



Federal Reserve
Bank of Dallas

Regional Update & Outlook: Cleared for Landing

Jesse Thompson

Federal Reserve Bank of Dallas – Houston Branch

4Q 2024

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

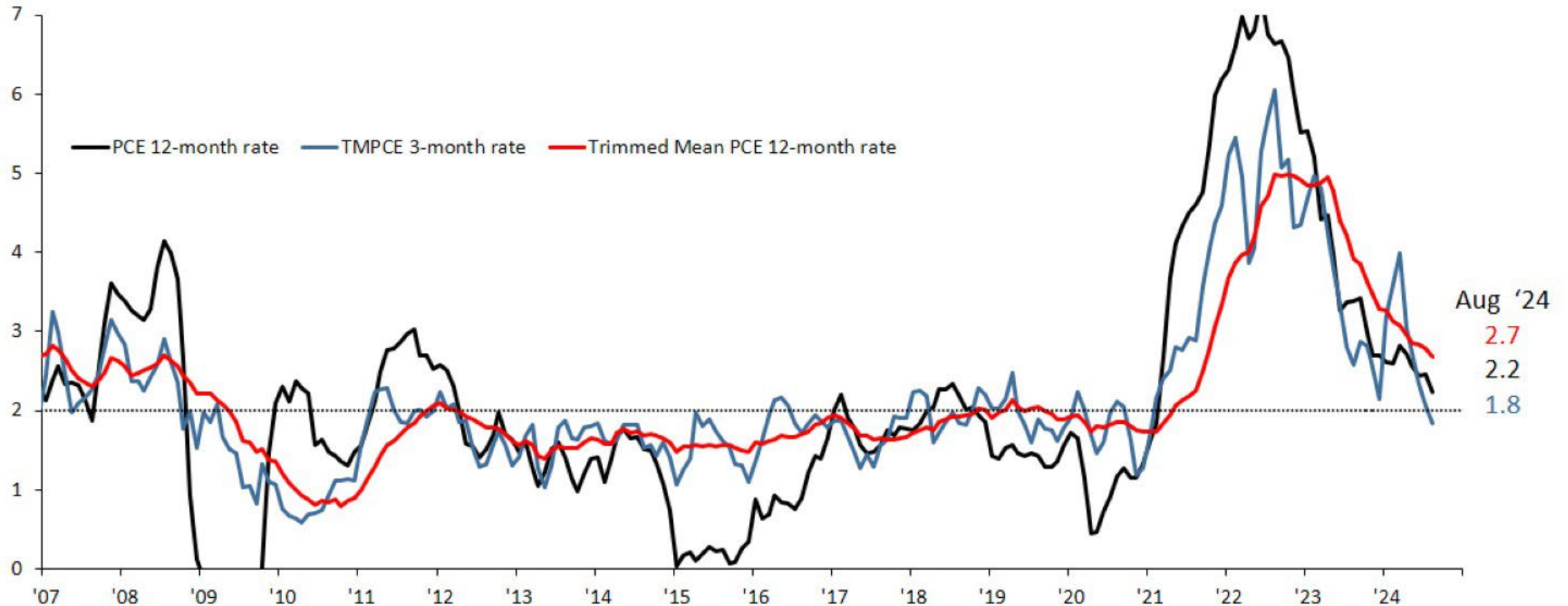
Summary/Outlook

- Texas job growth is gliding toward long-run trends going forward
 - Economic and fiscal tailwinds have boosted the economy's resilience in the face of higher interest rates, as has migration
 - Financial conditions have eased despite high rates
- There are pockets of weakness, but nothing broad-based or systematic that might signal a turning point.
- Outlook marked by upside and downside risks
 - Progress on inflation encouraging
 - Labor market easing is welcome but momentum bears watching

Macroeconomic Backdrop: U.S. on trend, international anemic

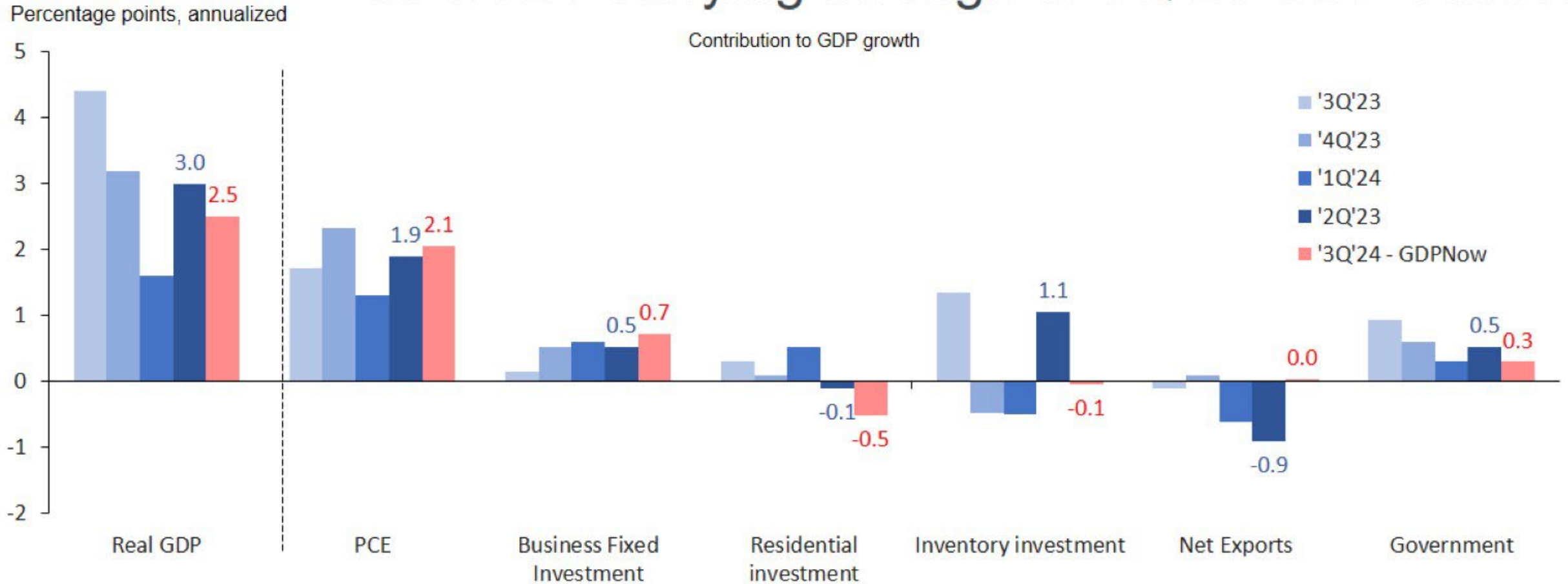
Trimmed Mean inflation is still slowing, outpacing headline inflation.

Percent change annualized



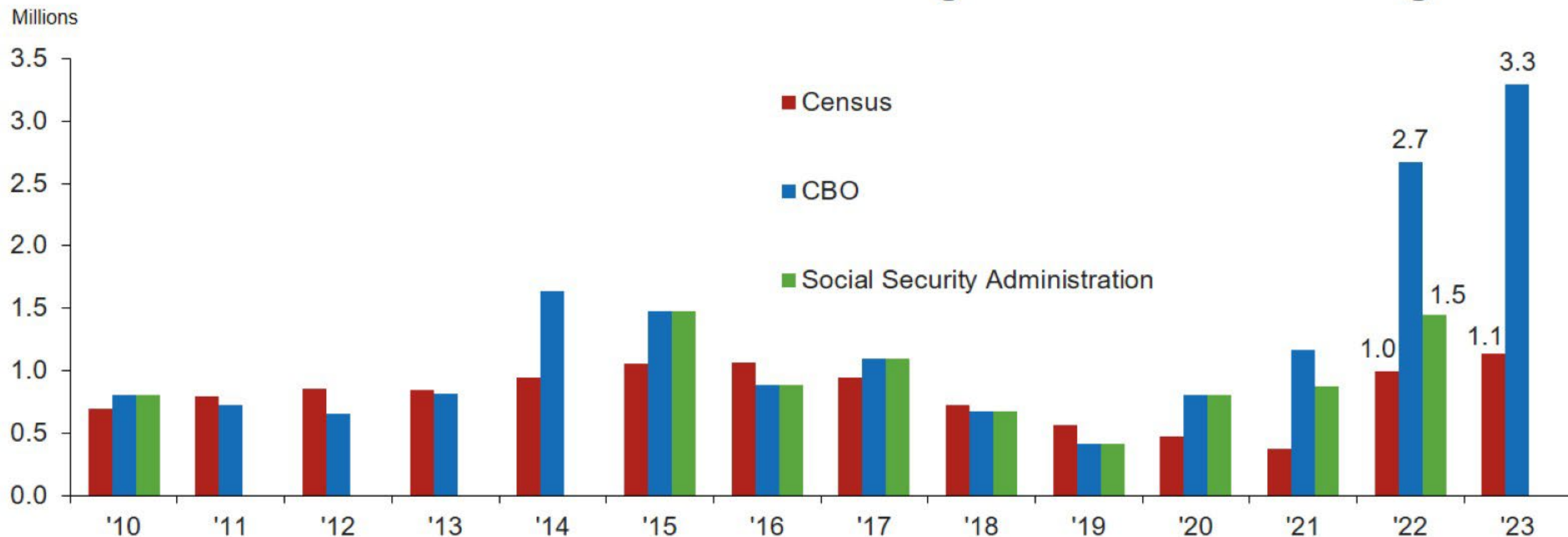
SOURCE: Bureau of Labor Statistics; Dallas Fed

Momentum from consumers and business investment in 1H'24 carrying through to 3Q'24 GDP outlook



Source: Atlanta Fed; Bureau of Economic Analysis.

Net U.S. immigration may be far higher than previously thought...which boosts growth



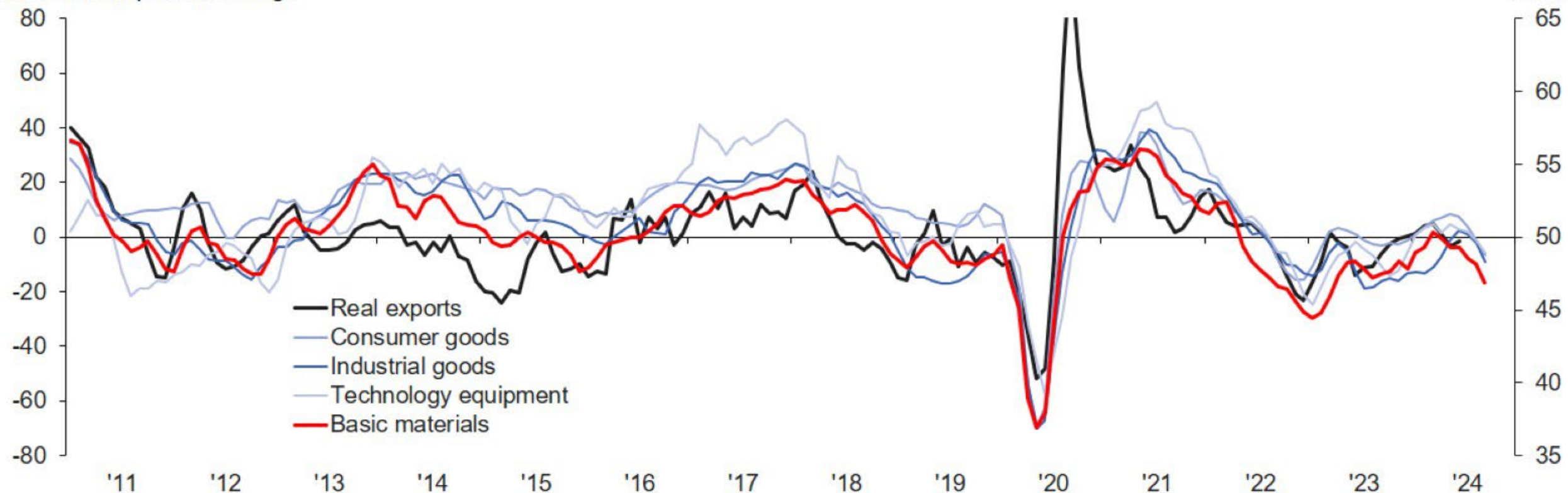
NOTES: Net international migration. Census change is from July 1 of the previous year to July 1 of the given year.

