



Federal Reserve
Bank of Dallas

Regional Economic Outlook

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Federal Reserve Bank of Dallas – Houston Branch

April 2024



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

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

Houston Economy Primer

5 Pillars of Houston's Economy:

- 1) Oil and gas production
- 2) Refining & Petrochemical production
- 3) Houston Ship Channel and regional ports
- 4) Texas Medical Center
- 5) NASA

Houston's not a one piston engine, Diversification over the past 45 years has left the metro's output and industry mix far more like the nation overall than it was in the 1970's & 80's: Houstonians have to pay more attention to the macroeconomy than they used to.

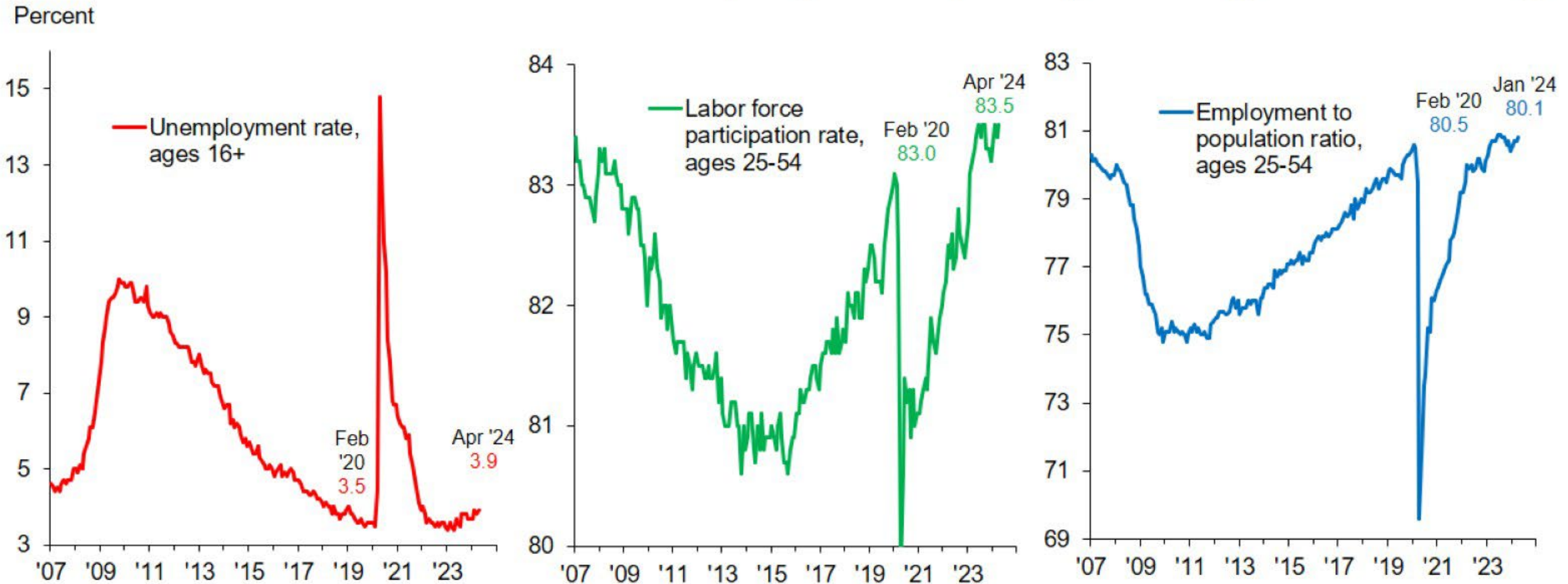
Houston is relatively young, with both strong domestic and international in-migration, and a business-friendly tax and regulatory environment... all are tailwinds on net for the region long-term.

Regional Outlook

- The broader economy is cooling. Labor market is healthy, inflation is slowing, and GDP growth is projected to remain above trend.
- Texas job growth has also been slowing post-pandemic, but the state (and Houston) outpaced the nation in '23. The region has a lot of momentum at the start of '24.
- Oil and gas industries are on firm footing and expect *modest* real spending growth in '24, putting the macro-economy in the driver's seat for Houston.
- Residential is mixed, under pressure from high mortgage rates and rising multifamily supplies. Commercial real estate is challenged near-term on rising supplies and shifts in preferences.
- Taken together, current momentum and leading data put Texas (and Houston) on course for 2-3% job growth this year.

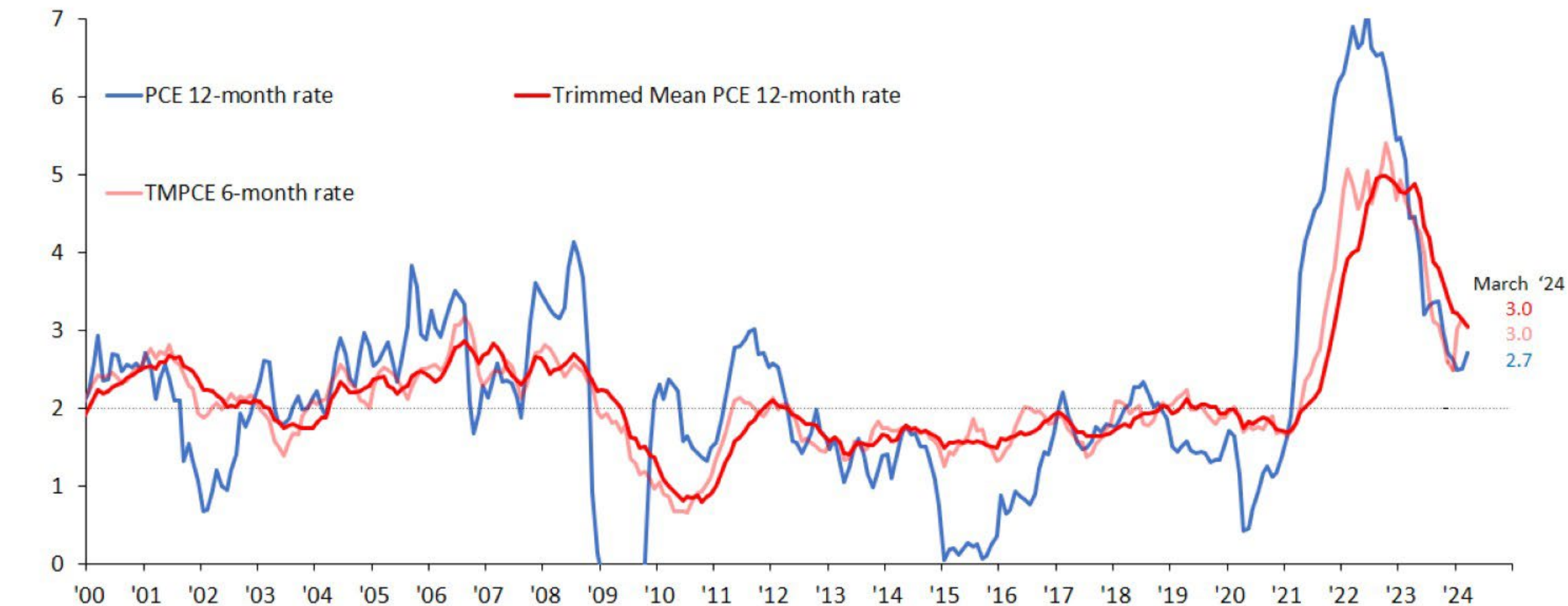
Macroeconomic Backdrop

Labor market utilization measures still signal very Full Employment, despite slight softening



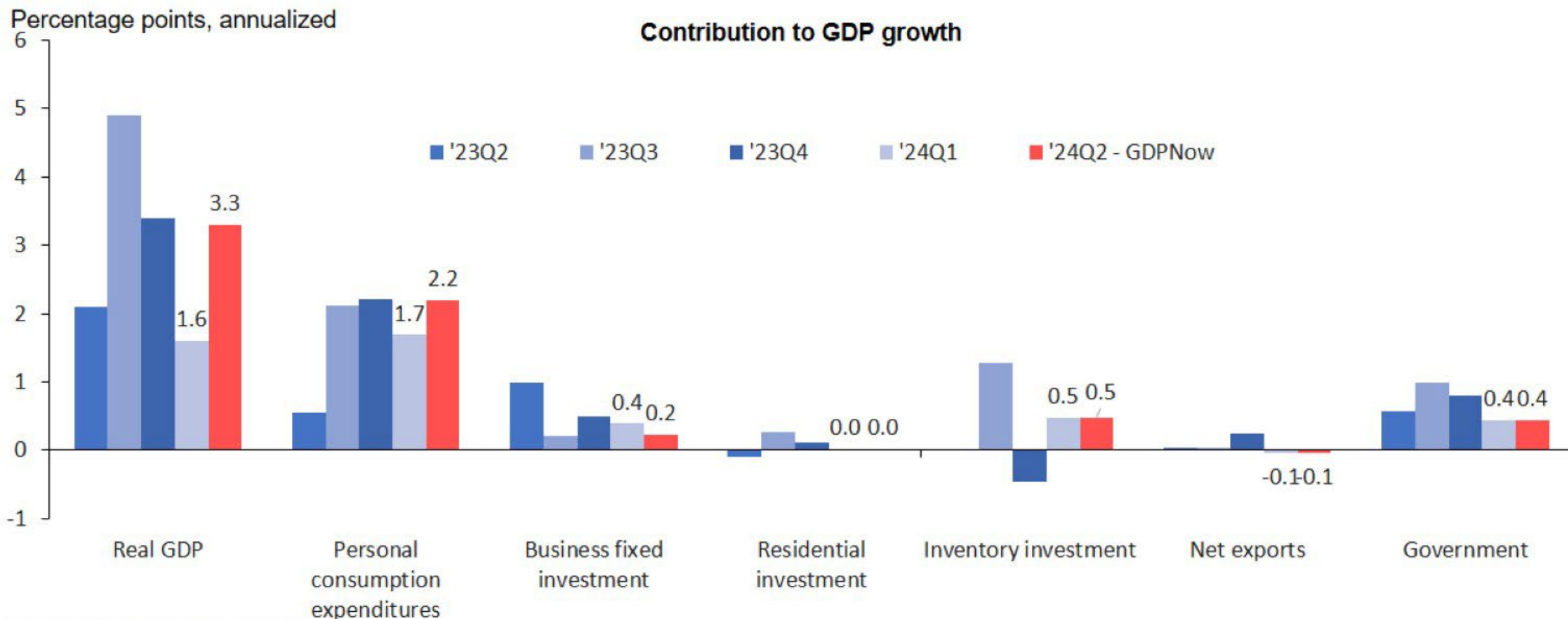
Trimmed Mean inflation has slowed much less than headline; picked up the last three months.

