

Texas Is Turning the Corner, But It will Be a Slow Turn

Texas narrowly missed a technical recession over 2015 and 2016 as real state gross domestic product declined every other quarter from 2015Q2 through 2016Q2 (we define a technical recession as two or more consecutive quarters of declining real GDP). Moreover, the positive quarters separating the negative ones during that stretch were only weakly positive. That pattern broke in the third quarter of 2016, when real gross state product increased at a 4.3 percent annualized rate, above the surprisingly upbeat 3.5 percent annualized growth rate of U.S. GDP for that quarter. Our Texas State Index also began to turn up in the third quarter of 2016, posting three consecutive monthly gains so far, from September through November. WTI crude oil prices now look like they have support at more than \$52 per barrel. The state drilling rig count has increased steadily since last May, reaching 362 rigs as of early February, more than double the May 27 low of 173 rigs. Despite the many positive signals, we are taking a cautious view and forecasting annual growth in Texas for 2017 at just below the U.S. average. One cautious signal comes from job growth. Texas had only two months of net job losses through 2015 and 2016, both occurring in March of those years. This past December, Texas came close to a third month of net job losses, posting a meager gain of only 800 net new jobs statewide. Also, we do not expect oil prices to return to the pre-2015 heights any time soon. Our year-end forecast for WTI is \$58/bbl. Finally, Houston, a big part of the Texas economy, may take many more months to find its balance as large projects wind down this year.

Texas Economic Outlook

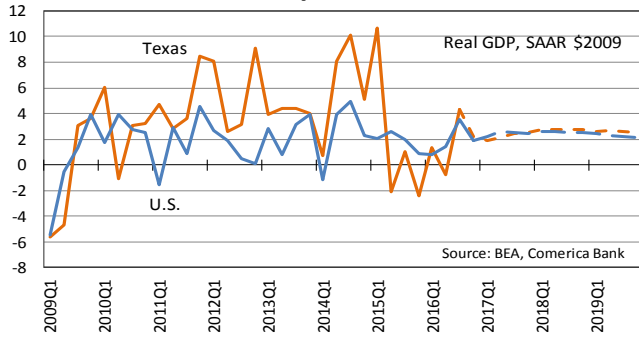
	3Q'16a	4Q'16a	1Q'17f	2Q'17f	3Q'17f	4Q'17f	1Q'18f	2Q'18f	2016a	2017f	2018f
State GDP											
Real GDP (Chained 2009 Millions \$)	1520797	1529029	1536309	1544473	1553727	1563438	1574098	1584892	1515606	1549487	1590312
Percent Change Annualized	4.3	2.2	1.9	2.1	2.4	2.5	2.8	2.8	0.4	2.2	2.6
Labor and Demographics											
Payroll Jobs (Thousands)	12055	12129	12197	12256	12320	12384	12447	12509	12033	12289	12537
Percent Change Annualized	2.4	2.5	2.2	2.0	2.1	2.1	2.0	2.0	1.6	2.1	2.0
Unemployment Rate (Percent)	4.7	4.6	4.6	4.5	4.5	4.4	4.4	4.4	4.5	4.5	4.3
Population (Thousands)	27964	28058	28148	28238	28329	28423	28518	28612	27912	28285	28658
Percent Change Annualized	1.5	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.6	1.3	1.3
Net Migration (Thousands)	39.6	35.2	33.6	36.1	39.4	39.7	39.2	38.6	174.1	148.8	155.6
Personal Income											
Total Personal Income (Nom., Millions \$)	1335555	1348501	1360908	1375126	1390040	1406562	1423559	1441026	1327695	1383159	1450237
Percent Change Annualized	4.8	3.9	3.7	4.2	4.4	4.8	4.9	5.0	3.0	4.2	4.8
Housing											
Housing Starts (Total, Ann. Rate)	159304	160710	159749	160042	160878	162386	164077	165683	162816	160764	166442
Percent Change Annualized	-9.3	3.6	-2.4	0.7	2.1	3.8	4.2	4.0	-4.3	-1.3	3.5
SF Housing Starts (# of Units, Ann Rate)	108773	115784	115076	115321	115713	116573	117724	118805	111149	115671	119312
MF Housing Starts (# of Units, Ann Rate)	50530	44926	44674	44721	45165	45813	46352	46878	51667	45093	47130
Existing Home Sales (Ths. of Units, Ann Rate)	424	422	437	452	464	469	473	476	437	456	478
House Prices, FHFA (1991 Q1=100, SA)	260	264	269	273	278	282	287	291	257	275	294
Year/Year Percent Change	7.8	7.8	7.8	7.5	6.9	6.7	6.6	6.6	7.5	7.2	6.6
Bankruptcies											
Total Business (12 Months Ending)	2370	2402	2421	2429	2434	2441	2448	2453	2286	2431	2458
Total Personal (12 Months Ending)	31385	31428	31576	31745	31833	31808	31683	31561	31479	31740	31503