SOURCES: U.S. Census Bureau; Congressional Budget Office (CBO); Social Security Administration (SSA).

Global trade slipping as new orders signal a broadening slowdown; weakness concentrated in Asia.

Global Exports and Purchasing Managers Indexes of New Orders by Sector.

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 three-month moving averages. Index values > 50 indicate expansion, and vice versa.

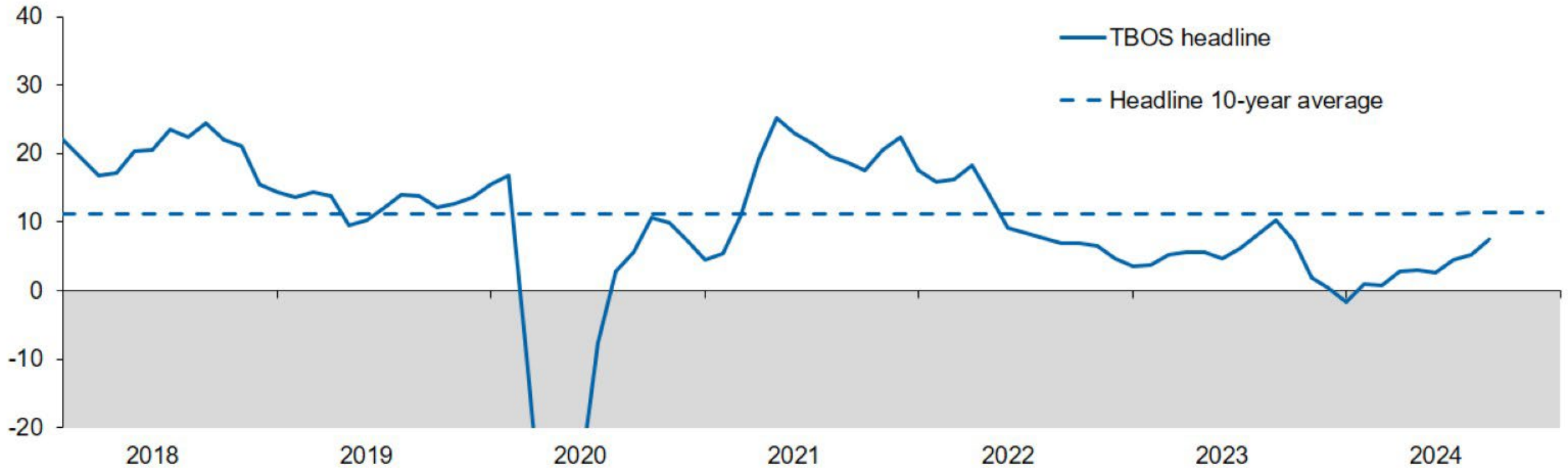
SOURCES: Bureau of Labor Statistics; International Monetary Fund; S&P Global; calculations by the author.

Federal Reserve Bank of Dallas

Regional Activity: Normalizing

Texas businesses: economic activity is normalizing

Diffusion index, SA 3MMA

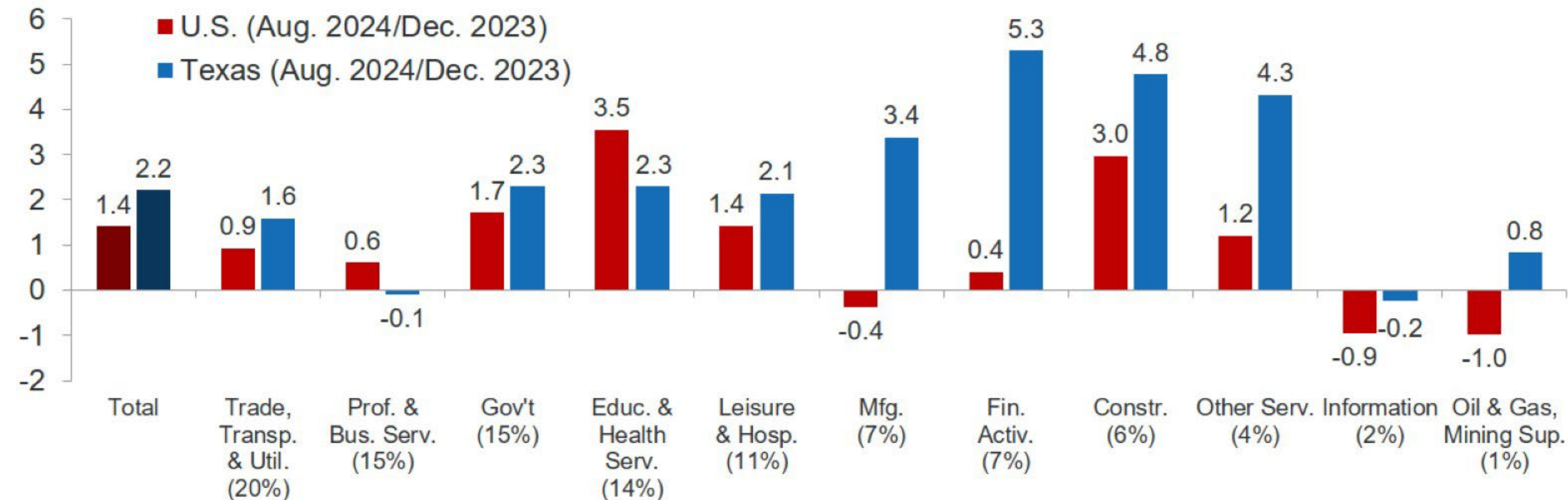


NOTES: TBOS data are through September 2024. TBOS headline index is a combination of services revenue and manufacturing production weighted by employment share. In a diffusion index, readings exceeding zero indicate growth and those below zero indicate contraction.

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

YTD Texas job growth is above trend and broad based.

Job Growth (%)*



*Seasonally adjusted, annualized rate.

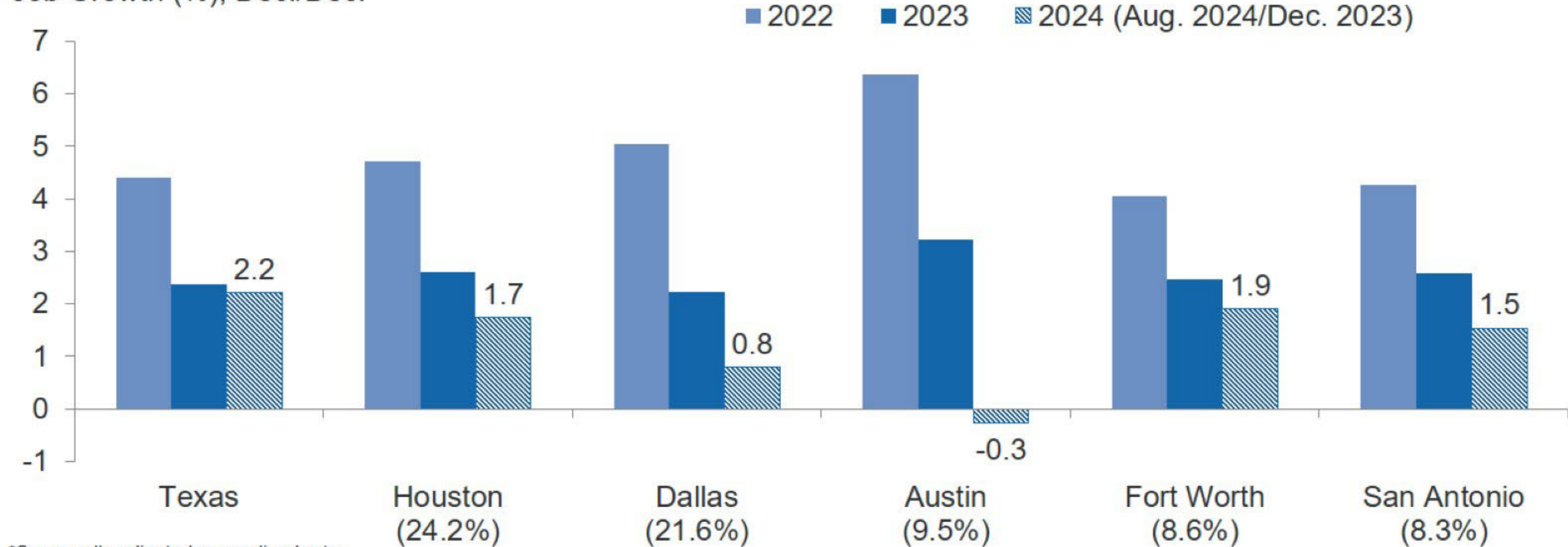
NOTE: Numbers in parentheses indicate share of total state employment for August 2024.

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

DATA: [Texas Employment by Industry - Dallasfed.org](https://dallasfed.org/research-and-data/texas-employment-by-industry)

YTD job growth led by smaller metros

Job Growth (%), Dec./Dec.*



*Seasonally adjusted, annualized rate.

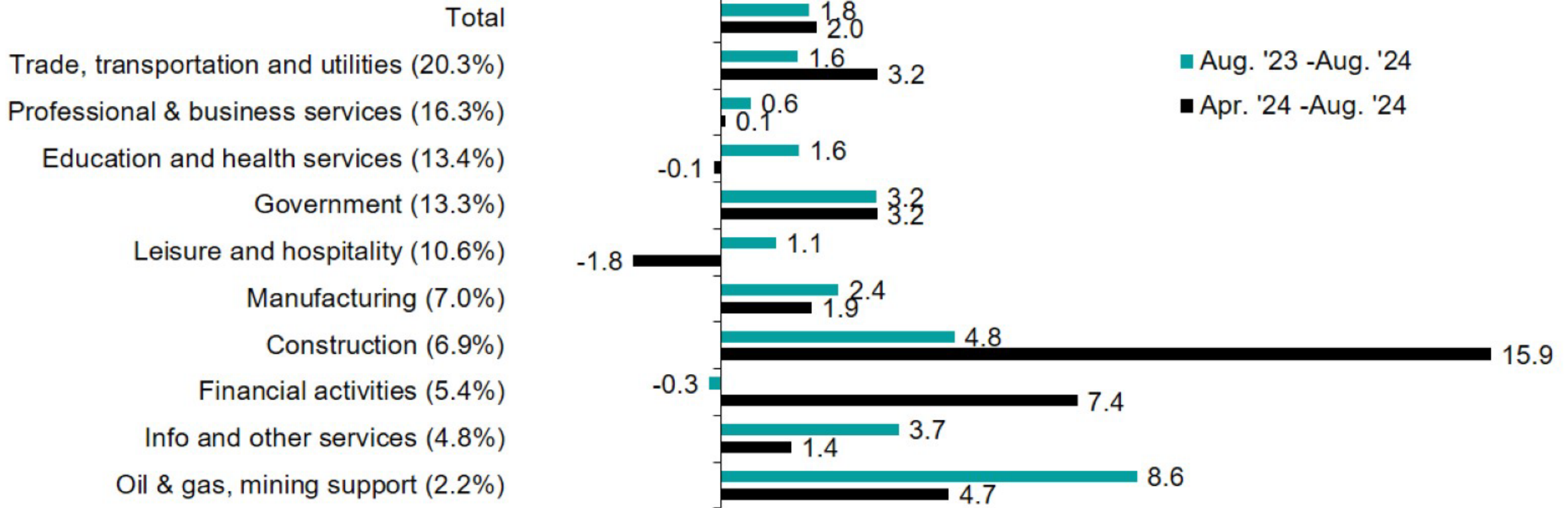
NOTE: Numbers in parenthesis indicate share of state employment for August 2024.