Percent change annualized



SOURCE: Bureau of Labor Statistics; Dallas Fed

1Q'24 GDP slower than estimated; '24 consumer goods and svcs consumption strong.

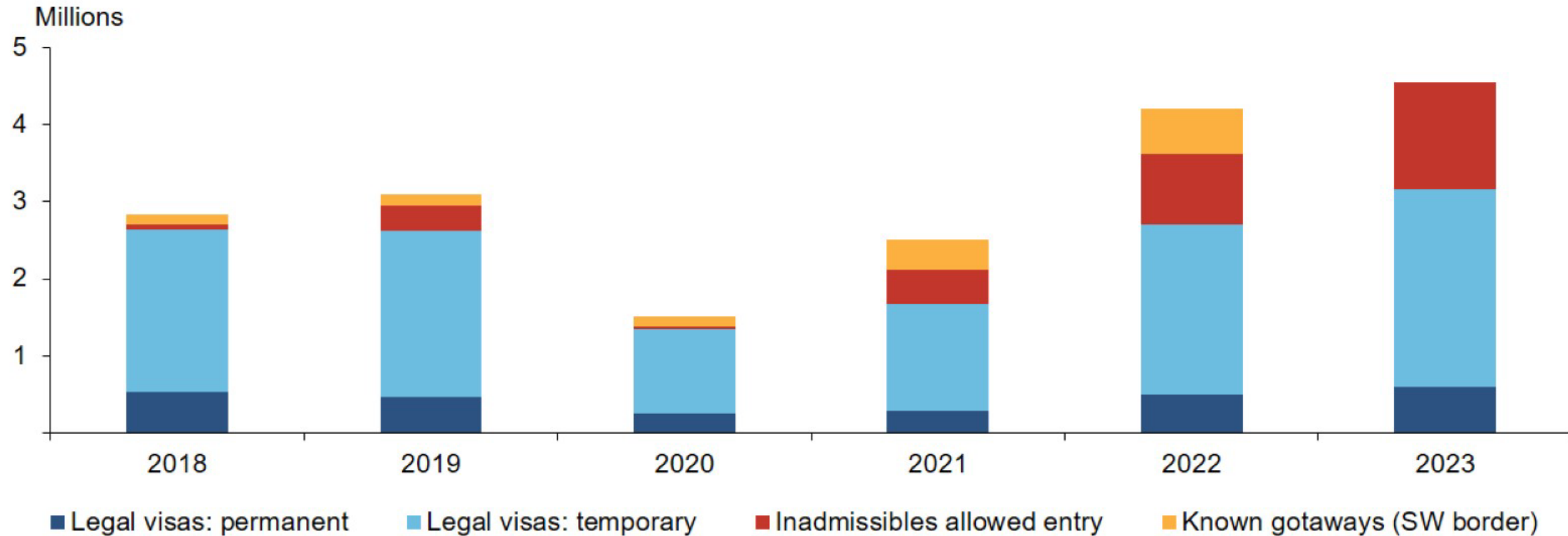


Source: Atlanta Fed; Bureau of Economic Analysis.

U.S. Inflation *still* projected to remain above the Fed's target till '25;
GDP expected to slow to trend, amid modest unemployment.

		Mar. '24 FOMC	Mar. '24 Blue Chip
GDP Q4/Q4	2024	2.1	1.6
	2025	2.0	1.9
	2026	2.0	-
Unemployment Q4	2024	4.1	4.1
	2025	4.1	3.7
	2026	4.0	-
Core PCE inflation Q4/Q4	2024	2.6	2.5
	2025	2.2	2.2
	2026	2.0	-

U.S. immigration surged in 2022, 2023

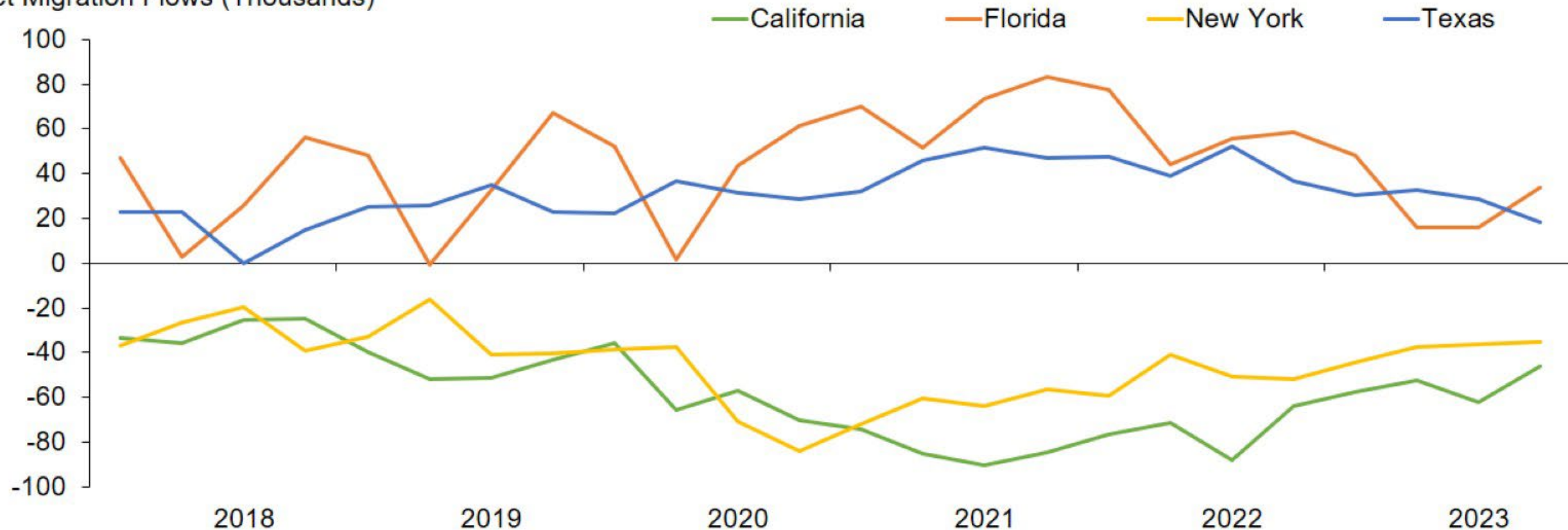


NOTES: Permanent visas are all immigrant visas issued in a given year. Temporary visas are a sum of the non-immigrant visas issued, excluding class A (for staff of foreign governments) and class B (travelers for business or pleasure). Inadmissibles allowed entry are taken from CBP reports of encounters at the southern border ending in release into the U.S. or transfer to HHS. Known gotaways are from Homeland Security and CBP and are through 2022.

SOURCES: U.S. State Department; Customs and Border Protection; U.S. Department of Homeland Security.

Migration to Texas off its highs by year-end '23

Net Migration Flows (Thousands)

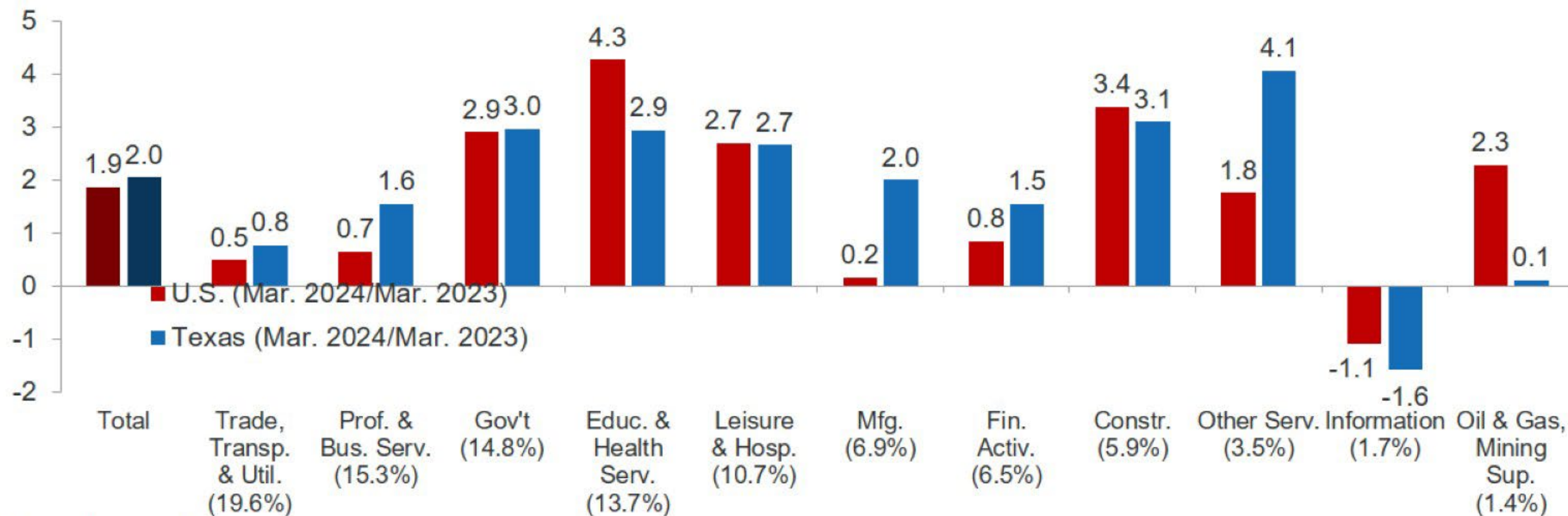


NOTE: Data is quarterly through Q4 2023.
SOURCE: Equifax Consumer Credit Panel.

