MIDWESTERN
STATE UNIVERSITY

Office of the President
3410 Taft Boulevard Wichita Falls, Texas 76308-2099
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To: MSU Board of Regents
Mr. Samuel M. Sanchez, Chair
Mr. Warren Ayres
Ms. Tiffany Burks
Mr. R. Caven Crosnoe
Dr. Lynwood Givens
Mr. Jeff Gregg
Mr. Shawn Hessing
Ms. Nancy Marks
Dr. Shelley Sweatt
Ms. Shayla Owens, Student Regent

From: Suzanne Shipley
President

Date: October 19, 2017

Subject: Quarterly Investment Reports

Attached are the Quarterly Investment Reports for the third quarter ended August 31, 2017. Please feel free to contact me if you have any questions.

enclosures

C: Debbie Barrow

MIDWESTERN STATE UNIVERSITY

Administration and Finance
3410 Taft Boulevard Wichita Falls, Texas 76308-2099
o 940.397.4117 **f** 940.397.4302

October 17, 2017

TO: The Board of Regents of Midwestern State University, and
Dr. Suzanne Shipley, President

SUBJECT: Quarterly Investment Reports

Attached are the quarterly investment reports for the fourth quarter ended August 31, 2017, as required by the amended Public Funds Investment Act.

The investment portfolio is in compliance with Midwestern State University's investment policies. The portfolio is in compliance with the provisions of the Public Funds Investment Act as amended by the 82nd Legislature. (HB 2226)

Chris Stovall
Controller

Dr. Marilyn Fowle'
Vice President, Administration and Finance

Midwestern State University
Wichita Falls, Texas

Quarterly Investment Report
(Unaudited)
For the Fourth Quarter Ended August 31, 2017

Unaudited

Midwestern State University
Summary of Investments
(Pooled Investments)
At August 31, 2017

	Book Value	%	Market Value	%
Long-term Securities:				
Equity Securities:				
U.S. Common Stock	$70,774	0.18%	$236,929	0.57%
Long-term Investment Pools				
Texas A&M System Investment Pool	24,241,691	61.68%	26,437,644	63.45%
Total Long-term Securities	24,312,465	61.86%	26,674,573	64.02%
Short-term Securities:				
TexPool	4,014,803	10.22%	4,014,803	9.64%
Logic	4,036,163	10.27%	4,036,163	9.69%
TX Class	4,041,743	10.28%	4,041,743	9.70%
Total Short-term Securities	12,092,709	30.77%	12,092,709	29.03%
Total Investment Assets	36,405,174	92.63%	38,767,282	93.05%
Cash and Cash Equivalents:				
Cash Held at State Treasury	2,896,567	7.37%	2,896,567	6.95%
Total Cash and Cash Equivalents				
Total Cash and Investments	$39,301,741	100.00%	$41,663,849	100.00%
Total Rate of Return	2.44%			

Unaudited

Midwestern State University
Statement of Changes in Investment Assets
(Pooled Investments)
For the Fourth Quarter Ended August 31, 2017

	Book Value	Market Value
Investment Assets - 05-31-17	$32,025,832	$34,076,435
Principal Payments received	(11,000,000)	(11,000,000)
Investment Income	380,698	380,698
Realized Gain (Loss)		
Distributions and Other	(1,356)	(1,356)
Securities Purchased	15,000,000	15,000,000
Changes in Net Unrealized Appreciation/(Depreciation)		311,505
Investment Assets - 08-31-17	$36,405,174	$38,767,282

Unaudited

Midwestern State University
Summary of Investments
(MSU Endowments at American Natl. Bank Trust Dept.)
At August 31, 2017

	Book Value	%	Market Value	%
Long-term Securities:				
Equity Securities:				
Common Stock, Mutual Funds and ETFs	$4,882,435	64.23%	$6,093,957	68.37%
Total Equity Securities	4,882,435	64.23%	6,093,957	68.37%
Other Securities:				
U.S. Government Agencies	242,932	3.20%	243,359	2.73%
Corporate Bonds & Notes	2,196,338	28.89%	2,235,155	25.08%
Real Estate Investment Trusts (REIT)	203,017	2.67%	263,158	2.95%
Total Fixed Income Securities	2,642,287	34.76%	2,741,672	27.81%
Total Long-term Securities	7,524,722	98.99%	8,835,629	99.14%
Cash and Cash Equivalents:				
U.S. Dollars		0.00%		0.00%
Goldman Sachs - Cash Equivalent	76,988	1.01%	76,988	0.86%
Total Cash and Cash Equivalents	76,988	1.01%	76,988	0.86%
Total Cash and Investments	$7,601,710	100.00%	$8,912,618	100.00%

Unaudited

Midwestern State University
Statement of Changes in Investment Assets
(MSU Endowments at American Natl. Bank Trust Dept.)
For the Fourth Quarter Ended August 31, 2017

	Book Value	Market Value
Investment Assets - 05-31-17	$7,783,036	$8,876,647
Principal Payments Received	(2,288,848)	(2,288,848)
Investment Income	65,992	65,992
Realized Gain (Loss)	27,919	27,919
Management Fees	(10,724)	(10,724)
Distributions and Other	(88,805)	(88,805)
Securities Purchased	2,113,140	2,113,140
Changes in Net Unrealized Appreciation/(Depreciation)		217,297
Investment Assets - 08-31-17	$7,601,710	$8,912,618

Unaudited

Midwestern State University
Summary of Investments
(MSU Endowments Invested with the Texas A&M University System)
At August 31, 2017

	Book Value	%	Market Value	%
Long-term Investment Pools:				
Texas A&M System Endowment Pool	$511,042	100.00%	$522,284	100.00%
Total Long-term Investments	511,042	100.00%	522,284	100.00%
Total Investments	$511,042	100.00%	$522,284	100.00%

Unaudited

Midwestern State University
Statement of Changes in Investment Assets
(MSU Endowments Invested with the Texas A&M University System)
For the Fourth Quarter Ended August 31, 2017

	Book Value	Market Value
Investment Assets - 05-31-17	$511,042	$506,030
Principal Payments Received		
Investment Income	3,279	3,279
Realized Gain (Loss)	3,398	
Management Fees	(954)	(954)
Distributions and Other	(5,723)	(5,723)
Securities Purchased and Funds Transferred		
Changes in Net Unrealized Appreciation/(Depreciation)		19,652
Investment Assets - 08-31-17	$511,042	$522,284

Unaudited

Midwestern State University
Summary of Investments
(Redwine Quasi-Endowment Invested with the Texas A&M University System)
At August 31, 2017

