

Memorandum



DATE: December 2, 2016

TO: Honorable Members of the Budget, Finance, & Audit Committee:
Jennifer S. Gates (Chair), Philip T. Kingston (Vice Chair), Erik Wilson, Rickey D. Callahan,
Scott Griggs, Lee M. Kleinman

SUBJECT: **Is the Worst Over? Texas Economy Gaining Speed**

On Monday, December 5, 2016, the Federal Reserve Bank of Dallas will brief the Budget, Finance, & Audit Committee on Is the Worst Over? Texas Economy Gaining Speed. We have attached the briefing for your review.

Please let me know if you need additional information.



M. Elizabeth Reich
Chief Financial Officer

[Attachment]

cc: Honorable Mayor and Members of the City Council
A.C. Gonzalez, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager

Eric D. Campbell, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Mark McDaniel, Assistant City Manager
Joey Zapata, Assistant City Manager
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council



Budget, Finance and Audit Committee

Is the Worst Over?

Texas Economy Gaining Speed

Pia M. Orrenius

Federal Reserve Bank of Dallas

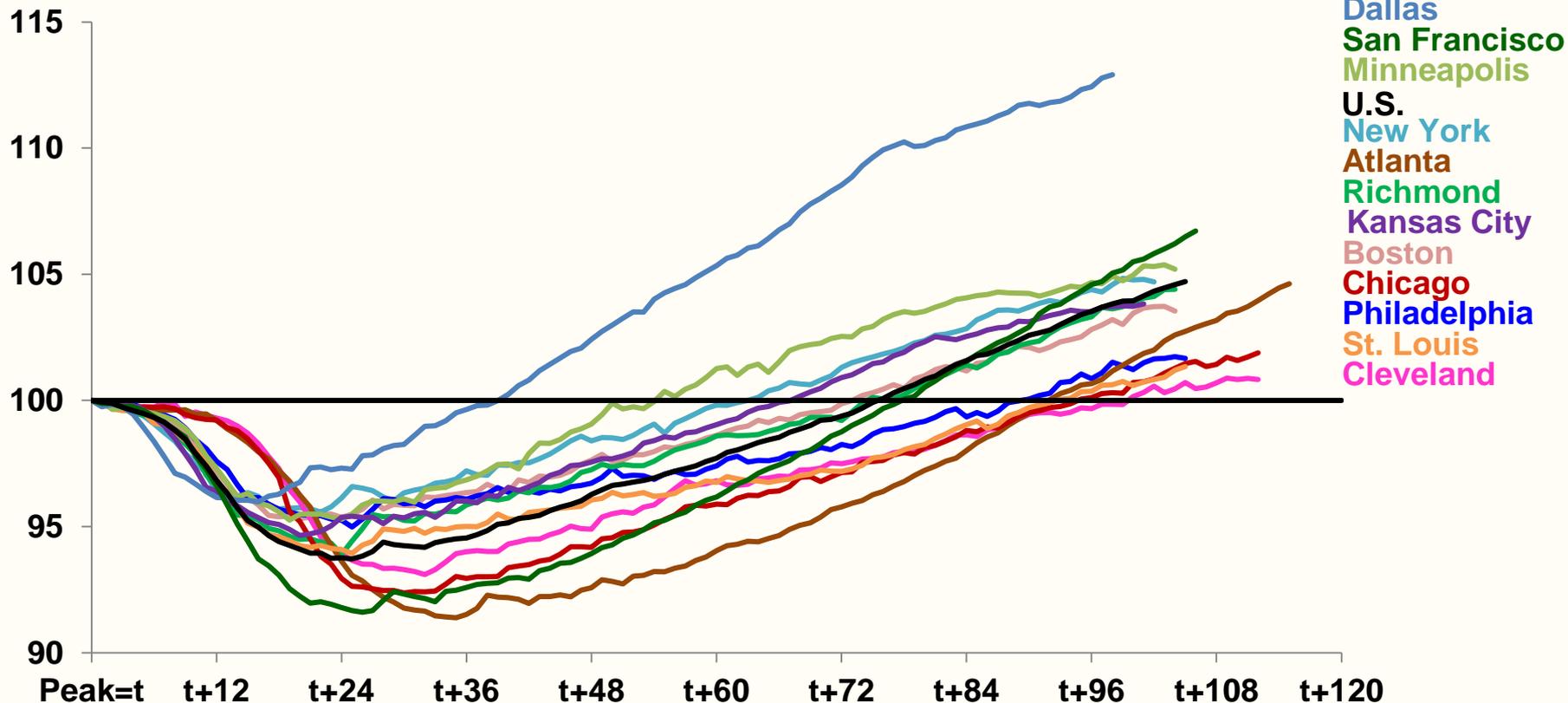
December 5, 2016

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



After Great Recession, 11th District was first to recover all lost jobs

Index, each District's peak employment = 100





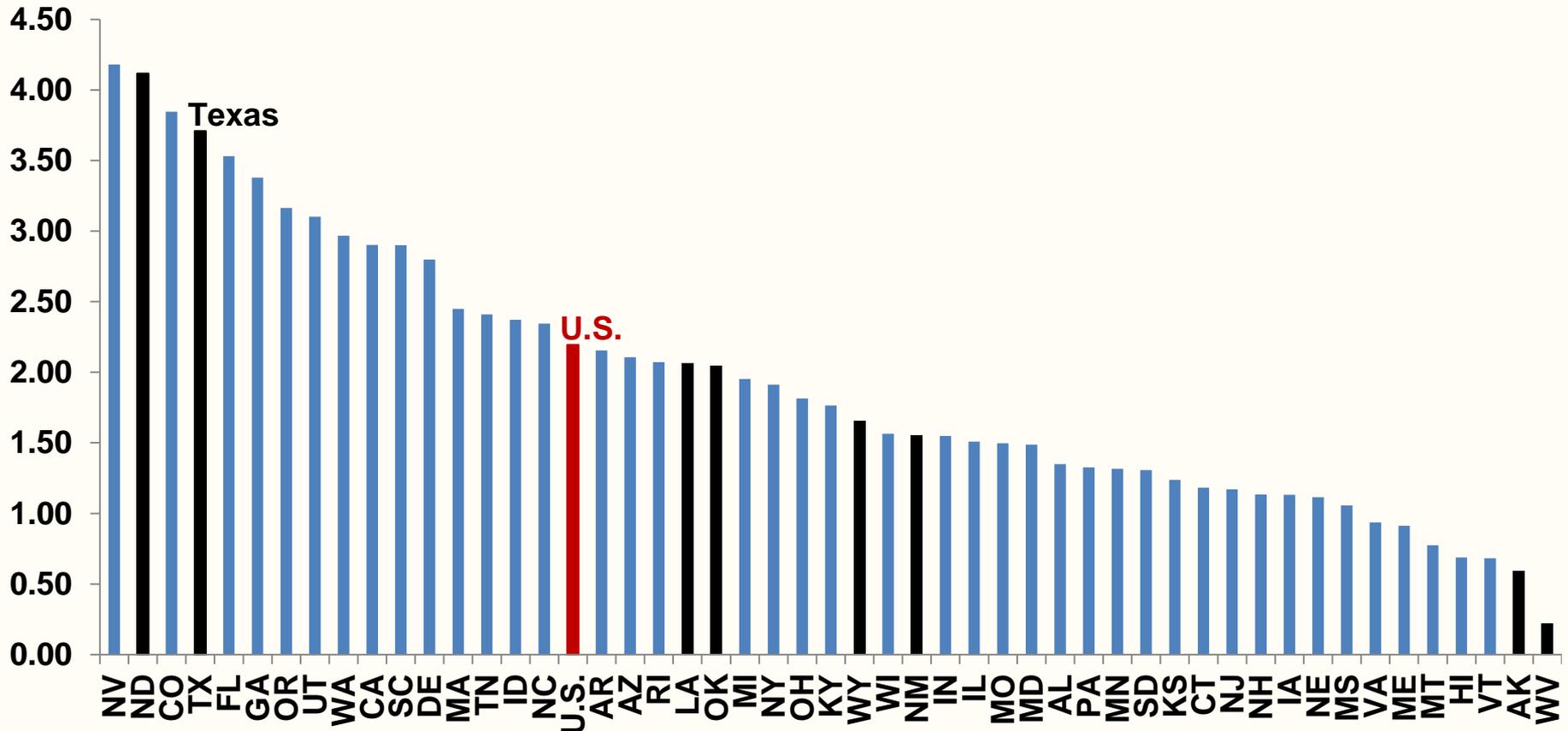
What a difference an oil boom makes...

- 11th District and the Great Recession
 - Last in, first out; in expansion since November 2011
- 2014: blistering Texas job growth at 3.7% (U.S. 2.2%)
 - Oil prices drop by 70%
- 2015: state growth slips under nation
 - Texas job growth of 1.3% (U.S. 2.0%)
- 2016: growth slows further
 - Texas job growth of 1.5% YTD (U.S. 1.5%)



In 2014, Texas 4th in job growth

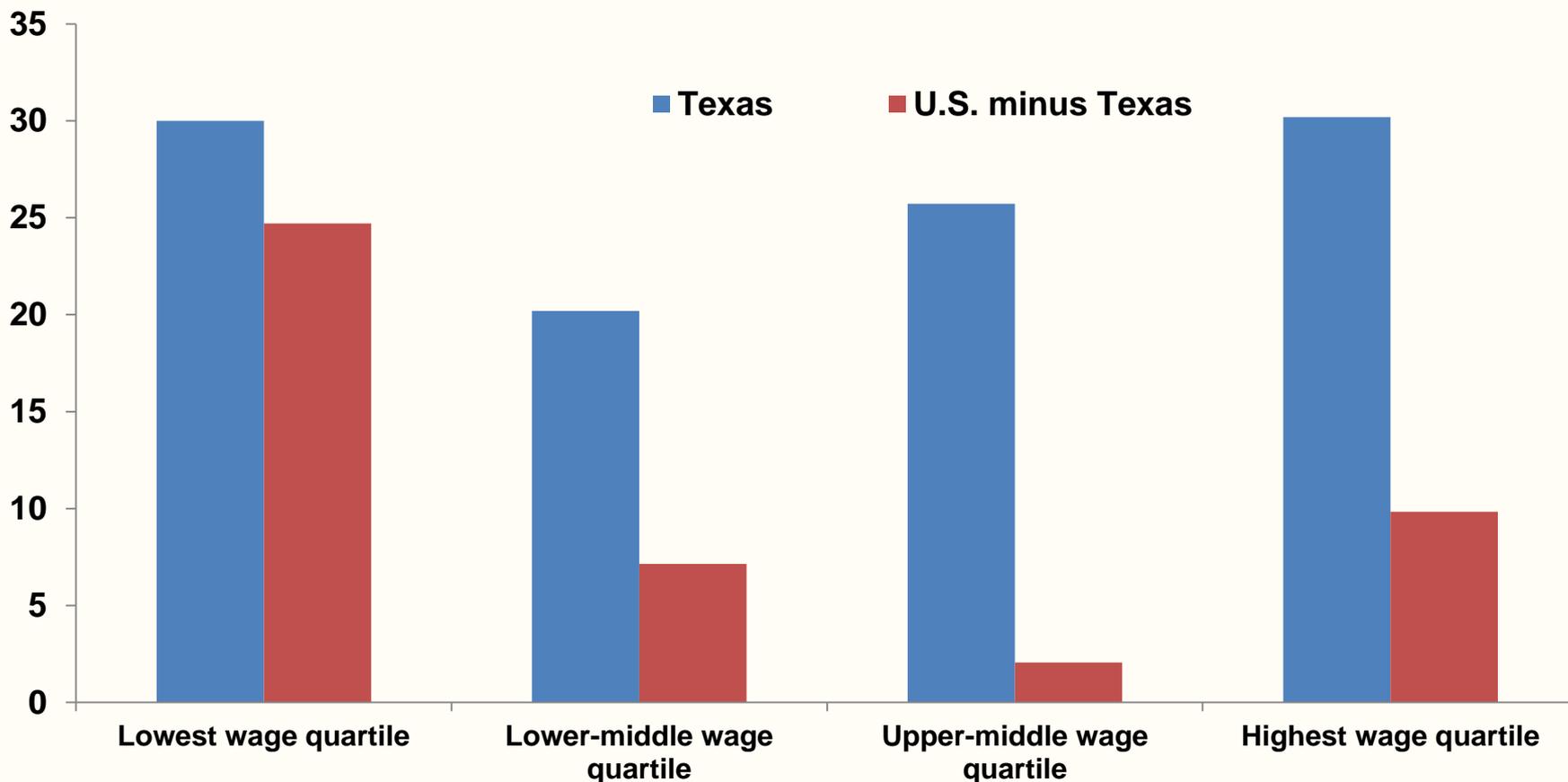
Percent Change, SAAR





Wages: Oil boom helped fuel job and wage growth in Texas

Percent change 2005-2015



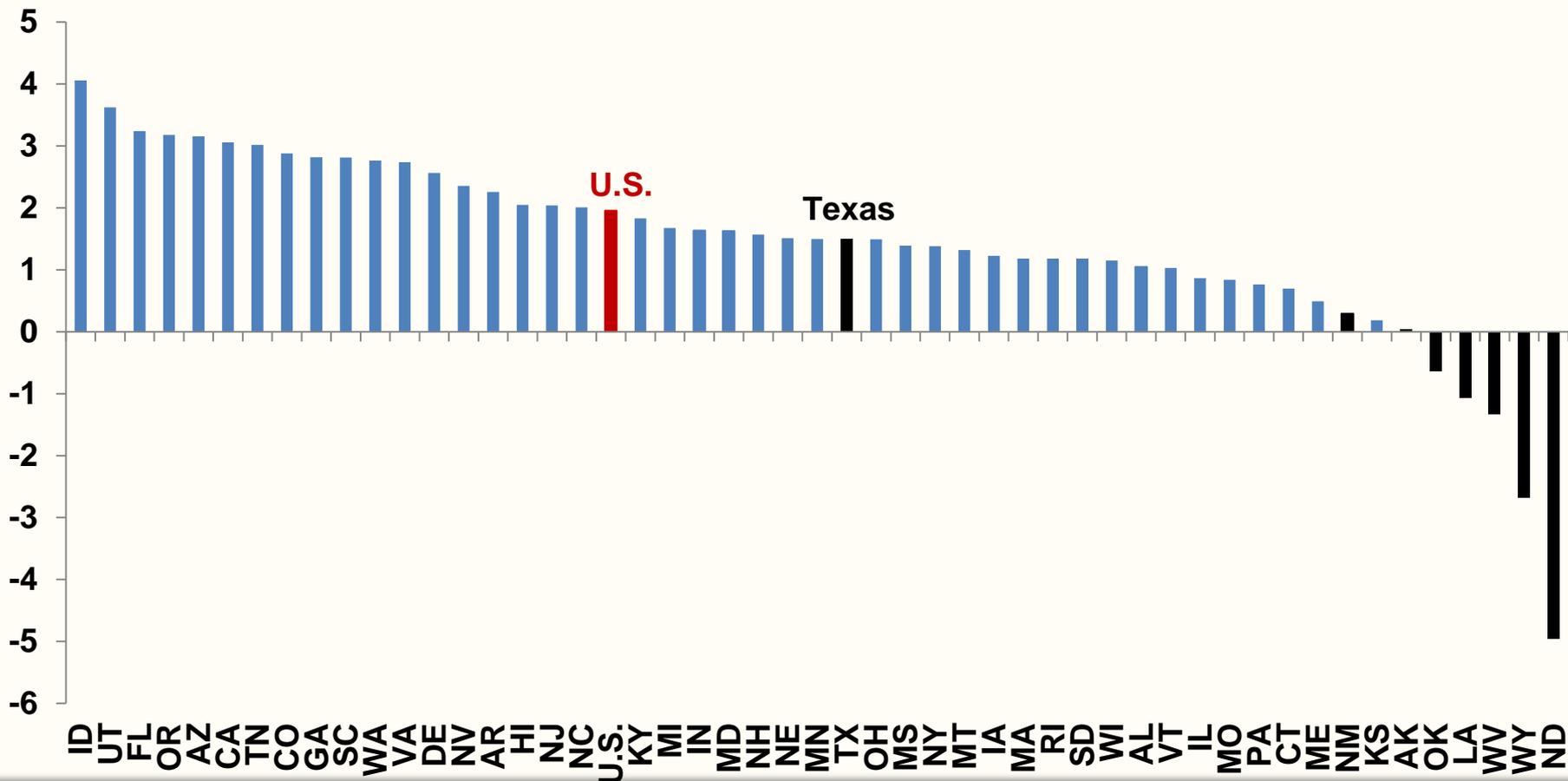
NOTES: Calculations include workers over age 15 but exclude the self-employed. Wage quartiles and employment growth based on the Texas and U.S. wage distributions from the 2005 and 2015 American Community Survey (ACS).

