

Regional Analysis

# 2014 State GDP Release: TX Comes in Strong

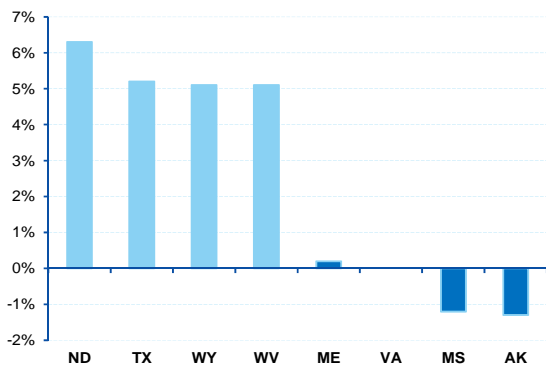
Amanda Augustine / Boyd Nash-Stacey

- **Top five states for 2014 GDP growth backed by strong oil and gas sectors**
- **Shale boom drove 5.2% 2014 Texas GDP increase; baseline for 2015 remains 1.9%**
- **Population growth and economic diversification reinforce Texas's economic potential**

In 2014, real GDP growth was positive in 48 states, with the exceptions of Mississippi, Alaska, and Virginia. After North Dakota, Texas experienced the greatest change in state GDP, with a 5.2% YoY increase to nearly \$1.5Tr. Rounding out the top five were West Virginia, Wyoming, and Colorado, revealing the apparent effect of the oil boom in 2014, which stemmed from the greater use of horizontal drilling and hydraulic fracking. Nationally, professional, scientific, and technical services were the largest contributor to GDP, growing 0.3pp. In Texas however, mining contributed the most to the change in real GDP—1.3pp, followed by nondurable goods manufacturing contributing 0.8pp. No sector contributed negatively to Texas GDP in 2014. In addition, Texas performed significantly better than other large states, such as Florida, California, Illinois, and New York, which had an average GDP growth of 2.3% combined.

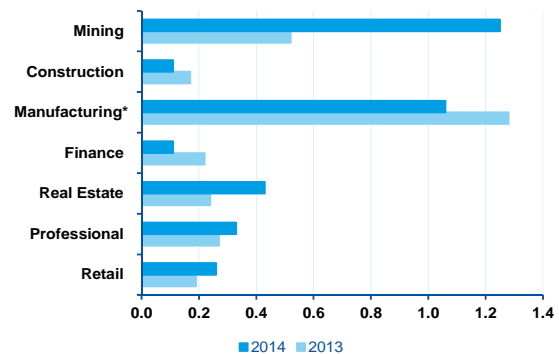
Texas's average GDP growth from 2010-14 was 4.7%; whereas, the rest of the country saw 1.7% growth during that time. Although striking, Texas's strong performance in 2014 was outmatched by its 2013 showing, which was revised up to 5.5% from 3.6%. Mining played a greater role in boosting state GDP in 2013, with a 16.1% YoY increase, versus a 7.2% increase in 2014. Interestingly, Texas's information sector also boomed in 2013, with a 13.2% YoY increase compared to only 1.9% YoY growth in 2014. A \$60 million increase in the Texas Moving Image Industry Incentive Program authorized in 2013 likely contributed to this growth. In contrast, two fellow oil-producing states, Wyoming and North Dakota, actually had significant downward revisions in 2013 GDP of 7.1pp and 8.8pp, respectively, perhaps to a lack of industry diversification.

Chart 1  
**2014 Real State GDP Growth (4 best and worst states) YoY %**



Source: Bureau of Economic Analysis, BBVA Research

Chart 2  
**Contributions to % Change in TX GDP Growth pp**



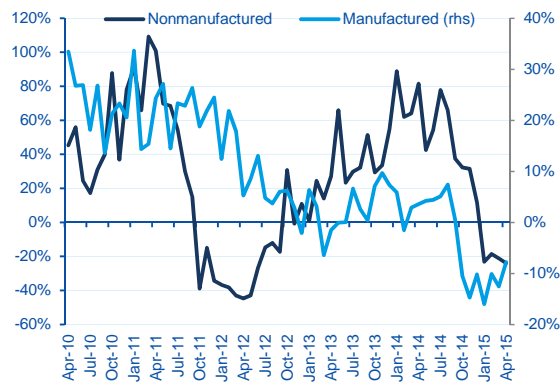
Source: Bureau of Economic Analysis, BBVA Research, \*Manufacturing: nondurable and durable goods

Texas's impressive GDP growth in 2014 reflected its strong labor market and population growth. The state added 457,900 jobs in 2014—its strongest job growth on record—and it had a strong labor force participation rate at 65.2% in 2014, slightly higher than the nation's 62.9%. In addition, Texas's population change of 1.7% YoY in 2014 was surpassed only by North Dakota and Nevada. Rising population drove growth in the state's housing market and personal income, with a 13% YoY increase in housing starts in 2014 and a 4.2% YoY rise in real personal income, both of which outpaced the nation.

