

Texas Economic Expansion Continues; Tight Labor Market Could Limit Stronger Growth

March 30, 2018

The Texas economy's broad expansion continues. Year-to-date employment growth has been widespread across metros and industries. Additionally, the Federal Reserve Bank of Dallas' [Texas Business Outlook Surveys \(TBOS\)](#) indicate continued expansion in manufacturing and services in the first quarter. Tight labor market conditions could limit the strength of future economic growth, however, as a growing percentage of companies responding to TBOS report difficulty filling positions due to a lack of applicants.

Recent federal tax law changes are a tailwind for the regional economy and projected to boost investment. However, a lack of clarity on trade policy could damp the high optimism among Texas firms, curtailing investment plans and overall growth in 2018.

Robust Employment Growth in Early 2018

[Texas employment](#) increased at a 3.2 percent annualized rate in February after growing 4.0 percent in January. The Dallas Fed's [Texas employment forecast](#) anticipates annual job growth of 3.4 percent in 2018 (December/December). [Unemployment](#) held steady at 4.0 percent in February, near its historic low and below the nation's 4.1 percent rate.

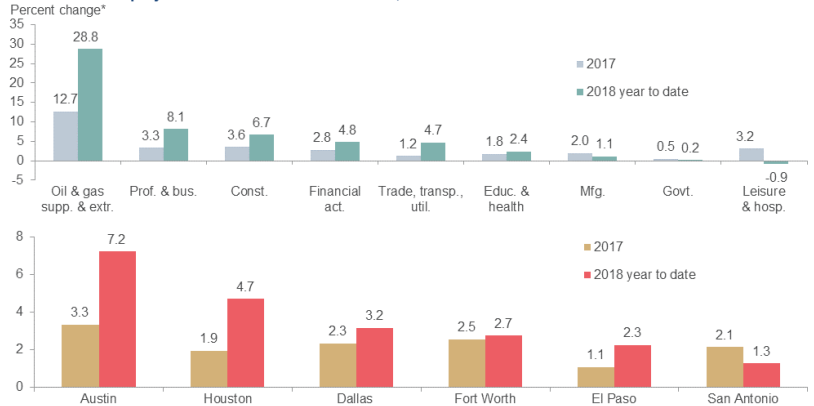
Year to date, employment has grown at a 28.8 percent annualized rate in the energy sector (*Chart 1*). Construction and professional and business services also experienced notable expansions during the first two months of the year, with gains exceeding 8 percent in services and close to 7 percent in construction. Job growth was solid across Texas' major metropolitan areas. Austin remained the fastest-growing major metro, with 7.2 percent year-to-date employment expansion. Growth has accelerated in every major metro except San Antonio in the year to date compared with 2017.

Business Executives Report Difficulty Hiring

Tightness in the Texas labor market was corroborated by the [supplemental questions to TBOS](#) in February. More than half of the 362 executives surveyed said they planned to increase employment over the next six to 12 months (*Chart 2*). This was the highest share expecting to increase employment in the 10 times the question has been asked since 2011.

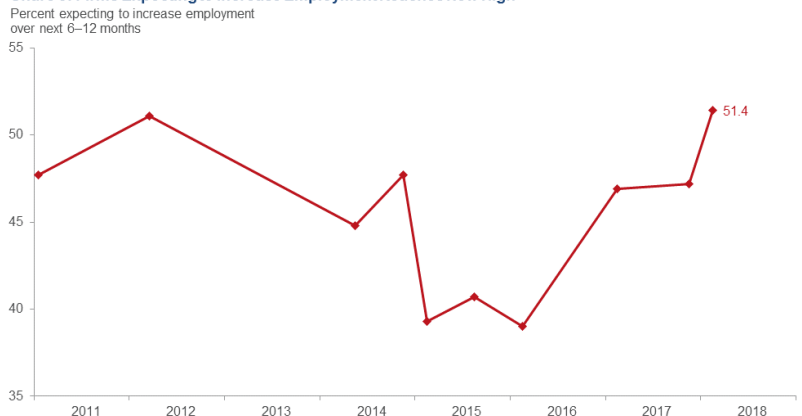
Among survey respondents, 64.8 percent reported difficulties finding qualified workers. The problem persisted across skill levels but was concentrated among mid-skill positions, which typically require some college or technical schooling. Nevertheless, lack of applicants is the main issue firms have faced when trying to fill vacant positions since 2017 (*Chart 3*). This suggests that consistent low unemployment along with a skills mismatch could restrain employment growth going forward.

