FEI San Antonio Chapter Lunch
September 1, 2021

Texas Economic Outlook
Pandenomics: Where do we go from here?

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TEXAS Economic Outlook



Pandenomics: Where Do We Go From Here?

Keith R. Phillips
Keynote Speaker

September 1, 2021

Federal Reserve Bank of Dallas

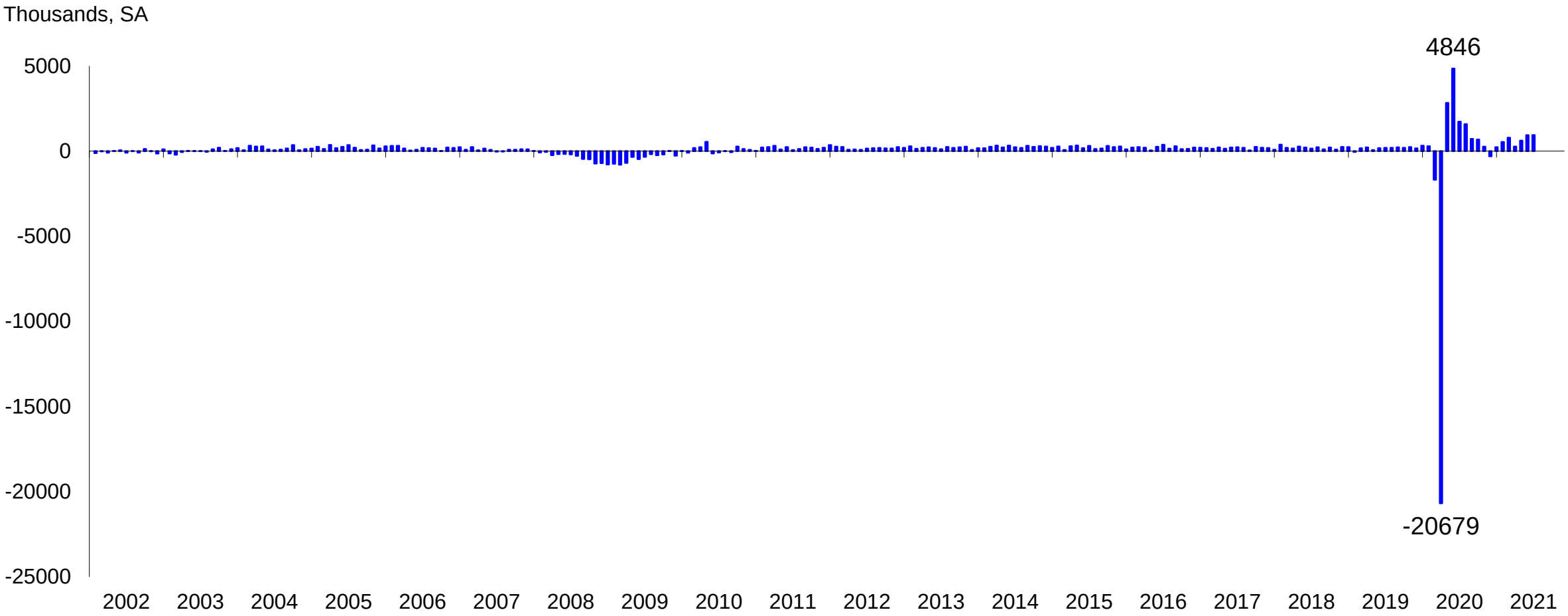
The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.

National Economy

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

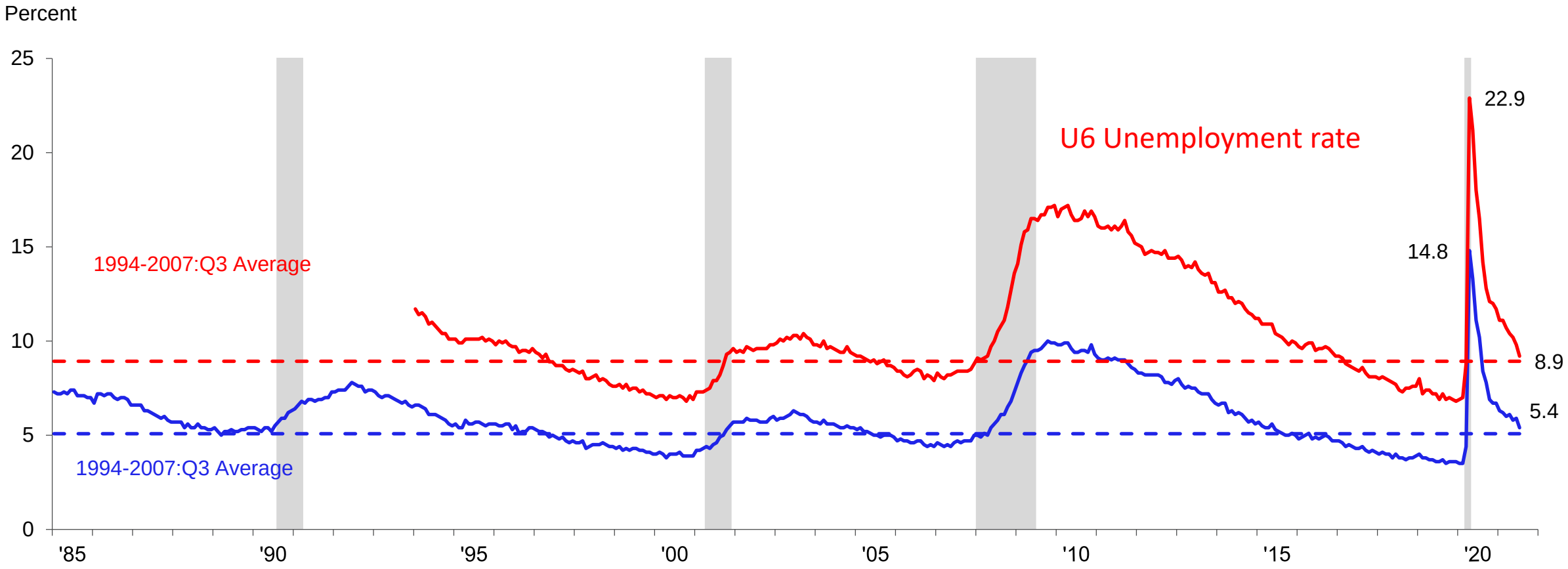
- After growing a healthy 1.3% in 2019, job growth fell sharply to -6.2% in 2020, while real GDP growth slowed less: from 2.6% to -2.3%
- Labor market much tighter than is reflected by 5.4% unemployment rate
- Inflation well above 2% - big question if rise is temporary or more long-lasting - Blue Chip Forecast is 4.1% for 2021 and 2.1% 2022
- Pandemic has been main driver of economic growth – recent surge not as negative to the economy as past surges
- Upward sloping yield curve reflects positive outlook over next 12 months
- Blue Chip Forecasters project GDP to grow about 6.4% this year and 3.1% next year
  - Jobs likely to improve by less than output with Blue Chip year-end UR forecast of 4.9%

Historic Monthly Job Loss in April 2020, Rebound Dissipated with Winter Surge – but Picked up After



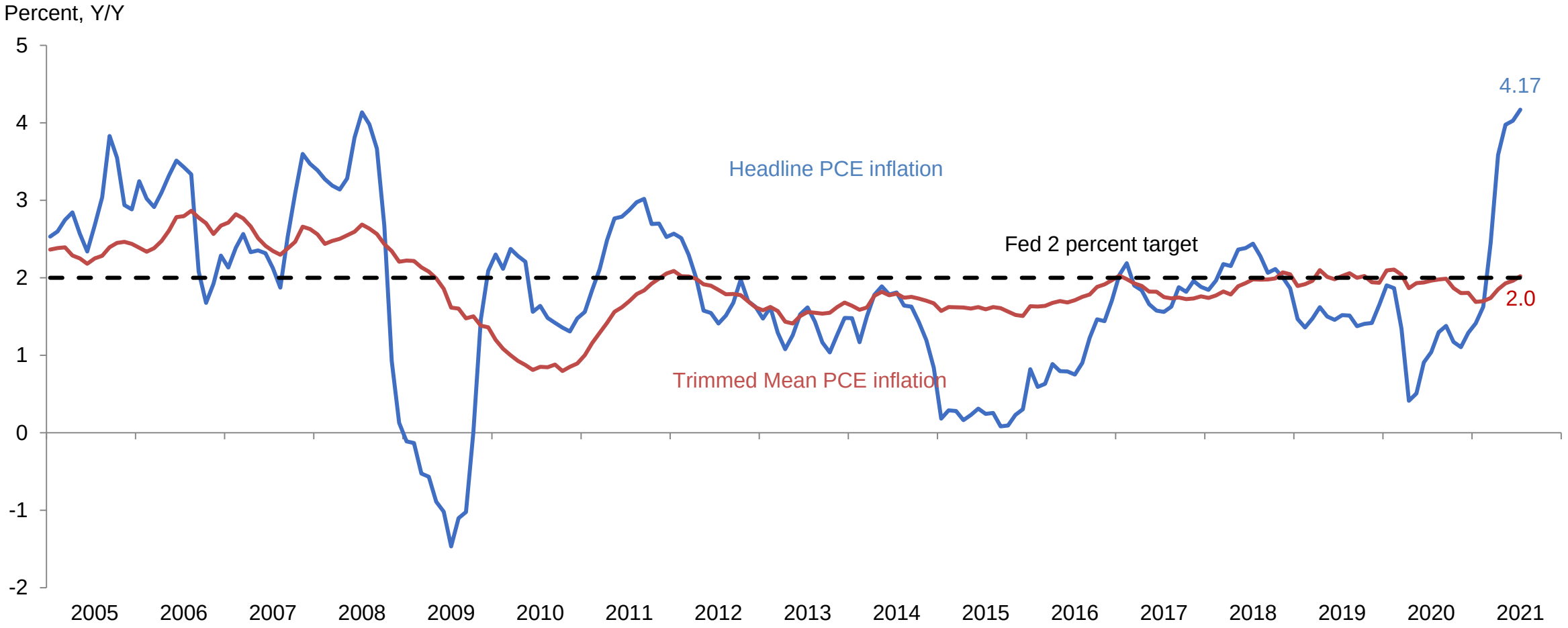
NOTE: Data up to July 2021.
SOURCE: Bureau of Labor Statistics