	Book Value	%	Market Value	%
Long-term Investment Pools:				
Texas A&M System Endowment Pool	$11,516,586	100.00%	$11,758,048	100.00%
Total Long-term Investments	11,516,586	100.00%	11,758,048	100.00%
Total Investments	$11,516,586	100.00%	$11,758,048	100.00%

Unaudited

Midwestern State University
Statement of Changes in Investment Assets
(Redwine Quasi-Endowment Invested with the Texas A&M University System)
For the Fourth Quarter Ended August 31, 2017

	Book Value	Market Value
Investment Assets - 05-31-17	$11,516,586	$11,392,124
Principal Payments Received		
Investment Income	73,818	73,818
Realized Gain (Loss)	76,502	76,502
Management Fees	(21,480)	(21,480)
Distributions and Other	(128,839)	(128,839)
Changes in Net Unrealized Appreciation/(Depreciation)		365,924
Investment Assets - 08-31-17	$11,516,586	$11,758,048

Unaudited

INVESTMENT PORTFOLIO ACTIVITY
"POOLED" INVESTMENTS
FOR THE FOURTH QUARTER ENDED AUGUST 31, 2017

	Coupon	Stated Maturity	Book Value 05-31-17	Market Value 05-31-17	Unrealized Gain (Loss)	Purchases	Principal Payments Received/ Matured	Realized Gain (Loss)	Interest/ Dividends Earned For the Qtr.	Amortization/ Accretion of Prem./Disc.	Book Value 08-31-17	Market Value 08-31-17	Unrealized Gain (Loss)
U.S. Common Stock: (Donated)													
1,000 shares - Chesapeake Utilities (CPK)			18,200.00	73,930.00	55,730.00				487.50		18,200.00	79,450.00	61,250.00
10 shares - Citigroup (C) - reverse split			1,310.00	605.40	(704.60)						1,310.00	680.30	(629.70)
45 shares Calamos Conv. & High Inc. (CHY)			619.65	520.65	(99.00)				13.50		619.65	535.05	(84.60)
1,200 shares - CSX Corp. (CSX)			5,566.00	65,004.00	59,438.00				240.00		5,566.00	60,240.00	54,674.00
252 shares - Conoco Phillips - (COP)			4,957.82	11,261.88	6,304.06				66.78		4,957.82	11,002.32	6,044.50
126 shares - Phillips 66 (PSX)			2,479.68	9,589.86	7,110.18				196.64		2,479.68	10,560.06	8,080.38
125 shares Berkshire (BRK-B)			2,631.05	20,660.00	18,028.95						2,631.05	22,645.00	20,013.95
856 shares - Wells Fargo (WFC)			24,824.00	43,775.84	18,951.84				325.28		24,824.00	43,715.92	18,891.92
124 shares-Manulife (MFC)			4,216.36	2,136.52	(2,079.84)				14.44		4,216.36	2,435.36	(1,781.00)
60 shares - Natl. Oil Well (NOV)			4,342.80	1,957.20	(2,385.60)				3.00		4,342.80	1,840.20	(2,502.60)
15 shares - NOW Inc. (DNOW) - split/spin off			514.20	247.65	(266.55)						514.20	174.90	(339.30)
70 shares - Southwest Airlines (LUV)			1,112.30	4,197.90	3,085.60				8.75		1,112.30	3,649.80	2,537.50
Total Common Stock			70,773.86	233,886.90	163,113.04				1,355.89		70,773.86	236,928.91	166,155.05
Sub-Total - Securities			70,773.86	233,886.90	163,113.04				1,355.89		70,773.86	236,928.91	166,155.05
TEXPOOL Investment Pool (1)	1.00 *	Daily	1,011,987.15	1,011,987.15		4,000,000.00	1,000,000.00		2,816.08		4,014,803.23	4,014,803.23	
LOGIC Investment Pool (1)	1.27 *	Daily	2,032,153.53	2,032,153.53		5,500,000.00	3,500,000.00		4,009.65		4,036,163.18	4,036,163.18	
TX CLASS Investment Pool (1)	1.23 *	Daily	2,037,617.11	2,037,617.11		5,500,000.00	3,500,000.00		4,125.74		4,041,742.85	4,041,742.85	
TX A&M System Pool	5.22 *	Variable	26,873,300.15	28,760,789.95	1,887,489.80		3,000,000.00		368,390.69		24,241,690.84	26,437,644.16	2,195,953.32
Total Investment Pool Cash			31,955,057.94	33,842,547.74	1,887,489.80	15,000,000.00	11,000,000.00		379,342.16		36,334,400.10	38,530,353.42	2,195,953.32
Total Investments			$32,025,831.80	$34,076,434.64	$2,050,602.84	$15,000,000.00	$11,000,000.00		$380,698.05		$36,405,173.96	$38,767,282.33	$2,362,108.37

*As of August 31, 2017

(1) These investment pools are structured to maintain a constant dollar value

Comparison to U.S. and State Treasuries	Book Accounting Yield	Average Three-Month U.S. Treasury Bill	State Treasury Yield	Basis Point Spread to U.S. Treasury	Basis Point Spread to State Treasury
June, 2017	1.83	1.00	1.22	0.83	0.61
July, 2017	1.61	1.09	1.27	0.52	0.35
August, 2017	3.87	1.03	1.30	2.84	2.57

This report is prepared in conformity with Midwestern State University Investment Policy and state statutes and guidelines including the Public Funds Investment Act (Tx. Gov't Code, Ch. 2256).

Unaudited

MIDWESTERN STATE UNIVERSITY
INVESTMENT PORTFOLIO ACTIVITY
REVENUE FINANCING SYSTEM REVENUE & REFUNDING BONDS, AND TUITION REVENUE BONDS - SERIES 2016A
FOR THE FOURTH QUARTER ENDED AUGUST 31, 2017

	Coupon		Stated Maturity	Book Value 05-31-17	Market Value 05-31-17	Unrealized Gain (Loss)	Purchases	Principal Payments Received/ Matured	Realized Gain (Loss)	Interest Earned For the Qtr.	Amortization/ Accretion of Prem./Disc.	Book Value 08-31-17	Market Value 08-31-17	Unrealized Gain (Loss)
LOGIC Investment Pool	1.27	*	Daily	$9.63	$9.63		$1,293,547.99	$1,293,665.18		$210.23		$102.67	$102.67	
BLB Flexible Repo Agreement	0.96		Monthly	57,394,634.87	57,394,634.87			1,293,547.99		136,998.00		56,238,084.88	56,238,084.88	
Total Bond Investments				$57,394,644.50	$57,394,644.50		$1,293,547.99	$2,587,213.17		$137,208.23		$56,238,187.55	$56,238,187.55	

*As of August 31, 2017

Interest Rate on Bonds issued 2.00% - 5.00%

This report is prepared in conformity with Midwestern State University Investment Policy and state statutes and guidelines including the Public Funds Investment Act (Tx. Gov't Code, Ch. 2256).

