



Business Affairs and Finance
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July 12, 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 third quarter ended May 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 Third Quarter Ended May 31, 2017**

Unaudited

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

	<u>Book</u> <u>Value</u>	<u>%</u>	<u>Market</u> <u>Value</u>	<u>%</u>
Long-term Securities:				
Equity Securities:				
U.S. Common Stock	<u>\$70,774</u>	<u>0.20%</u>	<u>\$233,887</u>	<u>0.61%</u>
Long-term Investment Pools				
Texas A&M System Investment Pool	<u>26,873,300</u>	<u>74.28%</u>	<u>28,760,790</u>	<u>75.23%</u>
Total Long-term Securities	<u>26,944,074</u>	<u>74.47%</u>	<u>28,994,677</u>	<u>75.84%</u>
Short-term Securities:				
TexPool	1,011,987	2.80%	1,011,987	2.65%
Logic	2,032,154	5.62%	2,032,154	5.32%
TX Class	<u>2,037,617</u>	<u>5.63%</u>	<u>2,037,617</u>	<u>5.33%</u>
Total Short-term Securities	<u>5,081,758</u>	<u>14.05%</u>	<u>5,081,758</u>	<u>13.28%</u>
Total Investment Assets	<u>32,025,832</u>	<u>88.52%</u>	<u>34,076,435</u>	<u>89.13%</u>
Cash and Cash Equivalents:				
Cash Held at State Treasury	<u>4,153,958</u>	<u>11.48%</u>	<u>4,153,958</u>	<u>10.87%</u>
Total Cash and Cash Equivalents				
Total Cash and Investments	<u>\$36,179,790</u>	<u>100.00%</u>	<u>\$38,230,392</u>	<u>100.00%</u>
Total Rate of Return	0.50%			

Unaudited

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

	<u>Book</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Investment Assets - 02-28-17	\$36,865,402	\$38,116,930
Principal Payments received	(5,000,000)	(5,000,000)
Investment Income	161,721	161,721
Realized Gain (Loss)		
Distributions and Other	(1,291)	(1,291)
Securities Purchased		
Changes in Net Unrealized Appreciation/(Depreciation)	<hr/>	<hr/>
		799,075
Investment Assets - 05-31-17	<u><u>\$32,025,832</u></u>	<u><u>\$34,076,435</u></u>

Unaudited

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

	<u>Book</u> <u>Value</u>	<u>%</u>	<u>Market</u> <u>Value</u>	<u>%</u>
Long-term Securities:				
Equity Securities:				
Common Stock, Mutual Funds and ETFs	\$5,006,348	64.32%	\$6,011,405	67.72%
Total Equity Securities	<u>5,006,348</u>	<u>64.32%</u>	<u>6,011,405</u>	<u>67.72%</u>
Other Securities:				
U.S. Government Agencies	254,409	3.27%	254,070	2.86%
Corporate Bonds & Notes	2,072,396	26.63%	2,109,930	23.77%
Real Estate Investment Trusts (REIT)	211,799	2.72%	263,158	2.96%
Total Fixed Income Securities	<u>2,538,604</u>	<u>32.62%</u>	<u>2,627,158</u>	<u>26.63%</u>
Total Long-term Securities	<u>7,544,952</u>	<u>96.94%</u>	<u>8,638,562</u>	<u>97.32%</u>
Cash and Cash Equivalents:				
U.S. Dollars		0.00%		0.00%
Goldman Sachs - Cash Equivalent	238,085	3.06%	238,085	2.68%
Total Cash and Cash Equivalents	<u>238,085</u>	<u>3.06%</u>	<u>238,085</u>	<u>2.68%</u>
Total Cash and Investments	<u>\$7,783,036</u>	<u>100.00%</u>	<u>\$8,876,647</u>	<u>100.00%</u>

Unaudited

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

	<u>Book</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Investment Assets - 02-28-17	\$7,727,604	\$8,799,482
Principal Payments Received	(2,081,463)	(2,081,463)
Investment Income	49,907	49,907
Realized Gain (Loss)	28,265	28,265
Management Fees	(10,570)	(10,570)
Distributions and Other	(74,541)	(74,541)
Securities Purchased	2,143,834	2,143,834
Changes in Net Unrealized Appreciation/(Depreciation)	<u>21,733</u>	<u>21,733</u>
Investment Assets - 05-31-17	<u><u>\$7,783,036</u></u>	<u><u>\$8,876,647</u></u>

Unaudited

Midwestern State University
Summary of Investments

(MSU Endowments Invested with the Texas A&M University System)

At May 31, 2017

	<u>Book</u> <u>Value</u>	<u>%</u>	<u>Market</u> <u>Value</u>	<u>%</u>
Long-term Investment Pools:				
Texas A&M System Endowment Pool	\$511,042	100.00%	\$515,353	100.00%
Total Long-term Investments	<u>511,042</u>	<u>100.00%</u>	<u>515,353</u>	<u>100.00%</u>
Total Investments	<u>\$511,042</u>	<u>100.00%</u>	<u>\$515,353</u>	<u>100.00%</u>

Unaudited

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

	<u>Book</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Investment Assets - 02-28-17	\$511,042	\$506,030
Principal Payments Received		
Investment Income	2,206	2,206
Realized Gain (Loss)	4,378	
Management Fees	(647)	(647)
Distributions and Other	(5,936)	(5,936)
Securities Purchased and Funds Transferred		
Changes in Net Unrealized Appreciation/(Depreciation)	<u> </u>	<u>13,701</u>
Investment Assets - 05-31-17	<u><u>\$511,042</u></u>	<u><u>\$515,353</u></u>