SOURCES: 2005 and 2015 ACS.



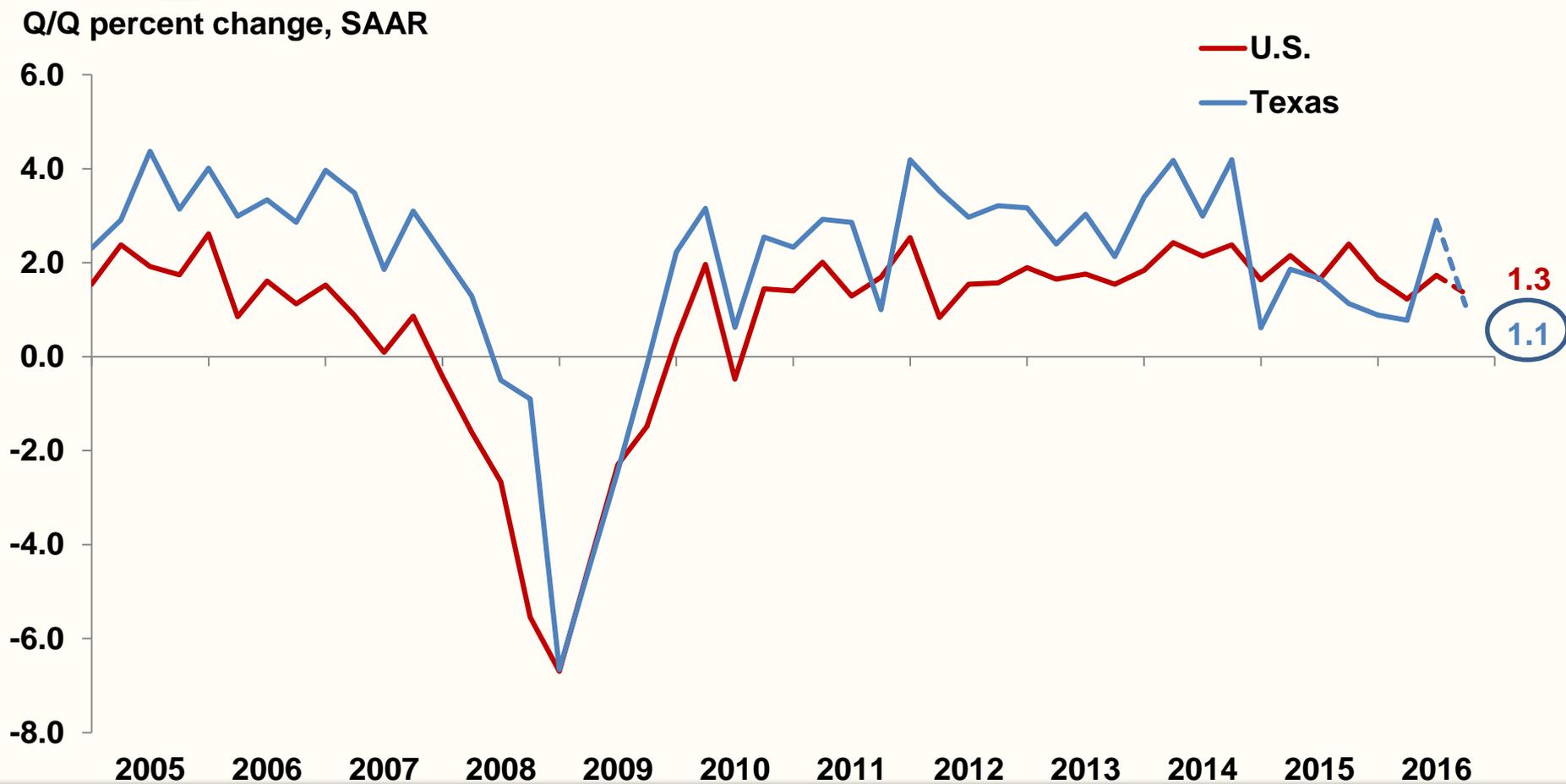
In 2015, Texas slips to 26th in job growth

Percent change, SAAR





Texas job growth bounces back after slowing in the energy bust

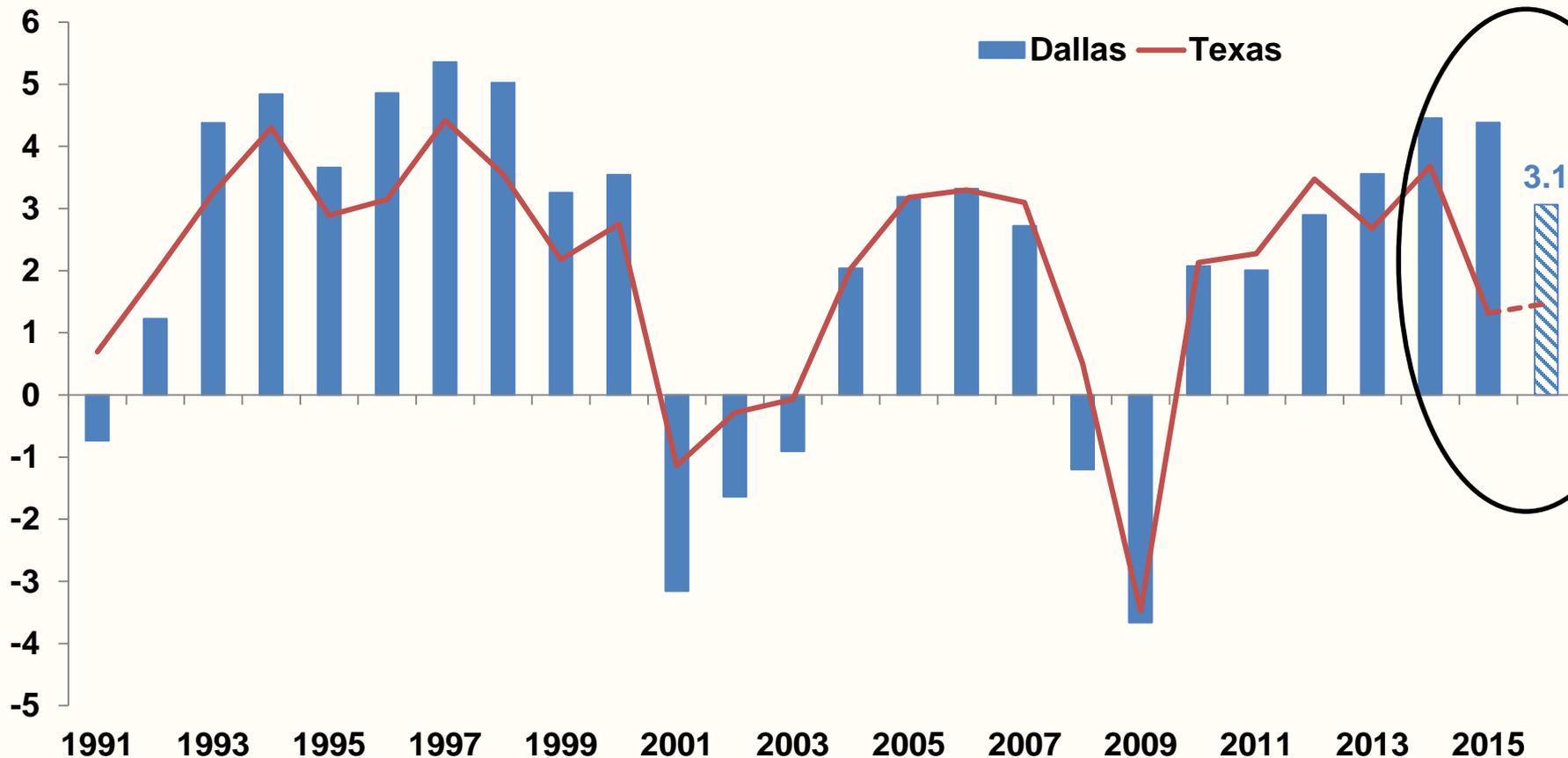


NOTES: Quarterly employment is last month of a quarter. Partial Q4 2016 based on October 2016 data.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal adjustments by FRB Dallas.



Dallas Job Growth Above Texas'

Y/Y percent change, SA

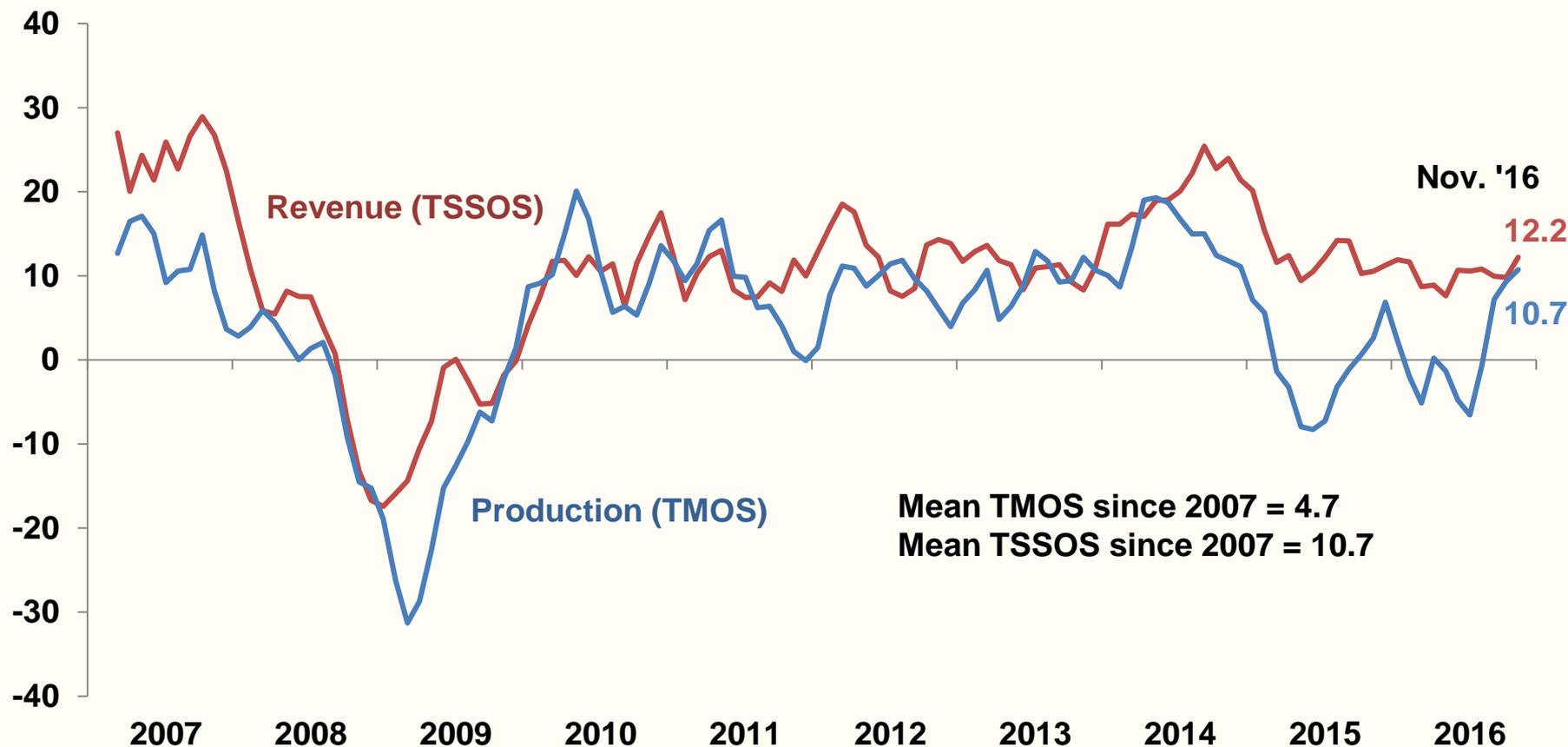


NOTE: Last data points for Texas and Dallas are 2016 YTD annualized employment growth through October.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Dallas Fed.



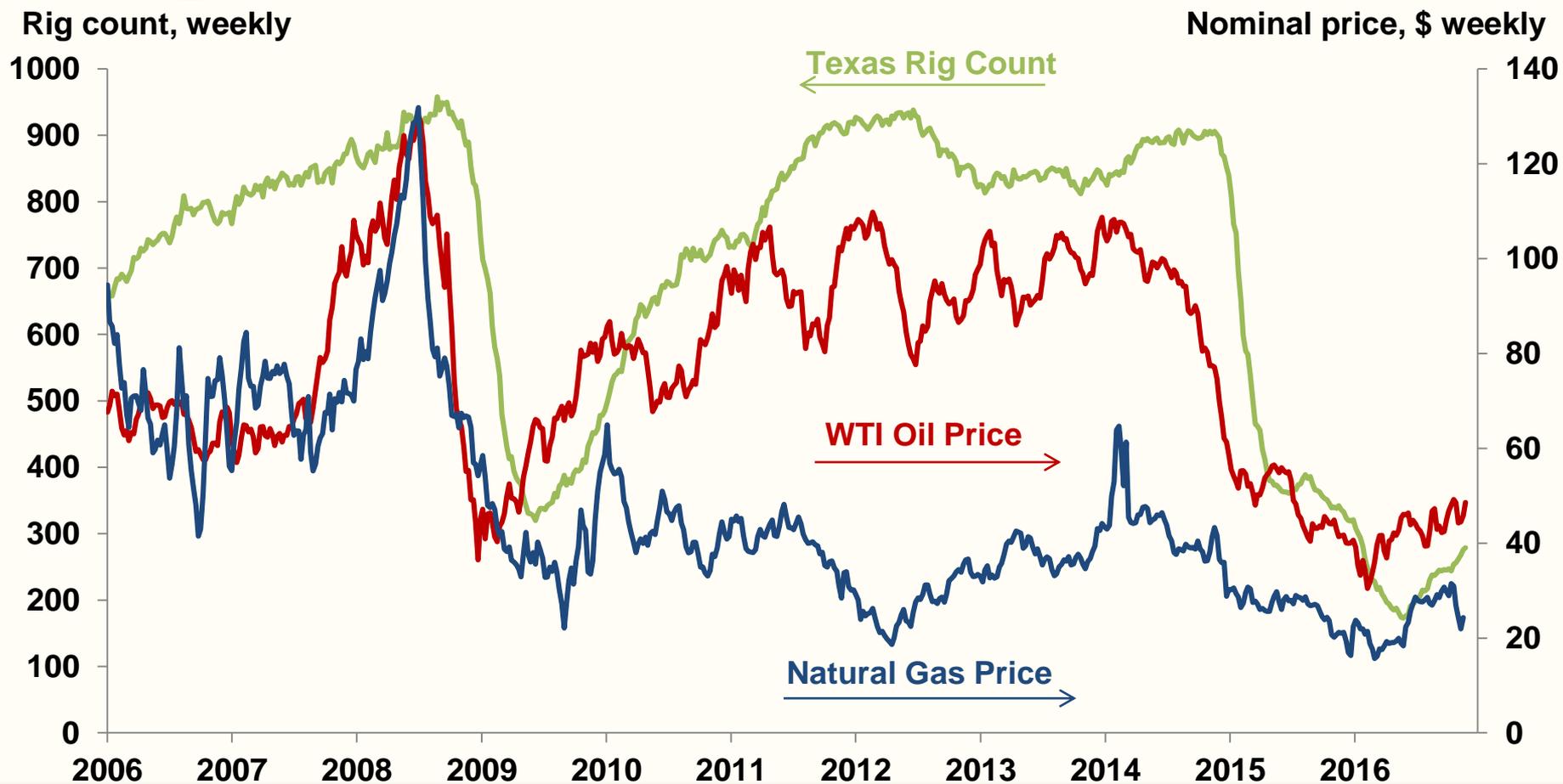
Dallas Fed Business Outlook Surveys also suggest activity has picked up

