How will the Texas Economy Handle the Coming Storm?

Employers added 50,400 new jobs and the jobless rate held at 3.5% during February. With the COVID-19 crisis and OPEC price war now in full swing, we expect to see outright job losses in Texas in coming months.

Lone Star State Bracing for Impact

Texas is certainly no stranger to periods of boom and busts. The combination of the COVID-19 crisis and OPEC price war, however, is proving to be one of the most challenging times for the Lone Star State in recent history. While employers added 50,400 jobs in February and the unemployment rate held steady at 3.5%, these data were collected well before large parts of the Texas economy were shuttered in an effort to suppress the spread of the coronavirus. Furthermore, WTI prices were still roughly $50/barrel in February and have since collapsed to about $23/barrel after Saudi Arabia ramped up oil production and began a price war with Russia. The Texas economy will clearly face some turbulence in the coming months. While employment data are reported with a lag, the most recent initial unemployment insurance claims data, which are released every week, provide a better indication of what’s to come. As the nation saw jobless claims jump 12-fold to 3.3 million claims, jobless claims in Texas surged nearly 10-fold to almost 156,000 for the week ending March 21. By comparison, initial claims have averaged just 14,000 per week so far this year. For additional context, the last time jobless claims came close to reaching such a dizzying height was during the Great Recession in 2008 (49,398) and in the aftermath of Hurricane Sandy the first two weeks of September 2017 (63,788 and 52,024). What’s more, these recent numbers are probably understated, as many states had difficulty managing the unprecedented surge of applications. Moreover, this represents just the initial wave. The longer many parts of Texas remain closed for business, the more jobless claims will climb. Recent reports estimate claims are nearing 30,000 per day, which would put next week’s jobless claims total at around 200,000.

Estimating the economic impact of the current situation is challenging given it is largely without modern day precedent. During the Great Recession, Texas lost around 430,000 jobs, and did not recoup those jobs until November 2011. A more recent comparison, although on a smaller scale, may be Houston’s experience following the 2015/2016 oil rout and subsequent Hurricane Harvey disaster. During 2012-2014, hiring in the oil-driven Houston MSA was growing at a blistering nearly 4% pace. But job growth came to an abrupt halt alongside plunging oil prices, as the metro added essentially no net new jobs in 2015/2016. Just as the Houston economy was beginning to recover, Hurricane Harvey hit in late August 2017, which put a 10,500 dent in payrolls the following month. Houston quickly regained those jobs, but the economy never fully regained its prior momentum. The COVID-19 pandemic is a larger and more persistent threat which will affect virtually every part of the state. Job losses are likely to be larger than they were during the Great Recession but will probably be less persistent, outside of the energy sector. Energy sector losses will weigh heaviest on Houston and West Texas.

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