



Item 5: Update on the Texas Economy: Texas Economic Outlook

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Federal Reserve Bank of Dallas

Board of Directors Meeting

ERCOT Public

April 9, 2019

TEXAS Economic Outlook



ERCOT Board of Directors Meeting

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April 9, 2019

The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.

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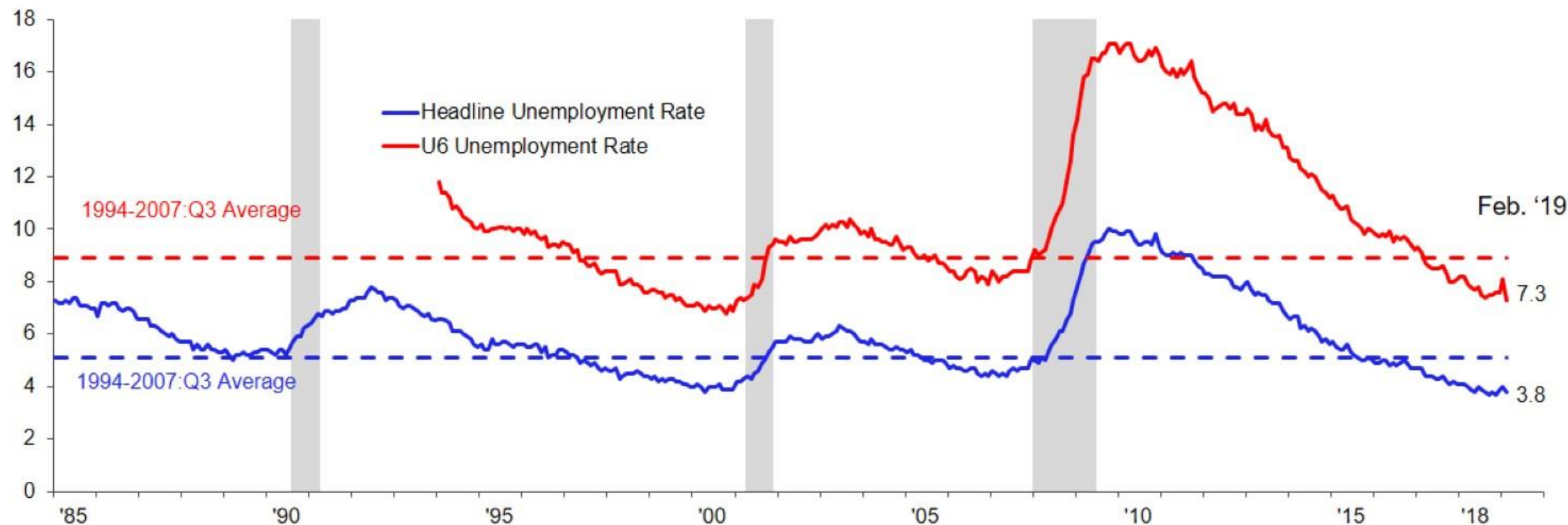
Federal Reserve
Bank of Dallas

National Economy Growing Strongly

- Jobs grew 1.8% in 2018 – the fastest pace since 2015, while real GDP growth picked up from 2.5% in 2017 to 3.1%
- Manufacturing, construction and mining jobs grew strongly
- Labor market below full employment at 3.8% unemployment rate in February
- Inflation is close to Fed target of 2%
- 2019 jobs and GDP growth expected to slow but remain healthy
- Stock market volatility and yield spread narrowing at end of 2018 signaled greater uncertainty about the outlook – current yield spread flashing recession warning

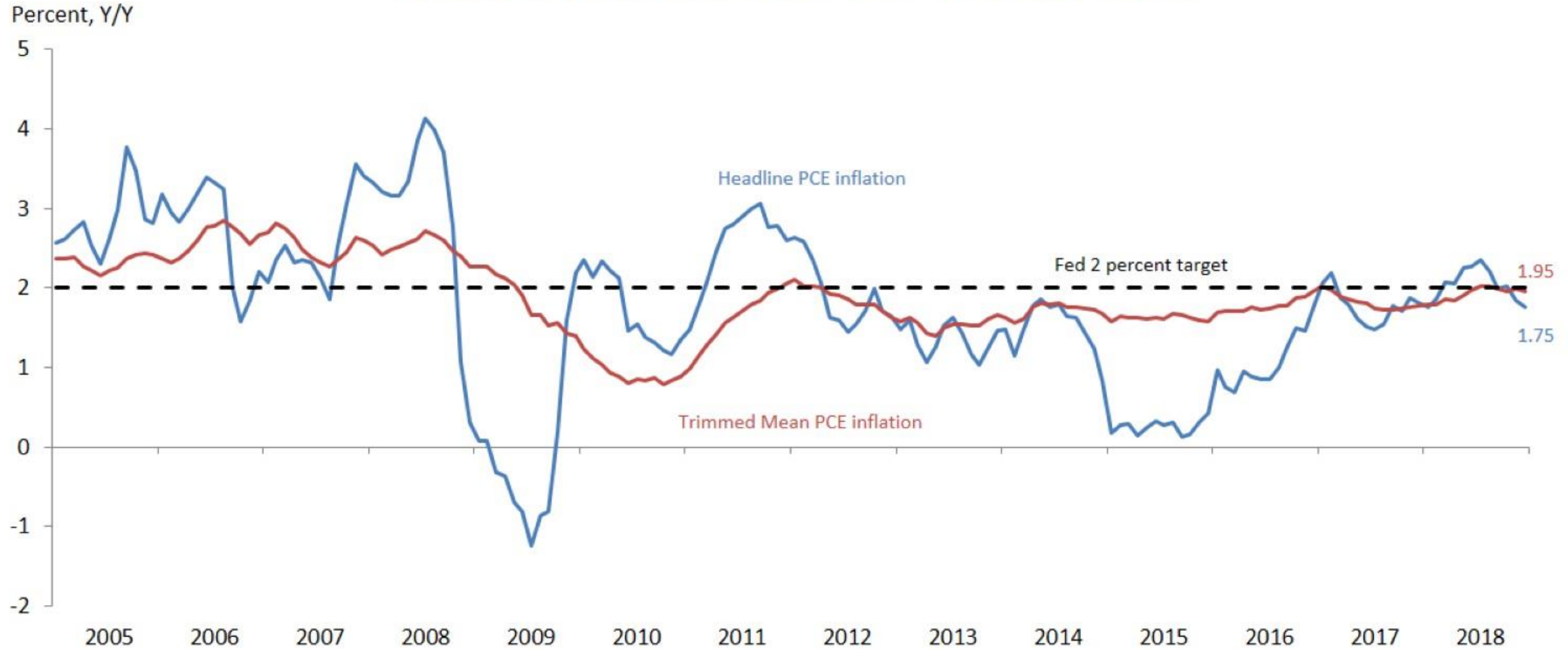
Unemployment Rate Near Historical Lows

Percent



NOTES: U6 Unemployment rate includes marginally attached and part-time for economic reasons workers. Gray shaded areas indicate NBER recessions.
SOURCES: Bureau of Labor Statistics; NBER.

