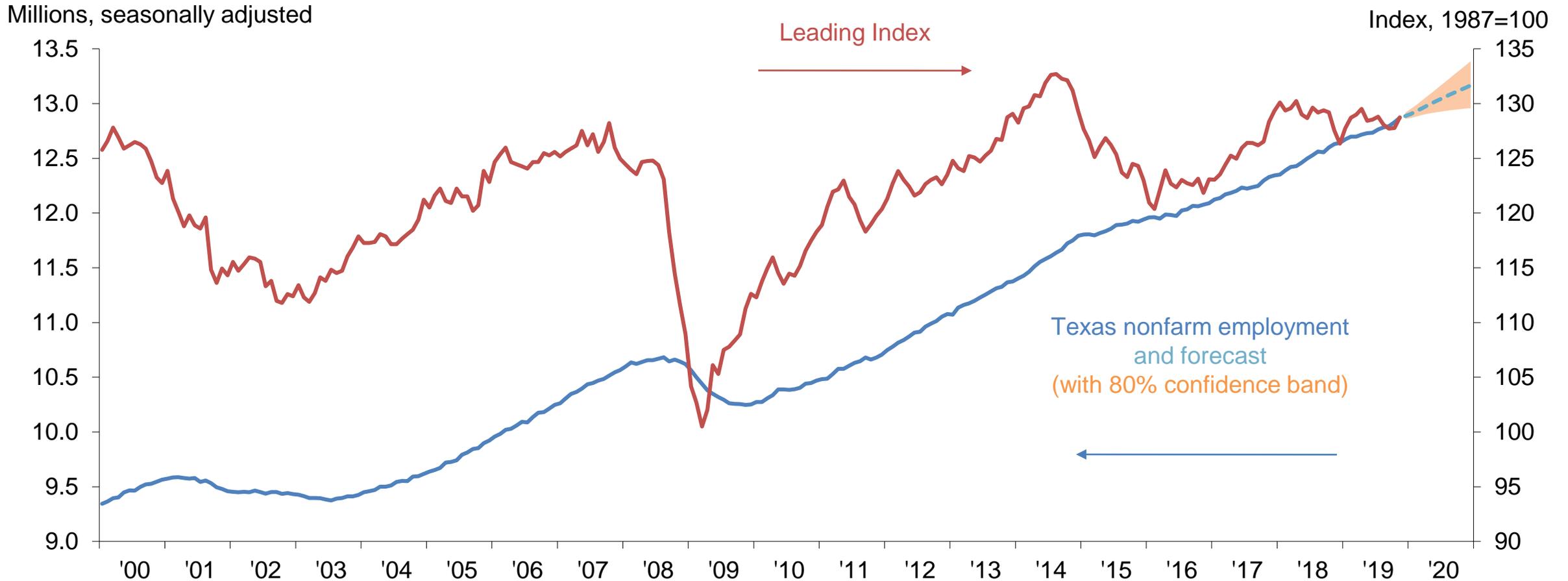
Net contributions to change in Texas Leading Index



NOTES: Three-month percent change through November, seasonally adjusted.

SOURCE: Federal Reserve Bank of Dallas.

Texas job growth likely to be close to the 2019 pace of 2.0%



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

Solid outlook for Texas in 2020

- Texas employment gains are healthy and mostly broad based
 - 2019 headwinds are stabilizing
 - Construction, housing remain bright spots
- Year-end improvement could mean slightly higher growth in 2020
 - Uncertainty down, company outlooks up
 - Forecast for 2020 Texas job growth 2+ percent
- What to watch in short run
 - Labor constraints, policy uncertainty, global growth, **oil prices**
- What to watch in long run
 - Immigration, business climate, climate change

Dallas Fed Publications

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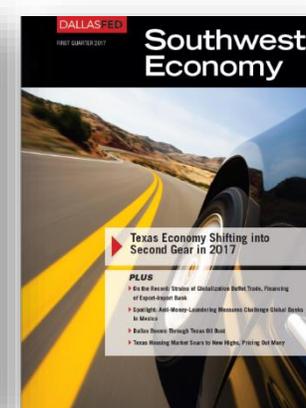
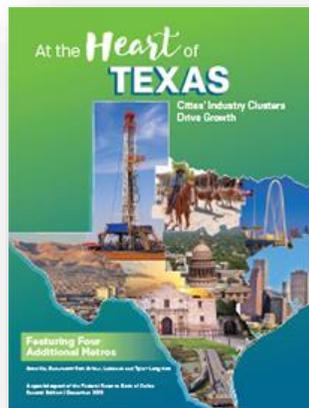
[Texas Economic Indicators](#)

[Texas Business Outlook Surveys](#)

[Southwest Economy](#)