Unaudited

Midwestern State University
Summary of Investments

(Redwine Quasi-Endowment Invested with the Texas A&M University System)

At May 31, 2017

	<u>Book</u> <u>Value</u>	<u>%</u>	<u>Market</u> <u>Value</u>	<u>%</u>
Long-term Investment Pools:				
Texas A&M System Endowment Pool	\$11,516,586	100.00%	\$11,602,007	100.00%
Total Long-term Investments	<u>11,516,586</u>	<u>100.00%</u>	<u>11,602,007</u>	<u>100.00%</u>
Total Investments	<u>\$11,516,586</u>	<u>100.00%</u>	<u>\$11,602,007</u>	<u>100.00%</u>

Unaudited

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

	<u>Book</u> <u>Value</u>	<u>Market</u> <u>Value</u>
Investment Assets - 02-28-17	\$11,516,586	\$11,392,124
Principal Payments Received		
Investment Income	49,658	49,658
Realized Gain (Loss)	98,559	98,559
Management Fees	(19,319)	(19,319)
Distributions and Other	(128,898)	(128,898)
Changes in Net Unrealized Appreciation/(Depreciation)	<u>209,882</u>	<u>209,882</u>
Investment Assets - 05-31-17	<u><u>\$11,516,586</u></u>	<u><u>\$11,602,007</u></u>

INVESTMENT PORTFOLIO ACTIVITY
"POOLED" INVESTMENTS
FOR THE THIRD QUARTER ENDED MAY 31, 2017

	Coupon	Stated Maturity	Book Value 02-28-17	Market Value 02-28-17	Unrealized Gain (Loss)	Purchases	Principal Payments Received/Matured	Realized Gain (Loss)	Interest/Dividends Earned For the Qtr.	Amortization/Accretion of Prem./Disc.	Book Value 05-31-17	Market Value 05-31-17	Unrealized Gain (Loss)
U.S. Common Stock: (Donated)													
1,000 shares - Chesapeake Utilities (CPK)			18,200.00	68,950.00	50,750.00				457.50		18,200.00	73,990.00	55,790.00
10 shares - Citigroup (C) - reverse split			1,310.00	598.10	(711.90)						1,310.00	605.40	(704.60)
45 shares Calamos Conv. & High Inc. (CHY)			619.65	508.05	(111.60)				13.50		619.65	520.65	(99.00)
1,200 shares - CSX Corp. (CSX)			5,566.00	58,272.00	52,706.00				216.00		5,566.00	65,004.00	59,438.00
252 shares - Conoco Phillips - (COP)			4,957.82	11,987.64	7,029.82				66.78		4,957.82	11,261.88	6,304.06
125 shares Berkshire (BRK-B)			2,691.05	21,427.50	18,796.45				187.82		2,691.05	20,660.00	18,028.95
856 shares - Wells Fargo (WFC)			24,824.00	49,545.28	24,721.28				325.28		24,824.00	43,775.84	18,951.84
124 shares-Manulife (MFC)			4,216.36	2,222.08	(1,994.28)				14.28		4,216.36	2,136.52	(2,079.84)
60 shares - Natl. Oil Well (NOV)			4,342.80	2,425.20	(1,917.60)				3.00		4,342.80	1,957.20	(2,385.60)
15 shares - NOW Inc. (DNOW) - split/spin off			514.20	287.10	(227.10)						514.20	247.65	(266.55)
70 shares - Southwest Airlines (LUV)			1,112.30	4,046.00	2,933.70				7.00		1,112.30	4,197.90	3,085.60
Total Common Stock			70,773.86	230,120.89	159,347.03				1,291.16		70,773.86	233,886.90	163,113.04
Sub-Total - Securities			70,773.86	230,120.89	159,347.03				1,291.16		70,773.86	233,886.90	163,113.04
TEXPOOL Investment Pool (1)													
0.77 • Daily			3,008,523.32	3,008,523.32			2,000,000.00		3,463.83		1,011,987.15	1,011,987.15	
LOGIC Investment Pool (1)			4,024,473.91	4,024,473.91			2,000,000.00		7,679.62		2,032,153.53	2,032,153.53	
TX CLASS Investment Pool (1)			3,030,544.13	3,030,544.13			1,000,000.00		7,072.98		2,037,617.11	2,037,617.11	
TX A&M System Pool			26,731,086.31	27,823,267.49	1,092,181.18				142,213.84		26,873,300.15	28,760,789.95	1,887,489.80
Total Investments Pool Cash			36,794,627.67	37,886,808.85	1,092,181.18		5,000,000.00		160,430.27		31,955,057.94	33,842,547.74	1,887,489.80
Total Investments			\$36,865,401.53	\$38,116,929.74	\$1,251,528.21		\$5,000,000.00		\$161,721.43		\$32,025,831.80	\$34,076,434.64	\$2,050,602.84

*As of May 31, 2017

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

Comparison to U.S. and State Treasuries	Accounting Yield	Book Value	Average Three-Month U.S. Treasury Bill	State Treasury Yield	Basis Point Spread to U.S. Treasury	Basis Point Spread to State Treasury
March, 2017	1.09	1.09	0.75	1.12	0.34	(0.07)
April, 2017	(0.26)	(0.26)	0.81	1.19	(1.07)	(1.45)
May, 2017	0.66	0.66	0.90	1.17	(0.24)	(0.52)