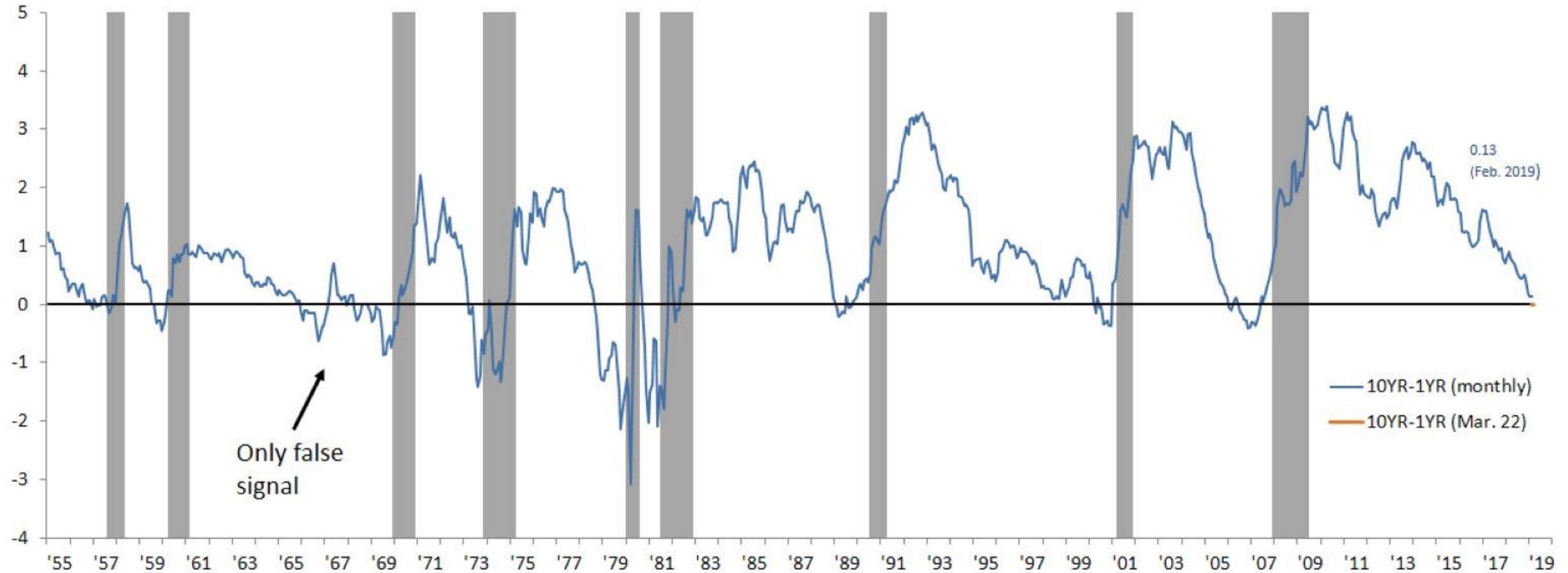
Core Inflation Near 2 Percent Goal



SOURCES: Bureau of Economic Analysis; Federal Reserve Bank of Dallas.

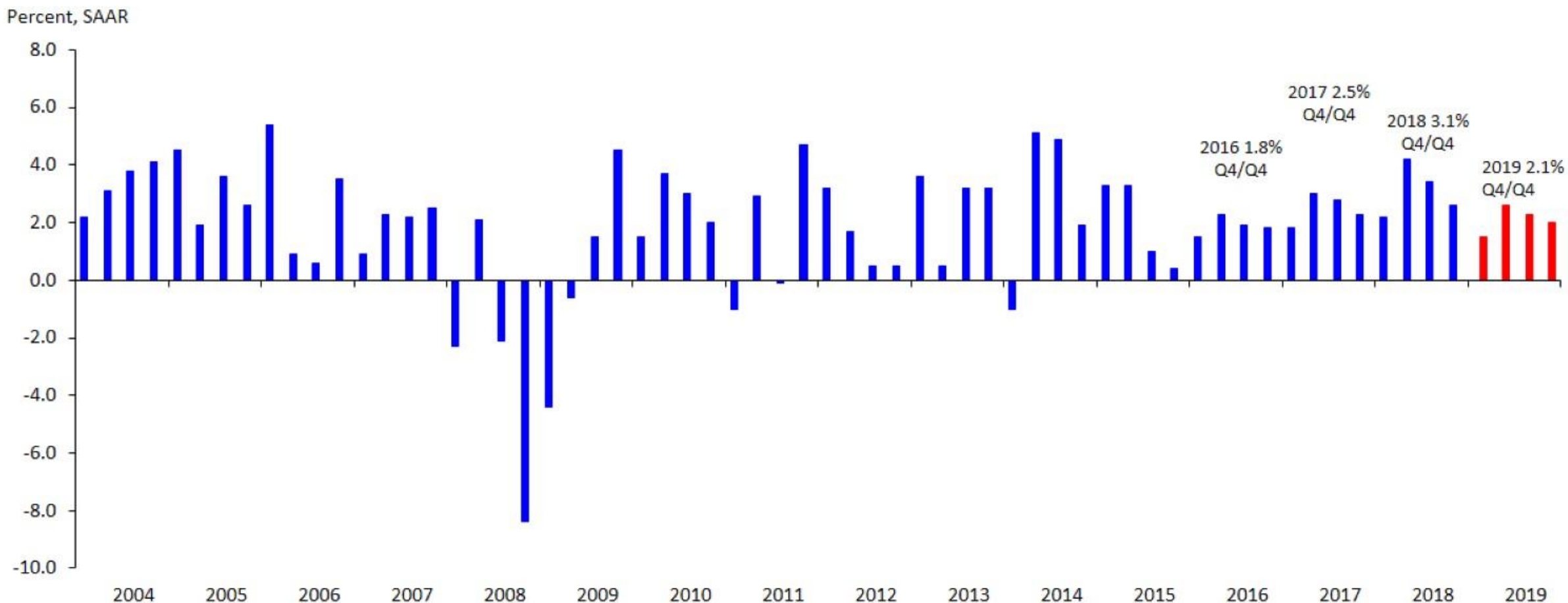
10-yr./1-yr. Yield Spread Shows Signs of Inversion

Percentage points



SOURCE: Federal Reserve Board.