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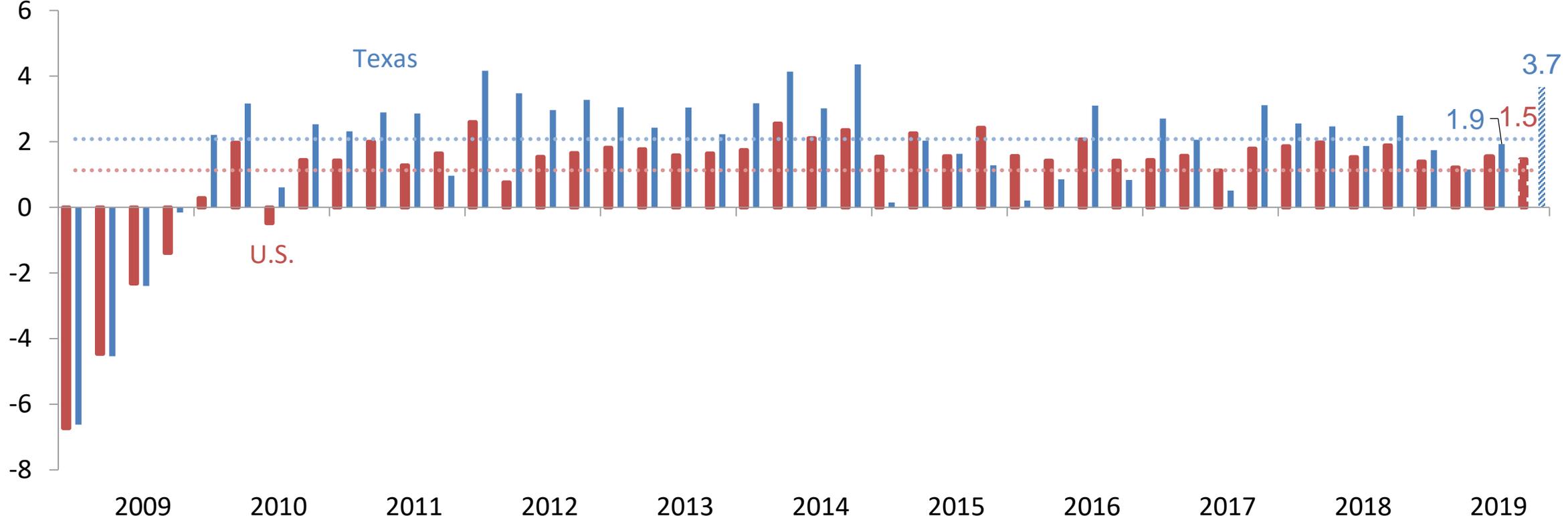


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Texas job growth higher than nation's; picks up in fourth quarter

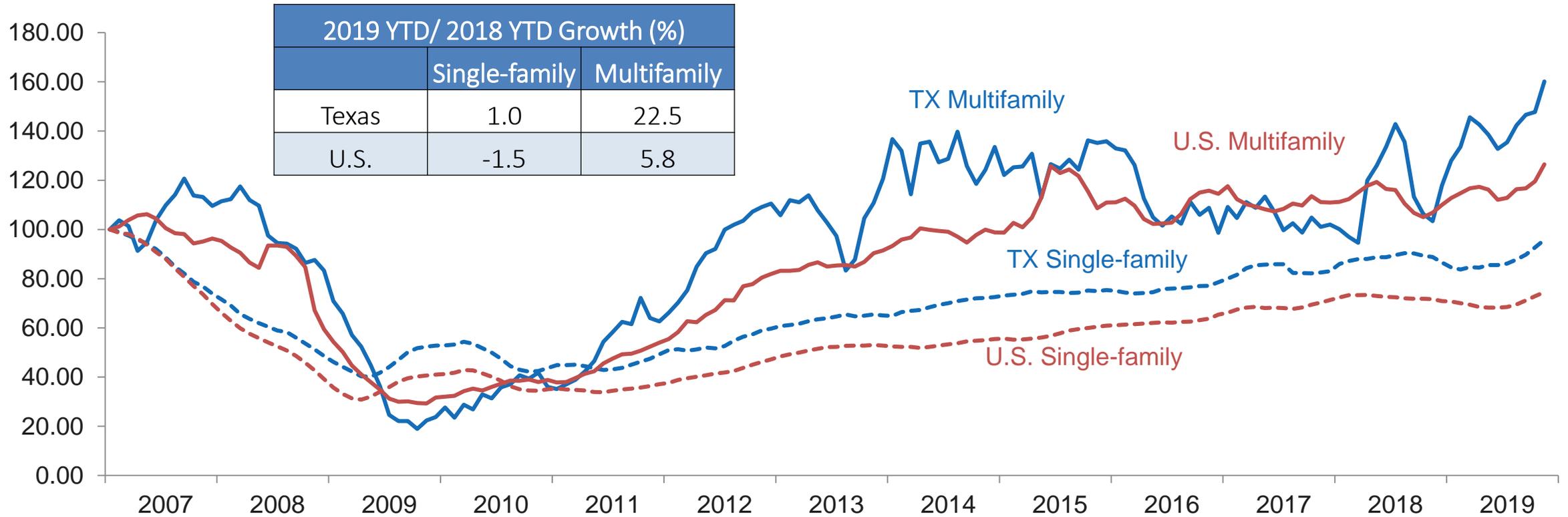
Percent job growth, Q/Q, SAAR



NOTES: Last data points are annualized growth for U.S. (December 2019/September 2019) and Texas (November 2019/September 2019). Dotted lines are long run growth from January 1990 to December 2018: U.S. 1.1; Texas 2.1.
 SOURCES: BLS; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.