Unemployment Rate has Declined Quickly, but Remains High



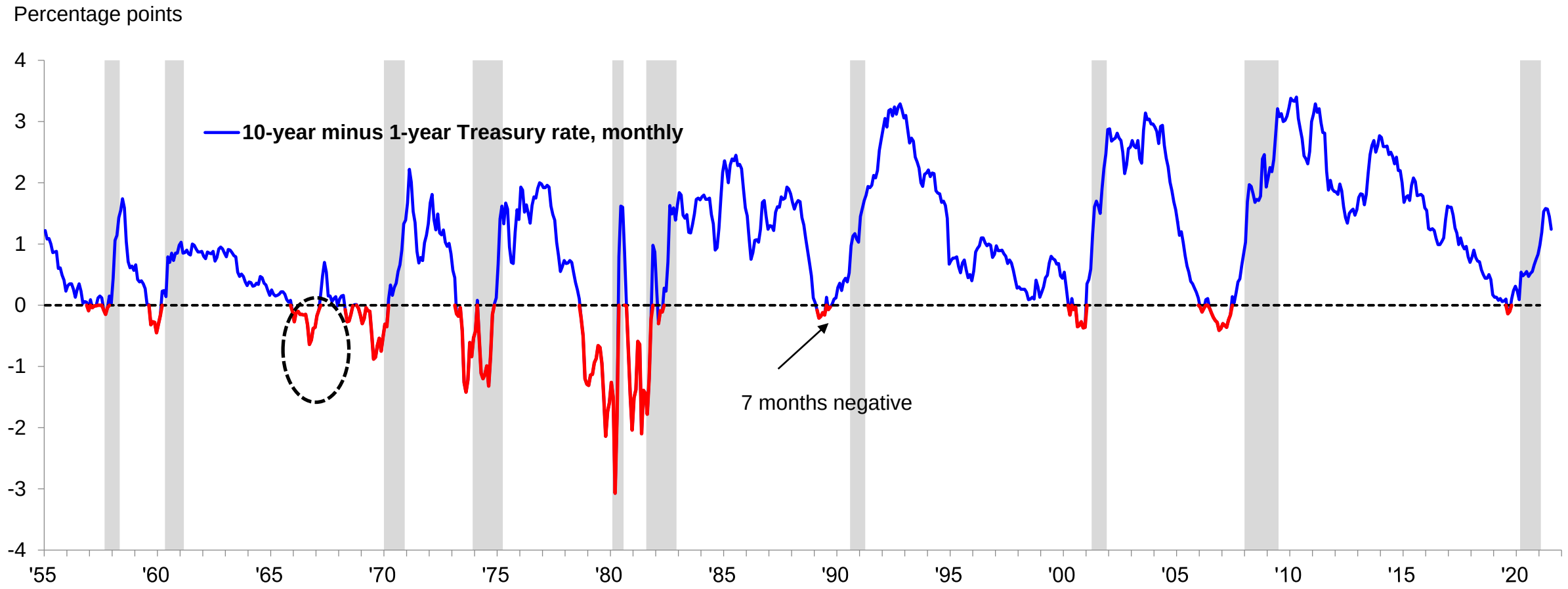
NOTES: U6 Unemployment rate includes marginally attached and part-time for economic reasons workers. Gray shaded areas indicate NBER recessions. Data up to July 2021.
SOURCES: Bureau of Labor Statistics; NBER.

Headline Inflation has Increased Strongly – Likely to Dissipate Next Year – but Remain above 2%



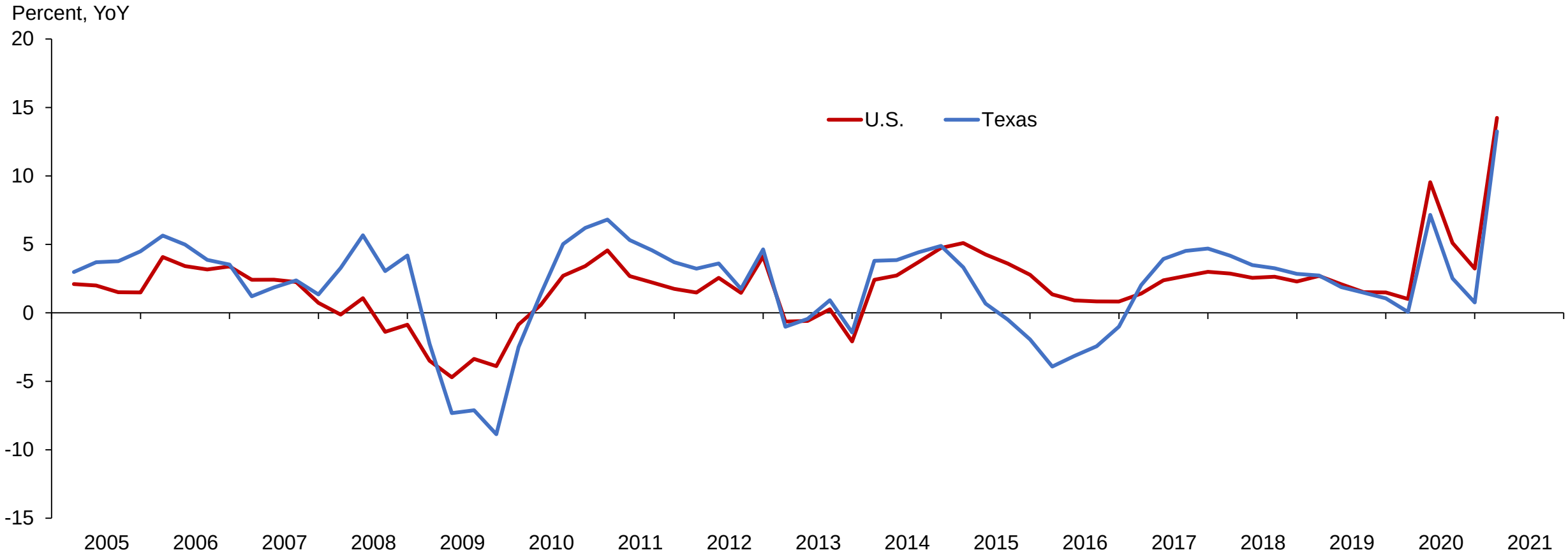
NOTE: Data up to July 2021.
SOURCES: Bureau of Economic Analysis; Federal Reserve Bank of Dallas.

Steep Yield Curve Signals Positive Outlook



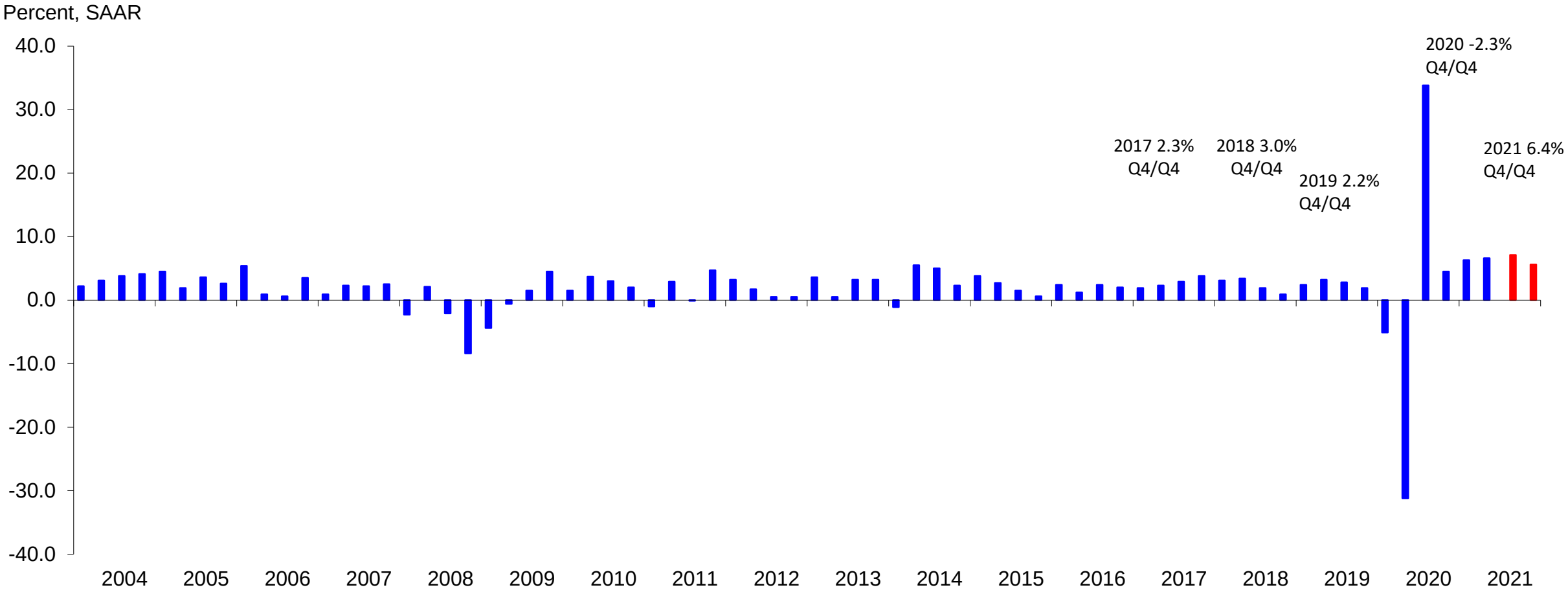
NOTE: Data through April 2021.

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 Q1 2021.

GDP Growth Expected to Increase about 6.4 percent – has already Surpassed pre-COVID Levels



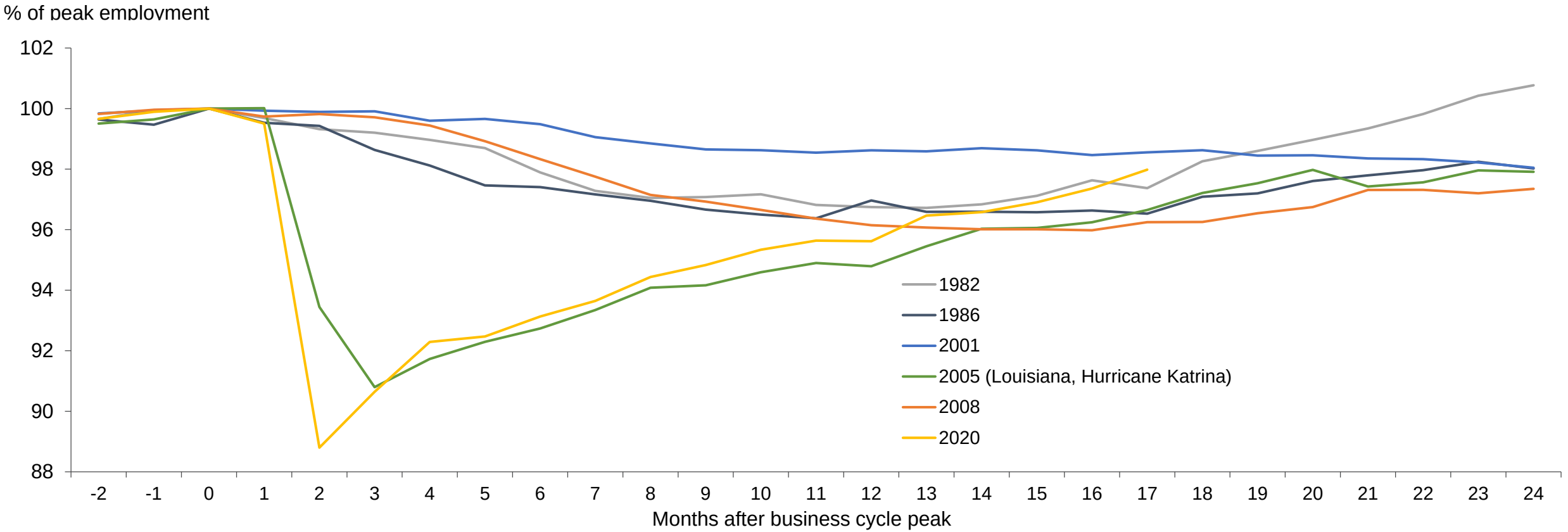
SOURCES: Bureau of Economic Analysis; Blue Chip Economic Indicators.