Index, 3MMA, SA





Texas' bust: Falling oil prices brought down rig count, drilling activity ceased



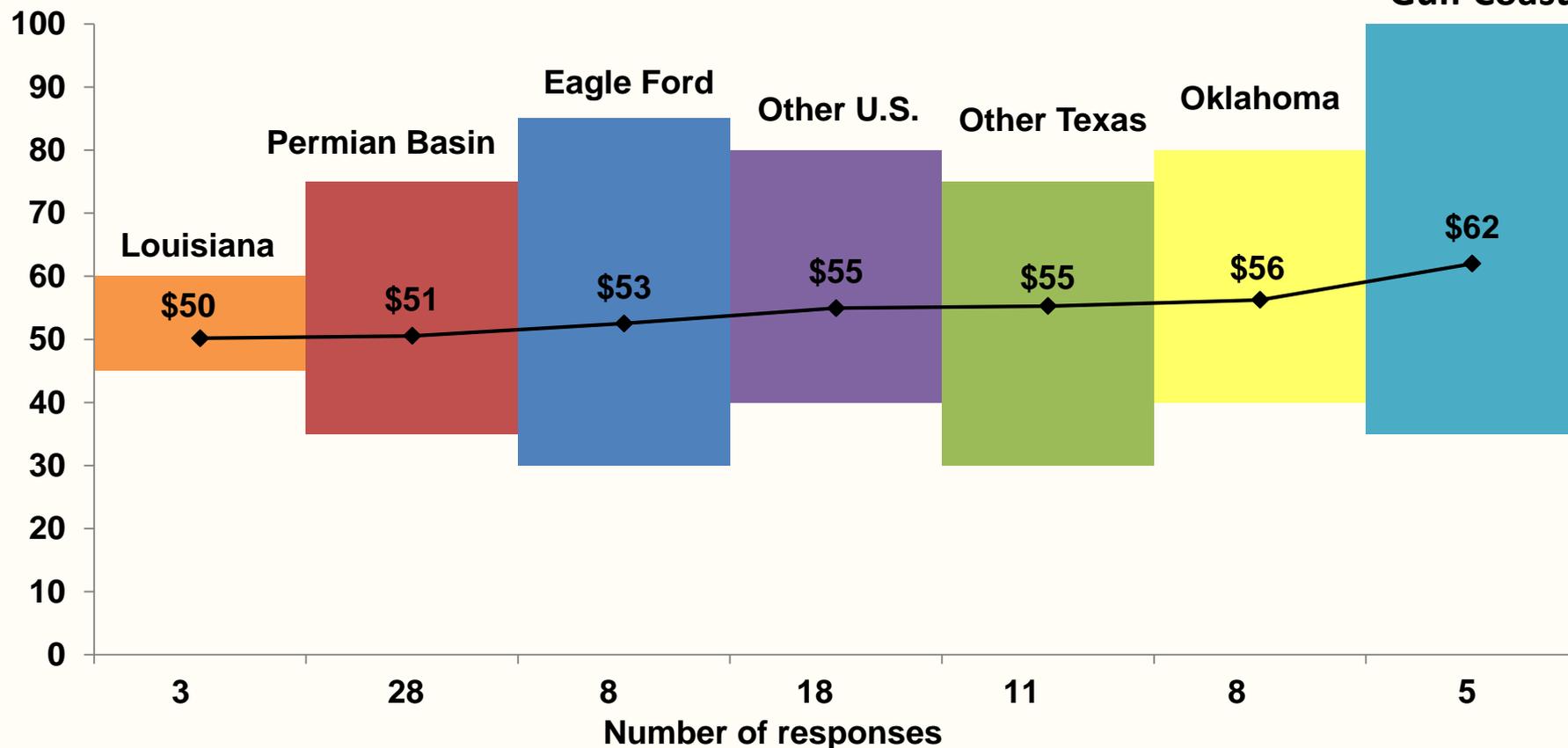
NOTE: Natural gas price is multiplied by 10.

SOURCES: Baker Hughes; Energy Information Administration; Wall Street Journal.



In the top two areas in which your firm is active: What WTI oil price does your firm need to profitably drill a new well?

Dollars per barrel



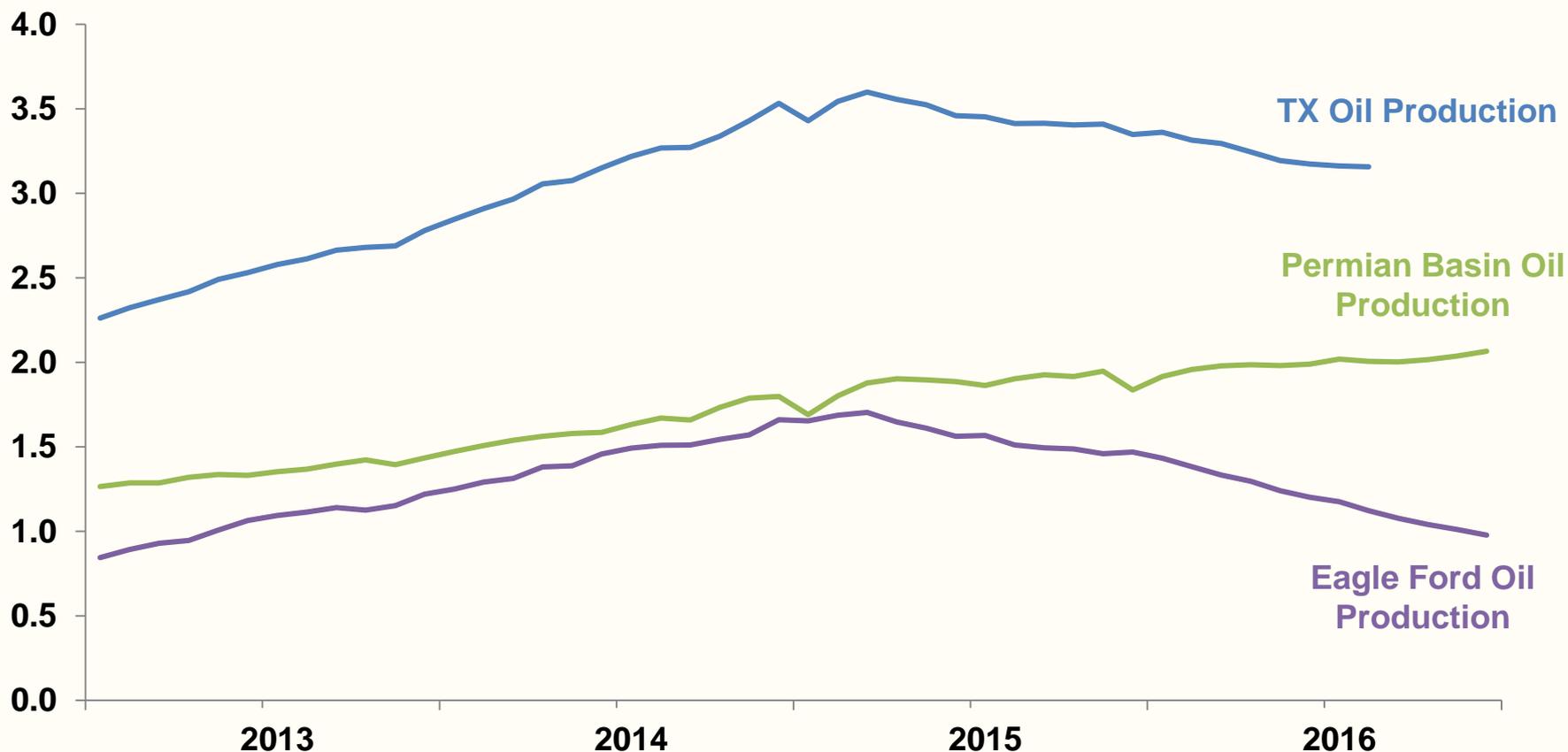
NOTES: Line depicts the mean and bars depict the range of responses. 63 E&P firms answered this question from March 16-24, 2016. Other U.S. includes Bakken, Kansas, Gulf of Mexico and others.

SOURCE: Federal Reserve Bank of Dallas Energy Survey.



Oil production has been slow to fall because Permian going strong

Million barrels per day



NOTE: Texas oil production data through August, Eagle Ford and Permian Basin oil production data through December.
SOURCES: Oil and Gas Journal; Baker Hughes.

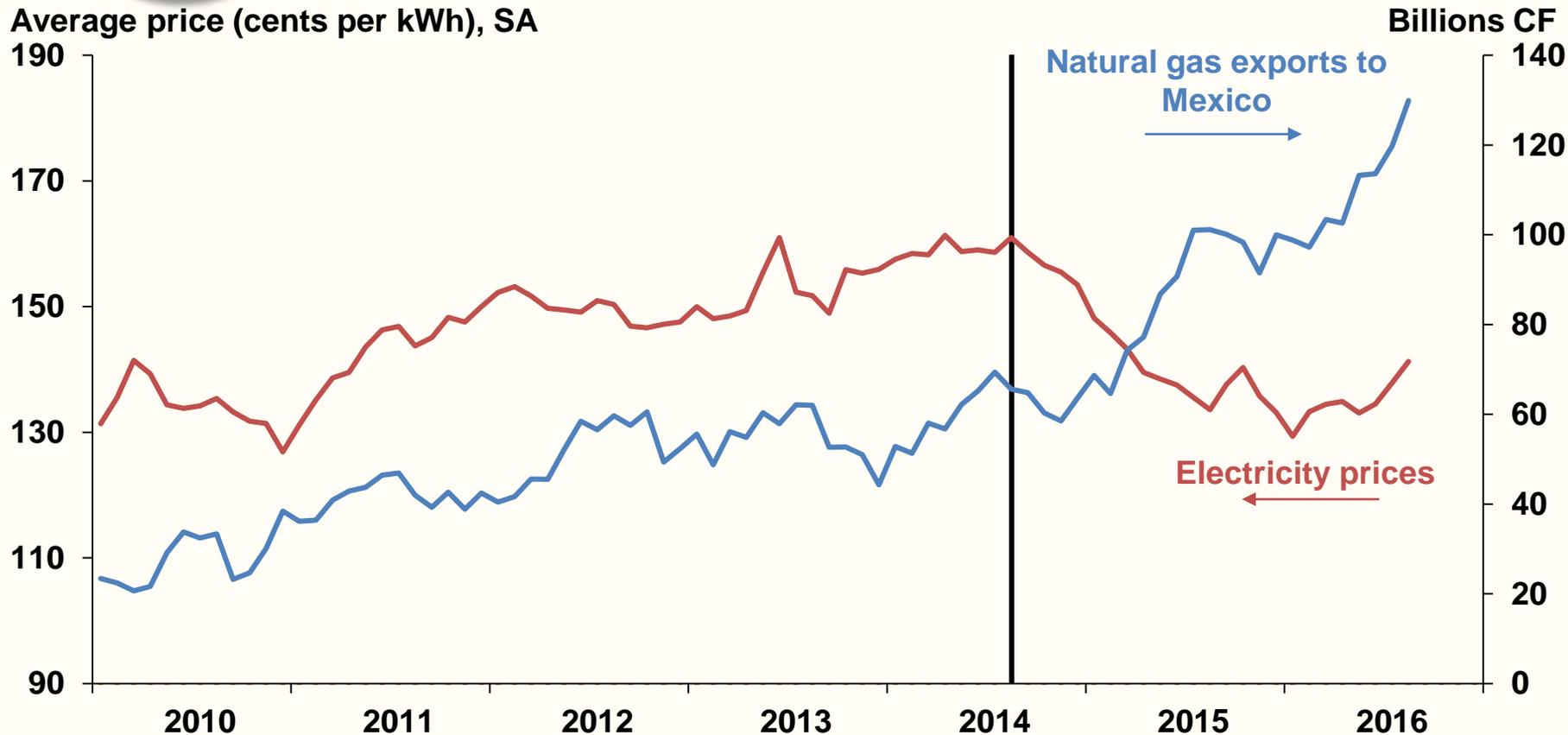


Energy's role declining in Texas

- Oil and gas industry shrinking
 - 6.0 percent of GDP, down from 14 percent at peak in 2014
 - 1.7 percent of employment, down from 2.6 percent at peak in 2014
- But Texas still home to
 - 36 percent of U.S. crude oil production, 25 percent of U.S. natural gas production
 - 29 percent U.S. refinery capacity, > 60 percent of U.S. petrochemical production



Natural gas exports to Mexico

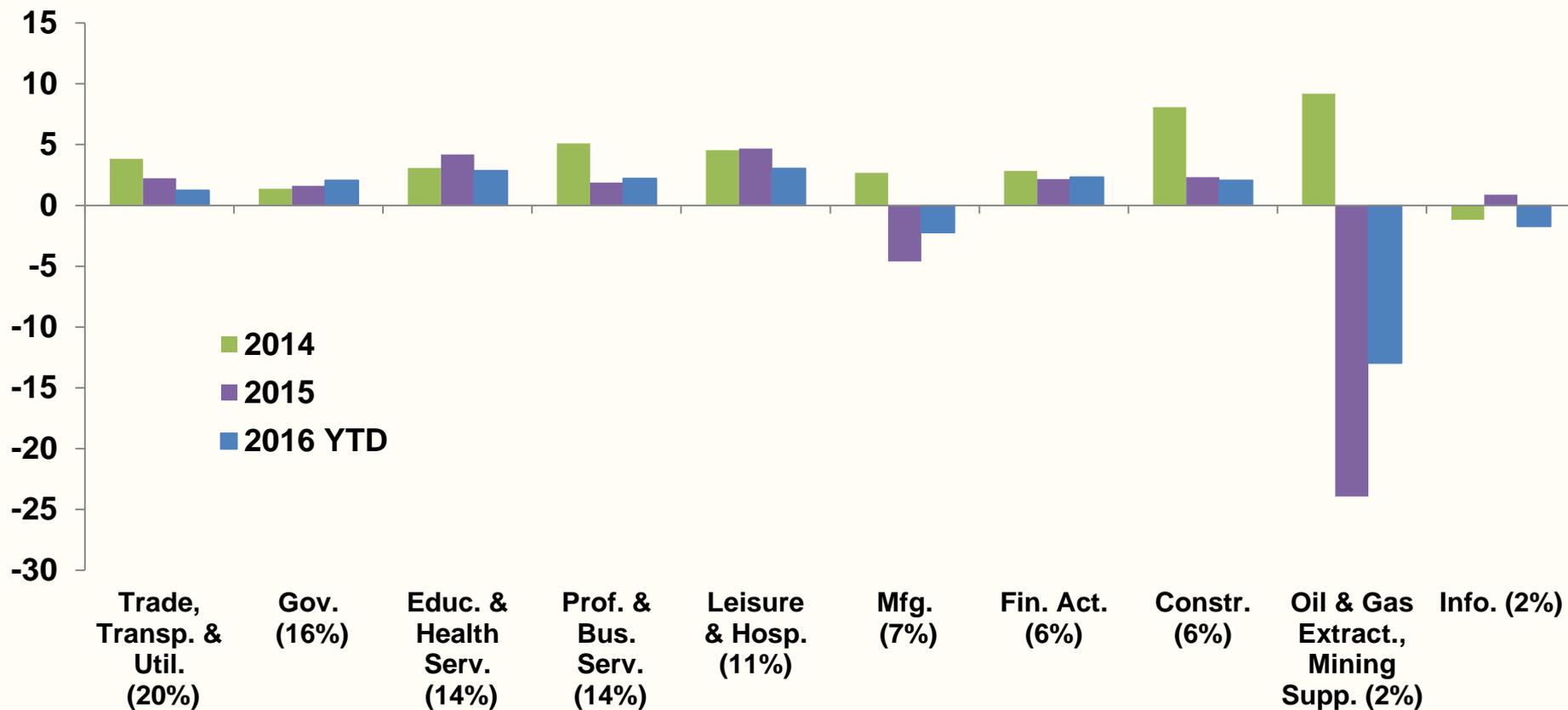


NOTE: Black line indicates date of reform, Aug. 2014.
SOURCES: EIA; Sistema de Información Energética.