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

DATA: [Texas Employment Data - Dallasfed.org](https://www.dallasfed.org/economic/texas-employment)

Houston payroll growth is on trend

Houston employment growth by sector

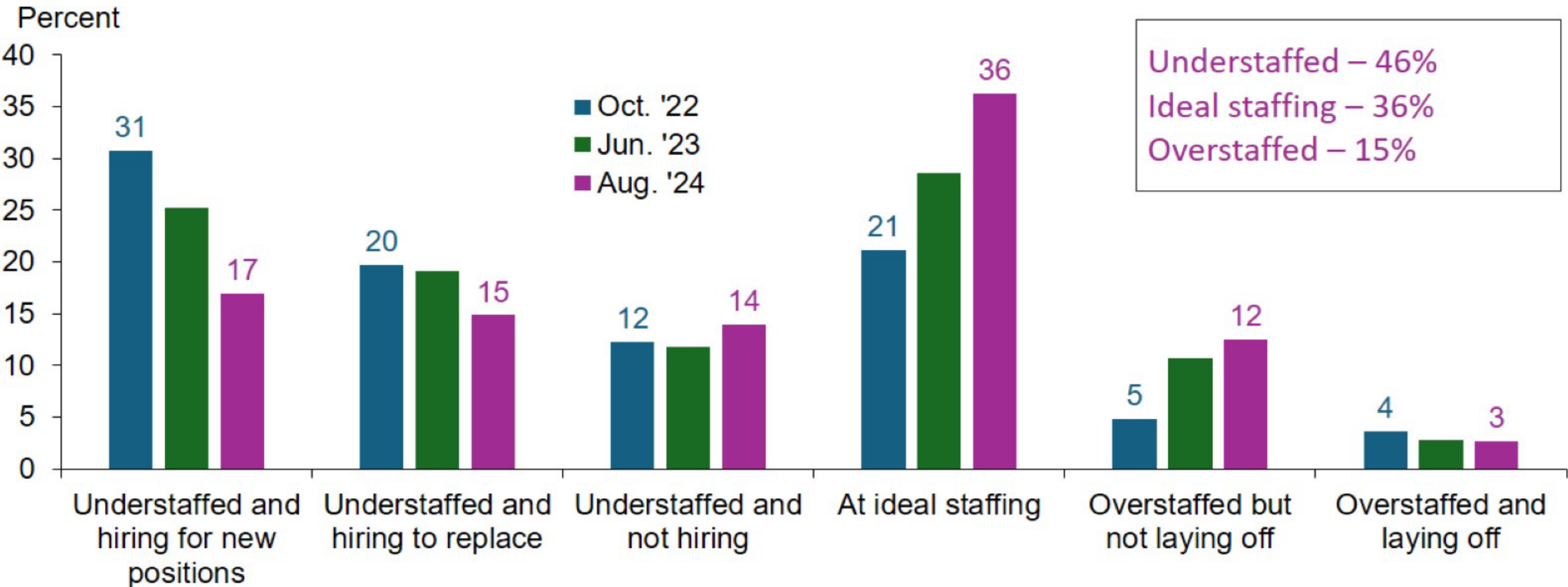


NOTE: Chart shows seasonally adjusted, annualized percent change in payroll jobs by sector. Numbers in parentheses show share of Houston employment in June 2024 and may not sum to 100 due to rounding.

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

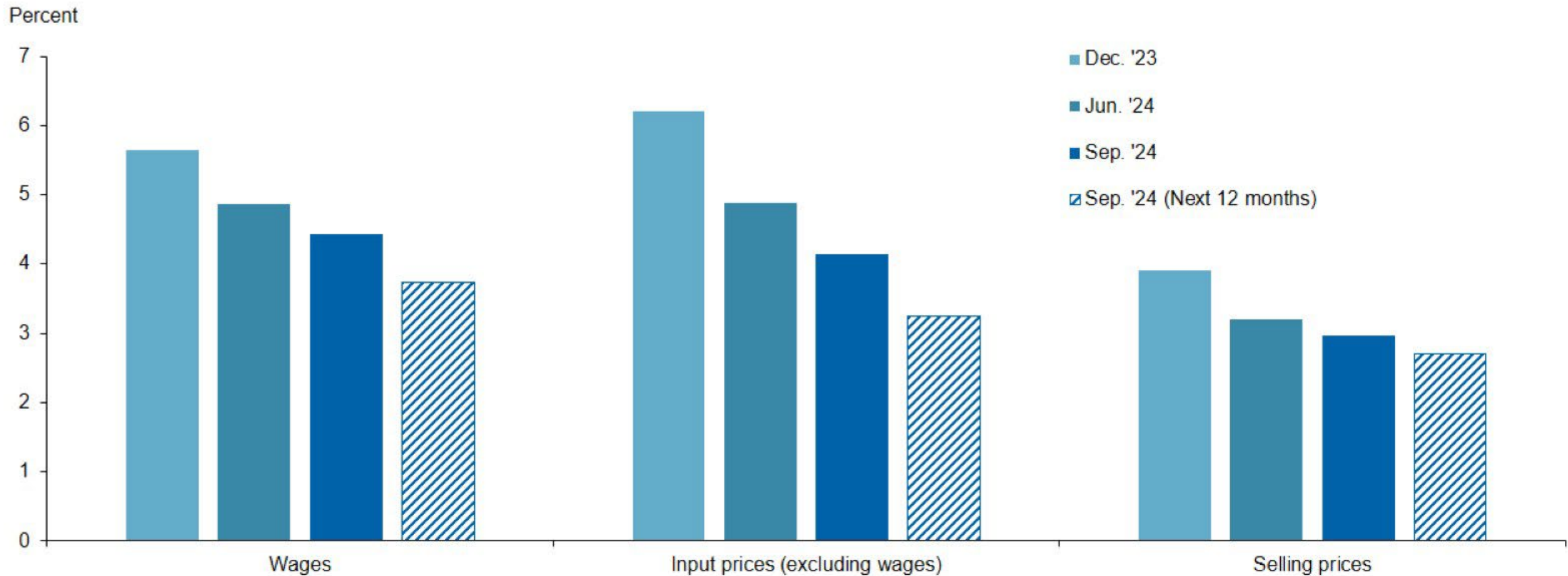
Federal Reserve Bank of Dallas

Employment outlooks suggest normalization rather than deterioration in labor market



NOTES: Participants were asked, "What is your assessment of your firm's current employment situation in light of your six-month outlook?" N = 336 in Aug. 2024. Category "Other" was excluded.
SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Surveys.

Texas Businesses: Price and wage increases stabilize

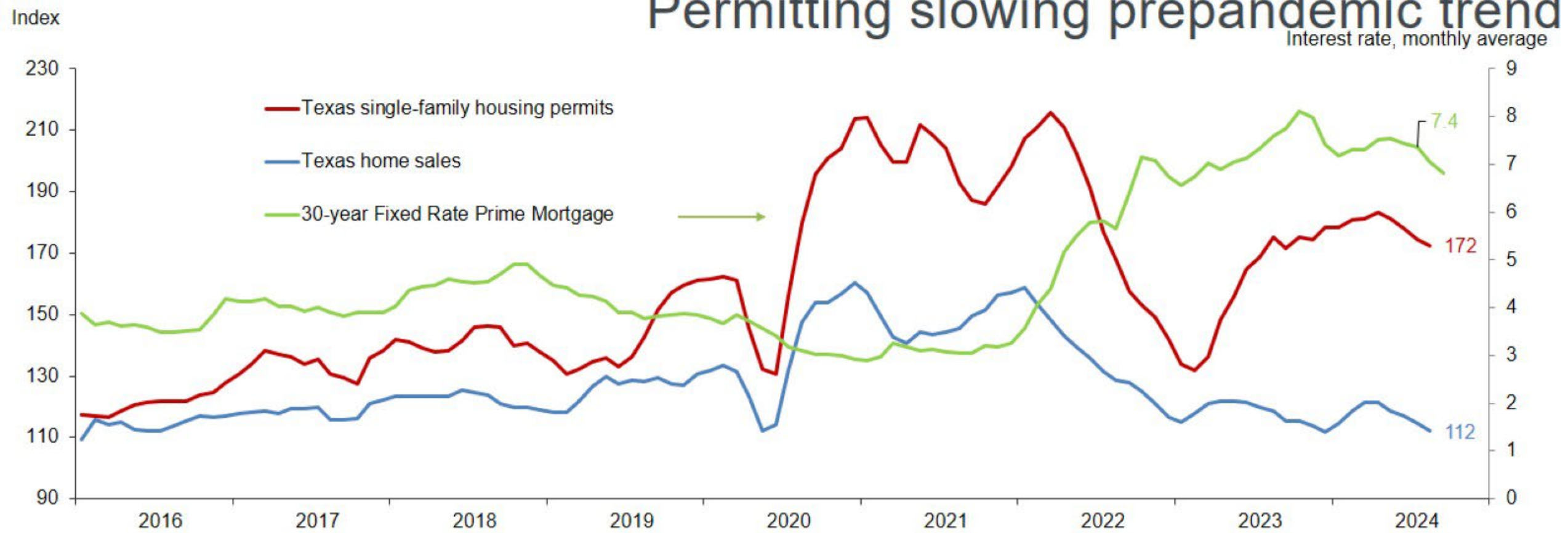


NOTES: Shown are increases in prices and wages over the past 12 months. Sep. '24 (Next 12 months) shows respondents' expectations for increases in prices and wages over the next year. N = 290 in September 2024.

SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Survey.

Real Estate and Construction

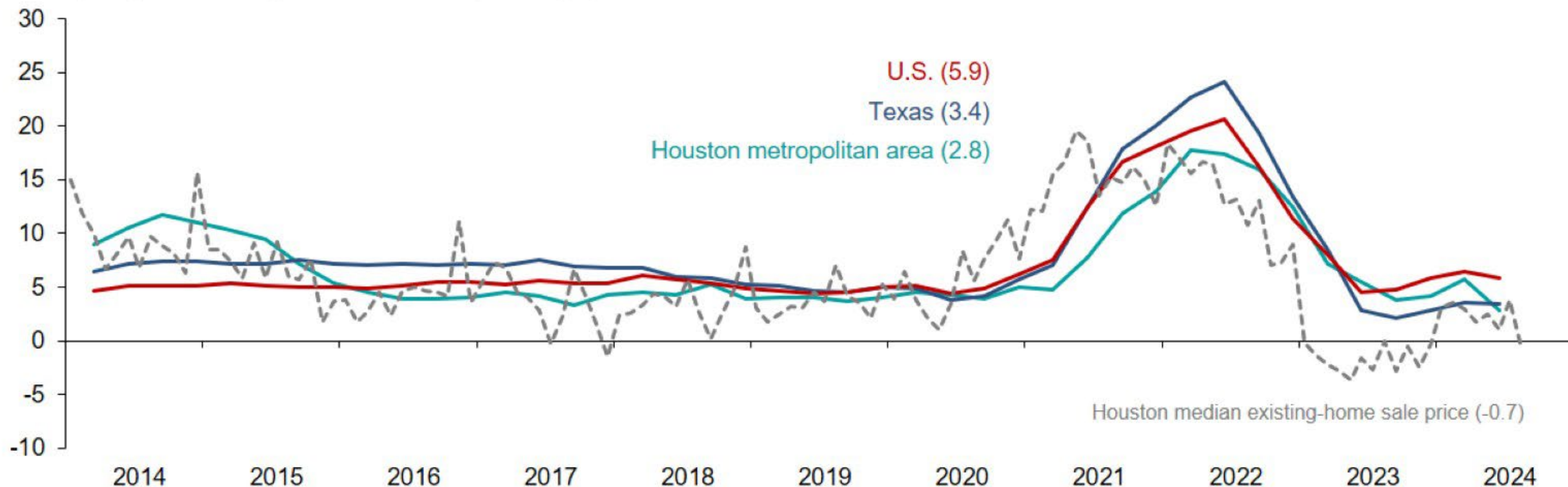
TX SF-housing softening Q2-Q3 '24; Permitting slowing prepandemic trend



NOTES: Texas data are seasonally adjusted 3-month moving averages, indexed to Jan. 2013 = 100. Texas data are through August 2024. Mortgage rate data are through September 2024.
 SOURCES: MLS; A&M Real Estate Center; Freddie Mac Primary Mortgage Market Survey; U.S. Census.