Texas Economy

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

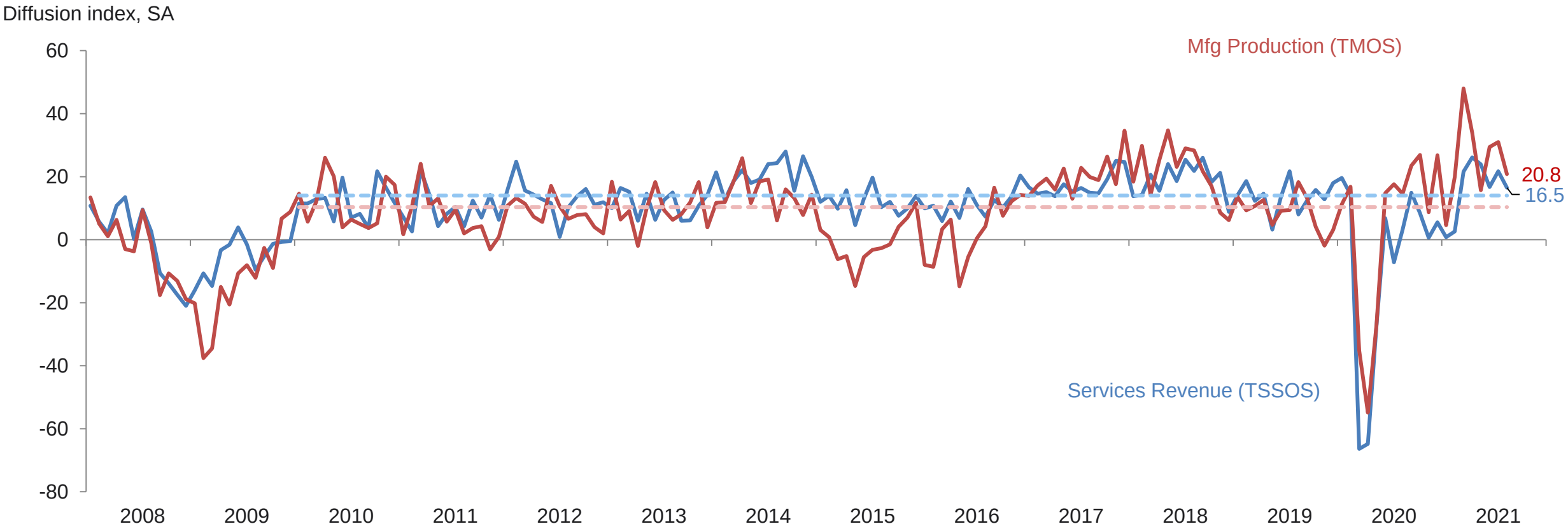
- Despite sharp decline in the energy sector, Texas jobs declined less than the national average las year.
- Better performance likely due to less pandemic hit, increased preference for low cost, low density areas to live and work.
- Employment data through July shows weaker job growth this year but less job loss overall during pandemic.
- COVID will have long-lasting structural impact on many industries, but high household savings and gains in vaccinations suggest Texas job growth will be hit as hard during current surge - recover to pre-COVID jobs by spring 2022.

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



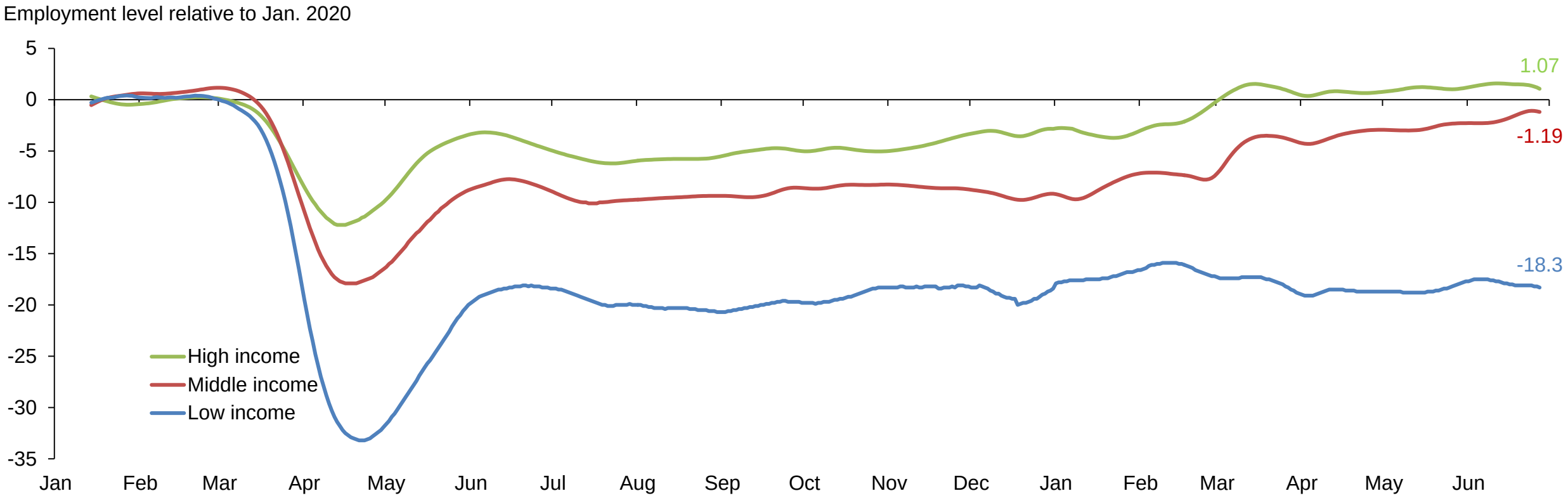
NOTES: Shown is Texas nonfarm payroll employment. Recessions are indexed to on peak employment: March 1982, January 1986, March 2001, August 2008, and February 2020.
SOURCE: BLS.

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



NOTES: Data through August 2021. Dashed lines are post-recession averages TMOS 10.3; TSSOS 14.0.
SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys (TBOS).

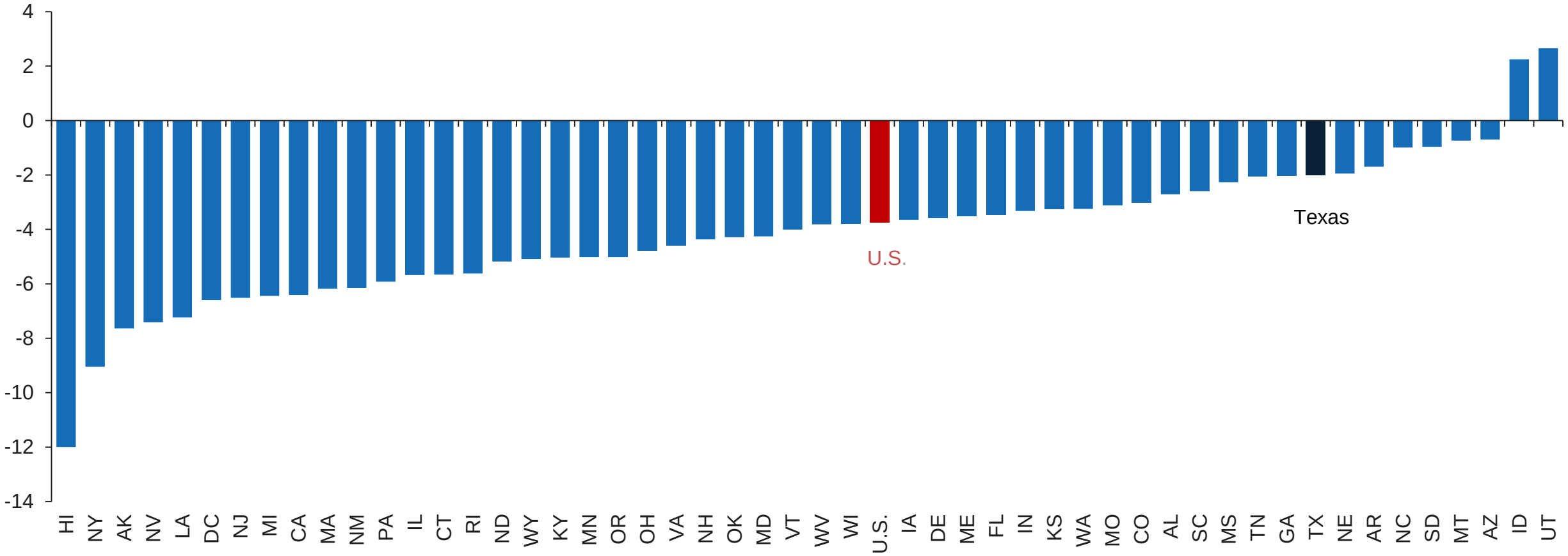
Texas Low Wage Jobs Far From Recovered



NOTE: Data through June 27, 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.

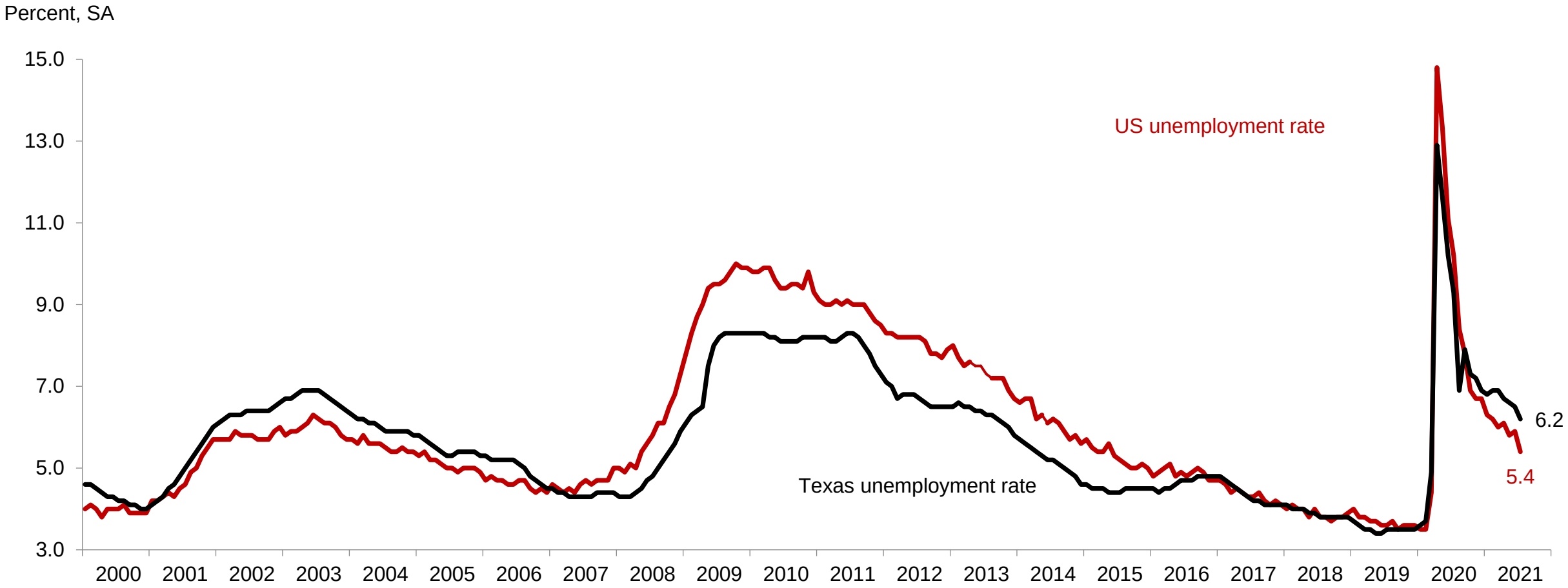
Texas' overall job loss in pandemic is less than nation and less than other large states