Regional Outlook: Jobs

Texas slowed to 3.1% '23, but significantly outpaced the U.S. across most sectors.

Job growth (percent)*



*Seasonally adjusted, annualized rate.

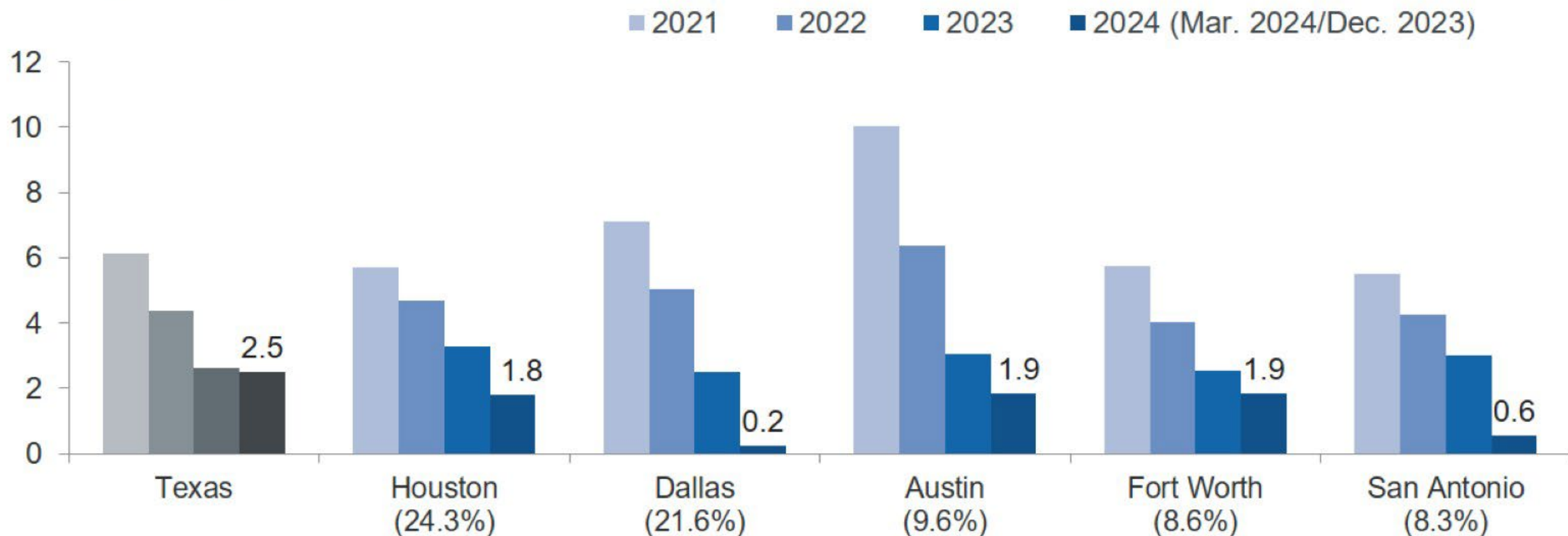
NOTE: Numbers in parentheses indicate share of total state employment for most recent monthly data.

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

DATA: <https://www.dallasfed.org/research/econdata/tx-emp-ind.aspx>

2023 Job growth slowing across Texas Triangle Metros, but most sharply in Austin.

Job growth (percent), Dec./Dec.*



*Seasonally adjusted, annualized rate.

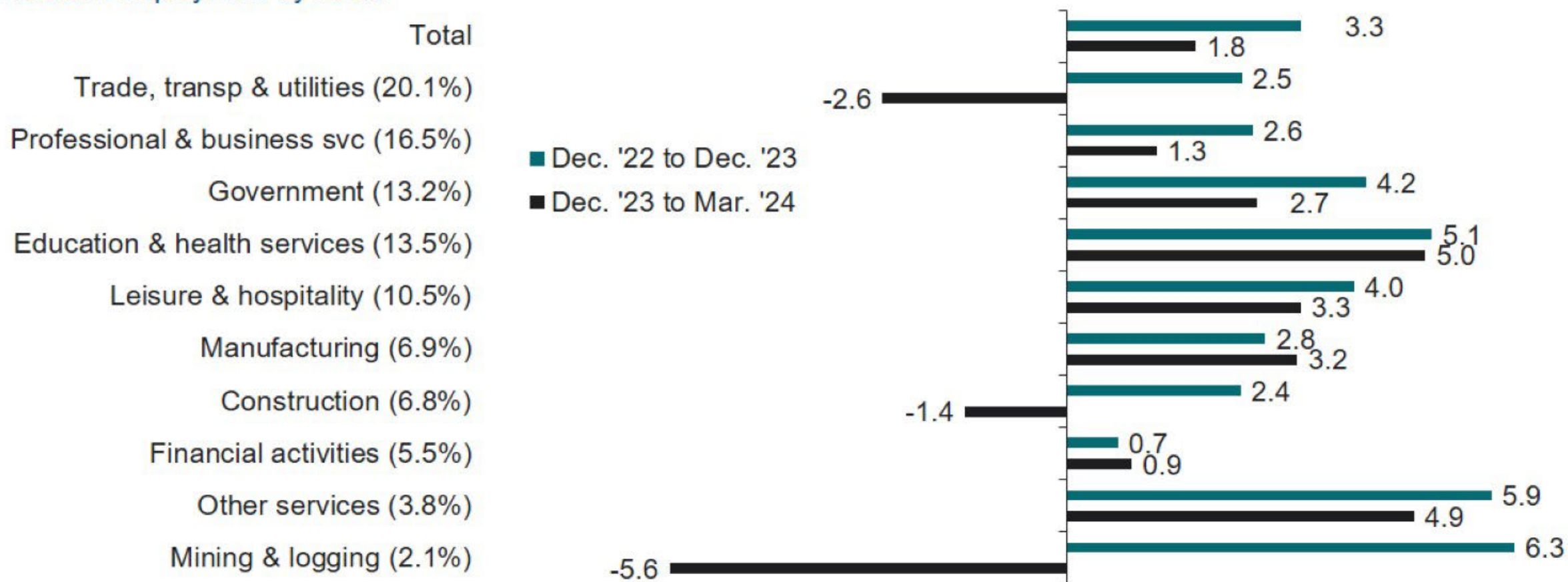
NOTE: Numbers in parenthesis indicate share of state employment for most recent monthly data.

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

DATA: <https://www.dallasfed.org/research/econdata/tx-emp.aspx#tab3>

Houston job growth slowed to trend rate in 1Q'24.

Houston employment by sector



NOTE: Chart shows the annualized percent change in payroll jobs by sector. Numbers in parentheses represent share of total employment and may not sum to 100 due to rounding. Payrolls in sectors that have surpassed their pre-pandemic level are outlined in yellow.