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

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

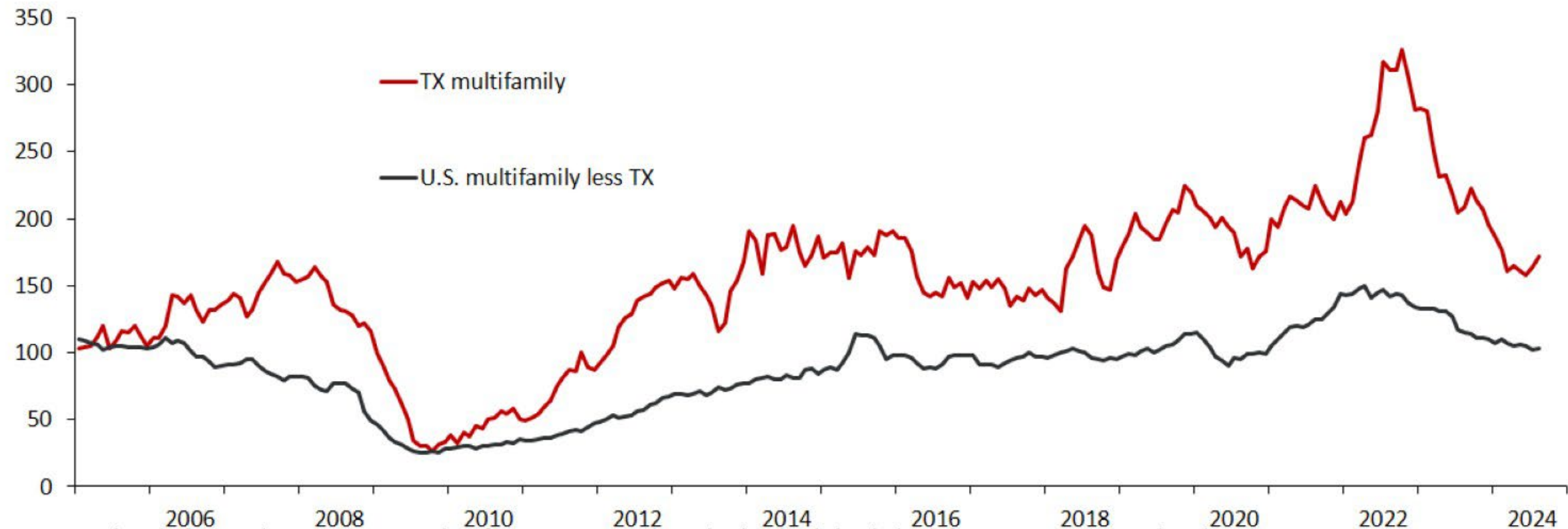


NOTE: Indexes include data from all conventional conforming mortgages, including refinances and purchases, but exclude distressed properties. Numbers in parentheses are for 4Q'23, except the median home price, which is for Feb.'24. Dashed line is the monthly year-over-year change in the median price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

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

Texas MF-permitting stabilizing near pandemic lows;

Index, 2004=100, SA

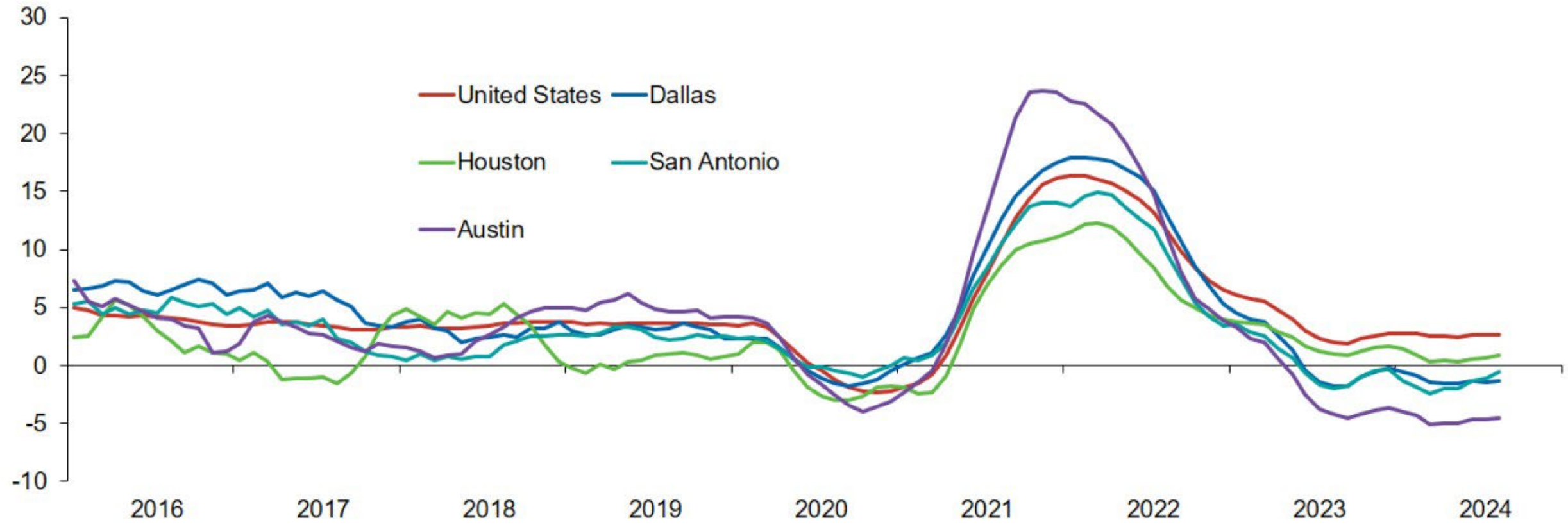


NOTE: Data show the five-month moving average number of housing permits authorized, indexed such that the level of permits in 2004=100, and are through August 2023.

SOURCE: U.S. Census.

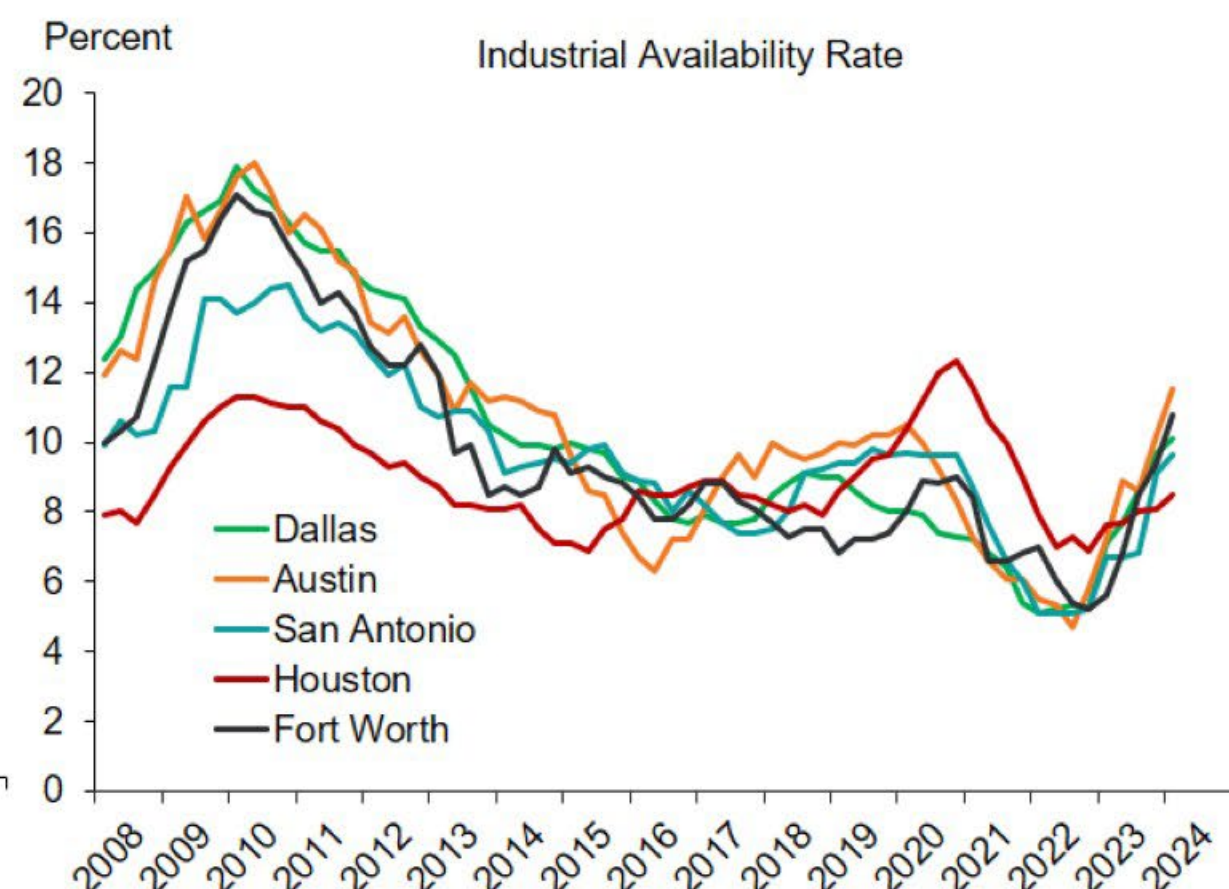
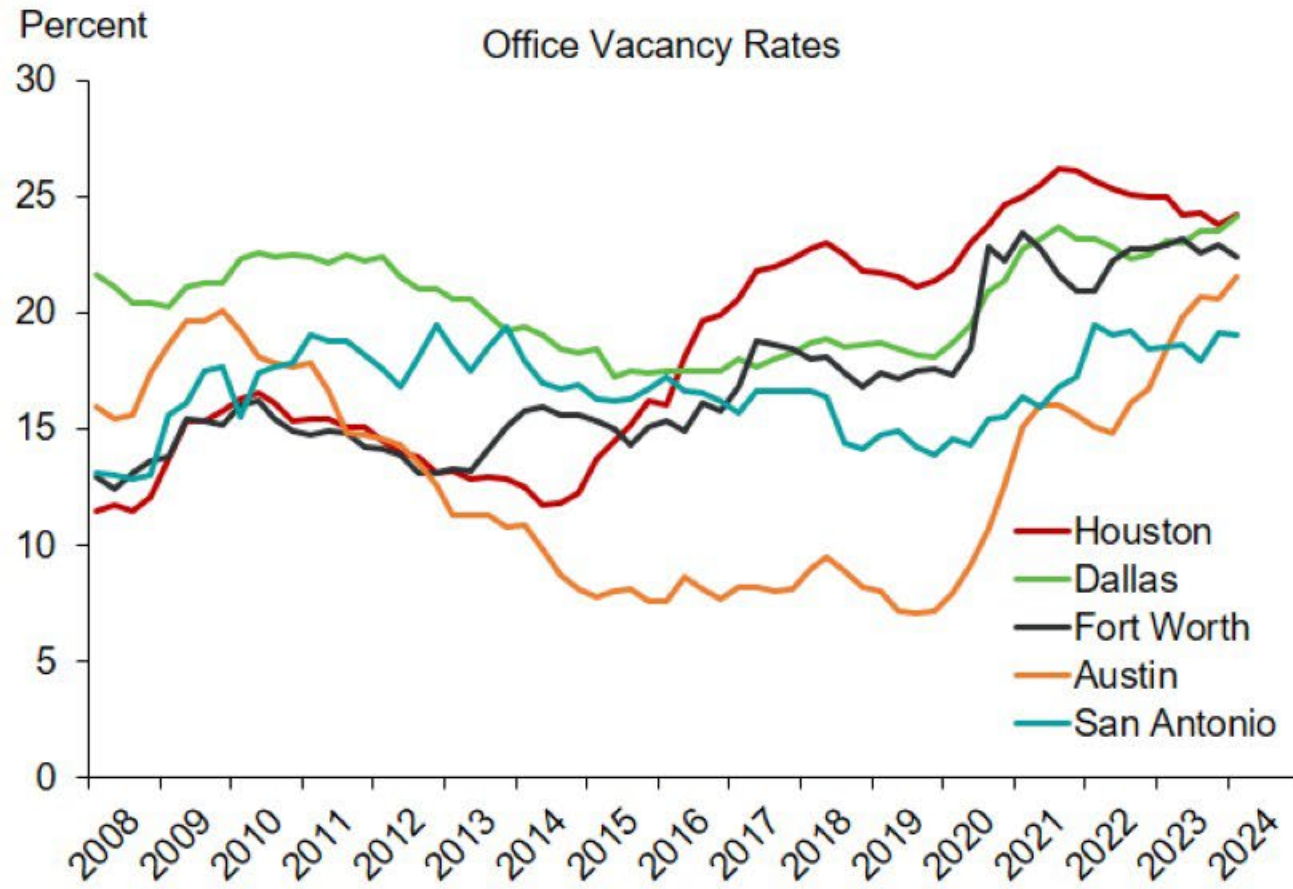
Surging supplies, easing demand drive apartment rent growth negative in most Texas metros

Percent, Y/Y*



*Smoothed and seasonally adjusted
 NOTES: Data are monthly through August 2024.
 SOURCE: Zillow.

