

ITEXAS Economic Outlook



Pandenomics: Where Do We Go From Here?

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Keynote Speaker

May 13, 2021



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



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National Economy

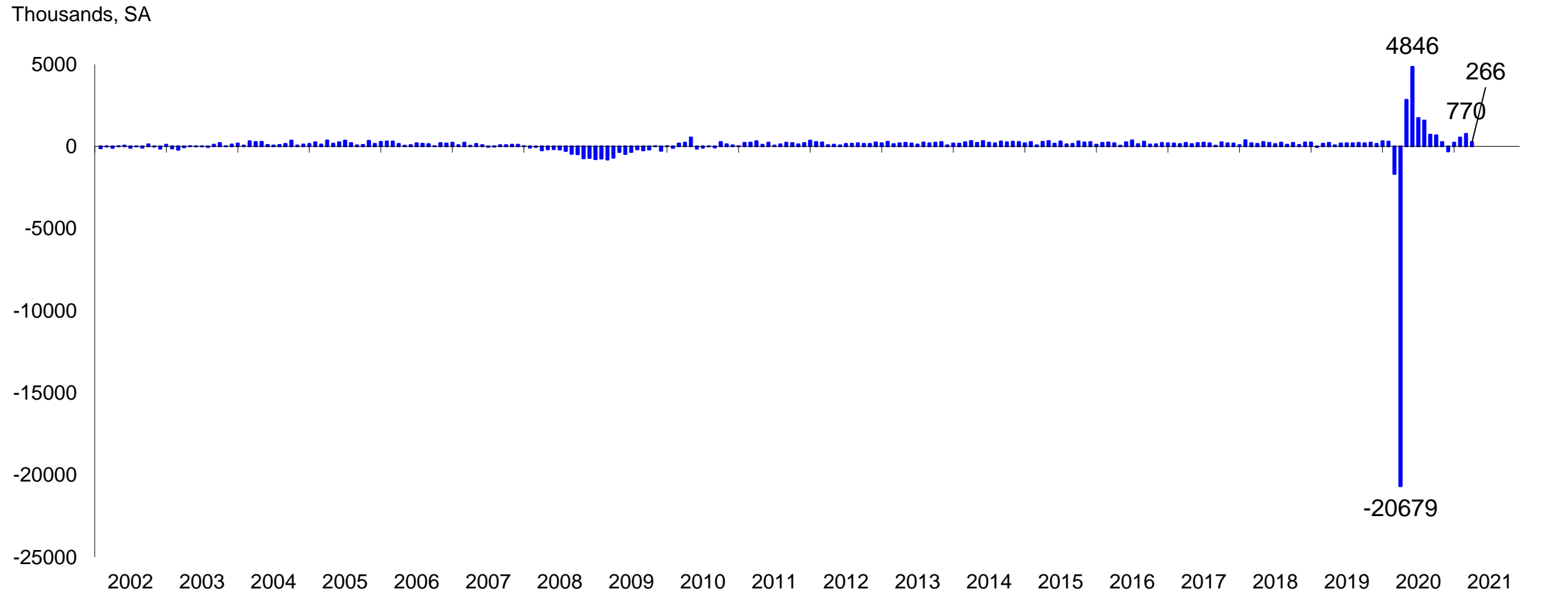


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U.S. Economy Likely to Grow Strongly in Second Half of 2021

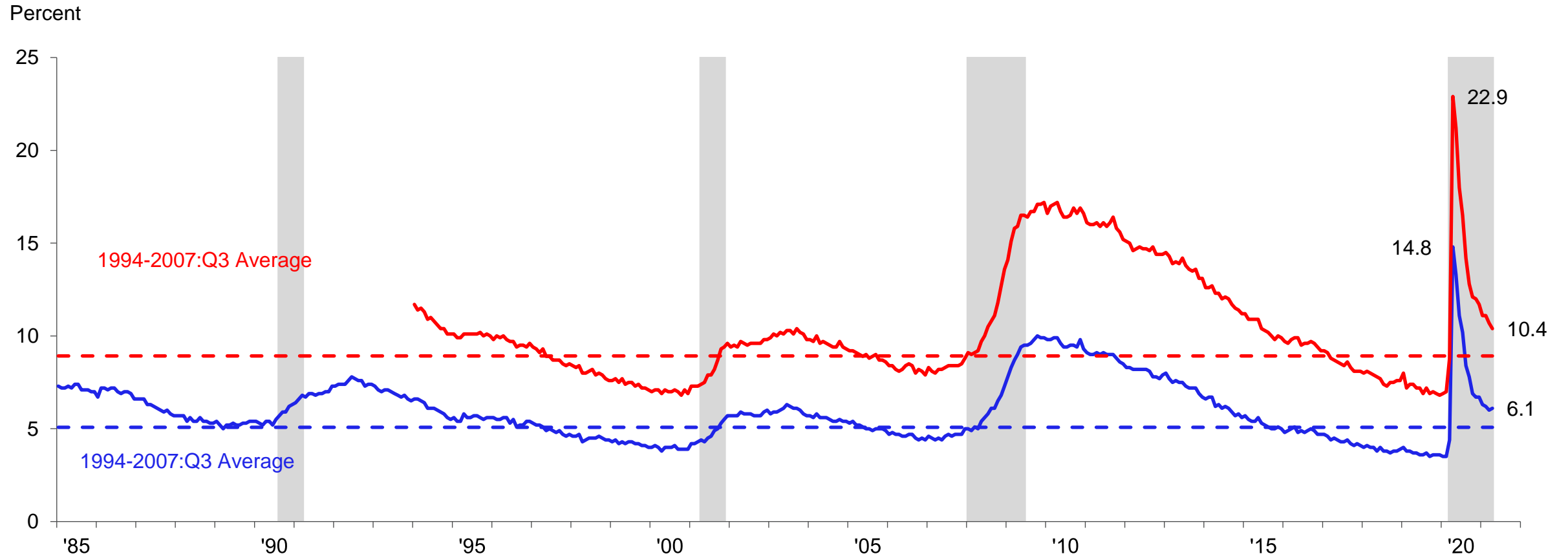
- After growing a healthy 1.4% in 2019, job growth fell sharply to -6.2% in 2020, while real GDP growth slowed less: from 2.3% to -2.4%
- 6.1% unemployment rate not reflective of true labor market tightness
- Core inflation below Fed target of 2% - but headline inflation recently jumped to 2.3 percent - Blue Chip Forecast for 2021 is 2.6% headline and 2.2% core
- Pandemic has been main driver of economic growth – vaccines suggest strong growth in second half of the year
- Upward sloping yield curve reflects positive outlook over next 12 months
- Blue Chip Forecasters project GDP to grow about 7.0% this year
 - Jobs likely to improve by less than output with Blue Chip year-end UR forecast of 4.7%

Historic monthly job loss in April 2020, rebound dissipated through January 2021 – strong growth in March 2021



NOTE: Data up to April 2021.
SOURCE: Bureau of Labor Statistics

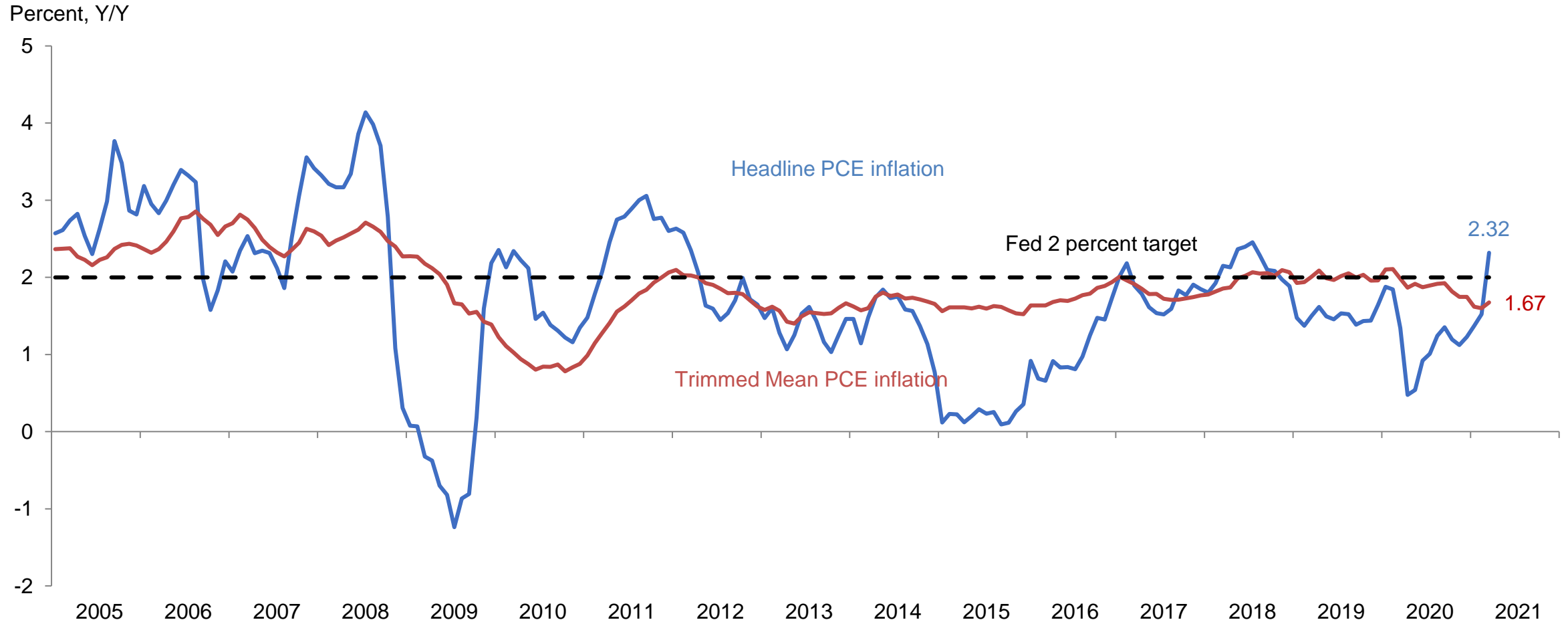
Unemployment Rate has Declined, but Remains High



NOTES: U6 Unemployment rate includes marginally attached and part-time for economic reasons workers. Gray shaded areas indicate NBER recessions. Data up to April 2021.

SOURCES: Bureau of Labor Statistics; NBER.

Core Inflation Remains Below 2 Percent Goal – But Headline Above 2 Percent



NOTE: Data up to March 2021.