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



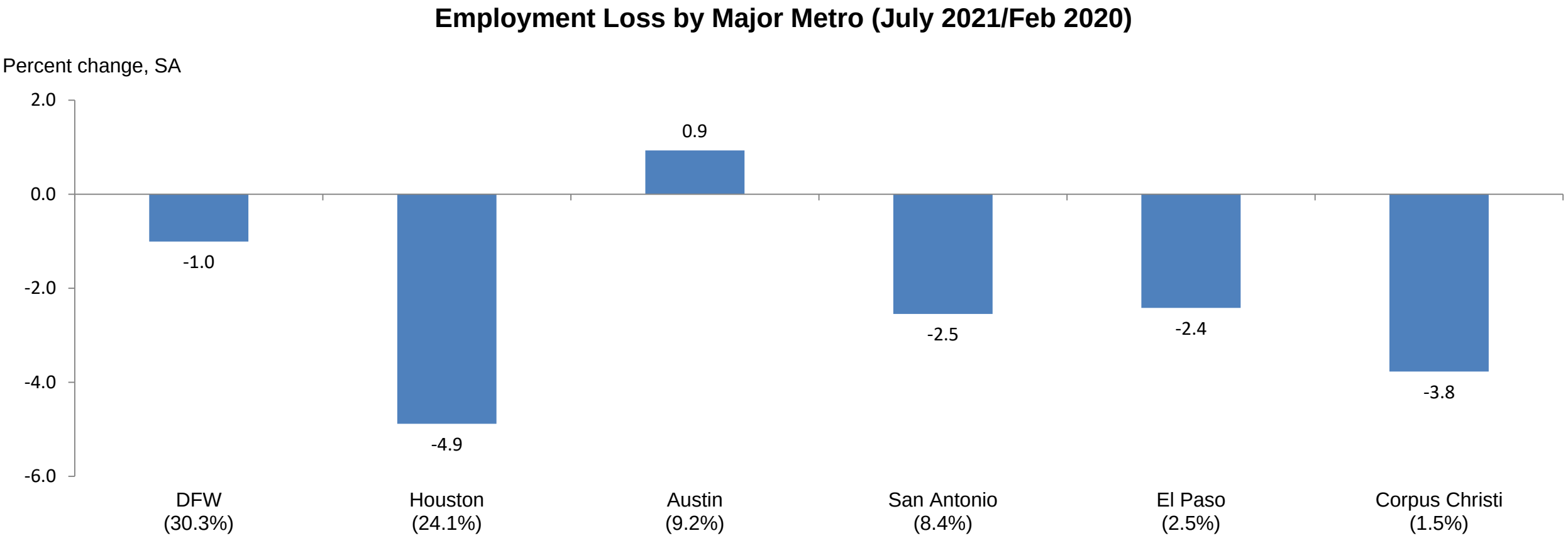
NOTE: Data show non-annualized job growth. Texas data are not early benchmarked to facilitate comparison across states.
SOURCES: Bureau of Labor Statistics.

Texas Unemployment Rate Higher than Nations Mostly due to Higher Labor Force Participation



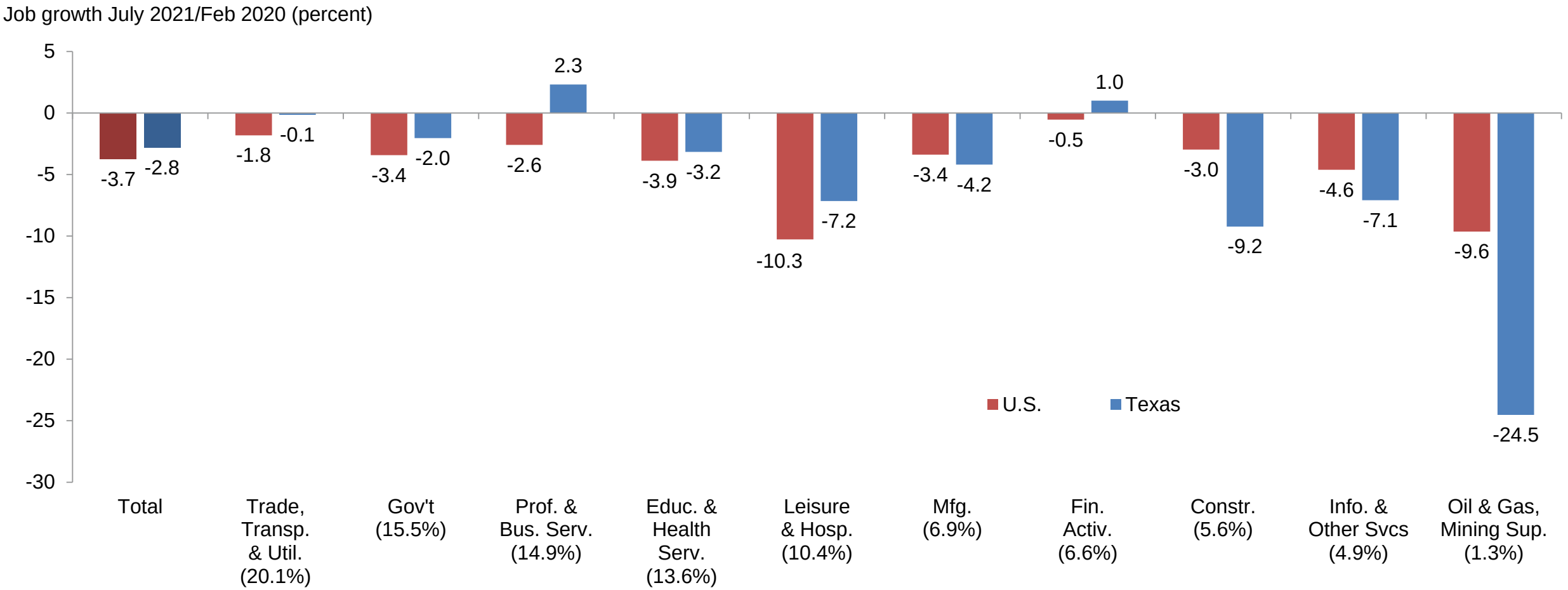
NOTES: Data through July 2021.
SOURCE: Bureau of Labor Statistics.

Energy Metros Including Houston Hardest Hit in Pandemic



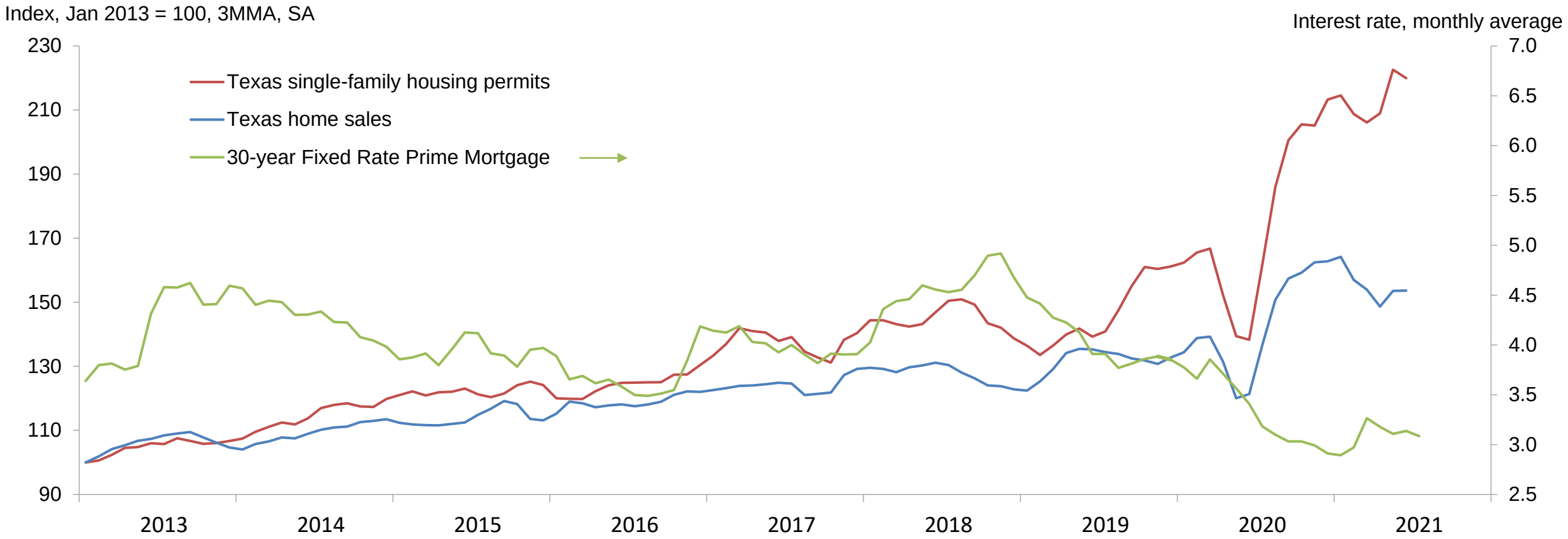
NOTES: Data refer July 2021/February 2020 non-annualized job growth. Numbers in parentheses refer to share of state employment in July 2021.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by FRB Dallas.

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



NOTE: Data show July 2021/Feb. 2020 non-annualized job growth. Numbers in parenthesis indicate share of total state employment for July.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.

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



NOTES: Mortgage data up to July 2021. Other data through June 2021.
SOURCES: MLS; A&M Real Estate Center; Freddie Mac Primary Mortgage Market Survey; U.S. Census.

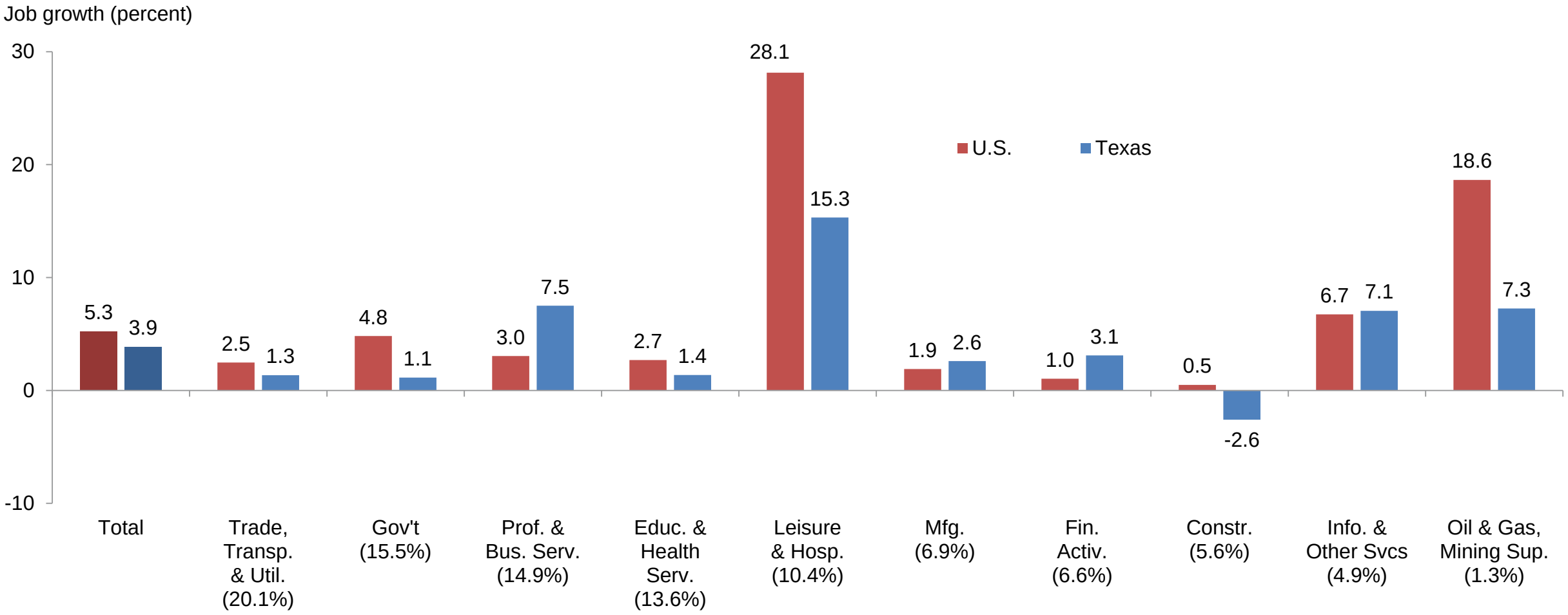
Energy sector declined sharply with fall in oil prices: rig count now increasing from very low levels – oil prices above break-even



NOTES: Data are weekly. Data through the week of August 27, 2021.
SOURCES: Oil and Gas Journal; Baker Hughes.