Chart 1
Year-to-Date Employment Gains Seen Across Metros, Industries



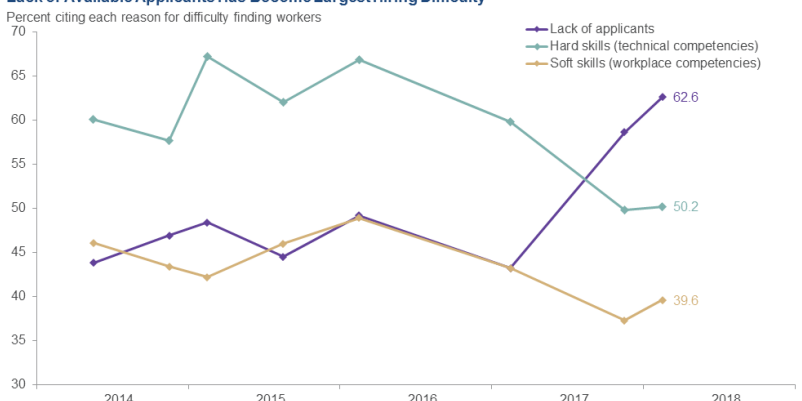
*Seasonally adjusted, annualized rate
NOTES: 2017 growth is December/December. 2018 year-to-date growth is February/December.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; adjustments by the Federal Reserve Bank of Dallas.

Chart 2
Share of Firms Expecting to Increase Employment Reaches New High



NOTES: This special question is asked occasionally as a supplement to monthly Texas Business Outlook Surveys (TBOS). Last data point is February 2018.
SOURCE: Federal Reserve Bank of Dallas TBOS.

Chart 3
Lack of Available Applicants Has Become Largest Hiring Difficulty



NOTES: This special question is asked occasionally as a supplement to monthly Texas Business Outlook Surveys (TBOS). The question is only posed to respondents who reported difficulty finding qualified workers. Last data point is February 2018.
SOURCE: Federal Reserve Bank of Dallas TBOS.

Wages Decline After Steady Rise in Early 2017

Texas wages increased faster than the nation during the oil boom but stalled in 2015 and 2016. Last year, Texas wage growth sped up during the first half of 2017 but slowed at year-end. Still, Texas wages grew faster than they did nationally in 2017 (*Chart 4*).

Consistent with tight labor conditions, wage growth expectations are bullish for 2018 (*Chart 5*). In March, the three-month moving average of the six-months-ahead wage and benefits index for manufacturing reached the highest level since September 2004, while the future wage and benefits index for services was at its highest since November 2007.

Manufacturing Production Growth and Service Activity Remain High

Texas factory activity continued to expand in March but at a slower pace than last month, according to the [Texas Manufacturing Outlook Survey \(TMOS\)](#). Texas service sector activity picked up in March, according to the [Texas Service Sector Outlook Survey \(TSSOS\)](#). The three-month moving averages for both manufacturing production and service revenue remained elevated and above the postrecession average.

Texas Export Growth Exhibits Strong Momentum

Texas exports edged down 1 percent in January after climbing 11 percent in 2017, the highest growth rate since 2011 (*Chart 6*). Exports of petroleum and coal products expanded 17 percent, propelling last year's activity. Chemicals exports increased 6.9 percent. Exports of computers and electronics fell 2.9 percent, and transportation equipment declined 6.8 percent during the year. Texas exports should continue growing as the Texas trade-weighted value of the dollar has fallen and global growth continues to improve. A lower value of the dollar makes Texas goods less expensive abroad. Nevertheless, the impact of recently announced tariffs on Texas exports remains unclear.

Texas Inflation Moderates, Expectations Elevated

The 12-month change in the Texas core consumer price index (CPI), which excludes volatile energy and food prices, dropped to 2.0 percent in January (*Chart 7*). The U.S. core CPI was 1.8 percent in January and ticked up to 1.9 percent in February.

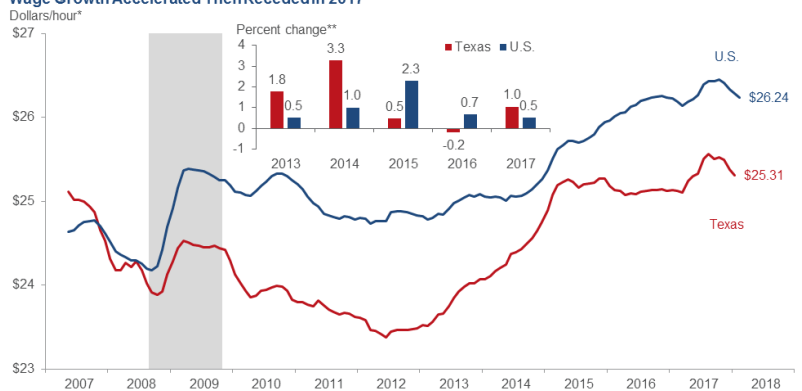
Looking ahead, TBOS six-months-ahead price measures suggest that firms expect inflation in Texas to rise. The three-month moving average of the future finished goods price index for manufacturing remained close to its highest point since 2008 when Texas CPI growth averaged 3.9 percent. The three-month moving average of the service sector future selling prices index reached its highest point since 2007.