Texas multifamily construction still elevated, single-family building rising slowly

Index, Jan.'07=100, 5MMA, SA



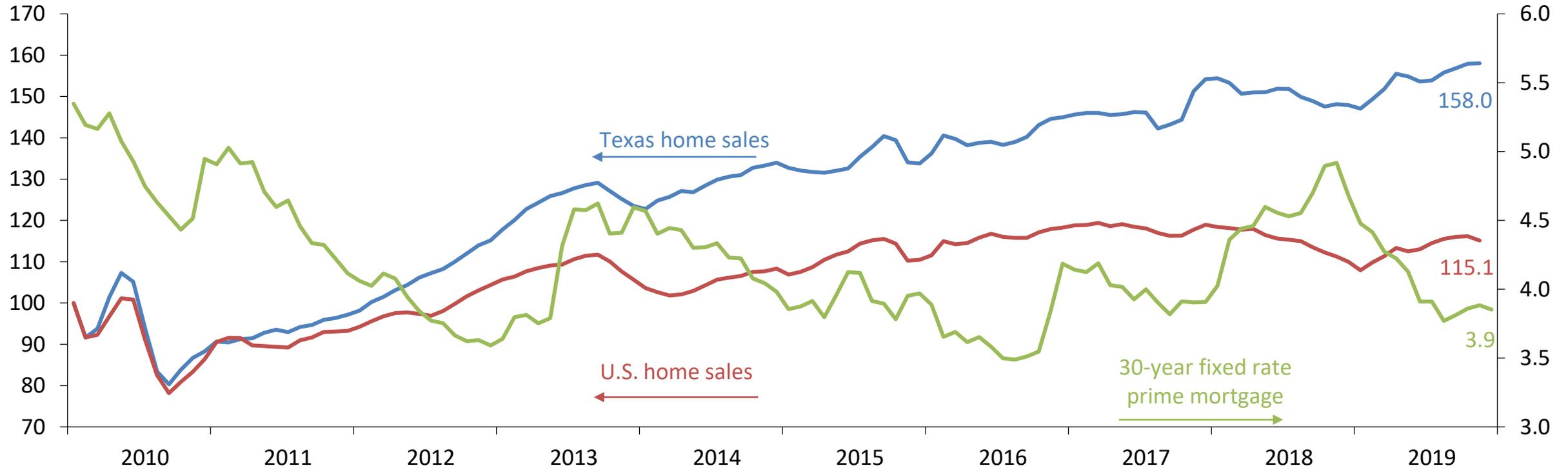
NOTES: Data through November 2019. Table shows growth in total permits issued.

SOURCE: U.S. Census Bureau.

Texas home sales rise on lower mortgage rates

Index, Jan. 2012 = 100, 3MMA, SA

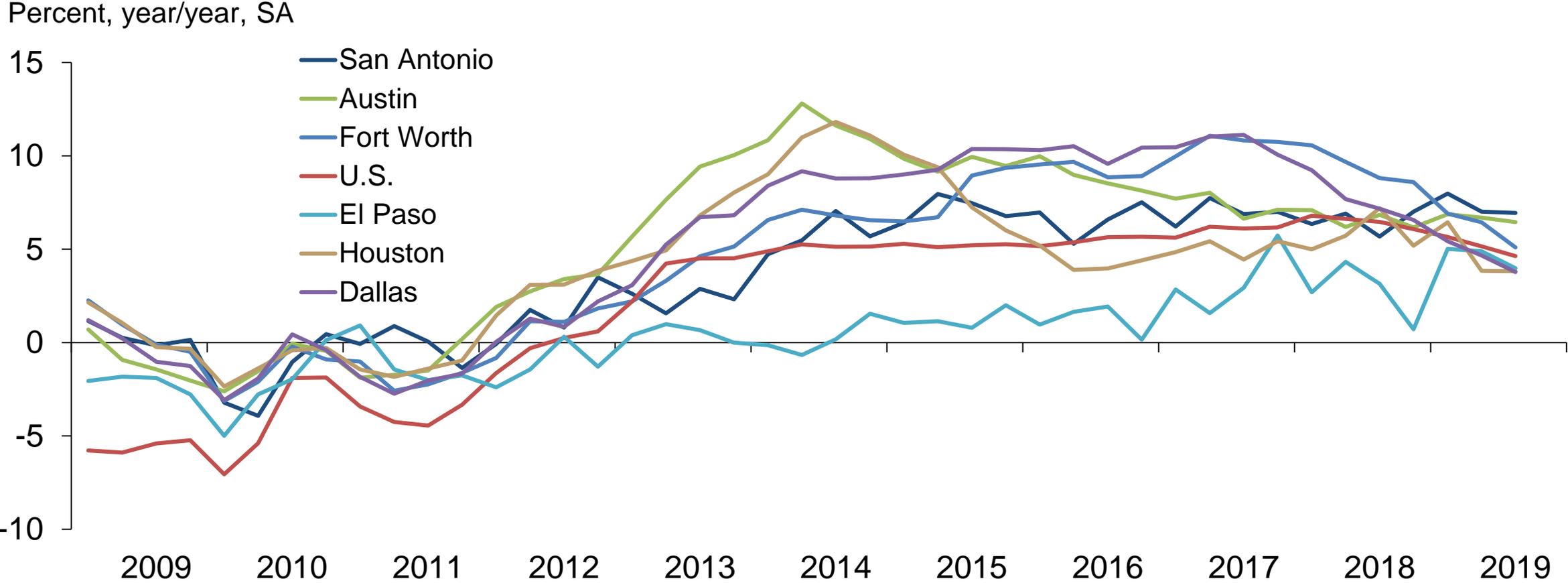
Interest rate, monthly average



NOTES: Interest rate data as of December 2019. All other data through November 2019. Effective interest rate is for closed 30-year, fixed-rate, prime, first mortgages.