Recent Economic Activity

Job growth strong so far this year



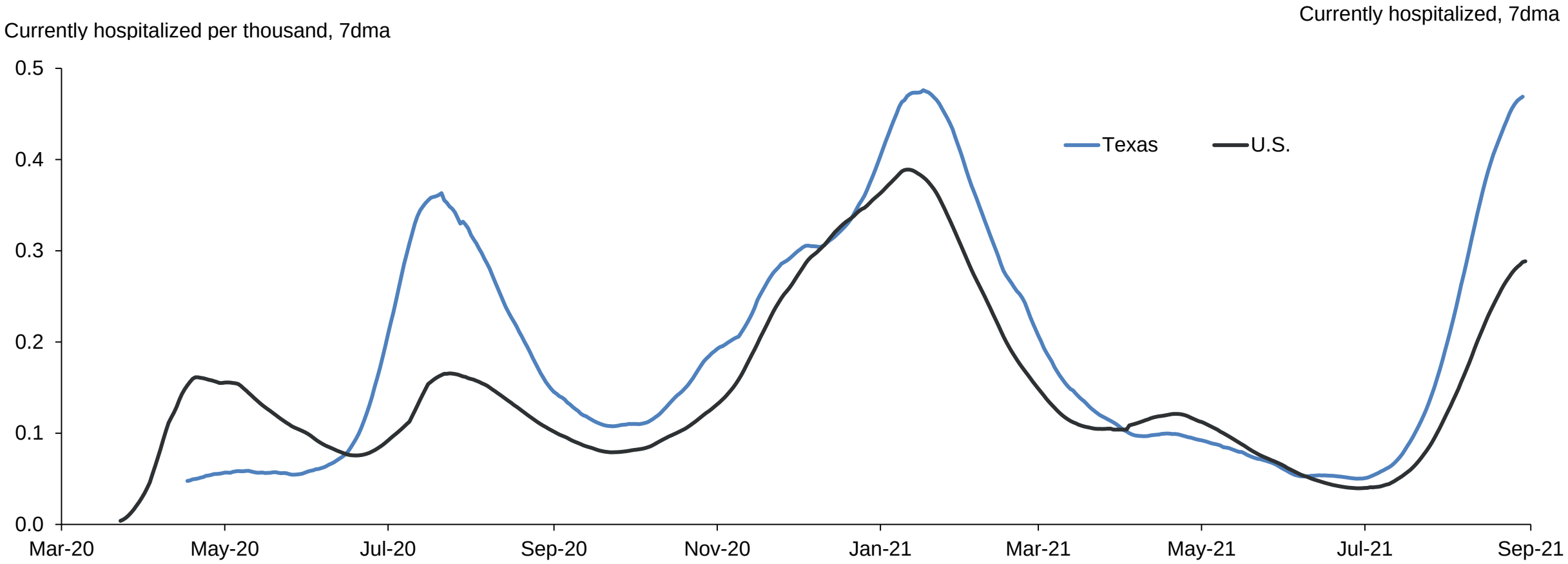
NOTE: Data show July 2021/December 2020 annualized growth. Numbers in parenthesis indicate share of total state employment for July.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.

Manufacturing Output and Service Sector Sales Remain Strong According to Texas Businesses



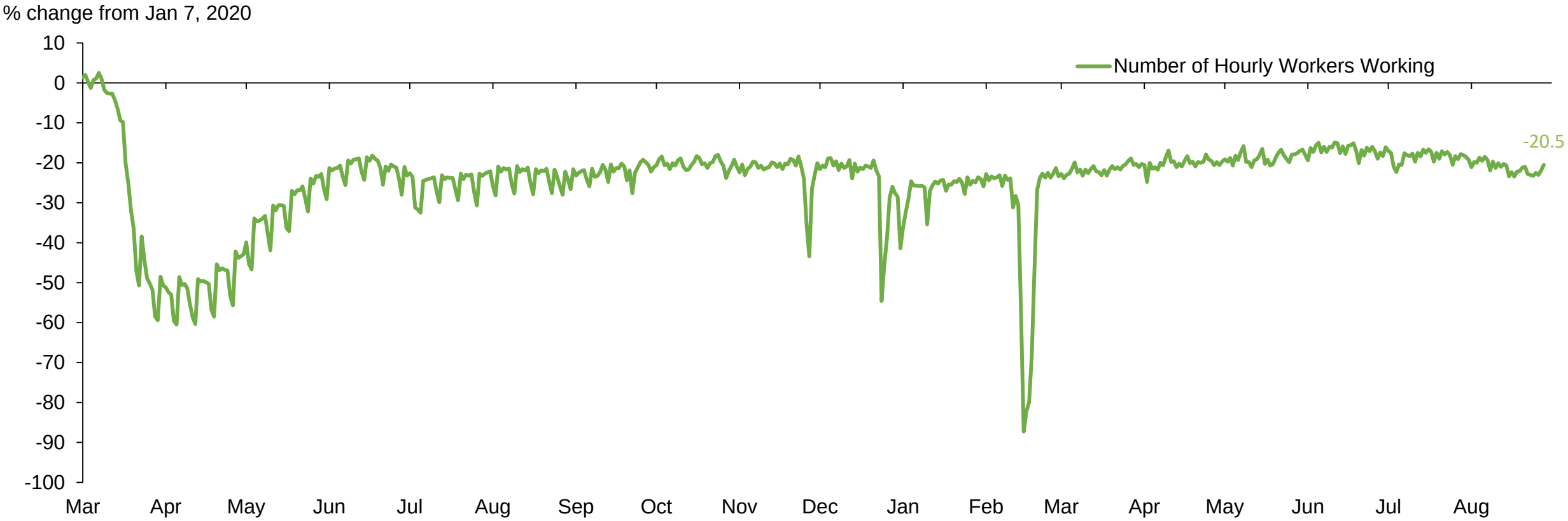
NOTE: Data up to August 2021.
SOURCE: Dallas Fed Texas Business Outlook Survey

Texas COVID hospitalizations twice as high as nation – but may peak soon



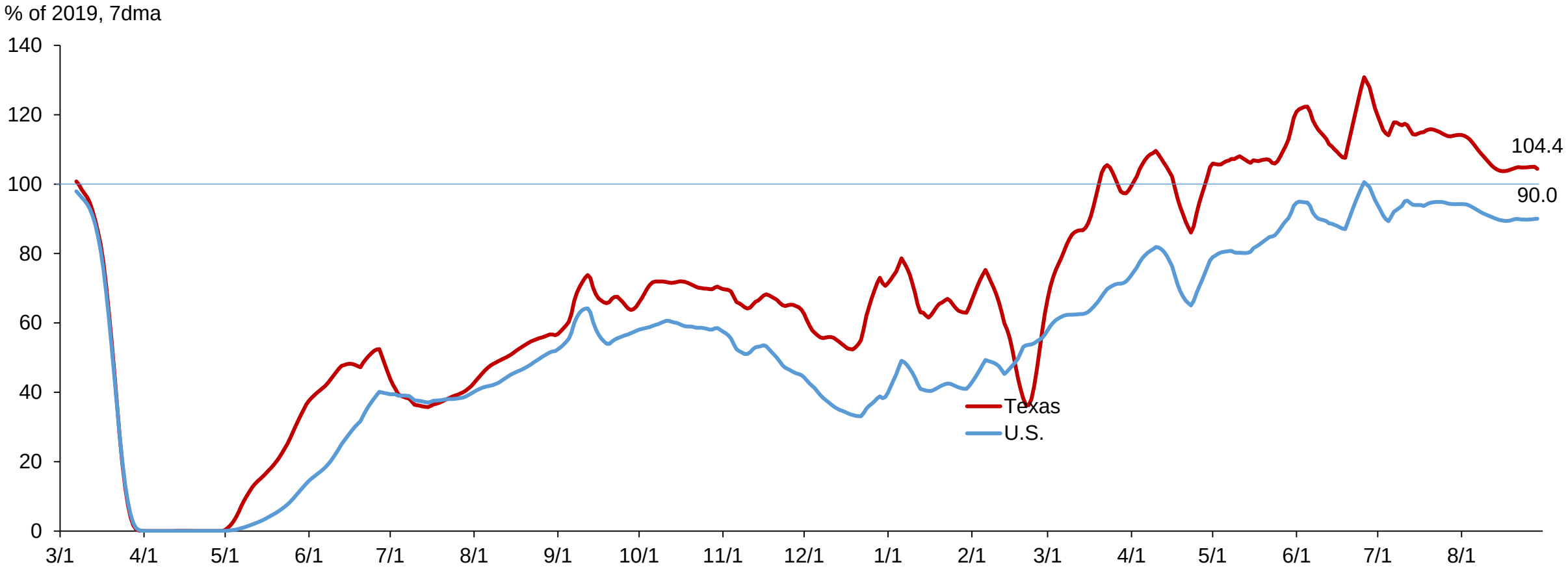
NOTE: U.S. data up August 30, 2021. Texas data up to August 29, 2021. Data normalized using 2020 Census population estimate.
SOURCES: Texas Department State Health Services, CDC, ourworldindata.com.

Texas Homebase Staffing Levels show Weakening at Small Businesses in August



NOTE: Data up to August 28, 2021.
SOURCE: Homebase.

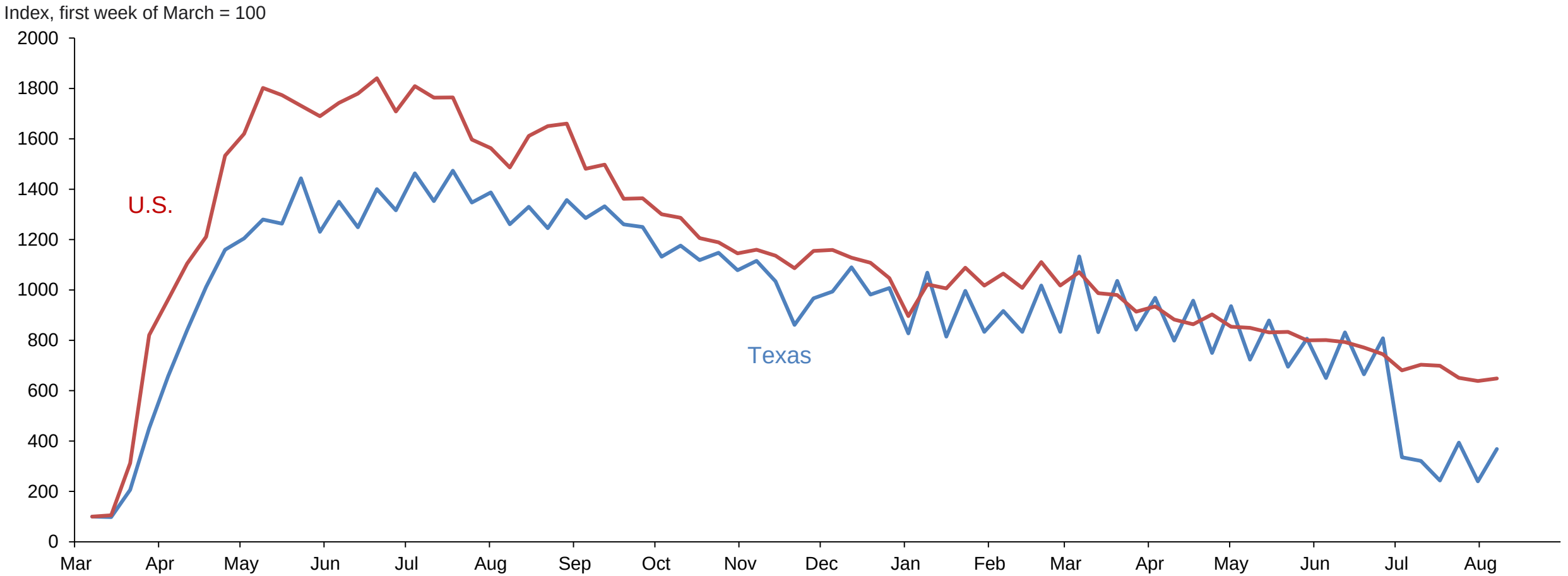
Texas Restaurant Reservations also Weakening with Recent Surge



NOTES: Dining out data up to August 29, 2021.
SOURCES: Homebase, OpenTable.