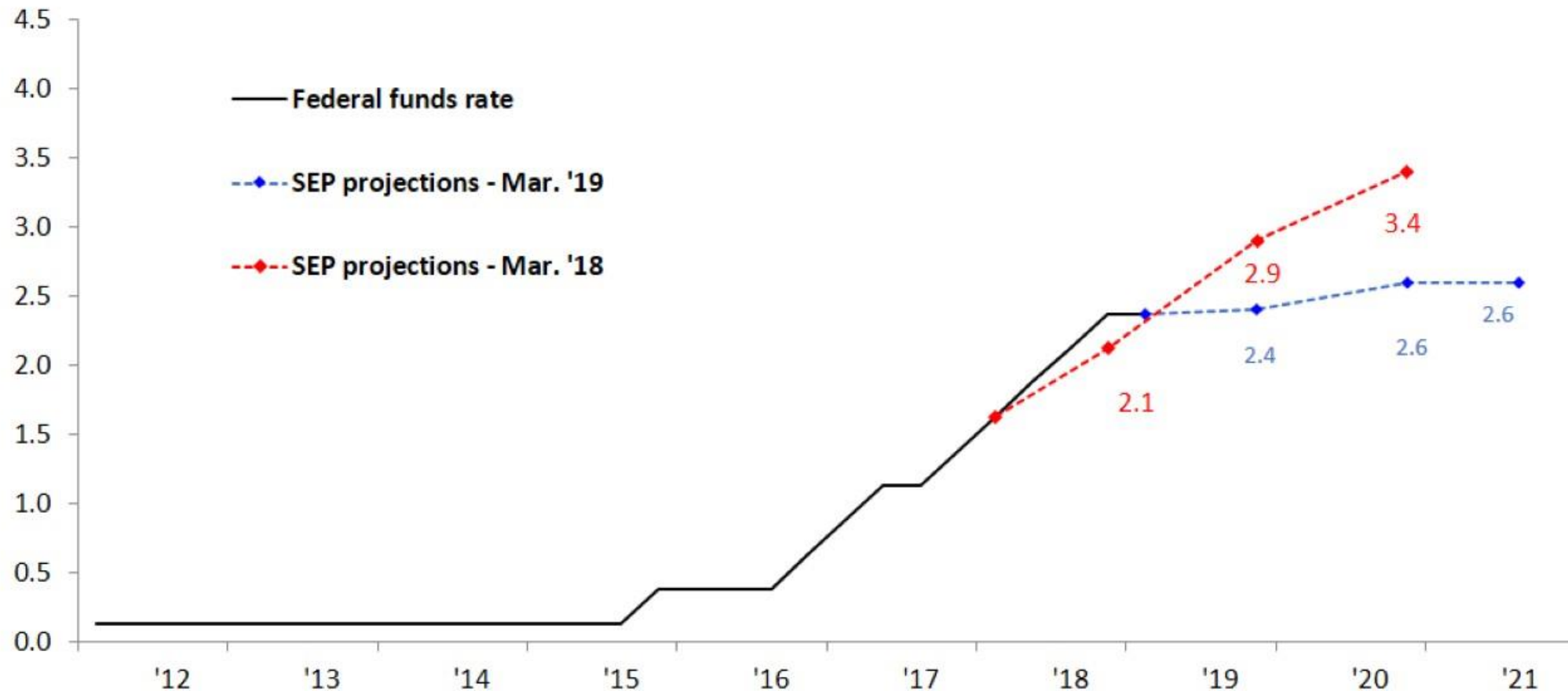
GDP Will Likely Slow to a More Moderate Pace in 2019



SOURCES: Bureau of Economic Analysis; Blue Chip Economic Indicators.

Policy path changed at recent meeting – now no increases expected this year

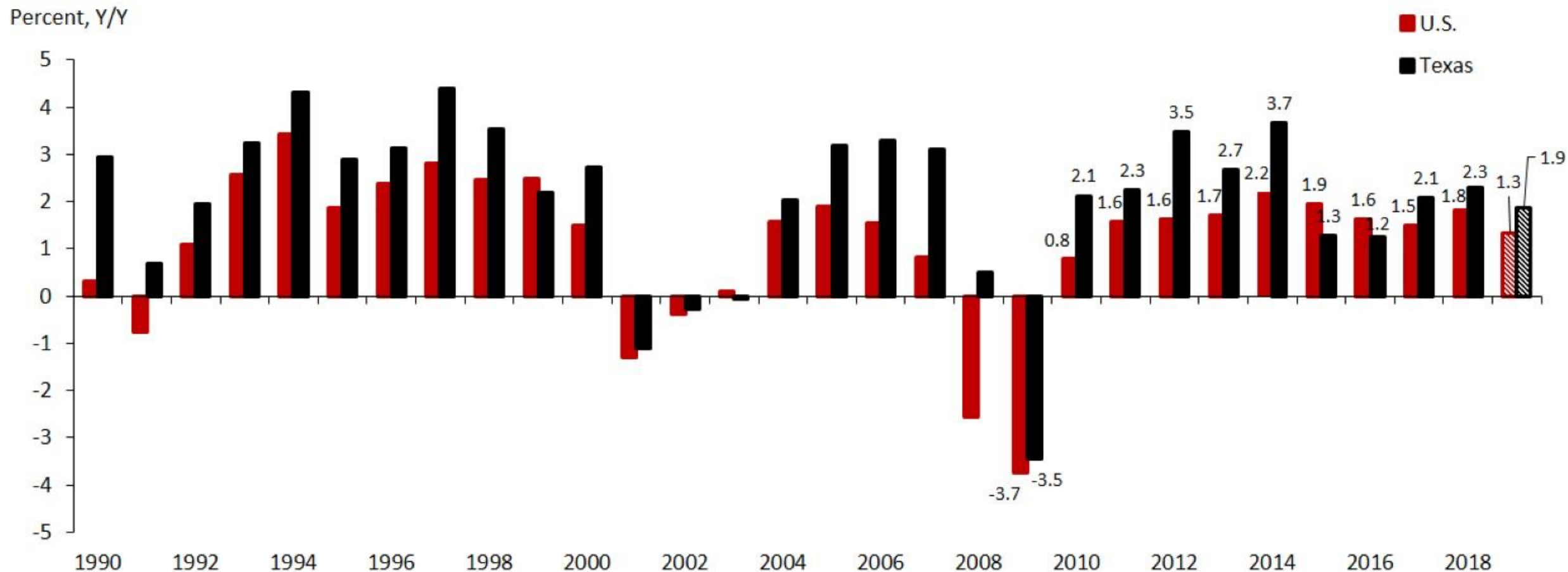
Percent/year



Texas Economy Accelerated in 2018

- In 2015 and 2016, low oil prices and strong dollar reduced job growth – but Texas did better than other energy states.
- In 2017, energy and manufacturing sectors began to recover and overall job growth picked up from about 1.3 percent to 2.1 percent.
- Last year, goods-producing sectors accelerated strongly and job growth picked up further to 2.4 percent.
- This year, job growth likely to slow to about 1.0 to 2.0 percent as labor constraints limit growth along I-35 corridor and low oil prices slow growth in oil-producing regions