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

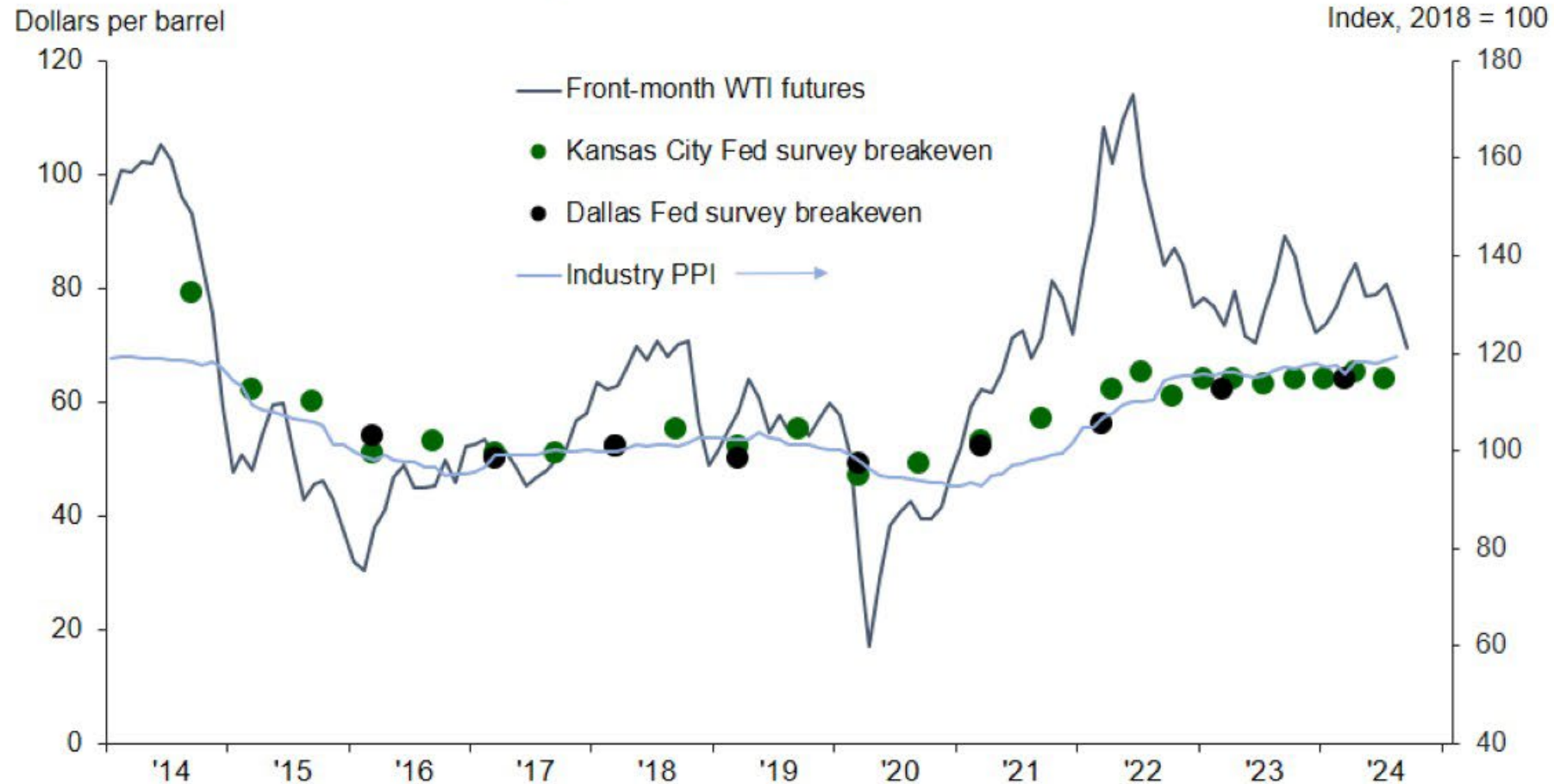


NOTE: Data through Q1 2024.
SOURCE: CBRE Econometric Advisors.

Oil and Gas

Oil prices still supportive of industry drilling activity.

WTI, Producer Price Index and Drilling Break-Even Prices



- Industry inflation outpaced CPI and PCE over most of the pandemic years but plateaued after 2H'22.
- Survey-based breakeven WTI prices are trending sideways at around \$64. (Big Producers: \$58; small producers: \$67)
- 4Q'23 Dallas Fed Energy Survey: budgeting for WTI in the low-\$70's; expecting WTI to average closer to \$80; ytd: WTI averaged \$78

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.

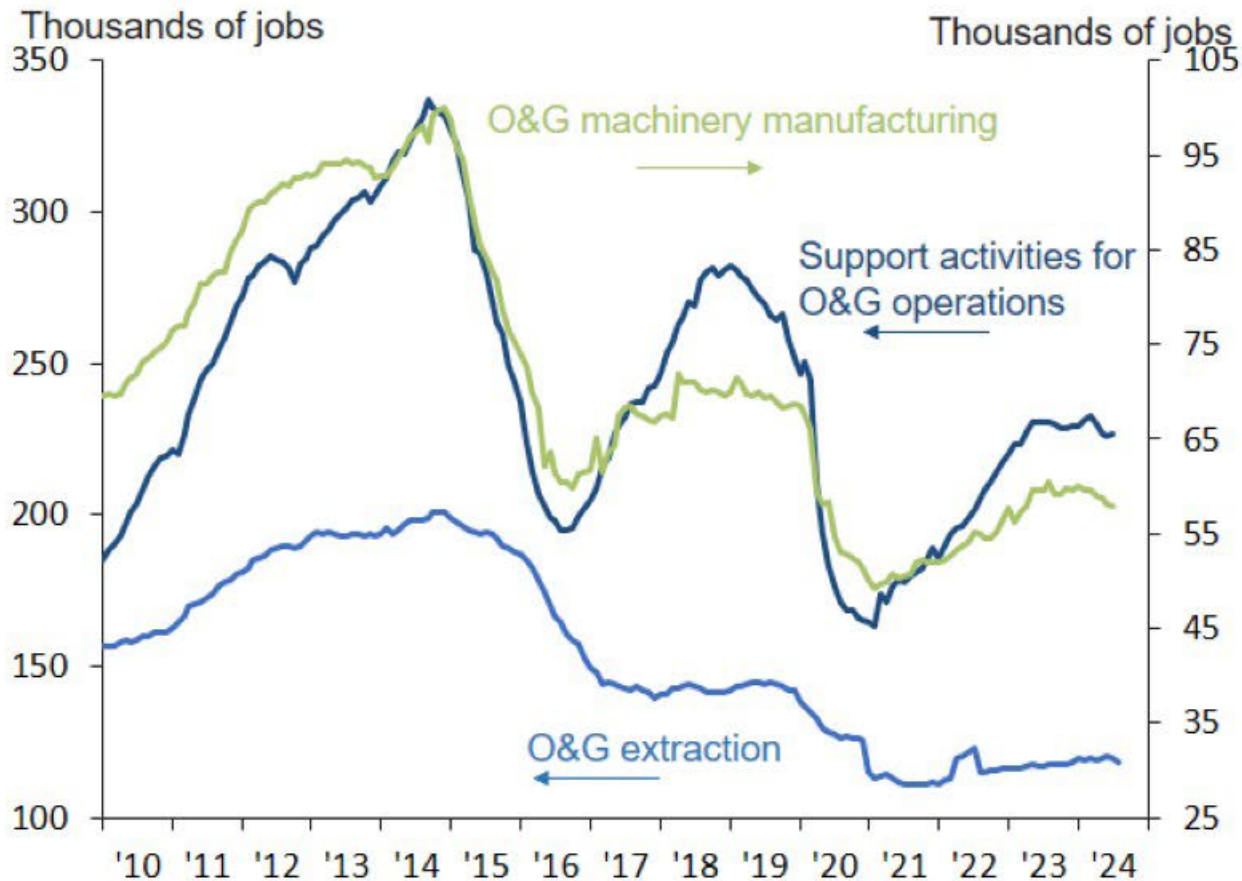
SOURCE: Bloomberg; Bureau of Labor Statistics; Federal Reserve Banks of Dallas and Kansas City.

Federal Reserve Bank of Dallas

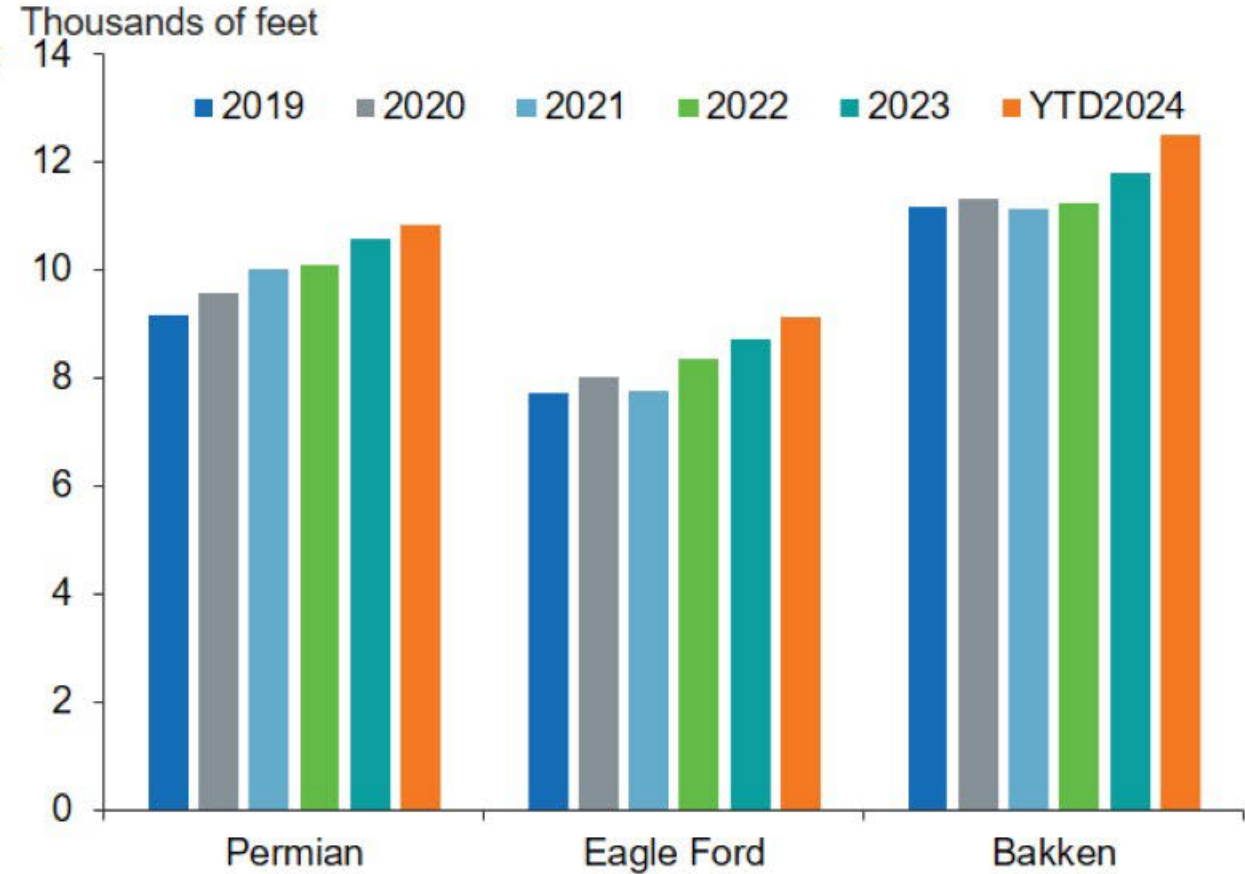
O&G Headcounts slipping as firms do more with less and are pressured by low natural gas prices.