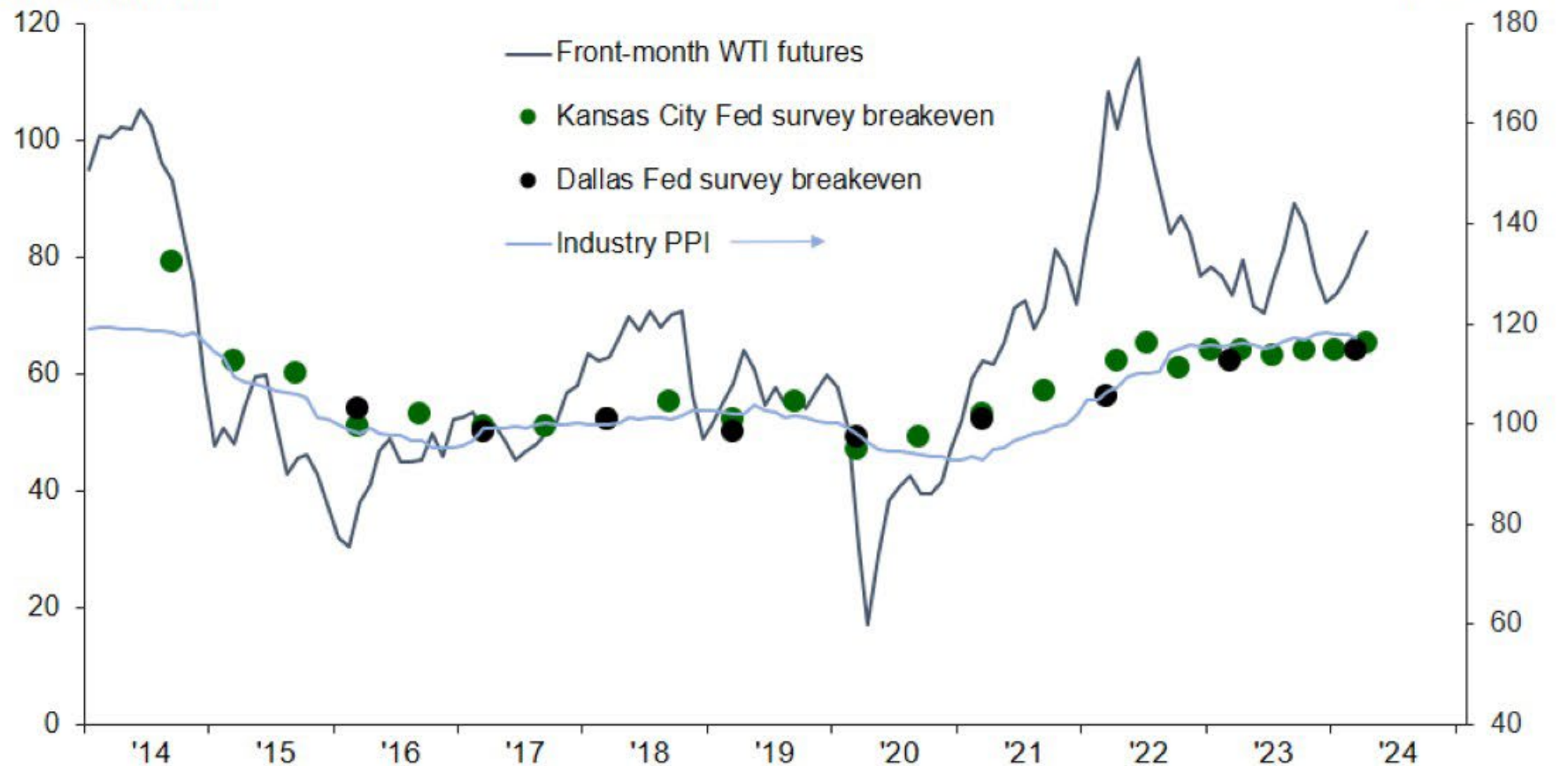
SOURCE: Bureau of Labor Statistics; adjustments by the Dallas Fed.

Regional Outlook: Energy

Oilfield inflation plateaued.

WTI, Producer Price Index and Drilling Break-Even Prices

Dollars per barrel



- Industry inflation (PPI) grew twice as fast as headline over most of the pandemic but plateaued in 2H'22.
- Survey-based breakeven WTI prices are trending sideways at around \$64. (Big Producers: \$58; small producers: \$67)
- Dallas Fed Energy Survey: budgeting for WTI in the low-\$70's but expecting WTI closer to \$80, However, responses vary widely.

NOTE: Prices monthly averages. The Producer Price Index (PPI) used here is a combination of the PPIs for drilling oil and gas wells and support activities for oil and gas operations.

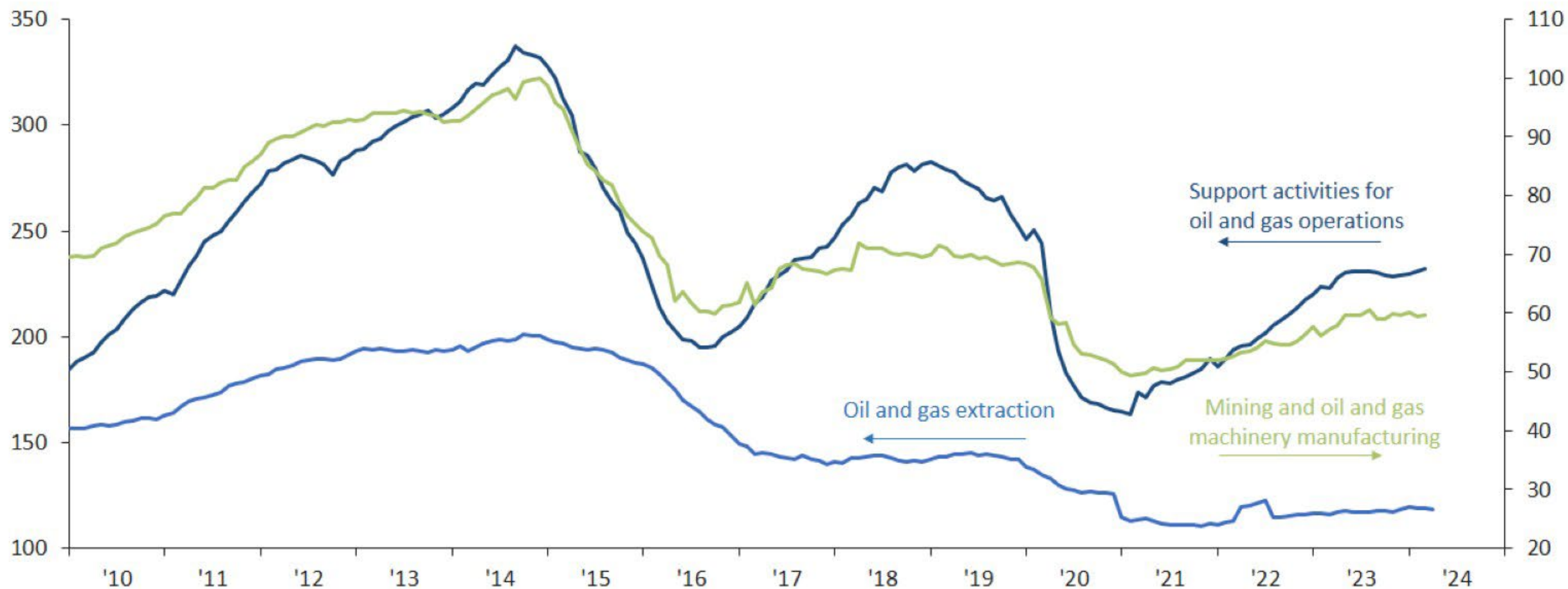
SOURCE: Bloomberg; Bureau of Labor Statistics; Federal Reserve Banks of Dallas and Kansas City.

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U.S. oil and gas jobs plateaued in mid-2023 amid falling oilfield activity and a surge in M&A activity.

Thousands of jobs

Thousands of jobs

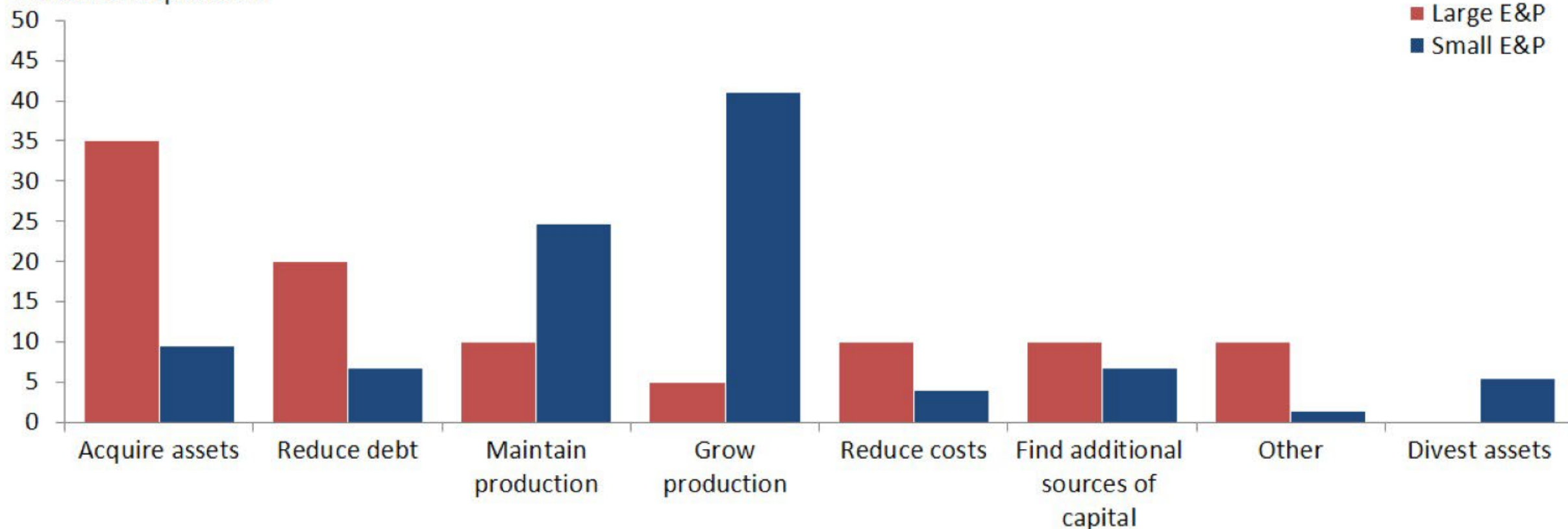


SOURCE: Bureau of Labor Statistics.

Large firms focused on acquisitions and reducing debt; Small firms focused on maintaining/growing production

Which of the following is your firm's primary goal in 2024?

