Federal Reserve Bank of Texas
Texas Economic Update

Texas Economy Finishes the Year Firing on All Cylinders

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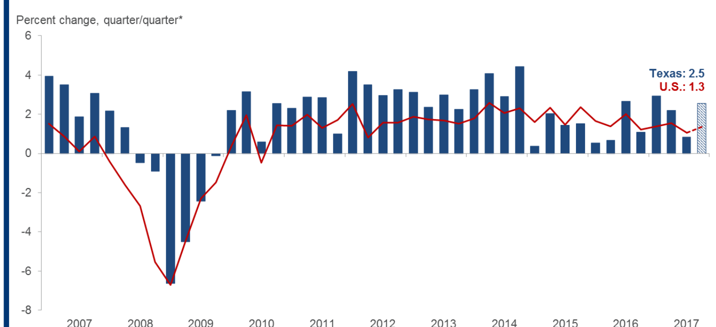
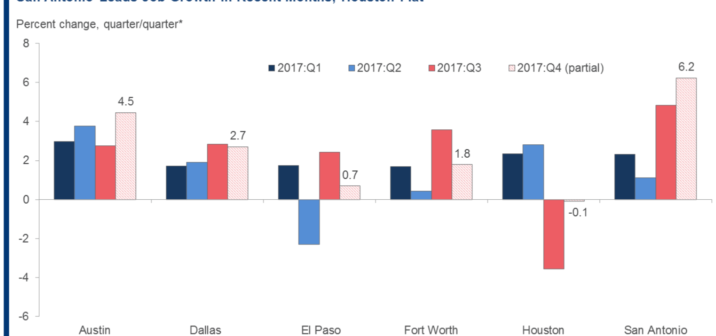
BY CHRISTOPHER SLIJK AND KEITH PHILLIPS

Chart 1
Recent Texas Employment Data Show Bounce Back Following Harvey



*Seasonally adjusted, annualized rate.
NOTES: Quarterly employment is the last month of the quarter. The striped bar for the fourth quarter represents the October/August three-month annualized change. Hurricane Harvey struck the Gulf Coast in late August.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 2
San Antonio Leads Job Growth in Recent Months; Houston Flat



*Seasonally adjusted, annualized rate.
NOTE: The partial fourth quarter 2017 figures are based on three-month annualized growth from August to October 2017.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

The Texas economy continues to expand at a steady pace as payroll employment rebounds strongly in the wake of Hurricane Harvey. The Texas Business Outlook Surveys suggest continued growth in the state's manufacturing and service sectors. Early benchmark data for job growth in the first half of the year was revised down slightly from an annualized pace of 3.0 percent to 2.6 per-cent. When incorporating this data and adjusting for the hurricane effects, the Texas Employment Forecast projects 2.4 percent growth this year, slightly below the previous estimate of 2.6 percent. Job growth in 2018 is expected to stay on a similar pace and above the state's long-term trend of 2.1 percent.

Job Growth Rebounds After Hurricane Harvey

Texas jobs have grown at a solid 2.5 percent annualized rate since August (Chart 1). The job recovery following Hurricane Harvey appears to be well underway, with October's data showing a 6.4 percent annualized increase following a slight decline in September. This puts job growth back on its projected path had the hurricane not occurred.

Among the major metro areas, the Interstate 35 corridor markets of Dallas–Fort Worth, Austin and San Antonio continued to lead state job growth (Chart 2). San Antonio in particular saw a significant stimulus from hiring in hospitality and accommodation in October, likely due to a temporary influx of Gulf Coast residents following the hurricane. Houston saw a significant rebound in October employment, bringing the total number of jobs back to pre-hurricane levels. As reconstruction in the area continues, growth in Houston and along the Gulf Coast is expected to remain elevated through year-end.

State Labor Market Tightens Further

While the Texas outlook remains optimistic, tightening labor markets may be a significant headwind to growth in 2018. The state unemployment rate reached a 40-year low of 3.9 percent in October, well below the long-term average of 6.0 percent (Chart 3). With the concurrent tightness of the U.S. labor market, finding workers to propel further job growth will present a greater challenge to businesses.

Recent rates of population growth and labor force participation in Texas suggest that the rate of job growth needed to maintain the unemployment rate is around 1.7 percent, significantly below the expected pace for 2018. This implies that, given current trends, the jobless rate will continue to fall next year.