Texas Job Growth Usually Above the Nation's

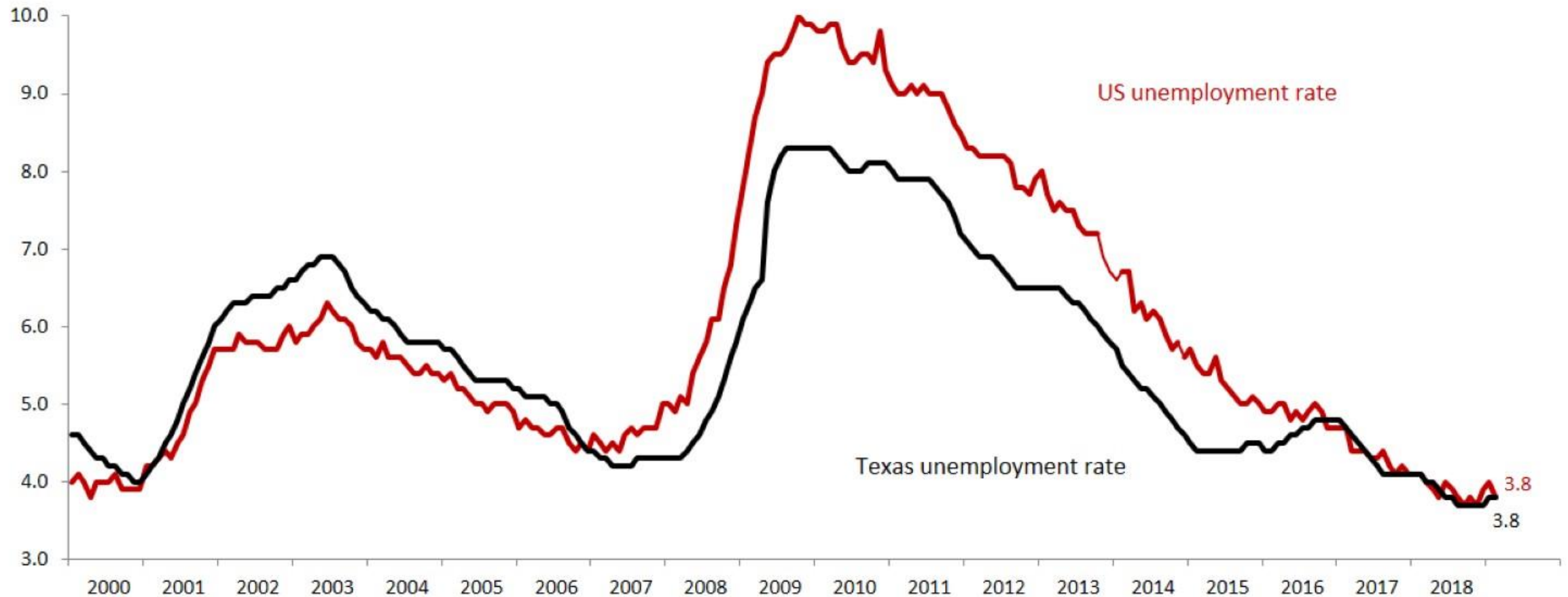


NOTE: Shaded bars represent seasonally adjusted, annualized growth from Dec. 2018 to Feb. 2019.

SOURCES: Bureau of Labor Statistics, Federal Reserve Bank of Dallas

Texas Unemployment Rate Near Lowest On Record

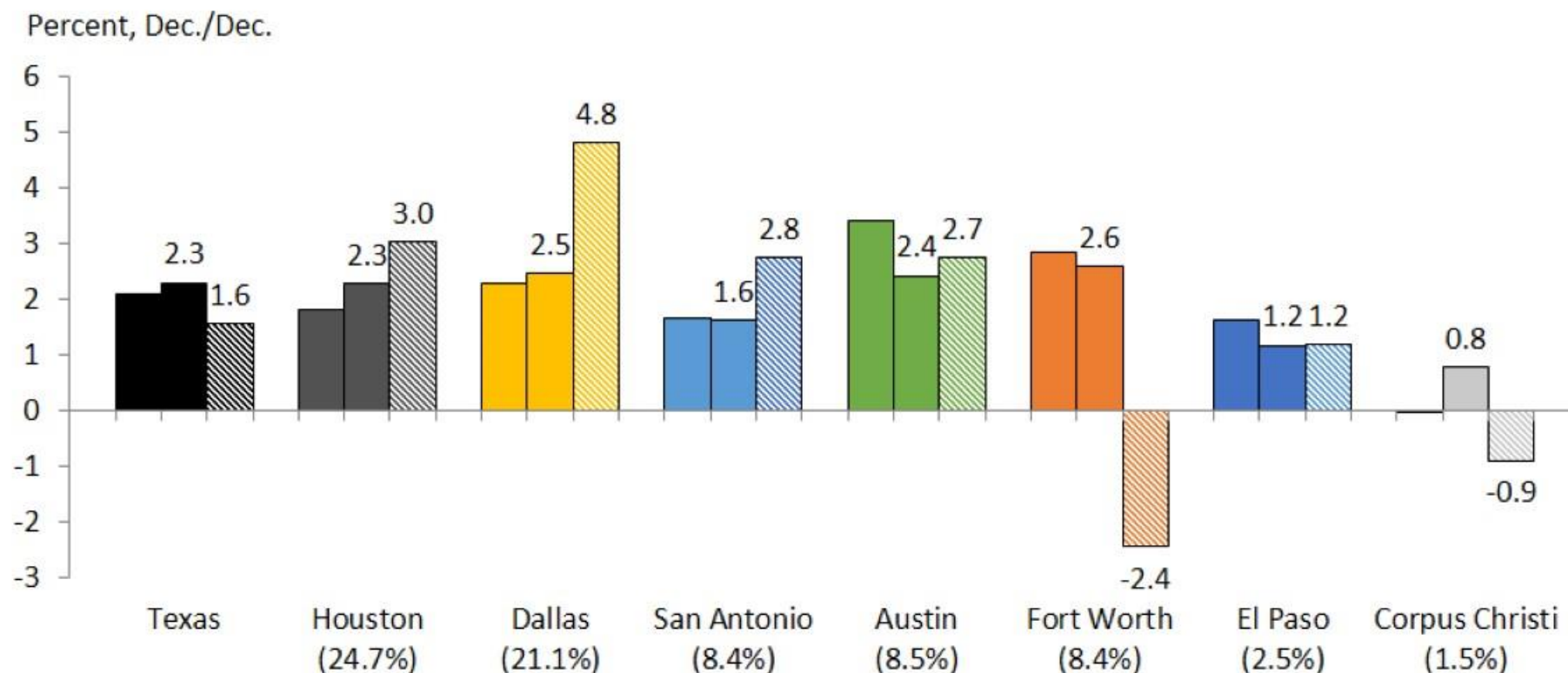
Percent, SA



NOTE: Data through February 2019.

SOURCE: Bureau of Labor Statistics.

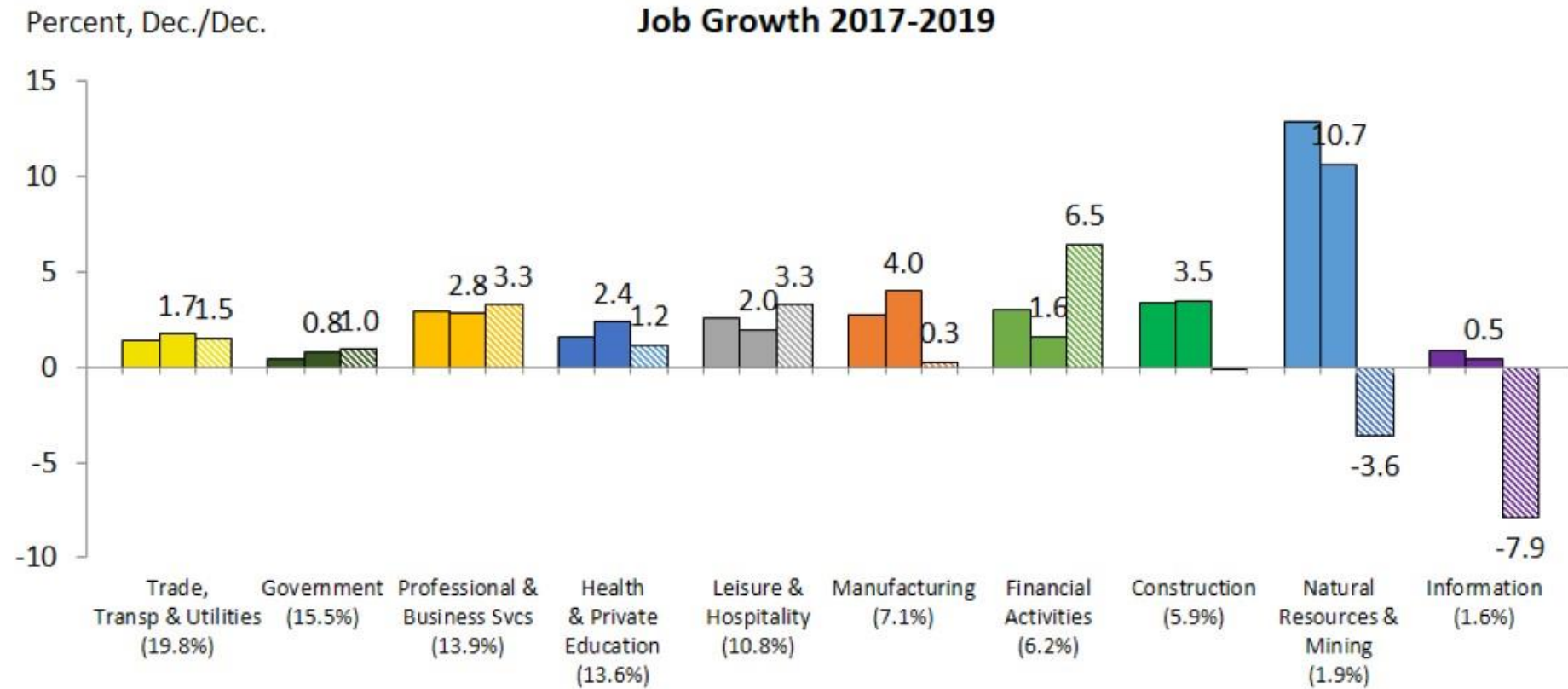
I-35 Corridor Posts Strong Growth in 2019