Percent of respondents



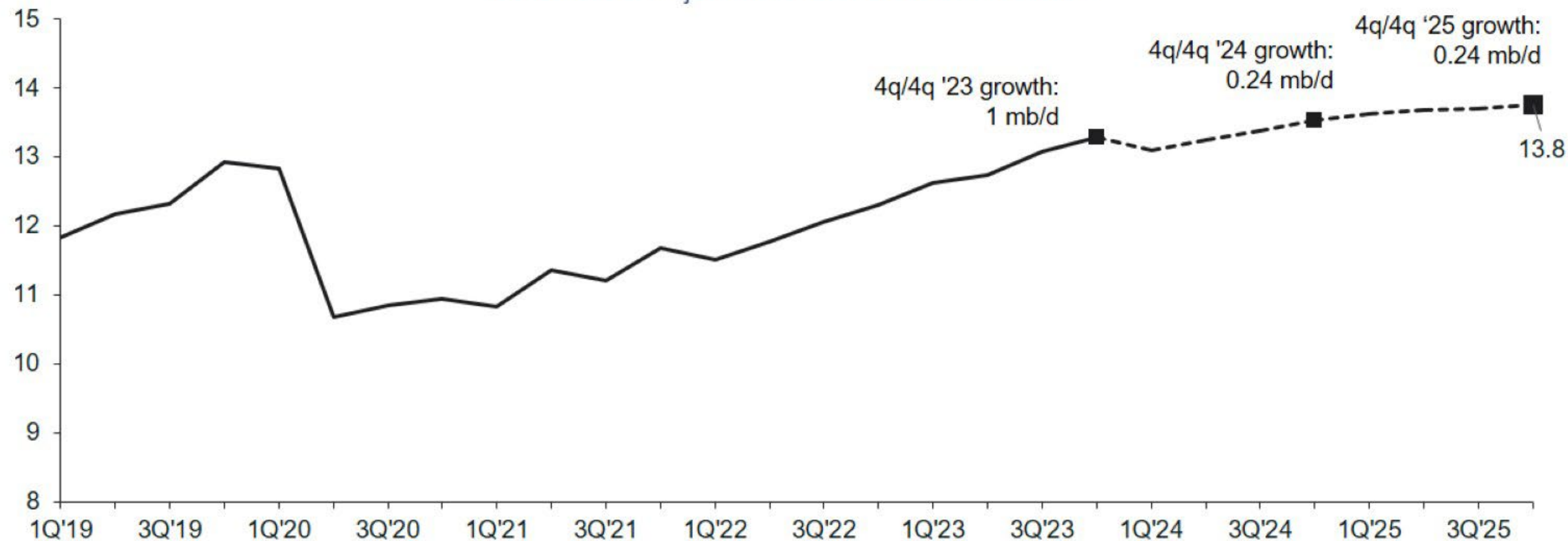
NOTES: Executives from 93 exploration and production (E&P) firms answered this question during the survey collection period, Dec. 6–14, 2023. Small firms produced less than 10,000 barrels of oil per day in fourth quarter 2023, while large firms produced 10,000 b/d or more. Responses came from 73 small firms and 20 large firms.

SOURCE: Federal Reserve Bank of Dallas.

U.S. crude output growth to steady through '25; Industry remains focused on profits over production.

Million barrels per day

Consensus of Projections for U.S. Crude Oil Production



NOTE: Solid line is Energy Information Administration data. The consensus is constructed from an average of forecasts published over the six weeks ending March 1. Dotted line is a consensus of forecasts from major agencies, banks and consultancies.

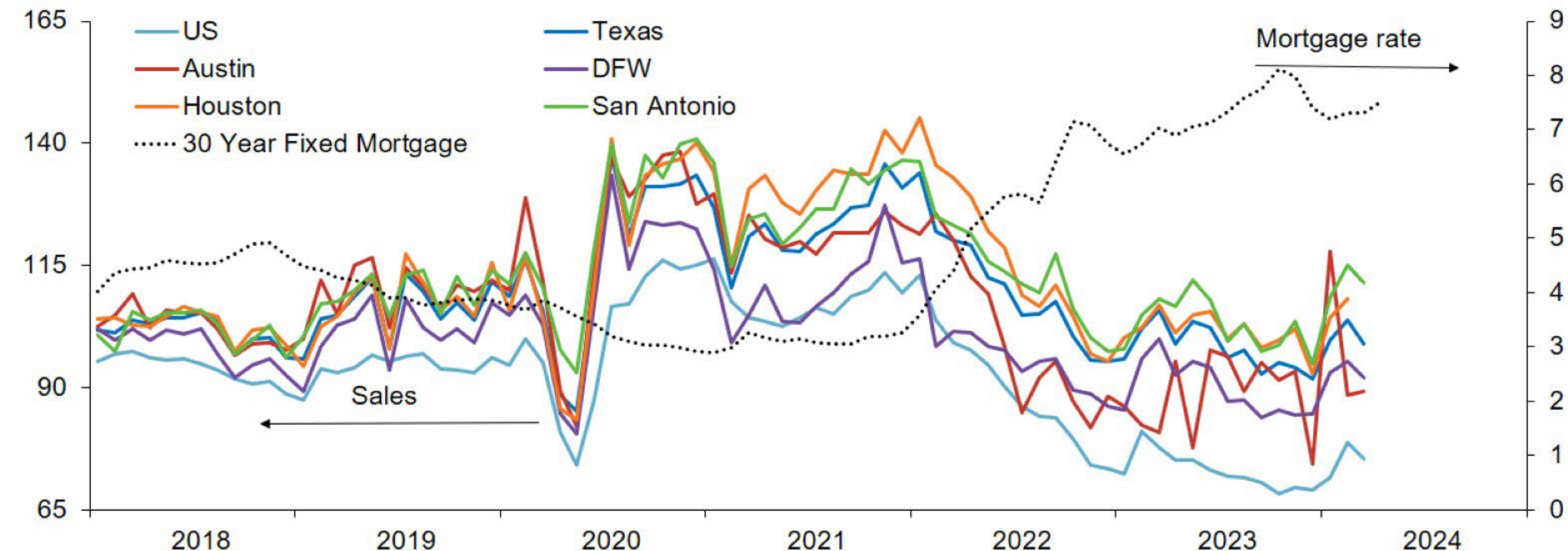
SOURCE: Dallas Fed.

Regional Outlook: Real Estate and Construction

High rates keeping lid on existing-home sales; '24 sales off to stronger start on dip in rates.

Index, Jan. 2017 = 100

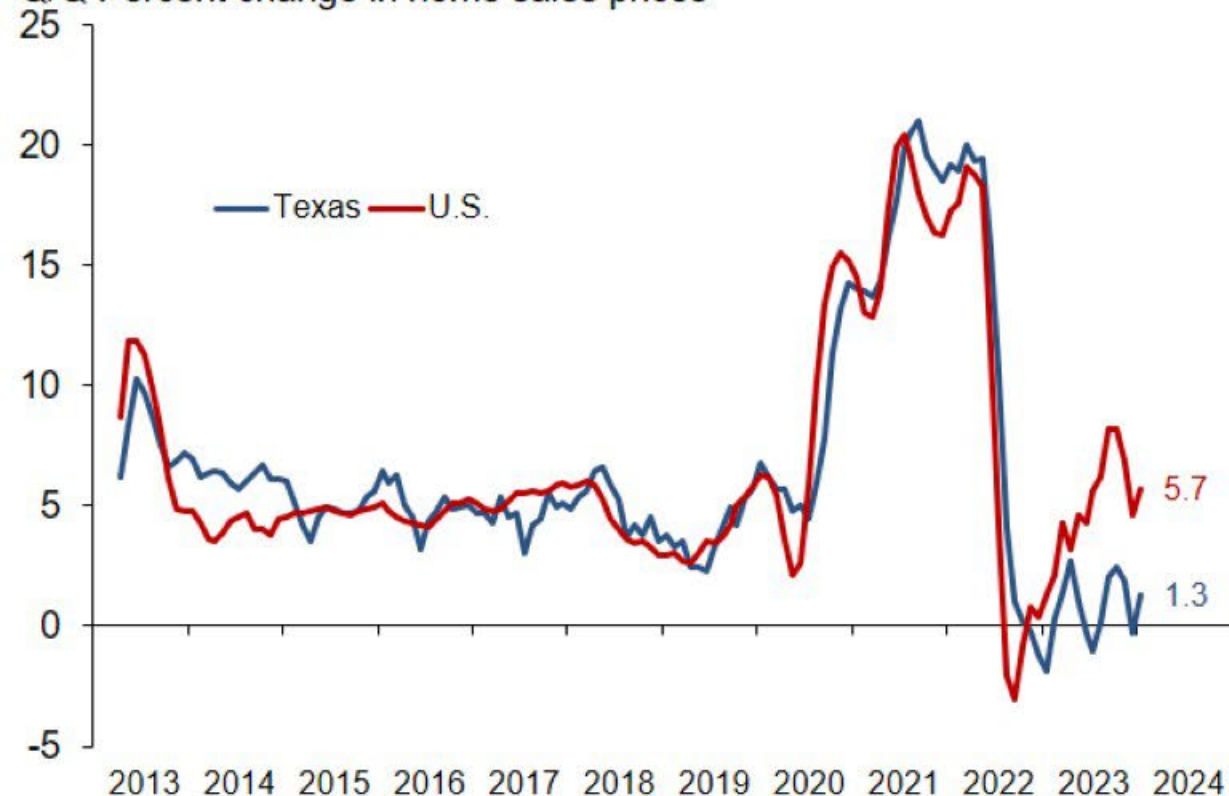
Percent



NOTES: Mortgage rates are monthly aggregates of weekly 30-year-fixed mortgages rates through December 2023. Home sales data are through November 2023 except for Houston.

