

# Texas Economic Outlook

State eyes soft landing as growth slows



Federal Reserve  
Bank of Dallas

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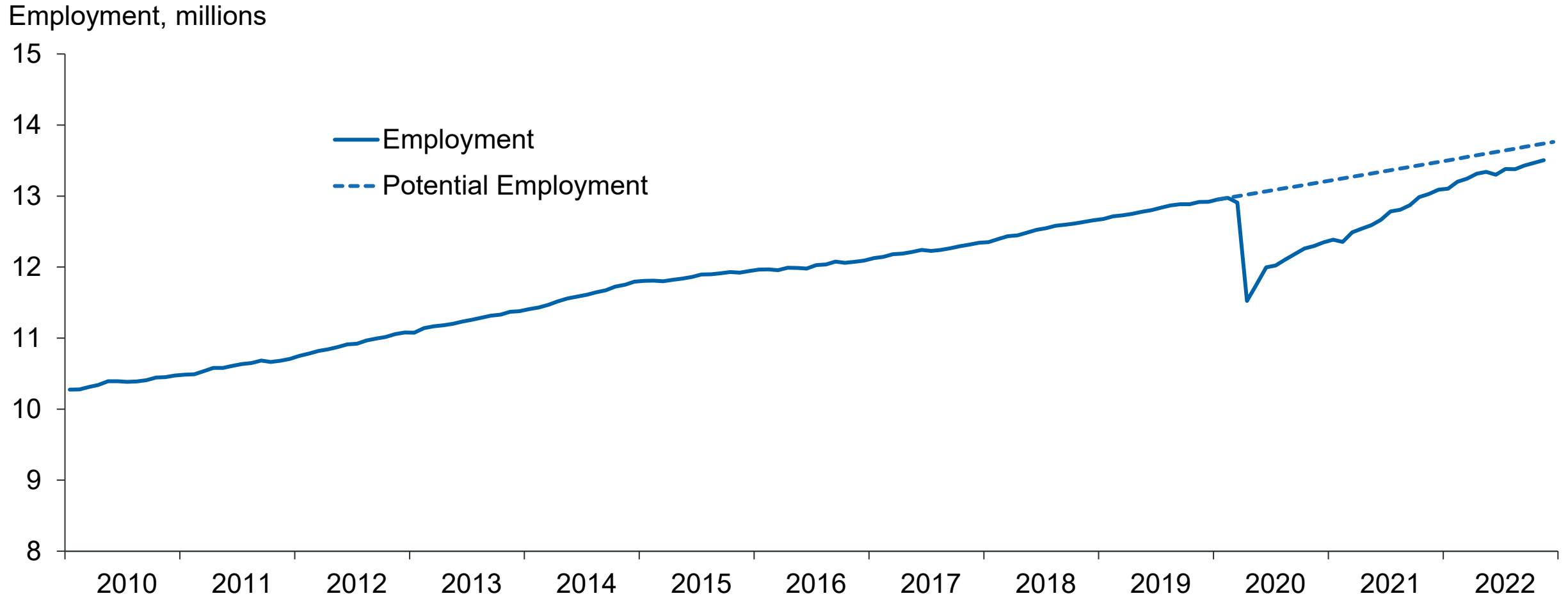
January 13, 2023

Disclaimer: The views expressed are those of the presenter and do not reflect those of the Federal Reserve Bank of Dallas or the Federal Reserve System.

# Regional Economy Overview

- Signs of slowing are mounting in the region's economy.
  - Employment data revisions, economic activity, new orders, lending, and home sales
- But job growth has continued to outperform the nation.
  - Texas employment was up 3.5 percent last year, slightly above the nation
  - Job growth may slow to below 2% this year, in line with continued slowing
- Risks to the outlook include...
  - Potential U.S. recession, global slowing
  - Elevated inflation and rising interest rates
  - Persistent labor constraints and higher wages

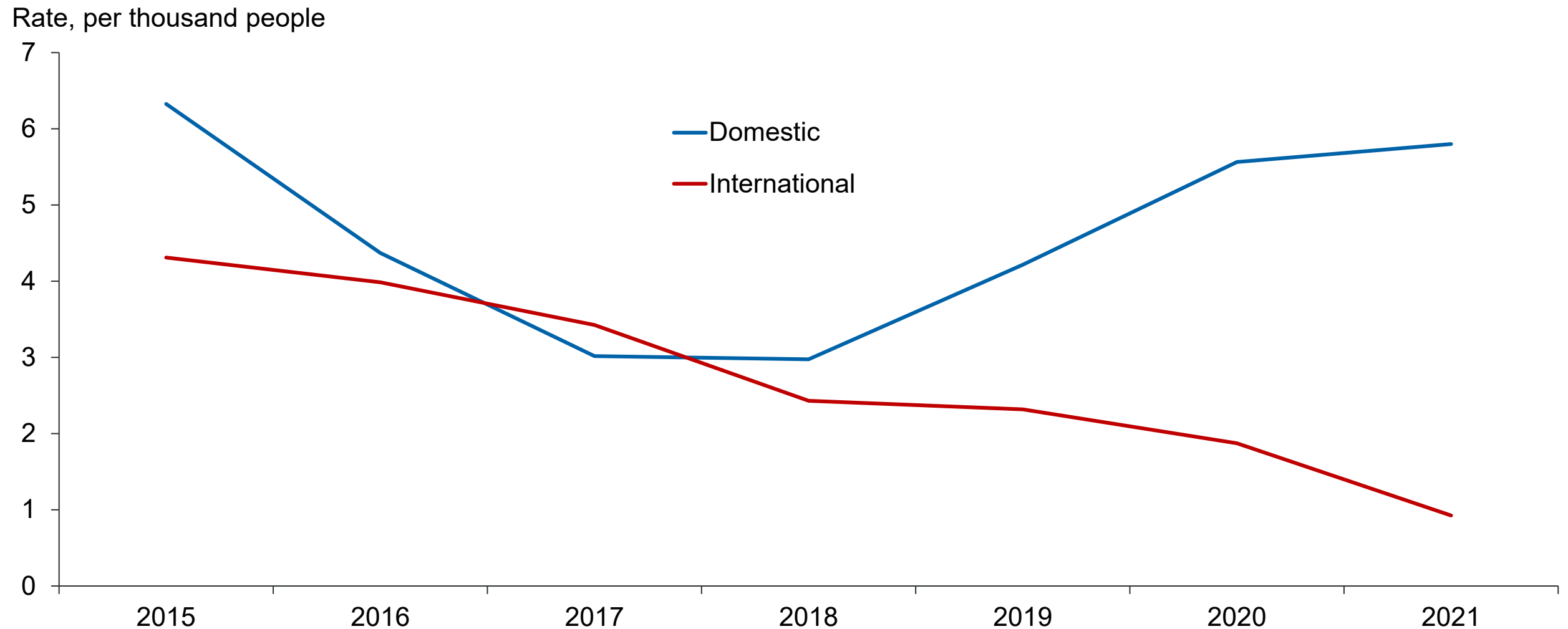
# While Texas employment has recovered from recession losses, it is still slightly below where it would have been




NOTES: Potential employment assumes 2.1% annual growth beginning February 2020. Data through November 2022.

SOURCES: Bureau of Labor Statistics; National Bureau of Economic Research; author's calculations.