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

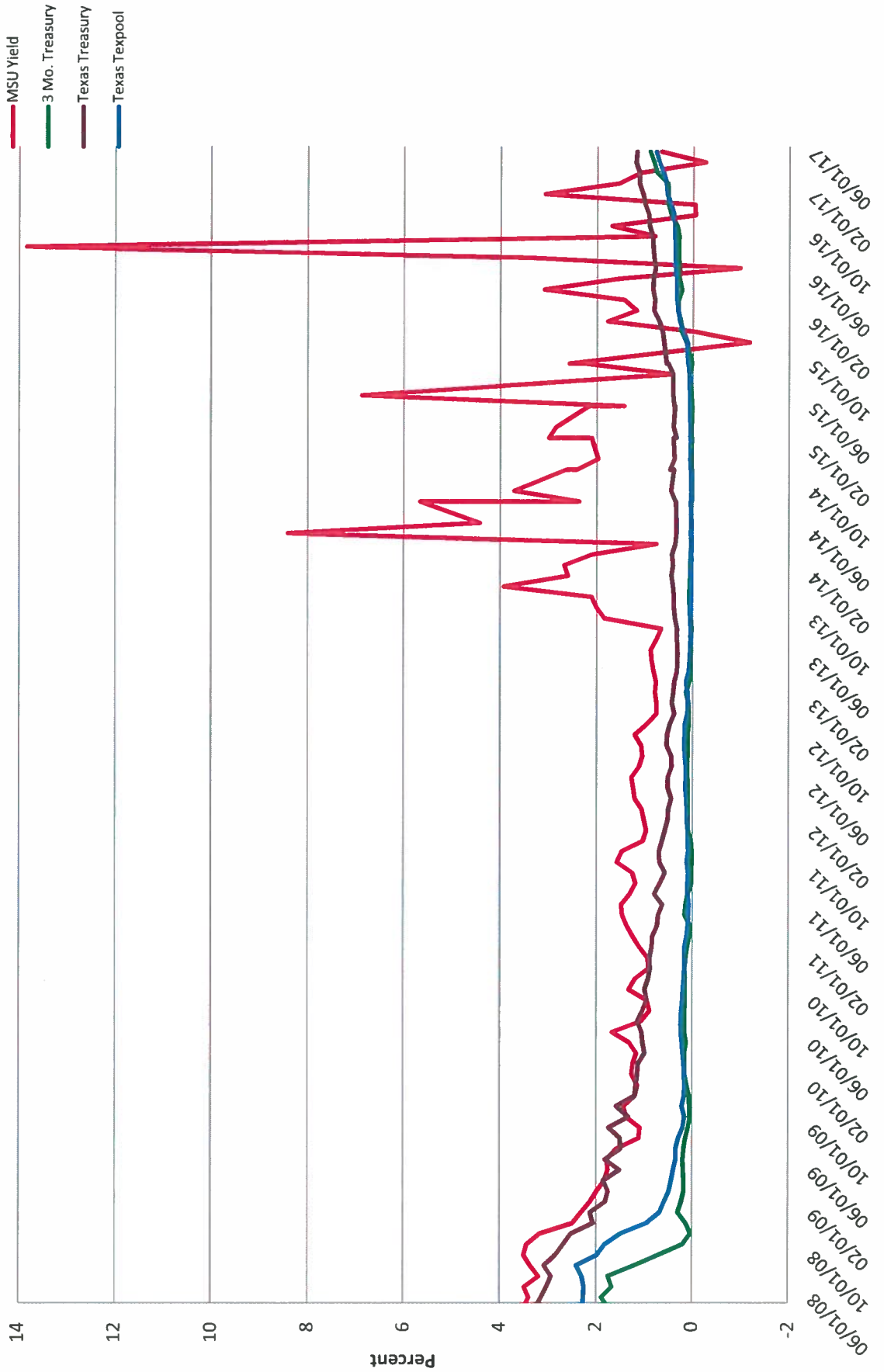
	Coupon	Stated Maturity	Book Value 02-28-17	Market Value 02-28-17	Unrealized Gain (Loss)	Purchases	Principal Payments Received/Matured	Realized Gain (Loss)	Interest Earned For the Qtr.	Amortization/ Accretion of Prem./Disc.	Book Value 05-31-17	Market Value 05-31-17	Unrealized Gain (Loss)
LOGIC Investment Pool	1.08	* Daily	\$5.68	\$5.68		\$326,761.80	\$326,767.47		\$9.62		\$9.63	\$9.63	
BLB Flexible Repo Agreement	0.96	Monthly	\$7,583,121.09	\$7,583,121.09			326,761.80		138,275.58		57,394,634.87	57,394,634.87	
Total Bond Investments			\$7,588,126.77	\$7,588,126.77		\$326,761.80	\$653,529.27		\$138,285.20		\$57,394,644.50	\$57,394,644.50	