a = actual f = forecast

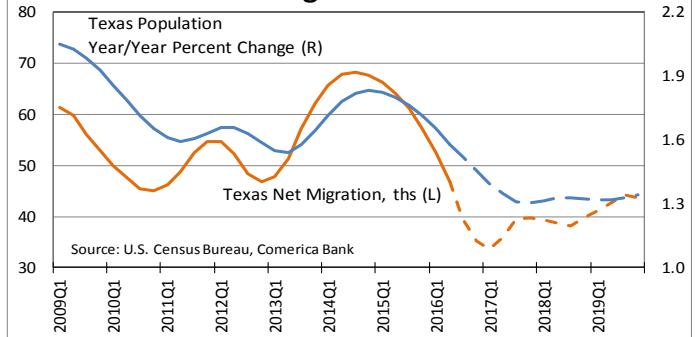
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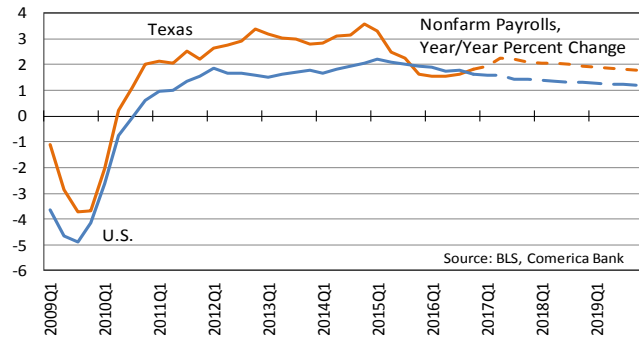
Texas Improves in 2017



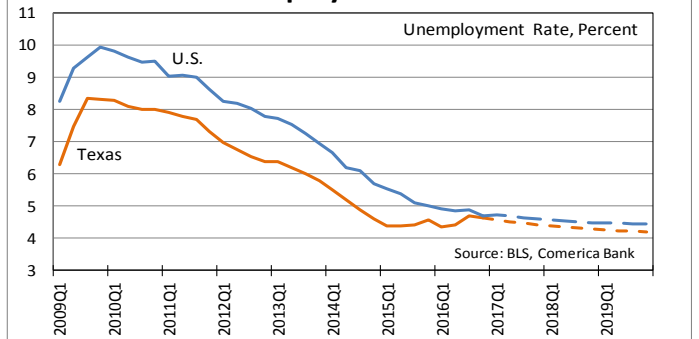
Net Migration to Fall



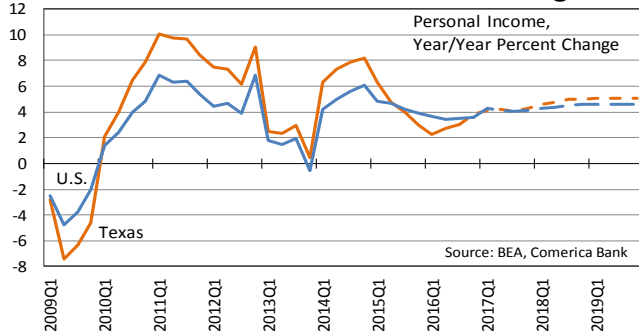
Job Growth Moderates



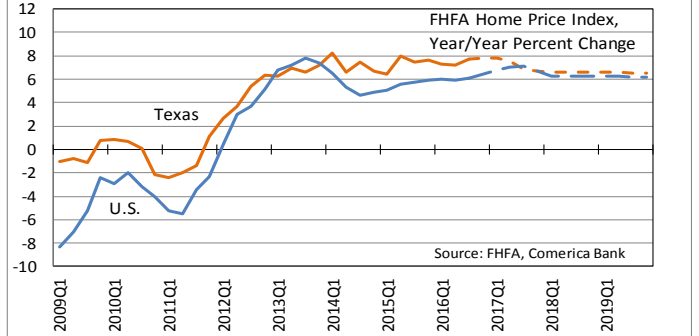
Texas Unemployment Rate Stable



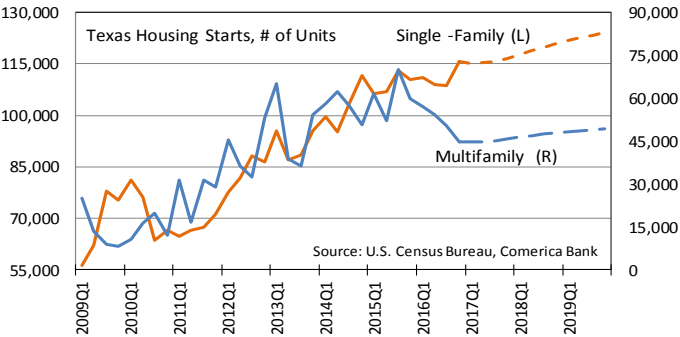
Income Growth Eases Below Average



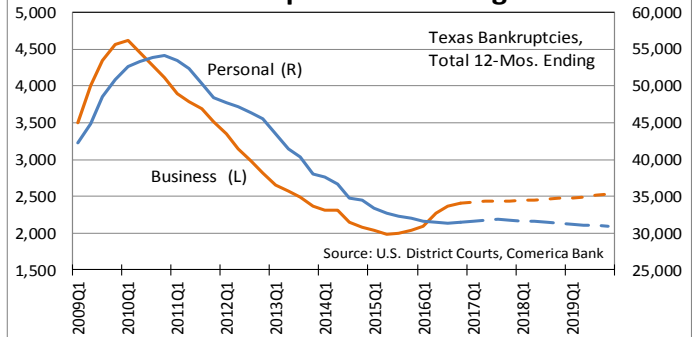
Home Prices Continue to Climb



North Texas Drives Home Construction



Bankruptcies Increasing



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