# Domestic migration to Texas surged in 2020, 2021



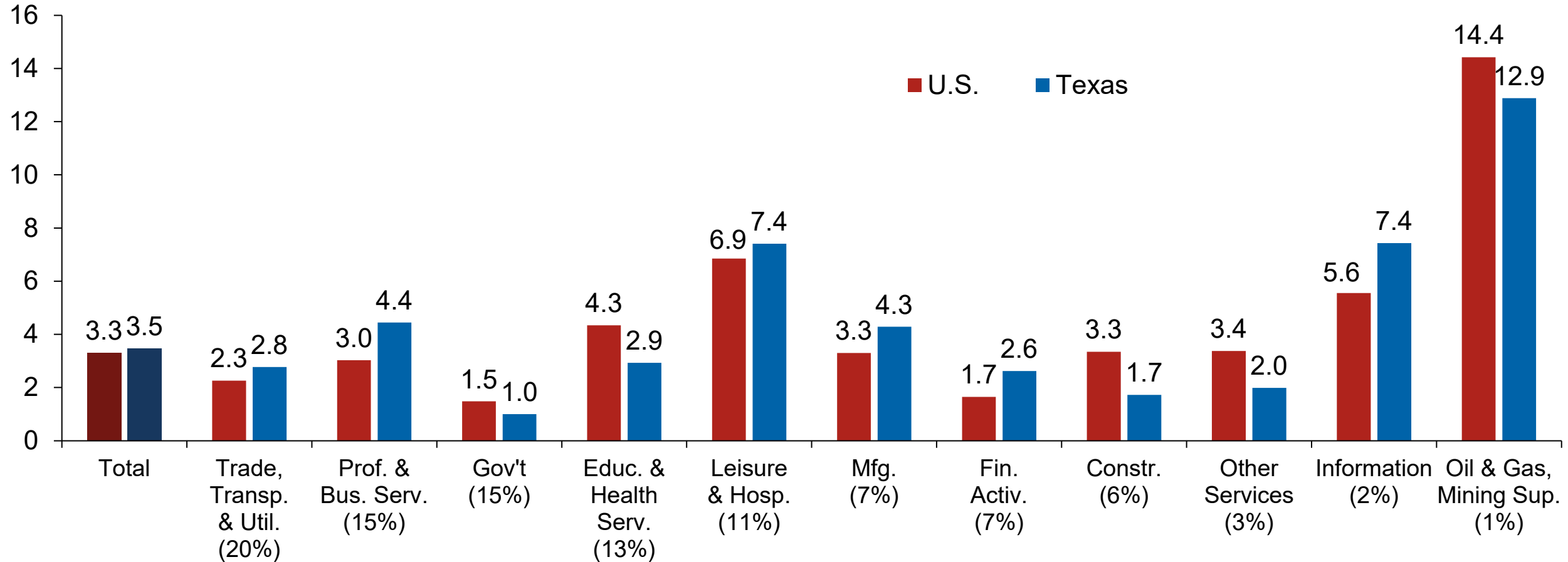
NOTE: Data include number of domestic and international migrants per thousand Texas residents.  
SOURCE: U.S. Census Bureau.

A hot air balloon with a dark and light pattern is floating in a starry night sky over a desert landscape. The balloon is illuminated from below, and the sky is filled with stars and a faint Milky Way. The desert below is dark with some sparse vegetation.

# Looking back at 2022 Employment

# Texas posted strong, broad based job growth in 2022

Job growth year to date (percent, annualized)

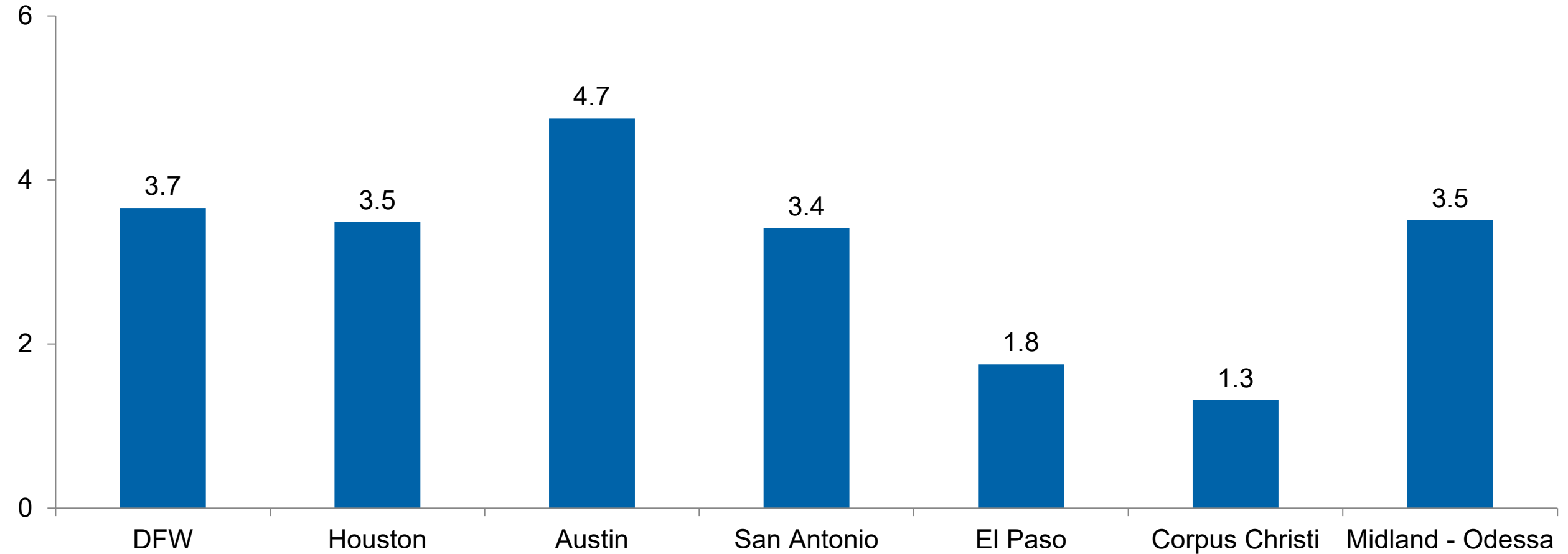


NOTES: Data show year to date job growth, annualized, through November. Numbers in parenthesis indicate share of total state employment in Nov. 2022.

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

# Metro area job growth has also been fairly broad, robust

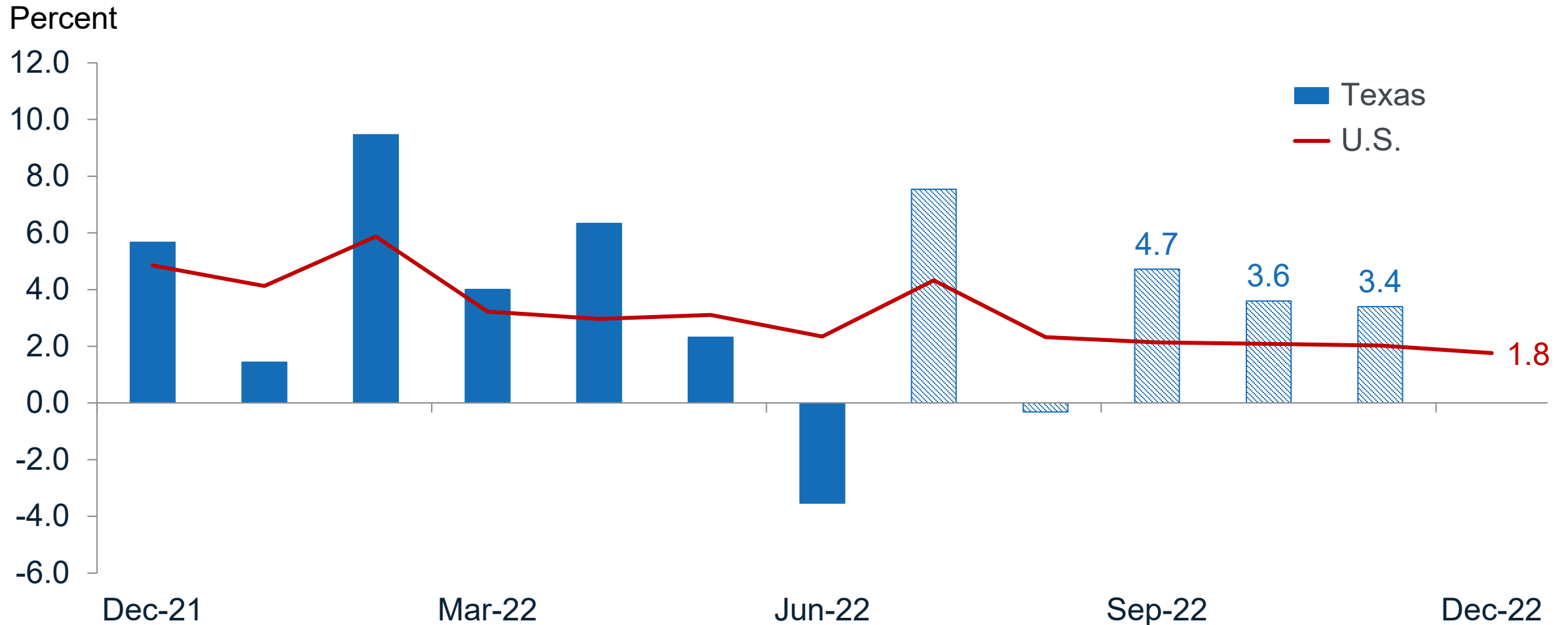
Job growth (percent), Nov. 2022/Dec. 2021