Selected U.S. O&G Payrolls

Average Lateral Length of Wells by Year



Source: U.S. Bureau of Labor Statistics

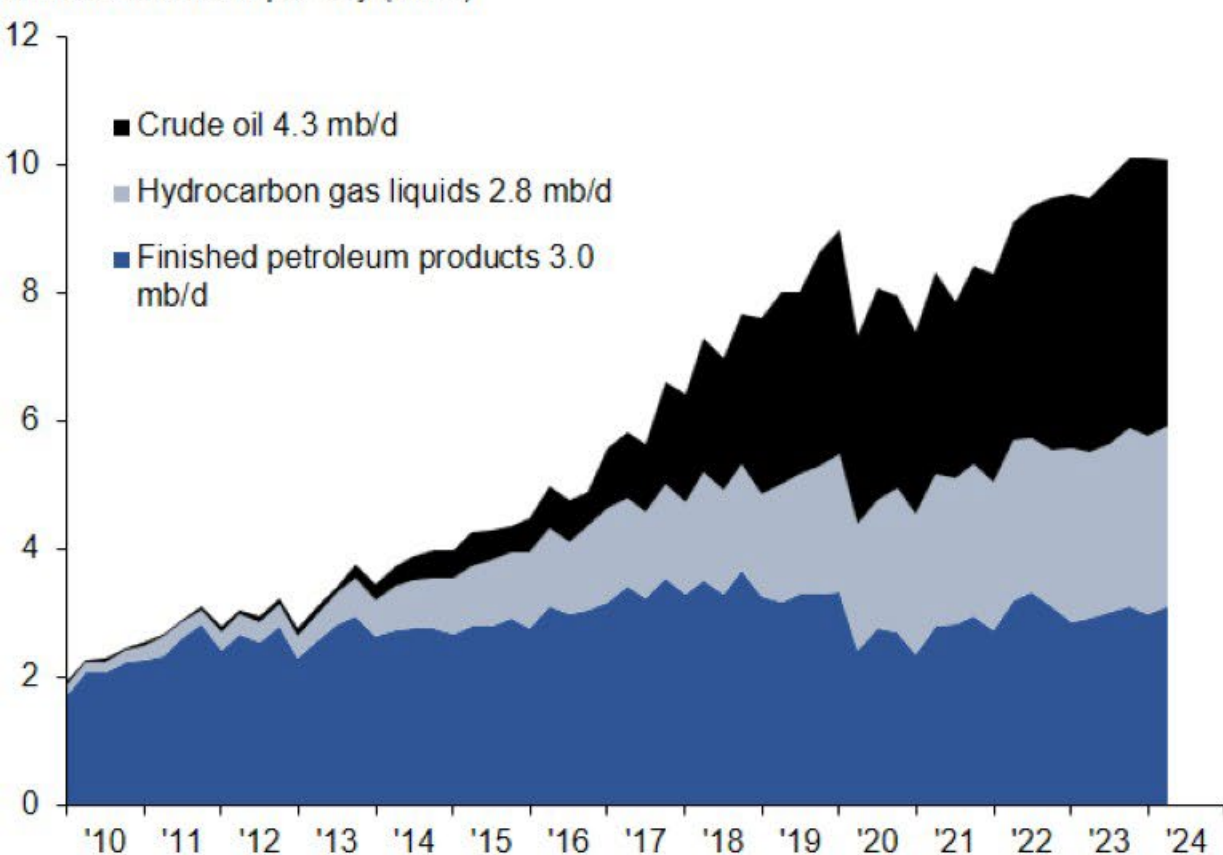


Sources: WellDatabase; Kayrros; Federal Reserve Bank of Dallas

Rising Oil and Gas Output Flowing Through to Exports

U.S. liquids exports

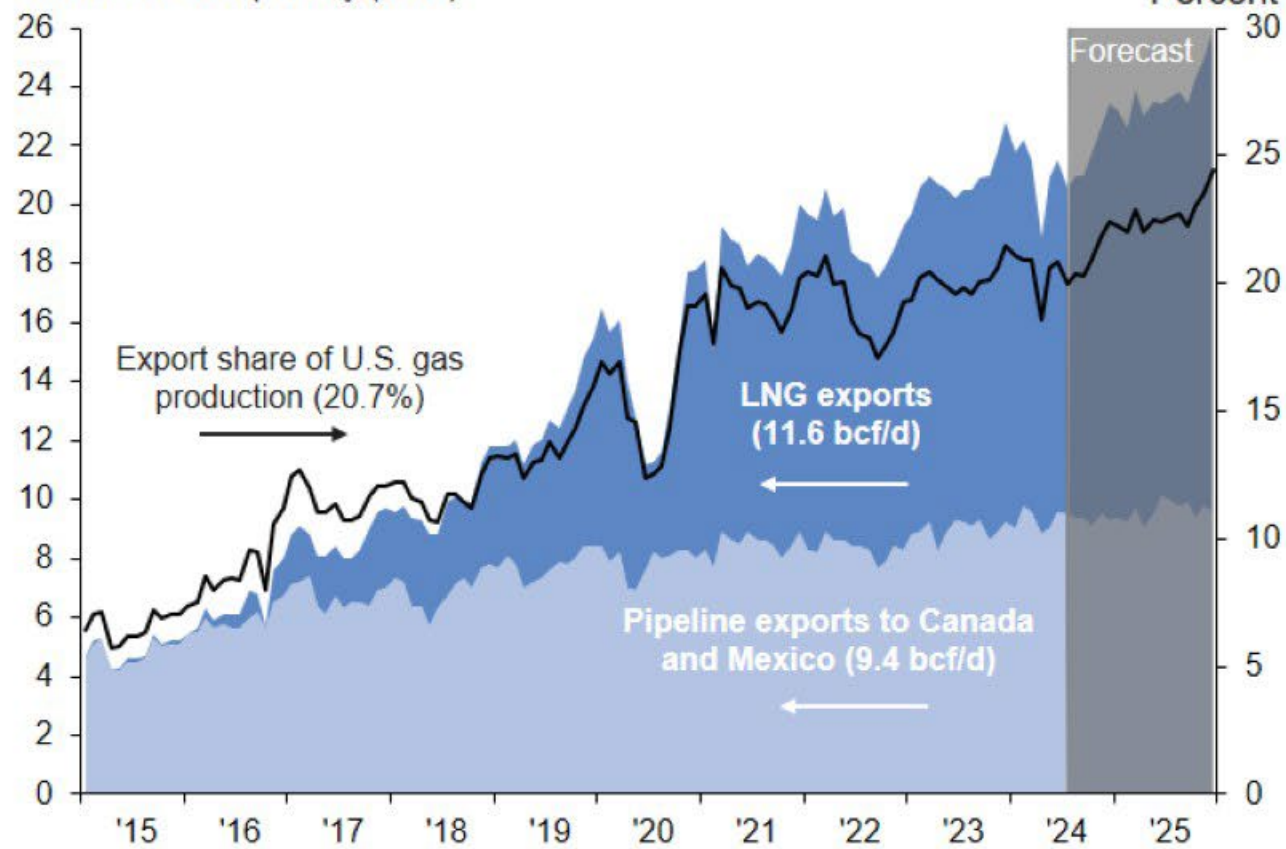
Millions of barrels per day (mb/d)



U.S. Natural Gas Exports

Billion cubic feet per day (bcf/d)

Percent



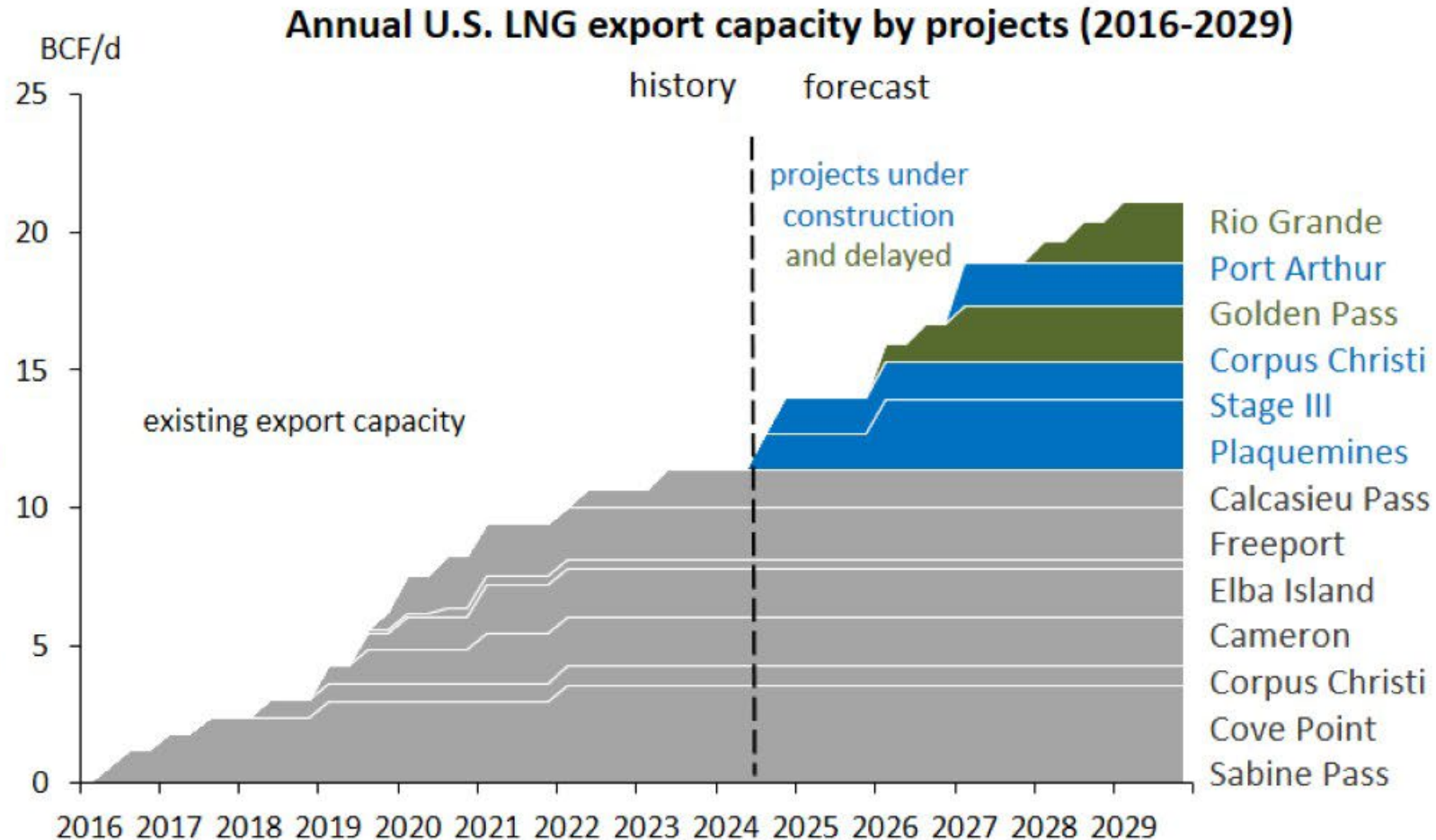
Note: Numbers in parentheses are for June 2024. The gray shaded area represents estimates and projections from the July 2024 Short-Term Energy Outlook.

Source: Energy Information Administration

Industrial Construction

New LNG capacity faces delays, but U.S. still on pace to add ~11bcf/d by 2030.