Home prices growth is steady. Houston (and TX) markets aided by new supply.

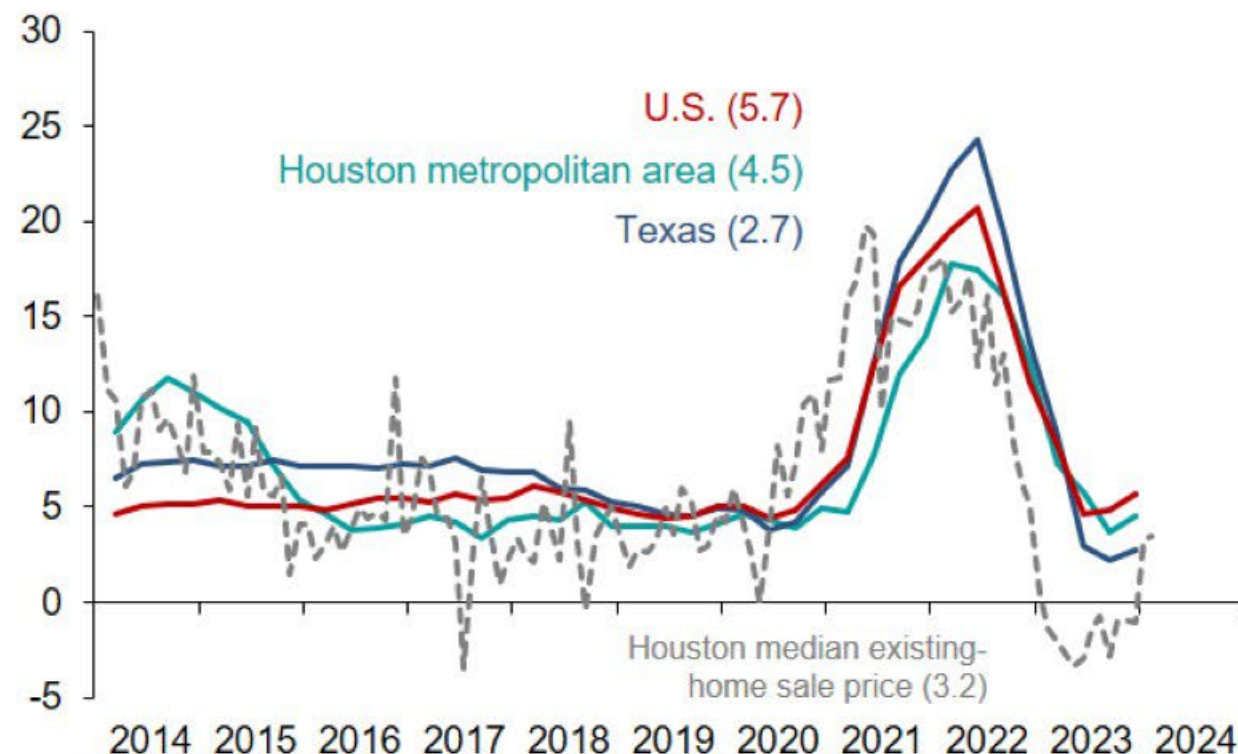
Q/Q Percent change in home sales prices



NOTE: Data are seasonally adjusted repeat-home sales indexes excluding distressed properties, monthly through January 2024. Shown in the 3-month annualized change.

SOURCE: CoreLogic.

Year-to-year percent change in home values (all mortgages)



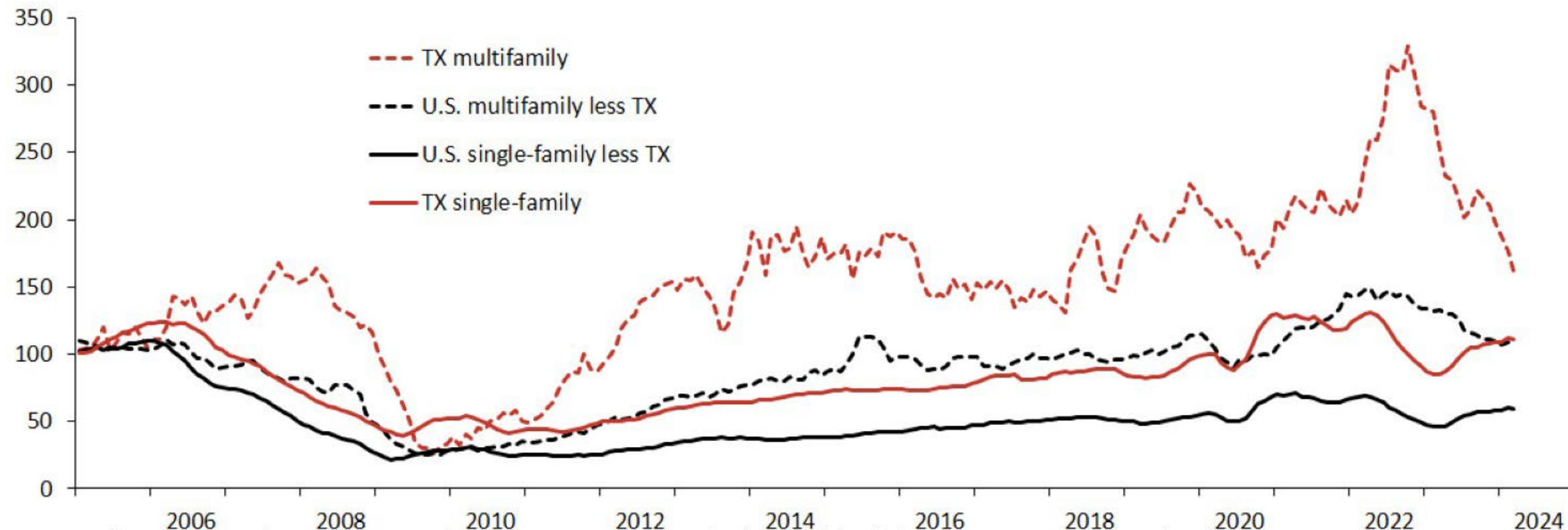
NOTE: Indexes include data from all conventional conforming mortgages, including refinances and purchases, but exclude distressed properties. Numbers in parentheses are for 4Q'23, except the median home price, which is for Feb.'24. Dashed line is the monthly year-over-year change in the median price for existing-home sales.

SOURCE: Multiple Listing Service; Texas Real Estate Research Center; Federal Housing Finance Administration.

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State SF-construction permits outpacing nation, but MF-permitting approaching pandemic lows.

Index, 2004=100, SA

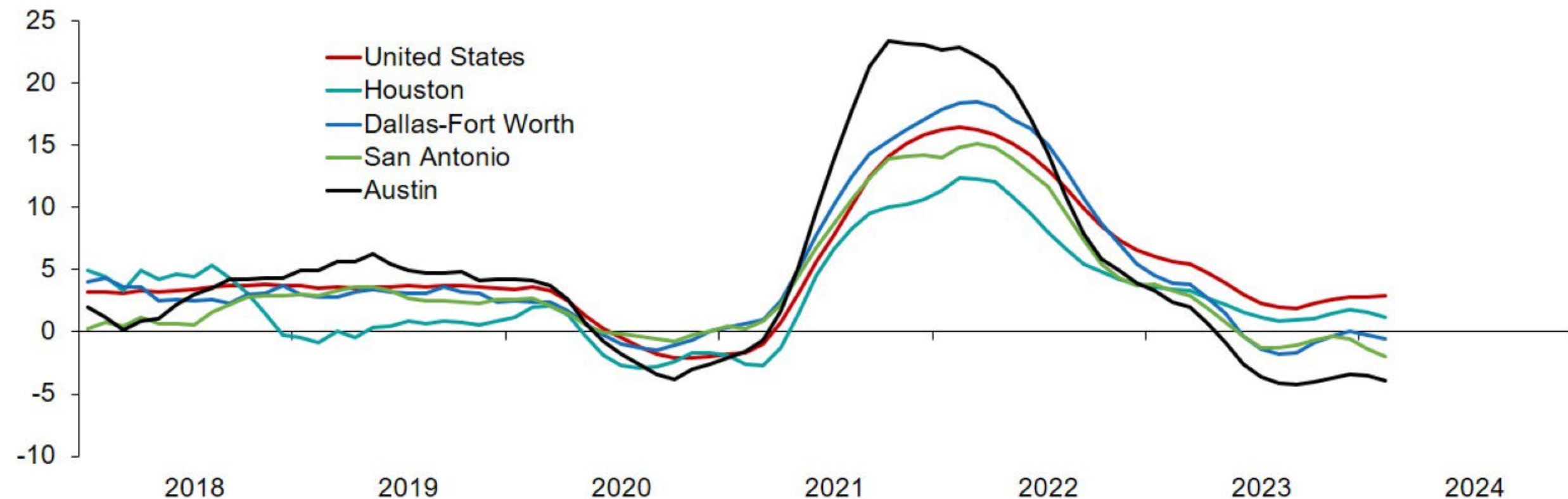


NOTE: Data show the five-month moving average number of housing permits authorized, indexed such that the level of permits in 2004=100, and are through August 2023.

