Texas employers added 19,500 new jobs during January, and the jobless rate was unchanged at 3.5%. While hiring currently appears solid, COVID-19 and the OPEC price war will challenge job growth in coming months.

Tough Times Ahead for Texas
The one-two punch of the coronavirus and oil price war between Saudi Arabia and Russia will no doubt be a substantial test for the Texas economy. Employers added 19,500 net new jobs during January and the unemployment rate held steady at 3.5%. This gain, however, predates both the worldwide spread of the coronavirus and Saudi Arabia’s decision to ramp up oil production amid evaporating global demand. Even as the underlying economic data remain quite strong, the combined forces of shutdowns, quarantines, cancelations and sharply lower oil prices will very likely translate to a slowdown in hiring and economic growth more broadly.

At this point, the extent to which economic growth will slow throughout the state is highly uncertain. But even under the most optimistic scenarios, travel moratoriums, school closures and an avoidance of public space will last for at least six to eight weeks. The leisure & hospitality sector will likely suffer the brunt of the impact, as airlines, hotels and restaurants reduce staff alongside the drop-off in demand. Nationally, we now expect real GDP to contract 3.3% in Q2 and 2.3% in Q3, and then see a modest rebound to 1.8% in Q4 once the outbreak subsides.

Texas will likely see a similar, if not more severe, outcome. On top of the virtual halt in broad economic activity, Texas remains the top energy producer in the country and swings in oil prices can drastically impact overall growth in the state. In the aftermath of the 2015-16 oil rout, which brought WTI prices below $30/barrel, real GDP growth in Texas fell to just 0.2% in 2016 while overall national growth remained fairly sturdy at 1.6%.

As of this writing, WTI prices are hovering at a similar $30/barrel level, while overall national growth remained fairly sturdy at 1.6%. Of this writing, WTI prices are hovering at a similar $30/barrel level.

There is a case to be made that Texas may better absorb an oil shock this time around. For starters, the magnitude of the oil price decline is not as severe as 2015-2016, when prices fell about 70% over the course of 20 months. Oil & gas operators have, for the most part, become financially disciplined and more productive. For much of the past 18 months, capital spending has pulled back and the rig count ended 2019 25% lower than 2018. Even with this decline, oil production rose 9.3%, which was a smaller rise than in recent years but still solid. Hiring has also been quite constrained, suggesting less need to trim payrolls. Statewide oil & gas extraction payrolls contracted by about 30,000 total jobs during the 2015-2016 period and only regained roughly 3,000 of those jobs through January, meaning there will be less need to cut payrolls. Still, the sector is certainly in for a period of pain with diminished cash flows, bankruptcies and consolidations over the next few quarters. Furthermore, a wide array of industries will likely feel ripple effects, many of which go well beyond the exploration, extraction and refining industries. Oil & gas production supports a great deal of activity in construction, manufacturing, engineering and other professional support services.

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