Texans Receiving Unemployment Benefits have Fallen Sharply

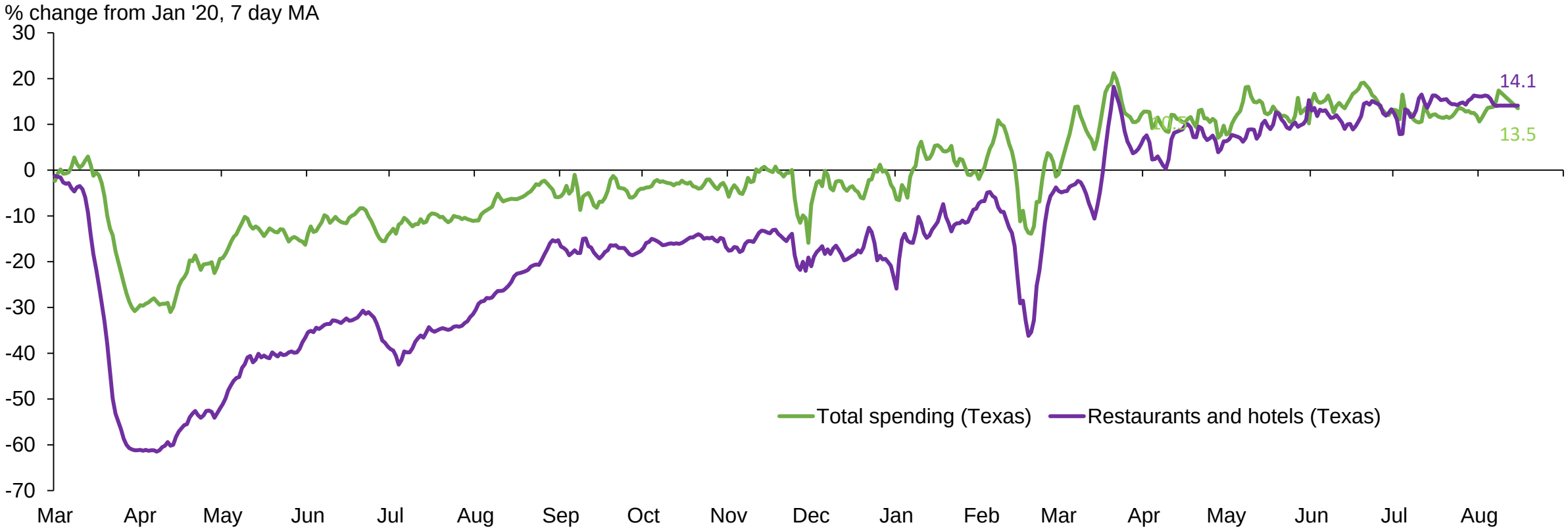
Total claims, state UI and federal PUA, PEUC and EB



NOTES: Unemployment claims data through the week ending August 7.
SOURCES: Department of Labor.

Consumer Spending in Texas Holding up Through Mid-August

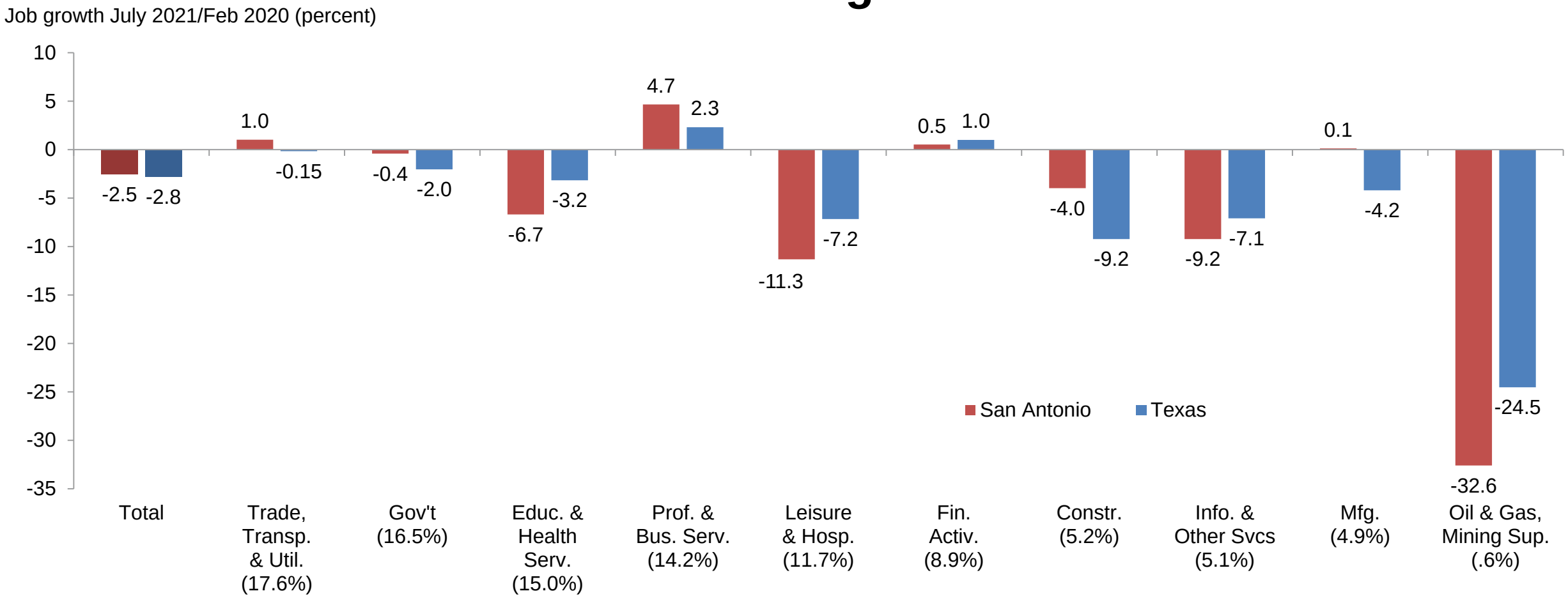
Debit/Credit Card Spending in Texas



NOTE: Texas data up to August 15, 2021.
SOURCE: Affinity Solutions

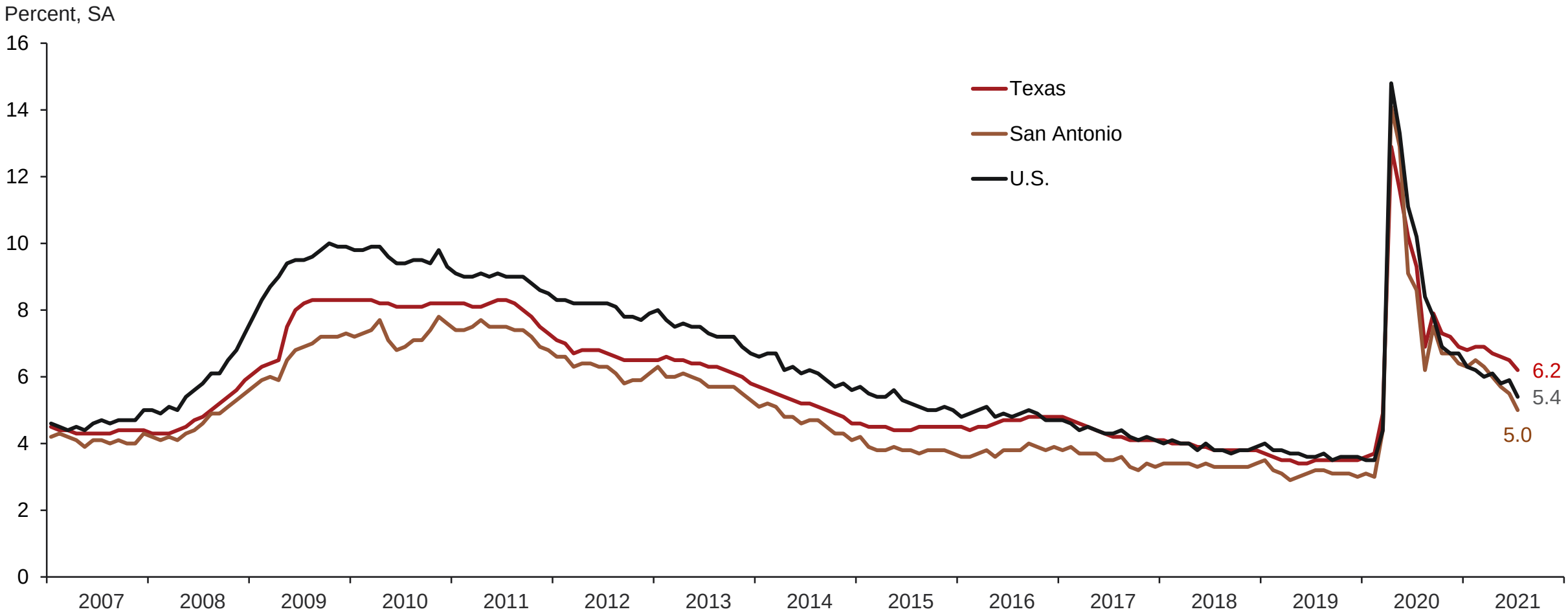
San Antonio

Despite large tourism sector, San Antonio job loss close to state average



NOTE: Data show July 2021/Feb. 2020 non-annualized job growth. Numbers in parenthesis indicate share of San Antonio employment for July.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; FRB Dallas.