Unaudited

MIDWESTERN STATE UNIVERSITY
INVESTMENT PORTFOLIO ACTIVITY
MSU ENDOWMENT INVESTMENTS - AMERICAN NATL. BANK TRUST DEPT. MANAGERS
FOR THE FOURTH QUARTER ENDED AUGUST 31, 2017

AMERICAN NATL. BANK TRUST DEPT.	Book Value 05-31-17	Market Value 05-31-17	Unrealized Gain (Loss)	Purchases	Principal Payments Received/ Matured	Realized Gain (Loss)	Interest/ Dividends Received (Fees Paid) In the Qtr.	Amortization/ Accretion of Prem./Disc.	Book Value 08-31-17	Market Value 08-31-17	Unrealized Gain (Loss)	Market Value Percentage Of Total
Cash and Cash Equivalents:												
Cash												
American Natl. Bank Fees							($10,724.26)					
U.S. Dollars												
Goldman Sachs	$238,084.50	$238,084.50		$1,069,176.78	$1,230,272.85		484.54		$76,988.43	$76,988.43		0.86%
Total Cash and Cash Equivalents	238,084.50	238,084.50		1,069,176.78	1,230,272.85		(10,239.72)		76,988.43	76,988.43		0.86%
Purchased Interest Receivable												
Fixed Income:												
U.S. Government Agencies	254,408.95	254,069.65	($339.30)		11,308.54	($376.11)	1,864.15	($168.16)	242,932.25	243,359.32	$427.07	2.73%
Municipal Bonds												
Corporate Bonds & Notes	2,072,396.25	2,109,930.10	37,533.85	742,295.64	612,904.80	4,759.20	27,103.27	(5,449.29)	2,196,337.80	2,235,155.00	38,817.20	25.08%
Devonshire - REIT	211,798.61	263,157.84	51,359.23		8,781.87		3,060.23		203,016.74	263,157.84	60,141.10	2.95%
Total Fixed Income Securities	2,538,603.81	2,627,157.59	88,553.78	742,295.64	632,995.21	4,383.09	32,027.65	(5,617.45)	2,642,286.79	2,741,672.16	99,385.37	30.76%
Common Stock - Equities:												
U.S. Equities	4,088,476.64	4,974,570.45	886,093.81	263,408.84	425,580.38	23,535.95	23,093.34		3,926,305.10	5,000,447.55	1,074,142.45	56.11%
Foreign Equities	114,663.44	100,911.25	(13,752.19)				198.80		114,663.44	103,495.48	(11,167.96)	1.16%
Equity ETFs	803,207.68	935,922.87	132,715.19	38,258.83			10,188.16		841,466.51	990,014.22	148,547.71	11.11%
Mutual Funds - Equities												
Total Equities	5,006,347.76	6,011,404.57	1,005,056.81	301,667.67	425,580.38	23,535.95	33,480.30		4,882,435.05	6,093,957.25	1,211,522.20	68.37%
Total Endowment Investments												
at American National Bank Trust	$7,783,036.07	$8,876,646.66	$1,093,610.59	$2,113,140.09	$2,288,848.44	$27,919.04	$55,268.23	($5,617.45)	$7,601,710.27	$8,912,617.84	$1,310,907.57	100.00%
Jun, Jul, Aug activity	Simple yield excluding mkt.value change: (Realized gain + Int.Div.Recvd. + Amort./Accr.) / (Average Book Value) =						4.03%	77,569.82	Market Value gain =	1,310,907.57 =	17.24%	
							(Annualized)	7,692,373.17		7,601,710.27		

This report is prepared in conformity with Midwestern State University Investment Policy and state statutes and guidelines including the Public Funds Investment Act (Tx Gov't Code, Ch. 2256)

Unaudited

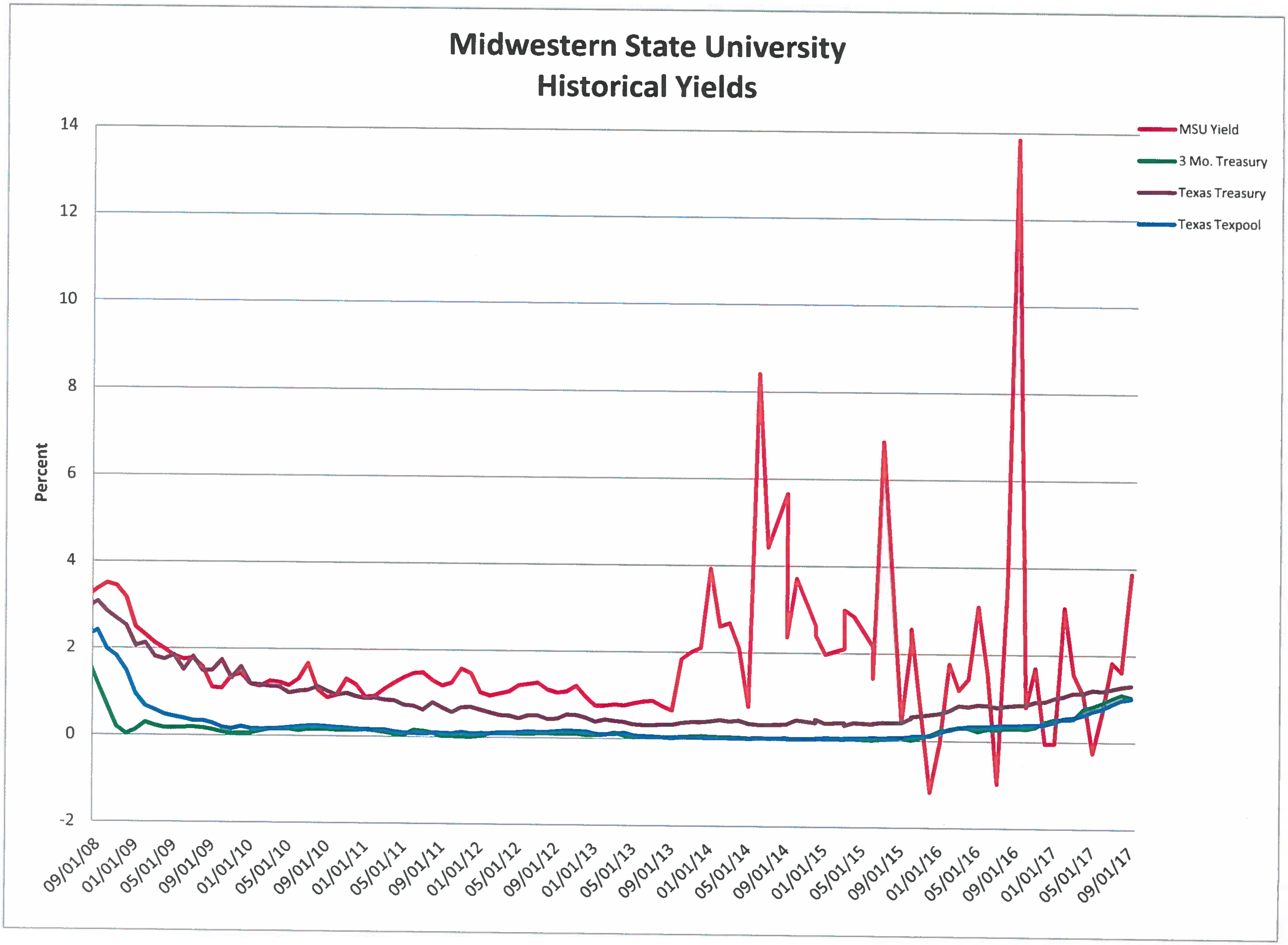
MSU ENDOWMENT INVESTMENTS - TEXAS A&M UNIVERSITY SYSTEM ENDOWMENT POOL
FOR THE FOURTH QUARTER ENDED AUGUST 31, 2017