SOURCE: U.S. Census.

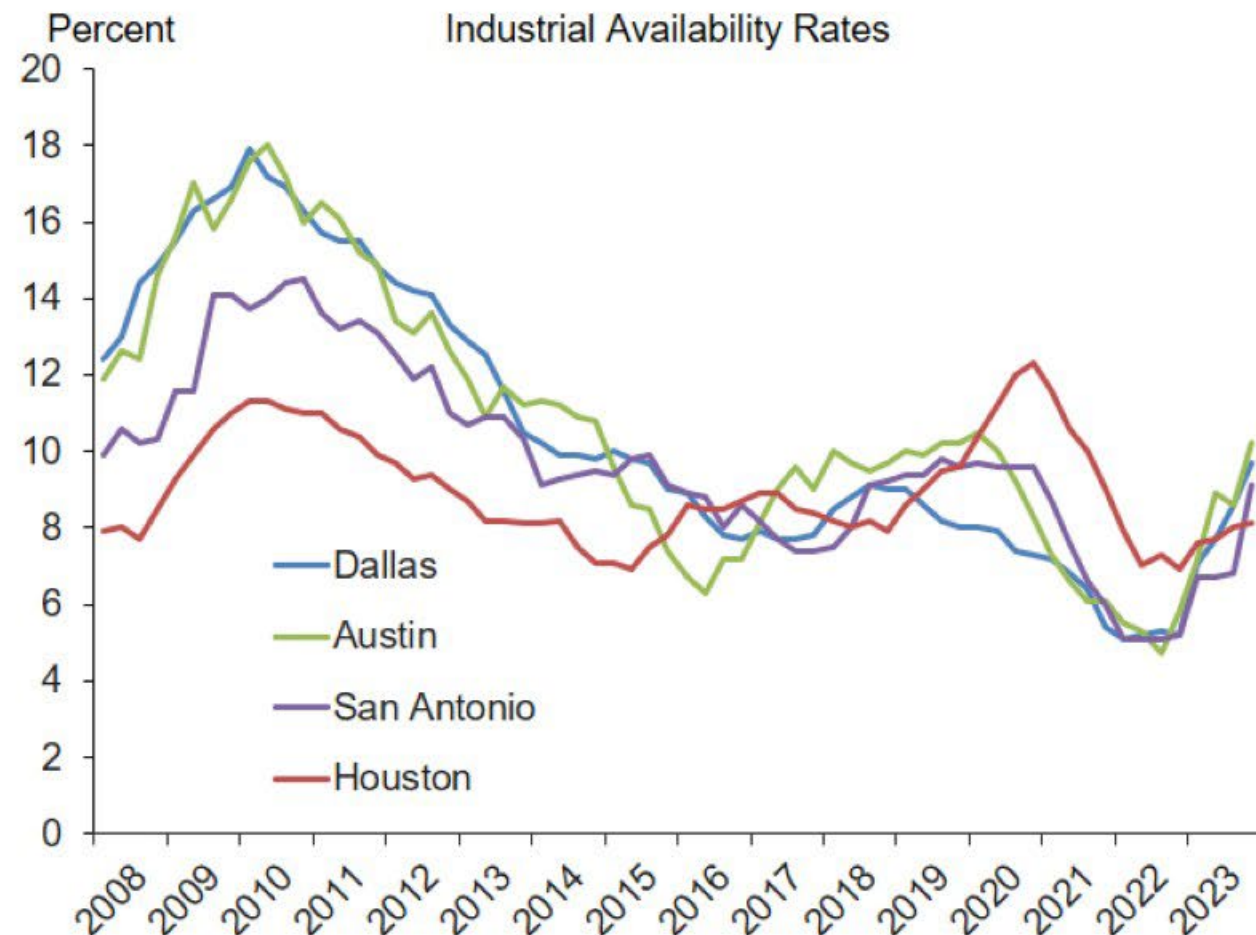
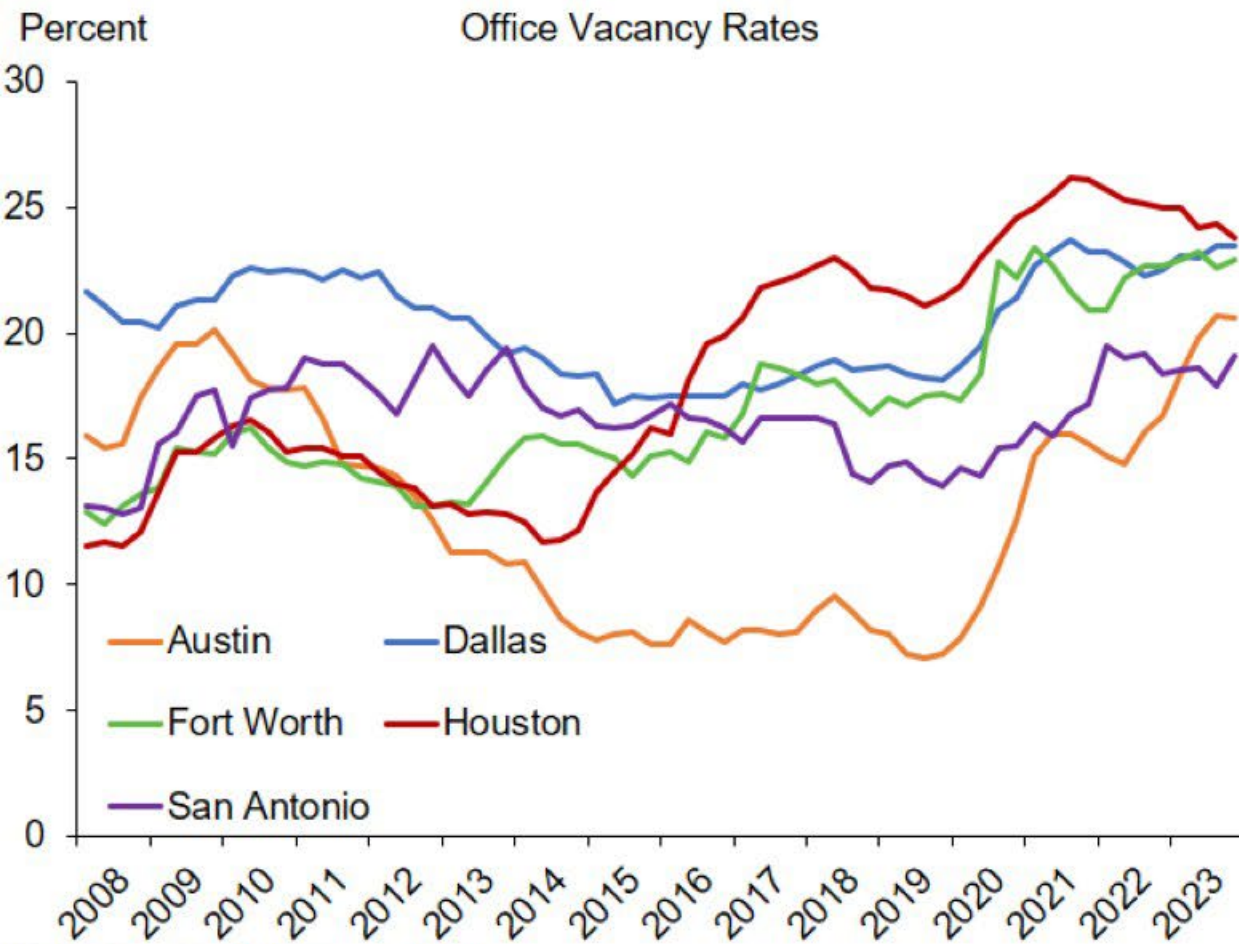
Texas rent growth for new apartments softest along I-35 corridor on surge in new supply

Percent, Y/Y



NOTES: Data are monthly, seasonally adjusted through February 2024. New York is missing March through September 2020 data. San Francisco is missing June through October 2020 data. Missing data are linearly interpolated.
SOURCE: Zillow.

Office and Industrial vacancy/availability rising where new supply is most robust amid tempering demand



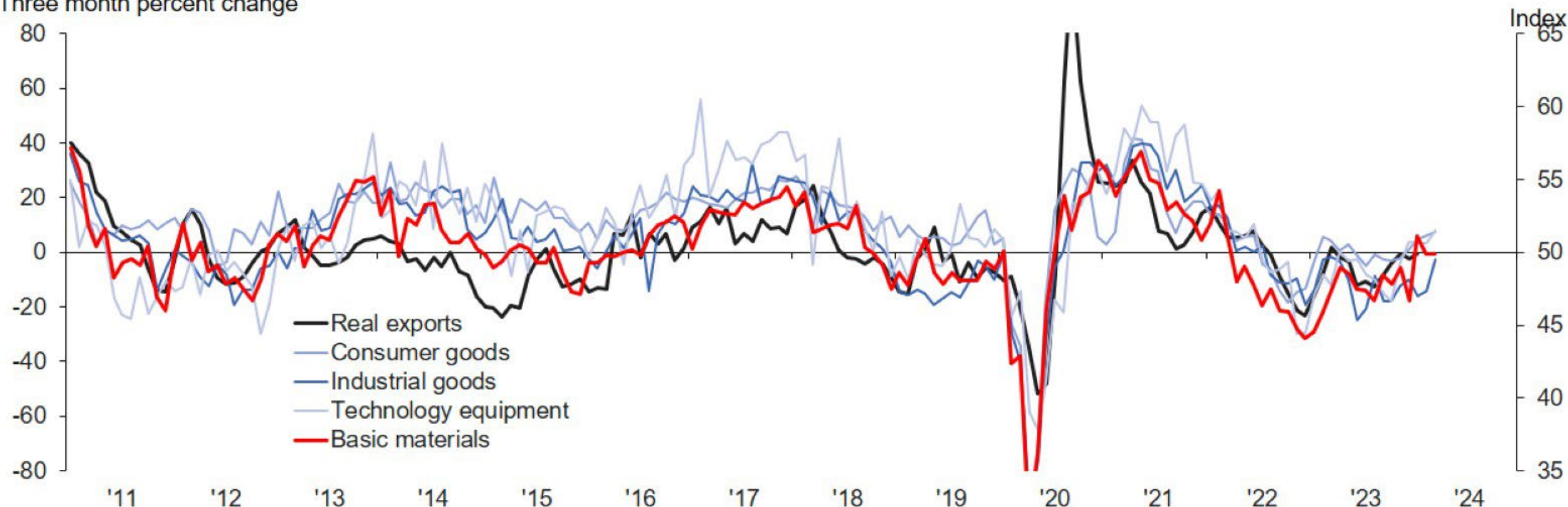
NOTE: Data through third quarter 2023.
SOURCE: CBRE Econometric Advisors.