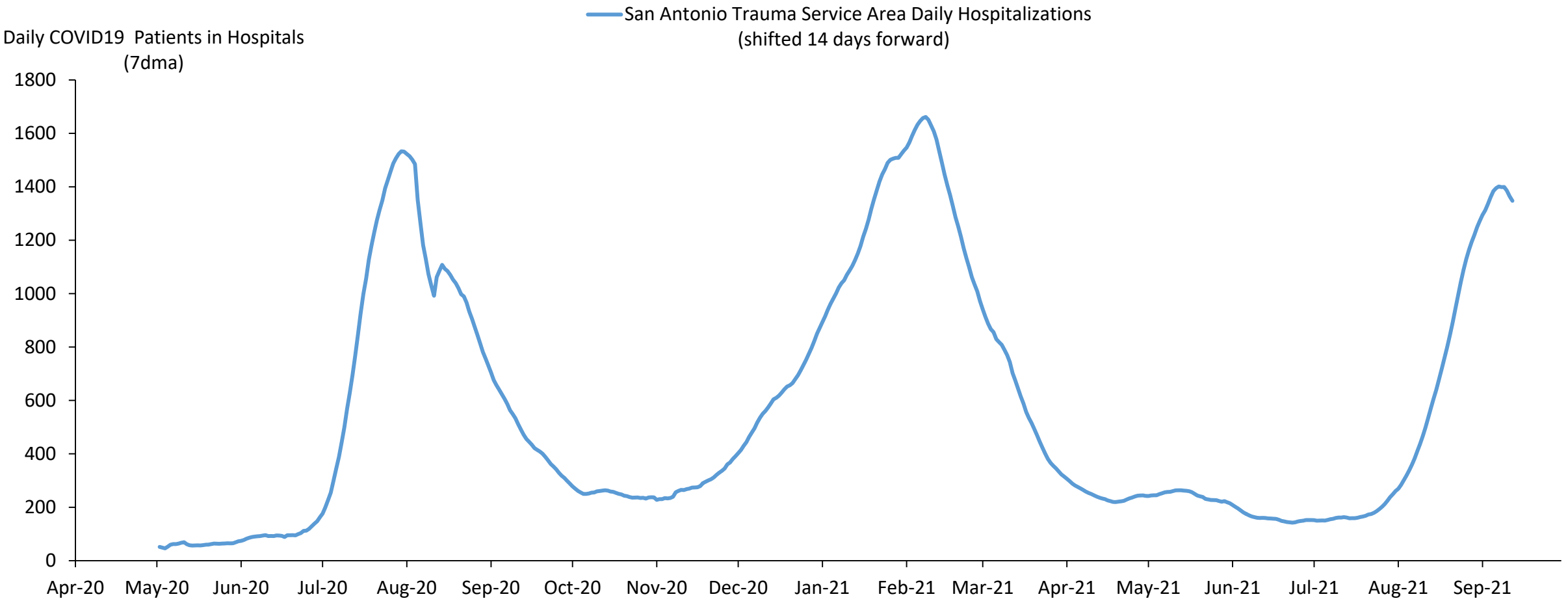
San Antonio Unemployment Rate below Texas and U.S.



NOTE: Data up to July 2021.

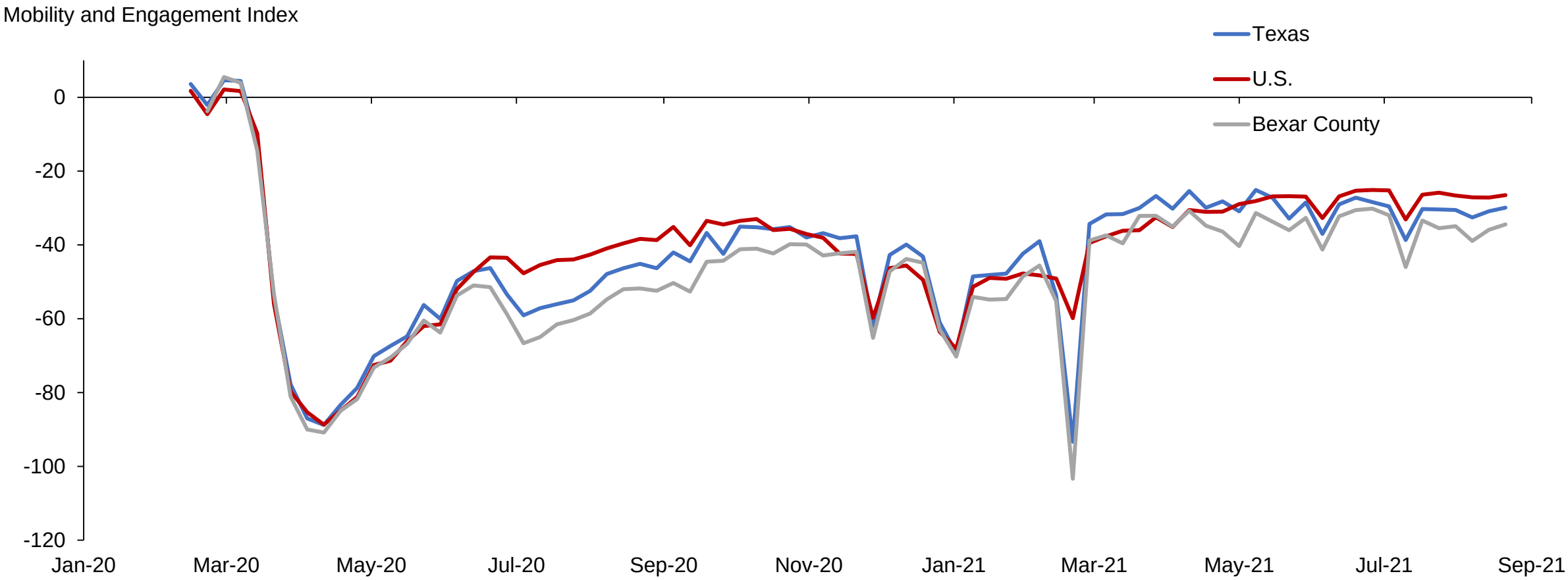
SOURCE: Bureau of Labor Statistics.

San Antonio COVID hospitalizations may have peaked



NOTE: Daily data up to August 29, 2021.
SOURCES: Texas Department of State Health Services, NYT.

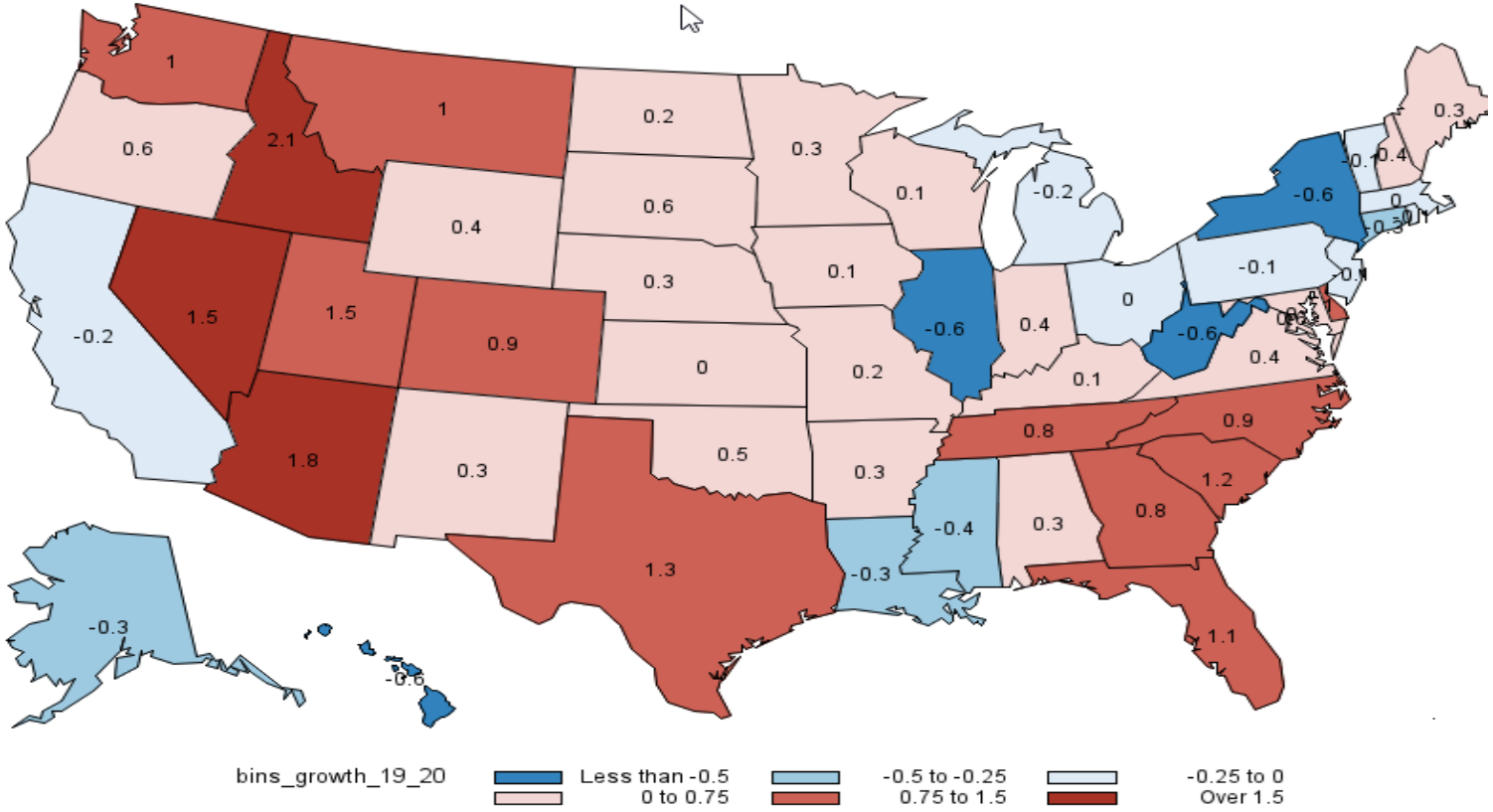
Mobility in San Antonio moving sideways in recent weeks



NOTE: Weekly Google mobility index up to August 21, 2021.
SOURCE: Federal Reserve Bank of Dallas.

