COVID-19 Crisis Brings Massive Decline to Texas Payrolls

Payrolls fell by nearly 1.3 million jobs and the jobless rate spiked to 12.8% in April. The COVID-19 crisis is having a huge impact on Texas, but with re-opening efforts now underway, the worst is likely over.

Lone Star State Posts Second Month of Record Payroll Declines

The one-two punch of the coronavirus crisis and subsequent sharp decline in oil prices is hitting the Lone Star state particularly hard. Payrolls collapsed by almost 1.3 million jobs during April, which was the first month to fully capture the effects of social distancing, stay-at-home orders and business closures. Outside of the federal government, which saw payrolls rise by 300, no industry was spared. Leisure & hospitality (-530,200), healthcare & social assistance (-141,100) and retail trade (-117,800) suffered the worst declines.

The unemployment rate spiked to 12.8%, which was not surprising given the massive wave of Texans who have filed jobless claims over the past two months.

The record job losses in March and April have put tremendous pressure on state officials to gradually re-open, and some restrictions have now been lifted after the state-wide stay-at-home order expired at the end of April. The state entered the second phase of re-opening on May 18. Most ‘non-essential’ businesses, including retail stores, restaurants, gyms, office buildings and salons, can now at least partially open with occupancy limitations. With much of the state now open, we suspect the worst of the payroll cuts are behind us. Jobless claims in the state remain highly elevated, but are trending lower. However, we will likely still see another large decline in payrolls in the May data, which reflect the period from mid-April to mid-May. Payrolls should begin growing again in June, although the recovery is likely to be gradual at first and a full recovery is a long way off.

The unemployment rate will likely remain in the double digits this year and we do not anticipate a return to peak employment until the middle of 2022.

The relatively swift pivot towards re-opening has prompted some concern. There has been a slight uptick in positive cases in recent weeks, although much of that appears to be owed to the increasing volume of tests as well as outbreaks at meatpacking facilities in the Amarillo region. Importantly, the share of positive tests has been trending lower, and cases have been relatively contained in the major metro areas, which had been driving economic growth in the state prior to the pandemic.

A major factor which has propelled strong growth in Dallas and Austin has been the influx of businesses from California and other states, as firms have sought lower costs and more growth-friendly policies. Recessions tend to accelerate existing trends, and the reticence of officials in other states to loosen restrictions may ultimately enhance the state’s ability to attract relocations. Houston faces a somewhat tougher environment in the near term, on the other hand. Since falling into negative territory, oil prices have rallied to slightly above $30/barrel, still quite low by historical standards. The Houston metropolitan area lost 317,400 jobs in April, following a smaller drop the prior month. While that likely marks the largest monthly drop, we suspect that it will take a few more months for layoffs in the oil & gas sector to fully be reflected in the jobs data.

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