Goods sector job declines severe, and some weakness spread to services

Percent change in employment, SAAR

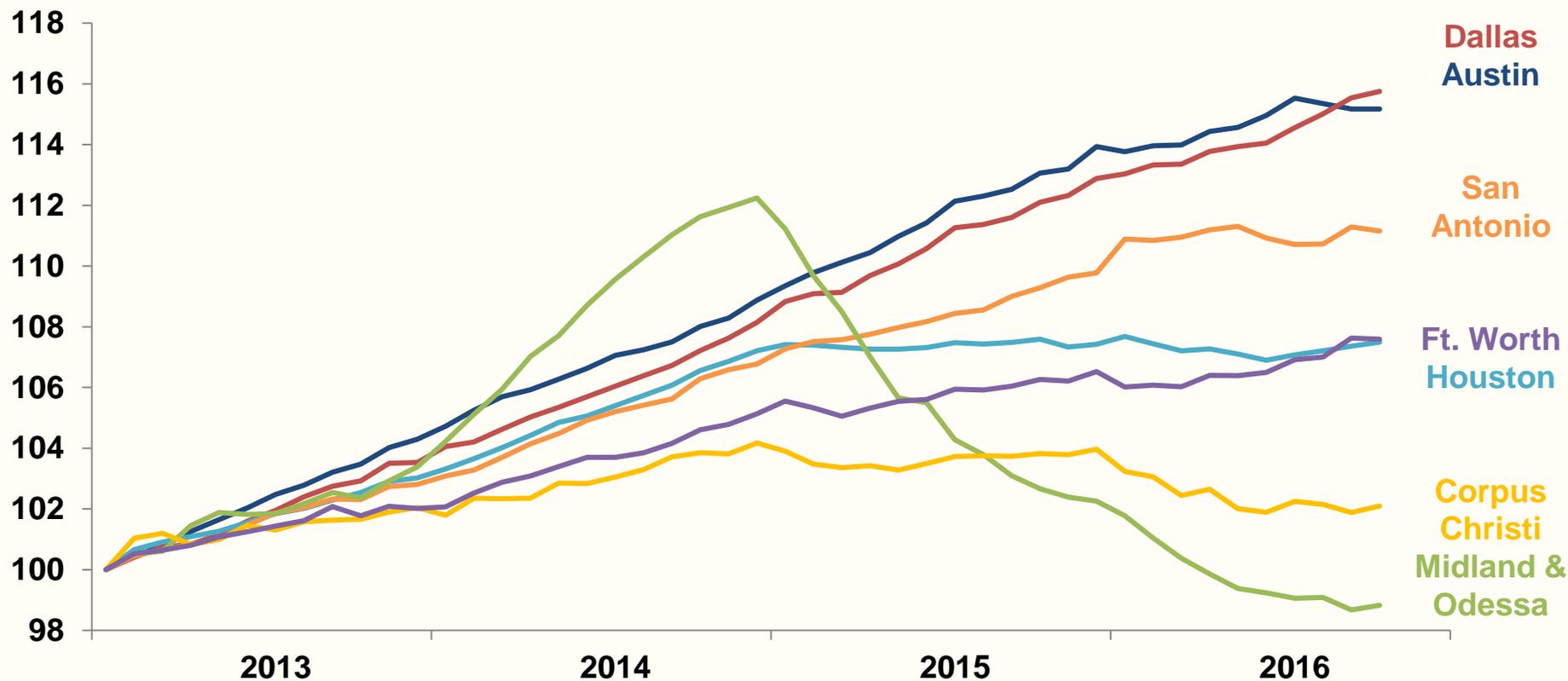


NOTES: 2016 YTD is the annualized percent change through October; each sector's share of employment in October is in parentheses.
 SOURCES: Bureau of Labor Statistics; TWC; seasonal and other adjustments by FRB Dallas.



Oil & gas cities lose jobs, other major metros slow in first half of 2016...

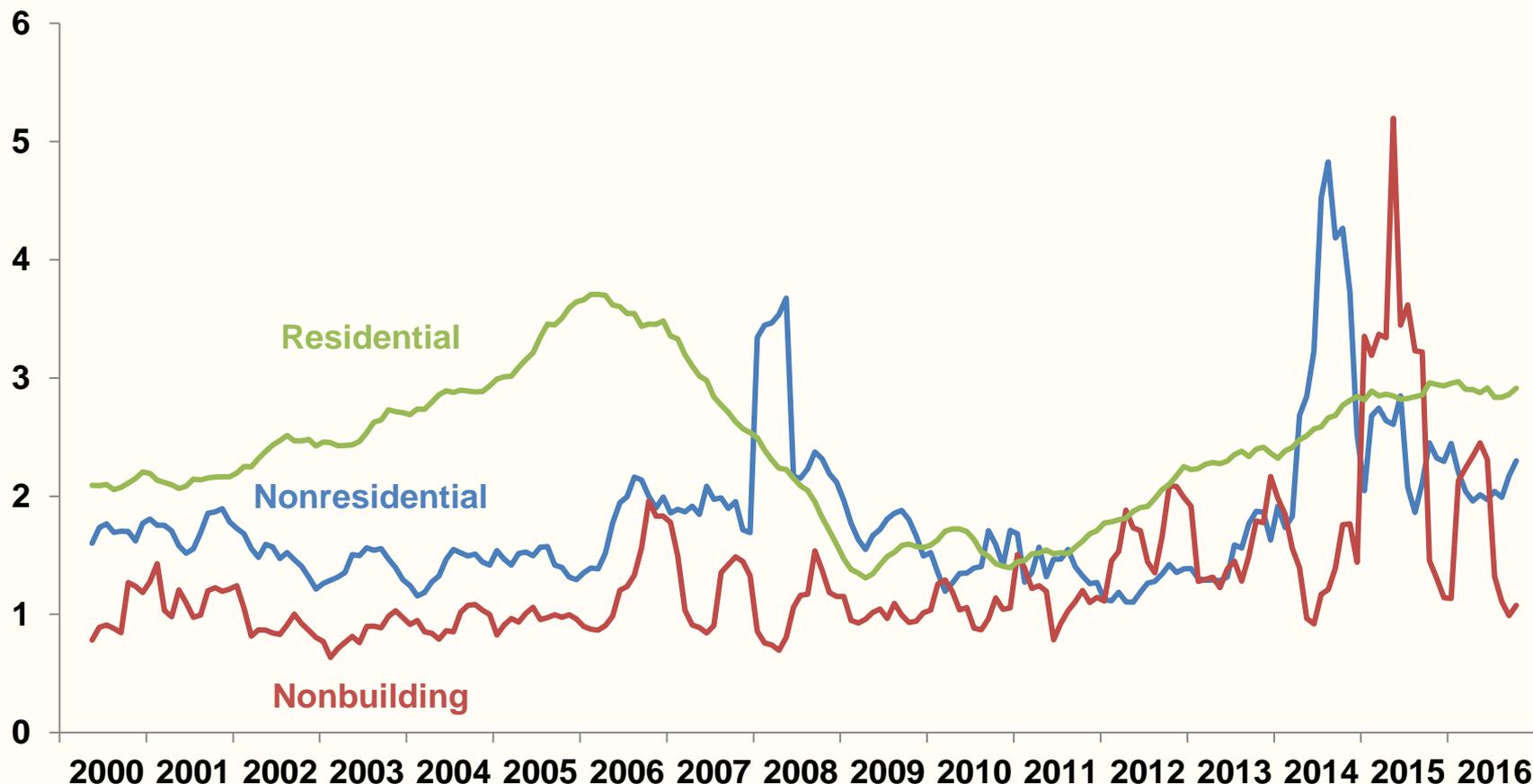
Index, Jan. '13=100, SA





End of the petrochemical construction boom weighs on state construction spending

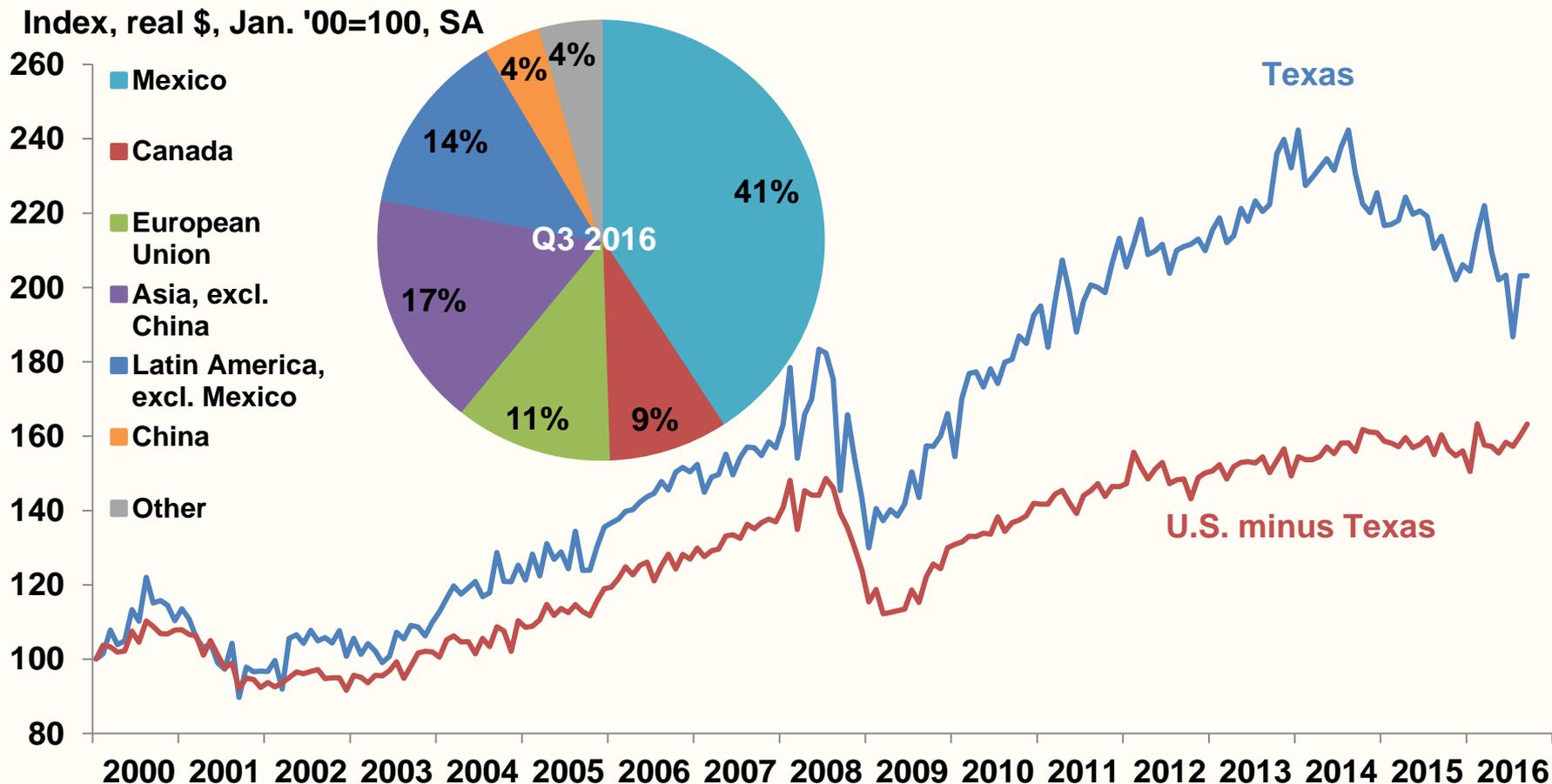
Billions real \$, 5MMA, SA



NOTE: Last data point is October.
SOURCE: Federal Reserve Bank of Dallas

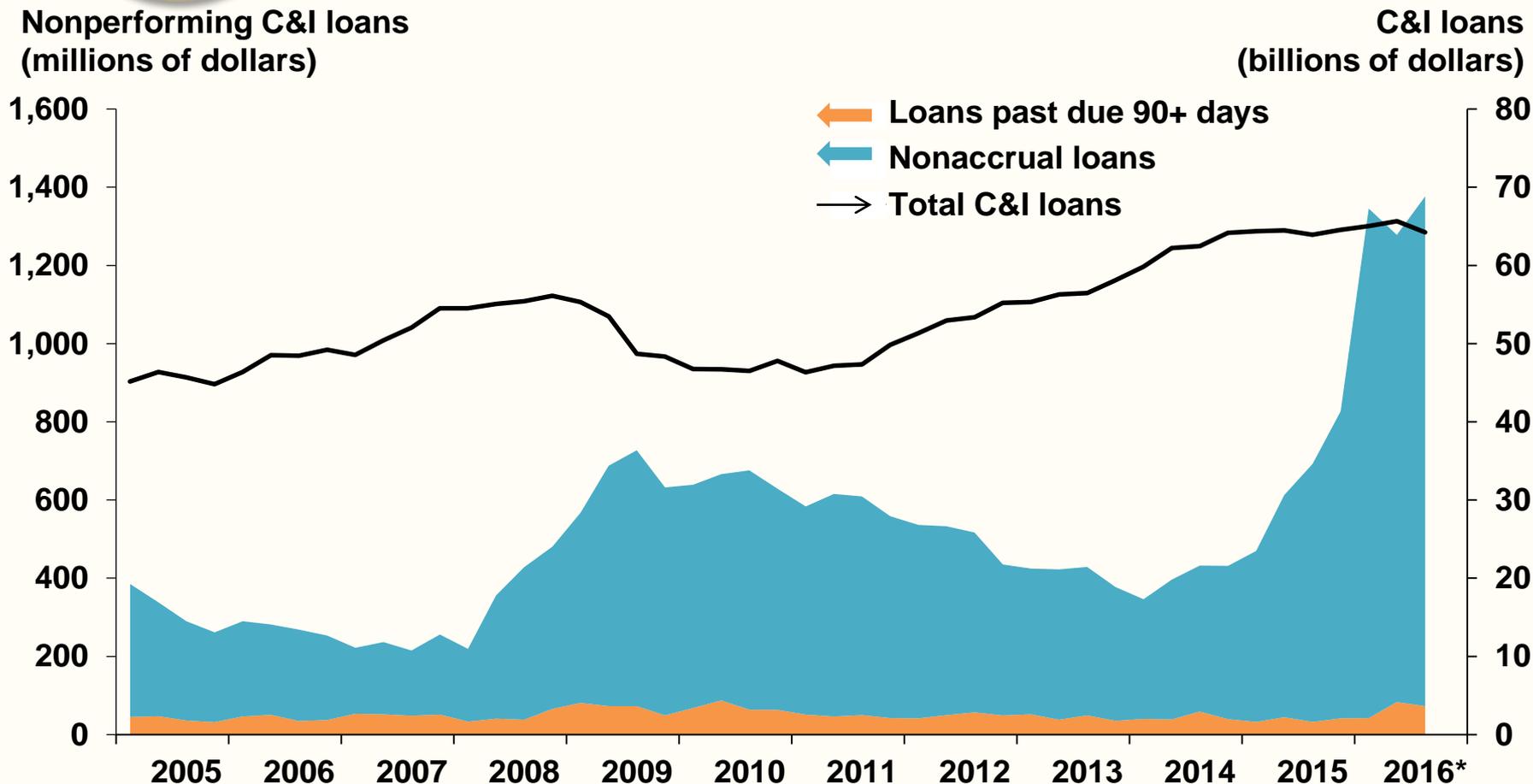


Texas exports off oil boom highs due to slowing demand, dollar, lower oil prices





Signs of trouble in banks...commercial & industrial loan quality worsens in Texas



NOTE: Data through 9/30/16.