* As of May 31, 2017

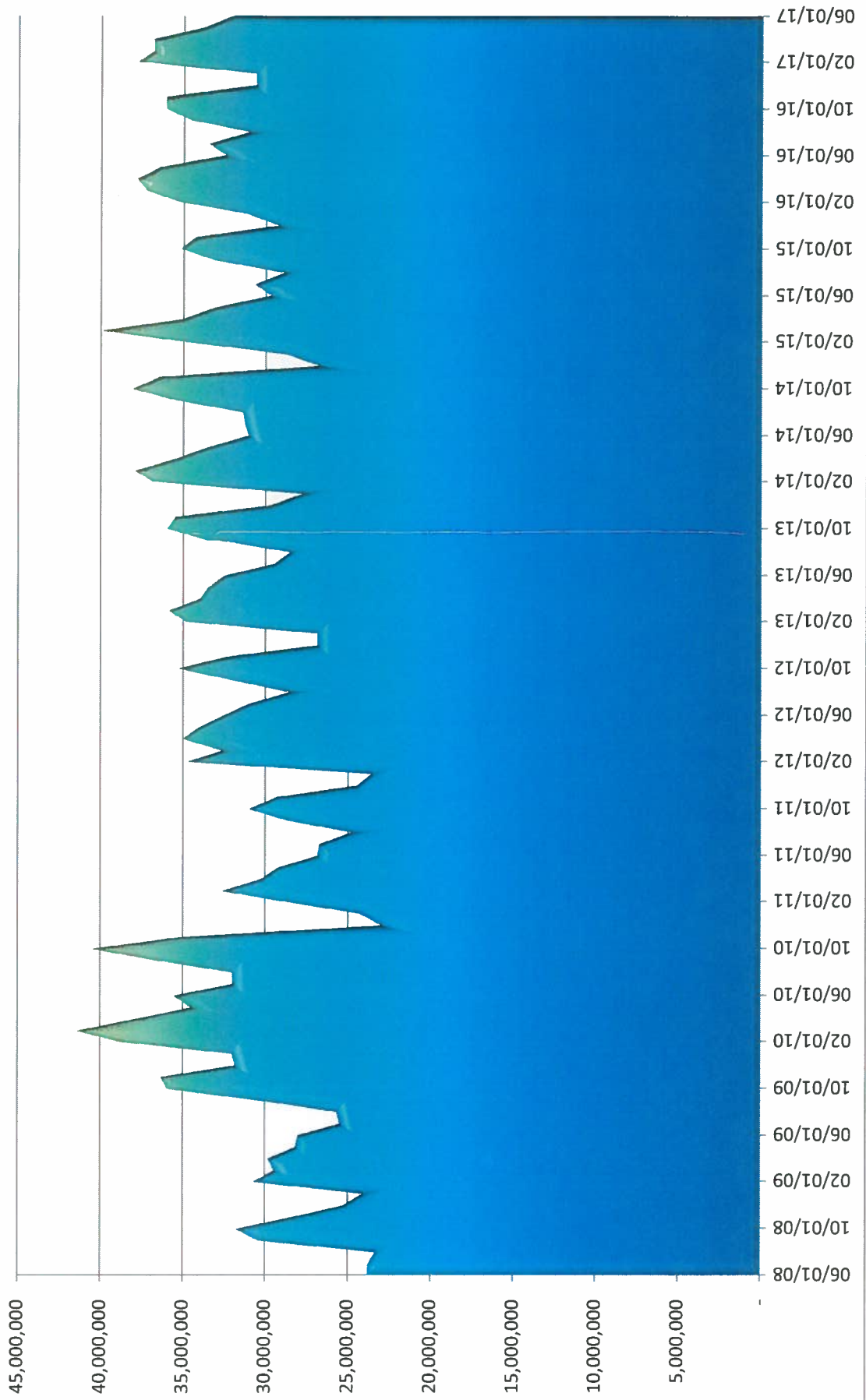
Interest Rate on Bonds issued 2.00% - 5.00%

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).

Midwestern State University Historical Yields



Midwestern State Universities Pooled Investments Total Invested



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

	Book Value 02-28-17	Market Value 02-28-17	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 05-31-17	Market Value 05-31-17	Unrealized Gain (Loss)	Market Value Percentage Of Total
AMERICAN NATL. BANK TRUST DEPT.												
Cash and Cash Equivalents:												
Cash												
American Natl. Bank Fees												
U.S. Dollars	\$103,240.27	\$103,240.27		\$946,086.64	\$811,242.41		(\$10,570.40)		\$238,084.50	\$238,084.50		2.68%
Goldman Sachs	103,240.27	103,240.27		946,086.64	811,242.41		(10,316.03)		238,084.50	238,084.50		2.68%
Total Cash and Cash Equivalents												
Purchased Interest Receivable												
Fixed Income:												
U.S. Government Agencies	268,093.34	266,535.08	(\$1,558.26)		13,406.79	(\$443.79)	1,961.58	(\$277.60)	254,408.95	254,069.65	(\$339.30)	2.86%
Municipal Bonds												
Corporate Bonds & Notes	2,039,944.14	2,070,457.50	30,513.36	704,008.60	664,894.85	(337.68)	20,920.42	(6,661.64)	2,072,396.25	2,109,930.10	37,533.85	23.77%
Devonshire - REIT	213,772.28	263,157.84	49,385.56		1,973.67				211,798.61	263,157.84	51,359.23	2.96%
Total Fixed Income Securities	2,521,809.76	2,600,150.42	78,340.66	704,008.60	680,275.31	(781.47)	22,882.00	(6,939.24)	2,538,603.81	2,627,157.59	88,553.78	29.60%
Common Stock - Equities:												
U.S. Equities	4,376,222.75	5,288,549.97	912,327.22	302,198.77	589,944.88	29,046.05	25,736.51		4,088,476.64	4,974,570.45	886,093.81	56.04%
Foreign Equities	75,542.80	67,325.50	(8,217.30)	39,120.64			192.50		114,663.44	100,911.25	(13,752.19)	1.14%
Equity ETFs	650,788.42	740,216.14	89,427.72	152,419.26			842.06		803,207.68	935,922.87	132,715.19	10.54%
Mutual Funds - Equities												
Total Equities	5,102,553.97	6,096,091.61	993,537.64	493,738.67	589,944.88	29,046.05	26,771.07		5,006,347.76	6,011,404.57	1,005,056.81	67.72%
Total Endowment Investments	\$7,727,604.00	\$8,799,482.30	\$1,071,878.30	\$2,143,833.91	\$2,081,462.60	\$28,264.58	\$39,337.04	(\$6,939.24)	\$7,783,036.07	\$8,876,646.66	\$1,093,610.59	100.00%
at American National Bank Trust												
Mar, Apr, May activity												
Simple yield excluding mkt.value change: (Realized gain + Int.Div.Recvd. + Amort./Accr.) / (Average Book Value) =												
3.13%												
(Annualized)												
Market Value gain = 1,093,610.59 = 14.05%												
7,783,036.07												