SOURCES: MLS; Texas A&M Real Estate Center; *Wall Street Journal*.

San Antonio lead home price growth Q3 2018 to Q3 2019; Austin not far behind



NOTE: Data through Q3 2019.
SOURCE: Federal Housing Finance Agency's Home Price Index.

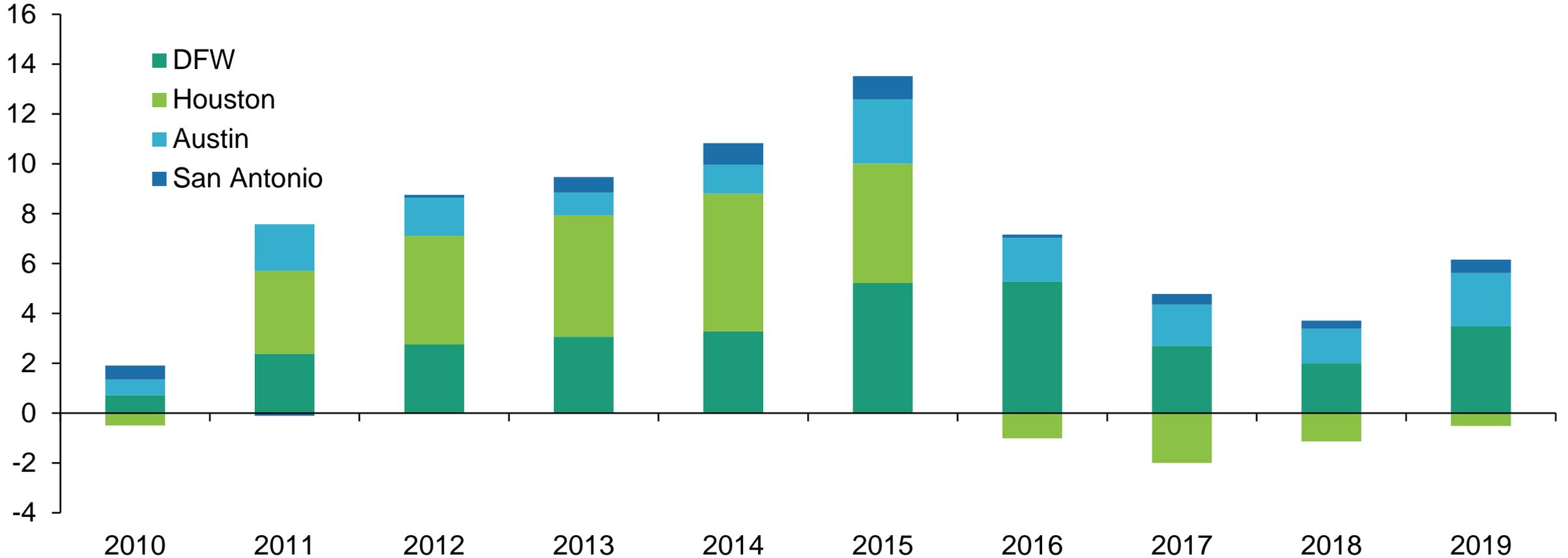
Apartment demand in Texas: Rent gains largest in Austin

Q3 2019	Austin	Dallas-Fort Worth	Houston	San Antonio
Demand (units absorbed)	3,531	9,604	7,024	1,839
Occupancy (percent)	95.9	95.5	94.3	94.6
Rent (percent change, year-over-year)	4.7	2.9	0.8	3.3
Building (units under construction)	14,589	43,998	24,493	5,444

SOURCE: Real Page, Inc.