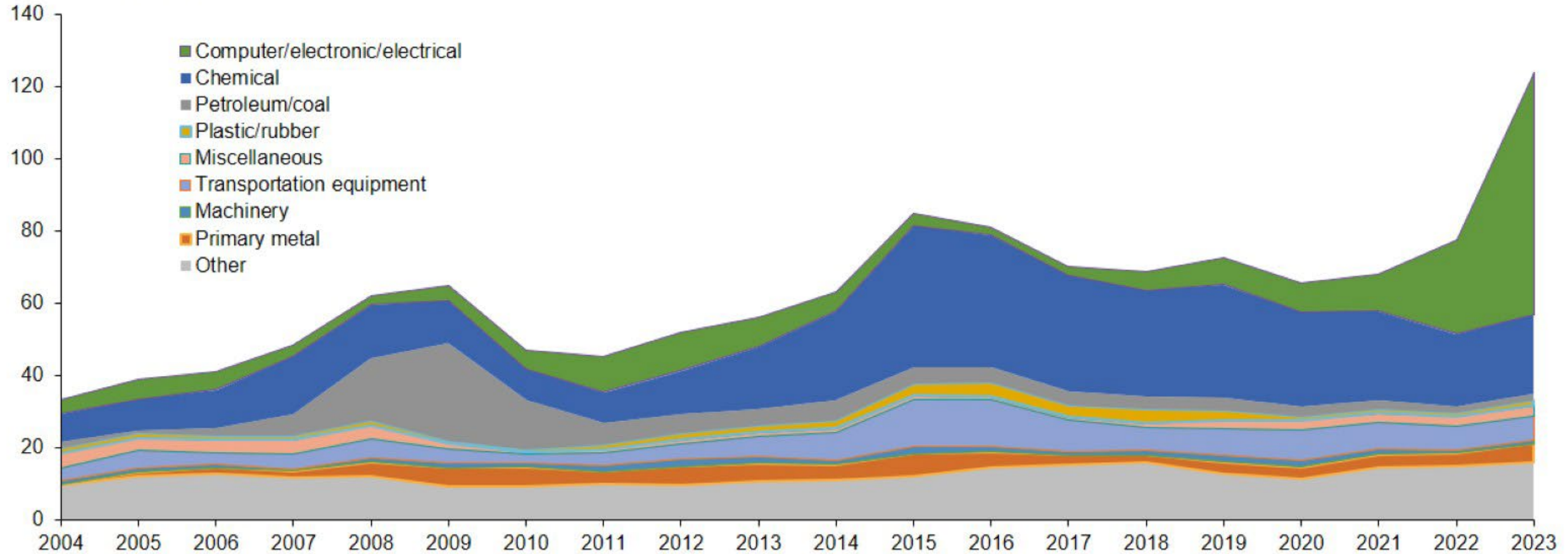
- The 2 bcf/d Golden Pass LNG plant is likely delayed from Jun. to ~Dec. '25 due to the Zachary (EPC) bankruptcy.
- The challenges to the Rio Grande LNG permit will likely delay the entire facility—including the 4.5 bcf/d Rio Bravo pipeline—from entering operation in late '26 to late '27.
- Without export growth, trapped supplies are likely to keep natural gas prices suppressed.



NOTES: BCF/d stands for billion cubic feet per day. Export capacity shown is project's baseload capacity. Latest data as of 6/27/2024.
SOURCE: U.S. Energy Information Administration; Author's calculations.

Hi-Tech driving record construction for real manufacturing; Chemical construction still elevated vs pre-shale.

Billions of 2017 Dollars*



NOTE: Construction values deflated using the new industrial construction PPI for 2007 to 2023 and new warehouse PPI from 2004 to 2006.

SOURCES: Census; Bureau of labor statistics.

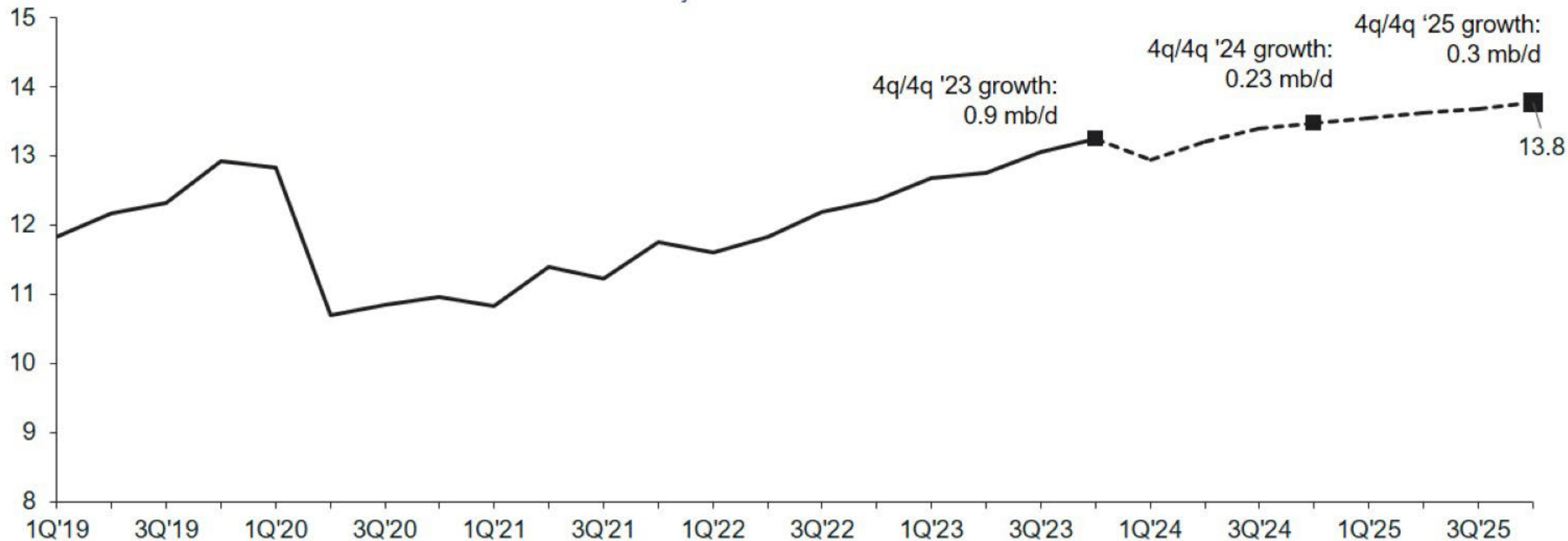
Federal Reserve Bank of Dallas

Looking Ahead: Regional Outlook and Risks

U.S. crude output growth expected to be steady through '25; risks are skewed to the downside....

Million barrels per day

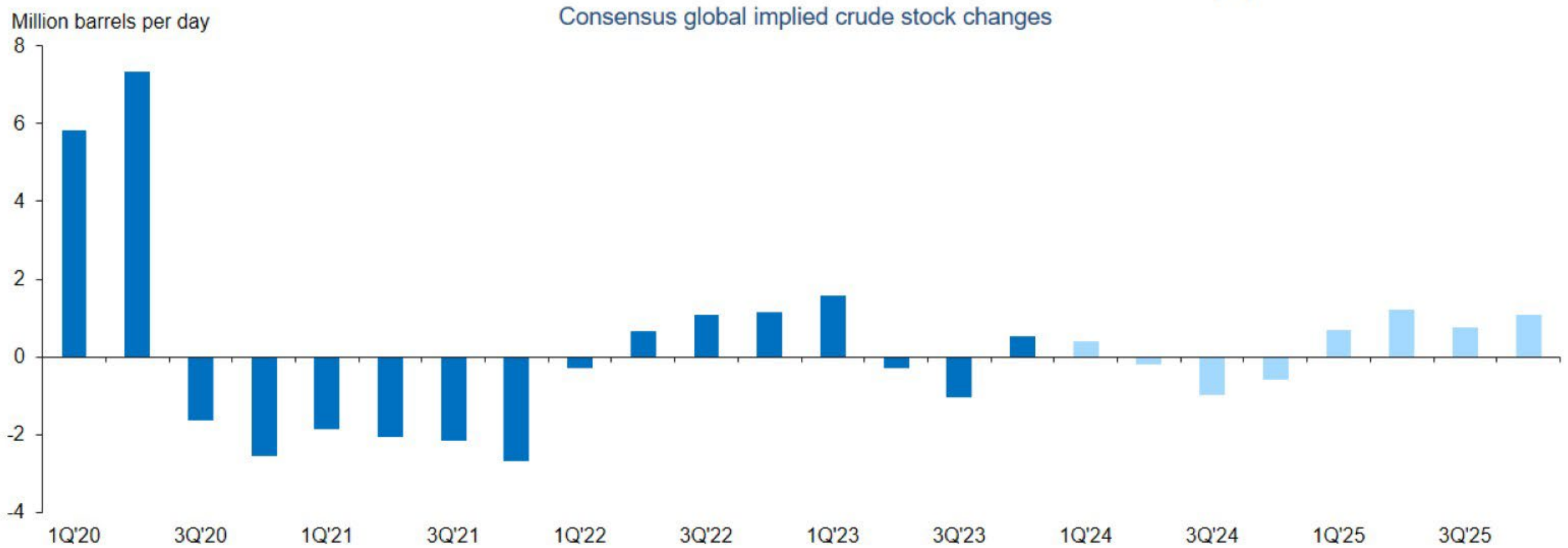
Consensus of Projections for U.S. Crude Oil Production



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.

...Global oil market broadly projected to be well supplied in 2024.



NOTE: Dark blue bars represent historical data from the International Energy Agency. Light blue bars represent consensus forecasts. The consensus is an average of forecasts from sources published in September 2024. The consensus was indexed by 2023's average global implied crude stock changes.

SOURCE: Major energy agencies; industry consultants; financial institutions; Federal Reserve Bank of Dallas

Federal Reserve Bank of Dallas

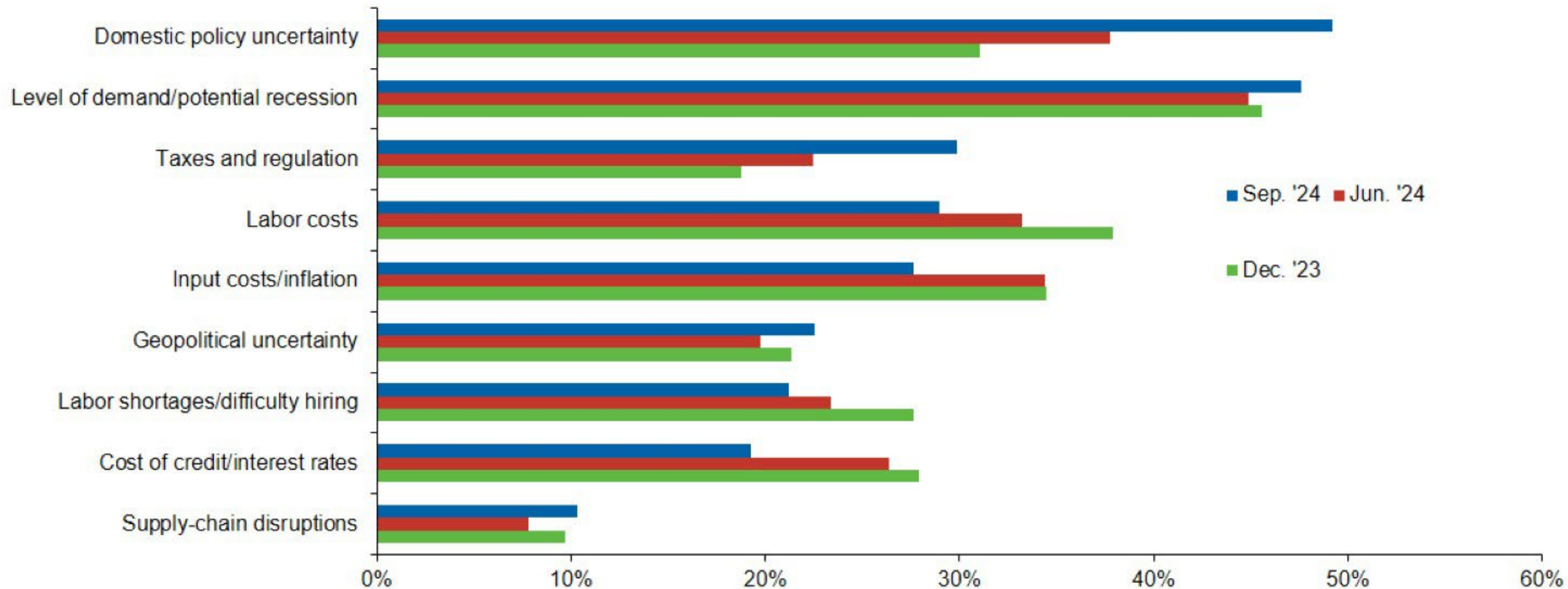
Texas sales tax revenue points to weak goods consumption growth



NOTES: Real, seasonally adjusted data through August 2024. Gray shading indicates pandemic recession.