NOTES: Data refer to Nov. 2022/Dec. 2021 annualized job growth.

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

# But monthly data show job growth slowed in 2022

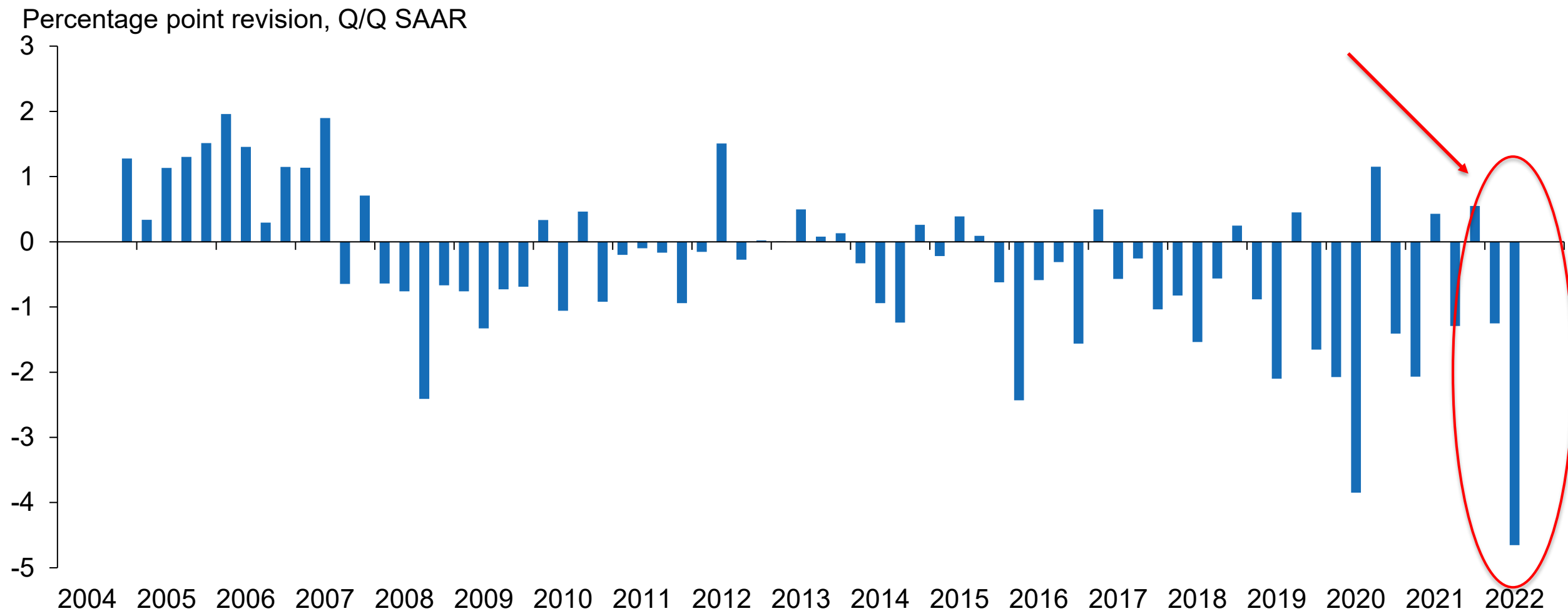


NOTES: Texas data through November 2022, US Data through December 2022.

SOURCES: Bureau of Labor Statistics. Adjustments made by the Federal Reserve Bank of Dallas.



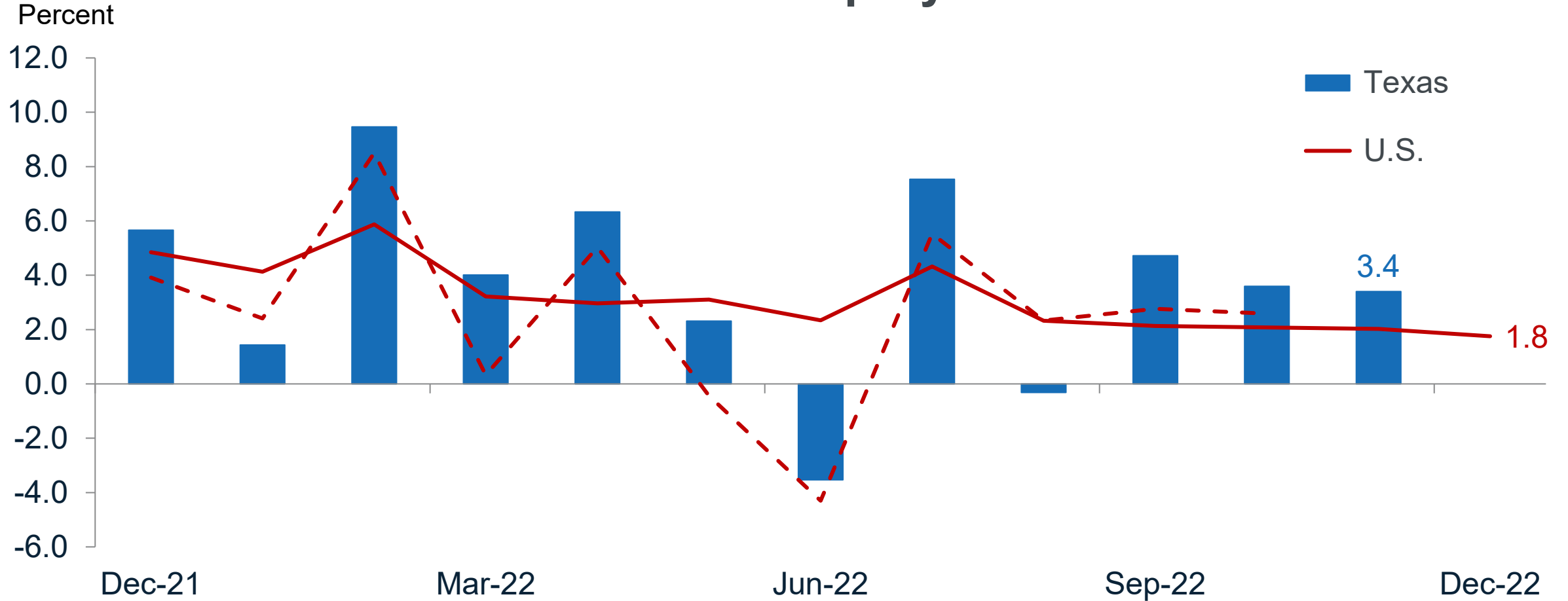
# And recent benchmark revisions to state job growth are large and negative



NOTE: Data show the percentage point change between pre- and post-early benchmark revision.

