2015 Texas Economic Outlook: Tapping on the Brakes
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Consumer spending picked up in 2014 as housing prices and stock market improved, and consumer debt fell.

Declining energy prices in second half provided a further boost.

Europe remains a question mark but if energy prices remain low, US economy should pickup further in 2015.
Home Construction Continues to Grow – Although at a Slower Pace

Source: Bureau of Economic Analysis, U.S. Census Bureau and author’s calculations.
Home Prices Continue to Increase

Index, 2000=100

- U.S.
- Texas
- California
- Florida
- Nevada

Source: FHFA House Price Index
Household Balance Sheets in Better Shape

Ratio, personal debt per capita/personal income per capita

U.S.
- Mortgage 69.4%
- Auto loan 8.0%
- HE revolving 4.4%
- Credit card 5.8%
- Student loan 9.6%
- Other 2.8%

Texas
- Mortgage 62.0%
- Auto loan 14.8%
- HE revolving 1.0%
- Credit card 7.0%
- Student loan 11.0%
- Other 4.2%

Note: Data are through second quarter, 2014

Source: Federal Reserve Bank of New York, Bureau of Economic Analysis
Average Job Growth of 246K per Month in 2014 After 194K in 2013 (2.1% vs 1.7%)

Source: Bureau of Labor Statistics
U.S. Leading Index Suggests Continued Good Growth over Next 6 Months

Source: Conference Board, Federal Reserve Bank of Dallas
RGDP Grew 2.5% in 2014, January Blue Chip Survey Projects 2.9% in 2015

Source: Blue Chip Economic Indicators
• In past five years growth in energy, construction and exports provided a strong stimulus to Texas.

• 2014 growth was broad based across sectors. Energy, construction, business services, health care, exports and tourism strong. Government sector improved.

• In 2015, low oil prices and labor market tightness will likely restrain growth. Strong dollar may dampen exports. I expect 2014 job growth will end up near 3.6% (408,000) and growth will slow in 2015 to between 2.0% and 2.5% (about 235,000 to 295,000 jobs).
Texas Economy Growing Well Above Trend
(Texas Business Cycle Index)

M/M SAAR

NOTE: Shaded areas represent Texas recession.
2.6% trend
Texas Ranked Third in Job Growth in 2014


Source: Bureau of Labor Statistics
Texas Jobs Growing Faster Than Nation’s

Note: Texas 2014 data annualized from Dec. 2013 to Nov. 2014
Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas
Job Growth is Broad-Based Across Large Texas Metro Areas

Nonfarm Employment Index
Aug. 2008=100

*Indexed from U.S. Peak Employment in January 2008
Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas
Texas Unemployment Rate Low and Falling

Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas
Job Growth Broad-Based Across Industries

Note: 2014 employment data are annualized from Dec. 2013 to Nov. 2014
Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas
Texas Construction Contract Values Increased Strongly Last Year

Source: F.W. Dodge, Federal Reserve Bank of Dallas
TX Home Inventories Remain at Historically Low Levels

Source: Multiple Listing Service
Mortgage Foreclosures Back to Normal levels but Delinquencies Remain Elevated

Source: Mortgage Bankers Association
Low TX Office Vacancy Rate Likely to Motivate Continued Strength in Office Construction

Source: F.W. Dodge, CBRE, Federal Reserve Bank of Dallas
TX Manufacturing Production and Orders Continue to Grow

Production Volume of New Orders Index

TX Manufacturing Production and Orders Continue to Grow

Production Volume of New Orders Index
Texas Exports Have Declined in Recent Months as Value of the Dollar has Risen

Texas State and Local Government Jobs Have Surpassed 2010 Peak

Index, Jan 2000 = 100

Texas State and Local share of Total Nonfarm Jobs - 14.2%

U.S.  State and Local Share of Total Nonfarm Jobs - 13.8%

Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas
Oil Prices In Sharp Decline, Drilling Rig Count Starting to Fall

Source: Oil and Gas Journal, Baker Hughes
• Oil prices have declined over 50% since last July, initial drop from $106 to $80 likely was good for TX economy

• Sustained drop from $80 to $50 will hurt TX economy - $50 is below the breakeven point for majority of shale drilling.

• Texas GDP growth will likely weaken more than jobs as output per worker in mining is about 4.6 times more than average for the state.
Energy’s Share of TX Economy Increased with Shale Drilling

NOTE: GDP values prior to 1997 and employment values prior to 1990 extrapolated from SIC coded data.
TX Job Growth Relative to Nation Impacted by Oil Prices

Percent difference in TX and U.S. growth, 12MMA

Texas Job Growth Relative to U.S.

Real Oil Price

TX Job Growth Relative to Nation Impacted by Oil Prices

Percent difference in TX and U.S. growth, 12MMA

Real Oil Price

Texas Job Growth Relative to U.S.

Real price, $, monthly average

Recent Weakness in Leading Index Led By Declining Oil Prices and Rising Dollar

Texas Leading Index Components, 3 month change
September -November

-0.87
-0.62
-0.65
-0.45
-0.24
0.03
0.32
0.14
-0.45
-0.65
0.60
-0.62
-0.87
-0.80
-0.60
-0.40
-0.20
0.00
0.20
0.40
0.60
0.80

Net Change in Texas Leading Index
Texas Value of the Dollar
U.S. Leading Index
Real Oil Price
Well Permits
New Unemployment Claims
Texas Stock Index
Help Wanted Index
Average Weekly Hours
Texas Job Growth Likely to be about 2.0–2.5% in 2015, down from 3.6% in 2014

Source: Bureau of Labor Statistics, Federal Reserve Bank of Dallas, author's calculations
San Antonio Economy Improved in 2014

- 2014 job growth 4.2% after 2.0% in 2013
- Health care jobs accelerated to 4.4%
- Federal gov. still down but better than 2013
- Construction, business services very strong
- May see some slowing this year due to Eagle Ford – although effects mixed

*Growth annualized from Dec./Nov.
No Clear Boost to San Antonio Job Growth from Eagle Ford Development

Summary

• U.S. economy picked up in 2014 – lower oil prices at year end stimulating further gains in consumer spending

• TX growth was strong and broad-based in 2014 - initial oil price decline from $106 to $80 had positive impact.

• Movement of oil prices from $80 to $50 will have negative impacts but growth likely to remain positive.

• This year Texas job growth likely to moderate to 2.0-2.5%, about 259,000 jobs – 149,000 fewer than 2014 – and close to US job growth.

• Bottom line: Texas likely to continue to grow but not nearly as strong as last year.
Job Growth Picked Up as Predicted – But Forecast not Strong Enough
Last Year’s Job Growth Rate Faster than Forecast (3.6% vs. 2.9%)

Texas Nonfarm Employment, actual growth, and TLI Forecast (with 80% confidence band)