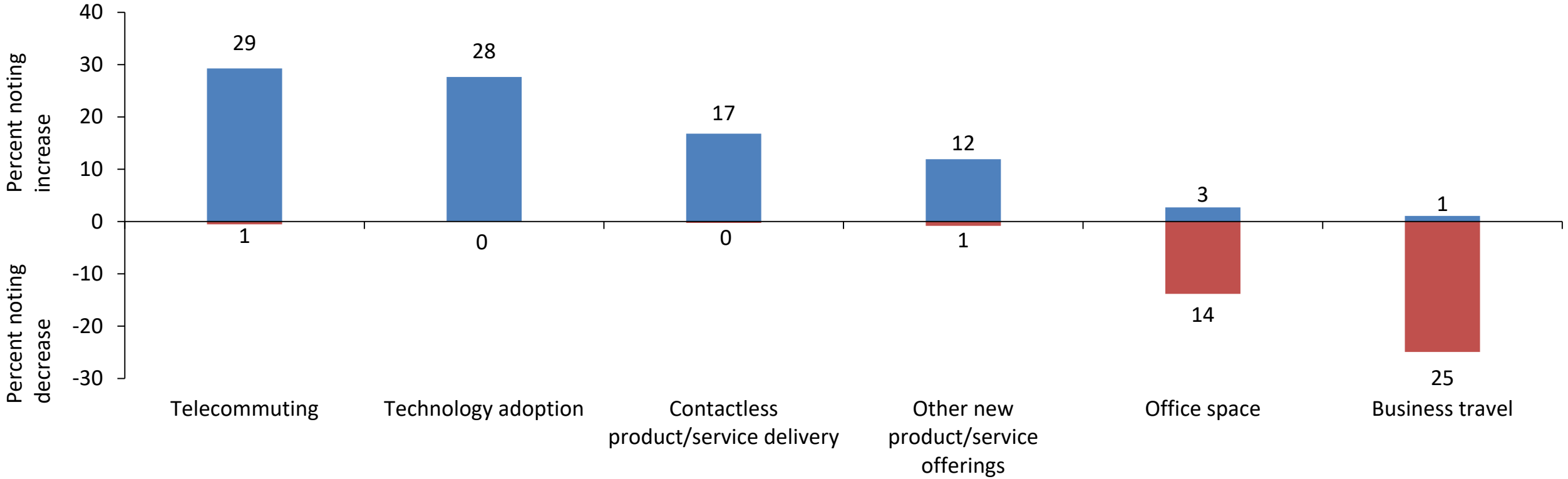
Outlook for 2021

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



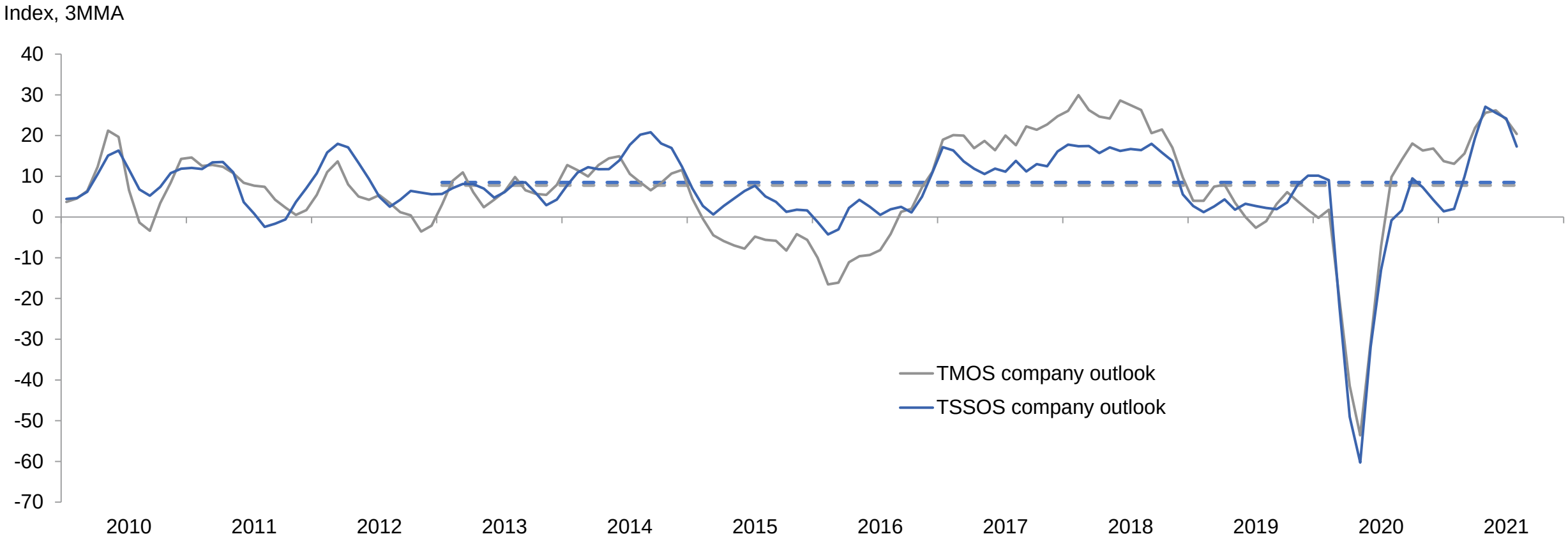
Some industries may lag in jobs recovery due to structural changes in the economy

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



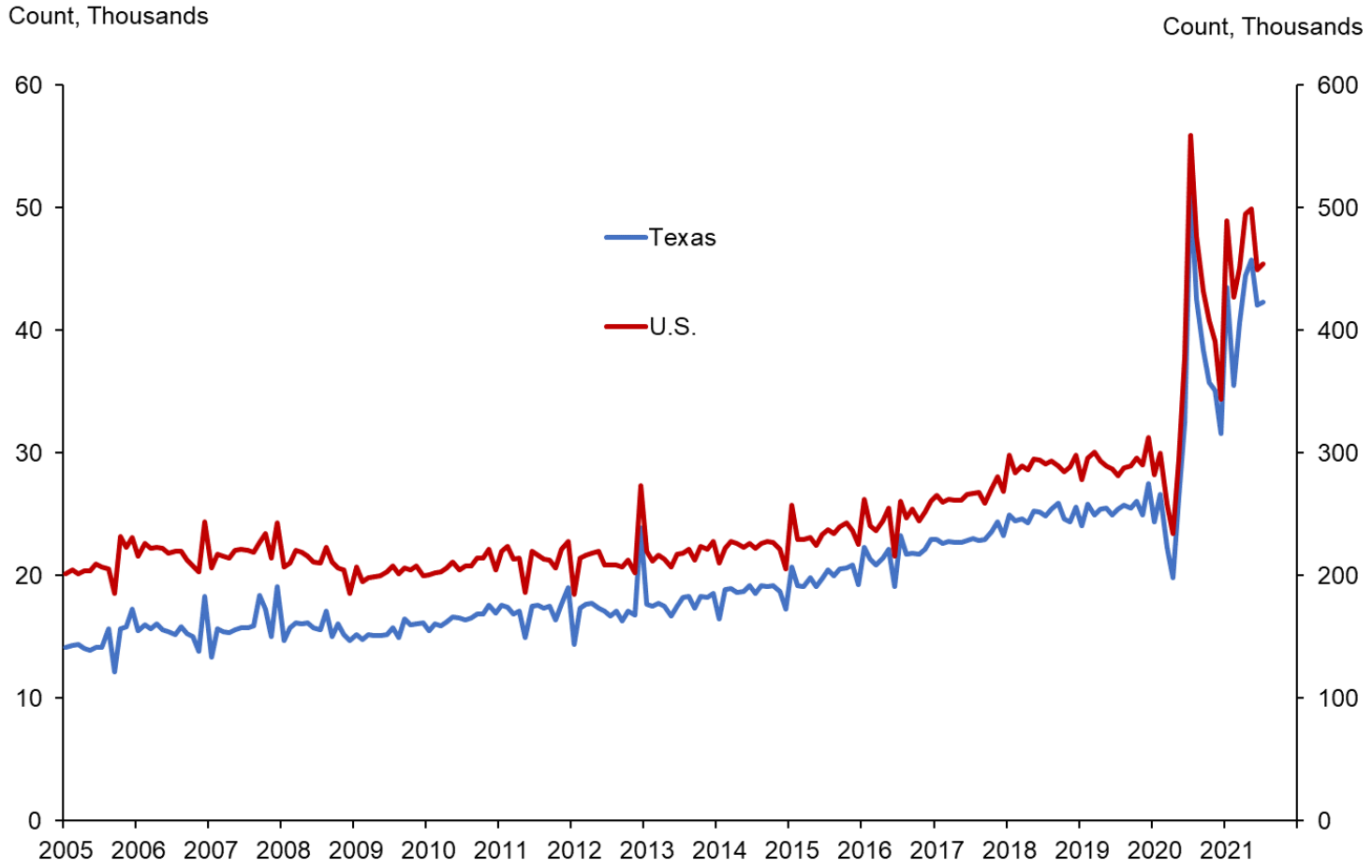
NOTES: 369 respondents. Firms were asked, “Are there structural changes your firm has made or plans to make as a result of the COVID-19 pandemic that you expect to be permanent? If yes, please specify any changes, and whether it is an increase or decrease.
SOURCE: Federal Reserve Bank of Dallas Texas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

Short-term outlook improving in manufacturing and services



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

Green Shoots? Texas Business Applications Increase to Historic Levels



NOTE: Data for business applications through July 2021.
SOURCE: U.S. Census.

August TBOS Survey: What are the primary factors restraining your firm's revenues, if any? Please select up to three. (355 responses)

	Jul. '20 (percent)	Aug. '21 (percent)
Supply-chain disruptions	16.9	40.8
Limited operating capacity due to staffing shortages (COVID-19 infections and quarantining, absenteeism, difficulty hiring, etc.)	21.4	31.8
Weak demand	57.3	23.9
Reduced productivity due to alternative work arrangements	14.8	9.0
Limited operating capacity due to state/local restrictions	20.6	5.4
Other	16.1	13.5
None/not applicable	12.4	21.1

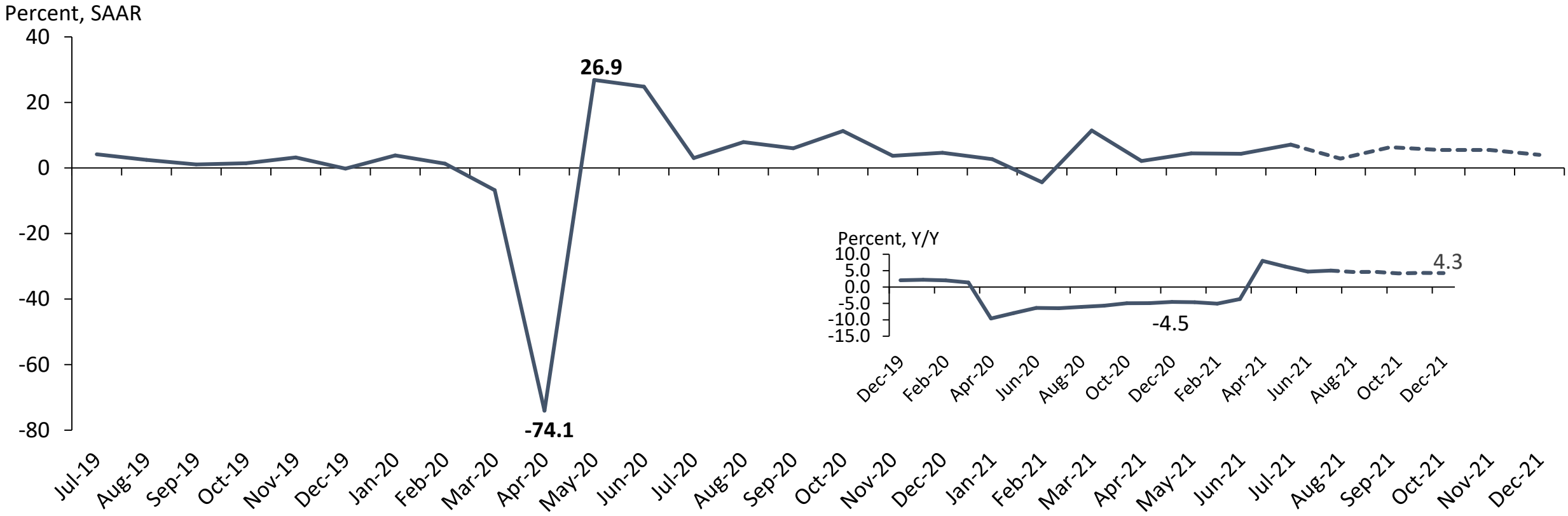
August TBOS survey suggests recent surge not as impactful to Texas businesses as previous surges

Table 1: Response rate to question: "*How has this recent surge in COVID-19 cases affected your business differently than prior surges?*"

	% of respondents
More	16
Less	41
same	43

NOTE: 88 survey participants were characterized as indicating the current surge is more, less, or similarly impactful to business than prior surges.

Dallas Fed 2021 Texas Jobs Forecast Projects Strong Growth of 4.3 percent for 2021



NOTE: Forecast scenario estimates Texas payroll employment for 2021 are based on IHME 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 8/19.

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
- US growing faster than Texas this year mostly due to stronger bounce back effect – Texas still down less than nation during pandemic
- 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 4.3 percent growth (Dec/Dec), with all lost jobs recovered by spring 2022

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