### Downside to Texas Growth in 2015

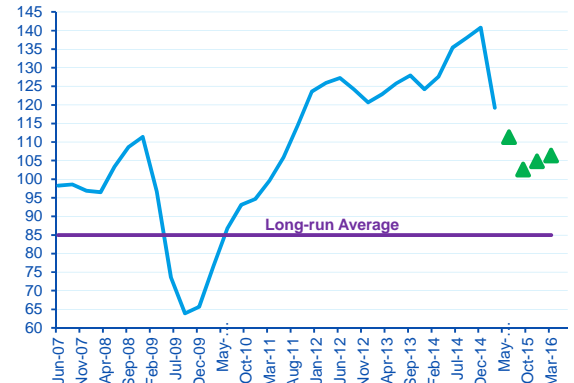
Signs of slowing are beginning to surface in Texas. Although not unique to the Texas market, weak global demand and the appreciation of the U.S. dollar have impacted exports, with the dollar value of state exports dropping 11.2% QoQ in 1Q15. The drop in exports in 1Q15 was more concentrated in the Southwest region, relative to the rest of the county, with significant declines in Arkansas and Louisiana in addition to Texas. However, other currencies such as the euro and the yuan are currently gaining strength and pressuring the dollar, which could increase demand for U.S. exports as 2015 progresses. In terms of investment, nationwide mining exploration, shafts and well structures plunged 48.6% QoQ in 1Q15, while rig counts in Texas were down 29% QoQ in 1Q15, suggesting that a strong correction in Texas is ongoing. However, assuming prices continue to edge-up in 2015 and oil price uncertainty fades, we anticipate investment will regain some upward momentum in early 2016.

Chart 3  
**Texas Exports**  
YoY %, current \$



Source: U.S. Census Bureau, BBVA Research

Chart 4  
**U.S. Real Private Investment in E&P**  
2009 \$US



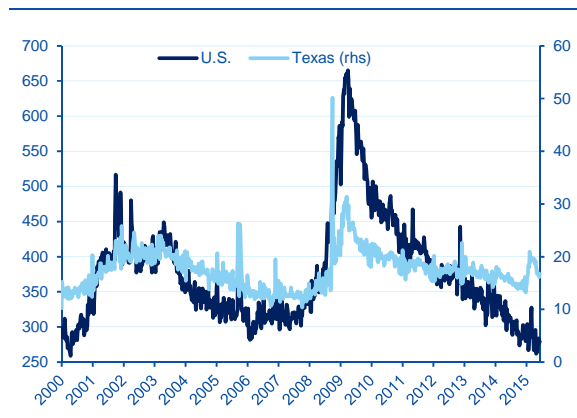
Source: Bureau of Economic Analysis, BBVA Research

Although the decline in oil prices has hurt Texas employment, the state's relative industry diversification seems to be mitigating its job losses. Despite a major decline early in the year, Texas employment has picked up, as the state added 33.2K jobs in May alone after adding only 2.1K the previous month, representing the third largest MoM increase in the country after California and New York. All job gains in May came from service industries, with healthcare and social assistance adding 12.5K jobs and retail trade adding 9.6K jobs. The mining and logging industry did not contribute to the state's job growth, as 6K jobs in the sector were lost last month. The loss in mining employment was less drastic than in April, which could be a sign of stabilization in the industry. Nevertheless, state unemployment in May actually increased to 4.3% after staying flat at 4.2% during the previous two months. In addition, the Texas Workforce Commission received notice of 3,333 layoffs in the month of May alone, a 351% YoY increase, many of which were in the construction sector.

In terms of credit risk, according to the Senior Loan Officer Survey for 1Q15, more than half of surveyed banks expected the quality of loans made to the oil and gas sector to deteriorate; however, loans to oil and gas companies make up less than 10% of outstanding C&I loans. The surveyed banks indicated that they were taking actions to mitigate loan losses in the oil and gas sector, such as restructuring outstanding loans, reducing the size of existing credit lines, tightening underwriting standards, and requiring additional collateral to offset the probability of greater delinquencies.

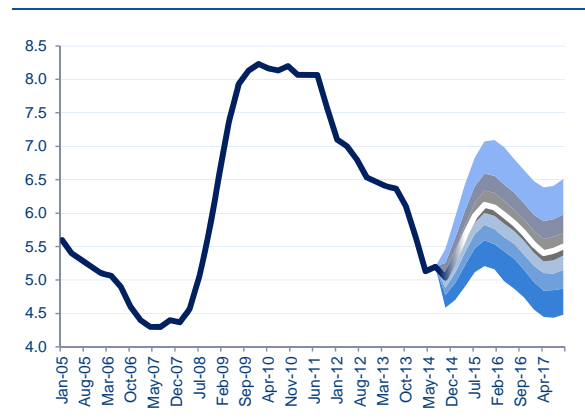
In 2015, we expect the slump in crude oil prices will slow Texas GDP growth to 1.9% from the torrid pace of 2013-2014. Virtually all areas of the state economy will be adversely affected—exports, investment, housing, and employment, and downside risks for Texas will depend heavily on the path of oil prices.

Chart 5  
**Texas Unemployment Insurance Claims**  
Thousands



Source: Department of Labor, BBVA Research

Chart 6  
**Texas Unemployment Rate Forecasts**  
%



Source: Bureau of Labor Statistics, BBVA Research (forecasts as of 2/2/15)

## Bottom Line

Texas's GDP was the second-highest in the nation in 2014, largely due to increases in shale oil and gas production, which produced unprecedented job growth over the year. However, our state outlook for 2015 is not as rosy given declines in rig counts and investment in mining structures, along with impending layoffs in goods-producing industries. Relative to other states that rely more heavily on oil, such as North Dakota, Texas's economy is more resilient to drastic changes in oil prices due to above average population growth and strong employment creation in other industries such as retail trade and healthcare. Nevertheless, job losses and higher unemployment will put some pressure on banking activity in the short-run, but diversified banking portfolios suggest that pressures will be muted. While conditions remain tenable, without a stronger recovery in global growth in 2H15, a rebound in the manufacturing sector and export growth, or the added boost to domestic consumption from low oil prices there is limited upside to our forecasts for Texas of 1.9% in 2015.

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