Office absorption: Houston drags after oil bust

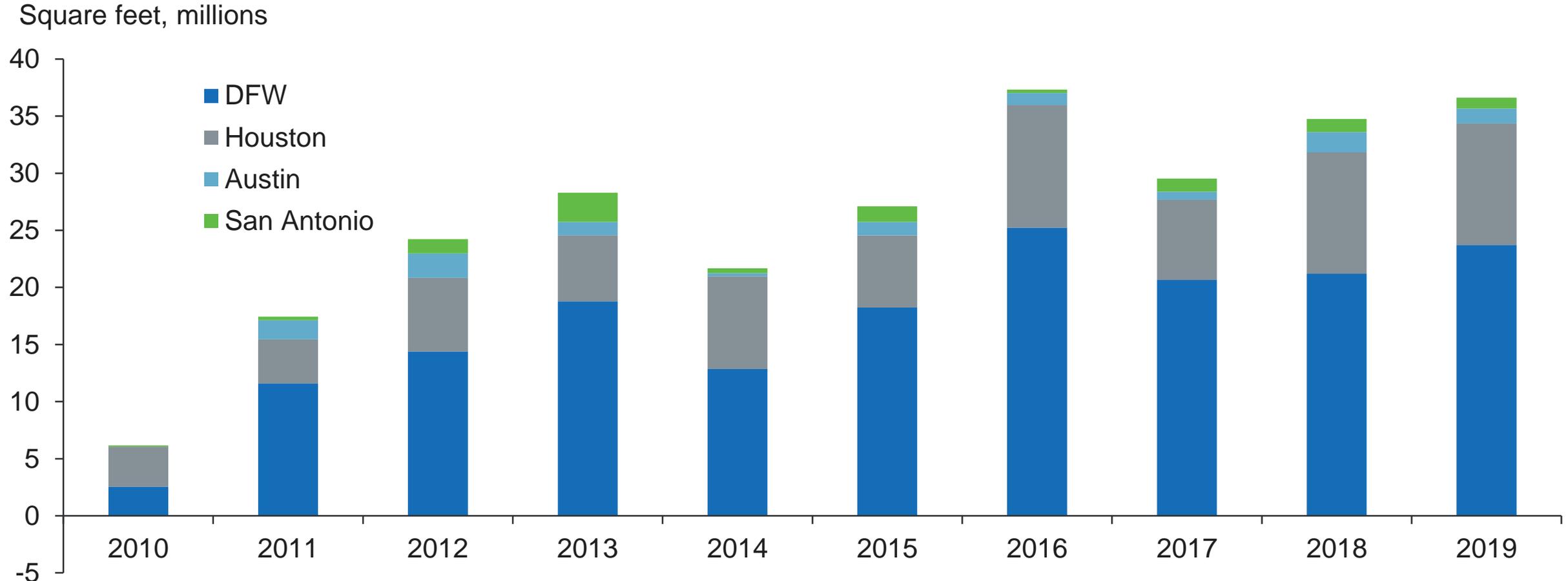
Net absorption, millions



NOTE: San Antonio data missing in Q1 2014, Q2-Q4 2016.

SOURCE: CBRE Research.

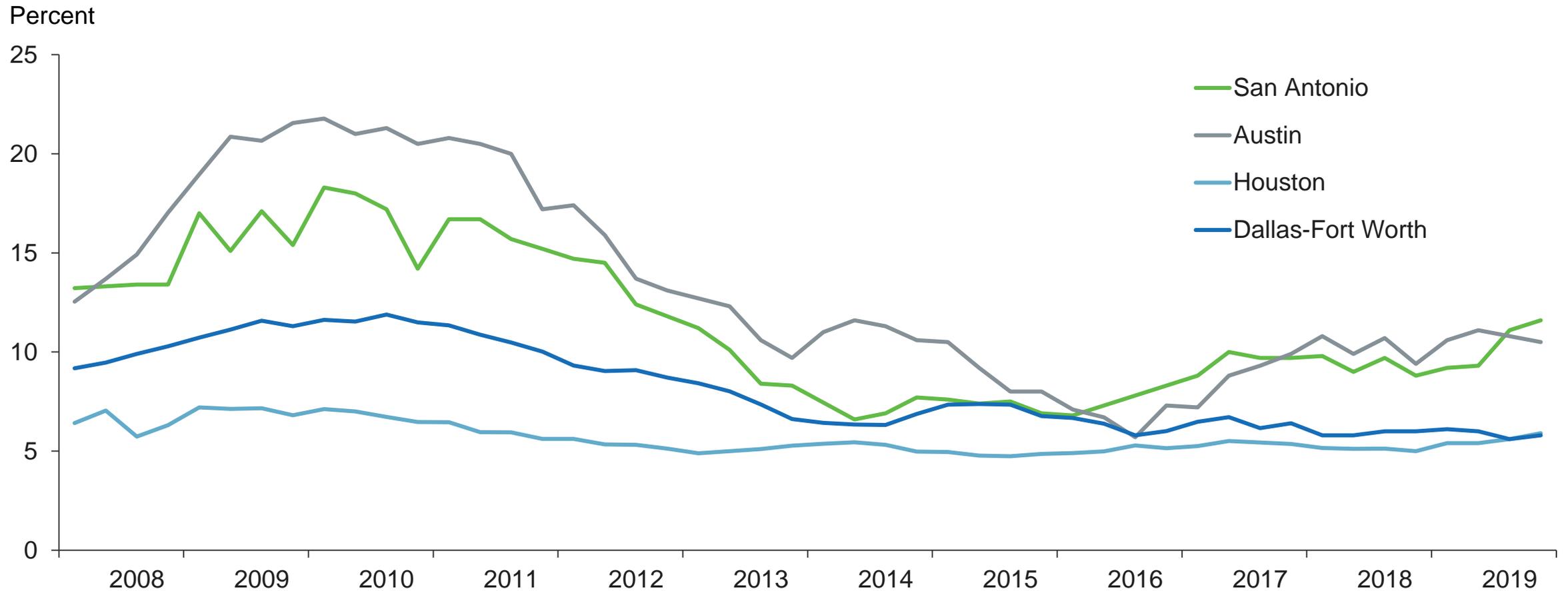
Industrial absorption remains solid



NOTES: Data for 2019 are through third quarter. San Antonio data missing in Q1 2014, Q2-Q4 2016.

SOURCE: CBRE Research.