Regional Outlook: Looking ahead

Global trade stabilizing, new orders for basic materials above zero...bodes well for Houston industries

Global Exports and Purchasing Managers Indexes of New Orders

Three month percent change



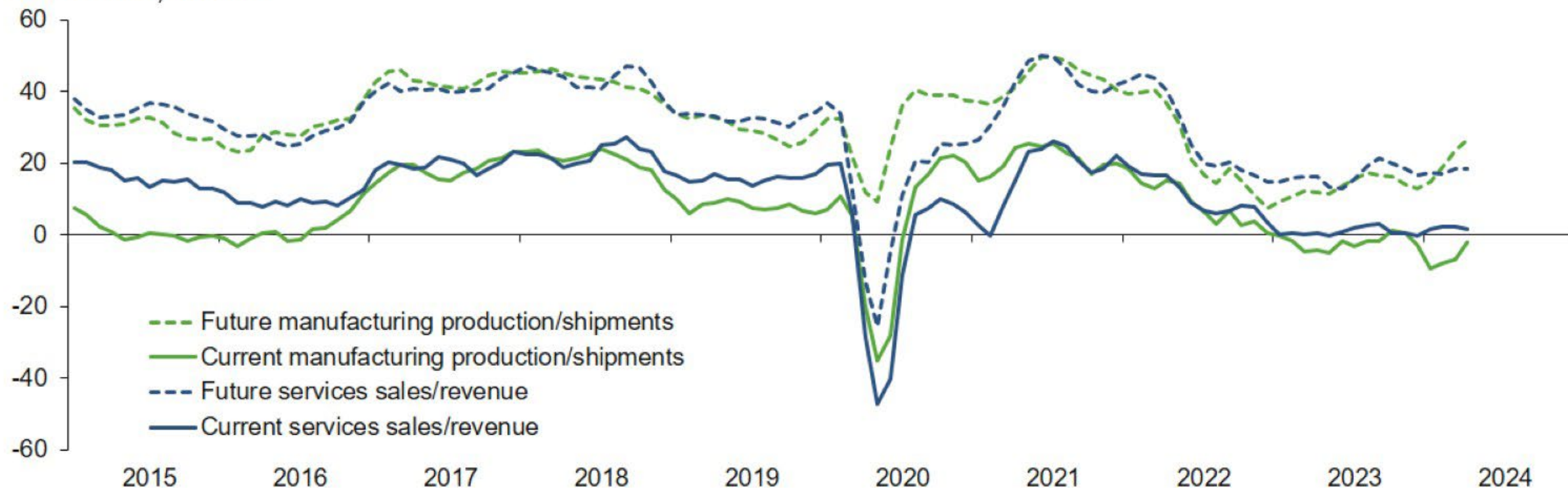
NOTE: Real global exports are three month moving averages of the US dollar value of exports, adjusted for seasonality and inflation. Global Purchasing Managers Indexes for New Orders are seasonally adjusted. Index values > 50 indicate expansion, and vice versa.

SOURCES: Bureau of Labor Statistics; International Monetary Fund; S&P Global; calculations by the author.

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Fed Surveys: Manufacturing down in early '24, Services treading water; Outlooks are improving

Diffusion index, SA 3MMA



NOTES: Shown is the average of the future sales/revenue indexes from the Dallas, Kansas City, and Richmond Fed surveys for services and current indexes for those and the Philadelphia survey; manufacturing is the average of the expected and current production indexes from the Dallas and Kansas City Fed and the expected and current shipment indexes from the New York, Richmond, and Philadelphia Fed manufacturing surveys. Respondents were asked about expected changes over the coming 6 months, and data are through February 2023.

SOURCES: Dallas Fed's Texas Business Outlook Surveys; Kansas City Fed's Services and Manufacturing Surveys; Richmond Fed's Service and Manufacturing Surveys; Empire State Manufacturing survey; Philadelphia Fed's Manufacturing and Nonmanufacturing Business Outlook Surveys.

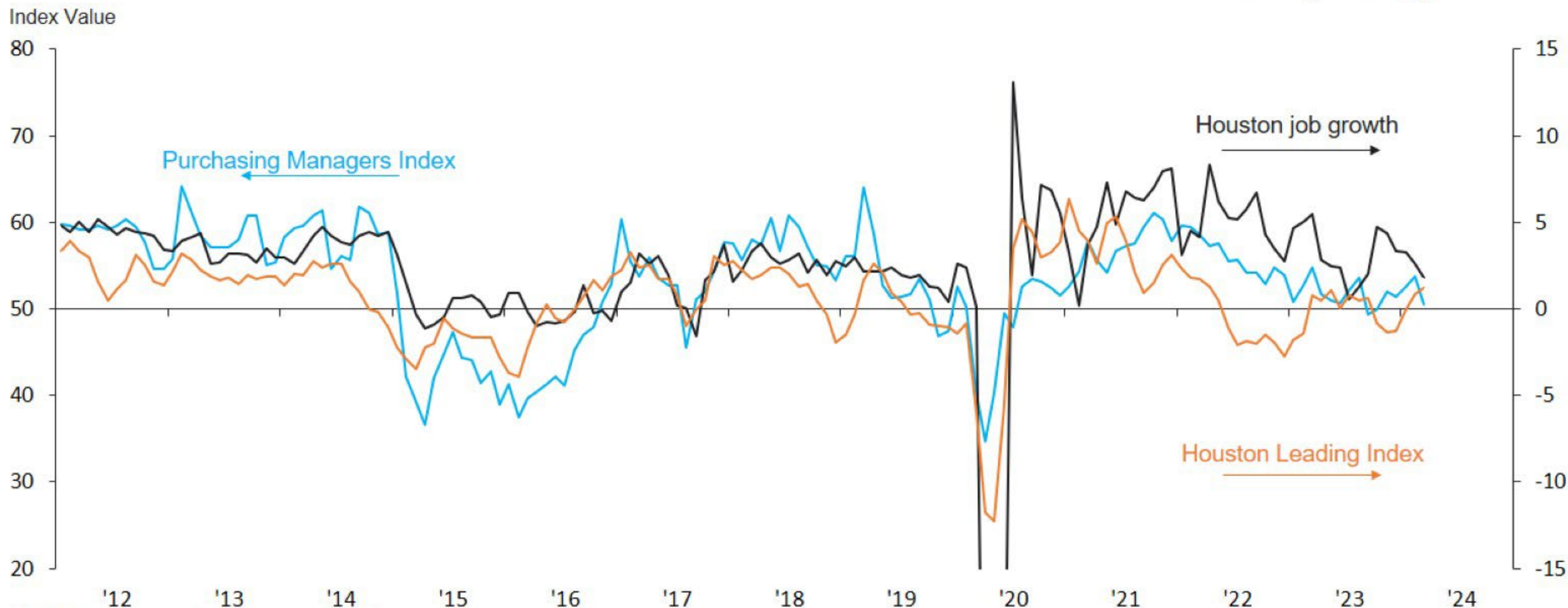
Texas sales tax revenue points to weak consumption growth



NOTES: Real, seasonally adjusted data through April 2024, three month moving average. Gray shading indicates pandemic recession.

SOURCES: Texas Comptroller of Public Accounts; Federal Reserve Bank of Dallas.

Houston PMI and leading index point to only a modest further slow down in 2024 job growth



NOTE: Index values > 50 indicate expansion and vice versa.

SOURCE: Bureau of Labor Statistics, seasonal and other adjustments by the Dallas Fed; Houston Institute for Supply Management.

Steady TX employment growth ahead; on glide-path toward elevated trend in '24-'25.



- The number of jobs on payroll in Texas grew 2.6% Dec./Dec. in 2023, above the normal rate of ~1.7% over past two business cycles.
- Trend payroll growth likely boosted by immigration according to CBO.
- Recent momentum, uptick in leading indicators/surveys, a healthy GDP outlook, and stable oil futures, Texas is on course for above trend growth near ~2.5% in 2024.

NOTE: 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 lags of payroll employment, expectations for U.S. GDP growth, WTI oil prices, and four COVID-19 dummy variables (March-June 2020).

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