NOTE: Shaded bars represent seasonally adjusted, annualized growth from Dec. 2018 to Feb. 2019.

SOURCES: Bureau of Labor Statistics, Federal Reserve Bank of Dallas.

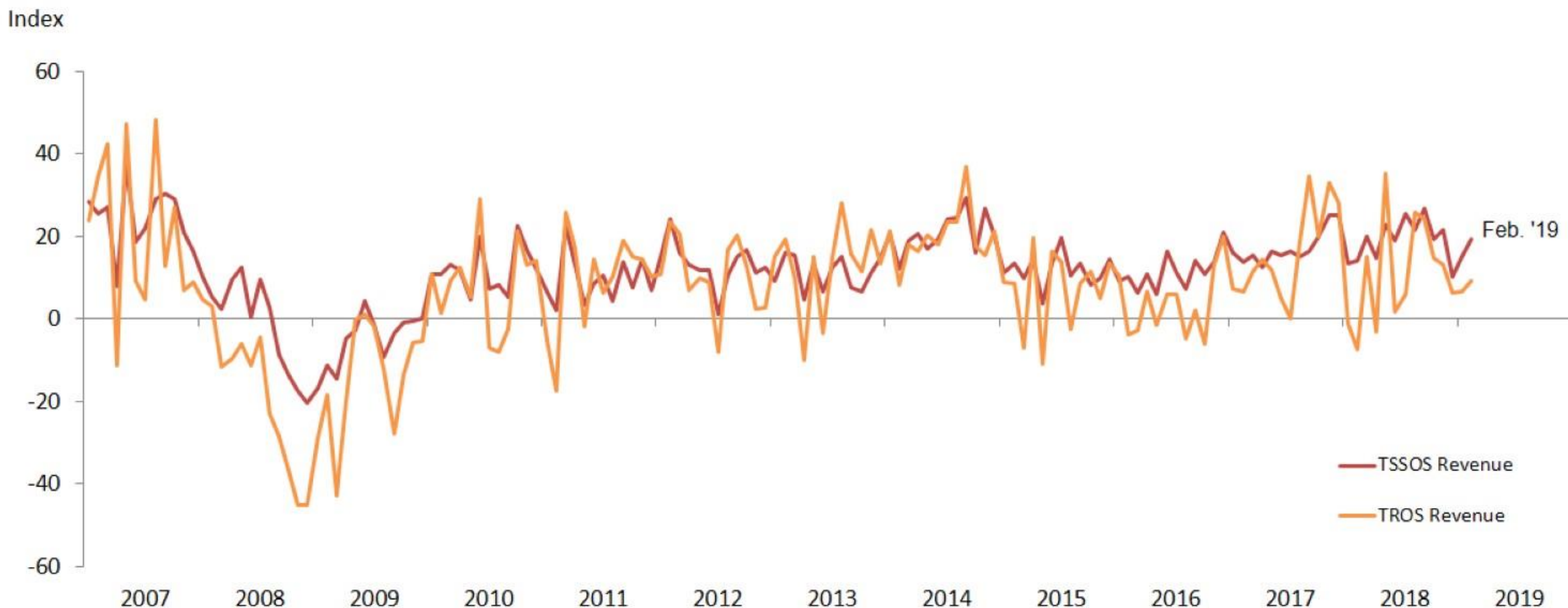
2019 Job Growth Mixed Across Industries



NOTE: Shaded bars represent seasonally adjusted, annualized growth from Dec. 2018 to Feb. 2019.

SOURCES: Bureau of Labor Statistics, adjustments by Federal Reserve Bank of Dallas.

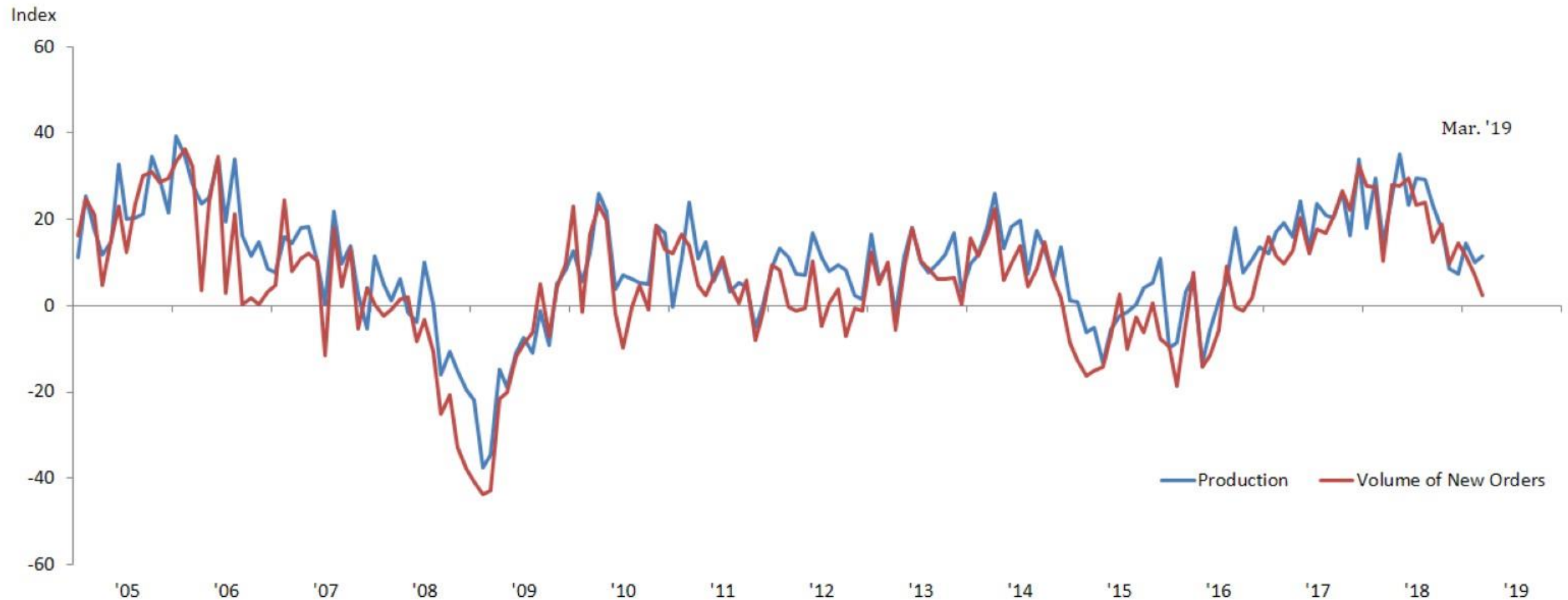
Texas Service Sector Rebounded After Weakening at End of Year



NOTE: Seasonally adjusted.