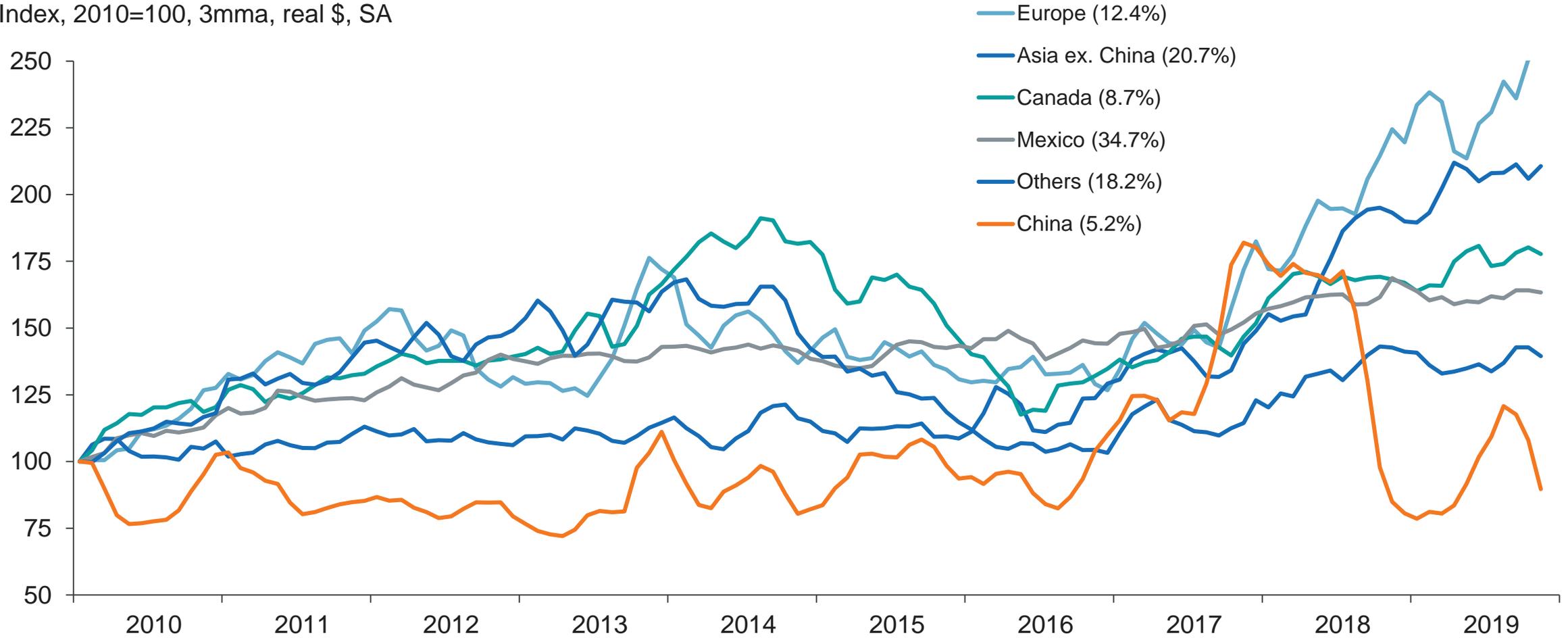
Industrial vacancies mostly tight



NOTES: Data through fourth quarter 2019. Austin data missing in Q1 2013. San Antonio data missing in Q1 2014, Q2-Q4 2016.
SOURCE: CBRE Research.