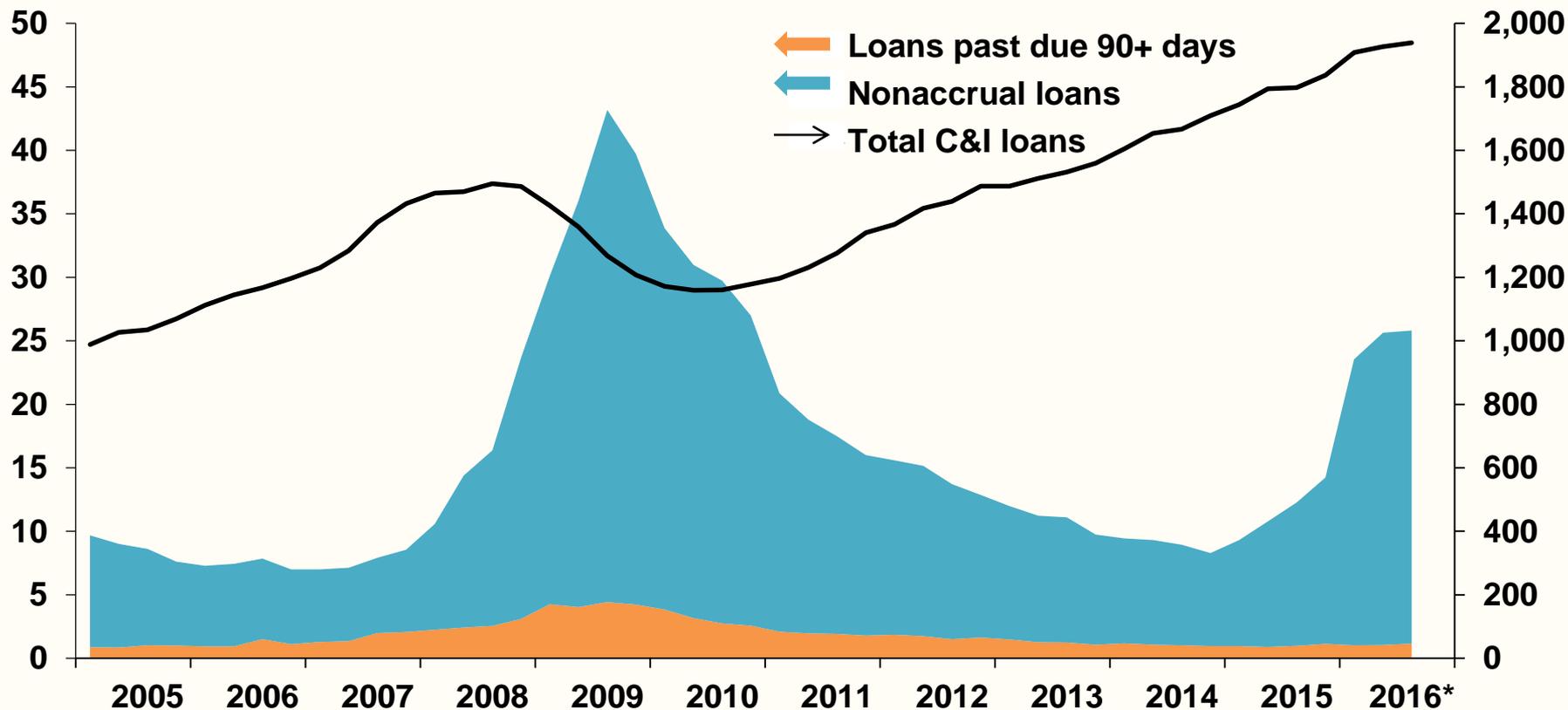
SOURCES: Quarterly Reports of Condition and Income; Federal Financial Institutions Examination Council.



...while U.S. C&I loan quality remains relatively stable

Nonperforming C&I loans
(billions of dollars)

C&I loans
(billions of dollars)



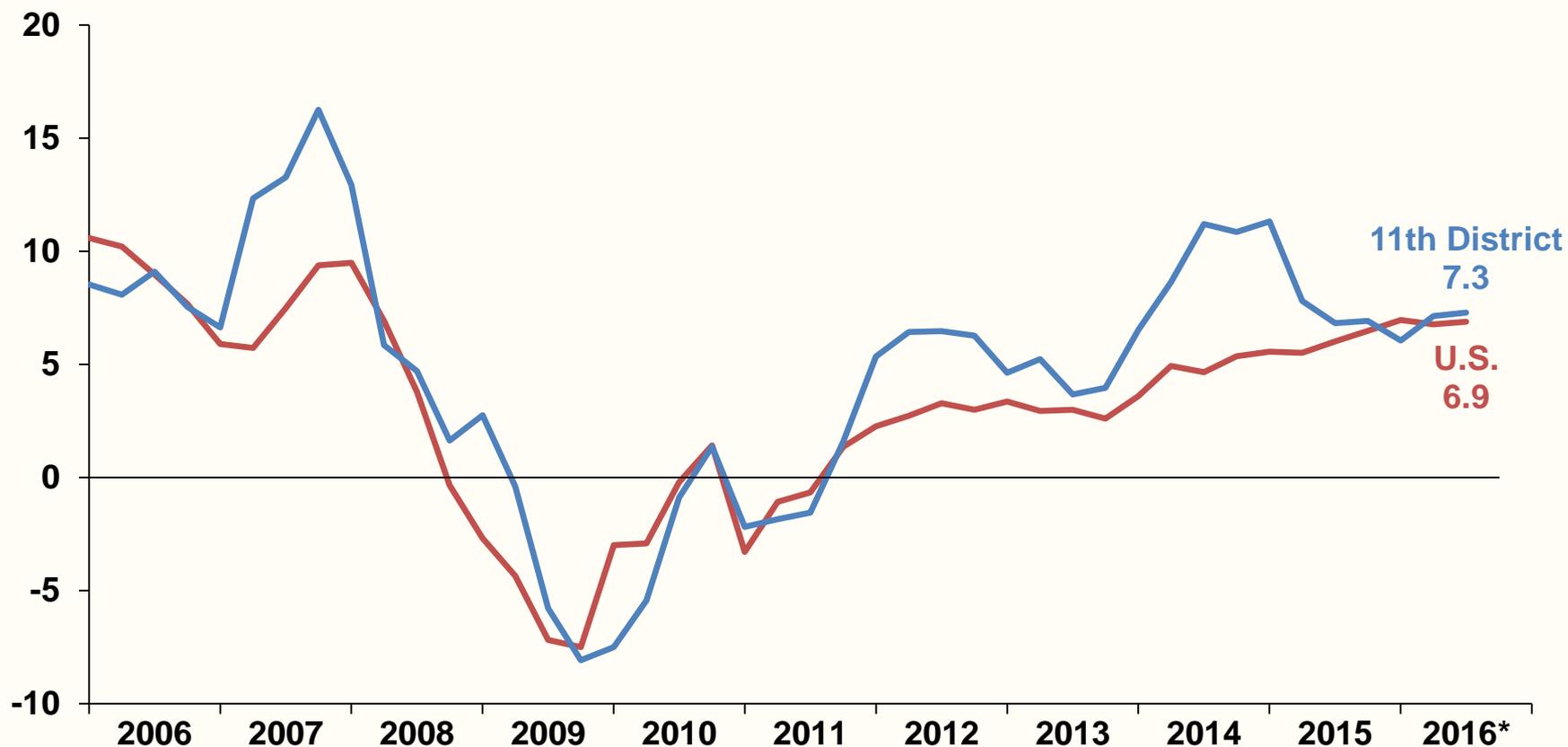
NOTE: Data through 9/30/16.

SOURCES: Quarterly Reports of Condition and Income; Federal Financial Institutions Examination Council.



District loan growth slowed, moved down to national level

Y/Y percent growth



NOTE: Data through 9/30/16.

SOURCES: Quarterly Reports of Condition and Income; Federal Financial Institutions Examination Council.

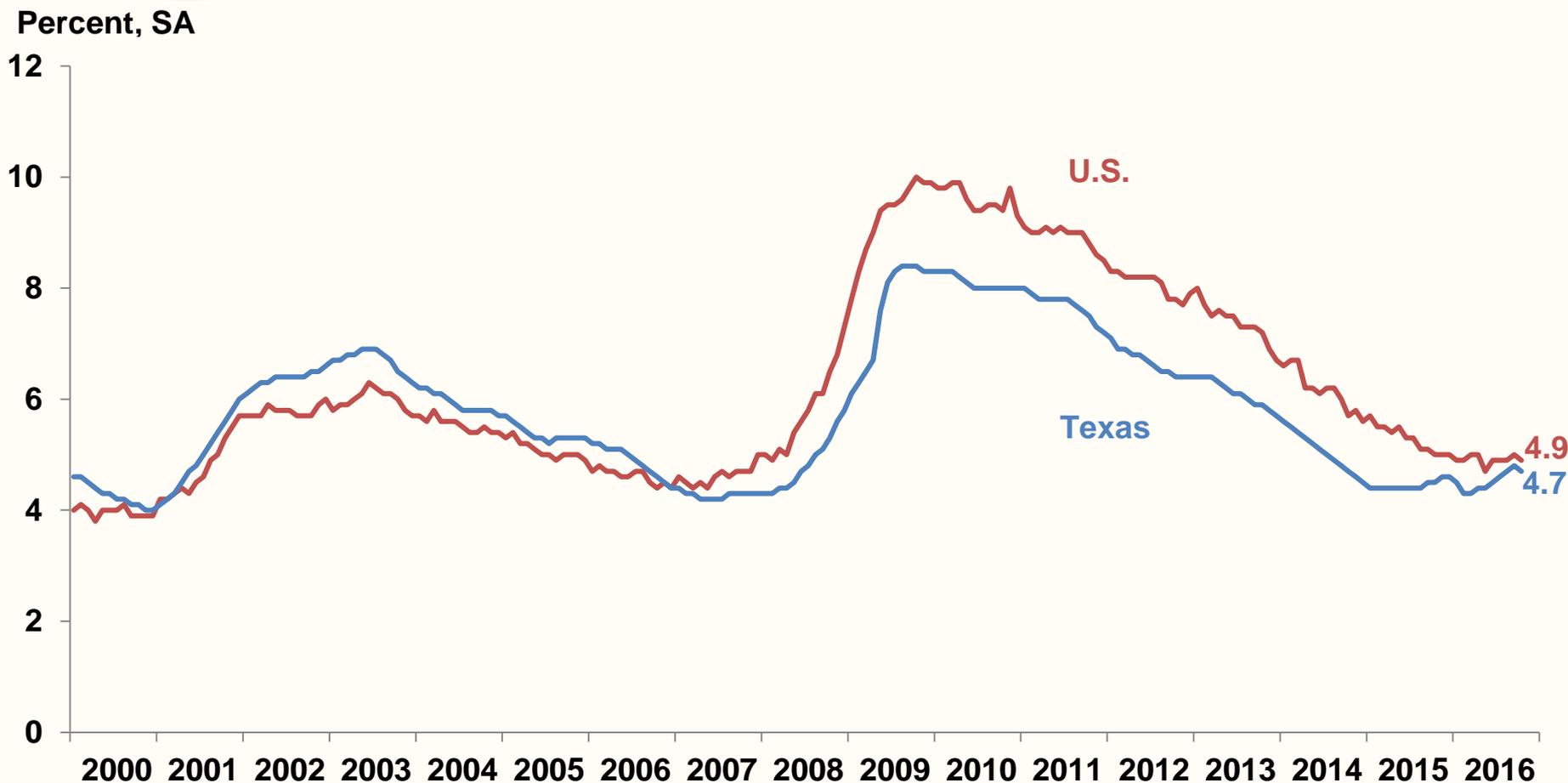


What are the bright spots?

- Conditions are improving in the most recent data
 - Employment, activity, rig count, loan growth
- State's diverse economy benefits from U.S. growth, has own advantages
 - Business climate, low cost of living attract firms, people
- Some slowing was welcome
 - Labor markets still tight
 - Single-family housing markets tight

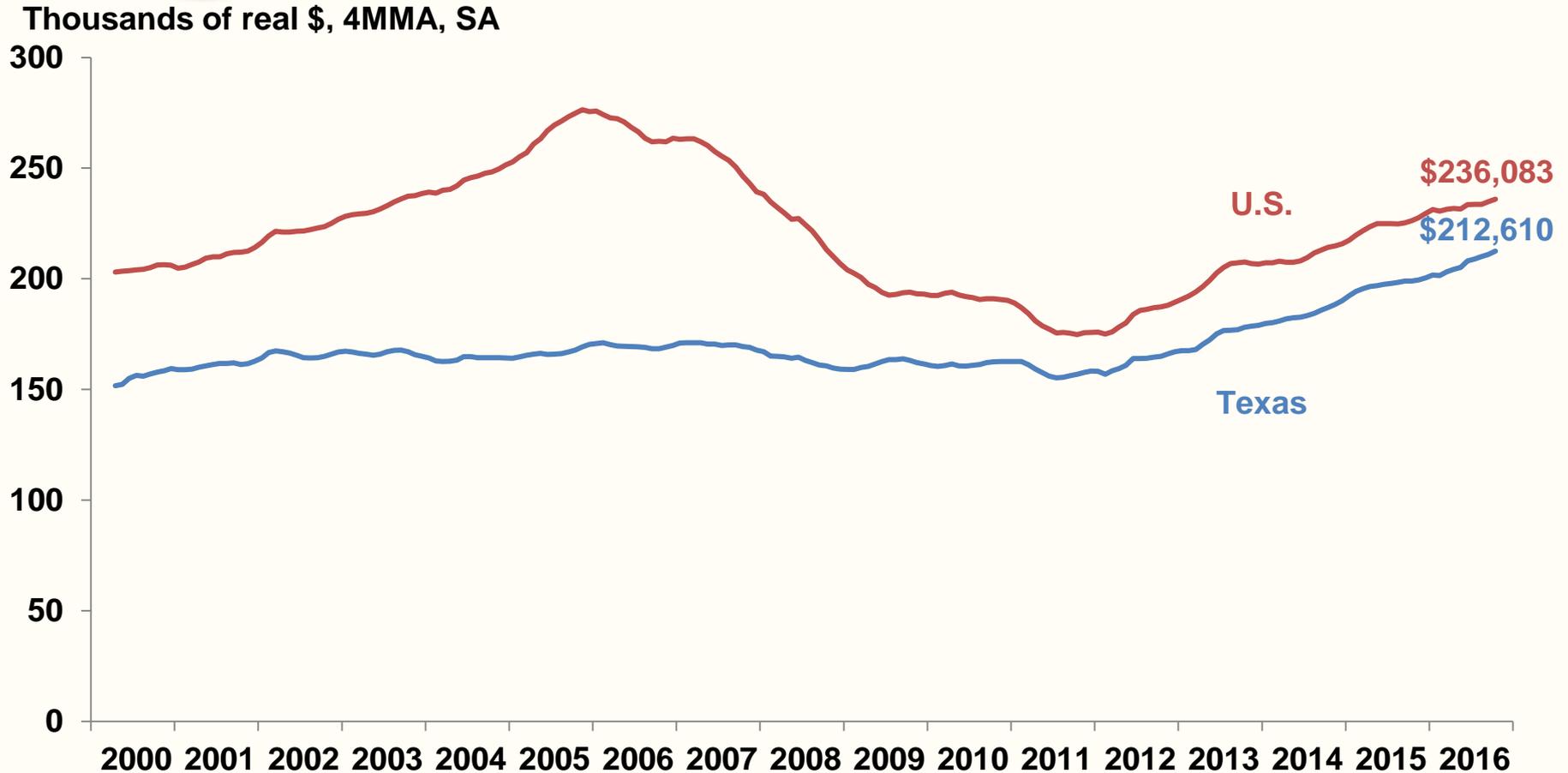


Unemployment rate still lower in Texas, although gap with U.S. has narrowed





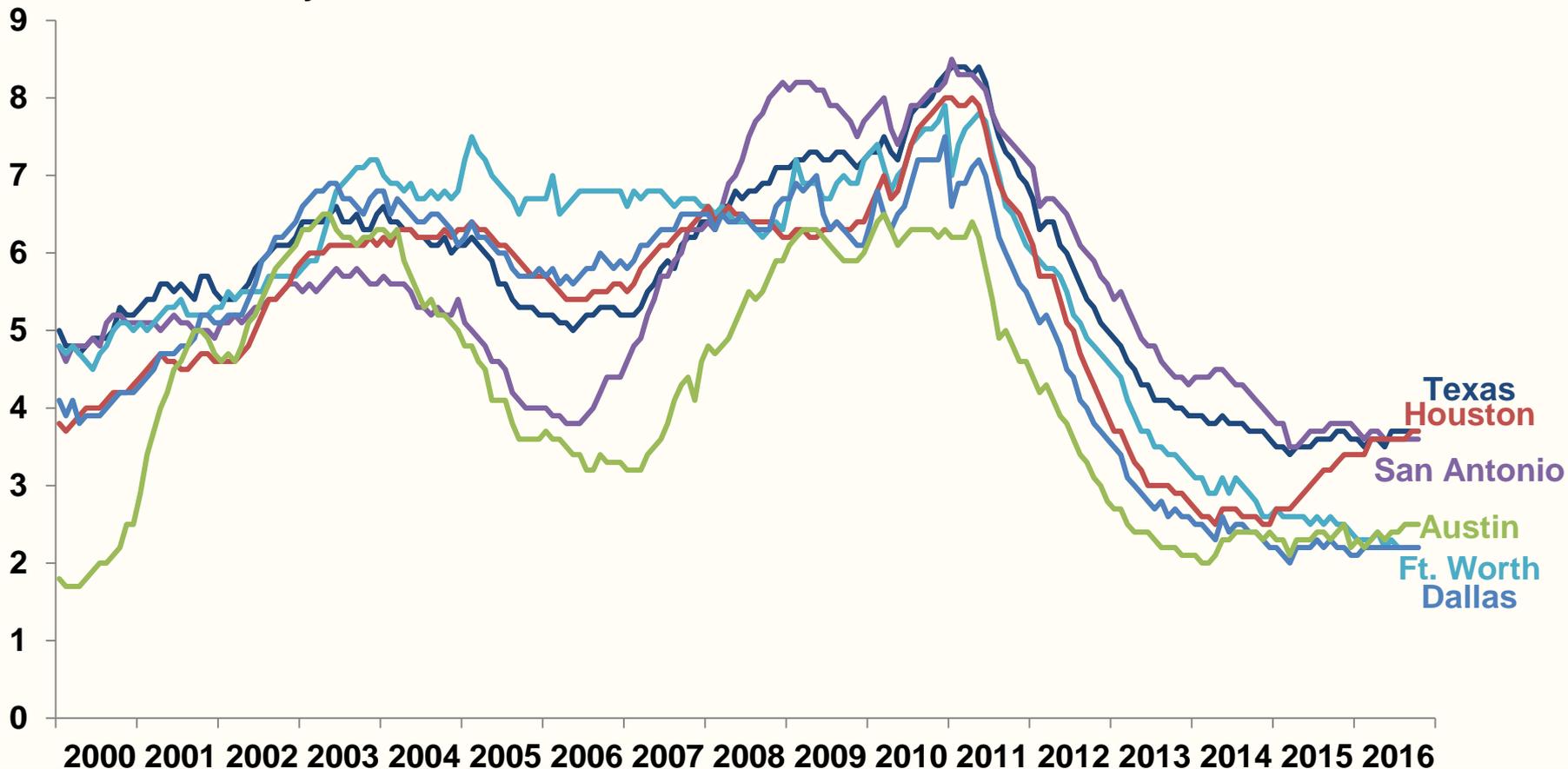
House prices still rising...