	Book Value 05-31-17	Market Value 05-31-17	Unrealized Gain (Loss)	Purchases	Principal Payments Received/ Matured	Realized Gain (Loss)	Interest/ Dividends Received (Fees Paid) In the Qtr.	Amortization/ Accretion of Prem./Disc.	Book Value 08-31-17	Market Value 08-31-17	Unrealized Gain (Loss)	Market Value Percentage Of Total
TEXAS A&M INVESMENT MGMT FEE							($954.15)					
Long-term Investment Pools:												
Texas A&M System Endowment Pool	$511,041.99	$515,352.74	$4,310.75		$3,398.15	$3,398.15	3,278.93		$511,041.99	$522,283.98	$11,241.99	100.00%
Total Long-term Investments	511,041.99	515,352.74	4,310.75	0.00	3,398.15	3,398.15	2,324.78		511,041.99	522,283.98	11,241.99	100.00%
Total Endowment Assets												
at Texas A&M University System	$511,041.99	$515,352.74	$4,310.75	$0.00	$3,398.15	$3,398.15	$2,324.78		$511,041.99	$522,283.98	$11,241.99	100.00%
Jun, Jul, Aug activity	Simple yield excluding mkt.value change: (Realized gain + Int.Div.Recvd. + Amort./Accr.) / (Average Book Value) =						4.48%	5,722.93	Market Value gain =	11,241.99 =	2.20%	
							(Annualized)	511,041.99		511,041.99		

REDWINE QUASI ENDOWMENT INVESTMENTS - TEXAS A&M UNIVERSITY SYSTEM ENDOWMENT POOL
FOR THE FOURTH QUARTER ENDED AUGUST 31, 2017

	Book Value 05-31-17	Market Value 05-31-17	Unrealized Gain (Loss)	Purchases	Principal Payments Received/ Matured	Realized Gain (Loss)	Interest/ Dividends Received (Fees Paid) In the Qtr.	Amortization/ Accretion of Prem./Disc.	Book Value 08-31-17	Market Value 08-31-17	Unrealized Gain (Loss)	Market Value Percentage Of Total
TEXAS A&M INVESMENT MGMT FEE							($21,480.33)					
Long-term Investment Pools:												
U.S. Dollars												
Texas A&M System Endowment Pool	$11,516,585.66	$11,602,006.84	85,421.18		$76,501.73	$76,501.73	$73,817.59		$11,516,585.66	$11,758,048.13	$241,462.47	100.00%
Total Long-term Investments	11,516,585.66	11,602,006.84	85,421.18	0.00	76,501.73	76,501.73	52,337.26		11,516,585.66	11,758,048.13	241,462.47	100.00%
Total Endowment Assets												
at Texas A&M University System	$11,516,585.66	$11,602,006.84	$85,421.18	$0.00	$76,501.73	$76,501.73	$52,337.26		$11,516,585.66	$11,758,048.13	$241,462.47	100.00%
Jun, Jul, Aug activity	Simple yield excluding mkt.value change: (Realized gain + Int.Div.Recvd. + Amort./Accr.) / (Average Book Value) =						4.47%	128,838.99	Market Value gain =	241,462.47 =	2.10%	
							(Annualized)	11,516,585.66		11,516,585.66		

This report is prepared in conformity with Midwestern State University Investment Policy and state statutes and guidelines including the Public Funds Investment Act (Tx Gov't Code, Ch. 2256)