SOURCE: Federal Reserve Bank of Dallas Texas Service Sector and Retail Outlook Surveys.

Manufacturing Activity Slowing From Strong Pace

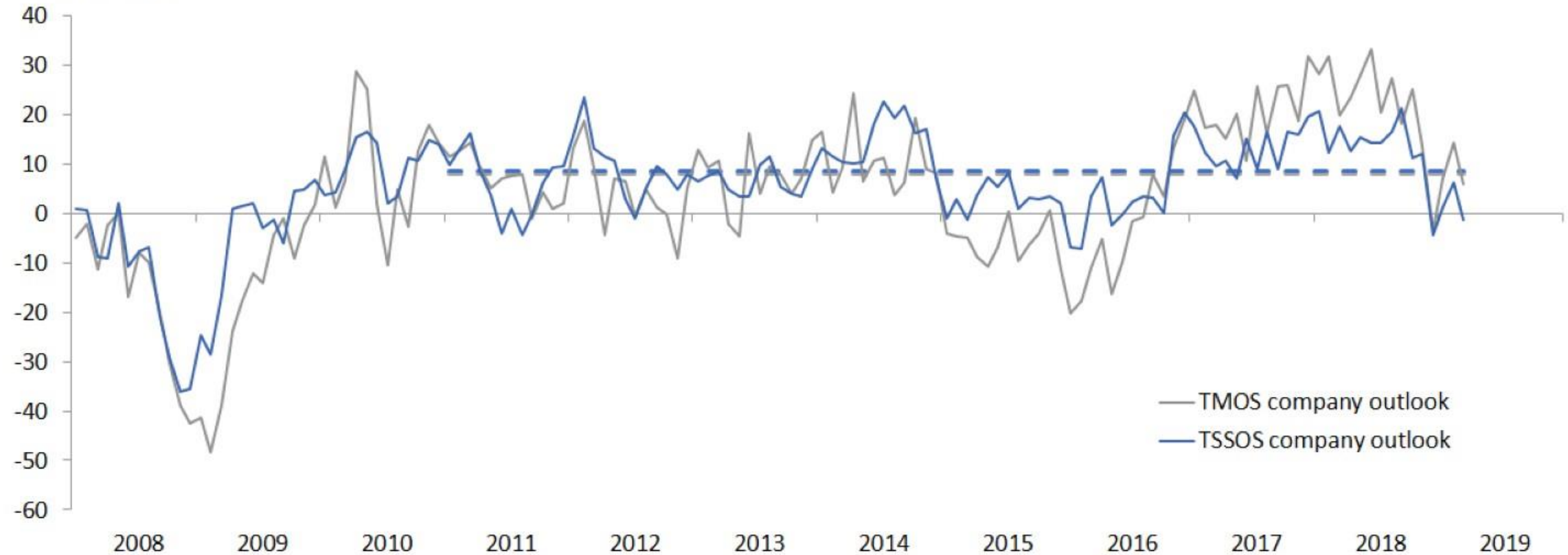


NOTE: Data are seasonally adjusted.

SOURCE: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey.

Survey Outlooks Weakened Sharply in December, But Have Improved Since Then

Index, 3MMA, SA



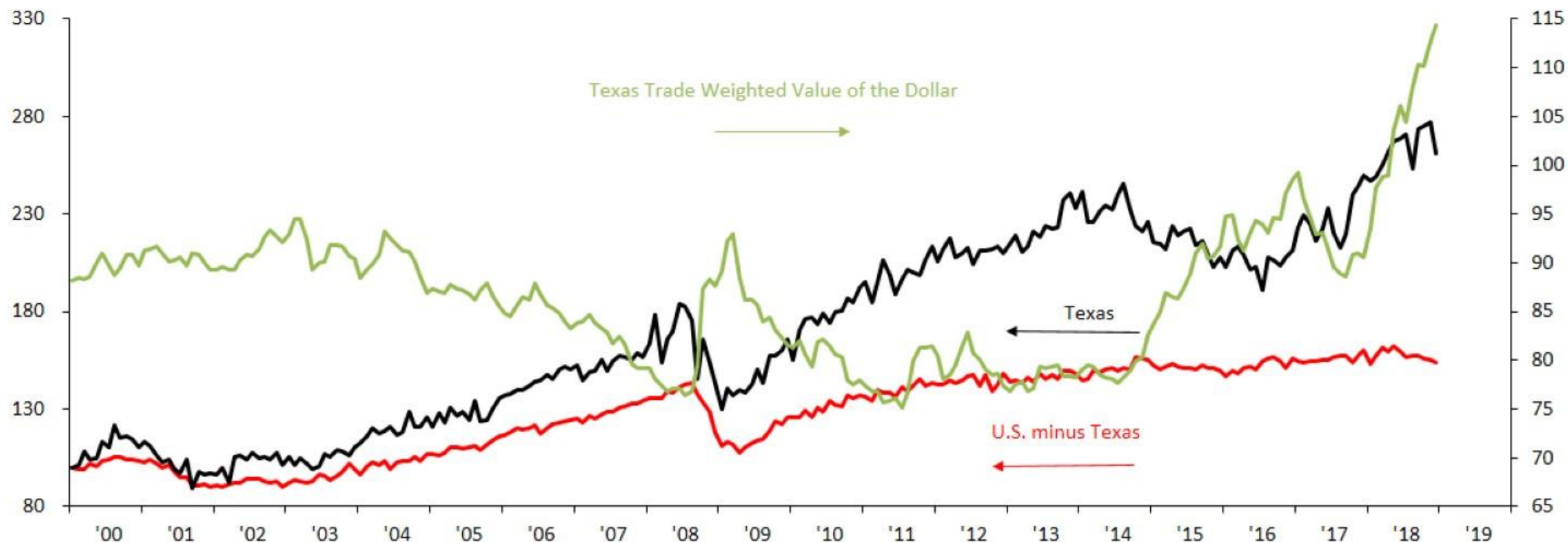
NOTES: Data through Mar. 2019. Dashed lines are post recession averages.

SOURCES: Federal Reserve Bank of Dallas Outlook Surveys: Manufacturing (TMOS); Service Sector (TSSOS).

State Exports Show Signs of Slowing with Dollar Strength

Index, SA, Real
Jan. 2000=100

Index
Jan. 1988=100



SOURCES: U.S. Census; Bureau of Labor Statistics; WISERtrade; Federal Reserve Bank of Dallas.