—Jesus Cañas and Stephanie Gullo

About the Authors

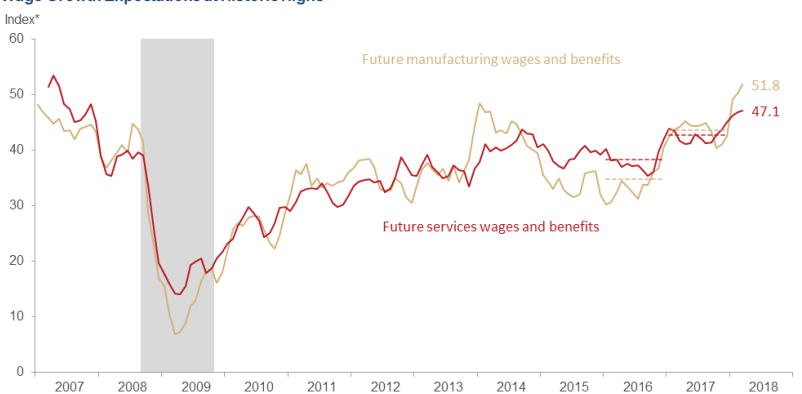
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Chart 4
Wage Growth Accelerated Then Receded in 2017



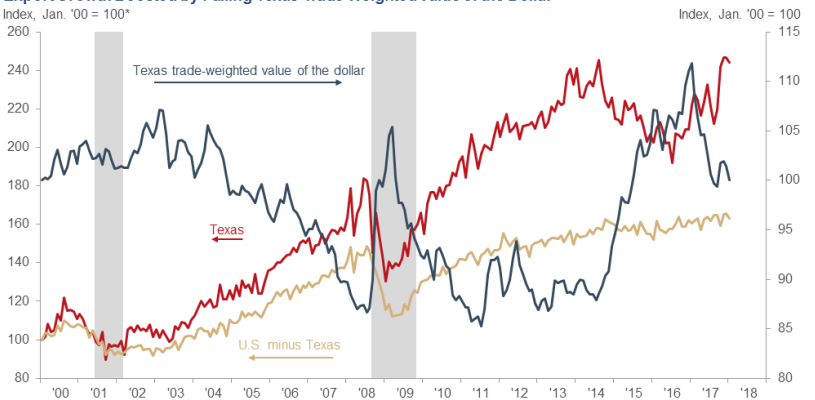
*Five-month moving average, seasonally adjusted, real 2017 dollars.
**December/December, seasonally adjusted, real dollars.
NOTES: Deflated using CPI-W. Shaded area represents Texas recession. Texas data are through January 2018; U.S. data are through February 2018.
SOURCES: Bureau of Labor Statistics; adjustments by the Federal Reserve Bank of Dallas.

Chart 5
Wage Growth Expectations at Historic Highs



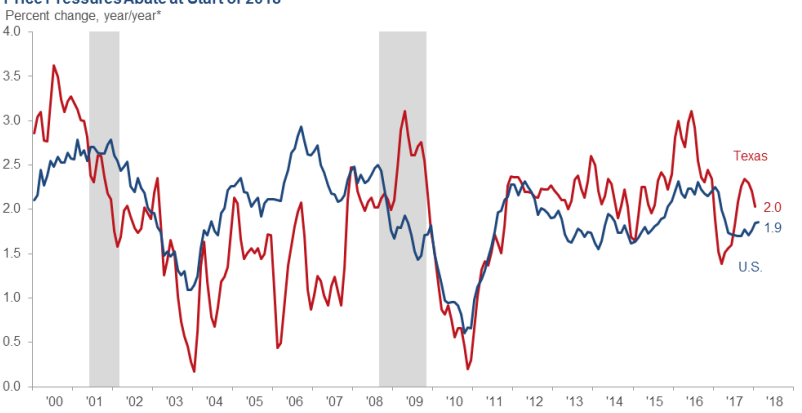
*Three-month moving average, seasonally adjusted.
NOTES: Shaded area represents Texas recession. Dashed lines represent yearly averages. Firms are asked about expectations six months from now.
SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

Chart 6
Export Growth Boosted by Falling Texas Trade-Weighted Value of the Dollar



*Seasonally adjusted, real dollars.
NOTE: Shaded areas represent Texas recessions.
SOURCES: Census Bureau; WISERTrade; Federal Reserve Bank of Dallas.

Chart 7
Price Pressures Abate at Start of 2018



*Seasonally adjusted.
NOTES: Shaded areas represent Texas recessions. Lines depict core consumer price index.
SOURCES: Bureau of Labor Statistics; adjustments by the Federal Reserve Bank of Dallas.