Midwestern State University
Historical Yields
Percent
14
12
10
8
6
4
2
0
-2
09/01/08
01/01/09
05/01/09
09/01/09
01/01/10
05/01/10
09/01/10
01/01/11
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09/01/16
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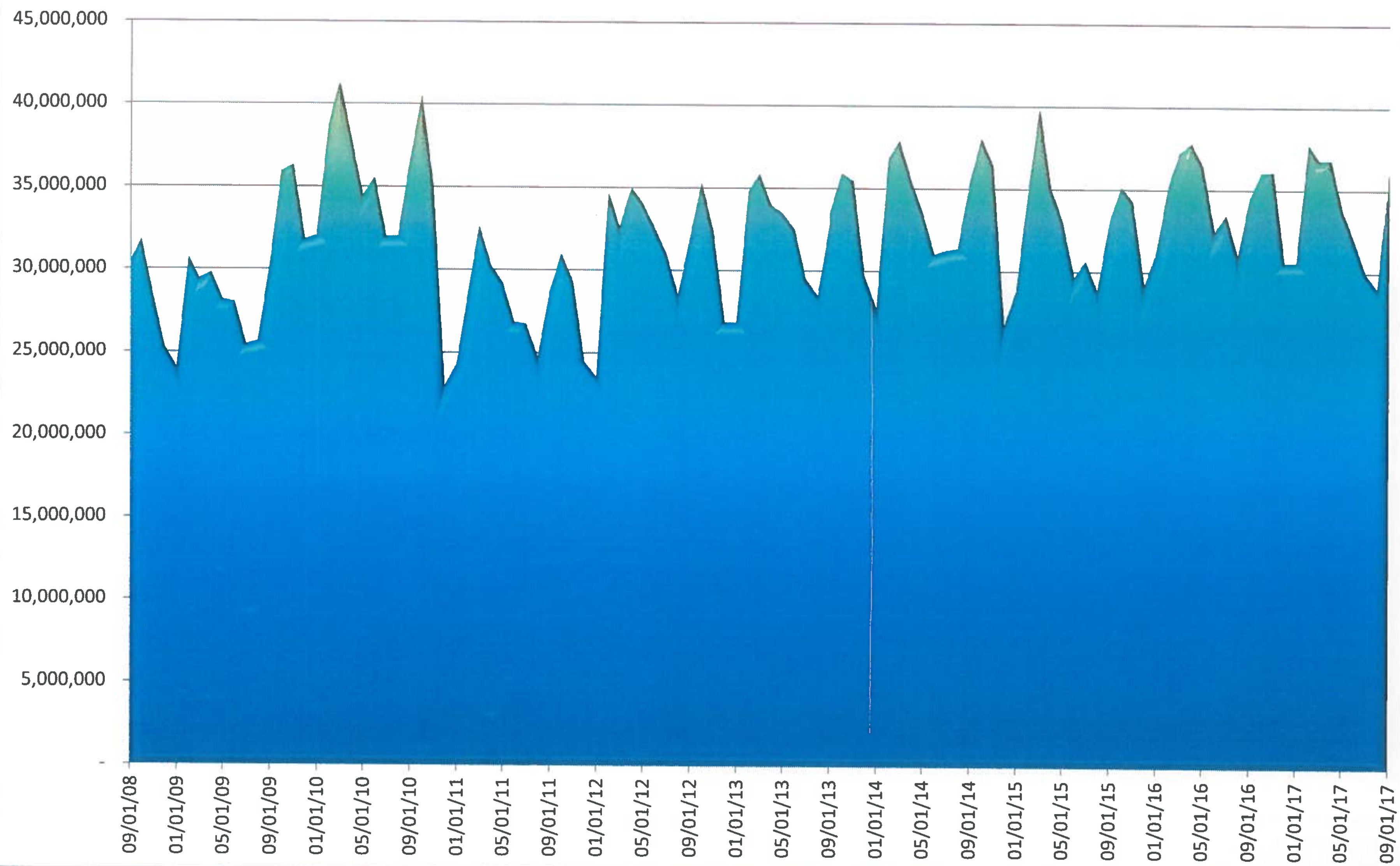
MSU Yield
3 Mo. Treasury
Texas Treasury
Texas Texpool

Midwestern State University
Pooled Investments
Total Invested



Texas A&M University System
Cash Concentration Pool

FISCAL YEAR 2017 — **4TH QUARTER – AUGUST 31, 2017**

Effective Rates for FY 2017 YTD:

Cash Portfolio:	0.89%
Long-Term Portfolio:	3.21%
Total Pool:	2.66%

Capital Market & Rates

The yield on 2-year Treasuries rose to 1.33% in August from 1.28% at the end of May. The yield on 10-year Treasuries fell slightly to 2.12% in August from 2.20% at the end of May.

The S&P 500 Index returned 3.0% during the quarter and 16.2% for the one-year ending August 31, 2017. Developed international equity markets returned 2.7% (in US Dollars) during the quarter and 17.6% for the one-year period. Emerging markets returned 9.6% (in US dollars) during the quarter and 25.0% for the one-year period.

The unemployment rate stood at 4.4% in August. The economy added 587,000 jobs during the three month period.

The economy was estimated to have grown at a 3.0% annual rate during the quarter ending June 30, up from 1.2% in the prior quarter.

CCP Estimated Distribution Rate for FY 2018

Total Pool: **2.25%**

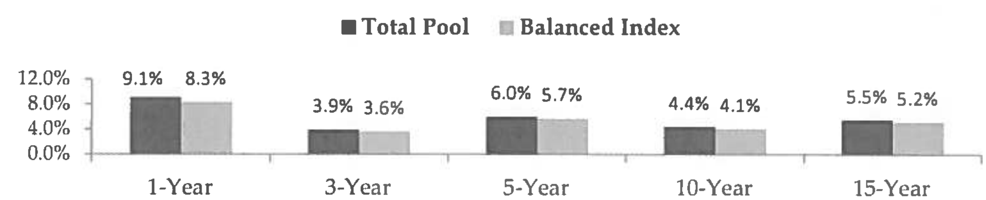
http://www.tamus.edu/finance/treasury-services/

Pool Valuation

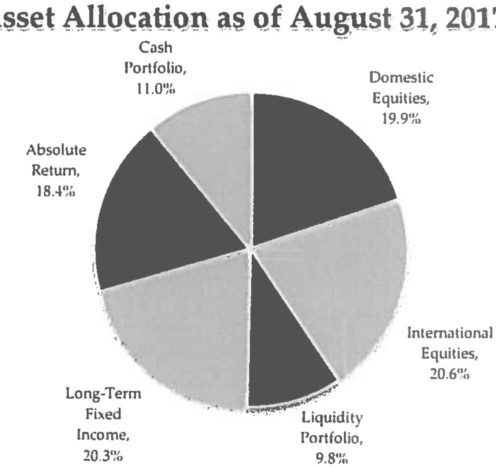
As of August 2017, the Pool had a market value of approximately $4.4 billion. For the 4th quarter of FY 2017, the Pool positions had $1,213.0 million in cash inflows and $840.5 million in cash outflows, increasing the book value of the Pool by $372.5 million. The Pool earned investment income during this quarter of $15.1 million and realized net gains on investments of $28.3 million.

The Cash Portfolio distributes all interest, dividends, and realized gains/(losses), net of external management fees, to the participants based on their average short-term balance for each month. The Long-Term Pool distributes all interest, dividends, and realized gains/(losses), net of external management fees, to the participants based on their ownership of Long-Term Pool units for each month.