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

# Benchmarking 2<sup>nd</sup> quarter also resulted in downward revision of US employment data



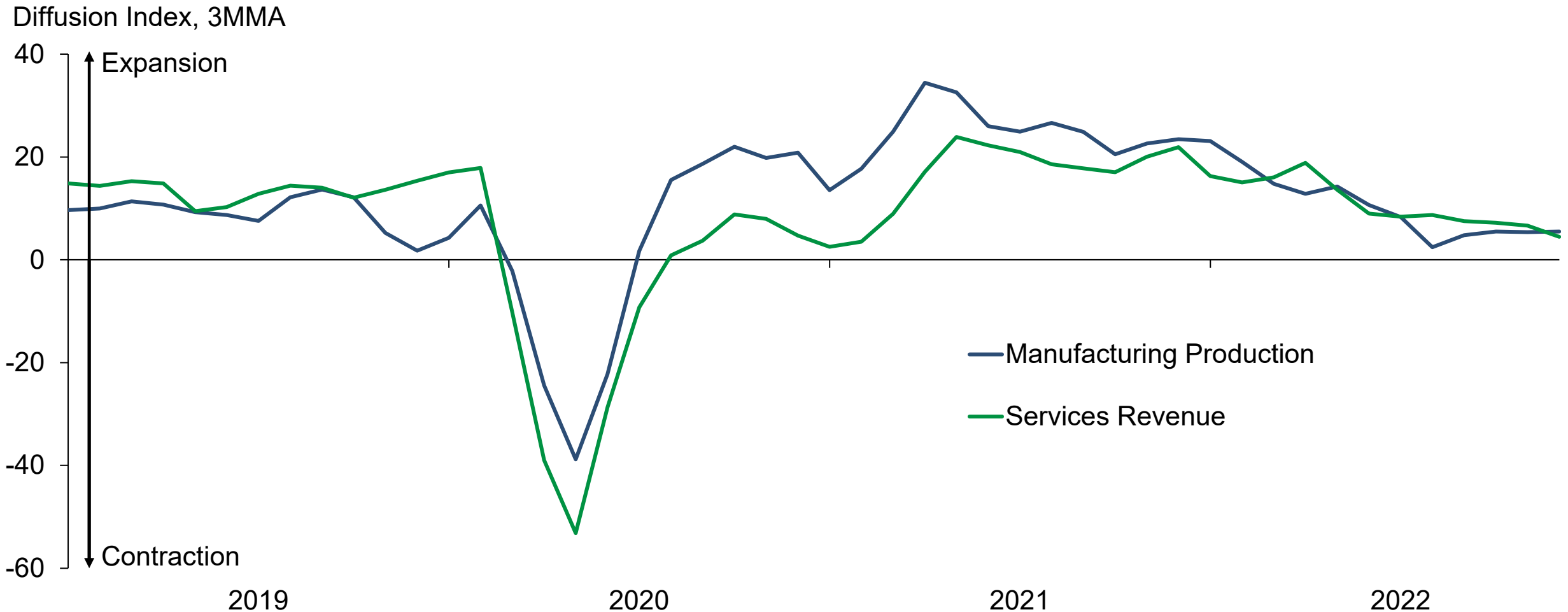
NOTES: Texas data through November 2022, US Data through December 2022.

SOURCES: Bureau of Labor Statistics. Adjustments made by the Federal Reserve Bank of Dallas.

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**Looking back at 2022  
Economic Activity, Housing and Energy**

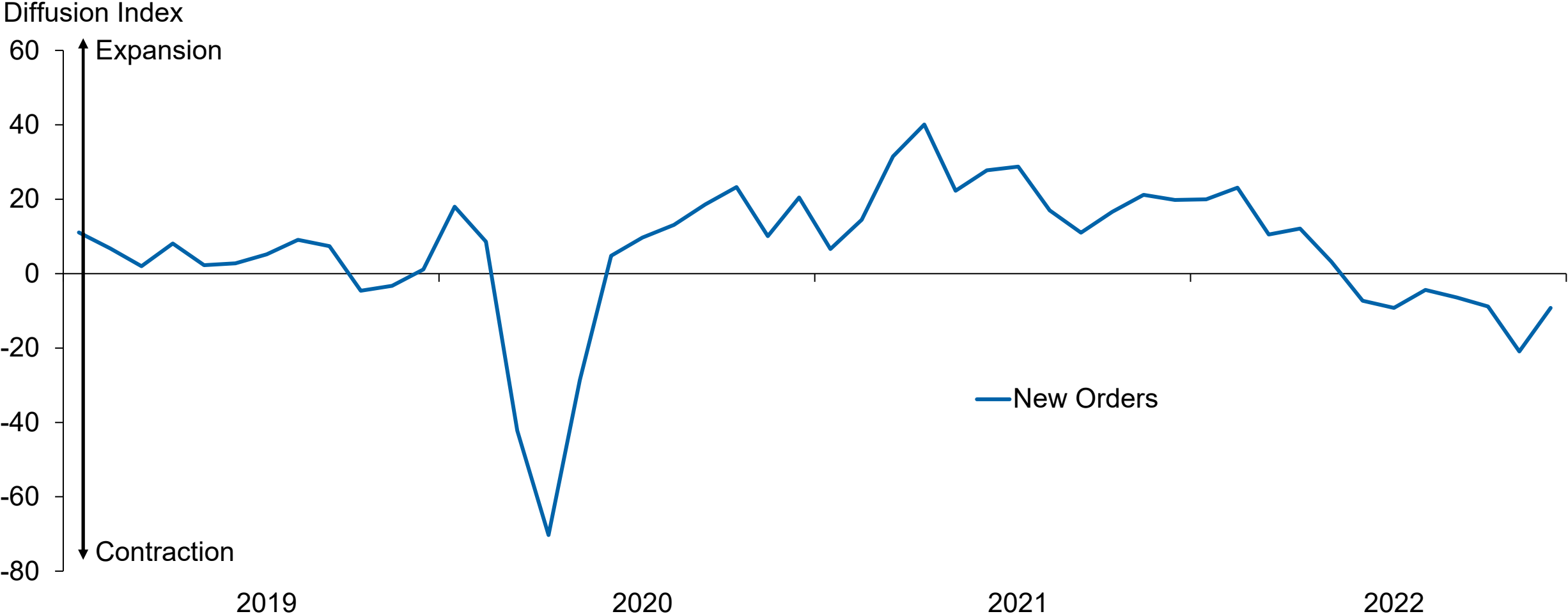
# Manufacturing output, service sector revenue growth slowed in 2022 from 2021's robust pace



NOTE: Data through December 2022.