Residential Housing Leading Indicators Weakening

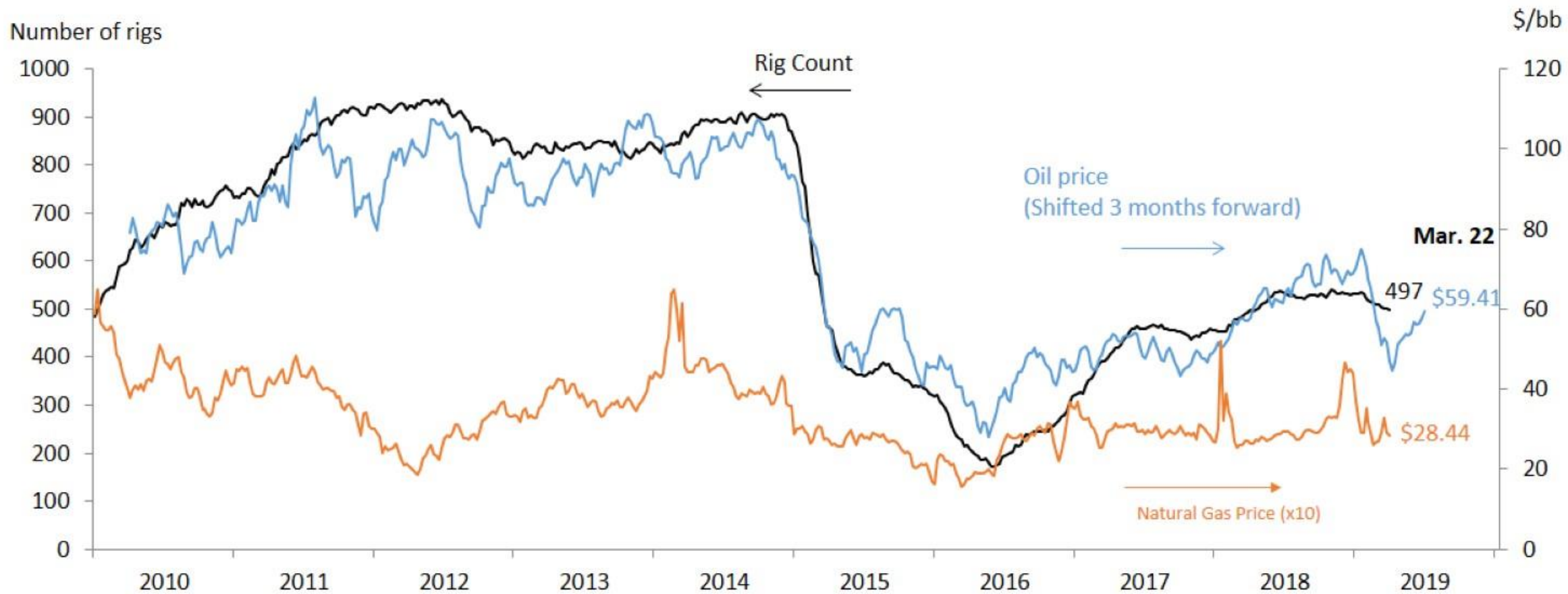
Index, Jan. '08=100, 5MMA, SA



NOTE: Data through Jan. 2019.

SOURCES: Bank of Tokyo-Mitsubishi UFJ; U.S. Census Bureau; seasonal and other adjustments by Federal Reserve Bank of Dallas.

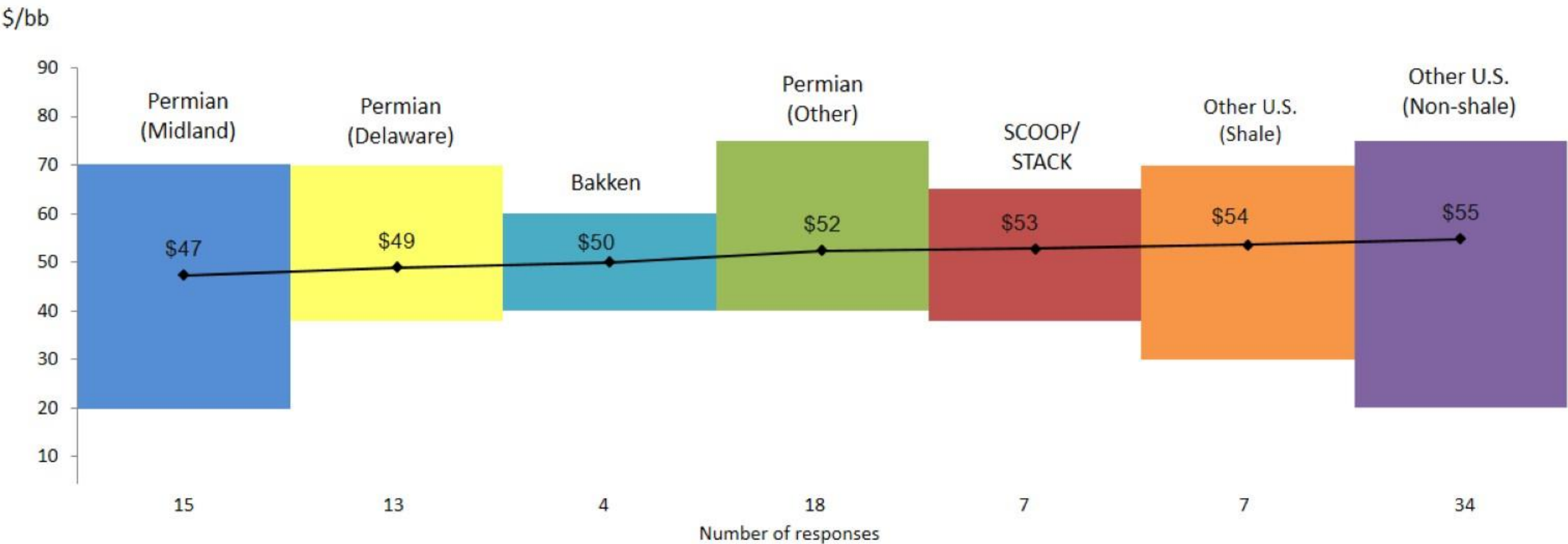
Oil Price Decline Suggests Flatness in Rig Count



NOTES: Data are weekly, last data point is the week of Mar. 22, 2019. Oil prices are spot prices from WTI-Cushing and natural gas prices are from Henry Hub.