Texas exports to China plunge 45% after tariffs imposed

Index, 2010=100, 3mma, real \$, SA

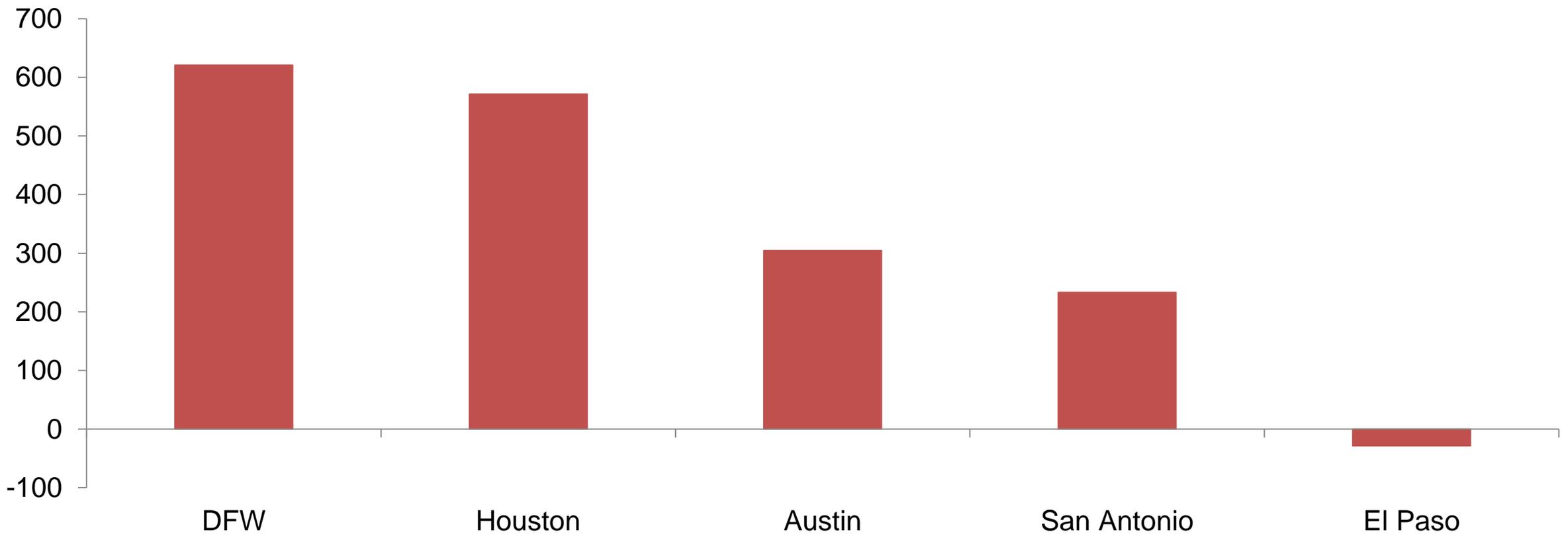


NOTES: Data through November 2019. Numbers in parentheses are share of 2018 Texas exports.

SOURCES: U.S. Census Bureau; Bureau of Labor Statistics.

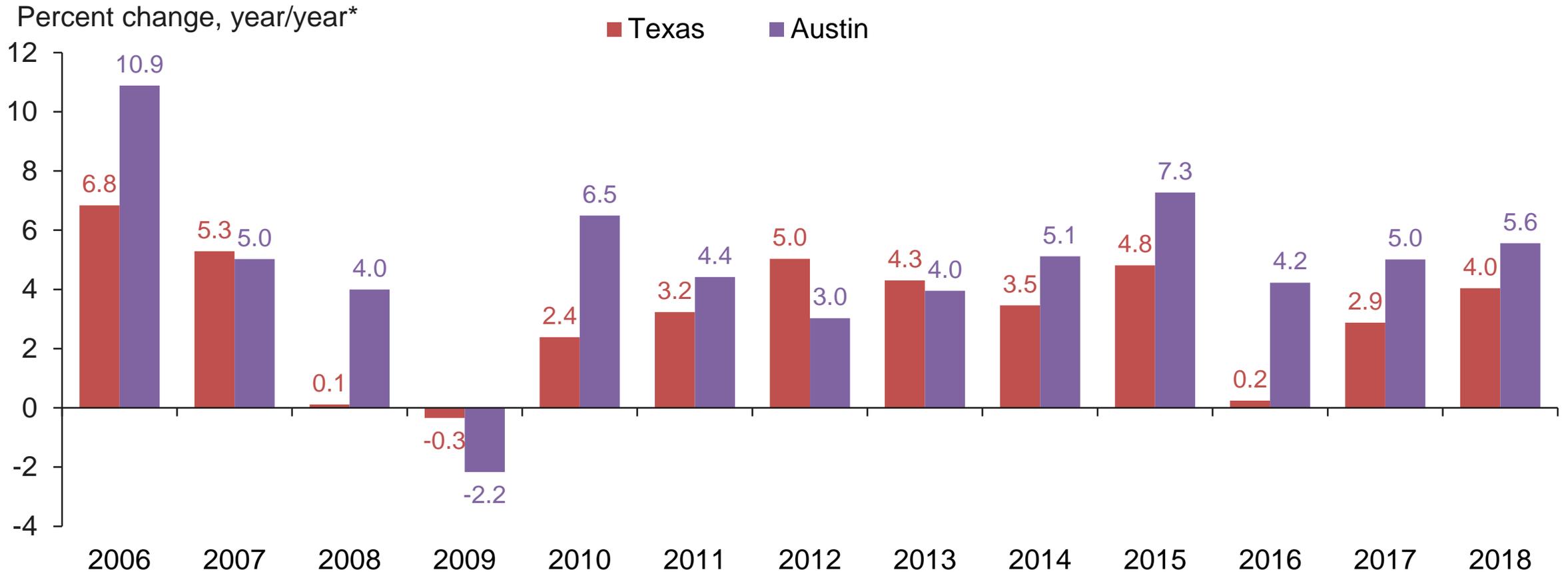
Austin third among major metros in net migration gains since 2010

Net migration, thousands



NOTE: Data are for July 2010 to July 2018.
SOURCE: U.S. Census Bureau, Population Division.