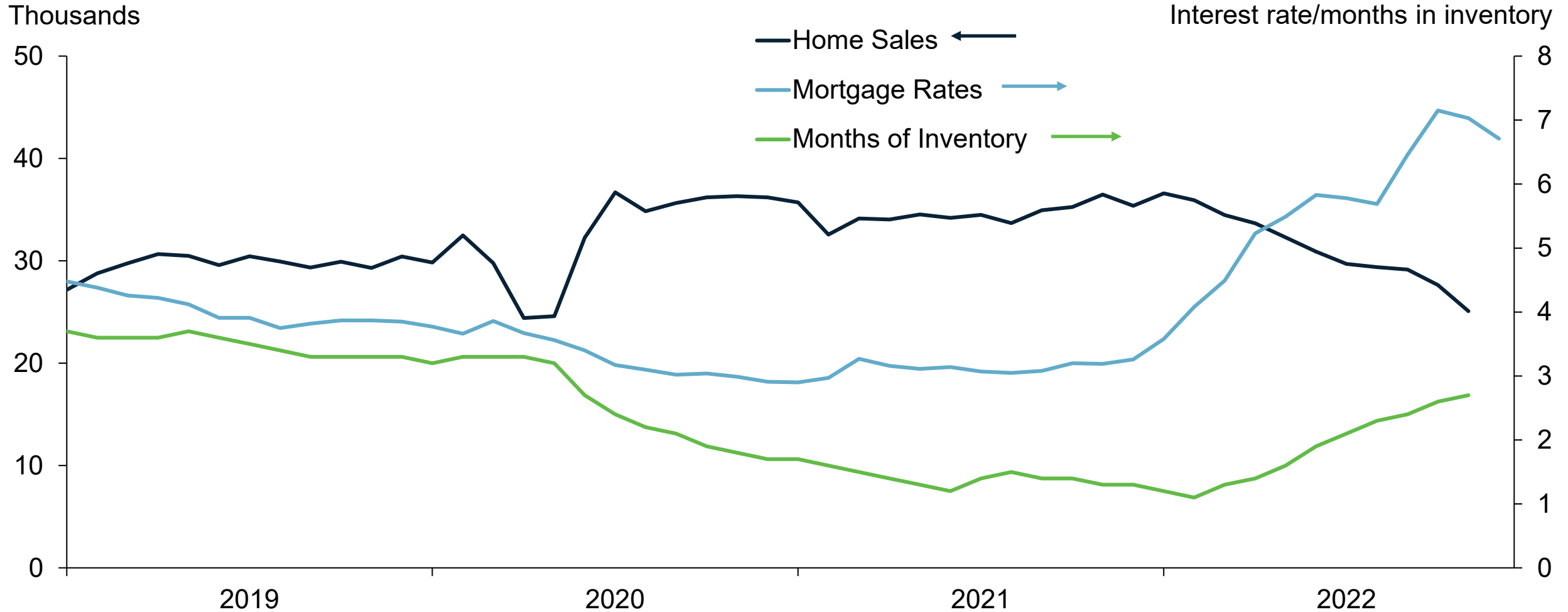
SOURCE: Texas Business Outlook Surveys, Federal Reserve Bank of Dallas.

# New orders in manufacturing began falling in June 2022



NOTES: Data through December 2022.  
SOURCES: Texas Business Outlook Surveys, Federal Reserve Bank of Dallas.

# Texas home sales buckle under rising interest rates

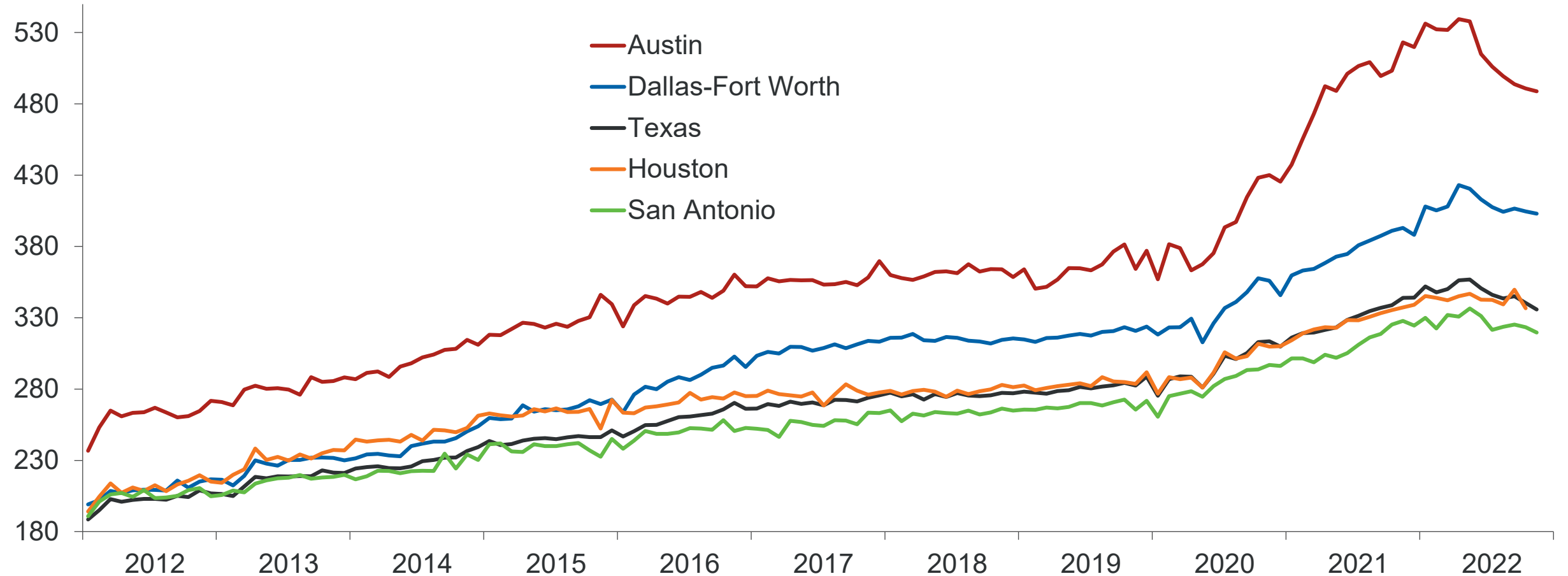


NOTE: Mortgage data through December 2022; months of inventory and home sales through November 2022.

SOURCES: Multiple Listing Service; the Wall Street Journal.

# Home prices also dropping

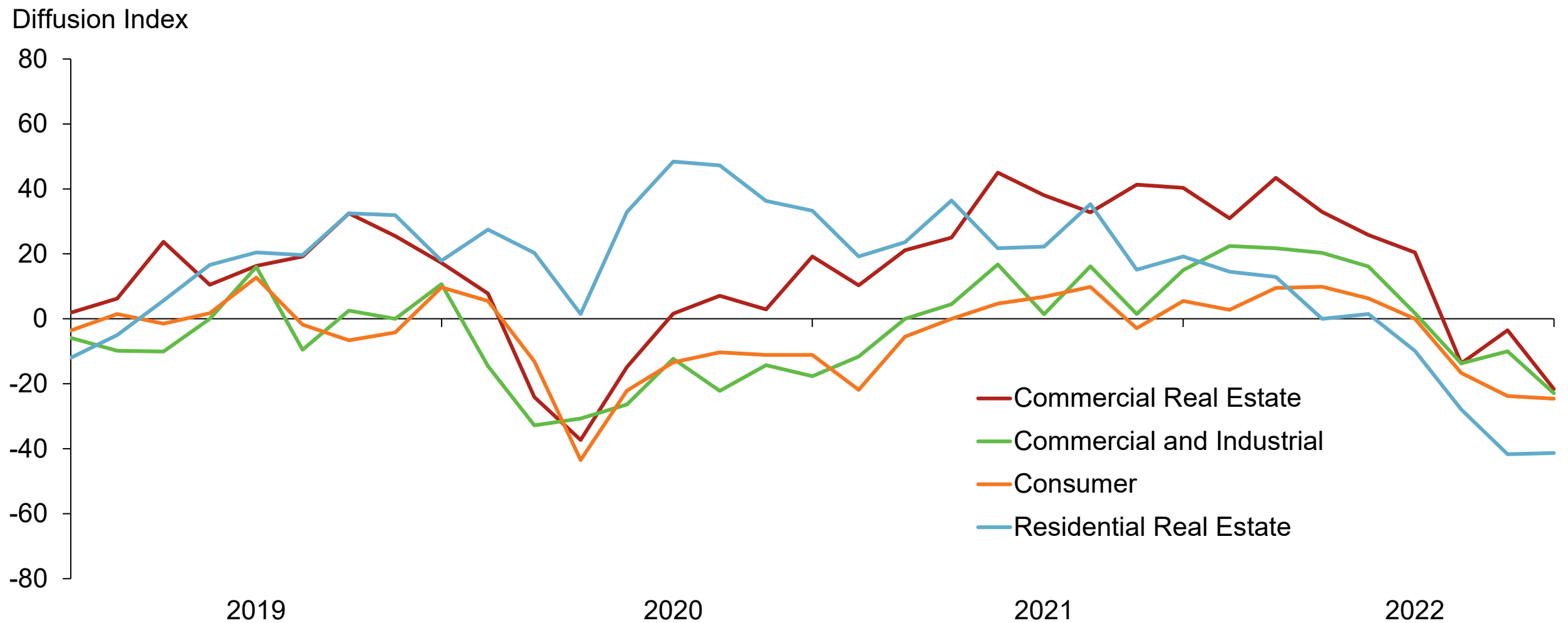
Thousands of 2022 dollars, SA



NOTES: Seasonally adjusted sales price presented in November 2022 dollars. Data through November 2022.