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

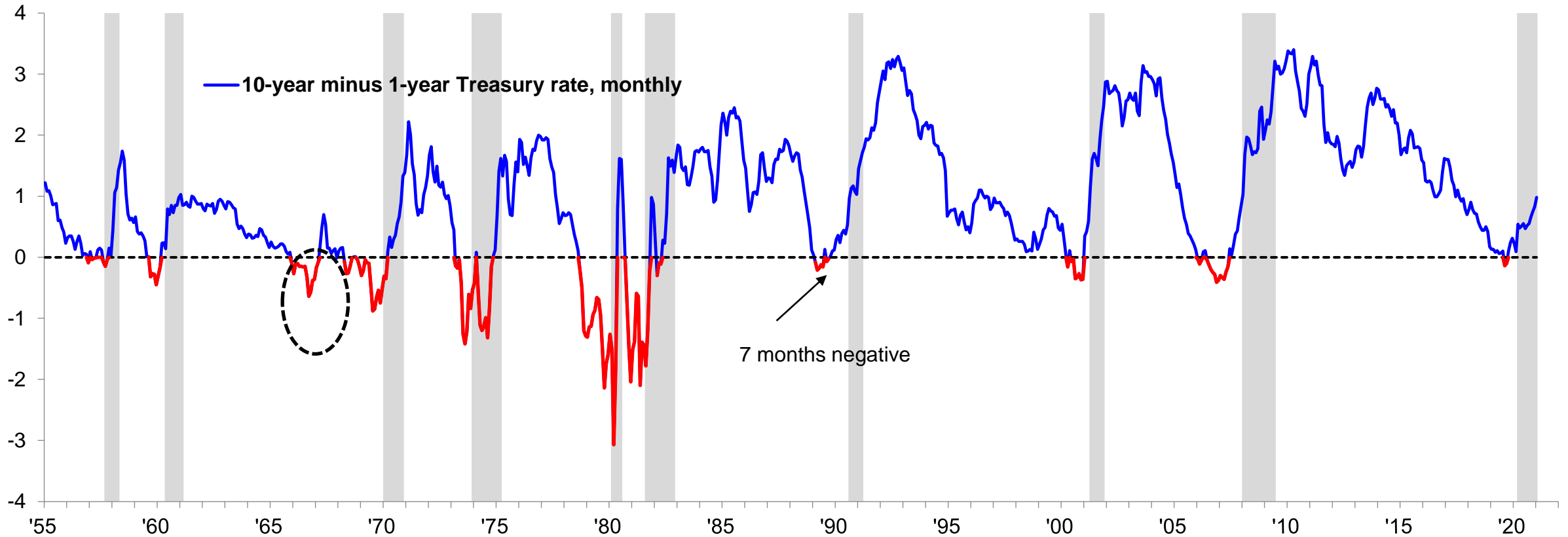


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Steepening Yield Curve Signals Positive Outlook

Percentage points



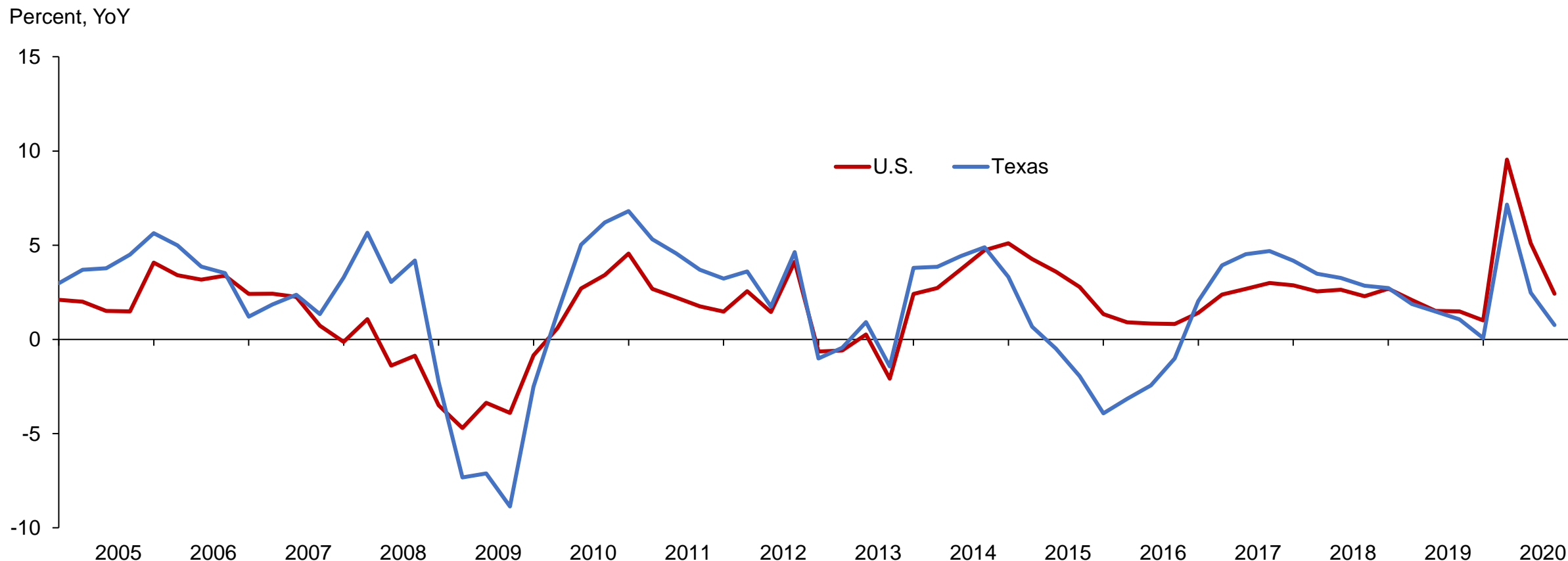
NOTE: Data through April 2021.



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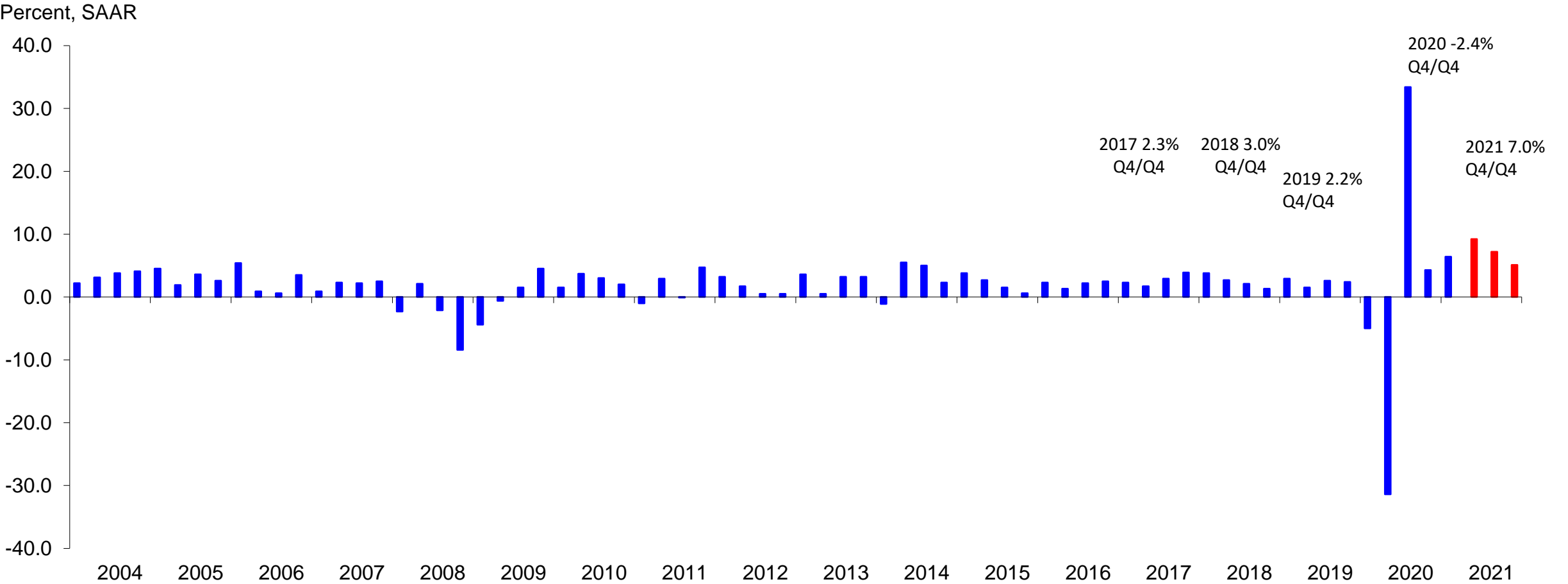
Fiscal stimulus caused increase in personal income last year



NOTE: Data are quarterly and refer to year over year change in real per capital personal income. Data up to Q4 2020.

SOURCE: Bureau of Economic Analysis.

GDP Growth Expected to Increase about 7.0 percent – Surpass pre-COVID Levels



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

Texas Economy



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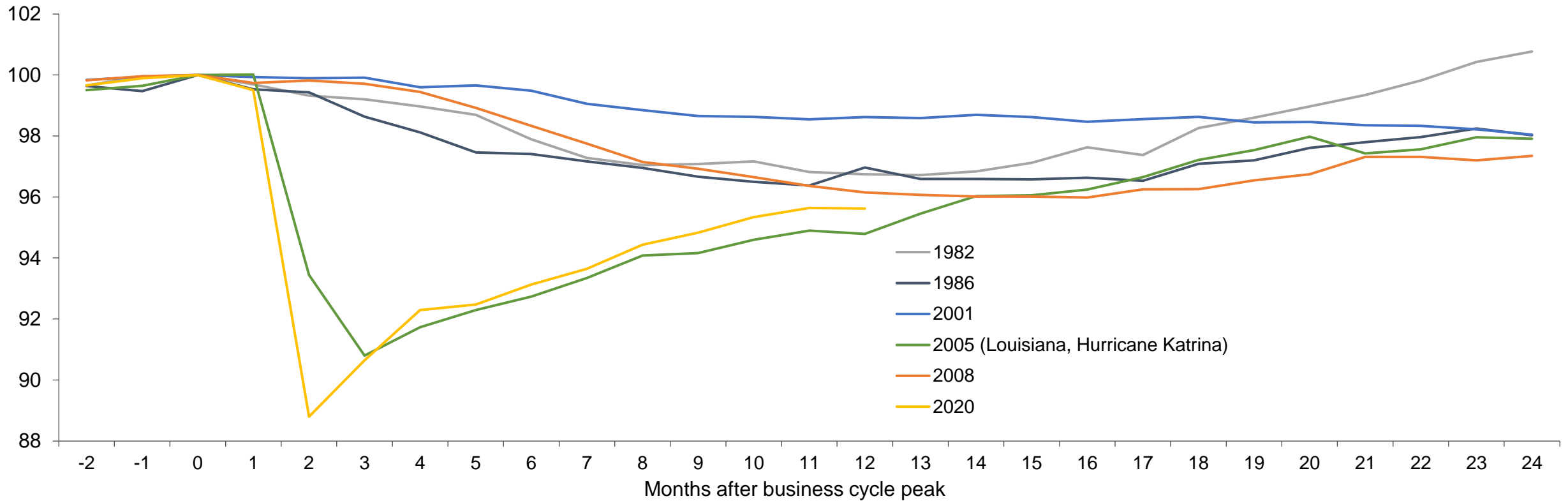
Texas Economy Declined Less than Nation Last Year – Will likely Grow Faster than the Nation this Year

- Despite sharp decline in the energy sector, Texas jobs declined less than the national average.
- Better performance likely due to less pandemic hit, increased preference for low cost, low density areas to live and work.
- Data through mid-January suggests weak job growth due to COVID surge but data since mid-January shows declines in COVID and surge in jobs in March.
- COVID will have long-lasting structural impact on many industries, but high household savings and gains in vaccinations suggest Texas job growth will be strong this year, - recover to pre-COVID jobs by October or November.



Pandemonics: This Texas Recession Like No Other, Much Sharper, Shorter-Lived Decline, Steeper Recovery

% of peak employment

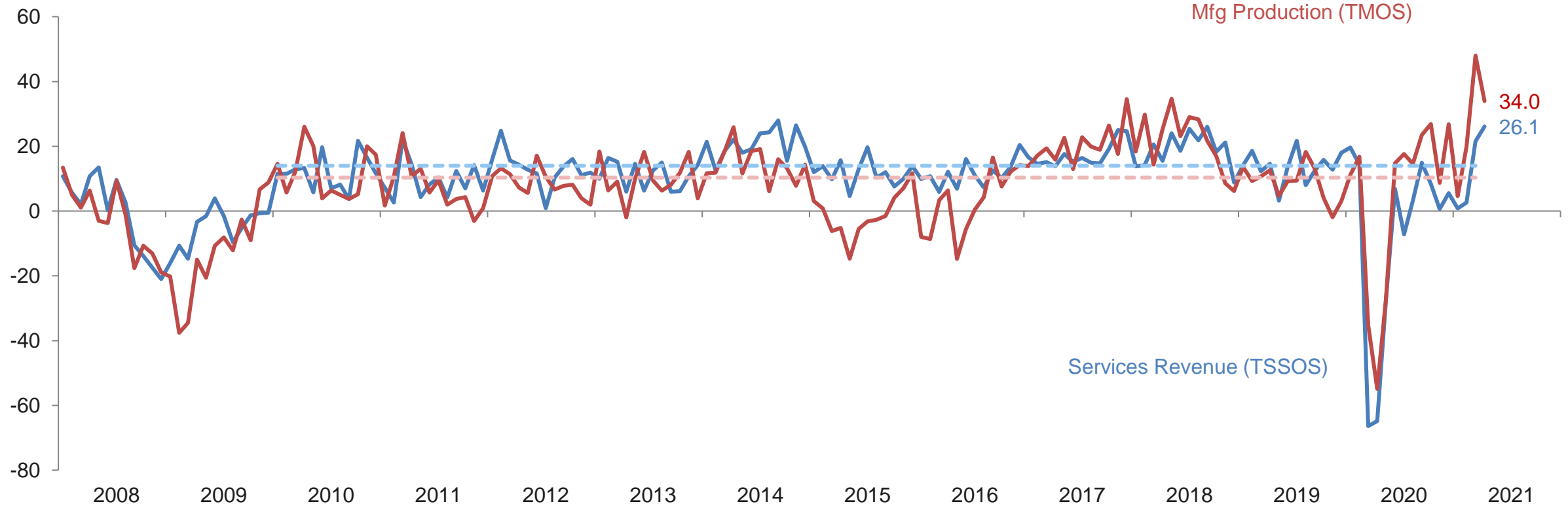


NOTES: Shown is Texas nonfarm payroll employment. Recessions are indexed to on peak employment: March 1982, January 1986, March 2001, August 2008, and February 2020.

SOURCE: BLS.

Pandemonics: Unlike Other Texas Recessions, Manufacturing Activity has Outperformed Services

Diffusion index, SA

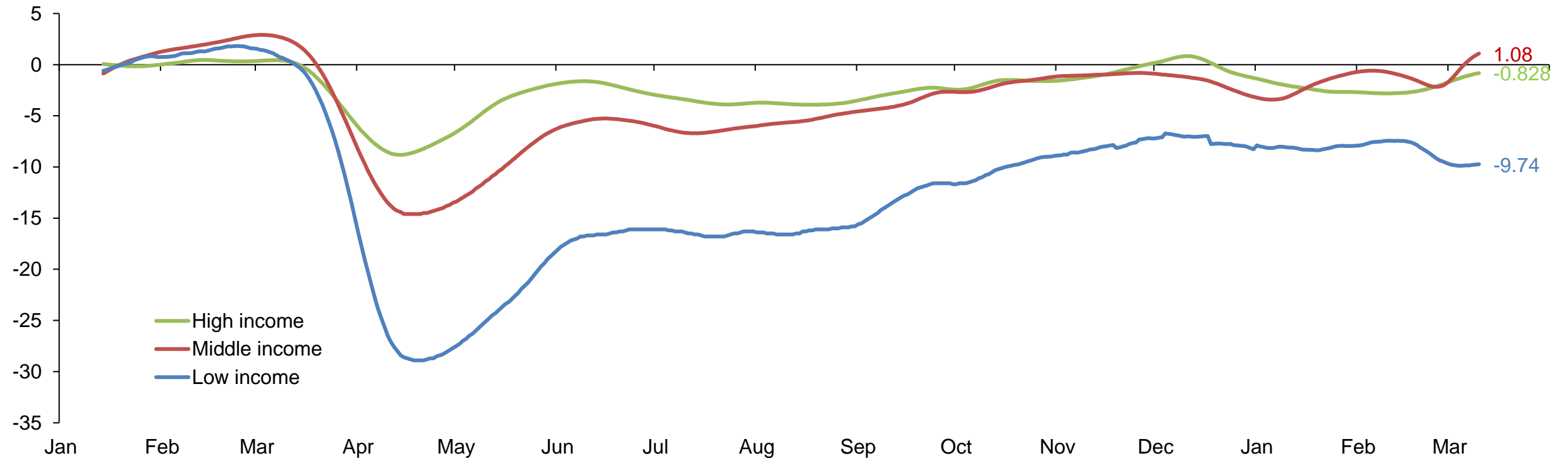


NOTES: Data through April 2021. Dashed lines are post-recession averages TMOS 10.3; TSSOS 14.0.

SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys (TBOS).

Low wage jobs Far From Recovered

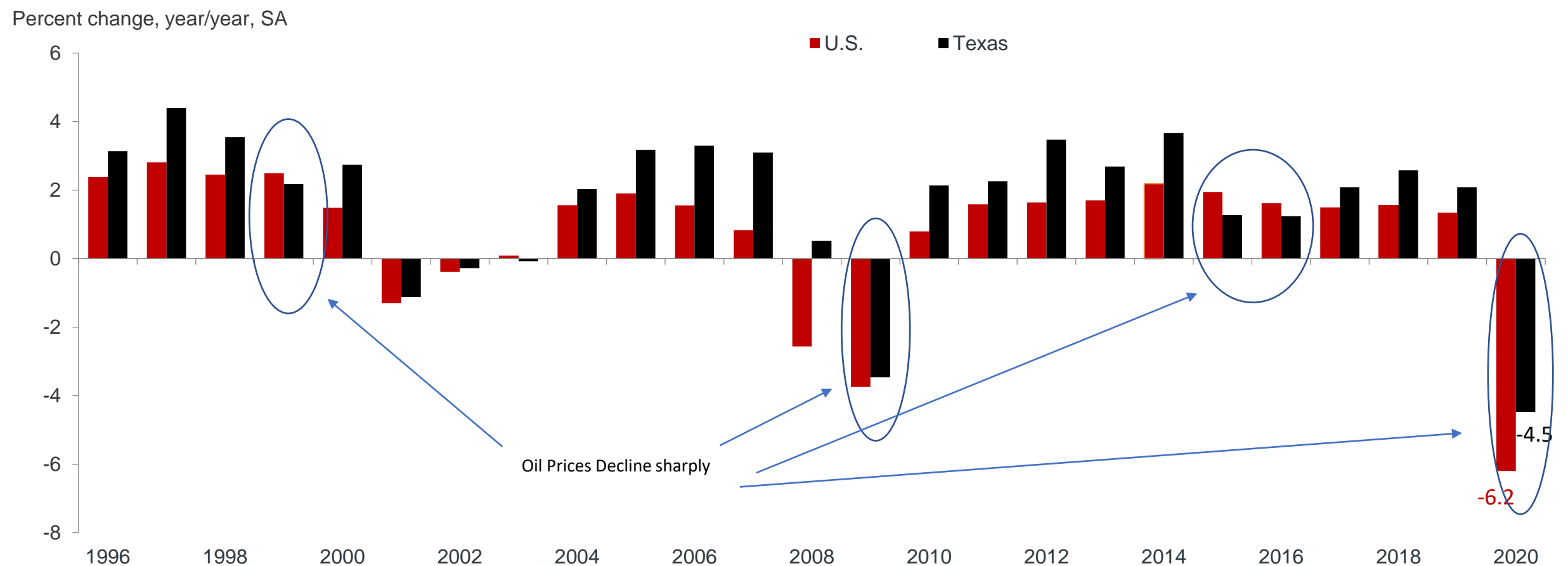
Employment level relative to Jan. 2020



NOTE: Data through March 10, 2021. High income is greater than \$60,000 per year; middle income is between \$27,000 and \$60,000 per year; low income is less than \$27,000 per year.

SOURCES: Paychex; Intuit; Earnin; Kronos; Opportunity Insights.

Despite Large Decline in Energy Sector, Texas Job Growth Not as Weak as the Nation's

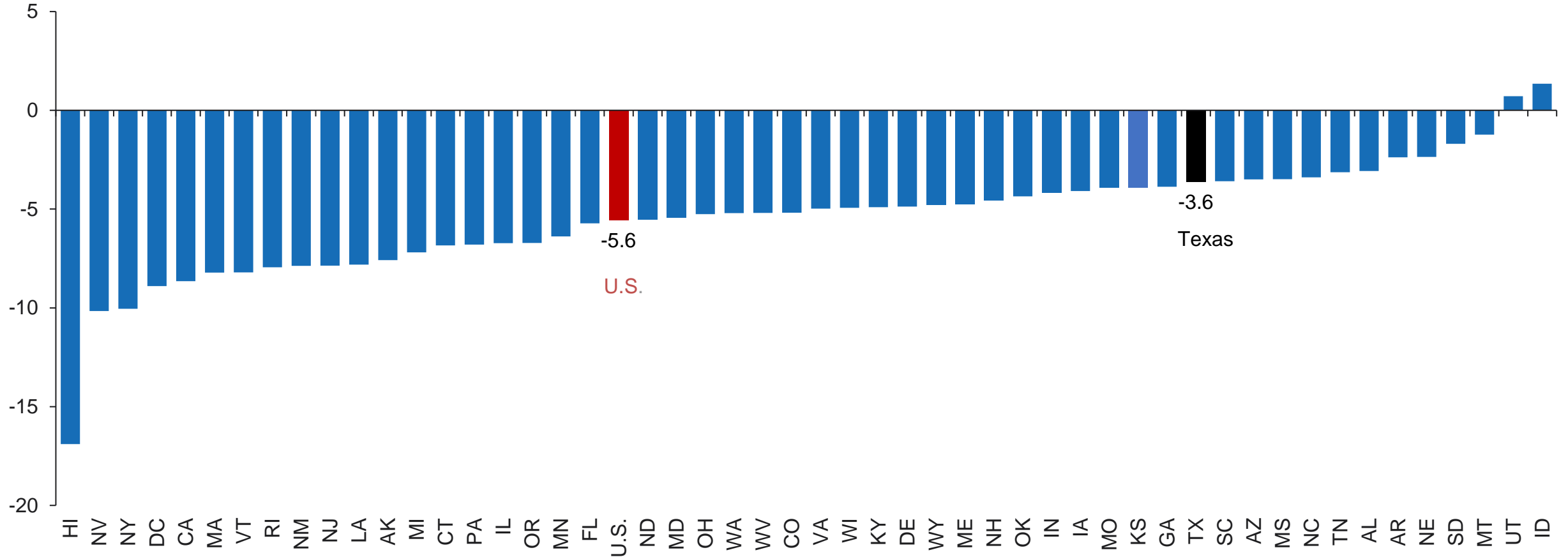


NOTES: Long-run trend growth is 1.1 percent for the U.S. and 2.1 percent for Texas.

SOURCES: Bureau of Labor Statistics, Texas Workforce Commission; FRB Dallas.

Texas' overall job loss in pandemic is less than nation and less than other large states

Job growth (percent), March 2021/Feb 2020, SA



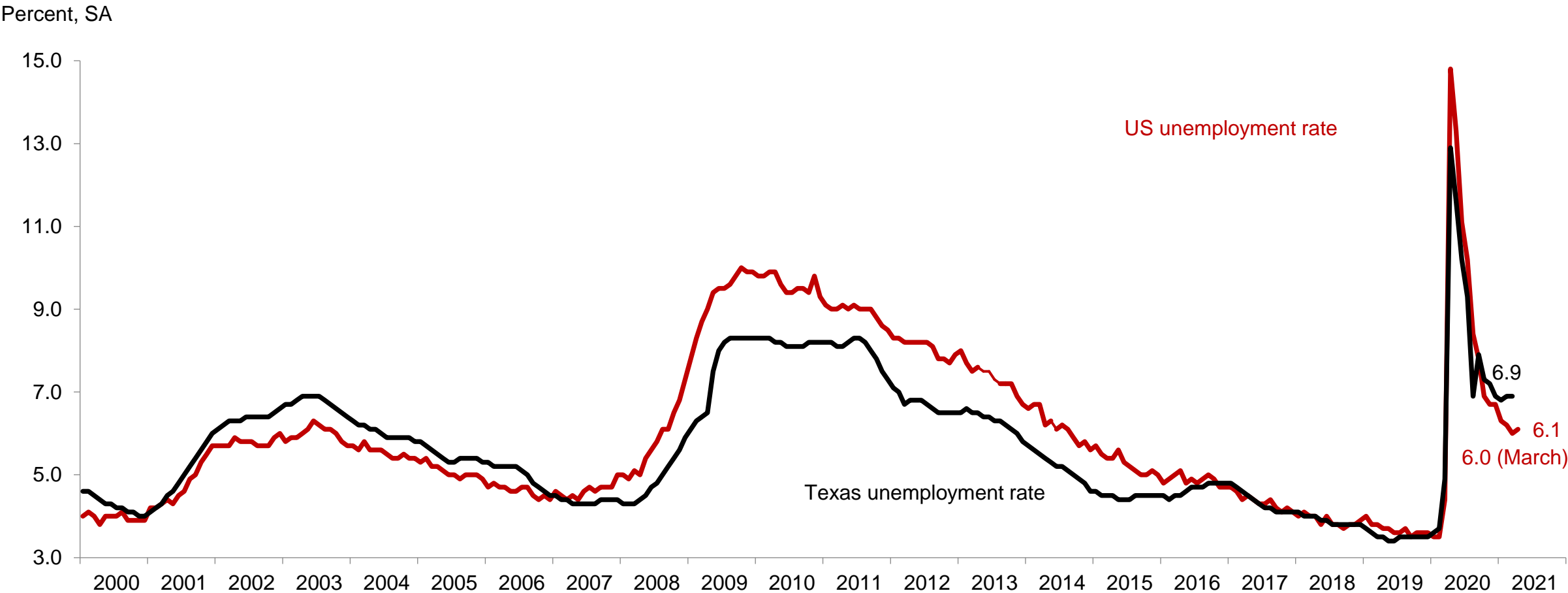
SOURCES: Bureau of Labor Statistics.



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Texas Unemployment Rate Close to Nations

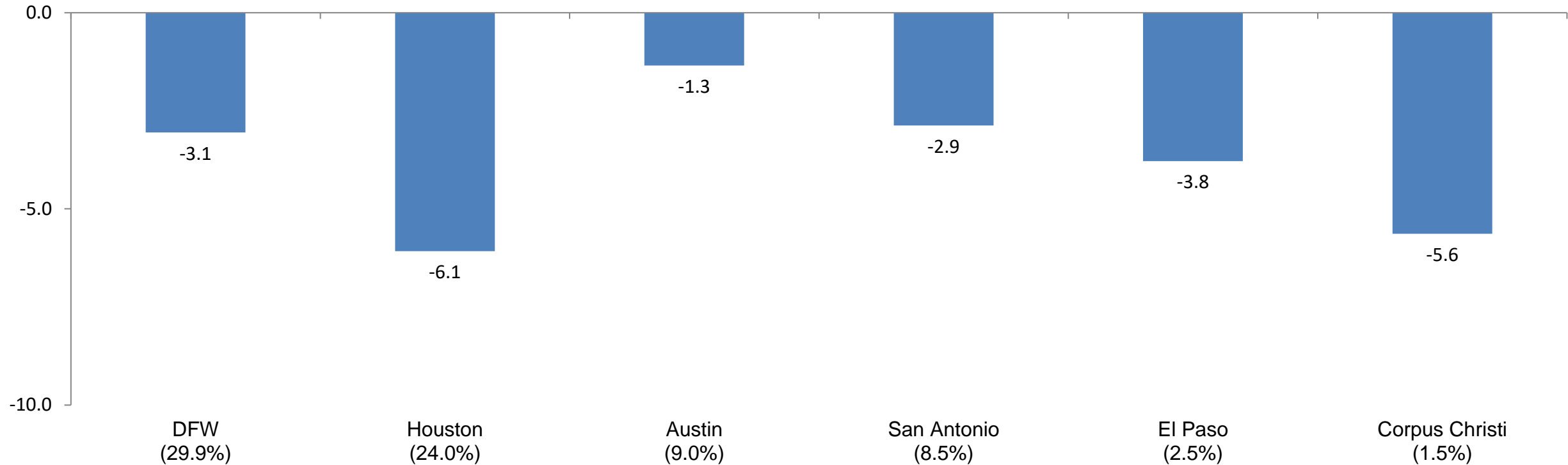


NOTES: Texas data through March 2021, U.S. data through April 2021.
SOURCE: Bureau of Labor Statistics.

Energy Metros Including Houston Hardest Hit in Pandemic

Employment Loss by Major Metro (Mar 2021/Feb 2020)

Percent change, SA



NOTES: Data refer March 2021/February 2020 non-annualized job growth. Numbers in parentheses refer to share of state employment in March 2021.

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

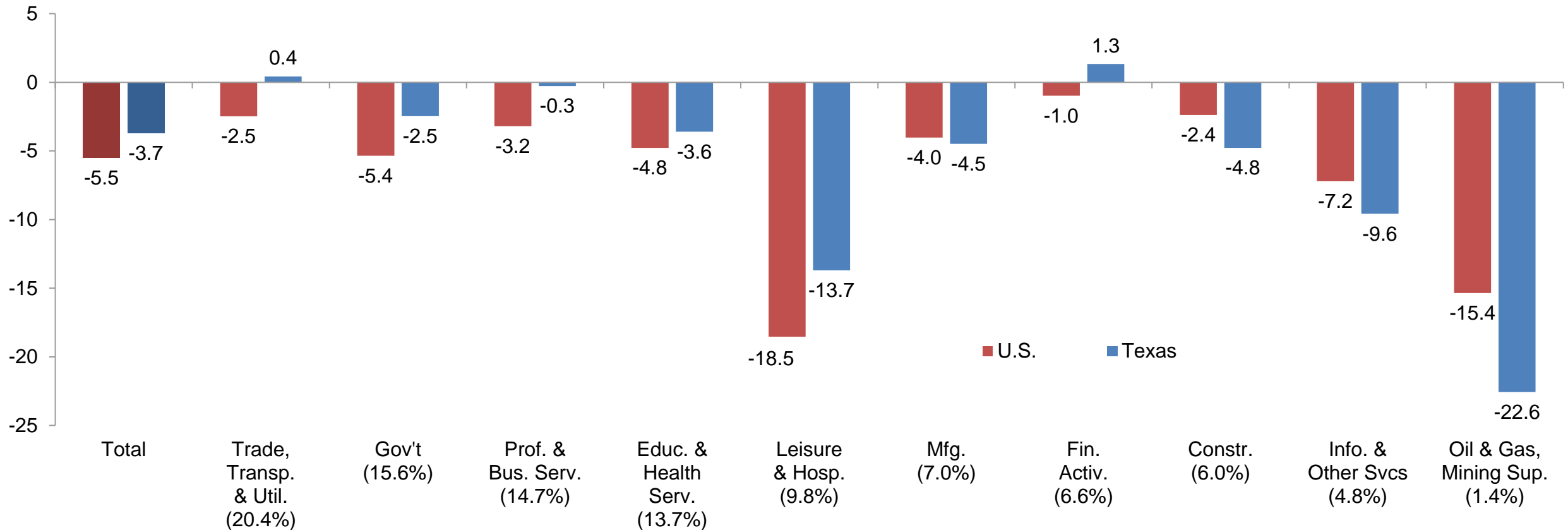


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In pandemic, Texas has lost a smaller share of jobs than nation with oil & gas, leisure & hospitality hardest hit

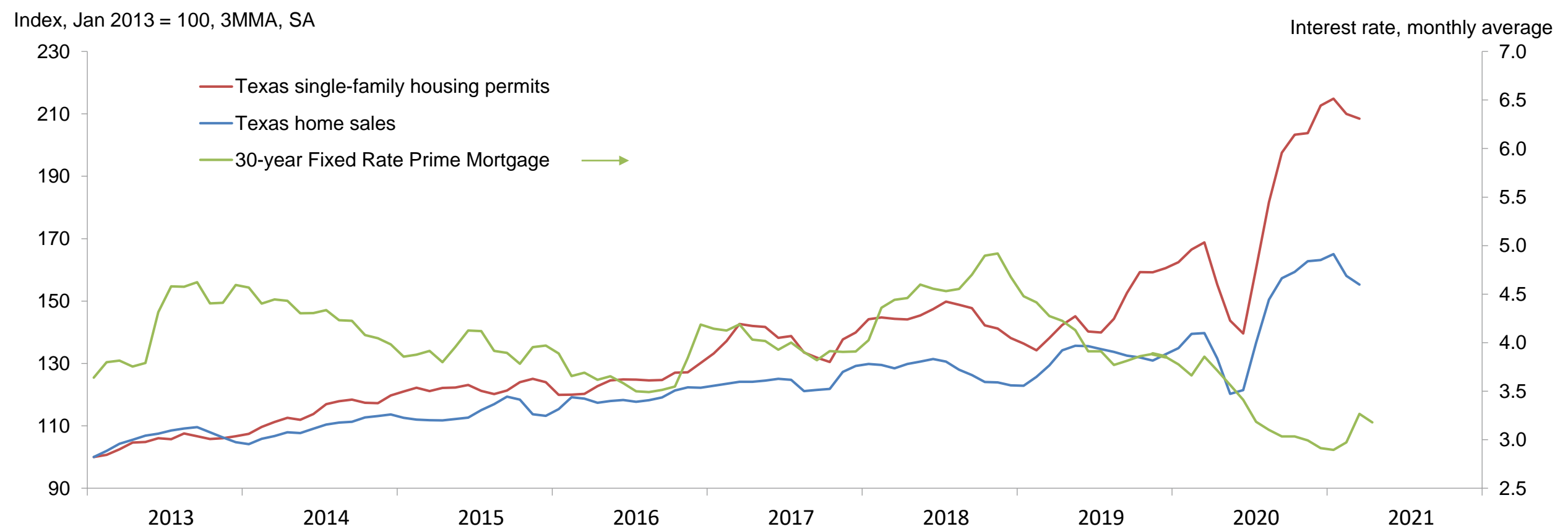
Job growth Mar 2021/Feb 2020 (percent)



NOTE: Data show March 2021/Feb. 2020 non-annualized job growth. Numbers in parenthesis indicate share of total state employment for March. Texas employment early benchmarked through third quarter 2020.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.

Single-family housing market surges in pandemic, helped by falling mortgage rates, desire for low-density living



NOTES: Mortgage data up to April 2021. Other data through March 2021.

SOURCES: MLS; A&M Real Estate Center; Freddie Mac Primary Mortgage Market Survey; U.S. Census.



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Energy sector declined sharply with fall in oil prices: rig count now increasing from very low levels – oil prices above break-even



NOTES: Data are weekly. Data through the week of May 7, 2021.
SOURCES: Oil and Gas Journal; Baker Hughes.



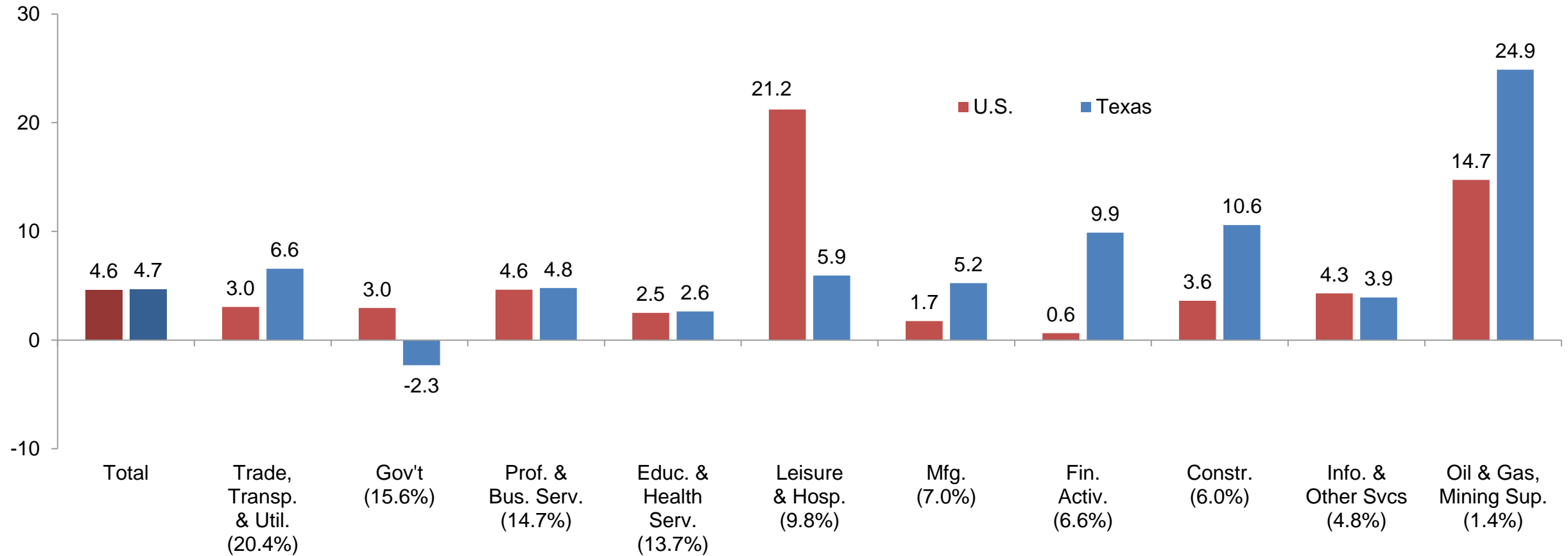
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Recent Economic Activity

Job growth strong so far this year

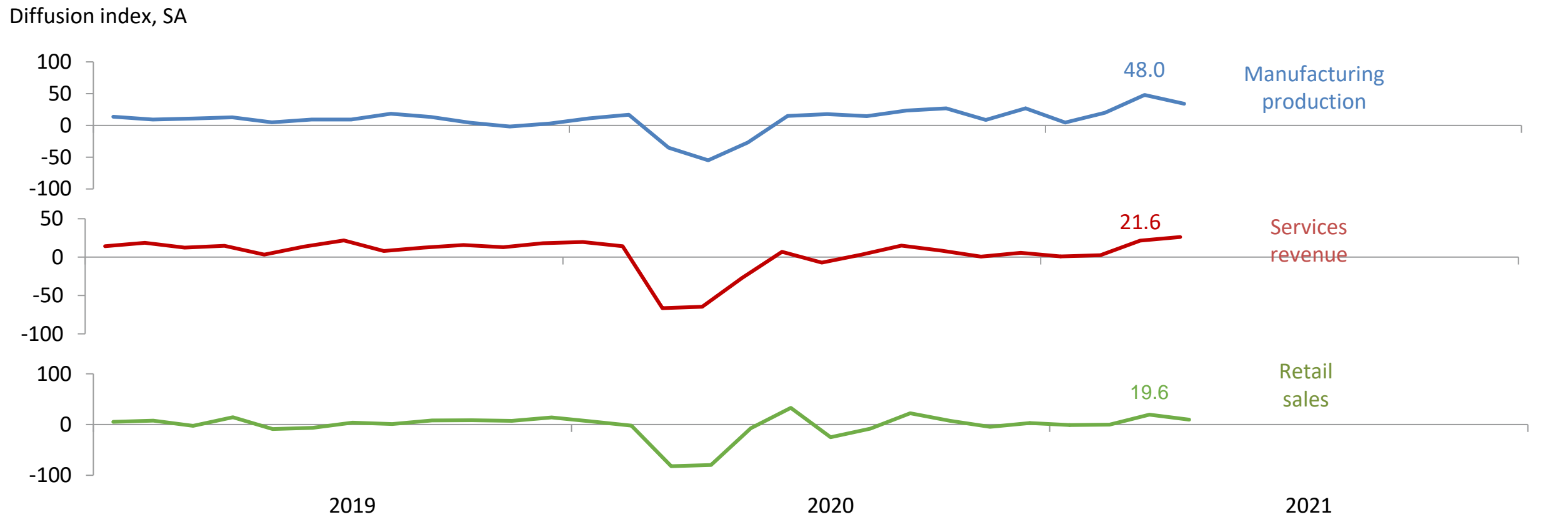
Job growth (percent)



NOTE: Data show March 2021/December 2020 annualized growth. Numbers in parenthesis indicate share of total state employment for March.

SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.

Output accelerated in March and April according to Texas Businesses

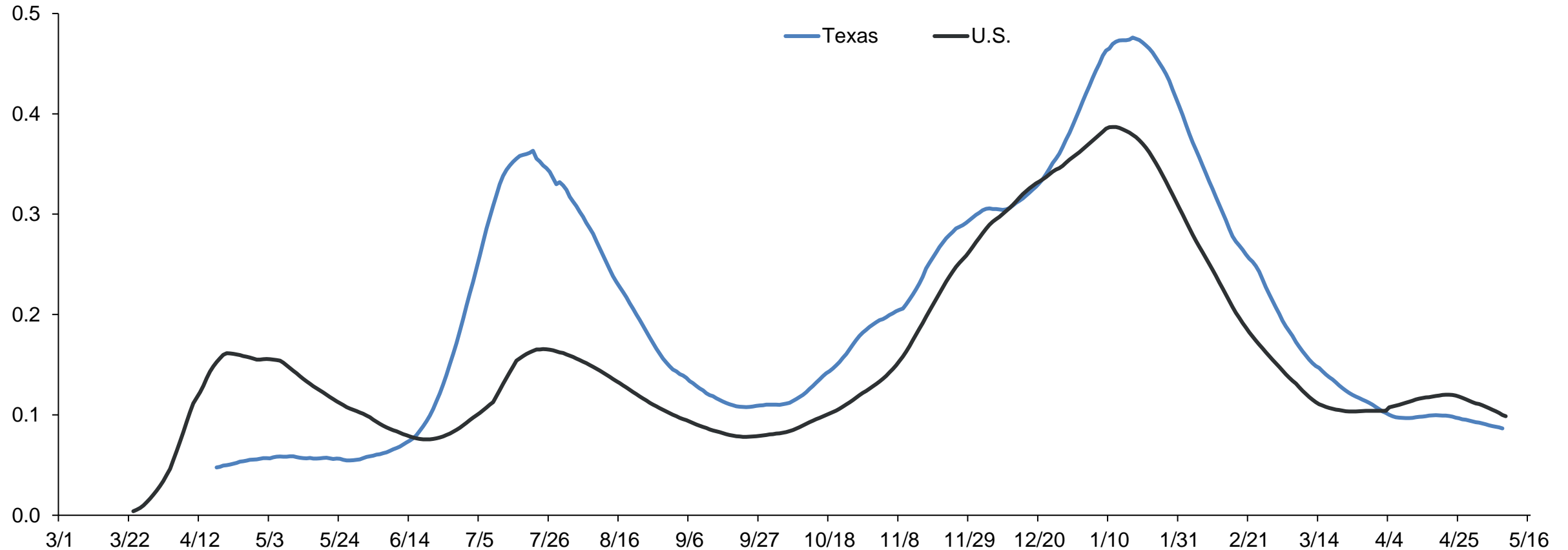


NOTE: Data through April 2021.
SOURCE: Dallas Fed Texas Business Outlook Surveys.

Texas, U.S. COVID hospitalizations falling since mid-January

Currently hospitalized, 7dma

Currently hospitalized per thousand, 7dma



NOTE: U.S. data up May 9, 2021. Texas data up to May 8, 2021. Data normalized using 2020 Census population estimate.

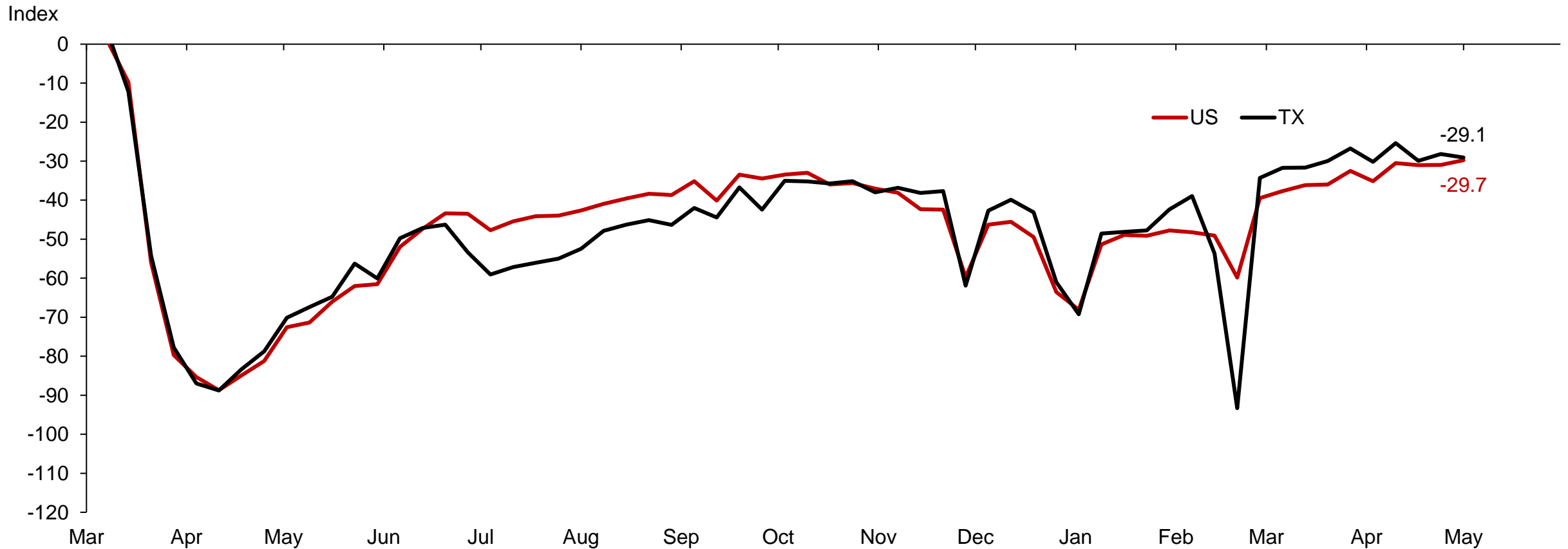
SOURCES: Texas Department State Health Services, CDC, ourworldindata.com.



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Google Mobility Index Improving since February Winter



NOTE: Weekly index up to May 1, 2021.

SOURCE: Federal Reserve Bank of Dallas.

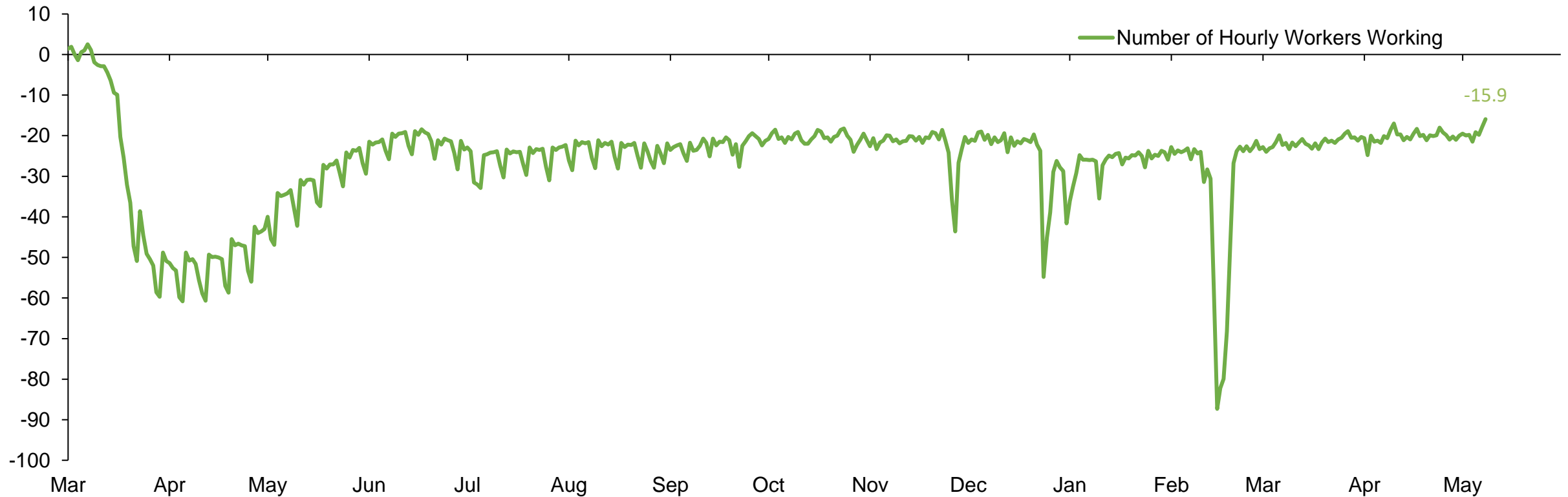


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Texas Homebase staffing levels show gradual increase since February – uptick in past week

% change from Jan 7, 2020

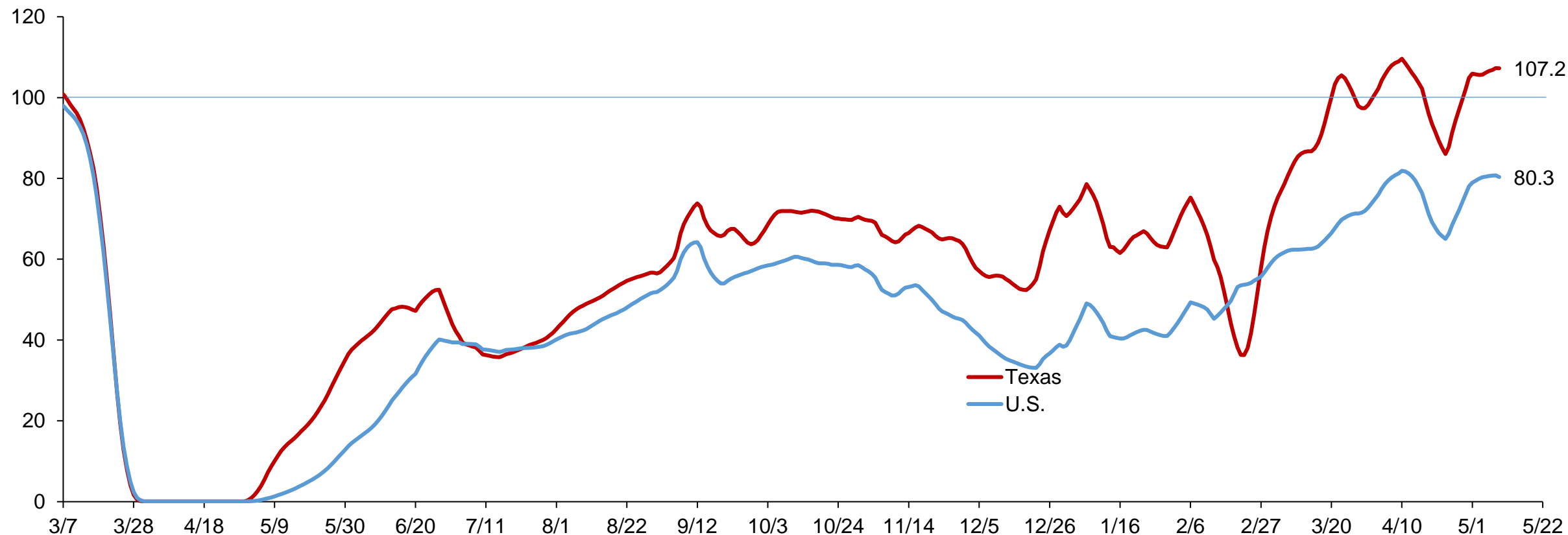


NOTE: Data up to May 8, 2021.

SOURCE: Homebase.

Texas restaurant reservations surpass pre-pandemic level

% of 2019, 7dma



NOTES: Dining out data up to May 8, 2021.

SOURCES: Homebase, OpenTable.



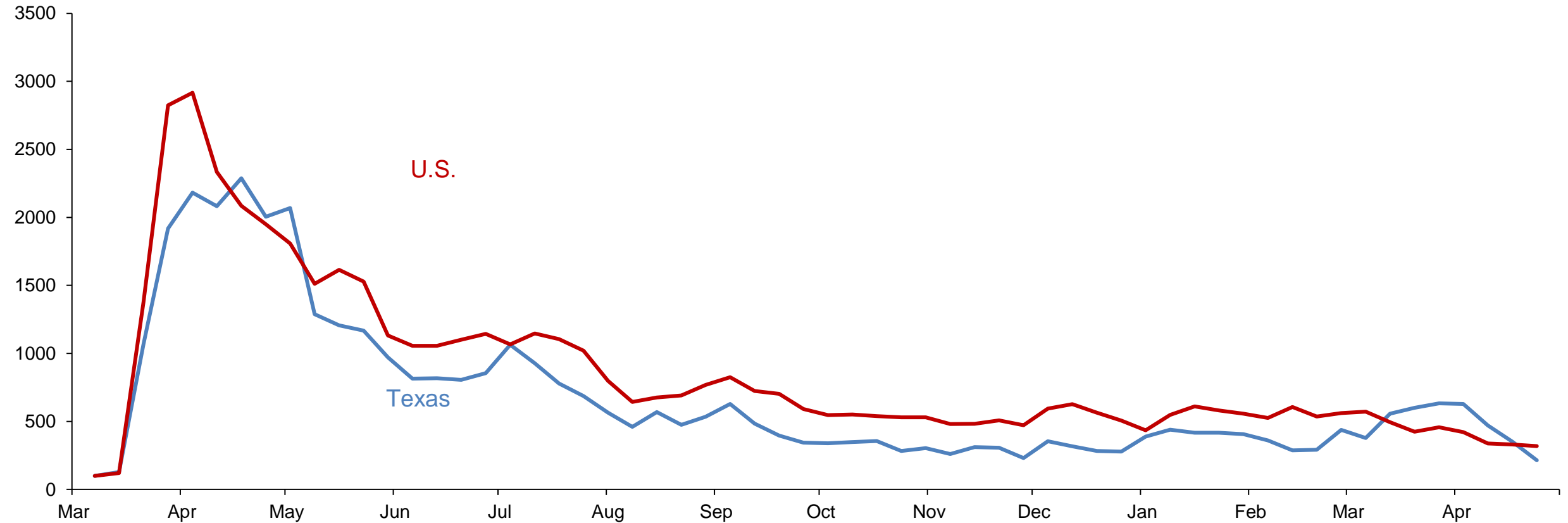
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Texas initial jobless claims declining in recent weeks

Initial claims, state UI and federal PUA

Index, first week of March 2020 = 100



NOTE: Data through the week ending April 24.

SOURCE: Department of Labor.

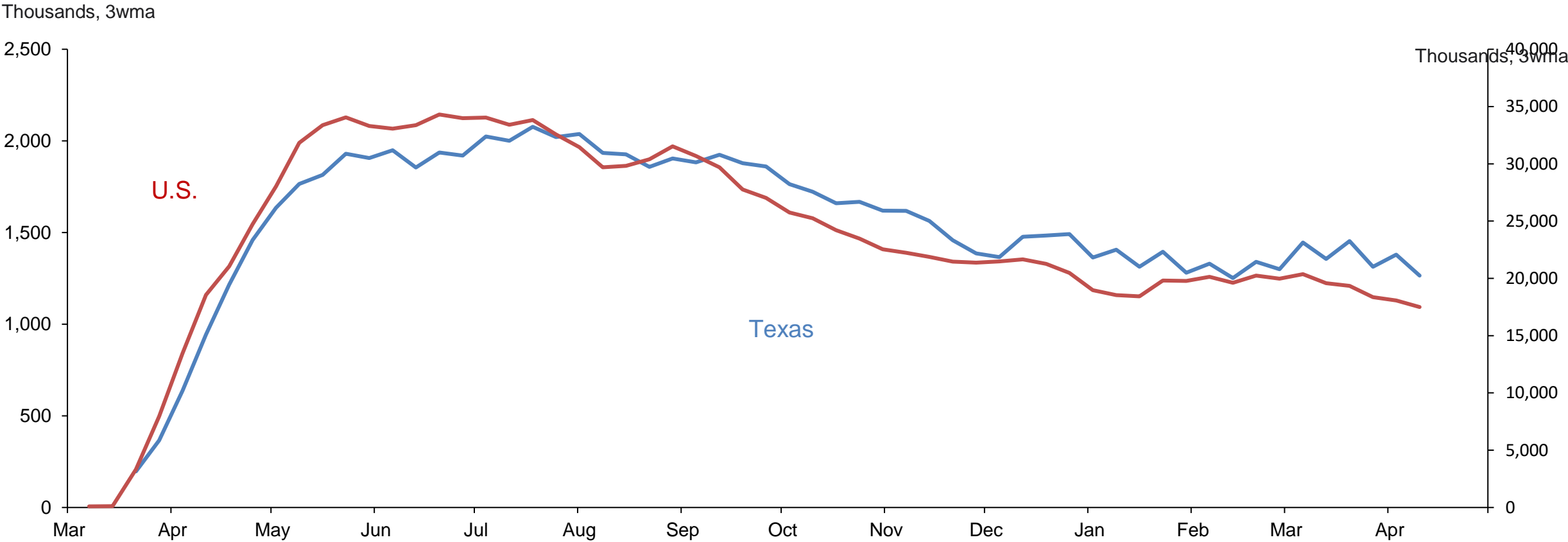


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Number of Texans receiving unemployment benefits still very high

Total claims, state UI and federal PUA, PEUC and EB

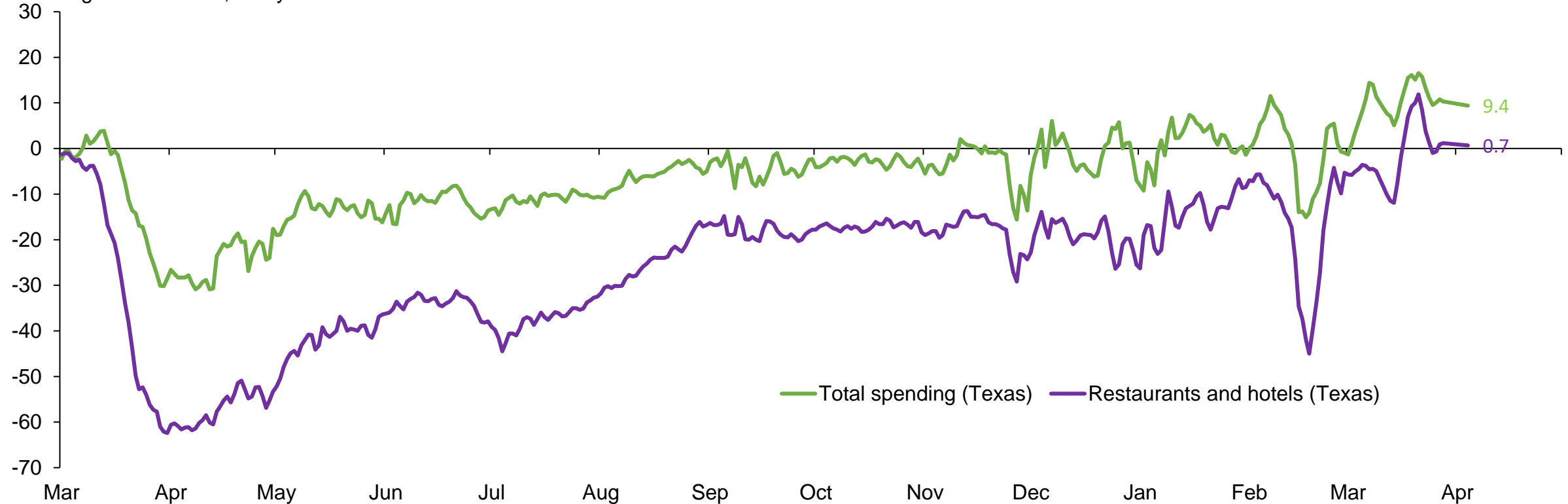


NOTES: Unemployment claims data through the week ending April 10.
SOURCES: Department of Labor.

Consumer spending in Texas climbs back after storm, surpasses pre-pandemic high

Debit/Credit Card Spending in Texas

% change from Jan '20, 7 day MA



NOTE: Texas data up to April 4, 2021.

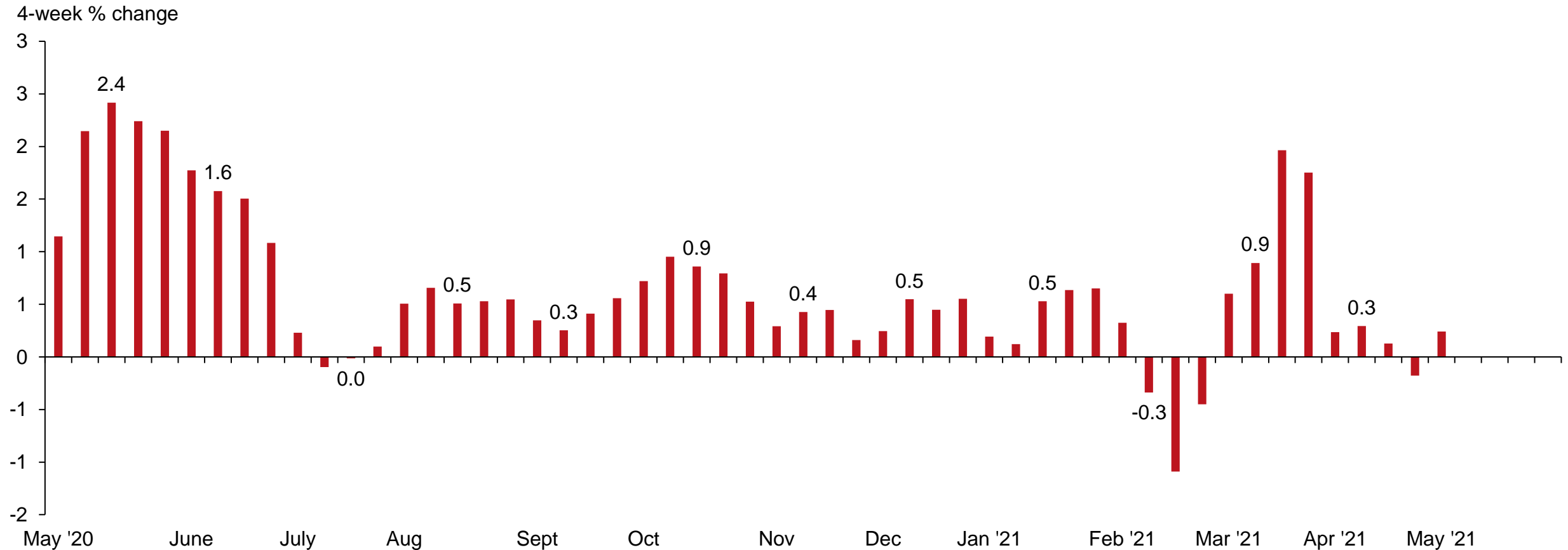
SOURCE: Affinity Solutions



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The Texas Weekly Employment Estimate suggests jobs gains slowed in April but remained strong



SOURCE: Federal Reserve Bank of Dallas.



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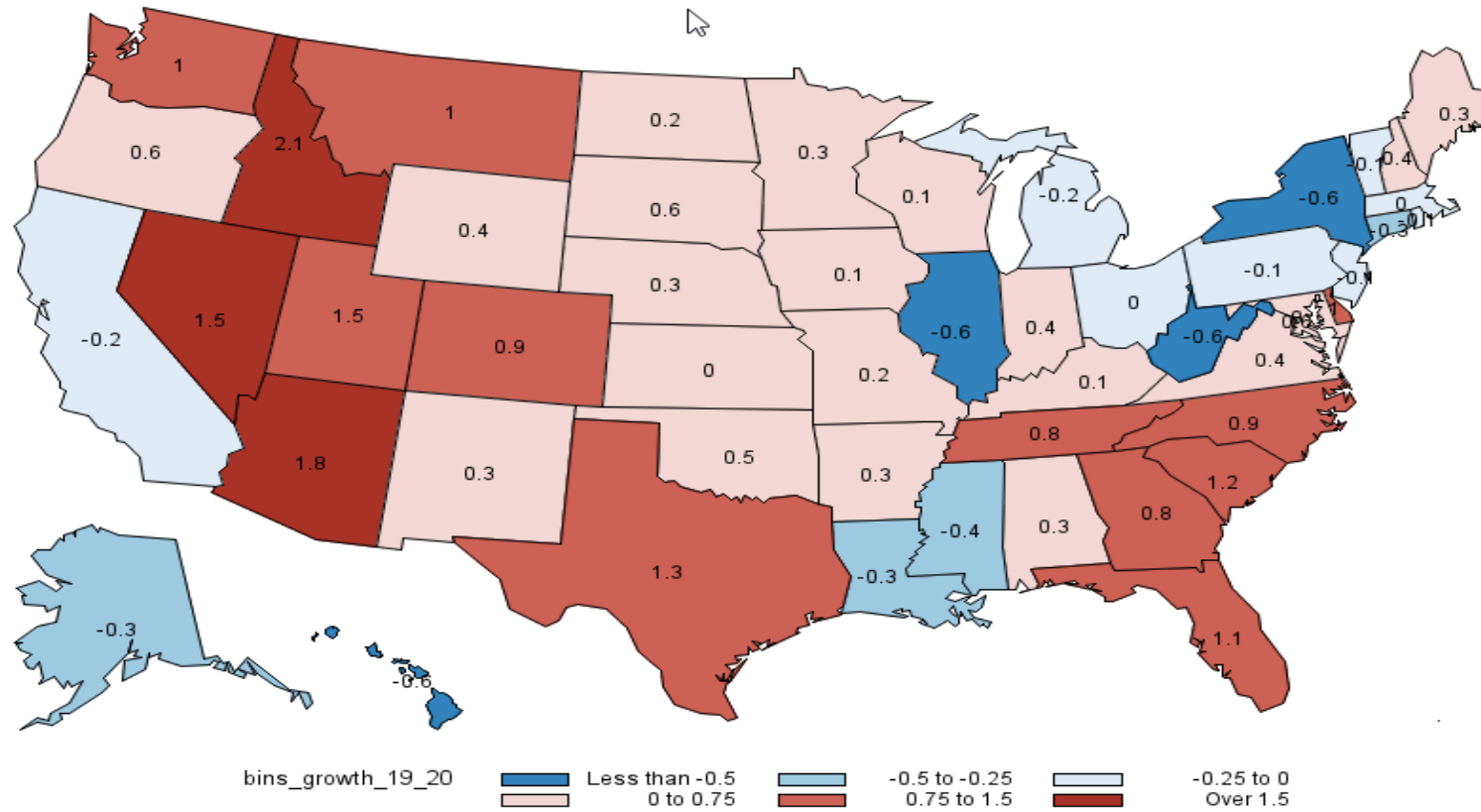
Outlook for 2021



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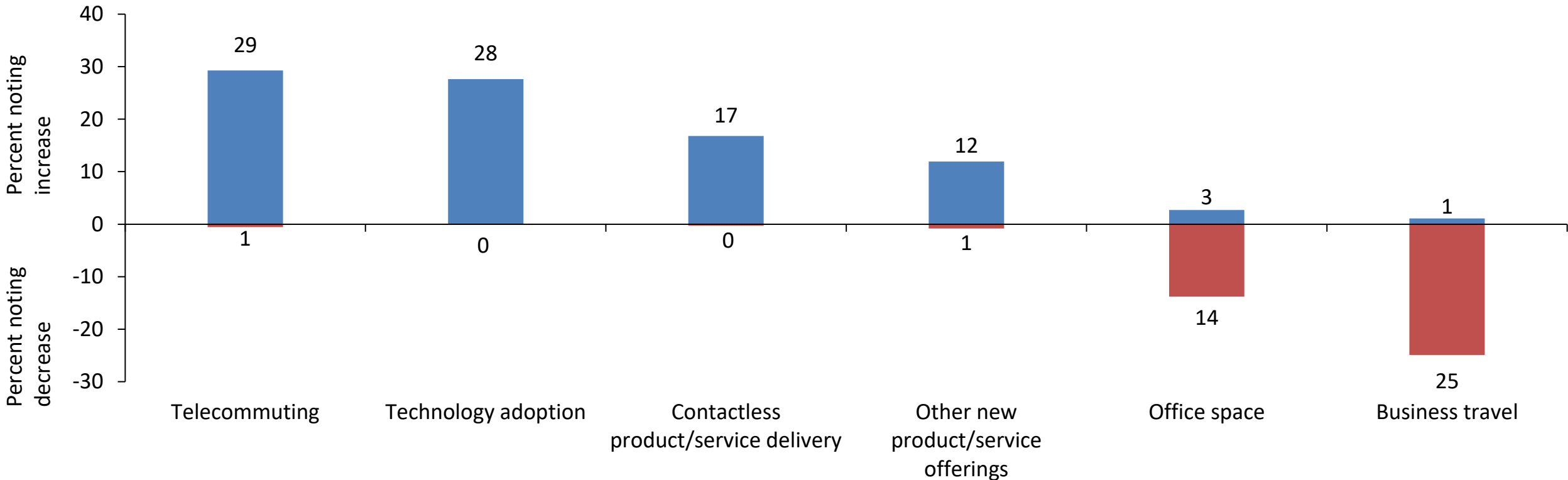
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Of 10 largest states, population growth strongest in Texas last year



Some industries may lag in jobs recovery due to structural changes in the economy

Texas Businesses Report on Expected Permanent Structural Changes Due to COVID-19

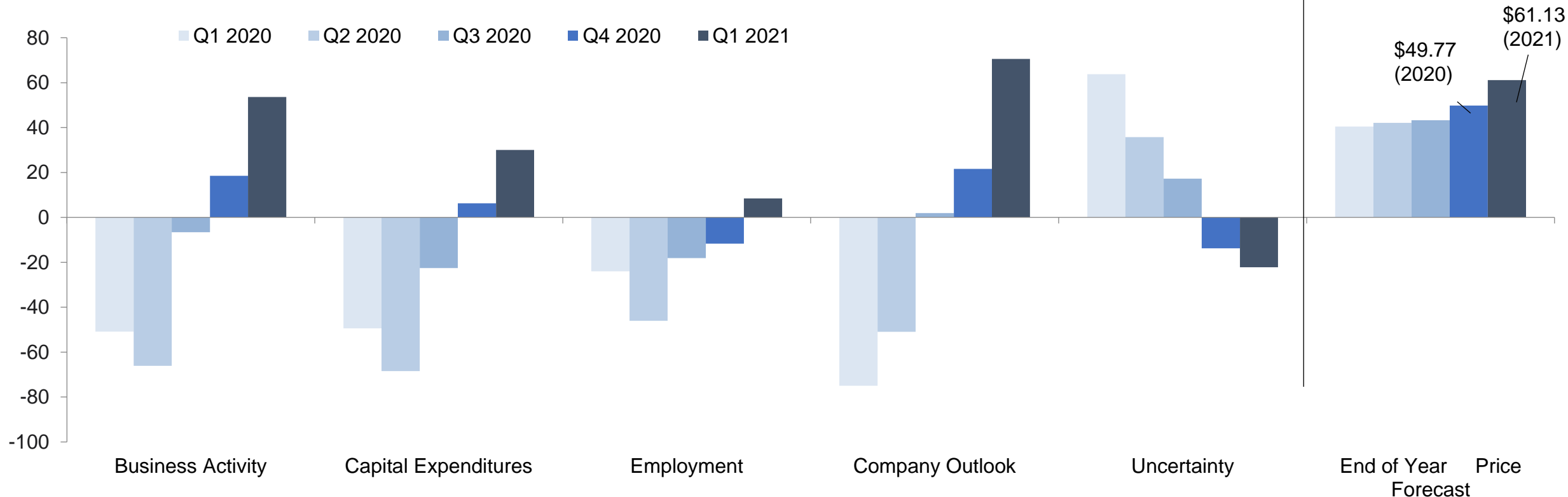


NOTES: 369 respondents. Firms were asked, “Are there structural changes your firm has made or plans to make as a result of the COVID-19 pandemic that you expect to be permanent? If yes, please specify any changes, and whether it is an increase or decrease.”

SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

Energy survey shows big improvement in Q1 2021

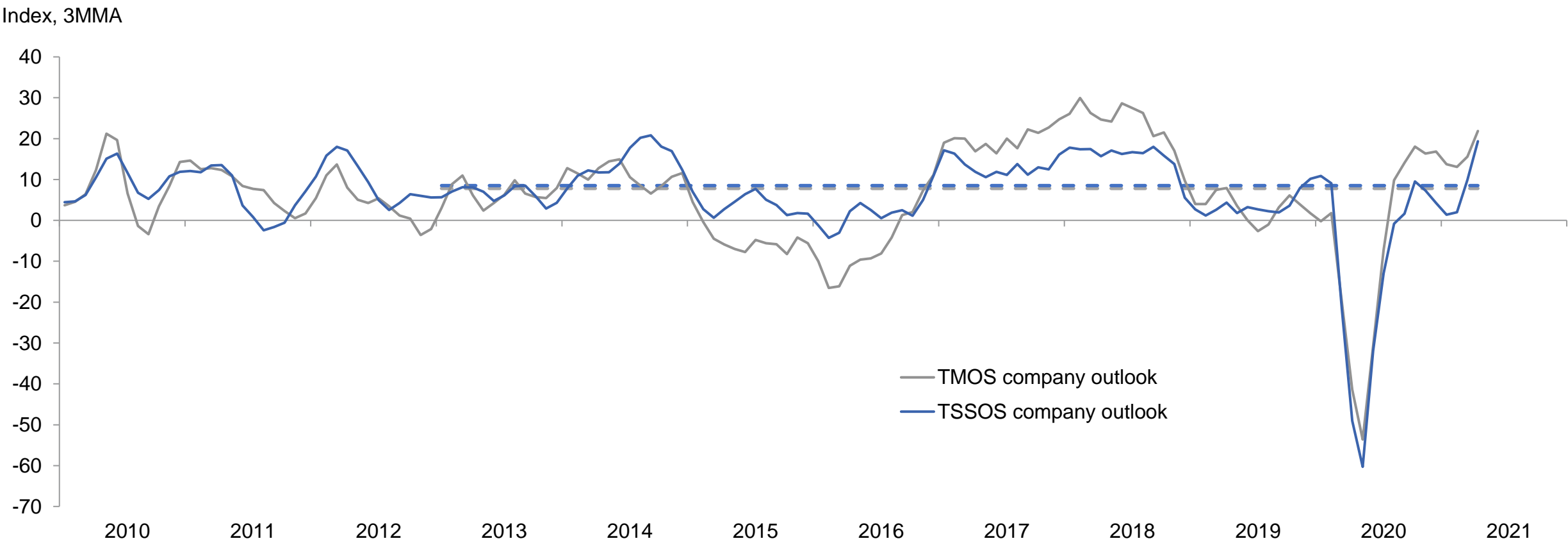
Diffusion index



NOTE: Price forecast is average year-end forecast of WTI oil price among respondents.

SOURCE: Federal Reserve Bank of Dallas Energy Survey.

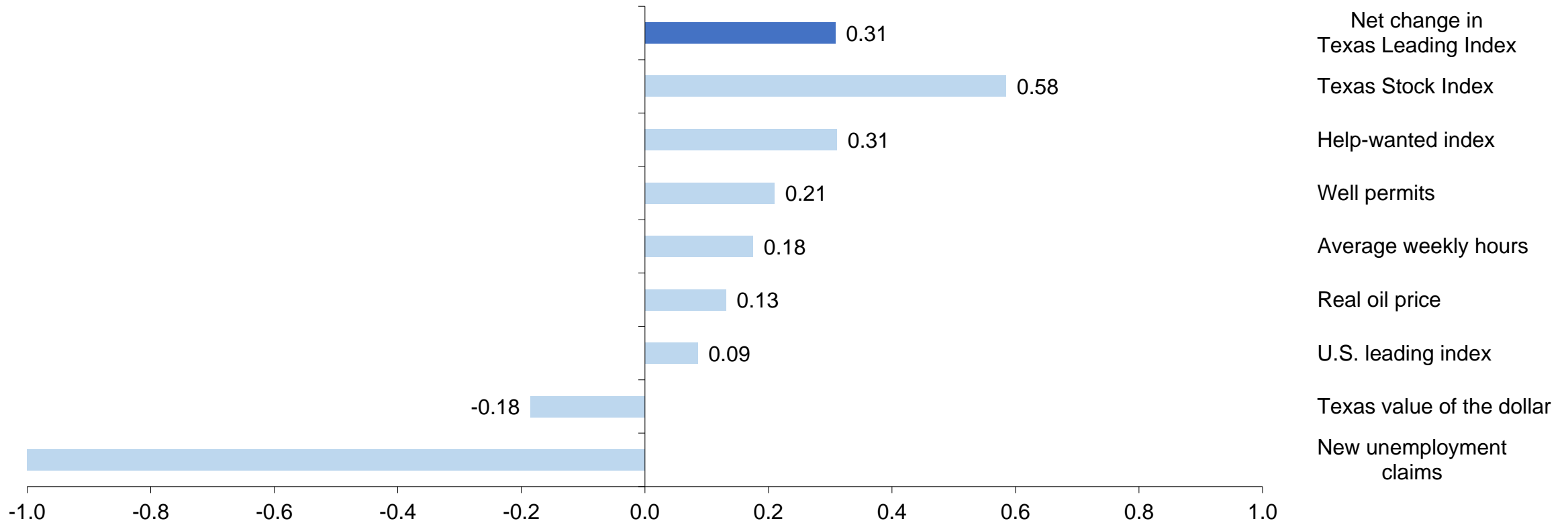
Short-term outlook improving in manufacturing and services



NOTES: Data through April 2021. Dashed lines are post 2008-2009 recession averages.
SOURCES: Federal Reserve Bank of Dallas Outlook Surveys: Manufacturing (TMOS); Service Sector (TSSOS).

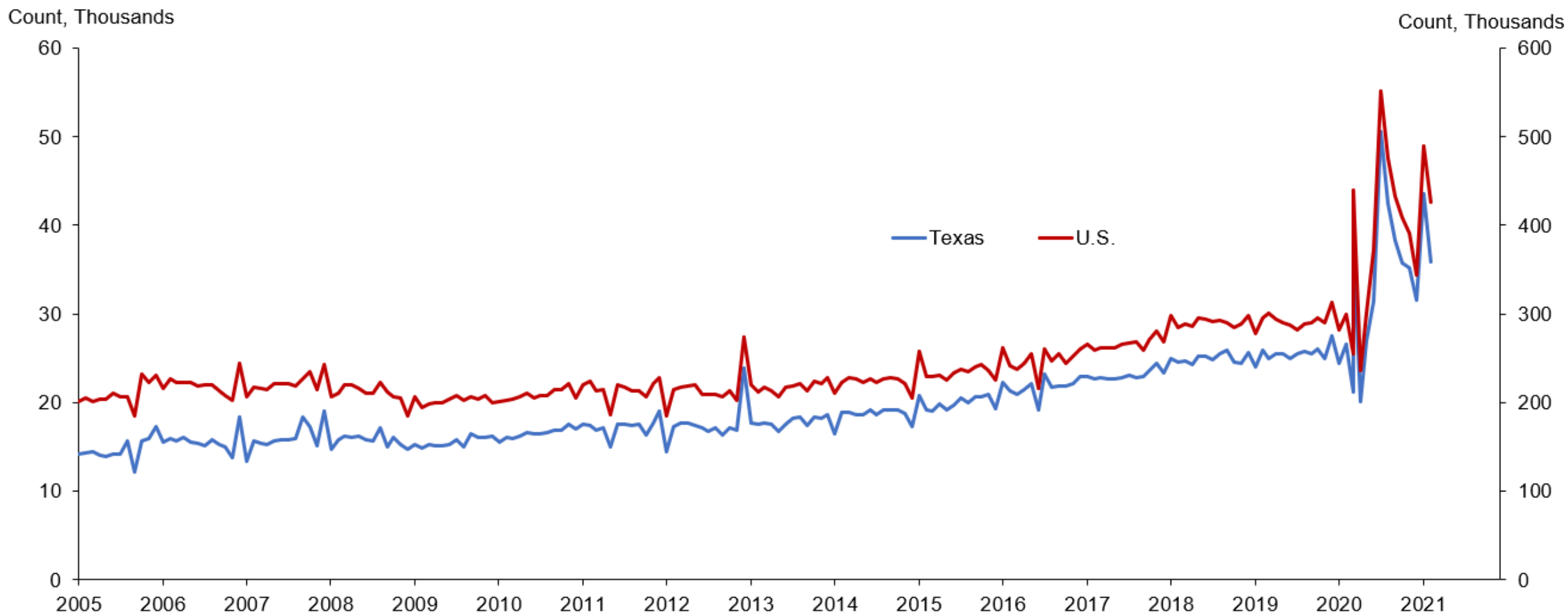
Texas Leading Index components mostly positive in March- index increased for 11th consecutive month

Net contributions to change in Texas Leading Index



NOTE: Percent change from February to March 2021, seasonally adjusted. Texas value of the dollar and U.S. leading index for February are preliminary estimates from the Dallas Fed.
SOURCE: Federal Reserve Bank of Dallas.

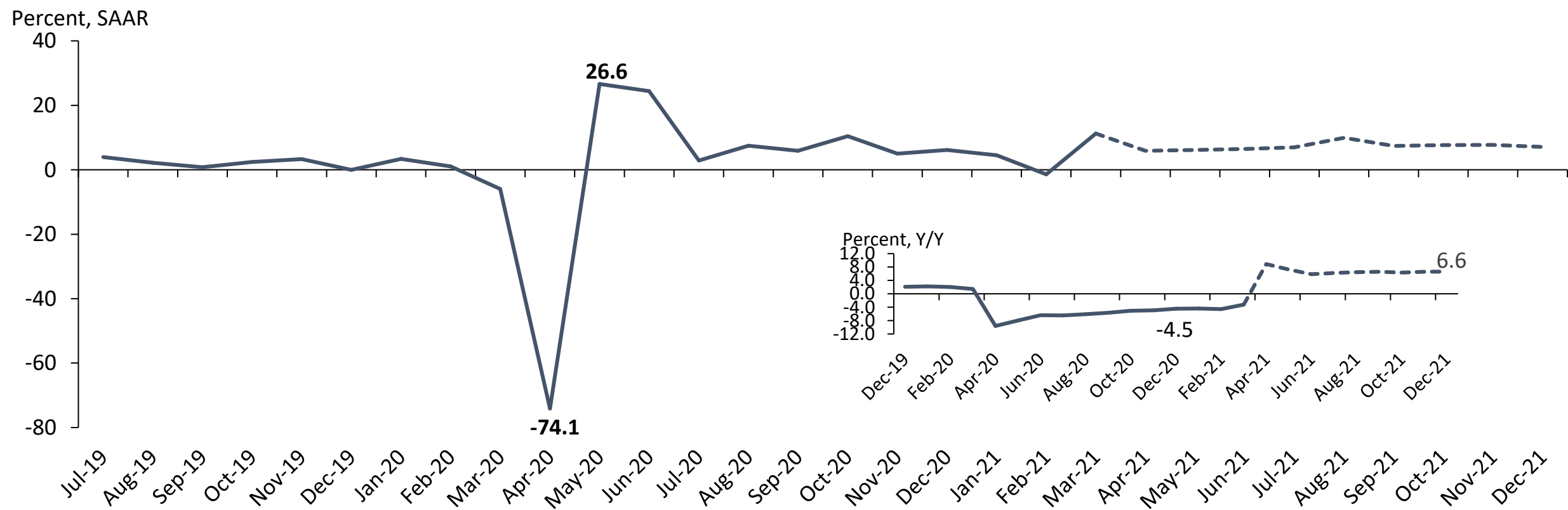
Green Shoots? Texas Business Applications Increase to Historic Levels



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Dallas Fed 2021 Texas Jobs Forecast Projects Strong Growth of 6.6 percent for 2021



NOTE: Forecast scenario estimates Texas payroll employment for 2021 are based on monthly hospitalization projections for COVID-19 in Texas, direct COVID-19 impacts in March, April, and May 2020, US GDP growth estimates for 2021, and WTI prices following the futures contract curve as of 4/16.

Summary

- Pandemic is unprecedented and has many aspects of a natural disaster instead of a typical recession
- Texas outperformed the nation last year despite a large decline in the energy sector
- Strong US growth this year and movement of people and firms out of high-density, high cost of living areas should continue to benefit Texas
- Pandemic will likely cause significant amount of long-term structural change that may delay return of some industries to pre-COVID levels
- Dallas Fed employment forecast for 2021 is 6.6 percent growth (Dec/Dec), with all lost jobs recovered by October/November



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