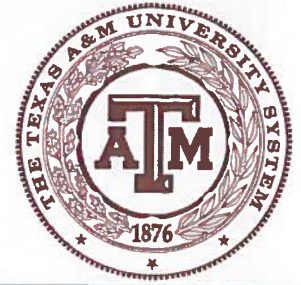
MSU ENDOWMENT INVESTMENTS - TEXAS A&M UNIVERSITY SYSTEM ENDOWMENT POOL
FOR THE THIRD QUARTER ENDED MAY 31, 2017

	Book Value 02-28-17	Market Value 02-28-17	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 05-31-17	Market Value 05-31-17	Unrealized Gain (Loss)	Market Value Percentage Of Total
TEXAS A&M INVESTMENT MGMT FEE							(\$647.35)					
ong-term Investment Pools:												
exas A&M System Endowment Pool	\$511,041.99	\$506,029.92	(\$5,012.07)		\$4,377.91	\$4,377.91	2,205.76		\$511,041.99	\$515,352.74	\$4,310.75	100.00%
Total Long-term Investments	511,041.99	506,029.92	(5,012.07)	0.00	4,377.91	4,377.91	1,558.41		511,041.99	515,352.74	4,310.75	100.00%
otal Endowment Assets												
t Texas A&M University System	\$511,041.99	\$506,029.92	(\$5,012.07)	\$0.00	\$4,377.91	\$4,377.91	\$1,558.41		\$511,041.99	\$515,352.74	\$4,310.75	100.00%
air, Apr, May activity							(Annualized)	4.65%	5,936.32	Market Value gain =	4,310.75 =	0.84%
									511,041.99			
Simple Yield excluding mkt.value change: (Realized gain + Int.Div.Recvd. + Amort./Accr.) / (Average Book Value) =												

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

	Book Value 02-28-17	Market Value 02-28-17	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 05-31-17	Market Value 05-31-17	Unrealized Gain (Loss)	Market Value Percentage Of Total
TEXAS A&M INVESTMENT MGMT FEE							(\$19,318.56)					
ong-term Investment Pools:												
exas A&M System Endowment Pool	\$11,516,585.66	\$11,392,124.44	(\$124,461.22)		\$98,558.86	\$98,558.86	\$49,657.72		\$11,516,585.66	\$11,602,006.84	\$85,421.18	100.00%
Total Long-term Investments	11,516,585.66	11,392,124.44	(124,461.22)	0.00	98,558.86	98,558.86	30,339.16		11,516,585.66	11,602,006.84	85,421.18	100.00%
otal Endowment Assets												
it Texas A&M University System	\$11,516,585.66	\$11,392,124.44	(\$124,461.22)	\$0.00	\$98,558.86	\$98,558.86	\$30,339.16		\$11,516,585.66	\$11,602,006.84	\$85,421.18	100.00%
air, Apr, May activity							(Annualized)	4.48%	128,898.02	Market Value gain =	85,421.18 =	0.74%
									11,516,585.66			
Simple Yield excluding mkt.value change: (Realized gain + Int.Div.Recvd. + Amort./Accr.) / (Average Book Value) =												

Texas A&M University System Cash Concentration Pool



FISCAL YEAR 2017

3RD QUARTER – MAY 31, 2017

Effective Rates for FY 2017 YTD:

Cash Portfolio:	0.77%
Long-Term Portfolio:	2.43%
Total Pool:	2.06%

Capital Market & Rates

The yield on 2-year Treasuries rose to 1.28% in May from 1.22% at the end of February. The yield on 10-year Treasuries fell slightly to 2.20% in May from 2.36% at the end of February.

The S&P 500 Index returned 2.6% during the quarter and 17.5% for the one-year ending May 31, 2017. Developed international equity markets returned 9.2% (in US Dollars) during the quarter and 16.4% for the one-year period. Emerging markets returned 7.9% (in US dollars) during the quarter and 27.4% for the one-year period.

The unemployment rate stood at 4.3% in May. The economy added 447,000 jobs during the three month period.

The economy was estimated to have grown at a 1.2% annual rate during the quarter ending March 30, down from 2.1% in the prior quarter.