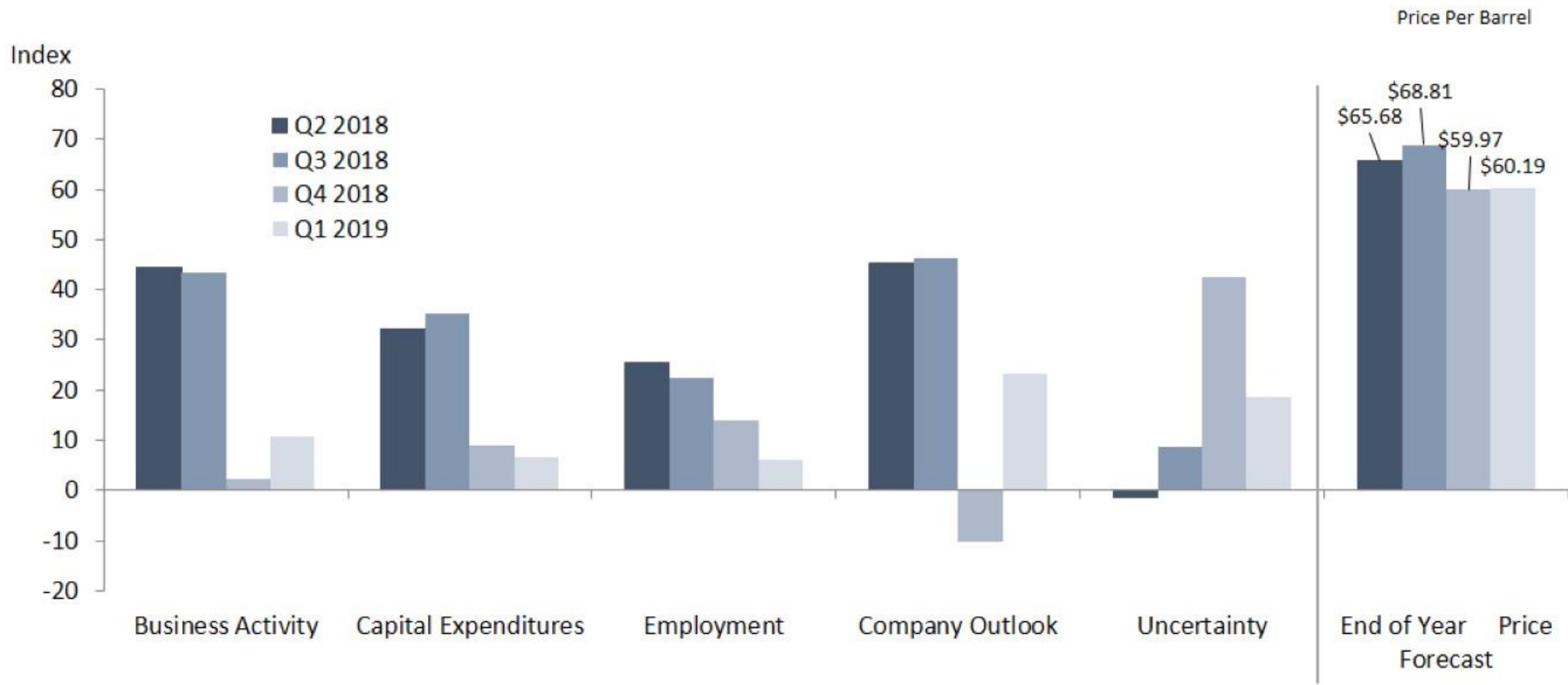
SOURCES: Oil and Gas Journal, Baker Hughes.

Breakeven for New Drilling in Permian Ranges from \$20 to \$75



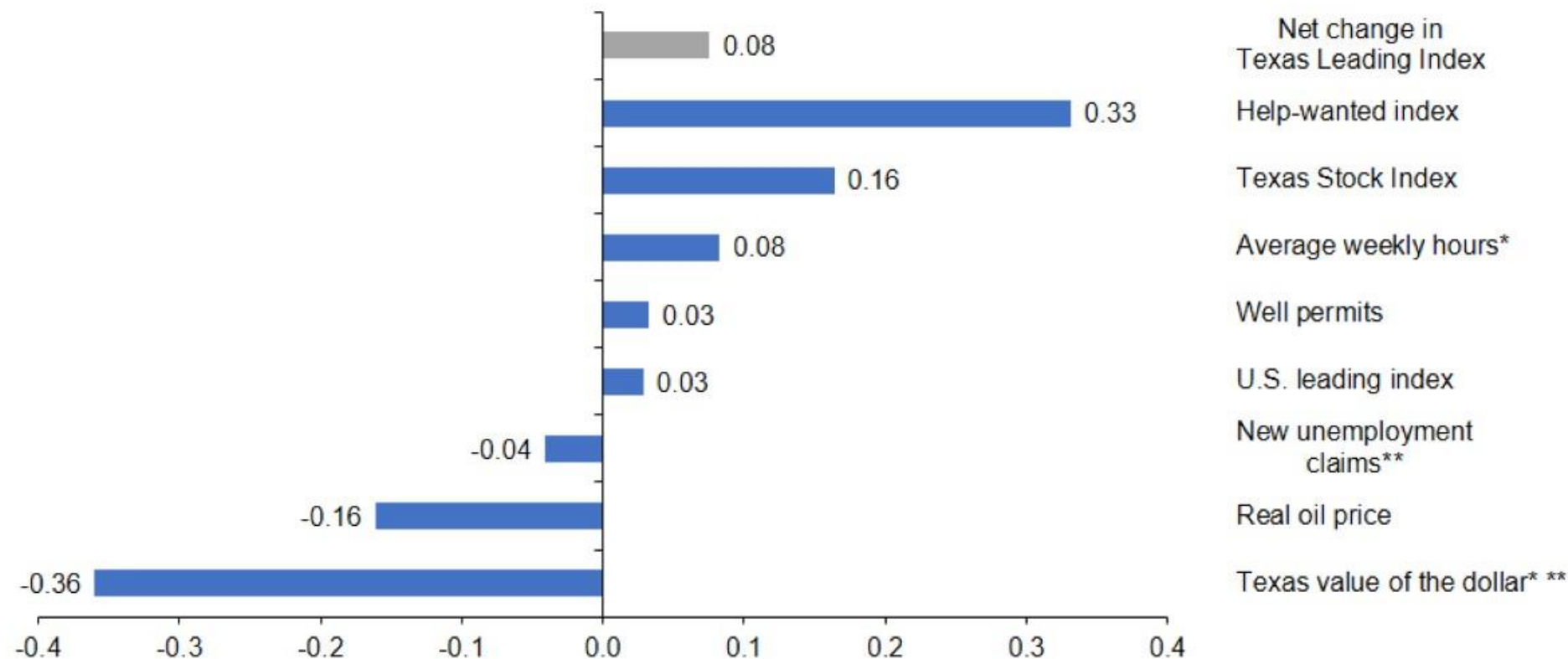
NOTES: Lines show the mean, and bars show the range of responses. Executives from 65 exploration and production firms answered this question during the survey collection period, March 14–22, 2018.
SOURCE: Federal Reserve Bank of Dallas.

Energy Survey Suggests Weaker Growth, More Uncertainty



TX Leading Index Components Mixed

Net contributions to change in Texas Leading Index



*This component have been estimated by the Dallas Fed for the latest month.

**These components are inverted in the Texas Leading Index.

NOTE: Three-month percent change through February, seasonally adjusted.

SOURCE: Federal Reserve Bank of Dallas.

Texas Jobs Forecast to Grow about 1.0% – 2.0% in 2019



*Seasonally adjusted.

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

Summary

- U.S. Economy decelerating this year with GDP growth likely near 2.0 percent – probability of recession has recently increased
- Texas economy accelerated last year – growth was broad-based across industries and regions
- Toward end of the year growth began to slow and business outlooks weakened sharply – outlooks have improved since then
- Texas grew 2.3 percent in 2018 and will likely slow to about 1.0 – 2.0 percent in 2019
- Texas UR likely to remain low
- Biggest risk to the Texas forecast is sharp decline in oil prices or trade war

Dallas Fed Publications

Public Resources from the Dallas Fed:

- [Southwest Economy](#)
- [Regional Economic Updates](#)
- [San Antonio](#) and [Austin](#) Economic Indicators
- [Texas Business Outlook Surveys](#)
- [Energy Survey](#)
- [National Economic Updates](#)
- [International Economic Updates](#)
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