Recovery in Texas Hits a Speed Bump

The reappearance of COVID-19 may weigh on the state economy’s growth prospects

The coronavirus has re-emerged in Texas, as new infections have recently soared throughout the state. The trend in hospitalizations and deaths is also moving in the wrong direction, although the rise has been less dramatic so far. The most severe outbreaks have occurred in the state’s large urban areas, primarily in Houston and Dallas. New cases have also sharply increased in the more rural panhandle region (such as in Amarillo and Lubbock), however, as well as along the border in El Paso and McAllen. In response, state officials have taken some targeted measures, notably imposing a mask-wearing mandate and directing bars to close. Encouragingly, some of these measures appear to be having a remedial effect on new case growth. Still, fear of the virus has led to better adherence to social distancing measures, which appears to be taking a toll on the pace of the state’s economic recovery. High frequency series, which track mobility within the state and the trend in visits to retail stores and recreation locations, have stalled out, as the number of new cases has grown. The number of local businesses open as well as hours worked by hourly employees—both measured by data from HomeBase—show a similar pattern. Restaurants bookings have also taken a step back, according to OpenTable. Together, these factors suggest consumer activity has been slowing since about mid-June, when new outbreaks first started to intensify.

Consumer sentiment also appears to have hit a stumbling block, according to data from MorningConsult, although some measures of economic activity are now showing gains. The Dallas Fed Manufacturing Survey showed Texas factory activity rebounded considerably in June. Meanwhile, the number of Texans applying for unemployment benefits has come down from its recent highs. State employers added back 237,800 net new jobs during May, and, if national trends hold, June should see another big gain. Employment remains at 2015 levels, however, so a full labor market recovery is far off. Oil prices have also firmed, reflecting increased driving in the U.S. and improving global demand.

Figure 1

Texas COVID-19 Cases & Deaths

Source: Bloomberg LP, U.S. Department of Labor and Wells Fargo Securities

Figure 2

Texas Nonfarm Employment

Together we'll go far
Pandemic Surges in the Texas Triangle

Combined, the Texas Triangle region accounts for about 50% of the state’s cumulative case count so far, with a plurality (17%) occurring in Harris County, home to Houston. The new outbreaks, however, have not been limited to just Houston, San Antonio and Austin have also seen a surge. The rapid rise in cases has strained hospital capacity, though the incidence of new daily infections has slowed in these cities. By contrast, north Texas continues to see a climbing number of new infections. Dallas (12.8%) and Tarrant (7.1%) counties now combine for greater share of total new cases than Harris.

Dallas-Fort Worth, Austin and San Antonio were some of the fastest growing metro areas in the country prior to the pandemic. These metros accounted for roughly 4.5% of U.S. GDP, yet were responsible for 8.6% of U.S. GDP growth between 2014 and 2018. Considering this, the pace of both the state and national recovery are somewhat dependent on the metro economies rebuilding the momentum lost to the pandemic. Combined, these areas saw payrolls decline by 660,000 jobs during the lockdown months, and added back over 120,000 jobs during May. Massive inflows of tech investment have been behind much of the growth in Austin. The metro has long been the beneficiary of relocating tech firms in search of a friendlier regulatory environment and lower real estate costs, a trend which should continue despite the recent progression of the pandemic.

Houston’s economy has lagged behind it’s neighboring peers. The metro has deep roots in the energy industry, and the mid-decade rout in oil prices weighed heavily on the local economy for years. Oil prices cratered, delivering another sharp blow to the oil and gas-centered Houston economy, already reeling from COVID-19 containment measures. Employers in Houston slashed payrolls by over 365,000 during March and April, and gained back just 64,000 jobs in May. That said, much of the month-to-month changes came in industries hardest hit by the shutdowns, such as leisure & hospitality, retail and ambulatory healthcare.

Oil prices have rallied since turning negative and WTI now sits around $40/barrel. Even with the recent rally, oil prices remain below levels many producers need to cover operating costs, which means suspended production and further cuts to capital spending budgets. Rig counts in Texas continue to fall, hitting an all-time low of 111 at the end of June. Several major pipeline projects have also been sidelined. Adding salt to the wound, the Midland and Odessa metro areas, which sit atop the prolific Permian Basis, have both seen a sharp uptick in coronavirus cases recently that may result in some additional slowing in the consumer sector.

While the resurgence in COVID-19 cases is distressing, Texas has one of the nation’s best healthcare systems and implemented policies which should help slow the spread of the virus. While these efforts will take a toll on the pace of economic recovery, we believe the recovery will continue. Texas remains one of the best state’s to do business and continues to attract new and expanding businesses. Moreover, the adjustment in the energy sector appears to be taking place quicker than we initially estimated, although a full recovery there is still a ways off.

Figure 3

Texas MSA New Case Growth
7-Day Moving Average

Figure 4

Texas Oil Rig Count & WTI Price

Source: Texas Department of State Health Services, Moody’s Analytics and Wells Fargo Securities
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Texas Labor Market Conditions

Texas Employment Growth
Year-over-Year Percent Change of 3-MMA

Texas Unemployment Rates
Seasonally Adjusted

Houston Nonfarm Employment
Millions

Texas Employment Composition

Texas Employment Growth By Industry
Year-over-Year Percent Change of 3-MMA

Austin MSA Tech Employment Growth
YOY Percent Change, Prof. & Technical Services + Information

Source: U.S. Department of Labor and Wells Fargo Securities
Texas High-Frequency Data

**Hours Worked by Hourly Employees**
Percent Change from Baseline, HomeBase Data

**Visits to Retail & Recreation Locations**
Percent Change from Baseline, 7-Day MA, Google Data

**Visits to Workplaces**
Percent Change from Baseline, 7-Day MA, Google Data

**Local Businesses Open**
Percent Change from Baseline, HomeBase Data

**Driving Directions Requests**
Percent Change from January Baseline, Apple Mobility Data, 7DMA

**Seated Diners**
Year-over-Year Percent Change, 7-Day MA, OpenTable Data

Source: Apple, Google, HomeBase, OpenTable and Wells Fargo Securities