Investment Performance



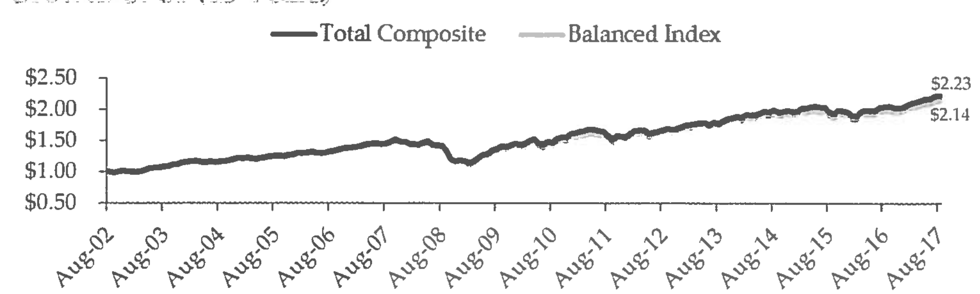
Asset Allocation as of August 31, 2017



Asset Allocation ($M)
Excluding Debt Proceeds and SEF Deposits

Domestic Equities	$711.7
International Equities	$736.9
Liquidity Portfolio	$349.3
Fixed Income	$726.6
Absolute Return	$656.7
Cash Portfolio	$392.3

Growth of $1 (15 Years)



Texas A&M University System
System Endowment Fund

FISCAL YEAR 2017 — **4TH QUARTER – AUGUST 31, 2017**

Capital Market Update

As measured by the Russell 3000 Index, the US stock market returned 3.0% over the quarter and 16.1% for the one-year period. Large cap stocks outperformed small cap stocks by 0.1% for the quarter and by 1.3% for the one-year period. Growth stocks outperformed value stocks by 2.4% during the quarter and by 8.8% over the one year.

Developed international equity markets returned 2.7% (in US Dollars) during the quarter and 17.6% for the one-year period. Emerging markets returned 9.6% (in US dollars) during the quarter and 25.0% for the one-year period.

Fixed income markets modestly appreciated during the quarter, rising 1.2%. For the one-year period, fixed income markets increased 0.5%.

Absolute return, on an aggregate basis, appreciated 2.2% for the quarter and 6.8% for the one-year period.

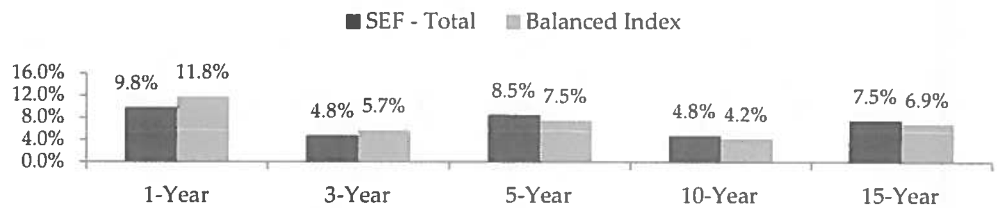
Quarterly Endowment Spending Rate

FY 2017: $0.072378 per unit
FY 2018: $0.073954 per unit

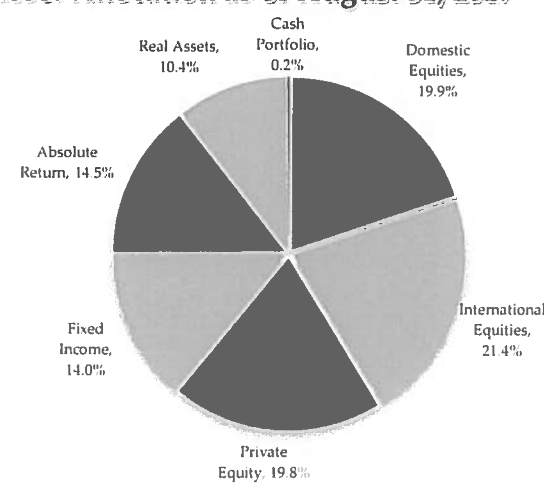
Endowment Valuation

As of August 31, 2017, the SEF had a market value of approximately $1.1 billion, including new deposits and net the income distribution for the 4th Quarter. The SEF is accounted for on a unitized basis and the per unit market value as of August 31, 2017 was $6.38.

Investment Performance



Asset Allocation as of August 31, 2017

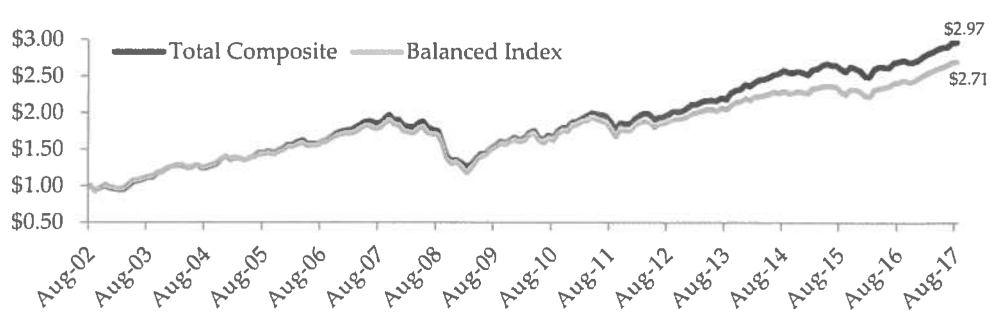


Asset Allocation ($M)

Prior to Distribution and New Deposits

Domestic Equities	**$221.7**
International Equities	**$238.8**
Private Equity	**$220.8**
Fixed Income	**$155.8**
Absolute Return	**$161.4**
Real Assets	**$115.9**
Cash Portfolio	**$1.7**

Growth of $1 (15 Years)



The units and market value summary is available online for each endowment account at the Treasury web page: http://www.tamus.edu/finance/treasury-services/system-endowment-fund/

DALLASFED Economic Update

Texas

Hurricane Harvey Unlikely to Throw Texas Off Course

September 29, 2017

Hurricane Harvey caused widespread damage and broad disruption to the Southeast Texas economy. Preliminary estimates indicate that Harvey will be one of the costliest U.S. hurricanes, ahead of Sandy and behind Katrina. However, the storm's negative impact on employment and business activity is expected to be transitory and should not derail the state's positive economic momentum. The Federal Reserve Bank of Dallas' forecast for 2017 job growth is unchanged at 2.6 percent (December to December).

Before Harvey's initial landfall, Aug. 25, state job gains were solid and unemployment was at its lowest level in a decade. After Harvey, initial unemployment claims soared, and the Dallas Fed's analysis suggests that employment will decline in September before likely rebounding to trend growth in subsequent months.

Employment Gains Strengthen in August

The impact of Hurricane Harvey was not reflected in the August employment figures because payroll data are typically collected around the 12th day of the month.

Texas payroll employment expanded an annualized 2.0 percent in August, up from 1.1 percent in July. Job gains were relatively broad based, with the fastest growth seen in oil and gas extraction and mining support activities, construction, and leisure and hospitality. The picture across the major metros was mixed, with Houston employment flat and Fort Worth down 2.1 percent in August. Employment in both metros is up year to date. Through August, the state has grown at a strong 2.6 percent annual rate.