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

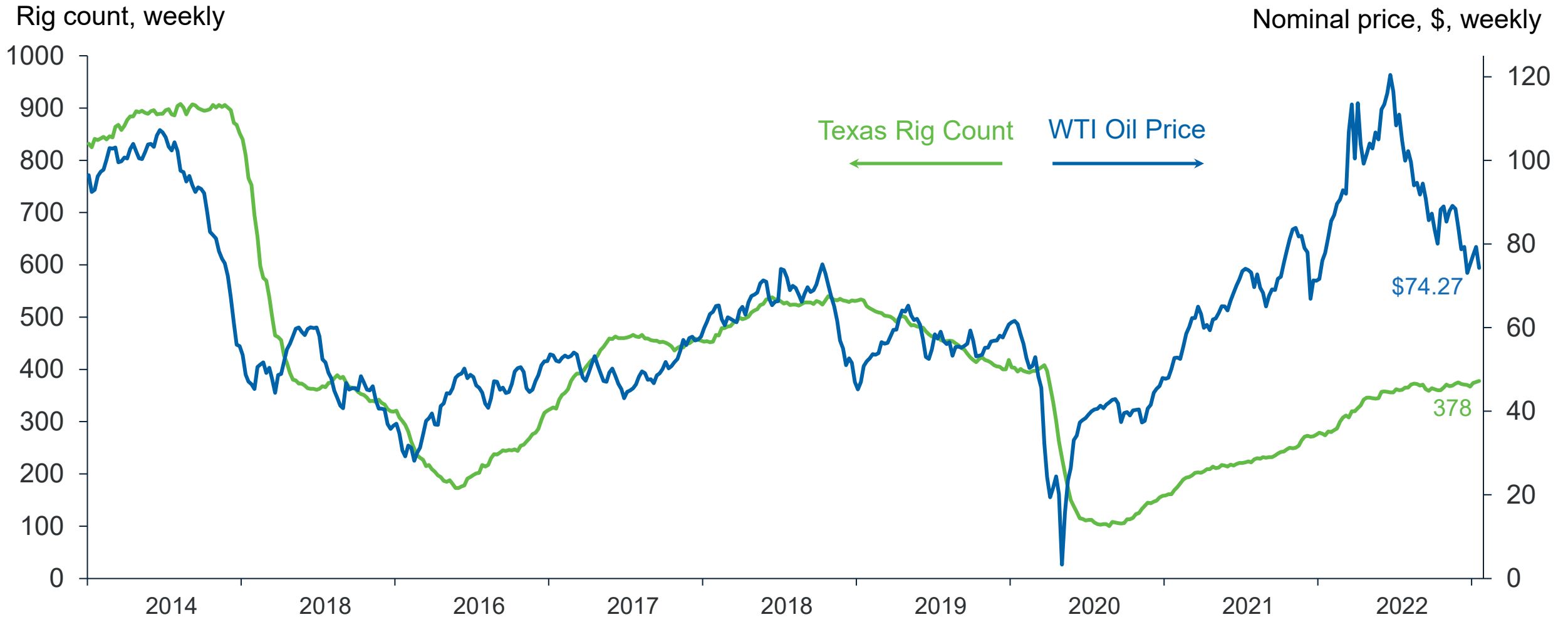
# Loan volumes declining, according to 11<sup>th</sup> District bankers



NOTE: Data through December 2022.  
SOURCE: Federal Reserve Bank of Dallas, Banking Conditions Survey.



# Energy: Drilling activity subdued despite high oil prices

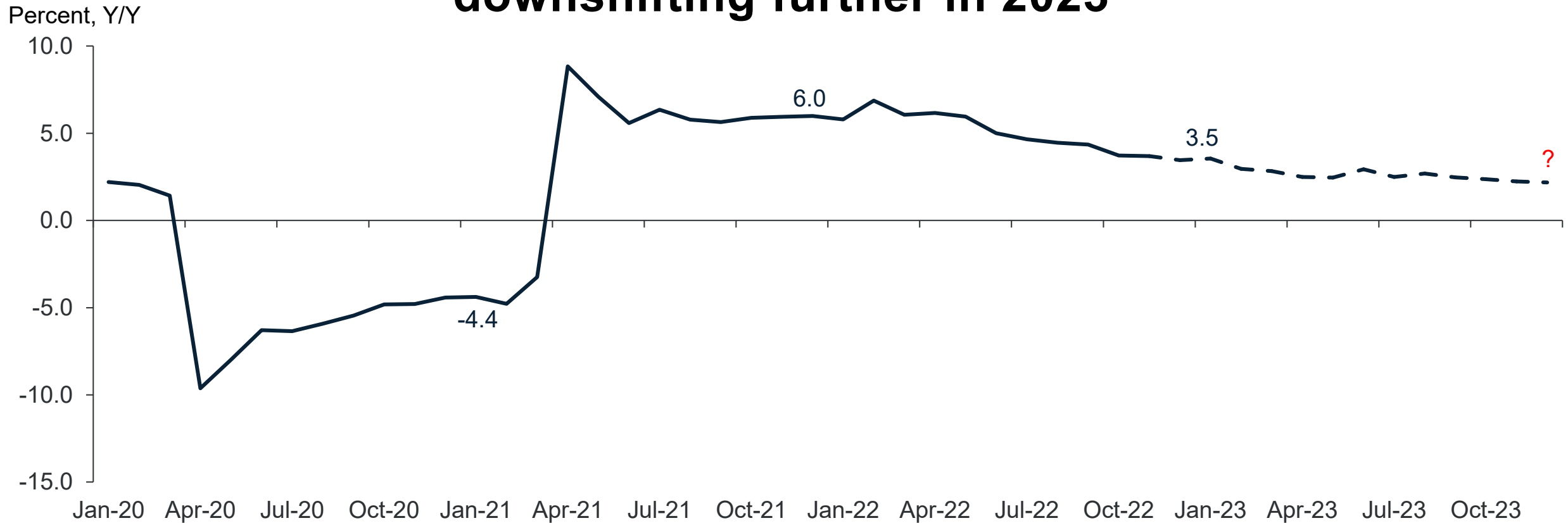


NOTES: Data are weekly through January 6, 2022.  
SOURCES: Energy Information Administration; Baker Hughes.