Texas home inventories at historic lows but Houston trending up

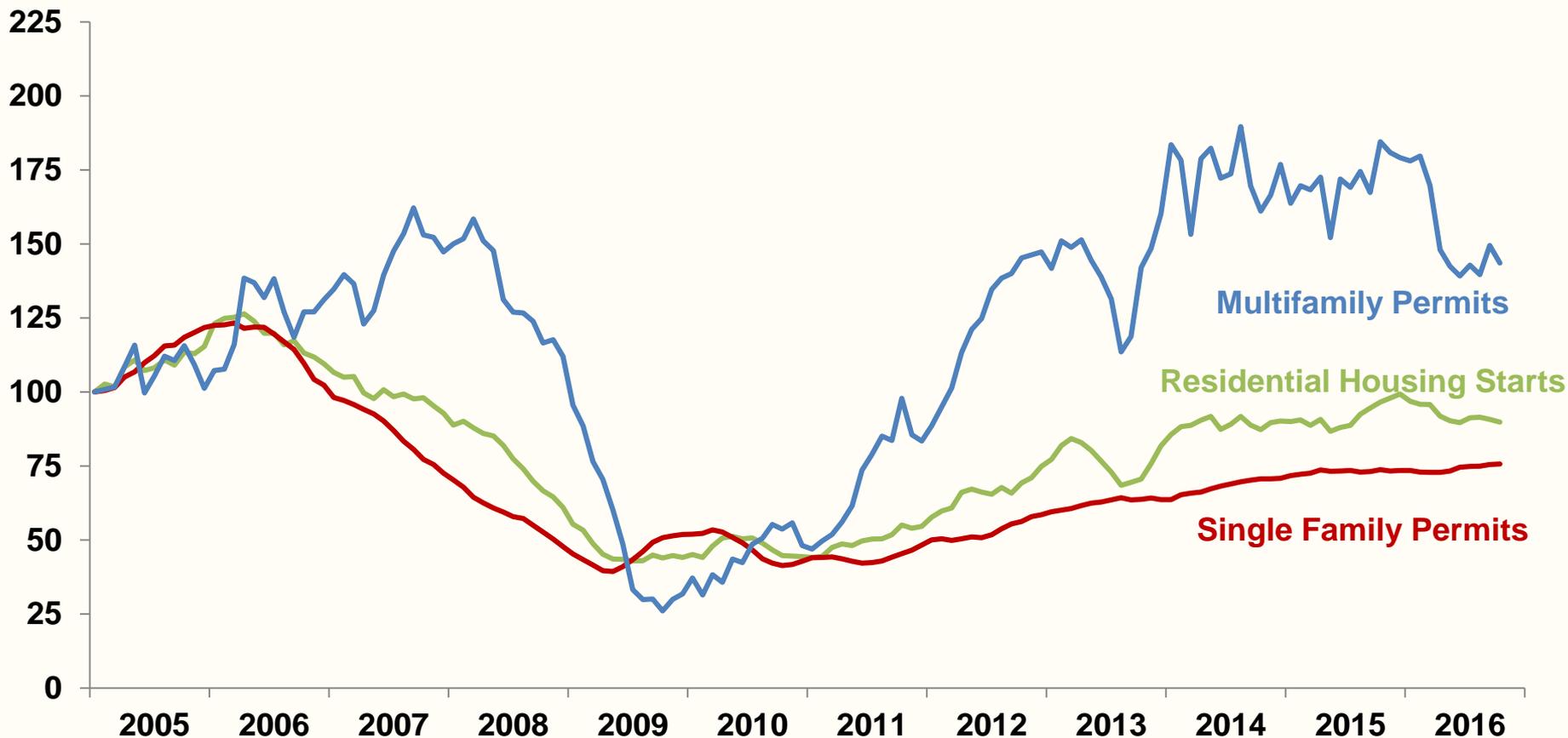
Months in Inventory, SA





Apartment construction robust but off its highs; single-family still relatively flat

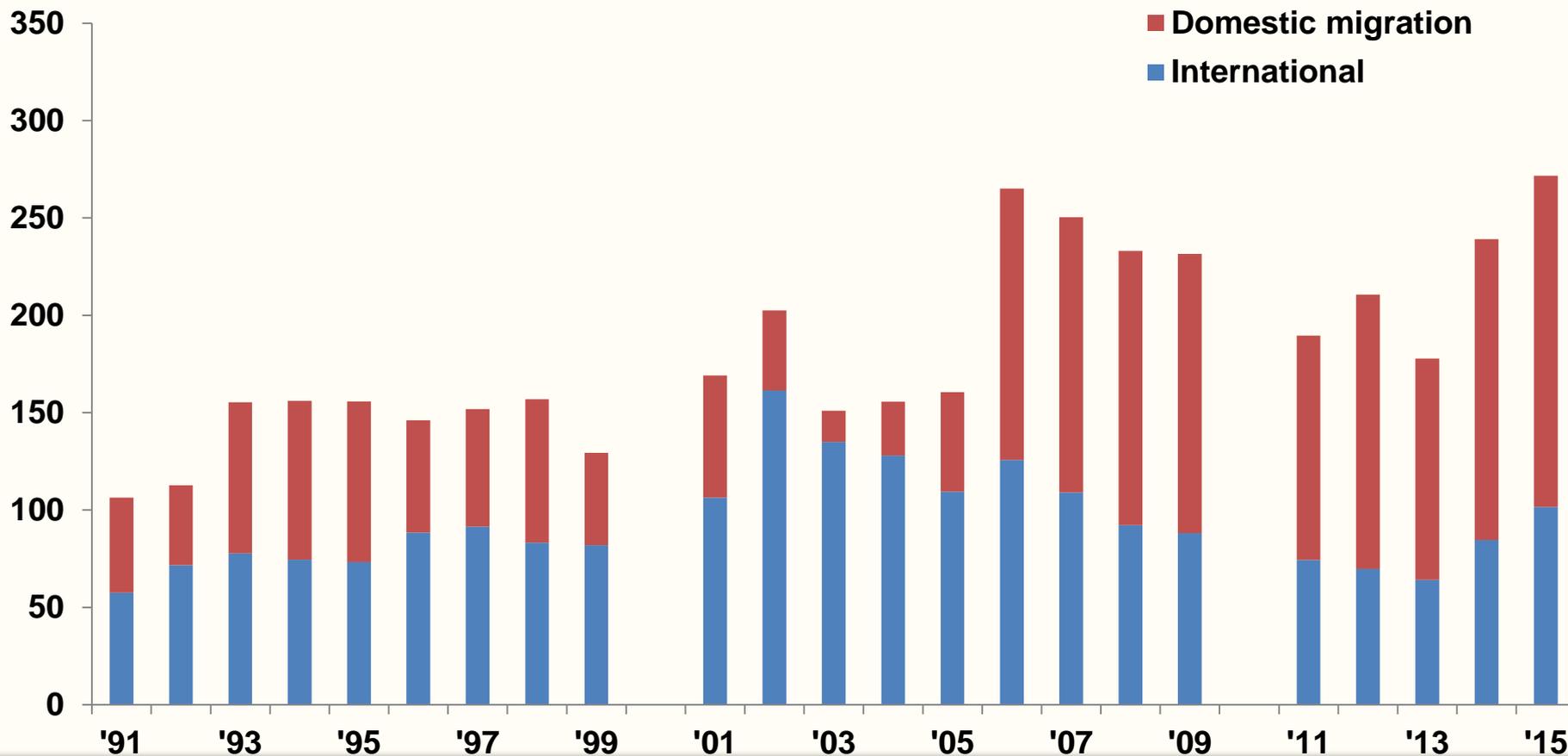
Index, 5MMA, Jan. '05=100, SA





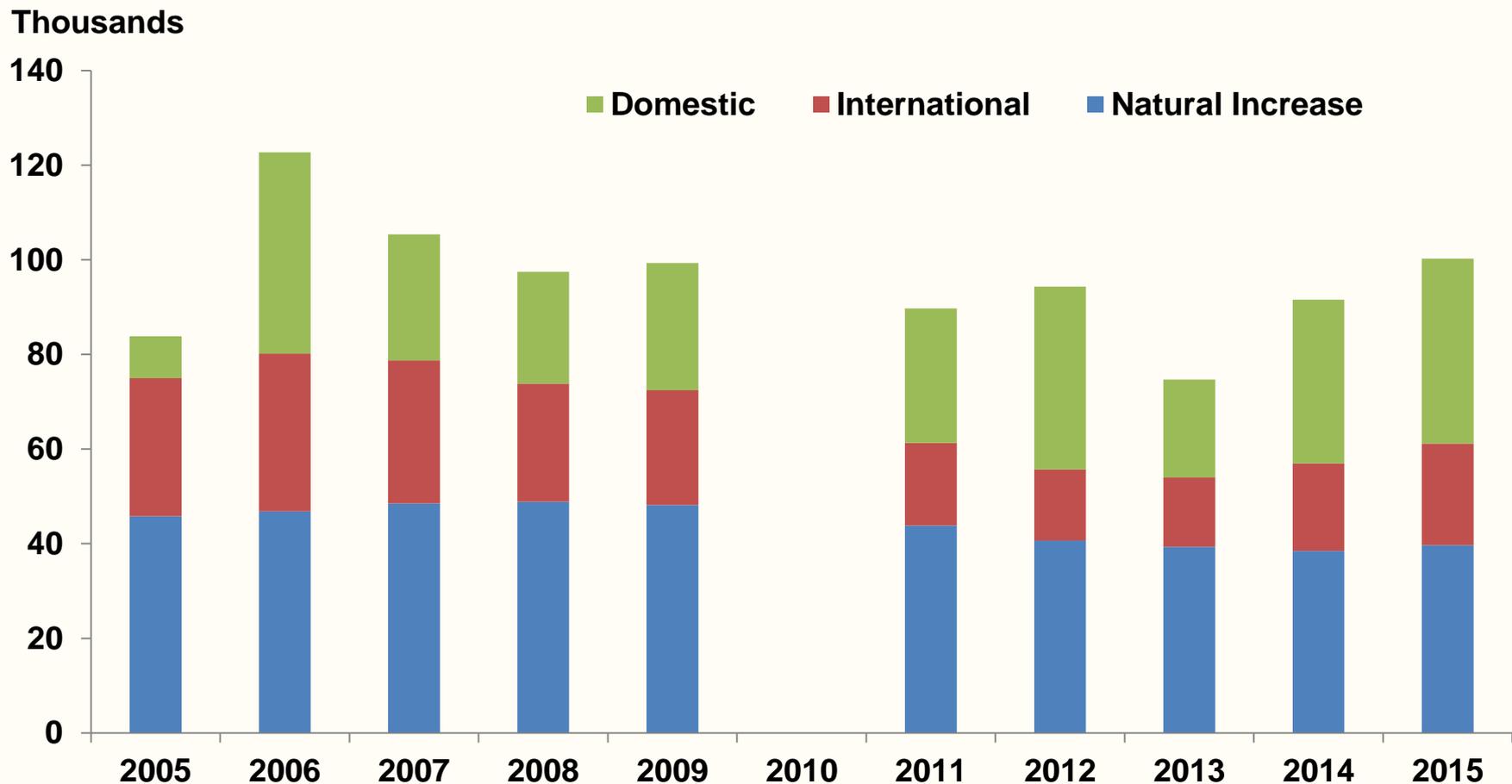
State in-migration has yet to turn down...

Net Migration (Thousands)





Domestic Migration to Dallas Accelerates After 2005

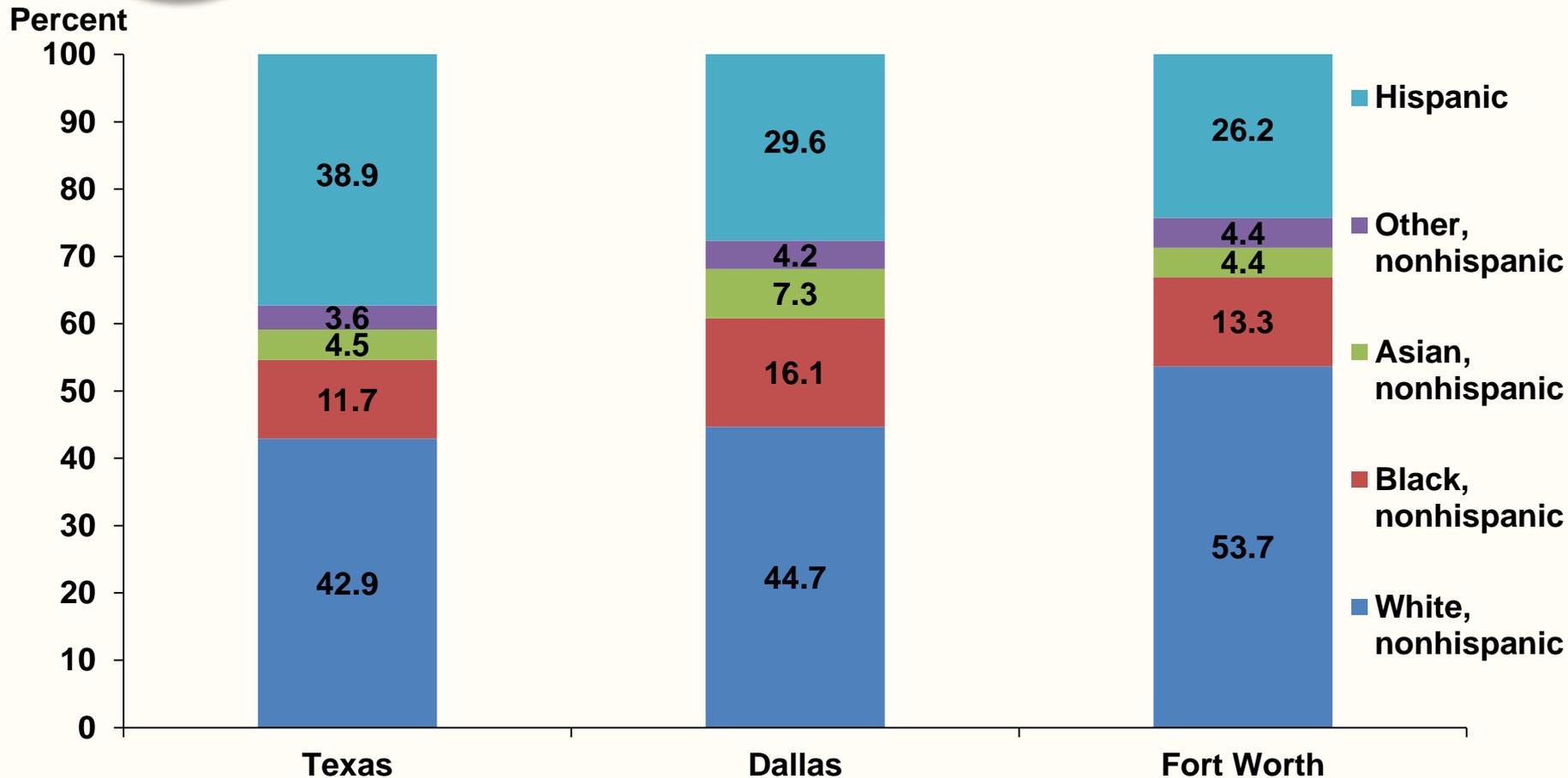


NOTE: Estimates not available for Census years.