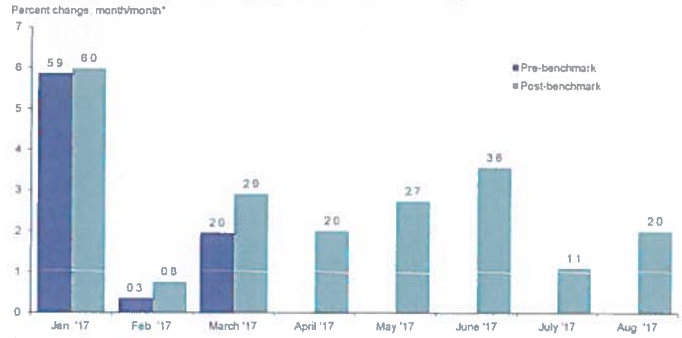
First-Quarter Job Growth Revised Upward

The Texas Workforce Commission releases a more comprehensive employment series, the Quarterly Census of Employment and Wages (QCEW), which is used to benchmark the monthly Current Employment Statistics data series. With the release of first quarter 2017 QCEW data, Texas nonfarm employment was revised upward by 0.5 percentage points in the first quarter, from 2.69 percent to 3.19. Revisions to employment growth were substantial in February and March (*Chart 1*).

Initial Jobless Claims Surge with Impact of Hurricane

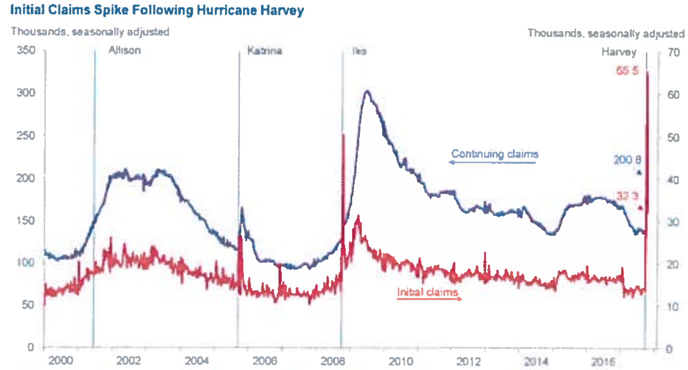
Texas initial unemployment claims climbed to 65,524 in the week ended Sept. 2, nearly five times the level seen in the previous week (*Chart 2*). Claims have since come

Chart 1
Benchmark Revision Reveals Stronger First-Quarter Job Gains for Texas



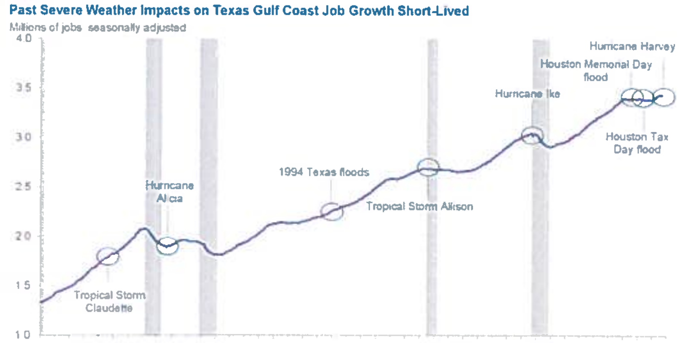
*Seasonally adjusted, annualized rate.
NOTES: Data are through August 2017. Early benchmarking is through first quarter 2017.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

Chart 2
Initial Claims Spike Following Hurricane Harvey



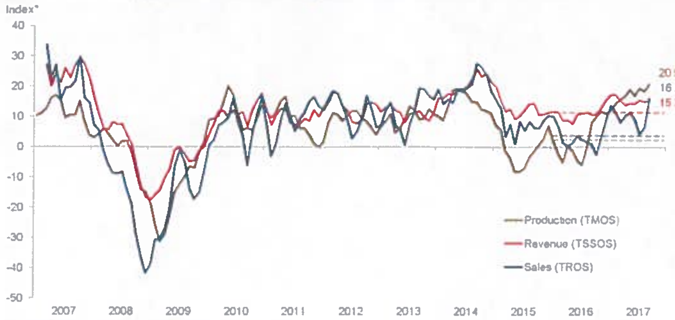
NOTE: Initial claims data are through Sept. 16, 2017, and continuing claims data are through Sept. 9, 2017.
SOURCE: U.S. Department of Labor.

Chart 3
Past Severe Weather Impacts on Texas Gulf Coast Job Growth Short-Lived



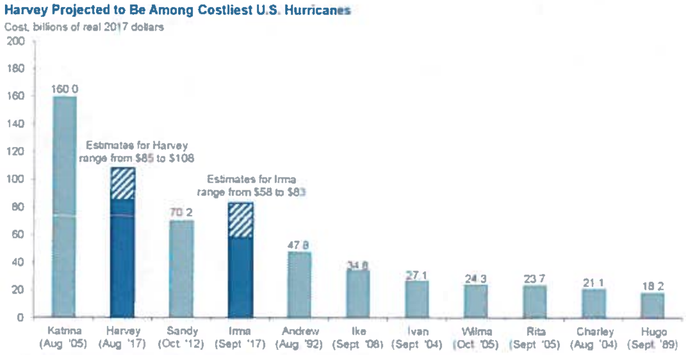
NOTES: Gray bars represent Texas recessions. Gulf Coast employment refers to the Houston, Beaumont, Corpus Christi and Victoria metros.
SOURCES: Bureau of Labor Statistics; National Oceanic and Atmospheric Administration; adjustments by the Federal Reserve Bank of Dallas.

Chart 4
TBOS Points to Strong Recovery in Manufacturing, Stable Growth in Services



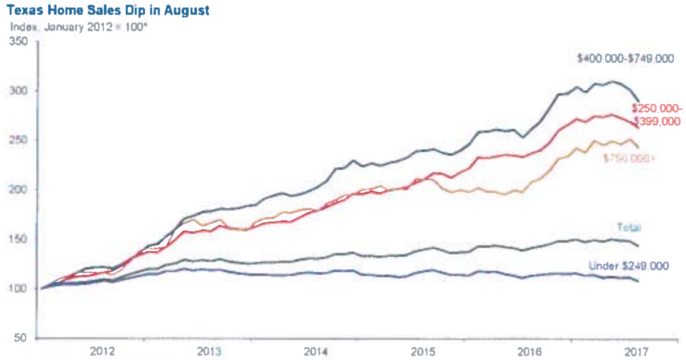
*Three-month moving average, seasonally adjusted.
NOTES: Data are through September 2017. Dashed lines are 2016 averages.
SOURCES: Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey (TMOS), Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS).