**Looking Ahead to 2023**

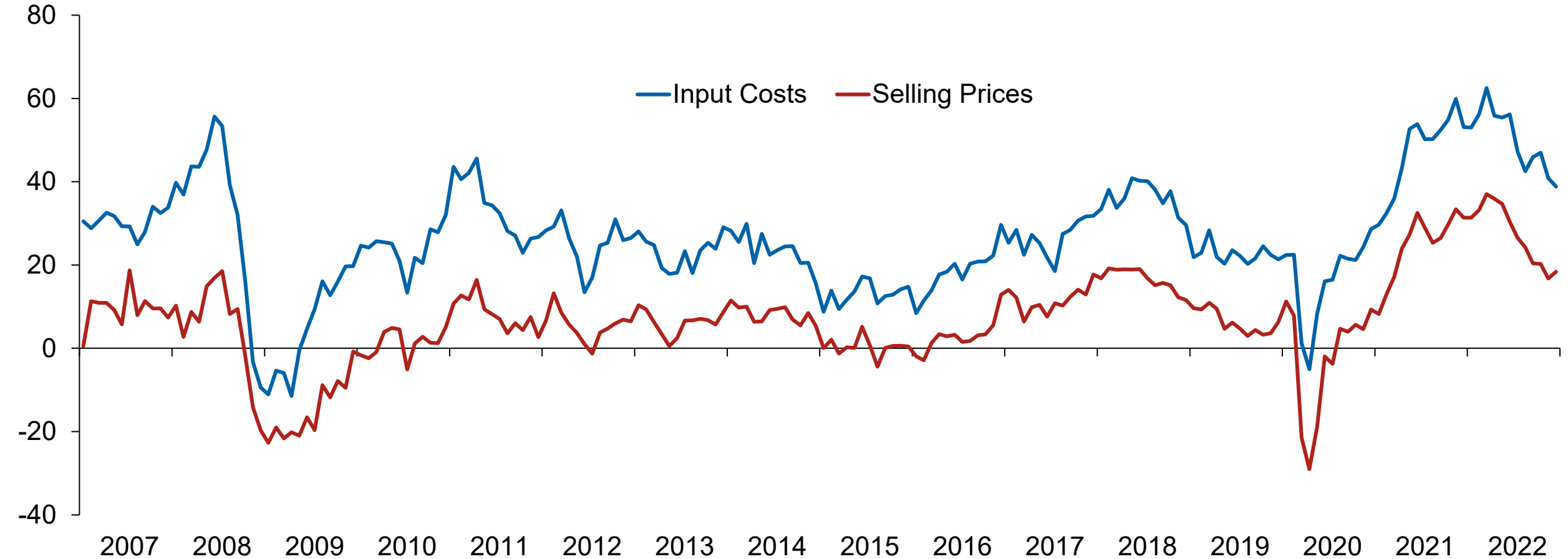
# Dallas Fed Texas jobs forecast: 3.4% in 2022 then downshifting further in 2023



The Dallas Fed Texas Employment Forecast is based on the average of four models. Three models are VARs where Texas payroll employment is regressed on WTI oil prices, the US leading index and the Texas leading index, respectively. The fourth model is a regression of payroll employment on expectations for U.S. GDP growth and WTI oil prices, four COVID-19 dummy variables (March-June 2020) and projected Texas COVID-19 hospitalizations from the Institute for Health and Metrics Evaluation.

# Price growth remains very elevated but is quickly moderating

Diffusion Index

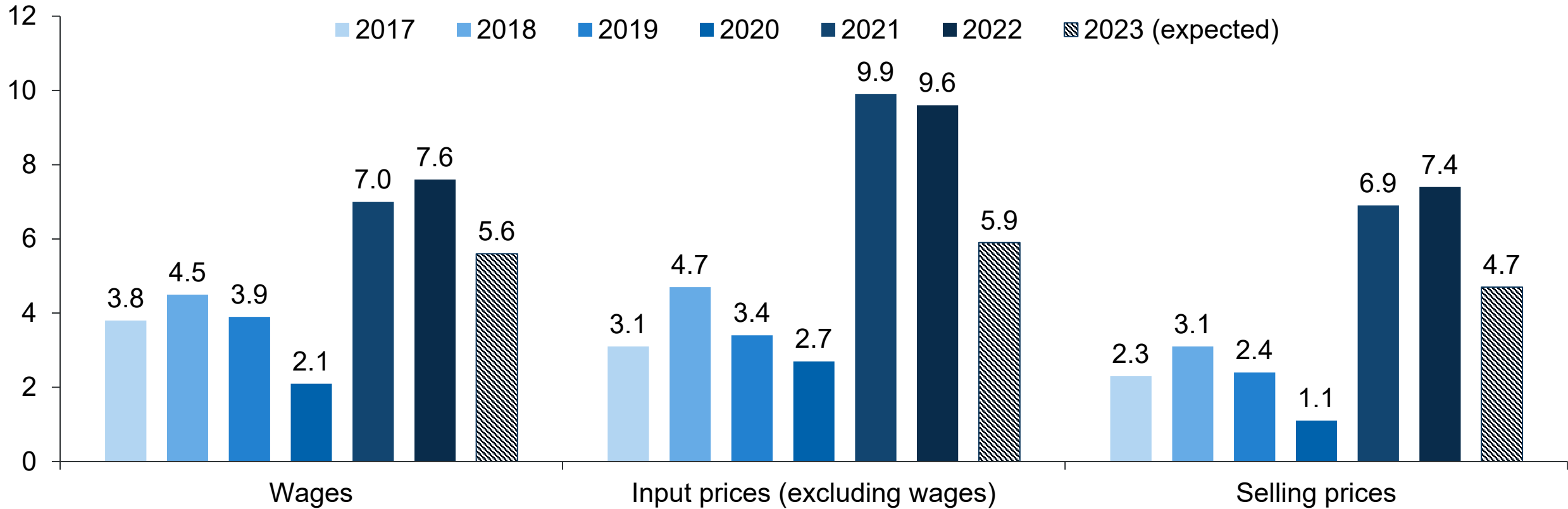


NOTE: Data through December 2022.

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

# Price, wage growth expected to moderate this year, but remain elevated

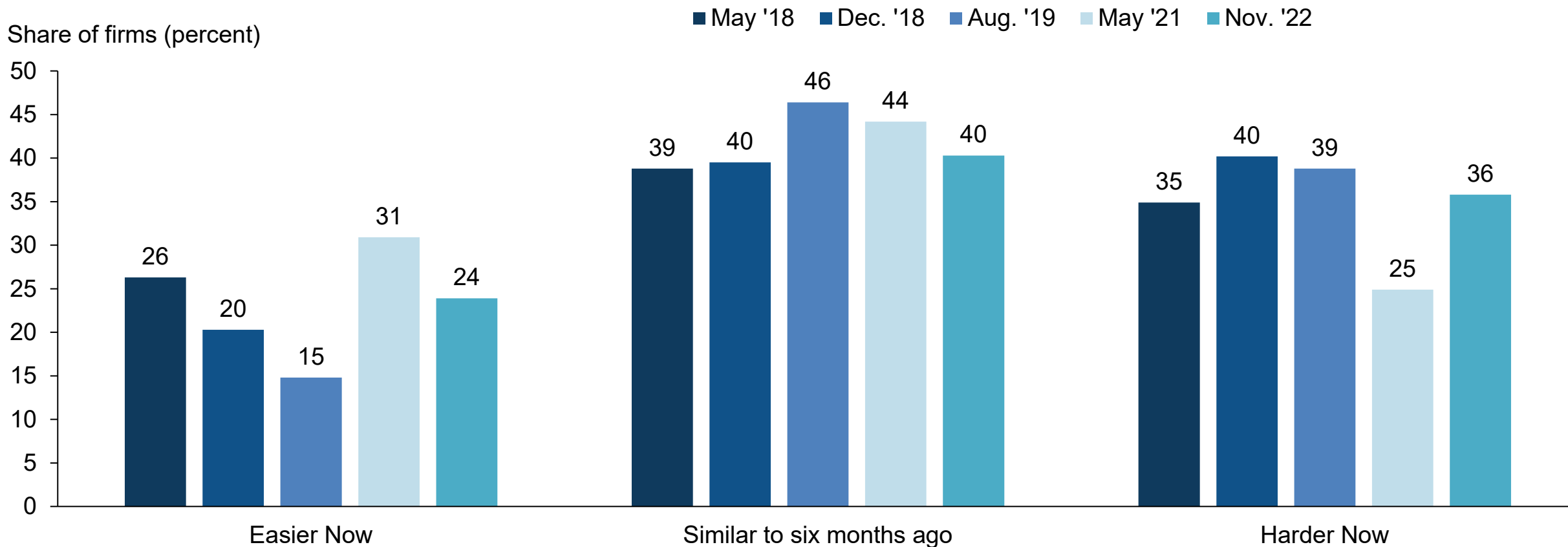
Percent change (average across responses)



NOTES: Shown are the trimmed mean percent changes in wages, input prices, and selling prices reported by TBOS respondents in Dec. of each year. 2023 data show expected percent change as of the Dec. 2022 survey (344 responses).