GDP growth picks up in 2018



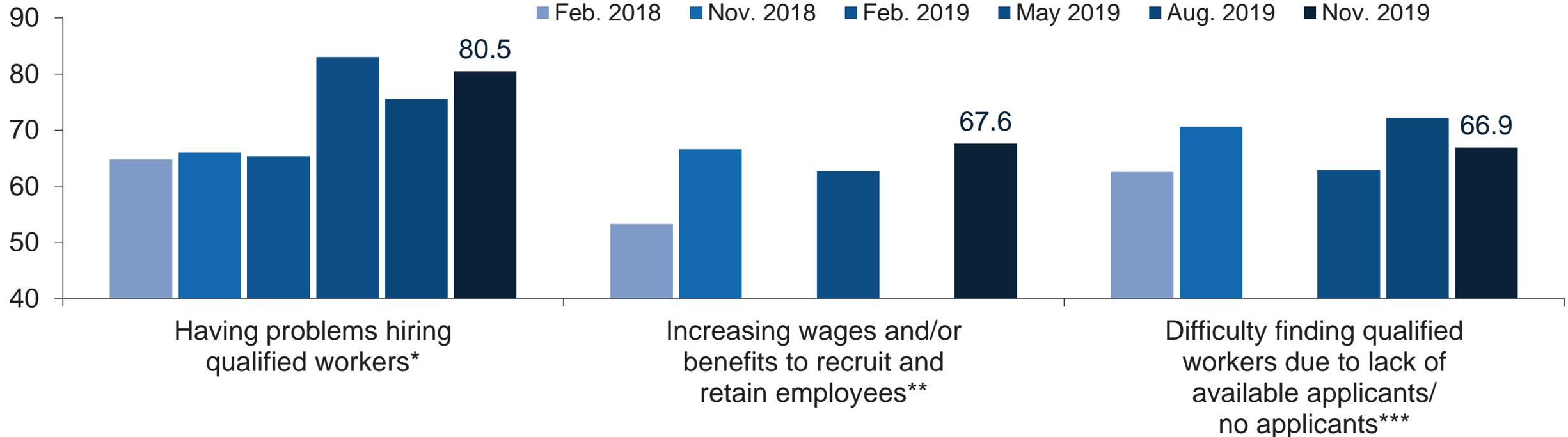
*Chained 2012 dollars.

NOTE: Data through 2018.

SOURCE: Bureau of Economic Analysis.

Texas firms say it's hard to hire; cite lack of applicants

Percent of respondents

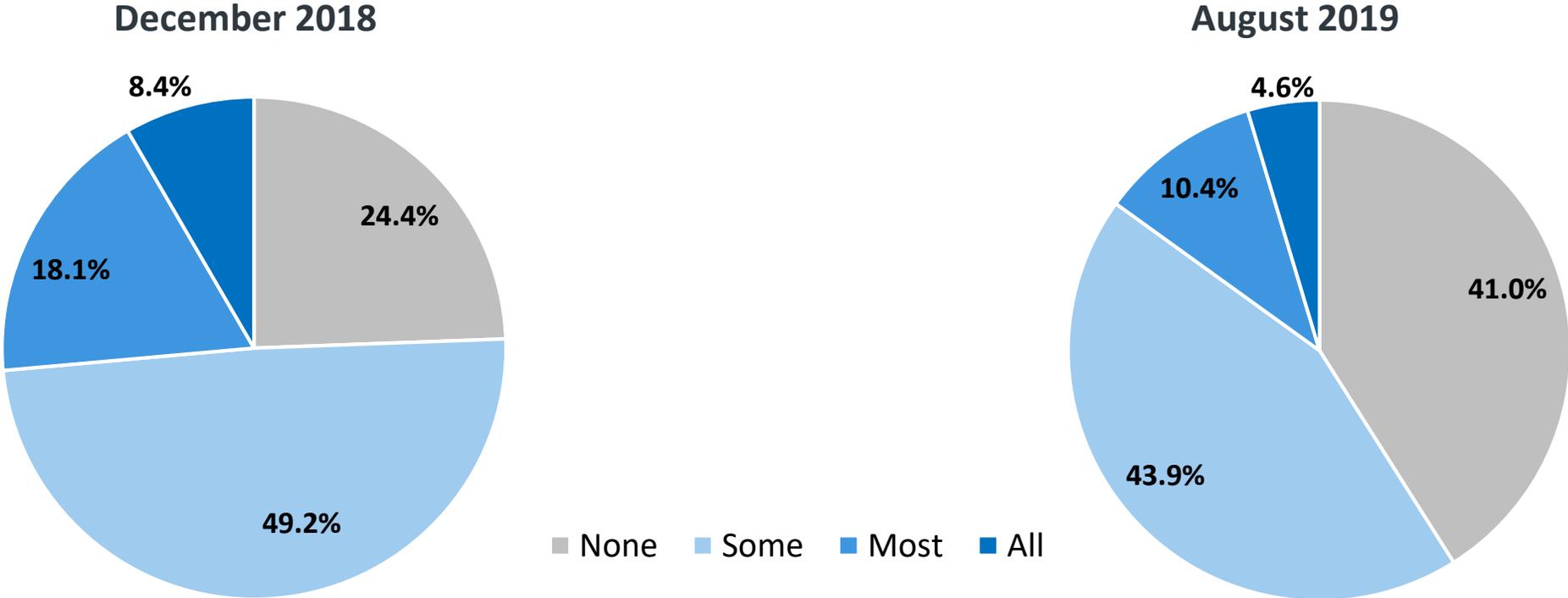


*Starting in May 2019, “having problems hiring qualified workers” is only posed to respondents who indicated they were hiring. **Starting in Nov. 2018, “increasing wages” appears as a separate answer choice from “increasing benefits” and the combined series is calculated based on affirmative responses to either.

***Only posed to respondents who answered “Yes” to the question: “Are you having problems finding qualified workers when hiring?” Starting in Aug. 2019, respondents were divided based on what skill-level they were looking for.

SOURCE: FRB Dallas Texas Business Outlook Survey.

Firms' ability to pass on cost increases to customers is down significantly this year



NOTES: Percent of respondents is taken as a percent of those who checked each response to the question: "If costs (including wages) are increasing, to what extent are you passing the higher costs on to customers in the way of price increases?" There were 383 respondents.

SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys