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Bank of Dallas

Texas Economic Update:

Employment Growth Slows, Inflation Still High

11/16/2023

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Texas Municipal League Economic Development Conference

DISCLAIMER: The views expressed are the authors' and do not necessarily reflect the views of the Federal Reserve Bank of Dallas or Federal Reserve System. NOTE: I thank my colleagues Aparna Jayashankar and Diego Morales-Burnett for their help and support in preparing this presentation.

Overview

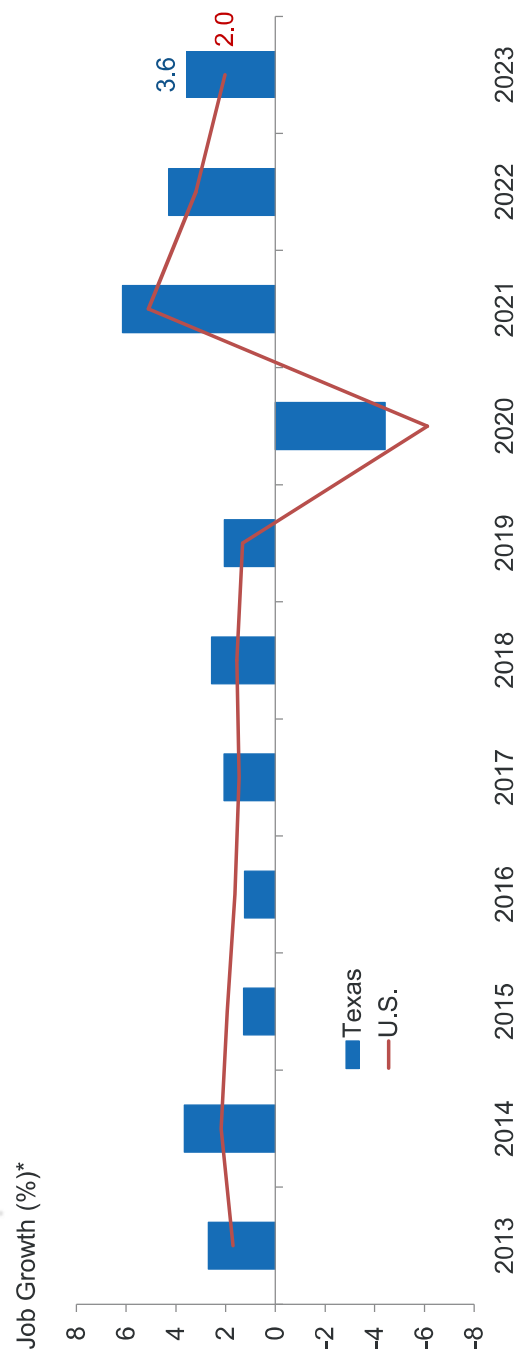
- Economy has been resilient, and growth remains solid.
- U.S. and Texas job growth is slowing.
- Price and wage pressures have eased in recent months, although they remain elevated.
- Outlook suggests U.S. and Texas will slow in near term.
- Risks to the outlook include...
 - Geopolitical risk
 - Global slowing
 - Elevated inflation

Recent Economic Performance

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Texas annual job growth continues ahead of the nation

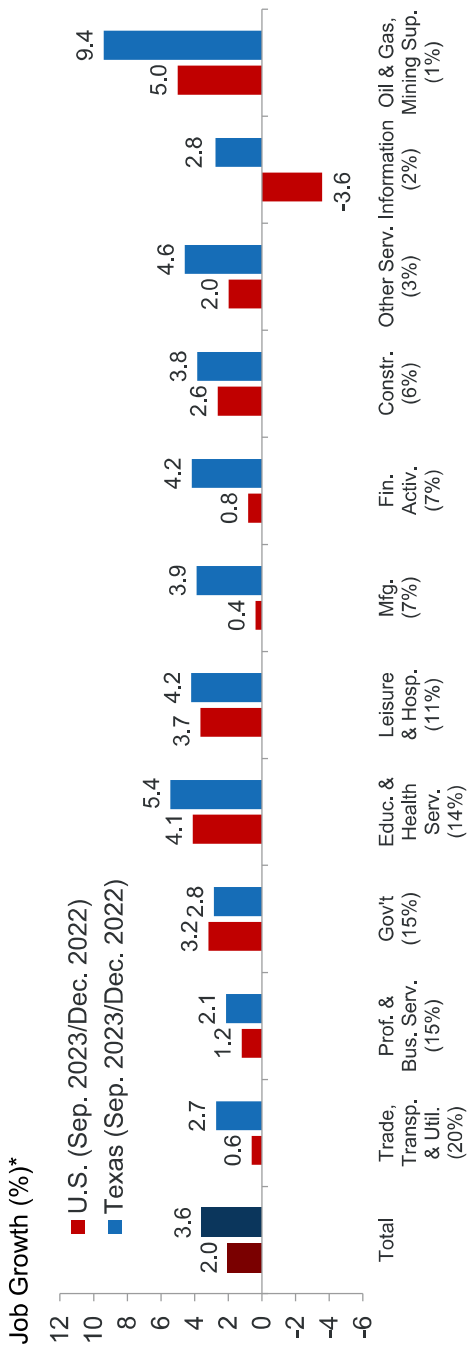


*Seasonally adjusted, annualized rate.
NOTES: Last data points are annualized job growth for Sep. 2023/Dec. 2022. Yearly growth is Dec/Dec.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.

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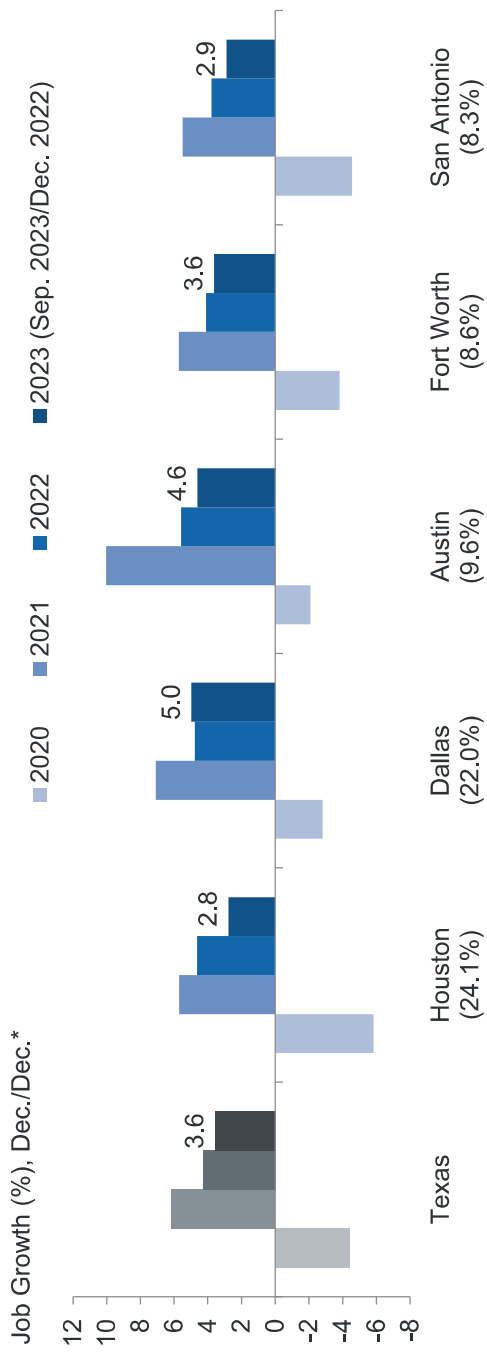
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Texas year-to-date job growth in the private sector ahead of U.S.



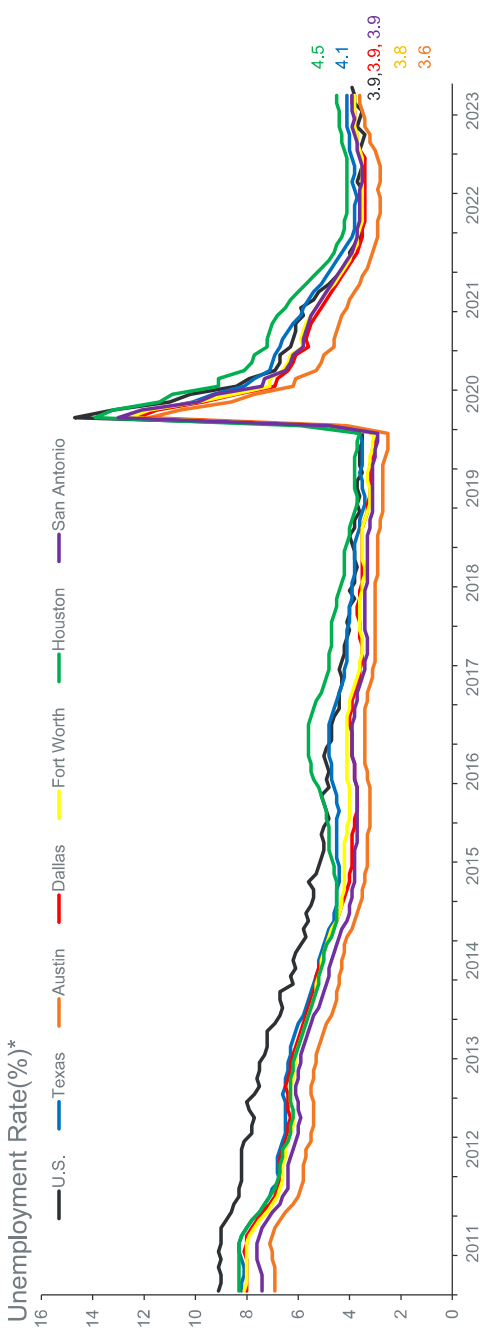
*Seasonally adjusted, annualized rate.
 NOTE: Numbers in parentheses indicate share of total state employment for September 2023.
 SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.

Dallas still leading year-to-date job growth in 2023



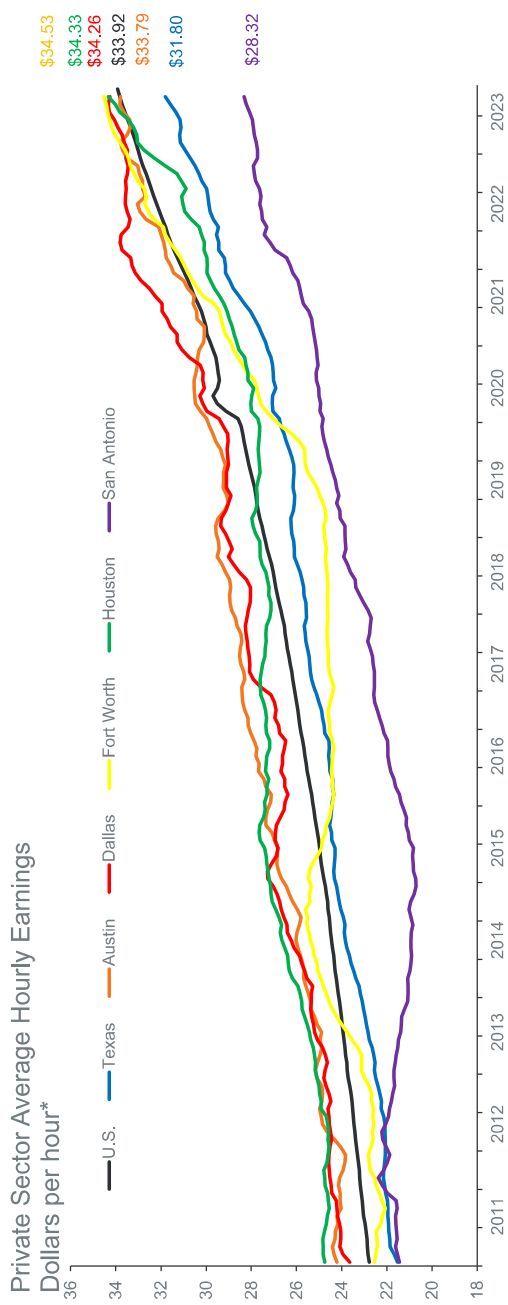
*Seasonally adjusted, annualized rate.
 NOTE: Numbers in parentheses indicate share of state employment for September 2023.
 SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by Federal Reserve Bank of Dallas.

Texas unemployment rate holds at 4.1, while in metros rises



*Seasonally adjusted.
 NOTE: Data for the U.S. are through October 2023 and for Texas and MSAs through September 2023.
 SOURCE: Bureau of Labor Statistics; Texas Workforce Commission; Federal Reserve Bank of Dallas.

U.S. wage growth is slowing, while Texas remains high



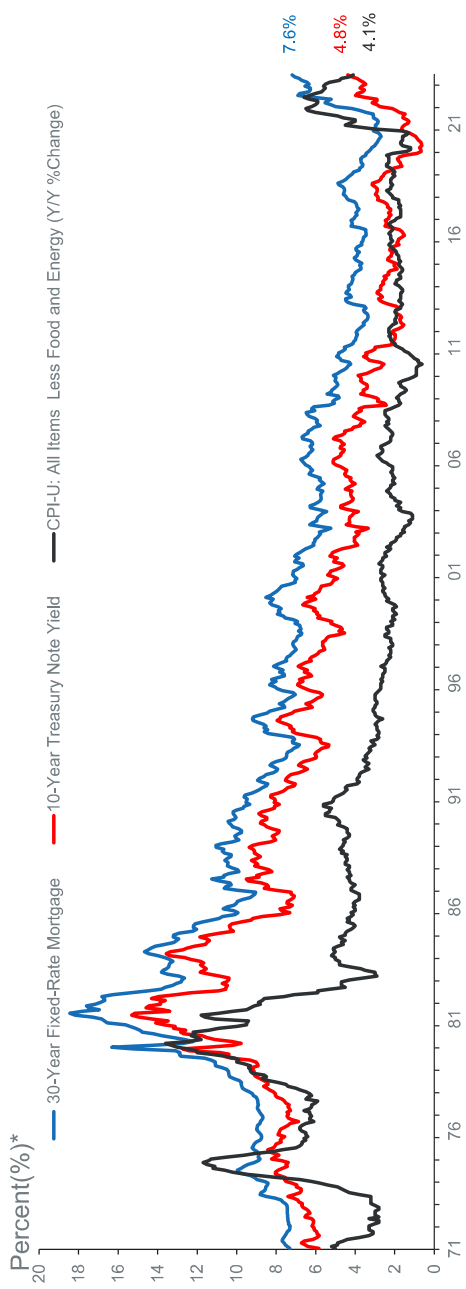
*Seasonally adjusted and three-month moving average.
 NOTE: Data for the U.S. are through October 2023 and for Texas and MSAs through September 2023.
 SOURCE: Bureau of Labor Statistics; Texas Workforce Commission; Federal Reserve Bank of Dallas.

Housing Market

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High mortgage rates hinder housing demand, especially for existing-homes



* Seasonally adjusted

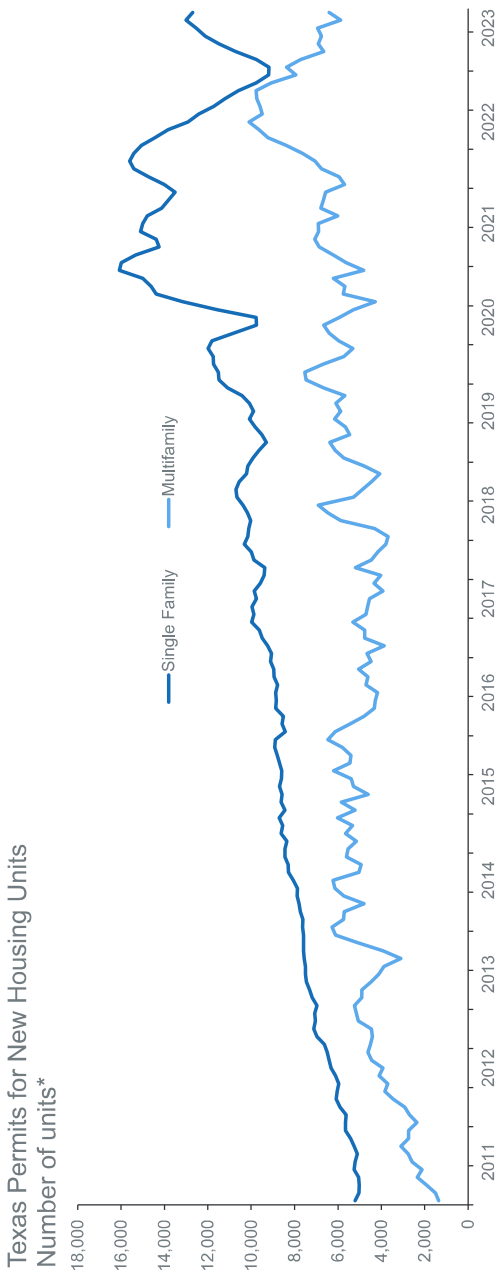
NOTES: CPI All Items Less Food and Energy 1982-84=100. Data for interest rates are through October 2023 and for CPI through September.

SOURCES: Bureau of Labor Statistics; Federal Home Loan Mortgage Corporation; Federal Reserve Board.

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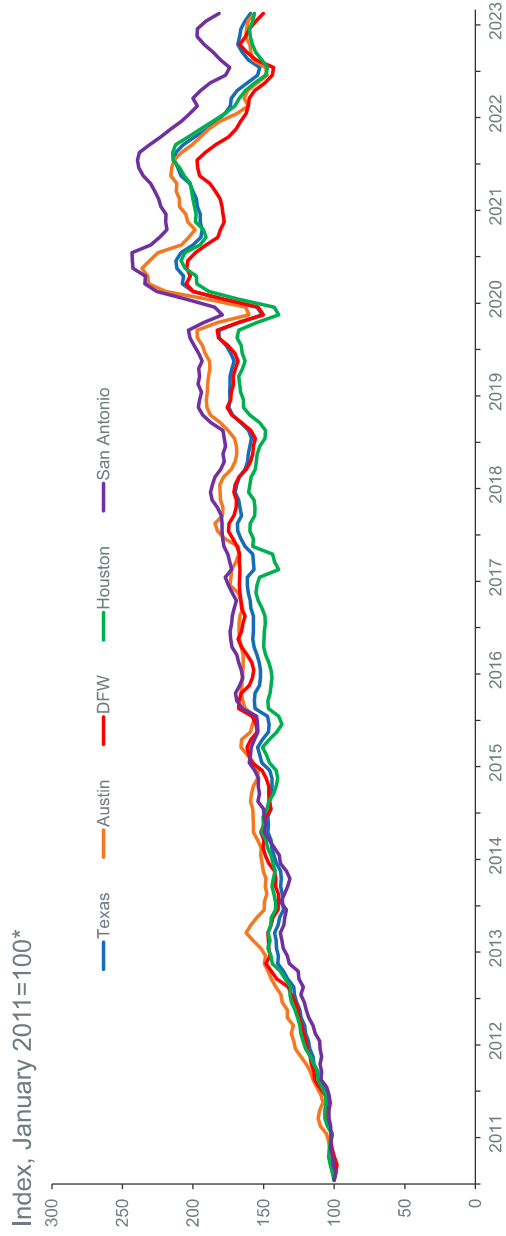
Residential housing permits stabilize



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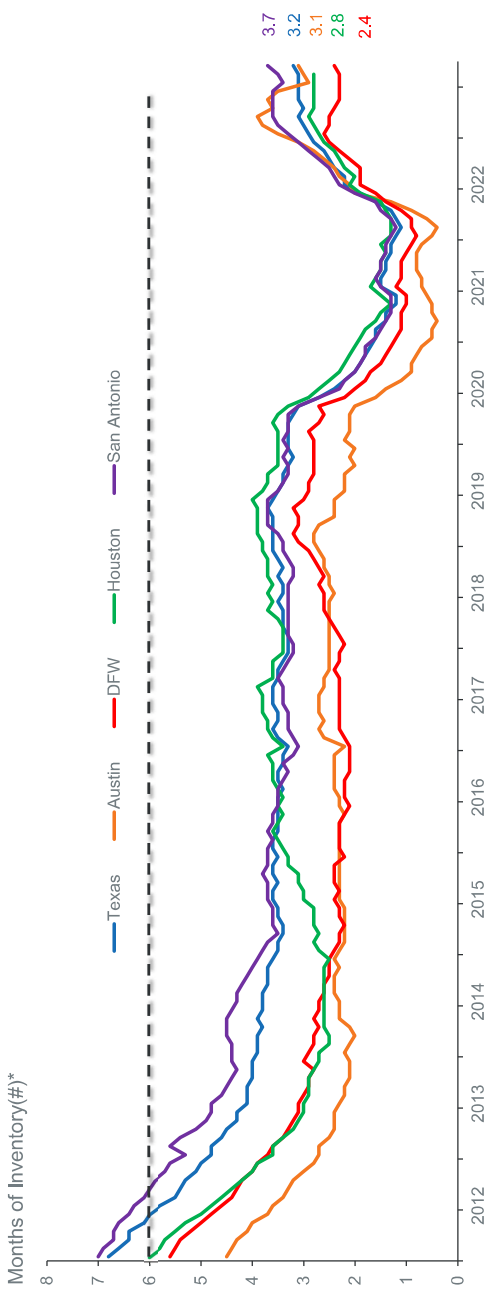
Existing-home sales decline



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Inventory for sale remains low

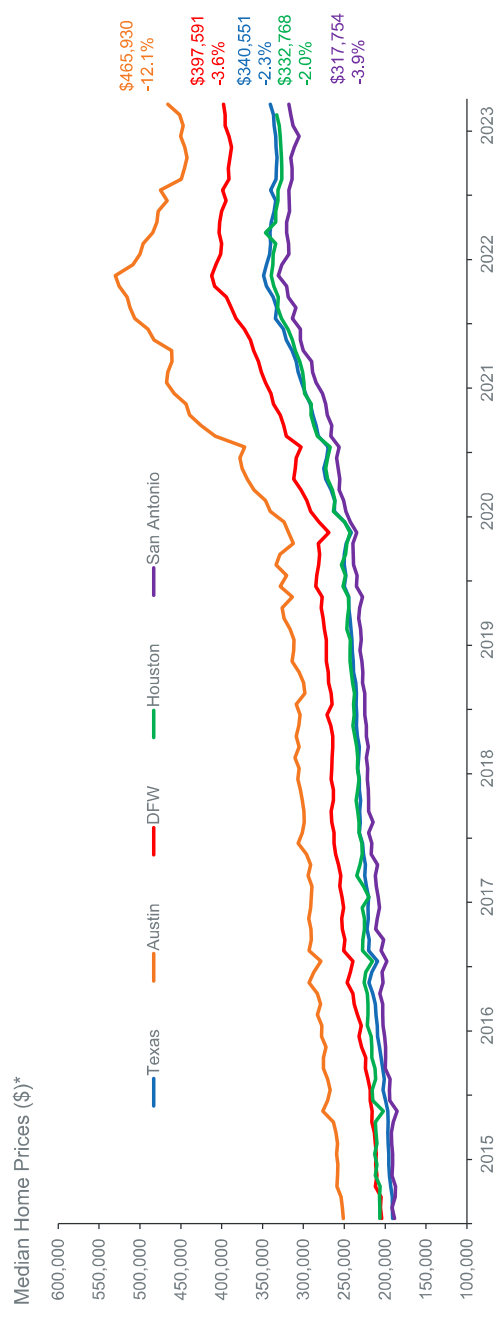


*Seasonally adjusted.

NOTES: Data are through September 2023, except Houston is through August.

SOURCE: Multiple Listing Service; Real Estate Center at Texas A&M University; seasonal and other adjustments by the Dallas Fed.

Home price growth stabilizes

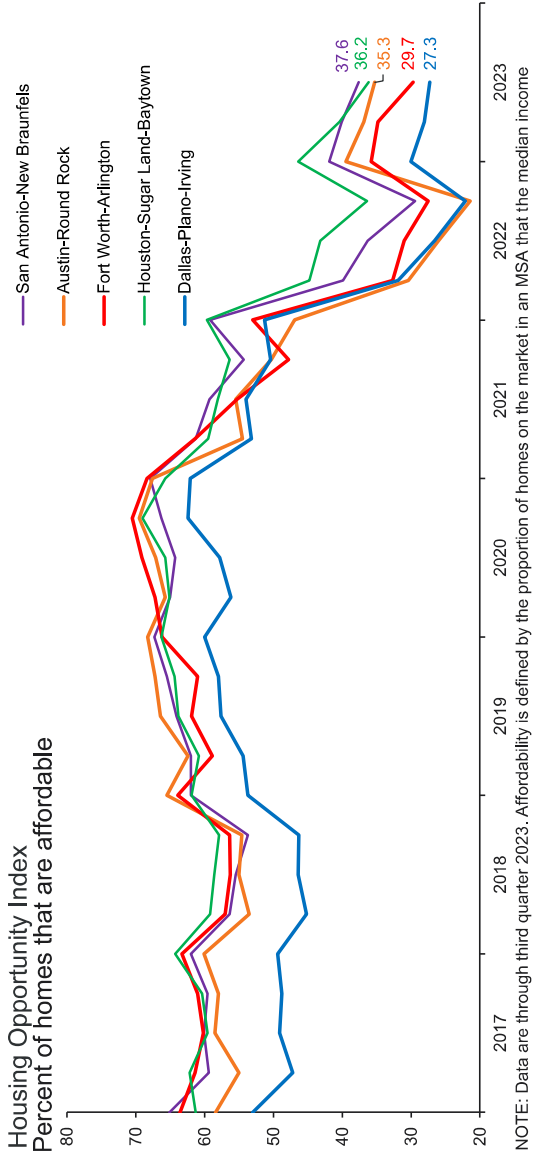


*Seasonally adjusted.

NOTES: Data are through September 2023, except Houston is through August. Existing home median home prices reached a peak in May-22.

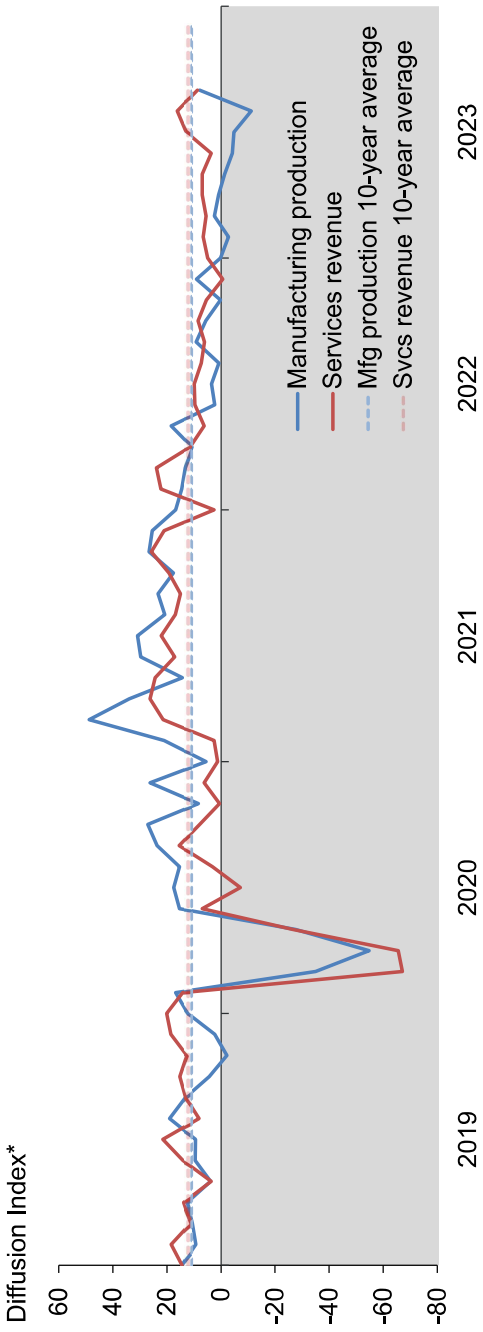
SOURCE: Multiple Listing Service; Real Estate Center at Texas A&M University; seasonal and other adjustments by the Dallas Fed.

Housing affordability declines



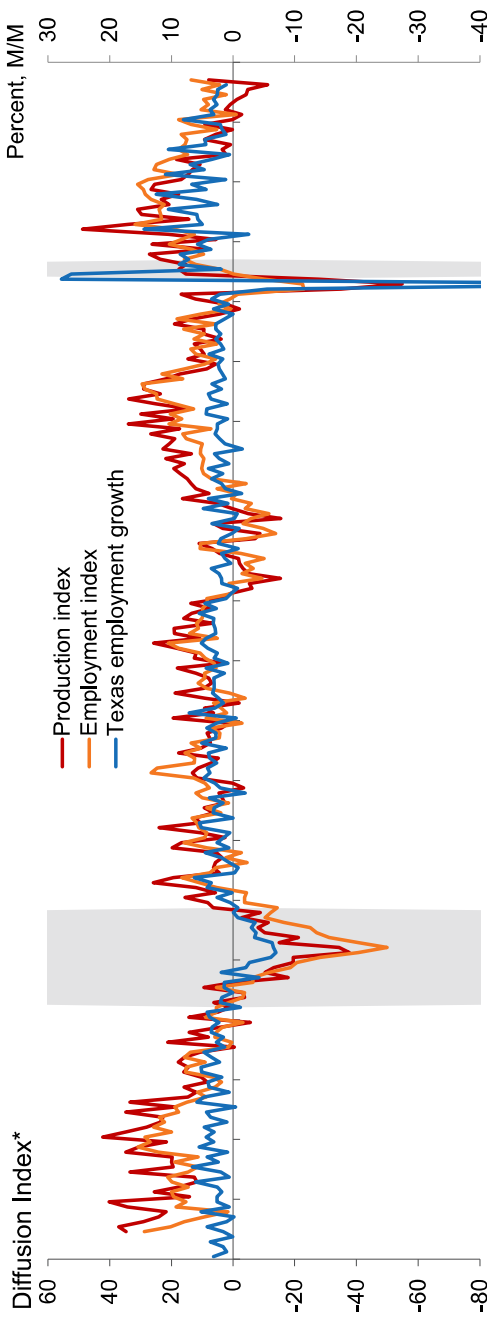
Inflation Easing and Output Slowing

Texas firms report manufacturing rebound, continued growth in services



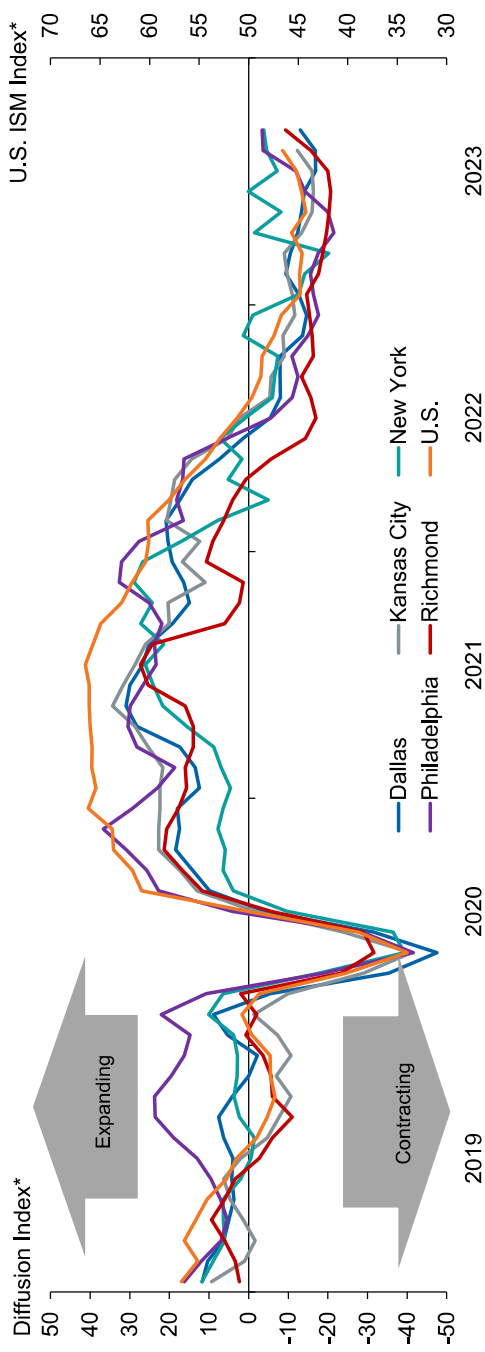
*Seasonally adjusted.
 NOTES: Data through September 2023. Shaded area represents contractionary territory.
 SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys.

TMOS output rebounds and employment growth stays strong



*Seasonally adjusted.
 NOTE: TMOS data through September 2023; Texas employment data through August 2023. Grey bars indicate recessions.
 SOURCES: BLS; Texas Workforce Commission; Bloomberg; Energy Information Administration; seasonal and other adjustments by FRB Dallas. Texas Business Outlook Survey, Federal Reserve Bank of Dallas.

Texas Manufacturing Outlook Survey(TMOS) tracks other Federal Reserve surveys

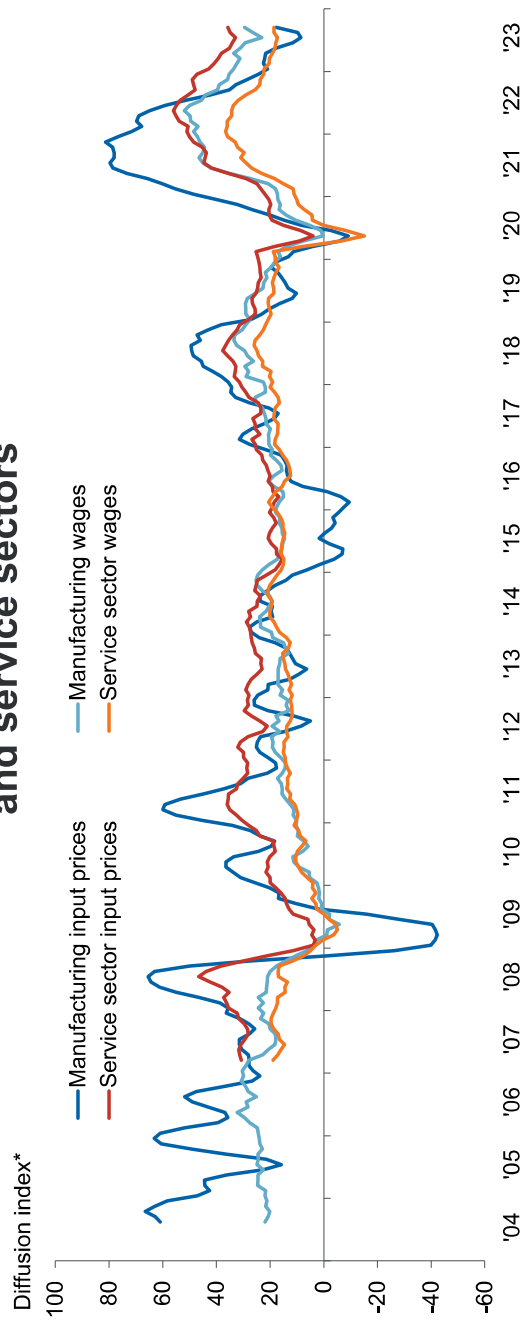


*Seasonally adjusted and three-month moving average.

NOTE: Presented are 3-month moving averages of the new orders indices. Data are through September 2023; Kansas City and U.S. data are through August 2023.

SOURCES: Federal Reserve Bank of Dallas Texas Manufacturing Outlook Survey; Federal Reserve Bank of Kansas City Manufacturing Survey; Empire State Manufacturing Survey; Federal Reserve Bank of Philadelphia Manufacturing Business Outlook; Federal Reserve Bank of Richmond Manufacturing Survey; Institute of Supply Management.

Cost pressures tick up in manufacturing and service sectors

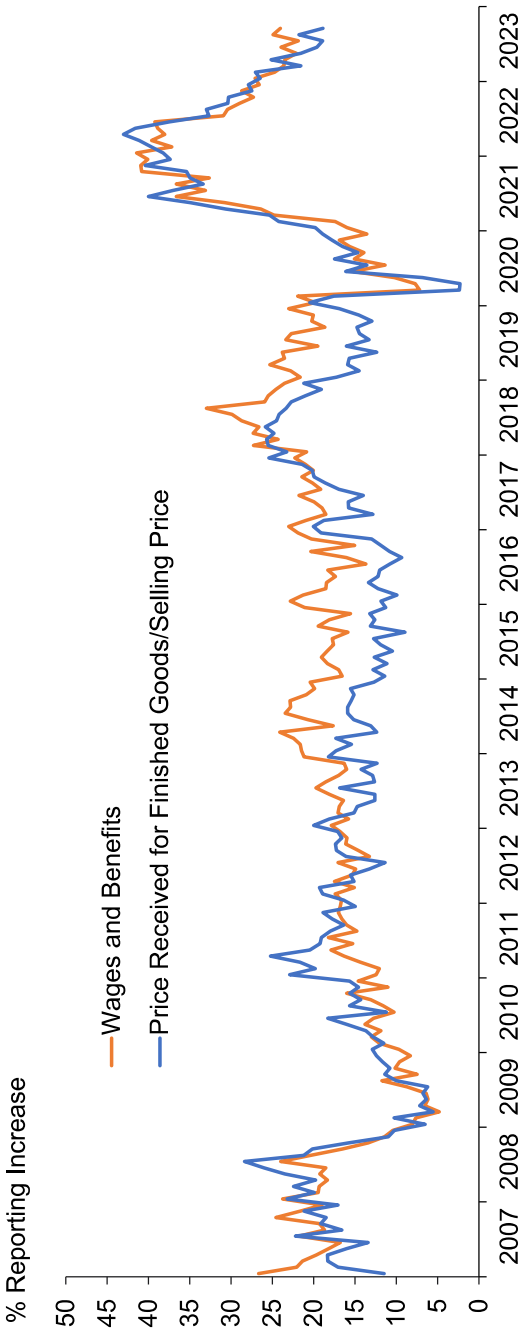


*Three-month moving average.

NOTE: Data through September 2023.

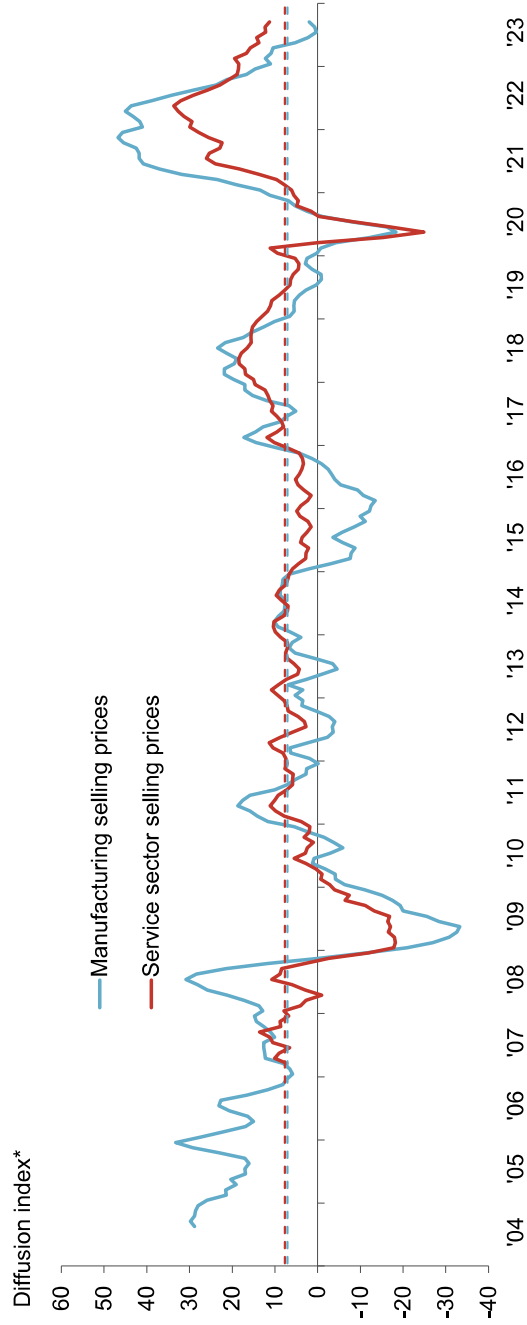
SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