CCP Estimated Distribution Rate for FY 2017

Total Pool: 2.50%

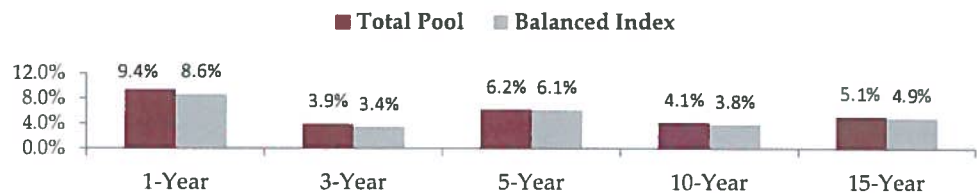
<http://www.tamus.edu/finance/treasury-services/>

Pool Valuation

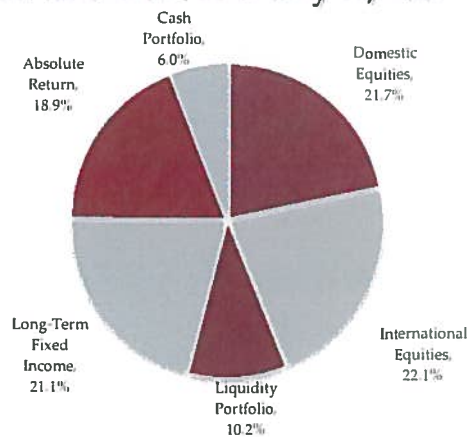
As of May 2017, the Pool had a market value of approximately \$4.0 billion. For the 3rd quarter of FY 2017, the Pool positions had \$585.7 million in cash inflows and \$836.8 million in cash outflows, decreasing the book value of the Pool by \$251.1 million. The Pool earned investment income during this quarter of \$17.0 million and realized net gains on investments of \$8.5 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



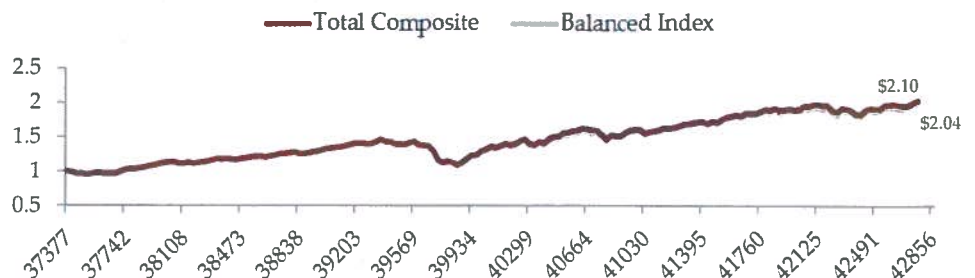
Asset Allocation as of May 31, 2017



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

Domestic Equities	\$735.2
International Equities	\$749.8
Liquidity Portfolio	\$346.8
Fixed Income	\$717.1
Absolute Return	\$641.0
Cash Portfolio	\$203.4

Growth of \$1 (15 Years)



Texas A&M University System System Endowment Fund



FISCAL YEAR 2017

3RD QUARTER – MAY 31, 2017

Capital Market Update

As measured by the Russell 3000 Index, the US stock market returned 2.2% over the quarter and 17.7% for the one-year period. Large cap stocks outperformed small cap stocks by 3.4% for the quarter, but underperformed by 2.9% for the one-year period. Growth stocks outperformed value stocks by 7.4% during the quarter and underperformed by 5.1% for the year.

Developed international equity markets returned 9.2% (in US Dollars) during the quarter and 16.4% for the one-year period. Emerging markets returned 7.9% (in US dollars) during the quarter and 27.4% for the one-year period.

Fixed income markets modestly appreciated during the quarter, rising 1.5%. For the one-year period, fixed income markets increased 1.6%.

Absolute return, on an aggregate basis, appreciated 0.8% for the quarter and 5.5% for the one-year period.

Quarterly Endowment Spending Rate

FY 2017: \$0.072378 per unit

FY 2018: \$0.073954 per unit

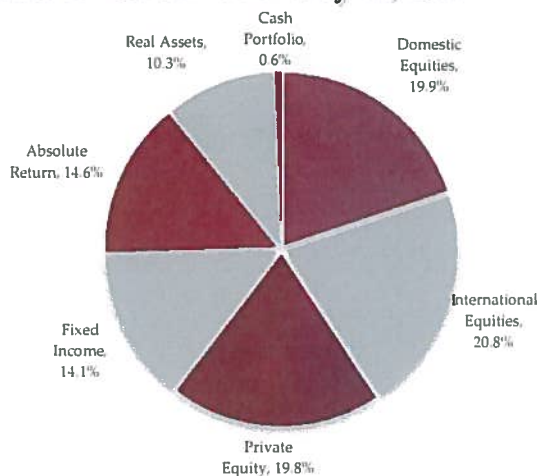
Endowment Valuation

As of May 31, 2017, the SEF had a market value of approximately \$1.089 billion, including new deposits and net the income distribution for the 3rd Quarter. The SEF is accounted for on a unitized basis and the per unit market value as of May 31, 2017 was \$6.30.