SOURCE: U.S. Census Bureau.



Dallas More Diverse Than its Sister City





Texas economic outlook

- 2016 growth forecast is for 1.5 percent job growth
 - 2nd half likely to grow 2.2 percent
 - Houston, other energy metros will lag the rest of state
- Unemployment rate should peak soon, then improve
- 2017 better; forecast for 1.5 to 2.0 percent growth
 - Stronger U.S. and global economy; weaker/stable dollar
 - Oil markets closer to balance?
 - But some fiscal tightening relative to current cycle



Thank you!

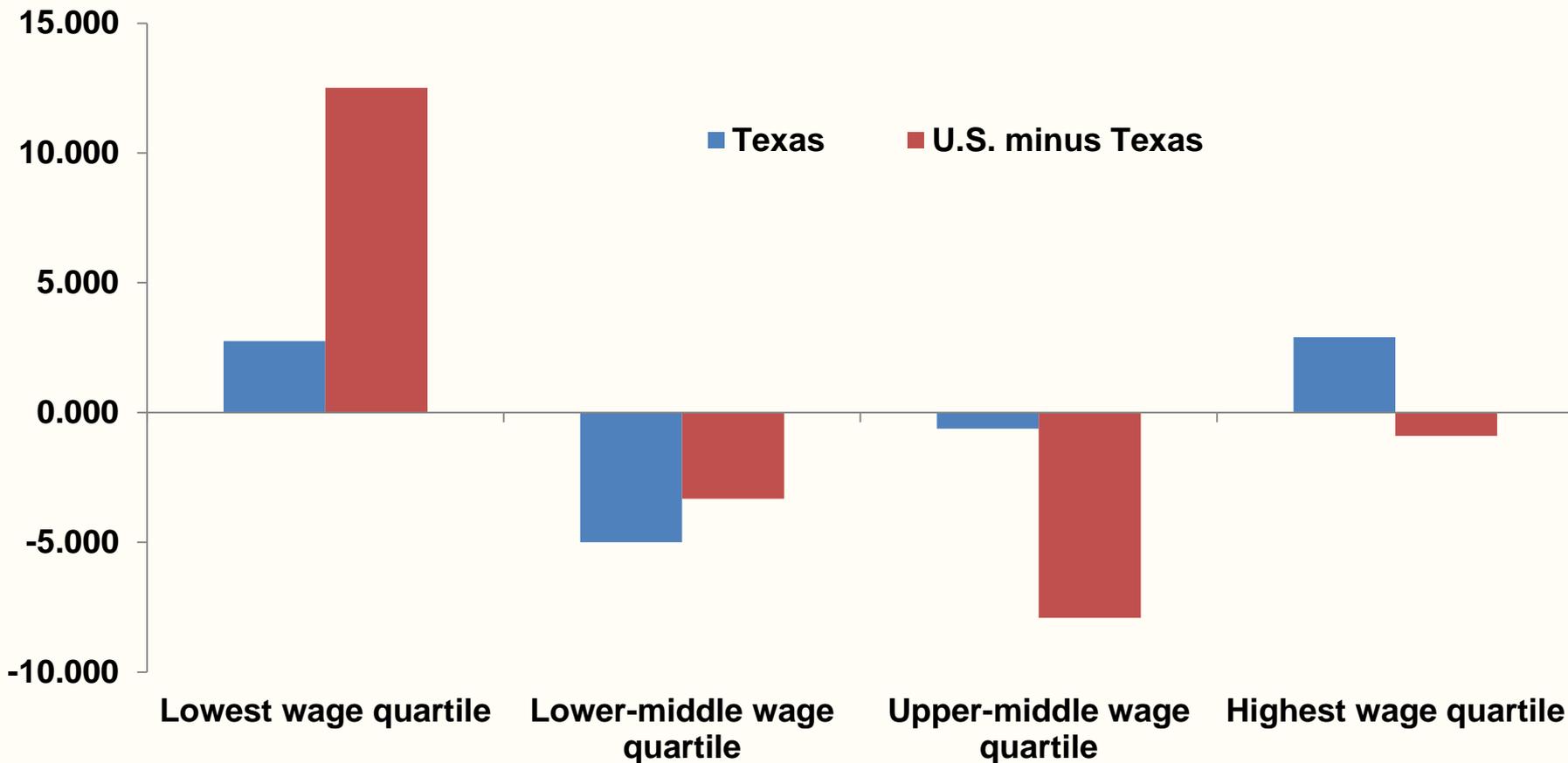
**For more information, visit
www.dallasfed.org**





Despite robust job growth, high-wage jobs in Texas are not growing as a share of total jobs

Percent change in the quartile, 2005-2015



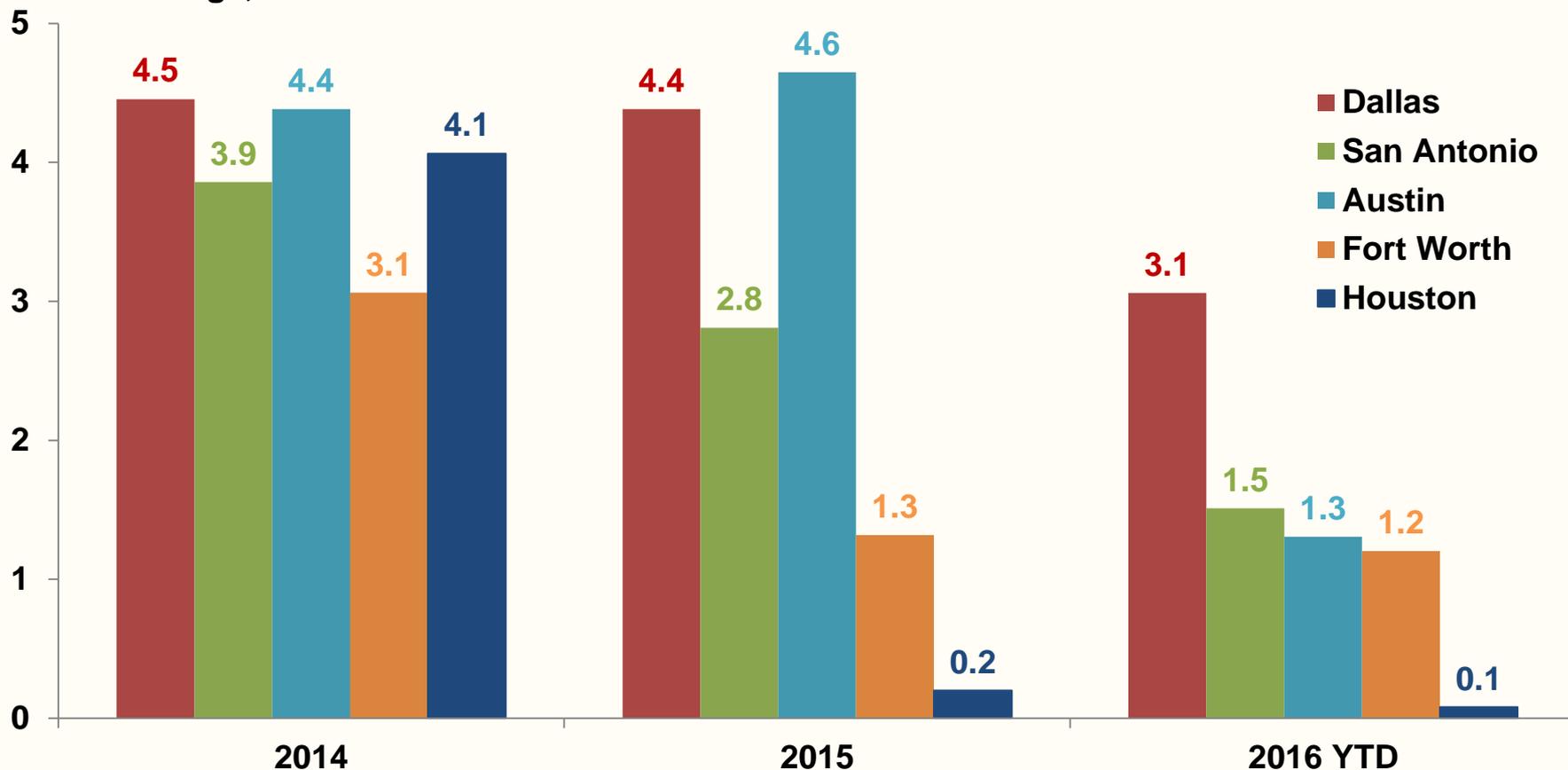
NOTES: Calculations include workers over age 15 but exclude the self-employed. Wage quartiles and employment growth based on the Texas and U.S. wage distributions from the 2005 and 2015 American Community Survey (ACS).

SOURCES: 2005 and 2015 ACS.



Dallas Stronger than Major Texas Metros in 2016

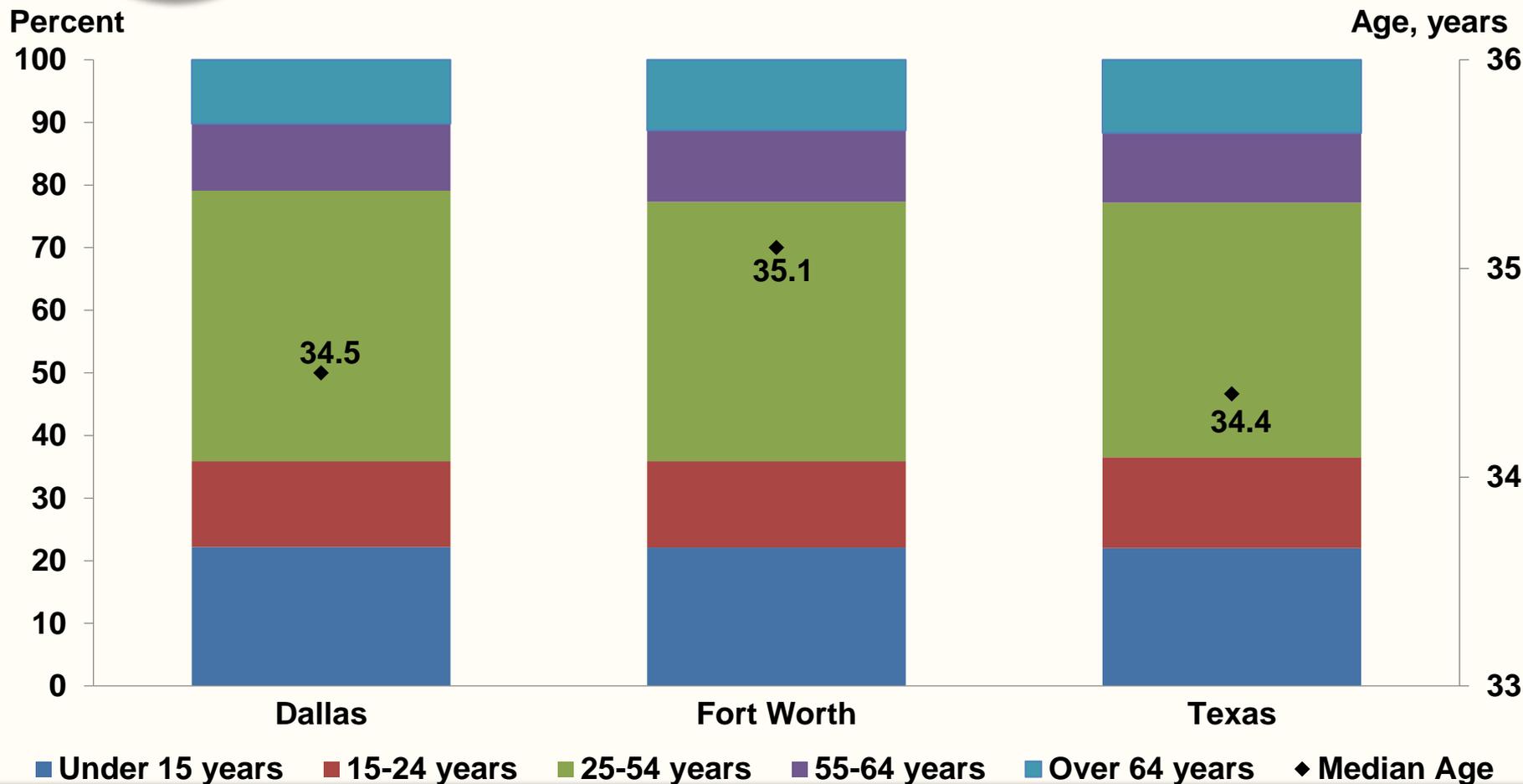
Percent change, YTD SAAR



NOTES: Data show seasonally adjusted annualized percentage employment growth December 2014–October 2016.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Dallas Fed.