Share of Texas firms raising prices and wages may have bottomed for now



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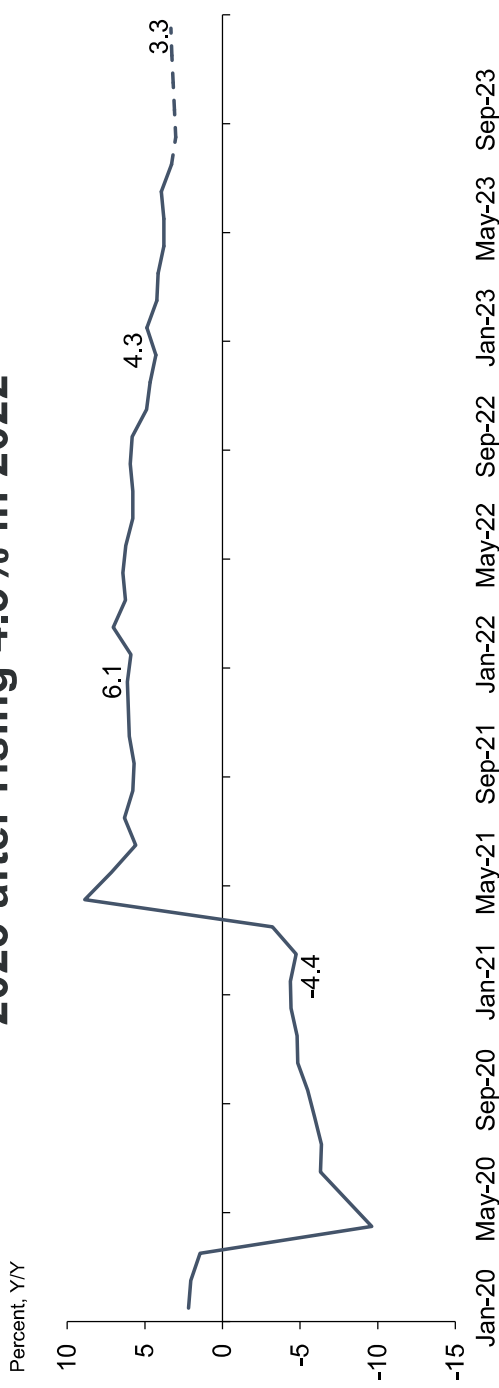
Price pressures moderate, particularly in manufacturing



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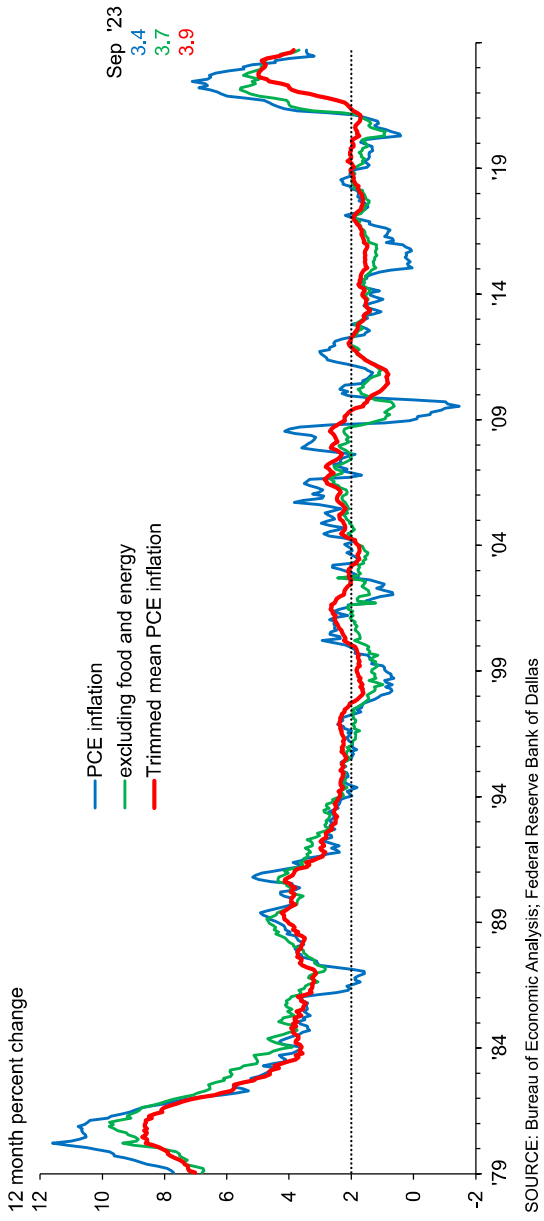
Outlook with Risks

The Texas employment forecast indicates a 3.3% rise in 2023 after rising 4.3% in 2022



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).
SOURCE: Federal Reserve Bank of Dallas

Inflation is declining, but to soon to have confidence 2% will be achieved in a timely manner



Outlook: 2023 GDP Revised Up, Expected to Be Somewhat Slow in 2024, Gradual Return to 2.0% Inflation

	FOMC SEP	Blue Chip forecasters
GDP	2023 2.1	2.5
Q4/Q4	2024 1.5	0.8
Unemployment	2023 3.8	3.9
Q4	2024 4.1	4.3
Core PCE	2023 3.7	3.5
inflation Q4/Q4	2024 2.6	2.4

NOTE: Federal Open Market Committee (FOMC) projection materials median forecasts for September 20, 2023.
SOURCES: Blue Chip Economic Indicators and FOMC.

Summary

- 2023 economic growth higher than expected
- Expected growth to slow next year
- Labor markets are slowing
- Gradual increase in unemployment
- Inflation not expected to be fully back to 2 percent through 2024
- Growth in U.S. and Texas is expected to slow and gravitate towards long-term trend growth levels

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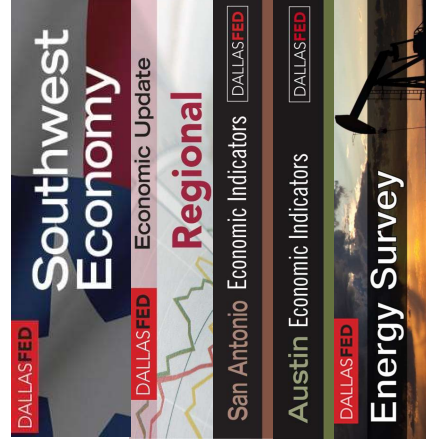
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