Chart 5
Harvey Projected to Be Among Costliest U.S. Hurricanes



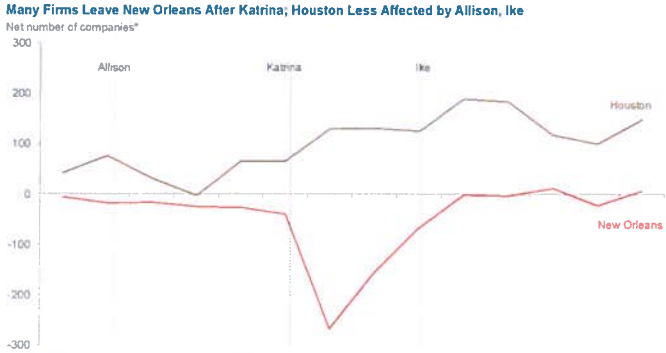
NOTE: Costs include loss of personal and commercial property, public and private infrastructure, vehicles, livestock, and time-element losses (e.g., time costs for businesses, and hotel costs for loss of living quarters).
SOURCES: National Oceanic and Atmospheric Administration, National Centers for Environmental Information; Moody's Analytics; Enki Research.

Chart 6
Texas Home Sales Dip in August



*Three-month moving average, seasonally adjusted.
NOTE: Last data point is August 2017.
SOURCES: Texas A&M Real Estate Center; Multiple Listing Service; seasonal and other adjustments by Federal Reserve Bank of Dallas.

Chart 7
Many Firms Leave New Orleans After Katrina; Houston Less Affected by Allison, Ike



*The net number is the difference between firms moving in and those moving out of the metro area each year.
SOURCE: National Establishment Time Series Database.

down to around 32,000 in the week ended Sept. 16 but are still elevated relative to the 2017 pre-Harvey average of 13,900. Following Hurricane Ike in September 2008, Texas initial jobless claims rose 142 percent and remained elevated for at least five weeks. Given that the disruption caused by Harvey is of a larger magnitude, initial claims will likely remain elevated for a similar or slightly longer period. Prior to Harvey, state initial jobless claims were below their 2000–06 averages.

Harvey's Employment Impact Expected to Be Short Lived

Historically, the impact of extreme weather events on Texas Gulf Coast payroll employment has been transitory as employment resumes its normal growth path following a temporary decline (*Chart 3*). Many of the weather events highlighted in Chart 3 were not as severe as Harvey but still point to the resiliency of the area's economy.

A Dallas Fed analysis of the effect of Hurricane Harvey on employment suggests that jobs will fall sharply in September, by 54,200 to 73,700 on the Gulf Coast and 37,800 to 60,400 statewide.[1] Employment will likely rebound to trend growth along the Gulf Coast by year-end and in Texas in October.

Texas Business Outlook Survey Reflects Continued Expansion

Texas factory activity increased in September, and retail and service sector activity continued to reflect expansion, according to business executives responding to the Dallas Fed's Texas Business Outlook Surveys (TBOS). Factory production and service revenue continued growing in September, exceeding last year's averages (*Chart 4*). Retail sales climbed markedly in September as well.

Hurricane Harvey had a negative effect on the revenue and/or production of 41 percent of firms responding to the TBOS special questions that focused on its impact. Over the next six months, 33 percent of all special question respondents expect a decrease in their revenue and/or production as a result of the storm. These firms identified loss of customer base, personnel disruptions and transportation and/or supply chain disruptions as the most significant impediments to getting back to business as usual.

Harvey's Economic Losses Daunting

Despite the transitory impact of Harvey on employment and business activity, the damage to property and infrastructure is severe. Moreover, insured losses are expected to be a smaller share of the total compared with other major U.S. hurricanes because a larger-than-usual proportion of the property damage was from flooding. Harvey's damage costs are estimated at $85 billion and up, putting the storm's losses ahead of most major U.S. hurricanes (*Chart 5*).

Labor Shortages May Worsen as Texas Gulf Coast Repairs, Rebuilds

Labor markets tightened further in August, with the state unemployment rate falling to 4.2 percent—its lowest level since July 2007. Labor markets in Austin and Dallas were even tighter, with unemployment below 4 percent.

With a limited labor pool from which to choose, companies are reporting worker shortages and difficulty hiring. Shortages are particularly acute in construction, where wages have rapidly increased since 2012. Labor demand will rise as post-hurricane repair and restoration work gets underway, further squeezing the Texas construction market and pushing up labor and material costs.

When asked about the impact of Hurricane Harvey on the labor market, 27 percent of firms responding to the TBOS special questions survey expected their ability to find and hire workers to become more difficult over the next six months.

Home Sales Dip, May Decline Further Post-Harvey

Overall, statewide home sales have plateaued at elevated levels and dipped in August (*Chart 6*). Sales of entry-level homes (priced under $250,000) have been mostly flat to down throughout the current expansion as home prices have rapidly increased. Sales of homes priced between $250,000 and $749,000, which had been expanding at a solid pace and accounted for 35 percent of the overall market in 2016, have softened in recent months as well. Sales of homes priced above $750,000 have increased 3.9 percent year to date. Home sales will likely slow further in the near term in Houston and other affected areas due to the widespread storm damage to homes but will gradually return to normal as recovery begins.

Longer-Run Economic Impact Likely Limited

Research suggests that the longer-term impact of the hurricane is expected to be limited.[2] Houston will rebound because of its importance as the energy capital of the U.S. and as a center for business and trade. Other parts of the coast will gradually recover as well, although some small-business owners may find it difficult to reopen.

One indicator of Houston's resilience is the sustained in-migration of firms following previous severe weather events (*Chart 7*). New Orleans was in economic decline before Katrina made landfall in 2005, with more firms moving out of the metro area relative to those coming in. Katrina accelerated the out-migration from New Orleans. In contrast, Houston's economy was adding new firms on net prior to Allison and Ike and continued attracting employers after the storms' immediate impacts passed.

—Laila Assanie and Stephanie Gullo

Notes

1. For the Gulf Coast, growth is expected to rebound by an annualized 15.7 to 21.1 percent in October and rise 8.7 to 11.2 percent in November. A slight rise of 3.6 to 4.3 percent is anticipated in December. For Texas, growth will likely rebound by an annualized 11.8 to 15.0 percent in October while staying close to what had been forecast absent the hurricane for November and December.
2. "The Economic Growth Impact of Hurricanes: Evidence from U.S. Coastal Counties," by Eric Strobl, *The Review of Economics and Statistics*, vol. 93, no. 02, 2011, pp. 575–89; and "Local Economic Impacts of Natural Disasters," by Yu Xiao, *Journal of Regional Science*, vol. 51, no. 4, 2011, pp. 804–20.

About the Authors

Assanie is a senior business economist and Gullo is a research analyst in the Research Department at the Federal Reserve Bank of Dallas.