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

Policy concerns grow as inflation worries subside

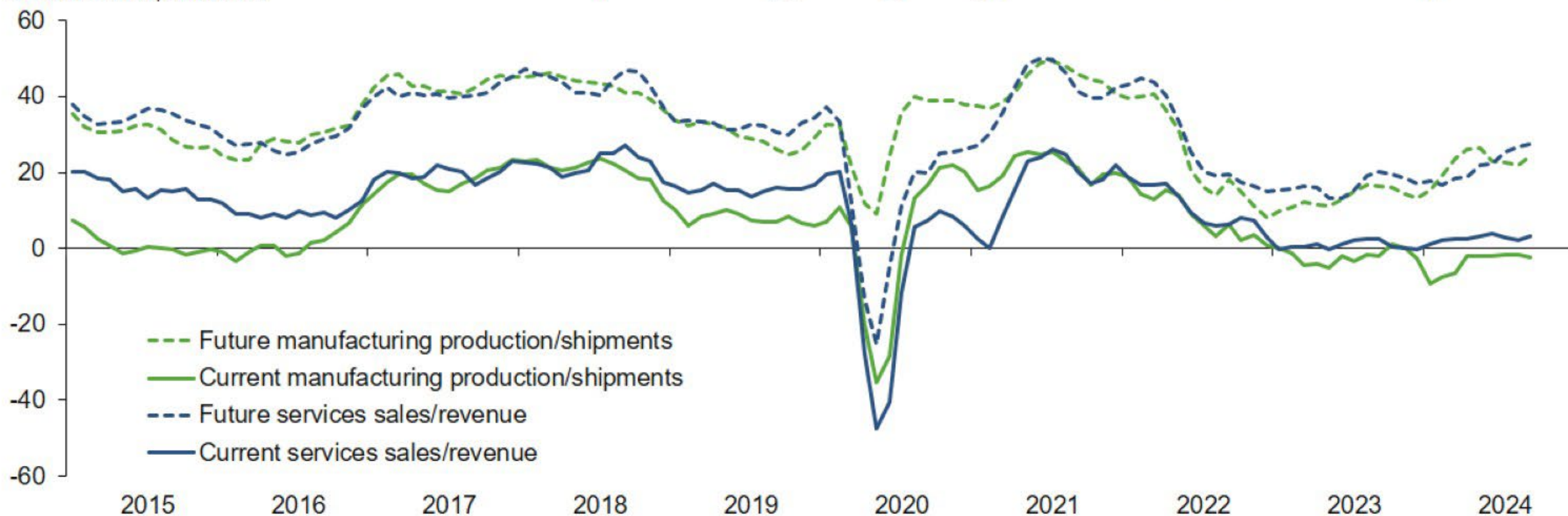


NOTES: Shown are the percent of respondents that selected each category in response to: "What are the primary concerns around your firm's outlook over the next six months, if any? Please select up to three." N = 311 in September 2024.

SOURCE: Federal Reserve Bank of Dallas' Texas Business Outlook Survey.

Fed Surveys: U.S. Manufacturing is just treading water, Services are expanding slightly, outlooks are improving

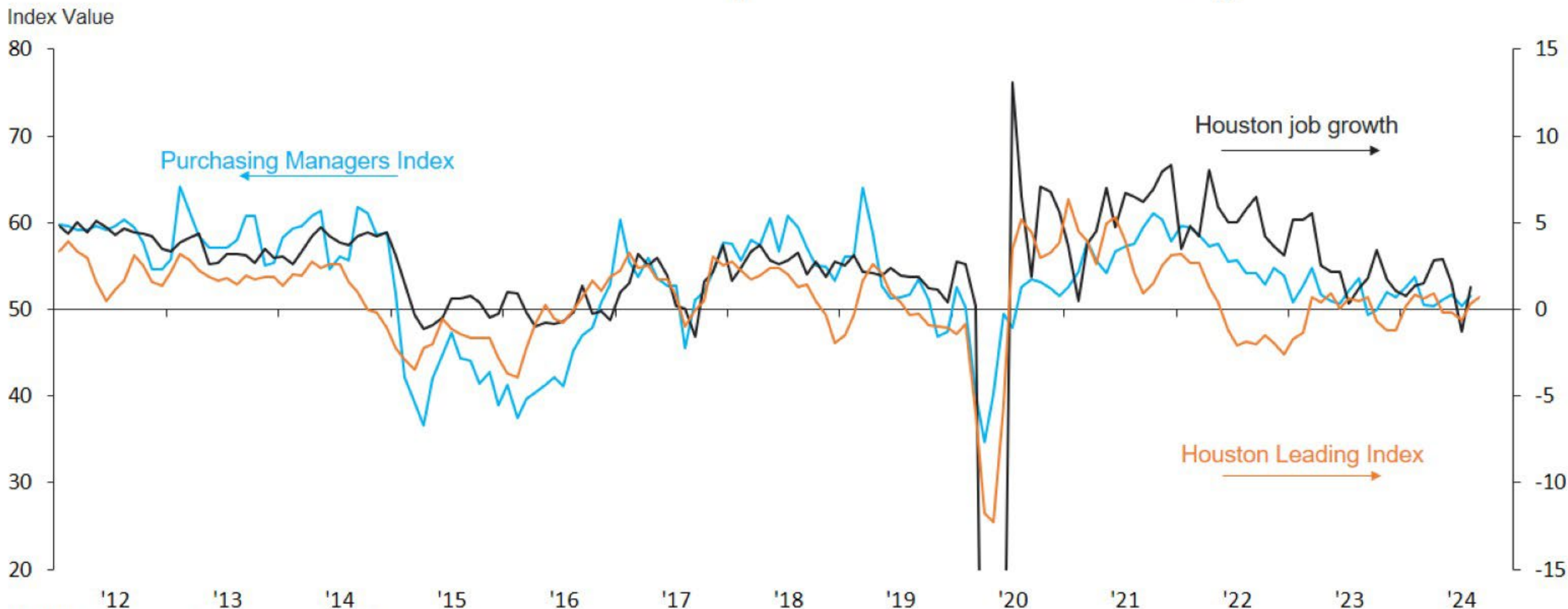
Diffusion index, SA 3MMA



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.

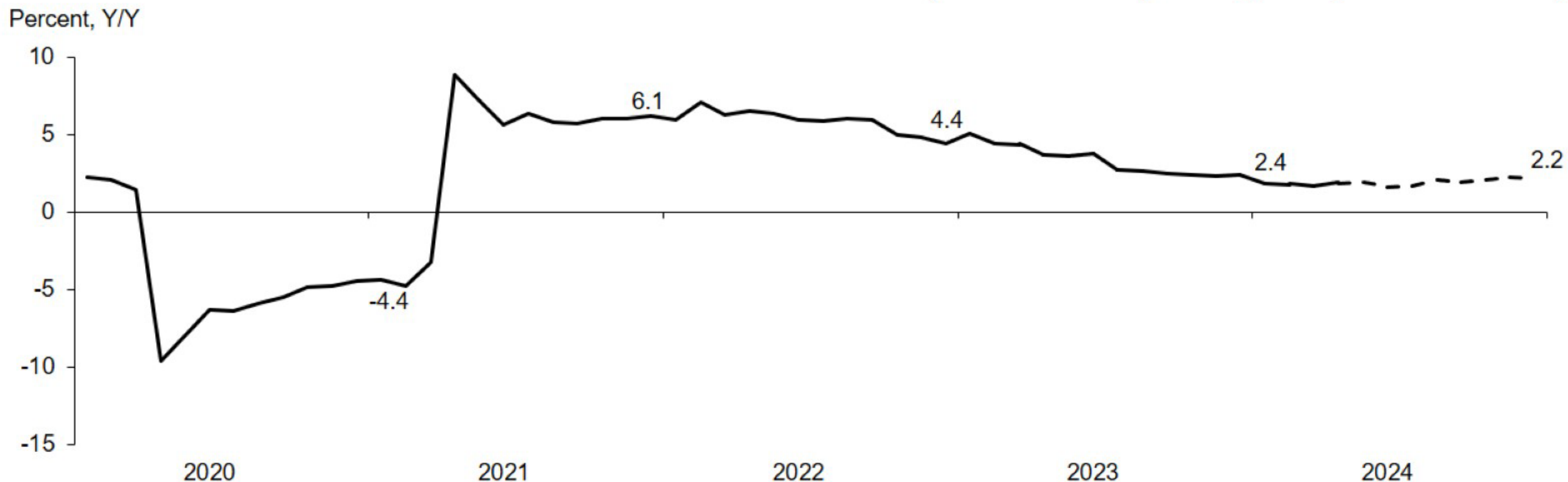
Accounting for Hurricane, Houston's leading and coincident indexes point to near-trend growth ahead.



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.

Texas payrolls to grow 2.2 percent in 2024. (slow only slightly in 2025)



NOTES: Solid line reflects actual monthly values for Texas employment growth. Dashed line reflects predicted Texas employment growth. Actual data is monthly through August 2024. Predicted data is monthly from September through December 2024.

SOURCE: Federal Reserve Bank of Dallas' Texas Employment Forecast.

Summary/Outlook

- Texas job growth is robust, but should slow in the second half of this year
 - Economic and fiscal tailwinds have boosted the economy's resilience in the face of higher interest rates, as has migration
 - Financial conditions have eased despite high rates
- There are pockets of weakness, but nothing broadbased or systematic
- US outlook marked by upside and downside risks
 - Progress on inflation encouraging
 - Labor market easing is welcome but momentum bears watching



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



Federal Reserve
Bank of Dallas

Building a strong economy together

Explore our resources at dallasfed.org

Economy

Banking

Communities

Education



Federal Reserve
Bank of Dallas



Federal Reserve
Bank of Dallas

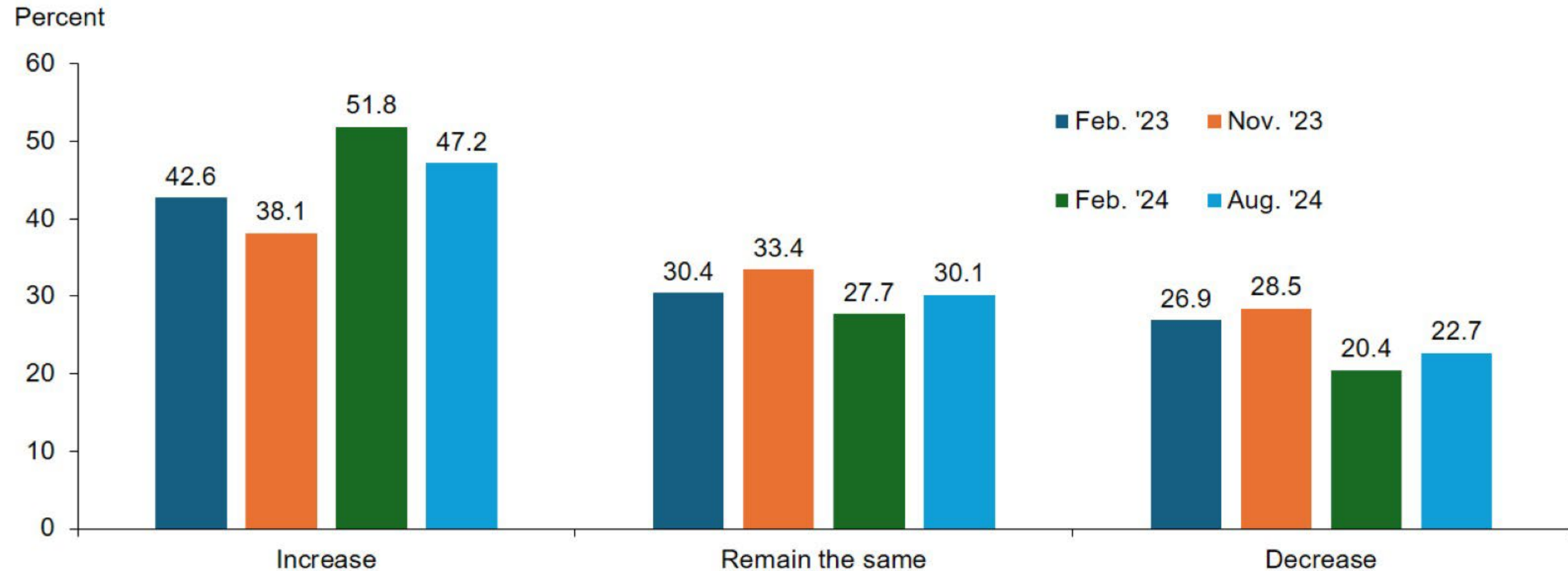
Thank you

Jesse Thompson

Federal Reserve Bank of Dallas – Houston Branch

4Q 2024

Demand outlooks mostly positive to neutral among TBOS respondents



NOTES: Participants were asked, "How do you expect demand for your firm's goods and/or services over the next six months to compare with the past six months, aside from seasonal variation?" N=335 in August.