Investment Performance



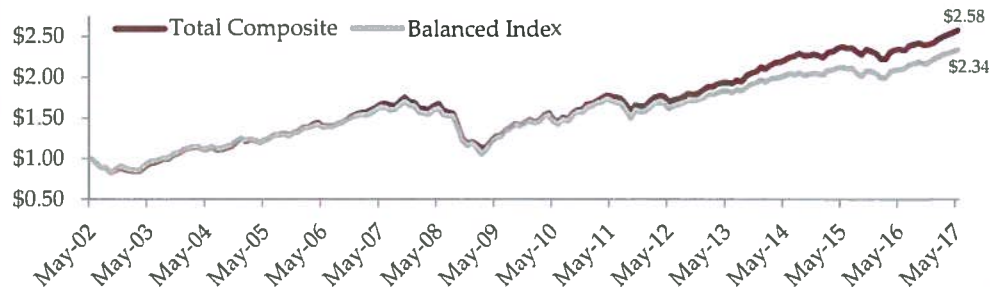
Asset Allocation as of May 31, 2017



Asset Allocation (\$M) Prior to Distribution and New Deposits

Domestic Equities	\$217.2
International Equities	\$226.5
Private Equity	\$215.7
Fixed Income	\$153.7
Absolute Return	\$158.8
Real Assets	\$112.9
Cash Portfolio	\$6.4

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/>

Texas Economy Strengthens

June 21, 2017

The Texas economy is growing at a moderate pace. Employment continued to expand in May and the [Texas Business Outlook Survey \(TBOS\)](#) indexes point to a pickup in the manufacturing and services sectors, but slightly slower growth in retail from April to May. The latest [Dallas Fed Texas Employment Forecast](#) for 2017 ticked up slightly from 2.4 to 2.6 percent. Downside risks are sharply declining oil prices, continued strength in the dollar and uncertainty regarding both U.S. trade and tax policy.

Employment Growth Picks Up in May

Texas added jobs at a 2.4 percent annualized rate in May, faster than the 2.1 percent increase in April. Texas employment has grown at an annualized 2.5 percent pace year to date, outpacing the nation's 1.3 percent increase.

The manufacturing and energy sectors saw continued job gains in May, as oil prices stabilized and the effect of the strong dollar on exports abated somewhat. The energy sector continues to make significant employment gains since fourth quarter 2016, after losing 1 in 3 jobs from its previous peak in fourth quarter 2014. Construction employment expanded 6.5 percent in May, following a 10.4 percent decline in April. Goods-producing sectors have added jobs at a 6.5 percent rate year to date, outpacing the 1.9 percent growth in private services. Most service sectors have added jobs year to date, though information services has contracted.

Boosted by the recent stability in oil prices, Houston employment expanded for a fifth consecutive month in May, registering the fastest year-to-date growth among the major metros. Payrolls in Dallas-Fort Worth recovered from April's 3.7 percent decline with 4.9 percent growth in May, and the metro has expanded 2.3 percent year to date. Of the major metros, only Austin reduced employment in May, though it still has registered 1.8 percent growth year to date (*Chart 1*).

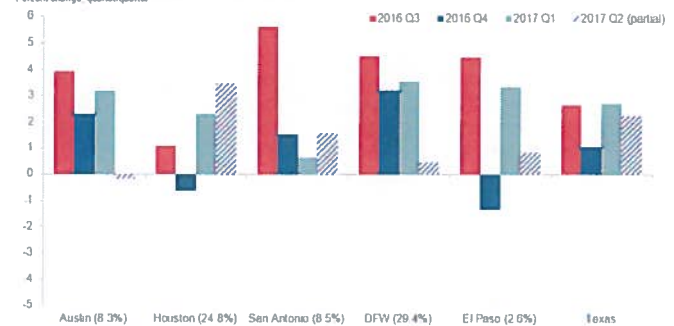
Labor Market Remains Tight

The state unemployment rate dropped from 5.0 percent to 4.8 percent in May, which exceeds the 4.3 percent May rate for the nation. This drop was driven by a decrease in the labor force that exceeded a slight decline in household employment. It is worth noting that, although the Texas unemployment rate is higher than the nation, the incidence of discouraged workers, the marginally attached and the underemployed have been more muted and remain mostly at or below their national rates (*Table 1*).

TBOS Indexes Suggest Strong Growth in Manufacturing

The three-month moving averages of the TBOS headline indexes suggest a strong recovery in manufacturing in recent months, with some slowing in service sector growth (*Chart 2*). Alternative indexes constructed using Texas Manufacturing Outlook Survey responses show positive

Chart 1
Houston's Job Growth Accelerates in Second Quarter



*Seasonally adjusted, annualized rate
NOTES: Partial second quarter 2017 is based on April and May 2017 data. Numbers in parentheses are share of total Texas employment in May 2017.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas

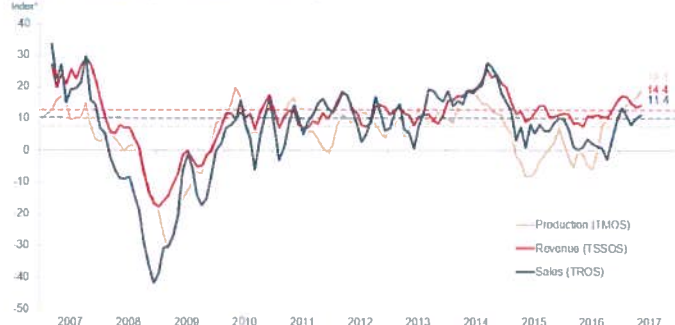
Table 1
Broader Measures of Labor Market

	April six-month moving average		Precession (2000–06) average	
	Texas	U.S.	Texas	U.S.
U-3 (headline unemployment rate)	5.1	4.6	5.7	5.2
Discouraged workers	0.2	0.3	0.2	0.3
Marginally attached	0.6	0.7	0.6	0.7
Part time for economic reasons	3.2	3.5	3.1	2.8
U-6 (broader unemployment rate)	9.2	9.1	9.7	9.0

NOTES: See www.bls.gov/law/stalt.htm for definitions of special unemployment rates. U-6 (broader unemployment rate) equals U-3 (headline unemployment rate) plus discouraged workers, marginally attached, and part time for economic reasons, although U-6 may differ from the total due to rounding. The precession period excludes 2001.