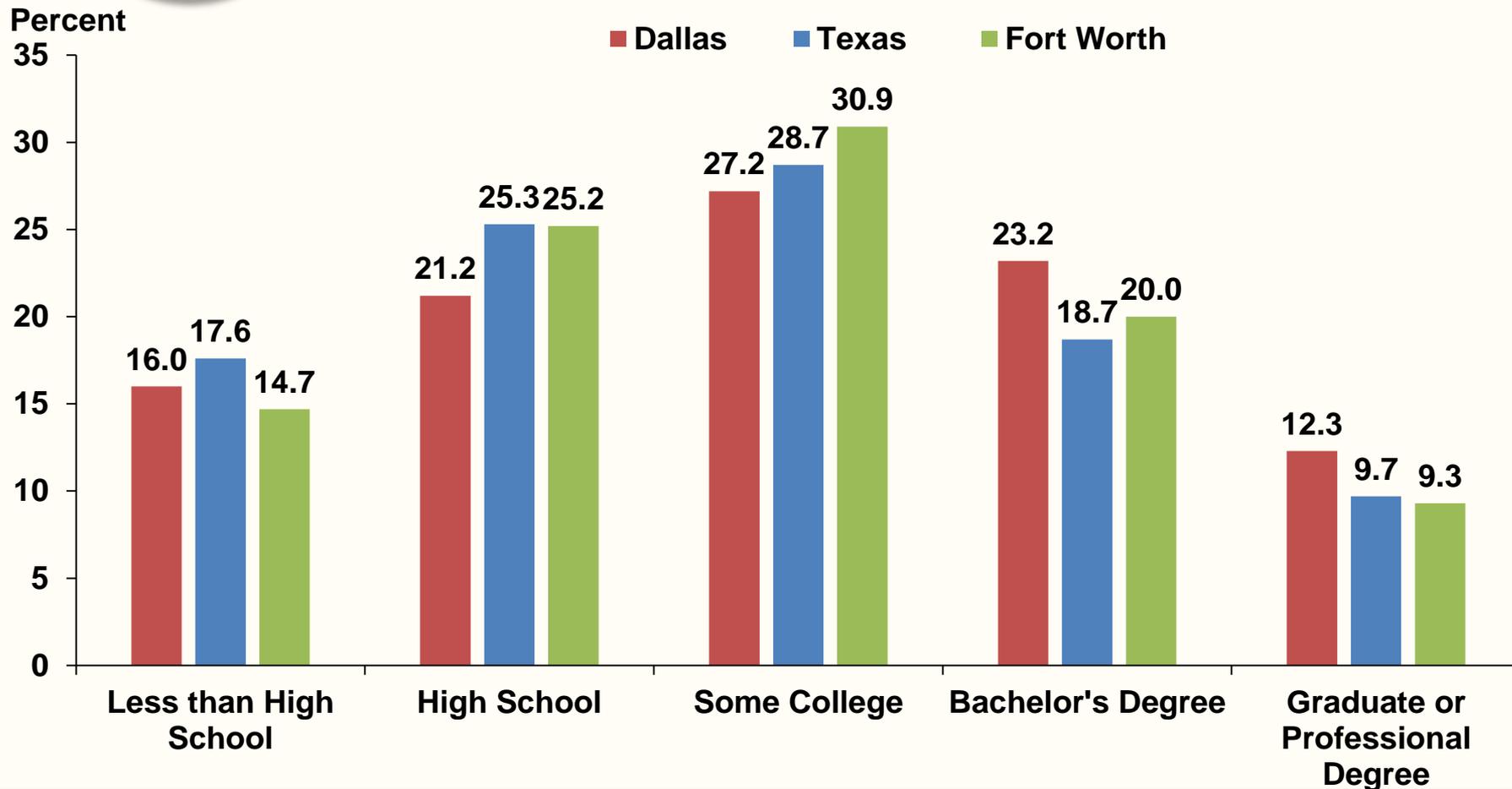


Fort Worth's Median Age Slightly Higher than Dallas and Texas



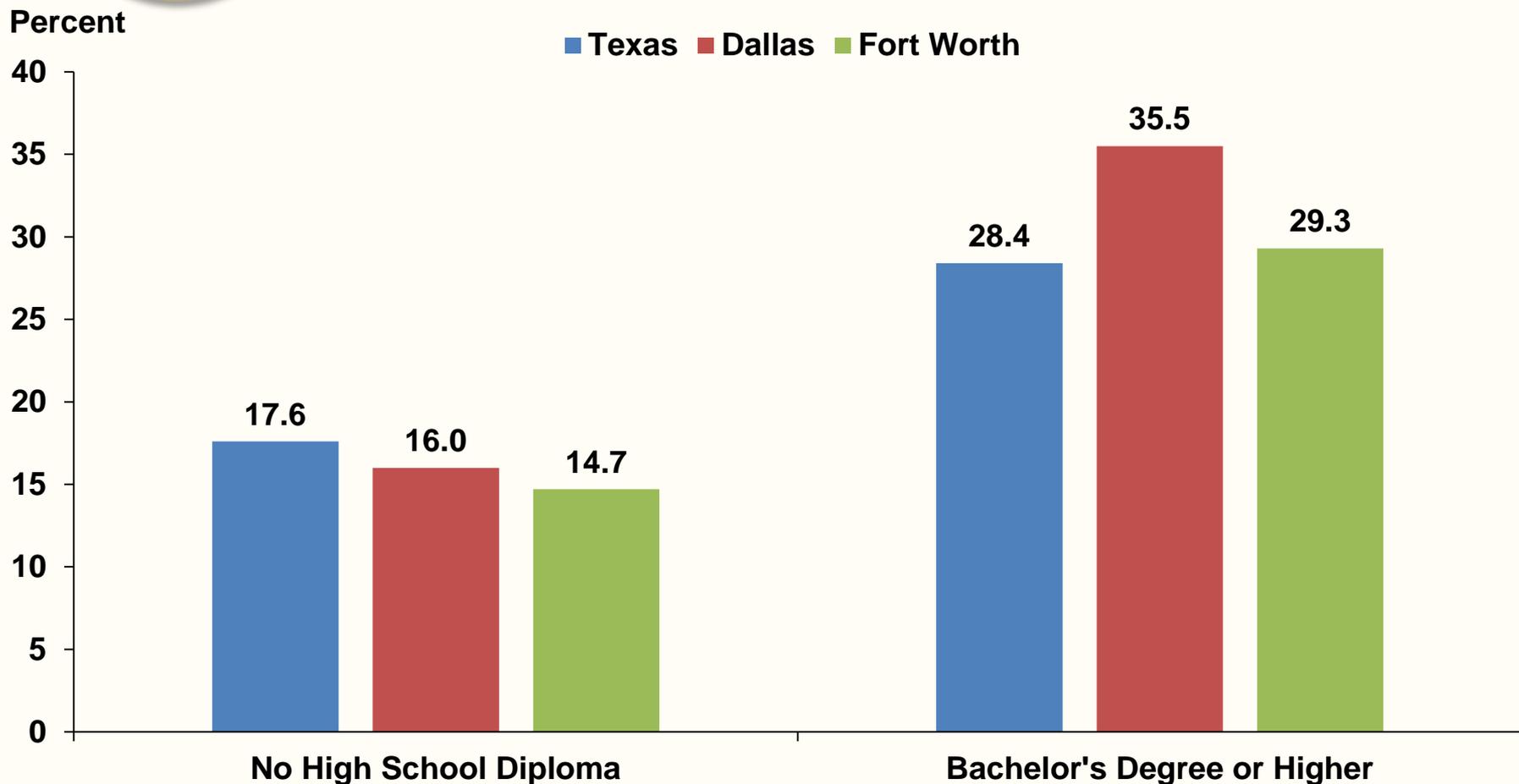


Share of College Graduates Higher in Dallas Relative to Fort Worth and Texas



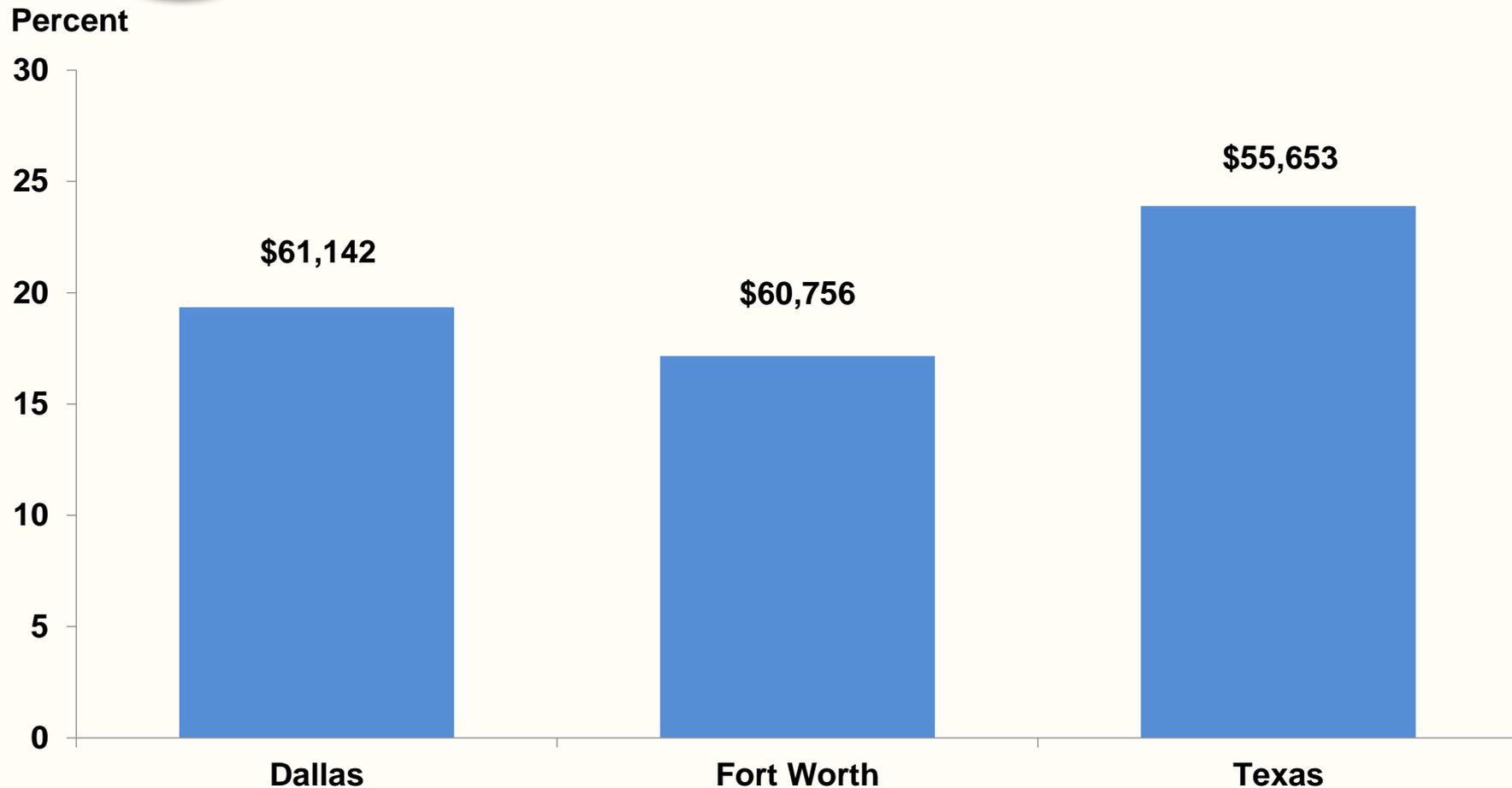


Share of College Graduates Higher in Dallas Relative to Fort Worth and Texas





Dallas Median Household Income Growth Slower, but Higher 2015 Income than Texas



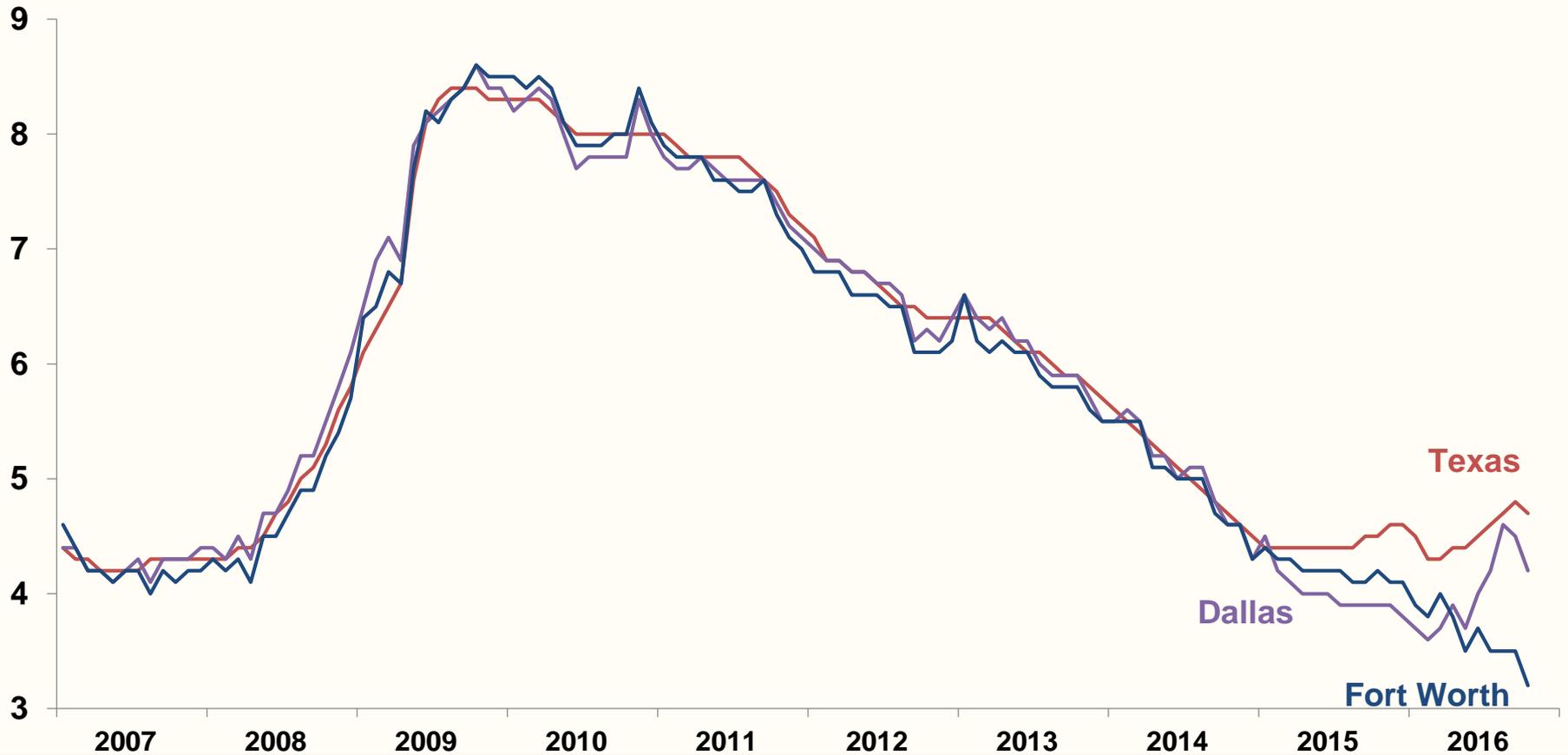
NOTE: Bars represent nominal median household income growth from 2006 to 2015. Values above bars represent nominal median household income in 2015.

SOURCE: U.S. Census Bureau, 2006 and 2015 American Community Surveys.



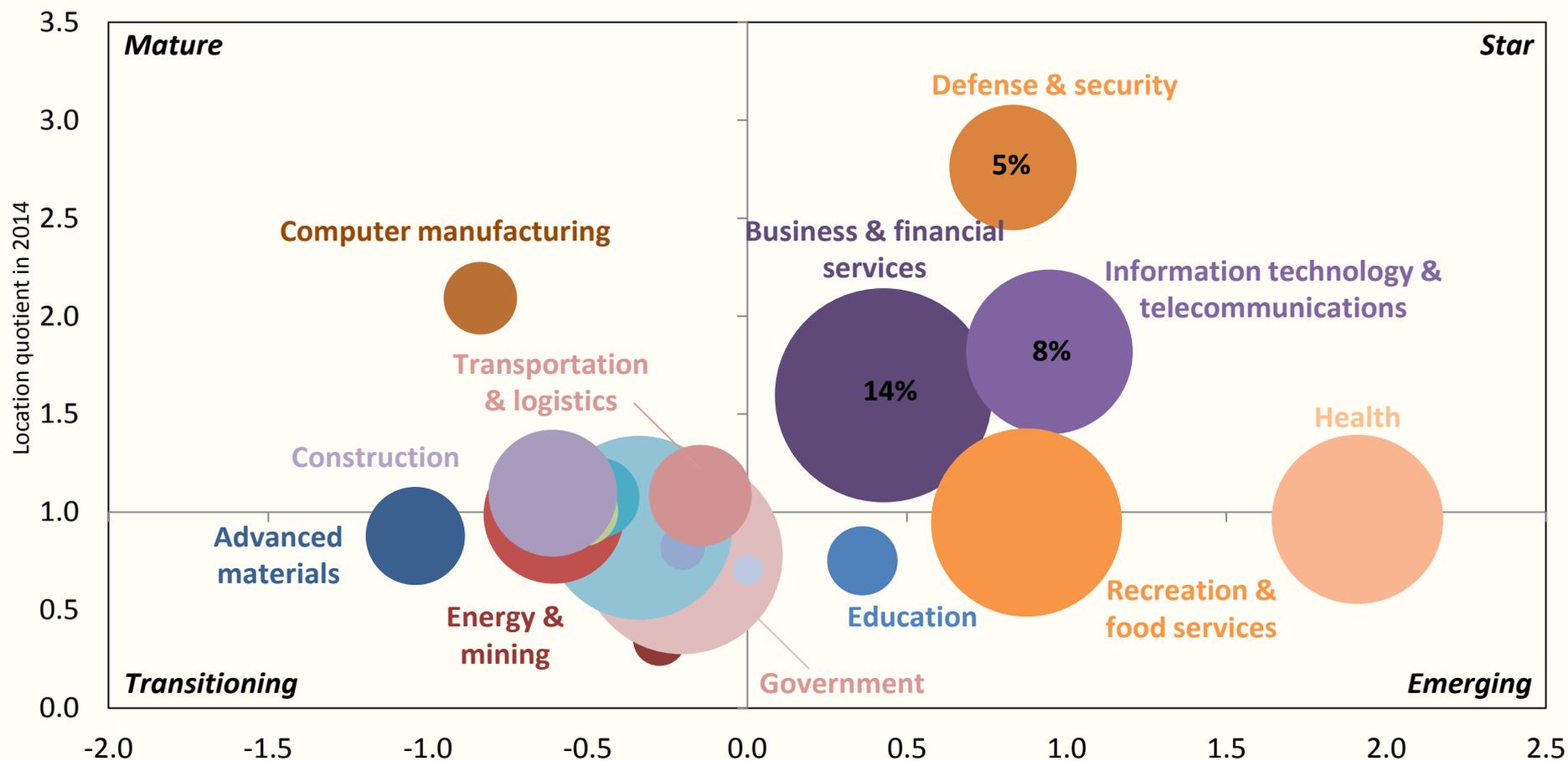
Dallas Unemployment Dips in October

Percent





Business and Finance, and IT and Telecom Big in Dallas



Percentage-point change in employment share, 2006-14

NOTE: Bubble size represents industry share of metropolitan statistical area employment.

SOURCES: Texas Workforce Commission; Bureau of Labor Statistics; authors' calculations.