Given ongoing labor market tightness, wages have begun to rise in Texas this year (Chart 4). Inflation-adjusted hourly wages for private sector workers has

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picked up 1.8 percent year-to-date—the first time wage growth has exceeded the national rate since the peak of the shale boom in 2014. This is in part due to the resurgence in high-paying oil and gas jobs. However, data from the Dallas Fed's Texas Business Outlook Surveys suggest broad upward wage pressure across both the manufacturing and service sectors.

The wage response appears to have been strongest after the state unemployment rate fell below its long-term average. Above this rate, excess slack in labor markets dampened broad wage increases. However, as markets tightened beyond historical norms and businesses found it more difficult to attract workers, wages began to rise. This can be seen in the wage growth from August 2013, when the unemployment rate fell to its long-term average, to January 2015, when the rate flattened out at 4.4 percent. Over this time, average real wages in Texas grew 3.0 percent, compared with 1.2 percent for the nation. With labor markets tightening further recently, it is likely that wages will continue to grow faster than they did during the past several years of oil-bust-induced weakness.

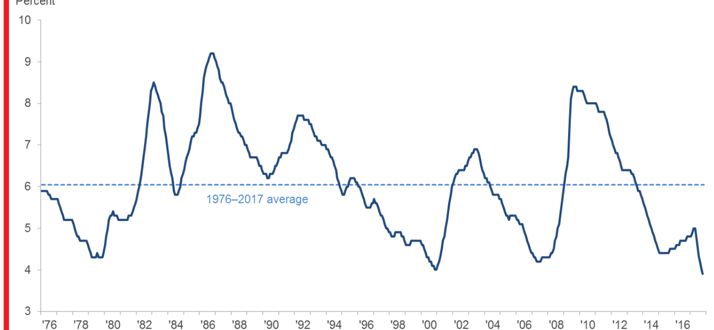

Chart 3
Texas Unemployment Rate at 40-Year Low

*Seasonally adjusted.
SOURCE: Bureau of Labor Statistics.

Regional Price Pressures Picking Up

Regional price pressures have followed the uptick in wage pressures. The Texas consumer price index (CPI), a combination of the Bureau of Labor Statistics' data for Dallas–Fort Worth and Houston, is a proxy measure of price changes at the state level. Growth in the Texas core CPI, which excludes volatile energy and food prices, fell from its recent peak of 3.2 percent in mid-2016 to a six-year low of 1.3 percent in March. This pattern of decline was later mirrored in the national core CPI data, which fell from 2.3 percent at the beginning of the year to a low of 1.7 percent in August.

However, Texas CPI inflation has steadily increased since March and was at 2.1 percent as of September, in line with the rise in wages over the same time. As wages pick up further in Texas and the U.S., a continued rise in price inflation is likely. This is further supported by data from the Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS) and Texas Service Sector Outlook Survey (TSSOS), which both show a marked increase in the share of respondents expecting to raise their selling prices six months from now. The 12-month moving averages of both the TMOS and TSSOS future price indexes reached multiyear highs in November, with services prices reaching their highest levels since 2007.

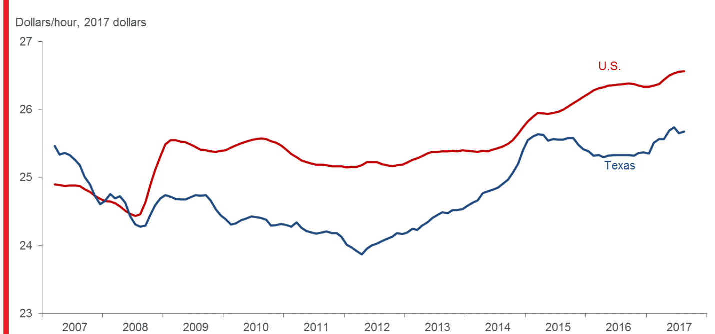

Chart 4
Real Average Hourly Wages Picking Up This Year in Texas and U.S.

NOTES: Data are based on seasonally adjusted, five-month moving averages. U.S. wage data are deflated with the U.S. Consumer Price Index (CPI), and Texas data are deflated with Texas CPI. The October value for Texas CPI is estimated.
SOURCES: Bureau of Labor Statistics; Federal Reserve Bank of Dallas.

About the Authors

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