SOURCES: Bureau of Labor Statistics; Current Population Survey; authors' calculations.

Chart 2
TMOS Points to Strong Recovery in Manufacturing



*Seasonally adjusted, three-month moving average
NOTES: Data are through May 2017. Dashed lines are postrecession averages (January 2010–December 2016)
SOURCE: Federal Reserve Bank of Dallas; Texas Manufacturing Outlook Survey (TMOS); Texas Service Sector Outlook Survey (TSSOS) and Texas Retail Outlook Survey (TROS)

growth in both energy- and exports-related manufacturing in Texas (Chart 3). Slower growth in energy- and exports-related production relative to overall manufacturing output reflects that the energy and export sectors are still recovering from the oil bust and the impact of the strong dollar, respectively.

Residential Construction Recedes While Home Prices Appreciate

Most indicators of residential construction receded in April after posting gains in March. Housing starts, single-family permits, multifamily permits and real residential contract values fell in their most recent April readings. In contrast with the weak April numbers for residential construction, nonresidential construction contract values and nonbuilding construction contract values increased.

Existing-home sales edged up in April from March and have increased 6.0 percent year over year in April—a faster pace than the year-over-year rate of 4.9 percent in March. Inventory of existing homes in Texas held steady at 3.7 months in April, and the supply of homes remains tight in most metros.

With strong demand and inadequate supply, almost all house price measures suggest that house price appreciation continues. The Case-Shiller home price index for Dallas was up 8.6 percent year over year in March 2017. The index grew at a healthy 6.6 percent annual rate from February to March. The quarterly Federal Housing Finance Agency (FHFA) house price index for Texas also increased 5.7 percent (annualized) in first quarter 2017, following 6.1 percent growth in fourth quarter 2016.

Auto Delinquencies Rise Driven by Subprime Loans

Delinquency rates on auto loans have been trending up in both Texas and the U.S. (Chart 4). Underlying this trend is

an increase in auto loans to subprime borrowers (Chart 5). From first quarter 2014 to first quarter 2017, the balance of subprime loans increased 41.0 percent, while that of other auto loans increased 31.6 percent. Additionally, the percent of subprime loans that are seriously delinquent has increased over the same period from 12.9 percent to 15.0 percent, while the percent of other loans that are seriously delinquent has decreased from 0.6 percent to 0.4 percent.

These trends corroborate anecdotal reports that loose credit standards and an increase in the incidence of subprime auto loans are likely behind the recent rise in auto delinquency rates. Contacts reported in the May Beige Book that auto lenders have tightened credit amid the increase in delinquencies. With rising interest rates, analysts expect both auto and credit card delinquencies to increase further in 2017.

Texas Leading Index Indicates Continued Growth

The Texas Leading Index rose 0.61 percent in April, and the three-month change in the index from February to April was 1.70 percent, indicating continued growth going forward (Chart 6). The U.S. leading index contributed positively to the three-month change.

—Stephanie Gullo and Anil Kumar

About the Authors

Gullo is a research assistant and Kumar is an economic policy advisor and senior economist in the Research Department at the Federal Reserve Bank of Dallas.

Chart 3
TMOS Suggests Positive Growth in Energy- and Export-Related Manufacturing



Chart 4
Auto Delinquency Rates Rise

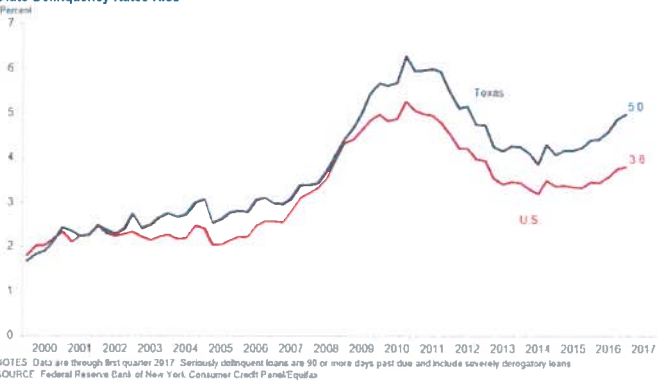


Chart 5
Subprime Share of Auto-Loan Balance and Serious Delinquencies Rises in Texas

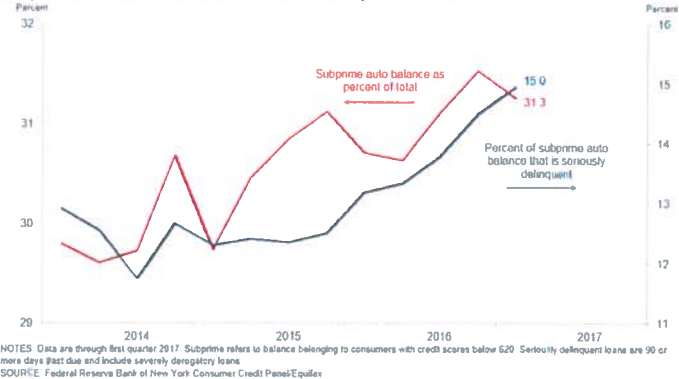


Chart 6
Texas Leading Index Points to Growth