SOURCE: Dallas Fed's Texas Business Outlook Surveys.

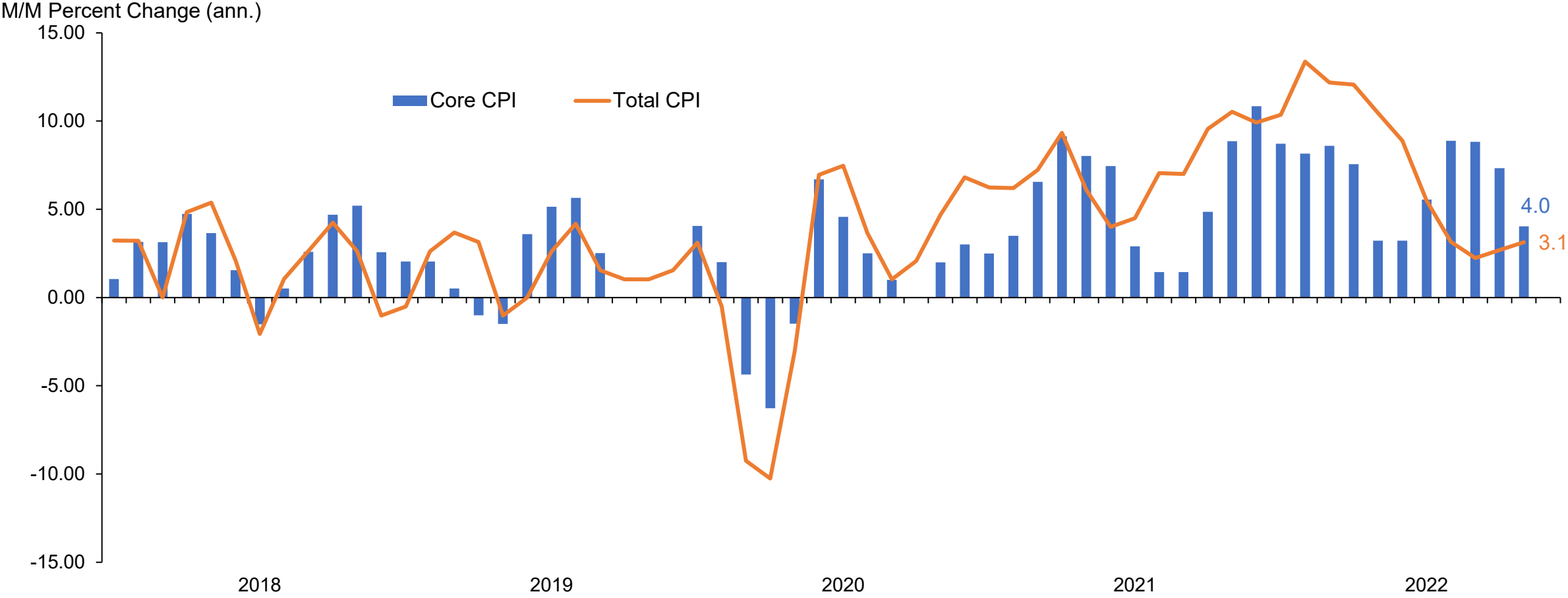
# Ability to pass on costs to customers is getting harder



NOTES: Respondents were asked, "How has your firm's ability to pass on increases to customers changed over the past six months?" Question only posed to those passing at least some of higher costs on to customers.

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

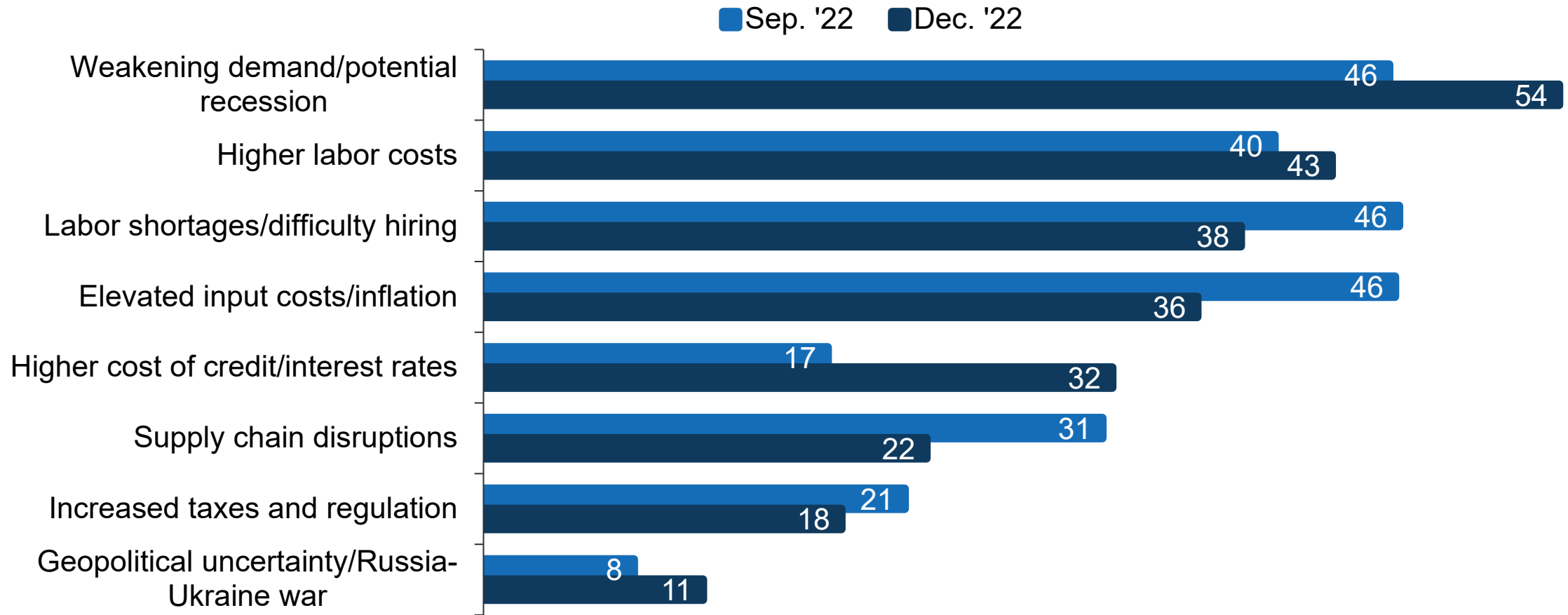
# Texas CPI has fallen sharply on a month/month basis



NOTES: Data through November 2022

SOURCE: Bureau of Labor Statistics; adjustments made by the Federal Reserve Bank at Dallas

# Weakening demand, high labor costs top list of outlook concerns



NOTES: Respondents were asked "What are the primary concerns around your firm's outlook over the next six months, if any? Please select up to three." Shown is the percent of respondents citing each concern. 380 responses in Sep. 2022 and 371 responses in Dec. 2022.

SOURCE: Dallas Fed's Texas Business Outlook Surveys.



# Summary

- Signs of slowing are spreading
- But overall growth remains at robust levels for now
- Texas economy forecast to grow more slowly next year, possibly below trend
  - Tracking nation relatively closely
  - Energy is less of a boost than in the past
- Fingers crossed for a soft landing but there are more downside than upside risks to the outlook



**Thank you!**

**Questions?**



# We need your input!

*Be part of a survey  
that gauges regional  
business activity and  
informs monetary  
policy making.*



Texas **Manufacturing**  
Outlook Survey



Texas **Service Sector**  
Outlook Survey



Texas **Retail**  
Outlook Survey