Texas Payrolls Jump in October

Nonfarm employers added 30,100 new jobs during October, calming fears of a dramatic slowdown in hiring. Overall, payrolls are up a robust 2.4% over the year, while the jobless rate held at a record low of 3.4%.

Energy and Trade Headwinds Are No Match for Texas

The Texas economy continues to defy expectations. Nonfarm payrolls added 30,100 net new jobs during October, more than any other state and the fourth 30,000-plus monthly job gain this year. Furthermore, the unemployment rate has now remained at a record low of 3.4% for five consecutive months. We still expect hiring to lose some momentum over the next few years, as such a low jobless rate puts a ceiling on overall employment growth, but payrolls are up a robust 2.4% over the past 12 months, a remarkable feat given that the oil & gas industry is cutting back capital spending and trade negotiations remain unresolved.

Fears that the Texas economy was in danger of losing momentum stemmed from an uncharacteristically soft 14,500-job gain in August and then a 14,900-job gain in September. In addition to the energy sector, the Texas economy is highly exposed to international trade, and this summer’s contentious trade talks likely led to a brief slowdown in hiring statewide. But trade tensions have since cooled down a bit and employers have likely regained some optimism. The transportation, warehousing & utilities industry, which has been on the front lines of the trade war, saw a combined 3,900-job decline in August and September followed by a 5,800-job rebound in October.

Perhaps more impressive is that October’s robust gain comes amid a continued pullback in the energy sector. To be sure, oil & gas production continues to rise, a fact which is confirmed by recently released state-level GDP data. Real GDP rose 4.7% on a quarterly annualized basis during Q2-2019—a pace faster than any other state—and mining, logging, oil & gas extraction output was by far the largest contributor to the strong performance. However, the overall rig count has declined in every month going back to December, as operators have slashed capital spending plans in an effort to become even more financially disciplined following the sharp decline in oil prices last year. Payrolls have certainly not been immune to these cuts. Mining & logging payrolls dipped by 2,000 jobs during the month and are now 0.5% lower compared to last year. Reduced capital spending also helps explain the 2,100-job decline in the manufacturing industry, which tends to follow energy exploration and production.

All that noted, Texas has had a lot of success diversifying its economy and the state is considerably less exposed to the boom-and-bust nature of the energy sector than in decades past. For example, essentially every major industry added to payrolls in October. Construction gained 1,500 new jobs, healthcare employers added 4,900, and leisure & hospitality employment rose by 4,900 jobs, thanks to gains at hotels, bars & restaurants. The tech industry, which has played a starring role in the Texas economy recently, again posted large payroll gains in October. Professional, scientific & technical services added 3,600 jobs, while the information sector, a portion of which falls in the “tech” category, added 1,100 jobs.

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